HilltopSecurities
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Consumers Spring Back in May

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Stocks are soaring in early trading as May retail sales absolutely crushed all expectations. Sales surged +17.7% last month, more than doubling the median forecast, as consumers emerged in mass from the nationwide lockout and began spending at a furious pace. The record May increase follows a revised -14.7% April decline…which was also a record, and leaves retail sales just over 8% below pre-virus levels from earlier this year. Spending was brisk across all categories, although the percentage increases are exaggerated by the fact that spending in most categories had ground to a virtual halt in April. May clothing sales rocketed +188%, furniture +90%, and autos +44%, while dining-in restaurant sales jumped +29% with limited seating capacity. The retail sales "control group," used in the GDP calculation, rose +11.0% in May after a -15.3% drop in April and has essentially returned to pre-pandemic levels. This strongly suggests the overly-dire second quarter economic growth forecasts will need to be recalculated to reflect the late quarter rebound. The economy is far from being back to normal, but today's report goes a long way in legitimizing the equity market's upbeat assessment.

Other positive market drivers this morning include a proposed $1 trillion infrastructure bill by the administration, as well as yesterday's announcement by the Fed that it would begin direct purchase of individual corporate bonds. The infrastructure plan has been floated several times already, and although it definitely has merit, it's unlikely to pass before the election. The proposed bond purchases represent the broadening of a previously announced Fed program.

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Fed Chairman Powell is testifying this morning in front of the Senate Banking Committee. So far, he has acknowledged that some economic indicators are pointing to stabilization and a modest rebound, but emphasized that "output and employment remain well below their pre-pandemic levels, and significant uncertainty remains about the timing and strength of the recovery." Powell's answers to committee member questions indicate he's still very concerned about permanent job losses in parts of the economy. Still, it's positive for the economy when the Fed Chairman continues to push for additional government support amid solid signs of recovery. It's also remarkable to contemplate a rebound of this magnitude before we've had a chance to assess the extent of the damage. The initial reading of second quarter GDP isn't scheduled for release until July 30.

The long end of the bond market has traded off significantly (yields higher), while the short end is essentially unchanged. With the Fed expected to hold the overnight target at zero through 2022, short bond yields are pretty much anchored.

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Market Indications as of 10:40 A.M. Central Time

DOW	UP 475 to 26,238 (HIGH: 29,551)
NASDAQ	UP 156 to 9,882 (HIGH: 10,020)
S&P 500	UP 56 to 3,123 (HIGH: 3,386)
1-Yr T-bill	current yield 0.17%; opening yield 0.18%
2-Yr T-note	current yield 0.19%; opening yield 0.19%
5-Yr T-note	current yield 0.34%; opening yield 0.34%
10-Yr T-note	current yield 0.75%; opening yield 0.72%
30-Yr T-bond	current yield 1.54%; opening yield 1.46%

Please see disclosure on page 2.