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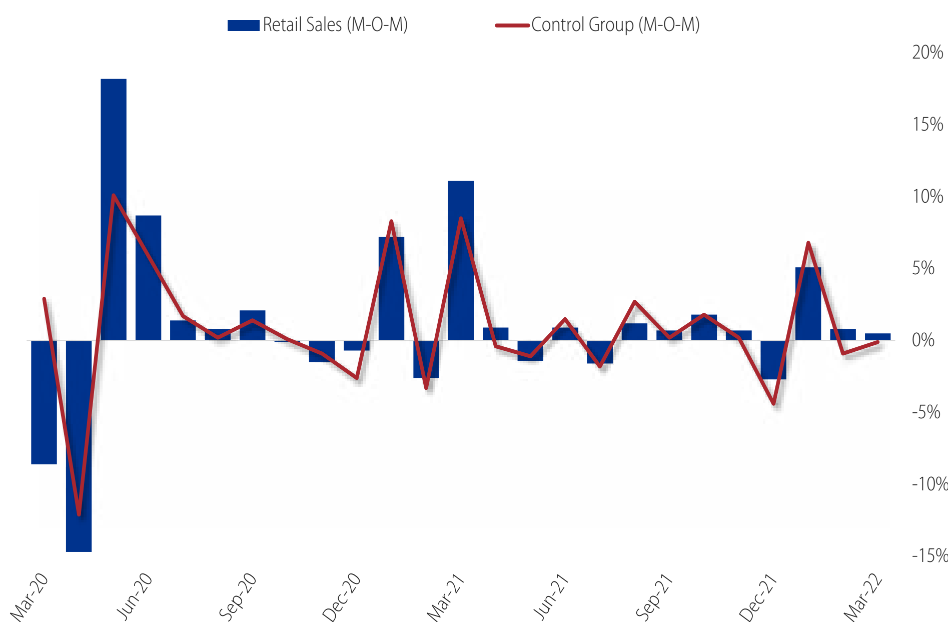
Retail Sales Indicate Underlying Weakness, but Central Bank Comments Push Yields Higher

Scott McIntyre, CFA
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

Greg Warner, CTP
HilltopSecurities Asset Management
Senior Portfolio Manager
Director
512.481.2012
greg.warner@hilltopsecurities.com

Overall retail sales climbed a seasonally-adjusted +0.5% in March, just below the +0.6% median forecast. The headline miss was mitigated a bit as the February sales gain was revised upward from +0.3% to +0.8%. The majority of the March increase was due to a huge +8.9% jump in gas station sales, which in turn were driven by higher pump prices. If gas station receipts are excluded, retail sales were actually down -0.3% in March.

Retail Sales (Month-over-Month Percent Change)



Source: US Census Bureau

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The weakening of consumer demand (*which is ultimately what the Fed is trying to do as it tightens policy*) will eventually show up in the monthly retail sales report. There are already indications that the economy is slowing down. The retail sales "control group," which excludes sales at auto dealers, gas stations, building materials stores and food services, and is used to calculate GDP, fell by -0.1% in March. The Atlanta Fed's *GDPNow* measure through April 8th, estimated first quarter growth at just +1.1%. This is down considerably from the +6.9% Q4 2021 GDP pace.

The Fed hopes to squash inflation with a less accommodative monetary stance, but may have to sacrifice the U.S. economy in the short run to achieve that objective.

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In related news, mortgage applications for the week ending April 8th fell -1.3% and -39.3% year-over-year. It was the ninth decline in the last 10 weeks. *New purchase applications* were actually up +1.4% in March, although down -6.4% year-over-year. It's the *refinancing applications* that have been crushed, slipping -4.9% for the week and -62% year-over-year.

The 30-year average fixed rate mortgage rose from 4.72% to 5.00% this week, *the highest in 11 years*. This implies further deterioration in mortgage borrowing in the coming weeks.

Bond yields are higher this morning, driven not by retail sales, but rather hawkish comments by central bankers here and abroad. On an interview this morning on Bloomberg Television, New York Fed President John Williams said half-point rate increases were a "reasonable option," while European Central Bank President Christine Lagarde acknowledged that accelerating inflation has only affirmed ECB expectations to reel-in stimulus in the coming months.

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Market Indications as of 9:26 A.M. Central Time

DOW	Up 104 to 34,699 (HIGH: 36,800)
NASDAQ	Down -143 to 13,501 (HIGH: 16,057)
S&P 500	Down -23 to 4,424 (HIGH: 4,797)
1-Yr T-bill	current yield 1.74%; opening yield 1.64%
2-Yr T-note	current yield 2.43%; opening yield 2.37%
3-Yr T-note	current yield 2.66%; opening yield 2.57%
5-Yr T-note	current yield 2.74%; opening yield 2.66%
10-Yr T-note	current yield 2.79%; opening yield 2.70%
30-Yr T-bond	current yield 2.89%; opening yield 2.81%

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