

Hopeful Signs that Inflation has Peaked

This morning, the import price index was unchanged (0.0%) in April, after a climbing +2.0%, +1.8% and +2.9% in the first three months of 2022. On a year-over-year basis, import prices were up +12.0% in April after a +13.0% annual increase the previous month. Because the U.S. imports such a significant portion of its consumer goods, today's reading is quite positive for inflation. A single number doesn't establish a trend, but it's still a relief.

The export price index rose +0.6% in April after a +4.1% increase the previous month. On an annual basis, export prices were +18% higher than a year ago. This was below both the prior month's +18.6% annual increase and the +19.2% median forecast. Dollar strength will weigh on exports going forward.

On Thursday, the producer price index showed some welcomed moderation with a +0.5% increase in final demand for April after rises of +1.2%, +1.1% and +1.6% over the first three months of 2022. Core PPI rose +0.4% in April after a revised +1.2% increase in March. Headline PPI was up "just" +11.0% on annualized basis, down from +11.5%, while core PPI retreated from +9.6% to +8.8%.

The optics of this week's retreating inflation readings are welcome, but the reality is that prices are extremely elevated while pressure remains on the main inflation drivers of food, energy, shelter costs and autos.

The inflation outlook is dim in the near-term, but economists seem optimistic that the tide will turn. Bloomberg released its economist survey this morning. The main takeaways were that GDP is expected to rebound significantly in the second quarter en route to +2.7% growth for the year, while headline CPI is expected to slow in the second, third and fourth quarters, ending the year at an annualized +5.9%. By the third quarter of next year, the nation's economists see annual consumer inflation back at +2.6%.

So, the experts believe the Fed will be successful in orchestrating a soft landing. However, that message is not getting through to the average American as the University of Michigan's consumer sentiment survey continued to nosedive. The 59.1 April reading was the lowest since 2009 during the worst of the Great Recession, and remarkably well below the pandemic panic point of 71.8 from April 2020. *Inflation was the dominant concern among survey participants.*

Consumer sentiment isn't necessarily a leading indicator; in other words, just because consumers are worried doesn't mean spending will slow down. Most economists believe strong labor conditions and stockpiles of sidelined cash will support spending throughout the year.

On an unexpectedly positive note, the U.S. Treasury Department reported a record surplus in April of \$308 billion as government outlays fell -16% and revenues nearly

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

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doubled from a year ago. For the first seven months of the fiscal year, the deficit has dropped more than \$1.5 trillion on record revenue collection of \$3 trillion. It's moving in the right direction, but there's a long way to go.

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Market Indications as of 11:13 A.M. Central Time

DOW	Up 539 to 32,269 (HIGH: 36,800)
NASDAQ	Up 484 to 11,855 (HIGH: 16,057)
S&P 500	Up 94 to 4,024 (HIGH: 4,797)
1-Yr T-bill	current yield 1.97%; opening yield 1.86%
2-Yr T-note	current yield 2.61%; opening yield 2.59%
3-Yr T-note	current yield 2.80%; opening yield 2.77%
5-Yr T-note	current yield 2.89%; opening yield 2.84%
10-Yr T-note	current yield 2.93%; opening yield 2.86%
30-Yr T-bond	current yield 3.08%; opening yield 3.00%

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