

Yields Climb as Solid Consumer Spending Supports Aggressive Fed

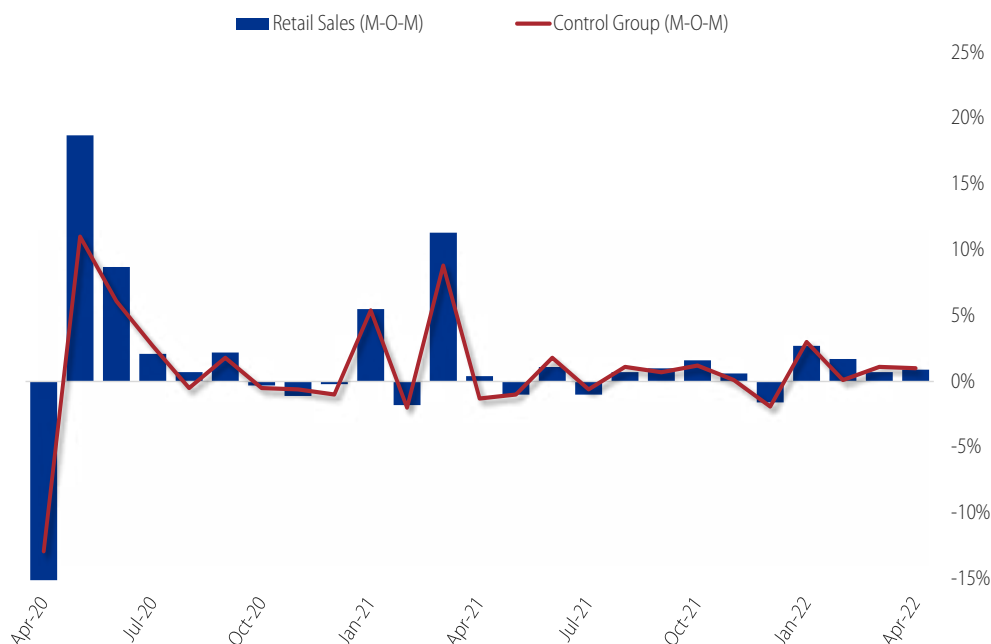
Treasury yields sold off across the curve after a better-than-expected retail sales report signaled that U.S. consumers remain largely unfazed by higher prices and Fed tightening. The Census Bureau reported this morning that U.S. retail sales rose by +0.9% in April. Although this was a bit below the median forecast of +1.0%, the previously reported March gain was revised sharply higher from +0.5% to +1.4%, *more than making up the shortfall.*

Gasoline station sales actually fell by -2.7% in April after rising +9.6% in March. This doesn't reflect consumers buying less gas in April, but rather *paying less per gallon* as pump prices *fell* last month. Unfortunately, we already know that gas prices have risen sharply in May, reaching a new record high last week. This suggests that the May sales report will get a boost from the pump.

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

Retail Sales (Month-over-Month Percent Change)



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Source: US Census Bureau

Sales of vehicles and vehicle parts rose by +2.2% last month despite skeletal dealer inventories, while restaurant and bar sales climbed by +2.0%. Both of these gains can be attributed to rising prices.

The retail sales "control group," which excludes sales at gas stations, auto dealers, building materials stores and eating and drinking establishments, and is used in the GDP calculation, rose by +1.0%. This easily beat the +0.7% forecast, but the recalculation of the previous month was an even bigger story as March sales were revised from -0.1% to +1.1%. Data revisions continue to be huge, which makes

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it even more of a challenge for economists to interpret the numbers. This morning's recalculation of March sales will likely result in an upward revision to Q1 GDP.

On a quarter-over-quarter annualized basis, total sales were up +9.9% last month, but much of this increase can be attributed to higher prices as the report is not adjusted for inflation. Bloomberg Analytics estimates that the price-adjusted annualized sales rate was +2.0% in April. This would be considered a normal increase in the pre-pandemic world.

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Overall, the report was good, even when adjusted for inflation. It appears many Americans are borrowing heavily to finance spending, and with borrowing rates climbing this practice may be limited in the future. For now, the Fed, which is hoping to slow inflation without crippling the consumer, has the green light to tighten policy. Yields are higher across the board in anticipation.

Equities are up in early trading, but this was the case before the report was released. Stock market volatility isn't going away.

Market Indications as of 9:20 A.M. Central Time

DOW	Up 319 to 32,543 (HIGH: 36,800)
NASDAQ	Up 207 to 11,869 (HIGH: 16,057)
S&P 500	Up 59 to 4,067 (HIGH: 4,797)
1-Yr T-bill	current yield 2.07%; opening yield 1.95%
2-Yr T-note	current yield 2.65%; opening yield 2.57%
3-Yr T-note	current yield 2.84%; opening yield 2.75%
5-Yr T-note	current yield 2.92%; opening yield 2.83%
10-Yr T-note	current yield 2.96%; opening yield 2.88%
30-Yr T-bond	current yield 3.15%; opening yield 3.10%

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