

Fed Minutes: No News is Good News

The minutes to the May FOMC meeting were released this afternoon, and *whatever investors thought they heard, they liked*. Although the minutes might have been a highlight in an otherwise lean data week, very little was actually said that wasn't already known. Fed officials believe inflation is too high and the labor market is too tight. The committee felt it was important to move *expeditiously* to a more neutral monetary policy stance, with a strong consensus for half point increases at both the June and July FOMC meetings. After that, the committee expects to be "well positioned" to reassess and potentially adjust policy going forward.

Committee members expressed a willingness to hike rates above neutral if necessary, depending on the evolving outlook, but there was no support for a 75 basis point hike. This might be a "no news is good news" story, or the post-release rally in both equities and bonds might reflect continued realization that economic growth is already slowing.

New home sales for April were released yesterday, and it was an unexpectedly *bad report*. The sales pace plunged by -16.6%, following a -10.5% revised drop in March and a -4.7% drop in February. The 591k annual sales pace last month was the slowest since April 2020 when most of the nation was in lockdown.

New home sales are calculated at the time a contract is signed, while existing home sales are tallied at close. So, new home sales are a better indicator of how Fed policy is affecting homebuyers, and so far the effect appears dramatic.

The slowdown in sales has quietly pushed overall inventories higher. At the end of April, the inventory of new homes was at the highest level since 2008 and the month's supply stood at 9.0 months. However, the vast majority of these new homes have either not begun construction or are at various stages of completion. If you just looked at completed homes, the month's supply is below one month, still very near a record low. And tying this back to inflation, peak home buying season has just begun so we aren't likely to get any price relief before fall.

The median sales price for a new home was \$450,600 in April, up +19.6% on a year-over-year basis, while the average price was up +31.2% to a record \$570,300. Supply may be creeping back, but prices aren't.

If all of this is getting you down, you're in good company - the most recent University of Michigan Consumer Sentiment Survey showed a 59.1 April reading, which was the worst since the financial crisis 13 years ago and quite a bit uglier than in April 2020 when businesses were locked down and we were imagining the worst for the pandemic. Small business owners are also growing more pessimistic, with 57% now expecting economic conditions in the U.S. to worsen next year, up from 42% in April and equal to the April 2020 low point.

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Market Indications as of 4:07 P.M. Central Time

DOW	Up 192 to 32,120 (HIGH: 36,800)
NASDAQ	Up 170 to 11,435 (HIGH: 16,057)
S&P 500	Up 37 to 3,979 (HIGH: 4,797)
1-Yr T-bill	current yield 2.01%; opening yield 1.98%
2-Yr T-note	current yield 2.50%; opening yield 2.51%
3-Yr T-note	current yield 2.63%; opening yield 2.65%
5-Yr T-note	current yield 2.72%; opening yield 2.74%
10-Yr T-note	current yield 2.75%; opening yield 2.75%
30-Yr T-bond	current yield 2.97%; opening yield 2.97%

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