Bond Yields Rise and Stocks Retreat as Summer Price Pressures Loom

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

This morning's data releases indicated some economic softening, but few reasons to expect any significant near-term inflation relief.

Mortgage applications fell -2.3% last week and are now down -51.6% year-over-year. New purchase apps were down -0.6% and -14.2% year-over-year, while refi apps dropped -5.4% and -75.1% over the same period last year.

The huge reduction in mortgage activity (especially in refinancing) is directly related to the surge in lending costs. Freddie Mac reported an average 30-year fixed rate of 5.10% last week. This is down from a 13-year high of 5.30% two weeks earlier, but nearly two full percentage points higher since the year began.

The Job Openings and Labor Turnover Survey (JOLTS) for April showed 11.4 million openings, down from the prior month but slightly above forecasts. The March count was revised upward from a record 11.55 million postings to (an even higher record) 11.85 million postings. The concern here is that as Americans seek summer travel, entertainment, sporting events and concerts at what is expected to be a frenzied pace relative to 2020 and 2021, service sector job openings will return in droves, keeping pressure on wages for several more months.

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In a preview of what many be in store for air travelers this summer, U.S. airlines canceled more than 2,800 flights from last Thursday to Monday according to *FlightAware* tracking service. Although bad weather played a role in Memorial Day travel snarls, the majority of Memorial Day flight cancelations were the result of staffing shortages.

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The Institute for Supply Management (ISM)'s manufacturing index unexpectedly rose from 55.4 to 56.1 in May. It was the 24th consecutive month of expansion in the factory sector with 15 of 16 industries reporting growth in May.

- The current production Index climbed from 53.6 to 54.2 while the new orders index rose from 53.5 to 55.1.
- The prices paid index decreased from 84.6 to a *still too hot* 82.2 as lean inventory and supply chain disruptions persisted.
- The customer inventory index fell from 37.1 to 32.7, while the orders backlog index increased from 56 to 58.7.
- The employment index slipped from 50.9 into mild contraction at 49.6. Despite the overall decline in the employment index, purchasing managers reported a slightly lower quits rate and improved ability to hire.

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Purchasing managers continue to show significant optimism on the demand side with positive comments outnumbering cautious comments by a five to one count. Notable comments from the ISM website include:

- "Input costs, particularly grain, oil, dairy and protein, are rising faster than can be passed along at retail and food service, with no relief in sight." *Food and Beverage*
- "The challenge with semiconductors hasn't softened; the situation is worsening due to Chinese COVID-19 lockdowns." *Transportation*
- "We've continued to transition to North American sales to avoid ocean vessels, and we are apprehensive about the West Coast ports' labor contract negotiations. A challenge of doing more business by rail is the backlog of rail cars and embargos." *Paper Products*

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The bottom line hasn't changed much - *factory managers are still unable to keep up with surging demand*. Demand is expected to increase further this summer and supply promises to remain under extreme pressure.

Bond yields are higher in early trading as the markets anticipate Fed policy will have to be more aggressive in order to curtail demand and stem inflation. The U.S. stock markets opened the day higher but have turned negative.

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

DOW	Down -305 to 32,685 (HIGH: 36,800)
NASDAQ	Down -114 to 11,968 (HIGH: 16,057)
S&P 500	Down -43 to 4,090 (HIGH: 4,797)
1-Yr T-bill	current yield 2.10%; opening yield 2.05%
2-Yr T-note	current yield 2.66%; opening yield 2.57%
3-Yr T-note	current yield 2.84%; opening yield 2.74%
5-Yr T-note	current yield 2.93%; opening yield 2.83%
10-Yr T-note	current yield 2.93%; opening yield 2.84%
30-Yr T-bond	current yield 3.09%; opening yield 3.06%