

First Quarter GDP Revision Indicates Underlying Weakness

First quarter U.S. Gross Domestic Product (GDP) was revised slightly lower this morning from -1.5% to -1.6%. Normally, a tiny revision to *an already stale economic number* would have little importance, but in this case underlying details suggest weakness in consumer spending, the main engine of economic growth. According to the Bureau of Economic Analysis (BEA), the personal consumption component (which historically contributes about two-thirds of overall economic output) was revised sharply downward from +3.1% to +1.8%. This signals consumers have been struggling with higher prices and dwindling savings for months and indicates there was less momentum heading into the second quarter.

Business inventories were revised upward from -1.1% to -0.35%, which suggests a smaller inventory bounce-back in subsequent quarters. Business fixed investment was revised upward from +9.2% to +10.0% as companies look to increase productivity to fill employment gaps. The biggest anchor on Q1 growth continues to be net trade, as exports slumped relative to surging imports.

The Fed is hoping to slow demand just enough to normalize inflation without tipping the economy into recession. The challenge appears tougher after this morning's report as the Fed has long relied on a resilient consumer to buoy growth.

A parade of Fed speakers found podiums in recent days, with most reading from a very hawkish script. Cleveland Fed President Loretta Mester told CNBC yesterday she supports a 75 basis point hike at the July meeting and expects a yearend fed funds rate between 3.0% and 3.5%, *even if tightening results in recession*. New York Fed President John Williams also sees the overnight target climbing to 3.0%-3.5% this year, but does not expect aggressive hikes will usher-in negative growth.

This morning, in a panel discussion at the annual ECB policy forum, Fed Chair Jay Powell said the U.S. economy was in "strong shape" and that the economy is "well positioned to withstand tighter monetary policy." Powell went on to say he "hopes" growth will remain positive, which sounds decidedly less optimistic than his previous statements had implied.

Stocks and bonds have both rallied in early trading (yields slightly lower) as investors digest weakening economic data and the latest round of tough talk by Fed officials, and gain some assurance that inflationary pressure will ease later this year.

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 signals consumers have been struggling with higher prices and dwindling savings for months and indicates there was less momentum heading into the second quarter.

The Fed is hoping to slow demand just enough to normalize inflation without tipping the economy into recession. The challenge appears tougher after this morning's report as the Fed has long relied on a resilient consumer to buoy growth.

Powell went on to say he "hopes" growth will remain positive, which sounds decidedly less optimistic than his previous statements had implied.

Market Indications as of 10:09 A.M. Central Time

DOW	Up 103 to 31,150 (HIGH: 36,800)
NASDAQ	Down -13 to 11,168 (HIGH: 16,057)
S&P 500	Up 4 to 3,826 (HIGH: 4,797)
1-Yr T-bill	current yield 2.84%; opening yield 2.80%
2-Yr T-note	current yield 3.07%; opening yield 3.11%
3-Yr T-note	current yield 3.15%; opening yield 3.20%
5-Yr T-note	current yield 3.17%; opening yield 3.23%
10-Yr T-note	current yield 3.11%; opening yield 3.17%
30-Yr T-bond	current yield 3.23%; opening yield 3.28%

The paper/commentary was prepared by Hilltop Securities Asset Management (HSAM). It is intended for informational purposes only and does not constitute legal or investment advice, nor is it an offer or a solicitation of an offer to buy or sell any investment or other specific product. Information provided in this paper was obtained from sources that are believed to be reliable; however, it is not guaranteed to be correct, complete, or current, and is not intended to imply or establish standards of care applicable to any attorney or advisor in any particular circumstances. The statements within constitute the views of HTS and/or HSAM as of the date of the document and may differ from the views of other divisions/departments of affiliates Hilltop Securities Inc. In addition, the views are subject to change without notice. This paper represents historical information only and is not an indication of future performance. Sources available upon request.

Hilltop Securities Asset Management is an SEC-registered investment advisor. Hilltop Securities Inc. is a registered broker-dealer, registered investment adviser and municipal advisor firm that does not provide tax or legal advice. HTS and HSAM are wholly owned subsidiaries of Hilltop Holdings, Inc. (NYSE: HTH) located at 717 N. Harwood St., Suite 3400, Dallas, Texas 75201, (214) 859-1800, 833-4HILLTOP.