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Last week, there was a strong jobs report, a big Fed rate hike, and a decline in productivity. Can the upcoming CPI report offer some hope on inflation?

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The Hot List

↑ HOT

1. Ukraine

Here's a **link (https://www.nbcnews.com/news/world/live-blog/russia-ukraine-war-live-updates-zelenskyy-meet-g7-leaders-azovstal-res-rcna27814)** to the latest in Ukraine.

2. Inflation

Investors will be watching this week's CPI report closely for any signs that inflation may have peaked.

3. Federal Reserve

The FOMC **concluded (https://www.cnbc.com/2022/05/04/fed-raises-rates-by-half-a-percentage-point-the-biggest-hike-in-two-decades-to-fight-inflation.html)** its May meeting last week, raising rates by 0.5%, the biggest hike in two decades. **(https://www.investors.com/news/economy/federal-reserve-meeting-wall-street-expects-yield-curve-control/)**

4. Employment

Employers **added (https://www.bloomberg.com/news/articles/2022-05-06/u-s-adds-428-000-jobs-while-unemployment-rate-holds-at-3-6)** 428K jobs in April, leaving the U.S. unemployment rate at 3.6%, a pandemic low. Job openings also **hit (https://www.cnbc.com/2022/05/03/job-openings-and-the-level-of-people-quitting-their-jobs-reached-records-in-march.html)** a record high according to the JOLTS report.

5. China

Lockdowns in China due to its "zero COVID policy" are **causing (https://www.cnn.com/2022/05/06/business/china-lockdowns-global-port-chaos-supply-chains-intl-hnk/index.html)** massive shipping delays again.

Last Week

Monday: S&P 500 +23.45 (+0.57%) to 4155.38. Stocks have massive reversal as 10-year Treasury hits 3%.

Tuesday: S&P 500 +19.89 (+0.48%) to 4175.27. JOLTS report showed record number of people quitting their jobs in March.

Wednesday: S&P 500 +124.69 (+2.99%) to 4300.17. FOMC concludes its May meeting raising rates by .5%.

Thursday: S&P 500 -157.30 (-3.56%) to 4146.87. Markets fell as productivity declined while labor costs rose in April.

Friday: S&P 500 -23.53 (-0.57%) to 4123.34. Jobs report showed 428K jobs added in April.

S&P 500 [S&P] Technical Look

Potential Support: To the downside, the S&P could find support back at the intraday lows near 4060. If it drops below that, then the major psychological level of 4000 should provide some support.

Potential Resistance: To the upside, the previous support levels of 4200 and 43000 should serve as resistance. ()

My Watchlist

Staples

Materials

Utilities

Technology

Military

Yield

My Take

The selloff late last week was really disheartening. The Fed raised rates by .50% as expected. Then, during the press conference, Powell specifically ruled out a future .75% hike and markets jumped. It seemed as if the bounce could've been the start of a larger rally – only to give those gains back the next day. That's the feeling of a bear market and how things have been this year – taking more and more buyers out with each decline.

Now, the S&P is back near those yearly lows and it's critical for the index to find some support soon. With most of the catalysts behind us (earnings, Fed meeting, jobs report), all eyes will be on the CPI report coming up. If the report could show any decline, that might give the Fed some room to ease up – possibly signaling that inflation has peaked. But if it jumps again, that would be a big blow to the bulls and keep the momentum to the downside for the bears.

Another worrisome spot in the economy that stood out last week was the productivity report showing a decline, while labor costs still rose. There is a chance this could be the beginnings of stagflation which could be worse than a recession. Those costs are stickier and it's getting harder and harder to find workers. To make matters worse, with the labor market participation rate declining, there still isn't a ton of relief in sight.

From the supply chain aspect, things remain troublesome as well. China's "zero COVID" policy has caused backups in shipping, while the war in Ukraine has disrupted energy and food prices. The Fed has even acknowledged that there’s nothing they can do about those issues.

So, it is clear inflation is going to be around even longer than we thought, and it’s important to protect your portfolio from it. As inflation persists, cash will continue to lose purchasing power. Further, fixed rate bonds will drop in value as new, higher rate bonds are issued. Finally, stock valuations are still coming down because there is now an alternative to stocks (RIP T.I.N.A. trade).

For these reasons, continue to remain defensive. Areas like healthcare, utilities and staples should provide some decent stability in times like these. However, Thursday’s massive selloff could’ve been one of those “washout” type moves that have historically been good entry points. Equity valuations have come down tremendously and are starting to look very reasonable. I’d have a shopping list ready with names that are way off their highs that you would be fine owning 3 years from now – if you can stomach the volatility. If you can’t, or if you are on a fixed income, there’s no reason to be a hero here. Wait for some confirmation on inflation declining or a Ukraine resolution before getting more aggressive.

If you need help evaluating your investment strategy or would like me to manage your money, please contact **DreamWork Financial Group today. (https://dreamwork.financial/contact/)**

Until next time,

Clint Kirby

Chief Financial Strategist

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