Weekly Market Commentary
May 30th, 2022

A Reminder: Some Good News Still Exists Out There

After seven consecutive weeks of declines, the longest losing streak since 2001, equity markets logged strong gains last week. Selling exhaustion, positive retail earnings reports, and hints of Fed flexibility all helped the S&P 500 rebound from its lowest in more than a year. The latest economic and earnings data were mixed but, in our view, managed to challenge the prevailing view that the economy is on a one-way road to recession. While growth is slowing, there are plenty of counterpoints to the narrative that the expansion is nearing its end, which suggests that the pendulum might have swung too far to the pessimistic side. Here's what we learned last week about three key variables that help shape market outcomes.

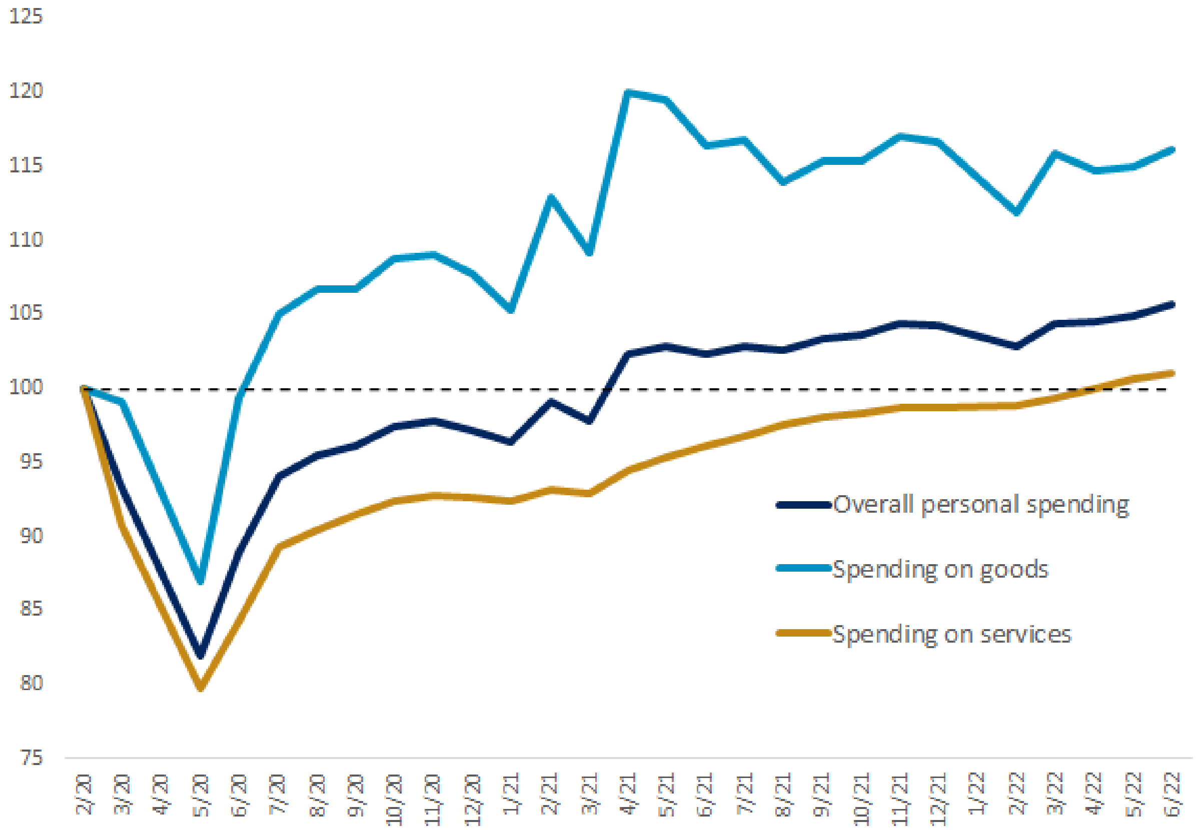
1. State of the consumer

- Prevailing narrative: Consumer spending is buckling under the weight of inflation.
- Counterpoint (the good news): Overall demand remains resilient despite macroeconomic headwinds. The earnings disappointments from some retailers were mostly tied to cost pressures rather than weakness in consumer spending.

Adjusted for inflation, consumption increased in April at its fastest pace in three months, supported by solid job growth and accumulated savings. While a lowered outlook from retail giants Target and Walmart sparked a sell-off in consumer stocks two weeks ago, last week's upbeat forecasts from Macy's, Nordstrom, and Ralph Lauren, together with April's spending data, bolstered confidence in the economy.

Consumers continue to spend, but 1) spending is gradually shifting away from goods toward services as the pandemic headwinds fade, and 2) retailer earnings signal a potential divergence among consumers by income brackets. Higher-income consumer spending is strong, while lower-income consumers are changing the mix of merchandise they buy in response to high inflation (spending more on food and beverage products and less on apparel and home and seasonal products). The common thread among retailers so far has been that sales growth and the demand backdrop remain solid. Yet profitability is under pressure, driven by rising labor and shipping costs. Companies are raising prices to offset the higher expenses, but there is a lag in timing between cost increases and when companies can offset these costs.

Consumer spending continues to hold up in the face of high prices

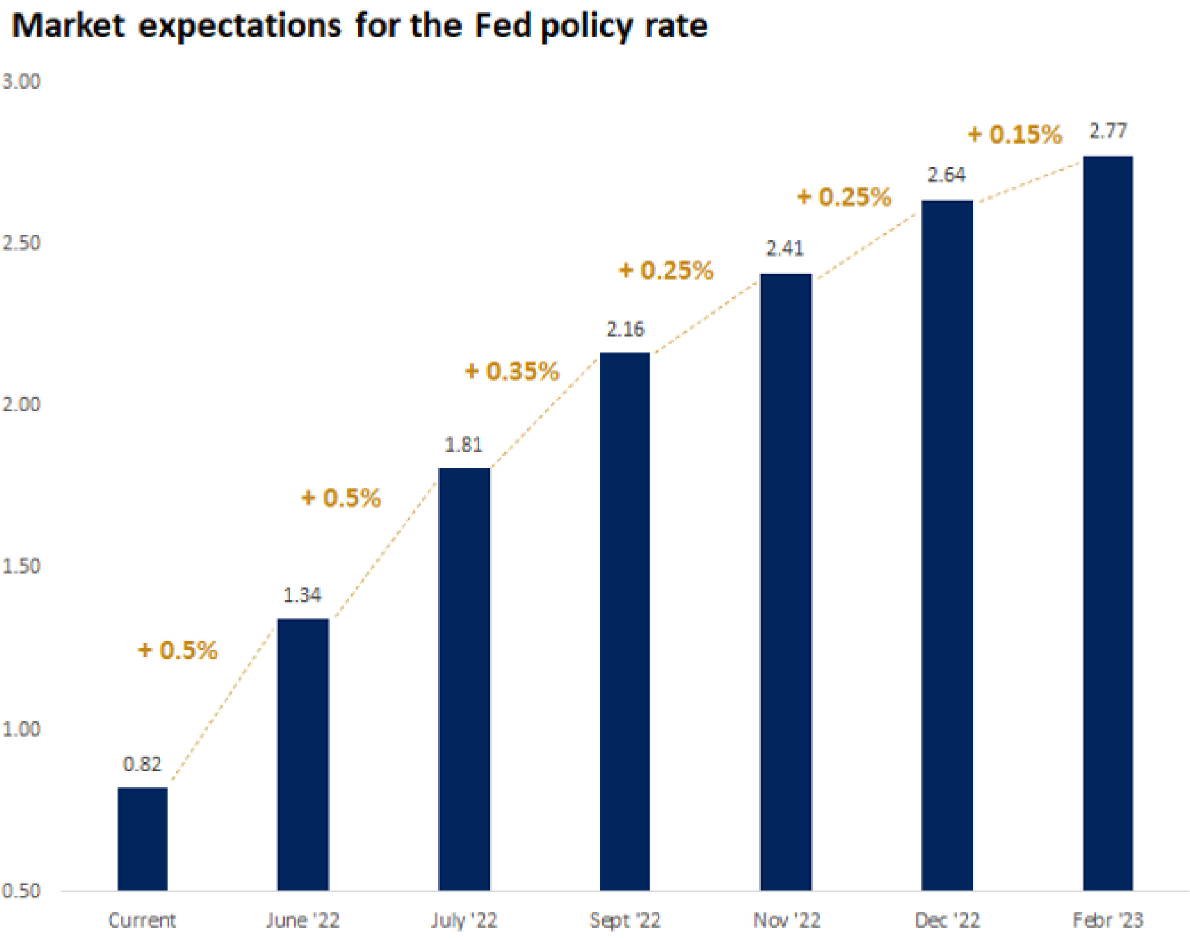


The graph shows the progression of real personal consumer expenditures (after inflation) and the breakdown between goods and services.

2. Fed policy

- Prevailing narrative: The Fed will tighten until the U.S. economy enters a recession.
- Counterpoint (the good news): The Fed may be more flexible than feared after two likely outsized rate hikes in June and July.

The No. 1 concern for investors is that the Fed will increase rates too far, pushing the economy into a recession. The release of the minutes from the May Fed meeting provided some relief to the markets. Even though the minutes confirmed a hawkish path early on, they also hinted at more flexibility later. Most officials judged that a couple more 0.5% rate hikes will be appropriate, which is what the bond market is currently pricing in. But the expedited pace of tightening in June and July can allow the Fed to assess the effects of policy firming later this year, implying a pause or slowdown in the pace of rate hikes. If this scenario materializes, it will be well-received by the markets. Fed policy will remain a key focus for investors, and volatility will likely continue depending on the path of inflation, but unless the Fed pushes monetary conditions deep into restrictive territory, we think that the expansion can continue.



Source: Bloomberg

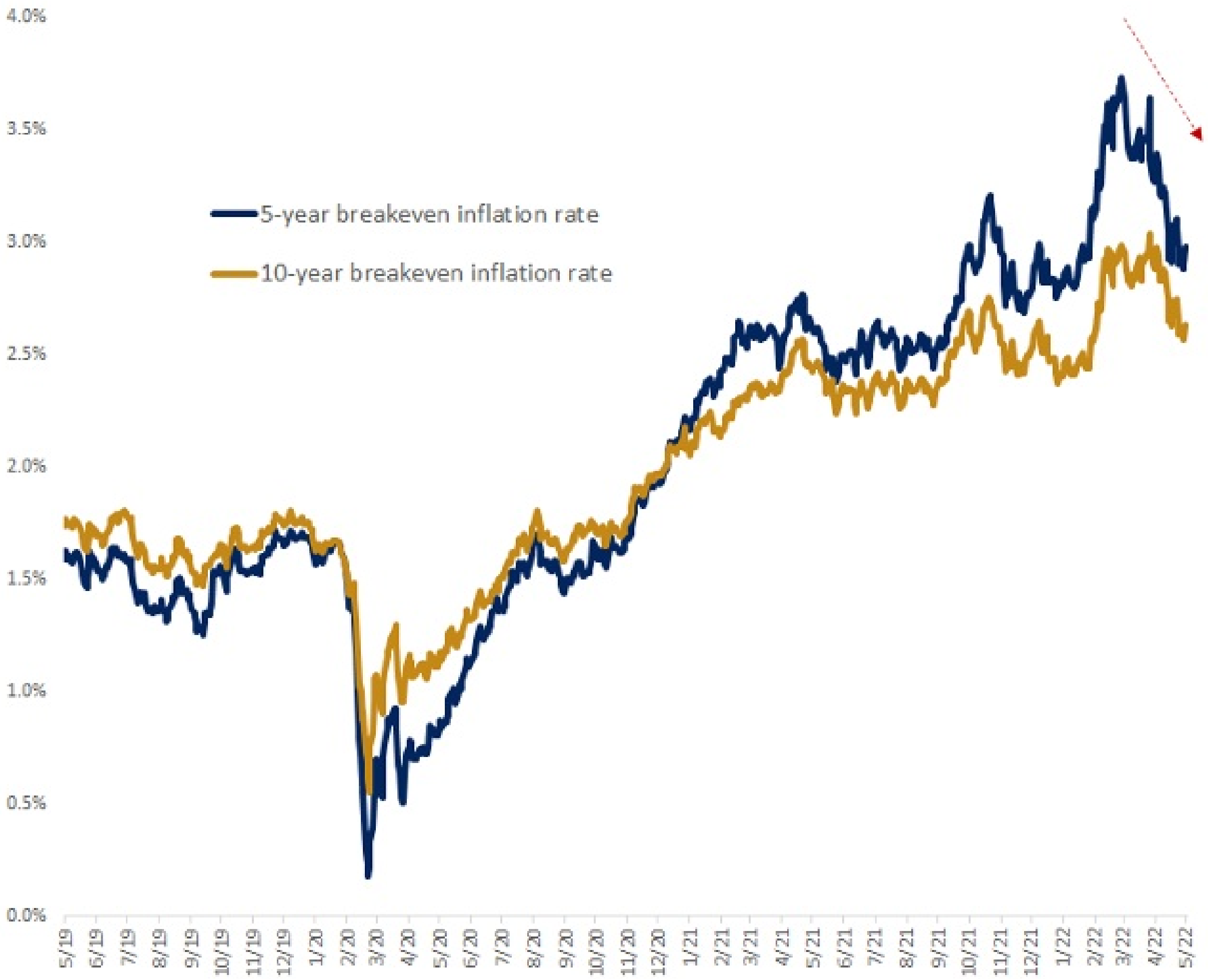
The graph shows that the bond market expects an aggressive rate-hiking path in the coming months, but a slower pace after the summer.

3. Inflation

- Prevailing narrative: High inflation is here to stay.
- Counterpoint (the good news): The Fed's preferred measure of inflation slowed in April from March, and market-based inflation expectations have declined from their peak, fully reversing this year's spike.

The four-decade-high inflation keeps the pressure on the Fed to act. While the annual rate of price increases appears to have crested, there is little evidence that it will fall back to the Fed's 2% target anytime soon. However, there has been a notable drop in inflation expectations derived from the bond market. The five- and 10-year expectations (what market participants expect inflation to be in the next five and 10 years, on average) have declined the most over the past month since the start of the pandemic[1]. As the rise in borrowing costs cools the housing market, demand for goods slows, and supply concerns ease, inflation should remain on a path of gradual moderation for the remainder of the year. That said, the proof is in the pudding.

Is the tide of inflation turning?



Source: FactSet

The graph shows that market-based inflation expectations have recently declined the most since the start of the pandemic.

(Source: oXYGen & Jones)

Markets For The Week

INDEX	CLOSE	WEEK
Dow Jones Industrial Average	33,213	6.2%
S&P 500 Index	4,158	6.6%
NASDAQ	12,131	6.8%
MSCI EAFE	1,973	.2%
10-yr Treasury Yield	2.74%	-4.78%
Gold	$1,853	.1%
Bonds	$104.13	.9%

Source: Reuters/Wall Street Journal

Are You Prepared For This $94,900 Expense In Retirement?

(Source: USA Today)

When you save money for retirement, chances are good that you'll be thinking about how to cover the costs of housing, healthcare, food, travel, and other necessities and indulgences.

Unfortunately, there's a huge expense you could be faced with that you might easily forget – especially if you're young and healthy. The problem is, if you don't take it into account and plan for it, you could drain your savings and end up damaging your spouse's finances or be unable to leave a legacy for loved ones.

You don't want to find yourself in this difficult situation, so it's best to begin preparing as early as possible.

This is one huge expense you can't forget to plan for

One of the biggest expenses retirees will likely face is often overlooked. That expense is long-term care costs. According to the Genworth Cost of Care Survey, the national average cost of a semi-private room in a nursing home is $94,900, while a private room is even more at $108,405 per year.

Obviously, this is more money than most people can comfortably spend. In fact, even a few months of nursing care could cause you to quickly drain your retirement nest egg. And, unfortunately, it's an expense many people do end up facing. A person turning 65 today has close to a 70% chance of requiring some long-term care service, according to LongTermCare.gov.

Sadly, the cost of care is only going up each year. If you are a long way from retirement, it's very likely that nursing homes will end up with an even higher price tag by the time you're in need of their services.

How to prepare to cover long-term care costs

The first step in preparing for huge nursing home expenses is to realize that facing these costs is a possibility. Many people incorrectly assume Medicare is going to cover their nursing services, but in fact, Medicare generally pays nothing at all toward routine custodial care – the kind of care that sends most people to a nursing home.

If Medicare won't pay for your nursing care, you have three primary options for covering the costs:

- Payout of pocket. This will require a huge nest egg, especially if you don't want to spend all your assets on care and leave nothing for loved ones. This will definitely need to be factored into your retirement planning process.
- Rely on long-term care insurance. Long-term-care policies can be a good option, but it's best to purchase them at a younger age to avoid the premiums becoming prohibitively expensive. You'll also need to make sure you read the fine print and get a policy that provides comprehensive coverage, as some insurers have exclusions or daily limits that can make them ineffective at protecting your finances.
- Engage in Medicaid planning. This typically involves working with an estate planning attorney well in advance of the time nursing home services will be needed. You'll take steps to protect your assets while qualifying for means-tested Medicaid benefits. This approach can work because Medicaid does pay for nursing home care, but it can require a lot of effort and expense.

It's up to you which of these three approaches you decide to take. The important thing, though, is that you consider the high likelihood you'll need nursing care and that you plan to afford it without draining your nest egg.

Earnings Highlights This Week

Snowflake: While Snowflake beat revenue expectations for its fiscal first-quarter results, its adjusted operating margin forecast was lighter than expected. Management maintained its guidance for the full year. The company is looking to add business by offering tools designed for companies in the retail and healthcare industries.

Nvidia: Nvidia reported fiscal first-quarter earnings on Wednesday. The stock dropped in extended trading after the chipmaker gave a light forecast for the current quarter. Nvidia will slow down its hiring pace and control expenses as the company deals with a challenging macroeconomic environment, its CFO Colette Kress said.

Macy's: Macy's on Thursday reported fiscal first-quarter profits and sales ahead of analysts' expectations. The department store chain reaffirmed its fiscal 2022 sales outlook and raised its profit guidance, expecting stronger credit card revenue for the rest of the year.

Gap: Gap dramatically slashed its profit outlook for the year as a steep decline in Old Navy sales weighed on results for the fiscal first quarter. The lower-income consumer, which is Old Navy's target customer, is starting to feel pinched by inflation, Gap Chief Executive Officer Sonia Syngal told CNBC. "We're dealing with really volatile consumer signals — whether it was last year in Covid or this year's post-Covid behaviors," said Syngal.

Dollar General: Dollar Tree and Dollar General boosted their outlook for the year, as shoppers squeezed by inflation seek cheaper prices. The companies are seeing people buying a different mix of merchandise than they were a year ago when they had stimulus dollars in their pockets. The dollar chains are also expanding while trying to strategize about ways to manage higher costs.

News and Notes

How To Get A Better Deal On Summer Travel?

How can someone get a better deal on airfare this summer, especially with soaring gas prices and inflation?

- Don't wait, airfare tends to get more expensive as you get closer to your date of travel. Consider nearby airports vs. the closest.
- The best flight deals are to Europe right now because most people want to travel domestically. Most flights have returned but not the demand.
- Try out Google Flights, Scott's Cheap Flights, and an app called Hopper. Ultimately, book your flights directly with the airline.

In what ways can people save money on getting a hotel room?

- Be flexible. You may have to travel mid-week and consider checking shopping hotel rooms with your point programs.
- For hotels, waiting closer to the trip can save you more money- about 13% cheaper within 15 days of the trip.
- However, you can consider booking a non-refundable room, AAA/AARP discounts, or booking an extra night. Some hotels are "book 3 nights, get one night free".

What about families that are working on a limited budget this summer?

- Plan a road trip closer to home. We are seeing many families exploring the major national parks or the local ones in their state.
- Look at a patio or backyard furniture. Walmart/Target just announced that they bought way too much inventory.
- Bring your breakfast with you. Stop for breakfast bars, and fruit, and get the free coffee at the hotel. Prices to eat out are soaring.

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