

Week of April 15, 2024



Retail Sales

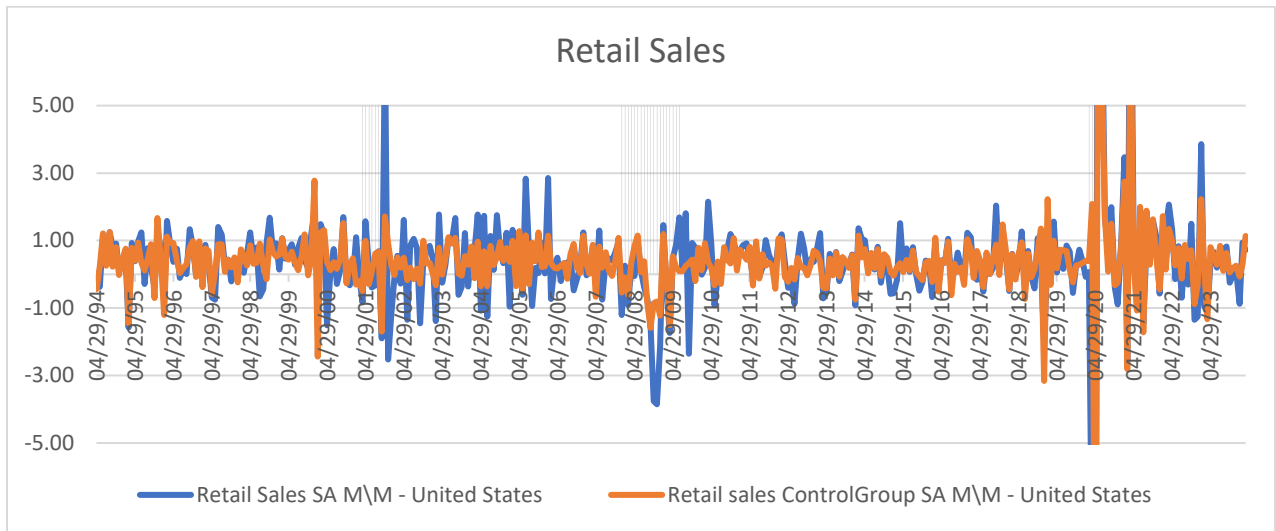


Figure 1 - Source: FactSet. All data has been truncated at 5 and -5 to better see non-extreme data.

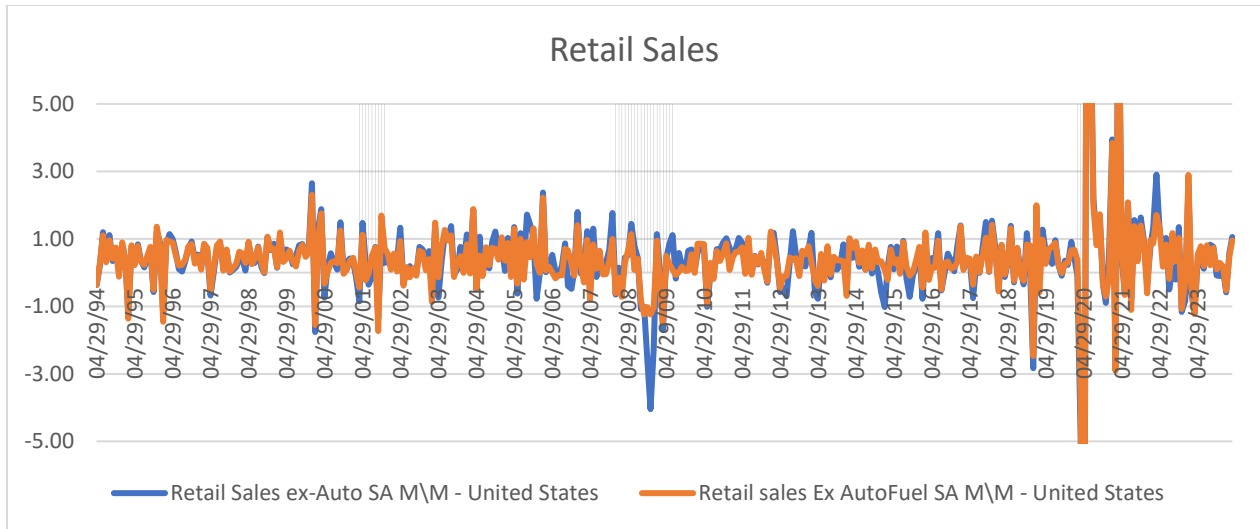


Figure 2 - Source: FactSet. All data has been truncated at 5 and -5 to better see non-extreme data.

- Retail sales showed surprising strength, beating expectations by between 0.3% – 0.5% across the board. (Retail Sales Control Group MoM (Month-over-Month) 1.1% vs .40% expected; ex Auto and Fuel MoM .95% vs .30% expected; ex-Auto MoM 1.1% vs .50% expected; Retail Sales MoM .7% vs .40% expected.)
- With Consumer Spending making up roughly two-thirds of GDP, if we assume Retail Sales continues its strength, it could set us up for decent Q2 GDP report.
- Continued strength in retail sales could also temper the Federal Reserve Open Market Committee’s (FOMC) desire/need to cut rates.

NAHB Housing Market Index

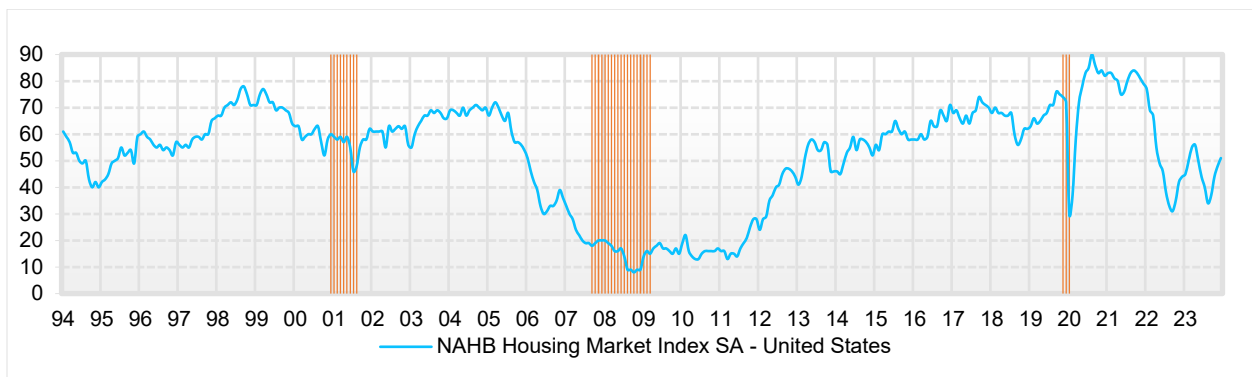


Figure 3 - Source: FactSet

- The NAHB Housing Market Index is a weighted average of three component surveys: Present Sales of Single-Family Homes; Expectations for Sales of Single-Family Homes over the next six months; Traffic of Prospective Buyers.
- While the Index remained unchanged from the previous month (April was unchanged from March’s revised 51 reading), expectations for sales over the next six months slipped from 62 to 60, possibly indicating concern over the direction of mortgage rates over the coming months.

Building Permits and Housing Starts (Seasonally Adjusted Annual Rate – SAAR, in thousands)

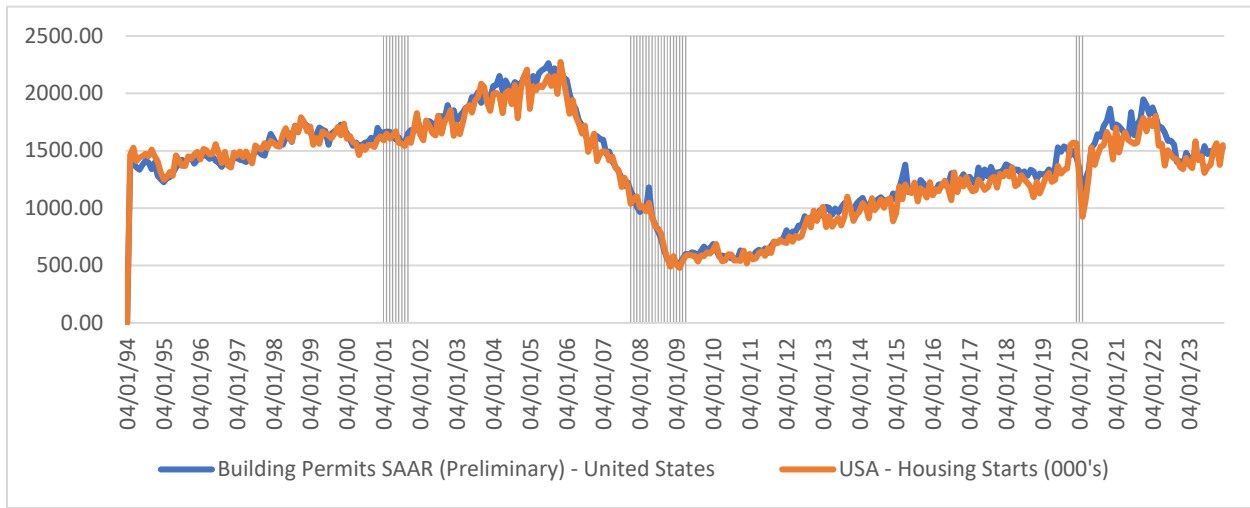


Figure 4 - Source: FactSet

- Both Building Permits and Housing Starts came in lighter than expected (Building Permits were 1.458 million vs expectations for 1.515 million and Housing Starts came in at 1.321 million vs expectations for 1.48 million), which might be attributable to higher mortgage rates as well as higher home prices making homes less affordable.

Housing Starts – MoM

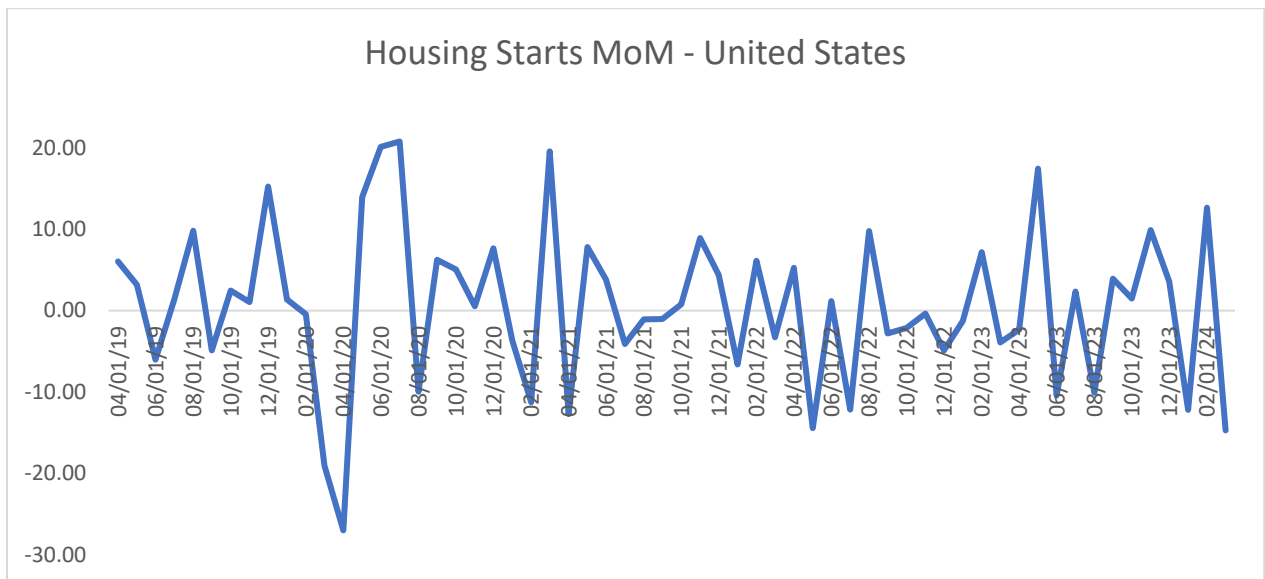


Figure 5 - Source: FactSet

- Housing Starts on a MoM basis fell 14.7% which was a significant -12% surprise from the consensus expectations for a fall of 2%.

- Where January's downfall and February's increase could both be attributable to weather related items (January cold and snow with a warmer February), we believe that the blame for March's downfall can likely be laid at the feet of higher mortgage rates and higher home prices.

Industrial Production

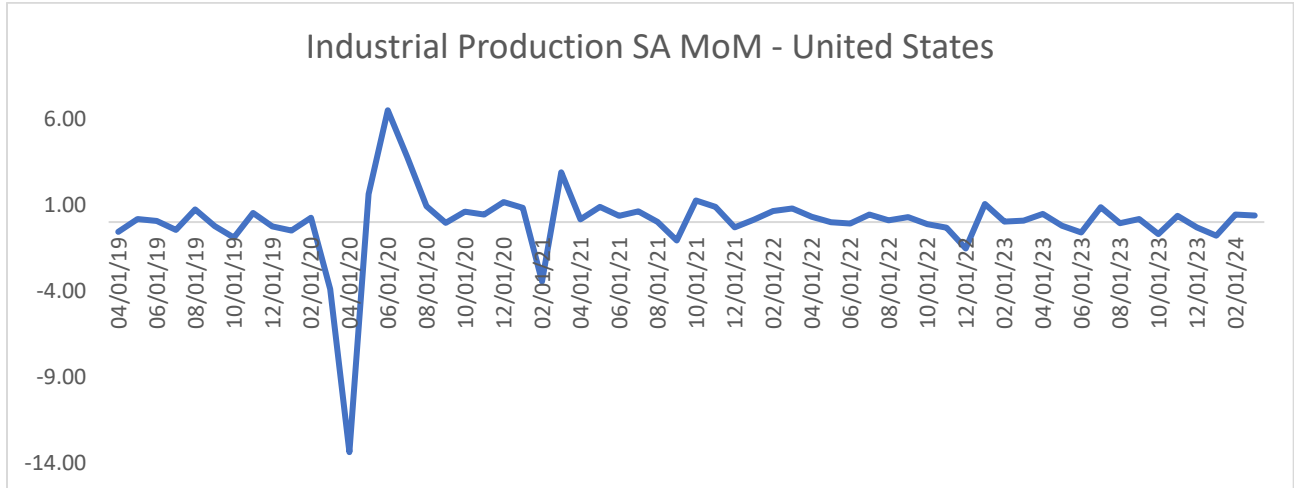


Figure 6 - Source: FactSet

- Industrial Production came in right on top of expectations, growing 0.4%. This is also right on top of last month's growth of 0.4%.

Manufacturing Production

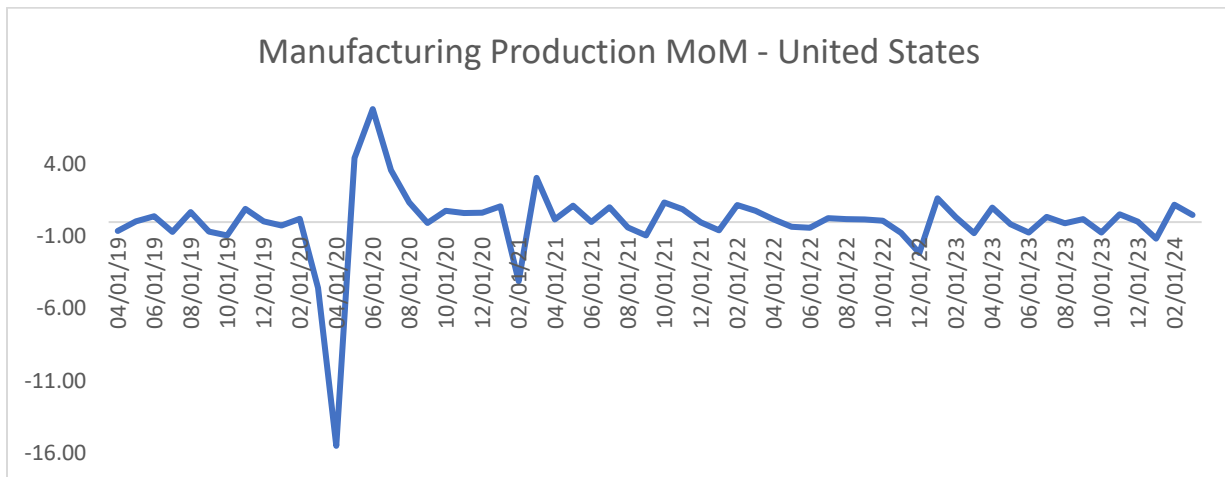


Figure 7 - Source: FactSet

- Manufacturing activity (as measured by the Manufacturing Production report) remained healthy in March, growing at a rate or 0.49% - exceeding expectations by 0.29%. This is on top of February's strong growth of 1.2% (partially impacted by improved weather in February relative to January's cold and snow).

Industrial Capacity Utilization, Seasonally Adjusted (SA)

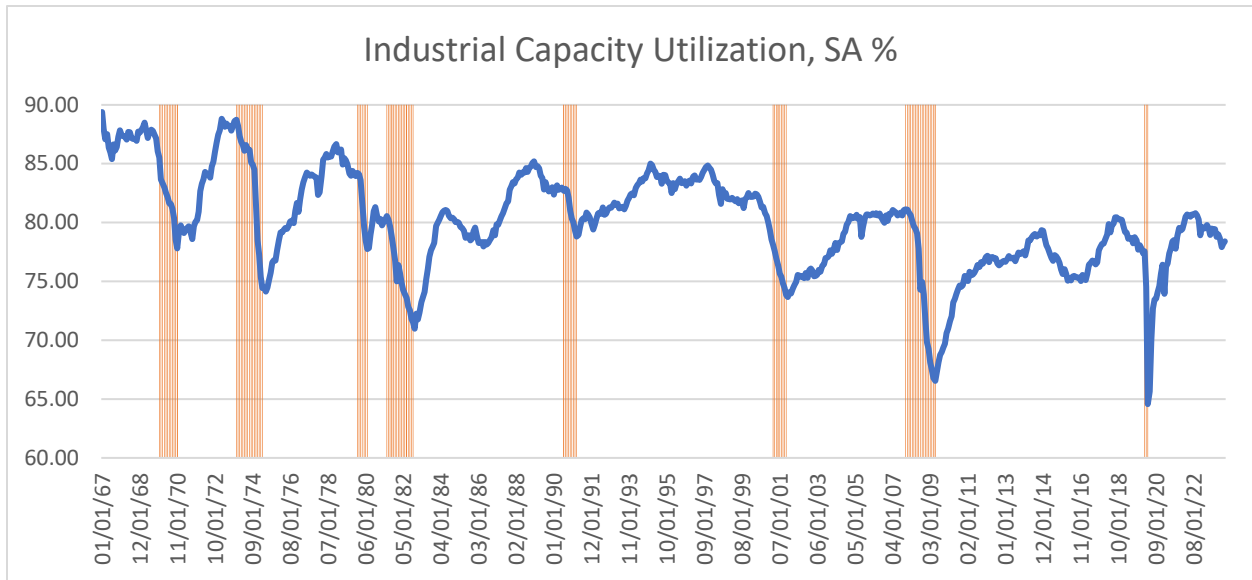


Figure 8 - Source: FactSet

- Capacity Utilization came in lower than expected at 78.4% vs expectations for 78.6%.
- The importance of the measurement of capacity utilization has declined over the decades so that the readings, currently, are more indicative of overall manufacturing trends rather than dangers regarding absolute manufacturing tightness and the potential for higher inflation.

Continuing Jobless Claims, SA (in thousands)

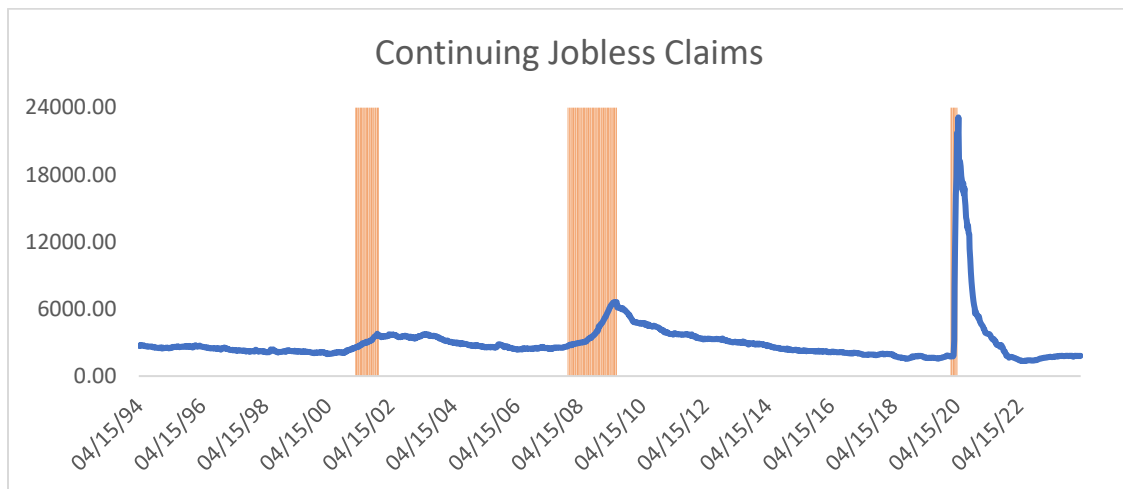


Figure 9 - Source: FactSet

- Continuing Jobless Claims were essentially flat relative to last week's reading and only 1000 above expectations and 2000 above last week (1.812 million versus 1.811 million expected and 1,810 million last week).

- Continuing claims are a lagging indicator, but we would need to see a sharp uptick in claims (like the 2001, 2008 and 2020 recessions) to get concerned.

Initial Jobless Claims, SA (in thousands)

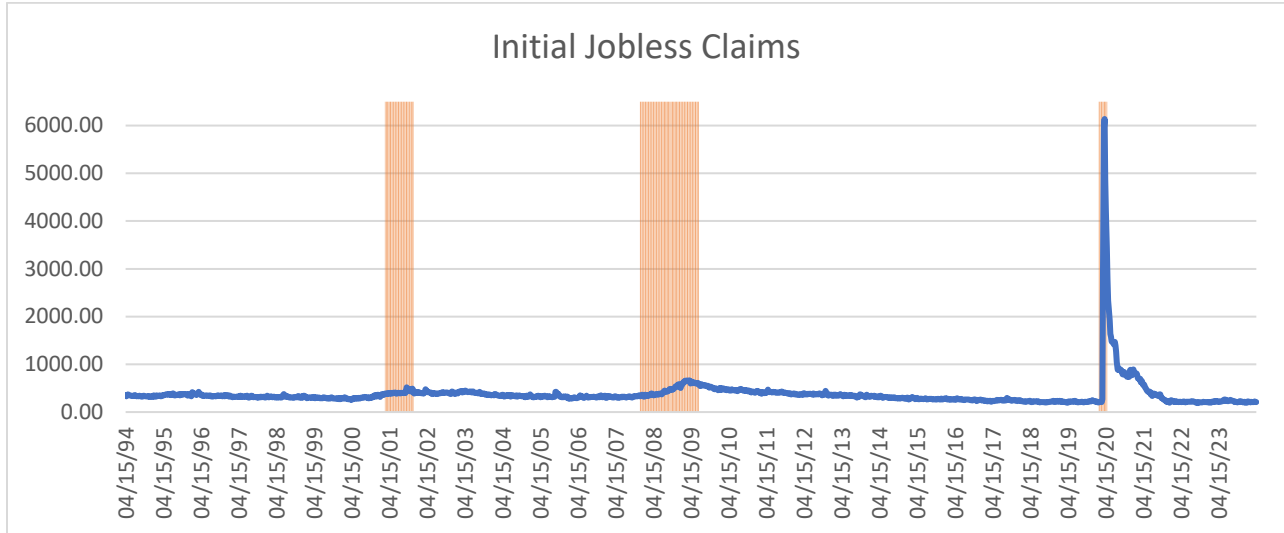


Figure 10 - Source: FactSet

- Initial Jobless Claims were unchanged from last week (212,000) and 3000 below consensus expectations for 215,000.
- Claims remain well below the 250,000 level last seen in June and August 2023, when concerns about recession started popping up.

Existing Home Sales, SAAR (in thousands)

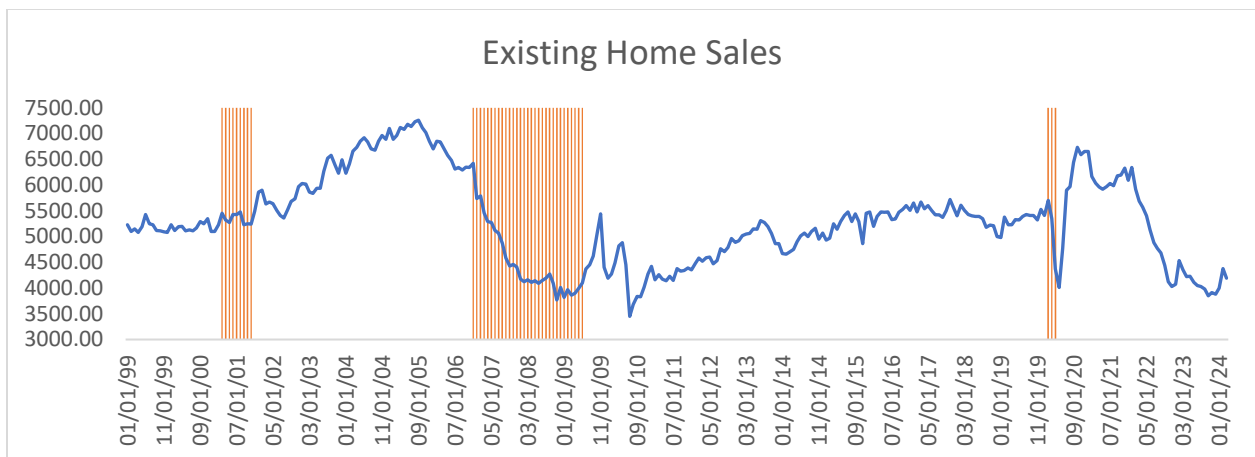


Figure 11 - Source: FactSet

- Existing Home Sales fell for the month of March to 4.19 million units, its biggest one month drop since February of 2023, yet it was 35,000 units more than consensus.

- In our view, this is largely tied to high mortgage rates and higher home prices (median existing home prices rose to \$393,500) making homes less affordable.

Leading Economic Indicators (LEI), SA MoM

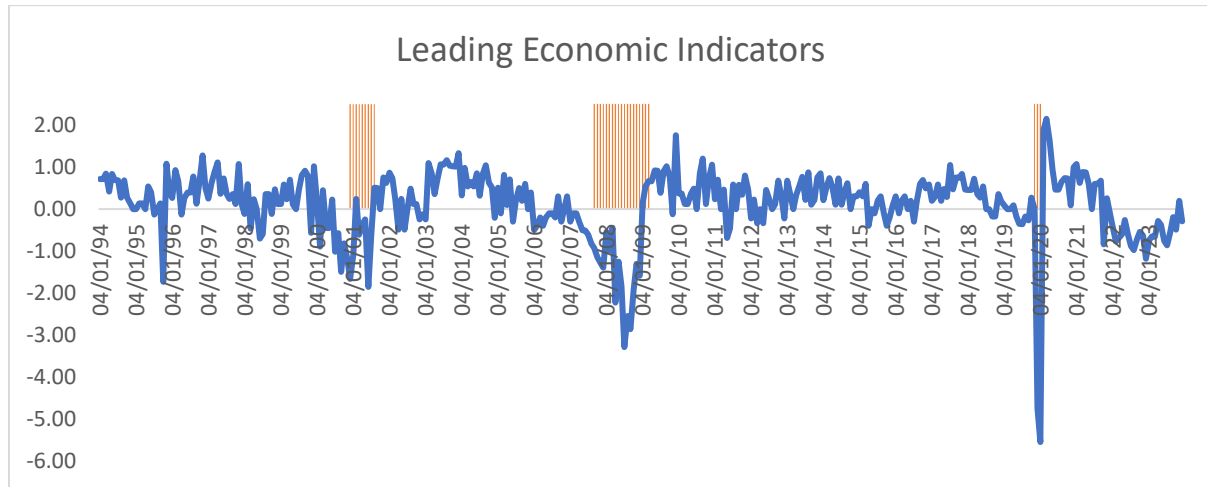


Figure 12 - Source: FactSet

- The LEI declined by 0.3%, 0.2% below consensus expectations for a decline of 0.1% and last month's rise of 0.2%.
- While a decline in the LEI can indicate the potential for inflation, a decline in the LEI does not always mean that a recession will happen.
- From the Conference Board, "Negative contributions from the yield spread, new building permits, consumer's outlook on business conditions, new orders, and initial unemployment insurance claims drove March's decline."

Disclosure: SAAR = Seasonally Adjusted Annual Rate, SA M/M = Seasonally Adjusted Month over Month, SA Y/Y = Seasonally Adjusted Year over Year, MoM = Month over Month, SA = Seasonally Adjusted

Investment advice offered through Stratos Investment Management, a registered investment advisor. The information contained in this market commentary reflects the opinions of Stratos Investment Management. These opinions do not reflect the views of others and are subject to change without notice. Content in this material is intended for general information purposes only and should not be construed as specific investment advice or recommendations for any individual. Please contact your advisor with any questions or for specific recommendations regarding your own circumstances. Investing involves risks including possible loss of principal.

The information herein has been obtained from sources known to be reliable. However, no guarantees, representation or warranty, express or implied, is made as to its accuracy, completeness or correctness.