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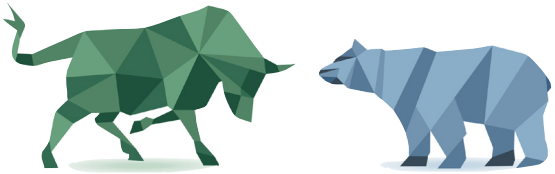
Braeburn Observations



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LOWRY'S 5/6/2022

Confirmation of strong Demand is necessary to form a lasting bottom although, given current trends in Supply and Demand, probabilities do not favor that happening. The level of capitulation needed to wash out Supply and better set the stage for a new advance has not yet set in. Perhaps recent above-average Total NYSE Volume provides a clue that this process is beginning, but when and where the bottom will be is impossible to know. Investors should remain defensive and not fall for the siren call of stocks that seam to be ready to buy simply because they are down in price.

U.S. MARKETS

Despite an end-of-week rally, the major U.S. equity benchmarks recorded another week of losses. It marked the sixth consecutive weekly decline for the both the S&P 500 index and the Nasdaq Composite, and the seventh for the Dow Jones Industrial Average—its longest stretch since 2001. At its lows on Thursday, the S&P 500 was down nearly 18% from its peak, just above the -20% threshold that commonly defines a bear market. The Dow Jones Industrial Average shed 703 points finishing the week at 32,197—a decline of -2.1%. The technology-heavy NASDAQ Composite retreated 2.8% to close at 11,805. By market cap, the large cap S&P 500 retreated -2.4%, the mid cap S&P 400 declined -2.0%, and the small cap Russell 2000 gave up -2.5%.

INTERNATIONAL MARKETS

Major international markets finished the week mixed. Canada's TSX retreated -2.6%, while the United Kingdom's FTSE 100 ticked up 0.4%. On Europe's mainland, France's CAC 40 and Germany's DAX rose 1.7% and 2.6%, respectively. In Asia, China's Shanghai Composite gained 2.8%, while Japan's Nikkei ended the week down -2.1%. As grouped by Morgan Stanley Capital International, developed markets ended the week down -0.4%. Emerging markets fell -1.1%.

U.S. ECONOMIC NEWS

The number of Americans filing for first-time unemployment benefits rose slightly last week, settling just above 200,000. The Labor Department reported initial jobless claims rose by 1,000 to 203,000. Economists had expected new claims to fall to 194,000. The reading followed a revised increase of 21,000 last week to 202,000—the biggest weekly increase since last July. Meanwhile, continuing claims, which counts the number of people already receiving benefits, fell by 44,000 to 1.34 million. That number remains near its lowest level since early 1970.

Inflation remained near a 40-year high in April but pulled back slightly from the previous month. The Bureau of Labor Statistics reported the Consumer Price Index showed an 8.3% year-over-year increase last month--a slight decline from March's 8.5% increase. However, even though inflation slowed a bit, the reading was higher than expected and inflation was widespread across the economy. Core inflation, which strips out the often-volatile food and energy categories, was also higher than anticipated. Core inflation rose by 0.6%, 0.2% higher than forecast. The Federal Reserve views the core CPI as a more accurate measure of inflationary trends, but most Americans still pay a large share of their budget for fuel and meals. Of note, food prices jumped almost 1% last month. Grocery prices have increased 10.8% in the past year, the biggest surge since 1981. Sal Gautieri, senior economist at BMO Capital Markets wrote in a note, "The Fed has little option but to keep jacking up interest rates to at least neutral levels as fast as possible."

Inflation at the wholesale level rose 11% in April as prices at the producer level

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continue to accelerate. The Bureau of Labor Statistics reported its Producer Price Index (PPI) rose 0.5% on the month, and 11% from a year ago, indicating that inflation at the consumer level is unlikely to decline anytime soon. Excluding food, energy and trade services, "core" PPI rose 0.6% in April and 6.9% from the same time last year. That reading is a slight decline from the 7.1% annual rate last month. Both monthly readings were in line with economists' estimates. Gas and groceries have been responsible for much of the inflation surge, with indexes tracking those two sectors up a respective 1.7% and 1.5% in April, according to the PPI data. Auto prices, particularly for used vehicles, also have been a major inflation component, and the PPI index for motor vehicles and equipment increased 0.8% on the month.

Confidence among the nation's small business owners leveled off last month, after three consecutive months of declines. The National Federation of Independent Businesses (NFIB) reported its Small Business Optimism Index remained unchanged at 93.2 in April. That remains near its lowest level since April 2020, just after the coronavirus pandemic took hold. Inflation and labor shortages continued to weigh heavily on short-term expectations. However, the future doesn't appear bright to the nation's small business owners. The number of respondents who expect better business conditions in the next six months continued to decline, hitting its lowest level ever recorded in the survey's history. "Owners are very pessimistic about sales and business conditions in the second half of the year," NFIB Chief Economist Bill Dunkelberg said. "This dampens capital investment and, eventually, will feed into employment if sales actually slow as expected," he said. Small businesses account for nearly half of all private sector jobs.

The sentiment of the nation's consumers fell to a 10-year low, according to the University of Michigan. In its preliminary reading of consumer sentiment for early May, the University of Michigan reported its gauge fell to 59.1 in May, from April's final reading of 65.2. Economists were expecting a reading of 64.1. Joanne Hsu, director of the survey, stated the decline in consumer attitudes from April "were broad based" and "visible across income, age, education, geography, and political affiliation." "Consumers' assessment of their current financial situation relative to a year ago is at its lowest reading since 2013, with 36% of consumers attributing their negative assessment to inflation," Hsu added. The report's indicator of expectations for the next six months declined to 56.3 from 62.5.

About Our Research Sources

Barron's – Since 1921 Barron's has provided investment analysis and insight in its weekly publication and, in recent times, it's continuously updated web site. Barron's provides a wide range of perceptives, expert analysis and interviews with financial and investment professionals.

Investor's Business Daily (IBD) – A daily newspaper designed for the individual investor. All of its products and features are based upon the CAN SLIM Investing System developed by its founder William J. O'Neil. This system identifies the seven common characteristics what winning stocks display. For more on this see his book "How to Make Money in Stocks."

Lowry's – Based out of Miami, Florida, Lowry's is the oldest continuously published Technical Investment Advisory service in the US. Their work, which gives insight into the underlying supply and demand dynamics of the market, is based upon a daily examination of all stocks on the New York Stock Exchange and Nasdaq Stock Market. Lowry's has pioneered work in the statistical analysis of upside and downside volume statistics including their exclusive measure of buying and selling pressure.

Mauldin Economics - Best selling author, analyst and financial writer, John Mauldin, taps into his network either directly or through the reams of high-level research he's privy to on a regular basis, to assist in identifying the smartest investments for today's markets; then carefully screened and evaluated by a team of ace analysts.

Stock Trader's Almanac – A unique annual publication created by Yale Hirsch in 1967. The almanac is a treasure trove of insightful research originating such important phenomena as the "January Barometer," the "Santa Claus Rally," and "Sell in May and Go Away." It includes data backing, historically proven, cyclical and seasonal tendencies.

The Fat Pitch - an acclaimed blog that the Business Insider ranks on their annual list of the Top Finance People to Follow. The blog is written by Urban Carmel who has had a long career in financial markets. This blog discusses trends he sees and the business of managing money.

The Sherman Sheet - published by W. E. Sherman and Co., of St. Louis MO. Bill Sherman is a long-time professional money manager who developed an in-depth expertise in computerized analysis and statistical measurements over the years, and is a recognized expert in several areas of the investment universe.

Value Line – Founded in 1931, Value Line is an unbiased research firm providing intuitive investment research on companies, industries, markets and economies. Value line provides astute fundamental research, trending information and historical data that allows for shrewd decision making.

Zacks – Founded in 1978 by Len Zacks, PhD. MIT, Zacks is an investment research firm pioneering work in the area of corporate earnings estimate revisions and stock performance. Zacks believes, and Braeburn agrees, that Earnings Estimate Revisions are the most powerful force impacting stock prices.