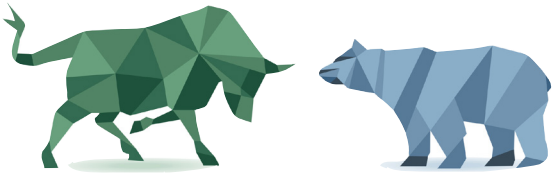
Braeburn Observations



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LOWRY'S 7/1/2022

We continue to monitor for capitulatory selling, likely in the form of another cluster of 90% Downside Days, while the indicators mentioned join longer-term momentum readings in fully oversold territory. At that point, we can look for signs for returning Demand, primarily, but not limited to a 90%, or consecutive 80% Upside Days, along with a meaningful decline in Selling Pressure. Until the full recipe is implemented, investors are going to have to remain hungry, possibly nibbling occasionally on an irresistible individual stock appetizer.

U.S. MARKETS

The major U.S. indexes surrendered a portion of the previous week's strong gains, as worries grew that the Federal Reserve's fight against inflation would push the economy into recession. The benchmark S&P 500 Index closed out its worst first half of the year since 1970. However, an afternoon rally at the end of the week lessened the blow to the downside for all the major indexes. The Dow Jones Industrial Average finished the week down -1.3% to 31,097. The technology-heavy NASDAQ Composite gave up roughly half of last week's surge, falling -4.1%. The large cap S&P 500 and small cap Russell 2000 each finished down -2.2%, while the mid cap S&P 400 ended the week down -1.6%.

INTERNATIONAL MARKETS

International markets were a sea of red last week, except for China. Canada's TSX declined 1.1%, while the United Kingdom's FTSE 100 ticked down -0.6%. France and Germany each finished down 2.3%, while China's Shanghai Composite finished the week up 1.1%--its fifth consecutive week of gains. Japan's Nikkei ended down -2.1%. As grouped by Morgan Stanley Capital International, developed markets finished the week down -1.8%. Emerging markets ended down -2.0%.

U.S. ECONOMIC NEWS

The number of Americans filing for first-time unemployment benefits fell by 2,000 to 231,000 last week. Economists had expected claims to total 230,000. The four-week average of claims, smoothed to iron out the weekly volatility, rose by 7,250 to 231,750—the highest level since December. Meanwhile, the number of people already collecting jobless benefits, known as continuing claims, fell by 3,000 to 1.33 million. That number is now back to pre-COVID crisis levels. While still robust, many analysts don't think the labor market can show much improvement from these levels. Nancy Vanden Houten, lead U.S. economist at Oxford Economics stated, "The level of claims is still relatively low, but we don't expect claims to fall much below the levels of the last few weeks. While labor markets remain very tight, reports of layoffs are increasing."

Home prices continued to rise in April, according to the latest report from S&P Case-Shiller. The Case-Shiller 20 city home price index posted a 21.2% year-over-year gain in April, up a tick from the 21.1% reading the previous month. A separate report from the Federal Housing Finance Agency showed a 1.6% monthly gain, and that index was up 18.8% from the previous year. Tampa, Miami, and Phoenix reported the highest year-over-year gains among the 20 cities in April. By region, price growth was strongest in the South and Southeast, which saw over 30% growth. D.C., Minneapolis, and Chicago reported the lowest year-over-year gains. Selma Hepp of S&P CoreLogic noted there was a "notable deceleration of monthly gains in the Western markets." And with mortgage rates rising, a "more challenging macroeconomic environment may not support extraordinary home price growth for much longer," she added.

Pending home sales, which are transactions in which a contract has been signed but not yet closed, rose 0.7% in May, according to the National Association of Realtors. Analysts had been expecting a drop of 4%. The increase broke a six-month streak of declines and came even as mortgage rates

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continued to rise. Still, compared with the same time last year, sales were down -13.6%. Regionally, the index jumped the most in the Northeast, and fell both in the Midwest and the West. Economists look at pending home sales data as an indicator for the direction of existing-home sales in subsequent months.

Confidence among the nation's consumers fell to a 16-month low as the high price of gas and food weighed on sentiment. The Conference Board reported consumer confidence fell to 98.7 in June, from 103.2. Economists had expected just a 3.2 point drop to 100. The U.S. economy has slowed and is likely to keep slowing with the Federal Reserve raising interest rates to try to tame the highest inflation in 40 years. In the details, how consumers feel about the economy right now dipped 0.3 point to 147.1, while a similar gauge that asks consumers how they anticipate the next six months fell more sharply to 66.4 from 73.7. Thomas Simons, money market economist at Jefferies LLC stated, "It looks like this is another piece of evidence showing concerns about a recession are rising among consumers."

A key gauge of inflation rose sharply in May, largely due to the higher cost of gas and food, but there were signs that price pressures may be starting to ease. The 'personal consumption expenditures index', or 'PCE-I', rose 0.6% in May—triple its reading from April. But a narrower measure of inflation that omits volatile food and energy costs, known as the core PCE, rose by relatively modest 0.3% for the fourth month in a row. That was below Wall Street's 0.4% forecast. The rate of inflation over the past year remained unchanged at 6.3% in April. The yearly rate has backed off a little after touching a 40-year high a few months ago. The core rate of inflation also slowed to 4.7% in the 12 months ended in May from 4.9% in April. Analysts note that the Federal Reserve views the PCE index as the better barometer of inflation over the more popular Consumer Price Index (CPI).

The economy shrank at a -1.6% annual pace in the first quarter, and according to the Atlanta Fed's GDPNow tracker, the second quarter isn't looking much better. The contraction in gross domestic product, the official scorecard for the economy, was the first since the deep recession caused by the pandemic lockdowns in 2020. As for the second quarter, the latest estimate of the GDPNow model shows a further -1.0% contraction in the economy. Regardless of where second-quarter GDP clocks in, analysts note the economy is likely to continue to slow. The Federal Reserve remains on a hiking cycle to try and reign in the highest inflation in over 40 years. The biggest negative in the updated GDP report was a downward revision in consumer spending, the chief engine of the economy. That doesn't bode well for the future.

Orders for goods expected to last three years or more, so-called 'durable goods', rose last month with a stronger-than-expected reading. The Census Department reported durable goods orders rose 0.7% in May, its seventh gain in eight months. Economists had expected just a 0.2% increase. The reading showed manufacturers still had plenty of demand for their products, even amid signs the economy was slowing. Core orders, which strip out the often-volatile transportation sector and military equipment, rose 0.5%. Orders for new cars and trucks rose 0.5%, while orders for commercial airplanes declined -1.1%. Chief economist Stephen Stanley of Amherst Pierpont Securities stated, "From everything I have seen, business investment remains strong, though it certainly would not be surprising to see some moderation going forward as borrowing rates and uncertainty regarding the economic outlook rise."

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 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.