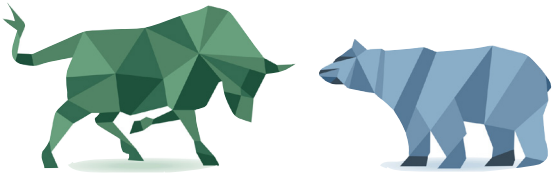
Braeburn Observations



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LOWRY'S 5/21/2021

If the market begins to show signs of growing deterioration, especially if Buying Power and Selling Pressure do not reverse their current trends, then a serious reevaluation of all factors will be in order. However, unless that happens, the theme is to let the market work out its short-term demons. Typically, the larger trends will reassert itself, and the healthy body of intermediate-term evidence cited in many Lowry reports concurs.

U.S. MARKETS

U.S. indices posted mixed results in a volatile week of trading. The large-cap S&P 500 index ended the week modestly lower while the technology-heavy NASDAQ Composite gained a little ground. The Dow Jones Industrial Average had its second consecutive negative week, declining -0.5% to 34,208. The Nasdaq Composite ended a four week losing streak by finishing the week up 0.3%. By market cap, the large cap S&P 500 retreated -0.4%, while the mid-cap S&P 400 and Russell 2000 fell -1.2% and -0.4%, respectively.

INTERNATIONAL MARKETS

International markets finished the week predominantly to the upside, but with no large moves anywhere. Canada's TSX retraced all last week's decline and then some, rising 0.8%. The United Kingdom's FTSE 100 closed down for a second week retreating -0.4%. On Europe's mainland, France's CAC 40 finished essentially flat, while Germany's DAX ticked up 0.1%. In Asia, China's Shanghai Composite ticked down -0.1%, while Japan's Nikkei rose 0.8%. As grouped by Morgan Stanley Capital International, developed markets ended the week up 0.6% and emerging markets added 0.4%.

U.S. ECONOMIC NEWS

The number of Americans filing first time unemployment benefits hit a new pandemic low coming in better than analyst estimates. The Labor Department reported initial jobless claims totaled 444,000 last week whereas economists had expected claims to total 452,000. This time last year, claims had totaled more than 2.3 million. While Federal Reserve officials stress the need for more improvement in the jobs picture, the claims numbers suggest that employment is growing consistently. However, continuing claims, which counts the number of people already receiving benefits, edged higher by rising to 3.75 million. That number is reported with a one-week delay.

The nation's homebuilders remain confident, but rising costs of materials are posing major risks the National Association of Home Builders (NAHB) reported. The NAHB said builder sentiment in the single-family housing market remained unchanged at 83 this month. Readings above 50 are considered positive sentiment. The index had plummeted to 37 last May, as the pandemic lockdown hit and the housing market shut down. It then rebounded dramatically in June and July, as consumers rushed to the suburbs seeking more space for working and schooling from home. Builders report strong buyer traffic with continued low mortgage rates helping with affordability, however with prices rising fast they note purchasing power is weakening. "First-time and first-generation homebuyers are particularly at risk for losing a purchase due to cost hikes associated with increasingly scarce material availability," said Chuck Fowler, National Association of Home Builders chairman. Aggregate residential material costs are now up 12% year over year, according to the NAHB, with some materials – most notably lumber – up much more.

Housing starts tumbled more than expected in April, likely pulled down by soaring prices for materials analysts say. The Commerce Department reported housing starts fell 9.5% to a seasonally-adjusted

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annual rate of 1.569 million units in April. Economists had expected starts would fall to 1.710 million units. Year-over-year starts were up 67.3% in April. Groundbreaking activity dropped in the Midwest and south, but rose in the Northeast and West. Permits for future homebuilding rose 0.3% to a rate of 1.760 million units in April. They soared 60.9% compared to April 2020.

Manufacturing activity in the New York-region remained strong this month, holding near its highest level in over three years. The New York Fed reported its Empire State Manufacturing index down-ticked to a reading of 24.3 in May from 26.3 in April. Economists had expected a reading of 24.8. In the report, the new orders index rose 2 points to 28.9, while shipments rose 4.7 points to 29.7. Both price indices hit record highs. The prices paid index rose 8.8 points to 83.5 while prices received rose 2.2 points to 37.1. On a negative note, expectations for business in the next six months slipped 3.2 points to 36.6. The Empire State reports gets particular attention as it is seen as a leading indicator of national trends.

A measure of output at U.S. manufacturers and service providers advanced to a new record this month, underscoring the solid demand that is contributing to inflationary pressures. Data firm IHS Markit said its flash U.S. manufacturing Purchasing Managers Index (PMI) increased 1 point to 61.5 in the first half of this month. That was the highest reading since the survey was expanded to cover all manufacturing industries in October 2009. Economists had forecast the index dipping to 60.2 in early May. A reading above 50 indicates growth in manufacturing, which accounts for 11.9% of the U.S. economy. Booming demand also boosted the services sector, which bore the brunt of the pandemic. The IHS Markit's flash services sector PMI surged 5.4 points to 70.1—also its highest reading since the series started in October 2009. The services sector accounts for more than two-thirds of U.S. economic activity.

The Conference Board reported its Leading Economic Index (LEI) had its second consecutive solid gain in April, further evidence that the economic recovery is gathering momentum. The LEI rose 1.6% in April after a 1.3% gain in March. It was the strongest gain since last July. "The U.S. LEI suggests the economy's upward trend should continue and growth may even accelerate in the near term," said Ataman Ozyildirim, senior director of economic research at the Conference Board. The index has recovered fully from its COVID-19 contraction. The Conference Board now forecasts real GDP could grow around in a range of 8%-9% in the second quarter, with annual growth expected to reach 6.4%.

According to minutes from the latest Federal Open Market Committee meeting, Federal Reserve officials remained cautiously optimistic about the U.S. economic recovery. Notes showed some officials signaled they were open to discussing scaling back the central bank's massive bond purchases "at some point". Minutes stated, "A number of participants suggested that if the economy continued to make rapid progress toward the Committee's goals, it might be appropriate at some point in upcoming meetings to begin discussing a plan for adjusting the pace of asset purchases." Officials held interest rates near zero at the meeting and pledged to continue buying $80 billion in Treasuries and $40 billion in mortgage-backed securities every month until "substantial further progress" had been made on their employment and inflation goals.

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 prefessional money manager who developed an in-depth expertise in computerized analysys 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.

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