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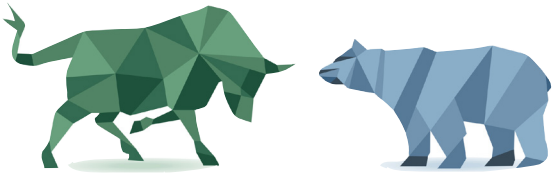
Braeburn Observations



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LOWRY'S 5/6/2022

In the possibly consequential short term, the reaction of buyers to Thursday's 90% Downside Day is important. Lowry's 90% Downside Days occur when 90% of NYSE Net Volume and Points are to the downside in a trading session. These days of intense selling can mark the exhaustion of sellers if, with nobody left to sell, buyers fearlessly fill the void. As such, the most important piece of the equation for a market bottom is the return of confident, indiscriminate buyers, who rush to scoop up newly perceived bargains in the days that follow. It is this prolonged burst of broad-based Demand that signifies a sustainable market low has been achieved. However, since it is also true that 90% Downside Days - another embodiment of risk-off and volatility - often beget more heavy selling, waiting fo the Demand response before acting is crucial.

U.S. MARKETS

Most of the major U.S. benchmark equity indexes suffered a fifth consecutive week of losses as interest rates and inflation worries continued to weigh on sentiment. The selling briefly pushed the Dow Jones Industrial Average into "correction" territory, down 10% from its recent highs. After a volatile week, with back-to-back swings of more than 900 points, the Dow finished down just -0.2% to 32,899. The technology-heavy NASDAQ Composite fared the worst of the bunch giving up -1.5% to 12,145. By market cap, the large cap S&P 500 ticked down -0.2%, while the mid cap S&P 400 declined -0.8% and the small-cap Russell 2000 finished down -1.3%.

INTERNATIONAL MARKETS

Almost all of the major international indexes finished the week to the downside as well. Canada's TSX declined -0.6%, while the United Kingdom's FTSE 100 fell -2.1%. France's CAC 40 and Germany's DAX ended down -4.2% and -3.0%, respectively, while in Asia, China's Shanghai Composite gave up -1.5%. Japan's Nikkei bucked the trend and managed to finish up 0.6%. As grouped by Morgan Stanley Capital International, emerging markets ended the week down -3.4% and developed markets fell -2.0%.

U.S. ECONOMIC NEWS

The number of Americans filing for first-time unemployment benefits rose by 19,000 to 200,000 last week, the Labor Department reported. It was the biggest weekly rise in claims since last July and its highest level since February. Economists had expected just 182,000 new claims. However, analysts said most of the increase was likely due to seasonal adjustment factors rather than any widespread pickup in layoffs. Meanwhile, 'continuing claims', which counts the number of people already receiving benefits, fell by 19,000 to 1.38 million. That number remains near its lowest level since the early 1970's.

The Labor Department reported the country gained 428,000 jobs in April and wages rose, however a shortage of skilled labor weighed on sentiment. Employment has risen by over 400,000 for 12 consecutive months and the number of people working is expected to return to pre-COVID levels by July. The unemployment rate remained unchanged at 3.6%. However, the size of the available labor force shrank in April for the first time in seven months—a further indication of how difficult it is to for companies to find workers. As a result, the so-called rate of participation in the labor market dropped to 62.2% from 62.4%. The increase in hiring in April surpassed Wall Street's estimate. Economists polled by the Wall Street Journal had forecast 400,000 new jobs.

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The vast 'services' side of the U.S. economy, which makes up roughly two-thirds of GDP, pulled back this month according to the latest data from the Institute for Supply Management (ISM). ISM reported its index of business conditions at service-oriented companies fell 1.2 points to 57.1. Economists had expected a reading of 58.3. ISM signaled that labor and supply shortages as well as high inflation are all weighing on the economy. In the report, the 'prices-paid' index, a measure of inflation, rose to a record high. "Inflation, supply chain issues and access to qualified workers continue to be issues," an executive in public administration told ISM. "Cost pressures are beginning to slow demand," said a wholesale executive.

In a similar report, ISM's manufacturing index fell 1.7 points to 55.4 in April as the industrial side of the economy grew at its slowest pace in a year-and-a-half. Economists had expected the index to rise to 57.8. Inflation and shortages in supplies and labor were seen as the reason for this miss. "Inflation is out of control," one chemical-industry executive told ISM. "At some point, the economy must give way. It will be tough to have real growth with such pressure on costs." Furthermore, the situation isn't expected to improve anytime soon. Timothy Fiore, chairman of the survey, stated the lockdowns in China are expected to cause "some pretty significant problems" in the near future. In the details, the index of new orders slipped 0.3 points to 53.5—that was the lowest reading since the economy was shut down in May 2020. Meanwhile, the employment gauge sank 5.4 points to 50.9—an eight-month low.

The Federal Reserve raised its key interest rate a half percentage point this week and reaffirmed its more aggressive strategy to try and subdue the worst rise in inflation in 40 years. As part of its two-pronged strategy, the central bank also said it would reduce its $9 trillion stockpile of treasury bonds and mortgage-backed securities starting on June 1. As its clear inflation is no longer 'transitory', Fed Chairman Jerome Powell admitted, "Inflation is much too high and we understand the hardship it is causing." The central bank as expected lifts its benchmark fed funds rate to a range of 0.75% to 1% in what's expected to be a series of increases. It was the second rate hike this year and the biggest since 2000. Powell also said further 1/2-point rate increases are on the table for upcoming meetings, but that larger 3/4-point rate increases are not presently being considered. The Dow Jones Industrial Average rallied more than 900 points on that news, but gave it all back the following day.

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.