

A funny thing has happened on the road to markets nirvana, it stopped being so smooth. Last week was the worst for equities since February, and speculative growth stocks are no longer flying high in the clear air, they are sucking wind. Is it possible, maybe just possible, that ‘transitory’ inflation might not be so transitory? We think so, but so far that hasn’t gotten us a straw hat and a pair of sunglasses. But hope springs eternal.

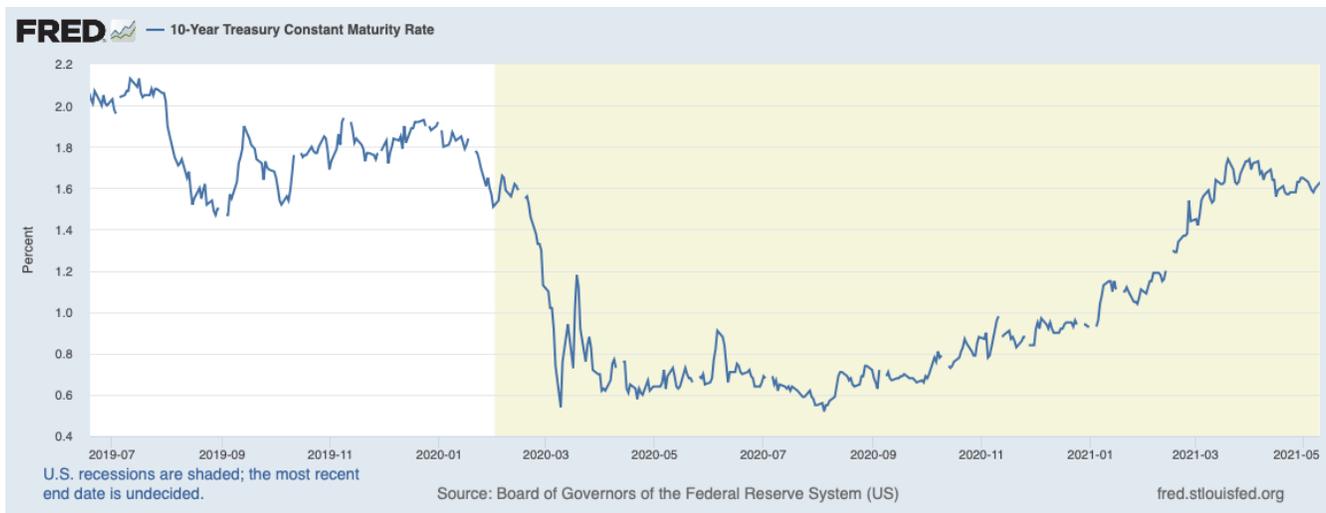
“We know how you feel.”



Markets

The bond market continues to behave rather well, even with the cross currents saying we might be at an inflection point. Yield on the benchmark ten-year treasury has hung around 1.60% for three months now. While every ounce of intelligent investor in us says the next move is higher, every time we do that the Fed reminds us that ‘lower for longer’ really means ‘lower for longer’. Pre-pandemic we were trading in a range of 1.60% to 1.80%.

Now What?



Bloomberg's Chris Bryant penned a great piece this week with the punchline that stock market 'prophets' were out, and profits are now in. He has some credibility on the subject because last January he opined about the evangelists for innovation, and how like it or not, they had become the face of the markets. Now, all three have seen 30% or more haircuts in their publicly listed vehicles. While up a ton over the past few years, all that glitters is indeed not gold.

Three Headed Monster



In a reversal of fortune that has been long overdue, value stocks are now beating their growth counterparts. That's right, you read that correctly, value is actually beating growth. This is a huge reversal as the chart below shows. If, and that's a big 'if', this becomes a legitimate trend, then 2021 is going to be a very interesting year for stock pickers and market strategists.

Vuja De

Value vs. Growth

	Q1 <small>(1/1/2021-3/31/2021)</small>	1-Year <small>(4/1/2020-3/31/2021)</small>	3-Year <small>(4/1/2018-3/31/2021)</small>	5-Year <small>(4/1/2016-3/31/2021)</small>	10-Year <small>(4/1/2011-3/31/2021)</small>
Large Value	11.38	56.22	10.26	11.40	9.94
Large Growth	2.24	63.21	20.20	19.16	14.29
Value Performance Gap	9.14	-6.98	-9.94	-7.76	-4.36
Mid-Cap Value	15.82	76.68	9.83	11.05	9.73
Mid-Cap Growth	3.89	79.93	19.91	18.75	12.85
Value Performance Gap	11.92	-3.26	-10.08	-7.70	-3.12
Small Value	21.49	100.21	10.00	11.68	9.21
Small Growth	6.83	94.17	19.75	19.93	12.81
Value Performance Gap	14.66	6.04	-9.75	-8.25	-3.61

Source: Morningstar Direct. Returns are annualized.

The Economy

We are back end loaded this week in terms of economic releases with leading economic indicators, the purchasing managers index, and existing home sales all being reported on Thursday and Friday. Then we gear up for a bigger week heading into Memorial Day. Is it even possible that summer is on fast approach?

Eco Calendar - May 2021



MON	TUE	WED	THU	FRI
3 <u>Markit Manufacturing PMI Final</u> APR 9:45AM <u>Construction Spending MoM</u> MAR 10AM	4 <u>Factory Orders MoM</u> MAR 10AM	5 <u>ADP Employment Change</u> APR 8:15AM <u>Markit Services PMI Final</u> APR 9:45AM	6 ----BOE MEETING---- <u>Jobless Claims 4-week Average</u> MAY/01 8:30AM	7 <u>Non Farm Payrolls APR</u> <u>Unemployment Rate APR</u> <u>Average Hourly Earnings YoY</u> APR 8:30AM
10	11 <u>JOLTs Job Openings</u> MAR 10AM	12 ----U.K. GDP---- <u>CPI-Inflation Rate MoM</u> APR 8:30AM	13 <u>PPI MoM</u> APR 8:30AM	14 <u>Retail Sales MoM</u> APR 8:30AM <u>Industrial Production MoM</u> APR 9:15AM <u>Michigan Consumer Sentiment Prel</u> MAY 10AM
17 <u>NY Empire State Manufacturing Index</u> MAY 8:30AM	18 ----EURO-ZONE GDP---- <u>Building Permits MoM</u> APR 8:30AM <u>Housing Starts MoM</u> APR 8:30AM	19 ----U.K. CPI---- ----EURO-ZONE CPI---- FOMC Minutes 2PM	20	21 <u>Markit Composite PMI Flash</u> MAY 9:45AM <u>Existing Home Sales MoM</u> APR 10AM
24 <u>Chicago Fed National Activity Index</u> APR 8:30AM	25 <u>House Price Index MoM</u> MAR 9AM <u>Richmond Fed Manufacturing Index</u> MAY 10AM	26	27 <u>Durable Goods Orders MoM</u> APR 8:30AM <u>GDP Growth Rate QoQ 2nd Est Q1</u> 8:30AM <u>Pending Home Sales MoM</u> APR 10AM	28 <u>Personal Income MoM</u> APR 8:30AM <u>Personal Spending MoM</u> APR 8:30AM <u>Core PCE Price Index MoM</u> APR 8:30AM
31				

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From a low of 4,000,000 in May of last year to the current 6,000,000 run rate, housing has been the biggest winner of Covid as cheap money and a shift out of the cities has produced a huge tailwind for homeowners, and home sellers. Buyers, not so much.

The New Normal

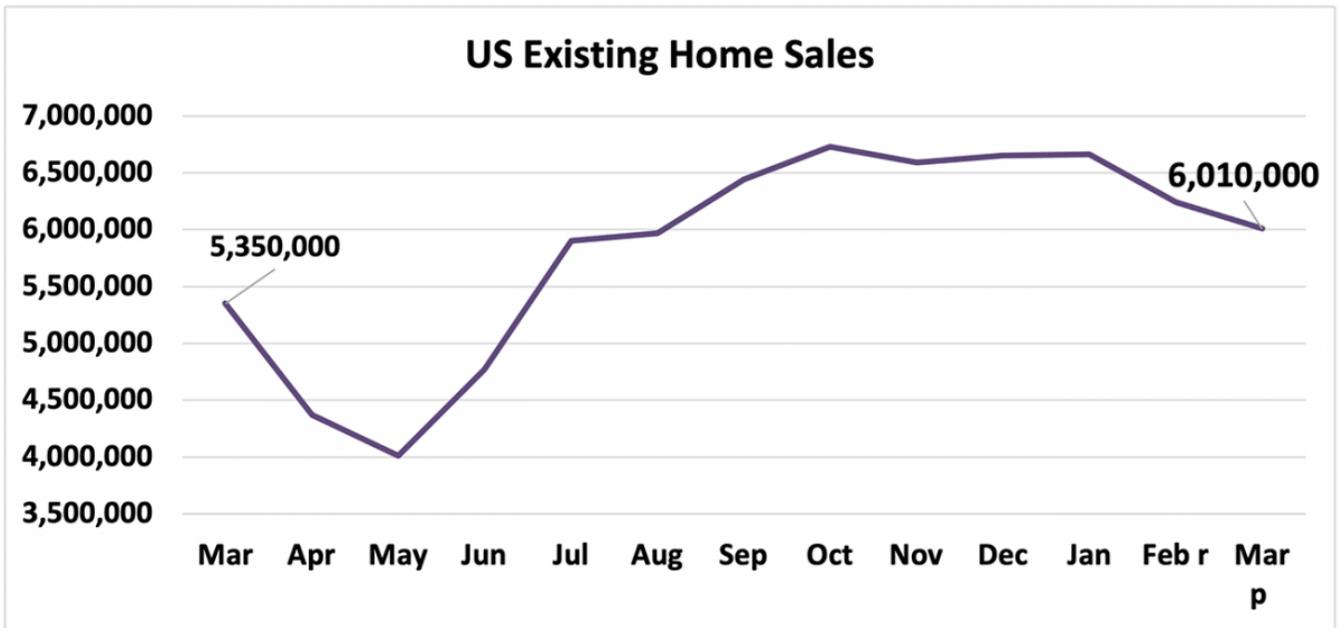
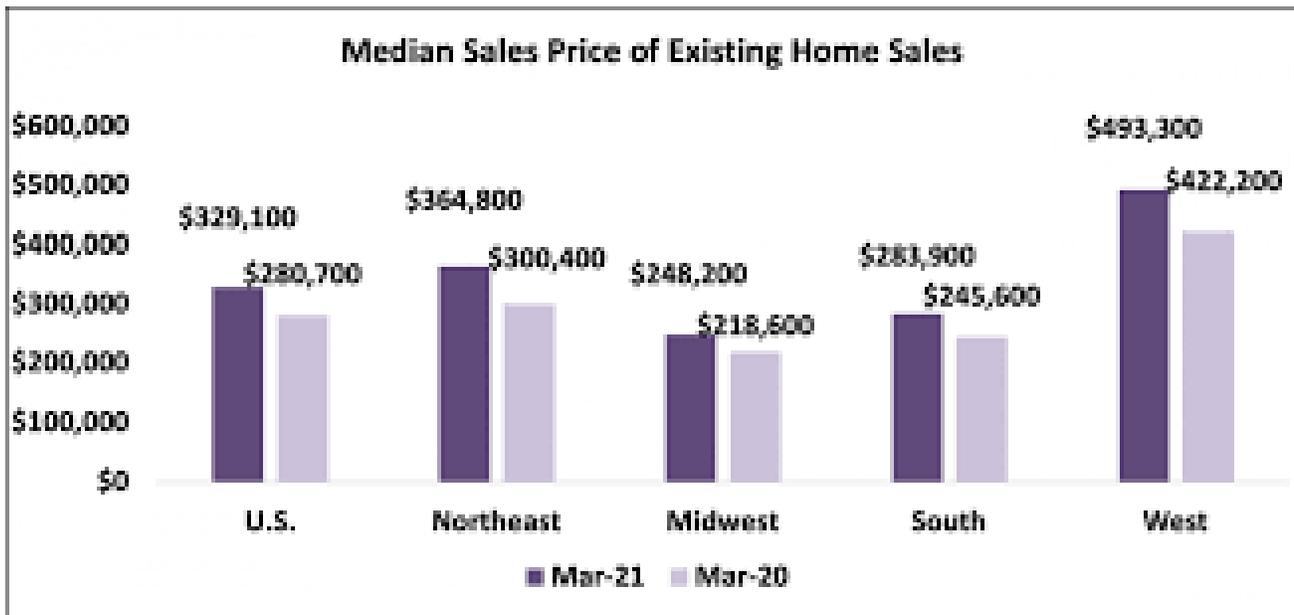


Exhibit A in how tough it is to find not only a home to buy, but one that hasn't gone up 10% to 20%. It's almost mind boggling to think that in the west your median sale price has gone from a little over \$400,000 last year, to a little under \$500,000 this one. Please don't tell us there is no inflation.

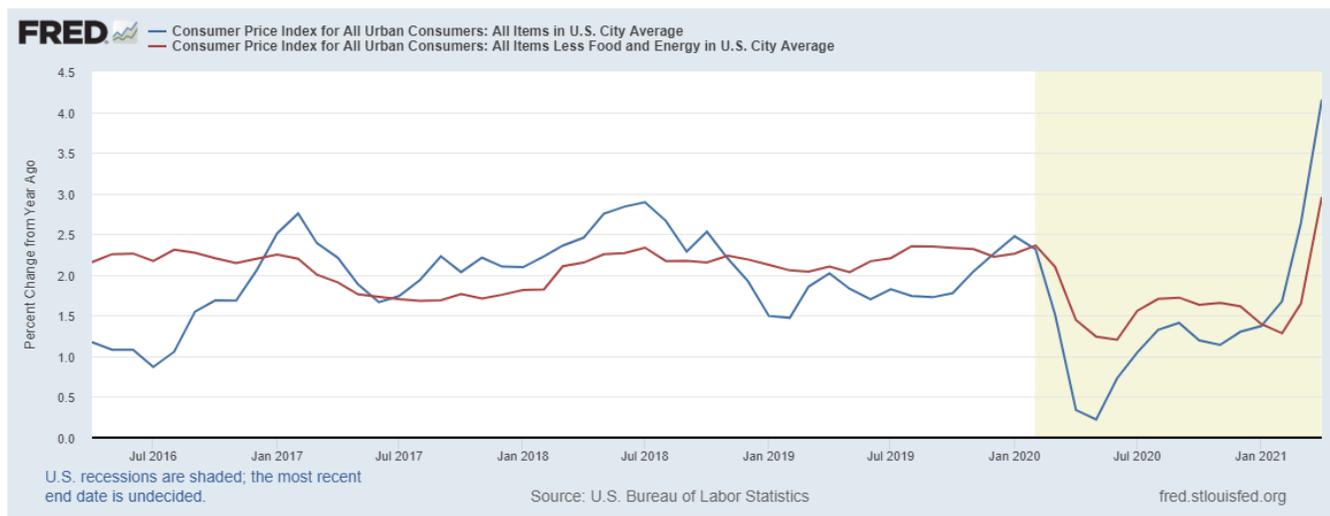
Jaw Dropping



In terms of the aforementioned inflation, the shock is here. Last week we got more evidence that was the case. While the Fed continues to defend the 'transitory' nature of consumer

prices spiking, tell that to the guy on the other side of the counter, or the one who is trying to sell you his house. For those scoring at home, this is the biggest rise in monthly inflation in 39 years.

Shock n' Awe



Stan Sees It

Stan Drukenmiller made an appearance last week on CNBC in the wee early morning out west (5:30 am), but it was well worth being awake for as he spoke the closest thing to the truth we have heard out of anybody. The punchline was the Fed is totally out of sync with reality and they are throwing too much jet fuel on the fire just to get 20 more basis points of inflation out of the economy.

Stan Drukenmiller



We were so impressed with what he had to say, which is not uncommon for us, that we plan to use his current view and ideas for our first 'Mid-Current' report due out on Friday. We are calling this a tentative delivery date because we still have a man's memorial to plan and execute this week, but those are just minor details. Money never sleeps, and markets never stop moving. There is a nice mid-current out there that we want to get into.

“There he is!”



Muscle Shoals Music

While we can't deep dive like we used to in terms of the Diversions section of 'This Week in the Markets, when we see something we really like, we feel like we have to shine a spotlight on it. In this instance, it's 'Muscle Shoals', an Apple TV documentary that tells the story of how one small Alabama town became the recording capital of the world for a time.



One of the most compelling reasons to take it in is that it will forever read you in on these lyrics to Leonard Skinners epic, “Sweet Home Alabama”. No clue what a Swamper is? You are going to find out.

Now Muscle Shoals has got the Swampers
And they've been known to pick a song or two (yes they do)
Lord they get me off so much
They pick me up when I'm feelin' blue
Now how about you?

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