



Last week, inflation concerns dominated the markets, spiked by the surge in post-pandemic demand, gasoline shortages, and global supply chain issues. At present, we expect these pressures to be temporary as the stimulus effects moderate while the global vaccination effort creates a post-pandemic economic imbalance in the recovery. Sowell’s tactical reading weathered last week’s market volatility and maintained a positive indication taking into perspective the current expansionary environment.

GAUGE OF THE GRADE



BEARISH

NEUTRAL



BULLISH



Another volatile week for equity investors ended with most indexes lower for the week. Investors seem willing to buy any dips they see in the broader market as equities rallied at the end of the week. The S&P 500 and the Dow both fell more than 1%, and the technology-heavy NASDAQ dropped by more than 2%. After being absent for a decade or longer, fast-rising inflation returned in April, with the Consumer Price Index (CPI) rising 4.2% from a year ago. This price increase could be transitory as supply shortages and reopening surge in demand is temporarily pushing prices higher. But its effect on the markets is evident through increased volatility. The 10-Year Treasury ended the week at 1.635%, higher than when it started the week but lower than the highs reached during the week.

Earnings season is on its tail end, with a few notable names reporting this week. Big retailers, including Walmart, Home Depot, and Lowe’s, are reporting earnings. Retail spending in April came in below expectations, but inflationary pressures forced retailers to raise their prices. On the economic front,

we will get a new gauge on the hot housing market with reports on existing home sales, mortgage applications, and housing starts for April this week. Home prices have been rising but so have mortgage rates. Finally, following the Colonial Pipeline shutdown, attention will be given to oil and gas inventories when it is reported. The pipeline has been restored, but there are still gas shortages in the Southeast.

MONDAY MAY 17, 2021
NAHB Housing Market Index
NY Empire State Manufacturing Index
Clover Health, Ryanair, and Tencent Music earnings
TUESDAY MAY 18, 2021
Housing Starts
API Crude Oil Stock
Redbook
Baidu, Home Depot, Macy’s, Take-Two and Walmart earnings
WEDNESDAY MAY 19, 2021
Gasoline Inventories
Mortgage Market Index
Analog Devices, Cisco, L Brands, Lowe’s, and TJX earnings
THURSDAY MAY 20, 2021
Initial jobless claims (weekly)
Continuing jobless claims
Philly Fed Manufacturing Index
Applied Materials, Hormel, Kohl’s, Palo Alto Networks, Petco, Ralph Lauren, and Ross earnings
FRIDAY MAY 21, 2021
Existing Home Sales
Manufacturing PMI
Services PMI
Booz Allen, Deere, Foot Locker and VF earnings

SECTOR RETURNS					
	1 WEEK	1 MONTH	3 MONTHS	YTD	12 MONTHS
Basic Materials	(0.12)	8.79	18.57	23.05	78.65
Comm Services	(1.80)	(0.08)	2.54	12.42	55.47
Consumer Cyclical	(3.67)	(3.23)	(0.06)	6.77	71.50
Consumer Defensive	(0.05)	2.49	7.12	5.77	29.71
Energy	(0.57)	8.51	19.78	40.82	52.91
Financial Services	(0.41)	5.33	15.33	23.15	71.18
Healthcare	(0.90)	2.31	0.91	6.27	24.69
Industrials	(0.79)	3.67	14.02	17.51	75.61
Real Estate	(1.41)	2.59	7.21	12.37	40.04
Technology	(2.30)	(4.69)	(4.77)	2.85	48.90
Utilities	(0.44)	(0.54)	4.73	4.39	18.47



The question of equity valuation, how expensive is the equity market, had been a common discussion before the pandemic. Valuations based on the CAPE, which adjusts the price/earnings ratio for inflation and earnings cyclicity, had reached almost the 90th percentile range before the pandemic. The pandemic brought valuation down to the median range. The post-pandemic growth has pushed equity valuations once again above the 90th percentile – meaning that more than 90% of the time, investors paid less for the S&P 500 stocks relative to earnings than they are doing now. The only other time based on the CAPE that we have had higher valuations was during the dot.com bubble.

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