The Longo Group

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ECONOMIC HIGHLIGHTS

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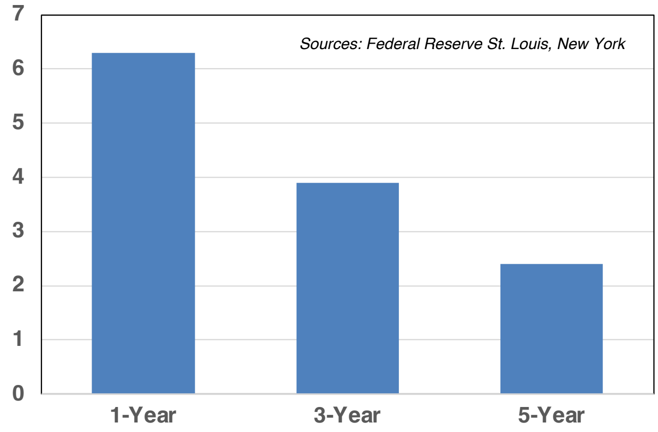
INFLATION (MAY BE) STABILIZING AT HIGH RATES

We track 21 inflation measures on a monthly basis. On average, they indicate that prices are rising at an 8.2% year-over-year rate. As for core inflation, our reading is 4.3%, down from 4.5% last month. Deep in the production pipeline, the producer price index (PPI) for final demand is now 11.0%, down slightly from 11.2% last month. While consumers can't really detect differences in pricing from the PPI, we note that the rate of increase in average hourly earnings last month was 6.3%, down from 6.8%, and the one-year forward inflation expectation rate is now 6.3%, down from 6.6%. Investors expect the Fed's rate hikes to corral inflation, with the five-year forward expectation rate now down to 2.4%.

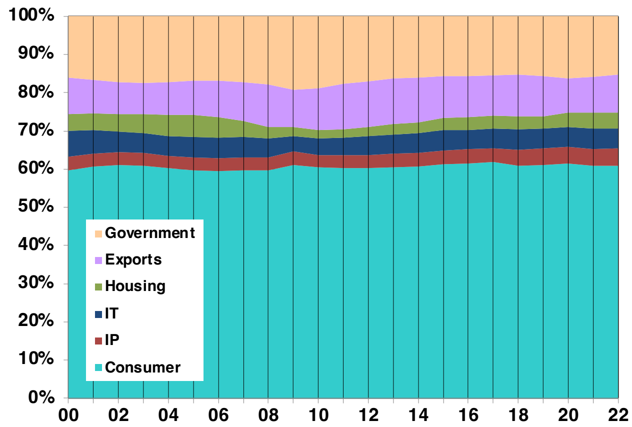
INFLATION EXPECTATIONS (%)



1Q GDP GROWTH REVISED LOWER

The Commerce Department recently announced that 1Q22 GDP declined at a 1.5% rate, down 0.1% from the advance estimate announced last month. During 1Q, personal consumption expenditures grew at a 3.1% pace and contributed 61% of core demand. This is in line with the 10-year average, as the consumer sector continues to recover. Capital investment in equipment rose 13% and accounted for a consistent 5% of total GDP, while capital investment in intellectual property rose 12% and accounted for a high 5% of GDP. Exports remained under pressure, as did government spending. We think this quarter's growth rate has been skewed by trends in the export/import and government categories. The core of the U.S. economy, led by the consumer, continues to expand.

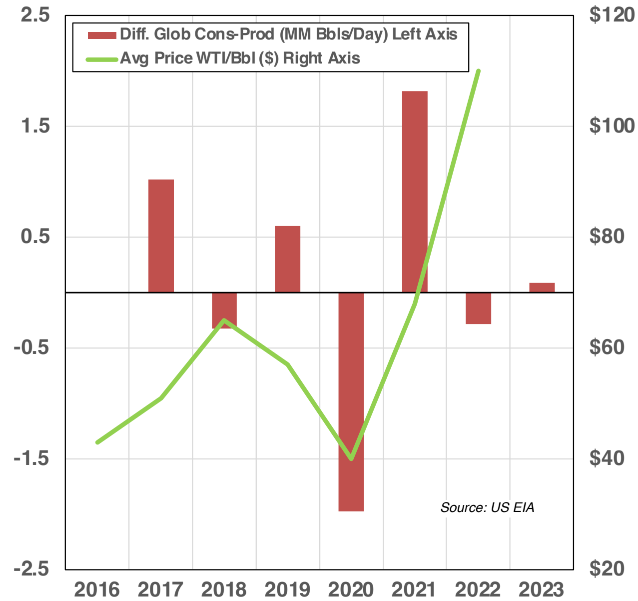
GDP CONTRIBUTORS



ARGUS RESEARCH ADJUSTS OIL PRICE FORECAST

Our forecast for the average price of West Texas Intermediate crude oil in 2022 is now $110 per barrel, up from last year's average price of $68. We anticipate a trading range of $80-$140 per barrel for the year. The current price is near $120, up from $75 at the beginning of the year but down slightly from $123 in early March. The core drivers of oil prices are global demand and supply. According to the U.S. Energy Information Administration, there was a supply shortage last year: global consumption was 97.4 million barrels per day, while production was only 95.6 million barrels. This was a reversal from 2020, when global consumption was 91.9 million barrels/day and production was 93.8 million. As a result, the average price of oil was $40 per barrel in 2020. Geopolitical developments, ranging from the war in Ukraine to sanctions on Iran and Venezuela also impact the price of oil. These wild cards can cause prices to fluctuate dramatically. Current forecasts call for supply to match demand later in 2022 and to exceed demand slightly in 2023. Absent new wild cards, the demand-supply outlook suggests that the days of sharp oil price increases are now in the rearview mirror.

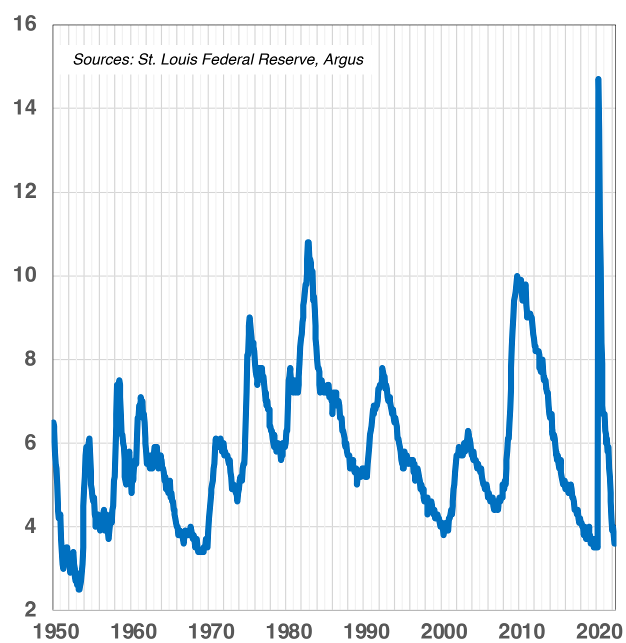
OIL INDUSTRY FACTORS



390,000 NEW JOBS IN MAY

The U.S. economy generated 390,000 new jobs in May, ahead of consensus expectations. The unemployment rate held steady at 3.6%, while the number of unemployed persons rose to 6.0 million from 5.9 million a month earlier as more workers reentered the labor force. Average hourly earnings rose $0.10 from the prior month and 5.2% from the prior year, down from a 5.5% year-over-year increase in April. Revisions to the job totals for March and April subtracted 22,000 jobs. In May, employment gains occurred in leisure and hospitality, professional and business services, and transportation and warehousing. Employment in retail trade declined. The report indicates that the consumer economy is likely to remain on a growth track, despite the impact of the Fed rate hikes, the Russian invasion of Ukraine, and higher prices at the pump.

U.S. UNEMPLOYMENT RATE (%)

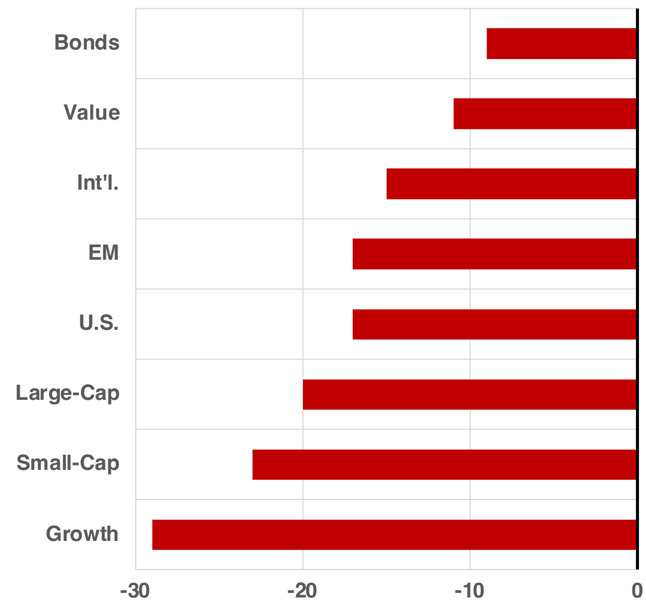


FINANCIAL MARKET HIGHLIGHTS

NOWHERE TO HIDE

Russia's invasion of Ukraine, skyrocketing inflation, and concerns about Fed rate hikes have led to a 20% decline in the S&P 500 (as of May 20), ushering in the first bear market since the onset of the pandemic. Bear markets tend to be relatively long, with an average duration of 16 months for the past six downturns. The average peak-to-trough decline in those bear markets has been 38%; that would drop the S&P 500 to 2974. From a technical standpoint, we see support for the index near 3,500, in line with the 200-week moving average and representing a 50% retracement of the bull market's gains. On the fundamentals, the current market P/E of 16-times forward earnings is not far from the historical average, but there are questions about the durability of earnings. The historical average dividend yield for the S&P 500 is 1.9%. If stock prices were to fall to that level, the S&P 500 would settle around 3150. The worst bear market in the past six decades occurred during the Great Recession, when stocks dropped 57%. That kind of move would take the S&P 500 down to 2060. Few can predict when stock prices will bottom, but we expect investors to take their cues from Fed actions and inflation reports.

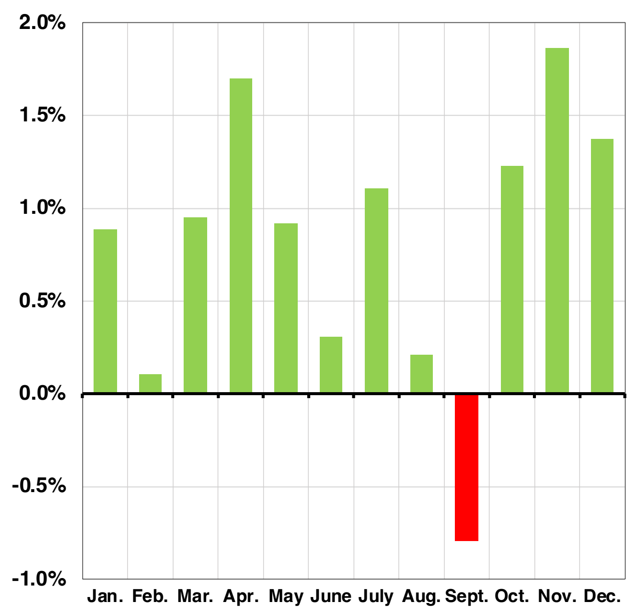
YTD SEGMENT RETURNS (%)



JUNE JINX?

According to our analysis of market returns since 1980, June is not one of the better months for stocks. On average, equity investors in June eke out a 0.3% positive return -- better than only February, August, and September. The winning percentage is 62%, higher than only the 3Q summer months. Market returns in June have exceeded 5% only twice in the past 37 years: a 5.4% increase in 1999 and a 6.9% gain in 2019. Clunkers include 2008 (-8.6%), 2002 (-7.2%), 2010 (-6.1%), and 1991 (-4.8%). Last year, the S&P 500 rose 2.1% for the month. June is typically a quiet month for earnings, as the second quarter draws to a close. But don't be surprised by fireworks this June on the economic and inflation fronts. The Fed is expected to raise the fed funds rate another 50 basis points, while inflation data may show that the central bank's actions are starting to have an impact. Or not. Stocks are off to a weak start in 2022 and only recently have moved higher. The inflation data in June and July will help determine whether stocks move higher from recent lows, or plumb further depths.

AVERAGE MONTHLY STOCK-MARKET APPRECIATION



ECONOMIC CALENDAR

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
7-Jun	Trade Balance	April	-$109.8 Bil.	-$93.0 Bil.	-$93.0 Bil.	NA
8-Jun	Wholesale Inventories	April	2.7%	1.0%	2.1%	NA
10-Jun	Consumer Price Index	May	0.3%	0.5%	0.7%	NA
	CPI ex-Food & Energy	May	0.6%	0.4%	0.5%	NA
	U of Michigan Sentiment	June	58.4	58.0	58.2	NA
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Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
21-Jun	Existing Home Sales	May	5.61 Mil.	NA	NA	NA
24-Jun	New Home Sales	May	591K	NA	NA	NA