Creative Global Investments

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Objectivity
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Why This Retail Sales Report Is So Important

May's strong auto sales have raised expectations for this Thursday's May retail sales report. The consensus forecast is now for a month-over-month increase of 1.1% following April's disappointing flat sales. Core retail sales are forecast to rise 0.7% versus 0.1% the previous month. While impressed by the strong automotive annualized selling rate in May, we believe that the calendar had more to do with the automotive sales boomlet than generally recognized. Favorable timing of the Memorial Day weekend enabled promotional sales efforts to achieve maximum effect. We have doubts that these results can be extrapolated broadly across the wider spectrum of consumer spending.

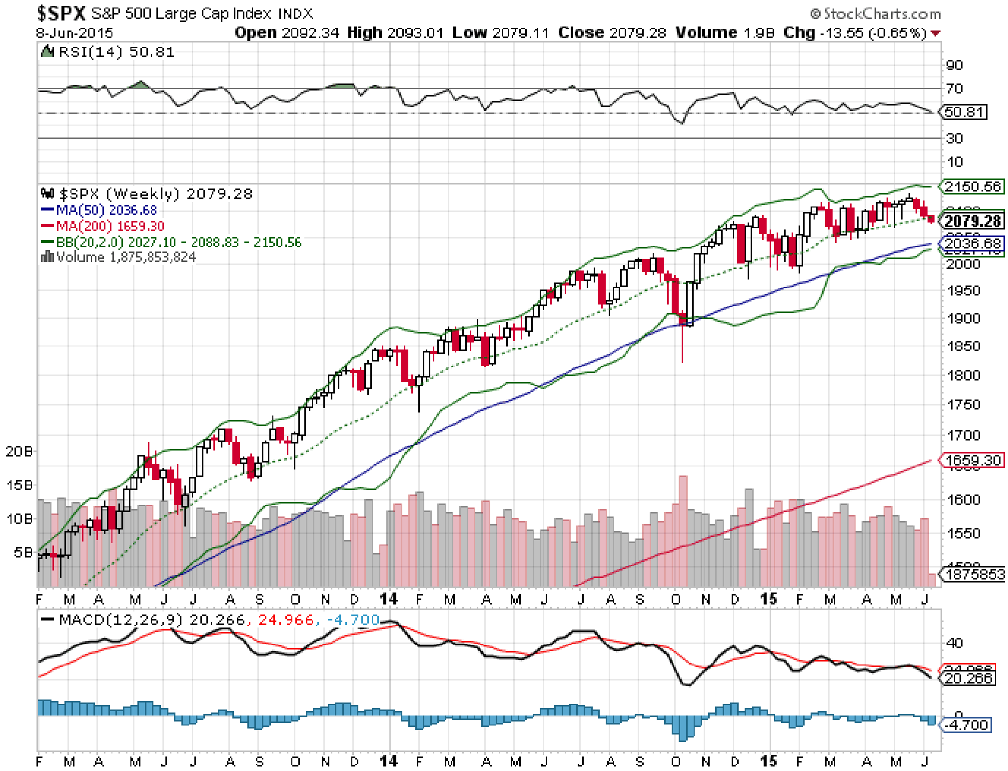
A strong second quarter economic rebound from the weak first quarter is a pipedream unless consumer consumption rises materially. Manufacturing, exports and business investment have all failed to adequately recover from the "weather impacted" first quarter, leading many [including ourselves] to question the underlying vibrancy of the economy.

May's better-than-expected nonfarm payroll report has many market participants convinced that the Fed will raise interest rates sooner rather than later. Certainly the bond market thinks so as Treasury yields spiked to new highs for the year immediately upon publication of the number. Yet consensus among the voting members of the FOMC is still lacking. All things being equal, many Fed members (including Chairperson Yellen, we're sure) would like to have some "insurance" that they're not being premature in raising rates.

A strong May retail sales report could be interpreted by the Fed as confirmation that the economic recovery is becoming self-sustaining and justify hiking the Fed funds rate. Although the bond market has begun to broadly price in the rising probability of a rate hike, the stock market has yet to do so other than in the yield-oriented sectors that have been underperforming over the past six weeks. In our judgment, the consensus expectation for the initial rate hike would then coalesce around the September FOMC meeting**. The traditional summer rally would likely take a vacation in that scenario as fears of reduced liquidity cause market participants to assume a more risk adverse posture. On the other hand, a disappointing sales report likely sends Treasury yields lower as any lingering hopes for a sharp rise in second quarter GDP evaporate.**

Regardless as to what number prints for retail sales, we believe that the near daily pattern of divergent (and often conflicting) economic data will remain the status quo and contribute to a rise in daily volatility. Nonetheless, in spite of the anticipated rise in daily volatility, we expect that the stock market will stay range bound to a greater extent than generally believed [or feared]. In our judgment, the risk/reward profile for the stock market is shifting with the downside risk now outweighing the upside potential over the intermediate term. The daily and weekly charts for the S&P 500 both point toward further near-term vulnerability. **Liquidity always trumps fundamentals.**


$SPX S&P 500 Large Cap Index INDX
© StockCharts.com
8-Jun-2015 Open 2092.34 High 2093.01 Low 2079.11 Close 2079.28 Volume 1.9B Chg -13.55 (-0.65%)
RSI(14) 39.07
$SPX (Daily) 2079.28
MA(50) 2100.99
MA(200) 2045.77
BB(20,2.0) 2084.43 - 2112.29 - 2140.14
Volume 1,875,853,824
MACD(12,26,9) -2.163, 2.615, -4.778


$SPX S&P 500 Large Cap Index INDX
© StockCharts.com
8-Jun-2015 Open 2092.34 High 2093.01 Low 2079.11 Close 2079.28 Volume 1.9B Chg -13.55 (-0.65%)
RSI(14) 50.81
$SPX (Weekly) 2079.28
MA(50) 2036.68
MA(200) 1659.30
BB(20,2.0) 2027.10 - 2088.83 - 2150.56
Volume 1,875,853,824
MACD(12,26,9) 20.266, 24.966, -4.700

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