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Unprecedented

At least a couple of major retailer stocks got clobbered last week as investors sold on reports that they missed earnings estimates.

What's surprising to us is that the fate of these individual companies was such a surprise to so many investors. Inflation is obviously a problem – retailers often run on very thin margins – but a problem of which investors should have already been well aware.

What we really think is going on is both investors and corporate management are having a hard time understanding the real economic impact of "unprecedented" policies. As a result, normal macroeconomic analysis isn't as helpful.

Yes, unemployment is very low. Yes, real GDP is up a solid 3.6% from a year ago. But the economy has been deeply influenced the past couple of years by a massive increase in government spending, COVID-related shutdowns of normal business activity, and a huge increase in the money supply. In turn, the economy is deeply distorted versus where it was before COVID.

Retail sales are up 28.8% versus where they were in February 2020, an incredible surge over twenty-six months. For comparison, retail sales were only up 6.7% in the twenty-six months before COVID started. In other words, retail sales increased roughly 4x the normal pace because of pandemic spending and money printing. That can't last.

But many firms apparently believed this COVID-era trend would continue, as if it were some sort of new normal. Part of the recent misses in earnings may reflect a generational shift, with a whole new cohort of managers who didn't have jobs of any significance during the inflationary and Keynesian-dominated 1970s. They saw rising earnings earlier in the pandemic and thought they were brilliant when they were just lucky they were working in the sectors that were temporarily helped by money printing and redistribution. That goes for some retailers and some home exercise equipment and technology companies, as well.

While the government was throwing massive aid at the economy, both fiscal and monetary, government regulations were shutting down competition in certain sectors, particularly small businesses.

But the extra checks stopped in the spring of 2021 and now monetary policy has (finally!) gone into reverse. And so managers who figured they had the golden touch are now finding out their touch isn't as golden as they thought, and investors are reassessing.

The good news is that while the tide is moving away from some businesses that were helped during COVID, the tide is moving toward some businesses that were substantially hindered by COVID. Goods are hurting while services are still getting back toward normal.

This is consistent with our view that the US is not heading for a recession in 2022. Goods slow down, but services pick up. In turn, it also means stocks should move substantially higher from current levels before the next recession begins, but with different sectors taking the lead versus the COVID era.

Since early 2020, the US has experienced the shortest and sharpest economic Depression/Lockdown in (at least) modern history, paired with an enormous expansion in government spending that is now receding. No one knows for sure how the whole process will play out, but the business winners and losers of the next couple of years are very likely to look a lot different than the last few.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
5-24 / 9:00 am	New Home Sales – Apr	0.750 Mil	**0.761 Mil**		0.763 Mil
5-25 / 7:30 am	Durable Goods – Apr	+0.6%	**-0.1%**		+1.1%
7:30 am	Durable Goods (Ex-Trans) – Apr	+0.5%	**+0.1%**		+1.4%
5-26 / 7:30 am	Initial Claims May 21	215K	**209K**		218K
7:30 am	Q1 GDP Preliminary Report	-1.3%	**-1.3%**		-1.4%
7:30 am	Q1 GDP Chain Price Index	8.0%	**8.0%**		8.0%
5-27 / 7:30 am	Personal Income – Apr	+0.5%	**+0.5%**		+0.5%
7:30 am	Personal Spending – Apr	+0.7%	**+0.8%**		+1.1%
9:00 am	U. Mich Consumer Sentiment- May	59.1	**59.5**		59.1