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The SITREP for the week ending 06/10/2022

SIT REP: n. a report on the current situation; a military abbreviation; from "situation report".

In the markets:

U.S. Markets: Major U.S. equity markets finished the week with steep losses despite strength early in the week. The Dow Jones Industrial Average shed over 1500 points finishing the week at 31,393—a decline of -4.6%. The technology-heavy NASDAQ plunged a deeper -5.6%. **By market cap, the large cap S&P 500 fared the worst declining -5.1%, while the mid cap S&P 400 fell -4.7% and the small cap Russell 2000 ended the week down -4.4%.**

International Markets: International markets finished the week mixed with most Western markets finishing in the red but with markets in Asia finishing in the green. Canada's TSX declined -2.5%, while the United Kingdom's FTSE 100 retreated -2.9%. On Europe's mainland, France's CAC 40 and Germany's DAX pulled back -4.6% and -4.8%, respectively. But in Asia, China's Shanghai Composite finished the week up 2.8%, while Japan's Nikkei rose 0.2%--its fourth consecutive weekly gain. **As grouped by Morgan Stanley Capital International, developed markets plunged -5.1%, emerging markets ended down -2.1%.**

Commodities: Most major commodities finished the week to the upside. Gold rose 1.4% to \$1875.50 per ounce, while Silver ticked up 0.1% to \$21.93. **Energy continued its run with West Texas Intermediate crude rising 1.5% to \$120.67 per barrel.** Likewise, Brent crude added 0.7% to \$121.93. The industrial metal copper, viewed by some analysts as a barometer of world economic health due to its wide variety of uses, plunged -4%.

U.S. Economic News: The number of Americans filing first time claims for unemployment benefits jumped 27,000 to a nearly six-month high of 229,000. However, economists stated the entire increase appeared to stem from seasonal adjustments tied to the Memorial Day holiday, instead of actual job losses. **Raw, or actual jobless claims, remained relatively unchanged at 184,604, up less than a thousand from the previous week.** The monthly average of new claims, used by analysts to smooth the weekly volatility, rose by 8,000 to 215,000. Ian Shepherdson, chief economist of Pantheon Macroeconomics doesn't expect the strong labor market to falter anytime soon. Shepherdson wrote, "Widespread anecdotal reports of increased layoffs point to a rising trend in claims over the summer, but we expect the numbers to remain low by historical standards." Meanwhile, **the number of people already collecting benefits remained unchanged at 1.31 million people. That reading remains at its lowest level since 1969.**

Americans have been pulling out their credit cards to maintain their lifestyles even as inflation continues to rise. The Federal Reserve reported 'total consumer credit' rose by \$38.1 billion to a record \$4.57 trillion in April. Economists had been expecting just a \$35 billion gain. The reading represents a 10.1% annual increase, down from a revised 12.7% gain the prior month. Revolving credit, like credit cards, rose at a 19.6% rate in April to a record \$1.1 trillion. Nonrevolving credit, predominantly made up of auto and student loans, rose at a 7.1% rate to a record \$3.5 trillion. Consumer borrowing has increased at a rapid rate this year, clearly due to rising inflation.

Rising prices for gas, food, and rent, pushed the Consumer Price Index to a 40-year high of 8.6% last month. The 1% increase in May was more than triple the gain in the prior month. Economists had expected a 0.7% advance. The last time inflation rose this rapidly was 1981. The core rate, which strips out food and energy, increased by 0.6% - a tick higher than expected. The Federal Reserve views the core rate as a more accurate measure of inflation, but the higher cost of gas and food have generated much of the public and political outcry about inflation. **Furthermore, rising prices show little sign of slowing down.** The sharp increase in May is sure to keep pressure on the Fed to continue raising rates and to be more aggressive. Sal Guatieri, senior economist at BMO Capital Markets stated, "U.S. inflation sped up in May, with nearly every item zooming higher, and another big

core jump suggests the peak might be some ways off. Fifty basis points is now the minimum the Fed will hike in coming meetings as it races to catch up.”

Sentiment among the nation’s consumers plunged to a record low, according to a preliminary reading from the University of Michigan. UofM’s gauge of consumer sentiment plunged 8.2 points to 50.2—a reading not seen since the low point reached in middle of the 1980 recession. The reading was a huge miss from economists’ expectations of a reading of 59. In the details of the report, a gauge of consumers’ views on current conditions tumbled to 55.4 in June from 63.3 in the prior month, while a barometer of expectations over the next 6 months plunged to 46.8 from 55.2. Higher gas prices and overall inflation are weighing heavily on sentiment. **The share of consumers citing inflation as the biggest reason for their negative outlooks was the highest since 1981**, said economists at Contingent Macro.

International Economic News: Canada’s yield curve has flattened indicating that investors are anticipating an economic slowdown. This week, it had **the narrowest spread among G7 countries with its gap between 2- and 10- year bond yields at just 14 basis points.** With inflation at a 31-year high, the Bank of Canada raised its policy interest rate from 1.0% to 1.5%, its second consecutive 50-basis-point hike. The BOC also announced **more forceful actions would be taken if necessary.** According to Deputy Governor Paul Beaudry, these more forceful actions could include more moves before pausing, larger than 50-bp increases, or an end rate above the “neutral” 2-3% range.

The Organization for Economic Cooperation and Development (OECD) is forecasting the United Kingdom would experience economic growth holding to 3.6% for 2022 but will fall to zero by 2023 due to depressed demand from high inflation, rising interest rates, and increasing taxes. The forecast underscores the difficulties a weakened Prime Minister Boris Johnson is likely to face in the months ahead as he tries to shore up support within his Conservative party after surviving a no-confidence vote this week and demonstrate his government can manage the economy effectively. In response to the OECD report, the UK’s Treasury said: “We recognize many people will be concerned by these forecasts,” adding that **“we can’t insulate the UK from global pressures entirely . . . [but] we are supporting people with the cost of living.”**

On Europe’s mainland, **elections are being held nationwide across France to select the 577 members of the most powerful branch of its Parliament, the National Assembly.** The far-left’s Jean-Luc Melenchon, the head of a coalition made up of leftists, greens and communists under the name ‘Nupes’, is seeking to win the election and prevent Macron’s party from retaining its current parliamentary majority. Melenchon wants to significantly increase the minimum wage and lower the retirement age to 60. He also wants to be prime minister if his coalition gains control. **Macron and his allies are expected to win between 260 and 320 seats, according to latest polls, with the magic number being 289 for Macron’s coalition, ‘Ensemble’, to maintain control.**

Germany’s central bank, the Bundesbank, dramatically altered their prior GDP projection of 4.2%, from the end of last year, to just 1.9% for 2022. The bank claimed economic recovery would most likely continue, but at a “considerably more subdued pace.” Germany’s Federal Statistical Office reported that in the first quarter of 2022 its economy barely grew by 0.2%. **Inflation in Germany hit 7.9% in May**, the highest level since the first oil crisis in the winter of 1973-1974. The “exceptionally high inflation is expected to stoke uncertainty among consumers and will erode their purchasing power”, the Bundesbank said in its outlook.

In Asia, **China’s President Xi Jinping ordered all local government and central government departments to strive for “economic, political, and social stability”** ahead of the Chinese Communist Party’s twice-a-decade congress later this year. Xi is widely expected to secure a third term as the party’s general secretary and a new leadership line-up will be unveiled. “[Government officials] should be diligent in carrying out all the tasks to ensure social stability in order to keep public sentiment stable, and a stable social environment overall,” he was quoted as saying.

Japan's currency, the yen, fell close to its lowest value in 24 years compared to the dollar, which could trigger new economic challenges globally. The yen has dropped 14% since January. Japan's Ministry of Finance, the Bank of Japan and the Financial Services Agency said in a joint statement, "We are concerned about rapid falls in the yen seen in the foreign exchange market recently." The drop is a result of a widening gap between bond yields in Japan and the US. The yen's plunge is escalating Japan's costs for importing fuel, on which Japan is heavily dependent. Japan's government is desperate to avoid a cost-of-living crisis ahead of a national election in the coming months, but is at odds with the Bank of Japan which sees a weaker currency as a way to boost overseas profits of Japan's biggest companies. **The Bank of Japan is now the only central bank among developed nations which hasn't tightened its monetary policy.**

Finally: If you're in the market for patio furniture, appliances, large electronics, or other expensive household items you might be in luck. Big retail's loss might become your gain. America's biggest retailers, Walmart and Target, have a new problem to go along with supply chain issues and a tight labor market—too much inventory. Target announced this week that it was holding a lot of inventory that has gone out of favor as consumers have switched their spending to travel, entertainment, and less expensive consumer items. And as taught in Econ 101, the only real way to move huge volumes of merchandise that is no longer in demand is to discount the heck out of it. So if you're in the market for any of these items, it's likely your local Target or Walmart will have it on sale in the near future. Unfortunately for shareholders, there's been a big sale on Target and Walmart stock as well. Target is down 33% year-to-date, and Walmart has shed 15%. (Chart by chartr.co)

America's Biggest Retailers Have A New Problem: Too Much Stuff



(Sources: All index- and returns-data from Yahoo Finance; news from Reuters, Barron's, Wall St. Journal, Bloomberg.com, ft.com, guggenheimpartners.com, zerohedge.com, ritholtz.com, markit.com, financialpost.com, Eurostat,0020Statistics Canada, Yahoo! Finance, stocksandnews.com, marketwatch.com, wantchinatimes.com, BBC, 361capital.com, pensionpartners.com, cnbc.com, FactSet.)

The SITREP | Glossary of Terms

Index, Exchange and Investment Definitions:

- **Barclays Aggregate Index** - An unmanaged index of fixed rate investment grade securities with at least one year to maturity combining the Barclays U.S. Treasury Bond Index, the Barclays U.S. Government-Related Bond Index, the Barclays U.S. Corporate Bond Index, and the Barclays U.S. Securitized Bond Index.
- **Barclays US Corporate Index** is a broad-based benchmark that measures the investment grade US dollar- denominated, fixed-rate, taxable corporate bond market. It includes USD denominated securities issued by US and non-US industrial, utility, and financial issuers that meet specified maturity, liquidity, and quality requirements.
- **Barclays Aggregate Bond Index** (formerly known as the Lehman Brothers Aggregate Bond Index), an unmanaged, market capitalization weighted index of government and corporate bonds, mortgage-backed securities, and other asset-backed securities, with interest reinvested. This index commonly serves as a proxy for the U.S. bond market.
- **The Bloomberg Commodity Index** is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- **CBOE Volatility Index** shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. This volatility is meant to be forward looking and is calculated from both calls and puts. The VIX is a widely used measure of market risk and is often referred to as the "investor fear gauge."
- **The DJ Equity All REIT Total Return Index** measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
- **The S&P 500** is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy.
- **The Dow Jones Industrial Average** is a price-weighted index of 30 actively traded blue-chip stocks.
- **The NASDAQ Composite Index** is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System.
- **The Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe: market-cap weighted index composed of 2,000 U.S. small-cap common stocks.
- **The CAC-40 Index** is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse.
- **The ISEQ Overall Index** is a capitalization-weighted index of all official list equities in the Irish Stock Exchange, excluding U.K.-registered companies.
- **The FTSE MIB** (Milano Italia Borsa) is the benchmark stock market index for the Borsa Italiana, the Italian national stock exchange.
- **The IBEX 35** is the benchmark stock market index of the Bolsa de Madrid, Spain's principal stock exchange.
- **The DAX 30** is a Blue-Chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange.
- **The FTSE 100 Index** is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization.
- **The STOXX Europe 600 Index** is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index.
- **The RTS Index** (abbreviated: RTSI, Russian: Индекс РТС) is a free-float capitalization-weighted index of 50 Russian stocks traded on the Moscow Exchange.
- **The SSE Composite Index** is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange.

- **The Shanghai Composite Index** tracks the biggest and most important public companies in China.
- **The Hang Seng Index** is a free float-adjusted market capitalization-weighted stock market index that is the main indicator of the overall market performance in Hong Kong.
- **The IDX Composite** or Jakarta Composite Index is an index of all stocks that are traded on the Indonesia Stock Exchange (IDX).
- **The Korea Composite Stock Price Index** or KOSPI is the major stock market index of South Korea, representing all common stocks traded on the Korea Exchange.
- **The Asia Dow** measures the Asia equity markets by tracking 30 leading blue-chip companies in the region.
- **The S&P/ASX 200 Index** is a market-capitalization weighted and float-adjusted stock market index of Australian stocks listed on the Australian Securities Exchange from Standard & Poor's.
- **Nikkei 225** (Ticker: ^N225) is a stock market index for the Tokyo Stock Exchange (TSE).
- **The Nikkei Average** is the most watched index of Asian stocks.
- **The BSE SENSEX** (Bombay Stock Exchange Sensitive Index), also-called the BSE 30 (BOMBAY STOCK EXCHANGE) or simply the SENSEX, is a free-float market capitalization-weighted stock market index of 30 well-established and financially sound companies listed on the Bombay Stock Exchange (BSE).
- **Karachi Stock Exchange 100 Index** (KSE-100 Index) is a stock index acting as a benchmark to compare prices on the Karachi Stock Exchange (KSE) over a period.
- **The Dow Jones Americas Index** measures the Latin American equity markets by tracking 30 leading blue-chip companies in the region.
- **The Mexican IPC Index** (Indices de Precios y Cotizaciones) is a major stock market index which tracks the performance of leading companies listed on the Mexican Stock Exchange.
- **The Bovespa Index** is a gross total return index weighted by traded volume & is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange.
- **The S&P/TSX Composite Index** is an index of the stock (equity) prices of the largest companies on the Toronto Stock Exchange (TSX) as measured by market capitalization.
- **The Global Dow** is an equally weighted index of 150 widely traded blue-chip common stocks worldwide.
- **The MSCI World Index** is a free-float weighted equity index that includes developed world markets and does not include emerging markets.
- **The MSCI EAFE Index** is recognized as the pre-eminent benchmark in the United States to measure international equity performance. It comprises the MSCI country indices that represent developed markets outside of North America: Europe, Australasia and the Far East.
- **The MSCI Emerging Markets Index** is a float-adjusted market capitalization index consisting of indices in more than 25 emerging economies.
- **The US Dollar Index** measures the performance of the U.S. dollar against a basket of six currencies.
- **Corporate BBB 1-3-year Index** - as represented by the BBB rated component of the BofA Merrill Lynch 1-3 Year U.S. Corporate Index, comprised of U.S. dollar-denominated investment-grade corporate debt securities publicly issued in the U.S. domestic market with between one and three years remaining to final maturity.
- **High Yield Index** - as represented by the Bank of America Merrill Lynch U.S. High Yield Master II Constrained Index, a market value-weighted index of all domestic and Yankee high-yield bonds, including deferred-interest bonds and payment-in-kind securities.
- **10-Year US Treasury Index** - This index represents a theoretical rolling 10-year U.S. Treasury note, renewed semiannually to a new higher coupon based on the indicated rise in rates.

Index Disclosures:

“An index is a composite of securities that provides a performance benchmark. Indexes are unmanaged, do not incur management fees/costs/expenses, and cannot be invested-in directly. Past performance is not a guarantee of future results.”

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A handwritten signature in black ink that reads "Brian D. Johnson". The signature is written in a cursive style with a large, prominent initial "B".

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