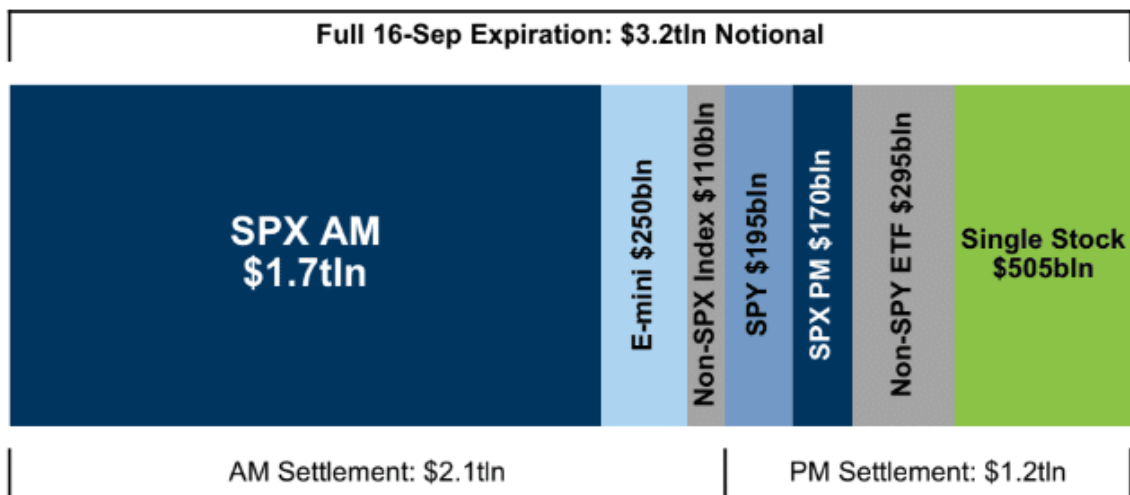


Options Expiration On Friday: Buckle Up

This Friday's quad witching options expirations can generate a lot of market volatility. At the end of each quarter, the options markets' align, and the options for futures, stock futures, indexes, and individual stocks expire on the same day. During quad witching options expiration, trading volumes are heavy, and volatility often spikes as options traders simultaneously cover or roll their options.

Friday's option expiration of equity options is unusually large. As we share from Goldman Sachs, about \$3.2 trillion notional of options are expiring. Almost two-thirds of the contracts directly impact the S&P 500. As we discussed in yesterday's Commentary, options traders are close to neutral gamma in aggregate. While that argues that hedging needs are minimal, they can exponentially change as stocks rise or fall. Therefore, market moves may be exaggerated due to options expiration. Be careful not to read too much into this week's price action!

Exhibit 1: \$3.2tln of option notional expires on 16-Sep
 Notional open interest of US-listed options expiring on 16-Sep-2022



Source: Goldman Sachs Global Investment Research, OptionMetrics, Bloomberg



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What To Watch Today

Economy

- 7:00 a.m. ET: **MBA Mortgage Applications**, week ended September 9 (-0.8% prior)
- 8:30 a.m. ET: **PPI final demand**, MoM, August (-0.1% expected, -0.5% prior)

- 8:30 a.m. ET: **PPI excluding food and energy**, MoM, August (0.3% expected, 0.1% prior)
- 8:30 a.m. ET: **PPI final demand**, year-over-year, August (8.8% expected, 9.8% prior)
- 8:30 a.m. ET: **PPI excluding food and energy**, year-over-year, August (7.1% expected, 7.6% prior)

Earnings

	Company	Time	Estimate		 Growth <small>Show only confirmed?</small>	Surprise			
✓	DOOO BRP Inc.	6:00 AM ET	\$2.03	\$1.77 B	14.2%	+	=	-	+
✓	TNP Tsakos Energy Navig...	8:00 AM ET	\$1.53	\$162.74 M	19.3%	+	=	-	+
✓	HITI High Tide Inc.	4:00 PM ET	(\$0.07)	\$69.24 M	77.0%	+	=	-	+
✓	RFIL RF Industries Inc.	AMC	\$0.10	\$21.85 M	43.2%	+	=	-	+
✓	MMMB MamaMancini's Holdi...	AMC	\$0.02	\$23.00 M	90.6%	+	=	-	+
✓	LPTH LightPath Technologi...	AMC	(\$0.02)	\$9.14 M	9.7%	+	=	-	+
✓	LICY Li-Cycle Holdings Corp.	6:00 AM ET	(\$0.11)	\$10.63 M	522.0%	+	=	-	+

Market Trading Update - The Best Laid Plans

Well, sometimes things don't work out as anticipated. Yesterday, we discussed the more bullish setup to the market, with the MACD very close to triggering a *"buy signal"* and markets above important moving averages. However, the *"hotter"* than expected inflation report reversed all that and wiped out the last 4-days of gains with a brutal dive in the markets by the end of the day of more than 4%. Such seems a bit excessive given that it didn't change the Fed's trajectory of higher rates, but the markets had been hoping for some data to slow the pace. Alas, that was not the case. Today, we have the PPI report, which may show some softness as seen in some of the manufacturing indices, so maybe that will give the bulls something to hang onto.

For now, markets did reverse the previous 4-day gain and are now back to support from last week. Notably, the oversold conditions have returned. Notably, the current support levels need to hold, or as noted previously, a retest of lows is very likely. As noted above, with huge options expiration on Friday, the rest of this week could be bumpy. Buckle up for now.



CPI Comes In Hotter Than Expected

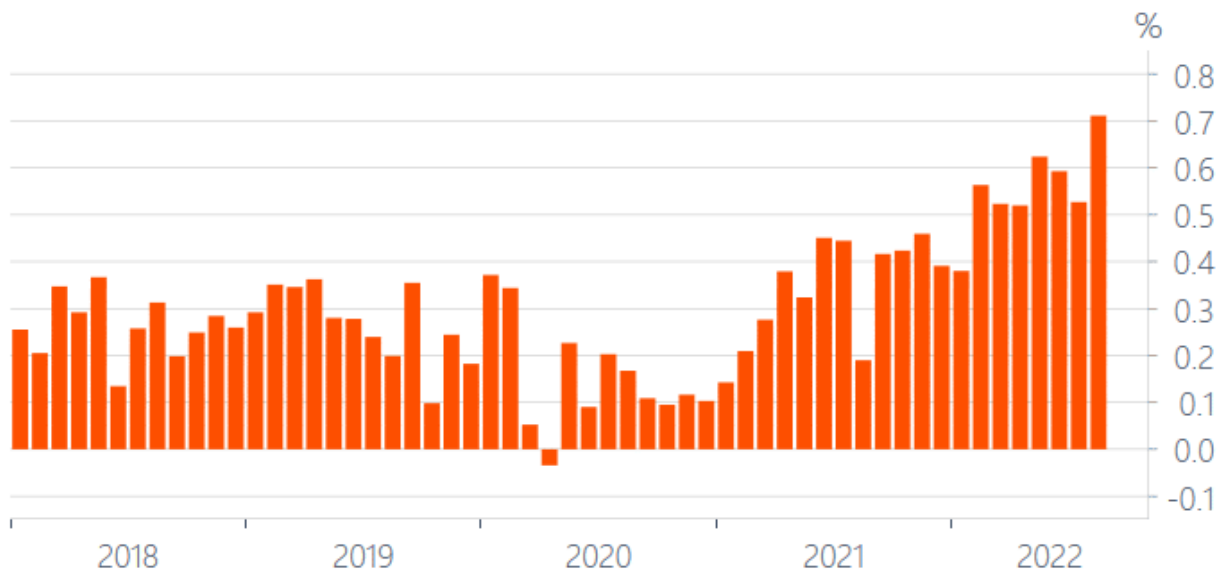
Both headline CPI and core CPI came in above expectations. Monthly CPI rose 0.1% versus expectations of a 0.1% decline. Many market pundits thought the data would show an even steeper decline than expected. Core CPI, which excludes food and energy and is, therefore, stickier inflation, is the focus of the Fed's attention. Core CPI YOY is now 6.3%, a 0.4% increase from last month. Shelter prices are up 0.7%, a new high for this cycle. They last reached that level in 1991. Shelter, predominately rental prices, constitutes about 40% of CPI.

The Fed Funds futures markets are pricing in a 100% chance for a 75bps rate hike next week. Further, it is pricing a 20% chance the Fed will raise rates by 100bps.

Table A. Percent changes in CPI for All Urban Consumers (CPI-U): U.S. city average

	Seasonally adjusted changes from preceding month							Un-adjusted 12-mos. ended Aug. 2022
	Feb. 2022	Mar. 2022	Apr. 2022	May 2022	Jun. 2022	Jul. 2022	Aug. 2022	
All items	0.8	1.2	0.3	1.0	1.3	0.0	0.1	8.3
Food	1.0	1.0	0.9	1.2	1.0	1.1	0.8	11.4
Food at home	1.4	1.5	1.0	1.4	1.0	1.3	0.7	13.5
Food away from home(1)	0.4	0.3	0.6	0.7	0.9	0.7	0.9	8.0
Energy	3.5	11.0	-2.7	3.9	7.5	-4.6	-5.0	23.8
Energy commodities	6.7	18.1	-5.4	4.5	10.4	-7.6	-10.1	27.1
Gasoline (all types)	6.6	18.3	-6.1	4.1	11.2	-7.7	-10.6	25.6
Fuel oil(1)	7.7	22.3	2.7	16.9	-1.2	-11.0	-5.9	68.8
Energy services	-0.4	1.8	1.3	3.0	3.5	0.1	2.1	19.8
Electricity	-1.1	2.2	0.7	1.3	1.7	1.6	1.5	15.8
Utility (piped) gas service	1.5	0.6	3.1	8.0	8.2	-3.6	3.5	33.0
All items less food and energy	0.5	0.3	0.6	0.6	0.7	0.3	0.6	6.3
Commodities less food and energy commodities	0.4	-0.4	0.2	0.7	0.8	0.2	0.5	7.1
New vehicles	0.3	0.2	1.1	1.0	0.7	0.6	0.8	10.1
Used cars and trucks	-0.2	-3.8	-0.4	1.8	1.6	-0.4	-0.1	7.8
Apparel	0.7	0.6	-0.8	0.7	0.8	-0.1	0.2	5.1
Medical care commodities(1)	0.3	0.2	0.1	0.3	0.4	0.6	0.2	4.1
Services less energy services	0.5	0.6	0.7	0.6	0.7	0.4	0.6	6.1
Shelter	0.5	0.5	0.5	0.6	0.6	0.5	0.7	6.2
Transportation services	1.4	2.0	3.1	1.3	2.1	-0.5	0.5	11.3

Month on month % increase in Rent of Shelter costs

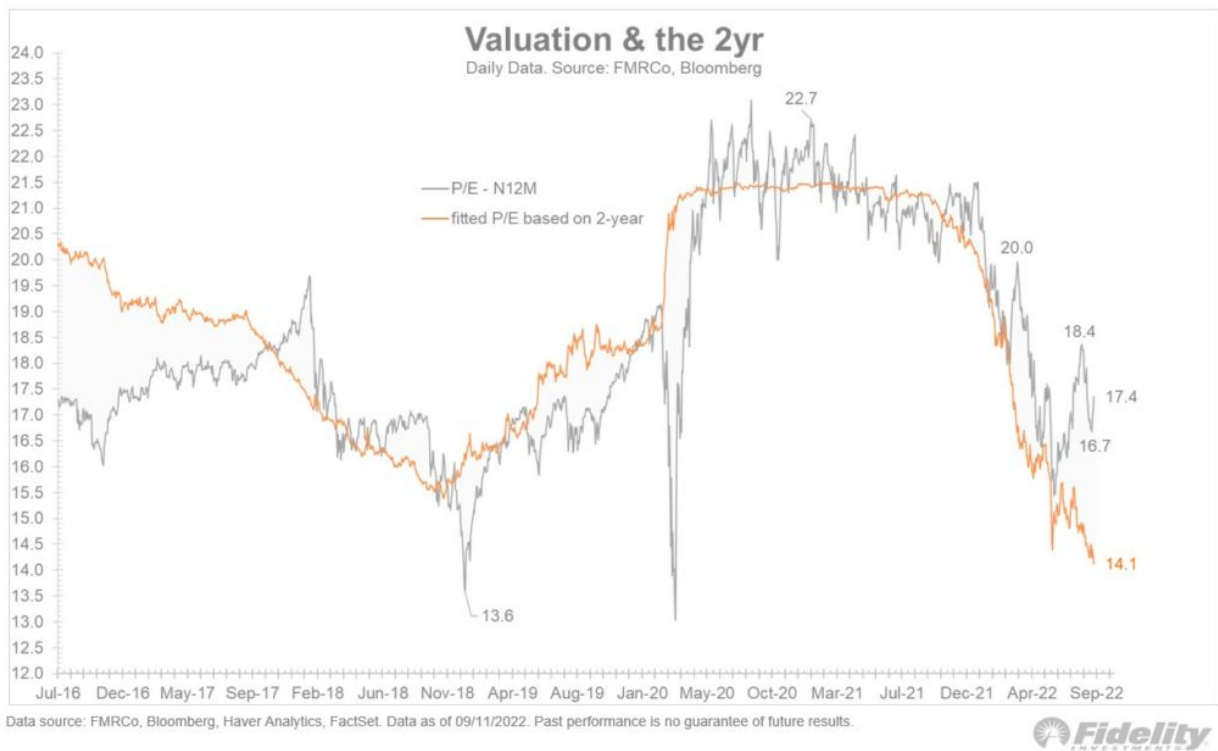


Source: Andreas Steno and Macrobond

Are Equity Valuations Too High?

Jurrien Timmer of Fidelity posted the graph below. It shows the trailing 12-month P/E on the S&P 500 may be a few points overvalued based on two-year yields. As he writes:

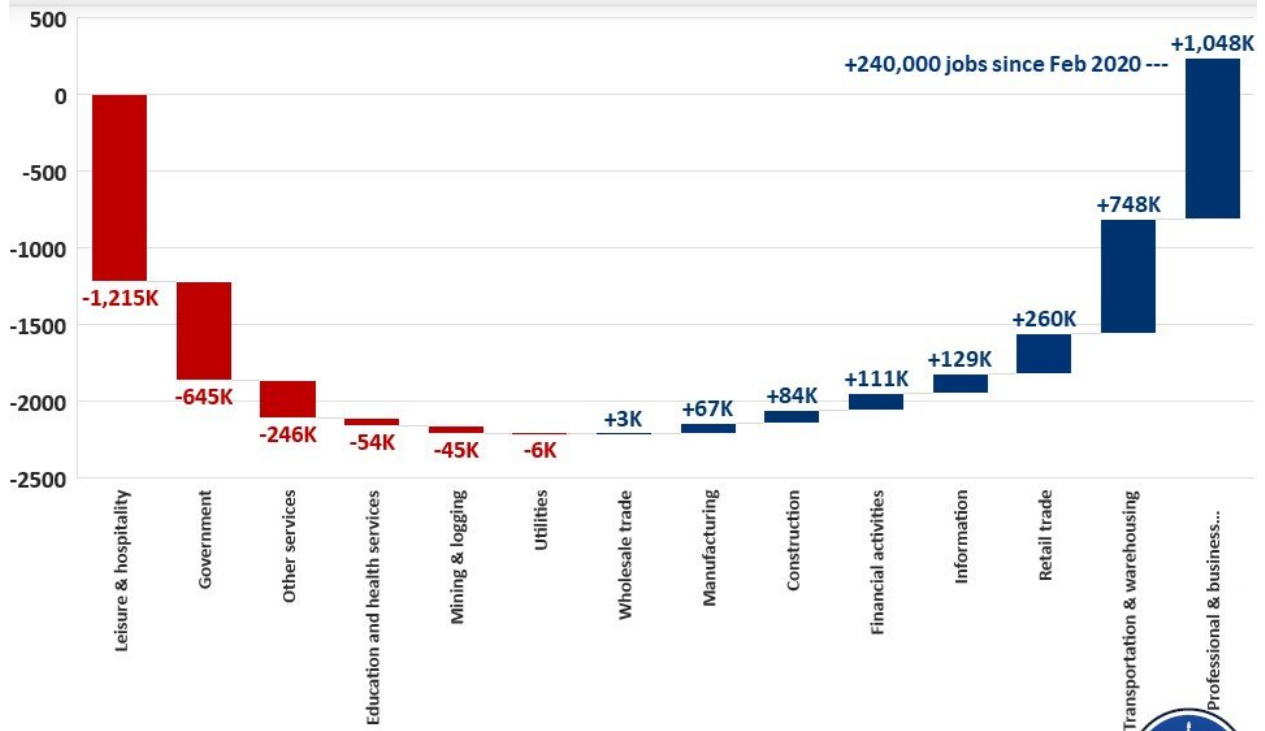
Despite strong earnings, the rally from June lows led to a significant valuation creep. The key for this cycle: As the two-year yield goes, so goes the P/E ratio. The S&P 500 gave back two P/E points during the latest down leg, but it's still more than three points overvalued.



Jobs Fully Recovered

Two weeks ago, the BLS reported the economy added 315k jobs. Those gains mark a full jobs market recovery from covid. While the total number of jobs is up 240k since February 2020, the mix of jobs has changed markedly. As we show below, the CRFB reports the leisure and hospitality industry lost 1.2 million jobs over the last 2.5 years. At the same time, over one million jobs were gained in the professional and business service industries. Transportation and warehousing businesses added about 750k jobs. This is primarily due to the shift many consumers made to order goods online for delivery. With the pandemic largely passed, will consumers continue to prefer online shopping, or will brick-and-mortar retail see bigger gains over the coming year?

Jobs Recovered From February 2020



Source: Committee for a Responsible Federal Budget, Bureau of Labor Statistics

CRFB.org



Tweet of the Day

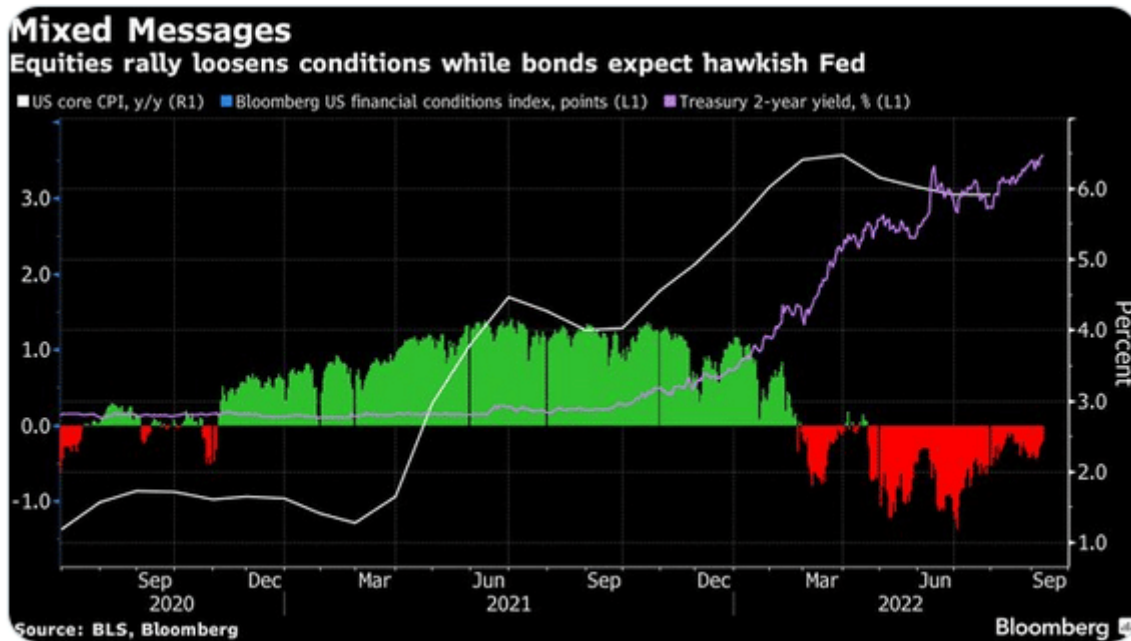


Ayesha Tariq, CFA
@ayeshatariq



This is it. Bonds have been sending a very different message from equities.

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