

Jackson Hole & Powell: To Taper or Not to Taper QE

At 10 am, Jerome Powell will hopefully shine some light on whether or not the Fed will commence tapering QE in the next few months. Atlanta Fed President Bostic added to the taper pressure this morning by saying he would like to start tapering in October, assuming the job situation continues to improve. Markets are recovering about half of yesterday's losses in pre-market trading. Peleton (PTON) is slipping 8% in early trading on the back of weak sales, a 20% price reduction on its bike, and a disappointing revenue outlook.

Click [HERE](#) to receive our daily market commentary in your email every morning.

What to watch today

Economy

- 8:30 a.m. ET: **Advanced goods trade balance**, July (-\$90.9 billion expected, -\$91.2 billion in June)
- 8:30 a.m. ET: **Wholesale inventories, month-over-month**, July preliminary (1.0% expected, 1.1% in June)
- 8:30 a.m. ET: **Personal income**, July (0.3% expected, 0.1% in June)
- 8:30 a.m. ET: **Personal spending**, July (0.4% expected, 1.0% in June)
- 8:30 a.m. ET: **PCE core deflator**, month-on-month, July (0.3% expected, 0.4% in June)
- 8:30 a.m. ET: **PCE core deflator**, year-on-year, July (3.6% expected, 3.5% in June)
- 10:00 a.m. ET: **University of Michigan Sentiment**, August final (70.8 expected, 70.2 in prior print)

Earnings

- *No notable reports scheduled for release*

Politics

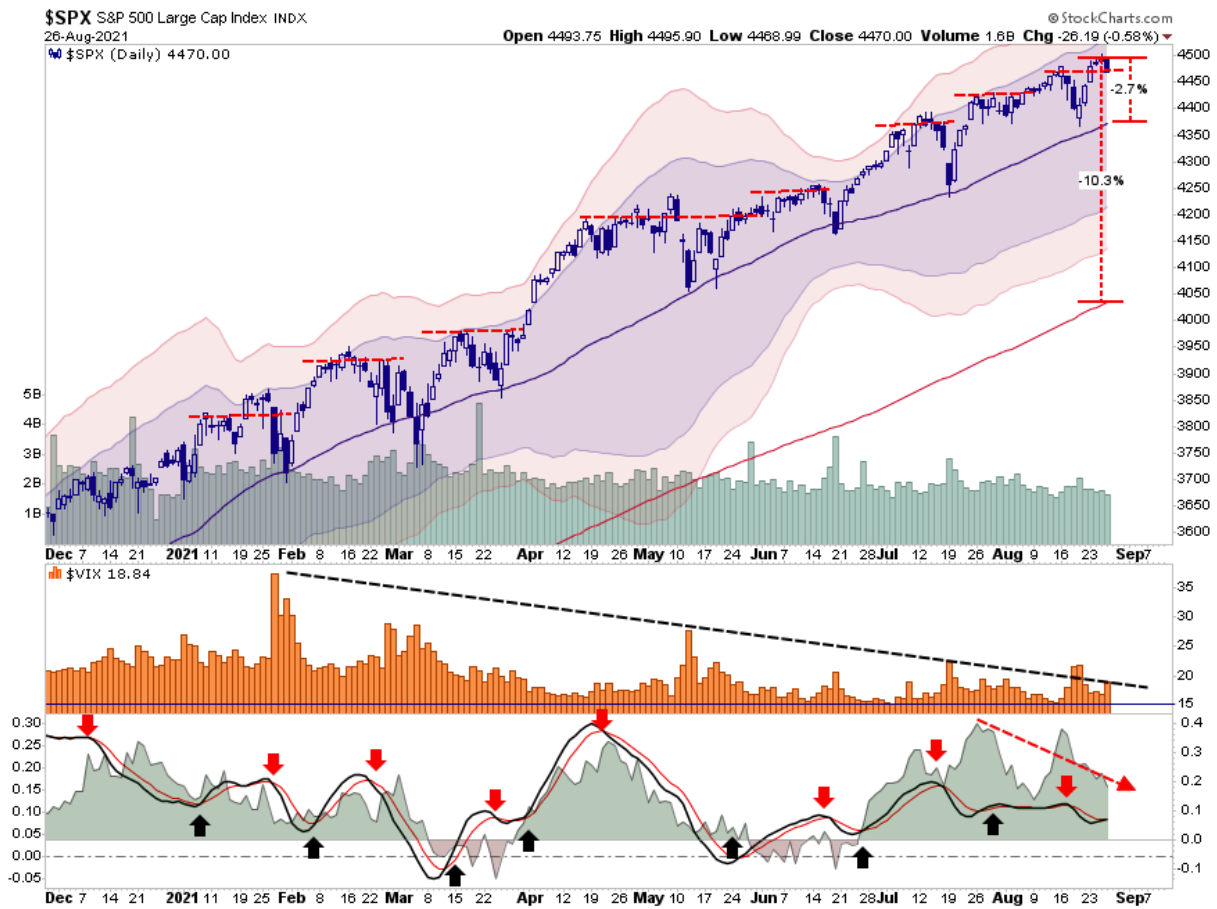
- The U.S. flag at the White House will be flown at half staff. **President Biden** is scheduled to receive updates on the situation in Afghanistan following the [killing of 13 U.S. service members](#). On Thursday evening, Biden told the attackers "we will hunt you down and make you pay."

Big Divergences

While the market continues its bullish advance (*why not with \$120b in QE*), the divergences between price and other internal indicators continue to diverge. Another trip to the 50-dma would be a near 3% crash, and a decline in the 200-dma (which hasn't happened for one of the longest spans in 40-years) would be a 10% disaster. ***(While I am sarcastic, the low volatility market experienced this year makes even normal annual corrections seem much worse than they***

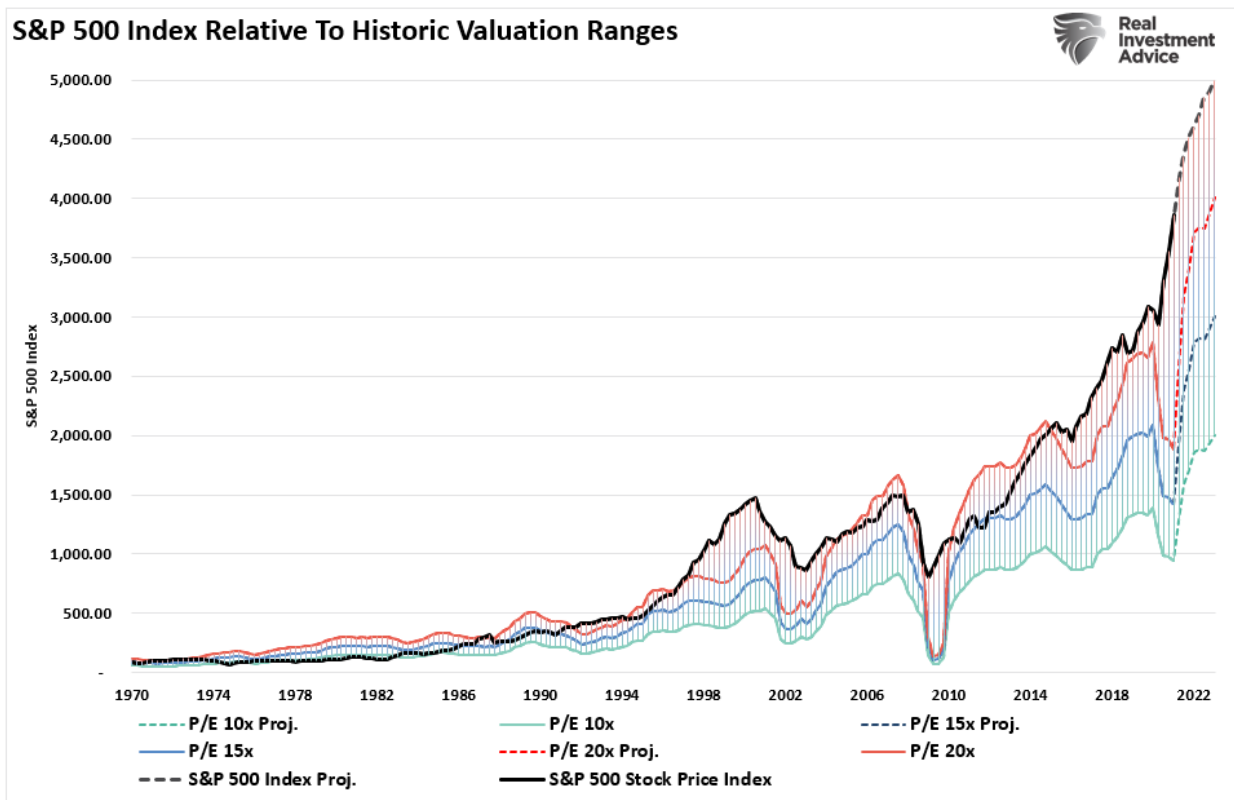
really are.)

For now, the "stair-step" process continues with bounces off the 50-dma to slightly new highs before the next decline. At some point, investors will slip and fall down the stairs.



Price Targets Exceed Analysts Grasp

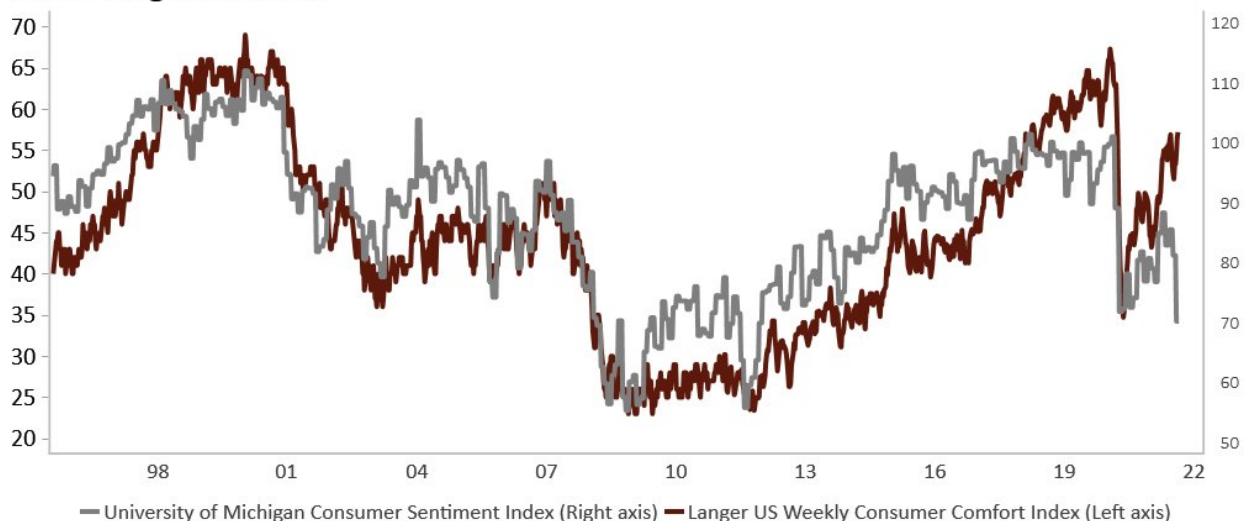
Analysts are rushing to peg a 5000 price tag on the S&P 500 by the end of 2022. **Given that analysts' estimates are always too optimistic, it is very likely that earnings will fail to meet expectations keeping valuations extremely rich.**



How Much Confidence Should We Have In Confidence Readings?

The graph below, courtesy of Renaissance Macro Research, presents quite the quandary. As we discussed last week, the widely followed Uof M Consumer Confidence fell sharply to levels below any seen in 2020. On the other hand, the lesser followed Langer confidence index continues upward. It isn't easy to fully understand why they are diverging. However, Langer rose steadily in 2019 and 2020 while the UofM indicator was flat. Other than that period preceding the pandemic, the two indicators correlate well, including periods before the financial crisis and the tech crash.

Interesting disconnect



Source: Renaissance Macro Research, Macrobond

Taper Temptation or Low Liquidity



Jackson Hole Appetizer

The host of the Jackson Hole symposium, Esther George of the Kansas City Fed, wants to start tapering soon. Per her interview on CNBC:

- *"The U.S. economy has hit the necessary benchmark of ?substantial? progress needed to start to slow down its \$120 billion per month of asset purchases"*
- *?My own view on that is that we have made substantial further progress and we can begin to talk to talk about backing off some of that accommodation?*
- *?I would be ready to talk about tapering sooner rather than later?*

She alludes that the timetable and amount of tapering will be on the agenda at the upcoming September 21-22 FOMC meeting.

Rinse Wash Repeat

The graph below from Northman Trader shows the predictable pattern the S&P 500 has fallen into over the last several months. The market grinds higher and hits an air pocket around the 15th of each month. It then quickly recovers and grinds higher again. The dips and surges all occur between the 14th and 19th of each month, corresponding with options expiration dates. Liquidity is poor, as witnessed by light trading volumes, so heavier than usual options-related trade activity is driving price action on those days.



Bad Market Breadth

The Tweet below from Bespoke Investment provides more evidence the market is increasingly being driven higher by fewer stocks. Bad breadth is often an indicator of a coming market retracement.



Bespoke
@bespokeinvest

...

Replying to @bespokeinvest

3) Weak breadth...Through mid-week last week, the S&P 1500 was up nearly 6% over the last 3 months, while the average stock in the index was actually down 65 bps. bespokepremium.com

