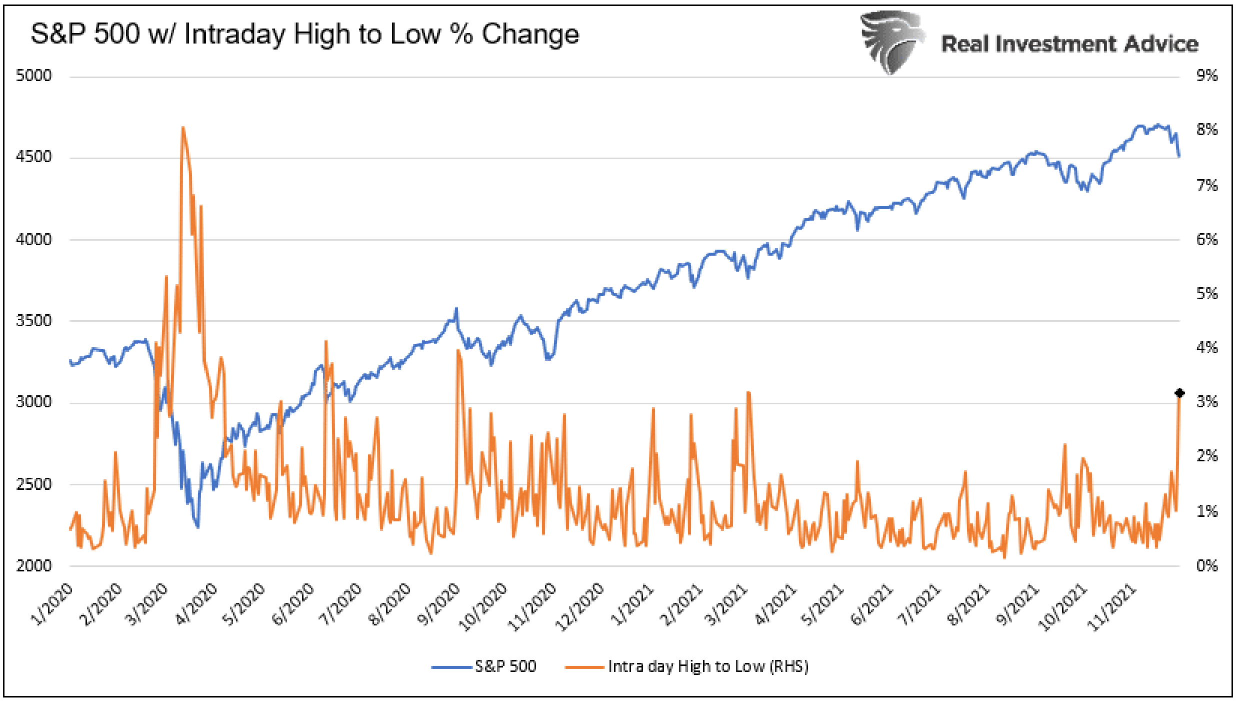
News of the Omicron Variant showing up in California shook investors and pushed stocks from significant intra-day gains into the red. The u-turn in stock prices came as the S&P 500 was up nearly 2% from Tuesday's close. The combination of the Omicron variant and increasingly hawkish language from Chairman Powell result in large swings in prices. Further pressuring stocks are mutual fund activities. As we wrote a week ago in Santa Claus Rally is Coming, but Will Markets Correct First: *"Before "Santa Claus" comes to visit "Broad and Wall" mutual funds distribute their capital gain, dividends, and interest income for the year. These distributions start in late November, but a large number of distributions occur in the first two weeks of December."*

Yesterday's 3.19% intraday swing from high to low is the largest in over a year.



[dmc]

What To Watch Today

Economy

- 7:30 a.m. ET: **Challenger job cuts,** November (-71.7% in October)
- 8:30 a.m. ET: **Initial jobless claims,** week ended Nov. 27 (240,000 expected, 199,000 during prior week)
- 8:30 a.m. ET: **Continuing claims,** Nov. 20 (2.003 million expected, 2.049 million during prior week)

Earnings

Pre-market

- 6:55 a.m. ET: **Dollar General (DG)** to report adjusted earnings of $2.01 on revenue of $8.47 billion
- 8:00 a.m. ET: **Kroger (KR)** to report adjusted earnings of 67 cents on revenue of $31.18 billion

Post-market

- 4:05 p.m. ET: **Ulta Beauty (ULTA)** to report adjusted earnings of $2.49 on revenue of $1.88 billion

Politics

- **President Biden** visits the **National Institutes of Health** today for a speech on the Omicron variant and the next steps in his administration?s response. He?s promised to respond *?not with shutdowns or lockdowns.?*

Trading Update

While the media is running around trying to pin headlines on the market moves from the Fed to Omicron variant, the reality is that we are in the midst of mutual fund distribution season. Such is a theme we repeated over the two weeks prior to Thanksgiving and has now arrived.

In the short-term, selling pressure is getting close to peaking and downside risk is most likely limited over the next few days as markets are now extremely oversold. Volatility has spiked up to overbought levels, and the market has strong support at the 100-dma (orange line) currently.

While we are starting to look for trading positions to add to our portfolio, the upside is likely limited to the bottom of the previous trend channel that began in 2020. A failure at that trend line will set the markets up for either a retest of current lows in January, or we are going to start talking about a very different market in 2022.

ARKK Sprung A Leak

"ARRK is down another 3.7% as of this writing. It is now approaching the panic lows we saw in May. 100 is the must hold level. The questions we continue asking ourselves: **Is innovation dead if the queen of innovation is underperforming by this much?** Is the overall market about to catch up and ARKK is just early or has Cathie just lost her mojo? Almost tempting to start catching a few falling ARKK knives, or?" - @TheMarketEar

National Manufacturing Surveys

The PMI manufacturing survey was weaker than expectations at 58.3 versus 59.1. Per the report- *"November PMITM data from IHS Markit signaled the second-weakest rise in production recorded over the past 14 months as producers reported further near-record supply delays and a slowing of new order inflows to the softest so far this year. Jobs growth also waned amid difficulties filling vacancies.*" Further- *"While average selling price inflation eased as firms sought to win customers, the rate of input cost inflation hit a new high, hinting at a squeeze on margins."*

The ISM survey came in at expectations of 61.1. While below levels from earlier this year, the survey remains near 20-year highs. The much-followed prices paid index fell slightly. Supply line disruptions remain a big problem. Over half of the respondents report slower delivery times. The normal range is 10-20%. The table below annotated by Zero Hedge shows six of the ten ISM components were lower this month.

Manufacturing at a Glance
November 2021

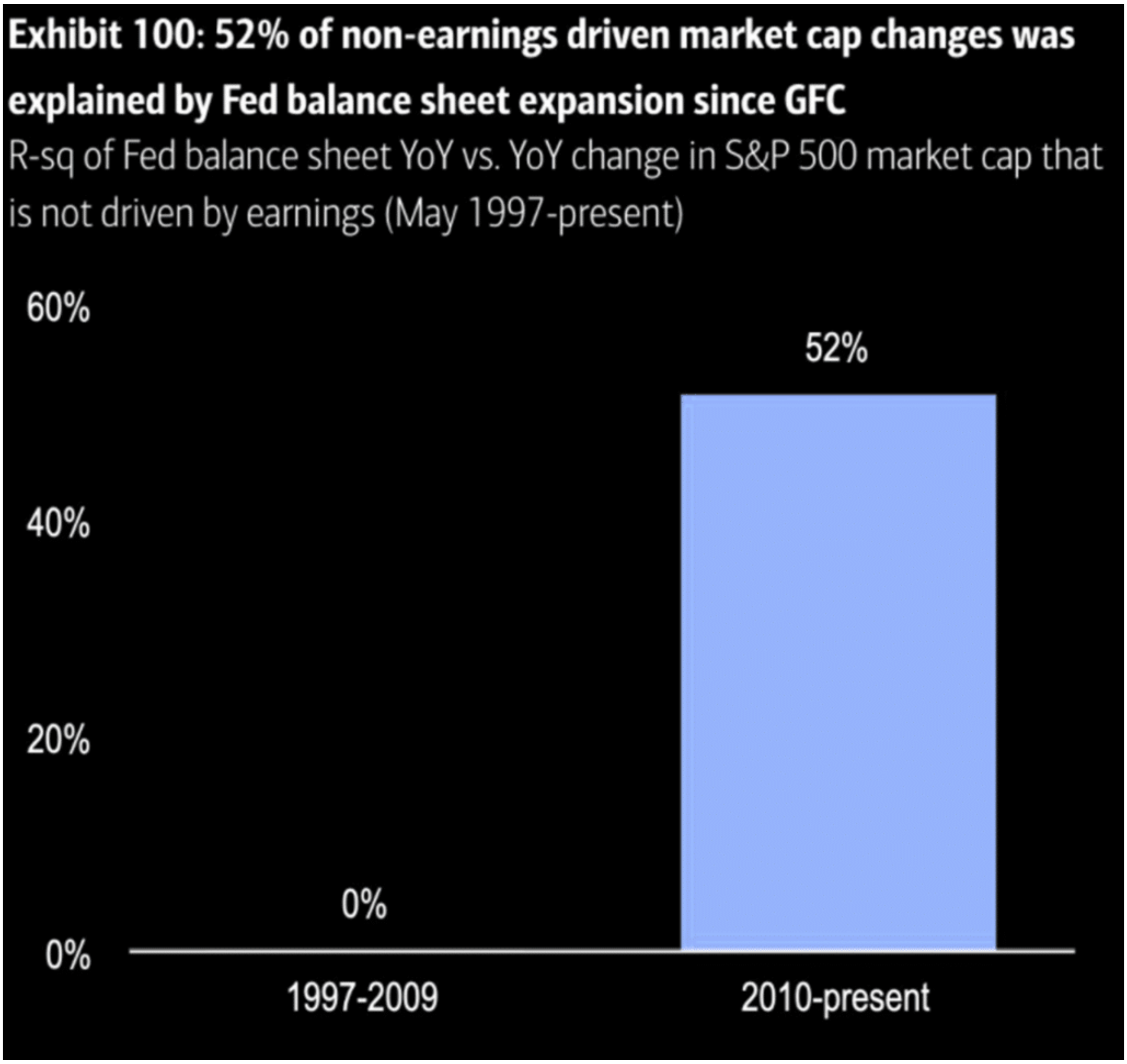
Index	Series Index Nov	Series Index Oct	Percentage Point Change	Direction	Rate of Change	Trend* (Months)
Manufacturing PMI®	61.1	60.8	+0.3	Growing	Faster	18
New Orders	61.5	59.8	+1.7	Growing	Faster	18
Production	61.5	59.3	+2.2	Growing	Faster	18
Employment	53.3	52.0	+1.3	Growing	Faster	3
Supplier Deliveries	72.2	75.6	-3.4	Slowing	Slower	69
Inventories	56.8	57.0	-0.2	Growing	Slower	4
Customers' Inventories	25.1	31.7	-6.6	Too Low	Faster	62
Prices	82.4	85.7	-3.3	Increasing	Slower	18
Backlog of Orders	61.9	63.6	-1.7	Growing	Slower	17
New Export Orders	54.0	54.6	-0.6	Growing	Slower	17
Imports	52.6	49.1	+3.5	Growing	From Contracting	1
OVERALL ECONOMY				Growing	Faster	18
Manufacturing Sector				Growing	Faster	18

Manufacturing ISM® *Report On Business®* data is seasonally adjusted for the New Orders, Production, Employment and Inventories indexes.
*Number of months moving in current direction.

Is the Sell-Off Over?

The Fed Matters

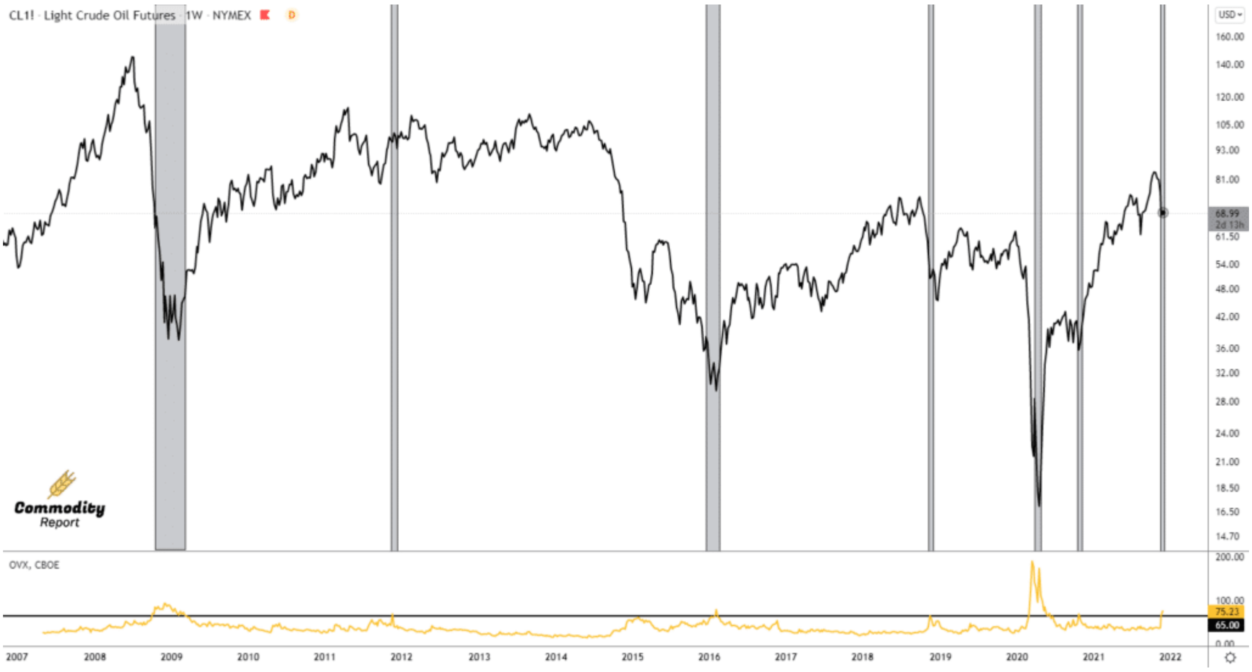
"Bank of America estimates that corporate earnings used to explain half of equity market returns up to the financial crisis, but since then they only explain 21%. ***Meanwhile, changes to the Fed's balance sheet explain 52% of market returns since 2010, it estimates. Buy what the FED buys. Sell what the FED stops buying.****"*
- @TheMarketEar

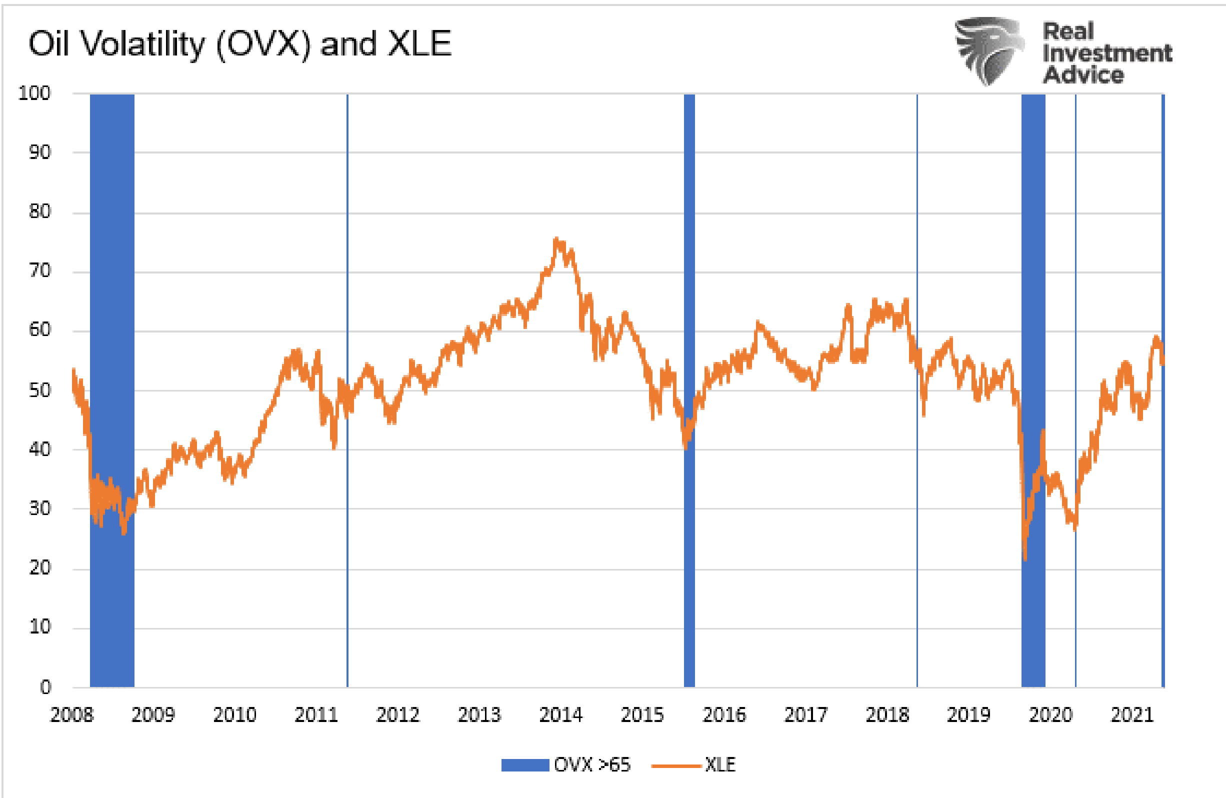


Have Oil Prices and Energy Stocks Bottomed?

The chart below provides fodder for oil bulls and bears. The price of oil tends to rally strongly following periods when the OVX (oil volatility index) is above 65. Currently, the index is at 75. While the reading entails oil may rise in price once volatility declines, we must consider the volatility index can stay elevated, resulting in further declines. For example, the index was above 65 from October 2008 to March 2009. In 2020, the index was above 65 from early March until late May. Currently, the index is only on its third day above 65. Bulls are waiting on a sub-65 reading, and bears are hoping volatility remains elevated. We caution; the index can fall slightly below 65 for a day or two before rising back above 65. In such prior cases, the price of oil continued lower.

The second graph below compares the price of the popular energy sector ETF, XLE, to the OVX index. As shown, like oil prices, XLE tends to do well once the index falls back below 65. However, XLE bucked the trend in 2020 as it rose when the index was above 65 and fell once it dropped back below 65.





Everyone Hates Bonds- Is That Bullish?

Per Reuters, the net bearish bets on U.S. Treasury ten-year note futures is now the largest since February 2020. In January and February 2020, bond prices were rising, and yields were falling as the economy slowed and the Fed had begun cutting rates late in 2019. The advent of Covid in early March sent bond prices soaring, fueled in part by traders forced to cover their short bets. Today, like then, net shorts are extreme, and some traders are starting to buy to cover their shorts as the Omicron variant and hawkish tones from Powell pressure stocks. History may not repeat itself, but it often rhymes.

Cyber Monday Disappoints

According to Adobe Analytics, sales for Cyber Monday were disappointing. Online sales for last Monday totaled $10.7 billion, a 1.4% decline from last year. While it is the first decline for Cyber Monday, one must factor that last year's data was an anomaly due to Covid and consumers' reluctance to go to stores. To wit, foot traffic is up 48% versus last year, but it is still down 28% from pre-pandemic years. Personal consumption accounts for approximately two-thirds of GDP. As such, holiday spending is an essential component of growth. This year we must be careful reading too much into retail sales data. Inflation and shortages of many goods result in timing and spending behaviors that are not comparable to years prior.
