

Negative Market Narratives Are Forgotten

Monday's negative market narratives, Omicron, and the failure of Biden's BBB spending package didn't phase investors on Tuesday. Negative market narratives and positive ones are often stories made up by the media and public to help explain markets. That is not to say Omicron and BBB do not matter. They do. However, trading over the last few days shows us not to read too much into narratives.



To us, the action over the last few days, with a rapid rotation between value and growth, is evidence of the mutual fund distribution and rebalancing that happens this time of year. Combine that with annual tax-loss selling, and a lot of the recent action makes sense.

However, as we asked yesterday, can Santa finally get his rally going? We need some follow-through now by investors to make that case stronger, but the break above both the 20- and 50-dma yesterday should keep bullish hopes alive.

[dmc]

What To Watch Today

Economy

- 7:00 a.m. ET: **MBA Mortgage Applications**, week ended Dec. 17 (-4.0% during prior week)
- 8:30 a.m. ET: **Chicago Fed National Activity Index**, November (0.4 expected, 0.76 during prior month)

- 8:30 a.m. ET: **GDP annualized**, quarter-over-quarter, Q3 third estimate (2.1% expected, 2.1% in prior estimate)
- 8:30 a.m. ET: **Personal Consumption**, Q3 third estimate (1.7% expected, 1.7% in prior estimate)
- 8:30 a.m. ET: **Core Personal Consumption Expenditures**, Q3 third estimate (4.5% in prior estimate)
- 10:00 a.m. ET: **Conference Board Consumer Confidence** (111.0 expected, 109.5 in November)
- 10:00 a.m. ET: **Existing home sales**, November (6.53 million expected, 6.34 million in October)

Earnings

- 6:50 a.m. ET: **CarMax (KMX)** to report adjusted earnings of \$1.44 on revenue of \$7.33 billion?

Despite The Rally Breadth Remains Poor

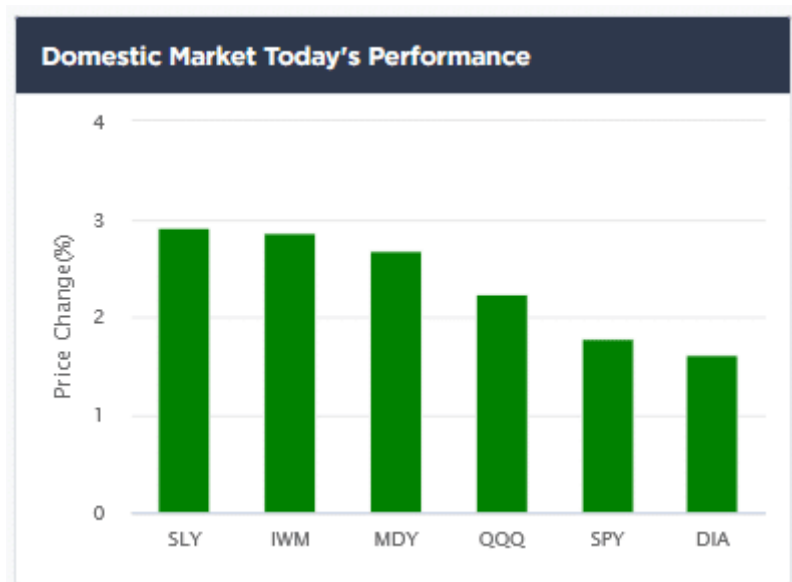
While the market did rally against a backdrop of negative market narratives, both volume and breadth continue to suggest trading is exceptionally weak. Such suggests the market is vulnerable to a further decline given any relevant market event that shakes investor confidence. While we expect a year-end rebalancing rally, we are now in the position to use that rally, after accumulating exposure over the last few days, to sell into strength and rebalance equity risk.



Caution is advised.

Laggards Are Leading

The laggards over the last few weeks led the way higher on Tuesday with nearly 3% gains. The SimpleVisor chart below shows the three biggest gainers were small caps (SLY S&P 600 and IWM Russell 2k) and Mid-caps (MDY).



Small Caps Are Walking The Plank

The weekly [SimpleVisor](#) graph shows the Russell 2000- small-cap index (IWM) bounced off of support (210) multiple times this year. The support offers a line in the sand for small-cap investors. A weekly close below the line may prove problematic, warranting less exposure. However, the long wick of many of the candles that touched support shows that touching it has been a good buying opportunity. In 2019, IWM traded within a similar channel. Going into 2020, IWM broke above the channel and then fell sharply through support in March. Recently, IWM traded above its 2021 channel and fell back to support but held it thus far. While not shown, the 50dma is above the 200dma. If they were to cross with IWM near support, we would be concerned about a potential breakdown. From a fundamental perspective, small-cap stock profits tend to be more vulnerable to higher inflation and interest rates.



Santa Rally - Now or Never

The graph below, courtesy of Ryan Detrick/LPL Financial, highlights the S&P 500 is entering one of its strongest short-term seasonal periods. His table shows that returns for the next three days average +.70%, ranking in the top ten of all trading days. Per Ryan- "Yes, *the headlines are scary and news trumps charts, but this will be interesting to see if history holds.*"

One Of The Best 3-Day Returns For Stocks Is Here

S&P 500 Index 3-Day Average Returns (1950-2020)

Day Of Month	January	February	March	April	May	June	July	August	September	October	November	December
1		-0.14%	0.45%	0.38%	0.30%	0.16%	0.27%	0.06%	0.28%	0.51%	0.60%	0.48%
2	0.22%	0.04%	0.01%	-0.15%	-0.06%	0.12%	0.23%	0.02%	0.04%	0.24%	0.46%	0.16%
3	-0.01%	-0.11%	-0.20%	0.18%	-0.12%	0.13%	0.04%	-0.41%	0.00%	0.12%	0.32%	0.35%
4	0.00%	-0.21%	-0.36%	0.36%	-0.28%	0.08%		-0.15%	-0.17%	0.16%	0.27%	0.18%
5	-0.11%	-0.10%	0.07%	0.42%	-0.09%	0.05%	0.12%	0.03%	-0.22%	0.03%	-0.29%	0.16%
6	-0.30%	-0.13%	0.14%	0.44%	0.08%	-0.05%	0.52%	0.21%	-0.40%	-0.12%	-0.05%	0.07%
7	-0.29%	0.03%	0.08%	0.66%	0.25%	-0.13%	0.13%	-0.03%	-0.10%	0.13%	0.14%	0.01%
8	-0.11%	0.14%	0.14%	0.30%	-0.31%	-0.06%	-0.03%	-0.19%	0.04%	0.23%	0.16%	-0.04%
9	0.24%	0.17%	0.01%	0.24%	-0.09%	0.22%	0.37%	-0.18%	0.10%	0.52%	0.18%	-0.24%
10	0.18%	0.33%	0.24%	0.12%	0.02%	0.14%	0.38%	0.27%	-0.14%	0.36%	0.19%	-0.29%
11	0.01%	0.27%	-0.13%	0.54%	-0.07%	0.15%	0.14%	0.30%	0.25%	0.08%	0.00%	0.09%
12	0.22%	0.35%	0.33%	0.27%	-0.24%	0.09%	0.08%	0.28%	0.31%	-0.34%	0.07%	-0.19%
13	0.57%	0.05%	0.50%	0.37%	0.01%	-0.03%	0.35%	0.18%	0.28%	-0.13%	-0.01%	-0.14%
14	0.11%	-0.03%	0.62%	0.49%	-0.14%	0.11%	0.24%	-0.09%	0.00%	-0.36%	-0.42%	0.16%
15	-0.06%	-0.45%	0.36%	0.29%	-0.15%	0.17%	0.04%	-0.08%	0.15%	0.06%	-0.29%	0.41%
16	0.04%	-0.24%	0.18%	0.17%	-0.09%	0.09%	-0.28%	-0.05%	-0.07%	0.04%	-0.20%	0.52%
17	0.01%	0.04%	0.01%	0.13%	-0.12%	-0.16%	-0.30%	-0.26%	0.09%	0.00%	-0.19%	0.52%
18	-0.10%	-0.26%	-0.07%	-0.05%	-0.42%	-0.30%	-0.18%	0.16%	-0.28%	-0.19%	-0.10%	-0.10%
19	-0.38%	0.08%	-0.17%	-0.03%	-0.18%	-0.36%	-0.24%	0.39%	-0.65%	0.19%	0.52%	0.08%
20	0.09%	-0.24%	0.01%	0.14%	0.00%	-0.24%	-0.11%	-0.17%	-0.56%	-0.29%	0.91%	0.71%
21	0.16%	-0.10%	0.05%	0.19%	-0.01%	-0.73%	0.07%	-0.09%	-0.33%	-0.67%	0.60%	0.70%
22	0.14%	0.06%	0.27%	-0.04%	0.04%	-0.56%	-0.18%	-0.09%	-0.23%	-0.51%	0.55%	0.46%
23	0.17%	0.07%	0.43%	-0.07%	-0.06%	-0.39%	0.05%	0.01%	-0.11%	-0.35%	0.52%	0.43%
24	0.30%	0.01%	0.12%	0.34%	-0.04%	0.08%	0.38%	0.06%	-0.40%	0.10%	0.20%	0.69%
25	0.39%	0.09%	-0.09%	0.21%	0.27%	0.23%	0.19%	0.05%	-0.08%	0.47%	0.39%	
26	0.49%	-0.12%	-0.18%	0.13%	0.54%	0.39%	0.10%	-0.17%	0.05%	0.50%	0.39%	0.56%
27	0.40%	0.20%	-0.10%	0.12%	0.63%	0.45%	0.31%	-0.23%	0.16%	0.75%	-0.01%	0.31%
28	0.40%	0.74%	0.11%	0.28%	0.49%	0.42%	0.48%	0.00%	-0.07%	0.78%	0.02%	0.26%
29	0.38%	0.59%	0.11%	0.36%	0.18%	0.49%	0.12%	0.21%	0.13%	0.97%	0.23%	0.53%
30	0.39%		0.23%	0.64%	0.58%	0.58%	-0.10%	0.38%	0.28%	0.87%	0.58%	0.71%
31	0.09%		0.53%		0.46%		-0.02%	0.27%		0.63%		0.44%

Source: LPL Research, FactSet 10/26/2021 (Returns based on buying the close)

All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

The modern design of the S&P 500 Index was first launched in 1957. Performance before then incorporates the performance of its predecessor index, the S&P 90.

One More Tidbit on Turkey

In Tuesday's Commentary, we analyzed the plummeting Turkish Lira (TRY) and their collapsing financial system. Over just the last 24 hours, things have improved markedly. In an unprecedented maneuver, Turkey's President Erdogan promised to refund all currency losses that exceed the interest rate you gain by owning deposits denominated in Lira. This latest act of desperation appears to be helping. As we show below, the Lira went from 18 TRY per U.S. dollar to 13. Will it work? We doubt it, but it indeed has stemmed the bleeding for now.

USD to TRY Chart

• 1 USD = 13.1395 TRY Dec 21, 2021, 13:25 UTC

US Dollar to Turkish Lira



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