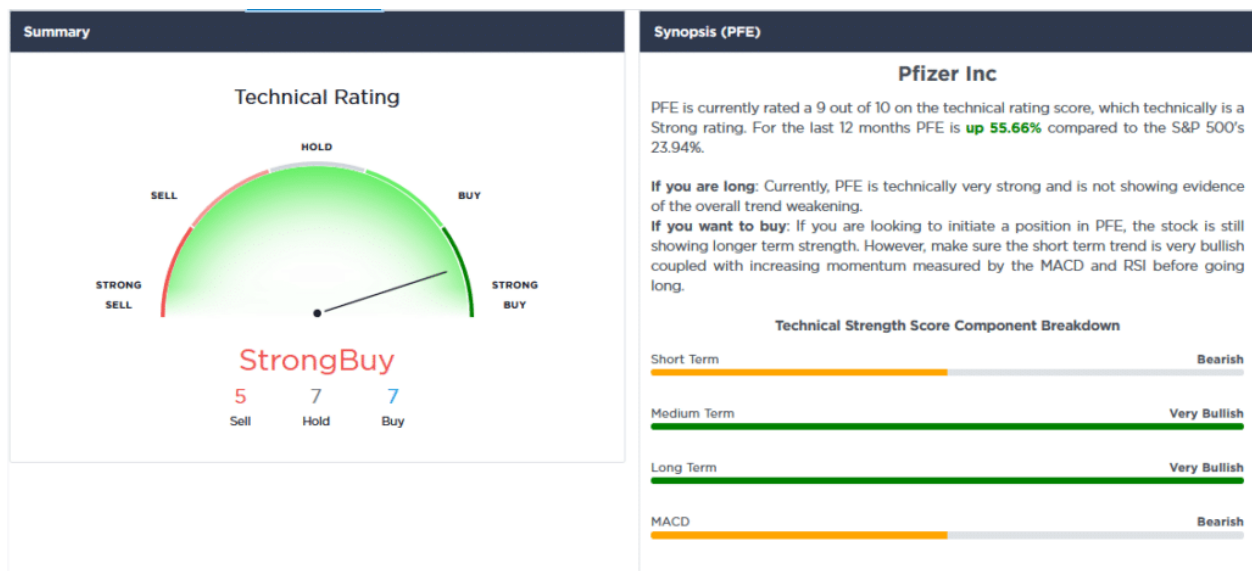


Pfizer and Moderna shares struggled on Friday as the Supreme Court overturned a federal (OSHA) vaccine and testing mandate. States and individual employers can now decide if they want to have and enforce vaccine mandates. The OSHA mandate would have covered companies with 100 or more employees. The vaccine mandates would have impacted approximately 80 million workers and may have resulted in further labor shortages.

Despite the bit of bad news for Pfizer (PFE), [SimpleVisor](#) rates it a "strong buy" with very bullish medium and long-term technicals. Its shorter-term outlook is bearish.



[dmc]

What To Watch Today

Economy

- 8:30 a.m. ET: **Empire Manufacturing**, January (25 expected, 31.9 prior)
- 10:00 a.m. ET: **NAHB Housing Market Index**, January (84 expected, 84 prior)
- 4:00 p.m. ET: **Net Long-Term TIC Flows**, November (\$7.1 billion prior)
- 4:00 p.m. ET: **Total Net TIC Flows**, November (\$143 billion prior)

Earnings

Pre-market

- 5:45 a.m. ET: **Truist Financial** ([TFC](#)) to report adjusted earnings of \$1.21 on revenue of \$5.583 billion
- 6:30 a.m. ET: **Bank of New York Mellon** ([BK](#)) to report adjusted earnings of \$1.01 on revenue of \$3.979 billion
- 6:45 a.m. ET: **PNC Bank** ([PNC](#)) to report adjusted earnings of \$3.50 on revenue of \$5.151 billion

- 7:30 a.m. ET: **Goldman Sachs** ([GS](#)) to report adjusted earnings of \$11.65 on revenue of \$12.010 billion

Post-market

- **J.B. Hunt Transport** ([JBHT](#)) to report adjusted earnings of \$2.02 on revenue of \$3.289 billion
- 4:00 p.m. ET: **Interactive Brokers** ([IBKR](#)) to report adjusted earnings of 83 cents on revenue of \$669.8 million

Market Holds Important Support On Friday

With the market closed on Monday for MLK day, we pick up where we left off on Friday.

Notably, despite the market's failure to hold previous gains, it successfully retested and held the lower trend line. However, sell signals remain in place and have not yet reached more oversold levels. It will be important for the market to muster a bit of a rally this week to defend that lower trend. Our concern comes on Friday with the expiration of options which could pressure markets.



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The Week Ahead

From an economic viewpoint, the holiday-shortened week will be quiet. The Fed now has up-to-date employment and inflation data for their coming January 27th policy meeting and will enter its self-imposed black-out period this week. As such, investors will get a brief reprieve from the barrage of hawkish commentary coming from many Fed members.

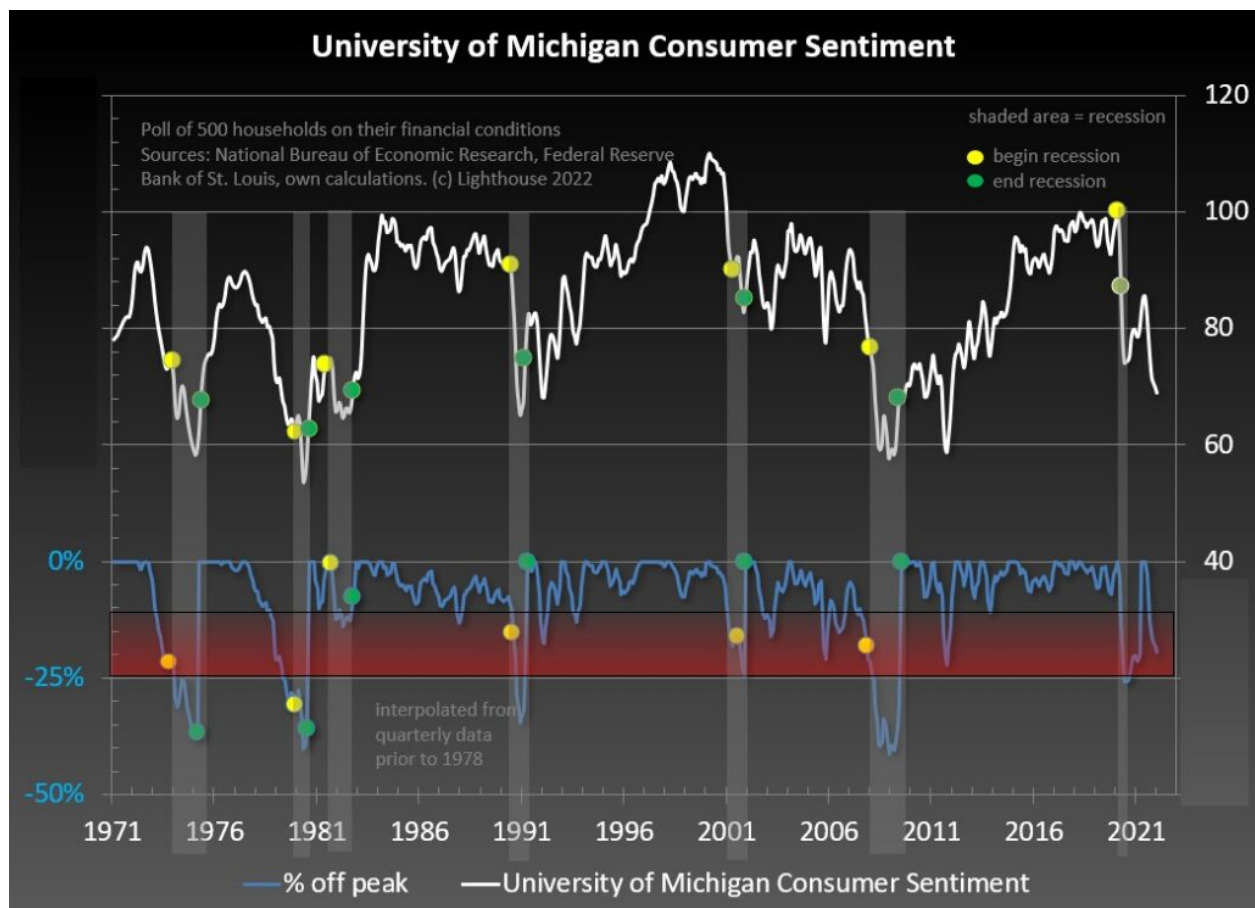
Earnings will likely guide the markets. Thus far, with limited data, earnings have resulted in large stock price swings. Thursday saw the airlines soar on better than expected earnings from Delta. JPM was down about 5% on Friday despite beating earnings estimates. Given valuations are so high and the macroeconomic and monetary environment riskier than prior quarters, we are likely to

see heightened volatility surrounding earnings releases and management commentary.

It will also be interesting to see how companies like Apple and Google's response to not comply with the "No Vaccine Mandate" ruling will be received by employees.

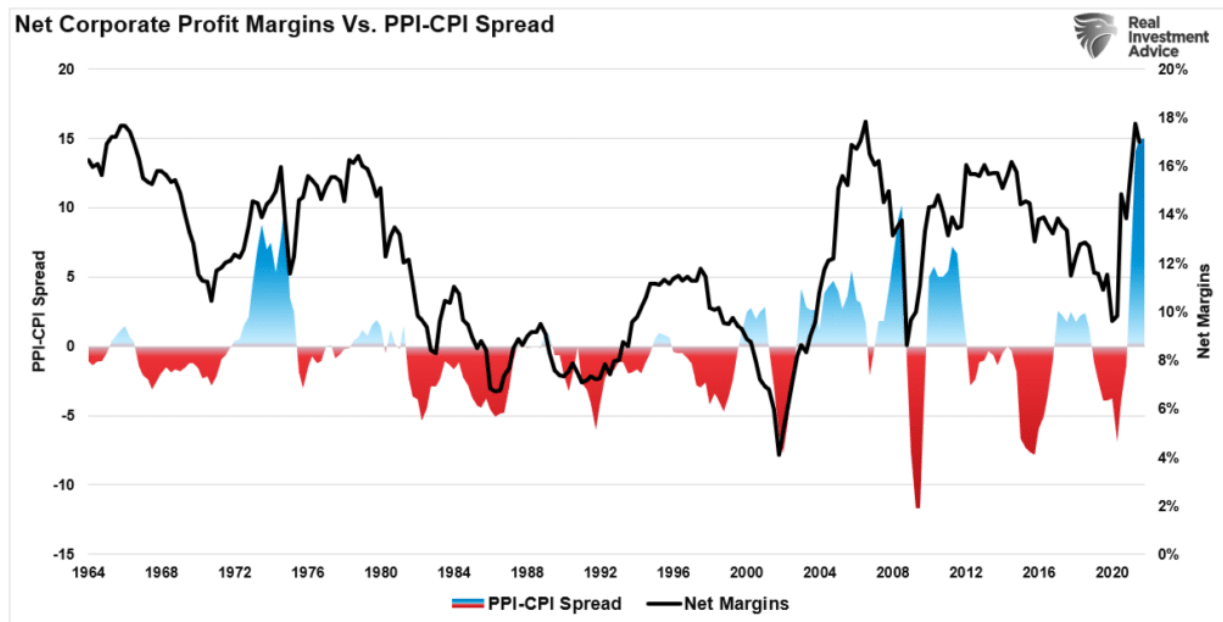
Sentiment Fading

The University of Michigan Consumer Sentiment Survey continues to decline faster than expected. On Friday, they reported sentiment at 68.8 versus 70.6 last month. The graph below shows that a recession has always occurred when the survey falls 25% from its peak. It is not there yet but getting close.

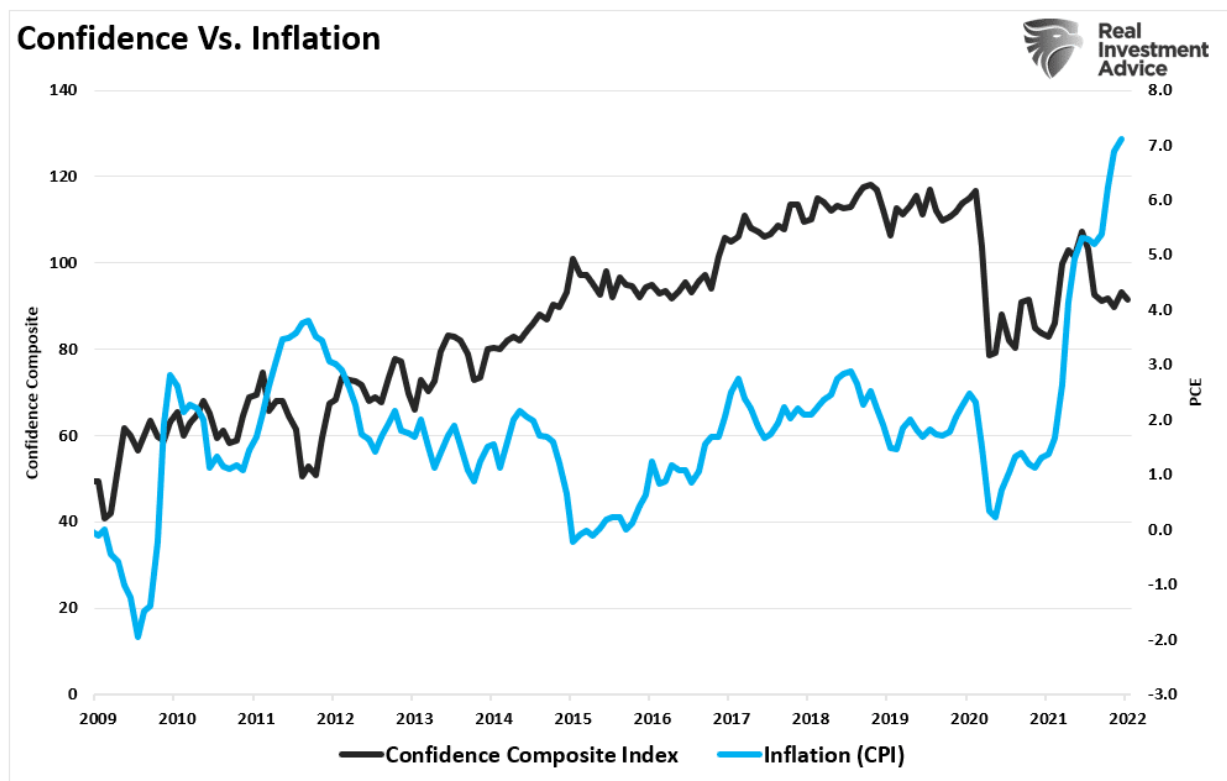


A Policy Mistake In The Making

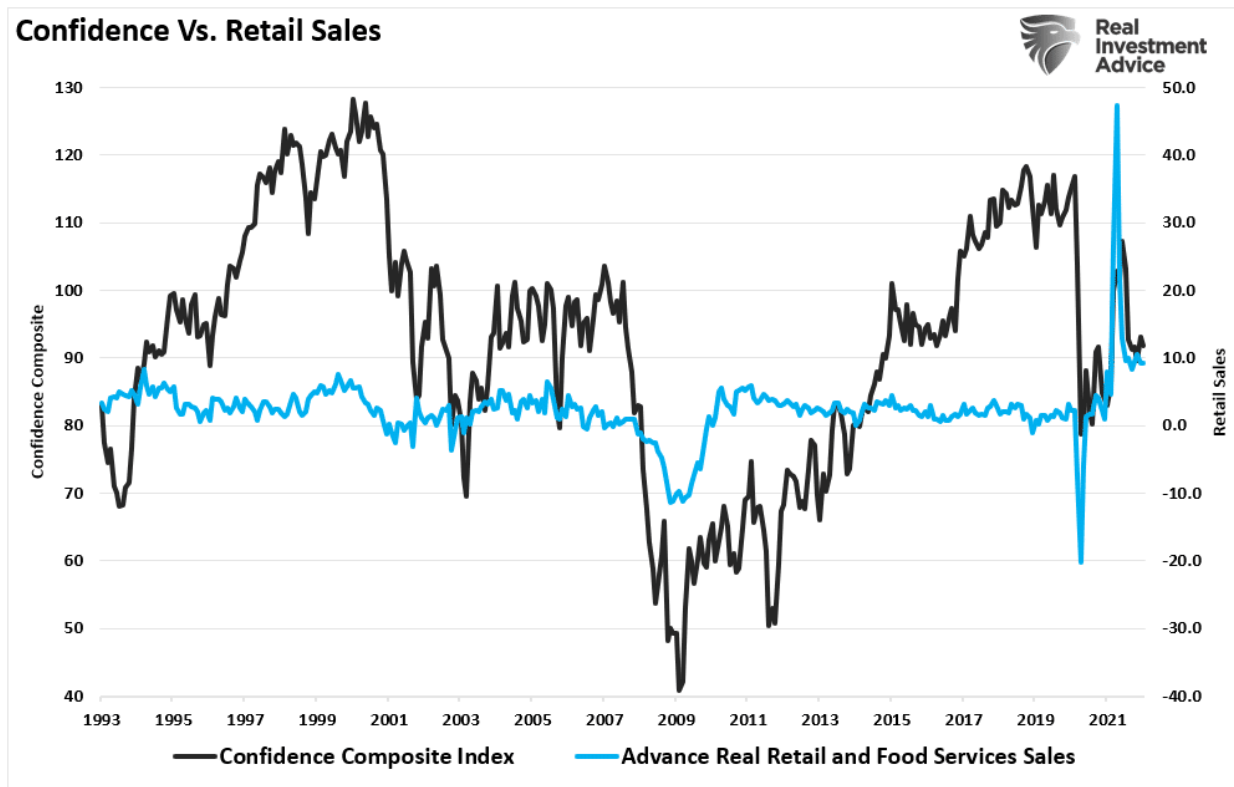
As noted, the Fed is in a tough spot. While they should be aggressively tightening policy, they are also aware of the ramifications of losing market stability. As shown, the massive spread between input and consumer prices suggests corporations cannot pass along inflation entirely. Such means we could see a contraction in profit margins in the quarters ahead.



Furthermore, as noted, the surge in inflation erodes consumer confidence. As prices rise, so does the cost of living for the average American [struggling to make ends meet](#).



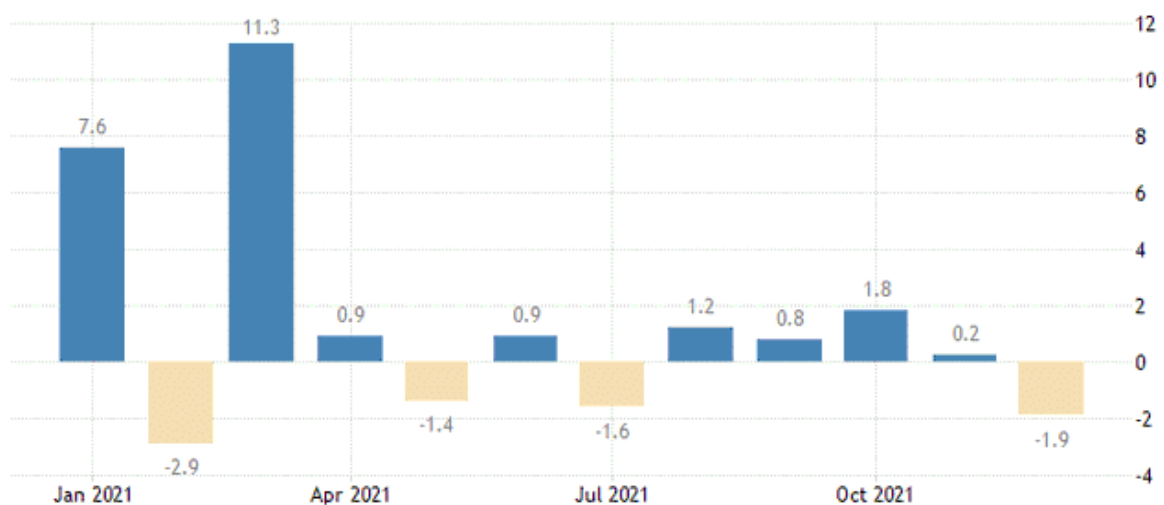
That loss of confidence quickly translates into lost sales (*demand reduction*). Consider that retail sales comprise roughly 40% of PCE, which is approximately 70% of GDP.



The decline in retail sales suggests weaker economic growth ahead.

Weak Retail Sales

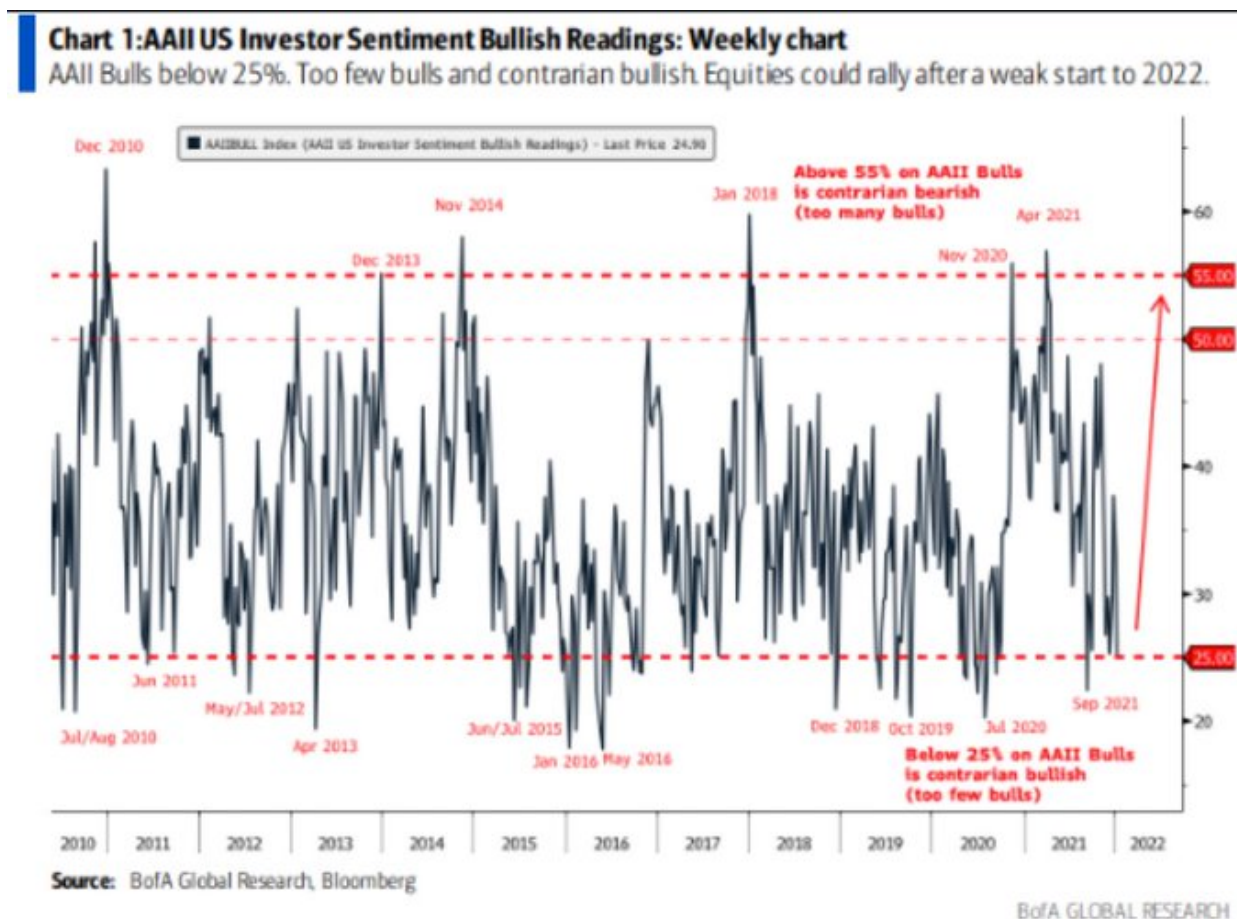
December Retail Sales were much weaker than expected, falling 1.9% versus expectations for a slight increase. More troubling, the control group, a subcomponent of the data, was down 3.1%. The control group directly feeds the GDP report. As we discussed in prior months, we offered caution at the strong retail sales data in the prior few months. We suggested that shopping behaviors were drastically altered due to the pandemic and the related shortages of goods. Retail sales are now back to the same levels as in March of 2021. The graph below shows that the aggregate's October, November, and December retail sales are basically unchanged. It is also worth reminding you that retail sales include inflation. On a nominal basis, retail sales are down around 7% from the prior year. People aren't buying more, they are paying more!



SOURCE: TRADINGECONOMICS.COM | U.S. CENSUS BUREAU

Bearish Sentiment = Rally, or Is This Time Different?

The Bank of America graph below shows AAI Investor Sentiment has fallen to levels that suggest a rally may be in store. The last time the index fell below 25% was in late September 2021 after stocks fell for the better part of the month. In early October that year, the market troughed and headed higher. From that point, it was a one-way street upwards until early November, racking up a 10% gain. From October 13th until November 5th, there were only two down days in the S&P 500. In the fall of 2021, the market did not have to contend with a hawkish Fed. Today, the Fed seems to become more hawkish by the day.



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