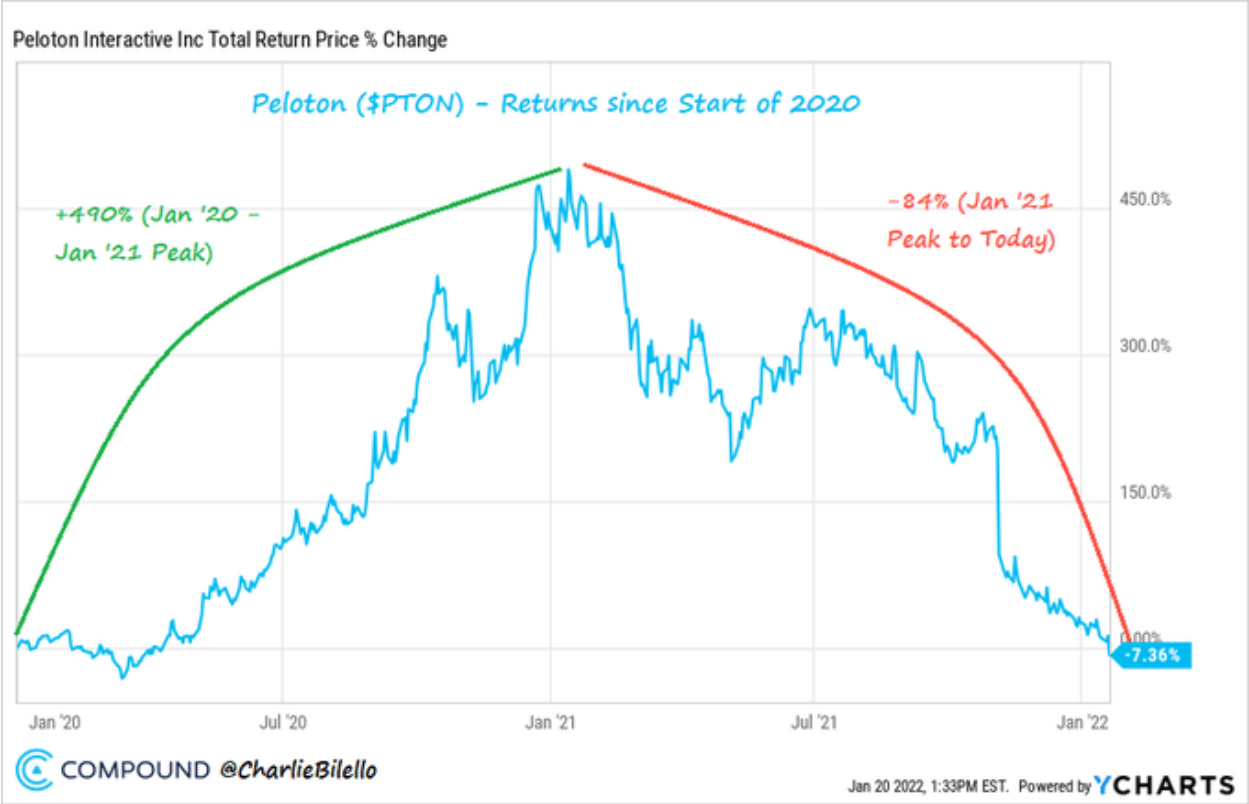
Over the past year, many stocks that benefited from the Pandemic lockdowns have given up substantial gains. One of the more popular among investors, Peleton (PTON), got hid particularly hard on Thursday. Peleton announced they are halting the production of its bikes and treadmills. Per CNBC: *"The company said in a confidential presentation dated Jan. 10 that demand for its connected fitness equipment has faced a ?significant reduction? around the world due to shoppers? price sensitivity and amplified competitor activity."* The graph below from Charlie Bilello shows the amazing journey Peleton shares have been on since early 2020.



What To Watch Today

Economy

- 10:00 a.m. ET: **Leading Index,** December (0.8% expected, 1.1% prior)

Earnings

Pre-market

- 7:00 a.m. ET: **Schlumberger (SLB)** to report adjusted earnings of 39 cents a share of $6.09 billion

- 7:30 a.m. ET: **Ally Financial (ALLY)** to report adjusted earnings of $1.97 on revenue of $2.07 billion

Market Selloff Continues Into Options Expiration

While the market attempted an oversold rally yesterday morning, it failed miserably in the second half of the trading session as Peleton was getting crushed. ***As we discussed yesterday***, the market is very oversold short-term and is due for a sellable bounce. However, the market has not been able to string a couple of positive days together for some selling pressure relief.

As shown, the market did take out the December lows violating important neckline support. However, it has also completed a 61.8% retracement of the rally from the October lows and has pushed our indicators into more extreme oversold territory. With the market well into 3-standard deviations below the 50-dma, a counter-trend rally remains a high probability. While selloffs are never fun, try not to let emotion drive investment decisions and sell into rallies as they come.

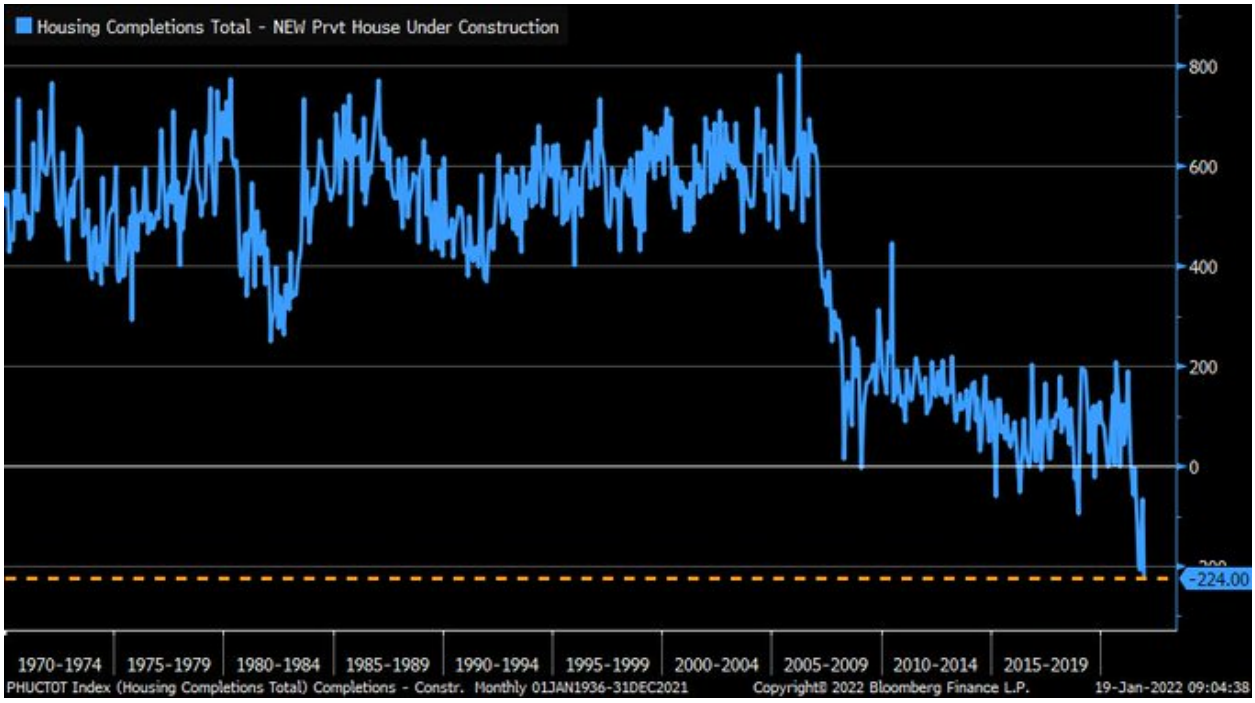


Chart Courtesy Of SimpleVisor

More on Homebuilders (XHB)

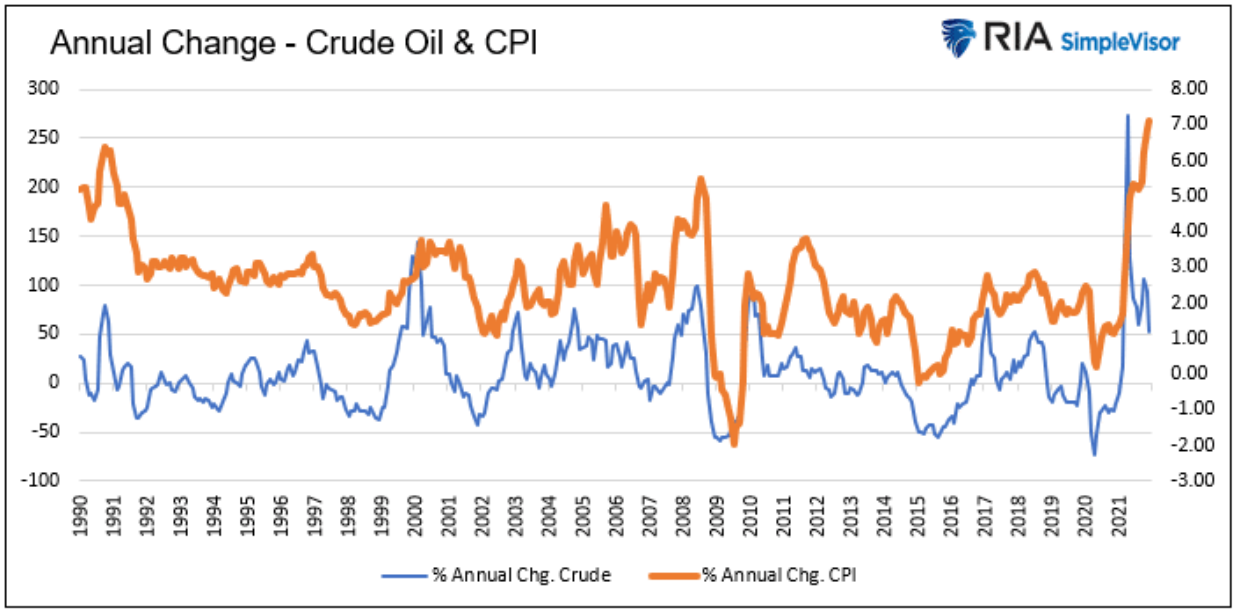
In yesterday's Commentary, we wrote how the confluence of inflation, higher mortgage rates, and a surge in new home construction may pose trouble for homebuilders (XHB). We just stumbled across the graph below which puts more perspective on the supply of new homes coming to market in the next 6-9 months. The graph shows there are significantly more new homes coming to market versus those recently completed. Prior to the last few months, it was a very instance when

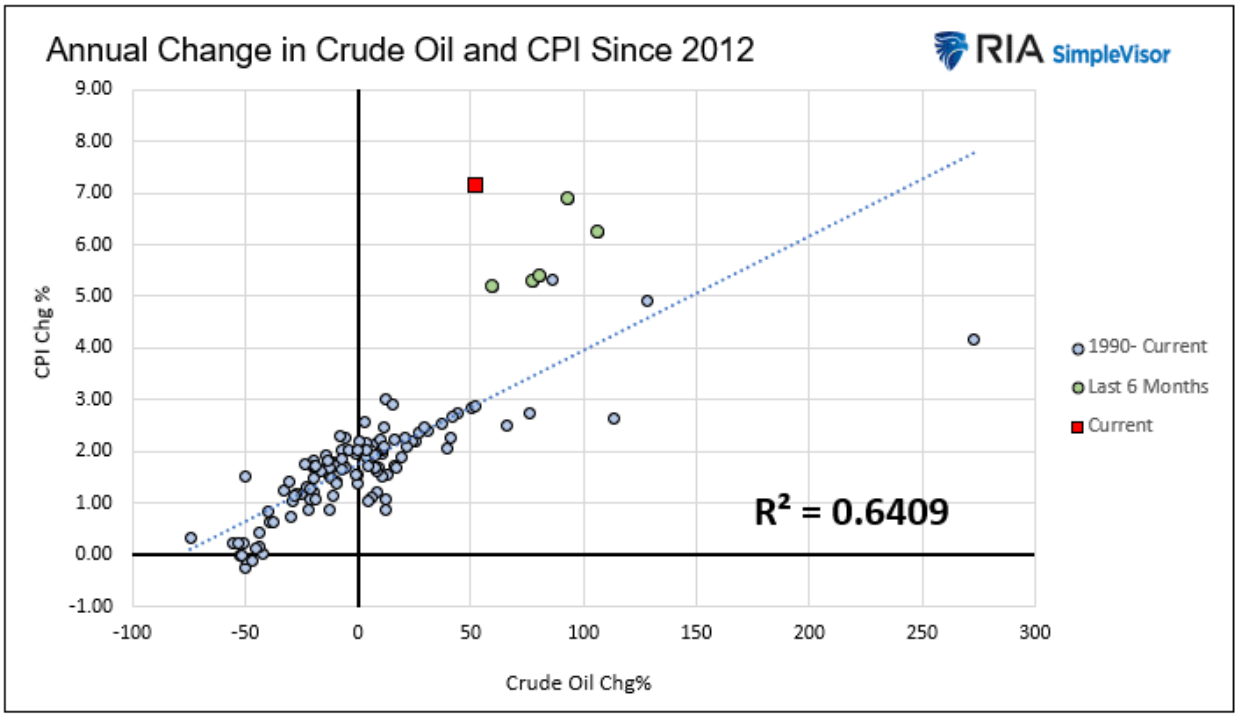
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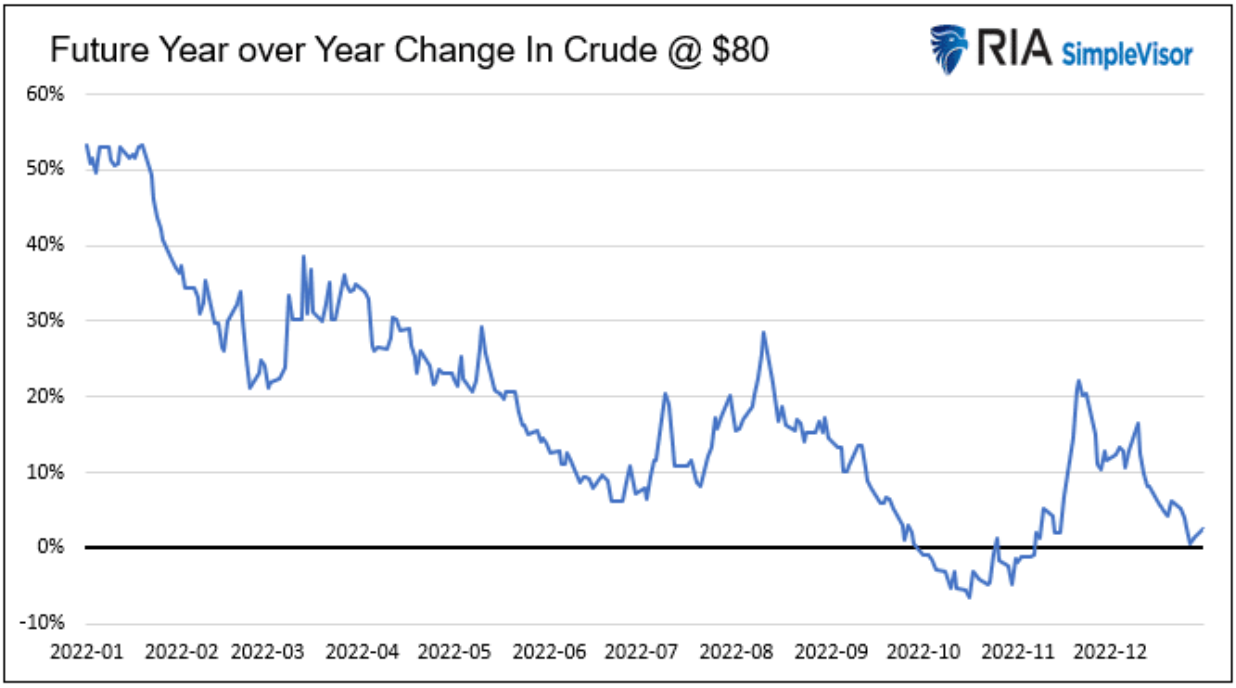


Can Oil Prices Temper Inflation?

The question seems crazy with crude oil up 30% in recent months, yet the charts below make the case inflation should fall if the historical relationship between oil and inflation holds true. The first two graphs show the relationship between the annual changes in oil and CPI. The statistical relationship is strong with an R-squared of .64. Recent instances are well outside of the trend. Per the trend, oil prices should be up 250% over the last year or CPI should be 3%. The last graph forecasts future CPI given oil prices. The graph assumes crude oil stays at $80 and calculates its annual change moving forward. Toward late 2022, the annual change will be zero. Per the trend, expect 2% CPI. However, there are many reasons, beyond oil that inflation is high.

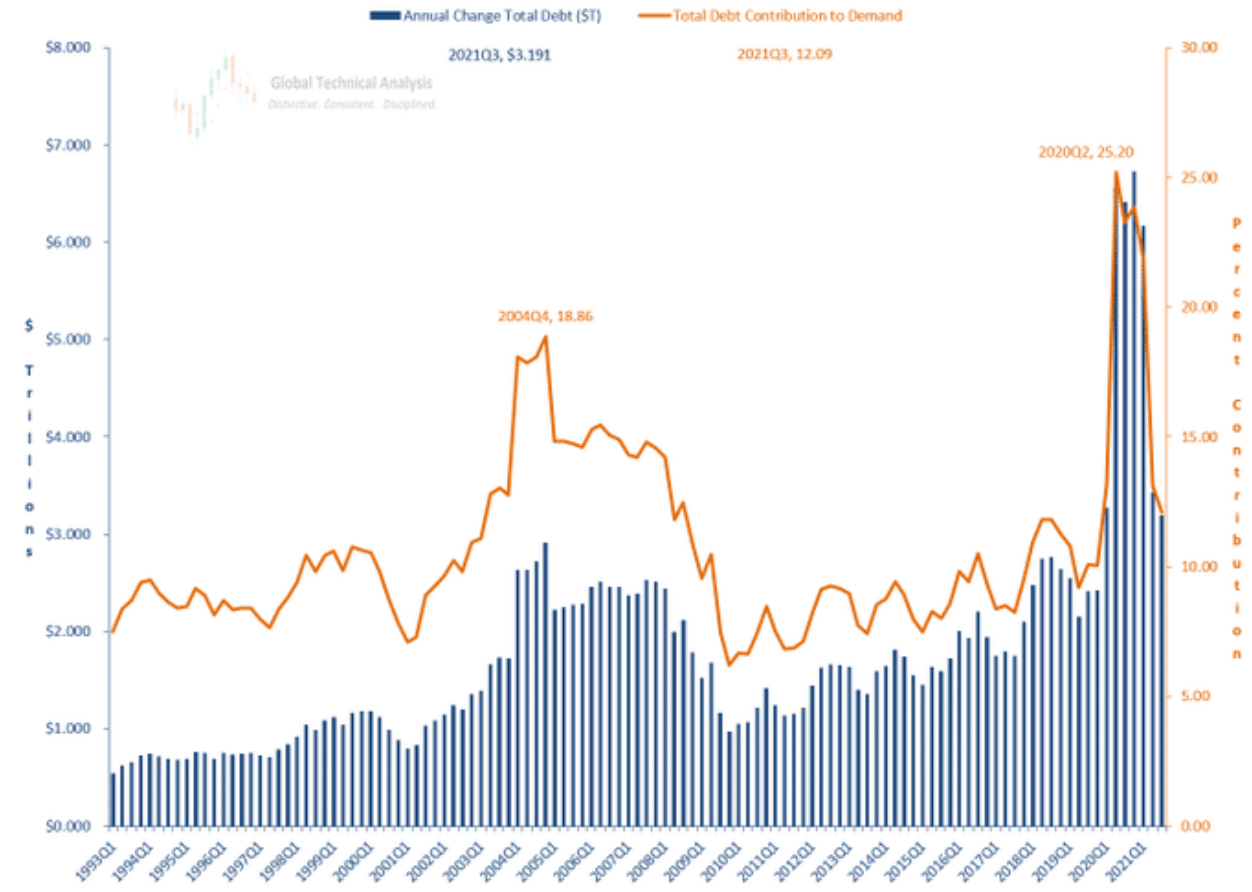


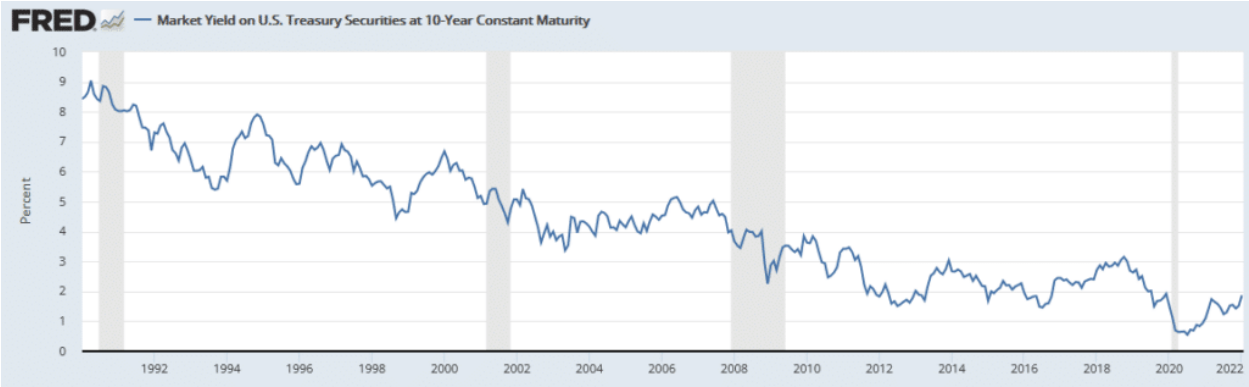




Debt = Consumption

Over the past few decades, we have increasingly become more dependent on debt to drive consumption. The first graph below from Brett Freeze shows the strong correlation between the change in debt and its contribution to demand. As a result of this symbiotic relationship, more consumption requires increasingly more debt and cheaper debt to induce more consumption. Further, those conditions are also needed to roll maturing debt without bankruptcies. The second graph shows the continual downtrend in yields over the last 30 years. Note that almost every local peak in yields is followed by a lower peak. As the ten-year yield reaches 2%, we once again are running into the problem where higher yields reduce consumption and make rolling over maturing debt more costly. Essentially interest rates are a strong regulator of economic activity, and that regulator is getting closer and closer to being tripped once again.





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