

Stocks Bounce Around But End Down In Front Of The Fed

Stocks bounced around Friday as investors look ahead to Wednesday's important FOMC meeting. Fueling some of the volatility was options expiration and the associated trading, hedging, and rolling of options contracts. Stocks may continue to wildly bounce around going into the Fed meeting; however, many stocks and indexes are grossly oversold and sitting on important support.



Further, as we share below, sentiment is stretched to extreme bearish levels. As such, we suspect the market will rally into the Fed meeting. Friday's frustrating bouncing stock action is well exemplified in the two headlines below, coming an hour apart from each other.

09:22 CT *NADSAQ 100 EXTENDS DROP TO 2%

10:23 CT *NADSAQ 100 ERASES EARLIER LOSSES

[dmc]

What To Watch Today

Economy

- 8:30 a.m. ET: **Chicago Fed National Activity Index**, December (0.37 in November)

- 9:45 a.m. ET: **Markit U.S. Manufacturing PMI**, January preliminary (56.8 expected, 57.7 in December)
- 9:45 a.m. ET: **Markit U.S. Services PMI**, January preliminary (54.8 expected, 57.6 in December)
- 9:45 a.m. ET: **Markit U.S. Composite PMI**, January preliminary (57.0 in December)

Earnings

Pre-market

- 6:45 a.m. ET: **Halliburton (HAL)** to report adjusted earnings of 34 cents on revenue of \$4.09 billion

Post-market

- 4:10 p.m. ET: **IBM (IBM)** to report adjusted earnings of \$3.23 per share of \$16.00 billion
- 4:30 p.m. ET: **Steel Dynamics Inc. (STLD)** to report adjusted earnings of \$5.69 on revenue of \$5.29 billion

The Week Ahead

The big story this week will be the Fed's FOMC meeting on Wednesday, and with it, some critical questions will hopefully be answered. For example:

- *Will they end QE now or wait until March?*
- *Is a March rate hike probable?*
- *Might they surprise markets with a hike now?*
- *Is financial stability, i.e. weak markets, a growing concern?*
- *Will Fed member(s) dissent, in favor of more aggressive action?*
- *Is QT as early as this spring possible?*

Corporate earnings will also be front and center this week. Given the large declines from notable companies such as NFLX, GS, and JPM on earnings, we advise paying close attention to upcoming releases. Microsoft and Apple report this week, followed by Google and Amazon next week.

The economic calendar will pick up. We get housing data throughout the week, including New and Existing Home sales and the Case Shiller Home Price Index. Also of note will be the monthly PCE price index. The forecast is for an increase from 5.3% to 5.4%. This is the Fed's preferred measure of inflation. Personal income and spending will also be helpful to assess better how consumers are coping with inflation.

3-Standard Deviations Below The Mean

As noted in this [past weekend's newsletter](#), the S&P 500, and the Nasdaq, above, are both trading more than 3-standard deviations below their 50-dma. Such extreme deviations should provide a stock bounce to sell into.

"The selling pressure took the S&P 500 below its trendline support, deep into oversold territory, and well into 3-standard deviations below the mean."



While such does NOT mean the market can not go lower in the short-term, such extreme deviations often precede at least a short-term bounce. In this case, such a bounce would likely take the S&P 500 back to the broken December lows. However, we can not rule out a retest of the October lows first.

Given the more extreme oversold and negative sentiment in the market, a counter-trend bounce to reduce equity exposure with is more likely than not.

Where Are The Bitcoin Bulls

"Where are all the bitcoin bulls predicting \$100,000-plus prices now? You know the fine folks pumping bitcoin as some sort of life-changing technology created by a higher life form with DNA ties to ET. You know, the ones rolling up to crypto conferences in used Lamborgini's (more on Lambo below) and wearing an entry-level Rolex. I could tell you where they aren't ? out there on social media pounding the table on bitcoin's amazingness and doubling down on their bullish calls. It also doesn't look like they are buying, either.

Bitcoin had another terrible weekend mostly on regulatory concerns and the broader pullback in tech stocks, with prices cratering to a shade over \$35,000 compared to about \$43,000 on Jan. 20. Prices are at a six-month low, per? [Yahoo Finance Plus data](#), and are down 26% year-to-date ? badly lagging the major stock indexes.? [Sources tell Yahoo Finance cryptocurrency reporter](#)? David Hollerith the selling may not yet be done." - Yahoo Finance



Problems in FAANG Land - Netflix

Netflix opened 20% lower on Friday as they missed growth expectations. Its streaming rival Disney (DIS) is lower in sympathy. Disney will not report earnings for a couple of weeks. The four other FAANG stocks (Apple, Amazon, Google, and FaceBook - Meta) report over the next two weeks. Given the leadership role of this group over the last year, these earnings could prove important to the broader market.



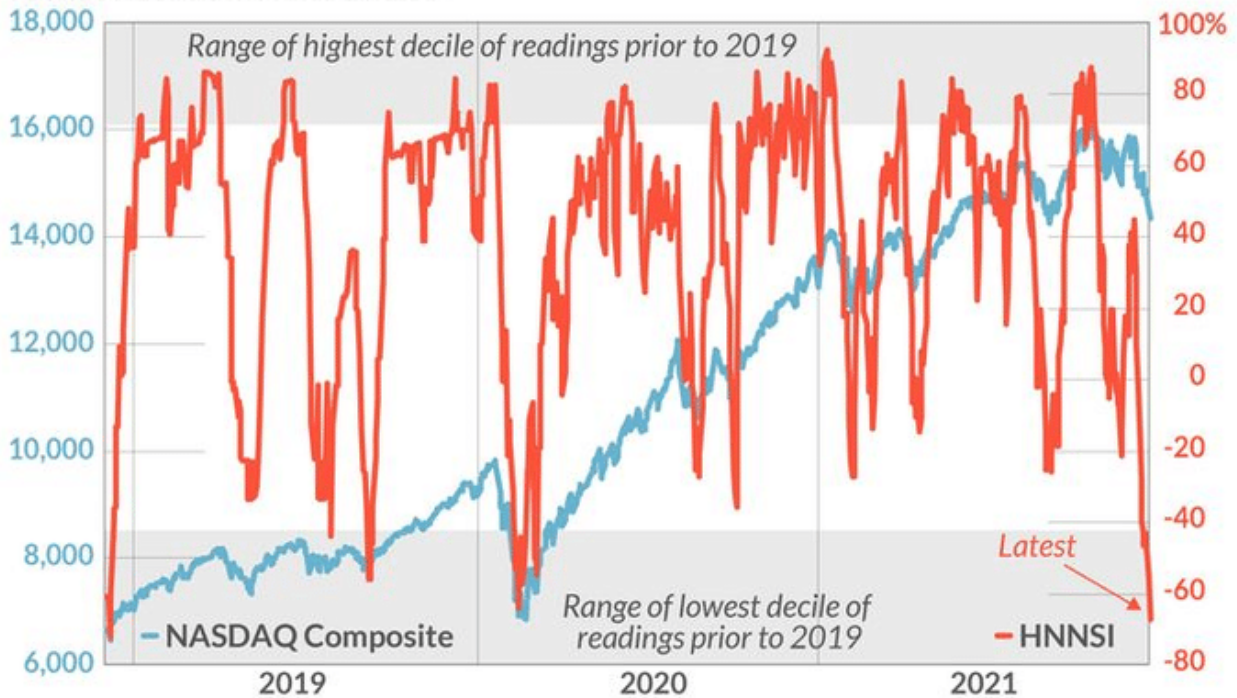
[SimpleVisor](#)

Bearish Sentiment is Extreme

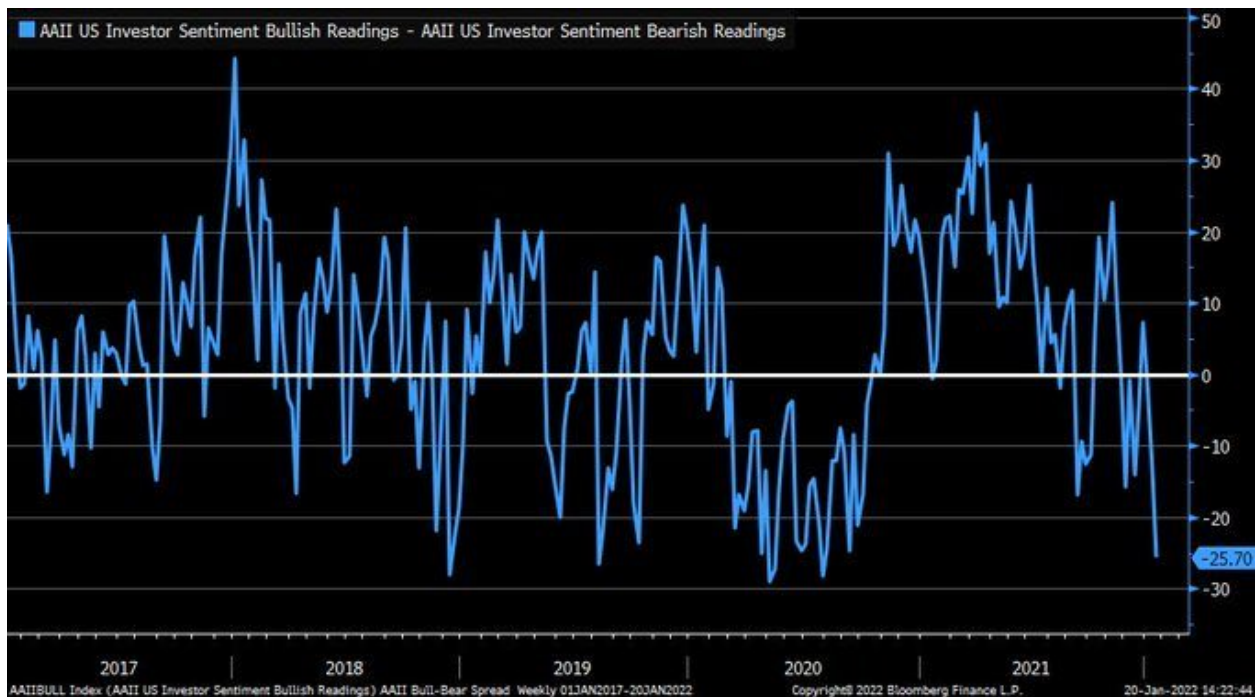
The first graph below shows the Hulbert Sentiment Index is now at its most bearish reading since the Pandemic started in 2020. The AAI Investor bullish minus Bearish Sentiment Index, in the second graph, is also nearing similar extremes. While the equity markets do not feel good, such low sentiment should lead to a bounce. We need to ask whether the bounce will result in new highs and keep the bullish trend intact, or does a bounce provide us a chance to reposition to a more conservative stance. Currently, we are in the latter camp.

More bearish now than at March 2020 bottom!

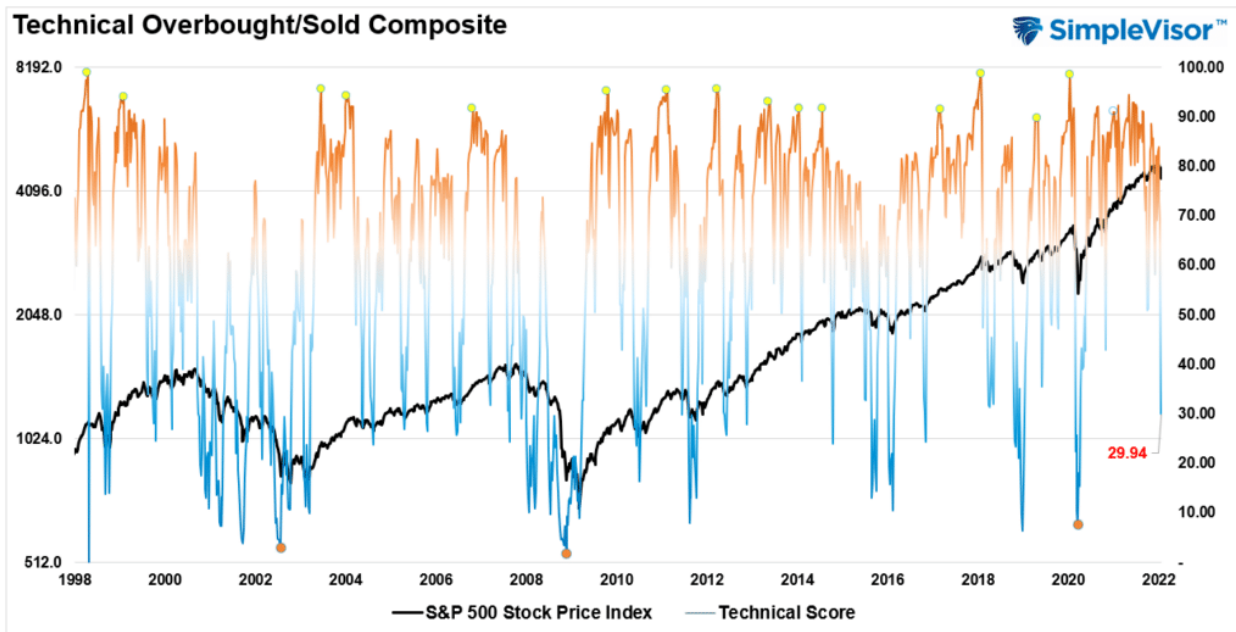
Average recommended stock market exposure among short-term Nasdaq-focused stock market timers*



*As measured by the Hulbert Nasdaq Newsletter Sentiment Index (HNNSI) Source: www.HulbertRatings.com

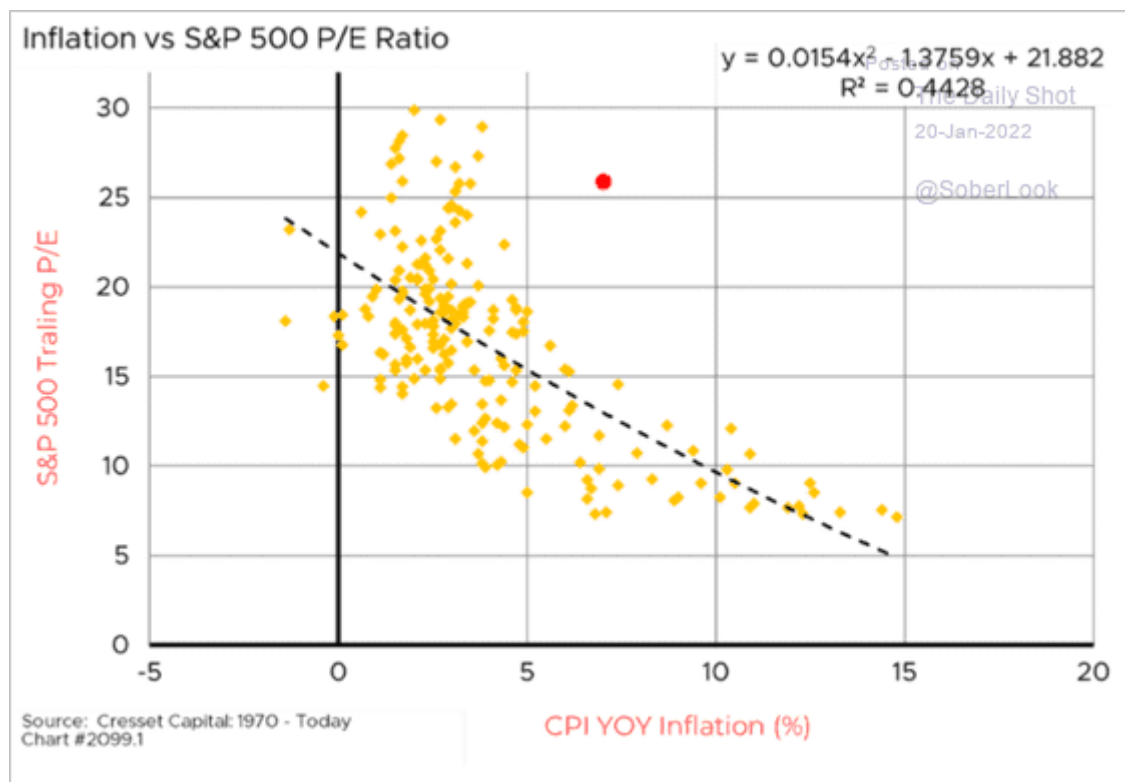


Our weekly technical composite is also pushing into more extreme oversold territory. This gauge is published weekly with all of our *SENTIMENT* indicators at Simplevisor.com



Inflation Isn't Good For Stock Valuations

The graph below, courtesy of the Daily Shot, shows the correlation between inflation and price to earnings. It's worth noting the correlation is good at .4428, and the current reading in red is well above the trend. We have harped on whether or not companies can pass on higher costs to consumers. As we have seen, albeit early in earnings season, many companies fail to increase prices enough to offset higher wages and input prices. If inflation remains persistent at or near current levels, we suspect valuations could fall meaningfully. If inflation can fall back below five percent, the exceptionally high current valuation would not be as unreasonable per the chart.



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