The S&P exhibited extreme volatility throughout the day on Monday. The market opened weaker and fell sharply until 1 pm ET, where the S&P 500 bottomed down by over 170 points. After a few false bounces, it surged back in the afternoon, closing positive for the day.

The 9% round trip was the largest intraday move since the spring of 2020 when pandemic fear gripped the market. We may continue to see volatility at extreme levels as the Fed seems to be walking into a trap. The market's concern is the Fed is removing liquidity as the economy shows signs of slowing. Such a Fed mistake could lead to more volatility, and extreme trading ranges, as we saw on Monday. Making matters trickier is the growing risk of conflict with Russia over Ukraine.

[dmc]

What To Watch Today

Economy

- 9:00 a.m. ET: **FHFA House Price Index**, month-over-month, November (1.0%. expected, 1.1% in October)
- 9:00 a.m. ET: **S&P CoreLogic Case-Shiller 20-City Composite Index**, month-over-month, November (0.93% expected, 0.92% in October)
- 9:00 a.m. ET: **S&P CoreLogic Case-Shiller 20-City Composite Index**, year-over-year, November (18.00% expected, 18.41% in October)
- 10:00 a.m. ET: **Conference Board Consumer Confidence**, January (111.1 expected, 115.8 in December)
- 10:00 a.m. ET: **Richmond Fed Manufacturing Index**, January (14 expected, 16 in December)

Earnings

Pre-market

- 6:45 a.m. ET: **Johnson & Johnson** (JNJ) to report adjusted earnings of $2.12 on revenue of $25.32 billion

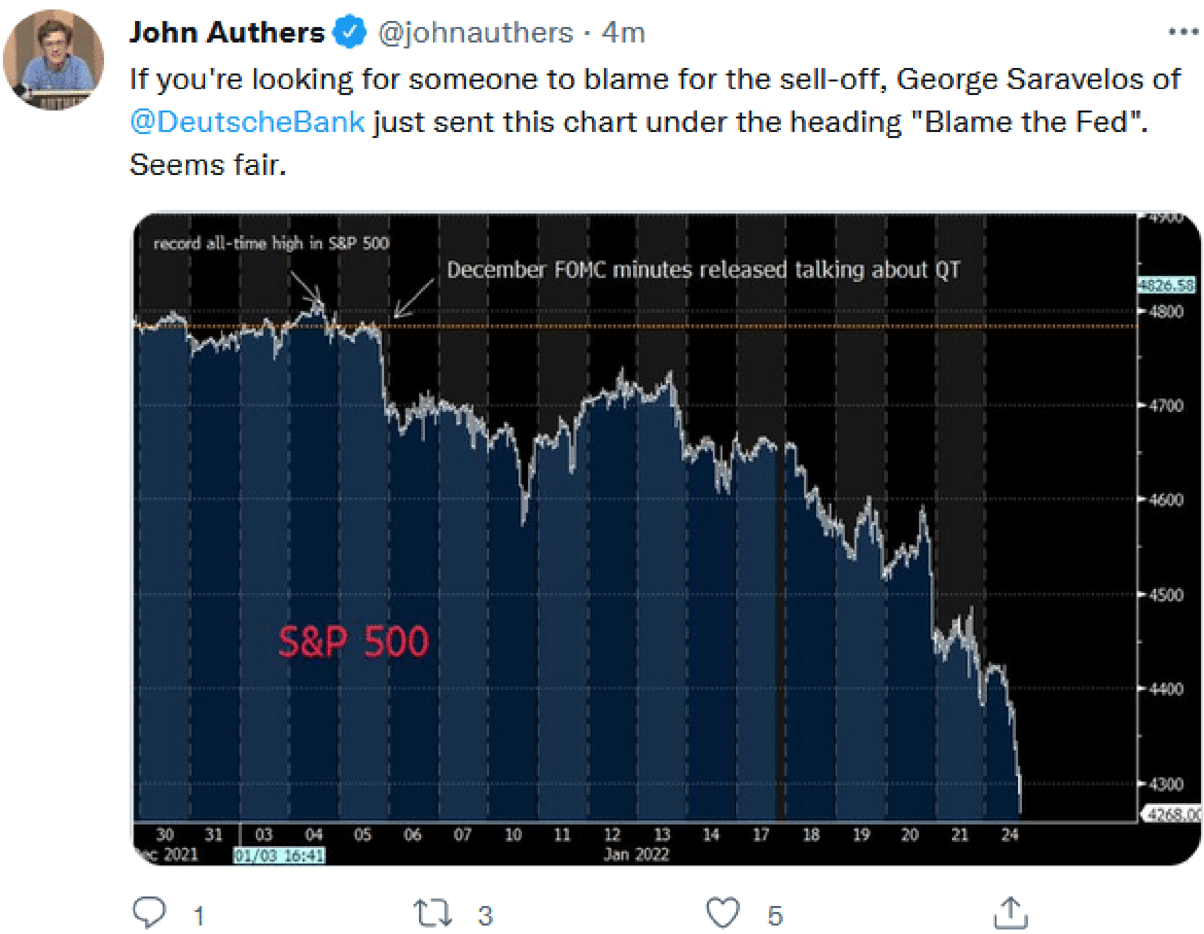
- 7:00 a.m. ET: **American Express** (AXP) to report adjusted earnings of $1.83 on revenue of $11.50 billion
- 7:00 a.m. ET: **Verizon** (VZ) to report adjusted earnings of $1.28 on revenue of $34.03 billion
- 7:00 a.m. ET: **Invesco** (IVZ) to report adjusted earnings of $0.75 on revenue of $1.77 billion
- **General Electric** (GE) to report adjusted earnings of $0.84 on revenue of $21.38 billion
- **Polaris** (PII) to report adjusted earnings of $2.03 on revenue of $2.13 billion
- **Raytheon Technologies** (RTX) to report adjusted earnings of $1.02 on revenue of $17.28 billion
- **3M** (MMM) to report adjusted earnings of $2.01 on revenue of $8.60 billion
- **Lockheed Martin** (LMT) to report adjusted earnings of $7.17 on revenue of $17.66 billion
- **Texas Instruments** (TXN) to report adjusted earnings of $1.95 on revenue of $4.43 billion

Post-market

- **Microsoft** (MSFT) to report adjusted earnings of $2.32 on revenue of $50.87 billion
- **Capital One Financial Corp.** (COF) to report adjusted earnings of $5.29 on revenue of $7.93 billion

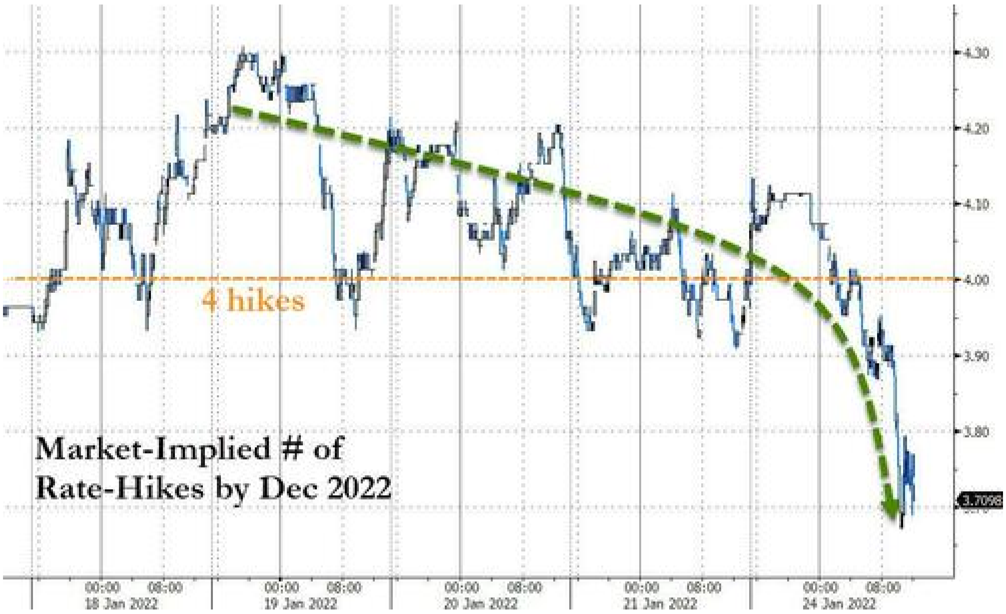
Blame the Fed

Looking for someone to blame for the extreme volatility?



The Market May Have Called The Fed's Bluff

As we discussed yesterday, the market was extremely oversold and due for a bounce. The reason for the rally yesterday afternoon and into the close was the collapse in expectations of Fed rate hikes.



However, the Fed is not done yet, and their meeting starts tomorrow. So, while the market may be thinking the Fed will back off its more hawkish stance, it is worth noting that extreme volatility, like yesterday, is rare and only during bear markets.

> *"**The last two times that the S&P 500 dropped 4% and rebounded into the green were as follows.**" - Zerohedge*

- *Oct 16, 2008 = down -4.63% and closed up 4.25% - EU, US, Japan coordinated action to guarantee bank financing, Paulson shifts TARP to buying equity in banks*
- *Oct 23, 2008 = down -4.28% and closed up 1.26% - Fed bailed out MM funds*

The only other days were Oct 28, 1997, Oct 26, 2000 and July 15, 2002. The 2000 and 2002 dates were during the Dot.com bear market. The Oct 1997 event was during the Asian financial crisis.

Top 10 Buys & Sells From TPA Research

Click on RIAPro+ today to add TPA Research **to your subscription for just $20/month.**

TURNING POINT ANALYTICS

These are high conviction stocks that TPA has recommended recently. They are technically positive for Buys or negative for Sells and trading at or near their investment action levels.

January 24, 2022

THIS WEEK'S TOP 10 BUYS AND TOP 10 SELLS

BUYS

	Ticker	Name	Last Price	Action Price	Distance to Action
1	**ADBE**	Adobe Inc	499.91	499.00	**-0.18%**
2	**MSFT**	Microsoft Corp	296.03	295.00	**-0.35%**
3	**ODFL**	Old Dominion Freight Line	296.81	295.00	**-0.61%**
4	**AMD**	Advanced Micro Devices Inc	118.81	118.00	**-0.68%**
5	**MRVL**	Marvell Tech Inc	72.55	72.00	**-0.76%**
6	**SAM**	Boston Beer 'A'	443.44	440.00	**-0.78%**
7	**Z**	Zillow Grp Inc Cl C	51.10	50.50	**-1.17%**
8	**DKS**	Dick's Sporting Goods	109.76	108.00	**-1.60%**
9	**FLOW**	SPX Flow Inc	85.11	83.00	**-2.48%**
10	**OXY**	Occidental Petro Corp	33.75	31.00	**-8.15%**

SELLS

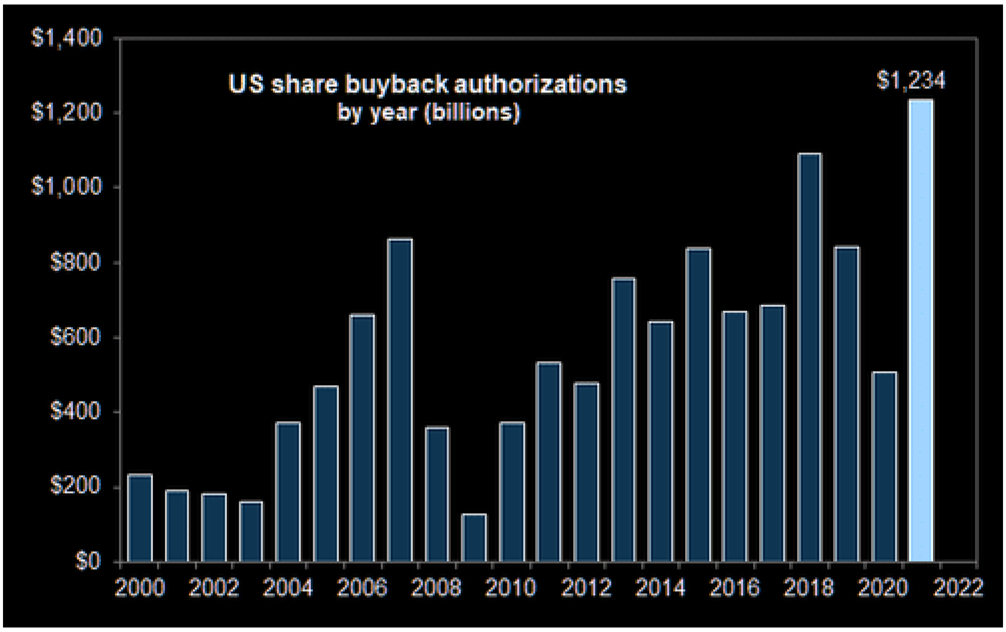
	Ticker	Name	Last Price	Action Price	Distance to Action
1	**DCI**	Donaldson Co	56.05	57.50	**2.59%**
2	**CMI**	Cummins Inc	223.36	230.00	**2.97%**
3	**SPGI**	S&P Glbl Inc	416.93	430.00	**3.13%**
4	**WWD**	Woodward, Inc.	111.47	115.00	**3.17%**
5	**TGT**	Target Corp	217.25	225.00	**3.57%**
6	**XLC**	Comm Srvc Sel Sec SPDR Fd	72.22	76.00	**5.23%**
7	**SYF**	Synchrony Finl	44.42	47.00	**5.81%**
8	**SWKS**	Skyworks Solutions	139.90	150.00	**7.22%**
9	**A**	Agilent Technologies Inc	137.51	149.00	**8.36%**
10	**IDXX**	Idexx Laboratories	501.96	570.00	**13.55%**

Don't Forget The Biggest Buyers Of Equities

As Goldman's Scott Rubner writes:

> *"...blackout window ended. Corporates will buy the weakness. The GS corporate buyback desk expects a record year for executions of $975B or >$4B per day".*

There is a lot of dry powder and many will be eager to pick up some of those hammered tech stocks. Why not even front-load some of the $1.234 Trillion authorized last year. - @TheMarketEar



Keep an Eye on Junk

Mention the Fed's concern with financial stability, and many investors immediately think of the stock market. While they indeed appear to follow stocks, we believe their bigger concern in the realm of financial stability is the bond markets. The bond markets are the financial lifeline for many corporations and banks. As we saw in 2008, frozen bond markets are the death knell for the banking sector. The large banks own the Fed, and therefore the Fed's attentiveness to bond markets should not be surprising.

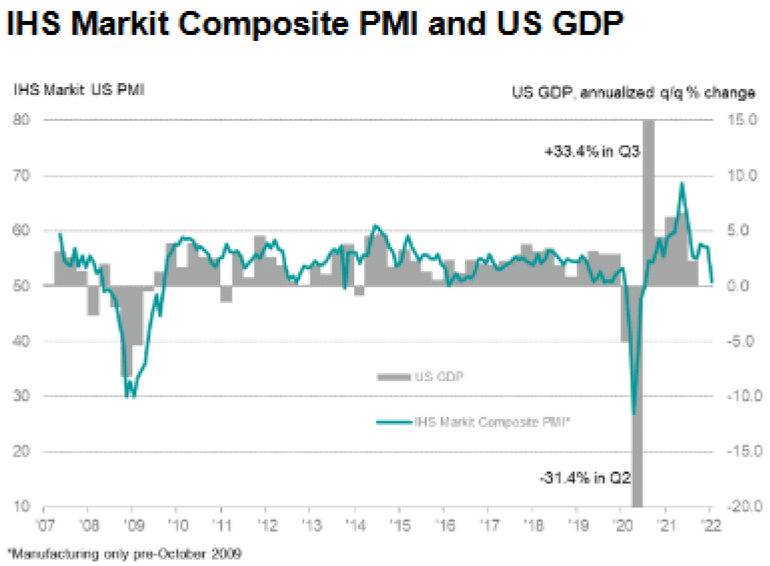
As we watch the recent equity market decline, we must also observe the bond markets. Currently, they are orderly. Most importantly, junk debt tends to become illiquid before investment grade debt is trading well. The graph below shows that junk (BB-rated) spreads remain intact. If spreads start rapidly rising the Fed may become concerned but right now we see little instability in the credit markets.

Economic Data Continues to Dissapoint

Monday's economic data was decidedly weak. Leading off is the Chicago Fed National Activity Index, which tracks 85 monthly indicators. The index came in at -.15 versus .44 last month and expectations of .25. A reading below zero correlates to below-trend growth. Also of concern, the PMI Composite Index which includes manufacturing and services fell to 50.8. While it still points to economic expansion, it is straddling the line (50) and nearing contraction. The index is now at an 18 month low. Economic growth is slowing rapidly. The question is whether the slowdown is a function of Omicron or the normalization of economic activity and sharp reduction of fiscal stimulus.

If it's the latter, the Fed might be making a big mistake tightening monetary policy into a slowdown.

Per the [report](#)- *"Soaring virus cases have brought the US economy to a near standstill at the start of the year, with businesses disrupted by worsening supply chain delays and staff shortages"*

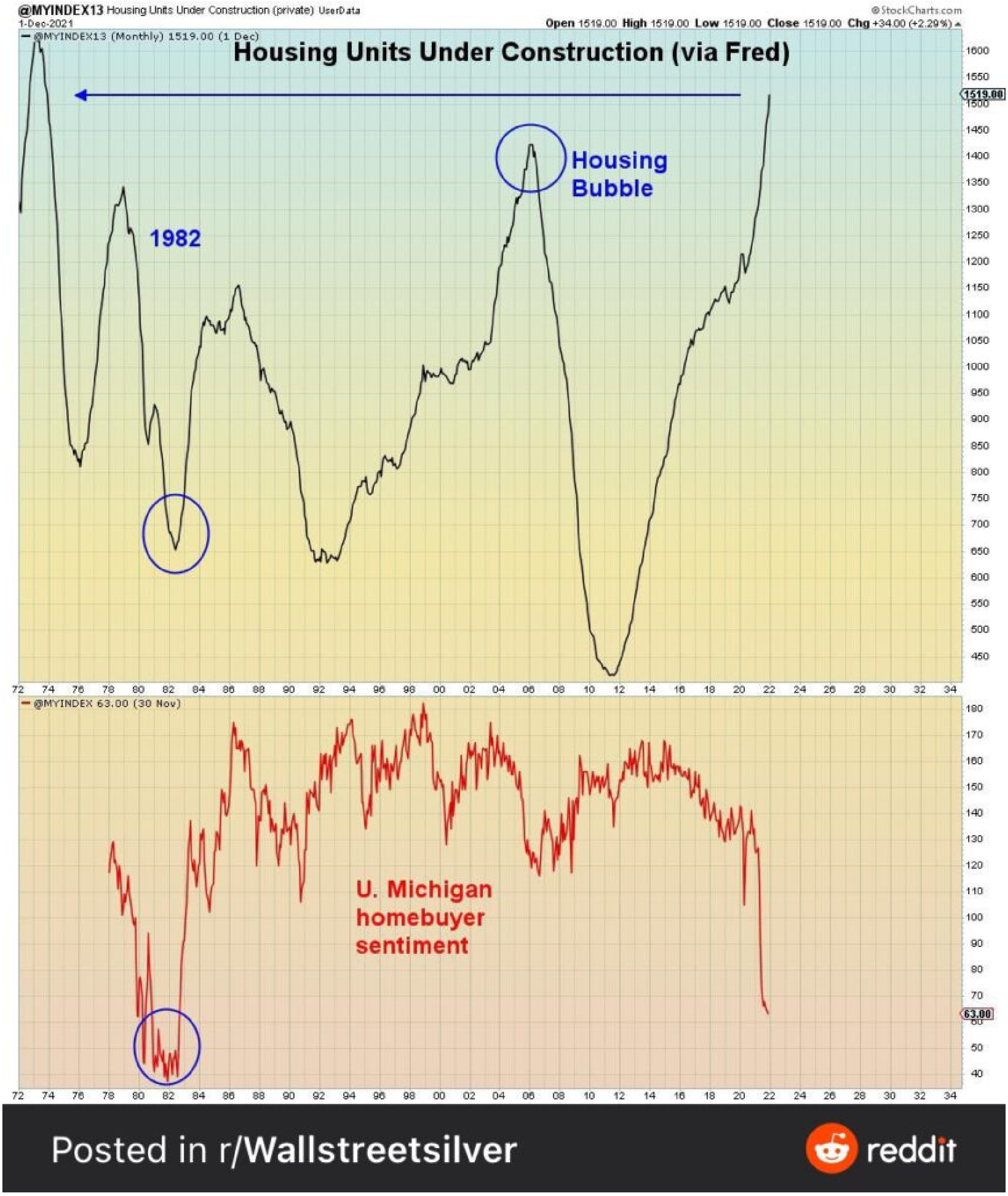


Sources: IHS Markit, US Bureau of Economic Analysis

Housing Imbalance

Last week we described coming headwinds for the homebuilders (XHB). Inflation, higher wages, increasing mortgage rates, and the potential for a glut of new supply later this year are increasingly likely to pose problems for the sector. The graph below further highlights the potential for an oversupply of new homes this summer. As shown, the University of Michigan Homebuyer Sentiment Index is well below levels of 2008 and at 40-year lows. At the same time, the number of housing units under construction surpassed the 2003-2008 housing bubble and is approaching levels last seen in the early 1970s. Again, we advise caution with homebuilders and those that supply homebuilders with materials to build new homes.

For More: ***["Why There Is No Housing Shortage"](#)***



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