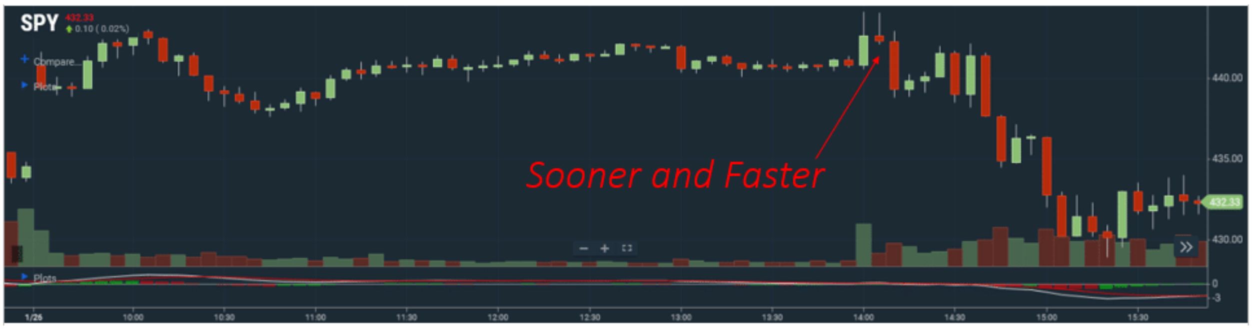
The moment Jerome Powell said the Fed will remove assets from their balance sheet "sooner and faster" equity markets stumbled. The S&P was up 95 points as Powell kicked off his press conference. By the time he spoke his final words, it was down nearly 40 points. It seems the term "sooner and faster" used to describe reducing the Fed's balance sheet set investors off. As if "sooner and faster" were not enough bad news for the markets, he ended the conference with *"asset prices do not represent a threat to financial stability."* Essentially Powell is not concerned with the recent swoon in stock prices. Keep in mind Jerome Powell is dovish. Over the coming week or two, Fed speakers will likely present more hawkish views.



SimpleVisor

[dmc]

Economy

- 8:30 a.m. ET: **Initial jobless claims**, Jan. 22 (265,000 expected, 286,000 during prior week)
- 8:30 a.m. ET: **Continuing claims**, week ended Jan. 15 (1.653 million expected, 1.635 million during prior week)
- 8:30 a.m. ET: **Durable goods orders**, December preliminary (-0.6% expected, 2.6% in November)
- 8:30 a.m. ET: **Durable goods orders excluding transportation**, December preliminary (0.3% expected, 2.6% in November)
- 8:30 a.m. ET: **Non-defense capital goods orders excluding aircraft** (0.4% expected, 0.0% in November)
- 8:30 a.m. ET: **Non-defense capital goods shipments excluding aircraft** (0.5% expected, 0.3% in November)
- 8:30 a.m. ET: **GDP annualized**, quarter-over-quarter, 4Q first estimate (5.5% expected, 2.3% in 3Q)
- 8:30 a.m. ET: **GDP price index**, quarter-over-quarter, 4Q first estimate (6.0% expected, 6.0% in 3Q)
- 8:30 a.m. ET: **Personal consumption**, 4Q first estimate (3.4% expected, 2.0% in 3Q)
- 8:30 a.m. ET: **Core PCE**, quarter-over-quarter, 4Q first estimate (4.9% expected, 4.6% in 3Q)
- 10:00 a.m. ET: **Pending home sales NSA**, year-over-year, December (-4.0% expected, 0.2% in November)
- 10:00 a.m. ET: **Pending home sales**, month-over-month, December (-0.4% expected, -2.2% in November)

- 10:00 a.m. ET: **Kansas City Fed Manufacturing Activity Index**, January (21, expected, 24 in December)

Earnings - Pre-market

- **Dow Inc.** (DOW) is expected adjusted earnings of $2.01 on revenue of $14.30 billion
- **Southwest Airlines** (LUV) to report adjusted earnings of $0.12 on revenue of $5.06 billion
- **Valero Energy Corp.** (VLO) to report adjusted earnings of $1.84 on revenue of $28.47 billion
- **Comcast Corp.** (CMCSA) to report adjusted earnings of $0.73on revenue of $29.63 billion
- **T Rowe Price Group** (TROW) to report adjusted earnings of $3.16 on revenue of $1.95 billion
- **Danaher Corp.** (DHR) to report adjusted earnings of $2.54 on revenue of $7.94 billion
- **Tractor Supply Corp.** (TSCO) to report adjusted earnings of $1.86 on revenue of $3.23 billion
- **Sherwin-Williams** (SHW) to report adjusted earnings of $1.4 on revenue of $4.76 billion
- **McDonald's** (MCD) to report adjusted earnings of $2.34 on revenue of $6.02 billion
- **Blackstone** (BX) to report adjusted earnings of $1.37 on revenue of $3.31 billion
- **McCormick & Co.** (MKC) to report adjusted earnings of $0.80 on revenue of $1.72 billion
- **Alaska Air Group** (ALK) to report adjusted earnings of $0.24 on revenue of $1.85 billion
- **HCA Healthcare** (HCA) to report adjusted earnings of $4.49 on revenue of $4.82 billion
- **JetBlue Airways** (JBLU) to report an adjusted loss of $0.39 on revenue of $15.36 billion
- **Altria Group** (MO) to report adjusted earnings of $1.08 on revenue of $5.03 billion
- **Western Digital Corp**. (WDC) to report adjusted earnings of $2.13 on revenue of $4.82 billion
- **Nucor Corp.** (NUE) to report adjusted earnings of $7.83 on revenue of $10.42 billion

Earnings Post-market

- **Mastercard** (MA) to report adjusted earnings of $2.21 on revenue of $5.17 billion
- **Apple** (AAPL) to report adjusted earnings of $1.90 on revenue of $119.05 billion
- **Robinhood** (HOOD) to report adjusted losses of $0.34 on revenue of $370.92 billion
- **Visa** (V) to report adjusted earnings of $1.70 on revenue of $6.80 billion
- **United States Steel Corp**. (X) to report adjusted earnings of $4.41on revenue of $5.42 billion
- **Mondelez International** (MDLZ) to report adjusted earnings of $0.73 on revenue of $7.59 billion

FOMC Statement

The redlined statement below, courtesy of Zero Hedge, shows the changes from the last FOMC policy statement to the current statement. In a nutshell, the Fed will end QE in early March, and it "*will soon be appropriate to raise the target range for the Federal Funds rate."* Based on the words they removed regarding employment, we can assume they believe employment is at their goal of maximum employment. As such, policy, for the time being, will be all about inflation. There were no dissenting votes at this meeting, nor any mention of QT or financial stability.

~~The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.~~

~~With progress on vaccinations and strong policy support, indicators~~Indicators of economic activity and employment have continued to strengthen. The sectors most adversely affected by the pandemic have improved in recent months but ~~continue to be~~are being affected by the recent sharp rise in COVID-19 cases. Job gains have been solid in recent months, and the unemployment rate has declined substantially. Supply and demand imbalances related to the pandemic and the reopening of the economy have continued to contribute to elevated levels of inflation. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.

The path of the economy continues to depend on the course of the virus. Progress on vaccinations and an easing of supply constraints are expected to support continued gains in economic activity and employment as well as a reduction in inflation. Risks to the economic outlook remain, including from new variants of the virus.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent. With inflation ~~having exceeded~~well above 2 percent ~~for some time~~and a strong labor market, the Committee expects it will soon be appropriate to ~~maintain this~~raise the target range ~~until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment. In light of inflation developments and~~ for the ~~further improvement in the labor market, the~~federal funds rate. The Committee decided to continue to reduce the monthly pace of its net asset purchases ~~by $20 billion for Treasury securities and $10 billion for agency mortgage-backed securities.~~, bringing them to an end in early March. Beginning in ~~January~~February, the Committee will increase its holdings of Treasury securities by at least $~~40~~20 billion per month and of agency mortgage-backed securities by at least $~~20~~10 billion per month. ~~The Committee judges that similar reductions in the pace of net asset purchases will likely be appropriate each month, but it is prepared to adjust the pace of purchases if warranted by changes in the economic outlook.~~ The Federal Reserve's ongoing purchases and holdings of securities will continue to foster smooth market functioning and accommodative financial conditions, thereby supporting the flow of credit to households and businesses.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; ~~Thomas I. Barkin; Raphael W. Bostic;~~ Michelle W. Bowman; Lael Brainard; ~~Richard H. Clarida; Mary C. Daly; Charles~~James Bullard; Esther L. ~~Evans; Randal K. Quarles~~George; Patrick Harker; Loretta J. Mester; and Christopher J. Waller. Patrick Harker voted as an alternate member at this meeting.

Jerome Powell's Press Conference

Here are some takeaways from Jerome Powell's press conference.

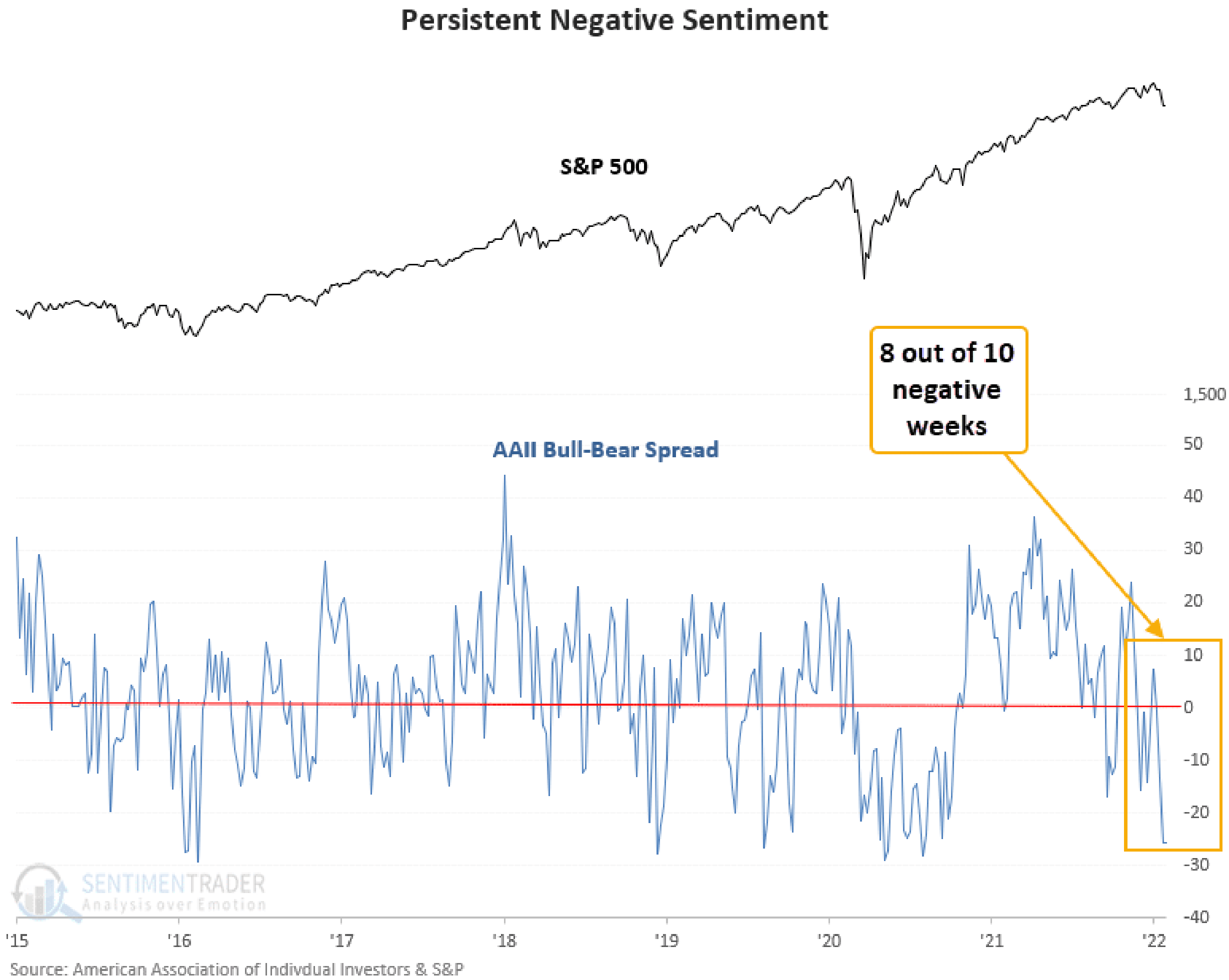
- The negative economic effect of Omicron should end soon. This was a reason for hesitation to normalize policy.
- The risk of high and sustained inflation is now the Fed's biggest concern. He bemoaned this point numerous times.
- QT will not begin until they raise the Fed Funds rate, but how and when to reduce the balance sheet will be a topic at upcoming meetings. They expect to shrink the balance sheet "sooner and faster" than the last time (2018).
- "*Quite a bit of room to raise interest rates without harming labor markets.*" Labor shortages and higher wages will be a big source of inflation however it will be partially offset as supply lines heal, albeit slowly.
- Adjusting Fed Funds is the primary tool for the Fed, while balance sheet adjustments are in the "*background*."
- The "*committee is of the mind to raise the Fed funds rate at the next meeting"* (March).

- In re the Fed's balance sheet-**"*substantially larger than it needs to be. There's a substantial amount of shrinkage in the balance sheet to be done.*** *We want that process to be orderly and predictable*."
- It appears a QT schedule is on the docket for the May 4th meeting and possibly enacted at the mid-June meeting.
- He raised his estimate of core PCE inflation by a few tenths from the last meeting and admits high inflation will be more persistent.
- It is clear inflation is a much bigger problem for the Fed than they allude to via monetary policy.
- *"Asset prices do not represent a threat to financial stability."*

Uber Bearish Sentiment Is A Good Thing

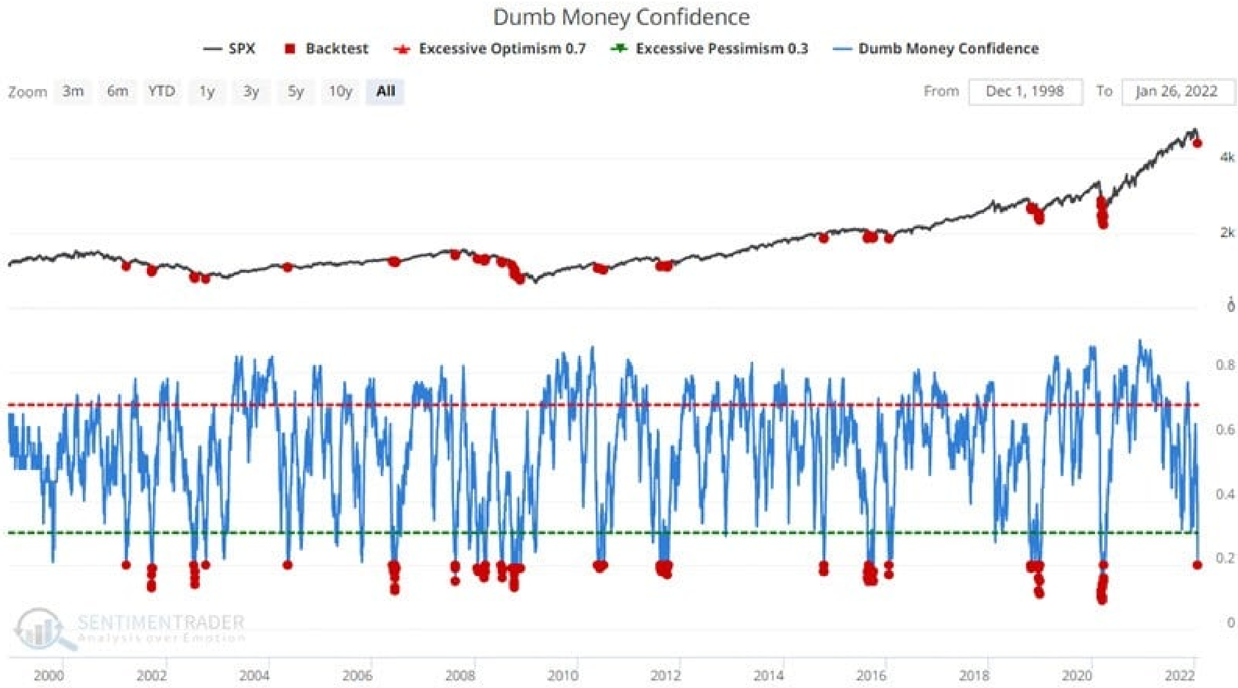
Despite the market rattling Powell comment of *"sooner and faster"*, sentiment is already extremely negative.

> *The AAII sentiment survey can be used as a contrary indicator to identify an environment where sentiment has become too pessimistic on the future direction of stocks. When opinions become too bearish, stocks tend to rally. - Sentiment Trader*



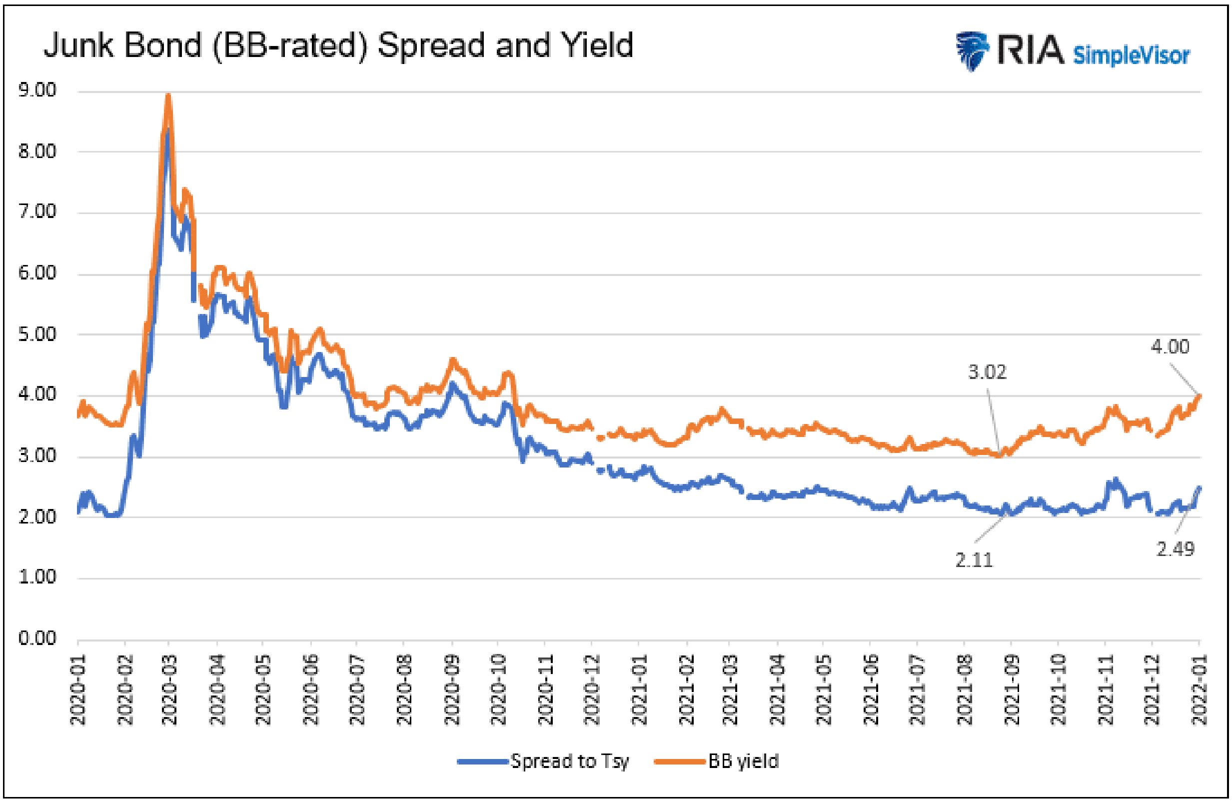
> *"Dumb Money" traders have proven themselves to be bad at market timing over history. They get bullish after a market rally and bearish after a market fall.* ***By the time most of them catch on to a trend, it's too late - the trend is about to reverse. It tells us how confident we should be in selling the market.*** *Examples of some Dumb Money*

indicators include the equity-only put/call ratio, the flow into and out of the Rydex series of index mutual funds, and small speculators in equity index futures contracts. Because the "dumb money" follows trends, they are usually correct during the meat of the trend but wrong at the extremes. - Sentiment Trader



Misplaced Anxiety in Junk Bonds

Over the last few weeks, we have been reading about growing anxiety among investors because junk bond yields are rising. It is pretty standard for the junk bond sector to be among the first of the fixed income sectors to show stress and illiquidity. The concern is that such stress will eventually appear in the liquid fixed-income markets. The graph below shows some of this anxiety, at least now, maybe misplaced. BB-rated junk bonds yields have risen a full percent since September. However, the spread (blue) is only up 0.38%. In other words, about two-thirds of the increase in the yield is not credit/liquidity related but solely a function of Treasury yields rising. The sector is not yet signaling danger but bears watching as it can change quickly as we saw in early 2020.



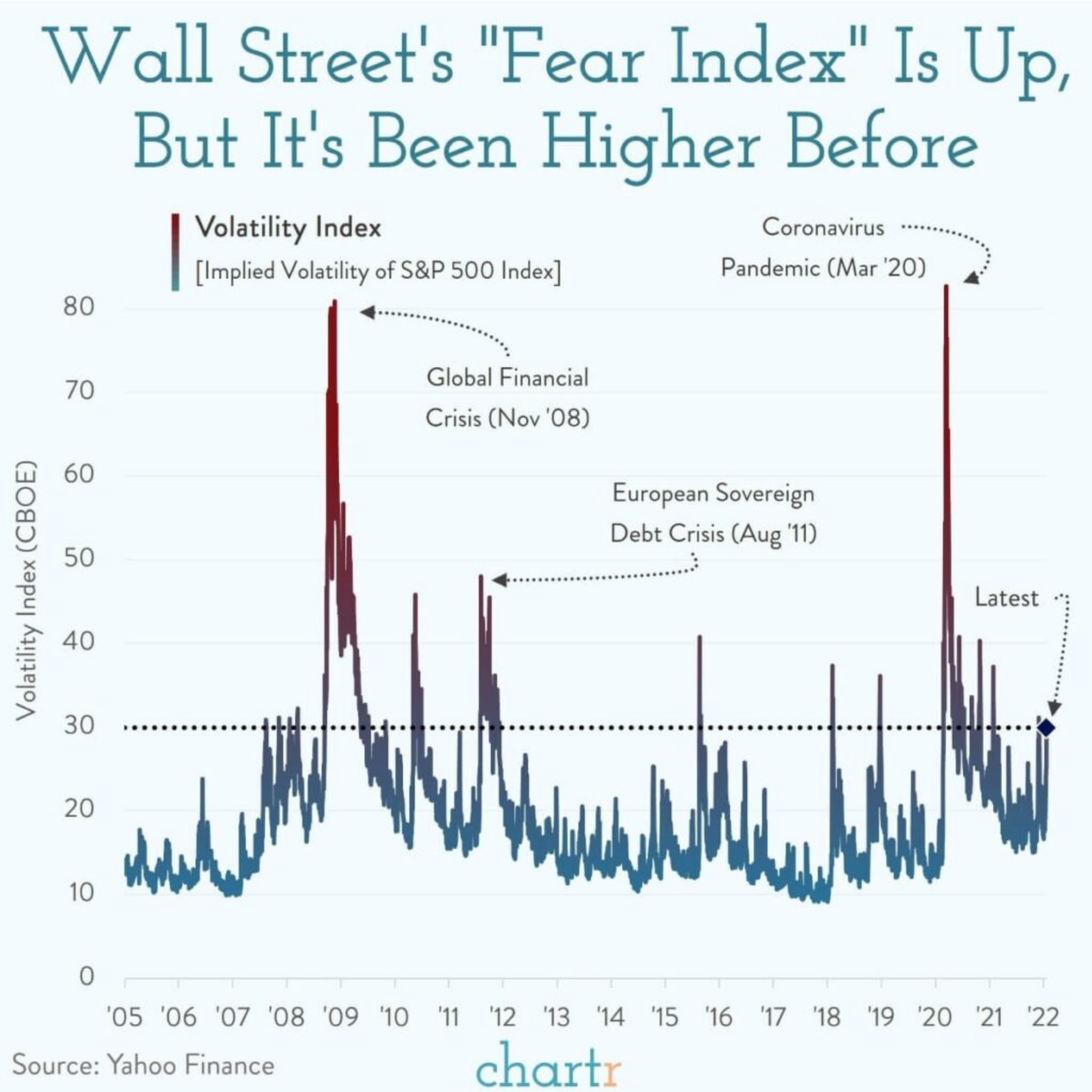
The "Fear Gauge" Has Been Higher

> *The latest reading on the **VIX is about 30**, which is well above the average of about **18-19** from the last 15 years, but still some way from the readings of 80+ during the "call your family and go full panic mode" of the global financial crisis of '08-09 or March 2020.*
>
> *If the market was a person, telling a friend everything they were worried about, they'd have a lot to say:*

- Inflation is rising around the world, for the first time in a long time.
- Tensions between Ukraine, Russia and NATO are rising.
- The pandemic hasn't gone anywhere, with the ongoing risk of new variants.

Figuring out which of those is most responsible for the market jitters on any one day is more art than science, but all 3 together certainly aren't helping. - Chartr

We could definitely now add Powell's *"sooner and faster"* comment to that list of worries.



Microsoft Whipsaws on Good Earnings

After the markets closed on Tuesday, Microsoft (MSFT) reported better than expected earnings and revenue. Initially, the good news didn't matter to investors as the stock fell 5% in after-hours trading. The only excuse justifying the move was that it was the smallest beat in earnings in many quarters. The selling stopped abruptly when the markets reopened at 6 pm ET and MSFT quickly recouped its losses plus more. The graph below highlights the U-shaped price action. While MSFT recovered, there is an important lesson. Many stocks are priced for massive growth. Better said, they are priced for perfection. As we have seen repeatedly this earnings season, good but non-stellar earnings can result in stock declines. It doesn't help that investors are very anxious as the Fed shifts its monetary policy.

Our equity model has a 3% stake in MSFT.

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