For those of you following the markets day and night, as we do, you likely have picked up on the massive price swings. Stock market volatility in the cash day sessions and nighttime futures sessions has been intense. The graph below shows that S&P futures are on a roller coaster, shooting up and down in 100+point increments. Since Monday, the S&P increased or fell by over 100 points, within 24 hours, seven times. Some of those gyrations were closer to 200 points. Buckle up, market volatility may be with us for a while.



[dmc]

What To Watch Today

Economy

- 8:30 a.m. ET: **Personal income,** December (0.5% expected, 0.4% in November)
- 8:30 a.m. ET: **Personal spending,** December (-0.6% expected, 0.6% in November)
- 8:30 a.m. ET: **PCE Deflator,** month-over-month, December (0.4% expected, 0.6% in November)
- 8:30 a.m. ET: **PCE Deflator,** year-over-year, December (5.8% expected, 5.7% in November)
- 8:30 a.m. ET: **PCE core deflator,** month-over-month, December (0.5% expected, 0.5% in November)
- 8:30 a.m. ET: **PCE core deflator,** year-over-year, December (4.8% expected, 4.7% in November)
- 10:00 a.m. ET: **University of Michigan sentiment,** January final (73.2 in prior print)

Earnings

- 6:00 a.m. ET: **Chevron Corp. (CVX)** to report adjusted earnings. of $3.13 on revenue of $44.95 billion
- 6:00 a.m. ET: **Synchrony Financial (SYF)** to report adjusted earnings of $1.48 on revenue of $2.60 billion

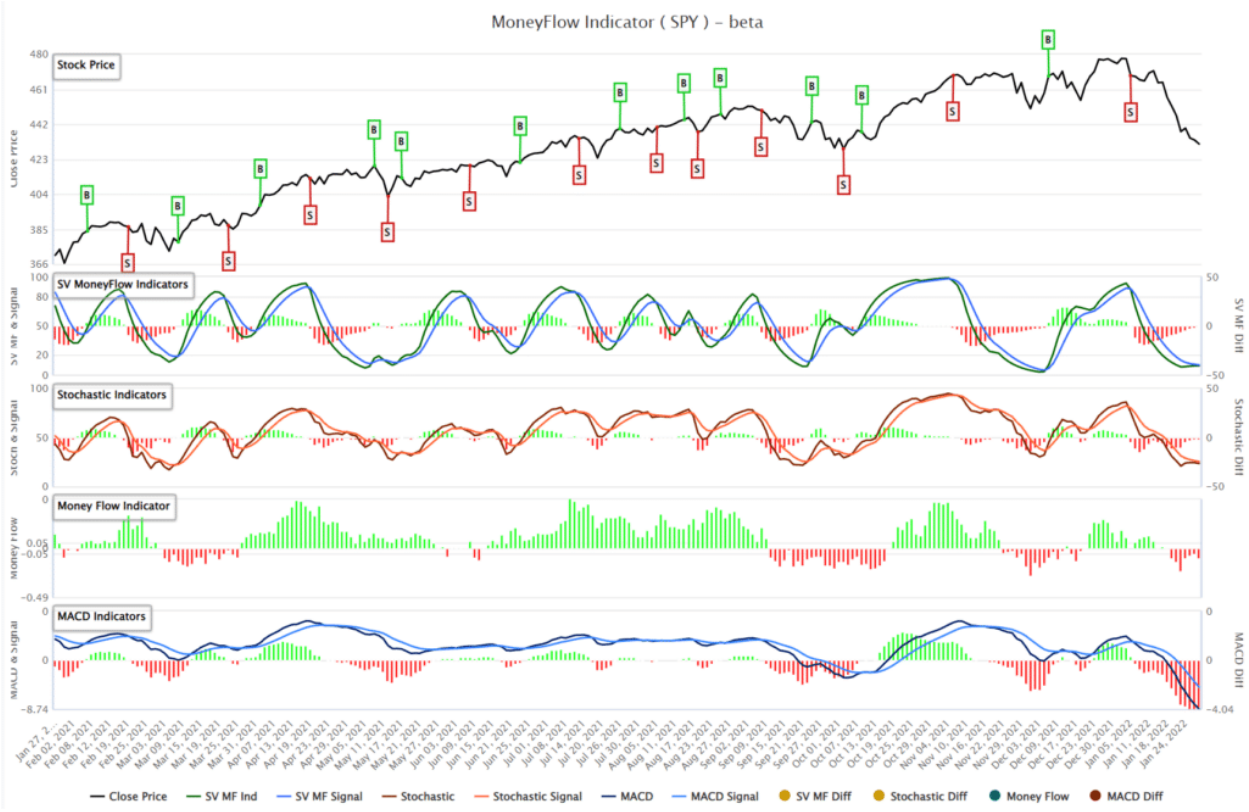
- 6:30 a.m. ET: **Caterpillar (CAT)** to report adjusted earnings of $2.27 on revenue of $12.63 billion
- 6:55 a.m. ET: **VF Corp. (VFC)** to report adjusted earnings of $1.21 on revenue of $3.61 billion
- 6:55 a.m. ET: **Colgate-Palmolive (CL)** to report adjusted earnings of 79 cents on revenue of $4.42 billion
- 7:00 a.m. ET: **Charter Communications (CHTR)** to report adjusted earnings of $6.84 on revenue. of $13.24 billion

Market Trading In A Very Tight Range

The market continues to trade in a very tight range between previous bottoms and the tops of recent bounces. The good news is that buy signals are in place, and support is holding. The not-so-good news is that a break of the current support will lead to a deeper decline.



One reason we continue to remain a bit more bullishly biased at the moment, and that can change if support fails, is that our money flow indicators are very close to triggering a buy signal. *(You can use our index on your own holdings at **SimpleVisor**)*



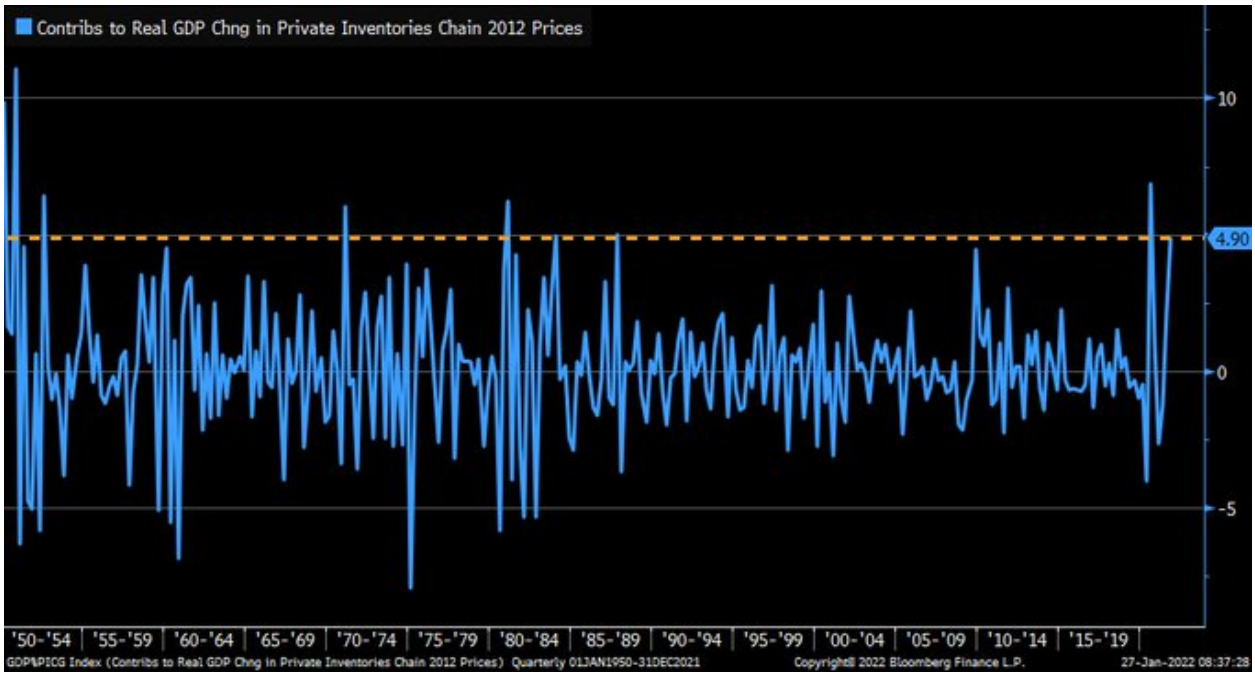
Post Fed Yield Curve Flattening- What Does it Mean?

The graphs below show the massive divergence of 2-year and 30-year bond yields following the Fed meeting. The red line highlights 2 pm ET on Wednesday when the Fed released its FOMC statement. As shown, yields in both bonds rose initially, but the 30-year bond reversed course quickly. As a result, the 2-30-year yield curve flattened by nearly 20 basis points in about 12 hours. The message from the bond market is the Fed will aggressively raise rates and in the process weaken economic growth and tame inflation. It is worth adding that recent stock market volatility also results in a good dose of bond market volatility.



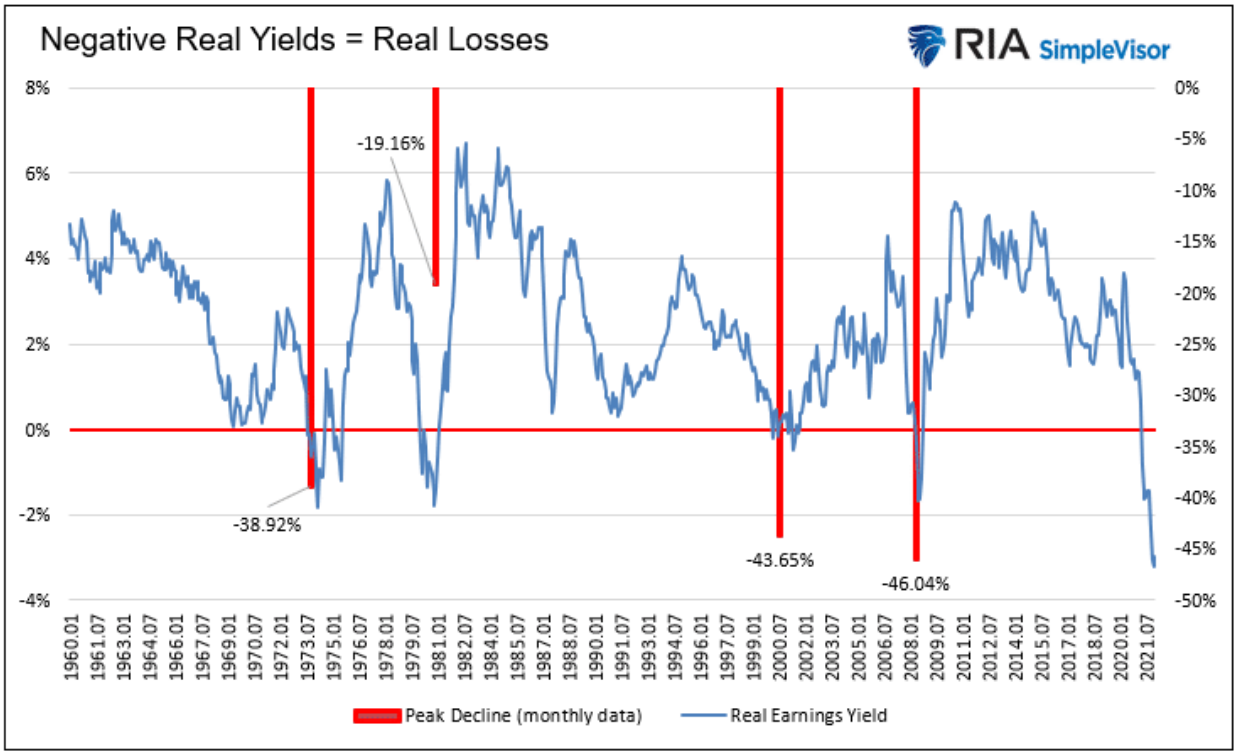
GDP

Fourth-quarter GDP rose 6.9%, well above expectations of 5.5%. The gains were driven by a pickup in consumer spending and a surge in inventories. GDP is backward-looking but provides insight into current economic activity. In this light, we saw economic activity decline through Q4, telling us the aggregate GDP number is higher than the running rate at the end of the quarter. We are seeing continuing weaker economic growth this quarter thus far. Further, rising inventories contributed 4.9% of the 6.9%. The sharp rise in inventories is a good sign that some of the shortages are going away, but it is not sustainable. It is also worth noting that government spending is 36% of GDP, still above the 34% before Covid, but well off 56% at the peak of the crisis. Like inventories, government spending will not contribute much to growth and will likely detract from it in the future.



Negative Real Earnings Yields Are A Problem

The graph below shows that since 1960, the four instances in which the S&P 500 real earnings yields were negative, stocks fell anywhere from 19% to 46%. Currently, the real earnings yield is the most negative in over 60 years. At the same time, valuations are near the highest levels in well over 100 years. It is worth noting that once the real yield troughed, it rose rapidly in all four instances. The real earnings yield can rise if inflation declines, stock prices fall, or earnings rise. Like most valuation metrics, this is not a good timing tool.



The Dollar is Breaking Up

The graph below shows the dollar, after some recent weakness, is back to its highest level in a year and a half. A stronger dollar is typically not good for commodity prices and can be a problem for foreign borrowers of dollars. However, since we are a net-importer, a stronger dollar should help offset inflationary pressures.



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