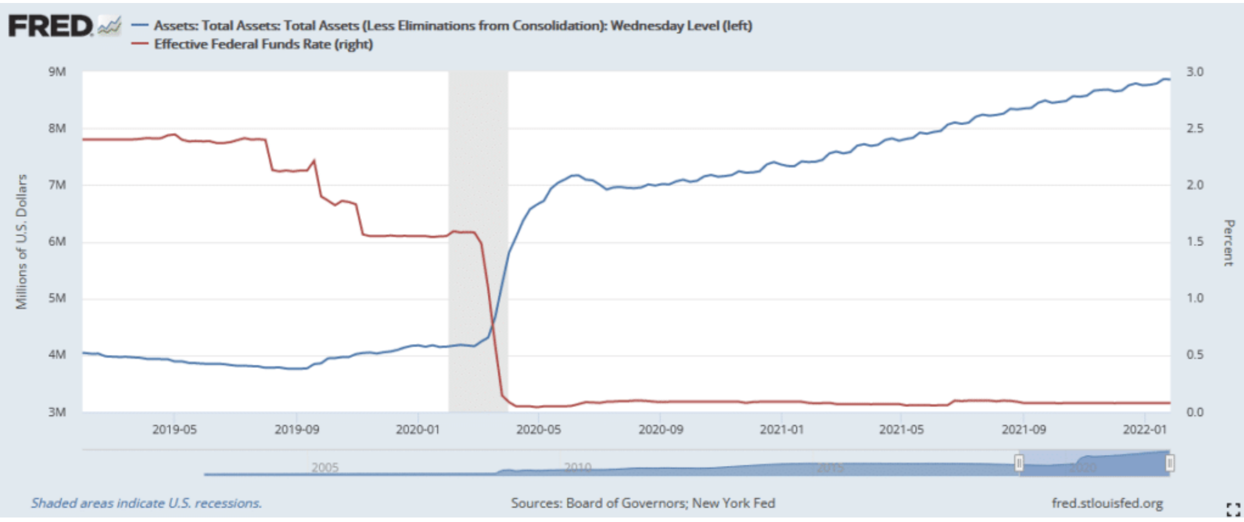
It appears there is a brewing debate at the Fed regarding how to normalize monetary policy. Last week, Jerome Powell said the Fed would hike rates and then assess how quickly to reduce the balance sheet, aka QT. Kansas City Fed President Esther George offers another opinion in this growing debate. She leans toward aggressive QT, which she believes will decrease the number of interest rate hikes they will need to do. Atlanta Fed President Raphael Bostic seems to agree with the Powell camp. This past weekend he said the Fed should consider 50 bps increments for rate increases. With the debate entering the public realm, the question we must consider is which has a bigger effect on stock market liquidity, the size of the Fed's balance sheet, or the level of interest rates.



[dmc]

What To Watch Today

Economy

- 9:45 a.m. ET: **Markit US Manufacturing PMI**, January final (55.0 expected, 55.0 prior)
- 10:00 a.m. ET: **Construction Spending**, month over month, December (0.6% expected, 0.4% during prior month)
- 10:00 a.m. ET: **ISM New Orders**, January (58 expected, 60.4 prior month, 61.0 revised)
- 10:00 a.m. ET: **ISM Manufacturing**, January (57.5 expected, 58.7 prior month, 58.8 revised)
- 10:00 a.m. ET: **ISM Employment**, January (53 expected, 54.2 prior month, 53.9 revised)
- 10:00 a.m. ET: **ISM Prices Paid**, January (67.0 expected, 68.2 prior month)
- 10:00 a.m. ET: **JOLTS Job Openings**, December (10.3 million expected, 10.56 prior month)
- **WARDS Total Vehicle Sales**, January (12.9 million expected, 12.44 million prior month)

Earnings

Pre-market

- 6:00 a.m. ET: **UPS** (UPS) to report adjusted earnings of $3.10 on revenue of $27.08 billion
- **Sirius XM** (SIRI) to report adjusted earnings of $0.07 on revenue of $2.25 billion

Post-market

- 4:00 p.m. **General Motors** (GM) to report adjusted earnings of $1.20 on revenue of $34.46 billion
- **Alphabet** (GOOG) to report adjusted earnings of $30.02 on revenue of $59.37 billion
- **Starbucks** (SBUX) to report adjusted earnings of $0.80 on revenue of $7.96 billion
- **AMD** (AMD) to report adjusted earnings of $0.75 on revenue of $4.50 billion
- **PayPal Holdings** (PYPL) to report adjusted earnings of $1.12 on revenue of $6.89 billion
- **Match Group** (MTCH) to report adjusted earnings of $0.60 on revenue of $818.61 million
- **Electronic Arts** (EA) to report adjusted earnings of $3.23 on revenue of $2.67 billion
- **Gilead** (GILD) to report adjusted earnings of $1.57 on revenue of $6.62 billion

Is The Bottom In?

While the Fed may be debating on rate hikes, the real debate at the moment is whether or not last Friday was *"the bottom."* Friday and Monday saw huge rallies particularly in growth stocks as Technology has had a vicious reversal. There is still more room to go as we are looking for a 50% to 61.8% retracement of the decline to build into our short-positon and potentially reduce exposure from trapped longs. A rally above the 50-dma negates everything and confirms a resumption of the bull market.

So Goes January

"Over at CFRA Research, Sam Stovall reminds us that January is a useful barometer for the year?s temperature. And the volatility that?s buffeted stocks since 2022 began has left lasting damage that?s going to be hard to shake off.

'Three indicators popularized by The Stock Trader?s Almanac ? The Santa Claus Rally, the first five days of January, and the January barometer ? offer clues as to how the U.S. equity market will perform in the current calendar year,' Stovall wrote on Monday.

'This year, the Santa Claus Rally materialized, only to fizzle out during the first five days of the new year and carry this weakness through the entire month. ***Since 1945, in the eight times that this combination occurred, the S&P 500 was lower for the full year by 9.6%, enduring declines in all years but one (2014),'*** *he added.*" *- Yahoo Finance*

While the equity markets may reward investors with a short-term relief rally, it is still quite a debate whether that advance will stick. We are still leaning to side that the current advance won?t likely be the end of the decline altogether.

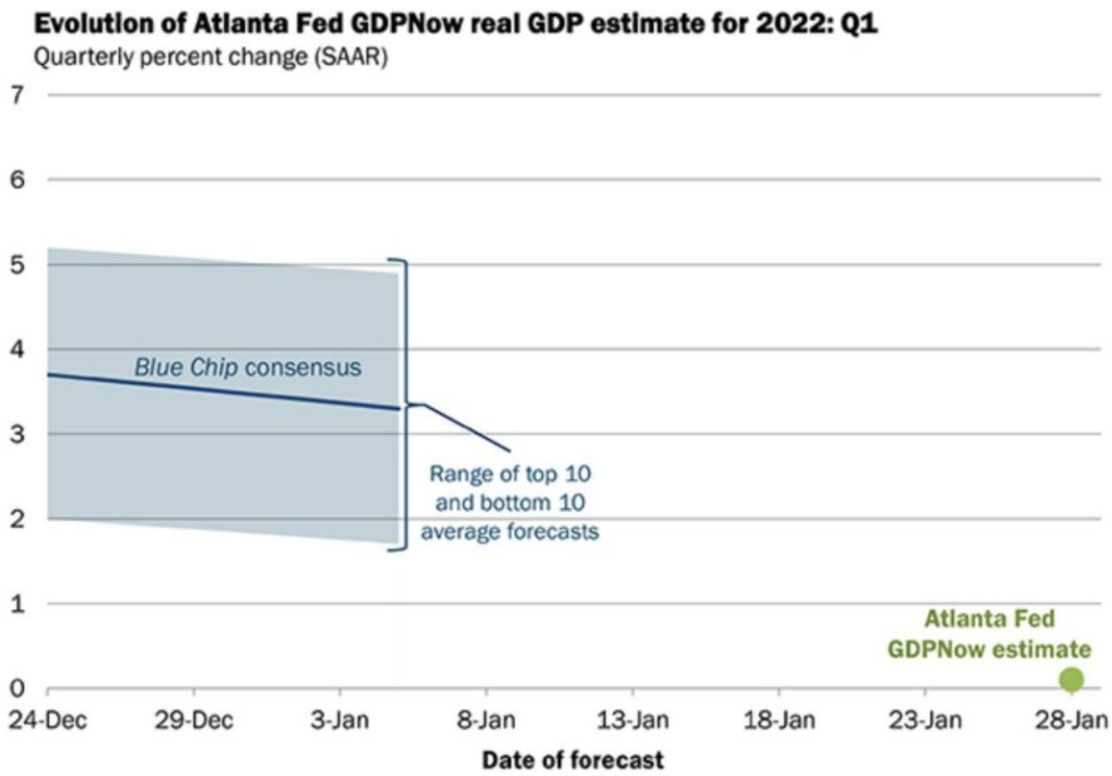
Warnings From The Atlanta Fed

As shown below, the Atlanta Fed's first forecast for first-quarter GDP is out. The current forecast is for 0.1% growth. The Atlanta Fed is somewhat unique in its forecasting method as they only use available data. Most Wall Street and other economic forecasts use available data plus projections for future data. The benefit of the Atlanta forecast is that it takes the guesswork out of forecasting and provides a near-real-time assessment of economic activity. As shown, the consensus forecast is for Q1 economic growth in the lower 3% area. Note the forecast was last updated at the beginning of January before any 2022 data was released. Accordingly, it's likely consensus forecasts will fall as they incorporate the latest data.

Latest estimate: 0.1 percent — January 28, 2022

The initial GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the first quarter of 2022 is **0.1 percent** on January 28. The initial estimate of fourth-quarter real GDP growth released by the US Bureau of Economic Analysis on January 27 was 6.9 percent, 0.4 percentage points above the final GDPNow model nowcast released on January 26.

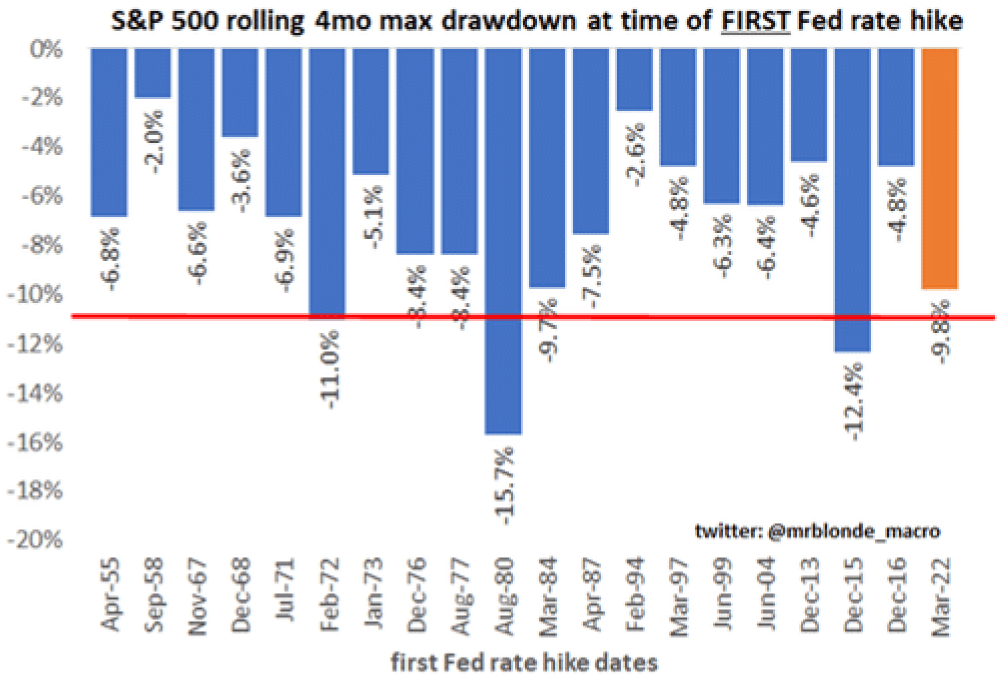
*The next GDPNow update is **Tuesday, February 1**. Please see the "Release Dates" tab below for a list of upcoming releases.*



Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the *Blue Chip* survey.

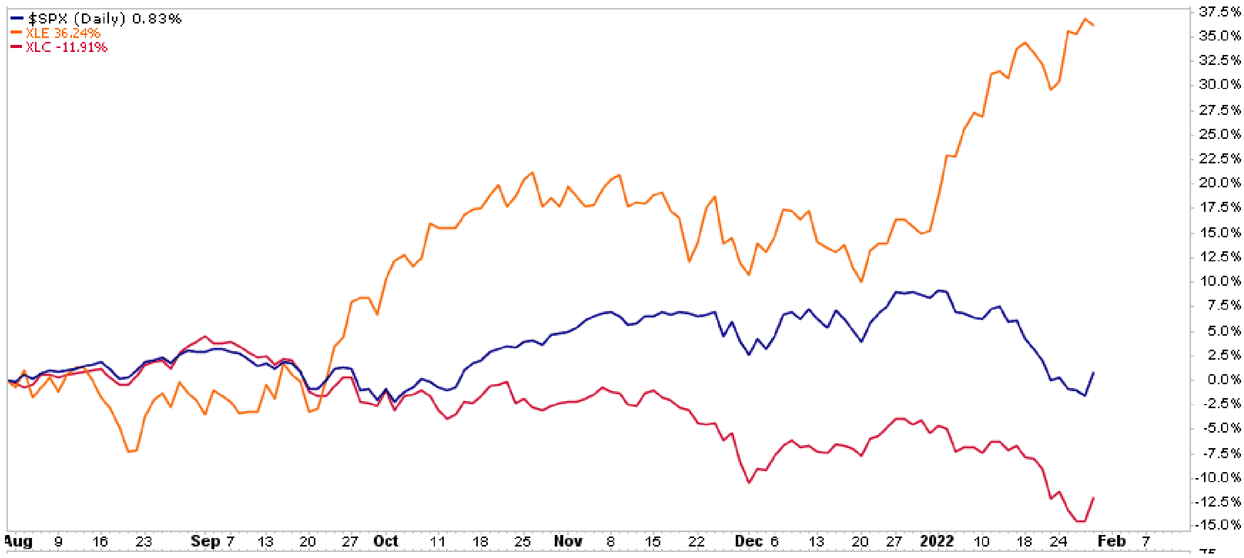
The Fed Is Hiking Rates- What Should We Expect From The S&P 500?

The graph below, courtesy of @mrblonde_macro, shows the maximum drawdown in the four months before each Fed rate hike cycle began. Based on prior data, the recent sell-off should be troughing, at least until the Fed meeting on March 15-16th.



Energy vs. Communications

Since August 1, 2021, the energy sector has been on fire while the communications sector has stumbled. The graph below shows the stark performance differential between XLE, XLC, and the S&P 500. Since January 2022, XLE is up 22%, while the S&P 500 and Communications are down about 8% each. Crude oil approaching $90 is undoubtedly helping energy stocks. As we have shown over the last few weeks in the SimpleVisor [Technical Value Scorecard](), energy is overbought to levels that typically result in a correction.



5 Rate Hikes by 2023

A reader asked how we calculate what the market implies for Fed Funds. As such, we will walk you through the math as of 1/31/2022.

The CME, the exchange for Fed Funds futures, publishes every traded Fed Funds contract.

To calculate the expected Fed funds rate, simply subtract 100 from the contract's price. For instance, as shown below, the December 2022 contract is trading at 98.735. 100-98.735 equals 1.265%. The market thinks Fed Funds will average 1.265% in December 2022. The current Fed Funds rate is .07%. Now take 1.265% and subtract .07%. The result is the market is pricing in a 1.195% increase in Fed Funds by year end. Divide 1.195% by 0.25%, as that is the typical increment in which the Fed raises or lower rates, and you get 4.78. The market thinks the Fed will raise rates four times and assigns a 78% chance of a fifth-rate hike by the end of the year.

Please [subscribe to the daily commentary](#) to receive these updates every morning before the opening bell.