Stock prices have been on a roller coaster, tracking the ebbs and flows of a potential conflict in Ukraine. On Monday, CNN reported that Russia would invade on Wednesday. We woke up Tuesday morning to learn that Russia is withdrawing troops from the Ukrainian border. After falling Monday, stock prices breathed a sigh of relief on Tuesday, with the S&P up about 1.50%. Gold and oil prices, which appear buffeted by Russian threats, fell by .80% and 3.75%, respectively. Russia will continue to beat the war drums but the odds of a military conflict remain low. We believe the key driver of markets in the coming weeks and months will be inflation, bond yields, and most importantly, the degree to which the Fed normalizes monetary stimulus.

[dmc]

What To Watch Today

Economy

- 7:00. a.m. ET: **MBA Mortgage Applications,** week ended Feb. 11 (-8.1% during prior week)
- 8:30 a.m. ET: **Retail Sales Advance,** month-over-month, January (2.0% expected, -1.9% in December)
- 8:30 a.m. ET: **Retail Sales excluding autos and gas,** month-over-month, January (1.0% expected, -2.5% in December)
- 8:30 a.m. ET: **Import Price Index**, month-over-month, January (1.2% expected, -0.2% in December)
- 8:30 a.m. ET: **Export Price Index**, month-over-month, January (1.2% expected, -1.8% in December)
- 9:15 a.m. ET: **Capacity Utilization,** January (76.8% expected, 76.5% in December)
- 9:15 a.m. ET: **Manufacturing (SIC) Production,** January (0.3% expected, -0.3% in December)
- 10:00 a.m. ET: **Business Inventories,** December (2.1% expected,1.3% in November)
- 10:00 a.m. ET: **NAHB Housing Market Index,** February (82 expected, 83 in January)
- **FOMC Meeting Minutes**, January 26

Earnings

Pre-market

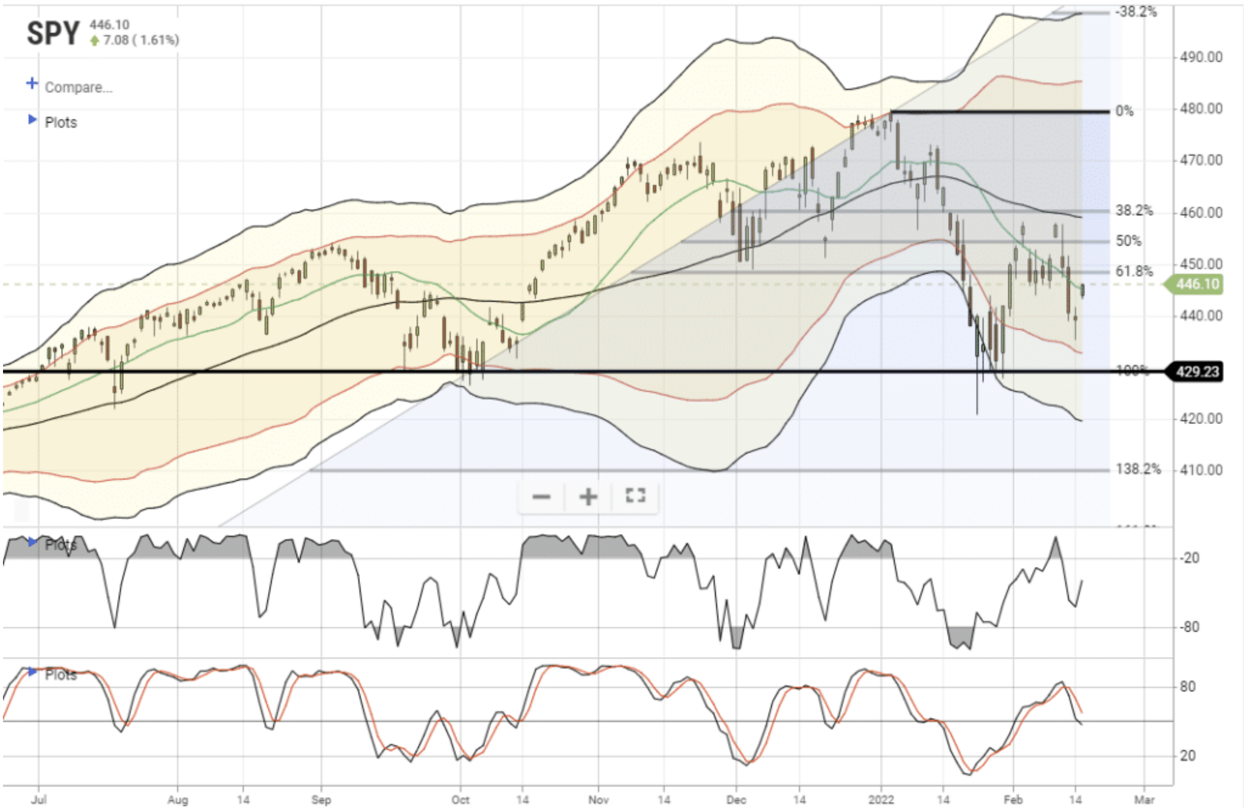
- 6:00 a.m. ET: **Hilton Worldwide (HLT)** to report adjusted earnings of 76 cents on revenue of $1.82 billion
- 7:00 a.m. ET: **Kraft Heinz (KHC)** to report adjusted earnings of 63 cents on revenue of $6.60 billion
- 7:00 a.m. ET: **Analog Devices (ADI)** to report adjusted earnings of $1.78 on revenue of $2.60 billion
- 7:00 a.m. ET: **Shopify (SHOP)** to report adjusted earnings of $1.26 on revenue of $1.34 billion

Post-market

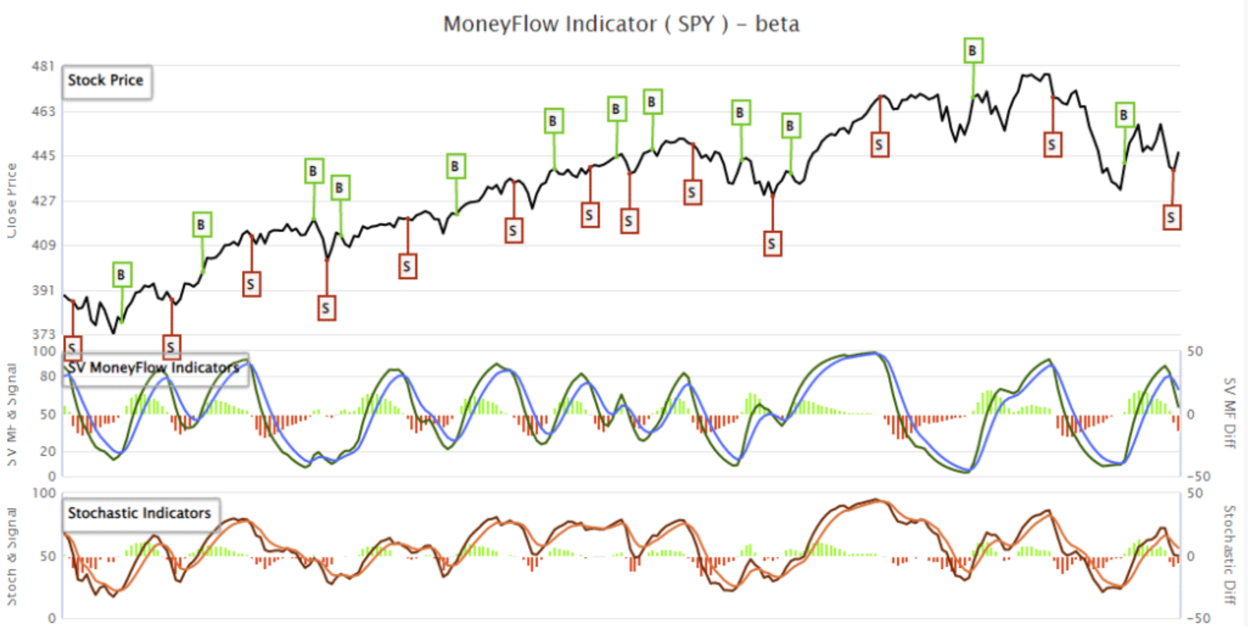
- 4:05 p.m. ET: **TripAdvisor (TRIP)** to report adjusted earnings of 9 cents on revenue of $249.53 million
- 4:05 p.m. ET: **Cisco Systems (CSCO)** to report adjusted earnings of 81 cents on revenue of $12.66 billion
- 4:10 p.m. ET: **Marathon Oil (MRO)** to report adjusted earnings of 54 cents on revenue of $1.56. billion
- 4:10 p.m. ET: **Energy Transfer (ET)** to report adjust earnings of 27 cents on revenue of $14.21 billion
- 4:15 p.m. ET: **AIG (AIG)** to report adjusted earnings of $1.19 on revenue of $11.51 billion
- 4:15 p.m. ET: **Cheesecake Factory (CAKE)** to report adjusted earnings of 58 cents on revenue of $775.00 million
- 4:20 p.m. ET: **Nvidia (NVDA)** to report adjusted earnings of $1.22 per revenue of $7.42 billion
- 4:20 p.m. ET: **DoorDash (DASH)** to report adjusted losses of 3 cents on revenue of $1.29 billion
- 4:30 p.m. ET: **Hyatt Hotels (H)** to report adjusted losses of 18 cents on revenue of $1.07 billion

Market Rallies Back To Resistance

Not surprisingly, the headline threat of *"global warfare"* quickly resolved itself as we discussed in yesterday's *3-minute video "Russia, Russia, Russia*." As shown, the market rallied back to the 20-dma where it closed and is still below the 61.8% retracement level from the high. If this market is going to muster a rally, it needs to move quickly back to the 50-dma. We continue to suggest using rallies to reduce risk accordingly.



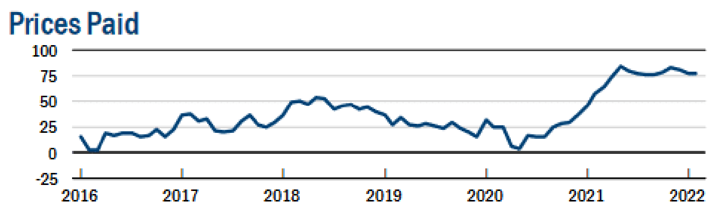
While the market did rally yesterday, it did little to change the current "sell signals" on the market. Again, these signals do not discount the potential for a market rally but do suggest that downward pressure remains on prices currently.



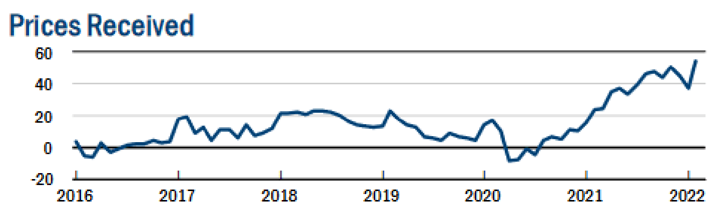
PPI and New York Manufacturing

Yesterday's PPI report, like last week's CPI, shows that the inflation train is steaming ahead. Those hoping to see signs that inflation is peaking will have to wait another month. Inflation is persistent, and it is significant. PPI rose by 1.0% monthly and 9.7% year over year. Both were half a percent more than expectations. Barring a meltdown in stock prices or other financial market difficulties, the odds of a 50-basis-point hike at the March Fed meeting now looks more and more like a done deal.

The New York Fed Manufacturing Survey rose slightly but remains near economic contraction levels. In regards to inflation, the New York Fed had this to say: "*The prices paid index was little changed at 76.6, while the prices received index rose a steep seventeen points to a record high of 54.1, signaling ongoing substantial increases in both input prices and selling prices.*"



	Percent Reporting		
	Higher	Lower	Index
Jan	77.6	0.9	76.7
Feb	79.3	2.7	76.6
Change			-0.1



	Percent Reporting		
	Higher	Lower	Index
Jan	38.8	1.7	37.1
Feb	58.6	4.5	54.1
Change			17.0

Forward Yield Curves Warn of Recession

The 2-yr/10-yr forward UST curve just inverted, meaning the forward 10-year yield is now below the forward 2-year yield. Forward rates are a calculation that captures what yield investors expect for the future. The two-year forward yield, for example, solves for the yield two years from now that would make an investor indifferent between holding a two-year bond today and buying another two-year bond when it matures versus buying a four-year bond. For instance, if the current 2-yr yields

1% and the 4-yr yields 2%, an investor expects the 2-yr forward yield to be approximately 3%.

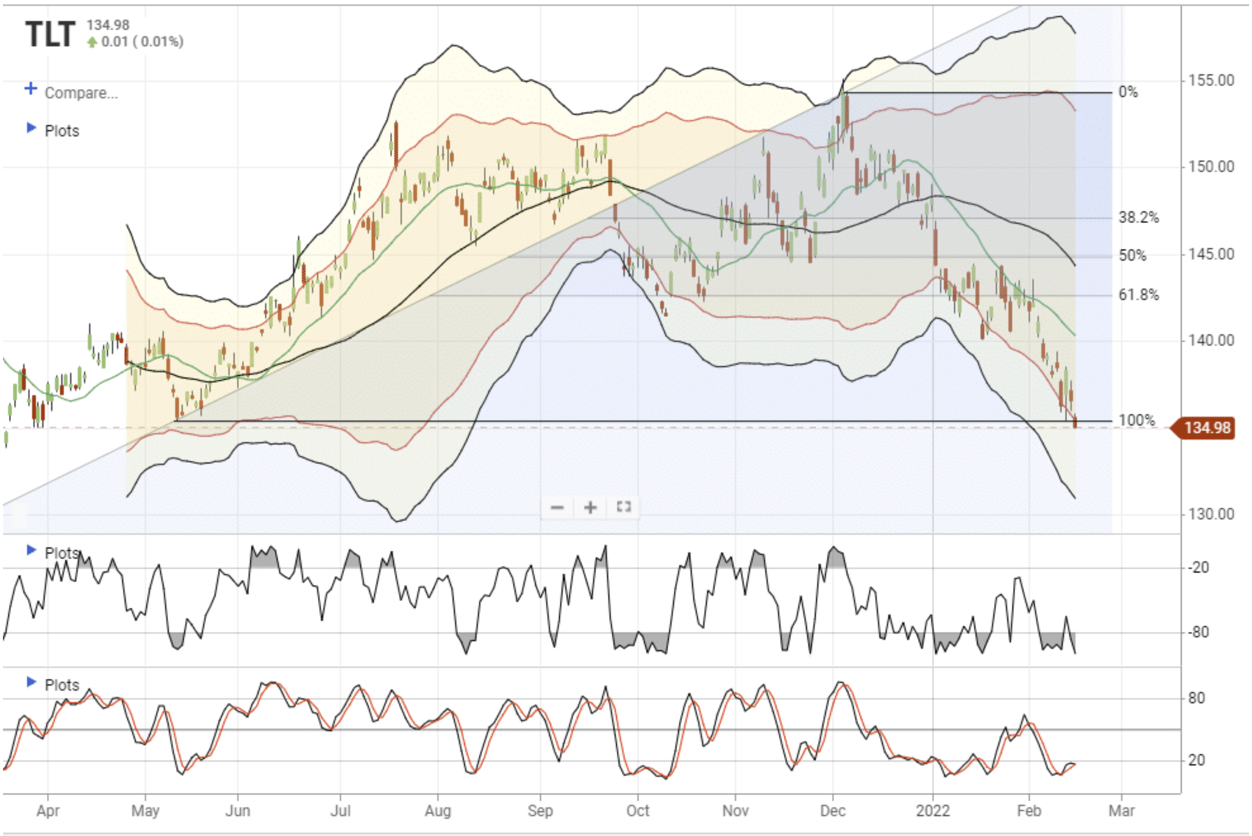
Based solely on the graph below, the negative forward yield curve portends a recession is possible in about two years.

Source: Merk, Bloomberg

Buying More Bonds

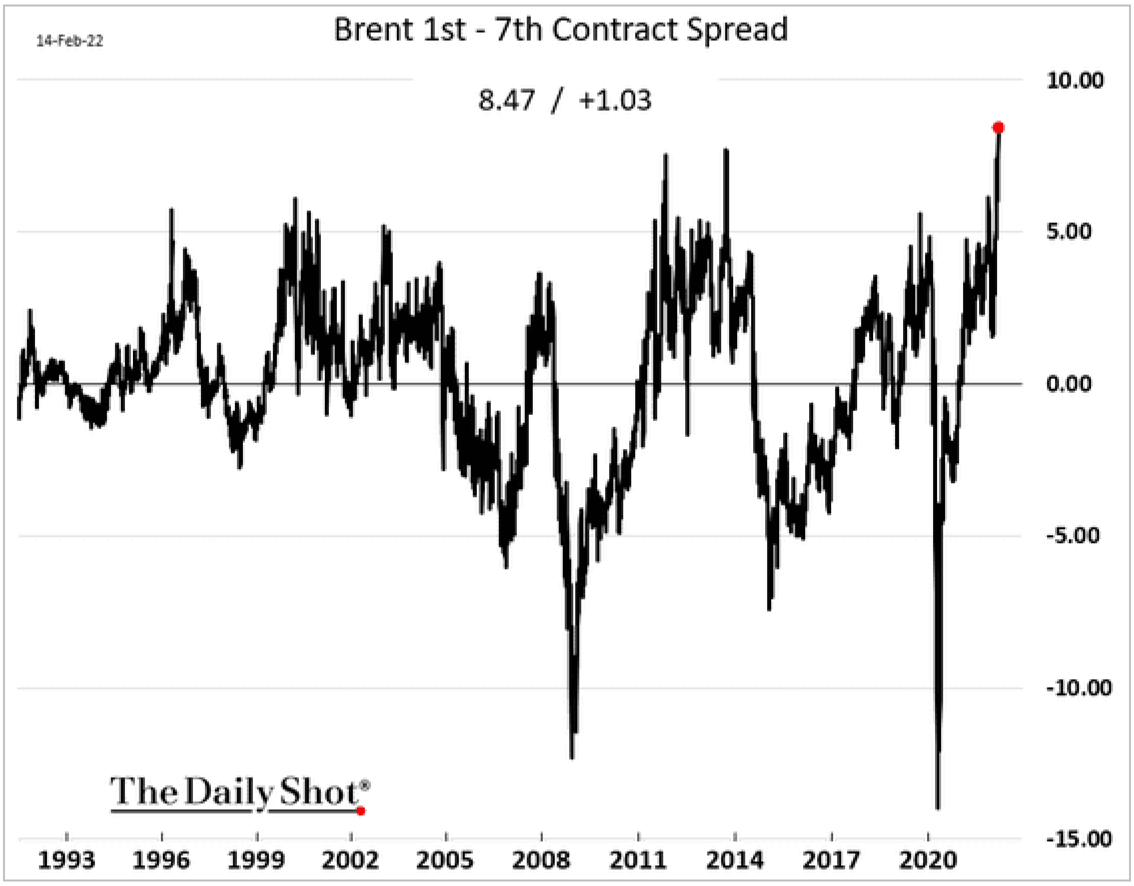
"Everyone hates bonds."

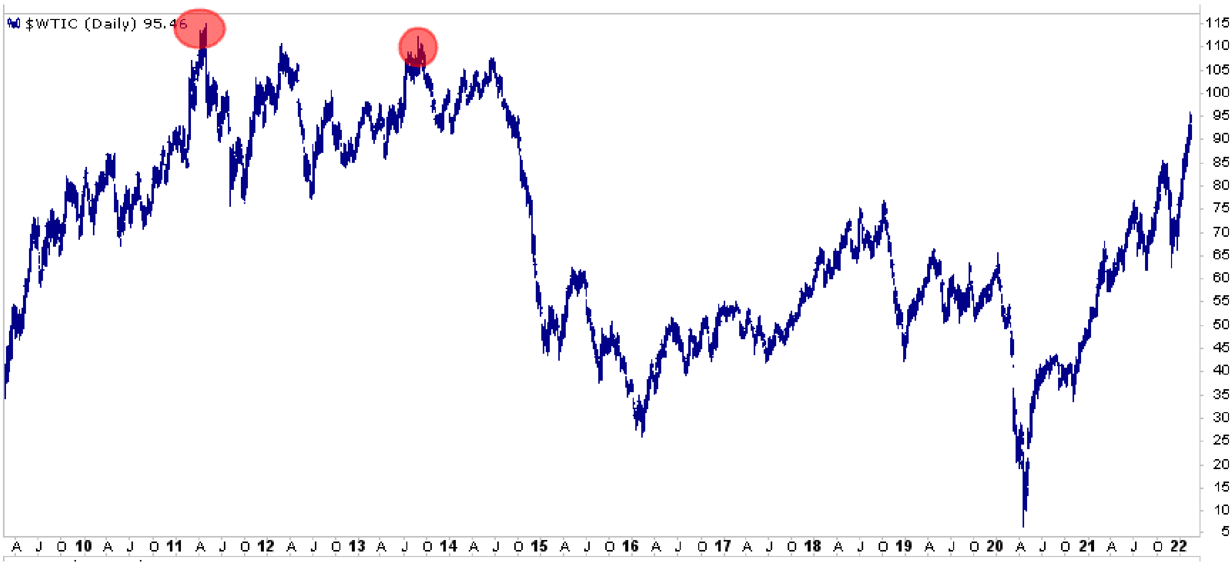
That is true, which also means that it is probably time to start buying some. That is what we did yesterday as the *"Russia"* news rallied stocks. With the yield curve dropping sharply, the Fed tightening, and monetary liquidity reversing, the inflation fears will soon subside sending yields lower. While bonds are a *"pain trade"* currently, such will not be the case for very long. With TLT extremely oversold and having retraced all of its gains from June of last year, the entry point is appealing.



A Troubling Sign For Crude Oil and Energy Stocks

The graph below, courtesy of the Daily Shot, shows that crude oil futures are in backwardation and to a degree not seen since at least 1990. Backwardation is a state in which the current spot price of oil is greater than oil in the future. Due to storage and borrowing costs, oil should trade in a state of contango (spot price is less than the future price). The two prior peaks in 2011 and 2014 resulted in decent losses, as shown in the second graph.





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