

The wild volatility in many asset classes continues as the Russian invasion trudges on. Peace talks brought a brief respite to the risk markets on Monday, but as peace hopes dwindled, asset volatility picked right back up again. Gold, for instance, closed at \$1890 on Friday. The first trade was at \$1935 but it fell back to \$1905 before the open. Crude oil and other energy assets are showing similar volatility. Crude opened up at \$99, from \$92 on Friday. As the day went on the price faded but it held on to large gains. The S&P 500 opened down 120 points in Sunday night futures, rallied to green for a brief moment at noon, fell 60 points, and rallied once again to close with a 10 point loss.



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## What To Watch Today

### Economy

- 9:45 a.m. ET: **Markit US Manufacturing PMI**, February final (57.5 expected, 57.5 prior)
- 10:00 a.m. ET: **Construction Spending**, month-over-month, January (0.1% expected, 0.2% during prior month)
- 10:00 a.m. **ISM Manufacturing**, February (58.0 expected, 57.6 during prior month)
- 10:00 a.m. **ISM Prices Paid**, February (77.5 expected, 76.1 prior month)
- 10:00 a.m. **ISM New Orders**, February (56.3 expected, 57.9 during prior month)
- 10:00 a.m. **ISM Employment**, February (54.2 expected, 54.5 during prior month)
- **WARDS Total Vehicle Sales**, February (14.40 million expected, 15.04 million prior month)

### Earnings

#### Pre-market

- **Target** ([TGT](#)) to report adjusted earnings of \$2.88 on revenue of \$31.16 billion
- **Hostess Brands** ([TWNK](#)) to report adjusted earnings of \$0.23 on revenue of \$283.71 million

- **AutoZone**([AZO](#)) to report adjusted earnings of \$17.70 on revenue of \$3.16 billion
- **Hormel Foods**([HRL](#)) to report adjusted earnings of \$0.44 on revenue of \$2.92 billion
- **Domino's Pizza**([DPZ](#)) to report adjusted earnings of \$4.30 on revenue of \$1.38 billion
- **J.M. Smucker**([SJM](#)) to report adjusted earnings of \$2.09 on revenue of \$2.04 billion
- **Kohl's**([KSS](#)) to report adjusted earnings of \$2.13 on revenue of \$6.53 billion
- **Wendy's**([WEN](#)) to report adjusted earnings of \$0.15 on revenue of \$460.3 million
- **International Game Tech**([GT](#)) to report adjusted earnings of \$0.49 on revenue of \$1.02 billion
- **Urban Outfitters**([URBN](#)) to report adjusted earnings of \$0.54 on revenue of \$990.25 billion

## Post-market

- **Ross Stores**([ROST](#)) to report adjusted earnings of \$0.97 on revenue of \$4.95 billion
- **Salesforce**([CRM](#)) to report adjusted earnings of \$0.74 on revenue of \$7.23 billion
- **Hewlett Packard**([HPE](#)) to report adjusted earnings of \$0.46 on revenue of \$7.02 billion
- **SoFi**([SOFI](#)) to report an adjusted loss of \$0.14 on revenue of \$278.75 million
- **AMC Entertainment**([AMC](#)) to report an adjusted loss of \$0.16 on revenue of \$1.11 billion
- **Nordstrom**([JWN](#)) to report adjusted earnings of \$0.99 on revenue of \$4.26 billion
- **WW International**([WW](#)) to report adjusted earnings of \$0.36 on revenue of \$280.72 million

## March Gets Ready For Kickoff

As noted in yesterday's blog, we laid out the case for a March rally. While there is no guarantee of any such event, there is sufficient negative investor confidence to provide the fuel for an unexpected trip higher. Such is a little hard to fathom given the many negative geopolitical headlines, and recent asset volatility, but any piece of good news on that front could spark a significant short-covering event.



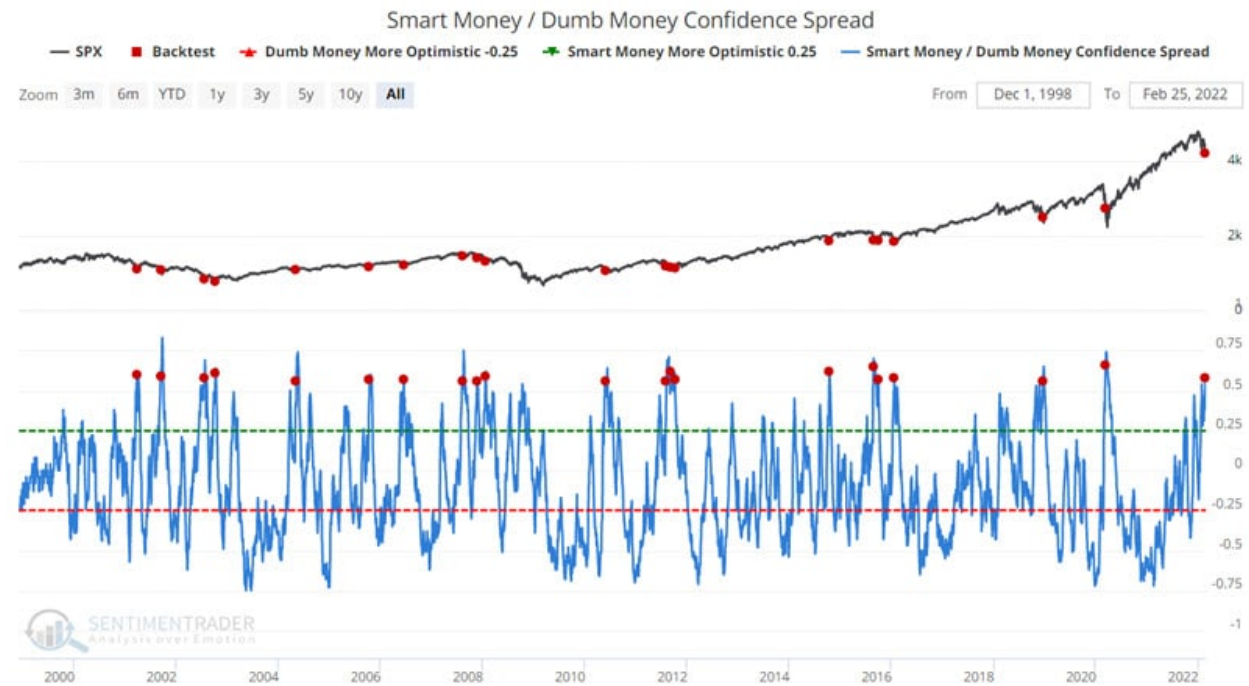
The not-so-good news is that we are pretty quickly eating up the deeply oversold condition. If the market doesn't rally significantly over the next week, we will likely retest the recent lows potentially completing the head-and-shoulders topping pattern.

That risk is why we are maintaining our weighting in bonds and higher levels of cash.

## Smart / Dumb Money Confidence Suggests A Short-Term Bottom

*The chart below displays those days when the Smart Money / Dumb Money Confidence Spread crossed above 55 for the first time in a month.*

*There are many other factors in play at the moment beyond investor sentiment - inflation, rising interest rates and geopolitical risk, to name a few. Stock could easily continue to sell off to lower levels and the Smart Money / Dumb Money Confidence Spread could reach higher levels in the weeks and months ahead. But for now it is important to recognize that sentiment has reached something of a bearish extreme. And we should not overlook that the strategy detailed above witnessed a higher price for the S&P 500 Index over 90% of the time over the ensuing two months. - Sentiment Trader*



	1 Week Later (%)	2 Weeks Later (%)	1 Month Later (%)	2 Months Later (%)	3 Months Later (%)	6 Months Later (%)	1 Year Later (%)
Average Returns	0.44%	1.39%	4.51%	6.11%	7.39%	8.72%	9.82%
Median Returns	1.31%	2.40%	3.55%	6.07%	7.90%	10.60%	15.62%
Win Rate	65%	70%	80%	90%	85%	80%	80%

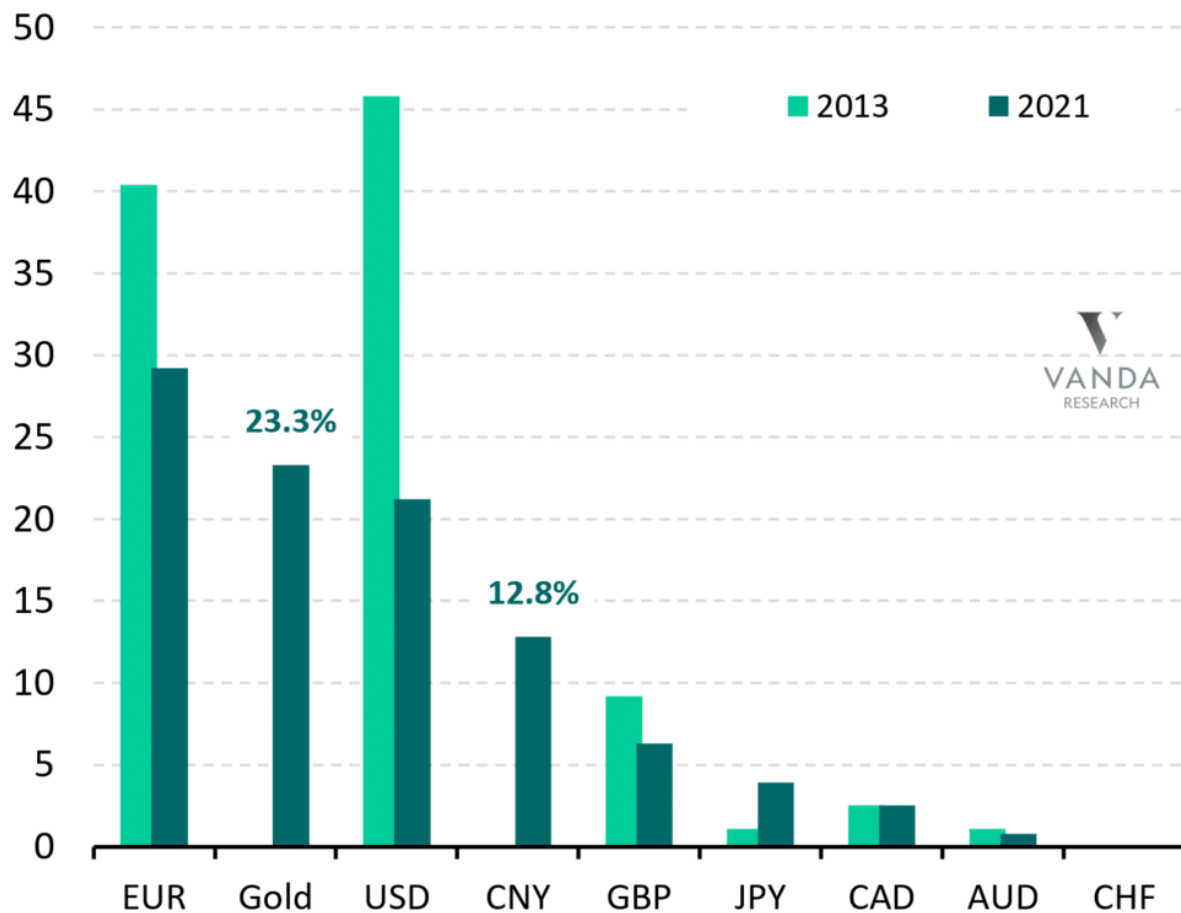
## Will Russia Sell its Gold?

Over the last few days, the Russian Ruble has fallen nearly 50% and the volatility in other Russian assets is intense. Sanctions are crippling its economy, and money is quickly leaving the country. The Russian central bank will defend its currency. In fact, they raised interest rates from 9.5% to 20% yesterday morning to entice its people/corporations to stay in Rubles. At some point, they are also likely to intervene in the currency markets. As such, they will need to buy Rubles. The

question is with what money. The graph below shows the composition of their reserves and how they have changed since 2013. Dollars are now their third-largest holding behind Euros and Gold. While Russia needs gold to provide collateral to China and other trade partners, it may also be forced to sell some to support its economy and currency.

## Chart 1: Russia has significantly diversified its FX reserve portfolio away from EUR and USD's... to gold and CNY

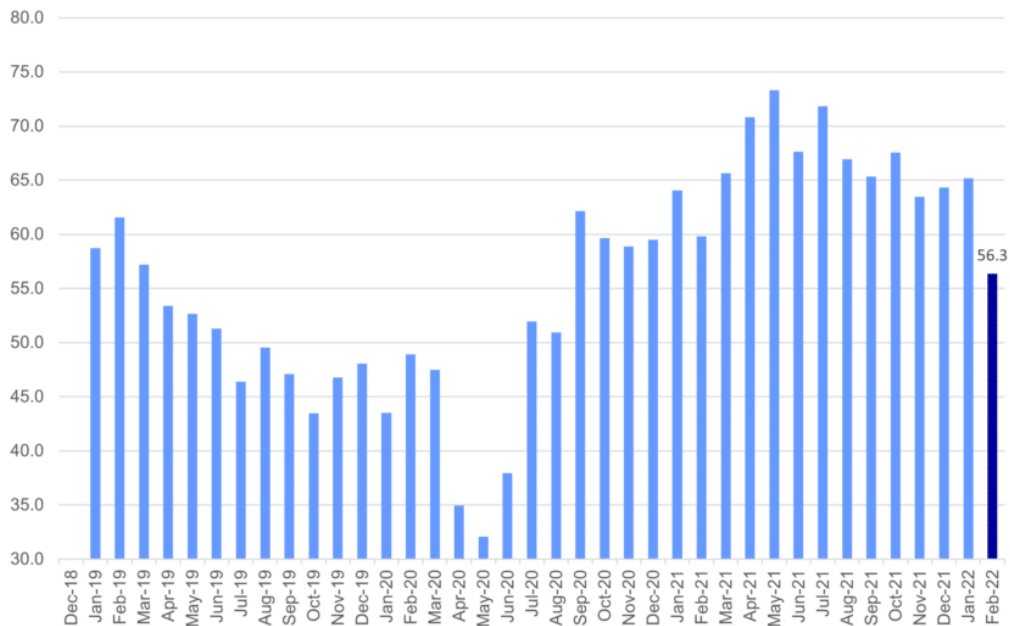
**Breakdown of Russian central bank reserves by currency (%)**



\*As of Jan '21 given CBR reports breakdown with a lag; \*\*Holdings of CHF in '21 were 'trivial'  
Source: Central Bank of Russia, Vanda

## Regional Manufacturing Weakness

The Chicago Fed PMI dropped in February to 56.3 versus 65.2 in January. It was also well below expectations of 62. The current reading is now the lowest in a year and a half (8/2020), as shown below. The good news is prices paid rose at a slower rate than in January. Offsetting the good news were slower increases in new orders, inventories, and production. Goldman Sachs lowered their Q1 GDP estimate to 1.5% this morning, also pointing to slowing economic growth.



Source: Chicago Business Barometer Report

www.marketnews.com

## How has the Ukrainian Conflict Altered Fed Expectations?

The graph below from the CME Group charts the December 2022 Fed Funds futures contract. To translate price to an expected Fed Funds rate, simply subtract the price from 100. As shown, a year ago, the price was 99.875, or .125%. Since September, it fell precipitously to a low of 98.25, implying the market was expecting 6-7 25bps rate hikes by the end of this year. Since the Ukrainian conflict broke out, the contract rose to 98.53. Accordingly, the market took one 25bps Fed rate hike out of the picture for the year.

The change in expectations appears to be coming from the market's expectations for the next Fed meeting (March 16th). The April contract hit a low of 99.40 on February 10th and is currently trading at 99.64. It is fully priced for one 25bps hike and now only assigning a 10% chance of 50bps. Note- the Fed meeting is in mid-March, so we use the April contract to fully capture expectations for March.



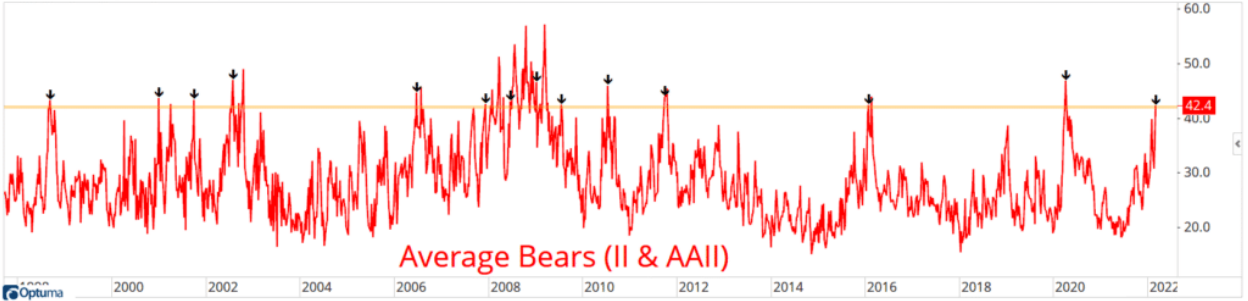
## Boom In Bears

Callum Thomas shared the graph below with the title Boom in Bears. There are two critical takeaways from the chart. First, from a bullish perspective, bearish sentiment is now at extreme levels that typically signals a buyable bottom. Per Thomas, one year forward returns were positive 69% of the time sentiment fell below -40. Further, the median gain in those instances was +21.6%. The second takeaway is more cautionary. In the bear markets of 2000 and 2008, bearish signals were clustered versus one-off events. The first signal in each case was a warning and not a bottom. With the Fed getting ready to raise interest rates and reduce their balance sheet, we must consider that a bearish cluster of negative sentiment is possible.

S&P 500 INDEX - SPX (W) - Weekly Candlestick Chart - USD - No Layout



II Bears (Sentiment) - Weekly Line Chart - USD - No Layout



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