

The S&P 500 just flashed a death cross. A death cross is a bearish technical warning which occurs when the 50-day moving average falls below the 200-day moving average. The death cross potentially signals a change to the bullish trend. The warning is neither perfect nor guarantees a bear market lies ahead. In fact, in 2020, the market decline was already exhausted before the death cross happened. Between inflation, poor consumer sentiment, yield curves flashing recession warnings, and the Russian invasion, the outlook appears bleak. Further, the Fed will likely begin to raise interest rates on Wednesday. As such, we should put a little more credence toward the death cross than we otherwise might. However, we mustn't lose sight that markets tend to climb a wall of worry and the death cross is a far from perfect signal.



[dmc]

What To Watch Today

Economy

- 8:30 a.m. ET: **Empire Manufacturing**, March (6.1 expected, 3.1 during prior month)
- 8:30 a.m. ET: **PPI final demand**, month-over-month, February (0.9% expected, 1.0% during prior month)
- 8:30 a.m. ET: **PPI excluding food and energy**, month-over-month, February (0.6% expected, 0.8% during prior month)
- 8:30 a.m. ET: **PPI excluding food, energy, and trade**, month-over-month, February (0.6% expected, 0.9% during prior month)
- 8:30 a.m. ET: **PPI final demand**, year-over-year, February (10.0% expected, 9.7% during prior month)
- 8:30 a.m. ET: **PPI excluding food and energy, year-over-year**, February (8.7% expected, 8.3% during prior month)
- 8:30 a.m. ET: **PPI excluding food, energy, and trade, year-over-year**, February (7.3% expected, 6.9% during prior month)
- 4:00 p.m. ET: **Net Long-Term TIC Outflows**, January (\$114.5 billion during prior month)
- 4:00 p.m. ET: **Total Net TIC Outflows**, January (-\$52.4 billion during prior month)

Earnings

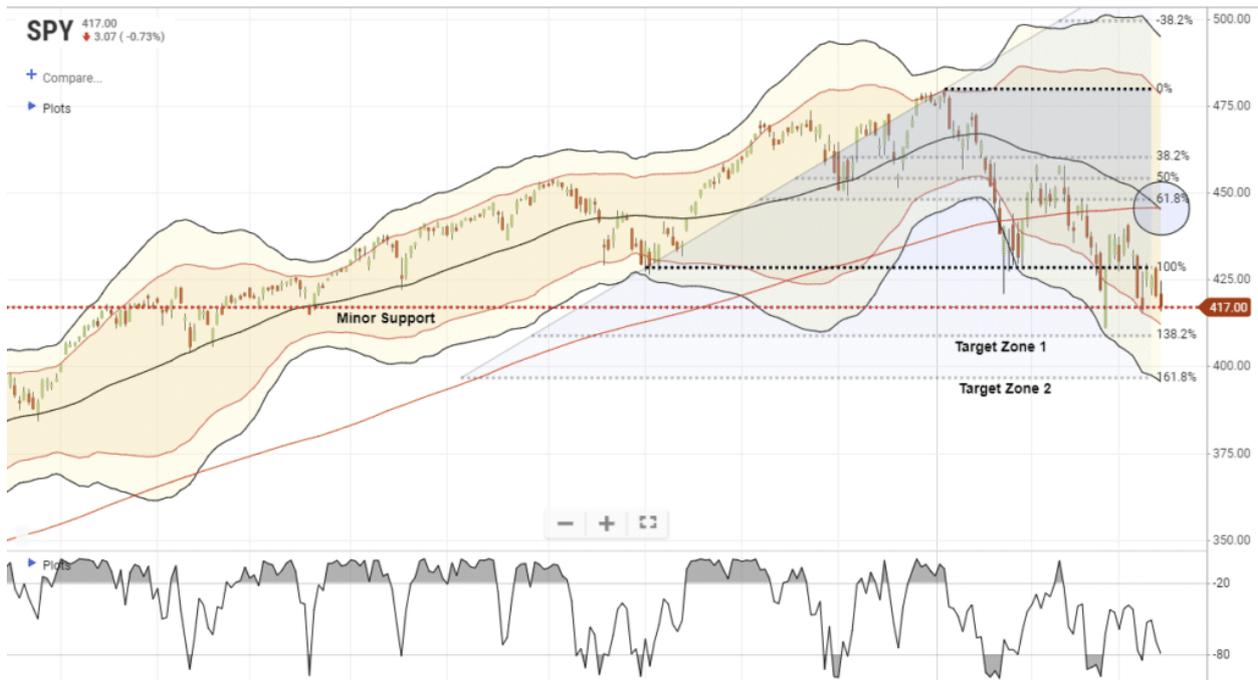
Pre-market

- Volkswagen ([VWAGY](#))
- Dole plc ([DOLE](#))

Market Trading Update

As noted above, and shown below, the "death cross" of the two primary moving averages provides a heavy resistance level for the S&P 500 on any rally. That is now the new target for any reflexive rally. Notably, despite very negative sentiment, the market is not deeply oversold yet so there is potential for additional downside to the two lower-level target zones. With "quadruple witching" of all options contracts on Friday, there is the potential for a LOT of volatility between the FOMC announcement on Wednesday and Friday's close.

As we have noted over the last couple of weeks, the potential for a reflex rally remains very high, but getting there is becoming a challenge. Continue to manage risk accordingly.



Earnings Revisions Go Negative

If there was a "death cross" for earnings estimates, we may have just seen it. Starting in August 2021, I started writing a series of articles suggesting that WallStreet's estimates for 2022 and 2023 were overly optimistic.

- [Was That The Peak Of Earnings Growth](#)
- [2022 Estimates Still Too Bullish](#)
- [Earnings Estimates Will Disappoint As Fed Tightens Policy](#)
- [An Earnings Reversion Is Coming](#)

And....here we are. Via Bloomberg:

"Citi strategists led by Jamie Fahy said a global gauge tracking analyst estimates on corporate profits has turned negative for the first time since September 2020. This is a potential ?game-changer,? eroding their conviction on the prospects of risk assets, they wrote.

Earnings delivery is ?paramount? at a time when liquidity is being sucked out by central banks across the world, the Citi strategists said. ?Removing this support could leave some indices floating on air.?

The problem for the "bulls" is that as earnings estimates go down, FORWARD P/E's, which are already expensive, go higher.

Revised Down

Global earnings revisions turn negative for first time since September 2020



Zoom versus Consumer Staples

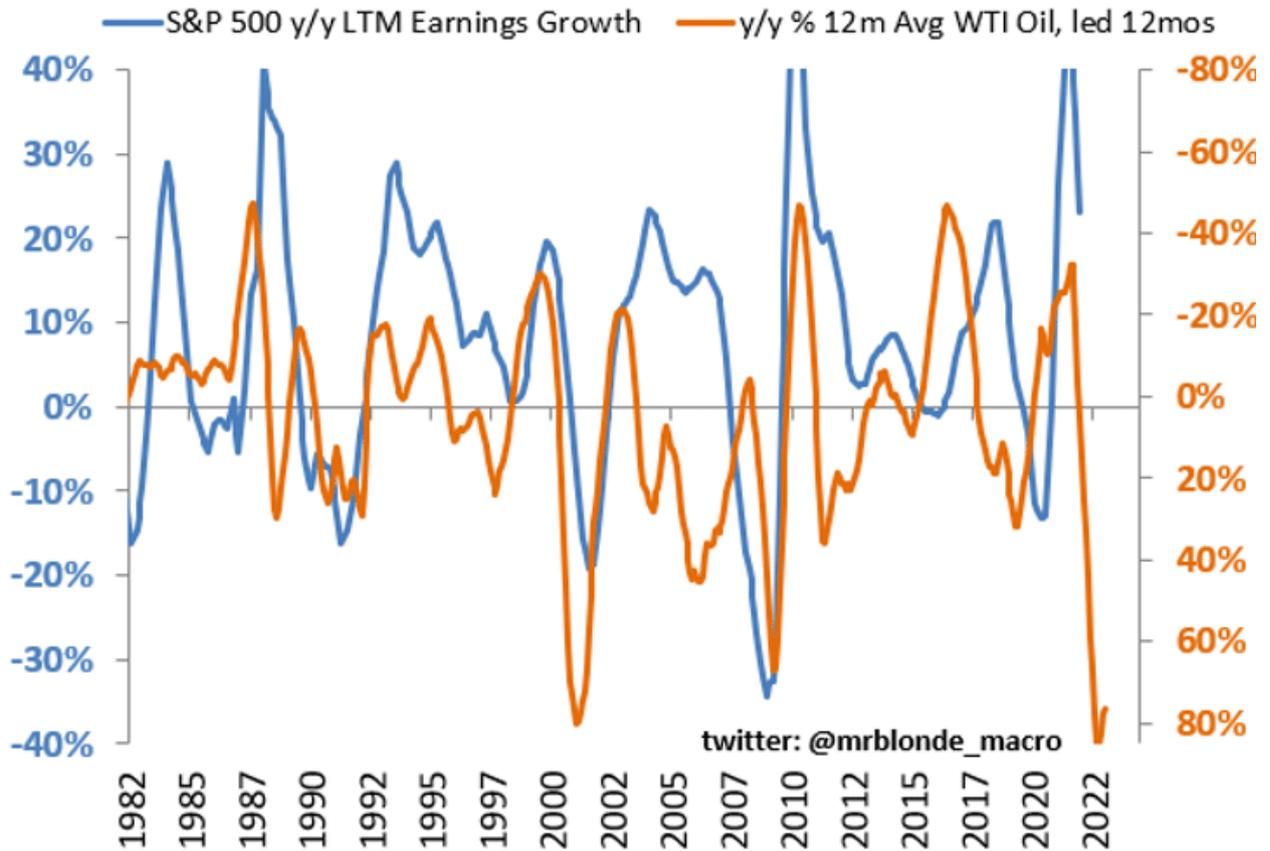
Bespoke Investments wrote the following: "At 28, Zoom Video [\\$ZM](#) now has a lower price to earnings multiple than Hormel (spam), Hershey (chocolate), Clorox (bleach), McCormick (spices), and Church & Dwight (baking soda)."

During the initial phases of the market decline, technology stocks, particularly those that were pandemic beneficiaries, fell sharply. At the same time, conservative, lower-beta consumer staples hung in well, decently outperforming the market. As a result, a company like ZM now has a lower P/E ratio than the companies listed above. Further, Zoom's five year growth rate, per Zacks, is expected to be 19.5%. That compares to between 6% and 8% for the five staples listed above. Given the financial toll persistent inflation can wage on the staples companies' bottom lines, it may be time to consider selling some conservative, lower beta stocks and looking to certain beaten-up technology companies with expected solid growth rates.

Oil Prices Signal Earnings Recession

The graph below from @mrblonde_macro shows the relatively strong correlation between the year-over-year change in oil prices and earnings. The change in oil prices, on the right y-axis, is inverted to better show the relationship between spikes in oil prices and weaker earnings. Further, the oil

price has a 12 month lead time over earnings.



Yield Curves Signal Recession Dead Ahead

The following table from CNBC shows that various yields curves such as the 20/30yr and 7/10yr are now inverted. The most followed 2/10yr is flattening rapidly. It is currently down to 20bps. Inverted yield curves have proven dependable signals of recessions in the past. Even more troubling, yields curves are flashing recession warnings as the Fed is about to start tightening monetary policy. Most commonly, the Fed starts raising rates, and then the curve begins to flatten and invert. The Fed usually starts easing after the curves inverts. This time is indeed different.

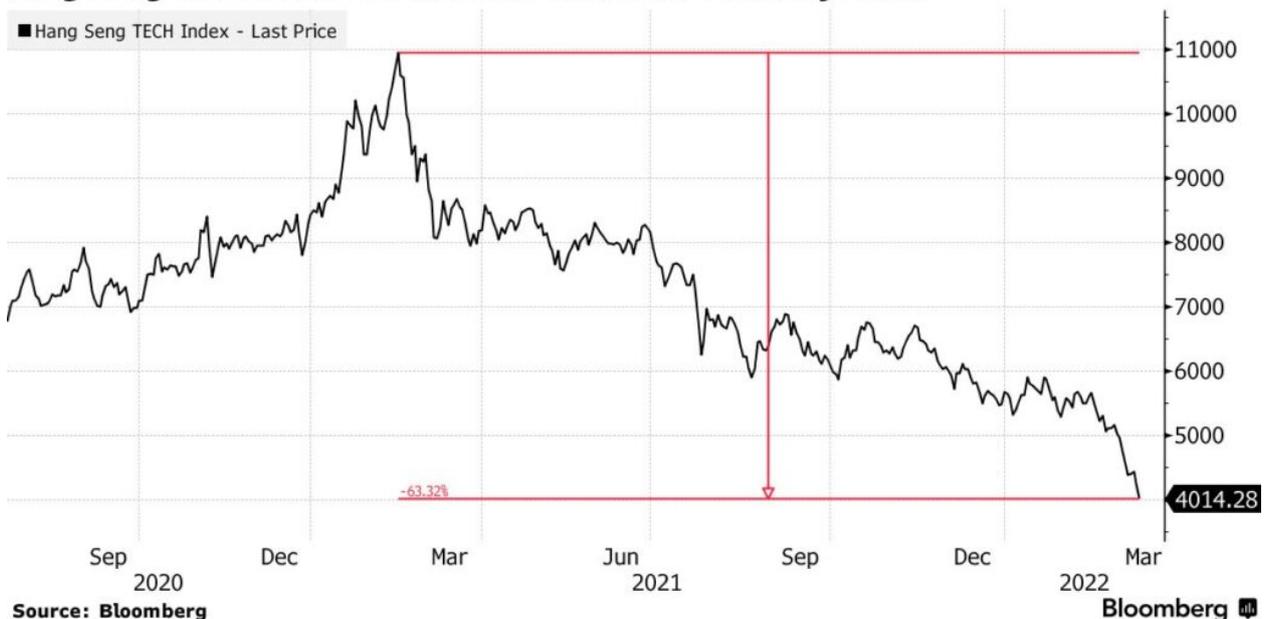
SYMBOL ↕	YIELD ↕
US 1-MO	0.198
US 3-MO	0.419
US 6-MO	0.804
US 1-YR	1.22
US 2-YR	1.822
US 3-YR	1.998
US 5-YR	2.04
US 7-YR	2.091
US 10-YR	2.082
US 20-YR	2.512
US 30-YR	2.428

Apple iPhone Supply Problems

This past weekend we learned that Foxconn is shutting down manufacturing operations in Shenzhen for at least a week due to a Covid outbreak. China's major tech production center, with 17.5 million people, is now under lockdown. Foxconn has two large production hubs for Apple iPhones in the city. The action will undoubtedly hamper the supply of Apple products and many other goods. Partially as a result, the Hang Seng Tech index fell more than 7%, the steepest decline since November 2008. The index is China's equivalent to the Nasdaq 100. The graph below shows the tremendous pressure the index has been under over the past year.

Plunging Shares

Hang Seng Tech Index has lost over 60% since February 2021



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