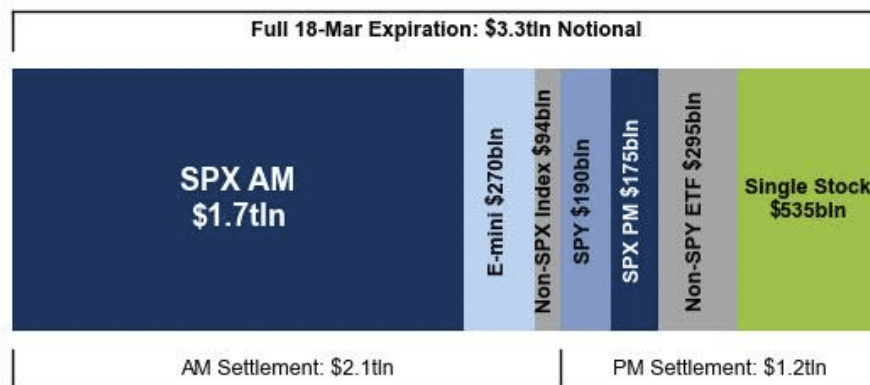


As we anticipated, stocks are rallying out of the FOMC meeting after fears of a 0.50% rate hike did not materialize. The S&P 500 finished above its downtrend line yesterday, but today presents another challenge to the post-FOMC equities rally.

Today is one of four annual "Quadruple Witching" expirations in the derivatives market. \$3.3 trillion of options notional value will expire. Over \$2 trillion of that is linked to S&P 500 index options. If the index finishes the week above its downtrend line, a test of the 50-dma may be in store next week.

Exhibit 1: \$3.3tn of option notional, including over \$2tn of SPX-linked options, expires on Friday 18-Mar

Notional open interest of US-listed options expiring on 18-Mar-2022



Source: Goldman Sachs Global Investment Research, OptionMetrics, Bloomberg

[dmc]

What To Watch Today

Economy

- 10:00 a.m. ET: **Existing Home Sales**, February (6.10 million expected, 6.50 million during prior month)
- 10:00 a.m. ET: **Leading Index**, February (0.3% expected, -0.3% in during prior month)

Earnings

- *No notable reports scheduled for release*

Equities Rally Into Resistance

Over the last couple of weeks, we have discussed the deeply negative sentiment and oversold condition of the market. We said that any good news on either the Russian front or from the Fed could elicit a strong counter-trend equities rally into resistance.

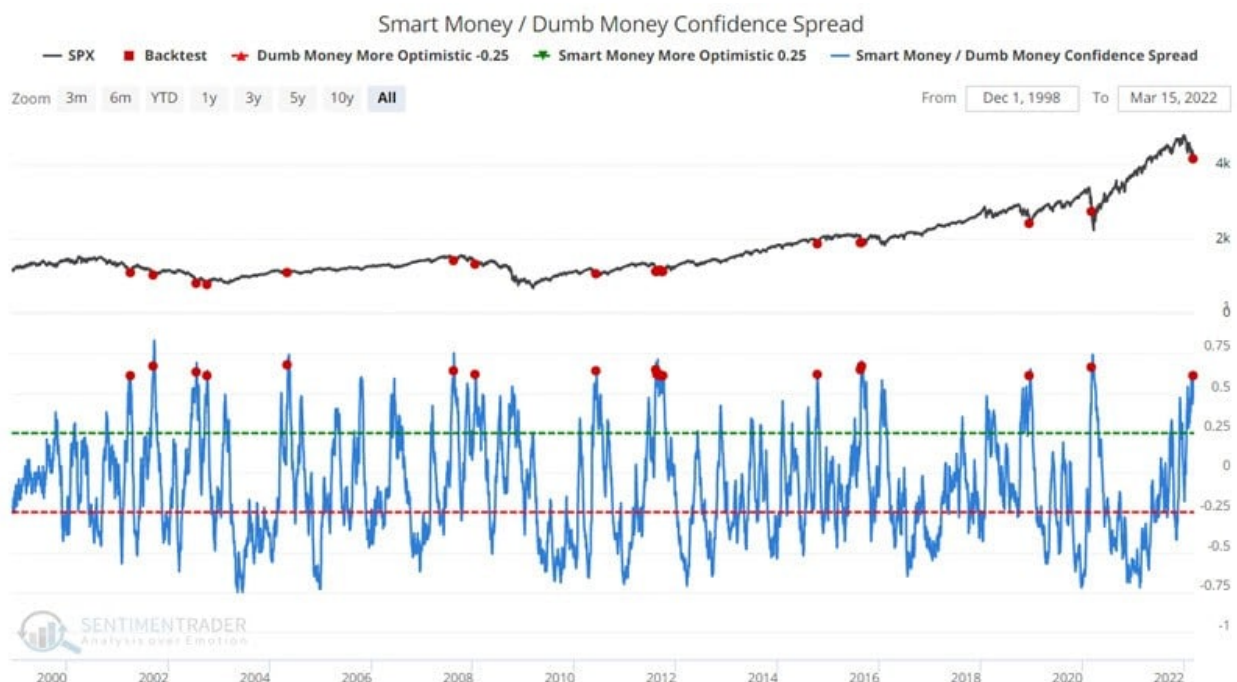
With the Fed now behind us, for now, the market got the relief it needed to string together a decent rally this week. Volatility will be the key today as we face "quadruple witching," however if equities

rally through the end of the week that will be a nice turn. The market is back to overbought and there is heavy resistance at the 50- and 200-dma crossover. Remain cautious and use this rally to rebalance risks for now.



Dumb Money Suggests Equities Could Rally More

"The Spread between Smart Money Confidence and Weak Money Confidence has continued to widen as the market has floundered in early 2022. Several typically useful thresholds have been crossed in recent weeks, yet another milestone was reached on 3/14/2022 when the Spread crossed above 0.60. If history proves an accurate guide, a viable opportunity may be at hand - if not now, then very soon." - 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	2.61%	3.08%	6.00%	8.06%	9.18%	12.22%	14.82%
Median Returns	3.60%	3.14%	5.56%	8.23%	8.44%	12.66%	20.52%
Win Rate	84%	89%	89%	100%	95%	84%	84%

Fed Rate Hikes, Inverted Yield Curves & Recession

The table below shows the period of time from the first-rate hike until the onset of a recession. Bottom line is that rate hikes ALWAYS lead to recessions, without exception, it is just a function of time.



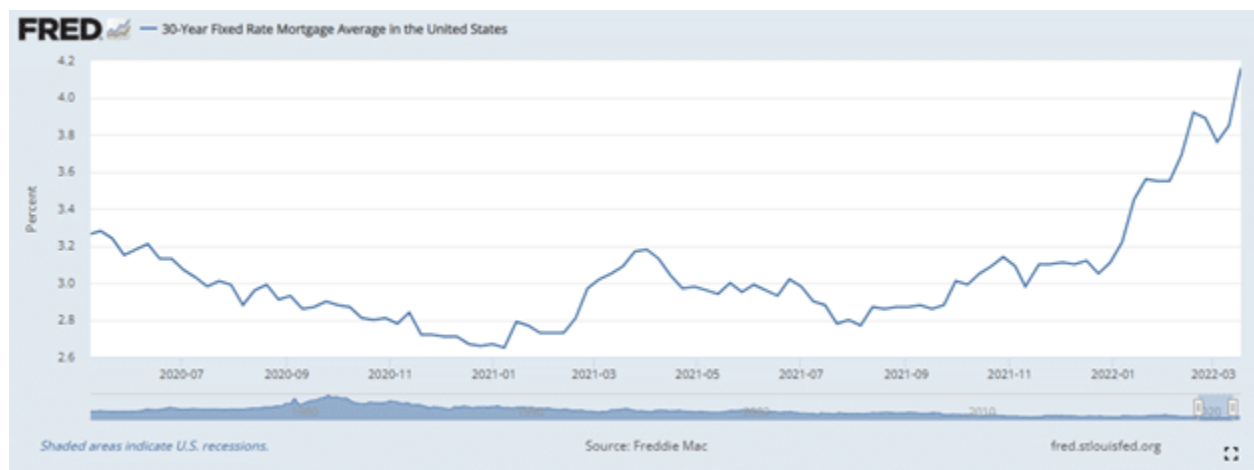
Hiking Cycle Timing			Fed Funds Rate (%)			2-10 Yield Curve		Next Recession		Inflation
Start	End	Length In Months	Start	Total Hikes	Hike Year One	Start of Hikes	End of Hikes	Date	# Mths. After 1st Hike	CPI @ Start Of Rate Hikes
4/1/1955	8/1/1957	28	1.50	2	1.25	56	0	8/1/1957	28	-0.4
9/1/1958	9/1/1959	12	1.75	2.25	1.75	24	(32)	4/1/1960	19	2.1
11/1/1967	4/1/1969	17	4.00	2	1.50	12	12	12/1/1969	25	2.7
3/1/1972	5/1/1974	26	3.50	9.5	3.25	123	(78)	11/1/1973	20	3.5
12/1/1976	3/1/1980	39	4.75	15.25	1.75	159	(202)	1/1/1980	37	4.9
8/1/1980	12/1/1980	4	9.50	10.5	6.00	103	(142)	7/1/1981	11	12.9
5/1/1983	8/1/1984	15	8.50	3.25	2.00	91	34	7/1/1990	86	3.5
12/1/1986	9/1/1987	9	5.88	1.37	1.00	95	104	7/1/1990	43	1.1
3/1/1988	2/1/1989	11	6.50	3.25	3.25	105	(12)	7/1/1990	28	3.9
2/1/1994	2/1/1995	12	3.00	3	3.00	152	35	3/1/2001	85	2.5
6/1/1999	5/1/2000	11	4.75	1.75	1.75	27	(46)	3/1/2001	21	2
6/1/2004	6/1/2006	24	1.00	4.25	2.00	190	9	12/1/2007	42	3.3
12/1/2016	12/1/2018	24	0.38	2	1.00	127	20	2/1/2020	38	2.1
3/1/2022			0.08		2.00	29				7.9

Average time until next recession after hikes begin	37
Average time until recession after first hike with inverted curve at end of cycle	23
Average time until recession after first hike without inverted curve at end of cycle.	50

Economic Data Surprises

Weekly jobless claims came in below expectations at 214k versus the consensus of 221k. The sequential decrease of 15k lowered the 4-week moving average to 223k from 231.25k last week. US employment continues showing strength as the economy moves past the Omicron variant.

Housing starts rose to 1.769m in February from 1.657m in January, outdoing expectations for 1.7m starts. While housing permits of 1.859m also beat expectations, it represents a sequential decline from 1.895m permits issued in January. Rising mortgage rates, shown below, likely impacted the number of building permits issued in February.



Finally, the Philadelphia Fed Manufacturing Index blew forecasts out of the water with a reading of 27.4 for March after a weak 16.0 in February.

Released On 3/17/2022 8:30:00 AM For Mar, 2022

	Prior	Consensus	Consensus Range	Actual
Index	16.0	15.0	10.0 to 18.5	27.4

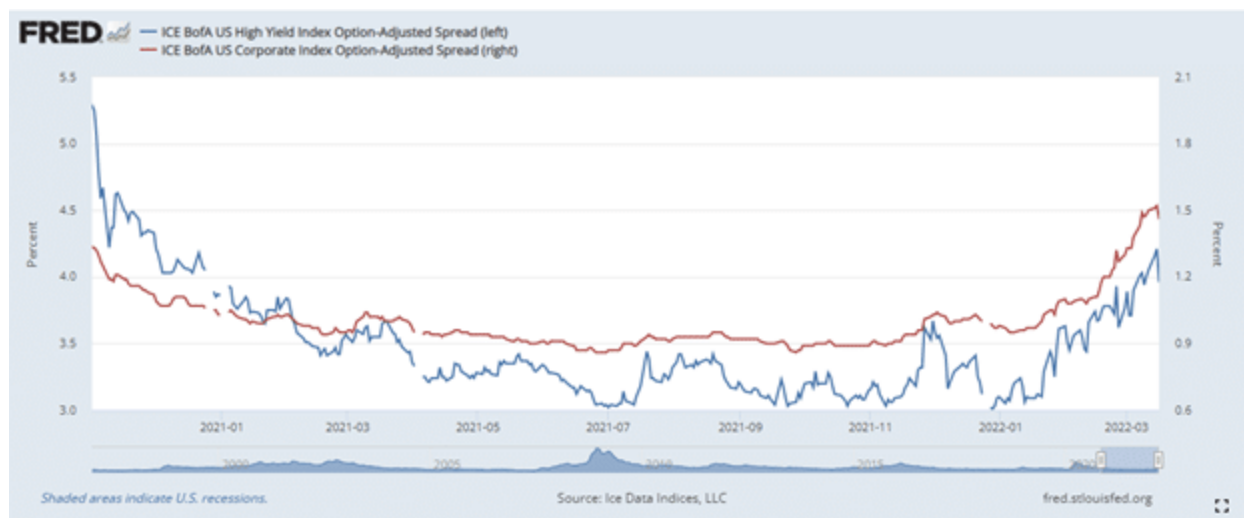
Equity and Fixed Income Traders are Sending Mixed Signals

Stocks are showing a positive response to the Fed's rate hike, but as equities rally, Treasury yields point to a less enthusiastic bond market. The 5-10yr yield curve briefly inverted Wednesday for the first time since March 2020. Meanwhile, the more widely watched 2-10yr curve flattened further. Per [Bloomberg](#):

?With officials projecting raising interest rates as high as 2.8% by the end of 2023, bond traders are growing increasingly concerned that the economy could buckle under the weight of monetary-policy normalization.?



However, Wednesday, the bond market took a break from pricing in growing systematic risk. Yield spreads on both high-yield and investment-grade bond indexes fell following the FOMC announcement. Only time will tell if yield spreads ultimately continue higher, but a 50bp hike this year isn't off the table. If the market assigns a high probability to that scenario, a continuation may be in play.



Shenzhen to Dampen Economic Impact of Lockdowns

Following sudden lockdowns over the weekend in Shenzhen, China's tech hub, officials are now allowing some companies to partially resume operations. The pivot only days after lockdowns began is evidence of economic pressures challenging China's "Zero-Covid" policy. According to [Bloomberg](#):

"iPhone maker Foxconn Technology Group is the most prominent, allowed to partially resume its operations in Shenzhen on Wednesday by deploying a so-called closed loop system. Workers are ferried from their company-run dormitory to the factory and back, subject to regular Covid testing and checks. With economists increasingly warning about the hit to the world's second-largest economy from lockdowns and other aspects of China's Covid Zero strategy, such systems could help keep the engines of growth running while other curbs remain in place."

More on China

China is expected to ease widespread crackdowns following several months of market turmoil that worsened in February. Per [Bloomberg](#), on Wednesday:

"The Financial Stability and Development Committee meeting concluded there is a need to 'boost the economy,' in the first quarter and promised investors relief on several regulatory fronts. Monetary policy will be proactive in this quarter and new loans will grow appropriately, it added."

The Hang Seng index jolted higher on Wednesday (+9.08%) following the statement, while Chinese internet retailer Alibaba (BABA) is trading roughly 30% above Tuesday's close.



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