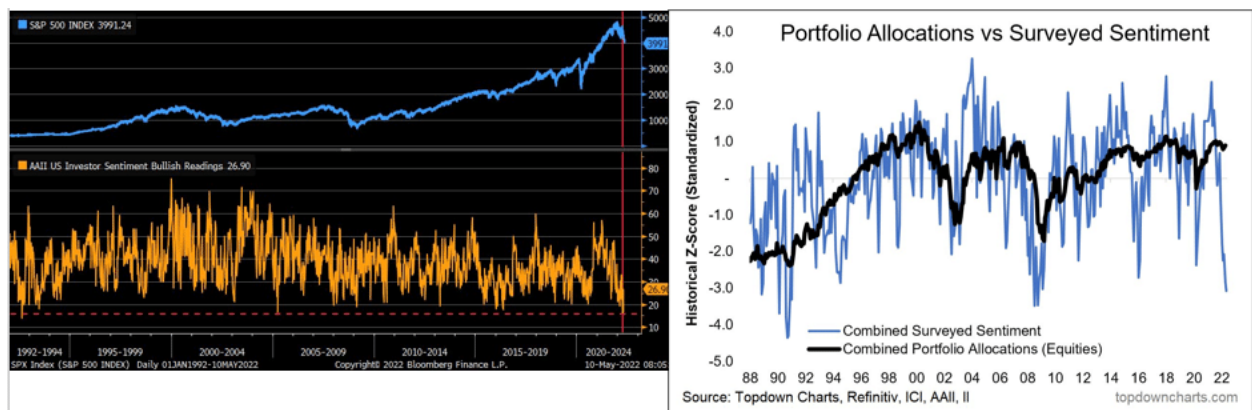


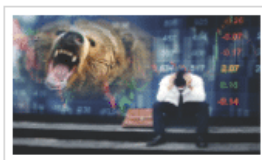
Often markets bottom when investor sentiment is poor and peak when it's high. As they say, the markets like to catch as many people offside as possible. Currently, investor sentiment is at 30-year lows. In the past, such weak sentiment would provide a spark, even if temporary, to the markets.

While investors are talking the bearish talk, they are not walking the bearish walk.

Institutional portfolio allocations to equities have barely declined. Despite uber bearish opinions, institutional investors are not selling. The graphs below highlight this odd divergence. Sentiment argues for a sizeable rally, but investor allocations warn there is plenty of downside if investors decide to sell.



For more on Investor Sentiment read yesterday's blog post.



Investor Sentiment Is So Bearish – It's Bullish

Written by Lance Roberts | May 10, 2022 | Investing

Investor sentiment has become so bearish that it's bullish. One of the hardest things to...

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What To Watch Today

Economy

- 7:00 a.m. ET: **MBA mortgage applications**, week ended May 6 (2.5% during prior week)
- 8:30 a.m. ET: **Consumer Price Index**, month-over-month, April (0.2% expected, 1.2% in March)

- 8:30 a.m. ET: **Consumer Price Index excluding food and energy**, month-over-month, April (0.4% expected, 0.3% in March)
- 8:30 a.m. ET: **Consumer Price Index**, year-over-year (8.1% expected, 8.5% in March)
- 8:30 a.m. ET: **Consumer Price Index excluding food and energy**, year-over-year, April (6.0% expected, 6.5% in March)
- 2:00 p.m. ET: **Monthly Budget Statement**, April (\$260.0 billion expected,, -\$225.6 billion in March)

?Earnings

Pre-market

- **Yeti Holdings** (YETI) to report adjusted earnings of 32 cents on revenue of \$290.6 million
- **Olaplex** (OLPX) to report adjusted earnings of 11 cents on revenue of \$172.44 million
- **Krispy Kreme** (DNUT) to report adjusted earnings of 7 cents on revenue of \$367.86 million

?Post-market

- **Disney** (DIS) to report adjusted earnings of \$1.18 on revenue of \$20.11 billion
- **Bumble** (BMBL) to report adjusted earnings of 2 cents on revenue of \$208.27 million
- **Sonos Inc.** (SONO) to report adjusted earnings of 17 cents on revenue of \$351.67 million
- **Beyond Meat** (BYND) to report adjusted losses of 98 cents on revenue of \$112.17 million
- **Dutch Bros.** (BROS) to report adjusted earnings of 1 cent on revenue of \$145.9 million
- **Rivian Automotive** (RIVN) to report adjusted losses of \$1.45 on revenue of \$131.2 million

Market Trading Update - No Progress Ahead Of Inflation Print

The market made no real progress yesterday with investors anxiously awaiting the April inflation data. While we expect the print to be on the lighter side, suggesting a peak of inflation, there is still a risk of a hotter than expected number. Regardless, the market is sitting on support and while it tried to rally yesterday, it failed to do so. The market needs to get back above \$400 on SPY today if we are going to see a further reflexive rally short-term.



Percentage Of Nasdaq Stocks Above 200-DMA

"As SoFi's Liz Young points out, as of Tuesday, only about 16% of Nasdaq Composite stocks were trading above their 200-day moving averages, or a key technical indicator of a stock's price trends. That's nearing the ultra-low percentages seen at the market bottoms over the past two decades, including in 2020 (about 6%), 2018 (9%) and 2009 (4%)." - Yahoo



Liz Young ✓
@LizYoungStrat



Only 16% of Nasdaq stocks are trading above their 200-day MA. Getting close to levels of prior market bottoms (2002, 2009, 2018, 2020). Still won't call it, but if you like watching these indicators, here we are 🙄🙄



9:23 AM · May 10, 2022



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Reply



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Trouble In Cryptoland?

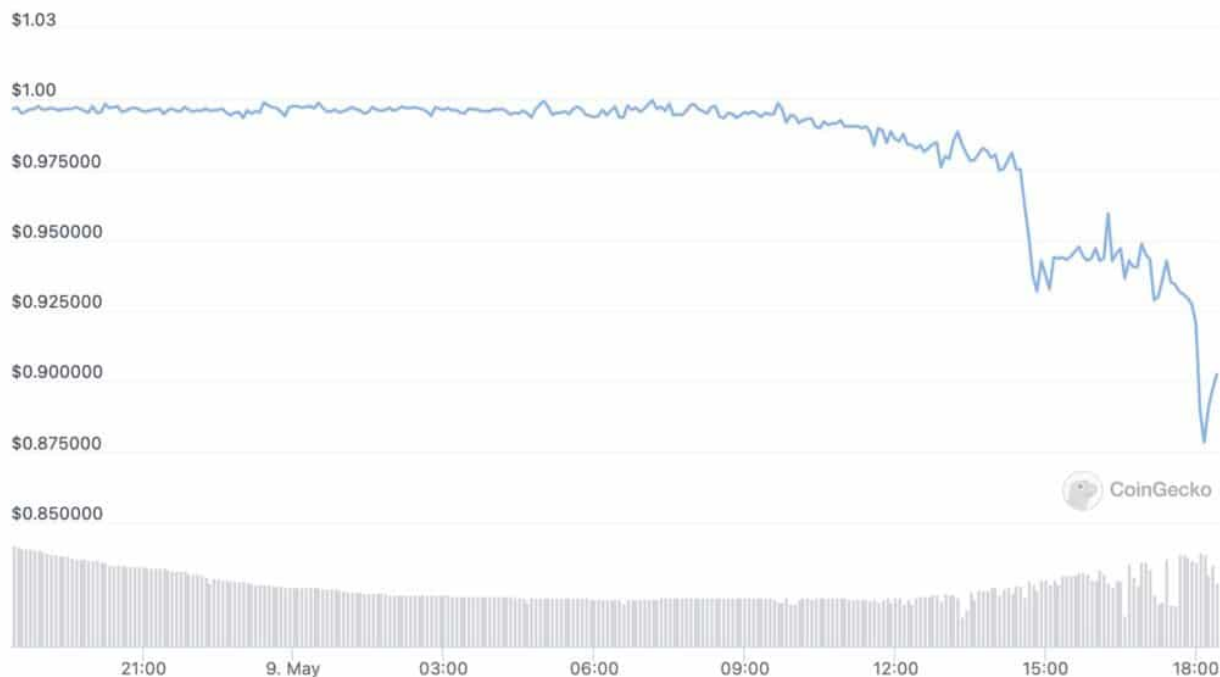
Stablecoins are crypto tokens that serve as the cash or the money market of cryptocurrency markets. Think of these as the conduit-like role money market funds serve the stock or bond markets. When we sell a stock, the proceeds are moved to a money market fund at our brokerage account. The money can sit in the fund as a cash surrogate, buy another stock, or be redeemed for cash. Money market funds are never expected to lose value, aka breaking the buck.

Stablecoins are similar conduits that link crypto to crypto trading or crypto to cash transactions. When you sell a crypto, you first convert it to a stablecoin instead of a money market fund. Assuming the stable coin is at or very close to \$1.00 your value is stable. There are many kinds of stablecoins and they are differentiated by numerous factors. The most important factor is what backs the stablecoins. Some, such as tether claim cash and government bonds ensure the price will be \$1.00. Others use algorithms. Today, those backed by algorithms are experiencing trouble.

The graph below is the \$18 billion algorithm-based Terra stablecoin (UST), supporting the Luna cryptocurrency. As shown below, it has broken the buck (<\$1.00). As expected a lack of stability of stable coins is leading to liquidity concerns in cryptocurrencies. That said, Tether stablecoin supports the largest crypto, Bitcoin. Because cash and Treasury bonds collateralize Tether, its value is not fluctuating like other stable coins.

Matt Levine from Bloomberg has an [excellent article](#) describing how algorithmic stablecoins work. Given the strong correlation of the Nasdaq to crypto, this is a story worth following even for those

with no interest in crypto.

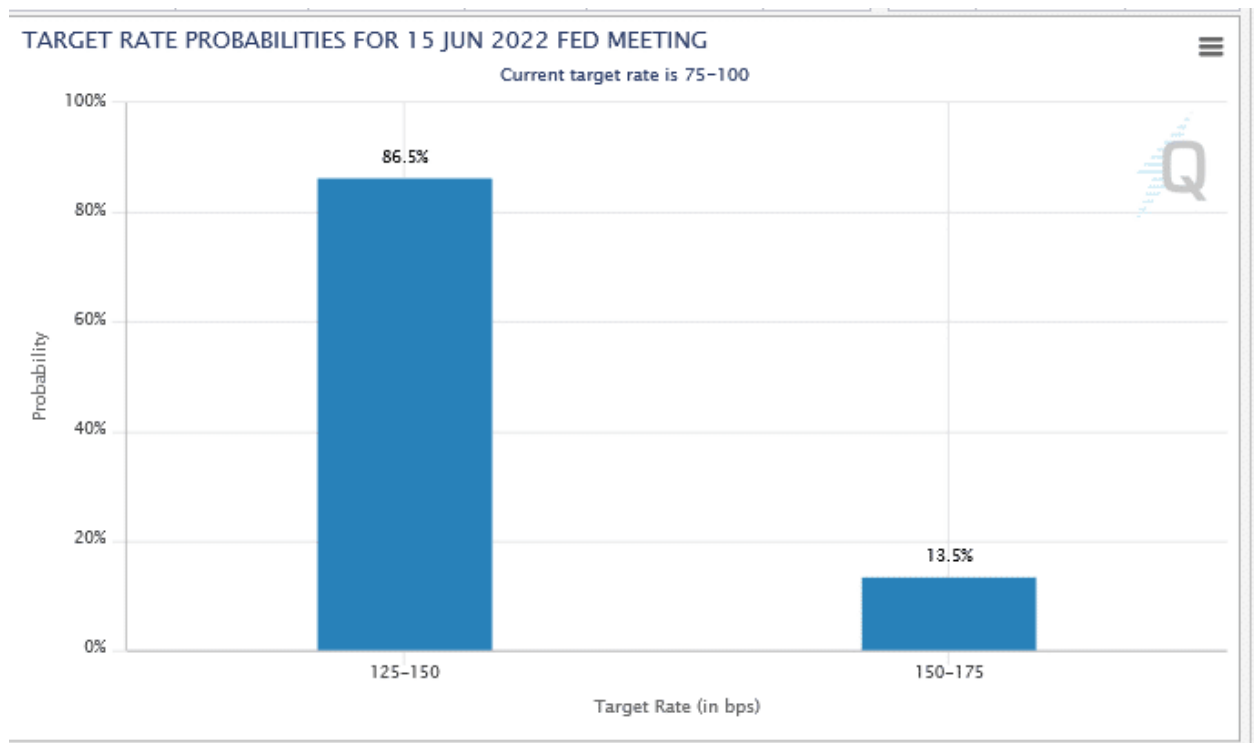


Lowered Expectations

On Thursday morning, we wrote the following:

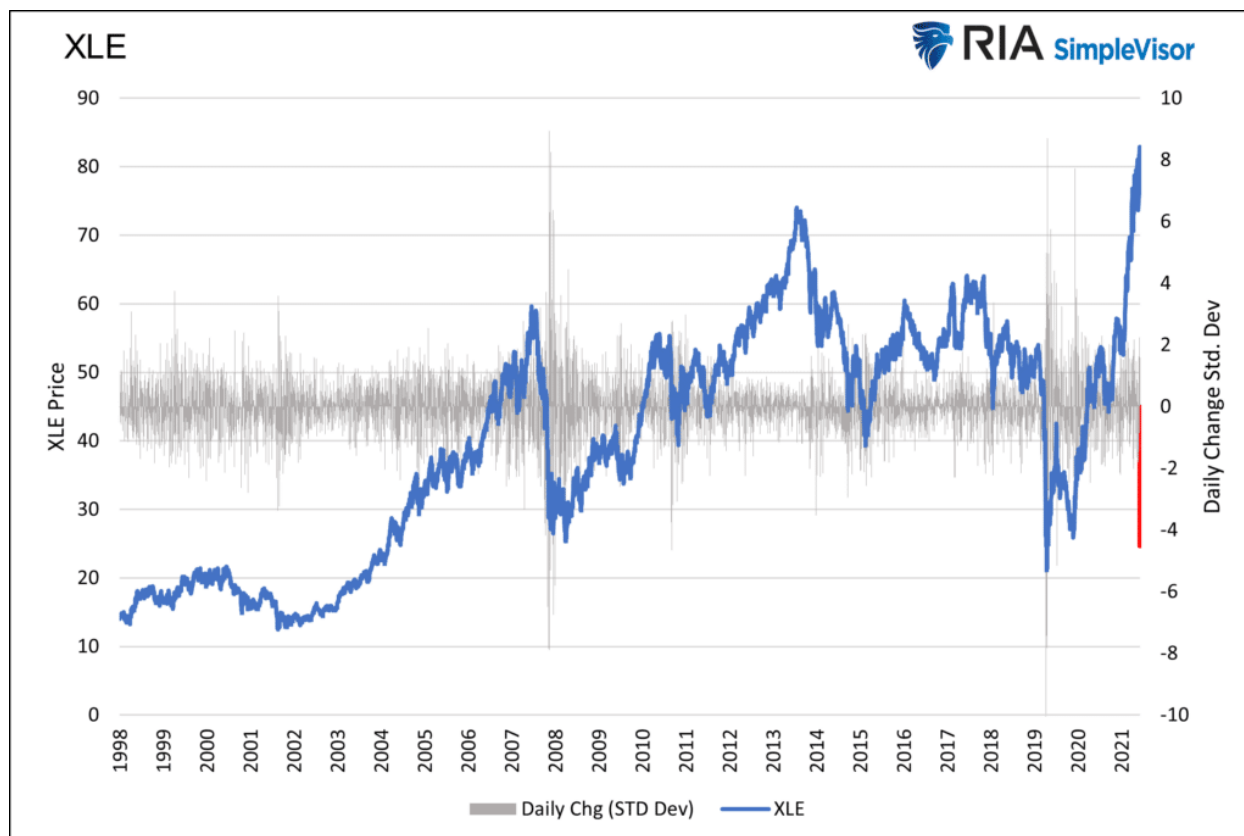
"The 92.7% probability of the Fed Fund rates increasing to 1.50%-1.75% at the June meeting is based on Fed Funds futures trading on the Wednesday morning before the Fed's announcement."

The purpose of sharing the odds of a 75bps June rate hike last week was to compare it in the future. Here we are a few days out from the Fed meeting, and the market has certainly changed. The graph below shows that the odds for 75bps have fallen to only 13.5%. It certainly helps that Jerome Powell ruled out a 75bps rate hike. Further, we have yet to hear a Fed member pushing for 75bps.



Energy Stocks Defying Statistics

As we often find in markets, asset price changes often defy what should be expected by a normally distributed statistics bell curve. On Monday, energy stocks (XLE) reminded us of that. XLE fell over 8% on Monday, which is a 4.5 standard deviation move. We should expect such an occurrence once every 125 years. XLE has been trading for about 24 years and there have been 12 other trading days in those 24 years in which the standard deviation decline was worse. The graph below shows the price and daily standard deviation change for XLE. We highlighted Monday's standard deviation in red. It was undoubtedly a large decline, but there were days in 2020 and 2008/09 that were much worse.



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

If you found this blog useful, please send it to someone else, share it on social media, or contact us to set up a meeting.