



The trillion-dollar question on nearly every investor's mind lately is ***When will the market bottom be in, and how will I know??*** Unfortunately, we can't tell you where the market bottom is. No one can. Fortunately, history points to Fed policy as a place to look more often than not. The Wall Street Journal [notes](#),

*Going back to 1950, the S&P 500 has sold off at least 15% on 17 occasions, according to research from Vickie Chang, a global markets strategist at Goldman Sachs Group Inc. On 11 of those 17 occasions, the stock market managed to bottom **out only around the time the Fed shifted toward loosening monetary policy again.***

It's unlikely that the trend breaks in this situation. Although, markets may begin sniffing out a policy pivot well before it goes on the record.

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What To Watch Today

Economy

- 7:00 a.m. ET: **MBA Mortgage Applications**, the week ended June 17 (-6.6% prior)

Earnings

Pre-market

- **Korn Ferry** (KFY) to report adjusted earnings of \$1.56 on revenue of \$682 million
- **Winnebago** (WGO) to report adjusted earnings of \$2.96 on revenue of \$1.22 billion

Post-market

- **KB Home** (KBH) to report adjusted earnings of \$2.01 on revenue of \$1.65 billion

Market Rallies. Is The Bottom In?

As discussed in this [past weekend's newsletter](#), the market did bounce yesterday after the melt-down last week. However, while the rally was a welcome relief, it is likely to be short-lived as a rising number of *trapped longs* continue to look for an exit.

With the market oversold on multiple levels, a short-term bottom and a reflexive rally are likely. Such could be quite strong with the market retracing to the top of the downtrend channel which has been its *M.O.* this year. That retracement would take the market back to roughly 3900-4000 on the index. Such would be a good target to reduce equity exposure, raise some cash, and hedge.

If the market breaks above that downtrend and triggers a MACD buy signal we will need to re-evaluate current positioning and risks accordingly. However, I suspect the downtrend remains intact for now until the Fed starts to ?pivot? in their more aggressive monetary policy.

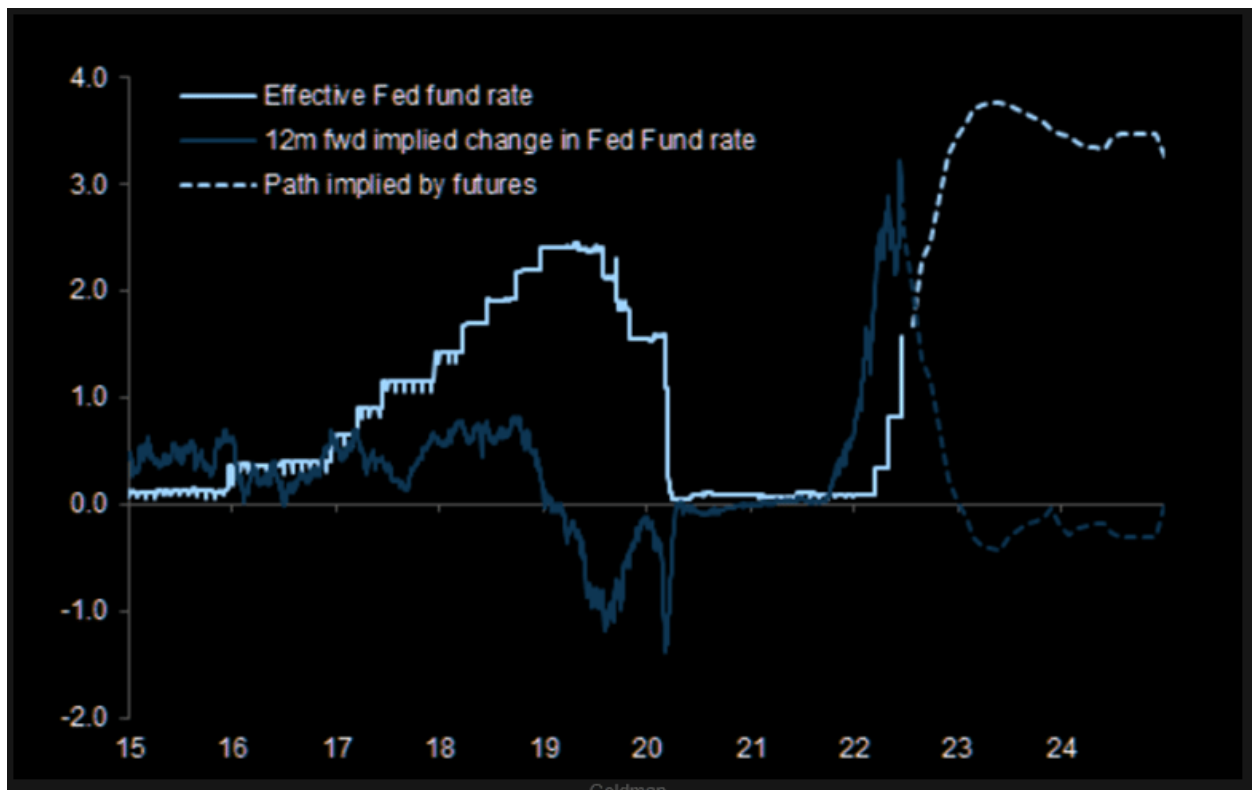


FOMC Likely To "Pivot" Sooner Than Expected

While the Fed is talking a tough game about combatting inflation, the reality is that they are much more worried, and beholden to, financial instability. As noted yesterday on Twitter:

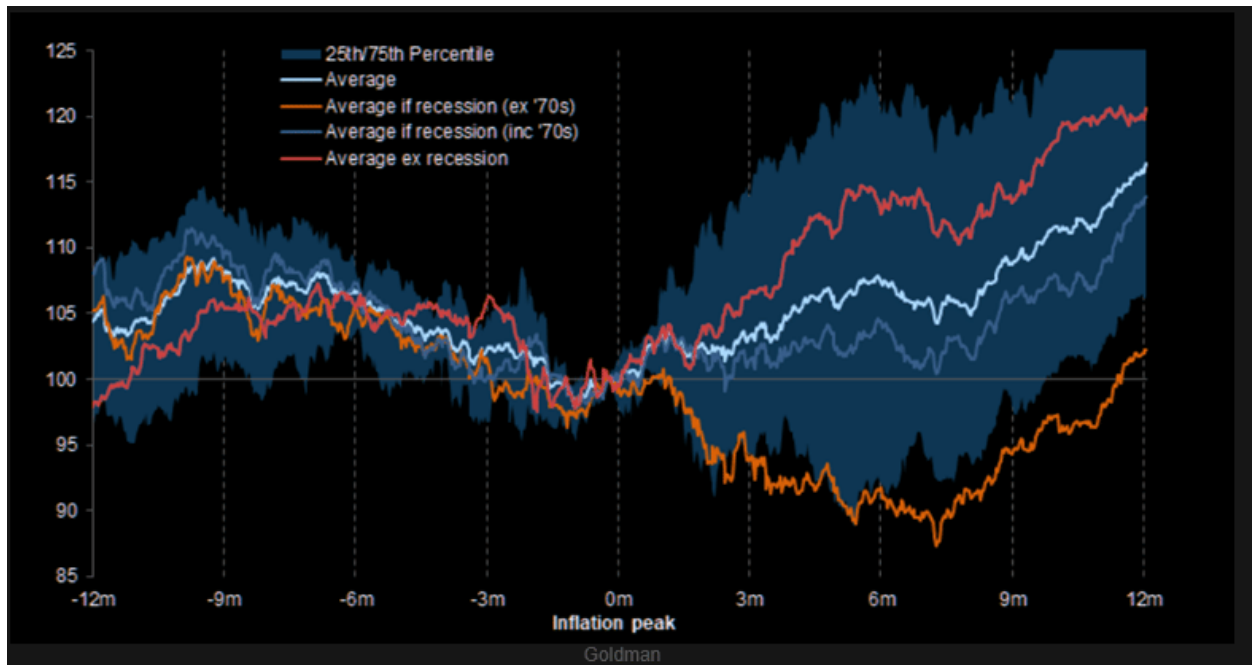
<https://twitter.com/LanceRoberts/status/1539200917798637568?s=20&t=HEx1ym9EFjJNdRI5nIELM>

Notably, the market agrees with my comments and is now pricing in Fed rate cuts in the first half of 2023. That date will get moved up as a recession becomes more evident.



Equity Returns Following Inflation Peaks

?A wide distribution of outcomes for equities past the inflation peak, with growth the key determinant for the trajectory. But any way you look at it, equities are up 12 months post inflation peak. Chart shows S&P500 total return. Data since 1955? ? @themarketear



Existing Home Sales Fall Again

Existing Home Sales data for May were in-line with expectations (5.41M vs 5.4M consensus). However, May was the fourth straight monthly decline in sales volume as higher mortgage rates begin catching up with the housing market. The figure (-3.4% MoM) is 8.6% lower than a year ago,

and it represents the weakest annualized rate of existing home sales since June 2020.

Despite the slowdown in sales volumes, higher mortgage rates are not yet fully reflected in the data. The [Wall Street Journal](#) notes,

?While demand is slowing, price growth remains rapid. The May figures largely reflect purchase decisions made in April or March. Nearly 60% of homes sold in May were sold above their list price, according to real-estate brokerage [Redfin](#) Corp.?

It may still be a few months until mortgage rates begin really showing up in data, as [we noted](#) in Friday?s daily update.



Calendar	GMT	Reference	Actual	Previous	Consensus	TEForecast
2022-05-19	02:00 PM	Apr	5.61M	5.75M	5.65M	5.6M
2022-06-21	02:00 PM	May	5.41M	5.6M	5.4M	5.3M
2022-07-20	02:00 PM	Jun		5.41M		

NY Fed Model at Odds with FOMC Projections

The latest forecast from the New York Fed?s DSGE macro model is quite pessimistic compared to the views of FOMC members. As shown in the first figure below, the NY Fed model forecasts economic contractions in both 2022 and 2023. Meanwhile the model forecasts Core PCE inflation to be 3.8% and 2.5%, respectively.

The second figure below highlights the median forecast by FOMC members for the same metrics. The median forecast has GDP growth near the longer-run rate in 2022 and 2023 with core PCE inflation hotter than the NY Fed model. Only time will tell which forecast ends up more accurate.

History points to both being of little use, but they are certainly at odds with one another. So if anything, this should serve to contrast the Fed's fixation on a soft landing with other distinct possibilities.

Current Forecast

Latest Release 9:00 a.m. EST June 17, 2022

Forecast period	2022	2023	2024	2025
GDP growth (Q4/Q4)	-0.6 (-3.6, 2.3)	-0.5 (-5.0, 4.0)	0.4 (-4.4, 5.3)	1.4 (-3.9, 6.5)
Core PCE inflation (Q4/Q4)	3.8 (3.3, 4.4)	2.5 (1.7, 3.4)	2.1 (1.2, 3.1)	2.0 (1.0, 3.0)
Real natural rate of interest (Q4)	0.9 (-0.4, 2.1)	0.9 (-0.5, 2.4)	0.9 (-0.7, 2.4)	0.8 (-0.9, 2.5)

Source: Authors' calculations.

Notes: This table lists the forecasts of output growth, core PCE inflation, and the real natural rate of interest from the September 2021 forecasts. The numbers outside parentheses are the mean forecasts, and the numbers in parentheses are the mean forecasts, and the numbers in parentheses are the 68 percent bands.

Variable	Median ¹			
	2022	2023	2024	Longer run
Change in real GDP	1.7	1.7	1.9	1.8
March projection	2.8	2.2	2.0	1.8
Unemployment rate	3.7	3.9	4.1	4.0
March projection	3.5	3.5	3.6	4.0
PCE inflation	5.2	2.6	2.2	2.0
March projection	4.3	2.7	2.3	2.0
Core PCE inflation ⁴	4.3	2.7	2.3	
March projection	4.1	2.6	2.3	

Kellogg Spinoff into Three Businesses

Kellogg (K) announced Tuesday morning that it will split into three separate businesses in a bid to enhance performance. The three businesses will consist of its global snack brands, its legacy cereal business, and its newer plant-based foods operation. It plans to name the businesses Global Snacking Co., North America Cereal Co., and Plant Co., respectively.

Splitting into three firms increases competitiveness in each business line- driving growth opportunities that may otherwise be difficult to exploit. Management expects its Global Snacking Co. to grow at a faster pace than Kellogg by leveraging scale in emerging markets. Meanwhile, the now pure-play plant-based food business will gain focus and flexibility, leading to greater competitiveness with incumbents like Beyond Meat (BYND). The that end the CEO Steve Cahillane [noted](#),

?These businesses all have significant standalone potential, and an enhanced focus will enable them to better direct their resources toward their distinct strategic priorities.?

History points to positive results for this transaction. Kraft Foods executed a [similar move](#) in 2012 to create Mondelez International (MDLZ). MDLZ has since more than doubled in value.

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