The graph below from Mott Capital Management warrants some caution heading into the next week's Fed FOMC meeting. The blue lines show that the S&P 500 peaks six to nine days before the last four Fed meetings. The good news is that stocks rallied following the meeting in three of the previous four instances.

As we share below, it seems pretty certain the Fed will increase the Fed Funds rate by 75bps at its July 27th meeting. With newly updated inflation and employment data, along with recent Fed President comments, the investor uncertainty leading into this Fed meeting is likely to be minimal. As such, the S&P, over the next seven days, may buck the trend and move higher. If so, will the Fed also be able to conjure up a continued rally post-meeting? When looking for a durable market bottom, we look for changes in investor behaviors. A stock rally into the FOMC meeting and afterward would be such a sign.

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What To Watch Today

Economy

- **Housing starts**, June (1.590 million expected, 1.549 million during prior month)
- **Building permits**, June (1.673 million expected, 1.695 million during prior month)
- **Housing starts**, month-over-month, June (2.7% expected, -14.4% during prior month)
- **Building permits**, month-over-month, April (-1.3% expected, -7.0% during prior month)

?**Earnings**

Pre-market

- **Johnson & Johnson** (JNJ), Projected EPS: $2.54; Projected sales: $23.77 billion
- **Halliburton** (HAL), Projected EPS: 45 cents; Projected revenue: $4.7 billion
- **Lockheed Martin** (LMT), Projected EPS: $1.88'; Projected sales: $15.98 billion
- Also: **Hasbro** (HAS), **Truist Financial** (TFC), **Interactive Brokers** (IBKR), **J.B. Hunt Transport** (JBHT), **Cal-Maine Foods** (CALM), **Ally Financial** (ALLY)

Post-market

- **Netflix** (NFLX), Projected EPS: $2.95; Projected revenue: $8.03 billion

Market Trading Update - Failure At Resistance

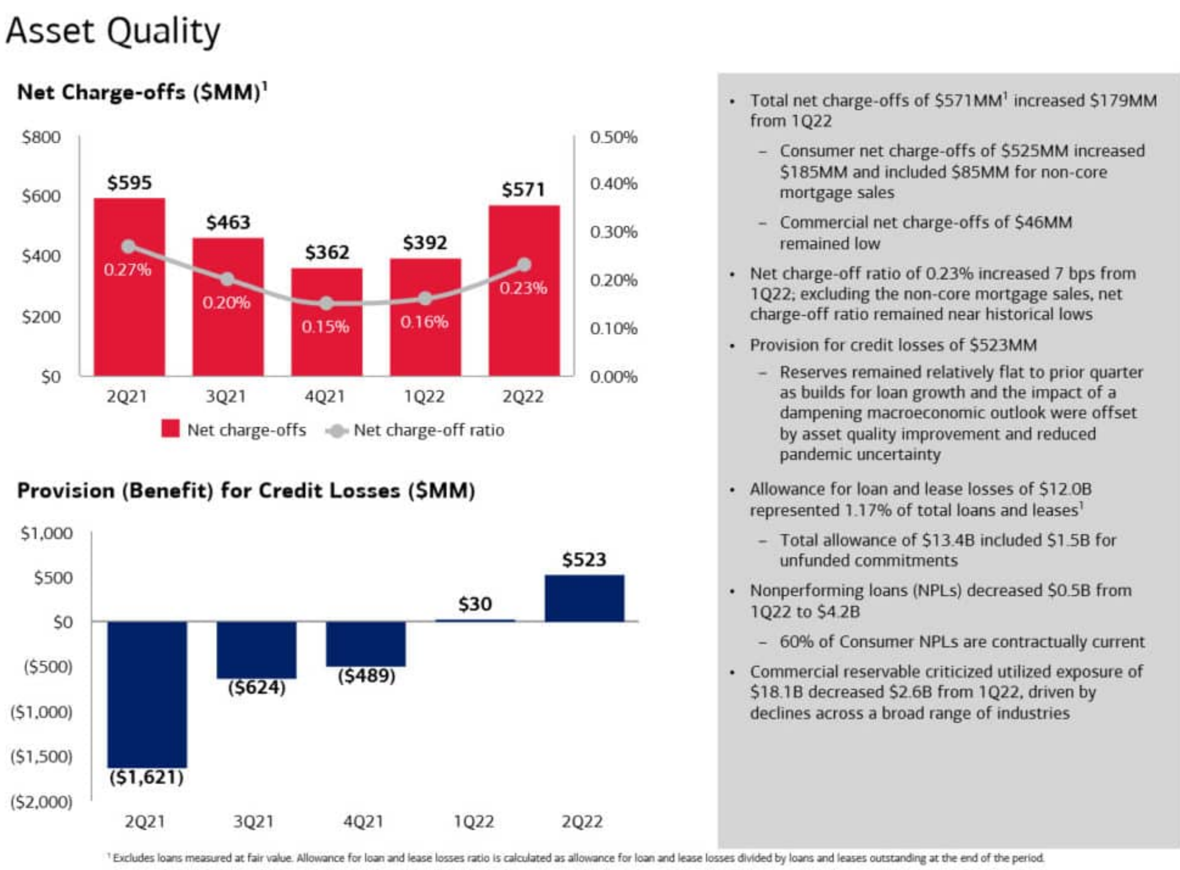
The market failed at breaking out of the defined downtrend channel from the March peak yesterday. While the market opened up rather strongly, the early gains gave way all day with selling into the close. The market ended with a 0.84% loss for the day.

The market is currently trapped in a tight wedge between the top of the downtrend channel and recent minor support. If the market breaks out to the upside, requiring a move above the 50-dma, then a rally to 4200 is possible. However, a break below support and markets will quickly retest the June lows with a fairly decent probability of setting new lows.

The market has been basing for the last couple of weeks, and the MACD remains on a buy signal. As such, we are giving the market the "benefit of the doubt" momentarily. Trade accordingly and continue with risk management protocols.

Loan Defaults Starting To Heat Up

Within Bank America's earnings report yesterday was some interesting data about the quality of the loans on their books. As shown below in the top graph, net charge-offs rose by $179mm in the second quarter to $571mm. Most of the losses were from consumer loans. Charge-offs are when a bank determines a loan will not be paid back and essentially writes it off. The increase is surprising given the robust state of the employment markets. It seems Bank America was caught off guard by the loan deterioration. The second graph shows that they set aside $30mm in the first quarter for potential credit losses. They should have provisioned much more had they expected what actually occurred. The numbers are still relatively low, with net charge-offs only accounting for .23% of their book. However, they are ticking up and could worsen if the economy continues to slip and the labor markets weaken.

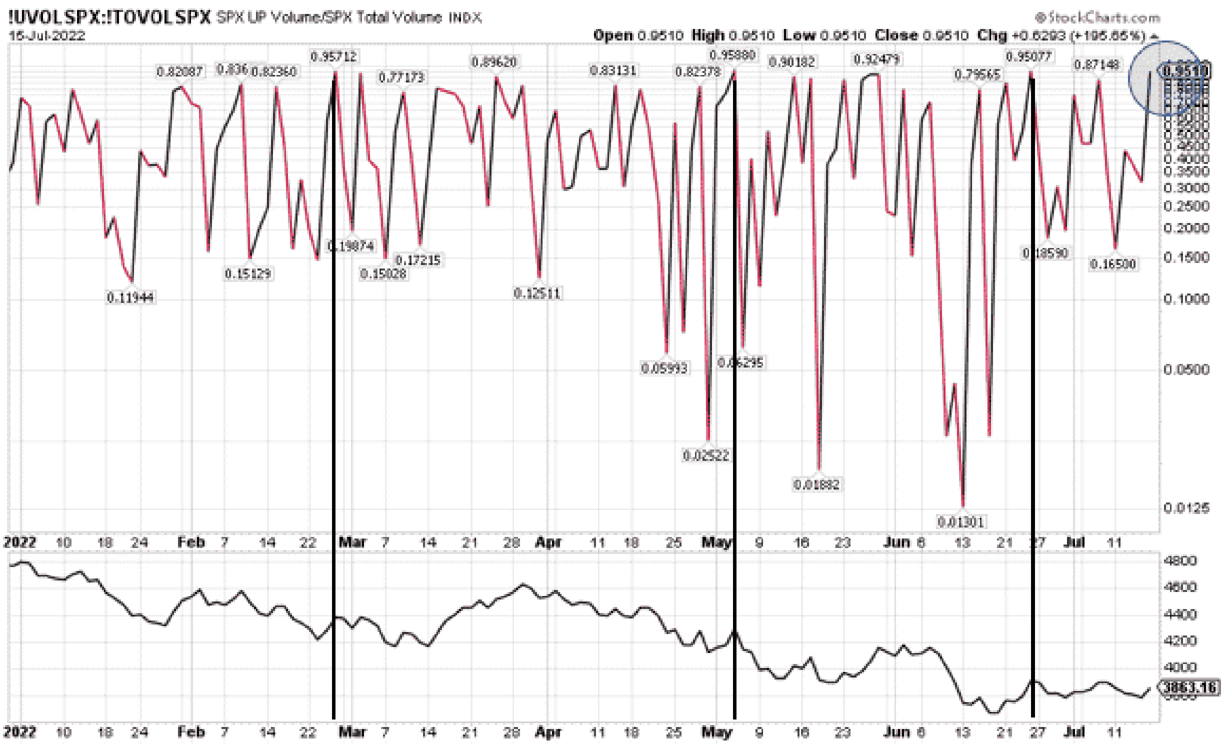


95% Up Volume on Friday- Bullish or Bearish?

@cyclesfan posted an interesting graph that cautions us about the recent rally. So far this year, when 95% or more of daily volume was on stocks that rose, a top was put in place. Per his post:

> *On Friday $SPX had its 4th 95% up volume day this year.*
>
> *The other 3 cases: Feb. 25 - closed at 4385. Topped 4 days later at 4417.*
>
> *May 4 - closed at 4300. Topped on the same day.*
>
> *June 24 - closed at 3912. Topped 2 days later at 3946.*

Will this time be different?



Fed All But Guarantees 75bps

As we noted in Monday's Commentary, three Fed Presidents signaled the Fed is intent on raising rates by 75bps, not 100bps as the market was pricing in. As the Fed enters its self-imposed media blackout before next week's meeting, this will be the last we hear of the Fed for a week. The Fed's mouthpiece, WSJ author Nick Timiraos, essentially affirmed that 75bps is highly likely. In his article, Fed Officials Preparing to Lift Interest Rates by Another 0.75 Percentage Point, he leads with the following:

> *"Policy makers are leaning against full-point increase despite June inflation surge"*

The article reiterates last week's messages. Often the Fed will use Nick Timiraos to relay its thoughts to the markets. This time appears no different. Interestingly, the article talks about slowing economic activity. The Fed has refrained from mentioning the obvious weakness. It appears that may be changing. If so, the economic downturn is starting to become a factor they are considering when setting policy.

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