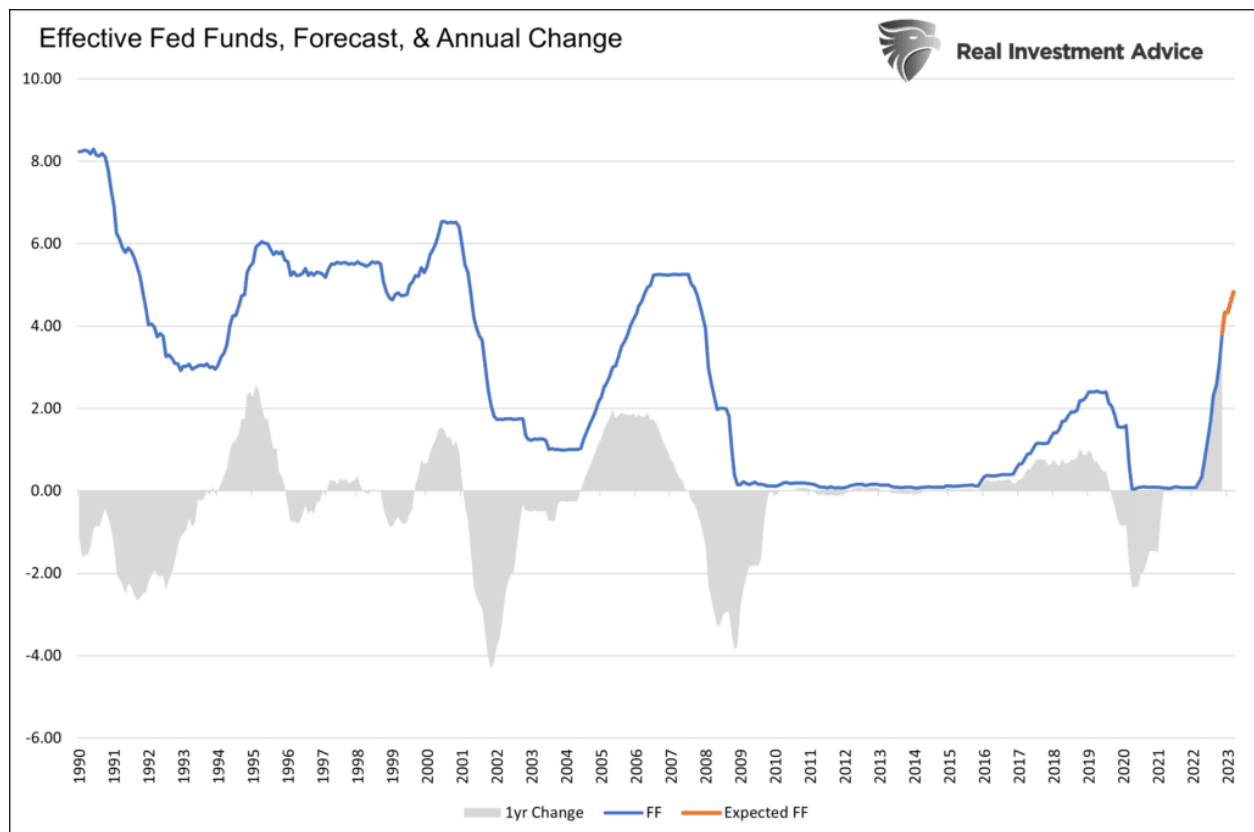


The Fed took another step Wednesday on its path to slay inflation. As widely expected, the [Fed increased rates](#) by .75%. The next steps for the Fed likely include a 50bp increase in December and 25bp hikes in February and March. Currently, Fed Funds futures imply 5% Fed Funds by the spring of 2023. At that point, many, including Fed members, think the next step is to wait and see. As we have noted numerous times, the biggest risk with aggressive Fed hikes is the lag effect. Steps to raise interest rates last spring and early summer are just starting to take a bite out of inflation and economic activity.

Waiting and watching, aka pausing, allows for the 3.75% in hikes we have already witnessed, plus future rate hikes to get digested into the economy. Regardless of market narratives, pausing is not a pivot. A pivot, which the stock market anxiously awaits, starts with a Fed discussion of steps to lower rates and or reduce the amount of QT. That did not occur yesterday. A pause is also not on the immediate horizon. Per Powell: "*it's very premature to talk about pausing policy.*"



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What To Watch Today

Economy

- 7:30 a.m. ET: **Challenger Job Cuts**, year-over-year, October (67.6% prior)
- 8:30 a.m. ET: **Trade Balance**, September (-\$72.3 billion expected, -\$67.4 billion prior)
- 8:30 a.m. ET: **Nonfarm Productivity**, Q3 preliminary (0.5% expected, -4.1% prior)
- 8:30 a.m. ET: **Unit Labor Costs**, Q3 preliminary (4.0% expected, -10.2% prior)
- 8:30 a.m. ET: **Initial Jobless Claims**, week ended Oct. 29 (220,000 expected, 217,000 prior)
- 8:30 a.m. ET: **Continuing Claims**, week ended Oct. 22 (1.450 million expected, 1.438 million prior)
- 9:45 a.m. ET: **S&P Global U.S. Services PMI**, October final (46.6 expected, 46.6 prior)
- 9:45 a.m. ET: **S&P Global U.S. Composite PMI**, October final (47.3 expected, 47.3 prior)
- 10:00 a.m. ET: **Factory Orders**, September (0.3% expected, 0.0% prior)
- 10:00 a.m. ET: **Factory Orders Excluding Transportation**, September (0.2% prior)
- 10:00 a.m. ET: **Durable Goods Orders**, September final (0.4% expected, 0.4% prior)
- 10:00 a.m. ET: **Durables Excluding Transportation**, September final (-0.5% prior)
- 10:00 a.m. ET: **Non-defense Capital Goods Orders Excluding aircraft**, September final (-0.7% prior)
- 10:00 a.m. ET: **Non-defense Capital Goods Shipments Excluding Aircraft**, September final (-0.5% prior)
- 10:00 a.m. ET: **ISM Services Index**, October (55.4 expected, 56.7 prior)

Earnings

Company		Time	Estimate		 Growth <small>Show only confirmed?</small>	Surprise		
✓ PTON	Peloton Interactive	7:00 AM ET	(\$0.65)	\$638.73 M	-20.7%	+	=	-
✓ MRNA	Moderna, Inc.	7:15 AM ET	\$3.04	\$3.33 B	-33.0%	+	=	-
✓ DDOG	Datadog, Inc.	7:00 AM ET	\$0.16	\$412.61 M	52.5%	+	=	-
✓ CROX	Crocs Inc.	7:00 AM ET	\$2.57	\$942.24 M	50.5%	+	=	-
✓ GOLD	Barrick Gold Corporat...	6:00 AM ET	\$0.11	\$3.09 B	9.3%	+	=	-
✓ COP	ConocoPhillips	7:00 AM ET	\$3.41	\$17.70 B	52.4%	+	=	-
✓ RCL	Royal Caribbean Crui...	8:00 AM ET	\$0.23	\$3.04 B	565.3%	+	=	-
✓ MAR	Marriott International ...	7:00 AM ET	\$1.69	\$5.27 B	33.6%	+	=	-
✓ K	Kellogg Company	8:00 AM ET	\$0.97	\$3.77 B	4.1%	+	=	-
✓ NKLA	Nikola Corporation	9:05 AM ET	(\$0.41)	\$22.81 M	∞	+	=	-
✓ BTU	Peabody Energy Corp.	8:00 AM ET	\$1.69	\$1.27 B	87.0%	+	=	-
✓ LNG	Cheniere Energy, Inc.	7:30 AM ET	\$5.45	\$7.83 B	144.7%	+	=	-
✓ PENN	Penn National Gamin...	7:00 AM ET	\$0.38	\$1.58 B	4.5%	+	=	-
✓ UAA	Under Armour, Inc.	6:55 AM ET	\$0.16	\$1.56 B	0.9%	+	=	-
✓ W	Wayfair Inc.	7:00 AM ET	(\$2.14)	\$2.81 B	-10.0%	+	=	-
✓ SLQT	SelectQuote, Inc.	7:30 AM ET	-	-	-	+	=	-
✓ REGN	Regeneron Pharmac...	6:30 AM ET	\$8.55	\$2.79 B	-19.2%	+	=	-
✓ LSPD	Lightspeed Commerc...	7:00 AM ET	(\$0.33)	\$182.00 M	36.6%	+	=	-
✓ H	Hyatt Hotels Corp	6:55 AM ET	\$0.31	\$1.49 B	75.1%	+	=	-
✓ CI	CIGNA Corp.	6:00 AM ET	\$5.70	\$44.87 B	1.3%	+	=	-
✓ AUPH	Aurinia Pharmaceutic...	6:00 AM ET	(\$0.17)	\$36.18 M	146.7%	+	=	-
✓ EPAM	EPAM Systems, Inc.	6:00 AM ET	\$2.54	\$1.22 B	23.4%	+	=	-
✓ CYBR	CyberArk	7:05 AM ET	(\$0.90)	\$151.18 M	24.3%	+	=	-
✓ SHAK	Shake Shack Inc.	7:00 AM ET	(\$0.06)	\$226.79 M	17.0%	+	=	-
✓ AER	AerCap Holdings N.V.	7:00 AM ET	\$1.39	\$1.64 B	12.8%	+	=	-
✓ TEVA	Teva Pharmaceutical ...	7:00 AM ET	\$0.58	\$3.86 B	-0.7%	+	=	-
✓ FLWS	1-800-Flowers.com, I...	6:45 AM ET	-	-	-	+	=	-
✓ CMI	Cummins, Inc.	7:30 AM ET	\$4.87	\$6.88 B	15.3%	+	=	-
✓ CARS	Cars.com, Inc.	8:25 AM ET	\$0.14	\$164.65 M	5.2%	+	=	-
✓ BHC	Bausch Health Comp...	7:00 AM ET	\$0.92	\$2.09 B	-1.0%	+	=	-
✓ PZZA	Papa John's Internati...	7:00 AM ET	\$0.59	\$511.17 M	-0.3%	+	=	-
✓ MUR	Murphy Oil Corp.	6:00 AM ET	\$1.56	\$930.51 M	47.5%	+	=	-
✓ GOGO	Gogo Inc.	7:00 AM ET	\$0.14	\$101.89 M	16.9%	+	=	-
✓ TX	Ternium S.A.	BMO	\$1.70	\$4.10 B	-10.7%	+	=	-
✓ VRDN	Viridian Therapeutics,...	7:00 AM ET	(\$0.87)	\$0.52 M	150.0%	+	=	-
✓ WLK	Westlake Chemical C...	6:30 AM ET	\$4.47	\$4.16 B	36.2%	+	=	-
✓ ZTS	Zoetis Inc.	7:00 AM ET	\$1.24	\$2.08 B	4.5%	+	=	-
✓ TREE	LendingTree, Inc.	7:00 AM ET	(\$2.06)	\$257.45 M	-13.4%	+	=	-
✓ GPRE	Green Plains Inc	7:30 AM ET	(\$0.05)	\$961.00 M	28.7%	+	=	-
✓ ABC	AmerisourceBergen ...	6:30 AM ET	\$2.58	\$60.51 B	2.7%	+	=	-
✓ LNTH	Lantheus Holdings, Inc.	7:00 AM ET	\$0.75	\$228.52 M	123.9%	+	=	-
✓ ADT	ADT Corporation	6:55 AM ET	\$0.04	\$1.60 B	21.5%	+	=	-
✓ EXC	Exelon Corp.	6:50 AM ET	\$0.72	\$5.01 B	-43.8%	+	=	-
✓ SPR	Spirit AeroSystems H...	7:30 AM ET	(\$0.39)	\$1.30 B	32.7%	+	=	-
✓ APD	Air Products & Chemi...	6:00 AM ET	\$2.77	\$3.28 B	15.4%	+	=	-
✓ ATHM	Autohome Inc.	5:30 AM ET	\$0.52	\$251.79 M	-8.0%	+	=	-
✓ ISEE	IVERIC bio, Inc.	6:30 AM ET	(\$0.40)	-	-	+	=	-
✓ MKTW	MarketWise, Inc.	7:30 AM ET	\$0.10	\$121.00 M	-	+	=	-
✓ CMRX	Chimerix, Inc.	6:30 AM ET	\$2.10	\$219.37 M	204,918.7%	+	=	-
✓ BFLY	Butterfly Network, Inc.	7:30 AM ET	(\$0.24)	\$21.40 M	46.4%	+	=	-
✓ CSWI	CSW Industrials, Inc.	7:00 AM ET	-	-	-	+	=	-
✓ JCI	Johnson Controls, Inc.	6:55 AM ET	\$0.99	\$6.78 B	6.1%	+	=	-
✓ WMS	Advanced Drainage ...	6:40 AM ET	\$1.88	\$929.83 M	31.6%	+	=	-
✓ CNQ	Canadian Natural Re...	BMO	\$2.09	\$7.63 B	12.7%	+	=	-
✓ PWR	Quanta Services, Inc.	6:55 AM ET	\$1.63	\$4.38 B	30.6%	+	=	-
✓ WCC	WESCO International...	6:00 AM ET	\$4.35	\$5.54 B	17.2%	+	=	-
✓ ADAP	Adaptimmune Therap...	BMO	(\$0.28)	\$4.04 M	235.8%	+	=	-
✓ FSS	Federal Signal Corp.	8:00 AM ET	\$0.53	\$368.71 M	23.6%	+	=	-
✓ TPX	Tempur Sealy Interna...	6:35 AM ET	\$0.74	\$1.29 B	-5.0%	+	=	-
✓ FIS	Fidelity National Infor...	7:00 AM ET	\$1.75	\$3.61 B	2.9%	+	=	-
✓ TRGP	Targa Resources Corp.	6:00 AM ET	\$1.23	\$6.96 B	56.1%	+	=	-

Market Trading Update

The market traded higher yesterday immediately after the FOMC rate announcement. However, it didn't last long as "Super Hawk" Jerome Powell spoiled the party by stating the Fed had more work to do. To wit:

*?The labor market continues to be out of balance, with demand substantially exceeding the supply of available workers? **reinforces the notion that the Fed is looking at both employment and inflation as giving it plenty of reasons to keep tightening.***

He then reiterated previous comments that **?at some point,? it will become ?appropriate to slow the pace of increases.?** The problem came as he most notably pointed out that **there is ?significant uncertainty? around that end-point** which he indicated by stating, **"we have some ways to go."**

However, just to make sure there were no questions about the Fed's intentions, Powell said:

"The question of when to moderate the pace of increases is now much less important than the question of how high to raise rates and how long to keep monetary policy restrictive."

That comment pushed terminal rate expectations above 5% and sank the market.

Yesterday's sell-off took out important supports and pushed the market back below 3800. While there is some minor support at the closing levels, the main level to defend is the 20-dma which is just below the close. More importantly, short-term sell signals were triggered, and our primary MACD indicator turned lower. If that indicator triggers, such would indicate the current reflexive rally is over. The failure at the 100-dma is not a good position for the bulls and suggests the bears remain in control of the market for now.



A Path to a Pivot

With Wednesday's solid ADP employment report and Tuesday's strong JOLTs data, the labor market is showing no signs of slowing down. Given the Fed's concern that higher wages will keep prices higher for longer, the Fed is not relenting from its hawkish narrative. However, they are providing themselves an out, of-sorts. The following statement was added to the FOMC statement:

*In determining the pace of future increases in the target range, the Committee will take into account the **cumulative tightening of monetary policy**, the **lags** with which monetary policy affects economic activity and inflation, and **economic and financial developments**.*

As the redlined statement shows, the only edits of note were the addition of this caveat of sorts.

For release at 2:00 p.m. EDT November 2, 2022

Recent indicators point to modest growth in spending and production. Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher food and energy prices, and broader price pressures.

Russia's war against Ukraine is causing tremendous human and economic hardship. The war and related events are creating additional upward pressure on inflation and are weighing on global economic activity. The Committee is highly attentive to inflation risks.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to raise the target range for the federal funds rate to 3-~~to~~ 3-1/4 to 4 percent. The Committee-and anticipates that ongoing increases in the target range will be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time. In determining the pace of future increases in the target range, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in the Plans for Reducing the Size of the Federal Reserve's Balance Sheet that were issued in May. The Committee is strongly committed to returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michael S. Barr; Michelle W. Bowman; Lael Brainard; James Bullard; Susan M. Collins; Lisa D. Cook; Esther L. George; Philip N. Jefferson; Loretta J. Mester; and Christopher J. Waller.

The Fed is not pivoting, but they are telling us that stopping rate hikes at some will be appropriate due to the effects of "*cumulative tightening*" and "*the lags with which monetary policy affects economic activity and inflation.*" Equally important, they acknowledge that "*financial developments*" will also factor into policy decisions. Prior to the statement, the Fed seemed to ignore liquidity issues in the U.S. Treasury market and weaker stock prices. At some point, a crisis here or abroad may be cause for a Fed pivot.

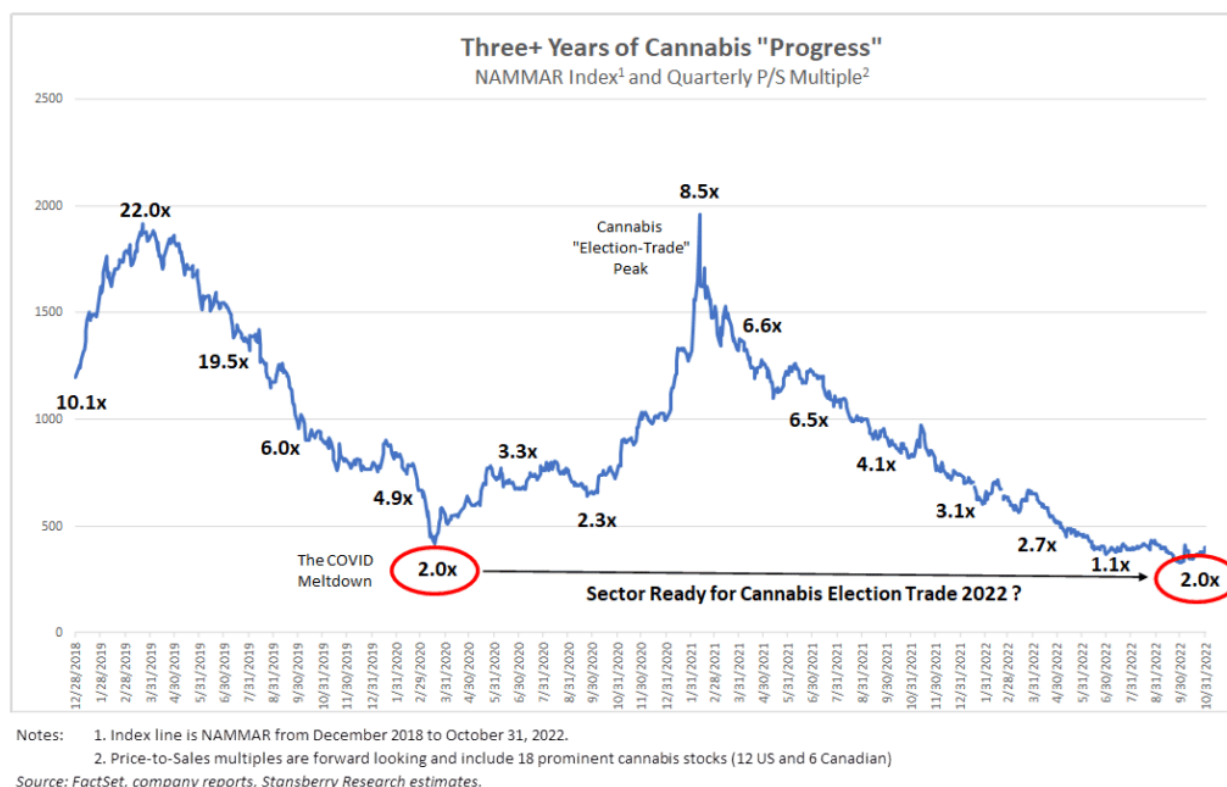
In our opinion, the Fed is not breaking new ground. By default, with each rate hike, they are closer to the terminal rate. We also knew the Fed would come to the rescue if financial conditions worsened. Lastly, of course, a sharp slowdown in the economy which will drive inflation much lower, will get them to rethink policy.

Alternative Idea- Cannabis Stocks

Biden recently took action to remove the Schedule I classification that Cannabis currently falls under. While his actions do not Federally legalize it, they make it much easier and more profitable to operate cannabis businesses. 37 states have legalized medical marijuana, and 19 have legalized the recreational use of marijuana. Further, 5 states are voting on recreational use at this year's elections.

Despite the consistent progress toward legalization and increasing accessibility at the state level, cannabis companies and valuations have faltered. AdvisorShares Pure US Cannabis ETF- MSOS is down 80% since February 2021. The fund's largest holding, Green Thumb Industries, is nearing five-year lows. The graph below shows that Price to Sales multiples for the industry is back to the lowest level in at least four years. With valuations relatively cheap and the rising odds for strong

growth, Cannabis stocks may be a sector worth following.



Who's Buying and Who's Selling?

The media often claims that either sellers or buyers drove the market's direction. The truth is that every time a stock trades, there is a buyer and seller. By understanding that simple fact, we can gain an edge by distinguishing what type of investors are buying or selling.

It is often said retail investors are dumb money and institutional and hedge funds are smart money. The table below from AEI argues otherwise. Per AEI- *"The S&P 500 Index Out-performed Hedge Funds over the Last 10 Years. And It Wasn't Even Close!"* Given the significant popularity of passive investment strategies that buy the major indexes, it's fair to say a good number of retail accounts and 401ks have beaten hedge funds over the last decade.

The second graph highlights how retail and hedge fund investors are currently positioning themselves. As it shows, retail investors (private clients) have been buying throughout the year. Right now, they do not seem very smart. Our concern is that the traditional "smart money," the hedge funds, which have been aggressively selling, are correct. That said, hedge funds have been buying recently, which may be a good sign if it continues. If retail becomes net sellers in 2023 and hedge funds large buyers, we may see active investment strategies beat out passive ones. Such would prove worrisome for the FAANG stocks and other mega-cap stocks. Small and mid caps, which are not well represented in passive funds, may outperform in such an environment.

Average Annual Returns, 2011 to 2020

Year	Average Hedge Fund	S&P 500 Index
2011	-5.48%	2.10%
2012	8.25%	15.89%
2013	11.12%	32.15%
2014	2.88%	13.52%
2015	0.04%	1.38%
2016	6.09%	11.77%
2017	10.79%	21.61%
2018	-5.09%	-4.23%
2019	10.67%	31.49%
2020	10.29%	18.40%

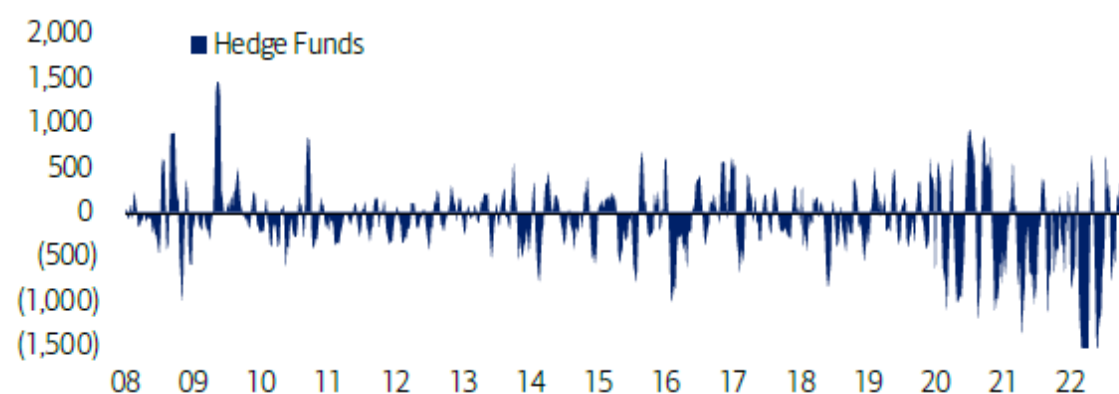
Sources: Barclay Hedge Fund Indices and NYU Stern School

Carpe Diem 

Rolling four-week average trends by client type

Exhibit 29: Hedge Funds: recent inflows

Net buys (4 week avg, \$ mn)

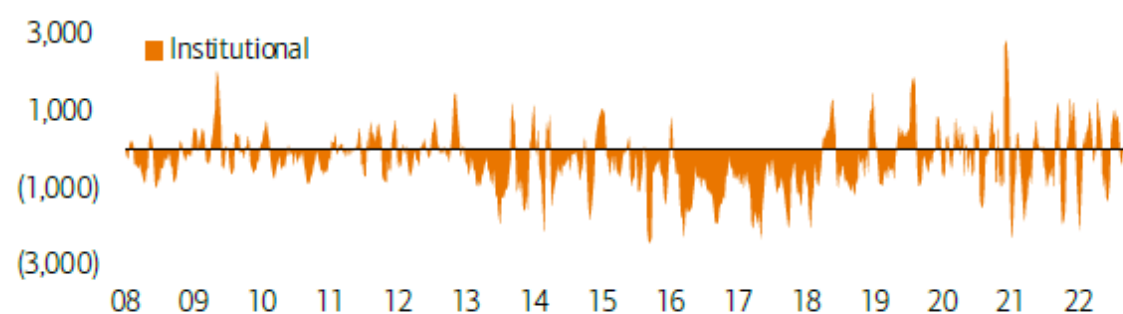


Source: BofA Securities

BofA GLOBAL RESEARCH

Exhibit 30: Institutional clients: recent inflows

Net buys (4 week avg, \$ mn)

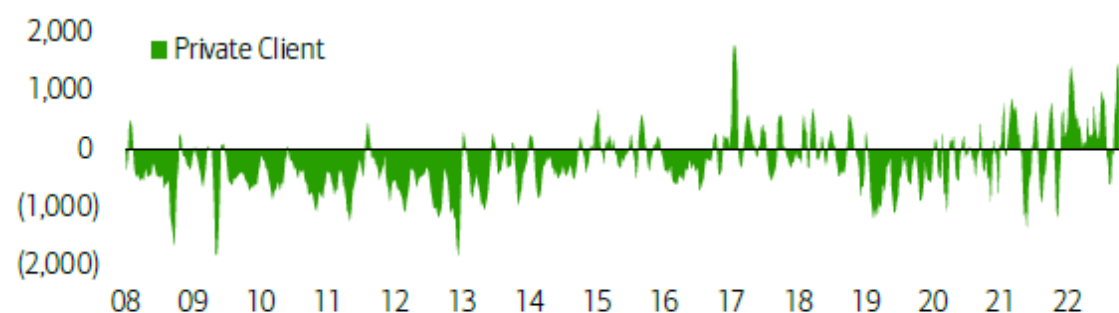


Source: BofA Securities

BofA GLOBAL RESEARCH

Exhibit 31: Private clients: recent inflows

Net buys (4 week avg, \$ mn)



Source: BofA Securities

BofA GLOBAL RESEARCH

Tweet of the Day



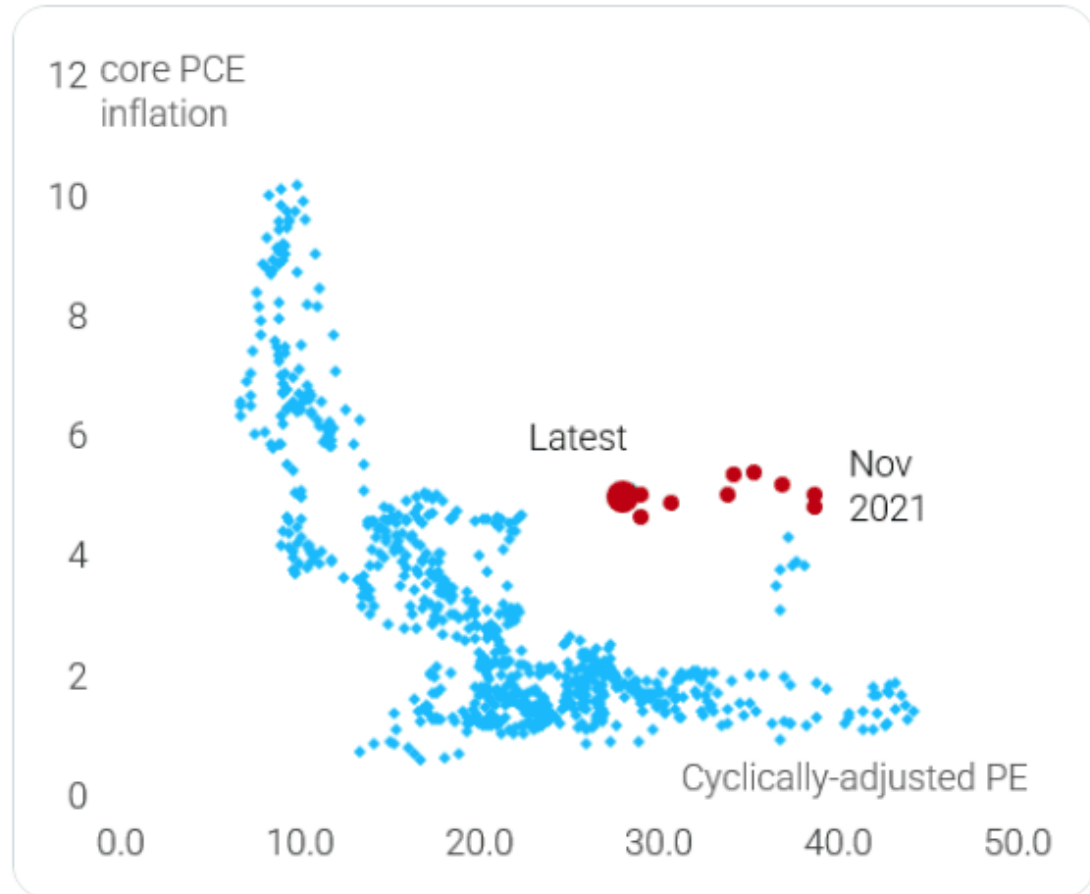
Dario Perkins @darioperkins · 3h

...

People hated this chart when I posted it 12 months ago. But I still kinda like it..

Based on history, either inflation had to come down ("transitory") or equity valuations were in trouble.

still a way to go...



14

26

137



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