Carvana, the online used car dealer, has had quite the fall from glory. On Wednesday, its shares fell by more than 40% as some of its large creditors signed a deal forcing them to act together in future debt negotiations with the company. Such agreements are often a precursor to bankruptcy. Carvana shares peaked at $375 a year and a half ago. Today, it trades below $5. Per CNBC: "*Following the creditor deal, Wedbush analyst Seth Basham said Wednesday that bankruptcy is becoming more likely for Carvana and downgraded its stock to underperform from neutral and slashed his price target to $1 from $9 per share.*"

The pandemic-related volatility in used car demand and prices did Carvana in. They did not have enough inventory when demand surged, and used car prices were soaring. To remedy the situation, they bought large numbers of used cars at inflated prices. Demand slowed, and used car prices fell, leaving Carvana with sizeable losses. Making matters worse, Carvana is finding that market liquidity conditions are poor. Carvana is a victim of the massive fiscal stimulus checks that distorted economic activity and now the poor liquidity conditions brought on by the Fed. A recession and further declines in used car demand and prices are likely to assure bankruptcy.

What To Watch Today

Economy

- 8:30 a.m. ET: **PPI Final Demand**, month-over-month, November (0.2% expected, 0.2% prior)
- 8:30 a.m. ET: **PPI Excluding Food and Energy**, month-over-month, November (0.2% expected, 0.2% prior)

- 8:30 a.m. ET: **PPI Excluding Food, Energy, and Trade**, month-over-month, November (0.1% expected, 0.2% prior)
- 8:30 a.m. ET: **PPI Final Demand**, year-over-year, November (7.2% expected, 8.0% during prior month)
- 8:30 a.m. ET: **PPI Excluding Food and Energy**, year-over-year, November (5.9% expected, 6.7% prior)
- 8:30 a.m. ET: **PPI Excluding Food, Energy, and Trade**, year-over-year, November (4.7% prior)
- 10:00 a.m. ET: **Wholesale Trade Sales**, month-over-month, October (0.3% prior)
- 10:00 a.m. ET: **Wholesale Inventories**, month-over-month, October final (0.8% prior)
- 10:00 a.m. ET: **University of Michigan Sentiment**, December Preliminary (56.9 expected, 56.8 prior)

?**Earnings**

	Company	Time	Estimate		Growth Show only confirmed?	Surprise
LI	Li Auto Inc.	5:00 AM ET	($0.19)	$1.40 B	16.0%	+ = -
JOUT	Johnson Outdoors Inc.	5:00 AM ET	-	-	-	+ = -

Market Trading Update

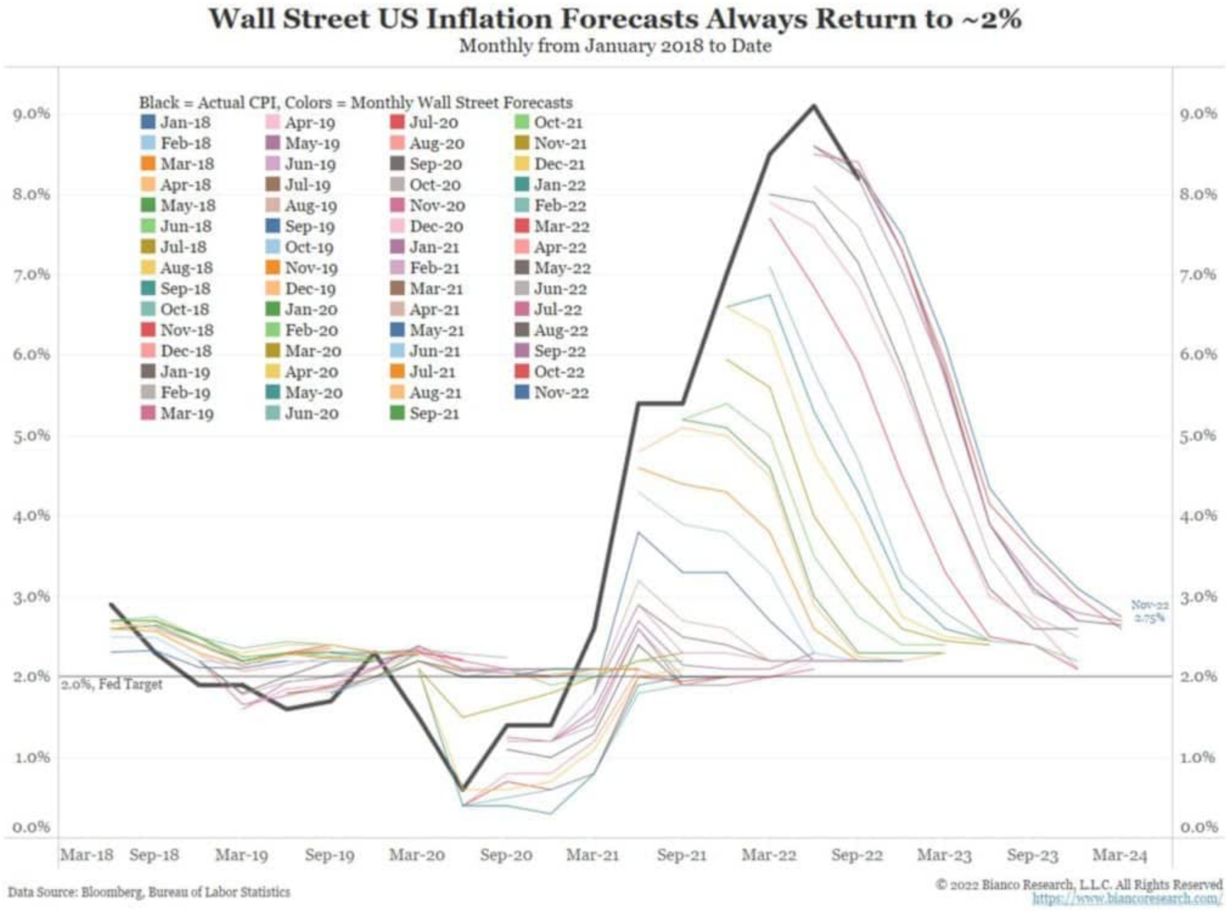
After a couple of tough selling days, the market mustered a weak rally off the 100-DMA support level. We are highly suspect of the buying yesterday, particularly ahead of the CPI report on Tuesday next week and the Fed on Wednesday. Our best guess is that inflation prints in line with expectations, and the Fed will likely be more hawkish than usual. Following Nick Timaros' article on Monday, I am fairly sure that Mr. Powell does not want a repeat of the market misinterpreting his intentions to hike rates until inflation is cured and hike them more than currently expected.

The market remains bullish and could rally a bit more today. However, the sloppy trading action is well within our expectations for the first two weeks of December as Mutual Funds make their annual distributions. Following next week's Fed meeting, the question is whether *"Santa Claus will visit Broad and Wall."*

When Will Wall Street Be Right

As they say, a stopped clock is right twice a day. Based on the graph below, we may say the same about Wall Street's inflation forecasts. Per the graph from Jim Bianco, Wall Street economists have been predicting inflation will fall rapidly back to the Fed's 2% target. Their forecasts have been grossly off the mark for the last two years, despite what appears to be such certainty from said economists.

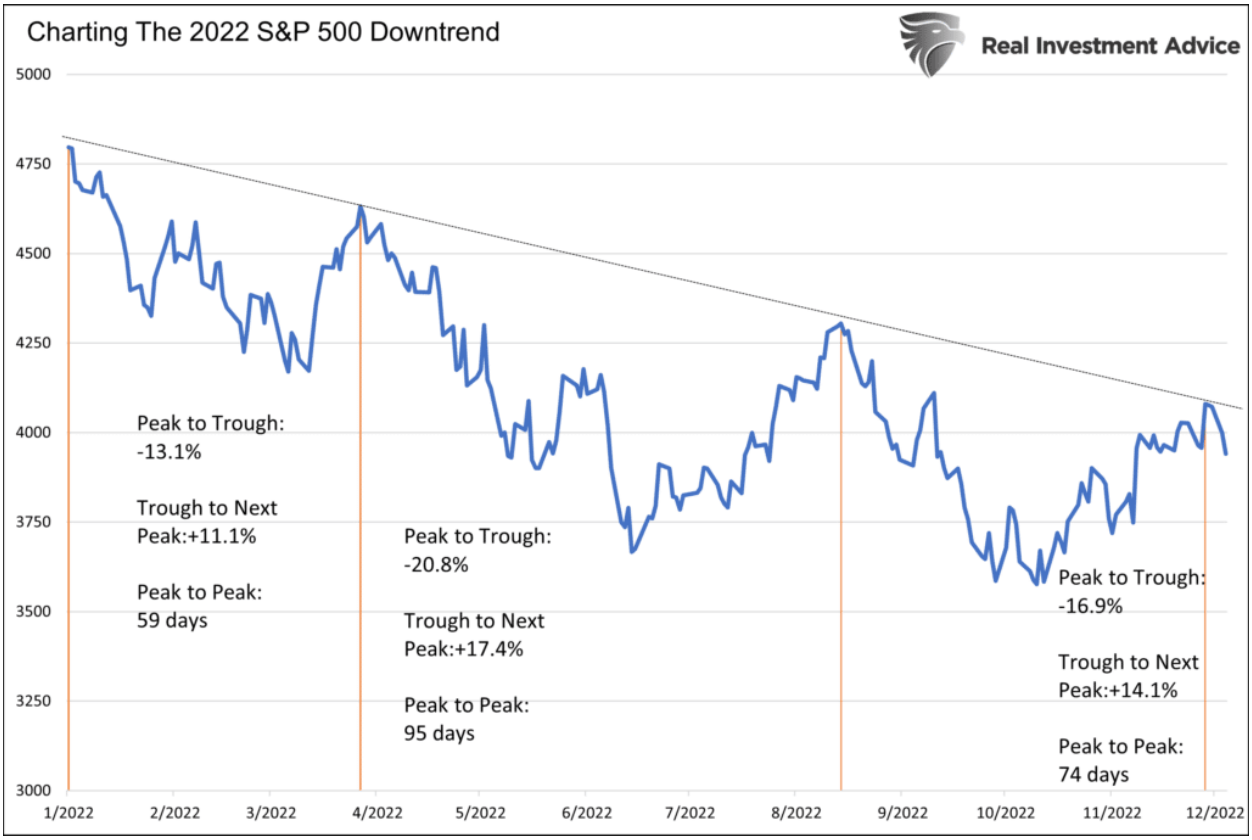
More interestingly, they might be learning from their errors. They still forecast that inflation will fall rapidly in the coming two years. But, they are slowly increasing the forecasted inflation rate for the end of their two-year forecasts. As you can see, the last point of each inflation prediction is gradually rising. Currently, they expect inflation to fall to 2.75% in the next two years. If they are correct, and financial instability does not raise its ugly head, it's unlikely the Fed will pivot in 2023. Might they be wrong again? There is a possibility the economy struggles and inflation falls much quicker than they expect.



The Next Leg of the 2022 Downtrend

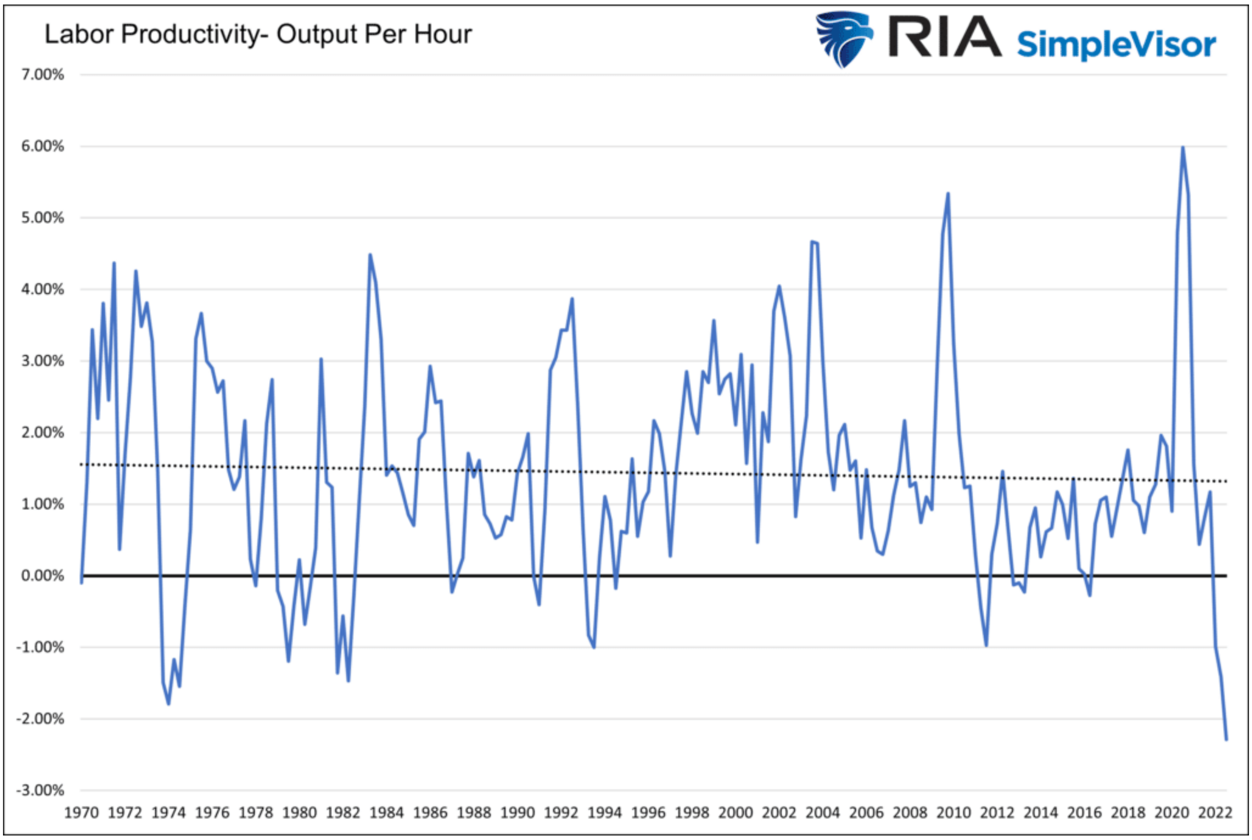
As we think about what 2023 may hold in store for stocks, it's worth looking at the 2022 downtrend in the S&P 500. As we show, the market has gone through a series of declines and rebounds. The black resistance line defines the peak of each rebound. Each of this year's three cycles has lasted between two and three months. Possibly most interesting, the rebound in all three cycles has been nearly identical. In each case, the bounce recaptured between 83% to 85% of the initial decline.

If the S&P 500 continues to repeat this cycle, we should expect this latest downturn to bottom below the prior trough. That low will probably not occur until February or March. At that time, a rally should kick off, which could recoup about 85% of the decline. We heavily caution cycles like this work until they don't. The current decline may be much steeper than the prior one and may not rebound like the other cycles. Conversely, the recent sell-off may only last a week or two before the price breaks above the trend line.



Labor Productivity

The graph below shows that annualized output per hour of labor, or labor productivity, is now at its lowest level in at least 50 years. While the recent decline is part of the normalization process, it should raise concerns about corporate profitability. Basically, a decrease in productivity means it is taking more labor hours to produce the same amount of goods.



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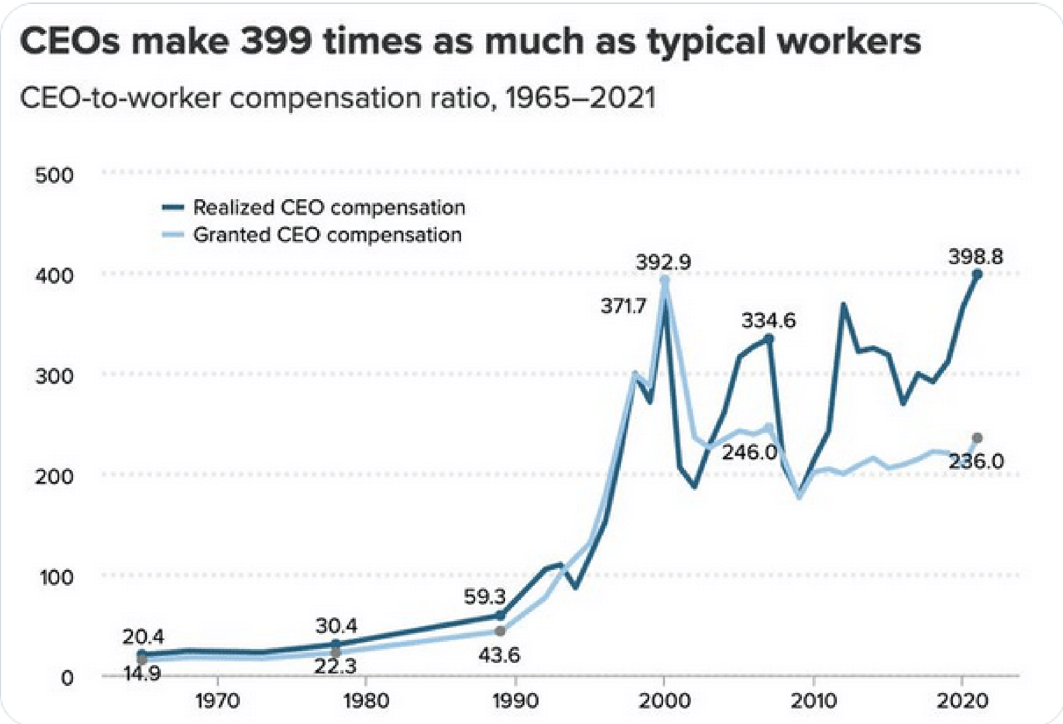
CEOs might be paid just a little bit too much ...



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