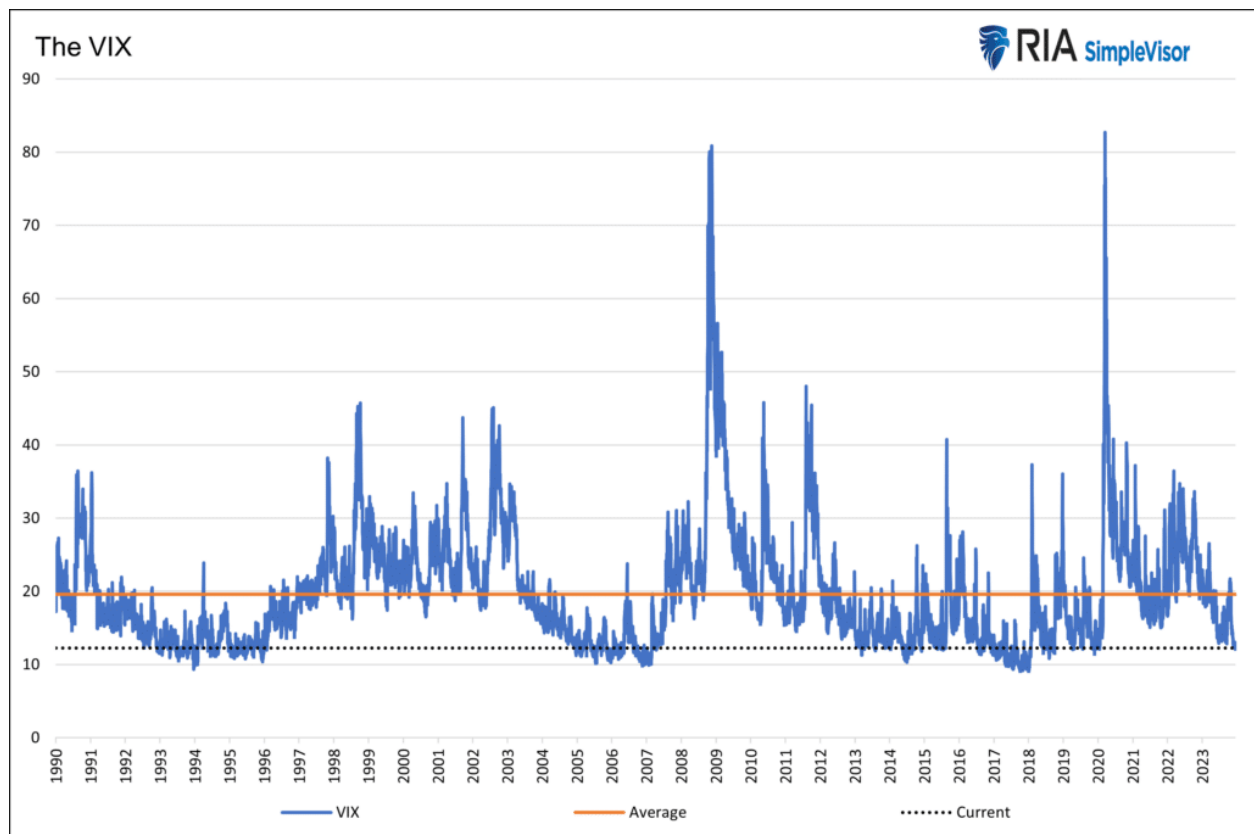


The VIX index, measuring the implied volatility of the S&P 500, is now at its lowest level since the pandemic started. Some bears warn that the very low VIX forewarns of trouble ahead. In one sense, they are correct. A spike in the VIX from very low levels, as we have today, ultimately precedes steep declines in the markets. However, the problem with the argument is that the VIX can stay at low levels for quite a while before a sell-off occurs. The dotted line shows the current VIX level is well below the historical average (orange), but it is at levels it has resided at for long periods.

From a trading perspective, using the VIX to anticipate market moves is difficult. However, the VIX helps measure investor complacency. The VIX is a function of the premium investors are paying for options. When the VIX is low, said premium is cheap and, therefore, a clue that investors are not actively hedging against losses. Accordingly, a low price for implied volatility allows investors to buy cheap insurance for those concerned that weakness lies ahead.



What To Watch Today

Earnings

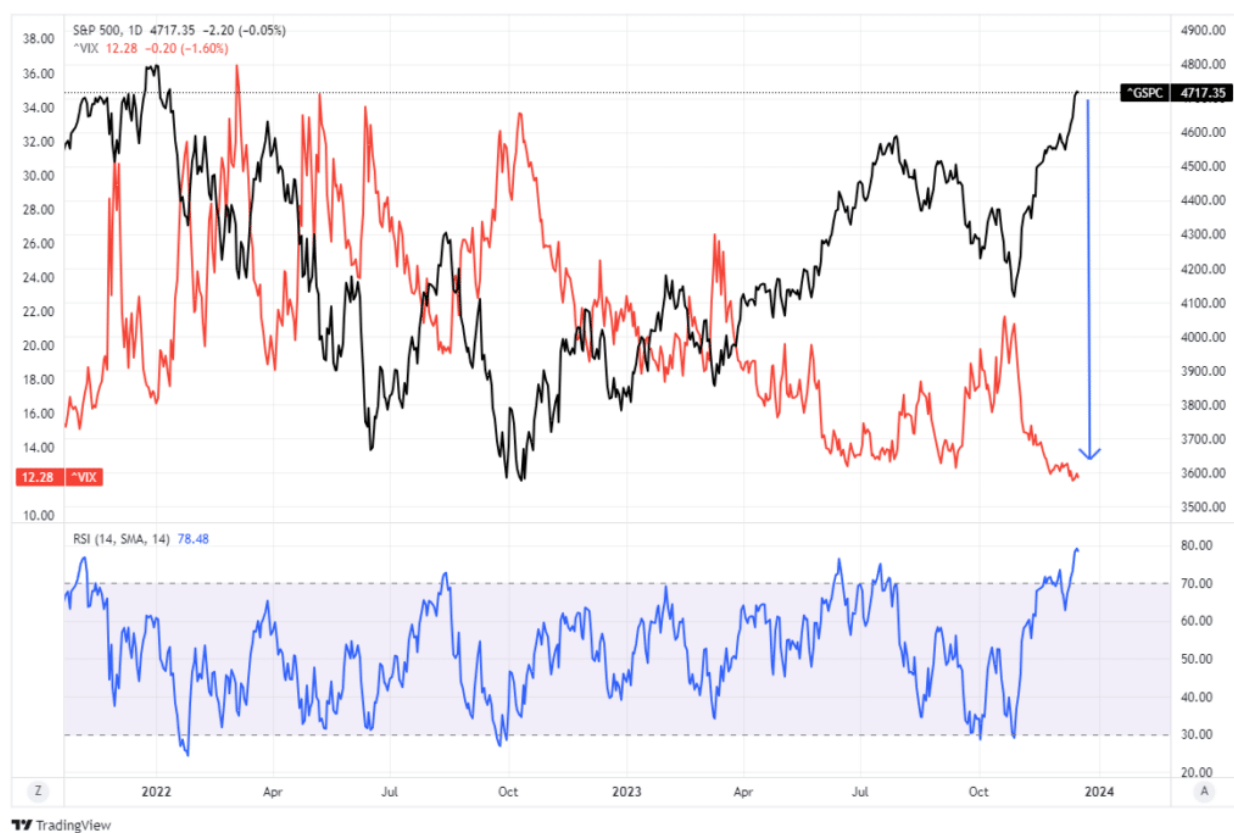
- *No notable releases today*

Economy

Time	Event	Impact	Actual	Dev	Consensus	Previous
MONDAY, DECEMBER 18						
15:00	USD NAHB Housing Market Index(Dec)		-	-	37	34
16:30	USD 3-Month Bill Auction		-	-	-	5.26%
16:30	USD 6-Month Bill Auction		-	-	-	5.19%

Market Trading Update

The week before Christmas and all through the house, not a trader will be stirring, not even a mouse. With volume drying up this week and very little economic or earnings data to drive markets, the risk of a pickup in volatility is present, given very suppressed levels. Combined with suppressed levels of volatility, the complete lack of fear, and overbought conditions, the environment for profit-taking heading into Christmas remains a possibility. However, given the uber-bullish sentiment, momentum, and the belief that "*Ole St. Nick*" will soon be here, anything is certainly possible. Continue to manage risk accordingly and hold equity positioning for now until the New Year.



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The Week Ahead

This week will be relatively quiet on the economic front. The big release occurs on Friday when PCE prices are released. The current estimate is for a .01% monthly increase. The much-watched core index is forecasted to fall by 0.1% to 3.4%.

All eyes are on the Fed this week. There will be a good number of Fed speakers opining about the last meeting. Will they walk back Powell's dovishness or shed more light on the potential for rate

cuts? Given that the economic projections showed that not a single member thinks rates will be higher this year or next, we can safely assume the bigger question is how long they pause. As we share below, the Fed Funds futures market implies a 14% chance of a rate cut in January, rising to 62% in March. By May, odds favor a second-rate cut. Additionally, Fed Funds traders think Fed Funds end the year at 3.75%, 1.50% the current Fed target. Even with recent Fed dovishness, such levels do not seem feasible without a recession.

CME FEDWATCH TOOL - MEETING PROBABILITIES									
MEETING DATE	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550
1/31/2024				0.0%	0.0%	0.0%	0.0%	14.5%	85.5%
3/20/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	9.8%	62.8%	27.4%
5/1/2024	0.0%	0.0%	0.0%	0.0%	0.0%	8.4%	55.1%	32.5%	4.0%
6/12/2024	0.0%	0.0%	0.0%	0.0%	8.3%	54.5%	32.8%	4.3%	0.1%
7/31/2024	0.0%	0.0%	0.0%	7.3%	48.9%	35.4%	7.8%	0.6%	0.0%
9/18/2024	0.0%	0.0%	6.5%	44.3%	36.9%	10.9%	1.4%	0.1%	0.0%
11/7/2024	0.0%	4.1%	30.7%	39.6%	20.3%	4.8%	0.5%	0.0%	0.0%
12/18/2024	3.4%	25.9%	38.0%	23.7%	7.6%	1.3%	0.1%	0.0%	0.0%

Pfizer Falters

Pfizer, one of the developers of the Covid vaccine, was one of the market's favorite stocks in 2021. From its March 2020 lows to its 2021 peak, the stock appreciated nearly fivefold. Since then, it has been consistently falling. It now resides below the 2020 trough and at levels last seen ten years ago. So what went wrong?

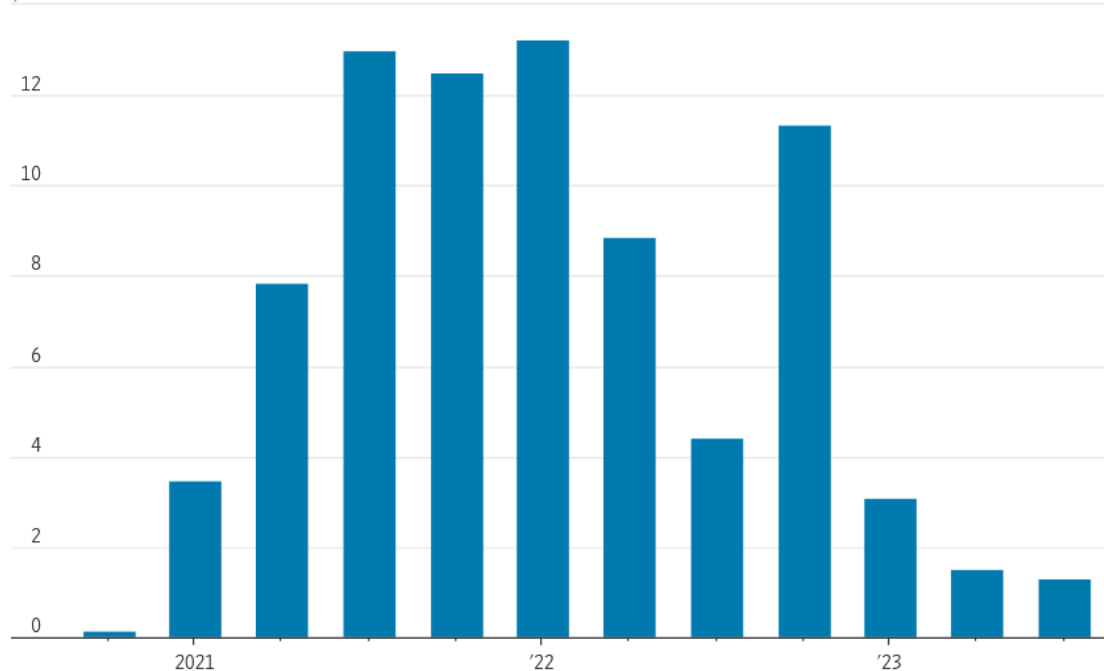
For starters, demand for the vaccine is down sharply. It is estimated, per the CDC, that only 17% of people over the age of 18 have taken the latest booster shot. For 2024, the company estimates \$8 billion in vaccine and Paxlovid sales. Consider that in 2022, the two products generated over \$100 billion in sales. The second chart below, courtesy of the WSJ, shows vaccine sales have fallen off a cliff.

Pfizer executives made a bad bet. They grossly overestimated the profit potential of the vaccine and Paxlovid. Therefore, research toward new and existing drugs with future revenue potential was underfunded. Consequently, the company is on a \$3.5 billion cost-cutting effort, including layoffs and reduced research investments.



Pfizer's worldwide vaccine sales, quarterly

\$14 billion



Source: Jefferies

Tweet of the Day



Eddy Elfenbein @EddyElfenbein · Oct 27

...

Taylor Swift's "53 US concerts this year added \$4.3 billion to the country's gross domestic product, according to estimates from Bloomberg Economics."

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