

OptionProfessor.com Quick Alert

May 5th, 2022

FED BLINKS! RELIEF RALLY OR BULL RUN?



BY THE OPTION PROFESSOR

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**OptionProfessor Alert:
Fed Blinks! Relief Rally or Bull Run?
May 5th, 2022**

The Fed's Meeting is done...the next one is June 15 and the next CPI print is May11. What possible outcomes loom ahead??

The Fed provided a highly telegraphed announcement today of a 1/2 point hike which was initially met with a yawn and a selloff. This was followed by the press conference where Powell said the 3/4 point hike feared for the next meeting was not being considered presently. We saw a short covering/ algo induced ORDER IMBALANCE that shot up the SPX & QQQ 3-4%!!

GREAT!...So what did Powell say (he was the one who said inflation was to be transitory...right??)? The main points we got from him was the economy is very strong.....the consumer is loaded and spending...companies are loaded spending.....and the jobs market is extremely tight & wages will remain high (he cites 11 Million jobs available versus 6 Million job seekers). POWELL BLINKED!!....rather than telling America that with all this money running around and a consumer who can borrow and a consumer spending up a storm....the likelihood of hitting the 2% inflation target with current policy....is ZERO! Also; the black out period will be over about May 15 so companies can do what they do best (not pay people) BUY BACK STOCK! The inflation numbers may MODERATE as the next 3 months YOY comparisons will be easy but 2% inflation-can't see it now. Should we be lucky to see sub 6% inflation by year end; interest rates are still way negative in relation to that inflation rate.

Powell failed to note that; historically, when we have exceeded a 4% INFLATION & Sub 4% Jobless = RECESSIONS followed.

This time may be different in the age of Printed Money Interference of Nature.. but if history doesn't repeat.. it may rhyme!

We said in our UPDATES that the VIX at 35+ is a buy zone unless we are to have a collapse (40+ VIX) and the SPX 4000 area was tested and held which set up this big rally that we saw in both STOCKS & BONDS which had 4 months of abject misery. Our NUMBERS on SPX 4442 RESISTANCE with SUPPORT at 4044 (it held) and 3700 (TBA?) and QQQ RESISTANCE 363 and 331 (tested today) and 288 (TBA?). REMOVING LIQUIDITY & NORMALIZING Financial Conditions is a rough racket and Jay Powell want an ORDERLY PROCESS. Powell won't ADMIT he's behind the curve...he has high hopes for SOFTISH

landing ?? They called the dogs off the STOCK & BOND Markets but between Tight Labor, Supplies/Inventories, Oil, War..How Long?

QUESTION...Has the new BULL MARKET BEGUN or is the just a RELIEF RALLY (Remember SPX 4631)???

There are many who believe the Month of May will have a RALLY that may even reach SPX 4442 RESISTANCE ZONE from sideline cash, short covering, corporate buybacks & reassurance from Powell--we're HIKING SLOW and NO RECESSION?

BEST CASE may be choppy until the fall when if inflation slows...the Fed may cite a win and the hikes may abate opening the door to valuation expansion & if the consumer spending remains...earnings may surprise on the upside...test or make highs

WORST CASE may be that this rally will be another SPX 4631 variety (fast & furious) followed by another Fed miscalculation that has us revisiting and taking out the lows and a protracted period of slower growth, earnings and stock & bond prices.

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We look forward to hearing from you,

Thanks

The Option Professor

- The Option Professor, 05/05/2022

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