

OptionProfessor.com Quick Alert

June 16th, 2022

STOCKS-FED DOES U-TURN-WHAT NOW?



BY THE OPTION PROFESSOR

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The Fed has done more U-Turns than the drivers going around the Arc de Triomphe in Paris:) First we were going to wait for the "whites of their eyes" of inflation before tightening, then inflation was going to be transitory, now it's going to be sticky but magically roller over in the next 24 months without the neutral rate going beyond 2.5% and top end about 3.5%. This is also going to happen without unemployment going above 4.1% and of course without a recession! We must remember the Fed FORECAST has not exactly been identical to reality and rather than calling it their BASE CASE it's more like BEST CASE!

Inflation is running at 8.6% (some say 13%) and the Fed Funds rate is 1.60% and that's going to slow demand and inflation? The dovish talk (.75% not expected to be common) and rosy 1-2 year forecast does not truly illustrate the risks ahead. By Powell's own admission; the consumer is still spending and is in great shape to keep it up and gas & food prices are not being cut & now it's 6 WEEKS before they meet again during what Powell called an "extraordinary uncertain environment". Lastly; although little done on \$9 Trillion the Balance Sheet.. Powell says the market is OK with it & no LIQUIDITY worries.

WHAT NOW? The SPX hit lows around 3700 (2.30 X 16 P/E) so we have discounted quite a bit of the negative news. The YIELD on the 10 yr. Treasury from a little over 2% to 3.5% in about 90 days...so a lot of rate hike jabber also discounted. Some say the Fed rate is most connected with the 2 yr Treasury which hit 3.40+ this week OVER 2.5% ABOVE before hike. Catch up is one thing...the Fed looks like the horses chasing Secretariat back in '73:). There are many MOVING AVERAGES above the markets and pointing DOWN BUT they are a distance ABOVE current prices. With positioning light and perceived good news from the Fed (at least they didn't say 100 point hikes and brace for recession)....NEAR TERM SPX needs to stay above 3775 and has a gap to fill near 3900....QQQ needs to stay above 278 and has gaps at 289 & 299. the Russell (IWM) needs to stay above 170 with gaps above 177 & 184. If the 10yr Treasury can stay UNDER 3.45%..it could aid the bounce.

We are watching GOLD closely as the recent sell off failed to take out \$1800 spot...if OVER 1900-1950...a lot of room above.

REMEMBER the major moving averages are still pointing down & allows for SPX to go to 4100...4370 and 4450 bear bounce

Powell himself called the environment "extraordinary-uncertain" and we could not agree with him on that more!

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- The Option Professor, 06/16/2022

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