

OptionProfessor.com Quick Alert

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# STOCKS-FED IS GONE-NOW WE GUESS?



BY THE OPTION PROFESSOR

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**OptionProfessor Alert:  
07/28/22 - Stocks-Fed is Gone-Now We Guess?**

The Federal Reserve is now officially out of the picture until September 21 (next meeting) and Powell left us with a 75 basis point hike and a promise to fight inflation with a 2% target from the 9.1% print. He stated that fed funds is now at neutral (we are skeptical & agree with Dudley-former Fed guy that Powell was overconfident with that one as this could be the follow up error to the "transitory" inflation narrative). Home prices still remain high (Hamptons homes jumped 14% YOY and while closings are down so are listings as most real estate was sold at extremely low mortgage rates. Supplies for FOOD & ENERGY remain tight and outside factors (weather-war ect) could still cause price spikes. Are rents being cut soon? Yes-Walmart & Target may discount excess inventory but durable goods orders this week were still up!

The GDP print today show that the economy contracted .9% (estimate was .4%) and it comes on the heels of a Q1 contraction of 1.6%. THIS IS NO SURPRISE as the Fed has TANKED the money supply from UP 30% last year (stimulus), yields have RISEN 250 basis points and 2021 was a banner year. In fact; it's as if you're shocked that water is wet.

The Fed left us with NO GUIDANCE and a "data dependent" mantra. EARNINGS are SLOWING and the GDP showed that net spending by the consumer's DOWN and business spending is DOWN. How will that affect EARNINGS going forward? The Media will be touting that 2 Q's of negative growth means RECESSION. Certainly not the talk to create confidence. The CONSENSUS OPINION is the Fed with stop at 3.25% Fed Funds and CUTS will be starting in 2023...CAVEAT EMPTOR!

Powell made it CLEAR that the two things that are TROUBLESOME are the INFLATION Rate and the LABOR Market. Both of these worries are NOT going away easily. Companies have figured out how to RAISE prices and REVERSING that trend is easier said than done. The Labor Market REMAINS TIGHT and many are demanding WAGE INCREASES to offset higher prices. When the Fed took the BALANCE SHEET up to \$9 trillion from \$4 trillion (big drain starts in Sept); they created a MONSTER in asset prices, household & corporate balance sheets. It's EASY to put on a trade & DIFFICULT to UNWIND!

RIGHT NOW- Stocks went wild yesterday as word that the Fed may stop soon got high frequency traders pressing the weak side (no offers) and we spiked UP. We believe the CAP on the SPX will be within our 3 SPX points 4085-4230-4400  
The DROP in yields back into our zone on Treasury 10 yr 2.60-2.30 is here BUT may well go HIGHER after this party ends

VOLATILITY will be the story for the rest of the year as CONSENSUS stocks hit lows & yields hit highs is CHALLENGED!

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