

OptionProfessor.com Quick Alert
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Stocks-Beware of Complacency? China & Gold?



BY THE OPTION PROFESSOR

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OptionProfessor Alert: Stocks-Beware of Complacency? China & Gold?

As we told investors in our 1 on 1 sessions; the first time the SPX tests its 200 day average it normally FAILS and this week we saw a test at 4325 and a DROP to 4250- a 75 point move-not bad. The news today showed that the JOBS market remains strong and prices paid continues to contract. Of course; when you DOUBLE mortgage rates in a year, the new housing activity will stall out BUT no major changes in prices generally. The economy can handle HIGHER Interest rates because the LEVERAGE in household balance sheets are at a 20 yr low and on banks & corporations are at RECORD lows. Th leverage has been transferred to the government balance sheet and they will spend (new \$795B bill).

SIDE BAR-We are monitoring the markets in CHINA & GOLD for potentially big opportunities before the end of the year
China's numbers stink & XI may STIMULATE aggressively; and GOLD may TURN on negative real rates-if Dollar peaks??

COMPLACENCY & SPECULATION abounds as we see the VIX still seeing a 19 handle and MEME stocks back in vogue. The markets are PRICED for inflation one year out to be 2 1/2% and the Fed Funds to top out at 3 1/4% followed by CUTS in 2023. The RISKS looking forward include the realization that the Fed Funds rate will be SUBSTANTIALLY higher and QT may be RESTRICTIVE (some say we have plenty of liquidity for the first \$2 Trillion). There is also COMPLACENCY about EARNINGS looking forward and margins. Inflation costs may surprise on the upside and inventories and consumers changing their spending habits (more conservative) may REDUCE earnings and OPERATING LEVERAGE thus stock prices.

FED POLICY is still very ACCOMMODATIVE and is nowhere near restrictive based on this INFLATION & LABOR market. The decoupling between the USA & China means that things will get more expensive structurally and should this begin to become apparent the REPRICING may occur. At SPX 4400 area; are we priced for high rates, sticky inflation, margins? The market has been a FREIGHT TRAIN in the last 2 months; if earnings stick and the Fed goes slow-higher we go-if not?

RIGHT NOW! Many stocks seemed to have stalled (AAPL MSFT AMZN GOOGL TSLA) and while we may see a rally going into LABOR DAY...the RISK in the month of SEPTEMBER is the FED moves and COMPLACENCY turns to CONCERN again.

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In 2022; The S&P 500 had DECLINES of 400 points TWICE and had RALLIES of 400 & 600+ TWICE so this is IMPORTANT!

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- 07/20/22 – STOCKS-Green Light For The BULLS?
- 07/14/22 – Stocks-From Concern to Panic?
- 07/12/22 – Growth Fears Replace Inflation Fears!
- 07/07/22 – STOCKS-Upside Surprise? Big News!
- 07/05/22 – STOCKS-Say Hello to DEFLATION!
- 06/30/22 – Stocks-Inflation Fears Now Earnings Fears
- 06/29/22 – Stocks-Where's the Rally Into July 4th?
- 06/23/22 – Stocks- BIG SPIKE Into July 4th?
- 06/21/22 – Stocks RIP Higher! Lows In?
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