

OptionProfessor.com Quick Alert  
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# Stocks-Listen to Bullard-We Do!



**BY THE OPTION PROFESSOR**

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## **OptionProfessor Alert: The Stock Market Calls the Dogs Off-How Long?**

||The stock market has been trying to hold the 200 week moving average and take out SPX 3820 so we can have that seasonal EOY Q4 that investors & advisors crave. So far this week the SPX has done the former but is having difficulty doing the latter....WHY?

We listed to St Louis Fed Man James Bullard as he spoke this week. He reiterated the known plan to hike rates BUT more than that he laid out expectations and reasoning. As we told readers since LAST YEAR; Don't Fight the Fed! We have food at home inflation running 13% causing consumers to buy less and going with just in time inventory. As we know when firms went this way it lead to shortages & when consumers do it it will lead to bloated inventories & discounting. Bullard is expecting the first half of 2023 to see a significant drop in prices albeit services & wage inflation harder to bring down. His concern for stock prices was minimal as long as markets are functioning. He referred to VALUATIONS as excessive has corrected and we understood him as inferring 18-20 P/E on SPX may have to be lower (we think maybe 13-15 P/E) finally. he also indicated Fed Funds may exceed core with a combination of lower inflation and a Fed Funds closer to 5% (maybe more?). After first half carnage; by year end '23 ok?

Right Now! Deflation is the key. Natural Gas is UNDER 6.50 which was important support and Crude has failed at resistance at 93-100. While IBM-Red Hat reports bode well for enterprise spending (MSFT-AMZN); these numbers are backward looking. Union Pacific says labor costs are rising and so far passing costs to the consumer has worked. We believe that game is closer to the end than the beginning. Bullard referred to UNEMPLOYMENT (another strong claims number today). He used the words reversion to the mean of 4.5% which is about 40% HIGHER than today's 3.5% rate.

There are a lot of markets that may see REVERSION to the mean in 2023. The US Dollar and the YIELDS on fixed income to name two. For instance the Yen hit 150 and the BP has lost about 20% with British Stocks at a 9 P/E! We are seeing JPM BAC long term non callable bonds trading in the 80's with yields well OVER 6%... tax free yields up too!

We may break SPX 3820 and get a EOY rally or not. We feel the biggest opportunity may lie in 2023 (2 months away) when an ACCELERATION of wreaking demand hits prices and earning and ultimately gives us that CAPITULATION when companies admit things are slowing and the recession becomes more apparent. We Walk BEFORE Run!

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