

OptionProfessor.com Quick Alert
December 15th, 2022

The Fed Will Win/Tug of War



BY THE OPTION PROFESSOR

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OptionProfessor Alert:
12/15/22 - The Fed Will Win/Tug of War

As we said in prior Alerts; the Fed hiked 50 basis points yesterday BUT as we also said their statement would NOT be one to promote easing financial conditions (market rally). In fact; there is consensus we're going TO AT LEAST 5.1% fed funds (now at 4.25%). We also told readers that SPX 4100 is a KEY RESISTANCE level and if you sold/hedged against that number you're a lot happier than those who bought the "breakout". You should CONTACT US to hear what we see next.

The TUG OF WAR that we refer to is between the FED and the Markets. The Fed keeps telling us that they want inflation down to 2%. Just like losing weight; the first 15 pounds can come off fast if you're way overweight (\$9 Trillion Dollar Balance Sheet). So going from 9% to 5% has the POTENTIAL to happen fast. Unless we see the LABOR market pull back; chances inflation will go anywhere near target is LOW (Fed realizes this will "take time" so Fed restrictive policy longer.)

Here's why they will win the war with lower Treasury yields. The market is driving yields LOWER (actually just reverting toward the mean as we said 2 months ago). The Fed can increase QT and sell Treasuries that would drive yields HIGHER. The Fed has 2 MANDATES; ONE is EMPLOYMENT which is at a 50 YEAR LOW (claims today till over 200K! & ongoing flat). The SECOND is PRICE STABILITY where inflation's coming off a 40 YEAR HIGH (7.1% minus 4.25% Fed Funds = 2.85% neg)

To REDUCE DEMAND; The Fed has to make SAVING look better than SPENDING. Short Term TREASURIES must stay high.

RECESSION talk is all the rage and this is where the Fed has RISK. Everybody's working and their wages are way UP. Employers are loathe to fire as they know how hard it's been to hire. SERVICES spending is NOT falling. Home sales were UP 4.2%. The banks aren't loaning BUT they are providing credit cards and consumers are using them against great cash flow from their jobs (minimum payment). Retail sales today were disappointing but let's see the next read with holiday shopping included. The point is consumer spending is 70% of the economy and they got money and are spending. You can throw in an ENERGY & COMMODITIES market spike potential next year & it's sayonara to recession & inflation drop

For stocks; if operating leverage comes back to bite, EARNINGS will be hit by COST pressures killing MARGINS. Ouch!

BEFORE YOU RUN OUT and buy Stocks, Gold, Tech, Energy, China, Industrials, Banks ect.....You Should Contact Us.

Our indicators of Time, Price, and Momentum have been very accurate and have helped many AVOID costly mistakes.

We have spoke of OVERSOLD times to buy and RESISTANCE on where to sell in Stocks-Bonds-Energy-Gold-China ect.

Don't let a BOUNCE from the October OVERSOLD conditions seduce you into thinking you're OK. The Fed will win.

LAST CHANCE! We are headed out to holiday in NYC & Turks & Caicos soon. You Should CONTACT US this week.

The Question is WHY? We take OUR indicators and look at YOUR stuff AND we SHARE our ideas for 2023, Value Added

Many of you have REGRETABLY BOUGHT into CHAT rooms, Lousy NEWLETTERS-COURSES-TRADE SERVICES-in 2022.

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Last Chance Before the Holidays!

Talk Soon
The Option Professor

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