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*PCE was hotter than expected in August. Interest rates continue higher. Is the Fed going to “break something?”*

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## The Hot List

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### 1. Inflation

The personal consumption expenditures price index, PCE, excluding food and energy, rose (<https://www.cnbc.com/2022/09/30/pce-inflation-august-2022-inflation-accelerated-even-more-than-expected-in-august.html>) 0.6% last month after being flat in July.

## 2. Federal Reserve

Fed Vice Chair Lael Brainard said Friday

(<https://www.bloomberg.com/news/articles/2022-09-30/brainard-says-fed-committed-to-avoiding-pulling-back-prematurely>) that “monetary policy will need to be more restrictive for some time” and that the Fed is “committed to avoiding pulling back prematurely.”

## 3. Interest Rates

Interest rates continue to shoot higher (<https://www.cnbc.com/2022/09/26/2-year-treasury-tops-4point3percent-as-yields-rise-following-fed-rate-hikes.html>) with the 10-year Treasury near 4%, the highest since 2010.

(<https://www.investors.com/news/economy/federal-reserve-meeting-wall-street-expects-yield-curve-control/>)

## 4. Ukraine

Suspected explosions cause leaks (<https://www.npr.org/2022/09/27/1125401980/nord-stream-leaks-explosions-russia-natural-gas-sabotage>) in the Nord Stream 1 and 2 pipelines.

## 5. Earnings

Nike and Micron reported tough quarters last week. Both companies had rising costs and excess supply issues.

# Last Week

**Monday:** S&P 500 -38.19 (-1.03%) to 3655.04. No major headlines.

**Tuesday:** S&P 500 -7.75 (-0.21%) to 3647.29. New home sales were better than expected (685K vs 500K). Consumer confidence was above expectations (108 vs 105).

**Wednesday:** S&P 500 +71.75 (+1.97%) to 3719.04. Pending home sales were worse than expected (-2.0% vs -0.5%).

**Thursday:** S&P 500 -78.57 (-2.11%) to 3640.47. Weekly jobless claims hit a 5-month low (193K

vs 213K expected).

**Friday:** S&P 500 -54.40 (-1.50%) to 3585.62. PCE index was hotter than expected (core 0.6 vs 0.5 expected). PMI was below expectations (45.7 vs 51.9).

## S&P 500 [S&P] Technical Look

**Potential Support:** If the S&P can't hold 3600 and the 200-week moving average, then look for some support at the psychological 3500 level.

**Potential Resistance:** To the upside, look for resistance back at previous support levels around 3650 and 3700. If it breaks above there, then 3900 could be back in play.

## Top Ideas

Large Cap Technology

Military

Staples

Energy

Healthcare

Short-Term Treasuries

## My Take

After the hotter-than-expected August PCE reading, the S&P closed at new lows for the year. The lack of cooling in the data is certainly disheartening as it seems apparent that prices are coming down "on the ground." So now it appears that the Fed will continue to be more aggressive, according to their commentary. These actions are worrying investors as they have done so much already and may not be giving their policies enough time to work. It's leading many to wonder if they are going to "break something" or have a major unintended consequence of these actions.

From a technical standpoint, damage has been done with the S&P closing below the June lows, near 3600. The last time the index was this low was in 2020 during the COVID-19 pandemic. We also just wrapped up the worst September – a historically bad month – since the 2008 Financial Crisis.

When it comes to the stock market, there is very much a "fight or flight" instinct that kicks in. The price action and negativity Friday certainly felt much more of a "flight" as investors just want to get out of the market. This could be seen by the breadth of the selloff with an RSI below 30 and an elevated VIX – or fear index. In closing, if there is any reason for

positivity it might be found in the old Warren Buffet quote, “be fearful when others are greedy and greedy when others are fearful.” Well, there is plenty of fear out there right now, so it may be time to get greedy – provided you have a long enough time horizon.

In these volatile times, it’s important to be prepared for all outcomes. If you need assistance, contact us today to develop your Investing Game Plan™ – DreamWork Financial Group’s proprietary investment management system, please **contact us today** (<https://dreamwork.financial/contact/>).

Until next time,

Clint Kirby

Chief Financial Strategist

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