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A hot jobs report cooled the big rally that kicked off the new quarter. Will the CPI report cause the Fed to reconsider another massive hike?

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The Hot List

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1. Inflation

The highly anticipated September CPI report will be released this Thursday, Oct.13.

2. Federal Reserve

There was a lot of **commentary (https://www.reuters.com/markets/us/feds-cook-supports-preemptive-rate-hikes-against-stubbornly-high-inflation-2022-10-06/)** from various Federal Reserve members last week. Expectations have not changed for a 75bps at the next meeting.

3. Interest Rates

The U.S. **added 263K jobs (https://www.nytimes.com/live/2022/10/07/business/jobs-report-september-economy)** in September – more than the 250K expected – bringing the unemployment rate down to 3.5%. The **JOLTS report (https://www.bls.gov/news.release/jolts.htm)** earlier in the week showed a decline in over 1 million job openings. **(https://www.investors.com/news/economy/federal-reserve-meeting-wall-street-expects-yield-curve-control/)**

4. Interest Rates

Interest rates continue higher with the 10-year Treasury rate back near 4% and the average 30-year mortgage over 7%.

5. Ukraine

Here is a **link (https://www.bloomberg.com/news/articles/2022-10-09/ukraine-latest-russian-strikes-kill-at-least-17-in-zaporizhzhia)** to latest on the war in Ukraine.

Last Week

Monday: S&P 500 +92.81 to 3678.43. Credit Suisse issued a memo to investors. ISM Manufacturing Index below expectations (50.9% vs 52.0% exp.)

Tuesday: S&P 500 +112.50 (+3.06%) to 3790.93. JOLTS showed a drop in 1M job openings.

Wednesday: S&P 500 -7.65 (-0.20%) to 3783.28. The ADP report was stronger-than-expected (208K vs 198K).

Thursday: S&P 500 -38.76 (-1.02%) to 3744.52. Weekly jobless claims were below expectations (219K vs 203K).

Friday: S&P 500 -104.86 (-2.80%) to 3639.66. The Sep. jobs report was better-than-expected (263K vs 250K).

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

In the last newsletter, I wrote that I was worried that the Fed may break something. Then Monday morning, Credit Suisse issued a memo reminiscent of Lehman's before financial crisis. Investors thought that this could be the moment to give the Fed pause, and it sparked a massive 2-day rally. However, it was apparent by the end of the week that investors had thought wrong.

In addition to a hot jobs report, there was a slew of Fed commentary pointing to 75 basis points at the next meeting. And as interest rates shot back up, stocks began to sell off, putting the S&P back near the critical 3600 level.

One thing that could cause the Fed to reconsider another aggressive hike would be the upcoming CPI report. If there is any sign that inflation is cooling, that could be the "data" they need to finally start to slow. However, at this point, I don't think anyone is too optimistic that the CPI report will go in our favor. Wages and real estate will continue to lag and likely won't show any decline in this report.

Now investors continue to hope that the Fed, who couldn't see inflation coming after printing trillions of dollars, will know how to fix it. I'm worried that when things fall, they are going to fall dramatically. Some of these hikes won't have even kicked in yet and could cause a much more severe slowdown than necessary.

If there's a positive to end on, it's that the markets will surely bottom before the TV anchors or newspapers tell you it's time to buy. It seems that we are getting to the light at the end of the tunnel as far as rate hikes. However its unlikely to know when Powell is going to announce a "pause." If you aren't invested on that day, you could miss out on a historic move. But markets are also likely to drop significantly until that day comes.

Therefore, it's important to determine if you need to play offense or defense now. Missing on the upside can be just as detrimental as the getting hurt on the downside, depending on your time horizon and overall objective. The lower we go, the higher the possible returns on the other side. You just have to know your appetite for risk and how much volatility you can stomach here.

In these volatile times, make sure you have a game plan and be prepared for all outcomes in the week ahead. If you need an Investing Game Plan™, our proprietary investment management system, please **contact us today (https://dreamwork.financial/contact/)**.

Until next time,

Clint Kirby

Chief Financial Strategist

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