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**Published**  
**October 17, 2022**

*The hotter-than-expected CPI report sent investors on a wild ride. Can earnings spark a big fourth quarter rally?*

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## The Hot List

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### 1. Inflation

The CPI report was hotter than expected as prices increased (<https://www.cnbc.com/2022/10/13/consumer-price-index-september-2022-.html>) 0.4% from August to September and 8.2% from last year.

## 2. Federal Reserve

The September Fed minutes showed (<https://www.cnbc.com/2022/10/12/fed-minutes-october-2022.html>) that they expect rates higher for longer.

## 3. Earnings

A few big banks, like J.P. Morgan and Morgan Stanley, reported (<https://www.investors.com/news/bank-earnings-jpmorgan-wells-fargo-morgan-stanley-citi-pnc-set-to-report/>) earnings Friday showing large increases in interest revenue. This week investors will hear from companies like Netflix, IBM and Tesla. (<https://www.investors.com/news/economy/federal-reserve-meeting-wall-street-expects-yield-curve-control/>)

## 4. Interest Rates

The 10-year Treasury hit (<https://www.cnbc.com/2022/10/14/treasury-yields-fall-as-markets-digest-inflation-data.html>) 4% again. Mortgage rates reached a 20-year high with rates near 7%.

## 5. Geopolitics

Xi warns (<https://www.cnbc.com/2022/10/16/xi-warns-against-taiwan-interference-at-chinas-cpc-national-congress.html>) against interference in Taiwan. 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 -27.27 (-0.75%) to 3612.39. No major headlines.

**Tuesday:** S&P 500 -23.55 (-0.65%) to 3588.84. Bank of England revised its policy again.

**Wednesday:** S&P 500 -11.81 (-0.33%) to 3577.03. PPI report was hotter-than-expected (0.4% vs 0.2%). Fed minutes released.

**Thursday:** S&P 500 +92.88 (+2.60%) to 3669.91. CPI report was hotter-than-expected (0.4% vs 0.2%). Jobless claims as expected (228K vs 225K).

**Friday:** S&P 500 -86.84 (-2.37%) to 3583.07. Retail sales worse-than-expected (0.0% vs 0.2%). Banks reported earnings.

## 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 3500 level which was Thursday's low.

**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

Technology

Military

Energy

Healthcare

Treasuries

## My Take

While the CPI report was the main focus last week, the price action that followed the report was more interesting. Expectations were for a hot CPI report and a massive selloff to follow, which happened – initially. However, once the 3500 level of the S&P was breached, a massive rally ensued with the index closing up nearly 100 points – a near 200-point swing. This huge move not only reflects how uncertain the current environment is but also shows that there is a lot of demand on the sidelines. There are only so many times you can sell on the same piece of news, and we may be seeing some selling exhaustion. The PPI and CPI reports were both hot and the lack of selling could be signs that investors may be coming to grips that inflation is going to be hot for a while and the Fed messed up.

Friday's selloff put the index back near the critical 3600, essentially leaving it unchanged for the week. Now, it should be up to earnings to dictate where stocks are headed. Friday's bank earnings were a bright spot but they are one area that benefits from rising interest rates. This week, we will hear from some tech companies like IBM, Netflix and Tesla, which should be adversely affected by the current rate environment. Expectations have been that a decline in earnings would be what would cause the next leg lower for the markets. So, these earnings are the next battleground between the bulls and bears.

If earnings come in broadly lower with weaker guidance, the E (earnings) in the P/E ratio (price/earnings) will have to come down – even if valuations are considered fair. However, if earnings come in broadly higher, the reverse is true, and the overly negative sentiment could possibly spark a massive fourth quarter rally.

With so many other macro events like the war in Ukraine, tensions over Taiwan, Britain's financial instability, expect volatility to remain with us for a while. Just be prepared to navigate the choppy waters. 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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