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The S&P's weekly win streak was snapped after Powell's hawkish remarks. Can the October CPI report help a 4Q rally?

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The Hot List

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1. Inflation

The highly anticipated October consumer price index will be released on Thursday.

2. Federal Reserve

The FOMC raised (<https://www.cnbc.com/2022/11/02/fed-rate-hikes-could-go-even-further-than-expected-as-powell-commits-to-stomp-out-inflation.html>) rates by 75 bps as expected. Chairman Powell was more hawkish than expected at the press conference. He hinted at slowing the pace of hikes but extending them longer than anticipated.

3. Employment

U.S. payrolls grew (<https://www.cnbc.com/2022/11/04/jobs-report-october-2022-.html>) by 261K in October, which was better than expected. The unemployment rate rose to 3.7%. (<https://www.investors.com/news/economy/federal-reserve-meeting-wall-street-expects-yield-curve-control/>)

4. U.S. Politics

Midterm elections are this week and could be the most consequential in years with many spots up for grabs.

5. Geopolitics

German Chancellor Schulz visited (<https://www.bbc.com/news/world-europe-63496195>) President Xi urging him to use his influence to press Putin to end the war with Ukraine.

Last Week

Monday: S&P 500 -29.08 (-0.75%) to 3871.98. Chicago PMI for October was 45.2 (vs 47.1 expected).

Tuesday: S&P 500 -15.88 (-0.41%) to 3856.10. JOLTS showed 10.71M jobs open in September.

Wednesday: S&P 500 -96.41 (2.50%) to 3759.69. FOMC raised rates 75bps. ADP report was better than expected (239K vs 198Kest.)

Thursday: S&P 500 -39.80 (-1.06%) to 3719.89. ISM Non-Manufacturing for October was 54.2%. Initial jobless claims were as expected 217K.

Friday: S&P 500 +50.66 (1.36%) to 3770.55. October jobs report was better than expected (261K vs 220K).

S&P 500 [S&P] Technical Look

Potential Support: To the downside, look for support at 3700 and the 20 day moving

Potential Support: To the downside, look for support at 3700 and the 20-day moving average. If it can't hold that, then expect further support at 3600.

Potential Resistance: To the upside, expect resistance at 3800 near the 50-day moving average. If it can't break above it, then 3900 is the next spot to watch.

Top Ideas

Technology

Discount Retail

Military

Healthcare

Energy

My Take

The S&P's weekly winning streak came to an end after Powell's hawkish commentary and another great jobs report. The initial reaction to the Fed's prepared statement was extremely positive. It sounded like they were getting ready to pause and let the lag effects from the previous hikes continue to filter through the system. However, at the press conference it was a bitter, hawkish Powell preparing investors for a slower pace of tightening but for longer than anticipated.

The jobs report Friday was much stronger than expected but showed some clues of weakening as the unemployment rate ticked up slightly. The reaction to the report reflected the mixed signals with an initial selloff and a big rally into the close. A strong labor market implies the Fed must continue hiking, but I believe it also increases the chances of a soft landing.

To have any sort of fourth quarter rally, the CPI report needs to show signs of cooling. The Fed is talking tough right now and there is a reason. The "tool of the tongue" is powerful and all the FOMC members are very aware of its influence. So, we should forget about any signals of a pivot — even if that was their original intentions. However, the board is data-dependent, so if CPI starts to move in the right direction, the markets should start to anticipate the "pause," regardless of what the Fed members say — or don't say.

From a technical standpoint, the S&P remains at a crossroads between the 20-day and 50-day moving averages. I anticipate the CPI report dictating which way the index breaks. If we get a cooler number, look for a significant breakout above 3800 with that resistance level becoming support. And if the opposite occurs, I'd expect the index to drop below 3700 with it turning into resistance.

If you need help managing your investments, **contact me** (<https://dreamwork.financial/contact/>) to get your Investing Gameplan™, DreamWork's proprietary investment management system.

Until next time,

Clint Kirby

Chief Financial Strategist

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