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The jump in interest rates continues to weigh on stocks. The CPI report was the hottest since 1981. Can earnings season turn us around?

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The Hot List

↑ HOT

1. Ukraine

Here's a **link (https://www.nytimes.com/live/2022/04/17/world/ukraine-russia-war-news)** to the latest in Ukraine.

2. Inflation

CPI **jumped (https://www.nytimes.com/live/2022/04/12/business/cpi-inflation-**

report) 8.5% in March which was the largest jump since 1981. PPI also rose (https://www.bls.gov/ppi/) 11.2% in March which was the highest since 2010.

3. COVID-19

China continues to lockdown (https://www.reuters.com/world/china/shanghai-reports-more-symptomatic-covid-cases-more-lockdowns-imposed-2022-04-16/) cities such as Shanghai due to the rise in COVID-19 cases. (https://www.investors.com/news/economy/federal-reserve-meeting-wall-street-expects-yield-curve-control/)

4. Interest Rates

Interest rates continue to shoot higher with the 30-year mortgage rate over 5%, an 11-year high.

5. Earnings

Earnings season is about ramp up with big earnings from companies like Netflix, Tesla, Johnson & Johnson and American Express.

Last Week

Monday: S&P 500 -75.75 (-1.69%) to 4409.00. Treasury yields spike.

Tuesday: S&P 500 -16.00 (-0.36%) to 4393.00. CPI jumped 8.5% in March, the most since 1981.

Wednesday: S&P 500 +49.14 (+1.12%) to 4446. 59. PPI rose 11.2% from a year ago, highest since 2010.

Thursday: S&P 500 -54.00 (-1.21%) to 4392.59. Retail sales rose 0.5% in March. Initial jobless claims slightly missed estimates (185K vs 170K).

Friday: Markets closed.

S&P 500 [S&P] Technical Look

Potential Support: With the S&P now below the 50-day moving average, the next area to look for support is 4300. If it drops below that, look for support near 4200 and the yearly lows.

Potential Resistance: To the upside there should be resistance at the 50-day moving average. If the index jumps above that level, there should be resistance at 4500 near the 20-day and 200-day moving averages at the 4600 level.

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My Watchlist

Yield

Discount Retail

Healthcare

Emerging Markets

Technology

Luxury

My Take

The S&P continued its sell-off last week as the recent rally has started to fade. It was a shortened trading week with relatively few headlines. The only major news was inflation data that everyone already new was going to be hot, so it makes sense that things would cool off.

Many of the support levels have now been broken to the downside. The S&P closed the week just below 4400, which might be the most important technical level to watch. If it drops much below that, then the yearly lows could certainly be in play again.

This earnings season is likely to be the key to which direction we go from here. Investors will be closely watching the forward guidance companies will be reporting, not only about revenues, but how costs are impacting them. If the majority of the big ones can report strong earnings, I could see markets taking a leg higher. However, if they don't, then there may be little reason left for stocks to rally in the short run.

Rising interest rates continue to weigh on stocks. Not only are they eating into the valuations of companies' future cash flows, but there are starting to give investors an alternative to the stock market. We've talked about the TINA trade for years now (**T**here **I**s **N**o **A**lternative to stocks). But with bonds starting to pay returns that are no longer laughable, it could be another headwind for stocks.

The hot inflation data we've been seeing could be one reason that investors might stay in stocks. With inflation data north of 8%, you can still be losing money to inflation by investing in bonds that pay less than that. And with the war in Ukraine and lockdowns occurring in China again, it's starting to look unlikely that inflation will slow until those are resolved.

This brings us back to the Fed. They appear to be considering a 0.5% hike at the next Fed meeting. They have signaled that they are behind the curve and ready to take a hammer to inflation. Investors now appear to be expecting multiple half-point rate hikes that would allow the Fed to get a handle on inflation.

Now the questions is: how much can the Fed actually do to slow inflation? They can't do anything about Russia or supply chains, and things seem to be slowing. Is the Fed really ready to send us into a massive recession?

This is the debate to me. On the one hand we could be staring at stagflation (which could be worse than a recession), but on the other hand this could be peak hawkishness in an economy that is still very strong. A lot of negativity should already be reflected in stocks as we've been talked about this for some time. But it could also be a massive paradigm shift from having an unprecedented amount of money in the system that created abnormally high valuations.

So as always, stick closely to your current game plan here and don't make changes, but continue watching the technical levels and earnings closely. If you have a shorter time horizon or are conservative, continue to remain defensive – focusing on yield and areas that don't fluctuate as much like utilities, staples and healthcare. And if you are riskier and have a longer time horizon, look at buying your favorite beaten up growth names at a discount while maintaining a defensive core.

If you need help evaluating your investment strategy or would like me to manage your money, please contact **DreamWork Financial Group today. (https://dreamwork.financial/contact/)**

Until next time,

Clint Kirby

Chief Financial Strategist

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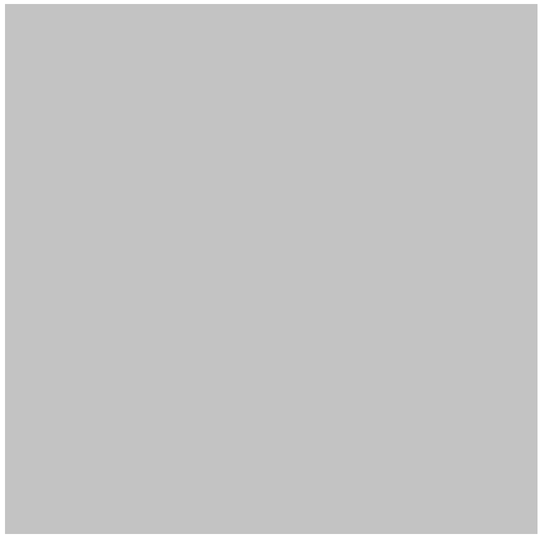

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