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The S&P 500 hit “oversold” technical levels last week. Inflation continues to rise. Has such bad sentiment created great opportunities?

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The Hot List

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1. Inflation

Consumer prices have (<https://www.bls.gov/news.release/cpi.nr0.htm>) risen 8.3% since last year. Producer prices have (<https://www.bls.gov/news.release/ppi.nr0.htm>) risen 11% since last year and 0.5% in April alone.

2. Ukraine

Here is a link (<https://www.wsj.com/livecoverage/russia-ukraine-latest-news-2022-05-14>) to the latest in Ukraine.

3. Federal Reserve

Fed's Mester is "comfortable" with 0.5% rate hikes at next two meetings (<https://money.yahoo.com/cleveland-fed-mester-interest-rate-hikes-151904583.html>). (<https://www.investors.com/news/economy/federal-reserve-meeting-wall-street-expects-yield-curve-control/>)

4. China

Shanghai suggests (<https://www.nbcnews.com/news/world/shanghai-lockdown-china-zero-covid-rcna28744>) lockdown may end soon as pressure on China's "zero-COVID" policy grows.

5. Interest Rates

Mortgage rates rise again (<https://news.yahoo.com/mortgage-rates-rise-again-170109355.html>) with the average 30-year fixed rate up to 5.3%, two full percentage points since the start of the year.

Last Week

Monday: S&P 500 -132.10 (-3.20%) to 3991.24. S&P closes below 4000, the lowest close since March 2021.

Tuesday: S&P 500 +9.81 (+0.25%) to 4001.05. No major headlines.

Wednesday: S&P 500 -65.87 (-1.65%) to 3935.18. CPI rose 8.3% in April (vs 8.1% expected).

Thursday: S&P 500 -5.10 (-0.13%) to 3930.08. Producer prices rose 11% in the last year.

Friday: S&P 500 +93.81 (+2.39%) to 4023.89. Consumer sentiment dropped again for May (59.1 vs 63.5).

S&P 500 [S&P] Technical Look

Potential Support: To the downside, look for support near 3900 – the yearly closing lows. If the S&P 500 breaks that, then look for additional support near the intraday lows at 3850, which is about 20% from the highs for the index and indicative of a bear market.

Potential Resistance: To the upside, look for resistance starting above 4100, which was the bottom of the previous trading range – prior support. If it breaks above that then look for further resistance just higher at 4200, near the 20-day moving average.

My Watchlist

Staples

Luxury

Technology

Military

Healthcare

My Take

While last week was another rough one for stock investors, the market may have shown signs of bottoming. The theme last week was inflation as we got major CPI and PPI reports on consumer and producer prices respectively. Both reports were “hot” as expected but did provide hope that inflation may have already peaked with some areas starting to decelerate.

From a technical perspective, the S&P 500 hit oversold territory with an RSI (relative strength index) of 31. When it’s at a level below 40, the index is oversold and gets more likely to bounce the lower the number goes. Was Friday’s bounce just an oversold technical bounce, or could it be the start of something more on the heels of the inflation reports? That is the big question!

Each of the last few bounces have been quickly sold and the odds are that this one could get sold as well. However, something about the action on Thursday seemed capitulatory, where investors were just “throwing in the towel.” It was a high-volume day with around 9 to 1 stocks in decline. So, basically a “bloodbath” all around in every sector.

This is the complete opposite of the FOMO which was happening this time last year. That type of action usually presents those rare opportunities to pick up great companies that were just thrown out like garbage. And when a company like Google is trading a 20 P/E ratio, which is cheaper than a toilet paper company like Kimberly Clark, it seems like sentiment may have overshot to the downside.

There is obviously still a good chance the U.S. could go into a recession, which could make these numbers make a little more sense. But for investors with a longer time horizon, these could be the moments that you’ve been waiting on.

There are many potential catalysts out there. The events in Ukraine are still a wild card and COVID-19 is still lurking and impacting the supply chains in China. However, the stock market is all about expectations and it's starting to feel like expectations are about as low as they can get.

If the S&P 500 can show any follow through this week, then it may make sense to get slightly more aggressive for investors of all risk levels. That's a big "if" though.

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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