Home (https://dreamwork.financial/) » Research (https://dreamwork.financial/category/research/) » Investing Hotsheet (https://dreamwork.financial/category/research/investing-hotsheet/) » Investing Hot Sheet

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The U.S. added 390K jobs in May. The much anticipated CPI report is coming out this week. Can the S&P hold the 4100 level?

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The Hot List

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1. Inflation

The Consumer Price Index (CPI) for May is **scheduled (https://www.bls.gov/news.release/cpi.nr0.htm)** to be released on Friday.

2. Ukraine

Here is a **link (https://www.aljazeera.com/news/2022/6/4/russia-ukraine-live-news-severodonetsk-counteroffensive-underway-liveblog)** to the latest in Ukraine.

3. Federal Reserve

Chair Powell met with Biden last week to discuss inflation. Vice Chair Brainerd **said (https://www.cnbc.com/2022/06/02/fed-vice-chair-lael-brainard-says-its-hard-to-see-the-case-for-the-fed-pausing-rate-hikes-.html)** "it's very hard to make the case" for pausing rate hikes. **(https://www.investors.com/news/economy/federal-reserve-meeting-wall-street-expects-yield-curve-control/)**

4. Employment

The U.S. **added (https://www.cnbc.com/2022/06/03/jobs-report-may-2022-.html)** 390K jobs in May, which was better than expected (328K est.).

5. China

Biden administration **may relax (https://www.foxnews.com/politics/biden-relax-china-tariffs-ease-inflation)** Chinese tariffs in effort to slow inflation.

Last Week

Monday: Markets closed for Memorial Day.

Tuesday: S&P 500 -26.09 (-0.63%) to 4132.15. PMI released. Powell & Biden discuss inflation. Consumer confidence at 106.4.

Wednesday: S&P 500 -30.92 (-0.75%) to 4101.23. Beige book released. Brainerd comments.

Thursday: S&P 500 +75.59 (+1.84%) to 4176.82. ADP report. Jobless claims released. Productivity and labor costs worst than expected.

Friday: S&P 500 -68.28 (-1.63%) to 4108.54. Jobs report better than expected (390K vs 325K). ISM down.

S&P 500 [S&P] Technical Look

Potential Support: If the S&P breaks 4100 to the downside, then look for support at previous resistance levels 4000 and 3900.

Potential Resistance: If the S&P holds 4100, then look for resistance at 4200 and just higher at the 50-day moving average.

My Watchlist

Discount Retail

Luxury

Tech

Military

Healthcare

My Take

For most of the short trading week, the S&P went sideways. However, that sideways move could prove to be significant following the big move higher the previous week. Above 4100, the S&P is now looking to establish a new trading range or risk falling into the prior one.

This will most likely be determined by the upcoming CPI report. Inflation is enemy number one for the Fed and the stock market. If the inflation number is higher than expected, it means the Fed may have to get even more aggressive, while a lower CPI could give the Fed room to pivot.

Last week's jobs report showed that the economy is still very strong, keeping the Fed from worrying about that aspect of their dual mandate (maximum employment and price stability). Corporate earnings also seem to be bottoming out with many companies retaining their forward guidance.

China's reopening is huge from a global economic standpoint. Supply chains getting back to normal should provide a much needed boost across most sectors.

The main question remains whether the U.S. is headed for a big recession, with lots of layoffs, or if the economy can remain strong enough where workers can move to other – hopefully – available jobs. That's a tough question due to the current situation with Fed tightening and the war in Ukraine.

If the economy can avoid a recession, then many beaten up sectors should be ready to bounce back as valuations, sentiment and expectations have come down significantly. But if the economy is hit with a recession, there is still farther stocks can fall as investors will stay

risk averse favoring yields and liquidity.

How you invest here has to do with what your time horizon is and whether you think we're going into a deep recession. There is certainly room for this recent positive momentum to continue but it's important to not get lured into another potential bear market rally.

Valuations among a lot of tech and growth stocks look attractive compared to their "cash cow" rivals, especially if you have a long-time horizon, but in the short run they could look attractive for a reason. If rates continue to shoot higher or the U.S. sees a deep recession, companies that have current cash flow will continue to shine. But if you do have a longer time horizon, then look at adding to your favorite beaten up names that you'd be happy to own 3-5 years from now.

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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