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The CPI report was hotter-than-expected. Earning season kicked off. Retail sales showed consumer strength but can Friday's rally continue?

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The Hot List

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1. Inflation

The Consumer Price Index for June **increased (https://www.bls.gov/news.release/cpi.nr0.htm)** by 9.1% from last year, which was the largest increase since Nov. 1981. The Producer Price Index **increased (https://www.bls.gov/ppi/)** 11.3% from last June.

2. Ukraine

Here is a **link (https://www.aljazeera.com/news/2022/6/26/russia-ukraine-live-news-indonesia-leader-to-visit-kyiv-moscowhttps:/www.aljazeera.com/news/2022/6/20/russia-ukraine-live-news-moscow-to-intensify-attacks-kyiv-liveblog)** to the latest in Ukraine.

3. Federal Reserve

Fed officials **signaled (https://www.reuters.com/markets/us/fed-officials-still-leaning-75-basis-point-rate-hike-july-2022-07-15/)** that a .75% interest rate increase is likely at the upcoming July meeting. **(https://www.investors.com/news/economy/federal-reserve-meeting-wall-street-expects-yield-curve-control/)**

4. Earnings

Second quarter earnings kicked off last week with a big miss by JP Morgan on Thursday. However, Friday a slew of other banks like Citigroup, Schwab and Citigroup beat earnings.

5. Economy

Retail sales **rose (https://www.cnbc.com/2022/07/15/retail-sales-june-2022-.html)** more than expected showing resiliency among consumers.

Last Week

Monday: S&P 500 -44.95 (-1.15%) to 3854.43. No major headlines.

Tuesday: S&P 500 yield -35.63 (-0.92%) to 3854.43. The 2-10 Treasury yield curve inverted significantly.

Wednesday: S&P 500 -17.02 (-0.44%) to 3801.78. CPI report hotter-than-expected (1.3 vs 1.1 last month)

Thursday: S&P 500 -11.40 (-0.20%) to 3790.38. PPI report hotter-than-expected, JP Morgan missed earnings.

Friday: S&P 500 +72.78 (+1.92%) to 3863.16. Retail sales report was much better than

Friday: S&P 500 [illegible] Retail sales report was much better than expected (1.0% vs 0.8%).

S&P 500 [S&P] Technical Look

Potential Support: To the downside, look to 3700 for support which has held up for the last few weeks.

Potential Resistance: To the upside, 3900 remains the critical level to watch which is also where 50-day moving average currently sits.

Top Ideas

Healthcare

Growth

Tech

Military

Staples

My Take

The S&P 500 remains at a critical level following last week's headlines. Just when it seemed like a hot CPI number would push stocks back to the lows of the year, the S&P rallied to close near 3800. Then as investors moved their focus to earnings, JP Morgan reported a big miss and the S&P still held onto 3800. That suspicious strength set the tone for a big rally Friday as retail sales came in much better than expected alongside a slew of great earnings reports.

Now the question is whether that was another bear market relief rally or if this time could be different?

On the one hand, valuations have come down significantly and the small sample of earnings haven't needed to be revised lower. The labor market is holding up and there is a chance that CPI could've peaked since that data was from June before many commodity prices had cooled.

On the other hand, the global economy is weakening and it seems likely that inflation will remain elevated unless the Fed continues to slow the economy.

From a technical standpoint, markets are holding up despite the negative headlines. But for this rally to have any kind of significance, I'd want to see the S&P get back above 3900 and the 50-day moving average. If the index can break that level, then bears may have to retreat.

The bottom line is that everyone has known things are bad for a while. Stocks are about expectations and can bottom before the economy bottoms. However, you should remember that our current situation is unprecedented as the Fed is basically trying to “unprint” money. It doesn’t feel as serious as 08-09 when the financial system could’ve collapsed, but this is also the first time they’re trying to undo some of the easy money policies since then.

So, there is a chance this rally could have legs but I’d wait to get confirmation that earnings will hold up before getting more aggressive.

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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