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*The hawkish Fed minutes from the December meeting caused interest rates to jump.  
Can earnings stop the S&P's current losing streak?*

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## The Hot List

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### 1. COVID-19

The U.S. reported (<https://www.cnn.com/2022/01/04/us-counts-over-1-million-new-daily-covid-cases-in-global-record.html>) over 1M daily cases last week. While cases are spiking, the weekly average for deaths is 1200, well below last year's records.

### 2. Federal Reserve

The Fed discussed (<https://www.cnbc.com/2022/01/05/fed-minutes-december-2021.html>) running off the balance sheet as well as raising rates at the December meeting..

### 3. Inflation

Last week's ISM PMI report showed the prices paid fell (<https://www.fxstreet.com/news/us-ism-manufacturing-pmi-falls-to-587-in-december-vs-600-expected-202201041500>) to 68.2 from 82.4 which was the lowest since November 2020 showing supply chain bottlenecks may be easing. Euro zone inflation hits 5% which is another record high.

(<https://www.investors.com/news/economy/federal-reserve-meeting-wall-street-expects-yield-curve-control/>)

### 4. Interest Rates

The 10-year has jumped to a 2-year high at over 1.8% following the hawkish fed minutes.

### 5. Employment

Friday's jobs report showed the U.S. added 199K jobs in December. The JOLTS report showed a tight labor market with over 10 million job openings.

## Last Week

**Monday:** S&P 500 +30.38 (+0.64%) to 4796.56. No major news.

**Tuesday:** S&P 500 -3.02 (-0.06%) to 4793.54 JOLTS showed 10.6 million job openings in November.

**Wednesday:** S&P 500 -92.96 (-1.94%) to 4700.58. Private payrolls rose by 807K, much more than expected.

**Thursday:** S&P 500 -4.53 (-0.10%) to 4696.05. Weekly jobless claims reported (207K vs 195K expected).

**Friday:** S&P 500 -19.03 (-0.41%) to 4677.02. The U.S. added 199K jobs in December vs 450K expected.

## Technical Look



**Potential Support:** The S&P 500 closed Friday right at the 50-day moving average just below 4700. If this level fails to hold, 4600 should serve as mild support with 4500 being the next major level to watch.

**Potential Resistance:** If the S&P 500 continues higher from here then 4800 is where you should expect resistance.

## My Watchlist

Defensive

Luxury

Value

Fintech

## My Take

As expected, the sideway action on the S&P 500 for the last couple weeks set us up for a big move. Unfortunately that move was lower following the Fed minutes from the December meeting. The hawkish tone led to a big jump in interest rates which led to more selling in the growth names. Now the S&P sits at the 50-day moving average which is another crossroads for the U.S. stock market.

The surge in COVID-19 cases is also adding some pressure on stocks but at the moment doesn't seem to be worrying investors. They remain looking for any clues on inflation and the economy among the murky backdrop of the pandemic.

This coming week should start to give us some substance as we get a lot of bank earnings and the CPI report. It appears that markets have determined that the easy money days of the Fed are over and now it's time for the economy to show its strength.

Imagine if earnings season starts to deliver a lot of good news and if inflation starts to subside as supply chains clear up, or the possibility that omicron has sped up the end of the pandemic. There is still a lot of money circulating in the system to fuel growth.

Interest rates jumping have spooked the stock markets. While it does put pressure on valuations and the T.I.N.A. trade, I don't think it has to be a bad thing for stocks. If interest rates are rising for the right reason, a strong economy, then stocks should benefit plenty. However, if it is rising more to do with inflation, then that could spell trouble.

Since this is still up for debate, it is important to position your portfolio accordingly and be prepared for all scenarios. If you are more conservative or have a shorter time horizon then

you probably want to stay more defensive with equities and use variable rate bonds instead of fixed income. If you are riskier or have a long-time horizon then it's probably a good time to add some of your favorite growth names that have been cut in half from the highs as they will have their day again.

Anyways, if you need help or would like me to manage your investments, please **contact DreamWork Financial Group (<https://dreamwork.financial/contact/>)** today.

Until next time,

Clint Kirby

Chief Financial Strategist

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