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The Omicron surge may be slowing. The Consumer Price Index was the highest since 1982. Earnings could dictate which way markets go next.

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The Hot List

↑ HOT

1. COVID-19

The Omicron surge is **showing (https://www.cnbc.com/2022/01/17/omicron-wave-shows-early-signs-of-easing-in-states-hit-early.html)** signs of easing in states hit early.

2. Federal Reserve

Powell **reassured (https://www.reuters.com/business/futures-rise-ahead-fed-chair-powells-testimony-2022-01-11/)** investors that the economy can withstand tightening in last week's testimony.

3. Inflation

The consumer price index (CPI) **rose (https://www.cnbc.com/2022/01/12/cpi-december-2021-.html)** 7% in December, which was the highest since 1982. **(https://www.investors.com/news/economy/federal-reserve-meeting-wall-street-expects-yield-curve-control/)**

4. Earnings

Earnings season will pick up this week with earnings from major companies like Goldman Sachs, Netflix, and United Airlines.

5. Geopolitics

The Senate is looking to impose **sanctions (https://www.reuters.com/world/us/us-democrats-slam-cruz-nord-stream-2-sanctions-bill-ahead-vote-2022-01-13/)** on Russia if Moscow engages in hostilities against Ukraine.

Last Week

Monday: S&P 500 -6.73 (-0.14%) to 4670.29. No major headlines.

Tuesday: S&P 500 +42.78 (+0.92%) to 4713.07. Powell gave testimony at his nomination hearing.

Wednesday: S&P 500 +13.28 (+0.28%) to 4726.35. CPI rose 7% in December.

Thursday: S&P 500 -67.33 (-1.42%) to 4659.02. Wholesale prices jumped record amount.

Friday: S&P 500 +3.63 (0.08%) to 4662.85. Retail sales missed estimates.

Technical Look

Potential Support: To the downside, 4600 should serve as mild support for the S&P 500, with 4500 as the major level to watch.

Potential Resistance: To the upside, the 4700 level for the S&P 500 is the first spot th should see resistance. If it breaks that level, then it could approach the recent highs, around 4800

My Watchlist

Defensive

Luxury

Metaverse

Value

Fintech

My Take

Investors continued to digest higher inflation numbers from December's CPI and PPI reports last week. Fears are increasing that the Fed is getting farther behind the curve and will have to raise rates aggressively to stop inflation. However, the latest surge in Omicron continues to disrupt the economy making it harder for the Fed to act.

During Powell's nomination last week, it appears he thinks the economy is strong enough to handle a few rate hikes. It seemed like he was trying to signal that the Fed wouldn't continue to err on the side of the economy over inflation. Now the Fed is entering a blackout period, so investors will have to turn their attention to earnings and the underlying economy.

The hawkish sentiment from the Fed has caused earnings to matter much more than they have. Valuations and P/E ratios have become the major focus of investors. As earnings reports come out, prices will have to move to reflect a fair relative P/E for its stock.

Earnings season has gotten off to a mild start with weaker-than-expected numbers from financials like JP Morgan and Citigroup. The financial sector had very high expectations so I wouldn't read much into the earnings misses. Now, this week we'll get a read from other areas of the economy with earnings from Netflix, United Airlines and Procter and Gamble. These names could determine which way the market heads next.

Personally, I think Powell and the Fed have gotten investors prepared for liftoff. And if they are raising rates because the economy is really strong, then the stock market should welcome it. There are certainly areas of inflation that are worrisome. Sectors like rents and wages will be sticky, however, I think ()many areas can still be attributed to supply chain disruptions.

With lack of real yields (net of inflation), stocks still seem to be the best place to be. However, it seems pretty certain that we will remain in a volatile period for stocks. Due to this, it is important that you take this time to evaluate your personal risk / reward and this, it is important that you take this time to evaluate your personal risk / reward and investment goals. If you prefer higher risk , then this volatile period can be the perfect time to add some beaten up long-term growth to your portfolio. However, if you have a shorter time horizon than you may not be able to recoup any significant losses so you may want to stay defensive. 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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