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*Merck's COVID-19 treatment pill is a gamechanger. Government avoids a shutdown.
Inflation jumped in August to 30-year high.*

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The Hot List

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1. COVID-19

Merck said its COVID-19 treatment pill cuts the risk (<https://www.cnbc.com/2021/10/01/merck-to-see-emergency-authorization-for-oral-covid-19-treatment.html>) of hospitalization and death by around 50%.

2. Federal Reserve

Two top Fed officials stepped down
(<https://www.nytimes.com/2021/10/27/business/fed-reserve-kepler.html>)



<https://www.nytimes.com/2021/09/27/business/fed-rosengren-kaplan.html>) because of trades they placed. Elizabeth Warren opposes Powell's reappointment (<https://www.bloomberg.com/news/articles/2021-09-28/warren-says-she-opposes-powell-for-second-term-as-fed-chair>) as Fed Chair.

3. Inflation

PCE report shows inflation in August spiking back to 30-year high (<https://www.marketwatch.com/story/u-s-inflation-rises-sharply-again-in-august-and-remains-at-30-year-high-pce-shows-11633092039#:~:text=The%20PCE%20index%20is%20viewed,for%20a%20more%20expensive%20one.>). Euro zone inflation also jumped to a 13-year high (<https://www.cnn.com/2021/10/01/euro-zone-inflation-hits-highest-level-in-13-years-as-energy-prices-soar.html>) as energy prices soar. (<https://www.investors.com/news/economy/federal-reserve-meeting-wall-street-expects-yield-curve-control/>)

4. Capitol Hill

Government shutdown was avoided (<https://abc7news.com/government-shutdown-2021-debt-ceiling-default-us-national/11064205/>) as President Biden signed 9-week funding bill.

5. Employment

Weekly initial jobless claims rose (<https://www.cnn.com/2021/09/30/weekly-jobless-claims.html>) again to highest level since early August.

Last Week

Monday: S&P 500 -12.37 (-0.28%) to 4443.11. Capital goods orders rose strongly in August.

Tuesday: S&P 500 -90.48 (-2.04%) to 4352.63. Consumer confidence fell in September. Yields highest since June.

Wednesday: S&P 500 + 6.83 (+0.16%) to 4359.46. Home sales rose in August.

Thursday: S&P 500 -51.92 (-1.19%) to 4307. Powell and Yellen testify before Congress. House passes funding bill to avoid shutdown.

Friday: S&P 500 +49.55 (+1.15%) to 4357.09. PCE announced. Inflation continues to rise. Merck announces COVID-19 breakthrough.

Technical Look

Possible Support: The S&P 500 revisited the previous week's lows around 4310. It found support there (as projected in last week's Hot Sheet) and bounced. That level is even more significant if the index drops again.

Possible Resistance: Expect a little resistance near 4400 on the S&P 500. If it breaks through that level, the next area of resistance should come near the 50-day moving average, currently around 4450.

My Watchlist

Financials (<https://dreamwork.financial/defensive/>): Good play if we get higher rates, stronger economic data

Experiences: Merck drug gives theses a boost

Defensive (<https://dreamwork.financial/defensive/>): Increasing uncertainty

Cybersecurity: Increasing demand, secular trend

My Take

The Merck news around their COVID-19 pill is a game changer. While we don't know exactly when the necessary doses will be available, the news gives us a light at the end of the tunnel. While investors are preparing for higher interest rates to arrive earlier than expected, they can also expect to see a more rapidly improved economy.

From a technical perspective, damage has been done over the last couple weeks. However, a double bottom may have been put in near the 4310 level, which could be very constructive as we go forward.

Interest rates will remain the key to watch as the rise in the 10-year Treasury has driven much of the recent volatility. If rates remain around the 1.5% level, then the market could be ready to roar as we enter the 4th quarter. Conversely, if rates shoot higher, it could signal that the Fed is losing control, which would probably lead to another correction.

In the meantime, you need to be prepared for all outcomes as we could easily see another 10% to the upside OR downside. I'd look for a mix of defensive, value oriented names to go with secular growth trends that may not be exposed to supply issues. Areas like experiences, cybersecurity and fintech remain my favorite themes.

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

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Until next time,

Clint Kirby

Chief Financial Strategist

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