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The Omicron variant is now in at least 15 states. The Fed may start getting aggressive toward inflation. Can the S&P hold 4500?

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The Hot List

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1. COVID-19

Omicron variant has been detected in at least 15 states (<https://www.cnn.com/2021/12/05/cdc-chief-omicron-covid-variant-in-15-states-and-cases-likely-to-rise.html>) as cases are on the rise.

2. Federal Reserve

Powell spoke to the Senate Banking Committee last week

<https://www.nytimes.com/2021/12/06/us/politics/john-powell-senate-testimony.html>

(<https://www.nytimes.com/2021/11/30/business/powell-bond-buying-taper.html>) and signaled that battling inflation is now its top priority. He admitted that it was time to retire the word ‘transitory’ (<https://www.bloomberg.com/news/articles/2021-11-30/powell-ditches-transitory-inflation-tag-paves-way-for-rate-hike>).’

3. Inflation

ISM report showed strong demand for goods as factories continued to struggle with shortages (<https://www.reuters.com/world/us/us-manufacturing-sector-picks-up-november-ism-2021-12-01/>) of raw materials, keeping inflation high. (<https://www.investors.com/news/economy/federal-reserve-meeting-wall-street-expects-yield-curve-control/>)

4. Employment

The jobs report (<https://www.cnbc.com/2021/12/03/jobs-report-november-2021.html>) Friday was a disappointment with only a gain of 210K jobs vs. 546K expected.

5. Capitol Hill

Congress passed a bill (<https://www.npr.org/2021/12/03/1061199740/congress-biden-signs-cr-shutdown-senate-house-debt-limit-bbb>) to avoid a shutdown and keep the government funded until Feb. 18.

Last Week

Monday: S&P 500 +60.50 (+1.32%) to 4655.12. Home sales rebounded in October.

Tuesday: S&P 500 -88.12 (-1.90%) to 4567.00. Powell spoke before Congress. Consumer confidence declined.

Wednesday: S&P 500 -53.96 (-1.18%) to 4513.04. ADP report beat expectations.

Thursday: S&P 500 +64.06 (+1.42%) to 4577.10. Weekly jobless claims were just short of expectations (222K vs 240K)

Friday: S&P 500-38.67 (-0.84%) to 4538.43. Jobs report came in way below estimate. (210K vs 546K)

Technical Look

Potential Support: The 50-day moving average near 4500 on the S&P 500 is massive



support. If it breaks that level, there is no clear support until 4300.

Potential Resistance: To the upside, we may see resistance around 4600. If it rises above that, then the market could make another run at the highs near 4700.

My Watchlist

Defensive

Luxury

Fintech

Metaverse

Discount Retail

My Take

Over the last couple weeks, I'd mentioned that I was getting nervous about a big downside move. The S&P had difficulty getting over 4700, so things seemed ripe for a pullback – even before news of the Omicron variant. It's too early to know what the variant is going to do, so I'm not sure how you can have too much conviction selling here. Markets clearly had to reflect the increased uncertainty, but there is actually a chance that the Omicron variant could be a good thing if it proves to be more transmissible and less deadly.

The comments from Powell on Tuesday that rattled the markets were more worrisome to me. He stated that inflation was now more important than the pandemic, and basically he was wrong on the transitory debate. On Wednesday, he had the opportunity to walk some of it back, but he doubled down. It's important to remember that the "easy money" policies of the Fed have fueled much of this rally, so when they reverse those policies, it's logical that the market will give some of it back.

Technical levels will be a major focus this week to see if we can find support. So far, the 50-day moving average near 4500 on the S&P 500 has been major support. If that level fails to hold, investors may really start to panic.

Due to the extra anxiety in the market, it's smart to remain defensive and have a buying list ready while a majority of names are significantly off their highs. In short, use this choppiness to reposition your portfolio. Take the tax losses on names you don't like as much and average into some of your favorite long-term plays.

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

Until next time,

Clint Kirby

Chief Financial Strategist

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