

Bostic Downplays Inflation and Stocks Run

Atlanta Fed President Raphael Bostic, one of the more dovish members of the FOMC, anticipates hiking interest rates three to four times this year. Per CNBC Bostic said: *"I'm leaning a little towards four, but we're going to have to see how the economy responds as we take our first steps through the first part of this year."* For a market expecting at least five rate hikes, Bostic's expectations are good news. In addition to Bostic's comments are growing expectations that today's CPI report will be lower than expectations. Deutsche Bank analyst Jim Reid notes- *"8 of the last 10 CPI releases have seen the monthly headline figure come in above the consensus estimate on Bloomberg."* Will this time be different?

[dmc]

What To Watch Today

Economy

- 8:30 a.m. ET: [Initial jobless claims](#), week ended Feb. 5 (230,000 expected, 238,000 prior week)
- 8:30 a.m. ET: [Continuing claims](#), week ended Jan. 29 (1.615 million expected, 1.628 million prior week)
- 8:30 a.m. ET: [Consumer price index](#) (CPI), January monthly (0.4% expected, 0.5% in December)
- 8:30 a.m. ET: [CPI excluding food and energy](#), January monthly (0.5% expected, 0.6% in December)
- 8:30 a.m. ET: [CPI, January year-over-year](#) (7.2% expected, 7.0% in December)
- 8:30 a.m. ET: [CPI excluding food and energy](#), January annualized (5.9% expected, 5.5% in December)
- 8:30 a.m. ET: **Real average hourly earnings**, January annualized (-2.4% prior, downwardly revised to 2.0%)
- 8:30 a.m. ET: **Real average weekly earnings**, January annualized (-2.3% prior, downwardly revised to 2.0%)
- 2:00 p.m. ET: **Monthly budget statement**, January (\$23 billion expected, -162.8 billion in December)

Earnings

Pre-market

- 6:00 a.m. ET: **PepsiCo** ([PEP](#)) to report adjusted earnings of \$1.52 on revenue of \$24.22 billion
- 7:00 a.m. ET: **Duke Energy** ([DUK](#)) to report adjusted earnings of \$0.96 on revenue of \$6.25 billion
- 7:00 a.m. ET: **Philip Morris** ([PM](#)) to report adjusted earnings of \$1.33 on revenue of \$7.79 billion

- 8:00 a.m. ET: **Kellogg Co.** ([K](#)) to report adjusted earnings of \$0.79 on revenue of \$3.39 billion
- **Coca-Cola** ([KO](#)) to report adjusted earnings of \$0.41 on revenue of \$8.93 billion
- **Blue Apron** ([APRN](#)) to report adjusted earnings of \$0.67 on revenue of \$110.00 million
- **DataDog** ([DDOG](#)) to report adjusted earnings of \$0.11 on revenue of \$291.20 million
- **Moody's Corp.** ([MCO](#)) to report adjusted earnings of \$2.40 on revenue of \$1.50 billion
- **PG&E** ([PCG](#)) to report adjusted earnings of \$0.28 on revenue of \$5.30 billion

Post-market

- **Oscar Health** ([OSCR](#)) to report an adjusted loss of \$0.98 on revenue of \$517.67 million
- **Coursera** ([COUR](#)) to report an adjusted loss of \$0.15 on revenue of \$111.67 million
- **Affirm Holdings** ([AFRM](#)) to report an adjusted loss of \$0.30 on revenue of \$332.50 million
- **GoDaddy Inc.** ([GDDY](#)) to report adjusted earnings of \$0.42 on revenue of \$970.64 million
- **Cloudflare** ([NET](#)) to report an adjusted loss of \$0.00 on revenue of \$184.95 million
- **HubSpot** ([HUBS](#)) to report adjusted earnings of \$0.53 on revenue of \$357.62 million
- **Expedia Group** ([EXPE](#)) to report adjusted earnings of \$0.60 on revenue of \$2.29 billion
- **Zillow Group** ([ZG](#)) to report an adjusted loss of \$1.04 on revenue of \$2.97 billion

Stocks Rally On Hopes That Inflation Peaked

Stocks rallied on Wednesday following Bostic's comments that inflation could come in weaker than expected. Such will not be a surprise to us as we have been commenting much lately that ["disinflation"](#) remains the bigger threat as liquidity fades from the system.

If Bostic is correct, then weaker inflation translates into hopes that the Fed will back off of their more aggressive stance which is why Technology stocks (*which benefit from deflation*) rallied hard yesterday. Unfortunately, the market is now back to overbought and still trading below the important 50-dma. If inflation does print weak in the morning, it would not be a surprise to see the bulls try and push the market above the 50-dma.



Meta (FB) At Critical Support

The graph below shows Meta (Facebook) has fallen significantly over the prior six months and is now resting on critical technical support. We suspect the support line will provide support in the coming days and possibly weeks. However, a break of the line could send Meta lower. Meta is 9th largest contributor to the S&P 500 and a FAANG member. Unlike most other stocks, the direction of Meta is influential on the market as a whole.



A Rough Year For Bonds, So Far

The table below from Charlie Bilello shows that the year-to-date total return of Barclay's Aggregate Bond Index is the most negative since at least 1977. The Index is a commonly used fixed income benchmark for investment managers. It is comprised of investment-grade Treasury securities, corporate bonds, mortgage-backed securities (MBS), asset-backed securities (ABS), and municipal

bonds. Year to date the total return (coupons and price) is down 3.1%.

Prior to this year, the annual worst total return was in 1994. At that time, the Fed raised rates throughout the year to counter inflation. It was the first increase since 1989. Over the course of the year, the Fed increased Fed Funds from 3.25% to 5.50%. Some may remember the sharp increase in yields that resulted in Orange County, California declaring the largest municipal bankruptcy in history. It turns out its investment portfolio made some bad bets on the direction of yields.

Barclays Aggregate, Total Return (1977 - 2022)					
Year	Return	Year	Return	Year	Return
1977	3.0%	1993	9.7%	2009	5.9%
1978	1.4%	1994	-2.9%	2010	6.5%
1979	1.9%	1995	18.5%	2011	7.8%
1980	2.7%	1996	3.6%	2012	4.2%
1981	6.2%	1997	9.7%	2013	-2.0%
1982	32.6%	1998	8.7%	2014	6.0%
1983	8.4%	1999	-0.8%	2015	0.6%
1984	15.1%	2000	11.6%	2016	2.7%
1985	22.1%	2001	8.4%	2017	3.5%
1986	15.3%	2002	10.3%	2018	0.0%
1987	2.8%	2003	4.1%	2019	8.7%
1988	7.9%	2004	4.3%	2020	7.5%
1989	14.5%	2005	2.4%	2021	-1.5%
1990	9.0%	2006	4.3%	2022 YTD	-3.1%
1991	16.0%	2007	7.0%		
1992	7.4%	2008	5.2%		



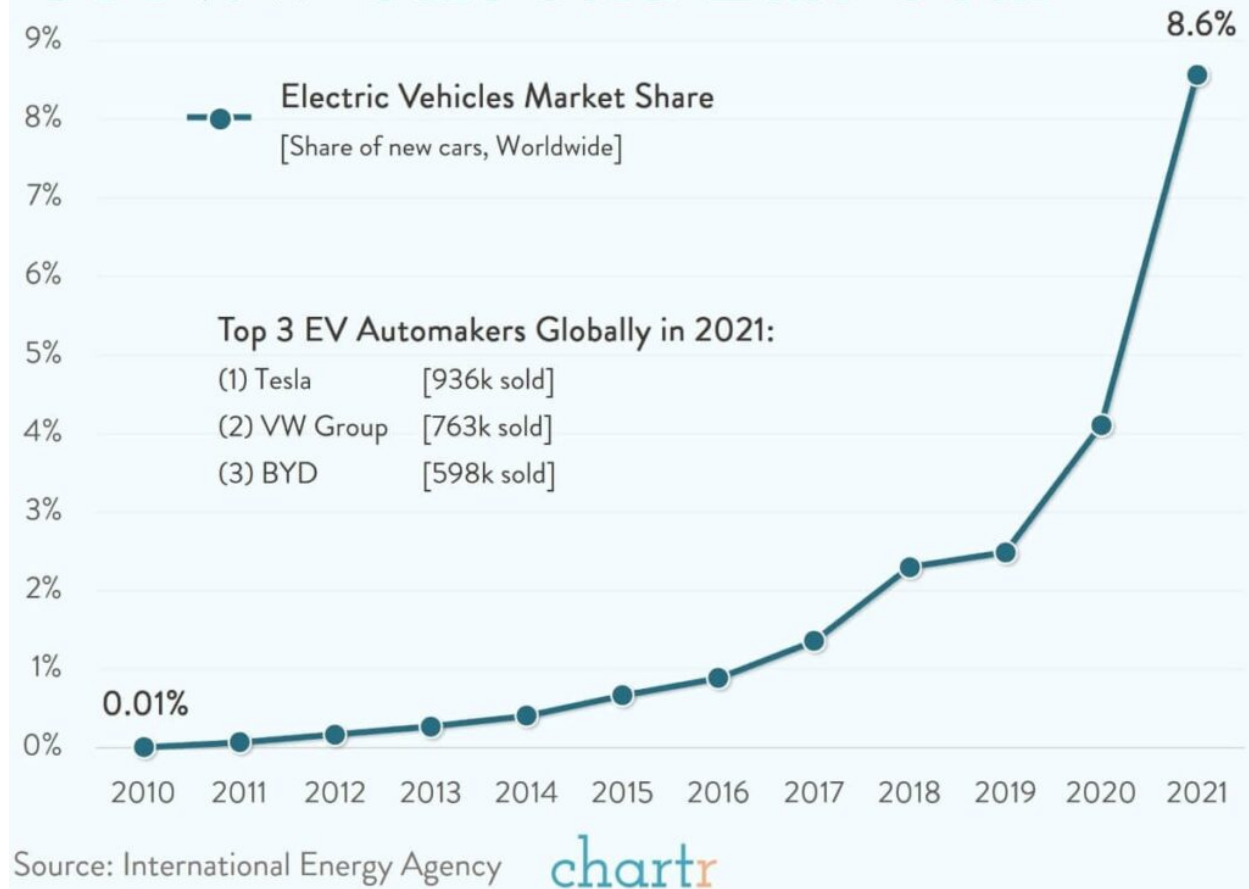
@CharlieBilello

Tesla's Valuation Is Really Hard To Justify

Almost **9% of all new cars** sold last year were electric, according to a new report from the [International Energy Agency](#), more than double the **4%** that were electric the year before.

That's a big leap forward in relative terms, but a more modest one in absolute size. The 9% market share figure represents about **6.6 million** actual new electric cars, a tiny, tiny fraction of the **1.3-1.4 billion cars** that are estimated to be on the road around the world. - Chartr

Electric Vehicles Were Almost 9% Of New Cars Sold Last Year



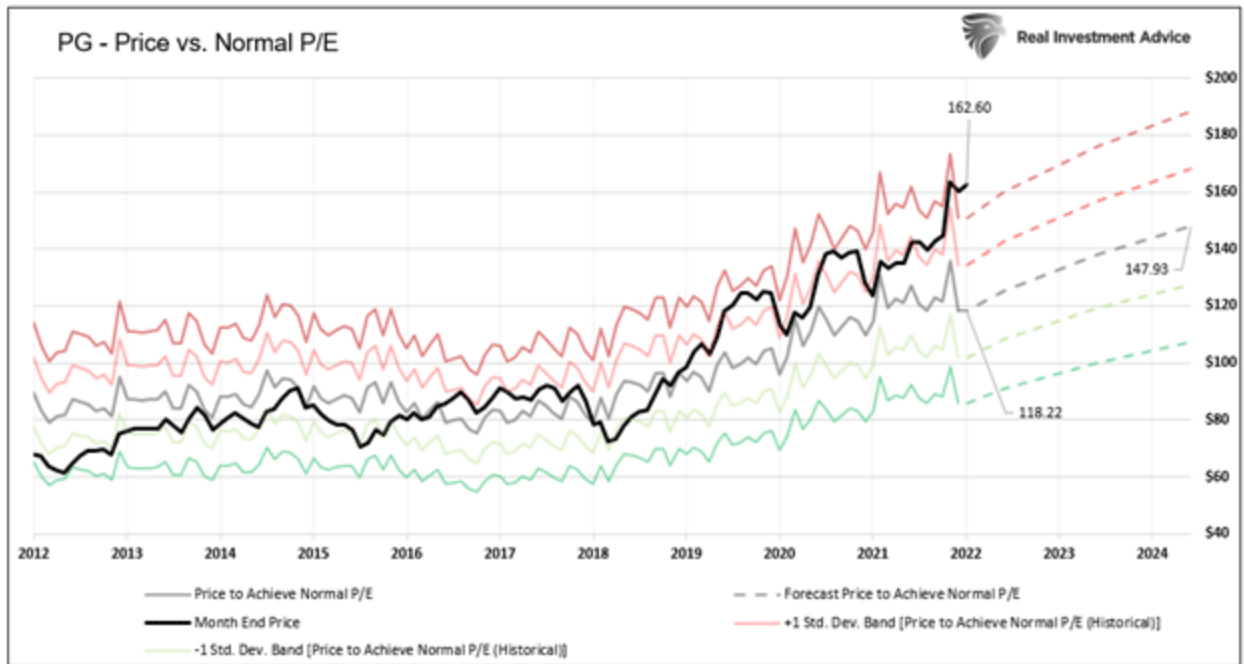
Is There Value in Value Stocks

Our latest article, [Value Stock Funds Are Lacking Value](#), explores value stock funds. In particular, we posit that many large-cap value funds are not delivering the value stocks their clients think they are getting. We assess Proctor & Gamble (PG) in the article as it is a mainstay in virtually all value-based funds. To wit:

PG at (\$162.60 per share) is trading over two standard deviations above its fair value price of \$118.22. Even using two years forward earnings forecasts in the P/E ratio, the stock is trading about 10% above fair value (\$162.60 vs. \$147.93). Before 2019, PG traded at or below the normalized P/E fair value. To further drill home our point, our Price to Sales model (P/S) puts PG's valuation at over 50% above fair value. Additionally, Zacks Investments values PG at 41.4% above its model's fair value.

PG may be a great company, but it's certainly not a value stock.

The graph below uses our proprietary valuation model. It shows the PG's price (black line) is well above the fair value level (gray line) in which it has traded around consistently before 2019. Our equity model holds a 2% stake in PG. We understand it trades at a high valuation, and do not consider it a value stock. As discussed in the article, passive investment styles have distorted the definition of value, which may help PG in a rotation to value, at least in the short run.



Please [subscribe to the daily commentary](#) to receive these updates every morning before the opening bell.