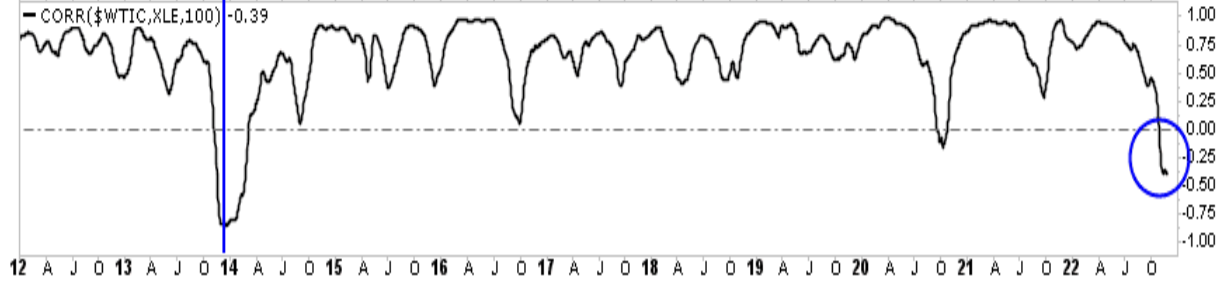
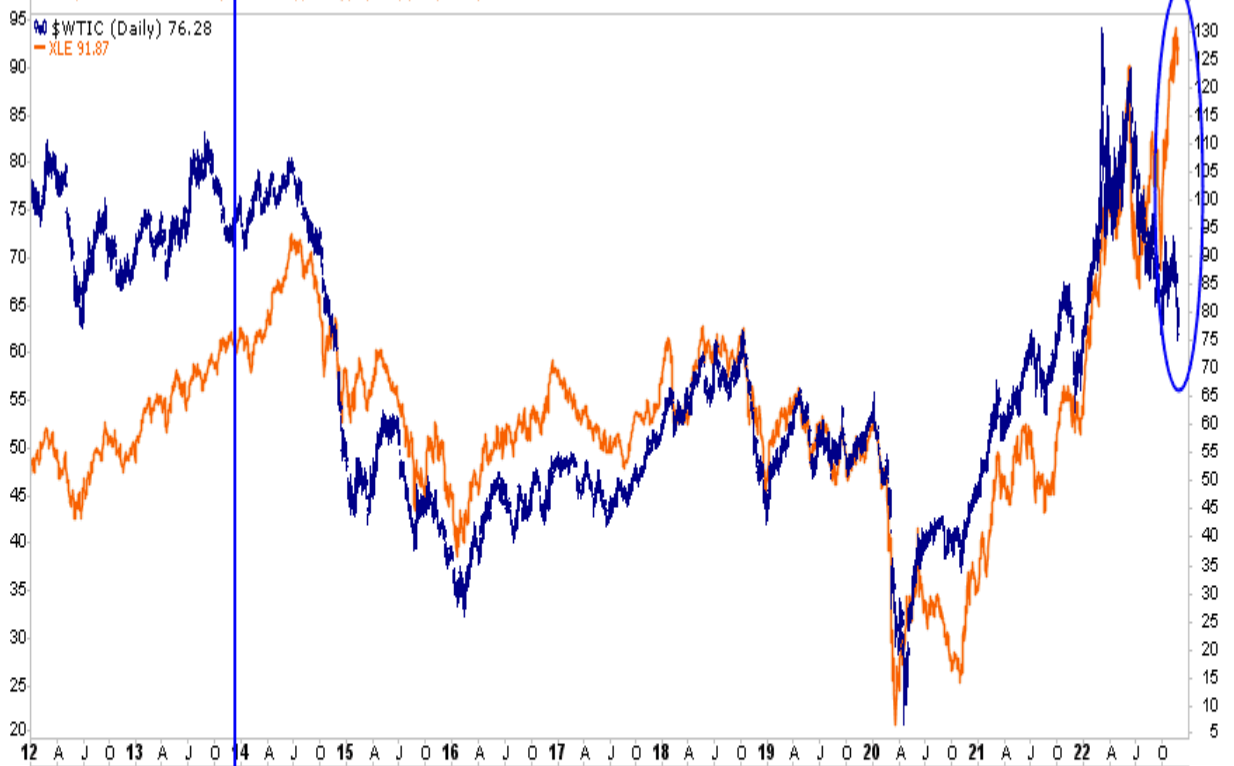
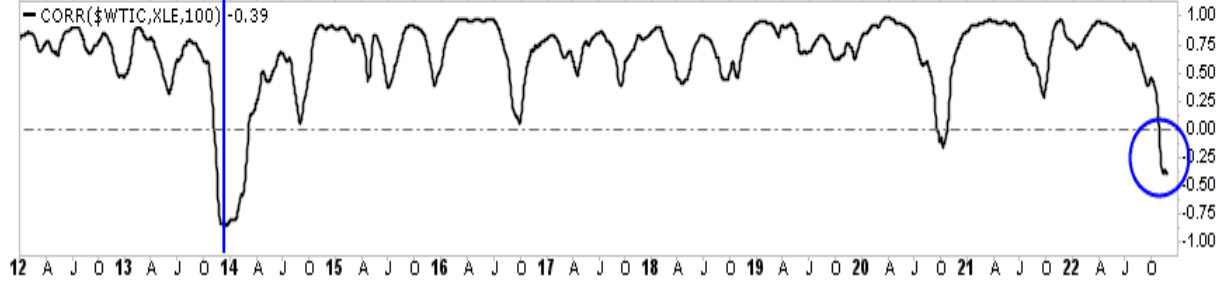
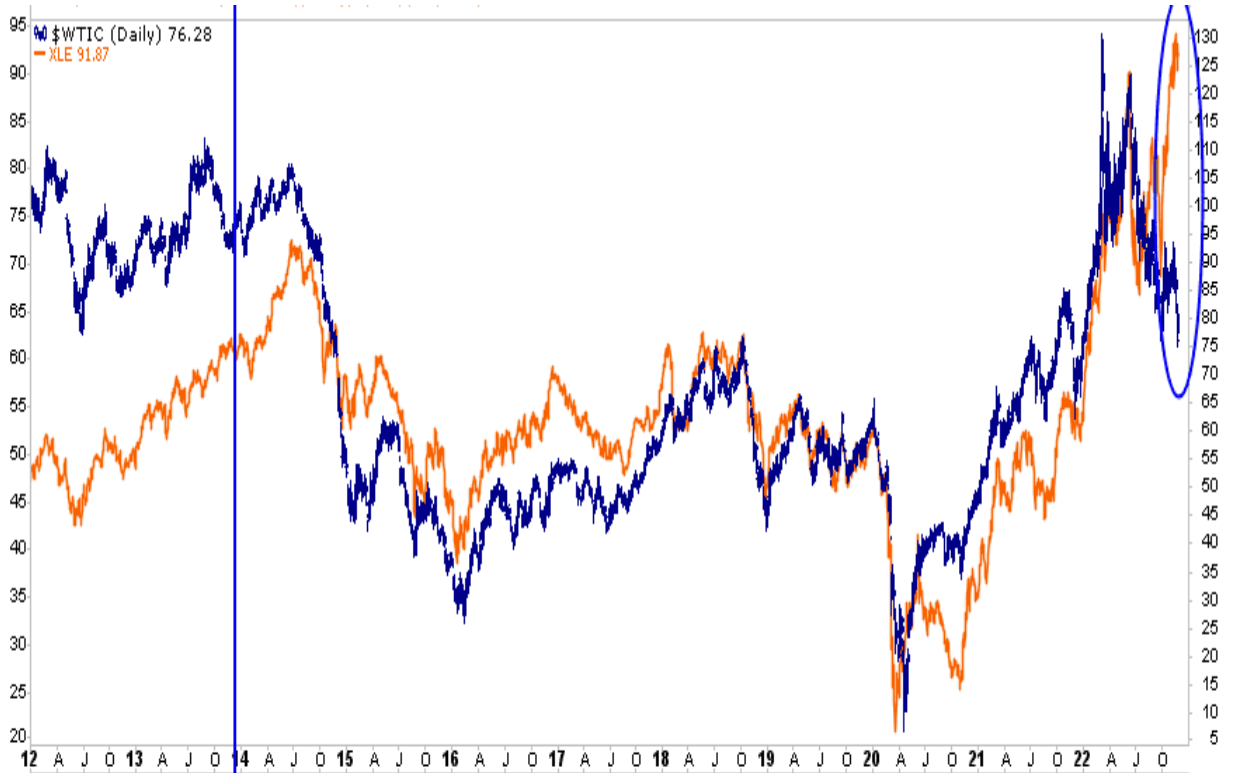




Crude Oil is Plunging, Will Energy Stocks Follow?

Crude oil prices are now down on the year, despite almost doubling in the first three months. Undeterred by plummeting crude oil prices, energy stocks are sitting near record highs. As the graph shows, crude oil and energy stocks tend to be well correlated. In fact, as shown in the lower graph, the 100-day rolling correlation between the two is rarely negative. The correlation is currently negative as the prices of XLE and crude oil are diverging significantly. Early 2014 was the last time the prices were significantly negatively correlated. The correlation normalized with steep declines in both prices in the second half of 2014.

Yesterday, we sold our remaining energy exposure. The action follows reductions and profit taking trades over the last few months. With economic activity slowing, we fear energy stocks may catch down to crude oil prices. We may look to reenter our positions at lower prices.





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What To Watch Today

Economy

- 9:00 a.m. ET: **FHFA Housing Pricing Index**, September (-1.2% expected, -0.7% prior)
- 9:00 a.m. ET: **House Price Purchasing Index**, Q3 (4.0% prior)
- 9:00 a.m. ET: **S&P CoreLogic Case-Shiller 20-City Composite**, MoM, September (-1.20% expected, -1.32% prior)
- 9:00 a.m. ET: **S&P CoreLogic Case-Shiller 20-City Composite**, YoY, September (10.45% expected, 13.08% prior)
- 9:00 a.m. ET: **S&P CoreLogic Case-Shiller U.S. National Home Price Index** (12.99% prior)
- 10:00 a.m. ET: **Conference Board Consumer Confidence**, November (100.0 expected, 102.5 prior)

Earnings

Company	Time	Estimate	Growth	Surprise		
 BNS Bank of Nova Scotia	6:00 AM ET	\$1.49	\$6.10 B	-20.5%	+ = -	
 HPE Hewlett Packard Ente...	4:05 PM ET	\$0.56	\$7.46 B	1.4%	+ = -	
 INTU Intuit Inc.	4:00 PM ET	\$1.22	\$2.50 B	24.6%	+ = -	
 NTAP NetApp	4:00 PM ET	\$1.32	\$1.68 B	7.3%	+ = -	
 ESLT Elbit Systems Ltd.	4:45 AM ET	\$2.11	\$1.36 B	-0.3%	+ = -	
 WDAY Workday, Inc.	4:00 PM ET	\$0.83	\$1.58 B	19.0%	+ = -	
 SJR Shaw Communicatio...	8:00 AM ET	\$0.27	\$1.02 B	-7.8%	+ = -	
 BILI Bilibili Inc.	6:30 AM ET	(\$0.66)	\$808.62 M	0.5%	+ = -	
 HIBB Hibbett Sports Inc.	6:30 AM ET	\$2.58	\$445.73 M	16.8%	+ = -	
 CRWD CrowdStrike, Inc.	4:05 PM ET	\$0.31	\$573.83 M	51.0%	+ = -	

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Market Trading Update

As I noted yesterday, last week's rally followed the release of the FOMC minutes, which read more �dovish.�

?While there was no mention of a�pivot�or a�stall,�investors seem to like the idea of a slower pace of rate hikes. However, traders overlooked the Fed's statement they will increase rate hikes in 2023.?

While the bulls ignored the Fed, the Fed quickly reminded them yesterday that they are not done with their inflation fight.

?There is still a heavy degree? of expectations that inflation will go away naturally.? ? James Bullard, MarketWatch

Bullard reiterated his view that the Fed needs to reach the bottom of the 5% to 7% range to meet policymakers' goal of being restrictive enough to stamp out inflation near a four-decade high.

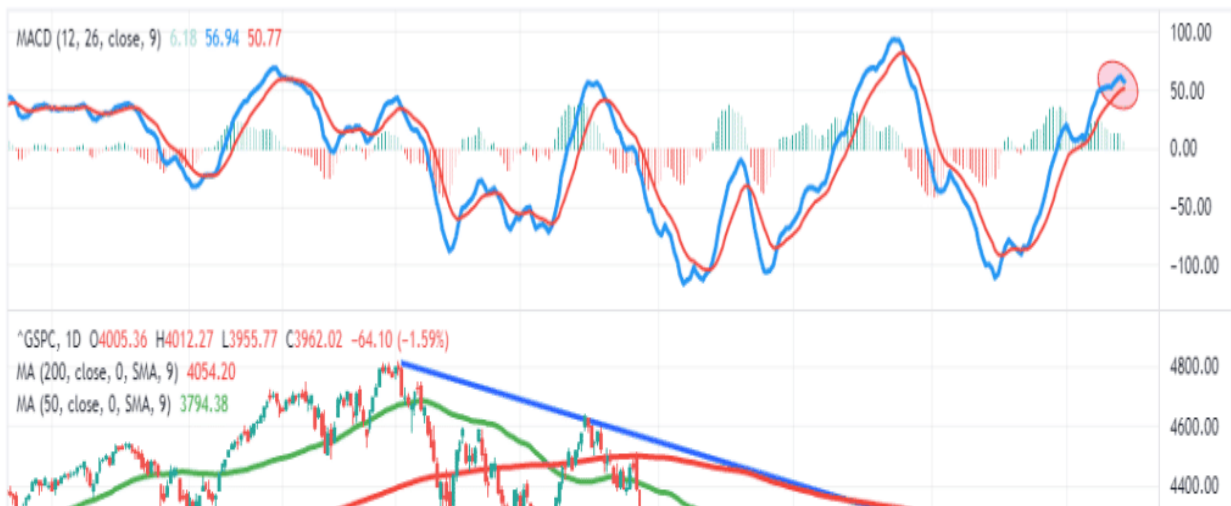
?The Fed ?has a ways to go to get to? restrictive rates, adding that markets are underestimating the risk that the FOMC will be more aggressive �and will have to go higher on rates in 2023.? ? Bullard

On Wednesday, the markets will receive a message from Mr. Powell. I am confident his message will likely echo Mr. Bullard putting further downward pressure on stocks. Such is why we have continued to recommend profit-taking on this rally. There is some strong support at the 20- and 100-dma, as well as the 50-dma just below.

However, watch our MACD *?buy signal,* which is elevated and looking to cross along with a rise in the volatility index. [As noted in the newsletter](#), these two signals consistently show market peaks.

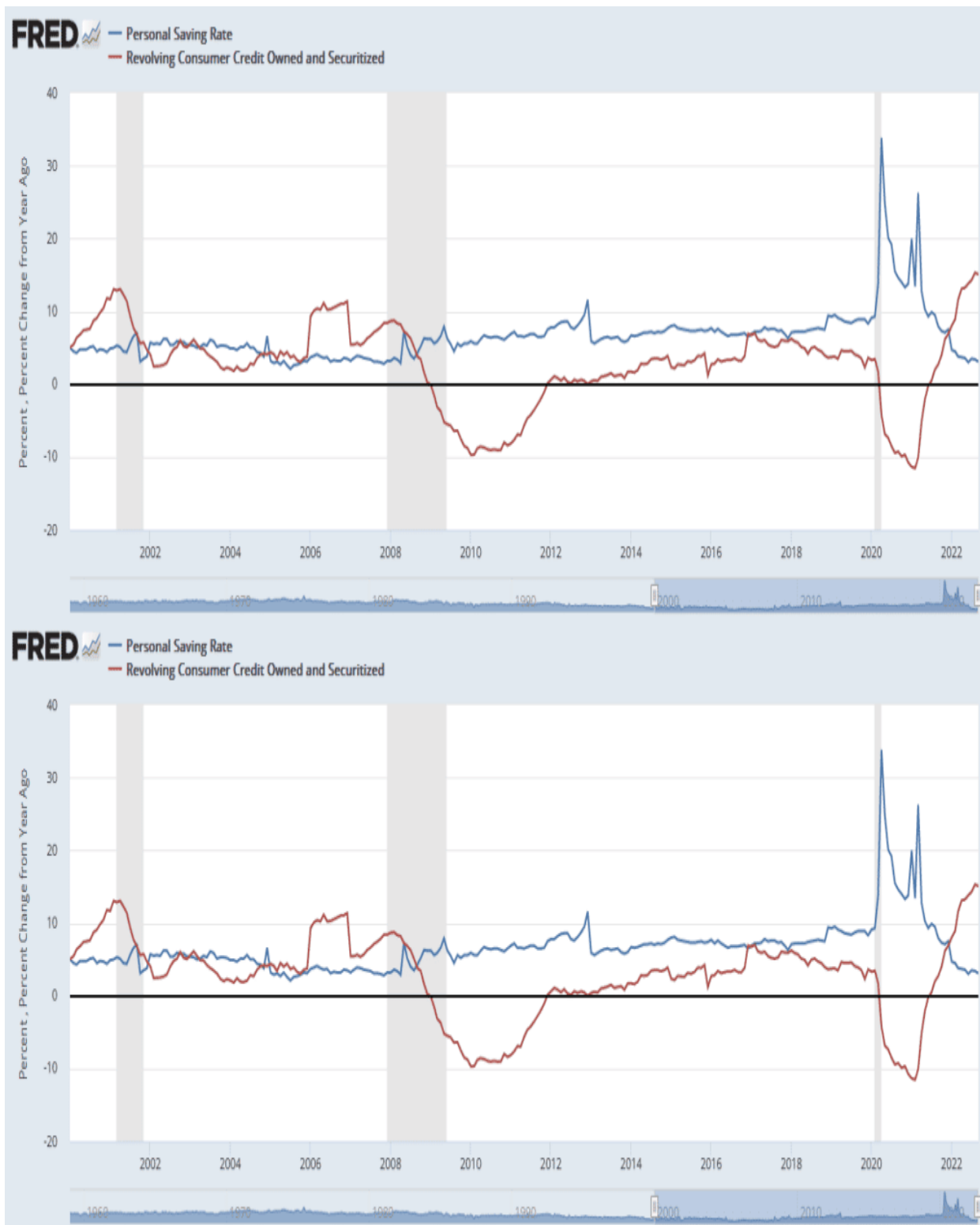


TradingView



Black Friday- Appearances Can be Deceiving

Preliminary results for Black Friday are positive. Retail analysts estimate that sales rose above \$9 billion for the first time and are 1% higher than last year. While the headlines may appear strong, they do not account for inflation. If we assume prices rose 7% versus last year, Black Friday sales are lower by about 6% on a real basis. As such, retailers are not necessarily Black Friday winners. Instead, it may be the credit card companies. They benefit from inflation as they earn a fixed percentage of inflation-boosted sales. Further, with savings rates at 20-year lows, consumers rely heavily on credit cards to keep up with inflation. MasterCard reported 12% year-over-year usage growth on Black Friday. The graph below shows that credit card debt outstanding is growing at 20+ year high rates, while the savings rate is near 20-year lows.



BlockFi Files for Bankruptcy

Another major cryptocurrency custodian failed on Monday. BlockFi holds FTX assets and made loans to the failed Alameda hedge fund, which is closely linked to FTX. BlockFi is the latest crypto firm to fall as a result of the failure of FTX. Before filing for bankruptcy, BlockFi was already not allowing its customers the ability to withdraw funds and limiting their trading activity. As the FTX dominoes continue to fall, we must stay alert to the possibility that a larger bank is involved and may be sitting on significant losses. Thus far, it does not appear to be the case.

More Concern for Energy Stocks

As we note in the intro, the divergence between falling crude oil prices and strong energy stock prices makes us temporarily cautious about the energy sector. The long-term graph of XLE below strengthens our concerns. The graph, using monthly prices, shows the price of XLE is bumping up against a trend line that rebuffed the prior two peaks. In those instances, the price of XLE fell to the support line at the bottom end of the channel after hitting the upper resistance trend line. Further problematic, XLE is almost 100% above the 50 and 200-month moving averages. Lastly, the RSI (upper graph) points to a bearish divergence. The RSI is currently lower than it was in early 2022 despite the higher price today.

XLE Energy Select Sector SPDR Fund NYSE + BATS

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28-Nov-2022 12:16pm

Open 91.51 High 94.71 Low 87.29 Last 90.50 Volume 466.0M Chg +0.50 (+0.56%) ▲

▲ RSI(14) 68.25



2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023

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2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023

Tweet of the Day



Lance Roberts
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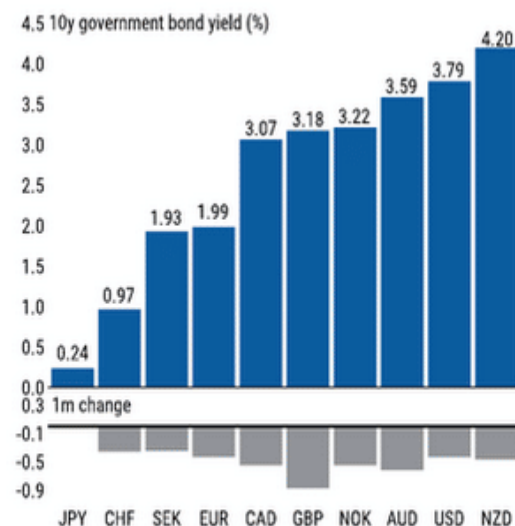


As [#inflation](#) declines and [#economic](#) growth slows, [#yields](#) will fall. [\\$MS](#) expects the 10-year yield to drop to 1.57% in the US. Such a decline will provide for a strong return in [#bonds](#) next year.

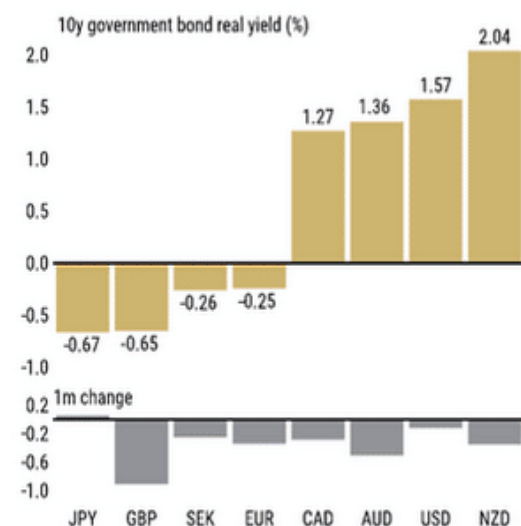
G10 | Rates Market Backdrop

We expect rates to gradually move lower through 2023, and the 2s10s curves to disinvert. Risks are skewed towards lower yields than we are pencilling in

Nominal yields



Real yields



Source: Bloomberg, Macrobond, Morgan Stanley Research



Lance Roberts
@LanceRoberts



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Real yields

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