

## Should Investors "BTFD" The Crucial 50-DMA?

Should investors "BTFD" with the market near the 50-day moving average (DMA)? As we wrote yesterday, the 50-dma has been a great level to buy the dip. Odds favor that to be the case this time, but will it? The S&P 500 50-DMA is currently at 4429 about 14 points below where it closed yesterday.

Chinese economic data continues to weaken. Last night Retail Sales, Industrial Production, and Property Investment all fell short of expectations and prior month readings. Once again, markets are brushing off more signs troubling signs from the world's second largest economy. To wit, crude oil continues higher, up another \$1 this morning and almost \$10 from recent lows in mid-August.

[dmc]

### What To Watch Today

#### Economy

- 7:00 a.m. ET **MBA Mortgage Applications**, week ended September 10 (-1.9% during prior week)
- 8:30 a.m. ET: **Empire Manufacturing**, September (17.9 expected, 18.3 during prior month)
- 8:30 a.m. ET: **Import Price Index, month-over-month**, August (0.2% expected, 0.3% in July)
- 9:15 a.m. ET: **Industrial Production, month-over-month**, August (0.5% expected, 0.9% in July)
- 9:15 a.m. ET: **Capacity Utilization**, August (76.4% in August, 76.1% in July)
- 9:15 a.m. ET: **Manufacturing Production**, August (0.4% expected, 1.4% in July)

#### Earnings

- *Before market open:* **Weber** ([WEBR](#)) is expected to report adjusted earnings of 35 cents per share on revenue of \$669.40 million

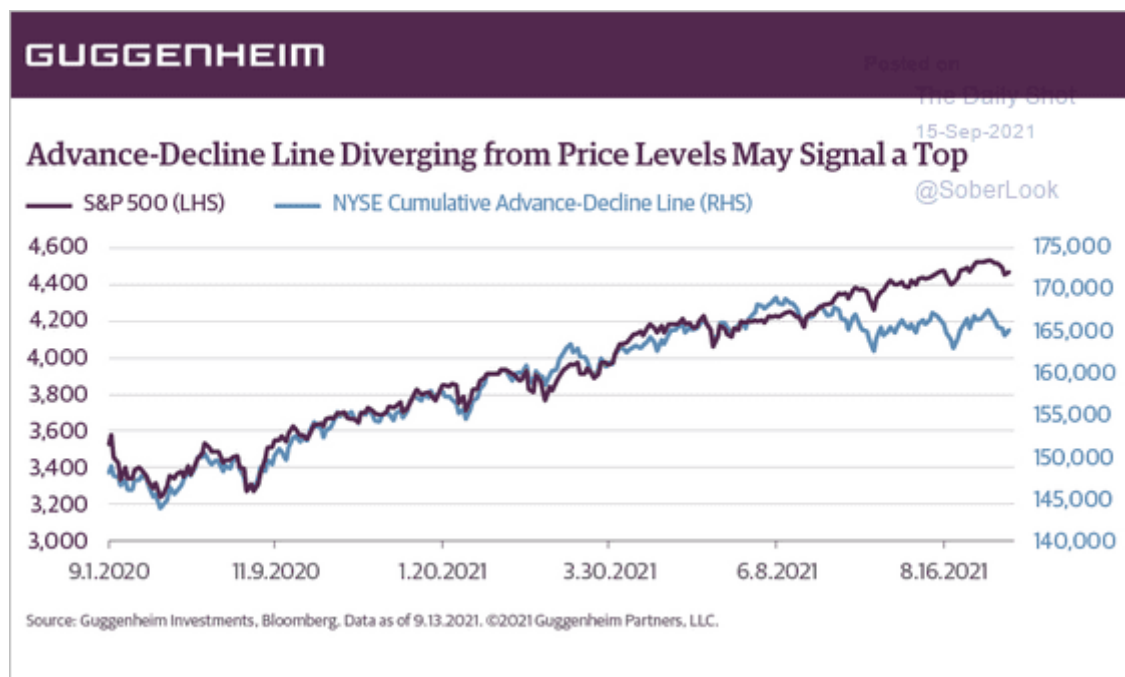
#### Politics

- **President Biden** will be meeting with business leaders and CEOs at the White House to discuss COVID-19 vaccine mandates and the business community. Ahead of the 1:30 p.m. ET meeting, Biden says he believes there is "positive support for mandates."
- Over on Capitol Hill, today is the deadline set by **U.S. House Speaker Pelosi** for the **House Budget Committee** to receive all the elements of the Democrats' massive reconciliation bill and begin to shape it into a final package. The [Ways and Means Committee](#) is one of the committees set to finish their work today.

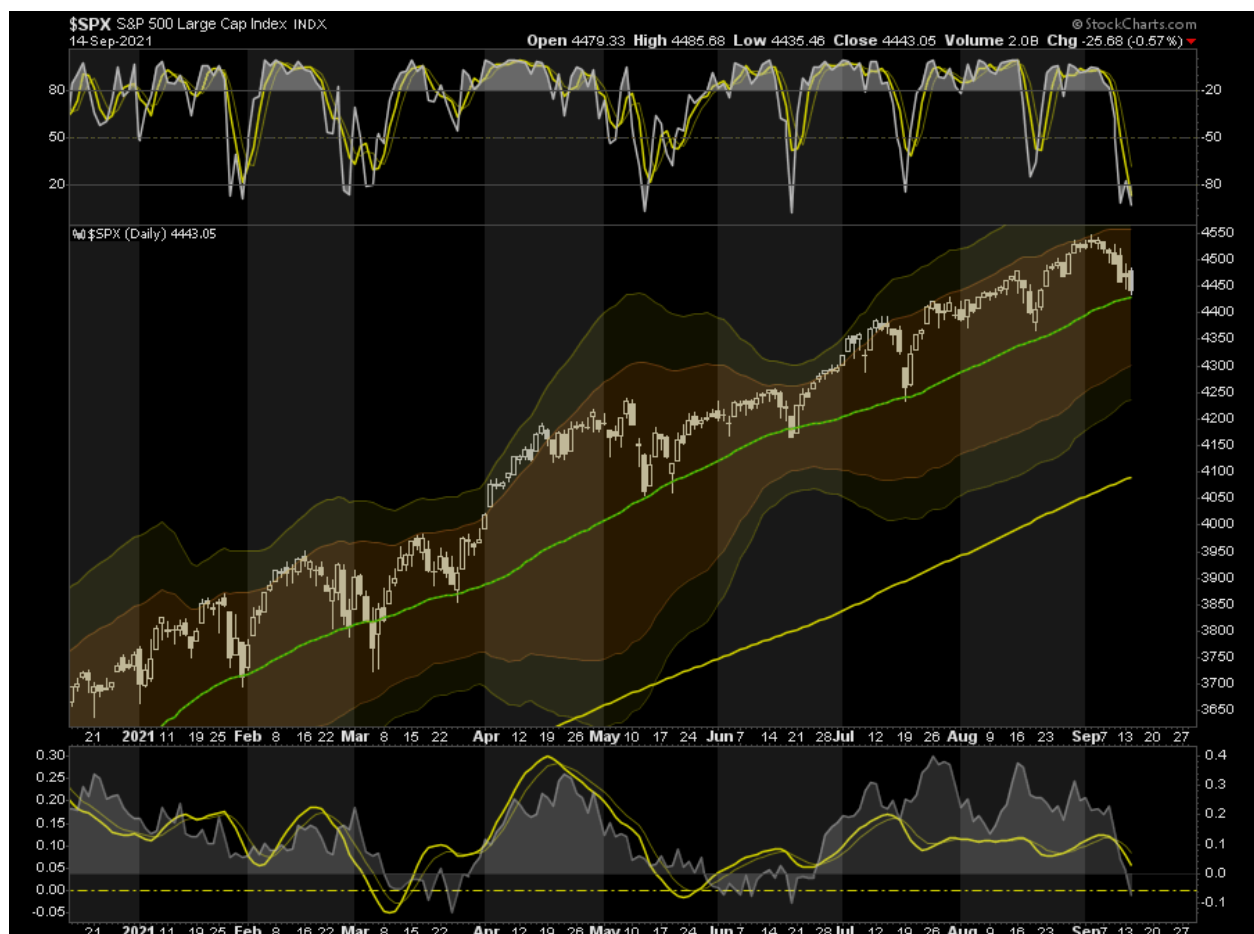
*Courtesy of Yahoo*

### A Rolling Correction

Over the last week and a half, the market has declined roughly 2% as the rotation among stocks has been extremely rapid. Such is particularly seen in the divergence of the Advance-Decline line from the index itself.



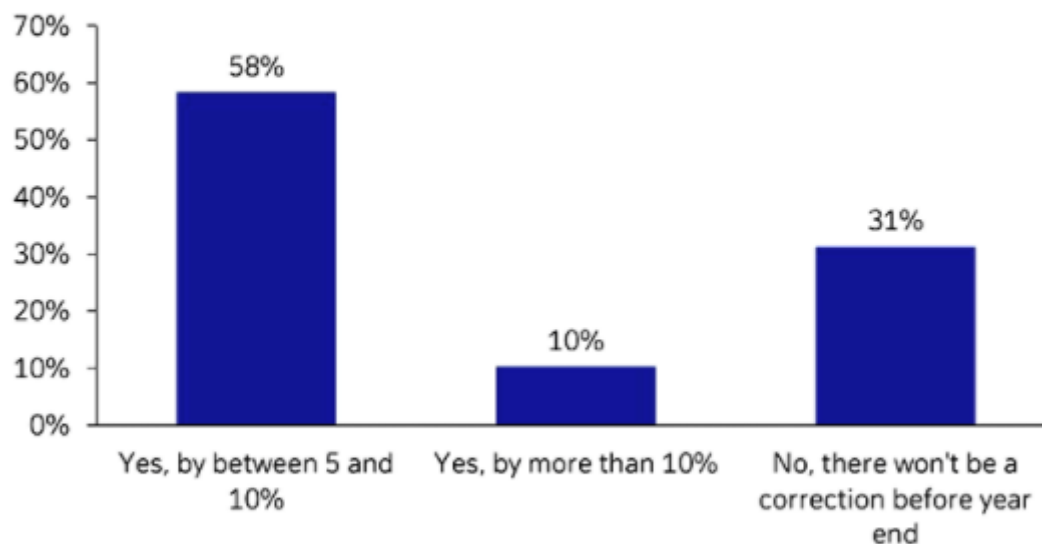
However, while the internal breadth remains extremely weak, that rapid rotation in sectors has given the market enough support to not decline markedly. Now, after a rough start to September, the market is now sitting back on support at the 50-dma and is oversold on a short-term basis as shown.



## 9 out of 10 Bears Say Market Correction Coming

More importantly, given the large number of Wall Street firms predicting a market decline of 10%, it would not be surprising to see the *"BTFDippers"* show back up in force to run stocks back towards all-time highs.

Figure 2: In your opinion, do you think there will be an equity correction before year-end?  
The overwhelming consensus is for a 5-10% correction. Are too many expecting it for it to happen?



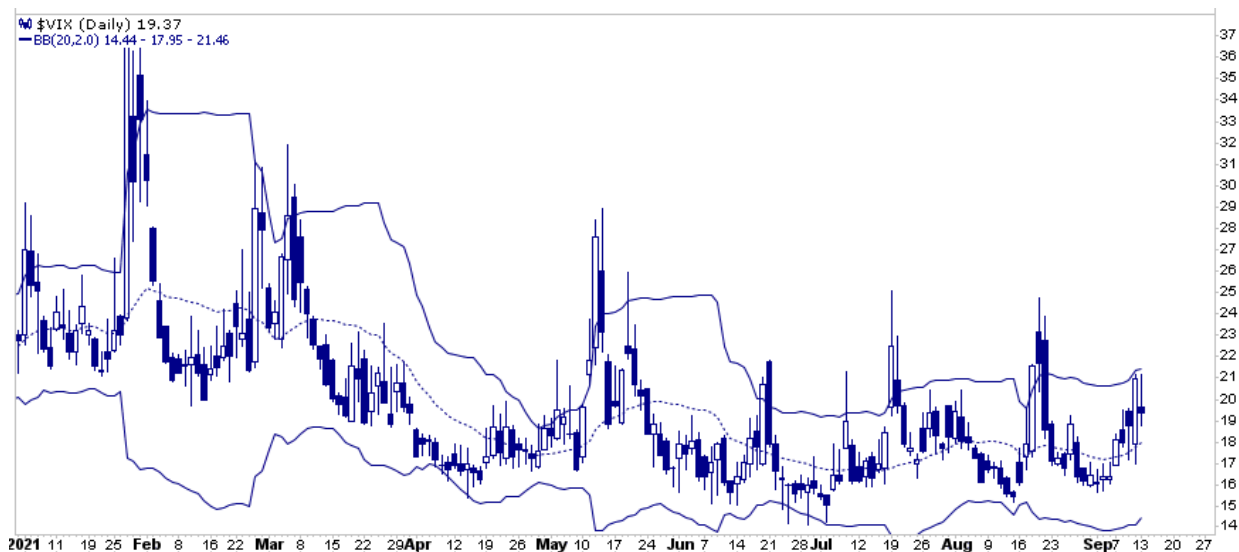
Source : dbDIG Survey, Deutsche Bank Research

We discussed this in more detail here.



**Is the Sell-off Over?**

Yesterday we shared a recent dependable market pattern. The S&P declines for a few days mid-month with upward-sloping movement before and after the decline. Similarly, the graph below also shows a reliable pattern for the VIX. The VIX spikes with each mid-month market decline. Each of the recent spikes has been above its Bollinger band. The current upper Bollinger band is 21.46 and VIX is at 19.37, after coming close to touching the band. A similar spike, as we have seen, implies a run to the 24-25 area.



## Market Drawdowns

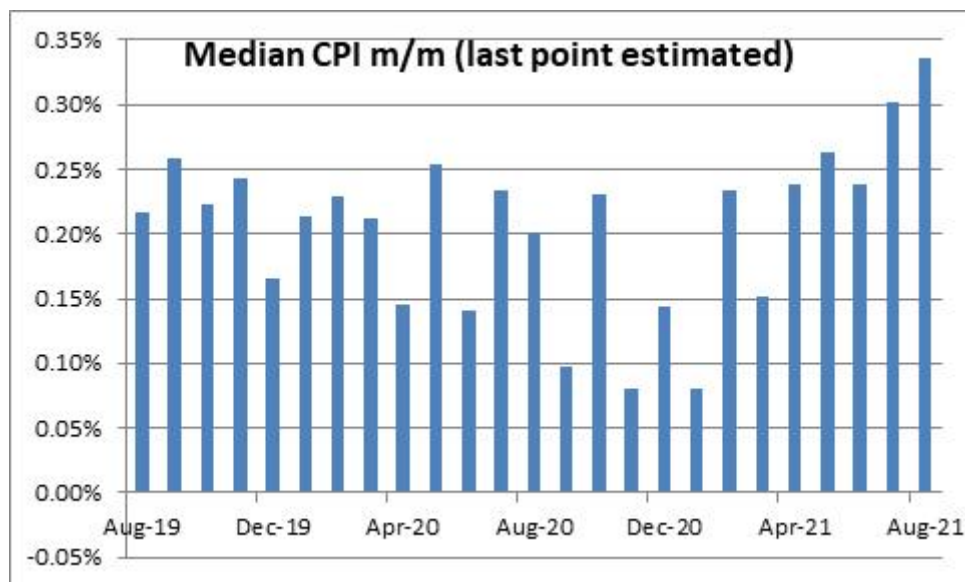
The table below from The Market Ear shows the lack of any substantial drawdown this year. Through three quarters of the year, the largest drawdown is only 4.2%. **Of the 94 instances in the table, only three years (2017, 1995, and 1964) have seen smaller intra-year drawdowns.**

However, in every instance, the years following a year of a minimum drawdown experienced significantly larger drawdowns.

S&P 500 Index: Max Intra-Year Drawdowns (1928 - 2021)									
Year	DD	Year	DD	Year	DD	Year	DD	Year	DD
1928	-10.3%	1947	-14.7%	1966	-22.2%	1985	-7.7%	2004	-8.2%
1929	-44.6%	1948	-13.5%	1967	-6.6%	1986	-9.4%	2005	-7.2%
1930	-44.3%	1949	-13.2%	1968	-9.3%	1987	-33.5%	2006	-7.7%
1931	-57.5%	1950	-14.0%	1969	-16.0%	1988	-7.6%	2007	-10.1%
1932	-51.0%	1951	-8.1%	1970	-25.9%	1989	-7.6%	2008	-48.8%
1933	-29.4%	1952	-6.8%	1971	-13.9%	1990	-19.9%	2009	-27.6%
1934	-29.3%	1953	-14.8%	1972	-5.1%	1991	-5.7%	2010	-16.0%
1935	-15.9%	1954	-4.4%	1973	-23.4%	1992	-6.2%	2011	-19.4%
1936	-12.8%	1955	-10.6%	1974	-37.6%	1993	-5.0%	2012	-9.9%
1937	-45.5%	1956	-10.8%	1975	-14.1%	1994	-8.9%	2013	-5.8%
1938	-28.9%	1957	-20.7%	1976	-8.4%	1995	-2.5%	2014	-7.4%
1939	-21.2%	1958	-4.4%	1977	-15.6%	1996	-7.6%	2015	-12.4%
1940	-29.6%	1959	-9.2%	1978	-13.6%	1997	-10.8%	2016	-10.5%
1941	-22.9%	1960	-13.4%	1979	-10.2%	1998	-19.3%	2017	-2.8%
1942	-17.8%	1961	-4.4%	1980	-17.1%	1999	-12.1%	2018	-19.8%
1943	-13.1%	1962	-26.9%	1981	-18.4%	2000	-17.2%	2019	-6.8%
1944	-6.9%	1963	-6.5%	1982	-16.6%	2001	-29.7%	2020	-33.9%
1945	-6.9%	1964	-3.5%	1983	-6.9%	2002	-33.8%	2021	-4.2%
1946	-26.6%	1965	-9.6%	1984	-12.7%	2003	-14.1%		

## Median CPI

While the CPI data was lower than expected, the breadth of the data was not as friendly. As shown below, the median CPI rose .33% month over month and, unlike CPI, is up for three months in a row.



***"Now the bad news: It's becoming increasingly apparent that those transitory costs won't be enough to normalize prices to pre-pandemic levels, and will likely continue what one economist recently called a half-century trend of soaring prices."***

*There are at least a few reasons behind this, but two in particular stick out: Businesses and service providers have grown more comfortable charging customers (a function of still elevated demand), and housing prices are still climbing in the face of COVID-era challenges." - Yahoo*

## CPI Review

CPI came in weaker than expected across the board. Of most importance to the Fed, the core CPI (excluding food and energy) only rose 0.1% for the month. As a result, the annual core rate fell from 4.3% to 4.0%. Accounting for about 30% of CPI, Shelter costs continue to rise. Owners Equivalent Rent (OER) is up .25% on the month, while rent rose .31%. Given their large contribution and sharply rising rental prices as of late, it's way too early to claim inflation has been tamed.

	Prior	Consensus	Consensus Range	Actual
CPI - M/M	0.5 %	0.4 %	0.3 % to 0.5 %	<b>0.3 %</b>
CPI - Y/Y	5.4 %	5.3 %	5.3 % to 5.6 %	<b>5.3 %</b>
Ex-Food & Energy- M/M	0.3 %	0.3 %	0.2 % to 0.3 %	<b>0.1 %</b>
Ex-Food & Energy- Y/Y	4.3 %	4.2 %	4.1 % to 4.3 %	<b>4.0 %</b>

## Value In Washed-out Japan?

David Robertson, an author for Real Investment Advice, shares interesting thoughts on potential value in Japanese stocks. He cites a [Bloomberg article](#) in which John Authers reviews how beaten up Japanese stocks are versus those in the U.S.

*"John Authers provides some good background on Japan and its struggles over the years. After so many people have been burned so many times, it's hard to seriously entertain the idea of investing in Japan. **Perhaps that is exactly the type of washed-***

*out situation that presents a value opportunity, however. Further, Japan's epic underperformance started from the top of an epic bubble. What if the tables are turning? In a world of precious few cheap stocks or sectors, Japan is interesting."*

## Japan's Three Lost Decades

Japanese stocks lag the U.S. by more than 90% since the end of 1989

Normalized As Of 01/04/1990 ■ Tokyo Stock Exchange Tokyo Price Index TOPIX (USD) / S&P 500 INDEX (USD)

