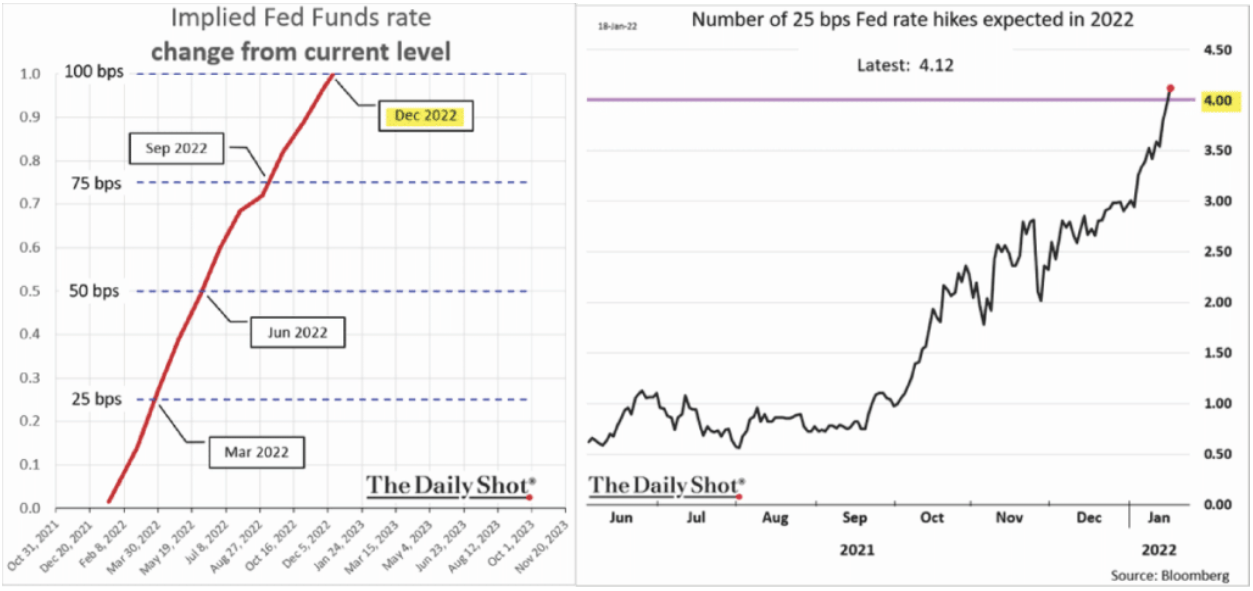
Stocks Or Inflation? The Fed Has A Choice To Make

At 2 pm ET, the Fed will conclude its FOMC policy meeting and inform us on how it plans to proceed with QE and potential rate increases. Of most importance, between the statement and press conference, is how much is the Fed is willing to fight inflation at the expense of the stock market. A focus on inflation entails aggressive actions to end QE, start QT and raise rates 4 or 5 times this year, undoubtedly to the detriment of stock prices. Please read our article - Instability or Inflation, Which Will The Fed Choose for more on the topic. The article ponders the delicate balance between supporting stock prices and broader financial stability versus reducing inflation.



[dmc]

What To Watch Today

Economy

- 7:00 a.m. ET: **MBA Mortgage Applications,** week ended January 21 (2.3% during prior week)
- 8:30 a.m. ET: **Advance Goods Trade Balance,** December (-$96.0 billion expected, -$98.0 billion in November)
- 8:30 a.m. ET: **Wholesale Inventories,** month-over-month, December preliminary (1.3% expected, 1.4% in November)
- 10:00 a.m. ET: **New home sales,** December (760,000 expected, 744,000 in November)
- 2:00 p.m. ET: **Federal Reserve Monetary Policy Decision**

Earnings

Pre-market

- 6:00 a.m. ET: **Stifel Financial Corp. (SF)** to report adjusted earnings of 86 cents on revenue of $1.43 billion
- 6:00 a.m. ET: **Anthem Inc. (ANTM)** to report adjusted earnings of $5.12 on revenue of $36.58 billion
- 6:30 a.m. ET: **AT&T (T)** to report adjusted earnings of 75 cents on revenue of $40.47 billion
- 7:00 a.m. ET: **General Dynamics Corp. (GD)** to report adjusted earnings of $3.37 on revenue of $10.67 billion
- 7:00 a.m. ET: **Nasdaq Inc. (NDAQ)** to report adjusted earnings of $1.73 on revenue of $867.80 million
- 7:30 a.m. ET: **Kimberly-Clark Corp. (KMB)** to report adjusted earnings of $1.24 on revenue of $4.89 billion
- 7:30 a.m. ET: **Boeing (BA)** to report adjusted losses of 4 cents on revenue of $16.67 billion
- 7:30 a.m. ET: **Abbott Laboratories (ABT)** to report adjusted earnings of $1.21 on revenue of $10.73 billion
- 8:15 a.m. ET: **The Progressive Corp. (PGR)** to report adjusted earnings of 99 cents on revenue of $12.09 billion

Post-market

- 4:00 p.m. ET: **Intel (INTC)** to report adjusted earnings of 90 cents on revenue of $18.38 billion
- 4:05 p.m. ET: **Las Vegas Sands Corp. (LVS)** to report adjusted losses of 26 cents on revenue of $1.05 billion
- 4:05 p.m. ET: **Whirlpool Corp. (WHR)** to report adjusted earnings of $5.93 on revenue of $5.89 billion
- 4:10 p.m. ET: **ServiceNow Inc. (NOW)** to report adjusted earnings of $1.43 on revenue of $1.6 billion
- 4:10 p.m. ET: **Qualtrics International (XM)** to report adjusted losses of 2 cents on revenue of $297.72 million
- 4:10 p.m. ET: **Tesla (TSLA)** to report adjusted earnings of $2.37 on revenue of $16.64 billion
- 4:20 p.m. ET: **Xilinx (XLNX)** to report adjusted earnings of $1.02 on revenue of $949.44 million

Support Holding, Is The Bottom In?

While the Fed debates between supporting stocks or fighting inflation, the market is holding support at the October lows. The deep oversold is beginning to reverse, and the stochastic "buy signal" has turned up suggesting we may have seen the lows temporarily. However, as noted the lows from last Friday's option expiration washout continue to provide resistance.

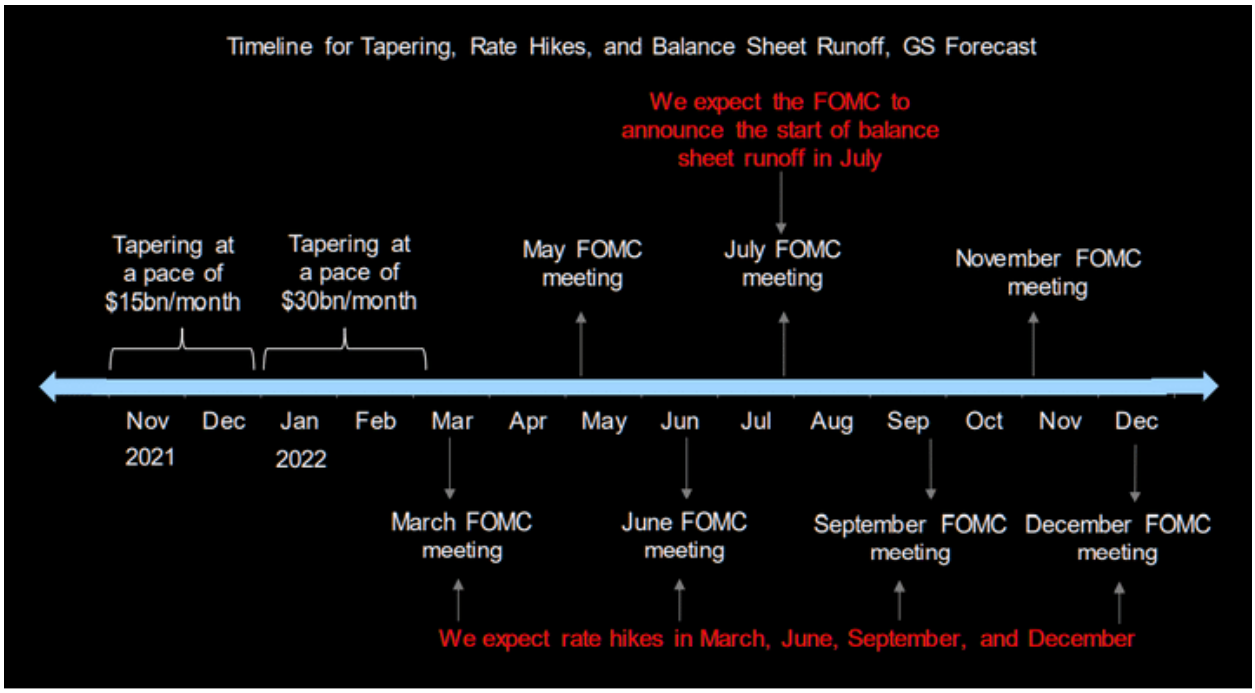
We should get some better clarity on where markets are headed to after the FOMC announcement this afternoon. However, this morning futures are pointing solidly higher. After two days of accumulation, and the ongoing battle between stocks or inflation, the question is whether the bottom is in.



Chart Courtesy Of SimpleVisor.com

The Fed's Calendar

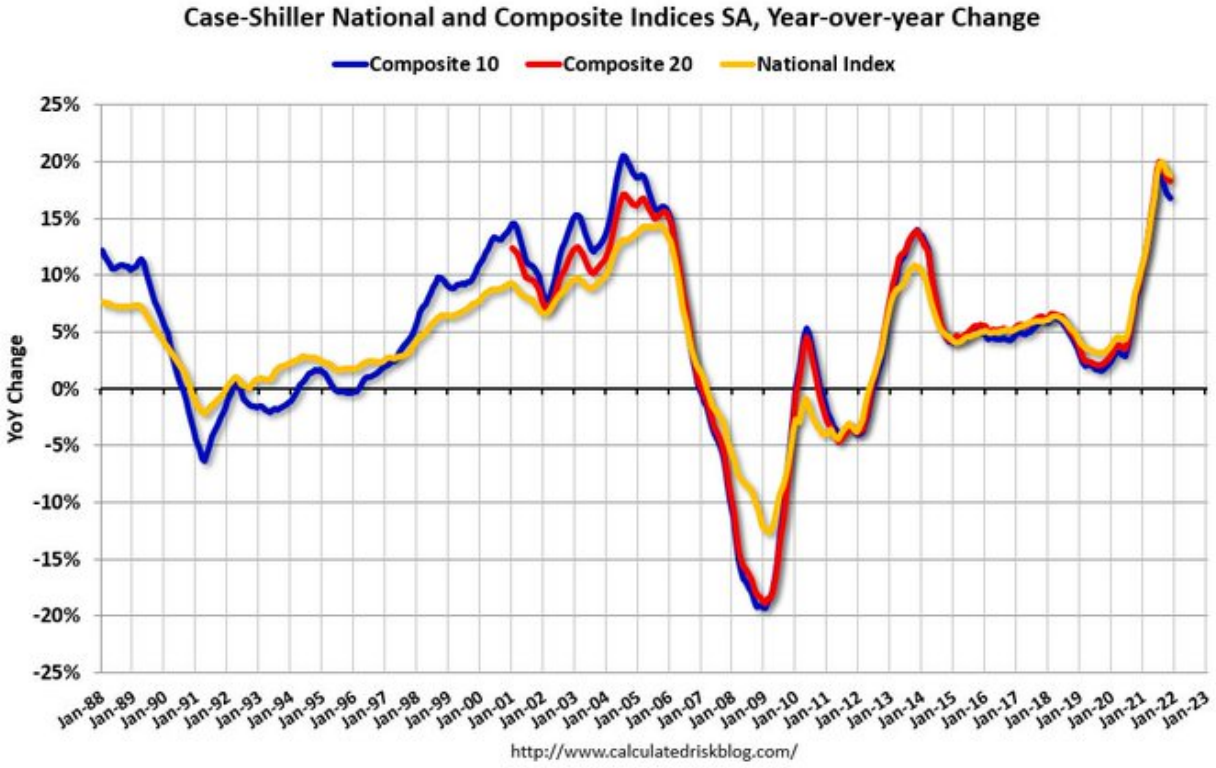
The timeline below from The Market Ear is based on Goldman Sachs's Fed forecast. We can use it to help assess whether the Fed is more hawkish or dovish than expected. The forecast below calls for QE to end in March. They believe the first of four rate hikes in 2022 start in March. Lastly, Goldman thinks the Fed could announce QT in July.



Source: Goldman

Home Prices Remain on Fire

The Case-Shiller Home Price Index rose 18.8% year over year in November. While still a huge increase, the good news is the rate of change in annual prices is slightly lower than October's 19% pace. Keep in mind mortgage rates are about .75% higher today than in November. It will be interesting to see how higher rates affect this index going forward. The graph below from the Calculated Risk Blog shows this latest reading is the first time the index has come in lower than the prior month in over a year and a half. Given housing is the largest component of CPI, this index bears following closely over the next few months.



Time To Buy The Dip

This to shall pass. Yes, the markets have been under considerable pressure this year, but eventually, this will pass. Bank of America posted yesterday a list of candidates to start building your buy list from.

Exhibit 1: Screen: Buy-rated underperformers with strong fundamentals and less macro vulnerability
Buy-rated stocks that are inexpensive, have positive/insignificant relationship to rates, are labor light, and have underperformed YTD

Symbol	Name	Sector	Industry	YTD return	EV/FCFF*	Div. yield	Net Debt / EBITDA	Rate beta	Employee/ sales	S&P Quality Ranking	BofA rating
AMAT	Applied Materials, Inc.	Information Technology	Semiconductors & Semiconductor Equipment	(11.5%)	25.0	0.7%	0.0	nmf	1.2	A	BUY
AVGO	Broadcom Inc.	Information Technology	Semiconductors & Semiconductor Equipment	(18.6%)	25.4	2.8%	2.0	nmf	0.7	B	BUY
KMX	CarMax, Inc.	Consumer Discretionary	Specialty Retail	(14.1%)	32.3	0.0%	9.8	nmf	0.9	B+	BUY
CSCO	Cisco Systems, Inc.	Information Technology	Communications Equipment	(10.2%)	20.1	2.6%	-0.8	nmf	1.6	B+	BUY
CSX	CSX Corporation	Industrials	Road & Rail	(8.6%)	29.0	1.1%	2.2	nmf	1.6	A+	BUY
DHI	D.R. Horton, Inc.	Consumer Discretionary	Household Durables	(16.0%)	10.3	0.9%	0.4	nmf	0.4	A-	BUY
HD	Home Depot, Inc.	Consumer Discretionary	Specialty Retail	(12.3%)	30.4	1.9%	1.6	nmf	3.4	A+	BUY
KLAC	KLA Corporation	Information Technology	Semiconductors & Semiconductor Equipment	(9.1%)	23.4	1.0%	0.3	nmf	1.5	B+	BUY
LRCX	Lam Research Corporation	Information Technology	Semiconductors & Semiconductor Equipment	(13.5%)	24.4	0.9%	0.1	nmf	0.9	B+	BUY
LOW	Lowe's Companies, Inc.	Consumer Discretionary	Specialty Retail	(10.1%)	25.3	1.2%	1.8	nmf	3.6	A+	BUY
MNST	Monster Beverage Corporation	Consumer Staples	Beverages	(8.2%)	31.0	0.0%	-1.6	nmf	0.7	B+	BUY
NRG	NRG Energy, Inc.	Utilities	Electric Utilities	(7.6%)	11.6	3.3%	0.0	nmf	0.2	B	BUY
PENN	Penn National Gaming, Inc.	Consumer Discretionary	Hotels Restaurants & Leisure	(18.2%)	31.2	0.0%	6.6	nmf	3.4	B-	BUY
PFE	Pfizer Inc.	Health Care	Pharmaceuticals	(12.7%)	15.7	3.0%	0.5	nmf	1.1	A-	BUY
TER	Teradyne, Inc.	Information Technology	Semiconductors & Semiconductor Equipment	(9.8%)	26.8	0.3%	-0.9	nmf	1.5	B	BUY

Source: FactSet, Bloomberg, BofA US Equity & Quant Strategy
*Fwd P/E for Financials and Utilities; nmf=not meaningful (statistically insignificant)

The screen above is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Merrill Lynch Global Research. This screen was not created to act as a benchmark. This screen is not a recommended list either individually or as a group of stocks. Investors should consider the fundamentals of the companies and their own individual circumstances/objectives before making any investment decisions.

BofA GLOBAL RESEARCH

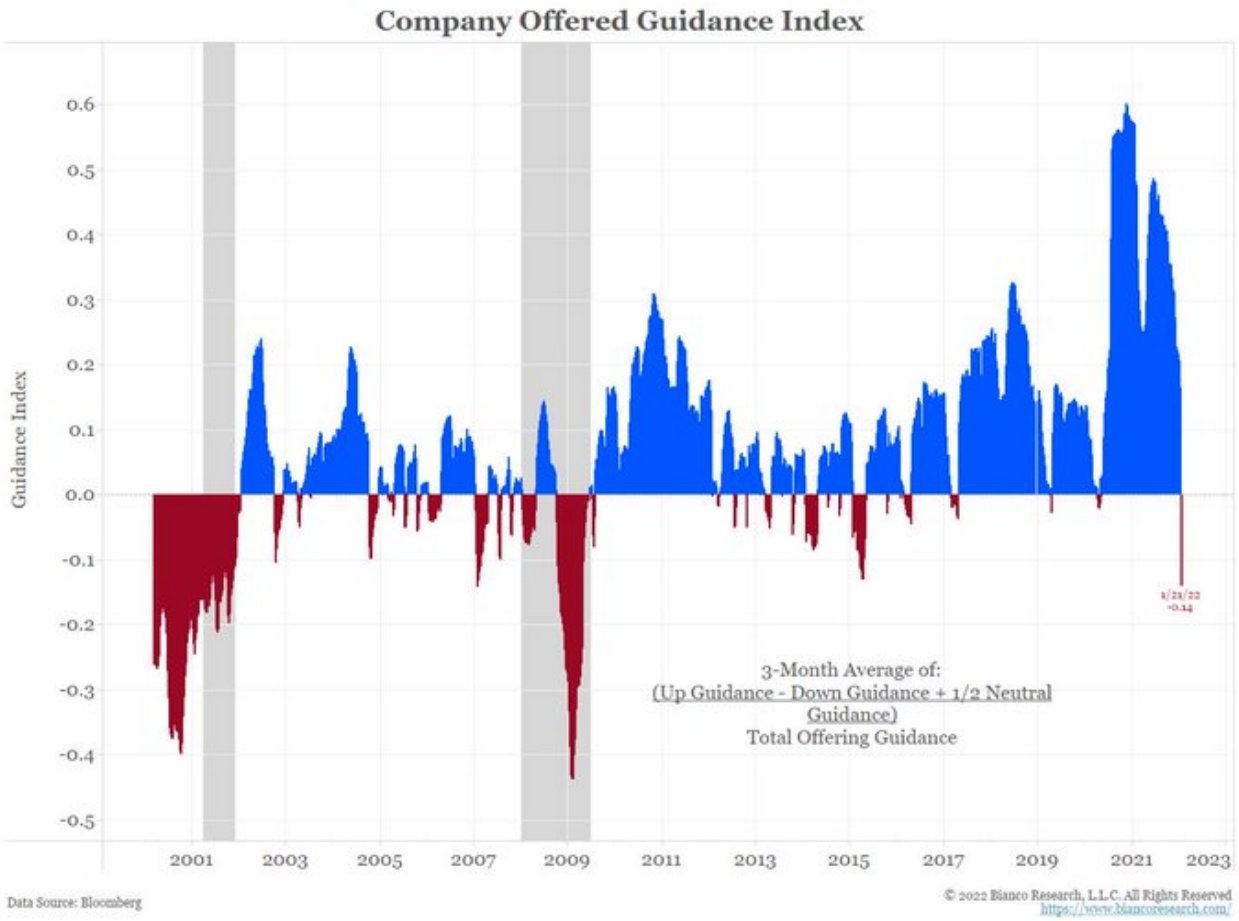
MicroStrategy MSTR Bitcoin-Backed Bonds

Led by crypto enthusiast Michael Saylor, Microstrategy has been aggressively buying bitcoin. Recently the company used the debt markets to fund and leverage bitcoin purchases. The graph below shows MSTR's $2.2 billion bonds maturing in 2027 is now trading at 63 cents on the dollar, producing a yield of just under 10%. The bond, backed by bitcoin, has become a fixed income proxy for bitcoin as MSTR's solvency has become very dependent on bitcoin prices.



Earnings Guidance

Bianco Research shows below that there has recently been more negative earnings guidance than positive guidance. This is the first time we have seen this since April 2020, when the pandemic devastated economic growth. Of greater concern, the negative to positive guidance ratio is worse today than in early 2020. Further, it is at levels last seen in 2009.



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