VIX Fades Despite A Wall Of Worry

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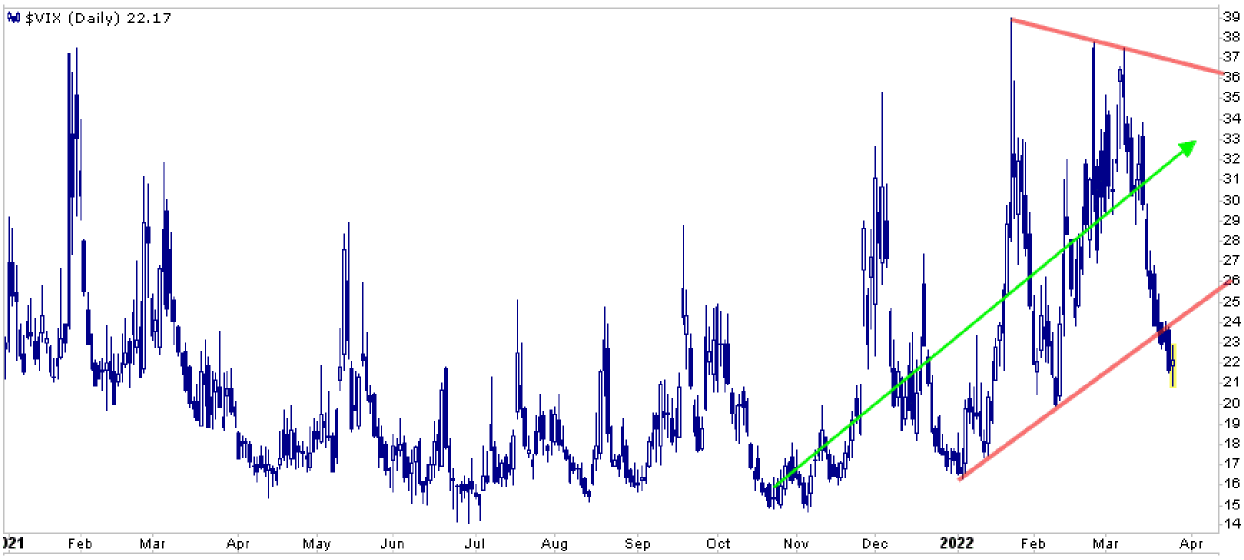
The VIX index gauging expected equity volatility is normalizing despite a sharp pick-up in yields, hawkish Fed rhetoric, and no resolution to the Russian conflict. The VIX tends to be elevated during market drawdowns and periods of stress. As we show below, the VIX index has recently fallen to levels preceding Russia's invasion of Ukraine. While volatility is still elevated from the more normal mid-upper teens, it does imply that investors are more comfortable with current conditions. **As they say, markets like to climb a wall of worry.** From a technical basis, the VIX graph shows the upward bias, but there are some positives. For starters, note the downward trend in peaks. Further, the recent move lower in VIX broke through the trend of higher lows.



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What To Watch Today

Economy

- 8:30 a.m. ET: **Advance Goods Trade Balance**, February (-$106.3 billion expected, -$107.6 billion during prior month)
- 8:30 a.m. ET: **Wholesale Inventories**, month-over-month, February preliminary (1.2% expected, 0.8% during previous month, upwardly revised to 1.0%)
- 8:30 a.m. ET: **Retail Inventories**, month-over-month, February (1.4% expected, 4.9% during prior month)
- 10:30 a.m. ET: **Dallas Fed Manufacturing Activity**, March (11 expected, 14 during prior month)

Earnings

Pre-market

- **Jefferies Financial** (JEF) to report adjusted earnings of $0.89 on revenue of $1.55 billion

- **TPG** (TPG) to report adjusted earnings of $0.42 on revenue of $258.5 million

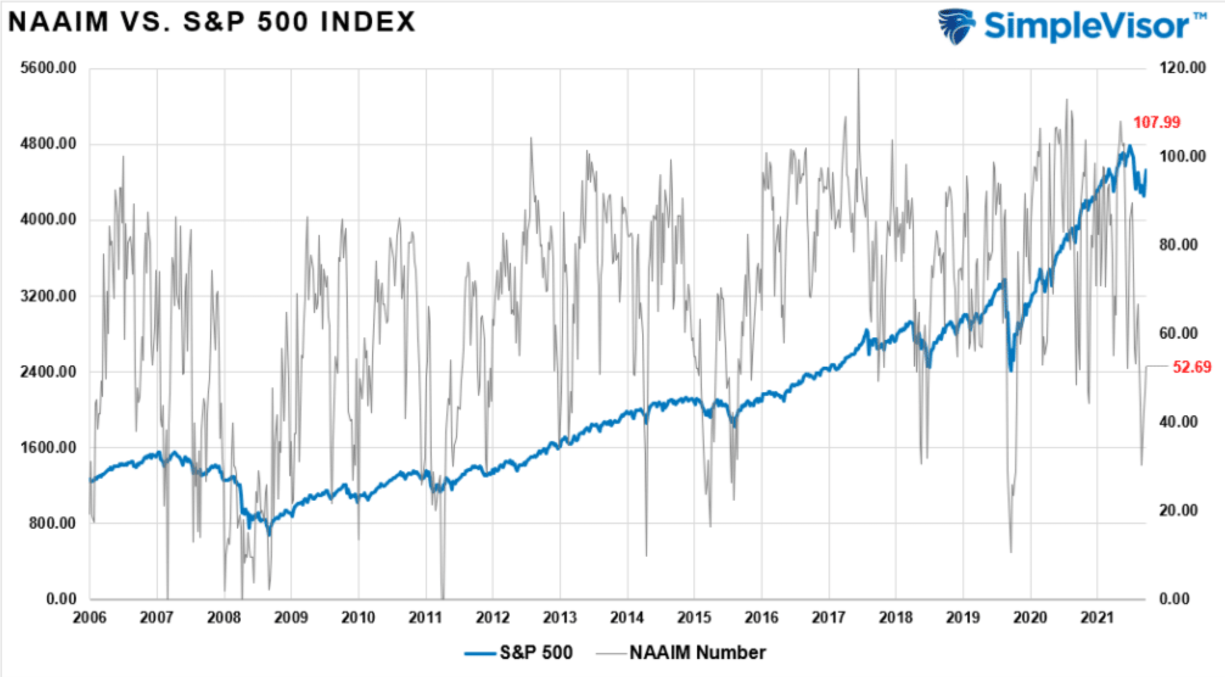
Post-market

- **Dave & Buster?s** (PLAY) to report adjusted earnings of $0.61 on revenue of $364.56 million

Market Trading Update

While the market did advance this week above the downtrend line, the market is pushing more extreme overbought conditions. While this does not mean a *"sell-off"* is imminent, it does suggest either some consolidation or a pullback to support is likely. There is some decent resistance approaching overhead the market will likely struggle with next week.

As we head into the end of the month, a further push to the upside is not out of the question as mutual funds, pensions, and investment firms rebalance portfolios for the end of the quarter. The recent surge in interest rates has decreased the bond side of allocation funds. Also, the decline in the markets since the beginning of the year has fund managers at reduced equity levels and overweight cash.



Top 10 Buys & Sells

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TURNING POINT ANALYTICS

These are high conviction stocks that TPA has recommended recently. They are technically positive for Buys or negative for Sells and trading at or near their investment action levels.

March 28, 2022

THIS WEEK'S TOP 10 BUYS AND TOP 10 SELLS

BUYS

	Ticker	Name	Last Price	Action Price	Distance to Action
1	ADBE	Adobe Inc	431.62	420.00	-2.69%
2	QQQ	Invesco QQQ Trust	359.35	342.00	-4.83%
3	CTSH	Cognizant Technology Solut	91.51	86.00	-6.02%
4	U	Unity Software Inc	93.98	88.00	-6.36%
5	SPOT	Spotify Technology S.A.	146.04	135.00	-7.56%
6	SQ	Block Inc - Ordinary Shares	130.33	120.00	-7.93%
7	BDX	Becton Dickinson And Co.	265.67	242.00	-8.91%
8	CRWD	Crowdstrike Holdings Inc	221.95	200.00	-9.89%
9	AXP	American Express Co.	190.28	165.00	-13.29%
10	NVDA	Nvidia Corp	276.92	230.00	-16.94%

SELLS

	Ticker	Name	Last Price	Action Price	Distance to Action
1	VMC	Vulcan Materials Co	184.71	185.00	0.16%
2	ADP	Automatic Data Processing I	219.04	220.00	0.44%
3	MSI	Motorola Solutions Inc	232.40	235.00	1.12%
4	ETN	Eaton Corporation PLC	154.18	156.00	1.18%
5	AVTR	Avantor Inc.	33.57	34.00	1.28%
6	ACN	Accenture plc	327.71	337.00	2.83%
7	LFUS	Littelfuse Inc.	251.38	259.00	3.03%
8	MANH	Manhattan Associates Inc.	137.15	145.00	5.72%
9	BLD	TopBuild Corp	190.99	210.00	9.95%
10	FND	Floor & Decor Holdings Inc	88.02	97.00	10.20%

Be Careful Of Selling Stocks Over Russia Sanctions

Before you start selling a stock over its exposure to Russia and the ongoing sanctions, make sure you have a handle on just how much exposure that is.

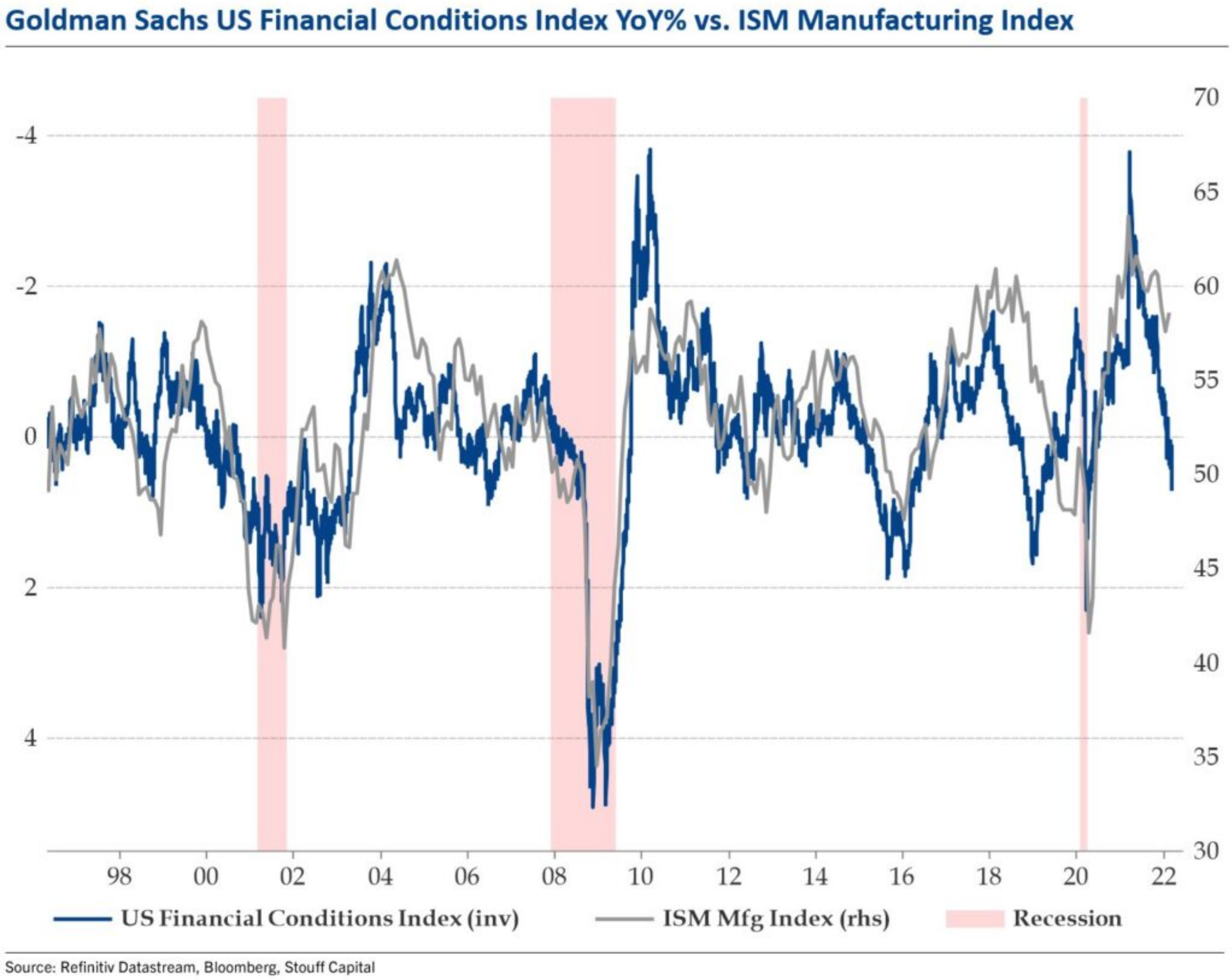
> *"Food giant **Nestl&#2013265929;** has been under pressure. Ukrainian leaders, users on social media and even the hacker collective **Anonymous** have all been calling on Nestl&#2013265929; to pull its products from Russia ? and yesterday the world's largest food company finally obliged, announcing that it would stop selling "non-essential" products in Russia.*
>
> *All told Nestl&#2013265929; sold about **$1.8bn** worth of products in Russia last year. That's a huge dollar amount but **in relative terms it only makes up about 2% of the company's total sales, which topped more than $94bn in 2021."*** - Chartr

The Week Ahead

Employment week is upon us. Following the 50+ year low in initial jobless claims, investors will be looking to see if Wednesday's ADP and Friday's BLS report show similar strength. Currently, economists expect both measures to deliver gains of 450k -500k jobs. Given the low unemployment rate and the high number of jobs in need, the pressure on wages should amplify. Most affected are those companies employing a lot of low to mid-wage labor. The JOLTS report will also shine a light on the tightness in the labor market. Higher wages are inflationary. As such, another round of solid employment data puts more pressure on the Fed to raise rates and start QT.

In addition to jobs data this week, we also get a dose of inflation data. The Fed's preferred inflation gauge, the PCE price index, will be released on Thursday. Expectations are for an increase from 6.1% to 6.5%. The key Chicago PMI and ISM Manufacturing Indexes will be released on Thursday and Friday, respectively. Both are expected to be in line with last month's readings. Some regional surveys have been better than expected. Accordingly, we suspect the national indexes might come in a little better than expected. While good news, they also are representative of more inflationary pressures.

The graph below argues for weakening in manufacturing. As Julien Bittel's chart below highlights, the relationship between ISM and financial conditions is very strong. Assuming, the relationship holds going forward, we should expect the ISM to decline and signal contractionary economic conditions soon.

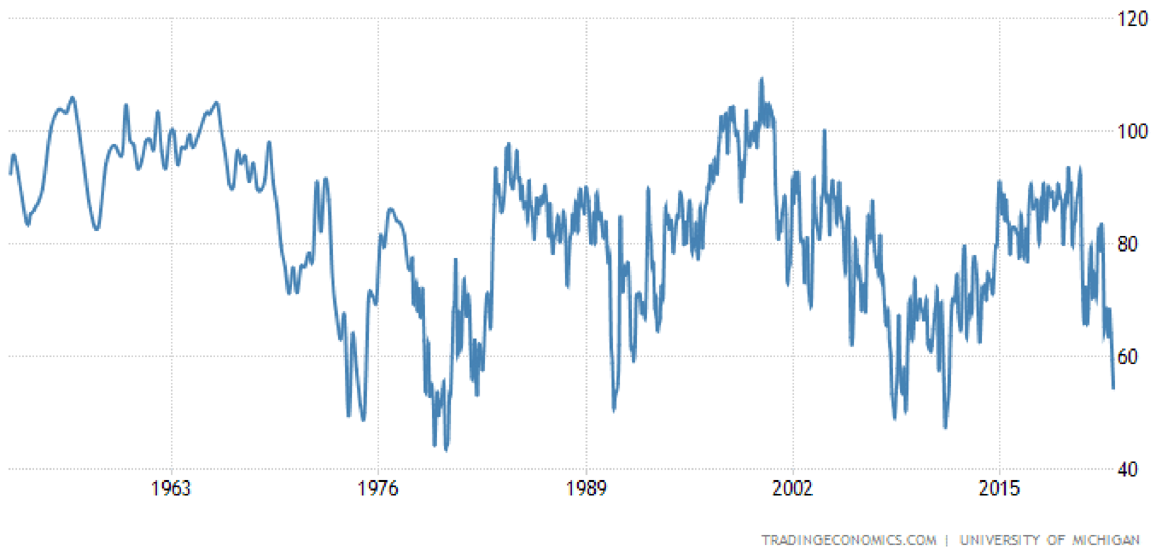


Stock and Bond Volatility Divergence

The recent sharply higher move in yields leaves us concerned about future economic growth. Interestingly, the stock market seems to be taking it in stride. The graph below shows the recent divergence between implied volatility in the bond market (MOVE) and the stock market (VIX). Not only is the gap very wide but they have recently been trending in opposite directions. Beware, frequently the bond markets sniff out problems before the stock market.

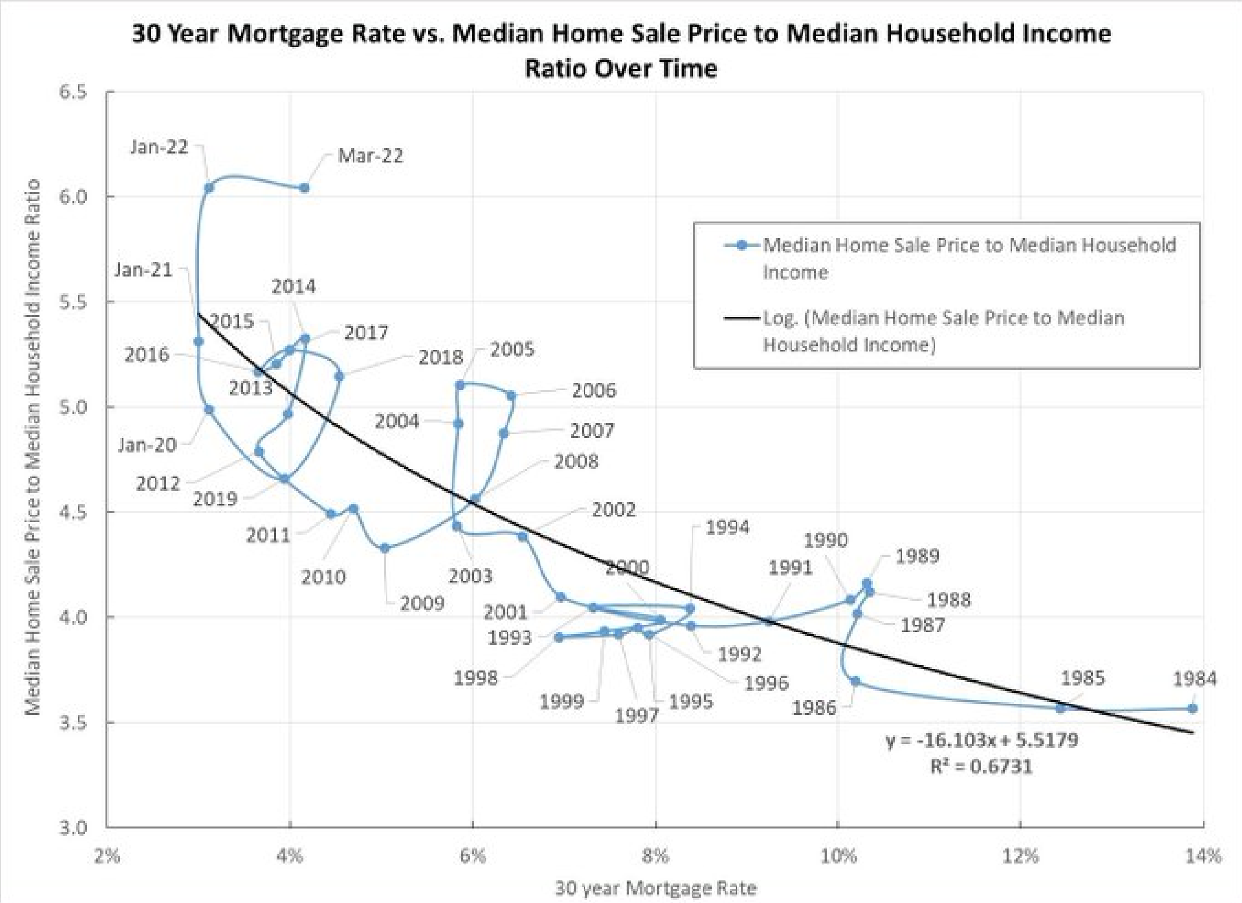
Consumer Expectations Plummet, Again

The University of Michigan Consumer Sentiment poll continues to decline. The charge lower this month is led by expectations, as shown below. Current conditions are still falling but not as rapidly as consumers' expectations. Despite a booming jobs market and higher wages, inflation is weighing on sentiment. The big question and one which may take a month or two to answer is how will the sentiment affect consumption. Another interesting tidbit comes from the Report: "***Moreover, 32% of all consumers expected their overall financial position to worsen in the year ahead, the highest recorded level since the surveys started in the mid-1940s.***"



Housing Vulnerability

The graph below shows the predictable correlation between mortgage rates and median sales price to income ratios of home buyers. It indicates that homebuyers can afford higher-priced houses as mortgage rates decline. While that conclusion is logical, the graph also shows something concerning. The January and March 2022 data points are clearly above the trend line and other recent data points where mortgage rates were similar to today. Essentially, homebuyers are extending themselves more than is typical in the quest to buy homes in the heated housing market over the last three months. The high financial burden that some buyers are taking may come back to bite some of these homeowners if home prices fall and or the economy goes into a recession.



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