

Good Inflation Print, But Is It Enough for Powell?

Stocks and bonds had an especially bullish reaction to [new data out](#) Thursday showing that inflation continues to moderate after reaching a 40-year high over the summer. But is it enough for Powell to back off from more aggressive rate hikes?

MoM inflation was unchanged at 0.4% versus estimates of 0.6%. Core inflation MoM fell to 0.3% in October from 0.6% in September and beat the consensus estimate of 0.5%. Here is the breakdown, with every inflation sector down except recreation (Halloween tweet).

Eight Components Of CPI - YoY % Change						
Name	Weight	6/1/2022	7/1/2022	8/1/2022	9/1/2022	10/1/2022
Food & Beve	14.26%	26.55%	28.03%	29.31%	29.22%	28.87%
Housing	42.36%	19.54%	19.74%	21.13%	21.79%	21.50%
Apparel	2.46%	5.35%	5.17%	5.14%	5.62%	4.00%
Transportatio	18.18%	45.03%	37.63%	30.80%	28.94%	26.11%
Medical Care	8.49%	22.74%	24.33%	27.16%	30.57%	25.51%
Recreation	5.11%	4.78%	4.50%	4.18%	4.13%	4.19%
Education &	6.41%	0.17%	-0.28%	-0.41%	-0.79%	-0.97%
Other Goods	2.74%	30.59%	29.10%	30.84%	32.04%	30.37%
Energy		96.46%	77.51%	57.09%	47.86%	44.00%
Headline CPI		9.00%	8.48%	8.25%	8.22%	7.76%
Core CPI		5.91%	5.91%	6.32%	6.66%	6.31%

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The favorable print crushed the dollar and sent bonds and equities flying as investors reassessed their expectations for the path of rate hikes. The data was enough to spark a rally, but is it enough for Jay Powell and the FOMC? We share two quotes below from last Wednesday's FOMC press conference Q&A. Keep in mind that at the time of the meeting, Powell likely had a good idea of the data released yesterday.

?And trying to make good decisions from a risk management standpoint, **remembering of course that if we were to over-tighten, we could then use our tools strongly to**

support the economy, whereas if we don't get inflation under control because we don't tighten enough, now we're in a situation where inflation will become **entrenched** and the costs, the employment costs in particular, will be much higher potentially. **So, from a risk management standpoint, we want to be sure that we don't make the mistake of either failing to tighten enough, or loosening policy too soon.**

And the last thing I'll say is that I would want people to understand our commitment to getting this done. **And to not making the mistake of not doing enough** or the mistake of withdrawing our strong policy and doing that too soon. So those, I control those messages and that's my job.



What To Watch Today

Economy

- 10:00 a.m. ET: **University of Michigan Consumer Sentiment**, November Preliminary (59.5 expected, 59.9 prior)
- 10:00 a.m. ET: **U. of Mich. Current Conditions**, November Preliminary (62.8 expected, 65.6 prior)
- 10:00 a.m. ET: **U. of Mich. Expectations**, November Preliminary (55.5 expected, 56.2 prior)
- 10:00 a.m. ET: **U. of Mich. 1 Year Inflation**, November Preliminary (5.1% expected, 5.0% prior)
- 10:00 a.m. ET: **U. of Mich. 5-10 year Inflation**, November Preliminary (2.9% expected, 2.9% prior)

Earnings

	Company	Time	Estimate		 Growth <small>Show only confirmed?</small>	Surprise
✓	STRR Star Equity Holdings, ...	6:00 AM ET	\$0.00	\$31.00 M	7.4%	<input type="text" value="+"/> <input type="text" value="="/> <input type="text" value="-"/>
✓	PLXP PLx Pharma Inc.	6:50 AM ET	(\$0.44)	\$0.60 M	-90.9%	<input type="text" value="+"/> <input type="text" value="="/> <input type="text" value="-"/>
✓	AQN Algonquin Power & U...	BMO	\$0.16	\$594.76 M	12.5%	<input type="text" value="+"/> <input type="text" value="="/> <input type="text" value="-"/>
✓	BBDC Barings BDC, Inc.	BMO	\$0.25	\$59.01 M	68.7%	<input type="text" value="+"/> <input type="text" value="="/> <input type="text" value="-"/>
✓	RGF Real Good Food Co...	BMO	(\$0.19)	\$40.13 M	74.4%	<input type="text" value="+"/> <input type="text" value="="/> <input type="text" value="-"/>
✓	CMMB Chemomab Therapeu...	6:00 AM ET	(\$0.60)	-	-	<input type="text" value="+"/> <input type="text" value="="/> <input type="text" value="-"/>
✓	IMV IMV Inc.	7:05 AM ET	(\$0.14)	\$0.02 M	-51.2%	<input type="text" value="+"/> <input type="text" value="="/> <input type="text" value="-"/>
✓	ORLA Orla Mining Ltd.	6:00 AM ET	\$0.03	-	-	<input type="text" value="+"/> <input type="text" value="="/> <input type="text" value="-"/>
✓	CRKN Crown Electrokinetics...	6:30 AM ET	(\$0.28)	\$0.50 M	∞	<input type="text" value="+"/> <input type="text" value="="/> <input type="text" value="-"/>
✓	ADXN Addex Therapeutics Ltd	BMO	(\$0.56)	\$0.23 M	-72.2%	<input type="text" value="+"/> <input type="text" value="="/> <input type="text" value="-"/>
✓	DDL Dingdong (Cayman) ...	6:25 AM ET	(\$0.07)	\$1.01 B	5.1%	<input type="text" value="+"/> <input type="text" value="="/> <input type="text" value="-"/>

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Market Trading Update

Stocks surged yesterday as weaker inflation data gave the bulls a reason to celebrate, hoping that a Fed *?pivot?* is closer at hand. While we believe that is overly optimistic, the market tested and held key support again at the 20-dma after the FTX (*cryptocurrency*) *blow-up* on Wednesday. The subsequent rally off support turned our MACD *?buy signal?* higher, keeping it intact, and the market cleared critical resistance at the 100-dma. Such now sets the stage for a rally to the 200-dma between 4000 and 4100.

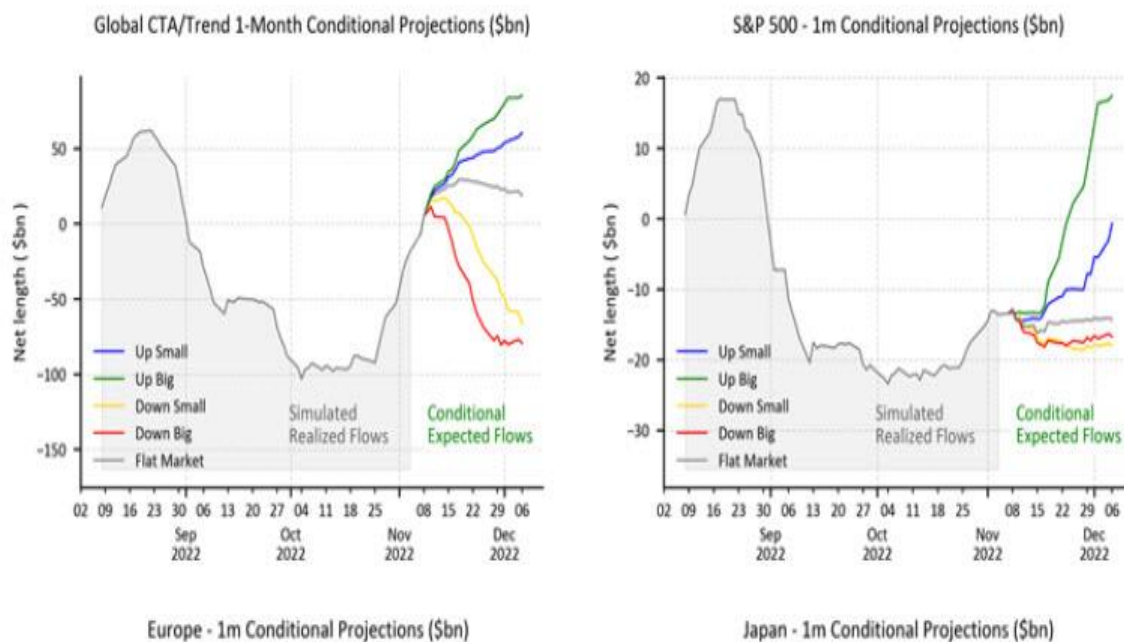


TradingView



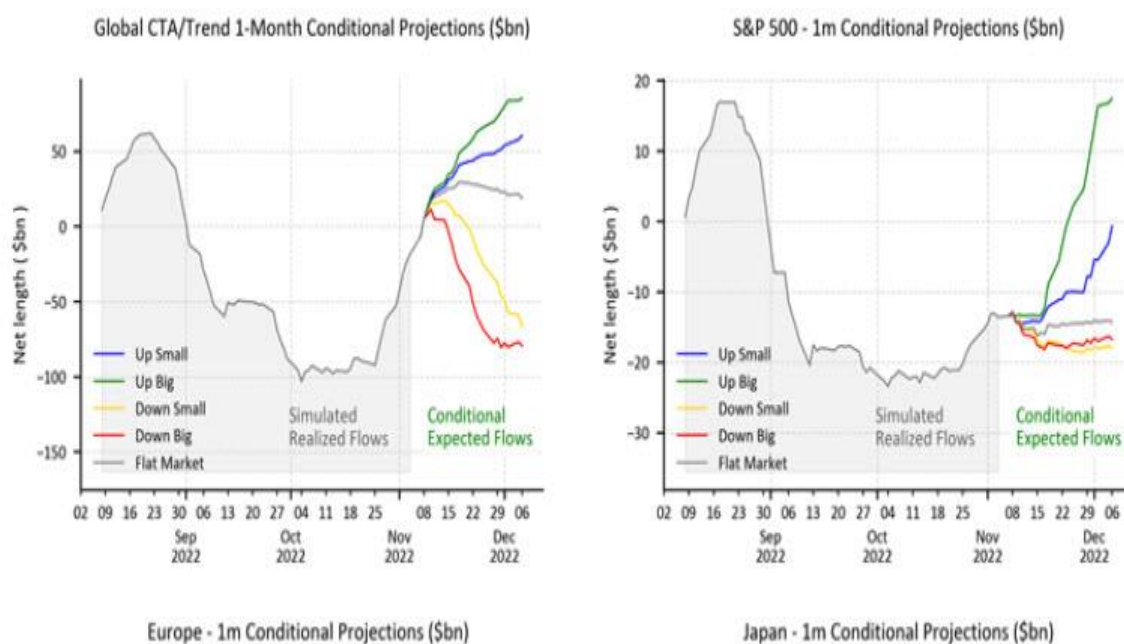
The surge in asset prices also cleared levels that are now forcing short-sellers to cover positions which will add *?fuel to the rally?* over the next few days. As noted by Goldman Sachs, CTAs bought \$43BN last week and bought \$79BN last month; now that we are back over the short-term trigger,�**Goldman calculates that there is a whopping \$38BN to buy over the next week and substantially more (green line) in an up big market: as shown in the chart below, the bank expects more than +\$79B of Buying over a month.**

Exhibit 2 - Conditional Market Forecasts - 1-Month



Source: Goldman Sachs Global Markets Division Strats, of 11/07/22. Past performance is not indicative of future returns. "Simulated results are for illustrative

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While the rally certainly has some legs, be sure and use it to take profits, rebalance risks, and adjust portfolio exposures accordingly. We aren't through with the bear market just yet.

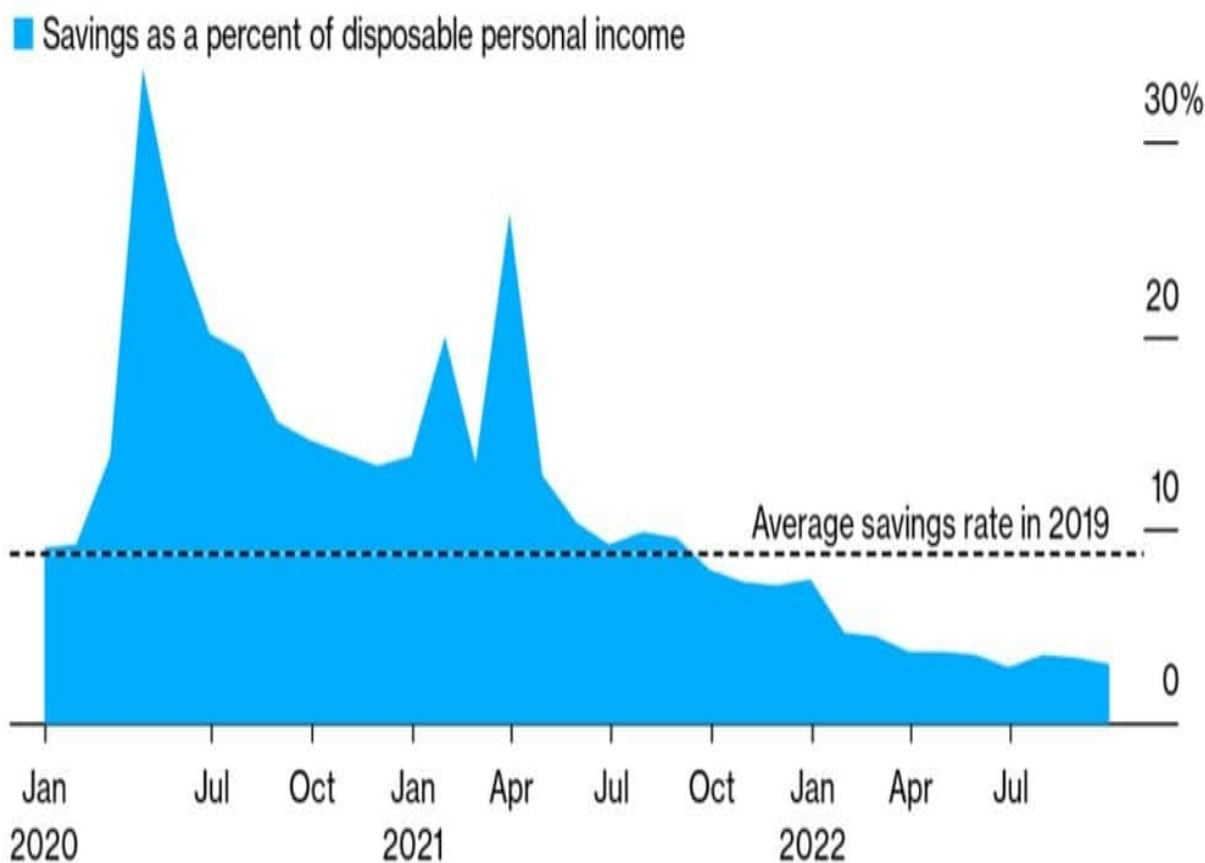
The Myth of the Strong Consumer

There's quite a difference between *consumption* remaining strong and *consumers* remaining strong. Even so, many Wall Street pundits continue to advise that consumers remain strong. We'd argue that while consumption has held up in the face of inflation, the consumer is showing clear signs of struggle.

TransUnion [reports](#) that credit card balances surged 19% YoY in the 3rd quarter to an all-time high of \$866B. This followed a 12% increase in credit cards issued to subprime consumers in Q2, the surge was driven by card use across all risk tiers. Furthermore, the chart below shows that savings as a portion of disposable income have significantly deteriorated as inflation has picked up. Consumers aren't strong. Consumption is. They are just using credit to bridge the gap, which works against their future prosperity as more income goes to service debt.

Surge in Saving

Pandemic aid bolstered savings, but saving has steadily fallen since

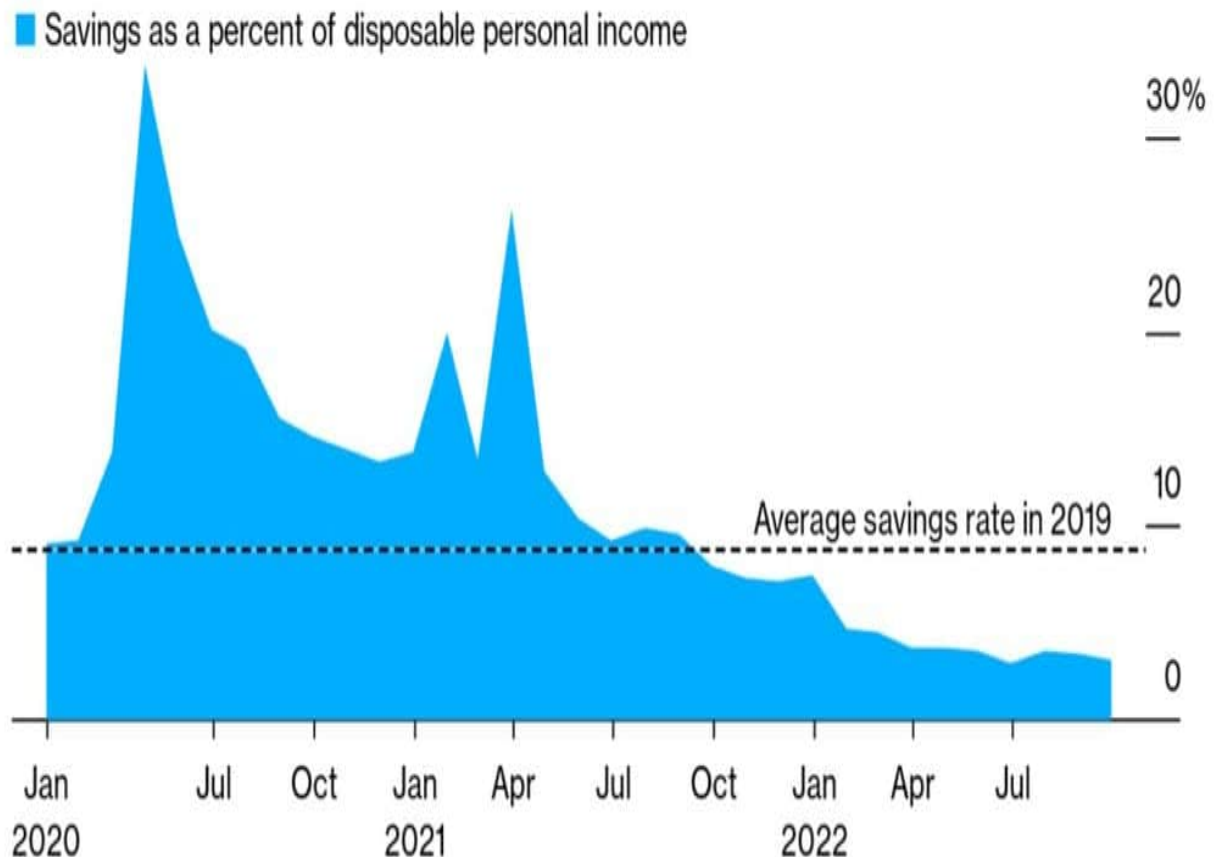


Source: Bureau of Economic Analysis

Bloomberg

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Source: Bureau of Economic Analysis

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Is Elon Driving Twitter into the Ground?

Elon Musk is truly on a rampage at Twitter after taking the company private two weeks ago today. He fired most top executives when the acquisition closed, and two resigned yesterday. He laid off 50% of the staff disorganizedly and is now asking some to return after they were let go *?by mistake?* His controversial status lost the company's advertising revenue after he saddled it with debt in the takeover. On top of that, his first email to Twitter staff ended remote work for everyone and said bankruptcy was possible. For those who are left, employee morale is most likely in the dirt.

The Twitter fiasco may start bleeding over to Tesla as well. But is it enough to remove the *?Musk hype?* premium from TSLA's stock price? Wedbush analyst, Dan Ives, removed the stock from their Best Ideas list yesterday. He wrote:

?In what has been a dark comedy show with Twitter, Musk has essentially tarnished the Tesla story/stock and is starting to potentially impact the Tesla brand with this ongoing Twitter train wreck disaster? Musk's attention focus from Tesla to Twitter, and ultimately the fear that this Twitter lightning rod of controversy on a daily (almost

hourly) basis starts to negatively change the Tesla brand globally.?

Tweet of the Day

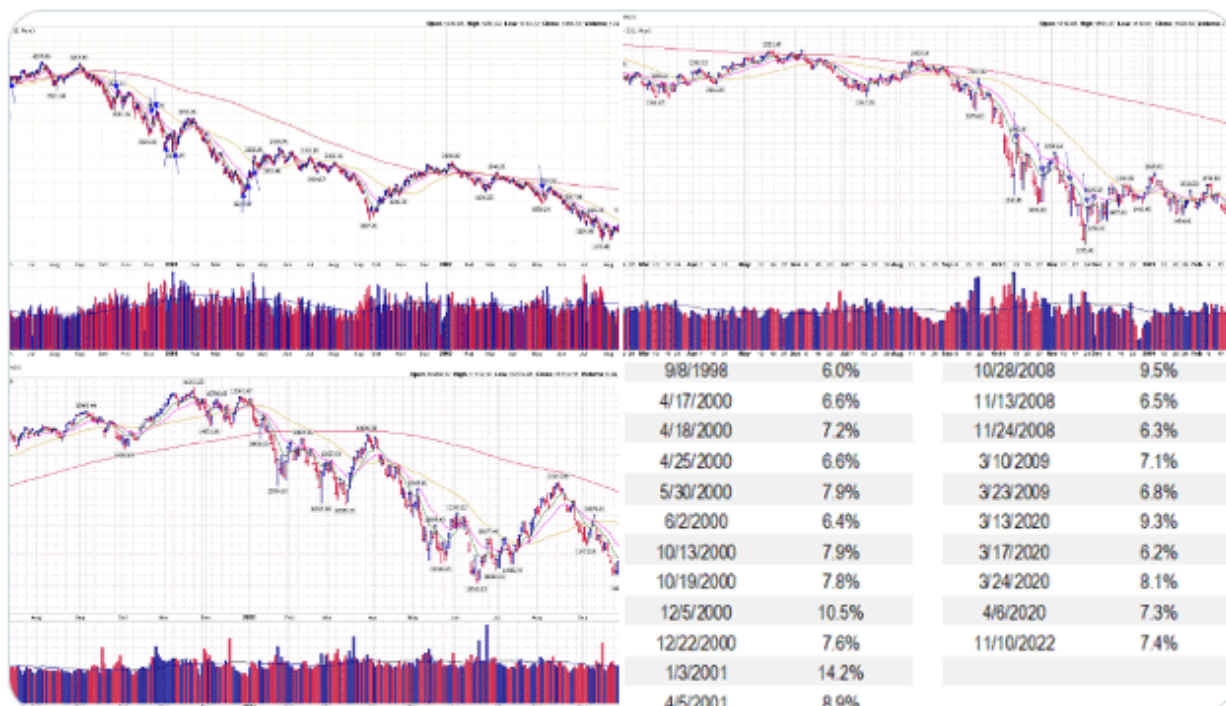


Wesley Mattox, CFA, CMT

@WesleyJMattox

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Days like today don't happen in bull markets and it is by no means a signal to pile into stocks. In 2000-2002, the Nasdaq had 14 up days of 6% or more, and you would have been wrong 14 times if you thought the bottom was in.



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