Crypto Is Coming Back To Life

Bitcoin and other cryptocurrencies rose over 10% on Wednesday. Per the graph below, Bitcoin, the most followed crypto, is up nearly 50% this year. Why the resurgence? There are a couple of factors that come to mind. For starters, investors in 2023 are favoring last year?s losing assets. Our Commentary from Tuesday, Meme Stocks for 2023, discusses the reversal of fortunes. Meme stocks, Non-Profitable Tech, and Liquid Most shorted stocks are among 2023?s biggest gainers. Similarly, Bitcoin hit a high of 65,000 in December 2021 and ended at 17,000 a year later. The recent gain is impressive, but it?s still down about 65% over the last year. Math can be deceiving!

The other reason for the crypto rally is the mounting government default warnings, as we elaborate on below. Might investors be seeking a non-dollar alternative in crypto? The logic may make some sense, except that gold prices in recent weeks are trading counter to crypto prices. Gold is down about 5% in February. Gold would be soaring if a government default were a concern for investors.

What To Watch Today

Economy

- 8:30 a.m. ET: **Import Price Index**, month-over-month, January (-0.1% expected, 0.4% prior)
- 8:30 a.m. ET: **Import Price Index excluding petroleum**, month-over-month, January (-0.3% expected, 0.8% prior)

- 8:30 a.m. ET: **Import Price Index**, year-over-year, January (1.4% expected, 3.5% prior)
- 8:30 a.m. ET: **Export Price Inde**x, month-over-month, January (-0.2% expected, -2.6% prior)
- 8:30 a.m. ET: **Export Price Index**, year-over-year, January (2.8% expected, 5.0% prior)
- 10:00 a.m. ET: **Leading Index**, January (-0.3% expected, -0.8% prior)

Earnings

	Company	Time	Estimate		Growth Show only confirmed?	Surprise
DE	Deere & Company	6:45 AM ET	$5.53	$11.44 B	19.6%	+ = -
ACDVF	Air Canada	7:30 AM ET	($0.07)	-	-	+ = -
AN	AutoNation Inc.	7:00 AM ET	$5.89	$6.52 B	-0.9%	+ = -
AMCX	AMC Networks Inc	7:00 AM ET	$1.23	$947.78 M	17.9%	+ = -
CNP	CenterPoint Energy Inc.	6:30 AM ET	$0.29	$1.93 B	-16.6%	+ = -
AXL	American Axle & Man...	8:00 AM ET	$0.01	$1.39 B	12.5%	+ = -
ABR	Arbor Realty Trust Inc.	8:00 AM ET	$0.46	$91.93 M	-36.3%	+ = -
ASIX	AdvanSix Inc.	6:30 AM ET	$1.50	$472.63 M	11.5%	+ = -
PPL	PPL Corporation	8:00 AM ET	$0.28	$1.59 B	7.1%	+ = -
B	Barnes Group Inc.	6:30 AM ET	$0.48	$322.63 M	3.7%	+ = -
LBRDA	Liberty Broadband C...	8:15 AM ET	-	$26.04 M	-89.5%	+ = -
COWN	Cowen Group Inc	7:00 AM ET	$0.13	$342.86 M	-30.6%	+ = -
CRBG	Corebridge Financial,...	6:00 AM ET	$0.71	$5.26 B	-	+ = -
MD	MEDNAX, Inc.	6:00 AM ET	$0.46	$500.72 M	0.4%	+ = -

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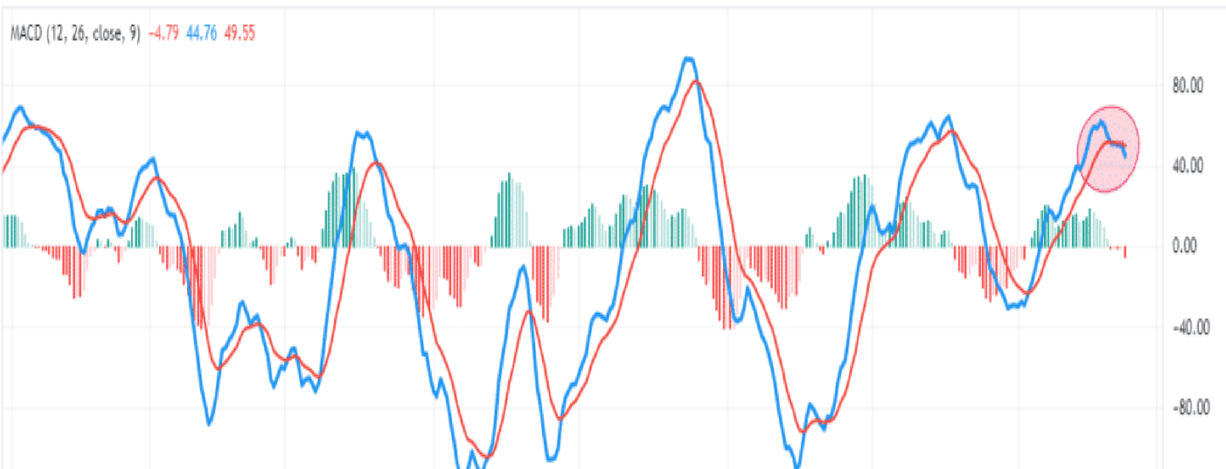
Market Finally Sells Off

All it took was some really poor economic data for the markets to finally give into the MACD sell signal looming for the last few trading days. The good news is that the market did hold initial support at the 20-DMA, but given the steepness of the decline in the late afternoon yesterday, it will not be surprising to see that level taken out today.

The hot sectors of late *(i.e., Technology)* were the hardest hit as rising bond yields finally took their toll on growth stocks. As we have discussed previously, the 2-year Treasury rate is a good proxy for the discount rate of future cash flows for growth stocks. The sharp increase in yields, combined with a *?too fast, too furious?* technology rally, was a bad mix destined to break. This could be the beginning of a larger corrective move into month?s end, so we recommend not trying to chase stocks here until the more overbought conditions are reversed.

TradingView



CBO Sounds Government Default Alarms

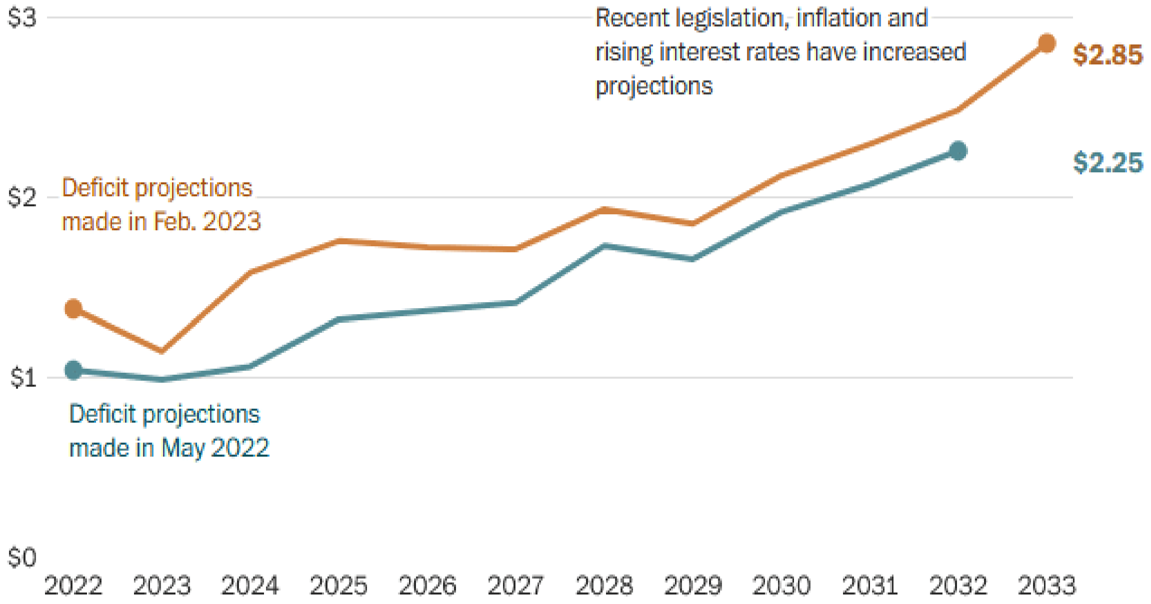
The CBO provided a new estimate on the timing in which Treasury cannot make good on its debt. The CBO can not provide an exact date the Treasury would exhaust its emergency actions, but they do mention the Treasury may run out of options by late June or early July. While the thought of default is daunting, we remind you the debt limit has been raised 78 times since 1960 and 20 times in the last 21 years.

In addition to warning about the debt, the CBO also paints a troubling picture of the overall fiscal position of the United States. They estimate the government could add $19 trillion in new debt over the next ten years. The graph below, from the Washington Post, shows that higher interest rates and recent spending bills resulted in a rather significant increase in its forecast from just one year ago. The second graph shows the effect higher interest rates have on the government?s interest expense. As each day goes by, the interest expense will rise as old debt with low coupons is replaced by new debt with higher coupons. The Washington Post, reporting on the CBO?s latest forecast, shared the following assessment from Marc Goldwein, SVP at the Committee for a Responsible Federal Budget:

> *?Our fiscal situation, which we already knew was bad, has deteriorated significantly,?*

U.S. deficit is growing faster than expected

Deficit projection in trillions of U.S. dollars



2022 deficit was projected in May 2022 and actual for February 2023. The May 2022 estimate did not include a projection for 2033.

Source: Congressional Budget Office

THE WASHINGTON POST

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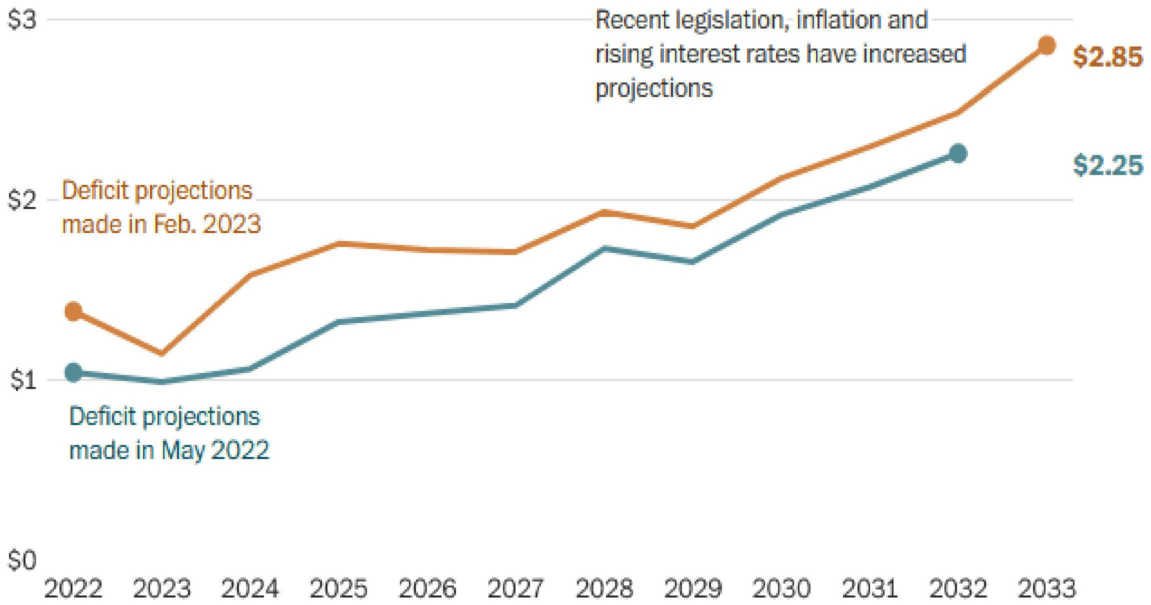

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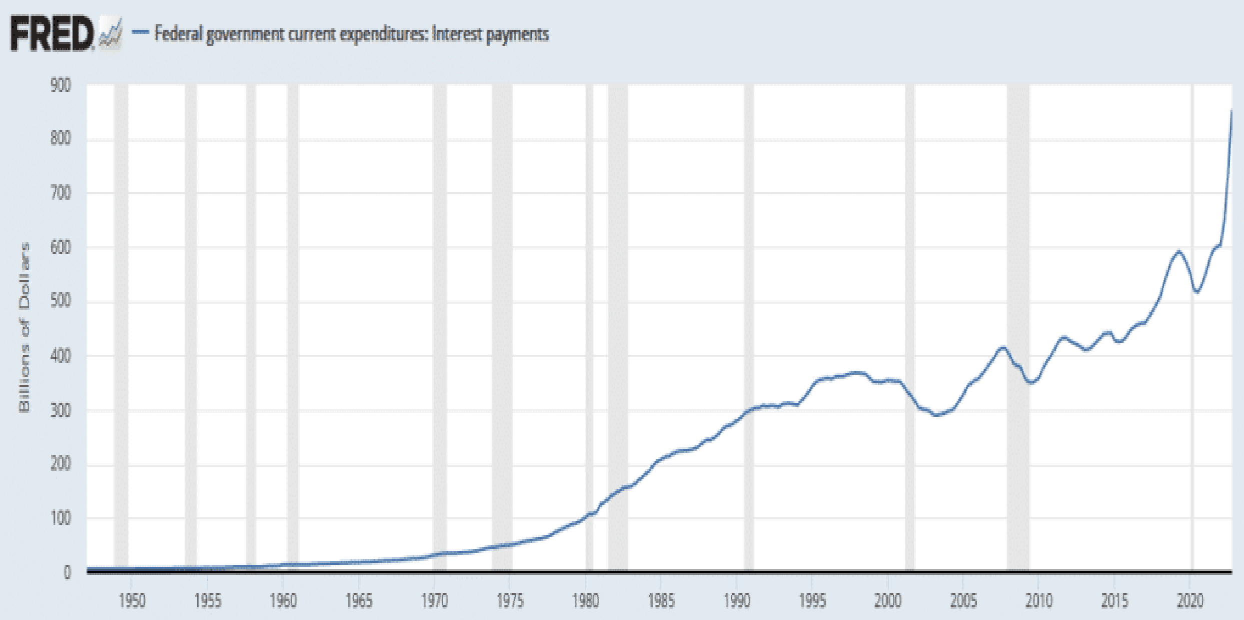
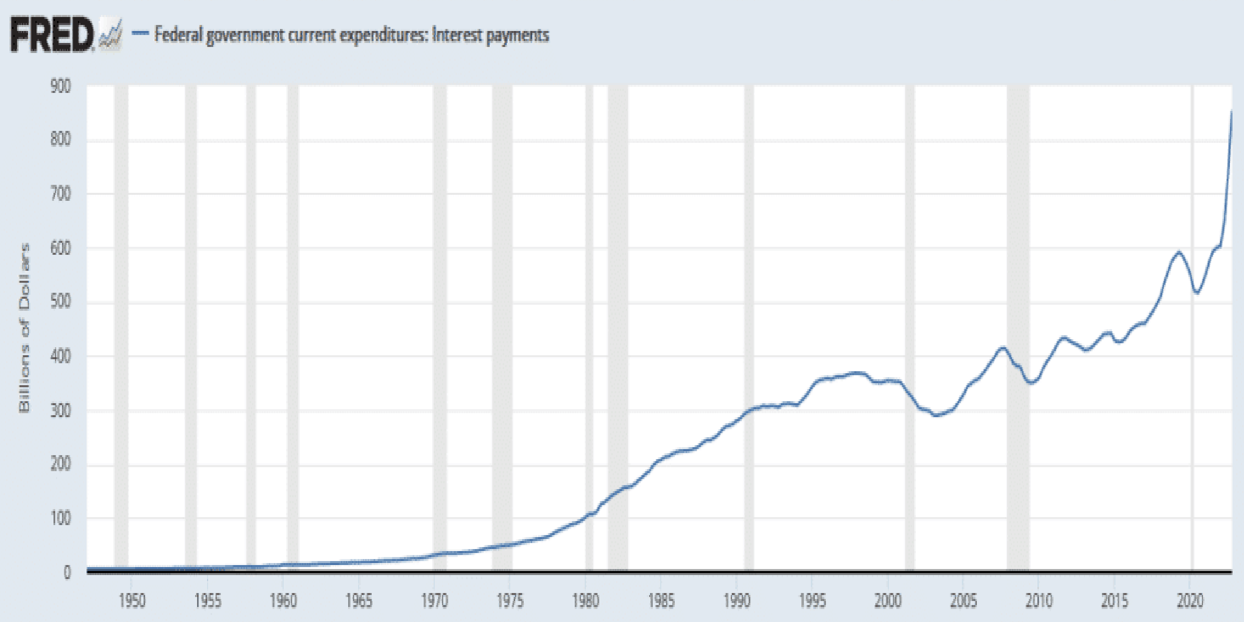
THE WASHINGTON POST

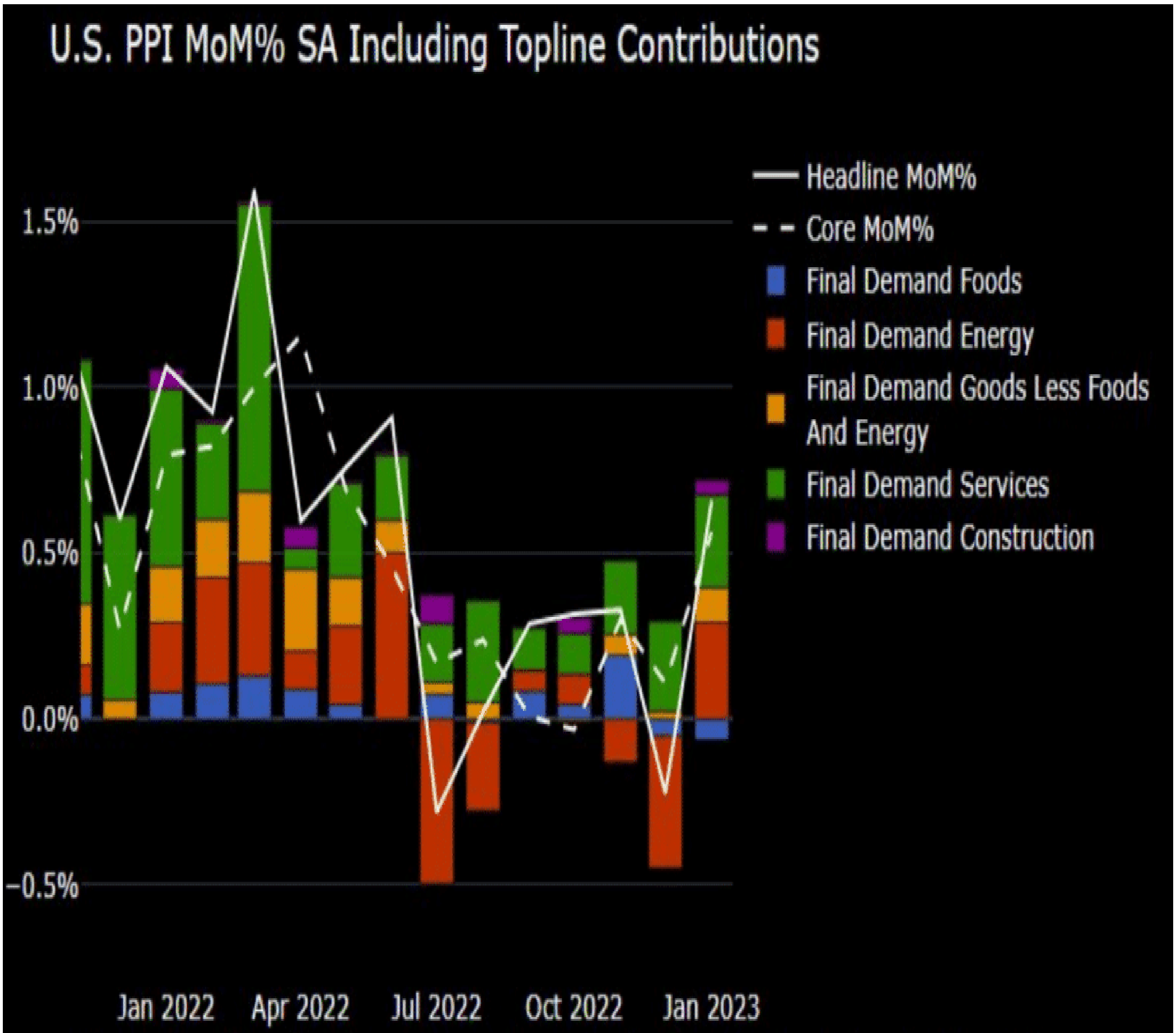


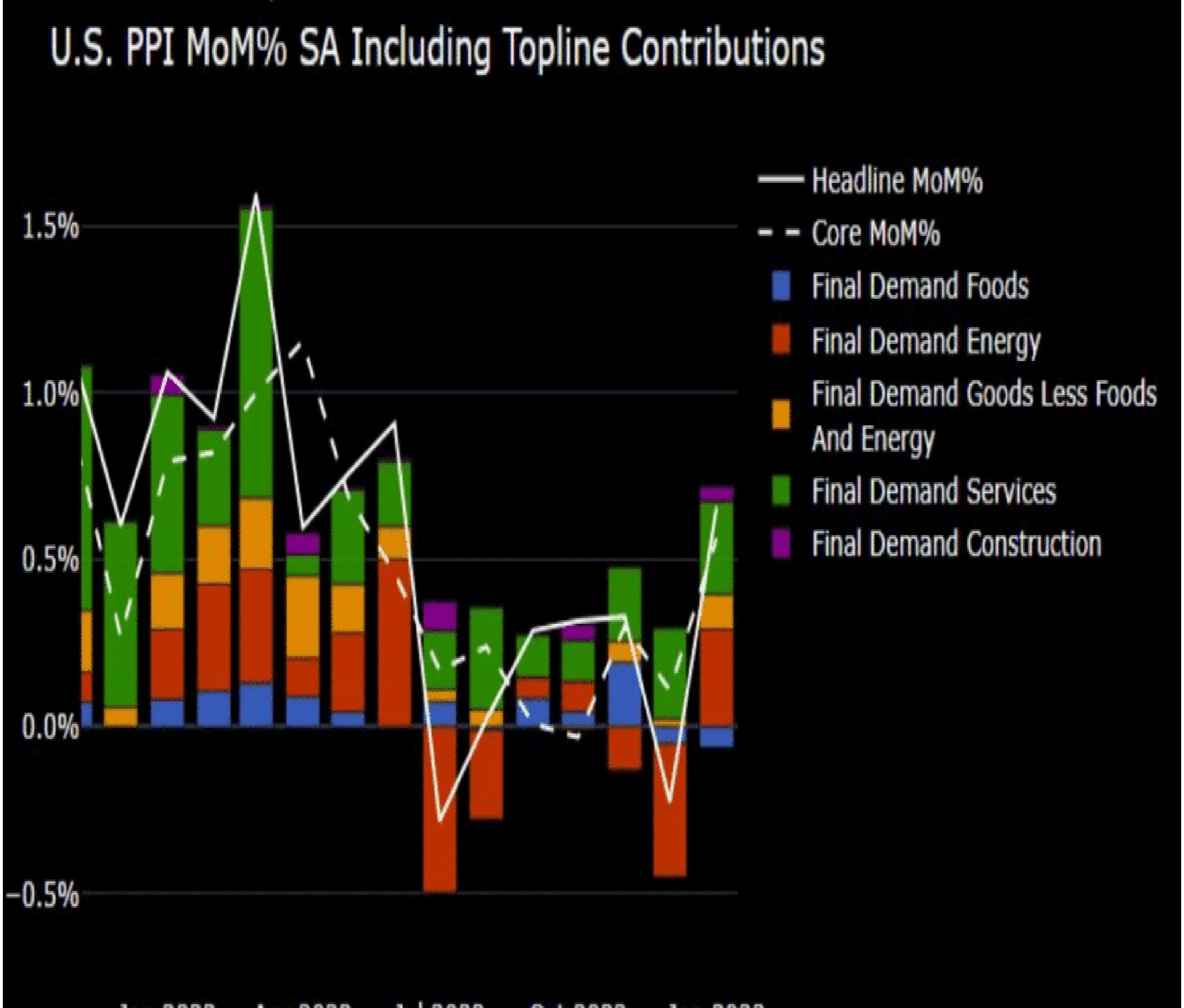


PPI

The producer price index (PPI), like CPI, came in higher than expected. PPI rose +0.7% last month, well above the +0.4% expectation and quite the reversal from last months -0.5%. Core PPI, excluding food and energy, was also hotter than expected at +0.5%. Year over year, PPI hit 6%, well above expectations of 5.4%. In general, the trend is still toward disinflation. However, the latest round of data points to a potential stalling of the downward trend. However, one month does not make a trend. The graph below shows that energy prices popped higher this month after six months of low to negative readings. Also, the Fed?s important inflation indicator, services, continue to represent a sizeable inflation contributor.

PPI, CPI, and Retail Sales is not likely welcome in the Fed?s eyes. Over the coming days and weeks, we will follow their speeches closely for indications that these recent data points change their forecasts on Fed Funds or impact QT.


U.S. PPI MoM% SA Including Topline Contributions
Headline MoM%
Core MoM%
Final Demand Foods
Final Demand Energy
Final Demand Goods Less Foods And Energy
Final Demand Services
Final Demand Construction
1.5%
1.0%
0.5%
0.0%
−0.5%
Jan 2022
Apr 2022
Jul 2022
Oct 2022
Jan 2023


U.S. PPI MoM% SA Including Topline Contributions
Headline MoM%
Core MoM%
Final Demand Foods
Final Demand Energy
Final Demand Goods Less Foods And Energy
Final Demand Services
Final Demand Construction
1.5%
1.0%
0.5%
0.0%
−0.5%

More Warnings about 0DTE

In mid-January, we wrote an article (LINK) warning that 0DTE options could significantly add to volatility in a surging or rapidly declining market environment. We opened the article as follows:

> On October 12, 1987, a week before Black Monday, the Wall Street Journal warned of the potential for significant market turmoil. Per the article: The use of portfolio insurance ?***could snowball into a stunning rout for stocks*.**? Today, we are increasingly alarmed that another trading tool similar to portfolio insurance could set markets up for a bout of turmoil.&#2013266080;

We are not the only ones harboring similar concerns. ZeroHedge summarizes a recent article by Marko Kolanovic, Chief Strategist at JPM, in which he warns that 0DTE options can add fuel to a market fire. Per Marko:

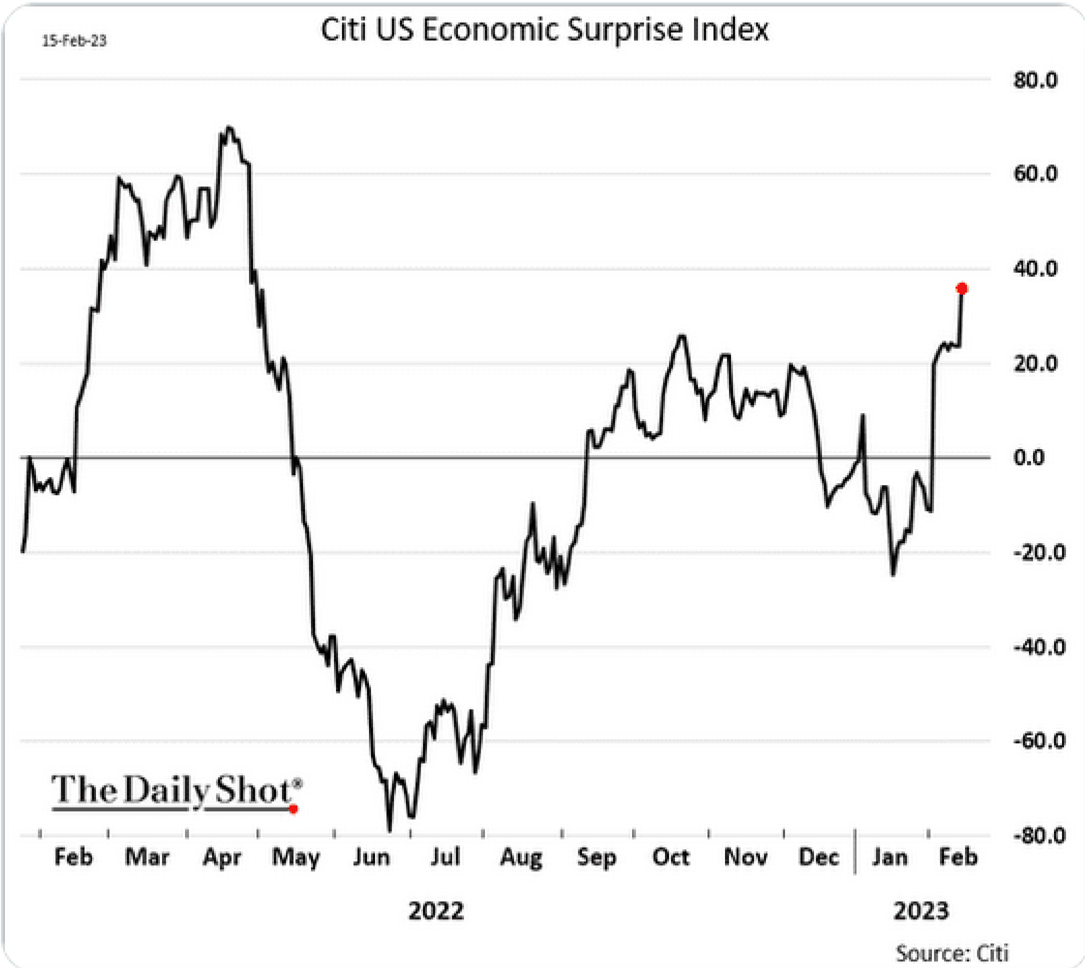
> ?*if there is a big move when these options get in the money, and sellers cannot support these positions, forced covering would result in very large directional flows.?*

We have been stressing the growing popularity and associated risks of 0DTE options as they represent a factor that can significantly stress already stressed markets. That doesn?t mean such an improbable event will occur, but the odds of such an event are certainly more significant than average.

Tweet of the Day

Lance Roberts @LanceRoberts · 1h

The run in better-than-expected #economic data is likely near an end as #optimism increases.



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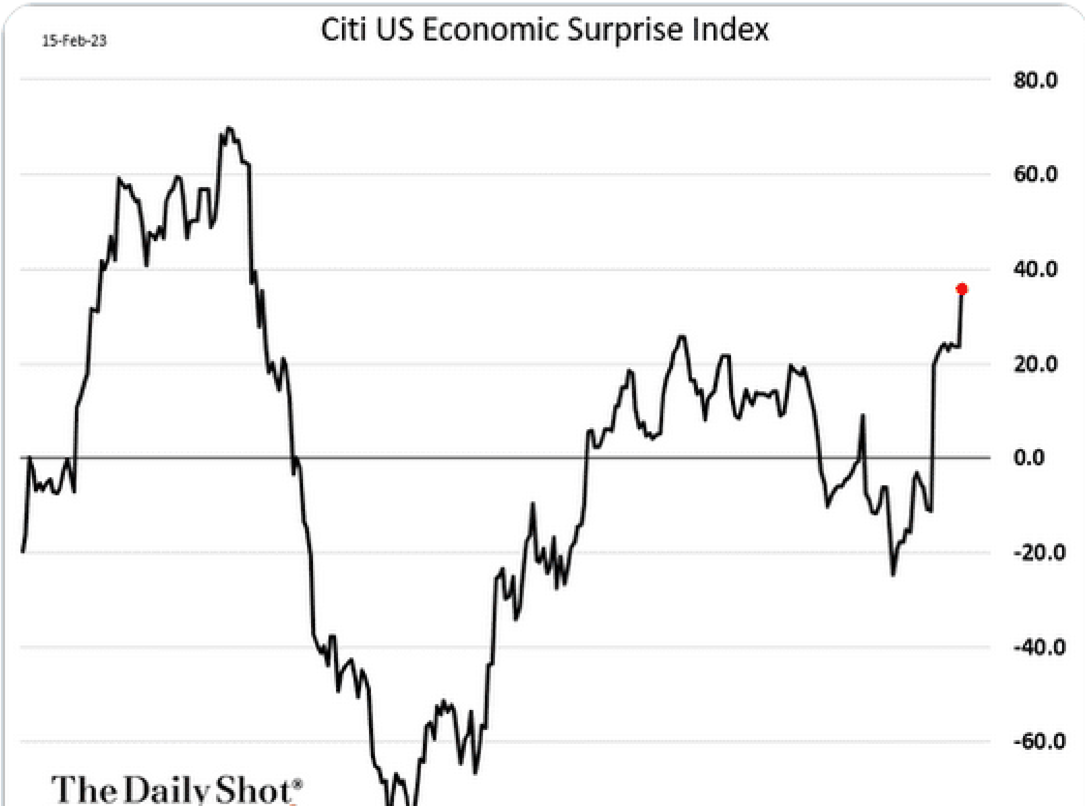

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