CONWAY • JARVIS LLC
Investment Outlook

Volume 31 Issue 2.2 May 6, 2022

Update

Traders Take the Market for a Spin

It was a busy week, especially for traders who can't resist betting on news of the moment. That news included the FOMC announcement, on Wednesday, of a hike of the Fed Funds rate by 50bp. At the press conference that followed, Chairman Powell clarified the Board's perspective and laid out its strategy for the coming months. In doing so, he cautioned that the Fed, with its tools, couldn't craft a remedy for what ails the supply chain. That said, he did share plans for future rate increases and monthly reductions of the Fed balance sheet. This had been announced earlier but without specific details. The roll-off has begun and will gradually accelerate into September toward a stated maximum of $95 billion per month. He reminded us that all future actions are *data-dependent,* meaning projections could vary with conditions.

That news sparked a dramatic rally across all indexes, led by short sellers covering their positions. Traders apparently had second thoughts overnight as Thursday brought an even more dramatic reversal to the downside. We saw a melt-up followed by a melt-down. That had hosts and journalists at CNBC speculating in urgent tones about impending doom for the economy and the markets. The net result of Thursday's decline left the S&P 500 slightly *up* for the week, as if the drama never happened. Our advice? Seek out news, not noise, and rely on written analysis from professional investors. Tune out speculation from those luring you into the next commercial. With the rare exception of a handful of professional investors (we have a list), TV should generally be avoided as a source of investment advice.

It's true that April was the worst month for the market since March 2020's pandemic-driven selloff. This year's decline has been led by the hyper-valued tech and stay-at-home favorites that led the recent bull market. They are being repriced in terms of a fully reopened economy and the loss of the COVID premium attached to them. Many of those are great companies and opportunities for *investors* who may have missed them the first time around. The rise in the 10-year treasury to 3.09% points to the bond market trading in a risk off mode as well. That's an infrequent occurrence and a hint that bond investors are, so far, downplaying the prospect of a hard landing or recession in 2022.

April and this week's extreme volatility has brought us one step closer to capitulation by sellers and a bottoming of the market. The catalyst for that will be a signaling of peak inflation appearing in the form of flattening CPI data. That's a prelude to the trend change in inflation that both traders and investors desire. The Fed will have next week's inflation report and that of June in hand prior to its next meeting. That should provide clues as to their next steps, answer questions regarding a soft landing vs. recession, and give us an inkling of we might see from the market in Q3. Stay tuned.

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