

Powell Speaks, The Market Moves... Where to?

August 29, 2022



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Aug 29



Executive Summary

The pullback in stocks continued to play out over the past week as we remain in Stage 1. Jerome Powell delivered a stern speech to reset expectations, but what changed? Not much.

Sectors remain in a constructive backdrop for stocks with early cycle sectors improving or leading, and late cycle sectors weakening or lagging.

Update to The Charts this week with a new look covering US Dollar, Stocks, Bonds, and Commodities. Dollar tests upper resistance of the trading range as Stocks backup and Bonds find support. Commodities attempt to upthrust with increased effort, yet deliver diminished result.

“It is always within your power to prosper provided you are able to choose your path wisely and can think and act in accordance with your choice.”

- Marcus Aurelius -

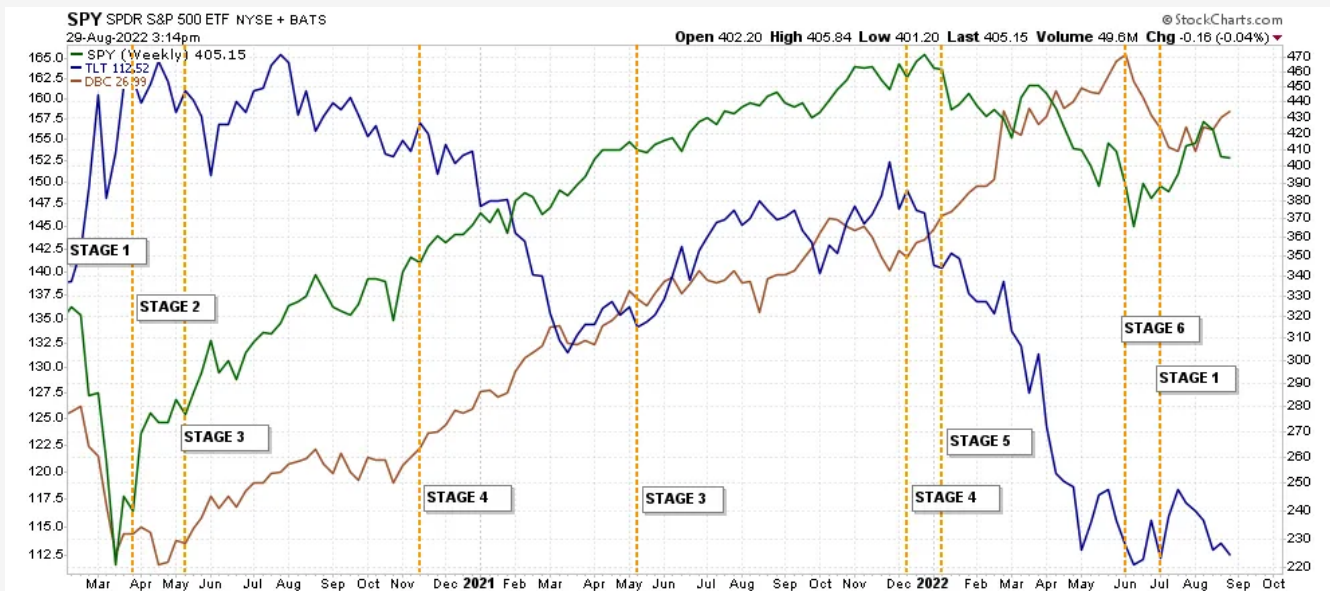
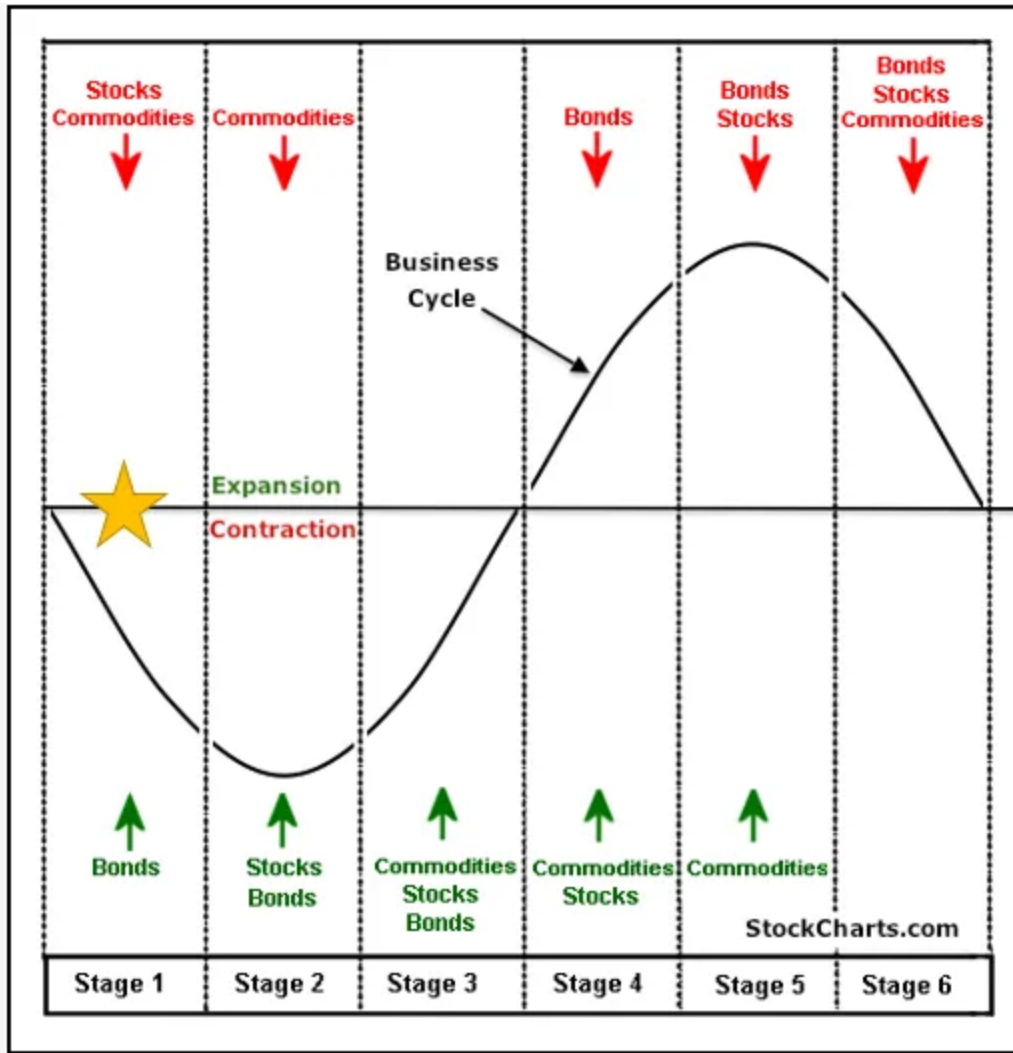
In Case You Missed It

Wyckoff Student Forum 08.26.2022



If you are enjoying Following the Business Cycle, then check out the replay of the 2022 Wyckoff Student Forum held by [Wyckoff Analytics](#) where I presented on exactly that, Following the Business Cycle!

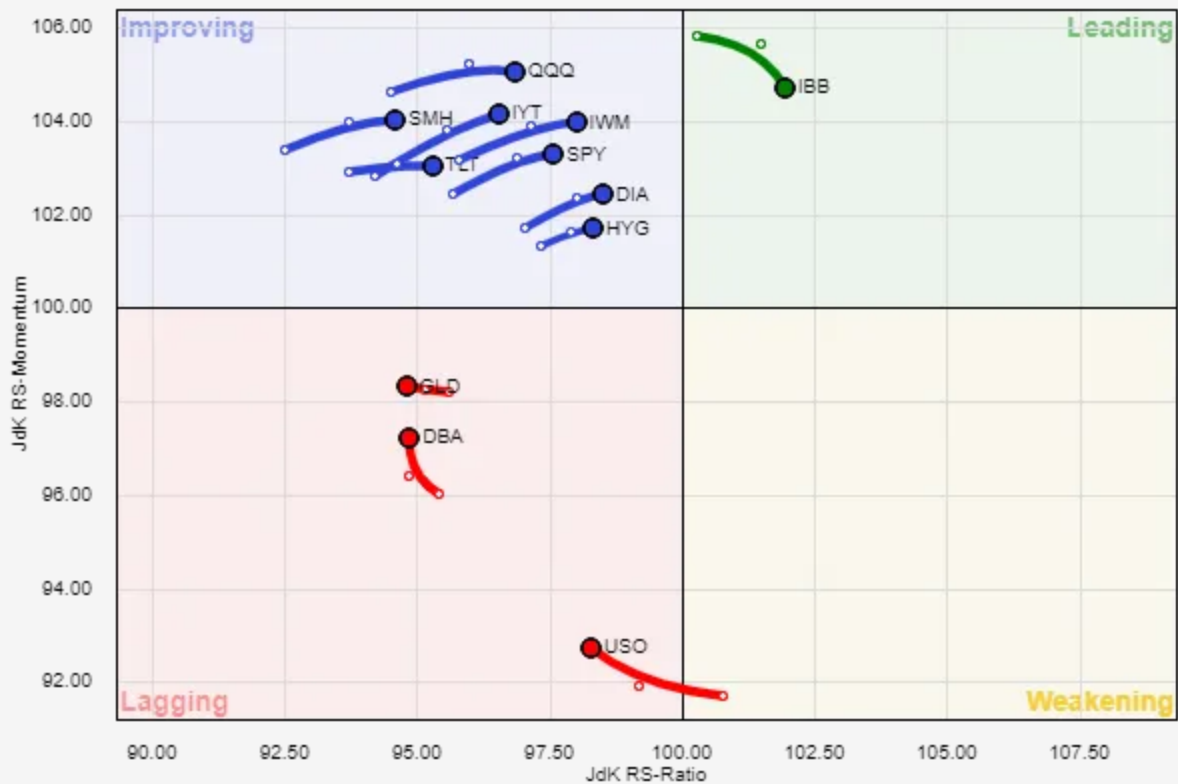
Business Cycle



Bonds (Blue). Stocks (Green). Commodities (Gold).

Stage 1 - Commodities are falling as global economies begin to weaken. Bonds stop their decline and start to improve in anticipation of monetary loosening and accommodative policies.

Asset Rotation



Bond ETFs - HYG, TLT. **Stock ETFs** - DIA, IBB, IWM, IYT, QQQ, SMH, SPY. **Commodity ETFs** - DBA, GLD, USO.

Asset Analysis

Stocks and Bonds remain in the Improving quadrant with momentum slowing as Stocks test the recent Q3 Bear Market Rally. Commodities remain in lagging, although making an attempt to break out of recent trading ranges with increasing momentum.

Jerome Powell's speech from Jackson Hole on Friday got the markets moving leading to a close down 3%+. What did he say? Here are some highlights:

“Restoring price stability will take some time and requires using our tools forcefully to bring demand and supply into better balance. Reducing inflation is likely to require a sustained period of below-trend growth.”

“The first lesson is that central banks *can and should* take responsibility for delivering low and stable inflation.”

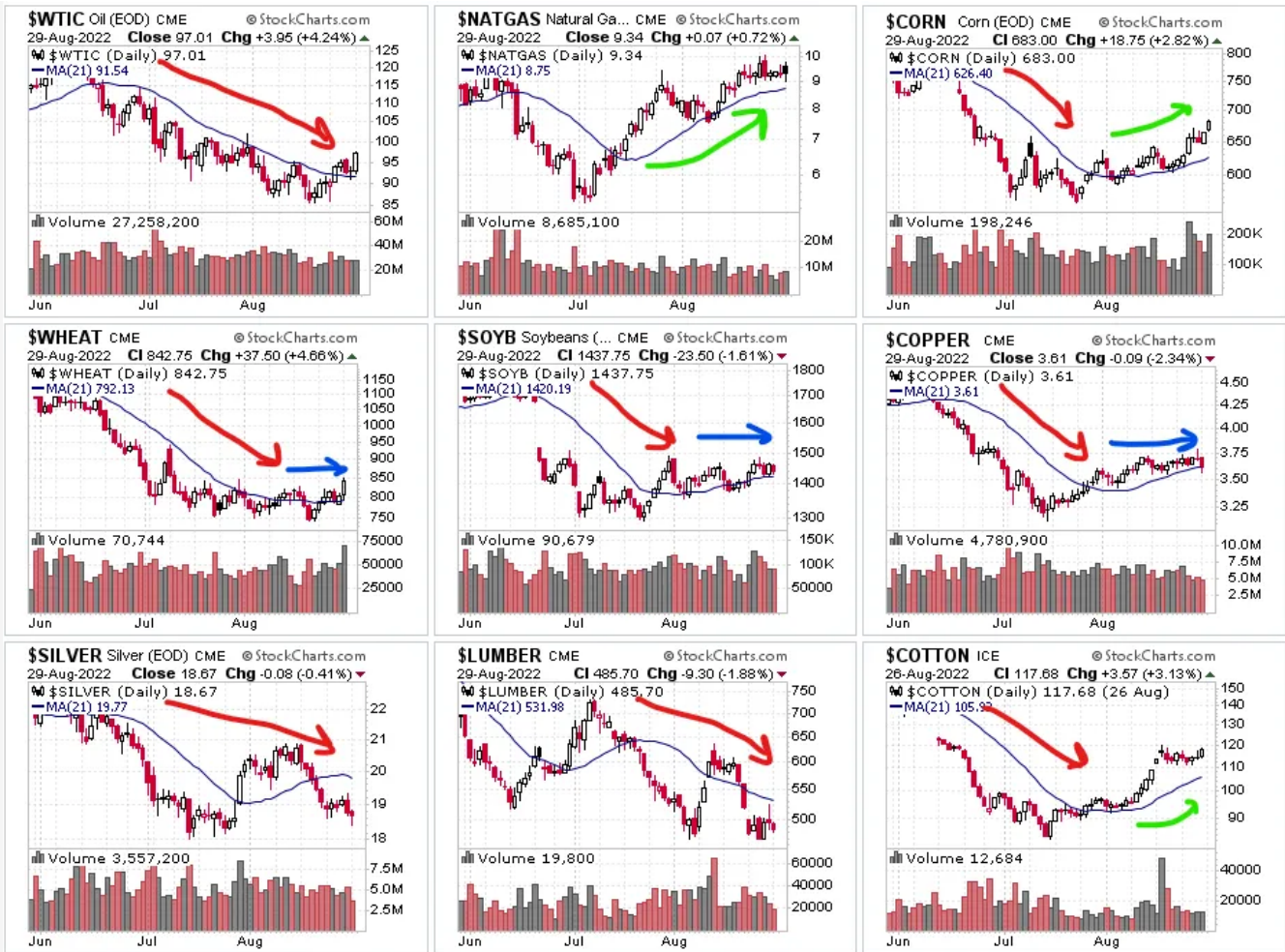
“The second lesson is that the public's expectations about future inflation can play an important role in setting the path of inflation over time... If the public expects that inflation will remain low and stable over time, then, absent major shocks, it likely will. Unfortunately, the same is true of expectations of high and volatile inflation.”

“That brings me to the third lesson, which is that we must keep at it until the job is done.”

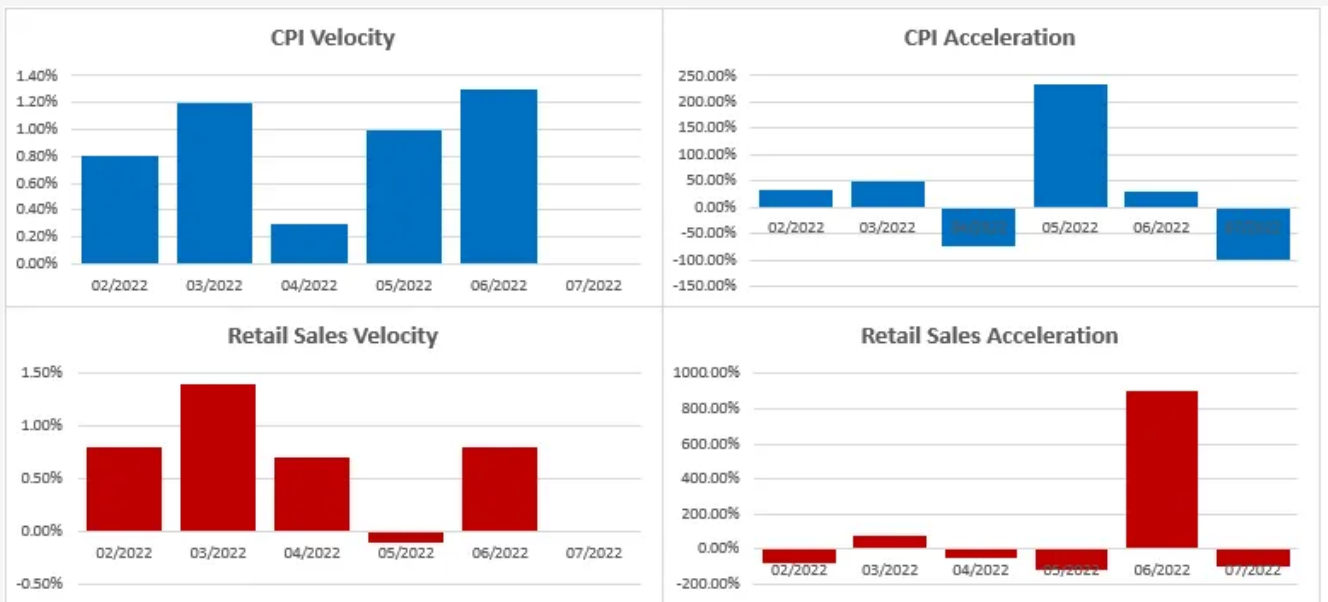
“These lessons are guiding us as we use our tools to bring inflation down. We are taking forceful and rapid steps to moderate demand so that it comes into better alignment with supply, and to keep inflation expectations anchored. We will keep at it until we are confident the job is done.”

“Our decision at the September meeting will depend on the totality of the incoming data and the evolving outlook. At some point, as the stance of monetary policy tightens further, it likely will become appropriate to slow the pace of increases.”

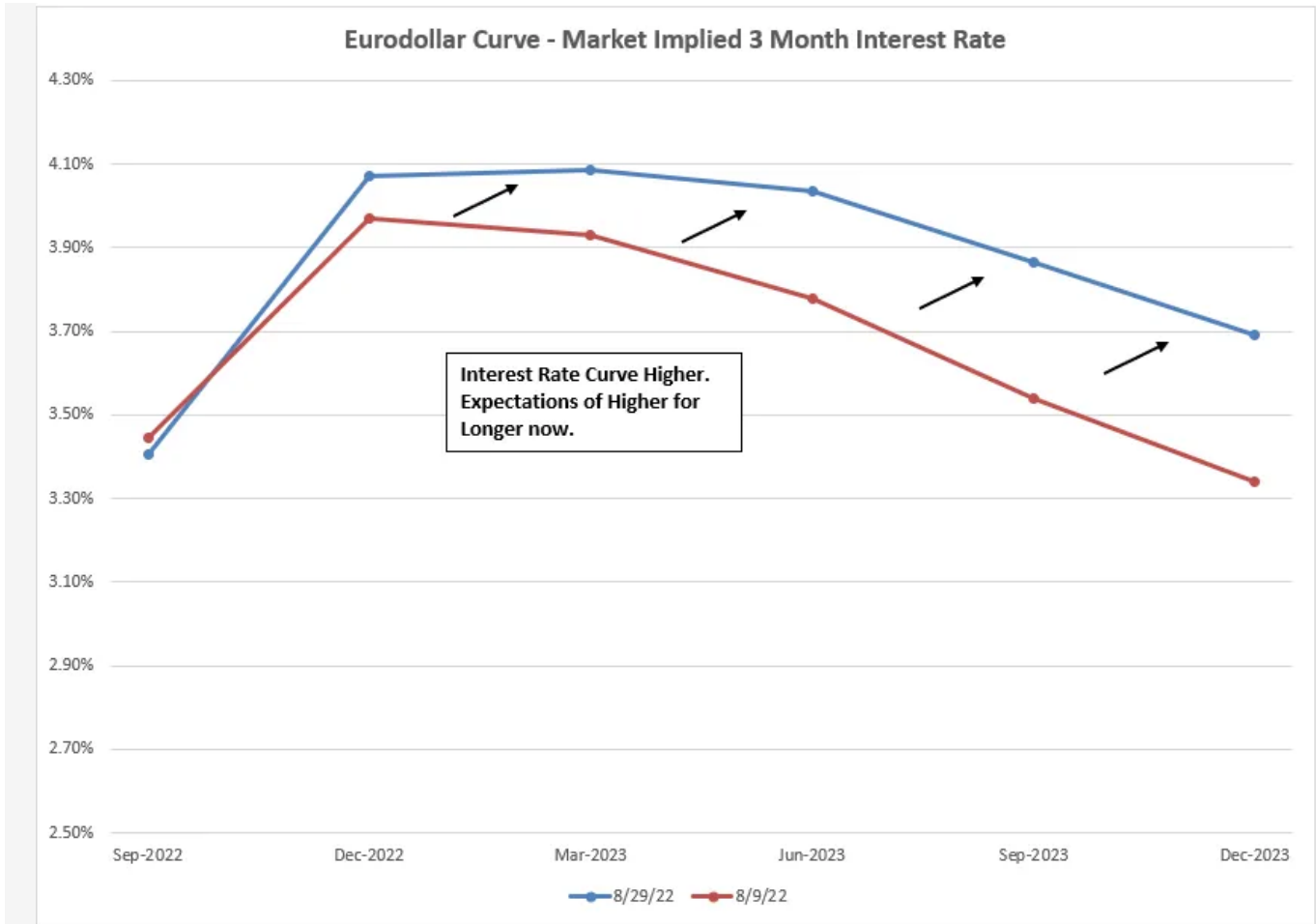
So, what changed? Resetting Expectations. It seemed that Powell wanted to pop this Q3 Bear Market Rally Euphoria with a forceful statement that they will do whatever it takes to stop inflation including throwing the economy into recession. Yet, as soon as September, it will depend “**on the totality of the incoming data and the evolving outlook.**” It sure doesn't seem like much has changed then? Uncertainty to persist as we see how rate increases continue to impact the economy. It all comes down to Inflation, has it peaked? Has enough demand destruction taken place?



Basket of Commodities

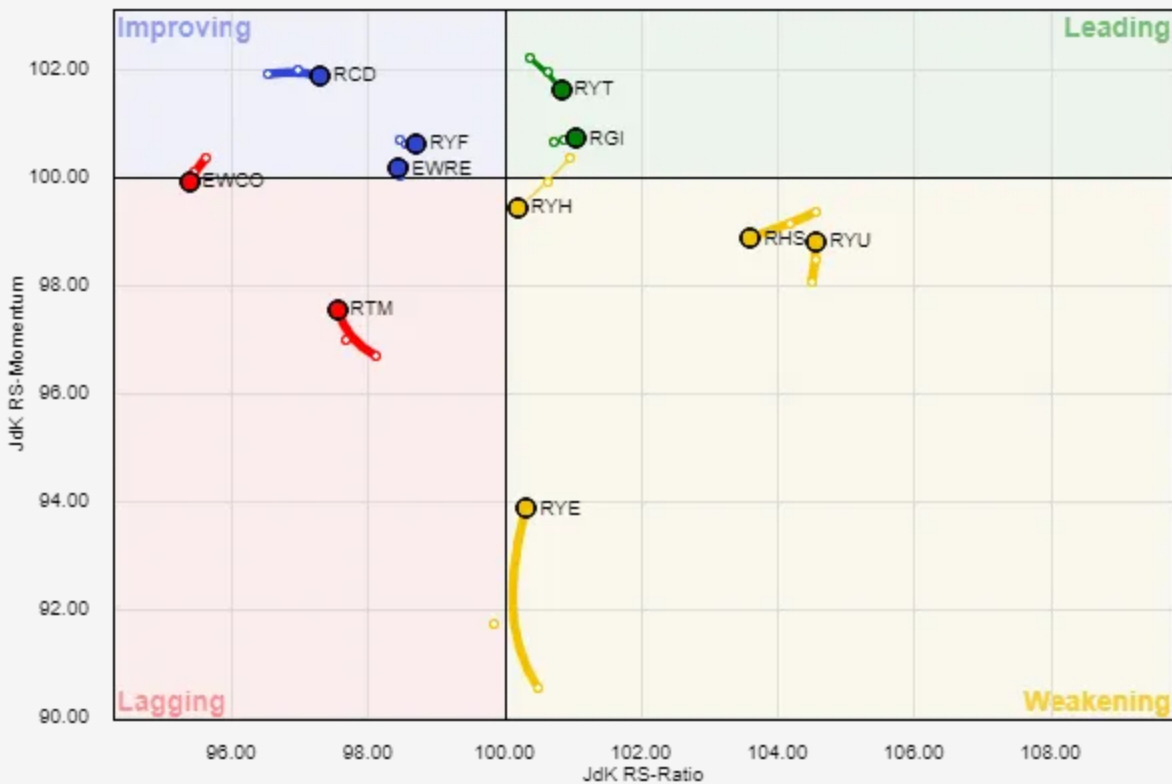
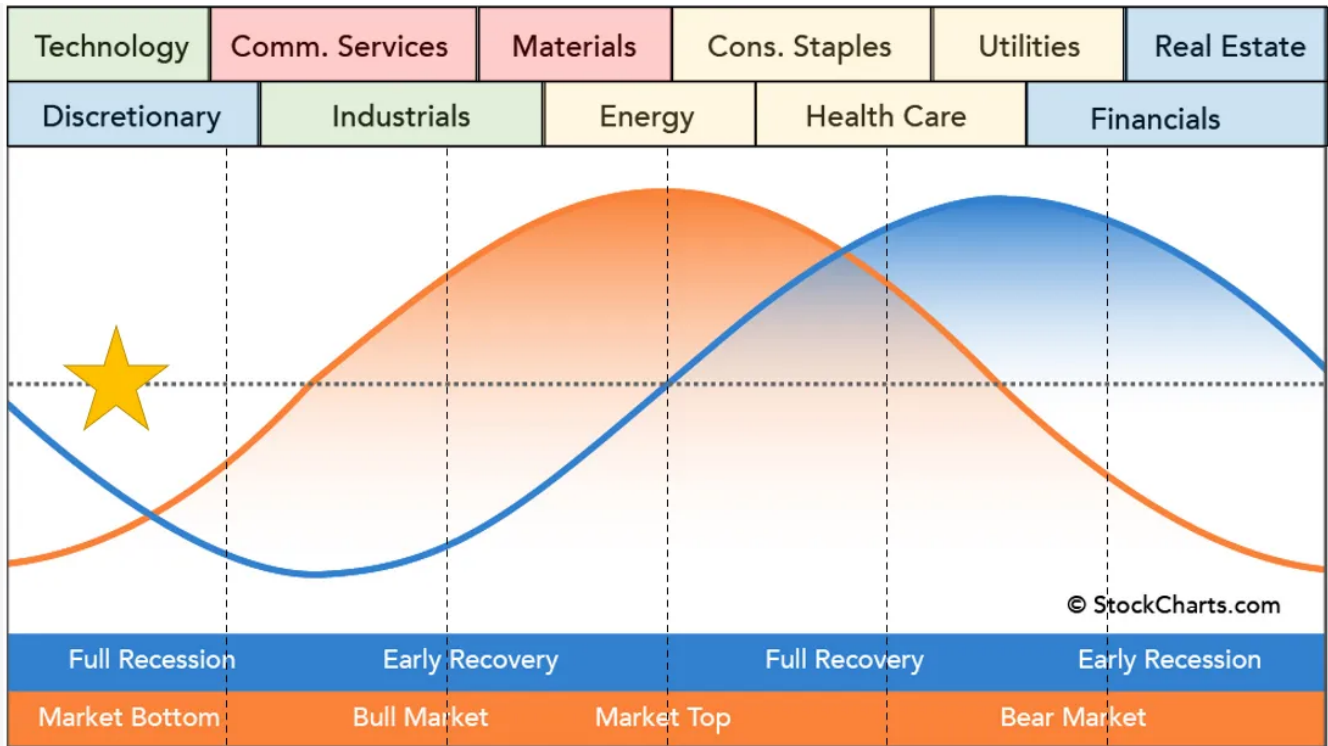


Latest CPI & Retail Sales Data



Eurodollar Futures Curve - Update from 8/9/22

Sector Rotation



Sector Analysis

Early cycle sectors continue to be ahead as Technology & Industrials remain in Leading, and Discretionary remains in Improving. Financials & Real Estate are in Improving as

expectations have shifted for higher rates for longer now. Communication Services is the weakest of the early cycle sectors as it moves back into lagging since last week.

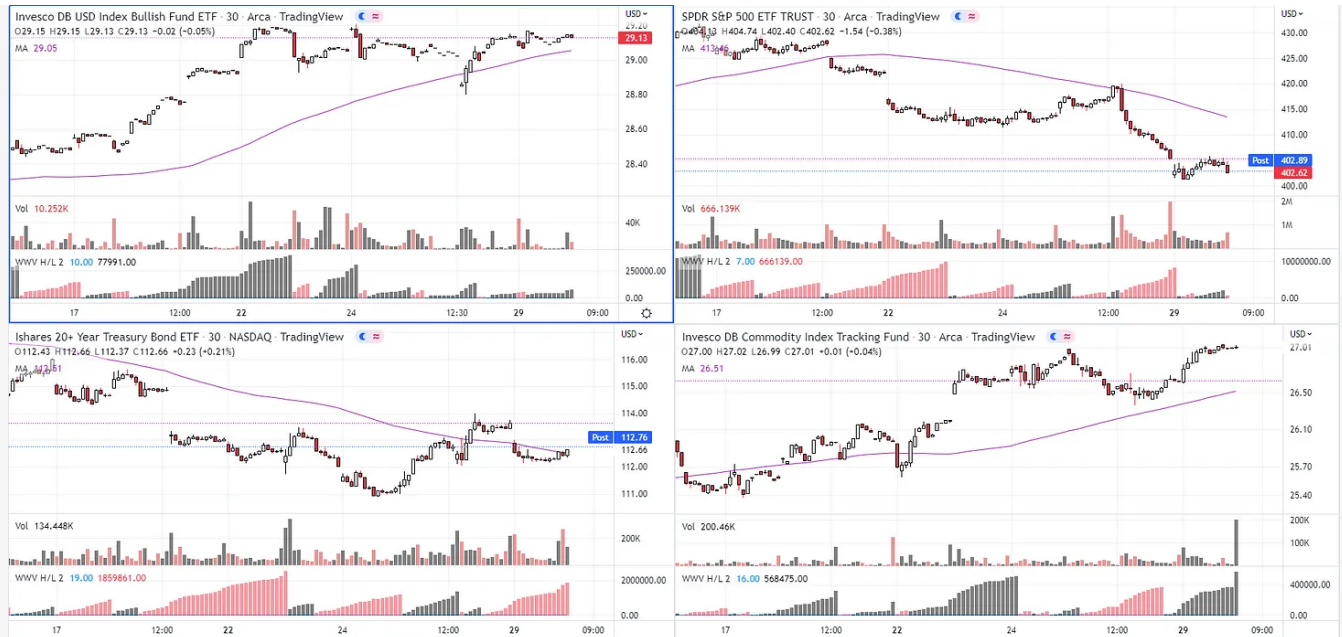
Materials, Energy, and Defensive sectors remain in the lagging and weakening quadrants. Energy made a bullish shift back out of lagging into weakening with improving momentum, possible Phase C behavior?

Overall, sectors point to a constructive backdrop for stocks.

The Charts



Daily Charts: UUP - US Dollar, SPY - Stocks, TLT - Bonds, DBC - Commodities



Intraday Charts: UUP - US Dollar, SPY - Stocks, TLT - Bonds, DBC - Commodities

Technical Analysis

The Charts have been adjusted this week to include a broader look than only stocks. It now covers UUP for the US Dollar, SPY for Stocks, TLT for Bonds, and DBC for Commodities.

The Dollar (UUP) is testing recent highs with a surge in supply over the \$29 level. This suggests limited upside and further testing in the ~\$28-\$29 trading range ahead. Dollar retracing would lend to a bullish backdrop for Stocks.

Stocks (SPY) continued breaking down last week with backing up action that could lead to the \$390-\$400 area without cause for concern.

Bonds (TLT) held ground through Powell's speech on Friday as Stocks tumbled, which is a possible clue in and of itself. Price is testing the bottom of the trading range with assumed accumulation taking place.

Commodities (DBC) are performing an upthrust out of its current trading range. Today's bar was particularly interesting with a surge in effort, yet barely setting a new local high? See intraday chart as final bar suggests supply entered the market at close.

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