8% Inflation, Oil Embargo, Roe v Wade, & Bell Bottom Pants... 1973 or 2022?

October 3, 2022

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13 hr ago

Executive Summary

The Business Cycle is in **Stage 6** as Bonds, Stocks, and Commodities remain in downtrends.

Stocks and Bonds have gained major bearish momentum over the past 2 weeks as they accelerate toward the Lagging Quadrant. Commodities are a mixed bag as expectations for Higher Inflation for Longer look to be growing.

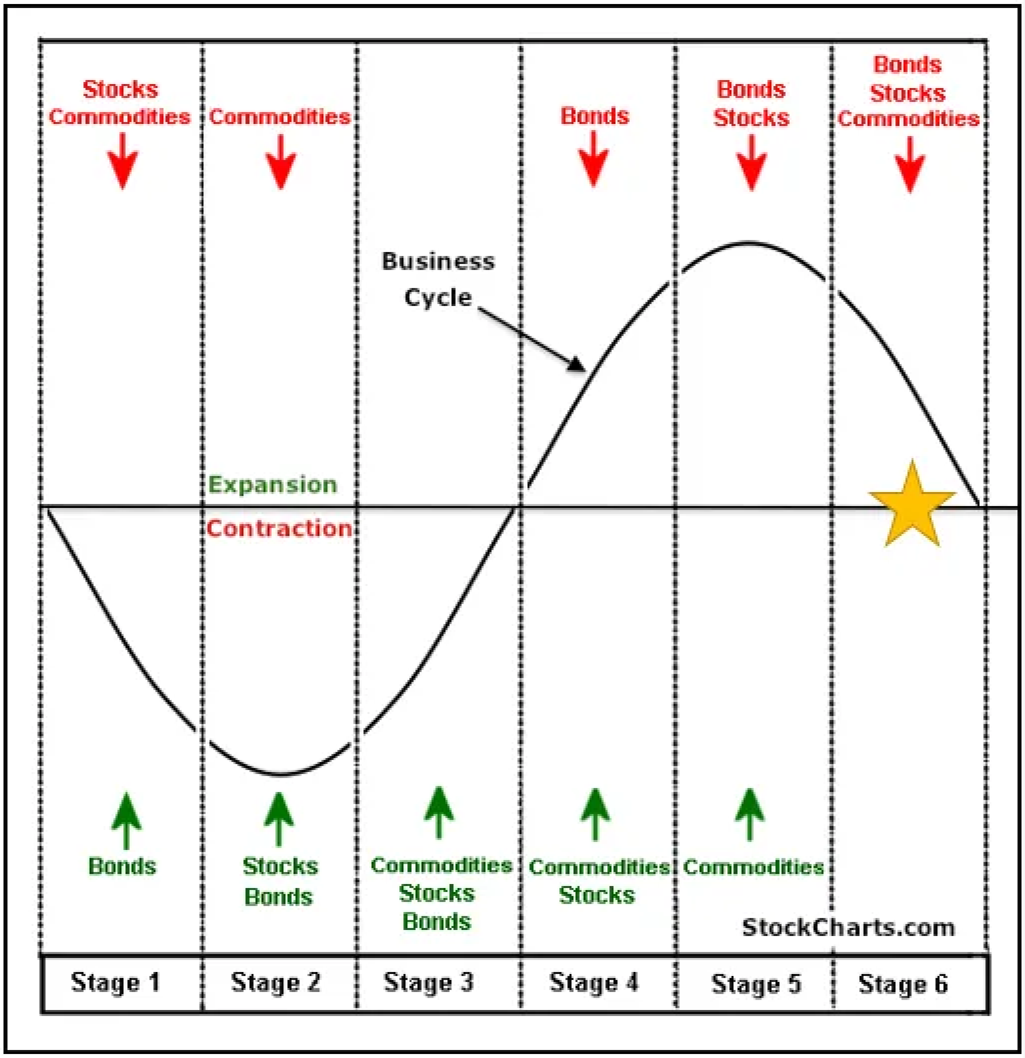
Sector Rotation isn't providing a clear direction as market participants try to navigate these uncertainties. Financials, Technology, and Energy moved quadrants this week.

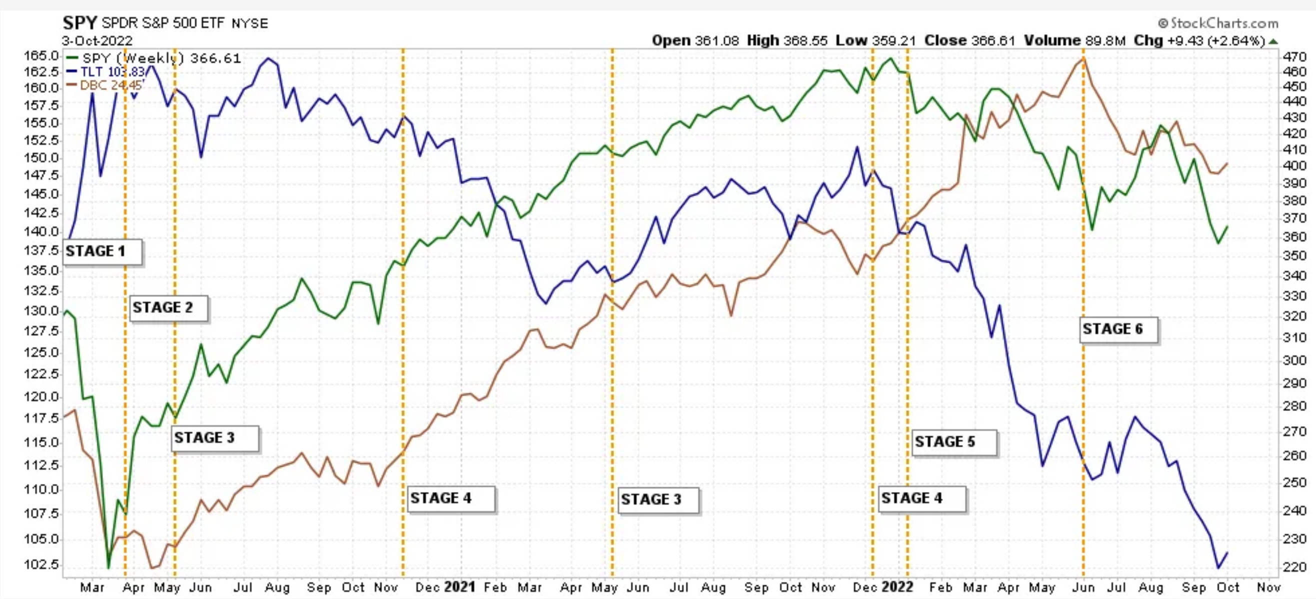
Today's price action suggests demand was present on Friday's drop and a 1.5% to 3.5% rally remains before we might gain more insight.

An analog of the 1970's vs the 2020's is investigated as the 2022 Cultural & Price Action rhymes with 1973 before the 1974 collapse.

> **"Don't fear the future. You will face it, if that is your fate, armed with the same reason that protects and guides you in the present."**
>
> **- Marcus Aurelius -**

Business Cycle

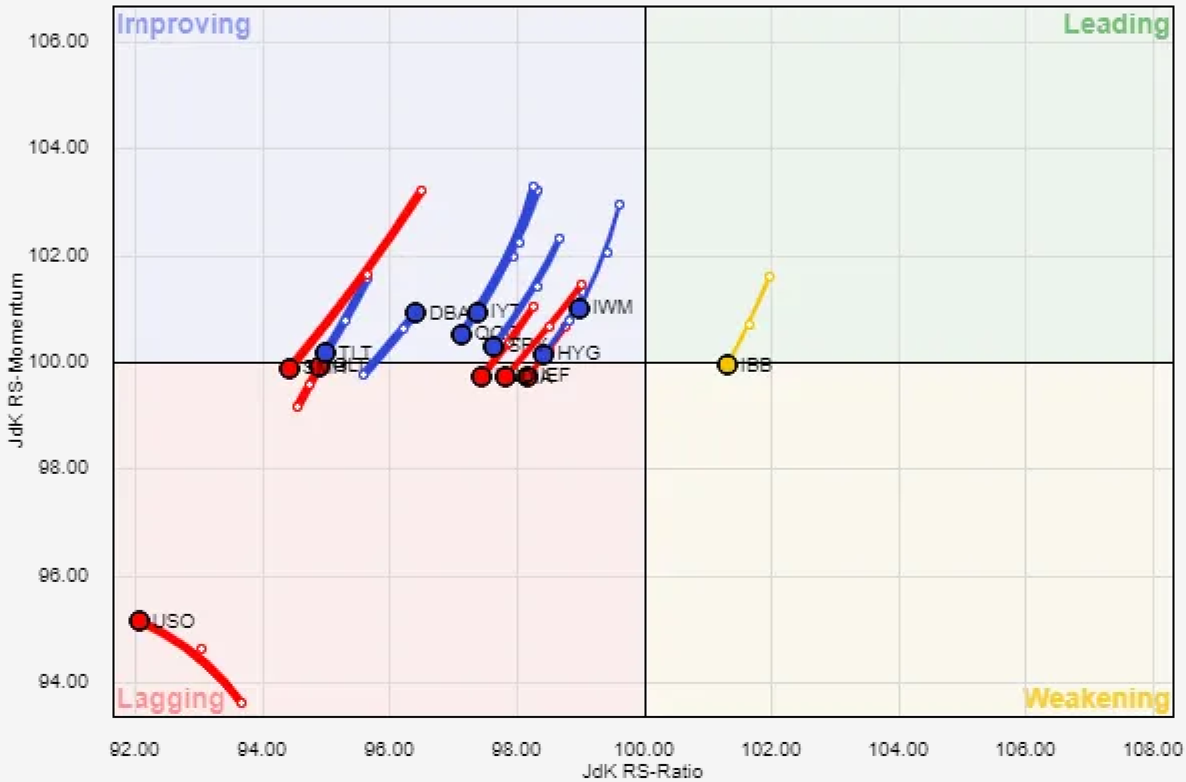




Bonds (Blue). Stocks (Green). Commodities (Gold).

Stage 6 - Economic conditions are tightening which causes interest rates to rise and business conditions to start deteriorating. Stocks and Commodities fall as the economy begins to contract and demand decreases.

Asset Rotation



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

Asset Analysis

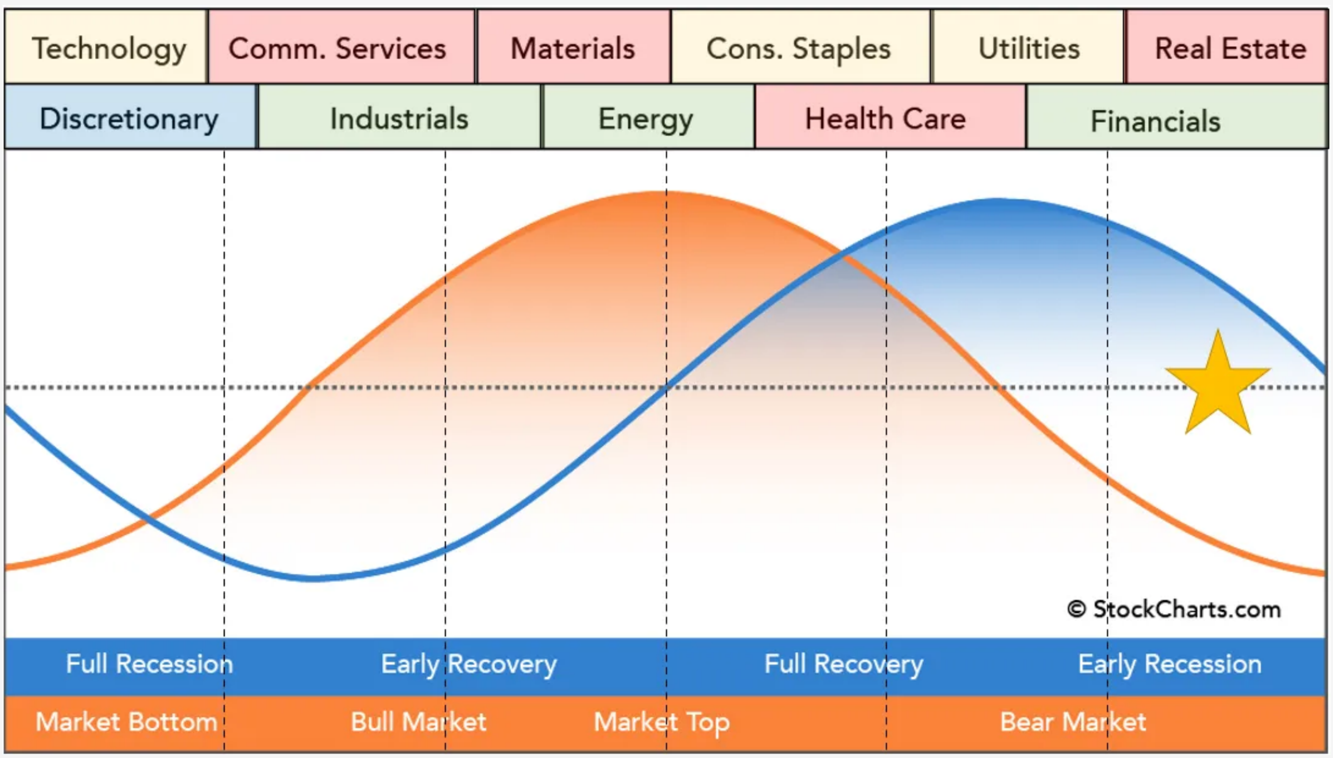
The chart really speaks for itself this week as the bearish momentum for Stocks and Bonds is apparent. All ETF's are moving toward the Lagging quadrant with growing momentum now. 7-10 Year Treasuries (IEF), Corporate Investment Grade Bonds (LQD), and Semiconductors (SMH) have all moved back into the Lagging from Improving. Biotech (IBB) has moved into Weakening from Leading.

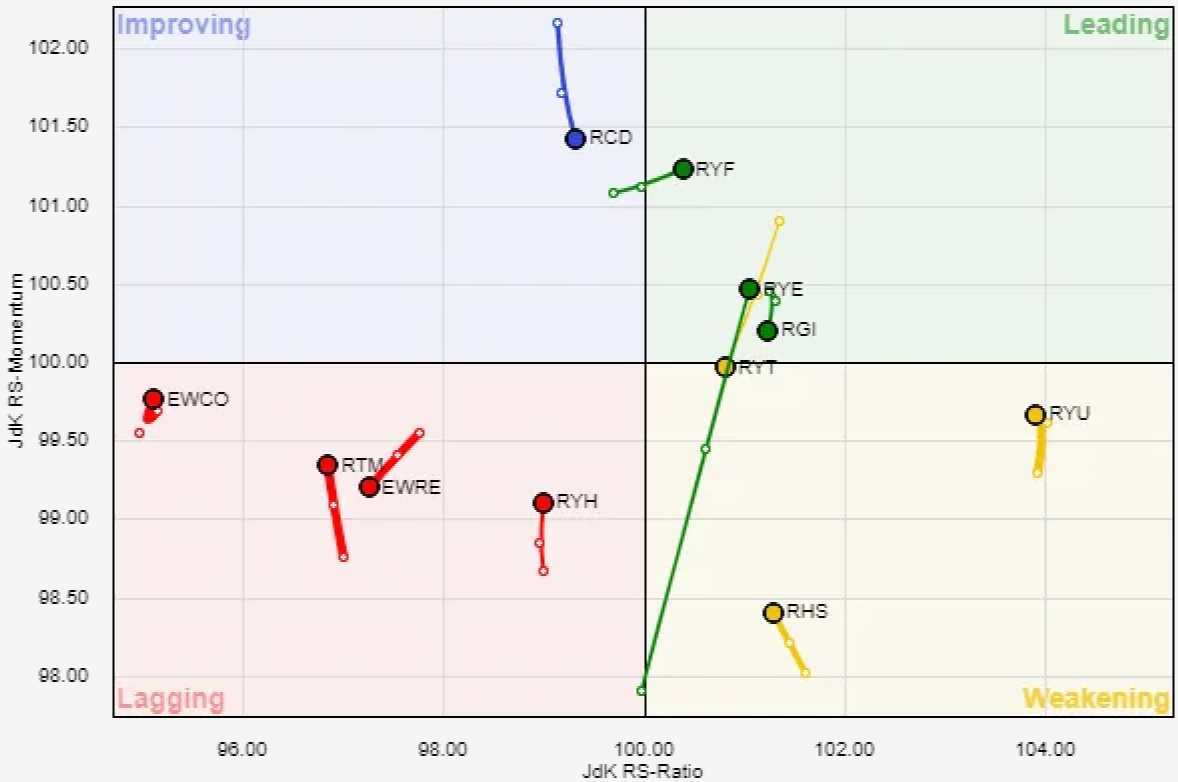
This directional bias suggests further weakness ahead and we should be hesitant and tread lightly in pursuing bear market rallies, more on this below.

Commodities are a mixed bag which is providing some hints to the potential lasting expectations for Higher Inflation for Longer. Agriculture (DBA) has moved into the Improving quadrant and is the best looking asset out of the group. Gold (GLD) is also moving in a bullish direction as it is nearly into the Improving Quadrant as we see appetite for a defensive position. Oil (USO) is the weakest with a strong Lagging position and no signs of bullish rotation.

Thinking about the comparison of Agriculture (DBA) performance versus Oil (USO), it seems that the market is preparing for the Fed demand destruction on fuel to take hold. But, it might not be so convinced that it will so easily translate into a drop in that grocery bill, which I don't know about you, would be welcomed!

Sector Rotation



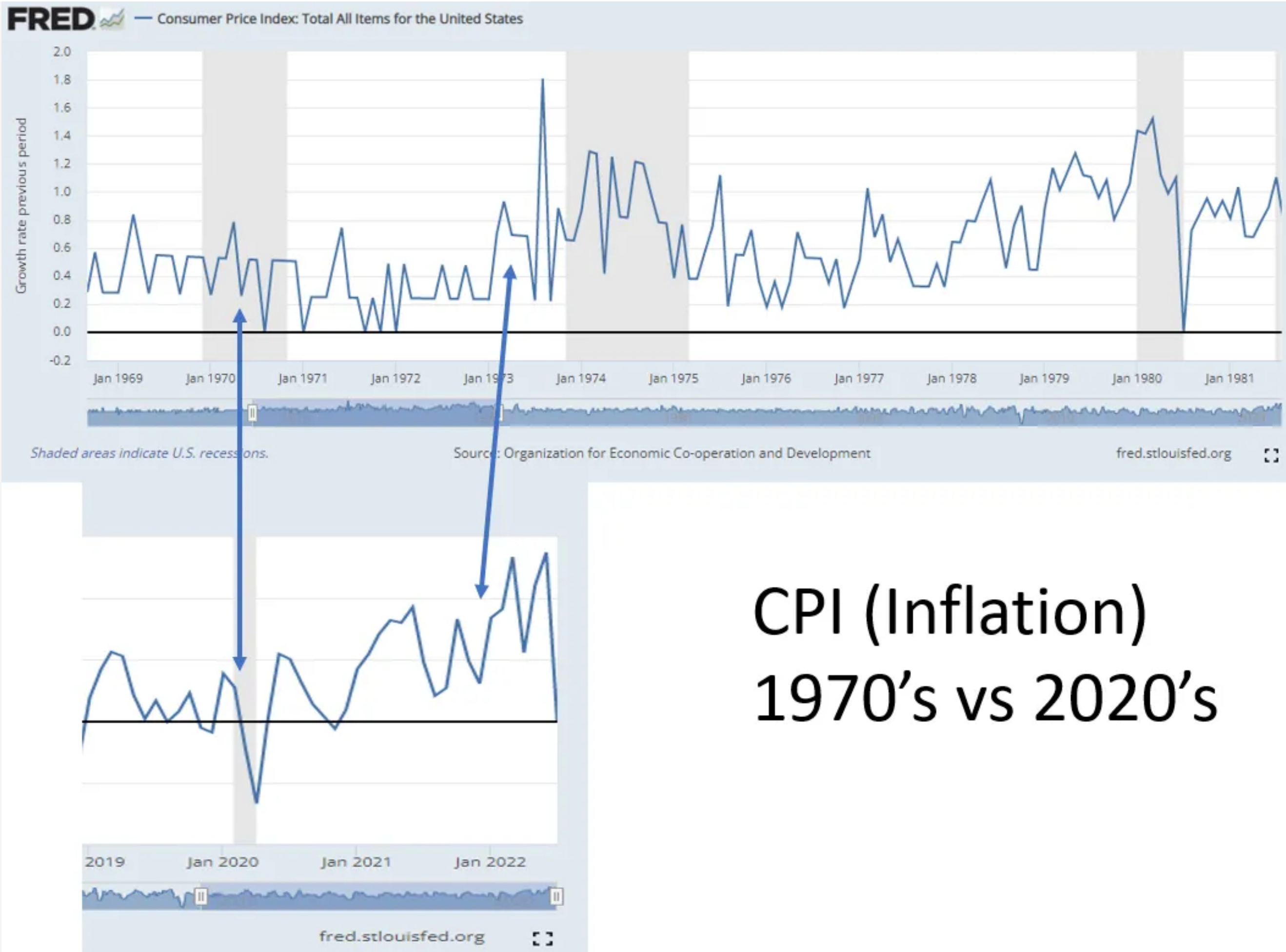


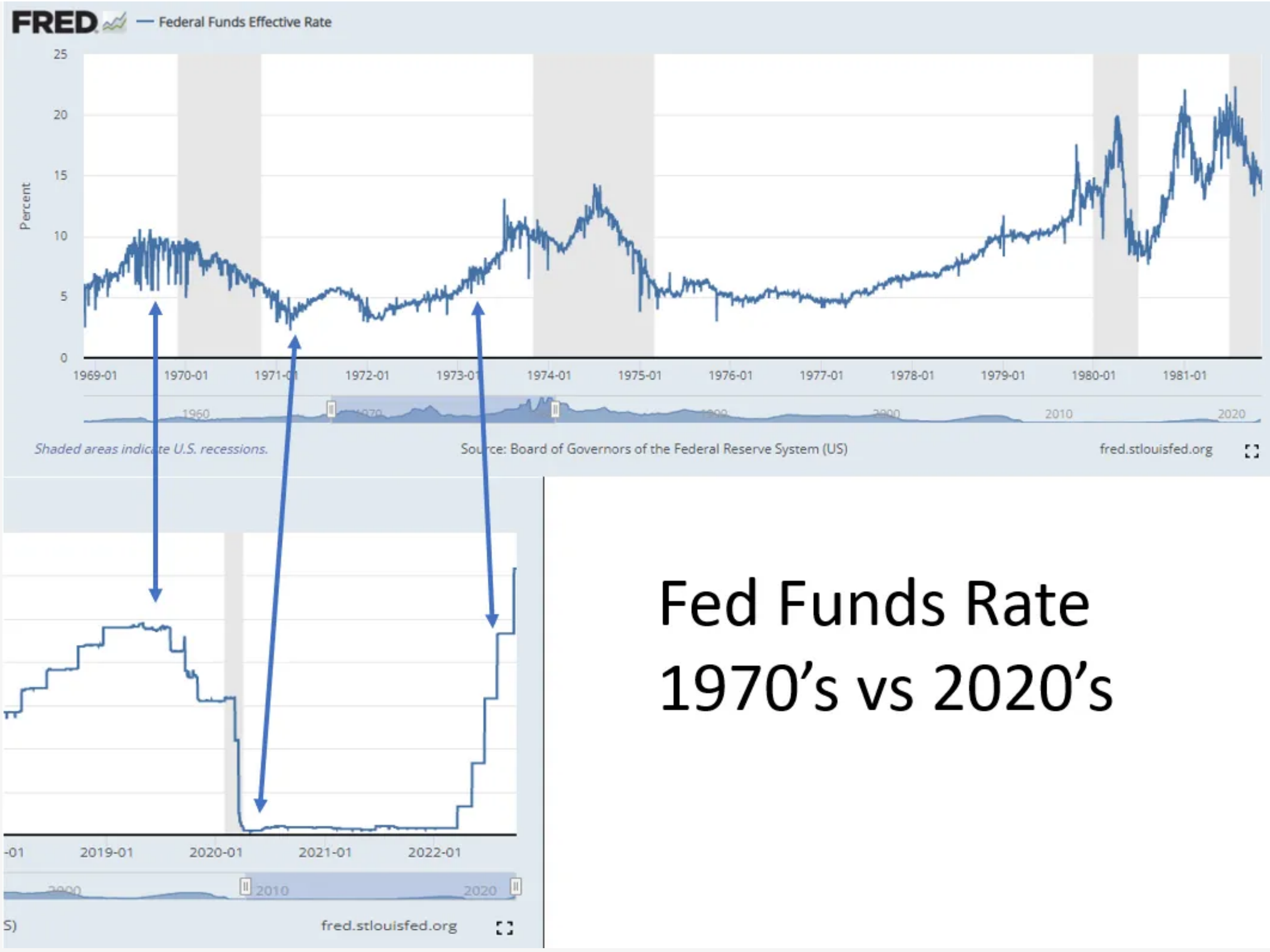
Sector Analysis

There were 3 Sector moves this week since last week. Financials (RYF) moved from Improving to Leading, Technology (RYT) moved from Leading into Weakening, and Energy (RYE) made an enormous move over the last 2 weeks from the Weakest Sector in Lagging to now in Leading.

Sector Rotation isn't providing a clear signal at this time of the potential cyclical nature of the market. This might be informative in and of itself that market participants are scrambling to figure out what is going on and how to respond. There are hints of improvement in the mid cycle sectors which lends to this idea that expectations are turning towards Higher Inflation for Longer.

The analog that seems to match up fundamentally and technically in my mind is the 1970's. Is it telling us what might come next?


FRED
Consumer Price Index: Total All Items for the United States
Growth rate previous period
2.0
1.8
1.6
1.4
1.2
1.0
0.8
0.6
0.4
0.2
0.0
-0.2
Jan 1969
Jan 1970
Jan 1971
Jan 1972
Jan 1973
Jan 1974
Jan 1975
Jan 1976
Jan 1977
Jan 1978
Jan 1979
Jan 1980
Jan 1981
Shaded areas indicate U.S. recessions.
Source: Organization for Economic Co-operation and Development
fred.stlouisfed.org
2019
Jan 2020
Jan 2021
Jan 2022
fred.stlouisfed.org
CPI (Inflation)
1970's vs 2020's



Lessons from the Great Inflation of 1973-81

. By 1973 inflation was running at 8.7% and would average 9.2% for nine years–

Oil Shock of 1973–74

October 1973–January 1974

From the vantage point of policymakers in the Federal Reserve, an oil embargo by Arab producers against the U.S. further complicated the macroeconomic environment of the early 1970s.

2 DAILY NEWS, TUESDAY, JANUARY 23, 1973

Top Court Throws Out Abortion Bans

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 Dollar (UUP) looks to be creating a Trading Range at current levels after the surge in supply near the $31 level. It seems highly unlikely that price retraces below the $29.70 to $30 range, but the Dollar not advancing each day might be enough to get a Bear Market Rally started in Stocks.

Stocks (SPY) are standing on thin ice at the moment as they created new lows last week. These new lows resulted in an extreme increase in volume, and after today's bullish move higher, suggests there was significant demand present. A test towards $372 to $380 looks likely before we can gain more insight on how this supply and demand will settle out. With the current market volatility, this test could come overnight in the Futures and just in time for weakness right out of the open. (Tread Lightly).

Bonds (TLT) are also attempting to hold after last weeks drop and surge in volume. Short Term PnF targets have been met, and a trading range to build a new cause is highly likely here. The trend remains to the downside though.

Commodities (DBC) haven't been able to penetrate back into the previous trading range yet, and the September 23rd Gap Down is still holding. There was a surge in volume today without much result to the upside and failure to fill the gap. The initial assessment of today's bar is further downside ahead.

1 Comment

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Lewis palmer 6 hr ago Liked by Marcus Aurelius

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Thanks for the fine work.

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