

Inflation Accelerates as the Consumer shows a sign of weakening

October 17, 2022



Marcus Aurelius
21 hr ago

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Executive Summary

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

Stocks, Bonds, and Commodities move into the Lagging quadrant with bearish momentum in their sails. CPI and Retail Sales data released last week showing inflation accelerating while the consumer might be starting to slow down.

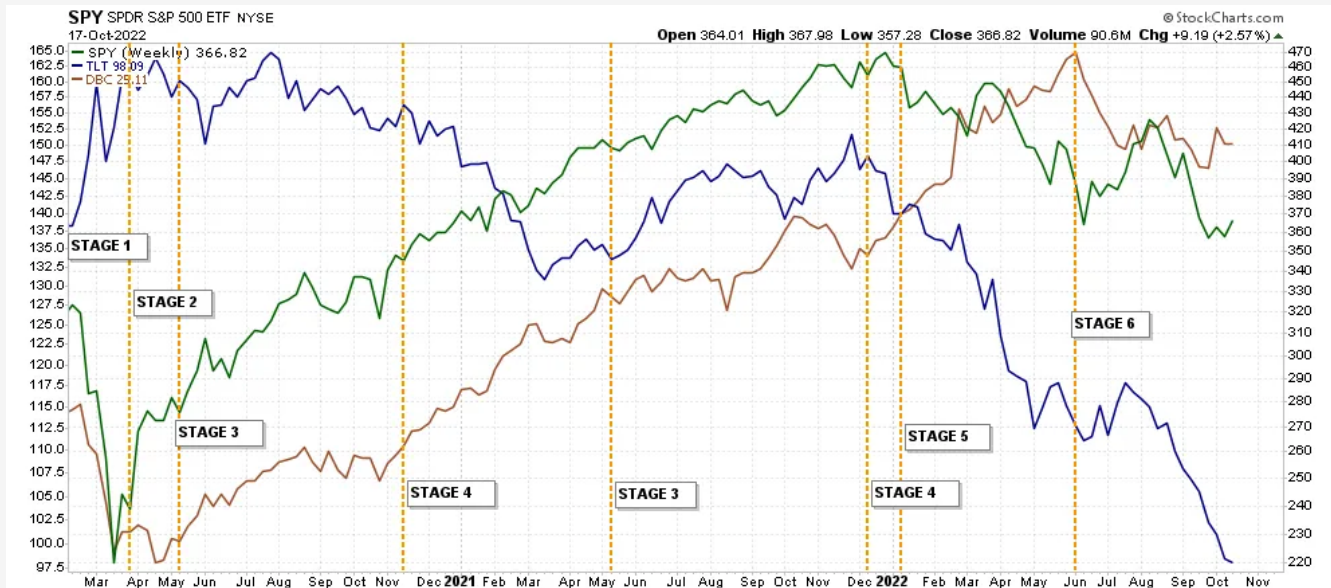
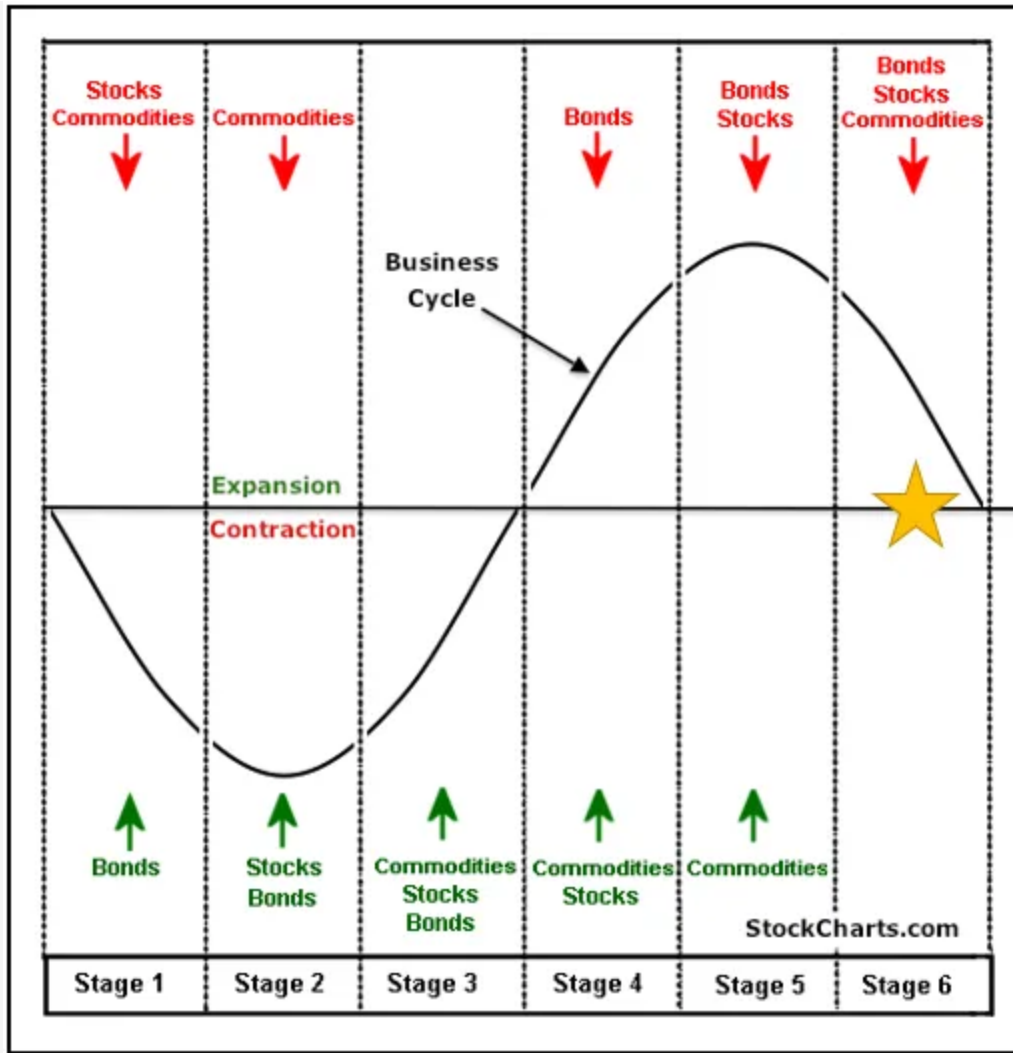
Sectors remain a mixed bag at this time as Technology moves to Lagging and Communication Services moves into Improving. Relative Momentum analysis suggests defensive Mid Cycle sectors are gaining over Early & Late Cycle sectors.

The charts continue to read as a bearish bias for Stocks, Bonds, and Commodities; and the NYSE Breadth line remains under the Ice as it has broken to new lows ahead of Price.

“Cut the strings of desire that keep you dancing like a puppet. Draw a circle around the present moment. Recognize what is happening either to you or to someone else.”

- Marcus Aurelius -

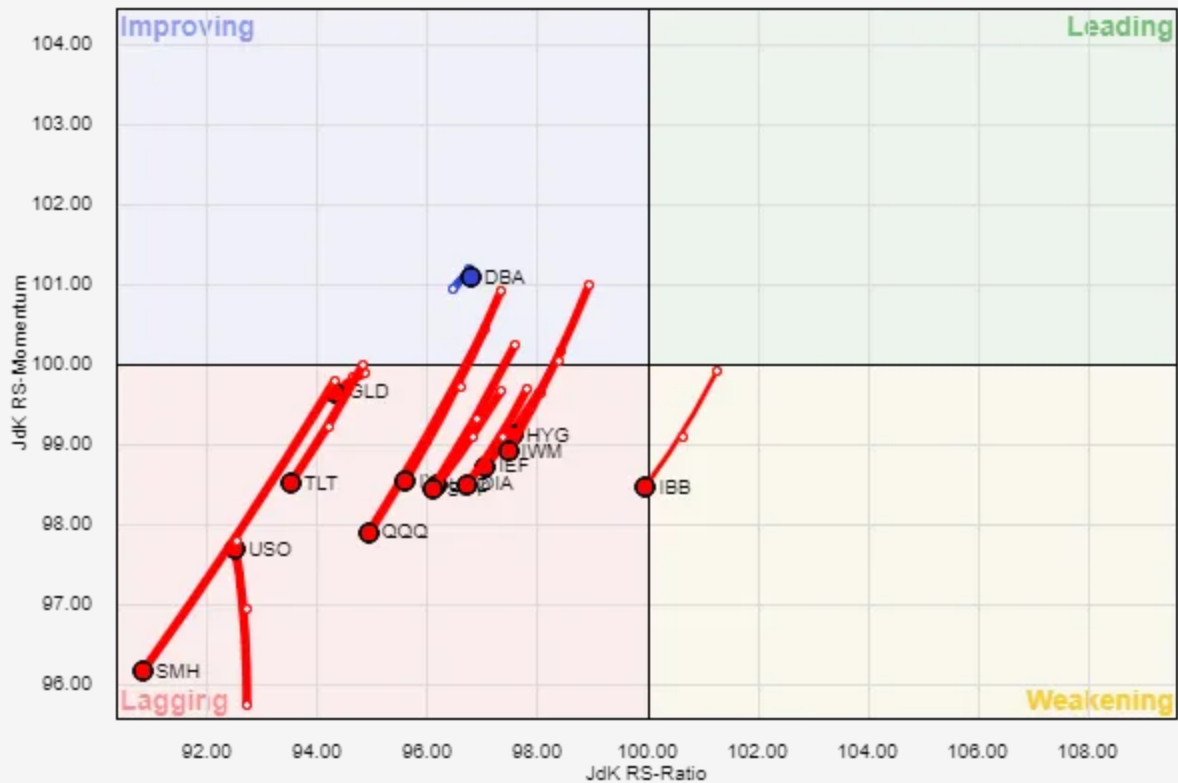
Business Cycle



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



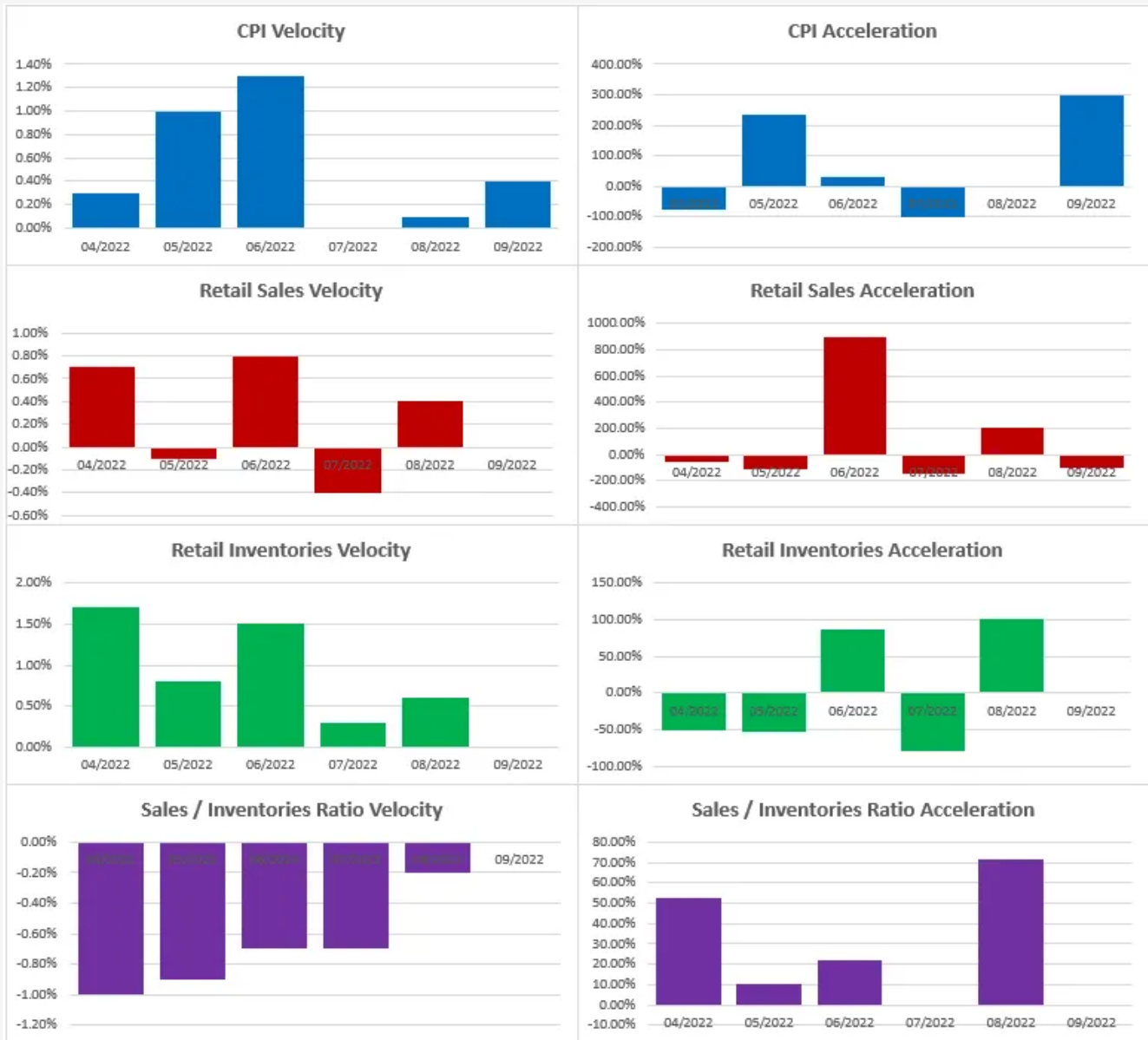
Bond ETFs - HYG, IEF, LQD, TLT. Stock ETFs - DIA, IBB, IWM, IYT, QQQ, SMH, SPY. Commodity ETFs - DBA, GLD, USO.

Asset Analysis

Stocks, Bonds, and Commodities are overwhelming in the Lagging quadrant now. Agriculture (DBA) is the only ETF remaining in Improving, but has begun to turn over as well with a direction back towards Lagging.

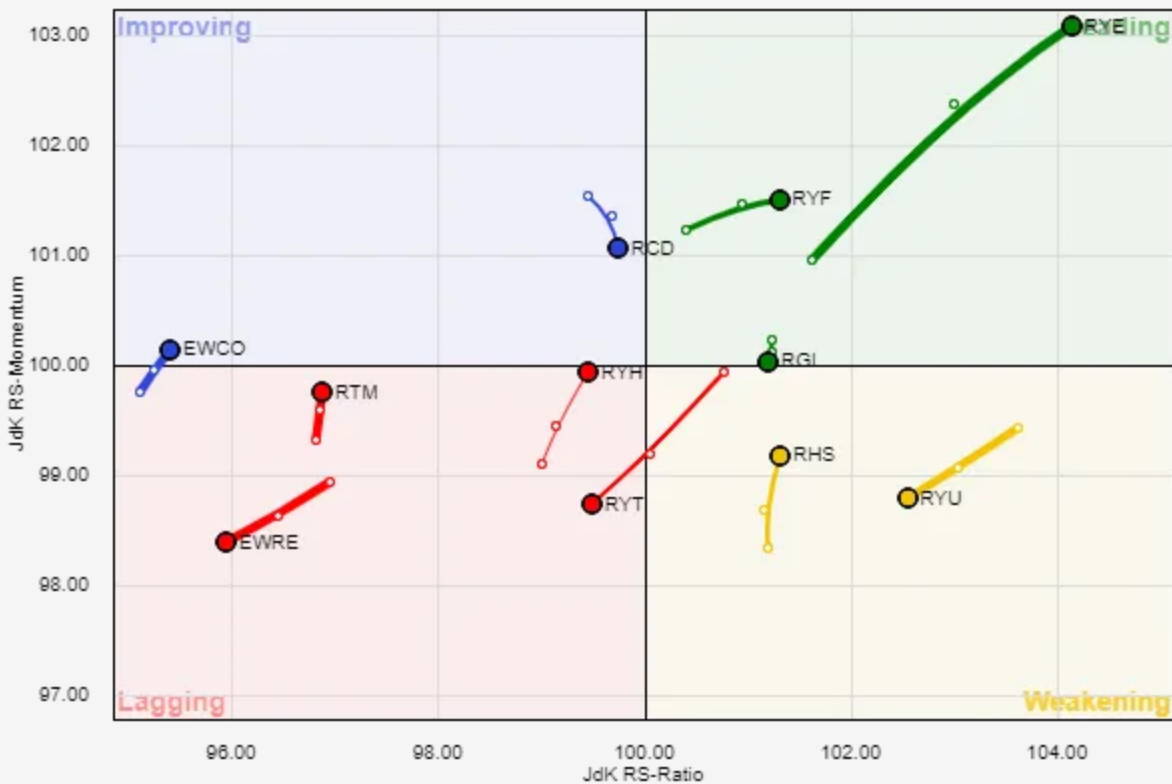
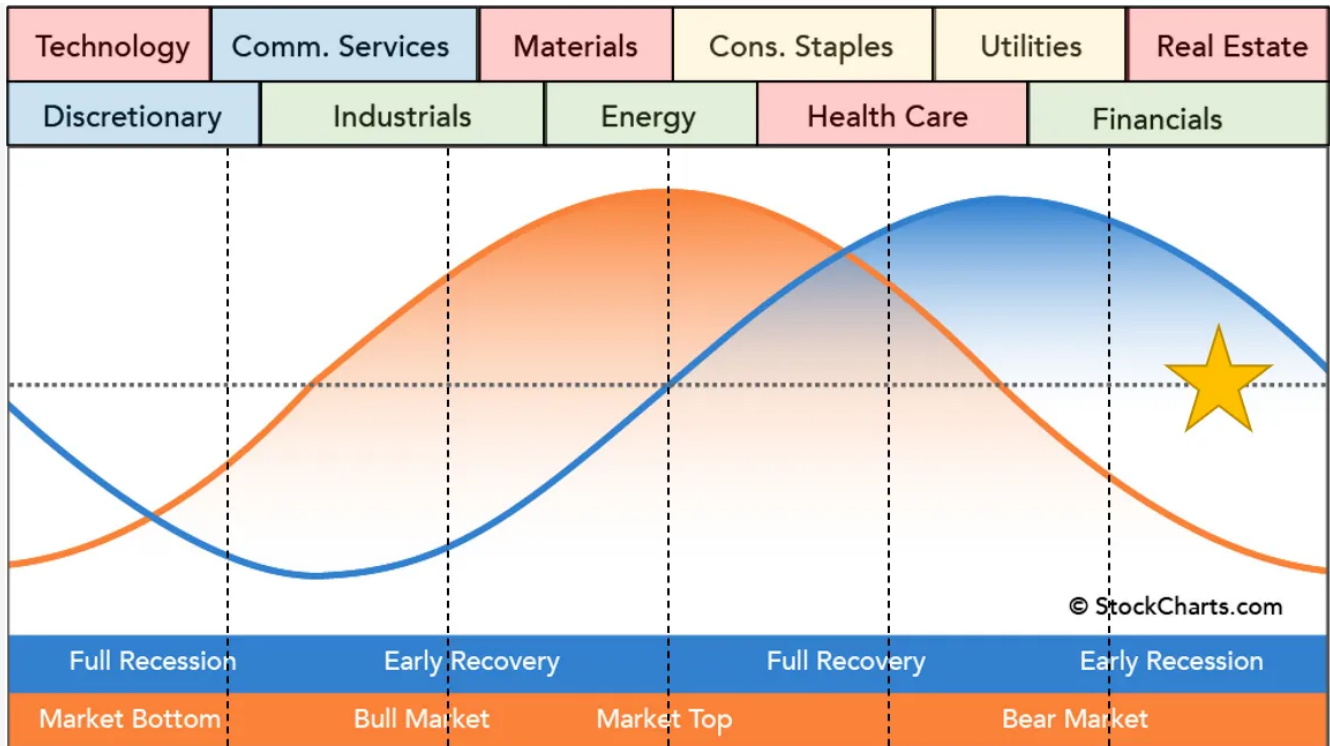
CPI and Retail Sales data was released last week which showed a weakening consumer with inflation accelerating higher. The consumer remained resilient through August, but is showing some signs of possibly weakening in September with a slight deceleration.

The acceleration in CPI posted an extremely high reading as the month over month change in CPI increased from +0.1% to +0.4%. Peak Inflation? Fed Pivot? The data isn't suggesting it yet. Retail Inventory data for September is set to be released on October 26th, so it is not included in the graphs below.



Economic Metrics - Month over Month Change

Sector Rotation



Sector Analysis

There were two quadrant changes this week with Communication Services moving from Lagging into Improving, and Technology moving from Weakening to Lagging.

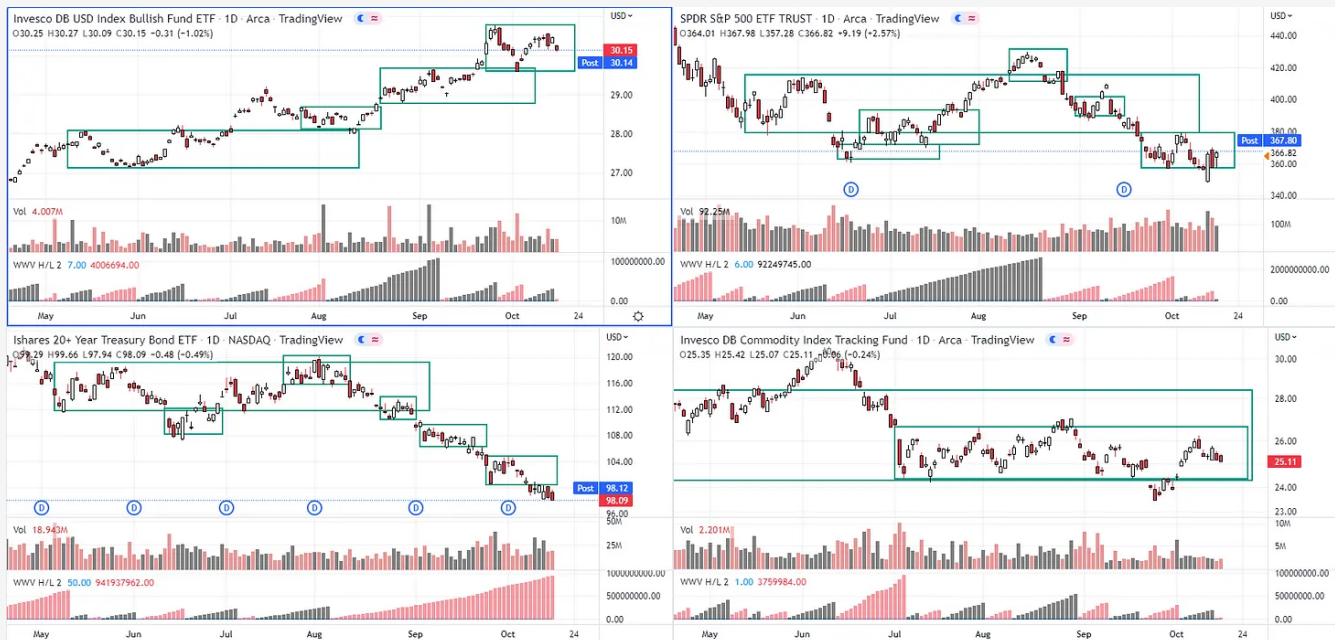
As the sectors are a mixed bag right now based on their quadrants, we can slice the data in another way to see if it presents any insights.

Relative Momentum (Up or Down)					
Technology	Comm. Services	Materials	Cons. Staples	Utilities	Real Estate
Discretionary	Industrials	Energy	Health Care	Financials	

If we look at only relative momentum, whether the ETF is moving up (white box) or moving down (gray box), it can give us a new picture of what sectors are gaining bullish momentum.

We can see that Mid Cycles Sectors are gaining momentum over Early to Late Cycle sectors. This continues to suggest that market participants believe this economy is resilient and inflation is persistent. Overall, this suggests defensive posturing in my mind combined with our Asset Rotation analysis, but the argument that a new bear market rally could develop from stronger than expected earnings in a resilient economy is valid as well. The sector tea leaves remain puzzling at this time.

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) completed its upswing since last week and remains in the trading range. A test towards \$29.60 - \$30 will provide further insight on the underlying strength of the Dollar at this time. Even though price is expected to trend sideways for now, strength still persists in the Dollar.

Stocks (SPY) are showing more volatility since the latest CPI report. Volatility begets Volatility, and this could be a sign of further weakness ahead with wild moves along the way. The shorter term trading range between \$357 - \$370 is still holding with price losing some momentum in today's upward action. Bias still remains to the downside at this time.

Bonds (TLT) continue to be in a markdown with no stopping action yet.

Commodities (DBC) attempted to retest the \$26 level highs from last week, but failed to reach \$26. Price continues to show short term weakness as it closed below the intraday trading range today. Bias remains to the downside.

The NYSE Breadth line remains under the Ice as it has broken to new lows ahead of Price.

\$NYA NYSE Composite Index: INDX

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Open: **13607.31**
High: **13989.86**
Low: **13607.31**
Prev Close: **13607.31**

Ask:
Ask Size:
Bid:
Bid Size:

P/E:
EPS:
Mkt Cap:
Last Size:


Options:
Annual Dividend: **N/A**
Yield: **N/A**
SCTR:

no
N/A
N/A

Monday 17-Oct-2022
▲ **+2.32%**
Chg: **+315.91**
Last: **13923.21**
Volume: **0**



NYSE Breadth Line

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