DECEMBER 6, 2022

Will the Fed Turn Into Dr. Jekyll?

Bernard K. Semon
Vice President, Investments
Portfolio Manager – Stratos Investments

As we predicted on October 14 when the S&P was trading 3583, Mr. Hyde has prevailed. The S&P 500 (3941) has rallied over 16% off its lows and has traded as high as 4100 recently, testing Stratos' final resistance level of **4132**. If the market exceeds 4152, this could indicate the beginning of a new bull trend. Two closes above 4305 would confirm to Stratos a new bull market. We consider 4152 and 4305 as no man's land. Stratos would be looking to reduce equity exposure, anticipating a continuation of the major downtrend of this year, which could have the potential to lead to new stock lows.

About seven quarters ago in early 2021, the Federal Reserve anticipated no rate hikes this year and was still referring to inflation as transitory. As we know now, their predictions were flawed. There have been 15 straight rate hikes this year. The last four were up ¾% each time, resulting in the one of the fastest rate hike cycles in our history. There is a still strong possibility of two or three additional rate hikes before the end of the year. The goal of the Federal Reserve is to tame inflation. The problem with the Fed's analysis is their unrealistic assumption that inflation will return to 2%. Inflation will most likely stay above 4%, which makes perfect sense when looking at current mortgage rates, CD rates, and other fixed income opportunities.

The results of the Federal Reserve's rate hikes are yet to make a major impact on the U.S. economy, which continues to reflect record low unemployment, strong employment opportunities, and a resilient economy. However, the likelihood of a bad recession does exist if we continue on this overreaction to inflation. Any additional rate hikes into next year will lead to the possibility of Dr. Jekyll taking over.

STRATOS INVESTMENTS of RAYMOND JAMES®

Stratos S&P 500 Market Analysis

Final resistance:
4132

Initial support:
3961

Intermediate support:
3784

Base camp support:
3602

Line in the sand:
3474

DECEMBER 6, 2022

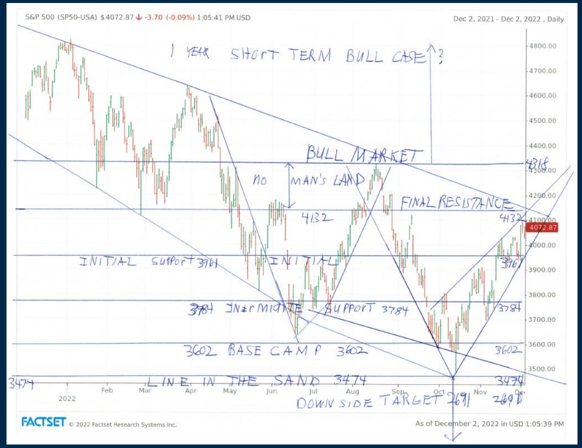
2022 has experienced chaos in the U.S. bond market, weakness in global stock markets, higher inflation, a decline in new mortgages, higher mortgage rates, lower real estate and rental prices, and a strong dollar. Energy prices have gone down, but energy stocks continue to outperform. Stratos expects there is a put on oil ($74) around $70 with OPEC cutting production and Russian oil being phased out. A retesting of the $150 level seems reasonable if the world economy picks up significantly next year. The possibility of hyperinflation, supply disruption, or the use of some types of nuclear weapons could lead to our price target for oil of $286. The energy sector may be undervalued as we anticipate oil prices could move much higher once China decides to follow modern medical logic and vaccinate their population with effective vaccines. Based on the unrest that is now becoming quite apparent, the Chinese will have to reopen their economy during 2023.

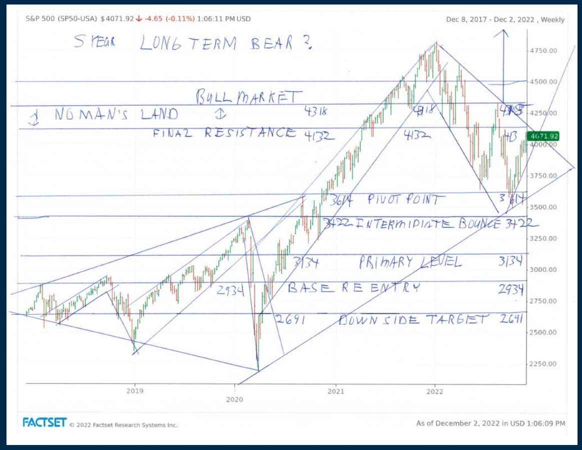
As we predicted, the precious metal markets have started to move higher, but there is not much additional inflation to raw materials and food prices. This could help reduce fears of higher inflation in 2023. Any ceasefire or peace in Ukraine would also have a very positive long-term effect in 2023.

The current direction of interest rate hikes can no longer be sustained. Stratos is predicting the possibility of lower interest rates toward the end of next year, which would be a good change of events for long-term equity investors. Although we do not expect interest rates to go much higher, we think U.S. equities are still undervalued based on their leadership as a result of the uncertainty throughout the world. We continue to expect Mr. Hyde to prevail but are afraid of Dr. Jekyll if the Fed continues to raise rates indefinitely.

Good Trading for the Long Term!

Stratos Market Analysis





Bernard K. Semon
VICE PRESIDENT, INVESTMENTS
PORTFOLIO MANAGER – STRATOS INVESTMENTS

Bernard.Semon@RaymondJames.com

D 915.534.4005
T 888.251.8757
F 844.597.8378

STRATOS INVESTMENTS of RAYMOND JAMES®

4503 N. Mesa
El Paso, TX 79912

StratosRJ.com