Bear-o-meter remains cautious

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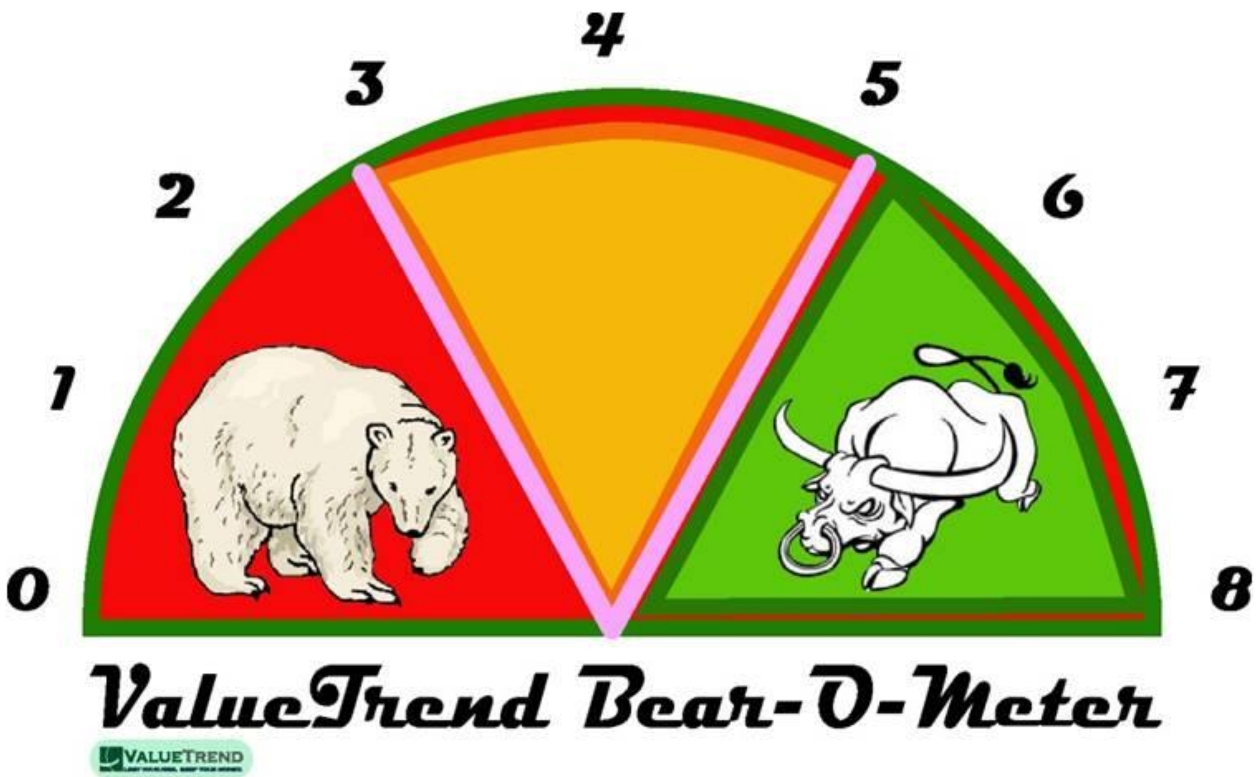
Today, we'll look at the Bear-o-meter reading for November – along with a couple of other thoughts regarding market direction.

Bear-o-meter remains in the cautious zone

Last month, we saw a move up from the "0" score on the Bear-o-meter (high risk alert) in September to a more moderate score of 2 (caution) in October. So- how does November look? We've maintained that score of 2 this month, but not via the same metrics. In a nutshell, we saw two of the indicators in the meter move down a point (two points off the score). Offsetting those negative points was the move into November – which assigns 2 positive points for enhanced seasonality positive potential on the market. Lets talk about the two indicators that dropped the score.



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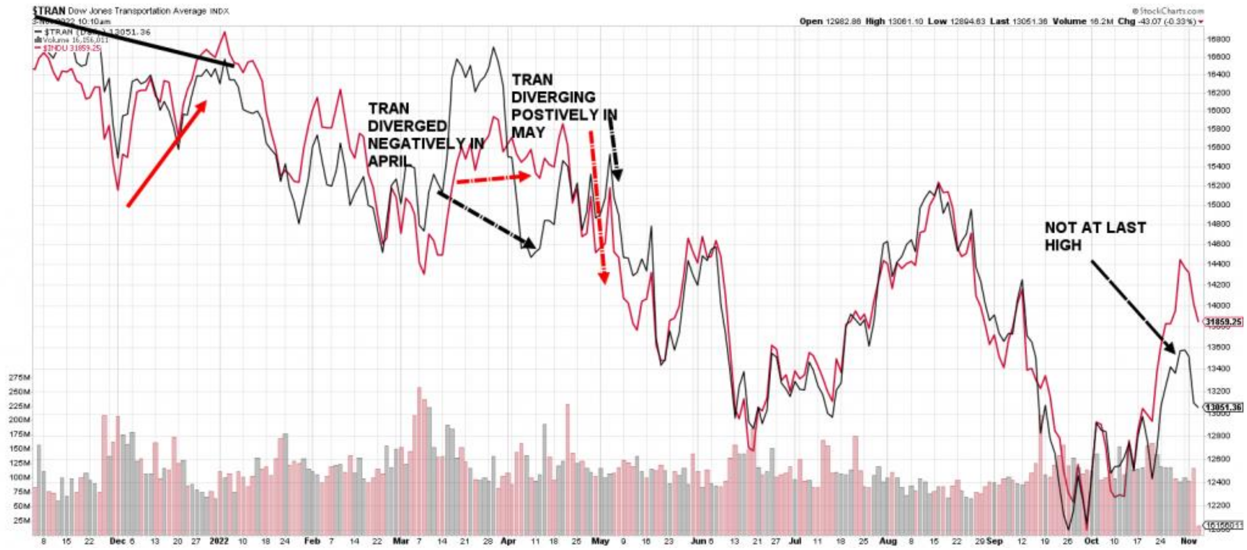
Dow Theory negative divergence

The recent failure for Transports to their hit prior peak as Industrials surged to hit their prior peak deleted one positive point from the meter. I blogged on the fragility of the strong move on the Industrials in my last [blog here](). When INDU is not supported by the TRAN index, we have a decidedly weak rally going on – illustrated by my historic notations on the chart below. My [Online Course]() teaches you the many ways to interpret the relationship between these indices. Very important to know – as the Dow INDU/ TRAN confirmation rule is quite reliable. Stay tuned for a special discount announcement this weekend if you want to save some money when enrolling.



Smart Money/Dumb Money spread has gone to "0" from last month's positive signal.

Offsetting these two negative scores were the seasonal points scored. November can be a positive month from a seasonal perspective. However, the combination of the new negative (INDU/TRAN) and the move down to neutral by the Smart Money/Dumb Money spread on top of the list of other neutral factors suggests continued caution based on the "2" rating. The chart below highlights the move from "bullish" (too pessimistic by the dummies)- to "neutral" spreads between the smarties (large institutional investors, pro traders, commercial hedgers) and the dummies (everyone else!).

Having said that, we are well out of the flood of multi-month "0" scores we saw from April to September. All in, we recently sold our rally-play and are back to 38% cash in our Equity Model. However, any signs of extreme selloff OR a positive reversal will entice us back into the game.

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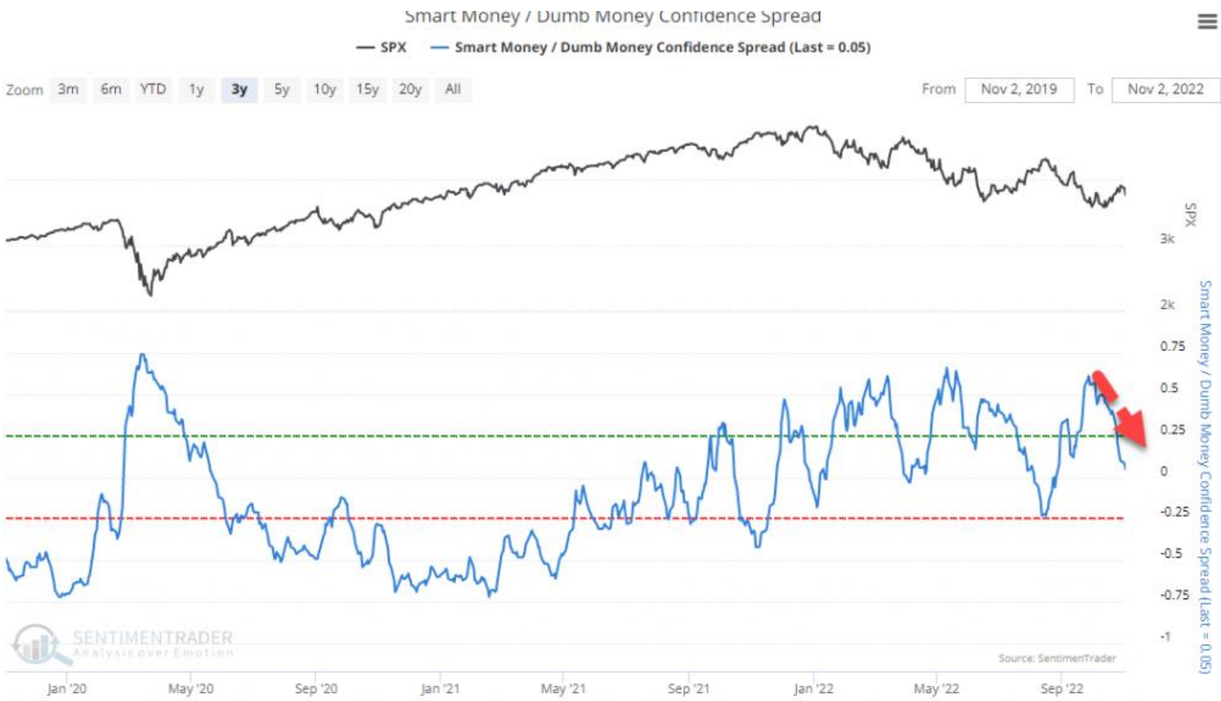
The current market environment is one to tread cautiously in, but not to be running away from at this stage.



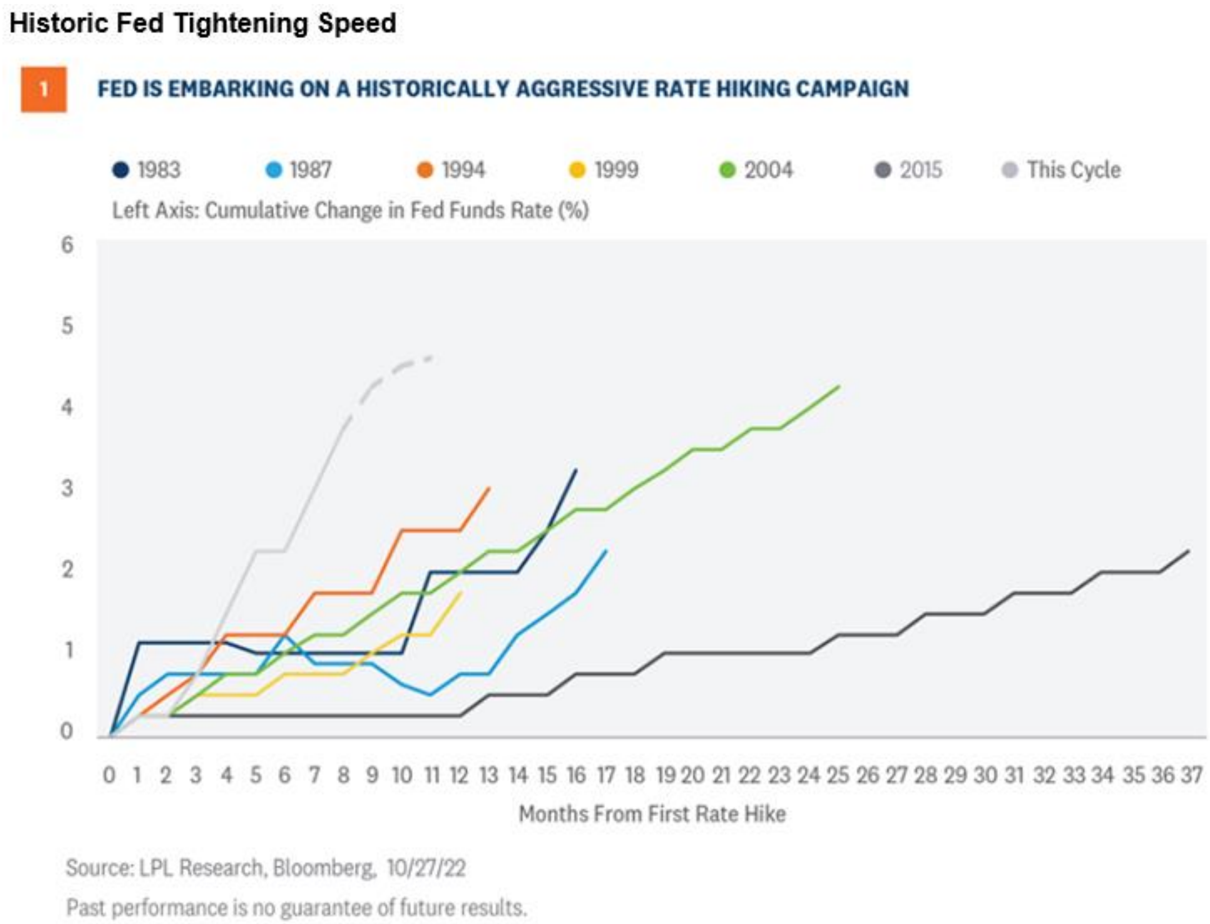
Don't fight the Fed

Just months ago, rates were sub-1%. Now….

"The overall takeaway from the FOMC is hawkish with Chair Powell explicitly stating he would prefer to overtighten, and have to subsequently back off, than to under-tighten and potentially let inflation get out of control. Changes to statement language indicate the Fed has a strong preference to slow the pace of rate hikes (to 50bp in December in our base case), but balanced any potential dovishness by reasserting that policy rates can continue to rise to levels sufficient to quell too-high inflation – and likely need to rise to above levels contemplated in September. ***We are revising up our expectations for Fed policy rates and project a 50bp hike in December, another 50bp in February, 25bp in March, and a final 25bp May resulting in a terminal rate of 5.25-5.50%."*** — Citi Bank

My take: We are close to the end of the Fed cycle, but the data will tell us when it's over, not the Fed. The Fed message is not credible. They will follow the data, not their utterances from past press conferences. They promise nothing. So don't get sucked in.

As an aside…Higher rates impact consumers. But it also impacts Government debt servicing costs. Here's something to think about: Look at how aggressive the current Fed path is relative to past cycles (grey line below). Then think about the extra $50T of new leverage by Federal Banks across NA and the EU since 2018. How do you think this will play out? Feel free to add your thoughts to the comments below.



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