CAPITAL INVESTMENT COUNSEL

The Columns

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The Friday after Thanksgiving is typically a sleepy affair on Wall Street. Skeleton crews on trading desks struggle to stay awake. Not this year. Black Friday lived up to its name with 90% of the trading volume on the downside. The Dow peeled off 900 points and ended the holiday week on a nasty note. In hindsight, it feels like media overreaction to Omicron, but the market likes to shoot first and ask questions later.

I'm more interested in Black Friday part 2(BF2). BF2 happened a week later on December 3rd, 2021. The Spanish Civil War in the 30's hinted how World War II would be fought, and the action here might do the same for 2022's market. On the face of it, BF2 didn't look so bad. The Dow certainly didn't plunge; it only dropped 59 points. The bloodshed was in the higher-octane portion of the market. Big cap tech (QQQ) dropped 2% and 2020's darling, the ARK Innovation ETF (ARKK) landed with a splat: a 5.5% loss on the day. BF2 feels like the first day that markets believed Jay Powell and the Fed will actually remove the stimulus and maybe, just maybe raise interest rates. Rising rates don't mean the market tanks, but they could alter which companies do well.

On BF2, the market acted like a child taking off the training wheels for the first time. Markets were doing fine until they looked back to see "Daddy Powell" had removed his helping hand and stocks panicked. The NASDAQ 100 has recovered its losses, but ARKK is still struggling. It's not hard to see why. A good portion of tech stocks are trading at never seen before valuations. Some of that extreme pricing is driven by what are effectively negative interest rates. Adjusted for inflation, the 10-year Treasury yield is effectively negative 5.4%. *(Charlie Biello)* Yes, you're receiving 1.44% from the US government on the 10-year, but at the end of the day, inflation takes your actual return to negative 5.4%. Yikes. That is the lowest level ever.

I like to look for the silver linings. As mentioned above, Black Friday 1 had 90% of its volume on the downside. Looking at history, selling that extreme can potentially lead to a bottom. We only see a handful of 90% down days per year. Let's look out to January and see what might happen. I've recorded the previous 75 occurrences and I like the outcome. The market has been higher 63 out of 75 (that's 84% positive) and the average gain is 5% higher. That would put the Dow at 36,643 by January 26th. Given that we're currently trading at 35,696, I'd gladly take that outcome. Let's see how it plays out.

Here's a few entries for the Jay Powell inflation watch. My three-headed pack of Boston Bibb lettuce at Costco has gone from $4.5 to $6. That's a 33% increase. I typically buy a haircut card for my dad each year. The cost for ten cuts has gone from $100 to $130 since 2019. Also, a cool 30% increase. The problem with the idea of inflation as transitory is that I doubt that the prices of those items will be coming back down. If you find anything noteworthy in your own lives being inflated, pass them along, I'd love to know.

Let's close with another positive. In the eternal battle between smart vs dumb, smart usually wins in the end. The combo of Omicron and rising rates has driven the dumb money into a tizzy. Dumb money sees only a 30% chance of a rally. That's the lowest reading since last April. If that rings a bell, it should because April is when the Delta variant came calling. On the other hand, the smart money (professionals) is seeing a 77% percent chance of a rally. *(Sentiment Trader)* I like to side with the smart money as they seem to get it right, but it's rare to see that large of a spread between smart and dumb. If history is a guide, this could lead to a nice rally to jumpstart 2022. If you have any comments, feel free to contact me at heddins@capital-invest.com or call me at 919-656-0836.

Capital Investment Counsel, Inc. 100 E. Six Forks Road, Ste. 200; Raleigh, North Carolina 27609