

Bah Humbug!**Bah Humbug!**

There hasn't been much of a "Santa" rally this year unless you consider a 0.2% drop (in a volatile week) on the S&P 500 a good thing. I would not call that a rally, especially with the Nasdaq down almost 2% on the week and the 10-year Treasury finishing 25 bps higher at 3.75%.

The 10-year move made sense because a sub 3.5% yield seemed aggressive (even for someone as pessimistic on the economy and the inflation story as me). We also had the BOJ surprise everyone by allowing their bonds to move to higher yields. That is generally a good thing as I prefer "free-er" markets rather than those controlled by central banks. It caused global yields to pop higher, though Japan (with barely any inflation) shouldn't directly cause this to spread. The risk is that yen denominated bond buyers, who have been buying dollar (and presumably euro) bonds and hedging the FX risk, could go on a bigger "buyer strike" than they've already been on. Alternatively, they could start selling foreign bonds when their FX hedges roll off since they can now achieve a modicum of yield directly in JGBs further out on the curve (this would be an even worse outcome). That is a risk I'm watching out for and think that while it will pressure yields, it is unlikely to be the key driver.

For the stock market (which seemed to oscillate back and forth) there were three main stories:

- There were numerous stories about **JHEQX** (a large mutual fund) having to roll over a large options trade into year-end (which is part of their strategy). The "**vol killer**," according to Bloomberg on December 20th, "pegged" the S&P 500 to the 3,835 level (it closed at 3,844). It would be nice to see a quiet week going into year-end so we can have the only quiet week of 2022! Seriously, it is difficult to remember any week that didn't have high volatility this year.
- **The question of whether "good news" is "good" or "bad" seems to have been answered last week: "It depends."** It seemed exceptionally hard to tease a consistent narrative out of stocks last week, but we can blame it on "thin liquidity" rather than "not paying enough attention."
- **Tesla** has lost almost \$600 billion in market cap since mid-September and lost about \$225 billion since the start of December. I don't follow single stocks as a rule, but this move has caused a lot of chatter (mainly on Twitter) and weighed on broader markets (the Nasdaq 100 was down 8.7% on the month versus a 4% decline for the Dow).

So, as we head into the last week of the year, I will try to end this abbreviated T-Report with a bright spot (which goes against my cynical nature). Maybe with Ukraine still grabbing headlines and impacting energy markets and Europe, **we will get a "Saint Nicholas" rally into January 7th** as opposed to the traditional "Santa" rally.

I still expect that inflation will show signs of dropping (possibly off a cliff if you annualize recent data rather than looking at annual data). For more of our thoughts on this, please see [Q1 Deflation, 2 + 2 = 5](#), [The Rise and Fall of Inflation Factors](#), and [Why We'd Be Lucky To Get a "Squishy" Landing](#)). I still think that this all ends with a big "risk-off" trade (lower yields and new lows for stocks), but I'm trying to be jolly and hoping for one more good rally in which to sell stocks (I like bonds here)!

In case you missed it last week (and have some time today):

- Academy's latest [Around the World](#) piece has some interesting and important 2023 outlooks!
- A fun and rather long interview on [Thursday on Bloomberg TV](#) (starts at the 28:40 mark).

Even if markets aren't spreading that holiday cheer, I hope that you and your families are enjoying this time to the fullest!

Bah Humbug!

Disclaimer

This document and its contents are confidential to the person(s) to whom it is delivered and should not be copied or distributed, in whole or in part, or its contents disclosed by such person(s) to any other person. Any party receiving and/or reviewing this material, in consideration therefore, agrees not to circumvent the business proposals explicitly or implicitly contained herein in any manner, directly or indirectly. Further, any recipient hereof agrees to maintain all information received in the strictest confidence and shall not disclose to any third parties any information material to the opportunity contained herein and, upon review hereof, agrees that any unauthorized disclosure by any party will result in irreparable damage for which monetary damages would be difficult or impossible to accurately determine. Recipients recognize, and hereby agree, that the proprietary information disclosed herein represents confidential and valuable proprietary information and, therefore, will not, without express prior written consent, disclose such information to any person, company, entity or other third party, unless so doing would contravene governing law or regulations.

This document is an outline of matters for discussion only. This document does not constitute and should not be interpreted as advice, including legal, tax or accounting advice. This presentation includes statements that represent opinions, estimates and forecasts, which may not be realized. We believe the information provided herein is reliable, as of the date hereof, but do not warrant accuracy or completeness. In preparing these materials, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources.

Nothing in this document contains a commitment from Academy to underwrite, subscribe or agent any securities or transaction; to invest in any way in any transaction or to advise related thereto or as described herein. Nothing herein imposes any obligation on Academy.

Academy is a member of FINRA, SIPC and MSRB. Academy is a Certified Disabled Veteran Business Enterprise and Minority Business Enterprise and is a Service Disabled Veteran Owned Small Business as per the US SBA. Investment Banking transactions may be executed through affiliates or other broker dealers, either under industry standard agreements or by the registration of certain principals.