

Even Wile E. Coyote Didn't Hurt Himself on Purpose

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Last week we experienced an [Everything Rally](#). In some cases, it was touch and go until the final bell, but it was a cross asset rally nonetheless. The S&P 500 was up 4% and despite some wild moves in individual tech stocks, even the Nasdaq 100 climbed 2%. The 10-year yield dropped from 4.22% to 4.02% and the 2-year yield dropped from 4.48% to 4.42%. CDX tightened 7 bps on the week and series 38, which just rolled a month ago, closed at 79 (the tightest spread since August). The Bloomberg corporate bond OAS only tightened 6 bps on the week, but that makes sense as "hedgers" should be outperforming at this stage of what is still just a bear market rally. Commodities and commodity stocks also had a good week. **I'm looking for the everything rally to continue.**

Clearly the next big event for markets is the FOMC meeting on Wednesday. I view this quite simply:

- Do you believe that inflation is on a downward path now (due to a number of issues)? Clearly I do, as you can read in [Inflation Dumpster Dive](#).
- Would a central bank (which didn't miss "transitory" inflation) be slowing or pausing hikes at this stage based on virtually every economic model? Given my inflation views, the answer would be yes.
- **Will the Fed really hurt the economy at this stage?**
 - That is the question and is why I keep thinking of Wile E. Coyote. Tunnels that the Road Runner could run through would be walls when Wile hit them at high speed. Trains that somehow missed the Road Runner would run right over Wile. Then, as one very astute reader pointed out (in response to our [Celsius 233](#) report), **Wile only fell off a cliff AFTER he looked down and realized that he was standing on air!** Maybe the actual inflation data isn't enough to scare the Fed into pausing, but warnings from big tech should be! Maybe, just maybe, the Fed is finally looking down and seeing the warning signs and much like Wile, they now realize that they are potentially standing on air and are about to plummet.

It may already be too late for a soft landing (or even a mildly bad landing), but if the Fed insists on 75 bps at this meeting and does not balance the outlook, it could get worse in a hurry. I'm stuck betting that **unlike Wile E. Coyote (super genius who couldn't see his own demise time after time), the Fed will start getting cold feet and unwrap fewer of their "Acme product orders" and leave the Road Runner (inflation) alone for a little while.**

It is a risky bet to have, but one that I like.

One other thing that we've talked about seems to be getting some traction: the possibility that regardless of who wins what in the midterm elections, the politicians will be changing their tune a bit:

- A group of Democrats published a letter (later retracted) basically calling for **finding a peaceful solution to Russia and Ukraine**. While it was retracted, there is a possibility that D.C. decides that politically it is better to find a way out of this war rather than prolonging it.

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- While politicians of all stripes remain focused on inflation, there are more soundbites regarding the state of the economy than there were a few weeks ago. **Post-election, do we get politicians that are more worried about jobs than inflation in an environment where their constituents are experiencing truly awful hits to their wealth?**

Bottom Line

Let the everything rally continue for now, and then get prepared for a "risk-off" move as the chain reaction that has been set in motion dominates the headlines.

Lisa Abramowicz did a good job of trying to help me articulate the current everything rally viewpoint that is juxtaposed to my view that we are headed for a longer and deeper recession that will become obvious well before consensus sees it ([Bloomberg TV](#) at the 1:50:45 mark).

Good luck and try not to let your inner Wile E. Coyote cause you to do anything that you will regret between Monday's open and 2:00 pm on Wednesday, which is easier said than done in this extremely volatile market!

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