FEAR

We often talk about the market being driven by fear and greed. For today, let's just focus on the "Fear" side of things. On the bright side, from my perspective, we are four days into the trading year and The 2022 Outlook doesn't need to be torn up yet 😊.

Fear of Omicron is Almost Non-Existent!

While Omicron continues to disrupt our lives with school closings, travel issues, extended work from home (who wants to commute in the winter anyways), it is not impacting markets. Yes, we all keep one eye open scanning for the news to deteriorate, but for now, the view that we are moving from pandemic to endemic seems to be gaining strength.

For those still glued to the mainstream (non-financial) media headlines, I recommend checking out the Tale of Two Omicrons to see how easy it is to fit the same data set into a scary or a realistic portrayal.

This is good for risk assets and for the growth story.

From FOMO to NOGO

Assets that most benefited from the **Fear of Missing Out** are struggling of late and that accelerated yesterday after the Fed's minutes were released. We address many of the issues that impact FOMO in FOMO's Engines are Stuttering, but want to highlight the point that **volatility is a requirement for FOMO**.

The lack of price action can be almost as bad as negative price action. For many assets, and I certainly see this in the crypto streams that I follow, many have been frustrated with the 'rangebound' nature of recent price action (before yesterday's ugliness). That tends to mean that the late adopters were already getting annoyed that they weren't "missing out" which isn't conducive to getting new investors (or even keeping existing investors).

I made up NOGO, since it seemed catchy and fit with FOMO for the title, but let's talk about the **Fear of Holding the Bag**. This is the fear that despite the recent weakness, there is more to come, and you will be left holding the bag. Maybe I'm the only one who is looking at stocks and other assets that are down X% (where X is a pretty decent sized number) and am tempted to believe that we are at the bottom. However, then I pull up a longer-term chart and realize that these stocks and other assets are still Y% (where Y is a pretty decent sized number) above their pre-pandemic levels.

The inability of some beaten down stocks to recover is concerning (I must have seen at least 10 good reports yesterday looking at the number of stocks off Z% (where Z is a pretty big number) or the stocks that are at or near their 52-week lows, etc. The desire to buy the dip is there, but it hasn't been working and while I think that we are getting close to that time, I think that we need a touch more capitulation (the first thing that I do when checking out what I consider the FOMO ETFs is to look at shares outstanding). There are signs that investors are giving up, which as a contrarian gets me excited, but I just think it is a tad early.

In a nutshell, I will pick on bitcoin (because I've been doing that lately anyways). To summarize my streams on bitcoin, they went from:

- Bitcoin is the way of the future. It solves problems that cannot be solved with fiat. Anything that it isn't currently solving (too expensive, energy use, you name it) will be solved in the future because that is the power of decentralization, and you can "be happy staying poor" or get on board with the most disruptive asset of all-time.

To a stream that looks a bit more like:

- Why do you want to own a bunch of ones and zeros, where the "whales" control it, the game is rigged by the whales and the miners, costs are prohibitive, and the regulatory crackdowns are coming?

Social media has a way of allowing current sentiment to dominate conversations and while the above themes are a bit extreme, they do give (I think) a sense of **the information that the marginal buyer/seller is facing, and this is why I think that Fear of Bag Holding is still greater than Fear of Missing Out.**

Fear of the Fed (or a Policy Mistake)

I was caught by surprise that the Fed was contemplating shrinking the balance sheet shortly after the first rate hike. I am still in the camp of zero to two hikes this year, but hadn't really spent much time on balance sheet reduction, given how reluctant the Fed has been to cut back on buying bonds. In theory, based on market conditions, they could have started reducing QE much sooner than they did and could have been done with it long ago. But that isn't what they did. I assumed, somewhat sloppily, that they'd maintain the balance sheet (like they did last time) while thinking about hiking again. **The minutes made it painfully clear that the Fed could initiate balance sheet reduction as early as this summer (if you believe in a late spring rate hike).** Could they walk back that statement and clarify what they meant? Maybe they just mean not re-investing interest?

While I had not been looking for this, I've already been negative on FOMO assets, so this certainly helped that case.

Fear is the Mind Killer

While there is much to fear, some of that fear is healthy and harnessing our fears and getting it right creates an opportunity to be greedy!

On the back of the minutes, **it is probably prudent to reduce risk across the board**, even in the sectors that I favor (cyclicals, dividend, value, re-opening) and even some asset classes (I'm still very constructive on credit, but overall stock market weakness will put pressure on spreads, with IG more correlated to the S&P and HY more correlated to the Russell 2000). **I continue to embrace "rotations" and believe that these sectors and asset classes will outperform**, but I'm leaning towards outperforming in a weak market, rather than outperforming in a strong market.

At the moment, rising yields are dragging many stocks (the Nasdaq being more closely tied to this than either the Dow or S&P 500). I suspect that we won't see a real bottom in stocks until we get a nasty, old-fashioned "risk-off" type of day (i.e., the sort of day when bonds rally and stocks still sell).

With the 10-year approaching 1.75% already this morning, we could see some more upward pressure on yields, but I think that move is closer to being done than starting. We have to get through payrolls on Friday, always a wildcard, and the market needs to figure out what early QT should mean for yields across the curve. I have to admit, I don't have a strong opinion on that at the moment, as I think it has bigger implications for risk assets than for yields.

In any case, 2022 is off with a bang and we will all have to work hard to navigate it!

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