Is the Worst Behind Us?

Monday saw an almost obligatory relief rally followed by an extremely ugly day on Tuesday. Wednesday, the Nasdaq attempted rally after rally only to falter, yet again, into the close.

This morning, futures were awash in green and we are regaining the "support" line on the Nasdaq from this [Weekend's T-Report.]

The Good

There are a few things that we can point to as good now, some of which were highlighted in the Wonderwall section of that report (I still cannot get that song out of my head).

- **Earnings.** MSFT was strong yesterday post earnings. This morning, QCOM and FB opened much higher post earnings. That leaves us with AMZN and AAPL tonight, which may continue this trend.
- **Discretionary share repurchases.** As companies end their quiet periods, there is chatter that they will take advantage of recent price declines to buy up more shares, which is a powerful flow if it occurs.
- **Was Tuesday "capitulation"?** There are certainly a lot more bears around and Tuesday's selling pressure was quite relentless.
- **Equities are not rate sensitive at the moment.** This week has exhibited a risk-off/risk-on trading pattern where Treasuries are moving in the opposite direction of equities. This is a "healthier" pattern in many respects, especially given the hawkish Fed stance.
- **Credit hasn't been a disaster.** I'm getting some mixed signals, but at the very least, credit didn't lead the way lower, so there can be support from resilient credit markets (though by no means is the picture super clear).

Definitely some things to make me question remaining bearish.

The Not So Good

I won't rehash the risks laid out on Sunday, which included Russia, Ukraine, Covid, China, and "weak Europe," etc., as little has changed there. However, I will highlight a few things that temper any desire to turn very bullish here:

- **Aggressive fund inflows**. Despite all of the "capitulation" talk, QQQ has had large inflows, but more indicative of speculation is the large inflows into TQQQ (triple leveraged QQQ) and ARKK (though ARKK did have small outflows yesterday). SQQQ (triple short QQQ) had significant outflows every day this week showing people taking off aggressive short positions. I'm not convinced that the "capitulation" actually occurred.
- **Buy the dip remains popular**. Yes, I'm seeing more doom and gloom, but my stream is also flooded with the "buy the dip" messages that have become de rigueur for this market. Again, just another hint that we may not have seen capitulation.
- I'm seeing more reports touting **QT as a headwind**. We've been on that bandwagon for a while, but it seems that more people are discussing it as the Fed meeting nears. I still don't think this is fully priced in, though it is getting there.

- **The Fed meeting**. Will investors get nervous as we approach May 4th? Last FOMC meeting, the markets sold off into it, but the rally started as Powell was at the podium and it was a very strong rally. Will we in fact be reluctant to sell-off because of that reaction? Or will investors be too calm about it because of the last reaction? I'm very torn on this subject, and for now will leave it in the "bad" camp, mostly because we've been in the Fed quiet period, so we haven't had to react to a barrage of hawkish headlines, but I could be convinced that the FOMC meeting should be in the "good" category.
- **Liquidity is abysmal both directions**. Liquidity is awful in both directions, and that could lead to a melt up, but I'm once again getting images of the Tacoma Narrows Bridge (the bridge that oscillated wildly and then crumbled) as I don't think that the lack of liquidity will resolve itself well (especially as the Fed starts taking liquidity out of the system).

I'm less cautious than I was on Sunday, but more bearish than I was yesterday as we've had a nice opportunity to trade this around.

I'm still in sell the rips mode as opposed to buy the dips for equities and risk assets, but like buying dips in bonds here.

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