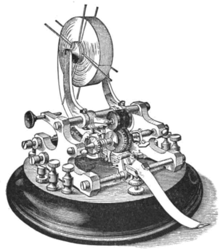

THE TAPE READER

Written by John I. (Jay) Mayer

December 24, 2018

Any Chance For A Market Bounce?

This market is oversold! Last week the stock market sold off discounting that the Federal Reserve (Fed) will once again, overdo their interest rate hikes and send us into recession. Market participants are selling, not willing to wait to see if the Fed gets it right this time. Indeed, Fed action on Wednesday seemed to be disconnected from economic reality. The Fed is raising rates in spite of signs that reveal the growth of the economy is slowing and that inflation is moderate.

Three short months ago we we celebrating all time highs on the S&P 500. Today we are overwhelmed by negative news flow. The Federal Reserve is tightening, the government is in partial shutdown, a key senior administration just resigned, and our trade with China remains in question. In light of this backdrop, the market is selling off. Unfortunately, we are marking new lows on the S&P 500 for the year.

Negativity is so pervasive right now, that it is quite hard to find anyone who is bullish on the market. It is from market sentiment of this nature that significant market rallies are born. The question is when. We may be close. Do not rule out a year-end rally.

Economic growth is expected to slow to about 2% next year. We could very well meet those expectations. If that unfolds, we may ultimately get a move back towards the old highs by mid-2019. It seems the market is currently discounting more than just a slow down in economic growth next year.

In November I wrote that the break of the market below the February lows of 2540 for a significant period of time would be noteworthy. It places the trading range in jeopardy, possibly portending lower lows. We broke the February lows last week. How do we respond? A more defensive stance on the market near term is warranted. This may require more active trading and the potential for more adjustments in all portfolios.

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