Brace for Bearish Breakout!

The battle lines are set between bulls and the bears over the 200 day moving average for the S&P 500 (SPY). A break below 3,940 will likely ignite a serious FOMO rally to the downside. Why is that likely going to happen? And how to best position your portfolio to profit? 40 year investment pro Steve Reitmeister explains all in the article that follows.

Stocks got darn close to a break out below the 200 day moving average (3,940) on Friday. From there the S&P 500 (SPY) bounced a little into the finish line at 3,970.

Bears cannot yet claim victory…nor can bulls.

This means the war for the soul of the stock market still lies in the days ahead. My money rides on a break to the downside…but crazier things have happened. So, let's review where things stand now and thus how we should position our portfolios to profit.

Market Commentary

I love this CNBC headline from Friday:

"Dow drops more than 400 points as a hot inflation report rattles Wall Street"

Let me give you a more playful paraphrased version:

"Investors With Heads in the Sand Finally Discover that Inflation is Too Hot"

I have nearly gotten carpel tunnel syndrome writing commentary after commentary on all the obvious clues about high inflation and very hawkish Fed intentions. In fact, my article from Wednesday recounts 3 high and tight strikes knocking bulls off the plate.

Yet clearly some investors needed to see a 4th strike thrown today to get the message that the bullish start to this year was a mirage. That being the Fed's favorite inflation measure, Personal Consumption Expenditures, coming in at +0.6% month over month.

That is well above expectations. And points to 7% annual inflation pace if it continued on this trajectory when the Fed is targeting 2%.

Now let's marry this with other news from the week to point out why investors are right to run for the hills.

On Wednesday we got served up the Fed Meeting Minutes which got investors hitting the sell button once again. That is because those who didn't vote for a 25 point hike actually wanted a much more hawkish 50 points.

No doubt the outspoken Fed President Bullard was one of those seeking higher rates given insights captured in this article. His view is to get rates much higher, much faster to more quickly stamp out inflation and then press pause for an extended period time.

There is no way to read these fresh Fed signals, along with recent signs of inflation still being too hot, and not appreciate the false start to the year by bulls. That upward move is premature when indeed inflation is not under wraps…leading the Fed to keep restrictive hawkish policies in place much longer than expected…which only increases the odds of recession and extension of bear market.

Before claiming victory for the bears, I need to be forthcoming on the following bullish indicators. That being some modest signs of economic improvement of late. Or at least, not as terrible as some recent readings.

Looking back to Tuesday we got a PMI Flash report back slightly in expansion territory at 50.2 from the previously

anemic 46.8. This was mostly coming from improved results in the services space. However, manufacturing continues to look very week at 47.8 when 49 was the forecast.

Then on Thursday we got word that the Chicago Fed National Activity Index bounced nicely form -0.46 to +0.23%. That is the strongest reading for this broad based economic indicator since July.

Before you cheer too loud, please consider that the makers of this index warn against reading too much into any monthly report. Instead, they recommend reviewing the 3 month moving average which smooths out the results. There we find that the reading is still negative at -0.10.

So, what is more important…the slightly good news on the economic front…or the troubling signs of still sticky inflation that will keep the Fed on their hawkish path?

Both are of interest, but clearly the focus on inflation and the Fed is what is moving the market. That is because their goal is to "*lower demand*" to tamp down inflation back to 2% target. Lowering demand is just a fancy term for slowing down the economy which indeed carries the risk of recession.

This brings us back to an equation we discussed a few weeks back that I will slightly revise for today's discussion:

Higher Rates on the Way (5%+)

+

Higher Rates in Place til at Least End of 2023

+

6-12 months of lagged economic impact

+

Already weak economic readings

=

Fertile soil to create recession and thus extension of the bear market with lower lows on the way.

Putting it altogether, bears have wrestled back control of the price action since the market made highs at the beginning of February. This 5% drop for the S&P 500 comes hand in hand with a clear rotation in favor of Risk Off groups like Consumer Defensive, Utilities and Healthcare.

Bulls can be as stubborn as bears. And no doubt they were having a grand ol time in January and may not want to so quickly throw in the towel on their upside aspirations.

However, a clear break below the quite important 200 day moving average for the S&P 500 (SPY) at 3,940 will usher in some serious FOMO to the downside as more investor hit the sell button in unison.

If you already have a portfolio built to survive a bear market…then you are all set.

If not, then I hope this commentary has you considering an approach that is well suited for increased likelihood of more downside ahead.

What To Do Next?

Discover my brand new "***Stock Trading Plan for 2023***" covering:

- Why 2023 is a *"Jekyll & Hyde"* year for stocks
- How the Bear Market Comes Back with a Vengeance
- 9 Trades to Profit Now
- 2 Trades with 100%+ Upside Potential When New Bull Emerges
- *And Much More!*

Stock Trading Plan for 2023 >

Wishing you a world of investment success!

Steve Reitmeister…*but everyone calls me Reity (pronounced "Righty")*
CEO, StockNews.com and Editor, Reitmeister Total Return

SPY shares were unchanged in after-hours trading Friday. Year-to-date, SPY has gained 3.65%, versus a % rise in the benchmark S&P 500 index during the same period.

About the Author: Steve Reitmeister

Steve is better known to the StockNews audience as "Reity". Not only is he the CEO of the firm, but he also shares his 40 years of investment experience in the Reitmeister Total Return portfolio. Learn more about Reity's background, along with links to his most recent articles and stock picks.

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