



Rock and a Hard Place

The Federal Reserve is between a rock and a hard place on interest rates.

It doesn't take a genius to figure that out.

However, this week I did want to share some thoughts from a highly regarded – possibly genius – market observer.

Mohamed El-Erian.

Mr. El-Erian was a bigwig at Pimco back when the firm was the bond king of the world.

I saw an interesting post on his Twitter feed that describes the problem the Federal Reserve finds itself mired in.

It's all about credibility.

The Federal Reserve lost credibility a long time ago.

For example, just before the biggest collapse in modern history in 2008, the Federal Reserve talked about "green shoots in the economy."

The Fed has talked about the "goldilocks" economy right before recessions and major stock plunges.

A "goldilocks" economy is neither too hot nor too cold.

Most recently, the Federal Reserve has talked about "transitory" inflation.

Wrong again.

I wonder why they have any credibility left, and Mr. El-Erian did an excellent job briefly describing the situation.

Here is what we wrote.

Going into the last FOMC policy meeting, I felt strongly that the Fed should not downshift from 50 to 25 basis points. Now that it has, it is much harder to come up with a good policy option for the meeting that concludes on March 22.

This is not just about the balanced economic arguments cited above. It is also about policy credibility.

Resuming 50-basis-point increases and essentially negating much of the previous forward policy guidance would constitute yet another significant hit to the damaged standing of the Fed. But not responding to a set of unfavorable inflation data surprises is also bad for its credibility.

These multiple dilemmas illustrate a much bigger, longer-lasting and consequential policy challenge – that of operating far from the set of first best policy responses. It is the result of the multistage policy error in which the Fed first mischaracterized inflation as transitory

He's confirming the credibility issue in this post.

The data suggests rates must go higher and stay elevated longer than the market had priced in.

Federal Reserve Chairman Jerome Powell said as much last week (after El-Erian expressed his views).

Worse yet, some data points suggest a soft landing is a low-probability event.

Six recent jolts have hurt the possibility of the soft landing that the Fed has sought, according to Summers:

- Seasonal revisions to the consumer price index that took the downward trend of inflation out of the data for the last several months of 2022.
- The CPI for January showed an acceleration in inflation.
- The personal consumption expenditures price index also picked up.
- January economic indicators “read strong.”
- Wage figures “no longer show the kind of reductions that we had been expecting.”
- The jump in Treasury yields, with 10-year rates climbing past 4%

Market views which led to a massive rally in stocks to start the year, are beginning to evolve.

The market was under pressure before Silicon Valley Bank blew up.

The failure of the 16th largest bank in the U.S. adds more pressure to the downside.

Until the bank implosion, the market focused entirely on interest rate moves.

Now the focus will broaden to whether where there is smoke, there is fire, and there could be a run on regional banks as people shift deposits to only the most prominent institutions.

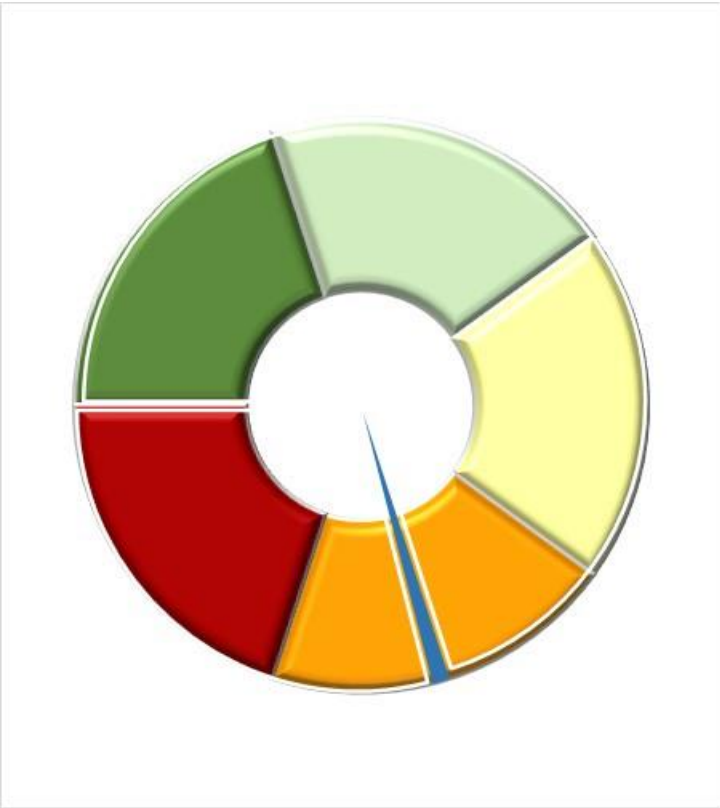
The Risk-O-Meter moved into the "danger zone" this week, although not to an outright "sell."

I have been warning since January that the market was overbought and to not get complacent.

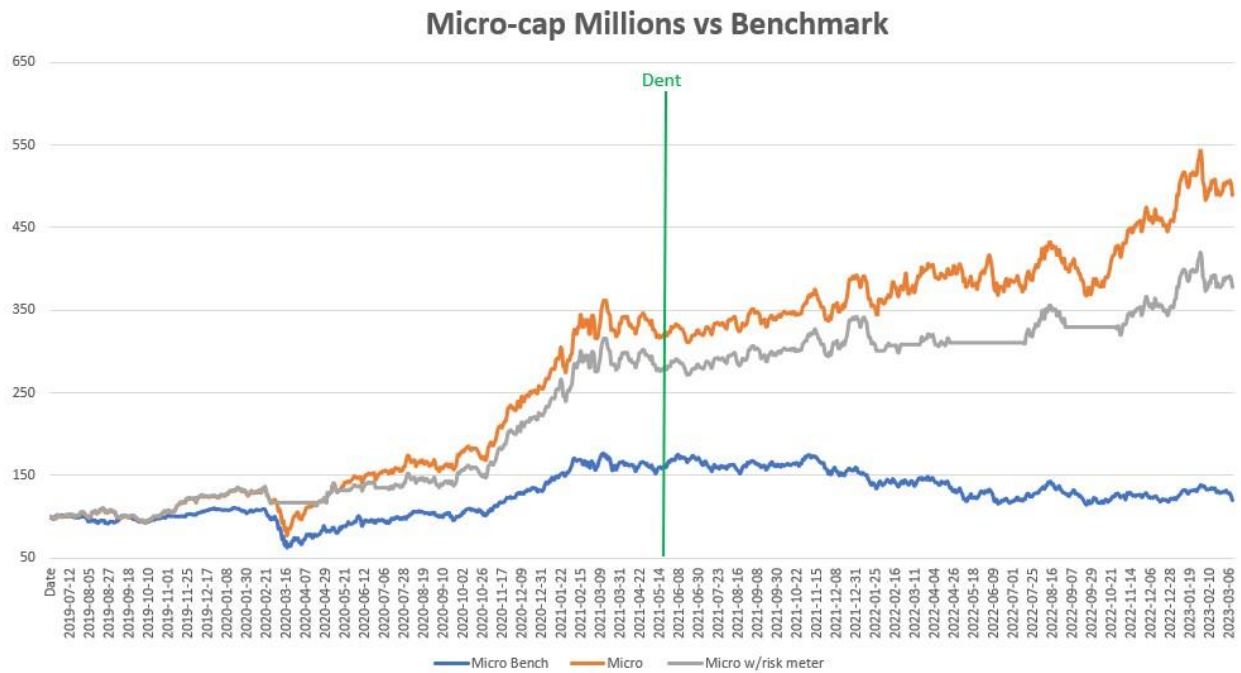
That's usually when awful news causes the most damage.

There's a shift in interest rate expectations and plenty of bad news.

When the market gets deeply oversold again, there will be opportunities to buy stock.



Micro-Cap Millions



There is one trade this week.

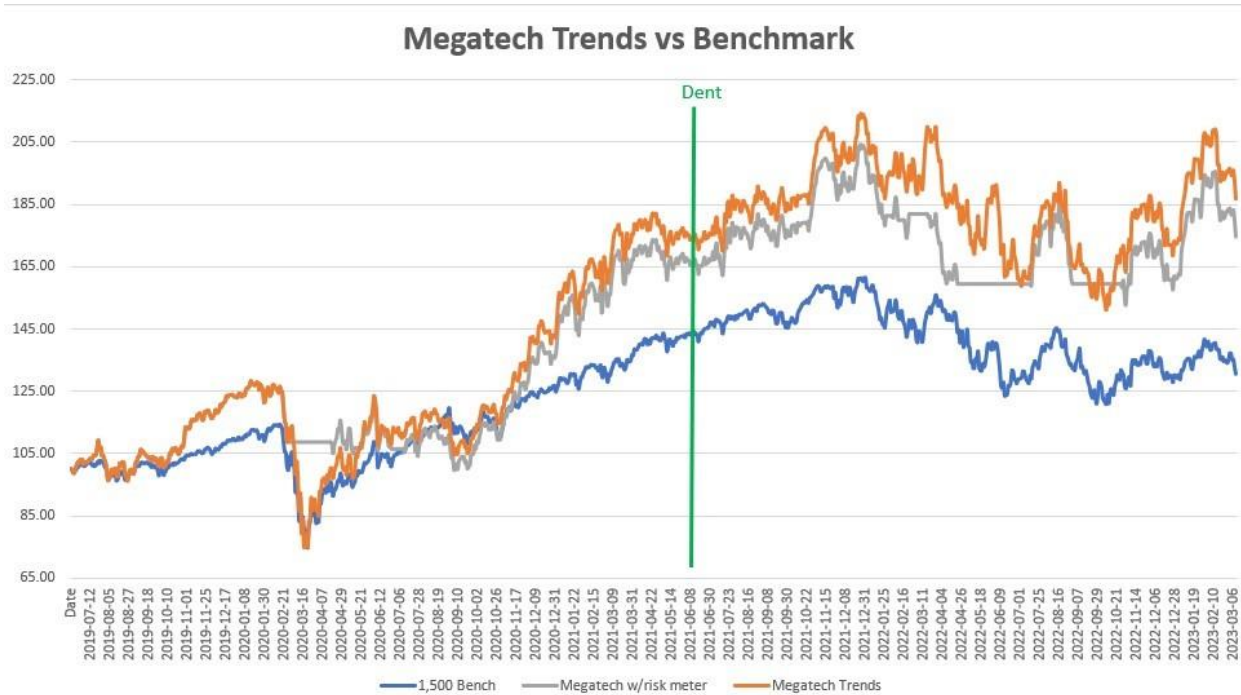
Buy Climb Global Solutions, Inc. (Nasdaq: CLMB)

Sell IRadimed Corp. (Nasdaq: IRMD)

Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
BELFB	Bel Fuse, Inc.	23.41%	200	Technology
CLMB	Climb Global Solutions, Inc.	0.00%	new	Technology
DPSI	DecisionPoint Systems, Inc.	-16.49%	60	Technology
EDAP	EDAP TMS SA	9.33%	28	Healthcare
KMDA	Kamada Ltd.	7.97%	81	Healthcare
KNSA	Kiniksa Pharmaceuticals Ltd.	-13.71%	123	Healthcare
MGIC	Magic Software Enterprises Ltd.	-12.14%	21	Technology
SPOK	Spok Holdings, Inc.	12.69%	11	Telecommunications
UTMD	Utah Medical Products, Inc.	2.71%	11	Healthcare
UUU	Universal Security Instruments, Inc.	-6.20%	11	Technology

Mega-Tech Trends



This week there are only eight stocks in the model. That results in two "buys" and four "sells." More stocks needed to meet the criteria to reach ten stocks. It happens from time to time. Only eight stocks were chosen even when we loosened the criteria to see what would happen. I don't know what to make of this other than that risks in mid-cap stocks increased from a week ago.

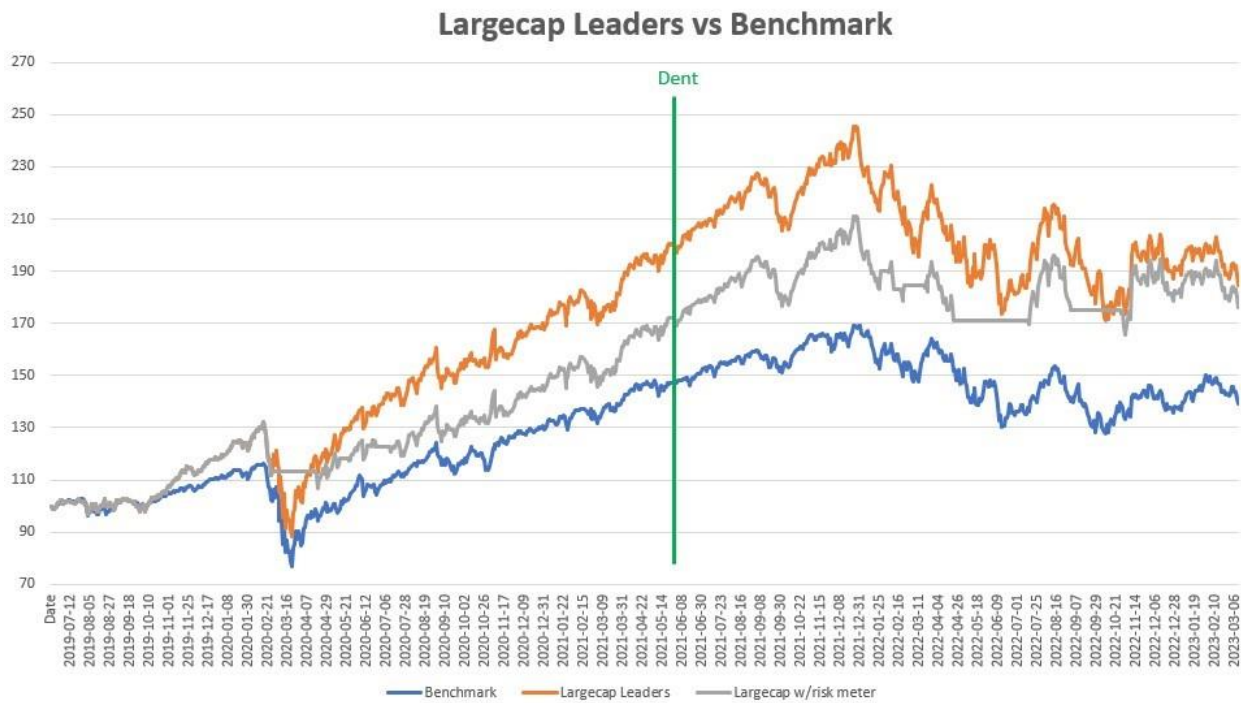
Buy Diodes, Inc. (Nasdaq: DIOD) and OneSpan, Inc. (Nasdaq: OSPN)

Sell Axcelis (Nasdaq: ACLS), CSG Systems (Nasdaq: CSGS), OraSure (Nasdaq: OSUR), and Shutterstock (NYSE: STK)

Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
BDC	Belden, Inc.	11.84%	123	Technology
CRUS	Cirrus Logic, Inc.	-1.55%	32	Technology
DGII	Digi International, Inc.	-4.87%	4	Technology
DIOD	Diodes, Inc.	0.00%	new	Technology
FN	Fabrinet	-3.19%	28	Technology
JBL	Jabil, Inc.	-1.75%	11	Technology
OSPN	OneSpan, Inc.	0.00%	new	Technology
TDC	Teradata Corp.	-10.60%	21	Technology

Large Cap Leaders



There is one trade this week.

Buy Salesforce, Inc. (NYSE: CRM)

Sell Fortinet, Inc. (Nasdaq: FTNT)

Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
ADBE	Adobe, Inc.	-9.82%	21	Technology
ADI	Analog Devices, Inc.	6.40%	39	Technology
CRM	Salesforce, Inc.	0.00%	new	Technology
CSCO	Cisco Systems, Inc.	-2.29%	95	Technology
FDS	FactSet Research Systems, Inc.	-6.11%	52	Technology
KEYS	Keysight Technologies, Inc.	-12.52%	102	Technology
MSI	Motorola Solutions, Inc.	1.97%	32	Technology
NOW	ServiceNow, Inc.	-12.10%	32	Technology
ORCL	Oracle Corp.	-3.64%	46	Technology
PAYC	Paycom Software, Inc.	-15.26%	28	Technology

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