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Athena Financial Solutions

How will the markets respond to the more hawkish FOMC?

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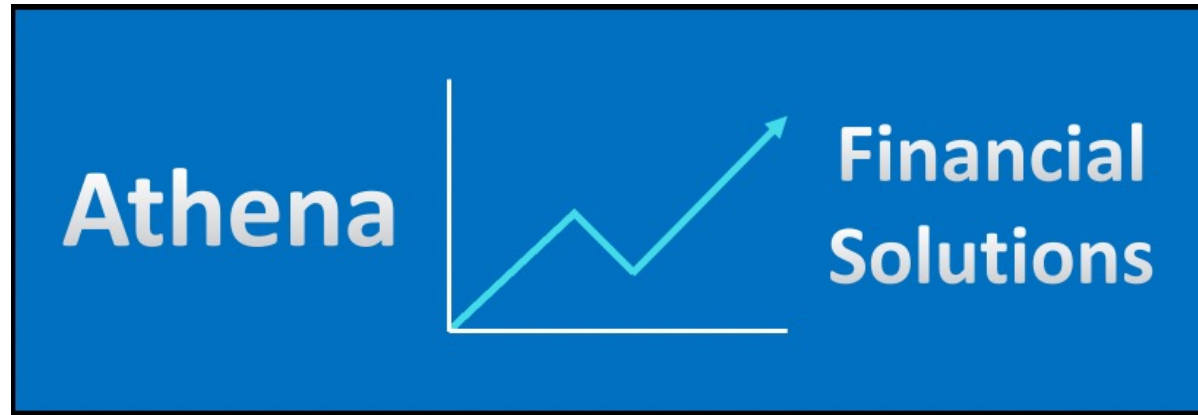
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How will the markets react to a more hawkish Federal Reserve?

James Brodie C.M.T.



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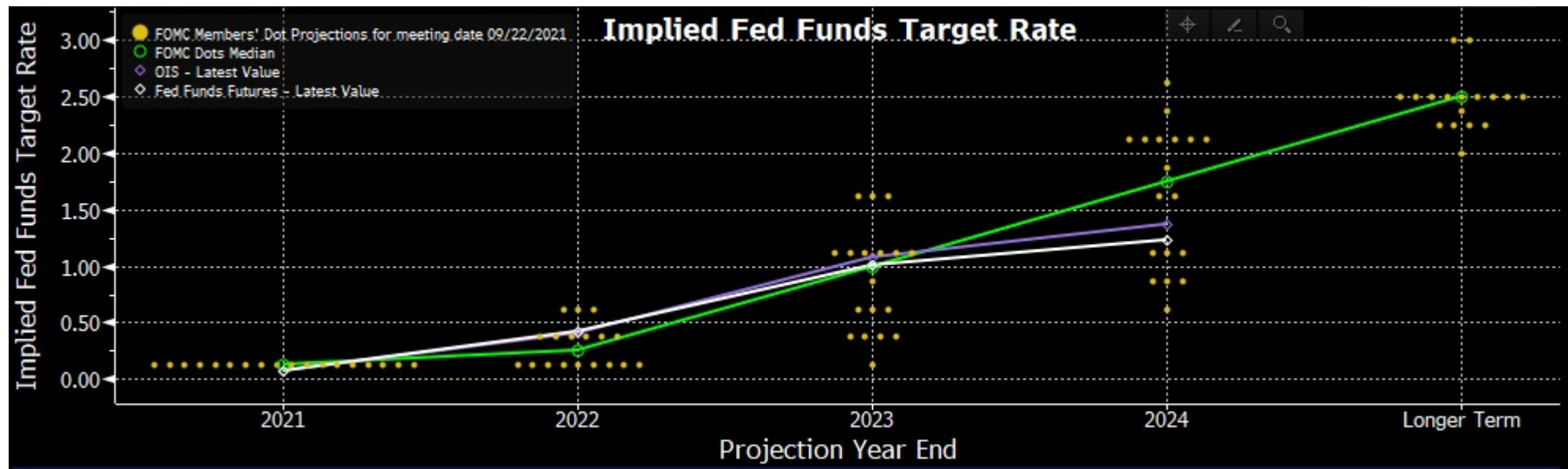
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The U.S. FOMC central bank meeting in September was more hawkish than expected with FOMC board members predicting 7 rate hikes by 2024 (FOMC board member dot plot) while the Eurodollar/STIR curve was only pricing 3-4.

Chair Jeremy Powell made it clear that the 'taper' of \$120 billion per month asset purchases 'may soon be warranted'. He also said, 'substantial progress on jobs has been met', 'substantial progress on inflation has been met' and 'gradual tapering to conclude around mid-2022.'

In this presentation, we will look at the market reaction to this more hawkish tone from the Federal Reserve. The charts, the trends and the risks.

Federal Reserve 'unusually' more aggressive tightening path to 2024



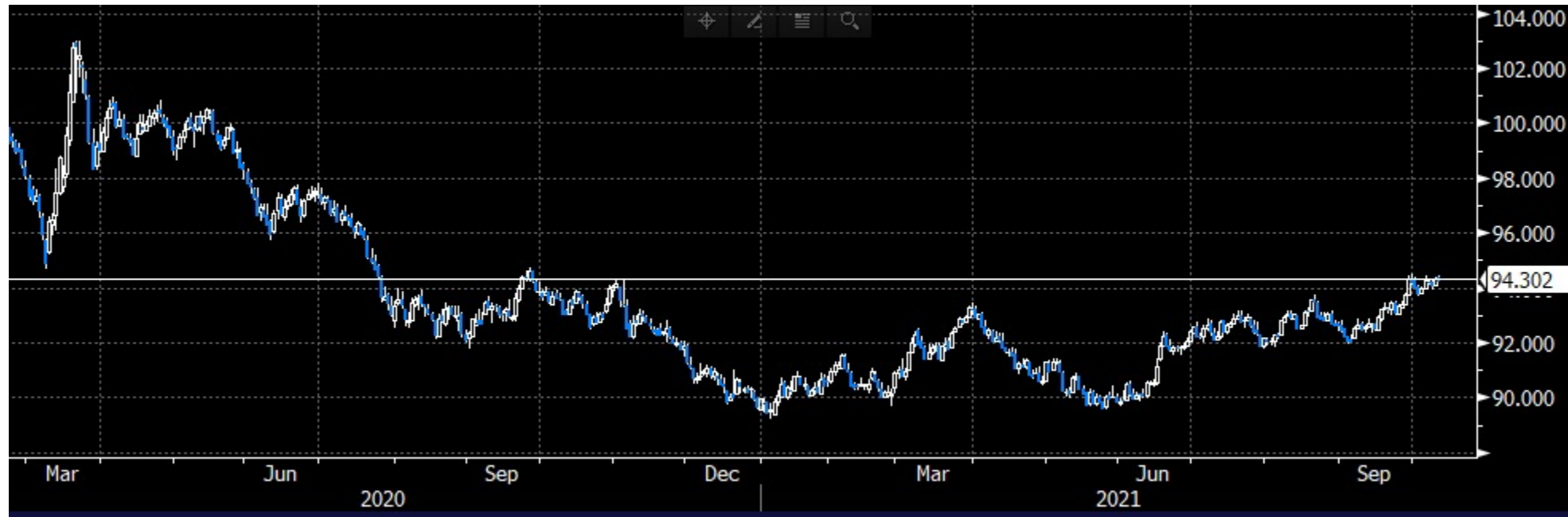
U.S. 10 year yield

Breaking higher, first target 1.77%



Source: Bloomberg

Dollar index trending higher, but at key resistance



Source: Bloomberg

U.S. dollar strength (and EURO weakness)

EURUSD – already broken key support levels



Source: Bloomberg

1. Non-bank dollar denominated debt in emerging economies \$ 3.7 trillion (Bank for International Settlements)
 - double 2010 levels
2. Commodities priced in dollars
3. Head wind for equity U.S. markets

Inflation is 'transitory' or are we heading towards stagflation?

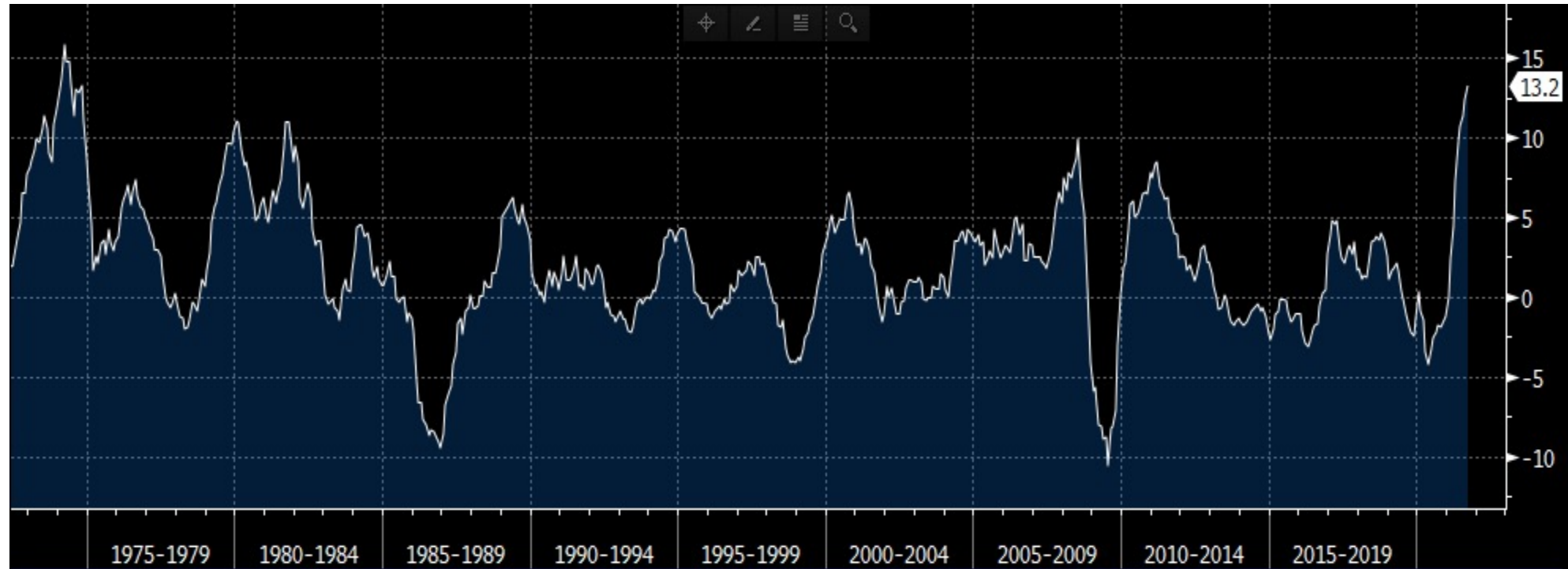
- German import prices hit highest level since 1981
- Eurozone inflation hits 10-year high
- Federal reserves preferred PCE inflation gauge posting its fastest annual gain in 30 years
- Aluminium prices hit 10-year high
- UK forward electricity prices +1000% over 3 months
(Data sources: Bloomberg)

Source: Refinitiv, Eurostat



Wholesale prices + 13.2% YOY (highest since 1974)

Industrial production September -4.0% MoM



Source: Bureau of labor statistics, Bloomberg

UN food and agriculture world food price Index YoY

Highest levels since 2010-11 Arab Spring uprisings



Front contract Newcastle coal future



(Source : Bloomberg)

But JOLTS (job openings by industry total) – continues at a historic high

JOLTS definition - Newly created positions, unoccupied and those about to become vacant



Source: Bureau of labor statistics, Bloomberg

Will Central banks tighten (after the FED taper)?

- Inflation handbrake
- Global energy prices
- Global manufacturing growth stalling
- Tax increases?

- China credit impulse declining
- China credit markets collapsing
- China tech stocks in bear market

- **After tapering would central bank tightening be a policy mistake?**

Economics

Goldman Cuts U.S. Growth Forecast as Consumer Sees 'Harder Path'

New Economy Daily

Stagflation Threatens to Upend the Global Economy

Chinese real estate developers

- Oct 4th Fantasia default
- Oct 11th Evergrande coupon not received
- Oct 15th Xinyuan will pay just 5% of note
- Oct 18th Sinic wont pay principle & interest due
- Modern Land has asked for 3 month extension

(Source: Sofia Hoeta e Costa, Bloomberg Business)

Contagion across real estate developers



Source: Bloomberg

Measures the impacts of new lending increments, or acceleration of credits, to GDP growth.



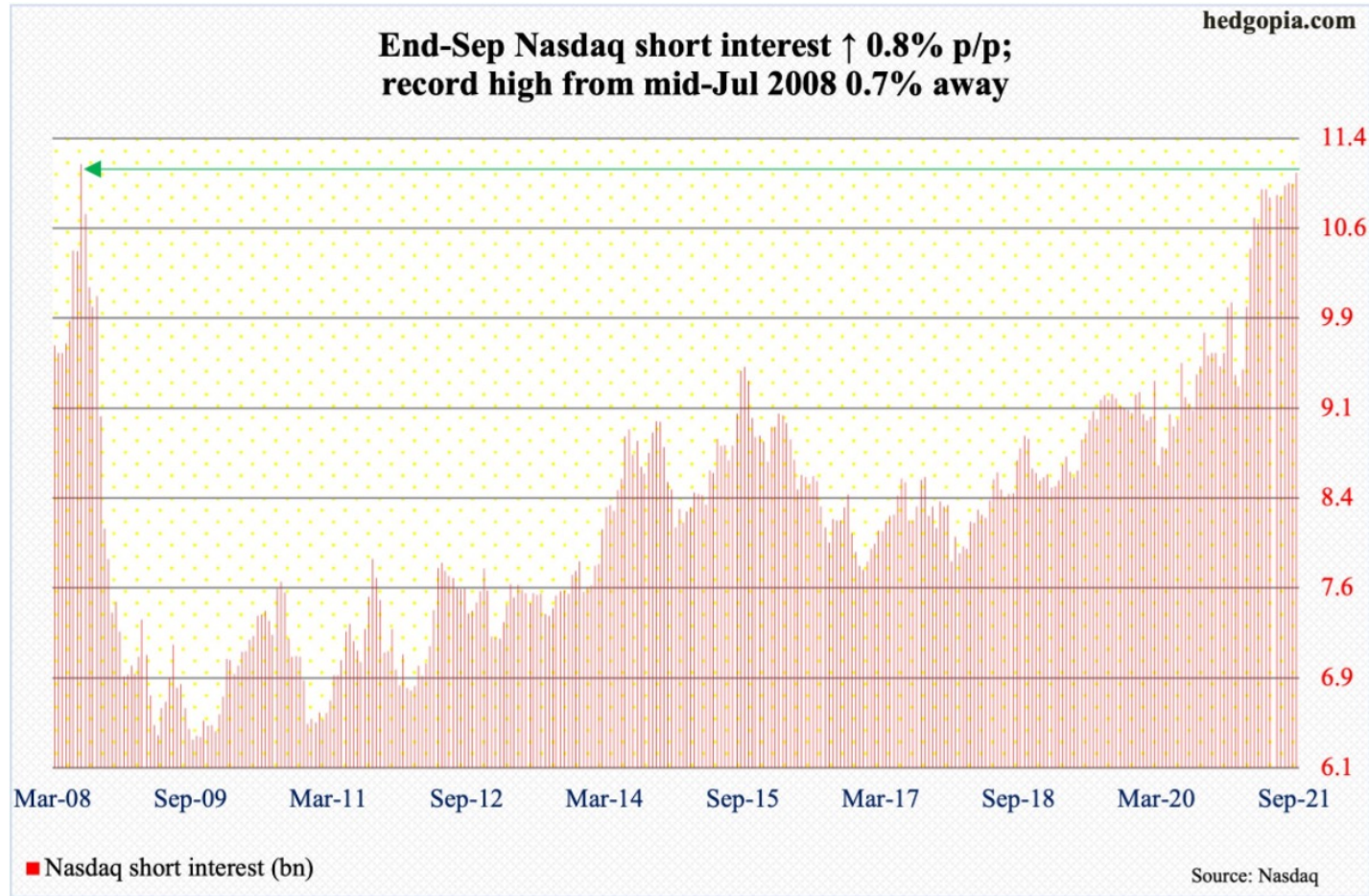
Source: Bloomberg

Nasdaq vs China Tech ETF

Temporary or permanent?



Nasdaq short interest just 0.7% from July 2008 record high



Source: Hedgopia, Nasdaq

NYSE composite index vs % stocks closing above 200dma

Breadth continues to weaken



(Source: Bloomberg)

Trend line support and 50 dma broken. Bulls need 200 dma to hold at 4,156.



(Source: Bloomberg)

Key risk levels 2,127 support versus 2350 resistance



(Source: Bloomberg)

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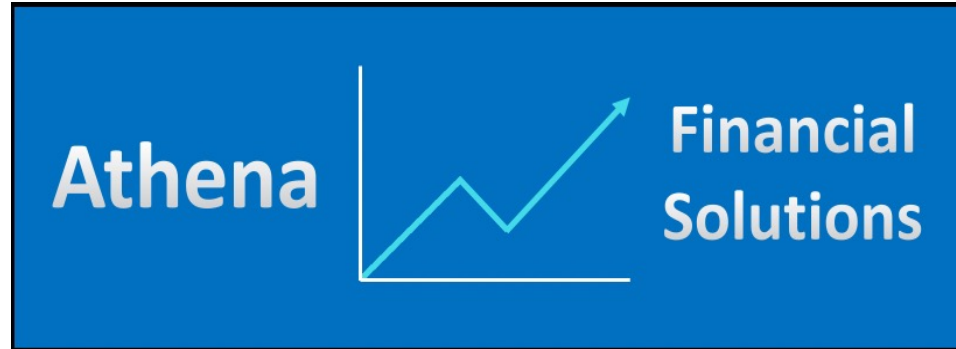
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<p>CHAPTER 1</p> <p>Introduction to fundamental analysis, technical analysis and behavioural finance</p> <p>The first chapter introduces fundamental analysis, technical analysis, behavioural finance and risk management. These are discussed with reference to current market structure, trends, themes and risks, immediately highlighting trading strategies and risk management techniques.</p> <p>Duration 90 Minutes</p>	<p>CHAPTER 1</p> <p>Dow theory, intermediate trends and chart construction</p> <p>This tutorial looks at some key technical analysis concepts such as Dow Theory, trend lines and different chart types. Python back testing is used to support key concepts and Bloomberg charts are used to highlighting trend lines and candlestick price action.</p> <p>Duration 50 Minutes</p>	<p>CHAPTER 1</p> <p>Building a trading process</p> <p>This tutorial introduces the importance of building a disciplined process using the tools and concepts covered on the course. Correlations between markets are also discussed and the first of many trading rules focusing on disciplined risk management.</p> <p>Duration 80 Minutes</p>
<p>CHAPTER 2</p> <p>Technical analysis concepts and trading strategies</p> <p>Chapter 2 continues to build on technical analysis concepts, trading strategies and risk management with a focus on Elliot wave theory, volume & open interest, Fibonacci analysis, volatility (Average True Range) and market psychology.</p> <p>Duration 60 Minutes</p>	<p>CHAPTER 2</p> <p>Reversal patterns and trading strategies</p> <p>This tutorial looks at trend reversals from the perspectives of price action, market psychology and also trading strategies.</p> <p>Duration 32 Minutes</p>	<p>CHAPTER 2</p> <p>Continuation patterns and trading strategies</p> <p>This tutorial looks at the looks at trend continuation patterns. Again, the focus is not so much on pattern recognition but the market psychology behind the price action, and above all identifying powerful risk/reward trading strategies.</p> <p>Duration 56 Minutes</p>
<p>CHAPTER 3</p> <p>Identifying trends, moving averages and trend following strategies</p>	<p>CHAPTER 3</p> <p>Trend following strategies</p> <p>In this tutorial we build and back test a trend following trading strategy in Python to highlight both its</p>	<p>CHAPTER 4</p> <p>Oscillators, Bollinger bands and mean reverting strategies</p> <p>In this tutorial we discuss oscillators, Bollinger</p>



THANK YOU!

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