



Market Review – Summer 2002

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Major Economic/Market Uncertainties

- ▶ Inflation Severity Peaked & declining, Stagflation, other?
- ▶ War in Ukraine Large impact on inflation, energy, risks
- ▶ Recession Modest or Severe?
- ▶ Type of Landing Hard or Soft?
- ▶ Duration 2003 at least; Furman estimates 2 yrs+
- ▶ Deficit Spending Any more bills from Congress?
- ▶ Congressional Change Will some initiatives get defunded?
- ▶ Other influences Bonds in a Bear market, Black swans?

Varying Commentary from Market

- ▶ Selected several commentators to illustrate the gamut of opinions on which way the market will react to these stimuli
- ▶ Some are purely quantitative while others prefers words or ratings to describe their view of playing the market
- ▶ Please ask any questions as we go through the slides

Market Analysis – RGB Capital

RGB Capital Group				
Stock Market Scorecard				
September 6, 2022				
	Current Signal	Indicator Rating		
	S&P 500 Historical Return			
<u>Indicator/Model</u>				
Primary Cycle Analysis:				
Secular Market Cycle	Bull Market	31.2%		
Cyclical Market Cycle	Bear Market	-22.8%		
Trend Analysis:				
Short-Term Trend Rating	Sell	Negative		
Intermediate-Term Trend Rating	Sell	Negative		
Long-Term Trend Rating	Sell	Negative		
Momentum Analysis:				
Short-Term Momentum Model	Sell	Negative		
Intermediate-Term Momentum Model	Sell	Negative		
Long-Term Momentum Model	Buy	Positive		
Fundamental Analysis:				
Economic Model	Hold	Neutral		
Earnings Model	Buy	Positive		
Monetary Model	Sell	Negative		
Inflation Model	Hold	Neutral		
Valuation Model	Sell	Neutral		
Credit Conditions Analysis:				
Short-Term Credit Conditions Model	Sell	Negative		
Intermediate-Term Credit Conditions Model	Sell	Negative		
Long-Term Credit Conditions Model	Sell	Negative		
Overbought/Oversold Analysis:				
Short-Term Overbought/Oversold Signal	Hold	Neutral		
Intermediate-Term Overbought/Oversold Signal	Hold	Neutral		
Long-Term Overbought/Oversold Signal	Buy	Positive		
Investor Sentiment Analysis:				
Short-Term Sentiment Model	Buy	Neutral		
Intermediate-Term Sentiment Model	Hold	Neutral		
Long-Term Sentiment Model	Buy	Positive		
The Weight of the Evidence Average: 4.02%				
S&P 500 average gain/annum from 11/16/1979: 8.78%				

Market Analysis – Delta Investment Mgt

- ▶ Peak Fed Funds rate now projected at 3.75%; investors expecting S&P 500 earnings to be \$220/sh in 2023, down from ~\$240
- ▶ 10-year yield climbed 26% in August from 2.58% to 3.26%; not only do rising rates suppress economic activity, but also place downward pressure on P/E multiples
- ▶ S&P 500 had bounced nearly 18% from its June-lows on the expectation the Fed might be near a pivot point of slowing rate hikes & potential rate cuts in 2023
 - ▶ This bullish expectation (pivot theory) has been shelved for now or at least pushed into 2023
- ▶ The Fed's policy of "forcefully" reducing demand via higher interest rates "will very likely" cause a softening of labor market conditions
 - ▶ Investors dislike this language, rising unemployment reduces tax revenues, raises unemployment benefit costs & worsens deficits
 - ▶ Going into November 8 election, this approach may be politically difficult to implement
 - ▶ It would not be surprising to see the Fed soften its hawkish language before then
- ▶ Stocks are very oversold with a low single digit number trading above their 10-day moving average; for now, macro-economic & geopolitical actions are dictating stock prices.
 - ▶ Near-term, the market will be volatile due to new inflation, interest rate & growth data as well as developments in Ukraine
 - ▶ Ukraine is a significant source of global energy & food inflation; as well as China with more lockdowns/real estate pain
- ▶ Technically, the Delta Market Sentiment Indicator (MSI) remains Bullish this week at 61.6
 - ▶ Atlanta Fed's GDP Q3 forecast jumped higher this week to 2.6 on stronger construction spending

Market Responses - WFA Guidance

Current tactical guidance				
Cash Alternatives and Fixed Income				
Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
High Yield Taxable Fixed Income	Cash Alternatives	U.S. Taxable Investment Grade Fixed Income	U.S. Short Term Taxable Fixed Income	
Developed Market Ex.-U.S. Fixed Income	U.S. Long Term Taxable Fixed Income	U.S. Intermediate Term Taxable Fixed Income		
		Emerging Market Fixed Income		
Equities				
Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
Developed Market Ex.-U.S. Equities	Emerging Market Equities	U.S. Small Cap Equities	U.S. Mid Cap Equities	U.S. Large Cap Equities
Real Assets				
Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
		Private Real Estate	Commodities	
Alternative Investments*				
Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
	Hedge Funds — Event Driven	Hedge Funds — Equity Hedge	Hedge Funds — Macro	
		Private Debt	Hedge Funds — Relative Value	
		Private Equity		

Source: Wells Fargo Investment Institute, August 15, 2022.

* Alternative investments are not appropriate for all investors. They are speculative and involve a high degree of risk that is appropriate only for those investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in a fund and for which the fund does not represent a complete investment program. Please see the end of the report for important definitions and disclosures.

Market Responses – VanEck Funds

- ▶ August 26, 2022, Jackson Hole: Powell pivoted away from the soft landing & told us to prepare for pain
 - ▶ “While higher interest rates, slower growth & softer labor market conditions will bring down inflation, they will also bring some pain to households & businesses; these are the unfortunate costs of reducing inflation”
- ▶ We believe that the final & most painful pivot has yet to come; that is when the Fed eases its fight against inflation & allows inflation to run above 2% for an extended period; this view is underpinned by the growing global debt bubble, requiring more & more stimulus to keep it from bursting
 - ▶ All attempts to reduce accommodative policies with higher interest rates & a smaller Fed balance sheet, will likely be short-lived & ineffective
- ▶ Milton Freedman said it best: “There’s only one way to stop inflation & that’s by having the government create less money & spend less money”
Fat Chance!
- ▶ The **inflationary forces will continue to overwhelm the disinflationary ones**, albeit to a lesser degree, & real assets, as natural beneficiaries of inflation, will continue to outperform
Buy RAAX

20 Market Responses – WSJ (1)

- ▶ Go to a 50/50 Blend
- ▶ The Volatility Factor
- ▶ The Rule of 120 for equity/debt ratios
- ▶ Focus on the Future; not the Past
- ▶ Don't Lock in Losses
- ▶ Rebalance within Equities
- ▶ Look for Earnings Resilience (Quality factor)
- ▶ Retirees, buy more bonds at a discount
- ▶ Stick to periodic rebalancing

20 Market Responses – WSJ (2)

- ▶ A New Flight to Quality
- ▶ Don't Just Do Something; Sit There
- ▶ Dividend Growth Strategy
- ▶ Make Incremental Shifts
- ▶ Get back to Your Equities Target
- ▶ Hi Quality Tech Firms Strategy
- ▶ Put Cash to Work
- ▶ Factor in Your Company Stock
- ▶ Lock in a Fixed Return (Alternative Investments)
- ▶ Align Holdings with Risk Tolerance
- ▶ *The underlying article to this slide is available on website*

Series of Market Insights – YCharts

- ▶ 7/29/22 [9-Chart Friday \(7/29/22\) - Compound Advisors](#)
- ▶ 8/8/22 [7-Chart Monday \(8/8/22\) - Compound Advisors](#)
- ▶ 8/23/22 [10-Chart Tuesday \(8/23/22\) - Compound Advisors](#)
- ▶ 9/4/22 [9-Chart Sunday \(9/4/22\) - Compound Advisors](#)

Anyone can sign up for these resources

Commodities – Goldman Sachs

- ▶ Current soft patch (9/1) a great entry point
- ▶ Commodities are best assets to own late cycle, where supply/demand balance is tight
- ▶ Physicals signal the tightest markets in decades
- ▶ Low inventories create backwardation, volatility & can cause XS returns above price appreciation
- ▶ Recent price weakness strengthens case for severe tightness later
- ▶ No guarantees
- ▶ Mostly energy, ag., livestock; not base metals or natgas

Conclusions

- ▶ The market is highly unpredictable
 - ▶ Inflation, unemployment & Fed actions will set the pace
- ▶ Good chance of Stagflation & a Severe Recession
 - ▶ Powell cancelled the Soft Landing & indicated economic pain!
 - ▶ Severity suggests that it will take a long time to beat inflation!
- ▶ Good chance of another dip before market recovery
- ▶ Stay tuned to leading economic indicators
 - ▶ Stay defensive in your positions per the WSJ list of 20
 - ▶ Cash
 - ▶ Commodities
 - ▶ Buffer ETFs
 - ▶ Alternative investments to avoid public market gyrations
- ▶ *“Patience, not panic! Rules, not emotion” Scott Juds*