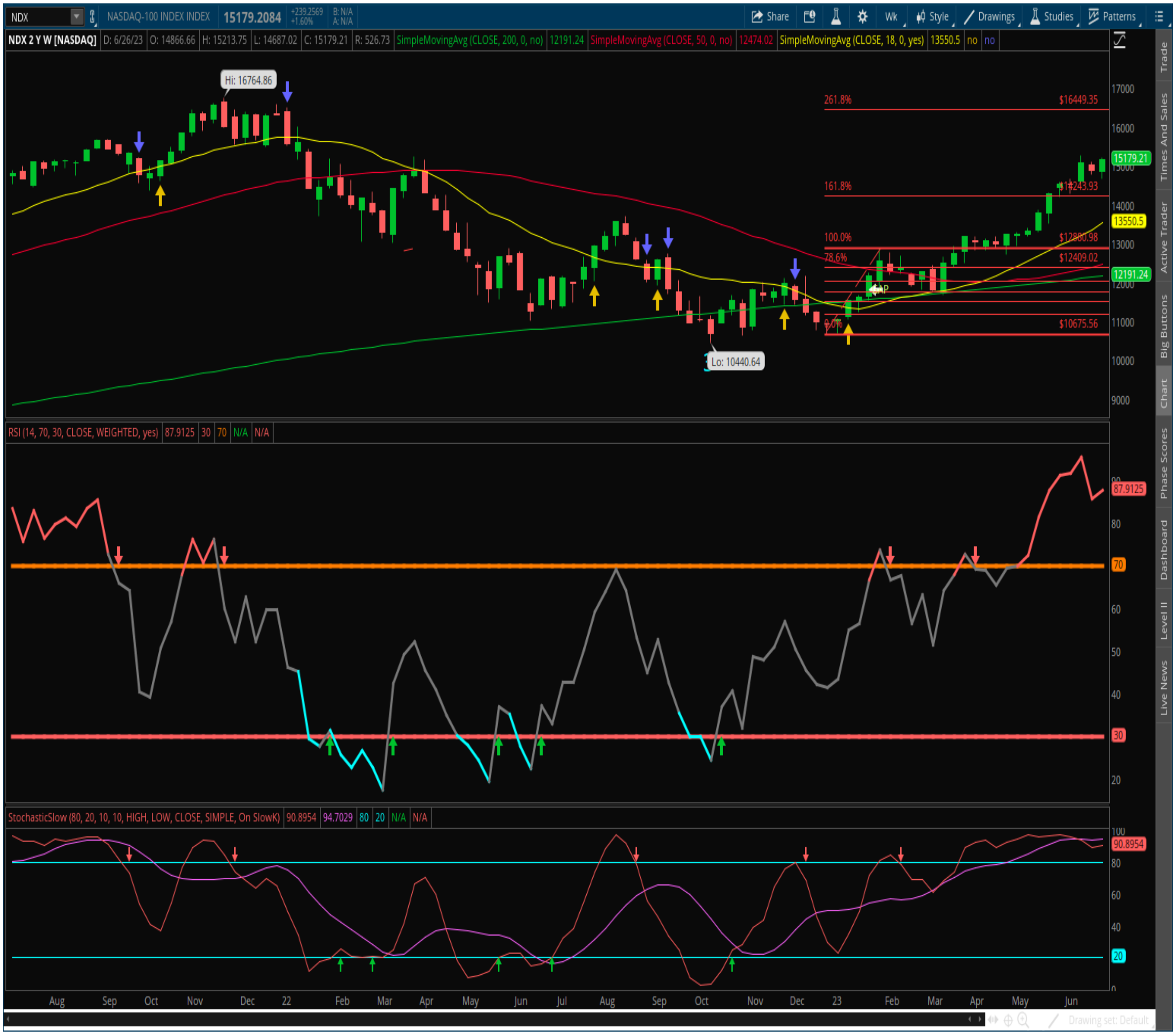
June 2023

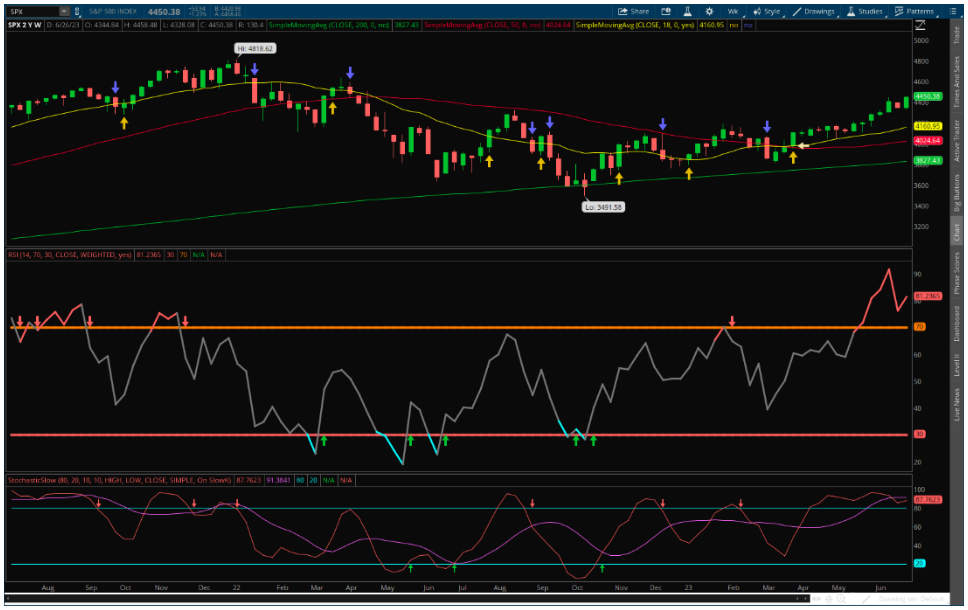
Stuart thank you for being a subscriber

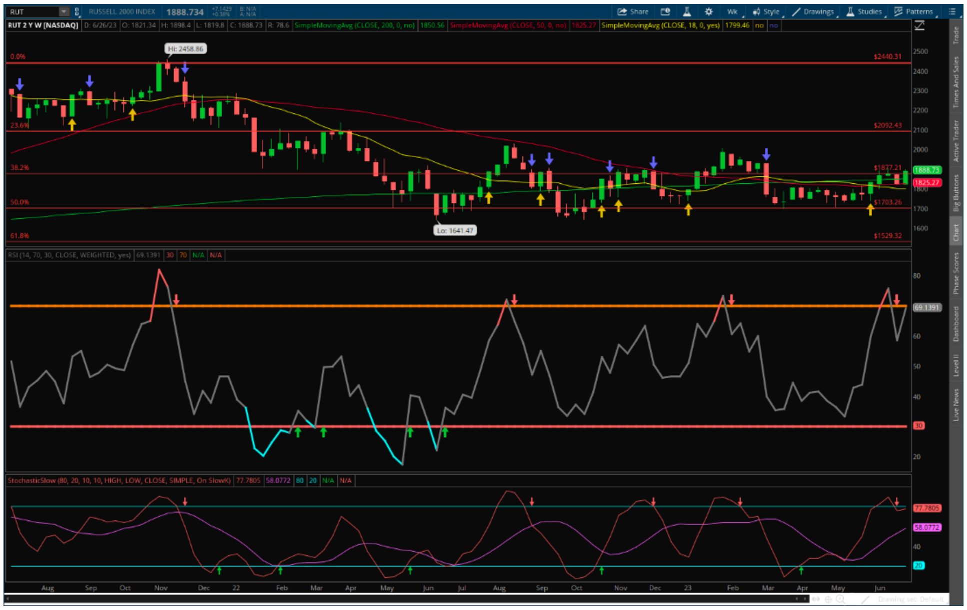
Apologies for the formatting issues in this Word version

Norway is a stunningly beautiful country that Nina and I got to see parts of in early June. A BIG THANK YOU to my friend Grant and his wife for hosting us for a few days; and Grant gave us a tour of his local Fjords, stunning, and a superb host. Grant has a number of sailing awards with Wolfpack Racing so we were thankful he took it mostly slow with us in the speed boat. We also visited the west coast to Bergen and Flam finishing in Oslo to fly home. Norway is an amazing country with a very high standard of living. I recommend you visit. Economically, Norway statistics bets most: Norway Indicators (tradingeconomics.com).

List member Trader Bill, who I have mentioned many times, was kind enough to send me the below charts for H1 from his trading platform. Bill has taken a two year weekly view using [RSI] and [Slow-Stochastics] on the NDX, S&P and Russell 2000. As you can see, the NDX and S&P RSI and Slow-Stochastics are clearly stretched. The Russell is not as bad, but I'll bet there are no AI companies in that index. What does this mean, potential for a downward movement is higher than an upward movement. Where does the next pull back go to, I'll guess at least the 18 Day MA (yellow line) @ ~13550, more likely the 50 Day MA (red line) @ ~12,410. If it breaks the 50 Day MA in a meaningful way, the 200 Day MA (green line) is the next support level @ ~12,191. These levels happen to be close to corresponding Fibonacci levels. It's been a good ride, but ask yourself, what fundamentals is it based on? Oh, AI hype is not a fundamental, at least not yet.



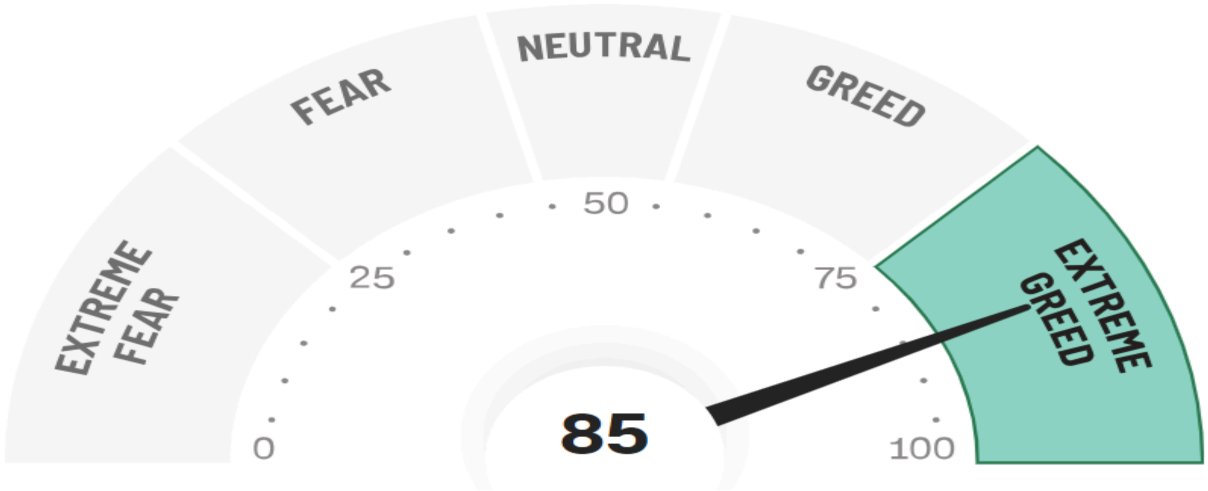




The fear and Greed index is also redlining.

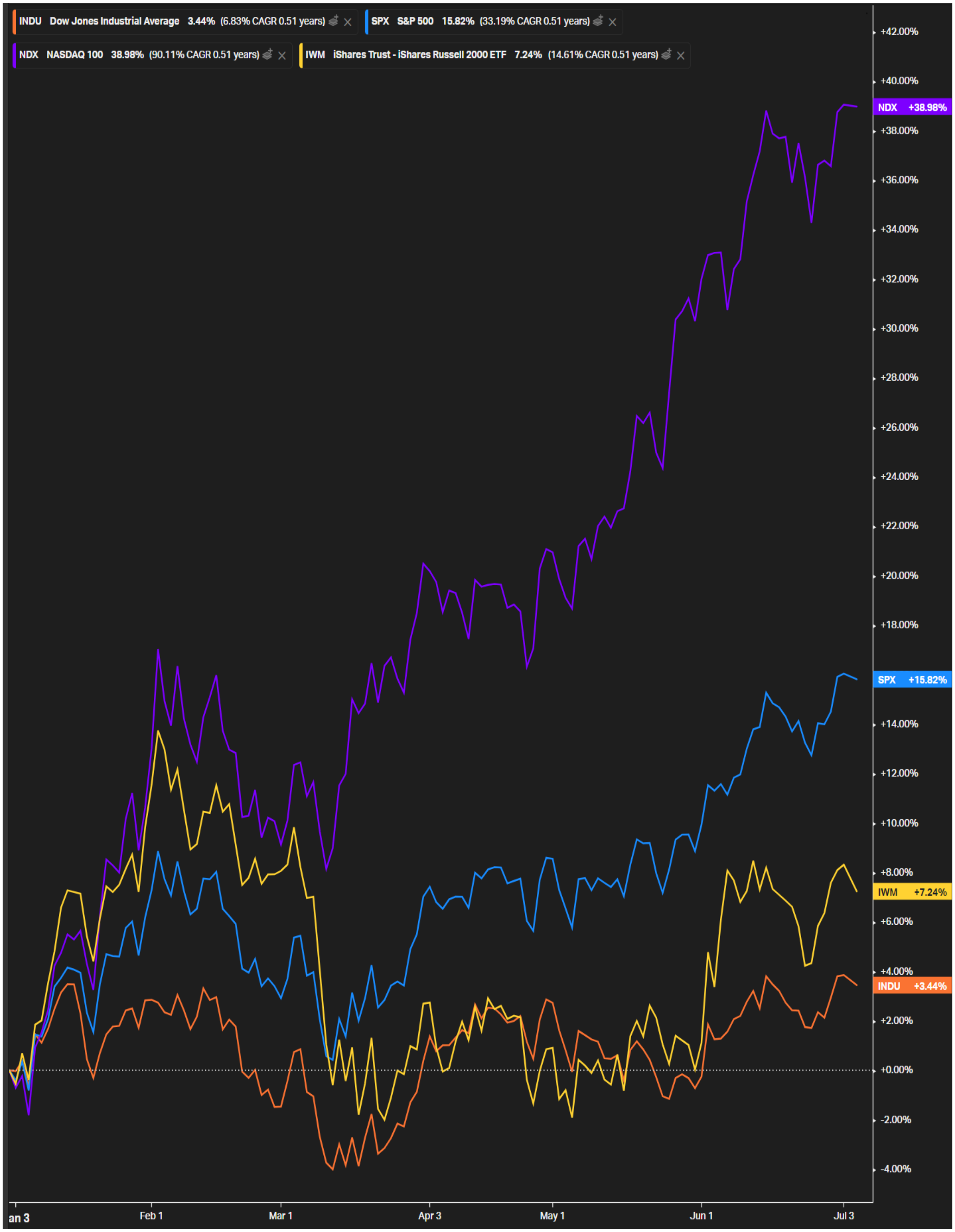
Fear & Greed Index

What emotion is driving the market now?
Learn more about the index



[Fear and Greed Index - Investor Sentiment | CNN]

Last month I highlighted a similar theme that markets were being driven by 7 companies, and divergence between the index's was an issue and something needed to give; it did give, and the Russell moved up, drug by its bigger cousins. [John Maynard Keynes], a famous economist, coin the phrase "The market can stay irrational longer than you can stay solvent." IMHO, June was one of those months. I continue to think markets, in the short term, have a higher probability to go down 5-10%. The second half of 2023 could be volatile without much direction, and this might be a good scenario. If the next pull back is coupled with some bad news, the 50- & 200-Day MA's come into play as I have mentioned above. I am just having a hard time understanding what will drive the markets higher except speculation and that typically does not end well.



INDU Dow Jones Industrial Average 3.44% (6.83% CAGR 0.51 years)
SPX S&P 500 15.82% (33.19% CAGR 0.51 years)
NDX NASDAQ 100 38.98% (90.11% CAGR 0.51 years)
IWM iShares Trust - iShares Russell 2000 ETF 7.24% (14.61% CAGR 0.51 years)
NDX +38.98%
SPX +15.82%
IWM +7.24%
INDU +3.44%
+42.00%
+40.00%
+38.00%
+36.00%
+34.00%
+32.00%
+30.00%
+28.00%
+26.00%
+24.00%
+22.00%
+20.00%
+18.00%
+14.00%
+12.00%
+10.00%
+8.00%
+6.00%
+4.00%
+2.00%
+0.00%
-2.00%
-4.00%
an 3
Feb 1
Mar 1
Apr 3
May 1
Jun 1
Jul 3

Strategy Updates:

- ST NDX in June posted a profit of 16.42% on 42 trades. Certainly reasonably. End of June YTD (Feb-June) it is up 187%.
- RST NDX SIM strategy redeemed itself in June posting a profit of 41.60 on 73 trades. It did well in June and May - June combined has a 10.06% profit. Reasonable but till in monitor mode given May losses.
- JTMA NQ is another SIM strategy I built last month. May was very encouraging delivering a loss of (72.01%) on 18 trades. You might recall, this a slower strategy that clearly could not get the direction correct. Will continue to monitor.
- STM NDX is another SIM strategy that I have been running for months. It is a more conservative version than the ST NDX. Turns out that more conservative is better. For June it posted a profit of 36.67% on 15 trades. End of June YTD (Feb-June) it was up 384%. Keep in mind, I trade futures and thus 20X leverage.
- The NDX Feb-June YDT is up approx. 28%. If I effectively divide the NQ futures to look like equity (384/20) I get 19.20% and the NDX has posted ~28% for the same period. I guess buy and hold in futures would have been better, albeit needing a larger capital base for drawdowns. Still, I'm happy with the returns.

In the News:

List member Ron summaries Federal Reserve Chairman Powel's comments in Portugal June 29th :

- A strong majority of FOMC expects it to be appropriate to hike rates 2 or more times by the end of the year.
- Labor market is very tight.
- Inflation is well above the goal currently.
- Extent of effects from tighter credit conditions remains uncertain.
- Cannot take resilience of financial system for granted.
- it will take time for the rest of the economy to feel the full impact of rate hikes to date.

There are 4 more Fed meetings to go for the year. The comments from Powell reaffirms June was just a "skip" and they will hike again in July.

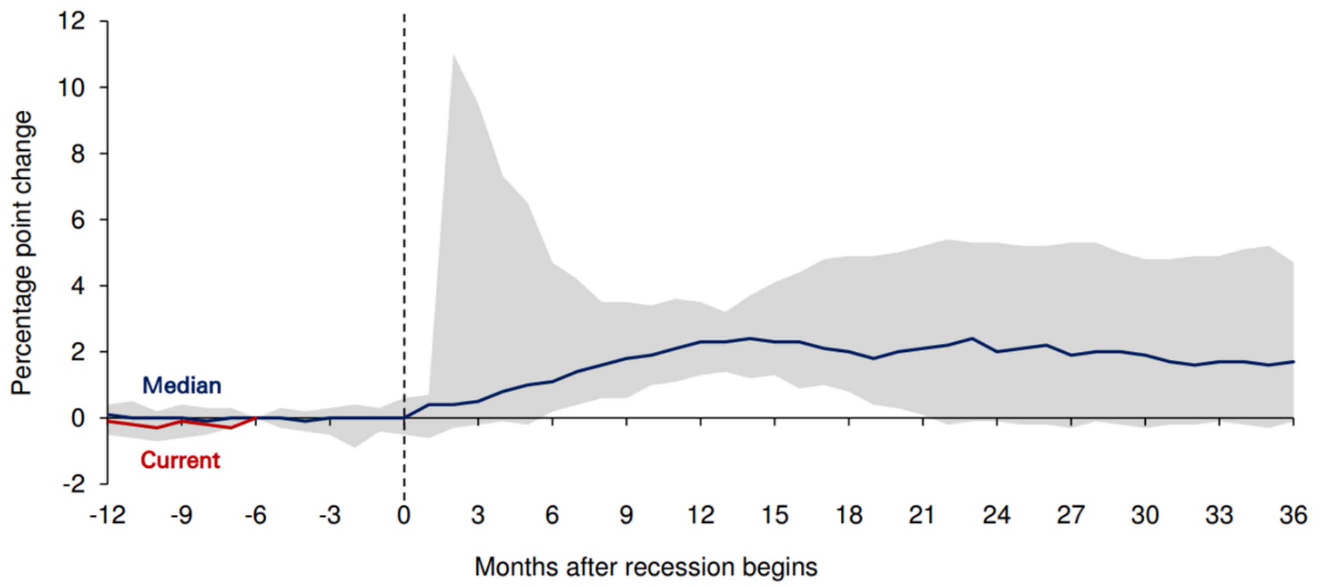
1.

Today we saw employment numbers which were interesting. DB addresses some employment questions.

Earlier this week we published our summer chart book entitled "**If a recession was 6 months away, would markets & data tell you?**" (link here).   With the US employment report published today, it's worth looking at what history tells us about unemployment leading up to a recession. As the first CoTD shows from our chartbook, in the 12 months leading up to a US recession, unemployment tends to be flat with very little variation around this. It then doesn't increase until the recession starts, and then rises quite sharply over the next 12-15 months on average.

So the fact that unemployment is stable right now doesn't mean that a recession isn't going to happen. Indeed, if a recession does start within the next 6 months, current readings are perfectly in keeping with the historical pattern. Unemployment isn't a leading indicator, so it's not one where you get clues beforehand. You'd only expect to see it rise once the recession is actually underway.

Figure 1: Median unemployment change around recessions (Rebased to 6 months before) since 1953

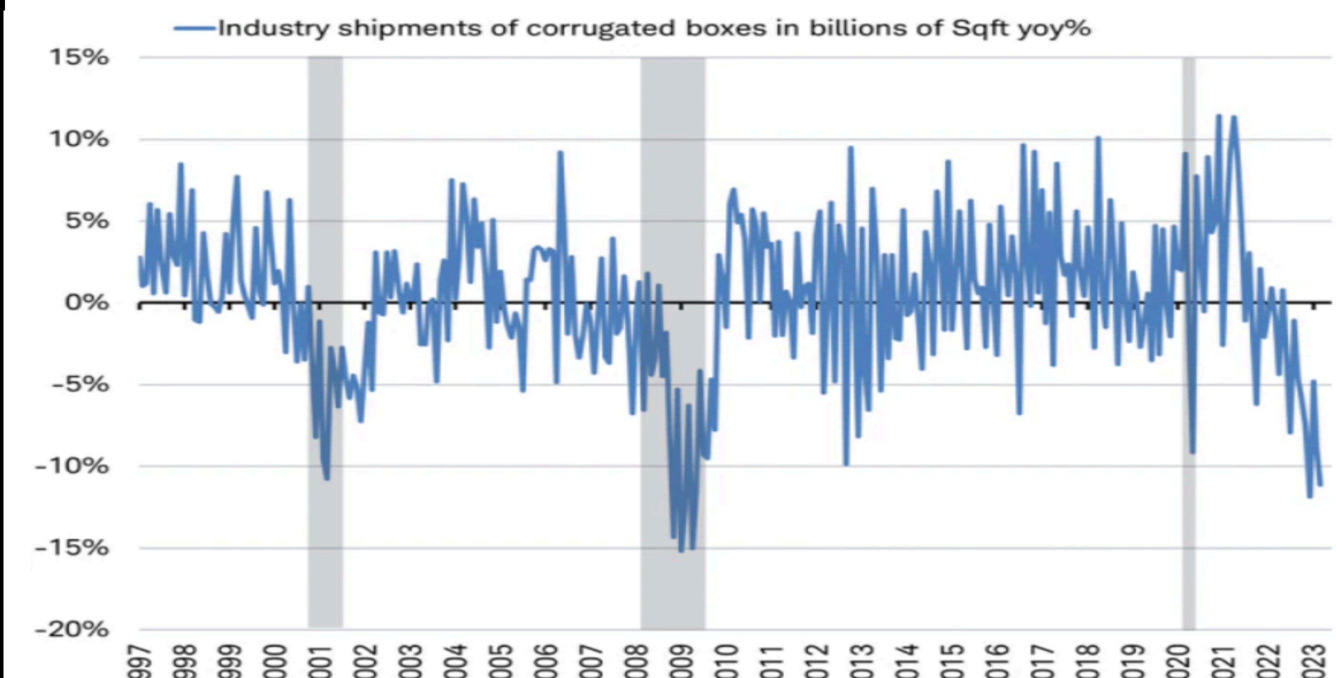


Source : BLS, NBER, Bloomberg Finance LP, Deutsche Bank

https://www.db.com/disclosures

2.

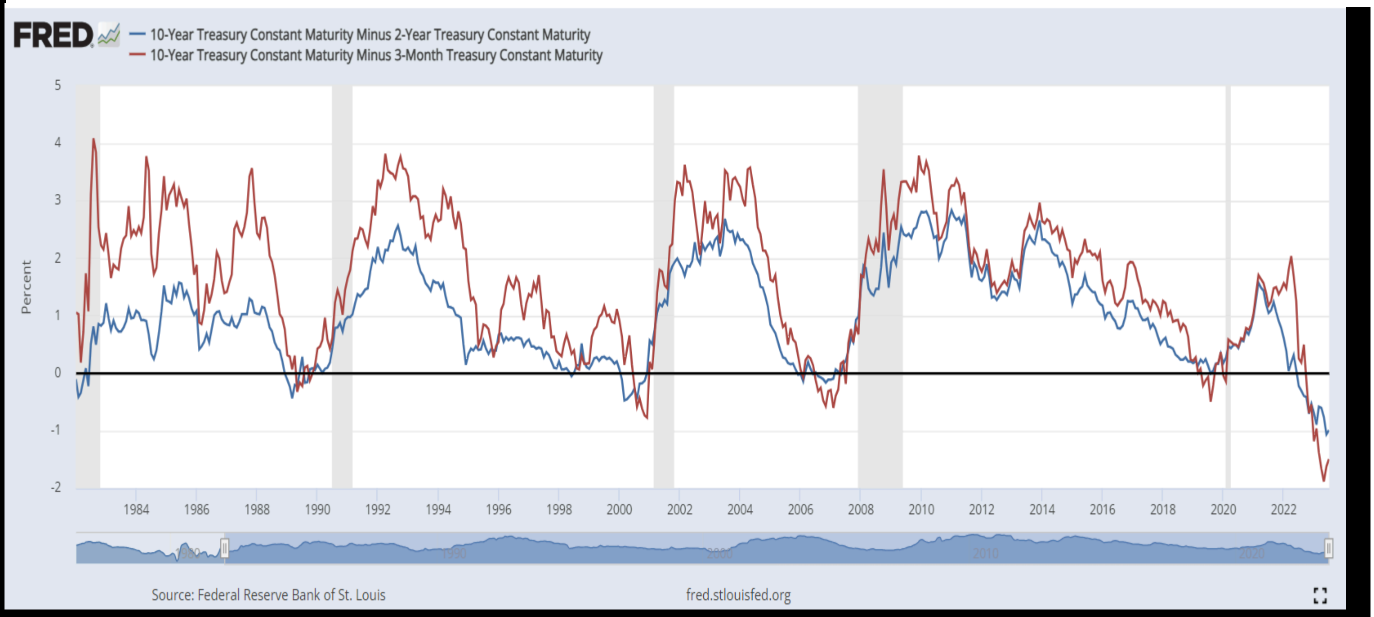
During the typical global recession, all areas of the economy (like manufacturing, services, retail, construction, and trade) tend to turn down around the same time. Yet, over much of the past year, only manufacturing and trade seem to be in a global recession, according to indicators such as industrial production, worldwide trade volumes, job growth by industry, surveys of purchasing managers at manufacturing companies, and many others.
We're referring to this phenomenon as a Cardboard Box Recession, because items that are made (manufacturing) and shipped (trade) tend to go in a box. Demand for corrugated linerboard, what most cardboard boxes are made from, has fallen similar to past recessions, as per data from the Fibre Box Association. The latest drop is reminiscent of the demand behavior during those shaded periods on the chart below denoting global recessions. Note that while the drop in 2012 on the chart isn't matched with a global recession, both Europe and Japan did suffer recessions at that time, softening global demand for boxes.



[Mid-Year Outlook: Global Stocks and Economy | Charles Schwab]

3.

The bond market still clearly thinks that a recession is coming via the 2/10Yr and the 3M/10Yr yields ratio.



4.

If debt is the bedrock of the economy, and if higher rates, inverted yield curves, and tight credit spreads are impeding lending, why is the economy seemingly strong?

Massive stimulus from the pandemic continues circulating through the economy, offsetting the adverse effects of higher interest rates.

Economists underestimated how much and for how long the economy would benefit from the unprecedented fiscal and monetary stimulus. Such explains why the Fed thought inflation would be transitory and not sticky. It also explains why economists continue to underestimate the labor market.

If the yield curves stay inverted and credit spreads remain tight, lending will likely be further curtailed. Such a poor lending environment coupled with fading stimulus benefits could mean we are staring down the barrel at another recession.

The yield curve still matters! As noted earlier, it typically takes 16 months from inversion to recession. A recession could emerge as early as Thanksgiving, based on the average.

We caution; however, the pandemic recession and recovery have been incredibly unique in their economic effects. We encourage humbleness. While a recession is likely, there are still benefits of yesterday's stimulus coursing through the economy, which is incredibly difficult to estimate.

Extra Interest Expense Per 1% Higher Interest Rates ($bns)

Type	2023 ($bns)	As a % of GDP	2000 ($bns)	As a % of GDP
Federal	316	1.20%	57	0.22%
States	12	0.05%	6	0.02%
Local Muni	23	0.09%	9	0.03%
Total Individual	244	0.93%	78	0.30%
Non Fncl. Corporate	128	0.49%	47	0.18%
Total	723	2.76%	198	0.75%

Treasury Yield Curves - Is This Inversion Different? - RIA (realinvestmentadvice.com)

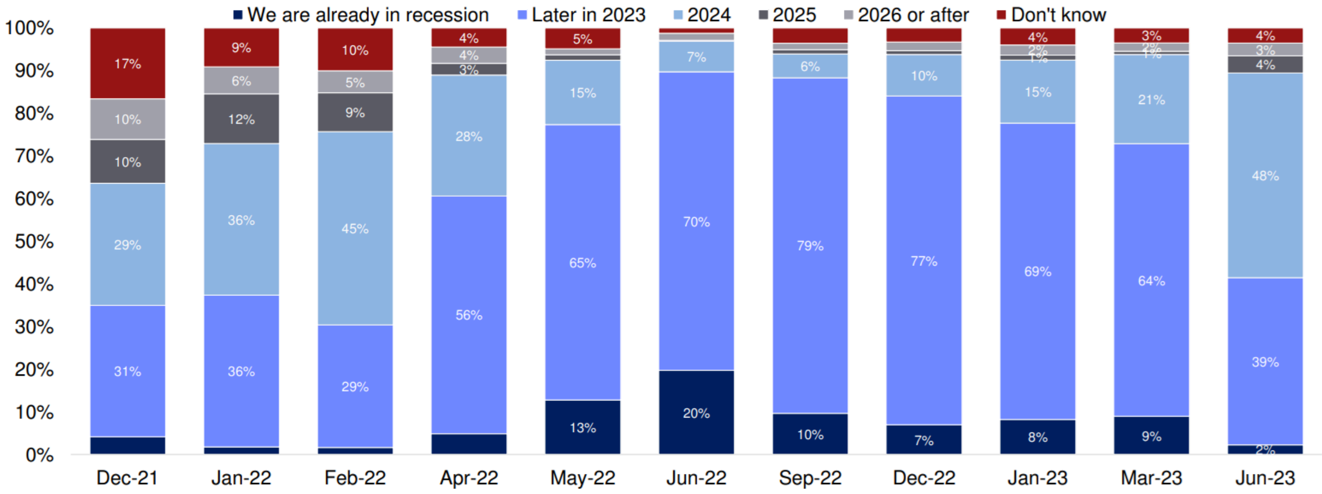
5.

We have just published the results of our summer market survey with 400 responses. See here for the full results. As the first CoTD today shows, US recession expectations have clearly been pushed back since we last asked in March (2024 arrival from 21% to 48%), however 89% still think it will occur by the end of 2024, only 5pp less than in March.

In terms of magnitude, as our second chart below shows, the weighted average (using our scale) is for a peak to trough GDP loss of around -1.8% for those who expect a recession. If we assume the 11% who don't think we'll see a recession expect 1% GDP growth on average, then crudely this improves to a -1.6% GDP peak to trough drop. This is more pessimistic than the average of the consensus of economists polled on Bloomberg, where a small technical recession is expected in H2. DB expects a 3 quarter recession from Q4 with a -1.25% peak to trough decline.

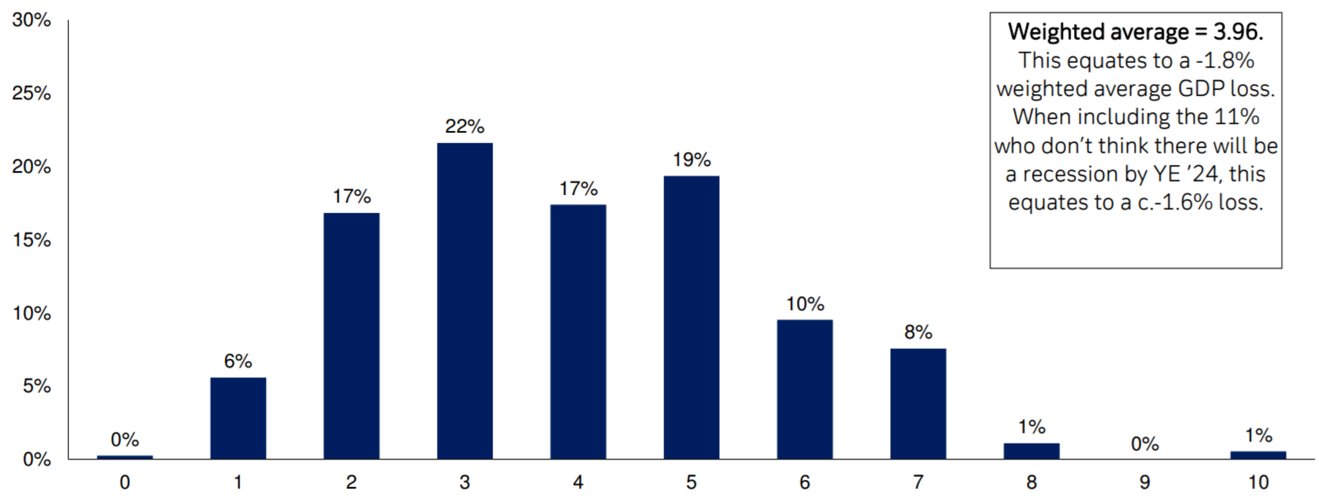
If you're looking for positives, then it was interesting that over the next 5-10 years, 36% of our respondents believe that ChatGPT and its future iterations will have a huge, much-needed, influence on productivity growth, with a further 46% thinking it will have a noticeable/medium impact. Sizeable numbers.

Figure 1: When do you think the next US recession will occur? It will occur in...



Source : dbDIG Survey, Deutsche Bank

Figure 2: You said there will be a near-term US recession. Using a scale of 0 to 10 where 0 means 'There would be the smallest technical recession (e.g. a 0.1-0.2% peak-to-trough GDP fall) with limited or no market repercussions', 5 would be the median historical drop (-2.3%), and 10 'There would be GFC levels of activity drop (-4% peak-to-trough)', what magnitude do you think this US recession will have?

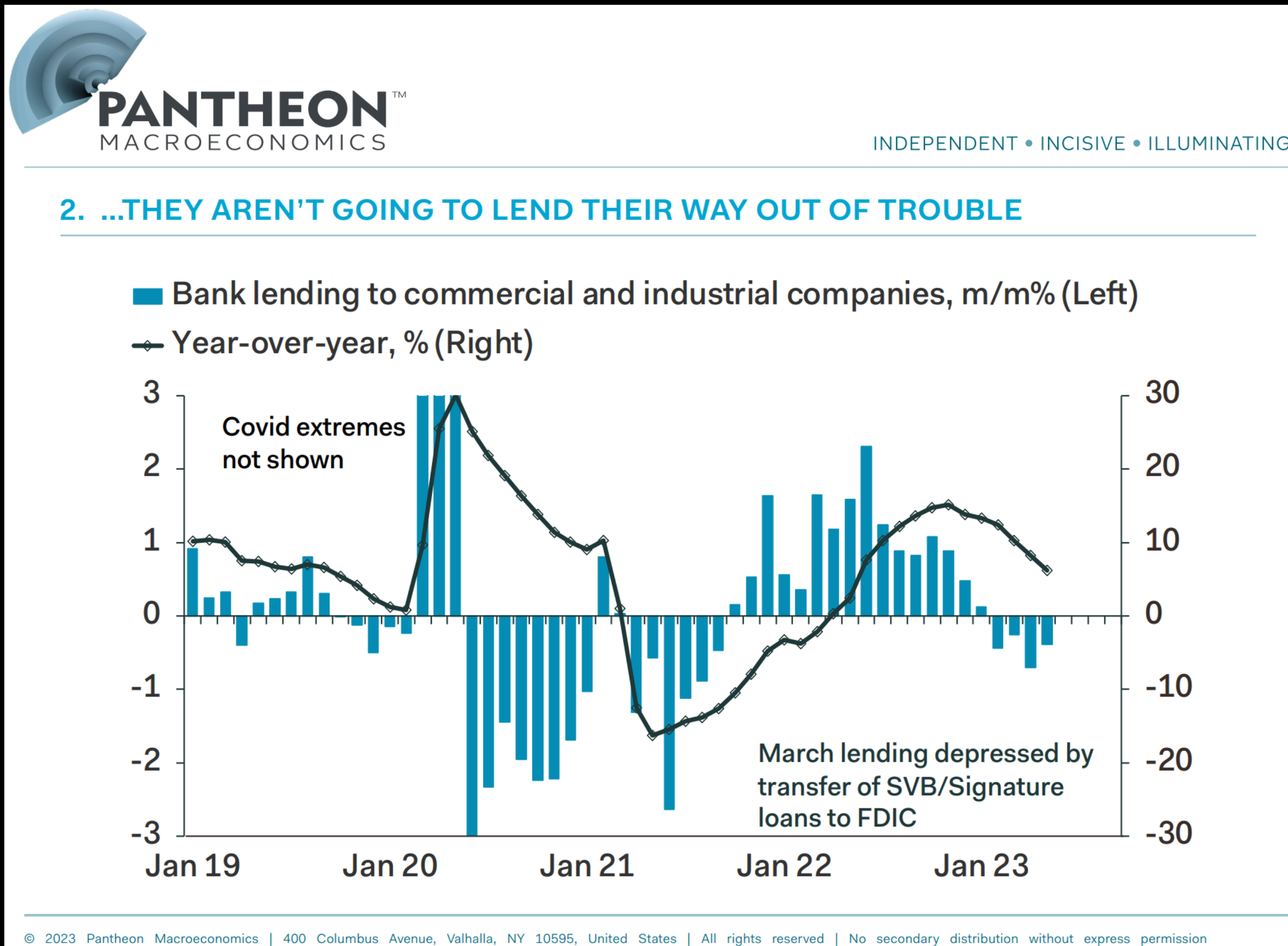


Source : dbDIG Survey, Deutsche Bank

https://www.db.com/disclosures

6.

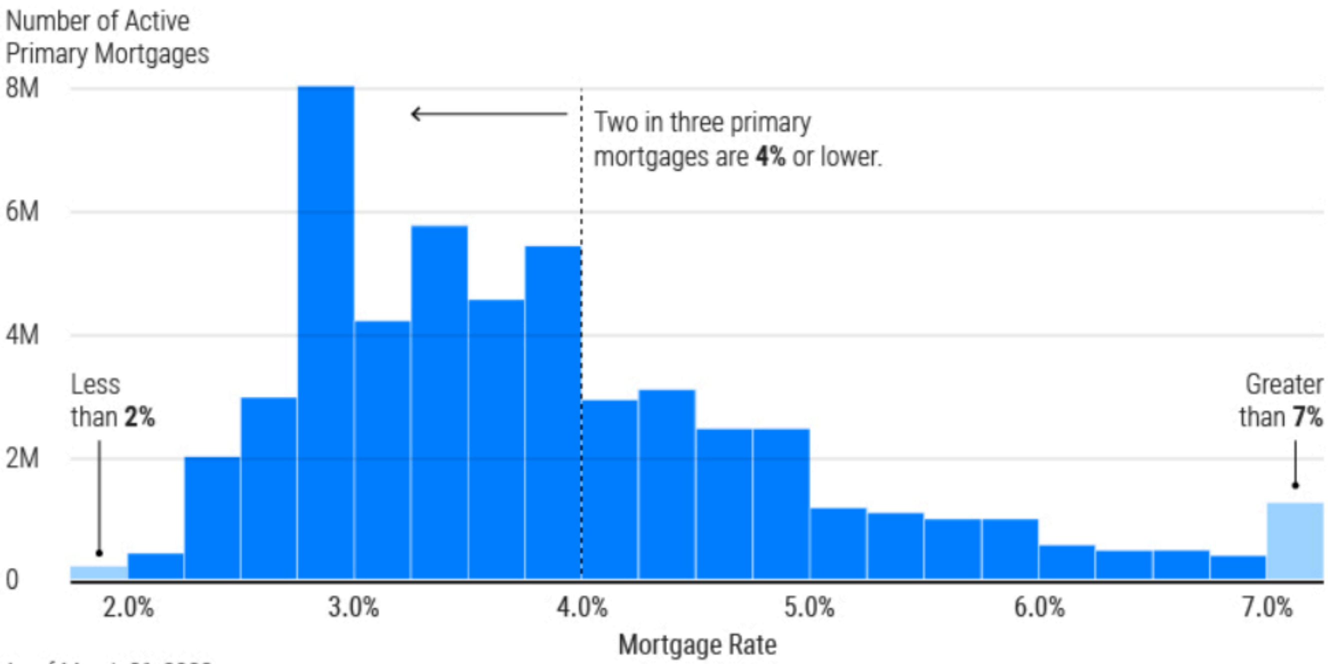
I listened to Ian Shepherdson of Pantheon Macroeconomics July 3rd for their monthly update. To summarize, they see a slowdown through the rest of the year and are bullish for the later part of this decade. The chart below shows bank lending to commercial and industrial companies, and it is slowing fast as credit becomes tighter. This will squeeze profits and markets will react.



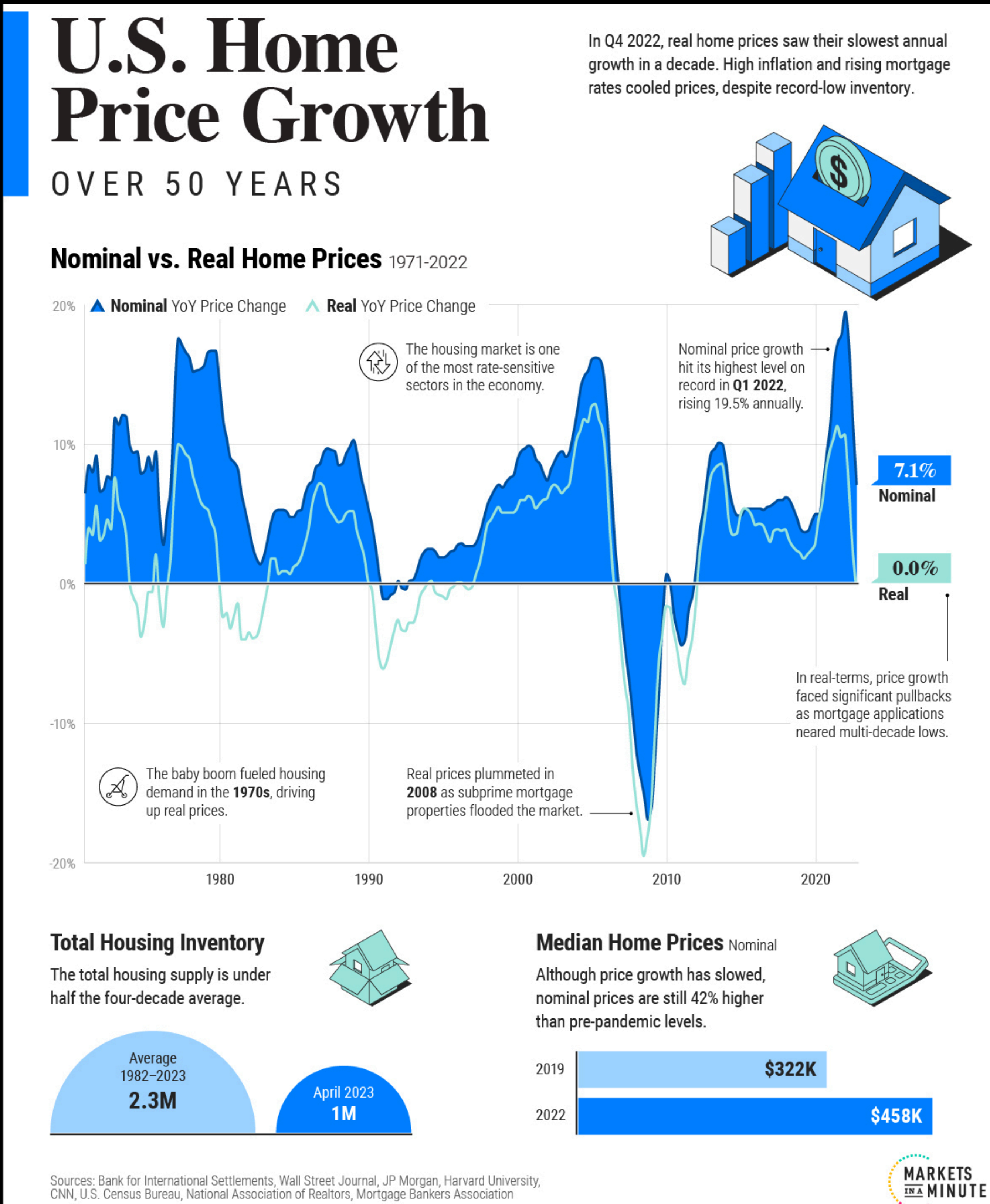
Pantheon Macroeconomics - Award-winning Macroeconomic Research

7.

Homeowners are reluctant to give up mortgages locked-in at low rates, keeping housing supply low.



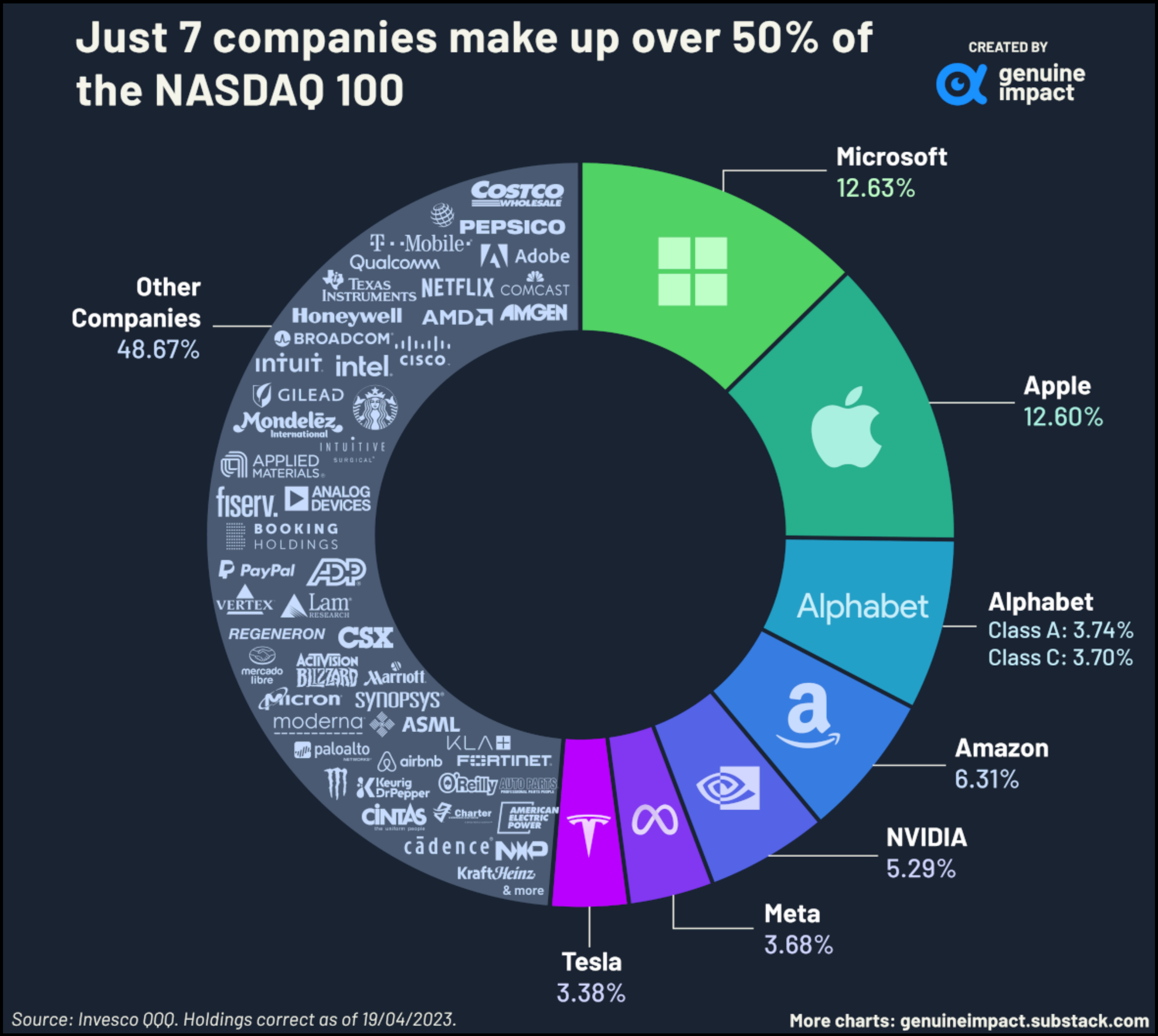
As of March 31, 2023.
Source: Black Knight via the Wall Street Journal.



[Chart: U.S. Home Price Growth Over 50 Years (visualcapitalist.com)](visualcapitalist.com)

8.

The success of the biggest contingents can pull up the entire index, and the Nasdaq 100 has consistently outperformed broader markets. However, if even one of these large companies underperforms, it can have a major impact on the entire index. This outsized influence can also hide general market woes that may be affecting many other components of the index, and the economy.



[Charted: Companies in the Nasdaq 100, by Weight (visualcapitalist.com)]

9.

Morgan Stanley's Michael Wilson, whose outlook for a market slump in 2023 has yet to materialize, said fading fiscal support, lower liquidity, and falling inflation will weigh on the US equity rally in the year's second half.

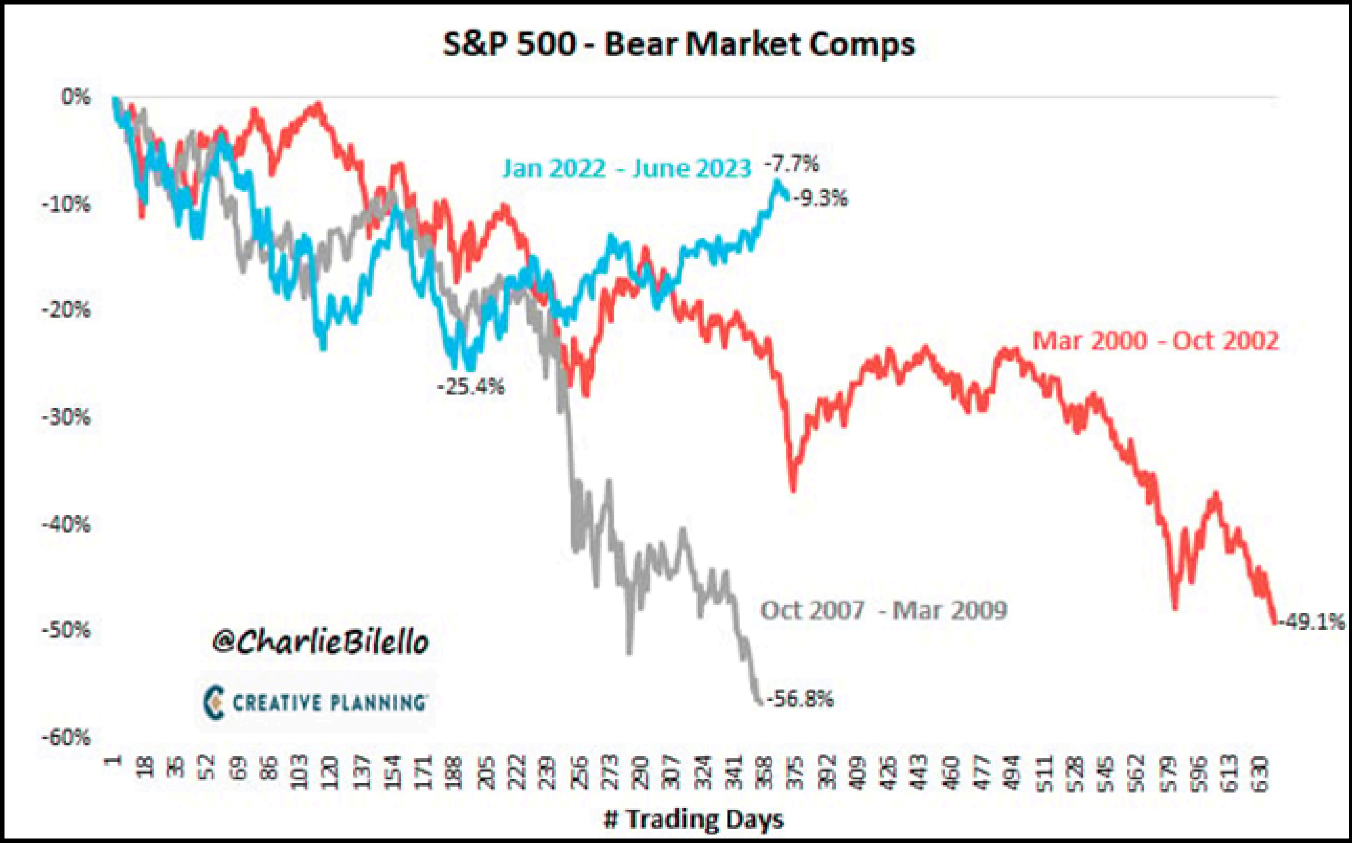
He's also concerned that stocks are "as stretched as they can get" in a narrow performance that's been driven by excess liquidity from March's banking deposit bailouts.

"Given our fundamental view on growth, we find it hard to get on board with the current excitement," Wilson wrote in a note Tuesday. "If second-half growth re-accelerates as expected, then the bullish narrative being used to support equity prices will be proven correct. If not, many investors may be in for a rude awakening given the very big reach for the risk we are seeing."

[Morgan Stanley Says Stock Bulls Face Rude Awakening - Articles - Advisor Perspectives]

10. Throughout 2022 there were many comparisons to the 2000-02 and 2007-09 bear markets, with the implication being that there was still more downside ahead.

While that was certainly one possibility, it wasn't the only possibility, and what we've seen over the last eight months is a path very much unlike those other two bears.

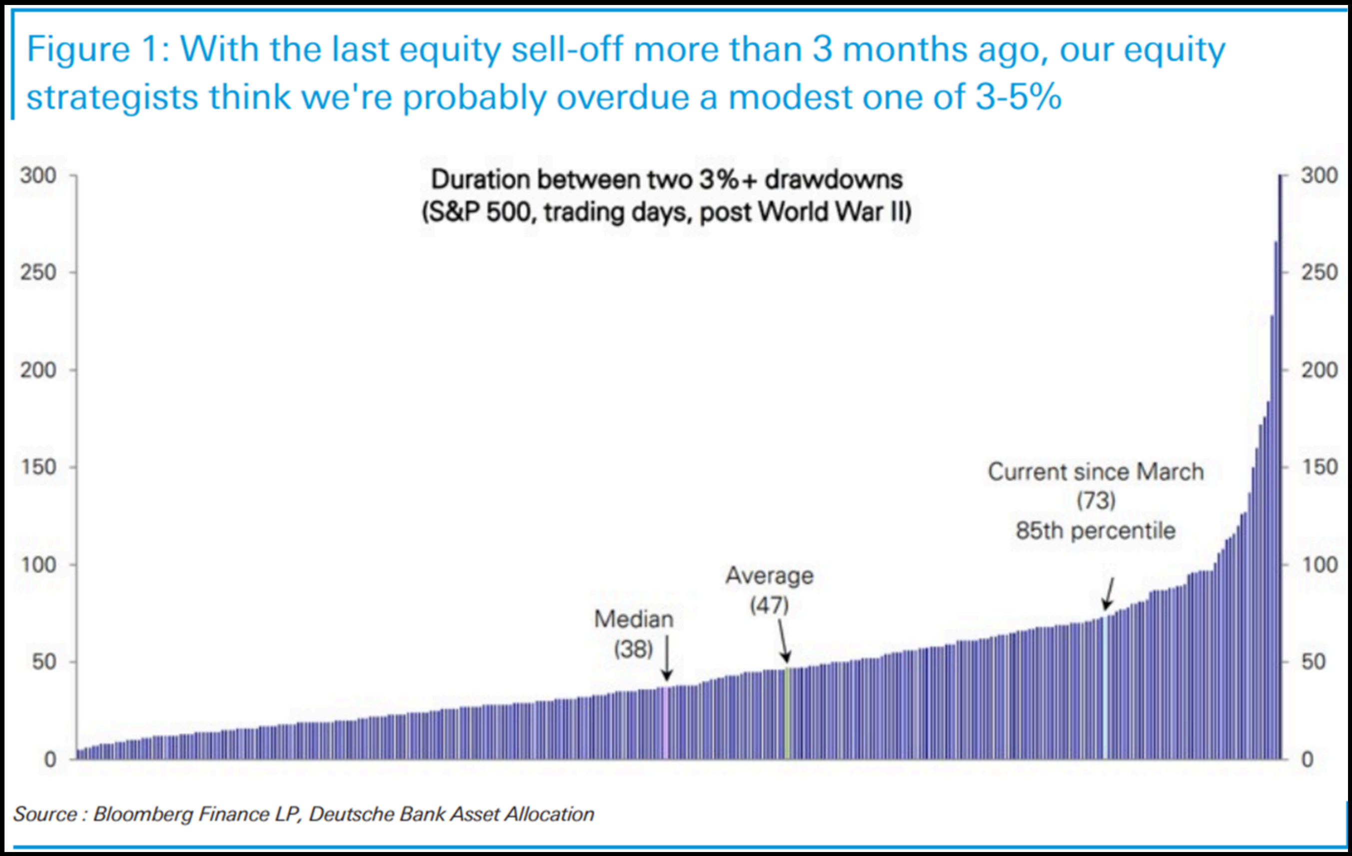


@Charlie BilelloEvery Bull/Bear Market Is Different

11.

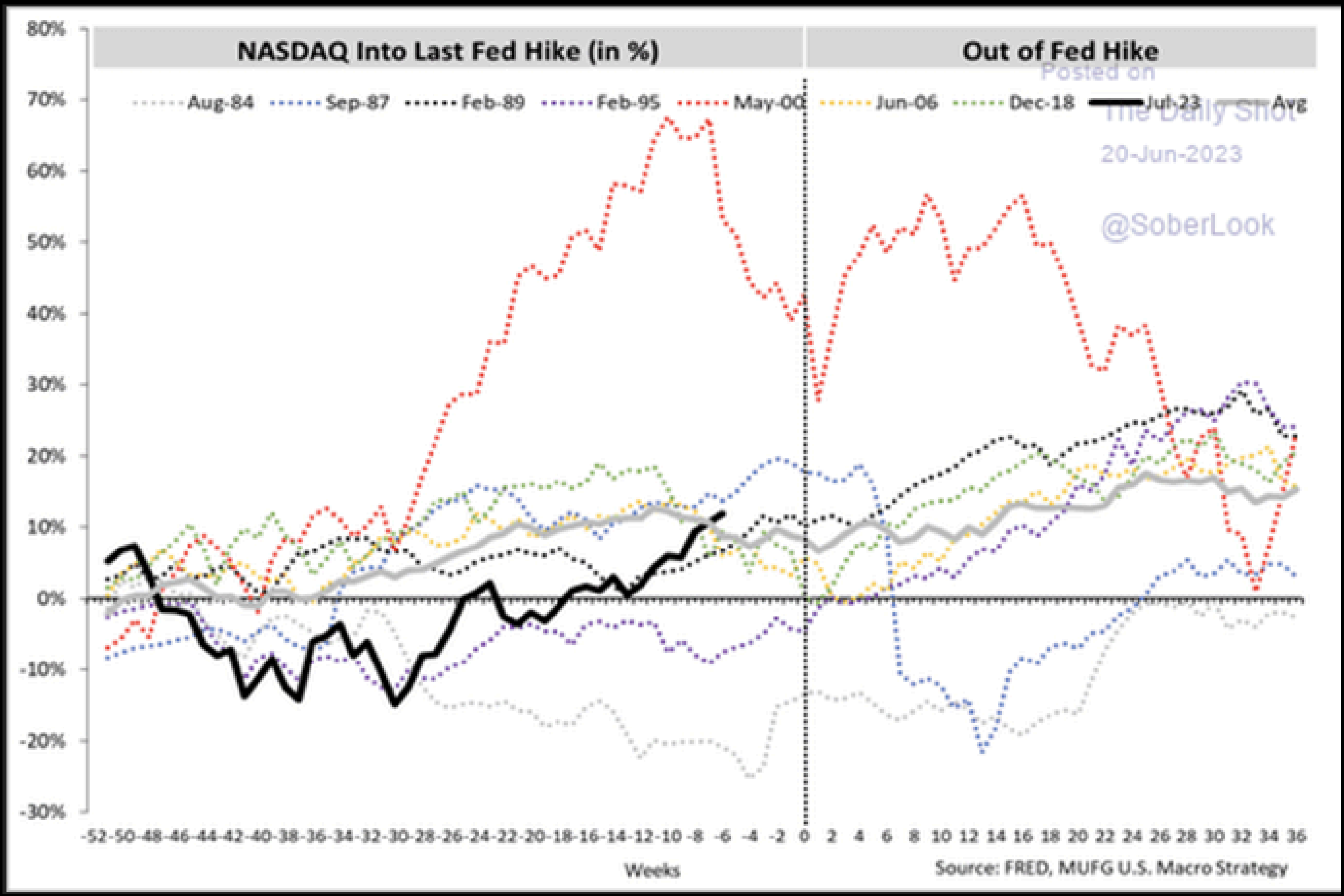
Last Tuesday we highlighted that our equity strategists' analysis showed that investors had moved overweight US equities over the prior couple of weeks for the first time since early 2022. In their updated report published on Friday this overweight moved from the 64th percentile to the 73rd.

In this week's piece (link here) they show an interesting graph that suggests that we're now in the 85th percentile of periods since WWII without a 3% drawdown in the S&P 500. This has been 73 trading days and over 3 months in real life. Due to a combination of this, positioning, and where vol currently is, they think we're due a 3-5% modest correction.



12.

Nasdaq Tends to Rise into the Final Fed Rate Hike

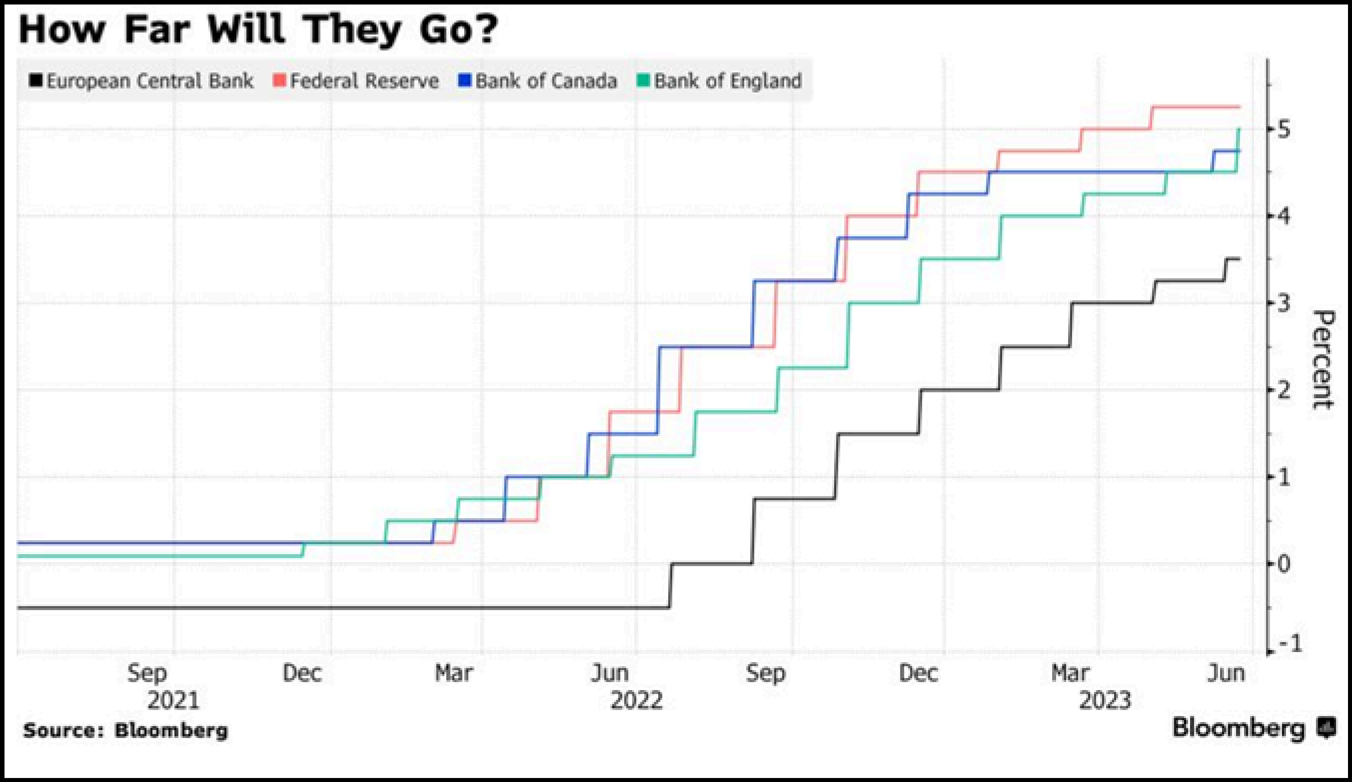


13.

Worries that central bankers would indeed overdo it. Nobel laureate Paul Krugman even said that the Fed represented the biggest threat to the US economy.
JPMorgan Chase & Co. economists at the time predicted that central bankers would eventually "become sensitive to growth disappointments" and stop hiking — with the Fed calling time at 3%, the ECB at 1% and BOE at 2%.

Except they didn't. The Fed's key rate is now north of 5%, the ECB's is 3.5% and the BOE is at 5%. And all have signaled they expect more tightening to come.
In the end, economies have proved far more resilient to rate hikes than most anyone anticipated. And inflation, meantime, remains stubbornly above target. As challenging as the situation appeared last year, Sintra takes place amid warnings from the Bank for International Settlements that this last stretch of monetary tightening is likely to be the toughest.

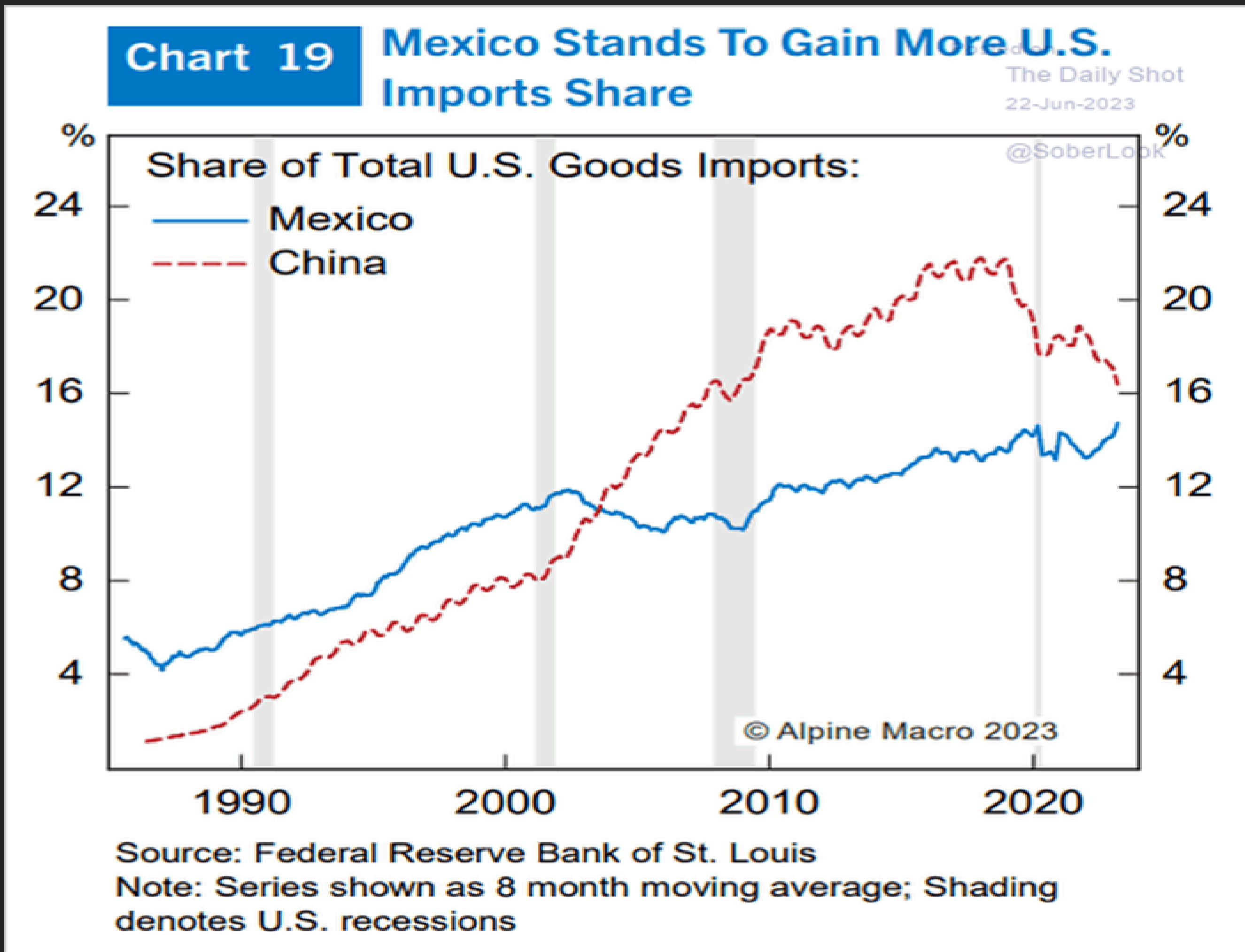
I think the reason economies are not slowing is due to household debt service as a percentage of disposable income is low thanks the low interest rate mortgages refinanced during the pandemic.



14.

I think that Mexico will be a big beneficiary from the US decoupling from China. Another beneficiary will be India, as witnessed by announcements 5/22/23 by the technology sector to invest in India. In exchange, India will by western arms, and not renew Russia as their defense supplier.

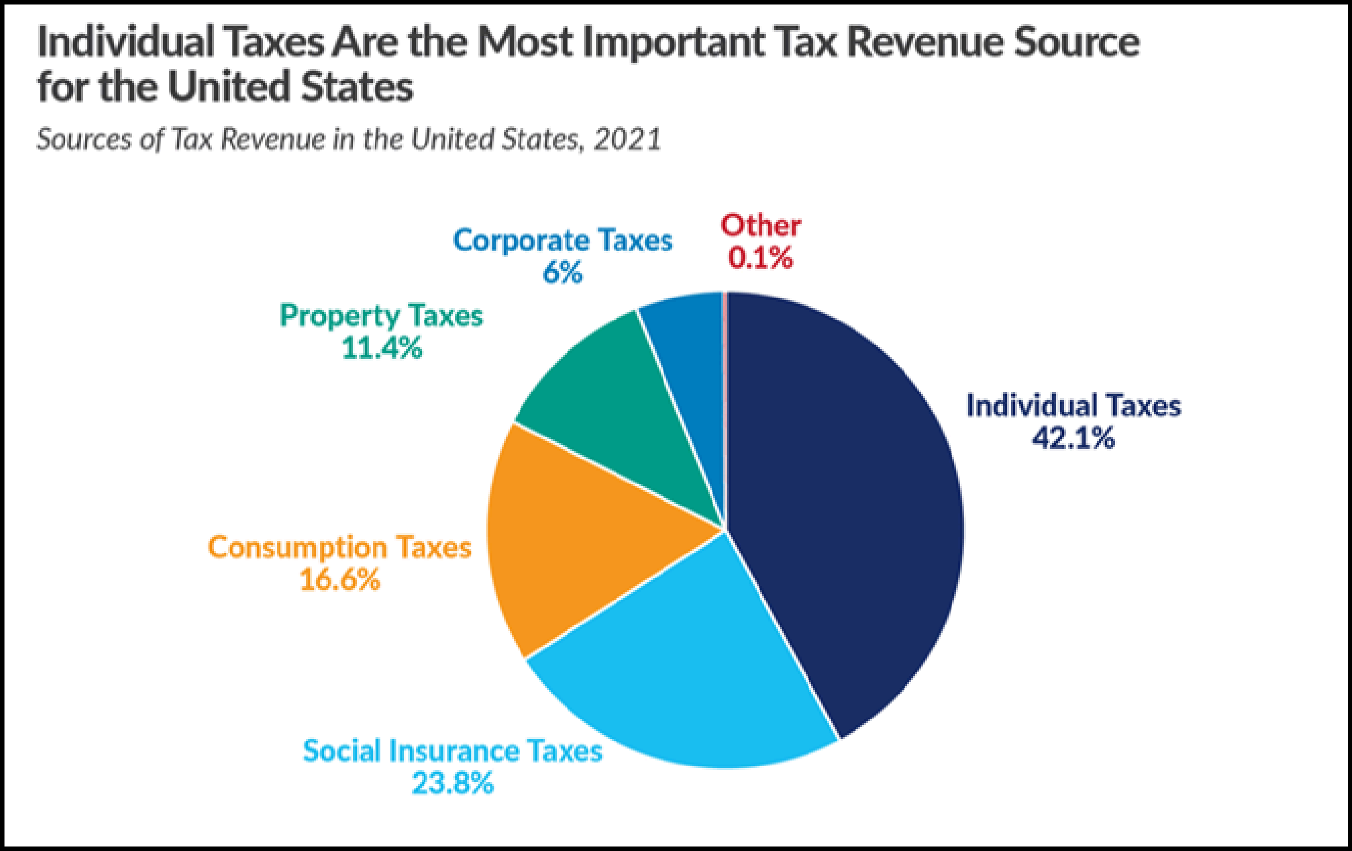
Emerging Markets: Mexico stands to gain from the US-China decoupling.



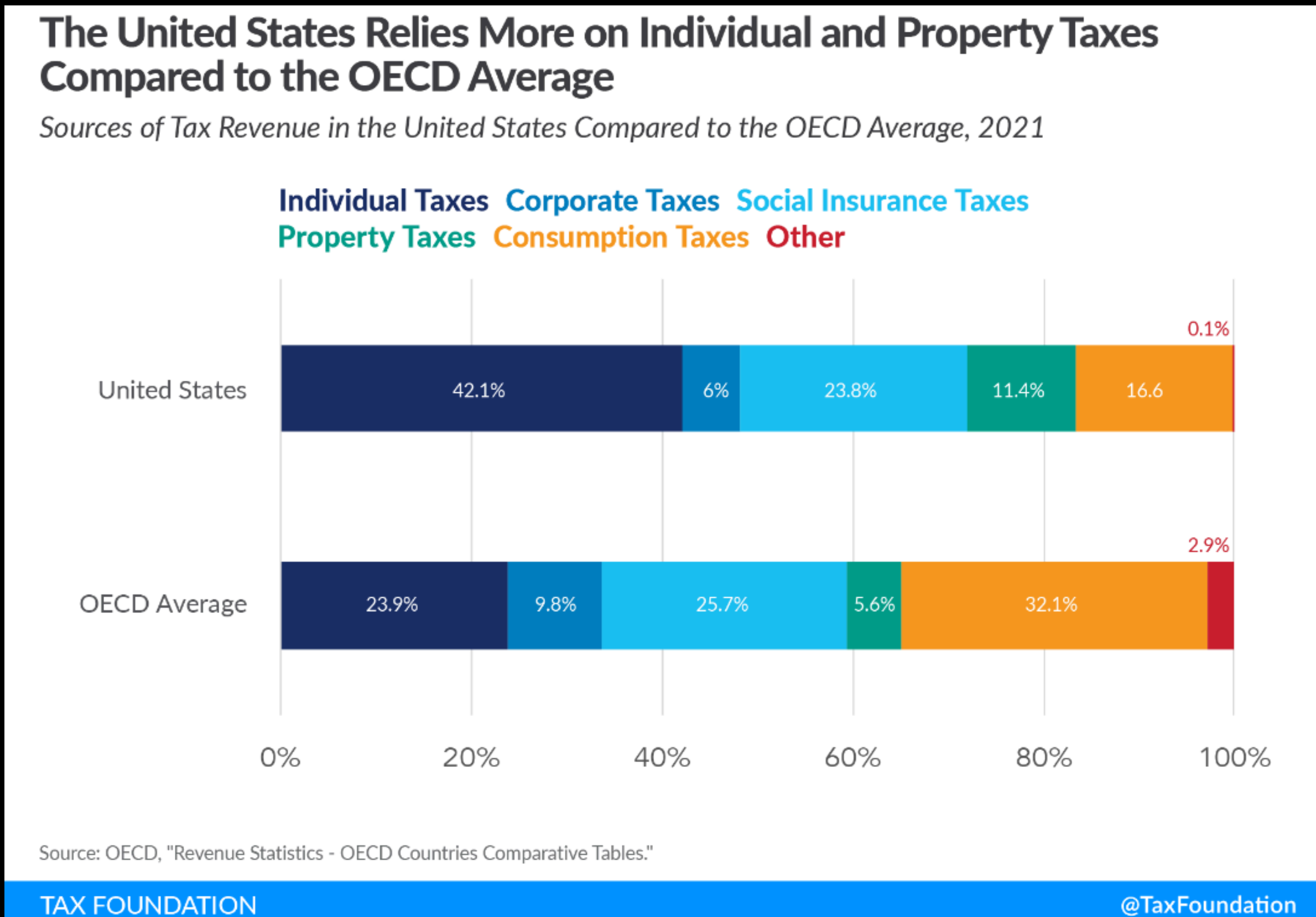
Source: Alpine Macro

15.

Americans are quite often fixated on taxes. Below is the structure of how the US collects taxes and how it compares to the OECD. Regarding US taxes, I personally think a flat tax for all sources of income with zero deductions of any kind would serve best. No need for the crazy amount of paperwork each year, and we would actually raise taxes and reduce expenses. Of course, it depletes the power of politicians which lowers its chances of ever being passed.

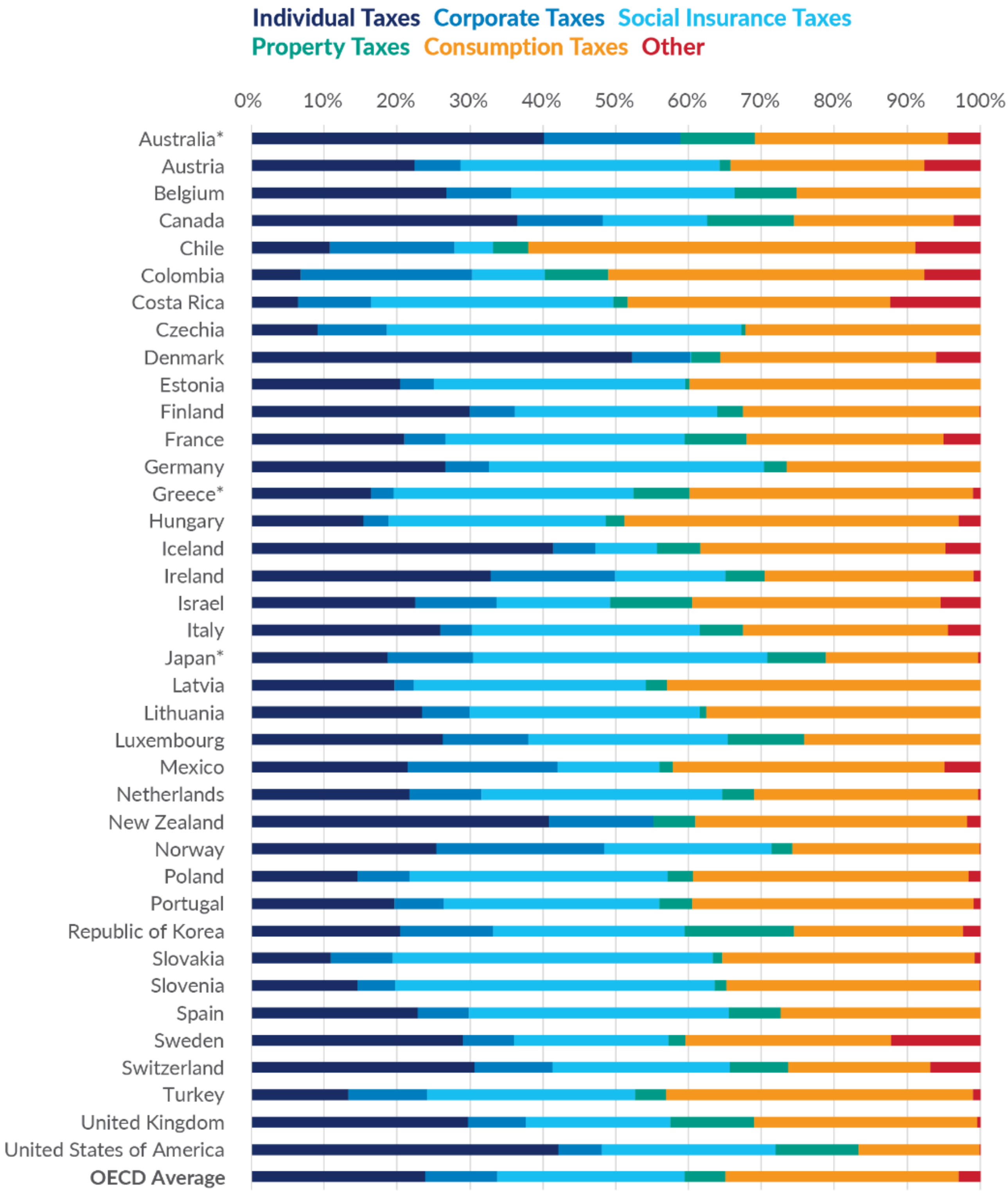


US Tax Revenue by Tax Type: Sources of US Government Revenue (taxfoundation.org)


The United States Relies More on Individual and Property Taxes Compared to the OECD Average
Sources of Tax Revenue in the United States Compared to the OECD Average, 2021
Individual Taxes
Corporate Taxes
Social Insurance Taxes
Property Taxes
Consumption Taxes
Other
United States
42.1%
6%
23.8%
11.4%
16.6
0.1%
OECD Average
23.9%
9.8%
25.7%
5.6%
32.1%
2.9%
0%
20%
40%
60%
80%
100%
Source: OECD, "Revenue Statistics - OECD Countries Comparative Tables."
TAX FOUNDATION
@TaxFoundation

Tax Structures Vary Significantly Across OECD Countries

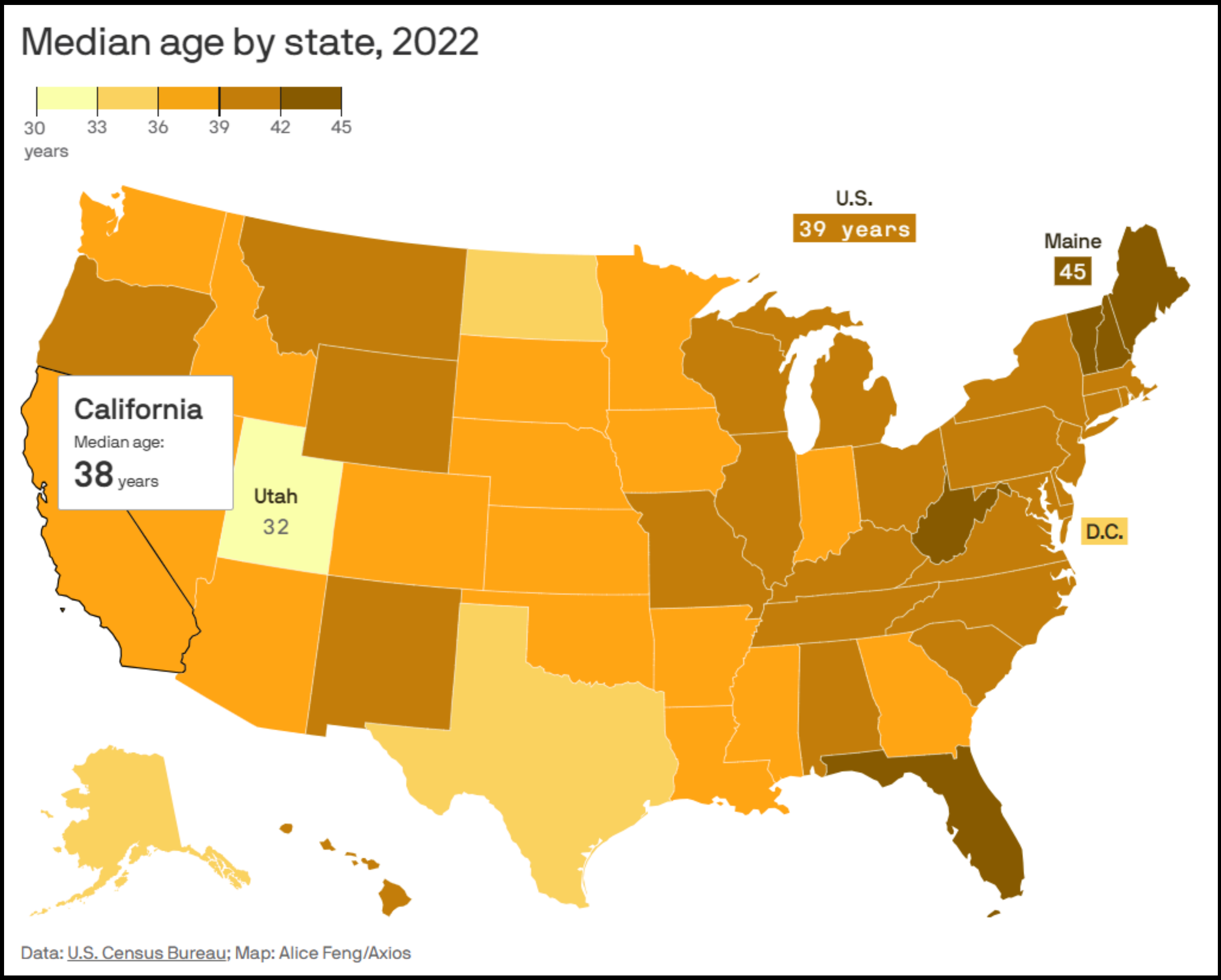
Sources of Tax Revenue, OECD Countries, 2021



Note: *Data for Australia, Japan, and Greece is from 2020 because 2021 data was not available yet.
Source: OECD, "Revenue Statistics - OECD Countries Comparative Tables."

16.

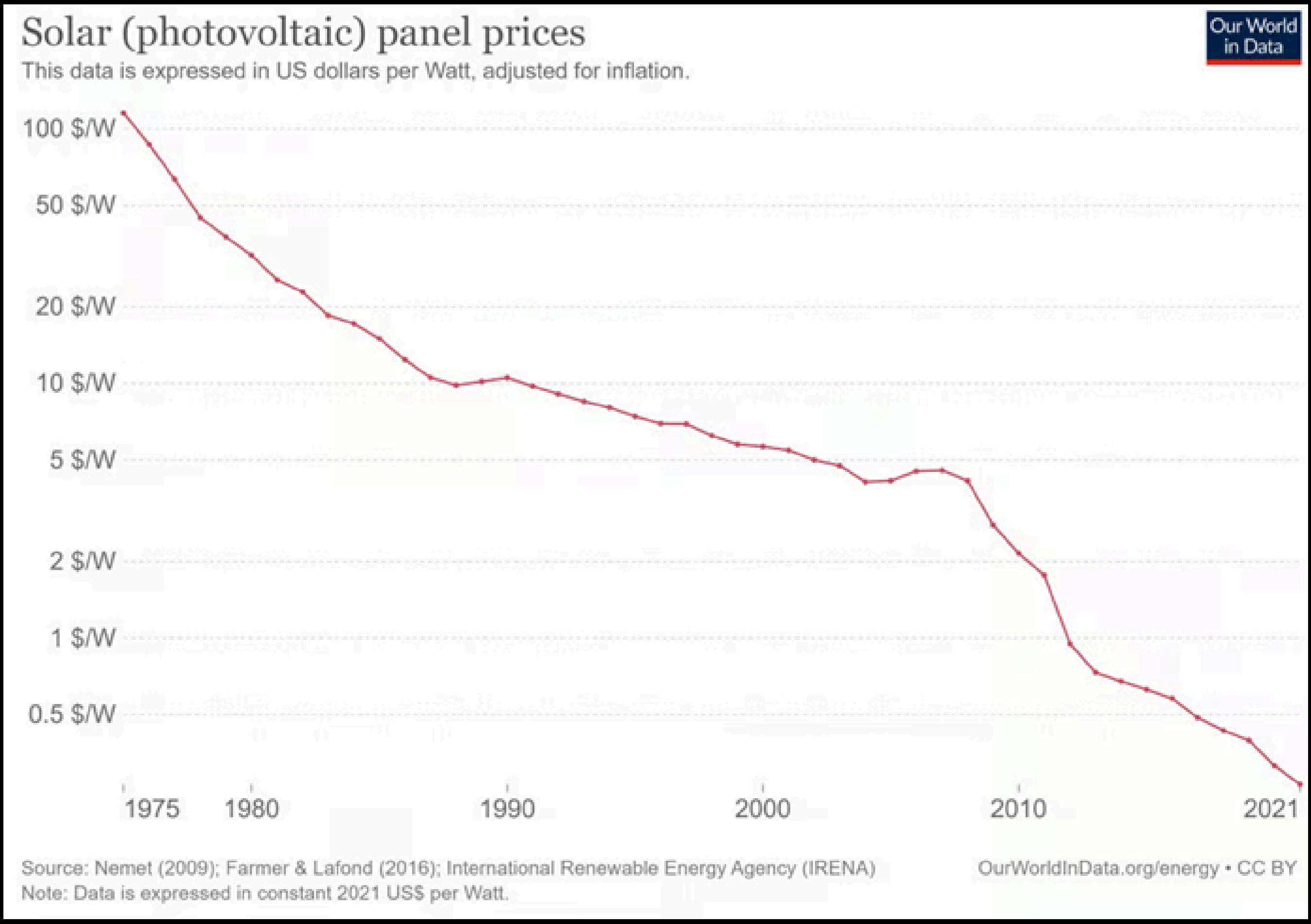
I have written about the importance of demographics in the past. I did not know that our State of Utah is the youngest state in the nation. Younger states tend to prosper more than older states just because more folks are earning as well as spending money.



[The median age in the U.S. reaches record high (axios.com)]

17.

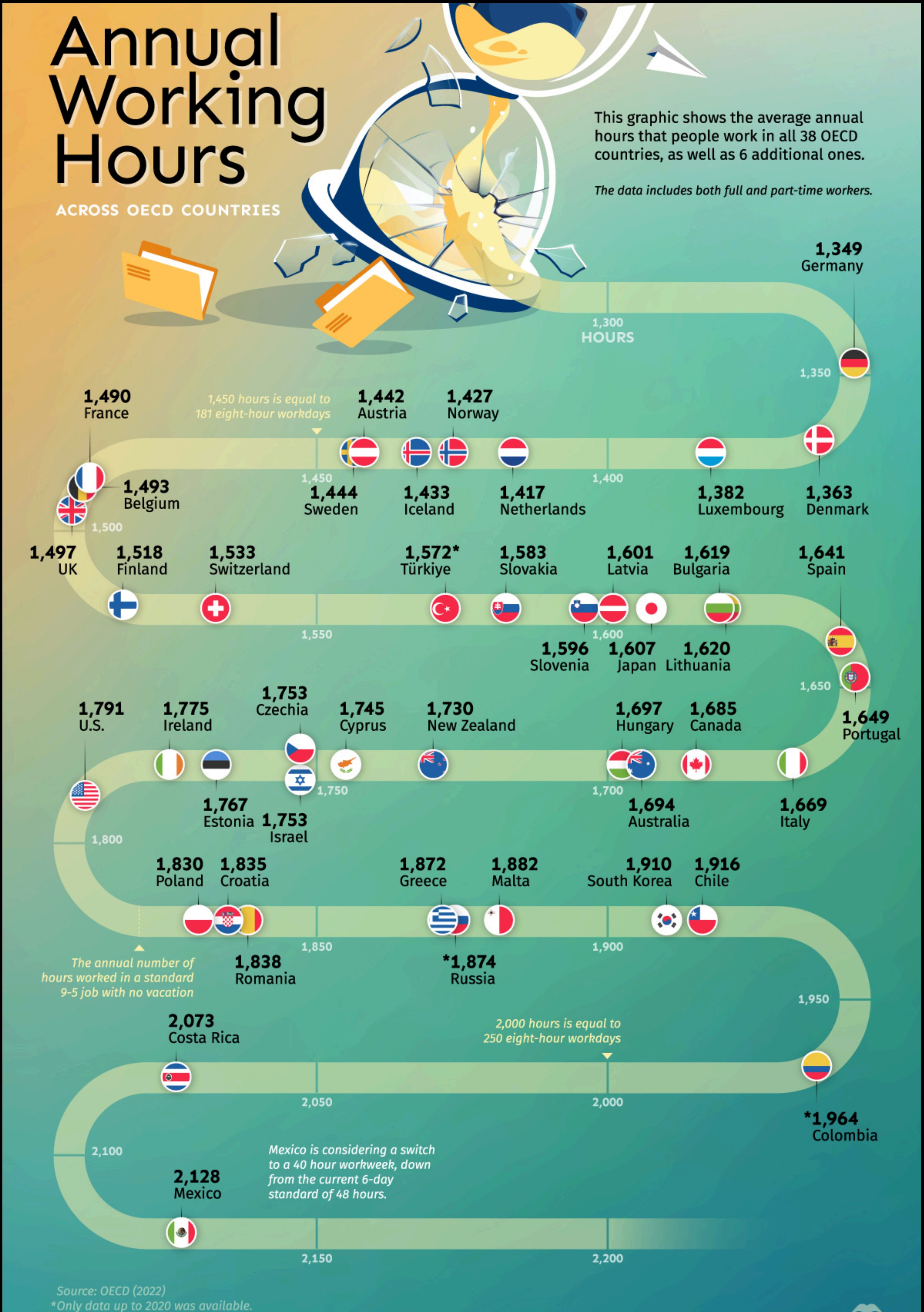
Solar panel prices are 85% lower than they were a decade ago, adjusted for inflation.



@Charlie Bilello

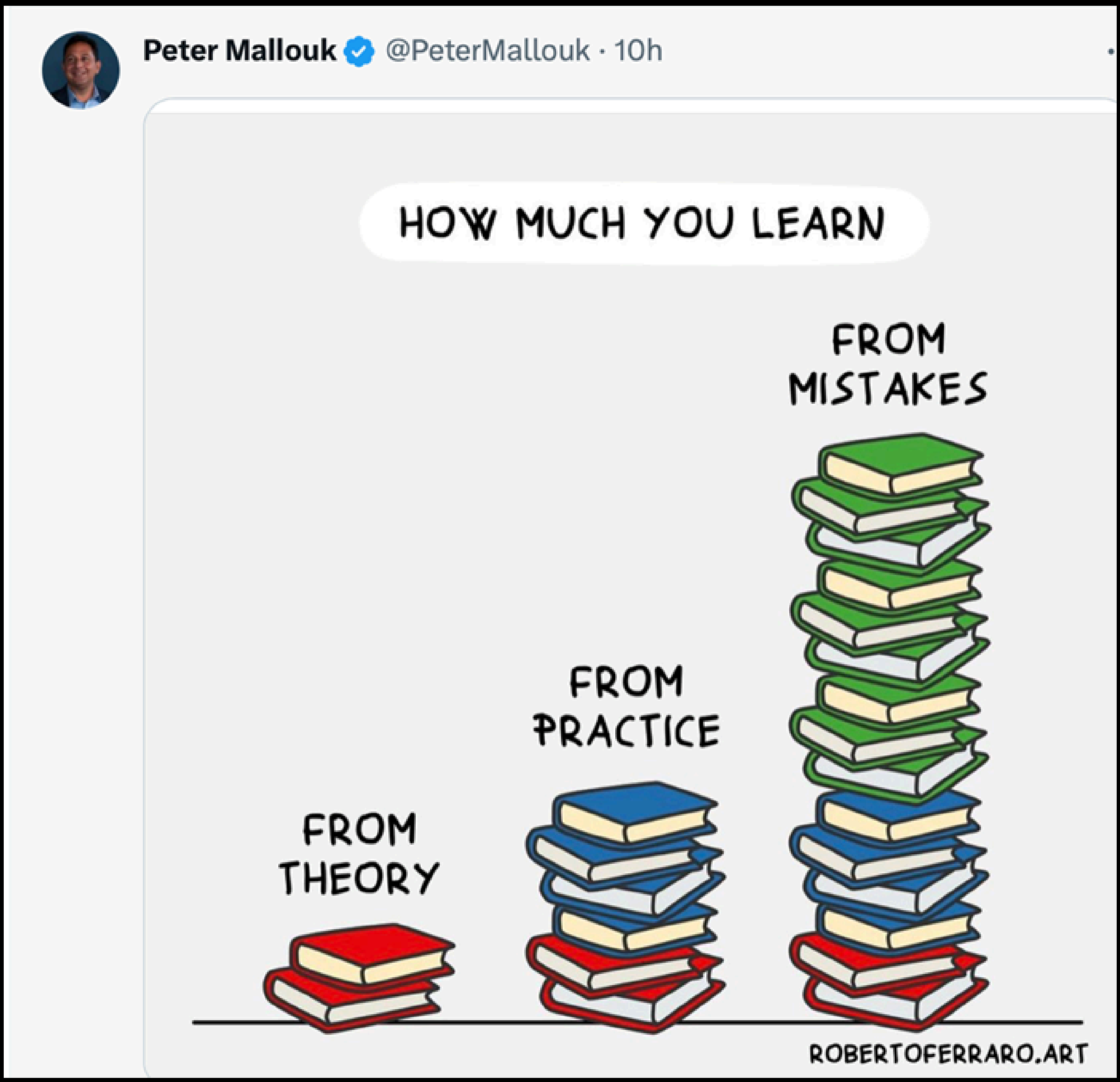
18.

This was not what I expected and thus I thought I would share it as you might be surprised as well.


Annual Working Hours
ACROSS OECD COUNTRIES
This graphic shows the average annual hours that people work in all 38 OECD countries, as well as 6 additional ones.
The data includes both full and part-time workers.
1,300 HOURS
1,349 Germany
1,350
1,363 Denmark
1,382 Luxembourg
1,400
1,417 Netherlands
1,427 Norway
1,433 Iceland
1,442 Austria
1,444 Sweden
1,450
1,450 hours is equal to 181 eight-hour workdays
1,490 France
1,493 Belgium
1,497 UK
1,500
1,518 Finland
1,533 Switzerland
1,550
1,572* Türkiye
1,583 Slovakia
1,596 Slovenia
1,600
1,601 Latvia
1,607 Japan
1,619 Bulgaria
1,620 Lithuania
1,641 Spain
1,649 Portugal
1,650
1,669 Italy
1,685 Canada
1,694 Australia
1,697 Hungary
1,700
1,730 New Zealand
1,745 Cyprus
1,750
1,753 Czechia
1,753 Israel
1,767 Estonia
1,775 Ireland
1,791 U.S.
1,800
The annual number of hours worked in a standard 9-5 job with no vacation
1,830 Poland
1,835 Croatia
1,838 Romania
1,850
1,872 Greece
*1,874 Russia
1,882 Malta
1,900
1,910 South Korea
1,916 Chile
1,950
*1,964 Colombia
2,000
2,000 hours is equal to 250 eight-hour workdays
2,050
2,073 Costa Rica
2,100
Mexico is considering a switch to a 40 hour workweek, down from the current 6-day standard of 48 hours.
2,128 Mexico
2,150
2,200
Source: OECD (2022)
*Only data up to 2020 was available.

[Visualizing Annual Working Hours in OECD Countries (visualcapitalist.com)]

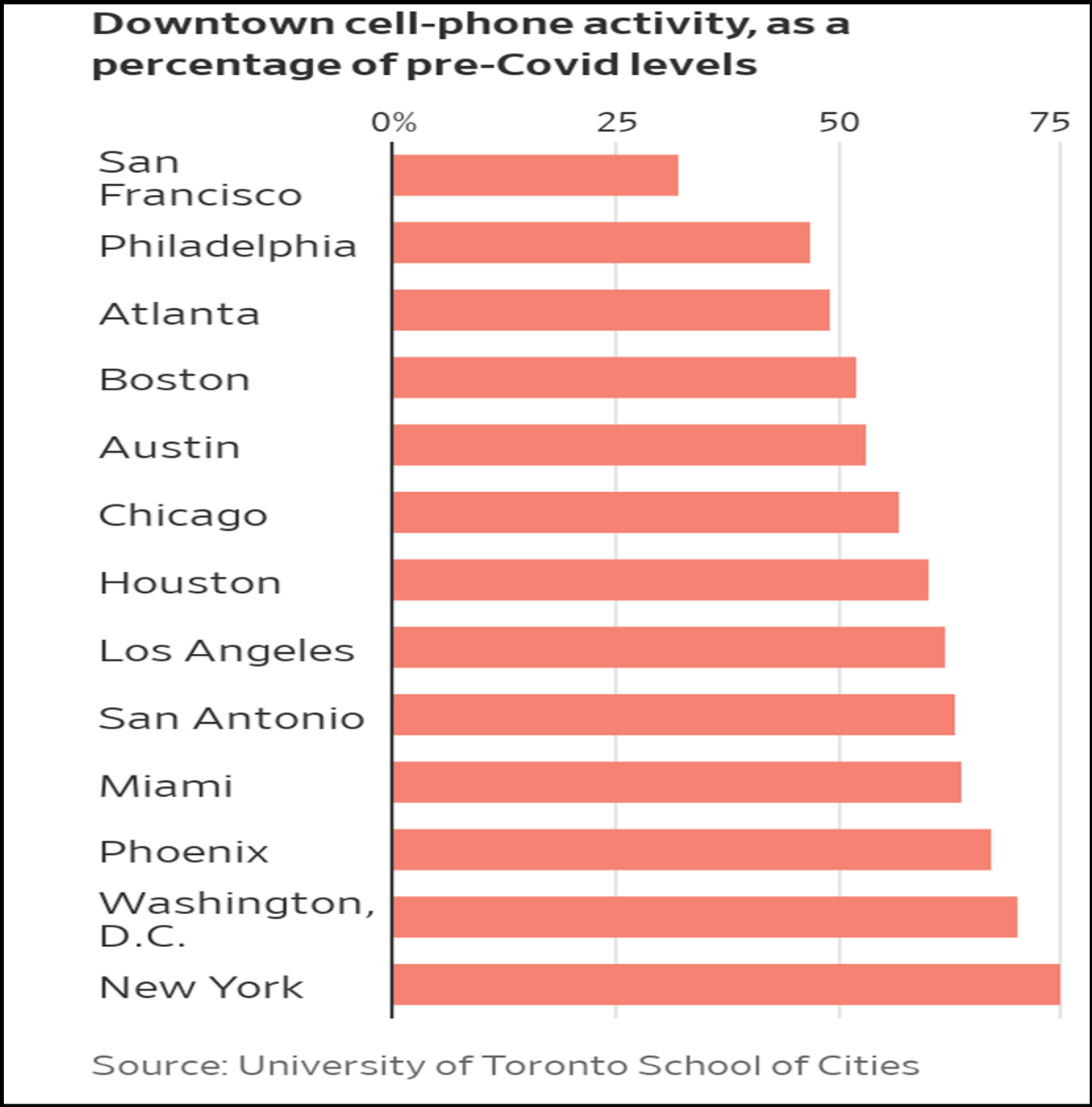
19.



https://twitter.com/PeterMallouk

20.

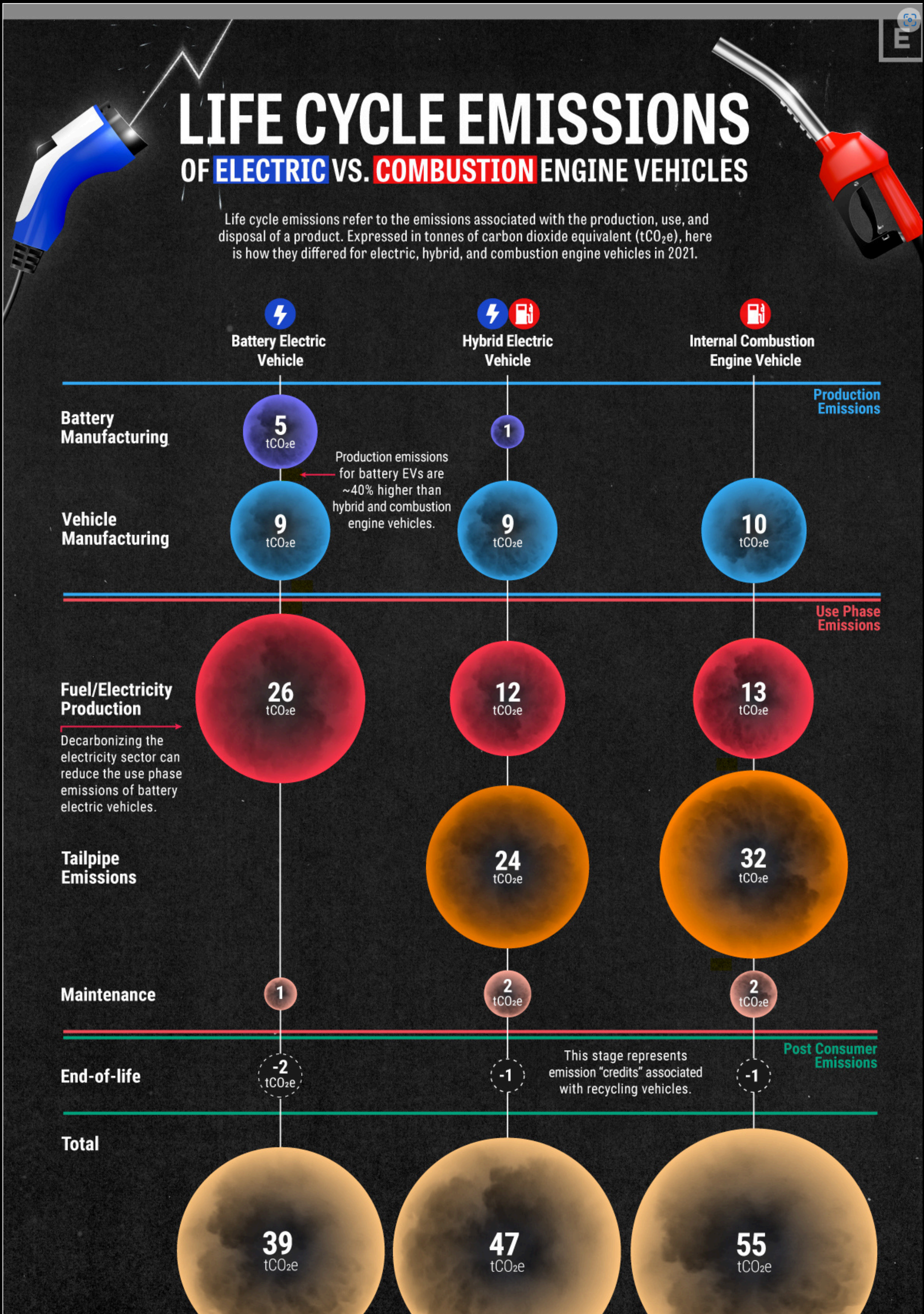
Biggest threat to office real estate investments.



https://www.wsj.com/articles/cities-real-estate-bonds-taxes-c6736f8b

Food for Thought:

I have had this conversation with many friends. Nice to see someone has finally put a chart together should a life cycle of EV/HE/ICE cars. If I read correctly, EV's emit 30% less emissions than ICE vehicles.


LIFE CYCLE EMISSIONS
OF ELECTRIC VS. COMBUSTION ENGINE VEHICLES
Life cycle emissions refer to the emissions associated with the production, use, and disposal of a product. Expressed in tonnes of carbon dioxide equivalent (tCO2e), here is how they differed for electric, hybrid, and combustion engine vehicles in 2021.
Battery Electric Vehicle
Hybrid Electric Vehicle
Internal Combustion Engine Vehicle
Production Emissions
Battery Manufacturing
5 tCO2e
1
Production emissions for battery EVs are ~40% higher than hybrid and combustion engine vehicles.
Vehicle Manufacturing
9 tCO2e
9 tCO2e
10 tCO2e
Use Phase Emissions
Fuel/Electricity Production
26 tCO2e
12 tCO2e
13 tCO2e
Decarbonizing the electricity sector can reduce the use phase emissions of battery electric vehicles.
Tailpipe Emissions
24 tCO2e
32 tCO2e
Maintenance
1
2 tCO2e
2 tCO2e
Post Consumer Emissions
End-of-life
-2 tCO2e
-1
This stage represents emission "credits" associated with recycling vehicles.
-1
Total
39 tCO2e
47 tCO2e
55 tCO2e

Life Cycle Emissions: EVs vs. Combustion Engine Vehicles (visualcapitalist.com)

The End

Cheers,

Stuart 3 R's of life – **R**ethink, **R**eevaluate, & **R**eallocate

"Bulls make money, bears make money, pigs get slaughtered."
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