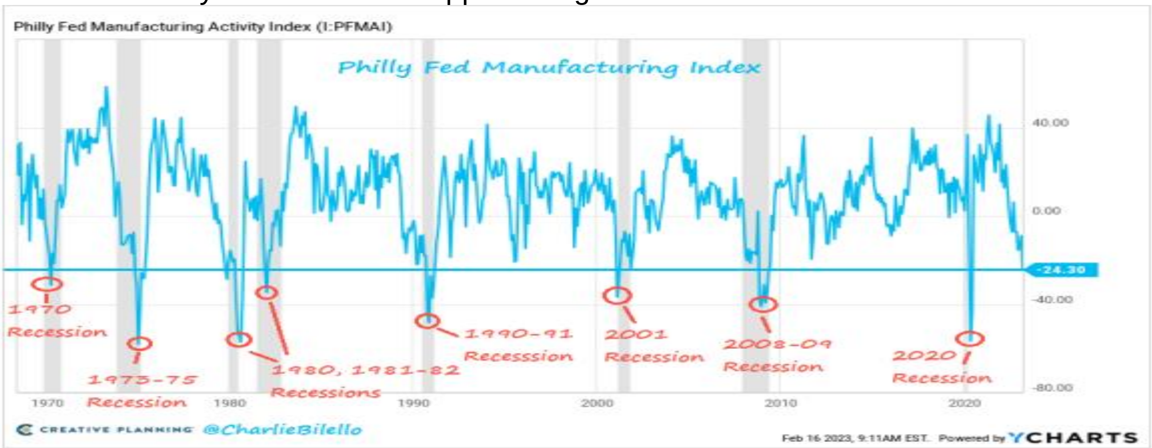
THE WEEK THAT WAS IN FINANCIAL MARKETS – FEBRUARY 24 –

Source: Hedgeye

MENU

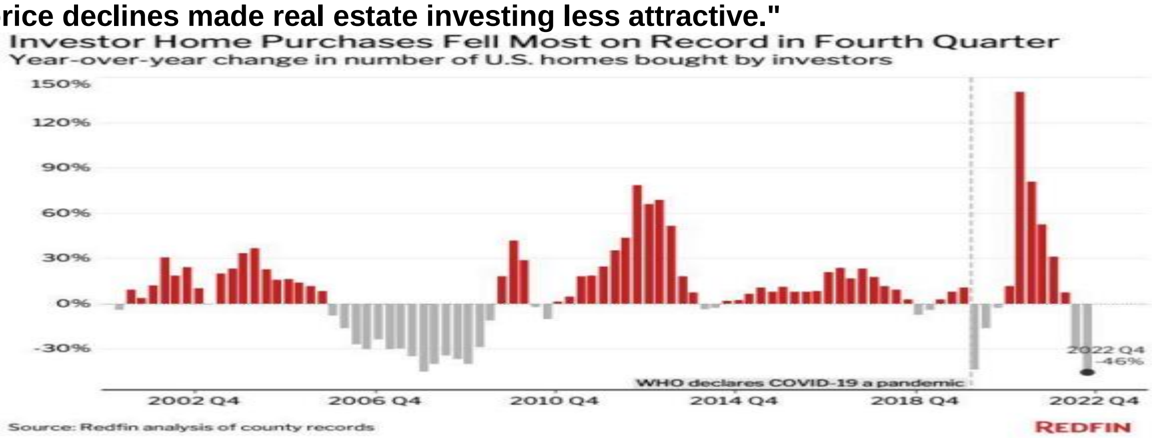
I) MACRO
II) FED / BOND / INFLATION
III) STOCK MARKETS & SECTORS

a) The Philly Fed Manufacturing Index has moved down to -24, its lowest level since May 2020. In the past (data since 1968), every time this indicator was at or below current levels the US economy was either in or approaching a recession



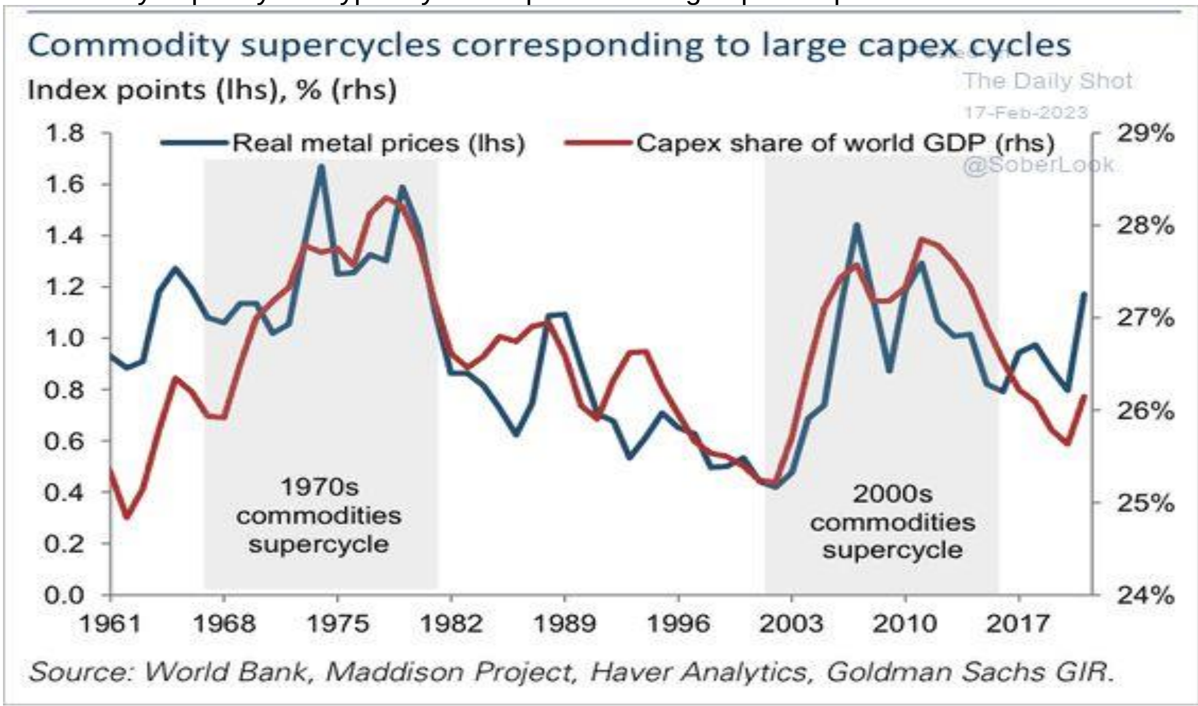
Source: CharlieBilello

b) "Investor purchases of U.S. homes fell a record 45.8% year over year in the fourth quarter as the high cost of borrowing money and the prospect of substantial home-price declines made real estate investing less attractive."



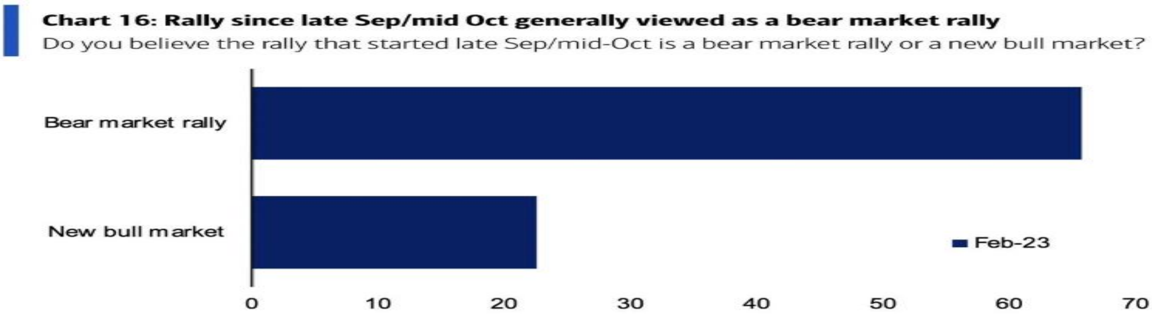
Source: Redfin

c) Global Capex - Commodities Supercycles
Commodity super cycles typically correspond to rising capital expenditures.



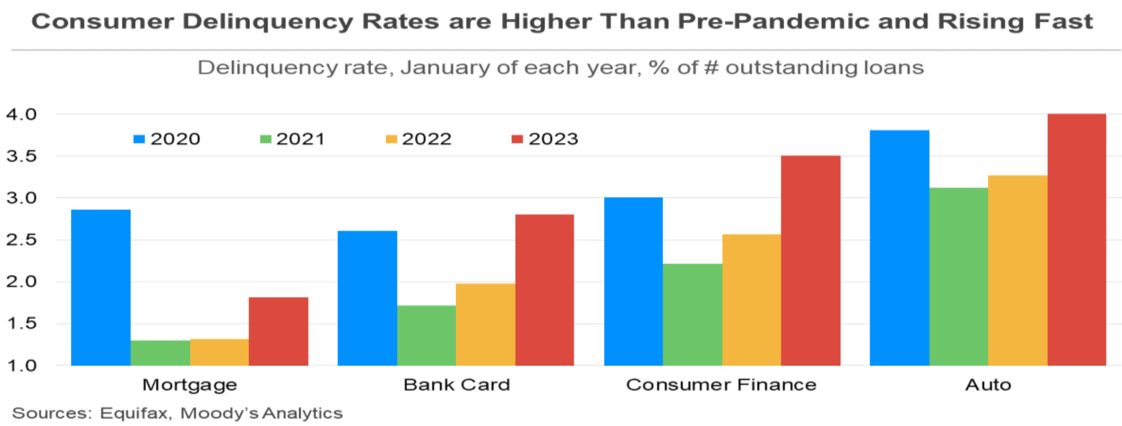
Source: The Daily Shot | Jesse Felder

d) Most professional investors still see the current rebound as a bear market rally.



Source: BofA

e) Consumer delinquency rates on the rise.



f) Euro-Zone Business Activity Grows at Fastest Pace in Nine Months

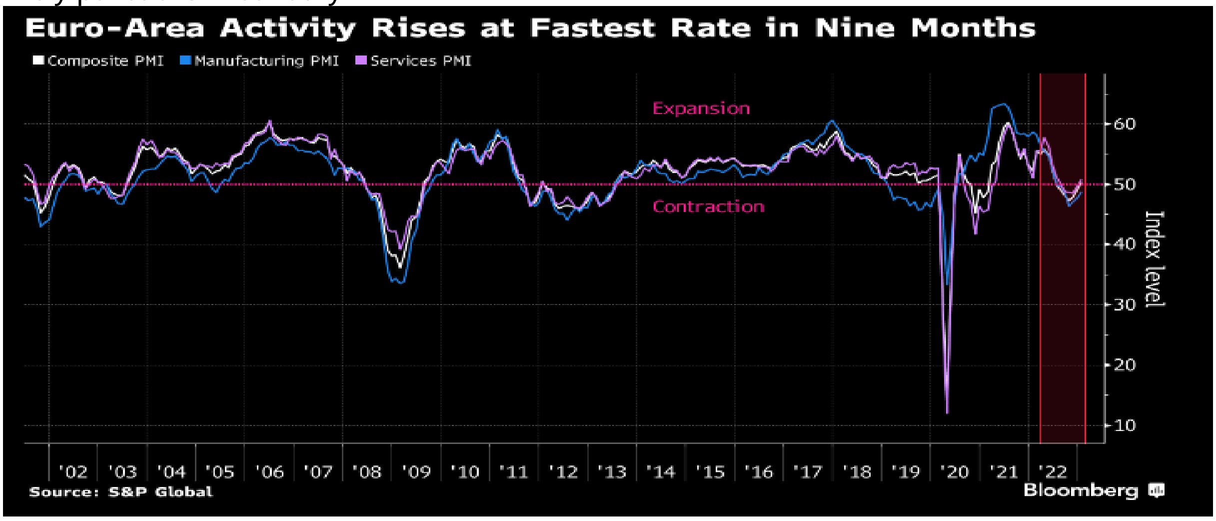
Composite PMI rises to 52.3; economist had seen 50.7

Data suggest economy may avoid contraction in first quarter

Euro-area business activity rose at the fastest rate in nine months in February — raising the likelihood that the bloc can avoid a downturn this quarter.

The better-than-expected performance was driven by services, which saw the strongest growth since June in surveys of purchasing managers by S&P Global. Manufacturing output also improved as supply-chain bottlenecks eased further.

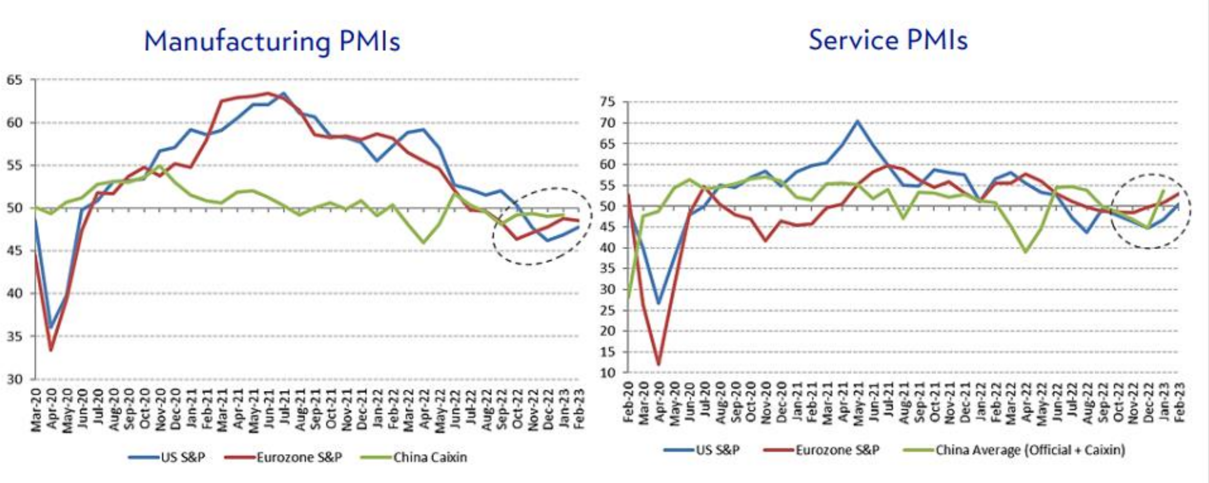
Activity rose across the region, with both France and Germany returning to expansion after likely pullbacks in January.



Source: Bloomberg

g) US, EUROZONE AND CHINA PURCHASING MANAGER INDICES

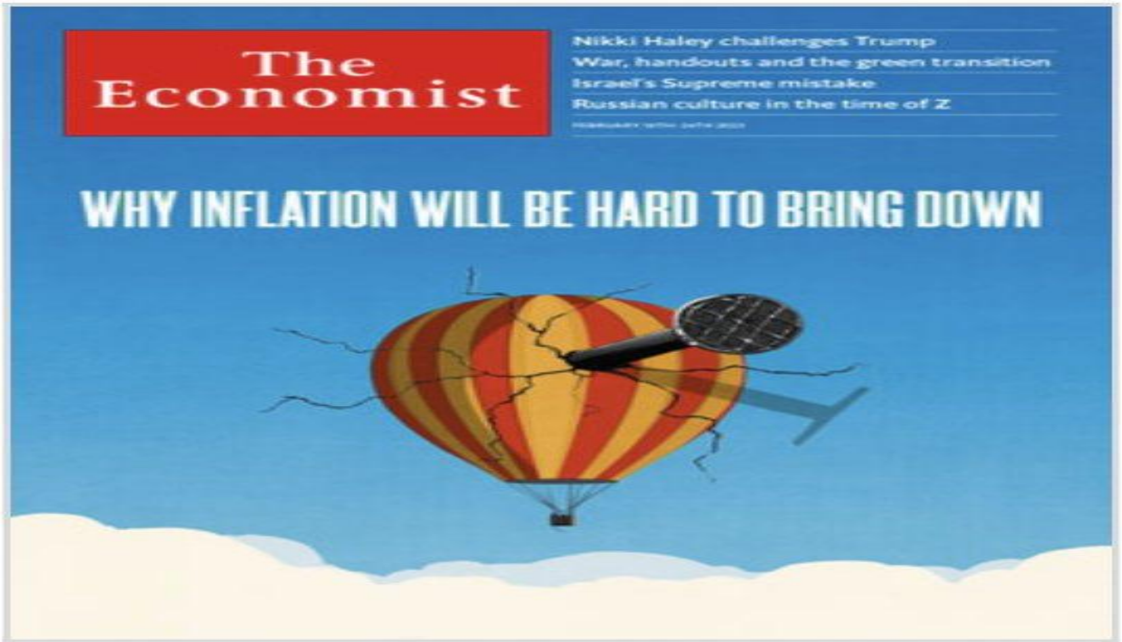
Preliminary February Purchasing Managers indices were released. The US composite rose from 46.8 in January to 50.2 in February, ending 7 straight months below the 50 mark. The consensus among economists was looking for 47.5. The Eurozone composite rose from 50.3 in January to a 9 month high of 52.3 in February. Both were driven by services and not manufacturing, which for Asia is worth noting.



Source: Rays Capital, Mark Matthews

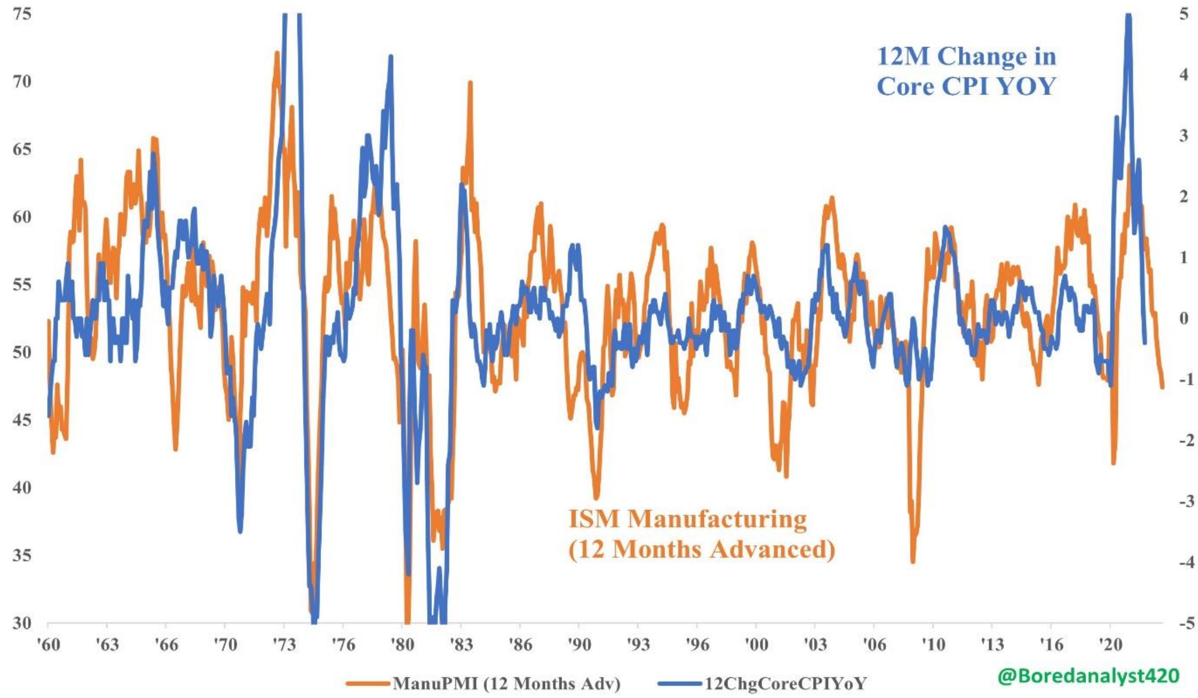
II) CENTRAL BANKS / BOND / INFLATION / USD

a) The higher for longer is now The Economist front-page material I take the opposite of that thank you.



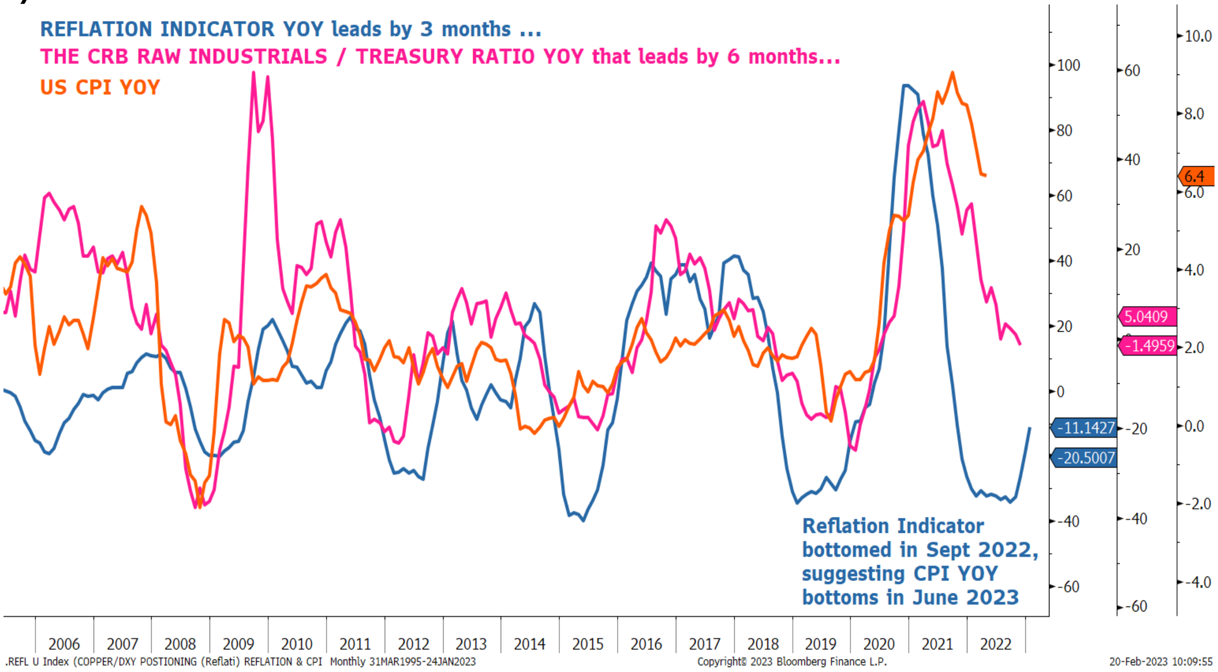
Source: The economist, Andreas Steno Larsen

b) ISM Vs Core CPI Core: Disinflation ahead



Source: IntelArb

c) Reflation and CPI



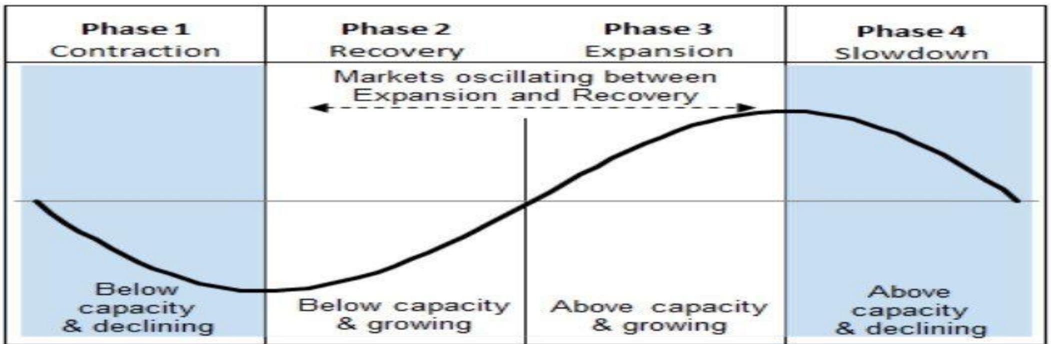
Source: Bloomberg

d) Jeff Currie, GS: The commodity market is positioned for a sharp move higher thanks to a "rare macro setup"

"Due to China being locked down during the second half of last year, the global economy was slowing below capacity and by late 4Q22 commodity inventories were outright building. Now we have a global economy where the US is accelerating above capacity and China is accelerating far below capacity, but at an increasing rate. This is occurring in a late cycle inventories and exhausted spare capacity, but accelerating demand growth below trend. When China pushes demand above supply, the system will likely bump into capacity constraints on supply and inventories, recreating classic late cycle strong returns"

Exhibit 8: Commodities outperform during expansions.

Average annualized daily return by phase of Global Business Cycle

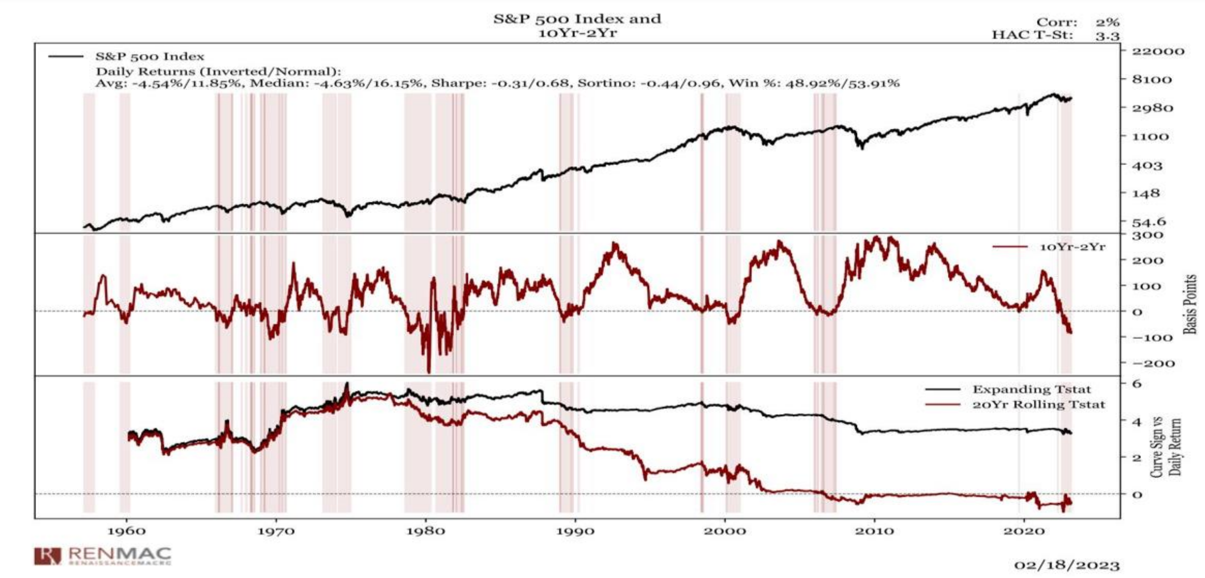


Relative Ranking of Assets (average return by phase, annualized)

Phase 1		Phase 2		Phase 3		Phase 4	
Bonds	12.2%	Equities	19.1%	Commodities	18.7%	Bonds	14.3%
Equities	10.6%	Bonds	4.4%	Equities	15.5%	Commodities	8.8%
Cash	2.9%	Commodities	2.1%	Bonds	5.8%	Cash	5.6%
Commodities	-1.1%	Cash	3.0%	Cash	5.1%	Equities	-12.4%

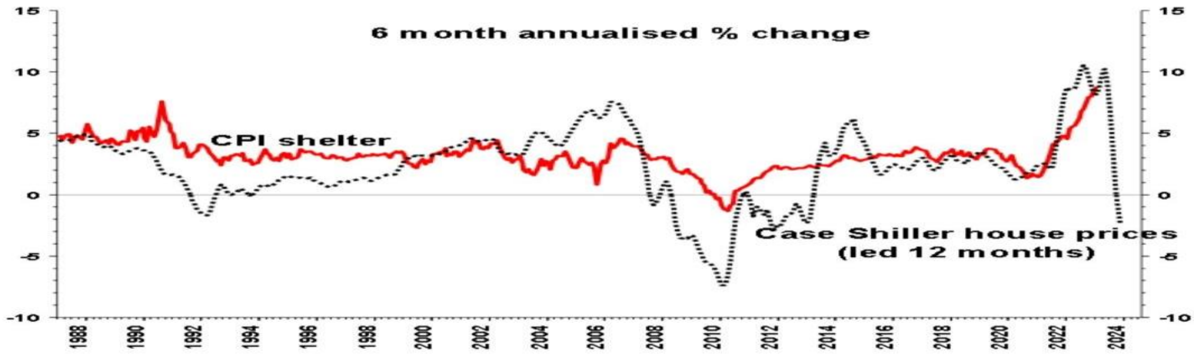
Source: Goldman Sachs Global Investment — View in context

e) How effective is the yield curve at predicting market direction? Red line bottom pane shows 20yr rolling t-stat vs $SPX forward return. When I got in the biz in 1990 it was critical, it's been losing efficacy ever since.



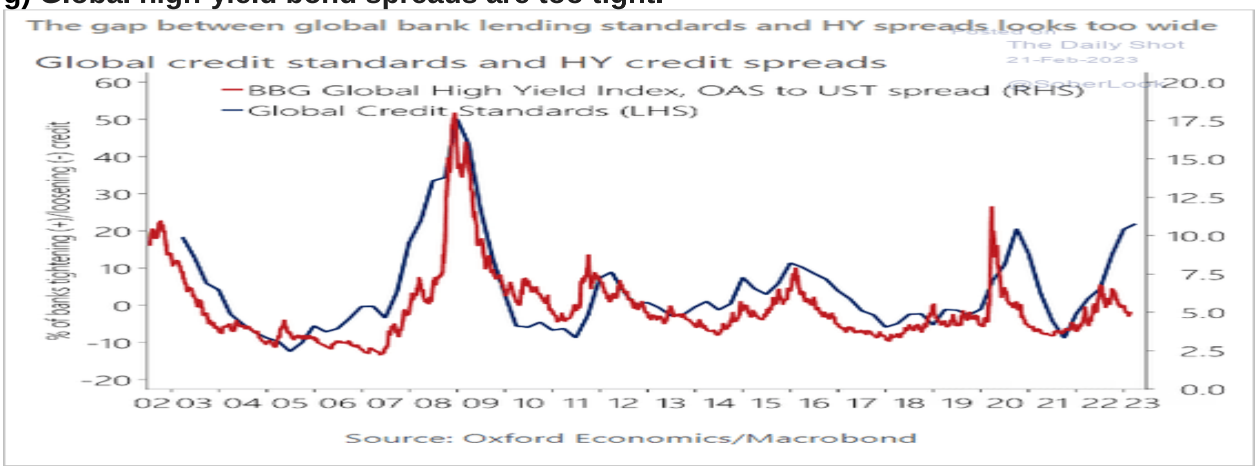
Source: Renmac

f) "US CPI is being super inflated by the dominant shelter component (weighting has just increased to 34.4%). Both the yoy and 6M change continued to rise still further.
But we know from looking at house prices where the CPI shelter component is heading over the next year."



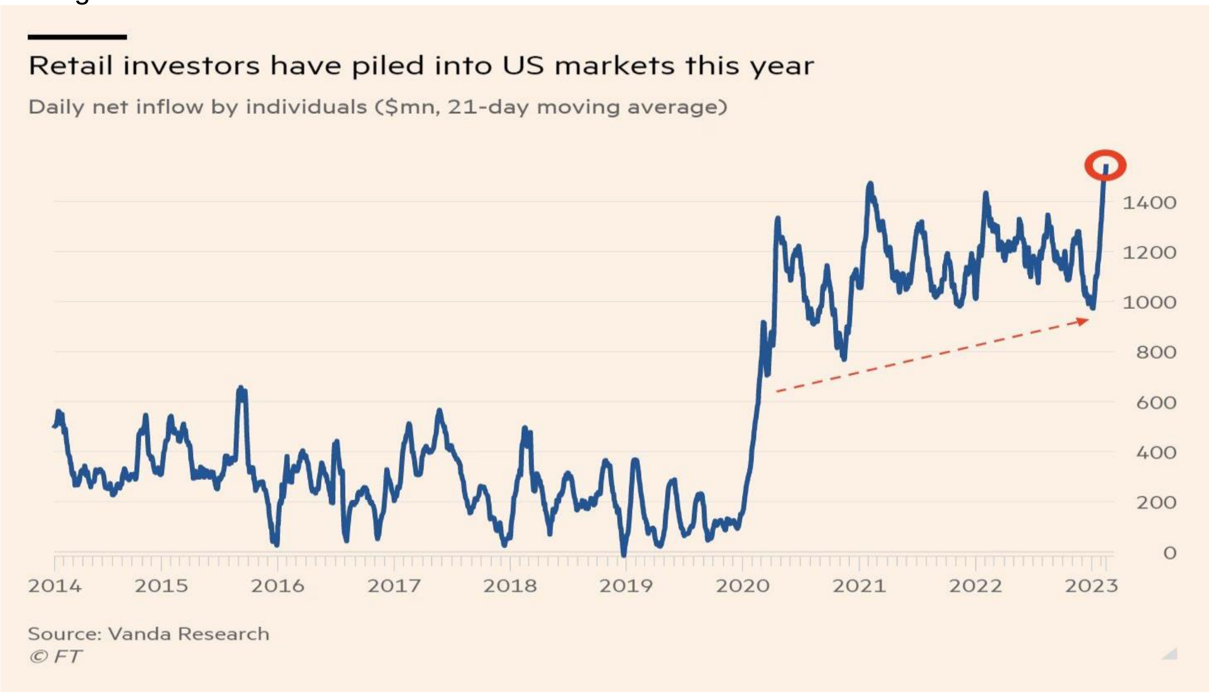
Source: Albert Edwards

g) Global high-yield bond spreads are too tight.



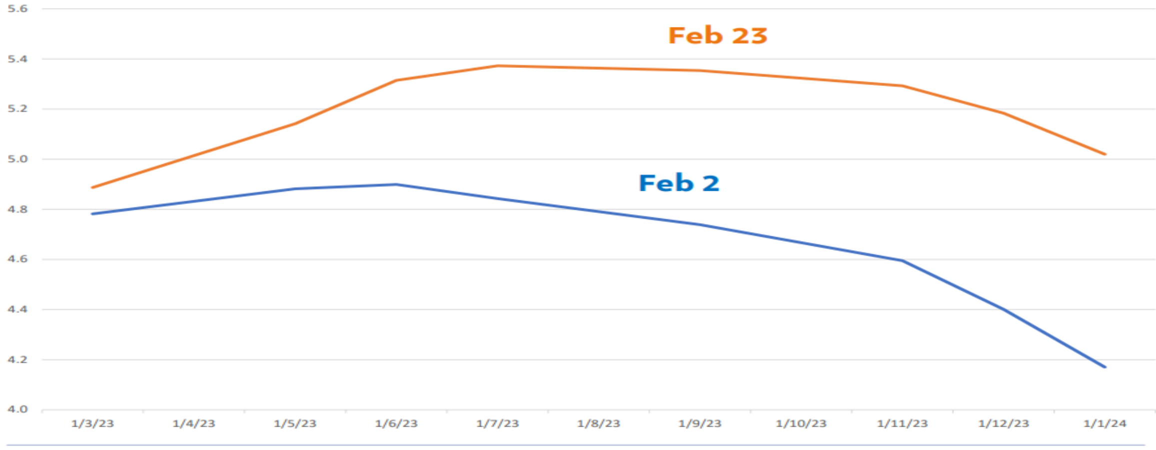
Source: Oxford Economics

h) Who Says Retail Investing Is Dead?
Retail has put $1.5 Billion to work each day over the past month, making up 25% of all stock trading - a record.



Source: FT

i) The futures curve is pricing 3 more 25 basis point hikes - one each at the March, May and June meetings - before the Fed's hiking cycle concludes at a terminal rate of 5.4% in July. At the beginning of February, it saw the terminal rate coming in June, at 4.9%.



Source: Julius Baer

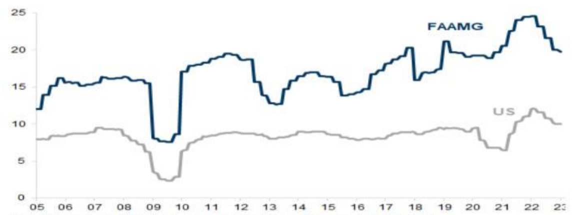
III) MARKETS & SECTORS

a) GRANOLAS Vs FAAMG

It might be time to make some space for the GRANOLAS. The acronym, dubbed by Goldman Sachs, refers to the companies that now account for a quarter of Europe's STOXX 600 index: GlaxoSmithKline, Roche, ASML, Nestlé, Novartis, Novo Nordisk, L'Oréal, LVMH, AstraZeneca, SAP, and Sanofi.

Sure, these companies don't boast the jaw-dropping growth rates the FAAMG stocks have seen, and they're a lot less likely to make headlines. But they do enjoy similarly attractive margins, stable earnings growth, and healthy dividends. And those things, along with their "value" characteristics, make them well-placed to benefit from a recovery in economic growth, and less dependent on whatever happens with inflation, interest rates, and overall sentiment.

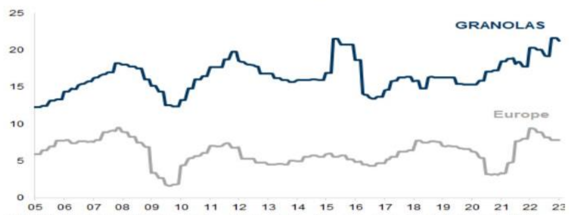
Exhibit 21 : The margins of the FAAMG stocks have started to come under pressure...
FAAMG and US market, Net Profit Margin (LTM)



FAAMG: Facebook (Meta), Amazon, Apple, Microsoft, Google (Alphabet)

Source: Datastream, Worldscope, Goldman Sachs Global Investment Research

Exhibit 22 : ...while, so far, the GRANOLAS have enjoyed continued premium margins
GRANOLAS and Europe market, Net Profit Margin (LTM)



GRANOLAS: Glaxosmithkline, Roche, ASML, Nestle, Novartis, Novo Nordisk, L'Oreal, LVMH, Astrazeneca, SAP, Sanofi

Source: Datastream, Worldscope, Goldman Sachs Global Investment Research

Source: Goldman Sachs, Stéphane Renevier

GRANOLAS Vs NYSE FANG

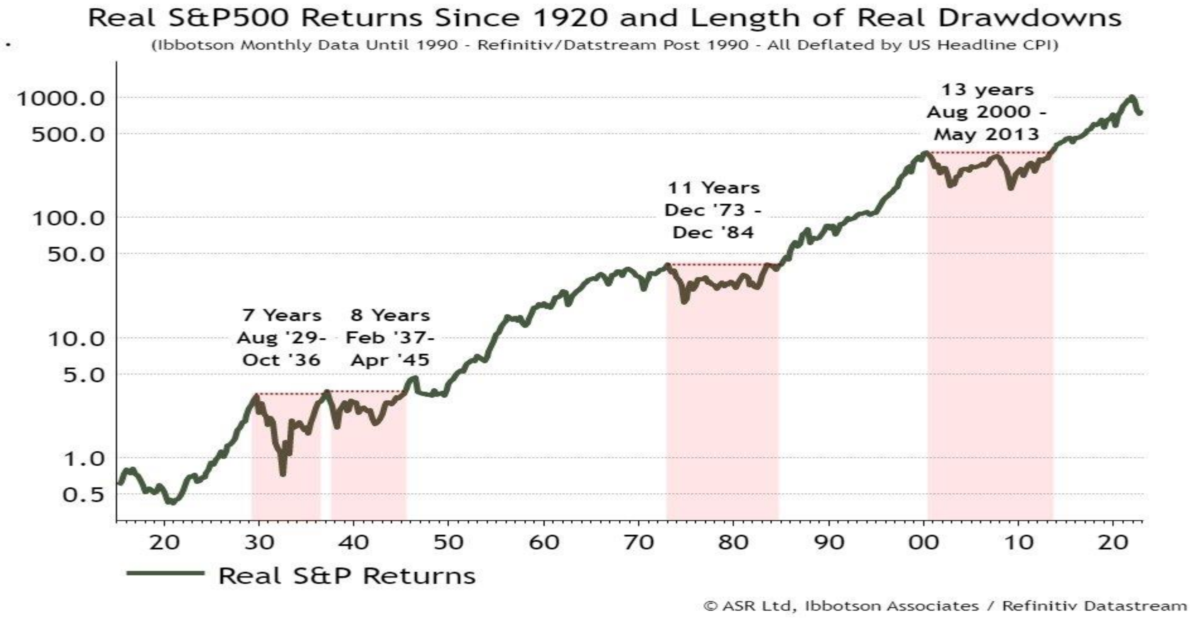
Source: Bloomberg

b) Retail investors are reportedly injecting a record $1.5 billion per day into the stock market in 2023.

Source: Vanda Track

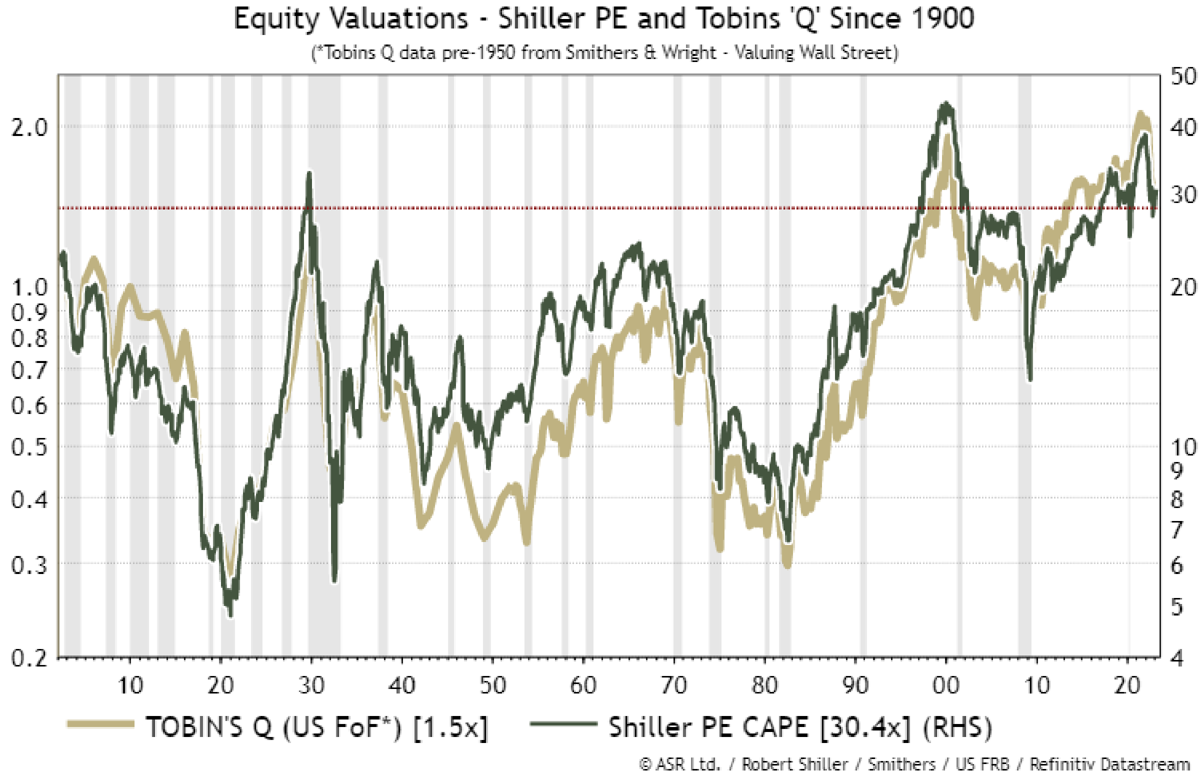
c) Valuation matters

Several people asked how long can you have 'dead money' in Equities if you include dividends. The chart below shows inflation adjusted total returns since 1920. It appears that buying at the wrong valuation can leave you out of pocket for 10 years or more.



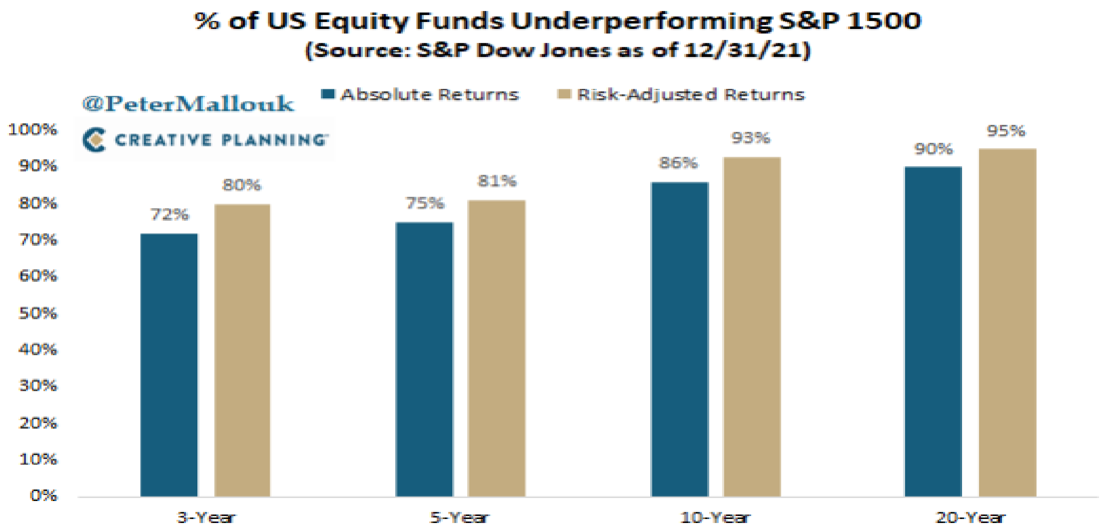
Source: AST Ltd

Fundamental valuations, such as the Shiller PE and Tobin's Q, have only been higher than now on three occasions 1929, the late 1960s and 2000.



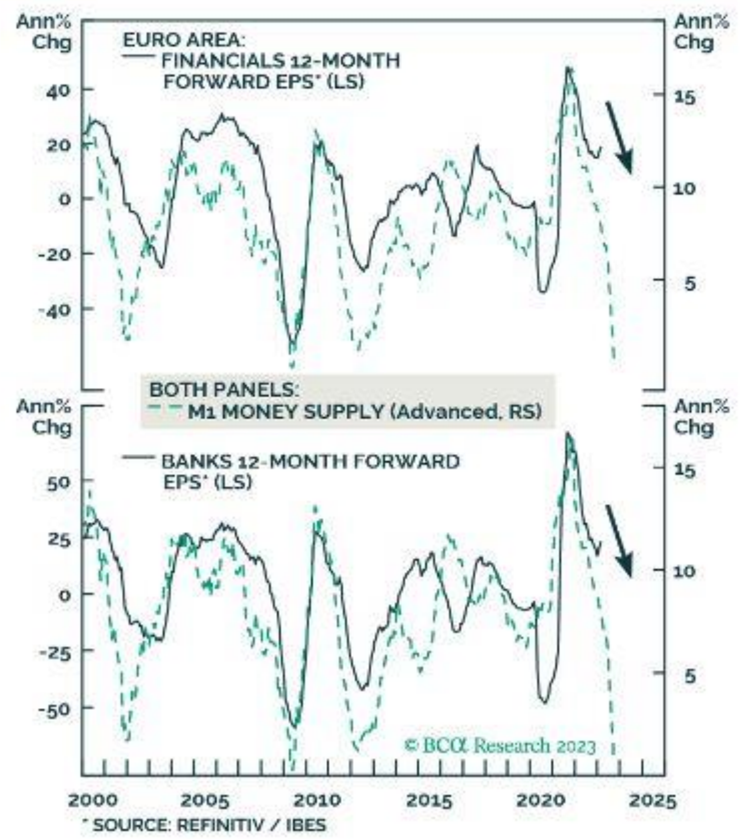
Source: AST Ltd

d) The longer you invest in active strategies, the more certain it becomes you will underperform, and it looks even worse on a risk-adjusted basis.



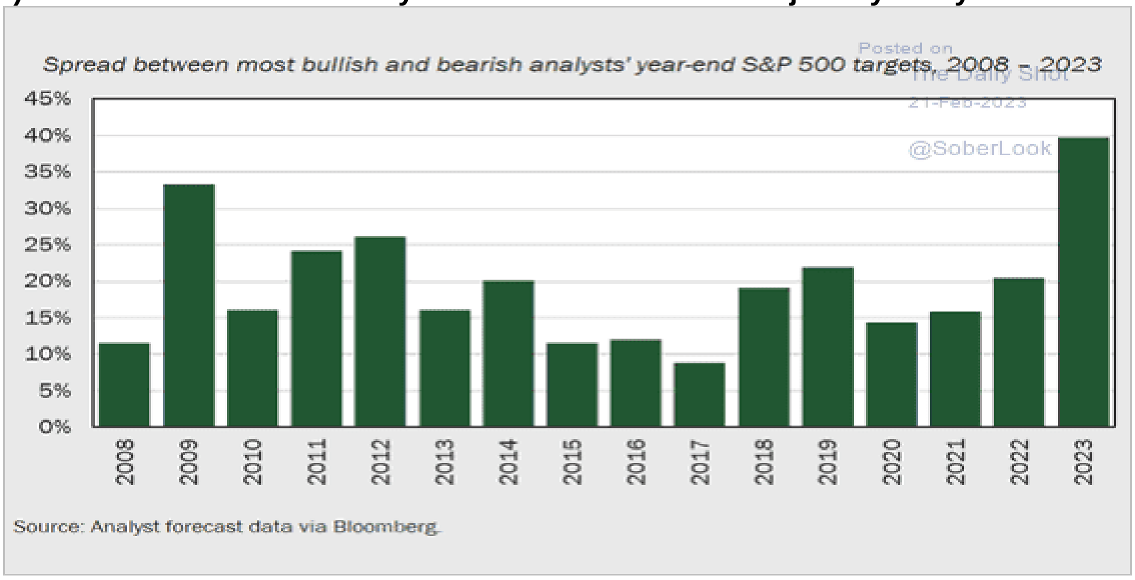
Source: Peter Mallouk

e) Liquidity crush bodes badly for financial eps growth



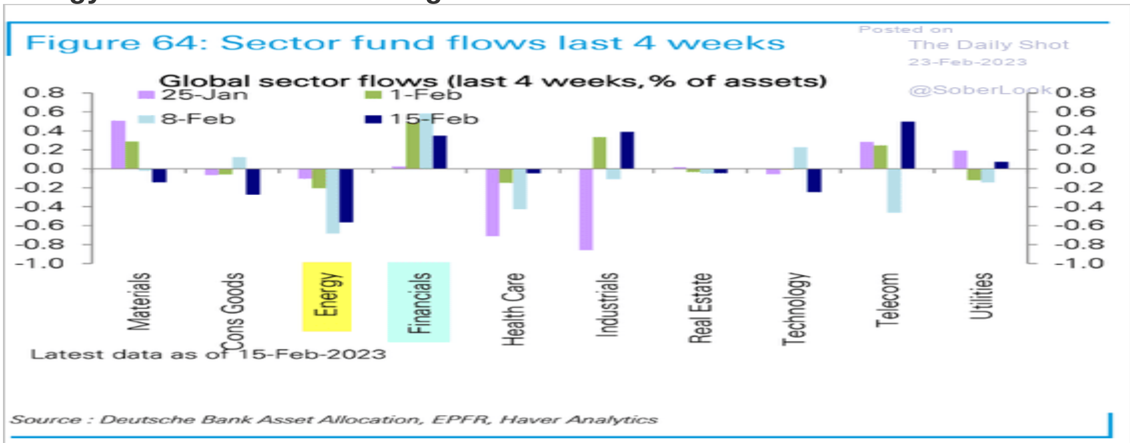
Source: BCA

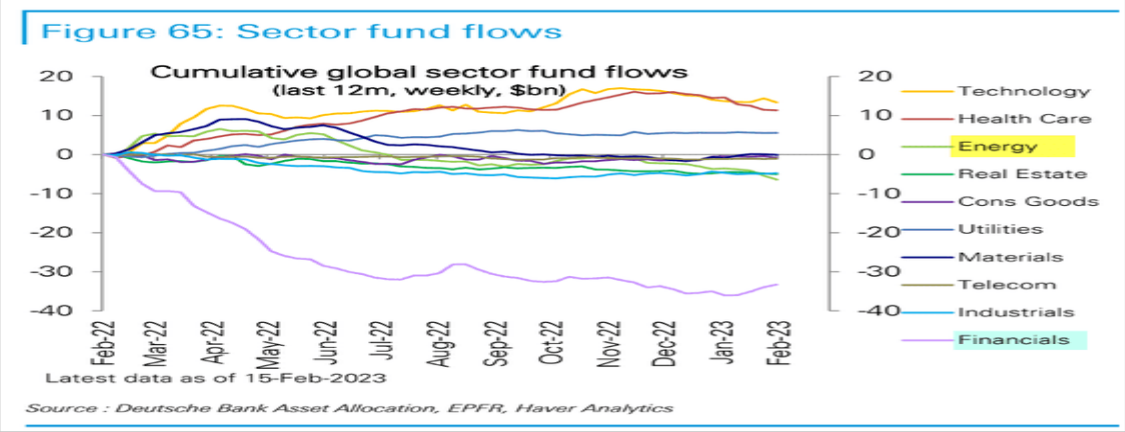
f) There is a lot of uncertainty about the stock market trajectory this year.



Source: @HendersonRowe; @TopdownCharts

g) Fund flows into financials are recovering after massive withdrawals last year. Energy-sector funds are seeing outflows.

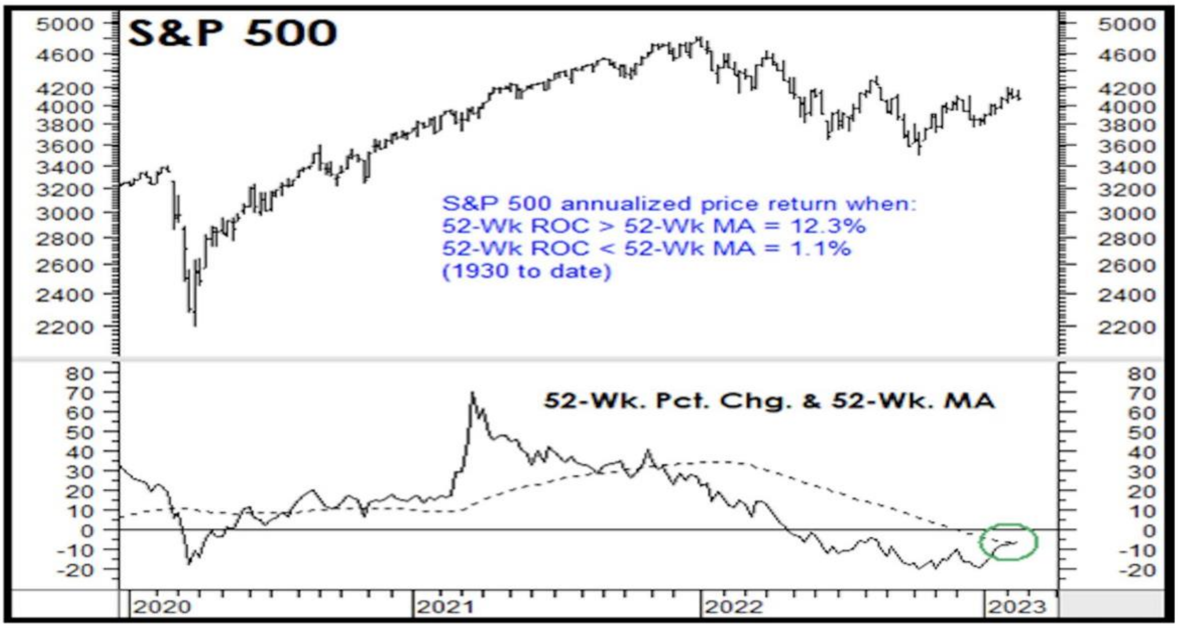




Source: Deutsche Bank

h) 52/52 Model – Leuthold Group

It calculates each week for S&P 500. This model compares the 52-wk rate of change in an index to the 52-WMA of the rate of change. Bullish reading on the Model for 1st time since May 2021. We know what happened thereafter.
Since 1930 annulized = 12%



Source : Leuthold