THE WEEK THAT WAS IN FINANCIAL MARKETS – February 10 –

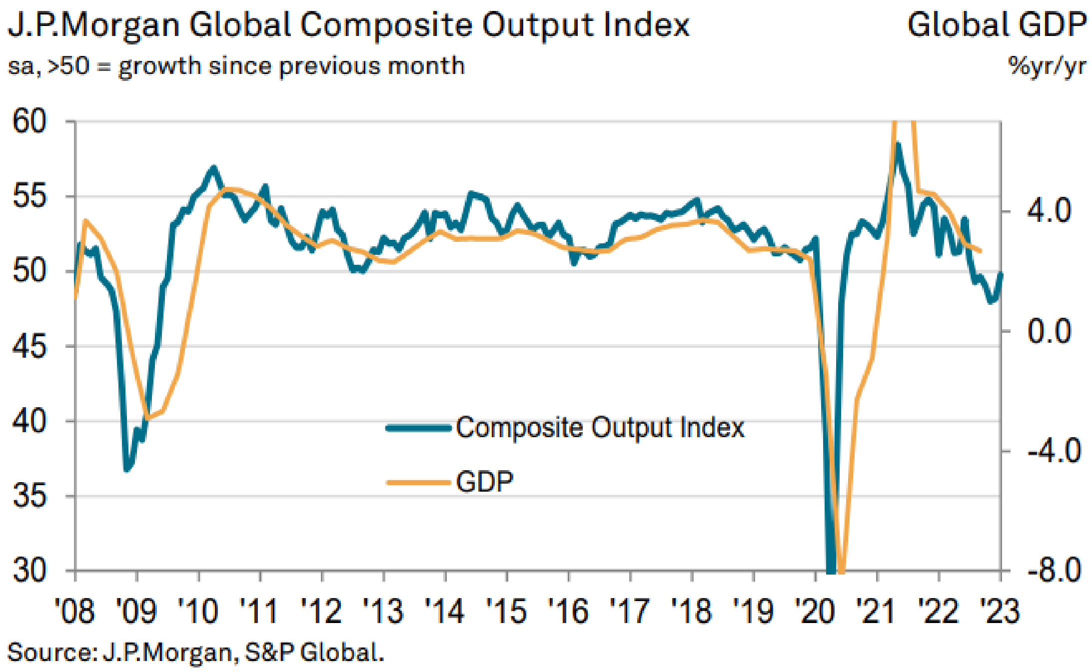
Source: Hedgeye

MENU

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

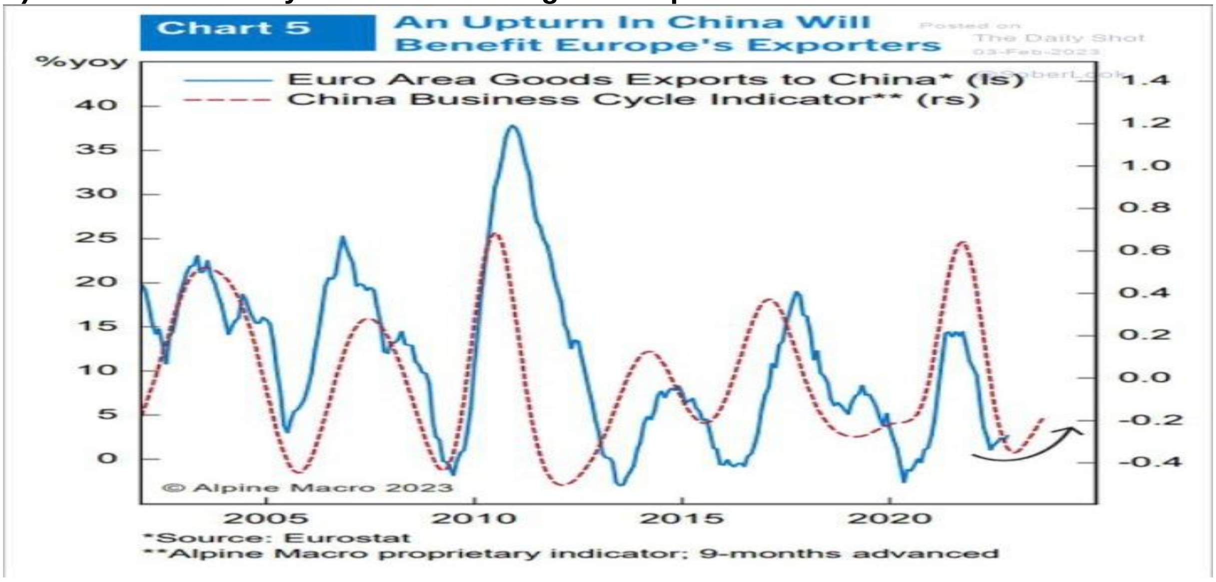
a) Global Composite PMI - Global economic activity and new orders show signs of stabilization at start of 2023 as the index increased to 49.8 in January from 48.2 in December

Data broken down by nation signalled that the main pockets of growth were located in Asia. China and Japan both returned to expansion following recent downturns, while India again recorded the strongest rate of growth of the nations covered.



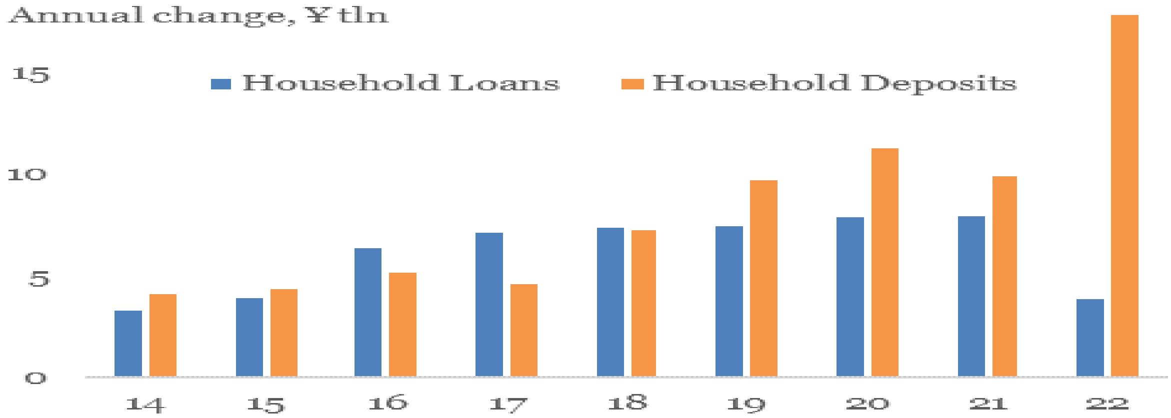
Source: JP Morgan, Michal Stupavsky

b) China Business cycle Vs Euro Area goods exports



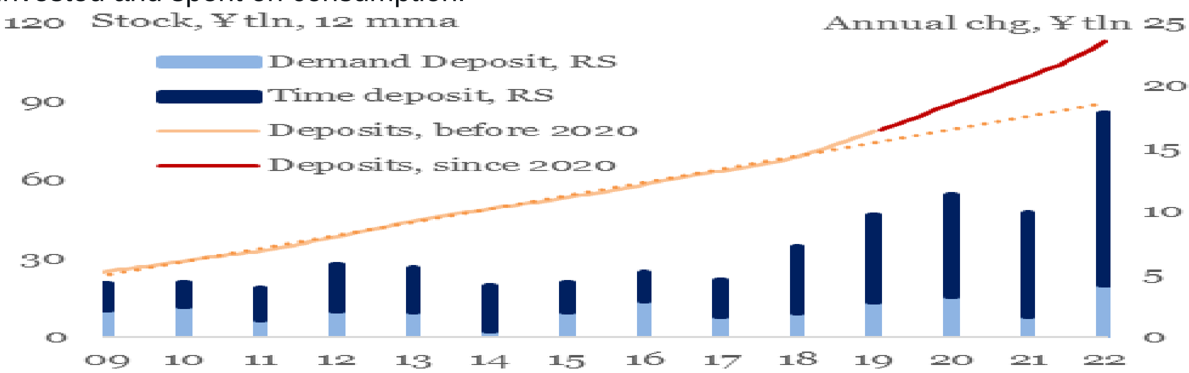
Source: Alpine Macro

c) Chinese households' bank deposits surged to ¥18 tln last year, ¥8 tln more than 2021 and about ¥36K per family. Money was saved from less consumption, fewer home purchases, and less financial investments.



Source: Gene Ma

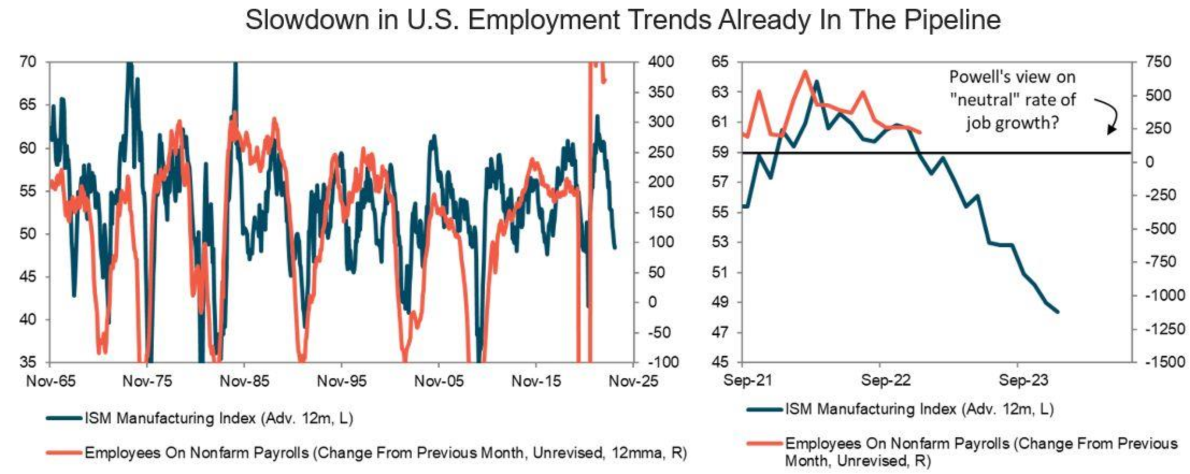
HH deposits are more than ¥20 tln more than the level projected using the pre-Covid trend. We expect home purchase to remain depressed this year. This allows more money to be invested and spent on consumption.



Source: Gene Ma

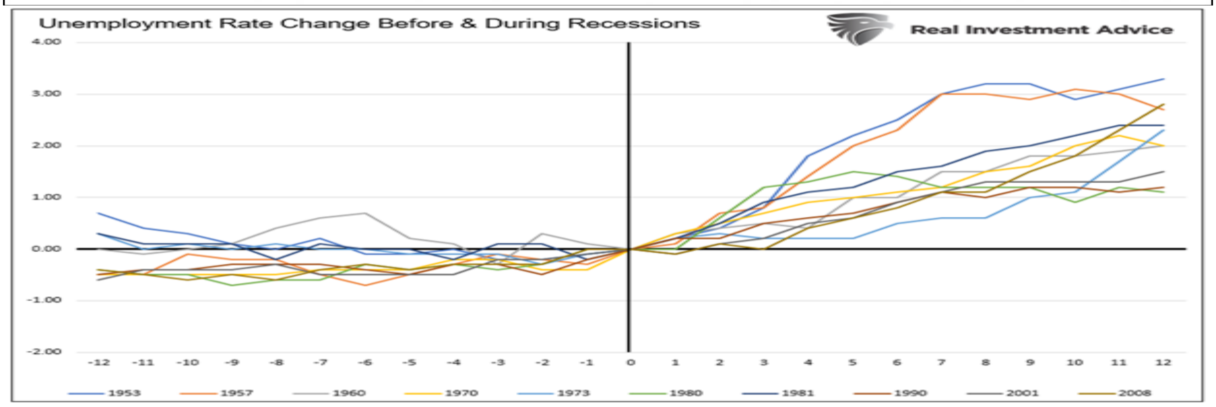
d) File this one in the "be careful what you wish for" category as softer labor markets will not likely get the market reaction that many are looking for. Many believe that looser labor markets will get the Fed off to the sidelines and that this will be a positive for stocks.

Unfortunately, in a world where S&P 500 EPS are already off their peak, any weakness in employment adds up to slower economic growth since consumption is 68% of GDP. The series is smoothed in the chart and is starting from levels rarely seen. Still, employment is doing what it typically does in the wake of weaker LEIs like the ISM and it is slowing (chart goes back 1965). That's a 1-year lead time by the way so the slowdown has a ways to go here.



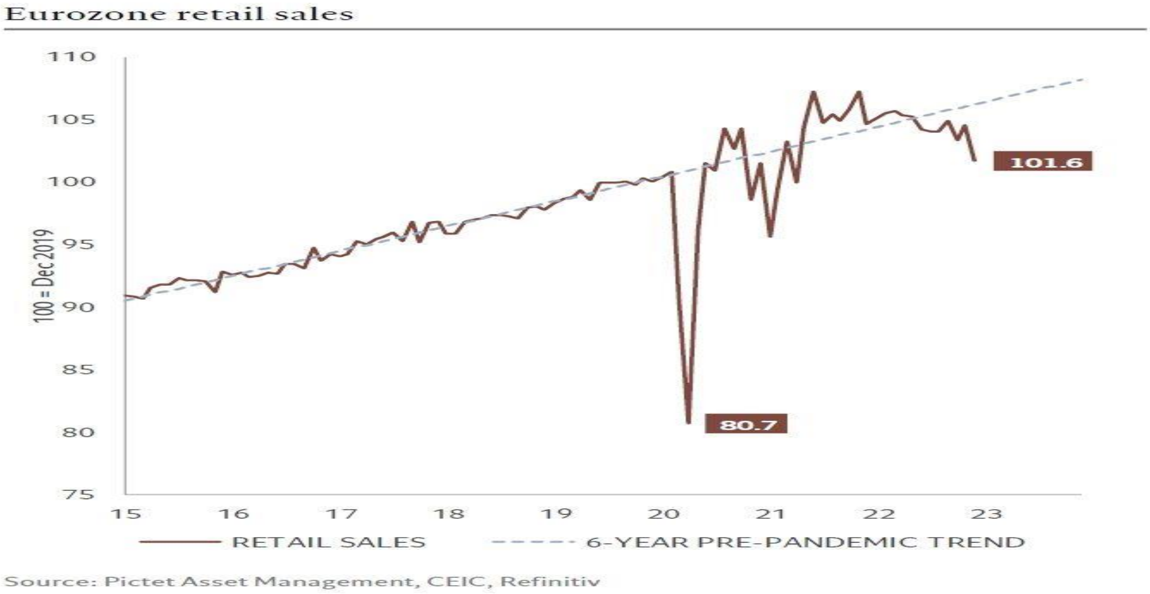
Source: Francois Trahan

e) Labor: "You don't have a recession when you have the lowest unemployment rate in 53 years." - Janet Yellen. 100% false.



Source: Real investment Advice

f) Eurozone retail sales dropping like a stone



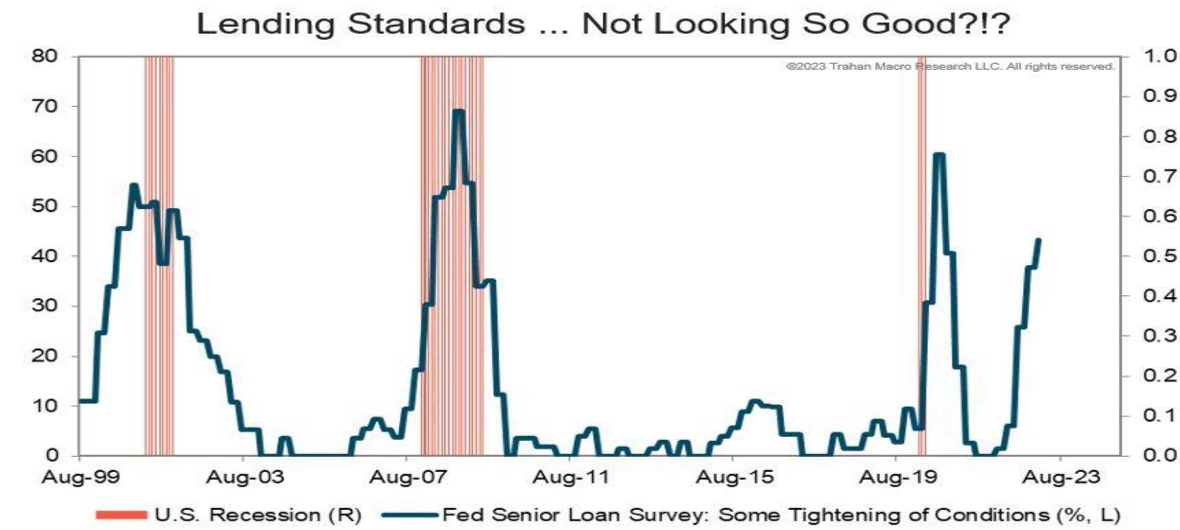
Source: Pictet AM

II) CENTRAL BANKS / BOND / INFLATION / USD

a) Markets are pricing in an abrupt end to global monetary tightening, with most developed-market central banks cutting rates within the next year.

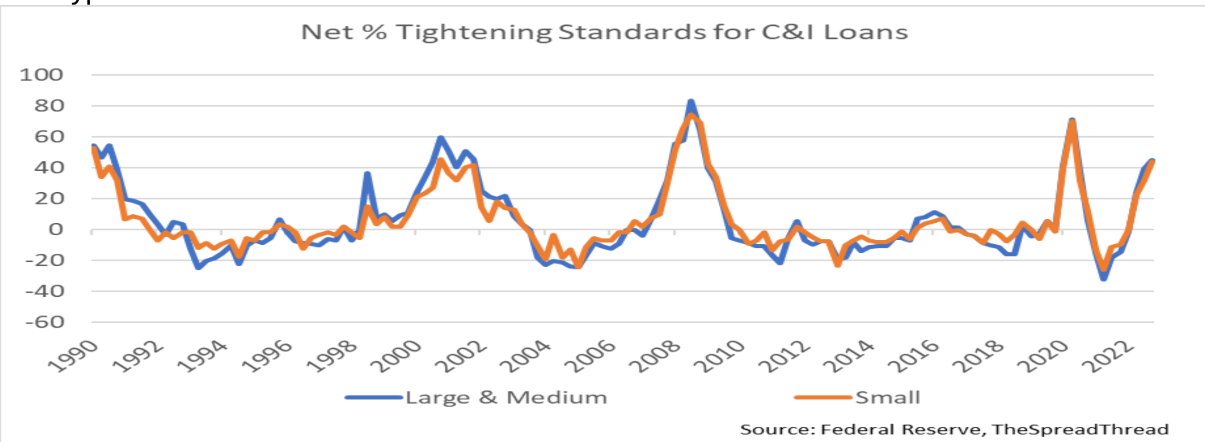
Source: Bloomberg

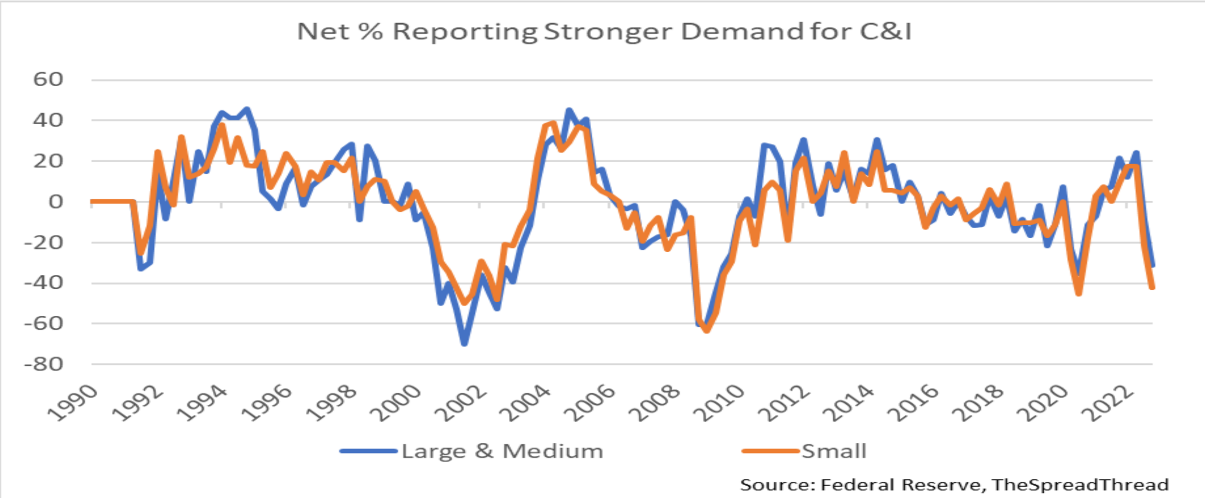
b) This chart shows lending standards by U.S. banks. A full 43% of banks are now tightening lending standards ... up from 0% a mere 15 months ago. Something's clearly changed. I am just eyeballing this chart and it looks like 50%-60% is where it typically tops out in a recession. What's that old saying "if it walks like a duck and quacks like a duck ...".



Source: Francois Trahan

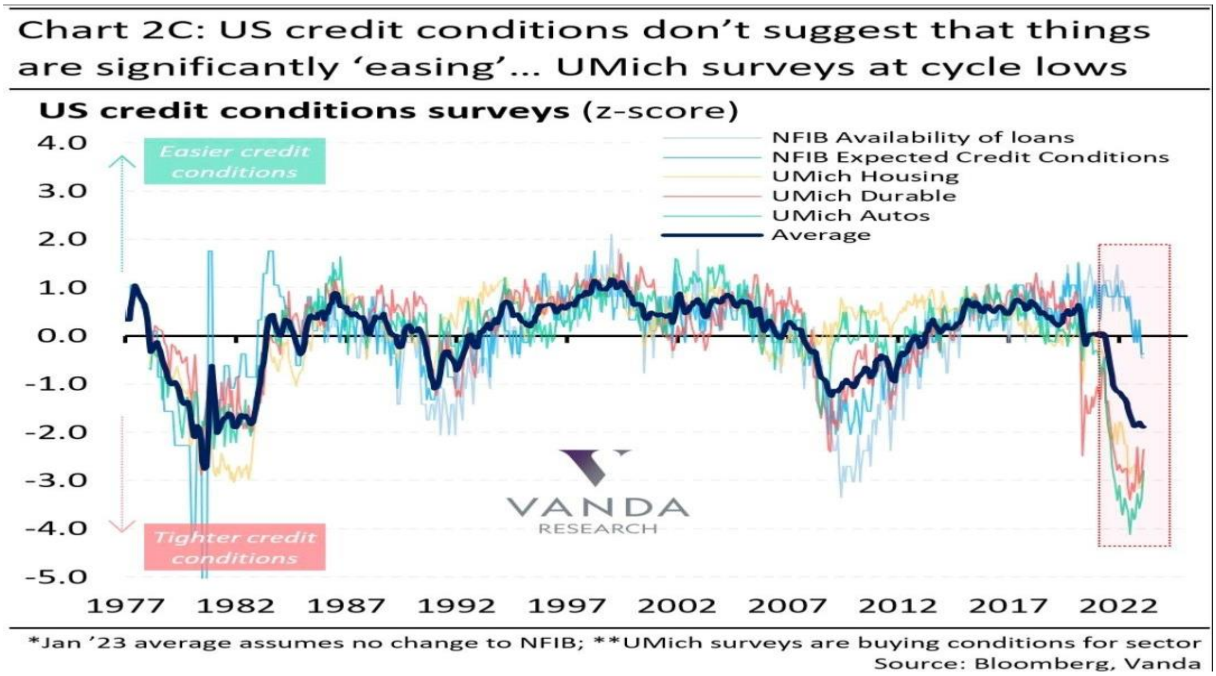
« The question on banks expectations going forward: "Banks, on balance, reported expecting lending standards to tighten, demand to weaken, and loan quality to deteriorate across all loan types."”





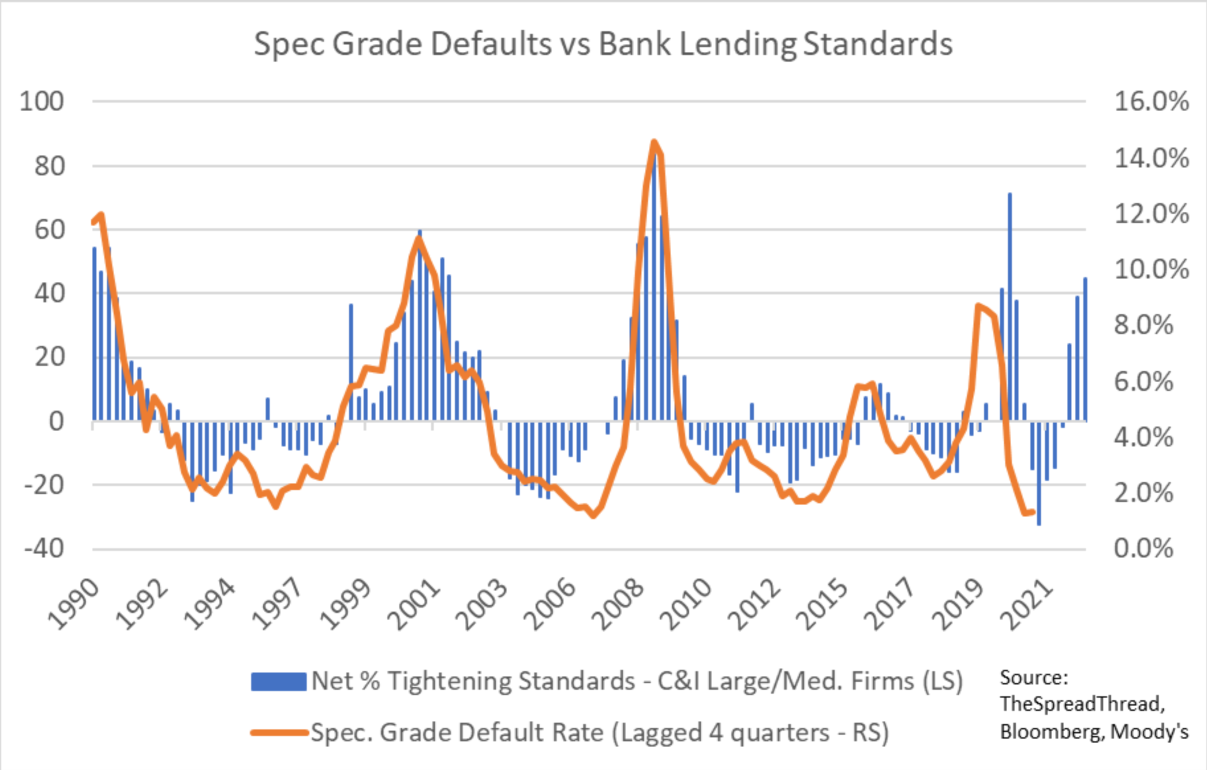
Source: The Spread Thread

c) US credit conditions are not easing



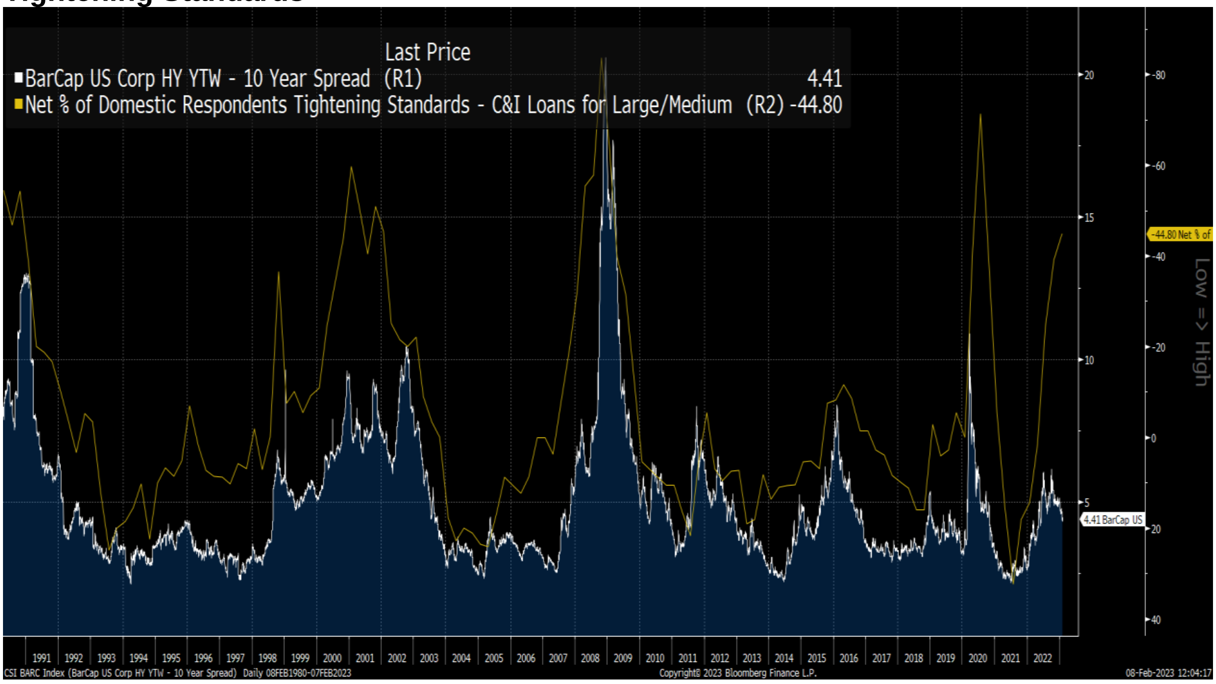
Source: Francois Trahan

d) Remember, lending standards lead defaults. First you get the leverage (in the bull mkt), then the cost of borrowing goes up, then lending standards tighten (co's that need capital have trouble getting it), then defaults. Lending standards lead by about 1yr.



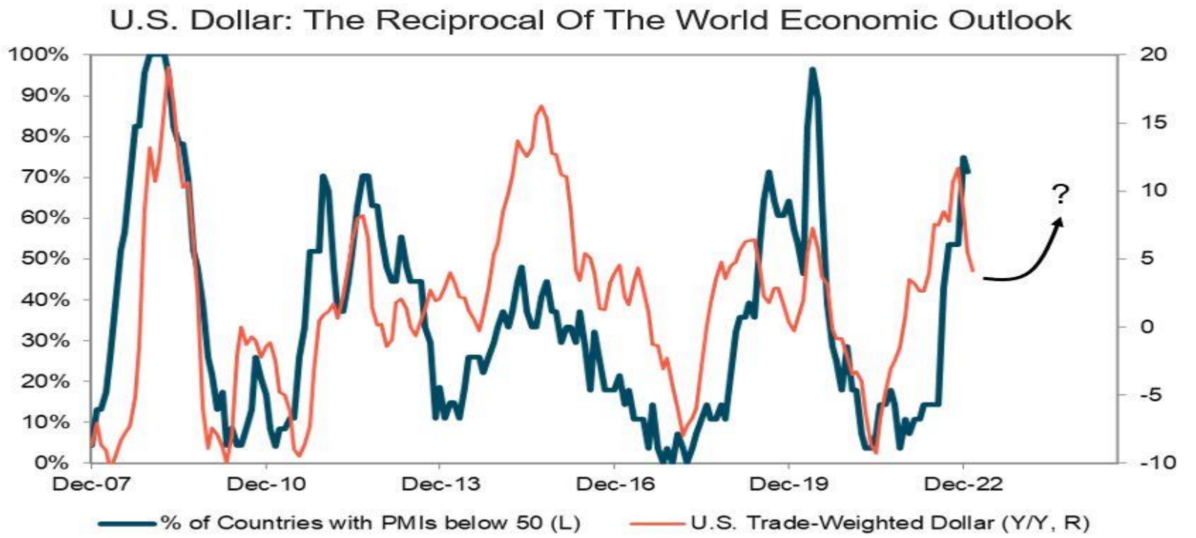
Source: The Spread Thread

e) HY spread (IG spread too) is at a level that is inconsistent with Commercial Bank's Tightening Standards



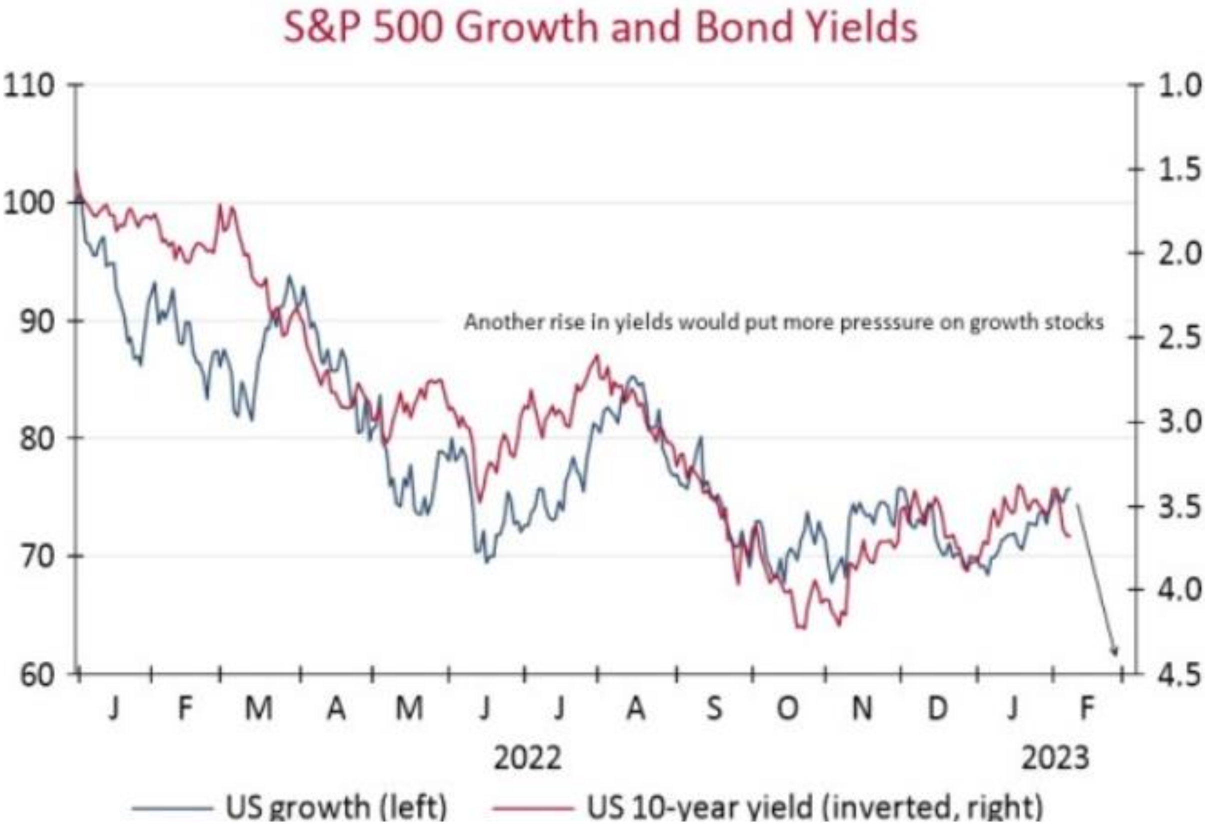
Source: Bloomberg

f) Friendly reminder that the USD is just the inverse of the world economy. If you believe the world accelerates this year then you should be bearish the dollar. That said, there is little I feel stronger about than the USD moving higher in 2023 as the world economy digests the lagged effects of monetary tightening.



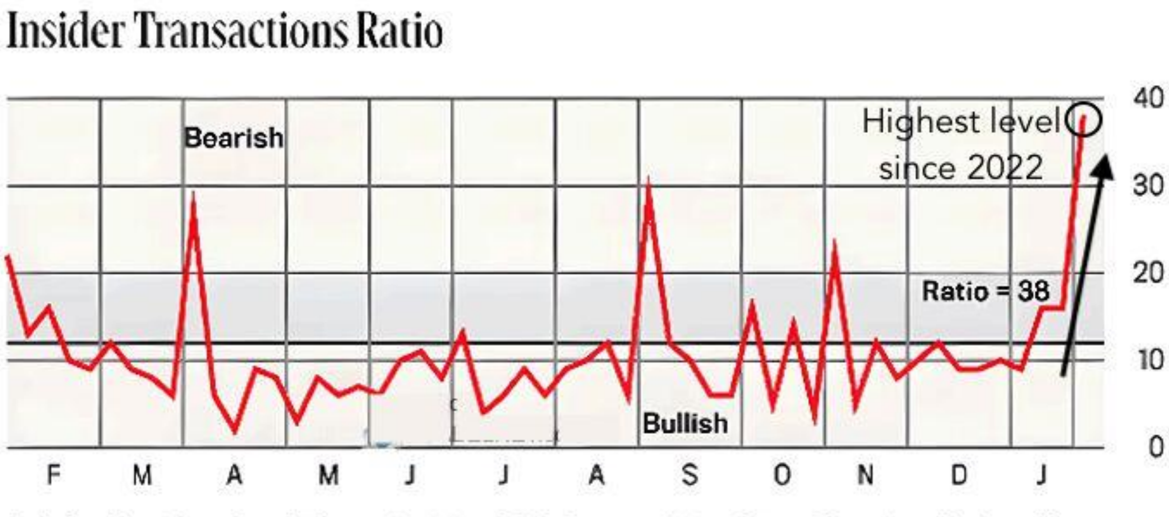
Source: Francois Trahan

g) Growth Vs Bond yields



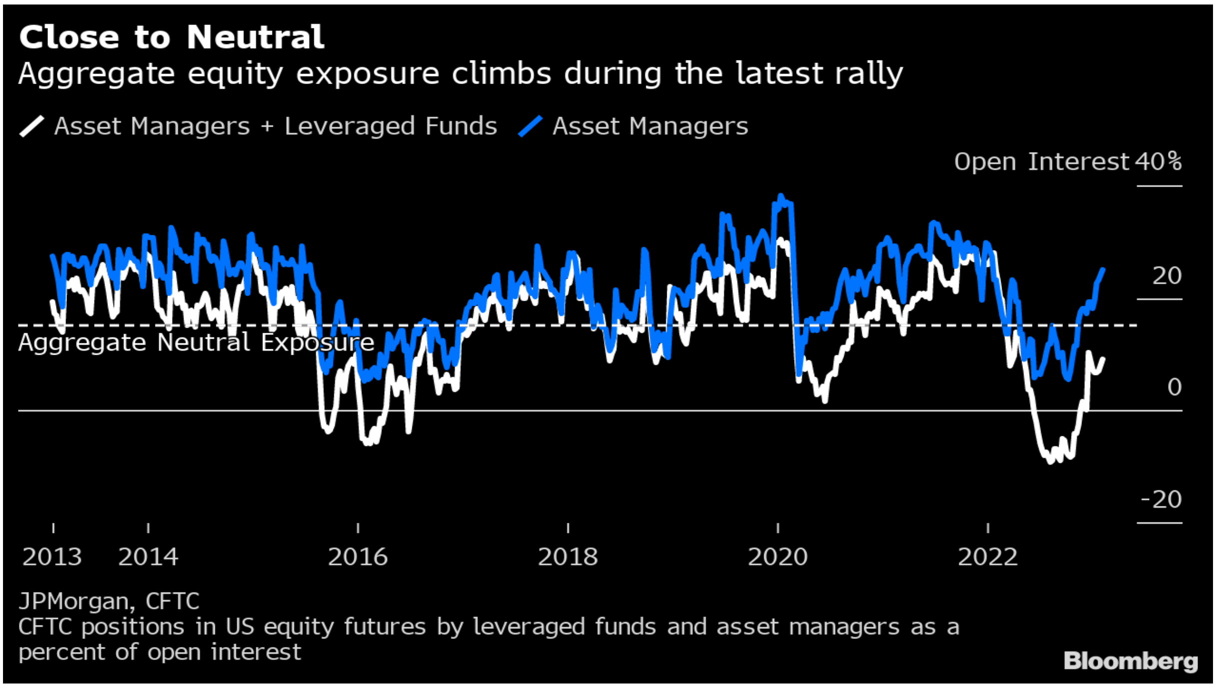
Source: Tim Rocks

h) Insiders have increased their stock sales along with the current rally. This is the biggest wave of insider selling since 2022.



Ratio of Insiders Sales to Buys. Readings under 12:1 are Bullish. Those over 20:1 are Bearish. The total top 20 sales and buys are 299,587,469 and 7,986,828 respectively; Source: Thomson Reuters

i) "Our equity futures positioning proxy has moved closer to the middle of its historical level suggesting that the previous equity shorts or underweights of last October have been largely covered," said JPMorgan strategist Nikolaos Panigirtzoglou.



Source: JP Morgan, Bloomberg

III) MARKETS & SECTORS

a) Here are the P/E ratios of the Top 20 companies in the NASDAQ right now.

P/E Ratio: 20 Largest NASDAQ Components

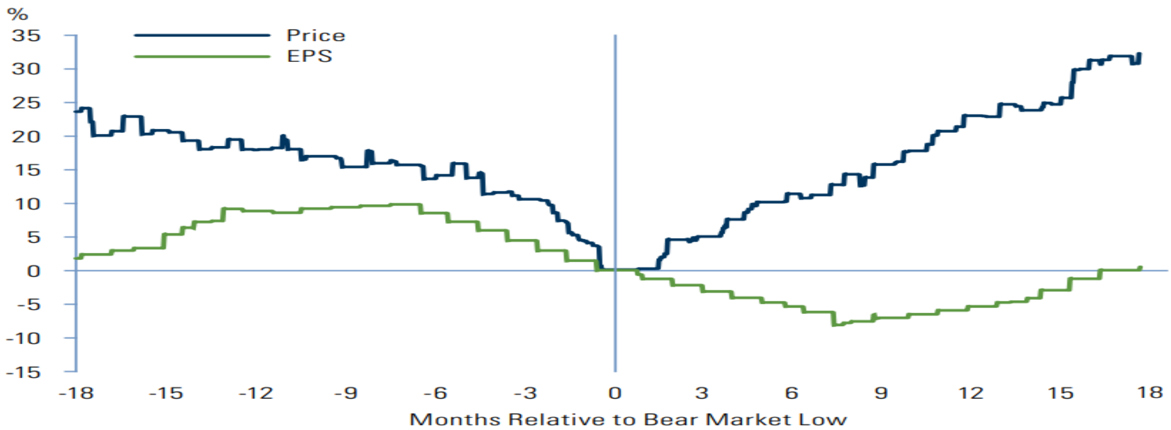
Market Cap Rank	Company	P/E Ratio	Est. P/E Ratio	Market Cap Rank	Company	P/E Ratio	Est. P/E Ratio
1	Apple	23.79	23.76	11	Costco	39.42	35.79
2	Microsoft	26.20	26.97	12	Cisco Systems	17.24	13.68
3	Alphabet	17.90	21.35	13	AstraZeneca	1,619.57	19.26
4	Amazon	32.46	--	14	T-Mobile US	73.18	21.90
5	Tesla	50.10	46.71	15	Adobe	38.02	25.09
6	NVIDIA	54.44	64.05	16	Comcast	32.97	10.85
7	Meta Platforms	17.83	16.54	17	Texas Instruments	19.36	24.06
8	ASML Holding NV	43.71	33.26	18	Netflix	39.62	31.82
9	Broadcom	22.72	14.74	19	Qualcomm	12.12	13.59
10	PepsiCo	30.52	25.38	20	Honeywell	28.44	22.59

Source: Refinitiv, as of 2/2/2023. File #0763 @JeffWeniger

Source: Jeff Weniger

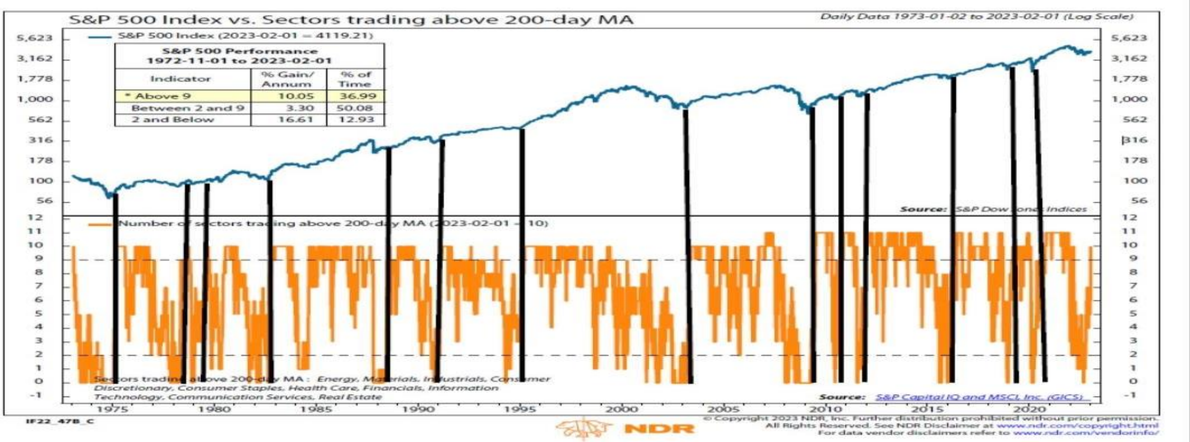
b) Stocks bottom 6-9 months before earnings.

Equities have typically troughed 6—9 months before earnings reach their low in past bear markets.



Source: Albert Edwards

c) "The number of sectors trading above their 200-day moving averages has gone from zero in September to ten. All prior zero-to-ten cases since 1973 are marked on the chart and have generally been good buying opportunities."



Source: Ned Davis Research

d) The bear market ain't over until EPS says so.

Exhibit 3: Forward EPS Growth Is Now Negative for Just the Fifth Time Since 2000; History Shows Price Downside Is in Front of Us, Not Behind Us

Source: Morgan Stanley

e) History shows the S&P500 bottoms after (not before!) a recession starts.
So, if you think the lows are 100% behind us and this is a new bull market, these are the options:
- No (earnings) recession at all
- "This time is different"

The S&P 500 bottoms after, not before a recession starts

Start of recession	Lows in unemployment	*# months before/after recession starts*	1st Fed cut	*# months before/after recession starts*	S&P 500 lows	*# months before/after recession starts*
Nov-73	Jan-74	2	Jul-74	8	Oct-74	11
Jan-80	Jun-79	-6	Mar-80	2	Mar-80	2
Jul-81	Sep-81	2	May-81	-2	Aug-82	13
Jul-90	Mar-89	-16	May-89	-14	Oct-90	3
Mar-01	Dec-00	-3	Dec-00	-3	Oct-02	19
Dec-07	Dec-06	-12	Sep-07	-3	Mar-09	15
Average		-6		-2		11

Source: TheMacroCompass.com, Bloomberg

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f) In recessionary episodes, the average EPS decline is instead -30%.

In a recession, earnings decline for 5 quarters and on average by 30%

Economic Peak Month	Economic Trough Month	Quarters of EPS Decline	*EPS Change*
August-57	April-58	4	*-17,0%*
April-60	February-61	7	*-11,7%*
December-69	November-70	5	*-12,9%*
November-73	March-75	4	*-14,8%*
January-80	July-80	4	*-4,6%*
July-81	November-82	4	*-19,1%*
July-90	March-91	10	*-36,7%*
March-01	November-01	5	*-54,0%*
December-07	June-09	7	*-91,9%*
February-20	April-20	4	*-32,5%*
Average # of Quarters EPS Declined		5,4	
Average EPS Decline			***-29,5%***

Source: TheMacroCompass.com

Source: Alf Peccatiello