Press Clips: Wild Stock Market Swings, Bad Breadth, China & US Eonomies Slow, Inflation, Russia Threats

Bloomberg Dec 17 - **The Only Reliable Trend in the Stock Market Right Now Is Wilder Swings**
Down one day, up the next, the stock market is making life miserable for anyone in search of a coherent narrative to explain its moves. One thing has stuck, though: Episodes of daily upheaval are worsening. Particularly at the speculative end, the trend is pronounced. In the Nasdaq 100, the absolute size of close-to-close moves has been roughly 1.5% a day this month, up or down. That's three times as great as any December since the Christmas rout of 2018 and almost twice the average move of the last year. Big flip-flops reflect an elevated level of confusion among market participants, according to Mike Zigmont, head of research and trading at Harvest Volatility Management. Conflicting narratives abound. While strategists at Credit Suisse Group AG point to history and say it's safe to buy stocks during the initial stage of a tightening cycle, their counterparts at Bank of America Corp. warn this time could be different as inflation is out of control. "I don't have conviction. And I think a lot of investors are like that," Zigmont said. "They look at the world and they have a view, but it's not a powerful view. Without conviction, but with a lot of trend following, you can get this whippiness that we've seen." In speculative corners of the market, the ride has become bumpier. Over the past few weeks the Russell 2000 of small-caps fell into a 10% correction, newly minted shares sank into a bear-market decline of 20%, and a group of profitless technology firms plunged almost 30%. Not everyone is convinced the reflation trade will soon return. With the economic path uncertain, investors sought safety in firms with stable income and dividends. Over the week, a MSCI measure of defensive shares such as utilities and consumer staples climbed 1.2%, compared with a loss of 2.9% for cyclical shares.

Reuters Dec 17 - **Narrowing Market Breadth May Be Worrying Signal For Stocks**
Only 31% of stocks in the tech-heavy Nasdaq are trading above their 200-day moving average despite the index's 18% year-to-date gain, according to Refinitiv data, the lowest level in at least a year. That number stands at 36% for the small-cap-focused Russell 2000.

WSJ Dec 15 - **China's Economic Activity Slowed in November on Property Slump, Weak Consumption**
China's economic activity decelerated in November amid a prolonged property slump and sluggish consumption recovery, adding urgency for Beijing to step up efforts to support the world's second-largest economy. The latest economic data point to a further slowdown in China's economy that began to sputter in the third quarter on the back of a power crunch that curbed factory output, and sporadic Covid-19 outbreaks that hit consumption.

WSJ Dec 15 - **U.S. Retail Sales Slow With Holiday Shoppers Facing Inflation, Shortages**
Wednesday's report showed sales at electronics stores down 4.6% in November from the previous month, while sales at general merchandise stores were down 1.2%. Spending at nonstore retailers, including online sellers, was flat last month.

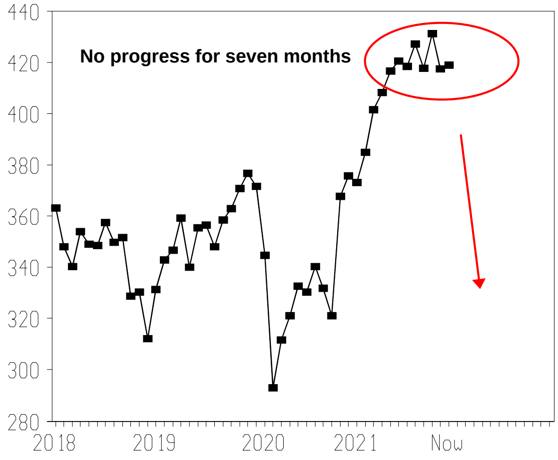
Bloomberg Dec 14 - **Summers Warns Markets Are at Risk of a 'Spontaneous Deflating'**
Former U.S. Treasury Secretary Lawrence Summers warned of the risk of a "spontaneous deflating of financial markets" that have been pumped up by retail buying and exuberant investors. There is "a lot of euphoria," Summers said at an American Council for Capital Formation webinar on Tuesday -- pointing, among other things, to cryptocurrencies, so-called meme stocks and technology shares. "Super-excited retail is usually a sign of trouble to come," he added. "The Fed will have a very difficult time organizing a soft landing," he said, noting the long and variable lags between monetary-policy actions and their impact on the economy. "All the efforts at disinflation that we have had historically, where it was clearly established that inflation was too high and the Fed acted, have ended in recession." He called on the Fed to immediately stop buying mortgage-backed securities and wind up its purchases of Treasury debt "probably by the end of February." "I would be establishing a presumption that the Fed will do whatever is necessary to bring inflation under control, and that quite possibly that could involve four rate increases during the next year and more after that," he said.

WSJ Dec 20 - **Central Banks Worry Omicron Could Sustain Inflation**
Instead of loosening monetary policy to prop up their economies as they did at the start of the Covid-19 pandemic, central banks are moving to unwind stimulus and raise interest rates. "What we saw in the early stages of the pandemic is that demand initially dropped a lot more than supply so it ended up being deflationary, particularly because of pretty stringent lockdowns," said Paul Ashworth, chief North America economist at Capital Economics. Today, with governments reluctant to impose new lockdowns, it is the other way around, he said. "Supply could potentially be hit more than demand and therefore it becomes inflationary rather than deflationary this time," he said. Increasingly, Federal Reserve officials are worried the new Omicron variant could exert even more upward pressure on inflation.

Reuters Dec 20 - **Russia Presses For Urgent U.S. Response On Security Guarantees**
Russia said on Monday it urgently needed a response from the United States on its sweeping security demands and again warned of a possible Russian military response unless it saw political action to assuage its concerns. Konstantin Gavrilov, a Russian diplomat in Vienna, said that relations between Moscow and NATO had reached a "moment of truth". "The conversation needs to be serious and everyone in NATO understands perfectly well despite their strength and power that concrete political action needs to be taken, otherwise the alternative is a military-technical and military response from Russia," he was quoted as saying by RIA news agency.

Epic Top

Global Index of Stock Indexes Monthly 2018-Now



Global stock markets had a huge rally off the March 2020 virus selloff lows, on the back of massive monetary and fiscal stimulus. That momentum thrust is over. The stimulus created blowback in the form of excessive inflation. Authorities have no choice except to reverse course and withdraw stimulus.

The Fed is tapering QE and preparing for rate hikes next year. The Bank of England (BOE) is the first major central bank to raise interest rates (Dec 16). Emerging market banks in Russia, Mexico, Chile, Costa Rica, Pakistan, Hungary and Armenia also just raised interest rates. Global monetary policy is tightening.

Somebody forgot to tell US investors who keep pouring money into equity ETFs. The psychology of throwing money at stock persists, despite the fact that most stocks stopped going up months ago.

Our global stock index (index of indexes) stands at the same level as it did in May, seven months ago (see chart). US indexes have been slightly stronger, but our US index of indexes stands at the same level as it did in August, four months ago. Since August there has been $125bn of equity ETF buying, with -$73bn of equity mutual fund selling for net buying of $52bn (Refinitiv data). Much buying, no progress.

Investor psychology is sticky, still obsessed with stimulus that is going to be withdrawn. The Fed has done its best to encourage this mindset by delaying tapering and rate hikes because they know when investors start selling, the wealth effect the Fed has nurtured will turn negative and the economy will choke.

Viewed from this perspective, the stock market has been transformed into an intentionally-created speculative bubble. But sentiment is fragile. Bubbles don't continue forever.

Obviously someone is selling. Beneath the surface of the US stock market, many popular ETFs and stocks are down big from their 2021 peaks: ARKK Innovation Fund -40%, TAN solar -40%, SOCL social media -33%, Bitcoin -33%, Tesla -27%, XRT retailers -18%, EEM emerging markets -18%, CLOU cloud software -18%, FB -15%, FDN FANG internet -13%, IWM Russell 2000 -12%, KBE bank -11%, GVIP Goldman hedge fund VIP -9%.

That is with the S&P500 down just -3% and the Nasdaq down -6% from their 2021 peaks. Popular groups and stocks are down much more. Some widely touted and overowned cloud software stocks are down 10-20 times as much as the S&P500: ZM -54%, DOCU -52%, PLTR -49%, SQ -43%, etc.

The overall picture is a sick market with many stocks down big already, 69% of Nasdaq stocks are already below their 200 day averages (Reuters press clip). Both the Nasdaq and S&P500 are still 5% above their 200 day averages. Indexes are now probably poised to follow their weak members lower.

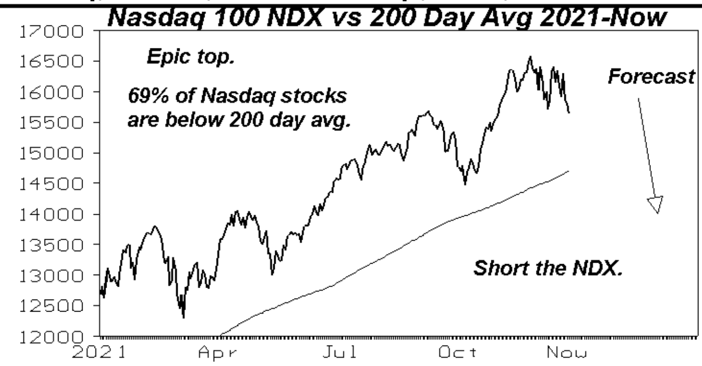
<u>Investment Recommendations:</u> Reduce long exposure to the minimum allowed in your investment mandate. Raise cash by selling into brief snapback rallies. Hedge funds should raise short exposure to the maximum allowed, with shorts focused on tech, consumer discretionary, financials and communication services. Asset allocators should shift out of stocks into government bonds.

A major alpha opportunity exists in defensive sectors: Utilities, consumer staples, REITs and health care. As discussed in last week's report, these bottomed in relative terms to the index, mostly in November. They have added big relative gains in the past two weeks, From their lows utilities and REITs are +8%, staples +7% and health care +6%. The upward relative move for defensive sectors is just starting in the model forecast, this is the time to participate in this move. For long exposure, switch out of tech, consumer discretionary and financials into defensive sectors. The same goes for European EuroStoxx sector rotation.

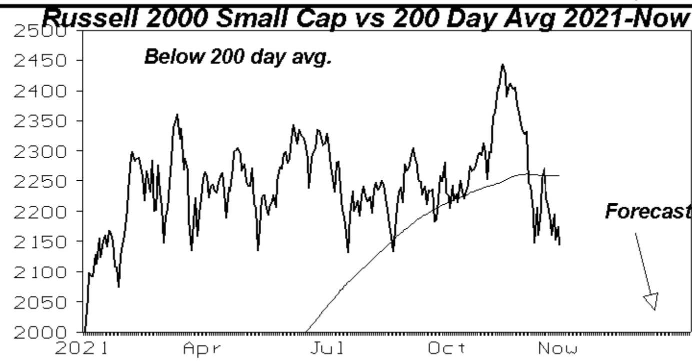
As for stock indexes, the model forecast suggests this is an epic top on the order of March 2000 or October 2007. Sell and short into brief bounces. <u>Happy holidays, no report next week. The next report will be Jan 3rd.</u>

Nasdaq, R2000, FTSE Midcap, DAX, S&P Risk-Off Sector Rotation   BELKIN REPORT   Dec 20, 2021

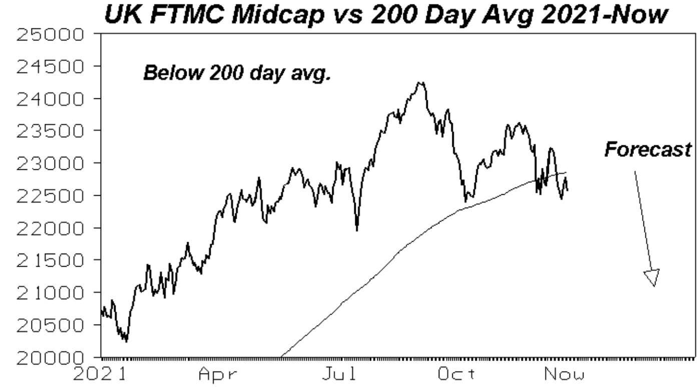
Nasdaq 100 NDX vs 200 Day Avg 2021-Now



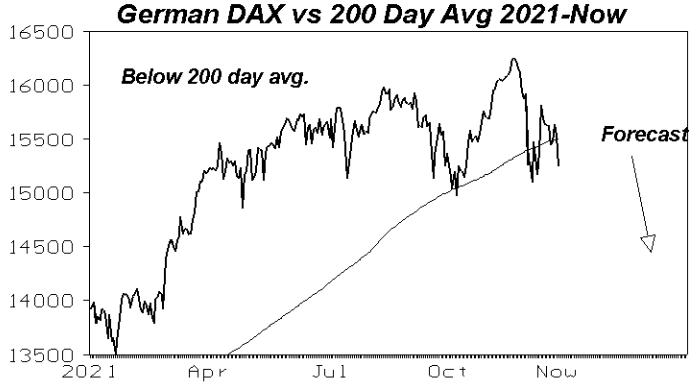
Russell 2000 Small Cap vs 200 Day Avg 2021-Now



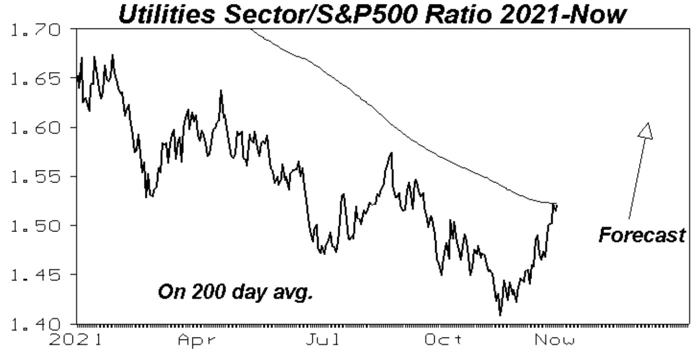
UK FTMC Midcap vs 200 Day Avg 2021-Now



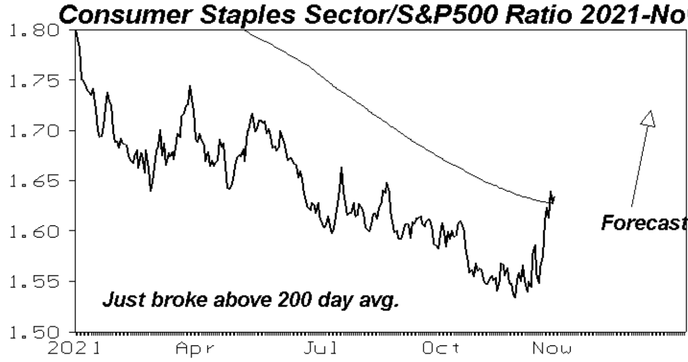
German DAX vs 200 Day Avg 2021-Now



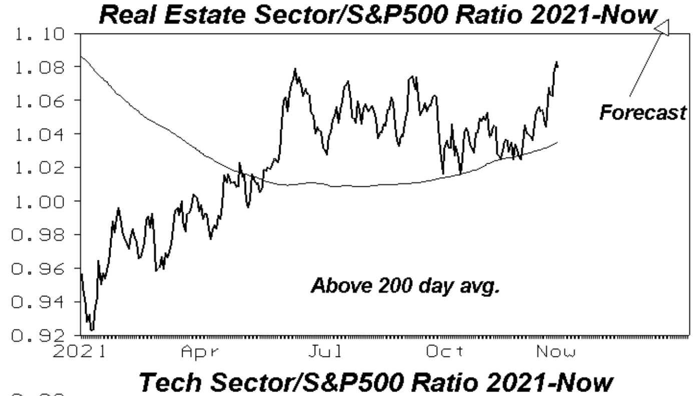
Utilities Sector/S&P500 Ratio 2021-Now



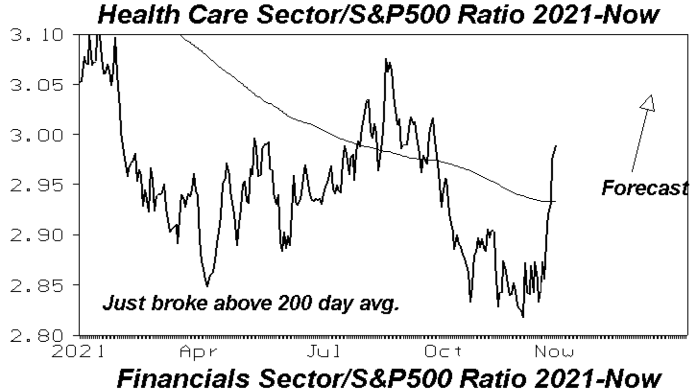
Consumer Staples Sector/S&P500 Ratio 2021-Now



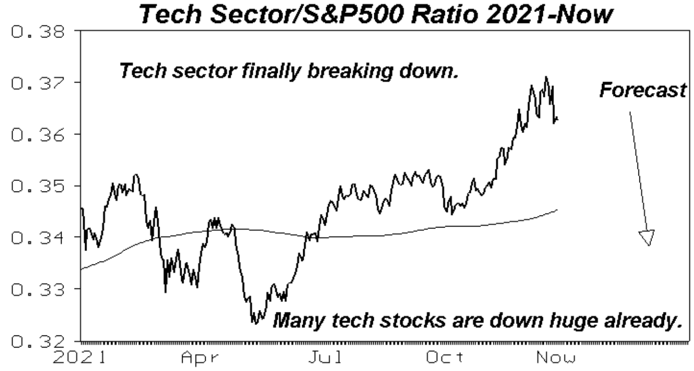
Real Estate Sector/S&P500 Ratio 2021-Now



Health Care Sector/S&P500 Ratio 2021-Now



Tech Sector/S&P500 Ratio 2021-Now



Financials Sector/S&P500 Ratio 2021-Now