MARKET OUTLOOK

The Running of the Bulls (and Bears)

Third Quarter 2023

The top of my mind is just how uncertain trying to analyze the environment is going forward. I’ve been doing this for 45 years, but I’ve never had a situation where you had free money for 11 years, a very broad asset bubble, followed by jacking up rates 500bps in 12 months.

Stanley Druckenmiller, *American Investor*

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Conflicting signals from the economy and markets in the context of high equity valuations have historically led to "win big or lose big" outcomes for investors

	Bull	vs.	Bear
1	Consumer spending on services/ experiences		LEIs, goods spending and manufacturing sector
2	Y/Y inflation, pipeline PPI		Accum. inflation, core sticky, housing reaccelerating
3	Fiscal policy		Monetary policy
4	Nominal activity, corp. revenue/ earnings		Real economic activity, rate of change
5	Technicals (Feb golden cross), sentiment*		Fundamentals, valuations, sentiment*
6	Tech stocks, AI		Financials, real estate
7	Credit spreads still contained, maturity wall		Yield curve, HY pricing, marginal non-earners shut out
8	Residential real estate		Commercial real estate, esp. office
9	Low volatility		Paid to wait, high convexity
10	Value, cash, midstream		U.S. large cap (high starting valuations & alloc's)

*In a bull market, current bullish sentiment wouldn't be a contrarian indicator, but in a bear market it would.

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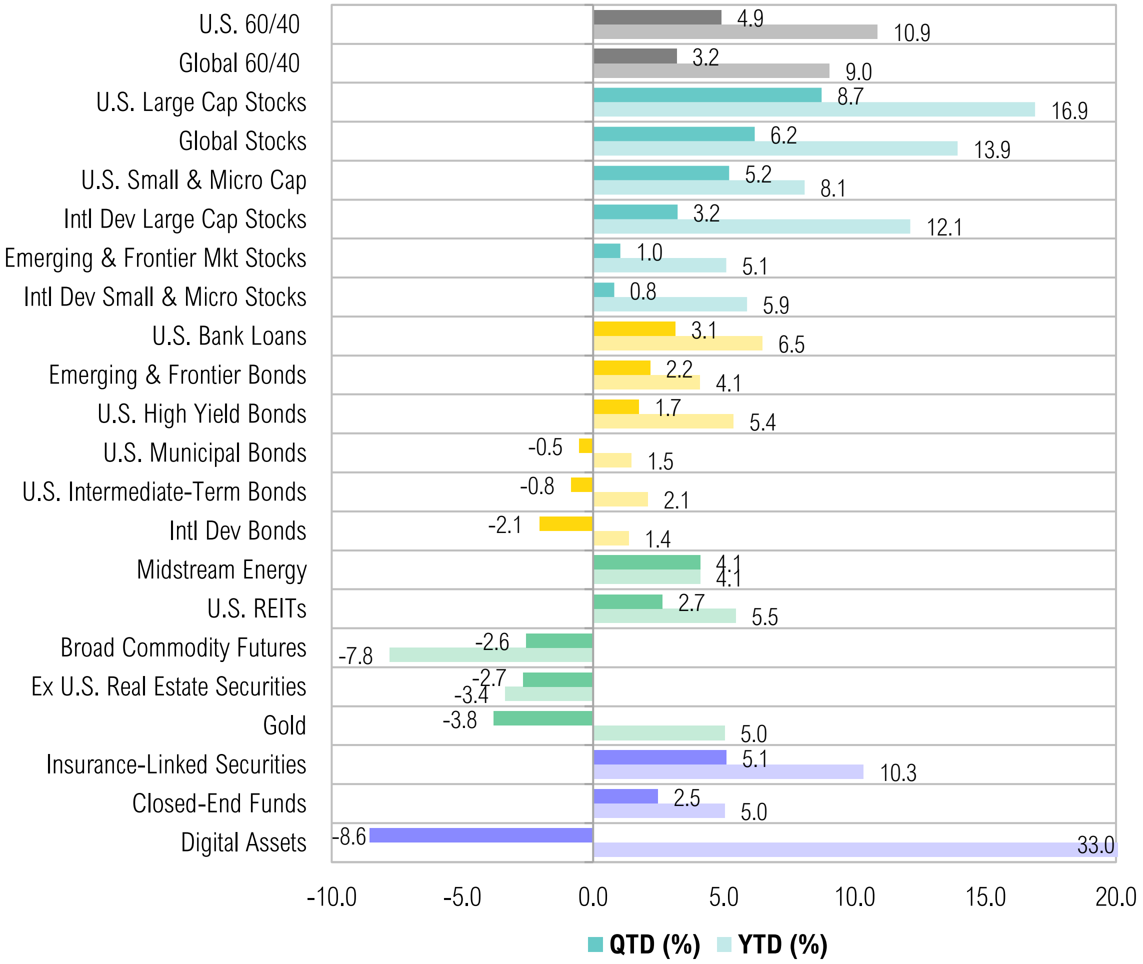
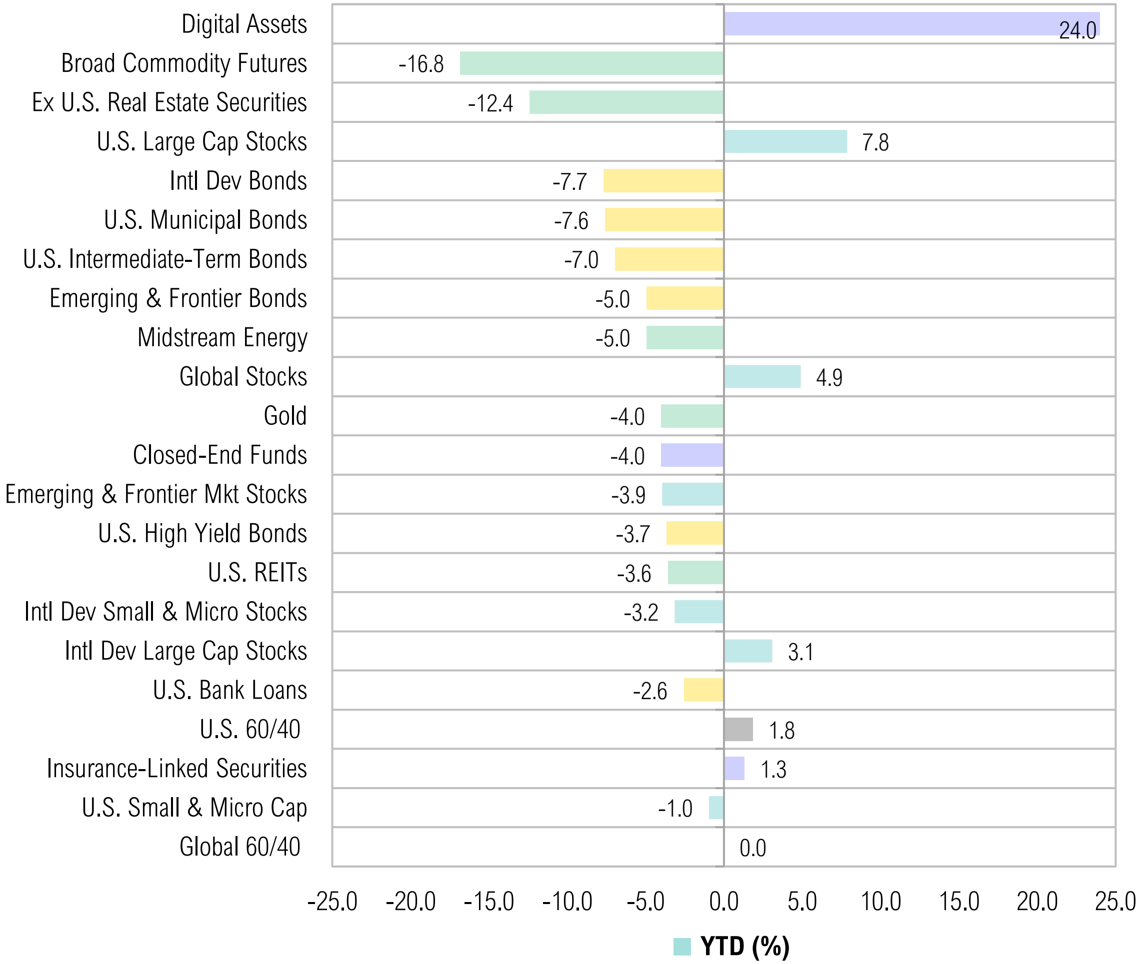
Major winners over the quarter included U.S. large and small cap stocks, while gold, ex-U.S. real estate and broad commodity futures lagged

Total Returns, %



Relative Total Returns vs. Global 60/40, %



Source: Bloomberg. Returns for periods greater than 1 year are annualized.

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Key themes for 2023

Structurally lower real growth – Stop-start inflation, high debt levels, poor demographics and deficits will continue to impede growth in the developed world (U.S., Europe, and Japan). In the U.S., the aggressive pace of rate hikes, shape of the yield curve, and lending trends (exacerbated by recent banking stresses) suggest an average recession later in 2023 is a reasonable base case, *but the outlook could be better or worse. Consensus = soft-landing (68% BofA survey).* AI productivity gains should add marginally to aggregate corporate profitability and likely also GDP in coming years.

Stop-start, but broadly tighter, policy – Structurally higher, but volatile, inflation underpinned by constrained labor, housing and commodity markets; increased volatility due to stop-and-start policy; markets may be caught between a timid Fed fearful of a 1970s “Burns error” and contradictory, supportive fiscal stimulus given the political climate.

Tick tock for consumer – Poor real income growth (flat since Dec-19), a rapidly increasing cost of a growing debt pile, and resumption of student debt payments leading to U.S. consumer exhausting COVID stimulus sometime this fall. As it stands, it is not clear what can replace this dwindling spending power.

Stay patient and careful – Aggressive hiking cycles *almost always* cause recessions; the stock market has never bottomed ahead of official start of recession & recession is unlikely to start until labor market cracks; further, markets don’t usually bottom until equity valuations get cheap and/or central banks pivot (pause ≠ pivot);. This time may be different because of consumer balance sheets, AI, or something else, but the macro backdrop is challenging enough and equity valuations high enough to err on the side of caution, in our view.

Tilt to quality and cash flow – The key lesson from prior bubble unwinds is patience. The rally since October has seen extreme pessimism be replaced with borderline extreme bullish sentiment and complacency; absolute and relative valuations for headline U.S. equity benchmarks are *high by any standards.* We prefer to “hide out” in areas with strong balance sheets and higher cash flow yields in order to be in a position to take advantage of better prices *if we get them*.

Moving to neutral for U.S./non-U.S. – Foreign stocks have been a value trap for many years, while valuations remain modestly cheaper than the U.S., they are far from the actionable extreme seen at the 2022 lows. The same concept applies for U.S. small cap, where 40% of the Russell 2000 constituents have negative EPS.

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Key themes for 2023 continued

Paid to wait – Investors are finally getting paid to wait; *better* yields on short-term investment-grade bonds reduce the risk of a wait-and-see approach to the rapidly evolving macro, policy and market backdrop, *if paired with policy hedges that protect against policymakers underestimating inflation*.

Keep duration low – We continue to fight the "temptation" to increase duration because of (a) concerns around the path of inflation, (b) the Fed's resolve once labor market breaks or we have another credit/financial stability event. However, we are maintaining a modest duration barbell and a gold allocation as a hedge against premature easing.

Budding opportunity in high yield bonds, other credit – High-yield bonds got close to a compelling level on an absolute and relative basis last year, except in the tails (right tail = early pivot, inflation; left tail = no pivot, severe recession).

Positive-carry policy hedge – Midstream energy, gold miners and commodity futures now have positive yields (carry) and may provide a hedge if the Fed eases before justified by the data. Conversely, these hedges may underperform in a severe recession.

Opportunities emerging in real estate – maintain underweight (held since pandemic demand shock), waiting for dust to settle on higher rates, migration, demographic, social, and now recession-related disruption; expect to deploy in late 2023/early 2024.

Volatility = opportunity – Recessions result in structural increases in volatility, leading to an improved opportunity set for value-biased active managers, higher cost of capital rewards nimble fundamental managers.

Opportunity for dynamic asset allocation and active management – We remain *extremely excited about the prospects for active management in the years ahead*. A period of stop-and-start growth, inflation, policy and trends in asset markets should benefit value-biased dynamic asset allocation over static asset allocations.

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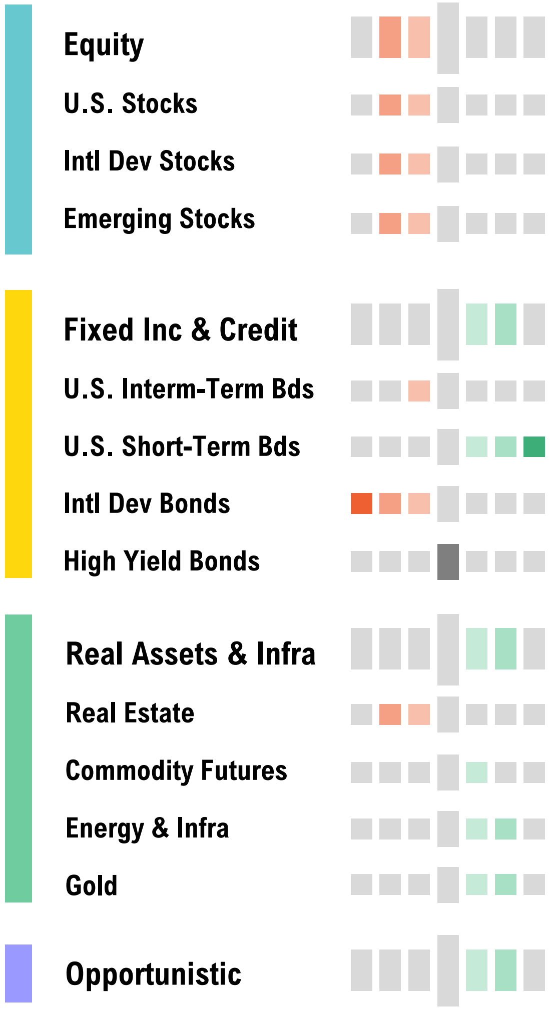
Remain diversified, but tilted towards higher known cash flows (value equities, lower duration bonds)



Be patient, wait for pricing to improve or central banks to pivot – bear markets don't bottom until equity valuations get cheap and/or central banks truly pivot (pause ≠ pivot).

Tilt to quality and cash flow – mean reversion in valuations will take time, if it occurs. While we are excited about the potential opportunity set in stocks, we don't think we are there yet. Hide out in high free cash flow yields.

Maintain U.S. emphasis until it is obvious – Foreign stocks have been a value trap for many years, but the valuation spread reached an actionable extreme last year; it is time to consider going to neutral.

Paid to wait – finally getting paid to wait; *better* yields on short-term invest. grade bonds reduces the risk of a wait-and-see approach on the rapidly evolving macro, policy and market backdrop, if paired with policy hedges.

Keep duration underweight – fighting the temptation to increase bond duration because of concerns around the path of inflation and the Fed's resolve once the labor market breaks or a U.S. credit event occurs, but maintaining modest duration barbell and gold allocation as a hedge against a premature pivot.

Budding opportunity in high yield bonds, other credit – high yield bonds near compelling on an absolute and relative basis, except in the tails (right tail = early pivot, inflation; left tail = no pivot, severe recession)

Positive-carry policy hedge – midstream energy, gold miners and commodity futures now have positive carry and may provide a hedge if the Fed pivots early. Conversely, these hedges may not work if the Fed continues to hike rates and we go into a severe recession.

Opportunities emerging in real estate – maintain underweight (held since pandemic demand shock), waiting for dust to settle on rates, migration, demographic, social and now recession-related disruption; expect to deploy in 2023/ 2024.

Volatility means opportunity – Recessions (if we enter one) usually see structural increases in volatility, an improved opportunity set for value-biased active managers, higher rates rewards nimble fundamental managers.

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“

I don’t see us getting back to 2% this year or next year. I see us getting there the year after.

Jerome Powell, *Federal Reserve Chair*

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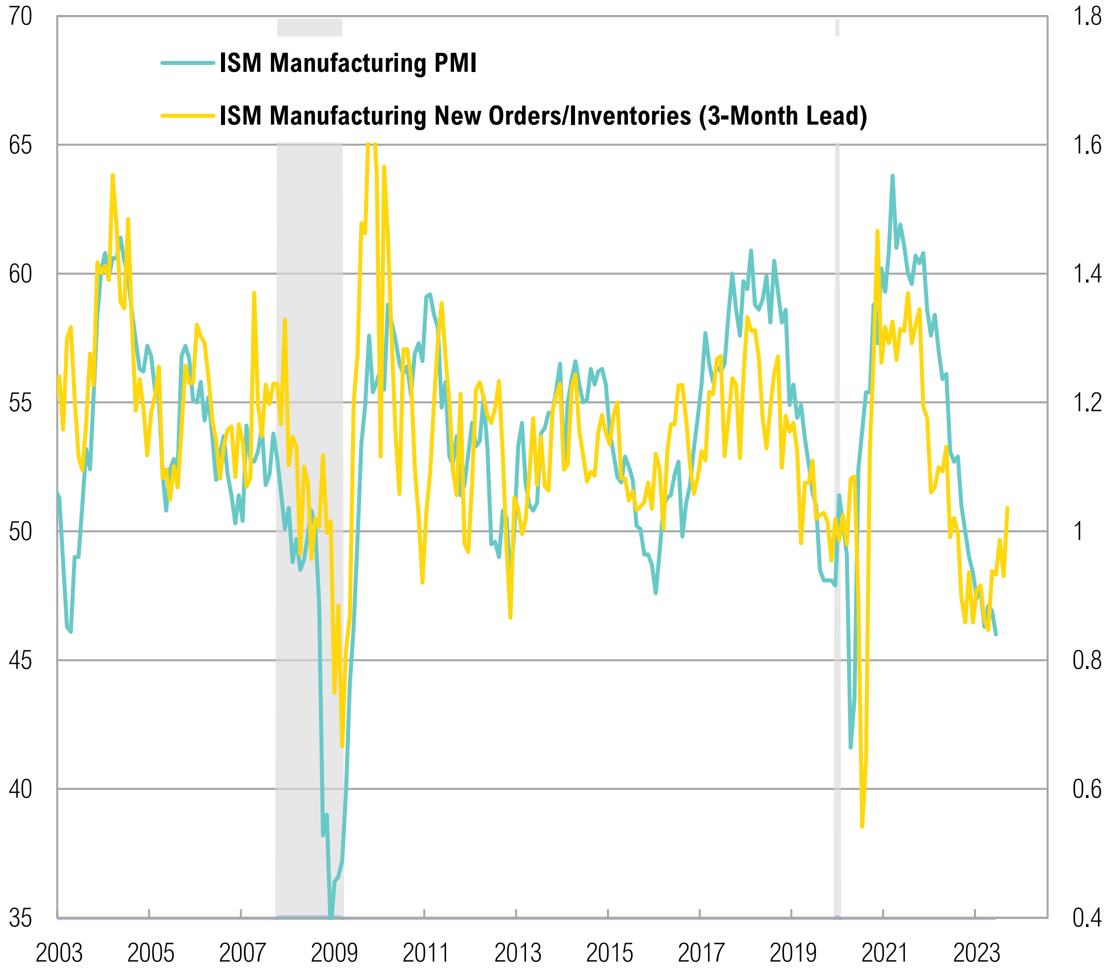
MOUNT YALE

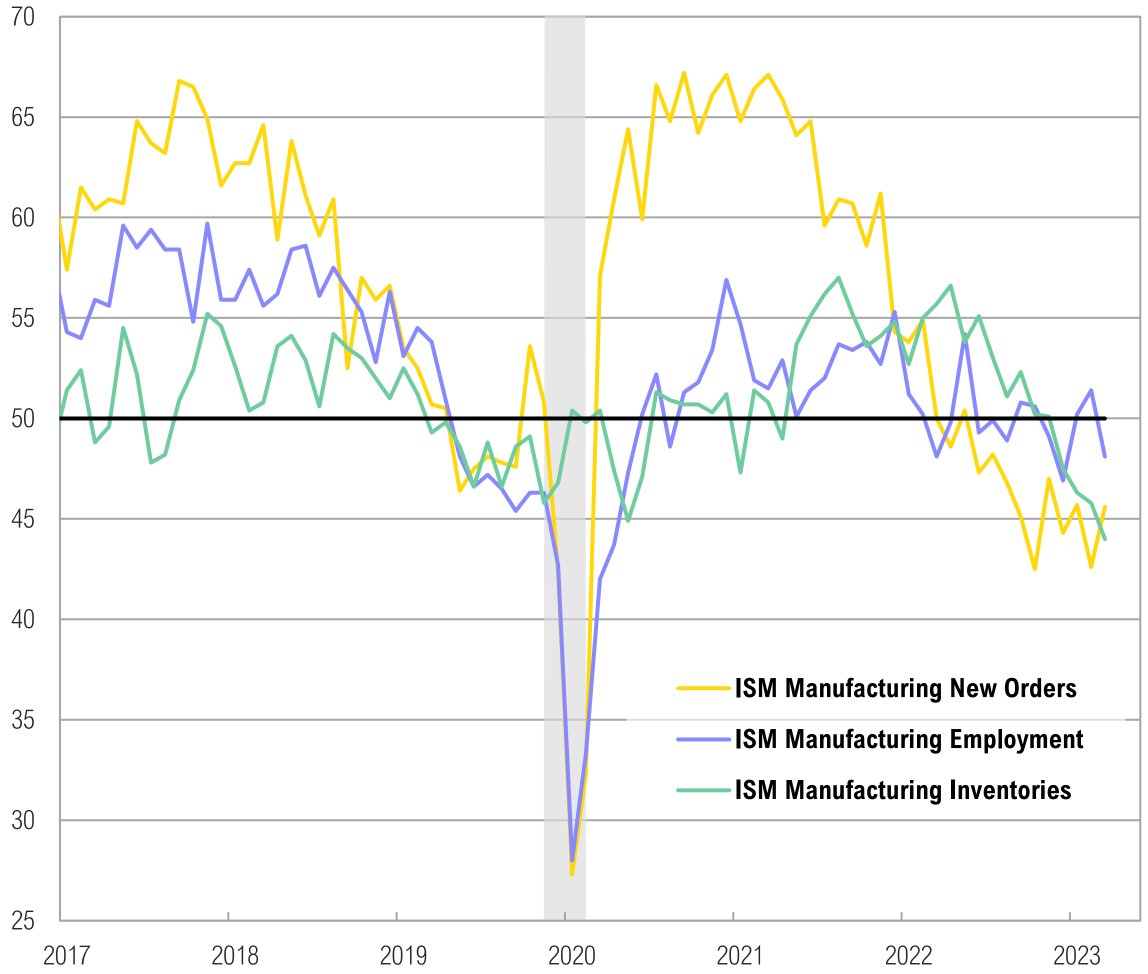
Economic activity in the manufacturing sector has contracted for an 8th consecutive month, but it may be bottoming, albeit at a very depressed level

ISM Manufacturing PMI

ISM Manufacturing PMI New Orders/ Inventories



ISM New Orders, Production and Inventories Indices



Source: Bloomberg, ISM.

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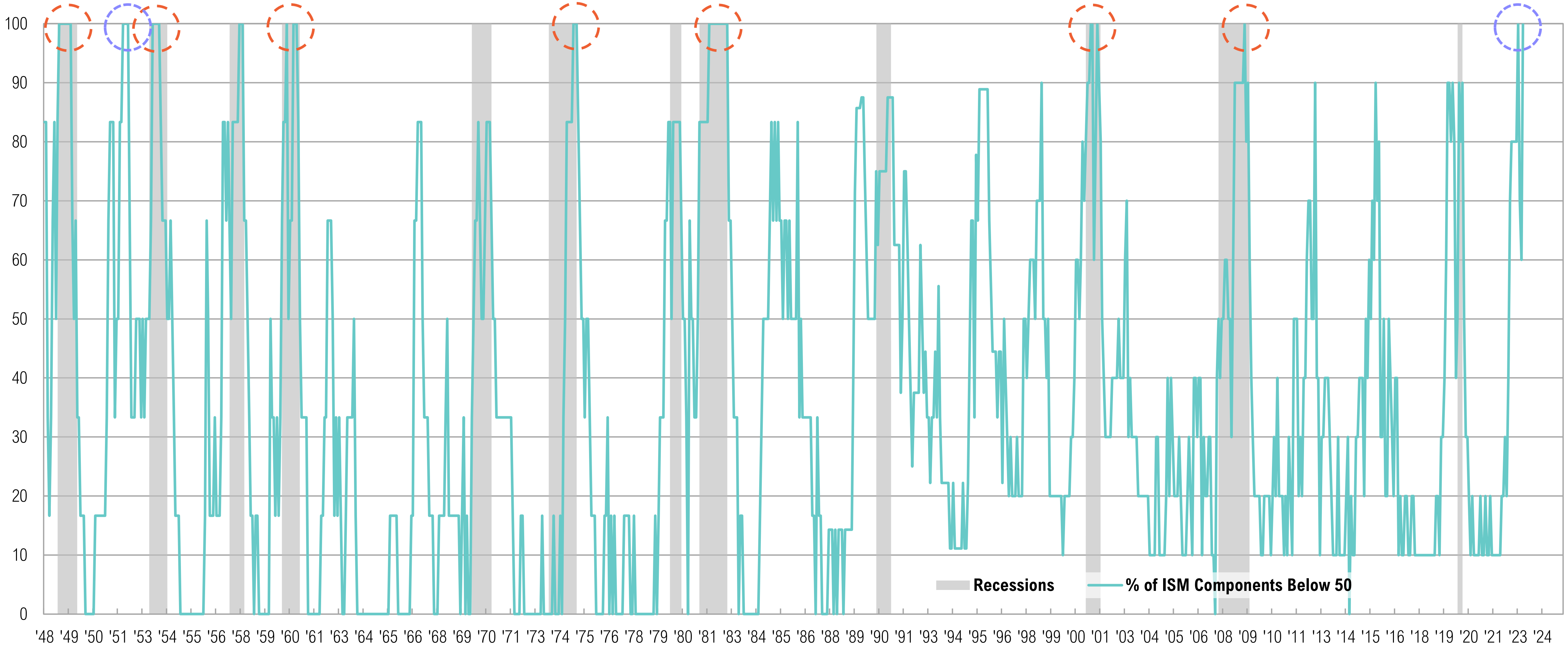
MOUNT YALE

Every ISM Manufacturing PMI component registered below 50 in June: the only other time this happened and the U.S. was not in a recession was in 1952

ISM Manufacturing PMI - % of Components below 50



Source: Bloomberg

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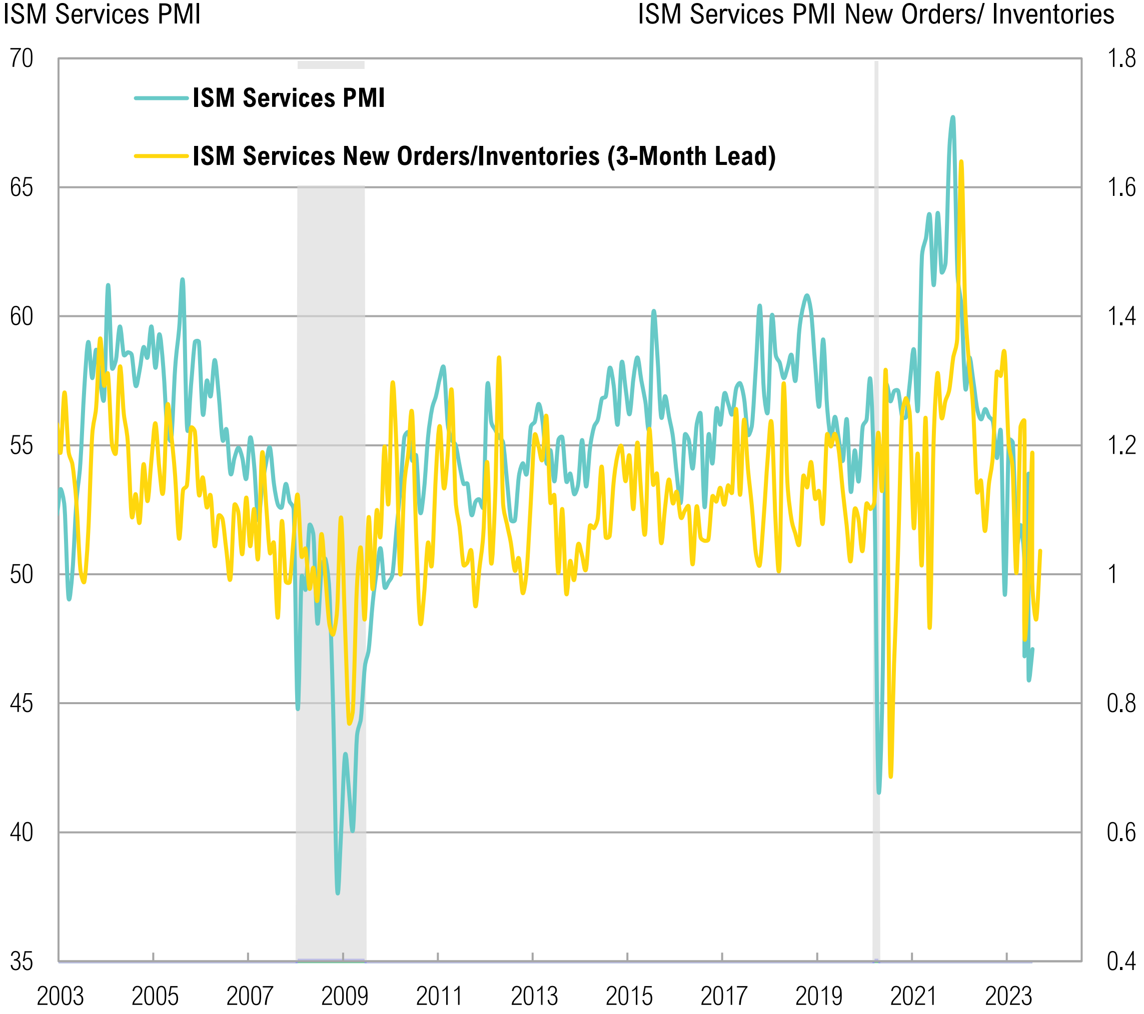
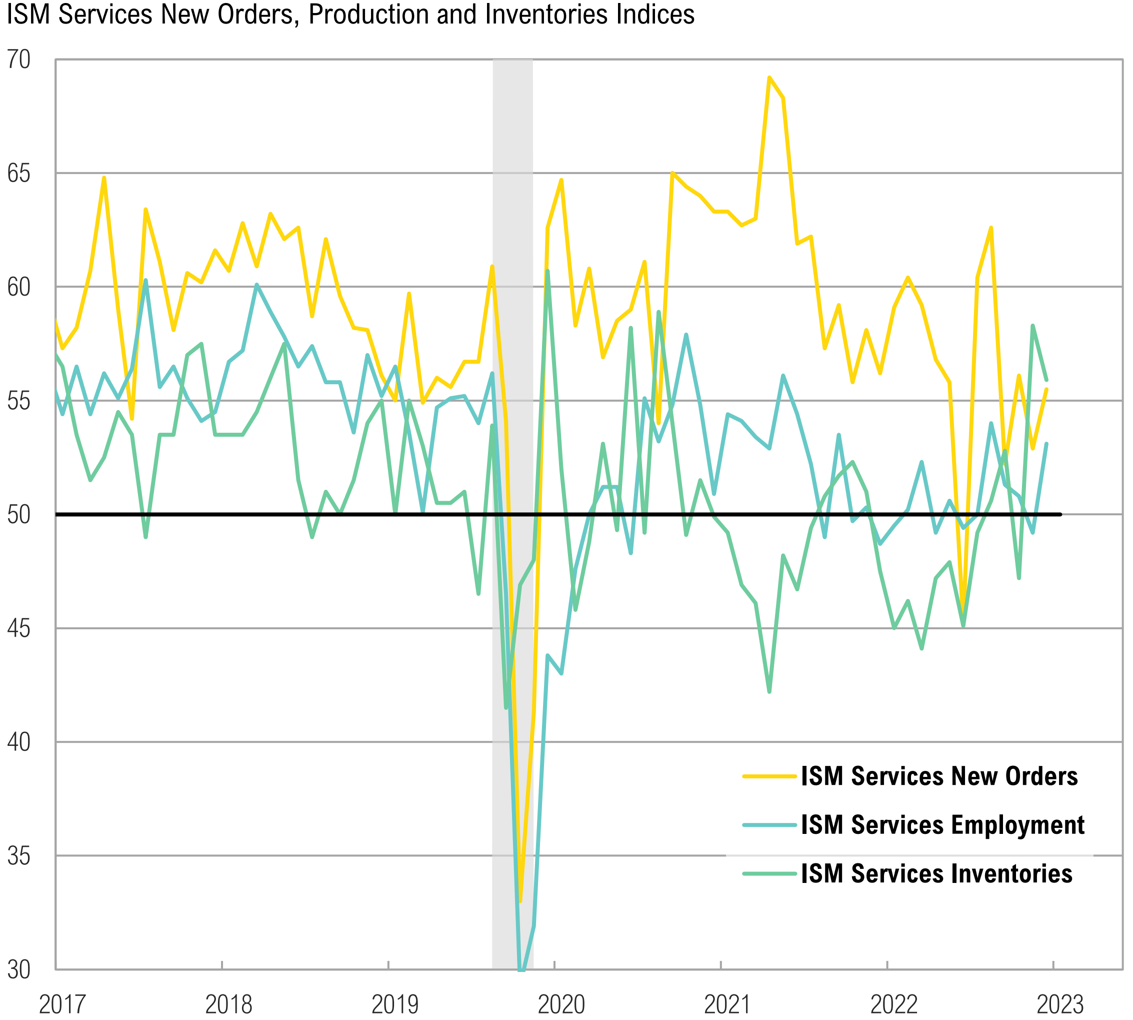
The services sector of the economy remains alright: ISM Services PMI has recorded 6 consecutive months of expansion





Source: Bloomberg, ISM.

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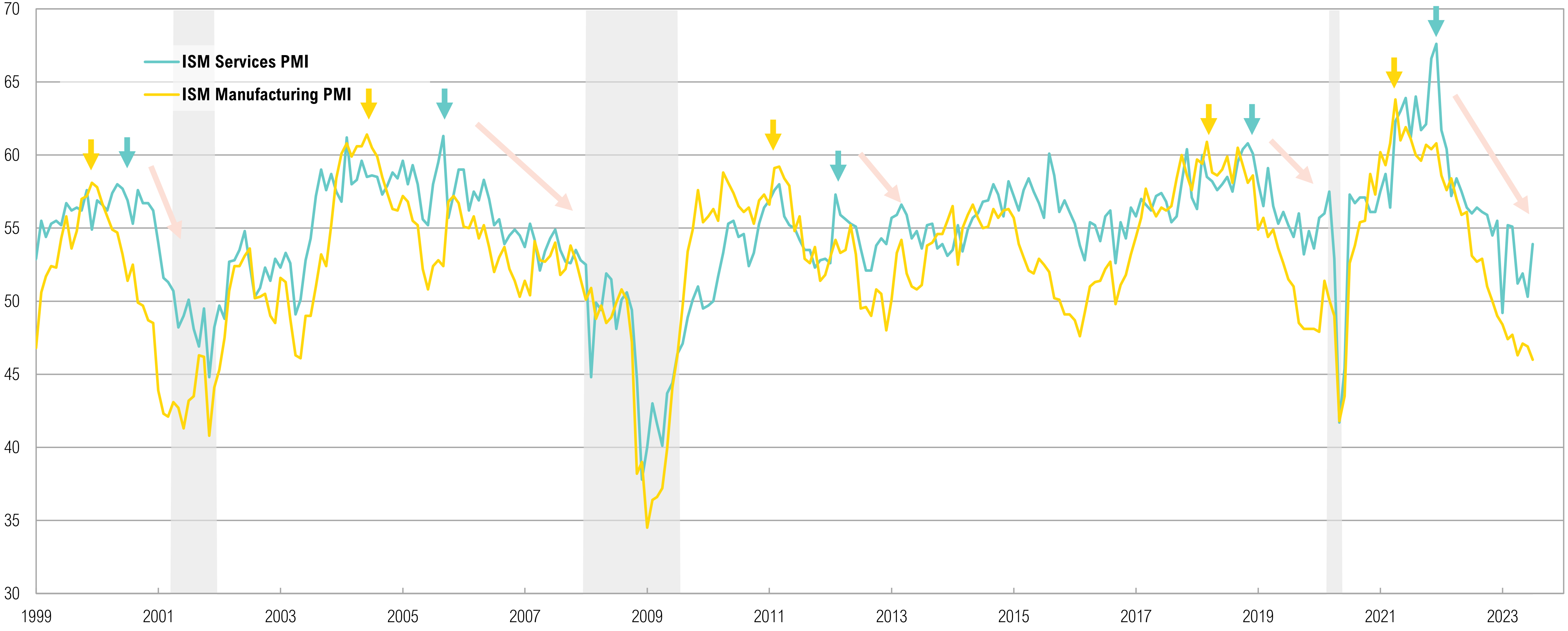
However, ISM Services tends to lag Manufacturing, particularly into slowdowns

ISM Services PMI & ISM Manufacturing PMI



Source: Bloomberg, ISM.

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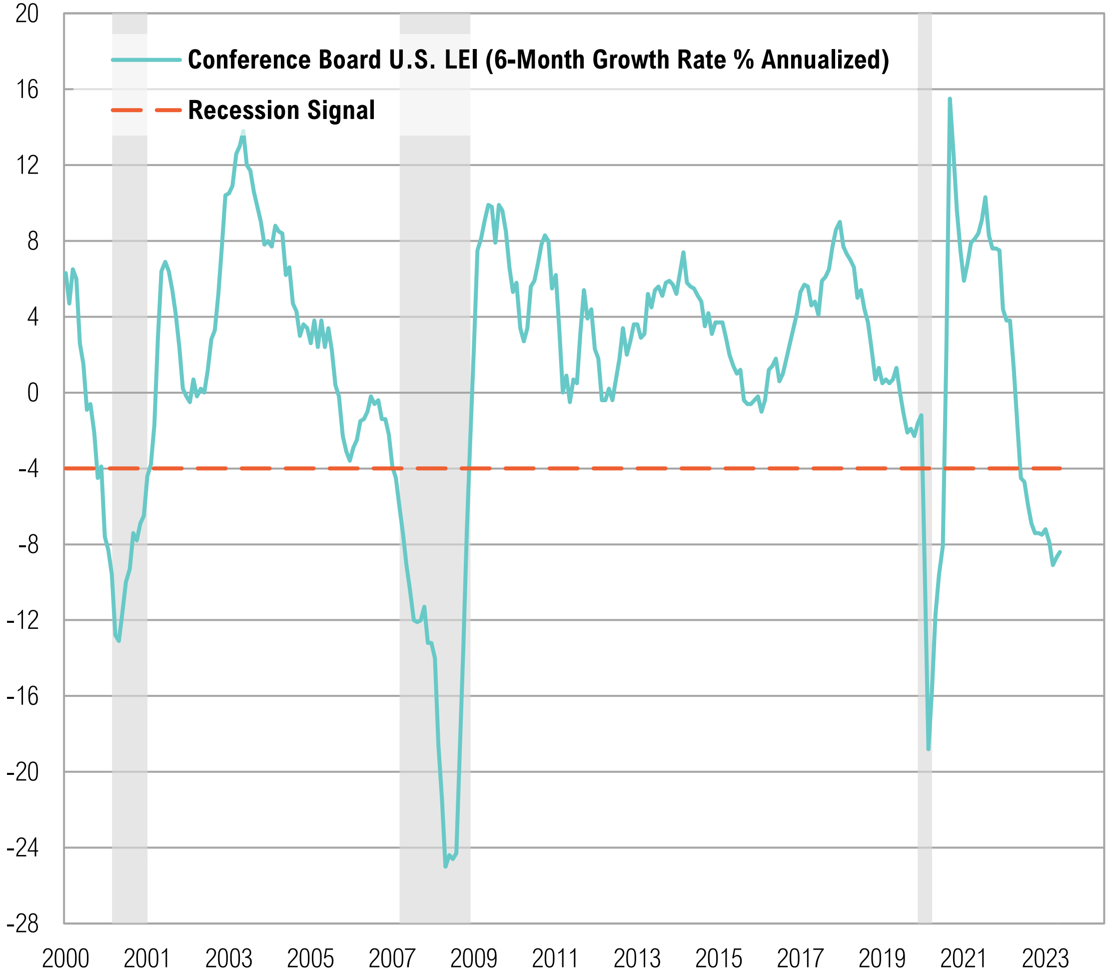
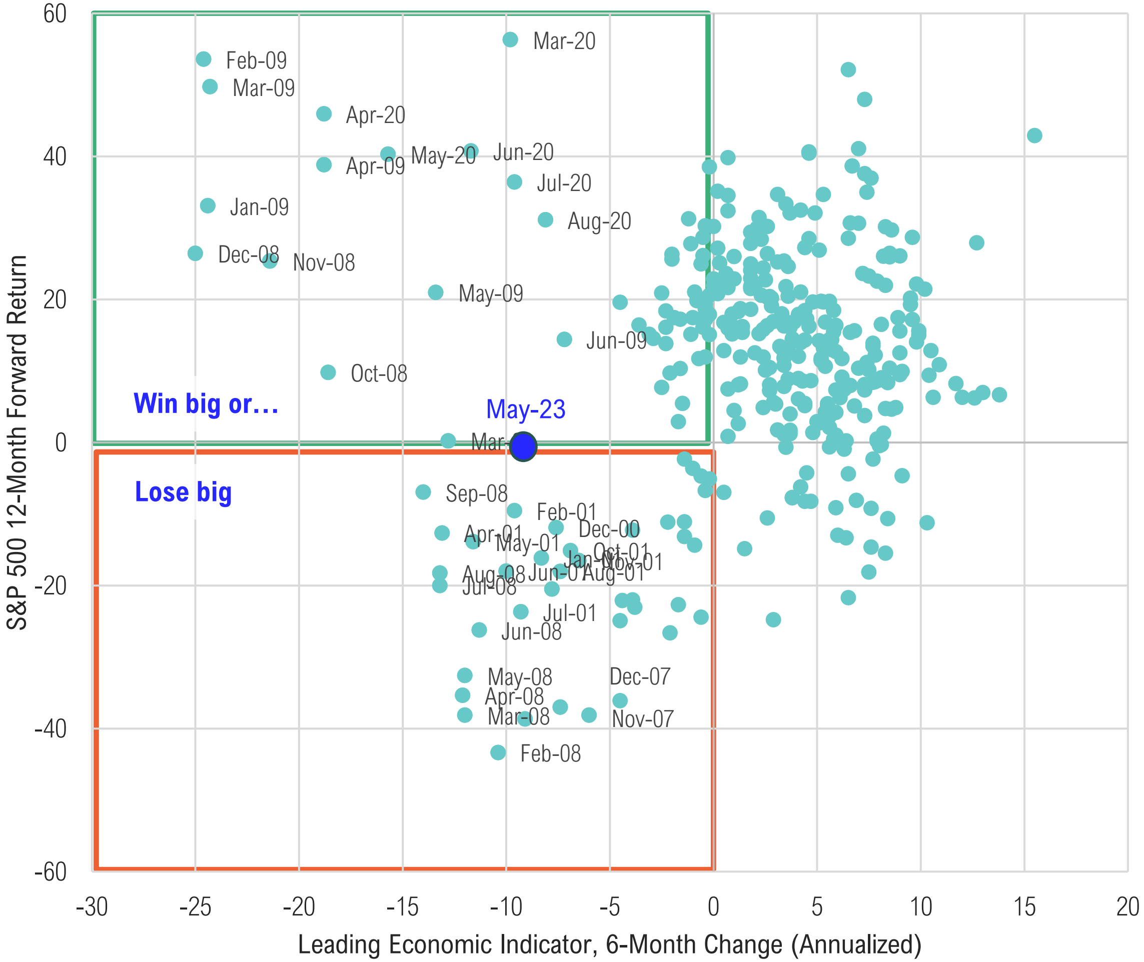
The Conference Board LEI continues to signal recession, with the Board expecting economic contraction in Q3'23 to Q1'24; stock returns have historically been volatile when LEIs have been at these levels

Conference Board U.S. Leading Economic Indicator, 6-Month Growth Rate (Annualized), %



S&P 500 12-Month Forward Return vs. Conference Board U.S. Leading Economic Indicator



Source: Bloomberg. As of 5/31/2023.

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Overall, global manufacturing activity continued deeper into contractionary territory in June; developed market activity continued to slow while EM has been recovering modestly

Manufacturing PMIs by Country* & Region, 2020 to Current

	2020							2021											
	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
Global	48.0	50.6	51.8	52.4	53.1	53.8	53.8	53.6	54.0	55.0	55.8	56.0	55.5	55.4	54.1	54.1	54.2	54.2	54.3
Developed	46.4	49.8	51.2	52.1	52.8	53.8	54.8	55.2	56.5	58.5	59.3	59.8	59.5	59.8	58.3	57.1	56.6	56.9	56.6
Emerging	49.6	51.4	52.5	52.8	53.4	53.9	52.8	52.1	51.6	51.3	52.2	52.0	51.2	50.6	49.6	50.8	51.6	51.2	51.7
Developed																			
U.S.	49.8	50.9	53.1	53.2	53.4	56.7	57.1	59.2	58.6	59.1	60.5	62.1	62.1	63.4	61.1	60.7	58.4	58.3	57.7
Canada	47.8	52.9	55.1	56.0	55.5	55.8	57.9	54.4	54.8	58.5	57.2	57.0	56.5	56.2	57.2	57.0	57.7	57.2	56.5
Japan	40.1	45.2	47.2	47.7	48.7	49.0	50.0	49.8	51.4	52.7	53.6	53.0	52.4	53.0	52.7	51.5	53.2	54.5	54.3
UK	50.1	53.3	55.2	54.1	53.7	55.6	57.5	54.1	55.1	58.9	60.9	65.6	63.9	60.4	60.3	57.1	57.8	58.1	57.9
Eurozone	47.4	51.8	51.7	53.7	54.8	53.8	55.2	54.8	57.9	62.5	62.9	63.1	63.4	62.8	61.4	58.6	58.3	58.4	58.0
Germany	45.2	51.0	52.2	56.4	58.2	57.8	58.3	57.1	60.7	66.6	66.2	64.4	65.1	65.9	62.6	58.4	57.8	57.4	57.4
France	52.3	52.4	49.8	51.2	51.3	49.6	51.1	51.6	56.1	59.3	58.9	59.4	59.0	58.0	57.5	55.0	53.6	55.9	55.6
Italy	47.5	51.9	53.1	53.2	53.8	51.5	52.8	55.1	56.9	59.8	60.7	62.3	62.2	60.3	60.9	59.7	61.1	62.8	62.0
Spain	49.0	53.5	49.9	50.8	52.5	49.8	51.0	49.3	52.9	56.9	57.7	59.4	60.4	59.0	59.5	58.1	57.4	57.1	56.2
Netherlands	45.2	47.9	52.3	52.5	50.4	54.4	58.2	58.8	59.6	64.7	67.2	69.4	68.8	67.4	65.8	62.0	62.5	60.7	58.7
Australia	51.2	54.0	53.6	55.4	54.2	55.8	55.7	57.2	56.9	56.8	59.7	60.4	58.6	56.9	52.0	56.8	58.2	59.2	57.7
Greece	49.4	48.6	49.4	50.0	48.7	42.3	46.9	50.0	49.4	51.8	54.4	58.0	58.6	57.4	59.3	58.4	58.9	58.8	59.0
Emerging																			
China	51.2	52.8	53.1	53.0	53.6	54.9	53.0	51.5	50.9	50.6	51.9	52.0	51.3	50.3	49.2	50.0	50.6	49.9	50.9
Indonesia	39.1	46.9	50.8	47.2	47.8	50.6	51.3	52.2	50.9	53.2	54.6	55.3	53.5	40.1	43.7	52.2	57.2	53.9	53.5
Korea	43.4	46.9	48.5	49.8	51.2	52.9	52.9	53.2	55.3	55.3	54.6	53.7	53.9	53.0	51.2	52.4	50.2	50.9	51.9
Taiwan	46.2	50.6	52.2	55.2	55.1	56.9	59.4	60.2	60.4	60.8	62.4	62.0	57.6	59.7	58.5	54.7	55.2	54.9	55.5
Brazil	51.6	58.2	64.7	64.9	66.7	64.0	61.5	56.5	58.4	52.8	52.3	53.7	56.4	56.7	53.6	54.4	51.7	49.8	49.8
Mexico	38.6	40.4	41.3	42.1	43.6	43.7	42.4	43.0	44.2	45.6	48.4	47.6	48.8	49.6	47.1	48.6	49.3	49.4	49.4
Russia	49.4	48.4	51.1	48.9	46.9	46.3	49.7	50.9	51.5	51.1	50.4	51.9	49.2	47.5	46.5	49.8	51.6	51.7	51.6
South Africa	42.5	44.9	45.3	49.4	51.0	50.3	50.2	50.8	50.2	50.3	53.7	53.2	51.0	46.1	49.9	50.7	48.6	51.7	48.4
India	47.2	46.0	52.0	56.8	58.9	56.3	56.4	57.7	57.5	55.4	55.5	50.8	48.1	55.3	52.3	53.7	55.9	57.6	55.5

	2022												2023					
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J
Global	53.2	53.7	52.9	52.3	52.3	52.2	51.1	50.3	49.8	49.4	48.8	48.7	49.1	49.9	49.6	49.6	49.6	48.8
Developed	56.4	56.6	56.5	56.3	55.0	52.5	51.2	50.2	50.1	48.8	47.8	47.3	48.1	48.1	48.4	48.5	47.6	46.3
Emerging	50.0	50.9	49.2	48.1	49.5	51.7	50.8	50.2	49.4	49.8	49.7	49.8	49.9	51.6	50.7	50.5	51.4	51.1
Developed																		
U.S.	55.5	57.3	58.8	59.2	57.0	52.7	52.2	51.5	52.0	50.4	47.7	46.2	46.9	47.3	49.2	50.2	48.4	46.3
Canada	56.2	56.6	58.9	56.2	56.8	54.6	52.5	48.7	49.8	48.8	49.6	49.2	51.0	52.4	48.6	50.2	49.0	48.8
Japan	55.4	52.7	54.1	53.5	53.3	52.7	52.1	51.5	50.8	50.7	49.0	48.9	48.9	47.7	49.2	49.5	50.6	49.8
UK	57.3	58.0	55.2	55.8	54.6	52.8	52.1	47.3	48.4	46.2	46.5	45.3	47.0	49.3	47.9	47.8	47.1	46.5
Eurozone	58.7	58.2	56.5	55.5	54.6	52.1	49.8	49.6	48.4	46.4	47.1	47.8	48.8	48.5	47.3	45.8	44.8	43.4
Germany	59.8	58.4	56.9	54.6	54.8	52.0	49.3	49.1	47.8	45.1	46.2	47.1	47.3	46.3	44.7	44.5	43.2	40.6
France	55.5	57.2	54.7	55.7	54.6	51.4	49.5	50.6	47.7	47.2	48.3	49.2	50.5	47.4	47.3	45.6	45.7	46.0
Italy	58.3	58.3	55.8	54.5	51.9	50.9	48.5	48.0	48.3	46.5	48.4	48.5	50.4	52.0	51.1	46.8	45.9	43.8
Spain	56.2	56.9	54.2	53.3	53.8	52.6	48.7	49.9	49.0	44.7	45.7	46.4	48.4	50.7	51.3	49.0	48.4	48.0
Netherlands	60.1	60.6	58.4	59.9	57.8	55.9	54.5	52.6	49.0	47.9	46.0	48.6	49.6	48.7	46.4	44.9	44.2	43.8
Australia	55.1	57.0	57.7	58.8	55.7	56.2	55.7	53.8	53.5	52.7	51.3	50.2	50.0	50.5	49.1	48.0	48.4	48.2
Greece	57.9	57.8	54.6	54.8	53.8	51.1	49.1	48.8	49.7	48.1	48.4	47.2	49.2	51.7	52.8	52.4	51.5	51.8
Emerging																		
China	49.1	50.4	48.1	46.0	48.1	51.7	50.4	49.5	48.1	49.2	49.4	49.0	49.2	51.6	50.0	49.5	50.9	50.5
Indonesia	53.7	51.2	51.3	51.9	50.8	50.2	51.3	51.7	53.7	51.8	50.3	50.9	51.3	51.2	51.9	52.7	50.3	52.5
Korea	52.8	53.8	51.2	52.1	51.8	51.3	49.8	47.6	47.3	48.2	49.0	48.2	48.5	48.5	47.6	48.1	48.4	47.8
Taiwan	55.1	54.3	54.1	51.7	50.0	49.8	44.6	42.7	42.2	41.5	41.6	44.6	44.3	49.0	48.6	47.1	44.3	44.8
Brazil	47.8	49.6	52.3	51.8	54.2	54.1	54.0	51.9	51.1	50.8	44.3	44.2	47.5	49.2	47.0	44.3	47.1	46.6
Mexico	46.1	48.0	49.2	49.3	50.6	52.2	48.5	48.5	50.3	50.3	50.6	51.3	48.9	51.0	51.0	51.1	50.5	50.9
Russia	51.8	48.6	44.1	48.2	50.8	50.9	50.3	51.7	52.0	50.7	53.2	53.0	52.6	53.6	53.2	52.6	53.5	52.6
South Africa	50.9	50.9	51.4	50.3	50.7	52.5	52.7	51.7	49.2	49.5	50.6	50.2	48.7	50.5	49.7	49.6	47.9	
India	54.0	54.9	54.0	54.7	54.6	53.9	56.4	56.2	55.1	55.3	55.7	57.8	55.4	55.3	56.4	57.2	58.7	57.8

LOWER ← → HIGHER

Source: Bloomberg, Markit. *Some countries might have delayed reporting.

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Global inflation continues to cool, but remains at elevated levels; after many months of near double-digit prints, inflation in the U.K. dropped to 7.9% in June in the first signs of easing

Country & GDP-Weighted Regional Inflation

	2013				2014				2015				2016				2017				2018				2019				2020				2021				2022				'23	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Global	3.0	3.2	3.2	3.1	2.9	3.0	2.5	2.0	1.9	1.9	1.8	2.1	2.0	2.0	2.0	2.2	2.2	1.7	2.2	2.4	2.4	2.7	2.5	1.9	2.1	2.1	2.1	3.1	2.5	1.8	2.0	1.3	2.2	4.3	4.4	5.8	7.1	7.9	7.4	6.1	4.6	3.0
DM	1.3	1.6	1.3	1.4	1.3	1.9	1.6	0.8	0.3	0.3	0.1	0.5	0.5	0.6	0.9	1.5	1.8	1.4	1.8	1.8	2.0	2.3	2.1	1.6	1.6	1.4	1.3	1.8	1.2	0.4	0.7	0.6	2.3	4.7	4.9	6.4	7.9	8.6	8.0	6.7	5.2	3.3
EM	5.2	5.4	5.9	5.3	5.0	4.5	3.8	3.6	4.1	4.1	3.9	4.2	3.9	4.0	3.5	3.1	2.7	2.1	2.6	3.3	3.0	3.2	3.2	2.4	2.8	3.0	3.2	4.9	4.3	3.5	3.7	2.4	2.0	2.7	2.5	3.3	4.1	4.9	4.8	3.7	2.4	1.5
Developed																																										
U.S.	1.5	1.8	1.2	1.5	1.5	2.1	1.7	0.8	-0.1	0.1	0.0	0.7	0.9	1.0	1.5	2.1	2.4	1.6	2.2	2.1	2.4	2.9	2.3	1.9	1.9	1.6	1.7	2.3	1.5	0.6	1.4	1.4	2.6	5.4	5.4	7.0	8.5	9.1	8.2	6.5	5.0	3.0
Canada	1.0	1.2	1.1	1.2	1.5	2.4	2.0	1.5	1.2	1.0	1.0	1.6	1.3	1.5	1.3	1.5	1.6	1.0	1.6	1.9	2.3	2.5	2.2	2.0	1.9	2.0	1.9	2.2	0.9	0.7	0.5	0.7	2.2	3.1	4.4	4.8	6.7	8.1	6.9	6.3	4.3	2.8
Japan	-0.9	0.2	1.1	1.6	1.6	3.6	3.2	2.4	2.3	0.4	0.0	0.2	0.0	-0.4	-0.5	0.3	0.2	0.4	0.7	1.0	1.1	0.7	1.2	0.3	0.5	0.7	0.2	0.8	0.4	0.1	0.0	-1.2	-0.4	-0.5	0.2	0.8	1.2	2.4	3.0	4.0	3.2	3.2
UK	2.8	2.7	2.7	2.1	1.7	1.7	1.5	0.9	0.1	0.0	0.0	0.1	0.3	0.4	0.7	1.2	2.1	2.7	2.8	3.0	2.7	2.4	2.5	2.3	1.9	2.0	1.8	1.4	1.7	0.6	0.6	0.5	0.6	2.1	2.8	4.9	6.2	9.2	10.0	10.7	10.2	8.4
Eurozone	1.7	1.6	1.1	0.8	0.5	0.5	0.3	-0.2	-0.1	0.5	0.2	0.3	0.0	0.0	0.4	1.1	1.5	1.3	1.6	1.3	1.4	2.0	2.1	1.5	1.4	1.3	0.8	1.3	0.7	0.3	-0.3	-0.3	1.3	1.9	3.4	5.0	7.4	8.6	9.9	9.2	6.9	5.5
Germany	1.3	1.9	1.4	1.4	1.1	1.0	0.9	0.2	0.2	0.9	0.6	0.2	0.3	0.3	0.6	1.5	1.4	1.4	1.7	1.4	1.5	1.9	1.9	1.6	1.3	1.6	1.2	1.5	1.4	0.9	-0.2	-0.3	1.8	2.4	4.1	4.9	5.9	6.7	8.6	8.1	7.4	6.4
France	1.0	0.9	0.9	0.7	0.6	0.5	0.3	0.1	-0.1	0.3	0.0	0.2	-0.1	0.2	0.4	0.6	1.1	0.7	1.0	1.2	1.6	2.0	2.2	1.6	1.1	1.2	0.9	1.5	0.7	0.2	0.0	0.0	1.1	1.5	2.2	2.8	4.5	5.8	5.6	5.9	5.7	4.5
Italy	1.8	1.2	0.9	0.6	0.3	0.3	-0.1	0.0	0.0	0.2	0.2	0.1	-0.2	-0.2	0.1	0.5	1.4	1.2	1.3	1.0	0.9	1.4	1.5	1.2	1.1	0.8	0.2	0.5	0.1	-0.4	-1.0	-0.3	0.6	1.3	2.9	4.2	6.8	8.5	9.4	12.3	8.1	6.7
Spain	2.4	2.1	0.3	0.3	-0.1	0.1	-0.2	-1.0	-0.7	0.1	-0.9	0.0	-0.8	-0.8	0.2	1.6	2.3	1.5	1.8	1.1	1.2	2.3	2.3	1.2	1.3	0.4	0.1	0.8	0.0	-0.3	-0.4	-0.5	1.3	2.7	4.0	6.5	9.8	10.2	8.9	5.7	3.3	1.9
Netherlands	2.9	2.9	2.4	1.7	0.8	0.9	0.9	0.7	0.4	1.0	0.5	0.7	0.6	0.0	0.1	1.0	1.1	1.1	1.5	1.3	1.0	1.7	1.9	2.0	2.8	2.7	2.6	2.7	1.4	1.6	1.1	1.0	1.9	2.0	2.7	5.7	9.7	8.6	14.5	9.6	4.4	5.7
Australia	2.5	2.4	2.2	2.7	2.9	3.0	2.3	1.7	1.3	1.5	1.5	1.7	1.3	1.0	1.3	1.5	2.1	1.9	1.8	1.9	1.9	2.1	1.9	1.8	1.3	1.6	1.7	1.8	2.2	-0.3	0.7	0.9	1.1	3.8	3.0	3.5	5.1	6.1	7.3	7.8	7.0	
Greece	-0.2	-0.3	-1.0	-1.8	-1.5	-1.5	-1.1	-2.5	-1.9	-1.1	-0.8	0.4	-0.7	0.2	-0.1	0.3	1.7	0.9	1.0	1.0	0.2	1.0	1.1	0.6	1.0	0.2	0.2	1.1	0.2	-1.9	-2.3	-2.4	-2.0	0.6	1.9	4.4	8.0	11.6	12.1	7.6	5.4	2.8
Emerging																																										
China	2.1	2.7	3.1	2.5	2.4	2.3	1.6	1.5	1.4	1.4	1.6	1.6	2.3	1.9	1.9	2.1	0.9	1.5	1.6	1.8	2.1	1.9	2.5	1.9	2.3	2.7	3.0	4.5	4.3	2.5	1.7	0.2	0.4	1.1	0.7	1.5	1.5	2.5	2.8	1.8	0.7	0.0
Indonesia	5.0	5.4	7.9	8.1	7.3	6.7	4.5	8.4	6.4	7.3	6.8	3.4	4.5	3.5	3.1	3.0	3.6	4.4	3.7	3.6	3.4	3.1	2.9	3.1	2.5	2.8	3.1	2.6	3.0	2.0	1.4	1.7	1.4	1.3	1.6	1.9	2.6	4.4	6.0	5.5	5.0	3.5
Korea	1.5	1.2	1.0	1.1	1.3	1.7	1.1	0.8	0.5	0.7	0.5	1.1	0.8	0.7	1.3	1.3	2.3	1.8	2.0	1.4	1.2	1.5	2.1	1.3	0.4	0.7	-0.4	0.7	0.8	0.2	0.9	0.6	1.9	2.4	2.4	3.7	4.1	6.0	5.6	5.0	4.2	2.7
Taiwan	1.4	0.6	0.9	0.3	1.6	1.6	0.7	0.6	-0.6	-0.6	0.3	0.1	2.0	0.9	0.3	1.7	0.2	1.0	0.5	1.2	1.6	1.4	1.7	-0.1	0.6	0.9	0.4	1.1	0.0	-0.8	-0.6	0.1	1.2	1.8	2.6	2.6	3.3	3.6	2.8	2.7	2.4	1.8
Brazil	6.6	6.7	5.9	5.9	6.2	6.5	6.8	6.4	8.1	8.9	9.5	10.7	9.4	8.8	8.5	6.3	4.6	3.0	2.5	3.0	2.7	4.4	4.5	3.8	4.6	3.4	2.9	4.3	3.3	2.1	3.1	4.5	6.1	8.4	10.3	10.1	11.3	11.9	7.2	5.8	4.7	3.2
Mexico	4.3	4.1	3.4	4.0	3.8	3.8	4.2	4.1	3.1	2.9	2.5	2.1	2.6	2.5	3.0	3.4	5.4	6.3	6.4	6.8	5.0	4.7	5.0	4.8	4.0	4.0	3.0	2.8	3.3	3.3	4.0	3.2	4.7	5.9	6.0	7.4	7.5	8.0	8.7	7.8	6.9	5.1
Russia	7.0	6.9	6.1	6.5	6.9	7.8	8.0	11.4	16.9	15.3	15.7	12.9	7.3	7.5	6.4	5.4	4.3	4.4	3.0	2.5	2.4	2.3	3.4	4.3	5.3	4.7	4.0	3.0	2.5	3.2	3.7	4.9	5.8	6.5	7.4	8.4	16.7	15.9	13.7	11.9	3.5	3.3
South Africa	5.9	5.5	6.0	5.4	6.0	6.6	5.9	5.3	4.0	4.7	4.6	5.2	6.3	6.3	6.1	6.8	6.1	5.1	5.1	4.7	3.8	4.6	4.9	4.5	4.5	4.5	4.1	4.0	4.1	2.2	3.0	3.1	3.2	4.9	5.0	5.9	5.9	7.4	7.5	7.2	7.1	5.4
India	9.4	9.5	10.5	9.5	8.3	6.8	5.6	4.3	5.3	5.4	4.4	5.6	4.8	5.8	4.4	3.4	3.9	1.5	3.3	5.2	4.3	4.9	3.7	2.1	2.9	3.2	4.0	7.4	5.8	6.2	7.3	4.6	5.5	6.3	4.4	5.7	7.0	7.0	7.4	5.7	5.7	4.8

LOWER ← → HIGHER

Source: Bloomberg, SpringTide calculations. Global, Developed (DM) and Emerging (EM) inflation numbers are GDP-weighted

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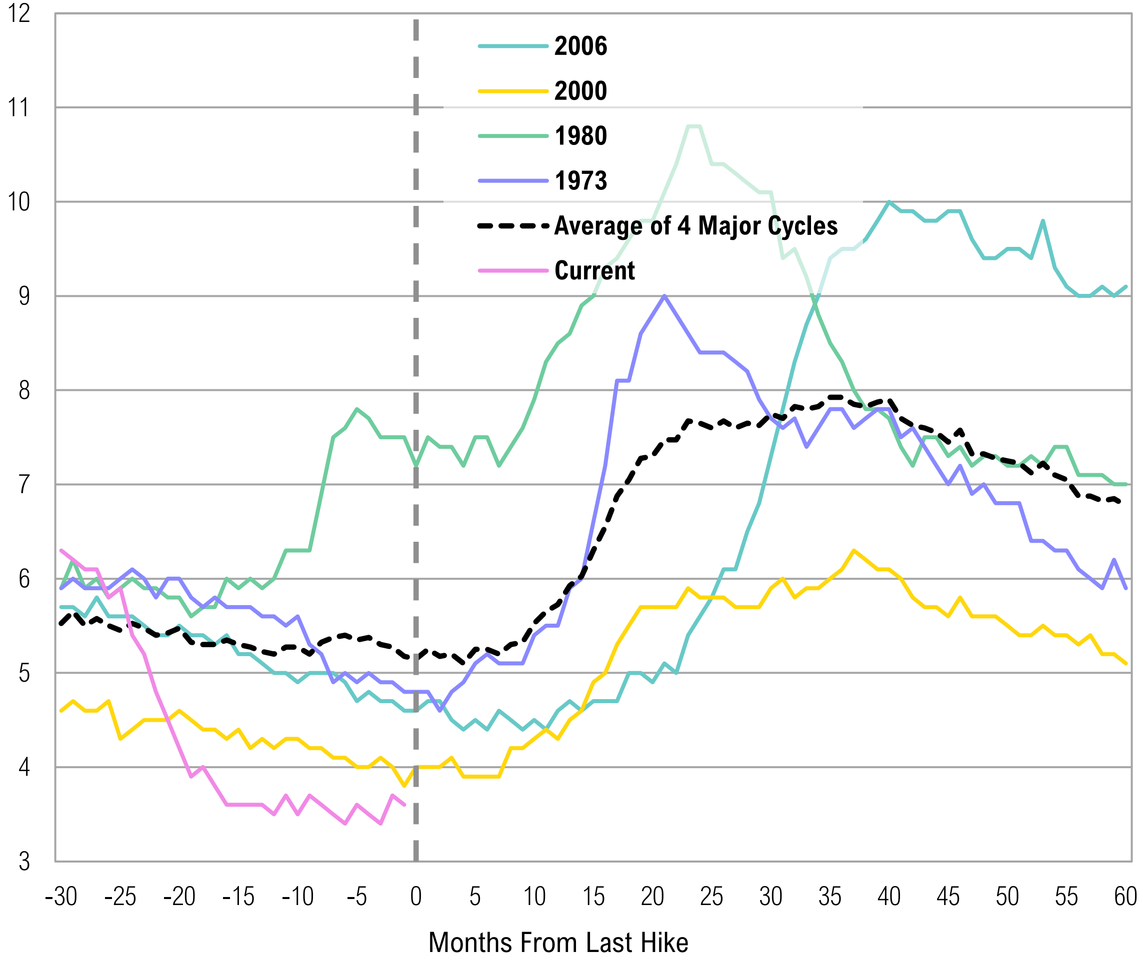
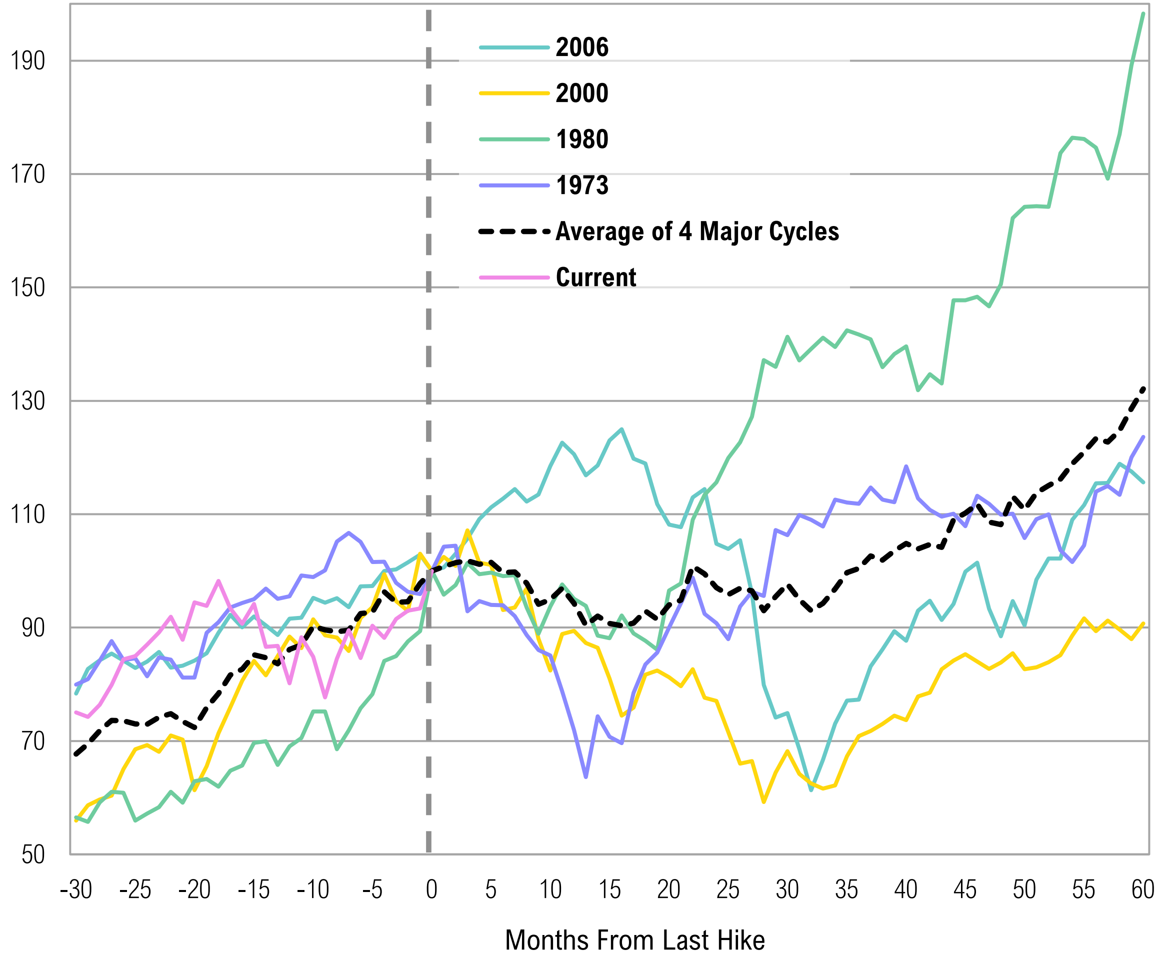
Previous extreme rate hiking cycles have only seen unemployment pick up long after the final hike; current unemployment is at the lowest of all prior rate hike cycles

U.S. Unemployment Rate, %



S&P 500, Growth of 100



Source: SpringTide, Bloomberg. Current assumes that July 2023 will be the final hike of this hiking cycle.

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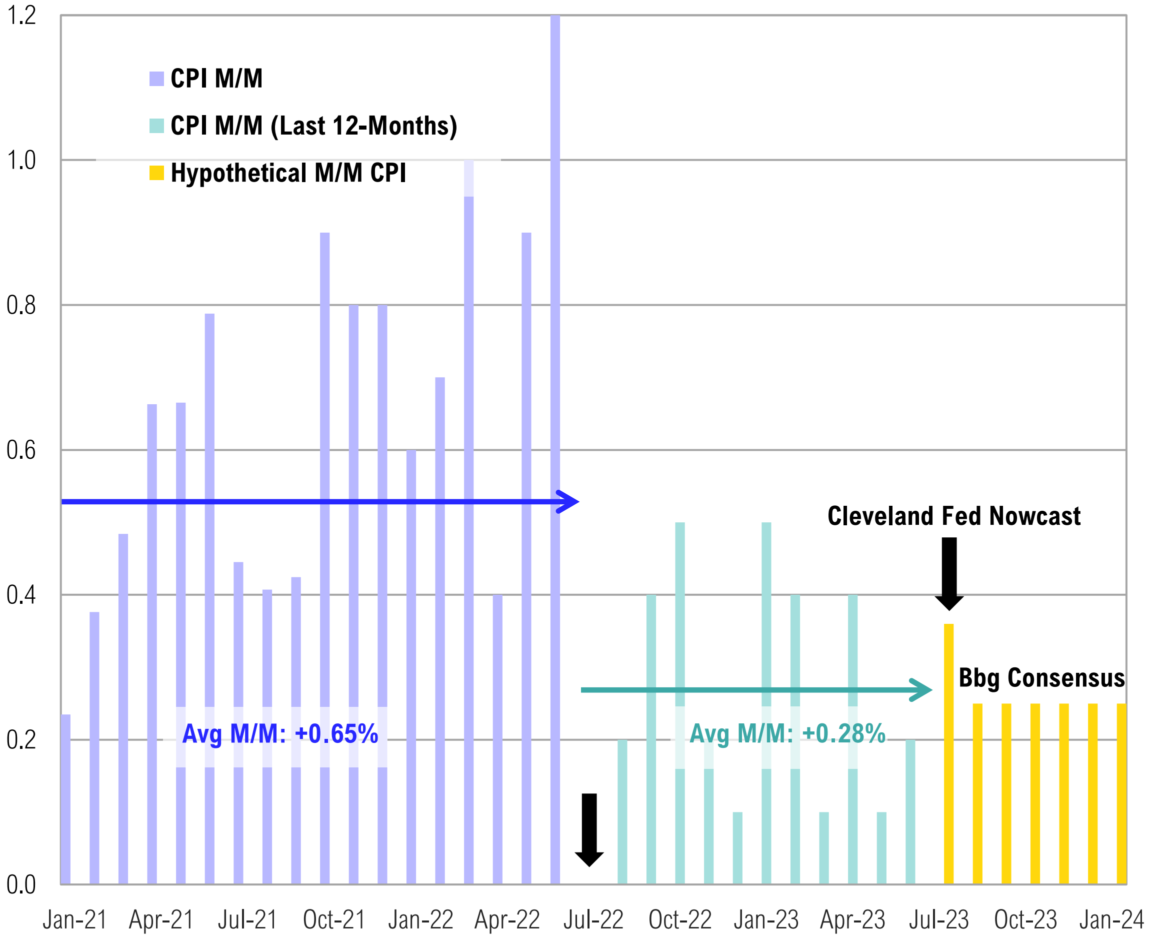
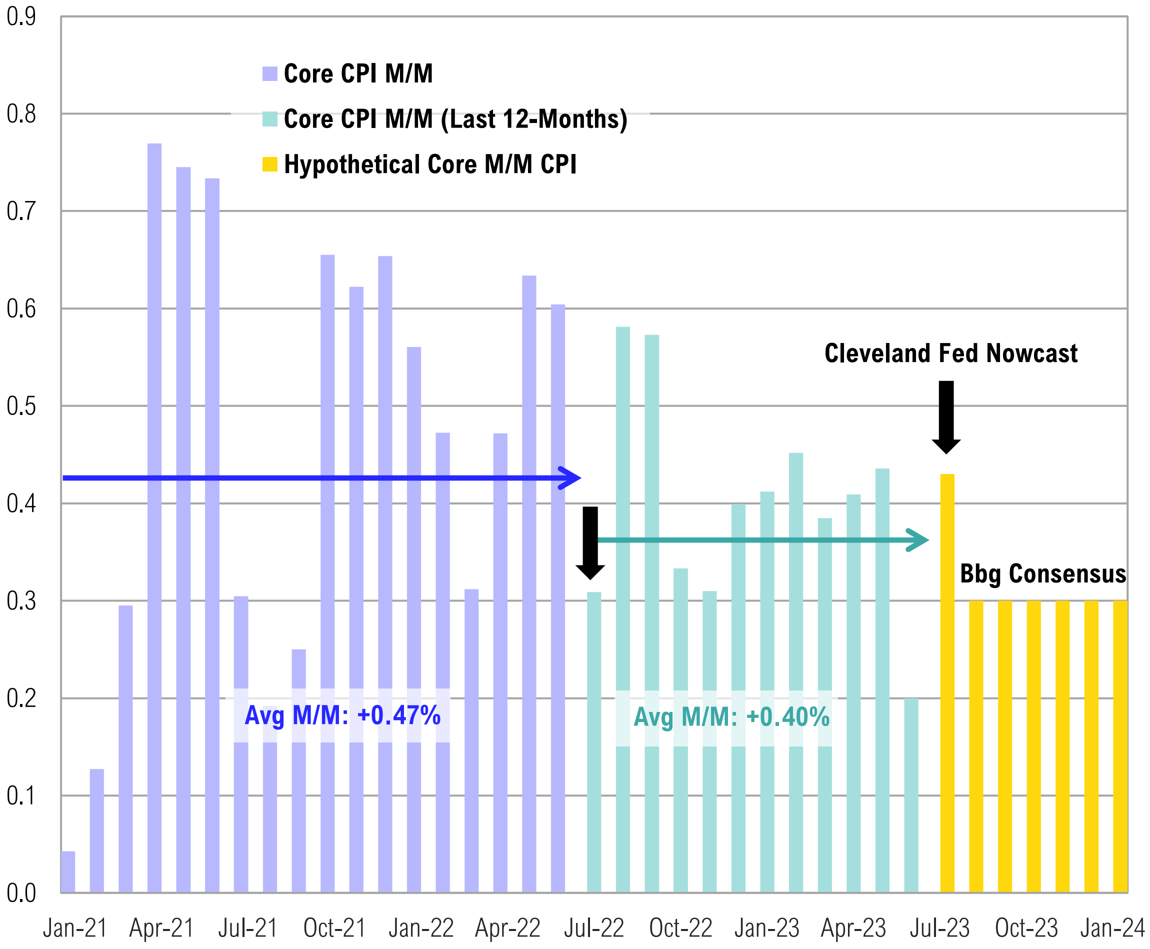
There are no more 'easy' CPI prints left to push inflation lower; unless average month-over-month inflation stays below 0.25%, CPI will rise toward the end of the year due to base effects

Consumer Price Index, %



Consumer Price Index (Ex. Food & Energy), %



Source: Bloomberg, Cleveland Fed. Hypothetical prints based on Bloomberg estimates.

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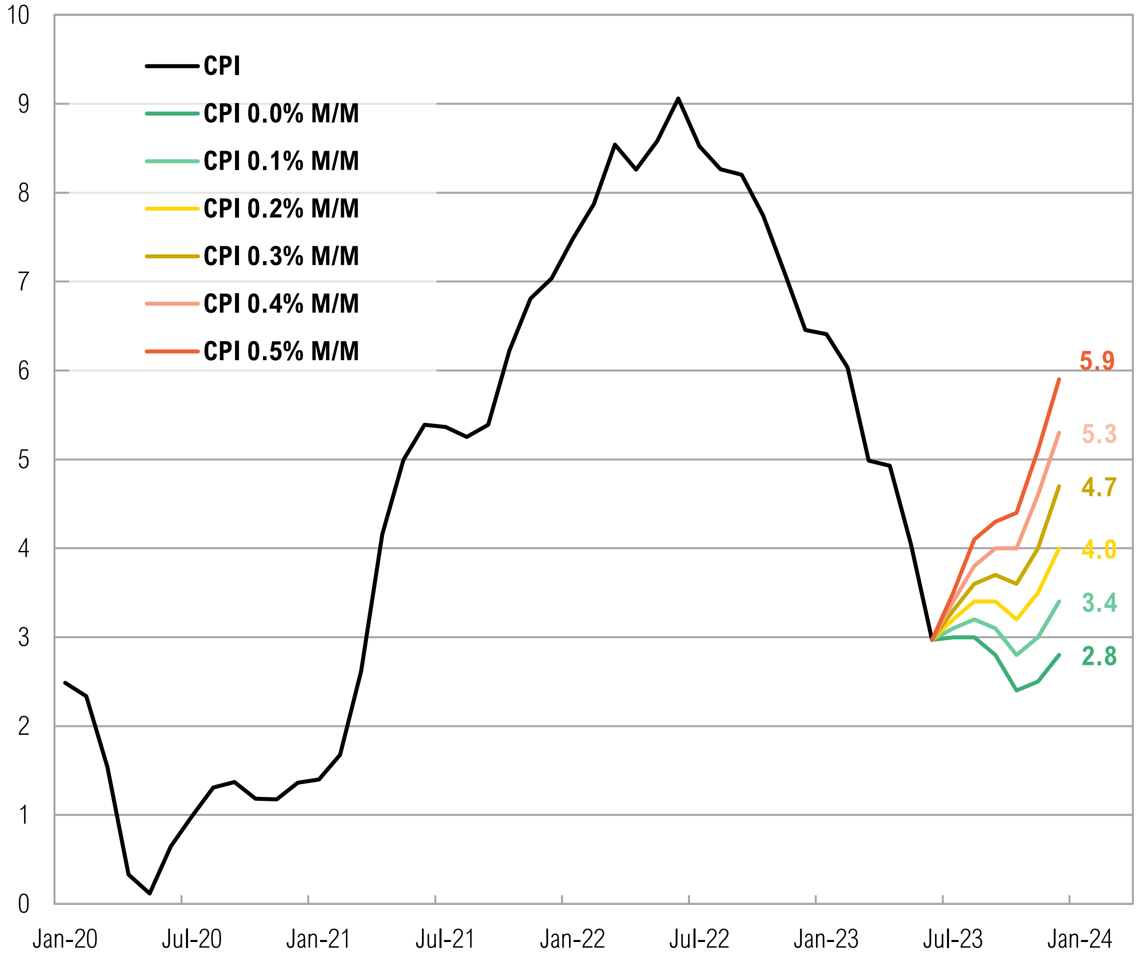
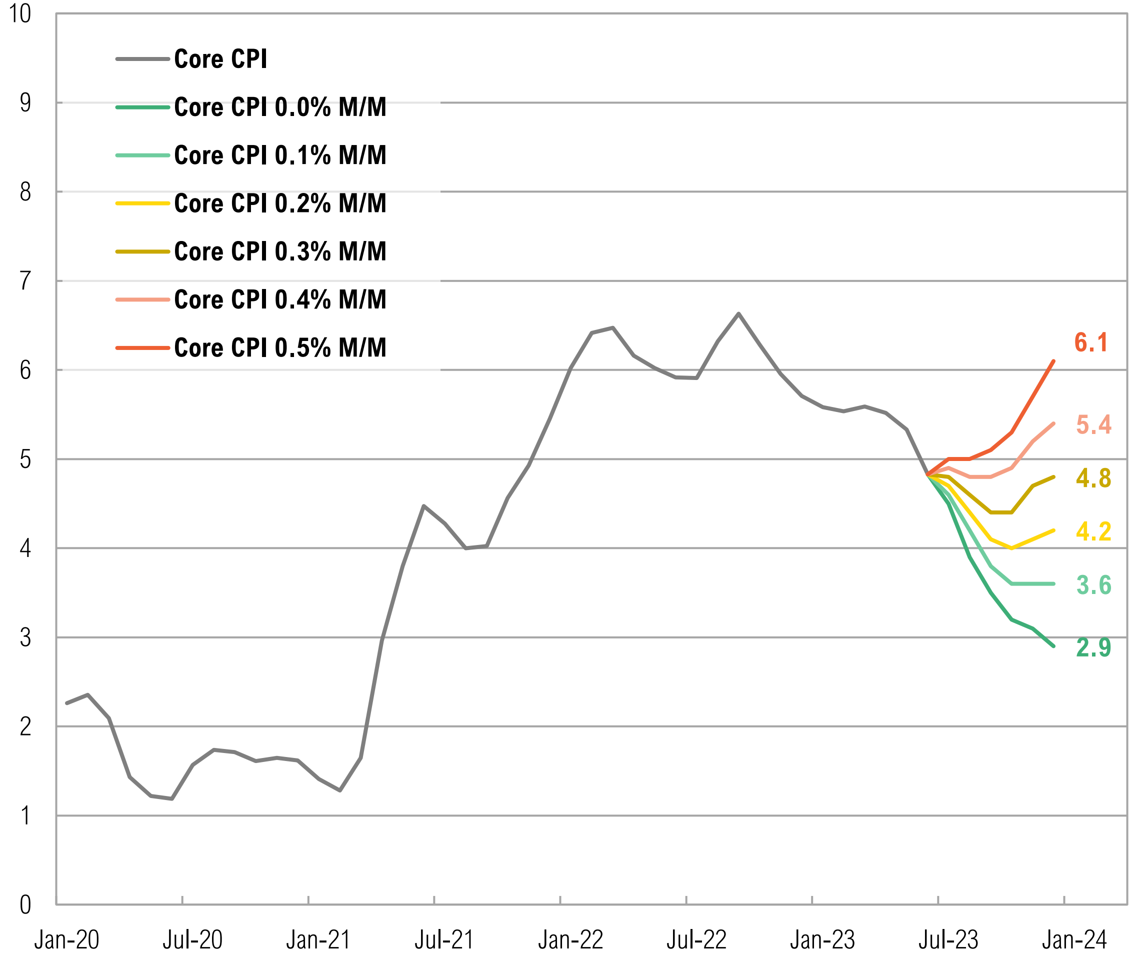
We may see an increase in headline CPI toward the end of the year, even potentially breaching 4.0% again; core CPI should decline, but may also remain above 4.0% at year end

Projected Headline CPI, YoY %



Projected Core CPI, YoY %



Source: Bloomberg

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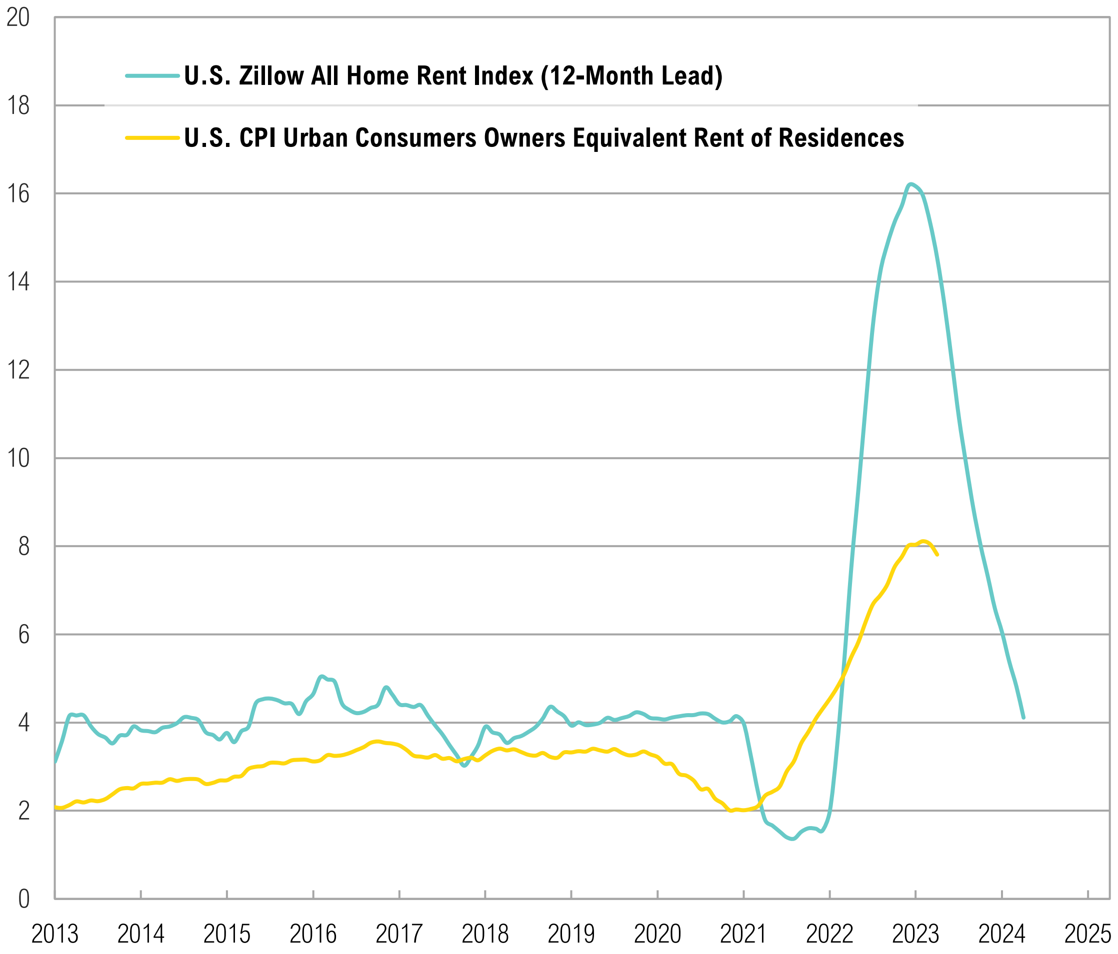
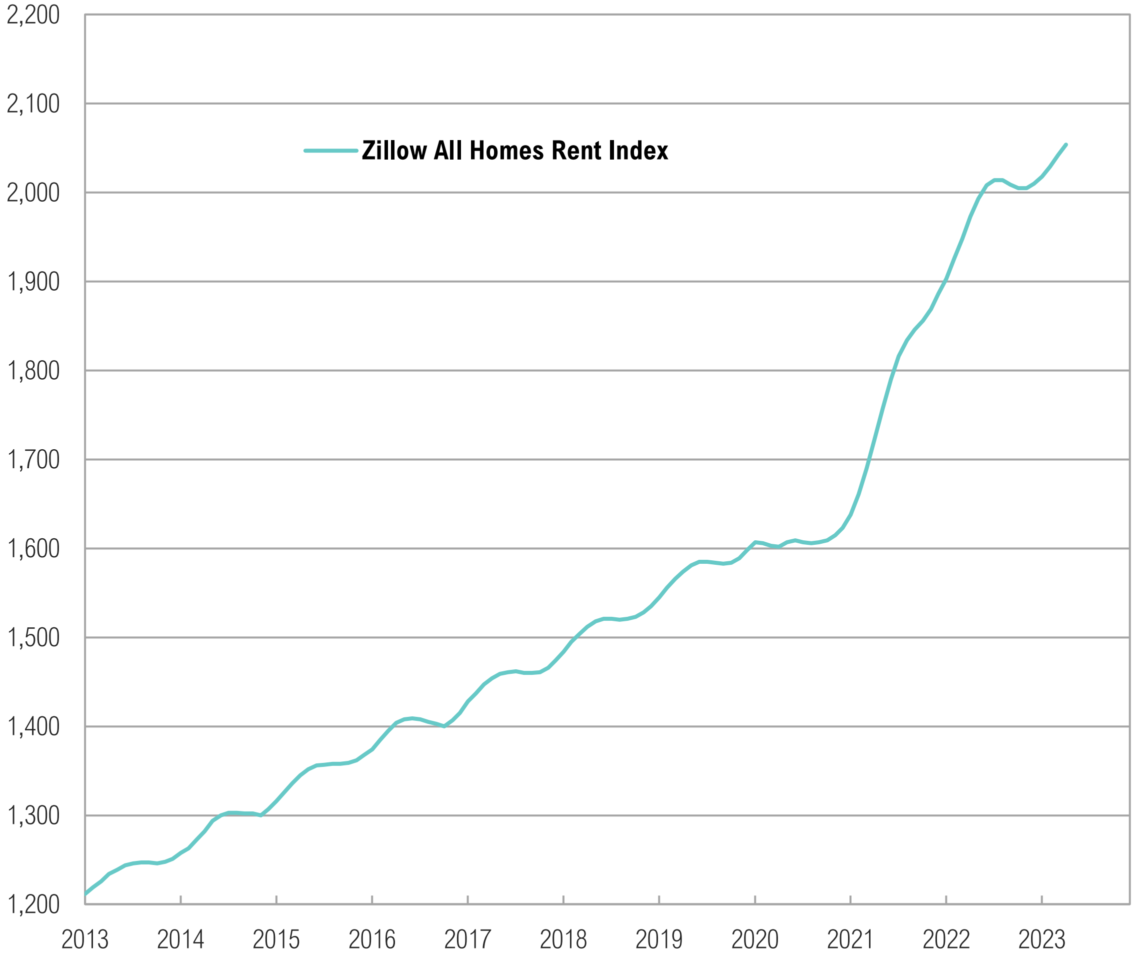
There are signs that the pace of rental price increases have moderated, which will be reflected in CPI in coming months; concerningly though, the Zillow home rent index continues to rise

U.S. Zillow Rent Index All Homes vs CPI Owners Equivalent Rent, YoY %



U.S. Zillow All Home Rent Index



Source: Bloomberg

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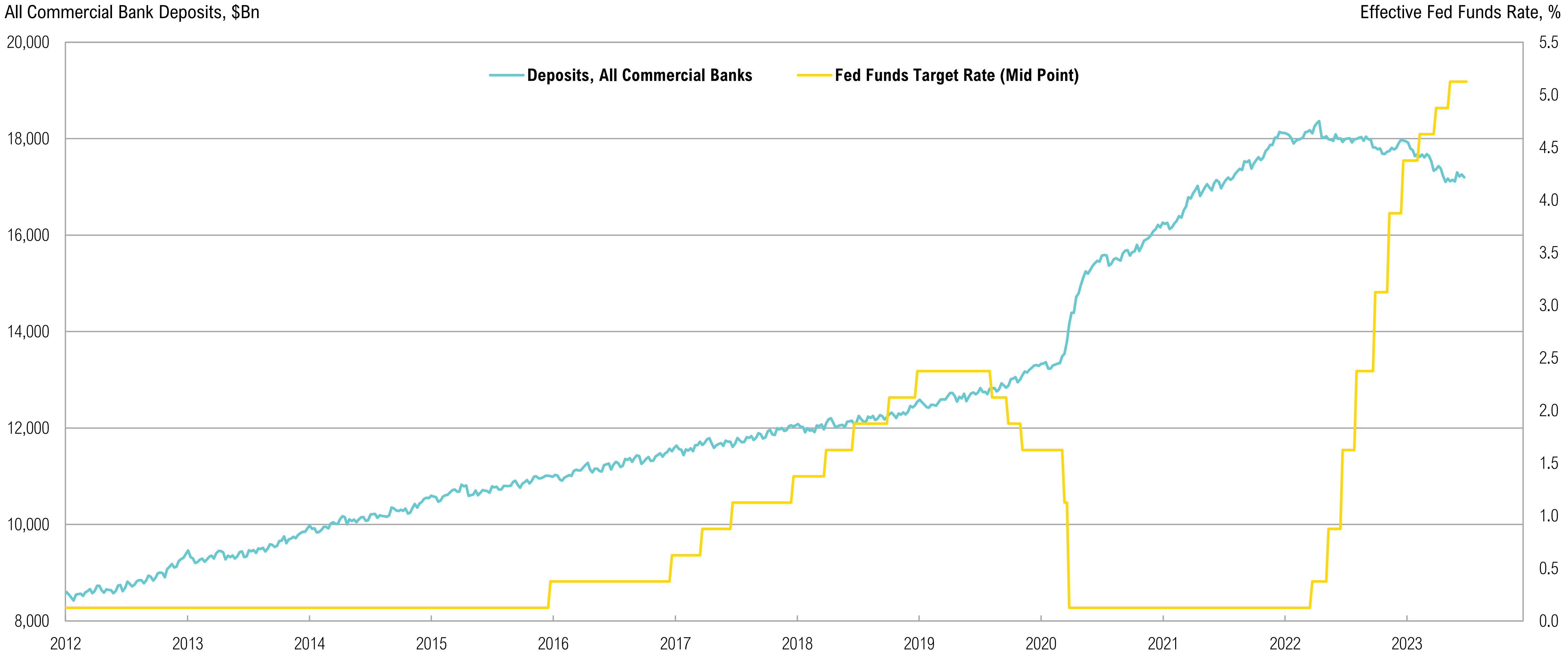
Total U.S. bank deposits increased by $2.9 trillion in 2020 (or 21.9%); it was easy for banks to retain and build deposits at near 0% interest rates, but this is no longer the case



Source: Bloomberg. *Effective Fed funds rate proxied by the midpoint of Fed funds target range prior to March of 2022.

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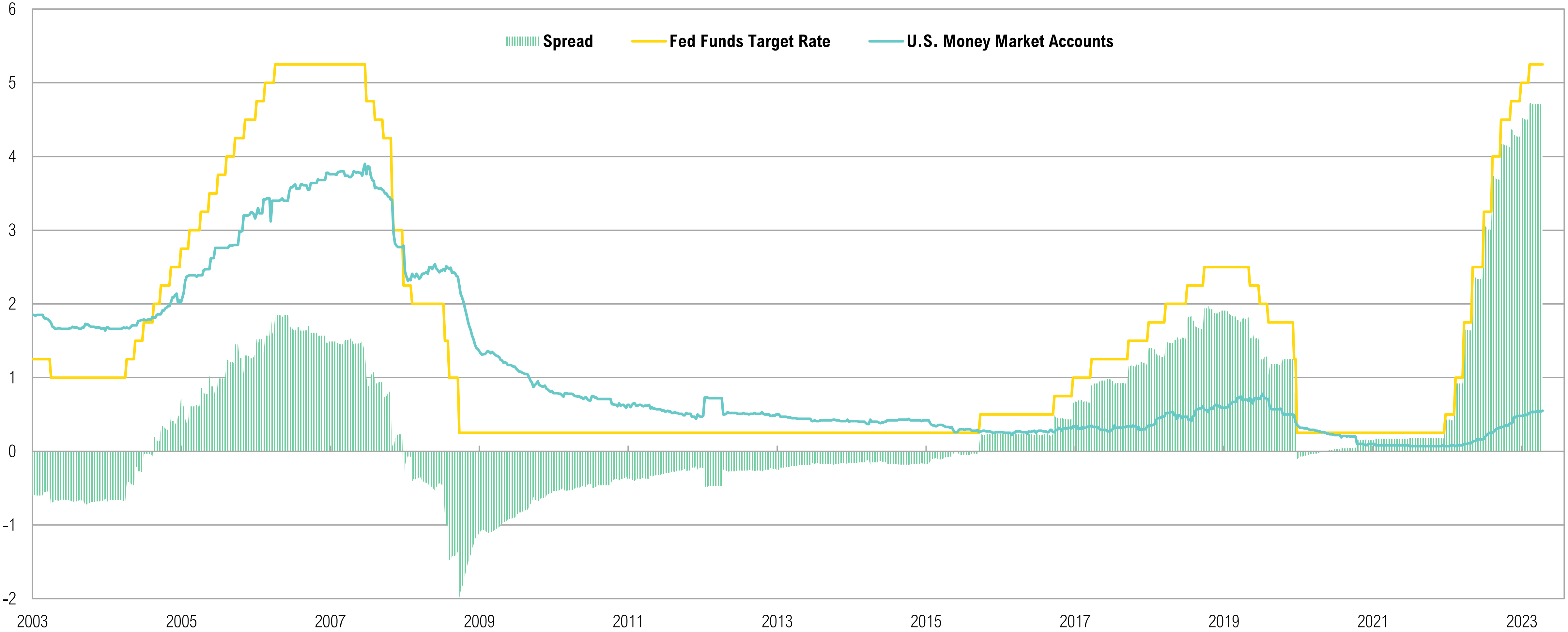
Big banks lend to the Fed at rates that dwarf what they pay on deposits, benefitting from higher interest rates; these extreme interest rate spreads contributed to the banking crisis instability that started in March

U.S. Money Market Accounts National Average & Fed Funds Upper Bound, %



Source: Bloomberg. As of 7/7/2023.

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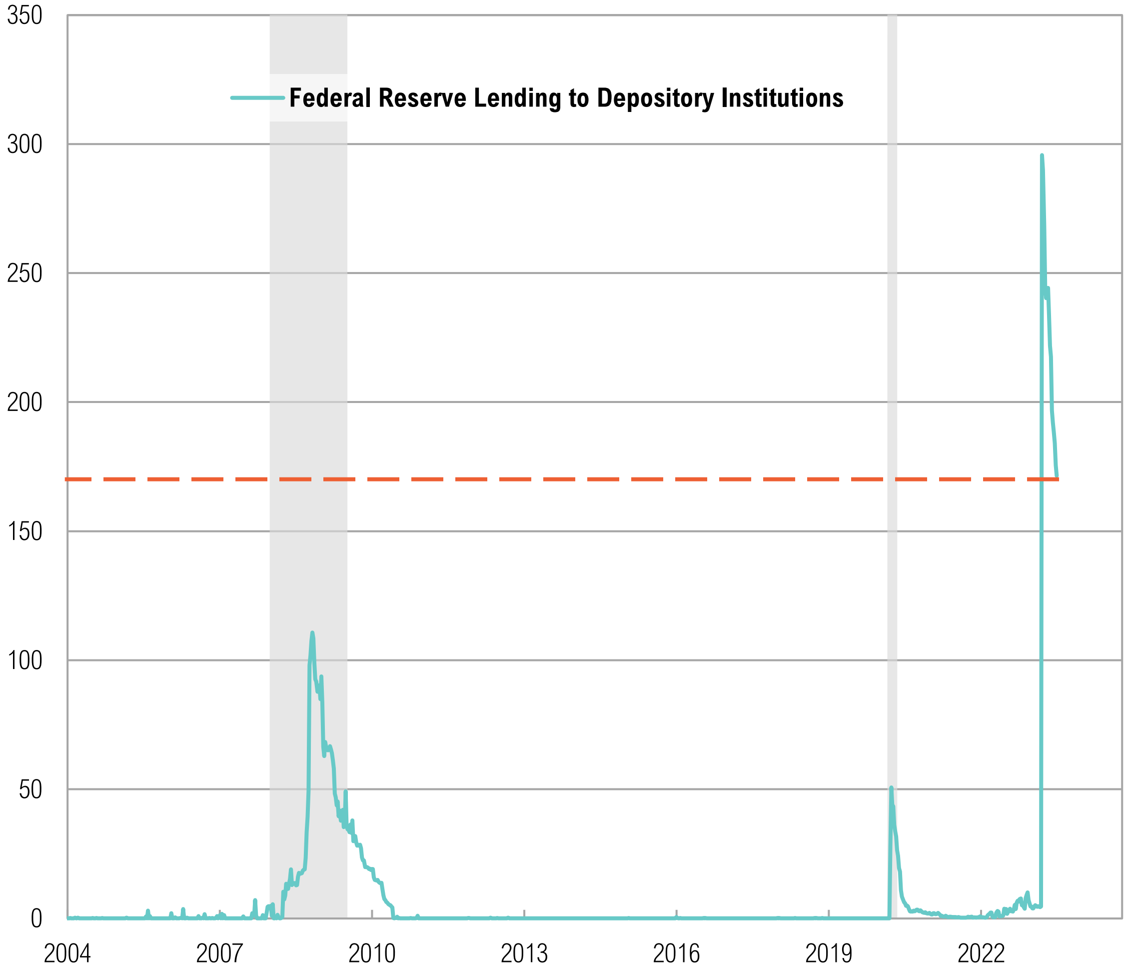
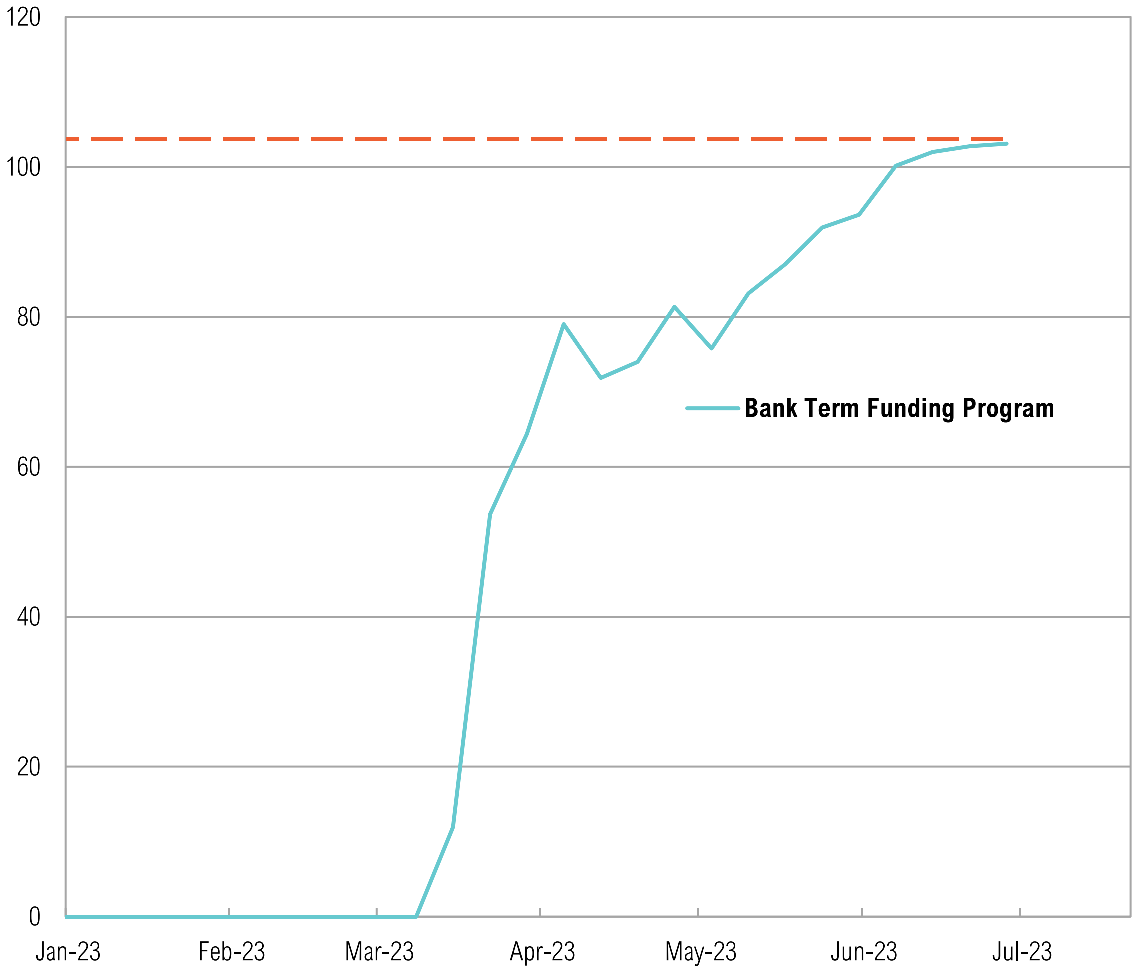
The usage of the Fed discount window (including other credit extensions) remains elevated; Bank Term Funding Program use is at new record levels as banks continue to rely on the Fed for liquidity

Federal Reserve Primary Credit Lending + Other Credit Extensions, $Bn



Federal Reserve Bank Term Funding Program, $Bn



Source: Bloomberg

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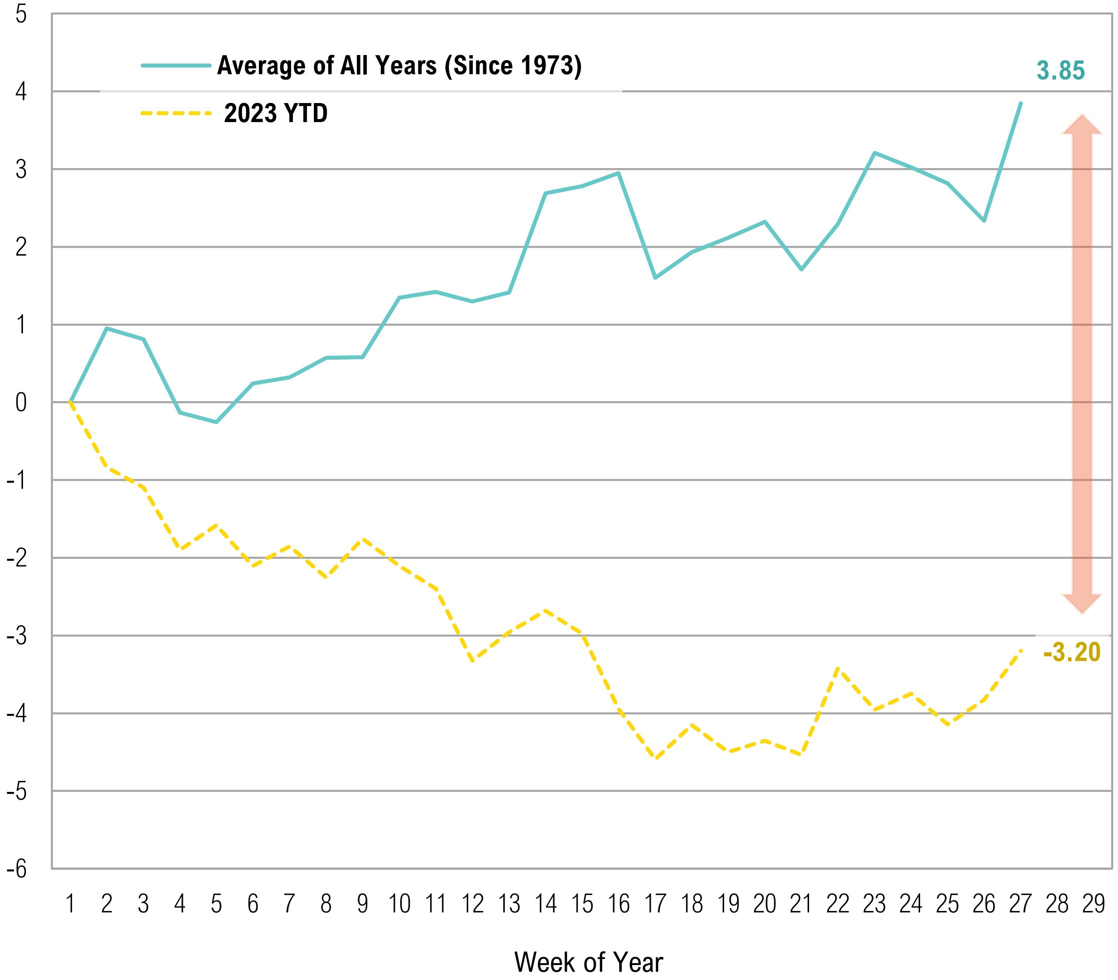
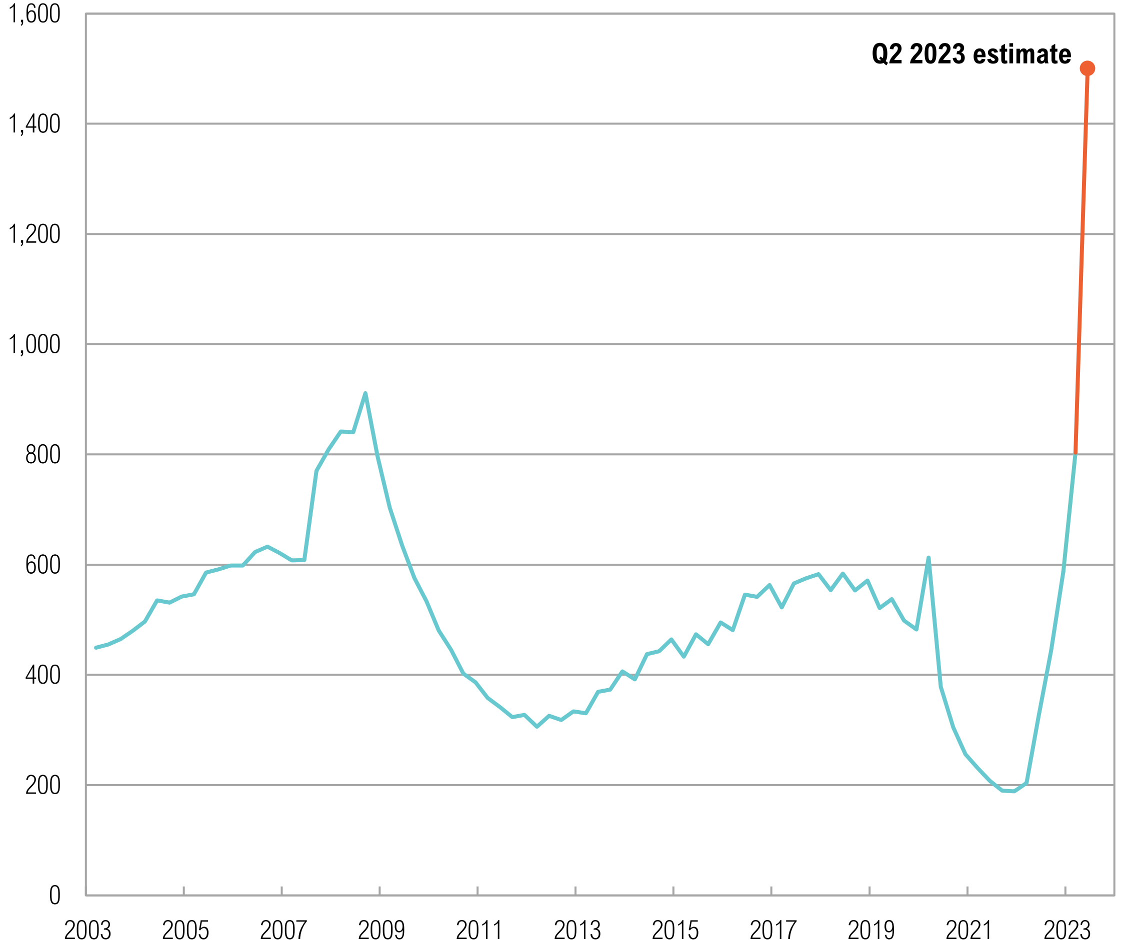
Commercial bank deposits remain unable to catch up to the average level; banks continue to tap into FHLB as they lose core deposits

Domestically Chartered Commercial Bank Deposits, Cumulative % YTD Change



Federal Home Loan Bank (FHLB) Advances, $Bn



Source: Federal Reserve. As of 6/28/2023.

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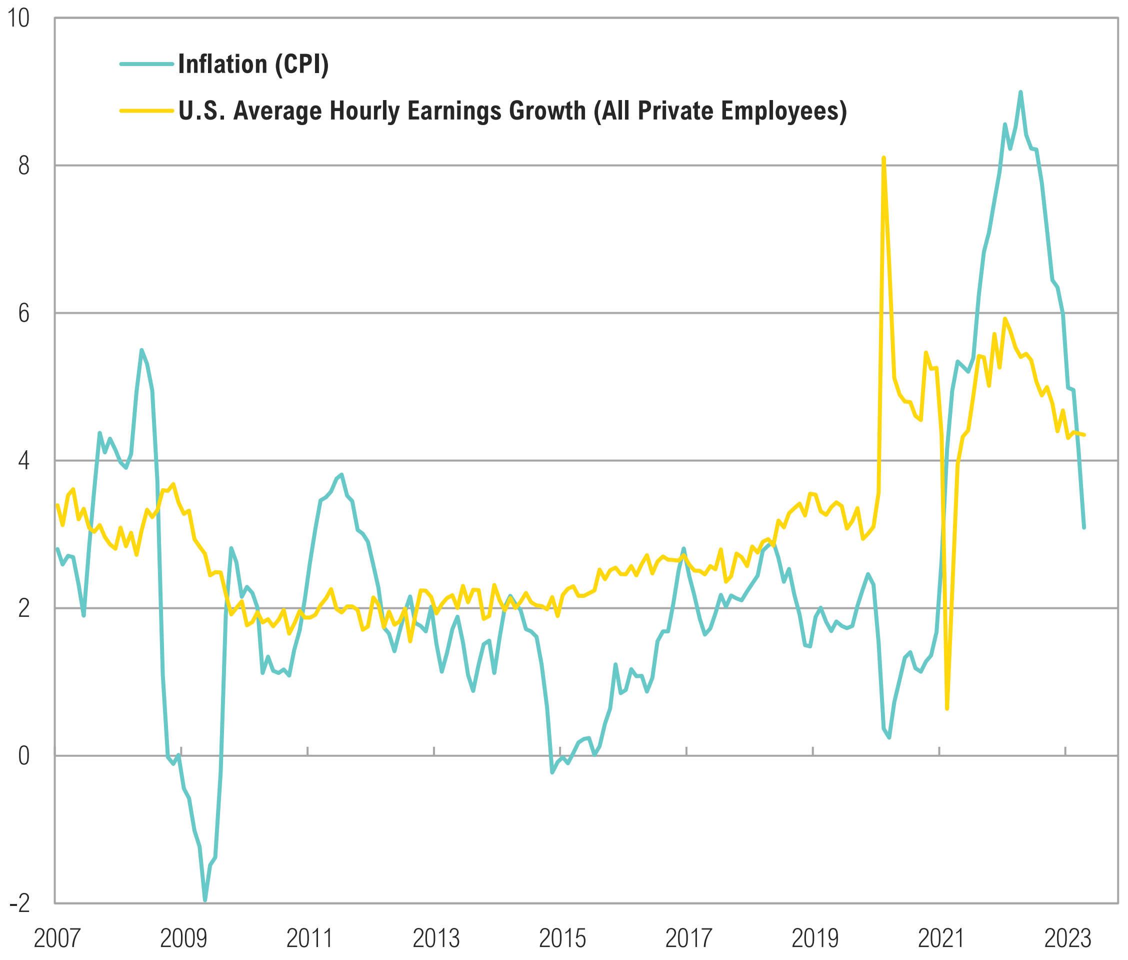
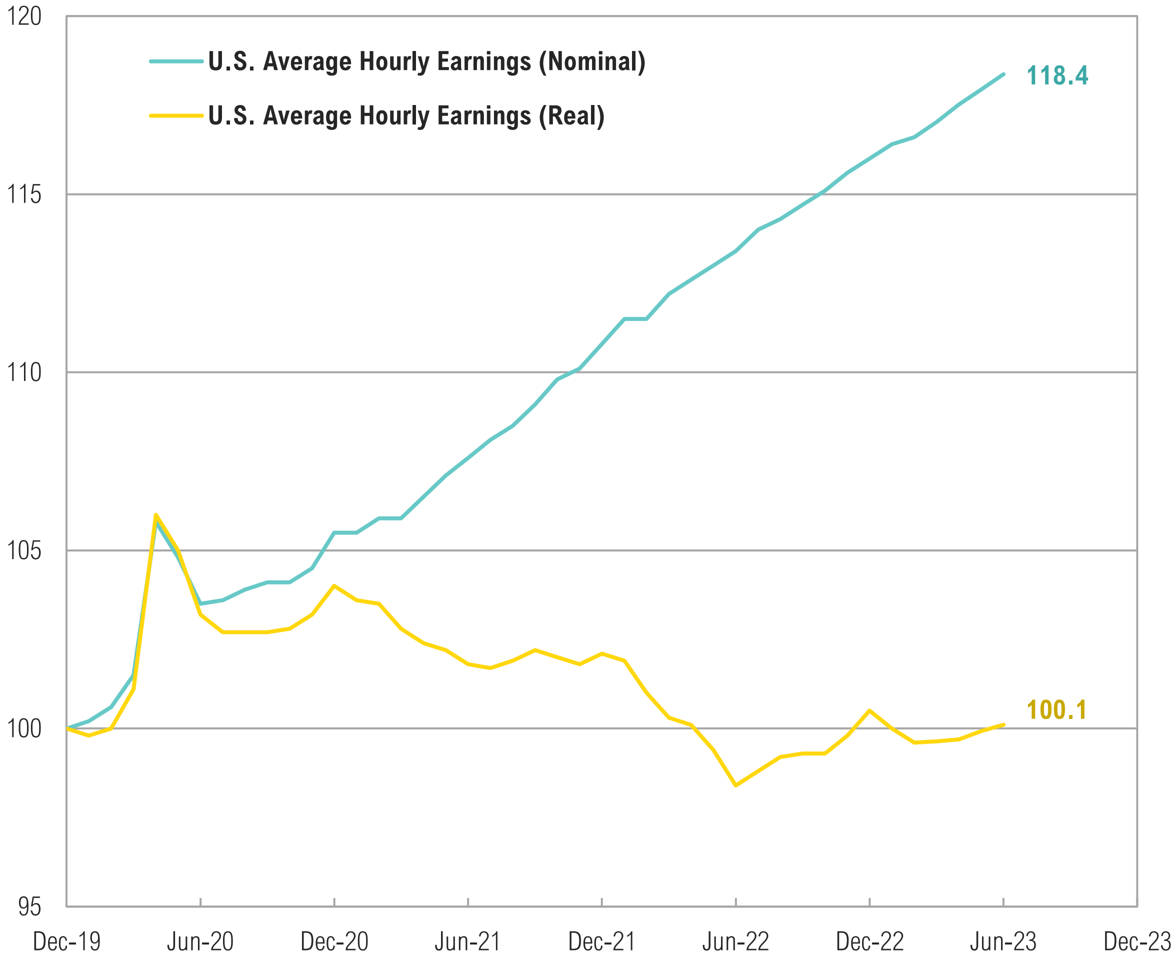
Real wage growth has finally started to outpace inflation for the first time since 2021, ending the longest period of negative wage growth (24 consecutive months) on record

CPI vs Average Hourly Earnings Growth (All Private Employees), %



Average Hourly Earnings, Growth of 100



Source: Bloomberg. CPI data as of 6/30/2023.

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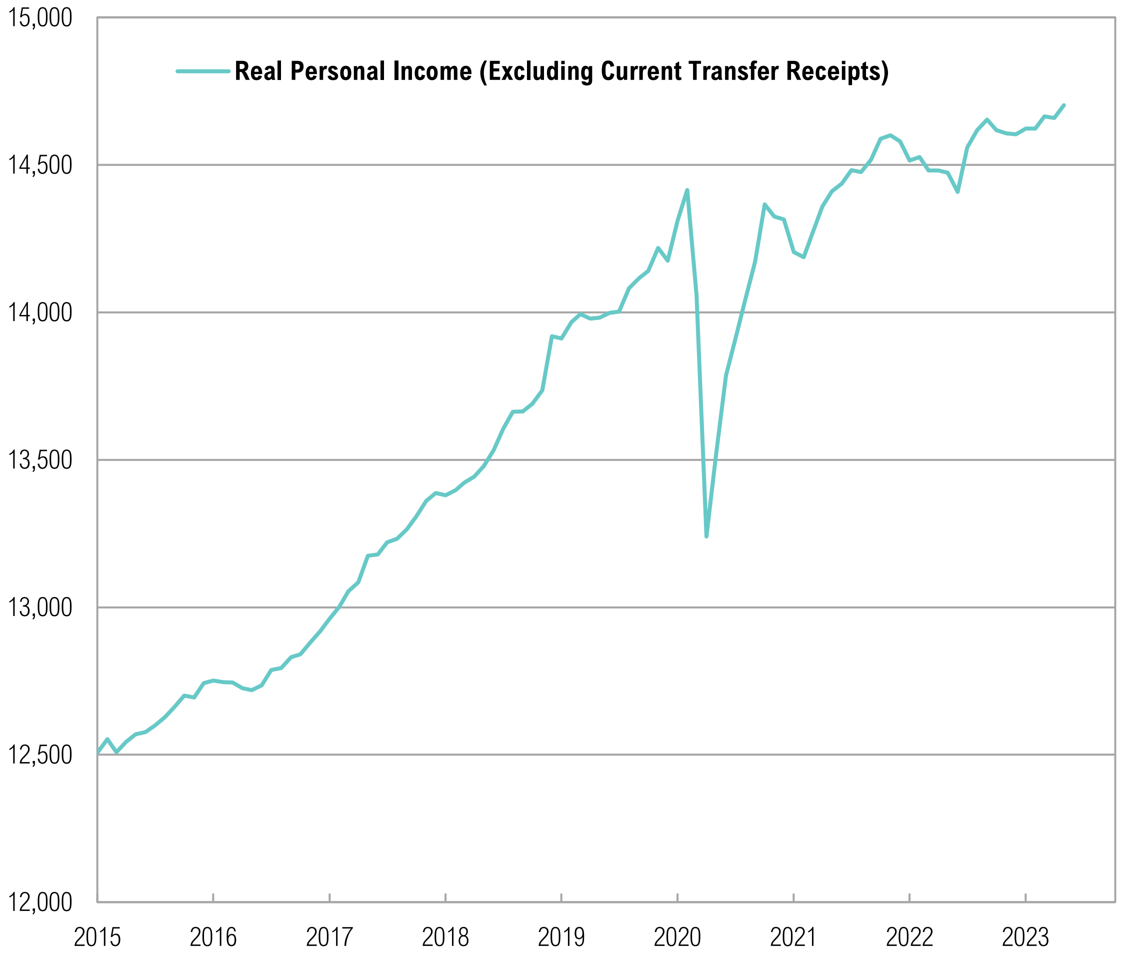
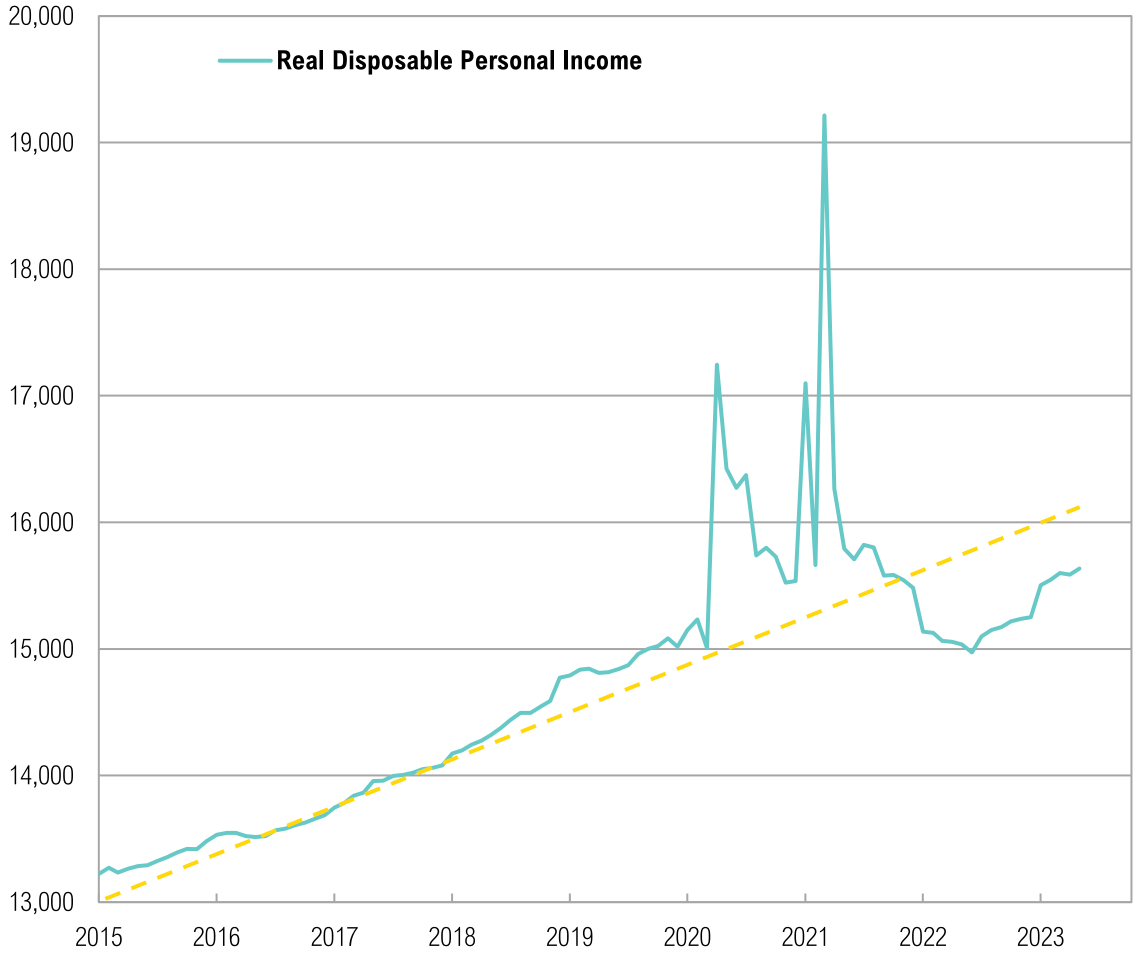
Real income, excluding government transfers, is still grinding higher; total disposable income remains well below average expected trends

U.S. Real Personal Income Ex-Transfer Receipts, $Bn



U.S. Real Disposable Personal Income, $Bn



Source: FRED. Data as of 5/31/2023.

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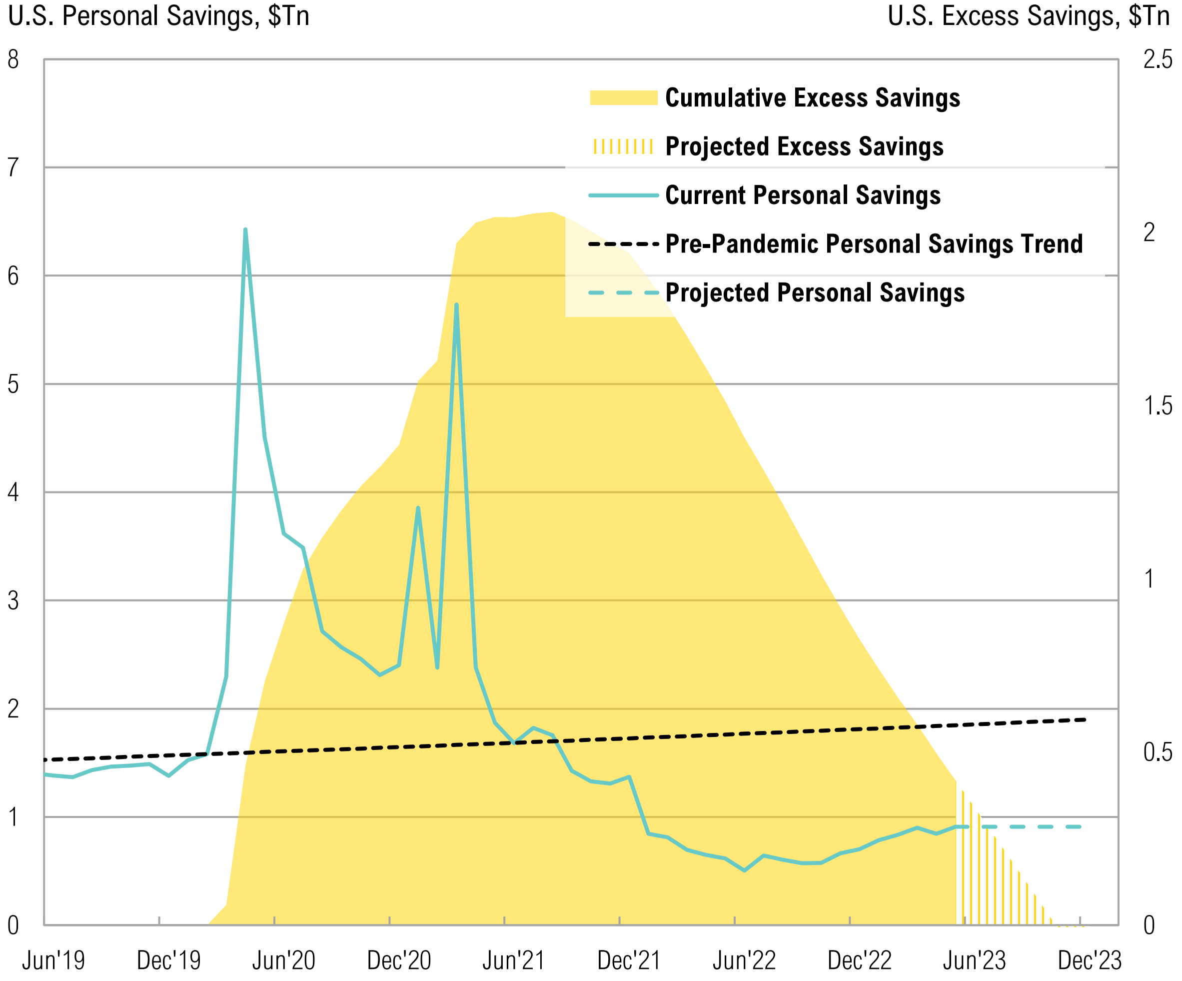
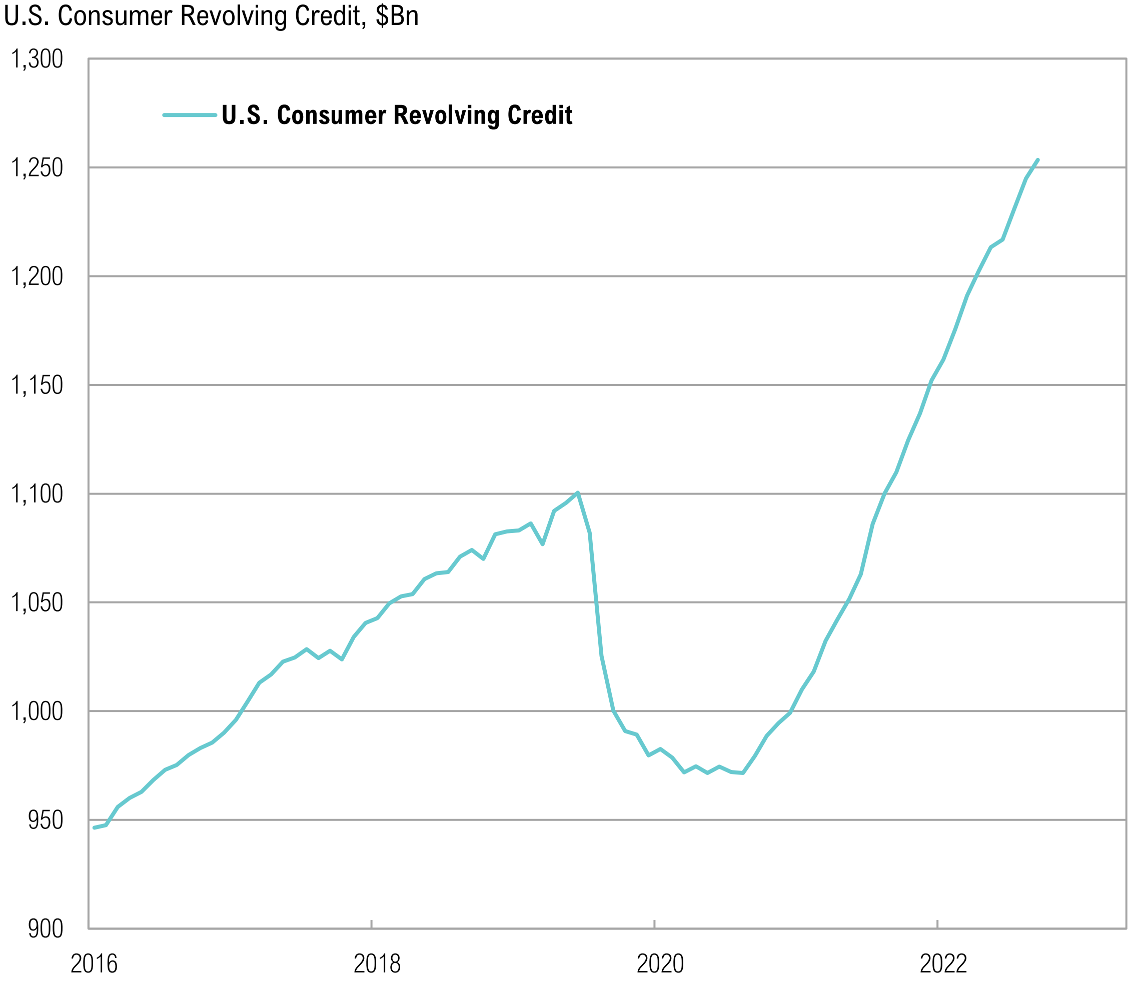
While still below the 5-year pre-COVID savings rate of 7.6%, personal savings rates have started to recover, now at 4.6%; if this savings rate continues, excess savings will be depleted by November '23





Source: Bloomberg. *Household Debt Service Ratio as of 12/31/2022, Q4 Household debt service ratio estimated using post-pandemic trend. Q1 and Q2 2023 estimated by holding disposable personal income constant and assuming a 3% quarterly increase in aggregate household debt and a 4% increase in debt service costs. Excess savings calculated using savings in excess of the 1/31/2019 – 2/29/2020 trend.

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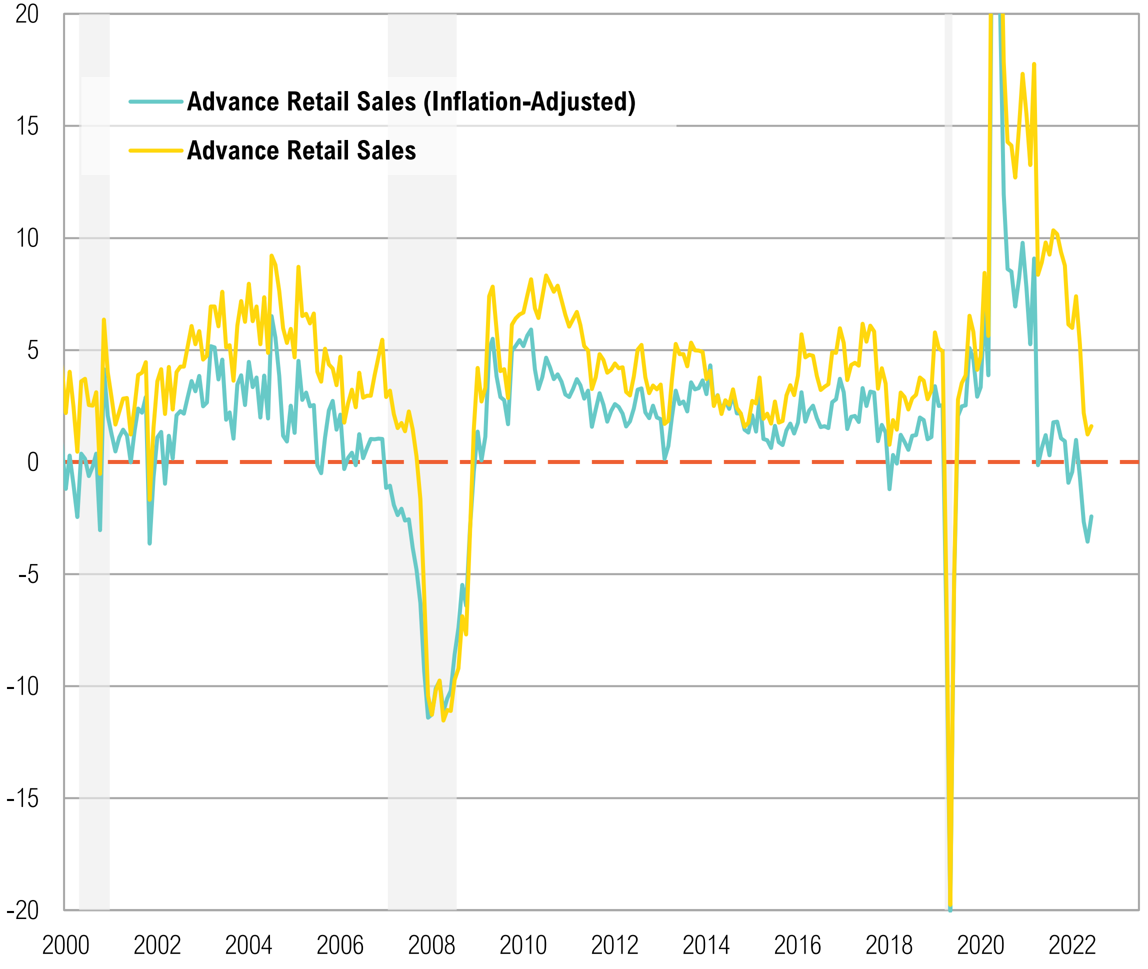
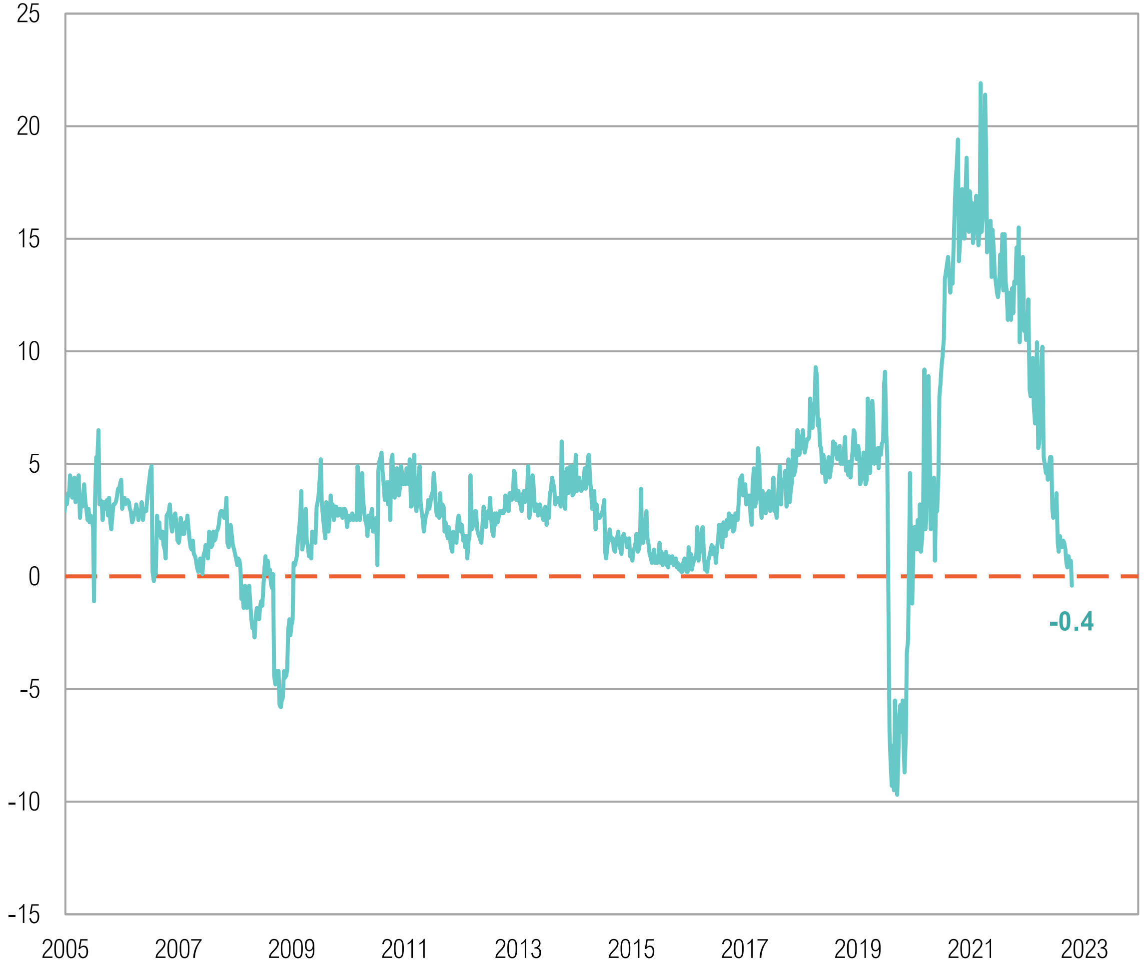
MOUNT YALE

When adjusting for inflation, retail sales are still negative; in June, the Johnson Redbook Index recorded its first negative reading outside of the GFC and the pandemic

U.S. Retail Sales YoY, %



Johnson Redbook Index, WoW



Source: Bloomberg

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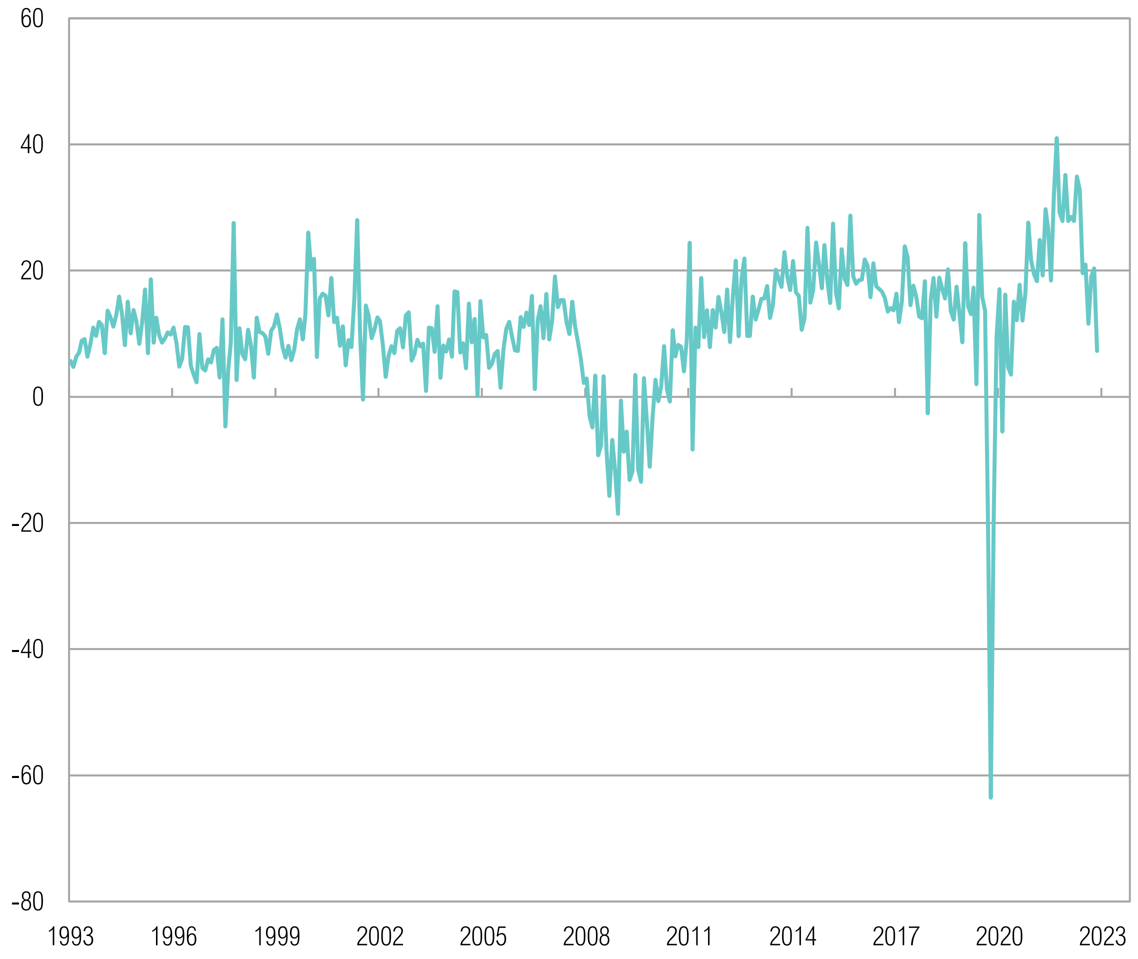
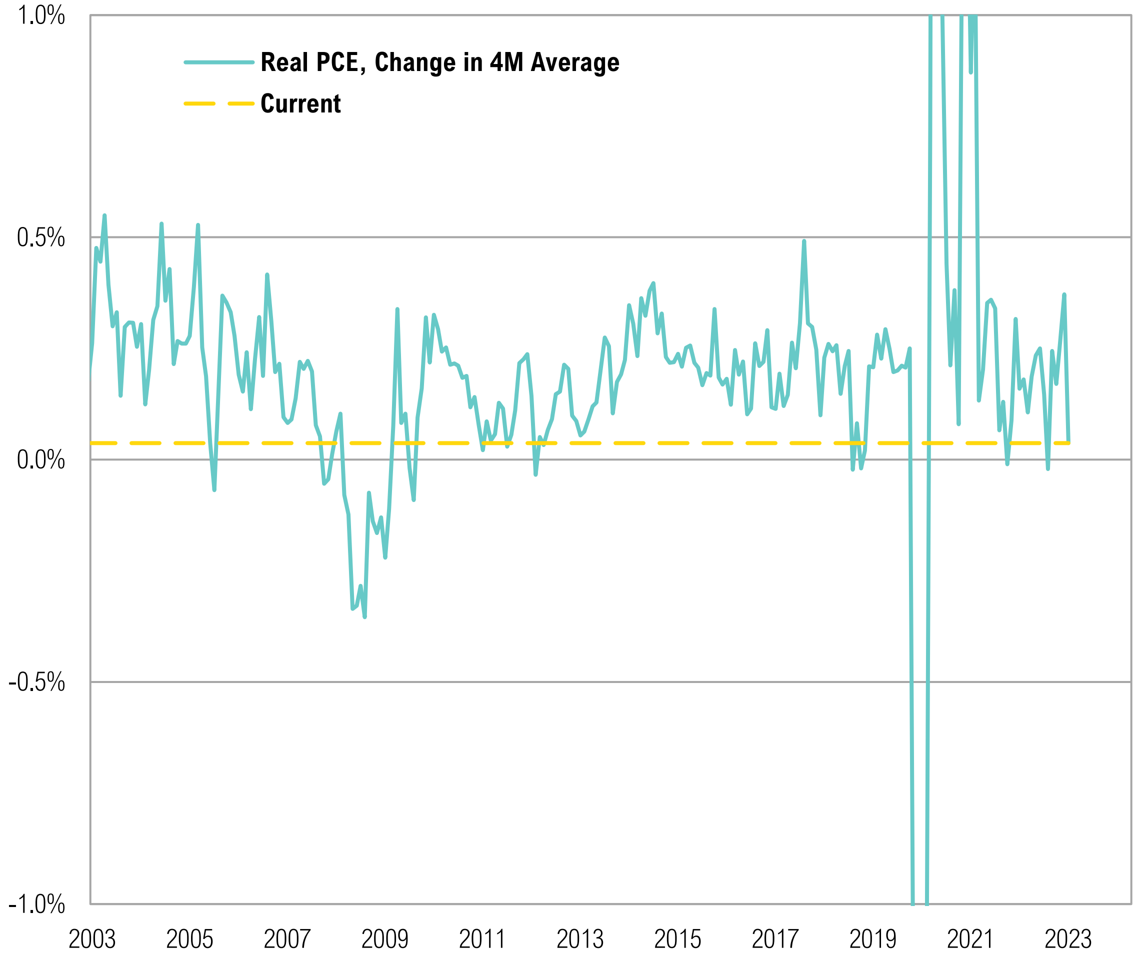
U.S. consumer borrowing increased by $7.2 bn in May, the smallest month-over-month change since 2020; spending also stalled as personal consumption pace starts to slow

U.S. Total Consumer Credit MoM, $Bn



U.S. Real Personal Consumption Expenditures, % Change in 4-Month Average



Source: Bloomberg. As of 5/31/2023.

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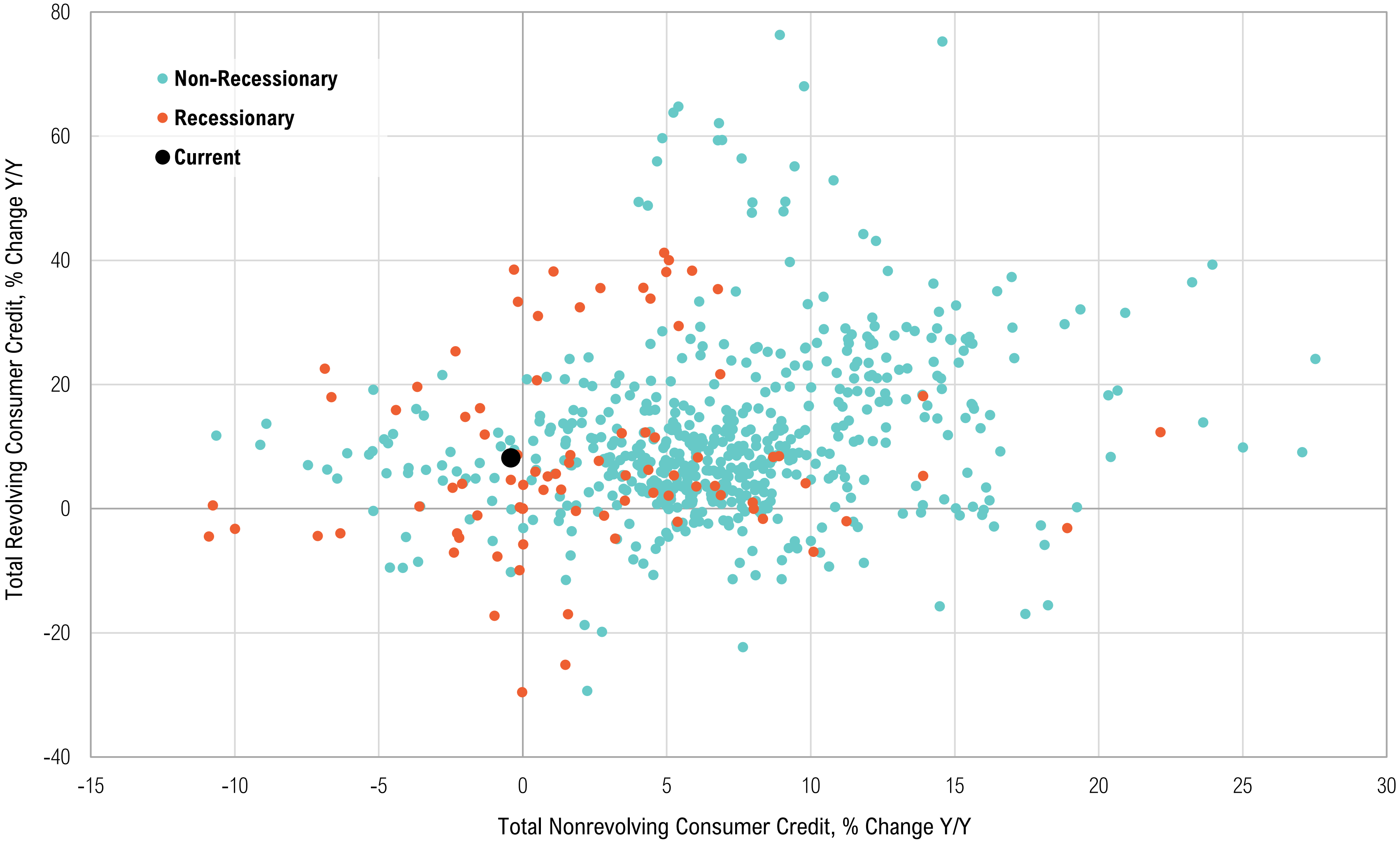
Apart from April 2020 (in the midst of the pandemic), June marked the first outright contraction in non-revolving consumer credit since 2011



Source: Bloomberg. As of 5/31/2023.

Examples of non-revolving consumer credit include auto loans, student loans, and mortgage payments.

Historically, there has been a 60% chance of the U.S. actively being in a recession if overall consumer credit was in the bottom left quadrant.

When overall consumer credit is in the upper left quadrant, the U.S. has been in a recession 31% of the time.

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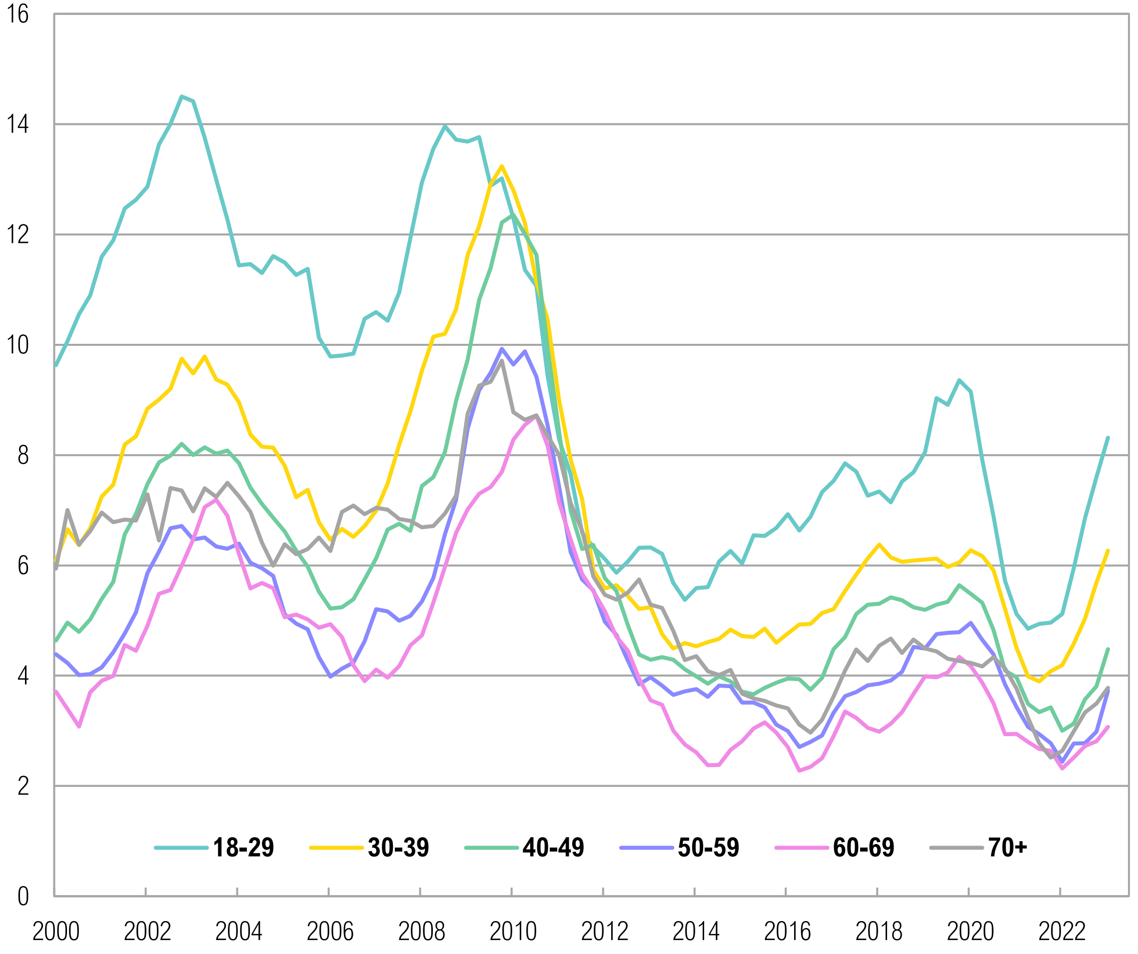
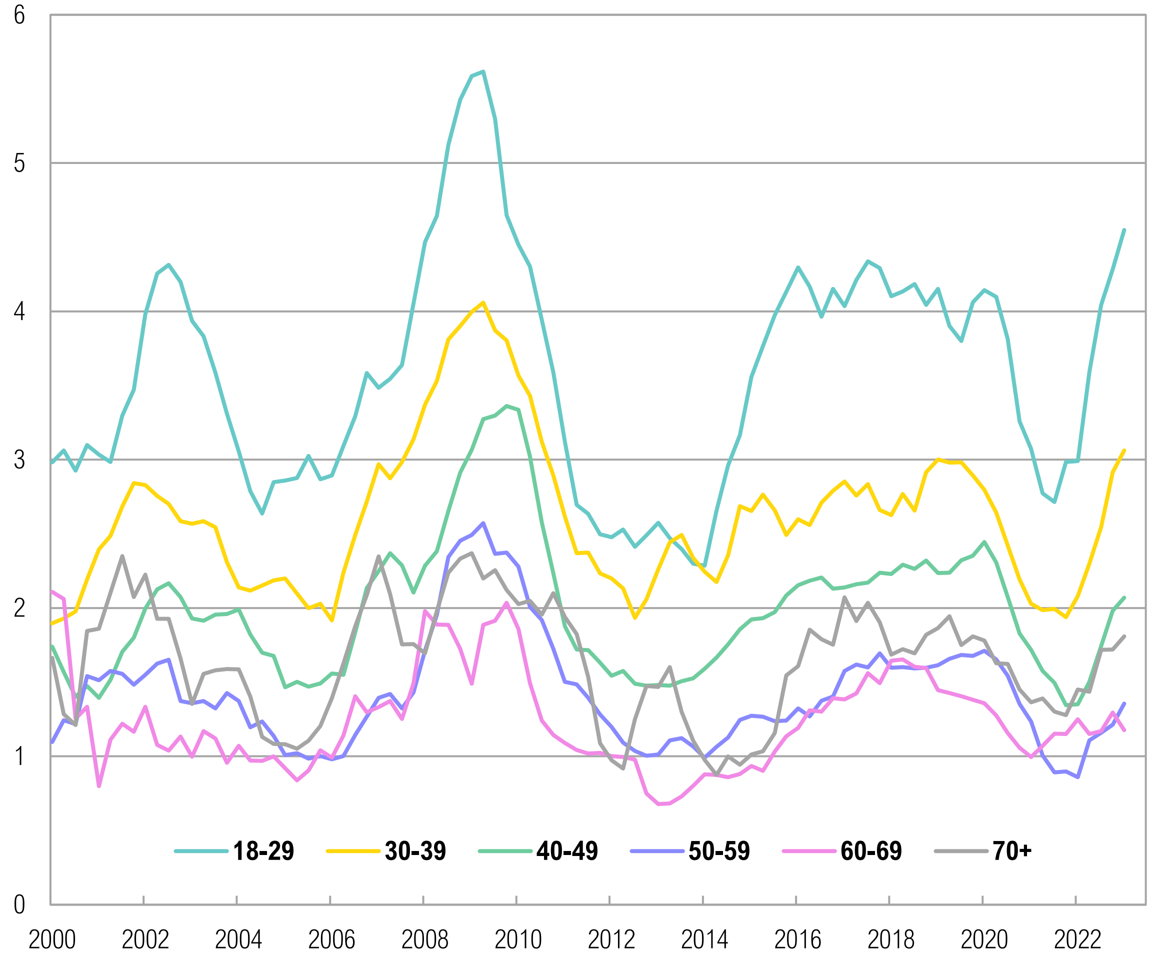
Credit card delinquencies have started to pick up amongst all age groups, but are most prominent between ages 18-40

Transitions Into 90+ Day Delinquency for Credit Cards by Age, %



Transitions Into 90+ Day Delinquency for Auto Loans by Age, %



Source: NY Fed. As of 3/31/2023.

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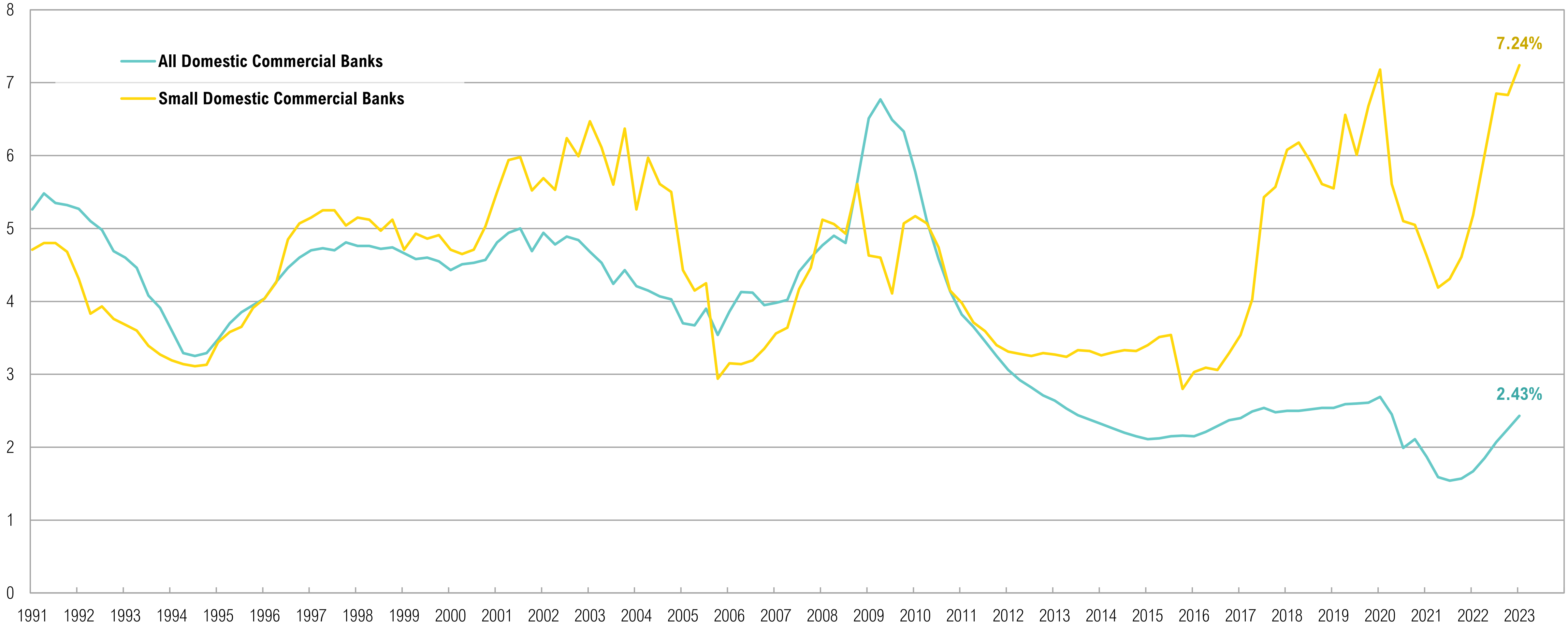
Credit card delinquency rates at small banks, who may be hit hardest by these rising delinquencies, are significantly higher than overall delinquency rates

Credit Card Loan Delinquency Rate, %



Source: Bloomberg. As of 3/31/2023.

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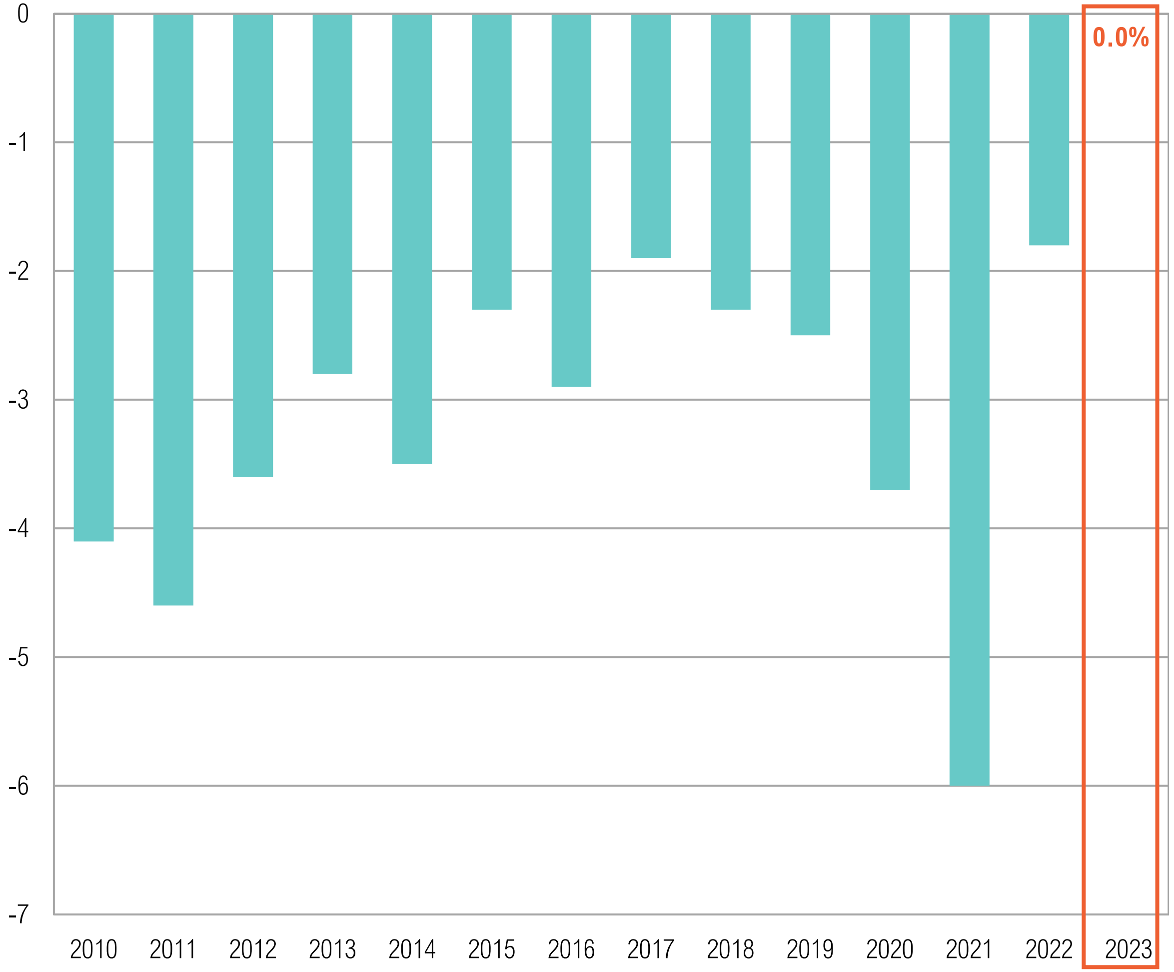
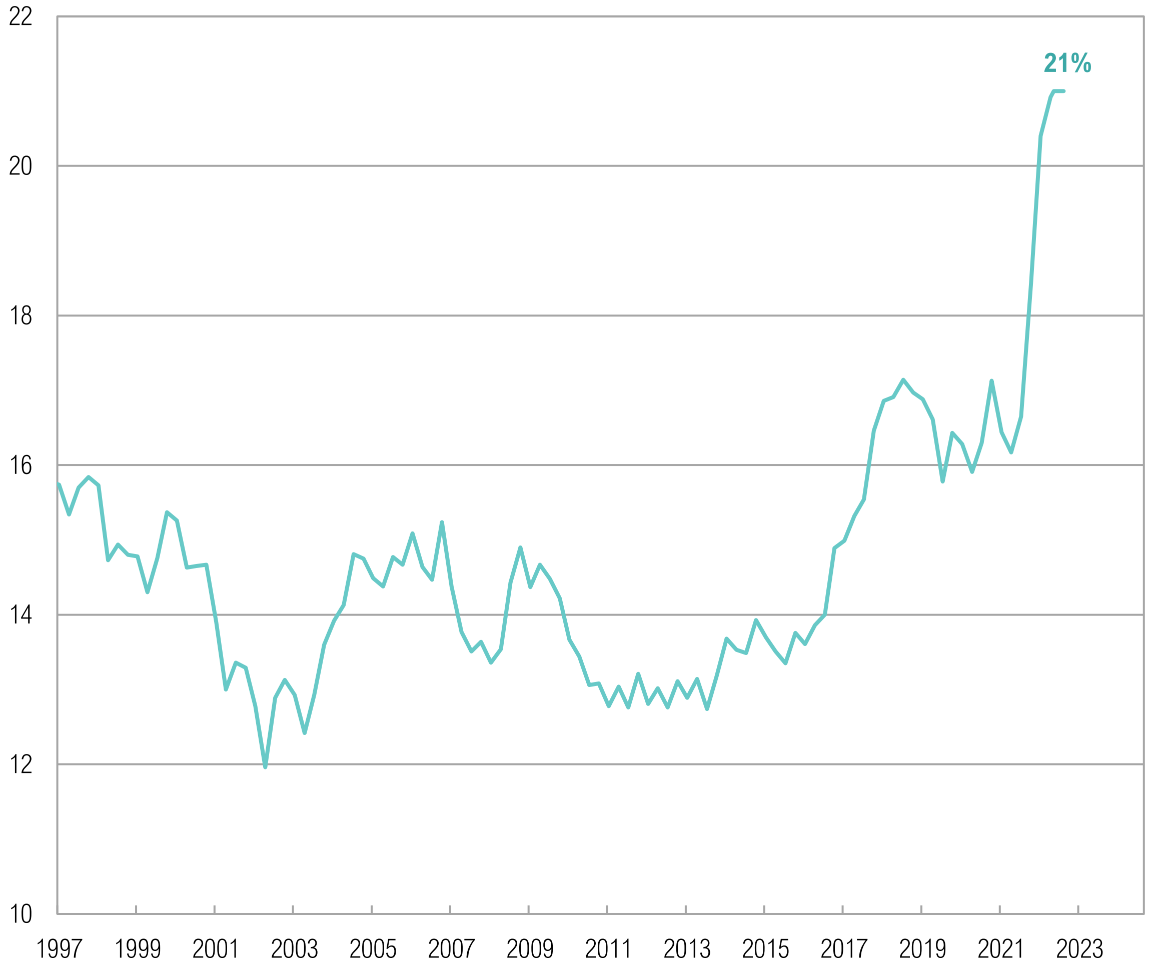
A portion of recent consumer spending has been sustained with credit: no credit card debt was paid down from Q4’22 to Q1’23; interest on credit cards is almost 21%

Change in Credit Card Debt in Q1, %



Average Credit Card Interest Rates*, %



Source: Hedgeye, FRED. *Average estimated based on several different datasets.

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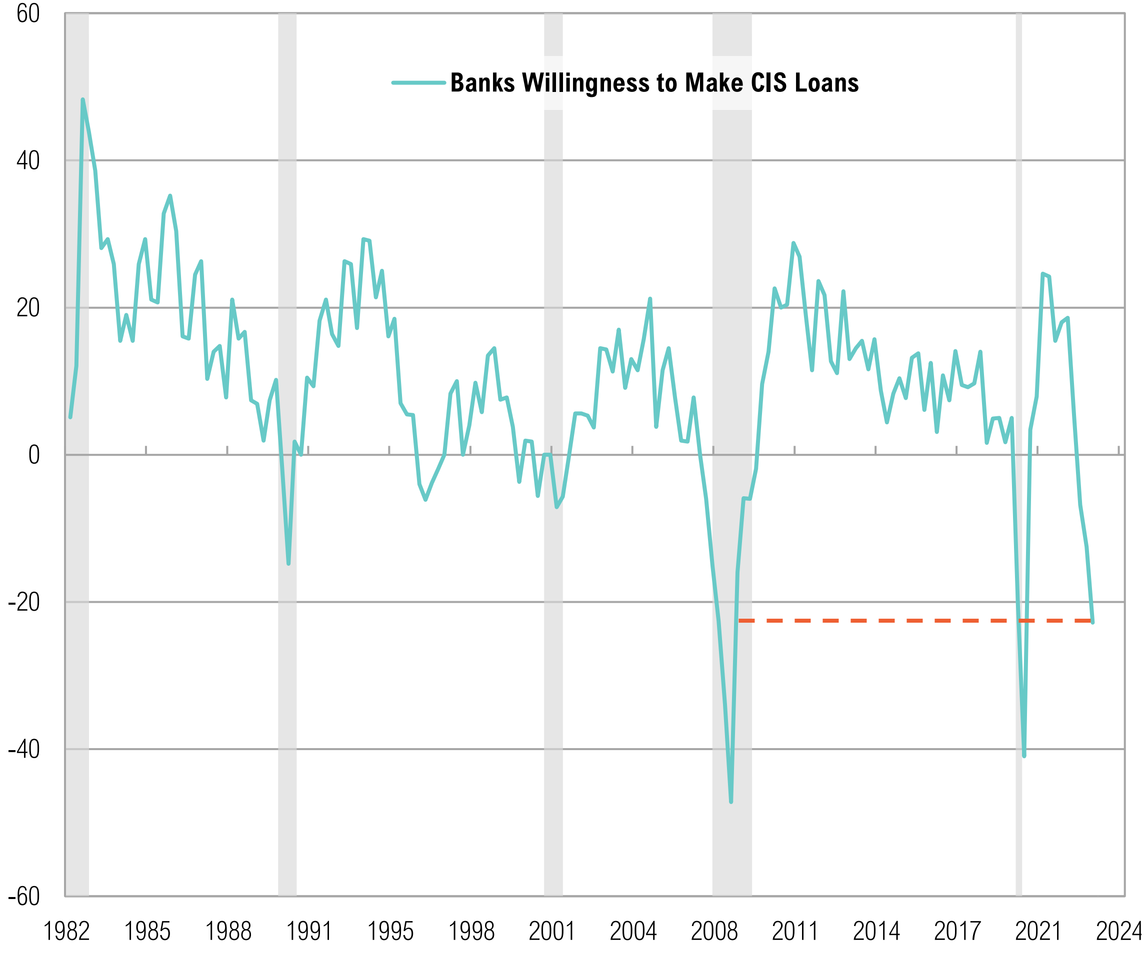
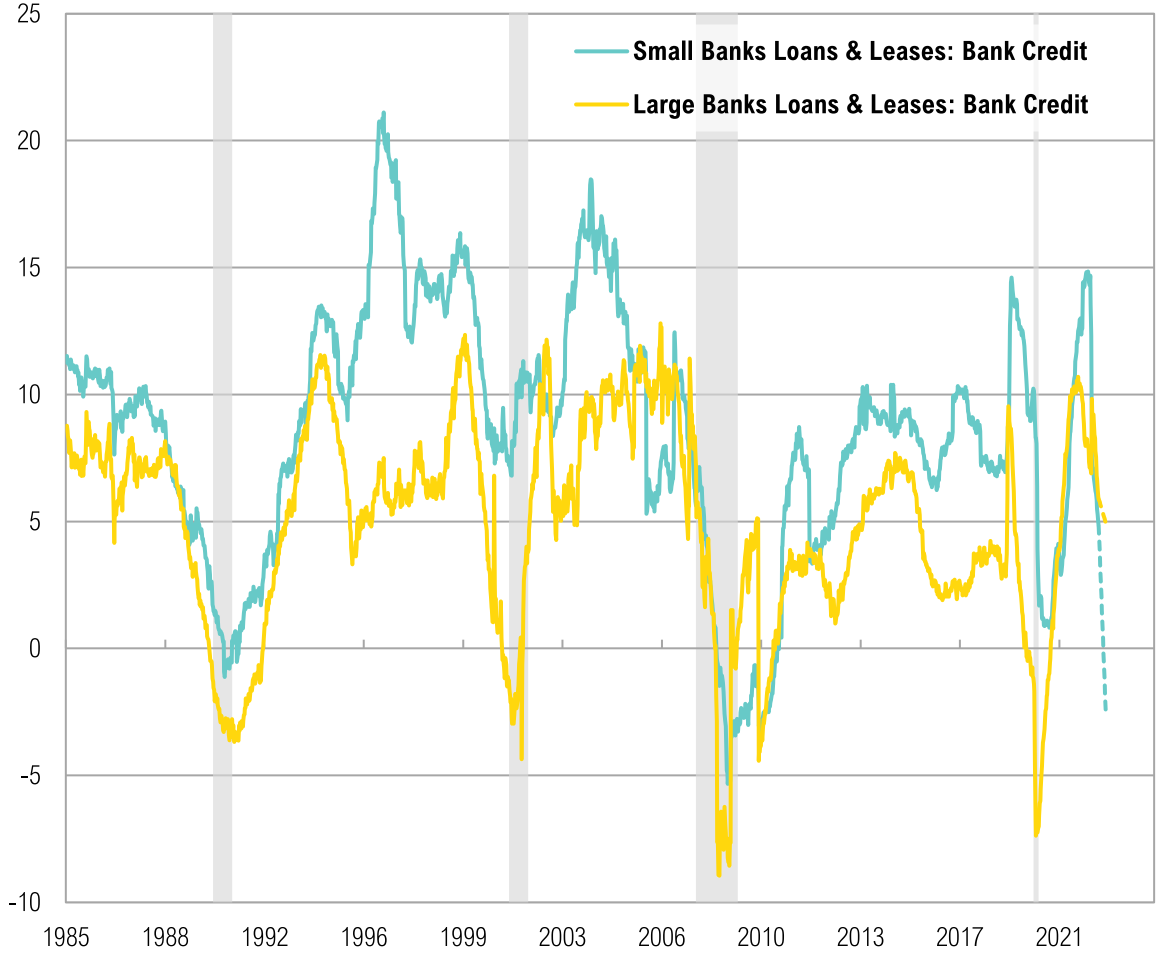
Both small and large bank lending growth are slowing rapidly; higher rates could continue to drag down loan demand

Net % of Domestic Banks Increased Willingness to Make CIS Loans



Small & Large Bank Loans & Leases: Bank Credit YoY, %



Source: Bloomberg. As of 6/30/2023. Dotted lines on RHS assume the same rate of change since 4/1/2023.

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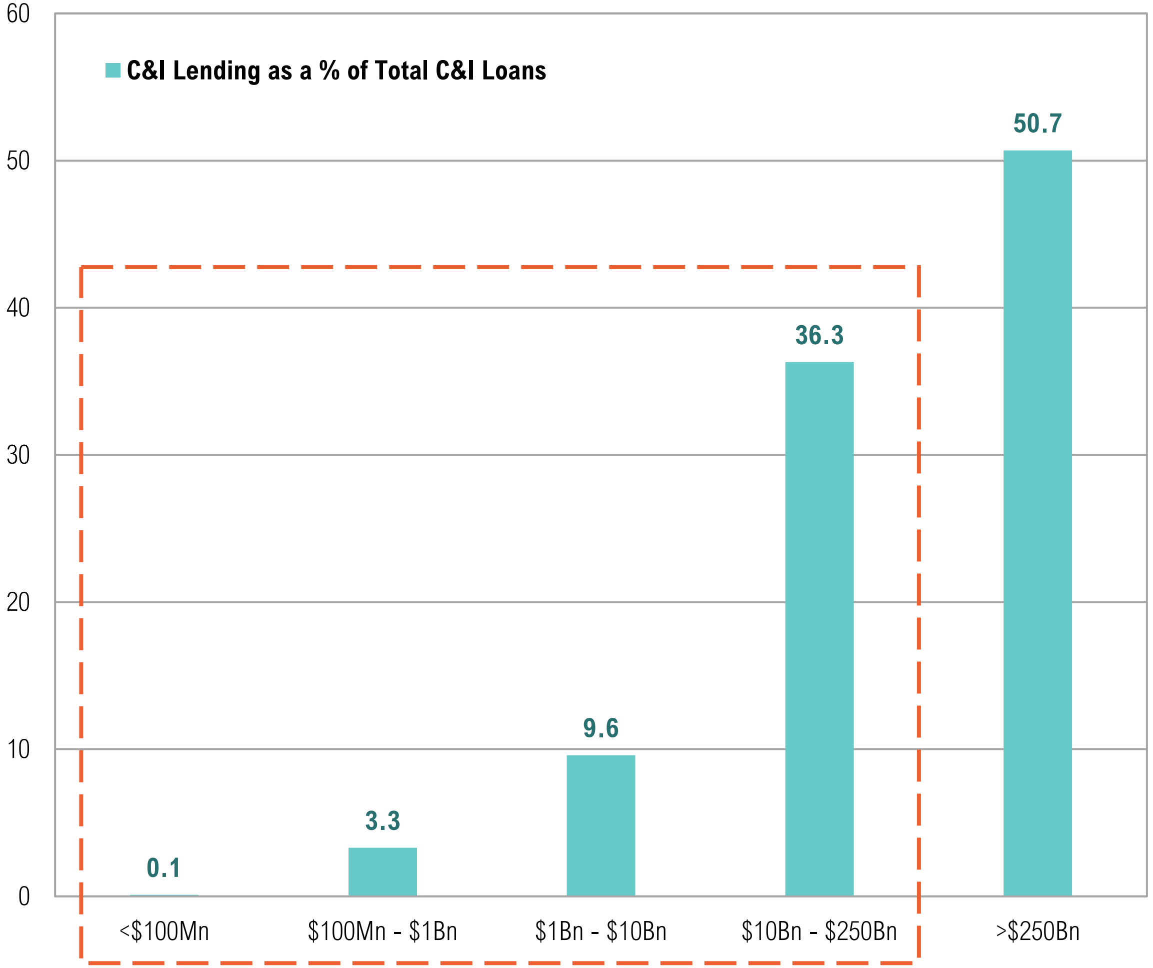
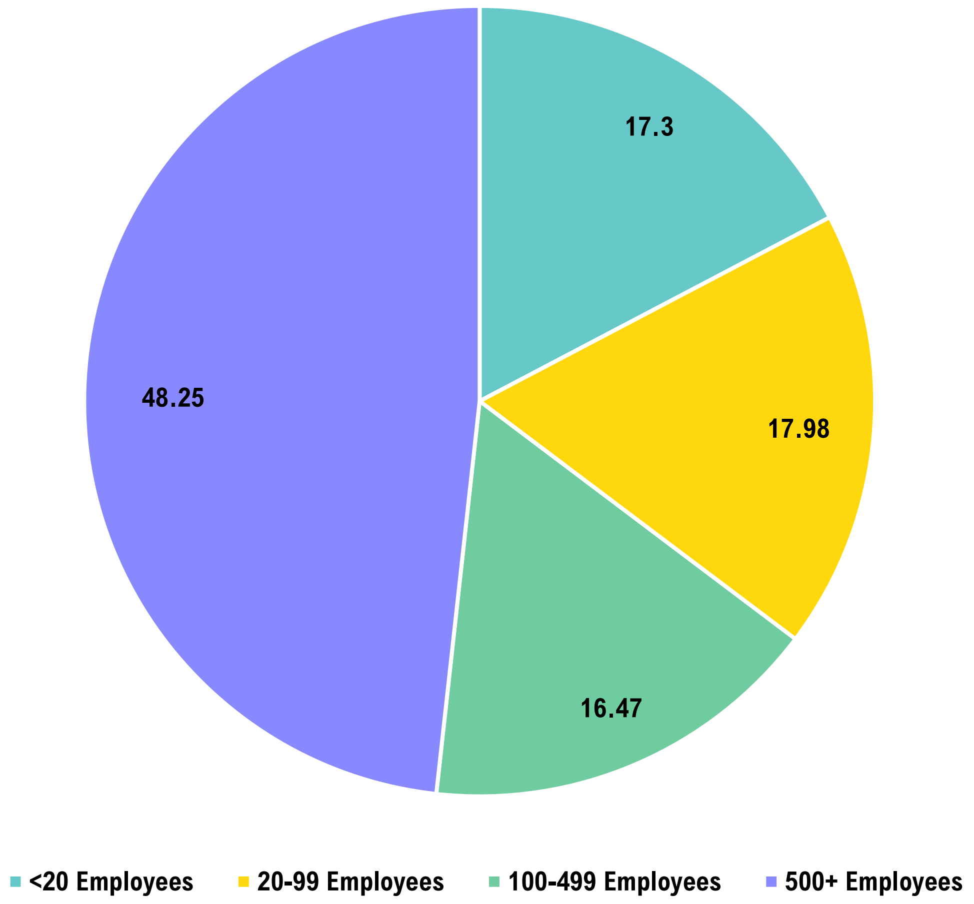
Smaller banks and smaller businesses matter! Almost half of C&I Loans are from banks with less than $250Bn in assets; more than half of U.S. employment is at firms with <500 employees

C&I Lending by Bank Asset Size



Share of Total Employment by Size of Firm, %



Source: Apollo, BLS. Employment as of 3/31/2023.

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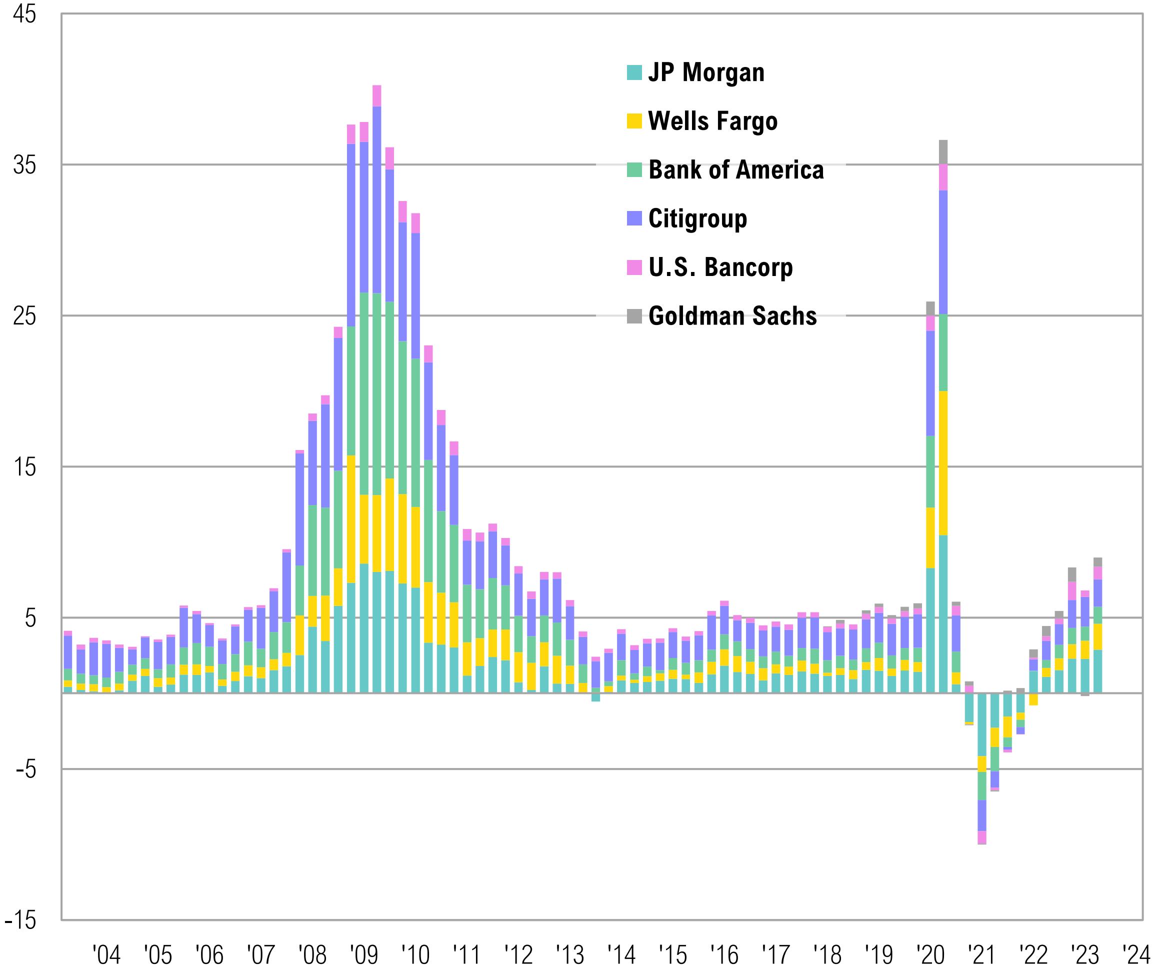
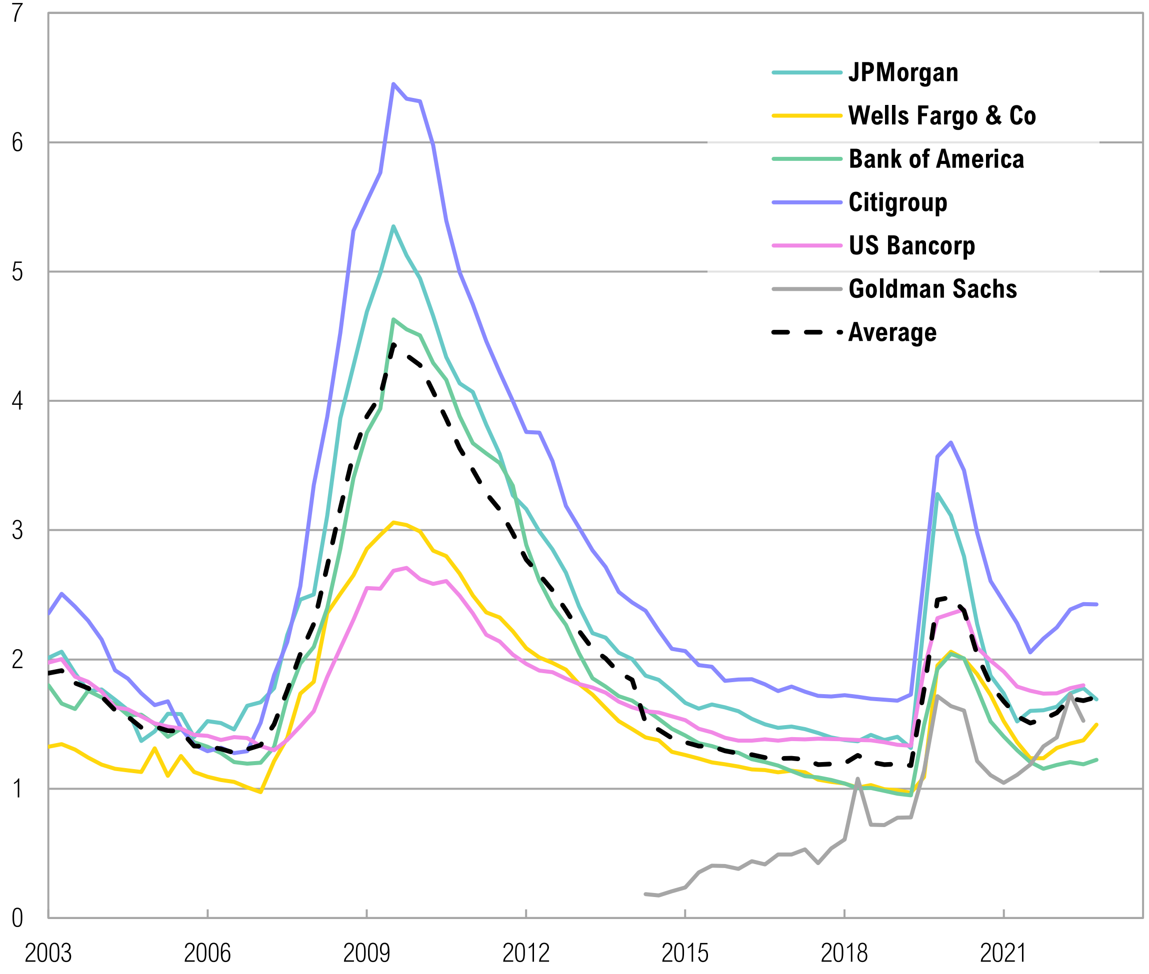
While large banks have increased their provisions for loan losses, they remain well below GFC and COVID highs

Provision for Loan Losses, $Bn



Reserve for Loan Losses as % of Total Loans



Source: Bloomberg

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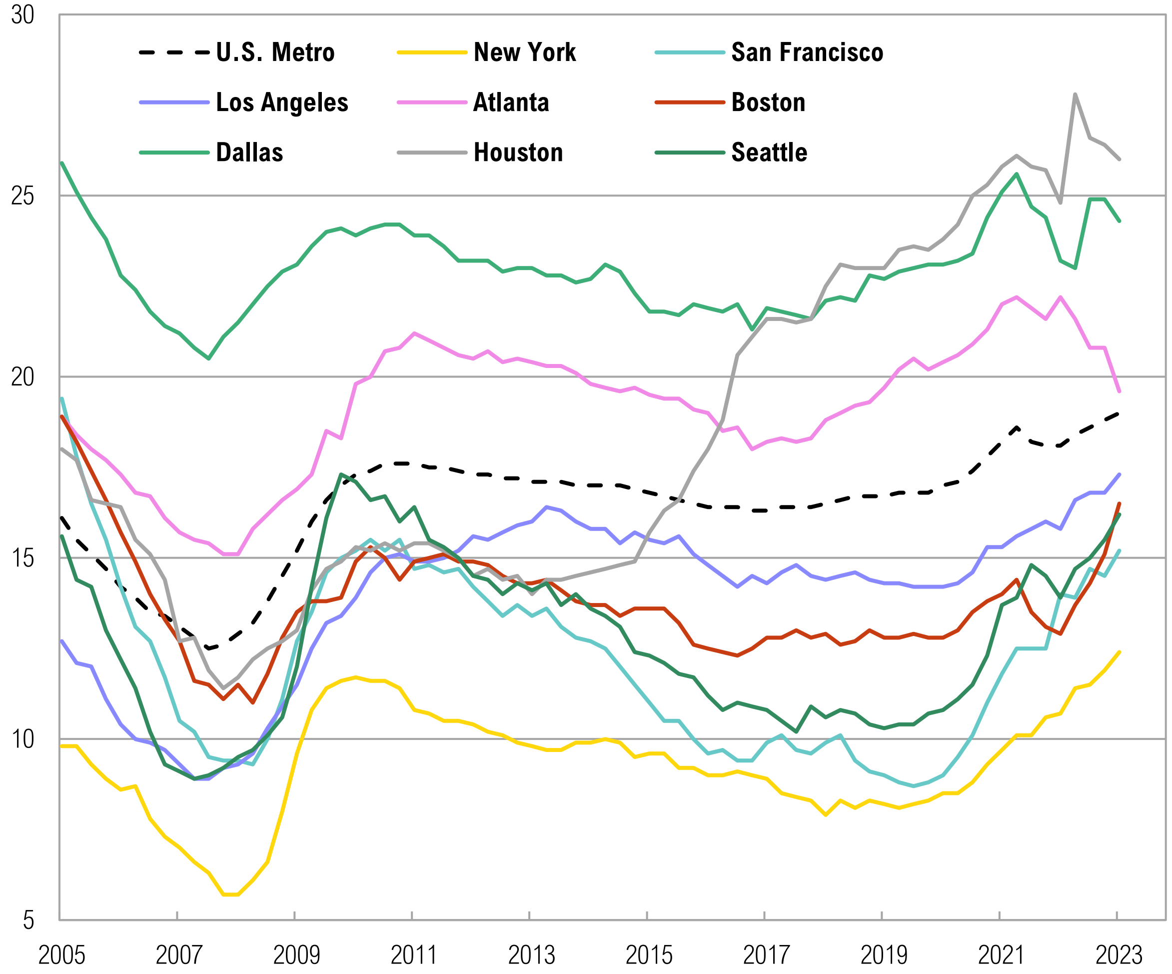
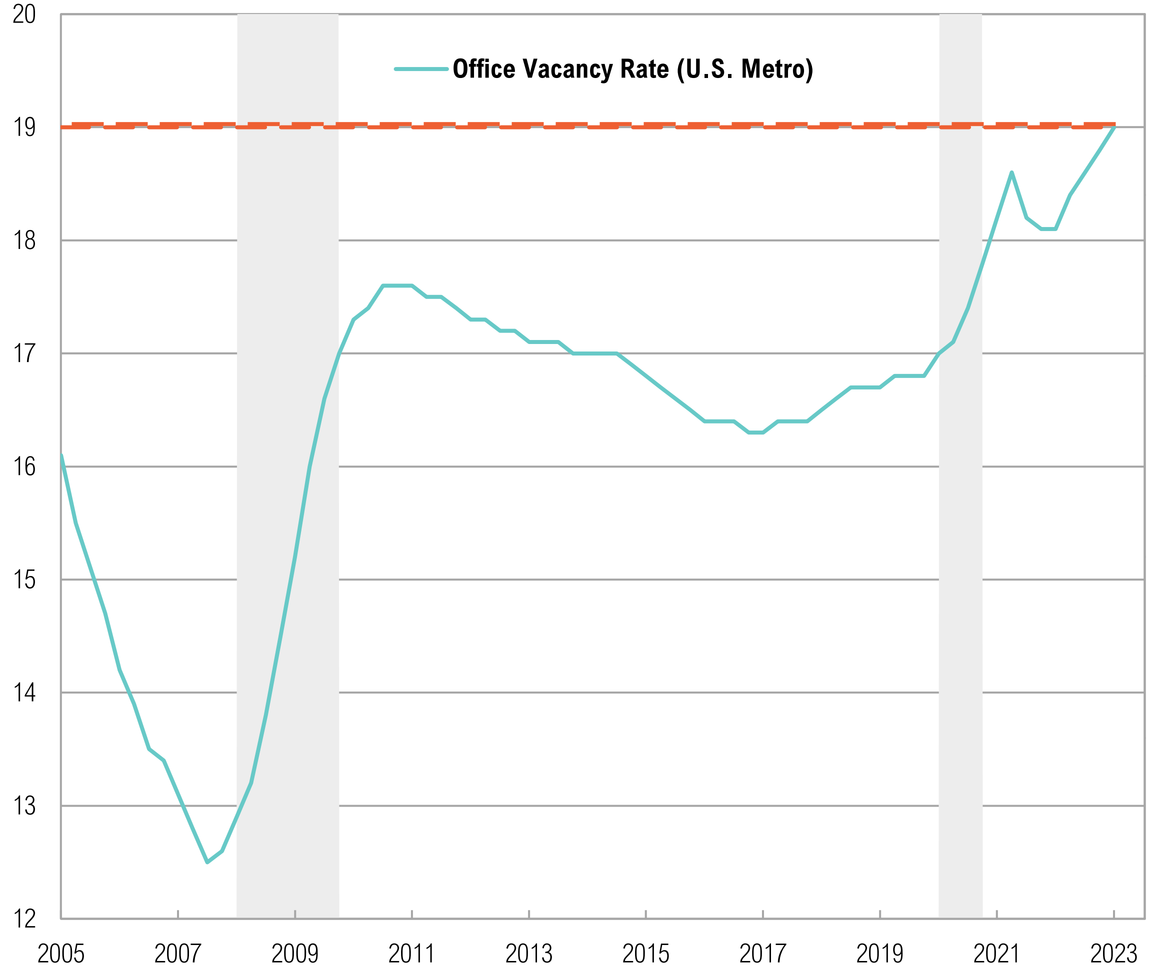
U.S. metro vacancy rates have climbed to 19%: LA has reached a record 17.3% and Boston is at 16.5%; only minimal improvements from already-high vacancy rates in Dallas, Atlanta

U.S. Office Vacancy Rates, %



U.S. Metro Office Vacancy Rates, %



Source: Bloomberg. As of 3/31/2023.

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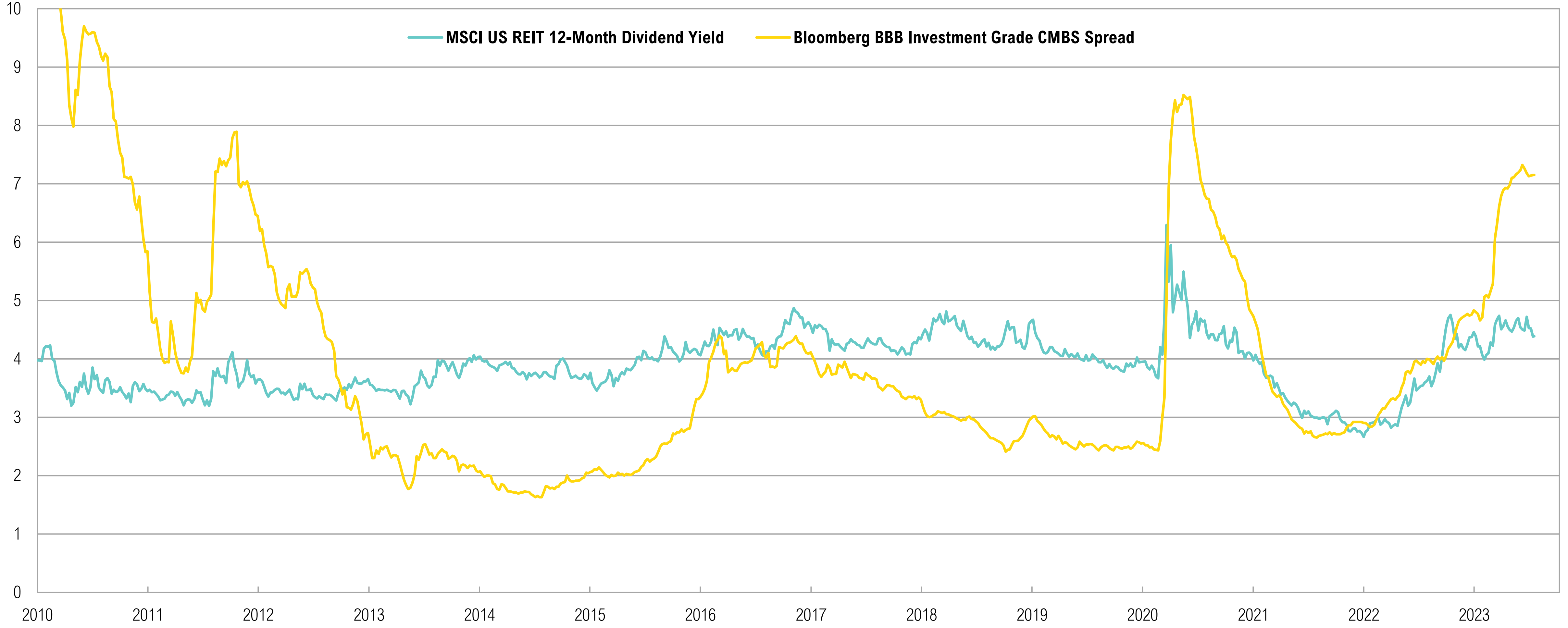
BBB rated investment grade CMBS securities are showing signs of stress, as *spreads* have widened to levels last seen in 2020; the sell-off in U.S. REITs has seen dividend yields expand to 4.5%

Dividend Yield & CMBS Spread, %



Source: Bloomberg

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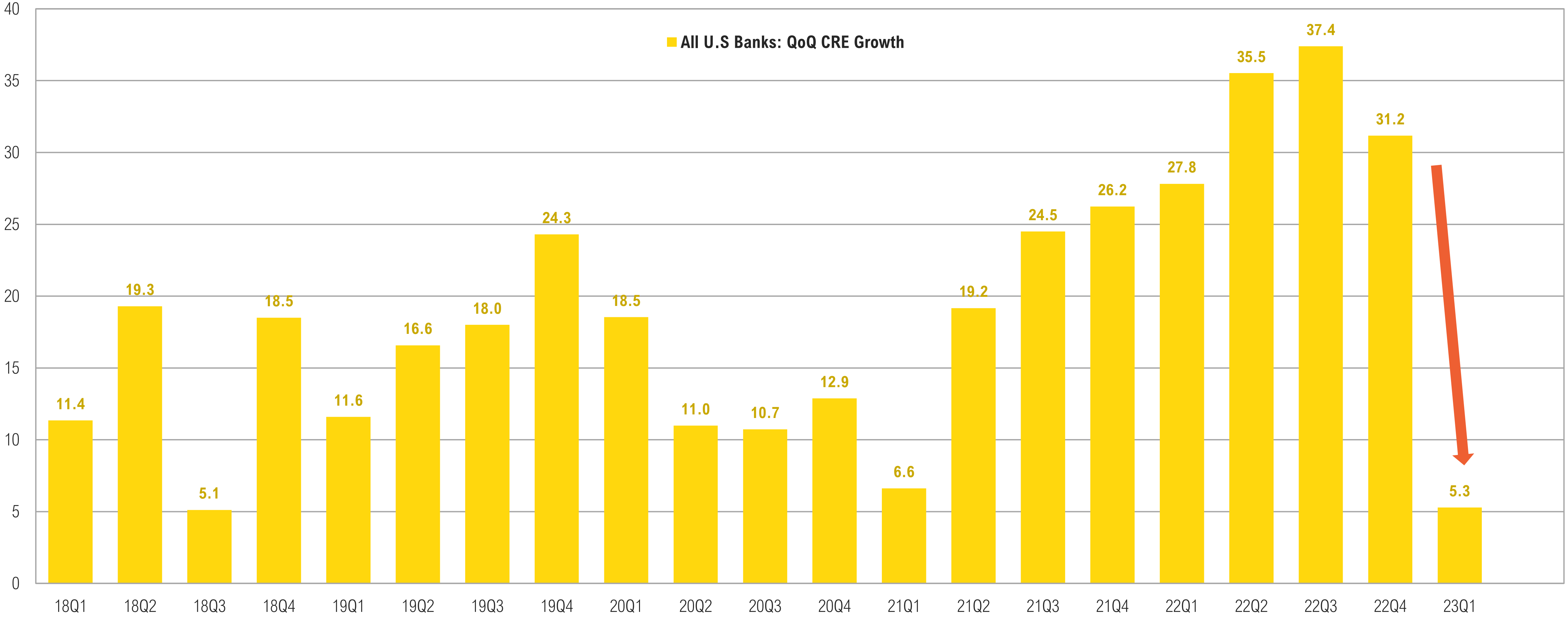
Commercial real estate loan growth stalled in early 2023 with only $5.3 billion net increase in 23Q1, the smallest quarterly increase since 2018

All U.S. Banks: QoQ Growth in Commercial Real Estate Loans, $Bn



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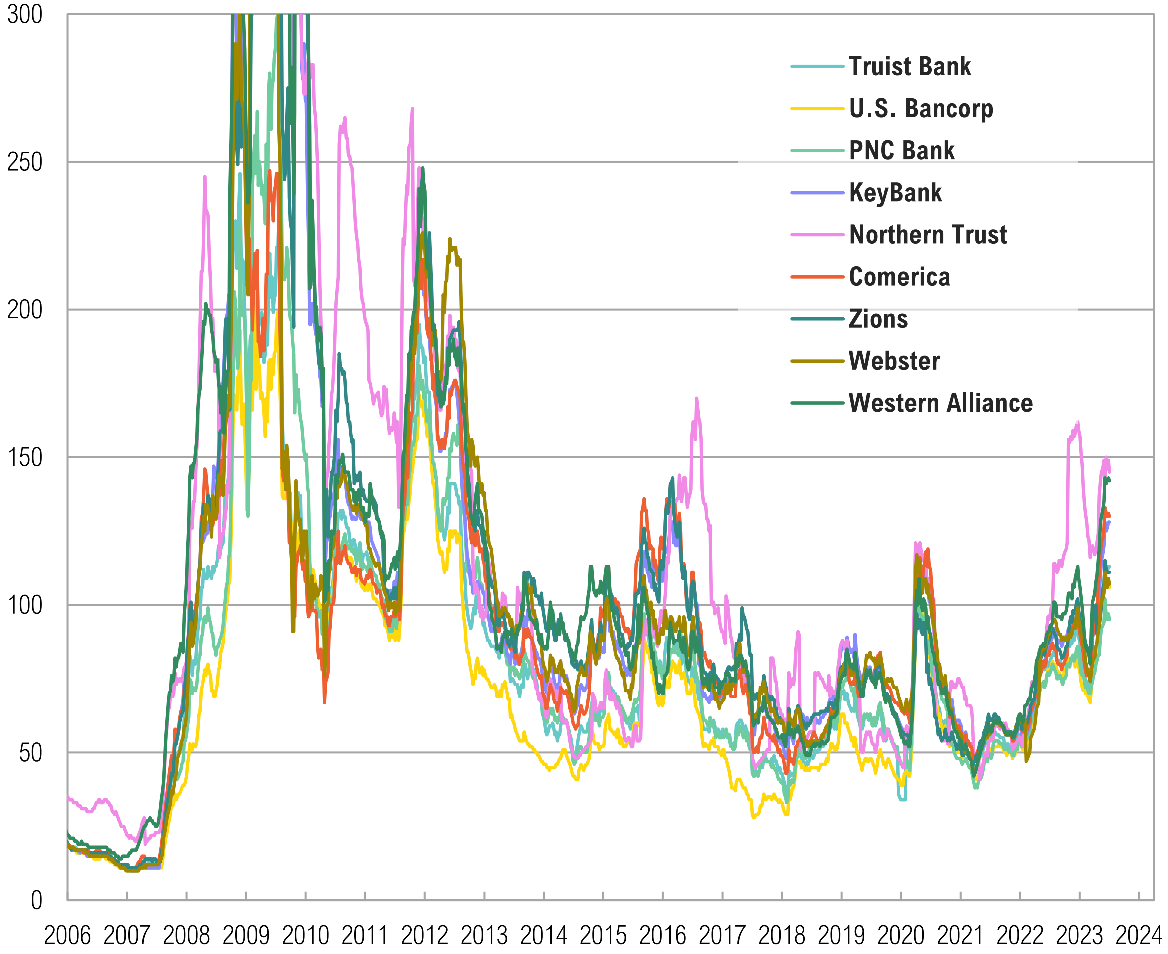
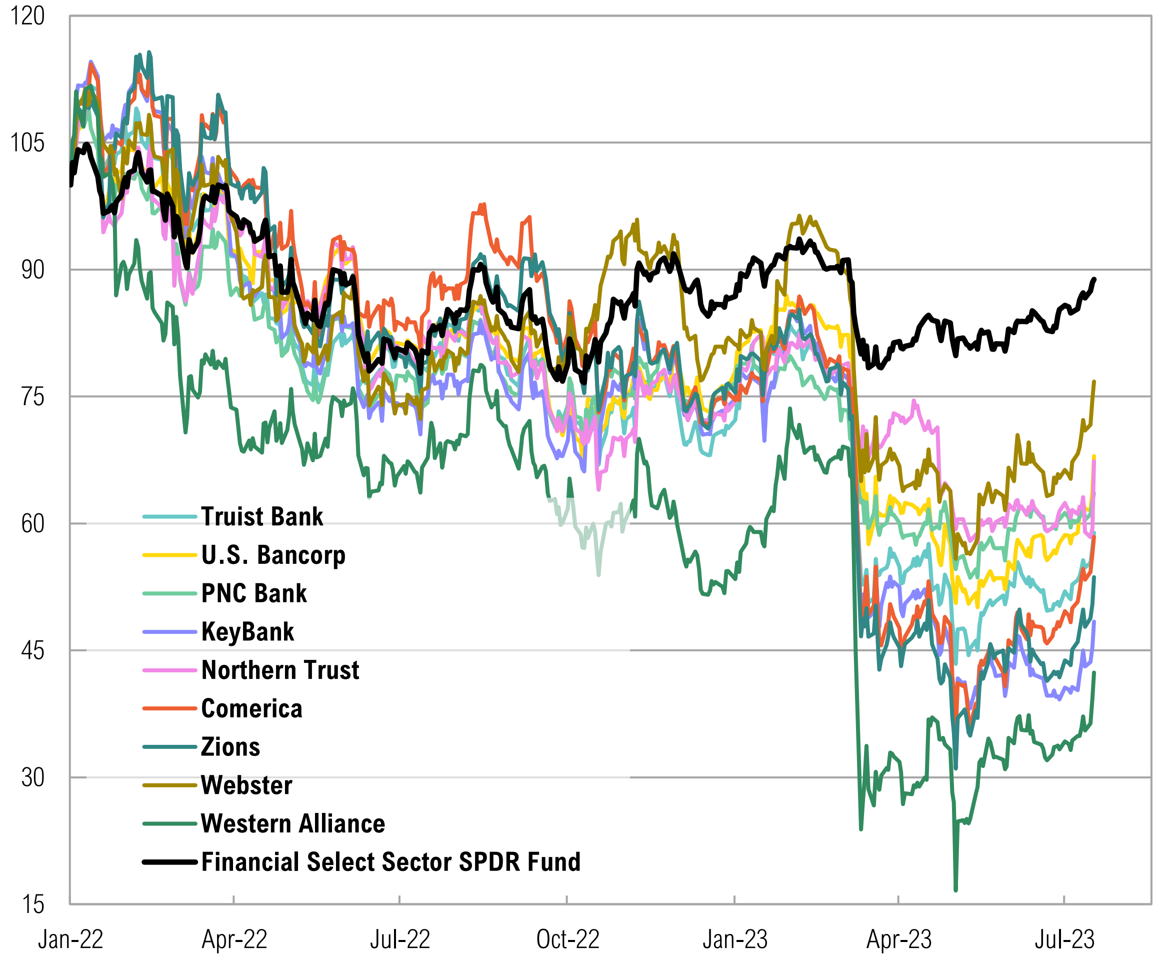
Market seem to be starting to give the all-clear on regional banks, but under-the-surface issues may still be lurking; the cost to insure against regional bank defaults remains elevated

Bloomberg Implied 5-Year Credit Default Swap, Spread Bps



Bloomberg Implied 5-Year Credit Default Swap, Growth of 100



Source: Bloomberg. Bloomberg Implied CDS spreads used due to limited market quoted CDS data for regional banks.

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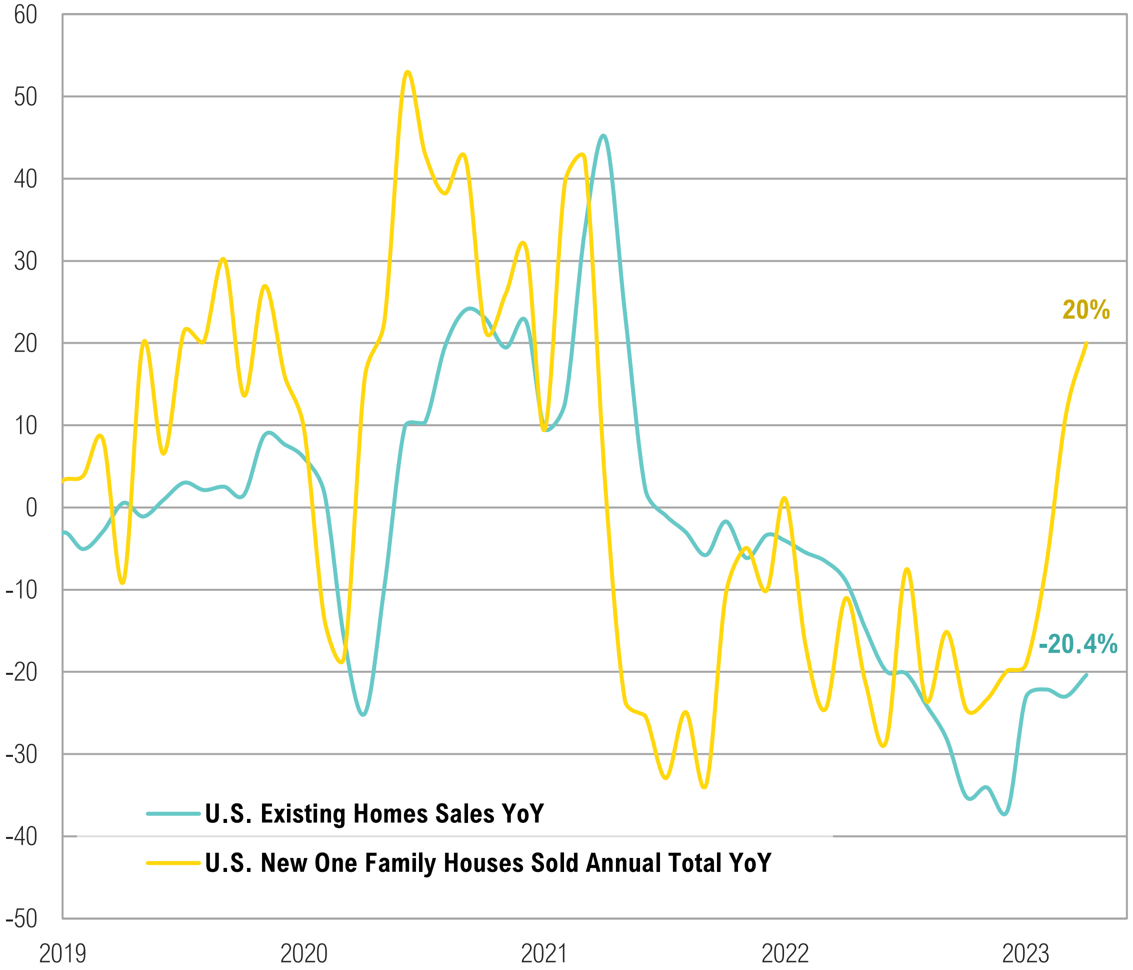
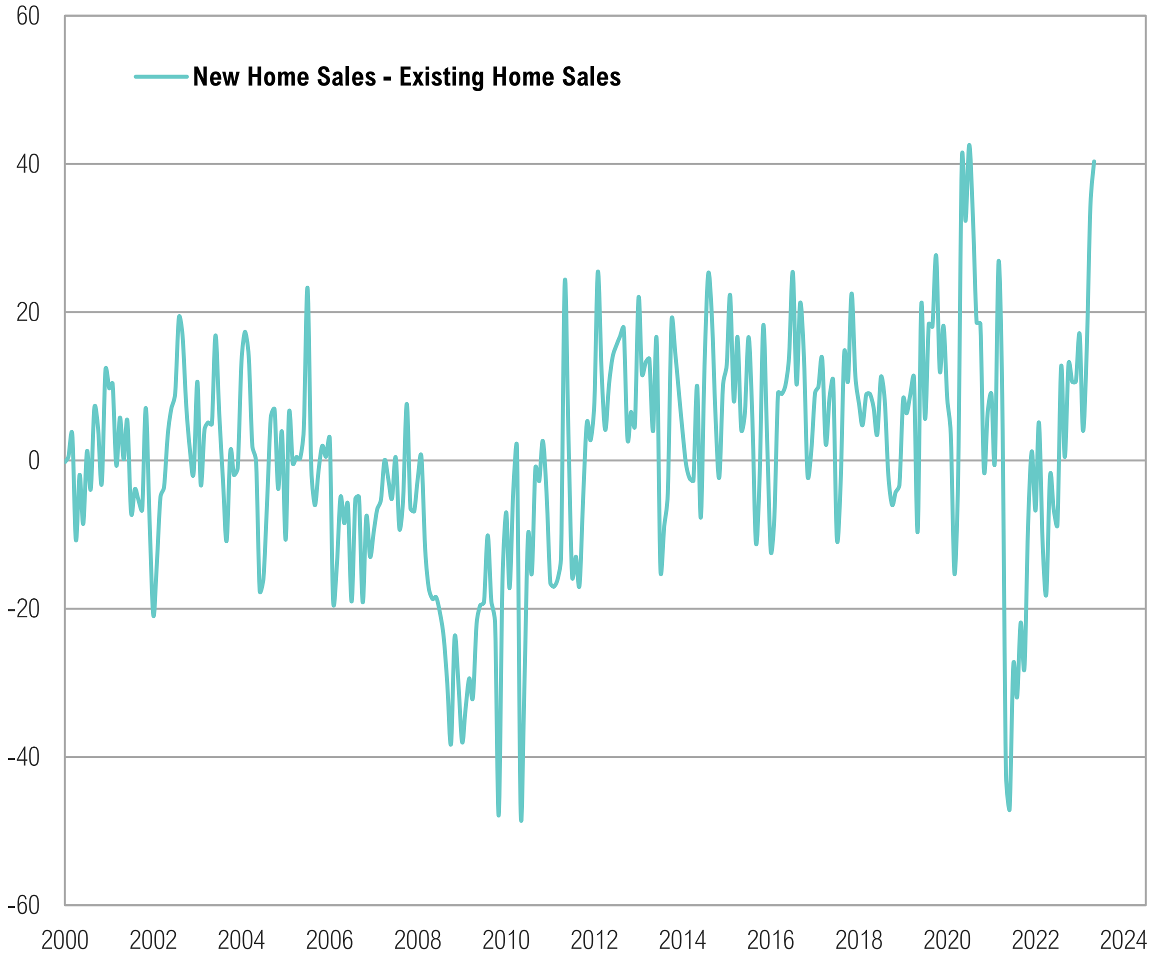
New home sales have fared well, largely due to supply challenges of existing homes and the ability of homebuilders to offer homebuyers lower mortgage rates on new homes

U.S. Existing Home Sales vs New Single-Family Home Sales, YoY %



U.S. New Home Sales minus Existing Home Sales, YoY %



Source: Bloomberg

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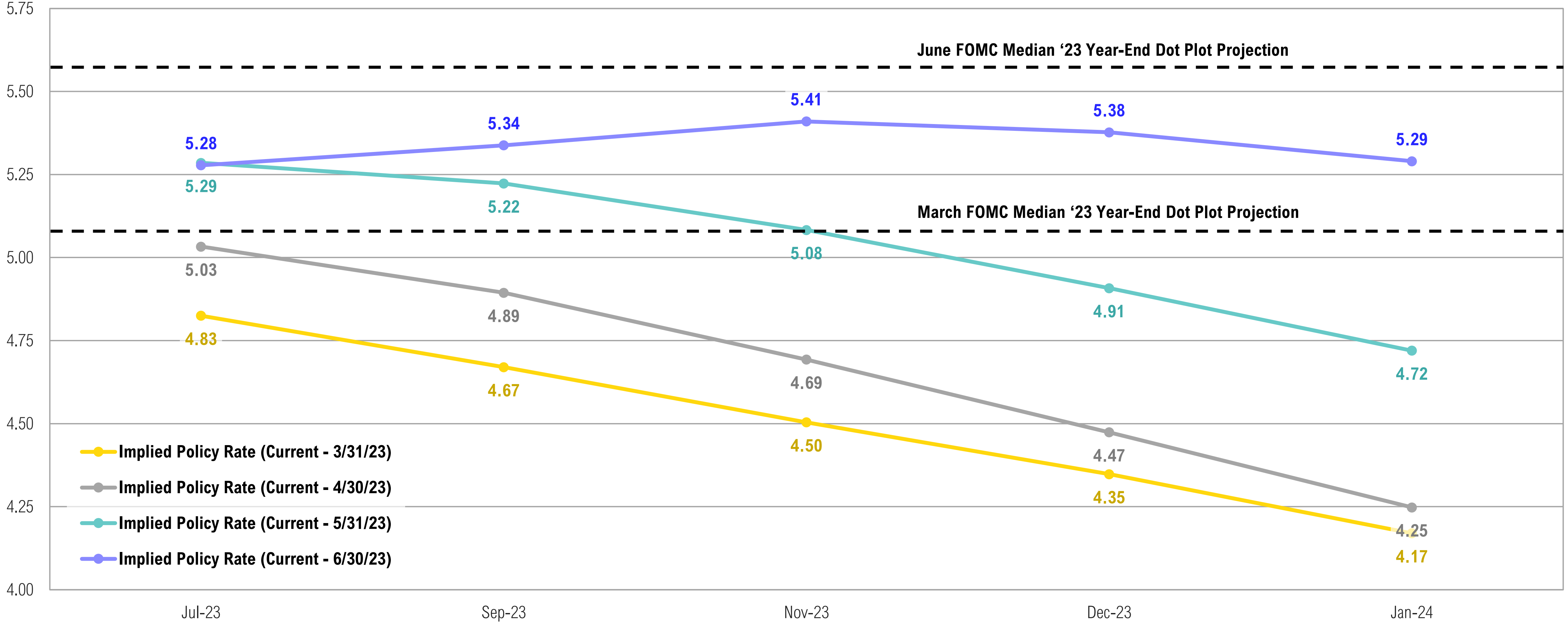
Year-end Fed Funds projections shifted higher over the quarter due to strong economic data; markets are anticipating at least one more rate hike this year, with a cut only in early 2024

Implied Fed Funds, %



Source: Bloomberg

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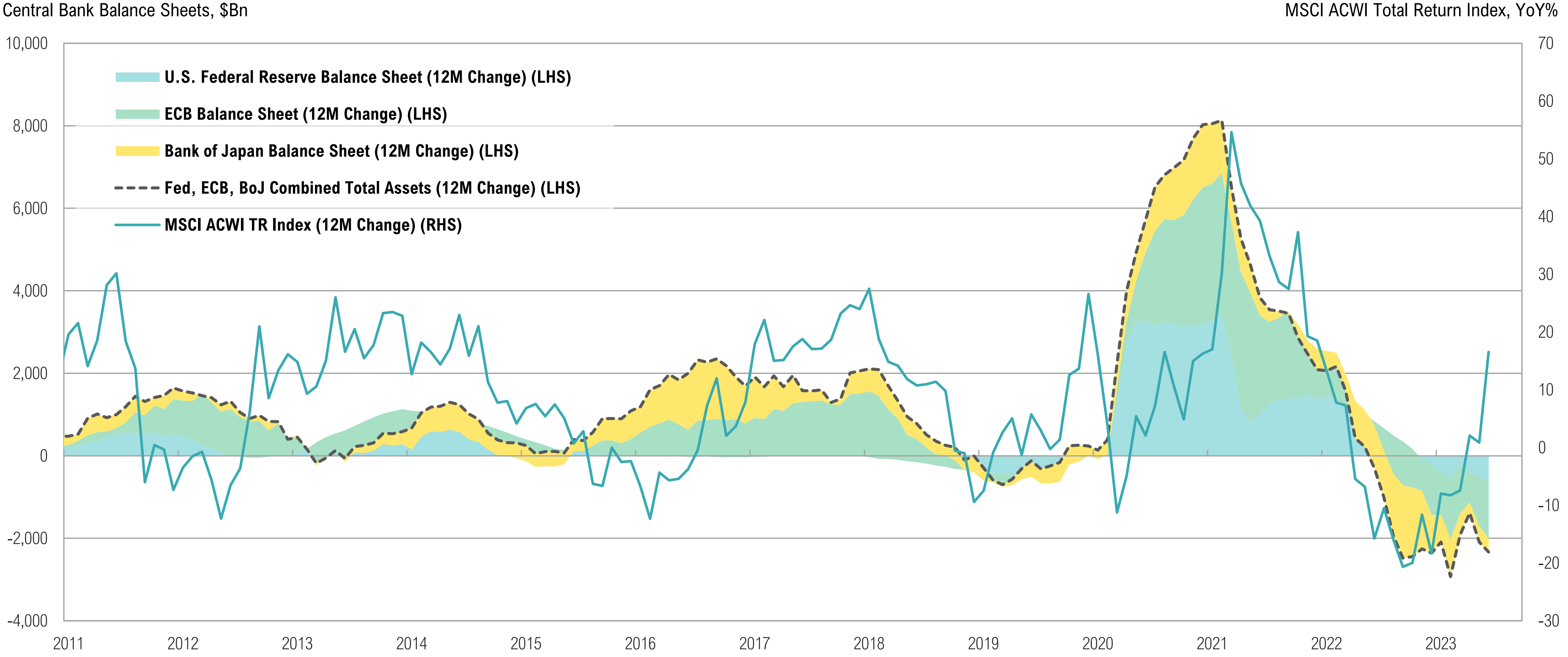
Fed, ECB and BoJ combined 12-month change in assets has been negative since June 2022; this has historically corresponded to poor global stock performance, making the current divergence unusual



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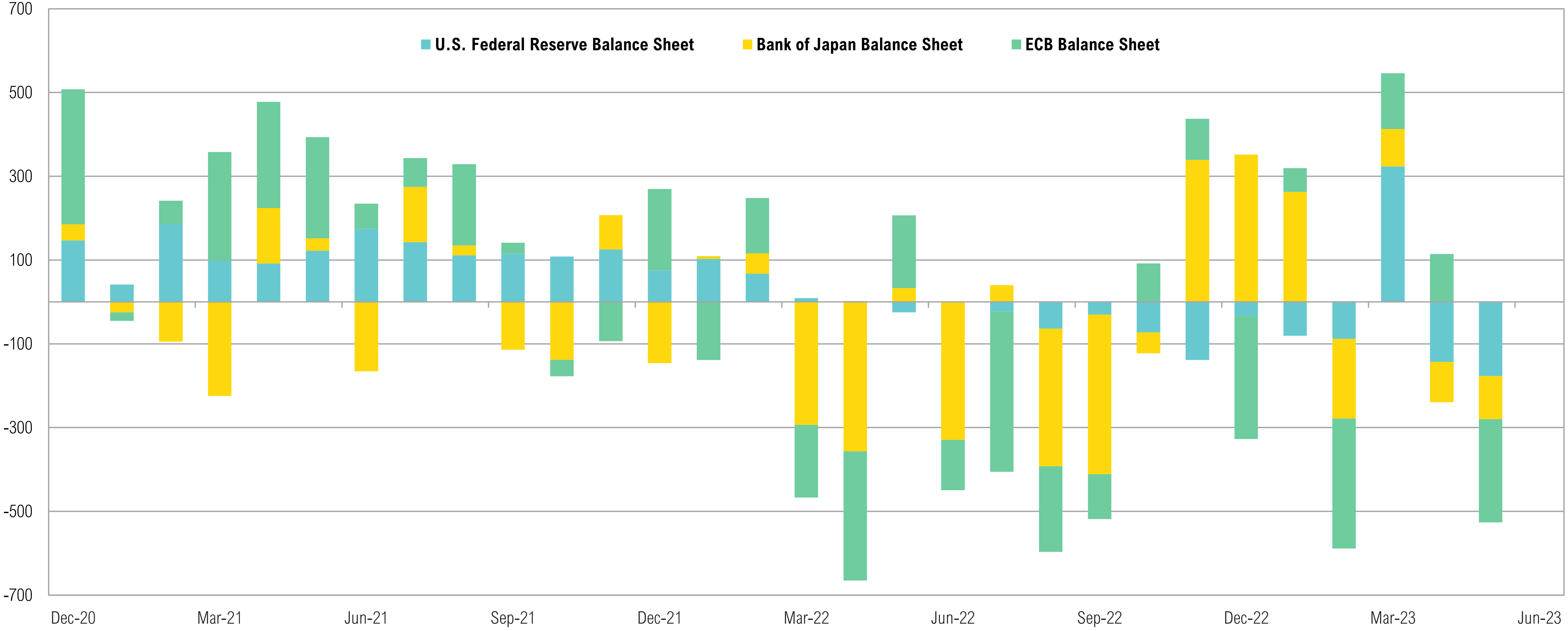
The Fed has done > $300bn of QT in the last 2 months; in US dollar terms, both the BoJ and ECB have seen balance sheet reduction, but this is due to currency movements rather than actual QT

Monthly Changes in Central Bank Balance Sheets, $Bn



Source: Bloomberg

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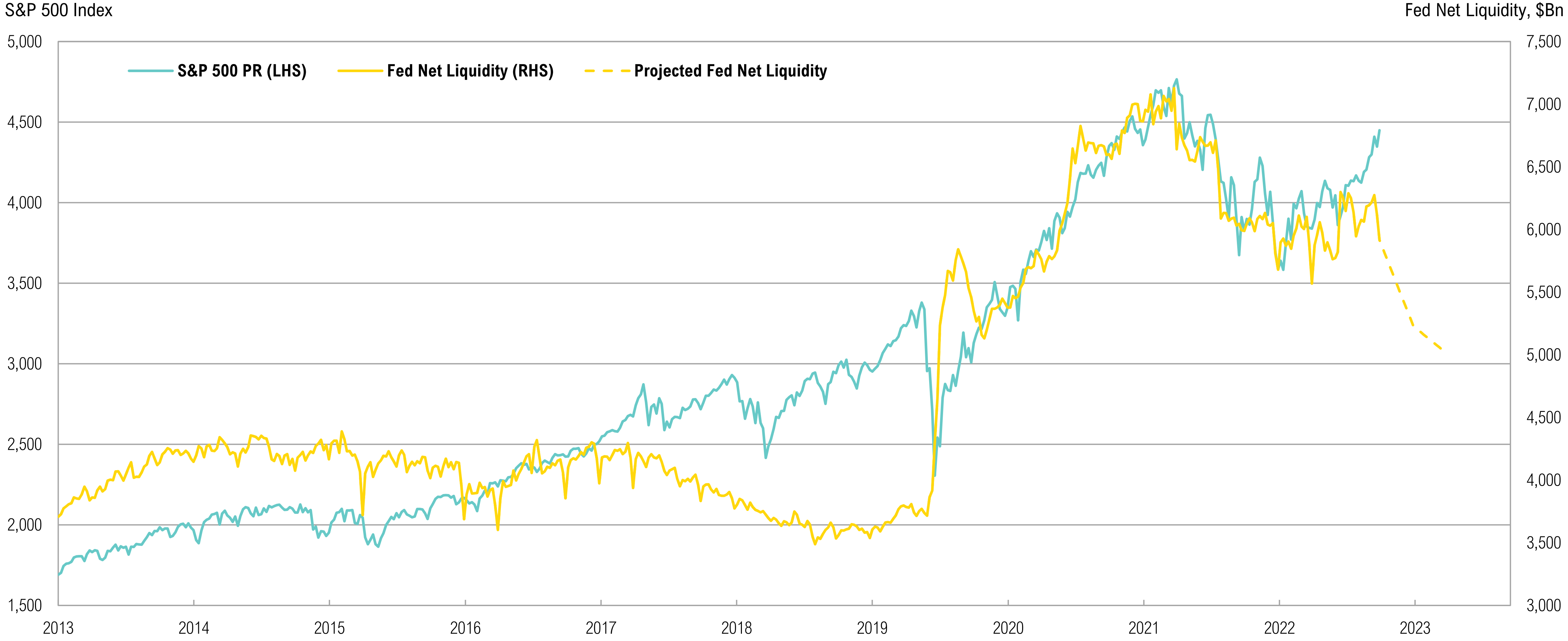
Fed net liquidity has had a tight correlation with stock market returns post-COVID; assuming the Fed continues with QT, liquidity should dry up throughout the rest of the year



Source: Bloomberg. Fed net liquidity is calculated by taking the Fed balance sheet and deducting reverse repo and TGA deposits. Assumptions for projected Fed net liquidity are that the balance sheet will run off at the same pace as it has done YTD, reverse repo will decline by $50Bn per month through the end of 2023 and TGA deposits is replaced with $1Tn in net issuance through 2023, with $733Bn in Q3 and $267Bn in Q4. As of 6/30/2023.

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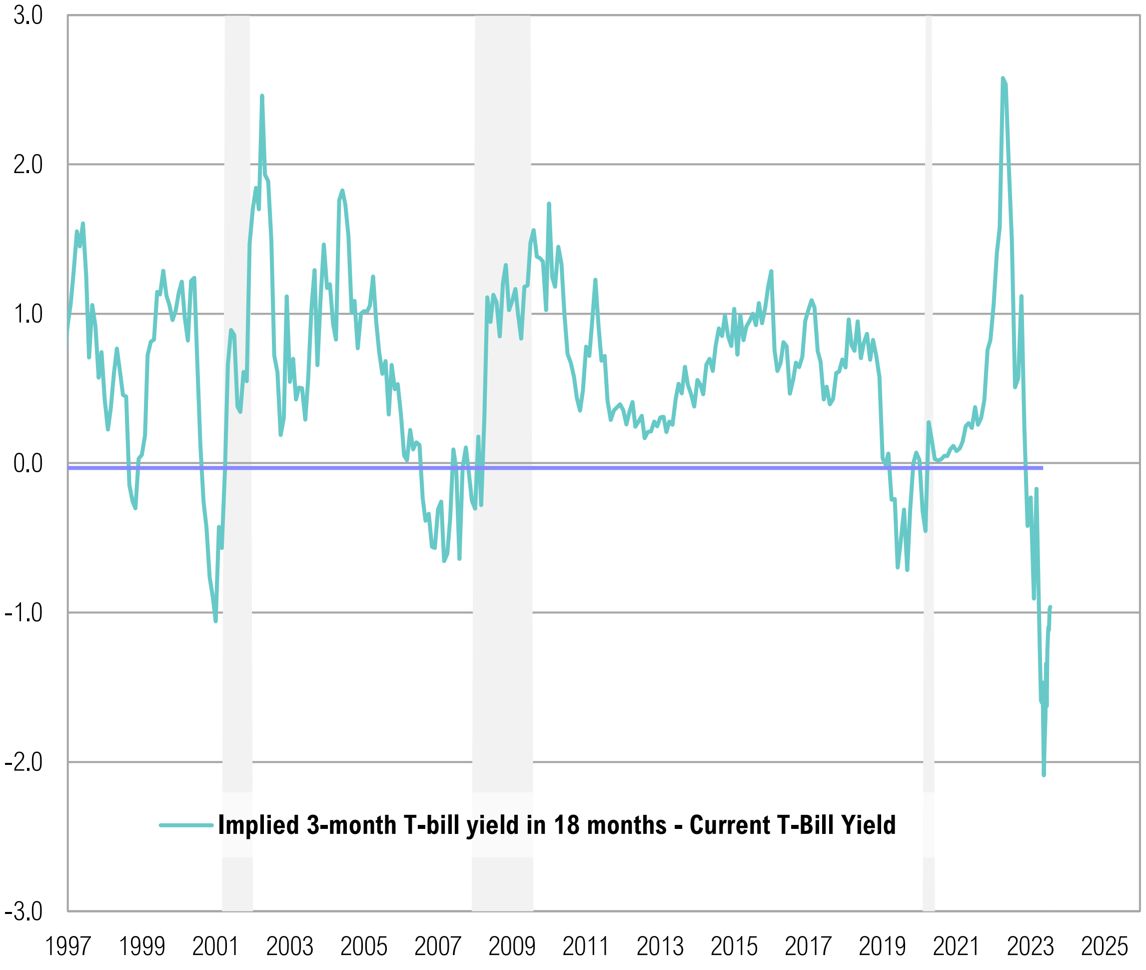
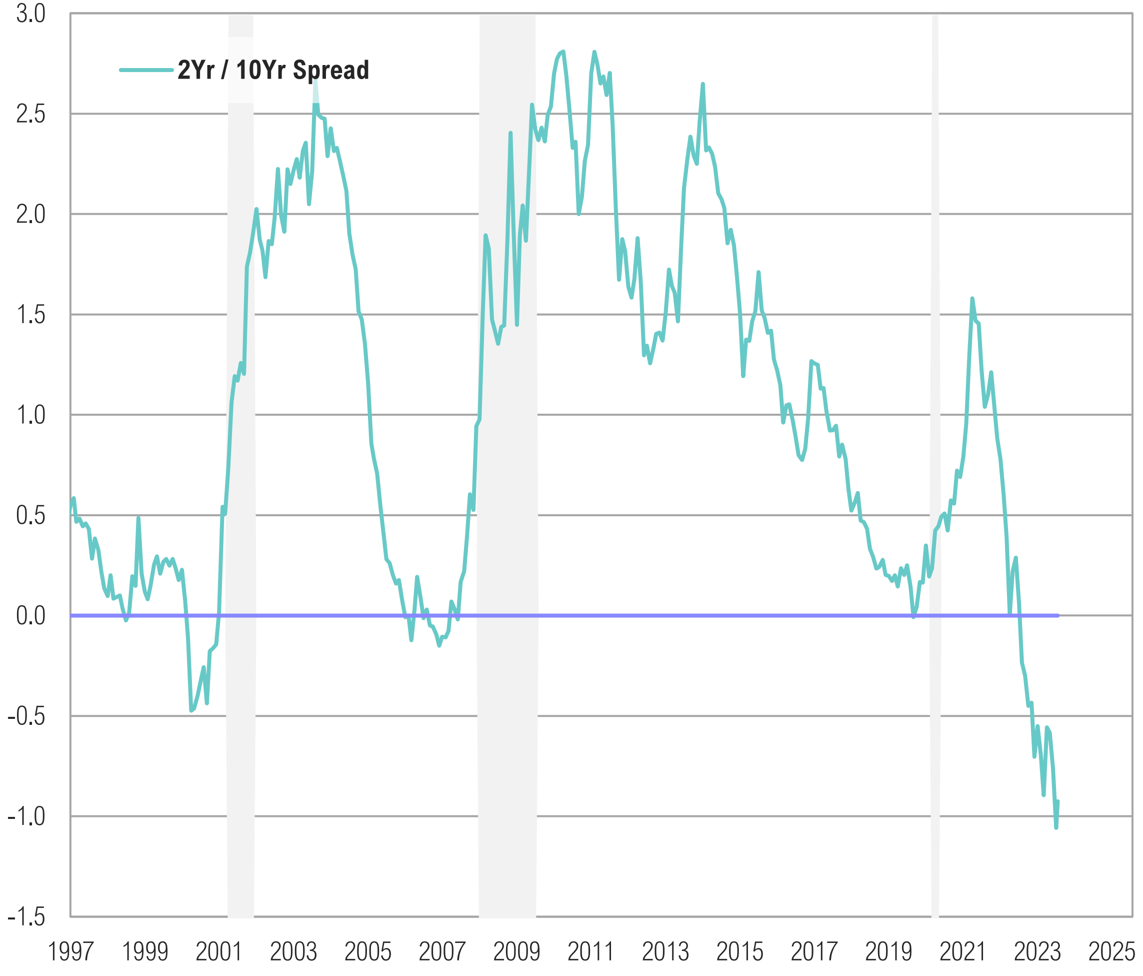
The "Powell yield curve indicator" marginally eased its inversion over the quarter; the 2/10 inversion continued to deepen over the quarter, ending June at -1.06—the deepest inversion since the 1980s

Implied 18-Month Forward 3-Month T-Bill Yield Minus Current T-Bill Yield, %



U.S 10-Yr minus 2-Yr Treasury Spread, %



Source: Bloomberg

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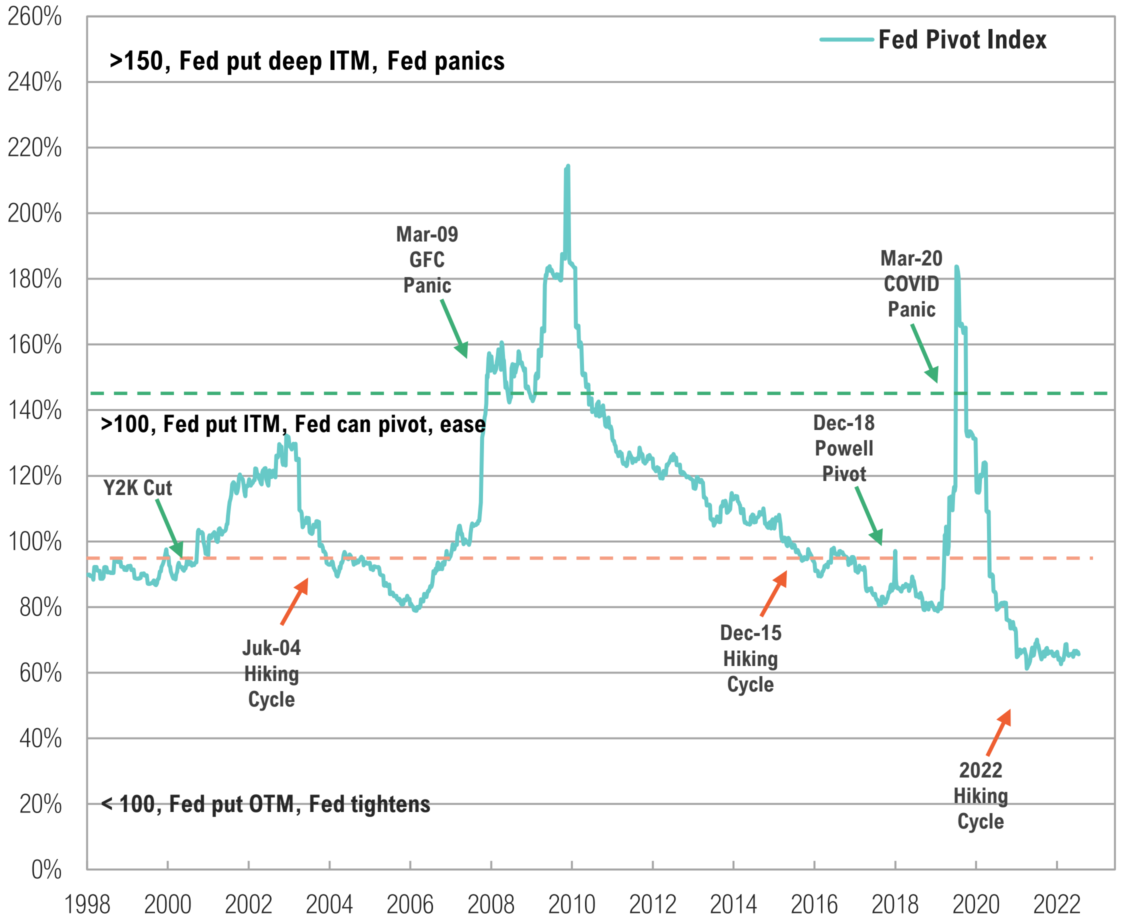
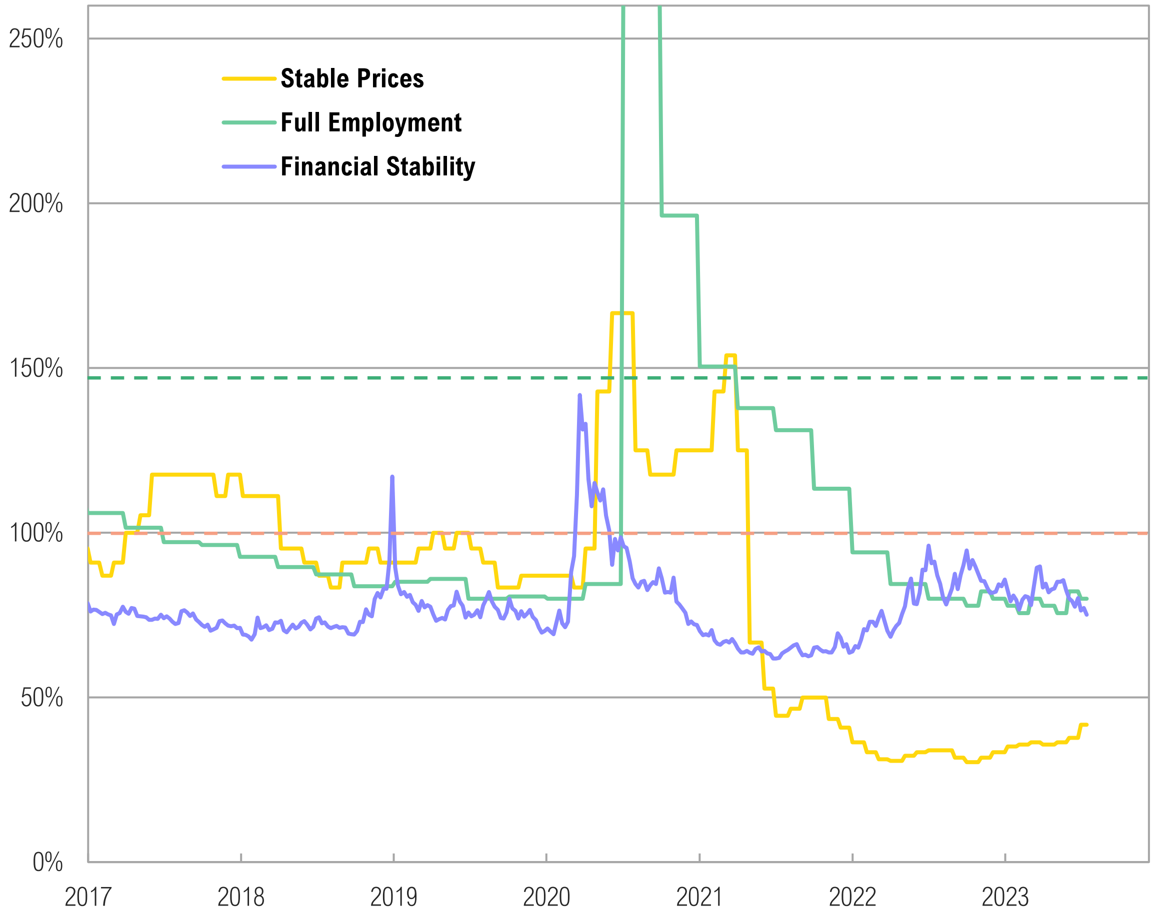
A Fed pivot isn't justified by the data—it would risk extending inflation shock and further eroding the Fed's credibility, however, increasing banking system stress could cause pivot

Fed Pivot Index, Wtd Avg % Of Threshold



Fed Pivot Index Sub-groups, % Of Threshold



Source: Bloomberg, SpringTide. SpringTide Pivot Index is an equal-weighted average of economic and market data representing the Fed's three mandates, each expressed as a percentage of pivot "trigger". Triggers: 91) price stability (33%) triggered by Core CPI declining below 3%; (2) full employment (33%) triggered by the U.S. Unemployment rate rising past 4.5%; and (3) financial stability (33%) triggered by GS Financial Conditions Index rising past 100, the S&P 500 P/E declining past 16x, and the Bbg U.S. Corporate High Yield OIS spread increasing past 600bps.

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“

There is no margin of safety in stocks that price in world domination.

Palm Valley Capital Management, *June 2023 Commentary*

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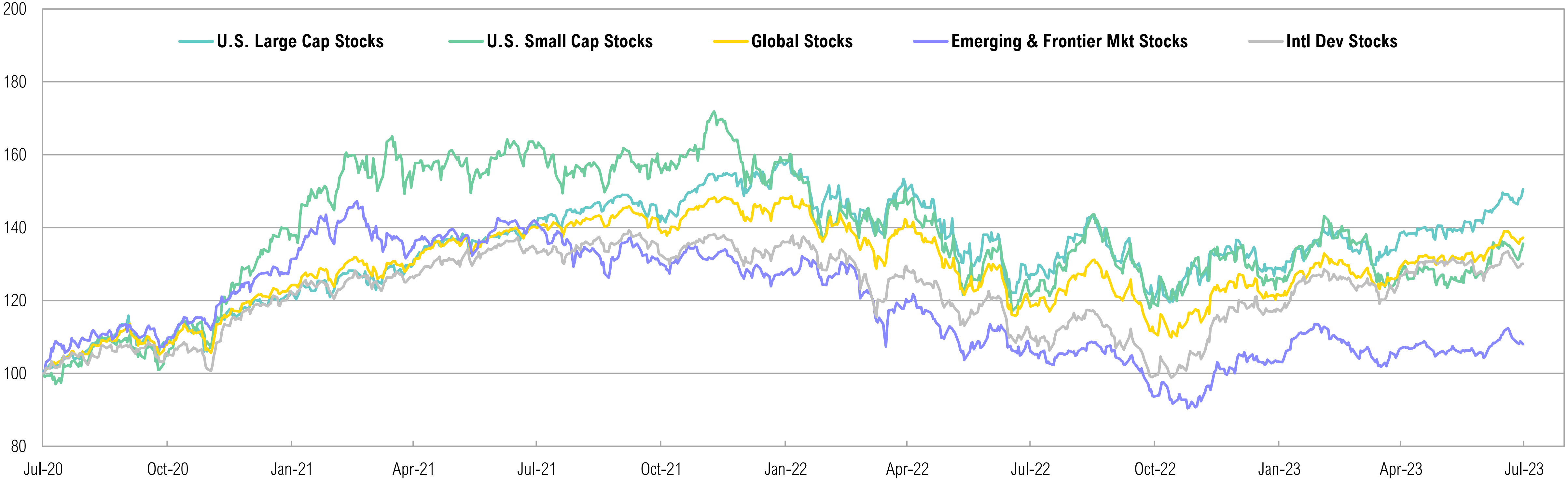
Q2 was favorable for all risky assets with U.S. large cap stocks performing best, up 8.7%; emerging markets stocks struggled to capitalize on the risk-on environment, gaining just 0.9%

Calendar Year & Trailing Total Returns



Asset Class	Benchmark	MTD	QTD	YTD	1-Yr	3-Yr	5-Yr	10-Yr	2022	2021	2020	2019	2018
U.S. Large Cap Stocks	S&P 500 TR	6.6	8.7	16.9	19.6	14.6	12.3	12.9	-18.1	28.7	18.4	31.5	-4.4
U.S. Small Cap Stocks	Russell 2000 TR	8.1	5.3	8.1	12.4	10.7	4.1	8.3	-20.5	14.5	20.0	25.4	-11.1
Intl Dev Stocks	MSCI EAFE GR	4.6	3.0	11.7	18.8	8.9	4.4	5.4	-14.5	11.3	7.8	22.0	-13.8
Emerging & Frontier Mkt Stocks	MSCI EM GR	3.8	0.9	4.9	1.8	2.3	0.9	3.0	-20.1	-2.5	18.3	18.4	-14.6
Global Stocks	MSCI ACWI GR	5.8	6.2	13.9	16.5	11.0	8.1	8.8	-18.4	18.5	16.3	26.6	-9.4

Source: Bloomberg. Returns for periods greater than 1 year are annualized.

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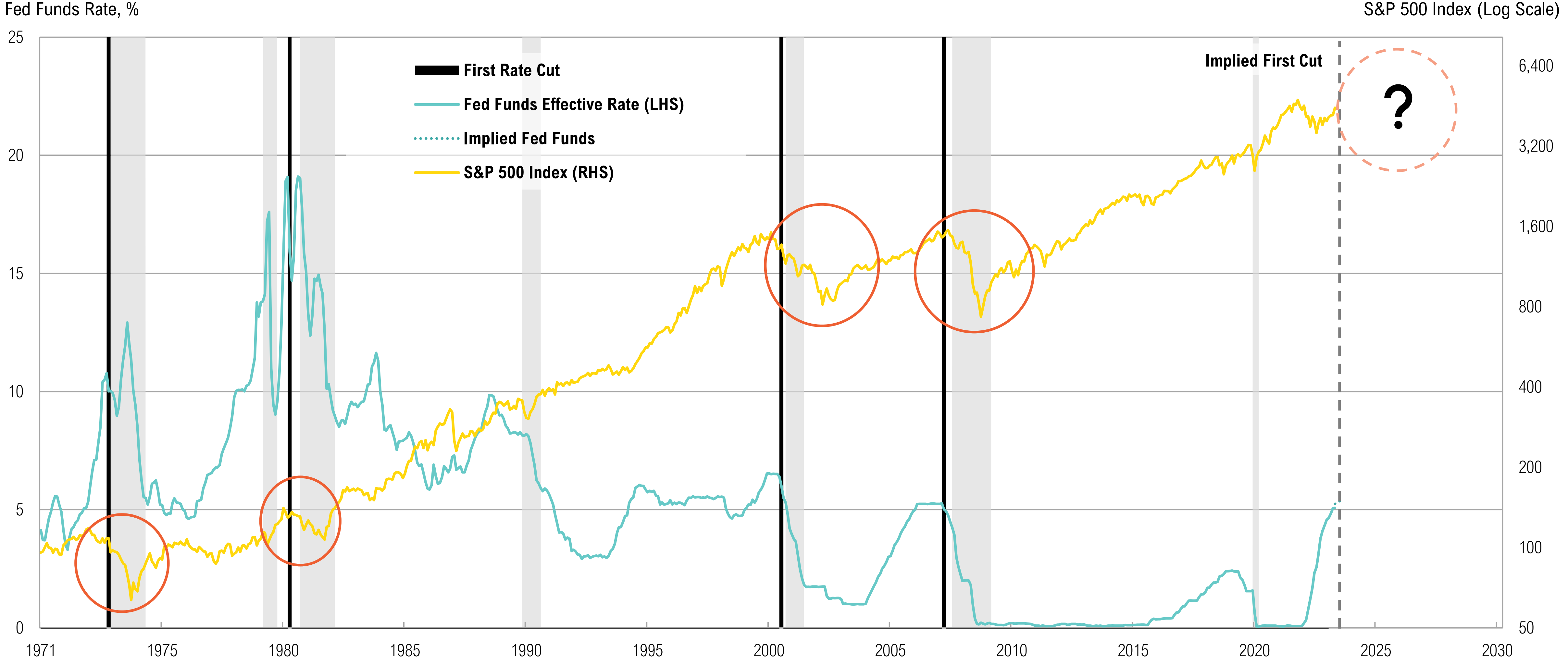
The Fed has continued to raise rates; while a pause/rate cut could be on the horizon, history shows that the Fed cutting rates doesn't necessarily mean pain in the stock market is over



Source: Bloomberg. As of 6/30/2023.

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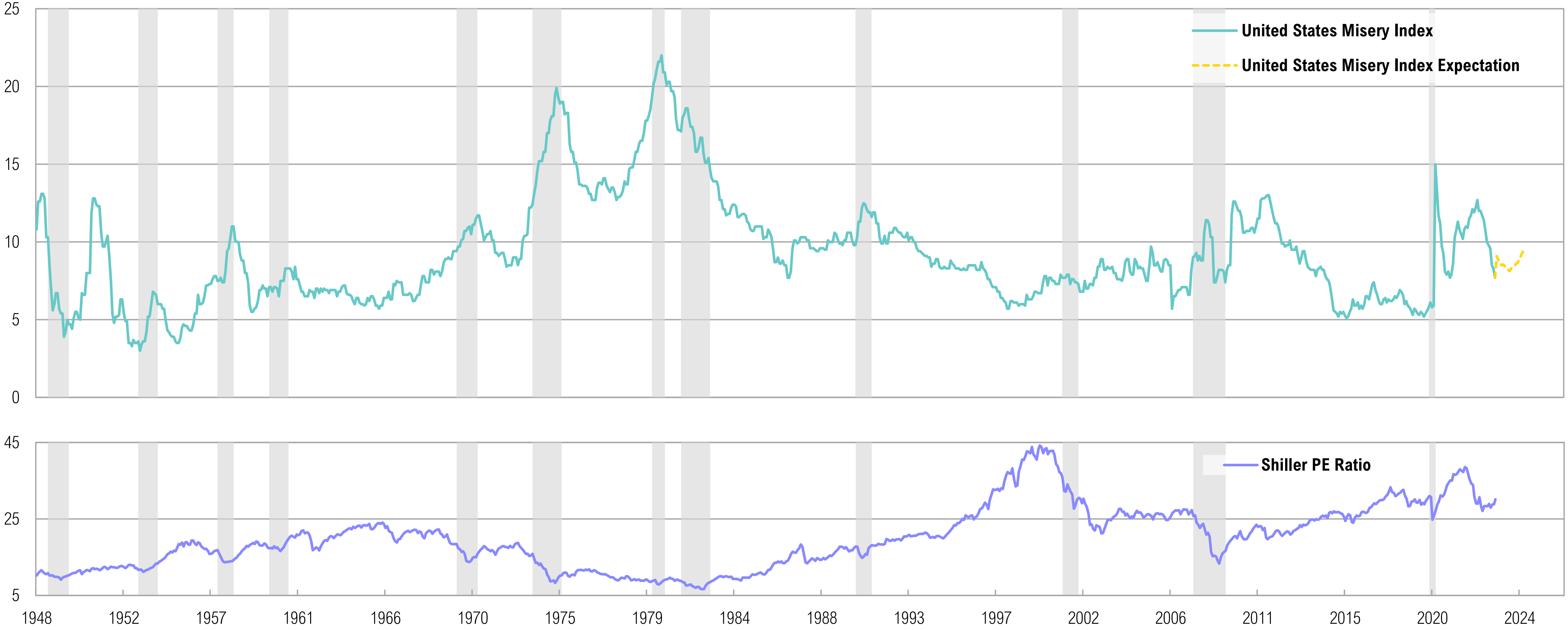
Did the *Misery Index* just bottom? Even though inflation is expected to stay contained, further declines in CPI may require the labor market to crack, which would drive it higher (with potential implications for equity valuations)

U.S. Misery Index (YoY Inflation + Unemployment) & CAPE Ratio (Below)



Source: SpringTide, Bloomberg. Misery Index Expectation is calculated by adding historic average unemployment following major hiking cycles + Bloomberg inflation expectations.

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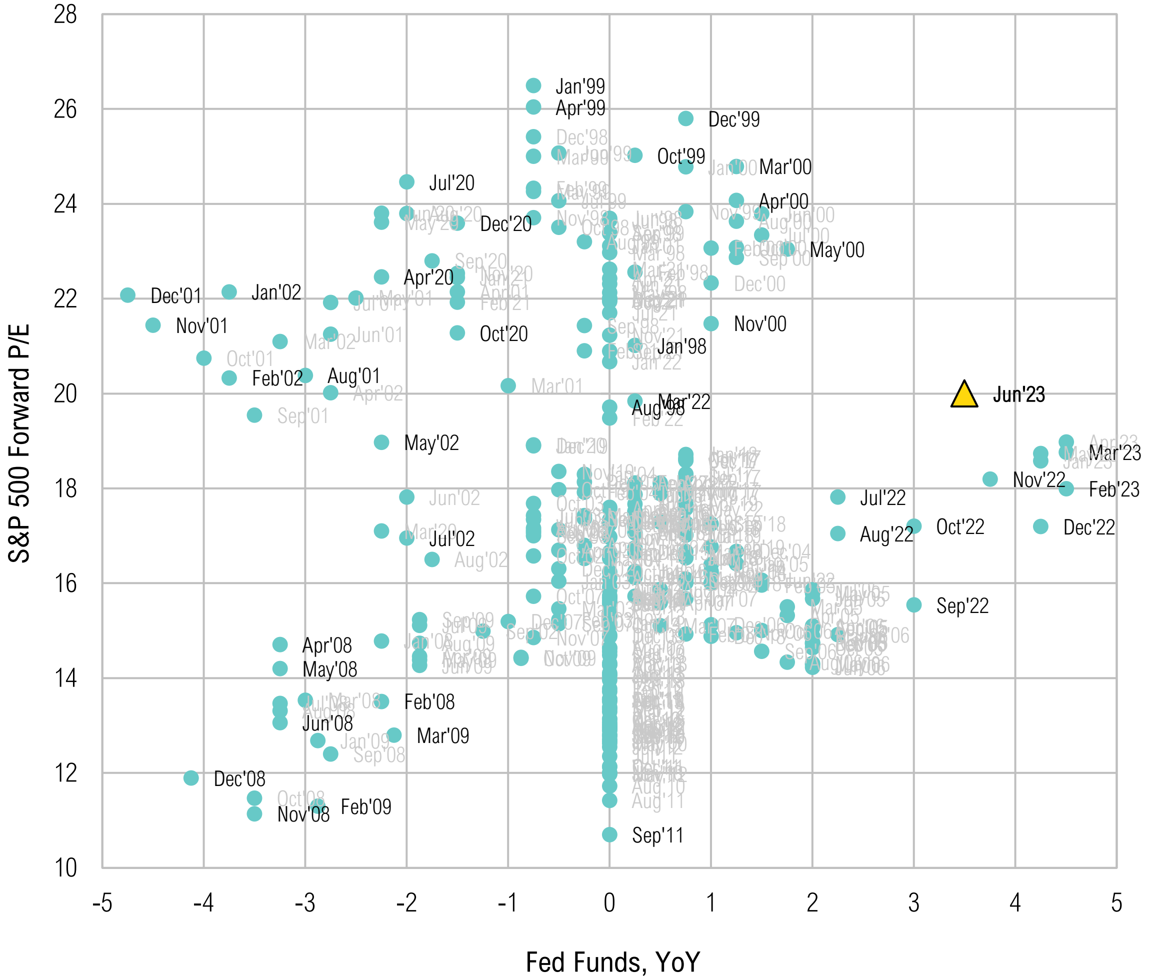
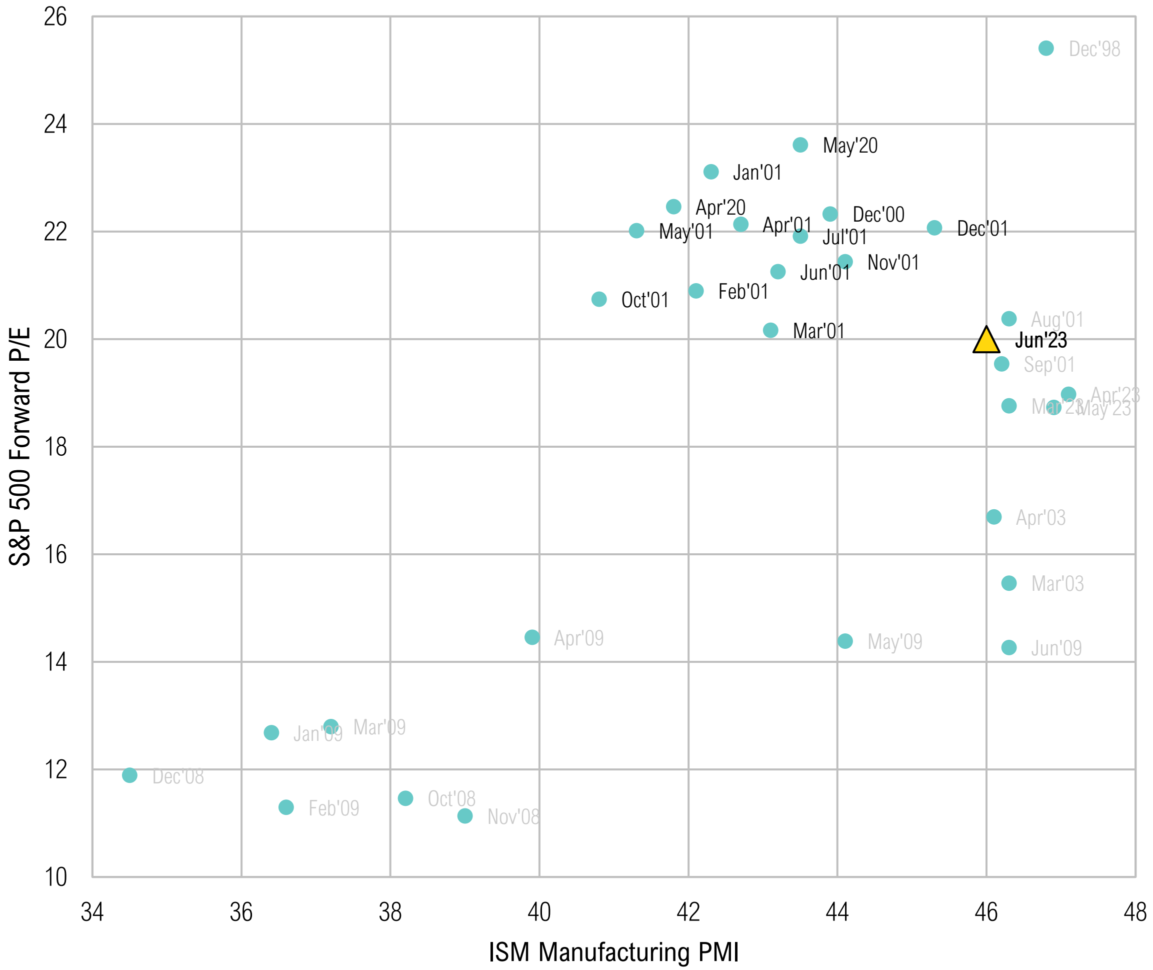
Conflicting signals: we currently have the highest fwd. P/E ever, given YoY change in FFR; the last time we had recessionary manufacturing PMIs with these forward P/Es was the Tech Bubble

S&P 500 Forward P/E vs. Fed Funds YoY



S&P 500 Forward P/E vs. ISM Manufacturing PMI



Source: Bloomberg

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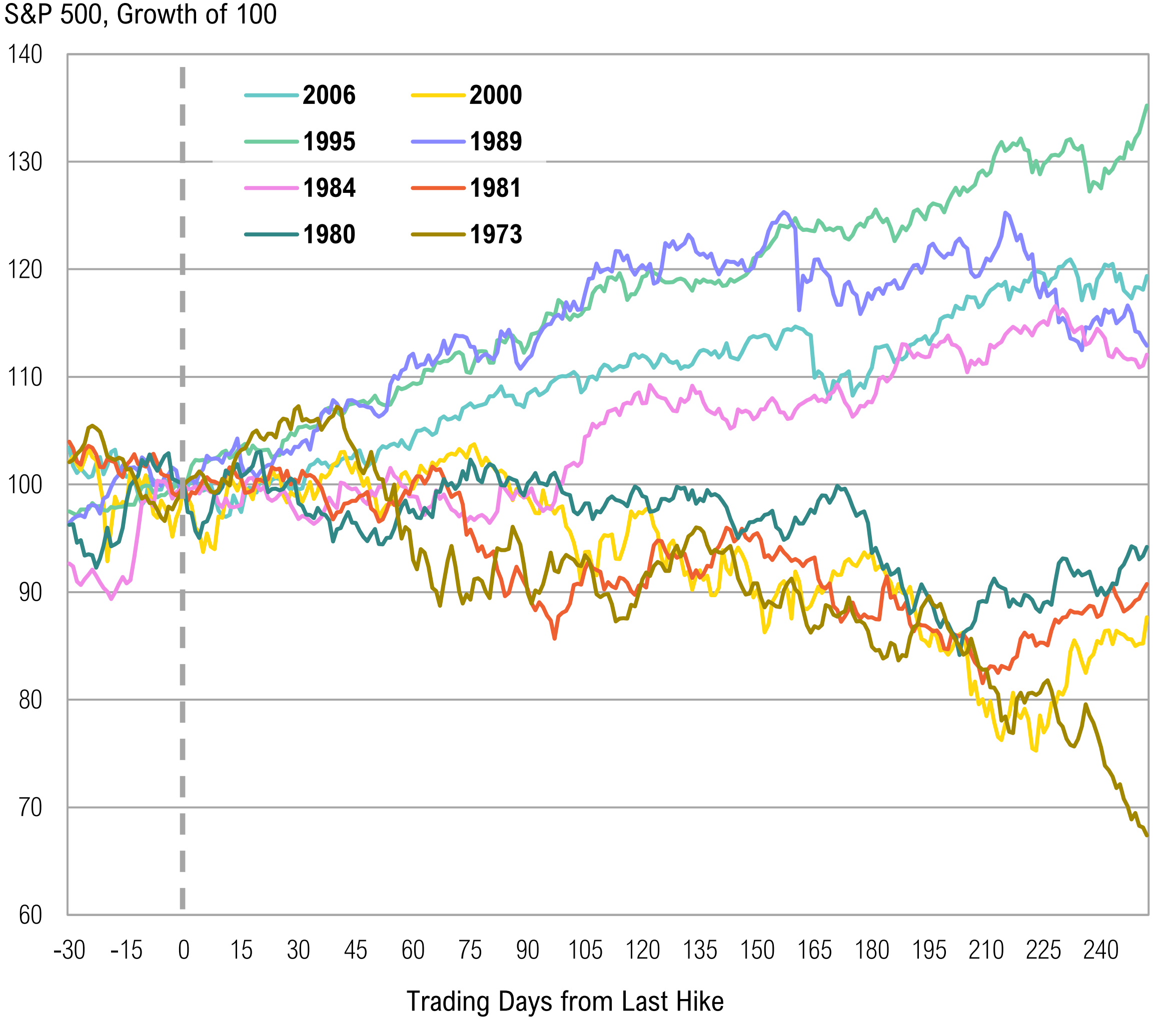
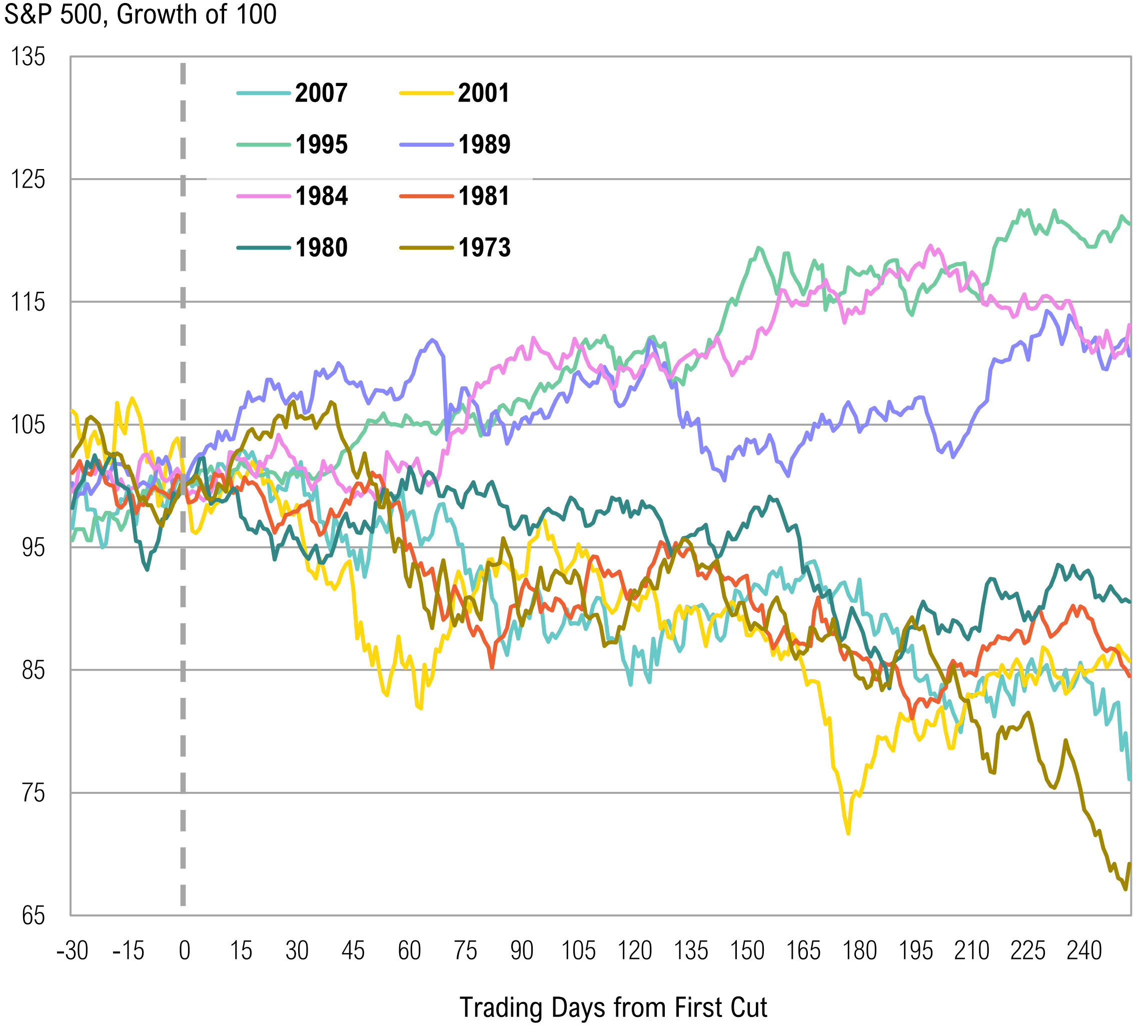
Win big or lose big: markets have had very different outcomes following the first rate cut; the historical probability of a decline is slightly higher than that of a rally





Source: Bloomberg

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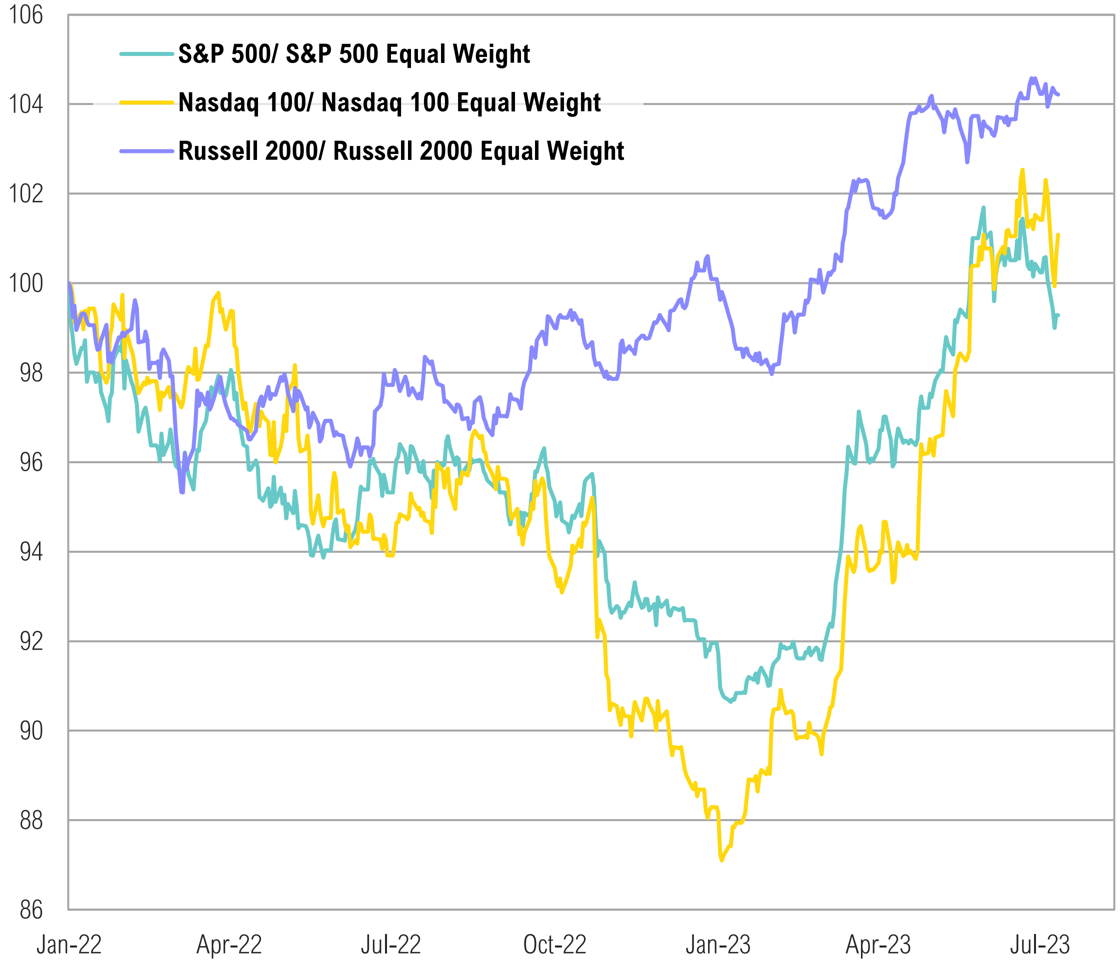
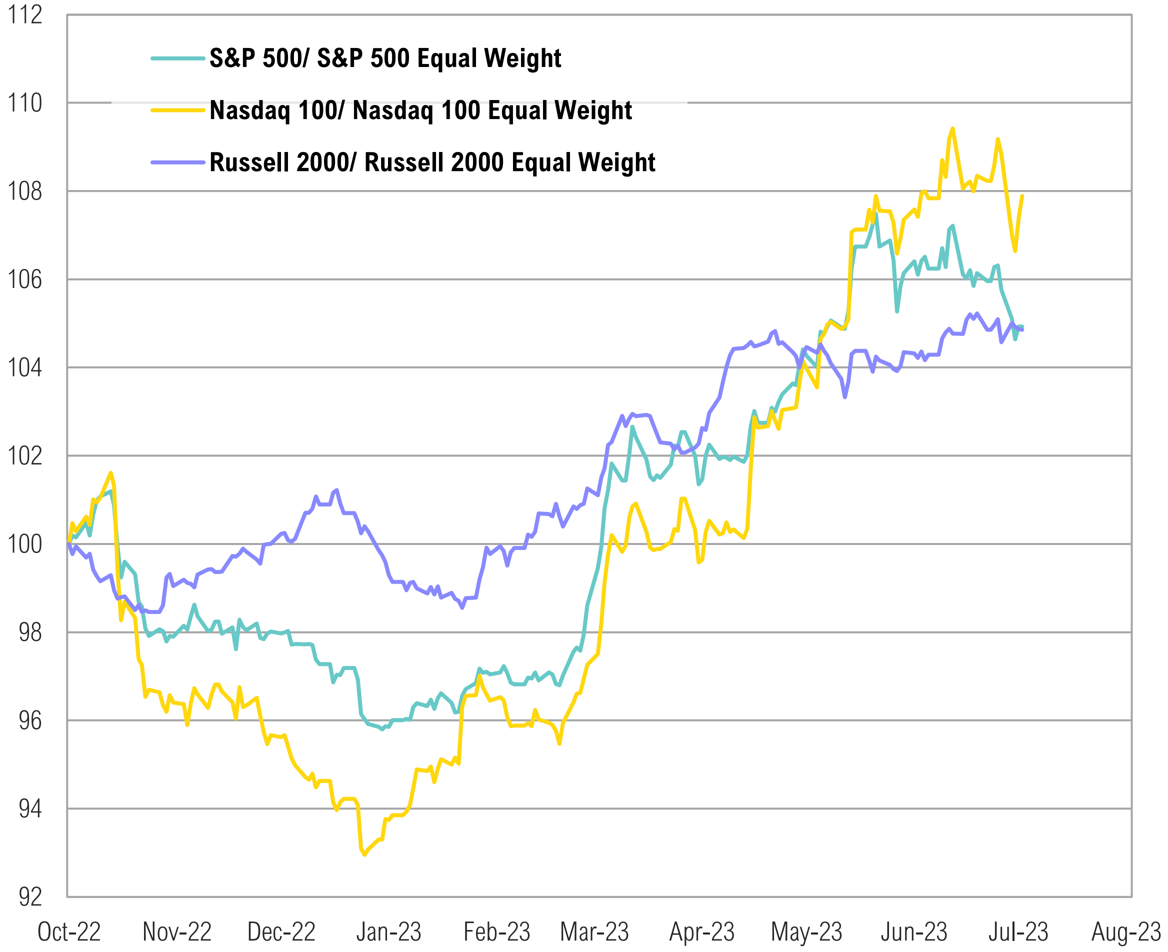
The breadth of the stock rebound has been poor across large caps, small caps, and the tech-heavy Nasdaq, hinting at an unsustainable crowding into names that already weren't cheap

Growth of 100, Since January 2022 Highs



Growth of 100, Since October 2022 Lows



Source: Bloomberg

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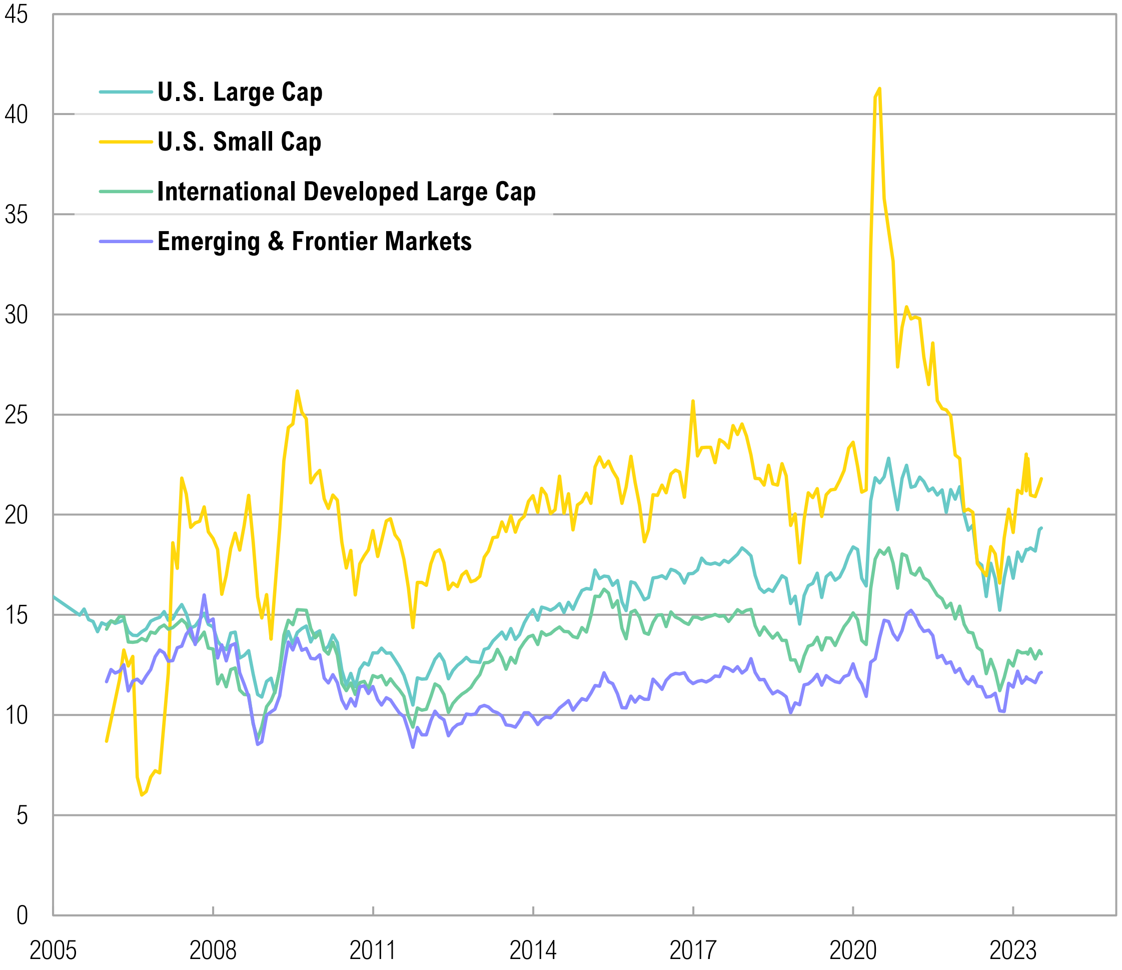
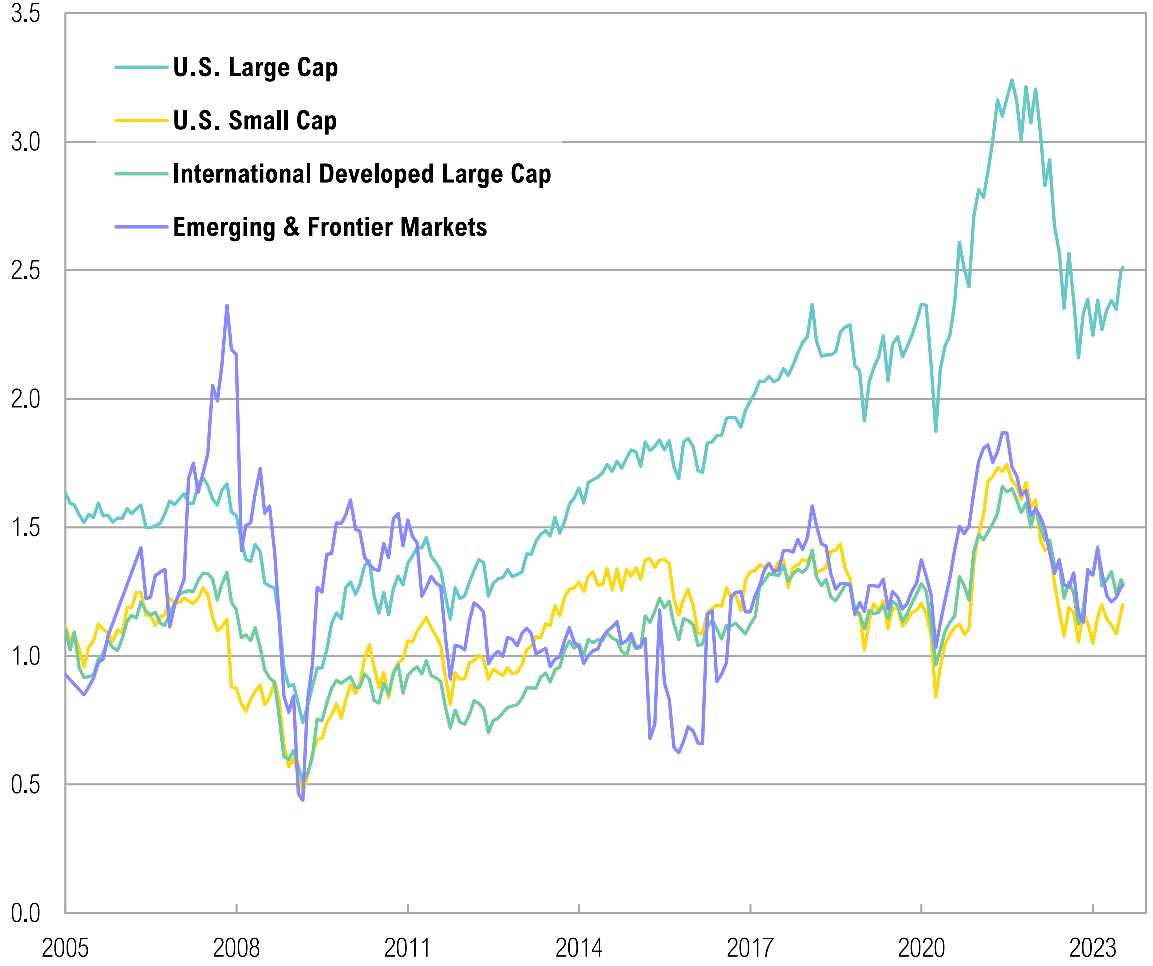
Valuations crept higher over the quarter as stocks rallied; EM stocks remain relatively cheap vs. developed markets, but 'value trap' risk remains if recent growth optimism doesn't materialize

Price-to-Earnings Ratio, Forward 12-Month



Price-to-Sales Ratio



Source: Bloomberg

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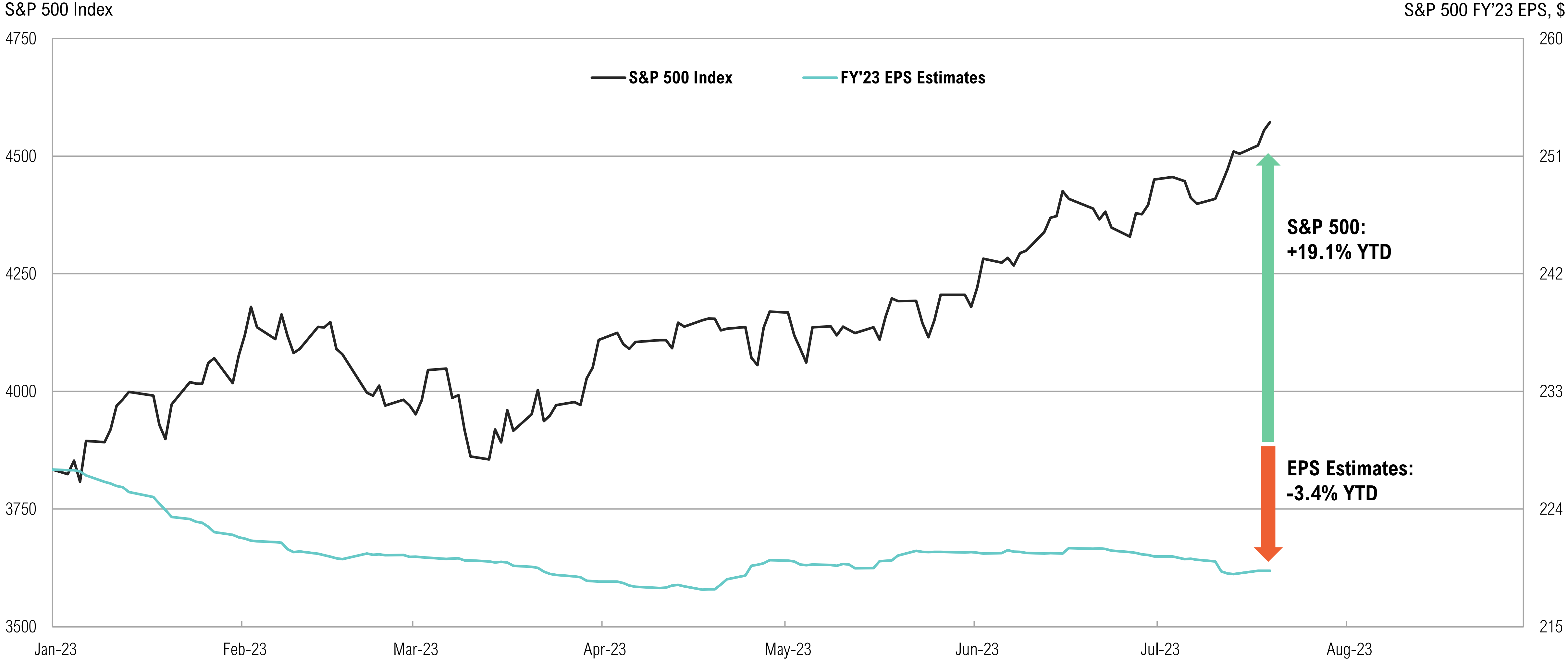
Divergence (alligator jaws): the S&P 500 is up 19.1% YTD despite full-year earnings expectations declining by 3.4%, to $219 per share



Source: Bloomberg. As of 7/19/2023.

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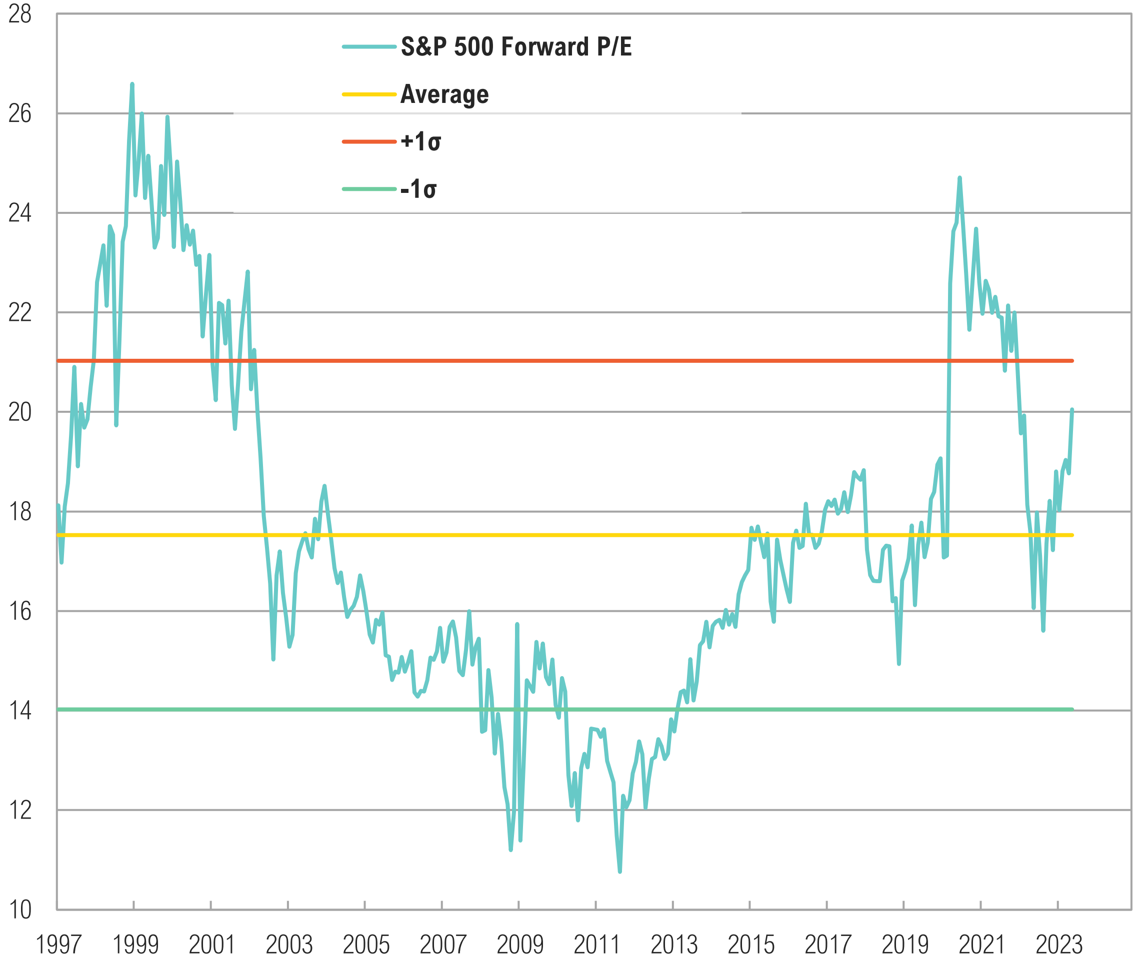
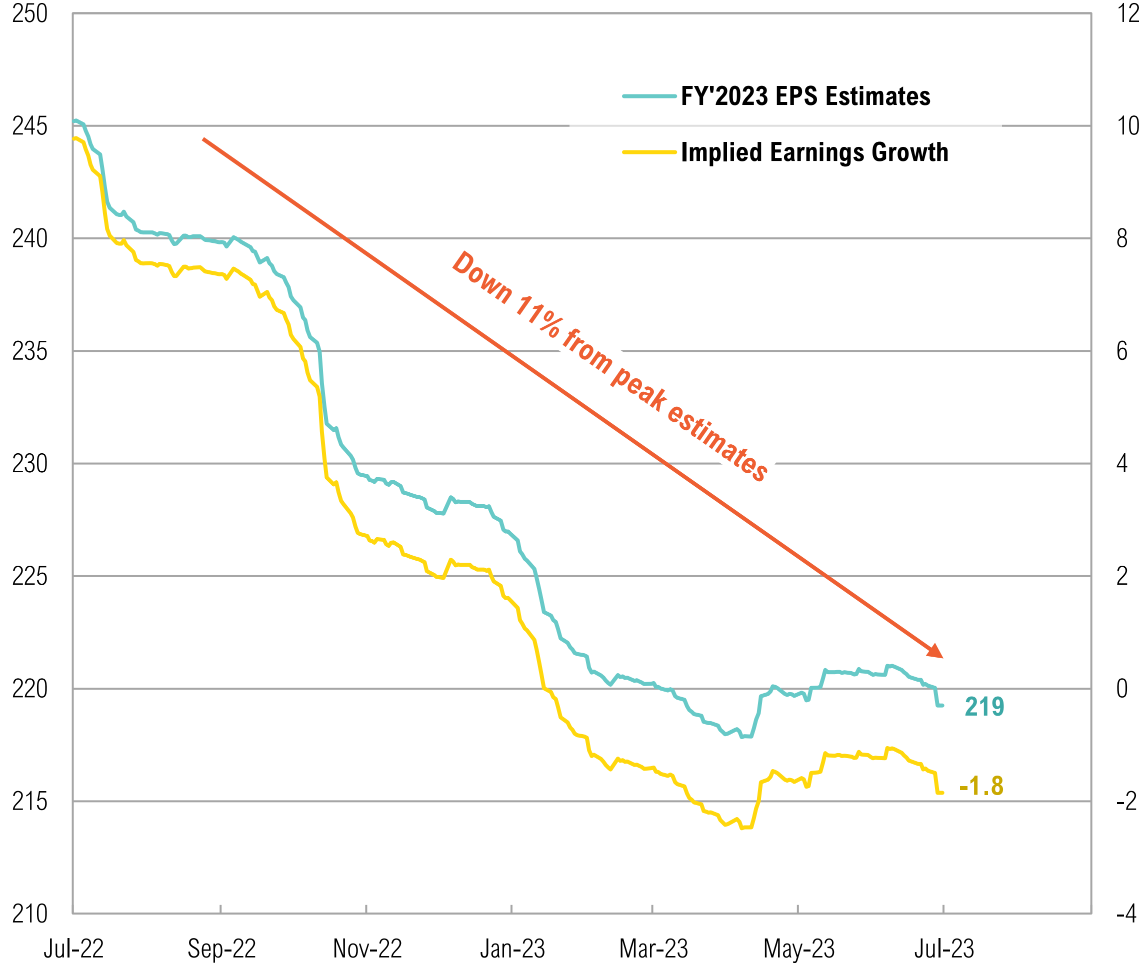
U.S. large cap valuations continued to move higher, now well above historical average; earnings expectations have come in, showing a mild contraction over FY'23

Price-to-Earnings Ratio, Next 4 Quarters Earnings



FY'23 Earnings-per-Share Estimates

Implied FY'23 Y/Y EPS Growth, %



Source: Bloomberg. As of 3/31/2022.

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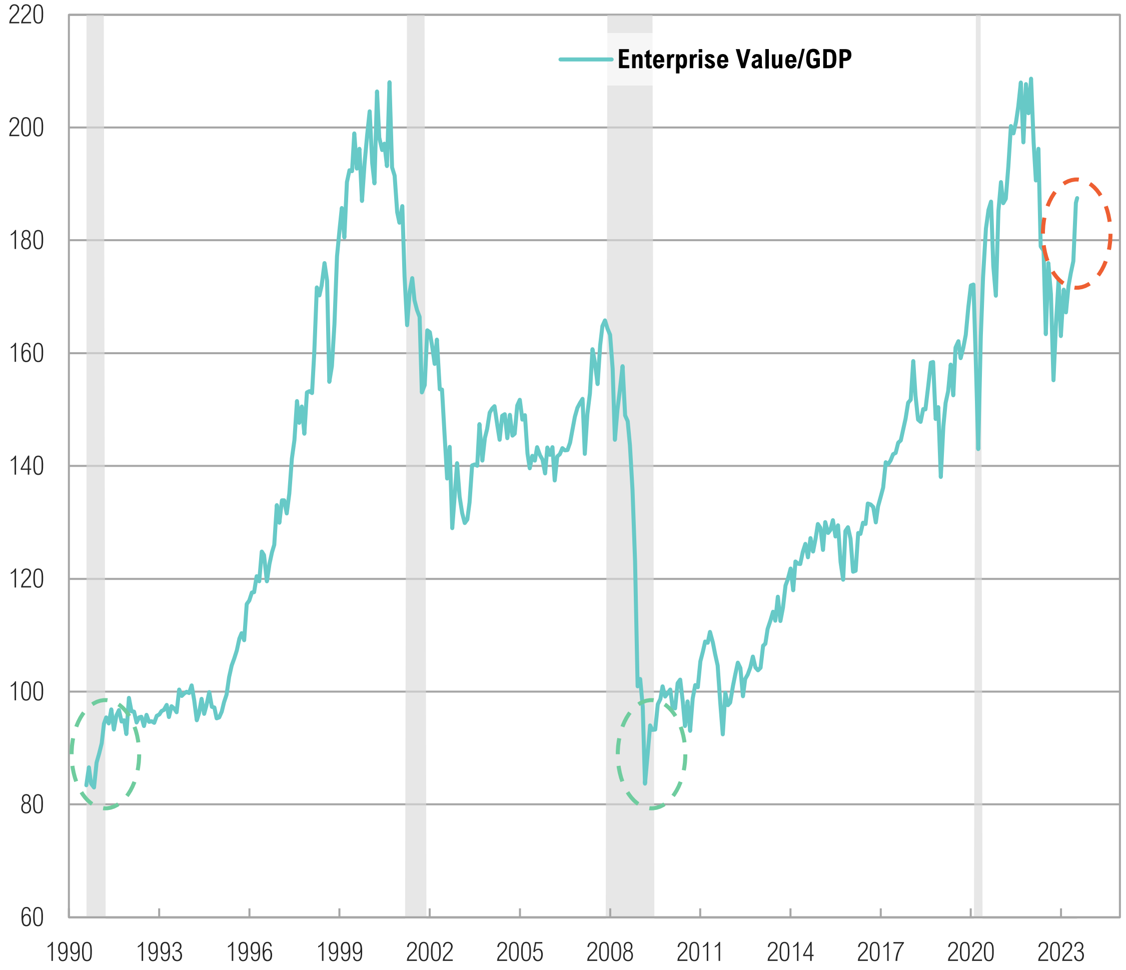
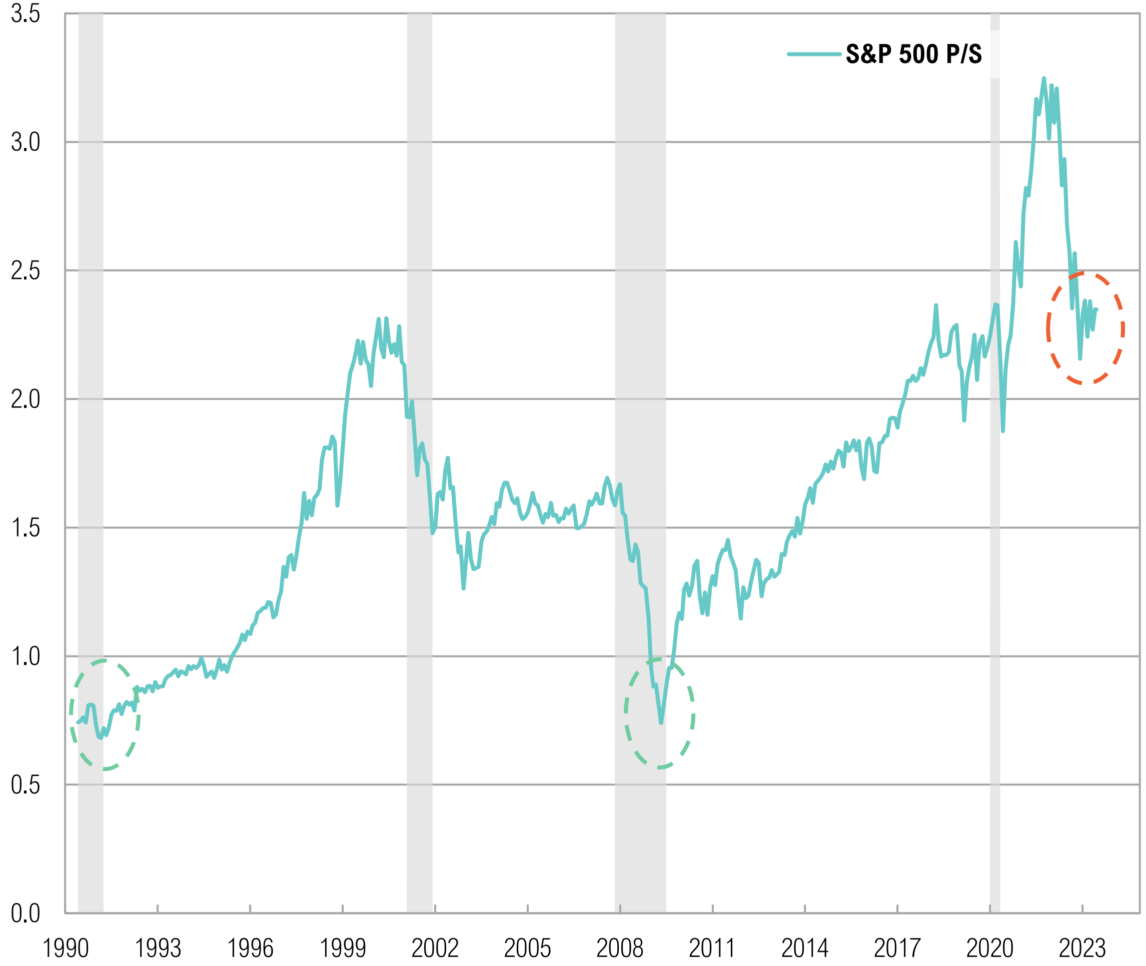
Counter to "it's all priced in": adjusting for record-high margins, equity valuations are not remotely compelling (but this won't matter until it does, which could take years)

S&P 500 Enterprise Value as a % of GDP



S&P 500 Price-to-Sales Ratio



Source: Bloomberg

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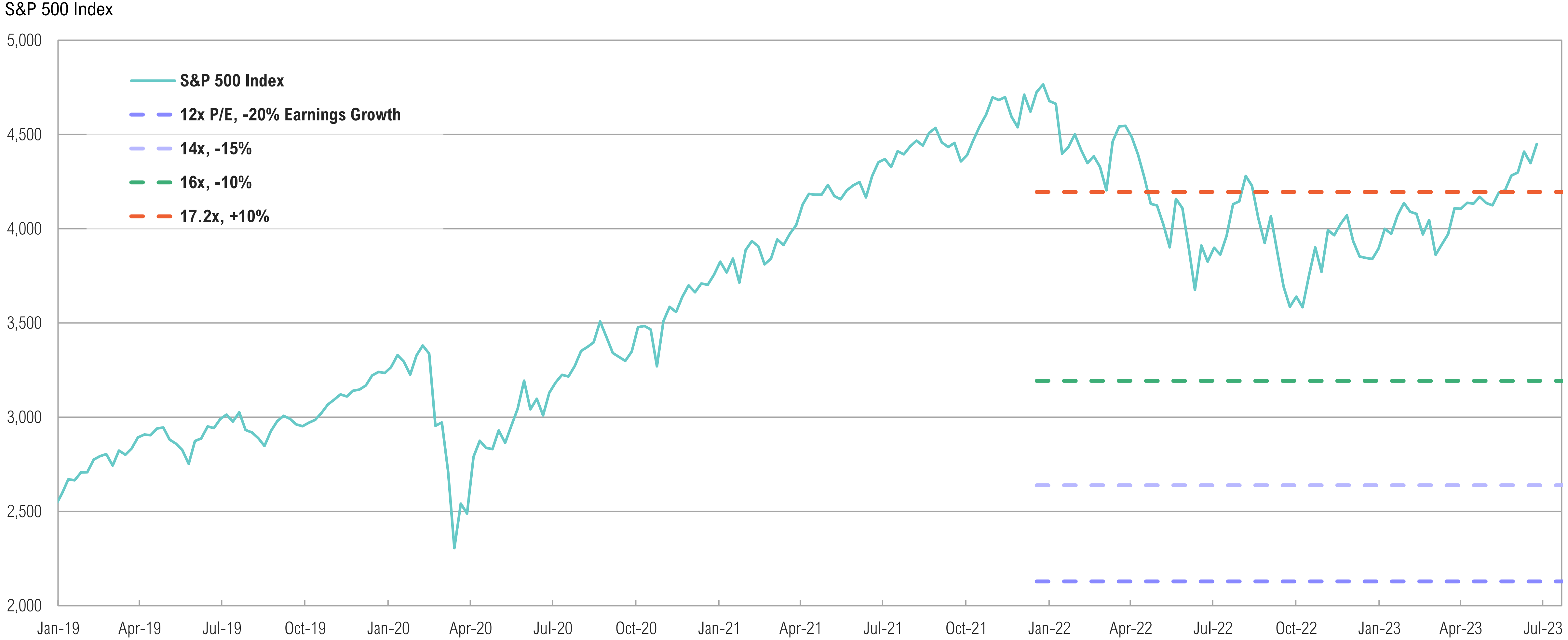
Depending on the path of inflation and earnings growth, where might the S&P 500 trend to? Below are 12x, 14x, 16x and 17.2x (LT average) P/Es applied to various EPS scenarios



Source: SpringTide, Bloomberg. P/E per inflation tranche is Shiller PE (PE10) whereas P/Es on chart are operating. Assumes 2022 full year earnings of $221.73 dollars per share.

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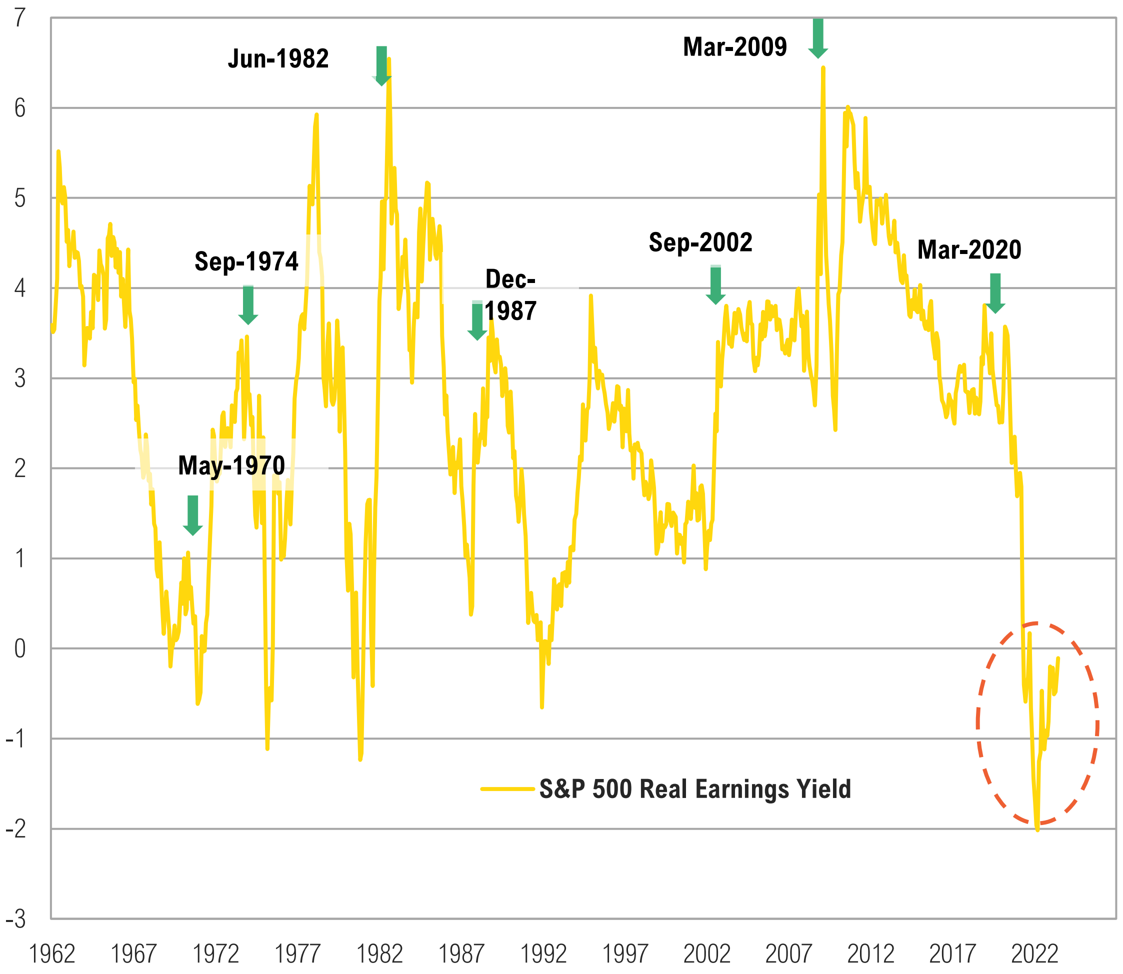
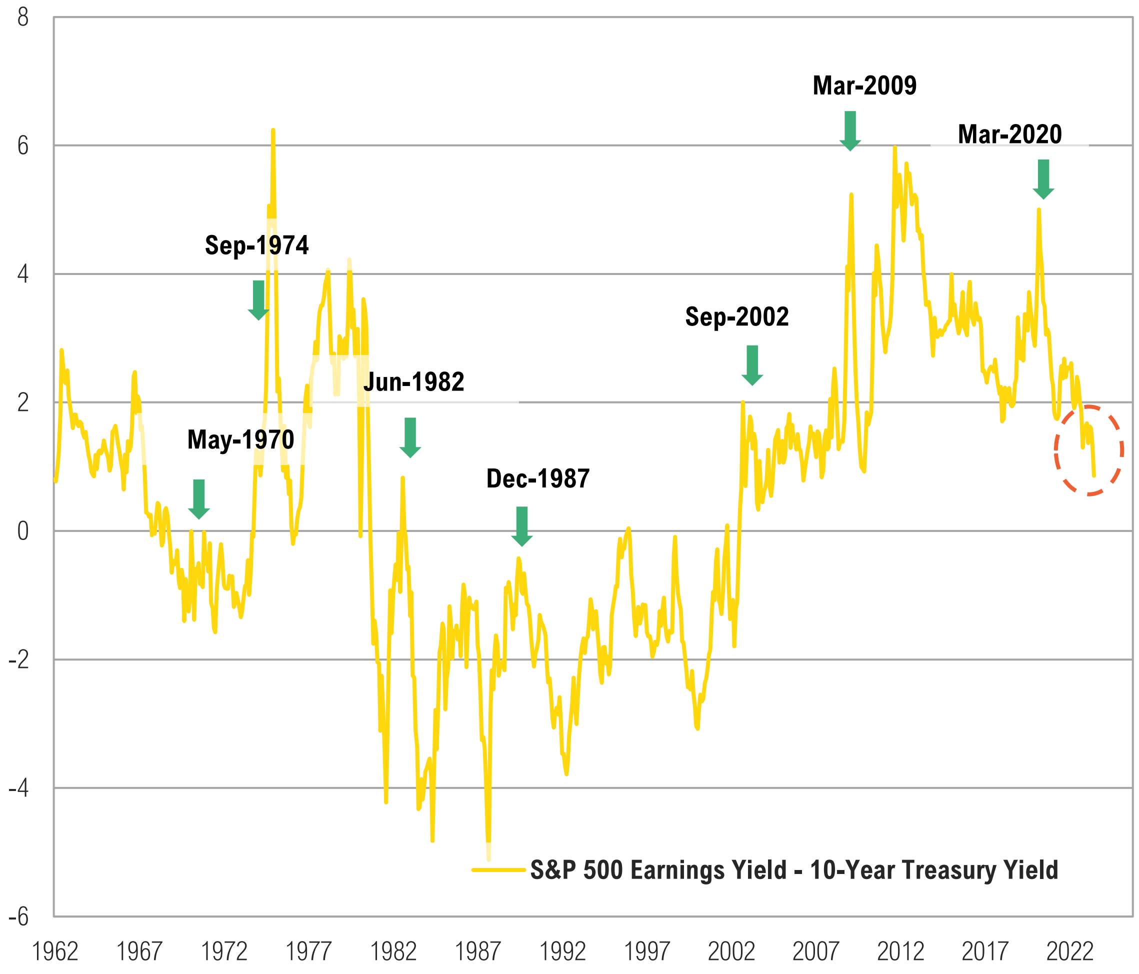
The S&P 500 real earnings yield is still negative (based on core CPI), looks nothing like historical bear market troughs (or peaks in earnings yield)

S&P 500 Earnings Yield (TTM) Minus U.S. Core CPI, % YoY



S&P 500 Earnings Yield (TTM) Minus U.S. 10-Yr Treasury Yield, %



Source: Bloomberg. As of 6/30/2023.

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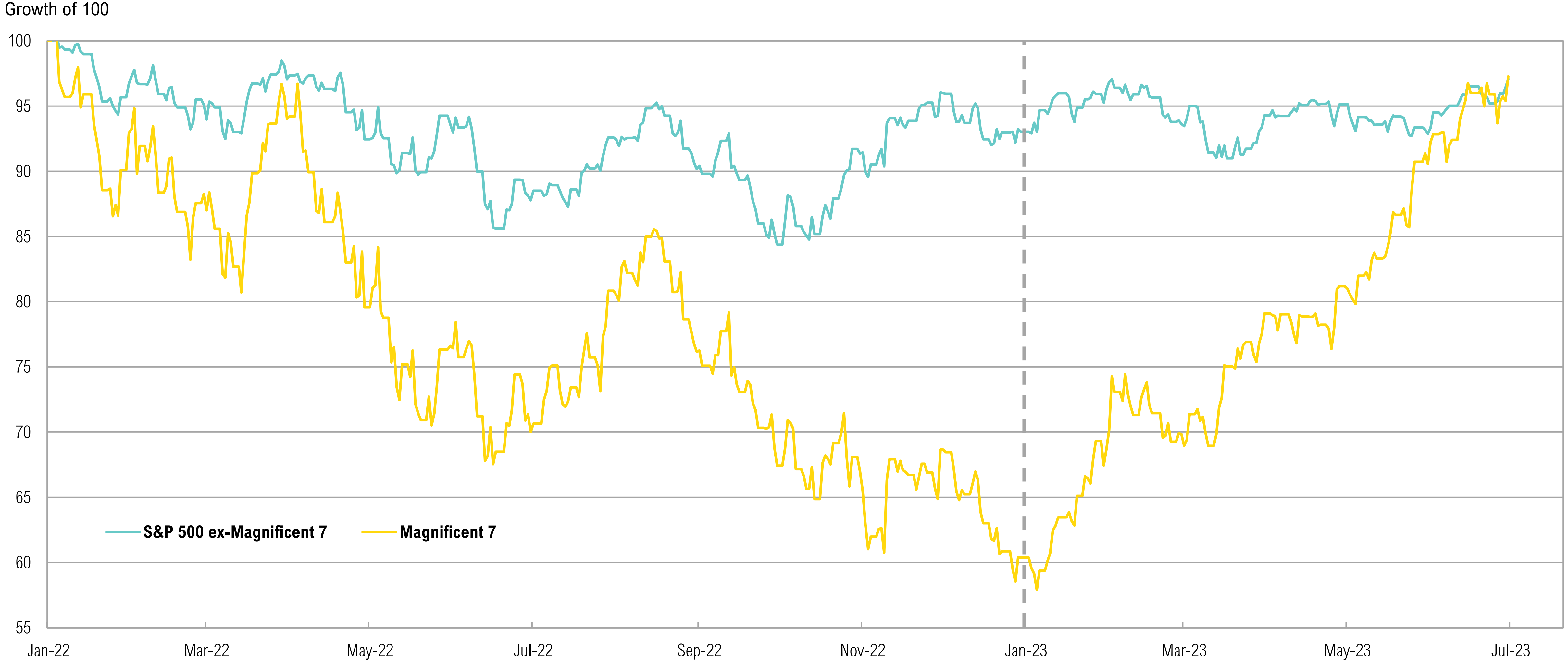
Back to the future: fueled by the AI buzz, the outperformance of the Magnificent Seven in 2023 (up +68% YTD) mirrors their *under*performance in 2022



Source: Bloomberg

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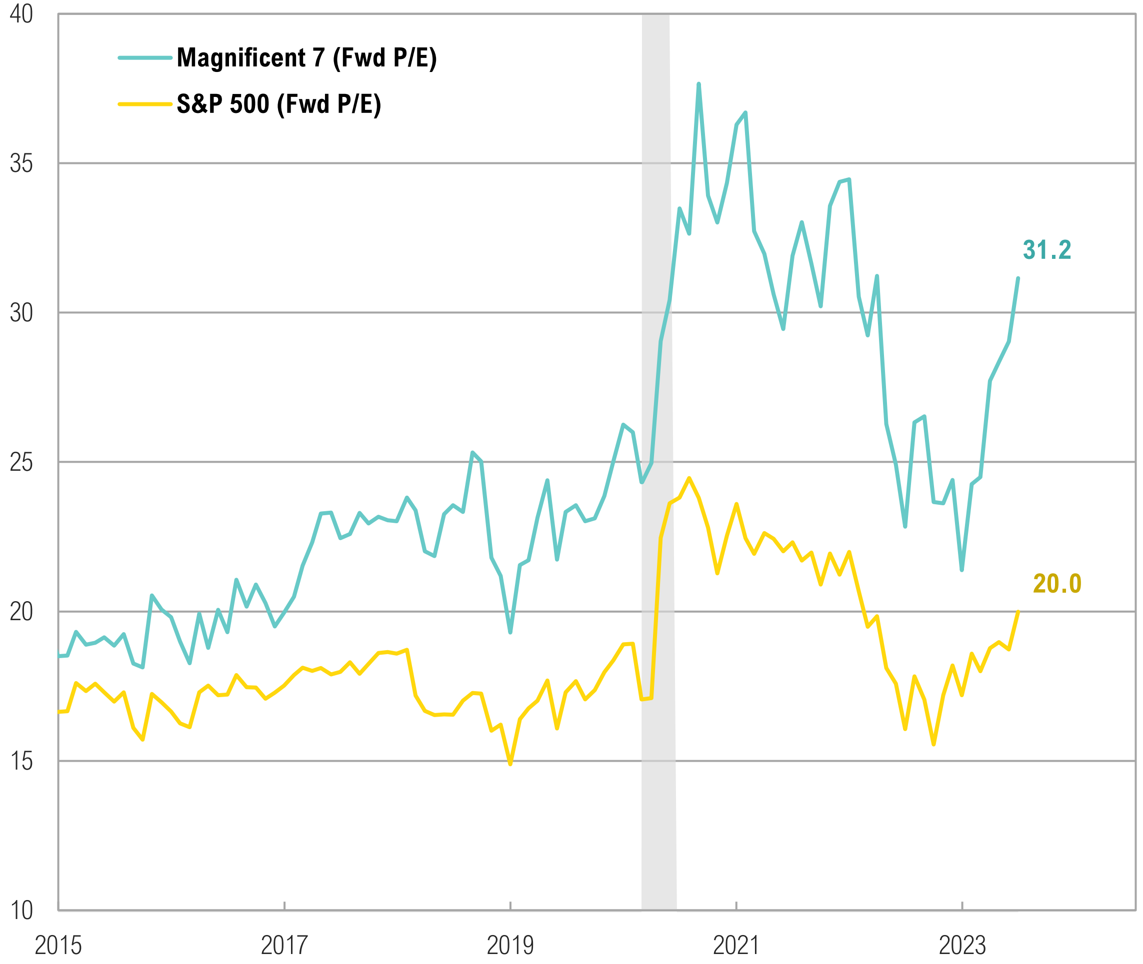
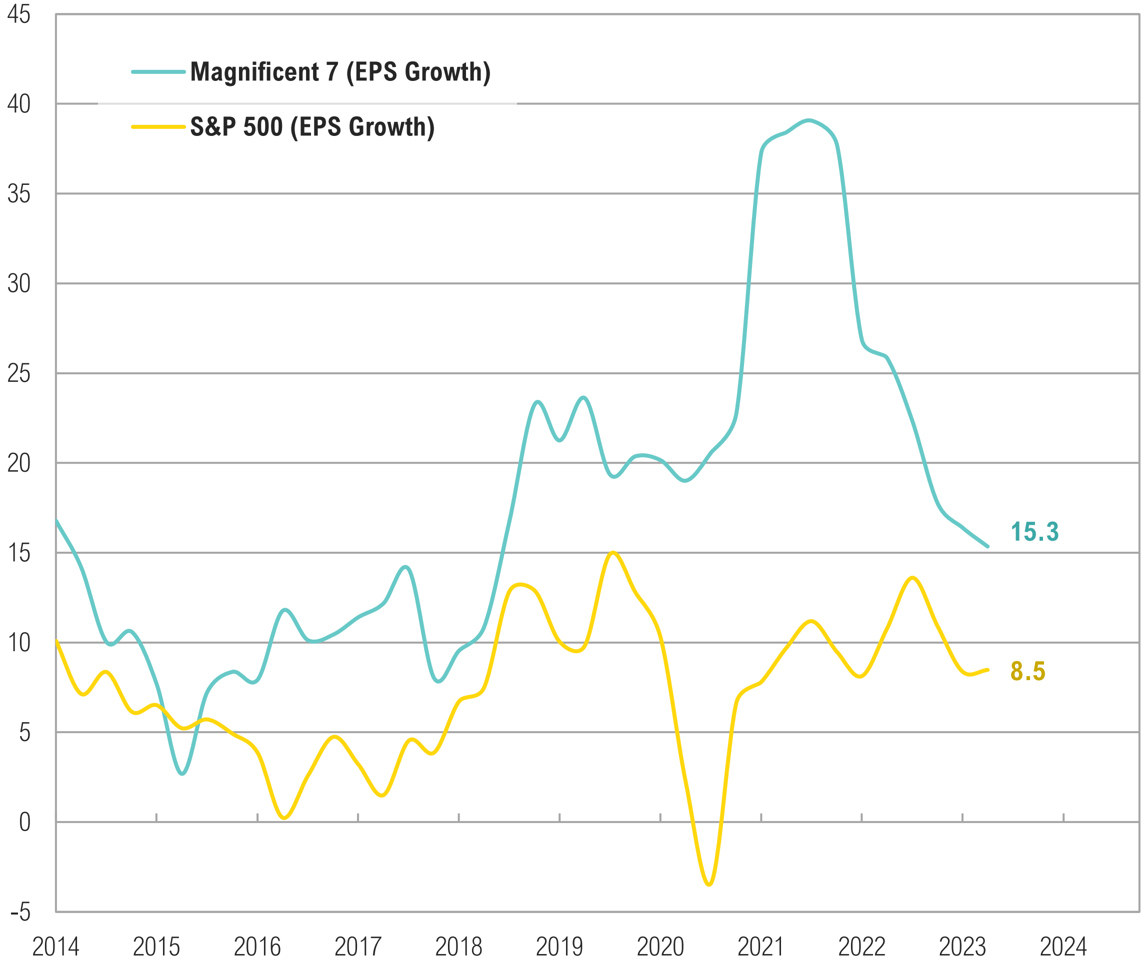
As investors have crowded into the Magnificent Seven, they've driven valuations back up to COVID levels, even though EPS growth has slowed drastically

Price-to-Earnings Ratio, Next 4 Quarters Earnings



3-Year Earnings Per Share Growth, Annualized



Source: Bloomberg

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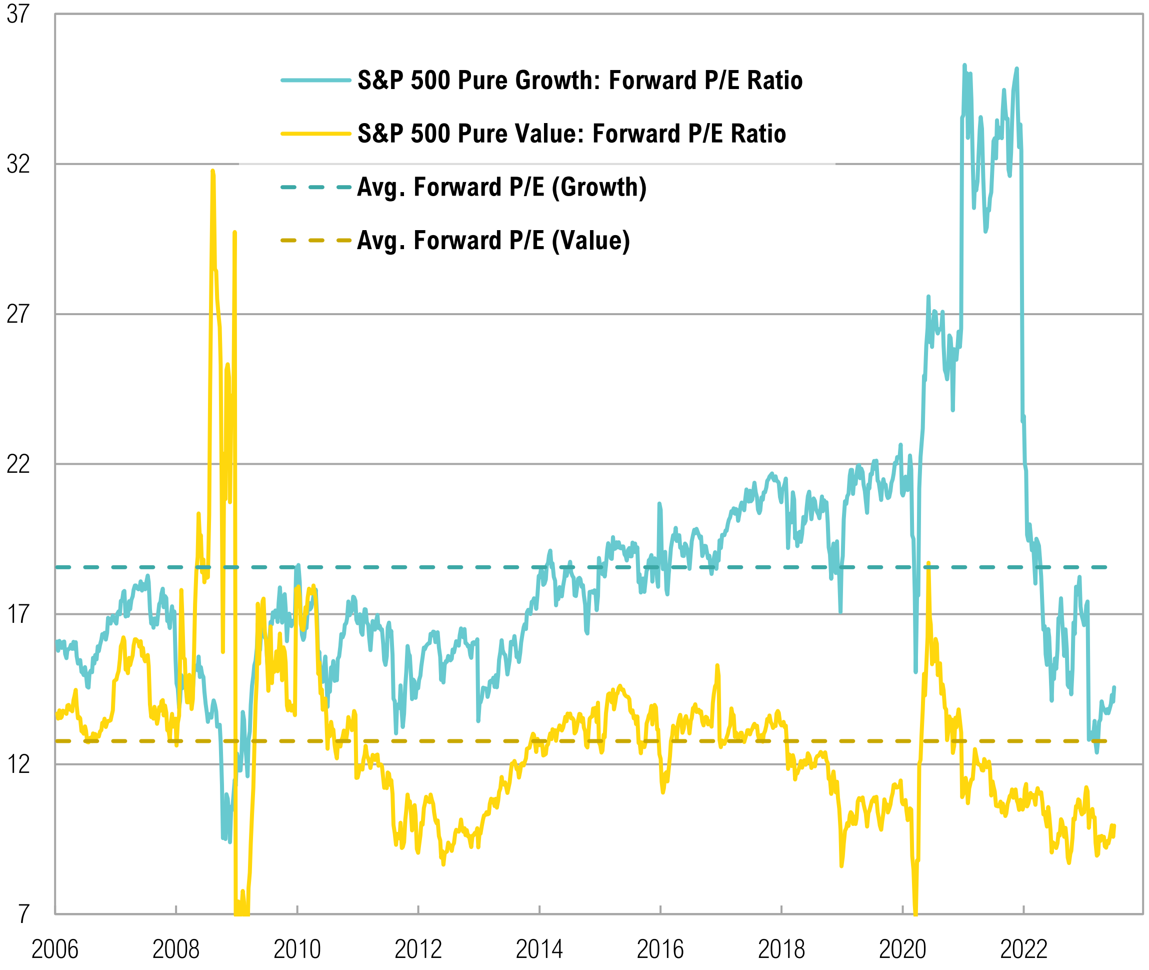
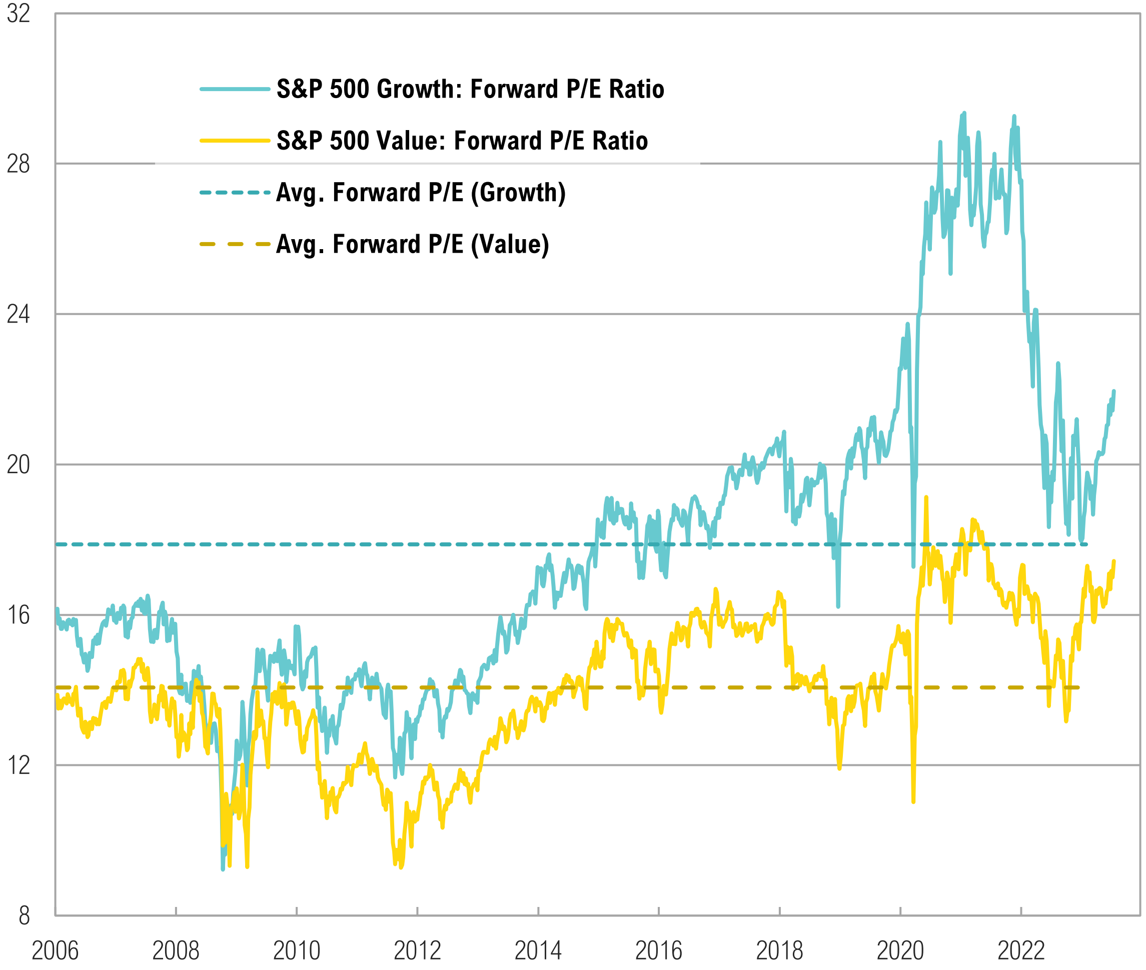
Depending on the index considered, S&P 500 valuations look either expensive or cheap; nevertheless, both sets of indices have been highly affected by reconstitutions

S&P 500 Pure Growth Index vs. S&P Pure Value Index Forward P/E Ratios



S&P 500 Growth Index vs. S&P Value Index Forward P/E Ratios



Source: Bloomberg

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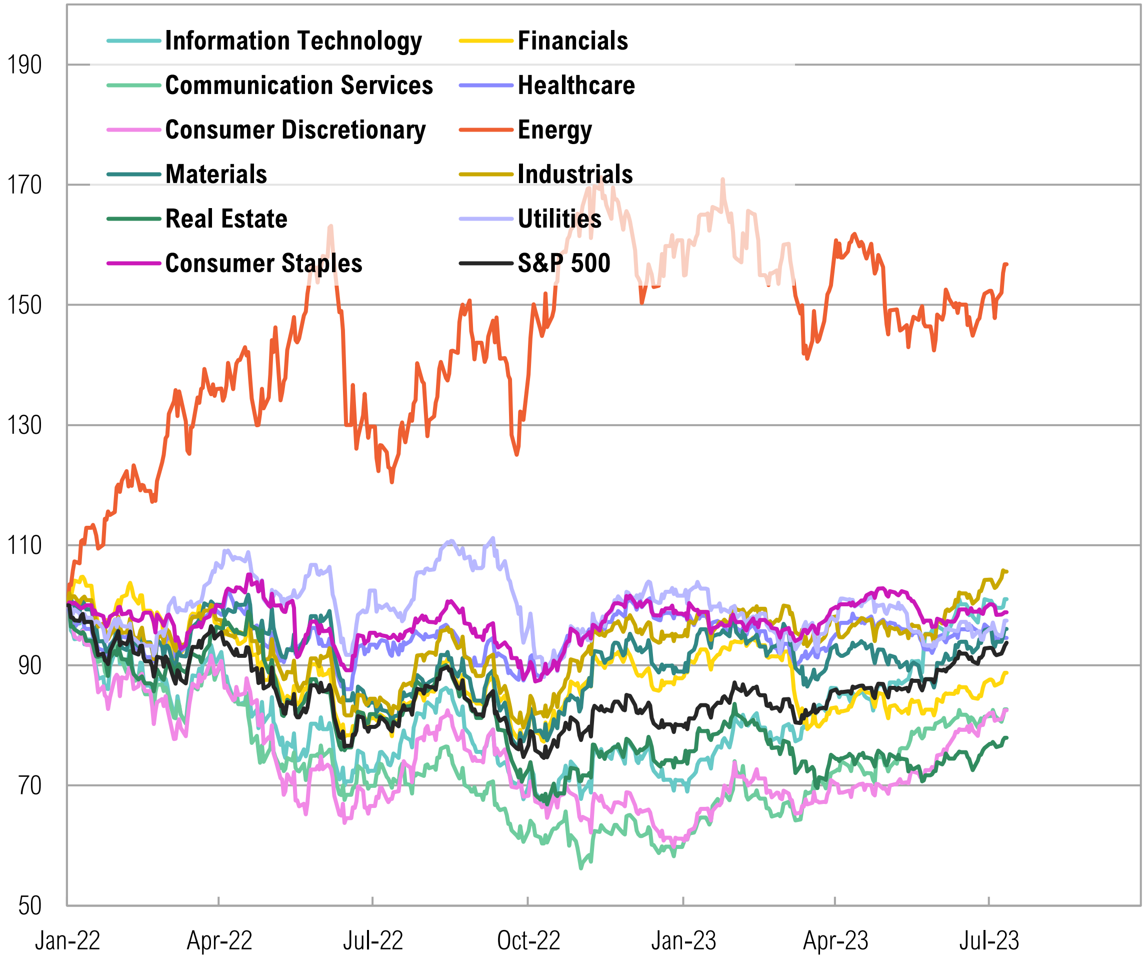
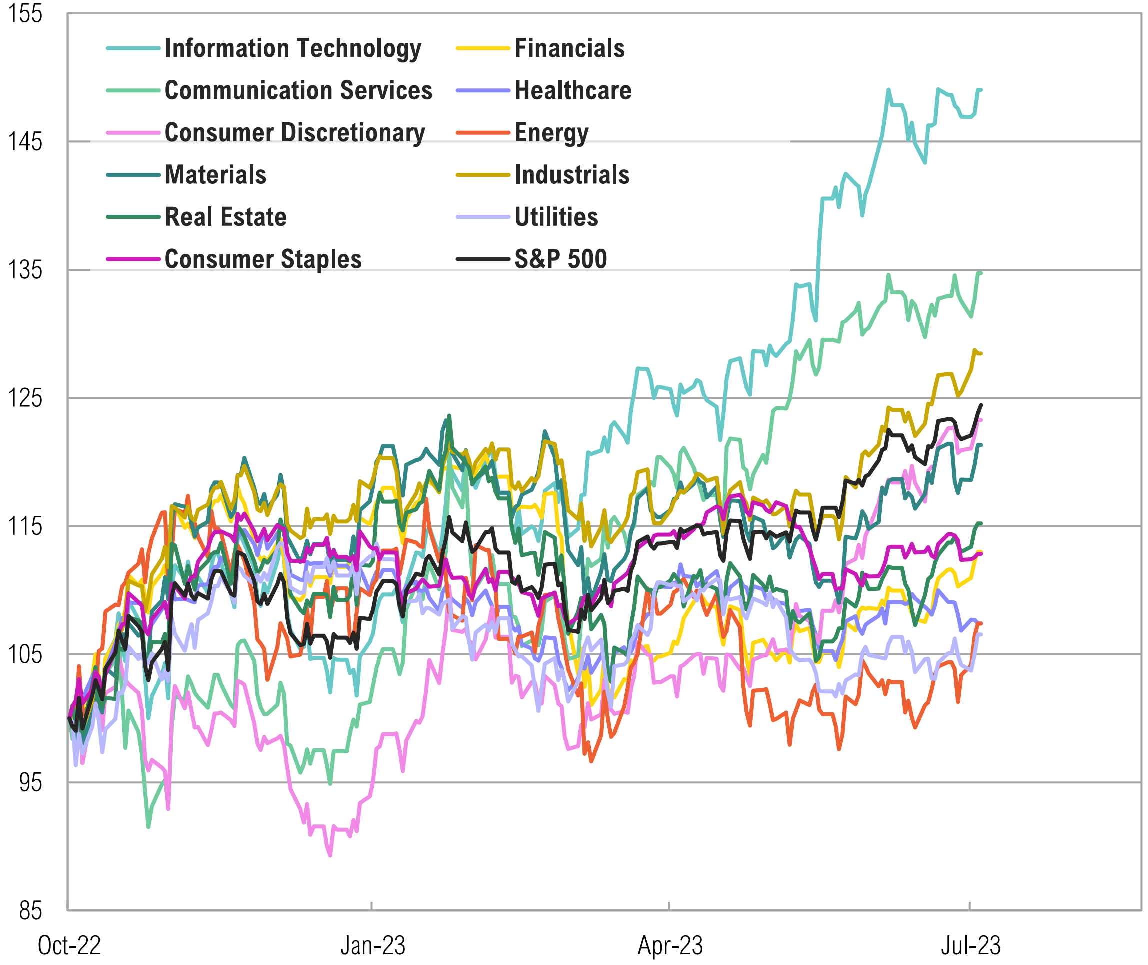
Communication Services and Tech, which led the market to the downside in 2022, have now led the market to the upside since the October 2022 low

S&P 500 Sector Performance from Jan '22 Highs, Growth of 100



S&P 500 Sector Performance from October '22 Lows, Growth of 100



Source: Bloomberg

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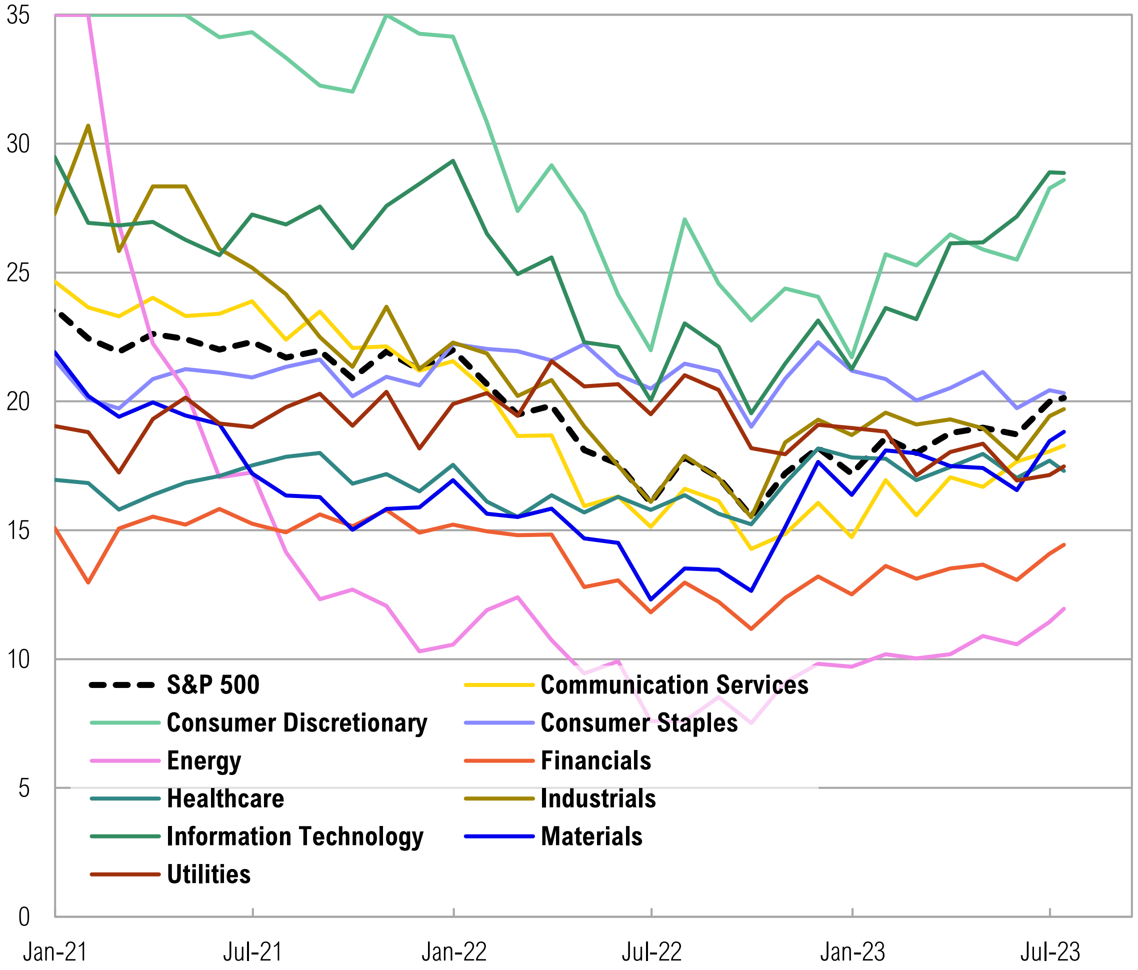
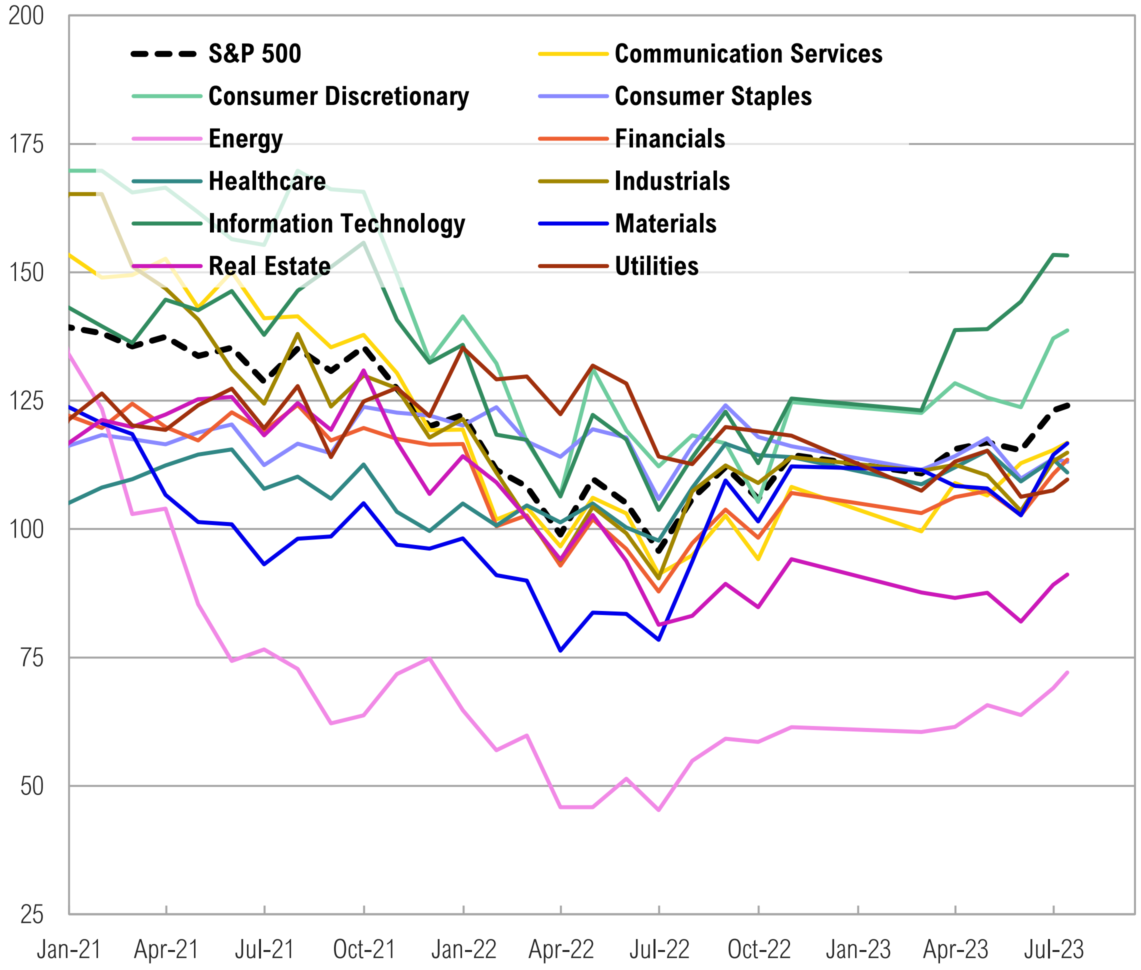
Energy and Real Estate are currently the only two sectors which are trading below their 20-year average valuations

12-Month Forward Price-to-Earnings



12-Month Forward Price-to-Earnings as % of 20-Year Average



Source: Bloomberg. Forward P/Es of all sectors have been capped at 35x to mitigate earnings skews.

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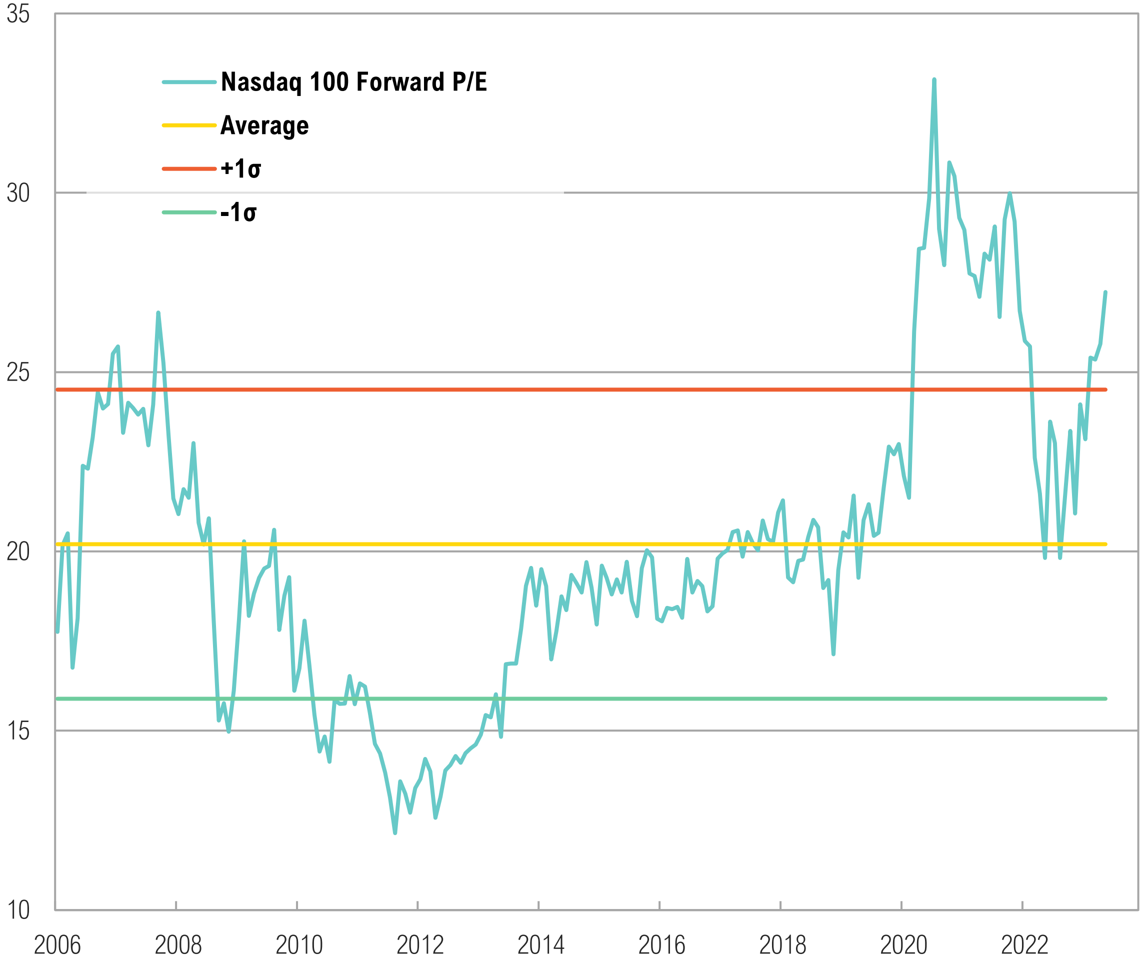
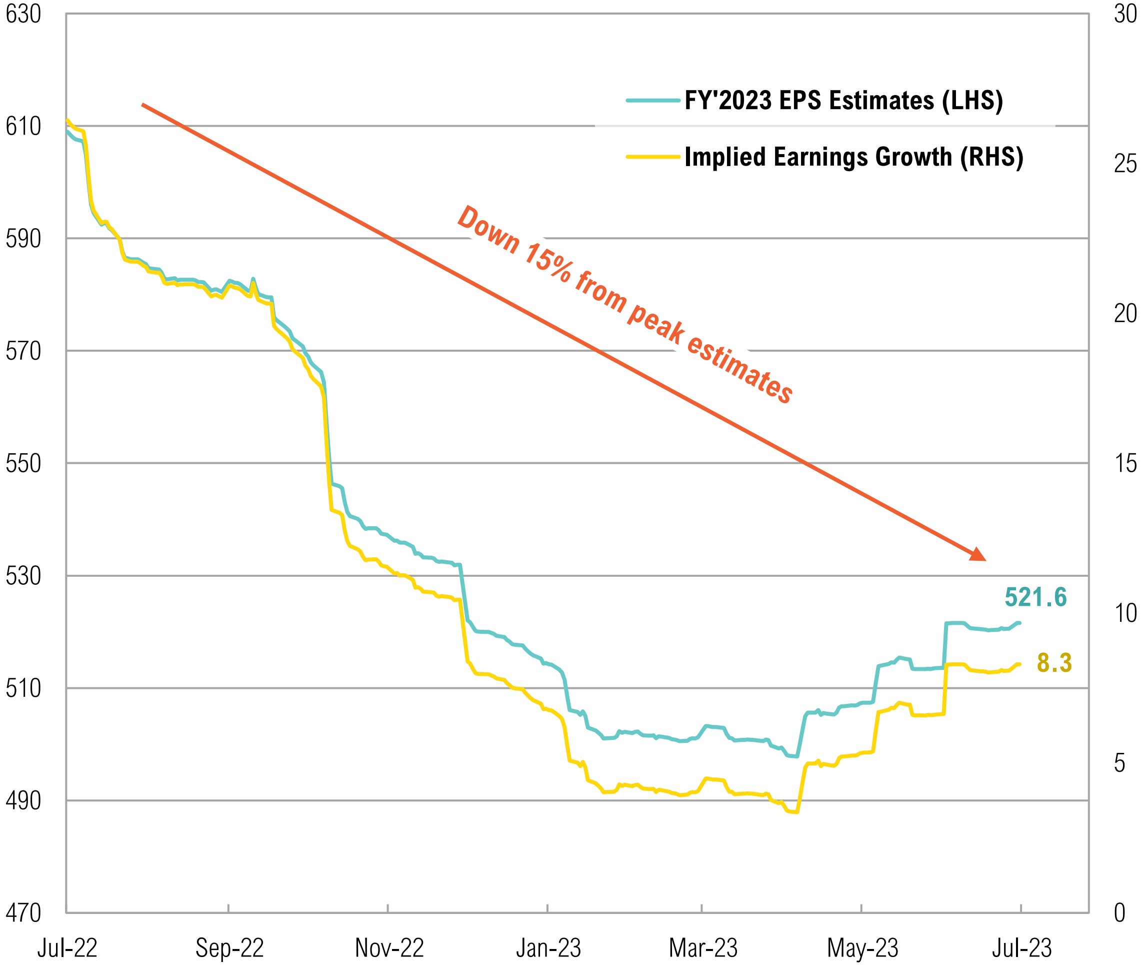
Nasdaq forward valuations have continued to move higher to well above historical averages; earnings growth has fallen more than 15% from peak estimates

Price-to-Earnings Ratio, Next 4 Quarters Earnings



FY'23 Earnings-per-Share Estimates

Implied FY'23 YoY EPS Growth, %



Source: Bloomberg

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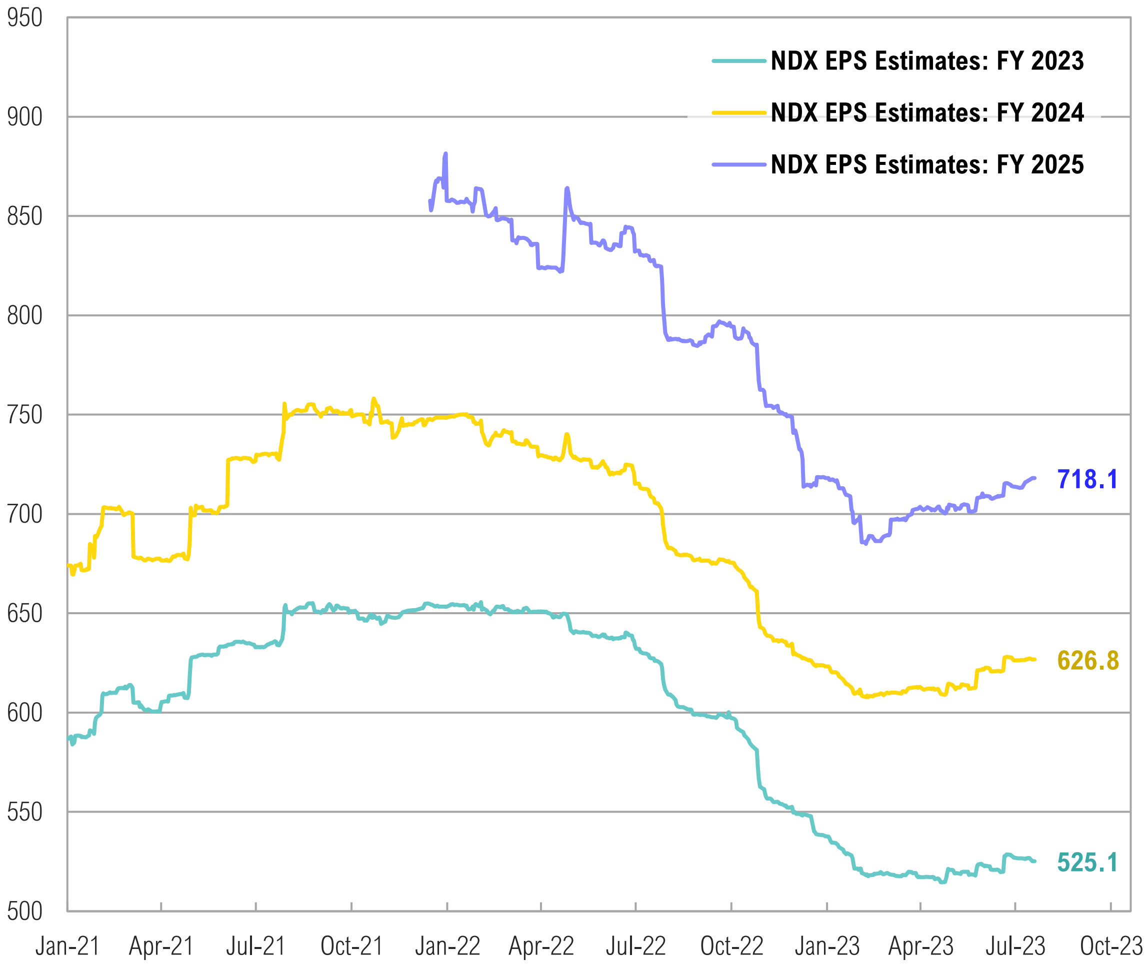
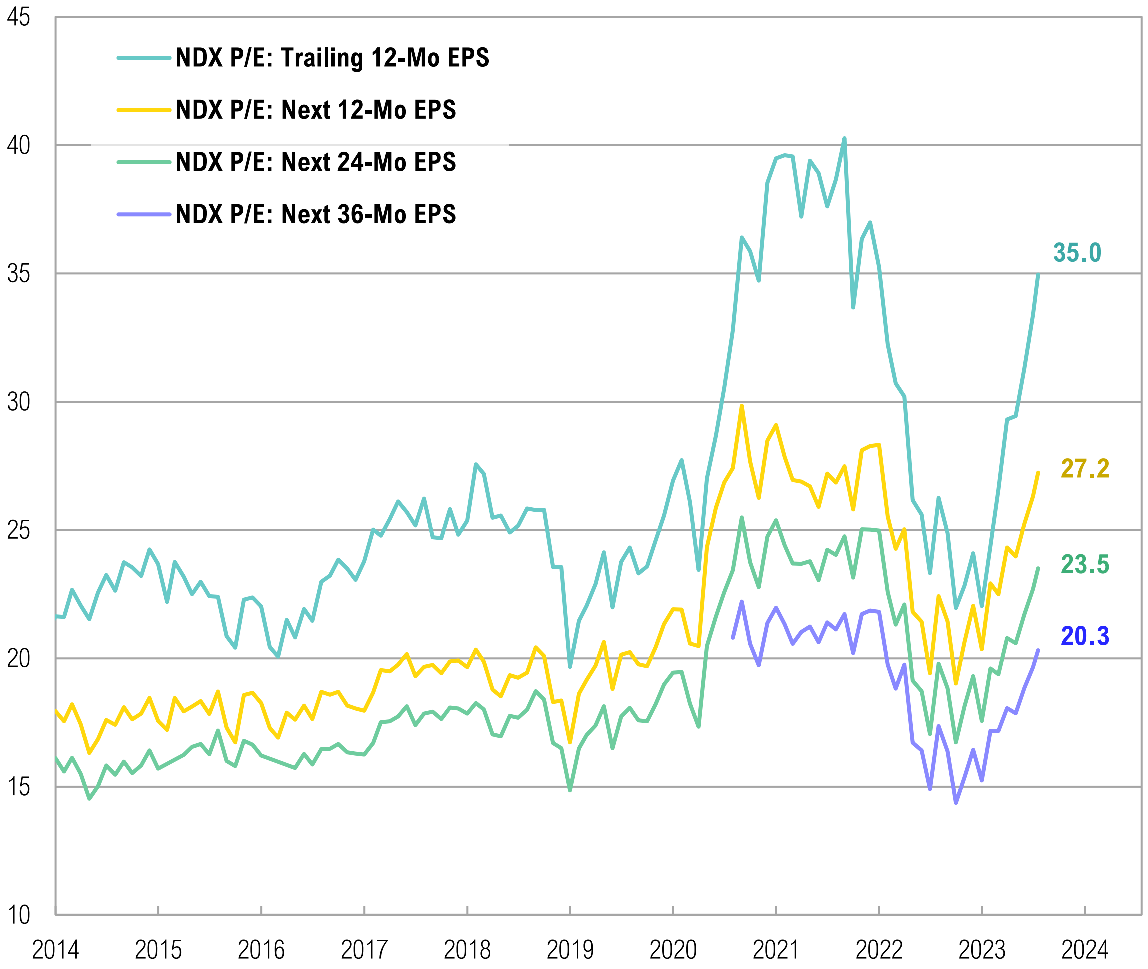
While earnings estimates have fallen sharply from peak, markets are still pricing in strong EPS growth over coming years; using 3-yr forward EPS estimates, NDX P/E ratio falls to 20.3x vs current 35.0x

Nasdaq 100: Bloomberg Consensus EPS Estimates



Nasdaq 100: Price-to-Earnings Ratio



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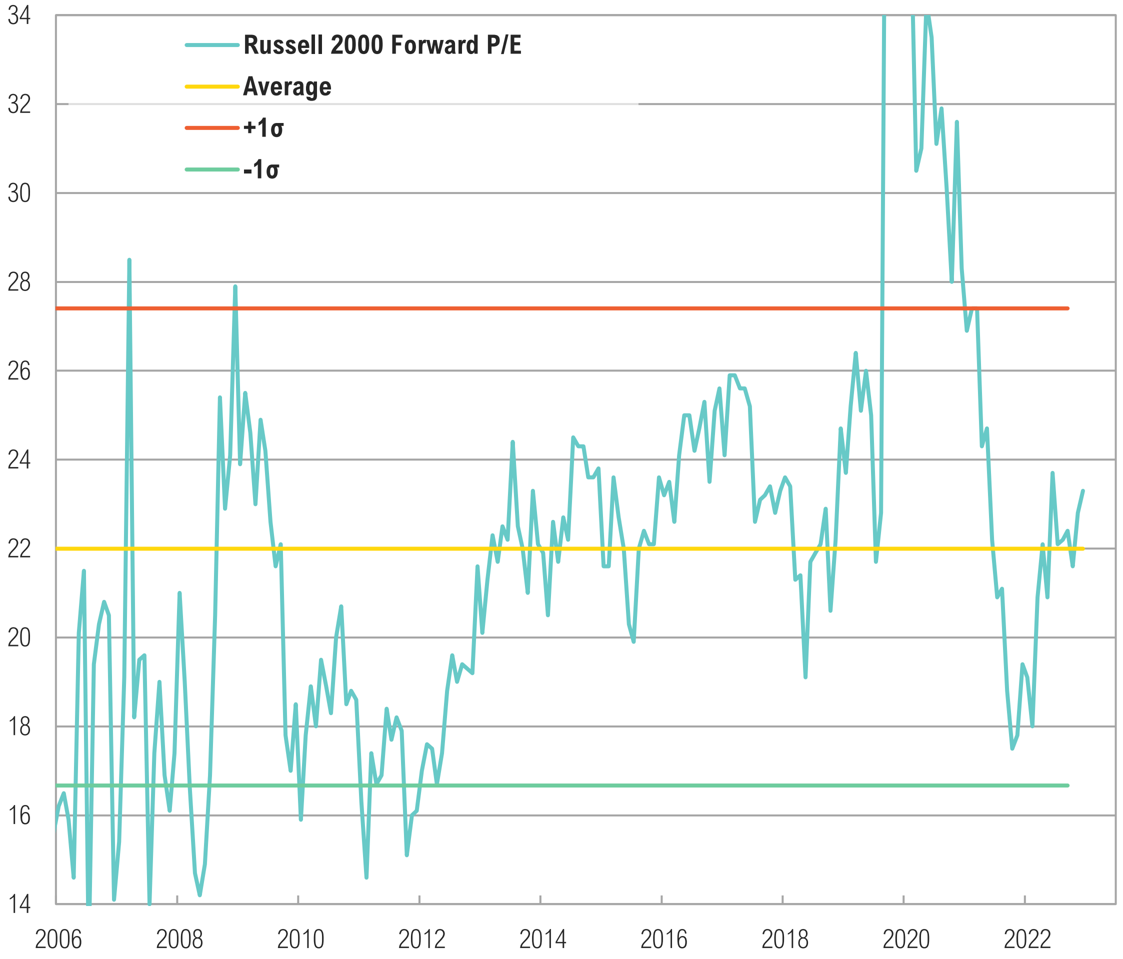
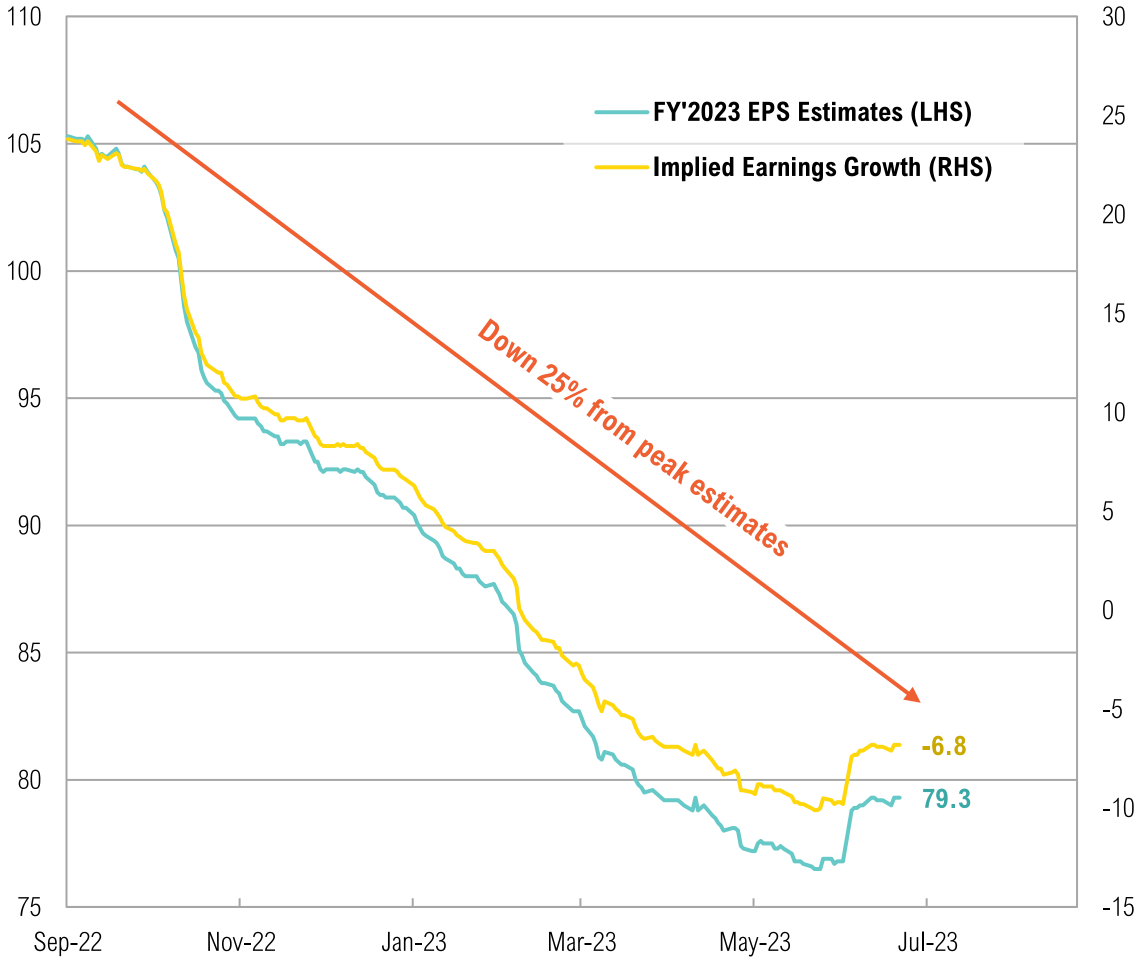
U.S. small cap forward valuations have moved higher, trading just above historical average; focus now shifts to FY'23 earning expectations, which have fallen 25% from 2022 peak

Price-to-Earnings Ratio, Next 4 Quarters Earnings



FY'23 Earnings-per-Share Estimates

Implied FY'23 YoY EPS Growth, %



Source: Bloomberg

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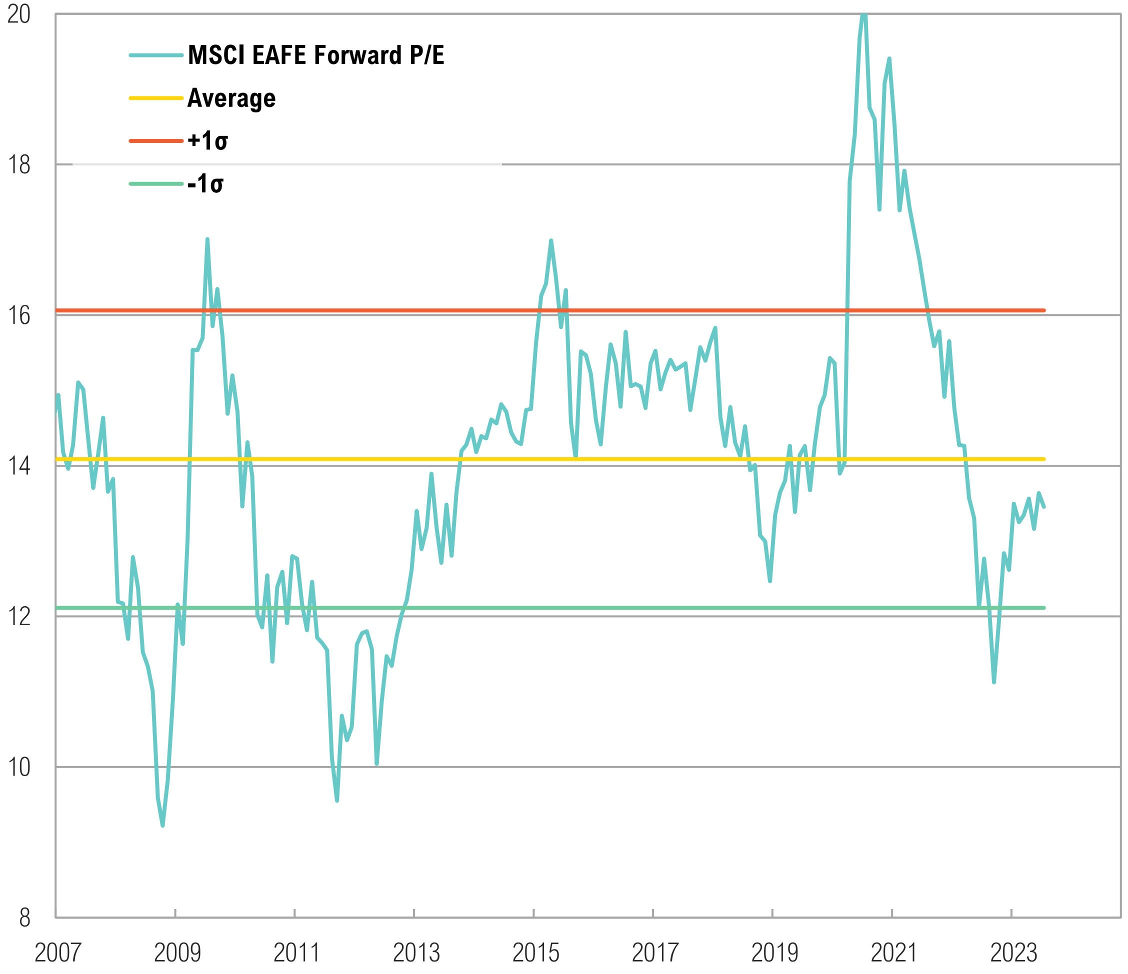
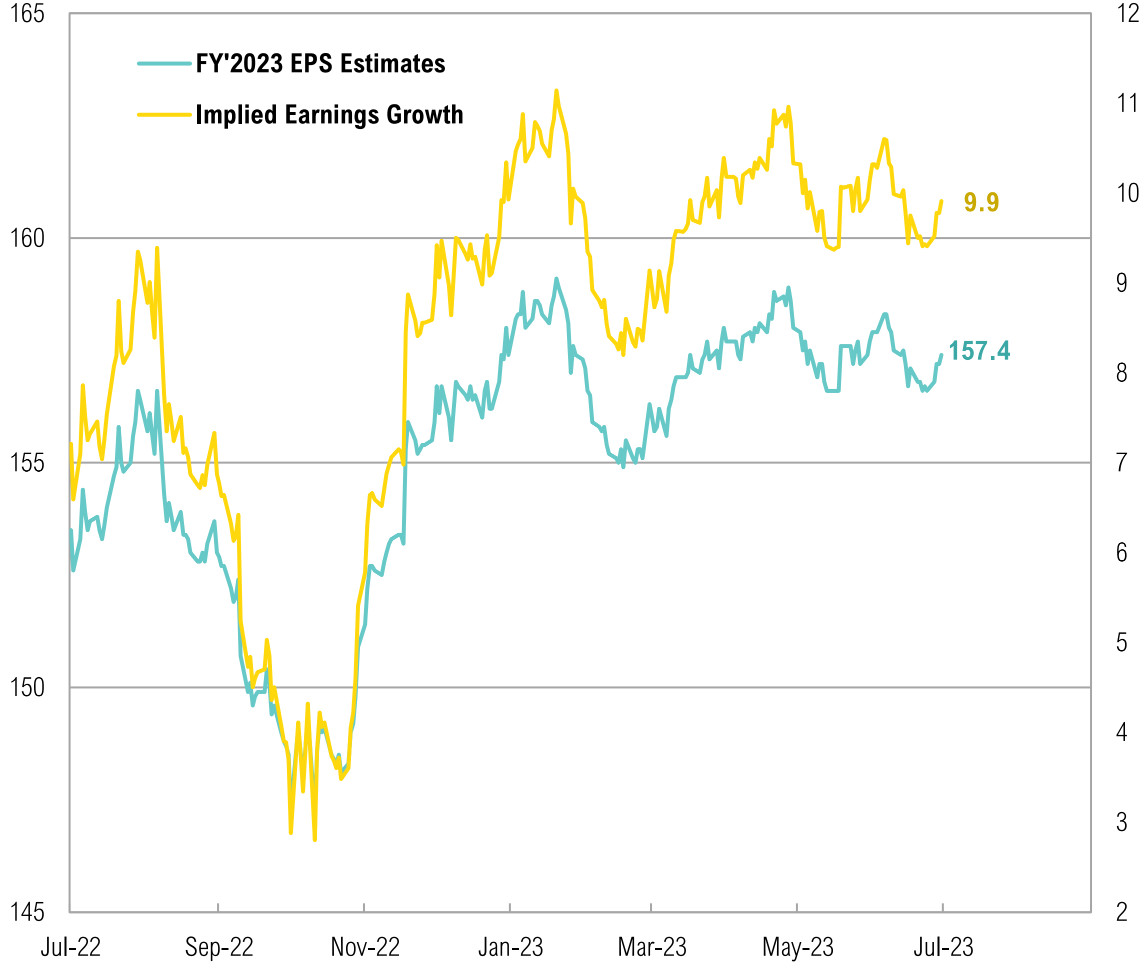
Developed international forward valuations also moved higher, and are now slightly below historical average; FY'23 earnings expectations indicate 10.0% YoY growth

Price-to-Earnings Ratio, Next 4 Quarters Earnings



FY'23 Earnings-per-Share Estimates

Implied FY'23 YoY EPS Growth, %



Source: Bloomberg

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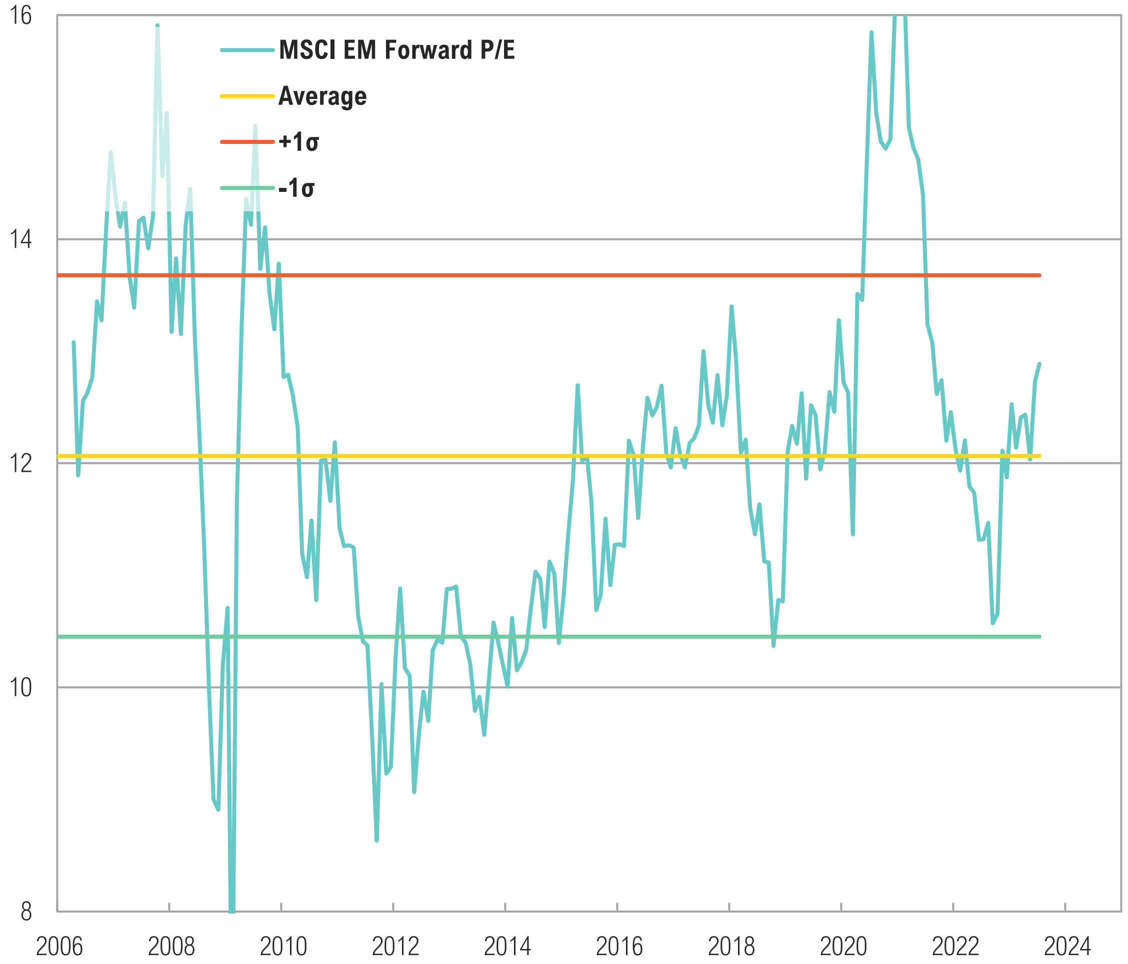
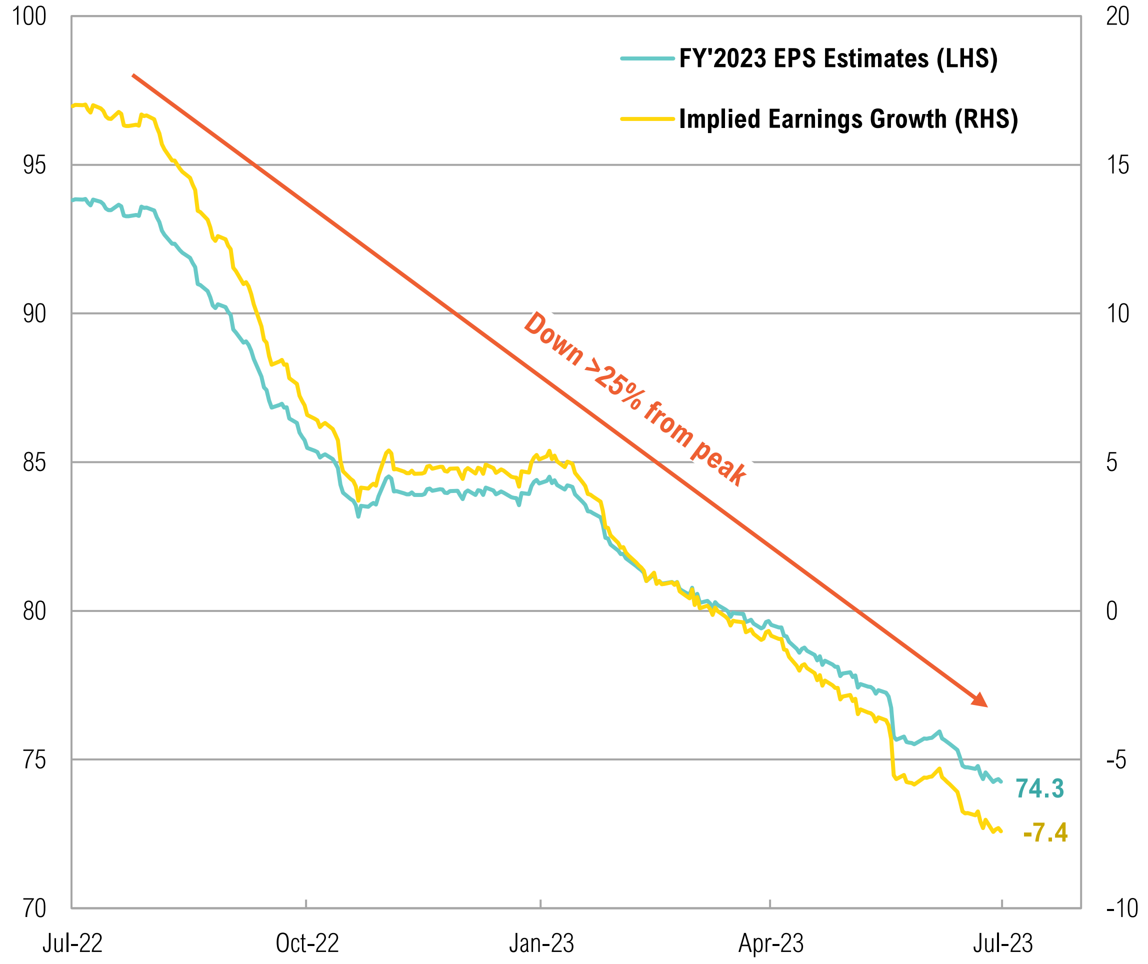
Emerging market forward valuations are well above their historical average; earnings expectations continue to trend lower, down > 25% from their peak

Price-to-Earnings Ratio, Next 4 Quarters Earnings



FY'23 Earnings-per-Share Estimates

Implied FY'23 YoY EPS Growth, %



Source: Bloomberg

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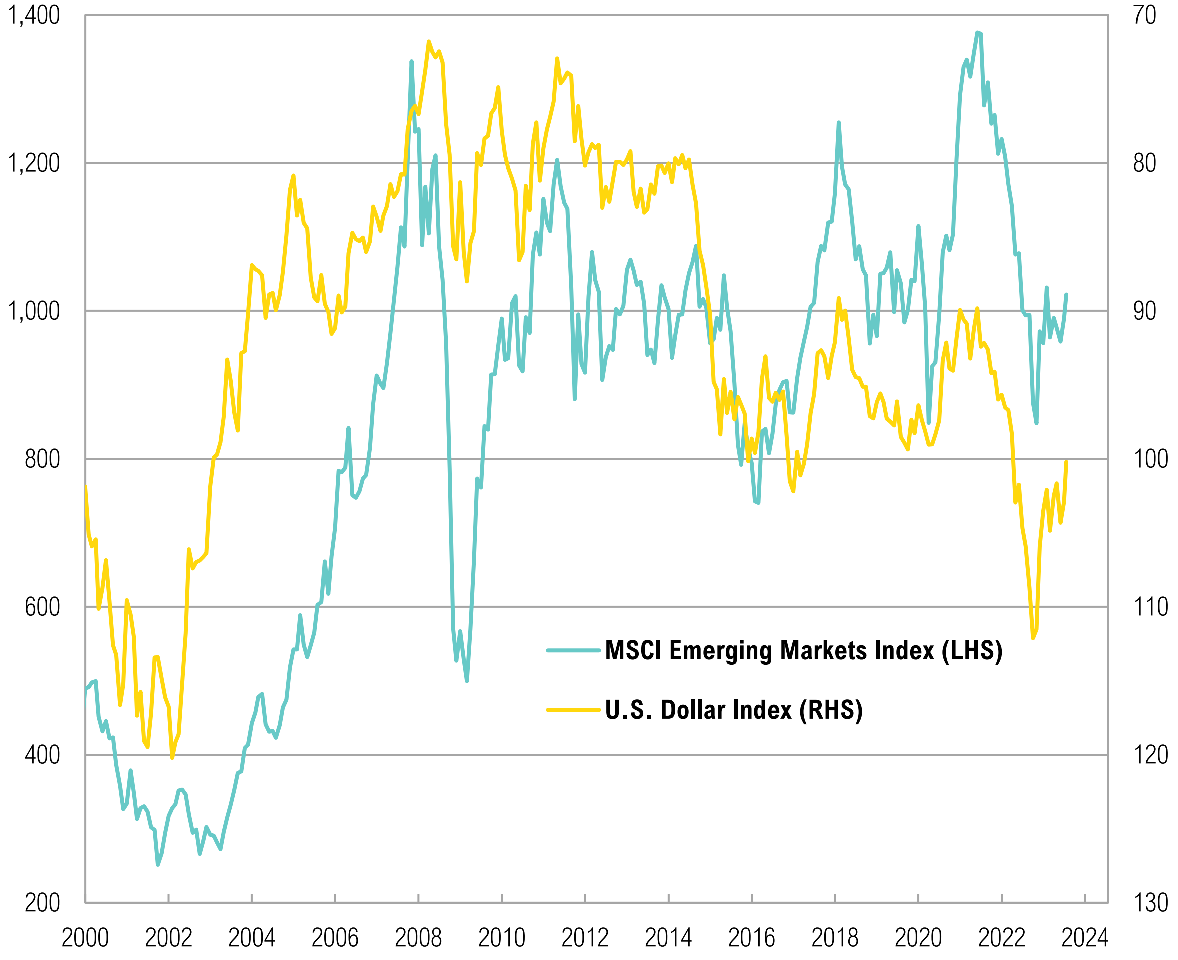
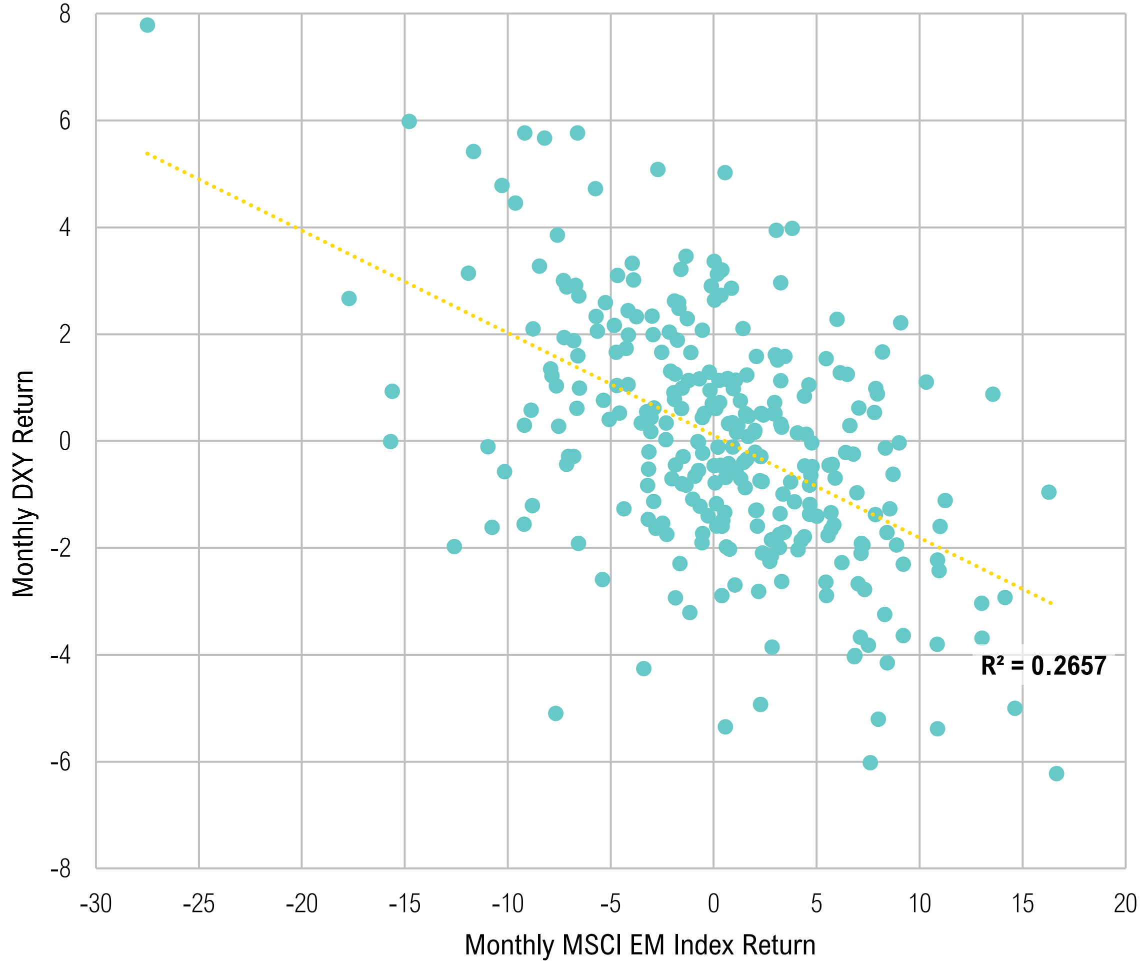
Dollar bulls probably want to be underweight EM and vice versa; in the absence of a strong opinion on the USD, we don't have a strong opinion on EM

MSCI Emerging Markets Index — U.S. Dollar Index (Inverted)



U.S. Dollar vs. MSCI EM Monthly Return, %



Source: Bloomberg. Analysis starts on 1/31/2002.

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Sales growth is expected to slow in 2H23 before increasing to a modest +5% YoY; but earnings growth is expected to jump by >10% YoY… What's going to drive margins?

S&P 500 SECTOR SALES GROWTH YoY, %

	2018				2019				2020				2021				2022				2023				2024			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2E	Q3E	Q4E	Q1E	Q2E	Q3E	Q4E
S&P 500	8.4	8.4	8.8	10.3	5.7	4.3	4.6	3.3	4.8	1.6	-9.8	-1.9	0.0	7.5	22.8	15.3	15.8	14.6	15.2	12.9	7.6	6.6	2.8	4.3	0.7	5.0	5.1	5.4
Communication Services	-0.3	1.5	-6.8	-52.6	-50.1	-50.5	-44.4	9.6	7.8	5.5	-5.3	0.9	5.3	12.1	24.7	16.8	11.1	7.5	5.1	3.7	4.3	7.3	5.4	14.0	-2.1	5.7	7.2	6.7
Consumer Discretionary	5.0	6.5	8.2	17.6	15.4	12.0	12.2	5.6	3.1	-1.3	-15.0	1.4	-7.2	0.0	16.7	-1.5	11.8	9.6	11.3	12.0	8.6	8.4	3.7	5.3	-5.8	7.1	7.2	7.9
Consumer Staples	10.8	9.7	5.1	-1.4	-6.8	-3.3	-6.0	3.6	3.8	3.7	5.7	0.9	6.4	4.5	10.6	14.8	8.9	9.2	8.3	8.2	6.8	18.9	14.3	13.6	8.5	3.4	3.6	3.9
Energy	20.6	11.1	22.6	32.7	6.1	-5.0	-7.4	-9.1	-3.1	-8.0	-52.3	-34.8	-33.8	-1.0	104.2	63.6	75.4	60.1	77.4	54.6	23.7	-4.3	-23.4	-21.3	-12.3	2.0	0.6	1.4
Financials	6.2	7.3	8.7	6.6	6.4	5.7	5.5	6.2	9.5	4.2	0.7	2.5	1.3	9.5	10.2	10.2	9.8	2.7	4.7	9.3	5.0	-6.6	-7.5	-13.1	-9.9	3.7	4.5	4.8
Health Care	5.4	6.8	16.0	17.6	12.1	17.7	9.3	7.9	14.2	10.0	1.4	9.8	9.7	8.5	19.6	13.5	12.1	14.0	10.3	8.1	7.5	6.8	6.1	8.0	5.5	5.3	5.3	5.6
Industrials	7.4	9.1	9.5	6.8	9.4	6.7	2.3	0.2	-2.8	-8.7	-24.1	-14.3	-7.7	-0.3	27.5	18.3	15.5	16.8	18.8	17.4	14.2	13.0	2.7	2.9	-3.3	4.5	4.8	4.7
Information Technology	-1.9	16.5	14.7	7.7	24.0	27.2	11.3	13.3	4.6	8.6	6.9	6.1	6.2	12.7	19.3	21.7	18.6	12.7	12.6	8.4	11.1	-7.8	3.8	17.9	4.4	10.1	9.5	8.6
Materials	12.3	10.3	-3.5	16.3	0.4	-0.8	15.8	-6.3	1.8	-4.0	-13.4	-4.4	4.0	13.2	37.0	32.0	28.7	26.5	20.4	9.0	0.3	2.6	-7.9	-4.2	0.8	1.3	1.7	2.8
Real Estate	1.7	8.6	7.2	10.9	11.5	3.9	3.7	5.2	4.0	3.2	-8.1	-7.4	-6.5	-1.2	15.1	12.8	14.8	16.9	10.9	7.6	1.9	-1.1	-1.6	3.7	1.3	6.2	7.2	6.5
Utilities	1.2	1.4	-3.0	-0.8	-1.1	-8.7	-8.5	-8.3	-9.3	-8.0	-7.3	-4.4	-3.9	15.4	8.3	9.1	17.1	7.8	20.9	20.8	20.2	-7.1	16.6	-7.7	-3.5	3.0	1.4	2.3

S&P 500 SECTOR EARNINGS GROWTH YoY, %

	2018				2019				2020				2021				2022				2023				2024			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2E	Q3E	Q4E	Q1E	Q2E	Q3E	Q4E
S&P 500	16.8	23.3	26.4	27.6	8.8	2.3	-0.9	-1.3	5.1	-14.7	-31.7	-6.7	1.5	46.1	88.0	36.7	28.7	10.6	9.0	3.0	-0.6	-2.2	-3.5	1.3	4.4	11.5	10.5	11.2
Communication Services	7.6	3.1	14.5	-31.6	-32.0	-32.1	-41.3	4.2	23.7	-11.7	-16.1	-2.8	5.3	52.2	70.5	40.9	15.4	-0.1	-14.5	-24.4	-18.9	-3.2	12.1	38.8	21.6	16.9	12.0	12.3
Consumer Discretionary	11.1	13.3	20.2	24.6	6.4	1.4	-1.9	-0.3	-5.0	-54.8	-69.6	1.4	-6.0	143.2	258.2	-0.6	7.7	-10.5	-7.3	0.9	11.8	26.1	20.7	4.4	6.7	14.9	16.1	19.8
Consumer Staples	27.7	12.6	2.4	10.4	-39.2	-26.2	-1.7	2.6	47.4	47.7	5.6	-10.3	7.2	6.5	19.9	32.7	2.0	3.8	0.3	-0.5	6.1	9.8	10.2	2.3	8.5	8.4	8.9	7.5
Energy	115.6	86.4	140.0	133.1	76.6	-24.6	-24.5	-43.3	-39.9	-26.1	-166.8	-107.0	-91.9	15.5	n/a	n/a	3000.2	259.5	305.1	141.9	60.4	-9.1	-46.4	-43.6	-28.8	9.6	6.2	5.0
Financials	14.6	30.0	26.5	44.6	13.2	5.6	5.8	5.6	9.7	-39.4	-51.2	-7.3	19.6	138.4	186.1	35.0	9.6	-18.5	-22.4	-14.4	-9.4	-10.2	-3.9	-3.2	0.8	5.5	7.5	10.7
Health Care	6.2	14.4	15.6	16.3	13.0	9.2	9.6	9.7	8.3	6.2	1.2	5.4	9.5	24.0	25.6	27.6	26.9	14.8	8.3	-1.4	-5.0	-17.7	-10.7	-8.3	4.3	10.0	7.4	8.6
Industrials	-5.7	21.0	19.0	16.0	35.4	7.2	-11.1	3.6	-11.5	-26.7	-76.6	-48.4	-54.8	-8.3	304.1	77.0	115.8	39.1	37.3	17.4	40.9	49.3	4.6	12.8	-4.2	10.2	9.2	9.0
Information Technology	1.1	32.0	37.7	15.6	31.3	26.0	-0.2	2.5	-4.4	7.3	4.8	2.4	10.3	18.7	40.4	47.7	35.1	21.7	11.4	1.2	2.9	-21.1	-3.2	20.4	5.3	18.7	17.7	15.0
Materials	22.3	19.7	39.6	36.4	4.9	-18.9	-20.4	-16.9	-11.8	-17.2	-27.9	-1.9	25.9	66.9	133.8	89.1	59.0	47.8	16.1	-14.0	-19.1	-19.2	-33.9	-11.7	2.3	7.7	7.7	7.5
Real Estate	8.3	2.8	1.2	0.7	1.5	1.3	0.9	4.4	0.6	-2.3	-16.2	-11.9	-5.1	6.2	34.9	22.3	14.0	21.7	7.1	12.1	6.3	-3.2	-6.3	-2.7	-1.7	3.6	7.4	7.2
Utilities	7.4	16.2	10.9	11.3	-8.0	-4.8	-8.6	2.3	27.8	3.7	5.8	0.6	-4.7	1.9	5.9	0.2	8.2	9.2	4.3	-0.8	-14.0	-16.5	50.9	-14.7	60.2	12.2	5.4	10.0

LOWER ⟵ ⟶ HIGHER

Source: Bloomberg. Real Estate included in Financials sector until 8/31/2016; other "n/a" represents a value of <100% due to earnings fluctuations between positive and negative values.

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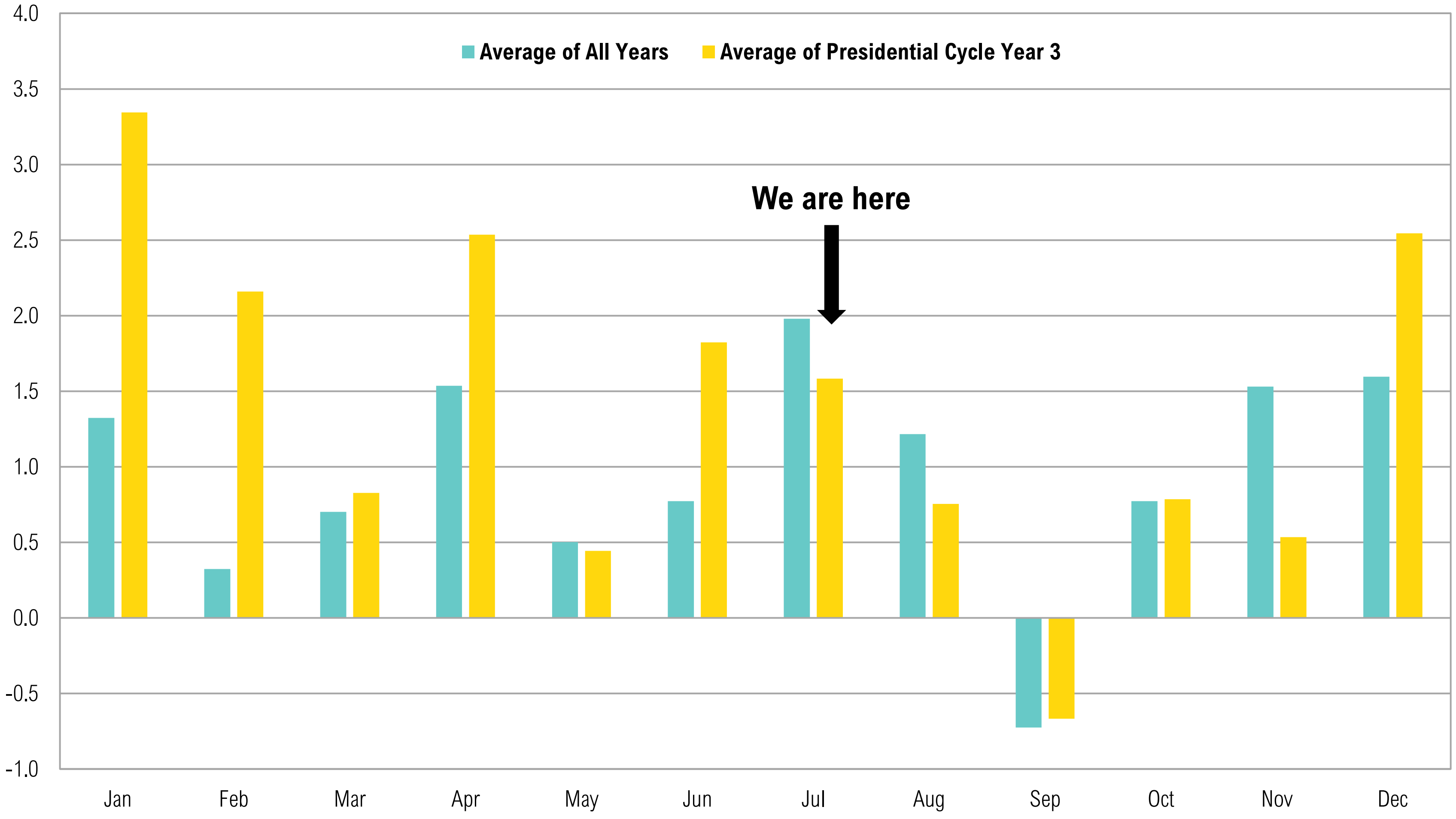
The historic outperformance of year 3 of the election cycle is mostly prominent at the start of the year—we are past that point now

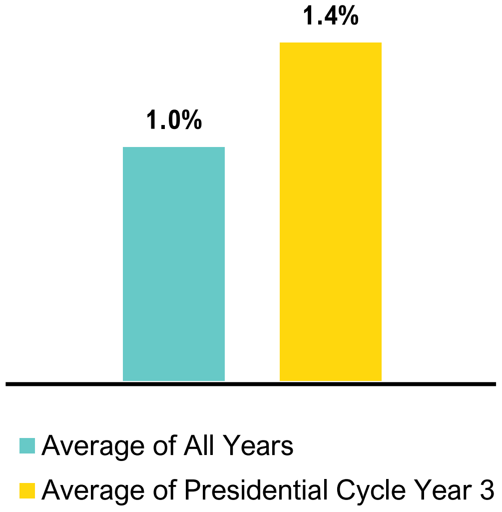
U.S. Large Cap Average Monthly Return, %



Annualized Return

- **All Years: 12.3%**
- **Year 3 of Election Cycle: 17.9%**

Avg Monthly Return



Source: Bloomberg, SpringTide. Averages are arithmetic. Based on S&P 500 TR Index. Analysis period from 1/31/1920 – 3/31/2023.

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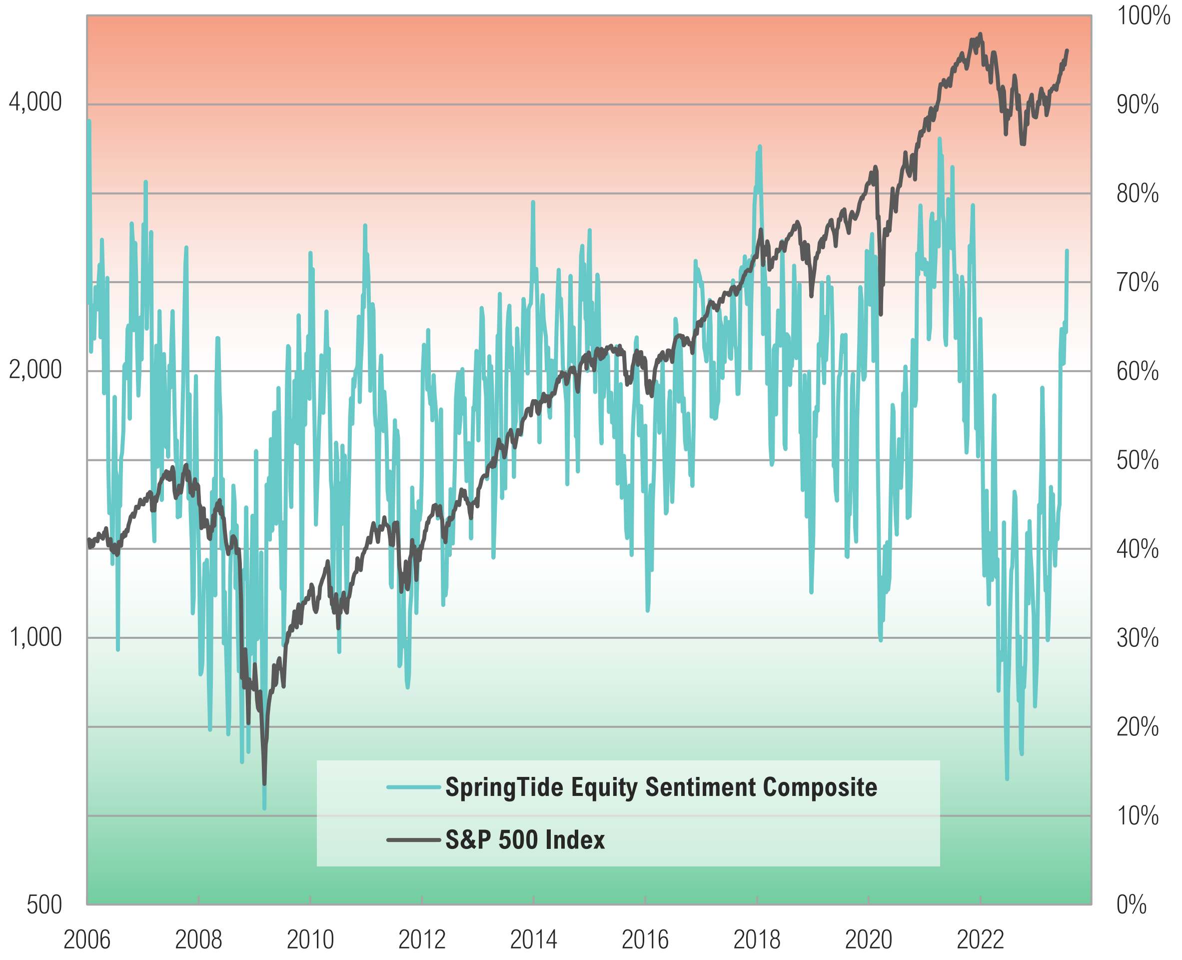
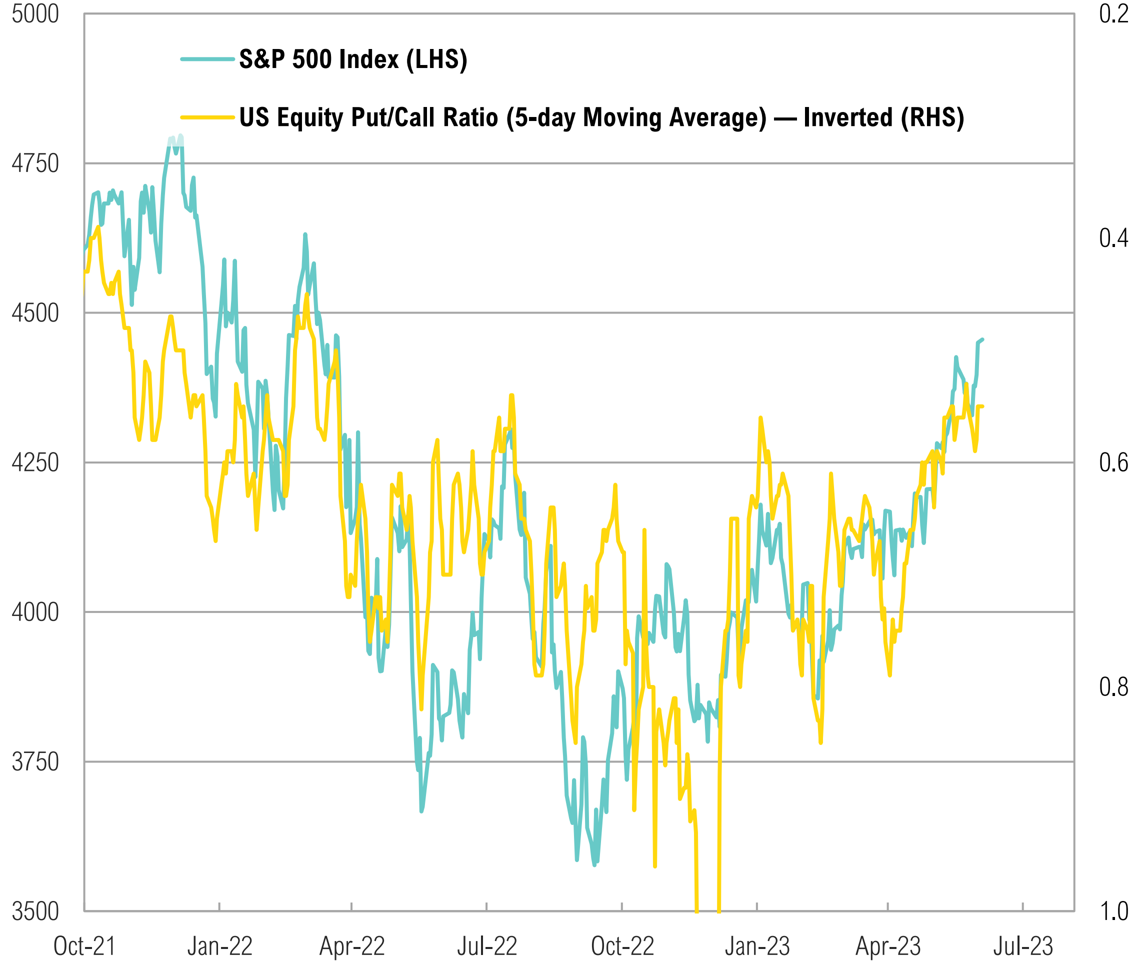
Overly bearish sentiment cleared over the quarter, making way for bullish sentiment; put/call ratio is showing increased bullishness at 0.55, rising to levels last seen in January

S&P 500 Index SpringTide Equity Sentiment Composite



S&P 500 PR, Index U.S. Equity Put/Call Ratio, 5-Day Moving Average



Source: AAII, Investor's Intelligence, TD Ameritrade, NAAIM, UofM, Standard & Poor's, Gallop, CBOE, SpringTide calculations.

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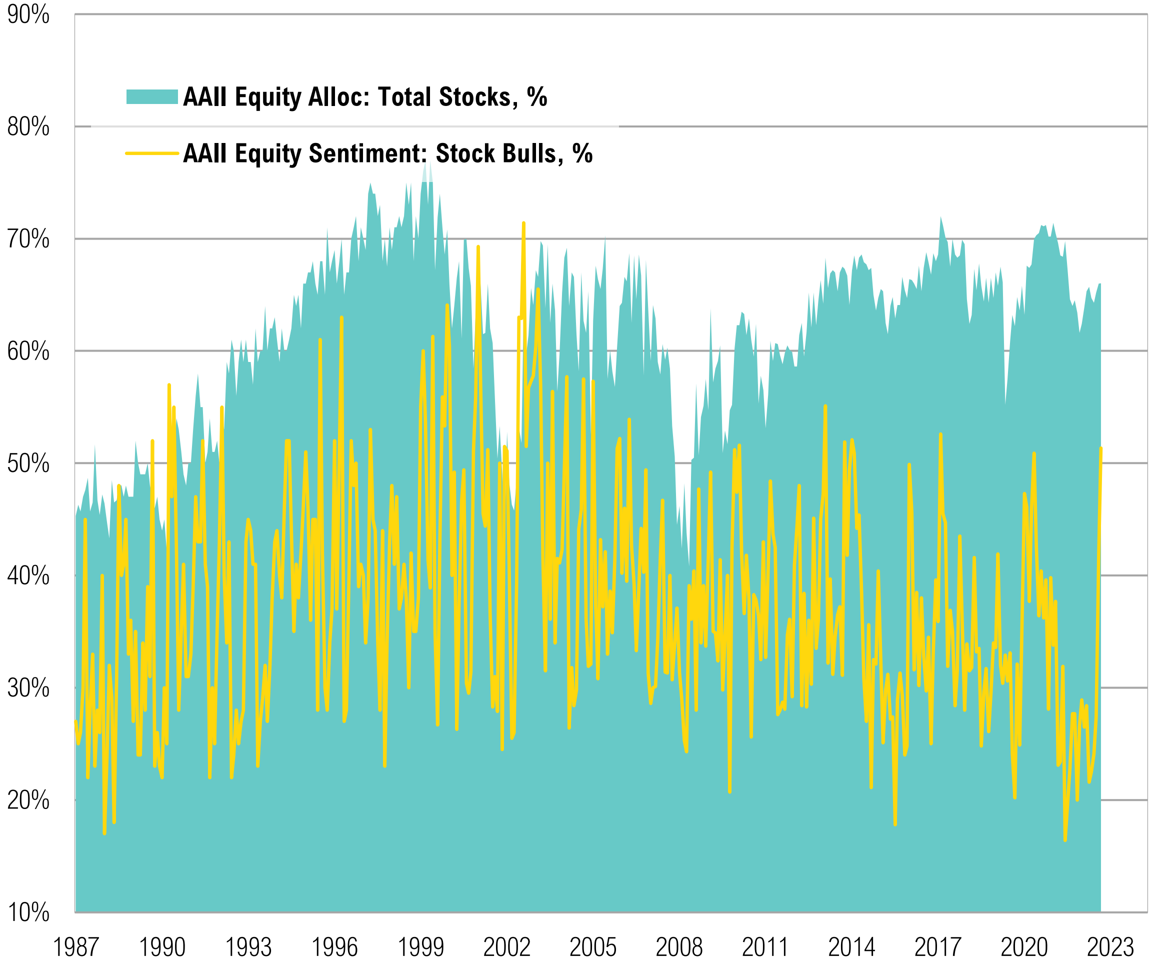
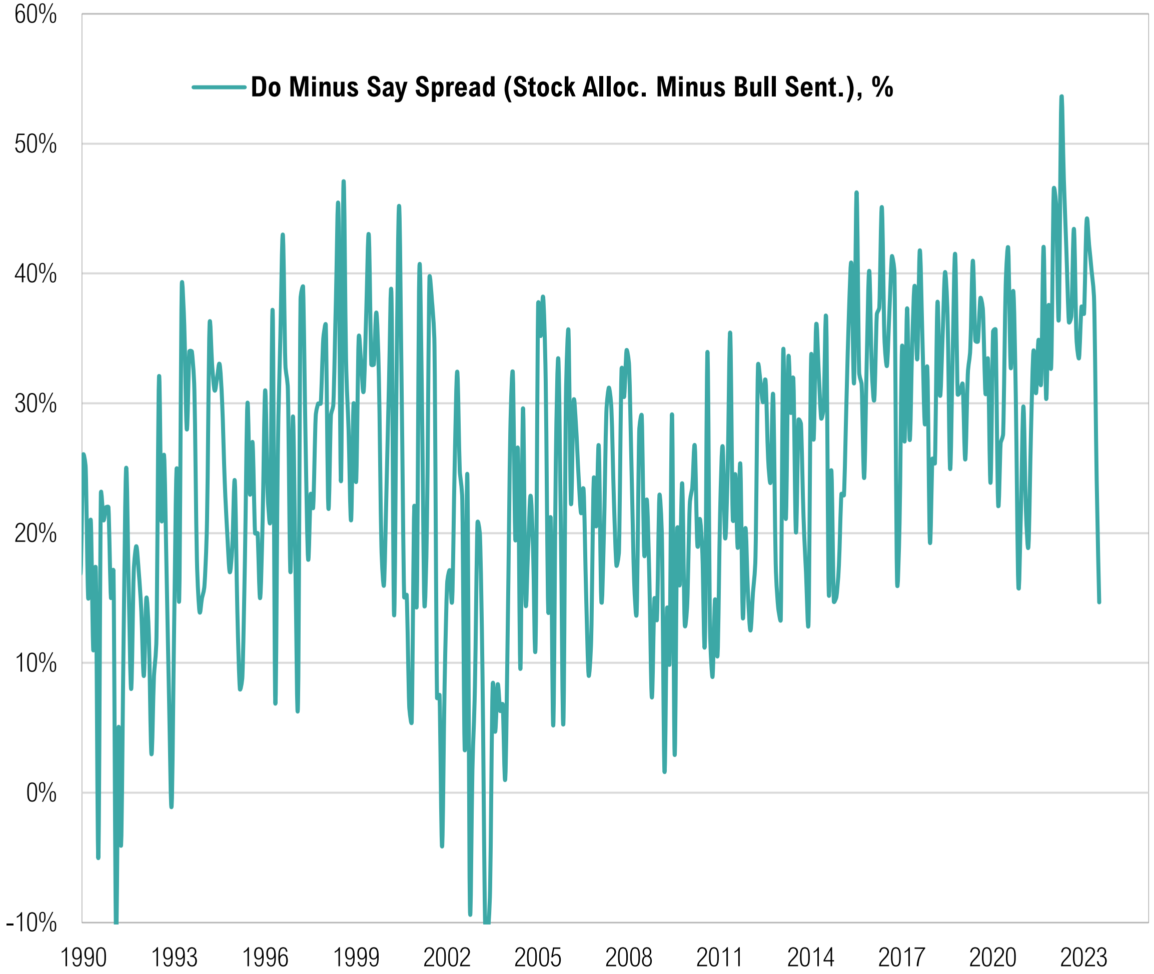
Bullish sentiment jumped up over the quarter, as did equity allocations; say-do spread dropped to more reasonable levels

AAII Equity Allocation & Bullish Equity Sentiment



AAII Equity Allocation Minus Bullish Sentiment



Source: AAII, SpringTide calculations. As of 7/20/2023.

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Nothing like price to change sentiment

How To Use The 2023 Market Crash To Get Rich

230K views • 6 months ago

Why You'll Regret Buying Stocks In 2023

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The FED Just Crashed The Market (Major Changes Explained)

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How To Get Rich In The 2023 Bull Market

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Goldman Sachs Strategists Say Bear Market Will Last in 2023

- See S&P 500 ending 2023 little changed, Asian stocks leading
- Markets to reach final trough next year before strong rebound

Goldman Strategists See Bear Market Continue in 2023

By Farah Elbahrawy
November 21, 2022 at 3:37 AM EST
Updated on November 21, 2022 at 7:57 AM

HOME > NEWS > STOCKS

Goldman Sachs raises its S&P 500 price target for the year as AI booms and the 2023 rally broadens out beyond biggest tech names

Jennifer Sor Jun 13, 2023, 12:12 PM CDT

Your Market View

NAME / PRICE	+ / -	%	DATE
TSLA 269.00	-22.26	-7.64%	07/20/23 11:36 AM
AAPL 194.87	-0.23	-0.12%	07/20/23 11:36 AM
MSFT 347.82	-7.25	-2.04%	07/20/23 11:36 AM
NFLX 433.17	-44.42	-9.3%	07/20/23 11:36 AM
SPOT 173.17	-6.71	-3.73%	07/20/23 11:36 AM

SQUAWK BOX

Recession probability is 'uncomfortably high,' says Mohamed El-Erian

Mohamed El-Erian, Allianz and Gramercy advisor and president of Queens' College, joins CNBC's 'Squawk Box' to discuss his expectations for a U.S. recession and more.

MON, OCT 31 2022 • 8:40 AM EDT

El-Erian Says Soft-Landing Narrative Gains Steam, Don't Fight It

Friday, July 14, 2023 05:21 PM

By Vildana Hajric and Jonathan Ferro

- Inflation data is supporting that view, economist says
- He says recession can be skirted, if Fed doesn't over tighten

(Bloomberg) -- The idea that the US economy could slowdown just enough to skirt a recession is so strong that it doesn't make sense to go against it, according to Mohamed El-Erian.

Source: Various

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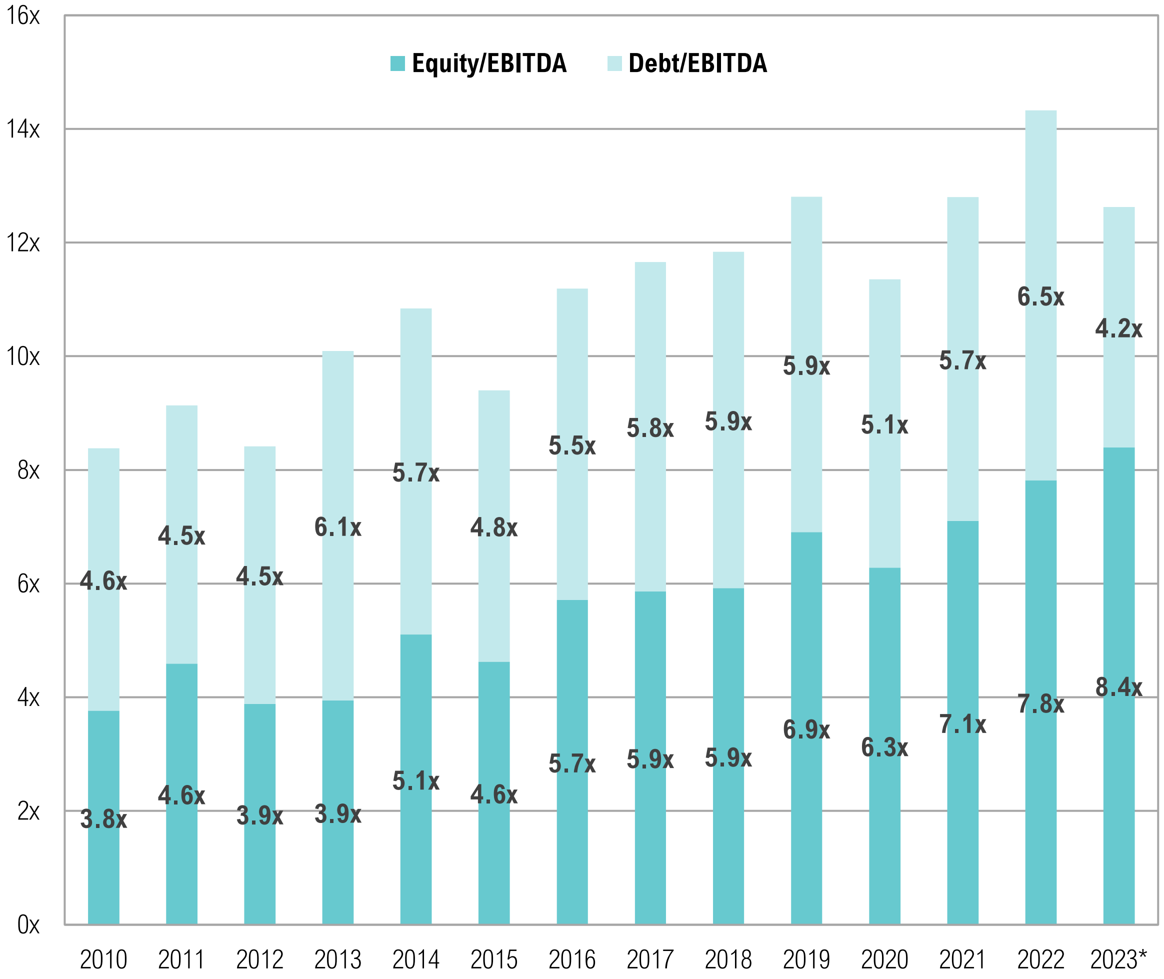
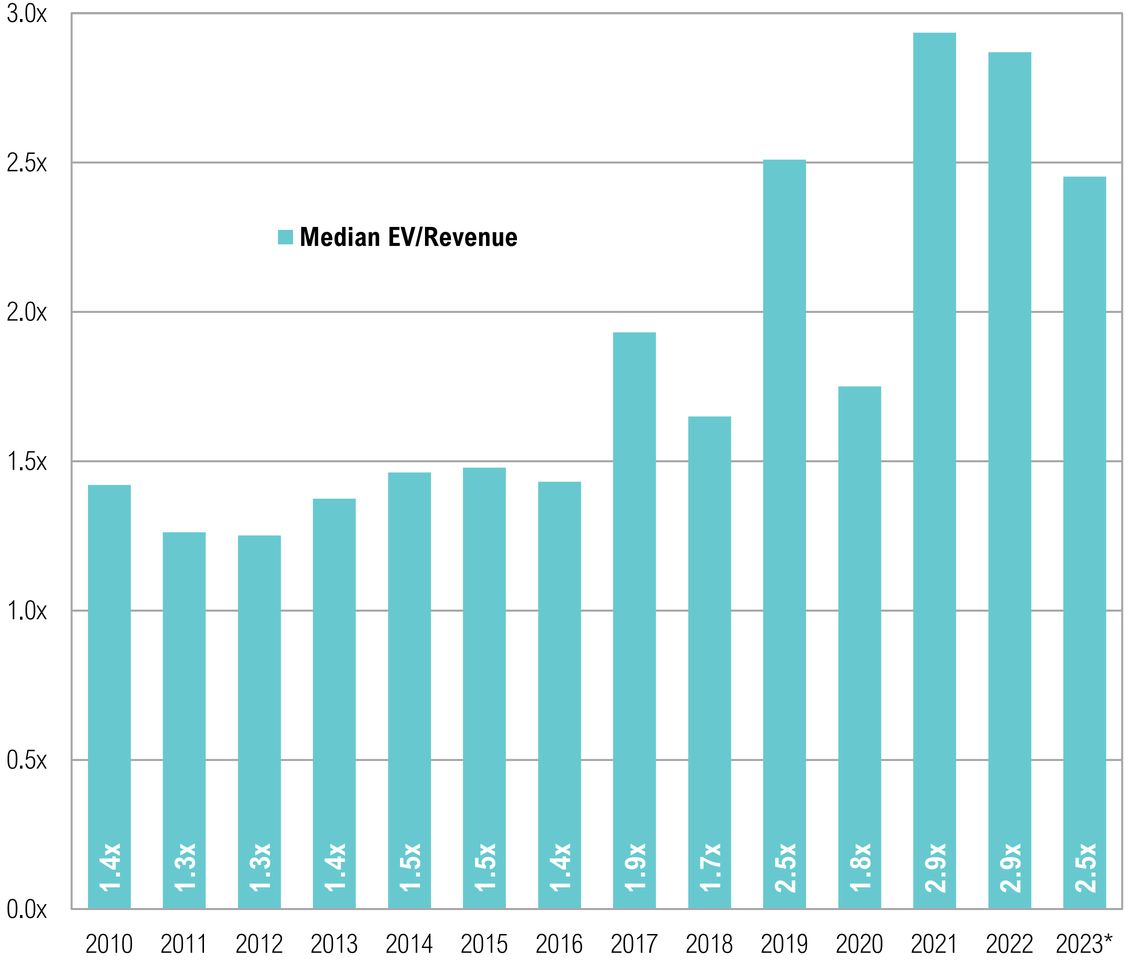
Median equity share in new buyout deals is now over 60% for the first time since the GFC; higher equity share indicates increased price risk and an inability to tap into debt markets

Median U.S. PE Buyout Multiples



Median U.S. PE Buyout Multiple



Source: Pitchbook. *As of 6/30/2022.

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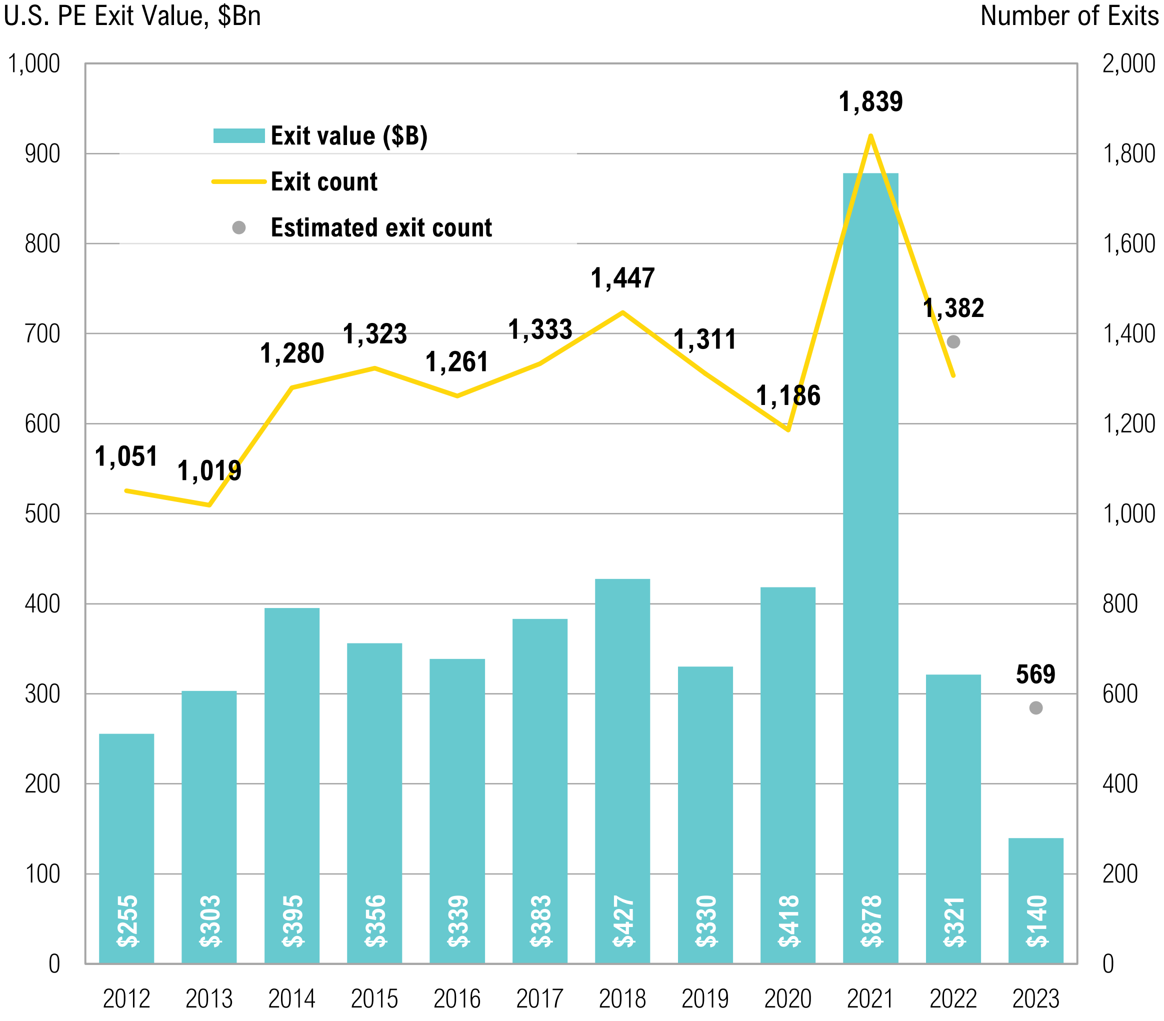
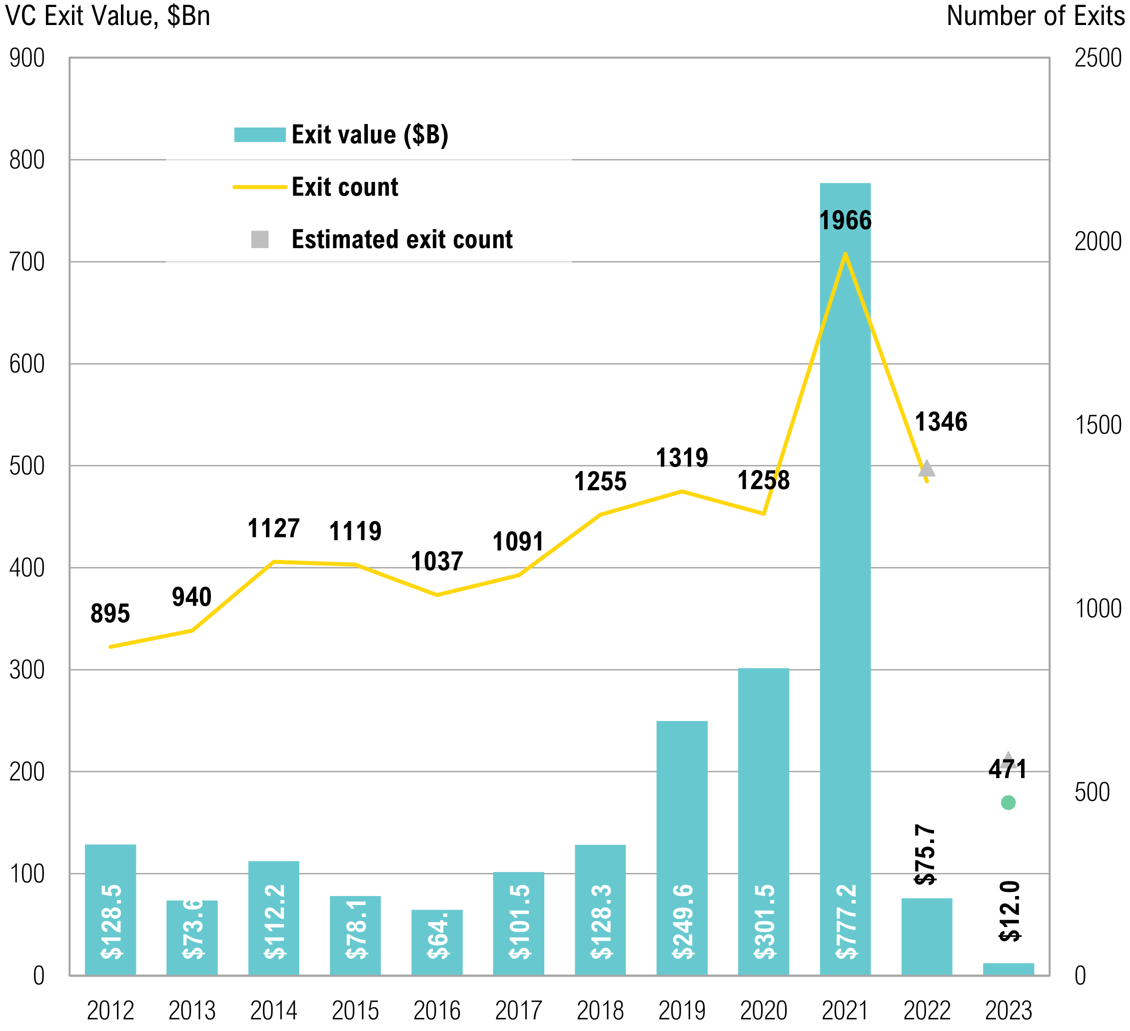
The lack of exit options in 2022 has increased the importance of the secondary market





Source: Pitchbook. As of 6/30/2023.

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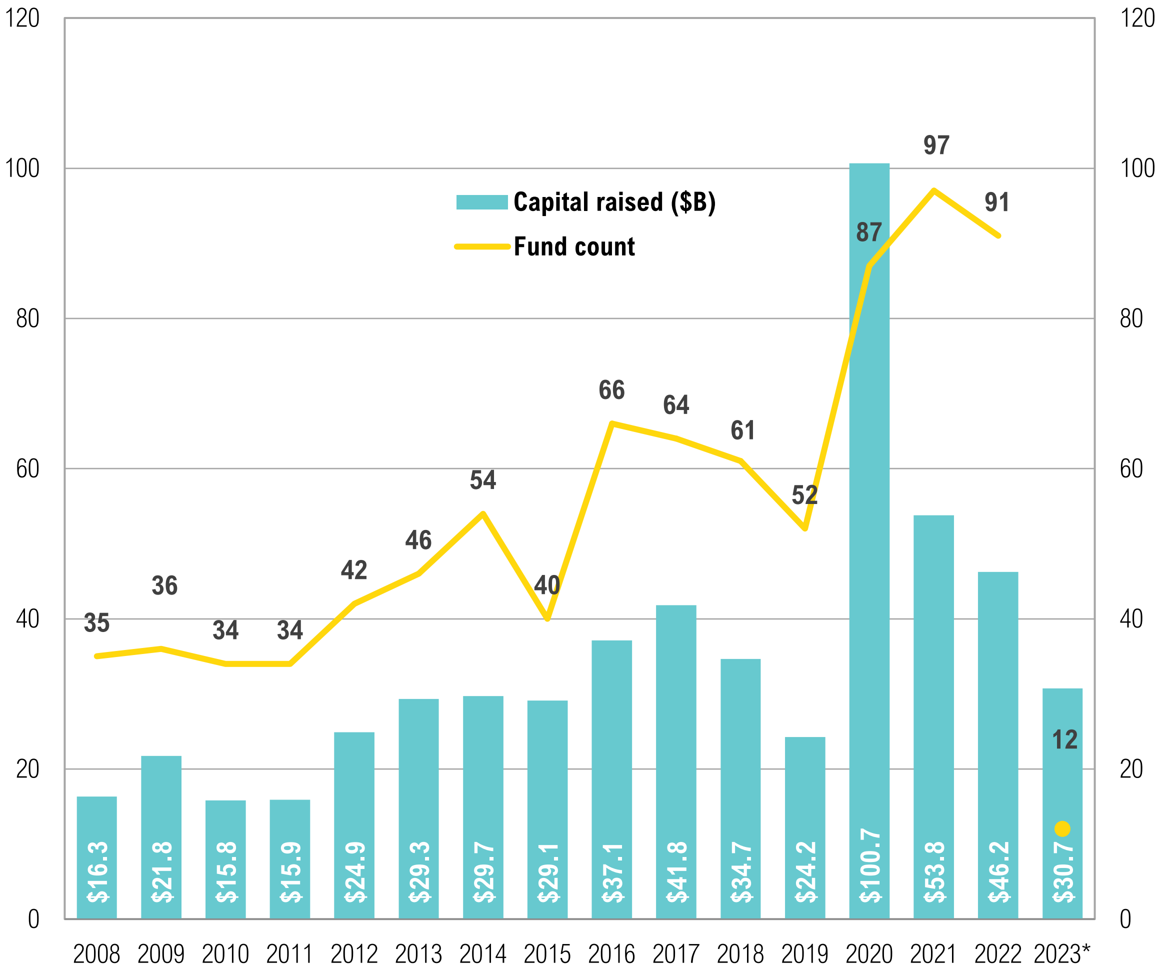
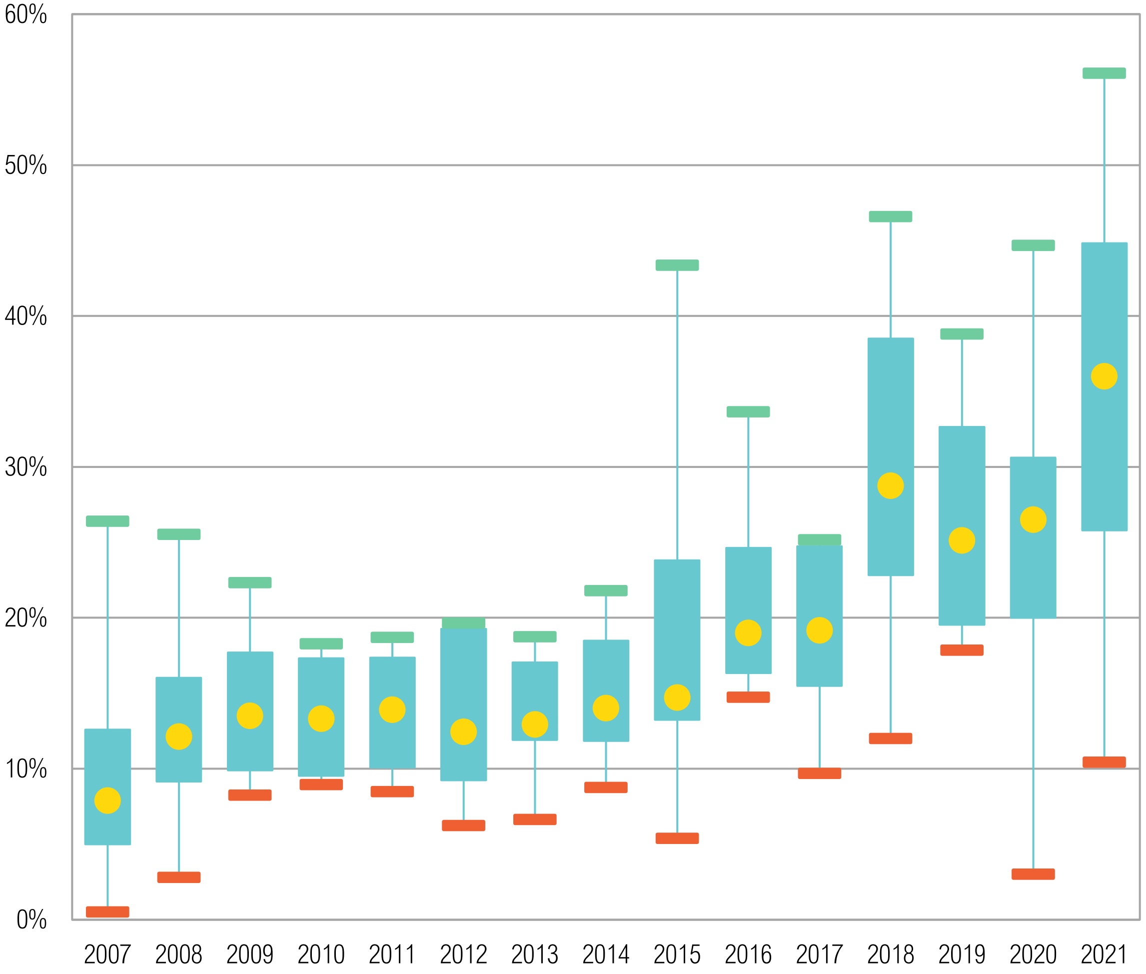
After a record year in 2020, secondaries fundraising has fallen back to more typical levels





Source: Pitchbook. Fundraising data as of 3/31/2023; Return data as of 12/31/2022.

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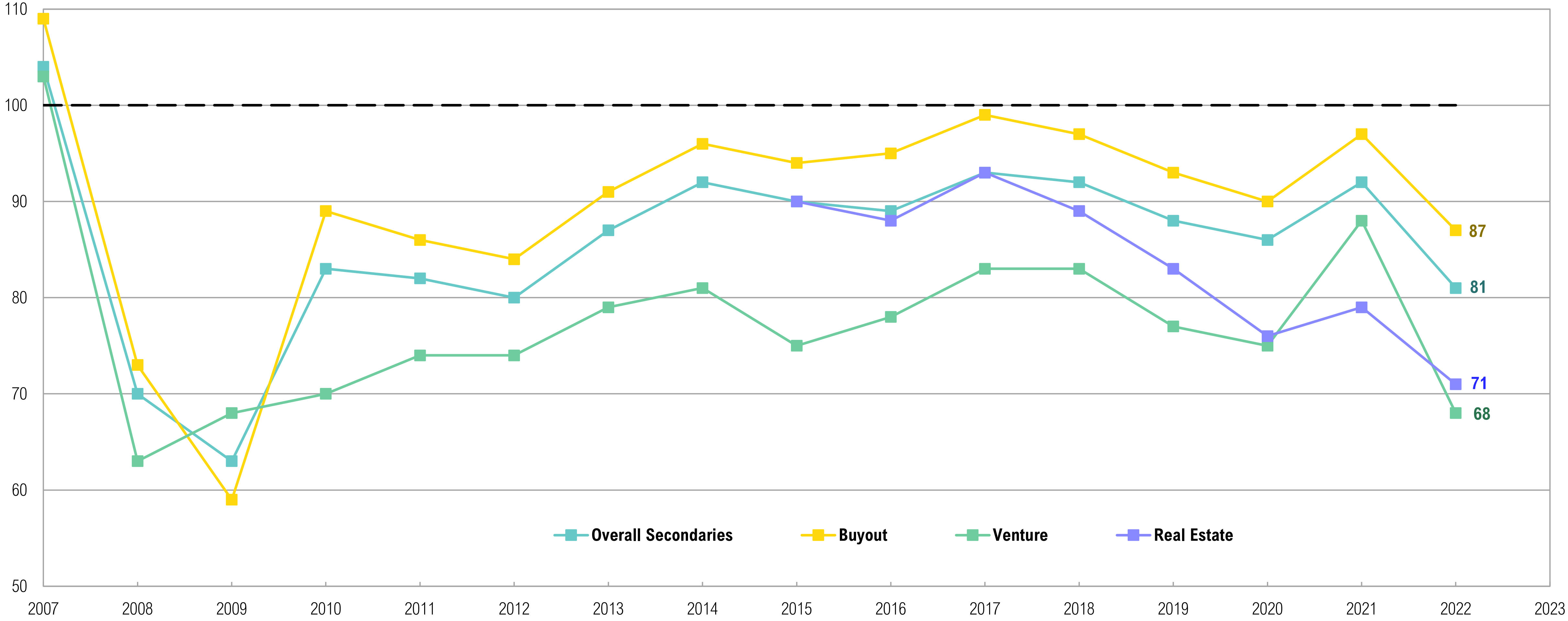
After record years in 2020 and 2021, secondaries fundraising fell back to its historical average in 2022

Secondary Pricing as a % of NAV



Source: StepStone. As of 12/31/2022.

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As the old saying goes: Liquidity is a coward, it disappears at the first sign of trouble.

Barton Biggs, *Morgan Stanley Investment Strategist*

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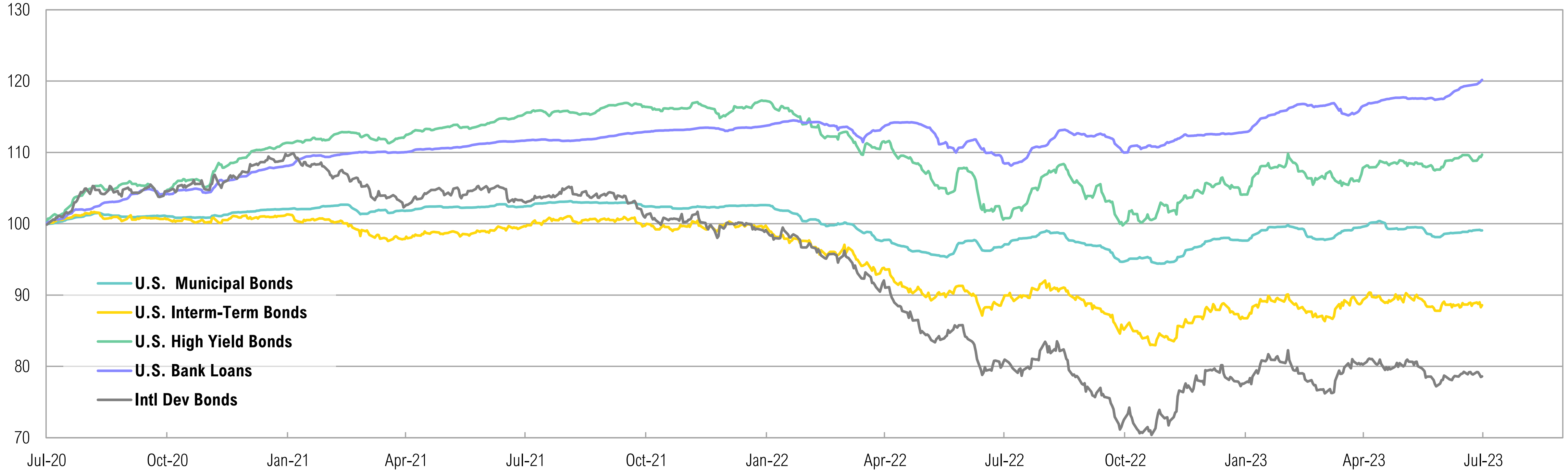
Q2 fixed income returns were a mixed bag: Both U.S. taxable and muni bonds declined while HY bonds and bank loans posted positive returns; international developed bonds performed worst

Calendar Year & Trailing Total Returns



Asset Class	Benchmark	MTD	QTD	YTD	1-Yr	3-Yr	5-Yr	10-Yr	2022	2021	2020	2019	2018
U.S. Municipal Bonds	BBgBarc Municipal 1-10Y Blend 1-12Y TR	0.7	-0.5	1.5	2.2	-0.3	1.6	2.0	-4.8	0.5	4.2	5.6	1.6
U.S. Intermediate-Term	BBgBarc US Agg Bond TR	-0.4	-0.8	2.1	-0.9	-4.0	0.8	1.5	-13.0	-1.5	7.5	8.7	0.0
U.S. High Yield Bonds	BBgBarc US Corporate High Yield TR	1.7	1.7	5.4	9.1	3.14	3.4	4.4	-11.2	5.3	7.1	14.3	-2.1
U.S. Bank Loans	S&P/LSTA Leveraged Loan TR	2.3	3.1	6.5	10.7	6.3	4.1	4.1	-0.8	5.2	3.1	8.6	0.4
Intl Dev Bonds	S&P International Sov Ex-US Bond TR	0.6	-2.1	1.4	-2.4	-7.7	-3.8	-1.3	-21.8	-9.5	11.2	4.6	-2.3

Source: Bloomberg. Returns for periods greater than 1 year are annualized.

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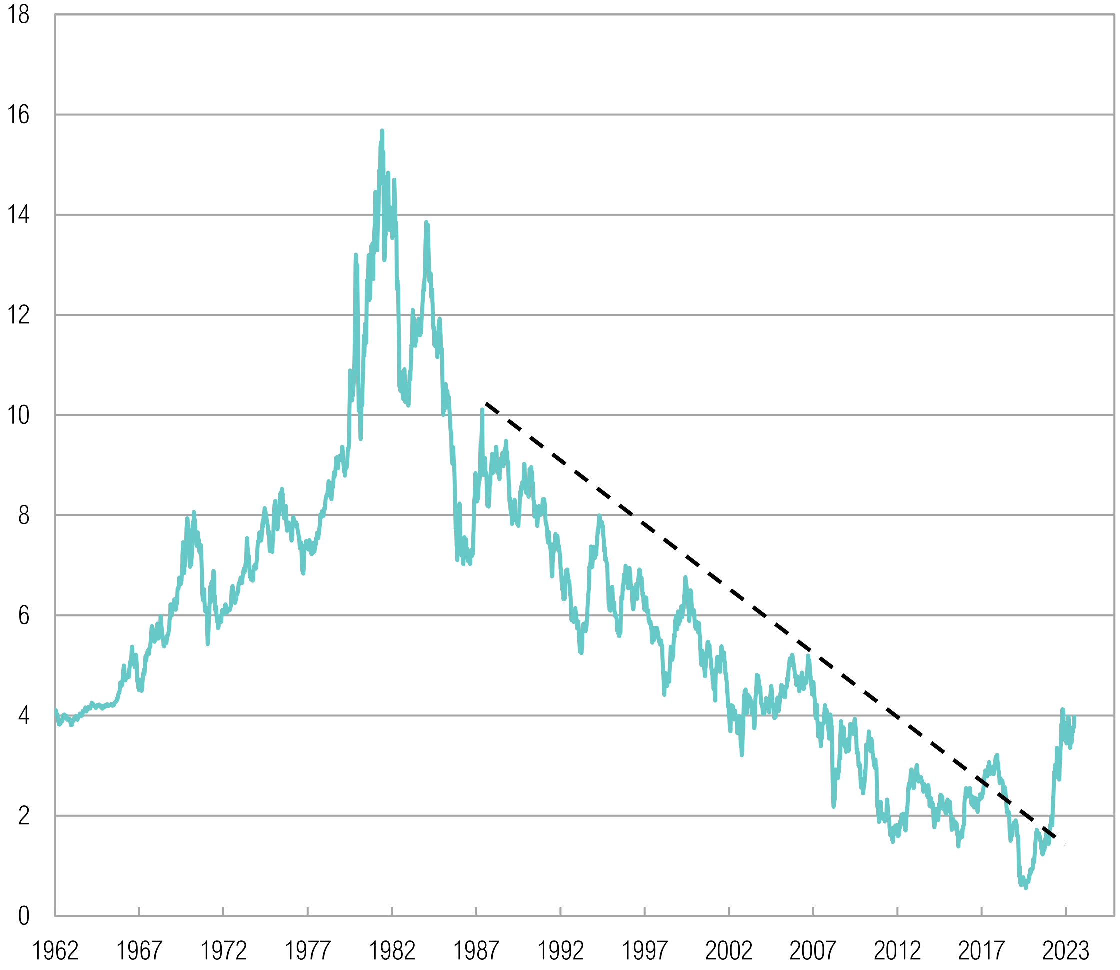
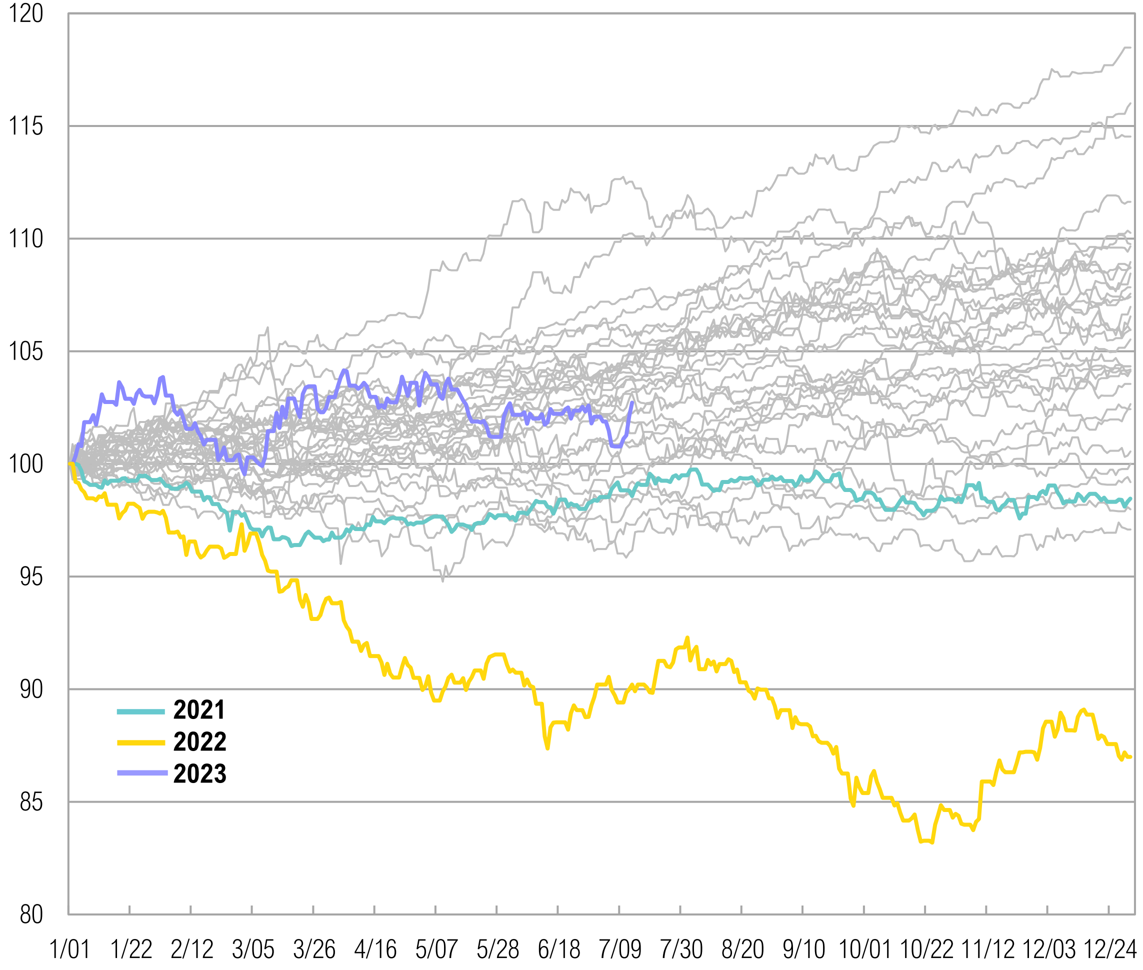
Context is important for Treasury markets: while we want to be contrarian, we have to consider we've entered a more challenging regime for bonds

10-Year Treasury Yield, %



Bbg Aggregate Bond Index, Growth of 100



Source: Bloomberg, whitehouse.gov

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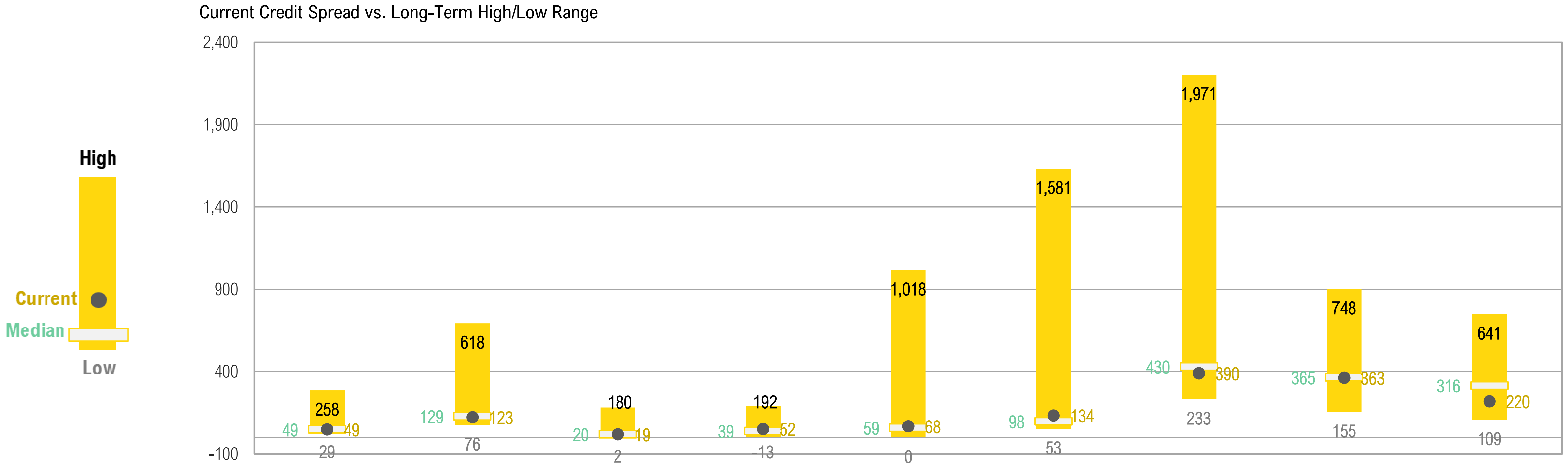
Credit spreads are at or near average across most sectors; while a recession still seems probable based on manufacturing data, current spread levels don't corroborate that view



	Aggregate	Corporate	Agency	MBS	ABS	CMBS	High Yield	Emerging Markets	High Yield Muni Spread*
Max Spread Date	12/3/2008	12/3/2008	11/20/2008	12/3/2008	1/6/2009	11/21/2008	12/16/2008	11/28/2008	1/12/2009
Min Spread Date	4/14/2021	3/8/2005	4/19/2021	7/27/2010	10/1/2009	12/8/2004	5/22/2007	5/31/2007	6/11/2007
Spread on 12/31/22	51	130	26	51	76	120	469	374	228
Spread on 12/31/21	36	92	8	31	38	68	283	330	200
Spread on 12/31/20	42	96	10	39	33	81	360	323	275
Spread on 12/31/19	39	93	10	39	44	72	336	277	223

Source: Bloomberg. High Yield Muni Spread data is relative to Bloomberg Municipal Bond Index. Yield spread data is from 2004 – current.

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Last year's U.S. dollar strength was driven by safe-haven bid and attractive relative yields, but this has been changing on the margin

Central Bank Policy Rate & Government Bond Yields

	Central Bank Rate (%)	3 Month (%)	1 Year (%)	2 Year (%)	3 Year (%)	4 Year (%)	5 Year (%)	6 Year (%)	7 Year (%)	10 Year (%)	20 Year (%)	30 Year (%)
Czech Republic	7.00	-	6.43	5.67	5.22	4.91	4.72	4.48	4.39	4.20	4.39	-
Hong Kong	5.50	4.29	4.25	4.10	3.81	-	3.69	-	3.58	3.69	4.18	-
New Zealand	5.50	5.72	5.46	5.43	-	-	4.69	-	4.67	4.69	4.91	-
United States	**5.25**	**5.32**	**5.43**	**4.94**	**4.58**	-	**4.19**	-	**4.03**	**3.85**	**4.08**	**3.86**
United Kingdom	5.00	5.35	5.40	5.36	5.14	4.95	4.73	4.77	4.47	4.45	4.57	4.46
Canada	4.75	5.00	5.14	4.71	4.32	4.09	3.79	-	3.53	3.35	3.29	3.14
Israel	4.75	4.61	4.83	4.31	4.25	-	3.82	-	-	3.81	3.93	4.14
Australia	4.10	-	4.33	4.19	4.03	3.96	3.94	3.95	3.96	4.00	4.28	4.31
Italy	4.00	3.62	3.89	3.92	3.84	3.82	3.83	3.87	3.97	4.19	4.47	4.53
Spain	4.00	3.53	3.78	3.52	3.43	3.32	3.31	3.28	3.32	3.46	3.80	3.90
Portugal	4.00	3.03	2.46	3.02	2.99	2.99	3.01	3.02	3.04	3.18	3.53	3.56
France	4.00	3.51	3.69	3.36	3.13	3.02	2.95	2.91	2.87	2.99	3.30	3.33
Belgium	4.00	3.47	3.68	3.27	3.10	3.03	2.93	2.91	2.94	3.13	3.38	3.45
Germany	4.00	3.39	3.62	3.29	3.00	2.77	2.64	2.53	2.47	2.45	2.53	2.43
Austria	4.00	3.51	3.41	3.35	3.15	3.08	3.03	3.00	3.01	3.07	3.08	3.04
Netherlands	4.00	3.27	-	3.21	3.03	2.90	2.84	2.77	2.75	2.80	2.78	2.68
Ireland	4.00	-	3.32	3.31	3.05	3.04	2.90	2.91	2.84	2.87	3.16	3.20
Singapore	3.80	4.19	3.68	3.62	-	-	3.16	-	-	3.05	2.66	2.41
South Korea	3.50	-	3.56	3.68	3.62	3.62	3.60	-	-	3.62	3.62	3.63
Thailand	2.00	-	2.05	2.14	2.37	2.25	2.32	-	2.39	2.49	2.97	-
Switzerland	1.75	1.72	2.01	1.17	1.09	1.02	0.96	0.94	0.92	0.90	0.90	0.87
Japan	(0.10)	(0.12)	(0.13)	(0.07)	(0.06)	(0.00)	0.06	0.12	0.20	0.38	1.00	1.26

Source: Bloomberg

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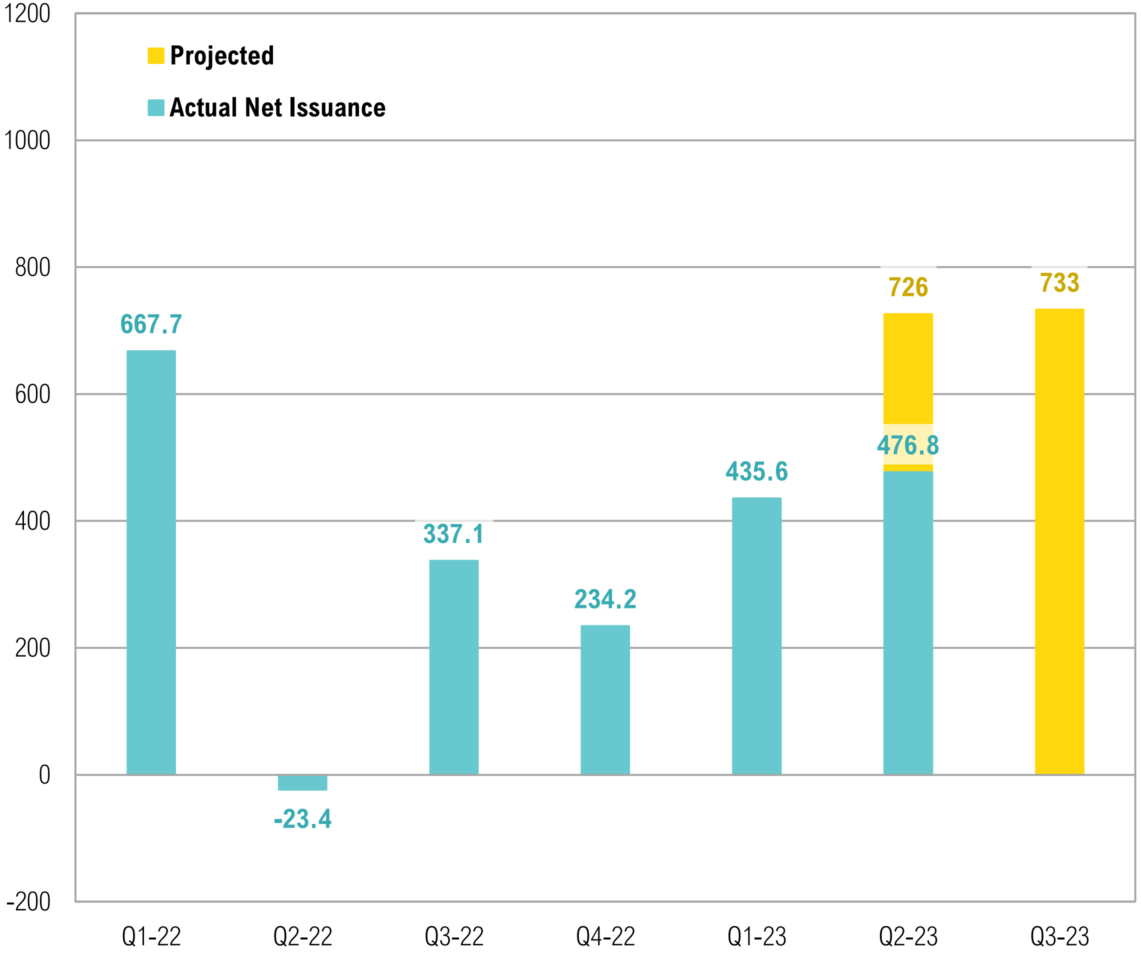
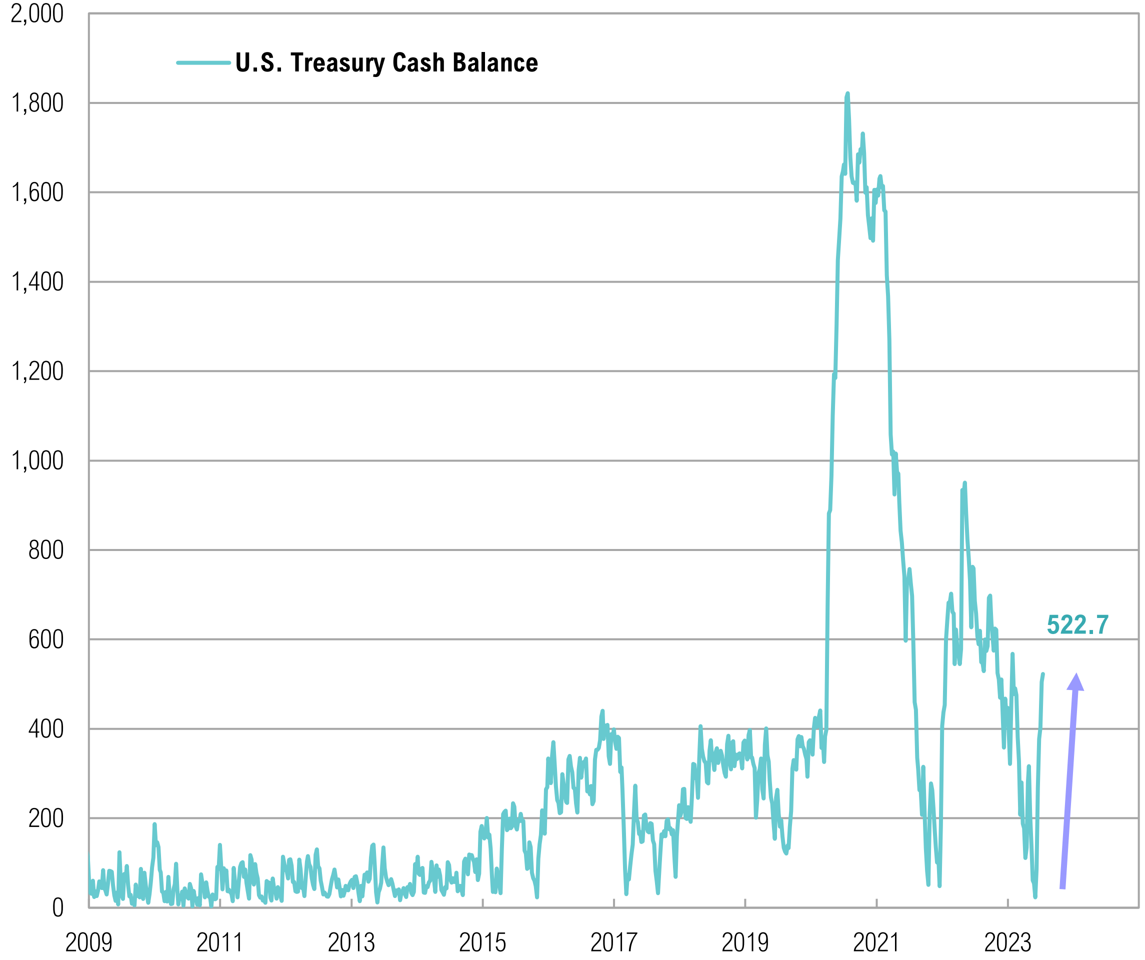
Q2 2023 net issuance was expected to be $726Bn, but fell short due to prolonged debt ceiling negotiations; Treasury is now playing 'catchup' with $550bn issued in June and a further $700Bn expected in Q3

Quarterly U.S. Net Issuance, $Bn



U.S. Treasury Cash Balance, $Bn



Source: U.S. Treasury. As of 7/14/2023.

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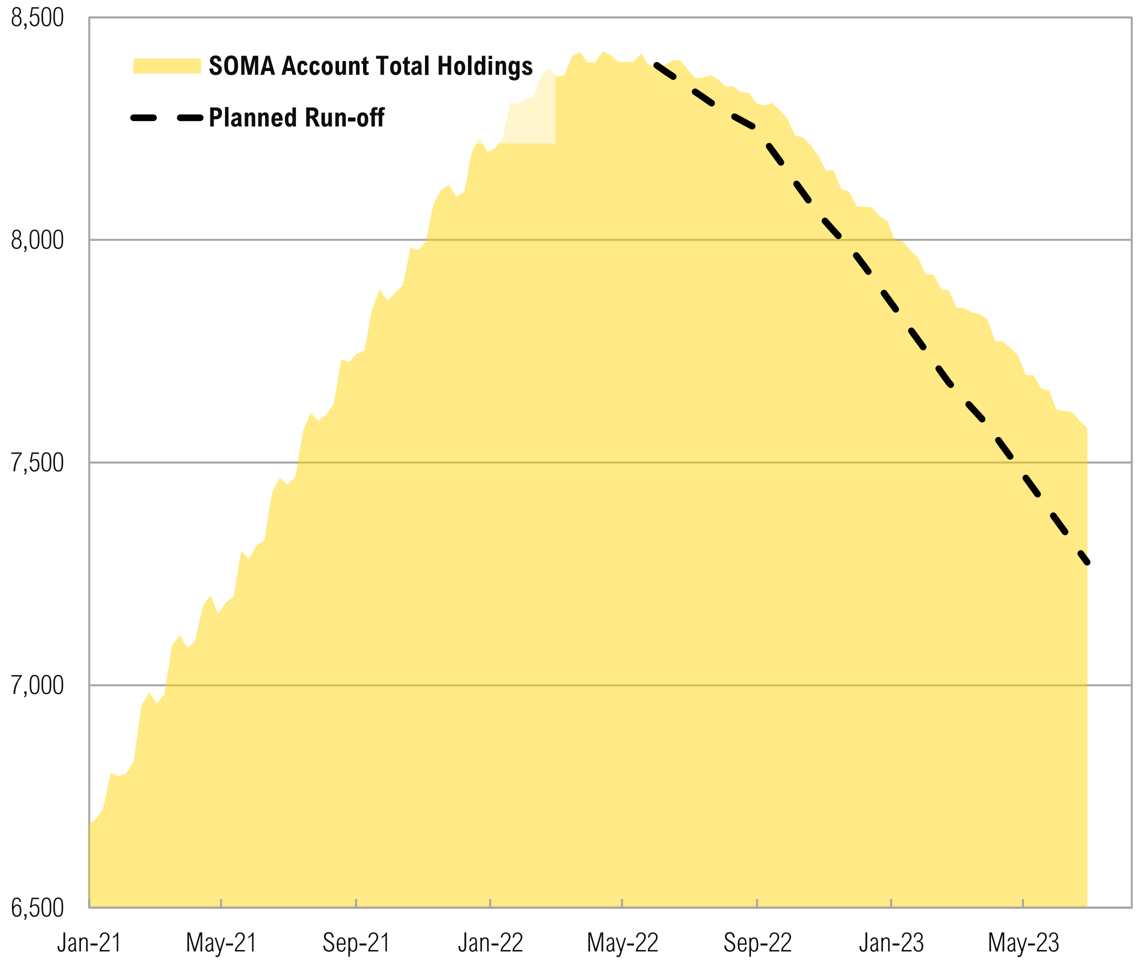
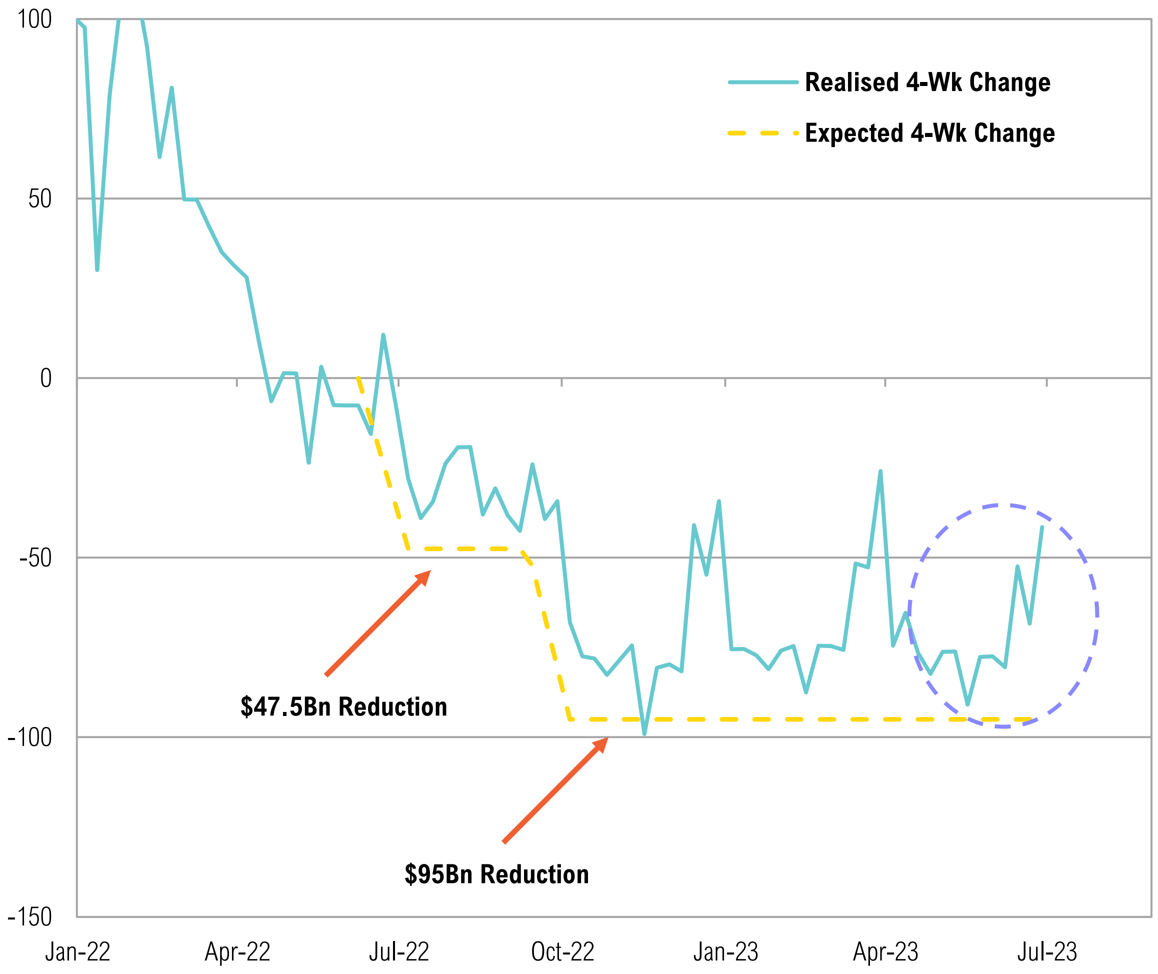
The Fed slowed its balance sheet reduction in June as just $41 billion rolled off over the month, potentially due to Treasury restarting new debt issuance; SOMA account runoff is currently 'behind' by >$300bn

SOMA Account Total Holdings, $Bn



SOMA Account 4-Week Change, $Bn



Source: Bloomberg. As of 6/30/2023.

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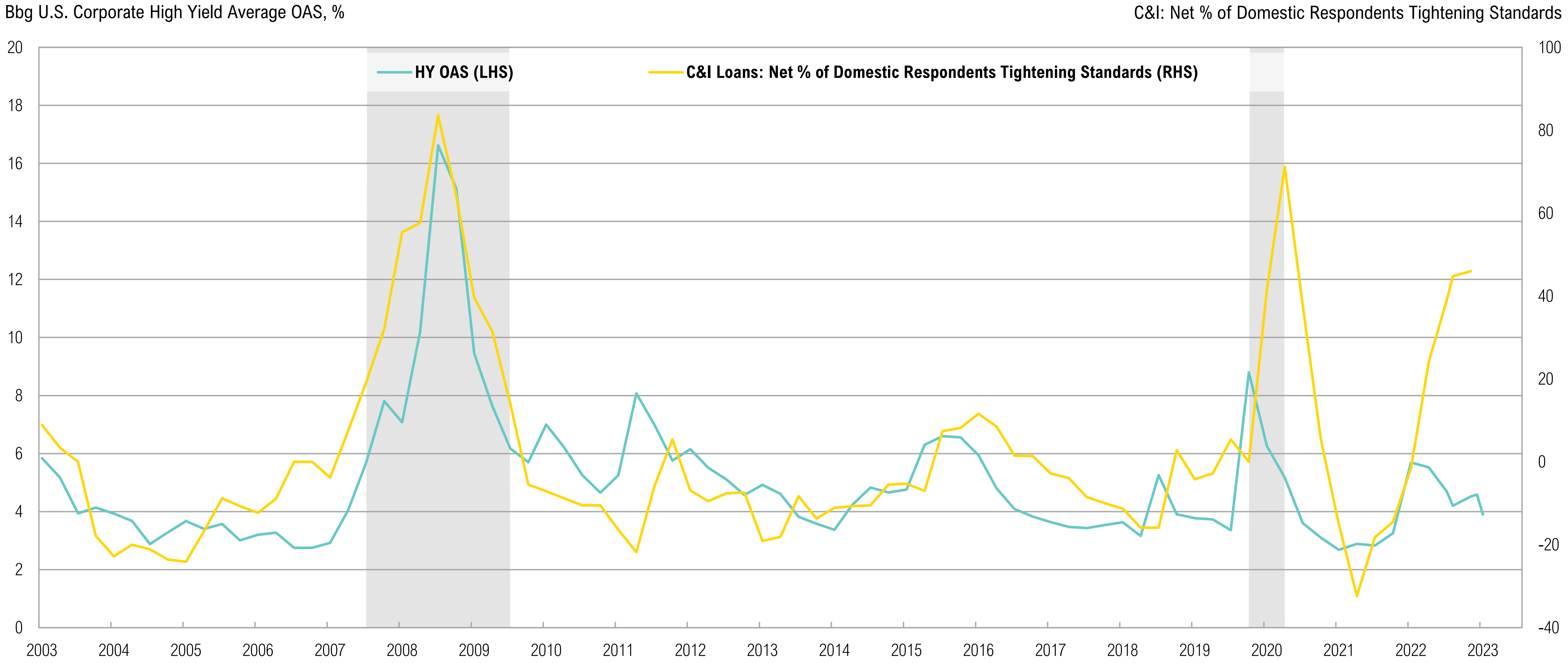
Domestic banks continue to tighten lending standards, citing liquidity concerns and lower risk tolerance; banks expect conditions to tighten further throughout the rest of the year



Source: Bloomberg. C&I Loans as of 4/30/2023.

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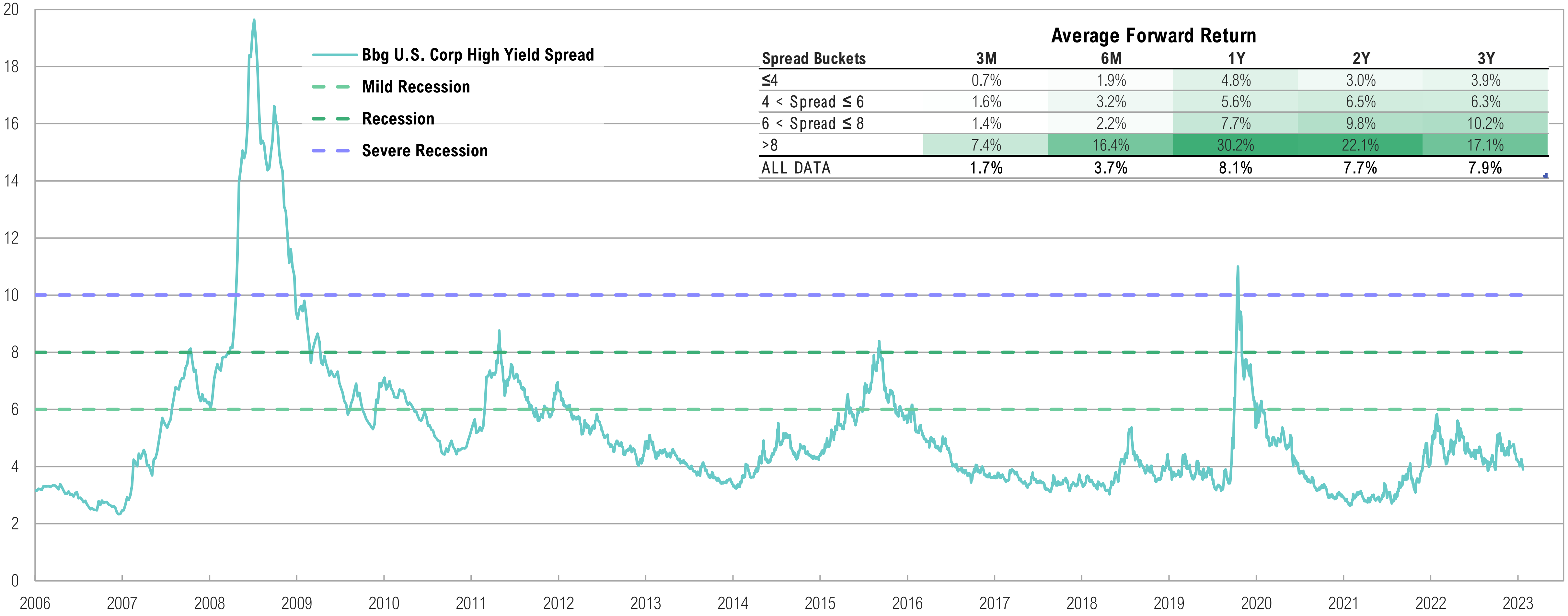
Tranching in high yield bonds: some spread levels to consider are 6%, 8%, and 10%, with the goal to have each tranche be incrementally larger; current spread is 3.9%

Credit Spreads by Rating, %



Average Forward Return

Spread Buckets	3M	6M	1Y	2Y	3Y
≤4	0.7%	1.9%	4.8%	3.0%	3.9%
4 < Spread ≤ 6	1.6%	3.2%	5.6%	6.5%	6.3%
6 < Spread ≤ 8	1.4%	2.2%	7.7%	9.8%	10.2%
>8	7.4%	16.4%	30.2%	22.1%	17.1%
ALL DATA	1.7%	3.7%	8.1%	7.7%	7.9%

Source: SpringTide, Bloomberg. Forward return analysis from 2/4/1994 through 8/26/2022.

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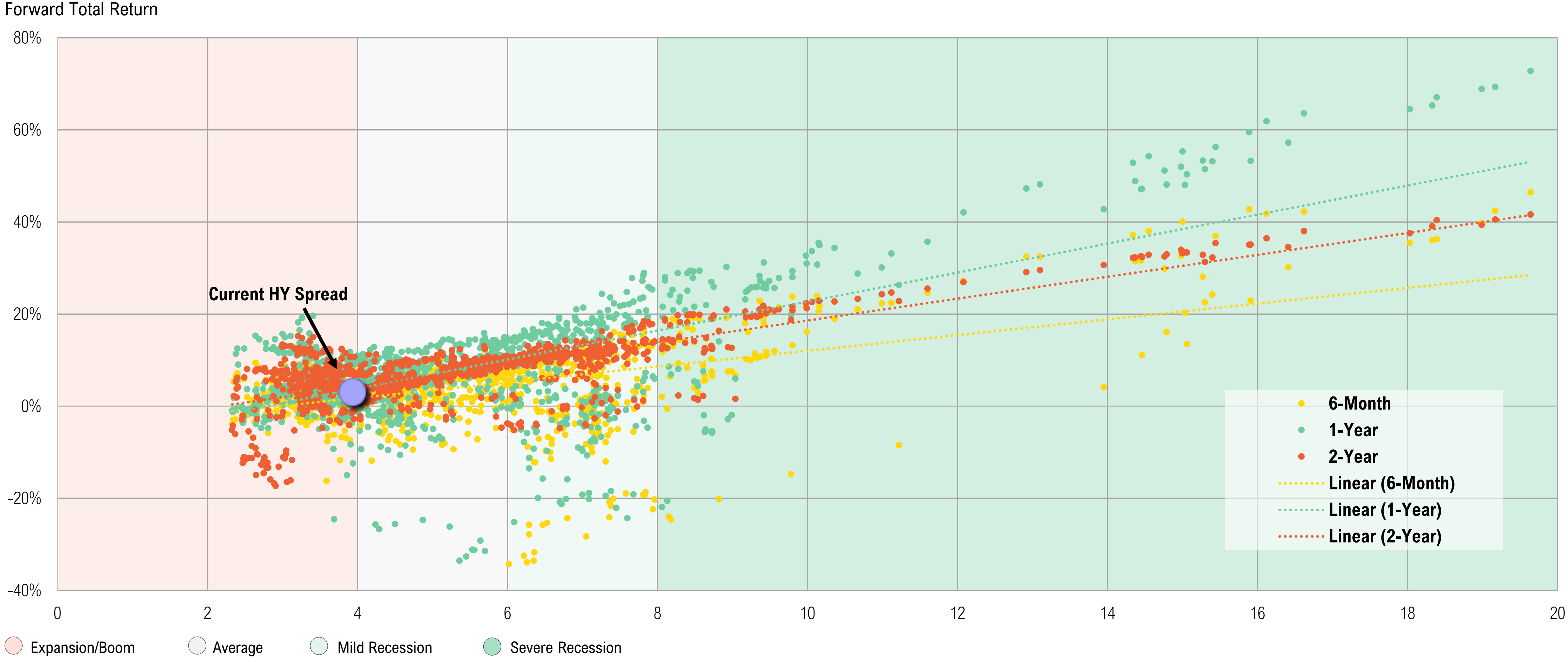
Historically, high yield spreads above 6% have resulted in above-average forward returns; high yield spread is currently trading at a middling 4.0%



Source: Bloomberg, SpringTide calculations.

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I thought real estate was the falling knife. Last I checked, the knife was still falling. I may think I'm smart and I may think I am surrounded by a very talented team, but I don't know that they're very good at catching knives, nor do I know anybody who is.

Sam Zell, *American Investor*

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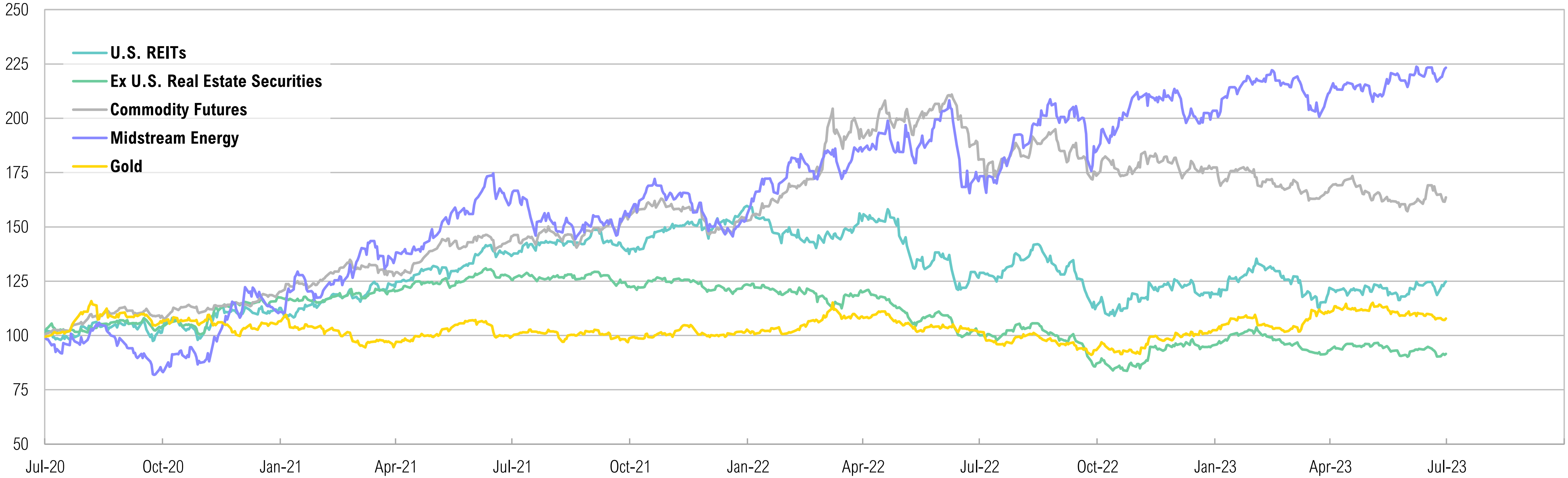
Gold continued its recent correction, declining 3.8% over the quarter; despite weaker oil prices, midstream energy posted another positive quarter, adding 5.4% to its respectable YTD performance

Calendar Year & Trailing Total Returns



Asset Class	Benchmark	MTD	QTD	YTD	1-Yr	3-Yr	5-Yr	10-Yr	2022	2021	2020	2019	2018
U.S. REITs	MSCI US REIT NR	4.8	2.3	4.8	-1.4	7.7	-N/A	5.1	-25.4	41.7	-8.7	24.3	-5.8
Ex U.S. Real Estate Securities	S&P Global Ex US REIT TR	1.5	-1.5	-3.7	-8.4	-2.3	-3.5	1.2	-22.2	5.7	-6.8	21.9	-9.4
Broad Commodity Futures	Bloomberg Commodity TR	4.0	-2.6	-7.8	-9.6	17.8	4.7	-1.0	16.1	27.1	-3.1	7.7	-11.2
Midstream Energy	Alerian MLP TR	4.1	5.4	9.7	30.5	30.7	6.2	0.9	30.9	40.2	-28.7	6.6	-12.4
Gold	LBMA Gold Price AM	-2.8	-3.8	5.0	5.0	2.4	8.8	4.7	-0.4	-3.8	24.2	18.8	-1.1

Source: Bloomberg. Returns for periods greater than 1 year are annualized.

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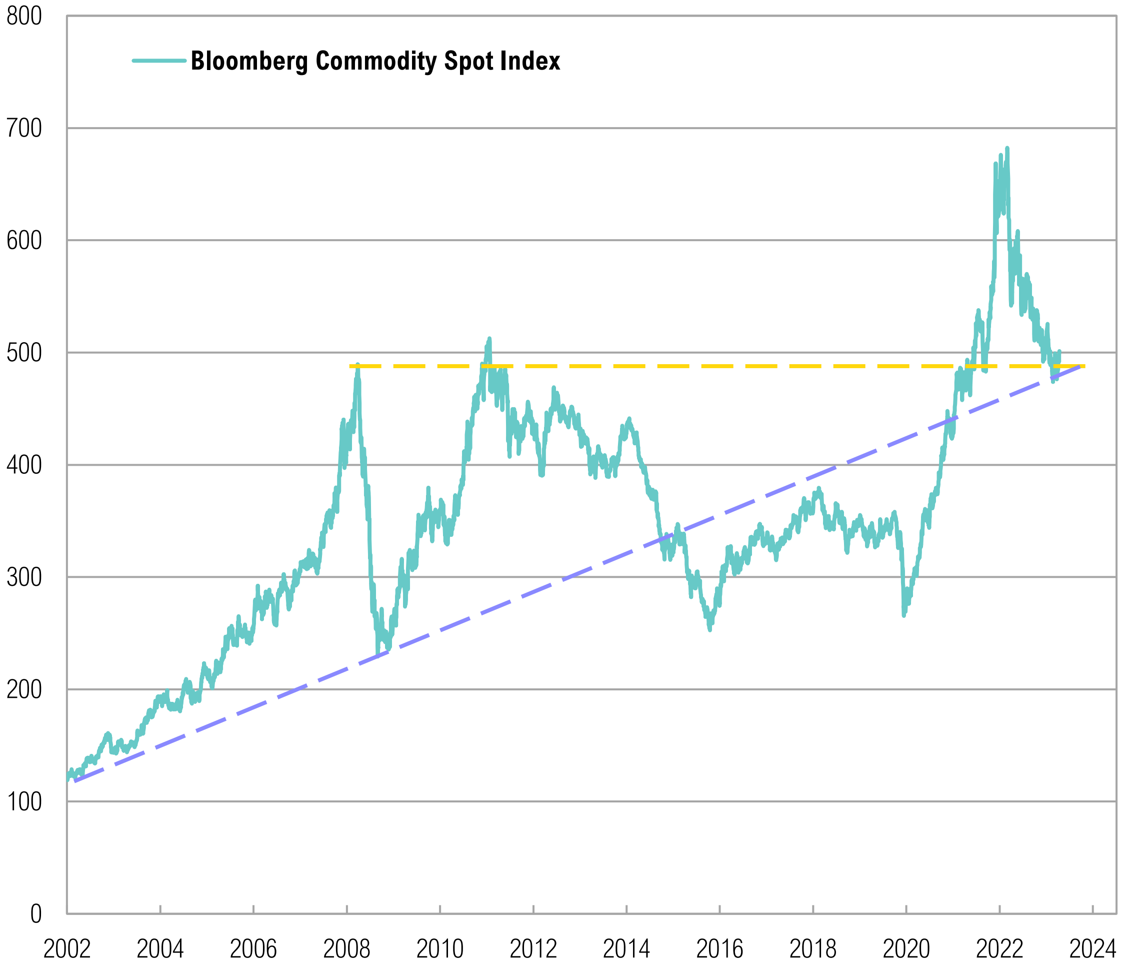
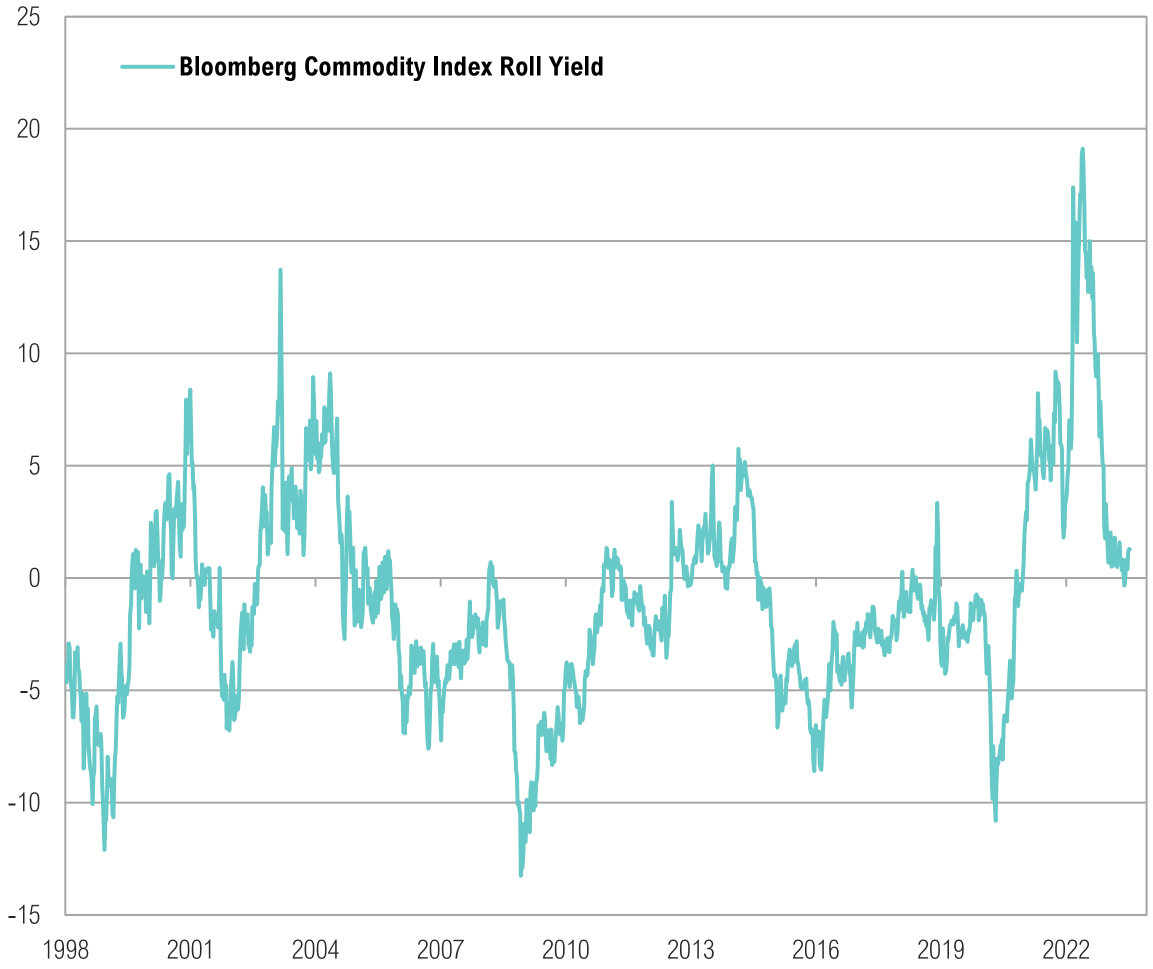
MOUNT YALE

Commodity roll yields have dropped sharply, currently at 1.3%, largely due to natural gas futures shifting back to contango, suggesting global commodity markets have loosened; crude remains in backwardation

Bloomberg Commodity Spot Index



Bloomberg Commodity Index Roll Yield, %



Source: Bloomberg. Roll yield as of 6/30/2023.

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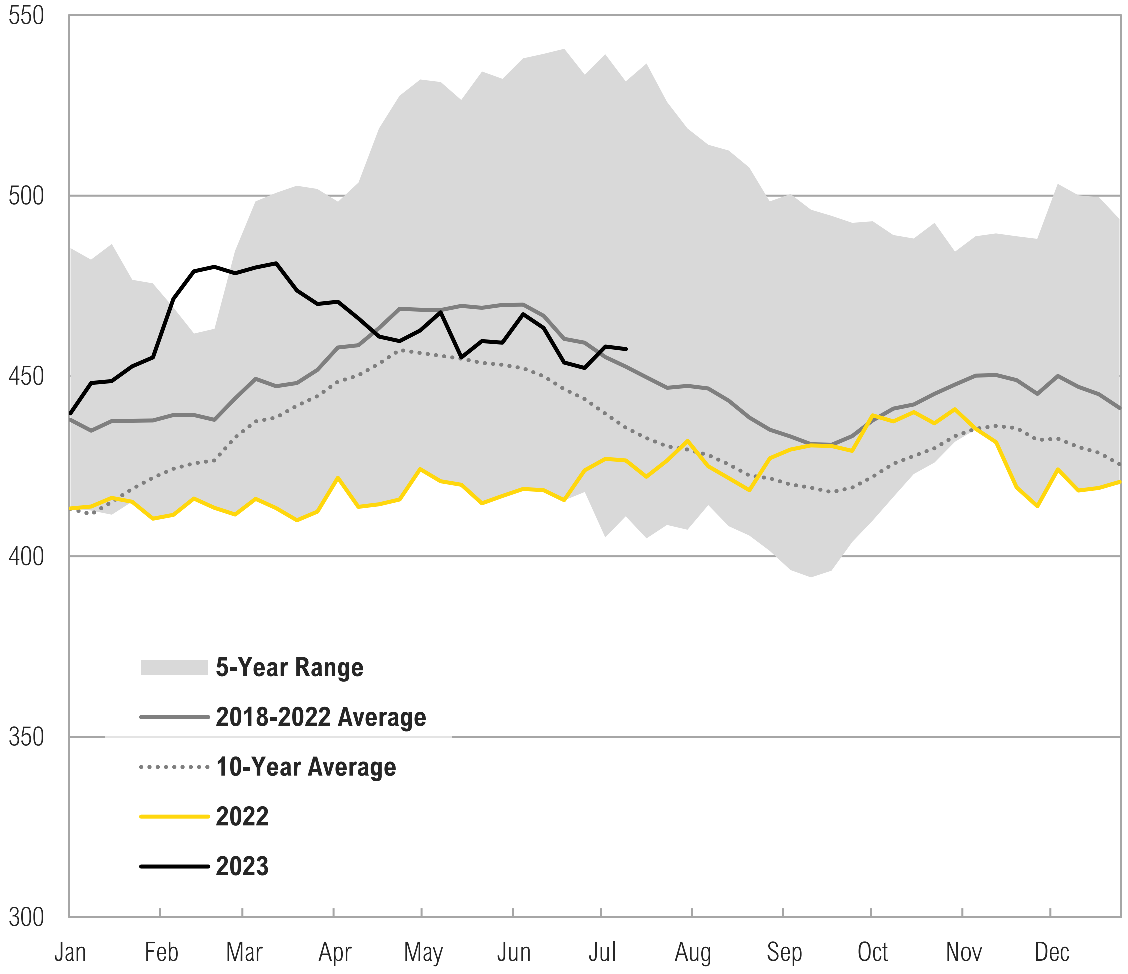
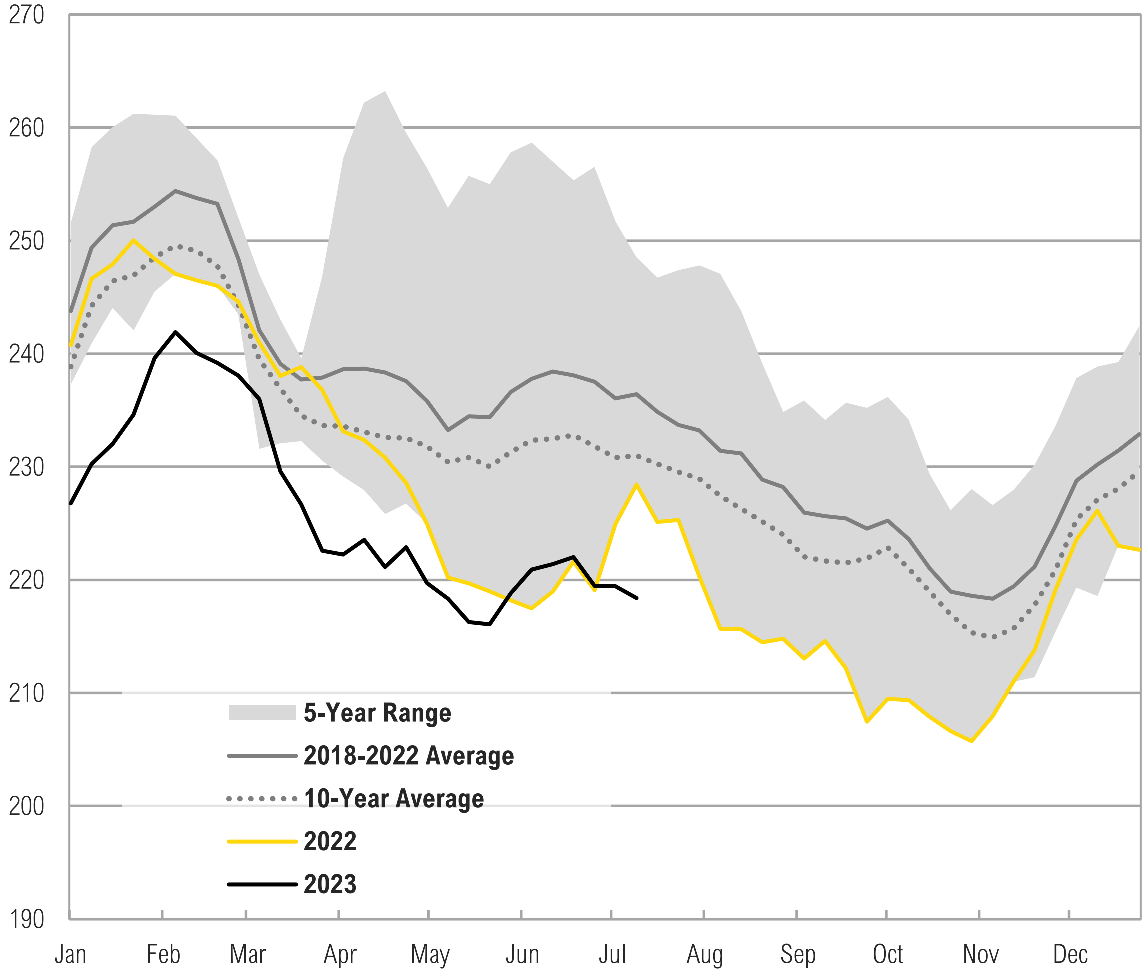
Crude has started to rebuild inventory, and is now just above the 5-year average; gasoline inventories are still well below historical average levels

U.S. Crude Inventories, Millions of Barrels



U.S. Gasoline Inventories, Millions of Barrels



Source: EIA. SpringTide calculations.

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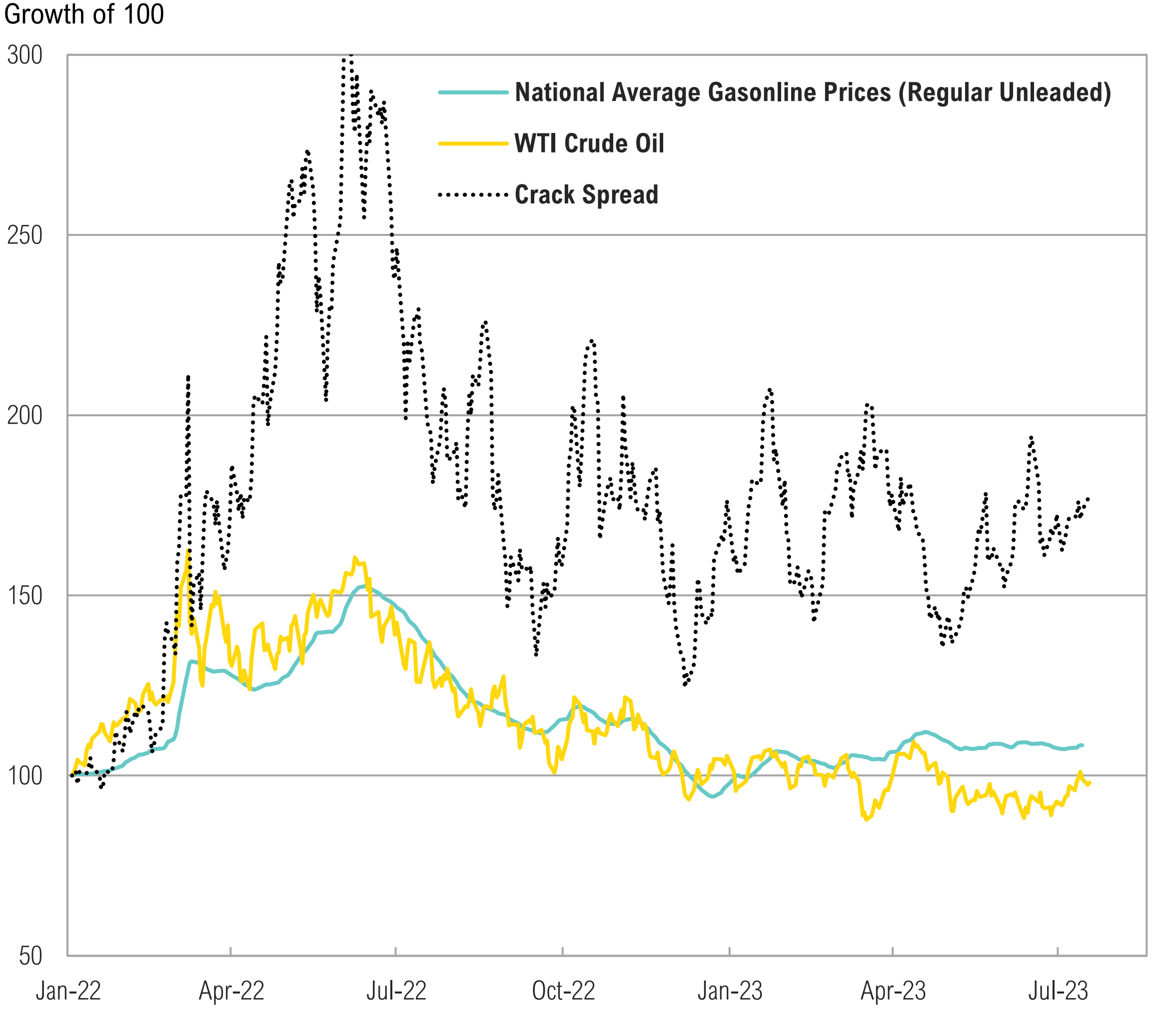
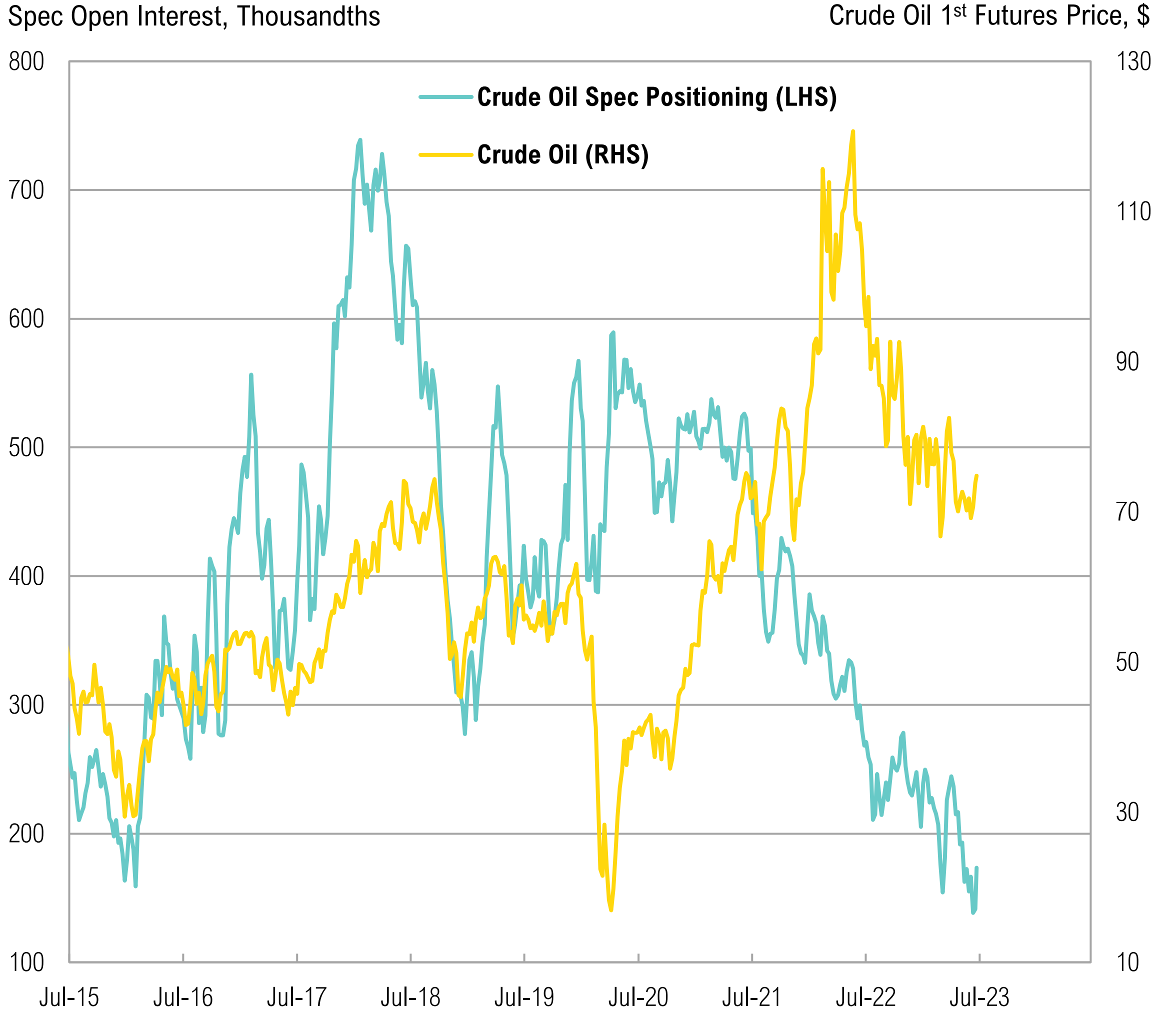
Crack spreads remain elevated despite lower oil prices, signaling continued constrained refinery capacity; YoY gas prices likely bottomed in June and may start contributing to headline inflation by Q4





Source: Bloomberg

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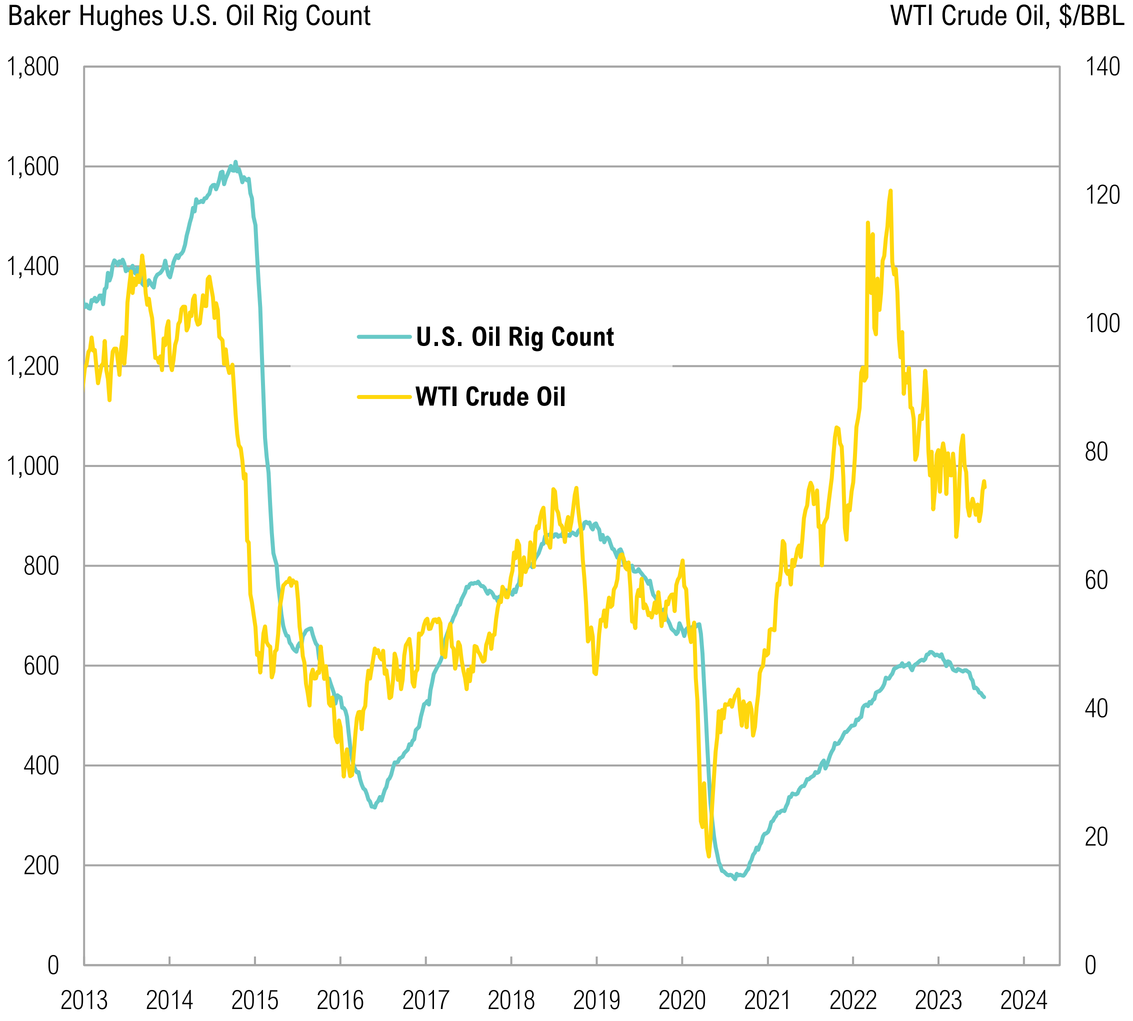
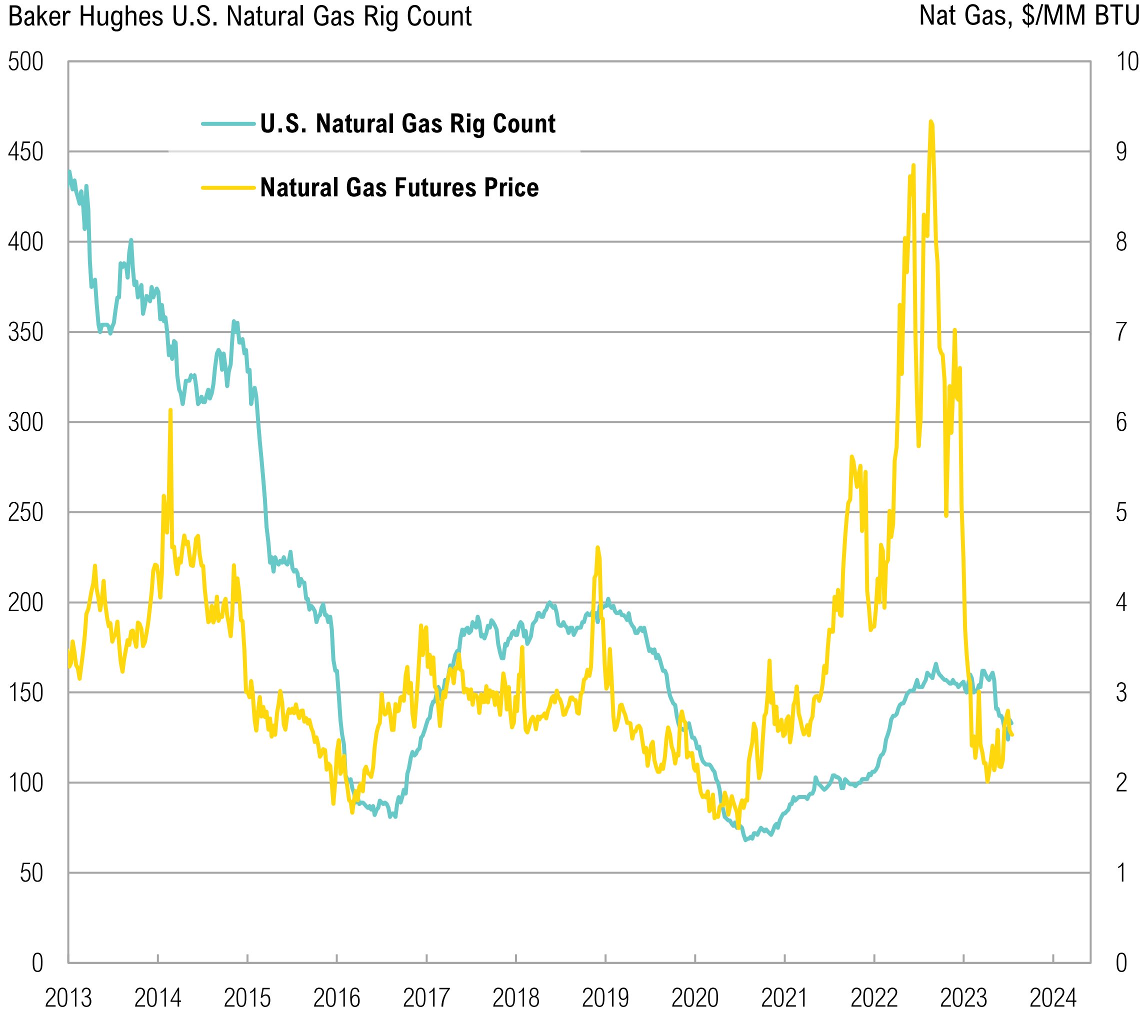
Oil and natural gas rig counts continued to decline over the quarter as uncertainty continues; U.S. oil rig counts are down 14% from 2022 peaks, Nat Gas rigs are down 20%





Source: Bloomberg

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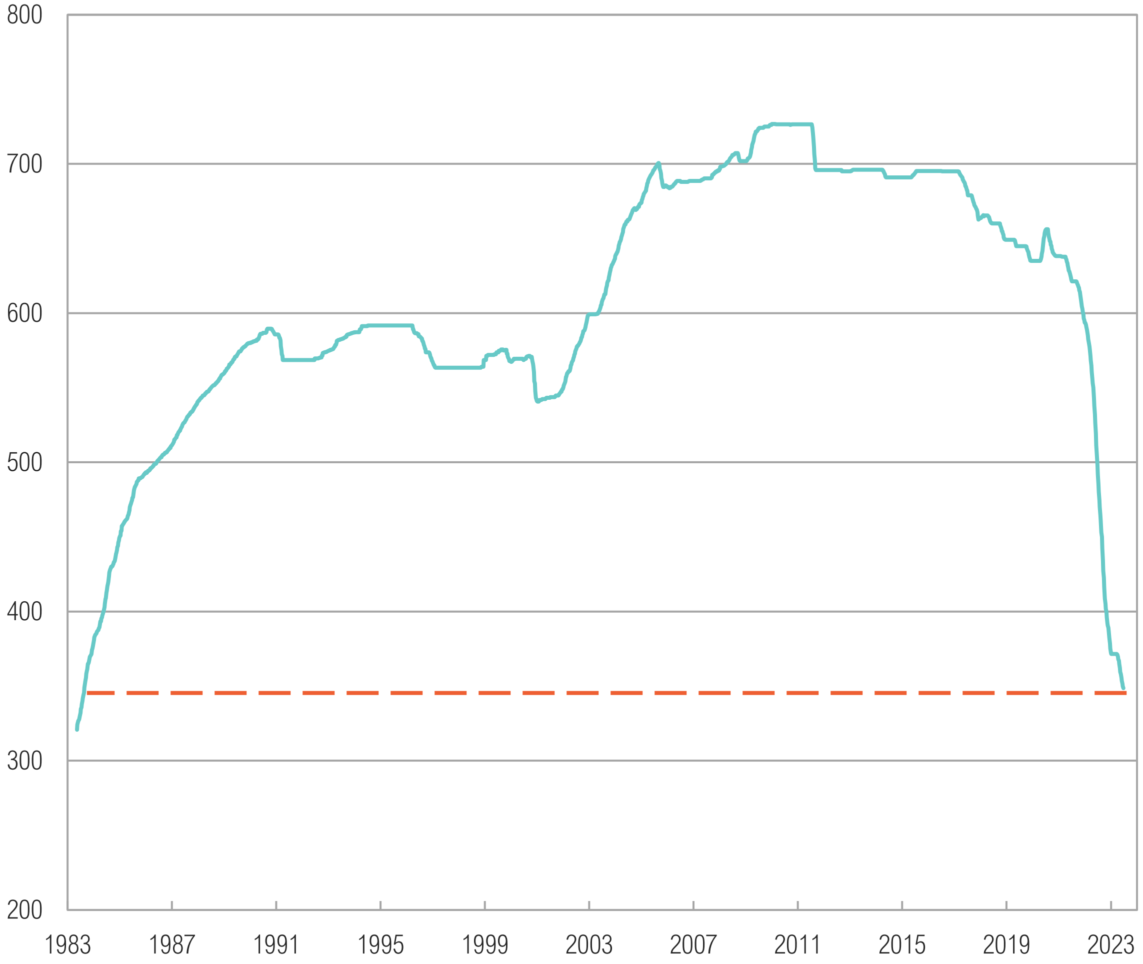
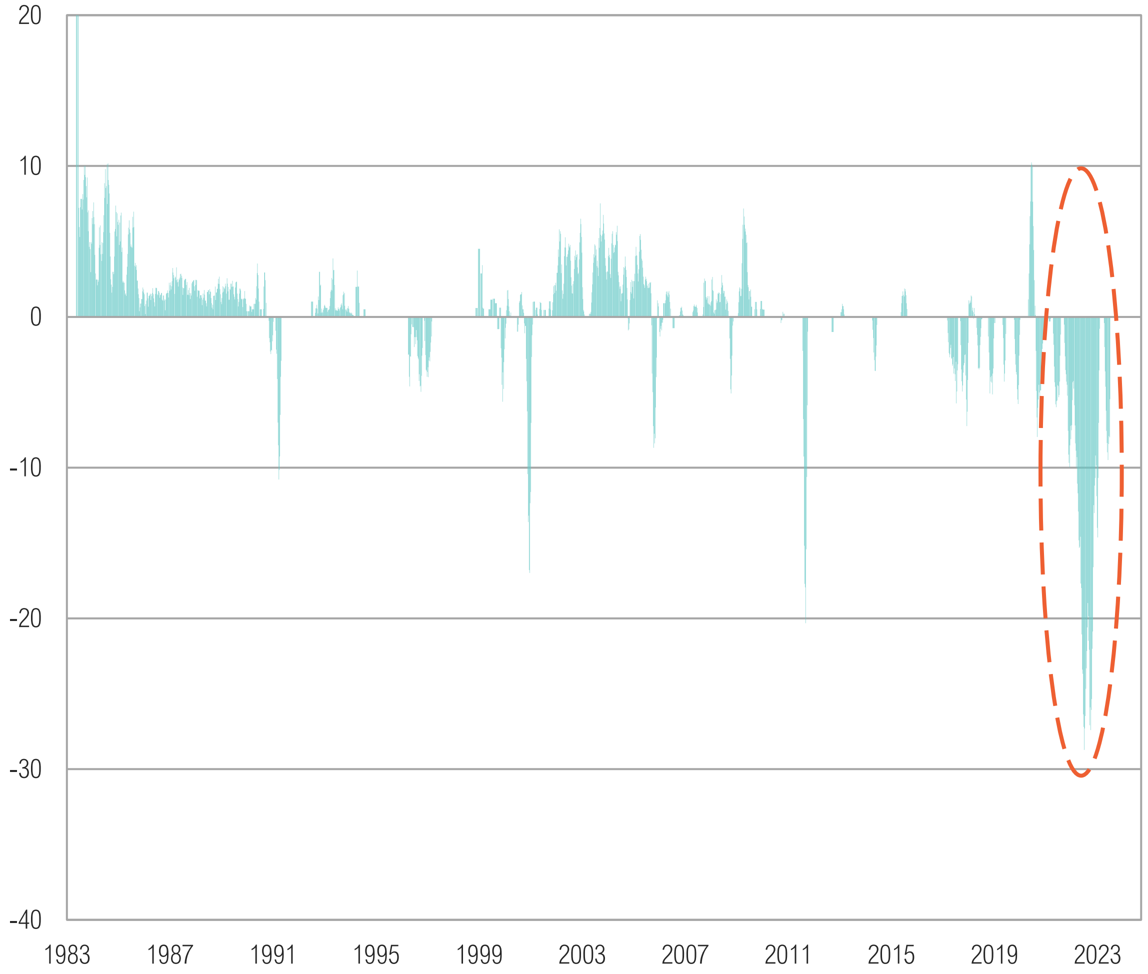
More than 275 mn barrels have been released from the SPR over the past two years and SPR levels are now at the lowest since August 1983; the DoE announced a 6 mn barrel replenishment in August

U.S. SPR Inventory, Millions of Barrels



4-Week Change in SPR Reserves, Millions of Barrels



Source: Bloomberg. Daily oil demand based on EIA projections.

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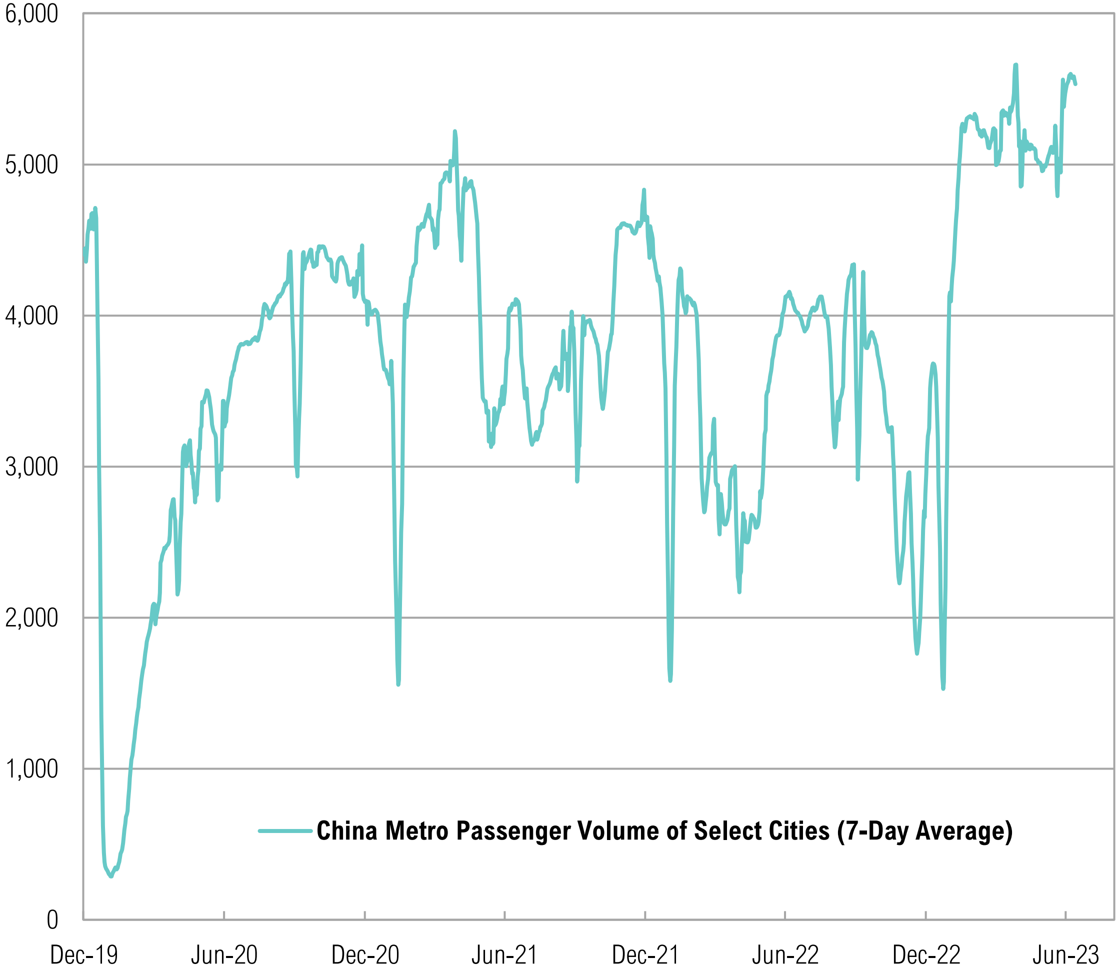
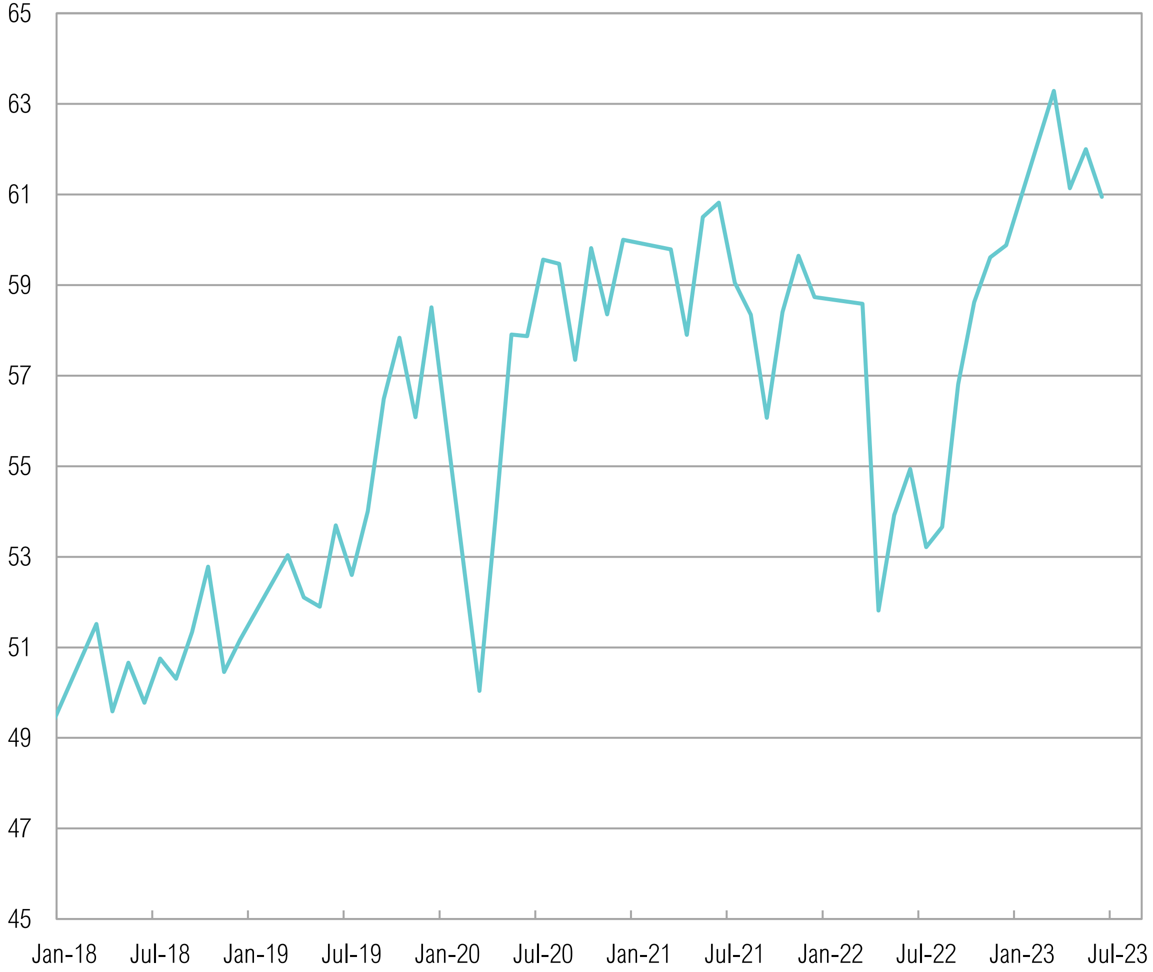
There are signs that mobility in China is normalizing; however, we are keeping an eye on Chinese crude processing, which has dropped from March's record high levels

Daily Passenger Volume, 7-Day Average



Monthly Crude Oil Processed, Millions of Barrels



Source: Bloomberg; Select cities include Shanghai, Beijing, Guangzhou, Shenzhen, Chengdu, Chongqing, Wuhan, Zhengzhou, and Suzhou.

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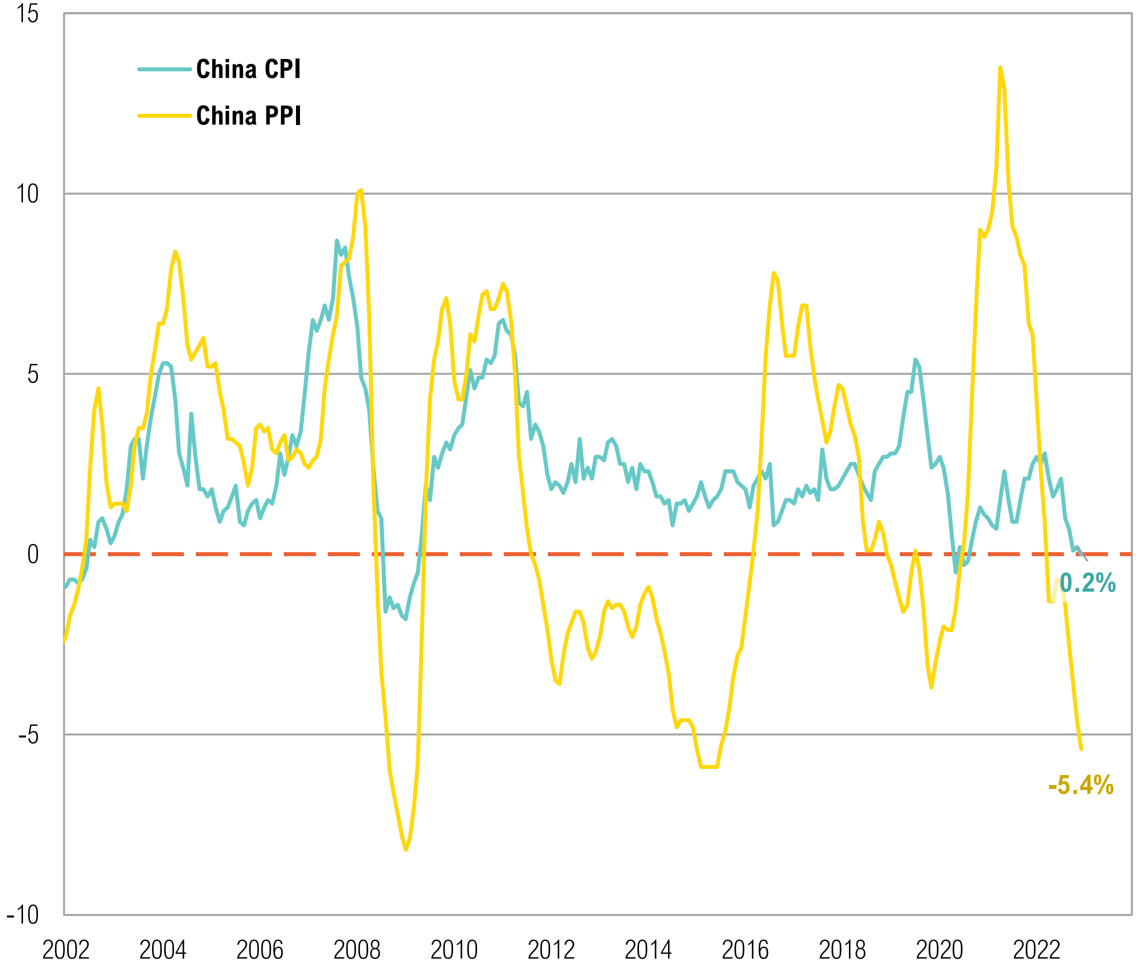
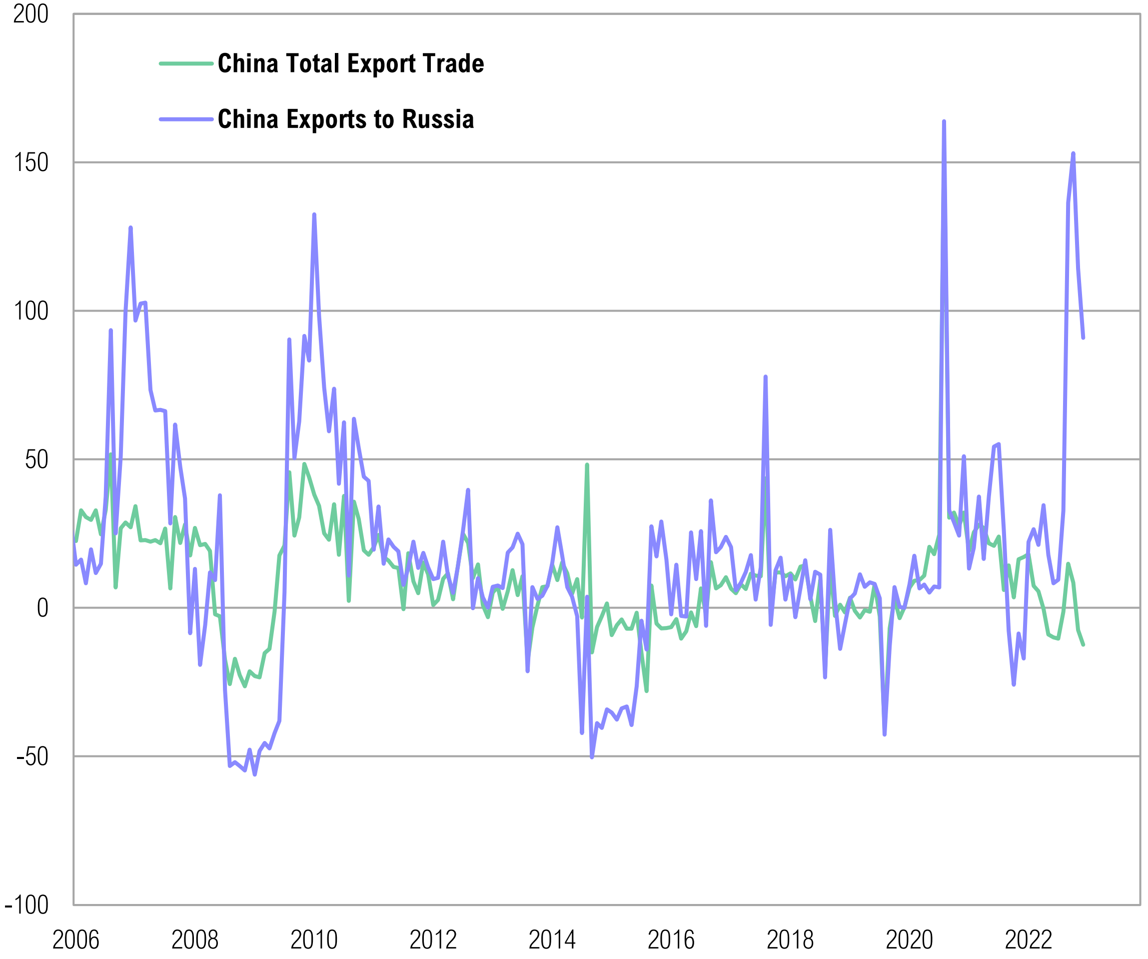
China's recovery is faltering: CPI and PPI near deflation; exports dropped by 12.4% YoY in June to the lowest levels since 2016—exports to Russia remain elevated, but have been slowing

China CPI & PPI, YoY %



China Exports, YoY %



Source: Bloomberg

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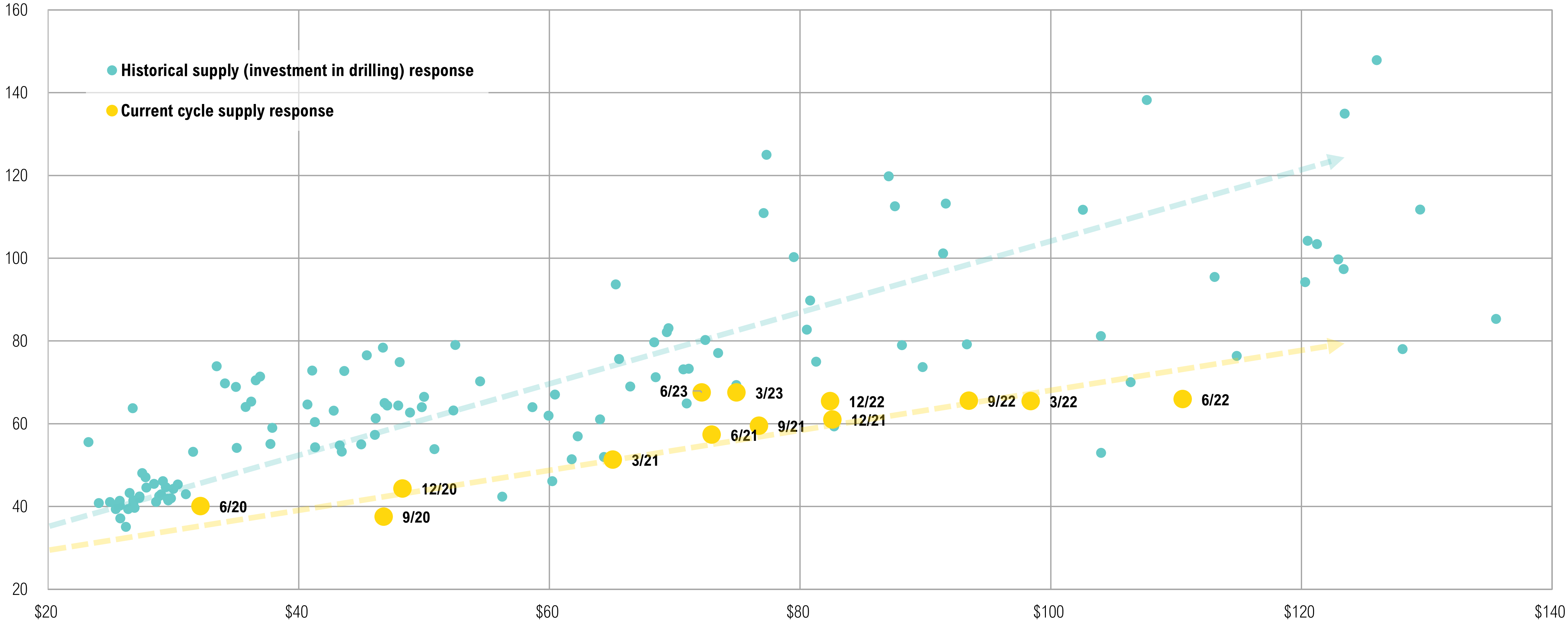
Since COVID, drilling capex levels have been near the bottom of a 65-year range

Investment in Drilling, Real $Bn/Qtr, 1958-Present



Source: St. Louis Fed, Recurrent Investment Advisors.

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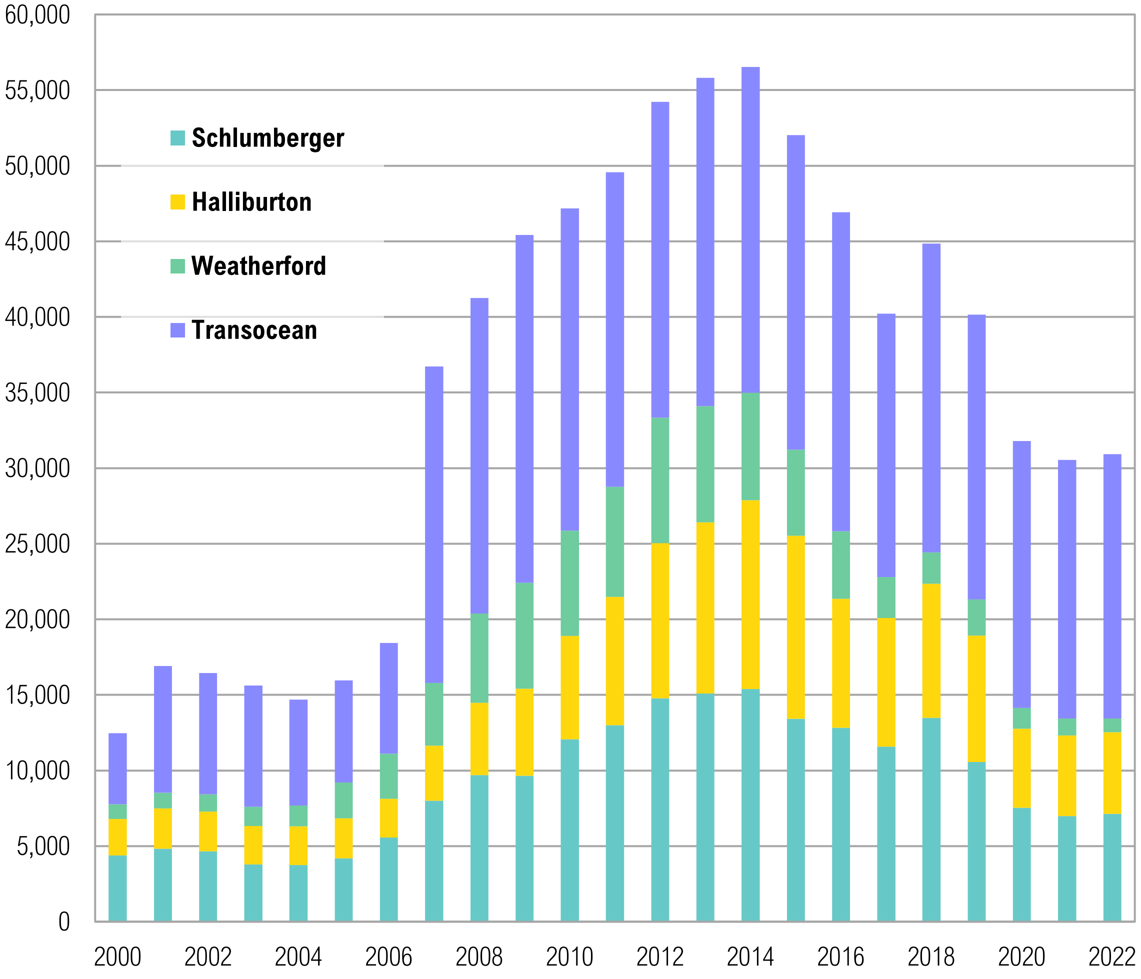
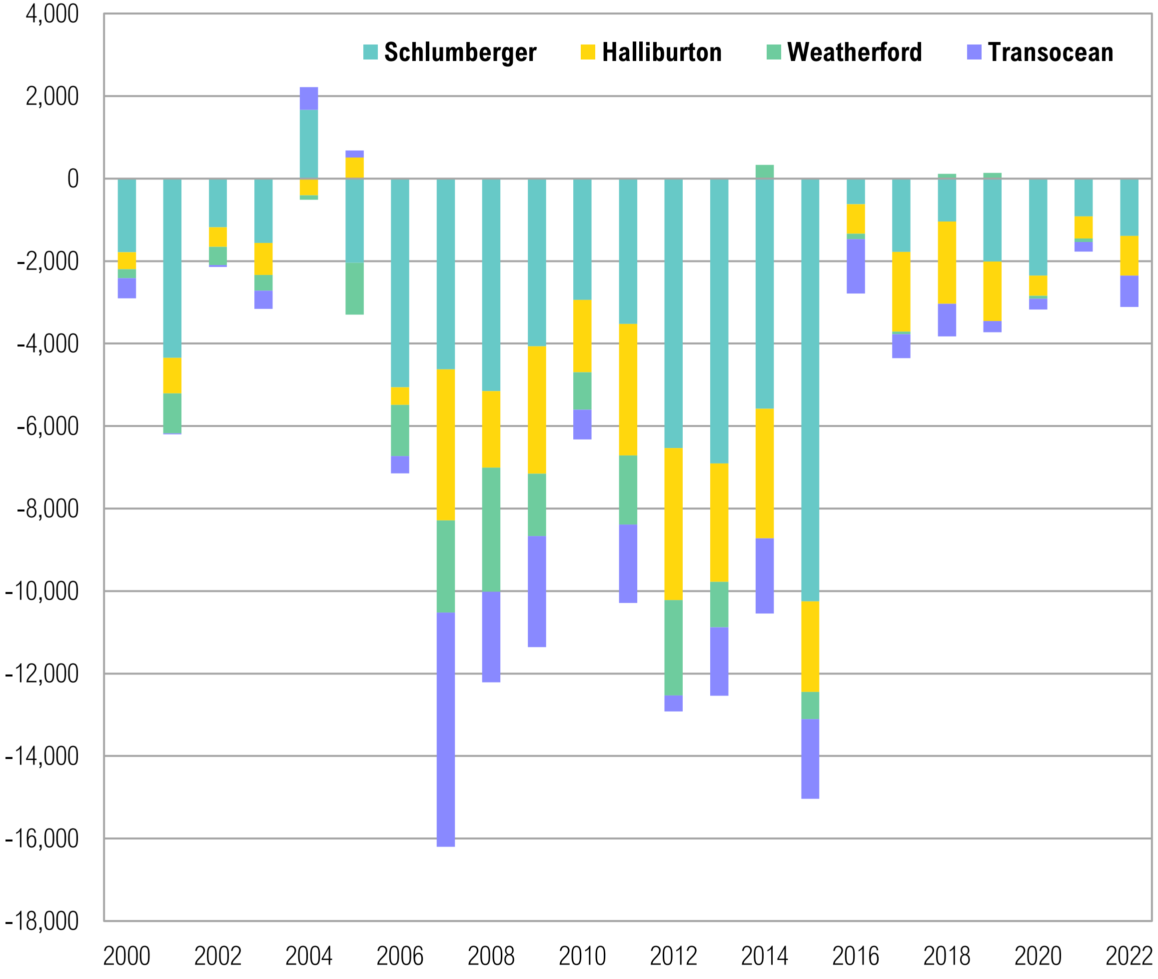
Energy firms have decreased investment from 2008-2018 levels

Net Property, Plant & Equipment, Select Energy Firms



Net Cash from Investing Activities, Select Energy Firms



Source: Schlumberger, Halliburton, Weatherford, Transocean

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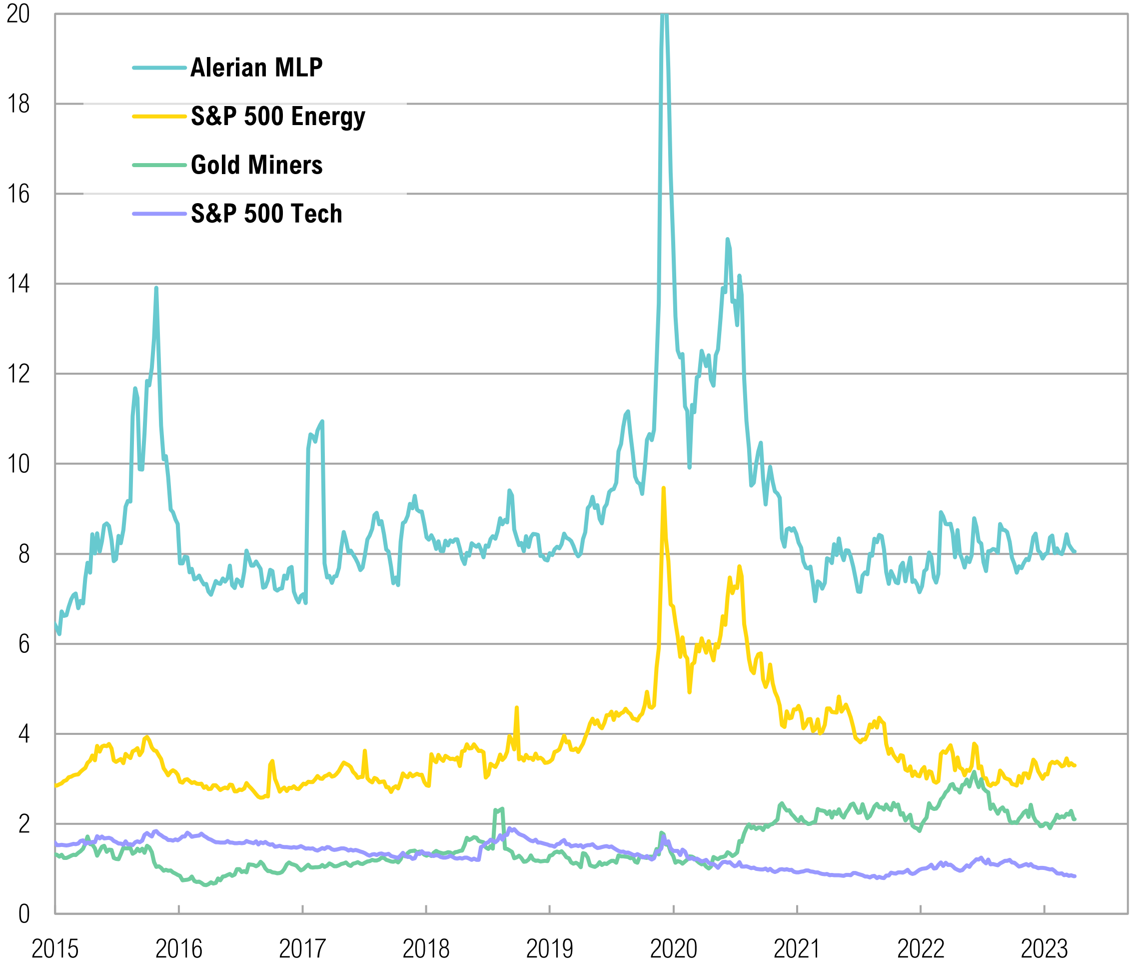
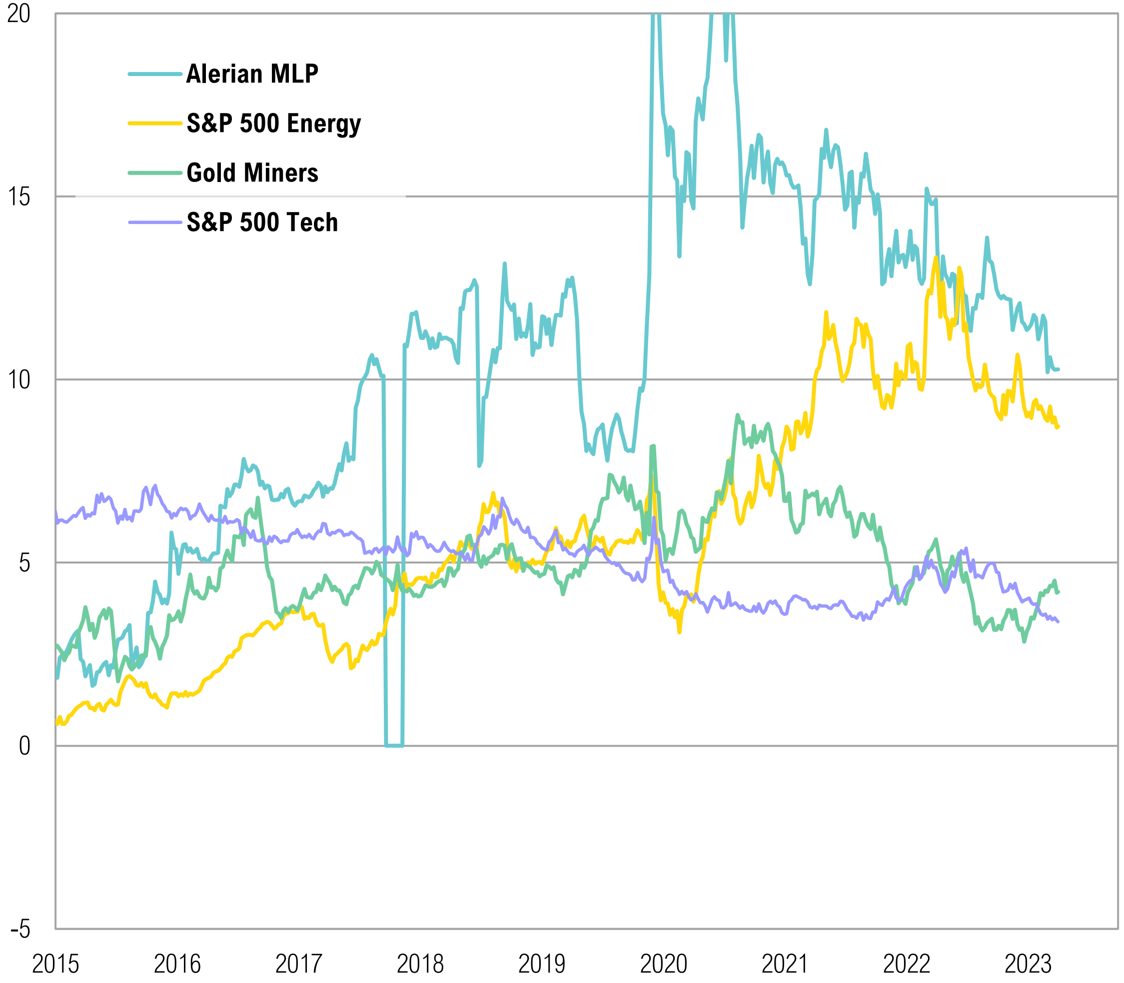
Midstream distribution yields trended lower as the sector broke out to upside but has seemingly stabilized around an attractive 8%; free cash flow yields of the energy sector have declined

12-Month Forward Dividend Yield, %



12-Month Forward FCF Yield, %



Source: Bloomberg

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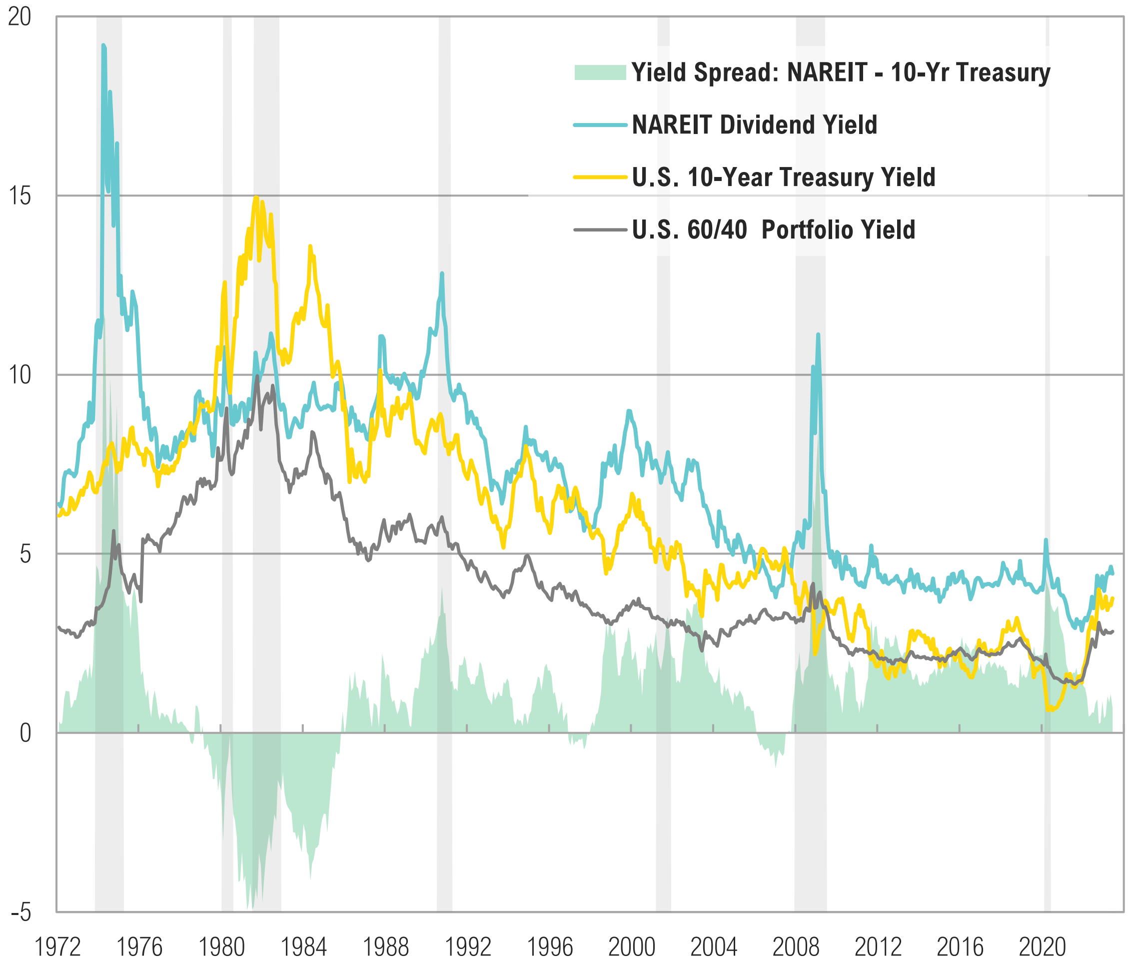
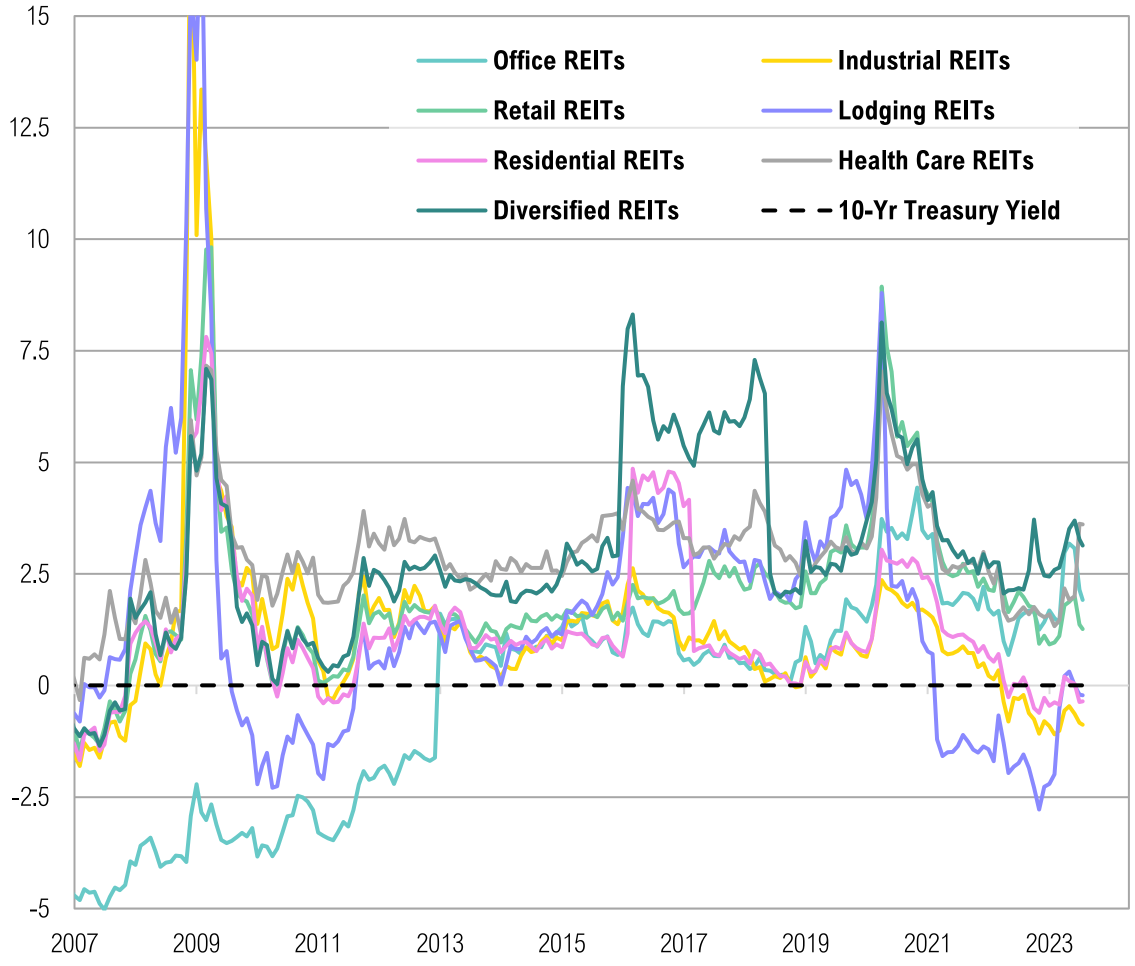
U.S. REITs have rallied 18% off 2022 lows, but still look wholly unattractive on a relative yield basis, despite looking more attractive on an absolute basis

Yield, %



Spreads: REIT Sector 12-Month Forward Dividend Yields vs. 10-Year Treasury



Source: Bloomberg, NAREIT.

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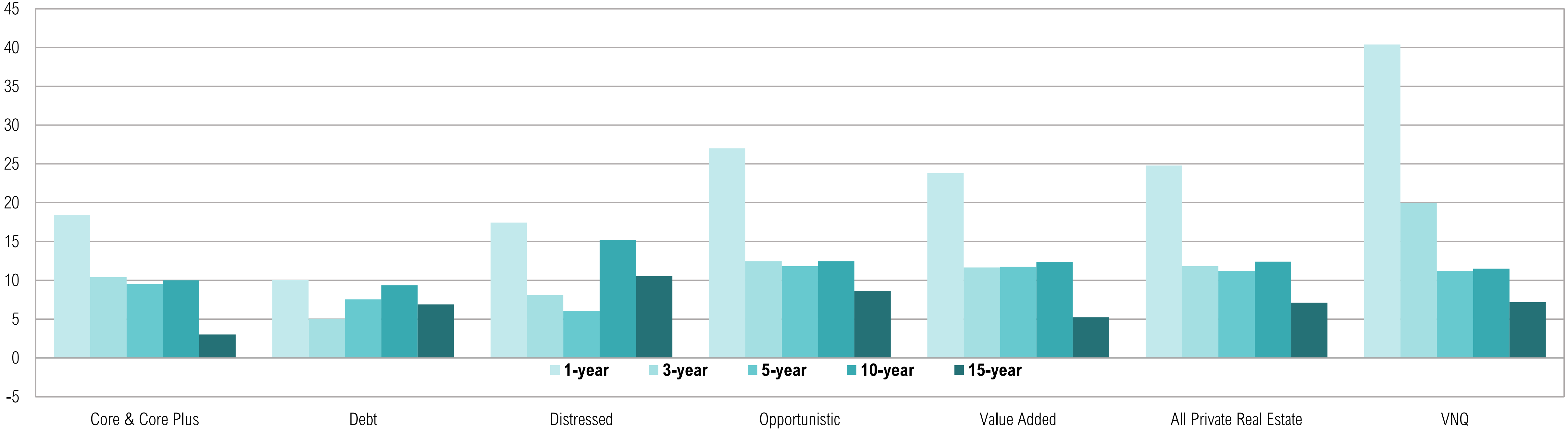
PRE: Longer-term (lagged) returns for various private real estate markets show the impact of going-in cap rates on subsequent returns

Real Estate Horizon IRRs by Strategy



Asset Class	Real Estate Sub-Sector	1-Yr	3-Yr	5-Yr	10-Yr	15-Yr	2021	2020	2019	2018	2017
Core & Core Plus	Core & Core Plus	18.4	10.4	9.5	10.0	3.0	18.4	10.5	6.5	12.7	10.0
Debt	Debt	10.0	5.1	7.5	9.4	6.9	10.0	4.3	16.4	5.7	3.3
Distressed	Distressed	17.4	8.1	6.1	15.2	10.5	17.4	0.3	-13.5	20.6	16.3
Opportunistic	Opportunistic	27.0	12.5	11.8	12.5	8.6	27.0	7.5	6.6	14.7	9.4
Value Added	Value Added	23.8	11.7	11.7	12.4	5.2	23.8	8.8	12.7	11.1	8.7
All Real Estate	All Real Estate	24.8	11.8	11.2	12.4	7.1	24.8	7.3	7.1	13.6	9.4
VNQ	VNQ	40.4	19.9	11.2	11.5	7.2	40.4	-4.7	28.9	-6.0	5.0

Source: Pitchbook, Bloomberg. Returns as of 12/31/2021.

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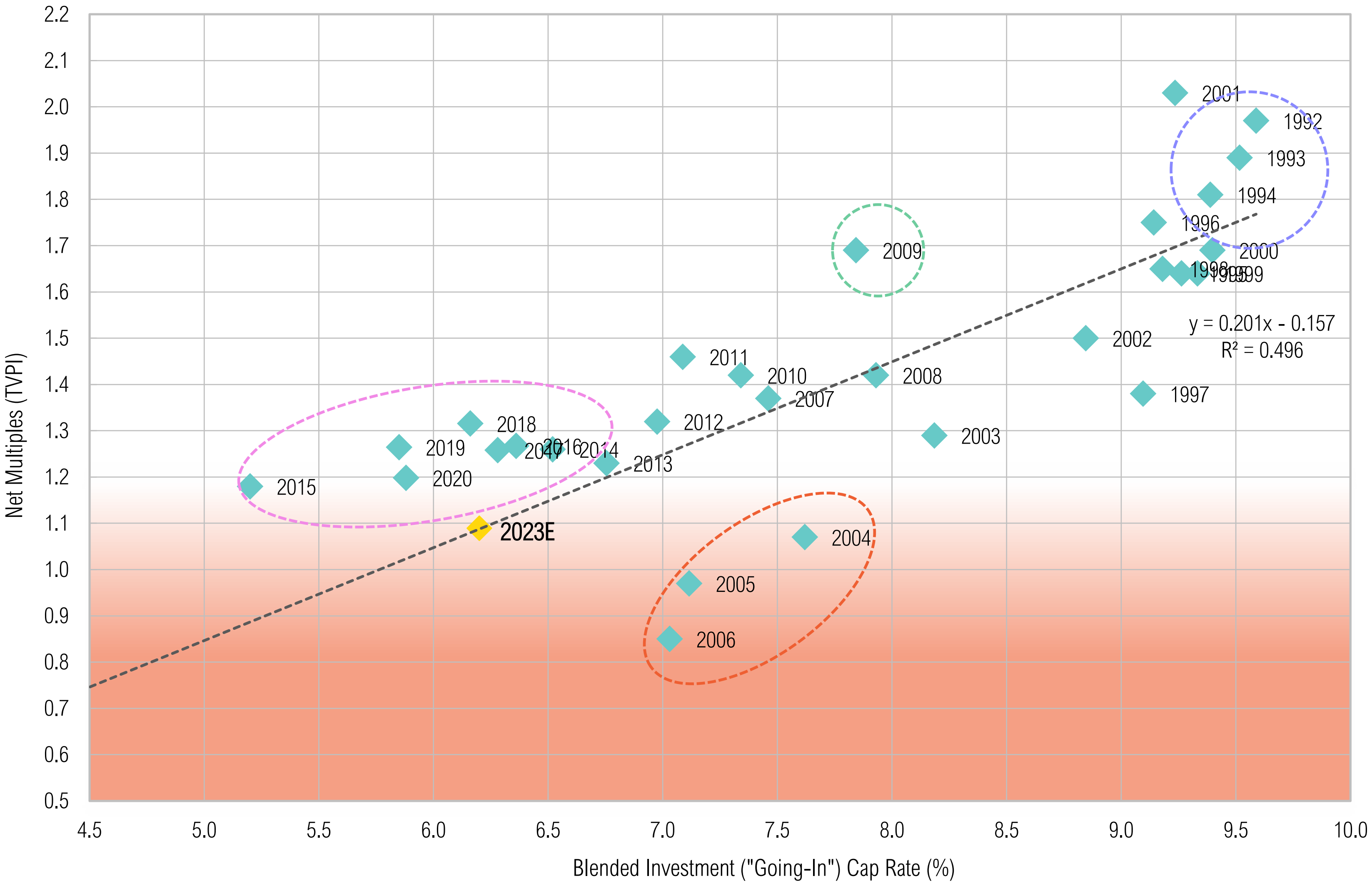
Going-In Cap Rates vs. Net Multiples



- **Cap Rates vs. Multiples:** History suggests a moderate correlation between cap rates (y) and multiples (x) [y = 0.2x – 0.16]
- **2023E:** Based on an estimated current average cap rate of ~6.2%, investors should expect most diversified PRE funds to modestly break even net of fees.

- **Early 1990s:** high single-digit cap rates; consistent near-2x multiples
- **Pre-GFC Boom:** ~7% cap rates; many funds failed to break even net of fees
- **Post-GFC Dislocation:** Combination of cap rates spiking to >8.5% and then rapidly declining in 2010-2011 resulted in +outlier returns.
- **2015-Post-COVID Cycle:** End of low-rate era, but with delayed realization of post-COVID impairments may drag recent fund returns lower

Source: Bloomberg. Returns as of most recent daily close. Returns for periods longer than 1 year are annualized.

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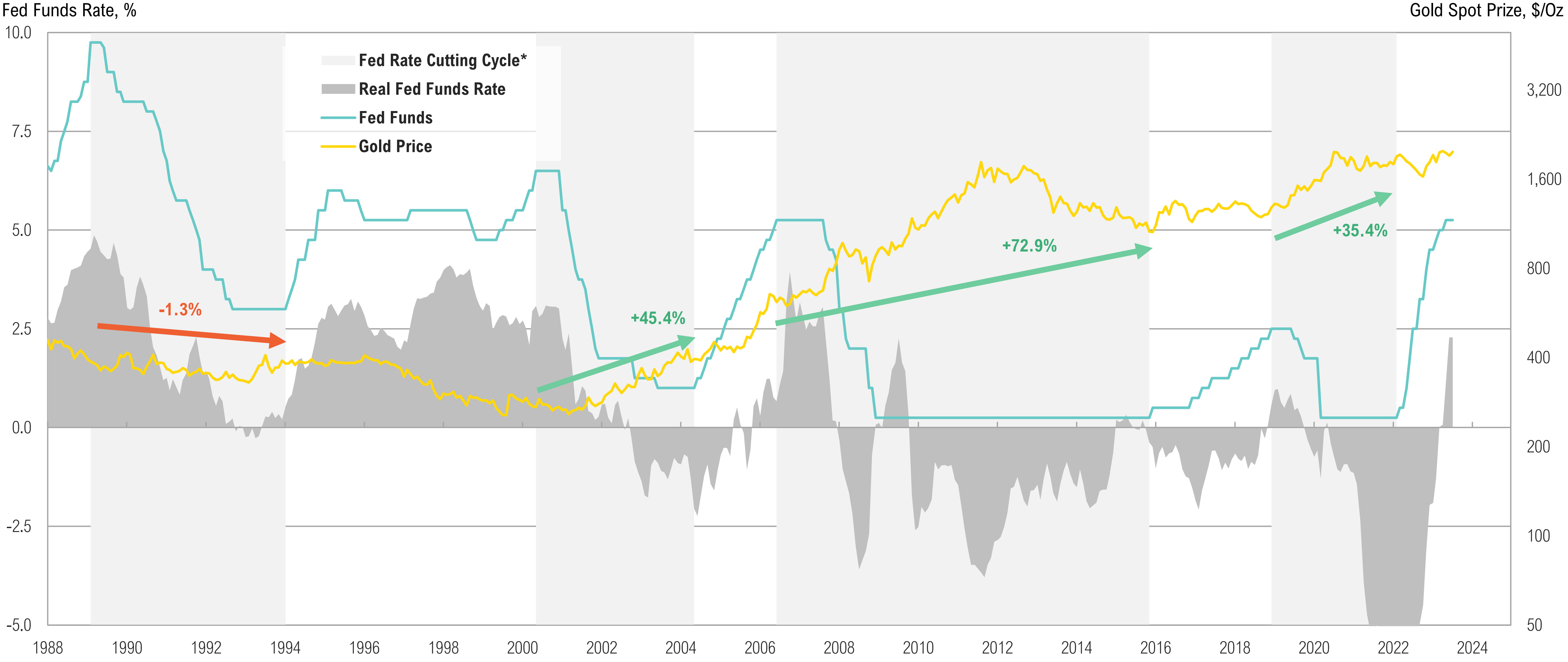
Since the turn of the century, the end of hiking cycles has been positive for gold; this may be due to lower opportunity costs (falling real rates)



Source: Bloomberg. *Fed rate cutting cycle defined as period from last rate hike of a cycle to the first-rate hike of the next cycle. 1994 hiking cycle has been excluded.

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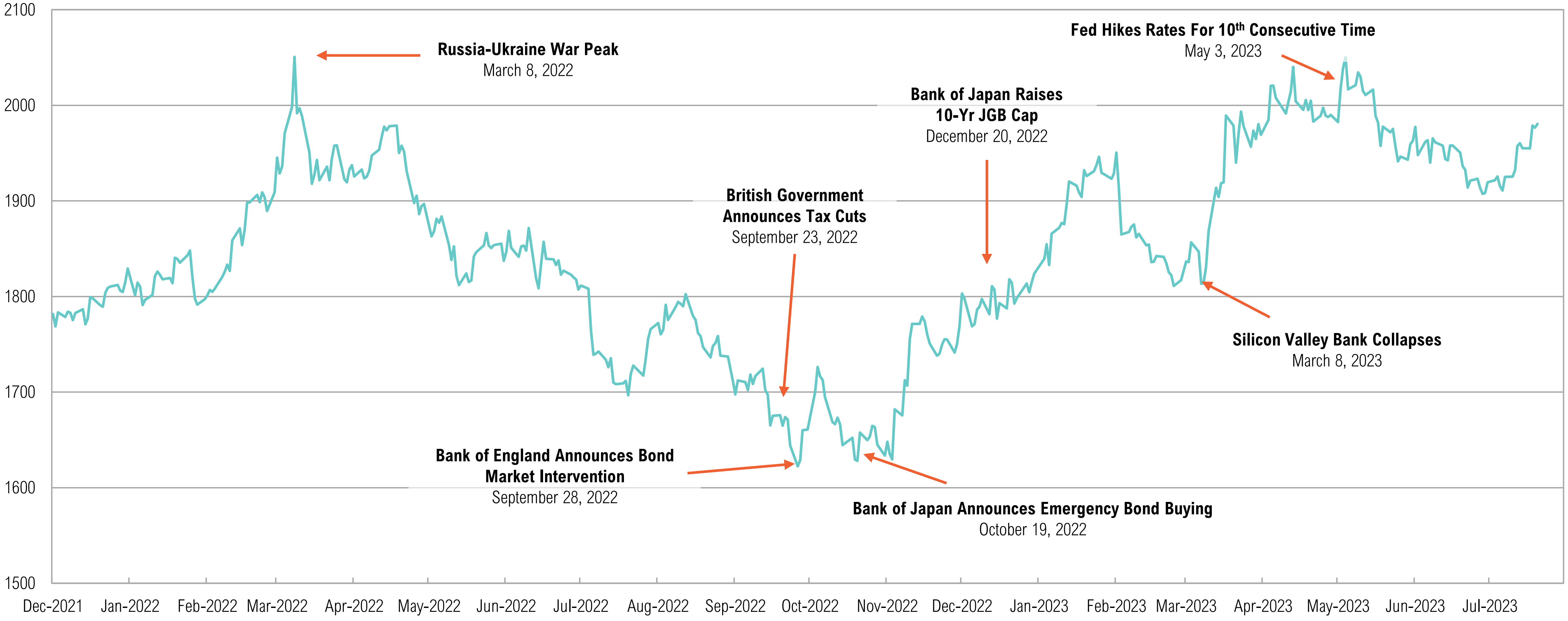
Gold continues to trade at elevated levels and is starting to behave more favorably as a financial crisis and fiat currency hedge

Gold Price, $/Oz



Source: Bloomberg. As of 7/19/2023.

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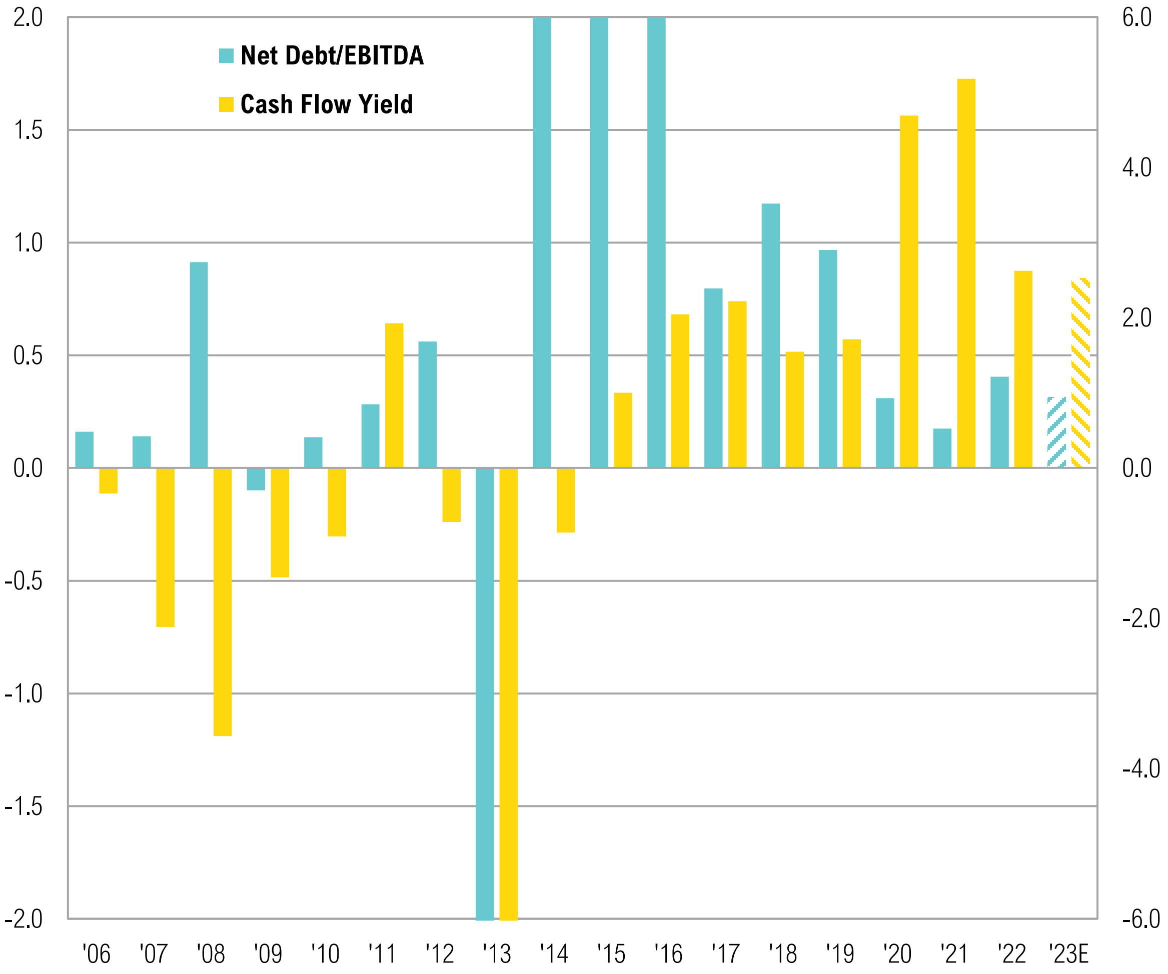
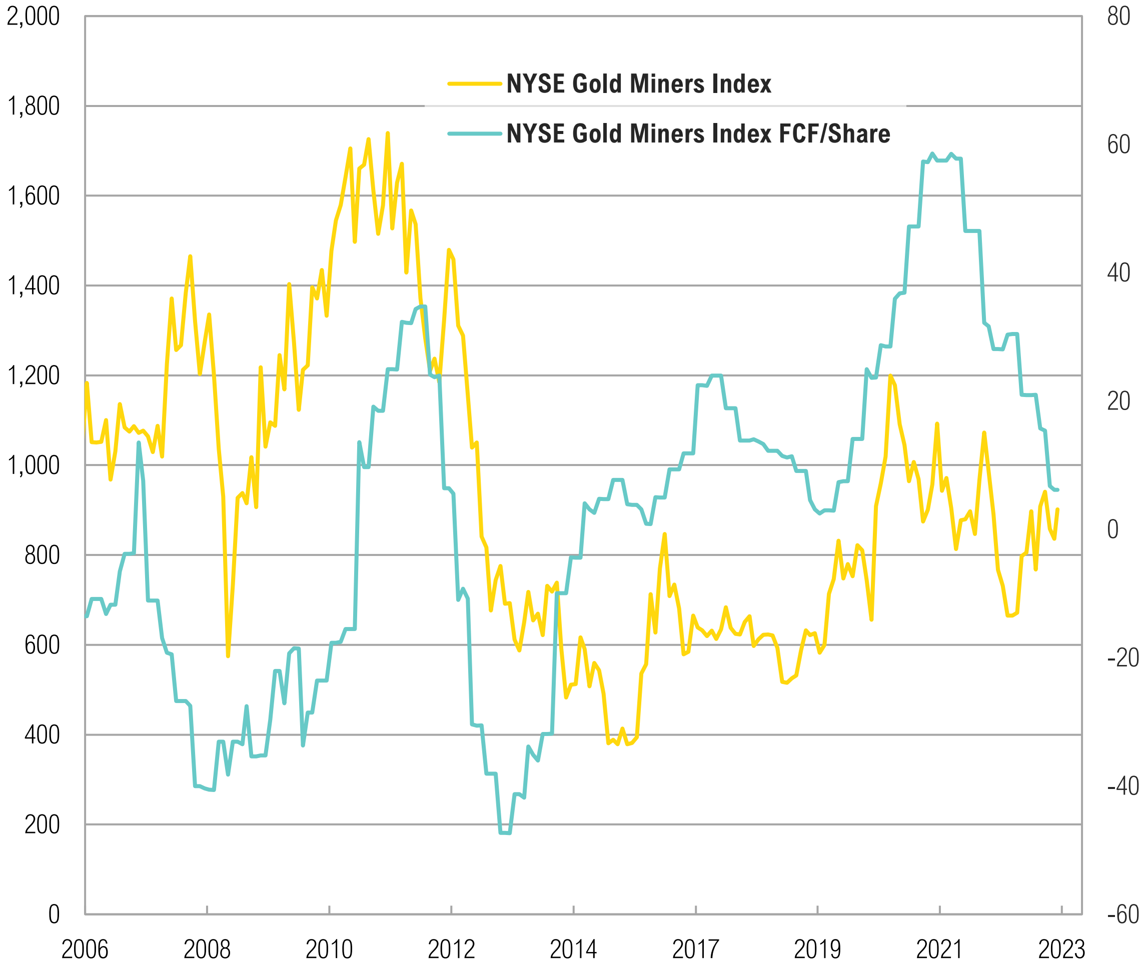
Gold miners have rallied 50% from Sept '22 lows, but have sold off modestly in recent months on weaker spot prices; increasing operating costs remains a key risk for miners

Gold Miners: Net Debt/EBITDA | Gold Miners: FCF Yield



NYSE Gold Miners Index | FCF/Share



Source: Bloomberg

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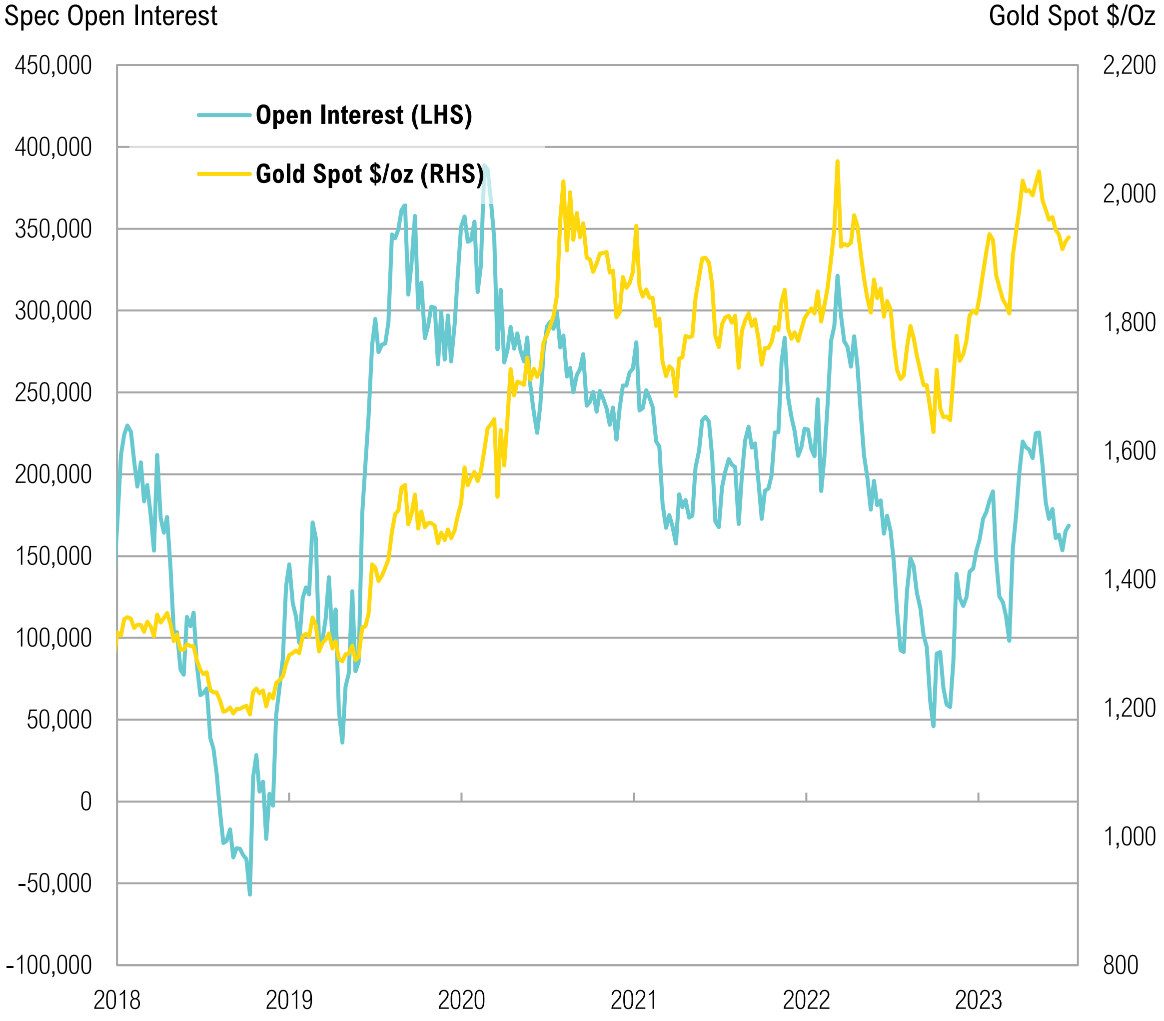
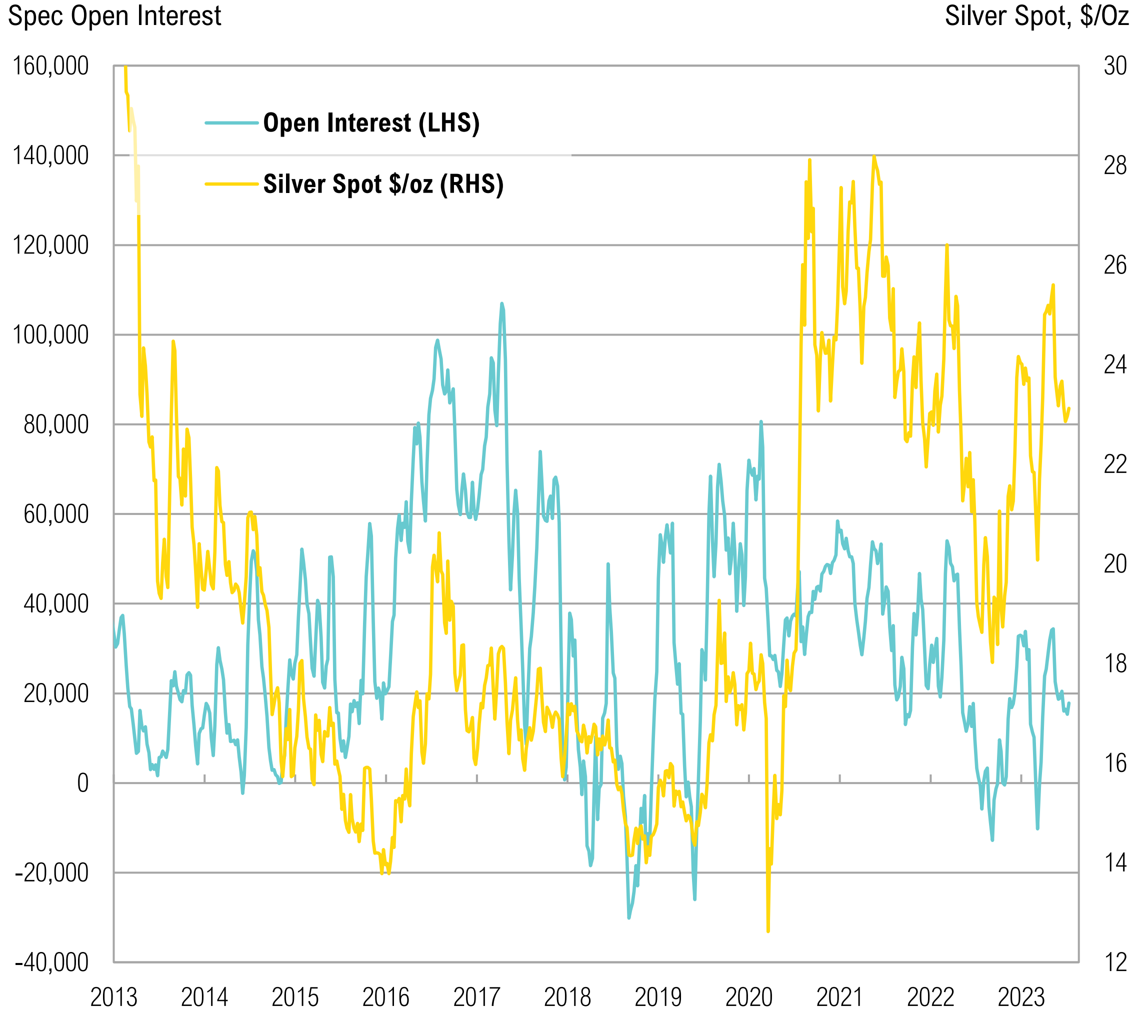
MOUNT YALE

Spec positioning in gold futures has pulled back modestly since May with spot prices declining; positive trend of prices and positioning since Sept. ’22 remains, but there are currently no strong signals





Source: Bloomberg

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Volatility is a dear friend of the active, patient, value-sensitive investor.

David Rolfe, *American Investor*

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Insurance-linked securities were again the top-performing opportunistic asset class over the quarter, up 5.2%, while closed-end funds continued to stall, up just 0.1%

Calendar Year & Trailing Total Returns

Asset Class	Benchmark	MTD	QTD	YTD	1-Yr	3-Yr	5-Yr	10-Yr	2022	2021	2020	2019	2018
Hedged Equity	HFRX Equity Hedge Index	1.3	2.1	3.0	4.6	7.7	3.2	3.1	-3.2	12.1	4.6	10.7	-9.4
Global Macro	HFRX Macro-CTA Index	0.5	2.8	0.3	0.7	2.7	2.1	1.1	3.7	-0.8	4.3	4.8	-3.2
Multi Strategy/ Asset	HFRI Fund Weighted Composite Index	N/A	0.0	0.9	2.8	7.4	4.5	4.5	-4.1	10.2	11.8	10.4	-4.7
Relative Value	HFRI Relative Value Index	N/A	0.4	1.9	3.2	5.6	3.4	3.9	-0.7	7.6	3.4	7.4	-0.4
Closed-End Funds	S-Network Composite Closed-End Index	2.8	0.1	0.4	-4.3	-3.3	-4.6	-3.0	-25.4	7.4	-3.7	15.1	-15.3
Insurance-Linked Securities	SwissRe Global Cat Bond Index	1.7	5.2	10.5	8.4	5.6	4.5	5.0	-2.2	4.9	5.8	4.6	2.5

Source: Bloomberg. Due to reporting lag, Multi Strategy and Relative Value trailing return data in the table above is lagged by 1 month. Returns for periods greater than 1 year are annualized.

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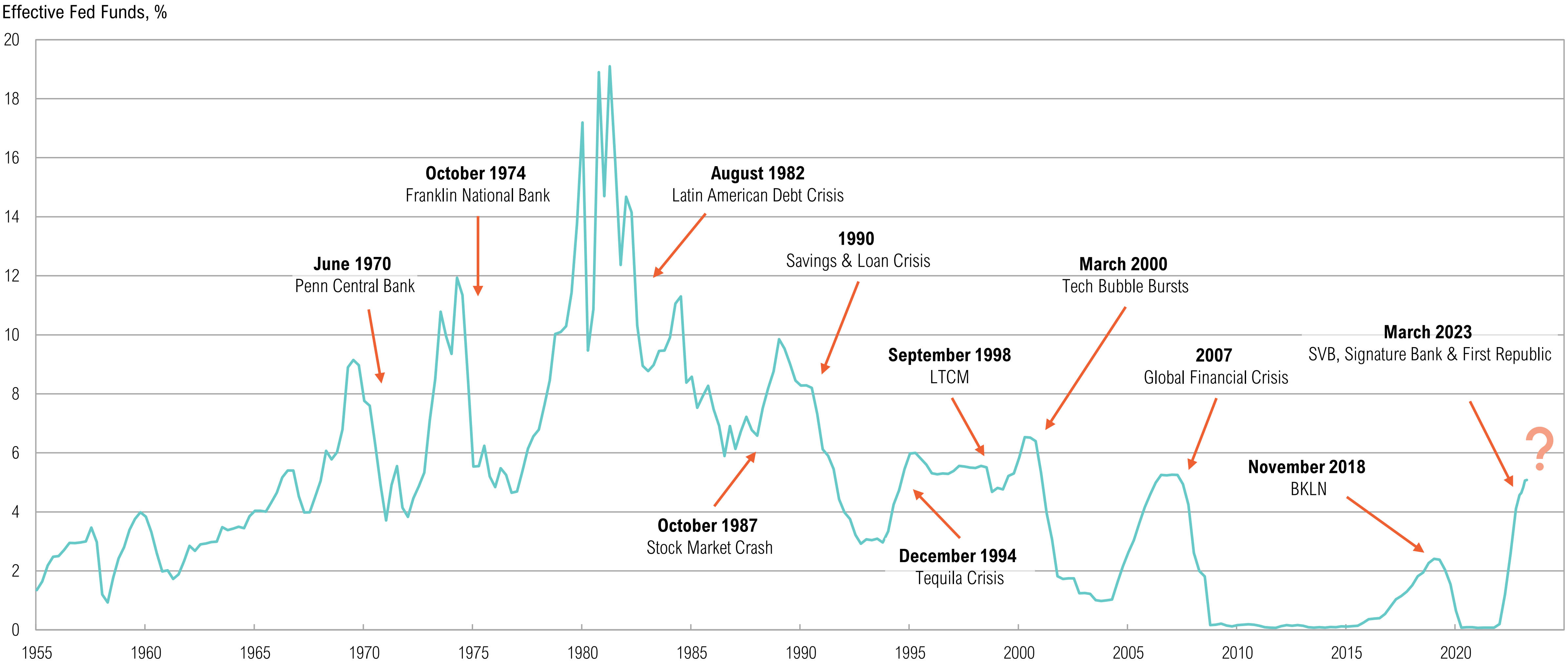
"Hike until something breaks" is typically how cycles play out



Source: Bloomberg

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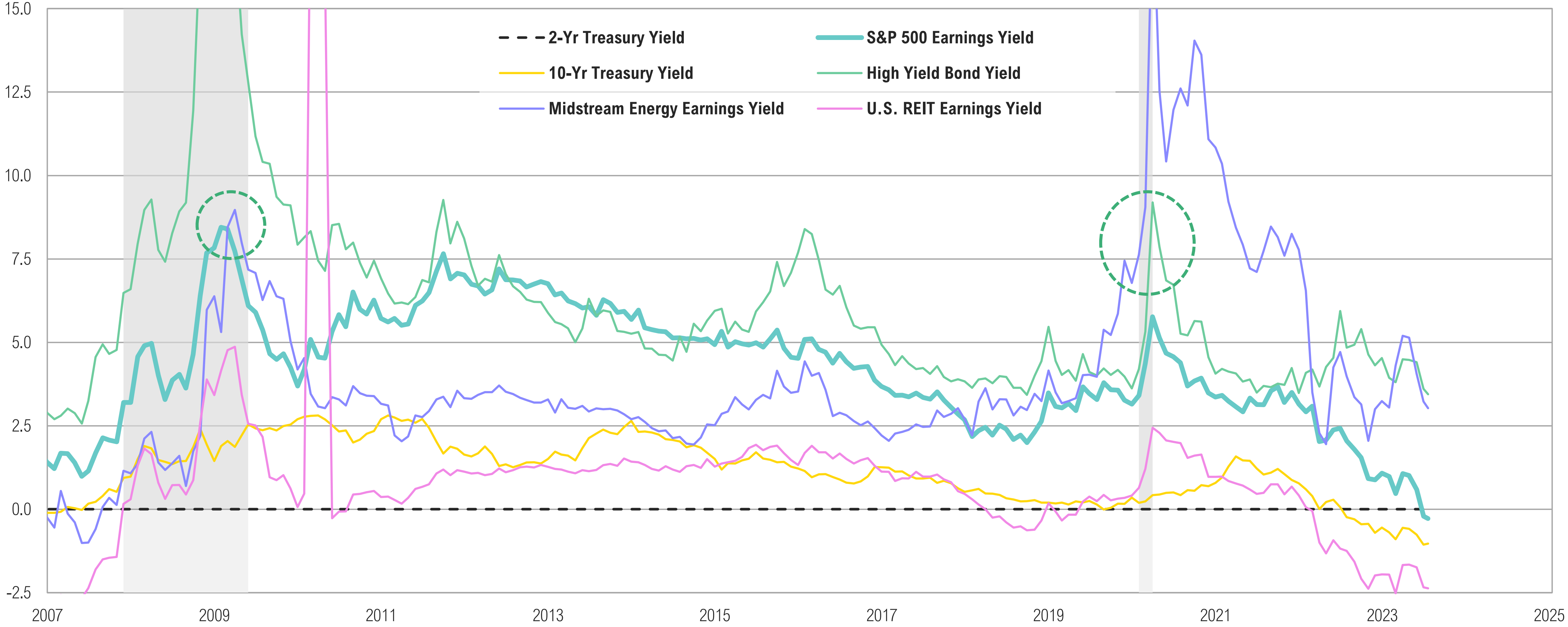
Most asset classes don't look attractive relative to the 2-year Treasury yield; spreads have some way to go if past recessions are at all indicative

Yield Spreads vs. 2-Year Treasury, %



Source: Bloomberg

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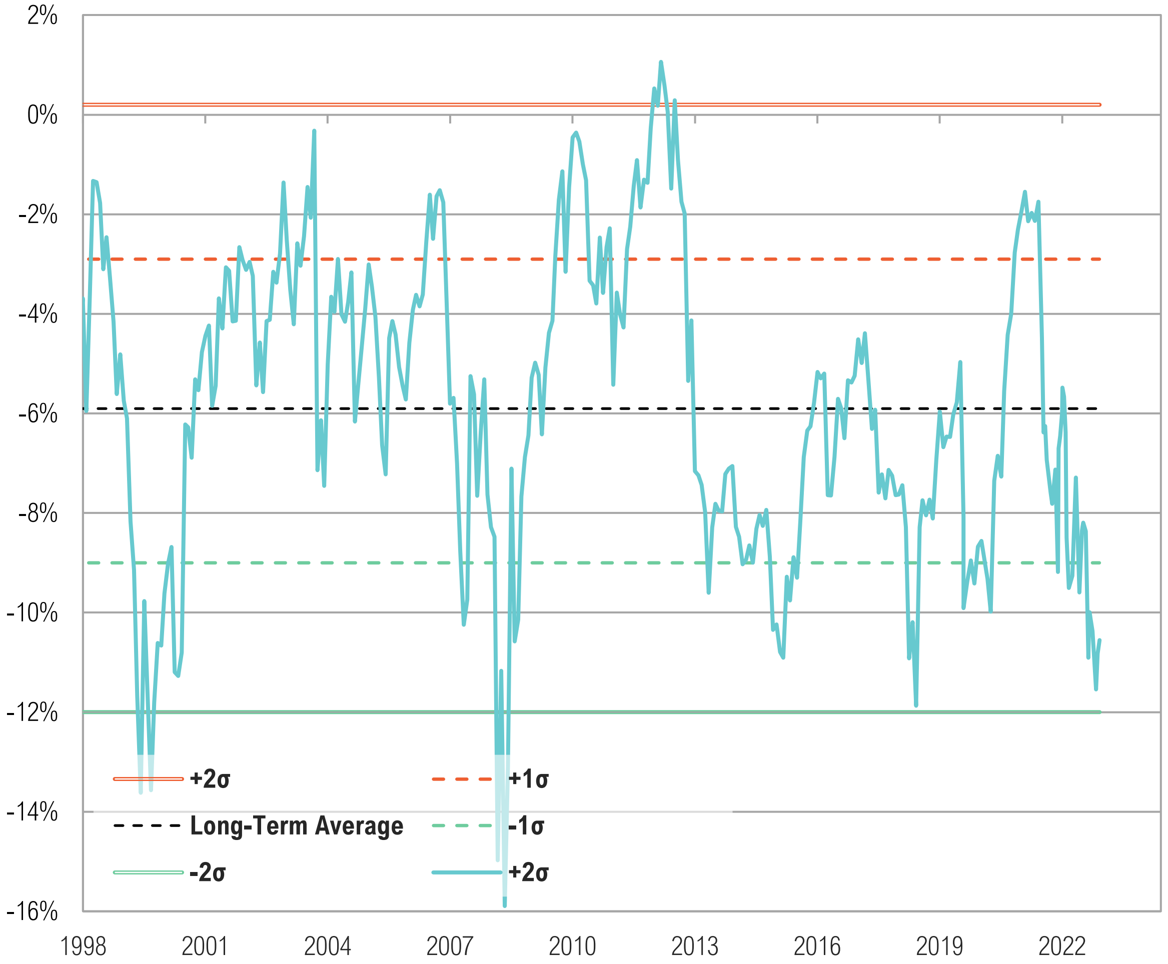
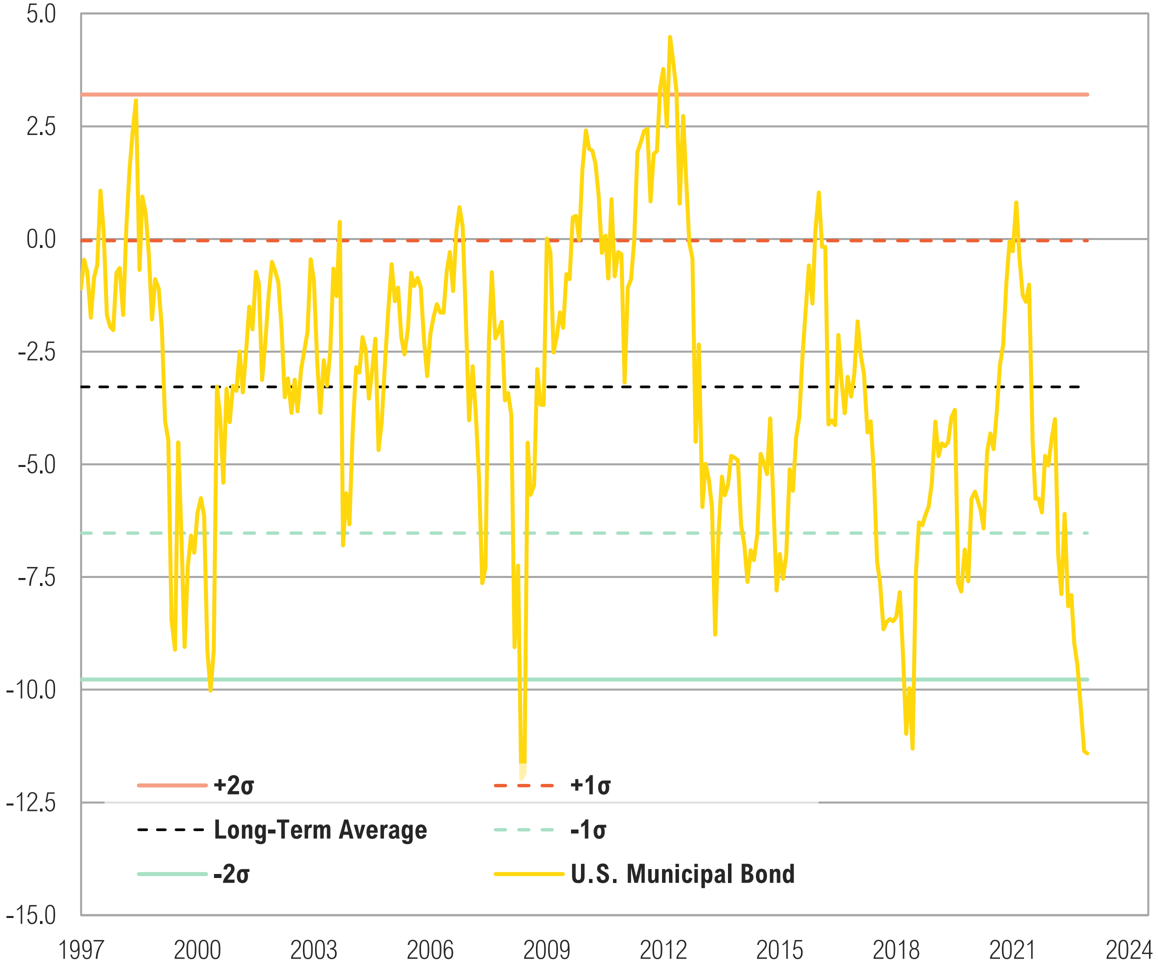
CEF discounts narrowed over the quarter and are currently at -10.8%; U.S. muni bond funds have seen discounts widen further, with an average sector discount of -11.4%, near record levels

Median Premium/Discount to Net Asset Value, %



Average Premium/Discount to Net Asset Value



Source: Bloomberg

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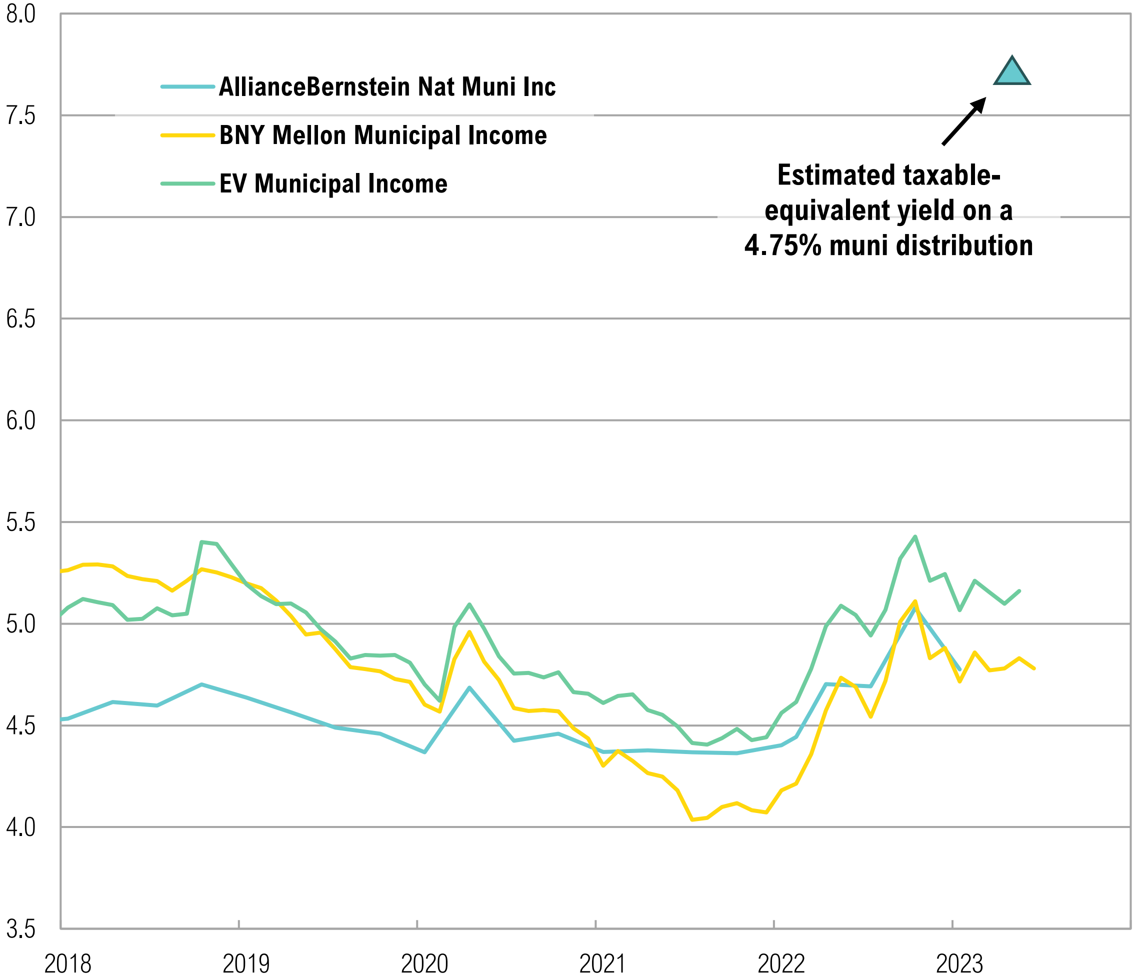
While discounts are compelling, fund cash flows (and distribution yields) have been hurt by increased leverage costs

Bloomberg Municipal Index Yield to Worst, %

Current Yield, %



Source: Bloomberg

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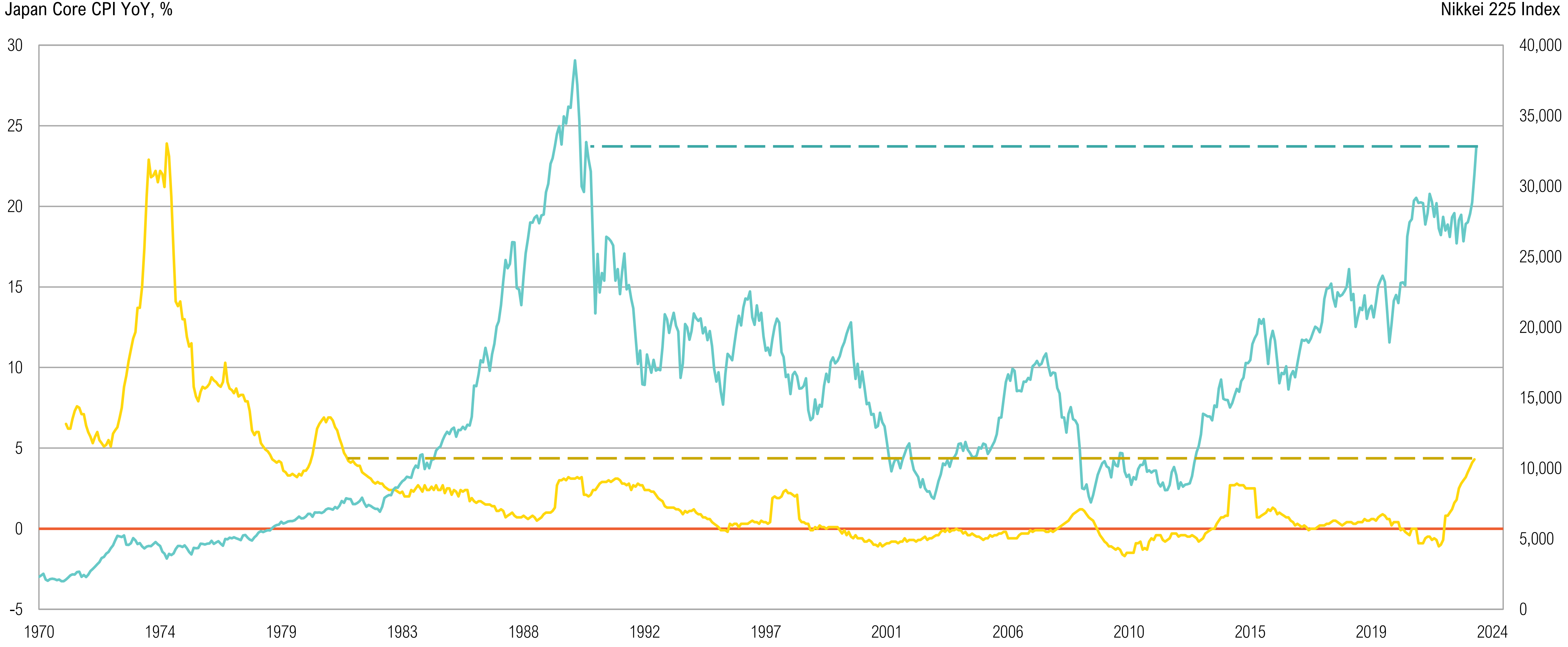
MOUNT YALE

Japan's core CPI is at the highest level since 1981 and the Nikkei Index is up 25% YTD, near levels last seen in 1990; BoJ Governor Ueda adamantly sticks to policy



Source: Bloomberg. As of 6/23/2023.

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10-Year JGBs seem to have been behaving better since the start of the new BoJ governor Ueda in April; have been below YCC level of 0.5 since mid-March

Japan Government Bond 10-Year Yield, %

Source: Bloomberg

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After hitting a YTD high of 144.76 yen, the USD/JPY retracted back to below 140; focus shifts to future Fed rate hikes and BoJ's unwavering policy stance

USD/JPY Currency Cross Rate

Source: Bloomberg

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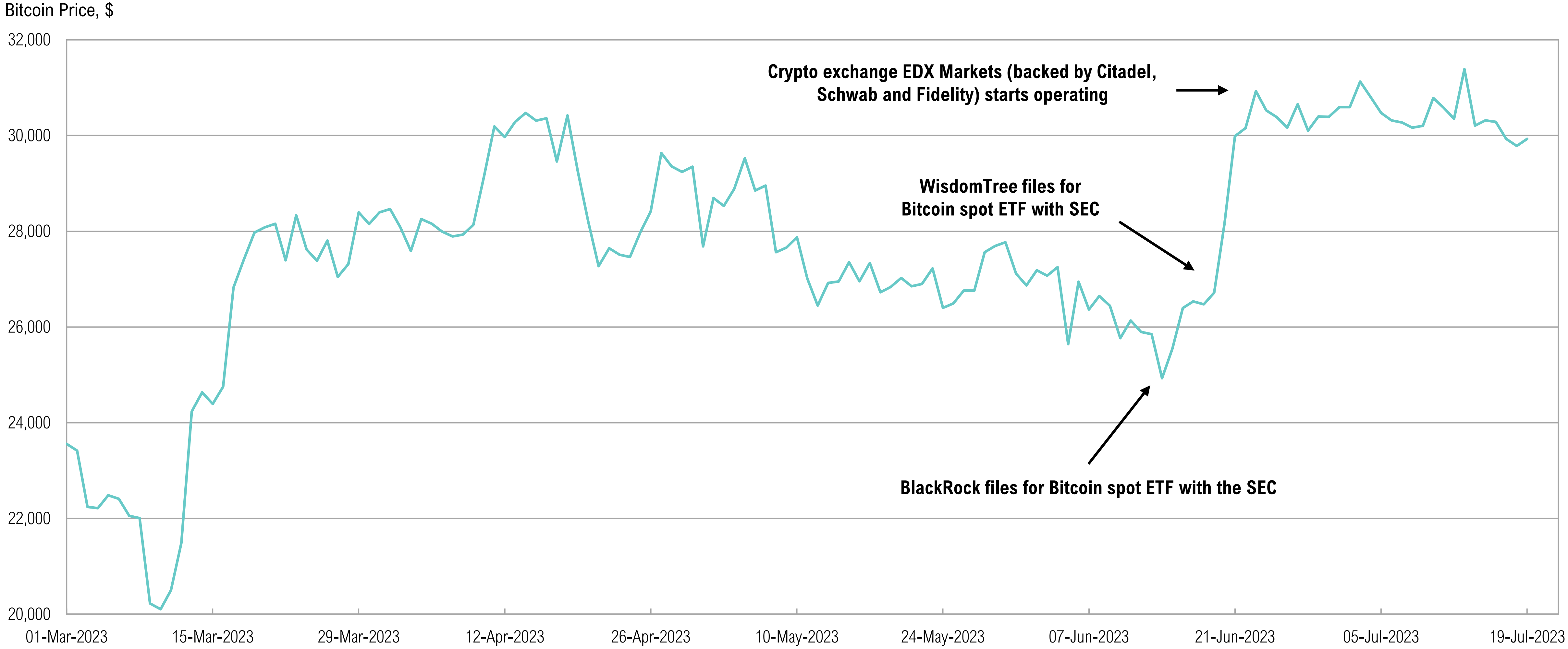
It's been busy in the crypto-verse: BLK filed an application for a Bitcoin spot ETF with the SEC, and a new crypto exchange launched; Bitcoin is up 19% since BLK filing



Source: Bloomberg

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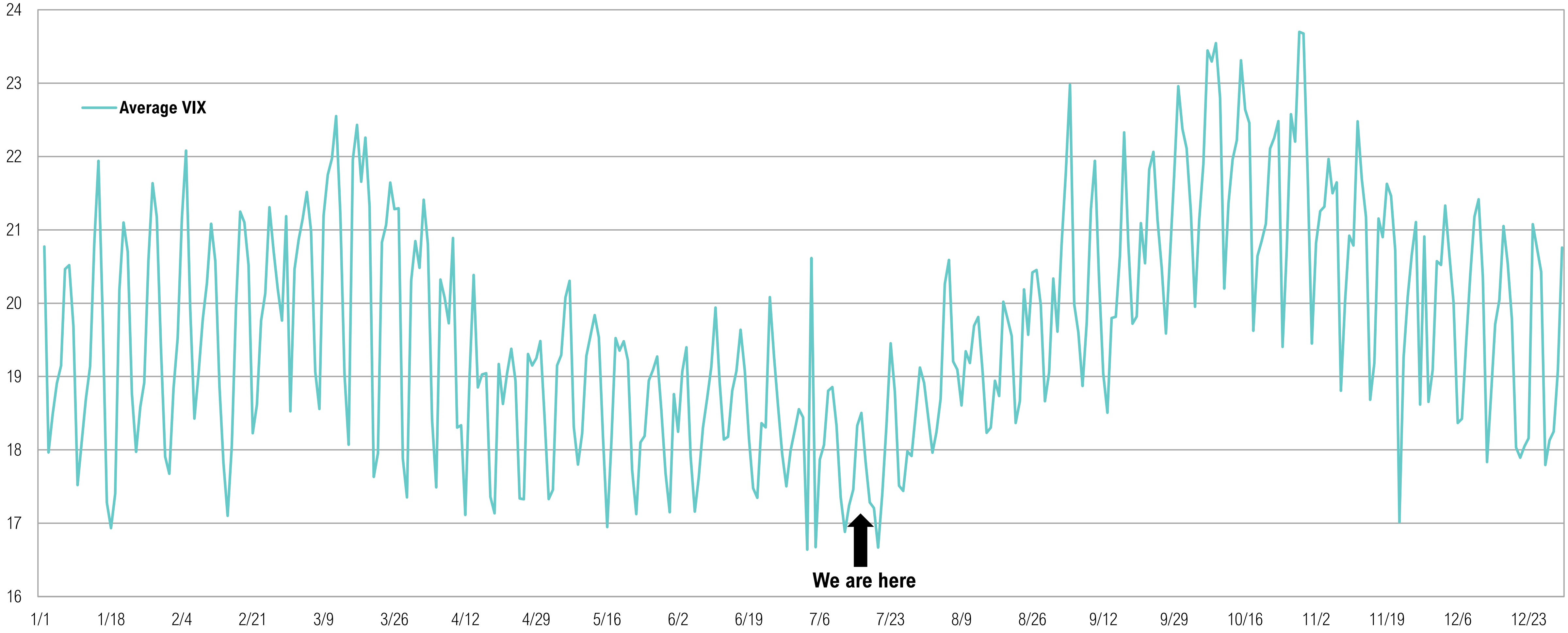
On average, the VIX tends to bottom around this time of the year, with the back half of July generally being the low point and volatility increasing into the fall

Average CBOE VIX Index, 1990-Current



Source: Bloomberg

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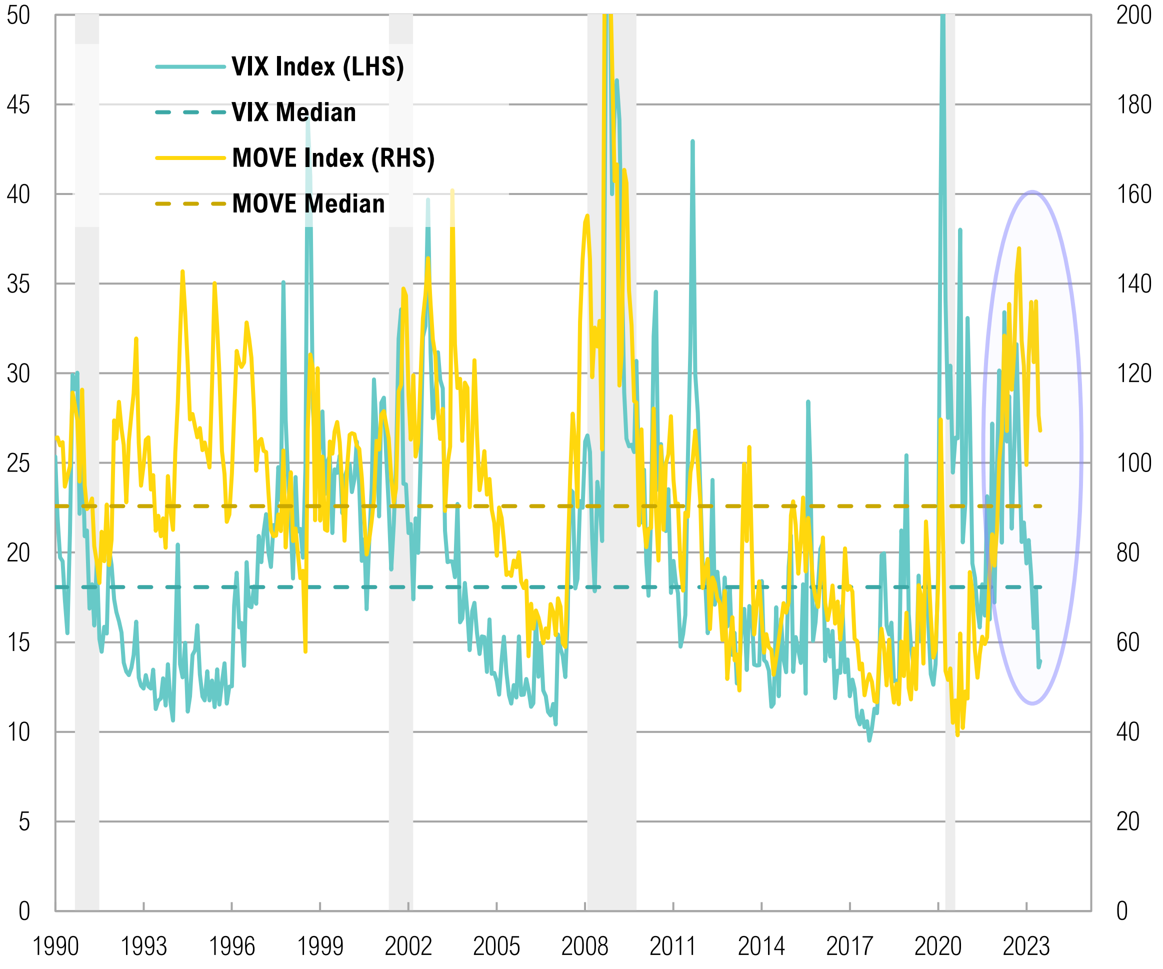
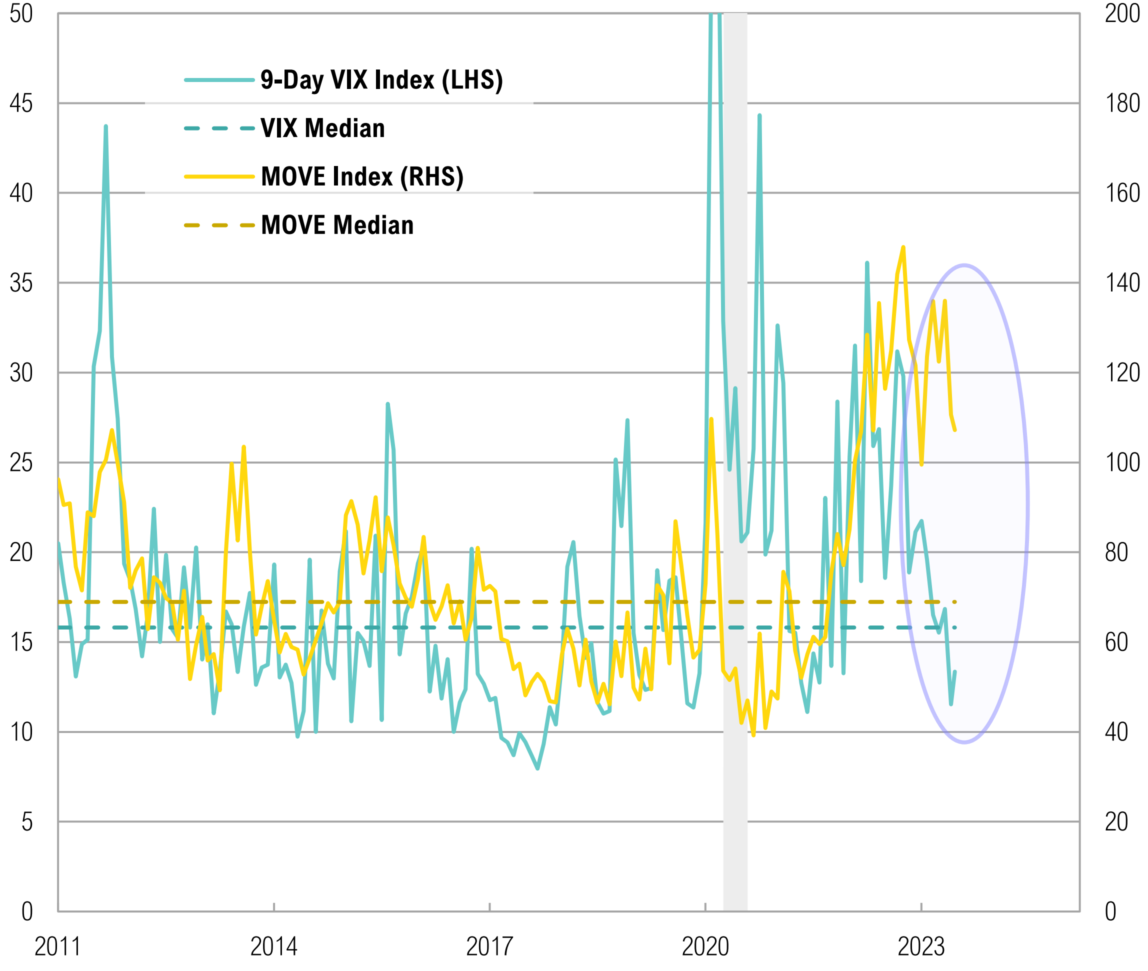
The implied bond market volatility (MOVE) isn't showing the same level of composure as equities (VIX); it is unlikely that both markets are correct





Source: Bloomberg, Hedgeye. VIX data for 1990, 2001, 2007 and 2020 recessions aggregated.

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Usually, it takes events. It takes something happening that creates an opportunity.

Sam Zell, *American Investor*

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2021 was an unusual year for global stocks and bonds, 2022 even more so; 2023 is off to a great start

Source: Bloomberg. Global Stocks are represented by MSCI ACWI Index (1988-2022) and the MSCI World Index (1976-1987). Global Bonds are represented by Bloomberg Global Aggregate Bond Index (1991-2022) and Bloomberg US Agg Bond Index (1976-1990).

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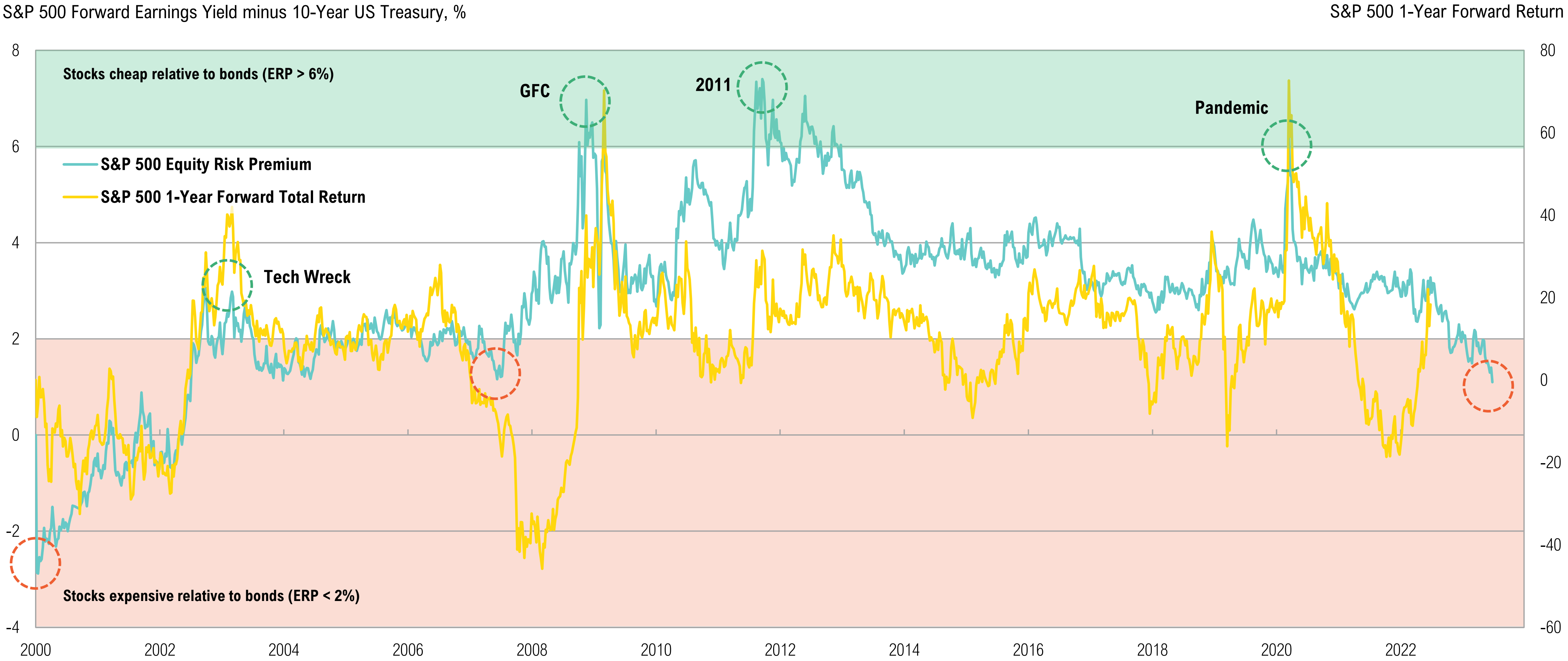
Despite stocks being well below all-time highs, stocks are less attractively priced vis-à-vis bonds than they were a year ago; in fact, the relative yield on stocks hasn't been this low since the GFC



Source: Bloomberg. Equity risk premium calculated as S&P 500 earnings yield minus 10-year Treasury yield.

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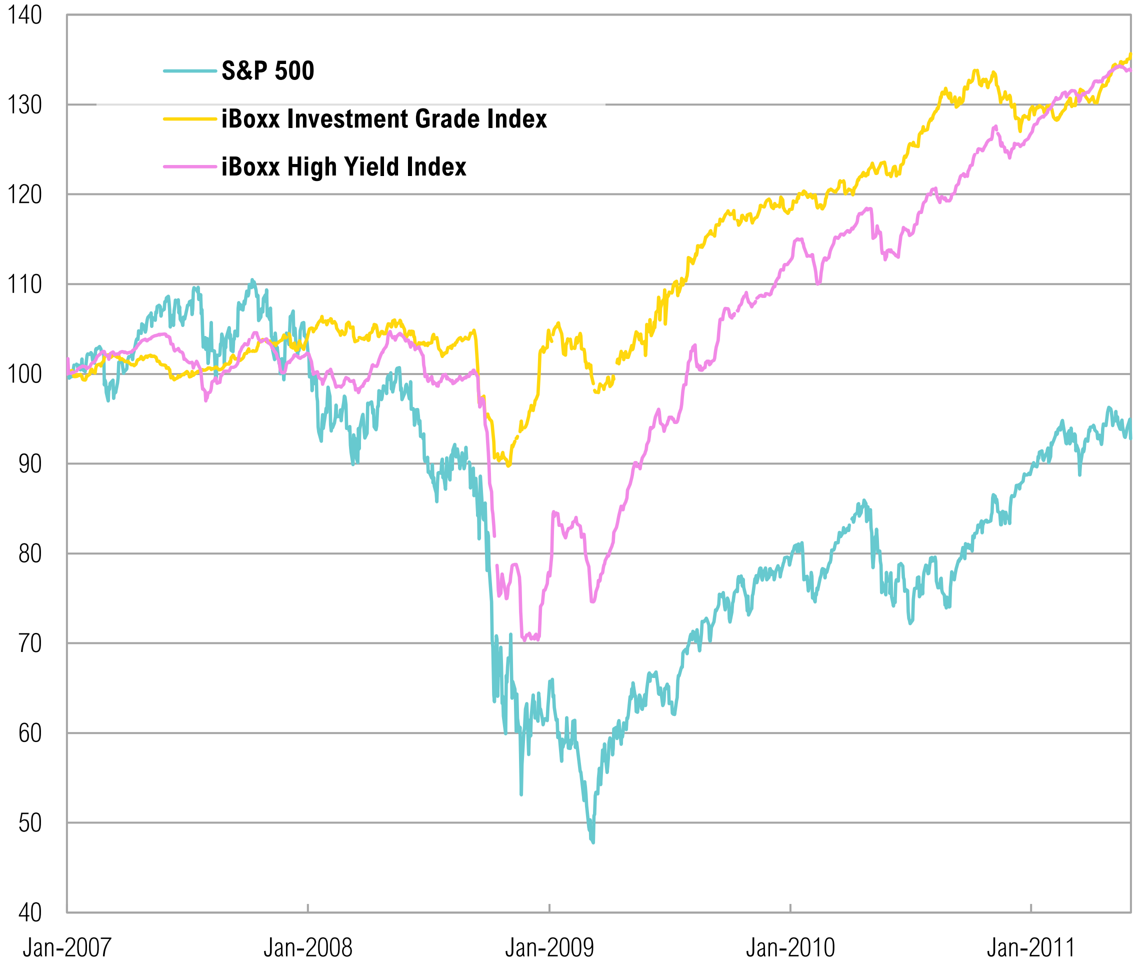
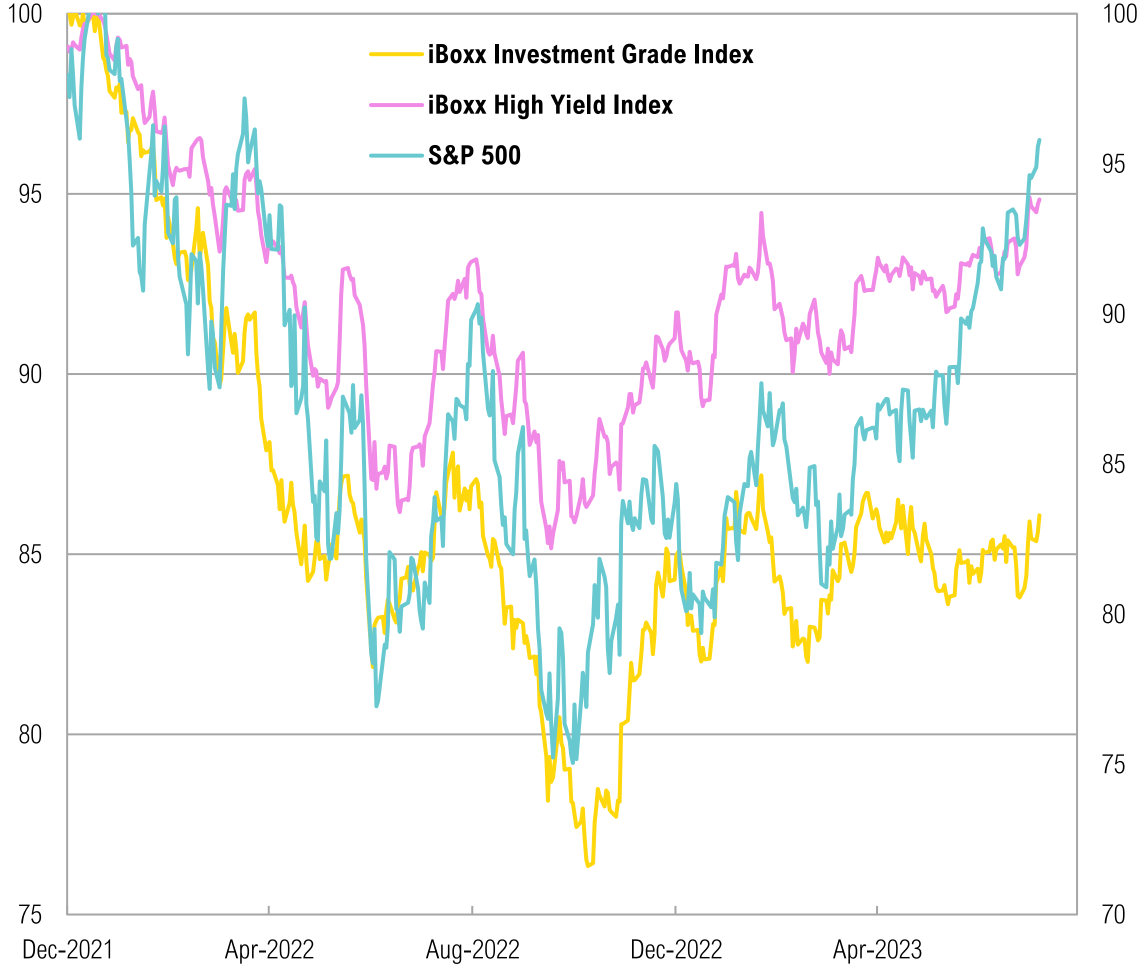
Can equities "wag the dog"? Credit tends to lead equities on the way out of bear markets; while there's been a very constructive narrowing of IG and HY spreads recently, equities have decoupled

Growth of 100, 1/1/2007 – 5/31/2011



Growth of 100, 1/1/2022 – 7/19/2023



Source: Bloomberg

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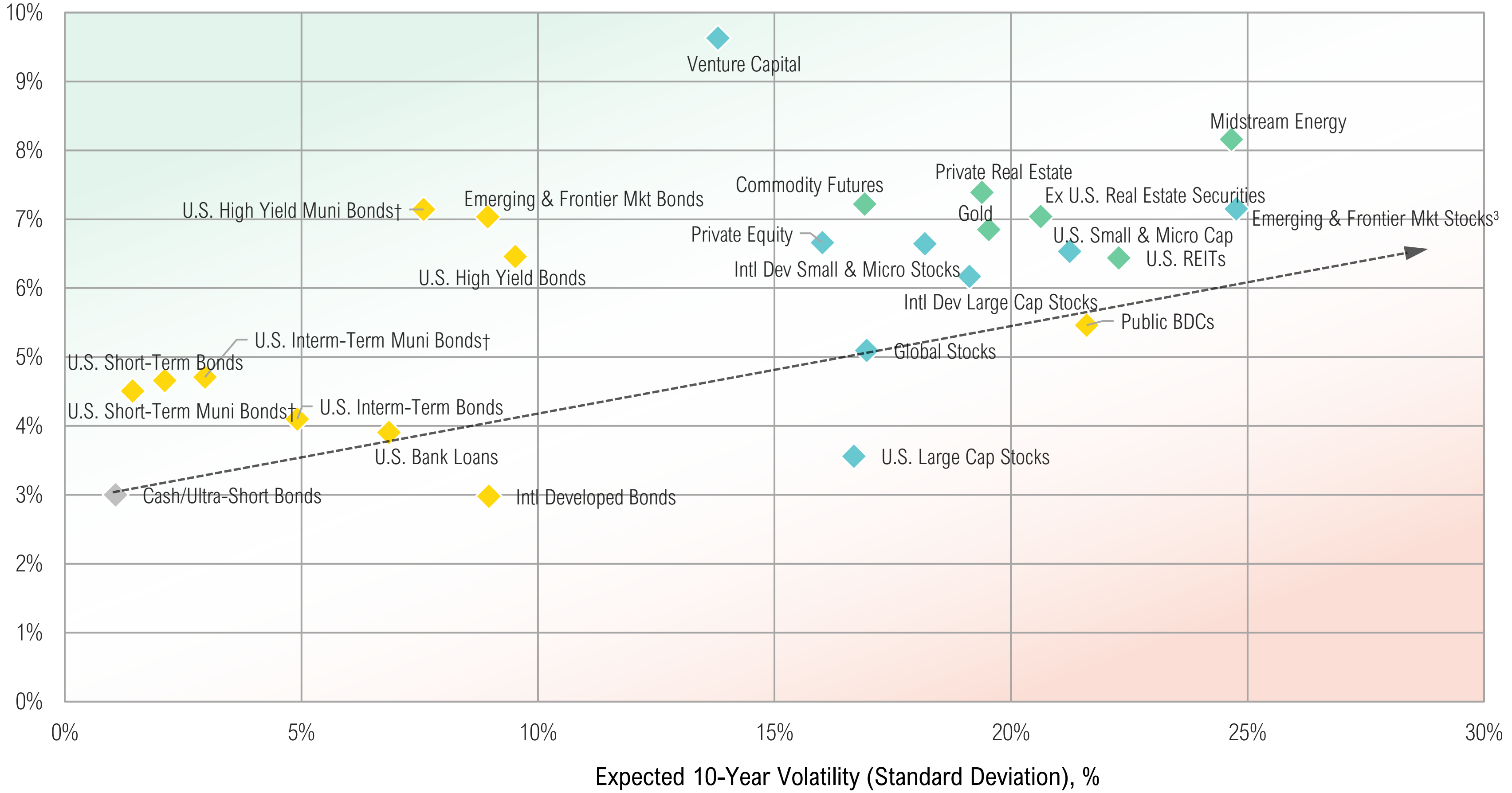
Expected 10-year returns for bonds rose with yields; expected return differential between small and large cap U.S. stocks is now 3%

Expected 10-Year Gross Total Return, %



	Δ vs. Last Qtr Exp Rets (10 Yr)	6/30/2023 6/30/2023 Exp Rets (10 Yr)
Equity		
U.S. Large Cap Stocks	-0.9%	3.6%
U.S. Small & Micro Cap	0.4%	6.5%
Intl Dev Large Cap Stocks	-0.2%	6.2%
Intl Dev Small & Micro Stocks	0.0%	6.6%
Emerging & Frontier Mkt Stocks	-0.2%	7.1%
Global Stocks	-0.5%	5.1%
Private Equity	-0.9%	6.7%
Venture Capital	0.4%	9.6%
Fixed Income & Credit		
U.S. Interm-Term Muni Bonds†	0.6%	4.7%
U.S. Short-Term Muni Bonds†	0.8%	4.5%
U.S. High Yield Muni Bonds†	0.0%	7.1%
U.S. Interm-Term Bonds	0.4%	4.1%
U.S. Short-Term Bonds	0.8%	4.7%
U.S. High Yield Bonds	0.0%	6.5%
U.S. Bank Loans	0.0%	3.9%
Intl Developed Bonds	0.2%	2.98%
Emerging & Frontier Mkt Bonds	-0.1%	7.0%
Public BDCs	0.2%	5.5%
Private Credit	0.0%	9.5%
Real Assets & Infrastructure		
U.S. REITs	-0.2%	6.4%
Ex U.S. Real Estate Securities	-0.3%	7.0%
Private Real Estate	-0.2%	7.4%
Commodity Futures	-0.1%	7.2%
Midstream Energy	0.1%	8.2%
Gold	0.0%	6.9%
Private Energy & Infrastructure	0.1%	10.0%
Opportunistic		
Long-Short Equity	-0.4%	5.7%
Relative Value	-0.1%	7.1%
Closed-End Funds	0.0%	9.9%
Global Macro	0.6%	5.7%
Insurance-Linked Securities	0.0%	6.9%
Digital Assets	0.2%	6.6%
Cash & Cash Equivalents		
Cash & Cash Equivalents	0.0%	3.0%

[3] Estimated returns include impact of currency adjustment
† Reported on a taxable-equivalent basis assuming 35% marginal tax rate.

Source: Bloomberg, CA, Pitchbook, Morningstar, NAREIT, SpringTide calculations.

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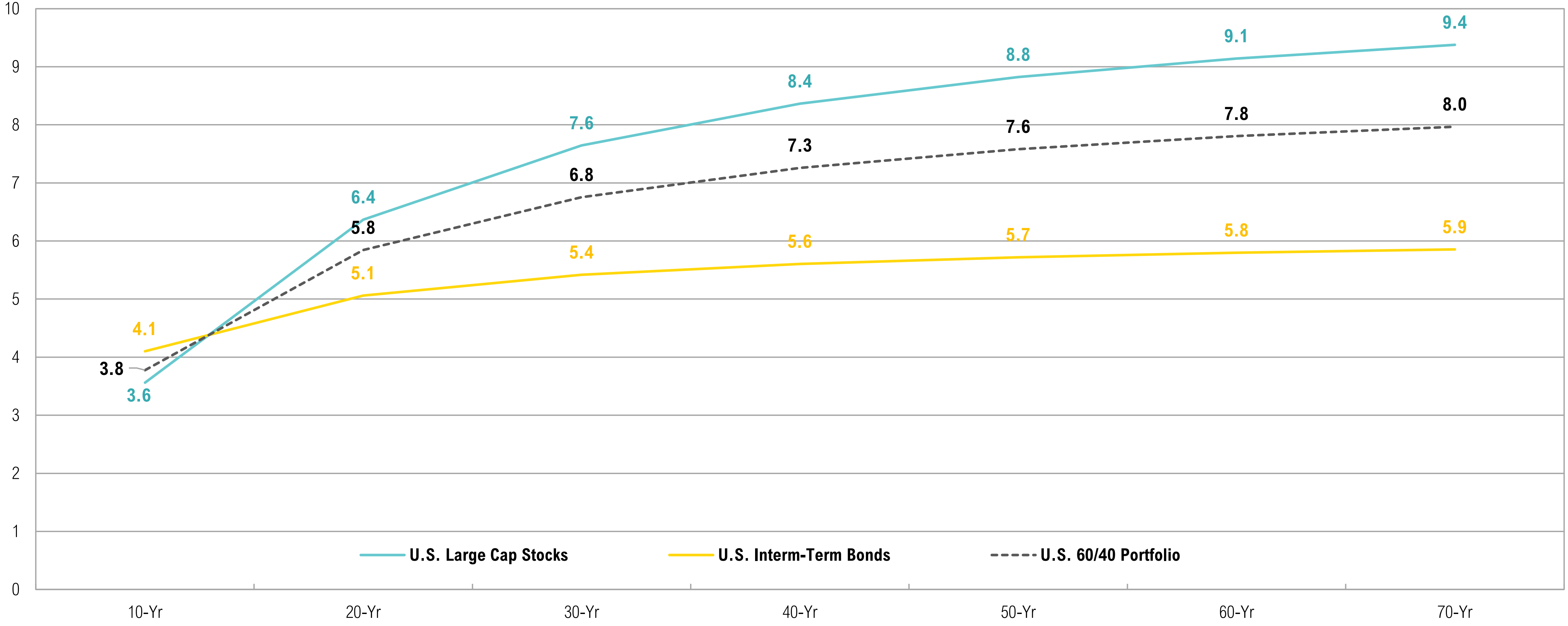
Fixed income returns are now expected to outperform U.S. large cap stocks over 10 years (pre-inflation, which is big unknown)

Expected Total Returns, Annualized %



Source: Bloomberg, CA, Pitchbook, Morningstar, NAREIT, SpringTide calculations.

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Asset Class Benchmarks

Asset class performance was measured using the following benchmarks:

U.S. Large Cap Stocks: S&P 500 TR Index

U.S. Small & Micro Cap Stocks: Russell 2000 TR Index

Intl Dev Large Cap Stocks: MSCI EAFE GR Index

Intl Dev Small & Micro Stocks: MSCI EAFE GR Index

Emerging & Frontier Market Stocks: MSCI Emerging Markets GR Index

Global Stocks: MSCI ACWI GR Index

Private Equity: Cambridge Associates U.S. Private Equity

Venture Capital: Cambridge Associates U.S. Venture Capital

U.S. Interm-Term Muni Bonds: Bloomberg Barclays 1-10 (1-12 Yr) Muni Bond TR Index

U.S. High Yield Muni Bonds: Bloomberg Barclays High Yield Muni TR Index

U.S. Interm-Term Bonds: Bloomberg Barclays U.S. Aggregate Bond TR Index

U.S. High Yield Bonds: Bloomberg Barclays U.S. Corporate High Yield TR Index

U.S. Bank Loans: S&P/LSTA U.S. Leveraged Loan Index

Intl Developed Bonds: Bloomberg Barclays Global Aggregate ex-U.S. Index

Emerging & Frontier Market Bonds: JPMorgan EMBI Global Diversified TR Index

Public BDCs: S&P BDC Index

U.S. REITs: MSCI U.S. REIT GR Index

Ex U.S. Real Estate Securities: S&P Global Ex-U.S. Property TR Index

Private Real Estate: Cambridge Associates Real Estate

Commodity Futures: Bloomberg Commodity TR Index

Midstream Energy: Alerian MLP TR Index

Gold: LBMA Gold Price

Long-Short Equity: HFRI Equity Hedge Index

Global Macro: HFRI Macro-CTA Index

Relative Value: HFRI Relative Value Index

Closed-End Funds: S-Network Composite Closed-End TR Index

Insurance-Linked Securities: SwissRe Global Cat Bond TR Index

Digital Assets: MVIS CryptoCompare Digital Assets 25 Index

Cash & Cash Equivalents: Bloomberg Barclays U.S. T-Bill 1-3 Month TR Index

U.S. Short-Term Muni Bonds: Bloomberg Barclays Municipal 1-3 Yr TR Index

U.S. Short-Term Bonds: Bloomberg Barclays U.S. Agg 1-3 Yr TR Index

U.S. 60/40: 60% S&P 500 TR Index 40% Bloomberg Barclays U.S. Aggregate Bond TR Index

Global 60/40: 60% MSCI ACWI GR Index 40% Bloomberg Barclays Global Aggregate Bond TR Index

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