"UNBELIEVABLE"

Is the appropriate adjective.
The fruits of ill-conceived actions are now apparent.
It is a veritable cornucopia of costly and rotting produce.

March 23, 2022

The following are the Exclusive and Sole Opinions of the Author.

Ill-conceived, short-sighted edicts began a rapid unravelling of economic and security success. Inflation, the open border, crime, drug deaths, allowing schools to be closed far, far too long and the abdication of moral clarity in world affairs evidence a disdain for ordinary Americans and their values, imposing the harshest consequences on the poor and minority populations.

What it means for the markets

The markets have rarely had to contend with a similar toxic mix of problems. On the other hand, the markets have contended with major disruptions before. The lesson is clear, **when it can't get no worse - it will not - and if it does it won't matter**. The top patterns in equity market began forming in early 2021, a leading indicator of serious flaws in the economic recovery.

The internals peaked in February of 2021. Prices topped out ten months later. It was the only a matter of time as the Administration pursued their priorities. As long as the direction from the top is to keep digging, the hole can only get deeper.

Prices began an ***unfinished decline*** 10 months later. Now the same internal indicators have reached levels that are consistent with better investment opportunities**. How bad is bad enough for a conclusive buy signal? Frankly, no one knows.** A stock is only worth as much as someone is willing to pay – exceedingly true at highs and lows. We can observe levels that are consistent with prior statistical extremes, but it is impossible to know when the impetus for selling based on lower earnings *multiplied by* lower PE ratios is replaced by the panic that precedes a substantial reversal to the upside. **Investors' emotions, not statistics, drive prices at important market turning points.**

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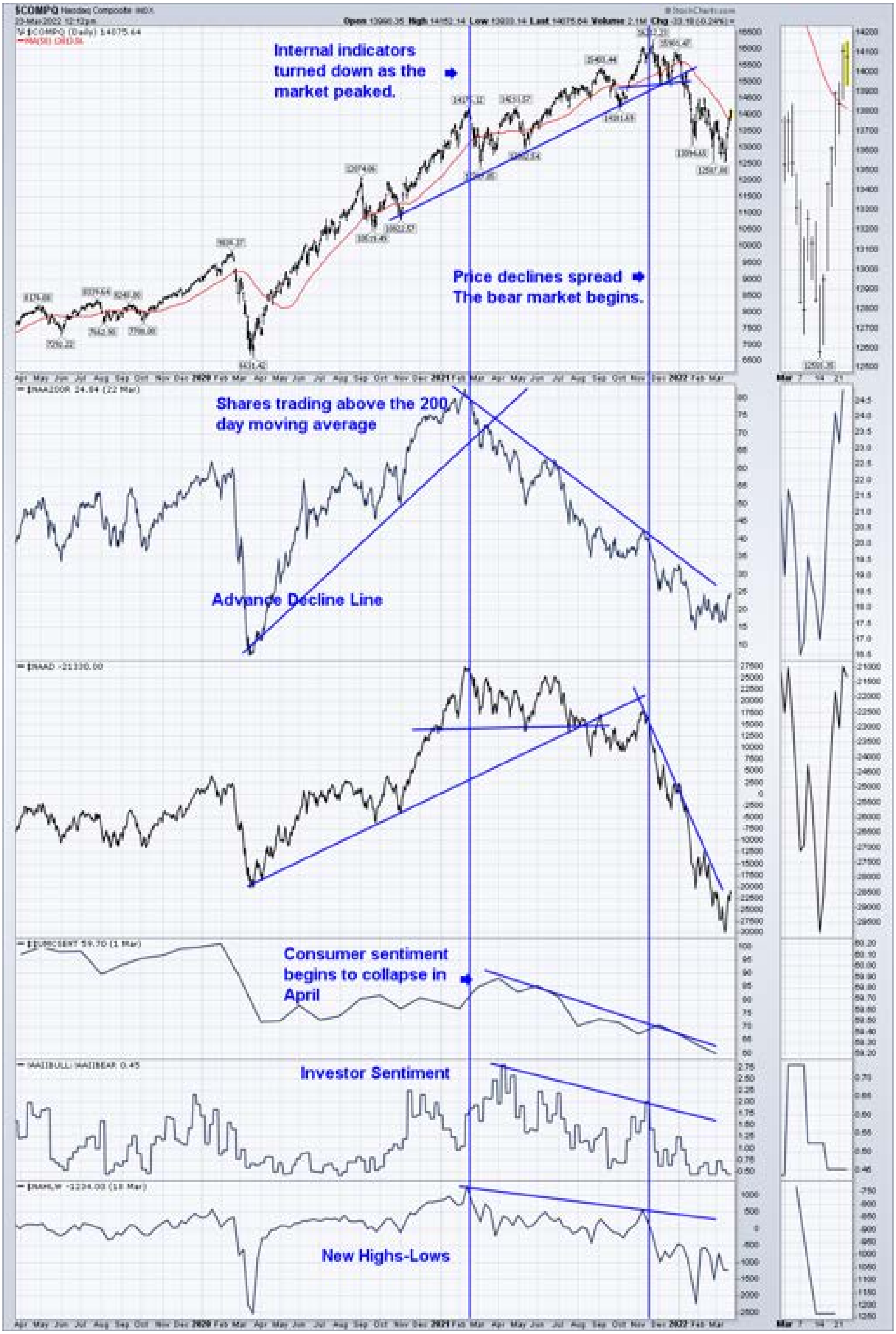
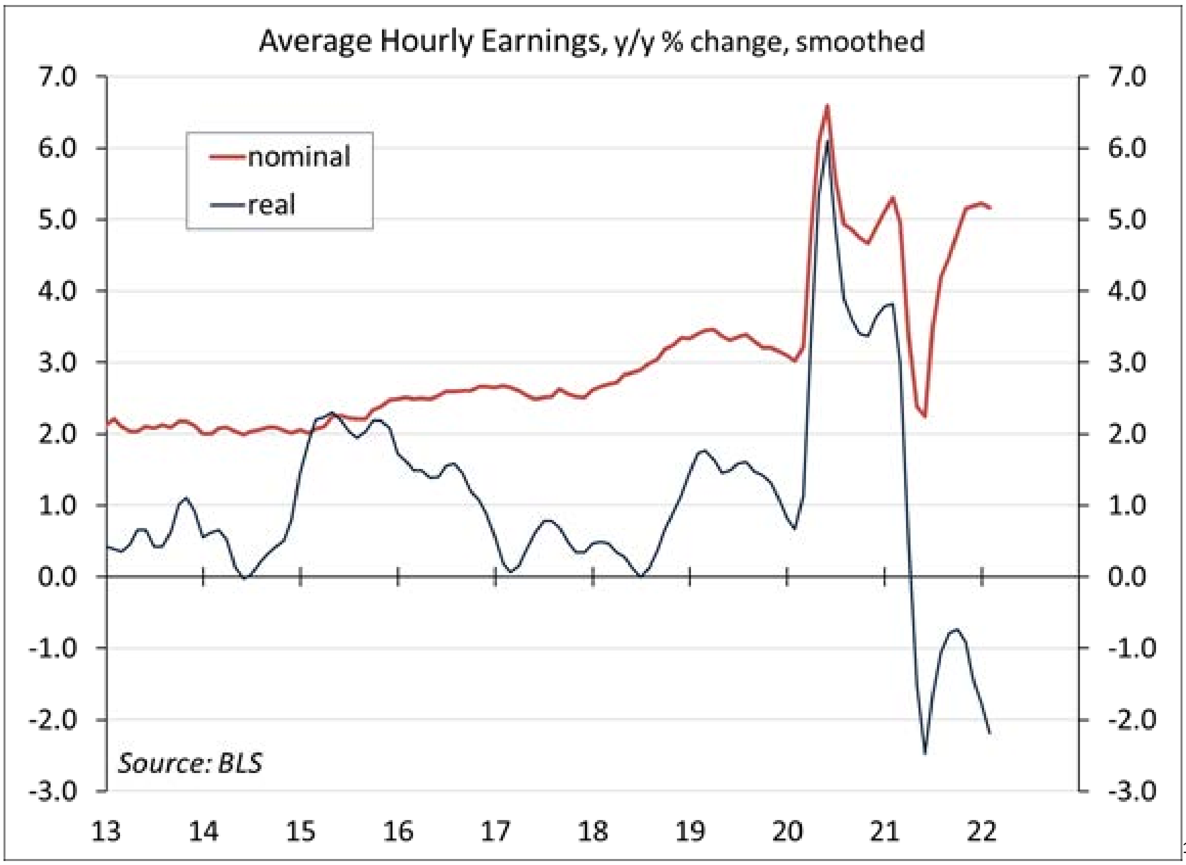


Internal indicators turned down as the market peaked.
Price declines spread
The bear market begins.
Shares trading above the 200 day moving average
Advance Decline Line
Consumer sentiment begins to collapse in April
Investor Sentiment
New Highs-Lows

The slide in earnings expectation and price ratios has been swift. It will continue as growth expectations adjust to lower levels. 15 is the new 30.

There is one astonishing "internal" that suggests an extreme outcome: real incomes. This picture is truly "unbelievable"; both for the strong gains leading up to the 2020 peak followed by a precipitous decline. Consumer spending will follow; demand destroyed as consumers turn cautious and then exhaust disposable income as the cost-of-living soars.



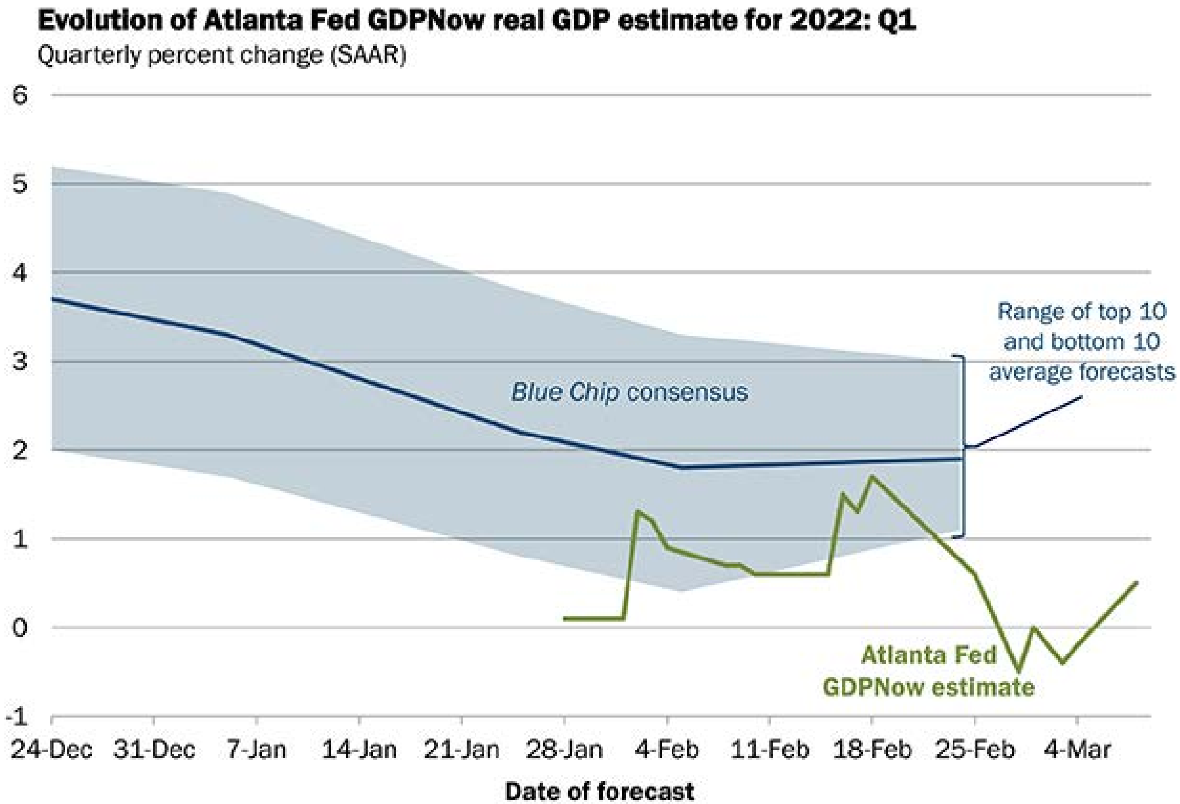
[1]

A growth slowdown, if not a recession, is on the horizon. Inflation is still to peak so the likelihood of higher real incomes is remote. Equity markets are unlikely to sustain an advance until this loss of purchasing power of working Americans is alleviated.

The decline in the GDP growth forecasts is also stunning. The "Blue Chip" consensus of economists' centers around a growth rate below 2%, down from 4% only two months ago. The first quarter was impacted by Omicron, so there still may be a bounce in the second quarter, but the trend to lower levels

[1] https://www.bls.gov/opub/ted/2022/real-average-weekly-earnings-down-3-1-percent-over-the-12-months-ending-january-2022.htm

is clear. Earnings comparisons are going to be "difficult" to use the Wall Street euphemism for many quarters to come.



Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the *Blue Chip* survey.

Now a massive military conflict is underway.

The present demands attention, none should continue to engage in the soft propaganda of putting former President Trump at the center of any discussion. The Russians have manipulated the media andtheir lack of journalistic ability and integrity for too long. It is a distraction, as is the former President.

Talking loudly and carrying a twig can only lead to greater conflict. Peace will not be restored until the US acts with clear resolve – not secondary actions that take months and years to work. The problem extends well beyond Ukraine, as Russian recklessness presages an inevitable confrontation with NATO.

Putin's designs on the Ukraine were well known. He had already seized Georgia and Crimea and was literally biding his time. There is no excuse for his barbaric imperialism, it clearly **required** acting with determination and due deliberation. Instead, the US executed an agreement with Ukraine that was basically a roadmap to joining NATO.[1] The Russian troop mobilization accelerated in plain sight.

A worthy goal, but difficult to achieve without provoking a response from the megalomaniacal Putin. The US and NATO should have provided military deterrence **before** waving the red cape in front of Putin. Putin had indicated many times he would go to war and has now fulfilled his promise.

In my opinion the equity markets would respond well to bold American action. Until there is an effective response to theaggression or other positive resolution the economy and the stock markets are held hostage.

The way forward

America remains a populist democracy. The citizens will lead the way. The nation is astonishingly powerful and cohesive at critical junctures. This is our greatest strength.

Secretary of State Anthony Blinken expresses honorable sentiments extremely well[2] but words are less effective than imposing stronger sanctions and supplying unlimited quantities of advanced munitions.

The heroism of American citizen volunteers trying to fill the void left by government inaction is amazing and a source of pride and inspiration, a stark contrast to the posture of the military chiefs. These brave volunteers deserve our support[3] whether helping refugees or fighting the Russians.

The Country will have to move on, the future cannot be postponed. Major changes are on the horizon. The midterm elections in November will be the first occasion for a course change; both Houses of Congress will likely end up firmly in Republican hands.

This expected change is lending some support to the markets. Perversely, the good news is that the President and his party lack the political capital to pass new spending and regulatory legislation. Foreign policy and administrative direction will remain outside the direct control of the Congress.

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[1] https://www.state.gov/u-s-ukraine-charter-on-strategic-partnership/ The United States and Ukraine intend to continue a range of substantive measures to prevent external direct and hybrid aggression against Ukraine and hold Russia accountable for such aggression and violations of international law, including the seizure and attempted annexation of Crimea and the Russia-led armed conflict in parts of the Donetsk and Luhansk regions of Ukraine, as well as its continuing malign behavior. The United States intends to support Ukraine's efforts to counter armed aggression, economic and energy disruptions, and malicious cyber activity by Russia, including by maintaining sanctions against or related to Russia and applying other relevant measures until restoration of the territorial integrity of Ukraine within its internationally recognized borders.

[2] https://www.state.gov/united-with-ukraine/

[3] The State Department has partnered with **GoFundMe.org** to address the humanitarian needs of the people affected by Russia's attack against Ukraine.

Chairman Powell and Secretary Yellen will also remain loose cannons, posing a clear and present danger to the American economy.

The FED and the Treasury implicitly adopted ModernMonetary Theory enabling politically expedient spending above sound economic policy. They knew the likely consequences but plowed ahead leading to the current stagflation. Now they are in the process of playing catch up, having already been lapped by the field. Engineering a soft landing seems even more improbable given current events.

The charts

Interest Rates

The FED has ended quantitative easing; the printing presses were stopped this month. The helicopter money everyone knows was hugely inflationary is hopefully banished forever.

Interest rates have gone up dramatically, the recent discount rate increase and several more are already reflected in the credit markets. The message there is turning somber as the yield curve has flattened from two years to thirty years. The clear implication is that inflation is expected to ease as the economy slides over the near term.

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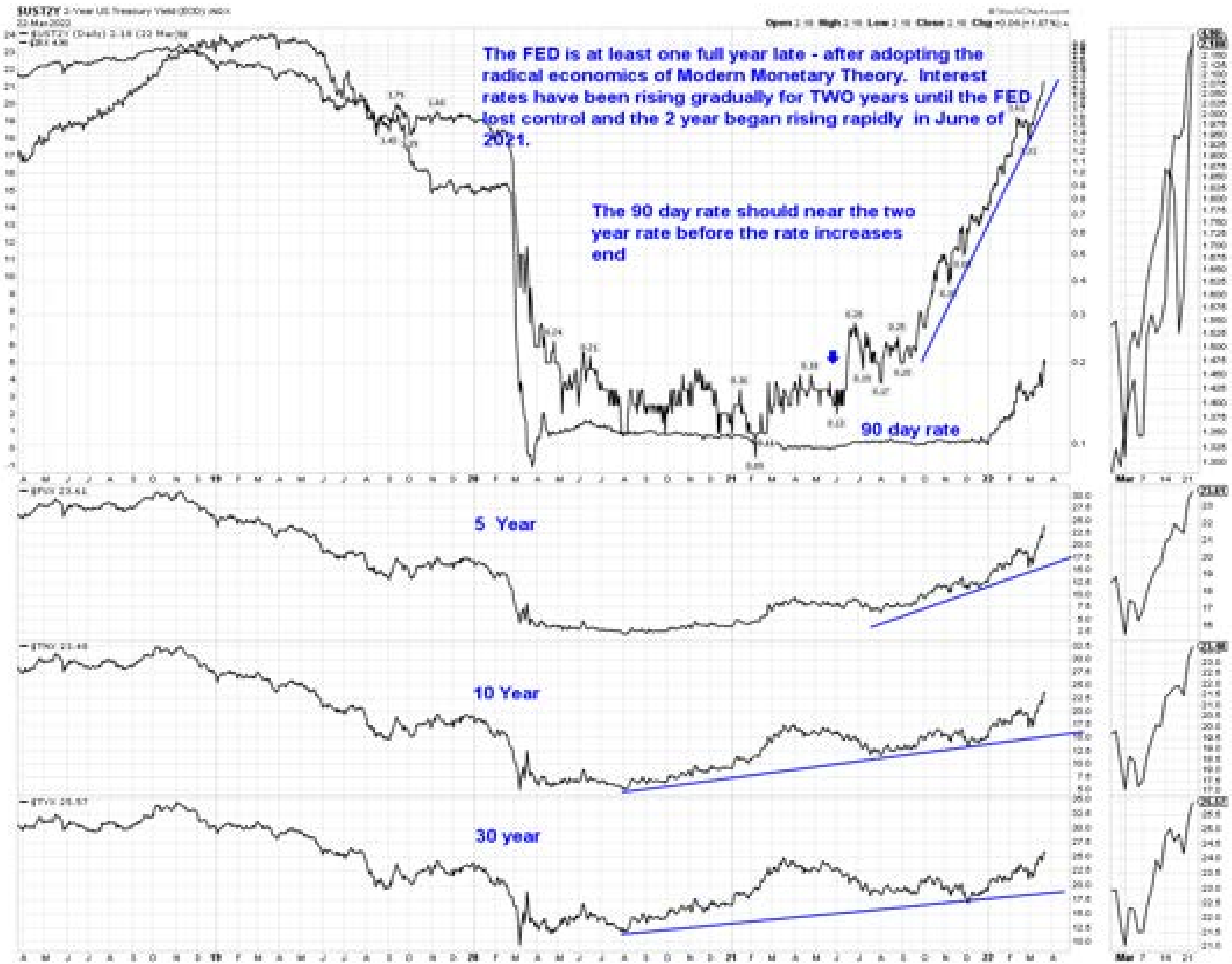
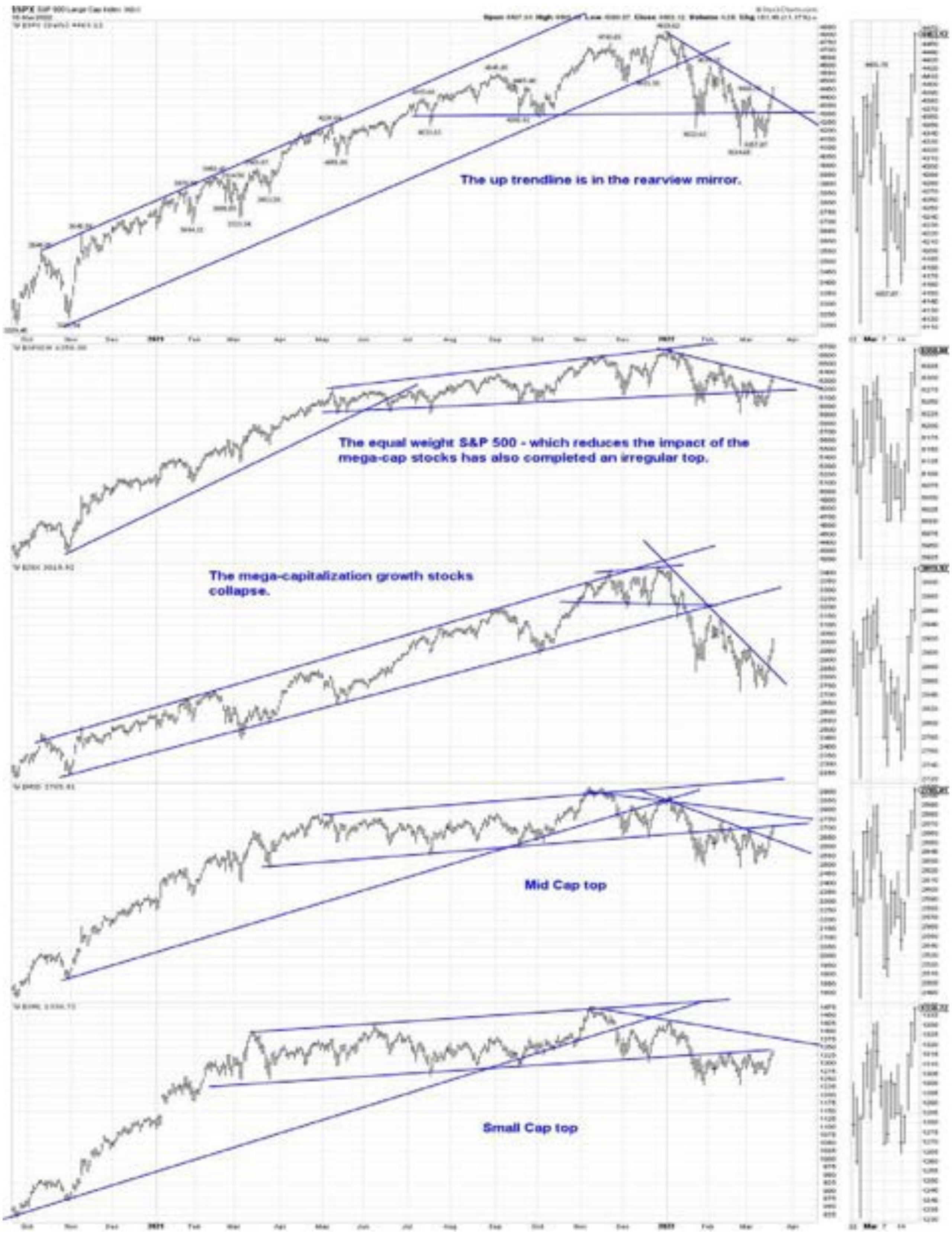


Equities

The stock market has a pattern of long-term advances interspersed with shorter duration bear markets. Investors must be aware of this pattern. The current bull trend is presumed to remain in place absent clear indications of a change. As the economic situation deteriorates; the equity markets reflect that reality. The foundations of the long-term secular bull market are crumbling. The extreme weakness across the market internals may mark a short-term respite, but the fact that it occurred is a dire warning about continuation of the major uptrend. While the actual declines in bear markets may be quite fast, the intervals between secular bull markets have typically been several years.

Equity indexes have completed at least intermediate term tops. The downside breaks have been followed a period of consolidation that should support a move into resistance and the breakdown levels, followed by a resumption of the downtrends, according to traditional technical analysis.


The up trendline is in the rearview mirror.
The equal weight S&P 500 - which reduces the impact of the mega-cap stocks has also completed an irregular top.
The mega-capitalization growth stocks collapse.
Mid Cap top
Small Cap top

A handful of sectors continues to display strength – though given the interest outlook – electric utilities would be an unlikely group to attract buying. Energy remains the technical standout.

The energy markets appear to be under-supplied in all aspects for a variety of reasons. Demand destruction by price rationing is the only short-term solution. Energy exploration and development is needed to address the shortfall and national security interests.

<u>Commodities</u>

The FED can only destroy demand, not add to supplies. Raising interest rates does not produce more oil or wheat. Supplies remain constrained by events and domestic policies. A strong dollar has reduced the price of imports for domestic consumption and boosted the price of exports – increasing the trade deficit and reducing GDP.

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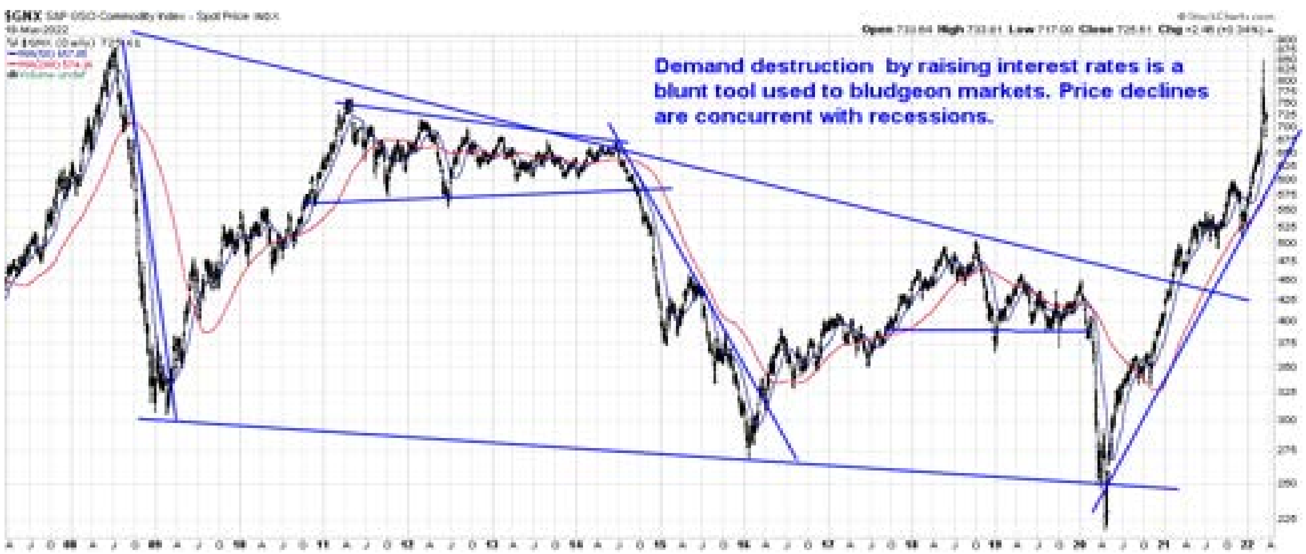

Energy has led the commodity parade, but it is hardly alone.

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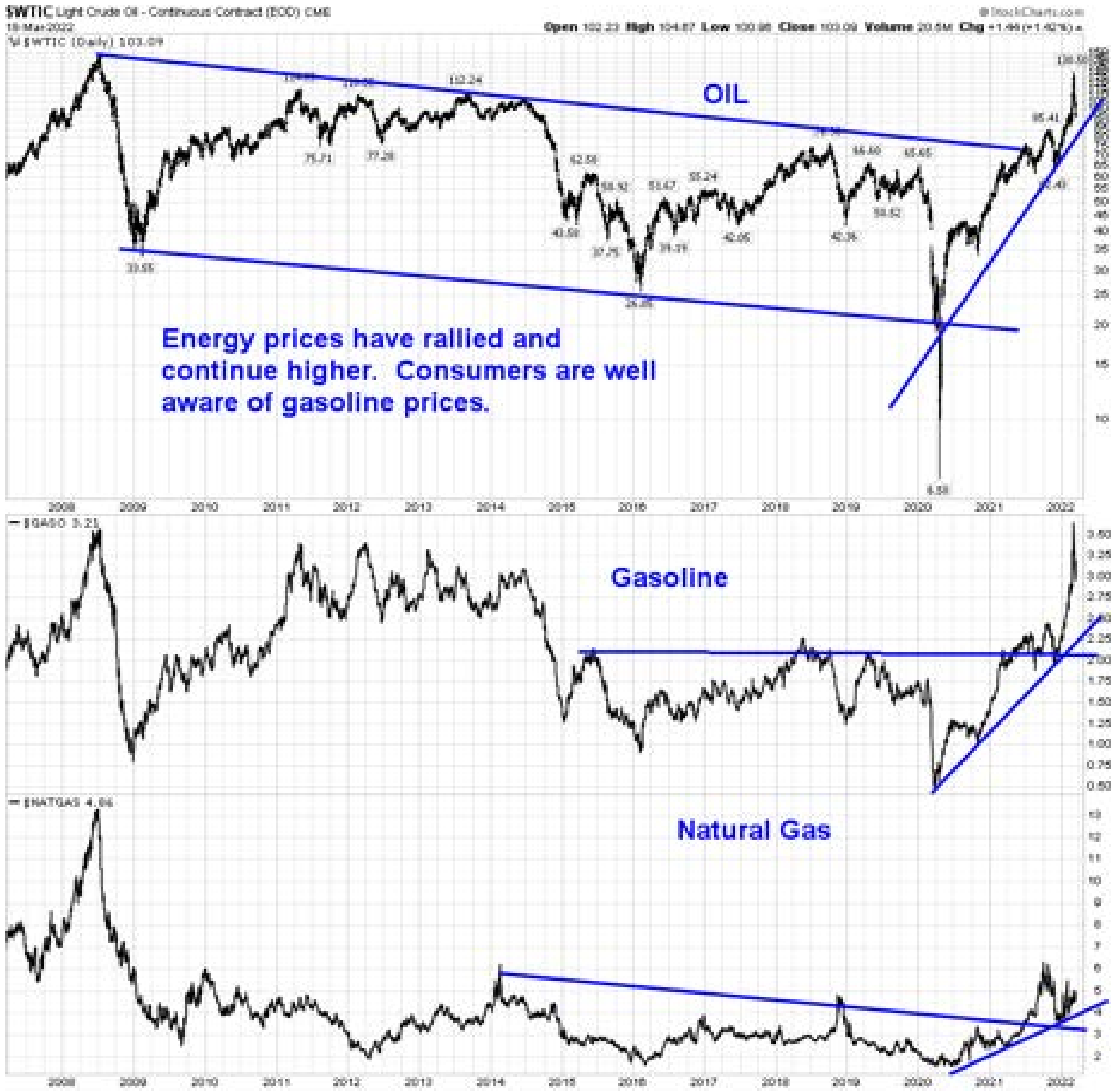
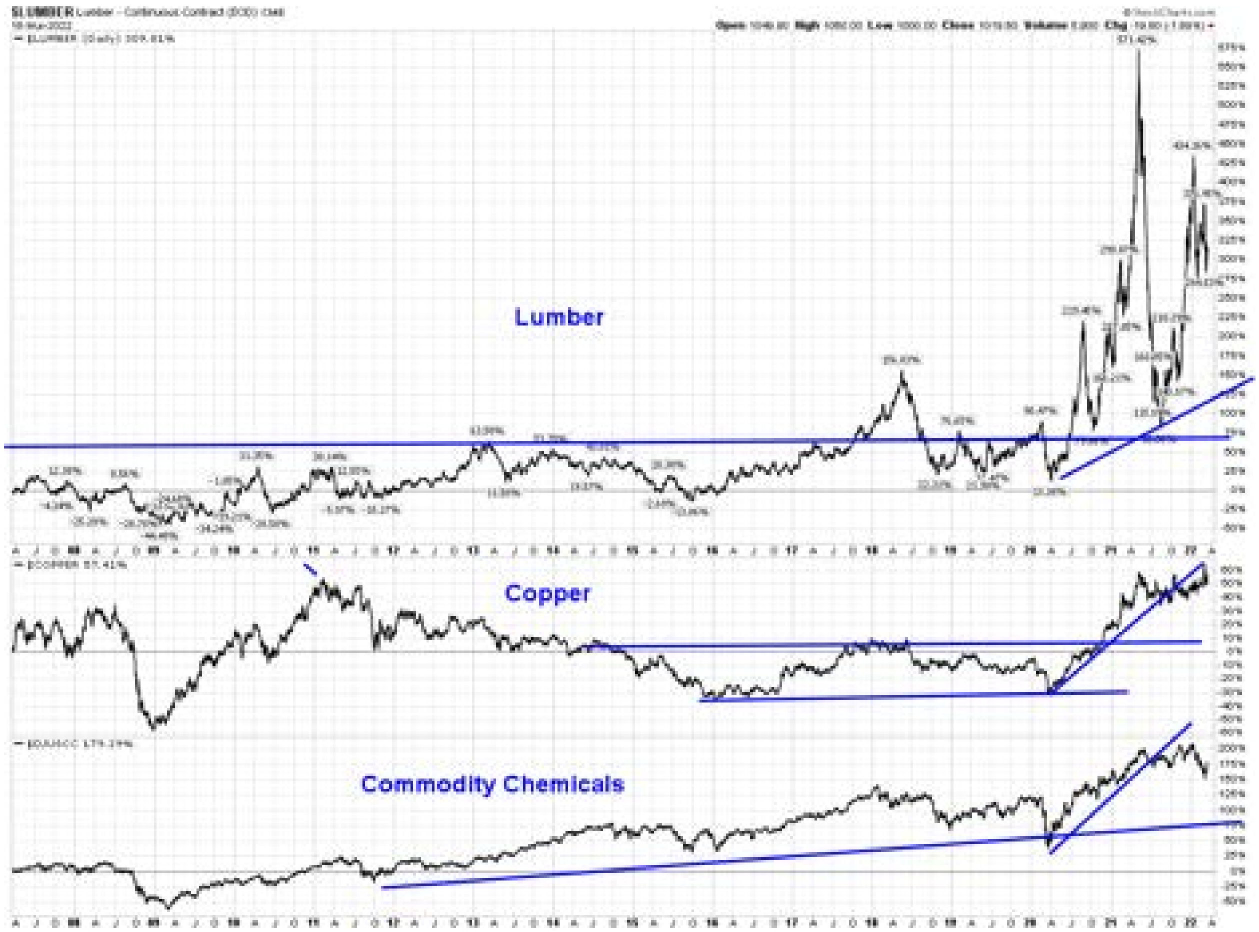


The inflation in food prices continues.

There is some easing of prices of “industrial” commodities, consistent with an economic slowdown.



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Gold completed a major consolidation pattern and then promptly collapsed to the breakout level. It is still quite bullish. Most commodities are also very bullish but overextended.

These commodities are priced in U.S. Dollars. The strength in the dollar has suppressed prices domestically, outside of the US it has compounded price increases.

CONCLUSIONS

Long term charts offer the perspective necessary to comprehend the dramatic changes in prices and economic outlook. These changes promise to be long lasting, as will be the ensuing period of flat to negative returns. How bad is bad enough? The long-term charts suggest that **the markets are close to the lows in sentiment but probably not prices.** The last declines in a bear market are the steepest and fastest, a dramatic and emotional capitulation.

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