



GORDON T LONG

Advanced Technical Analysis



Gordon T Long
Global Macro Research |
Macro-Technical Analysis



Technical Analysis
Market Road Maps | HPTZ
Methodology



SII
Global Macro Research |
Market Road Maps

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AN EARNINGS RECESSION



AGENDA

AN EARNINGS RECESSION

EARNINGS MATTER

- Earnings: Main driver of long-term returns,
- Top-Down versus Bottom-Up

P/E CONTRACTION: TOP-DOWN

- Markets Are a Forward Valuation Discounting Mechanism
- Discounting Price and Forward Valuation
- Fastest Contraction On Record – Thank Fed QT / BS Reduction

EARNINGS ESTIMATES

- Have Yet Barely Budged – Simply Too High!
- MSCI v S&P 500 v EU

Q2 2022 EARNINGS & GUIDANCE: BOTTOM-UP

- Q2 Will Be An Earnings Season for the Ages!

CONCLUSION

- How Long Will It Take for Earnings to Bottom and Start Growing?

“Expect the best. Prepare for the worst. Capitalize on what comes.”

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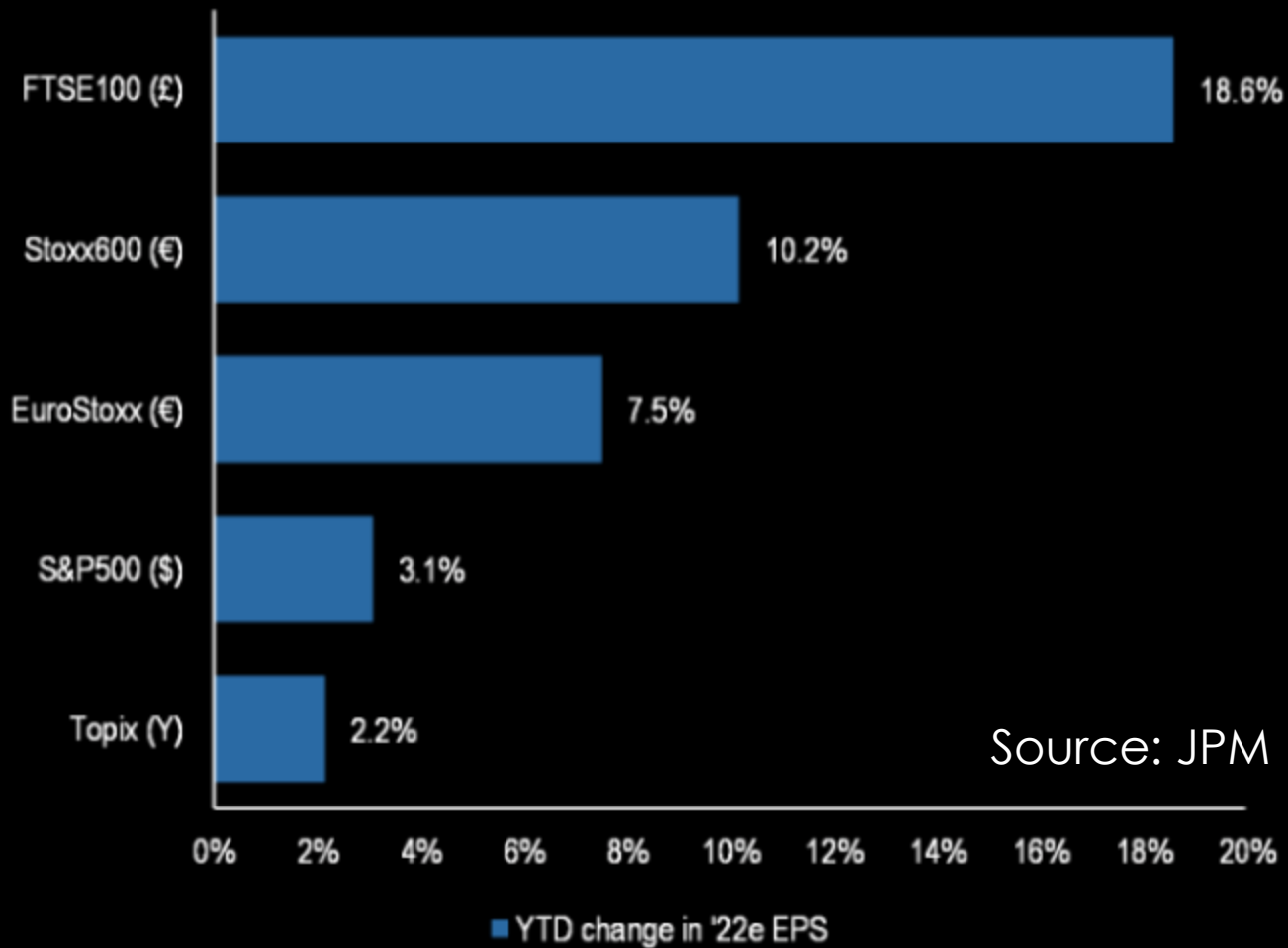
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SELL SIDE v BUY SIDE

Not one sell-side strategist expects less than a 10% rally for 2H?

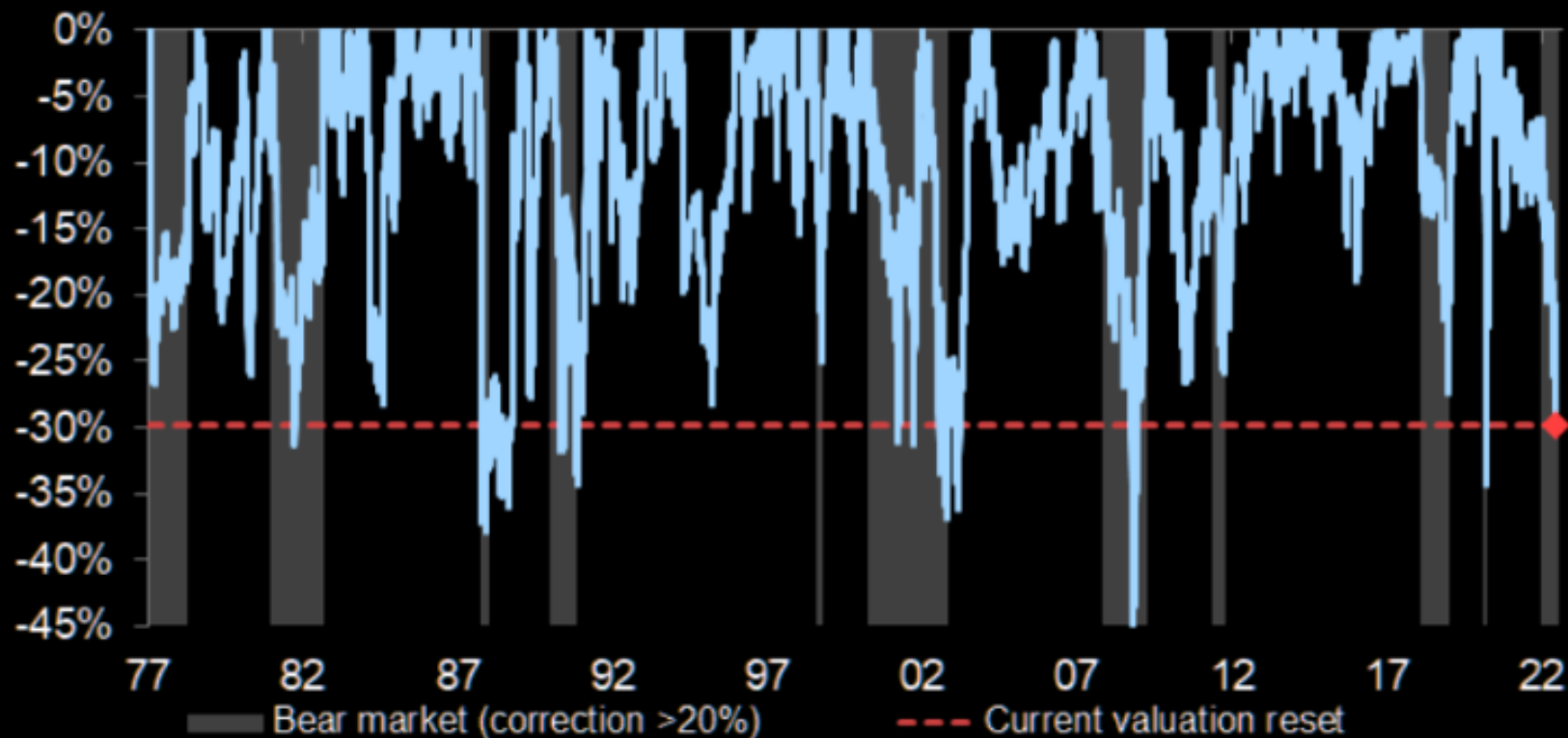
Exhibit 1: S&P 500 Strategist Estimates for the End of 2022

Firm (in alphabetical order)	S&P 500 Forecast (year-end 2022)	S&P 500 Forecast (year-end 2022, as of March 31, 2022)	S&P 500 Forecast (year-end 2022, as of June 30, 2022)
Bank of America	4,600	4,600	4,500
Barclays	4,800	4,500	4,500
BMO	5,300	5,300	4,800
BNP Paribas	5,100	4,900	4,400
Cantor Fitzgerald	4,800	4,800	3,900
Citigroup	4,900	4,700	4,200
Cornerstone Macro / Piper Sandler*	4,600	4,800	4,000
Credit Suisse	5,000	5,200	4,900
Goldman Sachs	5,100	4,700	4,300
Jefferies	5,000	5,000	4,650
JPMorgan	5,050	4,900	4,800
Morgan Stanley	4,400	4,400	3,900
RBC Capital Markets	5,050	5,050	4,700
Scotiabank	4,800	5,000	4,600
UBS	4,850	4,850	4,850
Wells Fargo	5,200	4,715	4,715
Average 2022 Forecast (points)	4,909	4,838	4,482
2022 Forecast Standard Deviation (%)	4.9%	5.0%	7.5%

Earnings need to come down for equities to drop considerably from current levels.

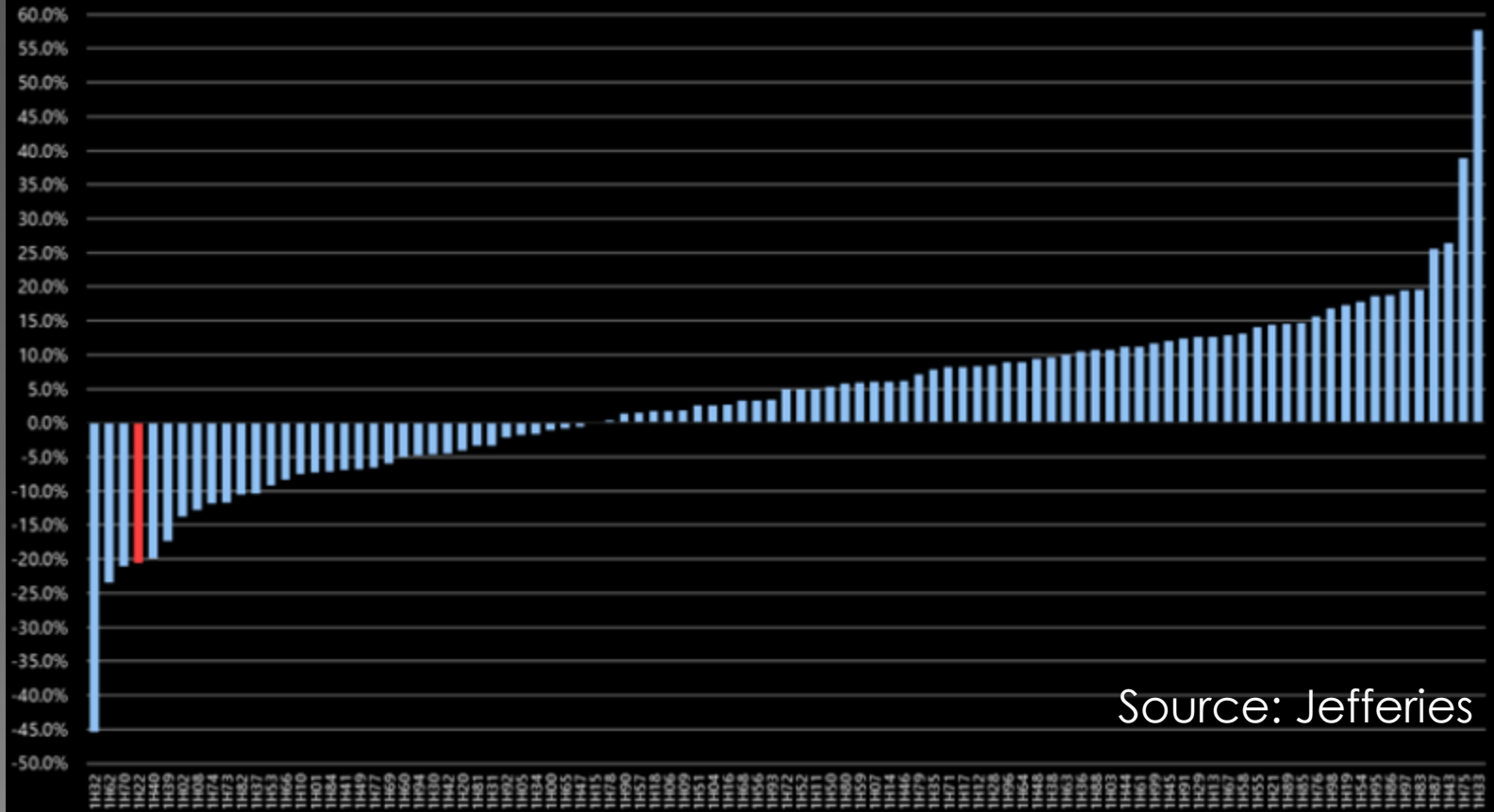


VALUATIONS HAVE RESET!



NTM P/E based on S&P 500 data before 1988.

4th Worst 1H SPX Price Return in 95Y, What Next?



Source: Jefferies

TOP-DOWN ESTIMATES

1. Slowing Economy = Slowing Earnings,
2. Interest Rates: Leverage, Gearing
3. Inflation Rate: Forward Discounting
4. Buybacks: EPS
5. Recessions: Degree Earnings Impact,
6. International Earnings: Repatriation

FORWARD GUESS – LITTLE TIMING

BOTTOM-UP ESTIMATES

1. Actual Earnings v Estimates
2. Management Guidance
 - Timing: This Quarter, Net, YE
3. Granularity: Revenue, Margin, Taxes, Cost, Shares Outstanding

SHORT TERM ACTUAL – LITTLE POOR PROJECTIONS

IT IS ABOUT FALSE EXPECTATIONS

CONSISTENTLY WRONG!

YOU WILL LOSS MONEY

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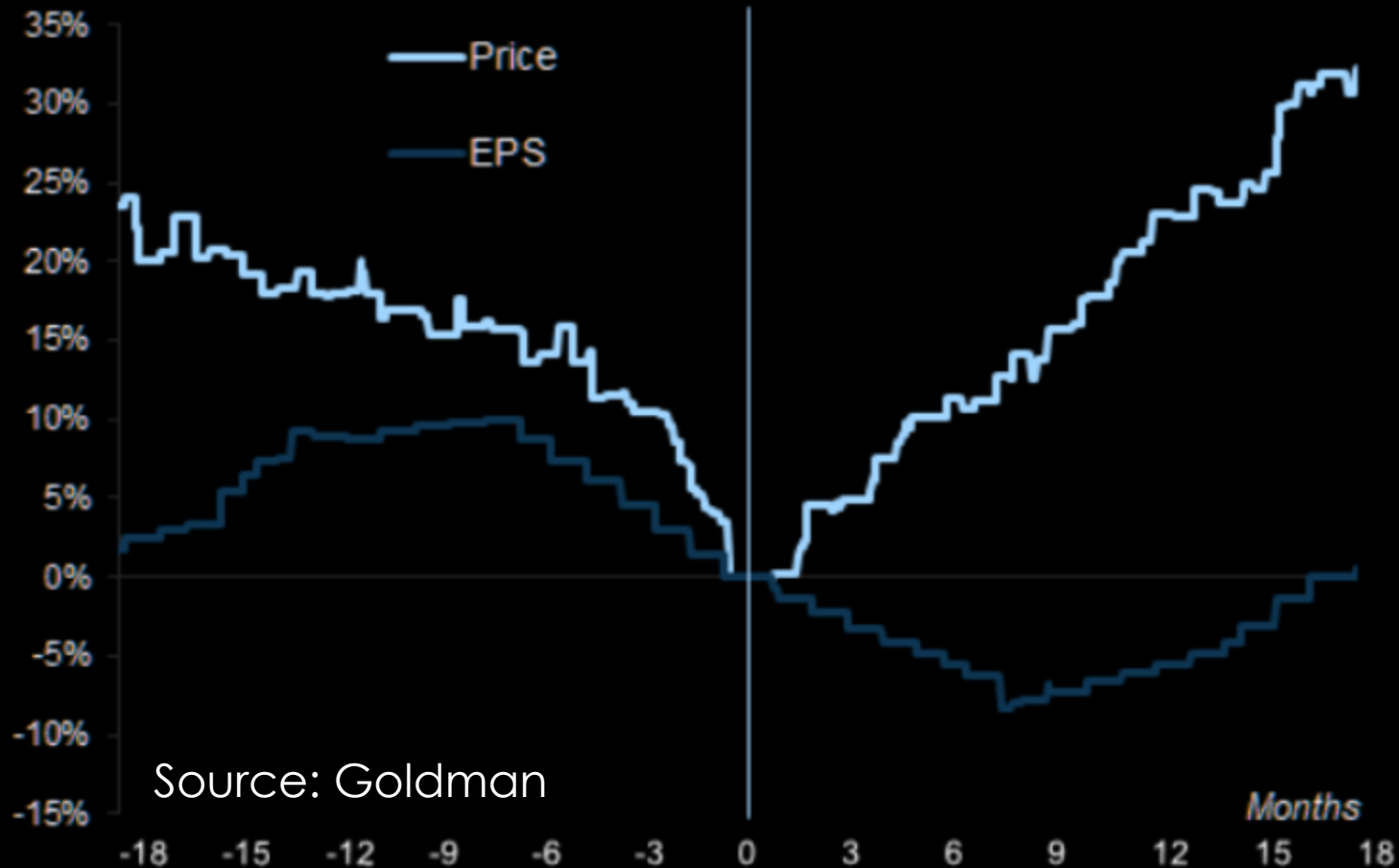
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Time 0 = Bear market low, Time in months (US bear markets since 1903)



YoY Change in S&P 500 Trailing 12-Month P/E Ratio

Source: Bespoke

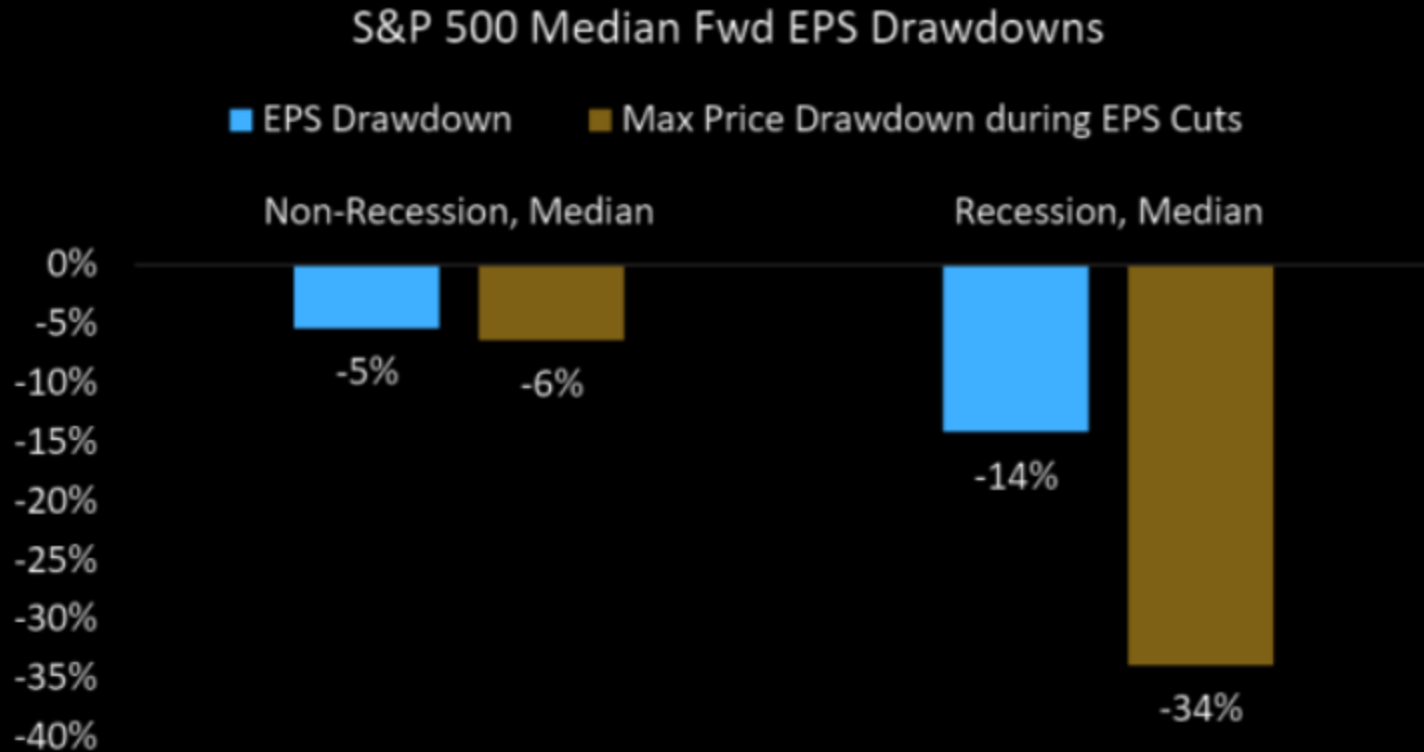


HOW ABOUT THE “E”?



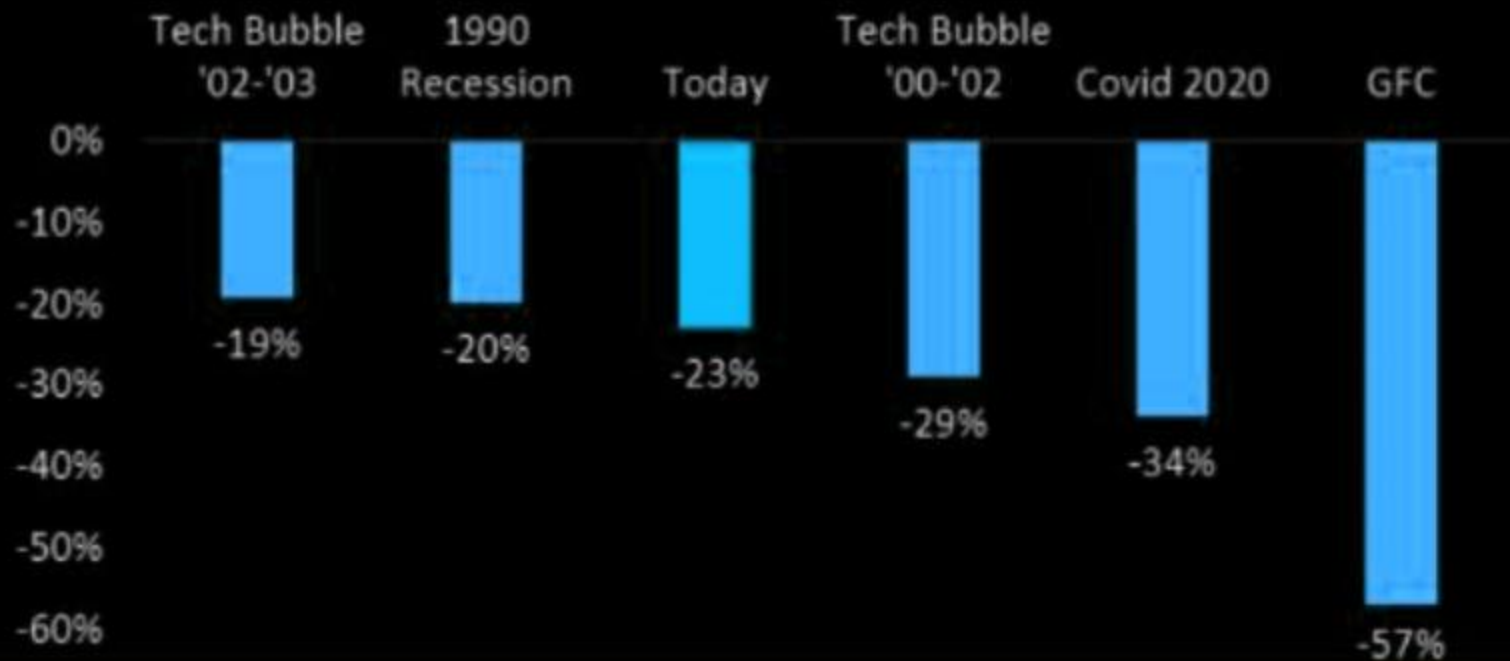
Source: Macrobond

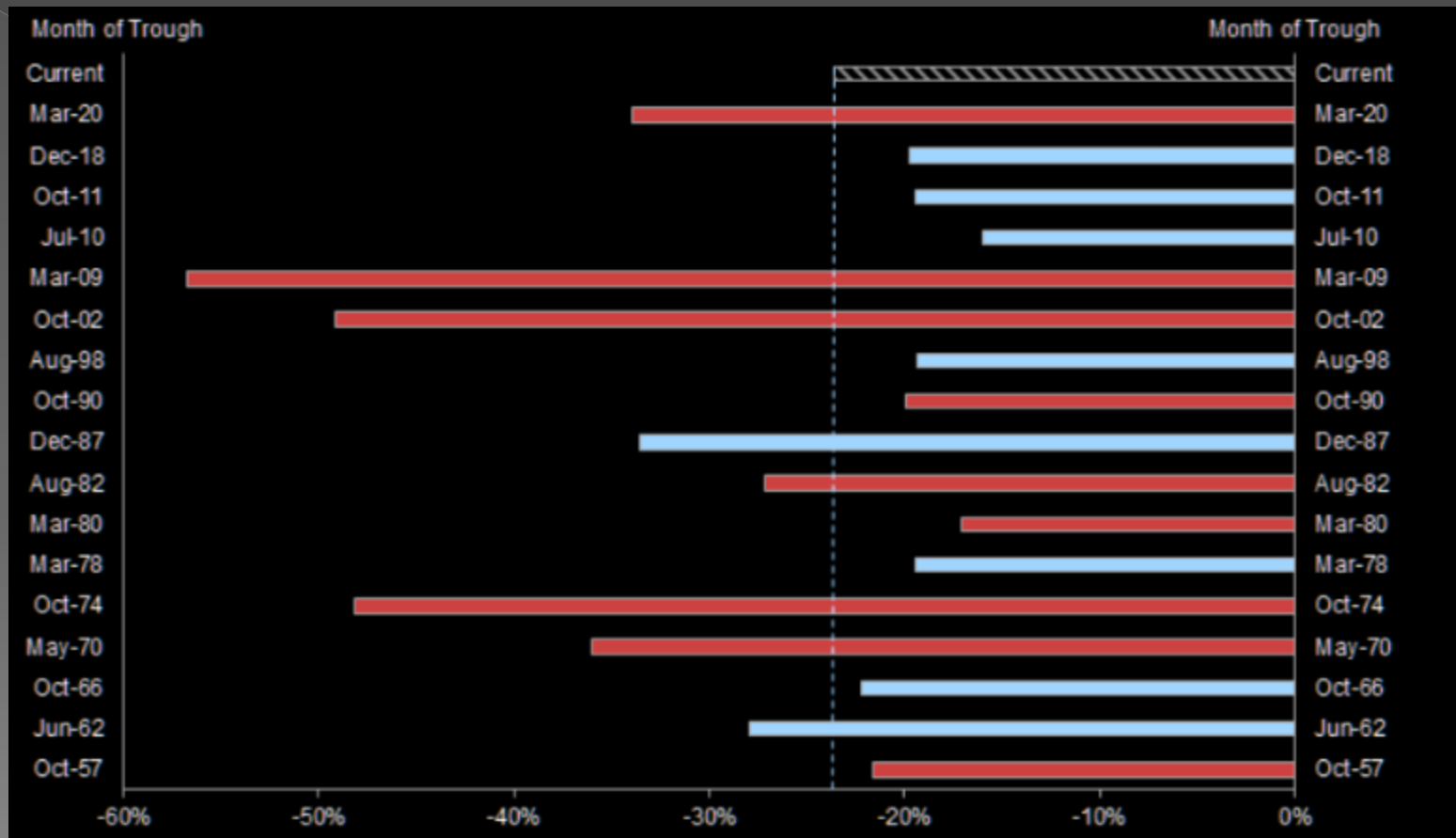
Recessions Typically See a ~15% Fwd EPS Contraction



Source: Bloomberg, Morgan Stanley Research

Max Price Drawdown





Source: Goldman

Only A Mild Recession Is Currently Priced In

- Equities will struggle until earnings estimates resettle.
- Barclays weighs in when it comes to what the real E is and if stocks are cheap.
 - Barclays: "Lower P/Es now reflect much tighter financial conditions.
 - It may cushion the impact of a further rise in real rates and improve long-term return prospects for EU equities.
 - EPS risk is high, though.
 - So while a mild recession seems priced in, equities & cyclicals may struggle to form a bottom until estimates are reset lower" (Barclays Equity strategy)

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Mid-Term S&P 500 Target: 3270

2022 Earnings ~\$190

2023 Earnings ~\$200

10% Downside from Here 17.5 PE (Year End of 3325)

20% 15.0 PE

50% Downside from High 12.0 PE

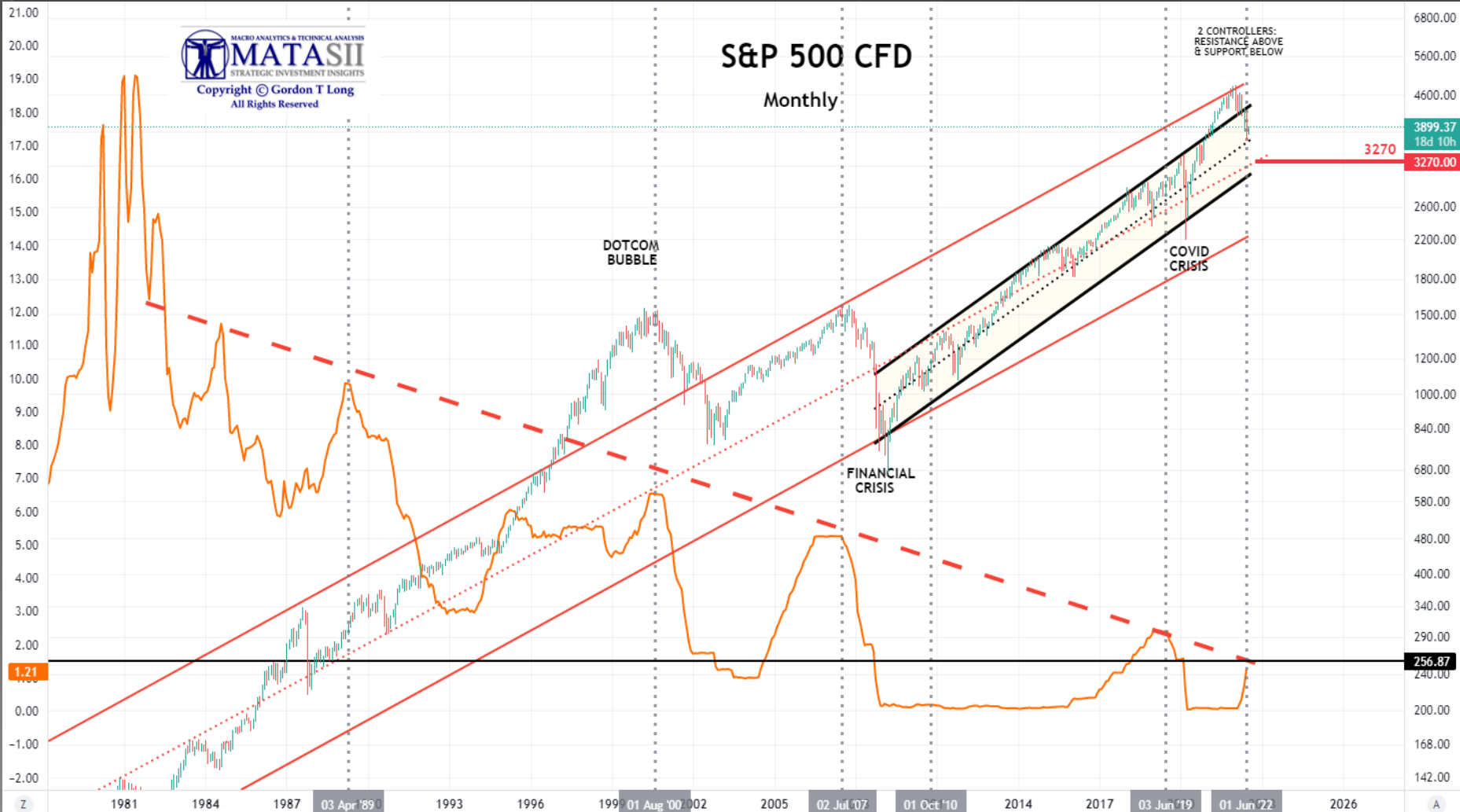
RANGE

CONTROLLERS

- 1- Moving Averages
- 2- Fibonacci Extensions

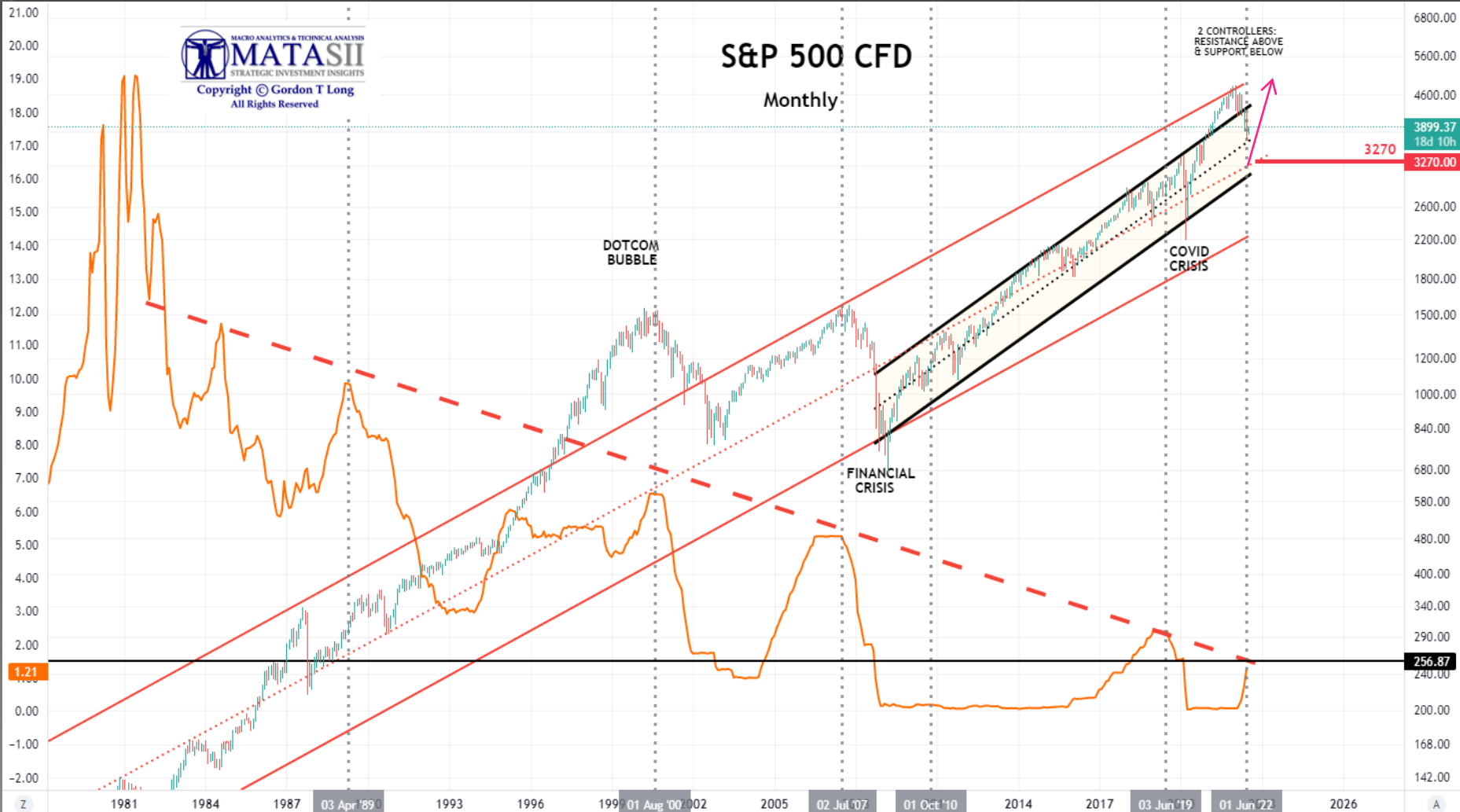


2 CONTROLLERS:
RESISTANCE ABOVE
& SUPPORT, BELOW



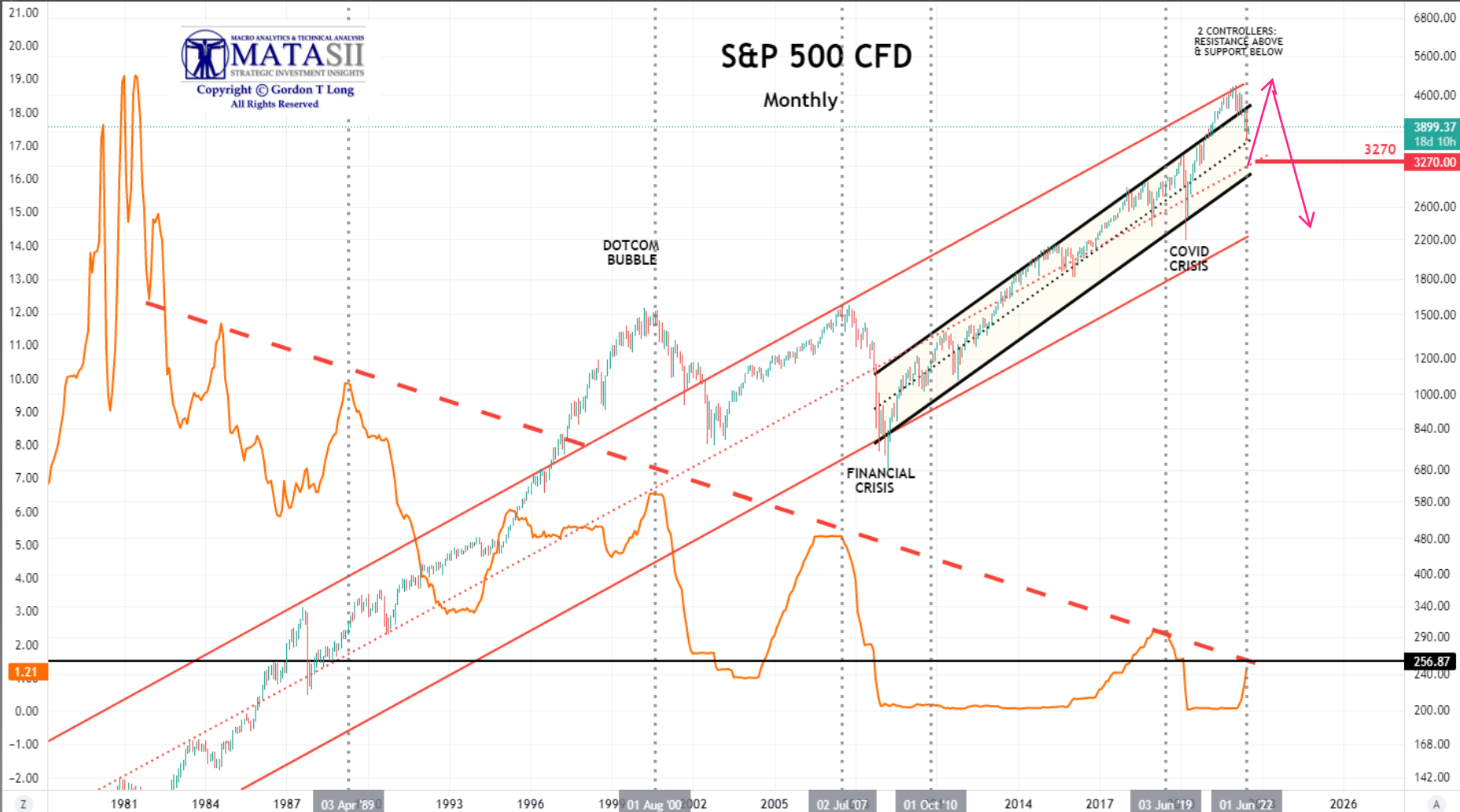
S&P 500 CFD

Monthly



S&P 500 CFD

Monthly



	Eventual Correction	2022 Lows
S&P 500 HIGH:	4819	
50% DRAWDOWN	-2410	
32%		1549
TARGET	2410	3270
CURRENT	3825	3825
TO GO	-1415	-555
	-37%	-14.5%

Source: @wifey

Start date	End date	Days	Decline
9/7/29	6/1/32	998	86.2%
3/6/37	4/29/42	1,880	60.0
5/29/46	6/14/49	1,112	29.6
8/2/56	10/22/57	446	21.5
12/12/61	6/27/62	197	23.0
2/9/66	10/7/66	240	22.2
11/29/68	5/26/70	543	36.1
1/11/73	10/3/74	630	48.2
11/28/80	8/12/82	622	27.1
8/25/87	12/4/87	101	33.5
7/16/90	10/11/90	87	19.9
3/24/00	10/9/02	929	49.1
10/9/07	3/9/09	517	56.8
2/19/20	3/23/20	33	33.9
01/03/22	Ongoing*	161	21.8

*As of June 13, 2022.

The 1990 bear market qualified under a prior S&P definition that relied on intraday trading. Source: S&P Dow Jones Indices

Indicator Value as %
of Historical Trendline

100%

80%

60%

40%

20%

0%

-20%

-40%

-60%

-80%

-100%

1990

2000

2010

2020

Buffett Indicator: Value vs. Historical Trend since 1990

with +/- 2 standard deviations
www.currentmarketvaluation.com

July 1, 2022

169% ratio of Market Value to GDP,
33% higher than long-term trend line

Internet Bubble
+69%

Bottom of Financial Crisis
-44%

Values > 2 standard deviations above historic
trend should occur ~2% of the time

{+ 2 Std Dev}

{+ 1 Std Dev}

Historical Trendline i.e. "Fairly Valued" Buffett Indicator

{- 1 Std Dev}

{- 2 Std Dev}

Values < 2 standard deviations below
historic trend should occur ~2% of the time

Strongly
Overvalued

Over-
valued

Fairly
Valued

Under-
valued

Strongly
Undervalued

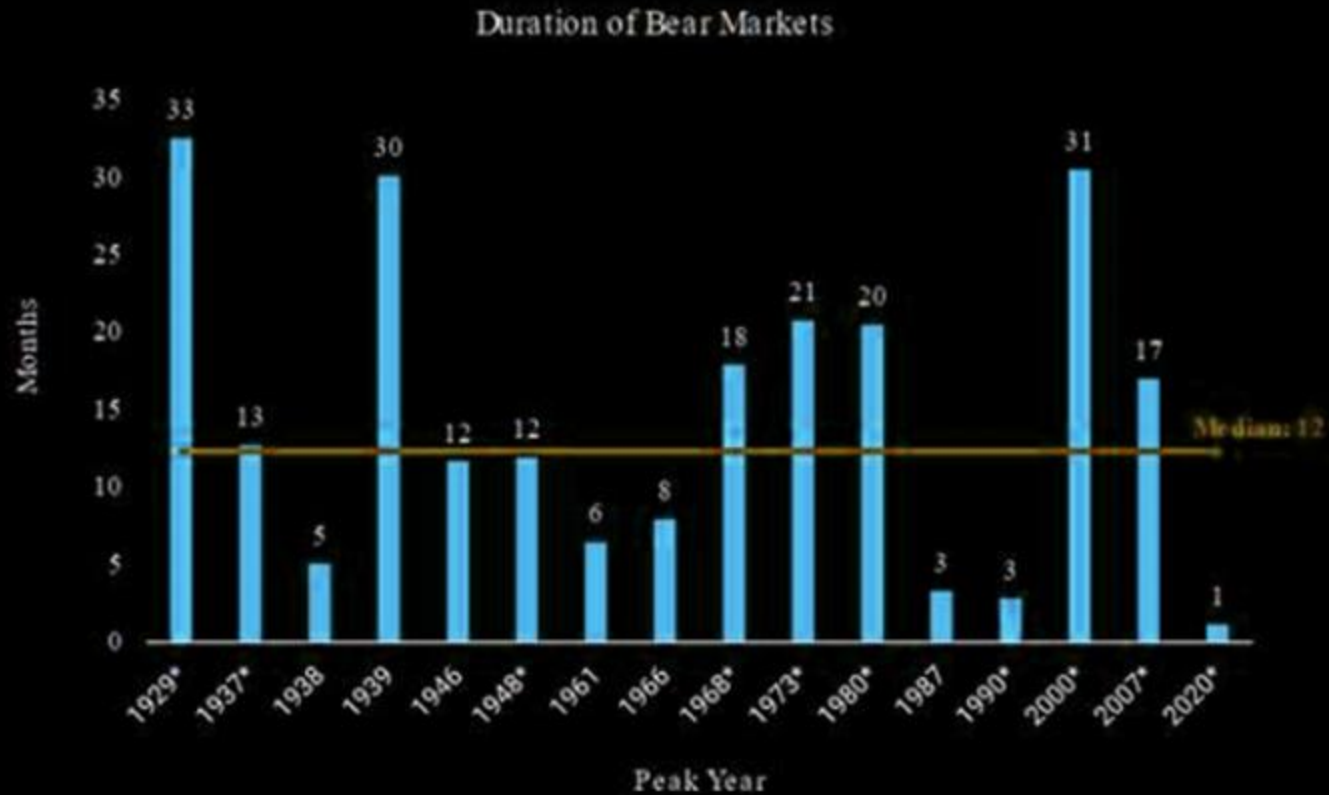




The CAPE uses a 10-year average of real S&P 500 reported earnings per share.
 Source: Robert Shiller, BEA, NBER indicators retrieved from FRED, Federal Reserve Board, Goldman Sachs GIR.

Source: GS / WifeyAlpha

Exhibit 7: The Median Duration of a Bear Market Is 12 Months



Source: Morgan Stanley

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Q2 HIGHLIGHTS (as of 07/08/22)

- **Earnings Growth:** For Q2 2022, the estimated earnings growth rate for the S&P 500 is 4.3%. If 4.3% is the actual growth rate for the quarter, it will mark the lowest earnings growth rate reported by the index since Q4 2020 (4.0%).
- **Earnings Revisions:** On March 31, the estimated earnings growth rate for Q2 2022 was 5.9%. Seven sectors are expected to report lower earnings today (compared to March 31) due to downward revisions to EPS estimates.
- **Earnings Guidance:** For Q2 2022, 71 S&P 500 companies have issued negative EPS guidance and 31 S&P 500 companies have issued positive EPS guidance.
- **Valuation:** The forward 12-month P/E ratio for the S&P 500 is 16.3. This P/E ratio is below the 5-year average (18.6) and below the 10-year average (17.0).
- **Earnings Scorecard:** For Q2 2022 (with 18 S&P 500 companies reporting actual results), 13 S&P 500 companies have reported a positive EPS surprise and 14 S&P 500 companies have reported a positive revenue surprise.

S&P 500 Change in Forward 12-Month EPS vs. Change in Price: 10 Yrs. (Source: FactSet)



S&P 500 Forward 12-Month P/E Ratio: 10 Years

(Source: FactSet)



BofA Bull & Bear Indicator (B&B)

Our BofA Bull & Bear Indicator is at 0.3, signal is Buy.

Chart 23: BofA Bull & Bear Indicator

Down to 0.3 from 0.4



Source: BofA Global Investment Strategy

BofA GLOBAL RESEARCH

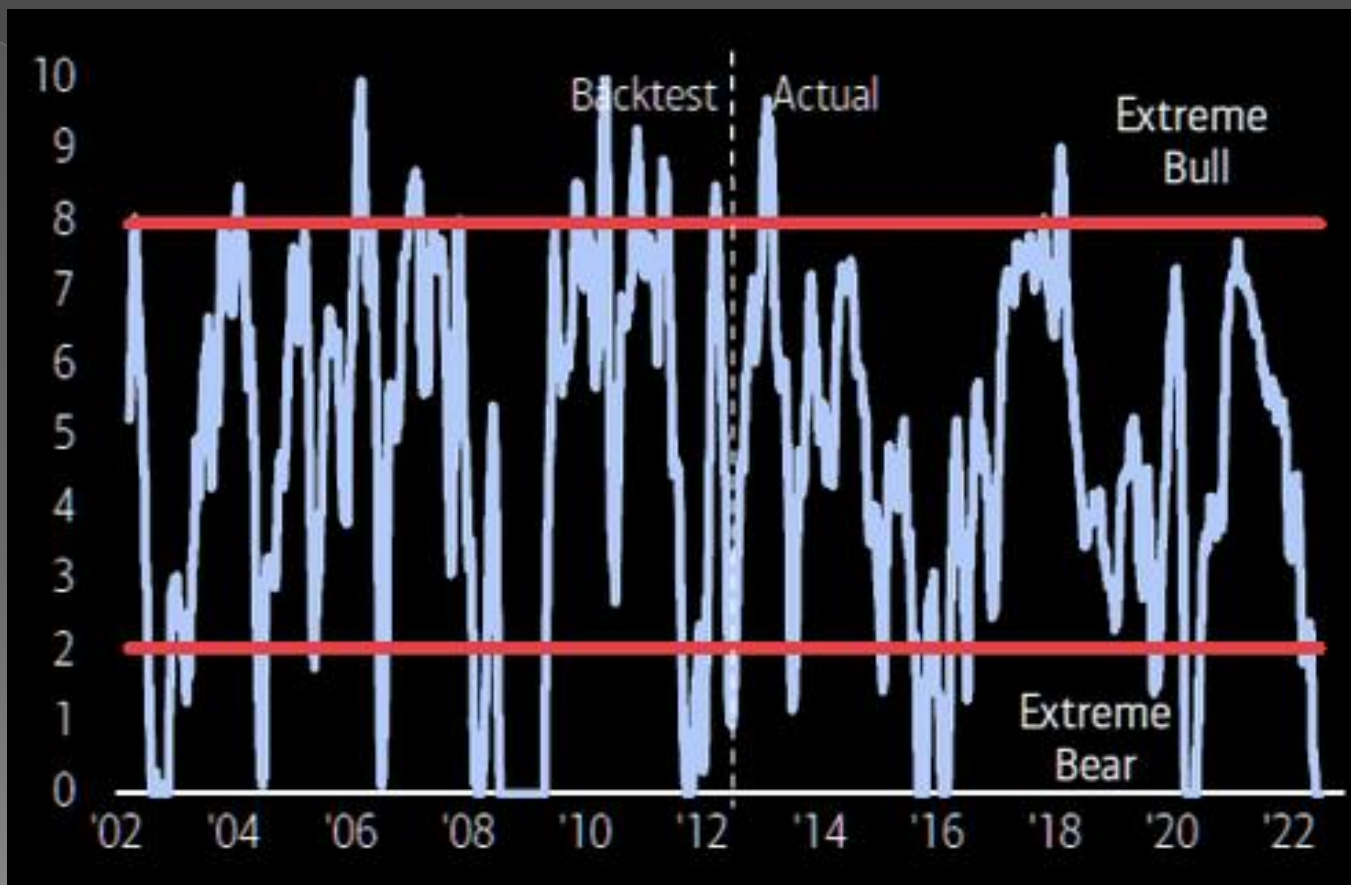
Table 7: BofA B&B Indicator

BofA Bull & Bear current component readings

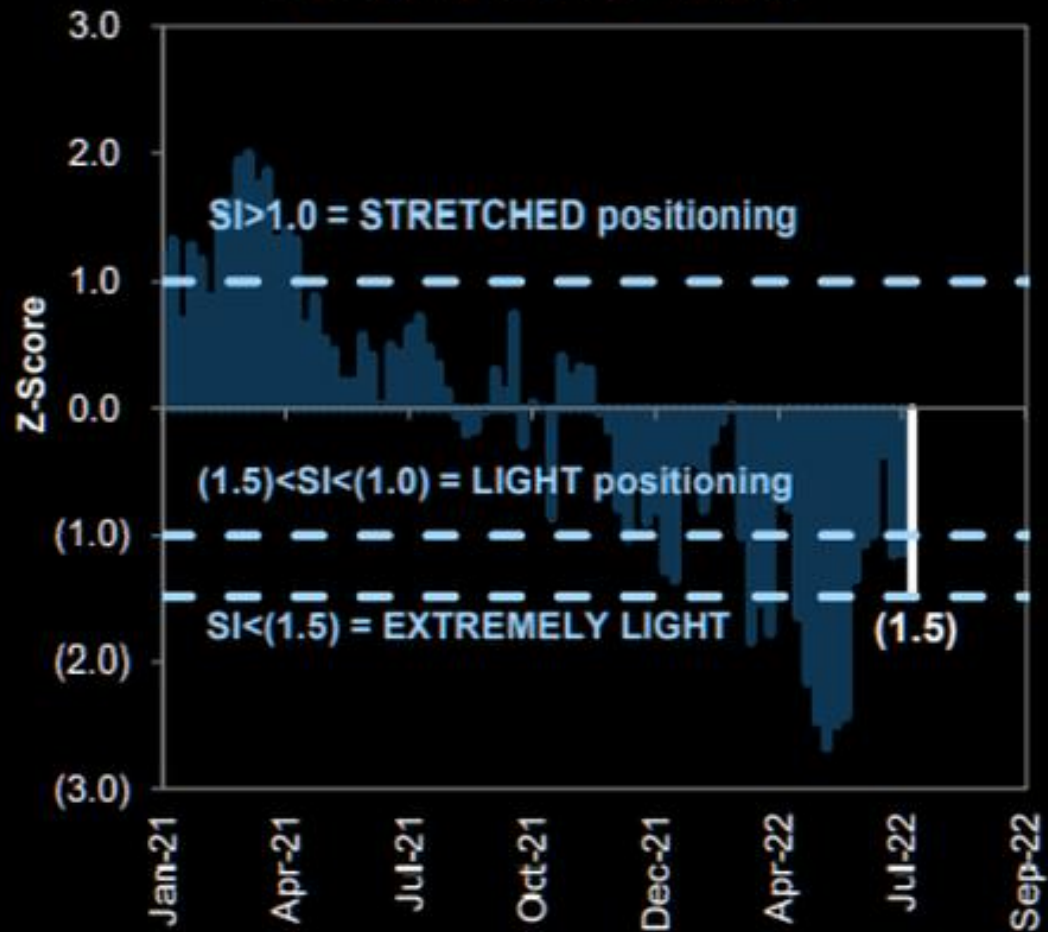
Components	Percentile	Sentiment
HF positioning	64%	Bullish
Credit mkt technicals	36%	Neutral
Equity market breadth	7%	V Bearish
Equity flows	41%	Neutral
Bond flows	8%	V Bearish
LO positioning	4%	V Bearish

Source: BofA Global Investment Strategy, Bloomberg, EPFR Global, Lipper FMI, Global FMS, CFTC, MSCI

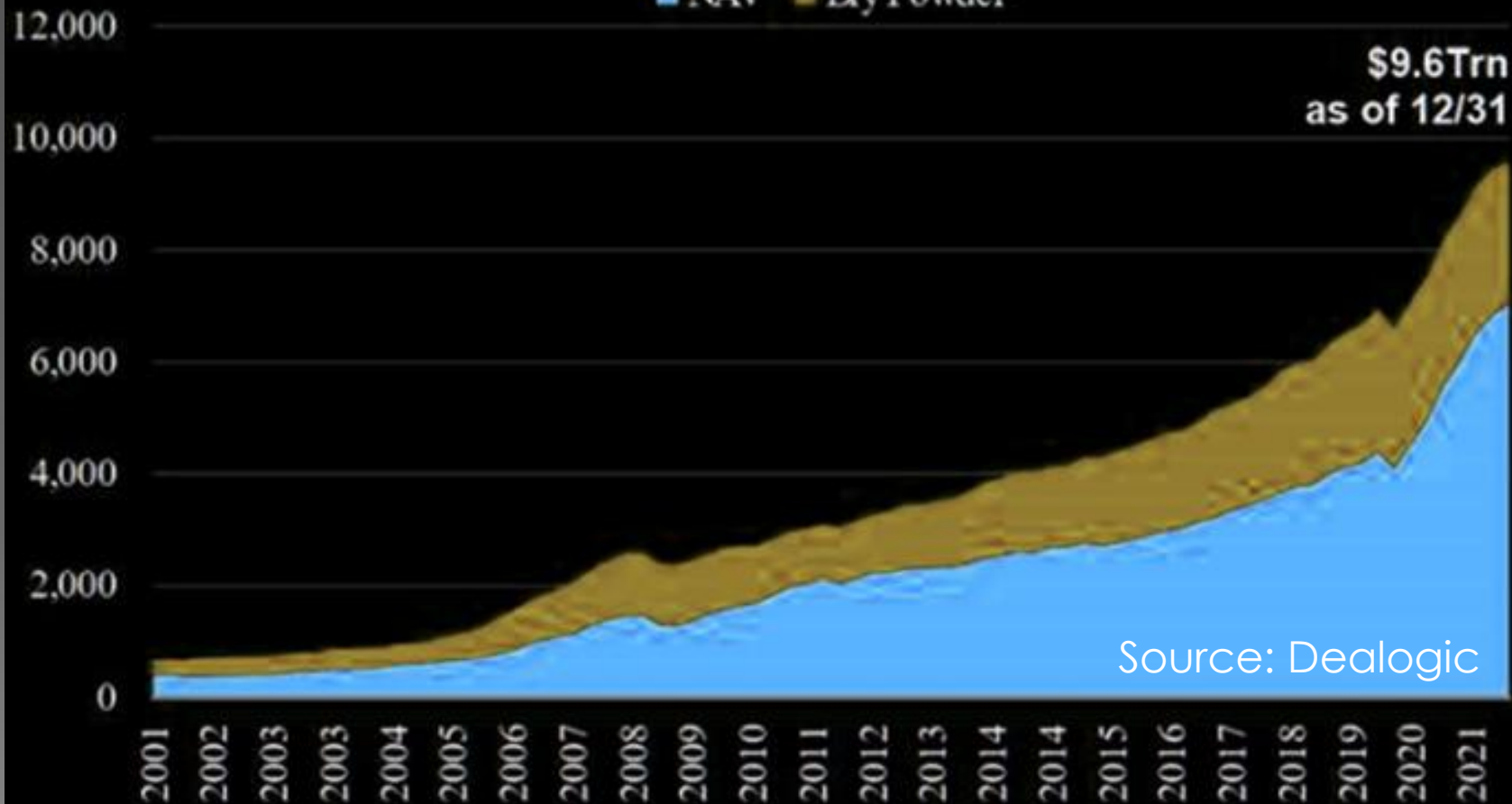
BofA GLOBAL RESEARCH



Sentiment Indicator



NAV Dry Powder



\$9.6Trn
as of 12/31

Source: Dealogic

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THINGS TO WATCH FOR:

1. Bank Loan Loss Reserves,
2. Foreign Earnings Repatriation (Dollar Strength Damage),
3. Sector Strength and Weakness,
4. Commodity Weakness

.... Violent Counter Rallies

Global cash held by non-bank investors as % total holdings of equities/bonds/M2 by non-bank investors. Dotted lines are averages.



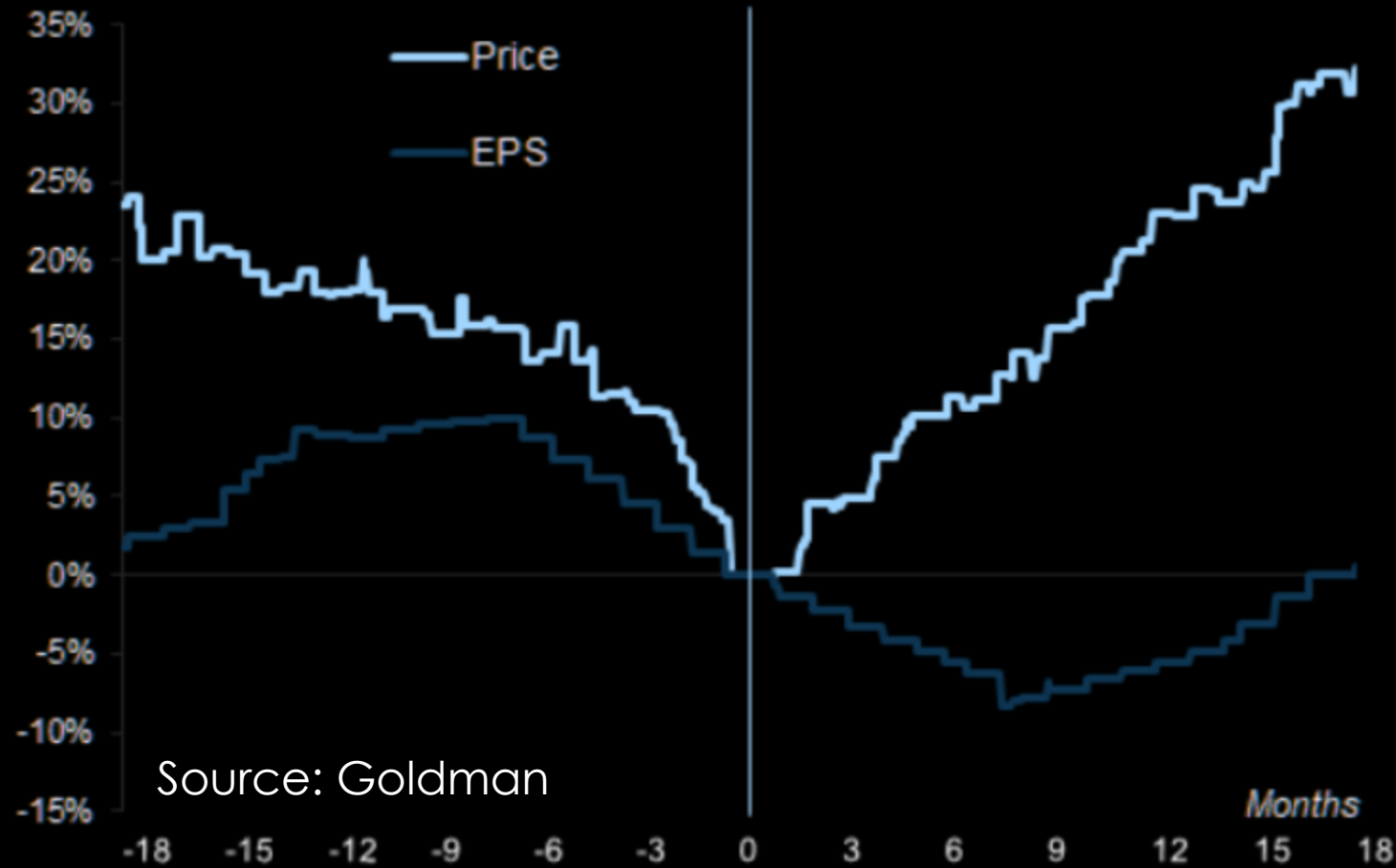
Source: JPM

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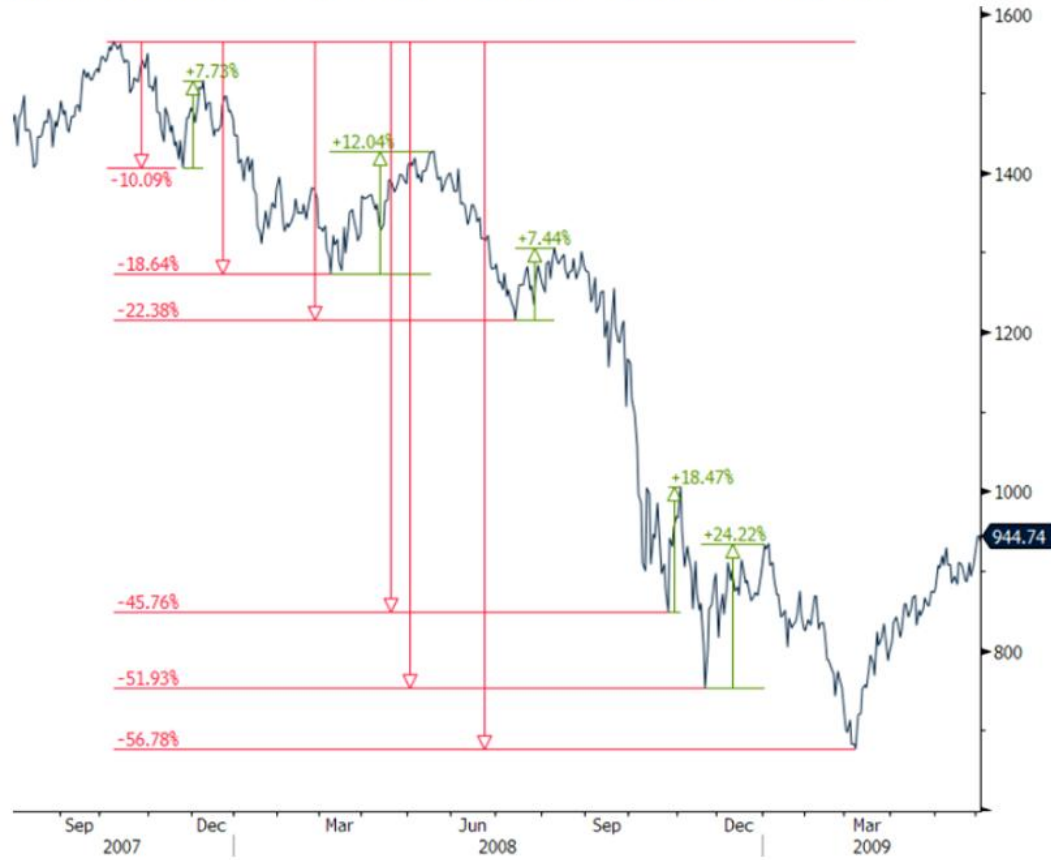
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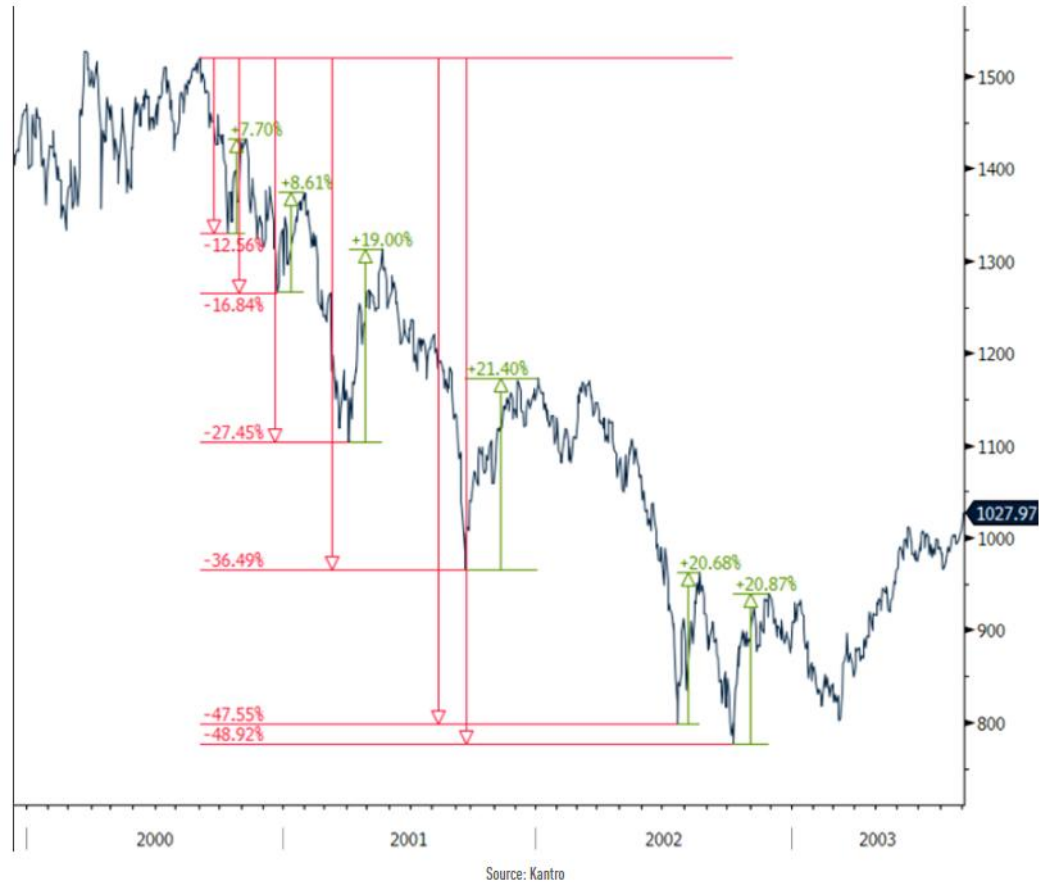
Source: Goldman

Bear market rallies get larger as the bear market gets deeper and older (08-09)



The bear market rallies of 2008-09

Bear market rallies get larger as the bear market gets deeper and older (00-02)



The bear market rallies of 2000-2002

ADMINISTRATIONS CHANGE – BUT THE PRINTING NEVER DOES

DON'T WORRY, THEY WILL PRINT THE MONEY!

EVERYONE IS NOW IN PLACE & READY!!



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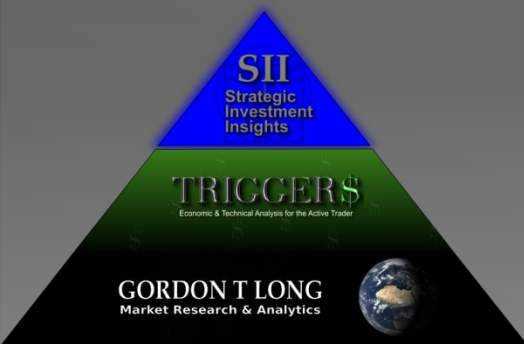
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WE READ ALL COMMENTS FOR
FEEDBACK THAT WILL IMPROVE OUR
RESEARCH ANALYSIS

WORLD CLASS MINDS FOLLOW THIS
CHANNEL & WE VALUE HEARING
FROM YOU!

IT IS THE ONLY PAYMENT WE ACCEPT
FOR POSTING THIS FREE YOUTUBE
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