



## 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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# THE BETA DROUGHT DECADE



# AGENDA

## HISTORICAL PERSPECTIVE

- The 60:40 Portfolio,
- Risk Parity.

## VALUATIONS

- Consolidation & Rebalance,

## 5% INFLATION ERA

## DE-FINANCIALIZATION

- Capital & Exter's Pyramid,
- Falling Productivity & Investment.
- De-Globalization, On-shoring & Friend-shoring.

## THE GREAT STAGFLATION

- Chinese Credit Impulse,

## CONCLUSION

- The Commodity Super-Cycle.

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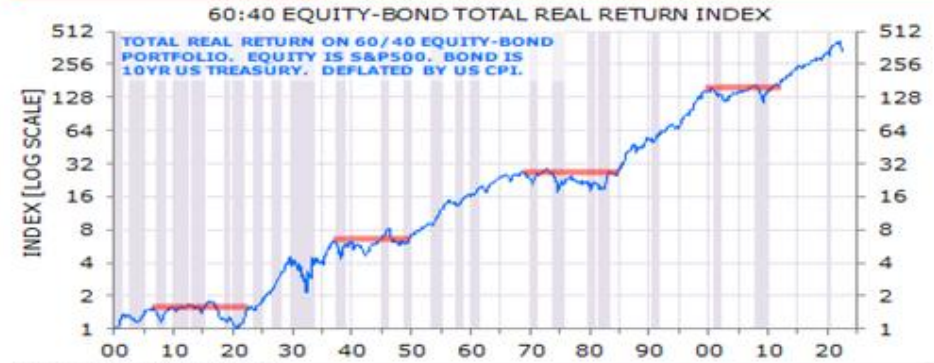
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# THE BETA DROUGHT DECADE

The US is likely entering another extended period of poor returns





"US investors have enjoyed historic beta for a dozen years.

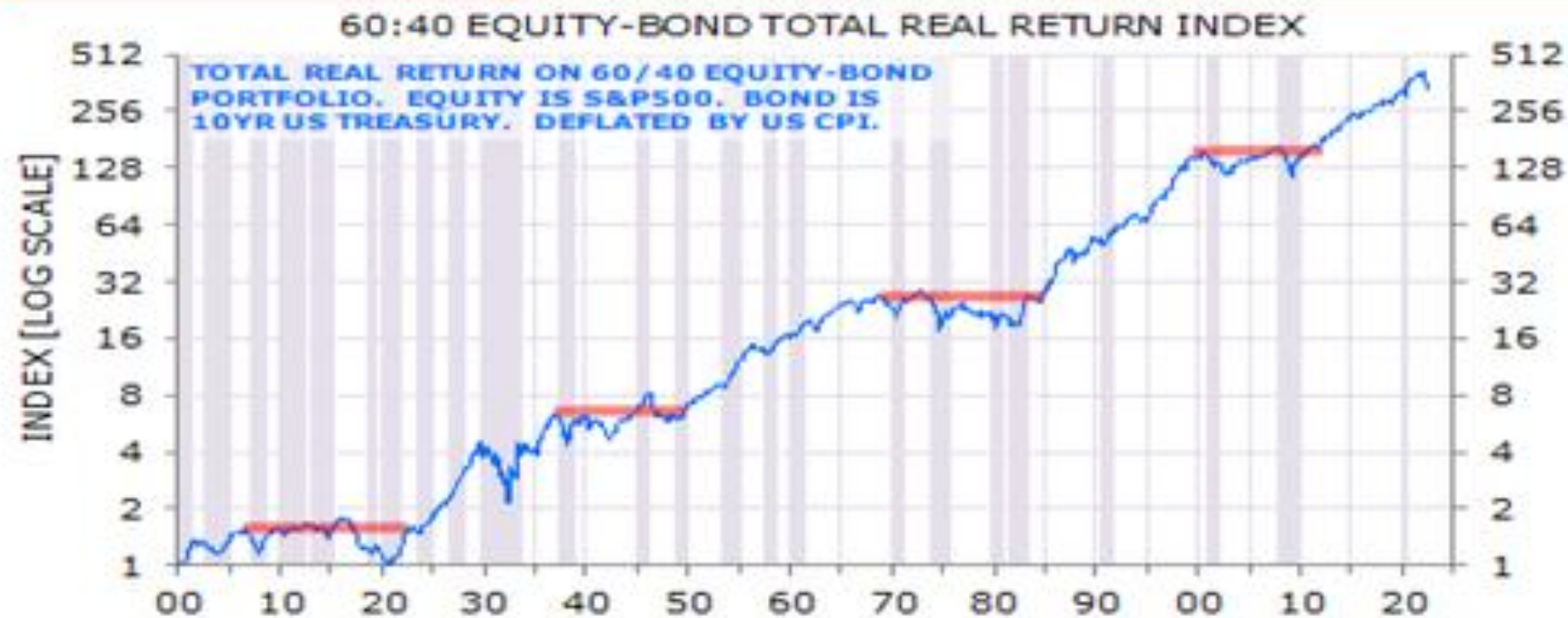
A 60:40 equity/bond portfolio generated a 10½% annual average return between March 2009 and January 2022.

There have been four Beta Droughts since 1900: extended periods of little or no beta return.

- Three of the four historical beta droughts – in the 1910s, 1940s and 1970s – were caused by rising inflation, typically decade-average CPI inflation of over 5%.
- Those three inflation episodes were associated with WW1, WW2, and the 1970s oil shocks.

**The US may now be entering another beta drought. US returns are at now risk from both the prospect of higher inflation, AND the headwind to returns from high starting-point valuations."**

## The US is likely entering another extended period of poor returns



Source: Gerard Minack, Downunder Daily

# A 7.5% YIELD

1995    2005    2016    NOW

## Bonds

100%    50%    15%    85%

## Equities

0%    40%    60%    15%

## Alternatives

0%    10%    25%

"Just a year ago, the U.S. 2-year treasury notes were yielding 25 basis points. And today, they're earning 4%, corporate bonds are over 5% and high yield is above 9%. So let me give you a little helpful context. If we go back in 1995, to get a 7.5% yield, which is what many institutions were looking for, a portfolio could be in 100% bonds. If you fast forward 10 years, in 2005, it had to be 50% bonds, 40% equities, and 10% alternatives. Then move another 10 years. And in 2016, you needed only 15% bonds, 60% equities and 25% alternatives. This describes the growth of several markets. Now today, to get that same 7.5% yield, a portfolio could be in 85% bonds and then 15% equities and alternatives."



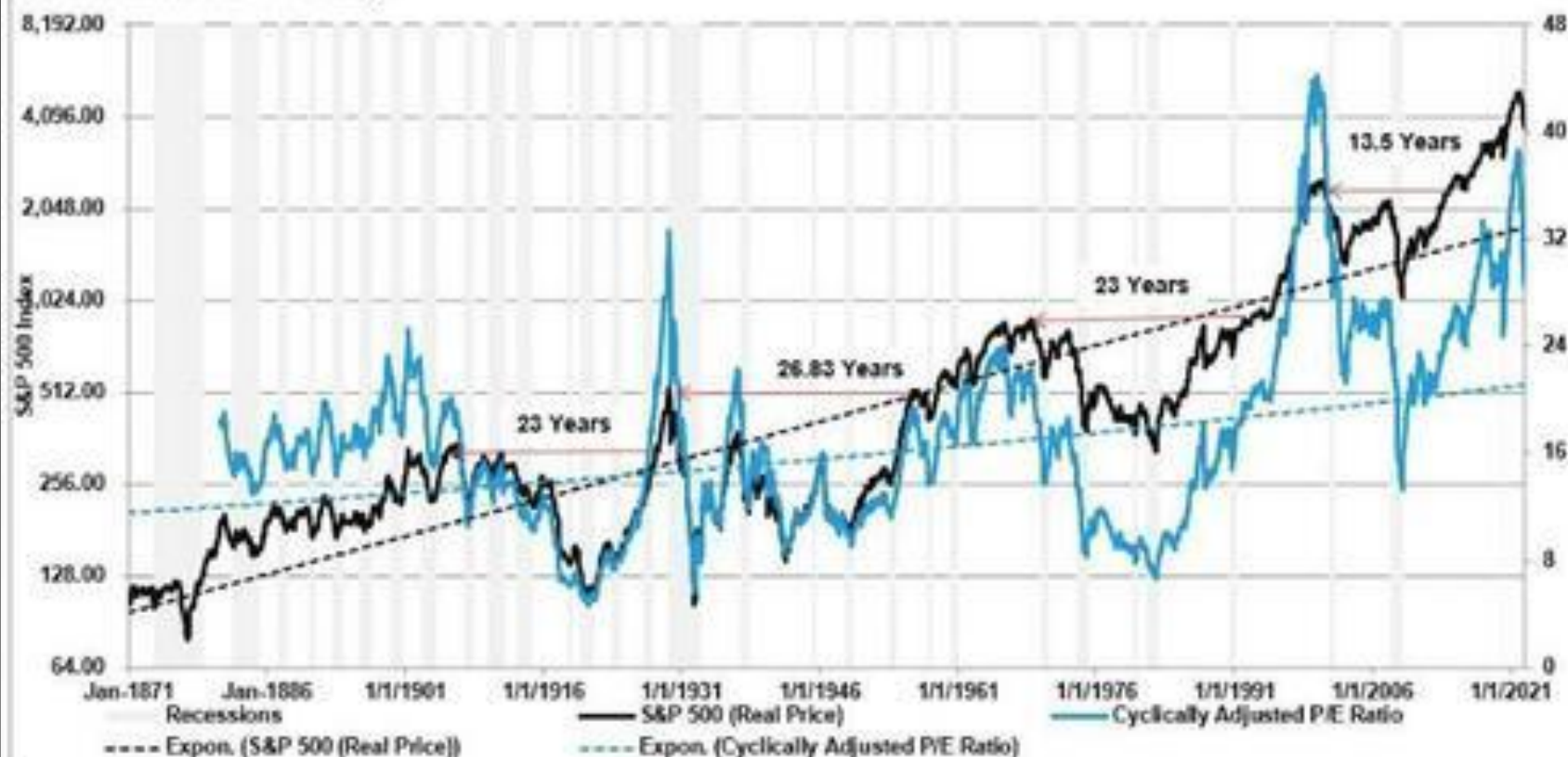
Larry Fink  
Chairman & CEO  
Q3 2022 Earnings Call

**BlackRock**



# Real S&P 500 Index Corrections From Peak Valuations

(Robert Shiller Real Price Data)



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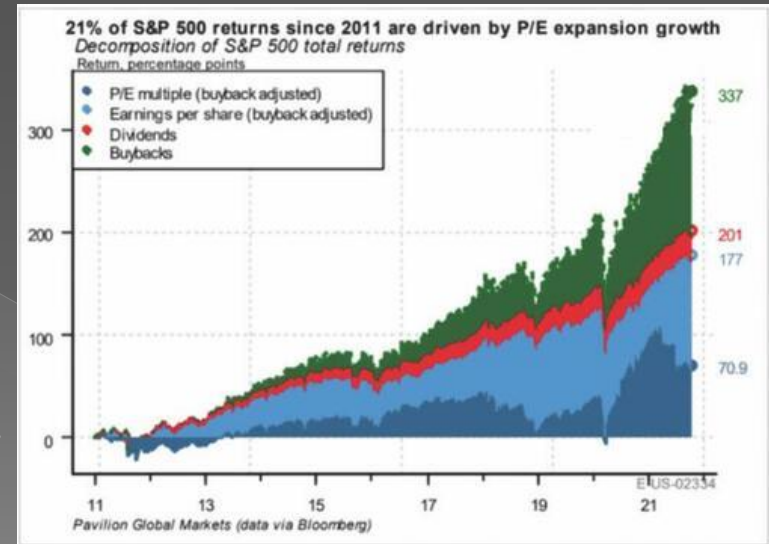
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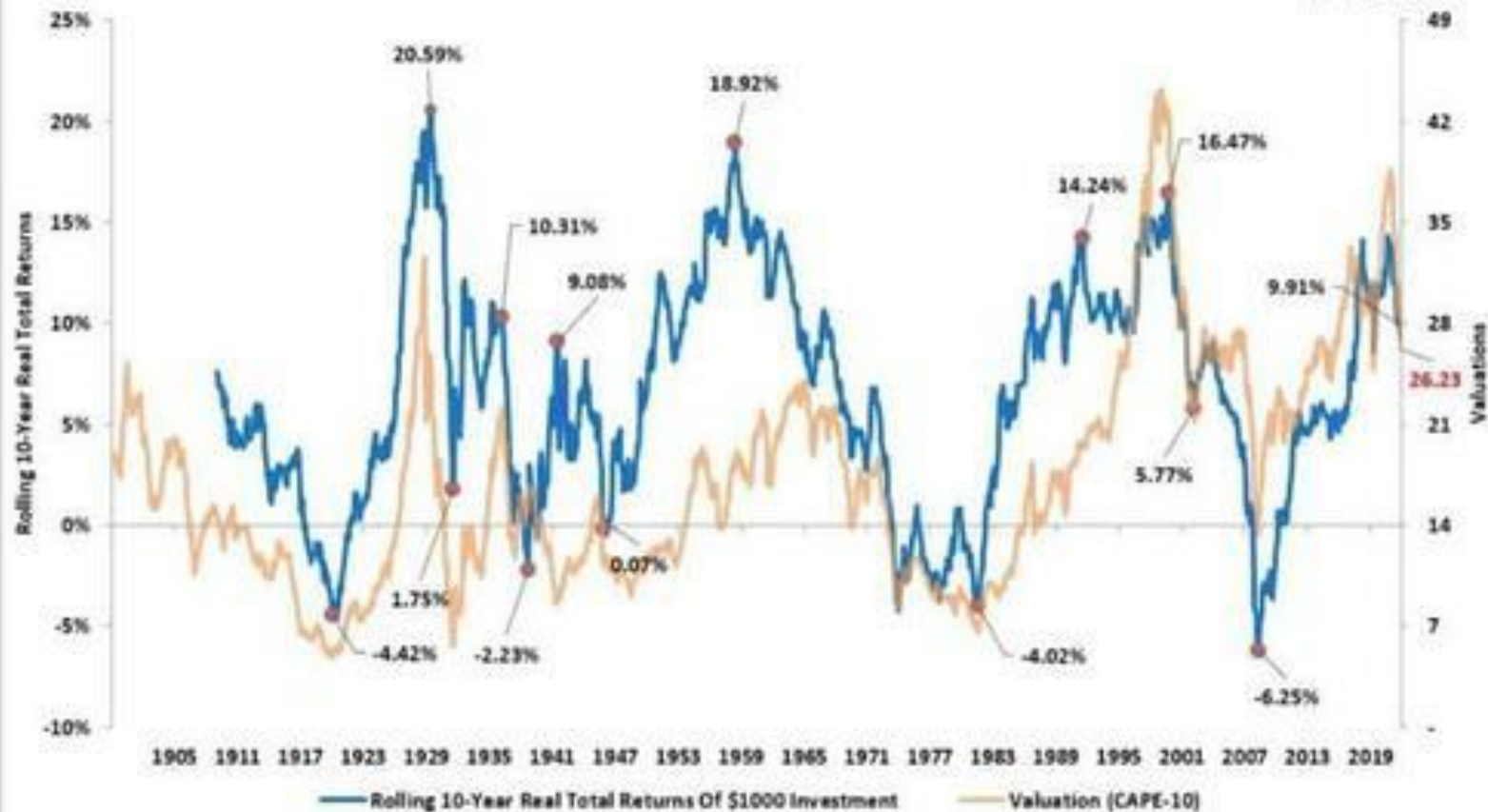
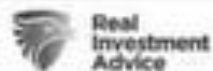
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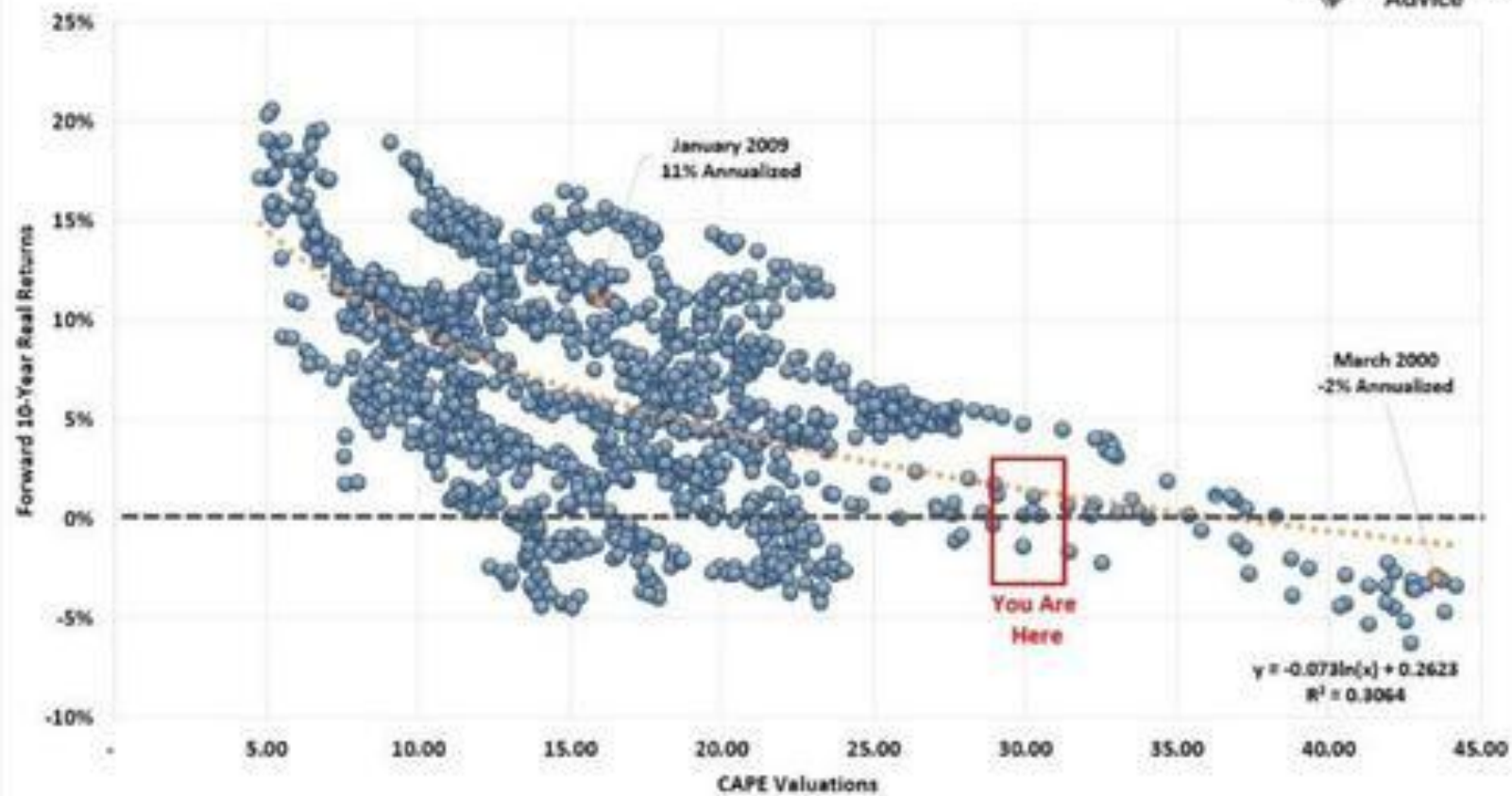
# THE BETA DROUGHT DECADE



## Real Total Return \$1000 Rolling 10-Year Returns



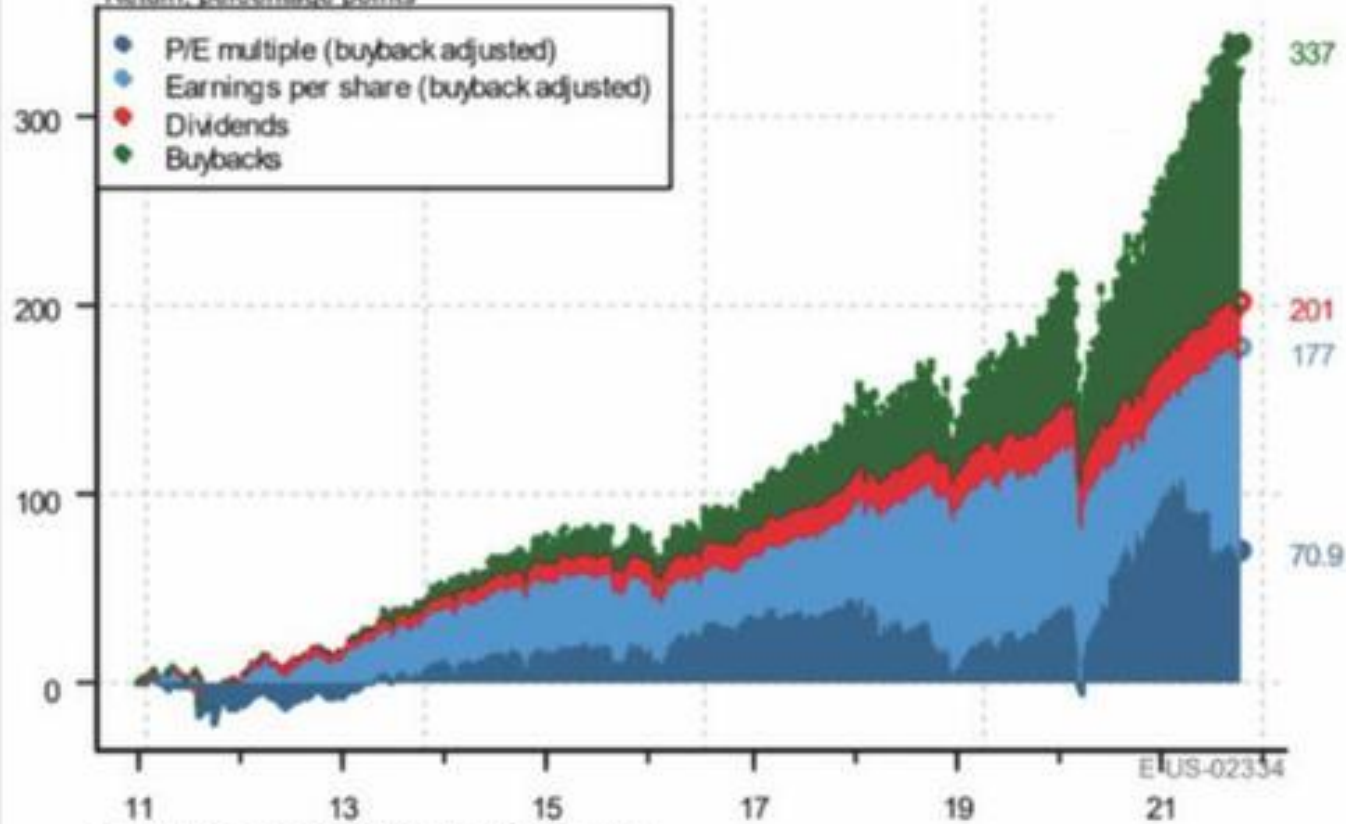
## Forward 10-Year Real Returns



## 21% of S&P 500 returns since 2011 are driven by P/E expansion growth

### Decomposition of S&P 500 total returns

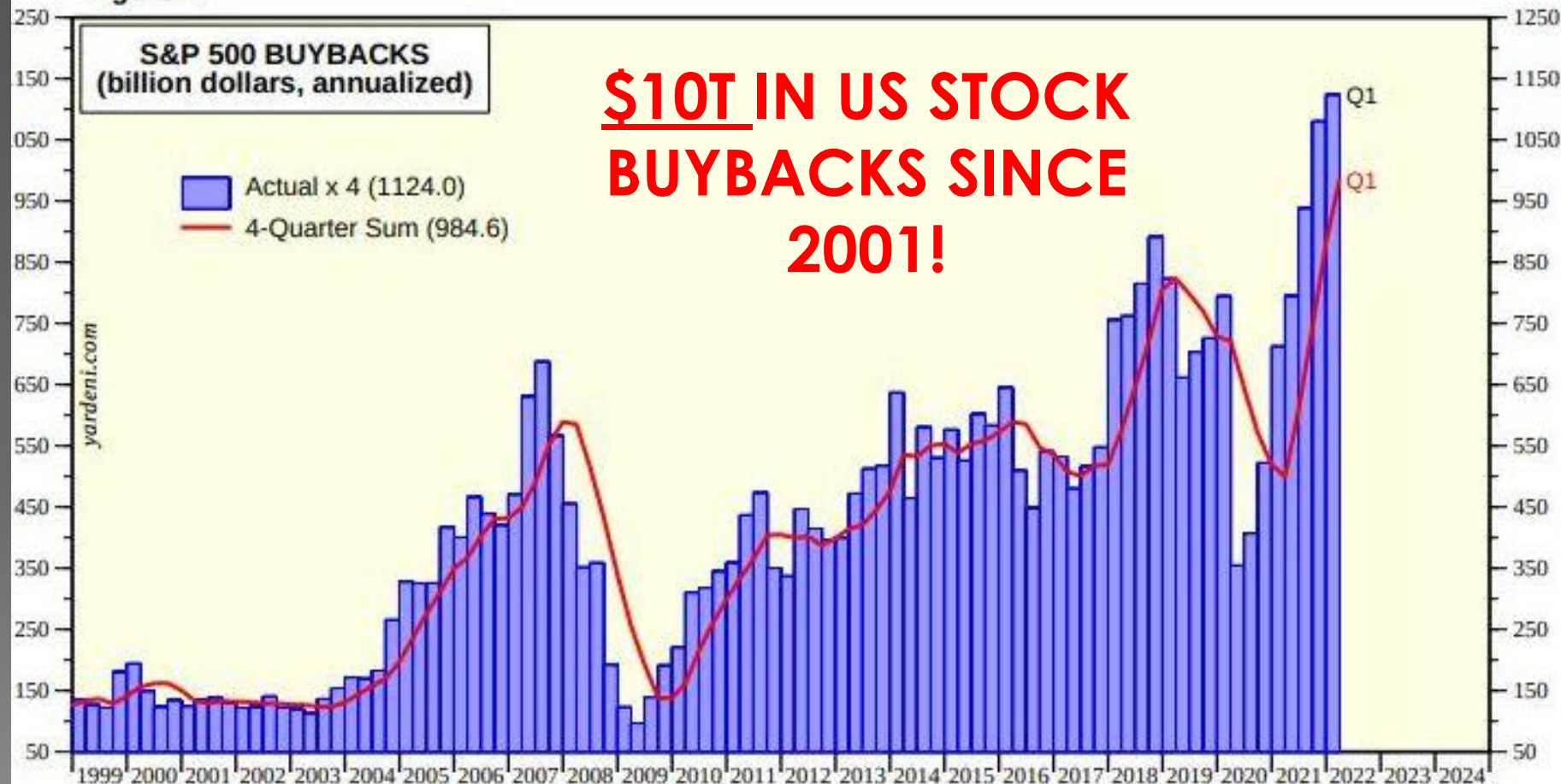
Return, percentage points



Pavilion Global Markets (data via Bloomberg)

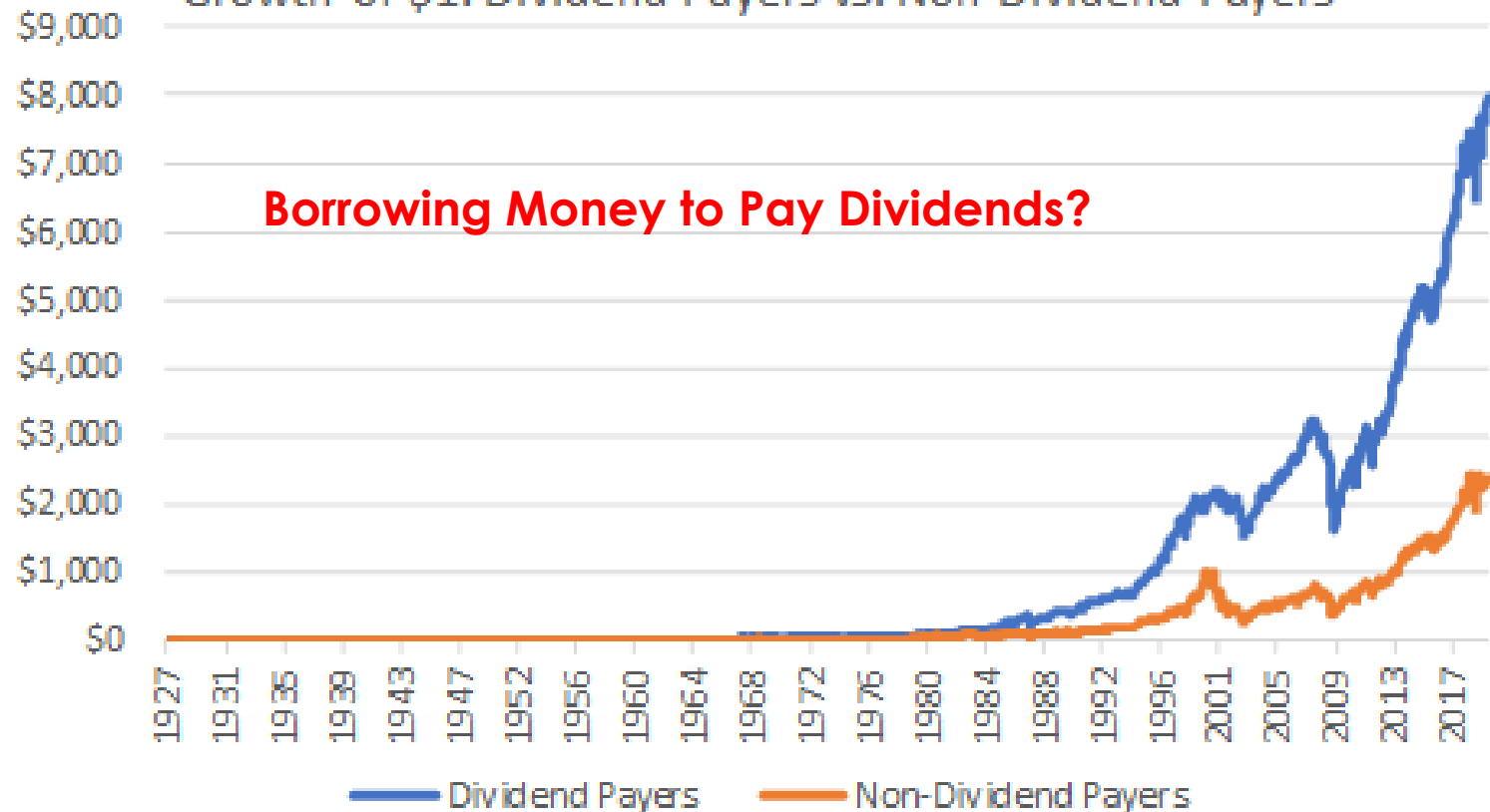


Figure 1.



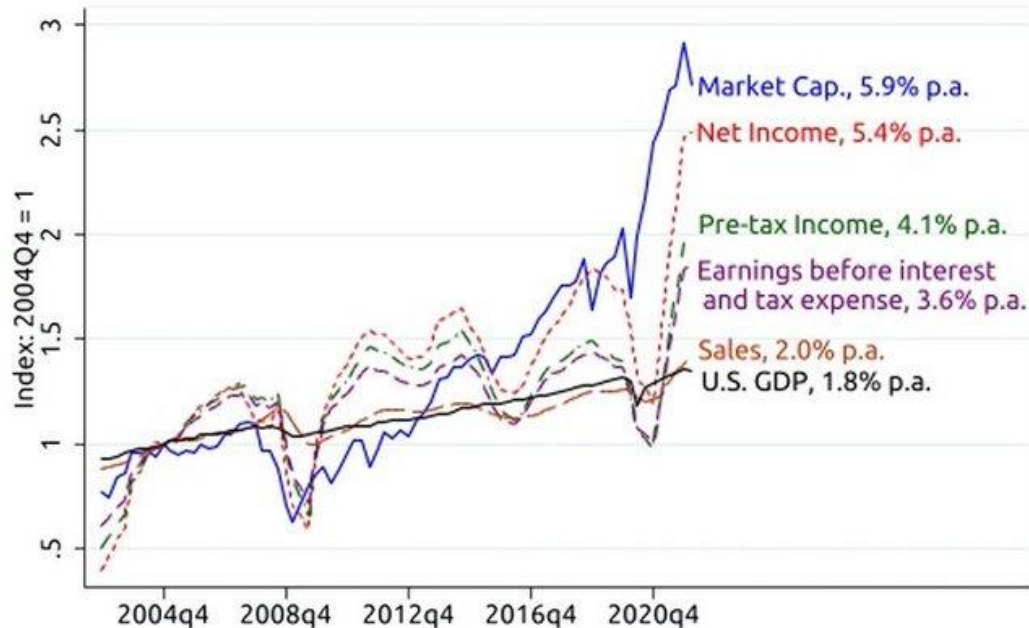
Source: Standard & Poor's.

Growth of \$1: Dividend Payers vs. Non-Dividend Payers



'The reduction in interest and tax expenses is responsible for a full one-third of all profit growth over the prior two-decade period. That boost to corporate profits is unlikely to continue, indicating notably lower stock returns in the future.'

Figure 5. Real growth indicators for S&P 500 nonfinancial firms



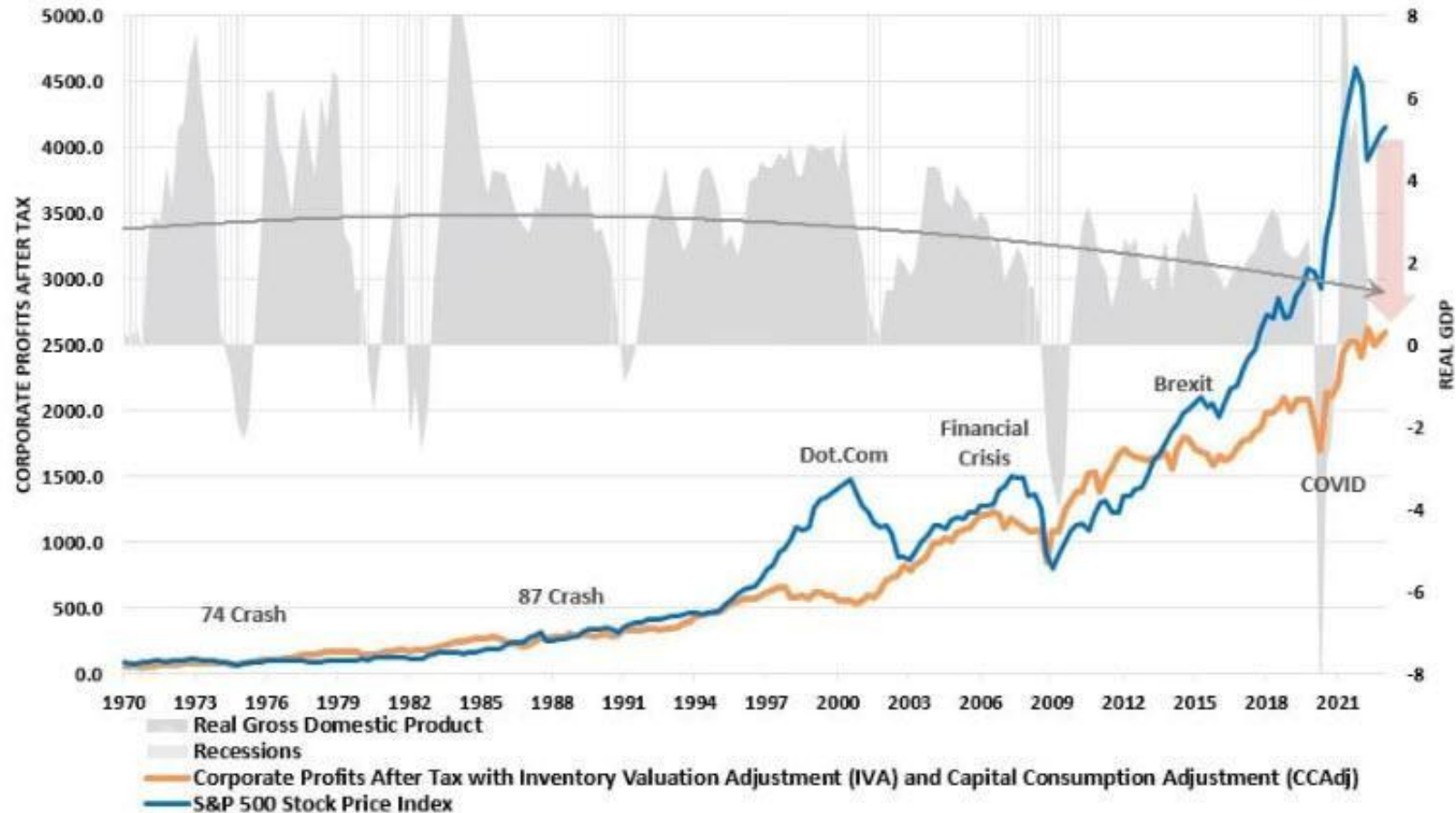
Note. Aggregate values for S&P 500 nonfinancial firms.

Source: Compustat; S&P Dow Jones Indices.

Accessible version

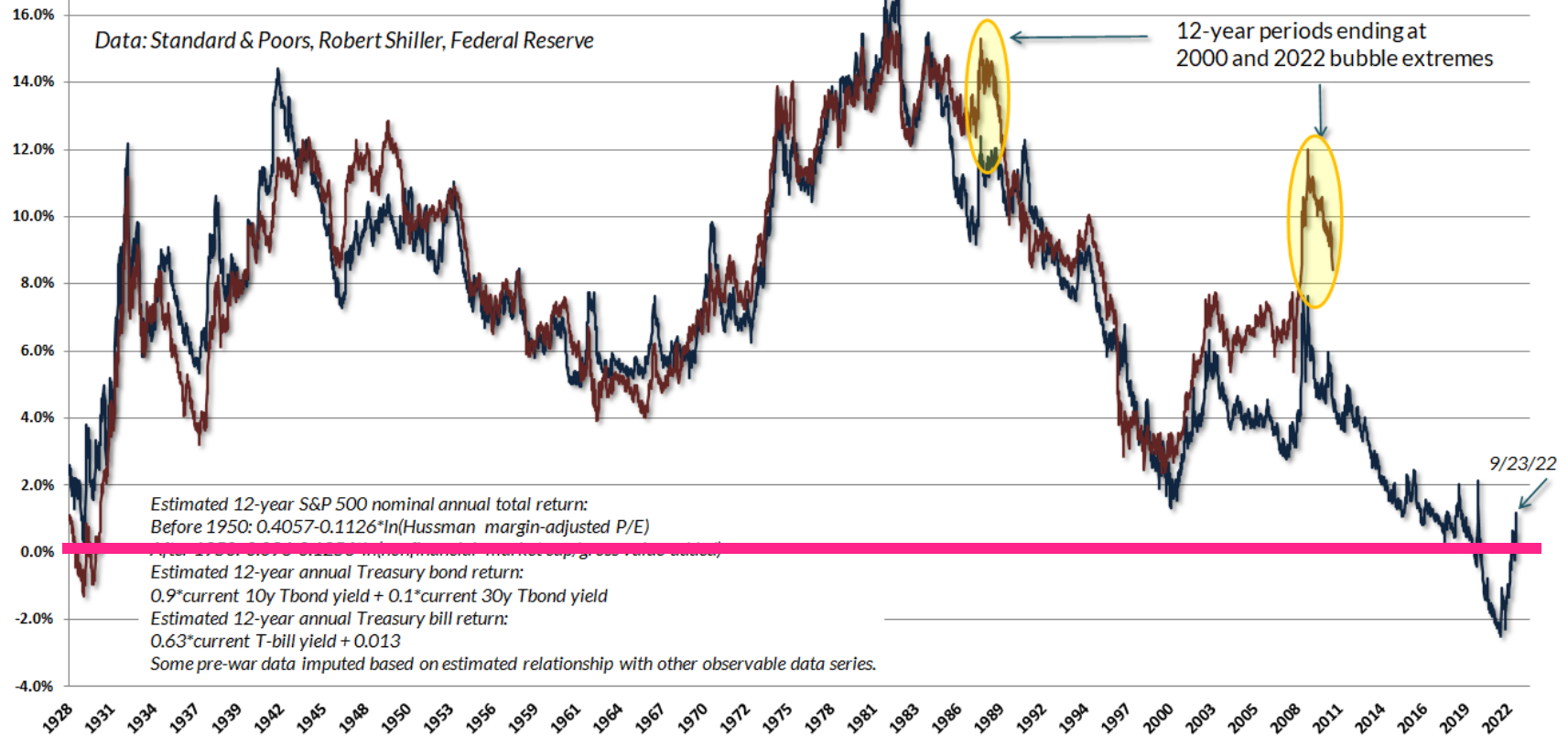
FED PAPER: The coming long-run slowdown in corporate profit growth and stock returns

## S&P 500 vs. Corporate Profits After Tax & Real GDP



## Hussman Strategic Advisors

Data: Standard & Poors, Robert Shiller, Federal Reserve



- Estimated 12-year annual nominal total return on conventional 60/30/10 mix of S&P 500, Treasury bonds, and T-bills
- Actual subsequent 12-year nominal annual total return on conventional portfolio mix



# JOHN HUSSMAN STUDIES (HUSSMANFUNDS.COM)

Estimating Downside Market Risk

October 16, 2022

Now Comes the Hard Part

September 25, 2022

The Structural Drivers of Investment Returns

August 15, 2022

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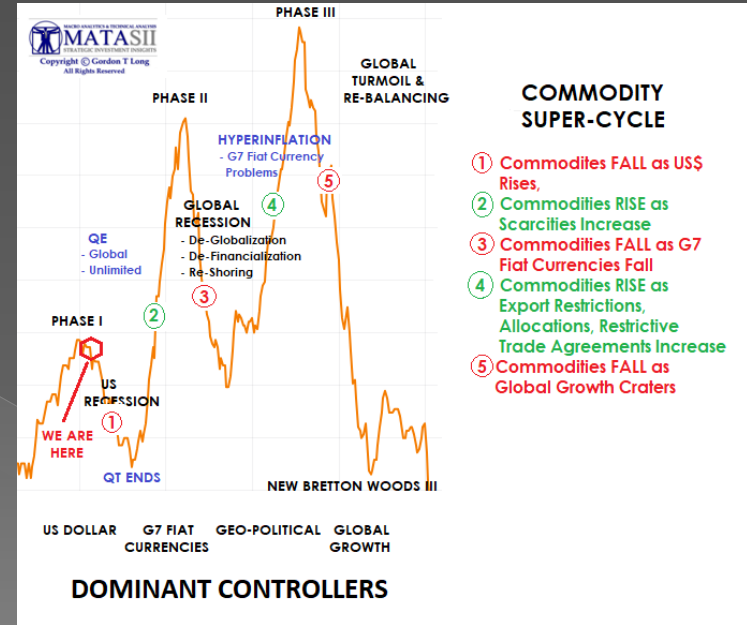
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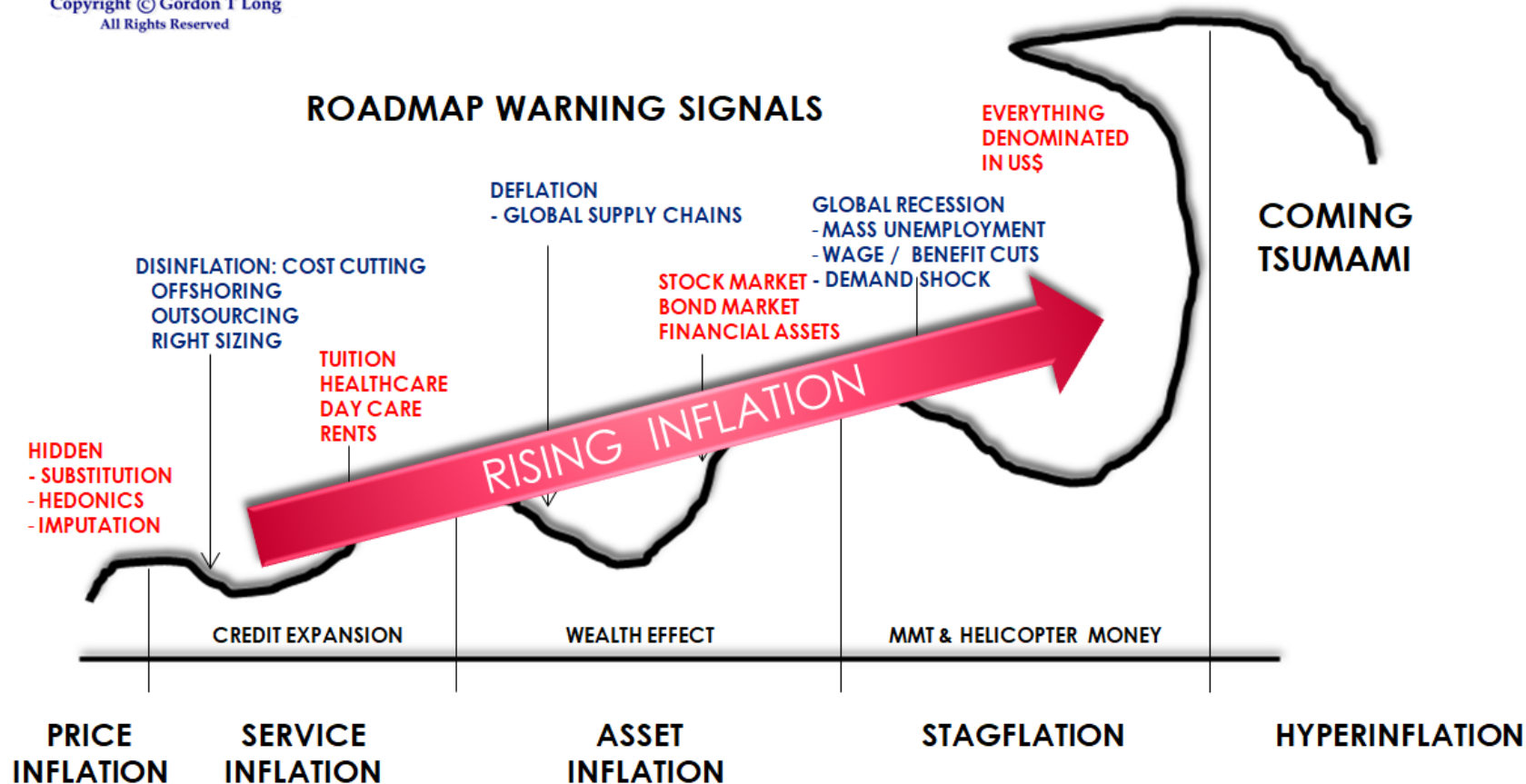
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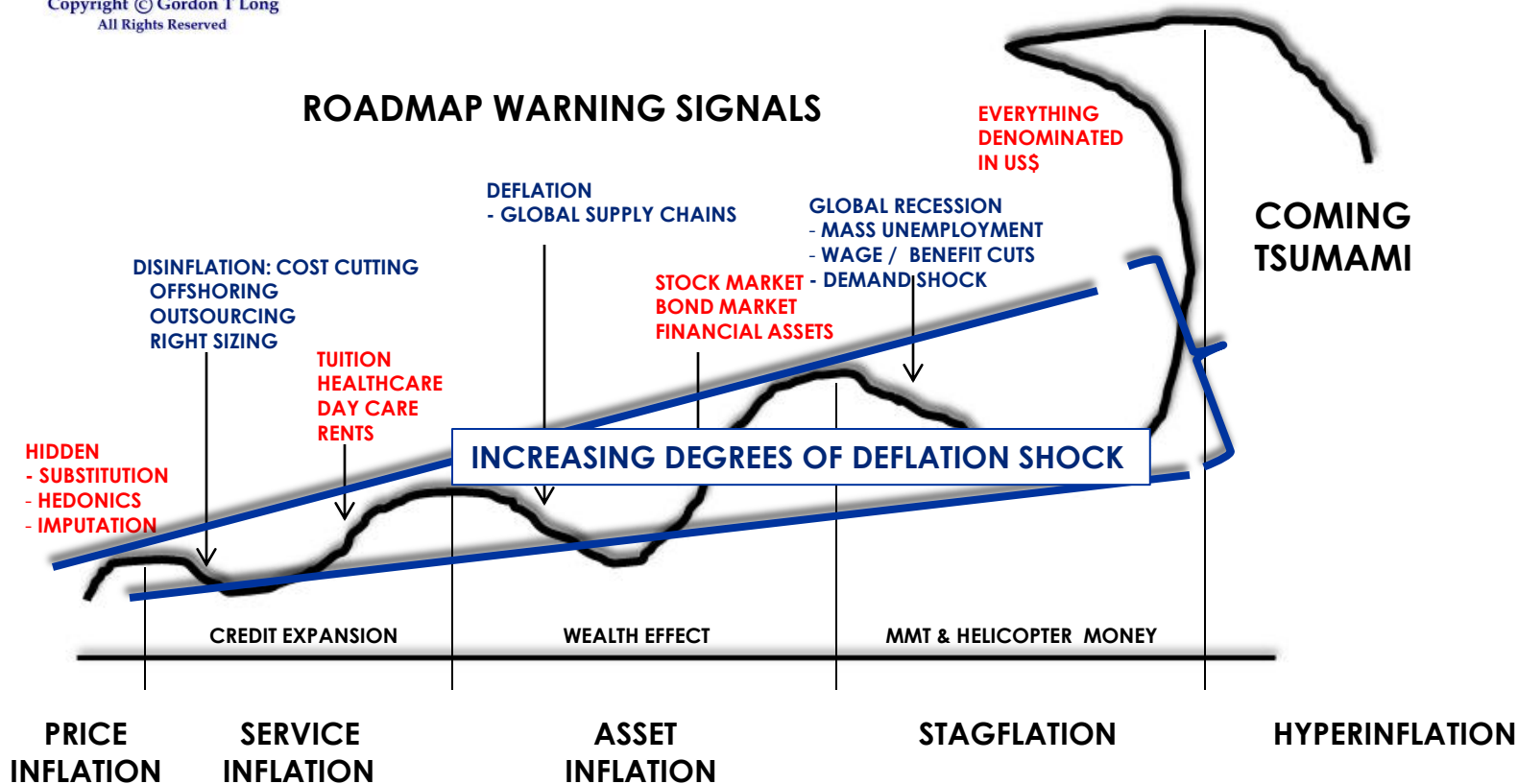
# INFLATION IS COMING IN WAVES!

## ROADMAP WARNING SIGNALS



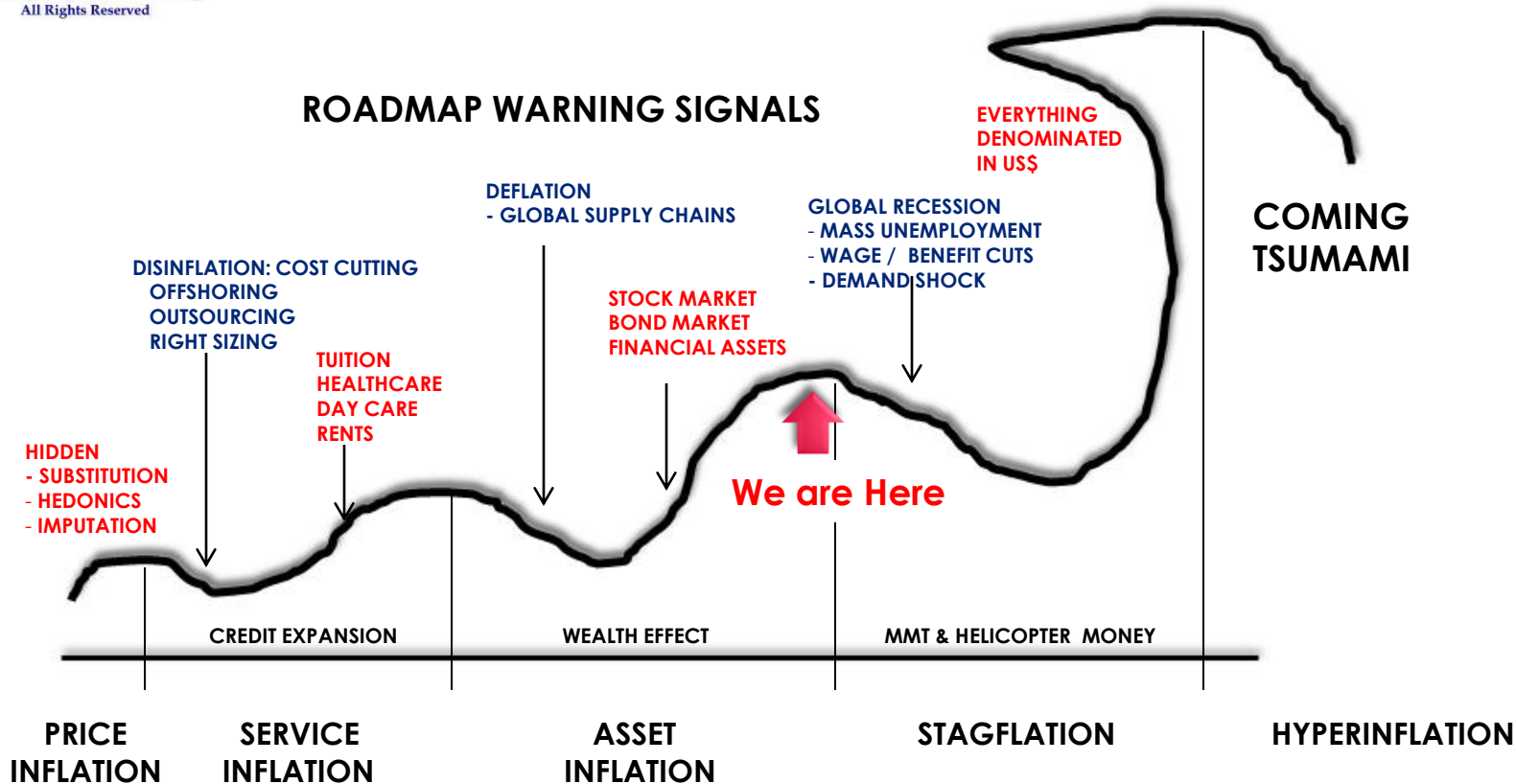
# DEFLATION IS COMING IN WAVES!

## ROADMAP WARNING SIGNALS



# INFLATION PLUS DEFLATION COMING IN WAVES!

## ROADMAP WARNING SIGNALS





# OVERLAYS TO CHART

2022-2023

An Energy Refining &  
Extraction Crisis

2023-2024

Food Crisis



## COMMODITY SUPER-CYCLE

- 1 Commodities FALL as US\$ Rises,
- 2 Commodities RISE as Scarcities Increase
- 3 Commodities FALL as G7 Fiat Currencies Fall
- 4 Commodities RISE as Export Restrictions, Allocations, Restrictive Trade Agreements Increase
- 5 Commodities FALL as Global Growth Craters

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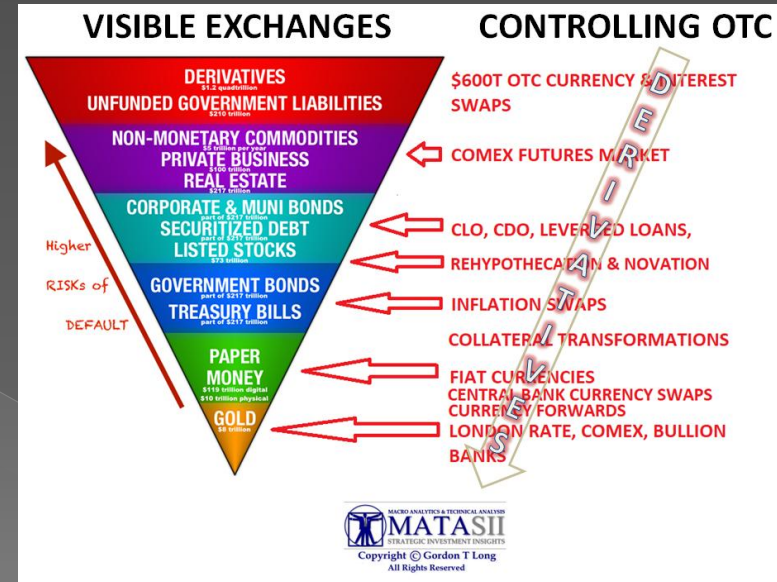
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# THE BETA DROUGHT DECADE



# CHANGE

1. Re-Balancing
2. De-Growth
3. Re-Shoring
4. De-Financialization
5. De-Globalization

## GLOBAL CRISIS, NATIONAL RENEWAL

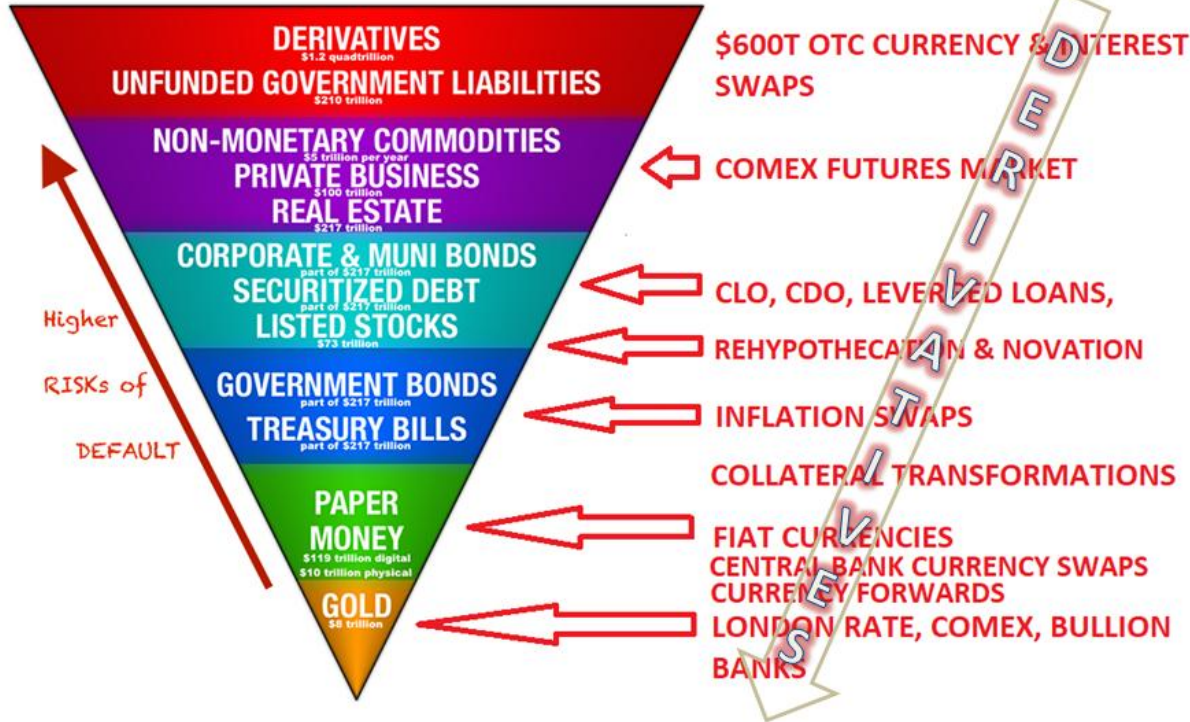


## A (REVOLUTIONARY) GRAND STRATEGY FOR THE UNITED STATES

Charles Hugh Smith

## VISIBLE EXCHANGES

## CONTROLLING OTC



# TRANSMISSION MECHANISM FRACTURING

## VELOCITY

Application of Lending that  
Results in Multiple Rolling uses of  
The Initial Lending that creates Wealth

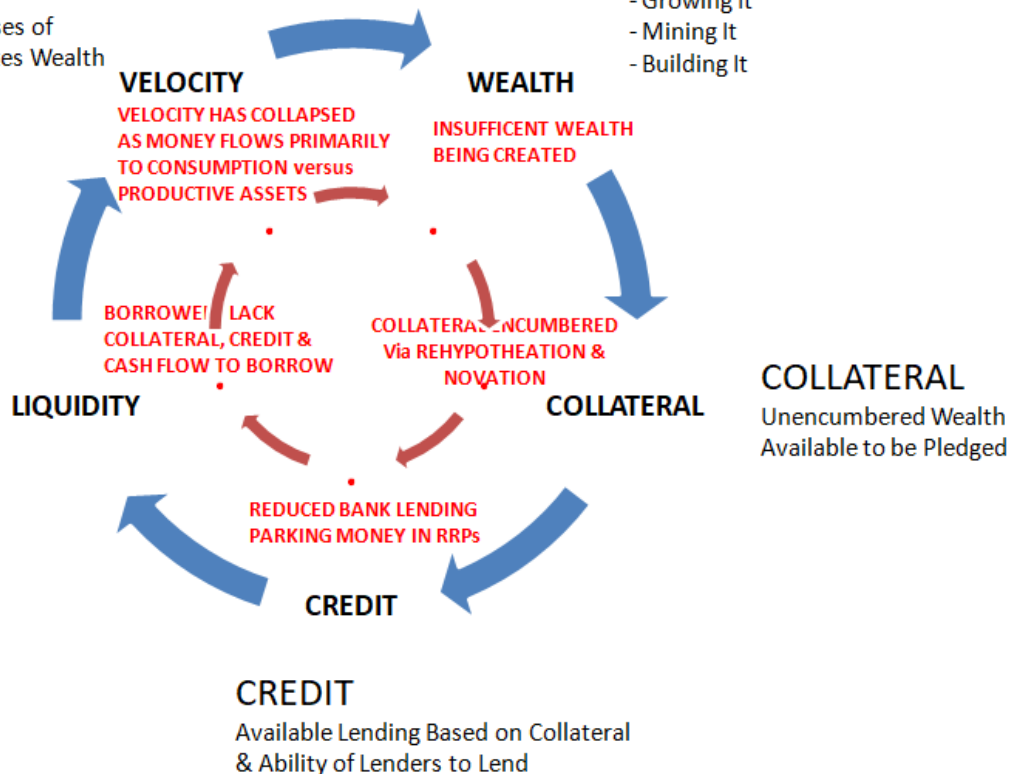
## WEALTH

Can only be created by:

- Growing It
- Mining It
- Building It

## LIQUIDITY

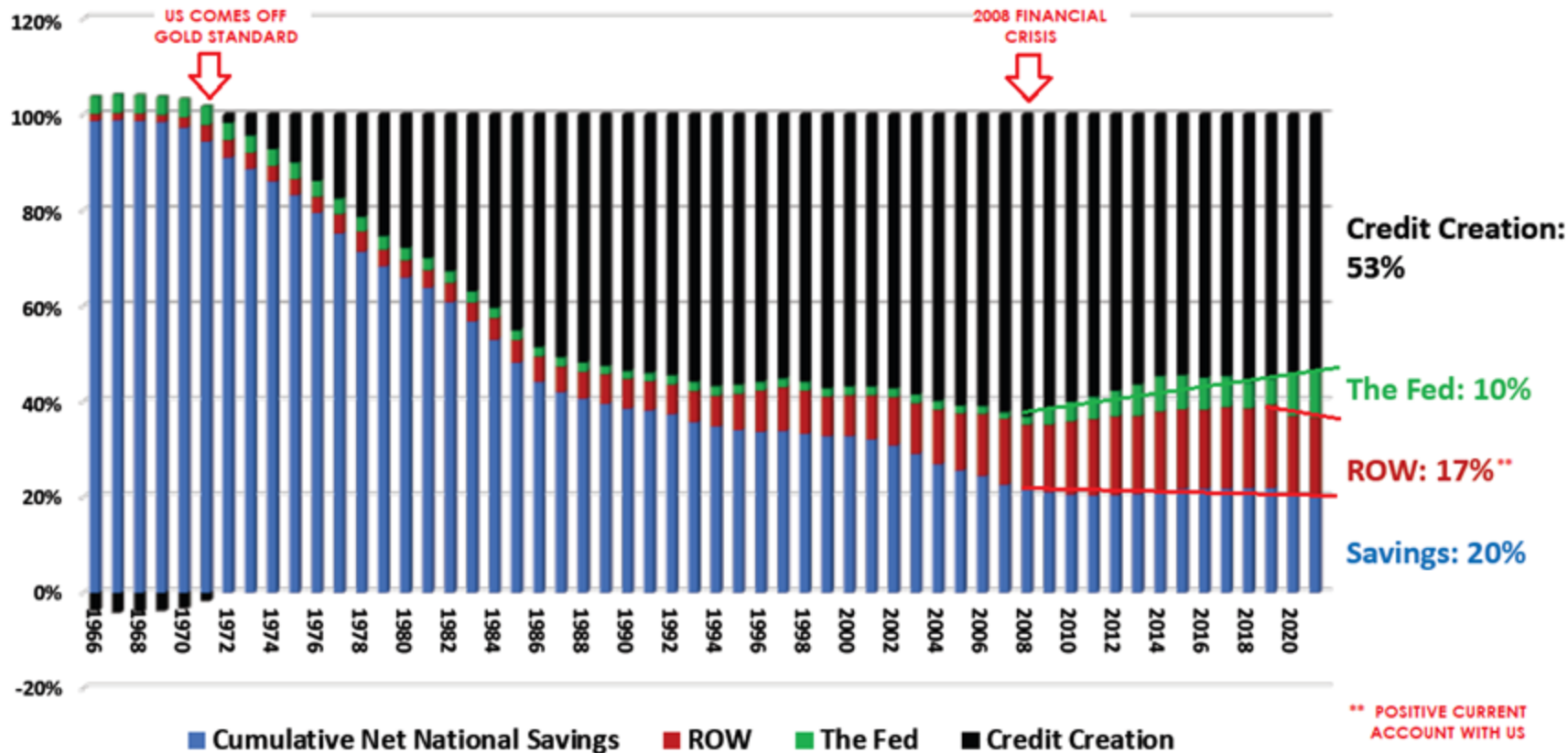
Willingness of Lenders to Lend  
And Borrowers to Borrow





# Where Does The Money Come From To Fund The Debt?

## Source Of Funding, % Breakdown from 1966 to 2021



Source: The Fed's Financial Accounts Of The United States; and the Bureau Of Economic Analysis

## Nonfarm Productivity

Year-over-Year Percent Change, Four-Quarter Moving Average



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1-2008 FINANCIAL CRISIS

CHINESE CREDIT IMPULSE

2-EU BANKING CRISIS

(PIGS, Cyprus)

3-TAPER TURMOIL

(LIQUIDITY FAILURE)

4-COVID-19

(SHOCK)

Mid Price	-4.05
High on 11/30/09	21.49
Average	0.64
Low on 02/28/11	-9.35
SMAVG (3)	-2.65
SMAVG (6)	1.68
SMAVG (12)	5.05

SAVED THE LAST DECADE!



2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022

CHBGREVA Index (Bloomberg Economics China Credit Impulse 12 Month Net Change) M

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11-Aug-2021 10:04:02

# THE BLACK HOLE OF STAGFLATION

The Event Horizon

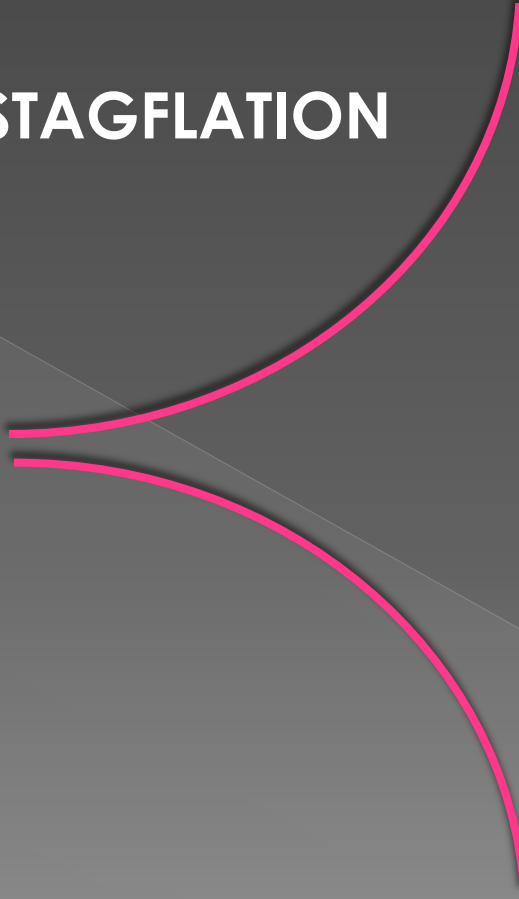
Event Horizon

INFLATION



We Appear  
To Be Here!

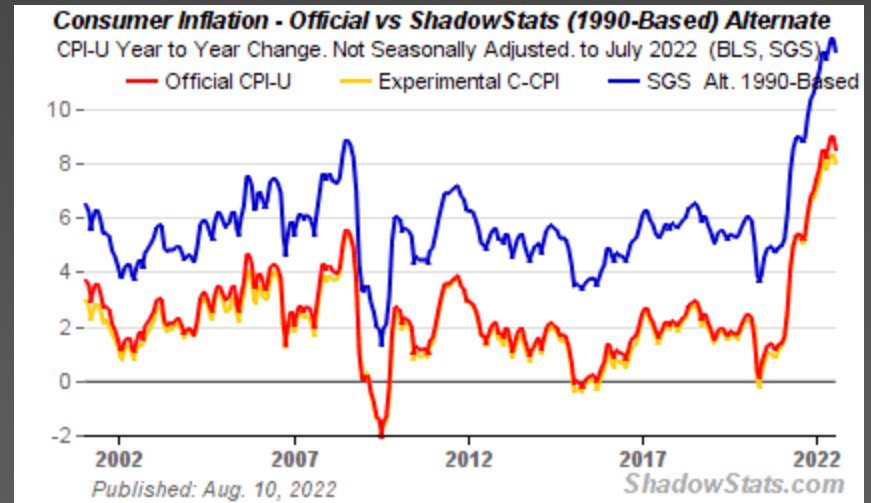
GROWTH



INFLATION

In Reality We  
Are Here!

GROWTH



**LONGWave: 04-07-21 – APRIL**  
**Covid Triggered Inflation**

URL:

[https://youtu.be/\\_ix5EYBmYXo](https://youtu.be/_ix5EYBmYXo)

SLIDES: 35

MINUTES: 22



INFLATION

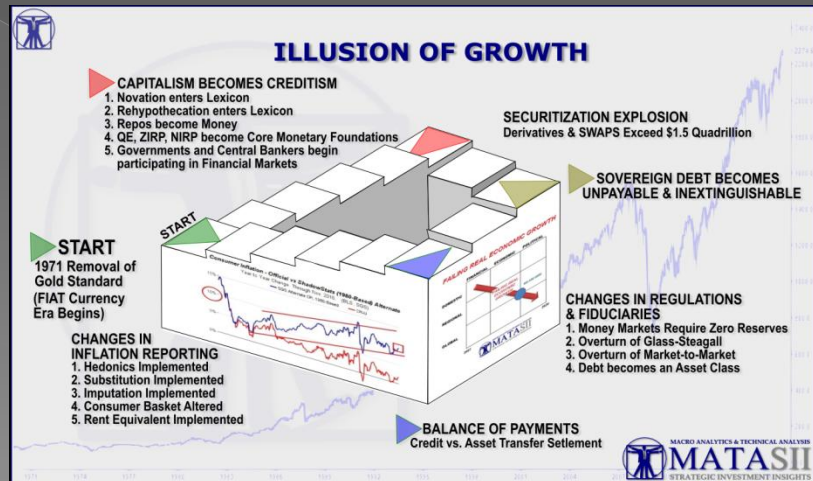
In Reality We  
Are Here!

GROWTH

## 2017 ILLUSION OF GROWTH

[Download full pdf.](#)

111 Pages



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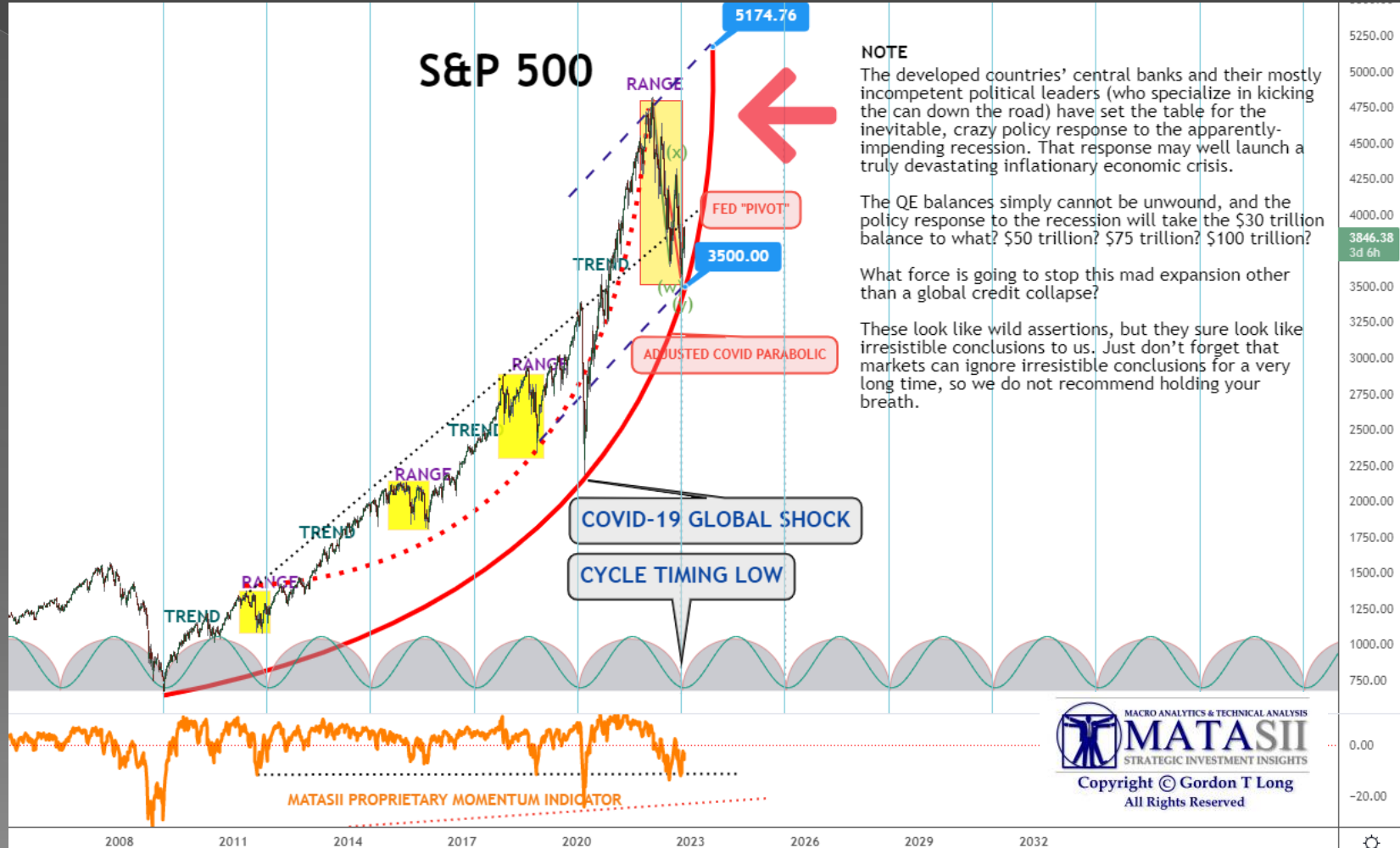




**THE DAM HAS BROKEN!**

THE CRACKS ARE JUST GETTING TOO BIG!

# S&P 500



## NOTE

The developed countries' central banks and their mostly incompetent political leaders (who specialize in kicking the can down the road) have set the table for the inevitable, crazy policy response to the apparently-impending recession. That response may well launch a truly devastating inflationary economic crisis.

The QE balances simply cannot be unwound, and the policy response to the recession will take the \$30 trillion balance to what? \$50 trillion? \$75 trillion? \$100 trillion?

What force is going to stop this mad expansion other than a global credit collapse?

These look like wild assertions, but they sure look like irresistible conclusions to us. Just don't forget that markets can ignore irresistible conclusions for a very long time, so we do not recommend holding your breath.

# S&P 500 CFD

Monthly





# A REDUCED US STANDARD OF LIVING

Household Net Worth as a Percentage of  
Disposable Personal Income



MACRO ANALYTICS & TECHNICAL ANALYSIS

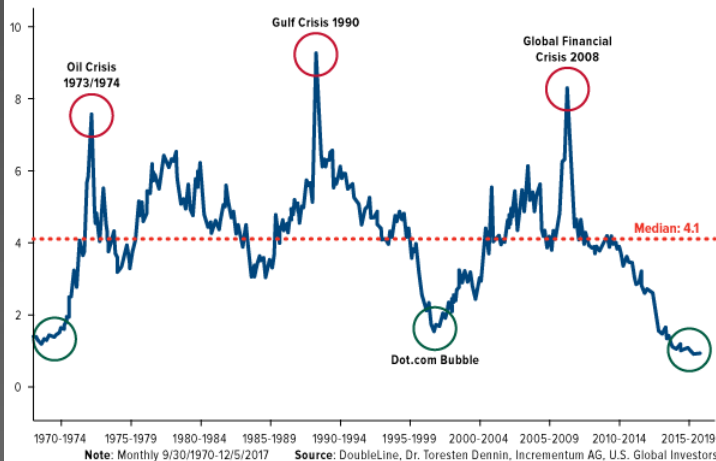
**MATASII**  
STRATEGIC INVESTMENT INSIGHTS

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## Equities vs. Commodities

S&P GSCI Total Return CME/ S&P 500 Index 0.92



# COMMODITY SUPER-CYCLE



**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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