



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 Credit Cycle

THE SLOW CHOKING OF CREDIT!

Expansion

- Risk-taking rises
- Balance sheet re-leveraging

Downturn

- Tightening lending standards
- Credit default swap

WE ARE HERE

Repair

- Deleveraging
- Cutting costs
- Downsizing

Recovery

- Rising cash flow
- Falling leverage
- Increasing margins

"Expect the best. Prepare for the worst. Capitalize on what comes!"

The Slow Choking of Credit

AGENDA

KEY MESSAGES

BIG PICTURE

THE SLOW CHOKING OF CREDIT

MONETARY ALWAYS WORKS WITH A DELAY
CENTRAL BANK POLICY
THE LIQUIDITY SPIGOT
SLOWLY, THEN ALL OF A SUDDEN!

LOOKING IN THE WRONG PLACES

SMALL BUSINESS IS AMERICA

YIELDS GOING FORWARD

CONCLUSIONS

LATE CYCLE & RECESSIONS
STAGNATION, STAGFLATION & A DEBT CRISIS



KEY MESSAGES

1- CONSEQUENCES: RATES TOO LOW FOR TOO LONG

- . Smart Borrowers,
- . A Demand Problem,
- . Shift to Foreign Lending.

2- INTERFERENCE: THE TRANSMISSION MECHANISM!

- . Bidenomics Has Confused the Signals,
- . A Shift in Control: Monetary v Fiscal Policy,
- . Is The Volcker Solution In Jeopardy?

3- LIQUIDITY – THE NEW CONTROLLER

- . WAS: Growth in Fed Balance Sheet,
- . NOW: RRP must fall at faster RATE than Fed Bank Reserves Shrinkage,
- . Inverted Fed Balance Sheet Mirrors US 10Y Yield.

4-COMPLICATIONS: MULTI-POLAR v UNIPOLAR WORLD

- . US “Risk Free” Bonds & Reserve Currency Dollar,
- . US Dependent on Foreign Investment,
- . The Triffin Paradox, Eurodollar & Foreign Lenders.

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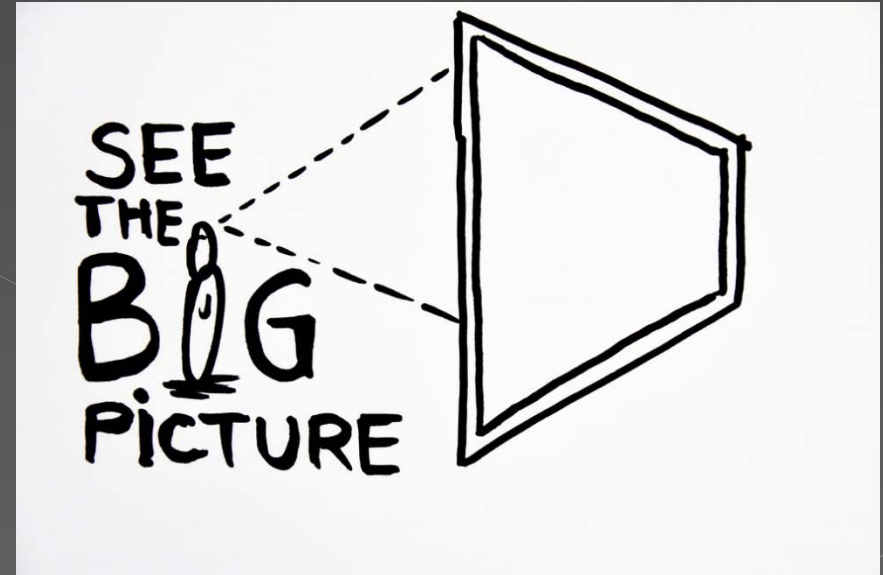
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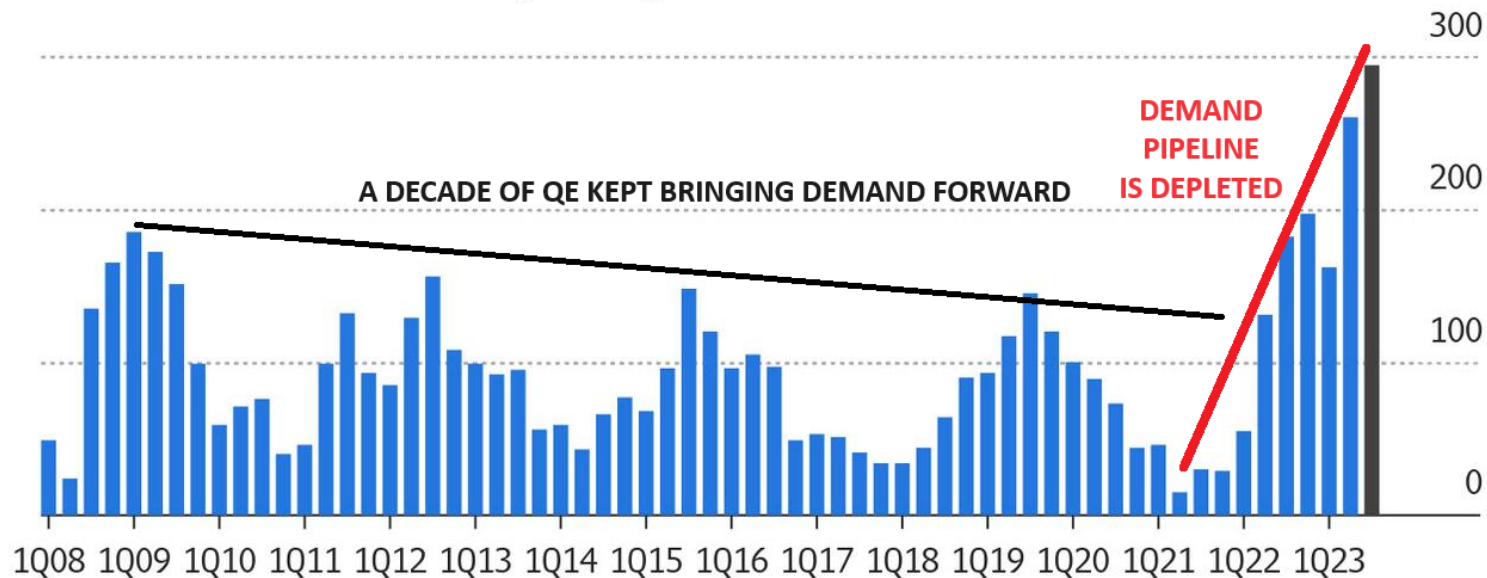
LATE CYCLE & RECESSIONS
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Demand Worries Plague US and European Earnings

Weak demand is on course for record mentions this season if trend holds

■ Weak demand mentions during earnings calls



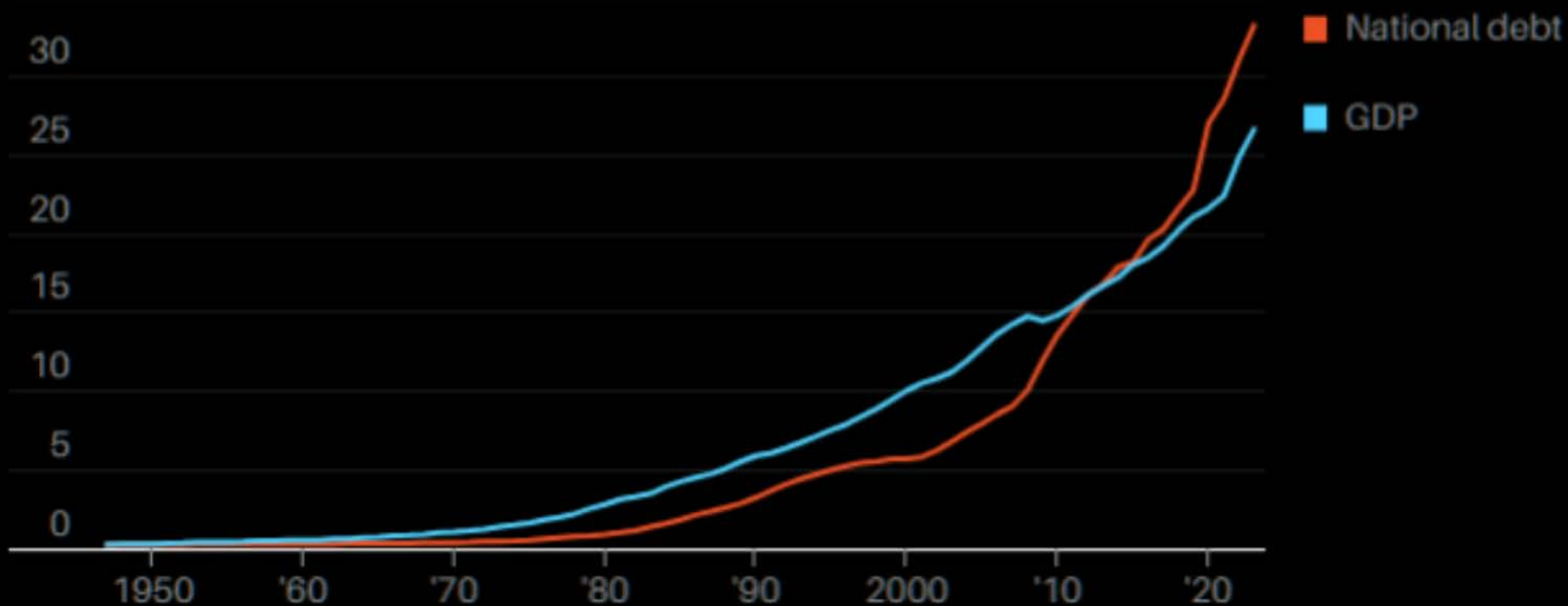
Source: Bloomberg

Note: 3Q23 is estimate based on current trend for S&P 500 and Stoxx Europe 600

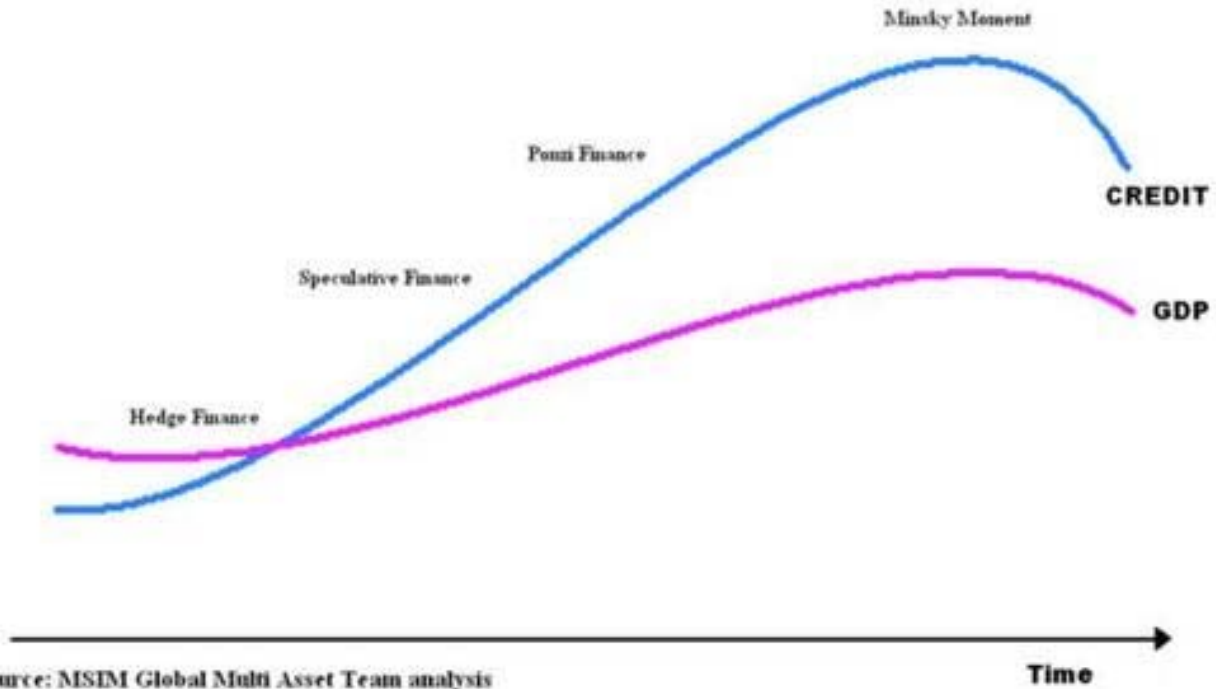
Bloomberg

The U.S.'s national debt is growing faster than the economy.

\$35 trillion



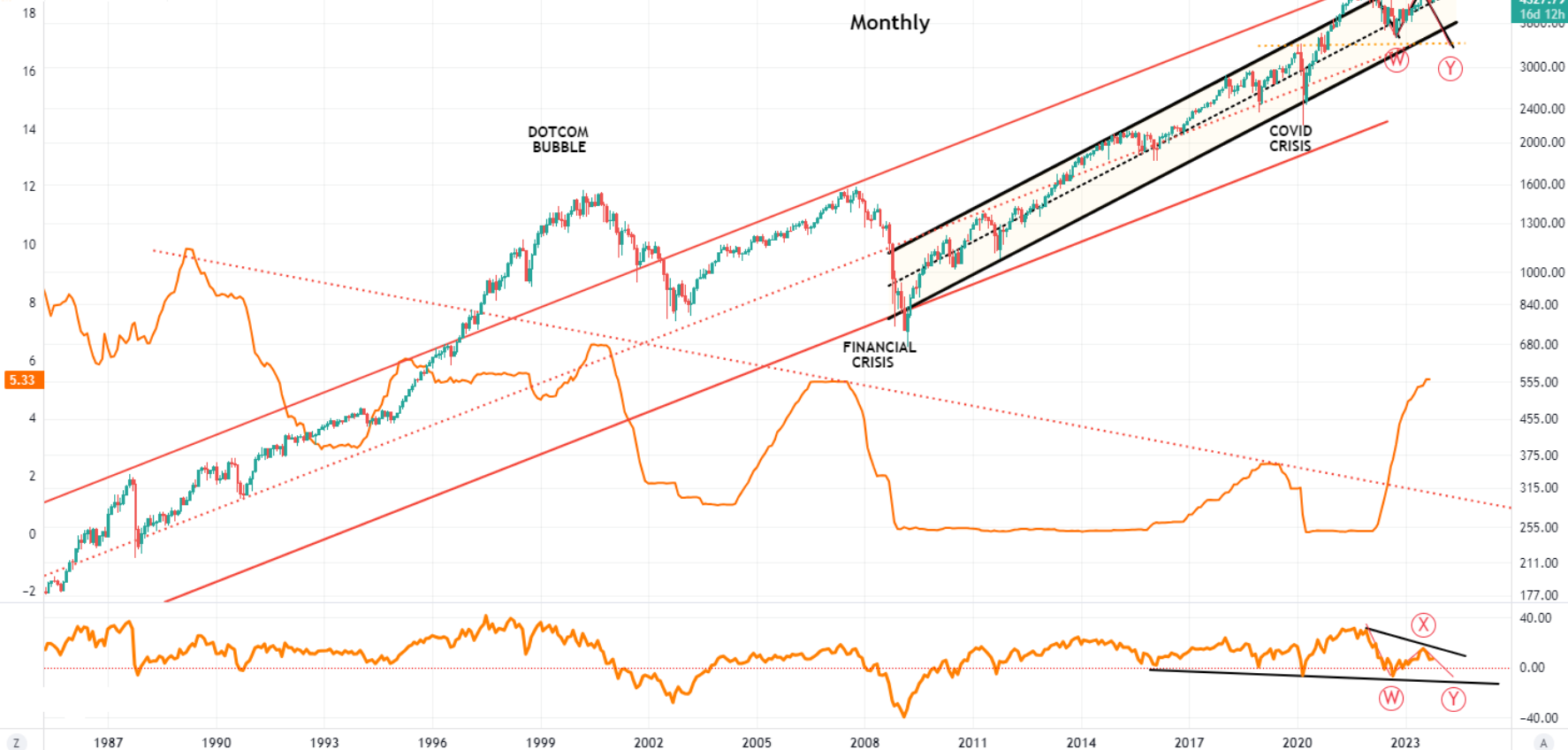
Stylized "Minsky Cycle"



Source: MSIM Global Multi Asset Team analysis

S&P 500

Monthly



USD

0000.00

4800.00

4327.79

3600.00

3000.00

2400.00

2000.00

1600.00

1300.00

1000.00

840.00

680.00

555.00

455.00

375.00

315.00

255.00

211.00

177.00

40.00

0.00

-40.00

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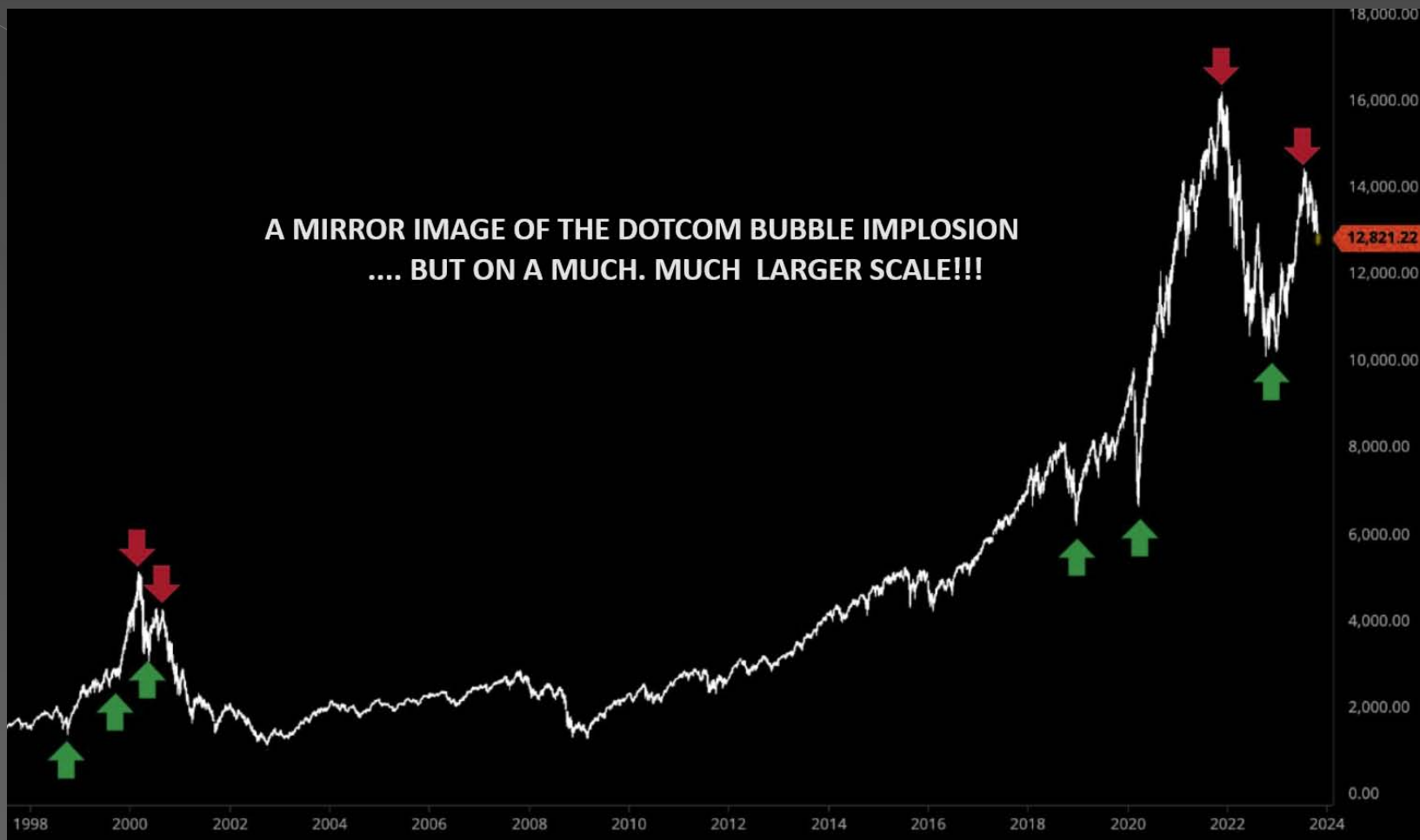
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S&P 500

Monthly



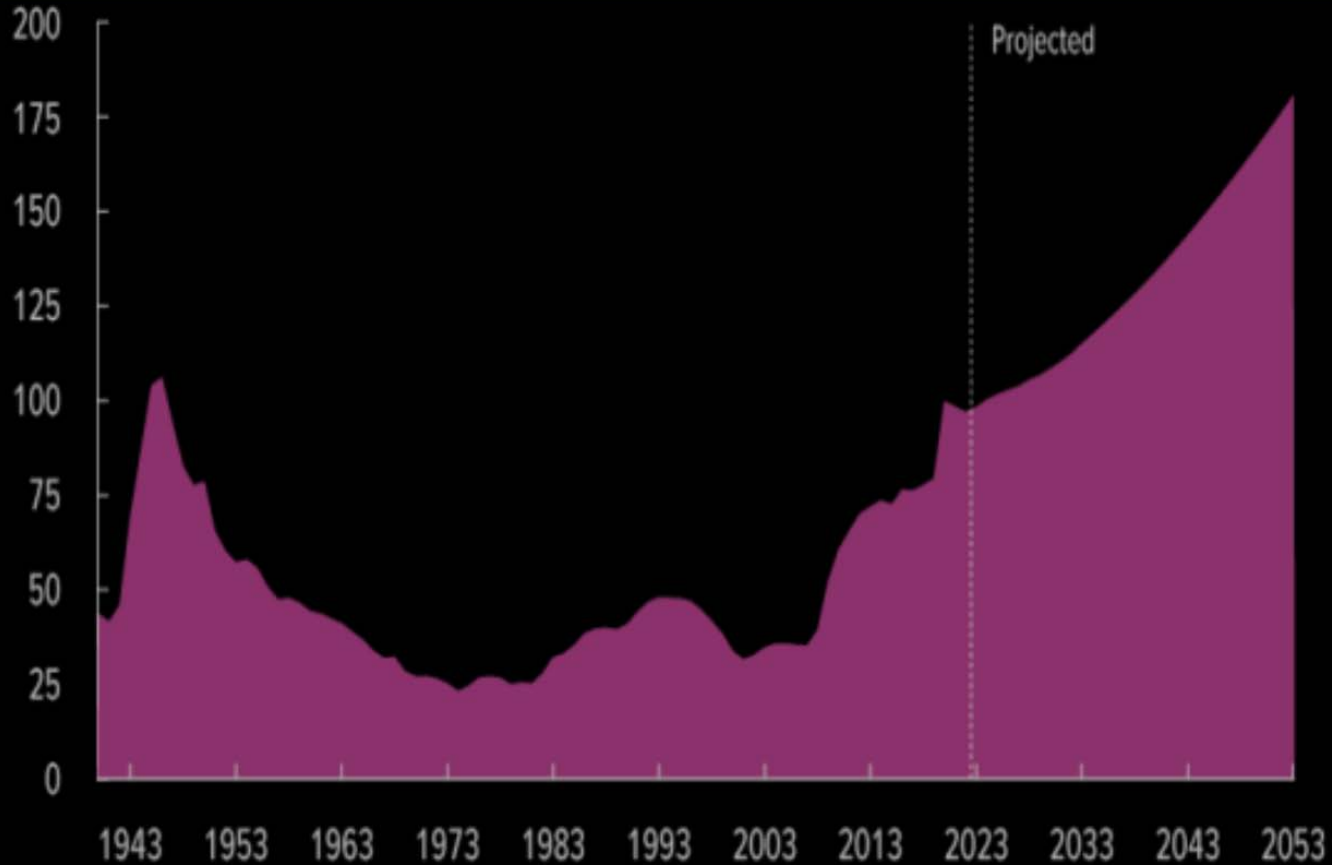
**A MIRROR IMAGE OF THE DOTCOM BUBBLE IMPLOSION
... BUT ON A MUCH. MUCH LARGER SCALE!!!**

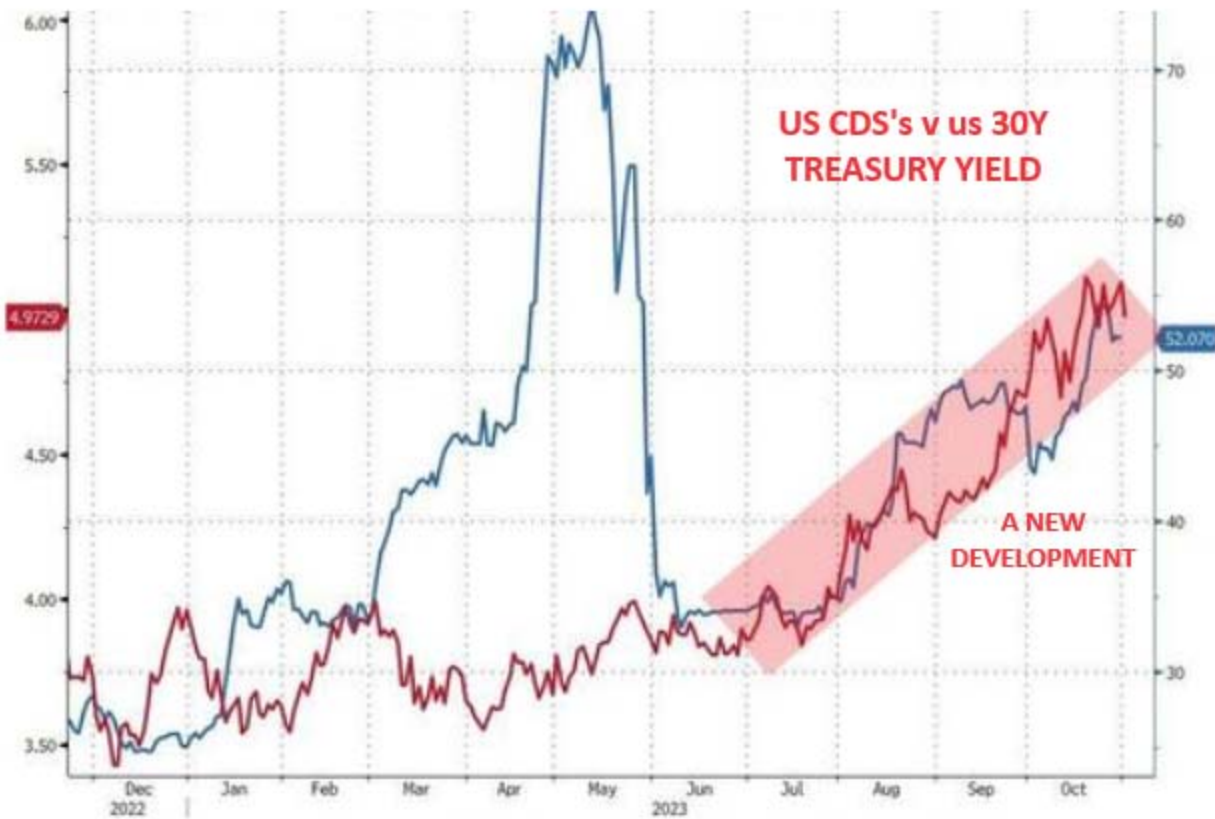


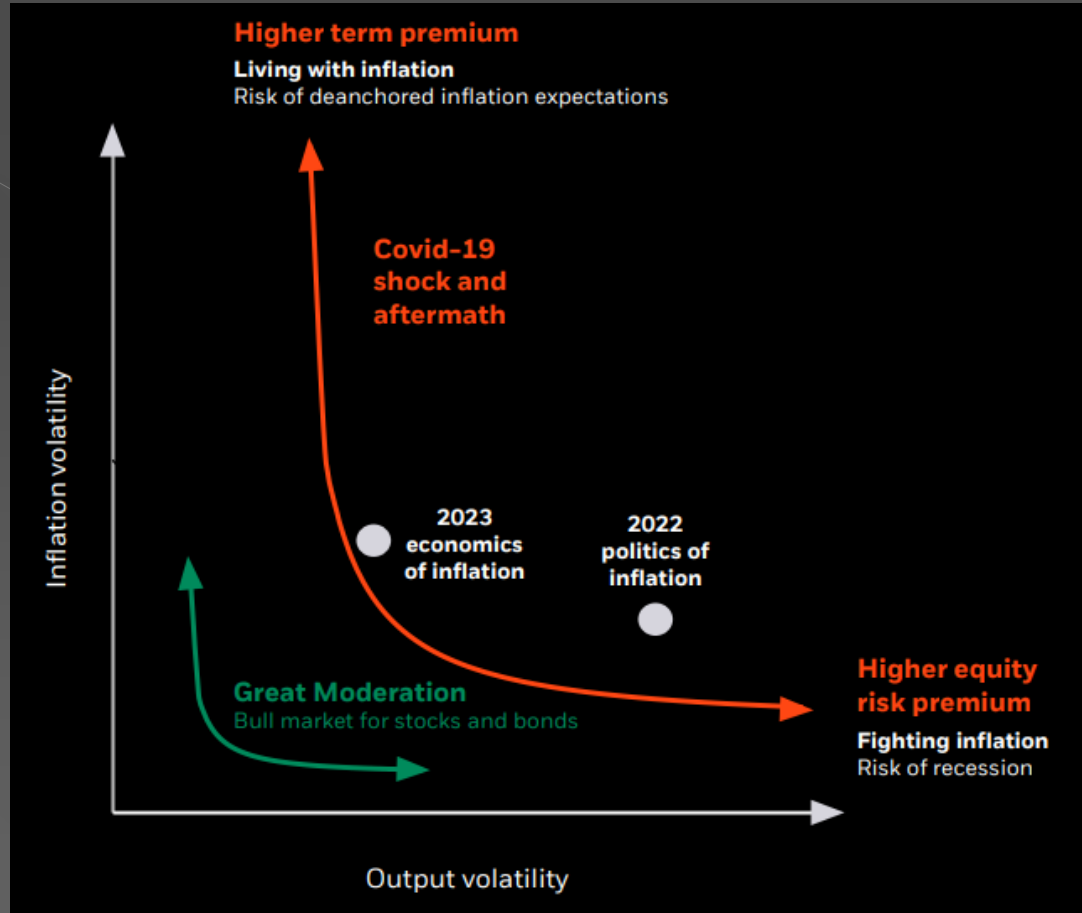
US DEBT GROWTH

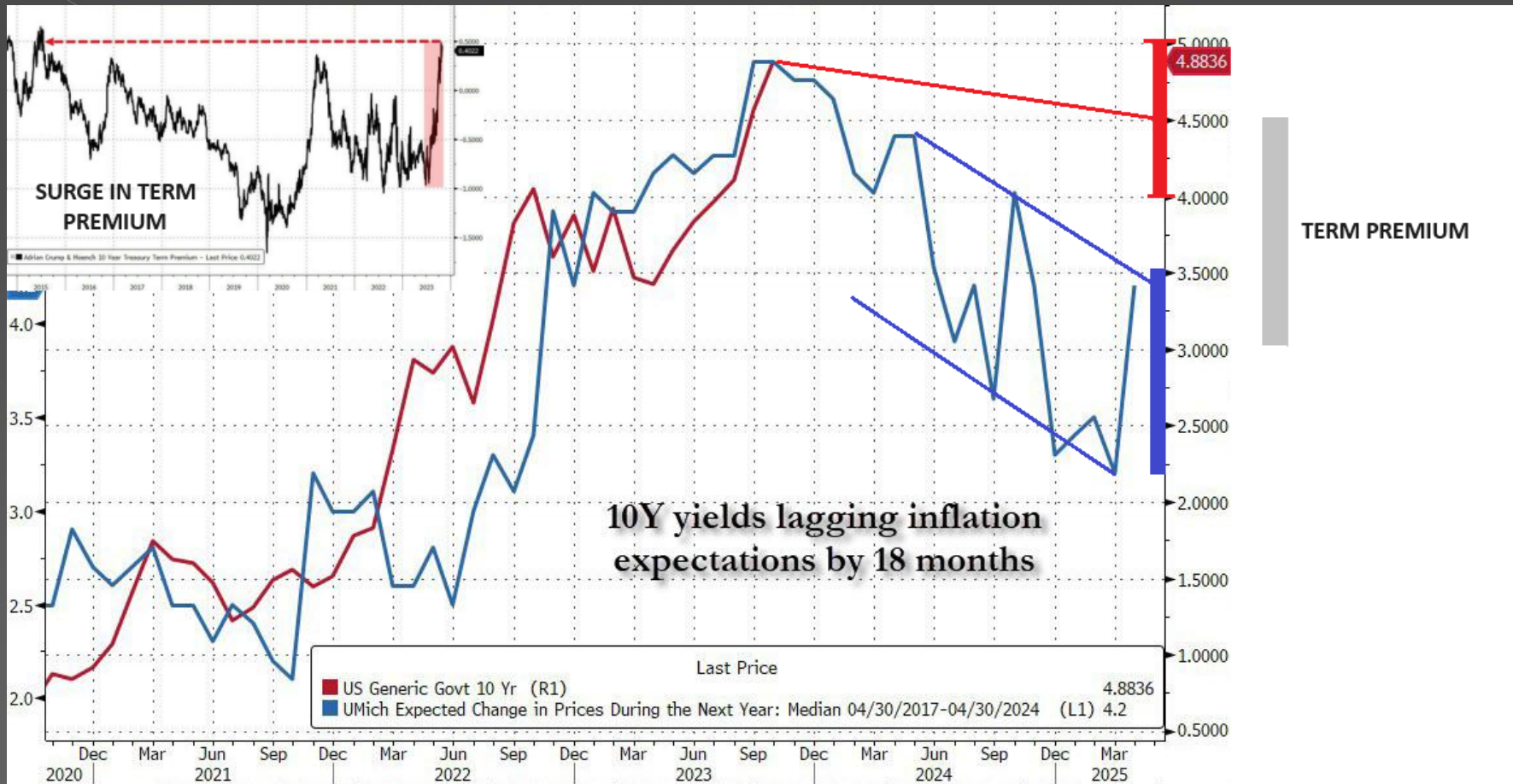


Long term projections for US government debt/GDP









November 8th, 2023

The Slow Choking of Credit

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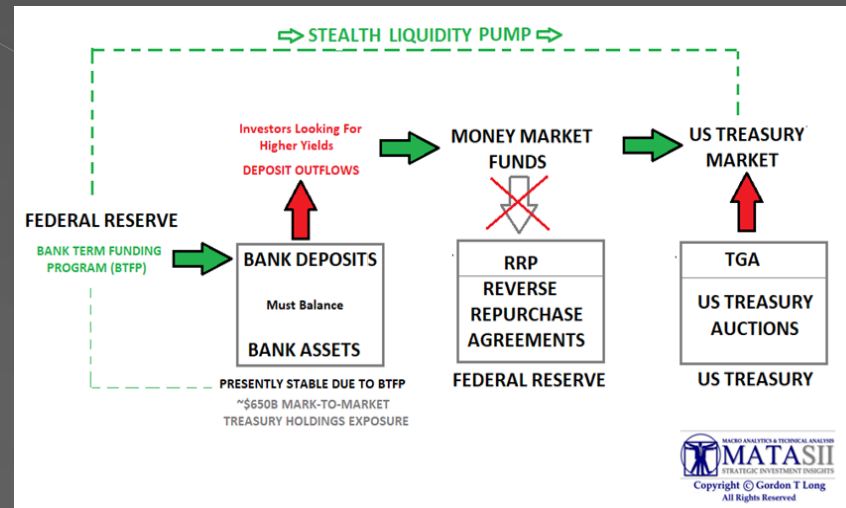
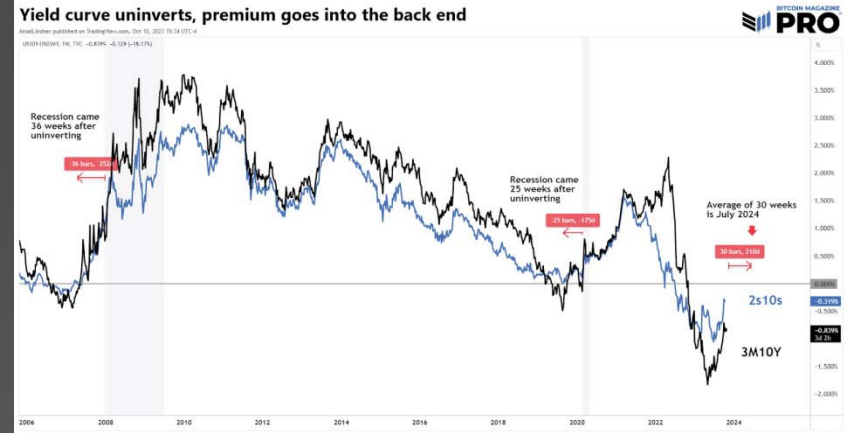
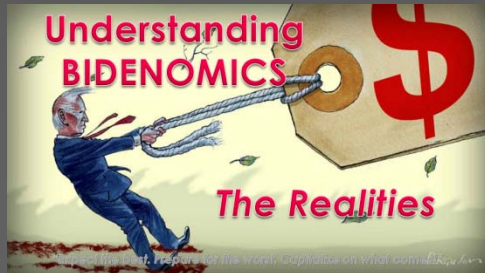
MONETARY ALWAYS WORKS WITH A DELAY

IS THIS DELAY NORMAL?

- The average wait time over the past four recessions has been 13 months from the start of the inversion.
- The curve officially inverted on October 26 last year (Fed data shows) meaning the recession signal is just a few days shy of the 11-month milestone.
- If history is any guide, that would put the start date of a potential recession sometime in December or January.

THE 'BIDENOMICS' FACTOR

- Stealth Liquidity and Bidenomics version of MMT
- September UnderTheLens video entitled "The Realities of Bidenomics".



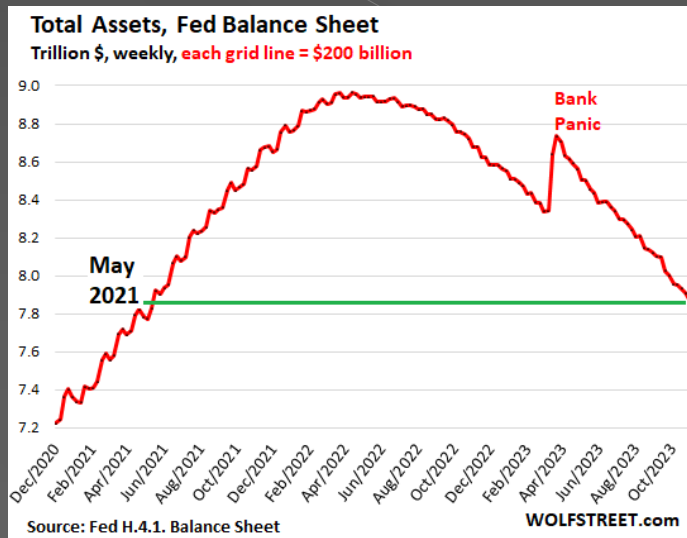
CENTRAL BANK POLICY

FOMC FUNDS RATE POLICY

- Global Central Banks have been engaged in an unprecedented monetary tightening program since October of 2022.
- The US Federal Reserve has raised rates faster than few previous times in its' history.

QUANTITATIVE TIGHTENING (QT)

- Quantitative Tightening has reduced the Fed's Balance Sheet to roughly \$7.9 trillion near the end of October 2023, down 11.8% from its peak of just under \$9T in April of 2022.
- The Fed has been shrinking its holdings of Treasuries and mortgage-backed securities at a rate of about \$75 billion a month.



Fed Pauses Rate Hikes But Stiffens Long-Term Outlook

Upper limit of the U.S. federal funds target rate range*



* Dotted lines indicate median projections of the midpoint of the appropriate target rate range at the end of the specified calendar year.

Source: U.S. Federal Reserve



THE LIQUIDITY SPIGOT

REAL RATES & TIGHTENING FCI

- Banks have been tightening lending standards for over a year.
- The Financial Conditions Index has finally kicked in with aggressive readings

TREASURY SUPPLY v CB DEMAND

- Treasury Auctions have not been attracting the foreign buying that it they were previously suggesting that global liquidity is tighter and it is taking higher yields to attract money.

SPIKING TREASURY YIELDS

- Surging Bond Yields are adding another 75 basis points to the Fed Funds Rate tightening efforts.
- Real Rates recently exploded higher to approach 2.5%,



SLOWLY, THEN ALL OF A SUDDEN!

CONSUMER CREDIT

- According to the American Bankers Association, bank economists expect credit conditions to weaken over the next six months.
- UBS analysts predict that credit deterioration will continue throughout 2023 and 2024, with losses eventually surpassing pre-pandemic levels

DELINQUENCIES, DEFAULTS & BANKRUPTCIES

- S&P Global Ratings said that the 60-day-plus delinquency rate for subprime auto loans in July reached its highest-ever level.

LAYOFFS, JOBLESS CLAIMS, UNEMPLOYMENT

- Friday's October Non-Farm Payrolls Report shook the markets coming in at only 150K of Job Growth driven by part-time work, multiple jobs taken and growth in Government workers.



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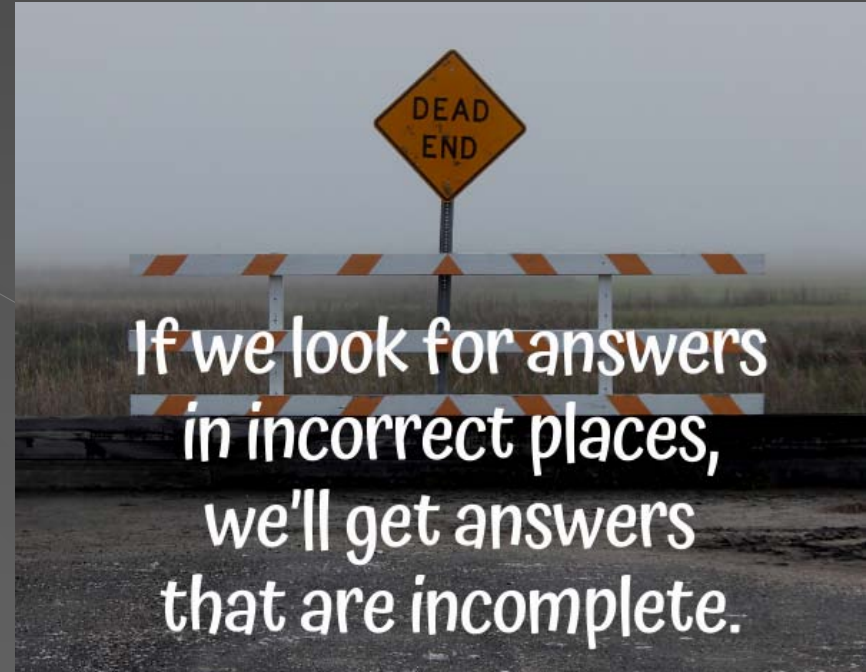
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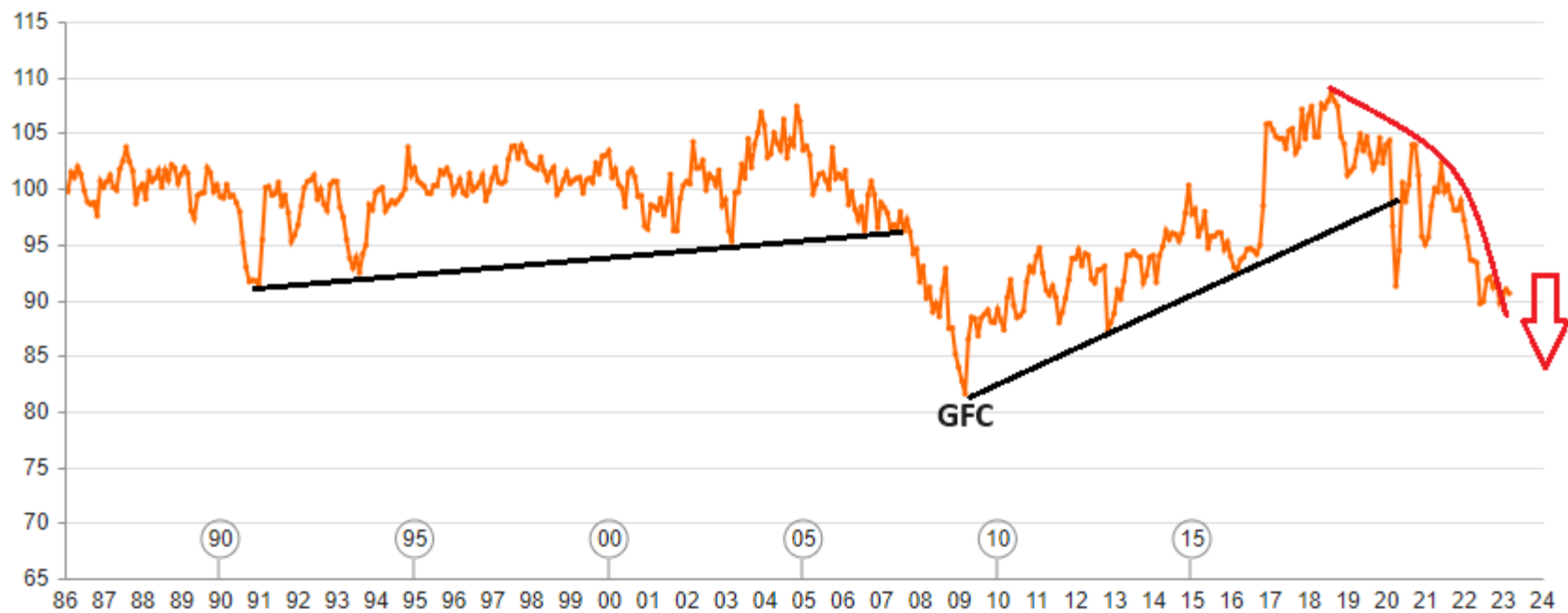


10 RICHEST AMERICANS

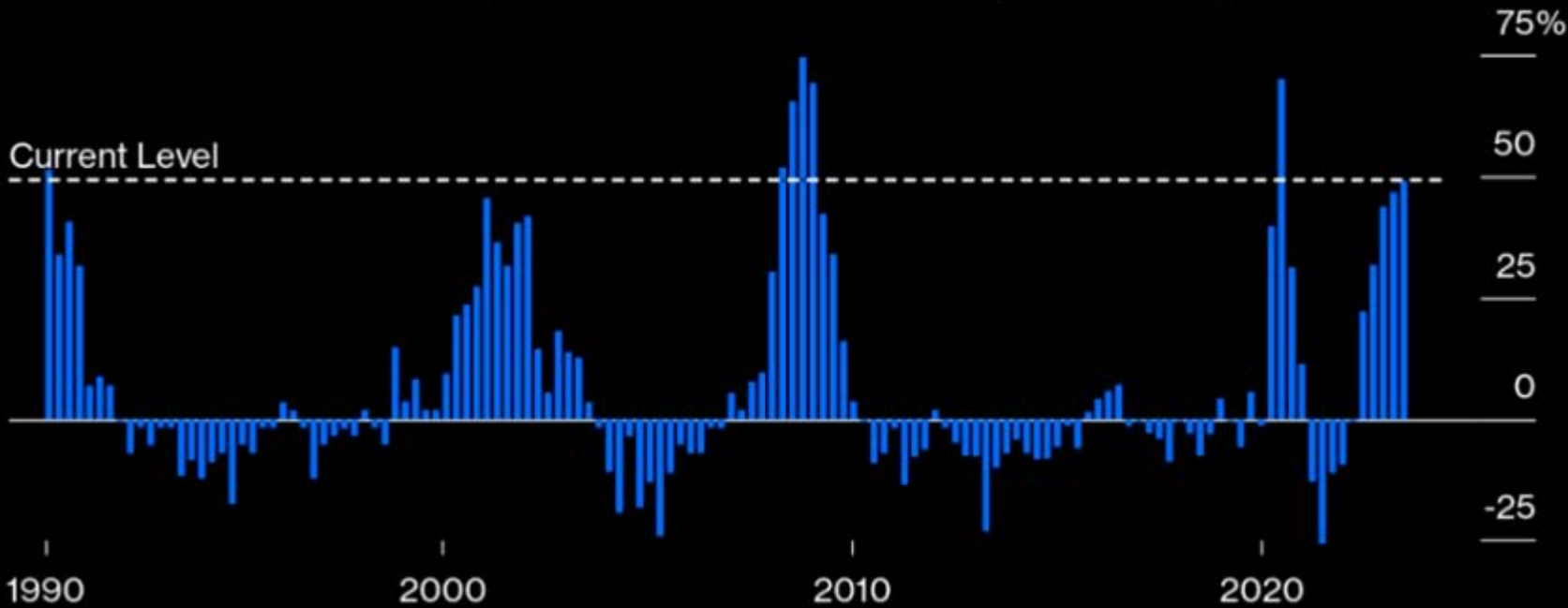
1. Elon Musk. cofounded six companies,...
2. Jeff Bezos. Founded Amazon
3. Larry Ellison. \$158 B. Founded Oracle
4. Warren Buffett. \$121 Founded Bershire Hathaway
5. Larry Page. \$114 Co-Founded Google
6. Bill Gates. \$111 Co-Founded Microsoft
7. Sergey Brin. \$110 Co-Founded Google
8. Mark Zuckerberg. Founded Facebook
9. Steve Ballmer \$101 billion... was Bill Gates first hire
10. Michael Bloomberg, \$96.3B. Founded Bloomberg

Small Business Optimism Index

(Seasonally Adjusted 1986=100)



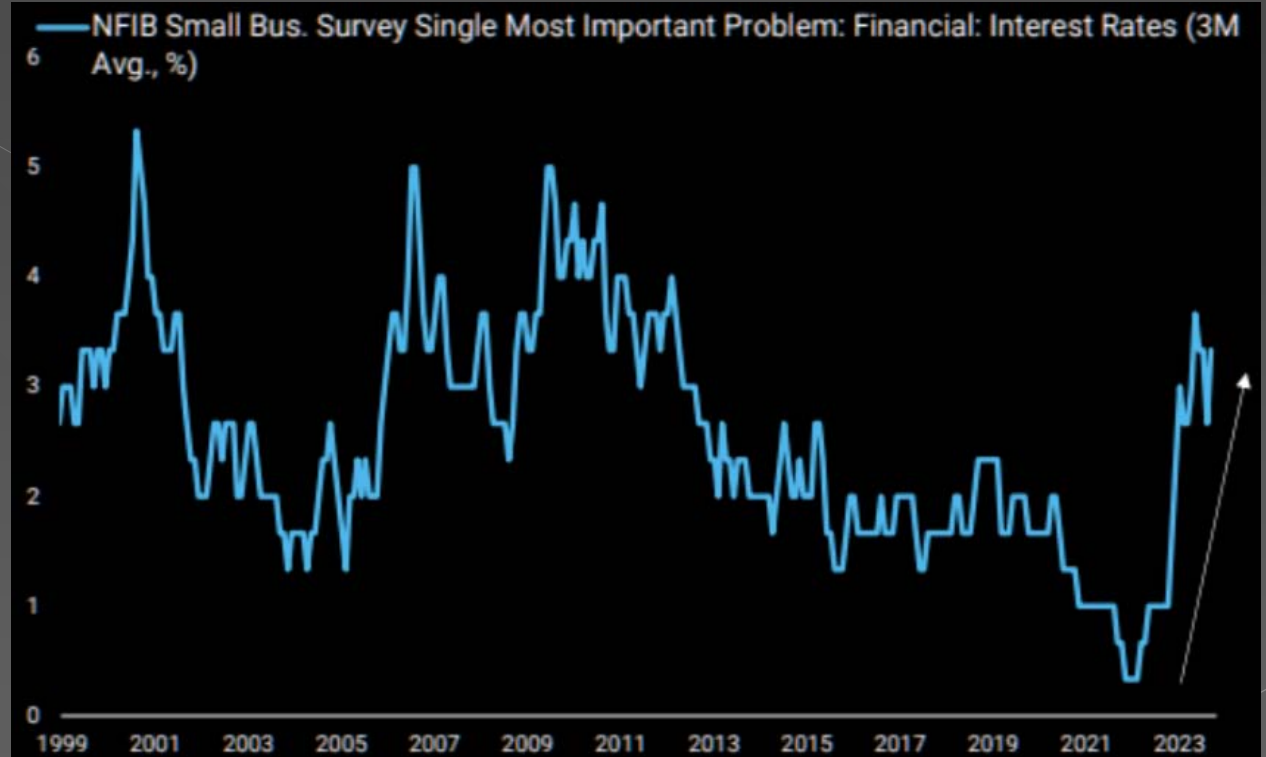
Net Percentage Tightening C&I Credit Standards for Small/Medium Companies



Source: Federal Reserve, Bloomberg

Bloomberg Opinion

Small businesses are busy coping with one of their biggest problems ...surging rates.



The rates bear - not equal for everyone

Some, bottom 50% of S&P, are in deep trouble as rates have risen.

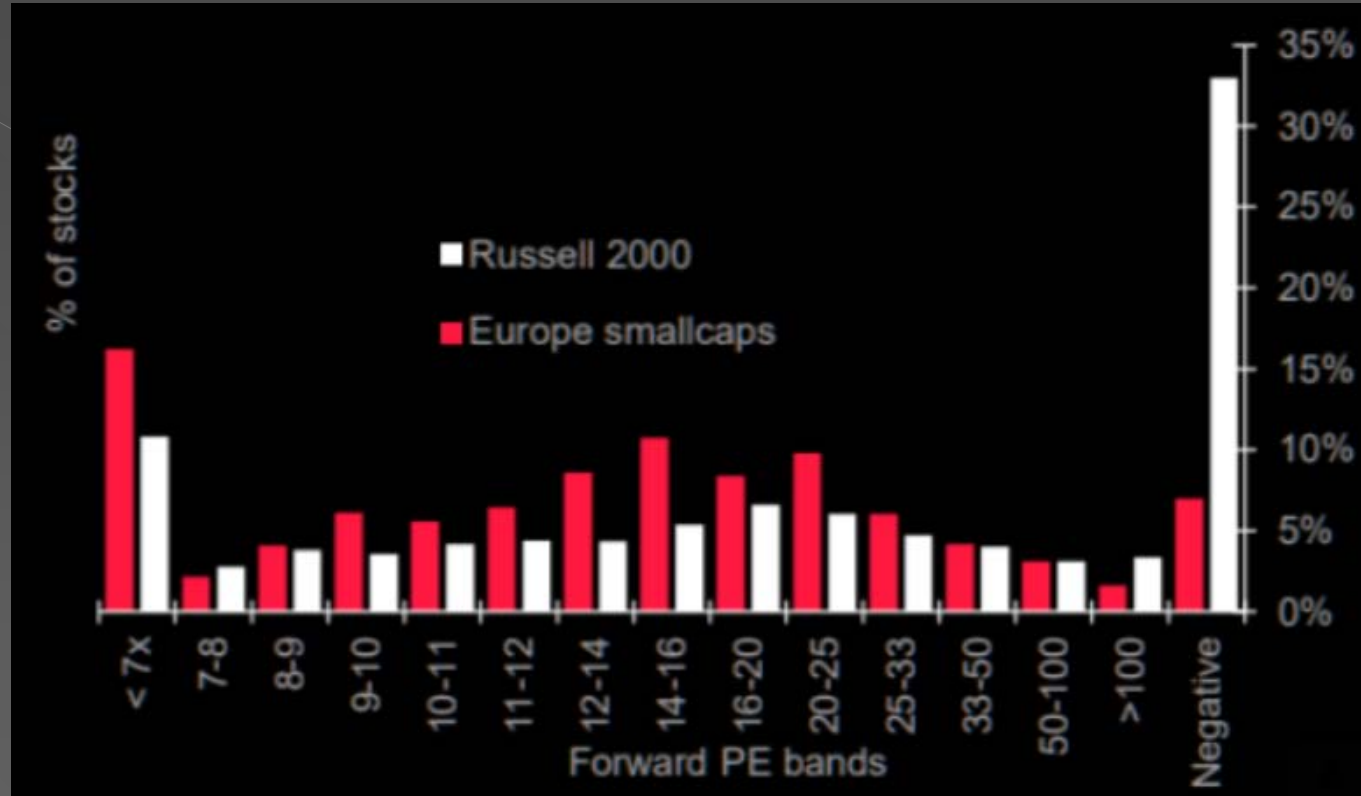
Nothing for the short term trading mind, but add it to the charts of the rare bear.



There are some serious problems in small cap land, especially in the US.

Good luck paying interest without profits

...Great chart via Soc Gen showing the distribution of stock forward P/E valuations in the MSCI Europe small cap and Russell 2000 index.



A small 'canary in the coal mine'

Small cap has underperformed large cap by more than 10% in '23, testing decade lows.

MSCI World small vs. large cap performance since '96

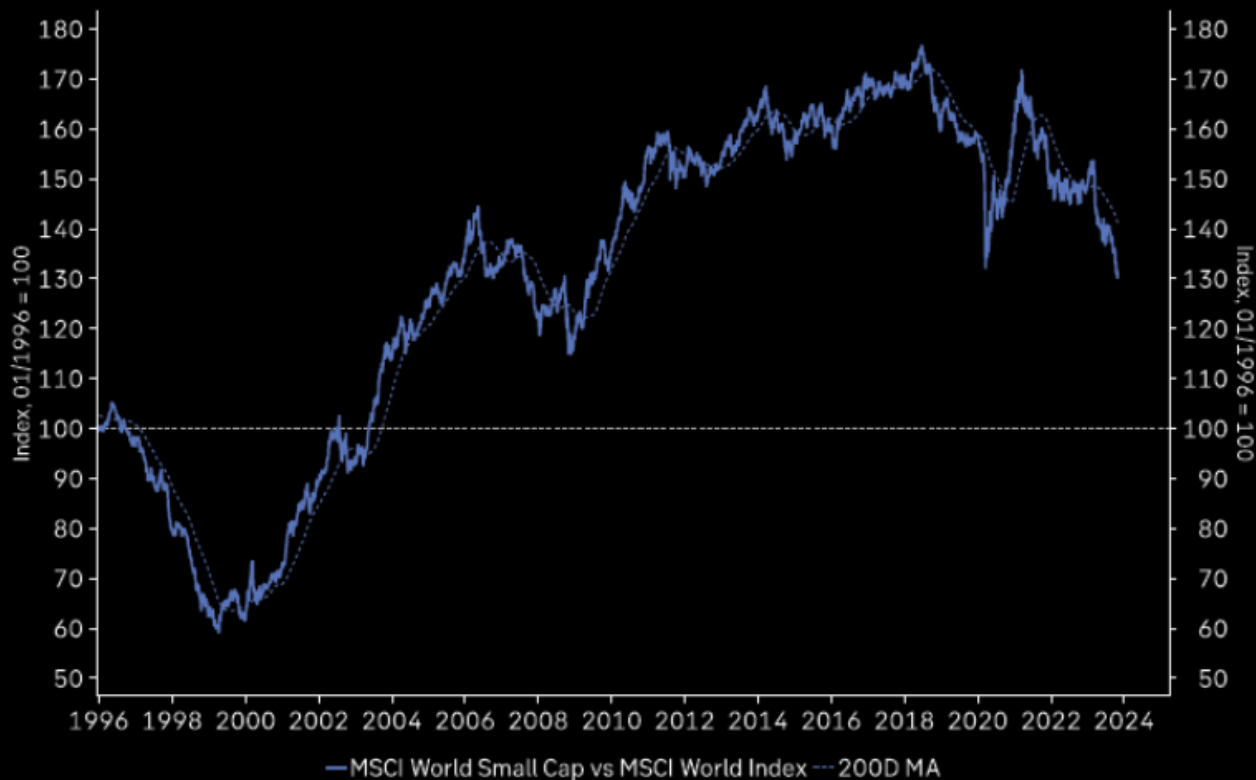
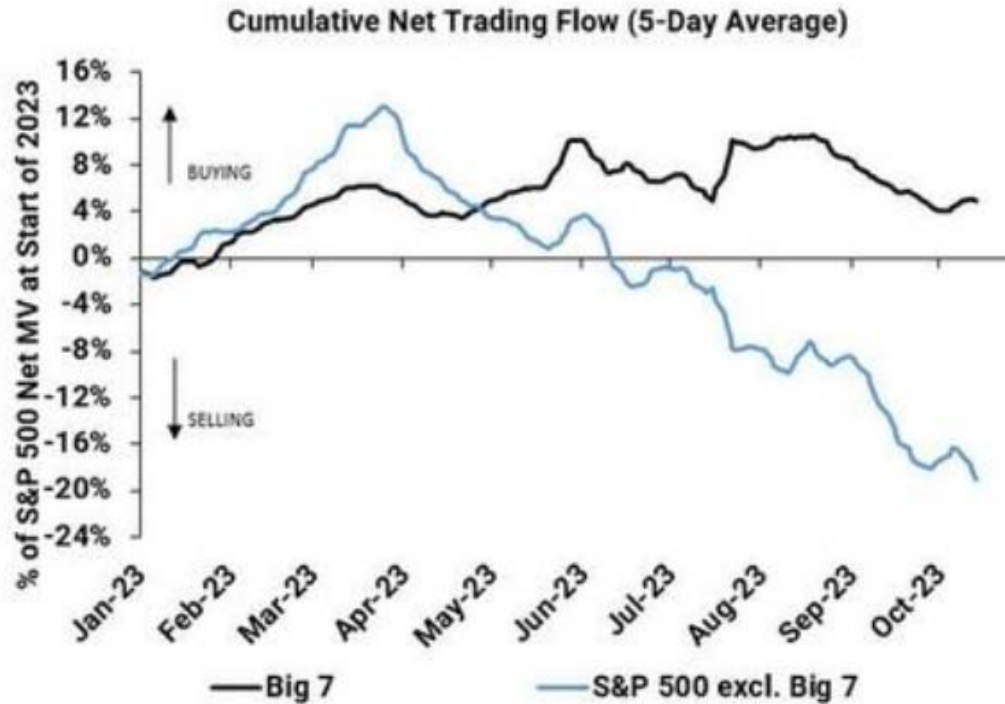


Chart of the Month: Hedge funds reduced net length in mega cap tech but have been selling other US stocks at a much faster pace



* Big 7 = MSFT, AAPL, GOOGL/GOOG, META, AMZN, NVDA, and TSLA combined.

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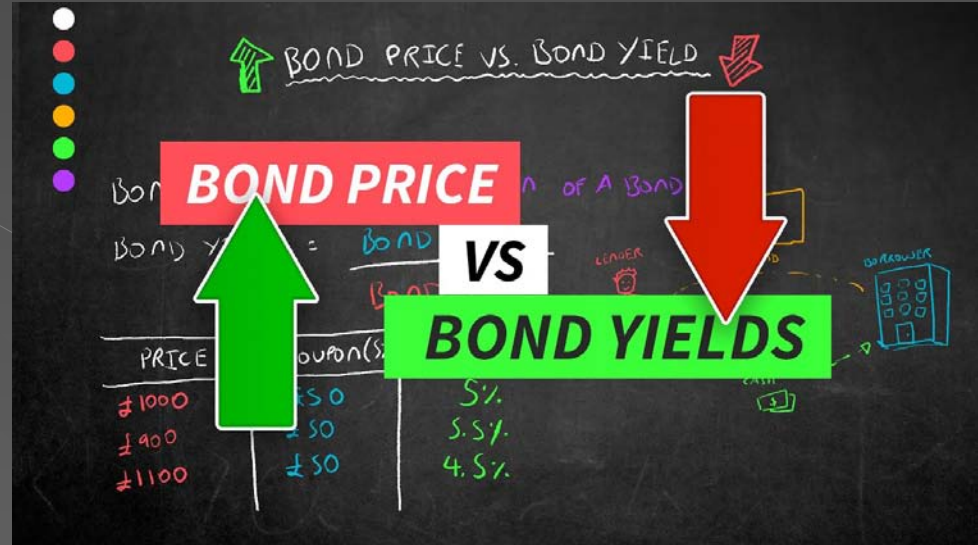
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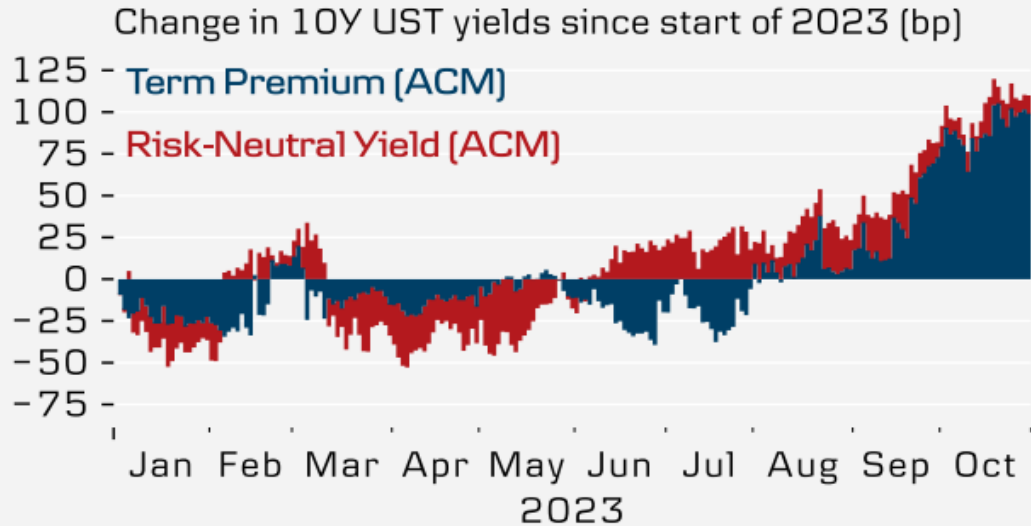
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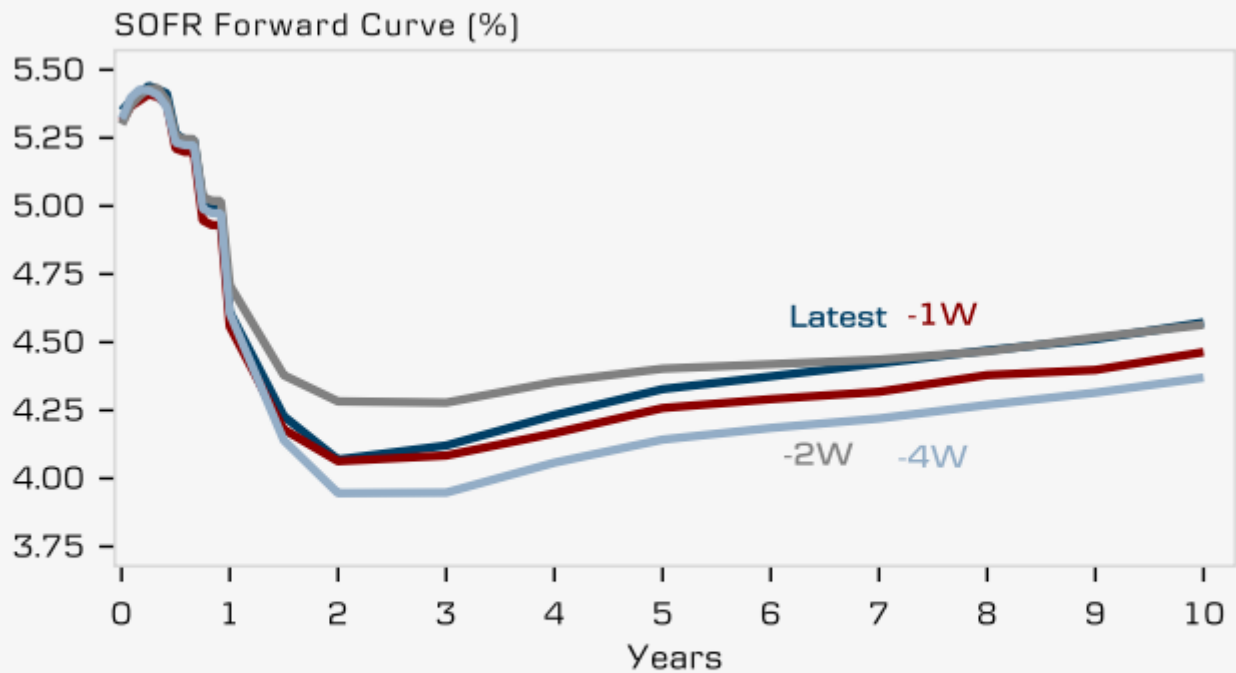


Term Premia have moved up strongly



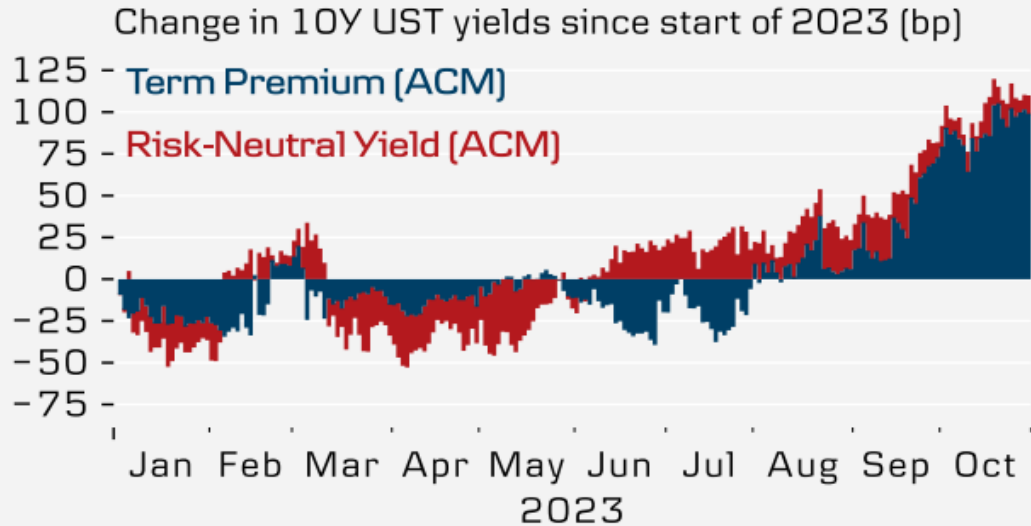
Source: Danske Bank, Macrobond, Bloomberg

Source: Macrobond and Danske Bank



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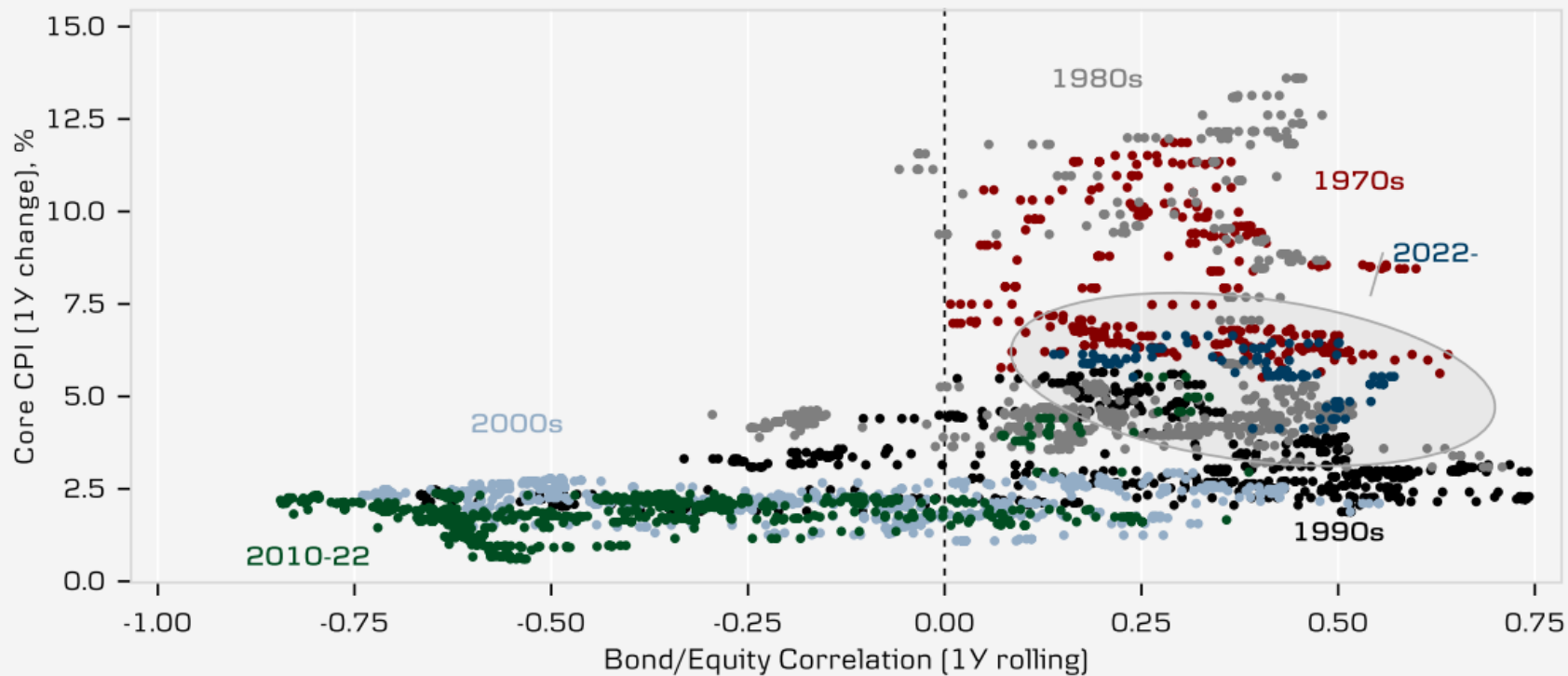
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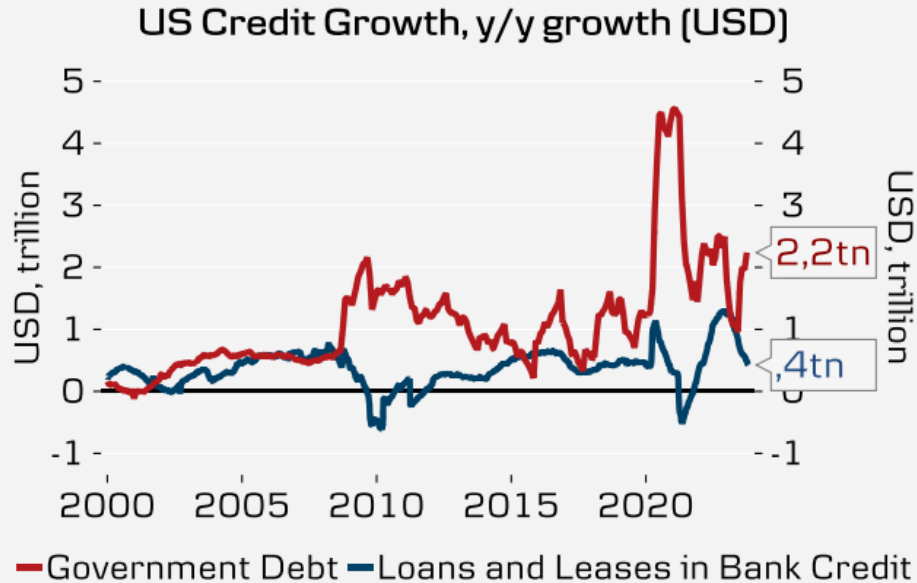
Bond/Equity correlation has typically been positive in periods characterized by high inflation



Note: Correlation is based on weekly return data

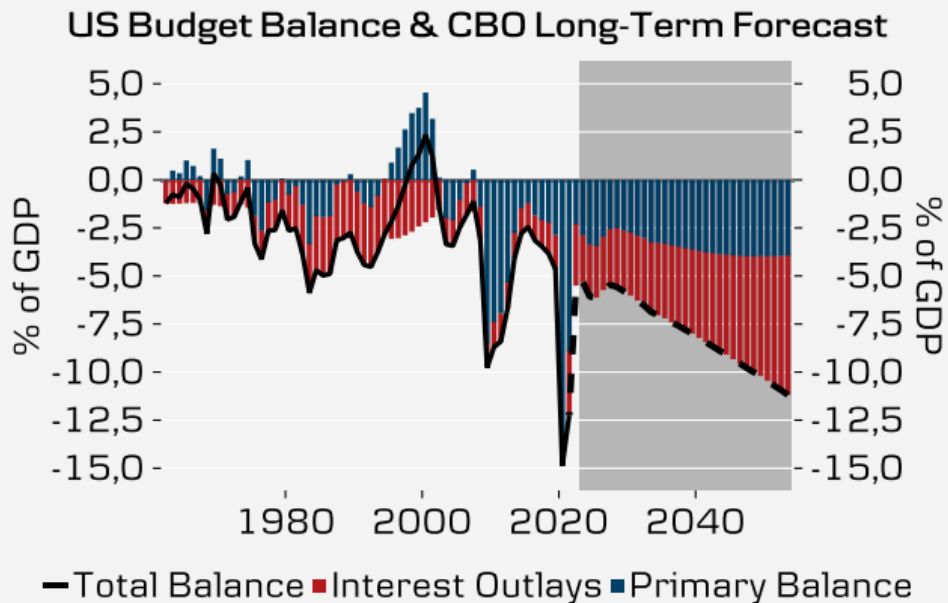
Source: Macrobond and Danske Bank

Monetary policy has tightened, but fiscal policy is pulling the other way



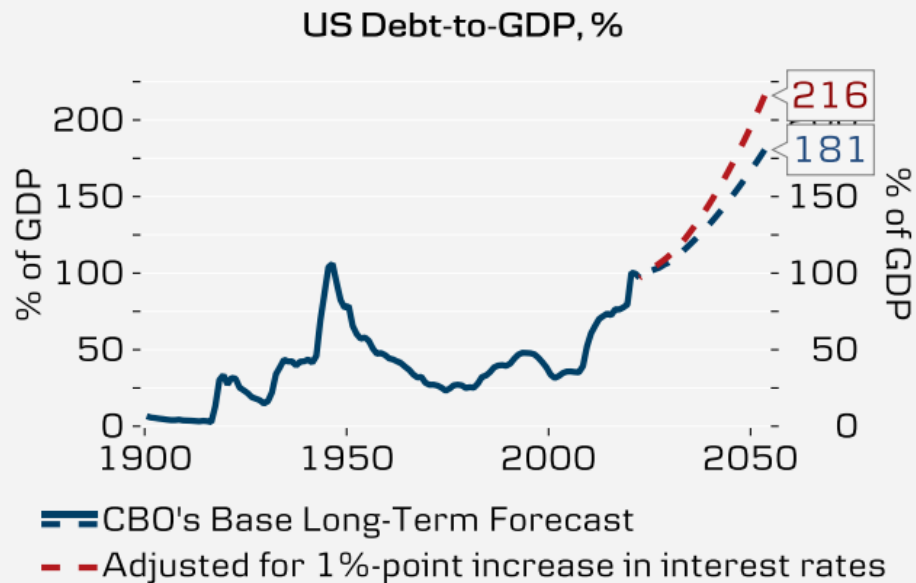
Sources: Macrobond, U. S. Treasury, The Fed

Interest outlays are increasingly driving budget deficits



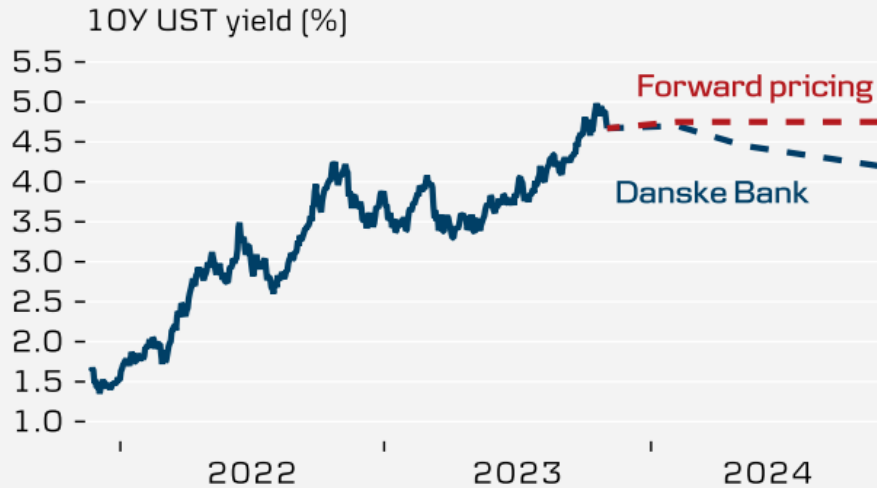
Sources: Macrobond, U. S. CBO

US debt-to-GDP outlook highly sensitive to interest rate level



Sources: *Macrobond, U. S. CBO*

We expect long yields to decline gradually over the next 12M

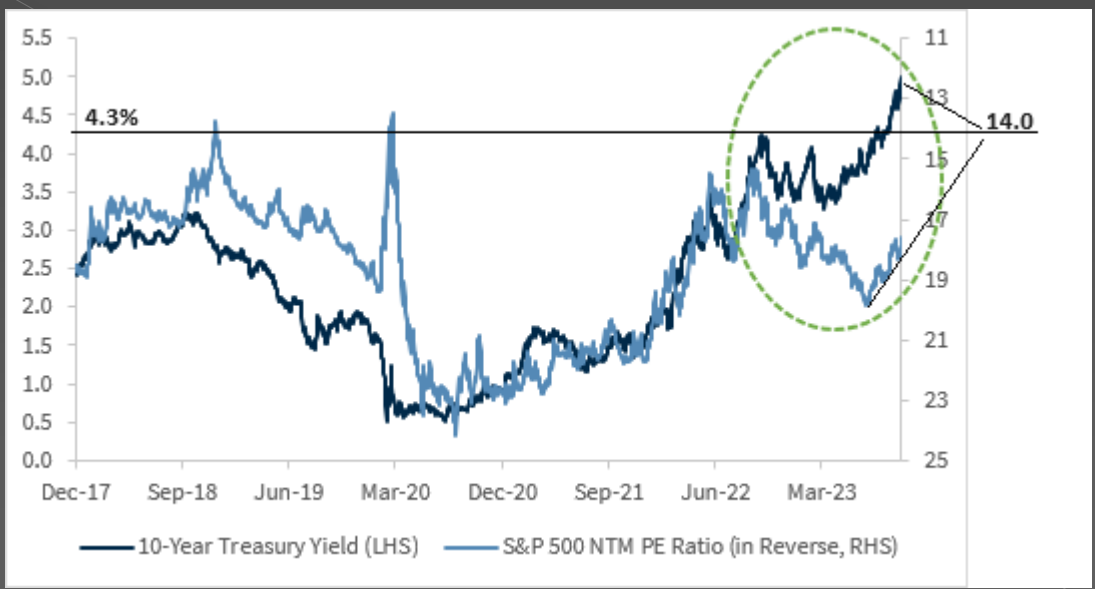


Source: Macrobond and Danske Bank



S&P500 and US10Y yield





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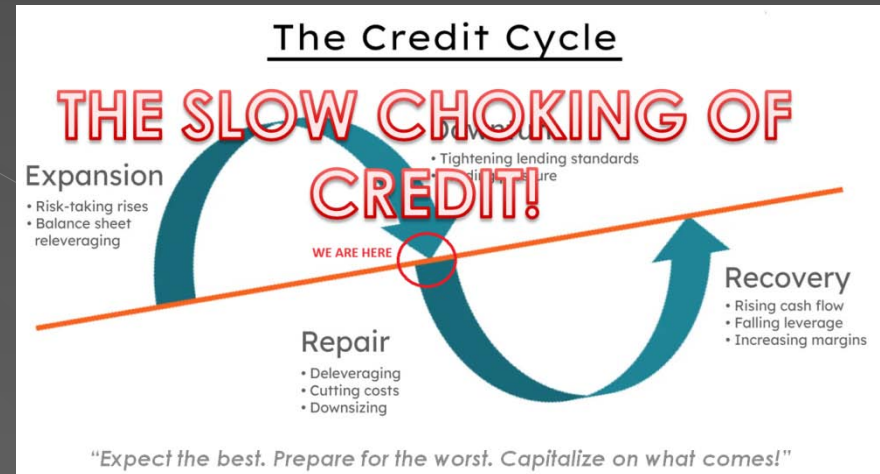
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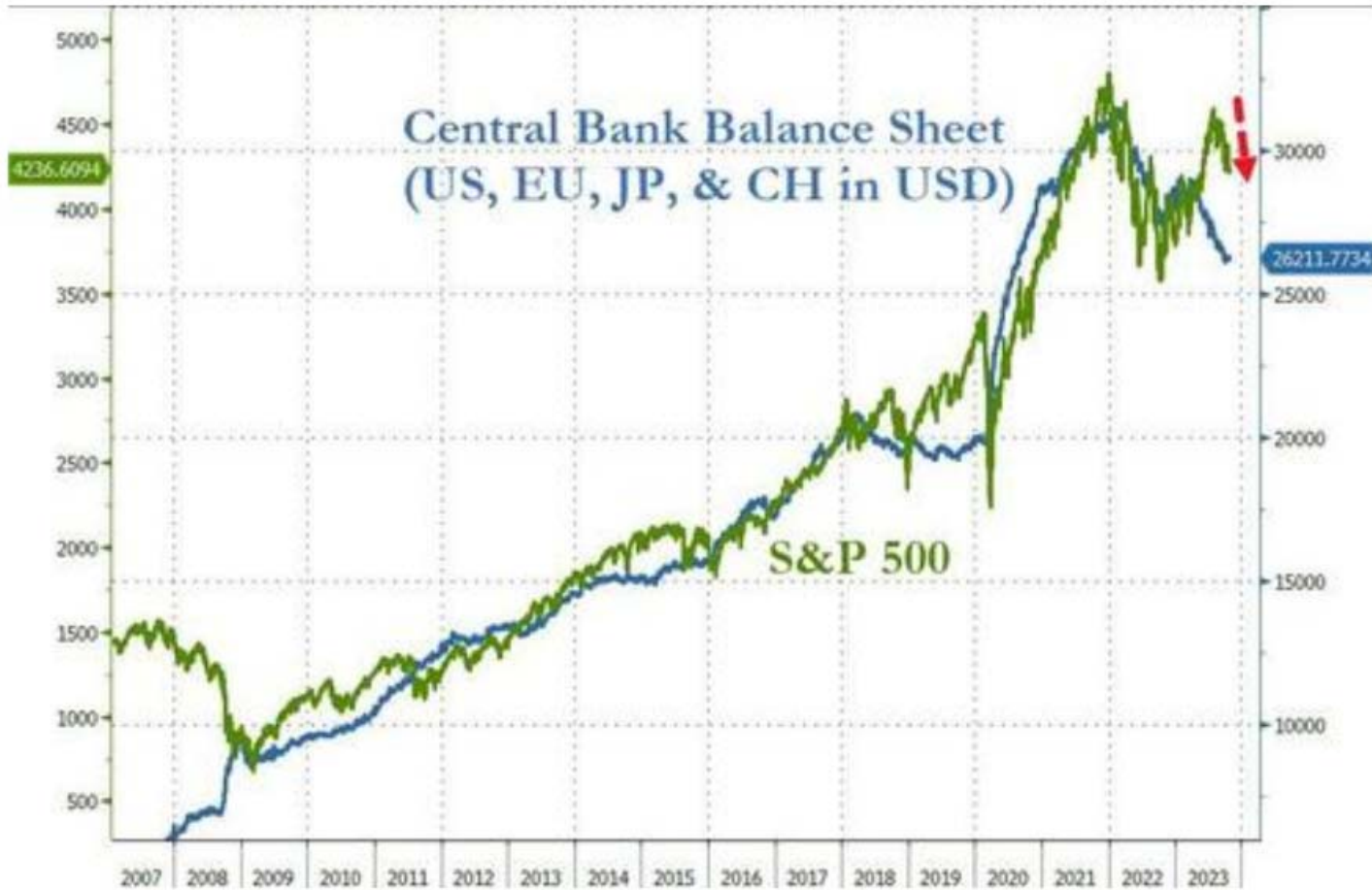
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DJI:GOLD RATIO

Monthly



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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CHANNEL & WE VALUE HEARING
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