



GORDON T LONG
CO-FOUNDER MATASII.COM



Advanced Technical Analysis



Gordon T Long
Global Macro Research |
Macro-Technical Analysis



Technical Analysis
Market Road Maps | HPTZ
Methodology



SII
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Market Road Maps

NOTE

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REIGNITING INFLATION

Was It Ever Actually Extinguished?



AGENDA

▪ REIGNITING INFLATION

- EXCESS LIQUIDITY
- LOOSE FINANCIAL CONDITIONS

▪ STAGFLATION'S LOOMING HOLD OF THE FED

- THE FED'S DUAL MANADATE

▪ RESURGENCE OF INFLATION

- UNDERSTANDING WHAT IS HAPPENING

▪ A MISUNDERSTOOD YIELD SHOCK

- A 1929 MOMENT?

▪ CONCLUSIONS

- SCARCITY WRITTEN INTO LAW
- THE BETA DROUGHT DECADE



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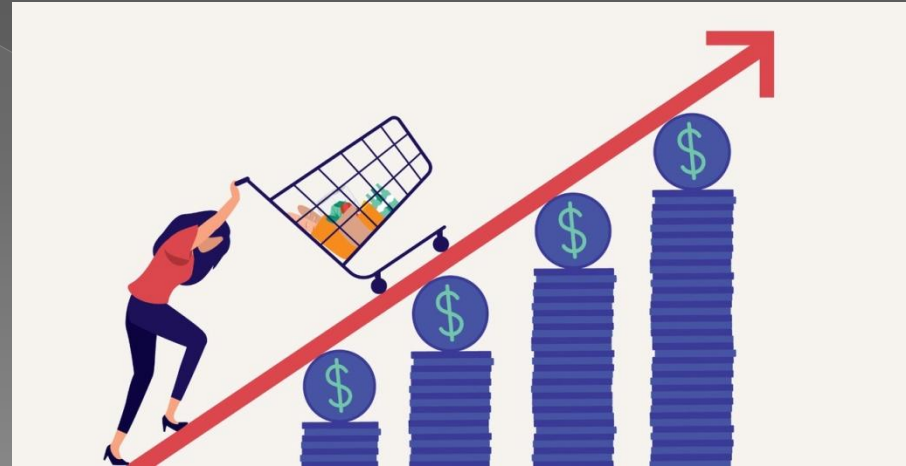
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▪ A MISUNDERSTOOD YIELD SHOCK

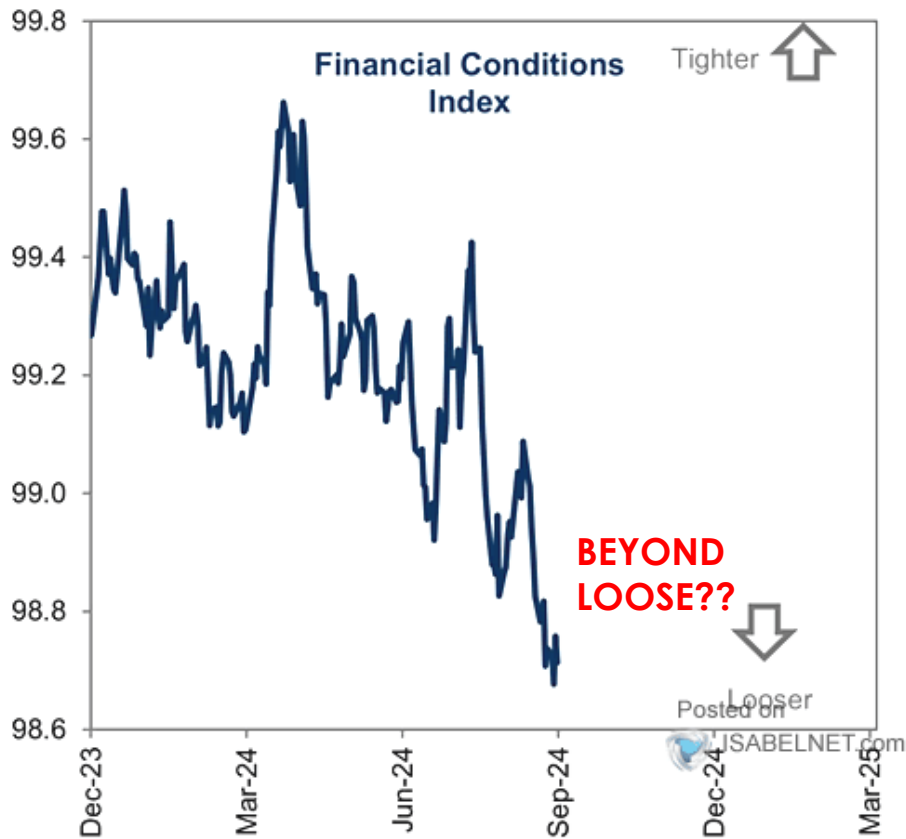
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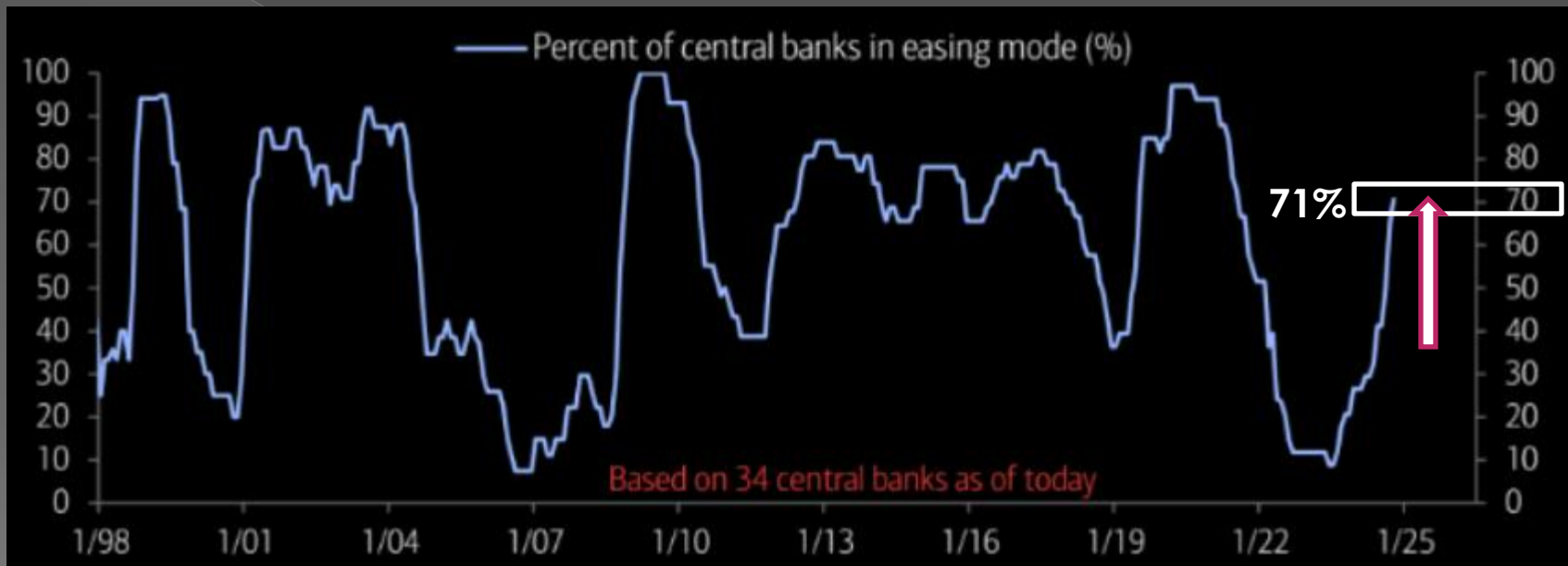
Financial Conditions (FCI)



source: Goldman Sachs

Financial Conditions (FCI)





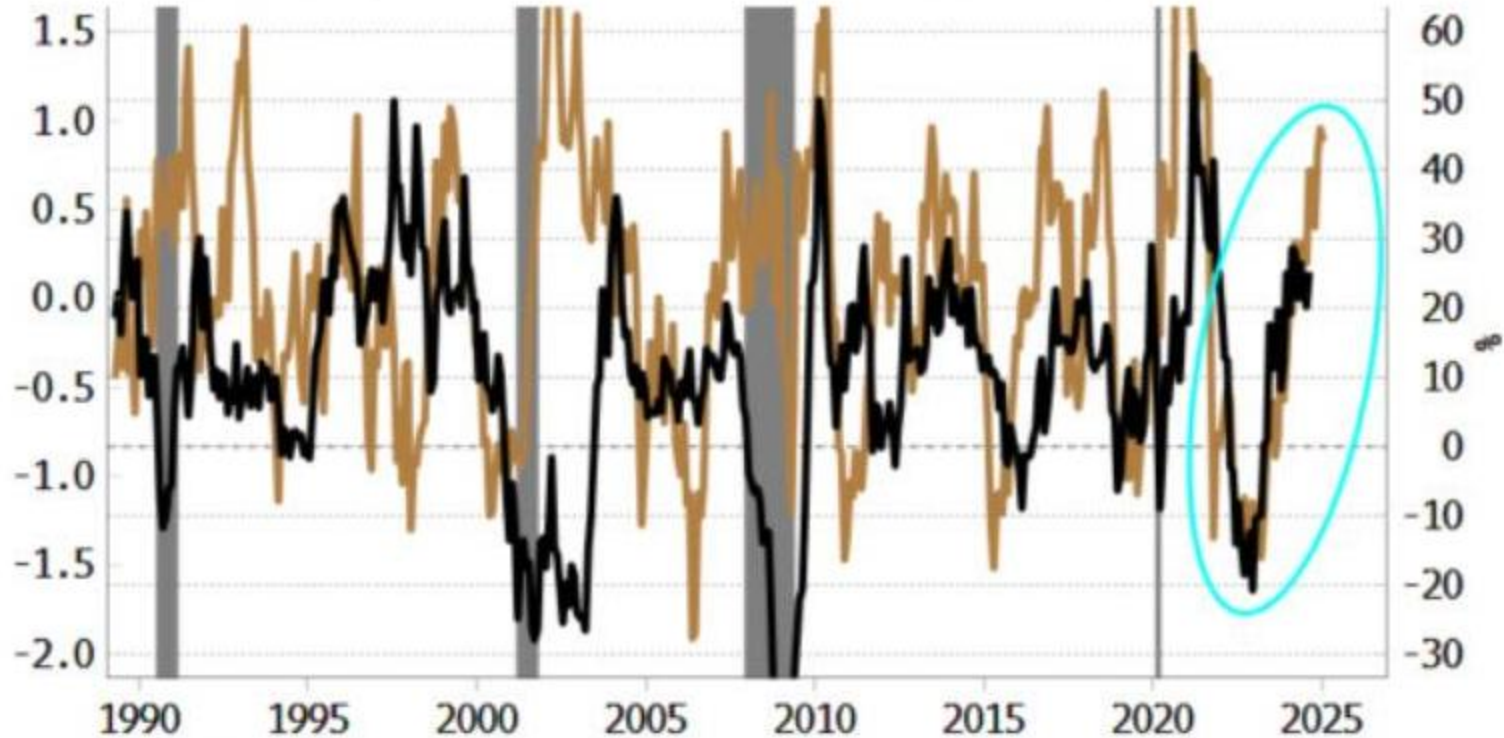
**EXCESS LIQUIDITY = REAL MONEY GROWTH RATE
versus ECONOMIC GROWTH RATE**

The measure of Excess Liquidity has been found to be one of the best medium-term gauges of risk-asset performance.

Not for Turning: Excess Liquidity's Irrepressible Rise

— MSCI US, YoY, rhs

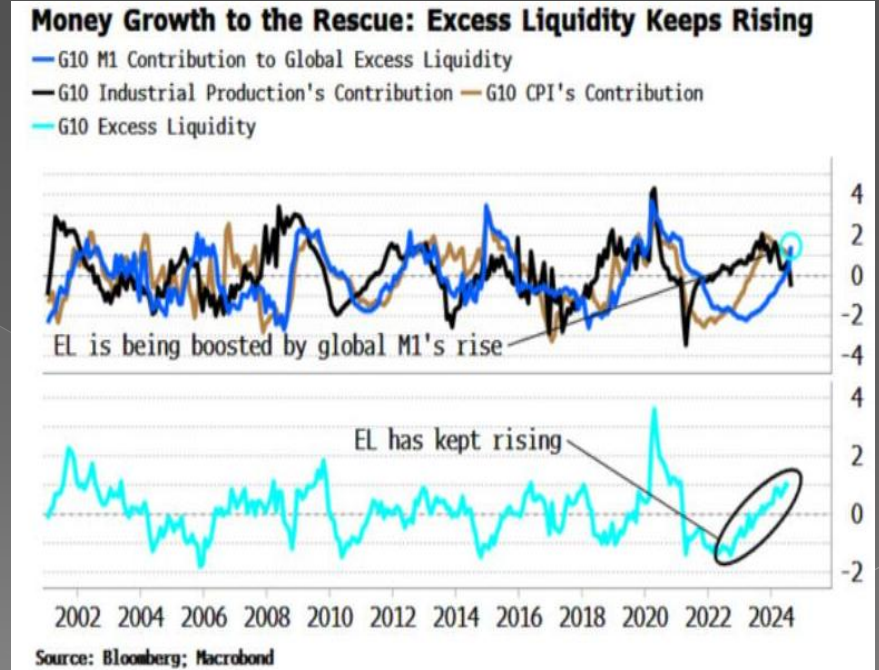
— G10 Excess Liquidity Leading Indicator (Pushed Forward 6 Months), lhs



Source: Bloomberg; Macrobond

To add "Fuel to the Fire" we are presently witnessing:

1. Easing Global Inflation Rates
2. Market Belief in Lower Near-Term Recession Risks
3. Growing potential for an Increase in Global Real Rates
4. Until the last few weeks a Weakening US Dollar?

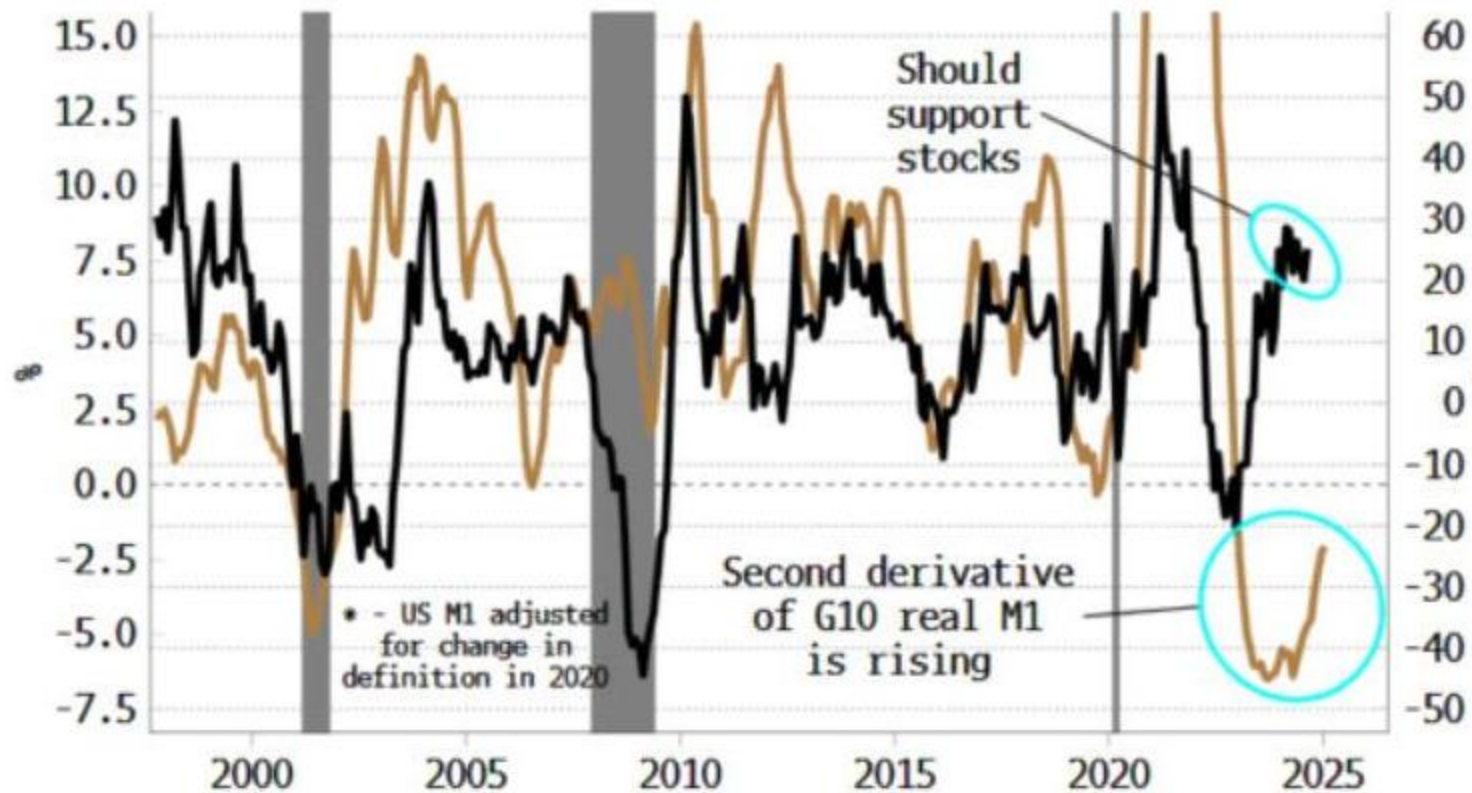


USA Sovereign Risk is screaming higher still At its hottest since December.



Global Money Growth Is Increasing

— MSCI US YoY, rhs — G10 Real M1, GDP-Weighted, YoY, lhs



Source: Bloomberg; Macrobond

US LOOSENING INTO ALREADY EXTREMELY LOOSE FINANCIAL CONDITIONS

+ EXTREME LIQUIDITY

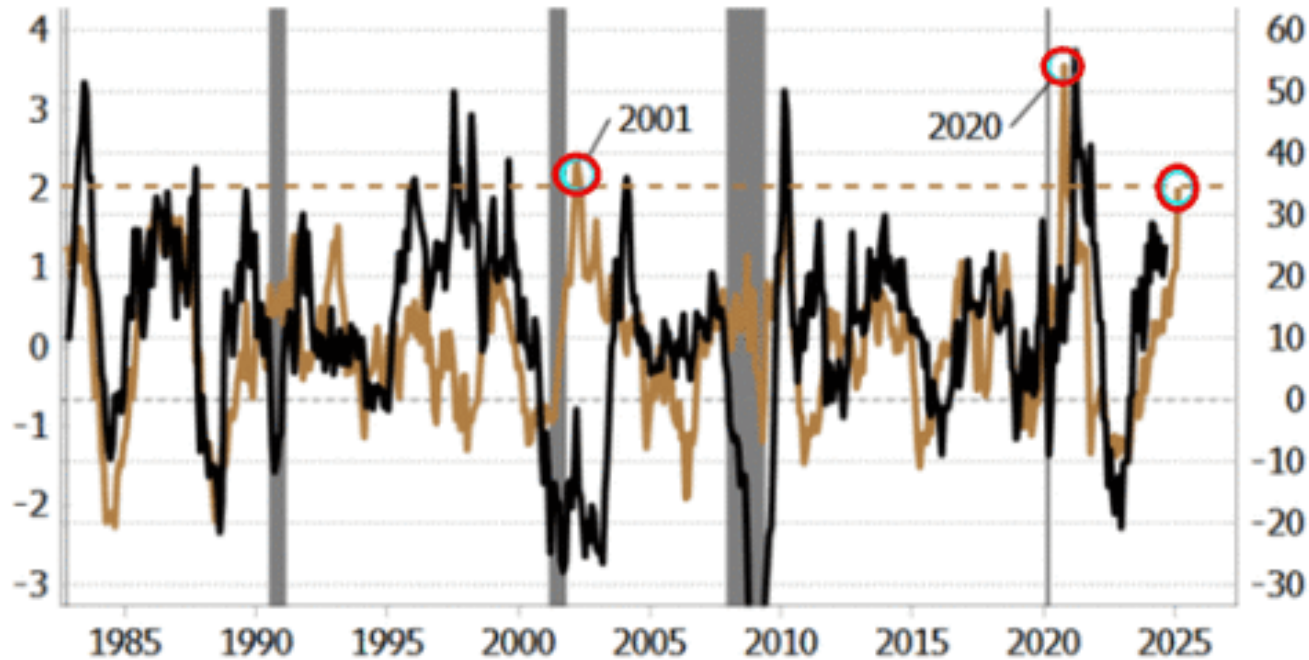
+ CHINA NOW REFLATING

= INFLATION RE-IGNITED

Excess Liquidity Has Rarely Been Higher

— MSCI US, YoY, rhs

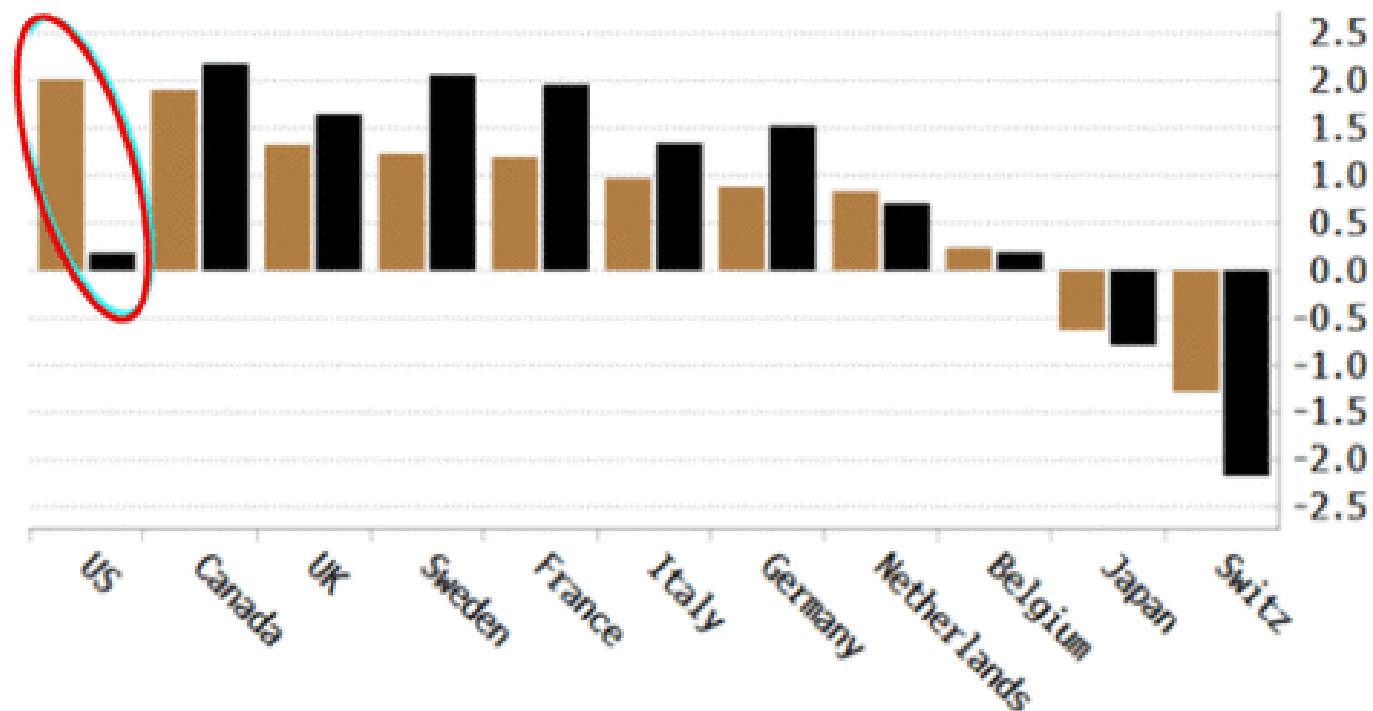
— G10 Excess Liquidity Leading Indicator (Pushed Forward 6 Months), lhs



Source: Bloomberg; Macrobond

US Is Now Turbocharging Excess Liquidity

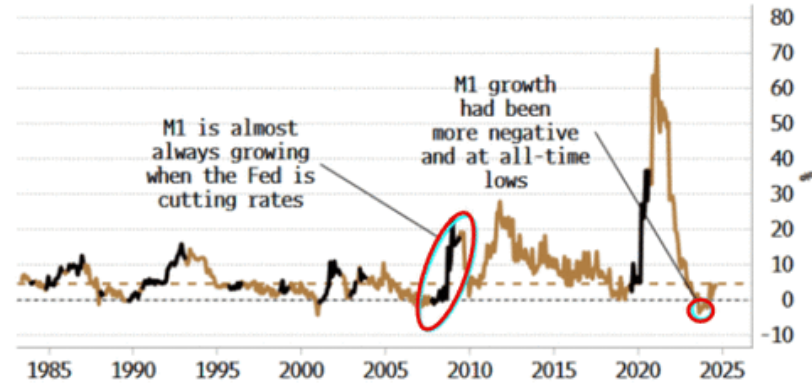
■ Excess Liquidity, Latest Value ■ Value 3 Months' Ago



Source: Bloomberg; Macrobond

M1 Growth in US Rarely Goes Negative

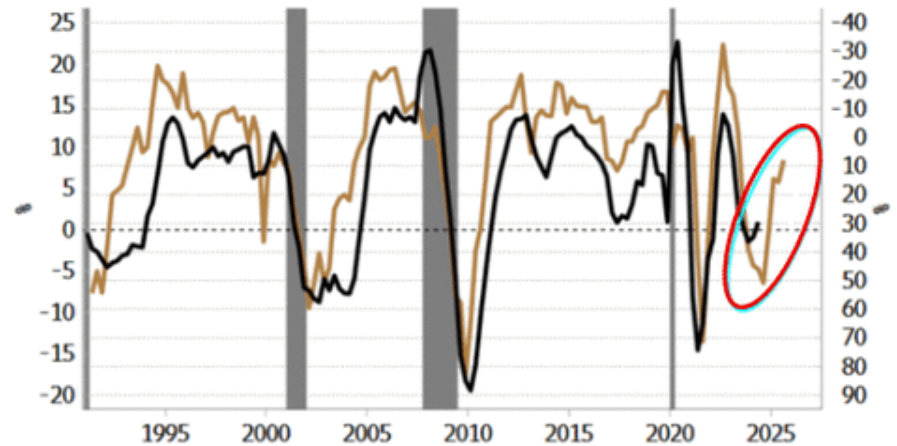
- US M1 YoY When Fed Rate Is Falling (ie Lower Over last 6 months)
- When Fed Rate Is Not Falling
- (Using Adjusted M1 After May 2020 When Definitions Were Changed)



Source: Bloomberg; Macrobond

M1 Growth Set to Keep Rising as Banks Make More Loans

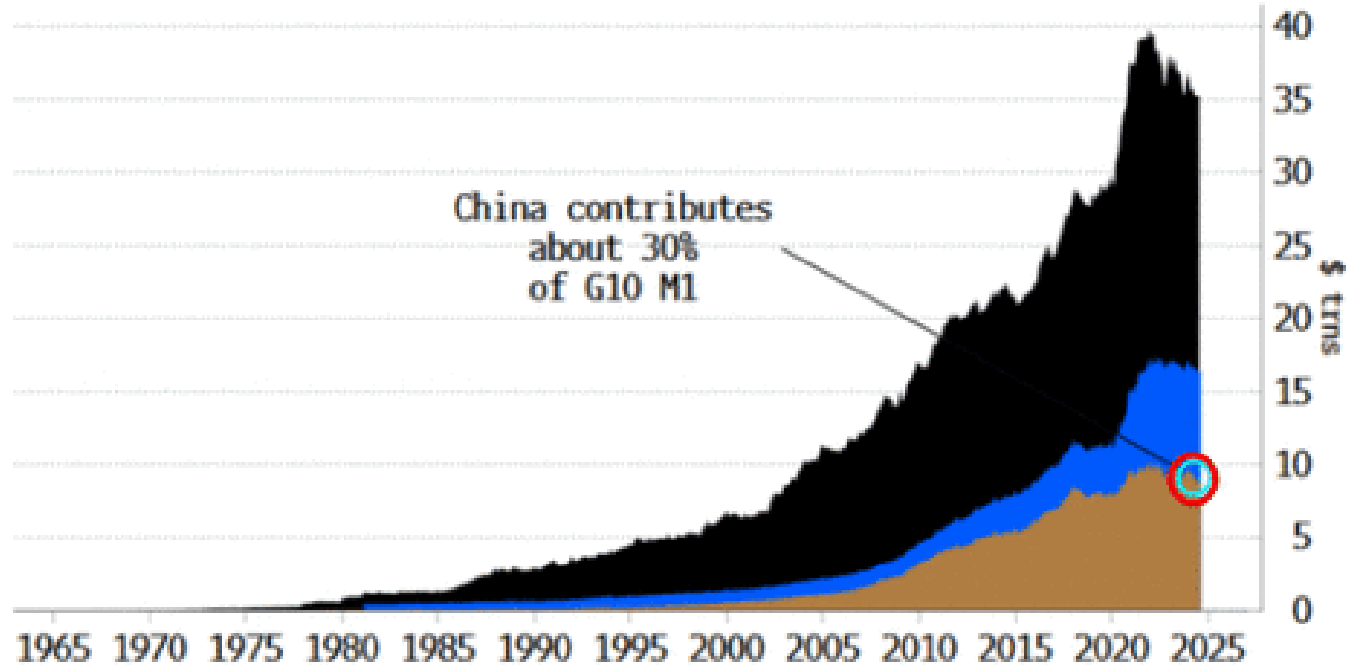
- C&I Loans YoY, lhs
- Net % Tightening Standards for C&I Loans (Reversed; Pushed Forward 4 Quarters), rhs



Source: Bloomberg; Macrobond

China's Outsized Contribution to Global Money

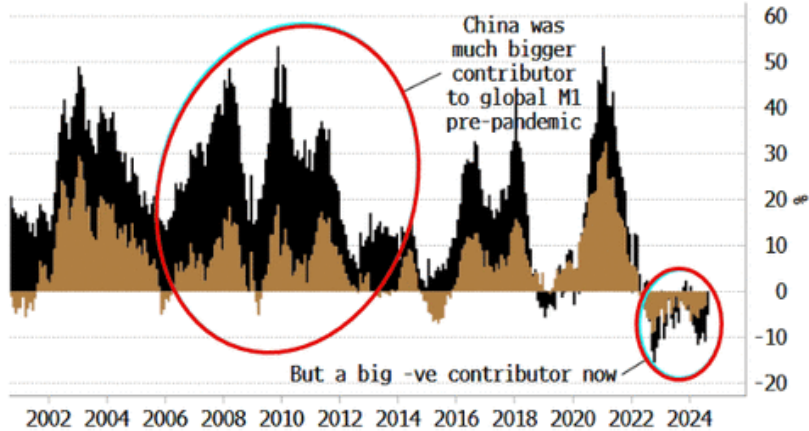
■ G10-ex US M1 ■ US M1 (Using Adapted Measure From 2020 to Exclude Savings Deposits)
■ China M1



Source: Bloomberg; Macrobond

China Stimulus May Rekindle Its Positive Impact on Global M1

■ China M1 YoY ■ G10 M1 YoY (in USD terms)



Source: Bloomberg; Macrobond

China Stimulus Can Turbocharge Global Liquidity

— MSCI US YoY, lhs

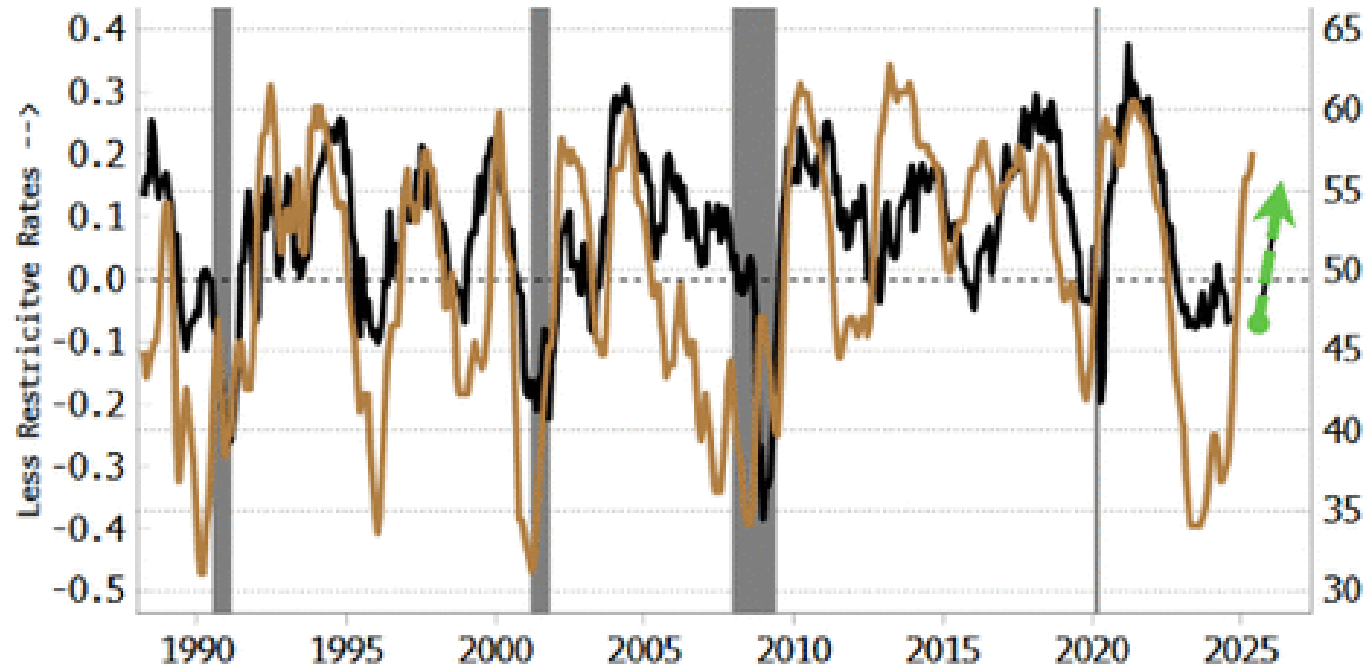
— G10 Real M1 + China (Assuming China's M1 Did Not Fall Over Last 12 Months) [Pushed Forward 6 Months], rhs



Source: Bloomberg; Macrobond

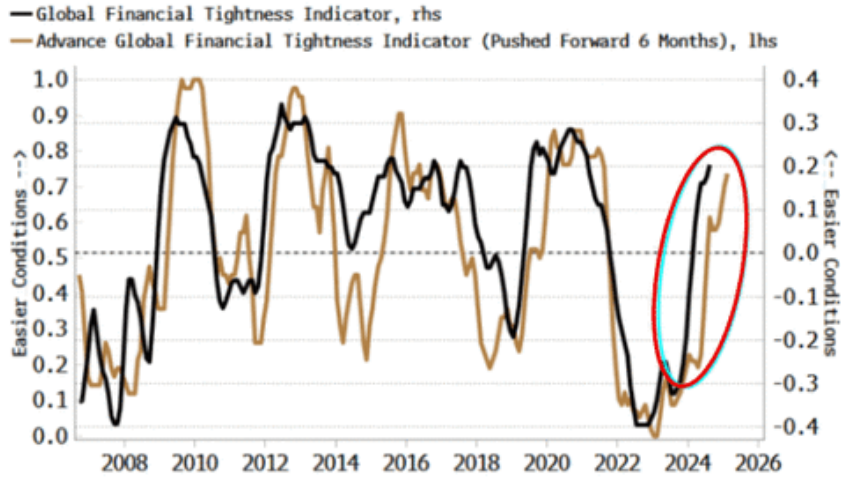
Global Conditions Keep Easing as Central Banks Cut Rates

— Global Financial Tightness Indicator, GFTI (Pushed Forward 9 Months), lhs
— ISM Manufacturing PMI SA, rhs

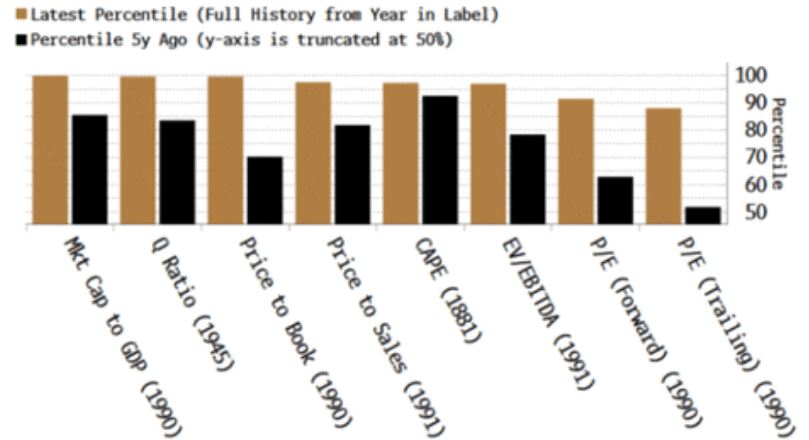


Source: Bloomberg; Macrobond

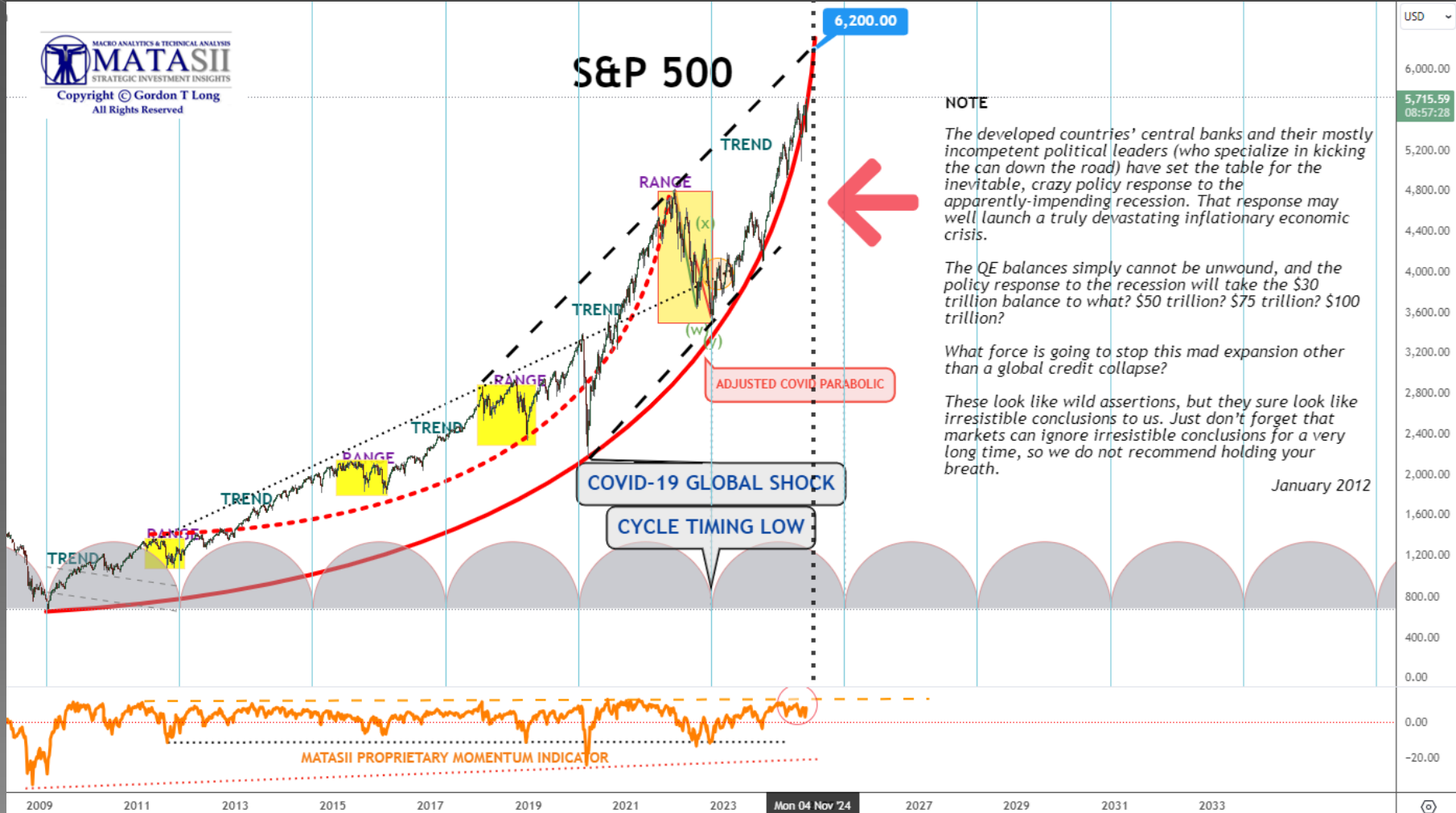
No Turnaround in Sight for Easing Global Monetary Conditions



US Valuations Stretched On Most Measures



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.

January 2012

USD

6,000.00

5,715.59
08:57:28

5,200.00

4,800.00

4,400.00

4,000.00

3,600.00

3,200.00

2,800.00

2,400.00

2,000.00

1,600.00

1,200.00

800.00

400.00

0.00

-20.00

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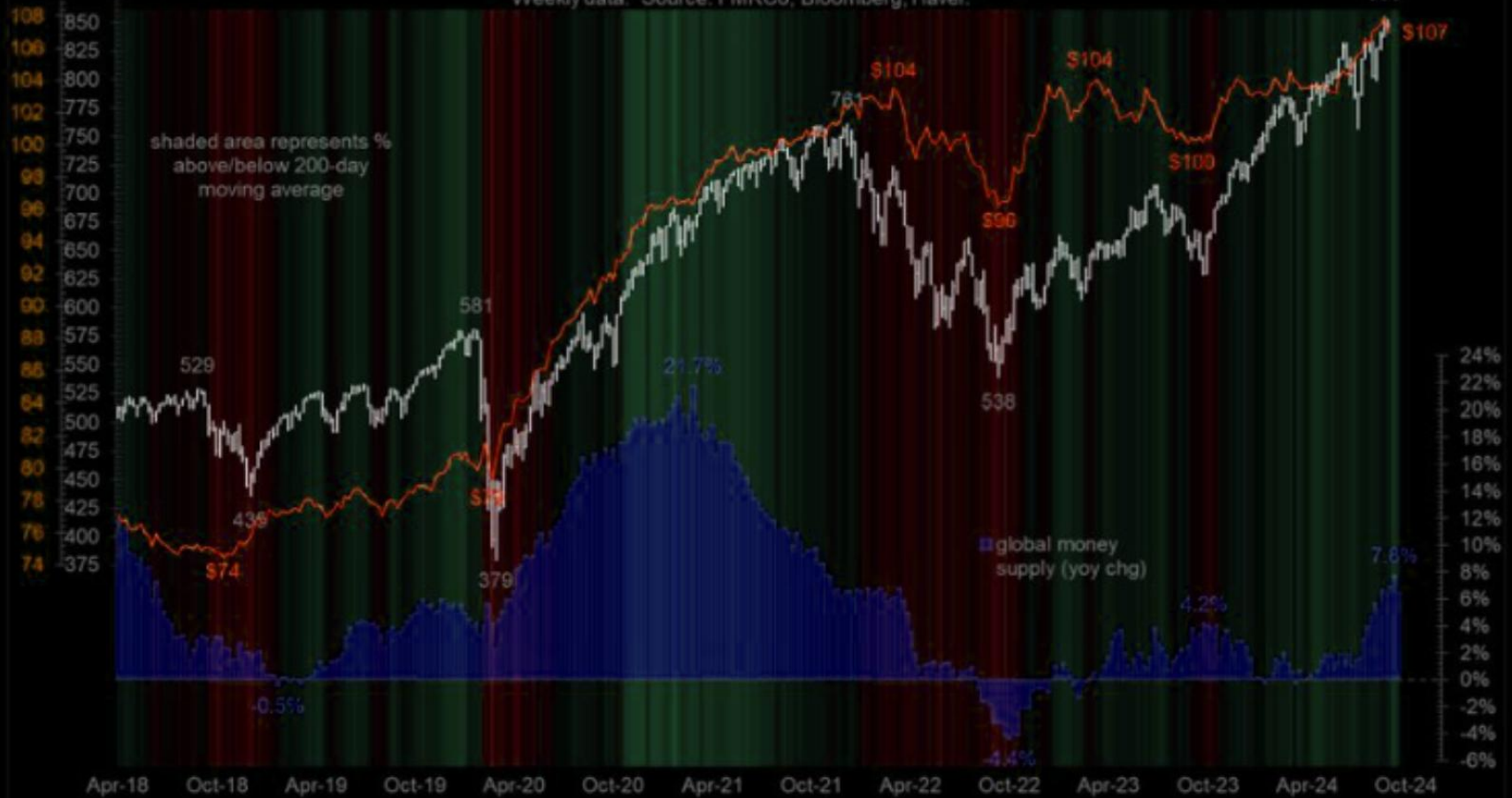
▪ CONCLUSIONS

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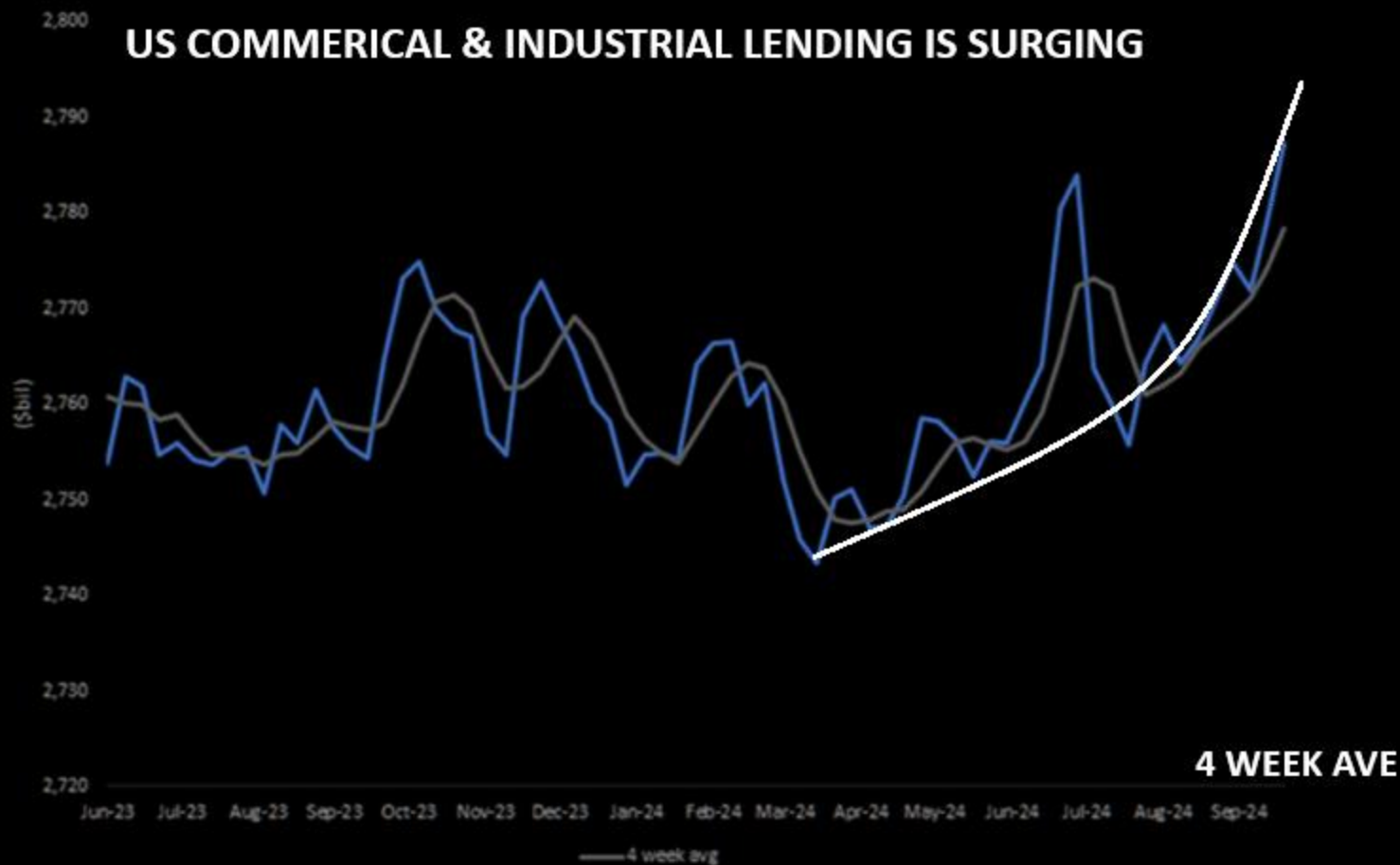


Global Liquidity

Weekly data. Source: FMRCo, Bloomberg, Haver.



US COMMERCIAL & INDUSTRIAL LENDING IS SURGING



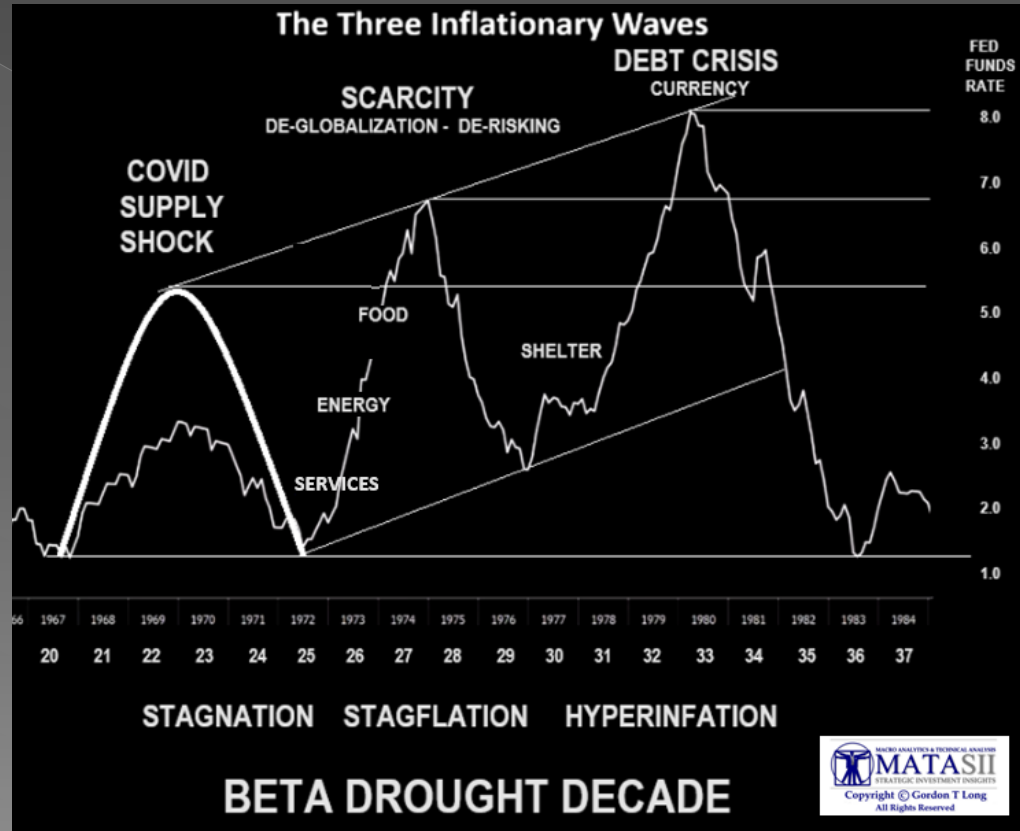
DUAL MANDATE

1. PRICE STABILITY => Fight Inflation
2. FULL EMPLOYMENT => Stop Layoffs & Recessions

THE FED'S FIRST PRIORITY

1. The reality is that Inflation reduces the government's debt burden, while full employment increases tax revenues.
2. The Fed historically will lean towards sacrificing price stability, (inflation and the US dollar), to protect maximum employment, (minimize job losses which are particularly disruptive to profits, the banks, the bond market and politicians).

1- PRICE STABILITY & FIGHTING INFLATION



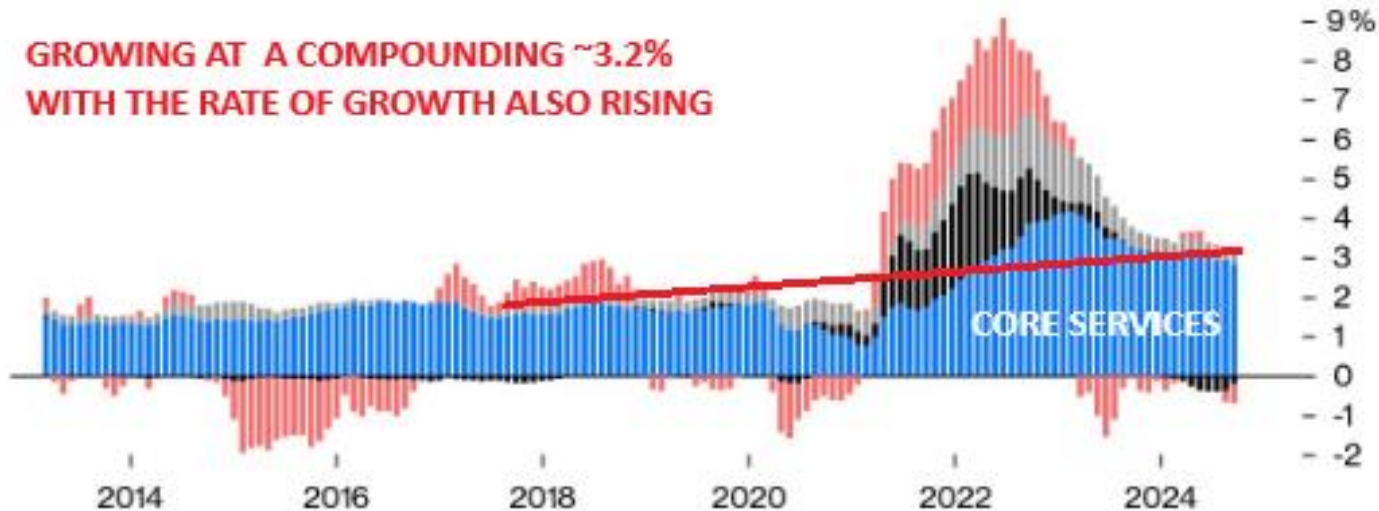
1- PRICE STABILITY & FIGHTING INFLATION

The Inflation Breakdown

The composition of overall price rises has changed significantly

■ Core Services ■ Core Goods ■ Food ■ Energy

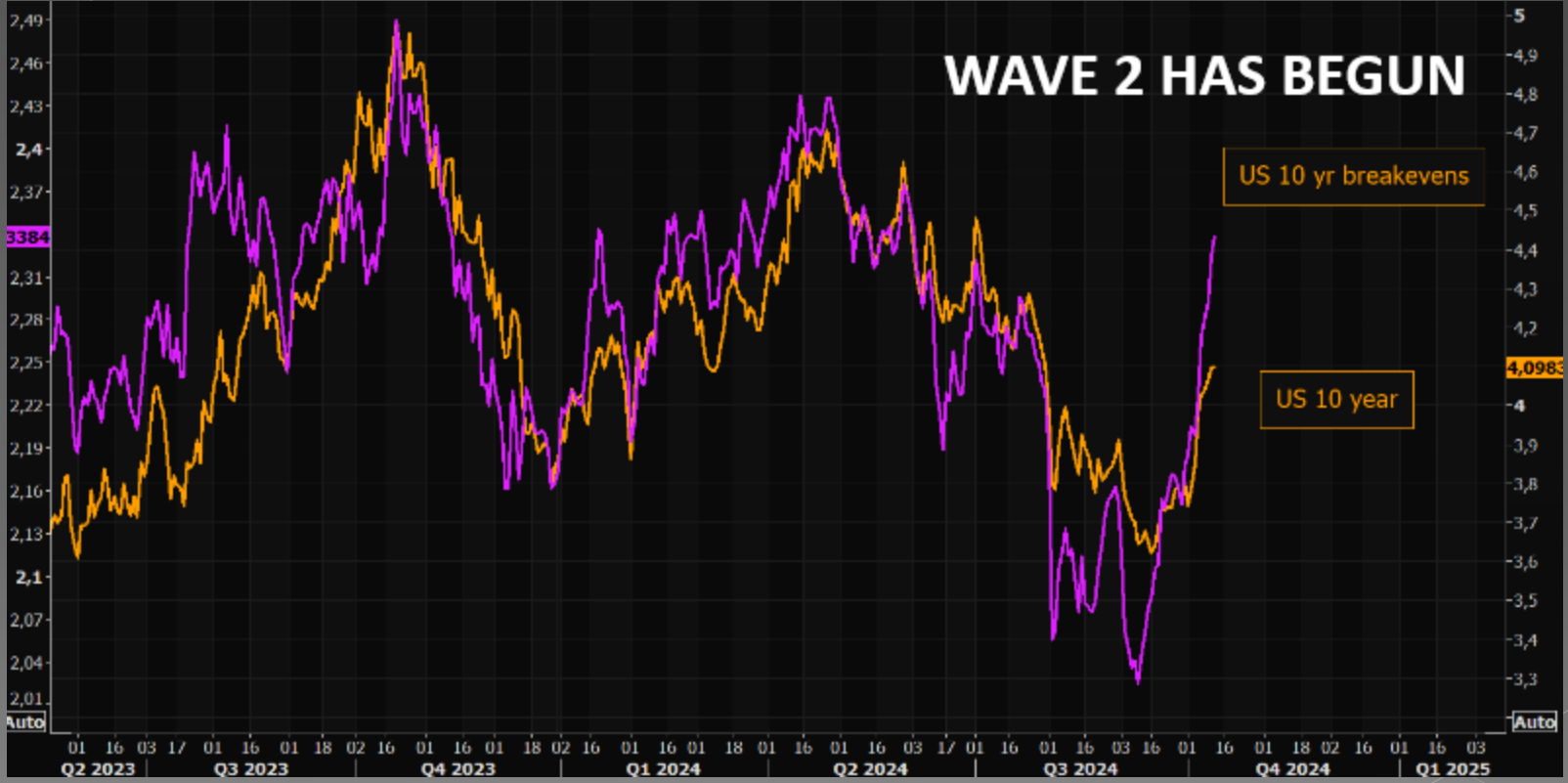
**GROWING AT A COMPOUNDING ~3.2%
WITH THE RATE OF GROWTH ALSO RISING**



Source: Bloomberg Economic Analysis (ECAN)

Bloomberg Opinion

WAVE 2 HAS BEGUN



Market-Based Inflation Expectations Rise

Breakevens and zero-coupon inflation swaps



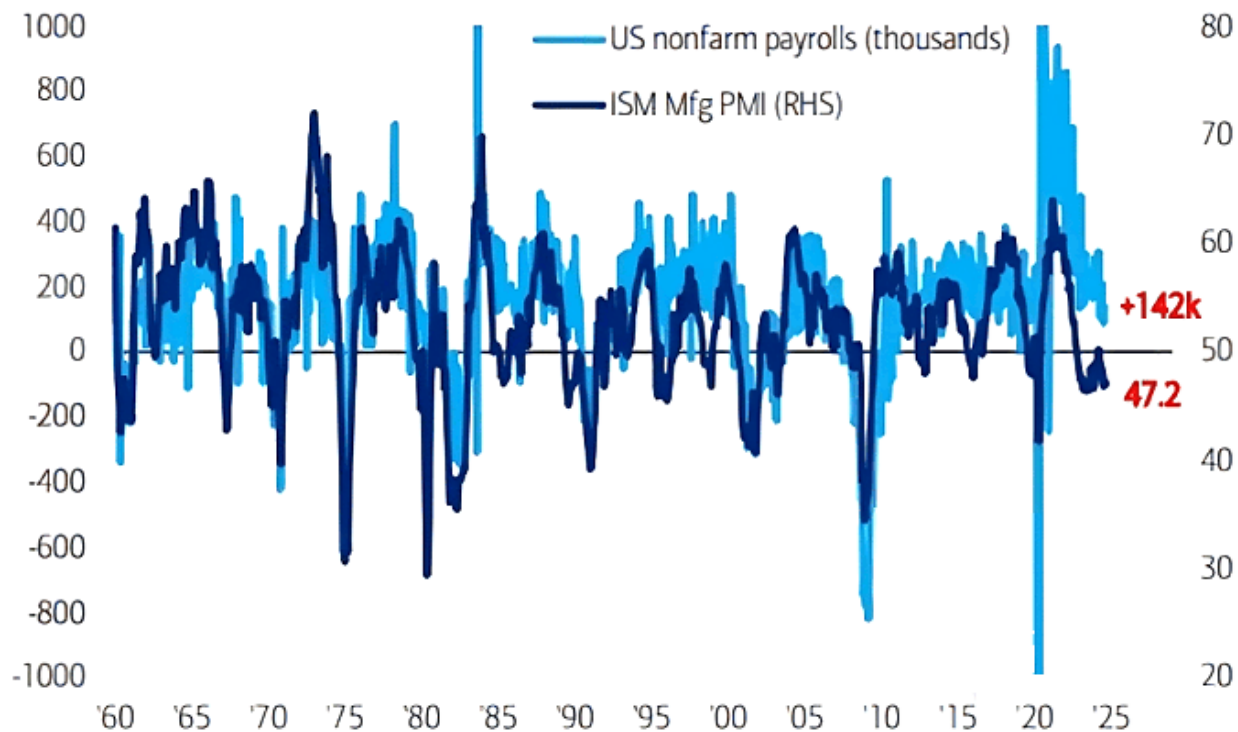
MSCI World 12m Fwd PE and EPS revisions



Recessions — MSCI World 12m Fwd P/E y/y — +ve to -ve EPS revisions ch oya (rhs)

Profits and payrolls historically correlated

US nonfarm payrolls MoM vs ISM manufacturing PMI

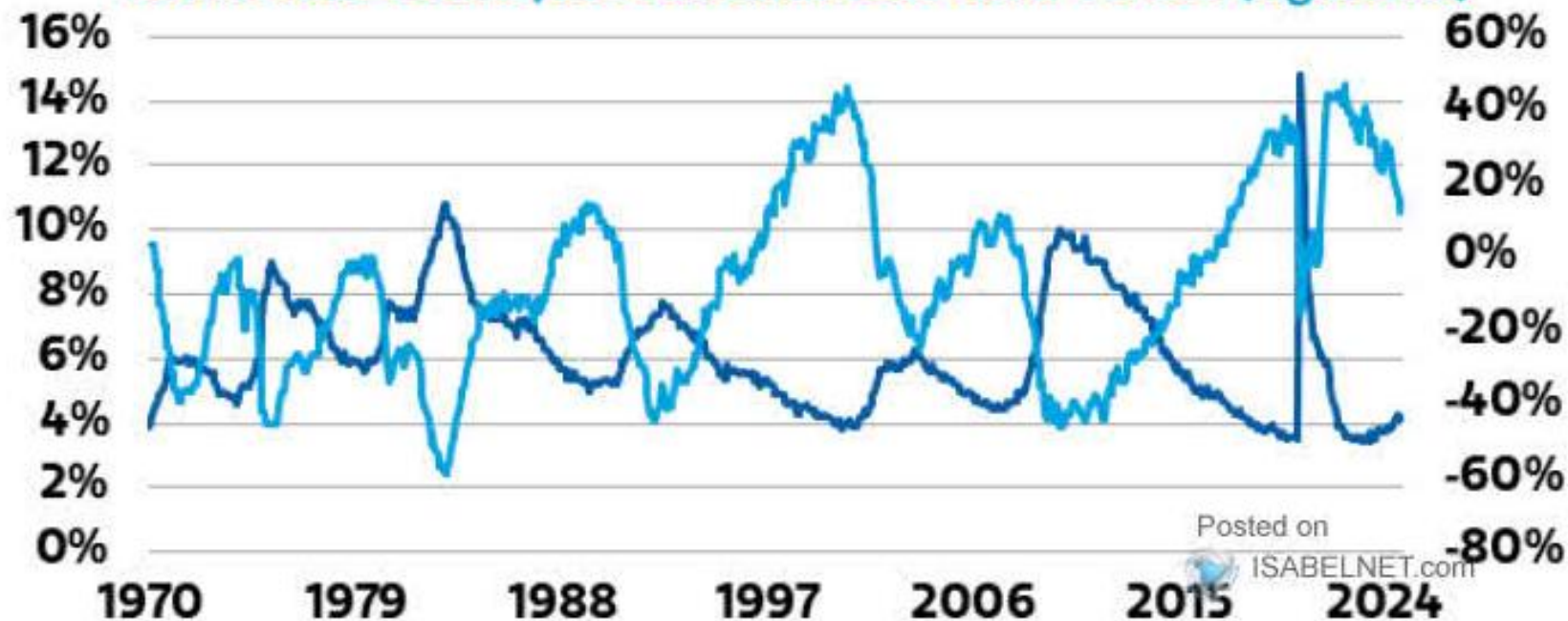


Source: BofA Global Investment Strategy, Bloomberg

US Unemployment Rate Could Rise More

US Unemployment Rate (left axis)

Conference Board Jobs Plentiful Less Hard To Get (right axis)

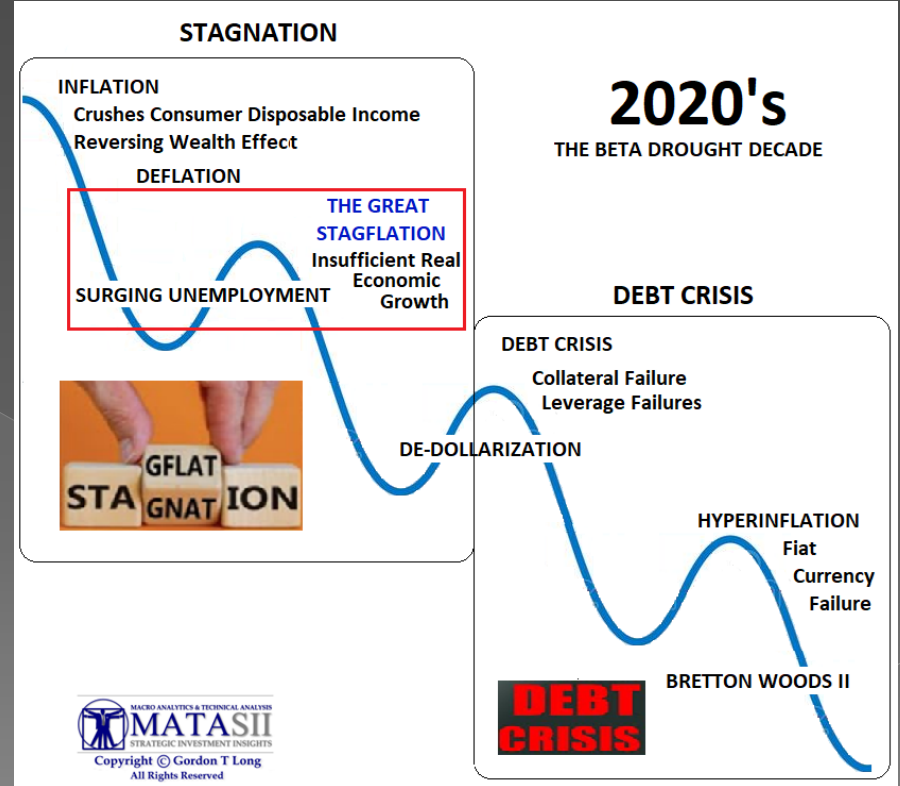


Posted on

 ISABELNET.com



Since August the Inflation macro data has surprised to the upside, while the growth macro data to the downside



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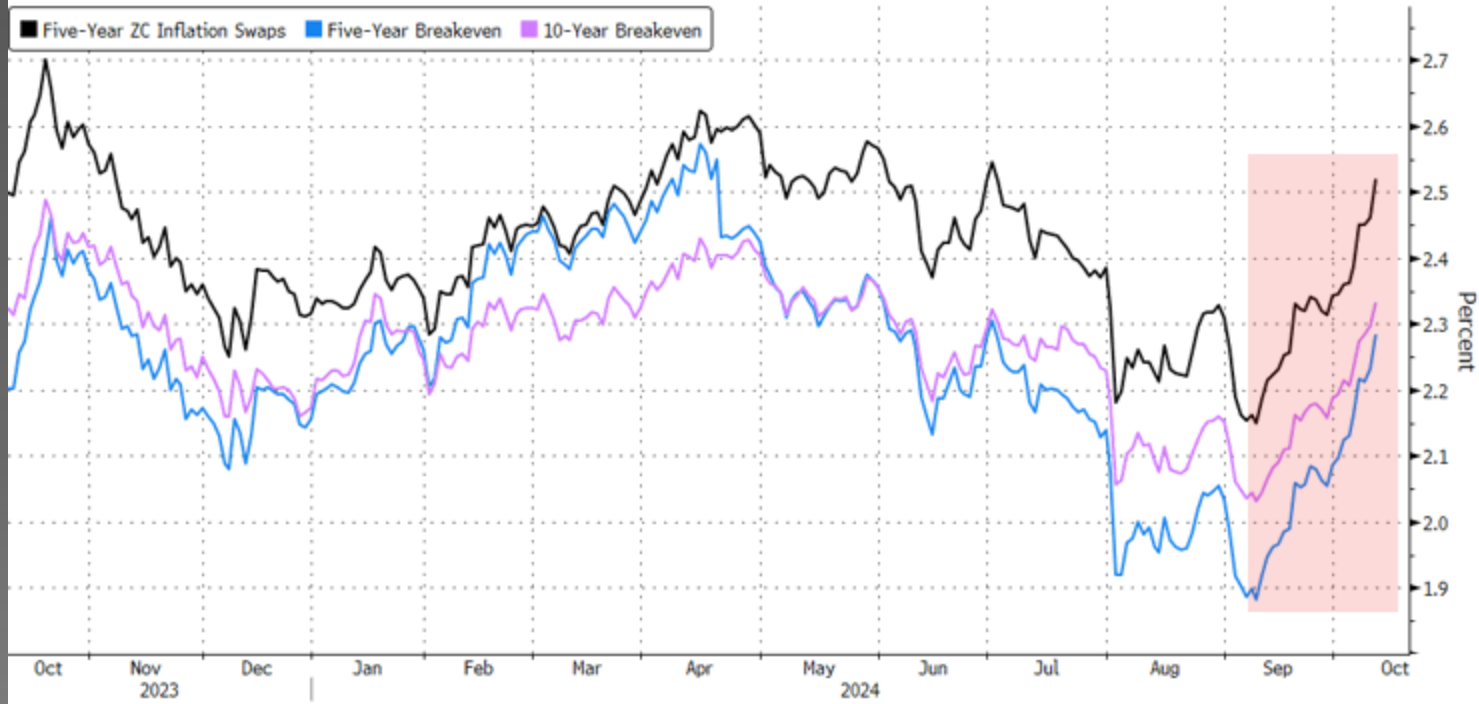
IF THIS COUNT IS CORRECT WE ARE HEADED MUCH HIGHER!!



Market-Based Inflation Expectations Rise

Breakevens and zero-coupon inflation swaps

■ Five-Year ZC Inflation Swaps ■ Five-Year Breakeven ■ 10-Year Breakeven

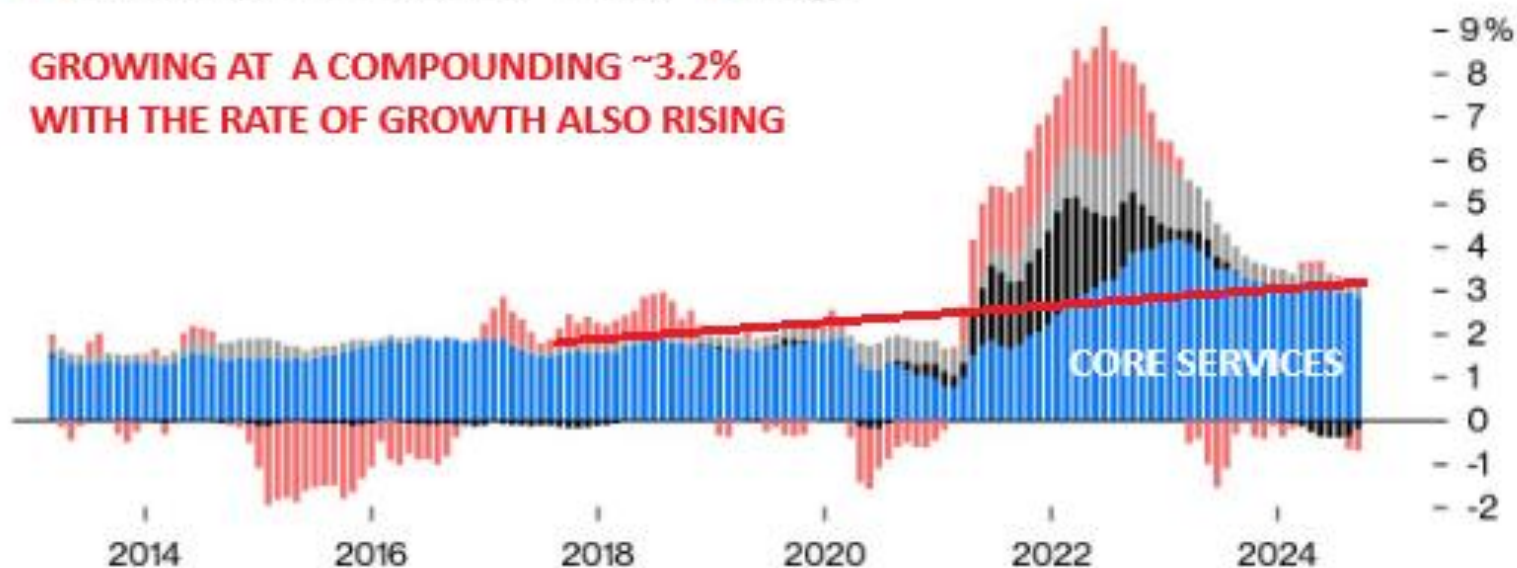


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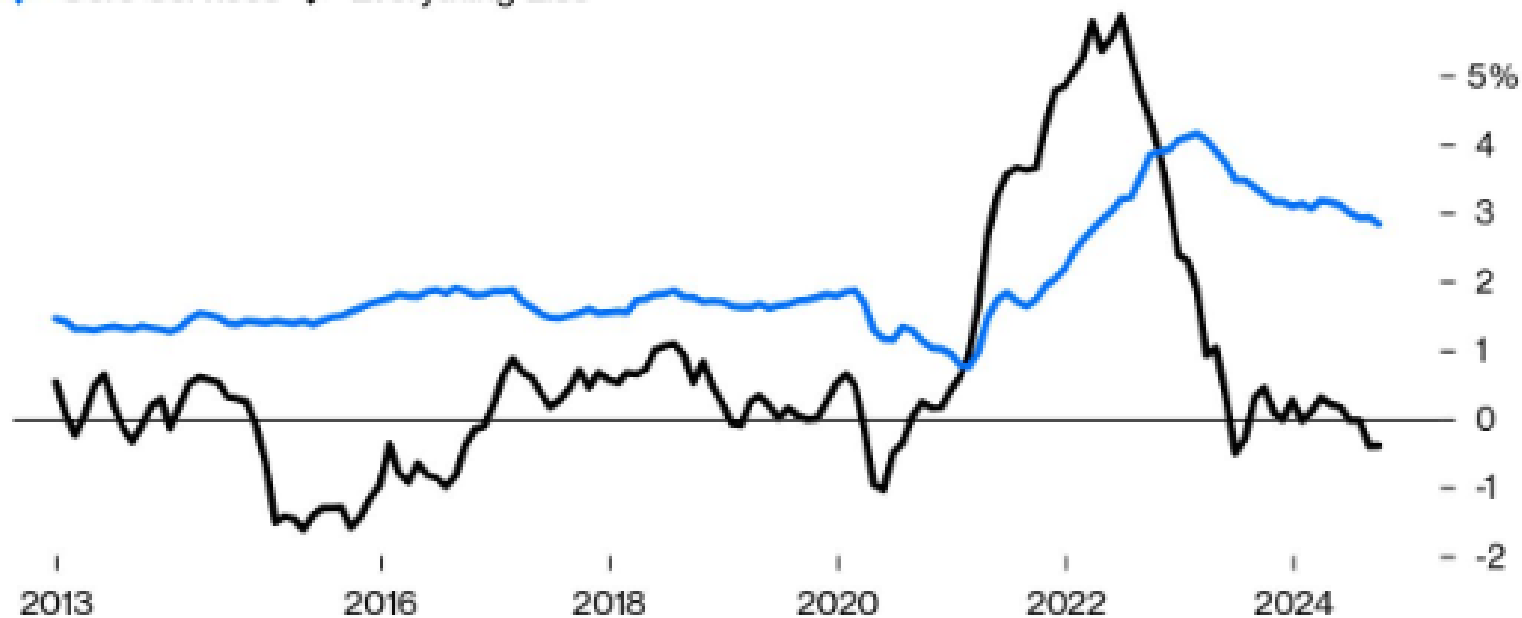
Source: Bloomberg Economic Analysis (ECAN)

Bloomberg **Opinion**

The Changing Nature of Inflation

Now, it's all about services; the 2022 spike was about everything else

Core Services / Everything Else



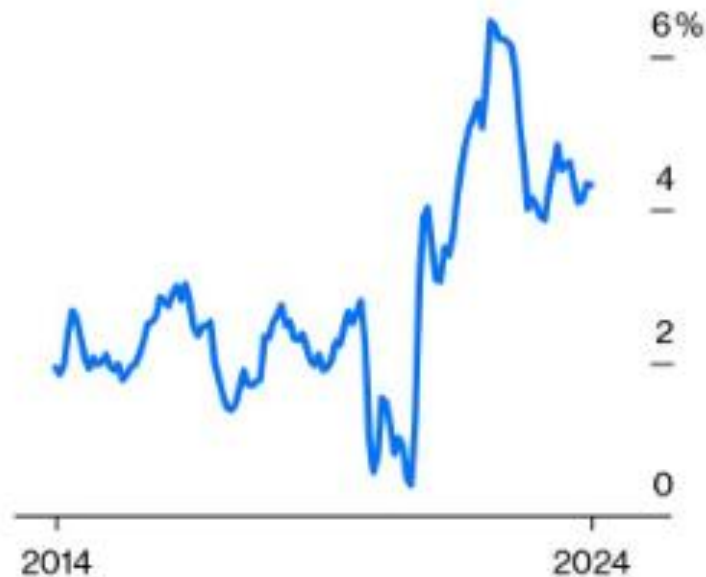
Source: Bloomberg

Bloomberg Opinion

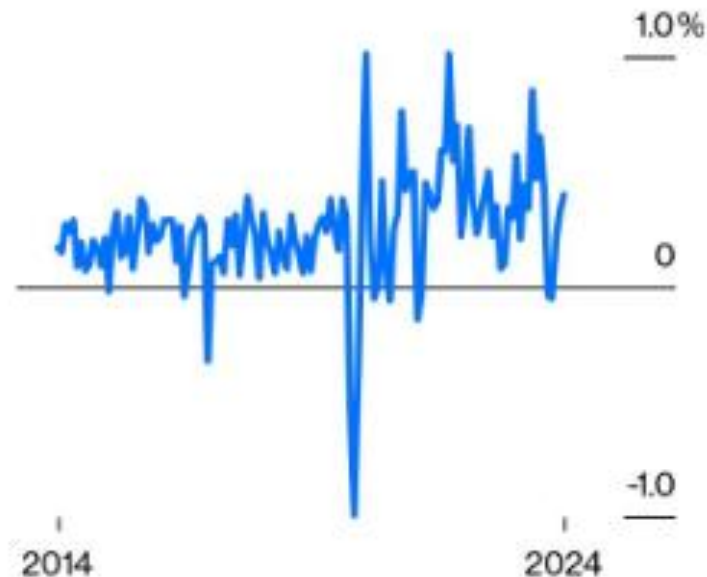
Supercore to the Rescue - Or Not

Services inflation excluding shelter has stopped declining

Supercore Inflation, Year-on-Year



Supercore Inflation, Month-on-Month



Source: Bloomberg

Bloomberg Opinion

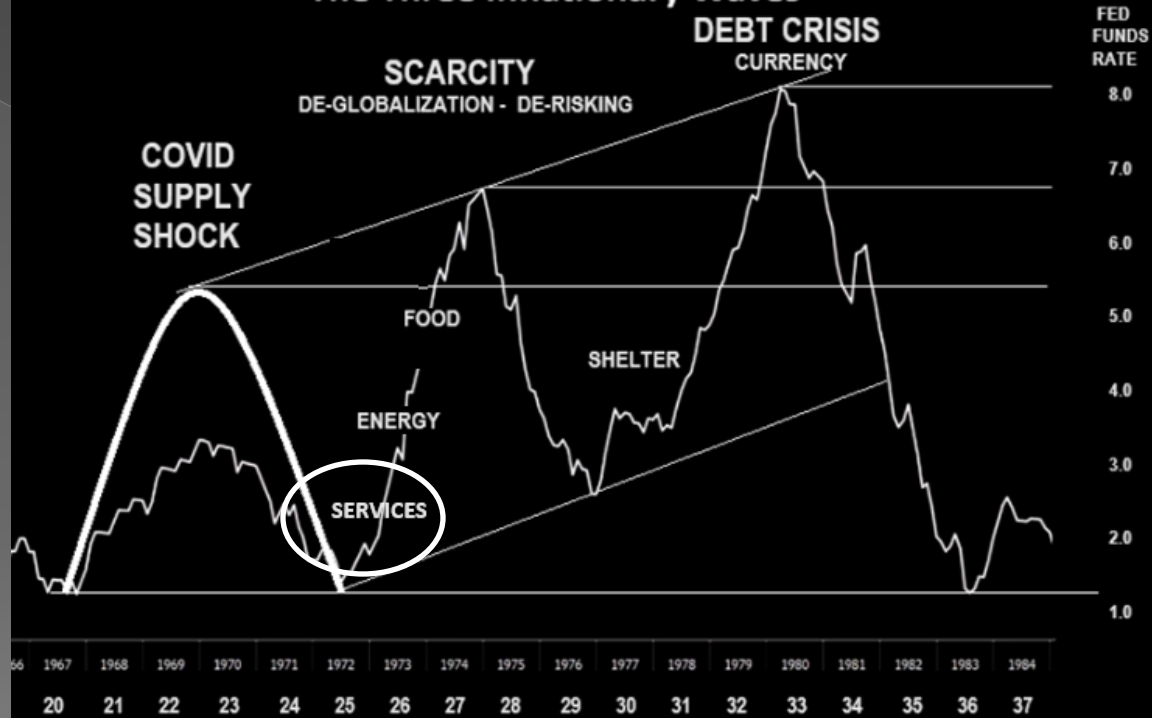
Chart 2 The great inflation unwind appears to be done.

% of CPI sub-indexes where 3M %Ch > 12M %Ch



Source: BLS, GlobalData, TS Lombard

The Three Inflationary Waves



STAGNATION STAGFLATION HYPERINFLATION

BETA DROUGHT DECADE

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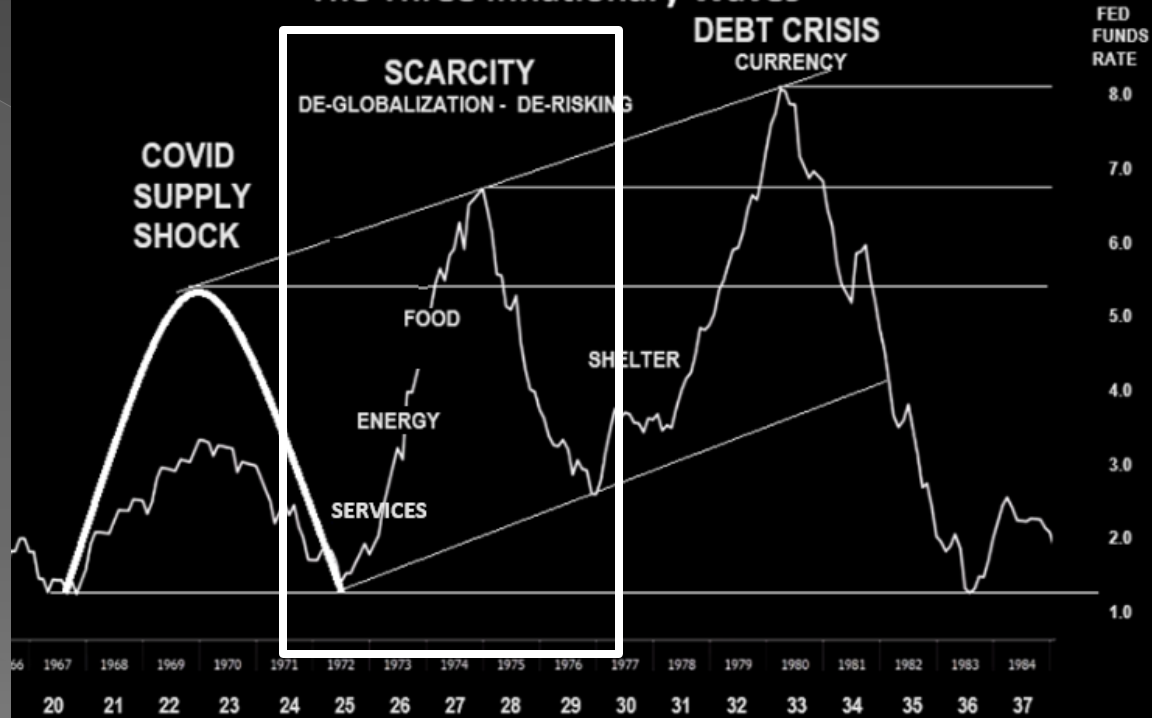
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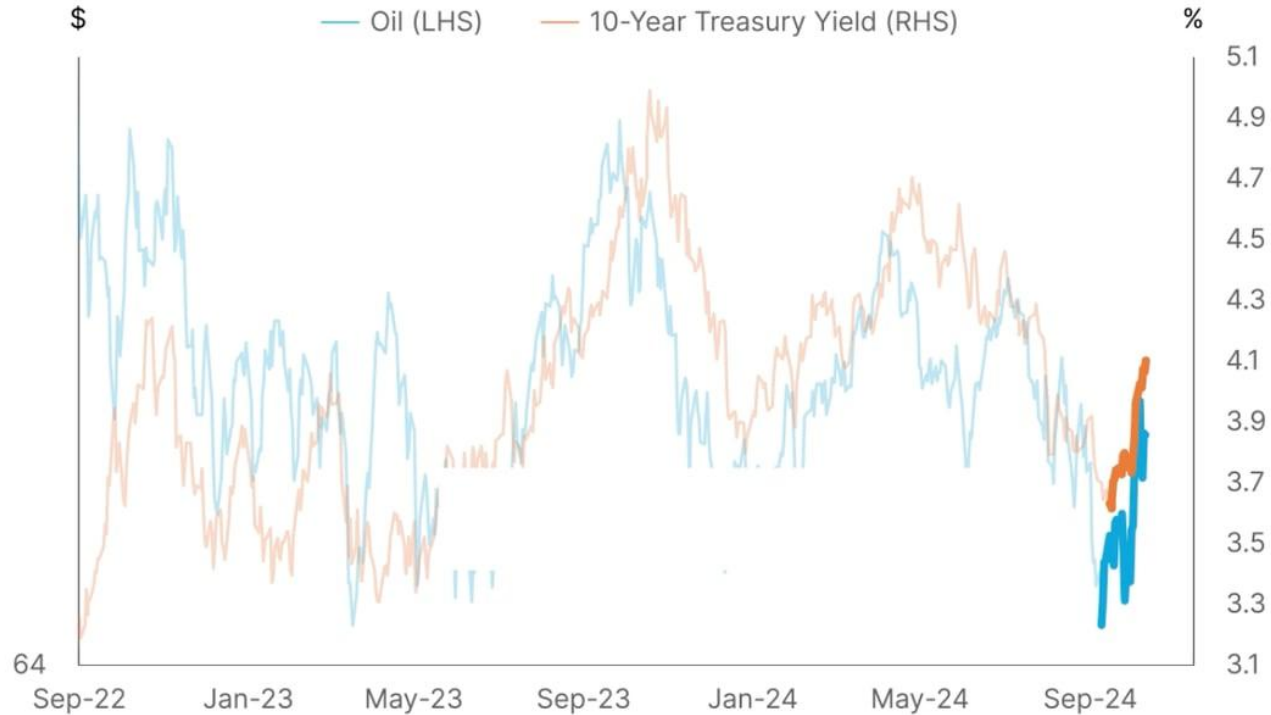
BETA DROUGHT DECADE

Oil Prices and 10-Year Treasury Yield



(Formerly Game of Trades)

Oil Price and 10-Year Treasury Yield



Date: September 2022 Through 14th October 2024.

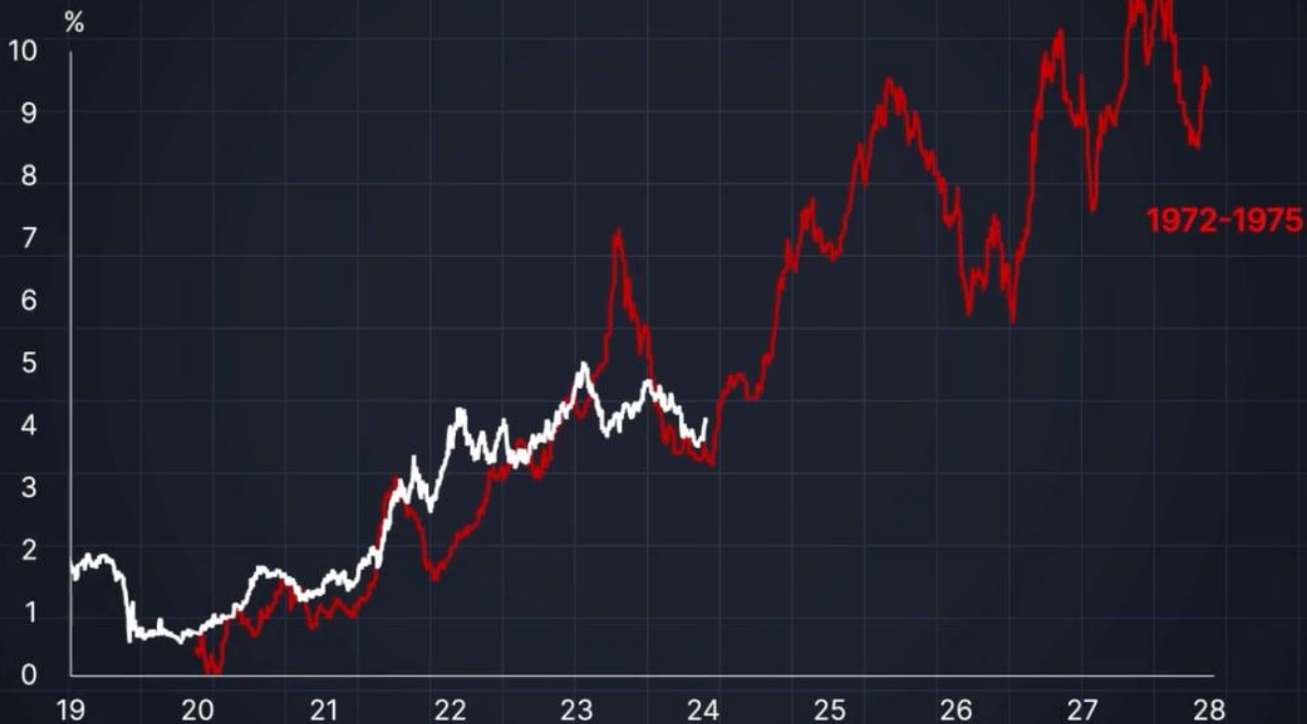
Source: Tradingview, Bravos Research.

10-Year Treasury Yield



(Formerly Game of Trades)

10-Year Treasury Yield



Date: October 2019 Through 14th October 2024.
Source: Tradingview, Bravos Research.

STAGNATION

INFLATION

Crushes Consumer Disposable Income
Reversing Wealth Effect

DEFLATION

THE GREAT STAGFLATION

Insufficient Real
Economic
Growth

SURGING UNEMPLOYMENT



DE-DOLLARIZATION

2020's

THE BETA DROUGHT DECADE

DEBT CRISIS

DEBT CRISIS

Collateral Failure
Leverage Failures

HYPERINFLATION

Fiat
Currency
Failure

BRETTON WOODS II

**DEBT
CRISIS**



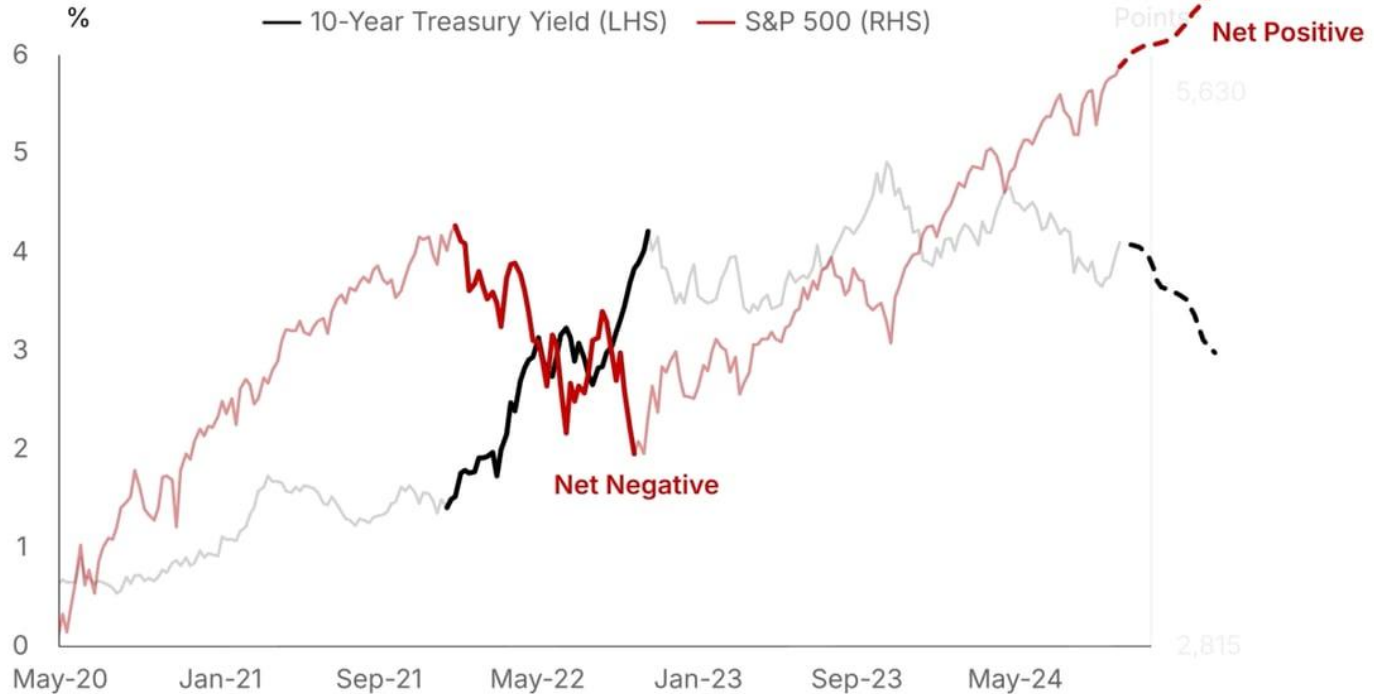
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10-Year Treasury Yield and S&P 500



(Formerly Game of Trades)

10-Year US Treasury Yield and S&P 500



Date: May 2020 Through 14th October 2024.
Source: Tradingview, Bravos Research.

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S&P 500

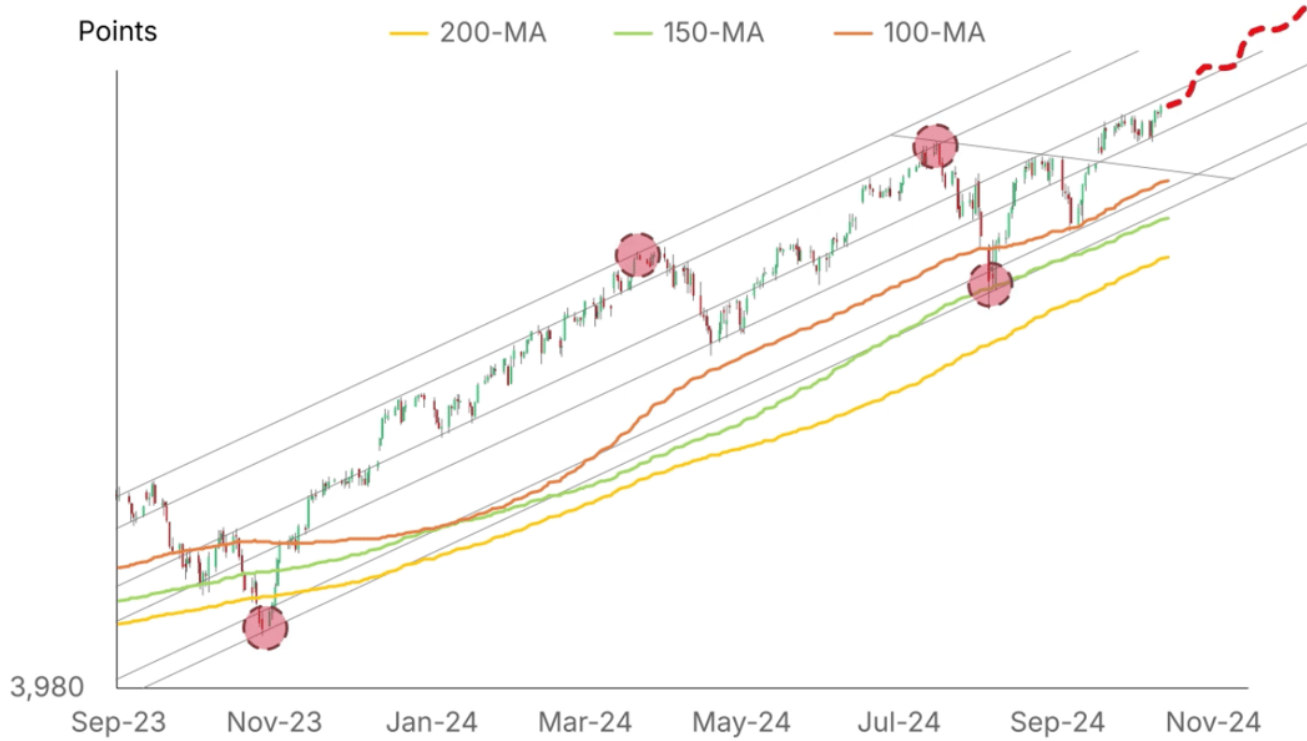


(Formerly Game of Trades)

S&P 500

Points

— 200-MA — 150-MA — 100-MA



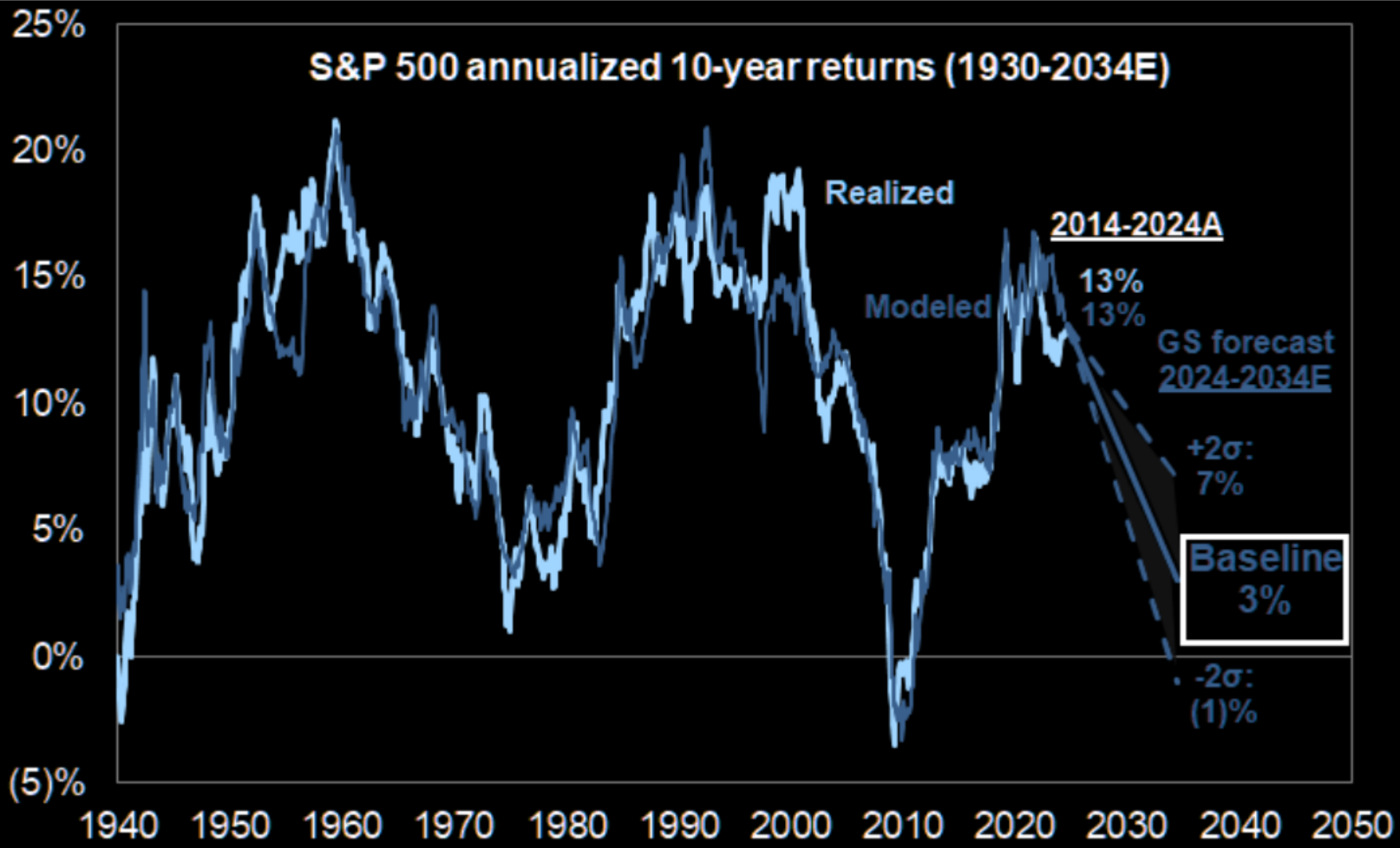
3,980

Sep-23 Nov-23 Jan-24 Mar-24 May-24 Jul-24 Sep-24 Nov-24

Date: September 2023 Through 14th October 2024.

Source: Tradingview, Bravos Research.

S&P 500 annualized 10-year returns (1930-2034E)



Realized

Modeled

2014-2024A

13%
13%

GS forecast
2024-2034E

+2σ:
7%

Baseline
3%

-2σ:
(1)%

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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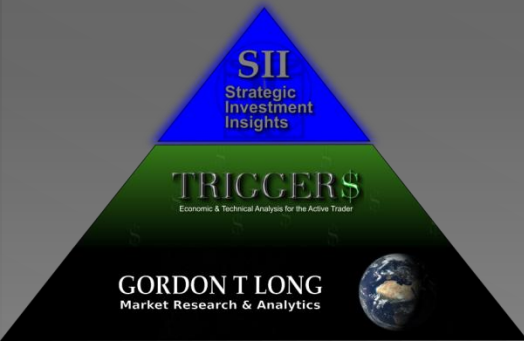
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