EDGETECH

TALKING POINTS

Friday, May 20, 2022

- ⇒ **Market Internals**
- ⇒ **Seeing 2018 Levels in Broad Indexes**
- ⇒ **Slowdown Beginning?**

MARKETS RECAP

- ⇒ The Nasdaq's bottom so far is -29.2% from its peak and the Russell 2000's is -29.6%. Both indexes peaked last November.
    - ⇒ The Nasdaq is approaching its COVID-shock levels. It bottomed March 23, 2020 down -30% from its peak.
    - ⇒ The Russell 2000 has found support at its 2018 peak.
- ⇒ Just 16% of Nasdaq and Russell 2000 stocks are trading above their 200-day moving average.
- ⇒ Half of all stocks in the NYSE and Nasdaq hit new 52-week lows last week.
- ⇒ The Value Line Geometric Index (an equal-weight index of the 3,000 most-traded stocks) has fallen into a bear market, down just over -20% from its November peak.
    - ⇒ This index, which tracks the average stock, is trading below its pre-covid heights and sits where it started the year in ***2018***.
- ⇒ Nasdaq 100 (QQQ) has had 8 straight weeks of losses. This has happened only two other times for the index: in 2001 and 2008.
    - ⇒ The Nasdaq 100 has had daily moves of over 1% in 83 out of this year's 95 trade days.
    - ⇒ Nasdaq 100 company performance year-to-date:
        - ⇒ 11 stocks are positive with an average gain of +14%.
        - ⇒ 91 stocks are negative with an average loss of -28%.
- ⇒ S&P 500 hit a new low yesterday: its max drawdown is -18.7% from its January 4th peak.
    - ⇒ Recall the average intra-year decline the past 40 years is -14%.
    - ⇒ 25% of S&P 500 stocks are remain above their 200-day moving average:
        - ⇒ The S&P 500's average stock is in a bear market (-24%).
        - ⇒ Over half of S&P 500 stocks are in a bear market now.
        - ⇒ 41% of S&P 500 stocks are below their pre-Covid highs (erasing all of 2020 and 2021's gains).
    - ⇒ Today:
        - ⇒ 378 S&P stocks are negative with an average loss of -22%.
        - ⇒ 126 S&P stocks are positive with an average gain of +16%.

KEY TAKEAWAYS

- ⇒ The future can go one of two ways: (1) an aggressive Fed tightening to tame inflation (probably leading to a recession); or (2) an oblivious, flat-footed Fed allowing inflation to spiral out of control (leading to stagflation and recession).
- ⇒ Neither option is positive and both mean persistently volatile equity markets.
    - ⇒ In neither case will the Fed come to the stock market's rescue with easier money.
- ⇒ Manufacturing indexes and retail earnings reports are showing the beginnings of a slowdown.
    - ⇒ Big company's inability to pass inflated prices onto consumers means that they'll eat into margins, detract from earnings, and ultimately become a drag on the stock's price.
- ⇒ Bear markets come for everybody and we've seen more of that this week.
    - ⇒ Not only have speculative names been hammered, the biggest most dependable names are being hit hard too.
- ⇒ Rates have further to rise (the Fed Funds Rate is just .33% right now), inflation isn't going anywhere, and the economy is showing signs of slowing.
    - ⇒ Where our portfolios are: defensive allocations to cash and tactical participation in up-days to the extent reasonable given portfolio risk to manage this relentlessly whipsawing market.

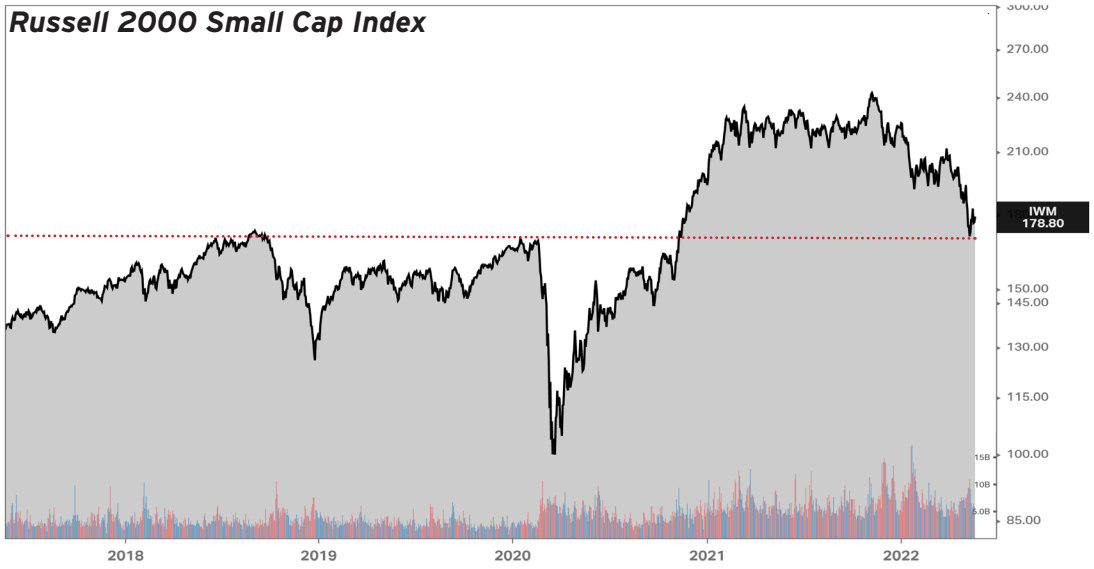
© 2022 EdgeTech Analytics, LLC

EXHIBIT 1 & 2 – Broad, Small Indexes Support at 2018 Levels

Value Line Geometric Index

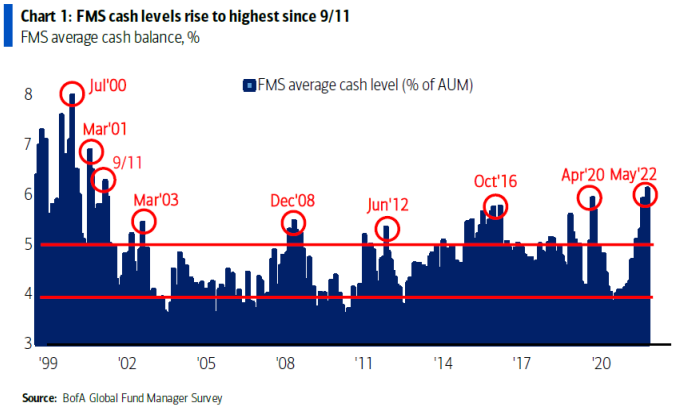


Russell 2000 Small Cap Index

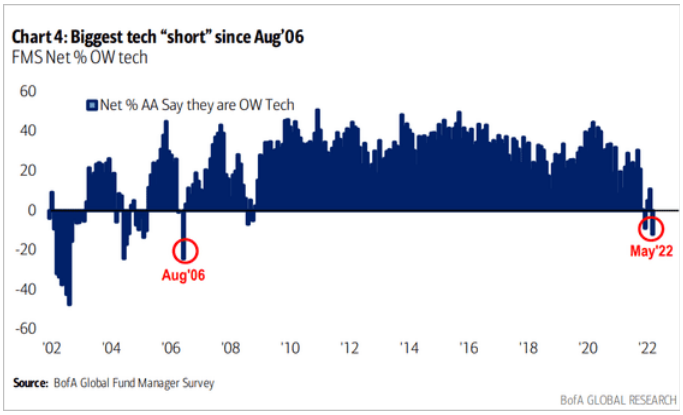


EXHIBITS 3 & 4 – Fund Managers Decidedly Bearish

Most Cash Since 9/11/2001



Most Underweight Tech Since 2006



EXHIBITS 5 & 6 – Manufacturing Index Activity Slowing Down





⇒ The Philly Fed Manufacturing Index shocked to the downside for May.
⇒ This reflects the overall trend in the ISM Manufacturing Index's continuing decline.
⇒ Note, though, that the Manufacuring PMI Index still sits above 50, meaning that it is still in expansion territory (below 50 is contraction).

EXHIBIT 7 – Job Postings Leveling Out & Declining

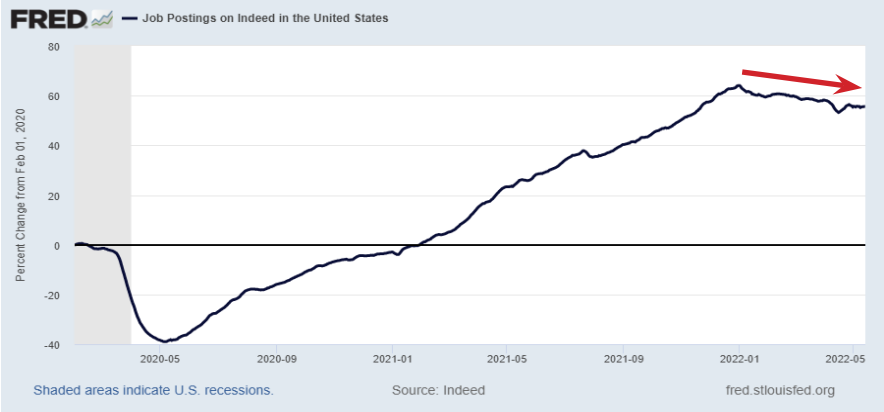
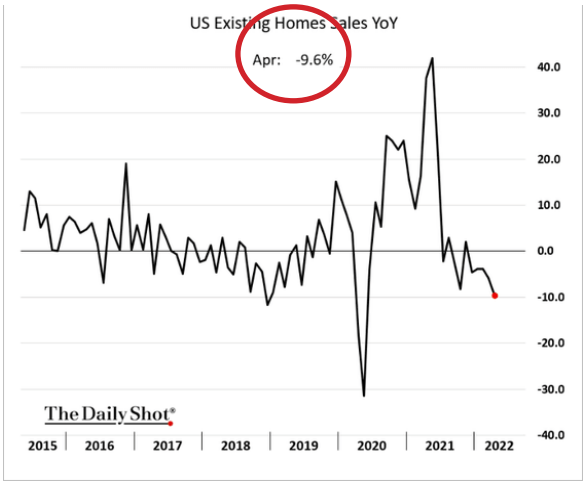
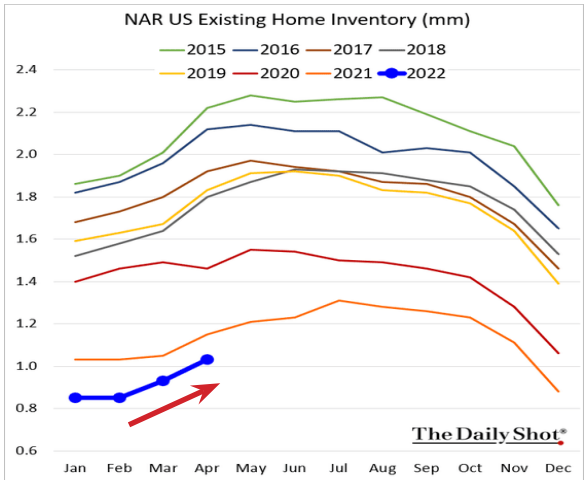


EXHIBIT 8 – Housing Finally Losing Steam: Home Sales Decline -10% yoy, Inventories Increasing





©2022 EdgeTech Analytics, LLC. All rights reserved. For informational purposes only. This is not an offer to buy or sell any securities. No investment strategy is free from risk and there is no guarantee that any strategies mentioned herein will be profitable. Past performance is not indicative of future performance.