EDGETECH

TALKING POINTS

FRIDAY, AUGUST 19, 2022

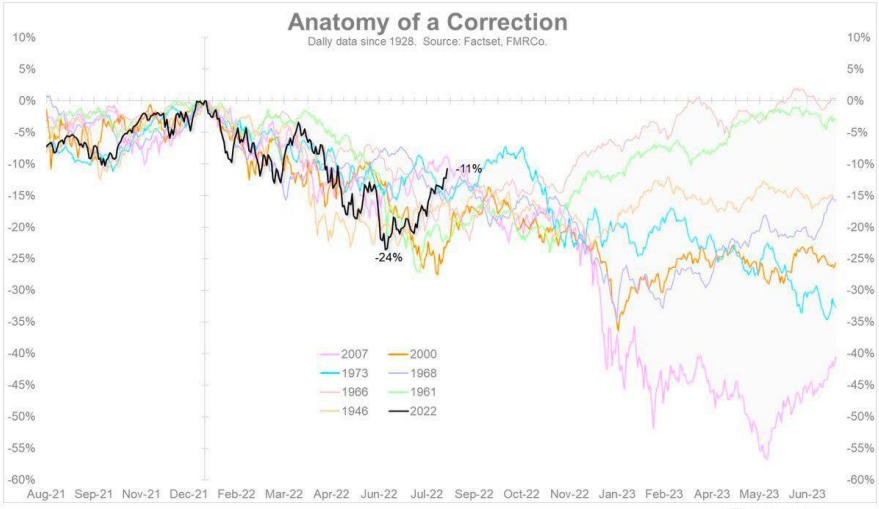
KEY TAKEAWAYS

- Internal market momentum cannot and should not be ignored.
- Unlike the rallies earlier this year, this latest rally is showing broad participation and real momentum.
  - Over 90% of S&P 500 stocks are trading above their 50-day moving average. In contrast, during March's growth rally only 74% of stocks were trading at those levels and that level was reached for only a single trade day. We've had over 90% now for 4 straight trade days.
  - The S&P 500 recovered over 50% of its losses last Friday (the "retracement" we discussed last week). Equity returns 2 and 3 months out following such recoveries have been positive in almost all cases. Not a guarantee but a decent signal of forward momentum.
  - Breadth has improved: the percentage of S&P 500 stocks hitting new 20-day highs reached over 55%. This is a bullish signal that's only occurred 28 other times since the 1970s. The last time it happened recently was May 2020.
  - It is impossible to say whether this is another dead-cat bounce or a new bull breakout, though the momentum indicates further upside potential in the short term (see charts below).
- The stock market is pricing in perfection: inflation gradually recedes, the Fed eventually pivots, and the economy lands softly.
  - Pricing for perfection means extreme fragility: any negative inflation data point has the potential to burst this bubble of optimism.
- The Fed's July meeting minutes revealed that they're happy about July's inflation moderating though they remain committed to stamping out inflation.
  - They will be data-dependent going forward and gave no hint of a pivot.
  - The Fed saw "little evidence to date that inflation pressures were subsiding." More hikes coming.
- Next Friday we get July's Personal Consumption Expenditures data (the Fed's preferred measure of inflation).

Bear Rally/Bull Breakout?

⇒ As you can see from this chart, the magnitude of this latest rally is not unusual for bear markets (2022 is the black line).

⇒ This rally, however, has had legitimate momentum and participation indicating further upside.



Data source: FMRCo, Bloomberg, Haver Analytics, FactSet. Data as of 08/14/2022. Past performance is no guarantee of future results.

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MARKET CHARTS

EXHIBIT 1 - S&P 500 STOCKS TRADING ABOVE 50-DAY MOVING AVERAGE

- This infrequently seen number is used as one of the signals for a potential bull market breakout.
- Note the dates of other occurrences and performance of the stock market post the 90% trigger being met.

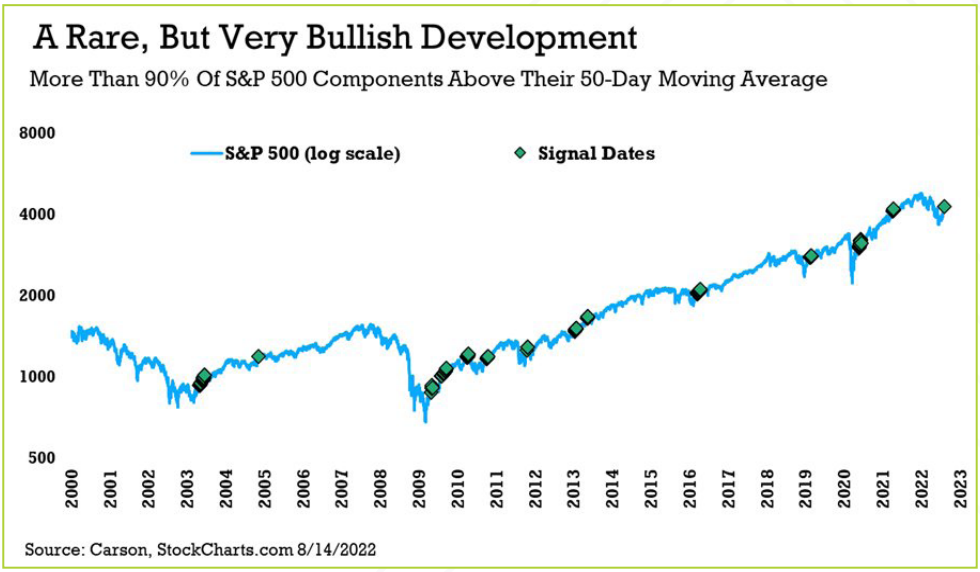


EXHIBIT 2 - FROM INDISCRIMINATE SELLING TO INDISCRIMINATE BUYING A GOOD SIGN

- This chart looks at times when just 10% of the S&P 500's stocks that were trading above their 50-day moving average went to over 90% trading above it in 3-month periods.
- Going from indiscriminate selling to buying has been positive for forward stock performance in the past.

S&P 500 returns following periods where stocks went from indiscriminate selling to indiscriminate buying*

Date	1-month later	3-months later	6-months later	12-months later	Event
11/05/98	5%	10%	18%	21%	After fall of Long-Term Capital Management/Russian financial crisis
05/05/03	6%	6%	13%	21%	Early stage of 2003-2007 bull market
05/04/09	3%	9%	18%	33%	Early stage of 2009-2020 bull market
10/24/11	-5%	6%	11%	13%	Rebound following U.S. debt downgrade/Euro financial crisis
03/16/16	3%	2%	5%	18%	Rebound following global growth/China concerns
02/15/19	2%	3%	4%	21%	Rebound following higher interest rate concerns/Fed tightening
05/26/20	2%	15%	19%	40%	Two months following pandemic-market low
08/12/22	?	?	?	?	
Average	**2%**	**7%**	**13%**	**24%**	
Positive	**80%**	**100%**	**100%**	**100%**	

*Study looked at periods where stocks went from below 10% above the 50-day moving average to 90% above this threshold over a three-month period. Only the first signal is used in each instance (clusters removed). Past performance does not guarantee future results. Data source: Truist IAG, FactSet

MARKET CHARTS

EXHIBIT 3 - MOMENTUM THRUSTS

- Again, this is a market priced for perfection at some point in the future and is extremely vulnerable to external shocks or inflation data coming in higher than expected.
- That being said, the momentum of this current rally indicates the potential for further positive returns going forward.

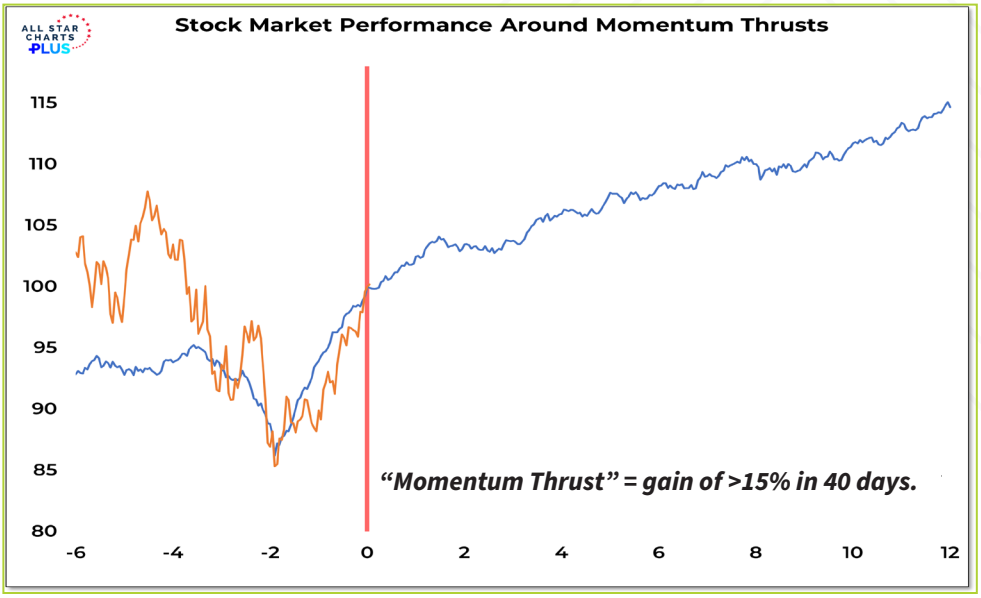
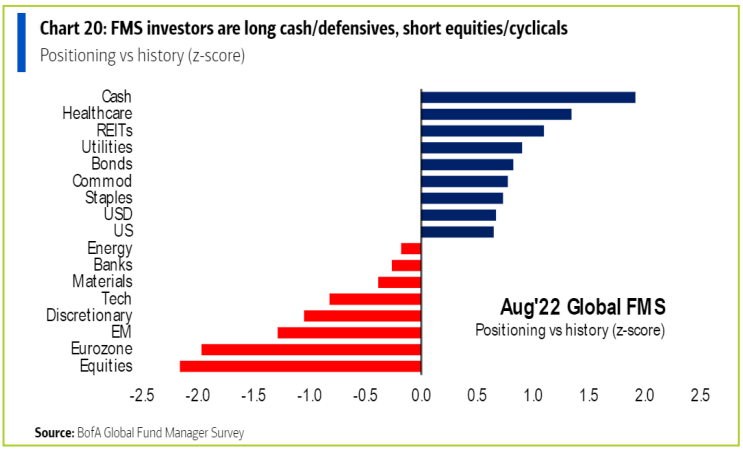
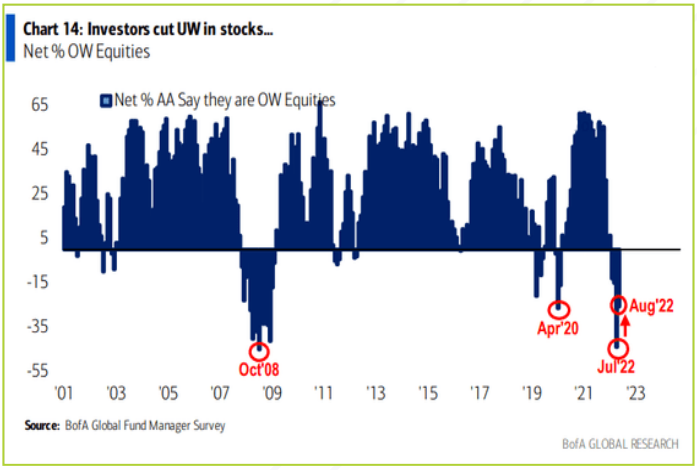


EXHIBIT 3 - LOTS OF CASH ON SIDELINES/NOT YET PARTICIPATING

- The August BofA fund manager survey showed fund managers still heavily in cash and underweight stocks.





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