

"May you live all the days of your life."

Jonathan Swift

1. US OUTLOOK

The US Institute of Supply Management Leading Economic Index is currently growing at a strong level of +7.3% off its low Pandemic-inflicted base. The following chart is also of value in this context:

US - Philadelphia Fed Business Outlook Index vs S&P 500



The Business Outlook Index is currently rolling over, but still at a relatively high level. We indicate on the chart its levels that historically indicated the stock market peaks at the time, with the subsequent recessions. The chart's current reading is still well above this level, and indicates a positive economic outlook.

US – Bloomberg Financial Conditions+ Index vs S&P 500

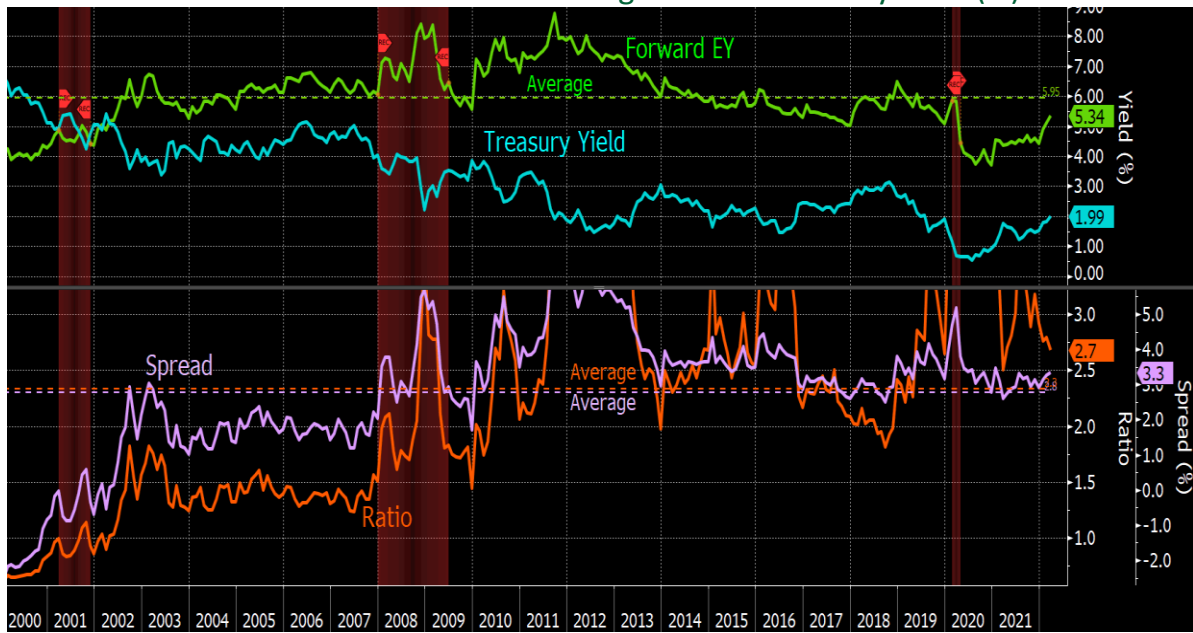


The above US Financial Conditions Index is currently at elevated levels, being +1.5 standard deviations above average. This is supportive of the financial markets. Although the index is rolling over and conditions starting to get tighter, the elevated level is a good buffer.

Source: Bloomberg & Stonehage Fleming Investment Management Limited. March 2022. Past performance is not a guide to future performance.

2. VALUATIONS

S&P 500 – 12m Forward Earnings Yield vs Treasury Yield (%)



The consensus expected earnings growth for the S&P 500 constituents is +9%. This implies a 5.3% forward earnings yield. Its spread with the Treasury Yield is +3.3%, close to the long-term average. Its ratio relative to the Treasury Yield is 2.7 times, somewhat above the long-term average. On this basis, the market seems to be fairly valued, of course on the condition that interest rates do not rise materially.

S&P 500 Forward P/E Ratio vs Real Interest Rates (%)



We also consider valuations in the context of real interest rates. The above chart reflects the forward P/E ratio on this basis (the real rate chart is on an inverse scale). Negative real rates are associated with higher valuations, as we've experienced immediately after the Pandemic. With the forward P/E ratio now back at pre-Pandemic levels, we can probably expect relatively more stable levels going forward seeing the real rate gap.

We show on the next page the consolidated consensus 12-month valuation of the S&P 500's underlying constituents. It currently shows a +25% upside, almost double the average of +13% since 2008. This level of valuation upside was last seen with the outbreak of the Pandemic and historically was associated with subsequent one-year returns not far from that level. It may be that valuations get tempered from the Ukrainian war, but there is clearly a good built-in margin of error currently.

Source: Bloomberg & Stonehage Fleming Investment Management Limited. March 2022. **Past performance is not a guide to future performance.**



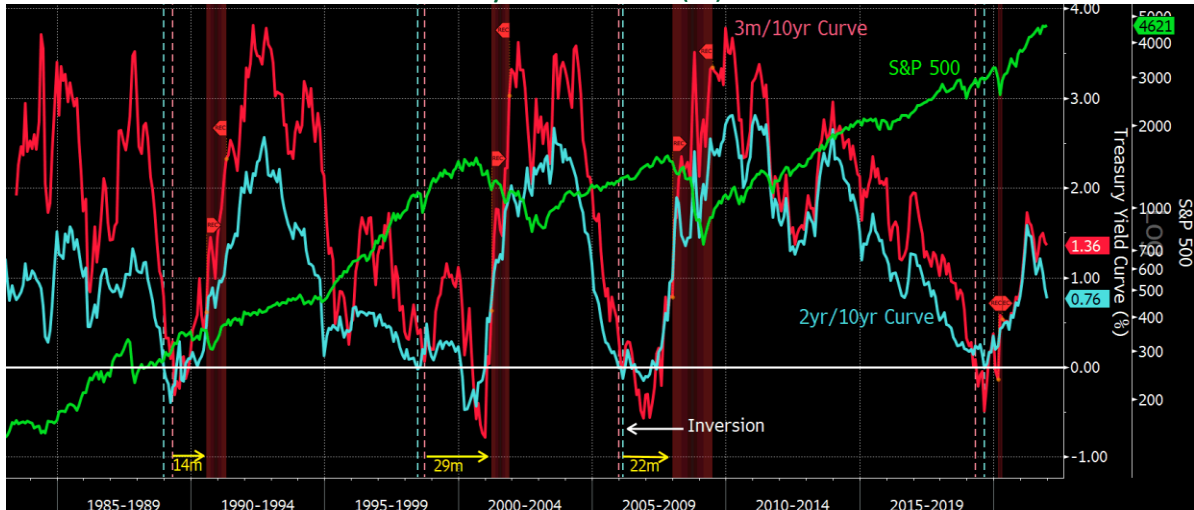
S&P 500 – Index vs 12m Target Valuation



3. YIELD MOVEMENTS

The combination of the global inflation scare, the imminent new central bank tightening cycle and the Ukrainian war reflects clearly in yield movements:

US – Treasury Yield Curve (%) vs S&P 500



The yield curve has reversed its rising trend this year, and is now on a flattening course. It is, though, still quite far from being flat, and we cannot yet discount an imminent recession on this basis.

US – High Yield Treasury Spread (%)

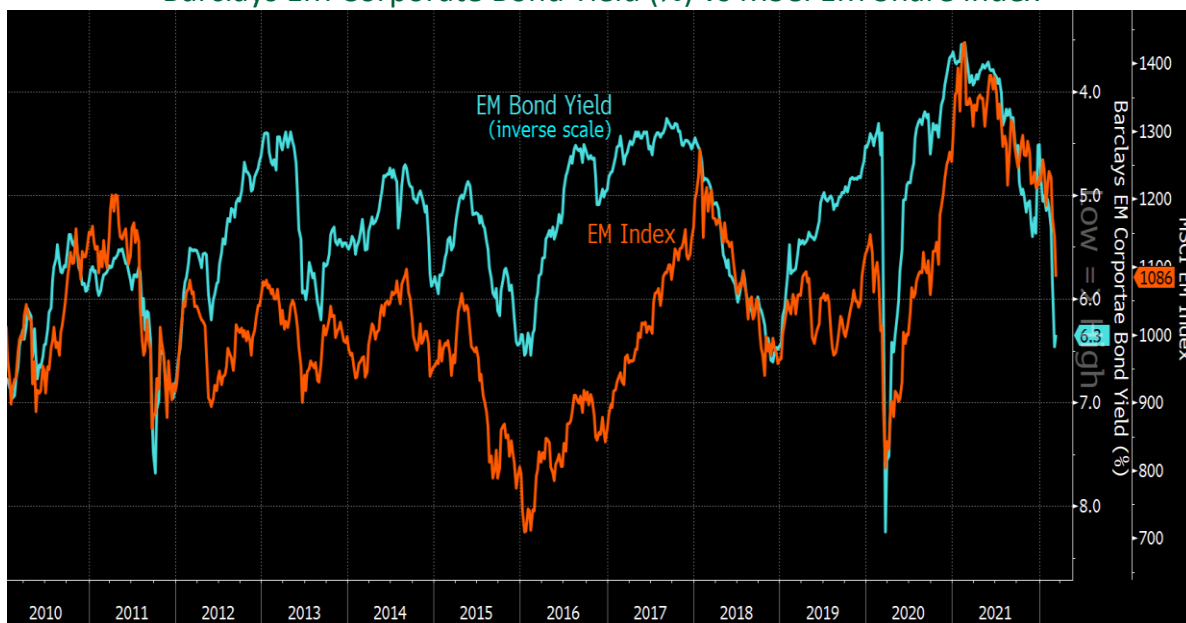


Source: Bloomberg & Stonehage Fleming Investment Management Limited. March 2022. **Past performance is not a guide to future performance.**



The US high yield spread was at a record low early this year. It has since risen decisively to 4.2%, but is still well below the average of 5%. On this basis, it is too early to fear an imminent recession.

Barclays EM Corporate Bond Yield (%) vs MSCI EM Share Index

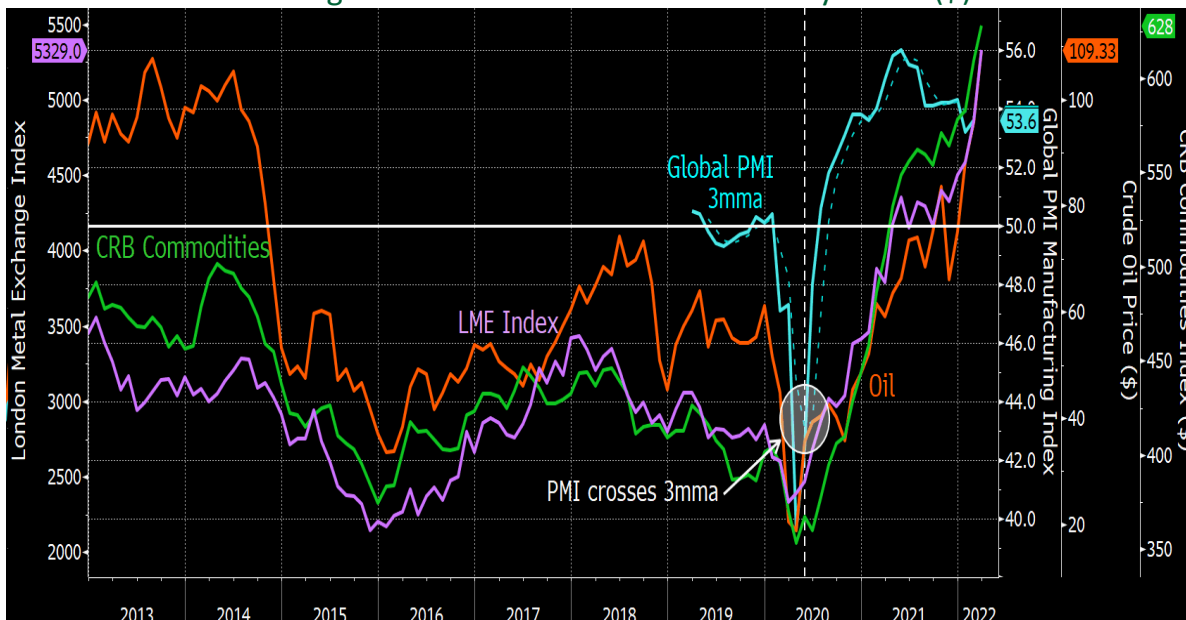


The Emerging Market Corporate Bond Yield has recently sharply risen to over 6% (presented in an inverse scale on the chart). The Russia/Ukrainian war clearly contributes to this. The current yield is approaching historically low levels and may start indicating good value in Emerging Market shares.

4. COMMODITIES & OIL

It is common knowledge to what extent the supply backlogs and the war affect many commodity prices.

JP Morgan Global PMI Index vs Commodity Prices (\$)



Investors currently face an uncomfortable circumstance of sharply rising commodity prices (see the LME and CRB Commodity Indices, with the Oil price in the above chart), while global economic growth seems to stagnate (considering the slipping Global PMI index in the chart). The slowly growing risk of potential stagflation should the war and the severe sanctions carry on for long cannot be ignored.

We find the following chart of the real oil price and the relative performance of oil shares informative:

Source: Bloomberg & Stonehage Fleming Investment Management Limited. March 2022. **Past performance is not a guide to future performance.**



Real Oil Price Index vs S&P Oil & Exploration Index Relative to S&P 500 Index

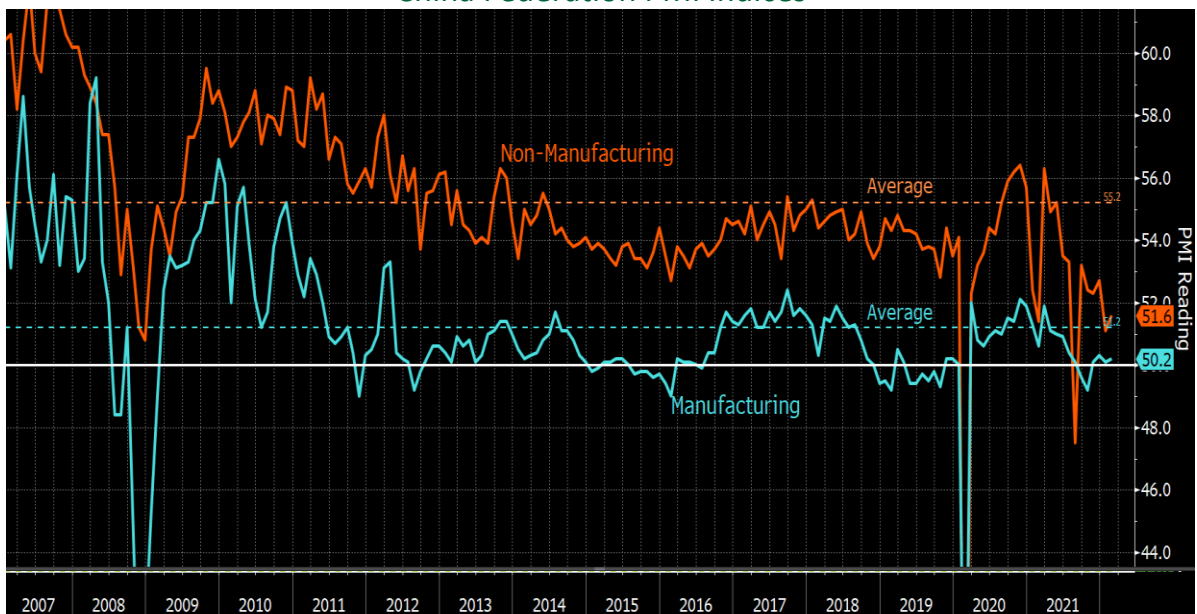


There is a clear correlation between the two series. It is, though, striking that the oil shares are currently not following though on the real oil price as what one could have expected. This may reflect a lack of conviction that the oil price can hold, or otherwise a good buying opportunity. It rather seems that the market discounts a solution to the Ukrainian conflict, and therefore a drop in the oil price.

5. CHINA

The Chinese economy continues to struggle, considering the following chart:

China Federation PMI Indices



Both the Manufacturing and Non-Manufacturing indices are currently lower than their respective levels immediately after the Financial and Pandemic Crises, and are only marginally in expansionary territory, far below average. It clearly has to do with their Covid complications, but the impression is that we cannot yet expect a sharp economic rebound.

Interestingly, their retail market was about to exceed the US retail market immediately before the Pandemic. There is currently a 4% growth differential in their retail markets, in favour of the US.

Source: Bloomberg & Stonehage Fleming Investment Management Limited. March 2022. **Past performance is not a guide to future performance.**



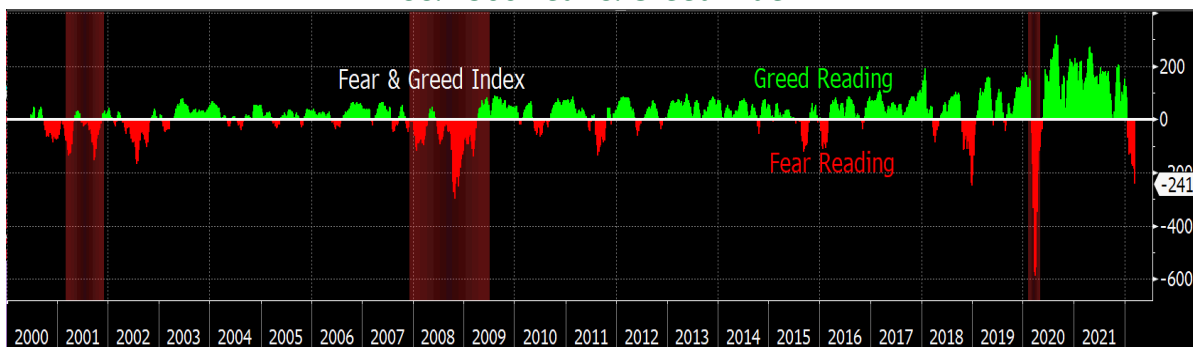
6. TECHNICAL PICTURE

S&P 500 vs 50- and 200-day Moving Average



The S&P 500 index has broken its 50-day moving average and is currently marginally above its 200-day moving average (the technical 'death cross') and may be perceived by some to be on a knife's edge. It is still well above (+10%) its Fibonacci Golden Ratio.

S&P 500 Fear & Greed Index



The Fear Index is already at an extreme level (excluding recessions), in the order of readings towards the end of 2018 when the Federal Reserve was blamed for tightening too aggressively. The percentage of S&P 500 constituents above their respective 52-week highs or below their respective 52-week lows, and also those above/below their respective 70/30 RSI levels are all very low, and therefore in neutral territory.

S&P 500 vs McClellan's Advance – Decline Index



The above Advance – Decline Summation Index is already in deep negative territory, providing an early buy signal. All-in-all, the technical picture signals high dependency on news flow, potentially with better upside than downside.

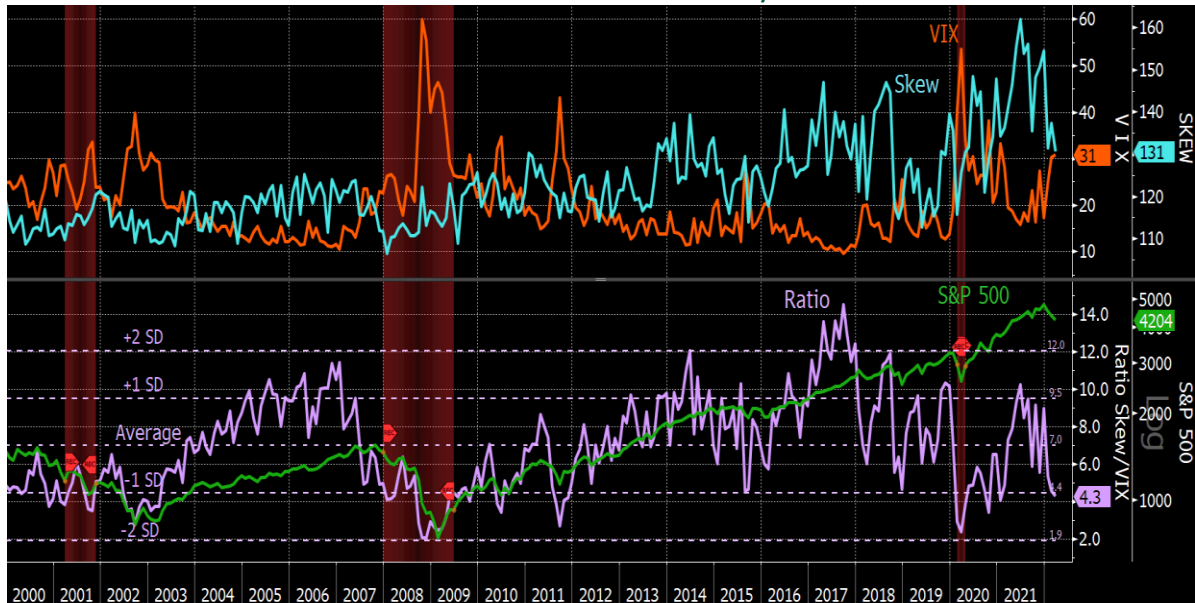
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7. VOLATILITY

The volatility of all of Equities, Bonds and Currencies are currently at elevated levels, apart from the pandemic, at levels not seen for almost a decade.

S&P 500 – VIX vs Skew Volatility Indices



Despite the high current VIX level, it is interesting that the Skew Index is in process of sliding (the blue line in the chart). The ratio of the two indices (the purple line in the bottom section of the chart) is at a -1 standard deviation level. It seems to be at an early stage of a buy signal.

S&P 500 – Euphoria Index



Our S&P 500 Euphoria Index (current reading of 0.61, the P/E vs VIX ratio) is in the Disciplined range, moving into the Sceptical range (the blue lines). This implies potential technical upcoming buying opportunities rather than selling opportunities (barring deteriorating fundamental information).

Gerrit Smit
Partner - Head of Equity Management
Stonehage Fleming Investment Management Limited
 15 Suffolk Street
 London
 SW1Y 4HG

T +44 20 7087 0000
 Email gerrit.smit@stonehagefleming.com
www.stonehagefleming.com/gbi

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Stonehage Fleming Investment Management Limited
15 Suffolk Street
London
SW1Y 4HG

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