

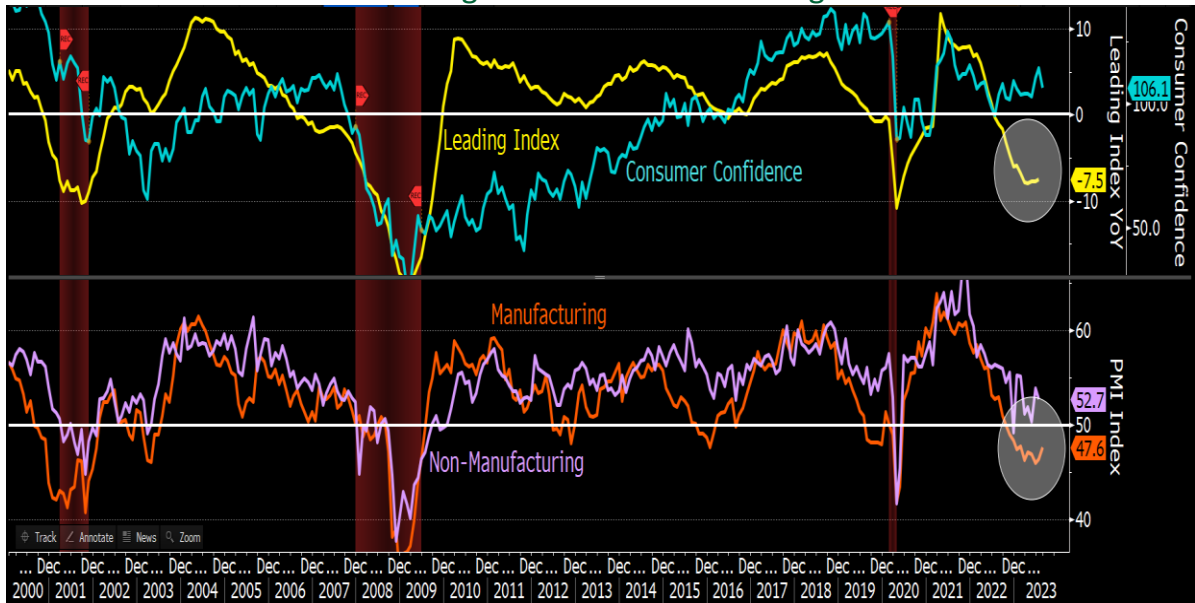
"Making the complicated simple – that's creativity."

Charles Mingus

1. BOTTOMING OUT

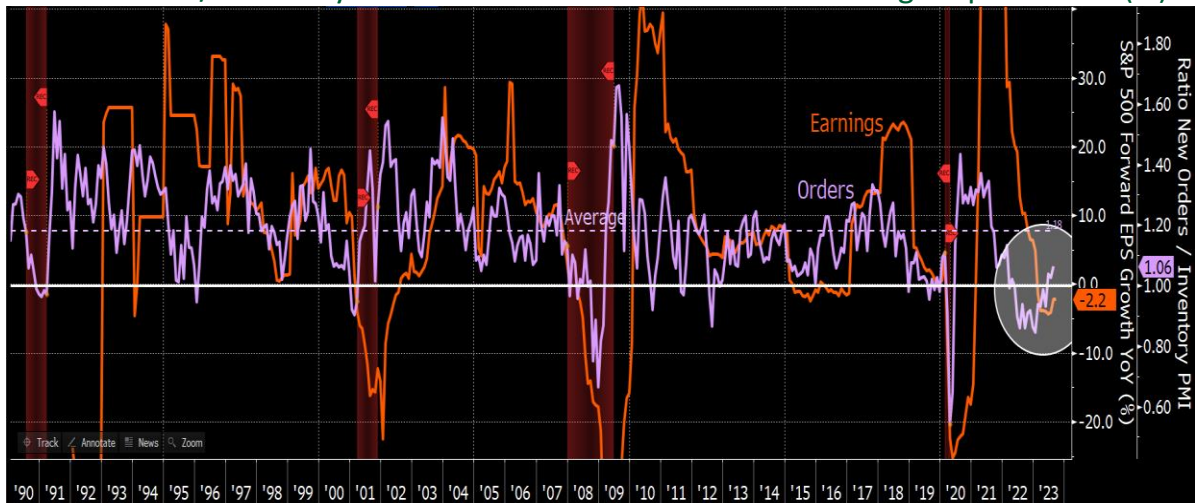
There are currently promising US economic indicators:

US – Conference Board Leading Economic, Conference Board Consumer Confidence, ISM Manufacturing and Non-Manufacturing PMI Indices



The above Consumer Confidence Index has been in a constructive trend this year (blue line), with the Non-Manufacturing Index having stayed in constructive territory (purple line). The new information in this context is that the Leading Economic Index (yellow line) seems to be bottoming out, whilst the Manufacturing PMI Index (orange line) also show promising signs.

US – Orders/Inventory PMI Index vs S&P 500 Forwards Earnings Expectations (%)

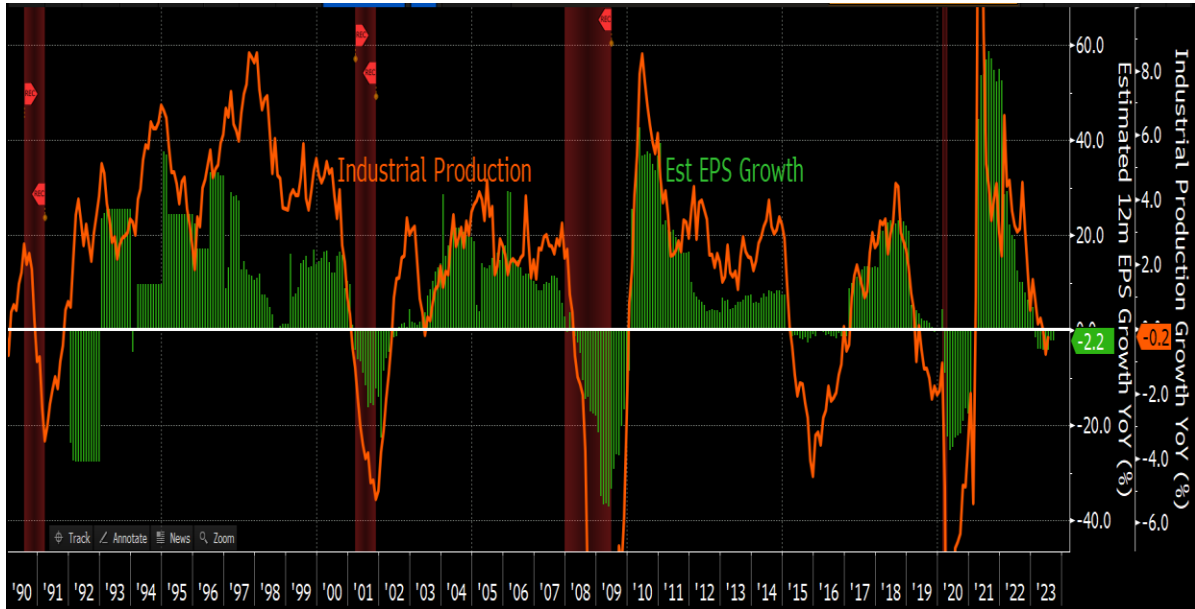


Both the Orders/Inventory PMI (purple line) and Expected S&P 500 Earnings Growth (orange line) Indices are currently turning positive corners. These are all rather promising economic signals.

2. COMPANY EARNINGS

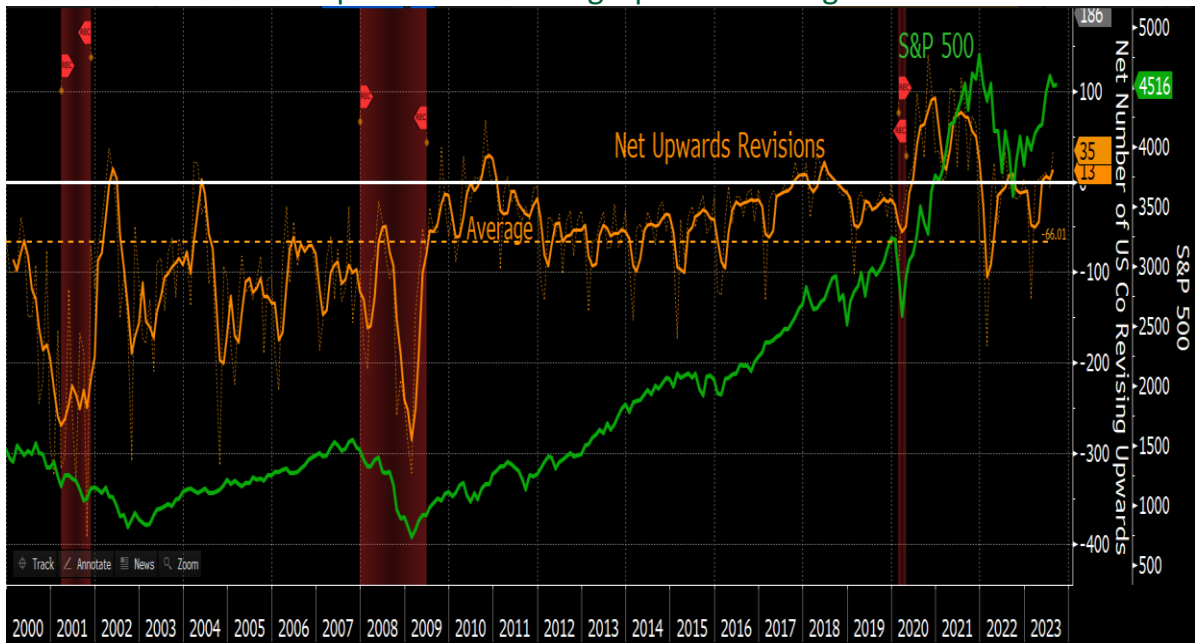
Whilst the recently completed earnings season for the second quarter delivered a mixed result, it seems we are at an interesting juncture in this context:

US – Growth in Industrial Production vs Consensus Forward S&P 500 Earnings Growth (%)



While Industrial Production is marginally in negative territory, it seems to be bottoming out currently (orange line). Consensus Expected Earnings Growth (green bars) has a strong correlation with Industrial Production. It also seems to be turning for the better.

Number of US Companies Announcing Upward Earnings Outlook vs S&P 500



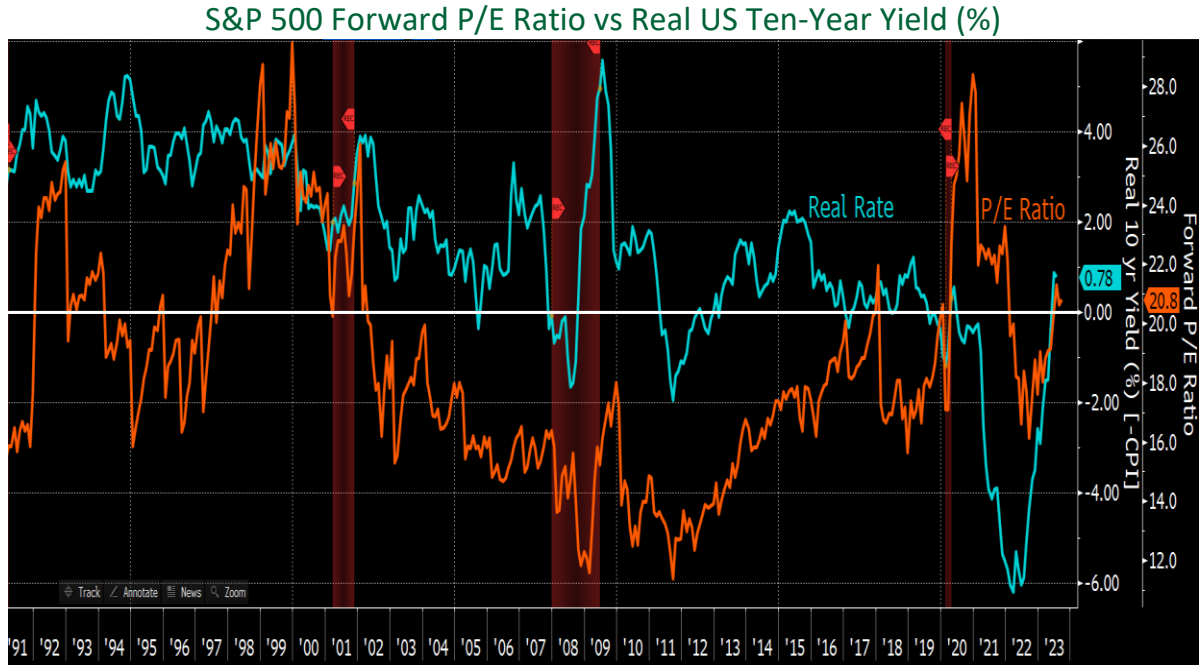
The trend of the number of US companies providing upwards earnings revisions is positive, with the current reading well above average (the brown line).

US company earnings are at an interesting juncture. With a stable historic base and margins bottoming out, we believe chances for an earnings recovery are growing.

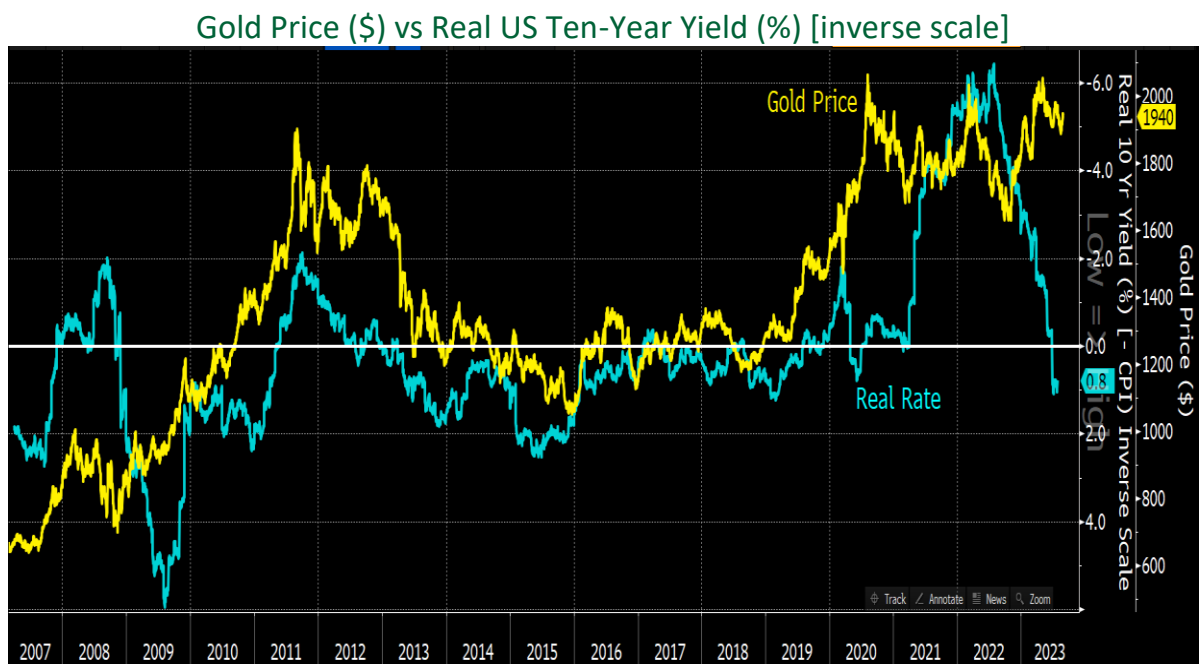


3. REAL YIELDS

Depending on what inflation rate (headline, core or expected inflation) one uses, the US market is entering a new phase of positive real interest rates. The current real ten-year real rate using headline inflation is +0.8%, -0.5% with core inflation and +1.9% with inflation expectations. We have two observations in this context:



Considering P/E valuation metrics, a declining trend, or negative real rates (the blue line) are more associated with weak stock market sentiment, with the reverse also true. This makes logical sense because negative real rates generally reflect a weak or disorderly economic circumstances, and vice versa. It is therefore comforting to see indications of positive real rates again.

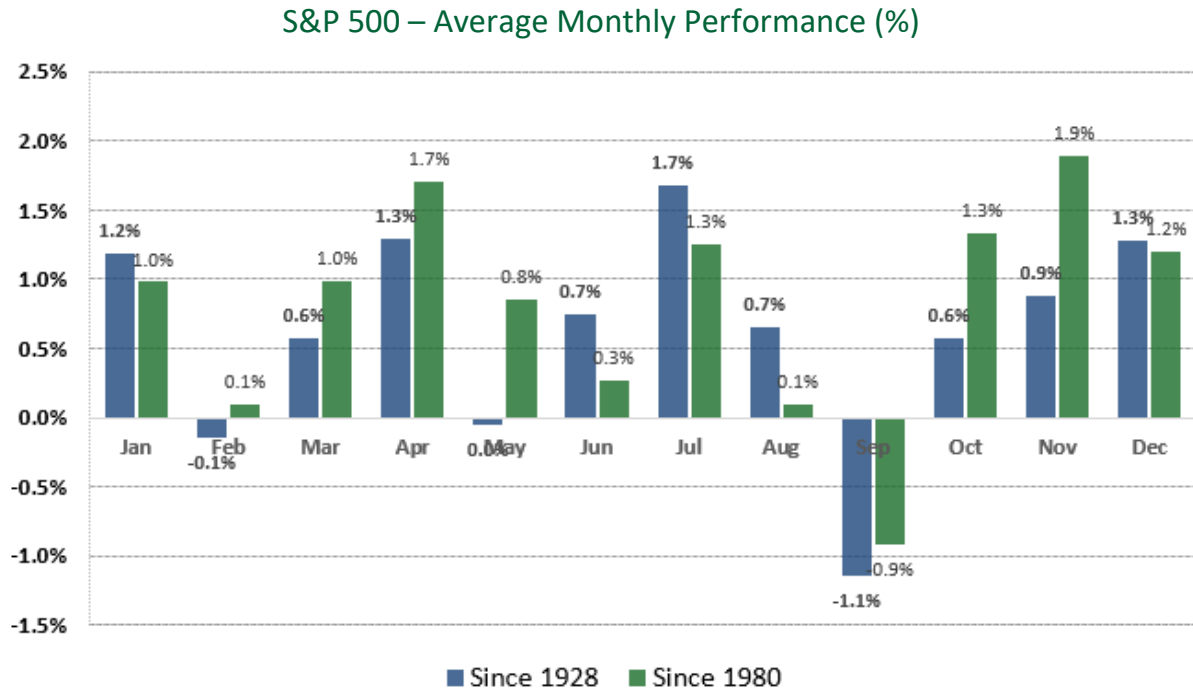


The Gold Price (yellow line) has a strong correlation with real yields (blue line), logically so because of the cost to hold the gold with no income from the investment. It is striking that its price remains firm despite the increasing cost. Either Gold is overvalued, or those investors have taken insurance for something material that they are concerned about. Interestingly, the Copper/Gold Ratio against the S&P 500 Index reflects a similarly overvalued Gold price.

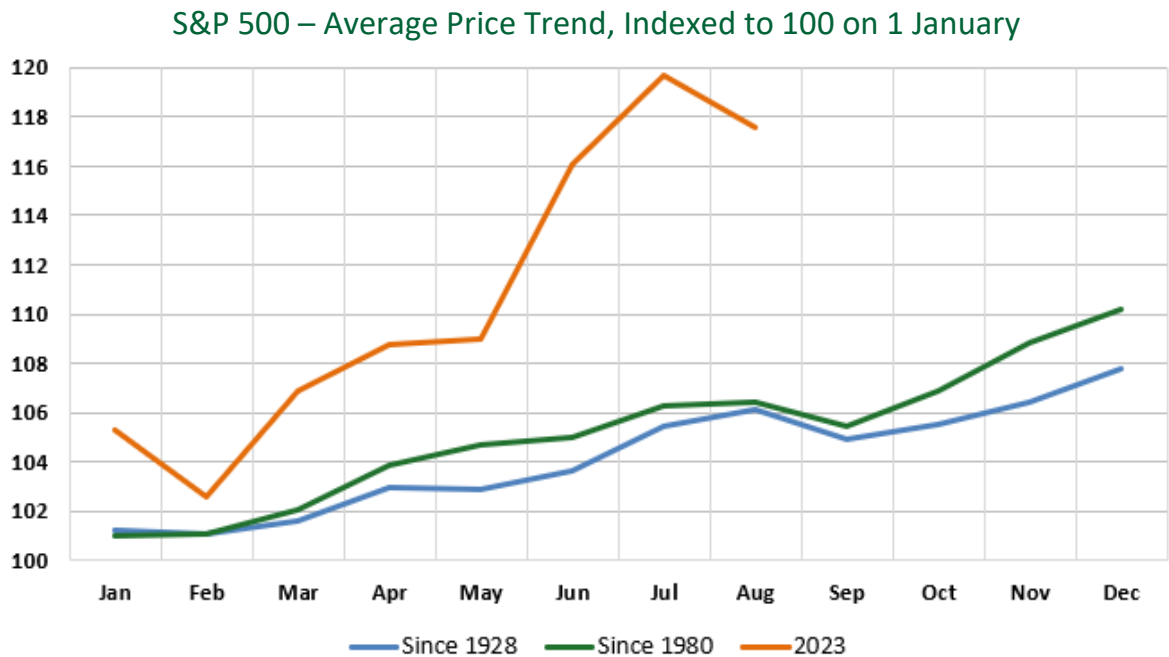


4. SUMMER

There is general perception of seasonal patterns in the stock market:



The above chart reflects the average monthly performance over different extended periods. It is striking how similar the monthly levels over the two periods are. It has 'forecasted' the recent weak August, with also a warning of a weak September on its way. Both series reflect a strong last quarter for the year and, on this basis, we believe September should be considered for buying opportunities.

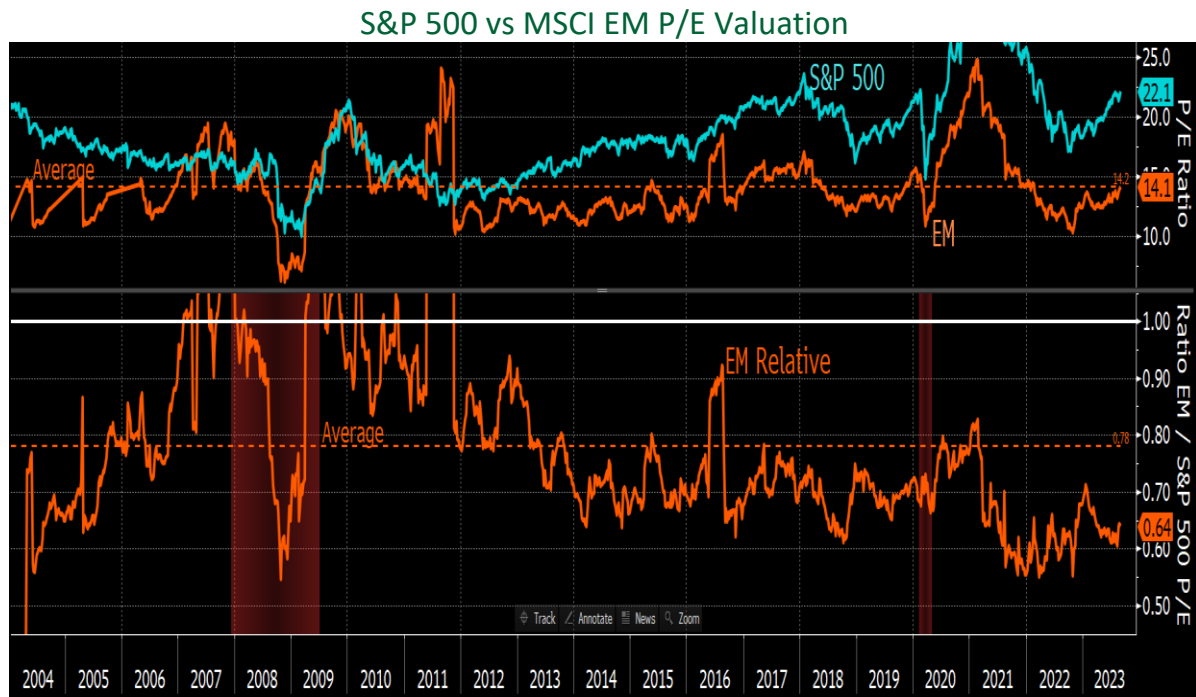


The above chart also reflects how similar the historic stock market trends through the year have been for the two series (blue and green lines). Whilst the current performance (orange line) is much stronger (off a depressed 2022 base), the monthly trends remain quite similar. On this basis, investors must decide whether the trend is their proverbial friend, or whether they fear the high current base. We believe the constructive economic backdrop is overriding in this context.

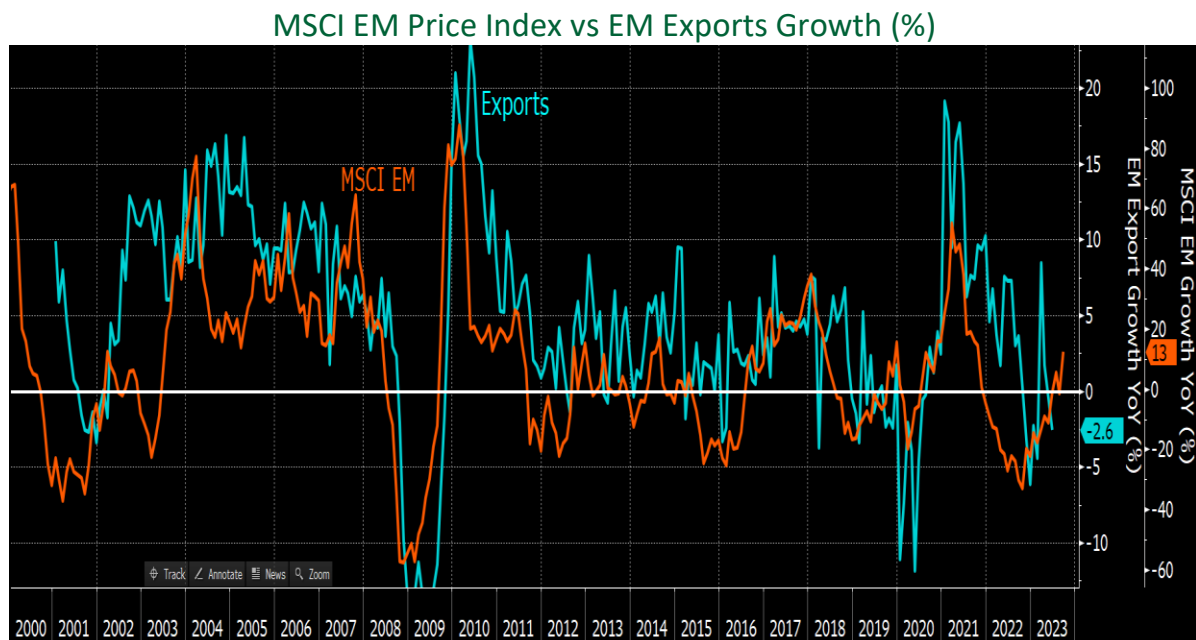


5. EMERGING MARKETS

The following chart reflects the MSCI Emerging Market (EM) valuation metrics against the S&P 500's:



The EM P/E of 14.1 times is currently on its long-term average. That reflects fair value. The valuation level relative to the S&P 500's (the bottom section of the above chart) is almost on an historic low.



The above chart reflects a strong correlation between the EM Price Index and EM Exports. They are clearly very dependent on the state of the world economy, and the developed world economy in particular. We will be surprised if the enlarged BRICS membership provides material new opportunities in this context.

We believe EM geopolitical risks, and specifically China's, negatively influence their valuation. The fact that their investors are so dependent on exports bring us to the conclusion to rather invest in developed world operators with the necessary governances and global exposures.



6. TECHNICAL PICTURE

S&P 500 Price Index vs 50- and 200-Day Moving Average and Fibonacci Golden Ratio



Despite the weak August, the S&P 500 technical picture remains strong.

S&P 500 P/E Ratio vs Price Breadth (% of Stocks Above 50-Day Moving Average)



The P/E Ratio continues to re-rate, and again, despite the weak August, stayed above its lower range (yellow line) while the lower values of the Breadth (green line) remained above its support line (orange line).

Most other technical indicators currently reflect neutral levels. The overall technical picture is healthy.

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RISK DISCLOSURE

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