Weekly Letter:

Bull trap in the making?

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Carlsquare
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- The Q3 report season has started weakly in the US, a warning sign. But expectations and whisper numbers may have been even lower. The only way to trade the market is to look at the moves and not too much on the news screen. Have the mindset that someone may always try to manipulate you! From a technical perspective, the market is retracing from a strong support level. With the reports from the IT companies ahead, we have a classic setup for a Bull market trap!
- Look out for technical support and resistance on S&P 500 and more and more volatility in the market. We may have a technical rebound, but the overall trend is still negative. But lower stock market prices are also improving the fundamentals – so stay tuned!

It is always tempting to jump on the wagon when the market moves up. But we are still in a weak part of the season, and we are still awaiting the central banks to change their strategy.

Looking at the long chart for S&P 500, we are still up compared to 2020 but are now testing 200 weeks average. A lot of people are looking at this line. A retracement from this level is natural. As we are at the beginning of the Q3 earnings season, the market may focus more on that than on the overall economy, giving room for some upbeat beats. Now

when the US banks offer positive quarterly reports, maybe also the IT companies will follow that suit. With a stock market in nearly free fall the latest weeks, it does not need much to give a technical retracement from oversold conditions. More about the Q3 earnings season later.

Please be aware of the trend, though. It is still a bear market, and typical for Bear markets is high volatility with days with huge tick upwards. It is very tempting to take large bets in that market, fearing missing out on the bottom. We don't know yet, but this can be a Bull trap. It is nice to ride the market, but with the hand very close to the sell button.

From Investopedia:

https://www.investopedia.com/terms/b/bulltrap.asp

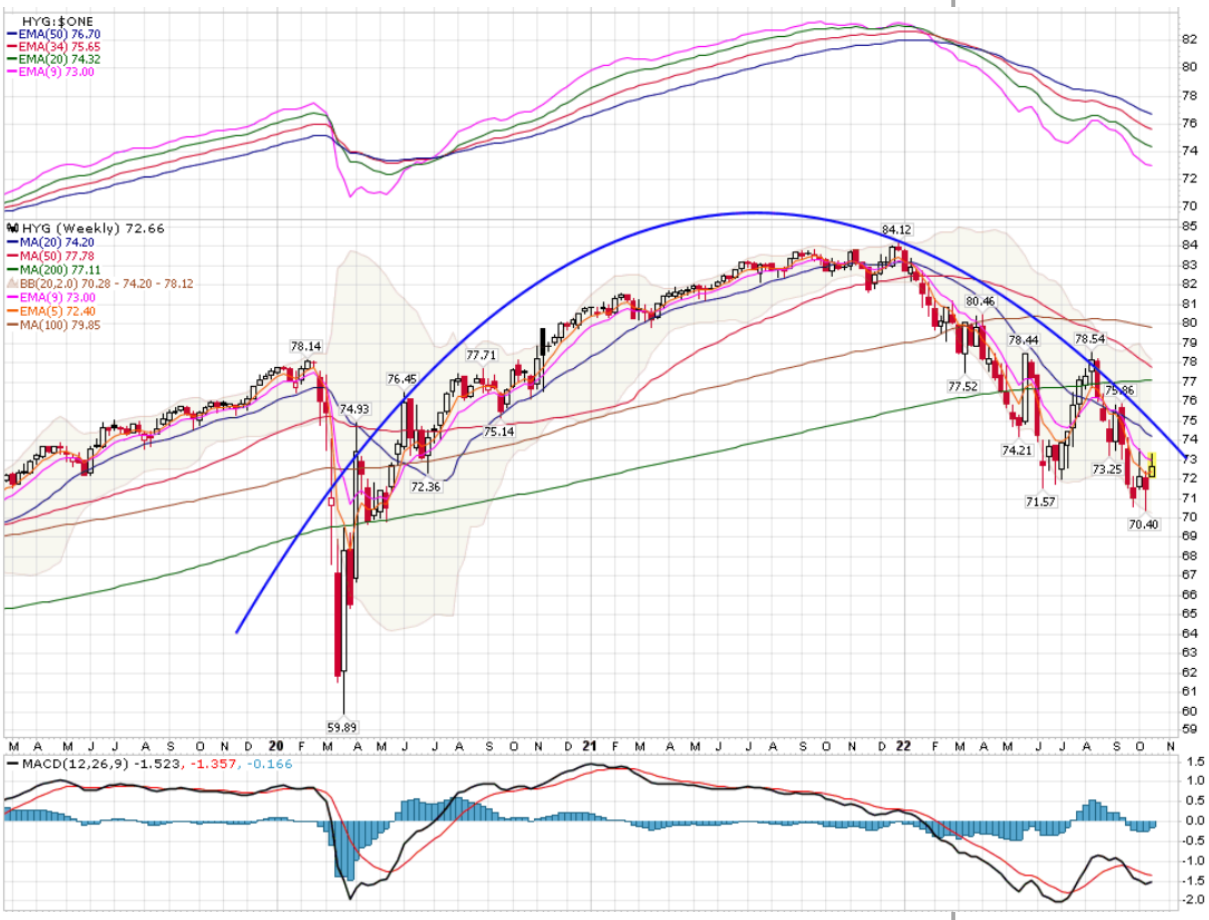
Understanding a Bull Trap

A bull trap occurs when a trader or investor buys a security that breaks out above a resistance level—a common technical analysis-based strategy. While many breakouts are followed by strong moves higher, the security may quickly reverse direction. These are known as "bull traps" because traders and investors who bought the breakout are "trapped" in the trade.

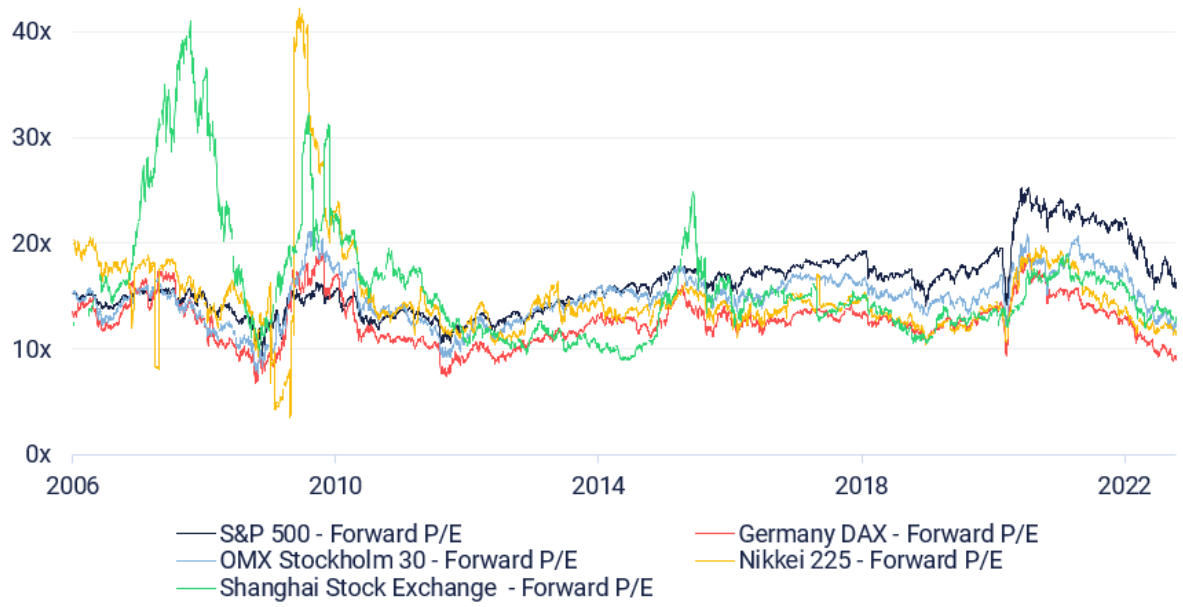
During the time when Fed and ECB decrease the liquidity in the economy, we will have a negative approach to the stock market. The next FOMC meeting is November 2, followed by

the midterm US elections on Tuesday, November 8th. Both events can create a lot of new volatility.

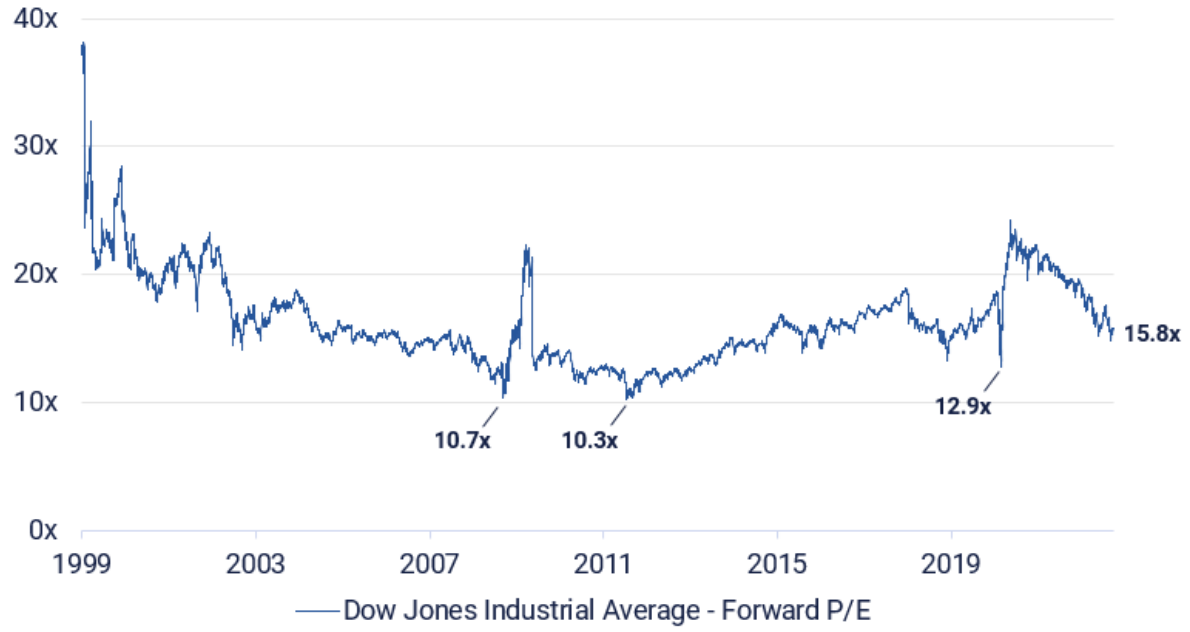
The development for HYG is telling. HYG is an ETF that follows the market for High Yield Bonds in the United States. A downward slope that spreads apart is a signal for a market imbalance. Maybe a few days of the buoyant market can solve this. Yesterday a black candle was shaped, which is another sign of a market that is struggling with the trend. Keep watch on this chart today!



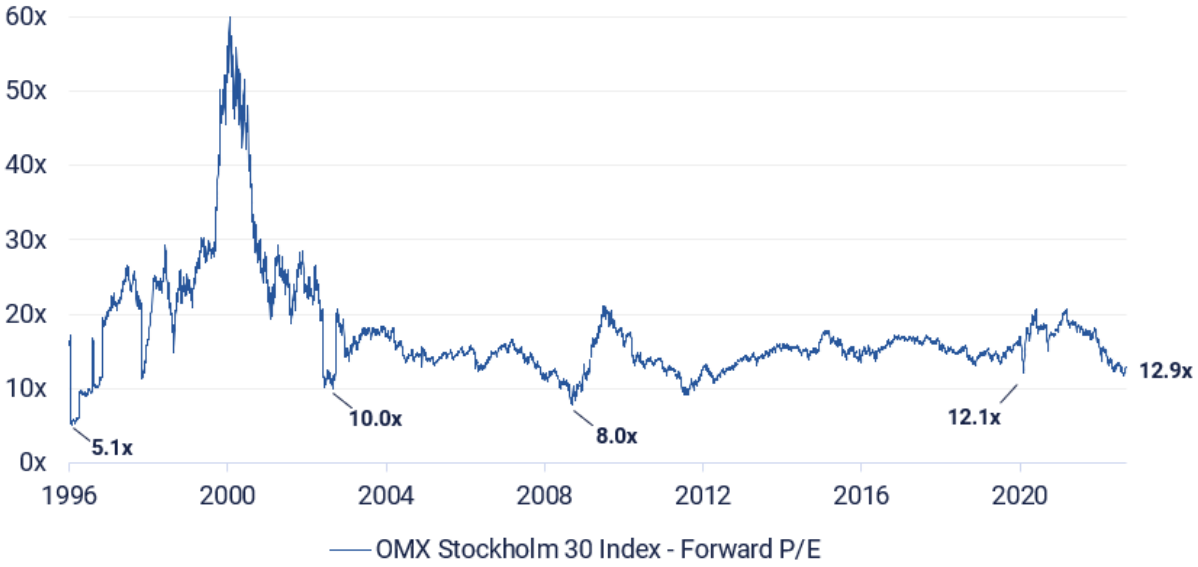
We prefer to see a break of the resistance in the chart above occur first. It shows the same ETF but weekly. HYG is currently the best parameter to measure risk appetite (and liquidity) in the market. We see no need to rush into the market on a broad base before this trend has broken on the upside.



It may be interesting to look at the valuations as well. Above are the forward Prices/Earnings for some of the leading global stock market indices. The valuations have fallen significantly last half year.



The big caps in the US have fallen from P/E 24.3 to 15.8. During the crash due to Covid 19, the stock market fell to P/E 12.9. Based on that, we still have some room on the downside.



In Sweden the decline has been larger, and the P/E ratio is currently at 12,9. The bottom in Covid 19 was 12.1. Please note the crash after the year 2000 took the index down to

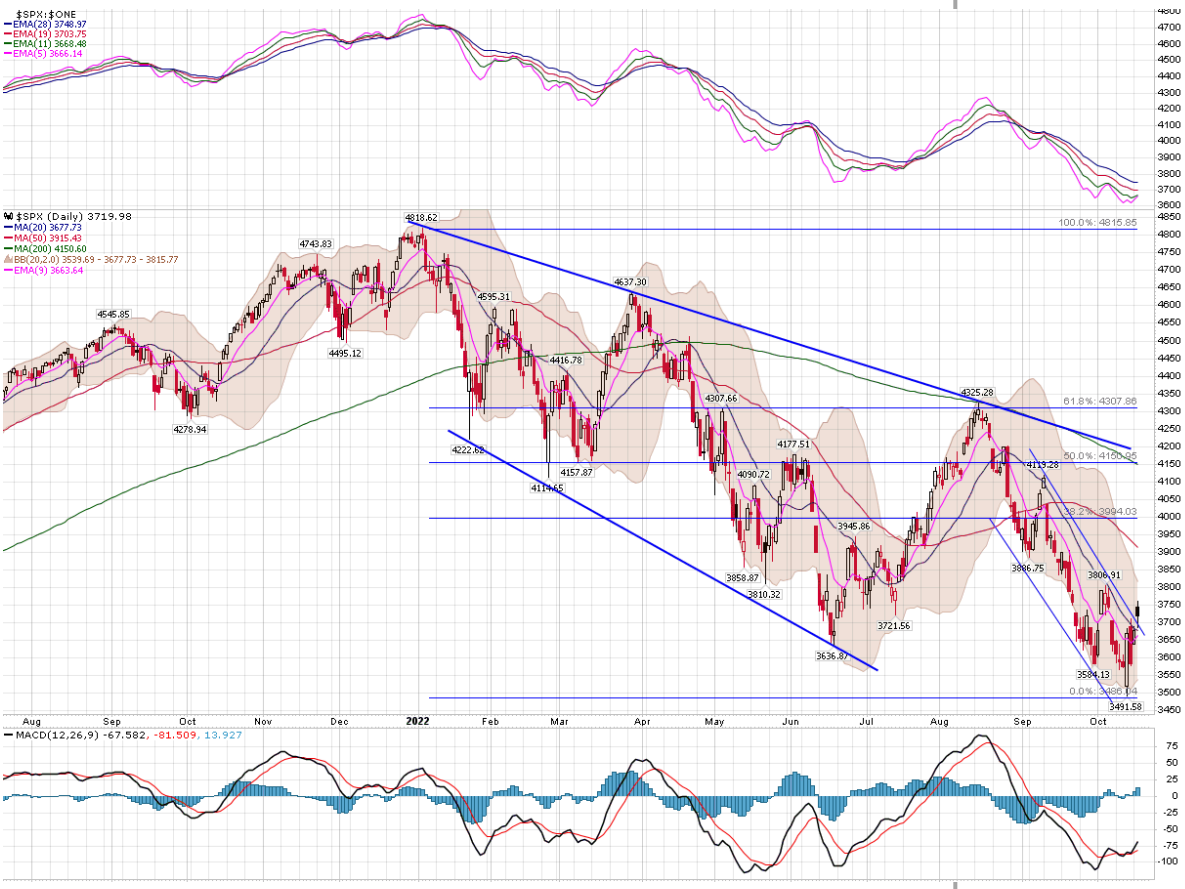
P/E 10, and the financial crisis in 2008 brought the index down to P/E 8, so we cannot rule out these levels yet.

It's nearly impossible to trade stocks on valuations. But it is a good tool for finding values in the stock market. It is undoubtedly looking increasingly attractive. A significant error is if the analysts are wrong about the "E" in the P/E-equation. Usually, they are when the recession moves fast, so please also consider that.

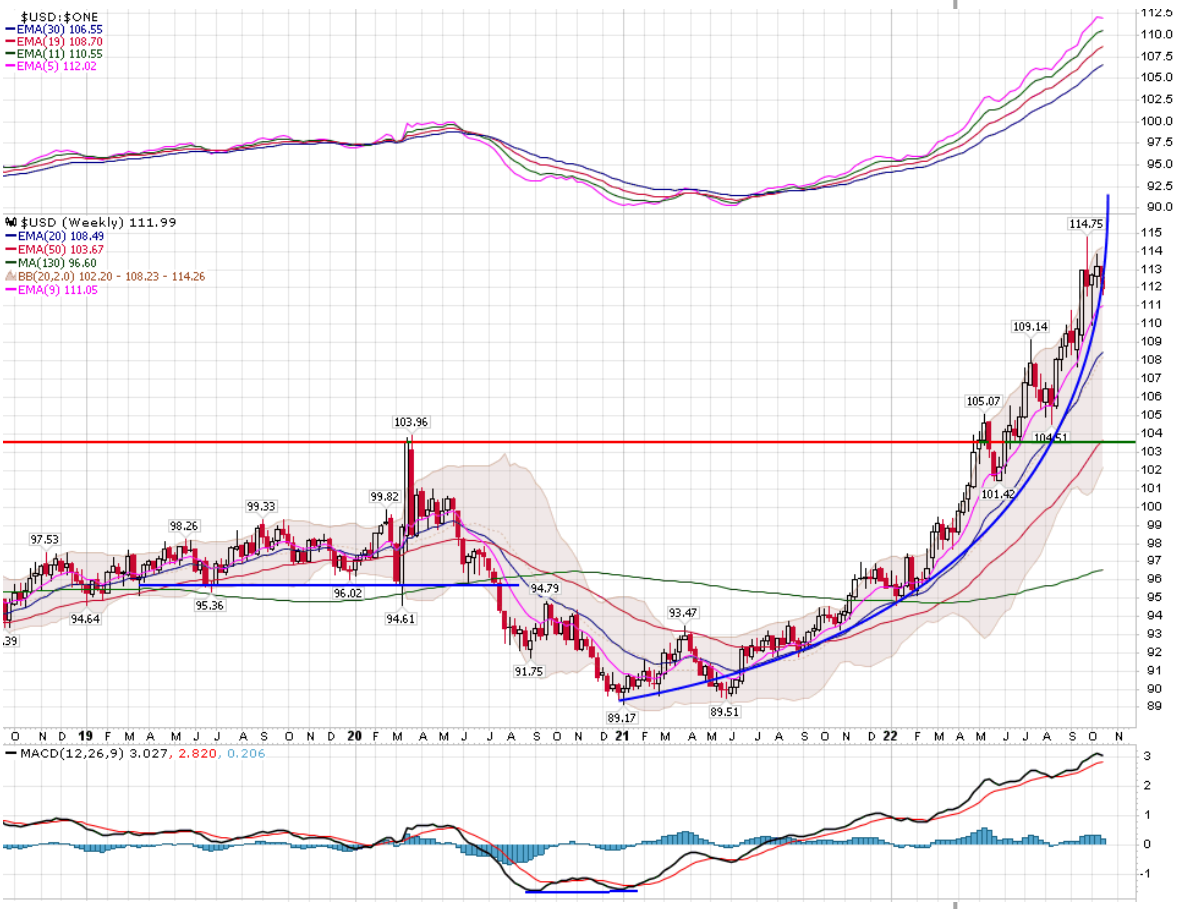
Another tool is to use price to book value, which is a measure that has fallen totally out of fashion during the period with excess capital.

Also, this tool signals that the US stock markets still have room on the downside, whereas the bottom may be closer in Stockholm.

To time the stock market, technical tools are much better than fundamental tools.



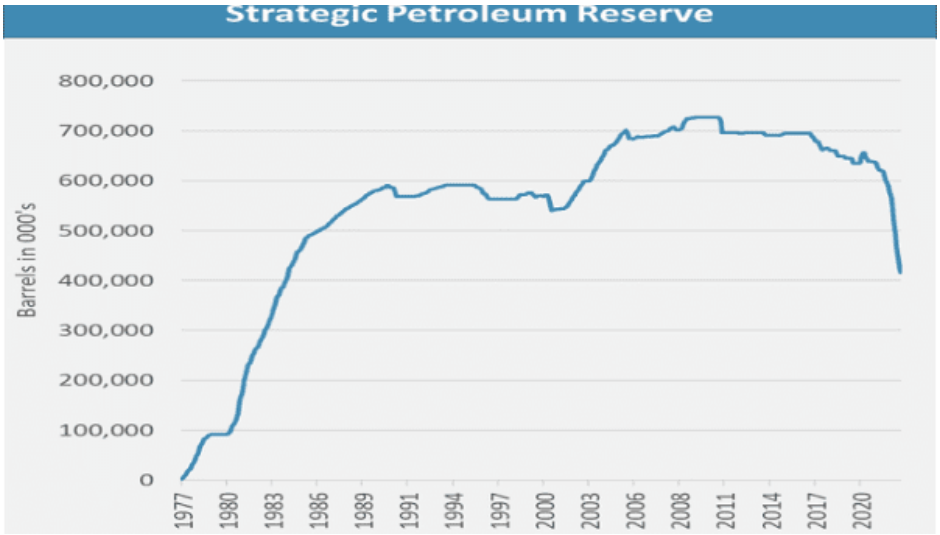
S&P 500 has tagged a new bottom for the year, but the bulls have created a retracement. Let's see how far upward they can get it. It is still a lot of room on the upside, looking at the Fibonacci retracement lines. A typical technical rally will take the index to 38.2 per cent, 50 per cent or 61.8 per cent. At every level, new energy can be created when people feel that the bottom is in and that they are missing out on the rally.



We would like to see a distinct brake of the upward trend in the USD before we believe in a long-term change for the stock market. This chart is magic. The upward slope is not sustainable but is driven by the Fed raising rates in the US and crashing Emerging Markets (EM). As stated last week, when the trend changes, EM is best positioned to benefit from this.

The fall in the Japanese yen has created a gigantic head and shoulder pattern. At the same time, please note that the yen is at the same level as after the Asian crash of 1998. We expect the Bank of Japan to intervene at this level. Intervening central banks flushing liquidity into the system gives a base for a retracement in the stock market.

The US president Biden is again talking about opening strategic oil reserves to push down gasoline prices (before the US midterm elections). This is pushing down the oil price, but it is just cosmetic on the surface, as the oil reserves are already down to historically low levels.



The oil reserves have not been as low as this since 1984. It is wise to expect the US government to get back on the buy side after the election, creating a new wave of inflation in the market if the oil price starts to climb again…

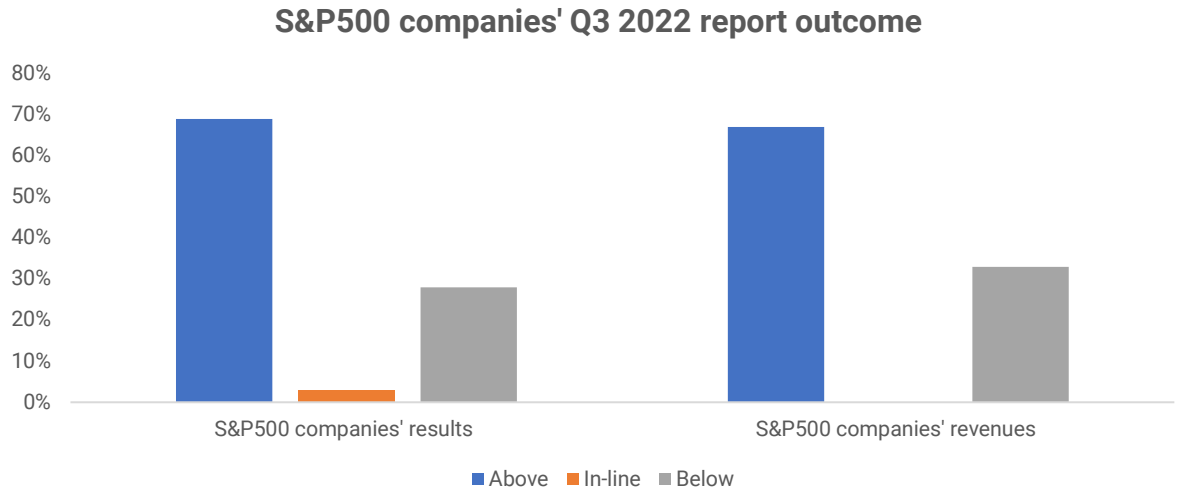
To see a sustainable shift in the market, we would also like to know the interest rates to change course downwards. But they are still climbing.

The rally we now witness in the stock market may be a Bull trap. It can go on for some weeks, so it can be enjoyable to play. For finding value stocks but primarily for trading momentum. But be aware of any signs of the market falling back again. Stay close to the exit door, and stay tuned!

Cheerful industrial alarm bell from Sandvik

As of Friday, October 14, about 7% of the S&P500 companies had reported their Q3 2022 results. 69% of the reports have been better than expected in earnings, while revenues have exceeded expectations in 67% of cases. However, results have been only marginally better than expected, 0.1% versus the historical average of 8.7%. The five-year historical average for S&P500 company quarterly earnings that have been better than expected is 77%. The revenue outcome is more in

line with the five-year historical average, which also is true regarding the 8.5% average revenue growth in Q3 2022.



S&P500 companies' average earnings growth has declined from 2.2% two weeks ago to 1.6% at the end of last week. The energy, industrial, and real estate sectors top the earnings growth league this quarter (in total, only four out of eleven sectors report positive earnings growth in Q3 2022). Financials, Communication Services, and Materials have seen the most negative earnings growth in Q3 2022.

In summary, it seems that the profitability of US companies has deteriorated while revenue growth continues at about its historical pace.

Sandvik reported a better-than-expected adjusted operating profit in Q3 2022, about SEK 5.9 bn compared to the expected, almost SEK 5.4 bn. Order intake in Q3 2022 increased by 8% organically. The company's CEO writes that business segments such as mining, aerospace, energy and automotive have strong growth prospects or are still in a recovery phase with continued growth potential. Sandvik is guiding a positive currency effect due to the weak Swedish krona of approximately SEK 1.4 billion on the Group's earnings in Q4 2022. The OMX30 index lifted by about 2% on Monday, 17 October, after Sandvik's Q3 report was made public. Remember that the OMX30 index consists of several large industrial companies, ABB, Alfa Laval, Atlas Copco,

Autoliv, Hexagon, SKF and Volvo, which bear similarities to Sandvik in their demand pattern from industrial clients.

It looks like the Sandvik share is trying to break up. The stock is targeting the MA50. A break above this is a buy signal.

Week ahead

Company reports on Wednesday, 19 October:
Handelsbanken, Getinge, Kinnevik, Atlas Copco, Elisa, Entra, Abbott Labs, Alcoa, ASML, Asos, BHP, IBM, Procter & Gamble, Tesla.

This Wednesday morning, the UK is first out with the September CPI and PPI. The Eurozone reports its construction output in August and the CPI in September. From North America comes Canada's CPI and the US's housing starts, both in September, and oil inventories (DOE) weekly statistics. In the evening, the Fed publishes its Beige Book.

Company reports on Thursday, 20 October: Nordea, ABB, Axfood, Ericsson, Nokia, Tele2, Volvo, Fabege, Gränges, Holmen, Boliden, Castellum, Fastpartner, Investor, DNB, NEL, Alma Media, Yara, Orion, Atea, Nordic Semiconductor, AT&T, Freeport-Mcmoran, Kering, Manpower, Nucor, Snap, Whirlpool.

At 1.50 CET Japan's September trade balance is presented. When morning arises in Europe, we start with Germany's PPI in September, followed by France's industrial expectations in

October and Eurozone current account in August. From the US, we receive the Philadelphia Fed Index in October, new jobless claims weekly data, existing home sales and leading indicators- the latter two in September.

Company reports on Friday, 21 October: Telia, Husqvarna, Lifco, Munters, Stora Enso, Wihlborgs, Autoliv, Hexpol, Gjensidige Forsikring, Huhtamäki, Norske Skog, Pareto Bank, Tomra, American Express, Verizon.

At 1.01 and 1.30 CET Friday morning, there will be a release of the UK's Gfk Consumer Confidence for October and Japan's CPI for September, respectively. At 8.00 CET, we will receive Sweden's unemployment and UK retail sales figures - both in September. Friday afternoon, Eurozone Household Confidence Indicator in October is presented.

Company reports on Monday, 24 October: Ratos, Topdanmark, Paccar.

At 2.30 CET on Monday, Japan's Purchasing Managers' Index for October will be released. During the rest of Monday, we get the October purchasing managers' indices from France, Germany, the Eurozone, the UK, and the US.

Company reports on Tuesday, 25 October: Alfa Laval, Billerud, SSAB, Lindab, Lagercrantz, Corem Property, SKF, Wallenstam, AAK, Aker Solutions, Kemira, Norsk Hydro, UPM, DSV, Wärtsilä, General Motors, 3M, Alphabet, Biogen, HSBC, Coca-Cola, General Electric, Juniper Networks, Kimberly-Clark, Microsoft, Novartis, Spotify, Texas Instruments, UBS.

Tuesday's macro agenda starts at 8.00 CET with SCB (Sweden) PPI in September. This will be followed at 10.00 CET by Germany's October IFO index. The UK's CBI Industrial Trends in October will be announced at 12.00 CET, just in time for lunch. In the afternoon, we get from the US Redbook retail sales weekly data, S&P/CS and FHFA house price indexes in August and the US household confidence indicator in October. Later in the evening, weekly oil inventories (API) statistics are released.

Valuation Tables, Swedish Equities

Lowest P/E-ratio

Bolag	Price	P/E NTM
BE Group AB	72,5	2,1x
Ferronordic AB	30,8	2,5x
Maha Energy AB	12,0	2,5x
SSAB AB	54,8	2,6x
Eastnine AB	81,4	3,2x
Hoist Finance AB	27,3	3,3x
Tethys Oil AB	63,0	3,4x
Arise AB	48,1	3,6x
Bonava AB	27,6	3,7x
Nordic Paper Holding AB	27,7	3,8x

Source: S&P Capital IQ/Carlsquare

Highest Yield

Bolag	Pris	Yield, %
Orrön Energy AB	20,5	24,8
Tele2 AB	91,1	18,4
BE Group AB	72,5	16,6
SSAB AB	54,8	13,7
Tethys Oil AB	63,0	13,3
Bonava AB	27,6	12,1
Samhällsbyggnadsbolaget i Norden AB	12,1	11,2
Resurs Holding AB	18,5	11,1
Catella AB	33,3	11,1
PION Group AB	11,0	10,9

Source: S&P Capital IQ/Carlsquare

Lowest priced Net Asset Value

Bolag	Price	P/B
Moberg Pharma AB	2,0	0,3x
Saniona AB	3,0	0,4x
VNV Global AB	21,5	0,4x
Swedish Logistic Property AB	25,5	0,4x
Bong AB	0,7	0,4x
Oscar Properties Holding AB	2,9	0,4x
Serneke Group AB	30,9	0,5x
Hoist Finance AB	27,3	0,5x
Viking Supply Ships AB	62,6	0,6x
Eastnine AB	81,4	0,6x

Source: S&P Capital IQ/Carlsquare

Lowest priced NAV on a debt-free basis

Bolag	Price	EV/tB
Oscar Properties Holding AB	2,9	0,2x
BICO Group AB	30,9	0,3x
Samhällsbyggnadsbolaget i Norden AB	12,1	0,3x
Midsona AB	12,5	0,3x
BHG Group AB	15,6	0,3x
Bonava AB	27,6	0,3x
Ferronordic AB	30,8	0,4x
Serneke Group AB	30,9	0,4x
K2A Knaust & Andersson Fastigheter AB	13,3	0,4x
Eastnine AB	81,4	0,4x

Source: S&P Capital IQ/Carlsquare

Lowest priced earnings growth

Bolag	Price	PEG
Volvo Car AB	44,9	0,2x
Projektengagemang Sweden AB	12,4	0,2x
Netel Holding AB	30,8	0,3x
Elanders AB	135,0	0,3x
TF Bank AB	150,6	0,3x
Better Collective A/S	139,9	0,4x
New Wave Group AB	148,4	0,4x
Sinch AB	18,4	0,4x
Billerud Aktiebolag	139,5	0,4x
Ambea AB	40,8	0,4x

Source: S&P Capital IQ/Carlsquare

Top priced earnings growth

Bolag	Price	PEG
Atlas Copco AB	105,6	165,1x
Cint Group AB	49,0	67,5x
Nolato AB	51,1	59,2x
Hufvudstaden AB	125,1	25,8x
Betsson AB	81,4	23,1x
Alleima AB	41,0	10,6x
Castellum AB	119,2	10,0x
Wallenstam AB	36,7	8,0x
Swedbank AB	147,6	6,2x
Wihlborgs Fastigheter AB	67,3	6,0x

Source: S&P Capital IQ/Carlsquare

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