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Weekly Letter:

Better numbers push stocks lower, thanks to the Fed

22 February 2023
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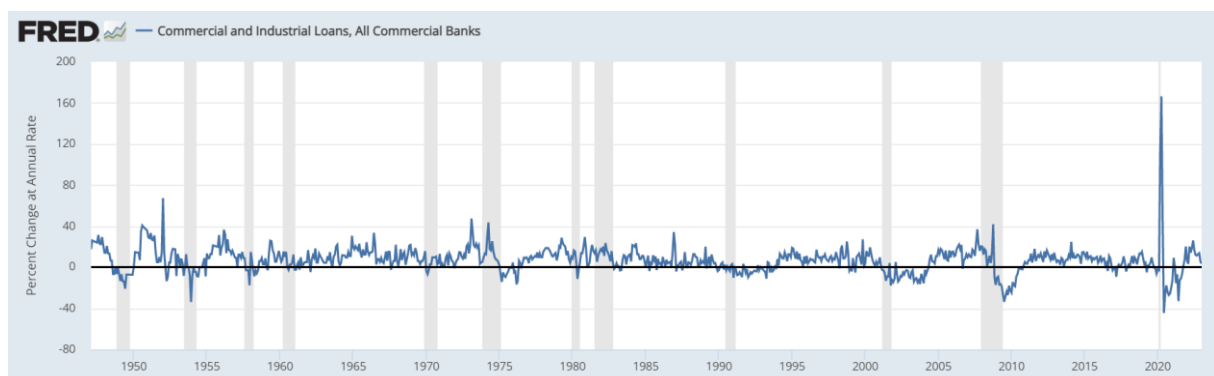Anders Elgemyr and Bertil Nilsson
www.carlsquare.com

- The bulls are still in charge, but interest rates are now moving sharply higher, threatening to push equity indices into the red for the year (the Dow Jones is now negative for the year). Paradoxically, it is strong data that pushes rates higher, and then higher rates push the USD higher and the equity market lower. This is the effect we got when we let the central banks run the world economy...
- Eyes on the Fed minutes today and US inflation reports on Friday.

It is commonly believed that valuations drive the stock market. But it is not; the amount of money creates the ebbs and flows that drive the market. But the tools for measuring liquidity could be better.

M2 reflects only currency in circulation and smaller amounts. Money is used less, and more significant deposits, transactions, and loans should be reflected in M2.

M2 is contracting anyway, probably reflecting lower overall liquidity in the US.

There are no good numbers for the total amount of credit in the market. Above is the standard chart we have shown since 2009, when the Fed started buying commercial paper to support the market. The Fed is now shrinking the balance sheet, reducing liquidity, after pumping too much liquidity over the last decade.

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No matter what numbers you look at, the trend is down. It will end with a crash and then a turning point. The crash could be positive, for example, triggering dramatically lower inflation figures. But more likely is a consumer revolt or a falling stock market.
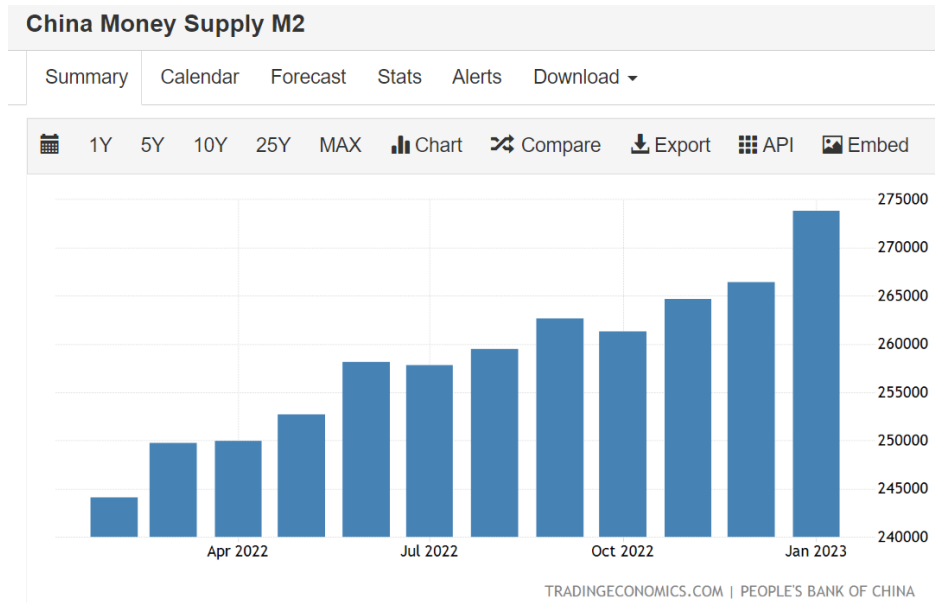
But they all must cut back on credit. China is still expanding. The reason is that the Covid policy has failed, and now the Communist Party has to support the economy to avoid a recession.

Overall, the market is in an uptrend, and the bulls are in charge. But there are headwinds from interest rates, the US dollar and the Fed.

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Will the US 10-year yield make another push above 4%? From a technical point of view, 5% is achievable and somewhat logical. Note that the 10-year yield never broke the red line on the downside. Instead, it is now pushing higher on robust economic data. Higher geopolitical tensions between the US and China, with Russia as the latest battleground, are also pushing rates higher.

The two headwinds for the equity market - the USD and the Fed - are also linked. When the Fed raises rates, the USD will be higher. And the day they change tactics (and that day will come), the USD will fall, and the stock market will go into rally mode.

From an analytical point of view, it isn't easy to make perfect predictions. It is one thing to guess GDP, inflation rates and the stock market. Estimating other people's guesses about GDP, inflation, interest rates, and the stock market is much more challenging! From our point of view, it would be much better if central banks had less power, not more.

So, follow the charts! They may sometimes be manipulated, but at least you can trust that the charts do not lie...

Last week we warned about a stronger USD. When the USD trades higher, it tends to push equity prices lower. A stronger USD is usually associated with higher interest rates in the US.
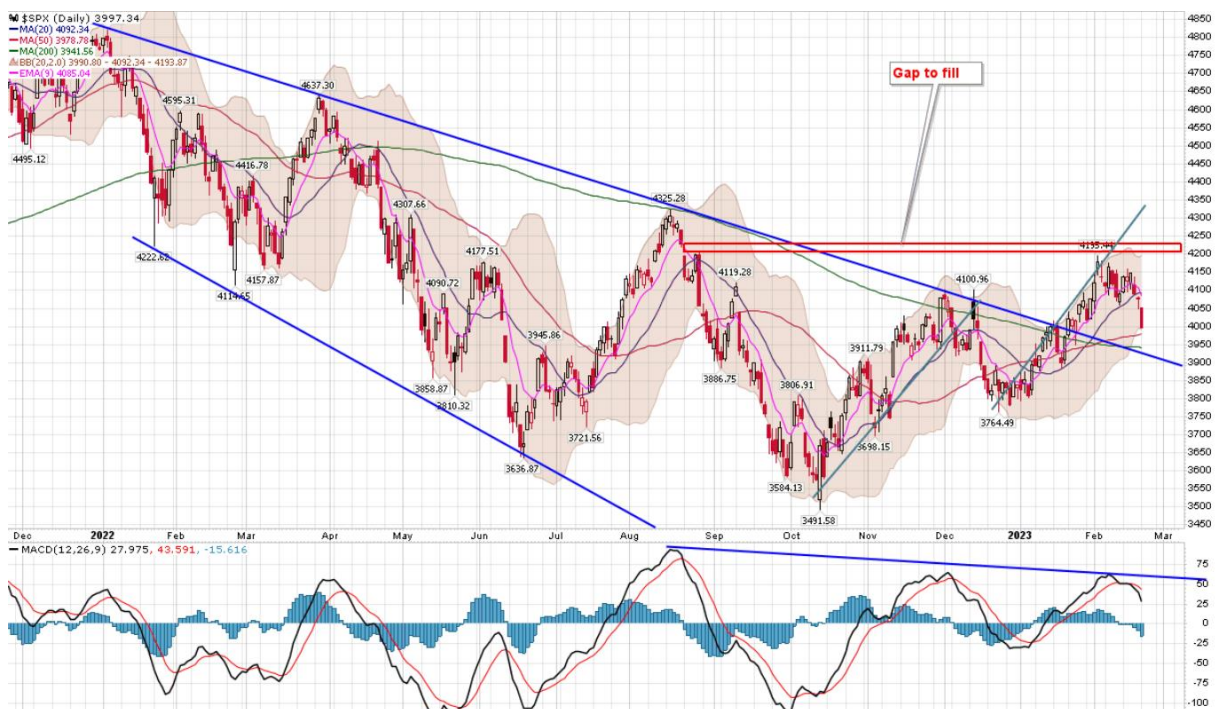
3

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Since 2009, when the Fed started QE, the USD has been the best proxy for the stock market, along with the junk bond market (ETF: HYG, JNK).

The S&P 500 is now testing support on the weekly chart.

On the daily chart, the price is falling rapidly towards the MA50 and MA200.

4

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The most interesting chart for the near future is the 2-hour chart. The blue trendline is at the same level as the MA200, giving a solid support zone below the round 4000 level. This will be a battleground between the bulls and bears. If we were sitting at a big trading desk, we would now push the index below 4000 to get a sell signal in the market and then push the market back up to get much fresh material. This would be a perfect bear trap!

From a technical point of view, a break below the blue line will create more downside for the S&P 500. But be aware of the potential bear trap.

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Last week we also recommended buying some protection as the VIX was trading on the lower side of the range. Yesterday the VIX broke above the upper Bollinger Band. If it closes below this line again, it will give a short-term buy signal for the S&P 500.

HYG will also be watched closely today. HYG shows interest in high-yield bonds (junk bonds) and is the best indicator of the risk appetite of market participants. Now it is clear that risk is in negative momentum. HYG has broken the trend line and closed below the MA200. HYG tends to move a few days ahead of the S&P 500, so keep an eye on it!

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If, and we only say if, the market goes up again. The tech stocks that have fallen the most also have the best upside potential. As the ARK fund is now being launched on the Swedish market after a steep fall, the ETF is set up for a technical reversal to the 38.2 per cent level.

Here is the link to ARK's current portfolio, with Tesla as the top holding.

Happy trading!

7

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Q4 2022 Earnings season

After another week of reporting, 82% of S&P500 companies have reported their Q4 results. The number of better-than-expected earnings reports has decreased slightly to 68%, down from 69% a week ago. The number of better-than-expected revenue reports has increased from 63% to 65%.

S&P 500 Q4 2022 results vs expectations
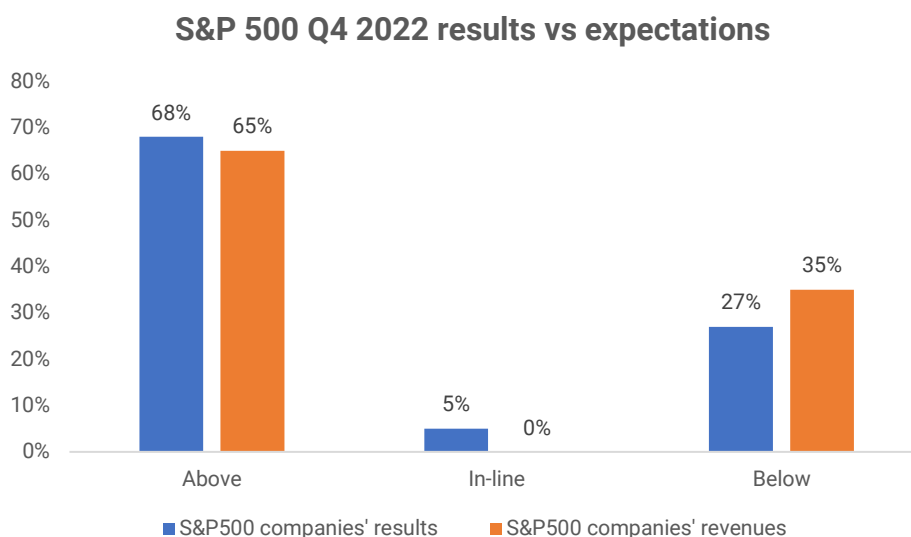
Source: Factset Earnings Insight.

In the fourth quarter of 2022, earnings growth for S&P500 companies improved to minus 4.7% from minus 4.9% a week ago. Meanwhile, sales growth rose to 5.1% from 4.6% a week ago.

The S&P500 sectors that have been most successful in beating analysts' Q4 2022 earnings forecasts are Information Technology (79% of Q4 earnings better than expected), followed by Health Care (74%) and Consumer Staples (71%). The worst performers are Energy (57%), Utilities (56%) and Commercial Services (45%).

For Q1 2023, 65 S&P500 companies have issued negative earnings guidance, while 20 S&P companies have issued positive earnings guidance. The proportion of companies giving negative earnings guidance has fallen to 76% from 82% a week ago.
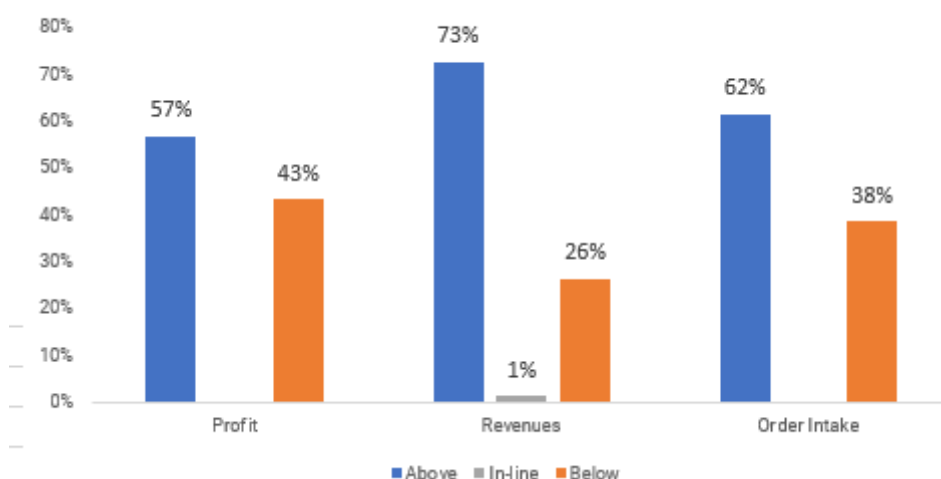
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Looking at all S&P500 large-cap earnings reports since 17 January 2023, these companies have beaten analysts' estimates by an average of 4.6% and a median of 2.8%. The share price reaction to the Q4 2022 reports was positive (0.1%) on average and neutral (0.0%) on median after the release of the Q4 2022 reports.

Company	Report Date	EPS estimate	EPS reported	Surprise	Price Change
CVS Health	08-Feb-23	1,92	1,99	3,7%	3,5%
Disney	08-Feb-23	0,69	0,99	43,5%	6,1%
Abbvie	09-Feb-23	3,54	3,60	1,7%	2,8%
Pepsico	09-Feb-23	1,64	1,67	1,8%	1,0%
Philip Morris	09-Feb-23	1,29	1,39	7,8%	0,7%
S&P Global	09-Feb-23	2,47	2,54	2,8%	-0,6%
Coca-Cola	14-Feb-23	0,45	0,45	0,0%	-1,7%
Cisco	15-Feb-23	0,86	0,88	2,3%	5,2%
Applied Materials	16-Feb-23	1,93	2,03	5,2%	1,0%
Deere	17-Feb-23	5,53	6,55	18,4%	7,5%
Walmart	21-Feb-23	1,52	1,71	12,5%	0,6%
Home Depot	21-Feb-23	3,27	3,30	0,9%	-7,1%
Medtronic	21-Feb-23	1,26	1,30	3,2%	0,8%
Average (including interim reports since 17 January 2023)				**4,6%**	**0,1%**
Median (including interim reports since 17 January 2023)				**2,8%**	**0,0%**

Source: Zacks Research.

We have also compiled the Q4 2022 reports of 82 OMX companies. 57% of the Q4 reports had better than expected results, 73% of the Q4 reports had higher than expected sales, while 62% (only 13 reported) had better than expected order intake.

Q4 2022 outcome vs expectations for OMX companies

Sources: www.di.se, Avanza, Placera, Carlsquare.

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Company	Date	Result Better	Worse	Revenues Better	In-line	Order Intake Worse	Better	Worse
Stillfront	15-Feb		-2,6%			-2,0%		
Beijer Alma	15-Feb		-16,3%			-1,7%		
Nibe	15-Feb	14,9%		5,7%				
Tietoevry	15-Feb	4,4%		0,8%				
Embracer	16-Feb		-17,3%	5,6%				
Instalco	16-Feb	26,1%		13,0%				
Nyfosa	16-Feb	9,9%		5,1%				
Scandic Hotels	16-Feb		-14,5%	3,1%				
Sinch	16-Feb		-0,4%			-9,0%		
Alimak	17-Feb	13,7%				-1,8%	15,4%	
Average (incl. reports since 20 January)		11,1%	-16,5%	5,2%	0,0%	-2,2%	12,2%	-8,6%

Sources: www.di.se, Avanza, Placera, Carlsquare.

We conclude with a list of upcoming Q4 2022 reports and expected earnings per share for some US and foreign large-cap companies on the New York Stock Exchange.

EARNINGS CALENDAR	
Date	**EPSe Q4 2022 (USD)**
22-Feb Nvidia	0,48
23-Feb Alibaba	1,89
23-Feb American Tower	2,16
24-Feb Berkshire Hathaway	3,31

Source: Zacks Research.

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Week Ahead

Quarterly reports on Wednesday, 22 February: Catena, Lundin Mining, Synsam, Atria, FL Smidth, Genmab, Idex Biometrics, Next Biometrics, Salmar, Fresenius Medical Care, Nvidia, Stellantis and TJX.

German and Italian CPI for January and French industrial expectations for February will be released in the morning. We will also get the German IFO index for February. Later in the day, we will get the weekly Redbook Retail Sales data, the weekly oil inventory statistics (API) and the Fed minutes from the US.

Quarterly reports on Thursday, 23 February: Lundbergs, Lundin Gold, SBB, Adevinta, ISS, REC Silicon, Acerinox, Alibaba, American Tower, Deutsche Telekom, Moderna and Mondi.

Thursday morning will see the release of Eurozone CPI for January. From the US, we get Q4 GDP, weekly jobless claims, the Kansas City Fed index for February and weekly oil inventories (DOE).

Quarterly reports on Friday, 24 February: Elekta, BTS, SAS, Stockmann, Tomra, IAG and Berkshire Hathaway.

Japan's CPI for January will be released at 0.30 CET, and the UK's Gfk consumer confidence for February at 1.01 CET. At 8.00 CET, Sweden will release its Q4 employment and housing data, followed by Germany's March Gfk consumer confidence and Q4 GDP. 45 minutes later, we get France's March Household Confidence and Q4 2022 GDP. The Swedish NIER (KI) institute will release its business barometer. In the afternoon, private consumption and inflation, new home sales for January and the Michigan index for February will be released from the USA.

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Quarterly reports on Monday, 27 February: -

At 8.00 CET, we get Sweden's Household Lending and Retail Sales and Germany's Import Prices for January. At 11.00 CET, a barometer indicator for February from the eurozone is published. In the afternoon, the US will release durable goods orders and contract home sales for January and the Dallas Fed index for February.

Quarterly reports on Tuesday, 28 February: Africa Oil, Avance Gas, Frontline, Jyske Bank, NEL, Bayer, HSBC, and HP.

First up at 0.50, CET is Japan, with retail sales and industrial production for January. At 8.00 CET, we get Sweden's PPI and trade balance for January and Q4 GDP. Tuesday morning also brings Germany's import prices for January, France's Q4 GDP and CPI for February and Spain's CPI for February. Canada will release its Q4 GDP after lunch. From the US, we get January wholesale inventories and trade balance, weekly Redbook retail sales, December S&P/CS and FHFA house price indices, February Chicago PMI, household confidence indicator and Richmond Fed index, followed by weekly oil inventories (API) in the evening.

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Valuation Tables, Swedish Equities

Lowest P/E-ratio

Bolag	Price	P/E NTM
Maha Energy AB	9,6	3,1x
Bonava AB	23,4	3,2x
Serneke Group AB	23,0	5,3x
Genova Property Group AB	65,0	6,3x
Catella AB	38,1	7,0x
Doro AB	15,1	8,5x
CoinShares International Limited	33,9	8,5x
Nyfosa AB	87,4	10,0x
John Mattson Fastighetsföretagen A	84,0	10,6x
Cibus Nordic Real Estate AB	139,0	10,8x

Source: S&P Capital IQ/Carlsquare

Highest Yield

Bolag	Price	Yield, %
Tele2 AB	94,4	20,9
Bonava AB	23,4	13,6
Clas Ohlson AB	67,1	10,8
SSAB AB	76,3	10,1
Nilörngruppen AB	71,8	9,7
Rottneros AB	14,8	9,2
Tethys Oil AB	58,1	8,7
Peab AB	56,9	8,6
Resurs Holding AB	25,6	8,3
Cibus Nordic Real Estate	139,0	8,2

Source: S&P Capital IQ/Carlsquare

Lowest priced Net Asset Value

Bolag	Price	P/B
Oscar Properties Holding AB	2,1	0,1x
Eniro Group AB	0,7	0,2x
Humana AB	15,2	0,3x
Serneke Group AB	23,0	0,3x
Cint Group AB	18,6	0,3x
Corem Property Group AB	10,6	0,3x
Bonava AB	23,4	0,3x
BHG Group AB	13,4	0,3x
Vivesto AB	0,4	0,4x
Hoist Finance AB	25,1	0,4x

Source: S&P Capital IQ/Carlsquare

Lowest priced NAV on a debt-free basis

Bolag	Price	EV/tB
Oscar Properties Holding AB	2,1	0,1x
Serneke Group AB	23,0	0,3x
Bonava AB	23,4	0,3x
Cint Group AB	18,6	0,3x
Vivesto AB	0,4	0,4x
Samhällsbyggnadsbolaget i Norden AB	18,0	0,4x
Concejo AB	31,3	0,5x
Annehem Fastigheter AB	21,1	0,5x
Qliro AB	15,0	0,6x
Fastighets AB Trianon	22,9	0,7x

Source: S&P Capital IQ/Carlsquare

Lowest priced earnings growth

Bolag	Price	PEG
Truecaller AB	39,4	0,5x
Better Collective A/S	183,2	0,5x
Cibus Nordic Real Estate AB	139,0	1,2x
Boozt AB	118,7	1,5x
engcon AB	84,3	1,8x
Annehem Fastigheter AB	21,1	2,5x
Karnov Group AB	57,6	3,2x
Nordisk Bergteknik AB	34,4	3,7x
Garo Aktiebolag	96,8	4,6x
Bonava AB	23,4	NM

Source: S&P Capital IQ/Carlsquare

Top priced earnings growth

Bolag	Price	PEG
Aktieselskabet Schouw & Co	558,0	6,0x
Royal Unibrew A/S	497,2	5,3x
Garo Aktiebolag	96,8	4,6x
Nordisk Bergteknik AB	34,4	3,7x
Karnov Group AB	57,6	3,2x
Annehem Fastigheter AB	21,1	2,5x
engcon AB	84,3	1,8x
Boozt AB	118,7	1,5x
Trifork Holding AG	167,6	1,4x
Cibus Nordic Real Estate AB	139,0	1,2x

Source: S&P Capital IQ/Carlsquare

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