



Weekly Letter:

The market is in a new uptrend. Protection is cheap

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Carlsquare

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The market is in a new uptrend. Protection is cheap.

- The stock markets are on the rise again. For how long?
- Hopes of lower inflation, solid earnings and seasonality provide energy.
- Time to buy protection.
- Focus on the Fed meeting on 2-3 May.

After a chilly spring, stock markets around the world are rallying.



It is a coordinated global stock rally. All the major indices are trading in nice patterns.



Looking specifically at the US, the S&P 500, the world's most extensive index, has broken above a critical resistance level.

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We can also see an upward trend on the weekly chart.



The stock market rally is driven by lower inflation expectations, making it less critical for central banks to raise interest rates. Behind this are lower energy costs and an increasingly gloomy global economic outlook. This creates a window of opportunity for the equity markets to rally again. A solid quarterly earnings season is the best reason in the short term.

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Q1 2023 Earnings season

For Q1 2023 (with around 30 companies reporting as of Friday, 14 April), 90% of S&P companies have reported a positive EPS surprise, while 63% have reported a positive revenue surprise. This week, 60 S&P500 companies will report their Q1 2023 results.

The three large banks (Citigroup, JP Morgan, and Wells Fargo) that reported on Friday 14th, April all beat the market's earnings estimates (see the list of reporting companies below). The following table lists some of the major US companies that have reported quarterly results since 13 April, along with the actual and expected earnings per share, the percentage deviation and the share price movement after the report was released.

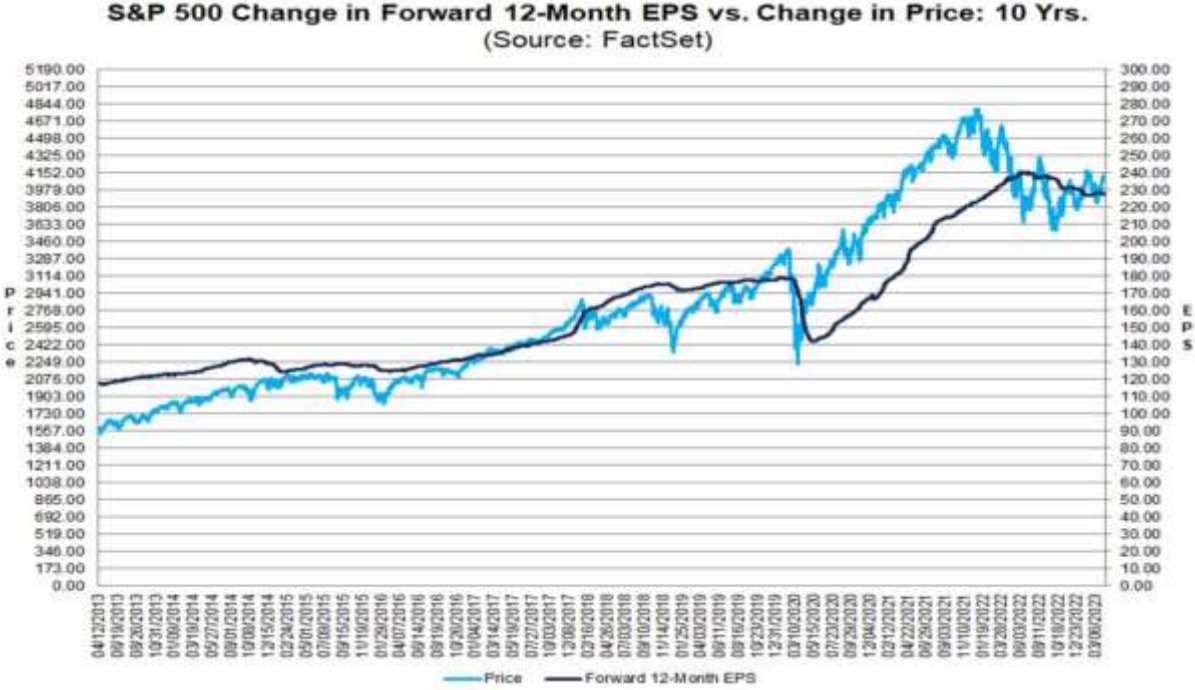
The average and median earnings per share surprise are 6.1% for the reporting companies in the table below. The share price movements following these quarterly reports were also positive but significantly lower (0.9% on average and 0.5% on median). These figures include interim reports since 21 March.

Company	Report Date	EPS estimate	EPS reported	Surprise	Price Change
Infosys	13-Apr-23	0,19	0,18	-5,3%	-9,8%
Delta Air Lines	13-Apr-23	0,29	0,25	-13,8%	-1,1%
The Progressive	13-Apr-23	1,44	0,65	-54,9%	-6,7%
Fastenal	13-Apr-23	0,49	0,52	6,1%	-0,4%
JP Morgan	14-Apr-23	3,41	4,10	20,2%	7,6%
UnitedHealth Group	14-Apr-23	6,24	6,26	0,3%	-2,7%
CitiGroup	14-Apr-23	1,66	1,86	12,1%	4,8%
Wells Fargo	14-Apr-23	1,15	1,23	7,0%	-0,1%
BlackRock	14-Apr-23	7,71	7,93	2,9%	3,1%
Charles Schwab	17-Apr-23	0,90	0,93	3,3%	3,9%
Netflix	18-Apr-23	2,83	2,88	1,8%	-0,5%
Bank of America	18-Apr-23	0,79	0,94	19,0%	0,6%
Johnson & Johnson	18-Apr-23	2,51	2,68	6,8%	-2,8%
Lockheed Martin	18-Apr-23	6,07	6,43	5,9%	2,4%
Goldman Sachs	18-Apr-23	8,14	8,79	8,0%	-1,7%
ProLogis	18-Apr-23	1,21	1,22	0,8%	0,5%
Average (including interim reports since 21 March 2023)				6,1%	0,9%
Median (including interim reports since 21 March 2023)				6,1%	0,5%

Source: Zacks Research.

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The estimated earnings decline for the S&P500 in Q1 2023 is now -6.5%. A 7.8% increase in the price of the S&P500 Index through 14 April 2023 has pushed the P/E ratio to 18.3x, below the 5-year average of 18.5x but above the 10-year average of 17.3x.



Fed in the spotlight

Longer term, we are still in a bear market. The next Fed meeting on 2-3 May will give essential signals. We are still determining if central banks will take the same view as we do. They don't want to repeat the Volcker mistake, when Paul Volcker hesitated and didn't raise interest rates enough, paving the way for inflation to return. The Fed had to do even more in the next round.

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The Fed must avoid Volcker's mistake on inflation

Initial reversal of policy to tackle rising prices led to higher unemployment and lost economic output

By the time that Paul Volcker became chair of the Fed in July 1979, the central bank's credibility on inflation had been destroyed by the disastrous policies of the prior chairs © Bettmann Archive/Getty Images

<https://www.ft.com/content/45ab5a45-6f32-49b3-be5d-9193071de970>

Central banks should wait a while and evaluate the effects of higher interest rates before taking further action.

It is a parade of Fed presidents out in the market coming days talking about the economy before the upcoming Fed meeting and before they need to be silent. Yesterday St. Louis Fed President Bullard acknowledged the need to raise rates further since inflation remains persistently high. In a CNBC interview, Atlanta Fed President Bostic said that he thinks the Fed should hike rates one more time and hold rates there "for quite some time."

As I said, we agree with Bostic. He does not have a voting mandate at the upcoming meeting. Still, if his opinion prevails, we will see a strong positive reaction in the market, especially for companies suffering from high-interest rates, such as real estate. However, we doubt that Fed Chairman Jerome Powell agrees with Bostic.

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Opportunities in commodities

The commodities sector could be in a secular bull market due to high demand and low capex.



The WTI oil price is trading below the MA200. Oil is difficult to trade because it is a commodity regulated by governments. A price stabilisation of around USD 80 per barrel would benefit the global economy. However, a pick-up in global GDP would push oil back up to USD 100 per barrel.



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DBC is an ETF that generally tracks commodities, mainly energy and minerals. It is now breaking up.



DBA is an ETF that tracks agricultural holdings. It has a strong upward trend.

Protection is cheap

With higher prices comes lower volatility.



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The VIX is now trading below 20, showing that investors are becoming more comfortable with the market's current direction. This is the time to buy protection, not the day when something dirty hits the fan.



Looking at the 2-hour time frame, the VIX is trading in a falling wedge. This is a typical setup for a breakout to the upside. This means that the market is very vulnerable to bad news.

Happy trading!

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Week Ahead

Below is a list of upcoming Q1 2023 US earnings reports with expected EPS.

EARNINGS CALENDAR		EPS _e Q1 2023 (USD)
Date		
19-Apr	Abbott Labs	0,98
19-Apr	ASML Holding	4,59
19-Apr	Elevance Health	9,30
19-Apr	IBM	1,27
19-Apr	Morgan Stanley	1,67
19-Apr	Tesla	0,85
20-Apr	AT&T	0,58
20-Apr	American Express	2,70
20-Apr	Philip Morris	1,33
20-Apr	Union Pacific	2,59
21-Apr	Procter & Gamble	1,32
24-Apr	Coca-Cola	0,65
25-Apr	Alphabet	1,05
25-Apr	Danaher	2,26
25-Apr	General Electric	0,13
25-Apr	McDonald's	2,29
25-Apr	Microsoft	2,22
25-Apr	NextEra Energy	0,80
25-Apr	Novartis	1,58
25-Apr	PepsiCo	1,37
25-Apr	Raytheon Technologies	1,11
25-Apr	Texas Instruments	1,76
25-Apr	Union Parcel Service	2,33
25-Apr	Verizon Communications	1,19
25-Apr	Visa	1,97

Source: Zacks.com

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Reports and events on Wednesday, 19 April: Platzer, Note, Mangold, VEF, Abbott Labs, Alcoa, ASML, Elevance Health, IBM, Morgan Stanley, Rio Tinto, and Tesla.

Japan releases its February Industrial Production at 6.30 CET. The UK follows at 8.00 CET with March CPI and PPI. At 10.00 CET, we get the February construction output from the Eurozone, followed by the March CPI one hour later. At 16.30 CET, the US weekly oil inventory statistics (DOE) are due.

Reports on Thursday, 20 April: Husqvarna, Nokia, Volvo, EQT, Kinnevik, Fastpartner, Elisa, Tryg, Nordic Semiconductor, American Express, AT&T, Manpower, Nucor, Philip Morris, and Union Pacific.

Japan's Trade Balance for March will be released at 1.50 CET. The German PPI for March is due at 8.00 CET, and the French Business Climate Indicator for March is due at 8.45 CET. The ECB will release its meeting minutes on 16 March at 13.30 CET. From the US, the Philadelphia Fed index for April, weekly jobless claims, existing home sales and leading indicators for March are due in the afternoon. At 16.00 CET, April's euro area household confidence indicator will be released.

Reports on Friday, 21 April: Tele2, Munters, Duni, Investor, Sandvik, Autoliv, Alma Media, BHP (operational update), Freeport-Mcmoran, Procter & Gamble

The April PMIs from Japan, France, Germany, the UK, and the US will dominate Friday's macro agenda. Japan will also release its March CPI in the morning.

Reports on Monday, 24 April: Xvivo, Avanza, Balco, NAXS, Nederman, Softronic, Studsvik, Coca-Cola

The German IFO index for April will be released at 10.00 CET. The Chicago National Activity Index from the US for March is due at 14.30 CET, and the Dallas Fed index for April at 16.30 CET.

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Reports on Tuesday, 25 April: ABB, Nyfosa, Stora Enso, Wihlborgs, Boliden, Inwido, Byggmax, ELUX PRO, Alfa Laval, Kemira, Wärtsilä, UPM, Entra, Nokian Renkaat, Topdanmark, Alphabet, Danaher, General Electric, General Motors, Kering (Operational Update), Kimberly-Clark, McDonald's, Microsoft, NextEra Energy, Novartis, Paccar, PepsiCo, Raytheon Technologies, Spotify, Texas Instruments, United Parcel Service, UBS, Verizon, Visa, and Whirlpool.

From the UK, the CBI Industrial Trends for April will be released at 12.00 CET. From the US, we get the weekly Redbook retail sales data, the S&P/CS and FHFA house price index for February, the household confidence indicator and the Richmond Fed index for April, new home sales for March and the weekly oil inventories statistics (API).

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Valuation Tables, Swedish Equities

Lowest P/E-ratio

Bolag	Price	P/E NTM
Maha Energy AB	9,5	1,8x
Tethys Oil AB	55,5	2,8x
Bonava AB	23,3	4,2x
Humana AB	14,1	4,6x
Serneke Group AB	21,7	4,6x
Bong AB	1,0	5,3x
Catella AB	36,1	5,7x
Wästbygg Gruppen AB	32,0	5,8x
Midway Holding AB	23,0	5,8x
ITAB Shop Concept AB	11,8	6,0x

Source: S&P Capital IQ/Carlsquare

Highest Yield

Bolag	Price	Yield, %
Intrum AB	115,2	10,7
Tethys Oil AB	55,5	10,4
Aktiebolaget Fastator	7,6	9,9
Cibus Nordic Real Estate AB	117,2	9,1
Samhällsbyggnadsbolaget i Norden AB	13,9	8,8
Svenska Handelsbanken AB	93,9	8,8
Wästbygg Gruppen AB	32,0	8,4
Nordic Paper Holding AB	44,7	8,2
Swedbank AB	182,2	7,9
Bonava AB	23,3	7,9

Source: S&P Capital IQ/Carlsquare

Lowest priced Net Asset Value

Bolag	Price	P/B
Oscar Properties Holding AB	1,1	0,1x
BHG Group AB	9,1	0,2x
Humana AB	14,1	0,2x
Serneke Group AB	21,7	0,3x
Cint Group AB	13,6	0,3x
Bonava AB	23,3	0,3x
K2A Knaust & Andersson Fastighete	11,3	0,3x
VNV Global AB	20,9	0,3x
Corem Property Group AB	9,7	0,3x
Aktiebolaget Fastator	7,6	0,4x

Source: S&P Capital IQ/Carlsquare

Lowest priced NAV on a debt-free basis

Bolag	Price	EV/tB
Oscar Properties Holding AB	1,1	0,1x
BHG Group AB	9,1	0,2x
Humana AB	14,1	0,2x
Serneke Group AB	21,7	0,3x
Bonava AB	23,3	0,3x
Cint Group AB	13,6	0,3x
Q-linea AB	6,2	0,3x
Hoist Finance AB	25,0	0,4x
Karolinska Development AB	1,7	0,4x
Midsona AB	8,5	0,4x

Source: S&P Capital IQ/Carlsquare

Lowest priced earnings growth

Bolag	Price	PEG
Nordisk Bergteknik AB	31,8	0,1x
Volvo Car AB	42,1	0,2x
RVRC Holding AB	32,9	0,2x
TF Bank AB	156,6	0,3x
Embracer Group AB	45,4	0,3x
New Wave Group AB	199,7	0,4x
Netel Holding AB	33,8	0,4x
H & M Hennes & Mauritz AB	156,0	0,4x
Intrum AB	115,2	0,5x
EQT AB	206,8	0,5x

Source: S&P Capital IQ/Carlsquare

Top priced earnings growth

Bolag	Price	PEG
Tele2 AB	105,5	83,1x
Hufvudstaden AB	146,8	57,7x
Getinge AB	263,1	9,2x
Thule Group AB	272,7	5,9x
Svenska Cellulosa Aktiebolaget SCA	131,9	5,5x
AB Electrolux	136,0	5,0x
Stillfront Group AB	20,1	4,6x
Axfood AB	268,5	4,6x
Inwido AB	113,3	3,9x
Telefonaktiebolaget LM Ericsson	58,2	3,8x

Source: S&P Capital IQ/Carlsquare

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