Larry Cheung, CFA: Patreon Investment Community Research Updates
Mid-Month Update: August 2nd Half (8.15.22-8.30.22)

Title & Thesis: My core opinion is that once speculative Bears capitulate, both them and new Bulls will be simultaneously disappointed. The beginning of this thesis is now being telegraphed in media outlets. In my researched opinion, I believe the S&P 500 in its current range of 4200-4400 is a better place to simply Hold/take a cautious approach. Any profitable long positions purchased above current levels is speculative. The best risk-adjusted way to express a bullish view in this environment is a Hold on existing positions. Speculation is based on luck and momentum. Things can turn south with speculation, often with little or no warning. My plan from last report, which is to practice risk-reduction, stays unchanged. For now, I see no Fed Pivot.

For context, please make sure to read my previous updates leading up to this one so that you understand my thought process.

Important Note: Make sure you're in our Discord Channel where I provide timely updates in between formal updates like these ones here. If you enjoy my research, please share your experience with friends/family who could benefit from my work. TY as always. I have added a Q&A member section at the end of this Bi-Weekly note so that you can see what other members are asking and my response.

Important Message (my opinion): *With 2022 mid-terms coming up for Democrats, the language, word choice, news flow in **all** major U.S. media sources may reflect a bias to keep confidence high surrounding the economy (such as changing the definition of Recession)*

Dear Friends, Members, and Patreon Investment Community,

We enter this mid-month update for August from a position of strength for long-time members who had the patience to take advantage of market opportunities from our guidance back from the May-June timeframe while the S&P 500 was in the 3700-3850 region.

While my cautiousness has made me personally trim positions on the way higher, I ultimately am trying to ensure that I prioritize capital preservation first with capital gains second. As our Community grows to have members from all over the world join us, I cannot afford to discuss risky/speculative strategies that could introduce significant harm or permanent capital loss to our friends here, especially when it is clear the real economy is weak/struggling. I want to help you win in the market, and KEEP your winnings. At the higher levels of the game, it's about protecting what you have (especially if you have significant assets) rather than seeking transactions that could lead to ruin.

My research will be designed with your best interests in mind. It is far better to minimize a loss that is irrecoverable than to chase after a 10-30% gain that may prove to be temporary. One event is life-changing (in a bad way), and the other is simply more disposable income/wealth. I've been through many market cycles, and firmly believe that avoiding a big loss is FAR better than missing out on a big gain - even if it doesn't feel this way.

When I see objective risk/reward tilting in our favor for buying opportunities, *I will immediately let you know.* Long-time members know that I've been cautiously issuing long opportunities & guidance when the index was far lower. Objectively speaking, I believe this price range is a better range to reduce risk than add risk at the index level. Certain stock-selection opportunities still remain and I intend to share ideas that may still work in spite of elevated index levels. <u>All tactical ideas will be shared inside Discord when appropriate.</u>

The S&P 500 and Nasdaq are significantly elevated from just the past 45 days, and the price action now is based on speculation/technical analysis and not fully based on fundamentals and macro considerations. This development, combined with the fact that the 2022 Midterms election cycle is underway with primary races through the 50 states in the U.S., means that the stock market has political influence on it.

We cannot objectively assess the stock market without fully understanding the political system. Here in the U.S., the Democrats (led by Biden) have reconfigured the meaning of a recession, enacted various policies to place pressure on crude oil, and lowered harsh rhetoric on Russia over the past 30-45 days while stepping up rhetoric on China (have you noticed this?).

The Democrat's passage of the latest Inflation Reduction Act will do little to actually reduce inflation, but is a major victory for them politically. While the S&P 500 was beneath 4000 and recession calls were loud, Republicans were viewed to likely take control of the chamber in the House of Representatives as well as possibly the senate as well. With the S&P 500's rebound all over media narratives, Biden's approval ratings has also risen to the highest in two months.

A pure coincidence between Biden's approval rating and a rising S&P 500? No chance. It's all linked, orchestrated, and coordinated at the highest level of policy. See/click this image below to see the poll.

NOTES FROM THE NEWSROOM

Biden approval rises to 40%, highest in two months

AUG. 9, 2022

U.S. President Joe Biden's public approval rose this week to its highest level since early June following a string of legislative victories, according to a Reuters/Ipsos opinion poll completed on Tuesday.

The two-day national poll found that 40% of Americans approve of Biden's job performance, a level of support that is historically low for a U.S. president.

But the recent upward turn in Biden's approval rating - including gains in each of the last three weeks - could temper the concern among his Democrats that the party is poised to take a drubbing in the Nov. 8 midterm elections, when Republicans hope to seize control of the U.S. Congress.

On Sunday, the U.S. Senate approved a landmark bill to fight climate change, lower drug prices and raise some corporate taxes. The Biden-backed

With that said, let's discuss this very critical question that I'm sure many investors are thinking about: have we entered a new bull market? Or is this a serious head fake that will fail soon?

There are a couple ways I'm going to answer this question from both a timeline standpoint and an investment strategy standpoint. Whether we go higher or lower from here, I will present a set of strategies to help you take advantage of this environment in the safest way possible.

I need you to be patient. There is one quality that makes investors superior, and that quality is patience. Developing and mastering this personal quality will help you one day achieve what you set out to do.

Timeline Considerations for the S&P 500

- Short-Term (1-2 months): While I do believe the counter-trend rally will eventually fail, the momentum that has been established with investor positioning may keep prices elevated in the very near-term. The following events are worth our attention and will either sustain or disrupt the current rally.
    - Event 1: July Fed Minutes (August 17th)
    - Event 2: August Jackson Hole (Aug 25-27): The Fed will discuss their plans on Balance Sheet Reduction
    - Event 3: August Jobs Figures (September 2nd)
    - Event 4: August CPI Release Date (September 13th)
    - Event 5: September FOMC (Sept 20-21)

- Intermediate-Term (3-12 months): This is the time period where I believe the current S&P 500 level of 4200-4400 is most likely going to end up being looked back upon as a strong opportunity to reduce risk for short-term portfolios. I am going to be the first to acknowledge that if I see anything that invalidates my cautious view, you will be the first to know what my refreshed opinion will be. For now, I remain hesitant to buy new positions and firmly in a Hold position with stop-losses at the high 4100/low 4200 area to reduce risk on a retracement.

- Long-Term (Longer than 1 year): While I am cautious on equities at these levels, I am also aware that the marketplace has many tools to destroy bearish momentum and positioning to keep bullish momentum going. Such tools include potential Fed rate cuts in 2023, keeping the Fed Balance Sheet large (failing to actually to do QT), Corporate share repurchases, Insider purchases, and coordinated institutional buying. In this environment, it is very difficult to see past a 1 year timeline. My commentary is designed to produce as much actionable insights to help guide us in the coming months, which is much more practical (IMO).

While I do not believe this market rally is durable, the way I am going to reduce my long positions is by setting stop-losses and trailing stops that rise if the markets go higher. This will allow me to automatically reduce on the next large leg down while capturing any available upside remaining. I am moving my stops up to S&P 500 at 4210, which is about 100 points above its 100-Day Moving Average of 4110. Any close below 4210, and I will be automatically reducing further.

This is my plan for my ST portfolio. My LT portfolio will stay unchanged. Remember to form a plan based on your age, risk-tolerance, and future expectations of your career.

Now, I will dissect several areas to help you understand the full picture so that your decisions are better informed and equipped with analysis that has been done on the primary level (the source).

Let's discuss the July CPI print first to help you understand Macro. Then we'll discuss recent important earnings such as AMD and NVDA to help you understand the end market (the Consumer: you and me).

And at the end of this report, I'll give an update on China as usual and discuss some very important things that should be on your radar.

July CPI Inflation: Lower than last month, but not a clean indication of lower inflation where it counts

Exhibit 1: % mom CPI heatmap
Headline and core inflation came in softer than expected at 0.0% and 0.3% mom, respectively

Jun-22 weight	Component	Jul-22	Jun-22	May-22	Apr-22	Mar-22	Feb-22	Jan-22	Dec-21	Nov-21	Oct-21	Sep-21	Aug-21
100.0	**Headline CPI**	**-0.02%**	**1.32%**	**0.97%**	**0.33%**	**1.24%**	**0.80%**	**0.65%**	**0.58%**	**0.70%**	**0.87%**	**0.41%**	**0.33%**
13.4	Food	1.10%	0.99%	1.17%	0.87%	0.99%	1.02%	0.88%	0.49%	0.75%	0.87%	0.90%	0.39%
9.2	Energy	-4.56%	7.53%	3.90%	-2.70%	11.01%	3.47%	0.90%	0.88%	2.45%	3.73%	1.19%	1.89%
77.4	**Core CPI**	**0.31%**	**0.71%**	**0.63%**	**0.57%**	**0.32%**	**0.51%**	**0.58%**	**0.56%**	**0.52%**	**0.60%**	**0.25%**	**0.18%**
3.9	Household Furnishings and Supplies	0.57%	0.52%	0.10%	0.54%	1.05%	0.76%	1.56%	1.17%	0.84%	0.76%	1.21%	1.21%
2.4	Apparel	-0.09%	0.79%	0.67%	-0.75%	0.56%	0.72%	1.06%	1.11%	0.75%	0.62%	-0.70%	0.25%
8.5	Motor Vehicles & parts	0.12%	1.10%	1.39%	0.42%	-1.74%	0.11%	0.86%	2.15%	1.72%	1.84%	0.38%	0.13%
4.0	New Vehicles	0.62%	0.65%	0.96%	1.14%	0.18%	0.31%	0.02%	1.18%	1.15%	1.31%	1.26%	1.20%
4.0	Used Cars and Trucks	-0.41%	1.61%	1.84%	-0.38%	-3.80%	-0.25%	1.47%	3.33%	2.44%	2.51%	-0.52%	-1.18%
1.5	Medical Care Commodities	0.59%	0.39%	0.25%	0.06%	0.20%	0.34%	0.89%	0.03%	0.13%	0.57%	0.31%	-0.17%
1.9	Recreation Commodities	0.24%	0.36%	0.09%	0.52%	-0.08%	0.89%	0.99%	-0.36%	0.25%	0.45%	-0.20%	0.89%
0.8	Education and Communication Commodities	-0.80%	0.28%	-1.70%	-2.56%	-0.61%	-0.66%	0.27%	-0.43%	-1.01%	-0.48%	0.52%	-0.15%
0.9	Alcoholic Beverages	0.49%	0.42%	0.49%	0.38%	0.50%	0.75%	0.38%	0.26%	0.15%	-0.12%	0.15%	0.30%
1.3	Other Goods	0.34%	0.50%	0.80%	0.34%	0.58%	0.93%	0.79%	0.24%	0.35%	1.22%	0.08%	0.37%
32.1	Shelter	0.54%	0.61%	0.61%	0.51%	0.51%	0.52%	0.30%	0.44%	0.48%	0.46%	0.42%	0.19%
23.5	Owners' Equivalent Rent of Residences	0.63%	0.70%	0.60%	0.45%	0.43%	0.45%	0.42%	0.41%	0.45%	0.43%	0.44%	0.27%
7.2	Rent of Primary Residence	0.70%	0.78%	0.63%	0.56%	0.43%	0.57%	0.54%	0.38%	0.41%	0.40%	0.40%	0.33%
1.0	Lodging Away From Home	-2.74%	-2.82%	0.90%	1.74%	3.28%	2.18%	-3.91%	1.58%	1.91%	2.05%	0.10%	-2.72%
1.1	Water & Sewer & Trash Collection Services	0.36%	0.39%	0.28%	0.30%	0.07%	0.54%	0.95%	0.35%	0.07%	0.19%	0.44%	0.33%
0.8	Household Operations	0.00%	0.14%	2.08%	#N/A	#N/A	#N/A	#N/A	#N/A	1.13%	0.52%	-0.24%	0.74%
6.8	Medical Care Services	0.41%	0.73%	0.43%	0.53%	0.62%	0.14%	0.62%	0.34%	0.35%	0.40%	0.17%	0.24%
5.9	Transportation Services	-0.45%	2.08%	1.26%	3.07%	2.03%	1.39%	1.02%	0.04%	0.70%	0.21%	-0.96%	-1.20%
0.7	Airline Fares	-7.83%	-1.82%	12.56%	18.61%	10.66%	5.16%	2.29%	2.54%	1.88%	-1.10%	-5.88%	-8.64%
3.1	Recreation Services	0.37%	0.26%	0.53%	0.37%	0.44%	0.64%	0.81%	0.01%	-0.43%	0.88%	0.33%	0.25%
5.2	Education and Communication Services	-0.08%	0.15%	0.19%	0.20%	-0.10%	0.12%	0.07%	0.10%	0.10%	0.19%	0.35%	0.23%
1.3	Other Personal Services	0.40%	0.43%	0.12%	0.51%	0.43%	1.19%	0.74%	0.74%	0.12%	0.52%	0.11%	0.44%

Source: BofA Global Research, Bureau of Labor Statistics

BofA GLOBAL RESEARCH

On the surface, it may appear as if Inflation has made a sharp downward turn, and this peak inflation thesis has made risk-assets rally (S&P 500, Nasdaq, ARKK, Russell 2000, Bitcoin) significantly from their lows over the past 30-45 days.

Digging beneath the hood, we see a more complex inflation picture where major items such as Housing Costs (Rents) and Food actually went up on a year-over-year level. As I discussed in our Discord Post, we had the following forces move inflation. Many of the forces that moved inflation lower are volatile and could change by next month. On the other hand, higher rent prices which is among the largest component of CPI is sticky/entrenched.

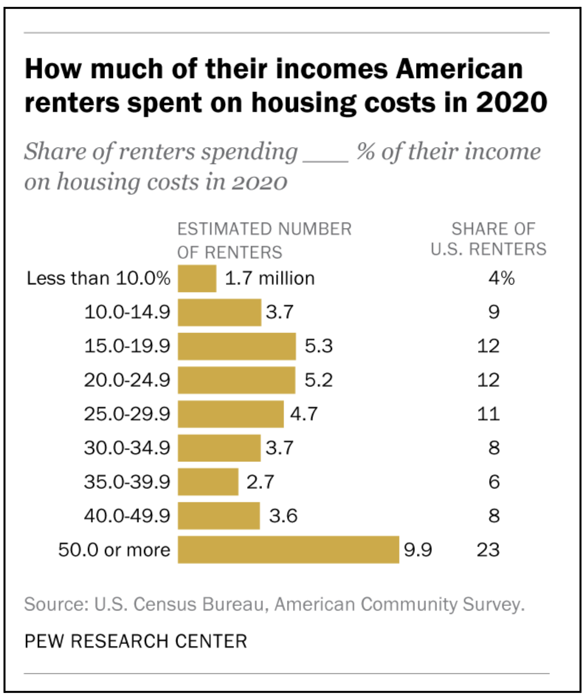
The Forces that moved inflation higher	The Forces that moved inflation lower
• Higher Food Costs (Volatile) • Higher Rent Prices (Entrenched) • Higher New Car Prices (depends on inventory)	• Lower Energy Prices (Volatile) • Lower Used Cars Prices (Volatile) • Lower Airline Fares (Depends on Energy Prices, Volatile)

Fundamentally speaking, rents take time to reset to future economic conditions, and this means high rents established at the beginning of an annual contract will not be adjusted lower until the renewal phase of the rent term.

This means the CPI figures may have a higher baseline/support level than market participants think. In other words, it may be very hard to go underneath a 5-6% CPI reading if housing is 30%+ of this index, and rents have been set to be materially above pre-pandemic levels for a 12-month period. Even a 5-6% CPI reading will seriously erode consumer purchasing power as salary gains have not kept pace with inflation.

On top of this, it is estimated that Renters represent approximately 35-40% of Household and represent the part of the consumer base that typically has a modestly lower median family income and also credit scores in the U.S. system that are modestly lower than comparable households who own their homes.

According to this chart below, we have roughly 40-45% of renters who spend more than 30% of their gross income on rent alone. This data presented by Pew Research was back in 2020 when they did their decade long survey. Rents have surged over the past 2 years, and it's likely that the percentage of disposable income going towards rent is higher than it was.



So how is it possible that the economy continues to keep running so hot in light of all these macroeconomic circumstances such as high inflation, high housing prices, and high food prices. Where is the additional money coming from to consume on items that made Apple's Tim Cook confidently say in their latest quarter that there's no macroeconomic headwind to their business?

I suspect much of this additional spending money comes from the fact that many people are working multiple jobs to make ends meet. The data from the previous jobs report implies that more workers are working multiple jobs in order to combat inflation. At the same time, the number of people participating in the workforce actually fell.

In order to afford to keep up with their lifestyle, **the typical U.S. consumer is placing more of their purchases on their credit cards.**

Long-term, this means that the productivity in the U.S. economy is weakening and existing workers who choose to work are under greater strain than ever before. They are also responsible for larger credit card balances with higher APRs. While this macro setup may not matter in the short-term, the long-term implications are downright negative. This is a ticking time bomb. But the problem is that Strategists in the cautious camp like myself do not know how long this timer may be. Until that timer expires, enthusiasm may prevail in the market.

As long as credit remains freely available in the U.S., this trend can persist for quite some time. **The moment credit (or liquidity) starts to freeze or dry up, we will see financial conditions tighten very quickly**. The way to monitor credit and liquidity is by understanding the National Financial Conditions Index (NFCI). Here, in this image below, a black line that is negative (below 0) means that financial conditions are loose. **A downtrending line means conditions are loosening. Conversely, a rising line close to 0 means that conditions are getting tighter.**

Notice how when the Stock Market (SPX) was in peak fear, the line was above 0, indicating weak liquidity and credit conditions.

As the market rallied in July, it directly caused the financial conditions to loosen (and vice versa). The Fed has indicated that they want conditions to be tighter. Since July 2022, this index has been moving in the opposition direction of the Fed's stated goal.

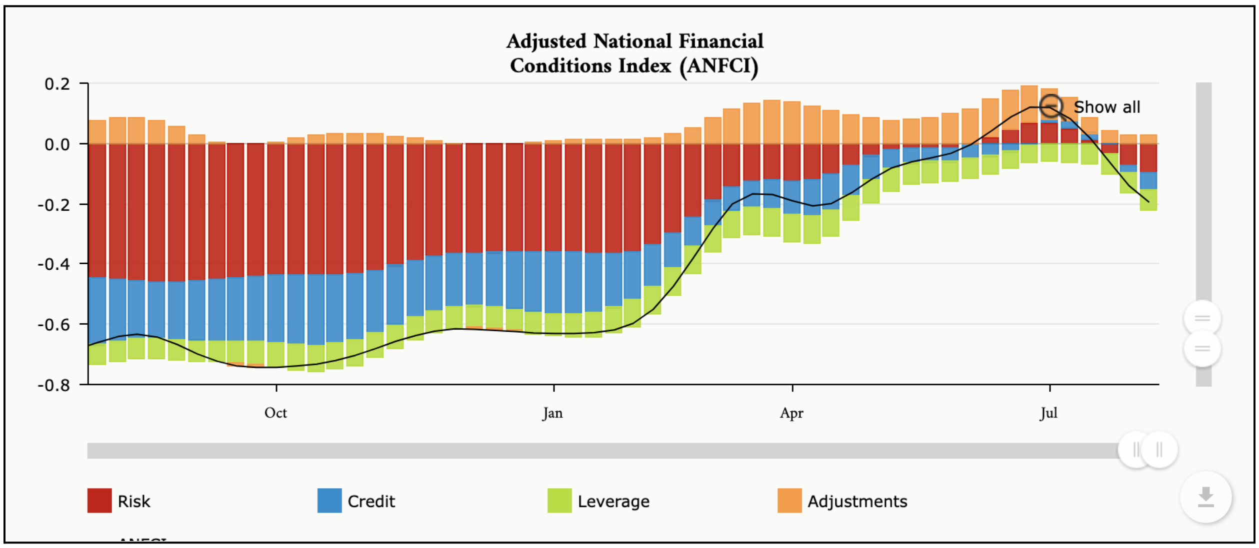
In a case for the bulls, we can see that this index is not even close to the peak easy money conditions that we had in late 2021/early 2022.

If the Fed were truly to pivot, we could see the Financial Conditions index loosen even further (line would go further away from 0), and that could mean the S&P 500 has substantial upside from today's levels.

I'm not in this camp of investors where the consensus is that the Fed will be forced to pivot. However, I keep an open mind, and will update you if my opinion changes. Understand that I do NOT make decisions based on index price changes. I will make decisions based on my understanding of the actual data that is presented to me.

Most investors use solely the S&P 500 as a proxy to assess the Fed's intentions without doing the necessary homework.

While this may work out in the short/intermediate term, in the long-term, the Investors who have done their homework by studying primary data directly are the ones who will always prevail.



Overall, I expect we will soon witness "inflation volatility" which means that rather than a clean up/down trend in CPI, we will see chops in CPI that create additional uncertainty. Markets don't move in straight lines, and neither will Inflation. I expect the Financials Condition Index to be another tool that will allow me to understand sentiment conditions for you.

Next up, I will discuss the current market structure in terms of the FAANG stocks, as well as show you how the market's positioning has been across sectors.

FAANG Leaders: No serious discounts or bargains in sight (except Meta)

Symbol		Name	Price	14-Day Relativ. Strengt. Index	200-Day Simple Moving Average	50-Day Simple Moving Average	PE Ratio (Forwar.	PE Ratio (3y Median)	PE Ratio (5y Median)	PS Ratio	PS Ratio (3y Median)	PS Ratio (5y Median)
AAPL	+	Apple Inc	172.10	74.22	159.88	148.78	28.20	27.89	22.50	7.307	6.903	4.917
AMZN	+	Amazon.com Inc	143.55	67.76	145.19	119.72	1221.18	76.19	82.62	3.029	3.864	3.838
GOOG	+	Alphabet Inc	122.65	62.94	129.74	114.15	23.27	28.58	30.11	6.004	6.537	6.484
META	+	Meta Platforms Inc	180.50	58.98	239.02	170.08	18.48	27.21	27.90	4.203	8.713	9.027
MSFT	+	Microsoft Corp	291.91	66.45	294.55	265.08	28.57	32.94	32.90	11.10	11.19	9.320

The FAANG leaders represent close to 15-17% of the S&P 500's (SPX) index weight. Without these leaders advancing, it will be very difficult for the index to continue its upward momentum. Apple holds an 7%+ weight in the SPX, and its technical setup has a RSI reading of 74 (where 70 is overbought). Apple's valuation is also HIGHER than its 3y and 5y medians from a sales and earnings perspective.

In my opinion, Apple's *fundamental* upside is limited, and the downside risks for Apple far outweigh the upside potential. There is an entire ecosystem that depends on Apple (such as Semiconductors), and any significant Apple retracement is going to place pressure simultaneously on the S&P 500, the Dow, and the Nasdaq given its representation in each index.

The buyside is artificially supporting the market by supporting Apple's shares. How long this lasts remains to be seen, but I do not have confidence that buying Apple at these levels makes much sense with it being at 170/share (28X Forward P/E and 7.3X Sales).

Any purchase at these levels for AAPL is considered to be speculative, in my opinion. Speculating in momentum names can work if you are a very experienced trader who has mastered risk management.

For our general community, I believe the risks of AAPL outweigh the rewards. This conclusion is based on fundamental and valuation data.

Overall Market Sector Overview (Organized from largest to smallest returns): Last 30 Days to understand sector/thematic positioning

Symbol		Name	1 Month Total Returns (Daily)	3 Month Total Returns (Daily)	6 Month Total Returns (Daily)	Year to Date Total Returns (Daily)	1 Year Total Returns (Daily)	3 Year Total Returns (Daily)	5 Year Total Returns (Daily)
Maximum			20.08%	16.20%	16.12%	44.21%	64.17%	100.5%	179.9%
Average			11.48%	7.12%	0.28%	-3.49%	3.69%	48.65%	80.26%
Minimum			3.78%	0.33%	-13.64%	-22.95%	-27.73%	24.44%	56.76%
Median			11.61%	8.16%	1.25%	-8.10%	-1.50%	42.15%	67.91%
XLY	+	Consumer Discret Sel Sect SPDR® ETF	20.08%	16.20%	-5.50%	-16.57%	-6.04%	49.85%	99.58%
XLK	+	Technology Select Sector SPDR® ETF	16.53%	14.83%	-2.34%	-13.00%	-1.50%	100.5%	179.9%
XLI	+	Industrial Select Sector SPDR® ETF	14.69%	9.07%	1.25%	-4.92%	-3.81%	41.36%	61.13%
XLE	+	Energy Select Sector SPDR® ETF	13.89%	1.53%	13.67%	44.21%	64.17%	60.95%	57.18%
XLF	+	Financial Select Sector SPDR® ETF	12.46%	8.16%	-10.53%	-8.10%	-6.81%	42.15%	59.06%
XLB	+	Materials Select Sector SPDR® ETF	11.61%	0.53%	-2.41%	-9.53%	-4.17%	51.83%	67.92%
XLRE	+	Real Estate Select Sector SPDR®	11.15%	9.18%	1.64%	-10.90%	0.85%	30.47%	67.99%
XLU	+	Utilities Select Sector SPDR® ETF	9.73%	9.54%	16.12%	8.74%	15.90%	39.05%	67.90%
XLC	+	Communication Services Sel Sect SPDR®ETF	8.37%	3.54%	-13.64%	-22.95%	-27.73%	24.44%	
XLP	+	Consumer Staples Select Sector SPDR® ETF	4.02%	0.33%	1.54%	-0.91%	7.65%	38.65%	56.76%
XLV	+	Health Care Select Sector SPDR® ETF	3.78%	5.44%	3.33%	-4.47%	2.05%	55.82%	85.16%

Over the past 30 days, the strongest sector in the S&P 500 has been consumers (XLY ETF) whereas the weakest has been healthcare (XLV ETF). This repositioning in markets is due to several factors: a lower CPI print from July, lower inflation expectations, and a tick up in consumer confidence. By rewarding Consumer Discretionary, the markets are in other words strongly expecting that a recession has been completely avoided.

If that is the case, it makes sense that Consumer stocks, which are led by Amazon & TSLA in the XLY ETF, scored the biggest returns in response to this seemingly more favorable environment.

From the tables below in my YCharts account, we can clearly see that industry groups such as consumer defensives and healthcare greatly trailed economically sensitive groups such as consumer cyclicals, industrials and technology over the past 30 days.

If my view is correct that the U.S. economy cannot achieve a soft landing due to the path of future interest rate hikes, I find it very hard to believe that this trend of consumer cyclicals can continue to outperform consumer defensives in a large fashion continuously like we witnessed in the past 30 days.

In other words, the composition of this counter-trend rally in the S&P 500 has been led by Companies in the cyclical part of our economy: tech, consumer discretionary, and industrials.

The answer to the question of whether this trend can continue is if you believe there will be a recession or not. If there is going to be a deep recession, it is rather unlikely for consumer cyclicals to continue rallying at this pace over a longer-term period of time.

Underperformers: A snapshot of underperformers in the S&P 500 over the past 30 days

Results
504 Securities

Symbol		Name	Sector	1 Month Total Returns (Daily)	3 Month Total Returns (Daily)	6 Month Total Returns (Daily)	Year to Date Total Returns (Daily)	1 Year Total Returns (Daily)	3 Year Total Returns (Daily)	5 Year Total Returns (Daily)	10 Year Total Returns (Daily)
NEM	+	Newmont Corp	Basic Materials	-19.66%	-28.19%	-25.98%	-23.78%	-17.42%	30.69%	44.55%	19.71%
BALL	+	Ball Corp	Consumer Cyclical	-12.10%	-13.89%	-35.34%	-37.91%	-32.90%	-20.67%	54.67%	208.8%
T	+	AT&T Inc	Communication Services	-11.31%	-6.12%	-22.18%	3.15%	-7.14%	-10.05%	-4.84%	35.85%
VZ	+	Verizon Communications Inc	Communication Services	-11.09%	-4.87%	-13.21%	-9.89%	-14.85%	-7.29%	17.51%	58.70%
CINF	+	Cincinnati Financial Corp	Financial Services	-10.70%	-15.90%	-12.90%	-7.38%	-12.46%	3.51%	51.23%	271.1%
FTNT	+	Fortinet Inc	Technology	-8.94%	1.80%	-12.51%	-24.47%	-11.19%	230.3%	644.1%	995.4%
INCY	+	Incyte Corp	Healthcare	-8.00%	-2.01%	10.83%	0.80%	1.50%	-10.29%	-40.38%	306.3%
CHD	+	Church & Dwight Co Inc	Consumer Defensive	-7.10%	-9.72%	-9.67%	-13.72%	5.49%	18.34%	88.63%	293.4%
DXC	+	DXC Technology Co	Technology	-7.05%	-5.26%	-27.69%	-17.24%	-35.93%	-19.35%	-60.64%	
MNST	+	Monster Beverage Corp	Consumer Defensive	-6.96%	5.07%	8.72%	-6.27%	-7.79%	59.38%	67.26%	397.6%
SWK	+	Stanley Black & Decker Inc	Industrials	-6.92%	-16.56%	-37.96%	-46.43%	-49.24%	-21.33%	-21.33%	78.95%
BAX	+	Baxter International Inc	Healthcare	-6.52%	-16.45%	-29.12%	-29.06%	-16.96%	-26.67%	7.10%	140.3%
JNJ	+	Johnson & Johnson	Healthcare	-6.00%	-6.48%	-0.17%	-2.13%	-3.23%	35.61%	41.67%	217.6%
ABBV	+	AbbVie Inc	Healthcare	-5.59%	-6.71%	2.26%	8.38%	28.41%	154.9%	153.8%	

Outperformers: A snapshot of the outperformers in the S&P 500 over the past 30 days

Symbol		Name	Sector	1 Month Total Returns (Daily)	3 Month Total Returns (Daily)	6 Month Total Returns (Daily)	Year to Date Total Returns (Daily)	1 Year Total Returns (Daily)	3 Year Total Returns (Daily)	5 Year Total Returns (Daily)	10 Year Total Returns (Daily)
ENPH	+	Enphase Energy Inc	Technology	57.95%	112.3%	105.4%	63.58%	65.07%	868.5%	36.46K%	5.22K%
BBWI	+	Bath & Body Works Inc	Consumer Cyclical	48.94%	-17.19%	-29.65%	-42.19%	-35.19%	141.2%	51.50%	76.77%
EPAM	+	EPAM Systems Inc	Technology	45.99%	51.07%	4.40%	-33.44%	-26.09%	138.5%	458.0%	2.43K%
ALB	+	Albemarle Corp	Basic Materials	43.79%	32.13%	22.39%	20.89%	19.87%	335.0%	175.7%	437.9%
NFLX	+	Netflix Inc	Communication Services	42.91%	43.02%	-36.29%	-58.62%	-51.19%	-19.80%	45.45%	2.81K%
CDAY	+	Ceridian HCM Holding Inc	Technology	42.67%	33.47%	-3.54%	-33.65%	-35.36%	31.54%		
PYPL	+	PayPal Holdings Inc	Financial Services	41.54%	36.09%	-12.31%	-46.39%	-63.18%	-1.58%	74.19%	
ETSY	+	Etsy Inc	Consumer Cyclical	40.10%	36.48%	-15.42%	-45.23%	-37.95%	118.1%	639.3%	
F	+	Ford Motor Co	Consumer Cyclical	39.97%	30.06%	-7.20%	-21.18%	18.37%	83.10%	79.90%	156.1%
CEG	+	Constellation Energy Corp	Utilities	37.84%	52.69%	70.76%	95.52%				
MPWR	+	Monolithic Power Systems Inc	Technology	36.95%	36.13%	24.81%	7.35%	14.82%	271.2%	444.3%	2.74K%
ADSK	+	Autodesk Inc	Technology	35.21%	25.92%	2.59%	-17.13%	-29.83%	56.52%	115.7%	565.6%
ON	+	ON Semiconductor Corp	Technology	34.85%	34.31%	20.67%	4.77%	63.96%	322.8%	346.4%	943.4%
XYL	+	Xylem Inc	Industrials	34.64%	25.33%	16.66%	-13.19%	-20.25%	41.41%	85.59%	384.0%
URI	+	United Rentals Inc	Industrials	34.09%	18.91%	7.55%	1.28%	-6.86%	203.6%	201.7%	931.7%

Fundamental Corporate News from AMD/NVDA/MU

One of my favorite research aspects is to review a company's fundamental performance and outlook because I believe this is one of the purest forms of understanding the health of the end market.

If macro is the big picture, then company specific fundamentals is the bottom-up analysis and the finer details. Combining the big picture with an understanding of the smaller but crucial details will help you see with greater clarity.

Over the past 2 weeks, I have studied the following company's earnings outcomes or commentary related to their guidance. Such companies include AMD and Nvidia, with a brief comment on Micron. These companies are powerful LEADING indicators into the Nasdaq's future returns because it tells us the pace and investment spending at which innovation is being developed.

Although the S&P 500 index may keep rising, its advance is inconsistent with the fundamental guidance that I am seeing in these companies. See below for my notes.

On AMD (representing the gaming, PC, data center markets)

- The sell side is starting to cut estimates for AMD's growth rates because of a macro backdrop that could further soften gaming, PCs, and data centers
- AMD management guided for PC industry unit expectations to decrease by mid-teen percentages rather than high-single digit percentages
- AMD discussed China's cloud demand showing weakness, which is parallel and consistent with Alibaba's cloud segment showing modest growth in their latest quarter
- Strength in Data Center and Game Consoles is being offset by weakening PCs and Gaming GPUs (graphic chips)
- AMD's data center CPU clients include Amazon AWS, Baidu, Google, Msft Azure, and Oracle. Enterprise adoption is accelerating at Dell, HPE, Lenovo, and Cisco.
- AMD typically derives 50% of its revenue from the core PC end market. Any softening in this market will affect its shares. This is partially priced in IMO, depending on your views on the economy.
- Within AMD's segments (seen below), Data Centers is the segment that is driving AMD's premium valuation. Data Centers is a B2B business that has so far bucked a weak PC market.

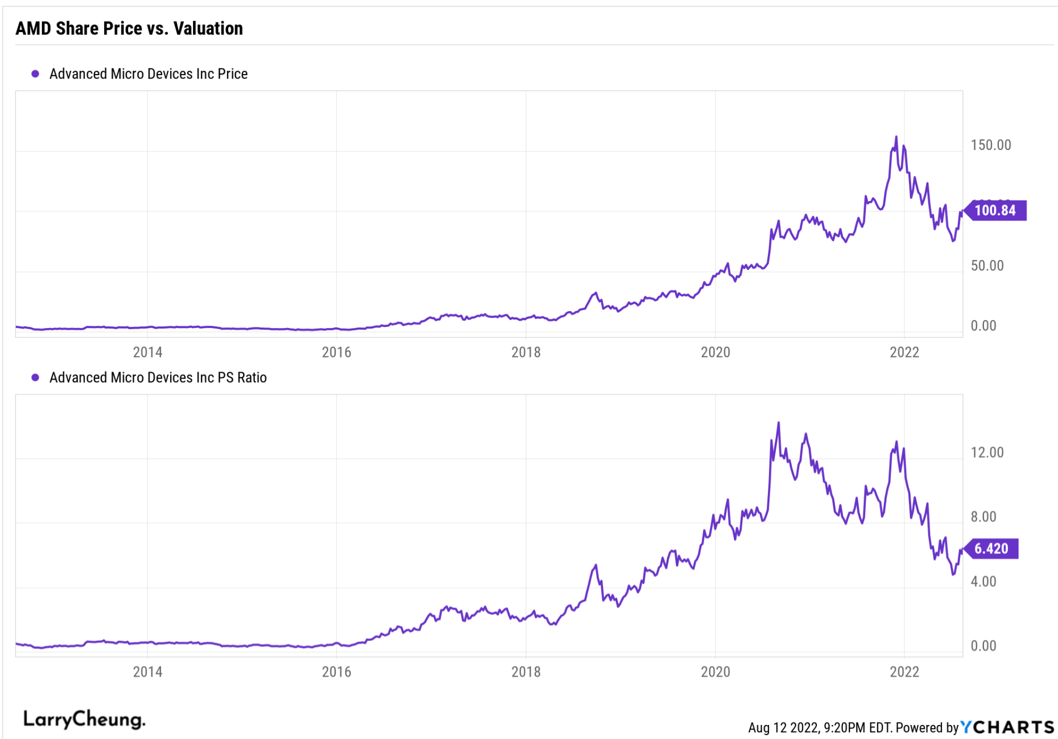
Table 2: AMD Market Segment Summary - 2Q22

$ in millions, %

	2Q22			
	Revenue	% of Total	Q/Q Growth	Op Margin (GAAP)
Data Center	$1,486	22.7%	15%	31.8%
Client	$2,152	32.9%	1%	31.4%
Gaming	$1,655	25.3%	-12%	11.3%
Embedded	$1,257	19.2%	111%	51.0%
TOTAL	$6,550	100.0%	11%	8.0%

Source: Company reports and J.P. Morgan calculations.

(We can see that the largest two segments have been flat/down. Data Centers and Embedded segments are holding up)

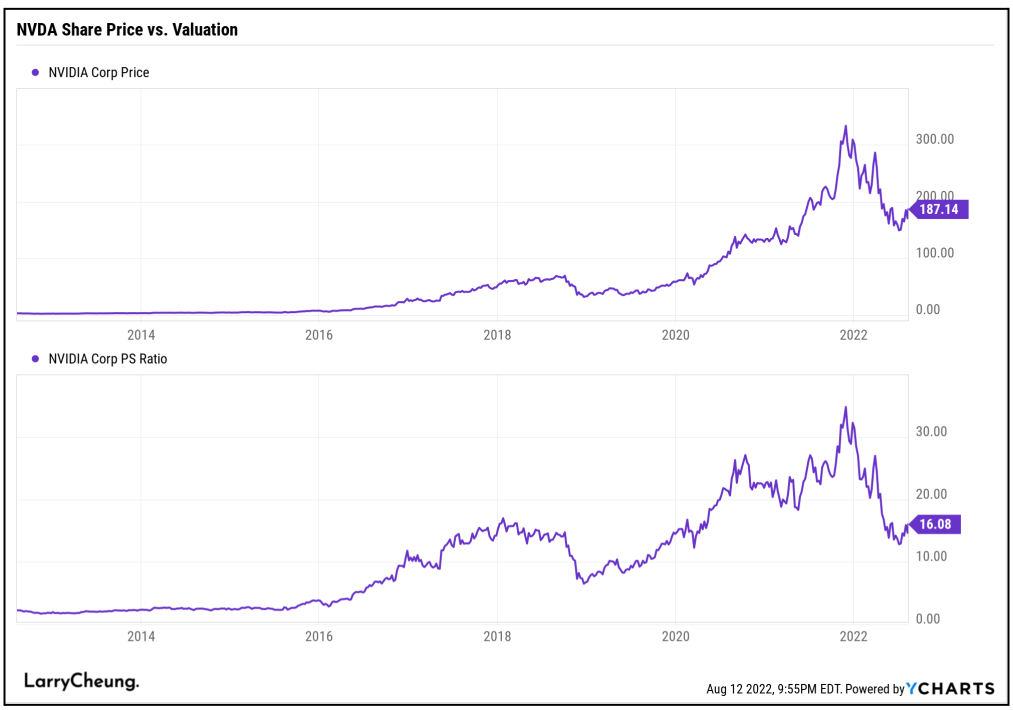


On NVDA (Representing Gaming, Data Centers)

Nvidia recently reported a preannouncement of their latest quarter, and here are observations we should pay attention to. Nvidia's underperformance relative to the SOXX index and the S&P 500 has, to an extent, priced in cautious views towards its future guidance. Let's review some major key takeaways here.

- Consensus expectations were for NVDA to see a 15% downward trend in Gaming. Actual figures were -44%
- Data center came in below expectations of 6% quarter-over-quarter at just 1%
- The sell side is cutting EPS full year estimates for 2023-2024 by roughly 27-33%.
- The sellside's price target of 220-250/share is based on a 25-30X multiple (valuation range given by banks).

If the U.S. enters a deep recession, a 25-30X forward earnings multiple will have to be reconsidered lower. This valuation multiple is aggressive in today's environment.



Along with NVDA, Micron also issued a revenue warning. The company warned that 4th quarter sales are expected to be at the low end of guidance, or possibly below it. Like I've mentioned above, to a certain degree, I do believe that Semi companies' share prices have factored/incorporated a lot of negativity already. The direction from here is contingent upon upcoming inflation data and the Fed's reaction. When value returns to this sector, I will promptly let you know.


Micron Share Price vs. Valuation
Micron Technology Inc Price
90.00
65.04
30.00
0.00
2014
2016
2018
2020
2022
Micron Technology Inc PS Ratio
4.80
3.60
2.40
2.270
1.20
2014
2016
2018
2020
2022
LarryCheung.
Aug 13 2022, 5:58PM EDT. Powered by YCHARTS

Chinese Internet Strategy: Risk Premium (which weighs on valuation) has been raised since Nancy Pelosi's trip. I continue to view Alibaba and Tencent as attractively priced over a 12-month timeline absent a full blown US-China war.

Be sure to understand the context of this update on China [by reading my previous update first if you are a new friend in our Community.]

With the flurry of newsflow over the past 2 weeks, I want to take a moment to review the critical events so that we stay organized with the volume of information that investors need to digest. I will focus on the areas that I believe change the investment landscape and force the Buyside to update their models.

- Nancy Pelosi has visited Taiwan and met with leader Tsai-Ing Wen
- China's repeated military drills near the Taiwan strait after Pelosi left the region
- Alibaba reported earnings that beat consensus
- China's July Purchasing Manager Index (PMI) was 49, falling 1.2 percentage pts month over month
- Alibaba's primary HK listing has been approved
- Several Chinese State-owned Enterprises have applied to be voluntarily delisted
- President Xi potentially meeting Biden at the G-20 in Southeast Asia this Fall

In my previous note, I discussed that Alibaba's long-term investment potential remained attractive when it's valuation was $89/share (12.7X forward earnings). Despite the intense saber rattling that Nancy Pelosi has inspired in both western and Chinese media outlets, Alibaba and the general Chinese Internet Sector has remained relatively steady over the past 2 weeks. As of this report, I believe China is one of the few areas of the market that has the least valuation risk after the S&P 500's giant advance since my latest research note.

That said, I want to say that the Buyside (Investors who can move markets) seems to be repricing their risk models for the Chinese Internet Sector. Because of intense geopolitical tension and various degrees of uncertainty, Alibaba, Tencent, and the Chinese Internet sector are not fully trading on fundamentals. Instead, they are trading with embedded risk premiums (that are higher after Pelosi's visit) that may not fully resolve in the near-term.

On a fundamental level with Alibaba's latest earnings quarter and outlook provided, absent a full blown Taiwan escalation, I have confidence that the company is poised to rebound from today's levels (which are equivalent to a modest 12.8X forward earnings multiple while the S&P 500 is trading at close to 18X with its 4275 index close).

However, the ongoing uncertainty is formidable and investors cautiously pricing Alibaba's shares in its current valuation range is rational. Once calmness returns to the market, I do expect Alibaba to resume its recovery.

Here are some silver linings that I expect to be priced into the Chinese Internet Sector later this Fall.

President Xi is reported to plan to meet with President Biden this Fall in November. This in-person meeting is going to be after President Xi likely gets re-elected for a 3rd term as China's leader.

This meeting is significant because Xi will also meet with other leaders from the Southeast Asia region, and this could slowly mark the beginning of China's reopening to global travelers. Indirectly, this may mean that Xi may begin a gradual process to modestly lower the restrictions on the zero-covid policy.

A slowdown in consumption due to restrictions imposed by the zero-covid policy has been the achilles heel of Chinese Internet stocks. Consumers can't consume at full capacity in these conditions, and that makes businesses reluctant to advertise because ad efforts are unlikely to be fruitful.

The road for Alibaba's recovery will likely depend on its fundamental performance along with organic consumer consumption trends. Significant monetary stimulus from here is rather unlikely given that China's inflation data rose in the previous month to a 2-year high of 2.7%.

Despite the ongoing risks related to investing in China, I believe the current valuations of this sector (especially Alibaba and Tencent) make it a valuable part of a diversified portfolio.

For members who wish to look at HK-listed shares of Alibaba to prepare for any potential US ADR delisting, I strongly recommend Interactive Brokers or Moomoo. Both platforms work well, which one you choose is up to you. I have accounts on both platforms.

Special Note:
Things to look for & How to think about this market until my September Research Report

One of the biggest forces to propel the market higher or lower is the Federal Reserve's balance sheet. To put it simply, it represents the liquidity out in the marketplace.

We can see here in the charts below that even though the Fed has raised rates substantially this year, we also need to pay attention to whether they are following through on their plan to reduce the balance sheet.

The plan back discussed on May 4th was to reduce $30 billion in US treasuries and $17.5 billion in MBS to roll off in June, July and August. That's roughly $47.5 billion per month of "quantitative tightening" off their nearly 9 trillion balance sheet.

For their September plans, the Fed talked about its plans to reduce its balance sheet by $95 billion per month.

Up until this point, however, the Fed's reduction for its mortgage back securities hasn't really taken place. We can see from the chart below that from its May 4th statement until now (chart linked for you) that the MBS side of the balance sheet hasn't even moved.

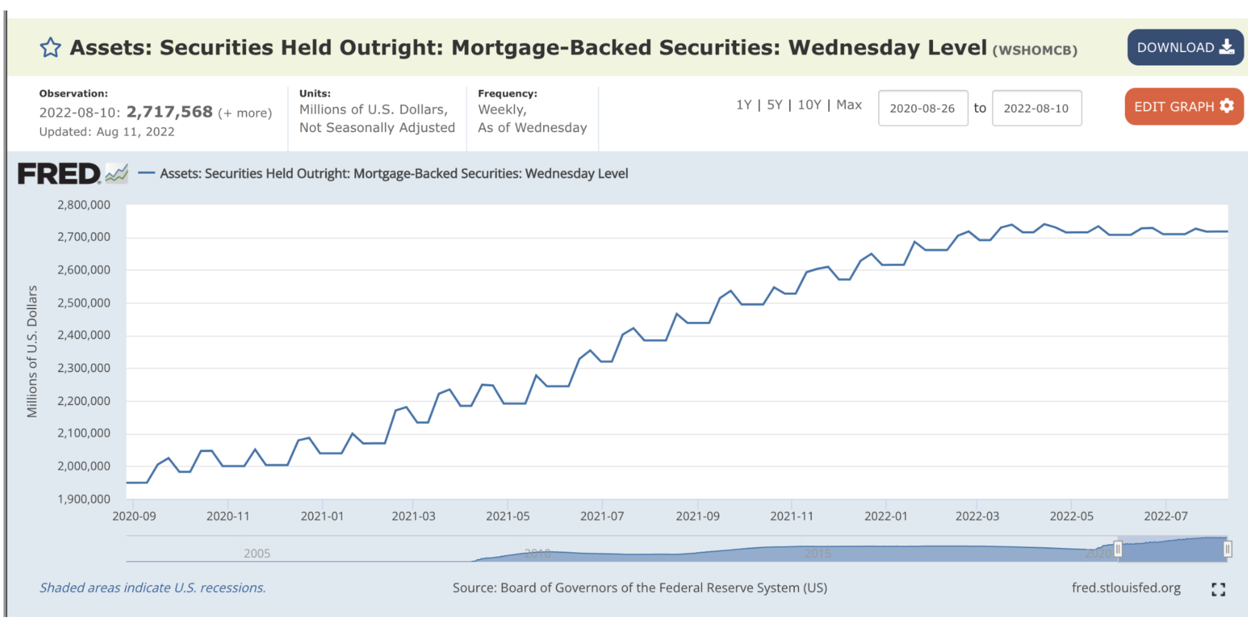
On May 4th, the balance sheet for MBS read 2,715,020 (in millions)

On August 10th, the balance sheet for MBS read 2,717,568 (in millions)

This means that the MBS balance sheet actually grew during this period of time!

This also indirectly explains why the 30-Year Mortgage rate has actually slipped after the Fed raised interest rates in the July FOMC. The 30-Year Mortgage rates are more influenced by the Mortgage-Backed Securities part of the Fed's balance sheet and not just the Fed Funds Rate that everyone is focused on.

In other words, the Fed has been working behind the scenes to engineer as soft of a landing as possible for the real estate sector (aka the Fed is propping up the RE market).



I believe this is one of the reasons the Buyside (investors who can move the market) has become very confident that the Fed is not using all its weapons to fight inflation via draining liquidity. Nobody in traditional media talks about this (of course, so that retail folks are only focusing on the S&P 500).

But big money knows this and they are watching entirely different metrics compared to the retail investor.

There is a major event coming up for markets, and that is the [August Jackson Hole event (Aug 25-27)] where the Fed will be fleshing out their plan for QT in September and beyond. If this event makes clear that the Fed will execute upon or even accelerate their QT plans, the market may not have fully priced this in.

With the S&P 500 now near its 200 moving day average (which is a longer-term indicator) of 4320, whether the index stays sustainably above or below this level will depend on whether the Fed is serious about their balance sheet reduction.

Up until this point, I am trusting that the Fed will fulfill their promise to go through QT. This explains my cautious views on equities. If the Fed fulfills their promise to reduce by 95 billion per month on their balance sheet (60B treasures + 35B MBS) in September, we will see the 2Y yield and the 30Y mortgage rates likely see upward pressure this Fall. This is going to exact enormous pressure on the real estate market and the stock market.

If, however, I see that the Fed doesn't follow through on their plans for balance sheet reduction, the markets may attempt to advance even higher from here.

This type of Fed coverage is usually not covered very much in headline media outlets. I will continue to cover this for you.

Keep this to yourself (or perhaps a few close friends & family). This is so important that I wouldn't mind if you shared it with your closest friends. If they enjoy this type of deeper thinking, invite them to be a part of what we do.

I am on a mission to make as many Global Friends as possible who will appreciate my type of analytical thinking and practice a long-term view on the market. Introduce my Community to your friends and family. I wish to help them, if they want my help.

As we grow our global Village here, you can be certain that you have one of the most committed Strategists by your side helping you navigate this market.

If you enjoyed this research piece, let me know by sending me a 1:1 message on Patreon.

(Image of Feds Balance sheet over a 1 year period)

(Image of Fed's entire Balance sheet over a longer period)