

## 2023 Challenge: Contradiction - RIA

As we start 2023, the challenge this year for investors appears to be whether we rely on bearish fundamentals or bullish technicals. Forecasting market direction becomes easier when technicals and fundamentals are in alignment. However, investing can be very challenging in periods like the last few months of 2022 and the beginning of 2023, where fundamentals and technicals diverge.

Lance Robert's latest article, [The Technicals Vs. The Fundamentals](#) helps better appreciate the current contradiction, so investors conflicted between bearish fundamental views and bullish technical views can more effectively evaluate markets. To wit: *"In other words, the market will respond to the 'votes' of the herd in the market. However, the market will 'weigh' the fundamental measures and price accordingly over the longer term."* In short, the challenge for 2023 may be *"don't pick a side."* Here are a few tips from the article:

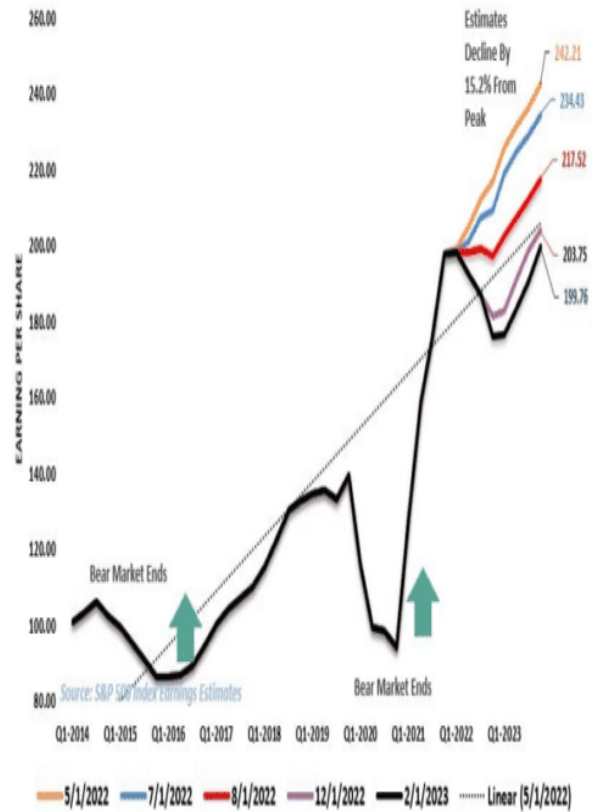
- Set aside the idea of being either *"bullish"* or *"bearish"*.
- Once you pick a side, you lose objectivity to what is occurring within the market.
- How long with the technical bull run last? I have no idea.
- But when it ends, and the fundamentals begin to re-emerge, we will have plenty of warning to adjust accordingly.

## Technicals - Bullish



## Fundamentals - Bearish

### 2023 Earnings Have Not Accounted For A Recession

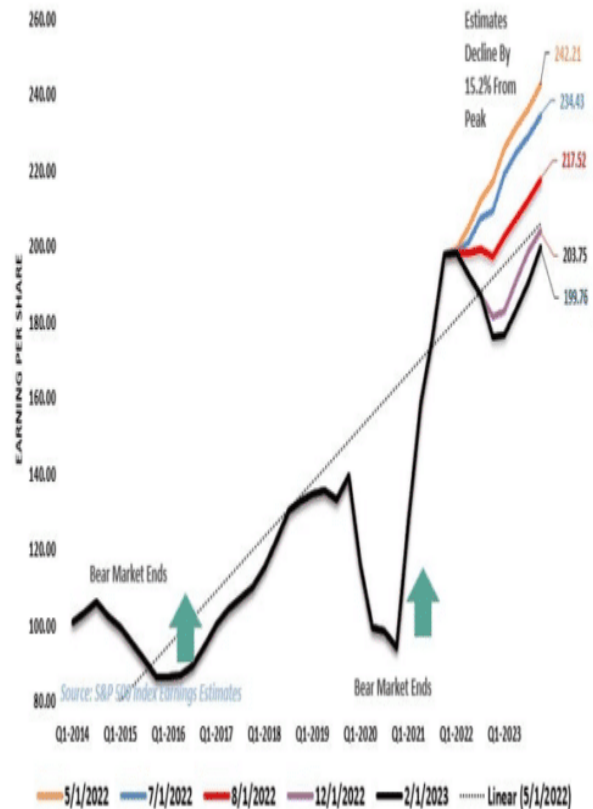


## Technicals - Bullish



## Fundamentals - Bearish

### 2023 Earnings Have Not Accounted For A Recession



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## What To Watch Today

### Economic

- 8:30 a.m. ET: **Initial Jobless Claims**, week ended Feb. 4 (190,000 expected, 183,000 prior)
- 8:30 a.m. ET: **Continuing Claims**, week ended Jan. 28 (1.660 million expected, 1.655 million prior)

### Earnings

	Company	Time	Estimate		<div>📈</div> <div>Growth</div>	Surprise				
					<div>▼</div> <div>Show only confirmed?</div>					
✓	TM	Toyota Motor Corp.	BMO	\$3.66	\$68.13 B	-0.6%	+	=	-	+
✓	PEP	PepsiCo, Inc.	6:00 AM ET	\$1.64	\$26.58 B	5.3%	+	=	-	+
✓	PM	Philip Morris Internati...	7:00 AM ET	\$1.29	\$7.58 B	-63.6%	+	=	-	+
✓	MT	Arcelor Mittal	BMO	\$0.33	\$15.62 B	-24.9%	+	=	-	+
	SIEGY	Siemens Aktiengesell...	BMO	\$1.04	\$19.44 B	3.0%	+	=	-	+
✓	ABBV	AbbVie Inc.	7:45 AM ET	\$3.54	\$15.31 B	2.8%	+	=	-	+
✓	AZN	AstraZeneca PLC	5:00 AM ET	\$0.68	\$11.38 B	-5.3%	+	=	-	+
✓	SCGLY	Societe Generale	\$0.27	\$7.03 B	\$0.18	\$6.66 B	-10.2%	50.0%		+
✓	PYPL	PayPal	4:25 PM ET	\$1.20	\$7.39 B	6.8%	+	=	-	+
	CRARY	Credit Agricole S.A.	BMO	\$0.12	\$5.71 B	-14.1%	+	=	-	+
✓	DUK	Duke Energy Corp.	7:00 AM ET	\$1.06	\$6.59 B	5.6%	+	=	-	+
	ASX	ASE Technology Hold...	BMO	\$0.21	\$6.45 B	4.2%	+	=	-	+
✓	VWDRY	VESTAS WIND SYS	(\$0.18)	\$4.88 B	-	\$5.45 B	-6.2%	-		+
✓	CS	Credit Suisse Group	BMO	(\$0.22)	\$3.30 B	-33.6%	+	=	-	+
✓	THC	Tenet Healthcare Corp.	BMO	\$1.27	\$4.93 B	1.5%	+	=	-	+
	YAMHF	Yamaha Motor Co., Ltd.	BMO	\$0.80	\$3.75 B	-5.3%	+	=	-	+
✓	TU	Telus Corp.	BMO	\$0.21	\$3.62 B	-6.3%	+	=	-	+
✓	BWA	BorgWarner Inc.	6:30 AM ET	\$1.04	\$3.88 B	6.2%	+	=	-	+
	CX	Cemex S.A.B. de C.V.	BMO	-	\$3.89 B	7.5%	+	=	-	+
✓	BAX	Baxter International, I...	7:15 AM ET	\$0.94	\$3.77 B	7.3%	+	=	-	+
✓	K	Kellogg Company	8:00 AM ET	\$0.84	\$3.65 B	6.7%	+	=	-	+
✓	IPG	Interpublic Group of ...	7:00 AM ET	\$1.02	\$2.51 B	-14.4%	+	=	-	+
✓	MHK	Mohawk Industries Inc.	4:10 PM ET	\$1.29	\$2.71 B	-1.8%	+	=	-	+
✓	NWSA	News Corp	AMC	\$0.25	\$2.57 B	-5.4%	+	=	-	+
✓	WTW	Willis Towers Watson	6:00 AM ET	\$6.29	\$2.70 B	-0.2%	+	=	-	+
✓	HII	Huntington Ingalls Ind...	7:15 AM ET	\$3.14	\$2.69 B	0.5%	+	=	-	+
✓	NSIT	Insight Enterprises, Inc.	8:00 AM ET	\$2.13	\$2.61 B	1.7%	+	=	-	+
✓	FAF	First American Corp	6:45 AM ET	\$1.45	\$1.87 B	-21.2%	+	=	-	+
✓	MSI	Motorola Solutions, Inc.	4:10 PM ET	\$3.20	\$2.53 B	9.1%	+	=	-	+
✓	EXPE	Expedia, Inc.	4:00 PM ET	\$1.63	\$2.69 B	18.0%	+	=	-	+
✓	NGL	NGL Energy Partners...	4:25 PM ET	\$0.12	\$2.63 B	21.1%	+	=	-	+
✓	TPR	Tapestry, Inc.	6:45 AM ET	\$1.26	\$2.03 B	-5.2%	+	=	-	+
✓	SPGI	S&P Global	7:10 AM ET	\$2.47	\$2.94 B	40.8%	+	=	-	+
✓	MAS	Masco Corp.	7:00 AM ET	\$0.66	\$1.96 B	-3.1%	+	=	-	+
✓	BHF	Brighthouse Financial...	4:15 PM ET	\$2.05	\$1.99 B	-1.3%	+	=	-	+
✓	HLT	Hilton Worldwide Hol...	6:00 AM ET	\$1.20	\$2.39 B	30.2%	+	=	-	+
✓	RL	Ralph Lauren Corpor...	8:00 AM ET	\$2.91	\$1.75 B	-3.6%	+	=	-	+
✓	TRI	Thomson Reuters Co...	6:40 AM ET	\$0.64	\$1.76 B	2.9%	+	=	-	+
✓	WMG	Warner Music Group ...	7:30 AM ET	\$0.27	\$1.53 B	-5.2%	+	=	-	+
✓	CC	Chemours Company	4:15 PM ET	\$0.15	\$1.27 B	-19.4%	+	=	-	+
✓	SEE	Sealed Air Corp.	7:00 AM ET	\$0.98	\$1.46 B	-4.7%	+	=	-	+
✓	MDU	MDU Resources Gro...	7:25 AM ET	\$0.51	\$1.50 B	3.9%	+	=	-	+
✓	TPX	Tempur Sealy Interna...	6:35 AM ET	\$0.52	\$1.22 B	-10.3%	+	=	-	+
✓	CIGI	Colliers International ...	7:00 AM ET	\$2.25	\$1.31 B	-2.6%	+	=	-	+
✓	ARES	Ares Management LP	6:00 AM ET	\$1.07	\$976.19 M	-25.5%	+	=	-	+
✓	YELL	Yellow Roadway Cor...	4:00 PM ET	\$0.24	\$1.35 B	3.1%	+	=	-	+
✓	NSP	Insperty, Inc.	9:00 AM ET	\$0.91	\$1.51 B	16.9%	+	=	-	+
✓	APO	Apollo Global Manag...	6:55 AM ET	\$1.43	\$1.87 B	56.4%	+	=	-	+
✓	PATK	Patrick Industries Inc.	8:00 AM ET	\$1.71	\$1.04 B	-9.4%	+	=	-	+
✓	BAP	Credicorp, Ltd	7:25 PM ET	\$3.91	\$1.15 B	5.4%	+	=	-	+
✓	G	Genpact Limited	4:00 PM ET	\$0.68	\$1.08 B	0.7%	+	=	-	+
✓	DBD	Diebold Nixdorf	7:00 AM ET	\$0.33	\$985.60 M	-7.0%	+	=	-	+
✓	MTD	Mettler-Toledo Intern...	4:10 PM ET	\$11.63	\$1.03 B	-0.7%	+	=	-	+
✓	VTR	Ventas, Inc.	4:10 PM ET	\$0.72	\$1.04 B	1.7%	+	=	-	+
✓	TEX	Terex Corp.	4:10 PM ET	\$1.13	\$1.10 B	11.1%	+	=	-	+
✓	FLO	Flowers Foods Inc.	4:10 PM ET	\$0.23	\$1.10 B	11.8%	+	=	-	+
✓	LYFT	Lyft, Inc.	4:05 PM ET	\$0.13	\$1.16 B	19.6%	+	=	-	+
✓	CBT	Cabot Corporation	4:50 PM ET	\$0.96	\$955.24 M	-1.3%	+	=	-	+

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<b>TM</b>	Toyota Motor Corp.	BMO	\$3.66	\$68.13 B	-0.6% <div><div><div>+</div><div>=</div><div>-</div></div><div></div></div>

## Market Trading Update

As we noted yesterday, the market is overbought and pushing 3 standard deviations above the 50-DMA. Such is usually a good precursor to a short-term correction. The sell-off yesterday turned the MACD signal lower, which, if it crosses, will suggest at least a retest of the recent support at the 50-DMA.

For now, the bullish technical structures remain, which we must acknowledge short term. While there are fundamental reasons for remaining cautious, until the technical underpinnings reverse, we are in a *?buy the dip?* mode for now. However, we recommend making additions very cautiously and selectively. We can not, as investors, assume that risks are removed, particularly with the Fed continuing to hike rates and reduce its balance sheet.

We suggest balancing additions between some growth and value. Growth will benefit from a decline in inflation, but the value will hedge the portfolio against drawdown risks should something go wrong.



TradingView



## **Bonds and Stocks Diverging ? What Gives?**

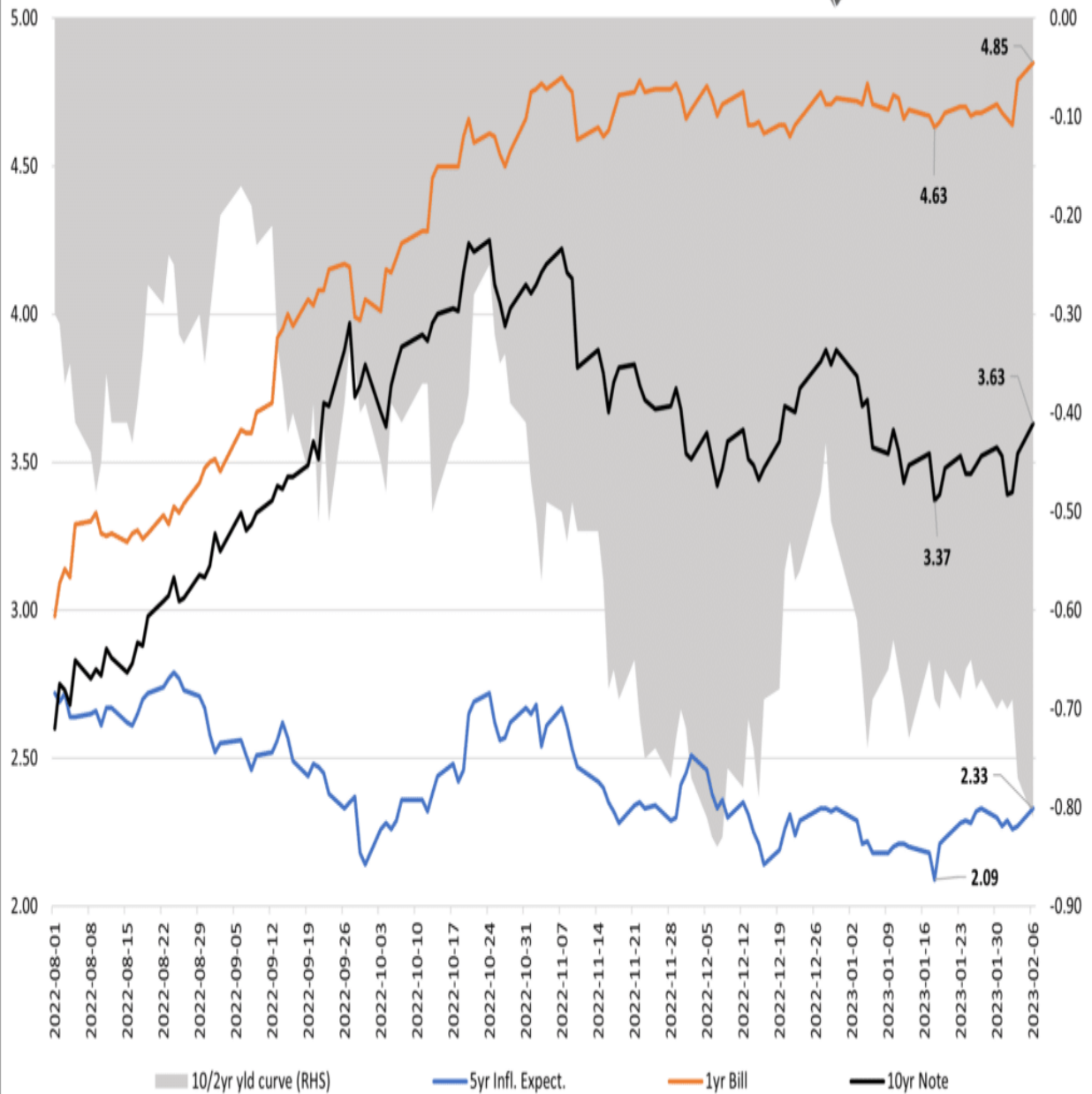
As we led, we think 2023 will be a challenging year. Recent activity in the bond and stock markets is a subtle reminder. As we show below, since the start of 2023, 1yr bill yields have risen to a new high. The 10yr note is up about 30bps, and inflation expectations are gently increasing. At the same time, the 2/10yr UST yield curve inverted further to near the lows of this cycle. Bond investors are clearly worried the Fed will increase Fed Funds beyond expectations and fretting that the fight against inflation may be more challenging than thought.



## Yields and Inflation Expectations Upticking



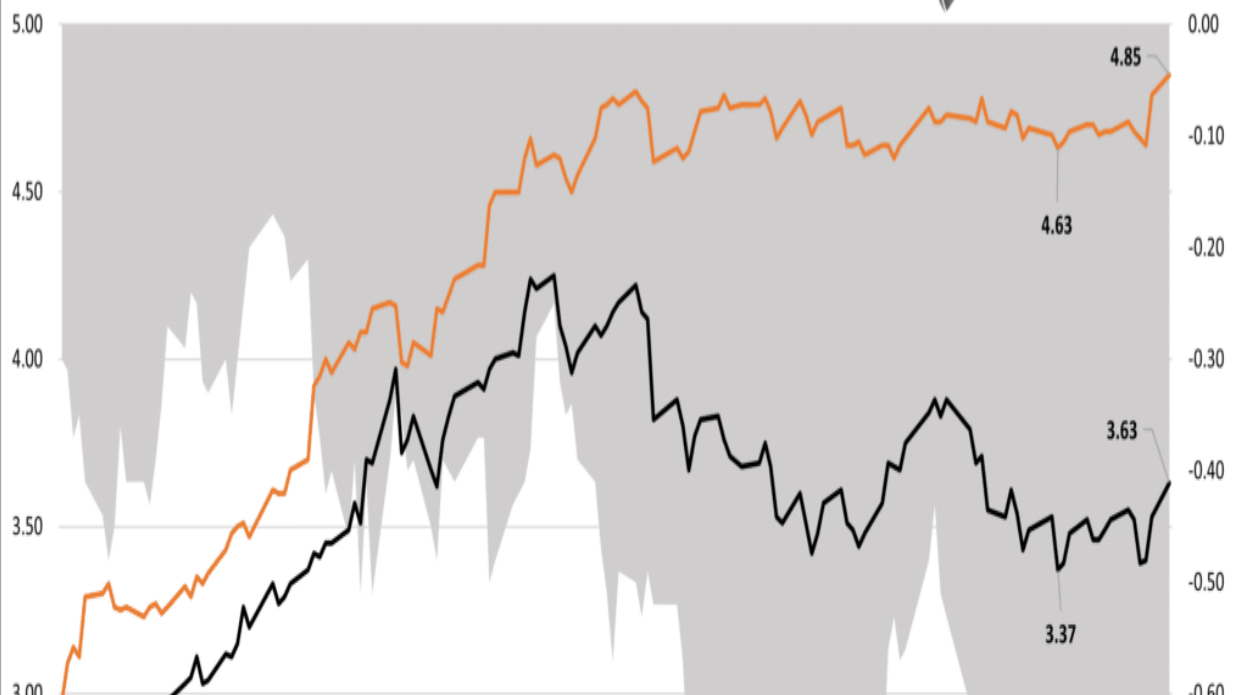
Real Investment Advice



## Yields and Inflation Expectations Upticking



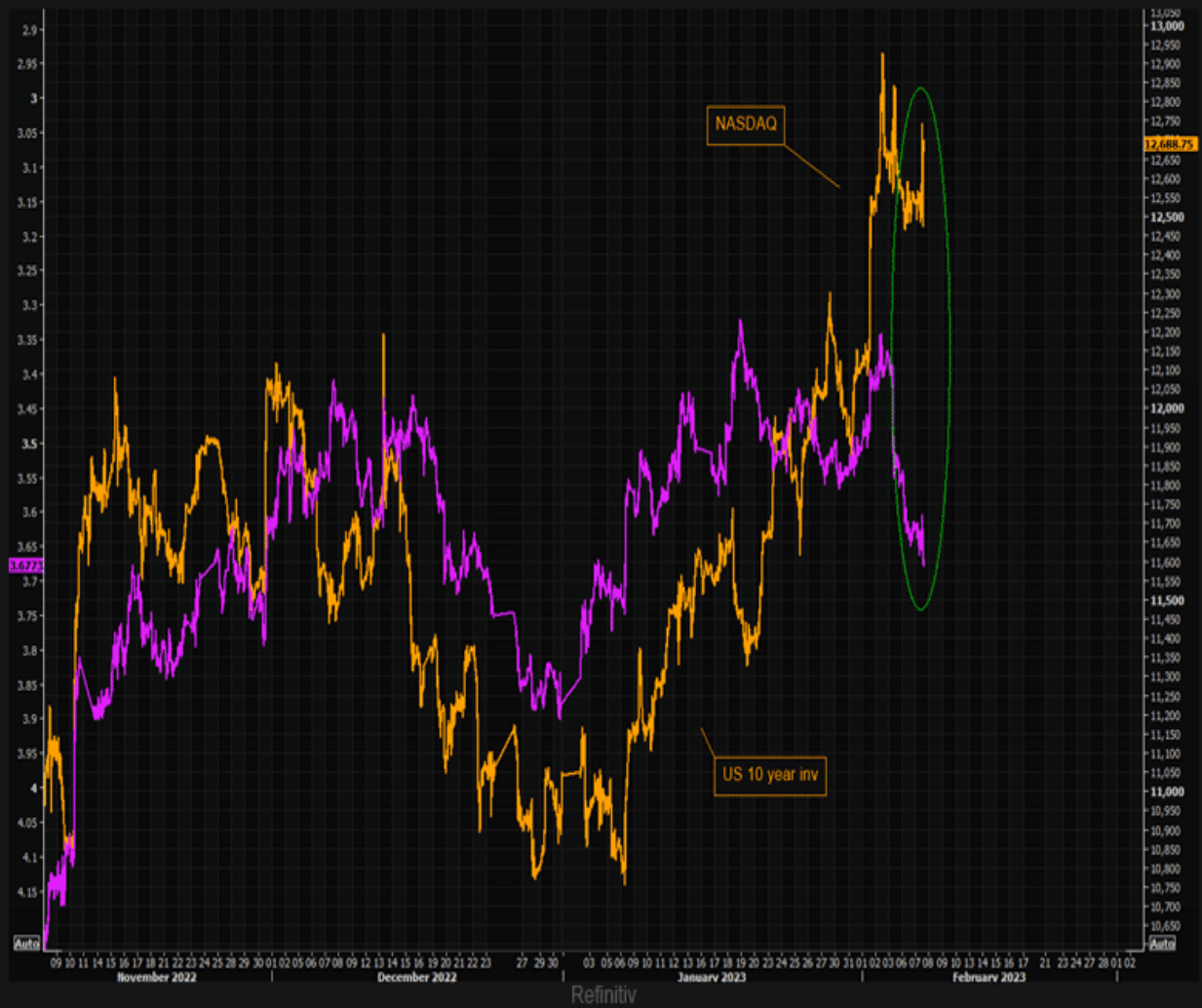
Real Investment Advice



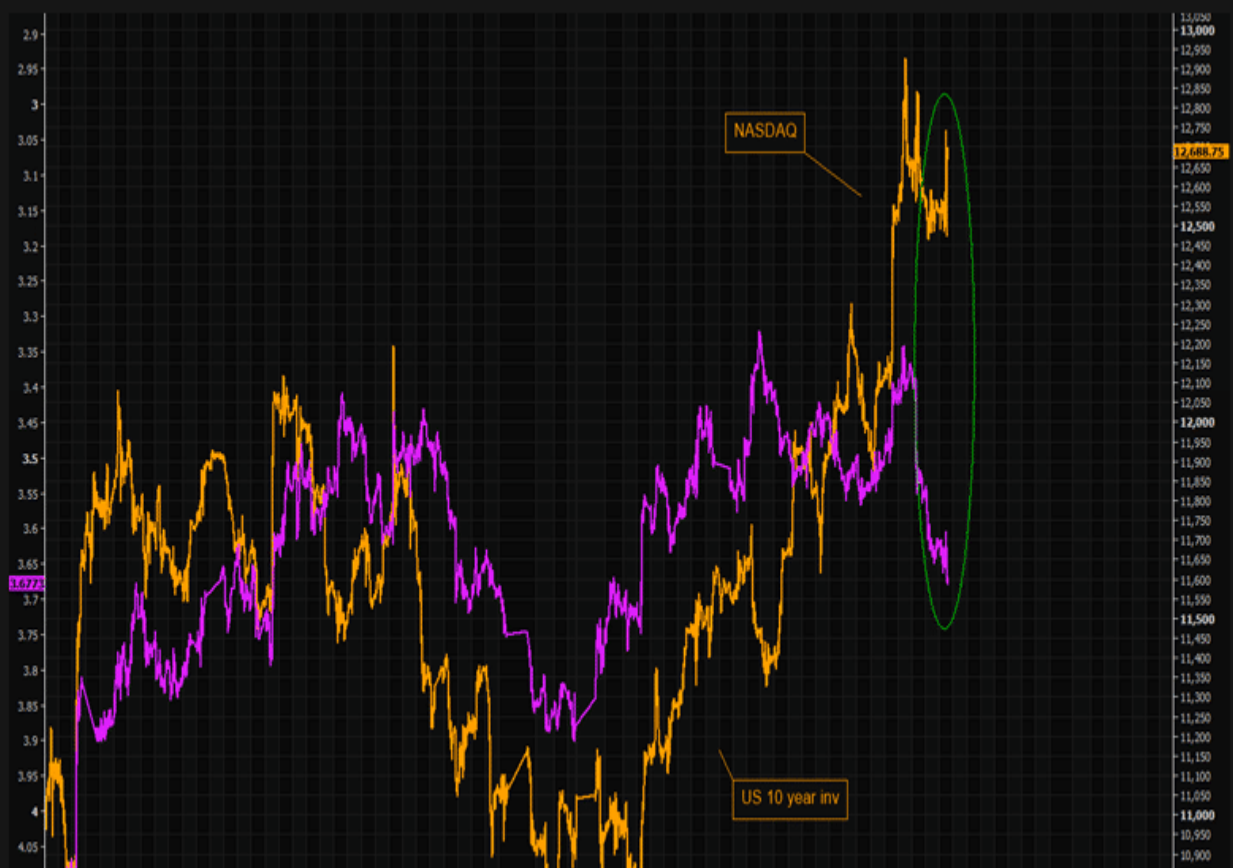


Through most of 2022, hawkish Fed rhetoric and upward bond yields and inflation expectations would have shaken equity investors. Today, they seem not to care. The divergence in views is likely transitory. Bonds either adapt to the soft-landing economic scenario, or stocks adjust to a more hawkish Fed than previously thought. The graph below from The Market Ear highlights the divergence between bonds and the Nasdaq.

The gap between NASDAQ and the US 10 year (inverted) is getting very wide...



The gap between NASDAQ and the US 10 year (inverted) is getting very wide...



## Google's Bard AI May Not Be So Intelligent

Google opened 4% lower yesterday as its AI tool, Bard, answered a question wrong in a Google advertisement. Microsoft opened higher as ChatGPT is thus far proving to be the smarter of the two. The race to bring AI to the public is fierce. Likely the winners of the race will profit handsomely.

Per Reuters:

*In the advertisement, Bard is given the prompt: "What new discoveries from the James Webb Space Telescope (JWST) can I tell my 9-year old about?"*

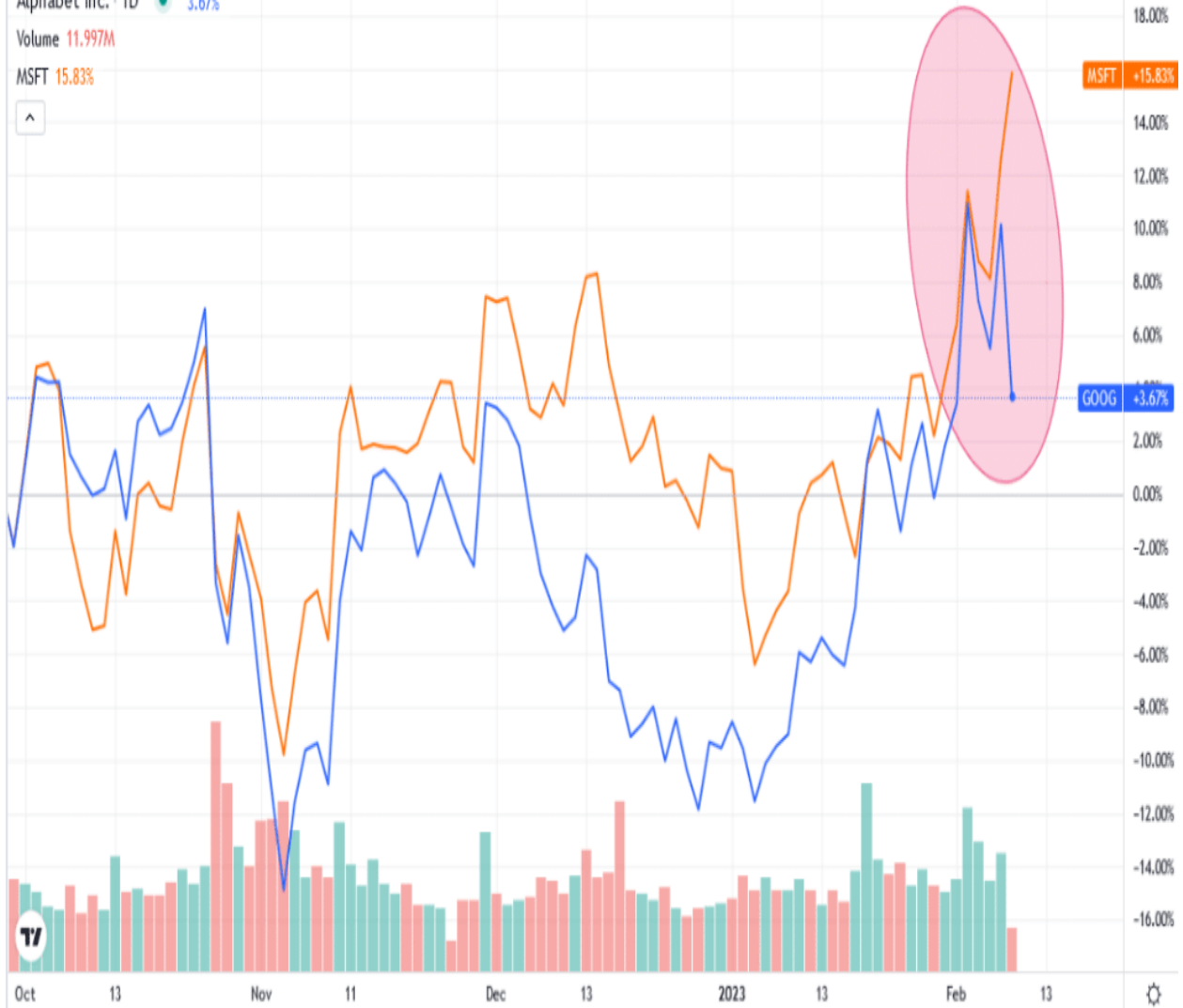
*Bard responds with a number of answers, including one suggesting the JWST was used to take the very first pictures of a planet outside the Earth's solar system, or exoplanets. This is inaccurate.*

*The first pictures of exoplanets were taken by the European Southern Observatory's Very Large Telescope (VLT) in 2004, as confirmed by NASA.*

Alphabet Inc. 1D 3.67%

Volume 11.997M

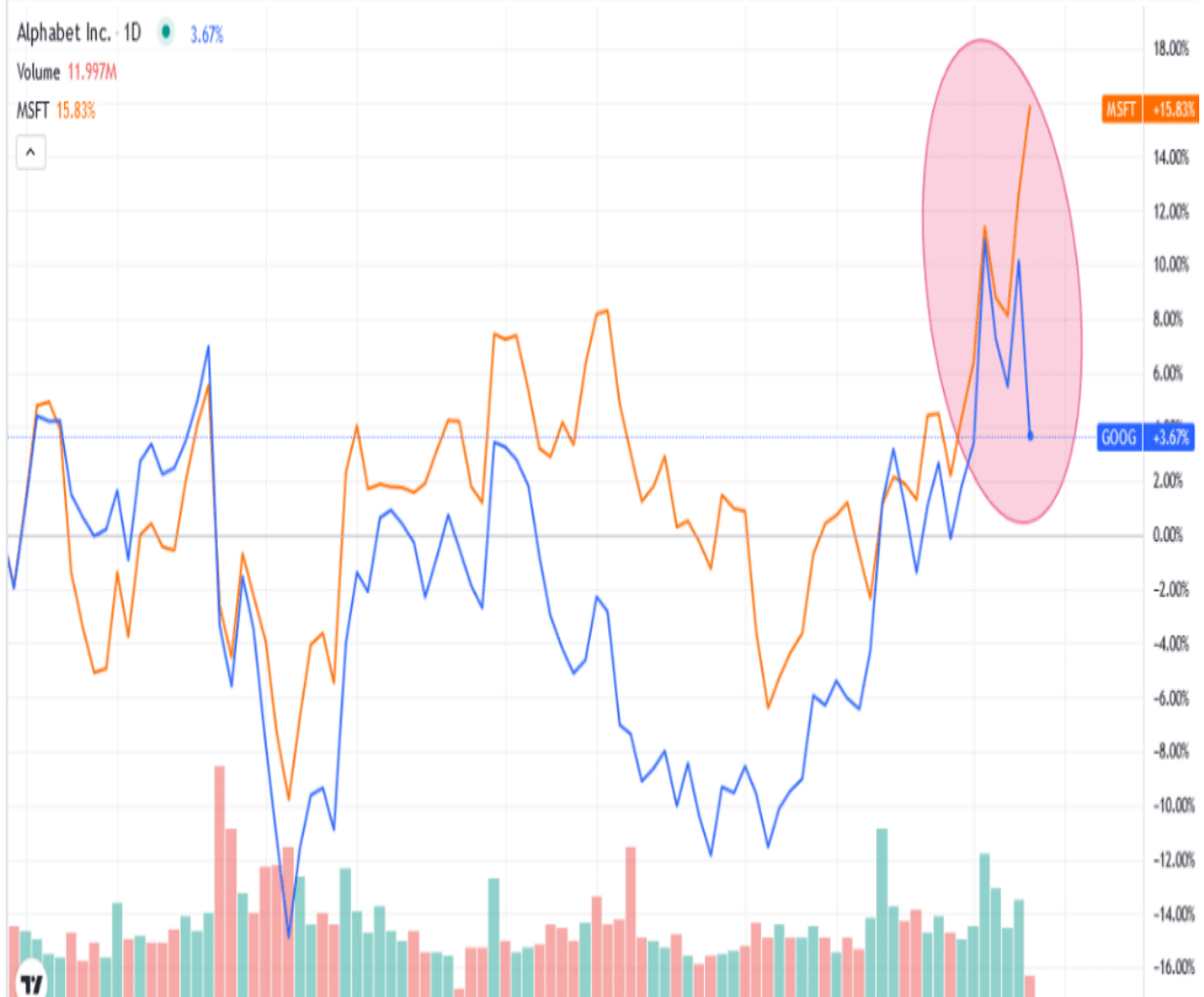
MSFT 15.83%



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## NBER Recession Gauge

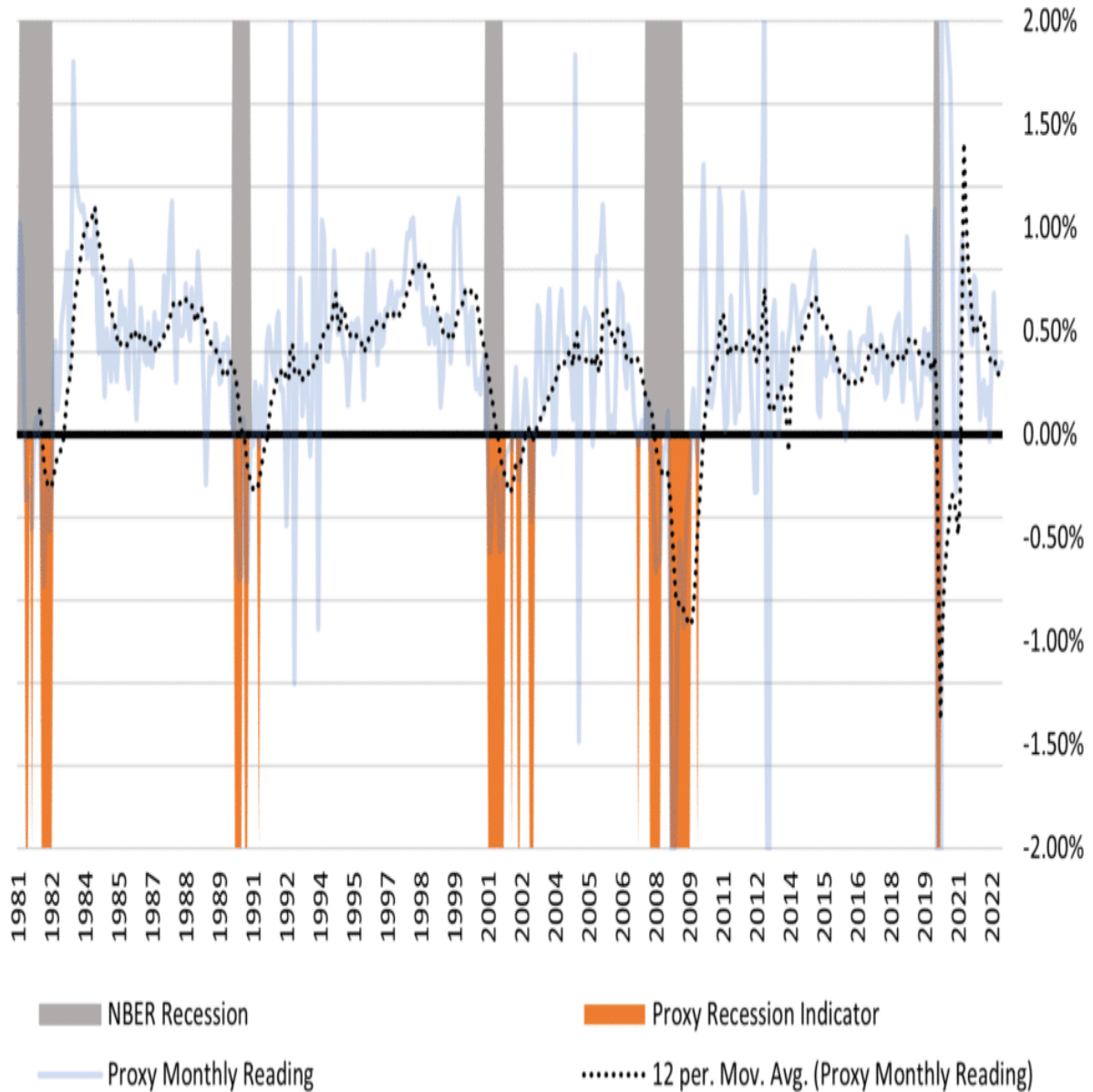
Many investors follow a faulty rule of thumb to determine if the economy is in a recession. This rule of thumb, two consecutive negative quarters of GDP growth, has proven accurate occasionally and dead wrong other times. Last year, for instance, economic growth declined in the first two quarters. The NBER never called a recession. So what constitutes a recession?

It all comes down to weak employment. Expressly, per the NBER:

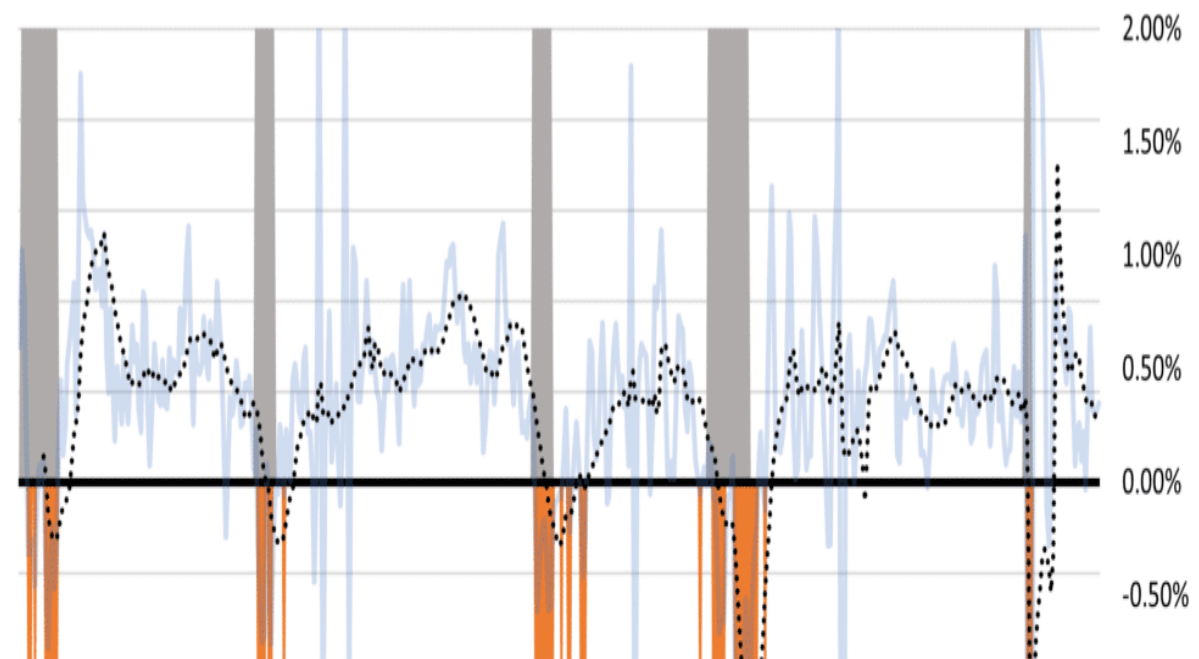
*In recent decades, the two measures **we have put the most weight on are real personal income less transfers and nonfarm payroll employment.***

With that, we created a model to help us track the economy and whether it is trending toward a recession. The graph below shows the model correlates well with NBER recessions. [Soft Landing or Recession](#) shares much more detail on the model and how we should think about recessions.

## NBER Proxy Recession Model



## NBER Proxy Recession Model





## Tweet of the Day



**Michael Lebowitz, CFA**  
@michaellebowitz

...

What the market hears:

THE MESSAGE FROM LAST WEEK'S FOMC WAS  
THAT THE DISINFLATIONARY PROCESS HAS BEGUN

What it selectively ignores:

BUT THERE IS STILL A LONG WAY TO GO.



**Michael Lebowitz, CFA**  
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