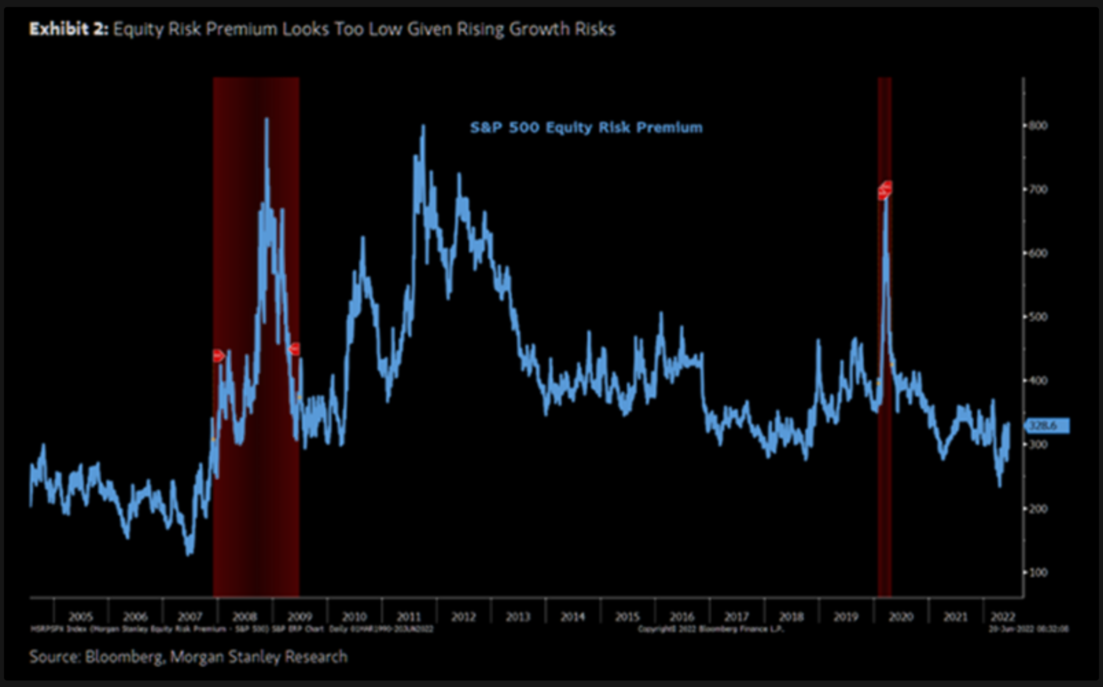
Wilson: it ain't over until the recession bells ring

With Michael Wilson’s view for lower multiples and earnings now more consensus, the markets are more fairly priced. However, it does not price the risk of a recession, in his view, which is 15-20% lower, or roughly 3000. The Bear market will not be over until recession arrives or the risk of one is extinguished.

What do forward EPS contractions look like in the absence of a recession and during a recession?... Forward EPS contractions over 2% are fairly rare. During non-recessionary times, the median EPS contraction is about 5%. During recessions, EPS contractions ramp up to 14%. Such a decline would take the consensus of $239 today down to $206; putting a 14/15x trough multiple on this implies a price range of 2,900 to 3,100.



Morgan Stanley Equity Strategy

Bear market rallies

Bear market rallies get bigger the longer the bear market continues. We are now entering our 4th squeeze of the 2022 vintage bear. Magnitude of 4th squeeze in 02 and 08 bear vintages: 21% and 19% respectively

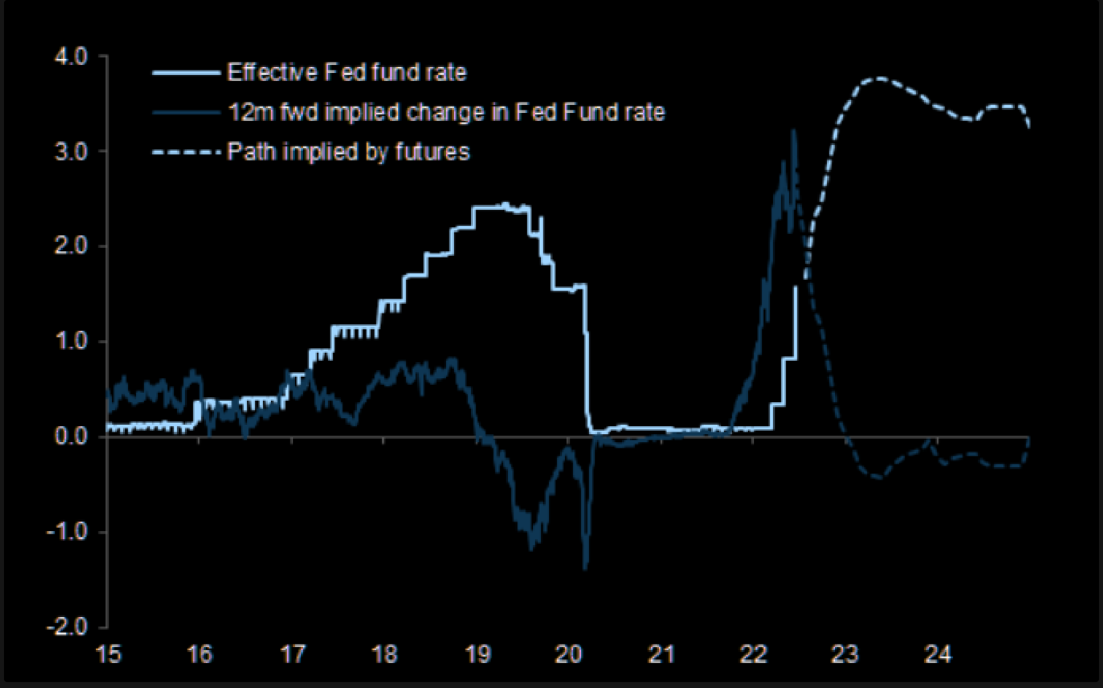
SPX vs HYG

HYG didn't buy the SPX exuberance today. Let's see how things develop from here, but as JPM notes: "Today is the sixth at least +2% day for the SPX this quarter. Each of the 5 previous times we have seen the index fall the next day by an average of 2.5%. Is tomorrow any different?"

Refinitiv

First cut next spring

The market is pricing the first FOMC cut in H1-2023



Goldman

World's largest company not seeing any demand destruction

JPM sat down with Aramco CFO. Here are two of their conclusions:

1. "Aramco is not seeing signs of demand destruction through prevailing customer nominations, and retains the ability to increase supply to MSC of 12mb/d if mandated by the government"

2. "With demand signals to-date also remaining robust, we expect this to translate into a structural risk premium on oil prices of >$30/bbl. We see upside risk to $150/bbl by 2023" (JPM)

Everybody asking about the oil move

Pretty good summary via JPM's energy specialist Ian Mitchell on the incoming questions on oil:

1. Talks about back channel discussions with Ukraine to end the war, perhaps involving fast track EU membership in return for ceding territory to Russia. If this was the driver then surely market also stronger?

2. Biden potentially restricting exports - bearish Brent?

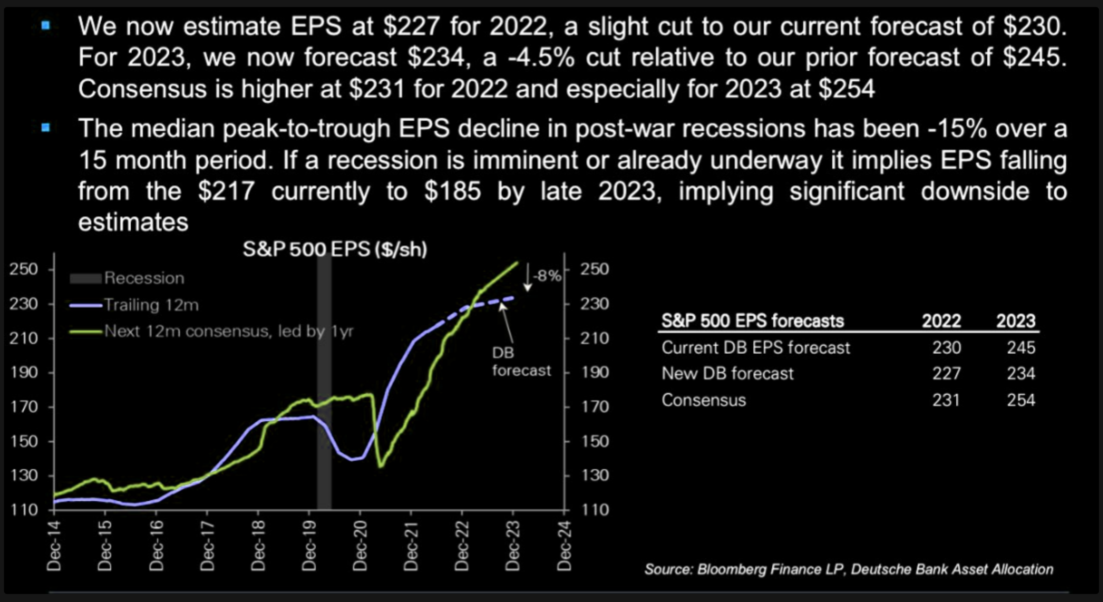
3. Expiry next week, catching up to weakness in Equities, lightening up on positioning - I guess, maybe.

And the last bullet which sums it up well:

4. So everyone asking but no one has a really good answer...

Estimates too high, whatever happens

Binky saying 23 estimates are too high even if we don't get a recession. But remember, it's when the bottom-up analysts start cutting estimates aggressively that the count-down clock starts for a bottom to be formed...



Deutsche

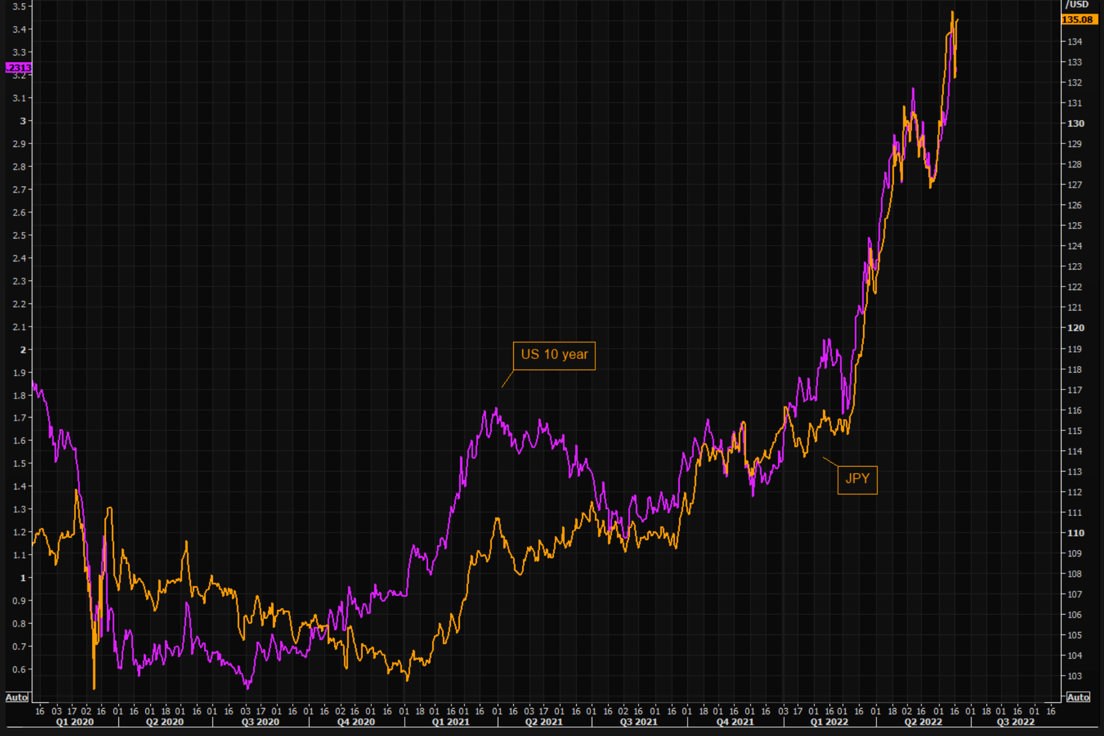
BOJ says no

TS Lombard sums up BOJ and the JPY situation:

Monetary policy tweaks would make sense but only offer some temporary relief for the yen: yield curve control has tied the currency tightly to the mast of US Treasury yields

Abenomics lives on: the authorities still welcome the boost to both profits and prices from orderly yen depreciation, leaving the fiscal channel to deal with the adverse impact on demand from imported inflation

Sustained yen declines keep the pressure on Beijing to weaken the CNY, fuelling further USD strength and reinforcing the squeeze on asset prices from the pincer movement between a hawkish Fed and slowing world growth



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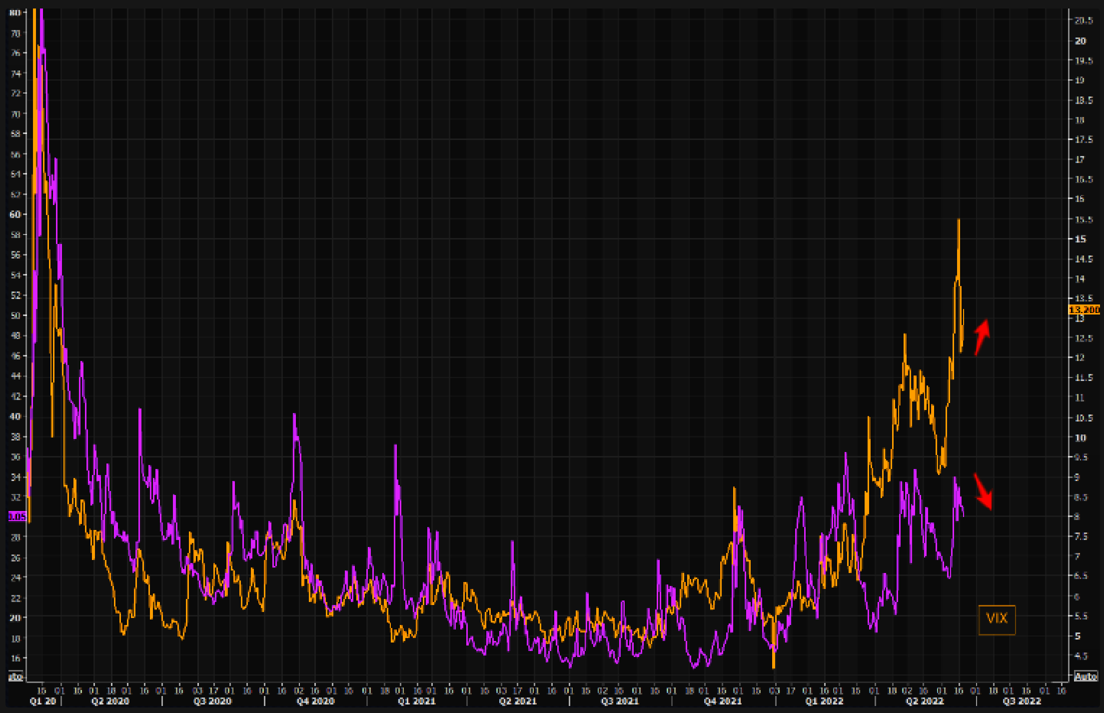
Not all vols are equal

JPY volatility is down from panic highs last week, but note vols have picked up again as the JPY remains very "fluid". Watch should the spread between VIX and JPY vols become wider.



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Did you believe the crowd would time the bear?

Gentle reminder of the latest AAII bull-bear spread we showed on Thursday. Here overlaid vs SPX. Wanna be the crowd?

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