



Guided Tour of the Markets

As of: July 22, 2022

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*Interview from Oct 3, 2008, the day of the TARP vote.
Was billed as "Fund Manager who doesn't own stocks".
S&P 500 was down more than 30% over next 7 weeks.*

About Mike

Mike Hurley, CMT serves as Chief Market Strategist & Portfolio Manager for NexPoint Advisors, L.P.

Prior to joining NexPoint he launched 2 of the first 100 'alternative mutual funds', including the Fusion Global Long/Short Fund (FGLSX) which posted a positive return in 2008 and won the Lipper Performance Achievement Award in the Long/Short category for the one-year period ending December 31, 2008 (ranked #1 of 90).

Mike also served as Chief Technical Strategist for several boutique research firms, including: SoundView Technology Group and E*Offering (The Investment Bank of E*TRADE).

He proudly served in the United States Navy, where he flew over 50 combat missions during Operation Desert Storm, earning two Air Medals.

Mike is a graduate of UC Santa Barbara, where he received BA degrees in both Business Economics and Chemistry. He is Series 7, 63 & 65 licensed and is a Chartered Market Technician (CMT).

Will discuss:

- Economy
- Markets

Strategy & Tactics

Wrap-up / Questions

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US Economy

Recessions:

- 2 consecutive quarters of declining GDP
- Has a few different definitions
 - Quick: 2 quarters of negative GDP
 - NBER: A significant decline in economic activity that lasts for months or years
- Shown to right as red stripes

Indicators:

- Yield Curve: Typically inverts prior to “R”
- LEI: 4th consecutive decline in July
- S&P 500 is one of the 10 LEI's
- CPI: Inflation at highest level since 1981
- Unemployment Claims: Above 6-mo. avg.

Bottom Line:

- NY Fed believes odds of a recession at 9%
- Most other economists believe much higher
- Given 1Q'22 was -1.6%, we also think higher



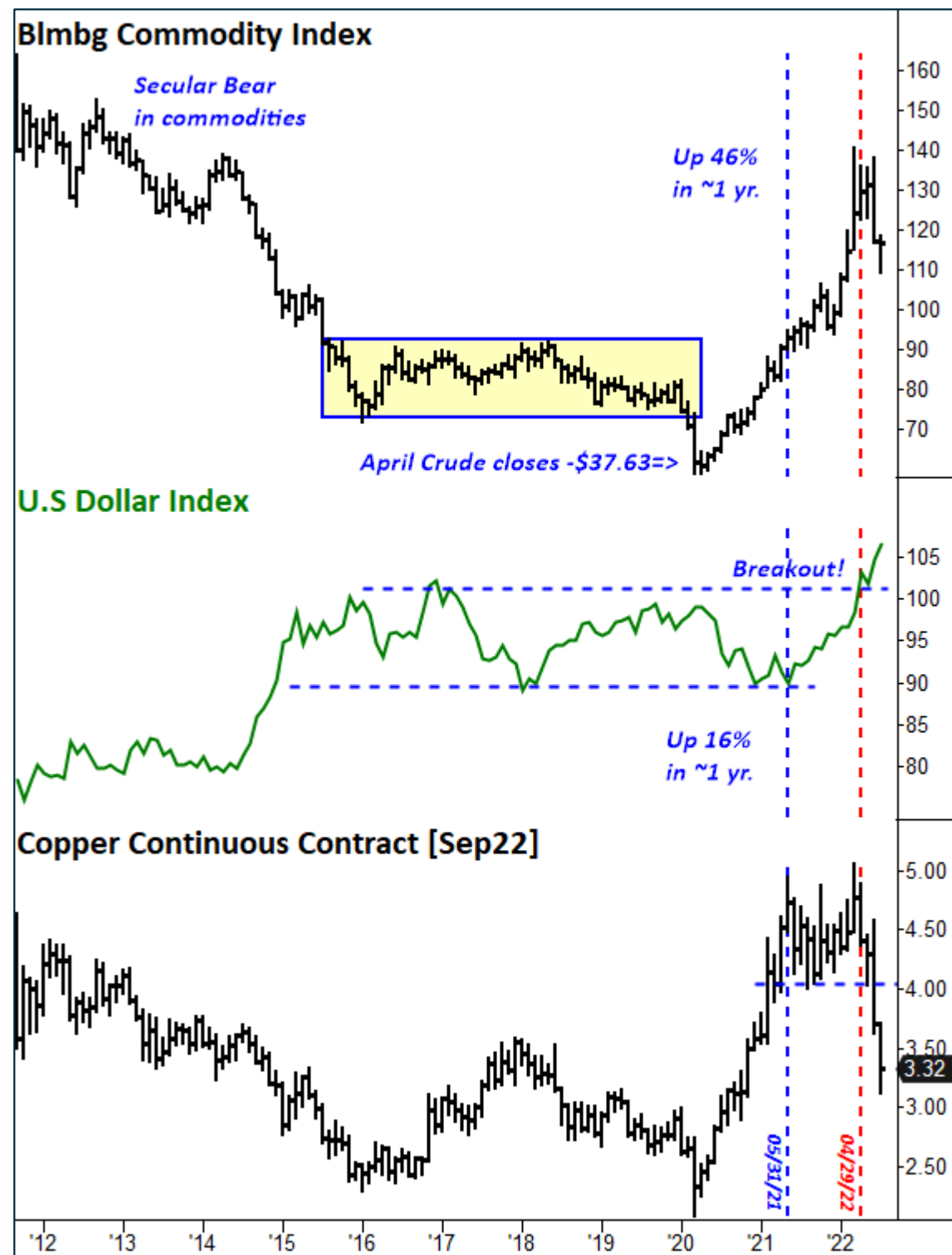
Commodities

Commodities:

- More than doubled off 2020 low
- Can argue has seen a secular bottom
 - Housing bubble marked top
 - Crude traded negative at low
- US\$ breakout finally put a lid on BCOM
- BCOM has seen cyclical 'bear' (down 20%)
- Bad break in copper – very GDP sensitive

Bottom Line:

- Commodities being squashed by strong US\$
- Copper a harbinger of economic weakness
- Still potential for a commodity 'super-cycle'



Bonds / Rates

10-yr Treasury:

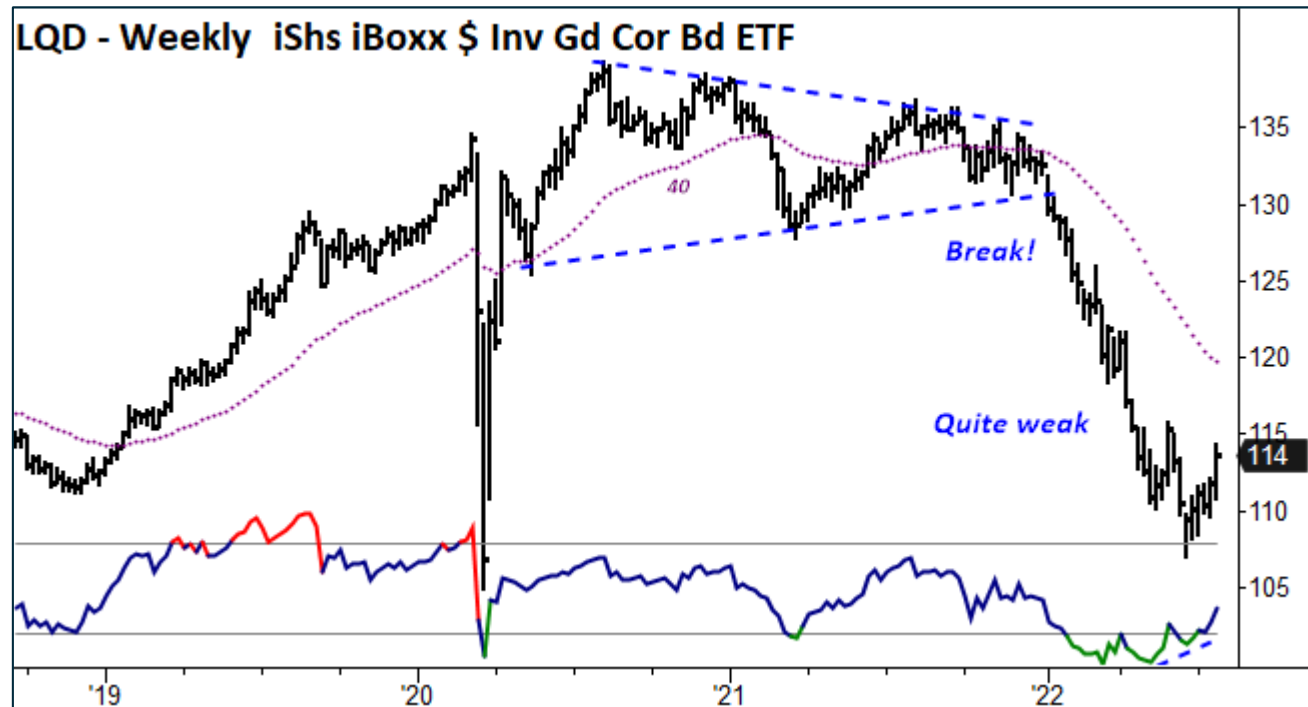
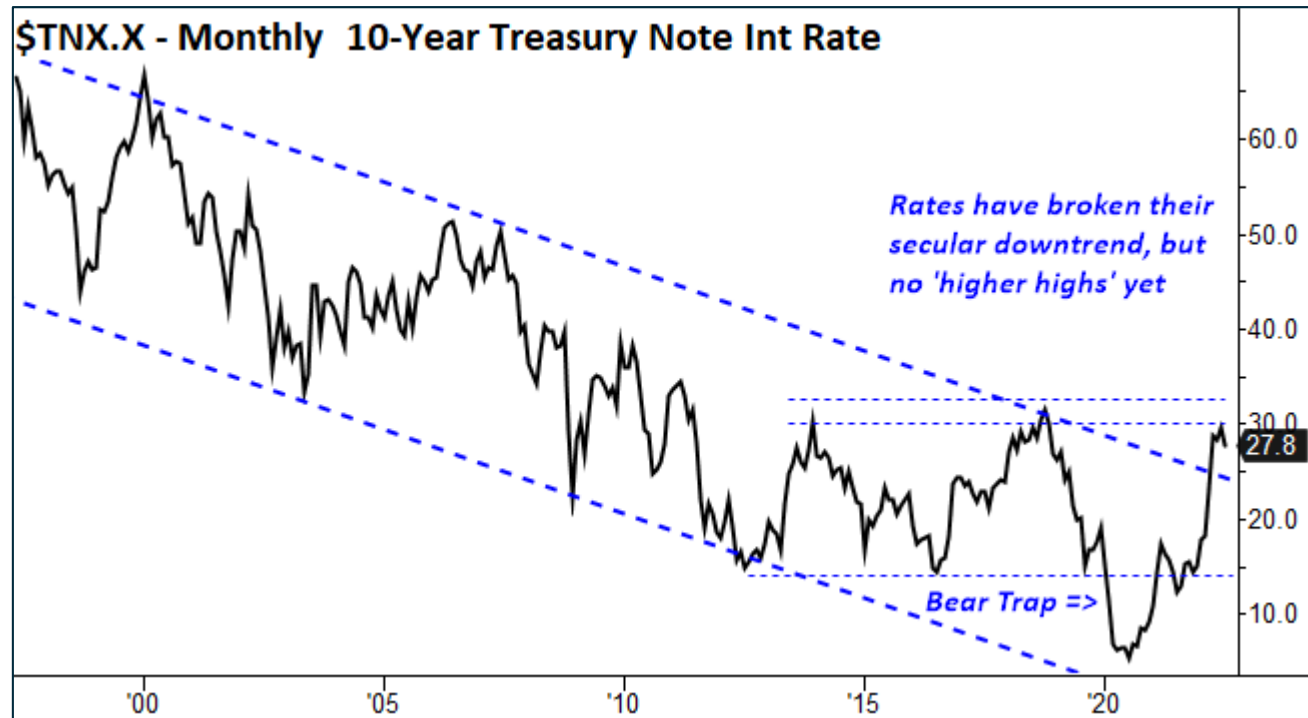
- Has broken secular downtrend
- Bear Trap also occurred during 'COVID collapse'
- Now battling critical resistance in 3-3½% area

LQD:

- Significant weakness in credit
- Suggests economic fundamentals for firms is likely deteriorating
- Very oversold, trying to bounce

Bottom Line:

- Would consider possibility of rising rate environment longer term
- Would consider possibility of already being in a 'recession'



Stocks

The Top:

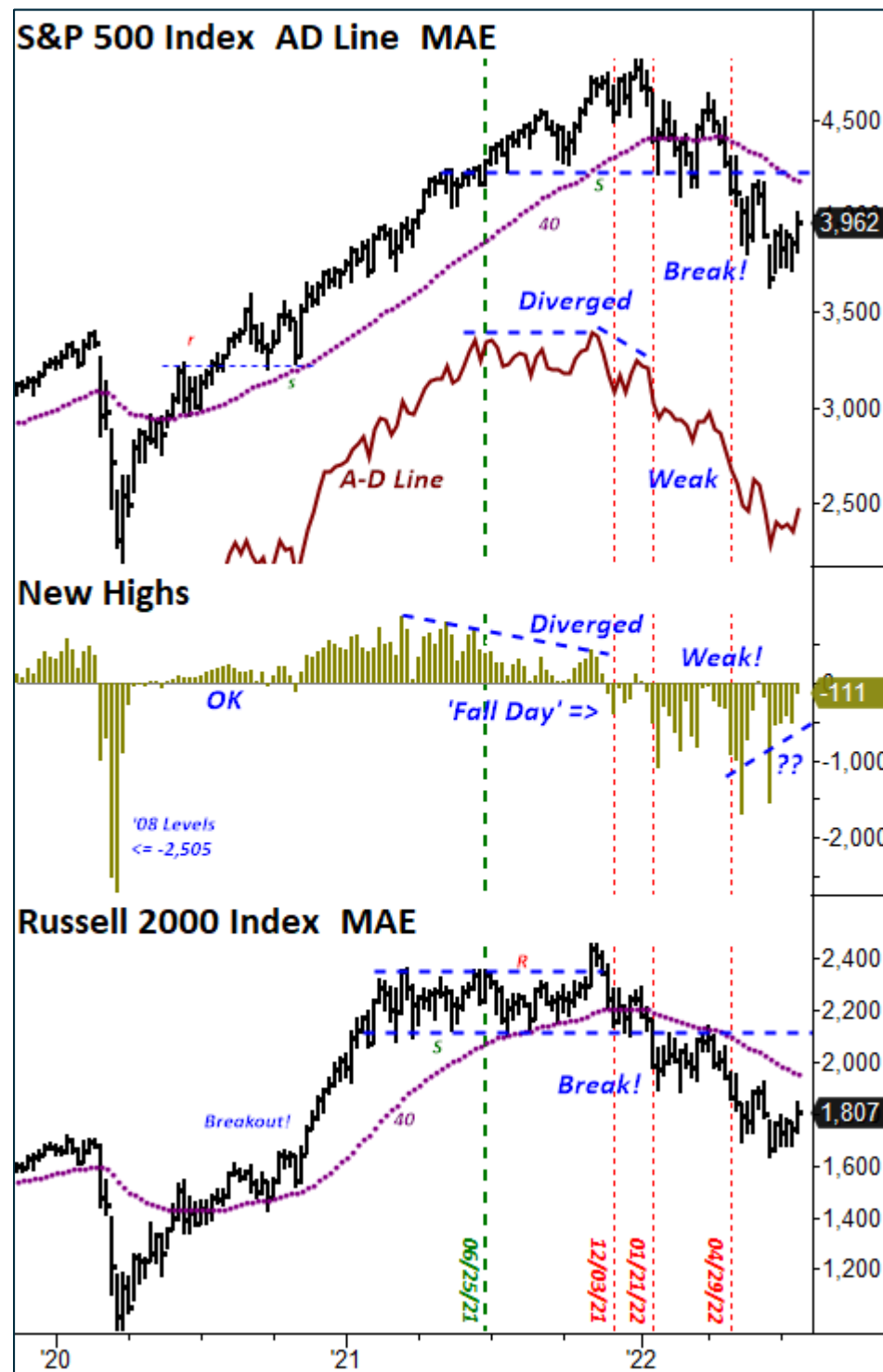
- Healthy rally through 1H'21
- Internals diverged during 2H'21
- 'Fall Day' signaled Dec'21
- Small caps broke down Jan'22
- S&P and NASDAQ broke in April

Going Forward:

- Have clearly formed a cyclical top
- Average 'Bear Market' is ~25% decline over 9 mo., median is 7 mo. (in a secular up trend)
- S&P 500 has declined ~25% in 6 mo.
- Internals extreme, potential for divergences

Bottom Line:

- Stocks remain in weak shape technically
- Have seen potential 'wash-out' levels
- Bullish divergences may be starting to form



Summary

Economy:

- NY Fed recession probability <10%
- Most professionals believe higher
- We believe may already be in one

Markets:

- Copper suggesting economic weakness
- May be in secular bull in commodities
- Interest rates surging – now at resistance
- Stocks have seen a ‘top’ and a ‘bear market’
- No evidence technically yet of a bottom
- Divergences potentially setting-up
- Don’t forget: Stocks are one of 10 LEIs

Questions?





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Charts as of: July 22, 2022 and courtesy of TradeStation or Bloomberg, unless otherwise noted.