

While we are still in 2022, stocks traded on Thursday will settle in 2023. This has importance for institutional investors. Some institutional investors only have to report their holdings as of a month or quarter end. As such, they often do window dressing trades around the end of these periods to give the appearance they held "the right stocks" or didn't hold "the wrong stocks." Window dressing trades can result in selling struggling stocks and buying the outperformers. With stocks now settling in 2023, this set of investors can rebalance or reverse some of the window dressing trades transacted over the past few weeks.

Tesla, for example, is a victim of end-of-year-related window dressing activity. As we share below, Tesla deviated significantly from the S&P 500 over the last few weeks. Tesla rose over 5% on Thursday and may likely continue to claw back some of the recent window dressing-related losses. Both sales and buys related to window dressing are temporary, but they can have a significant, albeit short-term, effect on the market.



What To Watch Today

Economy

- No notable economic reports today.

Earnings

- No notable earnings reports today.

Market Trading Update

The market finally got a bid yesterday as "window dressing" finally took hold. We could see some follow-through today, although early this morning futures are pointing lower to close out the trading

year.

The market is currently oversold enough for a decent rally into the beginning of the year. However, there remains significant overhead resistance with multiple moving averages all converging. With the sell signal still intact, continue using rallies for risk reduction and portfolio rebalancing.



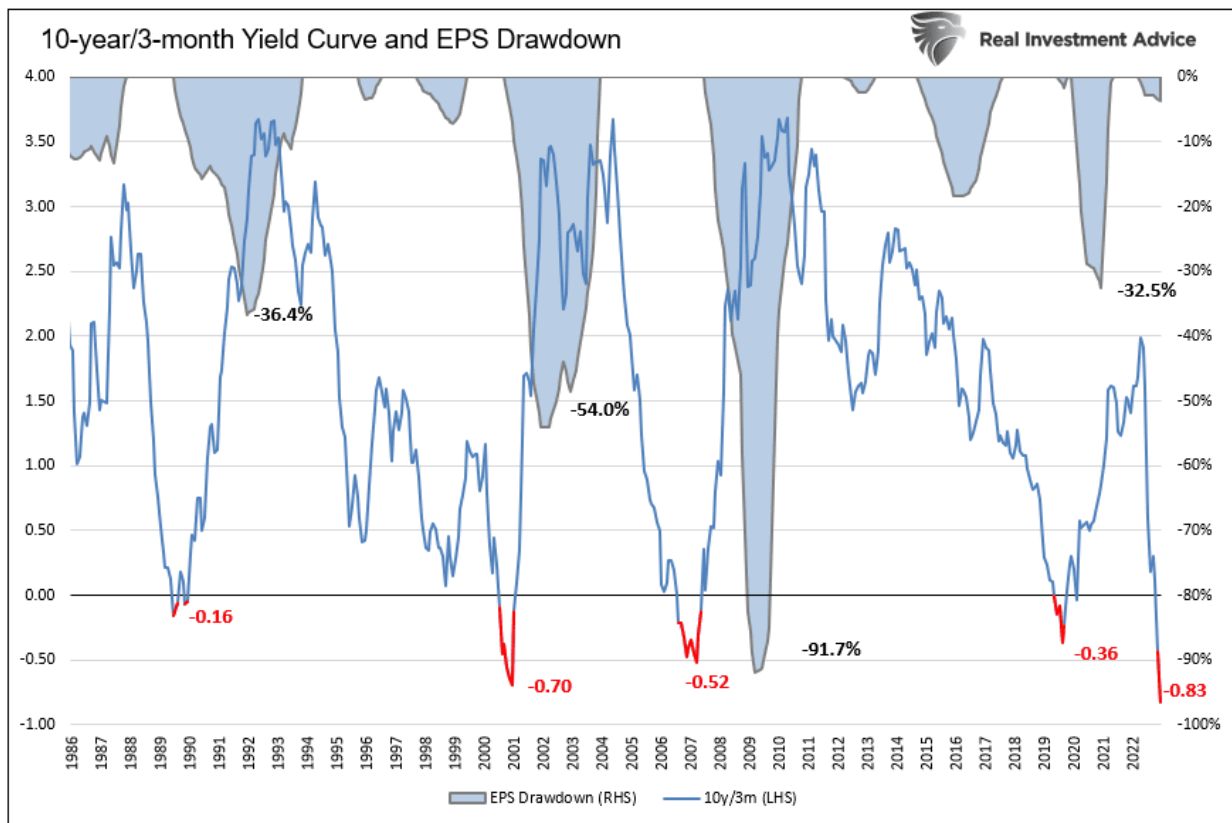
With today being the last trading day of the year, today's close will mark the end of a fairly brutal year for investors, particularly in the more speculative and "meme" type stocks.

The good news is that Monday resets all performance to ZERO, **so we all want to wish you a VERY Happy and Prosperous New Year.**

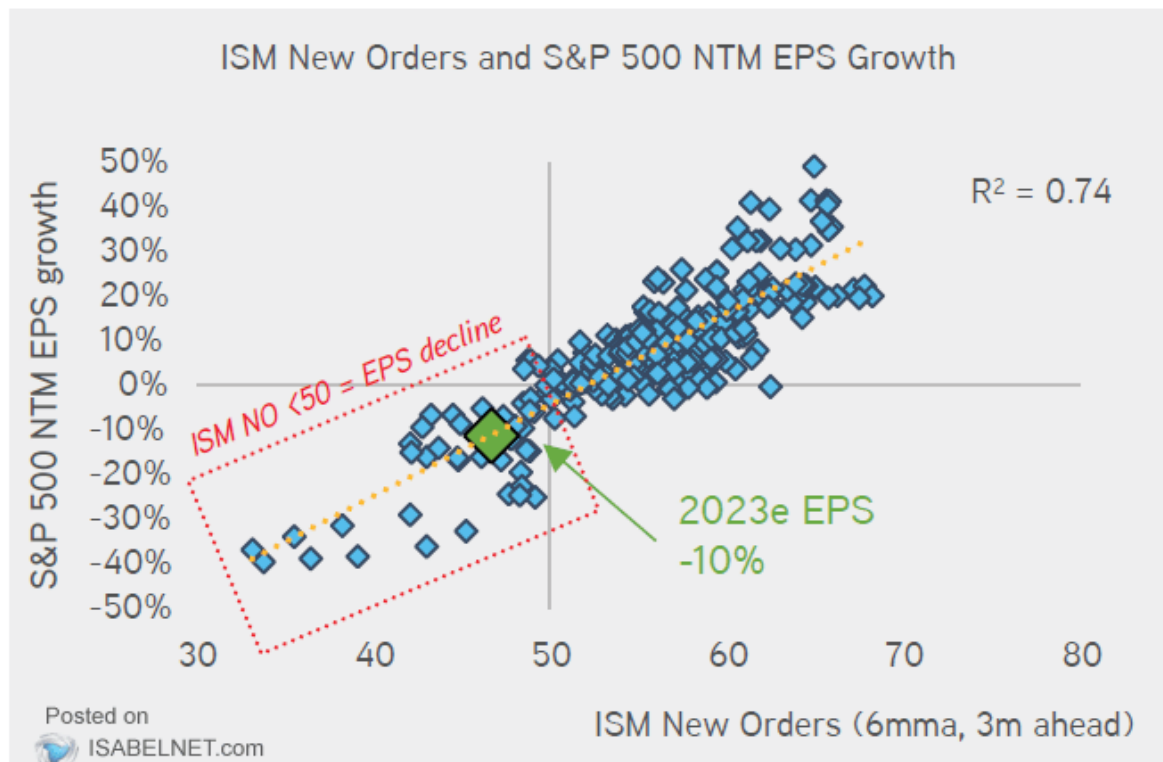
ISM New Orders and EPS Growth

Wall Street analysts currently expect 8% earnings growth in 2023. Despite what the yield curves and a slew of other data warn, equity analysts, do not expect a recession, or at least not an earnings recession. The graph below from our article [The Foghorn is Blowing](#) highlights that every yield curve inversion in the last thirty years has led to a sizeable drawdown in EPS growth. The yield curve, as shown below, is the most inverted it has been since the late 1970s.

The second graph provides more concern that Wall Street may be wrong about next year's earnings growth. The scatter plot shows a robust correlation ($r^2=0.74$) between ISM New Orders and EPS growth. ISM New Orders fell to 47.2 in the latest report, as shown in the TradingEconomics graph. Per the correlation, we should expect -10% EPS growth next year. If New Orders fall to the low 40s, as is typical in a recession, a negative EPS growth of 30% to 50% should be expected. Once again, we ask, might this time be different?

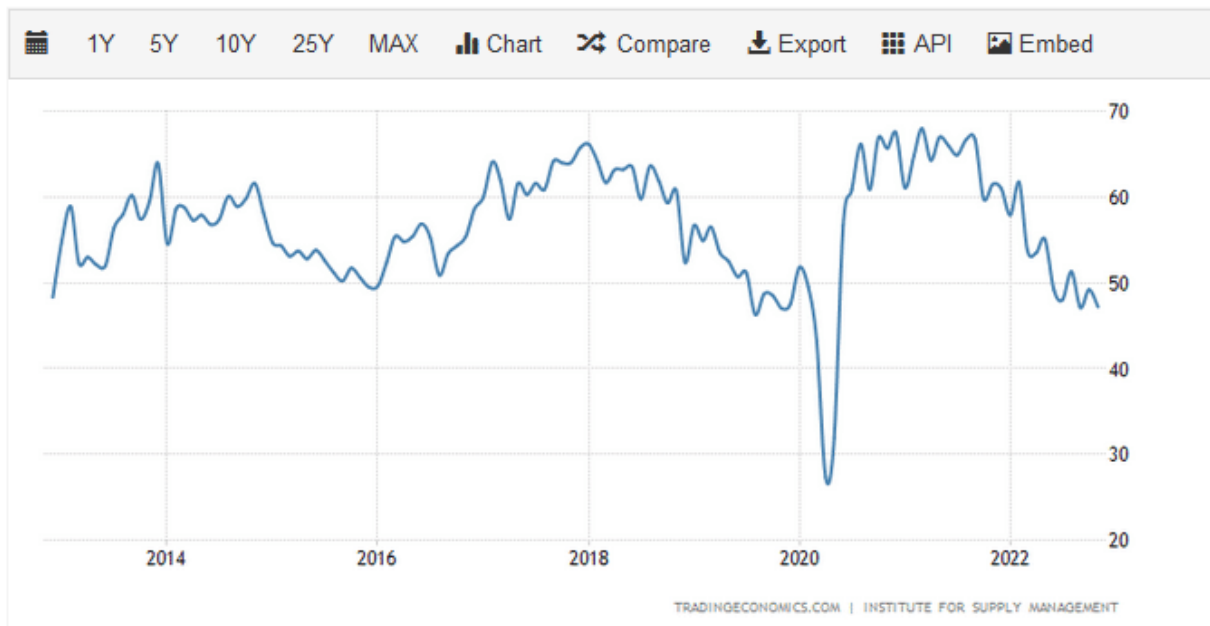


We Expect ISM New Orders to Fall into the Low 40s Next Year, Which is Consistent with Around 10% EPS Contraction



Data as at November 30, 2022. Source: Bloomberg, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

The ISM Manufacturing New Orders subindex in the United States decreased to 47.20 points in November from 49.20 points in October of 2022. It marks a third straight month of falling new orders. source: Institute for Supply Management

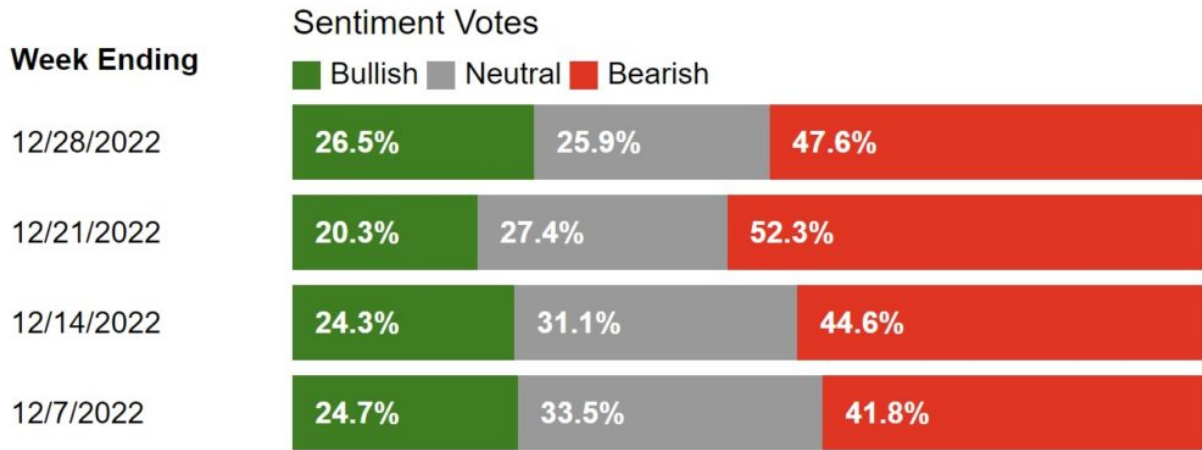


Calendar	GMT	Reference	Actual	Previous	Consensus	TEForecast
2022-11-01	02:00 PM	Oct	49.2	47.1		47
2022-12-01	03:00 PM	Nov	47.2	49.2		49.5
2023-01-04	03:00 PM	Dec		47.2		

Poor Sentiment Hits Record

The latest [AAII sentiment survey](#) shows that bullish sentiment remains low. During the past week, expectations that stock prices will be higher in six months fell by 4% to only 20.3%. Per AAIL:

*This week's reading is the 52nd lowest recorded since the survey started in 1987. Bullish sentiment remains below its historical average of 37.5% for the 51st consecutive week. **Since the survey started in 1987, optimism has never been below avg. for a full calendar year before.** It is at an unusually low level for the fourth consecutive week.*




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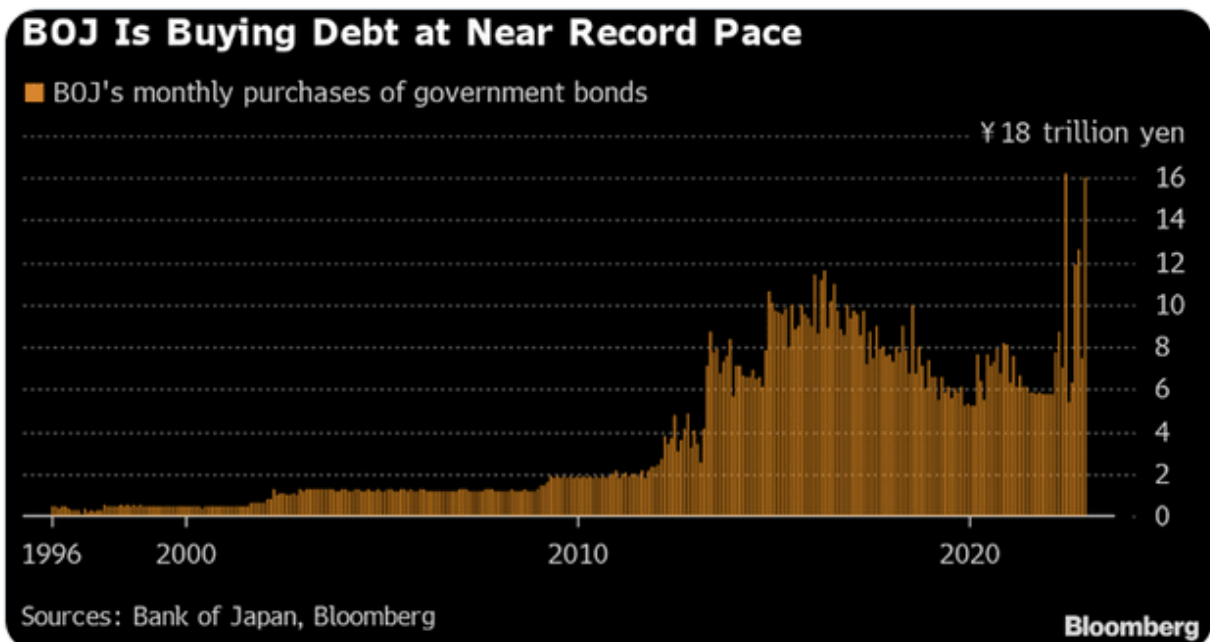
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8:04 AM · Dec 29, 2022

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