BRENTON POINT
WEALTH ADVISORS

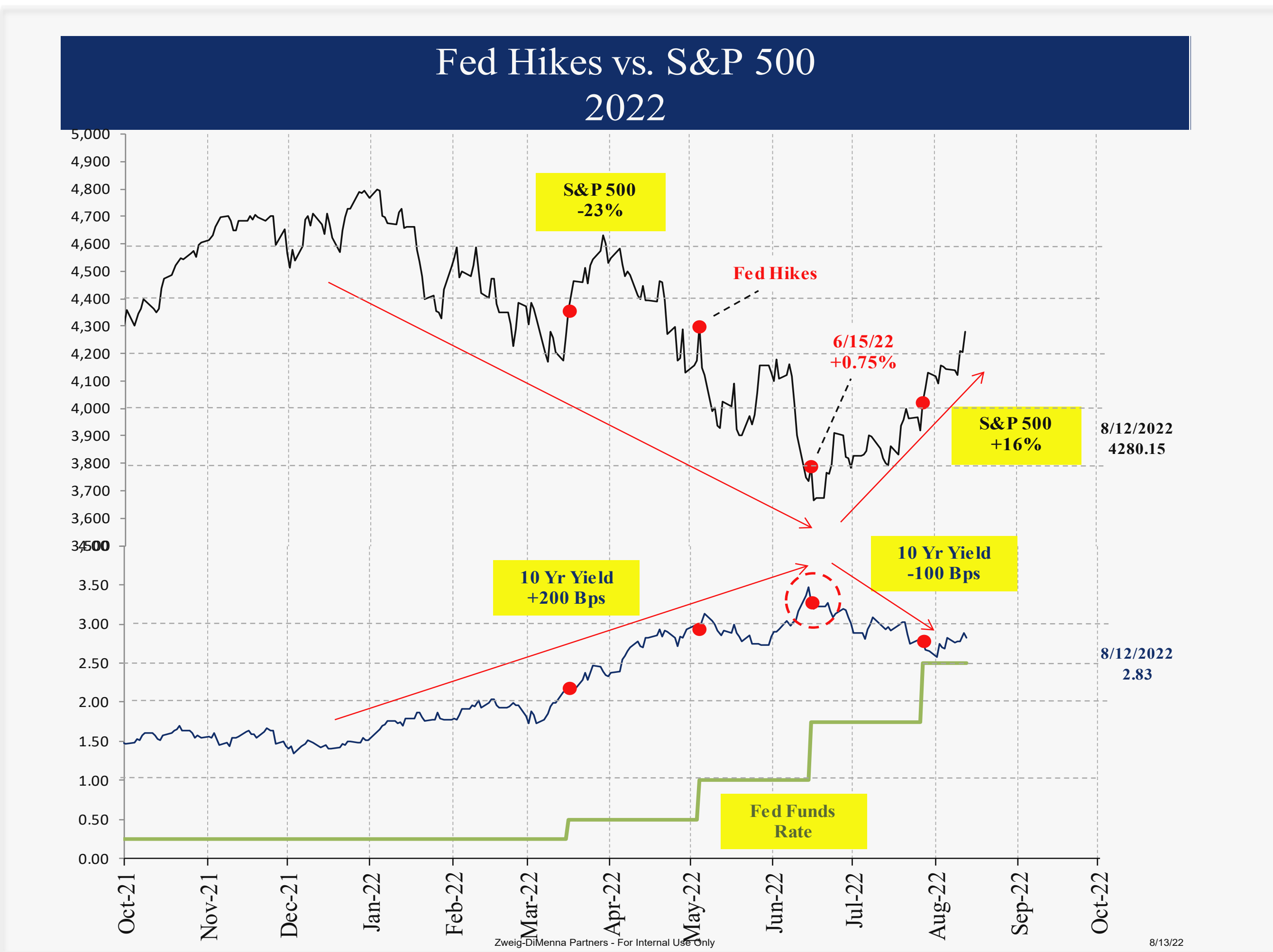
August 15, 2022

Investing Environment Review and Outlook – Volume 62

Extremes and Turning Points

Last month we discussed the bullish conditions for equities despite higher inflation and the Fed hiking interest rates. In June, the media focused on the risk of a recession, a bear market and the Fed hiking rates. Today, all three of those assumptions are in question. Since the June 16th low, the S&P 500 is up 16% in two months, retracing over 50% of the peak to trough decline of 23.5%. As of Friday August 12th, the S&P 500 was down just 10.8% from the January peak. This month, we discuss the implications of that move, as well as implications for potential turning points in the U.S. dollar and inflation.

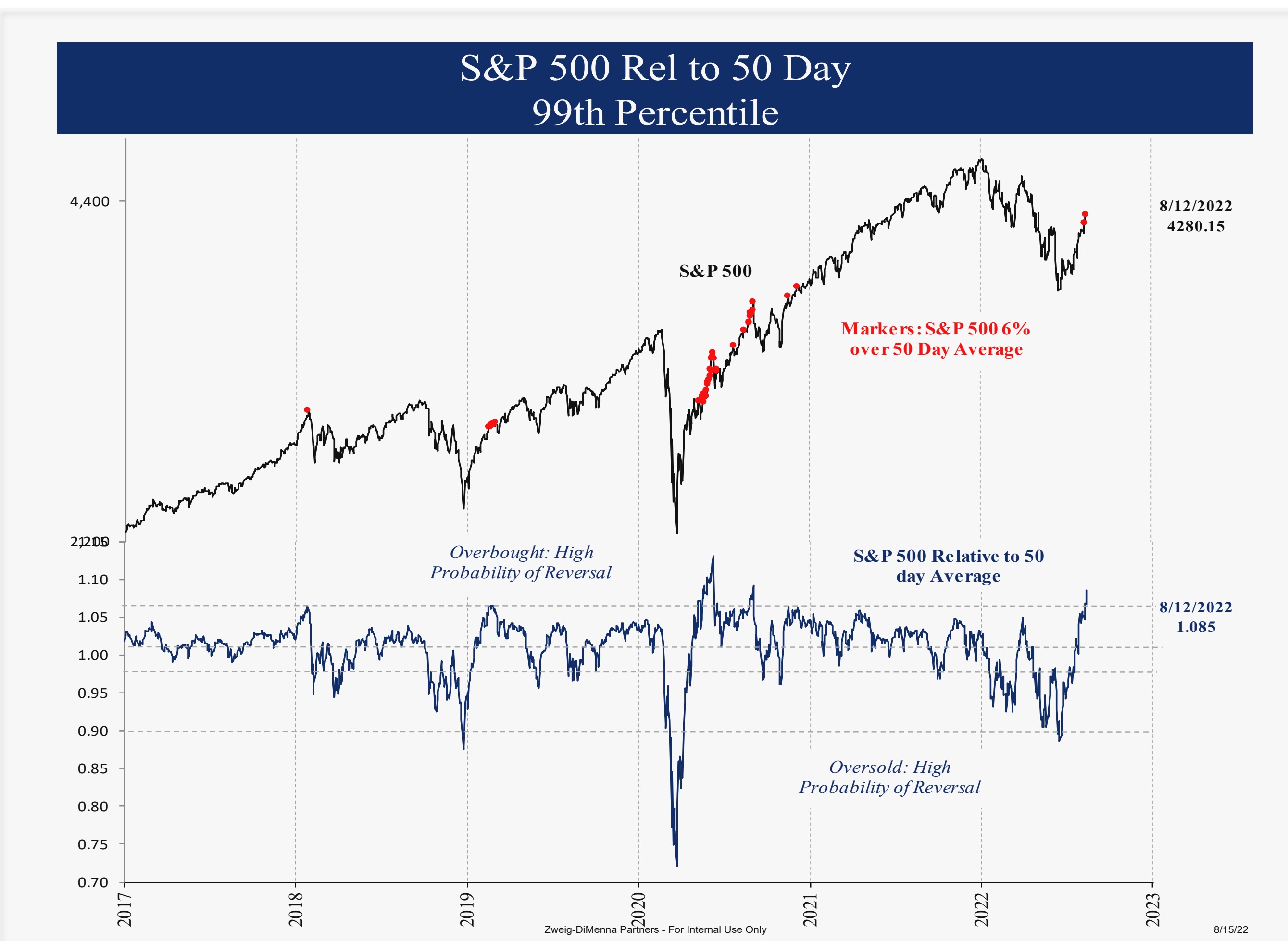
Ratings are unchanged this month with U.S. and foreign-developed equities at a neutral 3 and emerging markets a bullish 5. Long-term bonds are a neutral 3. Gold remains a bullish 5 and commodities are a neutral 3.



This review and outlook report by Brenton Point Wealth Advisors LLC represents our views and beliefs regarding the current market outlook. Please also read the important disclosures at the end of this report.

S&P 500 Overbought: Consolidation

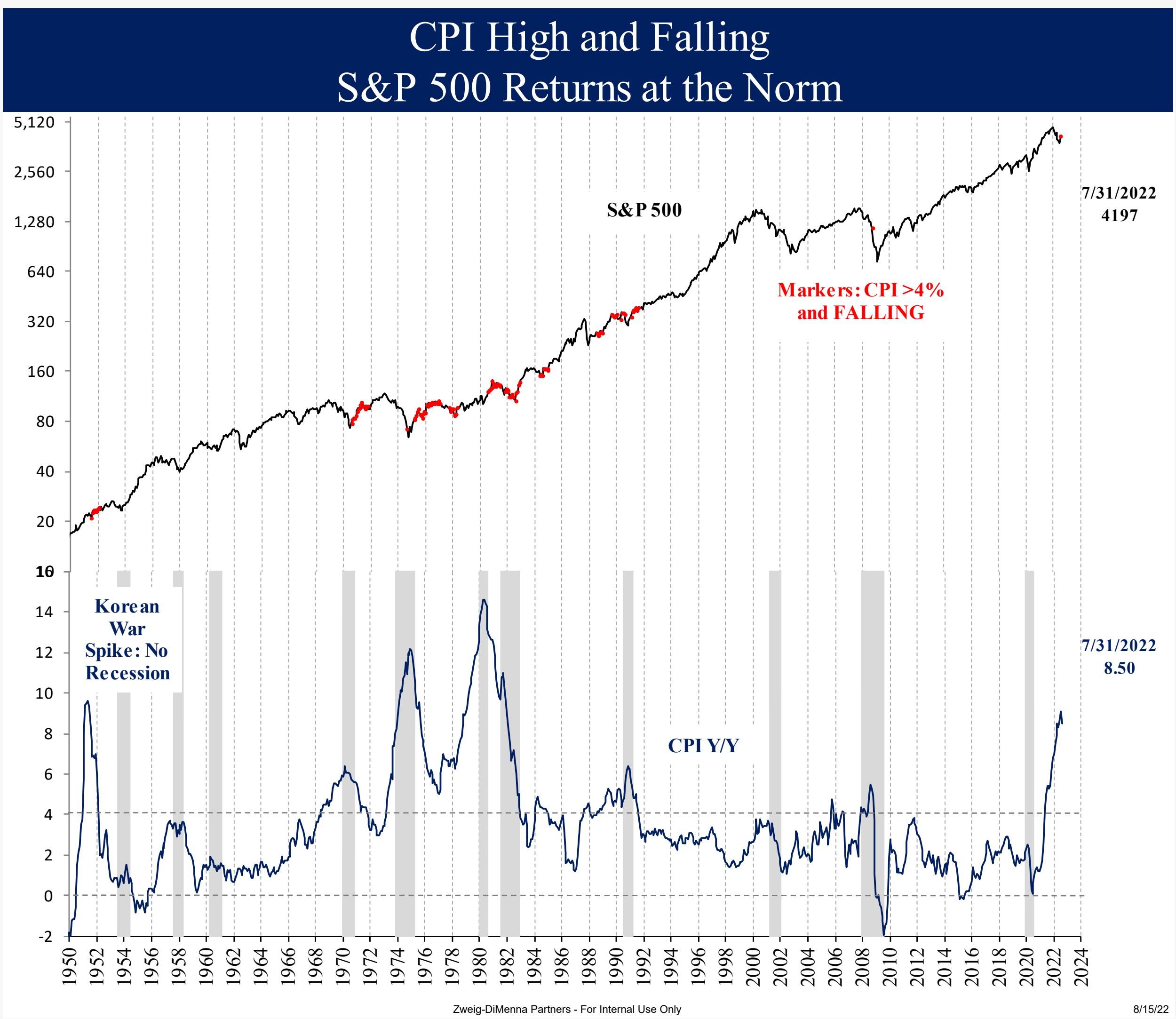
To put the sharp S&P 500 rally (up 16% in two months) in perspective, it is now 8% above the 50-day average which is the 99th percentile historically. This means the market was only stronger 1% of the time, mirroring the extreme weakness from June when it was 10% below the 50-day average. Historically, extreme moves in either direction are unsustainable, since they are usually at least in part due to forced selling on the downside and emotional short covering on the upside. In response to the move, many bears, in particular technicians, shifted bullish citing a strong stock market tape. Indeed, there were several prior cases like August 1982, November 1998, April 2009 and May 2020 which marked significant turning points, and were followed by further double-digit rallies 3 months out. However, the more immediate implication of such severe strength is a period of reversion and consolidation in the next 4-6 weeks, even in the most positive cases. For instance, the average return one month out is volatile with a range of -11% to +6%, and averages just 0.5%, half the norm. It is also important to consider that many of the prior cases had quite different conditions than today, in particular low inflation or the Fed cutting rates.



August 15, 2022

CPI Peak: Positive

Headline consumer inflation downticked to 8.5% Y/Y in July from 9.1% in June. The consensus believes that "high" inflation is negative for stocks, and that inflation will not fall "fast enough." While it is true that high and rising inflation like we saw most of this year was historically negative for stocks, it ignores the fact that since 1950, the S&P 500 returned 12.8% annualized when inflation was "high" and falling. The trend is indeed important, and for now, despite widespread skepticism, that trend is lower and positive for stocks. Our inflation outlook model downticked to a neutral 55 in July, showing no further upside inflation pressure for now and confirming that a peak is in for now at least.

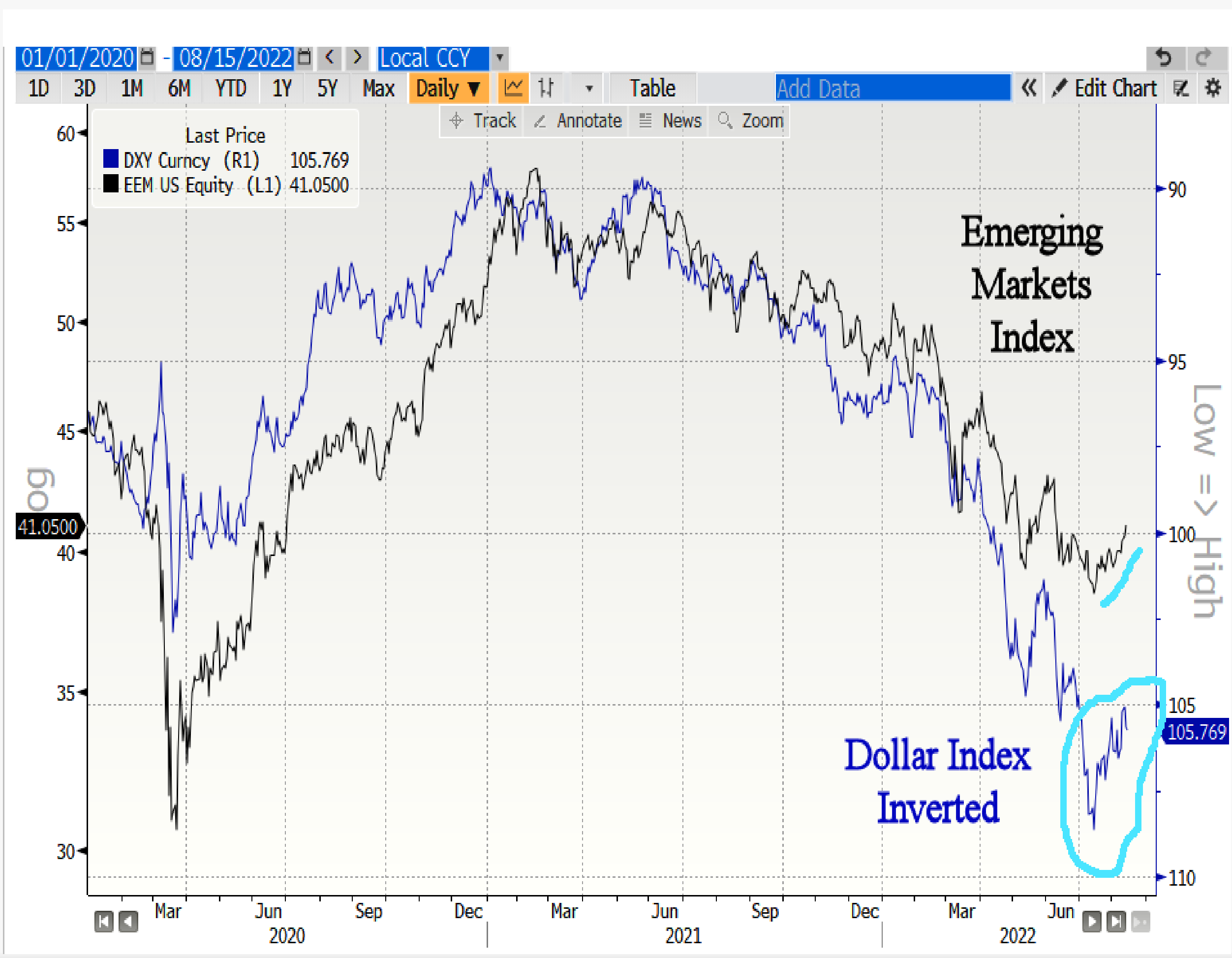


BRENTON POINT
WEALTH ADVISORS

August 15, 2022

Dollar Trend Turn: Positive for Foreign Equities

Last month we discussed the extreme move in the dollar to the upside reaching the 98th percentile relative to the 50-day average on August 14 up 14% YTD and 21% from the May 2021 low. Since that peak the dollar reversed by 4.1% to the August 11 low, the biggest reversal YTD. While this peak holds and the dollar trends lower, it marks a significant chance for a turn in foreign equities like emerging markets, especially with the Fed hiking rates. Emerging markets returned 21% and gold returned 15% annualized when the Fed was hiking rates and the Dollar Index was falling. Historically, a weak dollar is also bullish for other commodity prices like crude oil and copper, which reversed down sharply in the last month on fears that China's economy is weaker than expected. Our emerging markets rating remains a bullish 5.

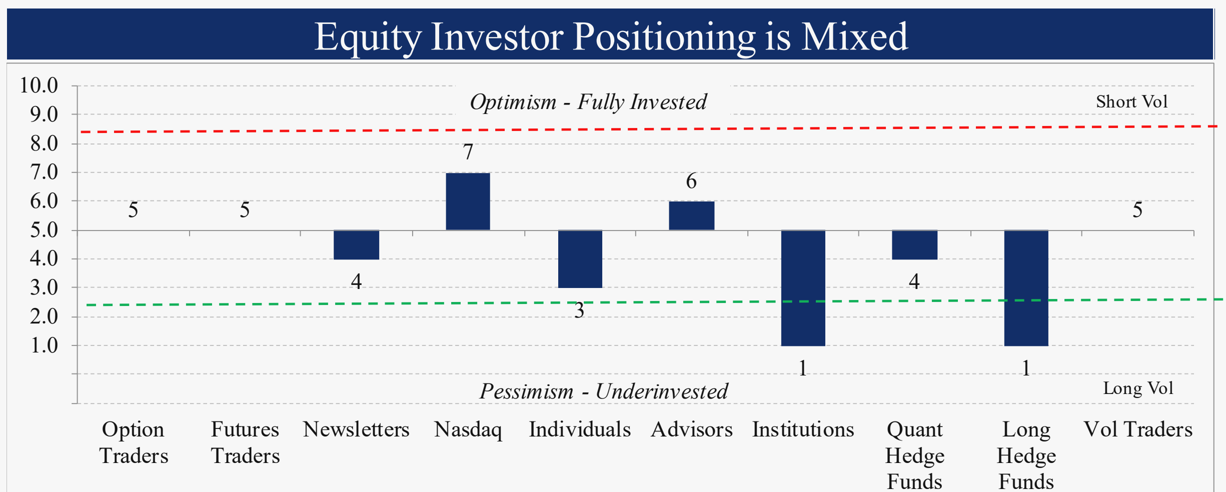


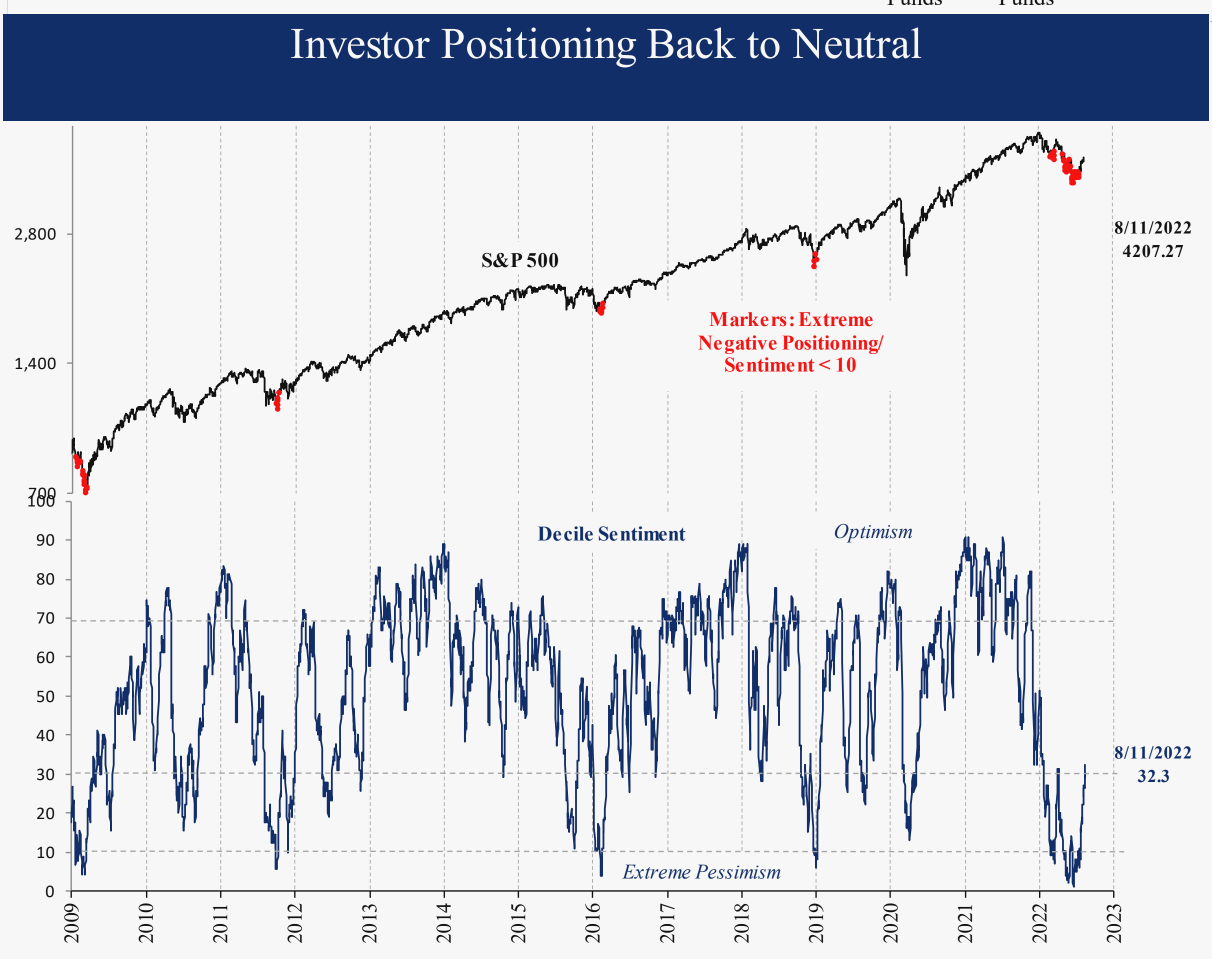
BRENTON POINT
WEALTH ADVISORS

August 15, 2022

Investor Positioning Neutral

As typically occurs, the extreme investor positioning we saw in May and June shifted as equities rallied from the June 16th low.   At 32.3 positioning is neutral so less meaningful for the next move in equities.





August 15, 2022

Summary

The sharp 16% move in equities off the June low has surprised commentators and caused many technicians to shift bullish. Although it may mark a longer-term bottom, for now the most likely implication is a period of consolidation for equities as gains are digested.   In addition, the potential trend change for the dollar may mark a turning point for dollar-sensitive assets like foreign equities, and commodities like gold, crude and copper.   We will continue to monitor our indicators on a daily basis and keep you posted. Thank you for your support and please contact us with any questions.

Michael Schaus
Director of Market Research