



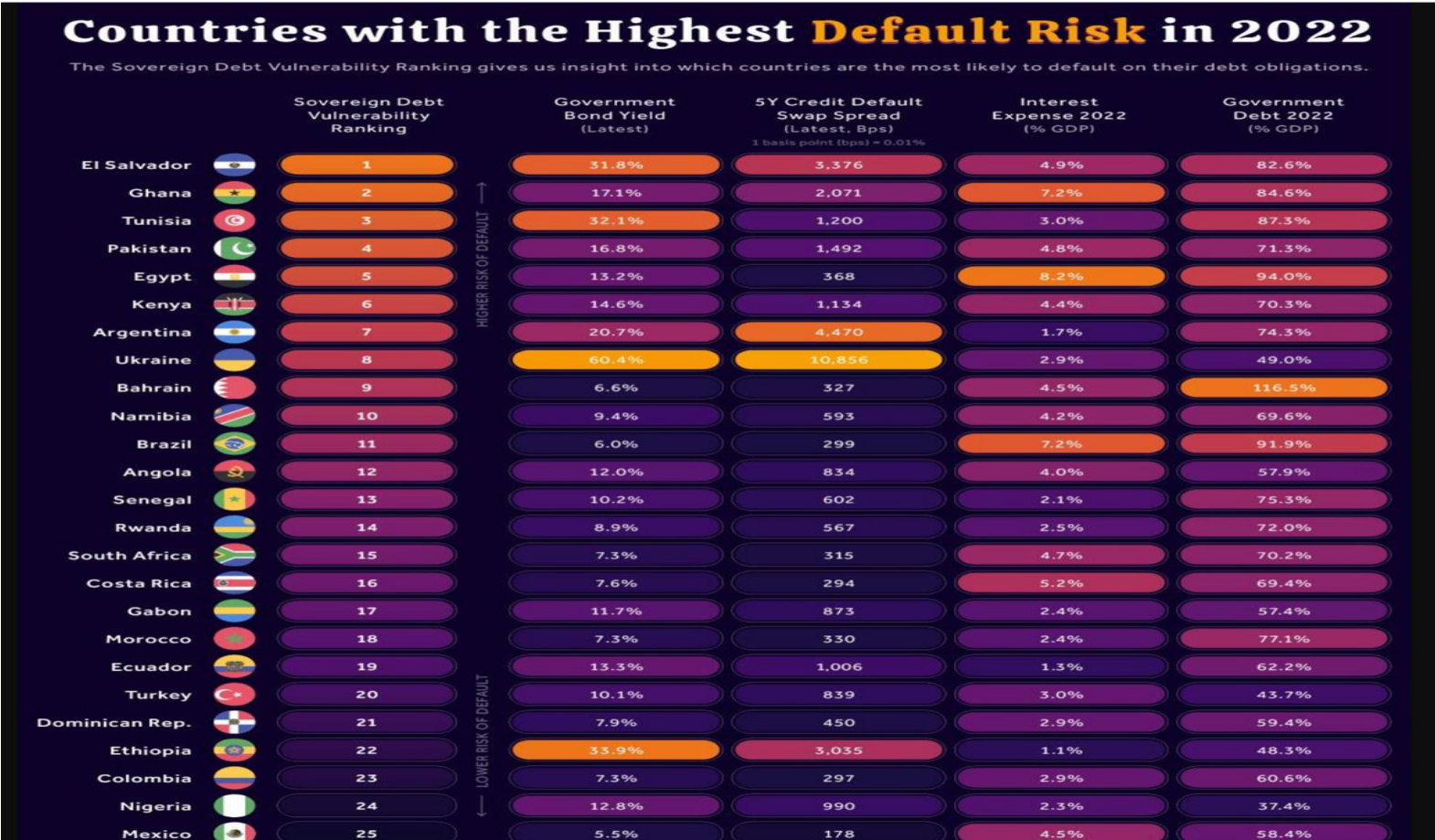
TURNING POINT

By The Bear Traps Report

“Never, ever invest in the present. It doesn’t matter what a company is earning, what they have earned. You must visualize the situation 18 months from now, and whatever that is, that’s where the price will be, NOT where it is today.”
- Stan Druckenmiller

The Opportunity - There are a few times a decade where central bankers are wildly stuck in a stale narrative. In this void - yesterday’s news litters the field. Meanwhile, the big three - oil (-26%), copper (-31%) and U.S. rates (350bps to 274bps to 291bps) are in the throes of their largest drawdowns - together - since the Lehman Brothers and Covid shocks. Make no mistake, the Fed and their communication pawns will show off a headline inflation move from 9% to 6% with more jive than “Kool and Gang” in 1980 – a celebration is near. Victory will be declared in a whole new - elevated inflation world. But first comes the rude awaking. U.S. housing and commercial real estate are in free fall, the global banking system led by Europe and Asia is in flames, emerging market credit risk is accelerating at the highest pace on record, and the U.S. job market is about to show some real pain. The four-week moving average for U.S. jobless claims – rate of change - is well in recession territory. Forget about 2s/10s, the 6-month/10-year yield spread inverted this week. The Fed is reacting to a Q1 2022 problem while Q2 global deflation and recession risks are moving at lightning speed. We must position ourselves ahead of the monetary policy response – while the probability of a fiscal solution is also on the rise. Clearly, the U.S. is the last hideout on the planet while the \$75T of GDP outside the U.S. is already in the eye of the storm. How will this dynamic look in 6-12 months? We see a large fiscal response in China and Europe while the U.S. plays pain, catch-up. By the start of Q4 of this year, the Fed will be focused on - a) putting out the financial stability inferno and b) a U.S. labor market losing 100k jobs a month. As Soros reminds us – “we must discount the obvious – and place capital in the direction of the unexpected”. In our view – looking out 12 months – metals miners, emerging markets and oil and gas will provide the best risk-reward looking forward. Global leaders will always choose to lever their way out of a mess. In a world where hard assets are in short supply – outperformance relative to financial assets is the story of 2022-2030.

Global Credit Risk in the Trillions of USD



Risk is moving so fast – Egypt is listed here at a 13% yield – the bonds are now out to 16%.





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S&P 500: Looking Down the Road Ahead



Looking out 12-24 months – we see a protracted - “Stop and Start” inflation fight from the Federal Reserve. Unlike the previous decade, the threat of accommodation withdrawal this cycle hangs around for a long time. Inflation comes down and then hangs around in a much higher neighborhood. These developments and demographics (boomers near 70) – will place a near term cap on the upside for U.S. equities. Chart from our friend Chris Ollari.

Jobs – a Lagging Indicator Showing Stress

U.S. Initial Unemployment Claims 4 Wk. Avg. Jul 9: 236



Jobs can create a positive or negative feedback loop within the economy. Most leading indicators point to a sharp rise in 1H 23', if not sooner. Monitor ISM Service Employment - already at 47. – Mike Kantro.





TURNING POINT

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Credit Risk and our Lehman 21 Systemic Risk Indicators

[Click Here](#) - To Listen to our Credit Risk Call with our Jon Turek
 Passcode: **gb2Cay^%**

[Click here](#) - Credit Risk Presentation Slides

Fox Business

[Click Here](#) - For our Latest Segment on Fox Business, Larry and Maria

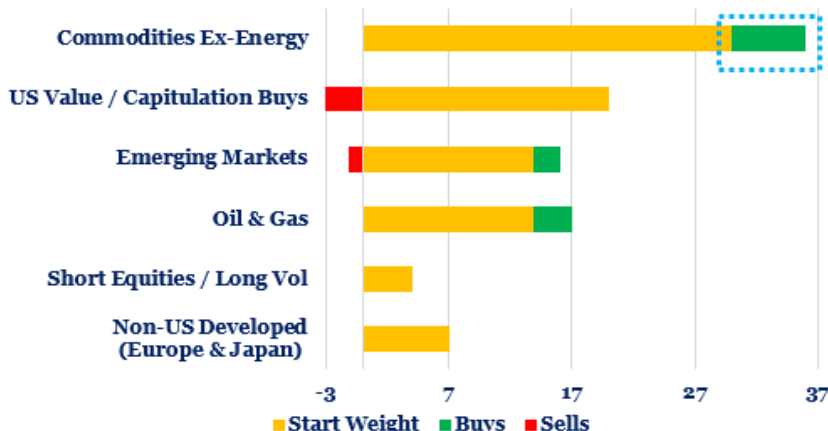
Bloomberg Surveillance

[Link Here](#) - Fast as Lehman with Larry McDonald – Bloomberg's Tom Keene

Trade Alerts - Last 2 Weeks

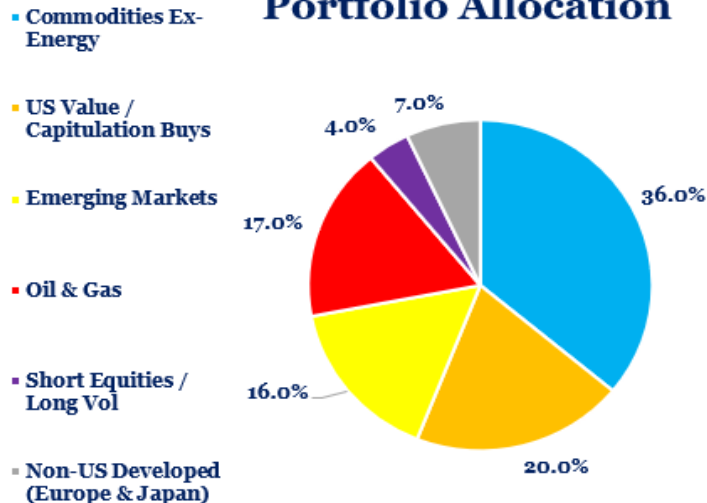
Trade	Ticker	Description	Closing P/L	Date	Sector	Recap
Sell All	IBM	IBM Corp	16.6%	June 28th	US Value	We recently lightened positions across the board with signs of credit stress on the rise.
Sell 1/3	T	AT&T	23.5%	June 28th	US Value	
Sell All	IBB	Biotech ETF	12.2%	June 28th	Capitulation	
Sell 1/3	FXI	China Large Cap ETF	11.3%	June 28th	Emerging Markets	
Buy 1/2	PAAS	Pan American Silver	-	July 15th	Commodities	Throughout 2021, we were overweight commodities. In 1H this year, we lightened substantially on our longs into strength. Given the recent sharp pullback in commodity names, we have added back exposure in the space. We see large upside in precious metals in the near-term.
Buy 1/2	WPM	Wheaton Precious Metals	-	July 12th	Commodities	
Buy 1/3	EWY	South Korea ETF	-	July 12th	Emerging Markets	
Buy 1/3	PBR	Petrobras	-	July 12th	Emerging Markets	
Buy 1/3	XOP	Oil & Gas E&P ETF	-	July 6th	Oil & Gas	
Buy 1/3	CVX	Chevron	-	July 6th	Oil & Gas	
Buy 1/3	SLB	Schlumberger	-	July 6th	Oil & Gas	
Buy 1/3	CCJ	Cameco Corp	-	July 5th	Commodities	
Buy 1/2	CLF	Cleveland Cliffs	-	July 5th	Commodities	
Buy 1/3	TECK	Teck Resources	-	July 5th	Commodities	
Buy 1/3	RIO	Rio Tinto	-	July 1st	Commodities	

Recent Position Changes



*Green bars shows this month's unit additions via buy alerts, red bars show unit subtractions

Portfolio Allocation



*6-12 Month View

To receive our real-time trade alerts email
Tatiana@thebeartrapsreport.com





TURNING POINT

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Banks in Pain, Global Counter-Party Risk on the Rise

We keep hearing the NY Fed is NOT comfortable with the "dated" stress tests on U.S. banks. By now, asset prices have moved so violently 2-3 banks probably fail.

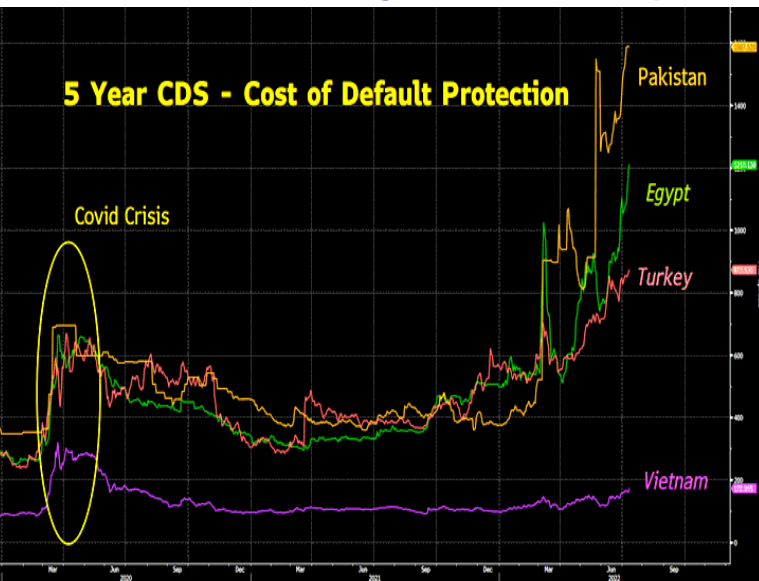
- 1. Emerging markets are in flames:** There will be several Sri Lanka-like tragedies, the Fed is exporting inflation with a strong USD.
- 2. IMF Stress:** The Fed is lighting the IMF's portfolio on fire. Egypt bonds are at 58 cents, they owe the IMF \$13B.
- 3. Europe is in flames:** Credit Suisse CDS is blowing out, while high yield and bank CDS are near the covid wides!
- 4. U.S. Bank "Safe" Assets:** U.S. Treasuries down near 11%, the worst year since 1973, this hurts banks capital.
- 5. U.S. Commercial Real Estate:** See Vornado VNO on the covid lows, commercial real estate is in pain.
- 6. LBOs:** Leveraged loans are in a lot of pain.
- 7. PE/VC:** Venture capital losses are in the trillions.

The Fed's Choice

- React to "strong" U.S. backward-looking economic data
- Blow up the global economy and have that MESS back on your shores in 3 months?

You soften into that all day long...

Global Credit Stress Through Covid in Some Spots

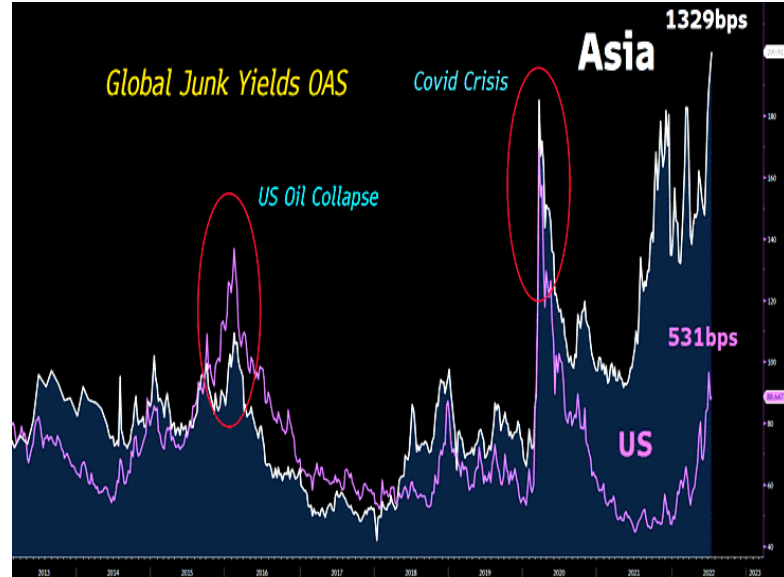


The weakest emerging markets have CDS spreads (cost of default protection) well above their March 2020 peak. Credit risk will veto the Fed's stated policy path yet again - cut it in half. Why economists even looking at U.S. jobs data - blows our mind. Our 21 Lehman Systemic Risk Indicators are near Covid (March 2020) Levels.

"Take The Tragedy In Sri Lanka And Multiply By Ten": The Fed Just Lobbed A Financial Nuke That Will Obliterate The Global Economy: [Link Here](#)

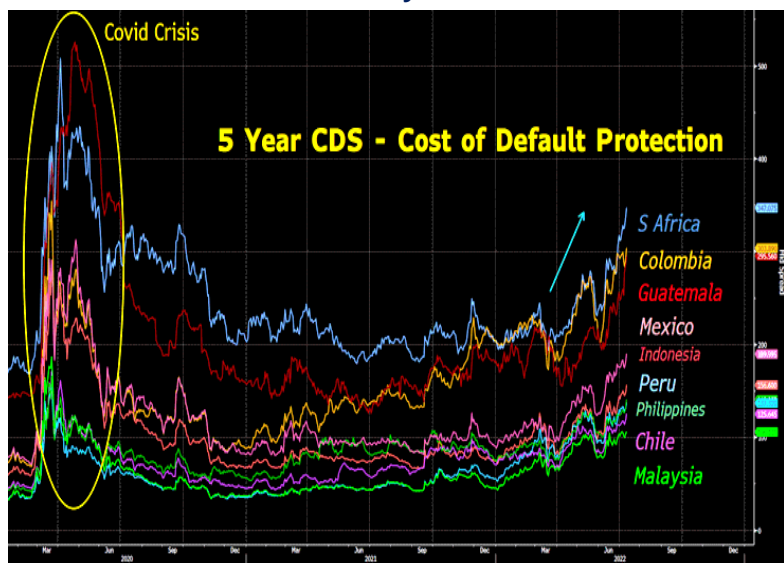
Financial Stability trumps the inflation fight. The terminal rate this cycle is 250bps max - important read above.

Asia Junk Credit Risk, Worst Since Lehman



Asia's high yield spreads are near 14%. A strong dollar and China lockdowns bring global depression risk into play. The Fed must put out this self-induced fire.

Credit Risk Veto - Fed Policy Path



Academics at the Fed are stuck in a (stale) inflation narrative during a financial stability crisis. Global debt is \$200T more than Volcker levels, dollar-denominated debt surge + total global trade in dollars = Dollar Wrecking Ball.





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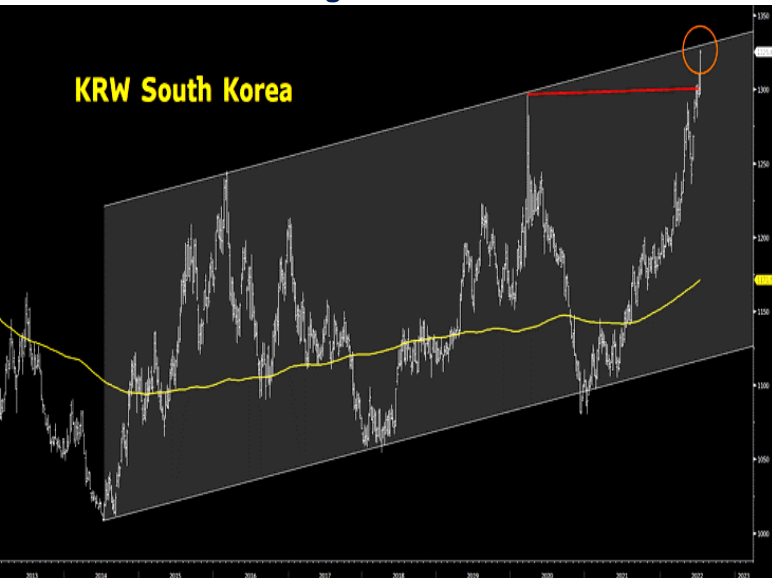
By The Bear Traps Report

Dollar Crushing EM Currencies



The Chilean and Colombian Pesos are blowing-out vs. the U.S. Dollar. The combination of much higher commodity prices and a much weaker currency has put immense pressure on the shoulders of emerging markets over the past year. This speaks to the Fed's current policy path being unsustainable. They are blowing up emerging markets and are pushing the rest of the world toward a severe recession - the Fed is going to be forced to pull pack on their hawkish path to tame the global wrecking ball (USD).

KRW Korea Won Plunge vs. USD



A move for the ages – we see large upside in South Korean equities when the dollar reverses lower. We recently re-entered a position in the EWY South Korea ETF after exited near the Q4 2020 highs, we are now long a 2/3 exposure.

DXY Dollar Index



The U.S. Dollar is as far above the 50DMA (pink) as it was the last time it corrected (blue circles). Additionally, MACD is simply refusing to confirm this dramatic move higher, bearishly diverging (yellow circles). It may well be that Russia never turns on the gas flow to Europe again. On the other hand, this is a heavily telegraphed disaster which means that if Russia were to turn it back on, the rally in the Euro would be intense and thus the decline in the U.S. dollar thereby virtually assured. Even if you think Putin does in fact want to inflict maximum pain that way, winter would be much more effective. The Europeans can stumble through the rest of the summer. It would be nailed to the wall if Nat Gas were turned off by Russia this winter, though. Finally, any sign that the Fed pauses after this month's rate hike would crush the dollar.

Dollar Index Rises - Highest Level Since Oct 2002

"If there is a path to a weaker dollar -- slow to no rate hikes after this next one -- the dollar's strength will dissipate." - Jim Cramer

When Jim starts publicly lobbying policymakers, it is worth taking notice. He is right about the global wrecking ball - exporting inflation to poor countries - comes with a high price. **Buying HIGH food and oil products - priced in U.S. dollars - is colossal stress on EM countries.*

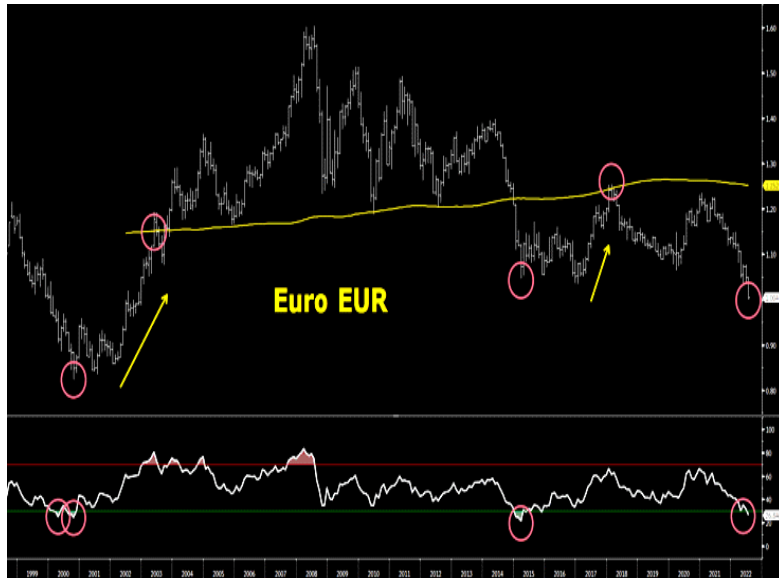




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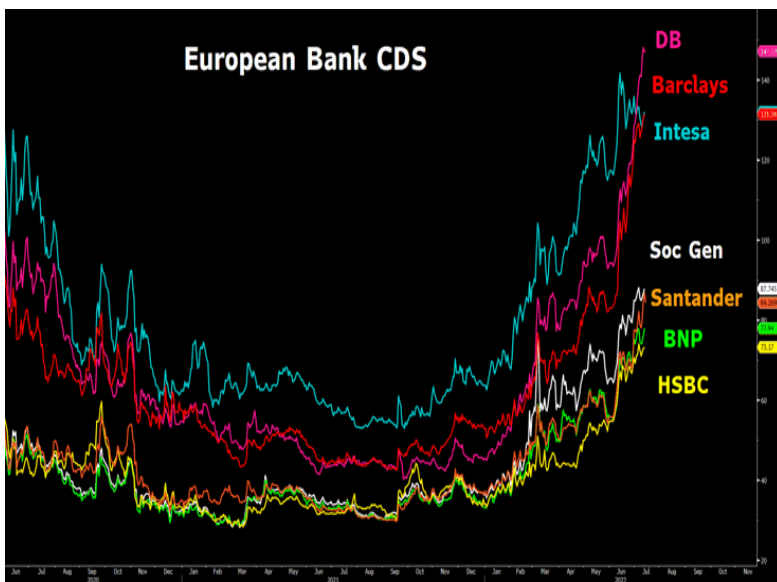
Euro Monthly RSI



Euro monthly RSI chart, 3 quick takes:

- 1) Only two other times this century the Euro got oversold on a monthly RSI basis
- 2) Each time it did go down more, but not by all that much
- 3) Each time it based in a range for over a year but then resolved higher on a long-term bull run back to the 200 month moving average (yellow) which is fairly steady at around 1.25

European Banks CDS Spreads



The cost of default protection on European banks continues to rise. Notably Credit Suisse (not shown) is already above its March 2020 peak.

Europe Headwinds

"Weak JPM earnings, a high U.S. CPI print and then more energy concerns in the EU. France's Macron warned that citizens and companies will need to reduce energy usage. Germany reported that gas storage is already being withdrawn, even before peak usage in the winter." - **Lisa Abramowicz**

*ITALY'S PRIME MINISTER MARIO DRAGHI TO RESIGN

The irony of ironies. On the day the Euro drops below parity with the dollar, the man who promised "whatever it takes" to rescue it has decided to resign. Italian Prime Minister Mario Draghi will offer his resignation following a split in his coalition. - **John Authers**

Keep in mind, Draghi rebuffed his resignation soon after for the time being, but Italian sovereign bonds stayed right at the lows of the week.

Italian Yield Rising with Credit Risk



Italian bonds (BTPs) were crushed lower on Thursday. 224 ticks down (lower price, higher yield) and circa 262 from Wednesday's close. BTPs are now right near price support at the July low of 122.53. Investors dumped Italian government bonds as political turmoil put Prime Minister Mario Draghi's government at risk of collapse. Draghi won a confidence vote in the Senate, 172-39, despite the refusal by the 5-Star Movement to back the bill of 26 billion euros (dollars) to help consumers and industries struggling with soaring energy prices. But the snub by 5-Star leader Giuseppe Conte, did its damage.

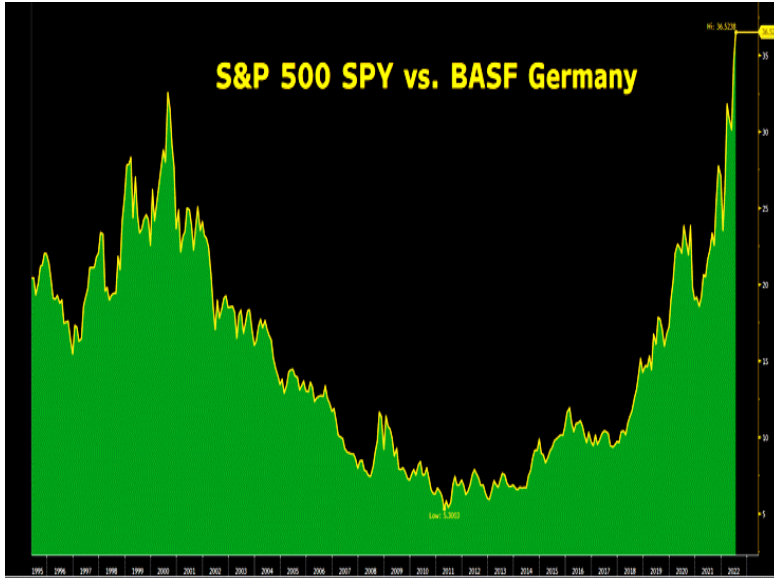




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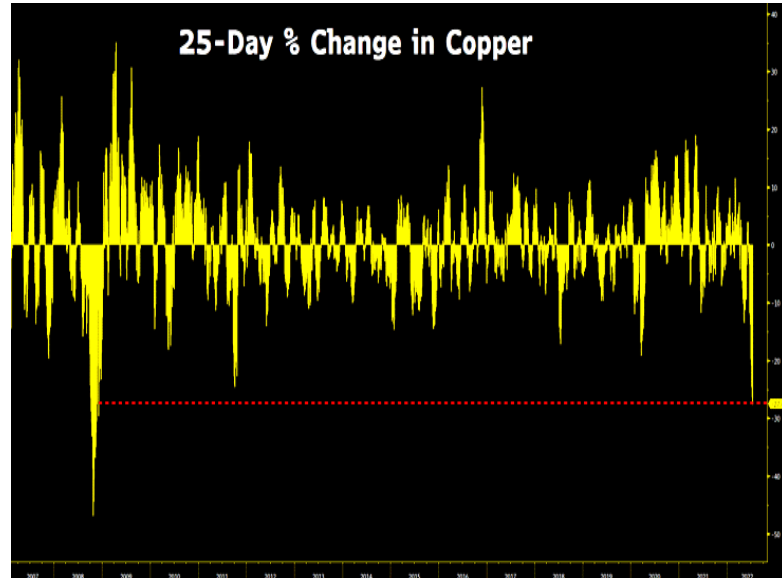
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Ratio: S&P 500 / BASF SE



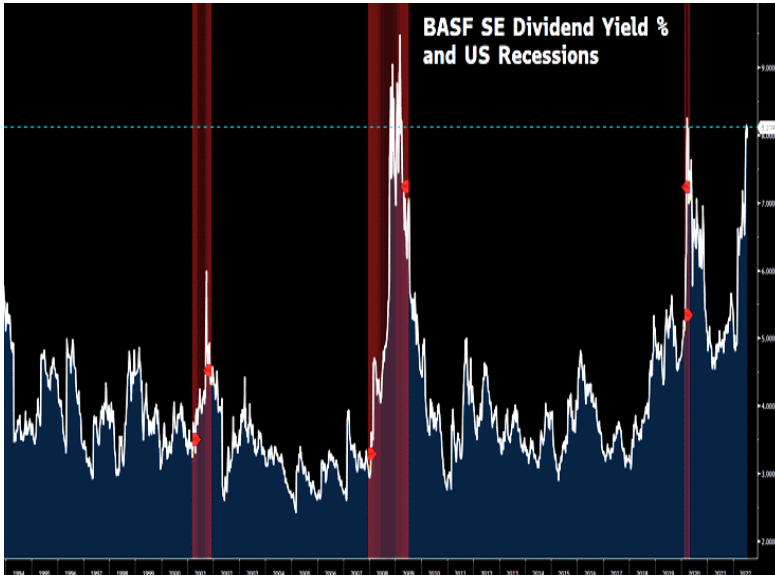
Despite the pain in U.S. equities, the S&P 500 has still managed to blow BASF out over the past year in terms of relative performance. The ratio of SPX/BASF is now at all-time highs. BASF SE is a German multinational chemical company and the largest chemical producer in the world. Its headquarters is in Ludwigshafen, Germany.

25-Day Change in Copper



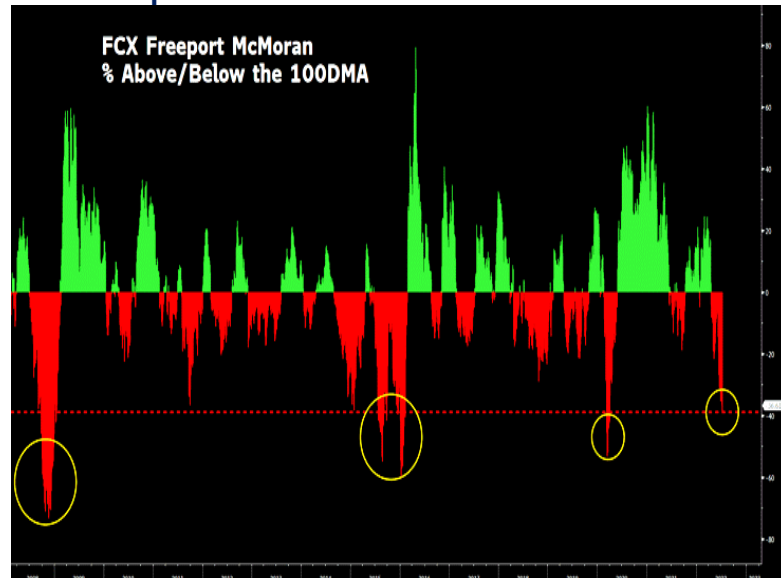
IMPORTANT chart here - Over the last 25 trading days copper is down -27%. This is the largest 25-day drop in copper since the financial crisis. Copper is also close to 30% below the 200-day moving average, that is Lehman territory. "During peak-Covid she only reached -24% - THERE is a TRADE HERE. Freeport is close to 40% off." **Recurses Sector PM.**

BASF Dividend Yield and U.S. Recessions



This MUST be on Buffett's Shopping List! "BASF's dividend yield is now north of 8%, as the stock is making a 5-year low. A film-maker friend of mine has done HR shorts for them at their impressive, sprawling German HQ and plant. The stock is down 40% in 100 days. Their input problem? Natural gas. The P/E is under 8x and the last two years it got above 21x. **Price/Book is now under 1x, down from 1.5x. Sign of the times -- worth doing the work here for your value players.**" - CIO NY Fund

FCX Freeport McMoran vs. the 100 DMA



FCX Freeport McMoran is -37% below the 100-day moving average - this is on par with the drawdowns in 2008, 2016, and March 2020. ALL outstanding buying opportunities. **This cycle, the Fed risks a global deflationary bust – the IMF is aggressively cutting global GDP outlook, the most since Covid – Lehman – the pressure on the Fed to soften the USD path is enormous.**





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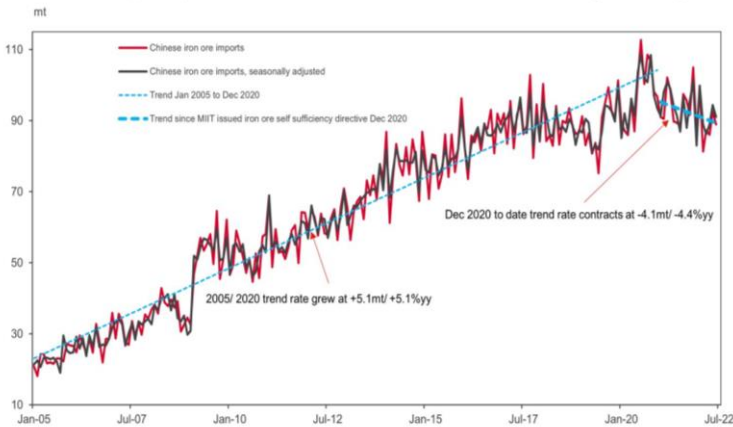
China Convenes Banks on Mortgage Boycott Roiling Markets

The Ministry of Housing and Urban-Rural Development met with financial regulators and major Chinese banks this week to discuss the mortgage boycotts on concern that more buyers may follow suit. Reports of rapidly escalating refusals to pay mortgages in recent days have sparked losses in Chinese bank shares and developer bonds, reflecting concerns that the nation's property crisis may spread to the financial system and trigger social unrest. Chinese lenders already grappling with challenges from liquidity stress among developers now also have to brace for homebuyer defaults. - Bloomberg

China Iron Ore Imports

Chinese Q2 iron ore imports -3.7%ooy; H1 -4.5%ooy

Chinese iron ore imports year to date weakest since 2019; trend rate running at -4.4%yy



Source: Bloomberg, Westpac

Volumes for commodities (first half demand 2022):

- Coal, lower MoM, -17.5% YTD
- Crude oil, lower, -3.1% YTD
- Iron ore, lower, -4.4% YTD
- Natural gas, lower, -10% YTD
- Steel products, lower, -5.4% YTD

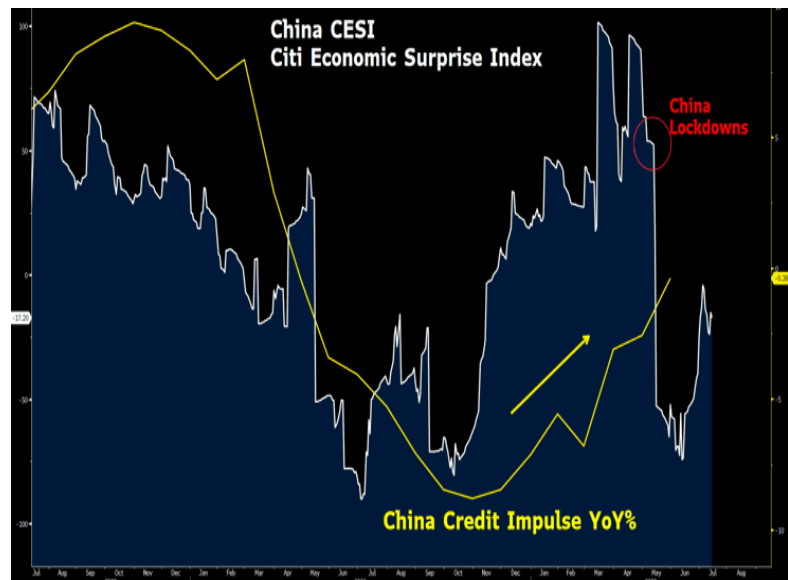
Only copper demand is up +8.6% (keep in mind, copper prices are way down). This all speaks to real demand being down in China. However, this also points to large commodity upside in the longer-term when real demand finally returns. **We have had one of the best years for commodities in the past decade and China hasn't even been buying. Now they are facing rising credit risk in which they must shift to an accommodative policy stance.**

China Bank Index



The CSI 300 China Bank Index has broken very important support to the downside over the past week. High yield spreads in Asia are now close to or above their covid wides. China banks will be forced to cut rates or face being shutdown.

China Credit Impulse vs. China CESI



China Credit Impulse is nearly positive on a YoY basis. This should lead to a continued rebound in China economic data (China CESI – Citi Economic Surprise Index). The credit pain in China just points to further loosening of policy and the need for the economy to fully re-open.





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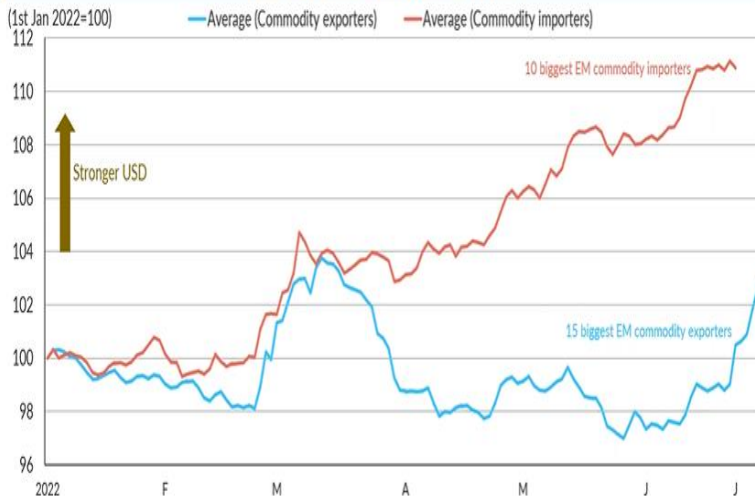
Emerging Markets Bull Case

This week, between gold miners and emerging markets, with the highest conviction we added to our dollar reversal basket. We believe global financial conditions are approaching Lehman-like systemic risk levels and the Fed has made a colossal risk miscalculation in their endeavor to arrest inflation.

Financial conditions and financial stability dramatically limit the dollar's ability to move much higher from here. Financial stability is about to veto the Fed's inflation-fighting agenda. The Fed is literally lighting close to \$70T of GDP outside of the United States on fire. High conviction buys this week: gold miners and emerging markets.

EM Currencies: Commodity Exporters vs. Importers

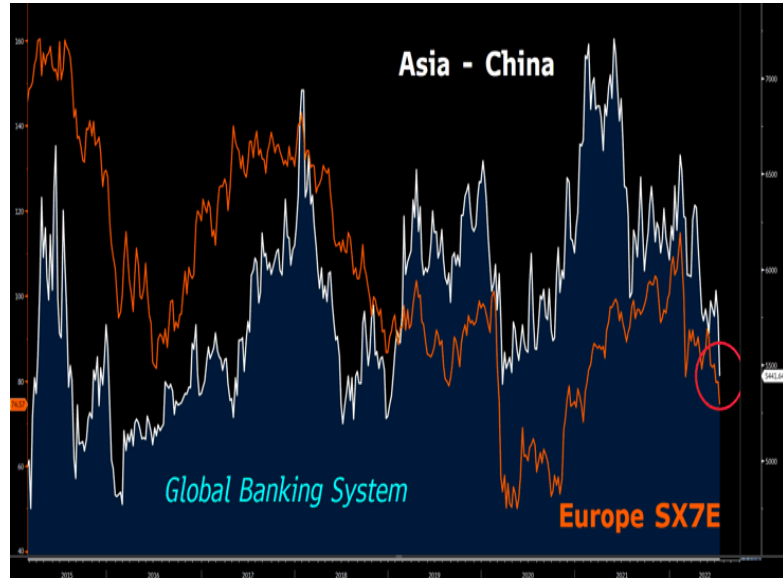
2022 Daily Exchange Rates versus the US Dollar



Source: Haver Analytics, Fitch Ratings July 2022

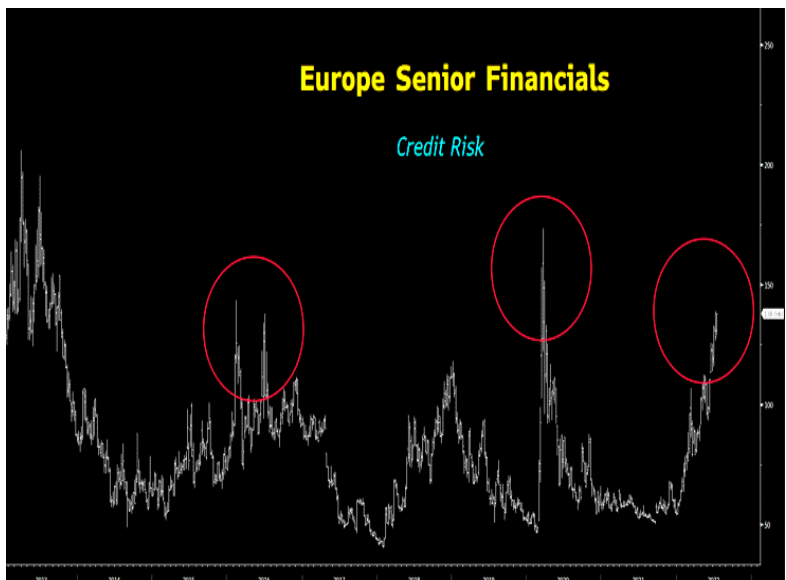
Currencies in EM importing countries have been much weaker than EM exporter countries. Very stark this year. Importers are most at risk e.g., Turkey, Egypt, Belarus et al. Larger EM countries have also issued more in local currency implying less U.S. dollar risk - so that leads to less currency interventions which maintains integrity of their Central Banks' balance sheets. Notably Fitch has said they currently have more countries rated CCC than AAA - a first in the history of their ratings. Keep in mind, the U.S. dollar has been even stronger versus Developed Markets relative to Emerging Markets. This has only happened three other times The U.S. is exporting inflation to EM. That blows up EM. The EU and Japan are not hiking. Banks are blowing up. It is hard to see 10 rate hikes in a row with this backdrop...

Europe and China Banks in Pain



JPM is suspending buybacks, **China banks are on the Covid lows, EU Banks will be there shortly, and many are there already.** This speaks to our stress test fail thesis - flash retest. We keep hearing that the violent moves in asset prices in the last 45 days has the NY Fed concerned. They likely want a flash retest. With the global banking system in flames - Jamie Dimon clearly wants some dry powder.

Credit Risk Europe



Credit risk in Europe – iTraxx Senior Financials CDS spreads are right on peak crisis levels. Financial stability will trump the Fed's inflation fight. **They can get Fed Funds 250bps Fed funds, NOT the Street's expectation of 350-450.**





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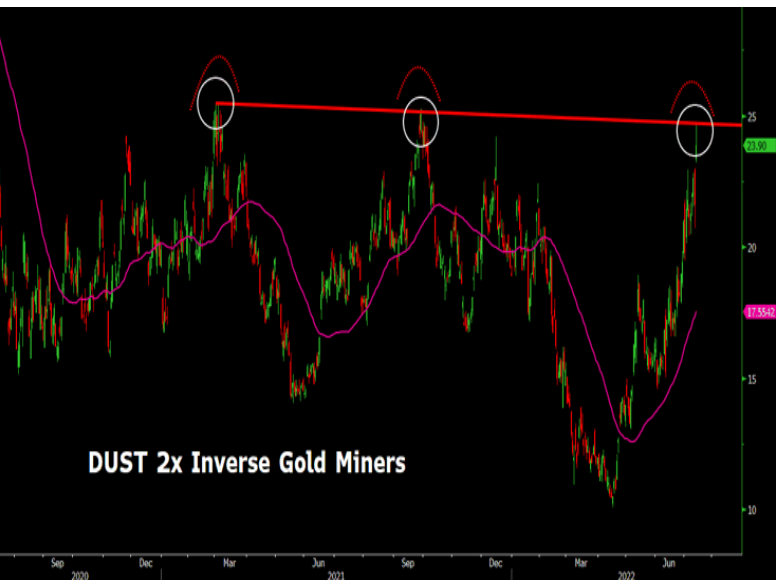
Gold Monthly Parallelogram



Gold is at the bottom of a two-year range. Our parallelogram is still looking for a fall liftoff and still targets \$2500 for fall of 2024.

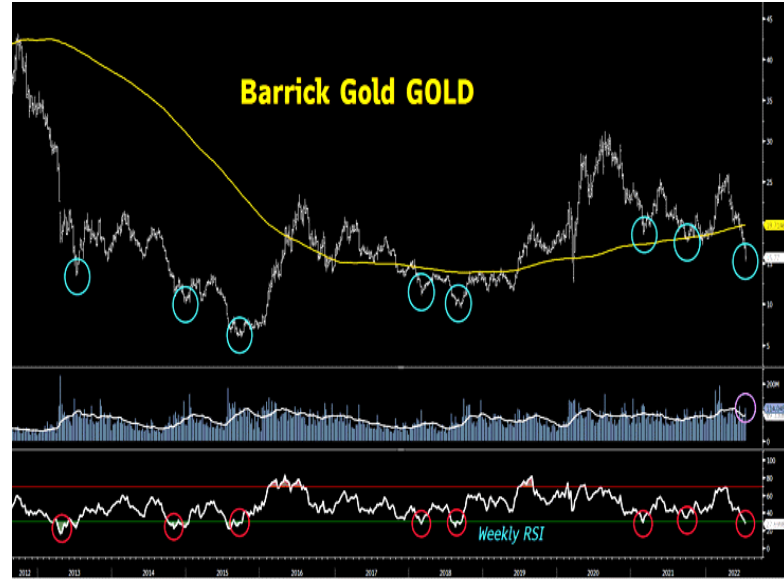
"Gold is the ultimate insurance against breakage, and its suggesting a 'soft landing' - another reason why there is celebration at the Fed." -- NYC PM

DUST 2s Inverse Gold Miners Fail



With 100bps seemingly taken off the table, gold is a HUGE buy right here and now. The 2x inverse gold miners ETF (DUST) failed at longer-term resistance this week; we expect a bearish reversal here (higher gold miners). Gold miner capitulation is close to covid March 2020 levels, opportunity knocking, they won't stay down here for long.

Barrick Gold Corp (GOLD)



Gold and Silver Miners – A Screaming BUY - Barrick Gold is a strong capitulation buy here: volume arrived this week. Barrick's weekly RSI Relative Strength Index is also in oversold territory below 30 - this has been an attractive momentum level to get long gold miners in the past decade.

Dec 2022 - Dec 2023 Eurodollar Futures Spread



Eurodollars futures are now pricing in a rate cut in the 1st quarter of 2023. At the beginning of the year there was nearly 75bps of hikes priced into 2023, this has now turned to cuts as hikes have been brought forward. **In Q4 2018 the S&P fell near 20% and credit spreads blew-out as the Fed over-tightened and brought forward recession risk – very similar to the dynamic today. Notably, after being crushed in mid-2018 gold miners bottomed the first week of September as they rallied with rising recession risk.**





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"Banks Pass Fed's Stress Test. It's Good News for Dividends." -- Barrons, June 23

VERY Important - Barron's on June 23rd: "Federal Reserve released the results of its annual stress - All of the banks that participated in this year's test proved that they had strong capital levels that would allow them to continue lending during a severe recession. The Fed looked at how banks would fare if unemployment rose to 10%, accompanied by a 40% drop in commercial real estate prices, widening corporate bond spreads, and increased market volatility, among other hypothetical scenarios. Banks showed that they would still be above their minimum capital requirements even if they collectively face losses of \$612 billion. The hypothetical losses included more than \$450 billion in loan losses and \$100 billion in trading losses." Now - READ this twice then read the JPM comments...

"JPM said regulators will require its common equity Tier 1 ratio to be 12.5% by the first quarter of next year, due to a harsher stress-test result and a previously flagged increase to its buffer for systemic importance. That's up from 11.2% at the end of June, and significantly higher than the 11.7% requirement that the firm told investors to expect just 2 months ago."

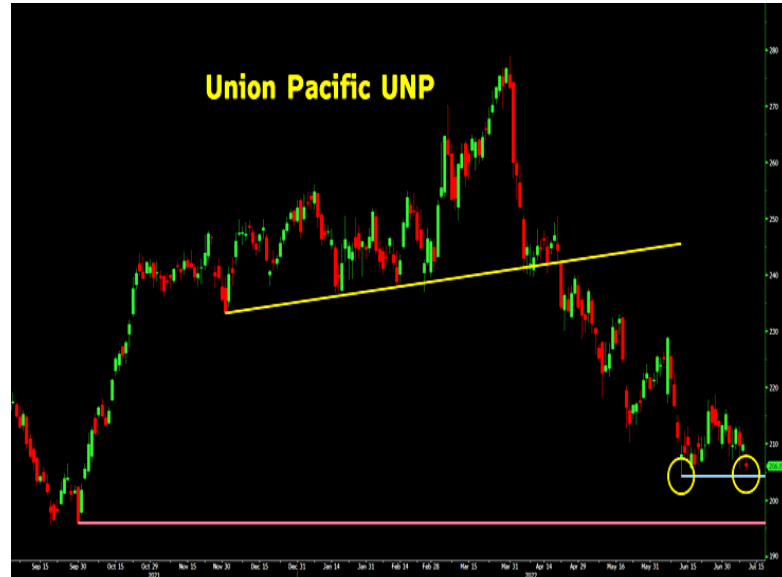
At the end of June, we saw the banks pass through a stress test that was historically considered extreme, and the media cheered it with flying colors which allowed them to pursue their buyback programs. In the past few weeks, something changed, and the regulators have suddenly boosted the requirements from 11.2% to over 12.5% by the first quarter of 2023. This sudden change comes just weeks after the stress test.

*JPM TEMPORARILY SUSPENDS SHARE BUYBACKS

The big story seems to center around IB disappointment rather than commercial/consumer loan losses building up (of which there are, but not nearly as bad as implied by recession risk). If so, then maybe we get better clues from consumer health once the regionals start reporting.

"JPM buyback halt puts them in line with WFC and BAC now with respect to NOT buying back stock in the near term. If I were going to point to one number in the report that is encouraging, it would be Tier 1 common equity was up 30bps QoQ - that's what specialist geeks like myself were worried about. The buyback headline is bad - no doubt. Deposit costs rising probably bad for the industry, but this is not completely new ground." - NYC CIO

UNP Union Pacific



Our ULTIMATE Economic Bellwether - Union Pacific is hovering over its June low (blue line). It has fulfilled its minimum target requirement from the break of support (yellow line). A failure here, though, sets up an immediate test of the September low (pink line). The action of this key bellwether stock is uninspired.

Empire Manufacturing General Business Conditions

General Business Conditions



Note: Survey responses were collected between July 5 and July 11.

The Empire Manufacturing Index expectations (red) in steep decline breaking below the Covid low print. Its unfilled orders sub-component fell from a negative June of -14.5 to a negative July of -22.6! Stunning. And we're hiking rates here? There will be a pause.





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Consumers Relying on Credit

The U.S. personal savings rate is near a five-year low as pandemic fiscal stimulus savings run dry. But consumers are still spending with credit. How long can consumers keep spending with revolving credit at the highest level in decades? The risk is that equity markets have a lot more room to the downside. Consumer spending, which drives some 70% of GDP, will soon be tapped out. Lower spending, lower earnings with lower economic growth, while inflation is still running hot, will likely leave equities nowhere to go but down.

Thoughts on Retail Sales

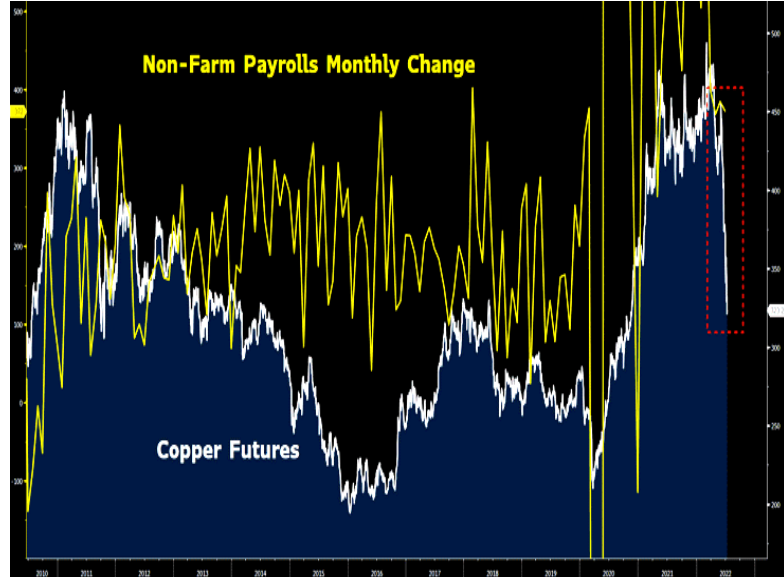
Retail sales data released on Friday showed an increase in June of 1%, which was greeted as good news because it beat expectations. Lovely. But that number isn't adjusted for the 1.3% inflation over the same period, so retail sales were negative, which is recessionary. And why were retail sales better? Because of gasoline prices! We fail to see how this number was a good one.

Misery Index



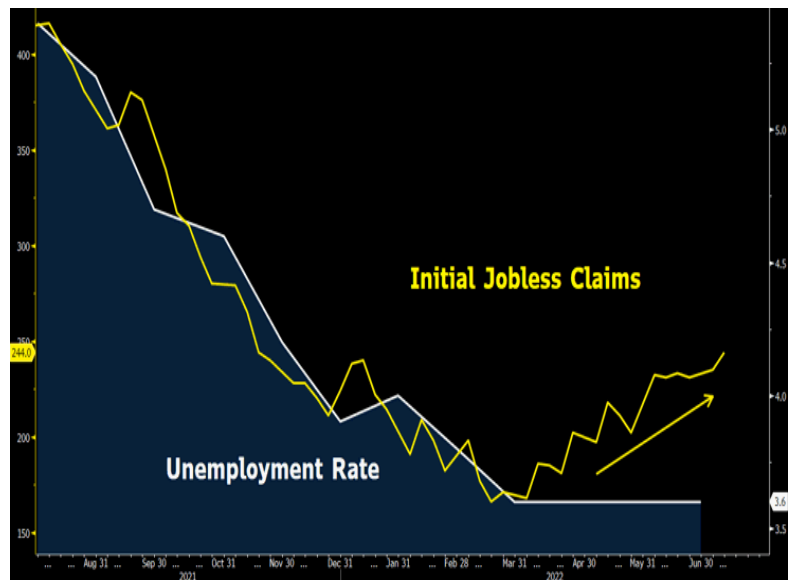
Consumer pain measures by the Misery Index - a gauge of inflation added with unemployment - is now at the highest level in 40 years

Non-Farm Payrolls vs. Copper



Non-farm payrolls is clearly a volatile data set that has few assets it is highly correlated to on a month-to-month basis. However, looking at decade-long charts trends become clear. Copper is an economic bellwether for industrial demand and growth-sensitive. The plunge in copper over the past month speaks to a rapidly slowing economy, one where lagging jobs are likely to follow behind in the near-term.

Jobless Claims on the Rise



U.S. jobless claims have bottomed out and are on the rise. The trend has been higher since mid-April. We're in a recession...

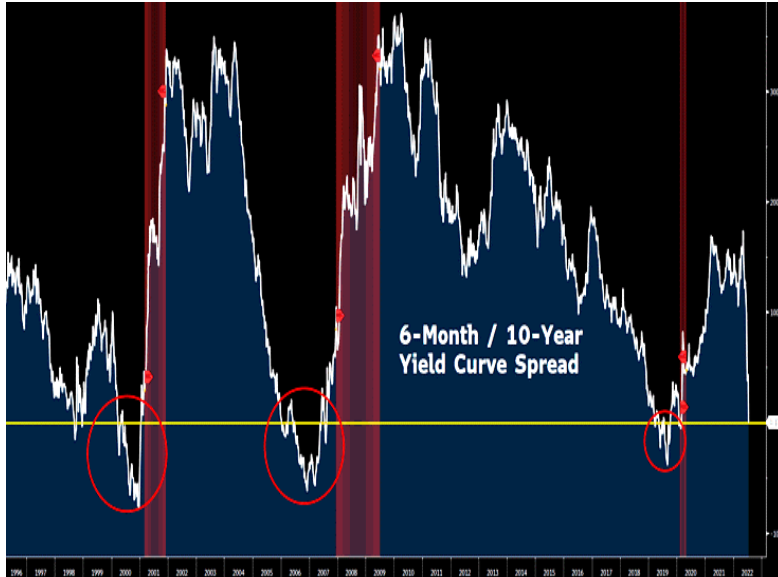




TURNING POINT

By The Bear Traps Report

6-Month / 10-Year Yield Spread



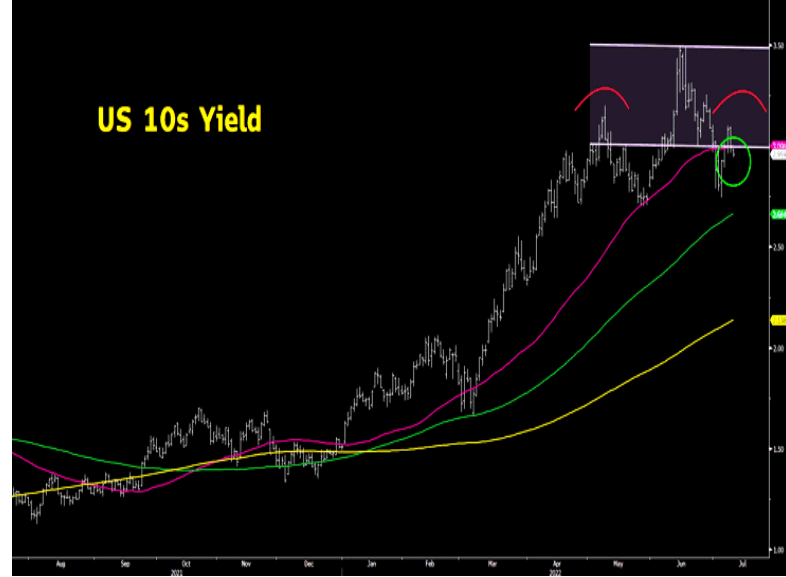
We are in Recession – 2s vs 10s typically inverts well BEFORE an economic downturn but the 6-month / 10-year yield spread is a different story – She went inverted intraday on Wednesday for the first time since 2019. **This spread has inverted before each of the last 3 recessions, BUT closer to the economic pain.** "If you were short the long-end going into this CPI, you got your dream number - then you looked forward at global headwinds – and you covered right after the print on the news." **CIO London.**

30 Year Yields



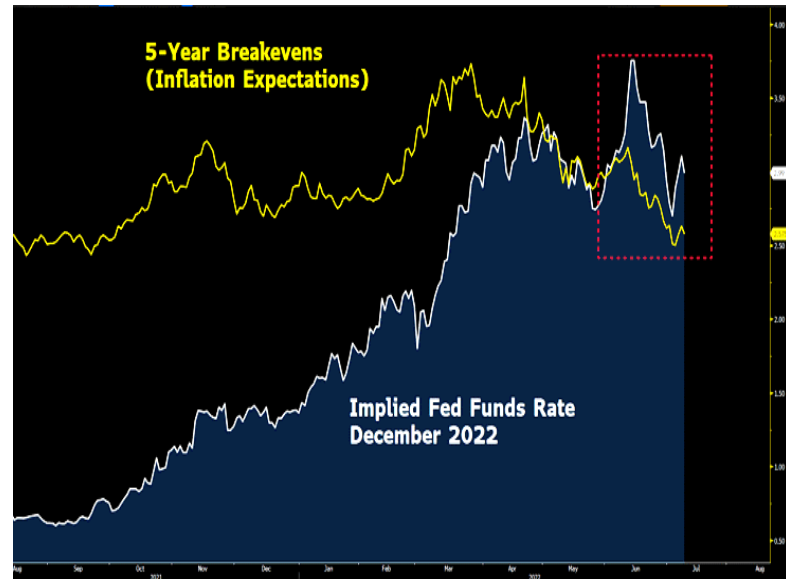
The 30-year looks like it may be putting in at least a temporary cap on yields with what looks like a potential head and shoulders formation. A breakthrough the neckline (yellow) would lead to a test of the 100DMA (orange) at 2.84%. This week's 30-year auction was impressive, lending credibility to the chart. The auction on the 30-year proves real demand accounts want to lock in yields here.

What do Bonds Know?



Global bond yields are rolling over, 1.78% to 1.18% in Germany as a recession is guaranteed in large developed market economies around the planet.

Inflation Expectations vs. Hike Expectations



The total coming rate hikes is coming down hard. Roughly a month ago, for the first time in this tightening cycle, the implied Fed Funds rate for the end of 2022 began to trade above the expected inflation rate over the next 5 years. The last time 5 year breakevens were here in December 2021, the expected Fed Funds rate by December 2022 was near 1.25% vs. near 3.0% today. The recent drawdown in commodities, economic indicators, and labor data speaks to the Fed having room to walk-back on their all-out tightening path after a hike in July.





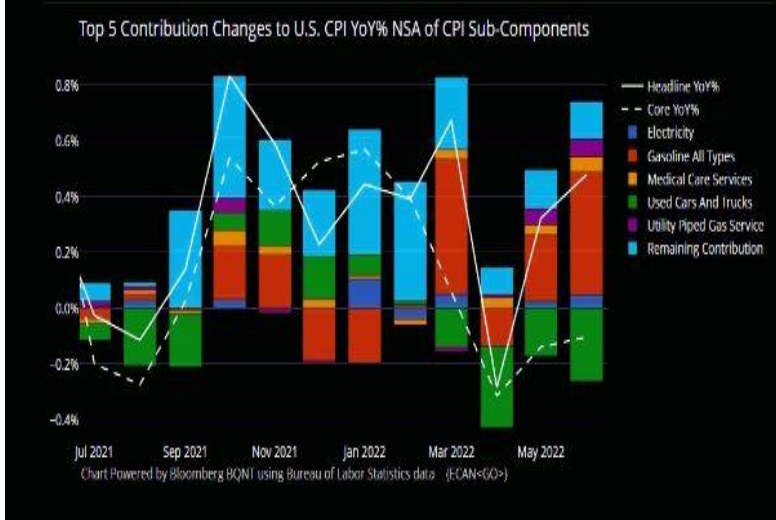
TURNING POINT

By The Bear Traps Report

WALLER: MARKETS MAY HAVE GOT A LITTLE AHEAD OF ITSELF ON 100 BPS

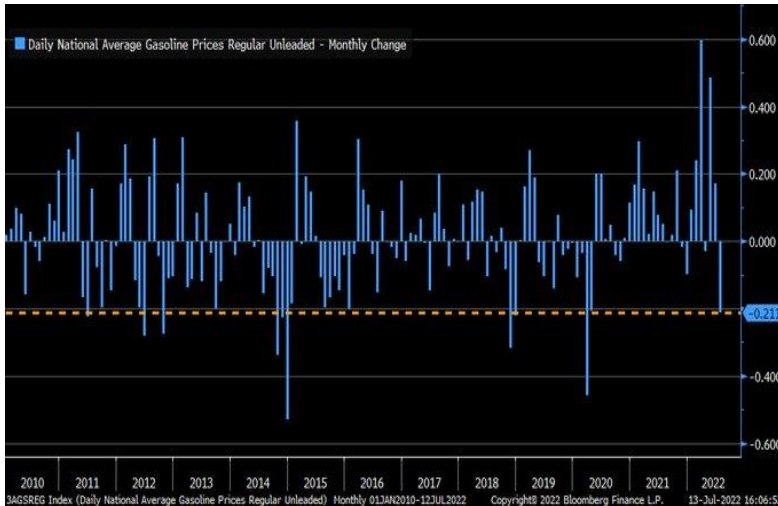
"75bp is huge". Sounds like Waller will vote for 75bp, unless there is something super-dramatic in data in the next week.

Top 5 Contributors to CPI



Looking at the top five contributors to CPI - the main problem was gasoline, which has fallen over the past month of course (will show in July reading). This also speaks to the likelihood of the Fed softening their message after the July meeting.

Gasoline Prices Monthly Change



We just had the largest monthly drop in average U.S. gasoline prices since March 2020. Look at CPI MoM fixes in the next 3-4 months -- all are wrapped around 0%. We know that energy prices have come way down in the last 45 days, BUT now the short-term MoM outlook is for NO inflation. Asset price deflation - oil-gas, copper etc., reducing inflation expectations.

Bond Rally

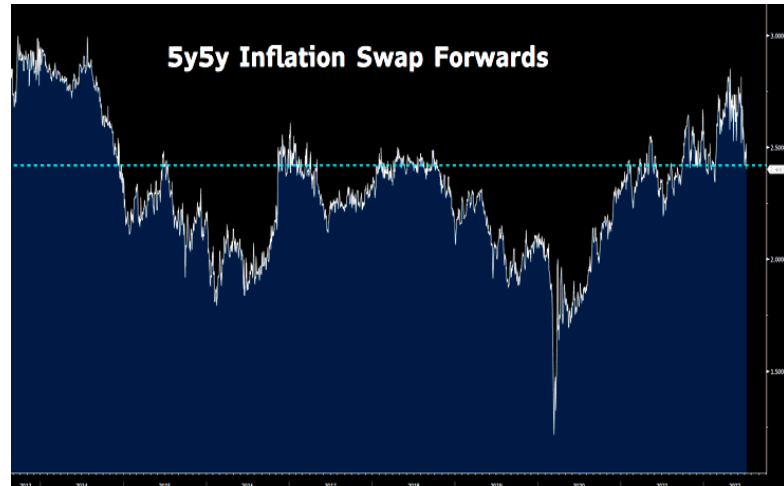
"Bonds are rallying for 3 reasons in my opinion: 1) CPI was strong due in part to rent inflation and gas prices. Rent is lagging indicator and softness in housing is expected to bite... Gas prices are also down \$1/gallon from June. 2) It's becoming clear anything over 2.5% or so (I'd say 2% personally) dramatically slows the economy given debt metrics. 3) People are thinking given the economic slowdown is apparent and with midterms coming up, one would think Fed does 75-100 and pauses thereafter." -- East Coast CIO

U.S. 3-Month Wage Growth



Wage growth in the U.S. is on the rise with the 3-month moving average now at the highest level in over 2 decades. Keep in mind, with inflation at 9% YoY real wages are still negative.

5y5y Inflation Swap Forwards



Another inflation proxy, the 5y5y (5-year inflation expectations, 5 years away) is trading back under 2.50% - a level that was very common over the past decade.





TURNING POINT

By The Bear Traps Report

S&P 500: 40-Year Chart



SPX 40-year chart with the key moments highlighted: 1) 1987 Crash; 2) Dot Com Bubble Pops; 3) Real Estate Bubble Pops; 4) QE Almost Forever; 5) Covid; 6) Fourth Turning Top; 7) Support = below 3000.

The long-term chart shows that every rally will be a bear market rally until we test the basic support line on the S&P below 3000. And that test may or may not work! Some bear rallies will be strong. Some bear market rallies will be blah. Some bear markets will be easy to trade. Some bear market rallies will be difficult to trade. But all the rallies will be bear market rallies until we go below 3000.

S&P 500 Uptrend to Downtrend



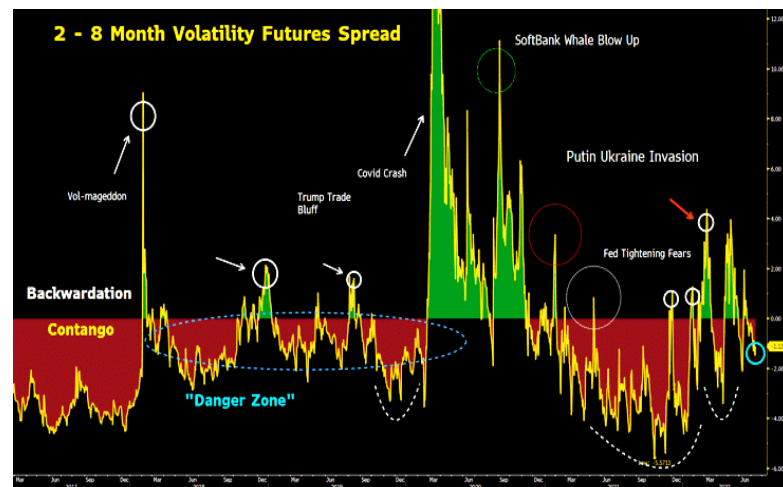
The beast inside the market will put more and more pressure on Powell - until he is broken over the knee. Two months ago, it was maybe 2023 - now Bank of America is predicting a mild recession this year.

Nasdaq Futures Parallelogram



Nasdaq 100 futures broke out of the ghost right wall (yellow dot and dashed line) which is a positive sign. Still right at the top line of the central channel extension (dash blue) with the 50DMA right above that (pink). We think there are a lot of buy stops above that 50DMA (which would be typical). So, a move above that should trigger a short squeeze to the top line of the parallelogram (dotted yellow) -- currently up at about 12800. Traders smelling a pause here after the next hike but are not quite ready to gun it. A test is of 10,000 is still a real risk, however, because we have yet to break out.

VIX Futures Curve



The 2 vs. 8 Month VIX Futures spread has been in-and-out of inversion this year. Throughout the past few months any normalized curve has meant a buying opportunity for near-term (1-2 month) vol. The spread has normalized back to 1 point in contango after being 2 points inverted exactly a month ago... We remain long vol via a position in the VIXY Volatility Futures ETF.





TURNING POINT

By The Bear Traps Report

CMBS Market

The total CMBS market volume has near \$200 billion outstanding - a small portion of the total institutional real estate debt market estimated at \$1.2T trillion with between \$100 billion and \$200 billion of commercial debt originations each year. Private-label CMBS issuance surged to \$120B in the U.S. last year, a 95% increase from 2020, according to a report from Trepp, a data provider that tracks securitized mortgages. It was the highest level recorded since 2007, when CMBS issuance peaked at \$230 billion before a global financial collapse essentially halted the market.

Tuesday, the MBS market fell 2/32nds for the current coupons and as much as 8/32nds for the deeper discounts. MBS is under-performing relative to Treasuries and was wider on a spread basis this week. From an intermediate perspective: the National Association of Realtors' Housing Affordability Index collapsed to its lowest print since the index began in the late 1980s. This means there will be less MBS supply going forward. From a longer-term perspective, greater affordability should spur greater demand for housing.

June home Builder Sentiment and Survey results

- 1) A lot more new home buyers are canceling.
- 2) Price cuts becoming far more common.
- 3) The plunge in demand finally cooling construction cost pressures (builder layoffs also happening).

Builders Say:

Texas - "Sales have fallen 75% the last two months in a further out community."

Florida - "Sales have slowed tremendously. Builders are dropping prices and halting new starts. Seeing prices drop on labor due to slowing of home starts. Expecting 15% to 20% reduction in most costs."

South Carolina - "This recession is looking like and feeling like a big long five-year depression."

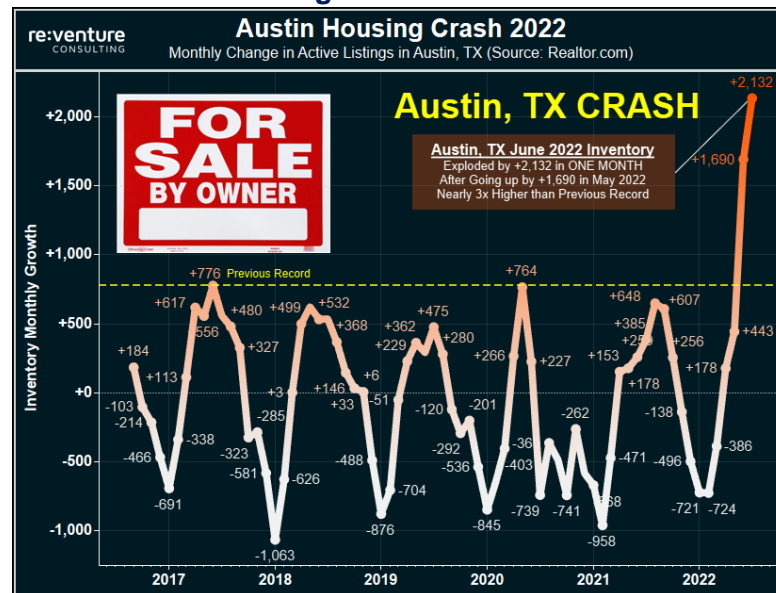
Arizona - "Amazing how fast a market can change with such a rapid increase in rates. So many people were taken out of the market. Most builders will go to suppliers/trades and ask for rollbacks [on costs]."

VNO Vornado Realty Trust -- Near the 2020 Lows



- A) VNO equity is -65% off the highs and some NY Banks are through the covid lows.
- B) With XOVER (high yield) in Europe near Covid lows.
- C) Credit Suisse CDS (EU Banks) is blowing out and
- D) EM bonds off 10-20 points last two months - just don't jive with U.S. bank dividends being increased.

Austin Texas Housing



"The housing crash in Austin, TX is getting EPIC. No buyers. Selling liquidating. Inventory piling up in record fashion. June 2022 Inventory Gain of +2,132 was nearly 3x previous record." - Re-venture





TURNING POINT

By The Bear Traps Report

Cannabis: CAO A Could Drop Next Week - ACG Analytics

Revised comprehensive cannabis reform legislation - "The Cannabis Administration and Opportunity Act (CAOA)" sponsored by Senate Majority Leader Chuck Schumer (D-NY) and Sens. Ron Wyden (D-OR) and Cory Booker (D-NJ) could be released next week.

We're happy to set up a call with ACG Analytics, a large value-add to buy-side institutions on the policy front.

Senate Releasing DOA Cannabis Bill Dovetails with Bullish View on Cannabis Banking Passing This Year - BTIG

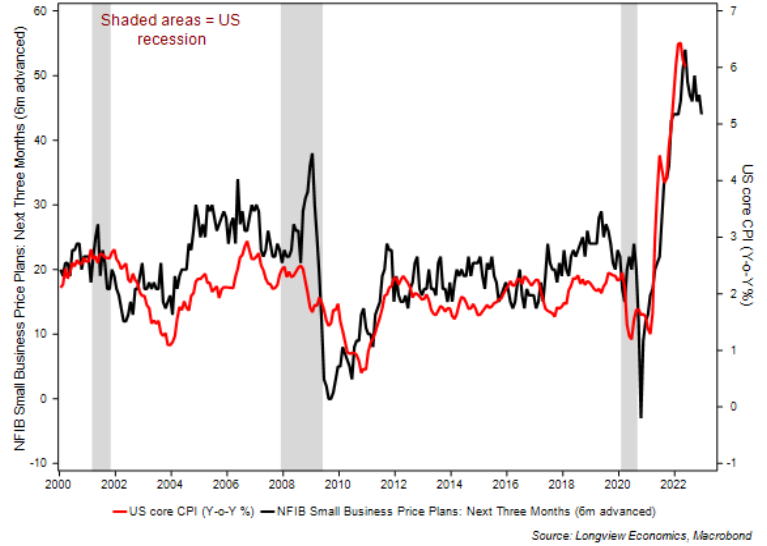
From a market perspective all that needs to be known at this stage is that this forthcoming bill has no viable path to passage and should be viewed purely as a messaging maneuver. From our seat, the release of the CAO A is performative theater that should allow Senate Democrats to uniformly pivot to consideration of narrower measures, including cannabis banking legislation. We remain bullish on cannabis banking legislation during this Congress and continue to believe that the annual defense bill is the best legislative vehicle to carry the measure to the president's desk.

MSOS U.S. Cannabis Breakout



The MSOS U.S. Cannabis ETF is breaking out of the recent downtrend and is well above the 20 day moving average for the first time since early April.

NFIB Small Business Price Plans vs. CPI



Small businesses plans to charge customers in three months time continue to roll over – this points to a lower CPI to come. We expect the deterioration in economic data to pull rate hike expectations lower – a large tailwind to beaten-down growth equities such as the cannabis sector.

Industrial Production Negative



We continue to see signs of economic deterioration. Although industrial production (not inflation adjusted) is positive on a YoY basis (blue), the latest MoM reading was negative for the first time since last December.





TURNING POINT

By The Bear Traps Report

Nat Gas Divergence

Natural gas prices divergence

Benchmark gas prices (EUR/megawatt hour)

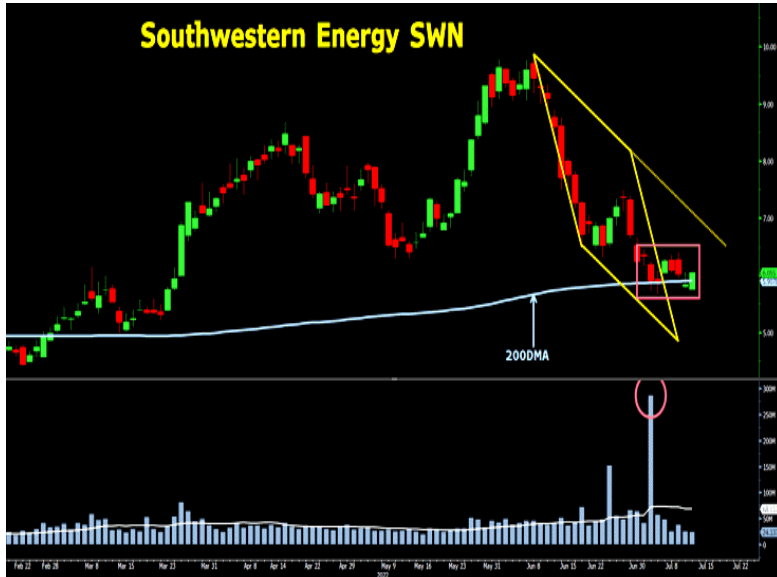


Source: Refinitiv Datastream; Allianz Research. Feb23' from futures market; constant FX

European nat gas prices (green) are expected to continue to soar higher throughout the next 6 months with supply issues unlikely to be fixed. Notably, U.S. nat gas (red) is not expected to rise significantly at all. In our view, this speaks to upside in U.S. nat gas and the equities in the space. Europe is going to be forced to import more from the U.S. in the coming 12 months. We are SWN, AR, and ET bulls.

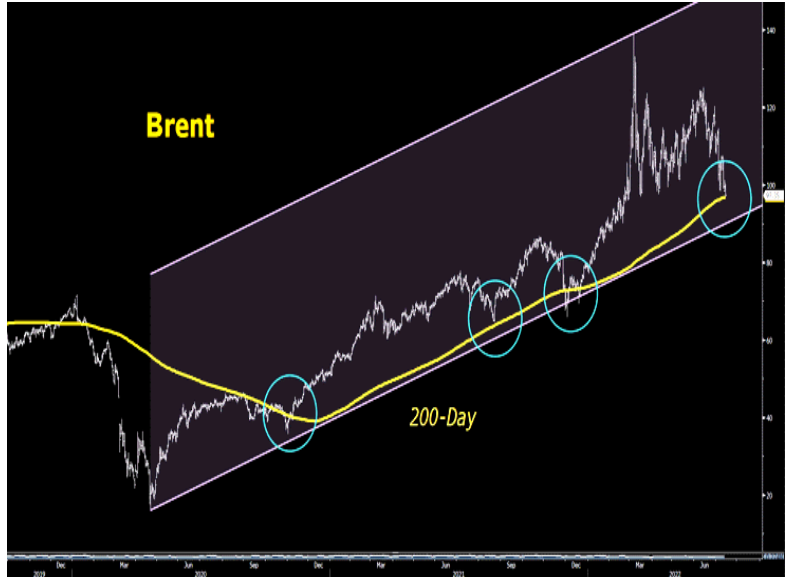
SWN Southwestern Energy

Southwestern Energy SWN



After its recent high-volume selling climax, Southwestern Energy is basing along its 200DMA (blue). It should resolve higher with a break above the top-line extension (yellow dots).

Crude Oil at the 200 Day



Brent crude oil is back on the 200 day moving average for the first time since December. We see a trade-able bottom in the coming days. Its early, but spot WTI, spot Brent, December 2022 WTI, and December 2023 WTI all tested - and so far holding their 200 day moving average.

A Deal or NO Deal

A "Deal" for "13mmbbl / day." - Some say Kingdome of Saudi Arabia is raising production to 13mmbbl / day. Remember - this is a long-standing goal they've stated over and over again -- by 2027. Saudi Arabia's current capacity around 12 million bpd. By 2027 the plan is to reach 13 million capacity. Now under there OPEC plus pact, Saudi production quota is 11 million bpd. **Bottom line – there are no pledges of increased production by Kingdome as a result of Biden visit.**

"Some people missed the points when MBS talked about increasing Saudi Arabia's production capacity to 13 mb/d & tried to minimize its impact by saying this is old-news. Since MBS said it in front of world leaders, it means a big massive push for Aramco to make it happen. The addition is not only 1 mb/d of production capacity, but also compensates for the field declines between now and 2027." **With Anas Alhajji.**



Short-Term High Conviction Position List (30-60 Days)

Position	Ticker	Description	Sector	Thesis
3/3	MSOS	US Cannabis ETF	Value	We recently added both SWNS Southwestern Energy (nat gas) and the XOP Exploration and Production ETF to our short-term high conviction basket. After lightening substantially on our energy positions in Q1 and early Q2, we see recently added back shares and see large near-term upside in these names.
3/3	XBI	Biotech ETF	Value	
3/3	KWEB	China Internet ETF	Emerging Markets	
3/3	IMPUY	Impala Platinum	Commodities	
1/4	TAN	Solar ETF	Capitulation	
3/3	SWN	Southwestern Energy	Oil & Gas	
3/3	XOP	Oil & Gas E&P ETF	Oil & Gas	

Long-Term High Conviction Position List (12-24 Month View)

Position	Ticker	Description	Sector	Thesis
3/3	URNM	Uranium Miner ETF	Commodities	Throughout 2021, we were overweight both energy and non-energy commodities. In late Q1 / early Q2 we began to lighten significantly on our exposure, into strength - namely in the energy and industrial metals spaces. However, given the historic pullback in June, we have begun to add back to these names. We have just added Rio Tinto, Newmont, and Chevron to our long-term high conviction list.
2/3	TECK	Teck Resources	Commodities	
3/3	HL	Hecla Mining	Commodities	
3/3	SIL	Silver Miner ETF	Commodities	
3/3	GDX	Gold Miner ETF	Commodities	
3/3	NEM	Newmont Corp	Commodities	
2/3	RIO	Rio Tinto	Commodities	
1/2	ET	Energy Transfer	Oil & Gas	
3/3	SLB	Schlumberger	Oil & Gas	
2/3	CVX	Chevron Energy	Oil & Gas	
1/3	CRM	SalesForce	Capitulation	In recent weeks we shifted GLRE from our short-term high conviction list to our long-term list. Last week we lightened AT&T into strength. We remain value bulls but have lightened given the spaces large outperformance in 2022.
1/3	GLRE	Greenlight Capital	Value	
1/3	C	Citigroup	Value	
1/3	T	AT&T Inc	Value	
3/3	INTC	Intel Corp	Value	
1/3	EWU	United Kingdom ETF	Non-US Developed	Last week we added the EWY South Korea ETF to our long-term high conviction basket. We believe the Fed will under-shoot rate hike expectations, fueling a weak USD. A weaker dollar points to upside in non-US Equities.
2/3	EWY	South Korea ETF	Emerging Markets	
3/3	EWZ	Brazil ETF	Emerging Markets	
2/3	BABA	Alibaba Group	Emerging Markets	
1/3	FXI	China Large Cap ETF	Emerging Markets	

High Conviction Portfolio Returns vs. S&P 500 Index

Past Month (vs. S&P 500)

Past 12 Months (vs. S&P 500)

High Conviction -5.0% (vs. S&P 500 +1.5%)

High Conviction +2.7% (vs. S&P 500 -11.4%)

These are only our HIGH conviction plays, see our full portfolio via customer login at www.thebeartrapsreport.com

Bear Traps Report | Asset Class Outlook

Asset Class	Recent Change	Strength of Conviction	Rationale
Equity Positioning: U.S. Equities	←	Underweight → Overweight 	We are bullish on value equities with exposure to commodities. However, with a weak-USD outlook, we remain bullish non-U.S. equities.
Global Equities	→	Underweight → Overweight 	With conviction, we believe global equities (namely emerging markets and China) will largely outperform the S&P 500 over the next 12 months.
Credit Quality		Defensive → High-Risk 	On the credit spectrum, we want to be heavily positioned toward investment grade corporates. High quality (Single-A or better) short term (1-3 years) U.S. investment grade bonds are preferred.
Duration	→	Low → High 	Given the tremendous rise in bond yields globally, we recently took our short-Treasury position off into strength. We recently entered a long TLT position, aiming for a near-term pullback in yields.
Commodities	→	Underweight → Overweight 	We lightened our commodity exposure throughout Q1/Q2 of this year. Given the sharp drawdown in commodity-exposed equities in June, we have added back to our exposure.
Cash Allocation	→	Risk-on → Defensive 	We have lightened numerous capitulation buys into strength in recent weeks, namely in the growth equity space.
Currencies		U.S. Dollar → Global Currencies 	We believe the dollar has significant downside risk with rate hike expectations likely to be pulled down further, in our view.

