Global Equity Long-Short Quantamental Strategy

Stouff Capital

Update as of May 31st, 2023, | Letter 77

Investors navigate between Charybdis and Scylla: the new AI bubble and the Debt Ceiling

Talking with investors, we understand that there has rarely been such an uncertainty about what market should do. Most investors are very skeptical of the 2023 rise in equities for many reasons: high inflation, coming recession, debt ceiling, Quantitative tightening, high valuation, low breadth. At the same time, the S&P500 and MSCI World are on the edge of a major breakout.

We thought it could be useful to provide the outputs of our quantitative tools to get a few responses:

1. Our regional matrix is bullish for all regions. This is in line with other quants that have been buying stocks while mainstream investors have stayed on the sidelines.
2. This constructive positioning is justified by technical charts showing that indexes are near a breakout level.
3. Our Sector matrix favors TMT (Technology and Communication) in 2023: this is confirmed by the outperformance of the Nasdaq100 (chart 1) versus the rest of the world. It is underweight Financials, Energy and Materials, sectors directly linked to the economy.
4. Our fractal analysis on the debt ceiling identifies a theme to play if it is resolved: **buy the "Debt Ceiling Losers" basket**.
5. While China reopening has felt like a clouded dream for months, it has not been a straight line with many pauses and pivots: The overall bullish direction should provide a buy for global demand – perhaps we are finally seeing light at the end of the tunnel.

While markets are torn between 2 headwinds: inflation, and recession, the Debt Ceiling was the market focus, which is probably solved… We initiated a straddle on the S&P500 to be hedged against the worst. That strategy also helps us being fully invested as indexes break out: indeed, a straddle enables to be net short if the S&P500 falls hard but also to be fully invested above our strike 4220. Moreover, the debt ceiling resolution would provide a short-term trade to play the "Debt Ceiling Losers" basket that has massively underperformed.

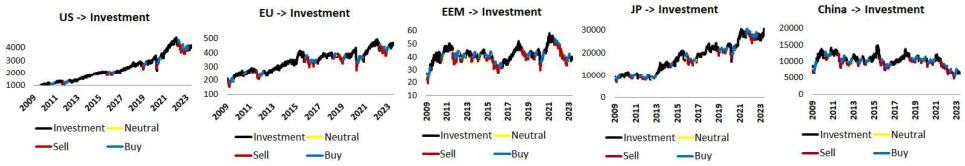
There are so many contradictions right now that it seems unthinkable that we may have started a new bull market. But for the sake of the argument, many issues could be solved: soft landing instead of a recession, with inflation slowly but surely falling to 3 not 2%, P/E falling as 2024 earnings are up to 240-250, continuity of the AI bubble ("we are in 98 not 2000" argument), better breadth with financials and cyclical sectors like energy and materials recouping their correction or may be like in the end 1998-2000, the market never broadened. Then, the argument of crashing liquidity after the debt ceiling deal may be overblown as there is ample excess reserve on banks' balance sheets, Treasury would smooth out bill, and there is no proven causal link banks use reserves to buy equities.

CHART 1: NASDAQ 100 (panel 1), % Stocks > 50- & 200-days MA (panel 2), RSI (panel 3), Relative return versus the MSCI World (panel 4), Relative P/E (panel 5)

Source: Bloomberg – Stouff Capital 2023

EQUITY REGIONAL MATRIX, 31.05.23

EQUITY REGIONAL GRADES			U.S.A.	Europe	Emerging equities	JAPAN	China
Three month outlook	Bullish	26%	from 10 to 30% / Bullish	from 10 to 30% / Bullish	from 10 to 30% / Bullish	from 10 to 30% / Bullish	above 30% / Very bullish
One month outlook	Neutral	5%	Bullish	Very bearish	Very bearish	Bullish	Bearish
31.05.2023			OVERWEIGHT	NEUTRAL	UNDERWEIGHT	NEUTRAL	OVERWEIGHT
Matrix recommended net exposure			27% 27%	-28% 28%	-28% 12%	14% 26%	-14% 35%
Trend (one month outlook in blue)	Weight CPD 40%	Weight 40%	100% 100%	-100% 40%	-100% 0%	70% 100%	-100% 22%
Contrarian trend			OB OS -9%	OB OS 9%	OB OS 5%	OB OS -17%	OB OS 19%
Relative valuation since 1995		20%	Exp. Cheap -23%	Exp. Cheap 78%	Exp. Cheap 26%	Exp. Cheap -55%	Exp. Cheap 40%
Liquidity delta		10%	Low High -50%	Low -17%	Low High 34%	Low High 75%	Low High 46%
Economics delta	Neg. CPD in EU JP CH	10%	Contracting Slowe 0% 17% SPRING	Contracting Slowe -50% -100% WINTER	Contracting Slowe 0% 11%	Growing From contracting -50% -17% SPRING	Contracting Slowe -50% -50%
Contrarian Sentiment	20%	20%	Neg. Po 44% -7%	Neg. Pos 20%	Neg. Pos. 0%	Neg. Pos -12%	Neg. Pos. 20% 53%
Investing Phases with Trend Charts			INVESTMENT	INVESTMENT	INVESTMENT	INVESTMENT	INVESTMENT



MODEL LONG ONLY EQUITIES		OVERWEIGHT	NEUTRAL	UNDERWEIGHT	NEUTRAL	OVERWEIGHT
Our Universe Weight per region	100%	U.S.A. 55%	EUROPE 25.0%	EM EX CHINA 10%	JAPAN 5%	CHINA 5%
Model LONG ONLY Regional Allocation	100%	56%	25.4%	9%	5%	5%
Model Absolute Return Regional Allocation	26%	15% 15%	-7.1% 6.9%	-2% 1%	1% 1%	-1% 2%

This matrix ranks from -100% to +100% the 4 regions (US, Europe, EM and Japan) with respect to 5 factors (Trend/Valuation/Liquidity/Economics/Sentiment). It suggests which region to overweight or underweight for a long only or a trader.

Source: Bloomberg Stouff Capital 2023

Let's start with point 1, our top-down quantitative tool, denominated the regional matrix is bullish on the medium run for all regions, but neutral on the very short term. The table above shows its reading as of May 31st. This tool gives what should be the next exposure of all our trades for the coming 3 months. After a few weeks of consolidation, it is bullish thanks to a mix of constructive pillars. The first and most important of them (40% of the calculation) is the Trend grade, based on various moving averages crossovers and their respective slopes. All those regional trend grades are either maximum bullish at 100% (USA, Japan) or bullish at +40% for Europe and neutral for EM & China. Just note that Europe and EM are bearish short term. The below chart of the S&P500 confirms the bullish state of US equities:

CHART 2: TRADING PLAN FOR THE S&P500 - 30.05.23

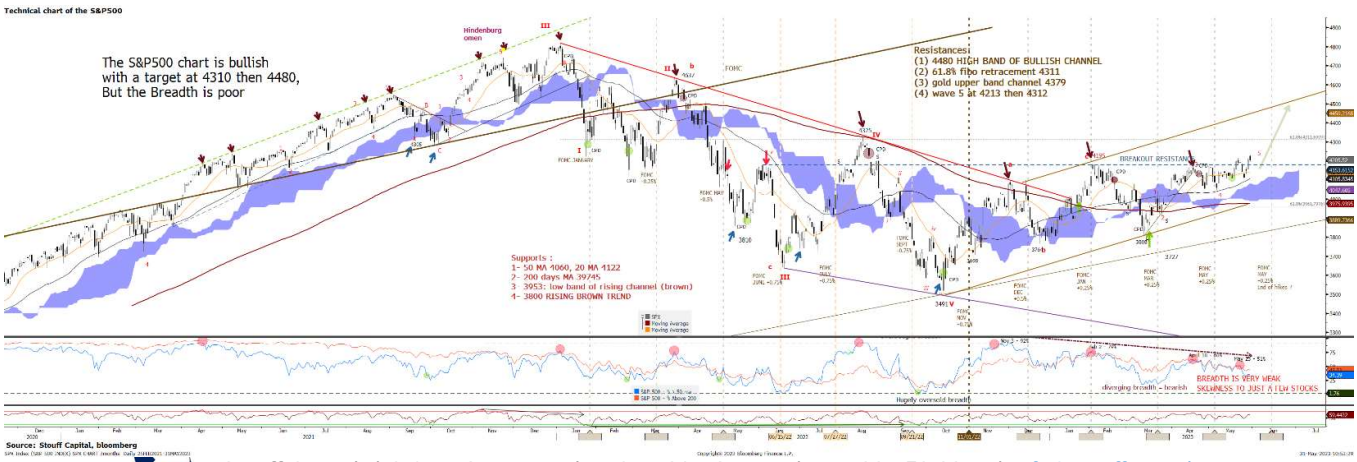
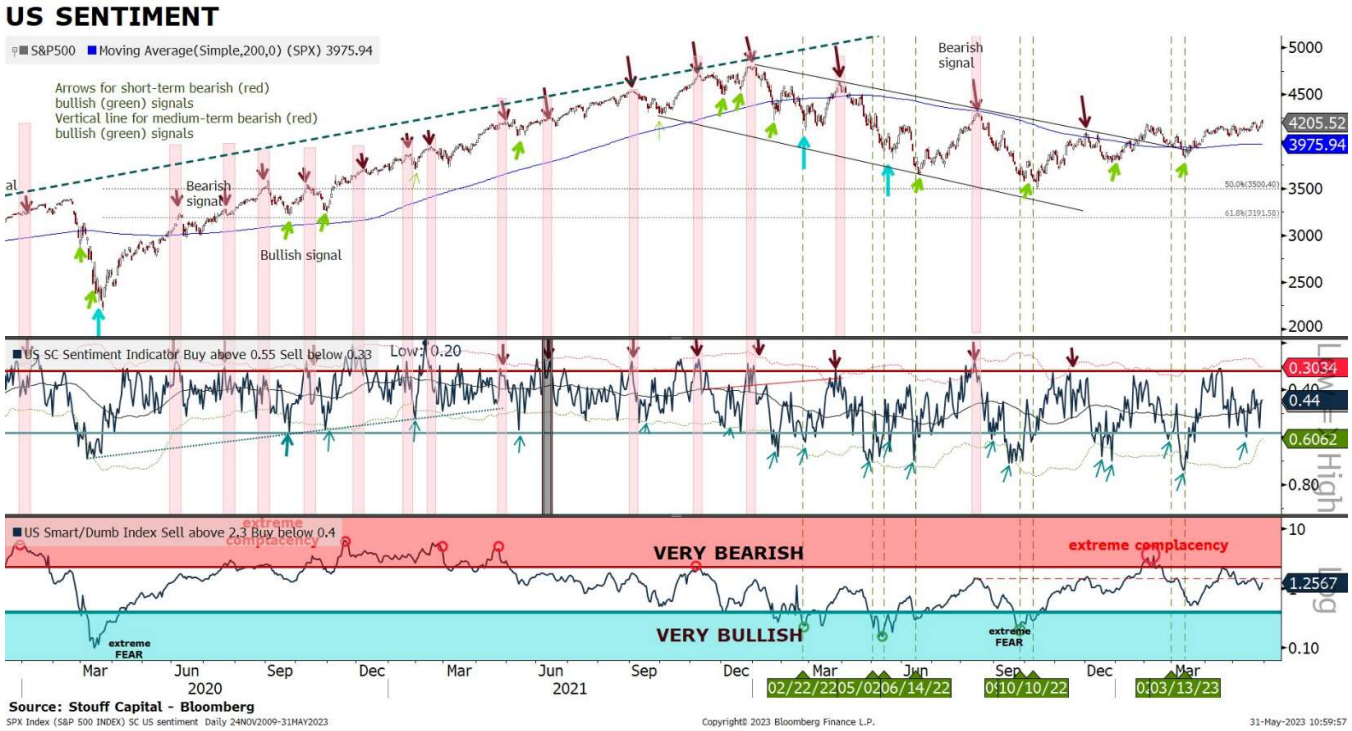


CHART 3: SC US SENTIMENT READINGS ARE NEUTRAL/ BULLISH - 30.05.23.

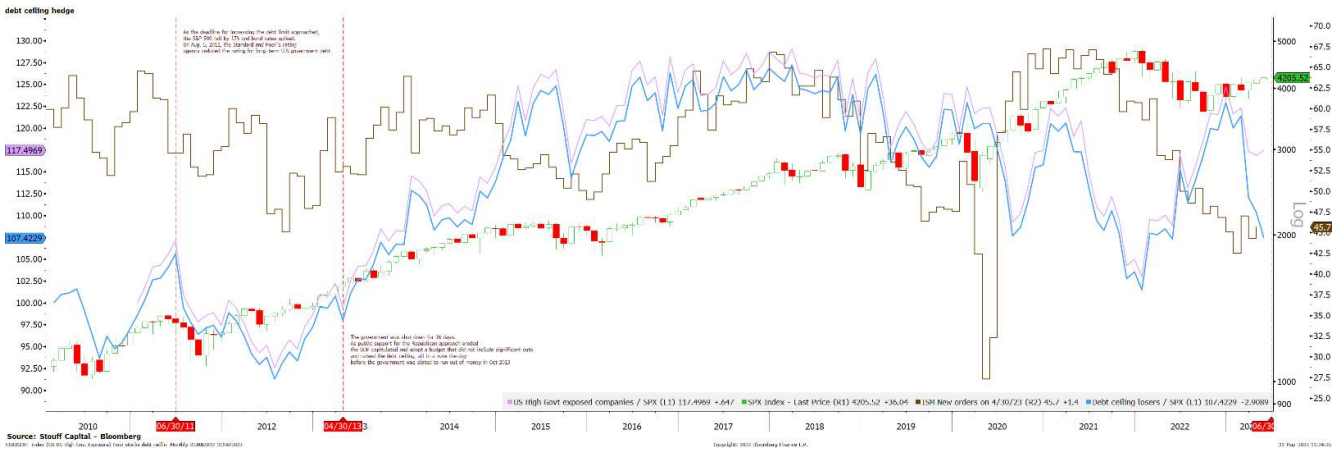


Other pillars of the Matrix are constructive, such as sentiment. Indeed, investors are skeptical of the rally, while indexes are near their 2023 highs. Our US SC Sentiment indicators on the above chart is neutral for the medium run, and even gave a short-term contrarian bullish signal mid-May. Statistically, rallies are stronger when they climb a wall of worry like now. Of course, this pessimism is seen in the weak breadth of the market. Only a handful of big Technology or European Luxury stocks have driven the capitalization-weighted S&P 500 and Stoxx600 index to decent gains this year (right hand chart). The equal-weight version of the index has languished and is down 8% relative to the other version since February. **Good news is that similar large declines in the ratio between the two indexes preceded outsized gains for the average stock.**

One reason for the divergence between average equity and their cap-weight version is the new AI Bubble. The equity market has been powered by a relative handful of technology stocks that have soared on their potential to fundamentally change the world. With just seven tech behemoths surging a median 50% this year, investors are getting desperate for ways to keep up with those names, creating a FOMO in TMT space, linked to AI. We have played that bubble with Out-the-money upside calls on those names. This is working very well as those AI stocks (Palantir, Meta, Google, AMD, ADBE, AMZN …) have risen along with higher implied volatilities.

Another reason is the pessimism directly linked to the debt ceiling negotiations, affecting the average stock. This binary debt ceiling event forced us to buy out the money near-dated (June expiry) protection, while vol was low. This gamma exposure is useful not only to be hedged against a tail risk (equities would fall more than 15% in case of non-agreement), but also in the case of a breakup. Indeed, if the S&P500 was to rise above 4220, our net exposure would increase from 20-25% to 50%. As the debt ceiling agreement seems now to be reached over the next 10 days, it may also provide a good trade. Many stocks linked to the government spending and specific companies in the tax preparation industry, student loans, defense spending, and the energy industry, should benefit all the more than they have massively underperformed going into the event.

CHART 3: DEBT CEILING LOSERS (BLUE) VERSUS THE S&P500 (CANDLE) - 30.05.23.



We expect the Congress will pass the legislation and President Joe Biden to sign it before the Treasury runs out of money on June 5. A lot of names should benefit, and we want to buy this "**Debt ceiling Losers**" basket. On the chart above, we observe their significant -15% underperformance in blue versus the S&P500. There are names ranking well in our quantitative process such as Intuit (INTU), health-care companies like Elevance Health, Pfizer, Humana, Centene, UnitedHealth, Industrials like Martin Marietta. Please find a list of stocks on the below table:

Ticker		Short Name	SI%Flt	Px	%1D	%ytd	Vaccine	SinceVaccine	date 25/01 since	GRWT	RV	SALES	EPS	LWL	EQ	SS	MF	ESG
MLM	xd	MARTIN MAR	1.	398.23c	-.23%	+17.8%	↑2.05%	↑31.61%	↓-.52%	73	24	74	80	46	50	15	25	58
EXP	d	EAGLE MATERI	2.	164.62c	-.94%	+23.9%	↓-1.65%	↑37.32%	↓-.51%	72	45	62	60	50	50	75	50	51
VMC	d	VULCAN MATEI	1.	196.05c	+.03%	+12.0%	↑.74%	↑26.33%	↓-.99%	68	30	68	77	55	47	55	38	62
GVA	d	GRANITE CONS	10	36.62c	-.27%	+4.4%	↑1.36%	↑73.58%	↓-2.42%	66	49	43	78	69	50		50	
LLY	d	ELI LILLY & C	.7	427.24c	+.34%	+16.8%	↓-.29%	↑150.39%	↑3.01%	66	15	69	62	69	55	85	56	57
OSK	d	OSHKOSH COR	2.	74.96c	+1.39%	-15.0%	↑7.93%	↑29.43%	↓-1.73%	65	54	54	81	37	50	75	50	
PLTR	d	PALANTIR TEC	8.	14.71c	+7.77%	+129.1%	↑6.07%	↓-42.66%	↑11.20%	64	33	66	86	4	43	85	88	
VRTX	d	VERTEX PHARI	1.	325.30c	-1.42%	+12.6%	↑1.17%	↑40.19%	↑1.57%	64	34	76	51	74	63	85	12	72
UNH	d	UNITEDHEALTH	.6	479.85c	-.35%	-9.5%	↑.73%	↑54.89%	↑.07%	62	39	74	55	78	59	15	24	80
MOH	d	MOLINA HEALT	3.	269.86c	-1.16%	-18.3%	↓-3.88%	↑53.41%	↑.77%	61	59	56	63	54	42	55	17	
ELV	d	ELEVANCE HEA	.8	441.73c	-.93%	-13.9%	↑2.90%	↑68.09%	↑.41%	60	51	69	56	68	58	45	50	90
J	d	JACOBS SOLUT	1.	113.14c	-.76%	-5.8%	↑2.58%	↑20.91%	↓-.65%	59	43	46	49	73	52	65	21	73
MRK	d	MERCK & CO	.8	109.17c	-1.71%	-1.6%	↑.17%	↑29.46%	↑.21%	59	37	57	47	82	58	75	38	74
HUM	d	HUMANA INC	1.	495.10c	-.30%	-3.3%	↓-2.21%	↑27.63%	↓-.29%	58	48	65	60	61	31	35	75	73
AMGN	d	AMGEN INC	1.	218.53c	+.74%	-16.8%	↑1.44%	↑16.13%	↑1.42%	57	49	48	51	88	59	65	28	73
BCO	d	BRINK'S CO/T	3.	66.45c	-2.74%	+23.7%	↑9.14%	↑20.36%	↑.79%	57						55		
EXEL	d	EXELIXIS INC	2.	19.01c	-.63%	+18.5%	↑1.40%	↓-20.52%	↑3.07%	57	39	73	67	56	50	45	50	
EVBG	d	EVERBRIDGE I	2.	23.41c	+.77%	-20.9%	↓-5.97%	↓-79.43%	↓-1.19%	57								
WAB	d	WABTEC CORP	1.	94.45c	-.31%	-5.4%	↑12.24%	↑56.14%	↓-1.67%	55	31	46	56	78	56		42	71
BSY	d	BENTLEY SYST	2.	48.49c	+1.40%	+31.2%	↑2.46%	↓-10.51%	↓-6.06%	54	23	74	54	34	56	45	63	
ROP	d	ROPER TECHN	.7	451.73c	+.39%	+4.5%	↑.46%	↑1.96%	↓-.03%	52	21	55	63	91	52	15	95	72
ESPR	d	ESPERION THE	15	1.40c	-4.11%	-77.5%	↑9.92%	↓-66.10%	↑11.07%	51	48	53	63	0	50		50	
KBR	d	KBR INC	3.	58.81c	+.75%	+11.4%	↑8.70%	↑108.74%	↓-1.40%	50	28	50	53	75	50	75	50	

let's now focus on the sectors favored by our quantitative process. We use a similar matrix for every region in order to rank sectors based on facts. In the USA, the Sector matrix is overweight TMT (Technology and Communications) and Discretionary, as those industries are supported by better earnings momentum. We also like healthcare, that has suffered owing to the debt ceiling negotiations, and staples, that have been recently hurt by higher rates. For instance, we initiate a long trade in Procter & Gamble as we believe its recent correction is exaggerated.

Underweight sectors are Energy, Utilities, Materials and Financials. Energy & Materials suffer from an expectation of a coming recession, Financials from the evolution of the banking crisis and Utilities from higher rates as a function reaction to a sticky inflation.

US SECTOR MATRIX, 31.05.23

31.05.2023		XLF	XLE	XLV	XRT	XLI	XLP	XLB	XLC	XLU	XLK	XLRE
Sector Grade (from -100% to 100%)		-39%	-46%	24%	34%	-5%	20%	-24%	68%	-32%	44%	-11%
Period change		↑	↓	↑	↑	↓	↑	↓	↓	↓	↓	↓
S&P 500 Sector ranking		10	11	4	3	6	5	8	1	9	2	7
		Financials	**Energy**	**Health Care**	**Discretionary**	**Industrials**	**Staples**	**Materials**	**Communication**	**Utilities**	**Technology**	**Real Estate**
S&P 500 Weight per sector	100% Weight	12%	4%	14%	10%	8%	7%	2%	9%	3%	28%	3%
Trend	40%	-100%	-100%	-10%	100%	-50%	-10%	-100%	100%	-100%	100%	-100%
Contrarian trend		4%	10%	22%	-12%	4%	24%	15%	-12%	24%	-25%	7%
Relative valuation since 1995	15%	8%	97%	35%	-71%	-16%	-31%	70%	32% adjus. with GICS chg	-78%	-51%	90%
Earning momentum	10%	-6%	-94%	-28%	89%	22%	-11%	-17%	17%	0%	39%	-11%
Short-term intra sector perf	10%	67%	8%	58%	83%	75%	33%	25%	92%	42%	100%	17%
		yield curv mortgage whol. Spr	Oil	Fed spending drugs deals >65 pop	apparel consumer watch. Sales	dur. Goods PMI manuf	beverage Cpi care Cpi tobac	PPI cement Steel cap uti	rates	rates, prod util.	Equp. Bookng mobile sales	Yield curves
Factors	10%	-53%	-100%	78%	56%	-20%	100%	67%	53%	-24%	100%	53%
Contrarian Sentiment	15%	20%	25%	22%	-49%	11%	42%	16%	12%	22%	-13%	45%
Weight (OW, Neutral, UW)		UW	UW	N	OW	N	N	N	OW	UW	OW	N
Catalyst (green: bullish; red:bearish)		(+) Deregulation, better Bal. Sheet (+) widening credit, funding squeeze	Oil down	(+) Secular tailwinds with Grey economy (-) Biden pricing war	(+) Opening economy (-) inflation	increased fed spending - Biden infrastructure plan	Higher raw material prices, opening economy	Bull commodities cycle	(+) FANG favored with peak rate increase (-) political headwinds FANG	Energy rel. Utilities (-) higher rates	(+) innovation cycle (AI, cloud), rates peaking (-) GDPR, regulation, high PE	cloud industry warehouse REIT space, (-) higher mortgage rates
Sentiment details												
12month etf flows	-8923	-2440	-3999	1160	-688	-1551	1563	-1350	-284	943	-1855	-419
3month etf flows (3m=72,20d=26)	-3610	-1186	-2760	304	750	-1198	970	-163	-114	1142	-969	-385
20d etf flows (too high is negative)	2/3	37%	87%	26%	-66%	17%	58%	34%	25%	41%	-33%	70%
smart sentiment	1/3	-13%	-100%	13%	-14%	-1%	11%	-18%	-14%	-16%	26%	-5%
CHG_PCT_1m		-4.43	-9.93	-4.49	-6.96	-2.96	-5.90	-6.52	4.06	-5.61	9.60	-4.60
Rank 1 month return		4	11	5	10	3	8	9	2	7	1	6

In Europe, the situation differs somehow. Financials are in a better situation and have stayed neutral. We favor Italian, Greek and Spanish banks. Utilities are OW, supported by the European fiscal Recovery plan. Industrials, Tech and Healthcare are favored in this region as shown on the below table. Energy and Materials are underweight like in the USA.

EU SECTOR MATRIX, 31.05.23

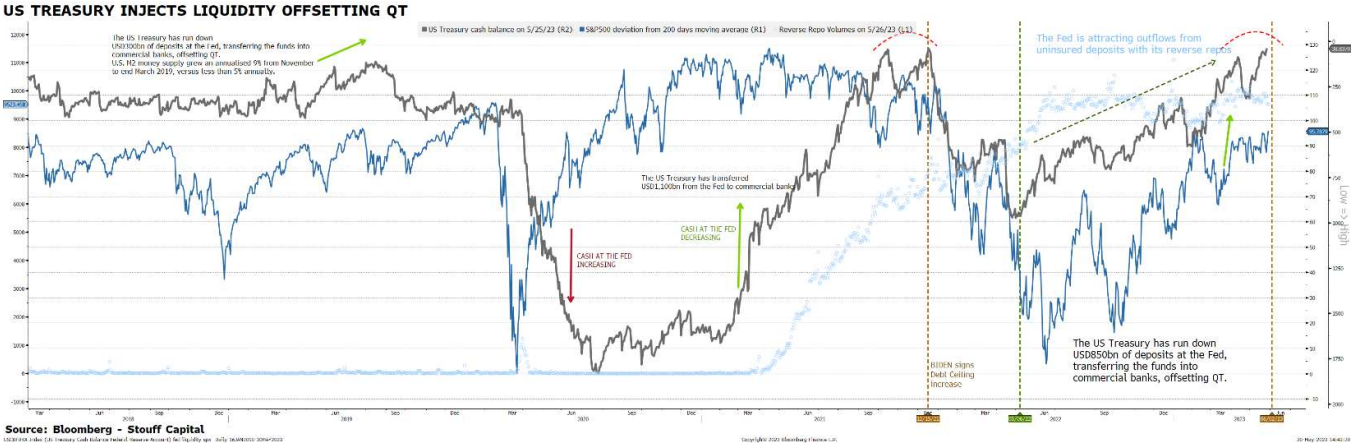
31.05.2023		SX7PEX	SXEPEX	SXDPEX	SXAPEX	SXNPEX	SX3PEX	SXPPEX	SXKPEX	SX6PEX	SX8PEX	SREEEX
Sector grade (-100 to 100%)		15%	-41%	40%	31%	41%	0%	-9%	1%	46%	55%	-56%
Period change		↑	↓	↑	↓	↑	↓	↓	↓	↓	↑	↑
Europe Sector ranking		6	10	4	5	3	8	9	7	2	1	11
		Financials	**Energy**	**Health Care**	**Discretionary**	**Industrials**	**Staples**	**Materials**	**Communication**	**Utilities**	**Technology**	**Real Estate**
Stoxx 600 Weight per sector	101.8% Weight	16%	5%	14%	16%	16%	12%	6%	4%	5%	6%	1.1%
Trend	40%	13%	-100%	70%	49%	70%	15%	4%	-10%	70%	100%	-100%
Contrarian trend		0%	11%	8%	0%	-3%	0%	0%	21%	6%	-14%	13%
Relative valuation since 1995	15%	6%	100%	-17%	33%	28%	-22%	3%	25%	74%	14%	-75%
Earning momentum	10%	62%	-37%	33%	59%	26%	-31%	-80%	0%	7%	28%	-48%
Short-term intra sector perf	10%	37%	-89%	44%	36%	67%	-61%	-7%	-56%	0%	100%	-100%
		yield curv Italy NPL TLTRO	Oil	drugs deals >65 pop	Retail sales German tyres autos	PMI manuf ind. Prod	beverage Cpi tobac	PPI cement Steel cap uti	rates	rates, nat gaz	Equp. Bookng mobile sales	rates
Factors	10%	-21%	-100%	67%	-11%	7%	100%	-33%	0%	50%	100%	0%
Sentiment	15%	6%	19%	-20%	-13%	-1%	-26%	4%	-12%	-12%	-31%	32%
Weight (OW, Neutral, UW)		N	UW	N	N	OW	N	UW	N	OW	OW	UW
Catalyst (green: bullish; red:bearish)		Bank crisis	Oil down	(+) Secular tailwinds with Grey economy	(+) service rebounding (-) higher raw mat.	EU Recovery fund	(+) defensive (-) higher raw mat.	(+) EU go green Recovery plan	(+) EU Recovery plan & lower capex	(+) EU go green Recovery plan	AI driving innovation cycle	Higher rates
Sentiment details												
3month etf flows	222	122	-167	32	-7	99	5	-112	157	91	13	-10
etf flows	2/3	11%	55%	-38%	-10%	3%	-37%	15%	-27%	-22%	-47%	73%
smart sentiment	1/3	-4%	-53%	16%	-19%	-9%	-4%	-18%	19%	10%	2%	-49%
CHG_PCT_1m		-1.35	-6.44	-0.80	1.83	-0.14	-5.48	-4.96	-5.71	-2.99	7.33	-8.30
Rank 1 month return		6	11	5	3	4	9	8	10	7	1	12

In our introduction, we mentioned that, before the debt ceiling negotiations, markets were torn between two headwinds: inflation and recession. Reaching an agreement on the debt ceiling is, no doubt, welcome news but market focus will return to those Charybdis and Scylla monsters. The question is how equities could breakupwith those 2 massive headwinds.

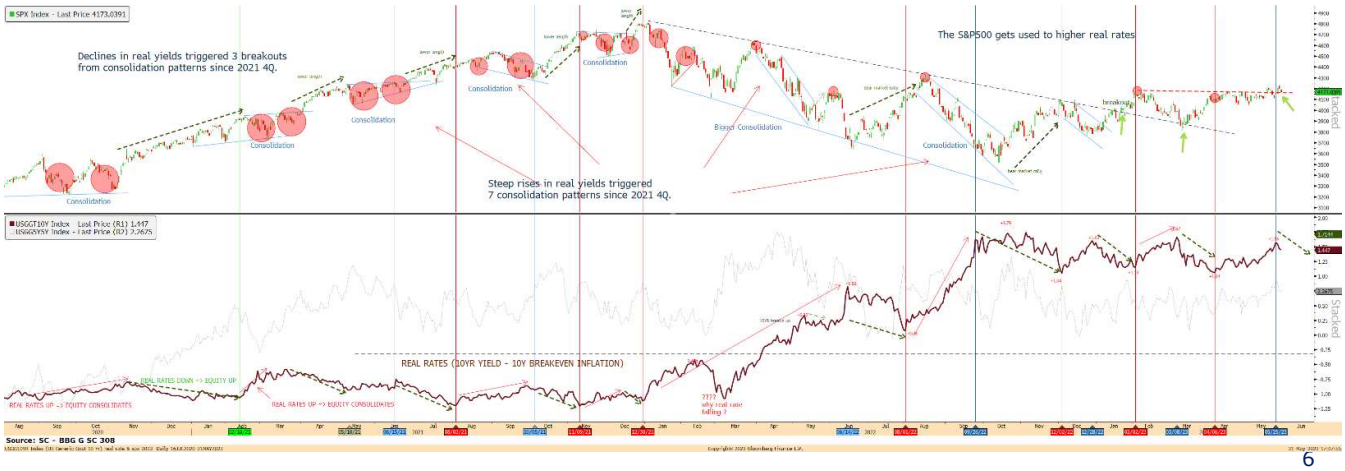
But first, there is a consensual bearish call post debt ceiling resolution. The Treasury department will need to issue a lot of debt in the coming months to replenish the Treasury's General Account. In both the US and Europe, hundreds of billions of dollars of bank reserves would likely be drained as the US Treasury refills its checking account after the debt ceiling is raised (black line on the below chart), and in Europe a large amount of TLTROs rolls off in June, on top of ongoing QT and historically weak money supply (annex 2). Equities typically have a strong correlation to monetary liquidity, and this drain could push stocks down 7 to 10% based on historical relationship. For instance, after December 2021, the US Treasury increased its cash at the Fed, which corresponded to a correction in the S&p500. The impact in the US could be even greater this time since this reduction in the quantity of money may also come with an increase in the price of money, putting pressure on bank and investor funding costs, with potential negative implications for broader equity markets.

Our take on this negative development is that it is exaggerated. It may be a headwind on the short run, after an initial pop on the debt ceiling resolution, but many points should attenuate the impact: (1) there is no proven causal link banks use reserves to buy equities, (2) the Treasury may issue T-Bills instead of Bonds having a less profound impact on long duration stocks, (3) Liquidity is one pillar of our Matrix, and QT and rate hikes have already been telegraphed and well-priced by markets for the last 18 months.

CHART 4: Treasury general account (black) and S&P500 deviation from trend (blue)



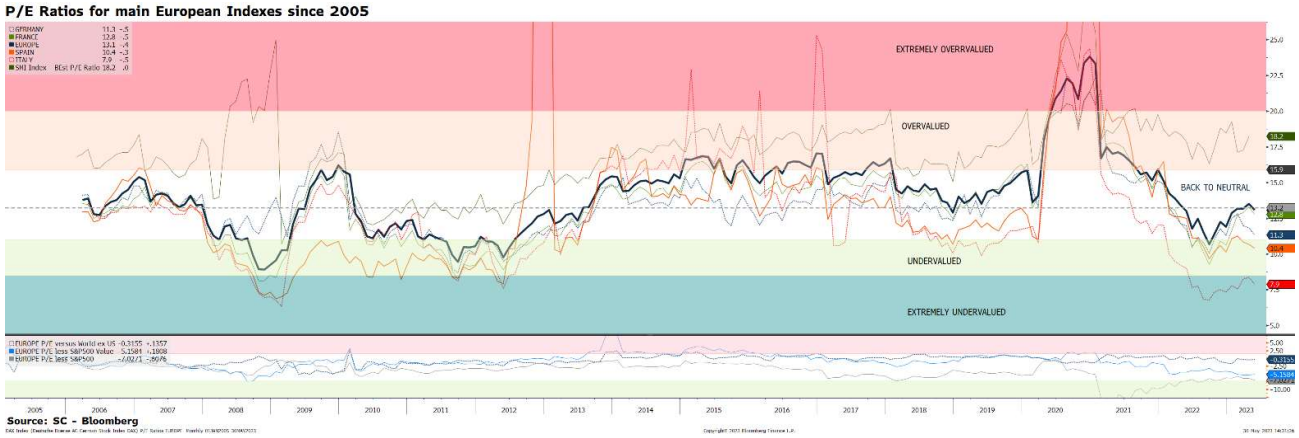
In fact, our favorite chart to navigate equities shows the correlation between real yields and stock prices. Indeed, there has been a tight link since 2017 between after-inflation Treasury yields (real yields) and the valuation of the market using forward price/earnings ratios; a higher yield on benchmark 10-year Treasury Inflation-Protected Securities has meant lower P/E ratios). The good news is that real yields may have topped with the debt ceiling resolution, permitting equities to finally breakup.



This brings us to the biggest hurdle for equities: Valuation. Here again, our quantitative output is not as severe as the consensus. Yes, 2023 P/E on the S&P500 are back to 20, as the S&P 500 forward EPS edged down to a record 220.67 from 230 high. The earnings down-cycle seems to be only just getting started based on the consensus with the coming recession. But let's see what history tells us: The market tends to be ahead of the earnings cycle, often by several quarters. In an early-cycle bull market, we tend to see valuations expand while earnings are still contracting. In fact, 2024 EPS are expected to climb to 247, reducing the P/E to a 33 Year average at 17. Thus, for the lows to be in, this cycle could be a repeat of 2016, where the Fed pivots just in time before earnings produce a left tail.

In Europe, this is another story, P/E s are low at 10.3 for Spain, 11.2 for Germany or 7.9 for Italy. Thus, adopting a non-US centric allocation resolved the expensive argument for equities.

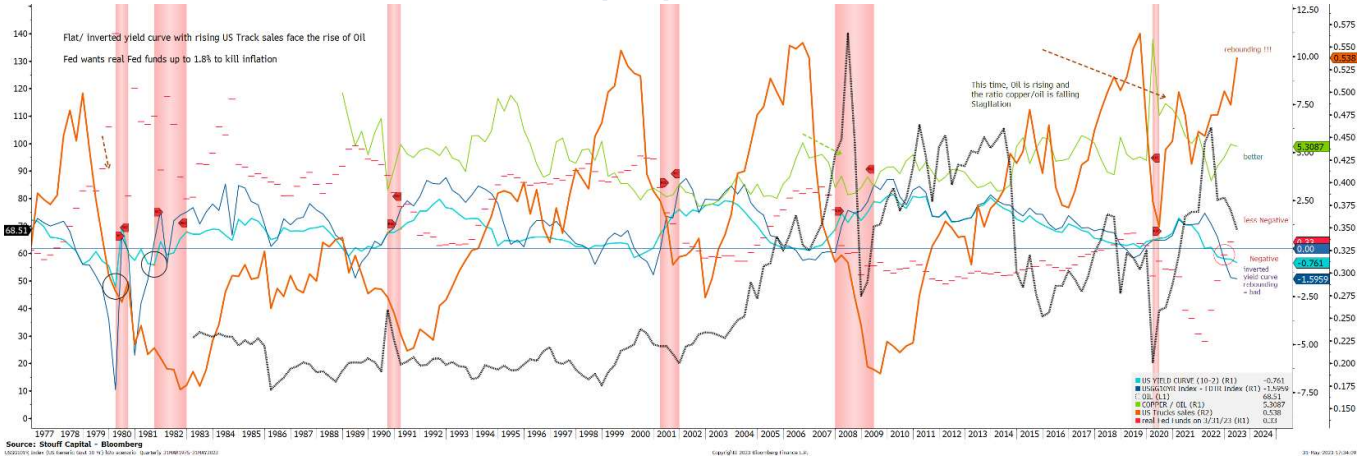
CHART 6: GLOBAL VALUATIONS – US P/E, EUROPEAN P/E(s) – 30.05.23



Last but not least, EM and especially Chinese stocks are very cheap. You could respond: who cares? as we know that positioning in Chinese equities has been falling continuously (gross leverage is in the 26th %-tile since 2010). Chinese stocks are getting hammered again, dragging emerging markets indexes along with them. It stays a very frustrative allocation despite our regional matrix staying OW.

Let's finish with a very encouraging chart. It is a simple chart to anticipate economic recession based on 3 criteria, (1) inversion of the yield curve in blue, (2) oil rising in black and the ratio of copper/ oil falling in green, and (3) heavy truck sales in orange. In fact, not all yield curves inversions have triggered a recession. But they have triggered one when oil has been rising and truck sales collapsing. What we observe on chart 7 is that heavy truck sales are rising strongly, while oil is falling hard: recession is not there yet.

CHART 7: THE RECESSION PREDICTOR IS (still) FINE !!! – 30.05.23



Another positive argument is our ratio between global liquidity and the MSCI World on chart 8. All in all, our quantitative process shows a breakup in the coming weeks or months could be supported by many factors: a too negative sentiment (people are under positioning and willing the market lower, and that for now, as has been the case for much of 2023, the market will not give the fans what they want), US valuation re-becoming attractive based on 2024 EPS, attractive ex US valuations, a possible already priced recession (if it even occurs) through the negative 2023 return for the average stock, a rebounding breadth favoring smaller caps (see annex 3), and all that leaded by an **AI bubble**. Our long-term cycle chart 9 also shows that equities should have started a new rise on March 2023, until mid-2024.

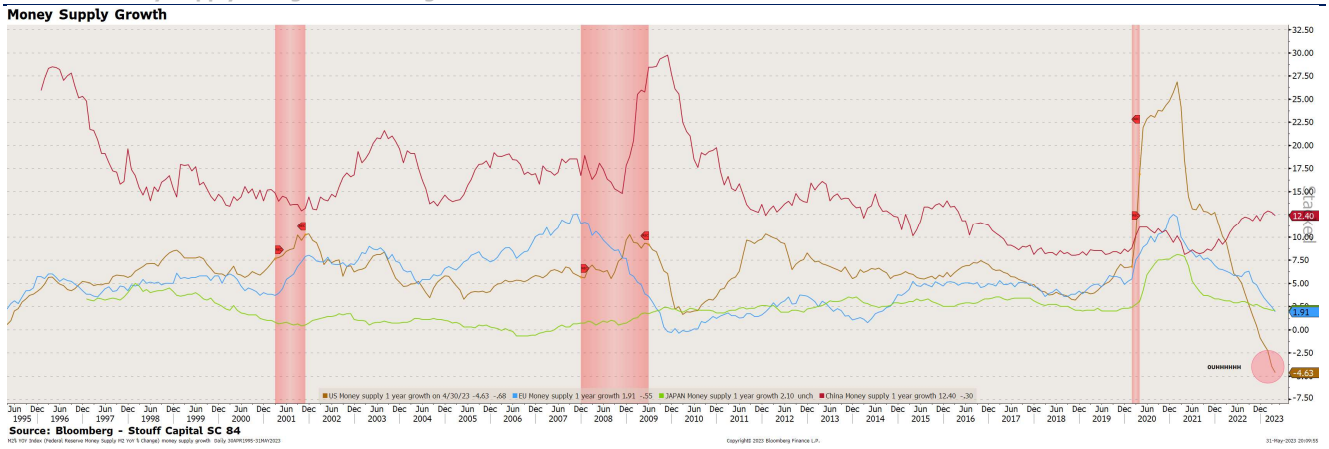
This letter is not (yet) an "All In" recommendation. Indeed, we bought a cheap short-term straddle on the S&P 500 and upside calls on Tech names to give us time about the coming outcomes (1) either a multi-month breakup, (2) a debt ceiling disaster sending equities down 10 to 15%, or (3) a buy the rumor/ sell the fact if liquidity is reversing.

CHART 8: Ratio MSCI World / global liquidity is supportive.

CHART 9: The compass predicts the start of a new bull market until mid 2024

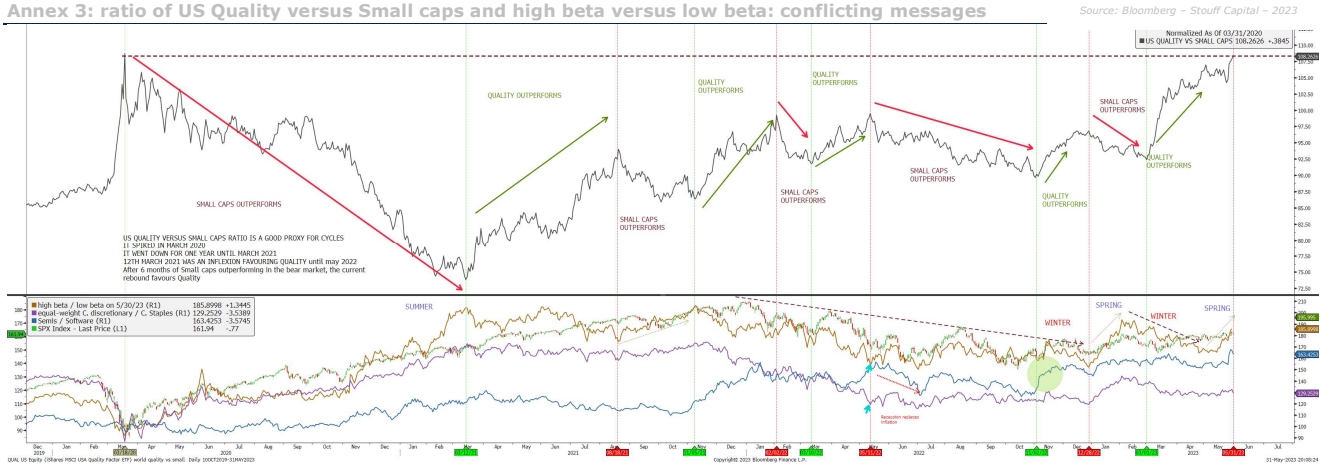
Annex 1: Chart of the MSCI World

Annex 2: Money Supply YOY growth: falling hard in US at -4.63% !



Annex 3: ratio of US Quality versus Small caps and high beta versus low beta: conflicting messages

Source: Bloomberg – Stouff Capital – 2023



Source: Bloomberg – Stouff Capital – 2023

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The Equity quantitative grades
EPS Growth Grade: The EPS Growth Grade is a proprietary formula made up of earnings revisions momentum, past earnings growth, earnings stability, and current and long-term earnings growth. A grade above 55 is considered bullish on a 3-month basis, bearish below 45 and neutral between 55 and 45.
Sales Grade: The Sales Grade is a proprietary formula made up of current and next year's sales momentum, past sales growth, sales stability, and current and long-term sales growth. A grade above 55 is considered bullish on a 3-month basis, bearish below 45, and neutral between 55 and 45.
Relative Value Grade: The Relative Value Grade is a proprietary formula made up of estimated P/E, P/B, P/S and P/CF ratios. 40% of the grade is based on historical values and 60% on current market data. A grade above 55 suggests a stock is cheap, below 45 expensive, and neutral between 55 and 45.
Quality Grade: The quality rating is a proprietary formula that focuses on the balance sheet (i.e. change in accruals, change in free cash flows and profitability). A grade above 55 suggests a stock with a good balance sheet.
Volume Flow Grade: The Volume Flow Grade is a proprietary formula that gives the accumulation/distribution based on the volume flows of a stock. A grade above 55 indicates good money flow and a grade below 45 suggests weak money flow.
Global Grade: The Global Grade is a weighted average of the Growth, Value, Berkshire, Quality and Money Flow Grades.
Relative Strength (RS) Grade: The RS grade measures the price momentum of a stock over its 1-year price performance.
Smart Sentiment Grade: Sometimes referred to as "Smart Sentiment," the Sentiment Grade ranks the sentiment of the smart money. The first digit of the figure goes to the level of bullishness, and the second digit goes to predictability. For example, a sentiment grade of 97 indicates 90% bullishness and 70% predictability.

The Regional MATRIX grades
The Regional Matrix grades range from -100% to +100%. We consider a grade above 30% to be very bullish, a grade above 10% to be bullish, and a grade between -10% and 10% to be neutral. A grade between -10% and -25% we consider bearish and a grade below -25% very bearish. This Regional Grade is a benchmark for the net exposure of the Urizen Fund.
Regional Grade: The Regional Grade (-100 to +100) is an indicator of a structural bull market or not. It is calculated by combining and applying weight to each of the other grades that make up the Regional Matrix (Trend, Contrarian Trend, Relative Valuation, Liquidity delta, Economics delta, and Contrarian Sentiment). If we believe equities to be in a structural bull market, we use 15 years of data to assess Valuation.
Trend Grade: The Trend Grade (-100% to +100%) is based on a moving averages model adjusted according to the overbought/oversold conditions of the region's main indices.
Relative Valuation Grade: The Valuation Grade (-100% to 100%) is based on the percentile rank of the regional Index stocks' P/E ratios since 1995 (current year estimated).
Economics delta Grade: The Economics delta Grade (-100% to 100%) is based on a combination of manufacturing and non-manufacturing PMIs and the Citigroup Surprise Indices. The Citigroup Economic Surprise Indices are an objective and quantitative measure of economic news and are defined as weighted historical standard deviations of data surprises (actual releases vs. Bloomberg survey median). A positive reading of the Economic Surprise Index suggests that economic releases have on balance beaten the consensus.
Contrarian Sentiment Grade: The Contrarian Sentiment Grade (-100% to 100%) is based on various contrarian and non-contrarian indicators.

The SC quantamental portfolios
The SC quantamental portfolios refer to our regional single stocks portfolios which are constructed through a mixed process of algos and fundamental analysis