Alpesh Patel's Newsletter

Exclusively for ShareScope Alpesh Patel Special Edition Subscribers

26 September 2022

Overview

I write to you from New York.

And finishing this newsletter in London


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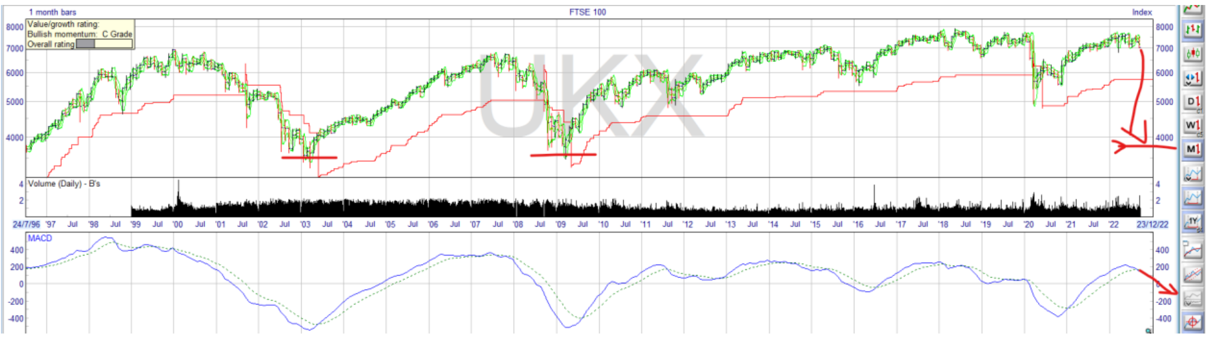
SEASONAL PERFORMANCE

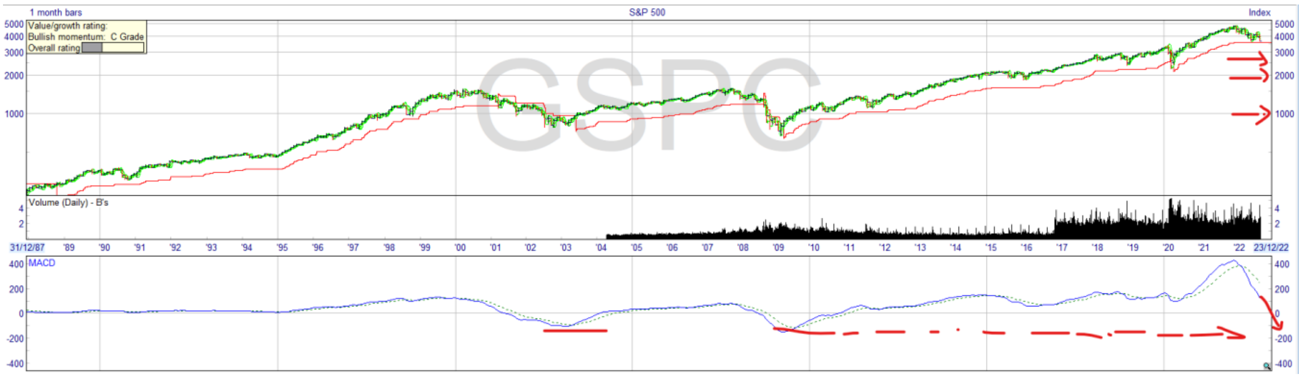
Dow Jones Industrial Average

	'18	'19	'20	'21	'22	Avg
Jan	5.79	7.17	-0.99	-2.04	-3.32	2.09
Feb	-4.28	3.67	-10.07	3.17	-3.53	-0.55
Mar	-3.70	0.05	-13.74	6.62	2.32	-2.30
Apr	0.25	2.56	11.08	2.71	-4.91	3.59
May	1.05	-6.69	4.26	1.93	0.04	0.18
Jun	-0.59	7.19	1.69	-0.08	-6.71	1.97
Jul	4.71	0.99	2.38	1.25	6.73	2.38
Aug	2.16	-1.72	7.57	1.22	-4.06	1.90
Sep	1.90	1.95	-2.28	-4.29	-6.09	-0.13
Oct	-5.07	0.48	-4.61	5.84		0.20
Nov	1.68	3.72	11.84	-3.73		3.47
Dec	-8.66	1.74	3.27	5.38		0.71
Yearly	-5.63	22.34	7.25	18.73	-18.57	

All the talk of a bottom we now know was bunkum.

So let me cut to the chase and ask what's the worse? Well, a 50% drop on the FTSE 100.





So, Michael Burry of the Big Short fame hedge fund manager seems right.

Burry's top 5 holdings in Q1

Stock	Ticker	Value $ million
Bristol- Myers Squibb	BMY	$22.8
Cigna	CI	$19.3
Ovintiv	OVV	$15.5
Alphabet	GOOGL	$15.3
Meta	Meta	$15.4

Source: Regulatory filings, InsiderScore

This leaves many undervalued companies BUT waiting is the order of the day unless you enjoy swimming against the tide.

Catalyst Pharmaceutical Partners Inc

Alliance Resource Partners LP

Who's Up?

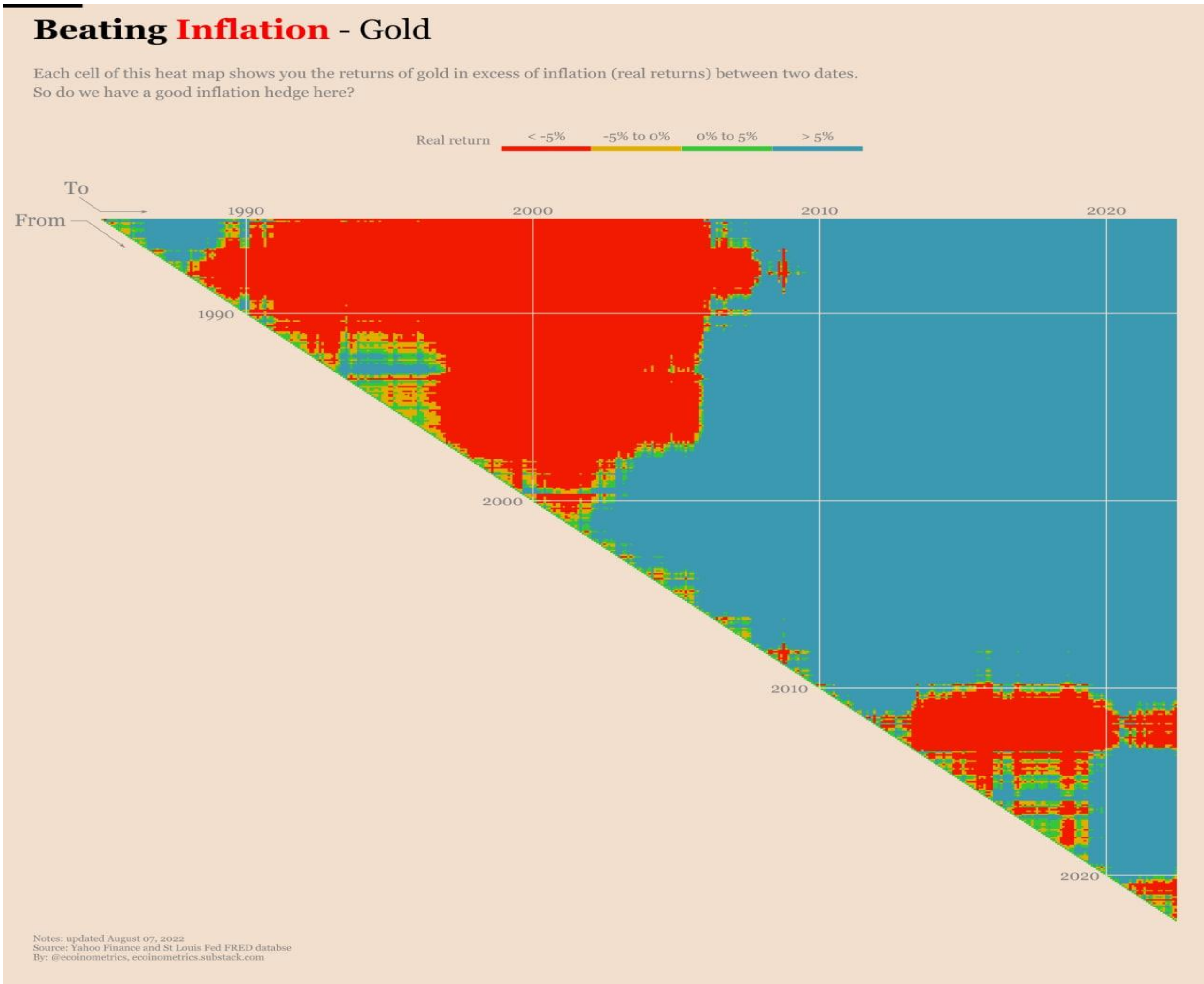
Not much is up.

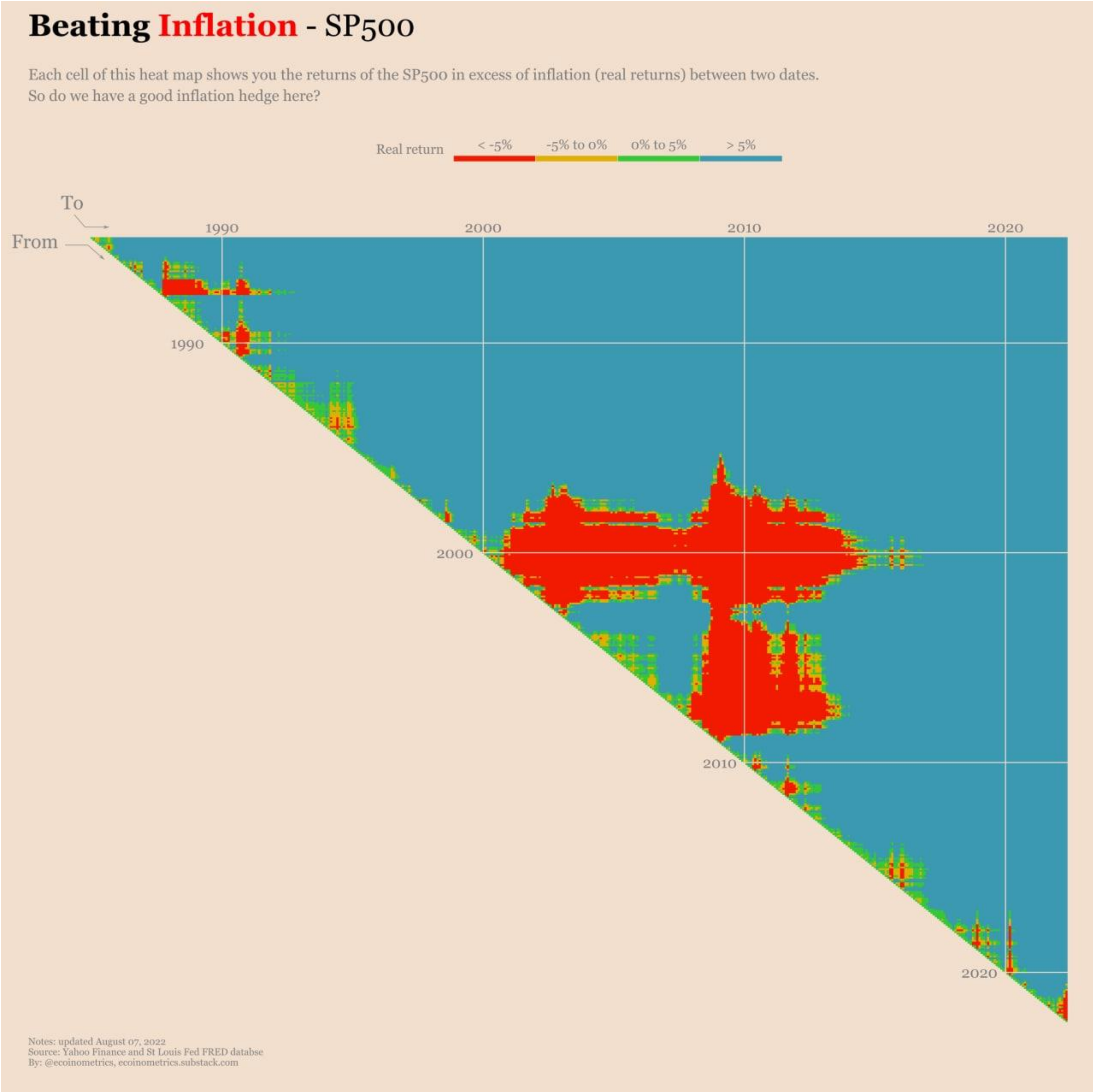
Name	Price% 6 months ago
I - S&P BSE 100 Index (Mumbai)	2.03
I - Bovespa Stock Index (Brazil)	-2.89
I - Nikkei 225	-3.16
I - FTSE 100 Index - Total Return	-3.93
I - FTSE 350 Index - Total Return	-5.37
I - SSE Composite Index (Shanghai)	-5.58
I - FTSE 100	-5.92
I - FTSE 350	-7.28
I - CSI 300 Index (Shanghai)	-9.83
I - Euronext 100	-11.29
I - CAC 40 (Paris)	-12.13
I - FTSE 250 Index - Total Return	-12.90
I - Dow Jones Industrial Average	-13.88
I - DAX Xetra (Germany)	-14.00
I - FTSE 250	-14.42
I - Swiss Market Index	-16.21
I - S&P 500	-17.12
I - FTSE AIM All-Share - Total Return	-18.97
I - Hang Seng (Hong Kong)	-19.05
I - FTSE All-World	-19.63
I - FTSE China 50 Index	-20.96
I - NASDAQ 100	-21.71
I - FTSE All-World Index - Europe ex UK	-24.51

The problem is not inflation alone.

When the inflation rate is at 9% that means whatever cash you started with a year prior is reduced to 91% of its purchasing power. Said differently, $100k can only buy the equivalent of $91k worth of goods a year later. And that compounds over time. Starting with $100k:

- After year 1 you are left with $91k in purchasing power.
- After year 2 you are left with $83k in purchasing power.
- After year 3 you are left with $75k in purchasing power.
- After year 4 you are left with $69k in purchasing power.
- After year 5 you are left with $62k in purchasing power.
- After year 6 you are left with $57k in purchasing power.
- After year 7 you are left with $52k in purchasing power.
- After year 8 you are left with $47k in purchasing power.


Beating Inflation - Gold
Each cell of this heat map shows you the returns of gold in excess of inflation (real returns) between two dates.
So do we have a good inflation hedge here?
Real return
< -5%
-5% to 0%
0% to 5%
> 5%
To
From
1990
2000
2010
2020
1990
2000
2010
2020
Notes: updated August 07, 2022
Source: Yahoo Finance and St Louis Fed FRED databse
By: @ecoinometrics, ecoinometrics.substack.com

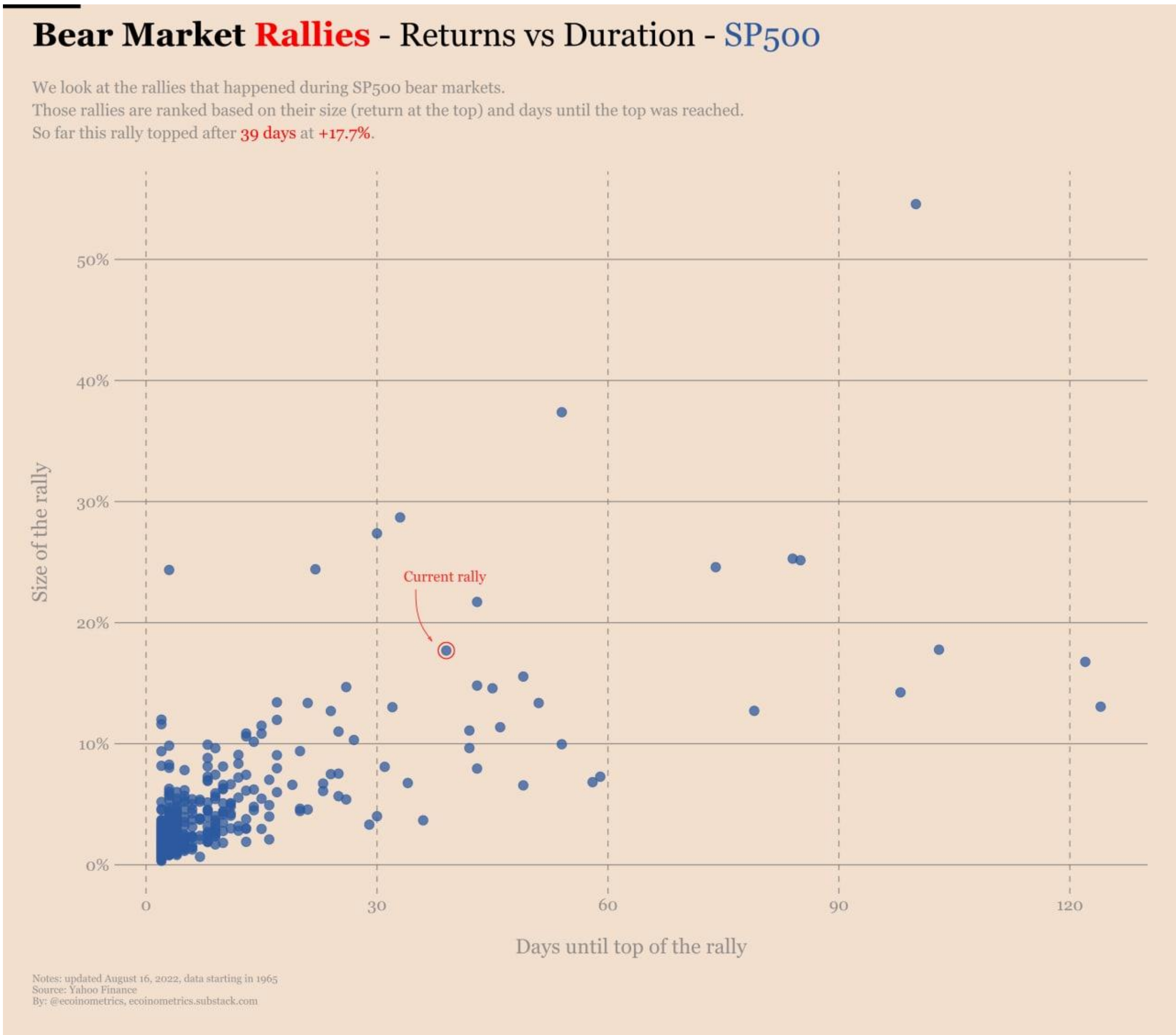


The best way for me to answer what to do next is for you to ask your risk appetite.

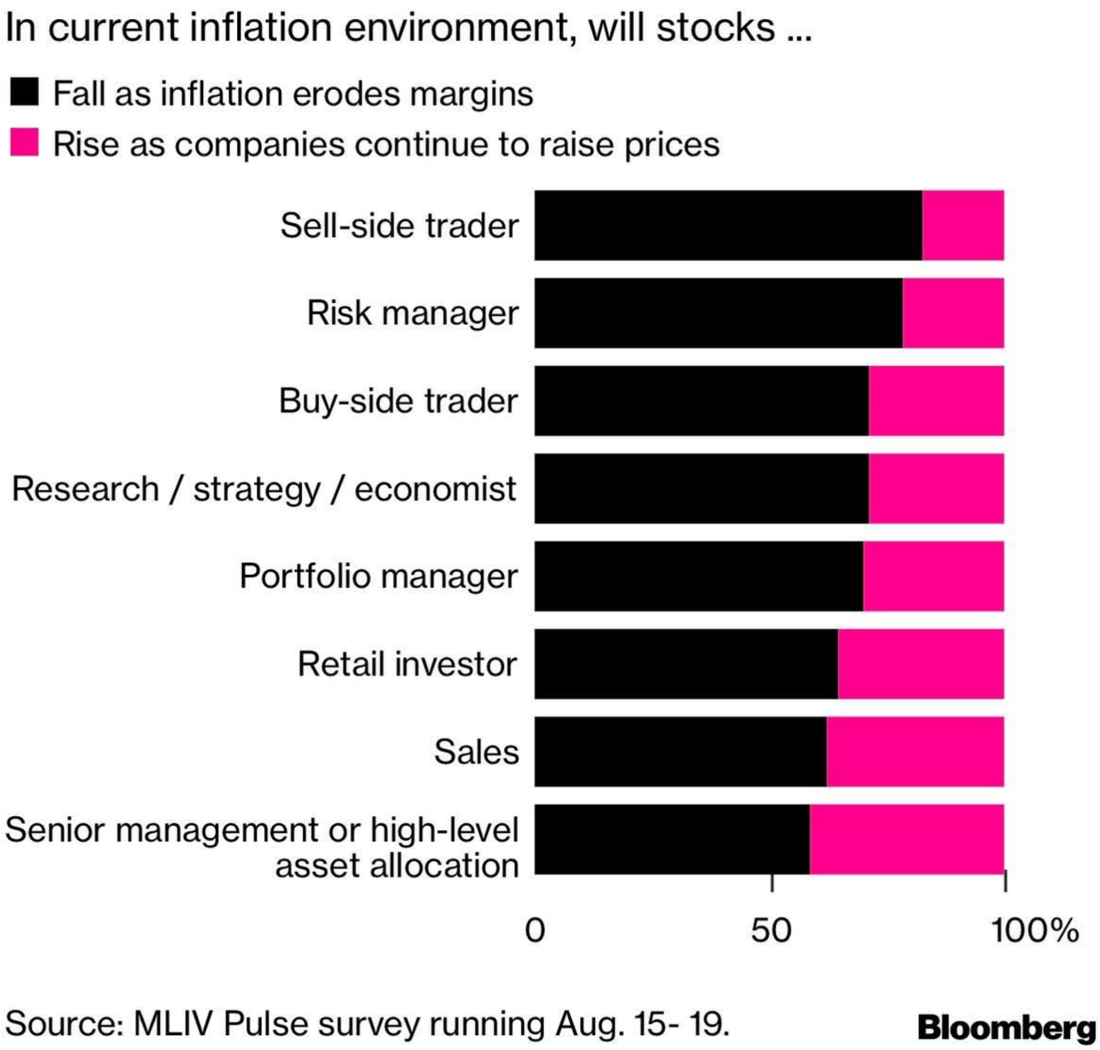
If risk averse you would stay in cash as there are many who think the market will fall.

If more risk loving then enter fully If risk neutral then cost average in each month over say 3-6 months.

Personally, I am averaging into my quality ones again eg Microsoft, not others yet.


Bear Market Rallies - Returns vs Duration - SP500
We look at the rallies that happened during SP500 bear markets.
Those rallies are ranked based on their size (return at the top) and days until the top was reached.
So far this rally topped after 39 days at +17.7%.
Current rally
Size of the rally
50%
40%
30%
20%
10%
0%
0
30
60
90
120
Days until top of the rally
Notes: updated August 16, 2022, data starting in 1965
Source: Yahoo Finance
By: @ecoinometrics, ecoinometrics.substack.com

This is a ‘textbook’ bear market bounce that will fail, Bank of America says



Dow Falls Over 600 Points As Experts Warn Bear Market Rally Is 'Grinding To A Halt'

So, as you can see from my collection of headlines – it's been pressuring a move lower and that seems not to be coming to fruition.

THE WALL STREET JOURNAL.

TODAY'S MARKETS

Dow Falls More Than 1,000 Points After Powell Speech

Markets decline in broad selloff led by tech as hawkish remarks by Fed chief disappoint investors

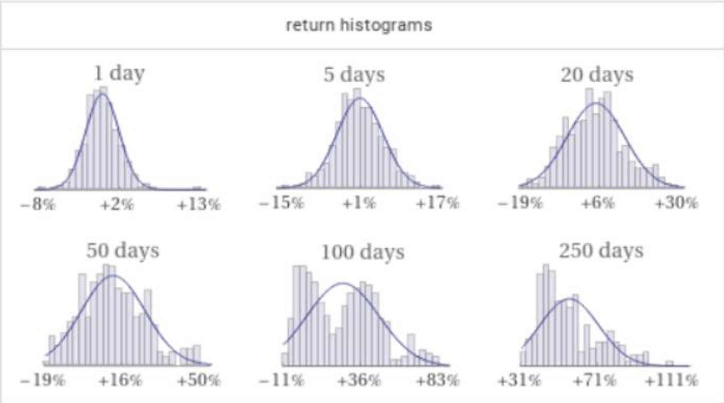
S&P Monthly MACD shows it's 100% on downward path. I will wait till OCTOBER now to decide if anything worth buying.

Of course – some stocks are up!

t: FTSE 100 - All sectors - Alpesh Table (Linked)

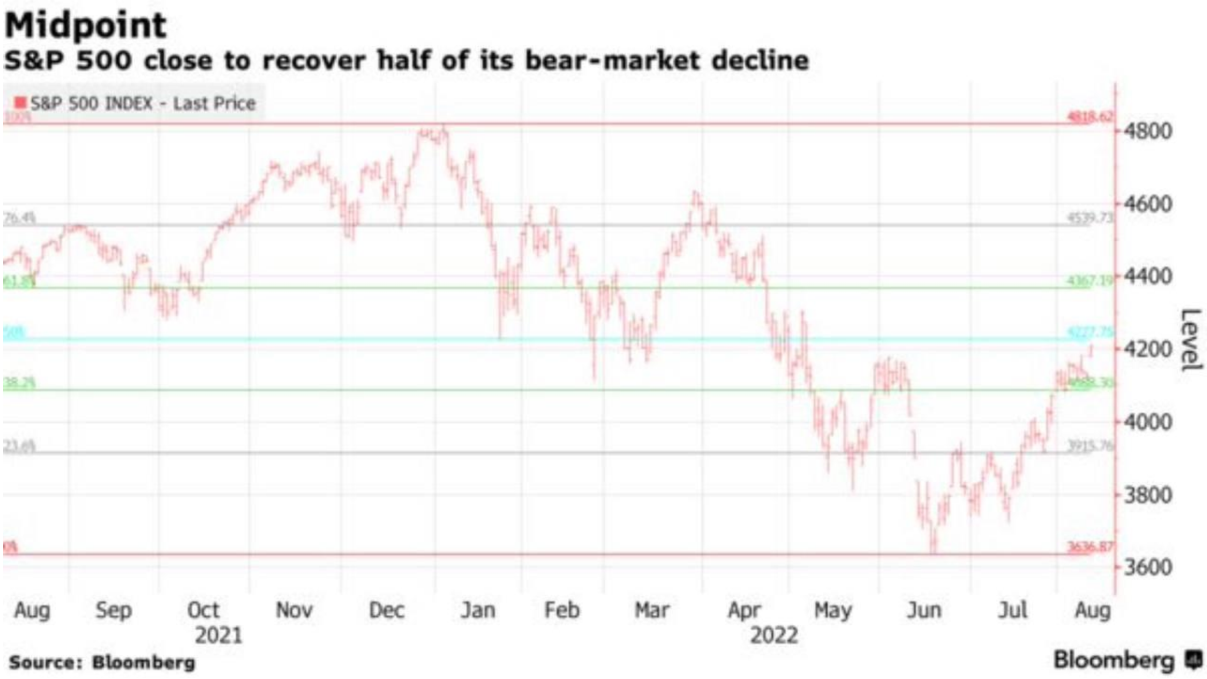
Name	Price% 3/1/22
BAE Systems PLC	44.74
Pearson PLC	40.35
Shell PLC	36.50
Homeserve PLC	35.85
BP PLC	31.04
Standard Chartered PLC	28.81
Harbour Energy PLC	27.85
British American Tobacco PLC	23.89
Glencore PLC	23.10
Imperial Brands PLC	15.50
AstraZeneca PLC	15.42
HSBC Holdings PLC	13.67
Compass Group PLC	9.24
ConvaTec Group PLC	8.83
Centrica PLC	8.64
London Stock Exchange Group PLC	7.76
Aviva PLC	4.30
SSE PLC	3.00
Airtel Africa PLC	2.17
Unilever PLC	2.05
Informa PLC	0.97

Energy stocks have been doing well in the US, but my interest in a bear market is to ensure I also filter by volatility ranges too.

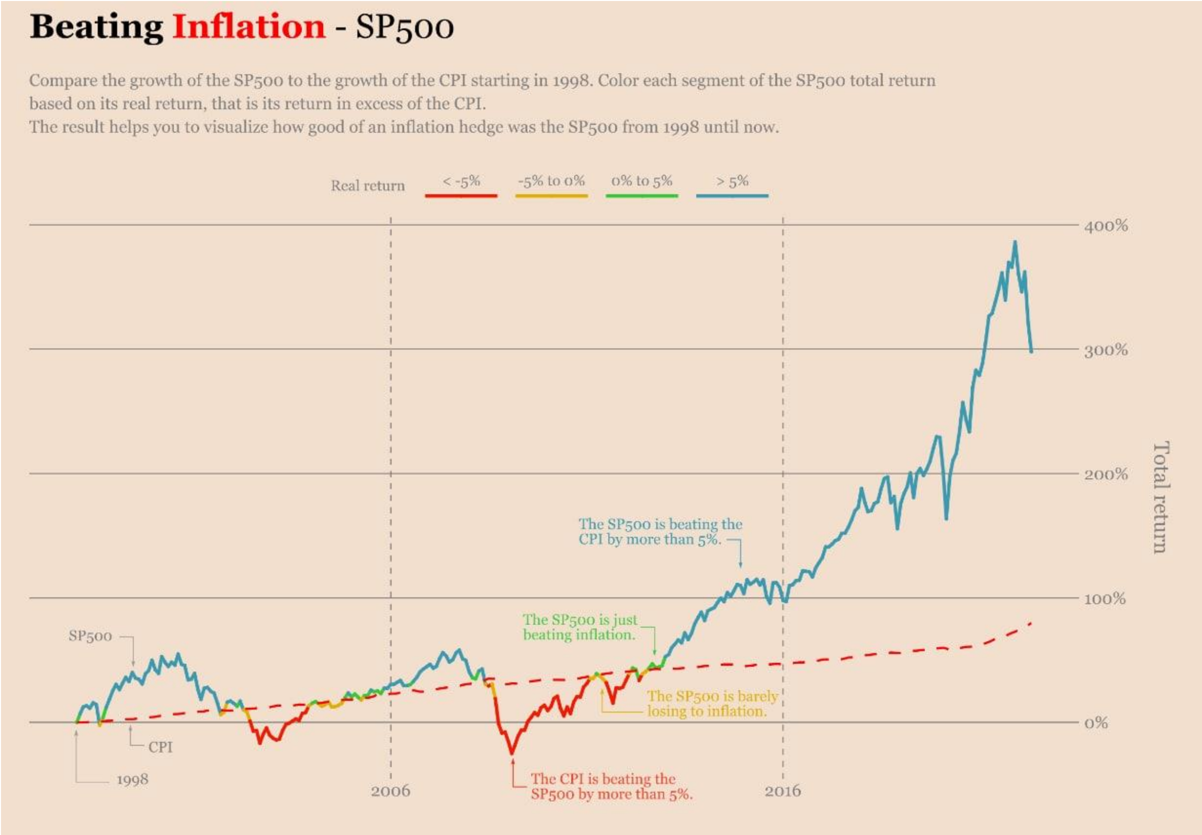


Exxon Mobil Corp

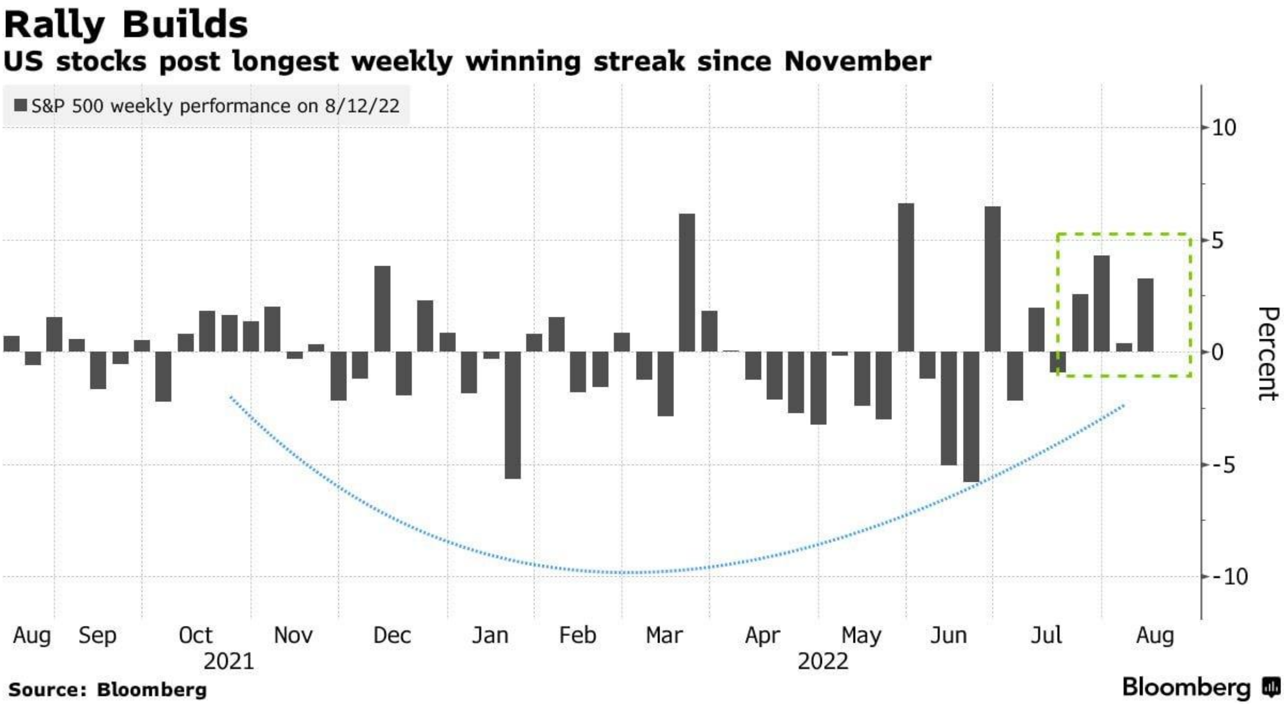
So, after recovering half the declines, we’ve conceded them again.



Of course if your timeframe is long enough, then stocks beat inflation.



Alas, as we have seen the rally has not lasted and we have to wait to beat inflation on just an index tracker alone.



JPMorgan Says the Stock Rally Has Legs. Morgan Stanley Disagrees

- Rate-sensitive growth stocks likely to outperform, JPM says
- MS's Wilson says disappointing earnings to push stocks lower

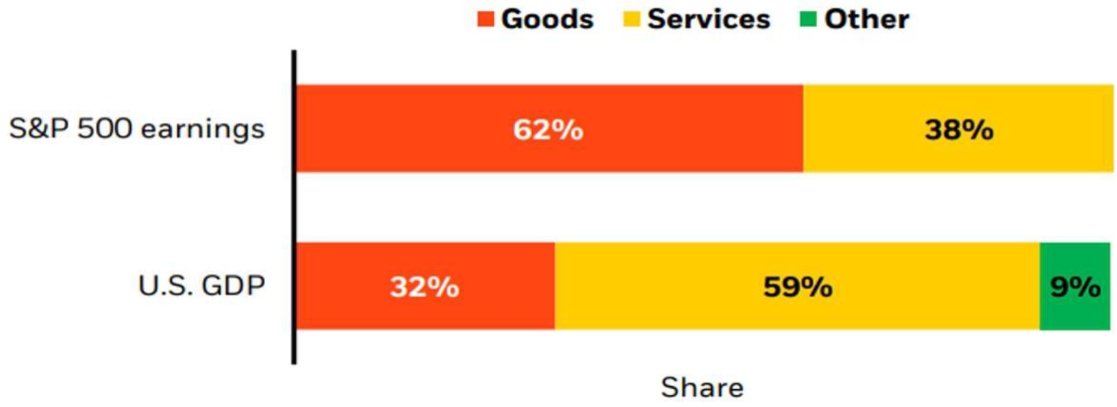
Of course many big funds cannot just go 100% cash, so what do they own? See below.

Berkshire's top 10 holdings at the end of Q2

Company	Ticker	Value $ billion	% change in shares
Apple	AAPL	122.3	0.4%
Bank of America	BAC	31.4	UNCH
Coca-Cola	KO	25.2	UNCH
Chevron	CVX	23.4	1.4%
American Express	AXP	21.0	UNCH
Kraft Heinz	KHC	12.4	UNCH
Occidental Petroleum	OXY	9.3	16.3%
Moody's	MCO	6.7	UNCH
US Bancorp	USB	5.5	-5.2%
Activision Blizzard	ATVI	5.3	6.4%

Source: SEC filings, InsiderScore

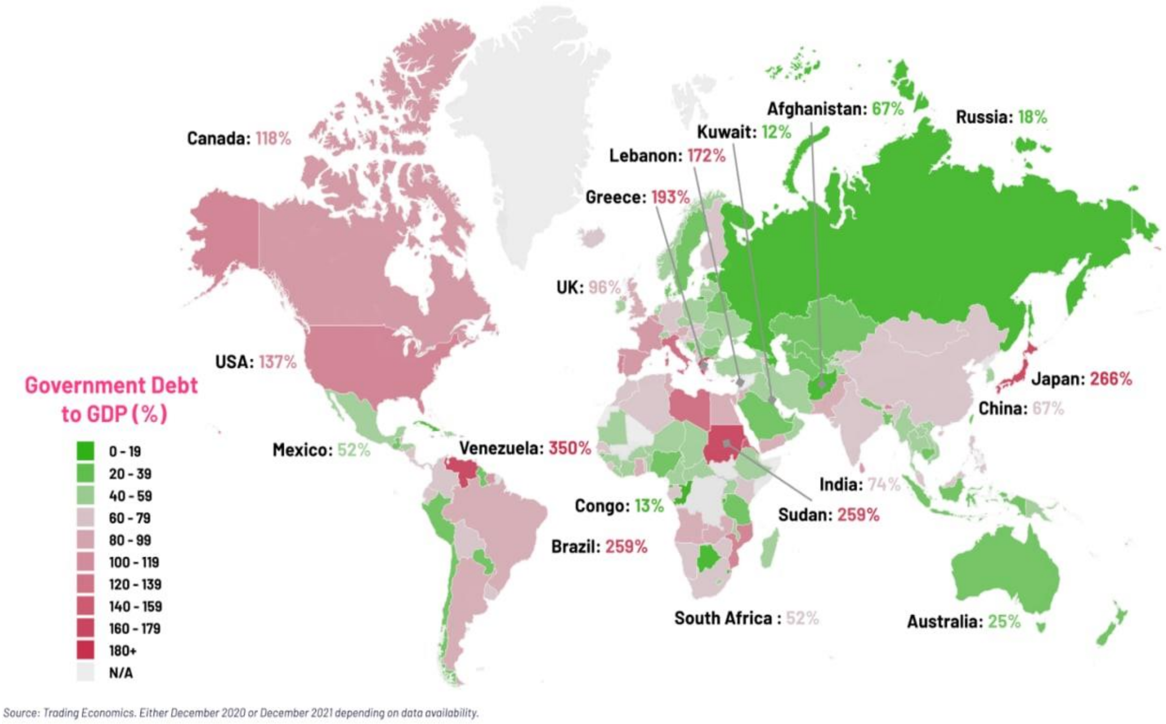
CNBC



SOURCES: BLACKROCK INVESTMENT INSTITUTE, REFINITIV, AND U.S. BUREAU OF ECONOMIC ANALYSIS.

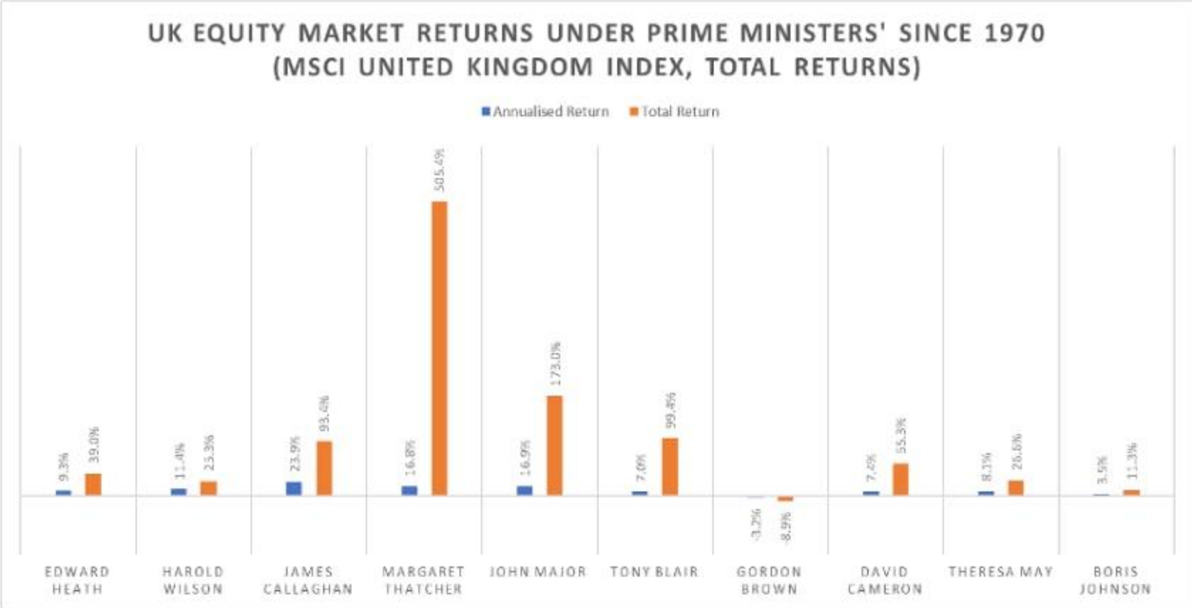
“The risk of disappointing earnings is one reason we’re tactically underweight stocks,” they said.

The UK budget has led to much talk about debt and growth. See below out of interest.



Speaking of growth…

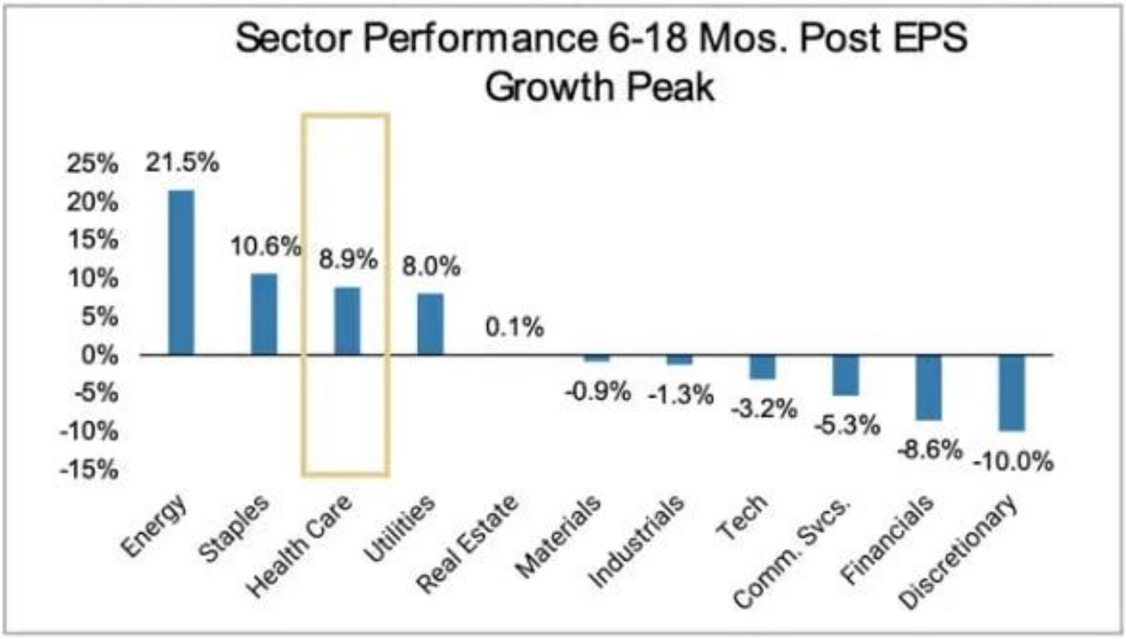
UK equity market returns under different PMs since 1970



Source: Evelyn Partners/MSCI UK Index, total returns

Sectors in this environment?

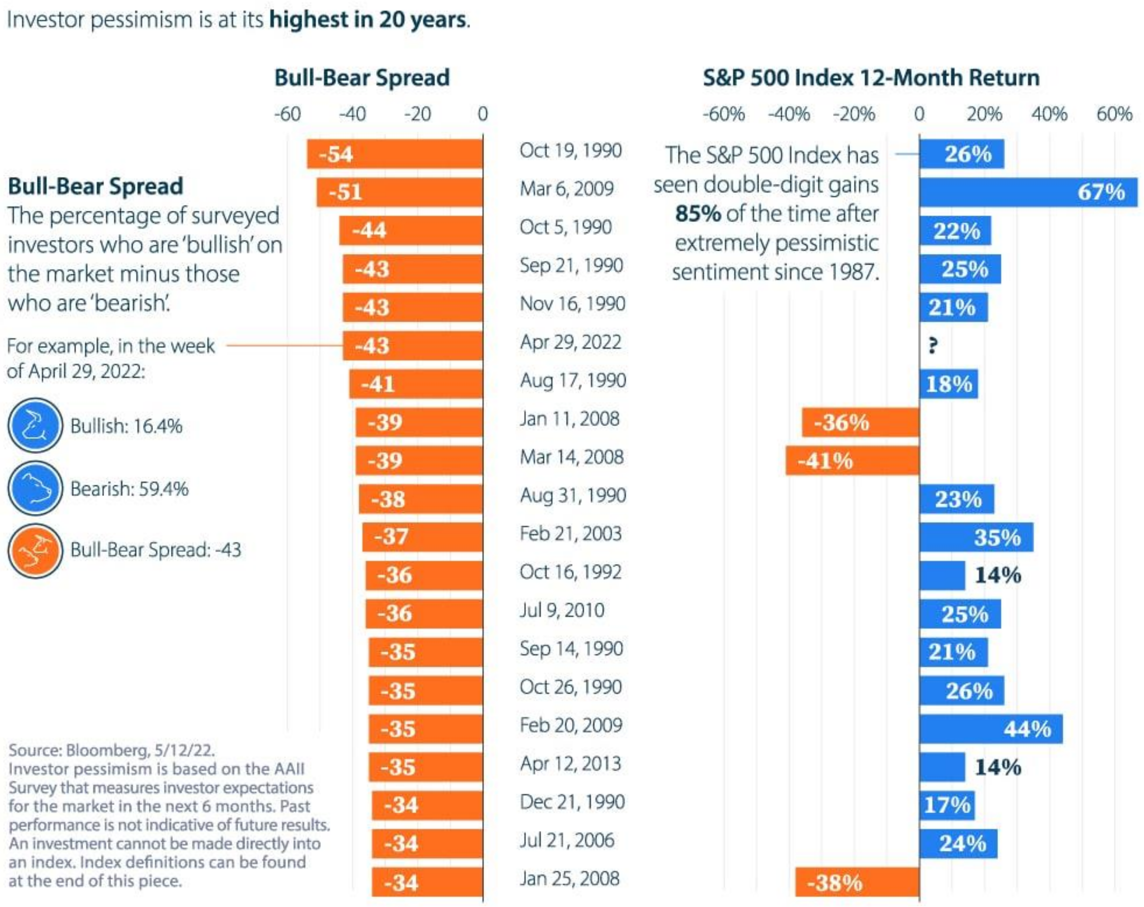
Health Care Performs Well 6-18 Months Post EPS Growth Peaks



Morgan Stanley

- Stocks have yet to bottom and will see more downside later this year, Morgan Stanley said.
- In the best-case scenario, the bank predicted that the S&P 500 would fall to 3,400 by year-end, and in the event of a recession, it would fall to 3,000.
- But Morgan Stanley also expects the S&P 500 to recover next year, rising as high as 3,900 by June 2023, or to 3,350 in a bearish scenario.

Any Positive News?



Market Scenario	S&P 500 Index Cumulative Price Return During a Recession	Year
Worst Case	< -18%	2001
Base Case	16%	Average
Best Case	> 44%	2020

Historical data shows that on average, the S&P 500 Index has returned **16%** one year after the start of a recession.

Market Scenarios

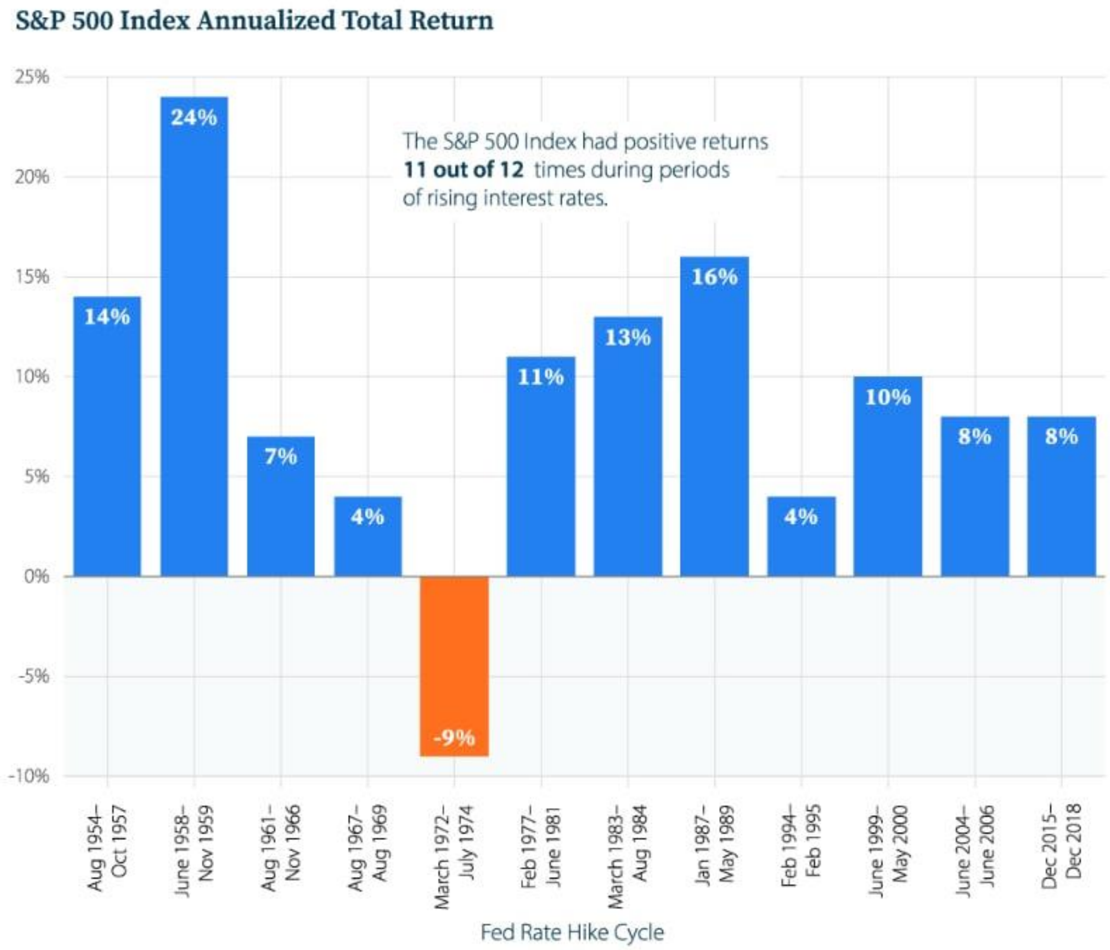
With the S&P 500 Index finishing off its worst first half since 1970, let's look at the different scenarios going forward into 2023:

Bull Case, Base Case, and Worst Case Scenarios

Source: Bloomberg Intelligence, 07/13/22. Past performance is not indicative of future results. This is for illustrative purposes only and not indicative of any investment. You cannot invest directly in an index. Index definitions can be found at the end of this piece.

Fed Rate Hike Cycle	S&P 500 Index Annualized Total Return
Aug 1954 - Oct 1957	14%
Jun 1958 - Nov 1959	24%
Aug 1961 - Nov 1966	7%
Aug 1967 - Aug 1969	4%
Mar 1972 - Jul 1974	-9%
Feb 1977 - Jun 1981	11%
Mar 1983 - Aug 1984	13%
Jan 1987 - May 1989	16%
Feb 1994 - Feb 1995	4%
Jun 1999 - May 2000	10%
Jun 2004 - Jun 2006	8%
Dec 2015 - Dec 2018	8%

Source: Morningstar, Haver Analytics, March 2022



Sources: Morningstar, Haver Analytics, March 2022.
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Which Stocks to Beat the Cost of Living Crisis

With UK inflation at 9%, we're all feeling the effects of the cost of living crisis. However, any significant economic event creates some opportunities. So which stocks should we consider to beat the rising prices of essential goods?

What sectors are performing well in 2022

The S&P 500 is down 22% in what has been a punishing start to the year for investors. The same issues of inflation, the invasion of Ukraine, and the Fed's hawkish monetary policy are contributing to a bleak outlook.

However, China's reopening, summer travel, and the grim continuation of the Russia/Ukraine situation have recently boosted the Commodities sector.

The Invesco DB Commodity Index Tracking Fund (NYSE: DBC) continues to go from strength to strength. So far this year, it's up almost 30%. The fund provides investors with a straightforward way to invest in Oil, Gas, Gold, Corn, and other grains and metals.

Copper to bounce back

The price of copper is down around 14% this year. However, some experts believe it can rise significantly. They cite copper use in green construction and the industry's lack of investment in new mines to meet demand.

The ETFs Copper ETC (COPA.L) has dropped sharply this month, but it could be a promising long-term option for patient investors.

The case for a commodity boom

Several factors indicate commodities could keep going up. Inflation, a subdued dollar, alongside weather and environmental concerns, could all create favorable conditions.

As rumours of an upcoming food crisis swirl, the **Teucrium Corn ETF CORN** could be an exciting pick. Ukraine exports around 13% of corn worldwide.

Should the war continue, corn prices could rise considerably.

Commodities have a reputation as a good hedge against inflation. With sanctions against Russia set to continue, a commodity gap has opened up, which South America could take advantage of. Some stocks to look out for are PetroRio, Ecopetrol SA, and Gerdua, although each of these stocks has been performing weakly so far this year.

Goldman Sachs has recommended three plays in the Metals and Energy sector. GLENCORE INTERNATION(GLNCY), Steel Dynamics(STLD), and Diamondback Energy(FANG). Each stock looks pretty cheap, especially if the commodity gap thesis bears out.

Of course, the natural gas space could continue to rise. The Chesapeake Energy Corporation is up 26% this year. and Antero Resources Corporation has increased a staggering 75%. Both stocks have slowed down in recent weeks. They should be monitored for a low entry price.

Batteries are another area that could benefit from the energy crisis. There are several battery ETFs to keep an eye on, with **ETFs Battery Tech and Lithium (ASX: ACDC.AX)** looking good to shake off a rocky year at some point in the future.

The case against commodities

Of course, while commodities could be set for a boom, there are some risks to consider. China is a huge consumer of commodities, especially metals. A global recession or a significant contraction of the Chinese economy could see demand fall alongside prices.
Property has a solid track record for investors looking for a safe haven. However, as Edmund Shing at BNP Paribas points out, alcohol and chocolate always do well in times of financial turmoil. Indeed, many commentators suggest we are nose-diving into a recession.

Conclusion

The market is full of hazards right now. As inflation continues to push the cost of living to new heights, commodities look like a safe haven until things return to normal. For now, it's definitely a stock pickers market. However, as Warren Buffett says, you should never hold money during a war.

The Hedge Funds Beating the Market This Year: What are their Secrets?

The stock markets are down drastically. But some hedge funds are performing well. How are they managing it, and is there anything the private investor can learn or copy?

While the markets have felt the effects of inflation, Ukraine, and the Fed, some hedge funds have posted strong returns. We examine some of the best performers to figure out what they are doing right.
The bear market has meant that equity-based funds are down about 5% this year. However, Ray Dalio's Bridgewater Associates are up 32% in 2022. The secret to their big performance is shorting European equities, like Adidas and the software company BASF.
In a stock market that has seen steep drops, it's no surprise to see shorting as a winning strategy. BlackRock big gun Alistar Hibbert has shifted his portfolio recently to benefit from falling prices.

Some more funds are banking on others' failure, including bets that merges or takeovers will unravel. For example, Elon Musk's Twitter takeover, Apollo's purchase of Tenneco, and Nielsen's purchase by Elliot & Brookfield could all generate big wins if they fall through.

Two macro hedge funds that have enjoyed stellar years are Haidar Jupiter (170%) and Odey European Inc (114%). These types of funds benefit from large-scale national economic events and the widespread uncertainty and volatility of 2022 have helped them thrive.

Odey needed a good year. Their 110% gains this year have wiped out several years of losses. Combined with a 54% rise last year, investors who stuck with Odey through the dark times are reaping their rewards.

Rokos Capital, down 26% in 2021, is another macro fund that has benefited from inflation, increased interest rates, and disruption in the commodities markets.

Other big performers in H1 have made big bets on the Energy sector, including BGF World Energy D2 (+39%) and Schroder ISF Global Energy Z Acc EUR (35%).

Some quant funds are enjoying a renaissance after years of poor performance. BH-DG Systematic is up this year after betting against government bonds.

What moves are hedge funds making?

Overall, most hedge funds are cutting exposure to the equity markets — which has hurt the S&P 500. Reports suggest that funds that trade with some of Wall Street's biggest banks — including Morgan Stanley, JPMorgan Chase, and Goldman Sachs — are all getting out of stocks in one of the most significant sell-offs since the pandemic.
Some of these exits will include crypto markets, which have been beset by crashes leading to liquidations.

Tech-focused funds like Tiger Global and Brad Gerstner have been struggling. Indeed, anyone holding Growth stocks will have felt the force of the markets in 2022, with Uber, Meta, Microsoft, and more down heavily. However, Coast Capital's Engaged fund has thrived by targeting businesses with low valuations and share prices.

Which hedge funds to keep an eye on for the future?

Rising interest rates will end an era of "cheap" money. For some funds, a situation where the markets make more sense will lead to opportunities. Some funds suggest this is because we have reached the "latter stages of the economic cycle" — i.e., a stage where stock picking beats following the market.

Of course, there are other things to consider if you're looking for funds to follow. On average, funds operated by ethnic minorities tend to outperform all-white firms. Finally, if you're looking to identify the new kids on the block, look no further than the Institutional Investors Rising Hedge Fund Stars of 2022.

How to move forward

As always, investing during a downturn requires patience and a cool head. Value, cash *flow*, and quality are what investors should be looking out for in equities. Sticking to your investment plan and avoiding timing the market are also sensible strategies.

After years of high-performing stocks like Alphabet, Meta, and Netflix, many hedge funds are diversifying. The most popular stocks have dropped from accounting for 40% to 27% of hedge funds' stocks books.
The plays that worked so well over the last few years have stopped producing results. Shorting stocks and US bonds are back in favor, alongside investment in commodities and Energy.

Is Now the Time to Buy the Market Bottom?

Inflation is slowing. Corporate and consumer spending is strong. Have we reached the bottom of the market, or is there more to fall?

The S&P 500 hasn't had an H1 this bad since the 1970s. But that represents an opportunity for investors: in the H2 of that same year, the market recovered and actually finished up.

In the past six bear markets, the S&P 500 dropped by 41%. So far this year, it's down over 20%. The question is whether it will drop another 20% or rally back by the end of the year.

The case for the bottom

One of the best ways to judge the bottom is to see how banks, funds, and governments act. A recent chart from Larry Williams suggests they are bullish and have been actively buying while retail investors are unloading. He's calling a rally in August.
Another way to call the bottom is to look at short seller activity. Short-sellers have taken in $300 billion of profit this year, but now they're pulling back on those bets, which might be a sign that they don't feel the market has more room to drop.

Some commentators feel that 3,500 is the bottom. This thesis hinges on confidence that the Fed has everything under control and that they are "clipping the wings'' of an overheated economy. The market has been hovering around 3,700 for the last month, so if we're not at the bottom, we're mighty close.

While much of the chatter is about the potential of a recession, there's nothing to say that we can't have a huge rally before that.

The case against the bottom

Some experts believe that we are not out of the woods yet. Inflation, Ukraine, and supply-chain problems are all still swirling. Additionally, there is a feeling that many investors weren't quite ready to give up on tech stocks, despite heavy losses this year. If a recession materializes, that might change.

The economy is suspended in a strange place. Spending is high, but consumer confidence is low. Throw interest rate worries, and we should expect a slowdown.

Many analysts are worried that central banks are losing the battle with inflation. Worse still, fuel costs, supply chain issues, and commodity prices are beyond their control, meaning tools that worked in the past, such as quantitative easy, will be ineffectual.

Indeed, while some are calling a recession, analysts at Morgan Stanley suggest stagflation and a 5% to 10% drop in equities are more likely.

Others suggest that we haven't even hit the "capitulation" stage of the crash yet. If investors throw in the towel, expect further dips before it improves.

Manuel Bley at The Dow Theory suggests we can't call capitulation until at least two of three markets close below these numbers: S&P 500 (3553), Dow (28,407), and NYSE Composite (13,532). None of these indexes are there quite yet.

The Buffett Indicator is always worth paying attention to. However, the bad news suggests we are far from the bottom. Another Wall Street veteran, Ed Yardeni, indicates the market can't recover until we see clear signs that inflation has been contained.

Refrain from timing the market altogether?

Of course, investors could be best served by using the bear market to add quality stocks they believe in instead of trying to time the market. Selling at the top and buying back in at the bottom is challenging for analysts awash with information, let alone for retail investors.

Investing during these times is difficult. Stock market declines are just part of the process. Plenty of shares out there could comfortably beat -9% – even during a bear market. As always, avoid panic selling and focus on the long term. Of course, for anyone sitting on cash reserves, inflation could force them into the market.

Conclusion

It's notoriously hard to time the market. However, what we do know is that it will bounce back eventually. For investors with a sensible, long-term strategy, investing in solid companies with strong fundamentals could be a great time.

Hedge Funds During the Stock Market Moves

The stock market has taken a beating in 2022, following a spectacular run in 2021. As of August 2021, the S&P 500 was down 13.8% since the beginning of the year, while Nasdaq had fallen by 21.7%.

It's, however, common for investors to experience wild swings in the stock market, especially in the first quarter after a strong year. The political and economic environment in the first quarter of 2022 was far from ideal, making it difficult for investors to maintain their bullish positions.

Hedge funds have been caught in the same downdraft. According to HFR, a data provider tracking the industry, the average hedge fund lost around 5.6% in the first six months. This is in line with the losses experienced by the broader stock market indices.

So, how are hedge funds faring in this challenging environment?

How Are Hedge Funds Doing?

Despite the losses, some hedge funds have been able to protect their investors from the full brunt of the market decline. This is because they typically use a variety of investment strategies that help to mitigate risk. For instance, some hedge funds use short selling to bet against stocks that they believe are overvalued.

The larger hedge funds managed to tilt their portfolios to take advantage of the market moves. For instance, according to HFRI Asset Weighted Composite Index data, the top-performing hedge funds gained 1.6% in the first half. This was spectacular, given that S&P 500 was down over 10%.

But even as the market continues to experience wild swings, half the allocators in the U.S. say they will continue to increase their allocations to hedge funds, according to the Alternative Investment Management Association. This is a new twist as it was generally believed that investors would be pulling their money out of hedge funds for the past three years.

What Are Hedge Funds Buying?

One thing you have to give to hedge funds, they are nimble. Their resistance to change and to be early movers has served them well in this market. And they have been quick to take advantage of the market conditions by making some smart investments.

2022 started off with a lot of uncertainty. A recession seemed imminent, and there was a lot of talk about inflation. But the hedge funds quickly adapted and started buying assets that would perform well in an inflationary environment. Here are some of the assets that hedge funds have been buying:

Lockheed Martin*:* Since the outbreak of the Ukraine-Russia war in 2022, NATO has been beefing up its air capabilities in Europe. This has led to an increase in demand for Lockheed Martin's products and services.

Home Depot*:* The home improvement retailer has been a big beneficiary of the stay-at-home trend that started in 2020. With more people working from home and spending more time at home, they are undertaking more home improvement projects.

United Health Group: The health insurer has been a big winner from the Affordable Care Act. As more people have gained health insurance, they have used United Health's services.

Other highly rated stocks that hedge funds have been buying include *Coca-Cola, PepsiCo, The Southern Company, Shell plc, Newmont Corporation, and more.*

What Is Hedge Funds' View On Market Bottom?

Picking the bottom of the market is always a difficult task. And it's even more difficult when the market is as volatile as it has been in recent months. But in the past month, S&P 500 has staged a strong rally, gaining 10%, while the Nasdaq has gained 15%.
With geopolitical risks such as the Ukraine-Russia war, commodities such as oil and other energy products, and the recent interest rate hike by the Fed, there is still a lot of uncertainty in the markets. So, are we at the bottom? Some hedge fund managers, we're yet to see the market bottom. Francois Savary, the Chief Investment Officer at Prime Partners, said that "there are still too many unknowns in the market." He added, "we could see further downside before we reach the bottom." According to Savary, the factors that led to the recent rally in July are not enough to sustain the rally.

Is It the Bottom?

So, are we at the bottom? It's hard to say. The market has been highly volatile, and there are still a lot of unknowns. However, the fact that hedge funds are still buying stocks and increasing their allocations to hedge funds suggests that they believe there is more upside potential in the markets. Only time will tell if they are right.

Why This Stock Rally is a Bear Trap

A bear trap is a false signal in the market that suggests a sudden reversal in the price trend is about to occur when in reality, the price will continue to decline. Investors will think the market has bottomed out and start to buy, only to see the price continue to fall.

> The stock market for the first half of 2022 has been one of the worst on record. The S&P 500 fell over 24%, and many other indexes like the Nasdaq fared even worse. The Covid 19 lockdowns in China and the war in Ukraine were the main reasons for the market crash.

We have seen a sudden and sharp rally in the stock market in the last few weeks. The S&P 500 has jumped over 17% from a mid-June low. This has led many investors to believe that the market has finally bottomed out and is now ready to start a new bull market.

However, there are several reasons to believe that this rally is nothing more than a bear trap.

The War in Ukraine is Far from Over

The war in Ukraine is one of the main reasons why the stock market crashed in the first place. It doesn't seem like any progress has been made in terms of peace talks, and the fighting appears to be as intense as ever.

If anything, it seems like the situation is getting worse. Shelling by both sides has not subsided in recent weeks, and there is no end in sight to the conflict. Mediated peace talks have failed, and it doesn't look like they will be successful soon. This major risk factor could easily make the stock market tumble again.

High Cost of Labor As Inflation Reduces

The Federal Reserve raised interest rates by 0.75 in July to combat runaway inflation. This was the second consecutive month interest rate hike, making it one of the most aggressive measures to fight inflation in years.
With the rate hike, the market saw a massive rally that has got some investors thinking that the market has bottomed. However, this couldn't be further from the truth.

The falling inflation does not necessarily mean the bear market is over. According to Morgan Stanley strategists, businesses will face the challenge of reducing prices and high labor costs, leading to lower profits. The net effect is that the reduction in profits will cancel out the drop in inflation, resulting in no real change for the economy.

According to July's job report, over 528,000 new jobs were created, which means businesses are still spending heavily on labor. This is not sustainable in the long run and will eventually lead to lower profits and another stock market crash.

Another factor is that inflation is dropping at a rate of 0.60% per month. This slow pace of decline means inflation will remain elevated for some time, which will continue to pressure consumer spending and corporate profits.

A Recession Is Still Likely

Although we're not yet in a recession, the risk of one happening is still relatively high.

According to a recent study by Allianz Life Insurance Company of North America, about 66% of Americans believe that a recession will likely happen in the next year. This is up from 48% a year ago. With spending power already constrained, another economic downturn would be devastating for the stock market.

In addition, many economists believe that we are close to a recession. According to UBS' probability model, there is a 40% chance of a recession happening in the next 12 months. UBS foresees a consumer-led recession, with a slowdown in spending as has been the case for the better part of this year.

A recession would be disastrous for the stock market and is a major risk factor that investors must be aware of.

What Next for Investors?

The stock market is a risky place right now, and investors need to be very careful. Although there has been a recent rally, many risks could still send the market crashing again. We're likely not yet at the bottom, and caution is still warranted. A bear trap is a genuine possibility.

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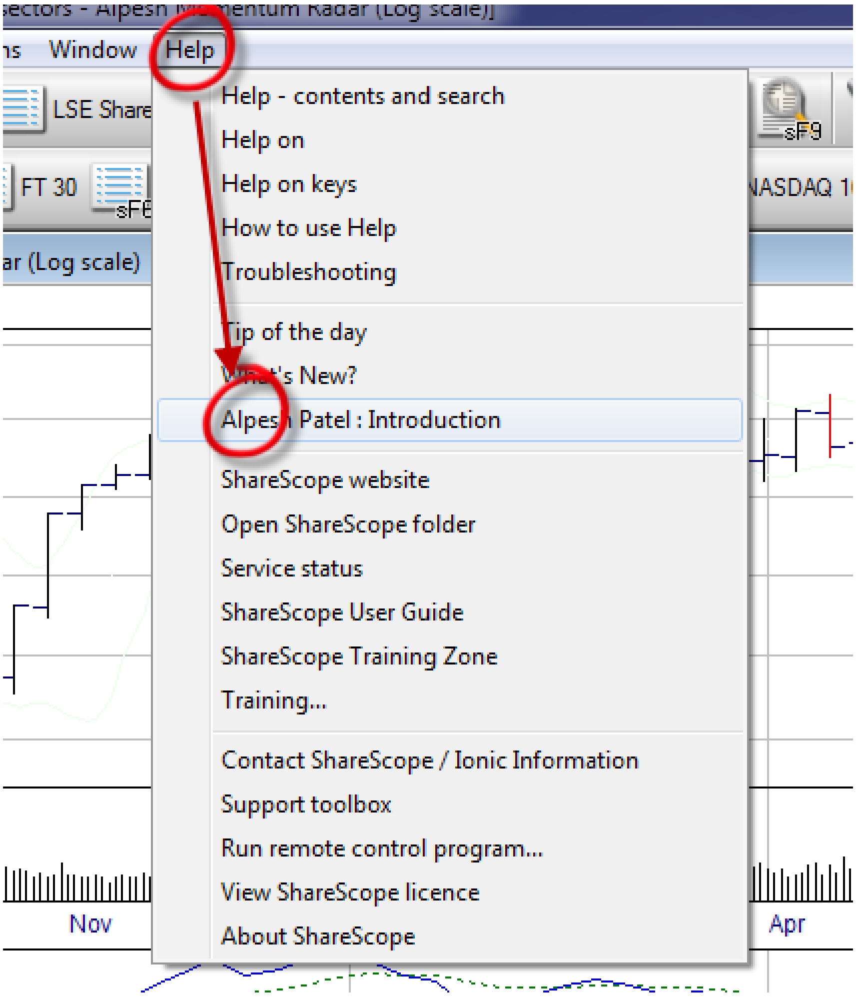

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