GordonTLong.com

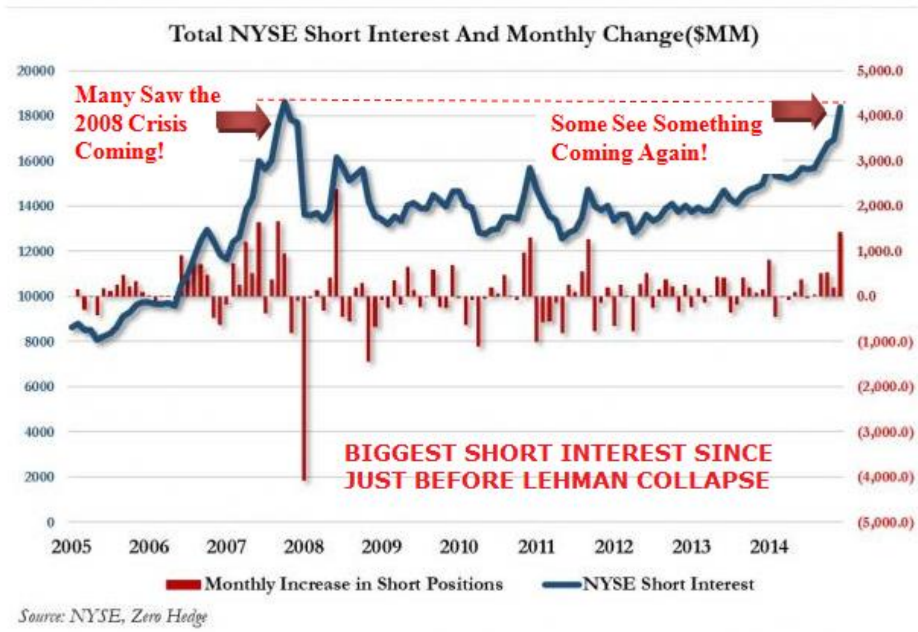
RECESSION RUMBLINGS!

MACRO INSIGHTS

Gordon T Long
10/12/2015

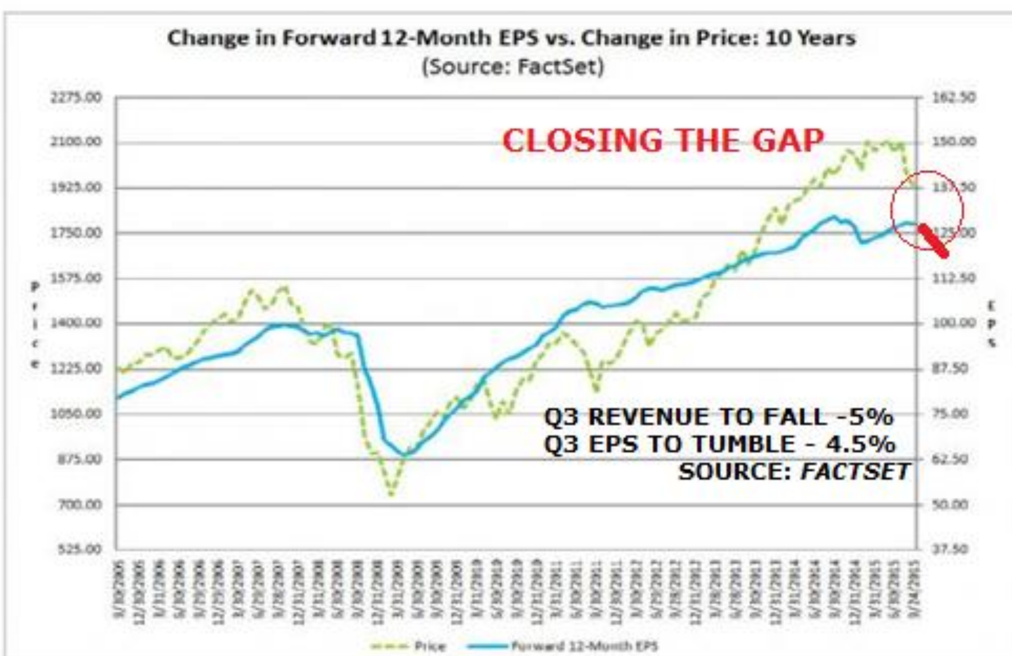
RECESSION RUMBLINGS

WHAT ARE THEY SO WORRIED ABOUT?



IS IT AN EARNINGS IMPLOSION?

Q3 EARNINGS – Q3 EPS Expected to fall -4.5% According to Factset

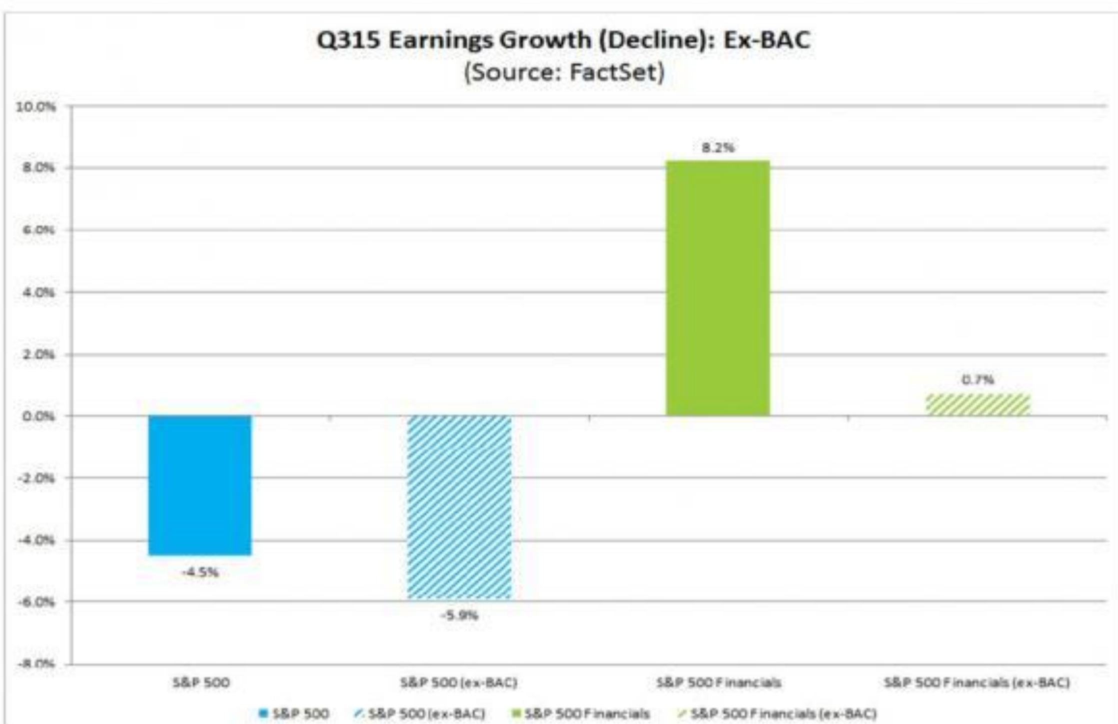


Q3 EARNINGS – S&P 500 Average Earnings Growth Y-o-Y – Not a Good Pattern

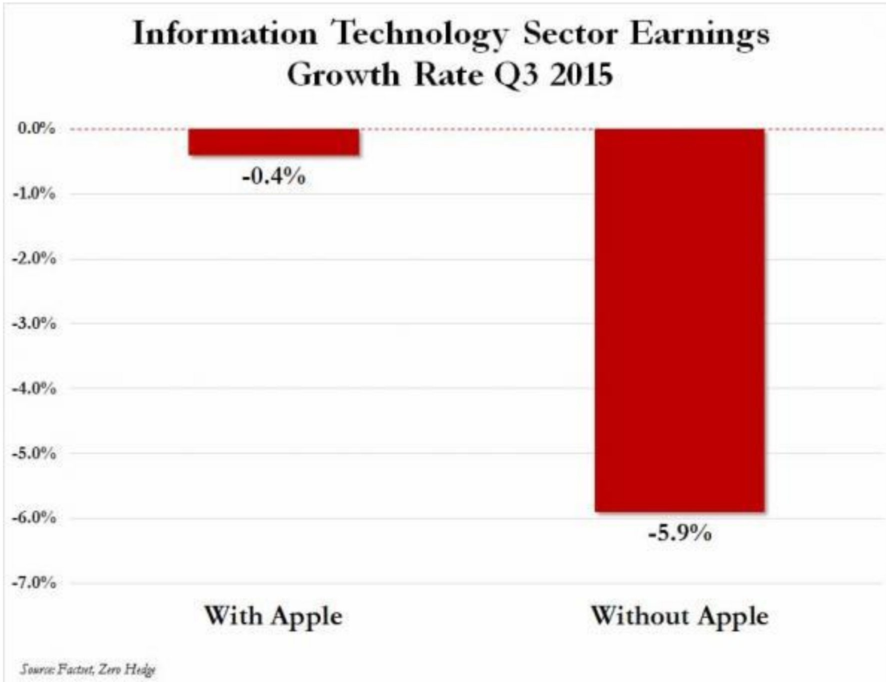
Q3 ABOUT APPLE AND BOAML

Q3 EARNINGS – Q3 Earnings Growth (Decline): Ex-BAC

This is how big BofA's contribution to Q3 earnings season will be: if Bank of America is excluded from the index, the estimated earnings growth rate for the Financials sectors would fall to 0.7% from 8.2%, while the estimated earnings decline for the S&P 500 would increase to -5.9% from -4.5%.

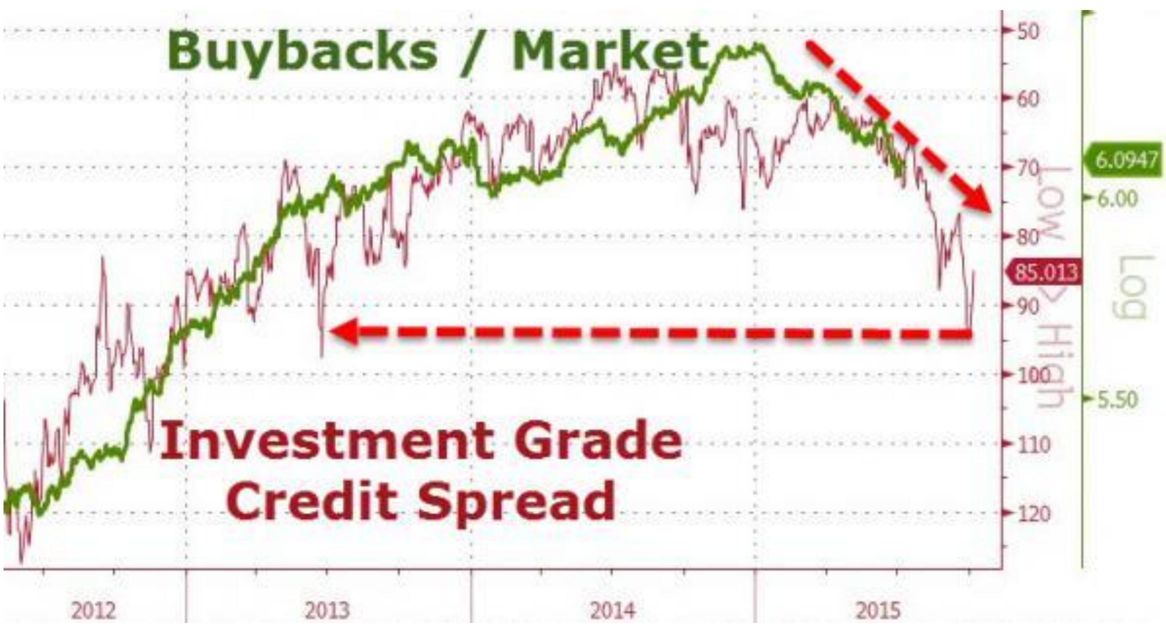


Q3 EARNINGS – IT Sector Q3 Earnings Forecast to be Down -5.9% Without Apple (-0.4% With)

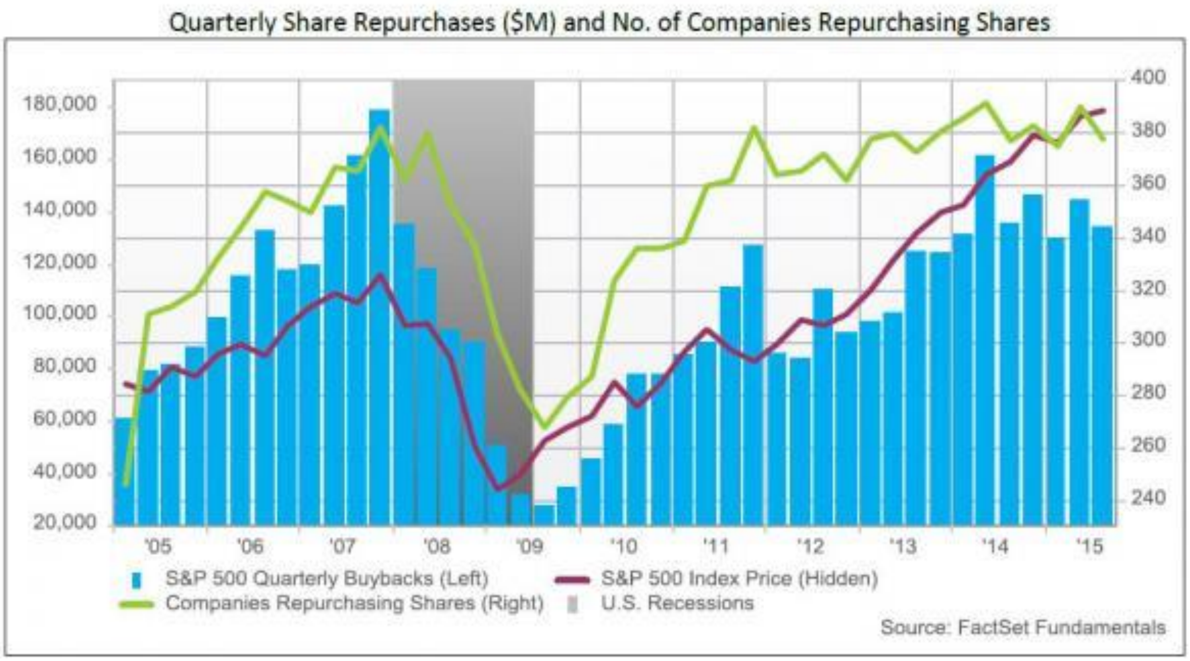


OR IS IT THE CRACKING PILLAR SUPPORTING THE MARKETS?

BUYBACKS – Falling Investment Grade Spreads Hurting Buybacks



BUYBACKS – Quarterly Share Repurchases & No. of Companies Repurchasing Shares Slows



SOMETHING HAS SUDDENLY CHANGED

We talked about Confidence and Sentiment changing and what Alan Greenspan warned congress about a number of times during his Humphrey-Hawkins Testimony.

The "Throwing of the Light Switch"

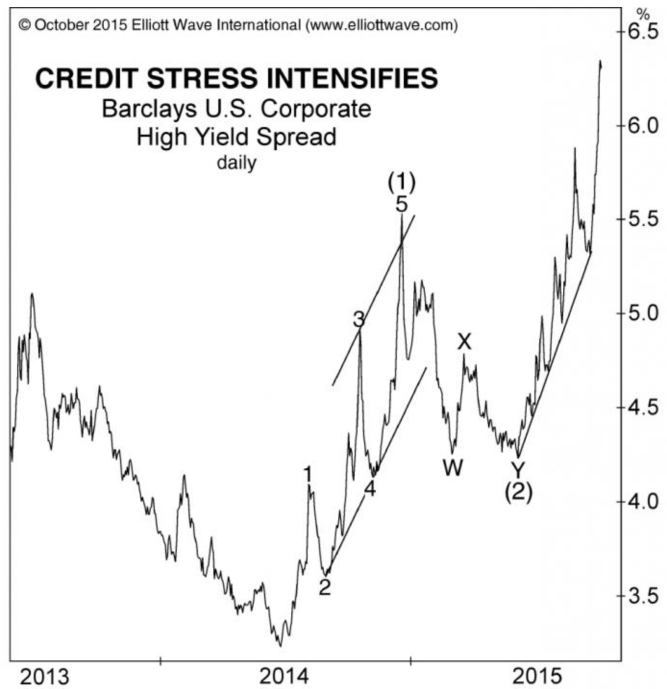
Pater Tenenbrarum of **Acting Man** *observes*

> ….. What struck us was a comment made by the CEO of a manufacturing company in the context of the latest Kansas manufacturing survey release. As Wolf street notes, according to the survey, "*the future composite index and the indexes for the future production, shipments, and new orders all dropped to their worst levels since 2009*". Here is what the CEO said:
>
> "*It feels like someone just flipped the switch to 'off'* without any concrete reasoning," one of the executives commented. (emphasis added)
>
> We immediately recognized that phrase – we have heard it twice before, and it has stuck with us ever since. In fact, we have mentioned it a few times when occasion demanded in past articles. The first time we heard this phrase was in late 2000, in an interview with the CEO of a telecom equipment provider. Paraphrasing: "It's as if someone had just thrown a light switch – orders have suddenly disappeared".
>
> The next time we heard the phrase uttered was in late 2007 – this time in connection with a mortgage credit company. Ever since, we have filed it away as an anecdotal reference to the onset of recessions. And lo and behold, the phrase is popping up again in a district manufacturing survey.
>
> Over the weekend we also looked at the latest EWI financial forecast (a monthly publication focused on US markets). In one section, the authors discuss the recent prevalence of individual stocks and

corporate bonds crashing even while the market as a whole seems to be holding up relatively well. They also ponder whether certain corners of the bond market that are lately attracting funds from those fleeing the junk bond market for their perceived safety are really as safe as is widely assumed. The following turn of phrase stood out to us in this context:

"Our view is that *Glencore's "flash crash" will turn out to be one of many "light-switch" declines*, and not just in commodity-related businesses. Already, a plethora of stocks in a wide range of industries have quietly crashed over 50% this year. The industries range from specialty retail (Aeropostale, -78%) to coffee (Keurig Green Mountain, -67%) to semiconductors (Micron Technology, -61%) and the Internet (Groupon, -61%)."

[and further below, in the discussion of corporate debt]:



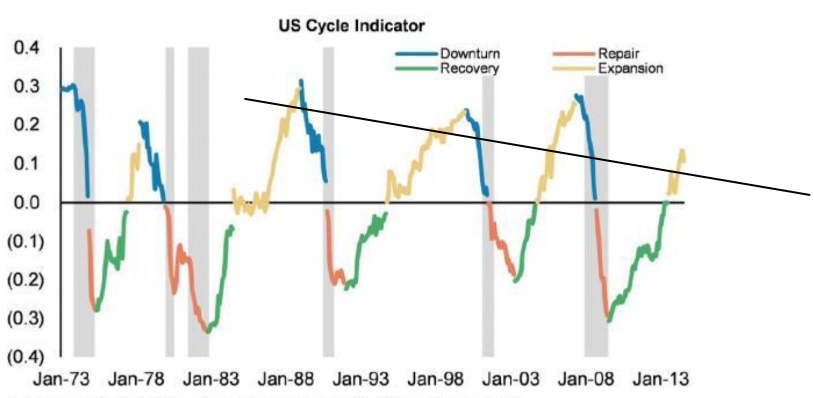
"As the charts of Glencore's stock and its credit default swaps illustrate, the "light switch" moments are starting to appear." (emphasis added)

So there you have the same phrase again, only this time in connection with financial market behavior. As the accompanying chart shows, junk bond spreads are exhibiting a distinct similarity to how they looked just ahead of the most recent recessions and bear markets:

Junk bond spreads with a proposed wave count by EWI – click to enlarge..

This synchronicity in this turn of phrase is of course not a coincidence – both the sudden disappearance of manufacturing orders and the "quiet flash crashes" of individual stocks from a wide range of industries coupled with persistent weakness in junk bonds, are symptoms of the same underlying phenomenon. When we see the phrase about a "*light switch suddenly being flipped to 'off'*" or a variant thereof popping up in reports about the economy or descriptions of market behavior, our ears are perking up.

WE THINK THEY ARE WORRIED ABOUT A POTENTIAL US RECESSION.



WE ARE EXPECTING US$ TO DROP

WEEKLY - DXY

DAILY

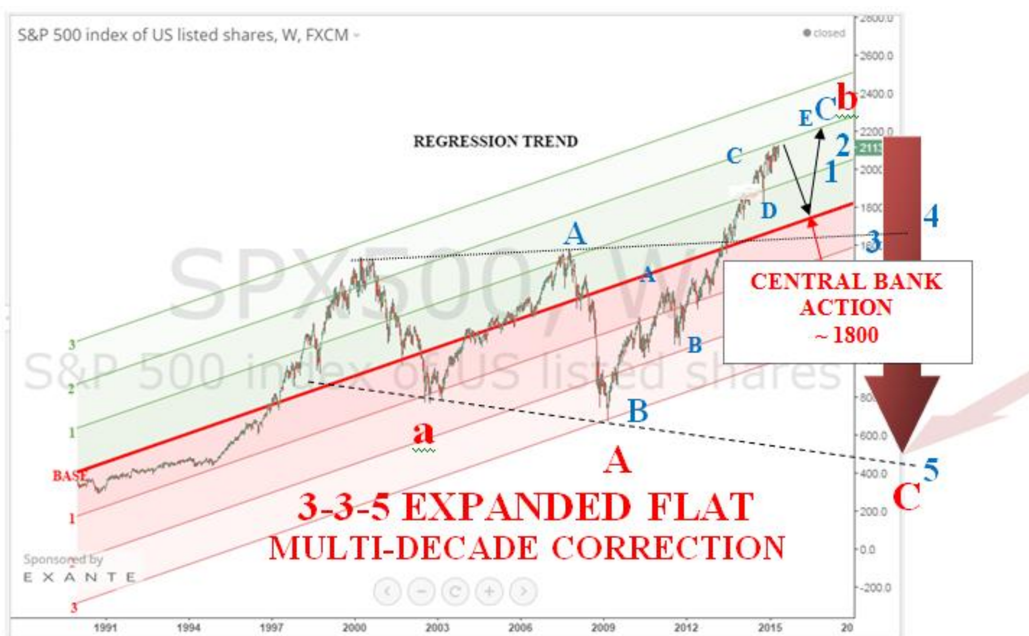
But Gold, Silver, Oil, Commodities & Bonds to rise. Yields to fall

INTERMEDIATE TERM VIEW

As we have laid out in previous MATA reports, we still see more increases in the equity markets in 2015 after this consolidation / correction has run its course but have serious concerns beginning is 2016.

LONGER TERM VIEW

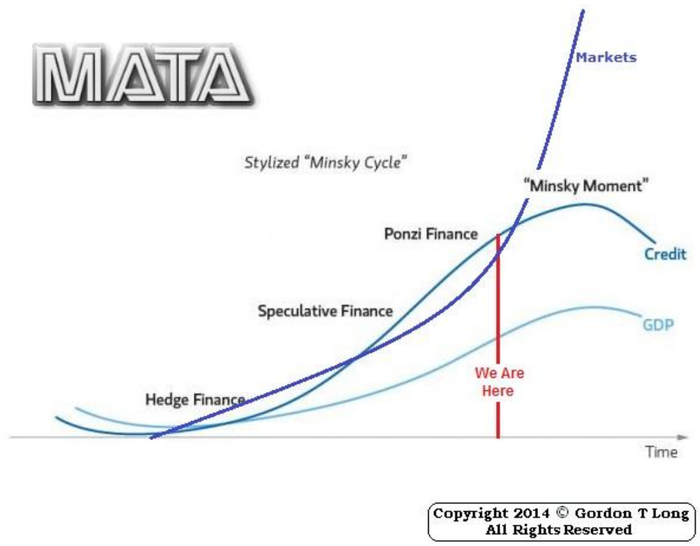
Sometime in 2016, after the central bankers have had another shot at QE, helicopter money and collateral guarantees it will end - badly



HAVEN'T CHANGED OUR POSITION

After the near term expected correction we still expect markets to head higher towards a "Minsky Moment" in 2016.

This is based on the assumption that Central Banks will react to any deterioration in the financial markets with yet another round of crisis driven liquidity pumping!



Gordon **T Long**
Publisher & Editor
general@GordonTLong.com