



**DOES THE BEAR MARKET  
HAVE MORE TEETH?**

## Agenda: Does this bear market have more teeth?

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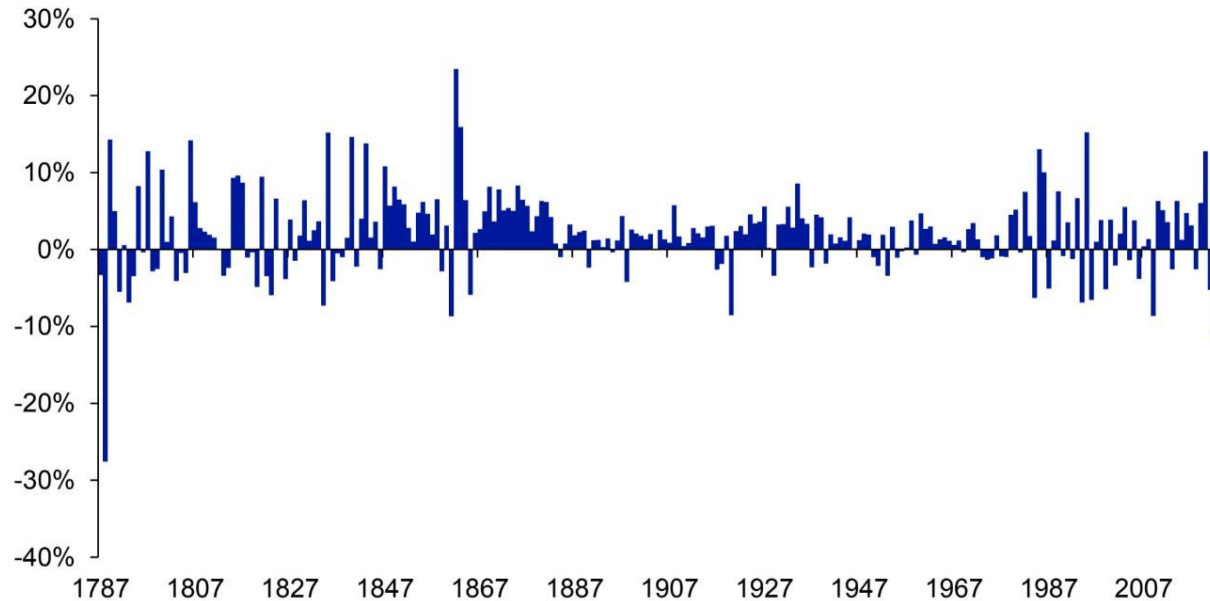
- Market overview
- Global tightening, fiscal and monetary
- European economy, the war and energy
- Chinese economy, the property bust and COVID
- US economy and the Fed
- Implications for markets

# Market Overview

Treasuries – Worst start to the year since 1788 (up to end May)...



Total Return of US 10-yr Treasury (or proxy) index up to end of May since 1788..



Source : GFD, Deutsche Bank

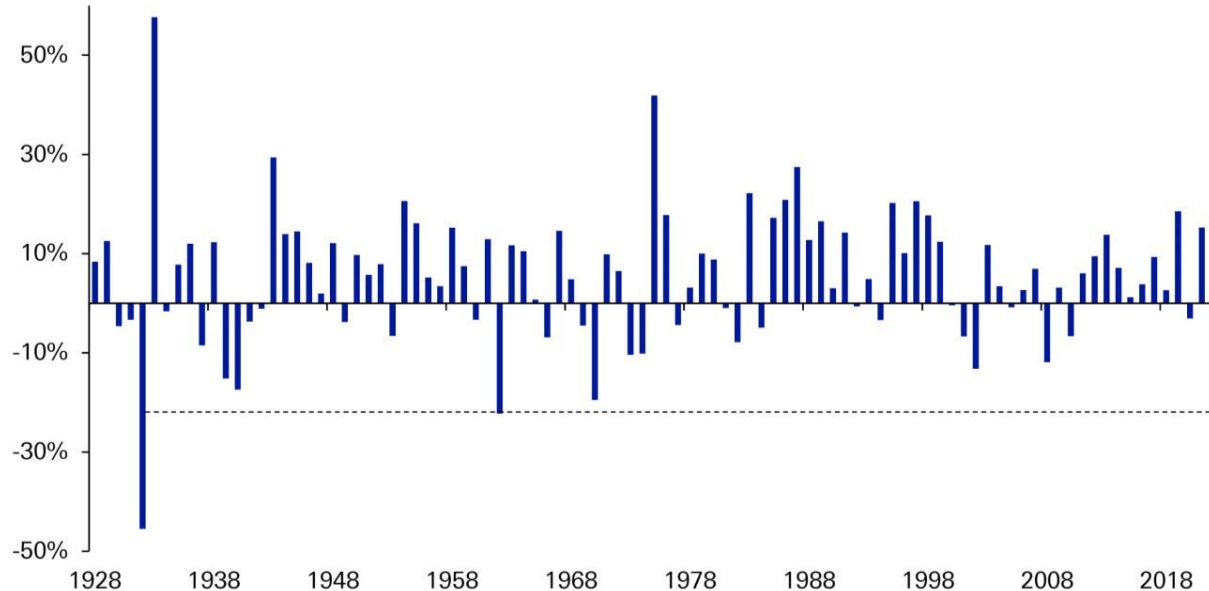
Deutsche Bank

# Market Overview

Will this be the worst H1 for US equities since 1932...?



S&P 500 YTD total return up to end-June (current point June 17<sup>th</sup>). If S&P stays flat up to month-end, 2022 will have seen worst H1 since 1932....



Source : Bloomberg Finance LP, Deutsche Bank, Updated as to close on Friday June 17

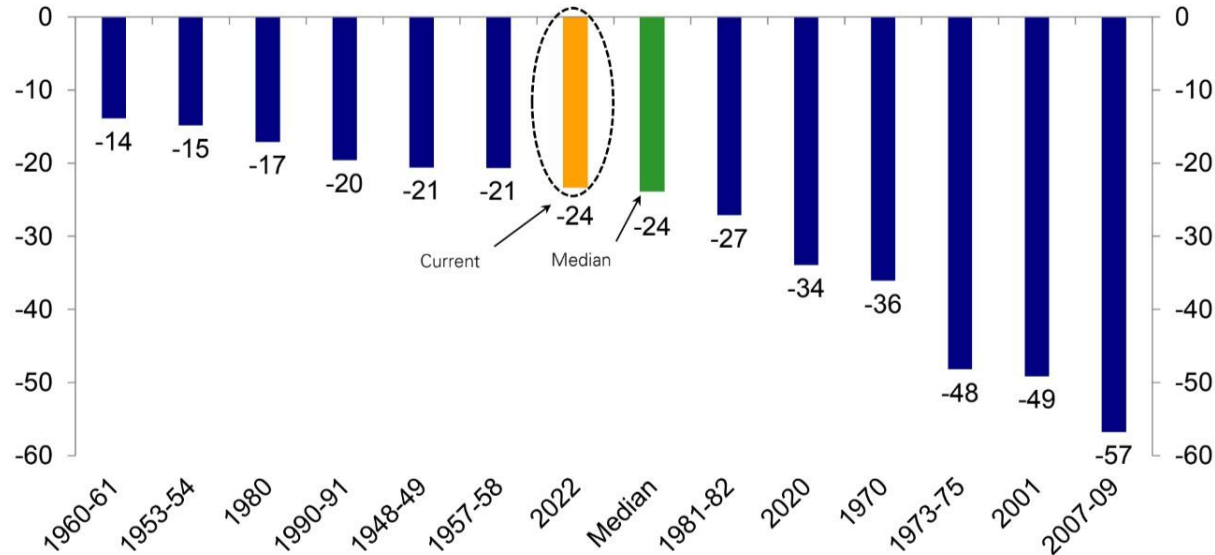
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# Market Overview

This correction is now at the medium recessionary levels... ultimately given this recession is a regime change one in terms of inflation, the final correction is likely to be one of the worst outside of financial crises ones... So in the -35 to -40% range some time next year is plausible...

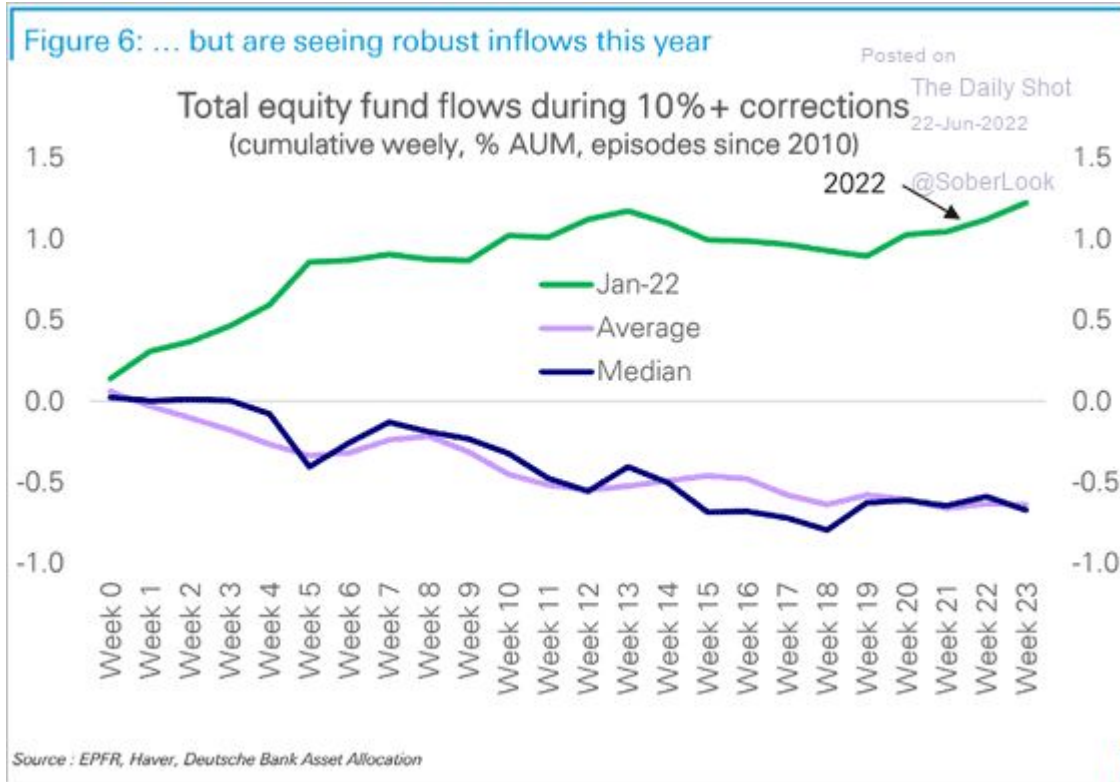


## S&P 500 returns in post-war recessions (%)



Source: Shiller data, Haver, DB Global Asset Allocation, Updated as to close on Friday June 17

# Market Overview



# Market Overview

Price / Earnings



Source: S&P Capital IQ, Nucleus Wealth



# Analyst revisions no longer a tailwind, will they become a headwind?

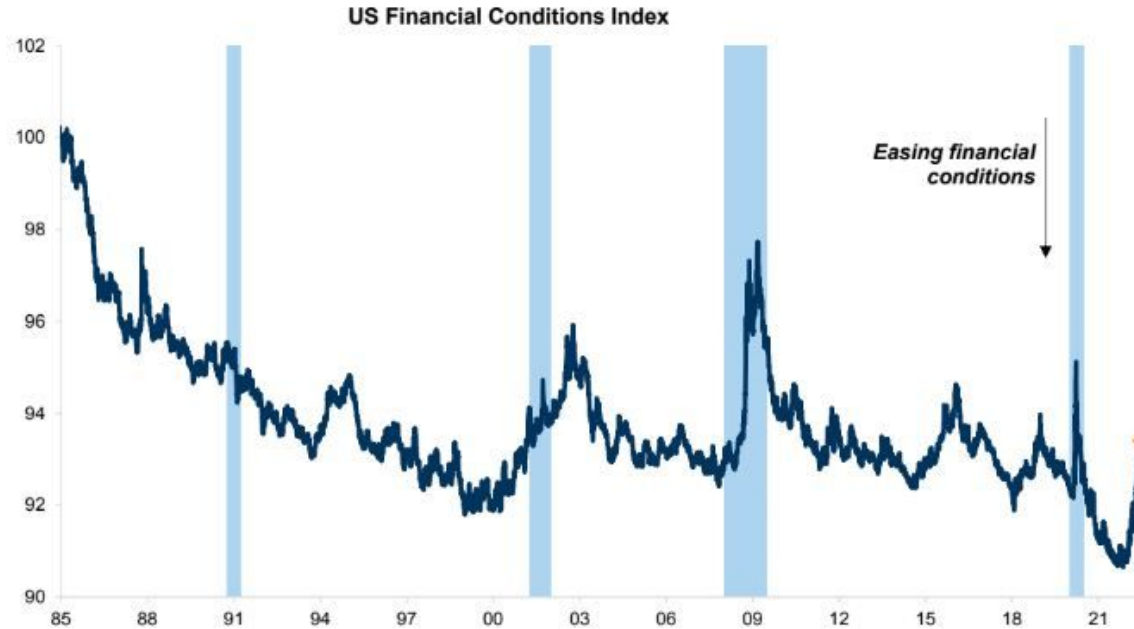




# Fiscal and Monetary tightening globally

## Exhibit 11: Financial conditions have sharply tightened, but are not yet 'tight' compared to longer term history

US Financial conditions indicator (FCI)

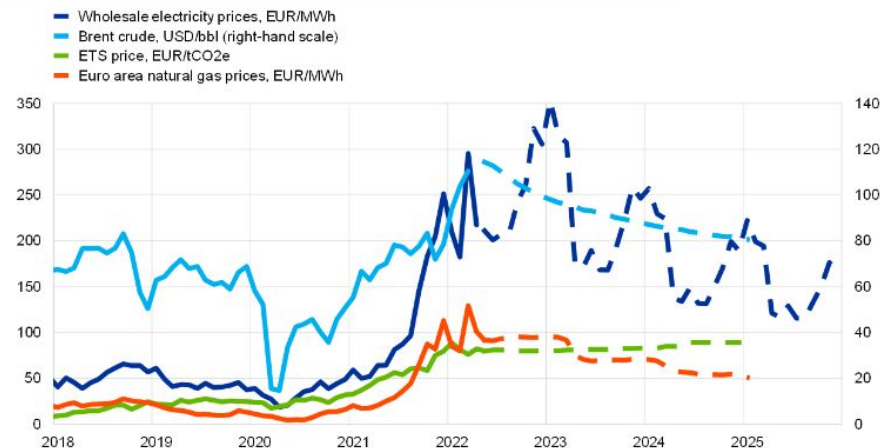


# War and energy in Europe

- Gas price surge hits consumers and business
- Russian choking supply, adjustment to take time
- Confidence collapse in households and business

Pandemic-related drop in energy prices followed by substantial price increases

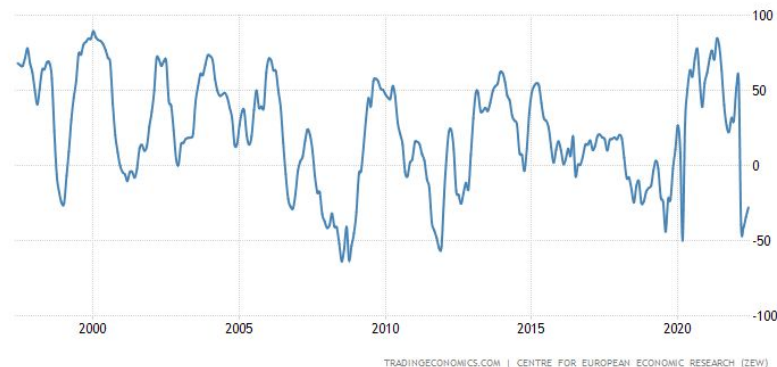
(left-hand scale: EUR per unit; right-hand scale: USD per unit, monthly average values)



Sources: Eurostat, Refinitiv and ECB staff calculations.

Notes: Wholesale electricity prices for the euro area are calculated as a weighted average (weighted by net electricity generation) of prices observed in the five biggest euro area economies. Futures curves from 29 April 2022 are represented by broken lines. "ETS" is the EU Emissions Trading System, Latest observations: May 2022.

## Germany ZEW Economic Sentiment Index



Fiscal will lag, ECB worried about inflation, expecting high electricity prices for years

# Property bust and COVID in China

- Chinese domestic demand slumping
- Property bust worse than expected.  
OMICRON continuing to affect economy  
- at least to the end of 2022
- WHO pressure to reclassify?
- Three red lines has fiscal and monetary policy “pushing on a string”
- Next shoe to drop is exports, main source of growth

## Some easing from the central government...

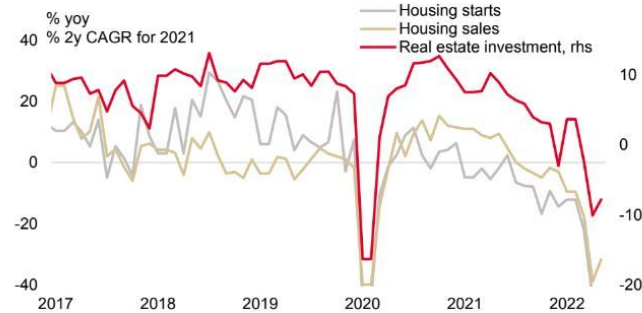
Date	Measures
Feb	New national rules on the supervision of funds in developers' escrow accounts (i.e. presale proceeds) have been released, partially relaxing developers' access to such funding for project completion.
20 Jan	5y LPR (a key determinant for mortgage rates) lowered by 5bp.
5 Mar	The National People's Congress reiterated that reasonable housing demand will be supported to ensure healthy development of the sector.
16 Mar	The property tax trial will not be expanded in 2022.
4 May	CBIRC pledged to support mortgage demand for first-time home buyers and upgrade buyers.
4 May	CSRC pledged to support developers' onshore bond financing.
15 May	The PBoC reduced the minimum premium on first-time mortgage rates over 5y LPR by 20bp, effectively lowering the floor to mortgage rates.
20 May	5y LPR lowered by 15bp.

HPF = housing provident fund. Source: CREIS, SG Cross Asset Research/Economics

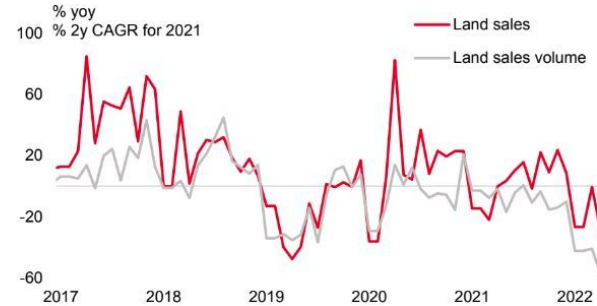
# Property bust and COVID in China

## HOUSING REMAINS IN THE GUTTER

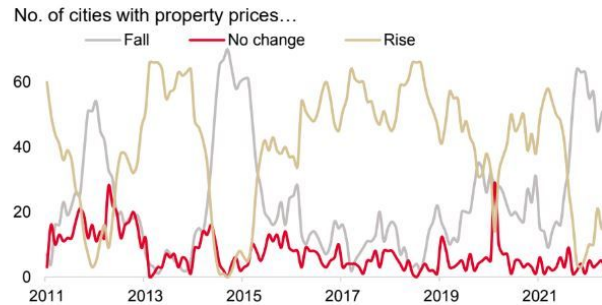
### Housing activity slightly improved



### Land sales volumes remained in contraction



### Housing prices under downward pressure again



Source: NBS, CEIC, SG Cross Asset Research/Economics

# US economy and the Fed

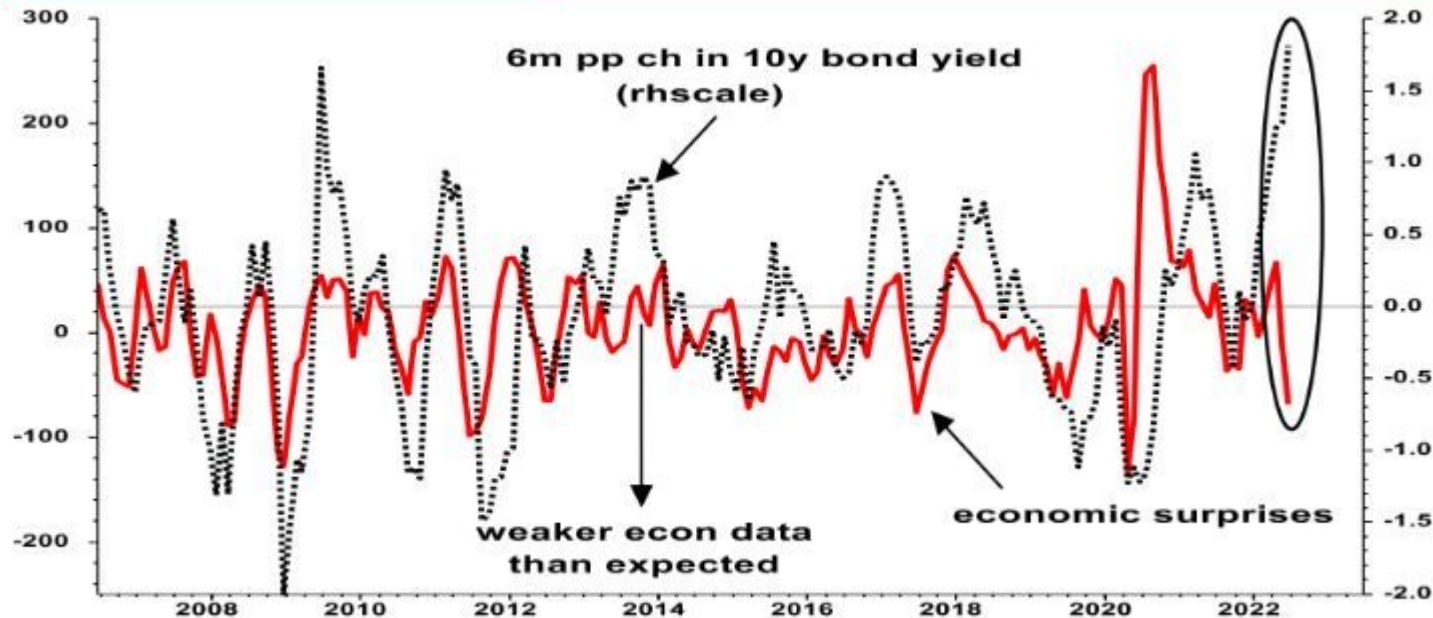
## US Conference Board Leading Indicator falls into recession territory



Source: Datastream

# US economy and the Fed

**US bond yields have not responded at all to the slump in the economic data... yet!**



Source: Datastream

# Agenda: Implications for markets

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- Inverted yield curve signalling recession
- Stocks very expensive given declining earnings prospects
- Inflation has lowered level of Fed “put” and needs a commodities bust
- DXY bull market to make it worse. AUD to continue falling
- Eventual capitulation of stocks





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- Detailed dashboards showing how your portfolio is positioned.
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## Viewer question of the week:

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**Does this bear market have more to fall?**

**Drop your answers in the comments**

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