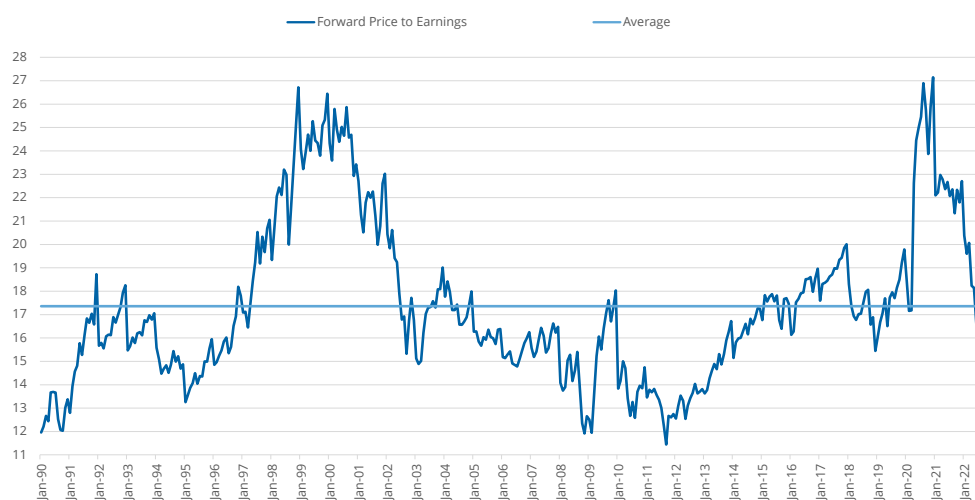


Spotlight: From Pivot to Divot

David Mazza, Managing Director, Head of Product & Emma Bakken, Product Analyst

October offered a reprieve to stocks, with global equities rallying 6%. Even so, that barely made a dent in this year's decline, especially after an awful September. Unfortunately for bulls, much of last month's gains seem to be driven by a reversal of what became extreme bearish sentiment. Macro headwinds, including rising inflation, higher interest rates, and slower economic growth remain, muddying the outlook. Even as earnings this quarter have not been awful, the decline in valuations has been sharp. This conflicting backdrop offers narratives for both bulls and bears to feast on.

STOCK MARKET MULTIPLES HAVE COLLAPSED: S&P 500 INDEX PRICE TO EARNINGS

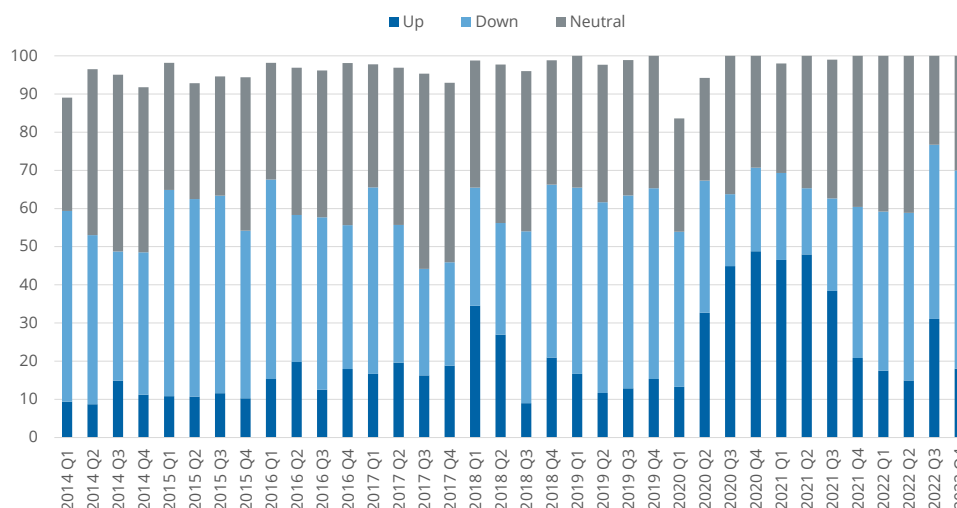


Source: S&P Dow Jones, as of October 31, 2022.

TROUBLE AHEAD. TROUBLE BEHIND.

Let's dive into the state of multiples and earnings a bit more. Market participants start bidding down stocks before economic contractions or outright recessions as they look ahead to future weakness in corporate earnings. According to Citi, the average contraction of the last seven periods of earnings per share (EPS) recessions has been 31%. While this time may be different, analysts only started cutting in July. They remain overly optimistic on earnings based on historical precedent and are expecting 6 to 7% growth in the aggregate 2023 to 2024. Once material cuts occur, the market may react poorly in the face of reality. The one area that is seeing degradation is in the ratio of EPS revisions, with upgrades collapsing relative to downgrades.

ANALYSTS ARE NOT CUTTING EARNINGS ESTIMATES ENOUGH



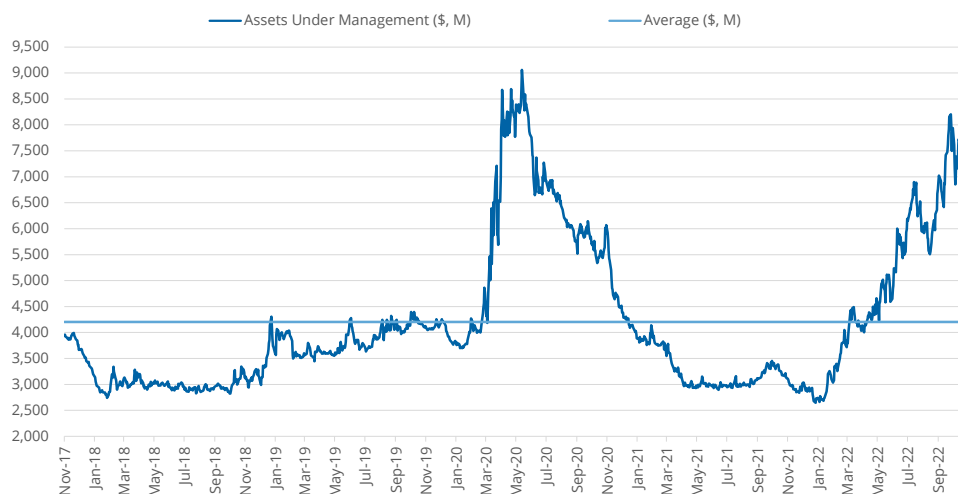
Source: Bloomberg Finance, L.P., as of October 31, 2022. Note totals may not add to 100%.

SLOW TRAIN

Looking toward the remainder of the year, the direction of the Fed seems likely to continue being the main driver of market action. Underpinning the Fed's path will be how quickly inflation moderates and how sharply economic growth contracts thanks to higher rates. Last week, the Fed hiked by 0.75% for the fourth straight time, lifting the upper end of the Fed Funds Rate to 4.00%. While inflation may have peaked, the Fed is not in a position to declare victory and will likely need to keep their foot on the gas even if they moderate from the 0.75% level. Chairman Powell said as much during the most recent FOMC-presser and made it clear there will not be a pivot coming anytime soon.

With cash offering attractive yields for the first time in a decade, some may be tempted to hide out there. Others may be dollar cost averaging into every downturn this year and are feeling the pain of the buy-the-dip-gone-bad. Others, especially those with a traders' mindset, may want to consider opportunities to hedge their portfolios. That sentiment has driven considerable interest in inverse ETFs, especially those that offer exposure to the S&P 500 Index. Inverse ETFs have seen their assets and value traded skyrocket in 2022, rivaling levels last year in the depths of the COVID market crash. If volatility persists, we can expect this trend to continue as market participants look toward solutions to navigate today's challenging market environment.

SLOW TRAIN



Source: Direxion, as of October 31, 2022. Data represents the assets under management of US-listed S&P 500 Inverse ETFs.

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