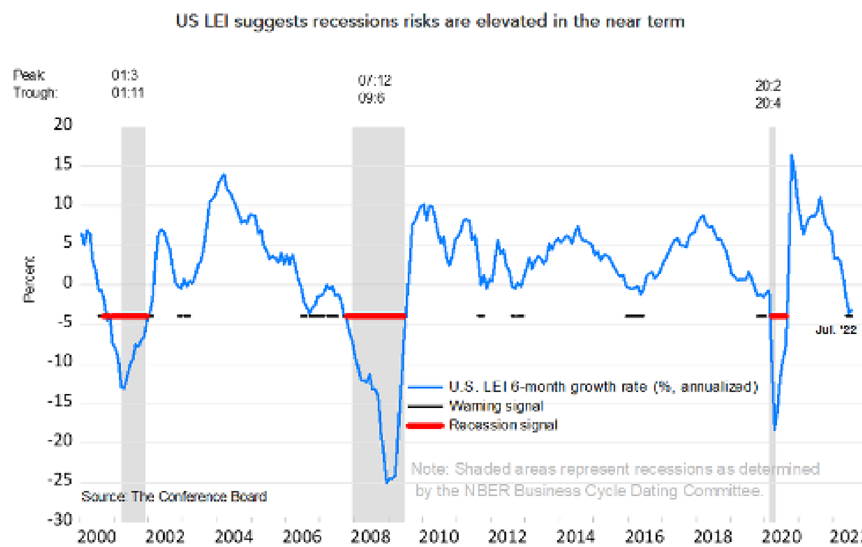
Macro Conditions

- Inflation has broadened out and is getting stickier.
- Odds of the September rate hike are split between 50bp and 75bp.
- There is still a 400-500bp gap between the actual federal funds rate and the Taylor rule implied rates. The Fed should continue to hike to bring inflation down. However, these implied rates are closely tied to the GDP/unemployment gaps. If growth slows down or unemployment picks up, the implied rates could drop quickly.
- The Atlanta Fed currently forecasts a 1.6% GDP growth for Q3. The Conference Board's leading economic indicator has declined for 5 consecutive months and is now flashing a recession signal (the right chart).
- Productivity has dramatically declined in 2022, which may explain the paradox of high employment and low growth.



Market Conditions

			Signal Performance		
Month	Driver	Market Reaction	Score	rScr	ADNA
Jan-May	Inflation and rate hike	Style rotation	Mixed but Score outperformed in V and Lg		Underperform
Jun	Economic growth	Broad decline	Outperform	Underperform	Underperform
Jul	Fed pivot hope	Recovery from June's decline	Underperform	Outperform	Outperform
Aug up to the 18th	July momentum continued				
Aug after the 18th	Maybe no Fed pivot?	Market declined, growth stocks are down more			
Next	Fed's Jackson Hole announcement on Friday (26th)				

- 2022H1's valuation change was entirely multiple compression. The market valuation is now at the 25yr average. Value vs. growth relative valuation is still around the lowest since 2003.
- The S&P 500's profit margin (12.3%) holds up well and stays on the long-term upward trend despite the recent contraction.

Value-Growth Cycle

Technicals/fundamentals continue to favor V, but BAS's simulation capturing the volatilities and co-movements among various S&S now leans toward growth and small for the first time in 2022.