PVG Asset Management
LOSS AVERSE INVESTING

Market in a Minute

January 31, 2023

Index Performance: As of January 27, 2023			
Index	**Price**	**Last Week**	**YTD**
S&P 500	4,070.56	2.47%	6.02%
Dow Jones	33,978.08	-2.70%	0.69%
NASDAQ	11,621.71	0.55%	6.44%
Russell 2000	10,040.07	-1.04%	6.06%
Russell 2000 Growth	8,612.77	-0.98%	6.42%
Russell 2000 Value	15,323.06	-1.10%	5.70%
Russell 1000 Growth Total Return	2,373.90	0.38%	4.77%
SPDR Gold Shares	179.22	0.30%	5.69%
GS Crude Oil Total Return	204.20	3.43%	-0.87%
Powershares US $ Index	27.47	-0.11%	-1.33%
Ishares EAFE Index	71.60	0.68%	8.18%
Barclays Aggregate Bond Index	100.08	0.17%	3.20%
iShares Barclays 20+ Yr Treasury Bond	106.71	-0.52%	6.67%
Utilities Select Sector ETF	68.89	-2.94%	-1.80%
Vanguard REIT ETF	90.34	-0.56%	5.43%

A Word on the Market

By: Patrick Adams, CFA

This week is critical, as the market is at very important technical levels. Earnings last week were not good, better than feared for some and horrific for others. There will be a flood of earnings this week with AAPL, GOOG, and AMZN on Thursday, this is a significant percentage of the market. On Wednesday, the Fed will announce a .25% increase in interest rates, they will likely signal another .50% increase and to maintain that rate level of interest rates for an extended period…likely resulting in a recession.

Federal Reserve Meeting on Wednesday: The Federal Reserve has made it clear they will raise the Federal Funds rate by .25% to make the new range 4.5% to 4.75%, which is up 4.5% since they started their rate hikes during March 2022. Historically, we do not know a period when the Fed has raised rates so aggressively in such a short period of time. On the other hand, we have never had this much government deficit spending nor massive money supply growth, which is lingering around giving the impression the market does not believe the Fed will follow through. Obviously if the Fed does execute on their views, it will result in a recession. We are now starting to see very significant layoffs which will begin to show up in the Employment report, which is the Fed's goal in reducing the intermediate inflationary trends. We believe Powell will again make his views clear, we will see if he uses the word pain or something similar, if so, the market is very extended and set up for a fall!

Stock Market: We feel like the market is like the Three Wise Monkeys, "see no evil, hear no evil, speak no evil". The market has been blind to the repeated Federal Reserve's clear communications. The markets valuation on 2023 earnings of 226, down about $3.00 from last week, is currently about 18x. This valuation is now consistent with the Treasury Yield of 3.5%.

iShares Mortgage Real Estate	26.03	0.63%	11.90%
Alerian MLP ETF	40.91	-0.25%	5.15%
iShares Global Telecom	62.85	2.32%	11.62%
ETFMG Alternative Harvest ETF	4.46	-3.48%	4.23%
Grayscale Bitcoin Trust	12.36	7.60%	46.92%
Shanghai SE Index	3,264.81	0.39%	4.89%

Source: Bloomberg & Yahoo.com, Returns are appreciation only.

S&P Sector Performance: As of January 27, 2023

Index	Price	Last Week	YTD
Information Technology	2,385.90	0.68%	5.54%
Consumer Disc.	1,150.81	-0.51%	7.59%
Consumer Staples	762.14	-2.86%	-2.60%
Health Care	1,547.92	-1.12%	-1.50%
Financials	603.02	-2.08%	3.23%
Industrials	101.14	-3.39%	0.79%
Energy	700.58	0.74%	3.42%
Communications Services	182.90	2.97%	11.12%
Utilities	350.27	-2.93%	-1.81%
Materials	525.46	-1.21%	6.58%
Real Estate	253.70	-0.75%	6.18%

Source: Bloomberg website, Returns are appreciation only

The earnings continue to decline. Generally, companies that are highly sensitive to the economy had horrific earnings reports. To name only a few, 3M (MMM), Dow Chemical (DOW), Intel (INTC) with significant declines in earnings for the 4th quarter. The first quarter is expected to be the washout quarter, clearing all the excess inventory due to a significant slowdown in the global economy. Final Sales in the 4th quarter GDP was up only about 1%. It seems very clear from the earnings reports so far that these are clearly of an economy that is contracting.

MMM- gave guidance that smart phones would be down -10%, tablets -15%, and TVs -30%.

DOW- volumes in the 4th quarter were down -8% and would be down nearly the same in the first quarter, as destocking accelerated in December.

INTC- "Very big hit to revenues due to customer inventory adjustments…a big macro statement", will be down another -40% in the first quarter.

TXN-inventory up to 157 days, an increase of 24 days sequentially…WOW! That is a lot of inventory.

Semiconductors and semi-cap equipment were very weak and will continue into the first quarter.

Areas of strength are defense, aerospace, autos, and energy service. Defense is benefitting from strong order trends and big backlogs. Aerospace is in a big up cycle. Auto inventories are being replenished. Lastly, energy service is very strong with great visibility. All of these positives are the result of specific cycles which are independent of the economy. **The standout companies were RTX and HAL.**

Technicals: The Dow Jones Industrials is up about 2.5% year-to-date, the S&P 500 up 6%, and the Nasdaq up 11%. Given the bear market last year, combined with the massive tax loss selling before the end of the year, we are not surprised to see a January affect with a rally to start the year. It is that simple, this is not likely a start of a bull market.

As some of the earnings reports were not as bad as feared, the market had a reflex rally. Markets generally do not go straight down and are like a ball bouncing down a flight of stairs. Has the ball finally it the bottom? If the market follows the earnings we are not there yet. To be more specific when the earnings estimates stop being revised down. We don't see year over year earnings growth until the 4th quarter of 2023 at the earliest.

On a technical basis, it appears that the market may have broken the downtrend. The S&P 500 has broken above the 200-day moving average and the downtrend line. The 50-day has not crossed the 200-day yet signaling a Golden Cross as

PVG Strategies		
Tactical Strategies	**QTD**	**YTD**
Tactical Total Return	1.4%	1.4%
Dynamic Core	-0.2%	-0.2%
Loss Averse		
Loss Averse Equity Income	2.1%	2.1%
Navigator Growth	2.5%	2.5%
Specialty		
Emerging Healthcare	2.9%	2.9%
Value		
U.S. Large Cap	4.3%	4.3%
Income		
High Income	2.7%	2.7%
U.S. Corporate Bond	2.4%	2.4%
Focus		
High Income Focus 10	4.5%	4.5%
Blue Chip Focus 10	1.2%	1.2%
Growth Focus 10	1.1%	1.1%
Emerging Healthcare Focus 10	2.2%	2.2%

Interest Rates			
Fed Fund	4.33 %	**5-Year**	3.58%
3-Month	4.71%	**10-Year**	3.49%
6-Month	4.79%	**30-Year**	3.62%
2-Year	4.17%		

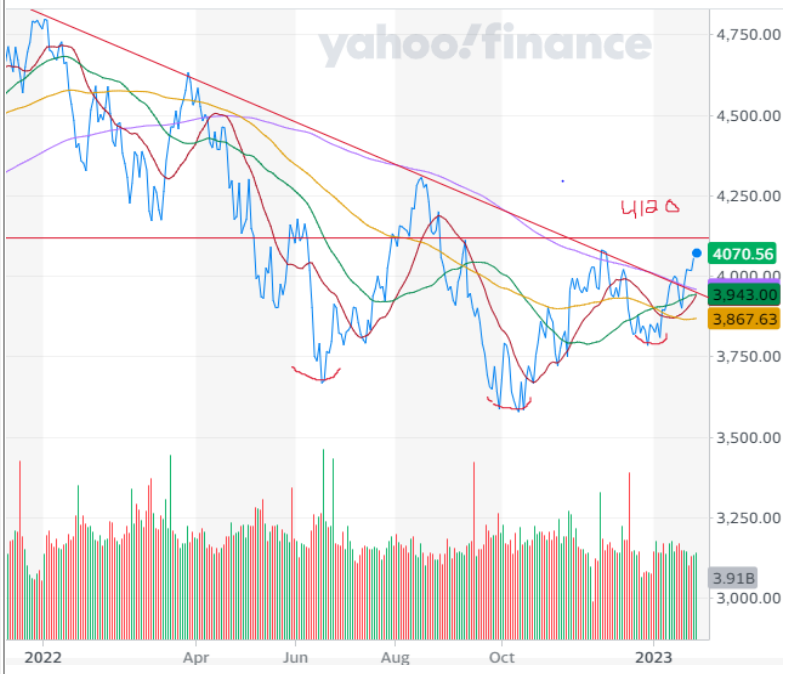
Source: Bloomberg.com

Economic Events This Week			
Date	**Report**	**Forecast**	**Previous**
Jan-31	January Consumer Confidence	108.0	108.3
Feb-1	December JOLTS Job Openings	10,300,000	10,458,000

we discussed last week. Around 4120 on the S&P 500 is where the resistance seems significant. **See Chart Below**.

Inflation has peaked which does not really mean a lot, what is important is the intermediate trend. This is the focus of the Fed, which makes Wednesday announcement very important for the market.

S&P 500 Index



PVG Strategies: **As you may know well, PVG had a great year last year protecting our portfolios**. We have been experiencing some odd volatility like last week with the MSFT report pulling down the market by -1.6% on Wednesday morning which tripped our defensive signal, however the market recovered later in the day reversing our negative indictor. We have some market exposure now, and ***if*** the market stays above the 200-day we plan to ease back into a fully invested position.

We bought Tesla several weeks ago very opportunistically but sold it prior to the earnings report as we thought the margins were going to be very weak (they were), and the stock would retrace. We did not anticipate the revenues would immediately be better from the -20% price cut. **A little disturbing trend in the quarter was a $2.9 billion improvement in revenue versus the third quarter yet the cash from operations was -1.8 billion less!!! That is a $4.7 billion swing!!!** But earnings were higher. Without a good explanation, this lack of cash supporting the earnings is concerning. Makes you wonder about their revenue recognition policy versus cash collection. We are surprised it was not addressed on their call, but Musk is a master at keeping the focus on the positives.

Feb-1	December Construction Spending	-0.10%	0.20%
Feb-2	Q4 Productivity	1.8%	0.80%
Feb-2	December Factory Orders	1.5%	-1.8%
Feb-3	January Nonfarm Payrolls	185,000	223,000
Feb-3	January Unemployment Rate	3.6%	3.5%

Source: Briefing.com

Economic Events Last Week	
Jan-23	Major economic indicator keeps forecasting recession
Jan-24	GDP shows U.S. economy grew 2.9% at the end of 2022
Jan-27	Consumers spending falls at the end of 2022, not a good sign for U.S. economy
Jan-27	U.S. consumer sentiment strengthens January reading
Jan-27	U.S. pending home sales rise 2.5% in December as Realtors say housing market is in recovery mode

Employment Report on Friday: We have added up nearly 70,000 layoffs by technology companies. The expectation on Friday is for 185,000 jobs versus 223,000 in December. Remember employment is a lagging economic indicator, businesses cut after the economy begins to weaken.

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