<u>The Big Picture</u>

Market dynamics have changed markedly over the last 10 days. Rising interest rates are beginning to matter. The most speculative spaces of the market have turned from euphoria to concern in a short space of time – bitcoin being a prime example.

Massive quantitative easing (money printing) has resulted in bloated asset prices primarily in the most liquid areas of the financial markets. Specifically, the upward move in the U.S. stock market has been strong, steady and (artificially) induced. In such an environment there is an excess of leverage and exposure which needs to be unwound. As volatility increases, investors will want to de-risk their portfolios in the coming weeks and months.

After an extended run in asset prices, inflection points occur and the trend changes. Many observers think of it as an event – in reality it is a ***process*** which takes some time. The narrative today by the bulls is to "buy the dips" – so expect sudden rises followed by sudden falls as de-risking continues. Eventually the downtrend to U.S. equity prices will run its course. My prior messages have been to "be very careful" of U.S. equity prices. That message is still valid. Please note the chart below. I think it is an extremely useful guide which shows where we are and where we are likely to go. . . The corrective process will continue.

PS) – Here are recent excerpts from the Fed - Not bullish!!

*New York Fed president Bill Dudley called the market drop “small potatoes” – not an influence on his growth outlook or policy - CNBC

*Dallas Fed President Robert Kaplan sees current market gyrations as “healthy” corrections from high valuations and does not expect repercussions on the economy - CNBC