



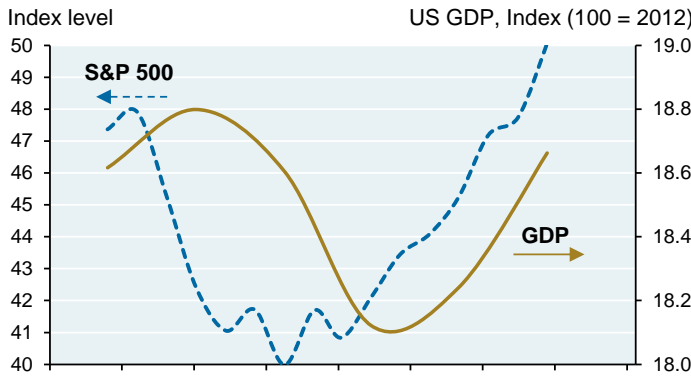
Topics: Hurricanes and a eulogy for growth stocks

JP Morgan CEO Jamie Dimon stated last week that he expects a “hurricane” resulting from the end of the largest fiscal and monetary experiment in history, and from the ongoing impact of Russia’s invasion of Ukraine on food and energy prices. There are four brief points I would like to make.

[1] Jamie is one of the most candid and straight-talking CEOs I have seen in my lifetime, particularly in financial services (1980’s JP Morgan CEO Lew Preston who many of us worked for did some of the same). Whether it’s the economy, regulatory costs and benefits, inner city development and job training, tax-funded infrastructure and education programs, energy myths and realities, incarceration and “second-chance” hiring or other topics addressed in the annual shareholder letter, Jamie has always taken a clear stand. You may not always agree with him, but I wish more CEOs would do the same instead of seeking to avoid controversy and candor at every turn. As the CEO of the largest bank in the free world, he has a very informed view of the global economy and I’m always interested in what he has to say about it.

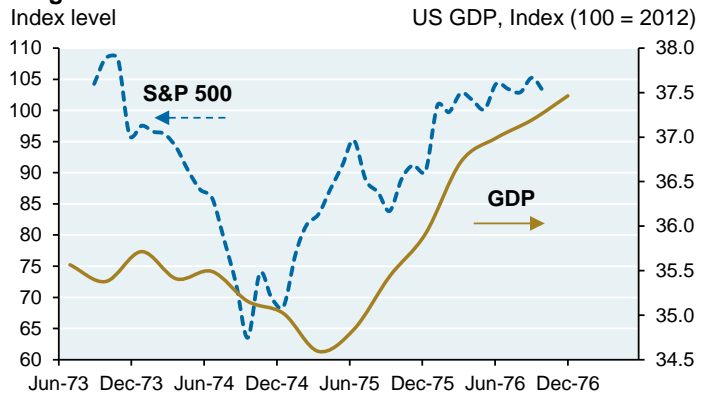
[2] Jamie’s hurricane comments (as I interpret them) are primarily focused on the view that currently elevated US employment, consumption and wages will not survive the unwinding of the Fed’s ill-advised negative rate experiment, the withdrawal of fiscal stimulus and rising food/energy costs. I agree with him. However, there’s an important timing issue for institutional and individual investors to consider. In every business cycle downturn, equity markets lead the economy by several months if not longer. In other words, equity markets anticipate the kind of economic hurricanes that Jamie expects. See the charts below on six major post-war business cycle downturns. In each one, equity markets declined, the economic hurricane worsened a few months later and in most cases **equity markets bottomed while the economy was still getting worse**. That’s what appears to be happening this time as well, at least so far.

Eisenhower recession



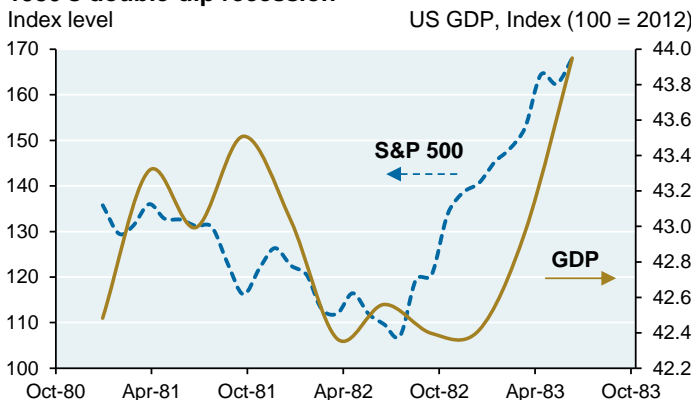
Source: BEA, Bloomberg, JPMAM. 2022.

Stagflation era of the 1970's



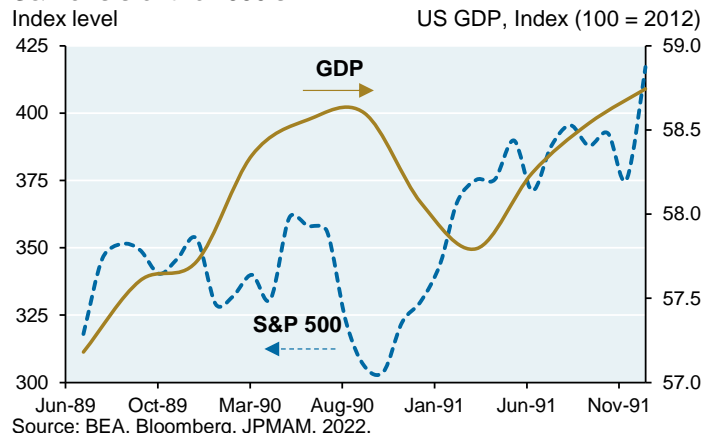
Source: BEA, Bloomberg, JPMAM. 2022.

1980's double-dip recession

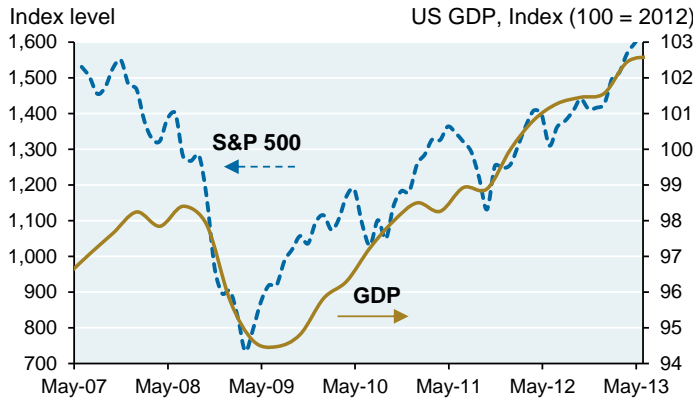


Source: BEA, Bloomberg, JPMAM. 2022.

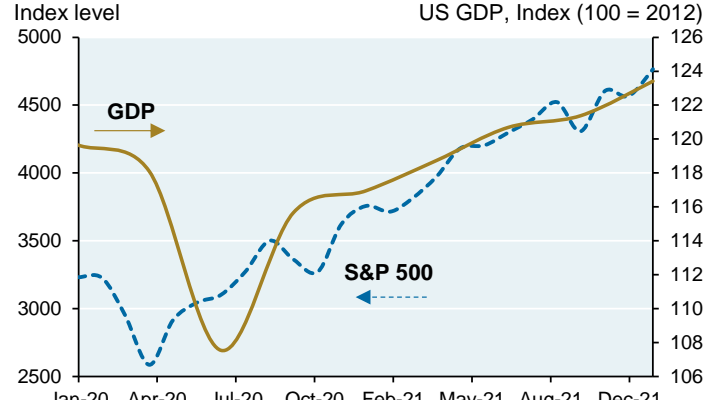
S&L crisis of the 1990's



Source: BEA, Bloomberg, JPMAM. 2022.

**Global financial crisis**

Source: BEA, Bloomberg, JPMAM. 2022.

Global COVID pandemic

Source: BEA, Bloomberg, JPMAM. 2022.

So far, US equity benchmarks (large cap, small cap, growth) are down 20%-30% from peak levels and the US has experienced just one quarter of negative GDP growth. Under the hood, equity markets have sustained more damage than that as we discuss next, since economic risks became more apparent after the surge in inflation and other aftershocks of Russia's invasion in February.

[3] Any investors taken aback by Jamie's hurricane remark must not be paying attention: a lot of hurricanes have *already* hit equity markets. The *average* stock in the NASDAQ, Russell 1000 Grown Index and the Russell 2000 Small Cap Index is down 40%-50% from peak levels¹, with many down much more than that. The fever dreams of many investors have already been completely decimated. As such, I have prepared the following eulogy. All figures represent declines from peak levels unless otherwise noted.

"Dearly beloved...

We have gathered here today to mark the brief life and precipitous demise of many growth stocks. Having slipped the surly bonds of Earth just last year, they have now come asunder. Let us pray:

- hydrogen and other renewable energy companies (-50%)
- millennial oriented companies like SNAP which traded at 37x sales last year and which now trade at 5x sales²
- Chinese internet stocks (-75%) whose decline now matches the NASDAQ decline from 2000 to 2002
- SPAC IPOs, an ecosystem of adversely selected detritus³ whose average post-merger performance trails the Russell 2000 by 29%, an index which itself has declined by 30% from peak levels
- the brave new world assessments of the ARK innovation ETF (-70%)
- the "pop culture disruption" VPOP ETF (-60%) and the "meme stock" ETF (-60%), both of whose names tempted fate and released the furies
- biotech and genomics (-55%) which now trade at the lowest valuation relative to projected return on equity of all industries we monitor
- and of course, crypto and its associated flotsam and jetsam (crypto prices -65%, crypto miners -80%, crypto lenders -65% and crypto broker-dealers -80%)

Having fallen far short of everlasting life, may their souls rest in peace."

¹ "How attractive is equity valuation?", JP Morgan Global Markets Strategy, May 27, 2022

² As I understand it, Apple's new privacy policy effectively allows people to avoid being tracked, which reduces the value of advertising on SNAP and other similar platforms

³ See "Hydraulic Spacking", Eye on the Market, February 8, 2021 which I wrote at the SPAC market peak



[4] **Despite point #3, I do not believe that equity markets have yet hit bottom for this cycle.** That was the theme of our webcast last week: I expect another leg down in equity markets, possibly this summer, as the ramifications of monetary and fiscal policy withdrawal become clearer and as corporate earnings and capital spending decline. We are witnessing the first hint of stagflation since the 1970's, which is not yet fully priced in. The biggest economic tension as things stand now: there are signs that core inflation may be cooling a little bit (e.g., Cleveland and Dallas monthly PCE measures), but tight supplies in oil and gas markets are one or two pieces of bad news away from another spike that would increase inflation and recession risks further.

The challenge: **selling now after the equity declines that have already taken place with the goal of buying back at lower levels might require close to perfect timing and a lot of market depth which might not be there at the time.** Generally, after eulogies like the one above are delivered, we're closer to the end of the market decline than the beginning. In any case, we will continue to monitor the PMI and other leading indicators which have been the best signals for investors to follow in prior cycles. See the webcast replay for more details.

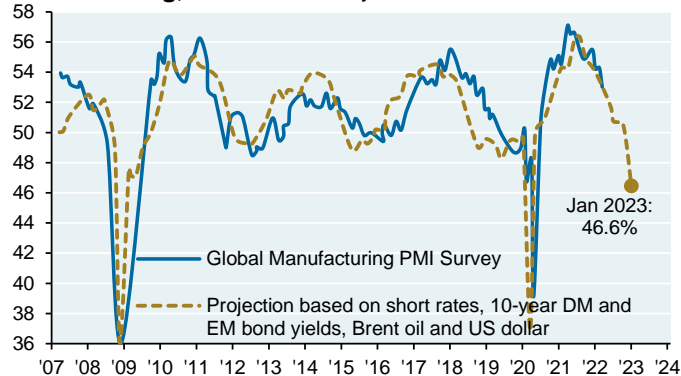
Webcast replay: https://event.webcasts.com/viewer/event.jsp?ei=1553010&tp_key=8763d7b93d

Webcast slides: [to be added](#)

Michael Cembalest

Exhibits: inflation still peaking while growth and profit indicators are heading down; energy prices

Leading indicators point to sharp drawdown in global manufacturing, Global PMI survey



Source: Piper Sandler, JPMAM. April 18, 2022.

Evidence of a wage-price spiral in low wage industries
%, y/y change



Source: BLS, BEA, JPMAM. April 2022.

US oil prices

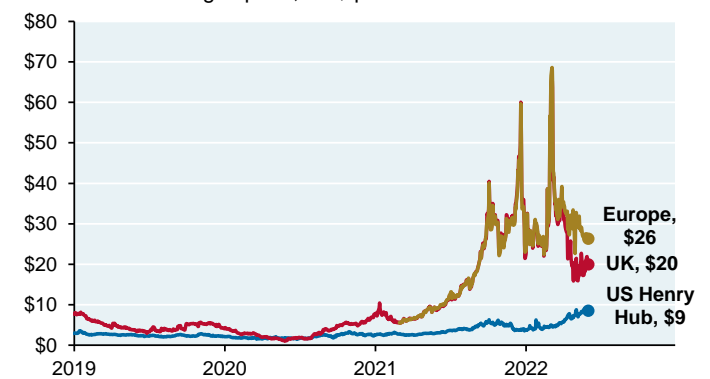
Wholesale oil price, US\$ per barrel



Source: Bloomberg, JPMAM. June 3, 2022.

The US-Europe natural gas gap

Wholesale natural gas price, US\$ per MMBTU



Source: Bloomberg, JPMAM. June 3, 2022.

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