

12/06/2022

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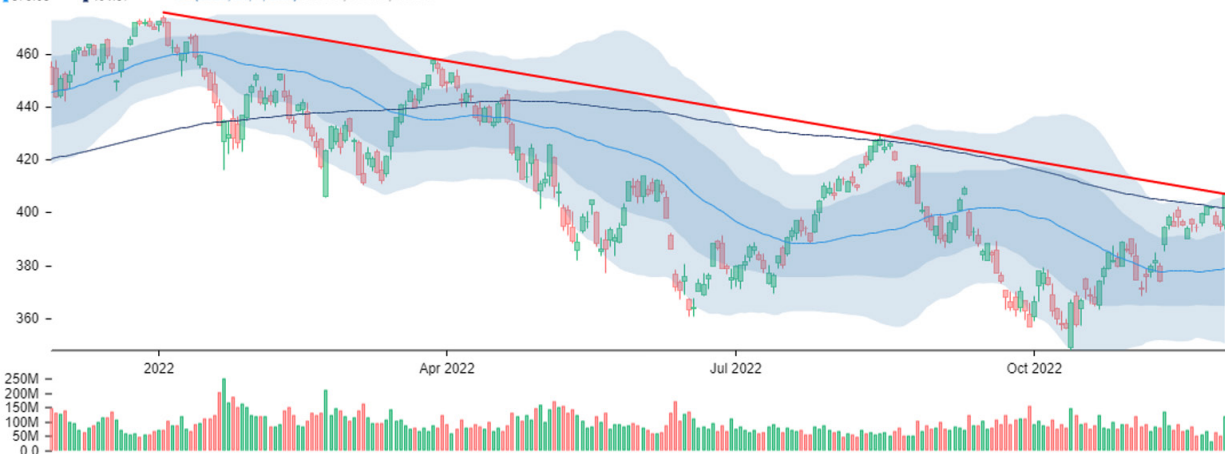
Dear Reader,

We hope you and your families had a great Thanksgiving! Just as the leftovers were starting to spoil, investors enjoyed a late treat on the afternoon of November 30. Following remarks by Federal Reserve Chair Jay Powell, the S&P 500 gained roughly 4% in afternoon trading. As a result equities posted a return of +5.6% for the month of November. This marks the second straight month of gains. Notably, the index finally broke through its 200-day moving average on the last day of the month. Most technicians consider this a near-term bullish signal for stocks.

While economic indicators remain mixed, we believe investors are now increasingly focused on corporate earnings. Throughout the year, markets in the aggregate have exhibited significant volatility primarily driven by macro “headline” events such as inflation readings, Federal Reserve commentary, and the war in Europe. While there will always be macro factors influencing market behavior, we believe investors are now becoming somewhat fatigued constantly reacting to the news cycle. From our perspective, this suggests investors will be increasingly focused on analyzing the

### S&P 500 ETF Trust (SPDR) (\$SPY) Historical Stock Chart

Date: 2022-11-30 O: 395.49 H: 407.68 L: 393.48 C: 407.68 Vol: 120.8M  
SMA (50) 379.08 SMA (200) 401.97 BB(close, 50, 2, sma): 407.50, 379.08, 350.66  
BB(close, 50, 1, sma): 393.29, 379.08, 364.87



Source: Bespoke Investment Group

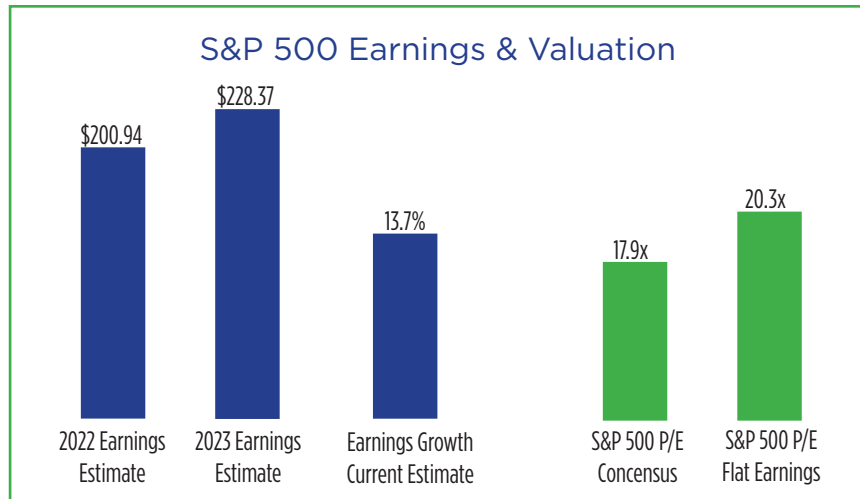


specific impact of recent fundamental developments such as higher interest rates or potential waning consumer demand on individual companies. As a result we believe the best investments will be businesses with no near-term debt maturing, strong pricing power, and a low operating expense burden.

They are significantly better positioned to weather higher borrowing costs and reduced consumer demand developing across the broader economy.

While corporate earnings estimates for next year continue to trend lower, investors are trying to assess where they might ultimately settle given the many changes which occurred in 2022. The consensus estimate for 2023 S&P 500 earnings implies roughly 14% earnings growth compared to this year. We believe this estimate is too optimistic. That said, while estimates might continue to trend lower, this may already be reflected in current market prices. If earnings remain flat with no growth in 2023, at current levels the S&P would be trading at a valuation of roughly 20x. While this is elevated relative to the historical average, is not unreasonable if investors believe significant earnings growth is likely to resume over the near term following this reset.

In short, while seasonal factors call for bulls to be optimistic into year-end, valuations will ultimately need to be supported by the underlying financial health and cash flow



generation of American businesses. 2022 has given the market a lot to digest and, while stocks are well off the lows in October, with the exception of commodities there has been broad-based pain across all asset classes.. Going forward, the market will be looking for indications regarding the growth outlook across the private sector and adjust valuations accordingly.

As always, we thank you for your patronage and encourage you to call us with any questions or concerns.

Sincerely,

  
CJ Brott

  
Karen Burns

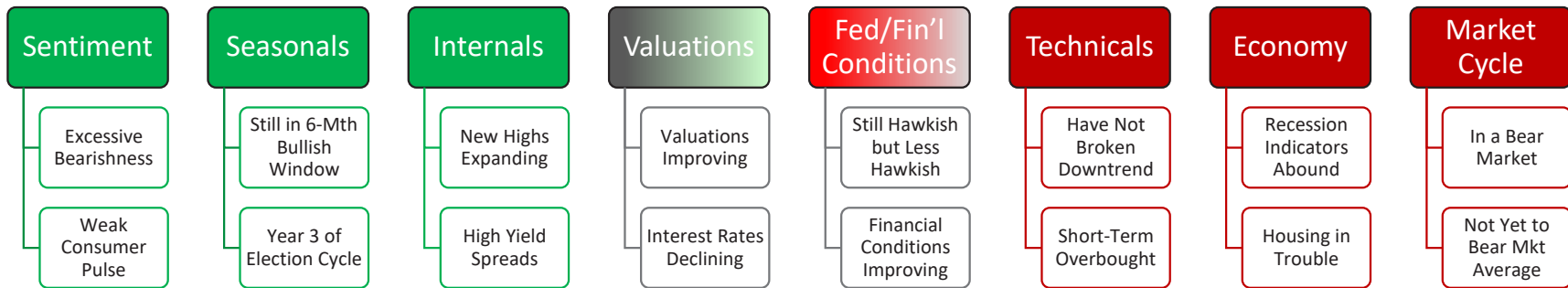
  
Andrew Kerai



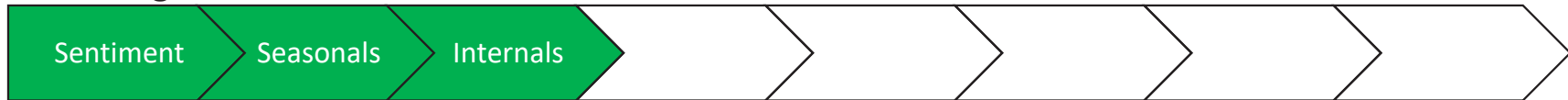
BESPOKE Investment Group

# Equity Risk Gauge

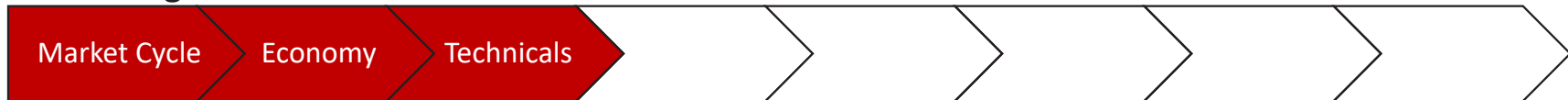
December 2022



## Bull Gauge



## Bear Gauge



### Tailwinds

- Strong Seasonal Period
- Investors Overly Bearish
- Internals Strengthening
- Less Hawkish Fed

### Headwinds

- Recession Indicators Abound
- Downtrend Still Not Broken
- Short-Term Overbought