Cornerstone Macro

Economics, Policy, Strategy & Technicals

Technical Analysis

MONEY IN MOTION – FEBRUARY 28, 2020

THANK GOODNESS

Whatever lies ahead, thank goodness.

Thank goodness there's some normalcy to the equity market at last.

The tick, tick, tick, higher, every day higher, is not- was not - normal.

Equity investing had taken on the semblance of annuity investing- a form of insurance or investment entitling the investor to a series of annual sums. A bizarre, not true, not real environment that ultimately had to come to an end.

And an abrupt ending it has been... -12.26% in six trading sessions, with prospective further losses to come.

Here and now, one and all (the authors of these pages included) must figure out whether it's onward and upward, or downward, from here.

Our inclination is to resist the temptation to buy. Sure, there will be bounces (and we ourselves expect a real good bounce when we hit 2948.46 (today) and fill the unfilled gap at that level from October 11th. But that's tactical stuff, nothing more.

Structurally, something has changed, materially. Upside, by our work, is capped, and further downside, while unknown, might well be meaningful.

As such, we're of the view that any prospective recovery in stocks in the days/weeks ahead, should be used to lighten equity exposure (for those who are long only) and should be used to re-short stocks that one covered yesterday- or will cover today - after being paid so well this week (for those engaged in short selling).

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Please refer to the Appendix located at the end of this report for Analyst Certification and Disclosures.

ANALOGY?

In life, it's always tempting (and appealing and satisfying and reassuring) to find analogs.

To that end, a very certain temptation at present, is to compare the stock market's surge and collapse of the past 5 months, to the surge and collapse of late 2017-early 2018.

Consider the data tables and charts on the pages that follow:

THE LAST TIME THIS HAPPENED

An analog? Regardless of whether it is, or isn't, we're always mindful of something our grandfather made clear: *"Analogy is a weak form or argument".*

The 20-week 'surge and collapse' of Aug 2017 - Jan 2018

The Surge		The Collapse	
Duration of the surge	Magnitude of the surge	Duration of the collapse	Magnitude of the collapse
103 sessions	+18.31%	10 sessions	-11.84%

The 20-week 'surge and collapse' of Oct 2019 – Feb 2020

The Surge		The Collapse	
Duration of the surge	Magnitude of the surge	Duration of the collapse	Magnitude of the collapse
94 sessions	+18.82%	6 sessions (thus far)	-12.26%

Source: Cornerstone Macro, FactSet, Bloomberg

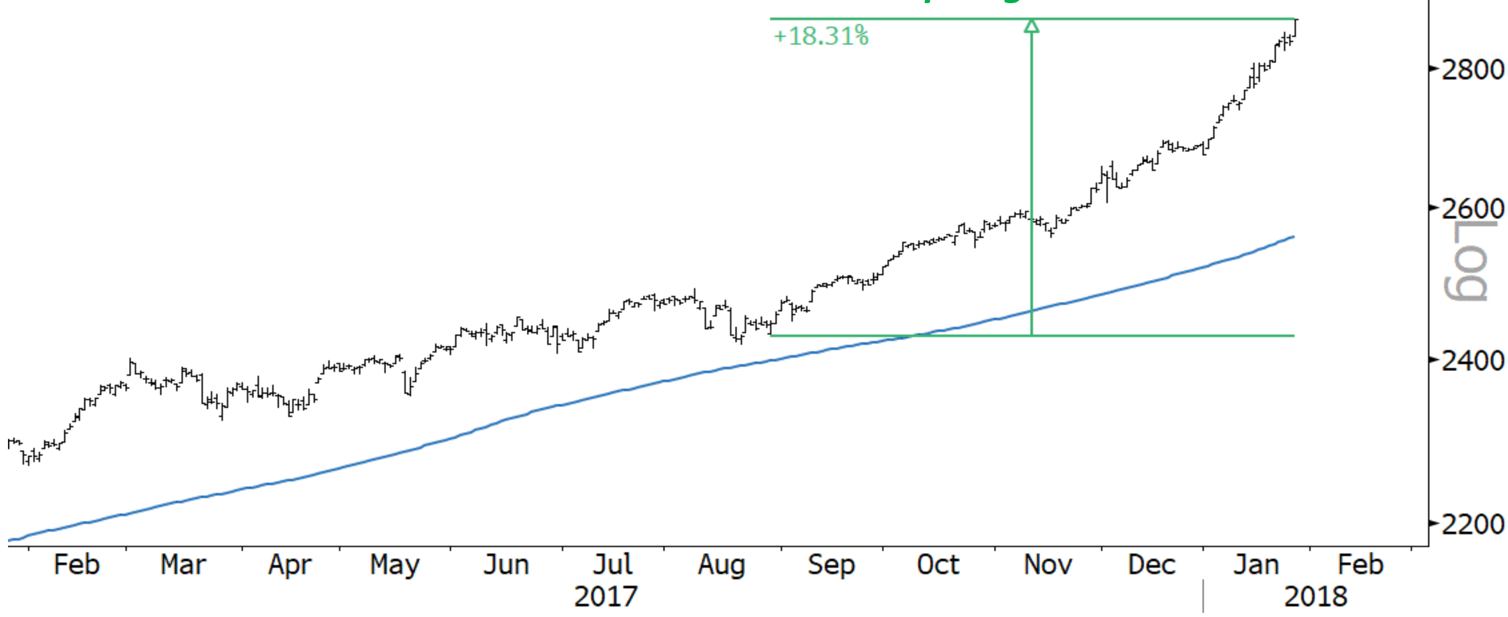
THE LAST TIME THIS HAPPENED

S&P 500 Index

with its 150-day moving average

The 20-week 'surge and collapse' of Aug 2017 - Jan 2018

THE SURGE – BEFORE the plunge



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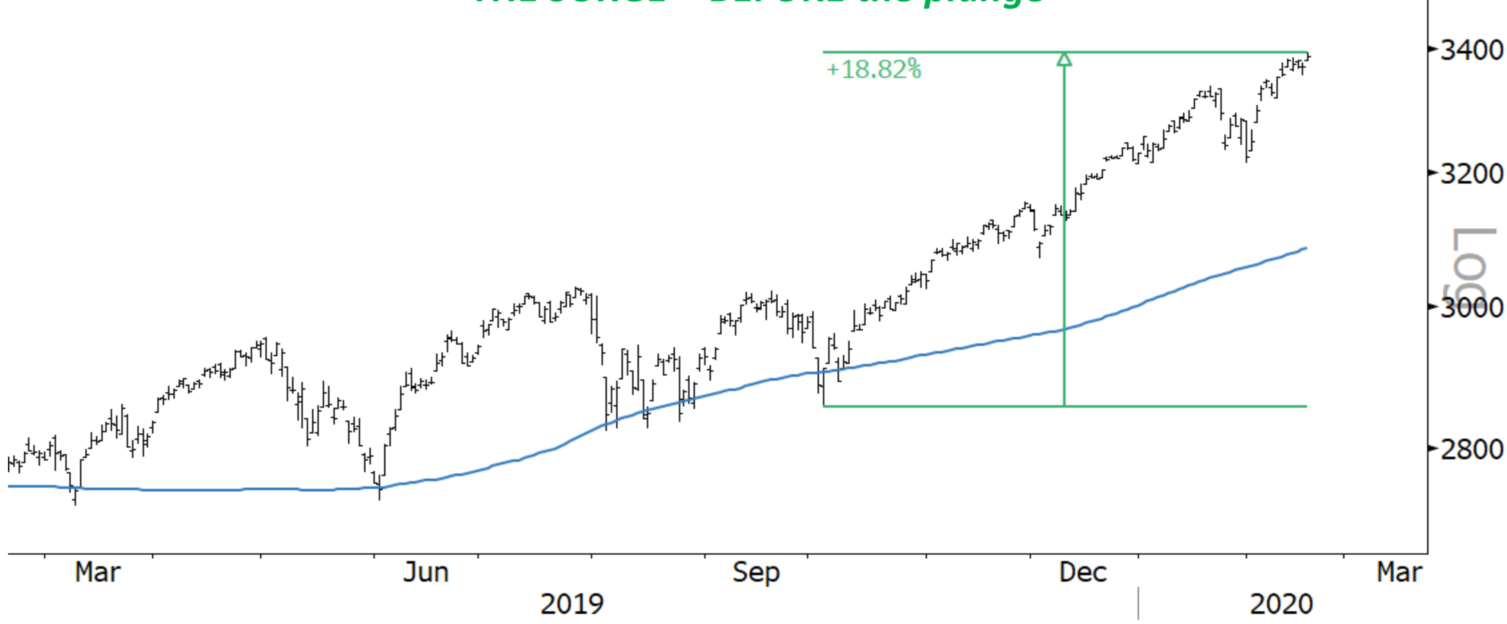
THE SURGE – BEFORE the plunge



Source: Cornerstone Macro, FactSet, Bloomberg

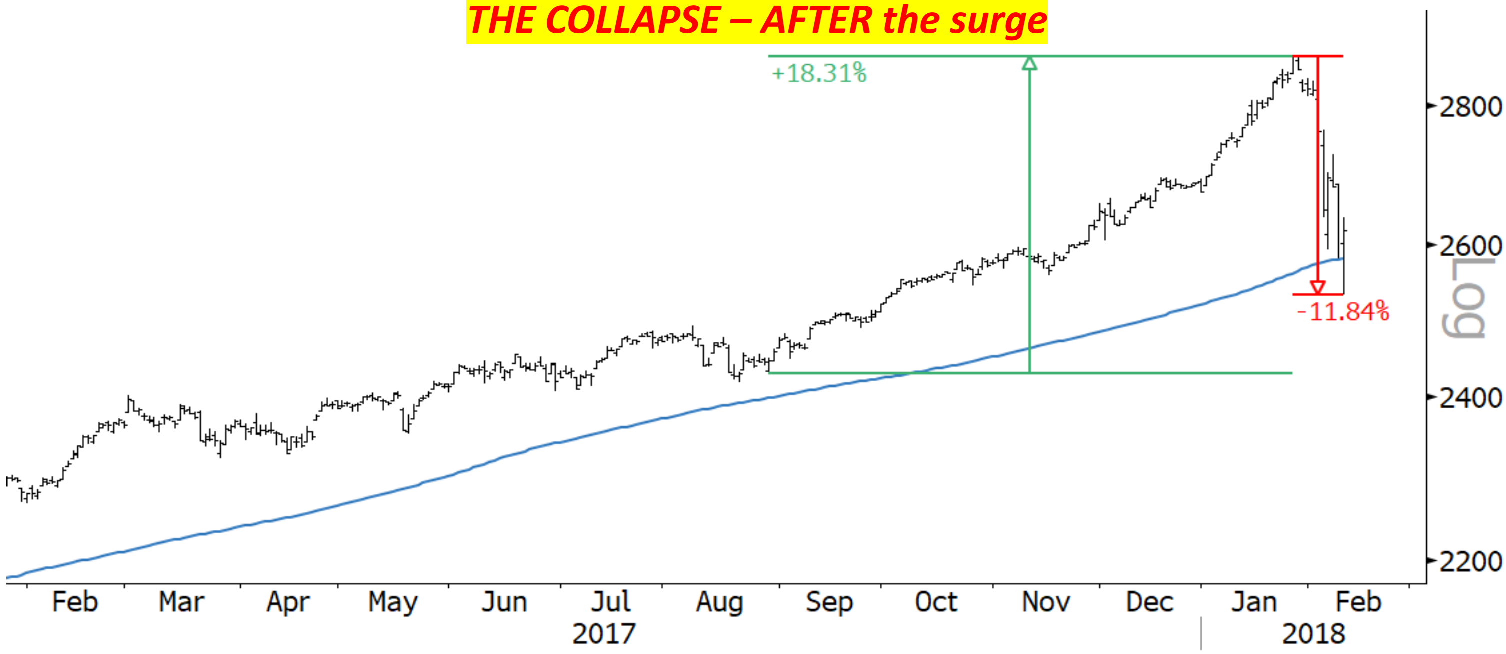
THE LAST TIME THIS HAPPENED

S&P 500 Index

with its 150-day moving average

The 20-week 'surge and collapse' of Aug 2017 - Jan 2018

THE COLLAPSE – AFTER the surge



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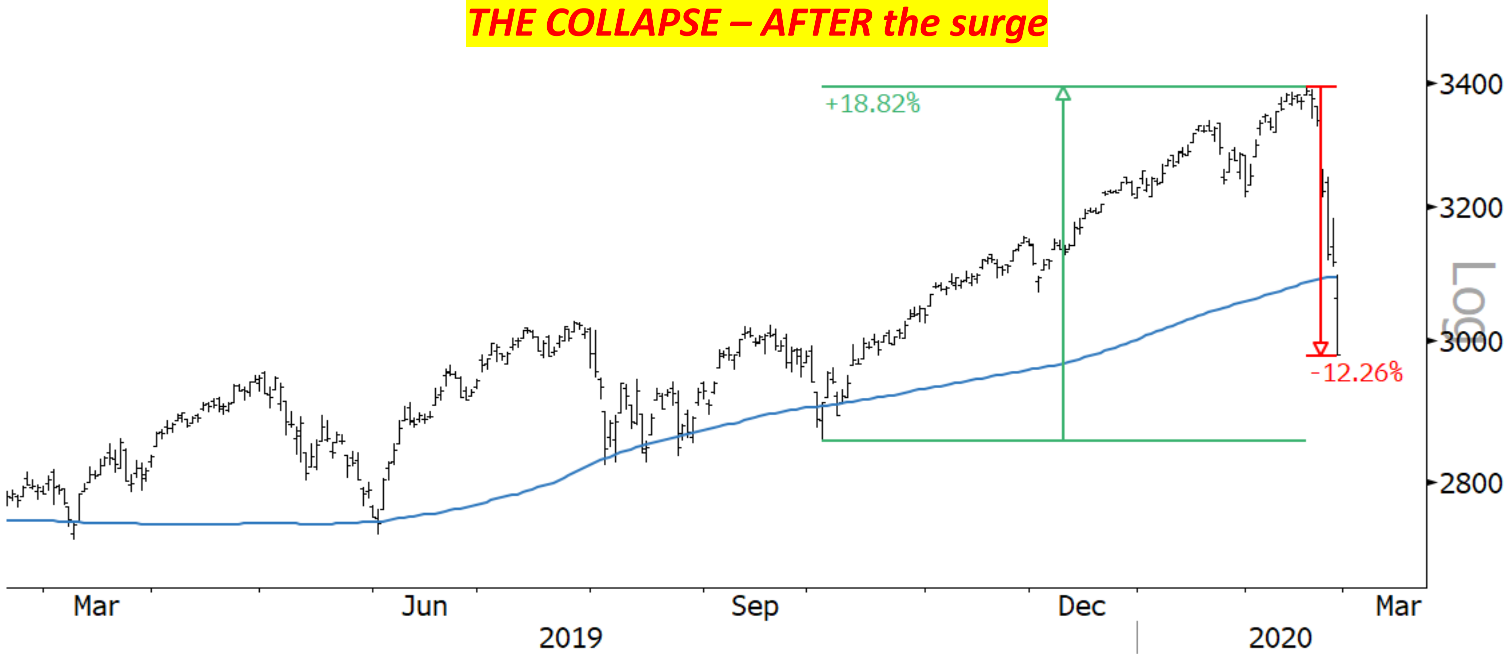
THE COLLAPSE – AFTER the surge



Source: Cornerstone Macro, FactSet, Bloomberg

ANALOGY?

And in many ways, the surge and collapse we've just witnessed *IS* analogous to the surge and collapse of Aug 2017 – Feb 2018 .

Certainly the "setup" now is very similar to the setup in 2018 before the collapse then. To wit:

	January 26 2018 Peak	February 19 2020 Peak
NASDAQ Index trading farther above its 150-day moving average in more than 10 years	✓	✓
S&P 500 Index forward multiple highest in more than 15 years	✓	✓
Prominent Sell Side Bears, capitulating	✓	✓
Extreme concentration of capital in marquee Tech stocks	✓	✓
Record low VIX	✓	✓

Source: Cornerstone Macro, FactSet, Bloomberg

ANALOGY?

Regardless of how this period compares to the events of late 2017/early 2018, what matters here and now are the unfilled gaps in the chart of the S&P 500 (see next page).

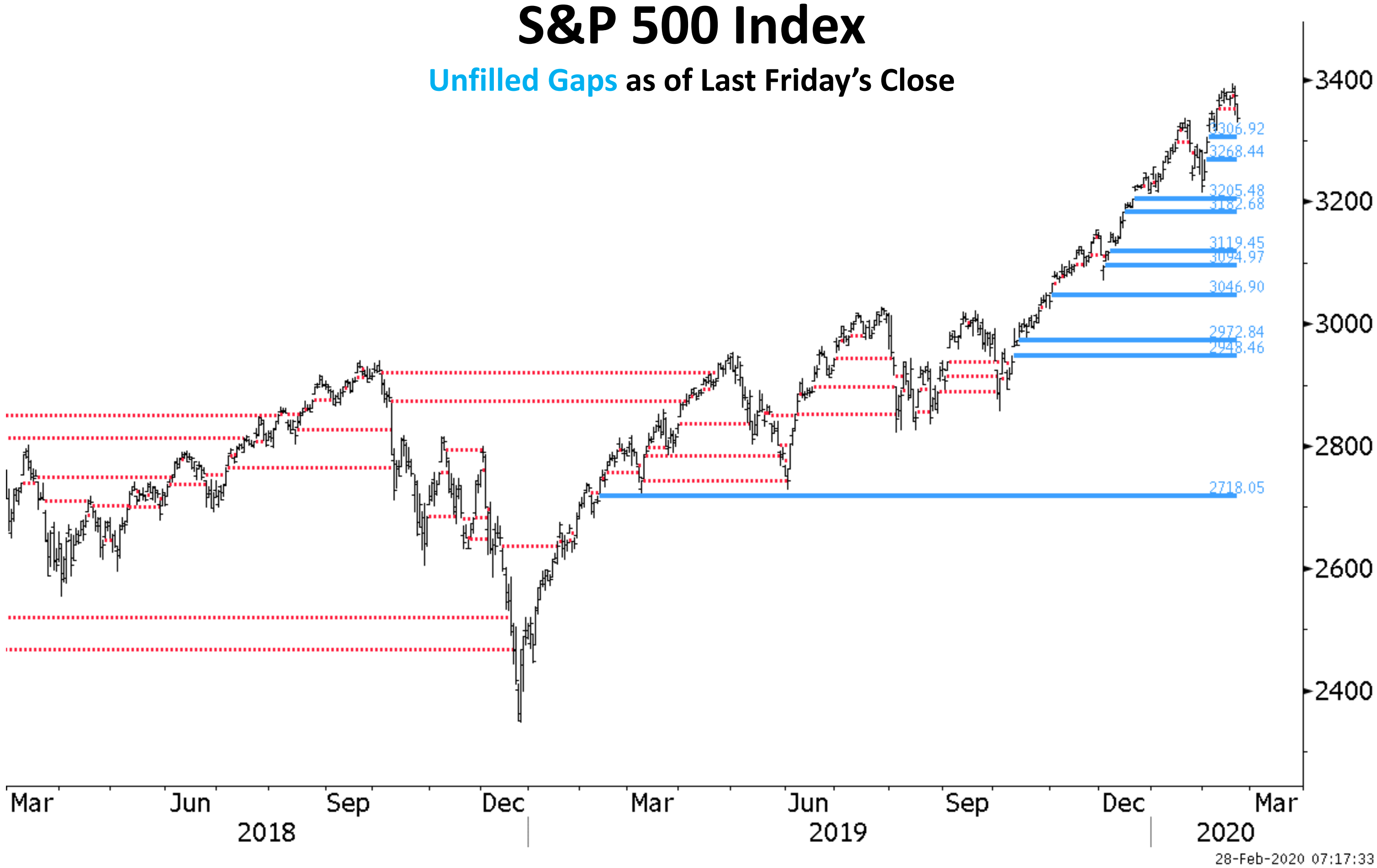
MIND THE GAP

There are two (2) up gaps that remain unfilled. Presumptively, the 2948.46 gap of October 11th will be filled today:

Date of Gap	Level to Fill Gap	% Decline from the All-Time High	Gap Filled?
5-Feb-2020	3306.92	-2.55%	YES
4-Feb-2020	3268.44	-3.69%	YES
20-Dec-2019	3205.48	-5.54%	YES
16-Dec-2019	3182.68	-6.21%	YES
6-Dec-2019	3119.45	-8.08%	YES
4-Dec-2019	3094.97	-8.80%	YES
1-Nov-2019	3046.90	-10.21%	YES
15-Oct-2019	2972.84	-12.40%	YES
11-Oct-2019	2948.46	-13.11%	NO
12-Feb-2019	2718.05	-19.90%	NO

S&P 500 Index

Unfilled Gaps as of Last Friday's Close



Source: Cornerstone Macro, FactSet, Bloomberg

TODAY'S MESSAGE

A key point we would hope to convey is that while it's always interesting and important to try and determine prospective downside for the market, and especially so after an aggressive, 6-session selloff of 12%, the more important issue to grapple with, at any time, and especially at present, is whether upside remains, and, in the event of a bounce, whether the market is able to recoup the ground it lost and go on to make new highs, any time soon. All of which is to say, more important than downside (investing always has downside) is whether there's upside or whether upside is capped, for a good long while, and, if indeed that is the case, that upside is capped, whether it is right to be reducing exposure to equities, generally.

We think it is reasonable to state the following: the highs of Wednesday, February 19th will stand for months and months and months (and prospectively much longer), as important highs, and as such, any prospective rebound in the days/weeks ahead, should be used to reduce exposure to individual stocks and equities, generally.

Source: Cornerstone Macro, FactSet, Bloomberg

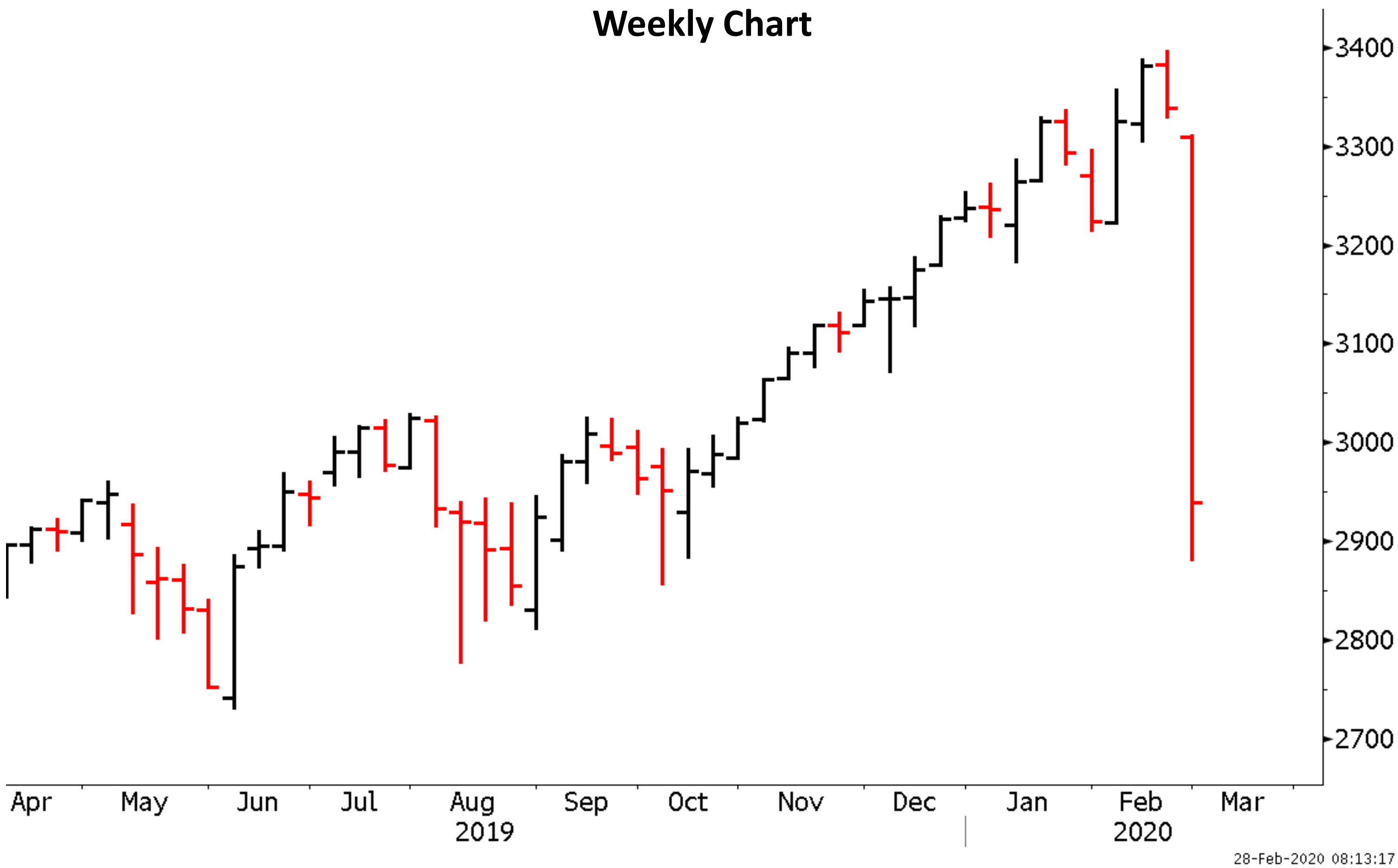
A BAD WEEK

A bad week... a prominent, red weekly bar.

Buyer beware... (be quick, when trading for bounces- take profits, scalp, duck and weave).

S&P 500 Futures

Weekly Chart



Source: Cornerstone Macro, FactSet, Bloomberg

APPENDIX

Regulation Analyst Certification

We, Carter Braxton Worth & Jillian Tarlowe, hereby certify the views expressed in this report accurately reflect our personal views about the subject security(ies) or issuer(s). We further certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by us in this report.

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Definition of Ratings Used in this Report.

BUY*: The analyst expects the stock price to rise in the next 24 hours.*
"PAIR OF 2'S": *The analyst has neither a bullish/bearish opinion on the stock in the next 24 hours.*
SELL: *The analyst expects the stock price to fall in the next 24 hours.*
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This report should be considered both the initiating and terminating report with regard to the subject company(ies).

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APPENDIX (CONT'D)

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