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Bulltick Research and Strategy

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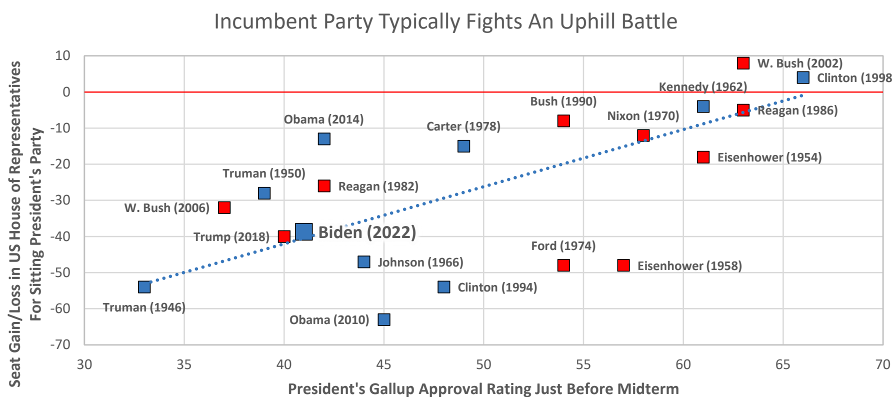
Market Strategy:

Next Up: Mid-Terms and US CPI

Mid-terms elections have historically been unkind to the party prevailing in power and we expect this time to be no different. In today's mid-term elections in the US, the Republicans are very likely to gain seats in both houses of Congress. This result is widely expected and in our view already discounted into market sentiment. Divided power in Washington entails gridlock, which in some cases is not a bad thing and in today's environment, could deliver a nice dose of stability. The 2024 presidential election will, in our view, carry a heftier weight in terms of economic impact and policymaking.

Inflation out this week likely to decelerate only slightly to 8.0%. Listen to our inflation and FOMC analysis (11/2/22) here:



Sources: Bulltick, Gallup

We expect this week's CPI print for October to come at 8.0%. The good news is that sticky inflation is trending down as per Atlanta Fed.

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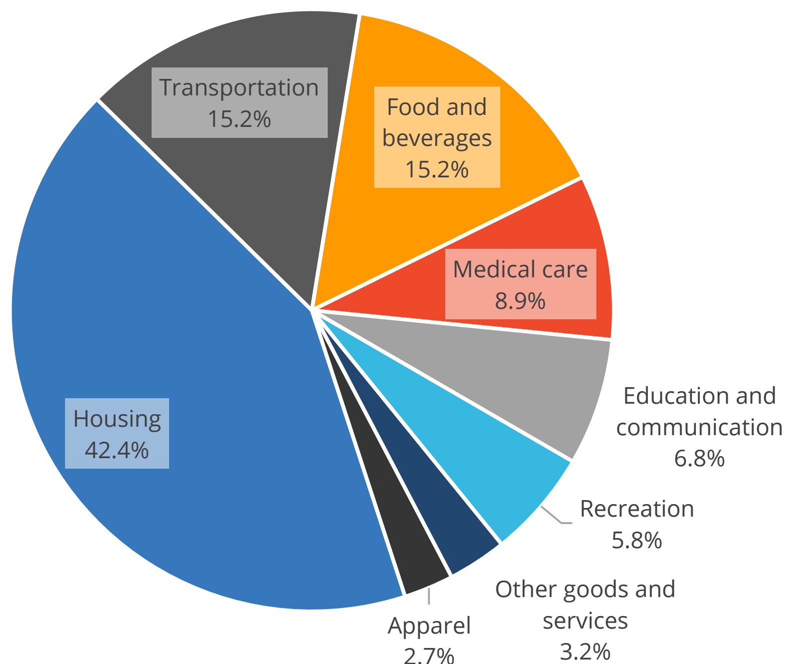
Shelter costs, which have been a big contributor to inflation (see chart on page 2), generally lag housing price trends by about six months. Expect inflation numbers to collapse next year as the unemployment rate rises, consumption and investment slow and the Fed remains higher for longer. A few things we note on inflation:

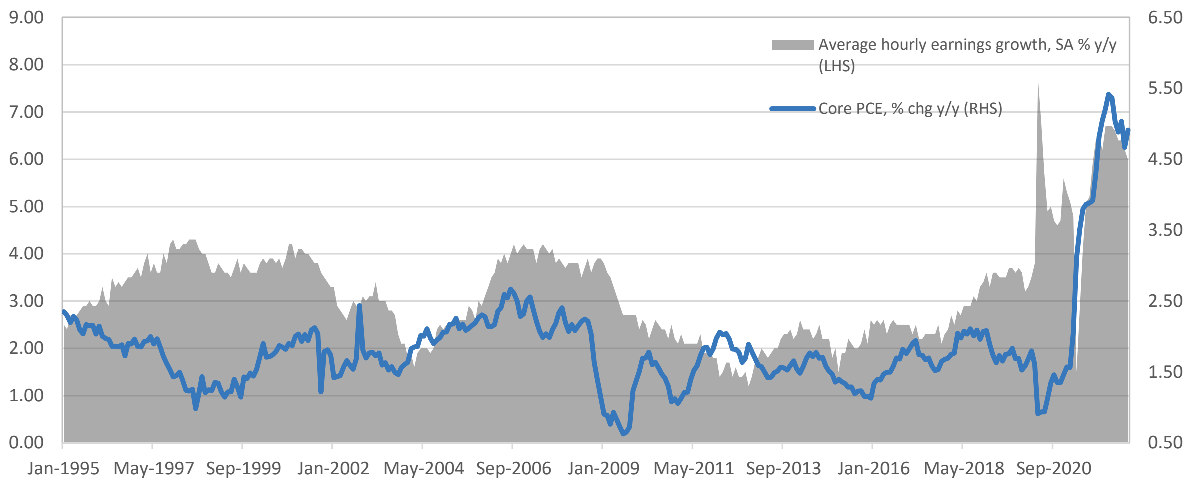
1) It will come down as the economy rolls over. How fast is the question.
2) Demand side is the sticky part. The labor market remains too hot and wage growth and job openings inconsistent with 2% inflation. This has to change.
3) Fed is going to hike to at least 5% in our view.
4) Rents (shelter) have been a key impulse and will roll over with the usual ~6 months delay as housing prices plummet across the country.
5) Unemployment rate has to move higher, towards what we estimate is the NAIRU, some 4.9%. This will help the demand side of inflation and curb the wage-price spiral.



Sources: Bulltick, Bloomberg, Fed Reserver

In one of our earlier pieces this year, "Stagflation Now, Recession Next", we said, "The specter of recession is looming large in the minds of policymakers, investors, and households, as inflation has eroded the real purchasing power of households...Demand destruction is what it will take to get inflation down from 9.1% as of June 2022 to the Fed's 2% target." Since then, the Fed has hiked 300bps from 0.75bps in June to 3.75%. **Our bet is that they go at least to 5%, which would be a total of at least 475bps from the 0.25 lower bound.**

The Fed has to hike more, taking the economy into contraction in order to stamp out the inflation for which it is in part responsible (by overextending bond purchases and low rates to support a labor market that was already at full employment.) The labor market overheated. Now economic contraction is the only thing to stamp out inflation.



Sources: Bulltick, Bloomberg

We said then and maintain now that there is a high chance of recession in 2023 and that the Fed could later be forced to either cut rates and/or chooses to resume QE. A resumption of QE brings risks given that its use has been confined to Goldilocks economic environment not a stagflationary one. With headline CPI this year topping 9.0% y/y at its highest, these were rates not seen since 1981, meaning we are living within an inflation climate that before now, was out of living memory for a large number of investors, both institutional and retail.

About us & contacts

About-Bulltick

Bulltick-offers-a-variety-of-diversified-financial-products-and-services-with-local-know-how-and-international-expertise.-Its-client-base-is-comprised-of-established-financial-institutions-and-qualified-investors-in-Latin-America,-as-well-as-of-the-international-financial-community-with-investment-interests-in-the-region.-Bulltick-is-headquartered-in-the-United-States,-with-offices-in-Miami,-Houston,-and-Bogota.

Our-Research-Resources

With-Bulltick's-vast-Latin-American-in-roads,-resources-and-networks,-our-research-team-is-strategically-positioned-to-provide-value-added-research-on-local-and-regional-companies,-markets-and-industries.-With-analysts-in-the-region,-along-with-management-road-shows,-we-are-able-to-track-the-pulse-of-the-leading-markets-in-Latin-America.-We-make-it-our-business-to-know-the-business-of-the-region,-so-we-can-help-our-clients-manage-volatility-with-in-depth-coverage-of-macroeconomic-leading-sectors-and-market-moving-events.

ANALYST-CERTIFICATION

The-analyst(s)-primarily-responsible-for-the-preparation-of-this-report-hereby-certify-that-all-the-views-expressed-herein-accurately-reflect-their-personal-views-only.-The-analyst(s)-also-certify-that-no-part-of-their-compensation-was,-is,-or-will-be,-directly-or-indirectly,-related-to-the-specific-recommendations-or-views-expressed-in-this-report.

IMPORTANT-DISCLOSURES

Principal/Agency-Trading:
Bulltick-and-its-affiliated-entities,-employees,-officers,-and-directors-may-deal-on-a-principal-and/or-agency-basis-in-transactions-involving-currencies,-markets,-sectors-and/or-securities-referred-to-herein-(or-related-derivatives-or-other-instruments-related-thereto),-including-in-transactions-which-may-be-contrary-to-any-recommendations-contained-herein.
The-Firm's-Analysts-may-interact-with-sales-and-trading-personnel-in-the-ordinary-course-of-business.-Such-sales-and-trading-personnel-may-trade-and/or-have-proprietary-positions-in-the-securities-(or-in-related-derivatives)-that-are-the-subject-of-this-report,-and-the-Firm's-interest-may-conflict-with-the-interests-of-investors-in-those-instruments.

Analyst-Compensation:
The-costs-and-expenses-of-research,-including-the-compensation-of-the-analyst(s)-that-prepared-this-report,-are-paid-out-of-the-Firm's-total-revenues,-a-portion-of-which-are-generated-by-its-fixed-income-division.

Conflict-Management:
Fixed-income-personnel-report-to-the-head-of-fixed-Income-and-are-not-subject-to-the-direct-or-indirect-supervision-or-control-of-any-other-Firm-department-(or-members-of-such-department).

OTHER-DISCLAIMERS

Bulltick-and-its-subsidiaries,-affiliates,-shareholders,-directors,-officers,-employees,-and-licensors-("The-Bulltick-Parties")-will-not-be-liable-(individually,-jointly,-or-severally)-to-you-or-any-other-person-as-a-result-of-your-access,-reception,-or-use-of-the-information-contained-in-this-document-for-indirect,-consequential,-special,-incidental,-punitive,-or-exemplary-damages,-including,-without-limitation,-lost-profits,-lost-savings,-and-lost-revenues-(collectively,-the-"Excluded-Damages"),-whether-or-not-characterized-in-negligence,-tort,-contract,-or-other-theory-of-liability.-The-information-contained-in-this-document-has-been-obtained-from-sources-believed-to-be-reliable,-although-its-accuracy-and-completeness-cannot-be-guaranteed.-All-opinions,-projections-and-estimates-constitute-the-judgment-of-the-author-as-of-the-date-of-the-report-and-these,-plus-any-other-information-contained-herein,-are-subject-to-change-without-notice.-Prices-and-availability-of-financial-instruments-mentioned-are-also-subject-to-change-without-notice.

Bulltick-and-its-affiliated-companies-have-not-taken-any-steps-to-ensure-that-the-recommendations-referred-to-in-this-report-are-suitable-for-any-particular-investor.-The-Report-is-for-informational-purposes-only-and-is-not-intended-as-an-offer-or-solicitation-for-the-purchase-or-sale-of-any-financial-product.-Securities-and-financial-products-mentioned-in-the-report-are-subject-to-investment-risks,-including-the-possible-loss-of-the-principal-amount-invested.-The-financial-instruments-mentioned-in-this-document-may-not-be-eligible-for-sale-in-some-countries.-The-Report-is-not-to-be-construed-as-providing-investment-services-in-any-jurisdiction-where-the-provision-of-such-services-would-be-illegal.

Investing-in-non-US-securities-or-markets,-may-entail-additional-risks.-Securities-of-non-US-issuers-may-not-be-registered-with-and-may-not-be-subject-to-the-reporting-requirements-of-the-US-Securities-and-Exchange-Commission.-There-may-be-limited-information-available-on-foreign-securities-or-markets.-Foreign-companies-are-generally-not-subject-to-uniform-audit-and-reporting-standards,-practices,-and-requirements-comparable-to-those-in-the-US.-Investments-in-foreign-markets-may-be-less-liquid-and-their-prices-more-volatile-than-those-comparable-in-US.-In-addition,-exchange-rate-movements-may-have-an-adverse-effect-on-the-value-of-an-investment-in-a-foreign-market.

The-information-contained-in-the-report-is-privileged-and-confidential-and-intended-solely-for-the-recipients-who-have-been-specifically-authorized-to-receive-it-and-it-may-not-be-further-distributed.-Bulltick-and-its-affiliates-accept-no-liability-whatsoever-for-the-actions-of-third-parties.-Should-you-receive-this-message-by-error-you-are-hereby-notified-that-any-disclosure,-reproduction,-distribution,-or-use-of-this-message-is-strictly-prohibited.

The-Report-may-provide-the-addresses-of,-or-contain-hyperlinks-to,-websites,-except-to-the-extent-to-which-the-Report-refers-to-website-material-of-Bulltick,-the-Firm-takes-no-responsibility-for,-and-makes-no-representation-or-warranties-whatsoever-as-to,-the-data-and-information-contained-therein.-Such-address-or-hyperlink-is-provided-solely-for-your-convenience-and-information-and-the-content-of-the-linked-site-does-not-in-any-way-form-part-of-this-document.-Accessing-such-website-or-following-such-link-through-the-Report-or-

the-website-of-Bulltick-shall-be-at-your-own-risk-and-Bulltick-shall-have-no-liability-arising-out-of,-or-in-connection-with,-and-such-reference-website.