



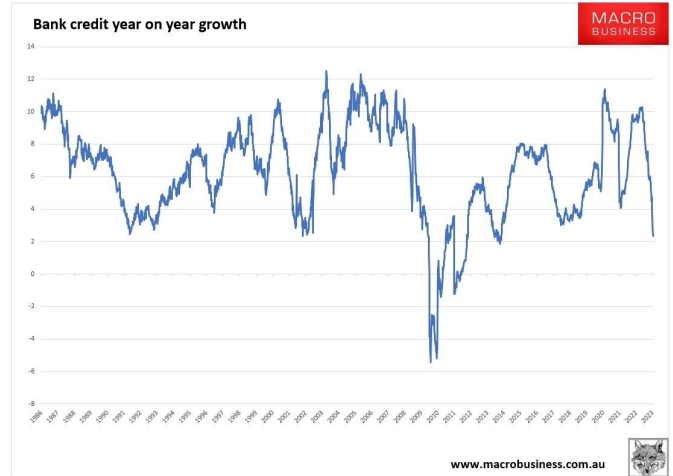
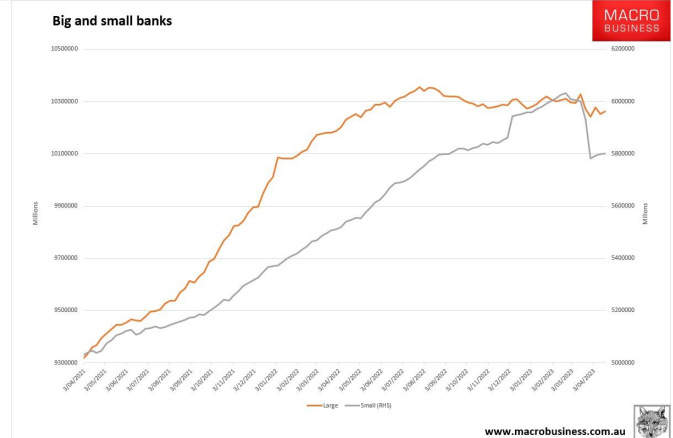
**THE END OF CYCLE SHOCK
IS HERE!**

Agenda: The Fed has finally broken something

- Accelerating small bank credit crunch
- Past Bear Stearns headed for Lehman
- Fed done but will now wait for recession to cut
- Second round of banking crisis
- Europe and China next
- Reporting season - shoe has yet to drop for analyst forecasts
- The Australian problem

We are go for credit crunch:

- US regionals business model up in smoke
- Deposit outflow, rising costs, falling margins, liquidity under water, 70/80% CRE exposure, buybacks cooked, equity smashed, counterparty risk, credit downgrades...
- Credit crunch underway in SLOOS, NFIB, SVB, First Republic, Pacific West and more...

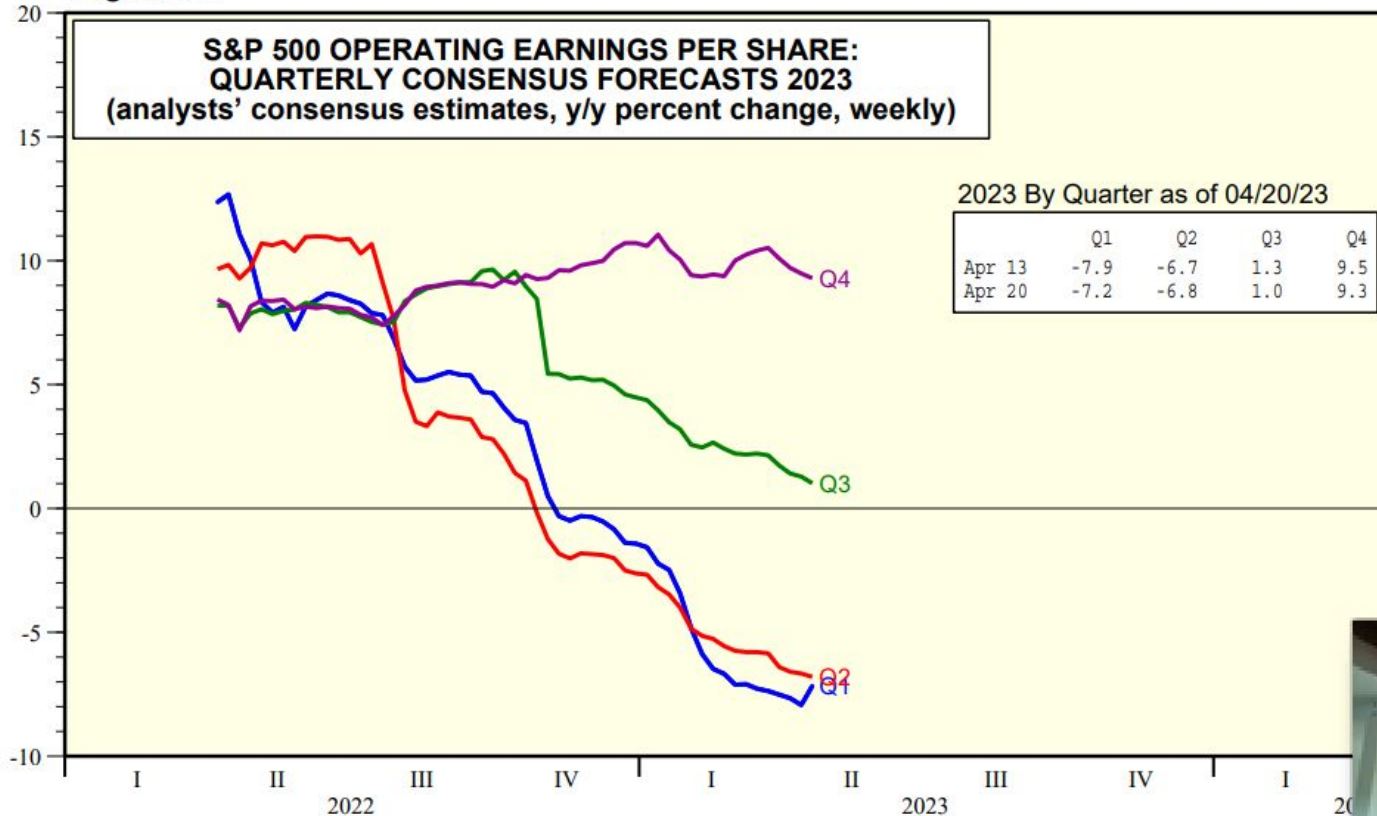


Next phases:

- Past Bear Stearns headed for Lehman
- Fed done but will now wait for recession to kill inflation. SLOOS and change of statement
- Bad economy feedback into banks means moderate recession as ten years of free money zombies are truncated
- Fed cuts when it all falls apart. Deeper than expected
- Europe to follow, probably not as bad
- China will not save anybody

Earnings: Everything fine by the 4th quarter???

Figure 12.



Earnings: numbers have been relatively good

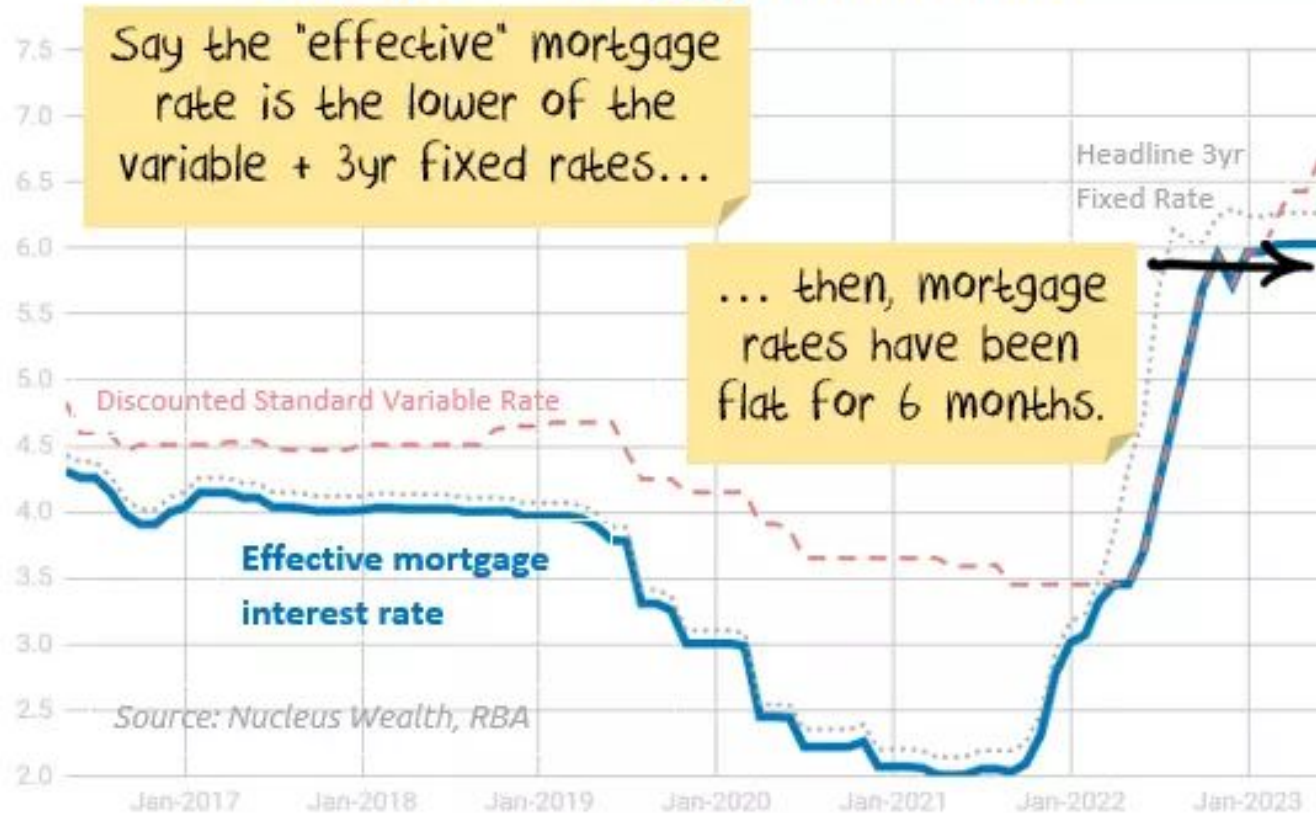
%tile	Energy	Materials	Cons. Discret.	Cons. Staples	Health Care	Industrial	IT	Financials	Real Estate	Comm. Services	Utilities
Next Twelve Month Forecast: Now vs 1 month ago											
10%	-20%	-15%	-2%	-1%	-3%	-6%	-5%	-9%	-10%	-15%	-12%
25%	-15%	-3%	0%	0%	1%	0%	0%	-3%	-2%	0%	-2%
50%	-4%	4%	3%	1%	3%	3%	2%	1%	0%	2%	1%
75%	0%	7%	8%	3%	6%	9%	6%	4%	3%	6%	3%
90%	6%	25%	26%	8%	10%	17%	17%	7%	8%	20%	10%
2023 Forecast: Now vs 1 month ago											
10%	-19%	-17%	-4%	-2%	-4%	-8%	-12%	-9%	-8%	-5%	-3%
25%	-5%	-5%	0%	-1%	-1%	-1%	-3%	-4%	-3%	-1%	0%
50%	-1.9%	-0.1%	0.9%	0.1%	0.2%	0.5%	0.0%	-0.5%	0.0%	0.8%	0.0%
75%	0%	3%	5%	1%	2%	4%	1%	1%	1%	4%	0%
90%	3%	9%	17%	5%	4%	9%	7%	5%	13%	12%	3%
2024 Forecast: Now vs 1 month ago											
10%	-9%	-11%	-2%	-2%	-6%	-3%	-8%	-7%	-5%	-9%	-1%
25%	-3%	-4%	0%	-1%	-1%	-1%	-2%	-3%	-2%	-1%	0%
50%	-0.3%	-0.1%	0.4%	0.3%	0.0%	0.2%	0.0%	-0.5%	-0.4%	0.2%	0.0%
75%	1%	3%	2%	1%	2%	2%	1%	1%	0%	1%	1%
90%	4%	9%	6%	3%	4%	6%	3%	2%	2%	4%	3%

Reporting season

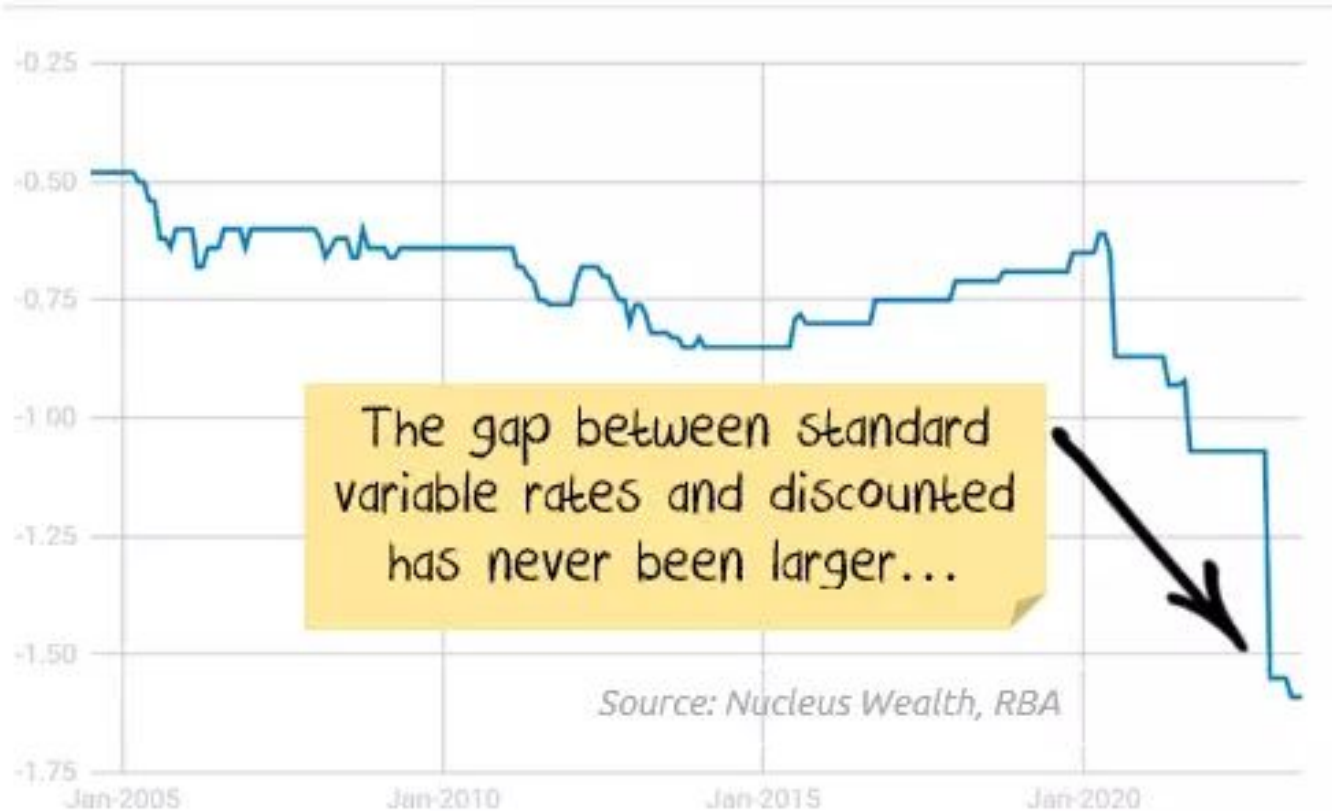
- Volumes generally not good
- Margins still holding up
- Large tech

3 Yr Fixed vs Discounted Standard Variable

“Effective” mortgage interest rate



Standard Variable vs Discounted Standard Variable



The Australian Problem

- Households who could afford to pay higher interest rates don't have to. They can borrow at 2-3% lower than the standard variable rate.
- Struggling households have to pay much higher interest rates than those in the above category.
- How many of the second cohort will go broke

Aussie banks are not cheap relative to world banks



Source: Nucleus Wealth, S&P Capital IQ

Viewer question of the week:

Is it time to act, or do investors need to wait for more signs?

Drop your answers in the comments

Investment Outlook

- **Asset Allocation:** DXY, EUR or gold? Bonds and cash. Commods at risk despite China. AUD property bottom?
- **Factor allocation:** quality, defensives, avoid growth and value
- **Sector allocation:** Avoid A-REITS, non-banks, discretionary, superfunds, materials. Long staples, healthcare, utilities...

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