ANDBANK
Private Bankers

Flash note
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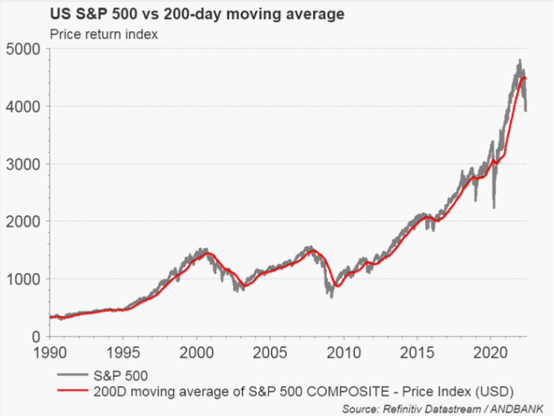
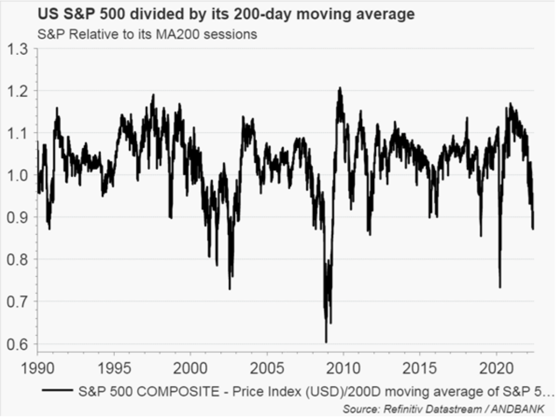
Another way to asses where the bottom may be





Let us consider that we are not facing a situation of risk in the global financial system as in 2018; in such a case, with the S&P already trading at 87% of its 200-session moving average (MA), and 81% off its peak, the current correction would have already reached a considerable and statistically significant level of intensity according to historical standards.

The good news is that the valleys (lows) in the relative ratio (right side graph) are very short-lived and the S&P immediately begins to recover against its 200-session MA, as has been seen in the corrections that occurred in 2010, 11, 15, 18 and 20.

The problem is that the verticality of the fall will lower the 200-session moving average and the S&P could still remain stable below that moving average for some time, in the style of what happened in the 2000-2002 correction. This means a long-term bear market.

I must say that the valuation levels in 1999 were strikingly high. At that time there was barely a positive spread between the earning yield and the UST yield, suggesting an unprecedented bubble level. On this occasion, the Earning Yield has always remained healthy above the UST yield by more than 300bp.

This makes me think that this correction could be more like the ones I mentioned above. If this is so, the correction would be very close to its end. If I am wrong and we enter a period like the year 2000, we will still have a downward trend, but with important rallies in between.

Best