



CAPITAL MANAGEMENT GROUP

The Hefter Report – September 2022

Global stock and bond markets are having a terrible year. The MSCI global stock index is down 21.62% and the international government bond index is down 25.23%. Especially hard hit this year are technology stocks with the NASDAQ down 29.27%.

The primary cause of the declines is inflation which doesn't seem to be going away. This is leading the FED to be more hawkish in their assessment of how much and for how long they will have to continue raising interest rates. With rates rising, forecasts for economic growth are coming down, with widespread speculation on how much corporate earnings will drop as a result.

The projections for S&P earnings are almost impossible to predict with lower range estimates from 200 to 240 a share. It is also difficult to assess the appropriate multiple of earnings stocks will sell for. With slow growth and rising interest rates, consensus seems to be as low as between 15 ½ to 16 ½. If we take the middle of these ranges, we get a multiple of 16 which we multiply by 220 a share that projects potential downside of 3520 on the S&P 500. This would be our worst-case projection as of now. Our team believes 3600 is a more likely downside target at which point we believe investors would put money to work, finding bargain prices not seen in years.

A target of 3600 is about 5% lower from today's levels. If stocks get down to this price, or lower, we believe a rally will follow in the fourth quarter. We expect the FED will stop raising rates in December. This could provide impetus for a further rally with the possibility of the FED's next move being to lower rates to spur economic growth.

So there remains widespread uncertainty about earnings, interest rates and multiples, in many portfolios we have raised cash and shifted from higher volatility names to lower. It is important to note that we do not believe we are having or will have a financial crisis. It is more likely in our view that markets are adjusting from an overflow of money supply followed by a tightening which should put us back in a more normal liquidity environment. We think this will be good for stocks.

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HLM Capital Management Group

1849 Green Bay Road
Suite 200
Highland Park, IL 60035
847 563-3400 phone
800 247-1541 toll-free
847 563-3420 fax
www.hlmcapital.com



Charlie Margolis, Ben Leshem, Steve Hefter, Micah Nathan
Partners