"Hello darkness my old friend… I've come to talk with you again…"

Simon & Garfunkel

"…because a vision softly creeping,
left its seeds while I was sleeping …
And the vision that was planted in my brain
Still remains, within the sound of silence"

My father-in-law passed away a few weeks ago. The moment when we received the phone call, my family was on a quick weekend trip with some friends to one of my wife's favorite places in the country, St. Augustine FL. His death was sudden and unexpected; the world lost a great man in the blink of an eye.

Most readers know that I also lost my brother in October of 2020, it too came out of left field. It's been a challenging year and a half.

Readers may recognize the above iconic introduction as one of the greatest songs ever written, Paul Simon and Art Garfunkel's, The Sound of Silence.

For a reason unbeknownst to me, the more recent and admittedly unconventional arrangement released by the rock group *Disturbed* is something in which I found comfort after losing my brother. My father-in-law was a student of music; a brilliantly talented musician skilled on many instruments; the piano, accordion, saxophone; he had just recently picked his clarinet back up after not having touched it for years and he played as brilliantly as he had 20 years prior.

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For years, while working full time as a banker, also raising money for countless charities, he moonlighted as a DJ. Both his musicality and knowledge of its history were vast; music was one of his many passions.

In an effort to find some peace & solace, I revisited this Simon & Garfunkel classic. The return felt eerie, initially just too fresh from my brother's death. Though, this time, in understanding my father-in-law's love for music, I took it a little deeper, digging more into the song's history and original meaning.

For example, did you know that when initially released in 1964, these lyrics were an abject failure?! Simon and Garfunkel broke up, with Garfunkel heading back to college while Simon attempted to pursue a solo career in England.

Those who enjoy the version of this song that became an overnight sensation have producer Tom Wilson to thank, for it was his perseverance and drive that brought Simon and Garfunkel back together by rearranging the original stripped down acoustic version and adding drums and some electric guitar to the initial bomb. The freshly reworked piece became an overnight sensation and by 1966 the song had reached number 1 on the Billboard Hot 100 sending Simon and Garfunkel on their way to stardom.

But what does the song mean?!

Decades ago, during a live performance, Art Garfunkel gave listeners an explanation, *"the song is about the inability of people to communicate with each other ... emotionally";* the author is literally confessing, to the darkness for he feels no one is listening to him ... *"Hello darkness my old friend, I've come to talk with you again."* Ultimately, to the masses who walk aimlessly, blindly going about their business without "listening" (or heeding important warnings) ... *"And in the naked light I saw, ten thousand people, maybe more."* (a likely reference to humanity as a whole) "*People talking without speaking. People hearing without listening, people writing songs, that voices never share; and no one dared disturb the sound of silence."*

These lyrics are relatable to so many things going on in the world today ... be it political, the dangers of social media, the indoctrination of children within schools ... at times, the masses appear to be moving through life, ignoring imminent signals. The authors were also attacking modern "consumerism" and how the masses had caved to the advertising industry as society followed:

"And the people bowed and prayed
To the neon God they made..."

I won't walk you line by line, though the meanings of these lyrics struck a chord as I sat down to write this letter, for they are timeless and cross countless barriers.

Today, with a 24/7 financial media presence, it's nearly impossible to avoid the "neon Gods" as the macro tourists' market themselves to the masses; bells, horns, scrolling tickers, pomp & circumstance ... what often boils down to superficial theatrics.

Markets, however, aren't about flashy things or noise, markets are driven by data. The current economic regime, or "machine" is driven by price, volume and volatility; influenced by market structure, liquidity (or lack thereof which matters most at particular moments in time) as well as human behavior (emotion).

Those reading our notes get data and our interpretation of how it will move markets over a full investing cycle, noting smaller trading cycles within the larger, more powerful trending cycle.

We're aware that not every correct call has translated into perfect results over the years, we freely and openly admit that while we strive for perfection, very few things are ever perfect, leaving the door open for constant improvement. However, one thing we have done very well over the years is to document and publish our thoughts via these notes, storing them on our website for future reference. This catalog of analysis and thinking is done with more intellectual honesty, integrity, and without question, better accuracy, than a majority of those "esteemed" Wall Street economists and Federal Reserve officials (neon Gods) which the mainstream portrays as "experts".

More importantly, we've spotted, warned, sidestepped and risk managed around massive drawdowns.

"Fools" said I, "You do not know
Silence like a cancer grows
Hear my words that I might teach you
Take my arms that I might reach you"
"But my words, like silent raindrops fell
And echoed in the wells of silence"

We'd not be so arrogant as to call every investor a fool. In fact, we'd humbly submit that it's the market and data that expose the fools when the masses, which include some very smart people, ignore or pretend that some extremely pertinent signals don't matter, while repeatedly allowing themselves to be influenced and blinded by emotions, with fear & greed being most prevalent ones, though many more can adversely affect both thought process and decision making, as we discussed last month.

We presciently warned readers on January 26th, 2020, about the impending market crash looming when we penned, "The importance of History … and boy, is it "rhyming" today". In the face of a select few names which were defying gravity and with every commentator under the sun screaming that markets would continue to go to the moon, as Wall Street analysts literally made up new "valuation metrics" for companies like $TSLA (at the time), we provided you with data and a few history lessons, writing:

"Current members of the FOMC continue to hide behind the statement, "the economy is strong". Please, ask yourself what that means relative to investing? Economies accelerate or decelerate; earnings grow or slow; credit is extended or tightened; companies have the ability to pay/roll their debt or they don't; this is what creates business CYCLES.

*Now ask yourself what is currently happening around the globe (including the US)? **The data suggests deceleration"*** *OSAM 1/26/2020*

We reminded you of what Citigroup CEO Chuck Prince "infamously said" in July of 2007:

"As long as the music is playing, you've got to get up and dance. We're still dancing."

On January 22nd, 2020, Bridgewater Capital CIO, stated:

"We've probably seen the end of the Boom-Bust cycle" *he later qualified statement with* ***"as we know it"***; *admitting the* ***"Fed is in a box, they can't tighten and they can't ease."***

As we fast forward to today, it is nearly impossible to miss the parallels...

From the White House ... Jen Psaki, July 2021:

"We're seeing prices go back to pre-pandemic levels ... a projected increase in inflation this year, it's expected to come back down to about 2.2 next year. They have not changed that, and that is aligned with a number of outside economists as well."

Federal Reserve member Bostic March 25, 2021:

"We don't' see inflation as a major concern in the coming months"

Bostic again on March 23rd, 2021:

"I expect the increase in inflation to be temporary"

Then February 25th, 2021:

"Excessive inflation is NOT something Fed will have to worry about for A LONG TIME"

I could fill volumes of pages with how wrong these "Market Gods" have been for years, decades even ... remember *"subprime is contained",* Ben Bernanke, or *"I don't believe another financial crisis will occur "in our lifetimes."* Current Treasury Secretary Janet Yellen

Friday Yellen just said that she, *"Doesn't expect a recession in the U.S."*; so that should make you feel better (insert eye roll & palm meet forehead emoji)

Regardless of what you choose to believe, we didn't get lucky in writing what we did in January of 2020, it was in the data ... both growth and inflation were decelerating before anyone had ever heard of Covid; as is the case today, both growth and inflation are now decelerating ... only today things are MUCH WORSE.

Today, we have a decelerating economy, disinflation, slowing earnings, and tightening credit all at the same time ... coming off the largest everything bubble in history!

In 2020, GDP wasn't rolling over from 7% to 0-ish% as it is today. With over 10% of earnings components being reported, corporate earnings are now down 14.6%, interest rates have spiked to above 2018 taper tantrum levels, and mortgage rates have skyrocketed, all of which we'll discuss below.

Moreover, the level of corporate debt back then was just north of $10 Trillion, while today it's pushing over $12 Trillion with nearly $1 trillion of non-financial debt globally that needs to be refinanced this year alone…

As we published in our 4Q2018 note:

"Our national debt is well in excess of $21,000,000,000,000… That's TRILLION. Every 100-basis point increase on interest rates equates to more than $210,000,000,000 billion in our cost to carry that debt."

Today, less than 3 ½ years later, it's nearly 30% greater sitting north of $30,283,200,409,185, the majority of which has a duration of 4 to 5 years; any sustained increase in bond yields will cripple our country as debt servicing costs balloon. At what point will it engulf our tax receivables?! With every 100-basis point increase we could watch debt service balloon by over $300 billion dollars per year.

We provided readers with a simplified but detailed explanation in 2018 of how this worked, which still holds true today, but again, today it's worse.

Currently, headline inflation is roughly 8.5% and while it is rolling over (which many, including the Fed, refuse to acknowledge), it's problematic for many reasons outside of the obvious.

But you can still find CEOs of major corporations, along with Federal Reserve officials, saying the same ignorant things … so I guess you should believe them …

For example, April 4th, 2022, JP Morgan CEO, Jamie Dimon stated:

"The US Economy is strong"

Seriously, 1 week following his above statement, on April 13th, 2022, JP Morgan reported 1Q2022 data … revenue was down $1.5-billion, expenses were up $500-million, credit costs were up $5.5-billion, net income was down $6-billion, while, for the first time in a very LONG time, credit reserve build was up $900-million (and while we realize that's not a lot for JPM, it's a change in mindset of things to come) – all of this resulting in YoY earnings per share DOWN 42% YoY.

- Auto loan originations down 25% (citing low inventory)
- Home loan originations down nearly 40% (interest rate spike in a 2-month time span)
- Investment banking fees down 31% (less debt and equity underwriting activity)

Consumer loans were one of very few things accelerating … but is this was not a good sign, because people NEEDED to borrow money! Additionally, they cited "the Russian/Ukraine war" as a one-time charge; what makes the lack of dealing with Russian entities a one-time charge?! All of this BEFORE the upcoming quarter, when they will be experiencing the most difficult base effects that financial companies have ever seen.

Yet, in his letter to shareholders, Dimon continued to tout growth and a strong economy:

"If the Fed gets it just right, we can have years of growth, and inflation will eventually start to recede. ***In any event, this process will cause lots of consternation and very volatile markets.***

Dimon's advice for the Fed:

"The Fed should not worry about volatile markets unless they affect the actual economy. A strong economy trumps market volatility."

Apparently, his definition of ***strong*** is quite different than ours … which is why we will happily stick with the data while he panders to his ogling fans.

I find it hard to believe that more investors haven't concluded the majority of Wall Street does little but try to sell you stock, while Federal Reserve officials attempt to peddle confidence and hope, and so few of them (i) tell you the truth, while (ii) providing you with a proper risk management process?!

These incompetents are truly trying to drive forward while looking into the rear-view mirror; so, we ask you, are these the "Neon Gods" to bow before?!

"Hear my words that I might teach you…"

Over the past few weeks, along with $JPM, a myriad of large financial institutions reported earnings. As the media and Wall Street pundits cheered about how they "beat" Wall Street earnings estimates, they're without question, selling you propaganda!

Ahh, the games people play.

Yes, it is true many of these institutions "beat" *Wall Street estimates*, but looking a little deeper, you realize that those same analysts had already cut their YoY earnings estimates by nearly -60% (in the case of $C).So, when the company reports that it is down *only* -44%, it is by no means a "beat", it's what you would call a blood bath. Let's all say it together folks, propaganda!

It is definitely NOT is a sign of growth or good things to come; but hey … you can always hope, right?

The irony is these numbers being reported are for 1Q2022 as we noted above, yet the financial sector will face their toughest year over year comps in 2Q2022, which aren't reported until July.

"Hope" is NOT a risk management process, but if you're looking at bell weather names for a sign of things to come, these large financial bellwethers that reported alongside $JPM have shown straight up carnage and devastation in their YoY earnings reports. These are NOT "beats":

Goldman Sachs ($GS)	DOWN -42% YoY
Citigroup ($C)	DOWN -44% YoY
Morgan Stanley ($MS)	DOWN -7% YoY
US Bancorp ($USB)	DOWN -32% YoY
PNC ($PNC)	DOWN -21% YoY
Wells Fargo ($WF)	DOWN -16% YoY
Bank of America ($BAC)	DOWN -12% YoY

The only large cap financial institution to show an increase in YoY earnings last week was State Street ($STT) UP +8%

With earnings being cannibalized, DOWN 20 to 40% YoY; next quarter's comps being exponentially worse, a pancaked yield curve, mortgage rates having shot up at their fastest pace in the modern era (as we'll discuss below); with only 3% of outstanding mortgages available for refinancing that economically make sense … how do you think it bodes for employees?!

Remember how we've been telling you that employment is a late cycle indicator?! As earnings collapse and margins get compressed!

And while I don't expect you to take our word for it, the carnage isn't solely in the financial sector – do you remember those used car prices? See CARMAX ($KMX). And then there is $NFLX, who just lost $350 billion in market cap overnight. The list of names is endless with more large cap names on the chopping block as advertising revenue continues to plunge.

But my words, like silent raindrops fell

And still … the most recent headlines from the *prophets* of the Federal reserve:

On April 10th Fed official Mester said:

- *There is an increased risk of recession, but the model forecast is for expansion to continue*
- *Inflation is being driven by reasons other than monetary policy. The Fed's goal is to protect it from being embedded*

On April 21st Fed Chair Powell said:

- *Won't count on Supply-Side Healing to tackle inflation*
- *Not counting on Inflation having peaked in March*
- *US labor market is too hot; "unsustainably hot"*

- *50 BPS hike will be on the table for May FOMC meeting*

Which couples brilliantly with what Fed official Waller stated on April 13th:

- *The economy can take aggressive Fed action*

More importantly, this one is actually factual, so you better pay very close attention as we'll remind you below:

- *The Fed can't fix supply chains; THE FED CAN PUSH DOWN DEMAND*

So, if we can't count on the "Supply-Side" healing to tackle inflation, the only thing the Fed can do is cripple demand … so let's talk about what "pushing down demand" or DEMAND DESTRUCTION actually means in real time.

Last month we warned you about the spike in mortgage rates, noting:

• *"As 30-year fixed mortgage rates just spiked to a 4.66% average making the average house roughly 13-15% LESS affordable than last year as most home buyers determine purchase price based off what monthly payment they can afford; begging the questions:*

- *Who's going to be refinancing at these levels?!*
- *Who is left to refinance with rates being so low for so long?*
- *How will this move in rates affect borrowing via home equity lines?!*
- *And more importantly, how large of an impact will this have on housing prices?!"*

Since publishing last month, the 30-yr fixed rate mortgage has shot up to nearly 5.25%, including points and fees. That is roughly a 200 to 225 basis points increase since December (in some, less creditworthy circles, they've eclipsed well over 6.25%+).

With both the size and speed of this move being unprecedented, we do have a bit more clarity to some of the above questions we asked last month.

At these levels, per Danielle DiMartino Booth of Quill intelligence, there are only 3% of mortgages in the US able to be refinanced economically … meaning, why would you refinance a 3% mortgage at 4% mortgage UNLESS you were so strapped for cash that you needed to cash-out refi at a higher interest rate (uneconomical), which again, ties back to what we wrote in 2018:

"Lower interest rates equals refinancing BOOM."

Good luck underwriters!

Additionally, a 200 to 225-basis-point move crams down affordability by roughly 25% - a move like that in 4 months also distorts price expectations because a would-be seller who just watched his neighbors home sell for $500k a few months ago isn't willing to take $400k for his home today. But at the same time, the buyers can't afford the house at $500k with the increased rates…

The Fed left interest rates too low for too long, allowing anyone with a pulse and the ability, to refinance at anemic levels…

Again, don't take our word for it. This isn't just an opinion … IT'S IN THE DATA!

Last month we brought the spike in mortgage rates to your attention; today we'll cite a very recent report out of Redfin on April 11th, citing data from January 2022 through end of March 2022 showing a violent DECLINE in second home sales (vacation homes) of nearly 35% from the previous quarter, and down 40% from its peak 1yr prior.

Adding insult to injury, in an effort to make housing more "affordable" to the first time home buyer and primary home buyer, Fannie Mae and Freddy Mac are changing some rules up on April 1st adding charges of between 1-4% for buyers of 2nd homes.

"Effective April 1, 2022, upfront fees on certain high balance loans sold to Fannie Mae and Freddie Mac will increase between 0.25% and 0.75%. Also effective on April 1, 2022, the upfront fees for mortgage loans on second homes will increase between 1.125% and 3.875%."

It's important to understand 2nd home sales were down January – March 2022 and the NEW fee (penalty) didn't begin until April 1st, 2022. While we understand that 2nd home sales are relatively small compared to total home sales (approximately 6%), the MBA mortgage purchase index was down -9.55% in March and permits have been trending down as well.

As the data suggests less than 3% of loans are *economically sound* refi's with rates over 5%, the yield curve pancaked to inverted; does anyone want to tell me where growth is going to come from as the financial sector faces their toughest comps NEXT Quarter?!

You did say something about pushing down demand, am I right Fed official Waller?! We'll just call it for what it is … extremely violent DEMAND DESTRUCTION in an already decelerating economic environment.

As we said, we would not be so arrogant as to call everyone a fool, stating, "in fact, it is the market and data that are doing so." Let's look at some of that data:

- The yield curve is virtually flat 2s, 5s, 10s; with the 10s & 30s recently inverting temporarily
- NY Fed confidence numbers: registered **their lowest in the 9 years** they've been tracking the data
- NFIB Small business Optimism Index just concluded: *Owners expecting better business conditions over the next six months decreased 14 points to a net negative 49%,* ***the lowest level recorded in the 48-year-old survey.***
- University of MI Consumer sentiment survey is well below Peak Pandemic lows with income expectations the **lowest they've been in nearly 50 years**

- Housing affordability has been reduced by over 25% in roughly 3 months with the meteoric rise in mortgage rates
- Over 10% of the S&P companies have reported w/ earnings growth currently -14.6% YoY (financials -28.3%) as we've yet to head into the worst of comps.
- March retail sales DECELLERATED significantly MoM (Month over Month) from February's up 18.18% to March's up 6.88%. This is a massive RoC deceleration and only a matter of time before it goes negative as Bank of America credit card data shows the consumer literally hit a wall mid-March … just as we've been telling you they would; no more tax refunds, no stimulus, no government transfer payments, no child tax credits. All of this adds up to **a $1.3-TRILLION-dollar black hole**…

All at a time when spending on necessities like food, fuel and housing is at the highest levels of the modern era and over 50% of Americans don't have more than $1,000 in a bank account.

Is this where we remind you consumer spending comprises 70% of US GDP? Meanwhile, we watch in real time as the confidence of the top quintile that represents 40% of that spending (who are those who make over $100k per year) has shrunk at one of the fastest paces in history!

- Auto Sales were down -24.90% in March (CarMax: $KMX has been a BIG warning to investors)
- Rail Traffic decelerated -3.12 in March from +5.69 as many companies have stockpiled inventory heading into an enormous consumer spending halt with:
- Inventory costs and warehousing prices are at the highest on record (h/t to Danielle DiMartino Booth for the important call out)

Just as we've been educating you on employment being a lagging, late cycle indicator, this data is late cycle behavior as well – these signals ARE NOT SUBTLE, they are undeniable and screaming at the proverbial "fools", but still these words ***"echoed in the wells of silence"***

"And the people bowed and prayed
To the NEON GOD they made"

We've all heard the adage, "Don't fight the Fed" which simply means that when the Federal Reserve is being "accommodative" the broader market indices will probably move higher with the increase in money supply and accommodative measures! This is a warning to short sellers, to just ride the Fed Put; sit back and enjoy the ride.

So, forgive me if I'm slightly confused…

The Federal Reserve is now tightening into one of the swiftest economic contractions from a growth perspective in the modern era. So far, they have hiked rates by only 25 bps, but they continue to talk a linear 50-bps hike for each of May, June, and July. On December 15th, they halted purchases of MBS and that caused the mortgage market to fall apart in short order. Now they are talking about a broad balance sheet reduction.

As the Fed talks balance sheet reduction, we'll note that even they aren't dumb enough to be outright "selling" anything to do so. First, they bought most things on their balance sheet at much lower yields and with yields having spiked, prices would be down from where they paid; no bueno! They will allow these items to mature and roll off. The Fed was the largest buyer in the Treasury and MBS markets for years, so this leaves an enormous void in both markets (good luck to the money center banks).

Earnings estimates are being slashed at a precipitous pace, and Federal Reserve officials are literally telling you that to fight inflation, they NEED markets to go lower.

Don't believe me?!

On April 6th, the former President of the Federal Reserve Bank of NY and Vice Chair of the FOMC (Federal Open Market Committee) Bill Dudley penned an op-ed for Bloomberg, which you can read here, titled:

"If Stocks Don't Fall, the Fed Needs to Force Them **-** *Tightening financial conditions will be key to getting inflation under control."*

His opening paragraph starts by telling you **the Fed needs to inflict pain on both stock and bond holders**; NO, I AM NOT KIDDING.

"It's hard to know how much the U.S. Federal Reserve will need to do to get inflation under control. ***But one thing is certain: To be effective, it'll have to inflict more losses on stock and bond investors than it has so far."***

There are quite a few things in this article I would push back on Dudley for, though one thing is for certain … these guys are extremely dangerous, linear thinkers. At the same time, when they tell you that they're trying to bring pain to both bond and equity holders, and their tool is a blunt instrument, not a surgical knife, believe them … The conclusion of the piece reads:

"Investors should pay closer attention to what Powell has said: ***Financial conditions need to tighten. If this doesn't happen on its own (which seems unlikely), the Fed will have to shock markets to achieve the desired response. This would mean hiking the federal funds rate considerably higher than currently anticipated. One way or another, to get inflation under control, the Fed will need to push bond yields higher and stock prices lower."***

At the same time the whole of Wall Street is still telling you that the economy is strong and while the markets might be *"volatile"*, rest assured, they should move higher (on lower earnings, compressed margins and the Federal Reserve working against them ??). So … now it's ok to fight our NEON Gods at the Federal Reserve?!

As if this wasn't enough, on April 22nd, Federal Reserve voting member Loretta Mester appeared on CNBC, at a time when all markets were down between 2-3%, and this was the opening back and forth:

Sarah Eisen: *"You just heard, another really steep sell off, an ugly day on Wall Street; is this part of the plan to see tighter financial conditions?!"*

Mester: ***Well, YES, but not necessarily all at once!***

They're telling you they want to destroy demand and bring markets down, yet the problem with linear thinking is that markets are fractal; they're all interconnected in one way or another. To think that one can orchestrate an orderly sell off in financial markets by providing a linear expectation of how many 50-basis-point raises the Fed is planning on doing while not expecting a complete meltdown that ripples throughout the financial system is mind-numbingly ignorant as it is arrogant, especially given the extreme leverage and illiquidity that's in the system.

As Hedgeye CEO recently put it in a conversation with Danielle DiMartino Booth:

"I still think and some people think I'm bananas on this, I think that they're done if that's the case; DONE RAISING INTEREST RATES. I don't think the market will bear 2 back-to-back 50 bps hikes. I think it's going to be a far stretch for them to get beyond the May 50 bps without markets collapsing further from where they already have.

*Markets are non-linear … who the hell told these people that they're going to be able to have a linear schedule of rate hikes and a linear reaction by capital markets?! That's the f*cking stupidest thing I've ever heard of so far or at least the dumbest thing that's come out of my own mouth so far"* *Keith McCullough, Hedgeye Investing Summit 38:46*

We reiterate what we wrote in 2018:

"Our opinion has been the same for years now, we have held the line; given the absurdly high debt levels from government to corporate, consumer all the way down to student, we do NOT believe that we have the capacity to absorb higher interest rates. As stated earlier, it is exactly what markets have told Fed chair Powell, the FOMC and the rest of the world in Q4, specifically in December immediately following the final 25-bp raise of the Fed Funds rate."

Markets are saying the same thing today as they did in 4Q2018, unfortunately for investors who think markets always go up, today, headline inflation is at 8.5% and while this figure is declining, headline inflation will remain high, whether 7.5%, 7.0% or 6.5% over the next few quarters. The Fed ONLY cares about absolute levels, while the market ONLY cares about directionality and RoC (Rate of Change). So, the Fed will raise until the system cracks … and where it cracks first and hardest is what we've been trying to figure out.

"And the sign flashed out its warning
In the words that it was forming
Then the sign said, "The words on the prophets are written on the subway walls

In tenement halls
And whispered in the sound of silence"

At the onset of this piece, I told you that my favorite version of the sound of silence was a re-release by a rock band named, *Disturbed*. In an interview, "*Disturbed*" front man David Draiman offered his interpretation of The Sound of Silence.

"If you listen to the intricacy of the lyric it's talking about someone who is enveloped in the darkness, who welcomes it, who feels like he is a bit of an outcast in a world full of chaos, who feels someone who's an introvert in a world full of extroverts, who feels like someone who's bearing witness to things that they can't come to terms with and who's trying to express words that fall on fears and unfortunately wisdom that doesn't end up getting developed. Tremendously poignant."

I'm no prophet … though, admittedly I sometimes walk to the beat of my own drum. We will always tell you what the data says and our interpretation of it, whether it's the popular opinion or not. We are living in a world of chaos, we've got countries like Sri Lanka defaulting on debt and having food riots, uprisings in Peru & Pakistan, weekly riots in countless European countries like France & Germany, Australia, and New Zealand. China has locked down and having food riots, with millions of people who are near starvation.

Where I would disagree with Draiman, is that I can and have come to terms with things. The data doesn't lie. It's the pundits and macro tourists who continue to bow to NEON Gods who can't come to terms with what's about to occur.

We've been consistent with our words, data dependent, and prescient with our warnings. Without question, it feels lonely out there at times. The handful of months between the time the market signals are visible until the time when every bull and market prognosticator under the sun starts crying on television begging for Federal reserve intervention because their portfolios have been crippled can feel like an eternity, as if you're alone on an island hoping clients have the same resolve you do.

As much as we attempt to communicate, our words will sometimes fall on deaf ears. We offer these notes monthly in an effort to educate our clients, friends and prospective clients, along with the message that we'd love the opportunity to help navigate some of their assets in these rocky waters.

So, ***hello darkness my old friend***, as we noted in September 2021, we're staring at another probable implosion in capital markets, on top of the already 20% plus drawdowns in many major indices as of today; similar to what occurred in 4Q2018 and 1Q2020. In both of those scenarios we protected our clients well, and we plan to do an even better job over the next 3-9 months of challenging times.

To our clients, while we could have handled the exact bottoms and re-accelerations slightly better, we learn and get better from each experience and now, we're no longer alone. With our expanding research, our connection to the Hedgeye risk management team, and constant dialog with other managers, we've never been more connected and comfortable with our positioning and our viewpoint. We're better at communicating to you, and we are always here to answer your questions and/or concerns…

Throughout the quarter, your assets with us have seen dramatically reduced volatility and our performance is, without question, crushing major indices.

We'll continue focus on managing our risk, seeking out asymmetrical risk reward set ups, letting our winners run while cutting our losers before they become problematic. Disinflation/Deflation continues to be the prominent investing regime over the next 2 quarters. We remain firm in our process and discipline…

As always, we're happy to discuss our market thoughts along with these strategies and more, never hesitate to reach out with any questions or concerns. Thank you for your continued trust and support!

Good Investing!

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Disclosures

** We continue to work on getting our flagship model's numbers audited from a performance standpoint. In opening our new firm (OSAM), performance will only be able to be officially audited as far back as the complete sets of statements we receive from clients. This may remove data points from our official numbers upon audit completion affecting 2016's reportable performance number. Numbers reported are gross fees and commissions as we have a sliding fee scale based upon assets.

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