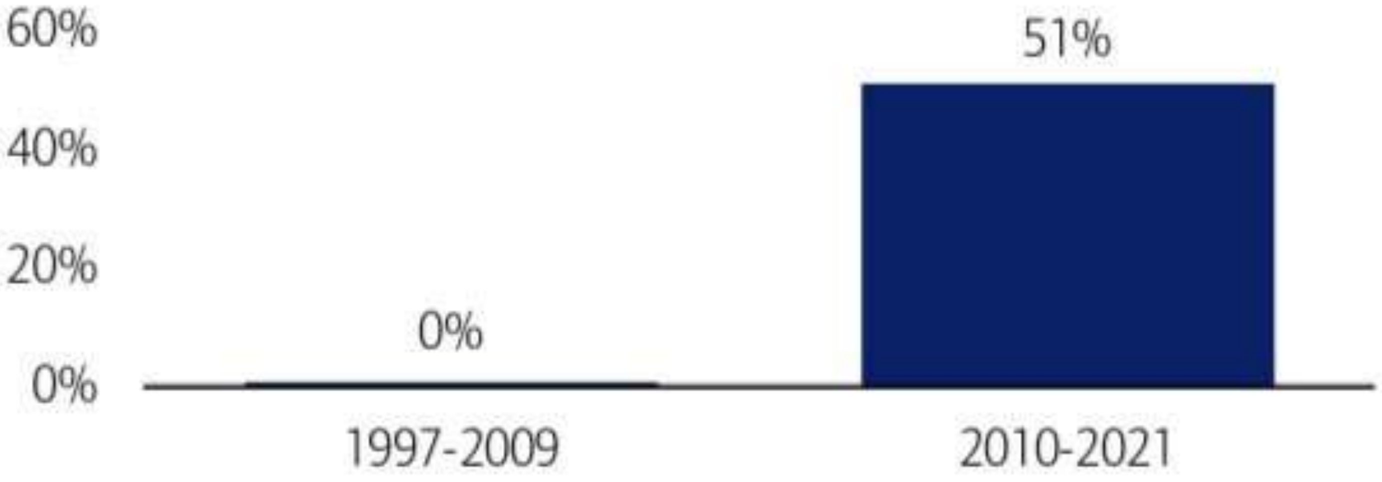
Charts That Matter

13TH May 2023

According to BofA, Fed balance sheet expansion is responsible for 51% of the SPX returns since the GFC, by far the biggest driver of returns. Earnings account for 23%, and multiple expansion most of the remaining.

Exhibit 36: Fed balance sheet expansion since GFC was a bigger driver of stocks

R-sq of Fed balance sheet YoY vs. YoY change in S&P 500 market cap that is not driven by earnings (5/97-12/21)



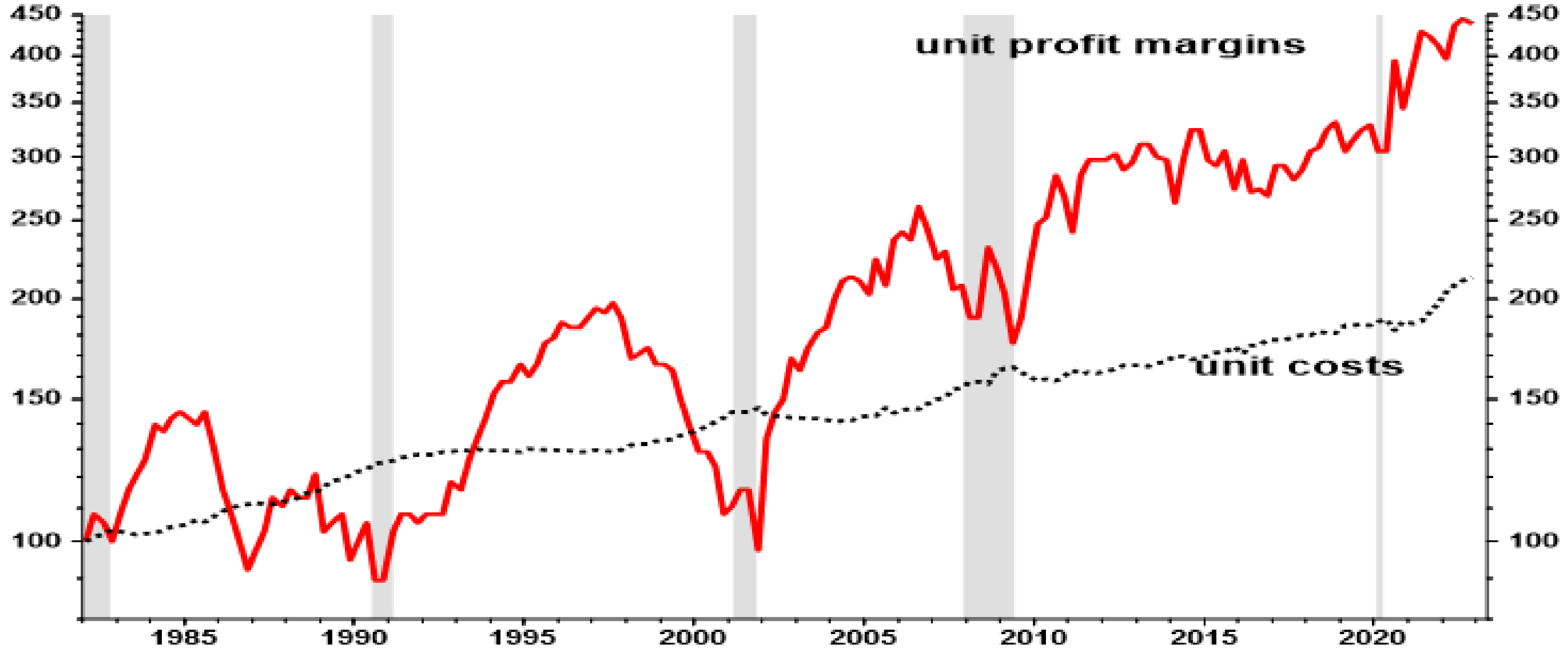
Source: FactSet, BofA US Equity & Quant Strategy

*Non-earnings driven market cap change = [total market cap change] – [historical avg. fwd P/E] x [chg. in fwd EPS]

BofA GLOBAL RESEARCH

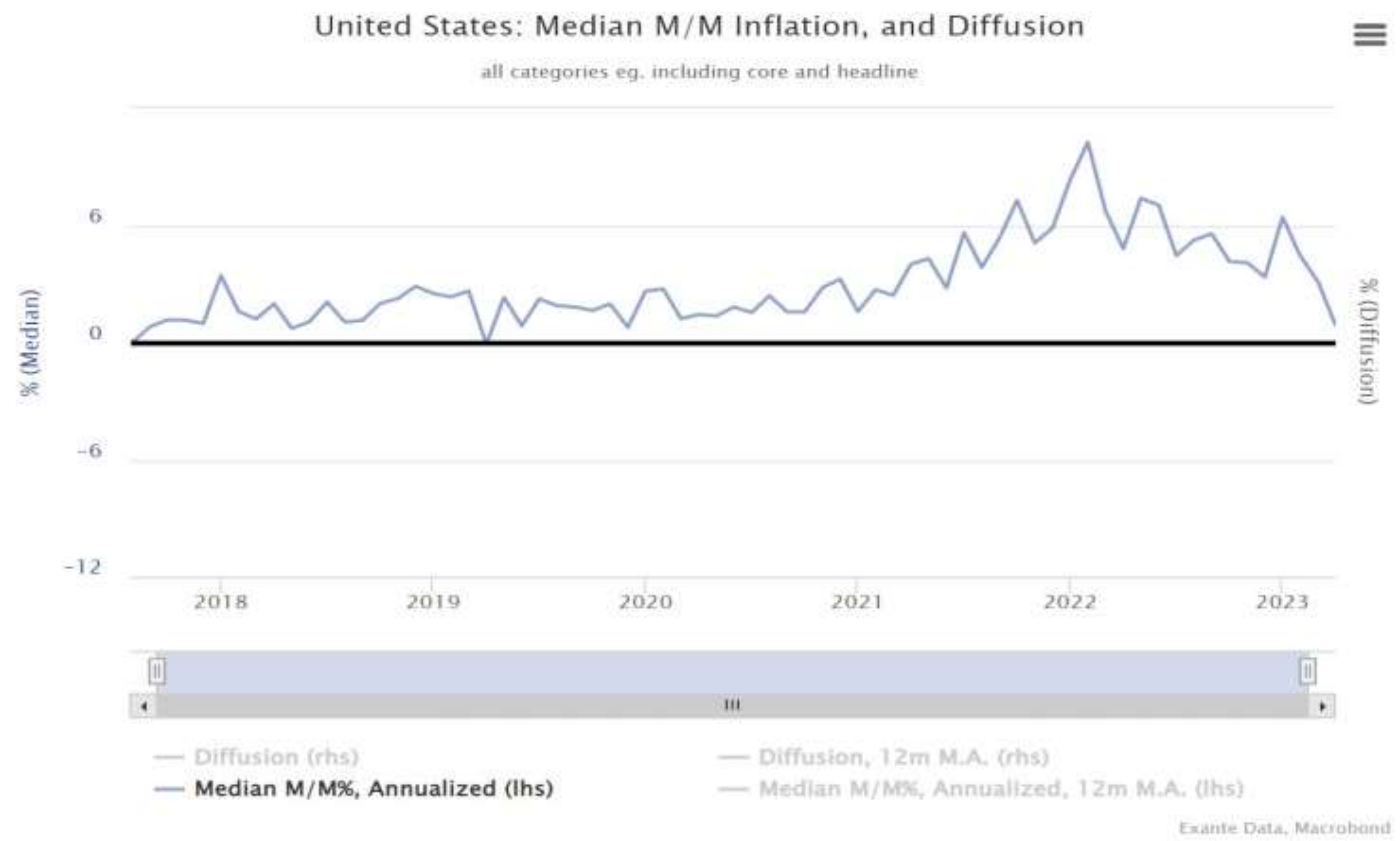
This is now ringing very loud alarm bells with policymakers as Greedflation melts the glue of social cohesion via the cost-of-living crisis

US price & costs (& profits) per unit of real gross value added of non-financial corporate business



Source: Datastream

US CPI .. Clearly things are behaving differently

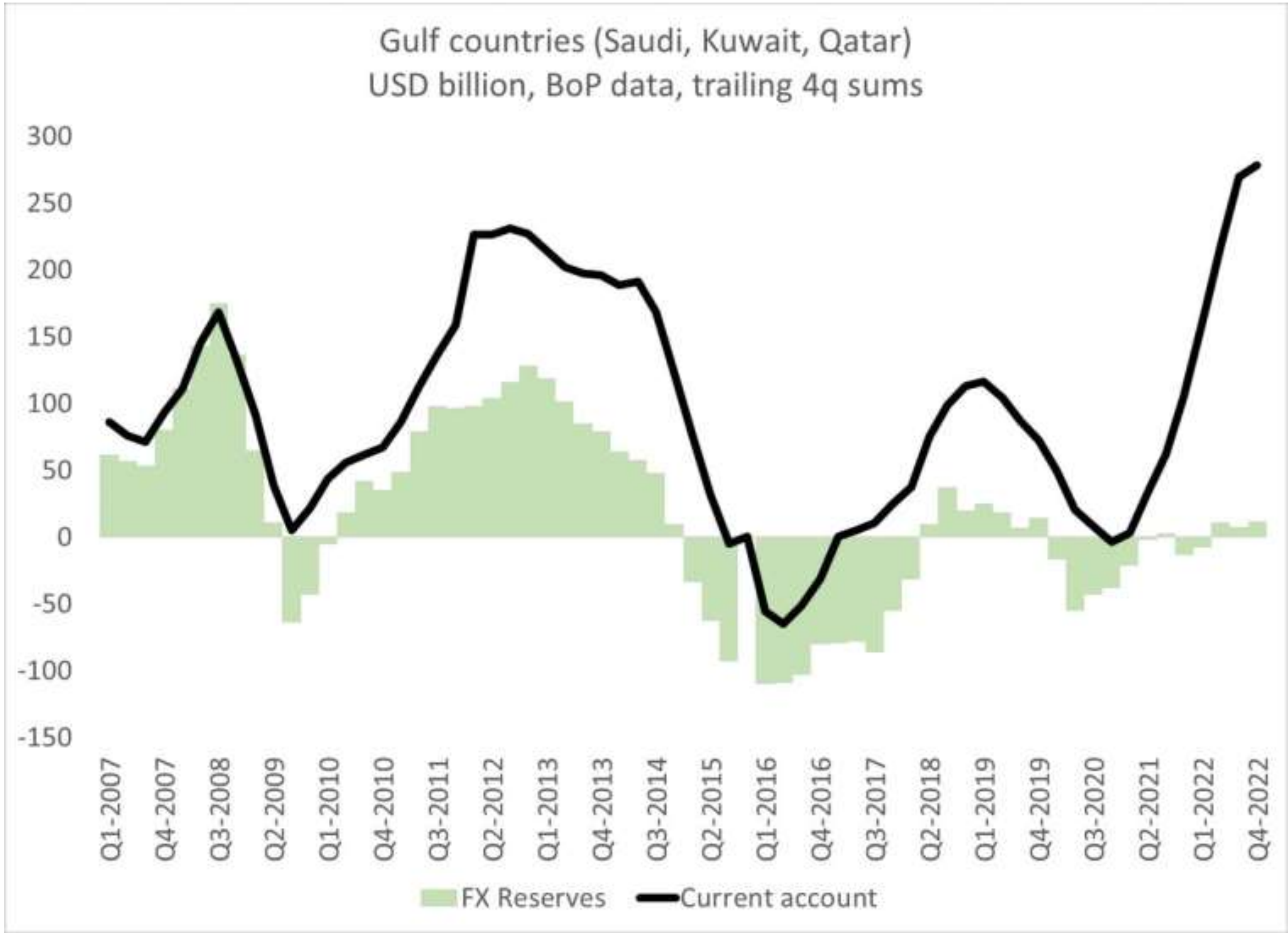


Data through **Apr 2023**

Number of items included in the model: 234

Diffusion is the % of items that showed positive m/m changes in cpi minus the % of items that showed negative m/m changes.

Large current account surpluses at Saudi, Kuwait, and Qatar are not being recycled into Central Bank FX reserves in the same manner as they had in the past:



The breadth, or how many stocks are participating in a given move in an index like the S&P 500 SPY, is about as narrow as it can get this year. A small number of advancing stocks is a sign of poor market action, and it doesn't confirm a broad market uptrend.