



Sanctuary Week Ahead

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Week of **November 28, 2022**

Strong Data, Tough Inflation

Last week saw strong economic data results, leading the Atlanta Fed's GDPNow model, on November 23, to estimate real GDP growth in the Q4 2022 to be 4.3% percent. This figure is a seasonally adjusted annual rate. The estimate had inched up from the November 17 estimate of 4.2%. Despite so many forecasts for a coming recession, the economic data has remained strong – and this means we can expect the Federal Reserve to “Keep at It” in raising interest rates.

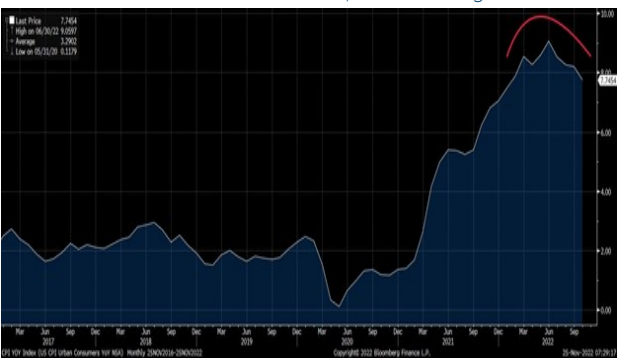
But the most positive news of last week came on Wednesday when the minutes were released from the Fed's November 2 meeting. We learned that a "substantial majority" of policymakers agreed it would "likely soon be appropriate" to slow the pace of interest rate hikes. However, Fed members believe that there is "significant uncertainty about the ultimate level" of how rates need to rise. This is already reflected in the expectation that the Fed will end its 75 basis point rate hikes and downshift in December to a rate hike of only 50 basis points. The expectation would be for a rate hike of less than 50 basis points in February of next year.

This is not new news, but a reassuring confirmation of what the market's been looking for. The uncertainty exists around the timing of this pivot point. The Fed will be careful not to repeat the mistakes of the 1970s inflation battle when it pivoted prematurely several times, only to revert to increasing rate hikes.

The Rent is Due

A sector hard hit by the Fed's aggressive rate hikes this year has been Housing, which is showing significant weakness. Also importantly, the CPI index appears to have peaked in June and is rolling over.

CPI Year-on-Year: Peak at 9% in June 2022, Current reading is 7.7%



Source: Bloomberg, 11/25/22

may also begin to fall, positively impacting future inflation data. In the last CPI report, shelter data had been technically up.

When a Rally is Not a Rally

December is seasonally very strong, rallying 1.3% on average since 1969, according to Stock Trader's Almanac. But our concern is that the bullish seasonal rally began early, back in October. If we examine the VIX volatility index, we see that it has fallen to the 20 level. This has already happened twice before in 2022, first in March and then again in August. Each period saw a sharp decline after reaching 20. Measuring March to May, we see the decline was 13%; from August to September, the decline was 16%. The average decline for these two periods is 14.5%. Applying this average to last Wednesday's closing price, we see that there is risk of a

decline that would test the low on the S&P 500 of 3491. Our conclusion is that there could be more volatility in the month of December than the market is historically accustomed to. Note that tax-loss selling could be part of that volatility.

Newsworthy Stocks: Tesla & Apple

Tesla (TSLA) has always been a controversial company and a much talked about stock. We believe it will remain a topical name but not necessarily for a good reason. The stock appears to have made a very bad technical breakdown from a major topping process. (In the technical world, it is called a "head and shoulders top," where a pattern appears as a baseline with three peaks, with the outside two close in height and the middle one highest; it typically predicts a bullish-to-bearish trend reversal.) If indeed this is the case, Tesla's stock is at risk of falling to \$50 from the current level of \$183, representing a decline of more than 70%. Why is this important? Within the S&P 500 SPDR ETF, Tesla is one of the top 10 holdings at around 1.4%. And within the S&P 500 SPDR Consumer Discretionary ETF, Tesla is a whopping 15%. You can expect this stock to remain in the news!



Meanwhile Apple is again in the news because of the Covid shutdowns in China, which is experiencing record high outbreaks. This is impacting Apple's supply chain at Foxconn at the wrong time of the year. It can take up to a month to receive several of the topline iPhones, which means if you want one of these phones as a present, it will not be here for Christmas. So far, Apple is the only FAANG stock not to have broken down technically, and it remains an important stock because it represents nearly 7% of the S&P 500 SPDR ETF. So you can expect Apple to remain in the news through the holiday season and beyond.

The Game's Afoot

Looking at this week's calendar of events, it's very simple: aside from the World Cup, all eyes will be on Fed Chair Jerome Powell who's scheduled to speak on Wednesday, right before the all-important Fed report on inflation, which will include the latest PCE price index. Powell's comments will set expectations for what the rate hike will be in December, which should be announced at 2pm ET on December 14. Other than soccer predictions, I'm available to speak with you about how the data is wrapping up for 2022 and what may lie ahead for 2023.

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Calendar

Mon.

12:00 p.m. NY Fed President Williams at the Economic Club of NY
Earnings: Arrowhead, AZEK

Tue.

9:00 a.m. S&P Case-Shiller U.S. home price index, FHFA home price index
10:00 a.m. Consumer confidence index
Earnings: Baozun, Bilibili, Compass Minerals, CrowdStrike, Hewlett Packard Enterprise, Hibbett, Intuit, NetApp, Workday

Wed.

8:15 a.m. ADP employment
8:30 a.m. Real GDP, gross domestic income, domestic final sales
8:50 a.m. Fed Gov. Bowman speaks on small banks
9:45 a.m. Chicago PMI
10:00 a.m. Job openings, pending home sales index
12:35 p.m. Fed Gov. Lisa Cook speaks at the Detroit Economic Club
1:30 p.m. Fed Chair Powell speaks at Brookings Institute
Earnings: Conalson, Five Below, Frontline, Hormel Foods, La-Z-Boy, Nutanix, Okta, Petco Health and Wellness, Pure Storage, PVH, Royal Bank of Canada, Salesforce, Snowflake, Splunk, Synopsys, Tital Machinery, Victoria's Secret

Thu.

8:30 a.m. Initial jobless claims, PCE Price Index, Real disposable income
9:45 a.m. S&P Manufacturing Nov, PMI
10:00 a.m. Construction spending
Earnings: Ambarella, Big Lots, ChargePoint, Designer Brands, Dollar General, G-III Apparel, Kroger, Li Auto, Manchester United, Marvel Technology, Patterson Companies, Toronto-Dominion Bank, Ulta Beauty, Veeva Systems, Weber, Zscaler

Fri.

8:30 a.m. Nonfarm payrolls, Unemployment
10:15 a.m. Chicago Fed President Evans speaks on regulation
Earnings: Cracker Barrel, Genesco

Source: MarketWatch/Kiplinger's

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