SANCTUARY

Sanctuary Week Ahead

Mary Ann Bartels
Chief Investment Strategist

Week of **December 5, 2022**

>

Is It Really a Rally?

Fed Chair Jerome Powell spoke last week at the Brookings Institution and set the bond and stock markets on fire with his comments. By stating, "The time for moderating the pace of rate increases may come as soon as the December meeting," he essentially confirmed the Fed will end its 75 basis point interest rate hikes by downshifting to only a 50 basis point hike in December.

As a result, bonds and stocks rallied, and the expected terminal rate ticked down modestly to just below 5%. Powell also noted that "ongoing increases will be appropriate," and he made it very clear that the Fed "will stay the course until the job is done." The question then is: will the markets sustain the rally?

Technically, both the bond and stock markets are at critical levels. The stock market has taken the lead from 10-Year Treasury yields, which have fallen from 4.3% in on October 21 down to 3.49% -- which is a significant technical support level.

The charts indicate the risk of rates moving back up and ultimately reaching 5%. At the same time, the S&P 500 has rallied sharply into resistance near 4100, and the 200-day moving average getting to 4048, with price momentum indicators very overbought. The risk is that December will be a choppy trading market for both bonds and stocks. It looks like any Santa Claus rally came early, starting in October. So maybe the markets will get Scrooged by the holidays.

Meanwhile, the VIX volatility index is down again near 20, which occurred twice already this year, in April and August, each time resulting in an average correction of 14.5%. Should the stock market move past resistance, the next level would be near the 4200-4300 area. If that happens, then the 10-Year Treasury yields would likely fall to 3%. But with the Fed still raising interest rates, we should brace for continued volatility.

S&P 500 and VIX Volatility Index (See Addendum)

Hot Jobs Report Burns Fed Again

Labor supply and demand remains unbalanced, as indicated by the November jobs report, released last Friday. The report was much, much stronger than expected. The employment picture reveals an overheated labor market. Month on month wages were up 0.6% -- double the expected 0.3%. Even better (or worse for the Fed), year-on-year wages, which were expected to be up 4.6%, came in at a whopping 5.1%. Because wages have a strong correlation to inflation, this is not a number the Fed wants to see. Despite the strength of the jobs report, the market is still anticipating the next rate hike in December will be only 50 basis points. But the market is now expecting a slightly higher rate hike by the Fed early next year, from 25 to 50 basis points. Also, the market may begin to price in a longer duration for the higher rates once the Fed gets to its targeted terminal rate. The takeaway is: as long as the Fed is raising interest rates, expect episodic volatility.

US Average Hour Wages Year on Year (See Addendum)

Ready for a Recess-Sin?

Historically, a recession is a good time for 'sin' stocks. Alcohol, tobacco... and now maybe cannabis. A look at Altria Group (MO), we see it's enjoying a little breakout, hitting its highest level this year. Another mover is MJ, an ETF from ETFMG that tracks the Prime Alternative Harvest Index and is "designed to measure the performance of companies within the cannabis ecosystem benefitting from global medicinal and recreational cannabis legalization initiatives." So the market is starting to look at recession-like investments. If the Fed gets its wish and unemployment numbers go up, expect sin stocks to go... higher.

Altria (MO) & ETFMG Prime Alternative Harvest ETF (See Addendum)

Reports Due This Week

As the Fed will home in on any data that indicate price sensitivity, this week's Producer Price Index (PPI) report will get a lot of attention. ISM Manufacturing, previously reported, went into recession territory by breaking 50 and going to 49. It will be interesting to see this week if ISM Services stays strong, because we've seen weakness on the goods side, but the services side has remained strong.

And of course, with jobless claims as a leading indicator of employment, all eyes will be on that report as well. I'll be looking at all the data, all the reports – ready to answer all your questions.

Feel free to contact me to help prepare your clients for the year-end... and 2023.

Mary Ann Bartels
Chief Investment Strategist

SANCTUARY

Sanctuary Week Ahead

Addendum

Week of **December 5, 2022**

S&P 500 and VIX Volatility Index

Source: StockCharts.com 12/2/2022

US Average Hour Wages Year on Year

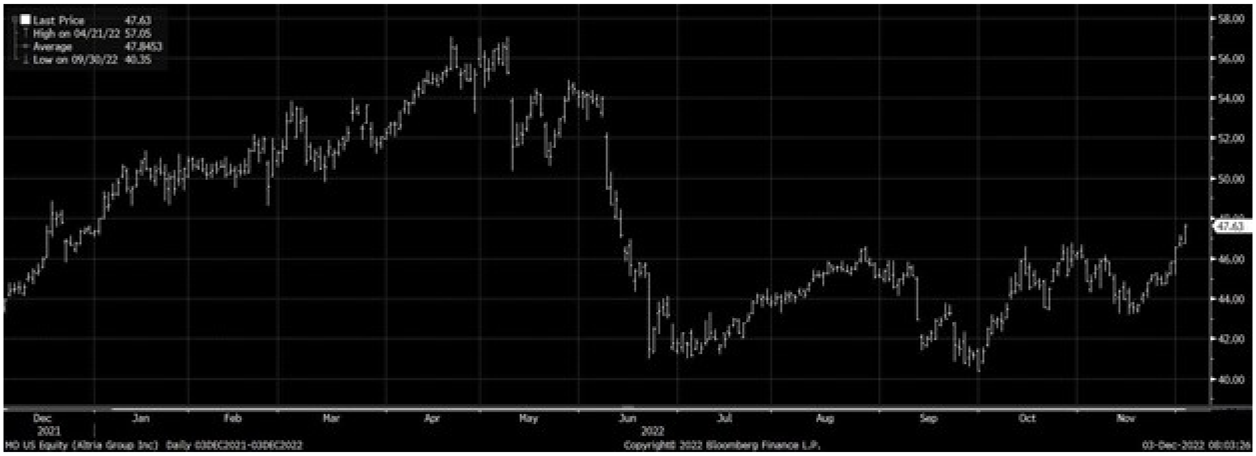
Source: Bloomberg 12/2/2022

SANCTUARY

Sanctuary Week Ahead

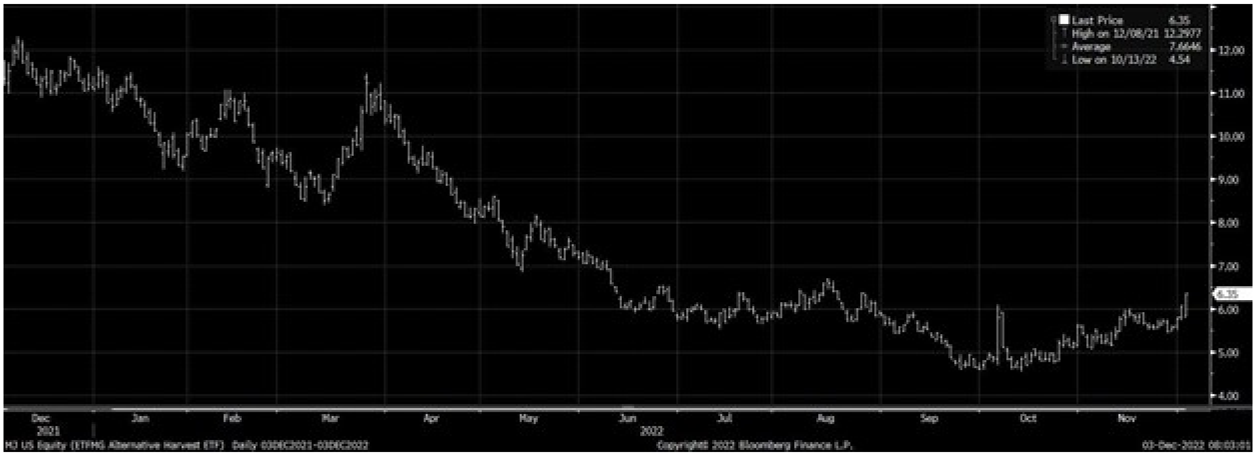
Addendum

Week of **December 5, 2022**



Altria (MO)

Source: Bloomberg 12/02/2022



ETFMG Prime Alternative Harvest ETF

Source: Bloomberg 12/02/2022

Calendar

Mon.

9:45 a.m. S&P U.S. Services PMI
10:00 a.m. ISM services, Factory orders
Earnings: GitLab, Sumo Logic

Tue.

8:30 a.m. Trade deficitJwJew
Earnings: AeroVironment, AutoZone, Casey's General, Conn's. Dave & Busters, MongoDB, Signet Jewelers, Smith & Wesson Brands, Toll Brothers

Wed.

8:30 a.m. Productivity revision, Unit labor costs revision 3:00 p.m. Consumer credit
Earnings: Campbell Soup, Brown-Forman, C3.ai, GameStop, Korn/Ferry, Lovesac, Ollie';s Bargain Outlet, Sportsman's Warehouse, Thor Industries, United Natural Foods, Verint Systems

Thu.

8:30 a.m. Initial & Continuing jobless claims
Earnings: Braodcom, Chewy, Ciena, Costco Wholesale, DocuSign, Domo, Hello Group, lululemon athletica, National Beverage, RH, Vail Resorts

Fri.

8:30 a.m. Producer price index
10:00 a.m. UMich consumer sentiment index & 5-year inflation expectations , Wholesale inventories
Earnings: Cracker Barrel, Genesco, Li Auto, Oracle

Source: MarketWatch/Kiplinger's

250 W. 96th St., Suite 300 Indianapolis, IN 46260
Office: +1 (925) 488-4004 | sanctuarywealth.com