



 Week of  
**January 23, 2023** >

## Markets Respect Resistance

**As last week's earnings and market data was mixed – delivering good news and bad news – the S&P 500 continues to test resistance at 4000 level despite the recent improvement in market breadth (i.e., the number of stocks advancing relative to those that are declining). What was that mixed bag of news?**

Well, the PPI data was good, but both the Retail and Housing data were bad. Meanwhile, Netflix (NFLX), the first FAANG to report this season, announced bad earnings but good subscriber growth; the market treated this as net good news.

As we are in earnings season, we continue to monitor the trend in earnings estimates. Current 4Q 2022 earnings estimates continue to be revised to a negative 3.9% growth rate, according to FactSet. So, the question is: Do analysts believe earnings declines will continue in 2023? The answer is: Yes! FactSet reports that over the past few weeks, earnings expectations for the first and second quarters of 2023 switched from year-over-year growth to year-over-year declines. FactSet also reported that the estimated earnings decline for Q1 2023 is negative 0.6%, and the estimated earnings decline for Q2 2023 is negative 0.7%. So, it is very possible we are just entering a "profits recession"—when aggregate earnings have year-over-year declines for two or more quarters in a row.

Stocks historically do not perform well during a profits decline. So, we expect equities to remain volatile. But we also continue to believe the Bull is already running, specifically in the commodity-sensitive Value pockets of the market. We'd advise investors to focus on where the market does have positive earnings. For example, two sectors we like, Energy and Industrials, are projected to have positive earnings in Q1 2023.

## Here We Go Again... Debt Ceiling is Reached

The government has reached the \$31.4 trillion debt ceiling, so Congress now begins the negotiations of raising it even higher. Historically, markets decline during such negotiations – but they rally afterwards. The worst drop in recent history occurred during the debt ceiling crisis in the summer of 2011 when the U.S. also had an unexpected debt downgrade and lost its triple A rating. Stocks fell 15% and it took several months to recover.

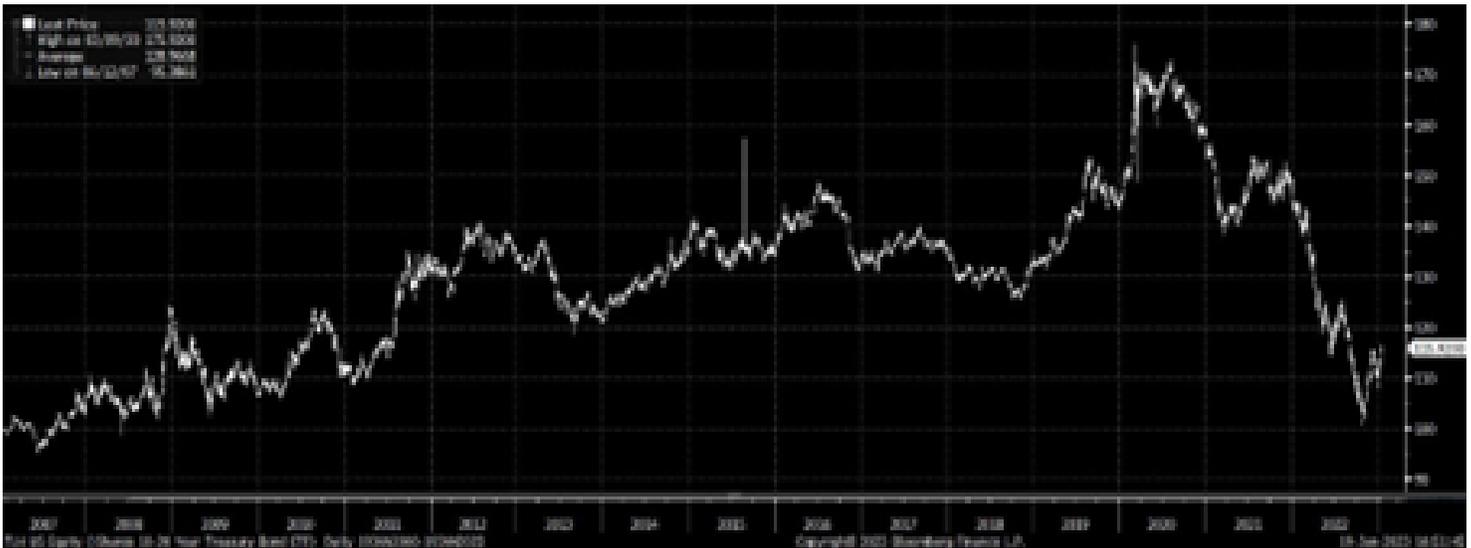
But let's be optimistic! Last weekend was the Chinese New Year and in the Chinese zodiac we move from the Year of the Tiger to the Year of the Rabbit. The Rabbit, considered the luckiest sign, is said to bring a sense of calm and stability – and we can really use some of that astrology magic now. But I have to divulge that the last Year of the Rabbit was 2011 (uh-oh). So, a sober reading of the stars (and stripes) says it can take some time for the government to resolve the debt ceiling – yet another factor that can keep volatility high in the markets.

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### Have Bonds Bottomed? We Say Yes

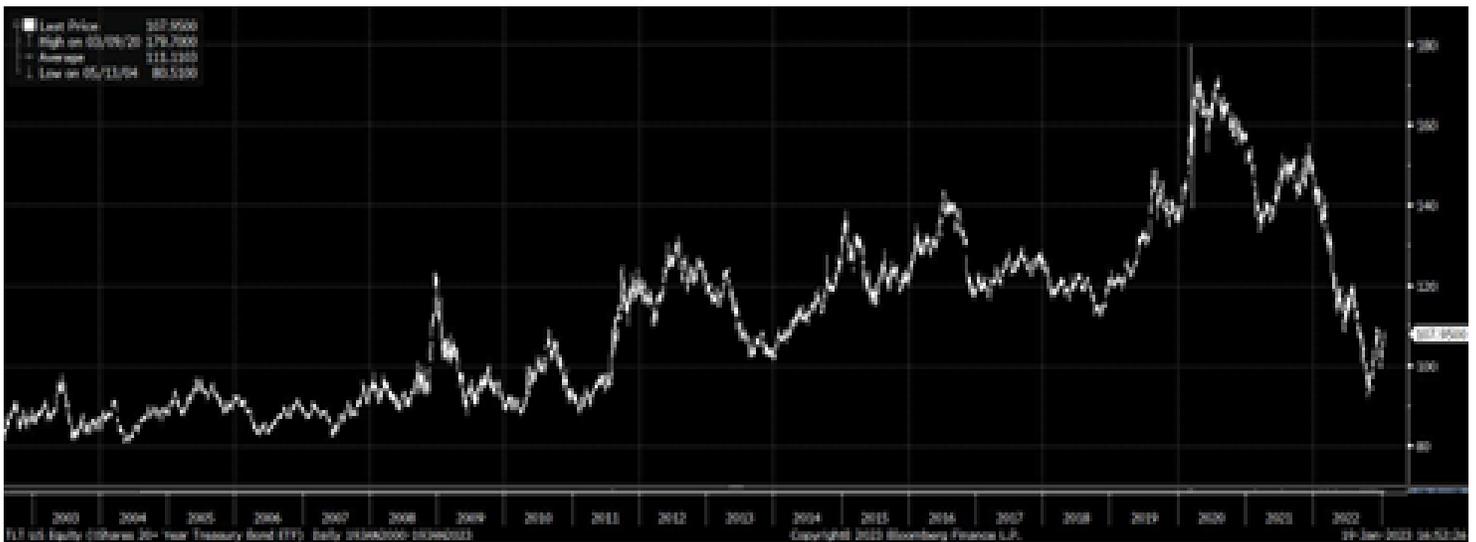
It's been our belief that yields have been peaking, so this week we look at two ETFs: the iShares 20+ Year Treasury Bond ETF (TLT) and the iShares 10-20 Year Treasury Bond ETF (TLH). In our view, both appear to have bottomed. Historically, bonds bottom a few months before the ISM data begins to show signs of an economic contraction. Both ISM Manufacturing and ISM Services are in contraction territory, trading below the level of 50. This suggests bond prices have bottomed. (Remember: bond prices and yields are inversely related.) Granted, bond prices might continue to bounce around a bit, but, in our view, Treasury bonds can offer diversification, stability and a coupon to a portfolio.

#### iShares 10-20 Year Treasury Bond ETF (TLH)



Source: Bloomberg 1/19/2023

#### iShares 20+ Year Treasury Bond ETF (TLT)



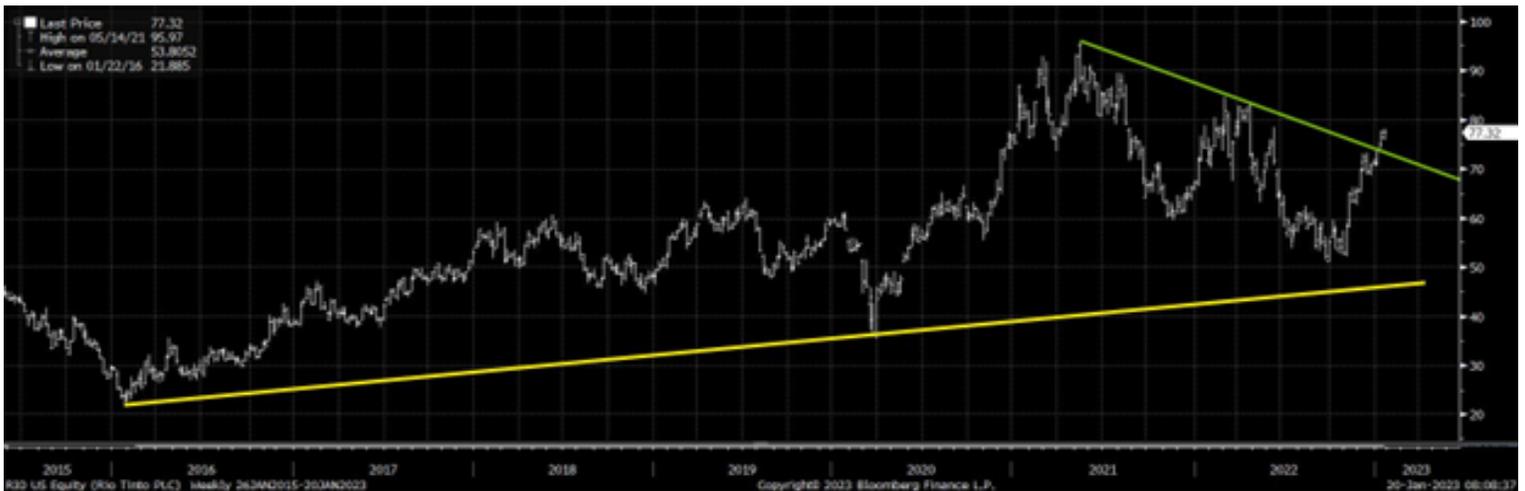
Source: Bloomberg 1/19/2023

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### A Stock That Caught Our Eye - Rio Tinto ADR

Rio Tinto (RIO) Anglo-Australian metals and mining company. We like Commodities and the Materials sector which is where Rio is positioned. The chart is upward biased and recently consolidated and broke-out to the upside. An ADR is available to invest in and the stock is cheap trading at 8.8x earnings and is yielding 6.9%. It has low leverage with debt-to-assets at 13% and debt-to-equity at 26%. We view this as an interesting way to get international exposure and yield.

#### Rio Tinto ADR



Source: Bloomberg 1/19/2023

#### Do We Stand Corrected?

This is the week that will determine whether the S&P can break above resistance – if it fails, it will indicate we're in a correction.

This week is jammed with important economic data being released, but we will keep an eye on 4Q 2022 GDP and the Fed's favorite inflation measure: the Price Consumption Expenditure (PCE). PCE will be an important data point as the Fed will be deciding on its next interest rate move. The February 2 announcement is expected to be an increase of 25 basis points -- a tick down from the last rate hike of 50 basis points, but another hike all the same.



# Calendar

Mon.

**10:00 a.m.** Leading economic indicators  
**Earnings:** Baker Hughes, Bank of Hawaii, Brown & Brown, F.N.B., Logitech International, Synchrony Financial, Umpqua, Zions Bancorp

Tue.

**9:45 a.m.** S&P U.S. manufacturing & services PMI  
**Earnings:** 3M, Agilysys, Canadian National Railway, Capital One Financial, D.R. Horton, Danaher, F5 Networks, General Electric, Halliburton, Intuitive Surgical, Invesco, Johnson & Johnson, Lockheed Martin, Microsoft, Navient, Old National Bancorp, PACCAR, Raytheon Technologies, Texas Instruments, Travelers, Union Pacific, Veritex Holdings, Verizon, WesBanco, Western Alliance Bancorp

Wed.

**8:30 a.m.** Producer price index final demand  
**Earnings:** Abbott Labs, ASML, AT&T, Automatic Data Processing, Axalta Coating Systems, Boeing, Boot Barn Holdings, Crown Castle, CSX, Ethan Allen, Flex, Freeport-McMoRan, General Dynamics, Hess, International Business Machines, Kimberly-Clark, Lam Research, Las Vegas Sands, Lending Club, Levi Strauss, NextEra Energy, NextEra Energy Partners, Norfolk Southern Packaging Corp, Progressive, Raymond James, Seagate Technology, ServiceNow, SL Green Realty, Steel Dynamics, Tesla, Textron, U.S. Bancorp, United Rentals, West Fraser, Wolfspeed

Thu.

**8:30 a.m.** Initial jobless claims, Continuing jobless claims, Real gross domestic product, first estimate (SAAR), Real final sales to domestic purchasers, first estimate (SAAR), Trade in goods (advance), Durable goods orders, Core capital goods orders, Chicago Fed national activity index  
**10:00 a.m.** New home sales (SAAR)  
**Earnings:** Alaska Air, American Airlines, Archer-Daniels-Midland, Blackstone, CNX Resources, Comcast, Dow, Eastman Chemical, Federated Hermes, Intel, JetBlue Airways, KLA Corporation, L3Harris, Marsh McLennan, Mastercard, McCormick, Nokia, Northrop Grumman, Nucor, Olin, Oshkosh, Rockwell Automation, SAP, Sherwin-Williams, Southwest Airlines, STMicroelectronics, T. Rowe Price, Tractor Supply, U.S. Steel, Valero Energy, Visa, Weyerhaeuser, Xerox

Fri.

**8:30 a.m.** Real disposable incomes (SAAR), Real consumer spending (SAAR), PCE price index, Core PCE price index, PCE price index, year-over-year, Core PCE price index, year-over-year  
**10:00 a.m.** UMich consumer sentiment index, UMich 5-year consumer inflation expectations, Pending home sales  
**Earnings:** American Express, Booz Allen Hamilton, Charter Communications, Chevron, Charter Communications, Colgate-Palmolive, LyondellBasell, WisdomTree

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