



Week of
January 30, 2023

“As Goes January, So Goes The Year” – It’s Looking Good!

Wall Street has an old adage: “As goes January, so goes the year” – which means that: if the January return in the equity market is positive, the full year will be positive, but if the month is negative, expect a negative return on the year. Need proof? Just look at 2022.

This market observation was devised back in 1972 by Yale Hirsch, who founded the Stock Trader’s Almanac series. His barometer’s record has been quite accurate. According to the Stock Trader’s Almanac, since 1950, whenever the S&P 500 had positive returns in the month of January, the average return for the full year was 17.6%. The barometer has registered just eleven yearly errors over that time frame, resulting in 84.5% accuracy. With only two trading days left this month, it is safe to say January should post a positive gain, giving a bullish signal for the year.

Adding to this bullish reading is another observation from Mr. Hirsch, this one involving the third year of the U.S. presidential cycle, which overlaps with the strongest market gains during a president’s term. According to this theory, since 1933, the S&P 500 has had an average return of 16.3% during a president’s third year. This is year three for Joe Biden, and it’s just another good sign that the Bull is already running – a theme we have had since December with our Year Ahead Outlook.

What are the Technicals Saying?

As of this writing, the S&P 500 has rallied 6.0%, Nasdaq is up nearly 11%, and Small Caps are up 8.6%. With this rally, the “breadth of the market,” which is the number of advancing issues relative to the number of declining issues,” has been improving – which confirms that this rally has importance. New highs versus new lows have also confirmed the rally. But the rally has created a short-term overbought condition.

A market breadth indicator that has had a good track record of tactical readings is called the McClellan Oscillator. Developed by Sherman and Marian McClellan, the McClellan Oscillator is a breadth indicator derived from net advances, which is the number of advancing issues less the number of declining issues. Subtracting the 39-day exponential moving average of net advances from the 19-day exponential moving average of net advances forms the oscillator. As the formula reveals, the McClellan Oscillator is a momentum indicator that works similar to MACD (the Moving Average Convergence / Divergence, a trend-following momentum indicator). The current reading would suggest a pullback or correction could occur in the market. Confirming this signal is the daily price momentum indicator called the Stochastic, which is showing the market as overbought near-term.

This week there will be a much-anticipated meeting of the U.S. Federal Reserve (the Fed), with a press conference from Chairman Jerome Powell. The market and economic data continue to suggest that the Fed will again raise interest rates but at a slower pace of only 25 basis points, taking the Fed Funds rate to 4.75%. It’s important to note that employment data is still strong and inflation levels are still significantly above the Fed’s target of 2%. The annual rate on the Consumer Price Index (CPI) is at 6.5%, and Personal Consumption Expenditures (PCE) rate is at 4.4%. Against this backdrop, it is fair to expect hawkish comments from Chairman Powell on Wednesday. So, if the markets pull back in February, the question will be: is it time to buy?

The Best Buying Opportunity Since 2009

With the improvement in the technicals, it is possible now that the October lows will not need to be tested. This conflicts with the current earnings story, as it does appear we are in an earnings recession – coinciding with a tight monetary policy and a hawkish bias from the Fed. But, as we have posited, the Bull is already running in the commodity-sensitive sectors of Energy, Industrials and Materials, i.e., the Value area of the market. We remain concerned that Technology and tech-like names, i.e., the Growth area, is where the Bear is staking its claim. When we take a longer-term view by using the monthly price momentum stochastic on the S&P 500, we see the indicator is approaching an oversold reading that we have not seen since 2008-2009 – giving investors the best buying opportunity since 2009!

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S&P 500 Index with Monthly Price Momentum Stochastic



Source: Bloomberg 1/27/2023

Much To Watch This Week

This is the week that the Fed meeting might resolve the current disconnect between what the Fed is saying about the terminal rate (5.1% target) and what the market is expecting the Fed to actually do (stop at <5%).

It's a perfect storm of data this week, with the Fed meeting, earnings, and employment data.

All eyes will be on the Fed's statements which will be most important and likely the driver of the next move in the markets. Short-term resistance on the S&P 500 is 4000-4100; a break and hold above 4100 will set a bullish bias to the markets. We are more in the camp that there could be a pullback to 3900-3877. If the technicals stay constructive, it is possible that the October lows do not need to be tested. This is the heaviest week of the earnings season, with 20% of the S&P 500 companies reporting. Investors will be paying attention.

Last but certainly not least, there will be employment data released every day from Tuesday through Friday. The strength of the labor market, especially the initial jobless claims (Thursday), remains a major concern for the Fed. And therefore, it's a concern for all investors.



Calendar

Mon.

Earnings: AGNC Investment, Alexandria Real Estate Equities, Cadence Bank, Franklin Resources, GE HealthCare Graco, Helmerich & Payne, J&J Snack Foods, NXP Semiconductors, Phillips, PotlatchDeltic, SoFi Technologies, Whirlpool

Tue.

8:30 a.m. Employment cost index

9:00 a.m. S&P Case-Shiller home price index (SAAR), FHFA home price index (SAAR)

10:00 a.m. Advanced Micro Devices, Amgen, A.O. Smith, Ashland, Boston Properties, Caterpillar, Canadian Pacific, Corning, Dover, Edwards Lifesciences, Electronic Arts, Exxon Mobil, General Motors, Hawaiian Holdings, International Paper, Juniper Networks, Marathon Petroleum, Match Group, McDonald's, Mondelez International, NVR, Pfizer, Phillips 66, Pitney Bowes, PulteGroup, Snap, Super Micro Computer, Sysco, UPS, Western Digital

Wed.

8:15 a.m. ADP employment report

10:00 a.m. Job openings Quits, Construction spending

2:00 p.m. Federal funds rate, Federal funds projection, Fed Chair Jerome Powell news conference

Earnings: ADTRAN, Aflac, Altria, Align Technology, Allegiant Travel, Allstate, AmerisourceBergen, Boston Scientific, Brinker, C.H. Robinson Worldwide, Corteva, DXC Technology, e.l.f. Beauty, eBay, Evercore, Fortive, Hologic, Humana, Kulicke & Soffa, McKesson, Meritage Homes, Meta Platforms, MetLife, MGIC Investment, NETGEAR, Novartis, Old Dominion, Otis Worldwide, Peloton Interactive, Qorvo, Rayonier, Scotts Miracle-Gro, Thermo Fisher Scientific, T-Mobile, Waste Management

Thu.

8:30 a.m. Initial jobless claims, Continuing jobless claims, Productivity, first estimate (SAAR), Unit labor costs, first estimate (SAAR), Core capital goods orders

Earnings: ABB, Air Products, Alibaba Group Holding, Alphabet, Amazon.com, Apple, Atlassian, Avery Dennison, Ball, Becton Dickinson, Beazer Homes, Bio-Techne, Bristol-Myers Squibb, Boyd Gaming, Canada Goose, Cardinal Health, Cirrus Logis, Clorox, ConocoPhillips, Deckers Outdoor, Eli Lilly, Estee Lauder, Ferrari, Ford Motor, Gilead Sciences, GoPro, Grainger, Hanesbrands, Harley-Davidson, Hershey Foods, Honeywell, Hub Group, Illinois Tool Works, Lear, Magellan Midstream, Merck, MicroStrategy, News Corp., Oshkosk, Parker-Hannifin, PENN Entertainment, Qualcomm, Quest Diagnostics, Sirius XM, Skechers USA, Stanley Black & Decker, Starbucks, Synaptics, U.S. Steel, Under Armour, World Wrestling Entertainment

Fri.

8:30 a.m. Nonfarm payrolls, Unemployment rate, Average hourly earnings, Labor-force participation rate, 25-54 year-olds

10:00 a.m. ISM services index

Earnings: Aon, Brookfield Renewable Partners, Cboe Global Markets, Church & Dwight, Cigna, LyondellBasell, Regeneron Pharmaceuticals, Saia, Sanofi

Source: MarketWatch/Kiplinger

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