



 Week of
February 13, 2023

Staying The Course

So far, the Federal Reserve has been true to its word: as long as employment data is strong, the Fed's actions will remain restrictive. Is the data strong? Right now there are 11 million job openings – near record highs!

The concern is that there are not enough employees to fill the jobs that are open. The concern is that this could put upward pressure on wages, keeping inflation elevated. Fed Chair Powell did acknowledge that the Fed would now be data-dependent (just as we've previously said they were!). And what data will the Fed care about? This week's CPI report for a start – which will also be important for the bond and stocks markets.

Job Openings Total Non-farm Near Record Highs



Source: St. Louis Federal Reserve, February 10, 2023

Rates Push Higher, Pressuring Stocks

The S&P 500 broke out above its downtrend line that has been in place since December 2022 into January 2023 with confirmation from both breadth and volume. Resistance was tested at the 100-week moving average near 4200. After a breakout happens, it is often tested. In this case, the 4000 level can be tested and still keep the breakout intact. The rally in January created overbought conditions – so we believe the market is recycling and testing the breakout – we expect this to be successful. Too many cyclical sectors and industry groups have also broken out, confirming the move in the market.

S&P 500 Weekly Price Chart

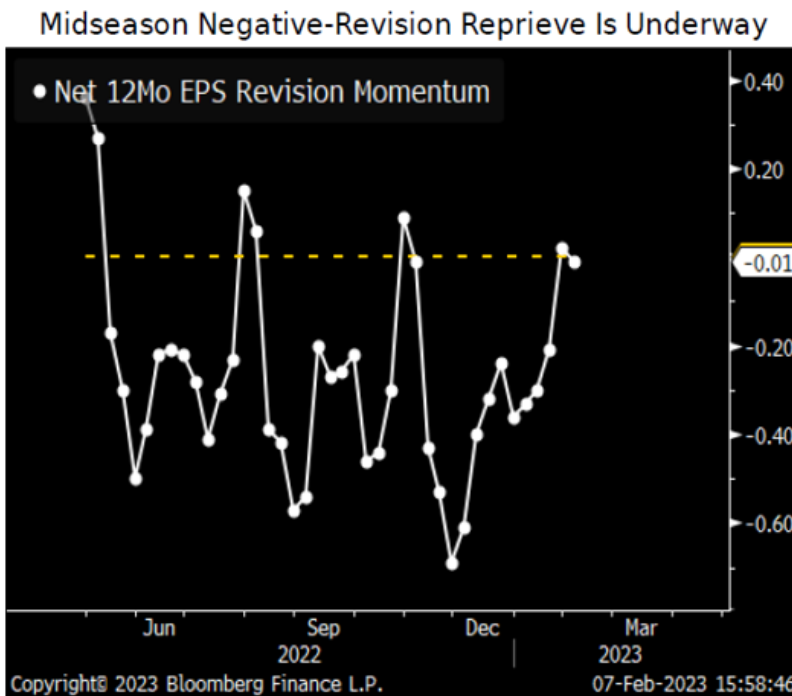


Source: Bloomberg, February 10, 2023

Why Would Stocks Be Breaking Out?

There is a strong positive correlation between stock prices and the momentum of earnings estimate revisions (i.e., the number of positive minus negative revisions, divided by the total). Earnings estimates are one of the best predictors of future stock price action. The 12-month earnings estimate revision ratio has been improving and just ticked positive in January. Note that estimate downgrades bottomed and turned in late November / early December, just after the market bottomed in October. The market seems to be reacting to this improvement in estimate revisions.

12-Month Earnings Estimate Revisions Have Ticked Positive



Source: Bloomberg Intelligence, February 7, 2023

Early Cyclical Indicator Appears to Have Bottomed

Bank of America's Truckload Demand Indicator for shippers' 0- to 3-month outlook for freight demand increased to 51.3 from 47.5 last survey, up 8% sequentially. The Demand Indicator moved above 50 after being in the 40s for seven of the prior eight surveys, as shippers' demand outlook stabilizes. The Demand Indicator appears to have troughed. This supports the breakout in the Dow Jones Transportation Average (DJTA).

Bank of America Shipper's Demand Indicator

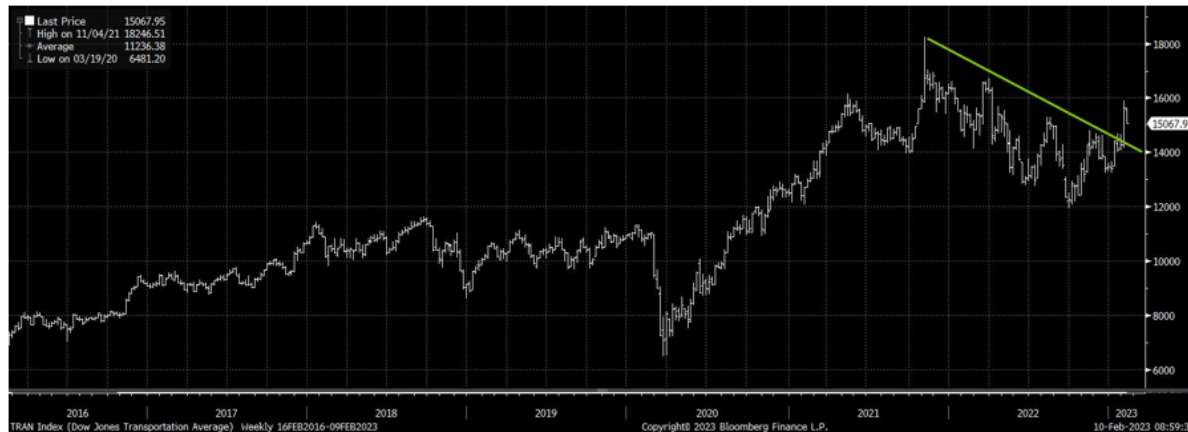
Shipper's view of demand next 0-3 months; Demand Indicator at 51.3



Source: BofA Global Research.

Source: Bank of America, January 27, 2023

Dow Jones Transportation Index



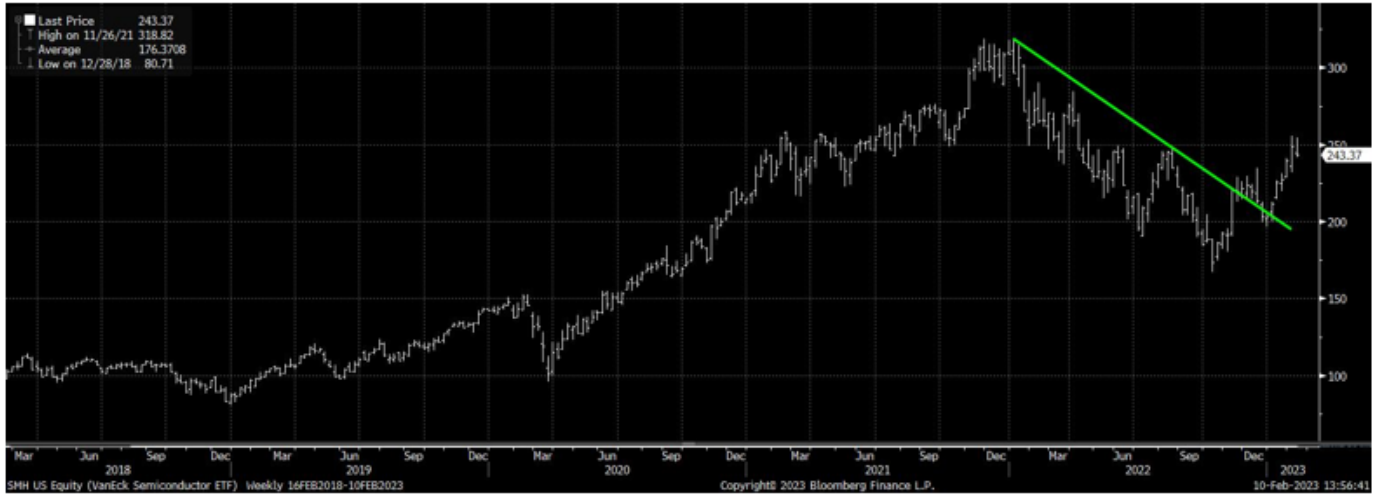
Source: Bloomberg, February 10, 2023

Circling Back on Semis

One of our recent themes worth reiterating is what's happening with Semiconductors. We've noted that the beta rally in Growth is likely to continue and outperform near term. If you're looking to participate here, then we'd point toward Semis. Why? They fit the theme of the digital era and are an integral part of the long-term growth story within Technology. The sector has had a significant technical breakout from a downtrend and is pointing to a test of 300 or a more than 20% move from current levels. We believe this means that the Semi sector is on track to beat both the S&P 500 and Nasdaq 100.

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VanEck Semiconductor ETF (SMH)

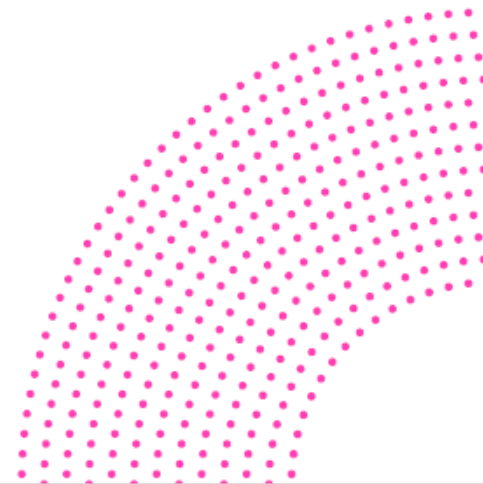


Source: Bloomberg, February 10, 2023

The Price Is Right?

This is the week that all eyes will be on the CPI data.

There will be important retail sales data released this week that will tell us more about consumers' current behavior and sentiment – but what matters most will be the Consumer Price Index numbers. Both bond and stock markets should react positively if inflation data comes in even with or below expectations. Anything above expectations should put pressure on rates and the market.





Calendar

Mon.

11:00 a.m. NY Fed 1 & 5 year inflation expectations

Earnings: Advance Auto Parts, Amkor Technology, Angi, Avis Budget, Cadence Design, Check Point Software Technologies, Denny's, FirstEnergy, IAC, Medpace Holdings, Otter Tail Power, Palantir Technologies, SolarEdge Technologies, Vornado Realty Trust

Tue.

6:00 a.m. NFIB small-business index

8:30 a.m. Consumer price index

Earnings: Airbnb, Akamai Technologies, Andersons, Cleveland-Cliffs, Comstock Resources, Coca-Cola, Conduent, Devon Energy, GoDaddy, GlobalFoundries, GXO Logistics, Herbalife Nutrition, Howmet Aerospace, Marriott International, Peabody Energy, Restaurant Brands International, Service Corp, Suncor Energy, TransUnion, TripAdvisor, Upstart, Weber, Zoetis

Wed.

8:30 a.m. Retail sales, Empire state manufacturing index

9:15 a.m. Industrial production index, Capacity utilization rate

10:00 a.m. NAHB home builders' index, Business inventories

Earnings: Albemarle, Alkermes, American International Group, American Water Works, Analog Devices, Barrick Gold, Biogen, Boston Beer, CF Industries, Choice Hotels, Cisco Systems, Community Health, Energy Transfer, Equinix, Fastly, Fisker, Generac, Hecla Mining, InterDigital, Infinera, Invitation Homes, Kraft Heinz, Krispy Kreme, Lithia Motors, Marathon Oil, Martin Marietta Materials, Nu Skin, Nutrien, Paramount Group, Owens Corning, Roblox, Roku, Royal Gold, Seagen, Shopify, STAG Industrial, Sunoco, SunPower, Synopsys, The Trade Desk, Twilio, Upwork, Wyndham Hotels & Resorts, Zillow

Thu.

8:30 a.m. Initial jobless claims, Continuing jobless claims, Producer price index final demand, Building permits, Housing starts, Philadelphia Fed manufacturing survey

10:00 a.m. Real household debt (SAAR)

Earnings: Agnico-Eagle Mines, Applied Materials, Atlas Air Worldwide, BJ Restaurants, Bloomin' Brands, Chuy's, Cohu, Constellation Energy, ConEdison, Crocs, Datadog, Digital Realty Trust, DigitalOcean, DoorDash, DraftKings, Dropbox, Entergy, Hasbro, Henry Schein, HubSpot, Hyatt Hotels, Laboratory Corp, Organon, Paramount Global, Pool, Shake Shack, ShockWave Medical, Southern, Texas Roadhouse, Tower Semiconductor, US Foods, Vulcan Materials, WeWork, Zebra Technologies

Fri.

8:30 a.m. Import price index

10:00 a.m. Index of leading economic indicators

Earnings: AMC Networks, Arbor Realty Trust, AutoNation, Barnes Group, CenterPoint Energy, Deere

Source: MarketWatch/Kiplinger

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