The Longo Group

Independent Financial Firm

Week Ahead

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The Longo Group
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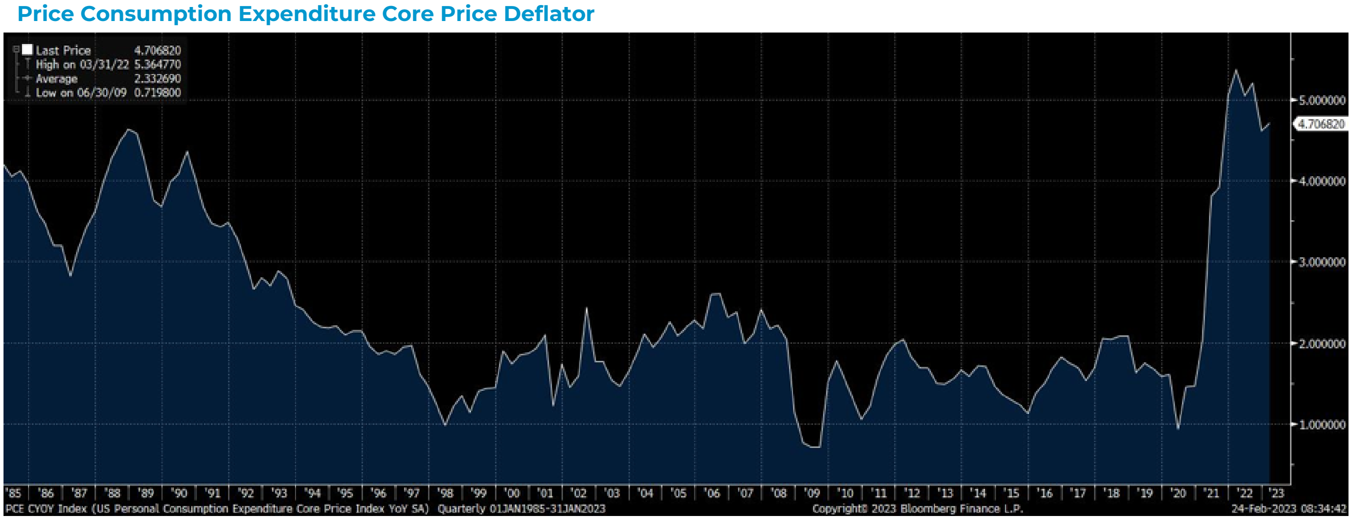
Week of
February 27, 2023

Inflation Remains in Focus, Arguing for Higher Rates

Last Friday, one of the Fed's favorite measures of inflation, the PCE Core Price Deflator, came in hotter (4.7%) than expected (4.3%) – and the data had already been revised the previous month higher to 4.6% from 4.4%.

So, this report was in line with the trend we just saw with the overheated CPI and PPI numbers. Data does not trend in one straight line so occasional upticks in inflation should be expected. This data will keep the Fed on the same course of raising interest rates as expected. The Terminal Rate is now expected to be 5.3%-5.5%. But examining the chart of PCE (below), it still looks like the data is peaking. Importantly, as long as interest rates are going up, markets will remain volatile.

Price Consumption Expenditure Core Price Deflator



Source: Bloomberg, February 24, 2023

Job Market Still Strong

Initial jobless claims, reported weekly, are a good barometer for measuring the job market. Claims are currently running below 200,000, and this indicates a strong job market. The Fed would like a soft economic landing – one that doesn't squash the job market – but jobless claims below the 200,000 threshold means the Fed will continue to believe that inflation is a risk. In order for the Fed t feel confident that it's succeeding in slowing down the economy – and by extension, inflation – we'll need to see jobless claims rise above the 200,000 mark.

Week of
February 27, 2023

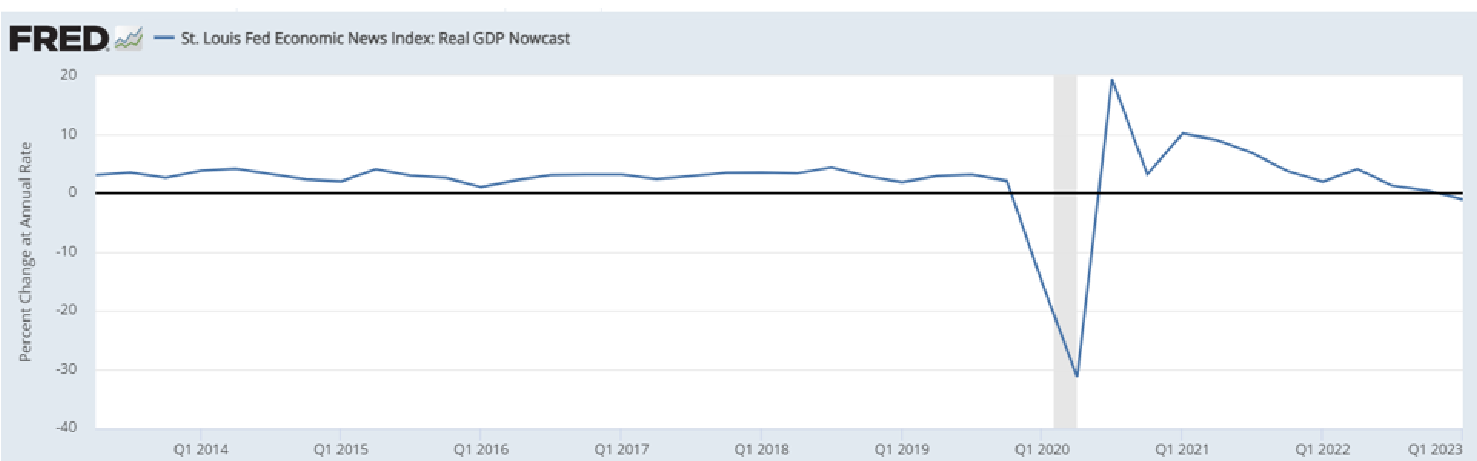
Initial Jobless Claims

Source: Bloomberg, February 24, 2023

St. Louis Fed GDP Nowcast has Moved Negative for 1Q23

An indicator we are watching for a hint that the economy is slowing down is the Real GDP Nowcast model maintained by the St. Louis Federal Reserve. As of now, the model is forecasting 1Q23 to be negative at 1.10%. This model gets updated as economic data impacting the model is released. But this is a positive sign that the interest rate hikes, dating back to March of 2022, are beginning to have an impact on the economy. The impact from changes to Monetary Policy typically lags by 12 to 18 months. We are coming up on the one-year anniversary (3/17) of the Federal Reserve beginning its tightening cycle of raising rates. Therefore, considering the expected lag, we should start seeing the impact.

St. Louis Federal Reserve Real GDP Nowcast



Source: St. Louis Federal Reserve, February 24, 2023

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February 27, 2023

History of Federal Reserve Rate Hikes in this Cycle

FOMC Meeting Date	Rate Change (bps)	Federal Funds Rate
Jan 31 to Feb 1	+25	4.50% to 4.75%
Dec 14, 2022	+50	4.25% to 4.50%
Nov 2, 2022	+75	3.75% to 4.00%
Sept 21, 2022	+75	3.00% to 3.25%
July 27, 2022	+75	2.25% to 2.50%
June 16, 2022	+75	1.5% to 1.75%
May 5, 2022	+50	0.75% to 1.00%
March 17, 2022	+25	0.25% to 0.50%

Source: Forbes, February 1, 2023

S&P 500 Still Consolidating Gains

The S&P 500 is still consolidating the gains from January. We believe the market handled this hotter inflation print very well. Two months ago, we would have seen markets fall 2%-3% on the release of the PCE inflation data with a spike in the VIX volatility index. With a more modest decline on Friday – with volatility not spiking – tells us this is more of a consolidation. Volume was also modest on the decline – no massive selling. The breakout level is holding, and a test of the breakout can now flirt with 3980-3955 and still maintain the breakout. The 200-day moving average is holding at 3940. The 14-day Stochastic is now into oversold territory. More backing and filling or churnin the market should be expected before a buy signal is generated. We remain buyers of this pullback.

S&P 500 Daily Chart with 14-Day Stochastic

Source: Bloomberg, February 23, 2023

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Source: Forbes, February 1, 2023

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Source: Bloomberg, February 23, 2023

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US 10-Year Treasury Yields Holding 4% Level

We continue to monitor the yield on the 10-Year Treasury. Yields have been testing the 4% area and so far, they are holding. There is strong historical resistance at this level. Where can we be wrong? If the Fed decides it needs to raise rates to 6%. If that were to happen, we would then expect the 10-Year Treasury yield to trend above 4% and hit a new high with risk of 5%. Either way, we are getting closer to the end of the rate cycle. Investors remain strong buyers of Treasuries.

10-Year Treasury Yi

Source: Bloomberg, February 24, 2023

Hawks & Doves, Lions & Lambs

This is the week that we gird ourselves for the uncertainty of March.

We may not need to wait for the Ides of March to foreshadow trouble in the markets. Volatility is already in the stars. So, will we see a pattern of "in like a Lion, out like a Lamb" for the coming month? We expect Fed sentiment and commentary to remain hawkish (our Lion) up until the next meeting on March 22nd. It's a foregone conclusion that there will be another rate hike. Currently 29% of the Street is expecting a 50 bps increase. And that's what the Fed will do if it believes that level of a hike will make inflation more "Lamb-like." Still, we don't expect a slaughter.

Calendar

Mon.

8:30 a.m. Durable goods orders, Core orders
10:00 a.m. Pending home sales
Earnings: AAON, ACADIA Pharmaceuticals, AES, Darling Ingredients, Fisker, Freshpet, Groupon, James River Group, LendingTree, Li Auto, Lordstown Motors, Oak Street Health, Occidental Petroleum, Pinnacle West, Range Resources, TTEC Holdings, Universal Health, Workday, Zoom Video

Tue.

8:30 a.m. Advanced U.S. trade balance, retail inventories & wholesale inventories
9:00 a.m. Case-Shiller U.S. home price index (20 cities)
9:45 a.m. Chicago Business Barometer
10:00 a.m. Consumer Confidence
Earnings: 3D Systems, ADT, Advance Auto Parts, Agilent, Ambarella, AMC Entertainment, AutoZone, Axon, Blink Charging, Builders FirstSource, CarGurus, Cracker Barrel, Celsius, Clean Energy Fuels, Compass, Coupang, Cronos Group, Duolingo, First Solar, Frontline, GoodRx, Gogo, Grocery Outlet, HP, International Game Technology, J.M. Smucker, Manchester United, Melco Resorts & Entertainment, Monster Beverage, Myriad Genetics, Nexstar, Norwegian Cruise Line, Perrigo, PubMatic, Rivian Automotive, Rocket Companies, Ross Stores, SeaWorld Entertainment, Target, Urban Outfitters, Virgin Galactic, Warby Parker

Wed.

10:00 a.m. ISM manufacturing, Construction spending
Earnings: Abercrombie & Fitch, ACI Worldwide, Bluebirdbio, Box, Clean Harbors, Dine Brands, Dollar Tree, Donaldson, Funko, Hilton Grand Vacations, Horizon Therapeutics, Inovio Pharmaceuticals, Jack In The Box, Jazz Pharmaceuticals, Kohl's, LL Flooring Holdings, Lowe's, Nio, Okta, Plug Power, Pure Storage, Royal Bank of Canada, Salesforce, Signify Health, Snowflake, Splunk, Starwood Property Trust, Tupperware, Weibo, Wendy's

Thu.

8:30 a.m. Initial jobless claims, Productivity (revision)
Earnings: AerCap, Anheuser-Busch InBev, Best Buy, Big Lots, Bilibili, Broadcom, C3.ai, ChargePoint, Costco Wholesale, Dell, Hewlett Packard Enterprise, Hormel Foods, Kroger, Macy's, Marvell Technology, Nordstrom, Portillo's, Six Flags, Smith & Wesson Brands, Sprouts Farmers Market, Stratasys, Toronto-Dominion Bank, Utz Brands, Victoria's Secret, Vivint Smart Home, VMware, Yamana Gold, Zscaler

Fri.

10:00 a.m. ISM services
Earnings: Hibbett

Source: MarketWatch/Kiplinger