The Longo Group
Independent Financial Firm

Week Ahead

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Week of
April 3, 2023

And That's a Wrap Folks

First quarter 2023 is in the books with the S&P 500 up 7% and the Nasdaq Composite up nearly 17%. Nasdaq had its best quarter since 2020).

To be up in this environment is simply amazing when you consider that the Federal Reserve has raised interest rates nine times in a row – and will continue to do so as the terminal rate is now targeted at 5.125%. Plus, the higher rates have finally shown the cracks in the system with a run on regional banks and two of them needing to be taken over by regulators. But here we are. So, this week we look at how or why this situation became possible.

PCE Inflation Comes in Tame – Data Peaking

The Fed's favorite inflation measure – Price Consumption Expenditure (PCE) – came in at 5.0% YOY, slightly better than the expected 5.1% YOY. This gave the markets a sigh of relief. Inflation remains higher than the Fed's target of 2%, giving Chair Powell & team room to continue to raise interest rates. There's a mismatch of expectations because, conversely, the markets are still expecting the Fed to cut interest rates this year. As a result, we can all expect periods of volatility.

Year over Year Price Consumption Expenditure

Source: BofA Global Strategy, March 21, 2023

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Sentiment and Positioning – Too Bearish Leads to Bullish Price Behavior

Sentiment is not a good timing tool, but it does give you a good sense of how investors are approaching their investment decisions. On the other hand, positioning is a much more powerful indicator. The theory for both sentiment and positioning is that if everyone is positioned the same, the opposite will happen. Given the higher interest rates, even globally, the earnings contractions and the fear of a recession, investors are currently positioned in a very defensive way. That's why we see Cash is King again. But having so much cash on the sidelines is a recipe for risk assets to go up. Current investor sentiment is on par with the low point levels of pessimism we've seen over the past 20 years. So, these are extreme bearish sentiment levels – which historically are aligned with stocks rallying!

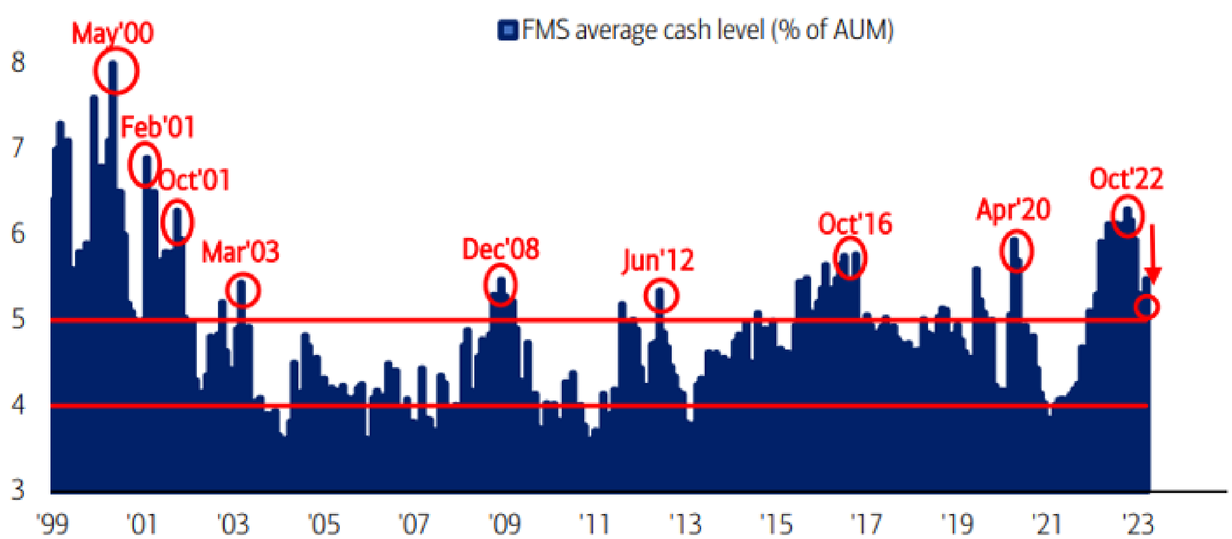
BofA Fund Manager Survey Metrics at Levels Consistent with Prior Market Lows

	Dotcom Dec'00-Mar'01	GFC Jul-Oct'08	Euro Debt Crisis Nov'11-Apr'12	COVID Mar-Apr'20	Average	Today	Extreme Bear Low
BofA FMS Cash % of AUM	**8.0**	**5.4**	**5.3**	**5.9**	**6.2**	**5.5**	✓
BofA FMS Stronger economy	**-59**	**-65**	**-29**	**-49**	**-51**	**-51**	✓
BofA FMS Stronger profits	**-52**	**-74**	**-41**	**-64**	**-58**	**-57**	✓
BofA FMS Lower short-term rates*	**85**	**83**	**30**	**61**	**65**	**57**	✓
BofA FMS Equities net OW %	**-**	**-45**	**-7**	**-27**	**-26**	**-27**	✓
BofA FMS Bonds net OW %	**-**	**26**	**-23**	**-13**	**-3**	**1**	✓
BofA Bull and Bear Indicator	-	0.0	0.0	0.0	0.0	3.4	X
BofA Breadth Rule	-96%	-89%	-96%	-91%	-93%	-42%	X
BofA GWIM equity AA (% AUM)	-	39%	48%	54%	47%	59%	X
Equity flows (for $100 inflow, $x outflow)	-	-113	-53	-61		-3	X
Total equity outflow (% AUM)	-	6.8%	2.6%	2.8%	2.8%	0.3%	X

SSource: BofA Global Strategy, March 21, 2023

Cash Levels Elevated

FMS average cash level (% of AUM)



SSource: BofA Global Strategy, March 21, 2023

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S&P 500 Holding Support But Risk is to the Downside

The S&P 500 is range-bound with the bands at the low end near 3800. Given how bearish sentiment and positioning are, the index has held support and has the ability to rally near resistance at 4200-4300. This is truly remarkable given the backdrop of higher rates, bank failures and the contraction in earnings. This is a testament to the importance of sentiment and positioning as factors to consider when plotting your next moves in the market.

S&P 500 Index

Source: Bloomberg March 31,, 2023

Making Those Moves

Despite all the noise, we maintain that the equity markets remain in a secular bull market. But as we keep saying, the risk near-term is for stocks to remain volatile. And that volatility will be prodded by rate hikes, the continued banking uneasiness and the specter of a recession that just doesn't want to go away. So, move your portfolios to be balanced between stocks and bonds, growth and value, and large versus small. It's worth repeating: stay with Quality. I encourage you to check out the Sanctuary Wealth Investment Council Report for our latest asset and sector recommendations.

Risk On – Semiconductors Break Out!

Semiconductors are cyclical so it may be surprising to many that these stocks have broken out to the upside technically, pointing to a test of the highs – first stop 300, looking at the VanEck Semi ETF (SMH).

Historically, when semi stocks are down over 20%, they recover and nearly double returns. Investors may be anticipating a future upturn and uptick in global demand. Fundamentally the sector has incredible innovation and stimulus from the CHIPS and Science Act.

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VanEck Semiconductor ETF (SMH)

Source: Bloomberg March 31, 2023

April is Good for Stocks

April has historically been the top month for returns in the Dow Jones Industrial Average, showing gains on average of 1.9%, going back to 1950, according to the Stock Traders Almanac. It is suggested this is partially because of the end of tax season and optimism heading into 2Q earnings. Let's not also forget that the third year of a Presidential Cycle also has some strong gains. With bearish positioning and positive seasonals, the market has the ability to continue its rally, barring any more financial missteps with the banks.

April Showers... of Data

This is the week that trading in the first week of the new quarter will tell us if this stock rally has legs.

It's a new quarter, but there's no change to what's important. Employment numbers will be out on Thursday and Friday and it's something the Fed will be paying attention to. As we all will.

But let's also watch how trading this week may set the tone for our sheepish Bull. We'll soon see if it can pick up steam this month.

Calendar

Mon.

8:30 a.m. St. Louis Fed President Bullard speaks
9:45 a.m. S&P final U.S. manufacturing PMI
10:00 a.m. ISM manufacturing, Construction spending
4:15 pm. Fed Gov. Cook speaks

Tue.

10:00 a.m. Factory orders, Job openings
6:00 p.m. Cleveland Fed President Mester speaks
Earnings: Acuity Brands, Lindsay, MSC Industrial, Resources Connection, SMART Global

Wed.

8:15 a.m. ADP employment
8:30 a.m. U.S. trade balance
9:45 a.m. S&P final U.S. services PMI
10:00 a.m. ISM services
Earnings: Conagra, Schnitzer Steel, Simply Good Food

Thu.

8:30 a.m. Initial jobless claims, Continuing jobless claims, GDP (2nd revision)
10:00 a.m. St. Louis Fed President Bullard speaks
Earnings: Constellation Brands, Lamb Weston, Levi Strauss, RPM, WD-40

Fri.

8:30 a.m. U.S. employment report, Average hourly wages
3:00 p.m. Consumer credit

Stock Market Closed

Source: MarketWatch/Kiplinger