



Week of
April 17, 2023

Something for the Bulls, Something for the Bears

Let's do a review of recent important data releases. The Federal Reserve Open Market Committee minutes acknowledged for the first time that there is risk of a recession later this year based on the expected credit contraction resulting from the recent bank failures.

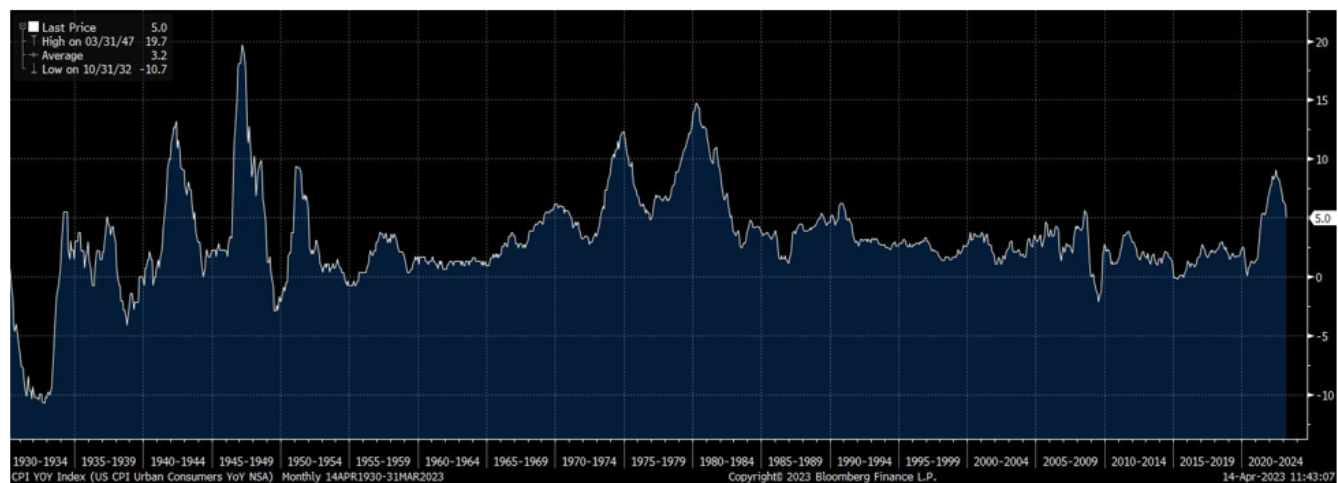
There were also two important data releases on inflation. Both the Consumer Price Index (CPI) and the Producer Price Index (PPI) were released with each posting better than expected inflation data. Then the official start of earnings season kicked off with three major banks reporting earnings much better than expected.

Inflation Looks to Have Peaked

We have been making the case that inflation has peaked based on the CPI's data coming in slightly better than expectations, with year-over-year coming in at 5.0%, vs. the expected 5.1%. Levels of inflation remain elevated, and this will likely keep the Federal Reserve on the path of raising interest rates for the tenth consecutive time. Expectations call for a 25 basis points bump up in May. But the data does suggest that the peak for inflation is in. We have compared this period to the 1950s, which revealed a very similar pattern of inflation.

Meanwhile the PPI also surprised with a softer-than-expected number coming in at 2.7%, versus the expected 3.0%.

CPI Year over Year



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PPI Year over Year



Source: Bloomberg, April 14, 2023

Banks Launch 1Q23 Earnings Season with a Bullish Bias

JP Morgan (JPM), Citi (C) and Wells Fargo (WFC) all reported earnings last Friday and there were no major negative surprises. In fact, Citi was a positive surprise, but JPM's big positive news won the day as they guided earnings forecasts higher. Based on these earnings, we see that national banking – with diversification – is working. This will be an important week with several regional banks reporting. Warren Buffet and JPM's Jamie Dimon both believe we risk seeing more banks having problems, but Buffet stressed deposits will be safe. Still, there remain outstanding issues with First Republic Bank (FRC) that await resolution. So, expect volatility to remain in the markets until the regional banking sector can resolve its balance sheet problems.

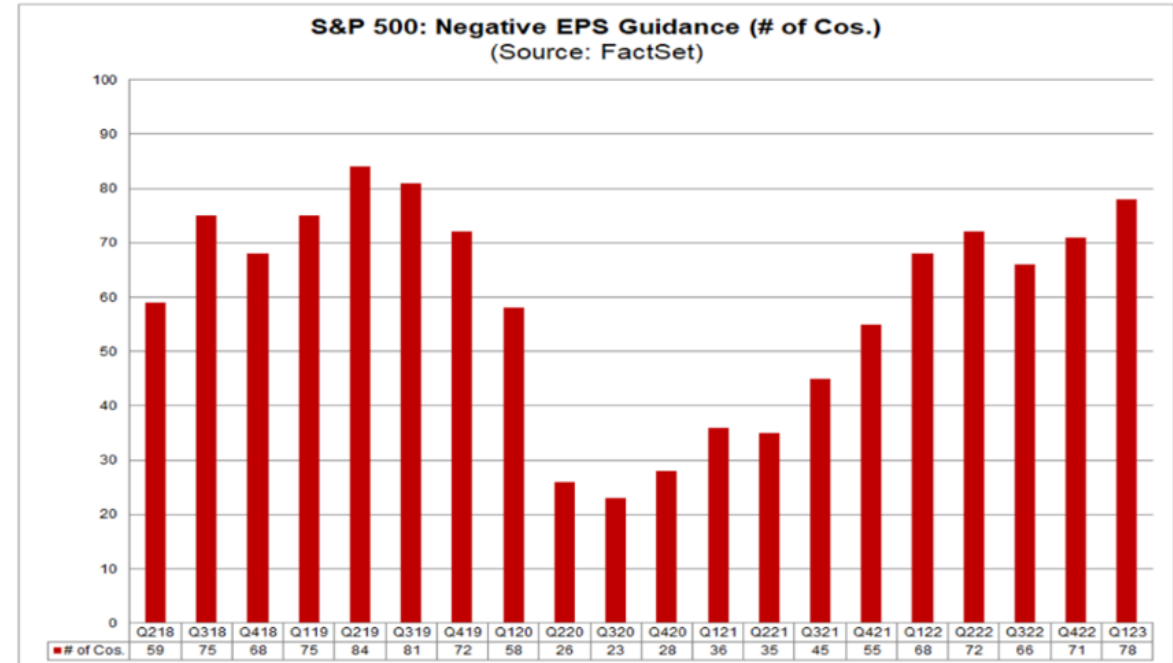
Looking forward as we enter earnings seasons, 106 S&P 500 companies have issued EPS guidance for the first quarter, according to FactSet. Of these 106 companies, 78 have issued negative EPS guidance and 28 have issued positive EPS guidance. The number of companies issuing negative EPS guidance is above the 5-year average of 57. The number of companies issuing positive EPS guidance is below the 5-year average of 39. The big hit to negative guidance is in Technology and Industrials, followed by Consumer Discretionary. So, what does this mean? Companies may report disappointing earnings. However! Those downward numbers may already be priced into the market as expectations are currently low. This contrarian consideration may reveal opportunity.

FactSet reported last Friday that at this very early stage, the first quarter earnings season for the S&P 500 is off to a strong start. Both the number of positive earnings surprises and the magnitude of these earnings surprises are above their 10-year averages. As a result, the index is reporting higher earnings for the first quarter today relative to the end of last week and relative to the end of the quarter. However, the index is still reporting the largest year-over-year decline in earnings since Q2 2020. So, stay tuned... and follow the bouncing ball. With patience.

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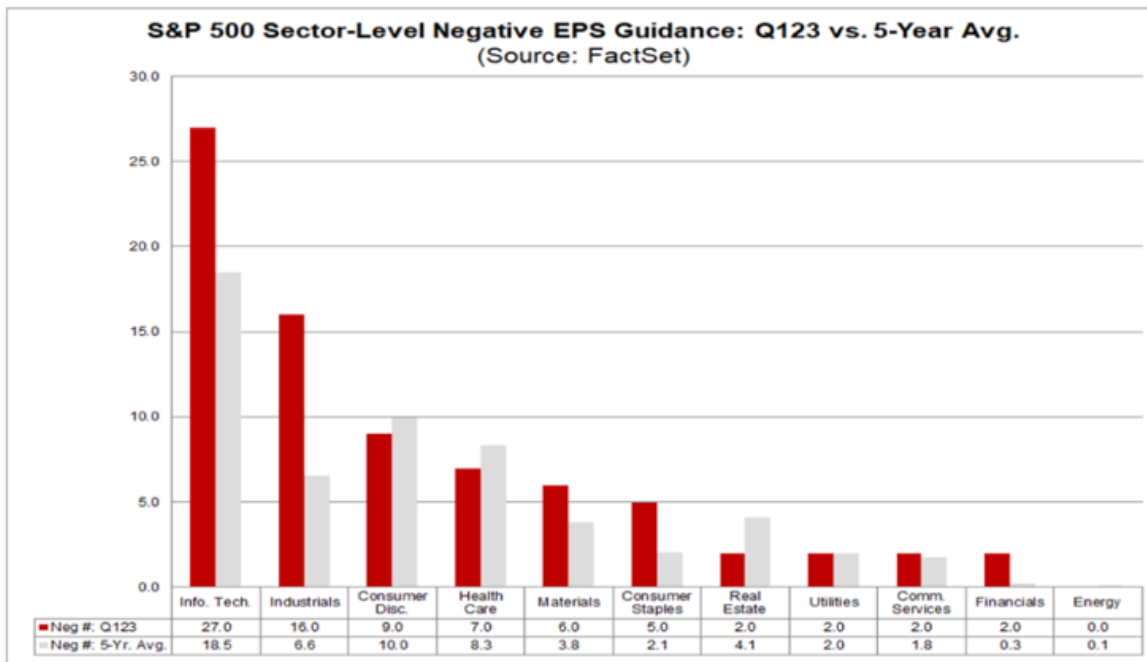


S&P 500: Negative EPS Guidance



Source: FactSet, April 6, 2023

S&P 500: Sector-Level Negative EPS Guidance



Source: FactSet, April 6, 2023

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S&P 500 is Overbought Near Term – Expect a Trading Range to Continue

The S&P 500 remains in a tight trading range between the upper band at 4200 and the low band at 3800. With short-term price momentum overbought (based on the 14-day stochastic), we may see stocks sell-off in the near-term. Support is at 3800, then at 3700, or at 8% to 10% correction levels. We anticipate that the market will remain in a trading range. Barring any major banking failure – which is not expected – the October lows should hold and not be tested. Another reason to expect volatility to remain in the markets.

S&P 500 Index with 14-Day Stochastic



Source: Bloomberg, April 14, 2023

Nasdaq 100 in a Trading Range with an Overbought Reading

The Nasdaq 100 index, which is tech-heavy with almost 40% of the index consisting of just 5 stocks (MFST, APPL, AMZN, NVDA and GOOGL), is overbought near-term. The 14-day stochastic is close to a short-term sell signal. This suggests stocks will remain volatile. Support for the Nasdaq 100 is 12,000, then 11,000, or 8% to 15% correction levels. What does this mean? You guessed it: continued volatility in the market.

Nasdaq 100 Index with 14-Day Stochastic



Source: Bloomberg, April 14, 2023

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Long Yields May Rise Tactically

Looking at the longer end of the yield curve with the bond ETF TLT, it too is in a trading range like stocks. The 14-day stochastic has given a sell signal from an overbought reading. The TLT is a price-based ETF and, with bonds, price and yields move in the opposite direction. If prices go down, yields go up. In the near-term, interest rates may rise as prices correct. We still believe rates are peaking across the yield curve and any back-up in interest rates are a buying opportunity.

iShares 20+ Treasury Bond ETF (TLT) with 14-day Stochastic



Bumpy Roads Call for Seat Belts

When we talk about trading ranges, arguably you can think about stability. But there's nothing more frustrating than a market that's trading sideways. We keep saying to expect volatility. Yes, even in a trading range, things can get bumpy. What's the seat belt that you need for this type of ride? Three things: Patience. Quality. Balance. Be willing to wait it out – trends will emerge. Stay focused on quality. And strike a balance in your portfolios between stocks and bonds, growth and value, and large versus small.

Tricky Forecast for April? You Can Bank on It

This is the week that all eyes will be on bank earnings, particularly from the regional banks.

Let's keep a steady course this week as we await more economic indicators wrapped up in both earnings reports and employment data. Initial Jobless Claims will be out this week and we'll see if a trend is starting to take shape. But the regional banks remain heavy on everyone's minds. And somewhere, deep in the back of our collective mind, is a little thing called the debt ceiling. Much to be resolved in the near future. Stay patient!



Calendar

Mon.

8:30 a.m. Empire State manufacturing
10:00 a.m. Home builder confidence index
12:45 a.m. Richmond Fed President Tom Barkin speaks

Earnings: Charles Schwab, Equity Lifestyle Properties, J.B. Hunt Transport Services, M&T Bank, Pinnacle Financial Partners, State Street

Tue.

8:30 a.m. Housing starts, Building permits
1:00 p.m. Fed Gov. Michelle Bowman speaks

Earnings: Bank of America, BNY Mellon, Ericsson, First Horizon, Fulton Financial, Goldman Sachs, Interactive Brokers, Intuitive Surgical, Johnson & Johnson, Lockheed Martin, Netflix, Omnicom, Prologis, United Airlines, Western Alliance Bancorp

Wed.

2:00 p.m. Fed Beige Book
7:00 p.m. New York Fed President Williams speaks

Earnings: Abbott Labs, Alcoa, Ally Financial, ASML, Baker Hughes, Cohen & Steers, Crown Castle, Discover Financial Services, Equifax, F5 Networks, International Business Machines, Kinder Morgan, Lam Research, Las Vegas Sands, Morgan Stanley, Nasdaq, New Oriental Education & Technology, Rexford Industrial Realty, SL Green Realty, Steel Dynamics, Synchrony Financial, Tesla, Travelers, U.S. Bancorp, Zions Bancorp

Thu.

8:30 a.m. Initial jobless claims, Continuing jobless claims, Philadelphia Fed manufacturing survey
10:00 a.m. Existing home sales, U.S. leading economic indicators,
12:00 p.m. Fed Gov. Christopher Waller speaks
12:20 p.m. Cleveland Fed President Loretta Mester speaks
3:00 p.m. Dallas Fed listens with Dallas Fed President Lorie Logan and Fed Gov. Michelle Bowman
5:00 p.m. Atlanta Fed President Raphael Bostic speaks

Earnings: Alaska Air, American Express, AT&T, AutoNation, BJ Restaurants, Blackstone, CSX, D.R. Horton, Fifth Third, Genuine Parts, Heartland Express, Huntington Bancshares, KeyCorp, Knight-Swift, Marsh McLennan, Nokia, Nucor, Philip Morris International, Pool, PPG Industries, Rite Aid, Seagate Technology, Taiwan Semiconductor Manufacturing, Truist Financial, Union Pacific, Watsco, Xerox

Fri.

9:45 a.m. S&P flash U.S. services PMI, S&P flash U.S. manufacturing PMI
4:35 p.m. Fed Gov Lisa Cook speaks

Earnings: Autoliv, Freeport-McMoRan, HCA, Proctor & Gamble, SAP, SLB

Source: MarketWatch/Kiplinger

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