



Week Ahead

Please Contact:

Week of
 **May 8, 2023**

Employment and Wages Still Strong

Last Friday, the April jobs report was released and the report came in stronger than expectations – both non-farm and private payrolls were up sharply versus expectations, but for the previous month, both of those data points were revised down.

The unemployment rate fell to 3.4% from 3.6% and wages rose year-on-year 4.4% from an expected 4.2%. Net net, the jobs report was bullish for the economy and bearish for the Fed. This is not the kind of report the Fed wants to see while fighting inflation. The stock market reacted favorably while interest rates rose – two actions that we believe were justified.

Regional Banks May Temporarily Bottom But Remain Very Weak

Regional Banks, as measured by the KRE Regional Bank ETF, appear to have at least temporarily bottomed on large volume showing signs of capitulation. But risks may remain as the pricing action has a significant top and the relative ratio to the S&P 500 broke to a new all-time low. We would expect a rally, but volatility may continue as the banking crisis still needs a resolution. If a temporary rally occurs, it should help allow the equity market overall to rally.

KRE Regional Bank ETF



Source: StockCharts, May 5, 2023

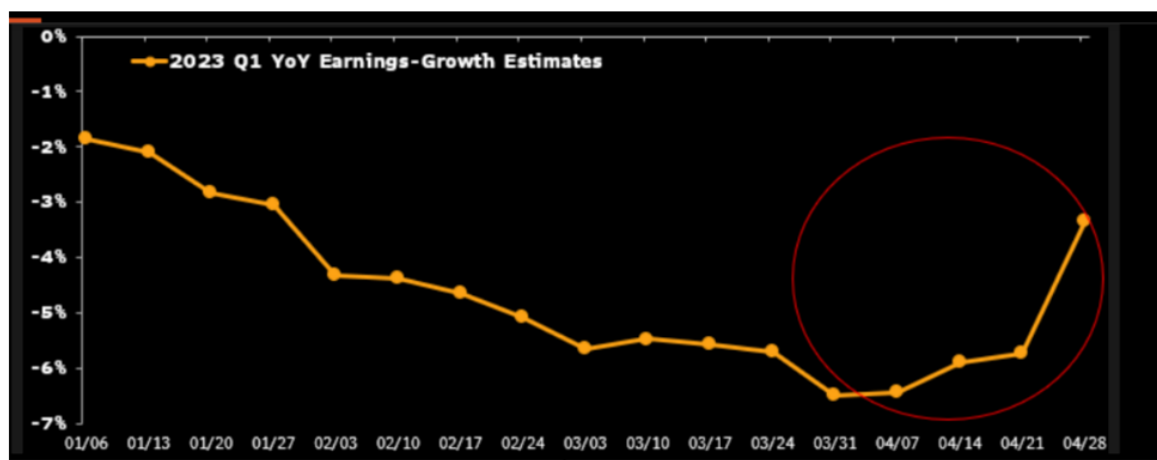
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Earnings Not as Bad as Feared

About 54% of S&P 500 companies have reported thus far. Earnings are contracting but not as much as feared. Note in the chart below that 1Q23 earnings growth estimates are still negative but have risen sharply. It appears that the stock market has already priced in a trough in earnings.

2023 Q1 YoY Earnings

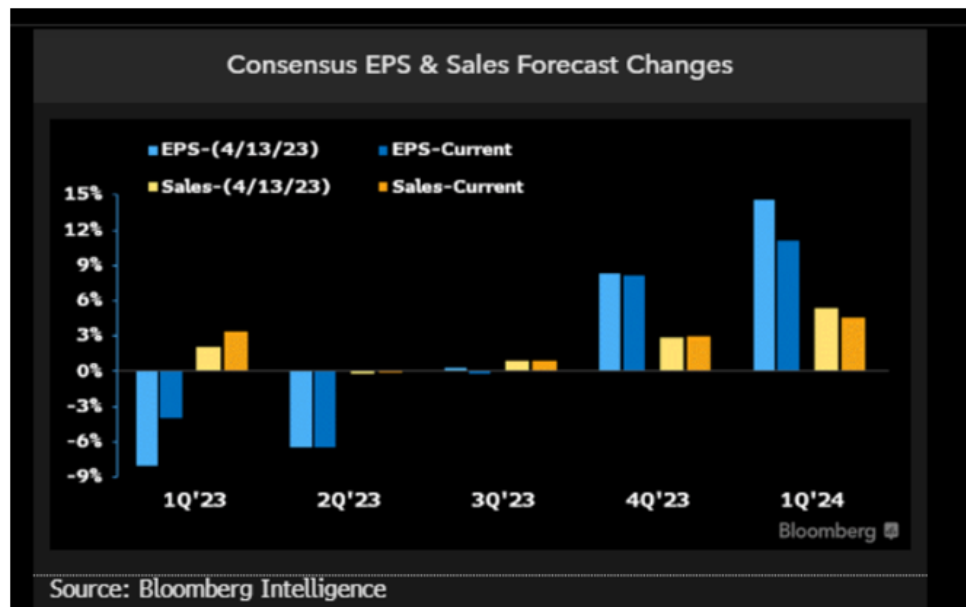


Source: Bloomberg, May 5, 2023

Investors will be hyper-focused on what the Fed says this week about interest rates going forward – the market is expecting a rate hold. A hold could be bullish for stocks and bonds. Also, investors will be paying attention to the important economic data releases on ISM Manufacturing and Services.

I'd be interested to hear about the questions you have. Inflation? Recession? Banking Crisis? Debt Ceiling? What's on your minds? Feel free to contact us with your questions.

Consensus EPS & Sales Forecast Changes



Source: Bloomberg, May 5, 2023

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According to Bloomberg: Revisions May Finally Be Stabilizing With 1Q Earnings Beats

Market sentiment has soured recently, but earnings trends are starting to look more positive for the first time in more than a year. With 1Q earnings beating expectations, forecasts appear to be stabilizing. Analysts have barely moved the needle on rest-of-year estimates, and company guidance is skewing neutral. (05/03/23)

S&P 500: Range-Bound Bias to the Upside Needs a Break Above of 4200 – Support Near 200-DMA 3970

The S&P 500 has been stuck in a trading range since November '22 with resistance at 4200 and support range at 3900-3800. Price momentum has been improving with the S&P breaking above its 200-day moving average (DMA) and holding above it; by trending higher it is making higher lows. Near-term risk is the debt ceiling debate and continued concerns over the regional banks. Historically markets are volatile during debt ceiling negotiations and rally once the ceiling is lifted. The worst period was 2011 when the market fell 15% around the debt ceiling crisis and U.S. debt was downgraded, losing its triple A rating. But the market quickly recovered. The X date (deadline for a resolution because the government will run out of money) is now estimated to be June 1 – meaning we need a resolution soon on the debt ceiling. Congress can temporarily raise the debt ceiling for a month as they continue negotiations. Kicking the can down the road can occur for months. Volatility has been a theme for us and continues to be.

Should the equity market break above 4200 and rally, we will be watching the breadth of the move. If the rally is selective with only a few stocks driving the performance it will be a weak rally but could last into the summer months. Many markets reach a topping process in the month of August, then the markets “fall in the Fall” as many mutual funds have their tax year-end in October. Then as the holidays approach, followed by the end of the year, the market celebrates and rallies. So we expect volatility to remain – but that volatility could lead to higher prices if the debt ceiling and banking concerns are resolved.

S&P 500 Large Cap Index



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Eurozone Markets Outperforming the World

When we compare the iShares MSCI Eurozone ETF (EZU) to the iShares MSCI All Country World ETF (ACWI), the Eurozone has broken to the upside from a multi-year downtrend. Europe is beginning to see signs of an economic improvement and it is benefiting from the China reopening recovery. This appears to be a good time to consider diversifying portfolios more globally.

iShares MSCI Eurozone (EZU) Relative to iShares MSCI All Country World Index (AWCI)



Source: Stockcharts, May 5, 2023

Digital Currencies are Coming

The “Universal Monetary Unit”, also known as “Unicoïn”, is an “international central bank digital currency” that has been designed to work in conjunction with all existing national currencies.

“Today [4/15/23], at the International Monetary Fund (IMF) Spring Meetings 2023, the Digital Currency Monetary Authority (DCMA) announced their official launch of an international central bank digital currency (CBDC) that strengthens the monetary sovereignty of participating central banks and complies with the recent crypto assets policy recommendations proposed by the IMF.

Universal Monetary Unit (UMU), symbolized as ANSI Character, Ü, is legally a money commodity, can transact in any legal tender settlement currency, and functions like a CBDC to enforce banking regulations and to protect the financial integrity of the international banking system.”

This development is just as big as the innovation of ChatGPT – but it’s not getting any mainstream press coverage. Yet!

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Bitcoin Appears to Have Bottomed – Digital is Here to Stay



Source: StockCharts, May 5, 2023

Positioning

The best practice when investing is to be diversified. This helps to minimize risks but there is nothing that fully removes risk. In times of uncertainty, it's important to have Quality investments and to have a balanced portfolio. We are neutral or balanced across asset classes (Growth vs. Value; Large Cap vs. Small Cap) and slightly underweight equities with a bias toward fixed income and cash. Patience is a virtue when investing.

Every Datapoint Tells A Story

This is the week that the Fed will home in on new CPI and PPI data.

The Fed has a one-track mind: it wants the economy to slow down. This week, Chairman Powell and team will be sifting through the tea leaves that are the CPI and PPI data. If the data is hot (stronger than expected), it will be viewed as bad, and if the data is cold (as expected or lower), it will be viewed as good.

The markets continue to anticipate interest rate cuts by the end of the year. This is despite the clear rhetoric from the Fed that it is not going to cut rates this year. These opposing viewpoints may lead to disappointment.



Calendar

Mon.

10:00 a.m. Wholesale inventories
11:00 a.m. Chicago Fed President Goolsbee television interview
2:00 p.m. Fed Senior Loan Survey
Earnings: 3D Systems, ADTRAN, BioNTech, Brighthouse Financial, Cabot, DaVita, Devon Energy, Energizer, Fabrinet, Hillenbrand, Hudson Pacific Properties, Innovative Industrial Properties, International Flavors & Fragrances, KKR, Lucid Group, LL Floorings Holdings, McKesson, Novavax, Palantir Technologies, PayPal Holdings, Plug Power, Progyny, Rover Group, Six Groups, Skyworks Solutions, Tyson Foods, Veeco Instruments, Western Digital

Tue.

8:30 a.m. Fed Gov. Philip Jefferson speaks
12:05 p.m. New York Fed President Williams speaks
Earnings: Affirm Holdings, Air Products, Airbnb, Akamai Technologies, Allbirds, Aramark, Blink Charging, Bloom Energy, Boot Barn Holdings, CarGurus, Celanese, Choice Hotels, Clean Energy Fuels, Coty, Coupany, Darling Ingredients, DigitalOcean, Duke Energy, Duolingo, Dutch Bros, Elanco Animal Health, Electronic Arts, Exact Sciences, Fisker, Fox Corp, GlobalFoundries, GoPro, Grocery Outlet, GXO Logistics, H&R Block, Hain Celestial, Henry Schein, Honest Company, Hostess Brands, International Game Technology, iRobot, Jacobs Engineering, Kinross Gold, LegalZoom.com, Lincoln National, Lumentum, Mannkind, Matterport, Nektar Therapeutics, Nikola, Novavax, Oatly Group, Occidental Petroleum, Payoneer Global, PetIQ, Proterra, PubMatic, Rackspace Technology, RingCentral, Rivian Automotive, SeaWorld Entertainment, Squarespace, Steven Madden, Tempur Sealy International, Toast, Topgolf Callaway Brands, Twilio, Under Armour, Upstart, Warby Parker, Warner Music Group, Weibo, WeWork, Wynn Resorts

Wed.

8:30 a.m. Consumer price index
Earnings: Alarm.com, AppLovin, Beyond Meat, Bilibili, Cheesecake Factory, Coherent, Corsair Gaming, Crane, Ebix, Flex, GoodRx, Groupon, Hecla Mining, Jazz Pharmaceuticals, Li Auto, Manulife Financial, New York Times, Nutanix, Nutrien, OraSure, Pan Am Silver, Performance Food Group, Reynolds Consumer Products, Ritchie Bros., Robinhood Markets, Roblox, Sonos, Teva Pharmaceutical Industries, The Trade Desk, Traeger, Tupperware, Unity Software, Valvoline, Vertex, Walt Disney, Wendy's, Wolverine World Wide

Thu.

8:30 a.m. Producer price index
10:00 a.m. Consumer sentiment (preliminary)
7:45 p.m. St. Louis Fed President Bullard and Fed Gov. Jefferson on panel on outlook for economy and monetary policy
Earnings: Algonquin Power & Utilities, CRISPR Therapeutics, CyberArk Software, Dillard's, Entegris, Fiverr, Himax Technologies, JD.com, Krispy Kreme, Melco Resorts & Entertainment, News Corp., Nio, PerkinElmer, Tapestry, U.S. Foods, Utz Brands, YETI Holdings

Fri.

8:30 a.m. Import price index
10:00 a.m. Consumer sentiment (preliminary)
7:45 p.m. St. Louis Fed President Bullard and Fed Gov. Jefferson on panel on outlook for economy and monetary
Earnings: Embecta, Spectrum Brands

Source: MarketWatch/Kiplinger

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