



Week of
 **May 15, 2023**

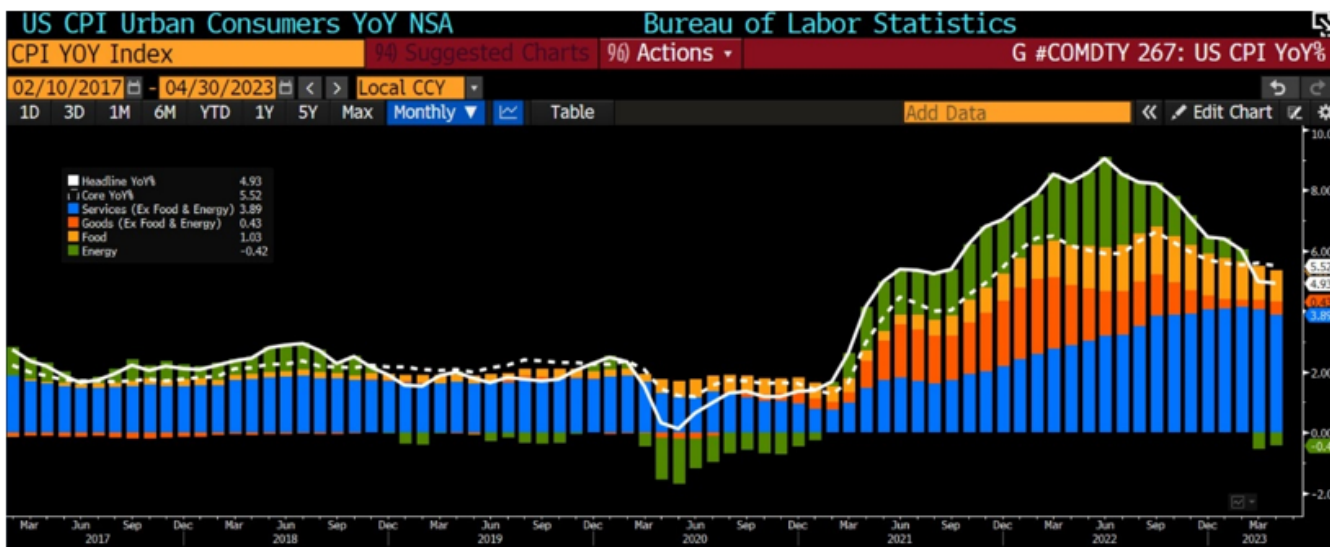
Positive Inflation Data But the Debt Ceiling is the Wall of Worry for the Markets

Last week two positive reports on inflation were released with both CPI (Consumer Price Index) and PPI (Producer Price Index) data coming in slightly lower than expected.

We remain in the camp that inflation has peaked – however – the data can be choppy, meaning the numbers may zig up and zig down. But overall, we believe the result is a downtrend. So how did the markets react to the positive reports? Bonds liked the data, but equities have been mixed with a only few large cap technology names (essentially FAANG+) driving performance. There's a wall the equity market continues to run into and it's called the debt ceiling. Markets don't like uncertainty and sluggish equities is what we'll have until Congress can settle the debt ceiling issue.

The negotiations have begun but the process can be challenging; it can feel like the situation will get worse before it gets better and settled. History shows this process resolves without the government defaulting. Might be hard to believe, but, according to Bank of America, the U.S. has raised or amended the debt ceiling a hundred times since World War II. On the flipside, a debt downgrade has happened only once – when the U.S. lost its AAA rating in 2011. So expect volatility in markets to continue as a result of the negotiations. Treasury Secretary Janet Yellen is saying the government will run out of money on June 1, so the debt ceiling needs to be resolved over the coming weeks. Of course, Congress may choose to kick the can further down the road.

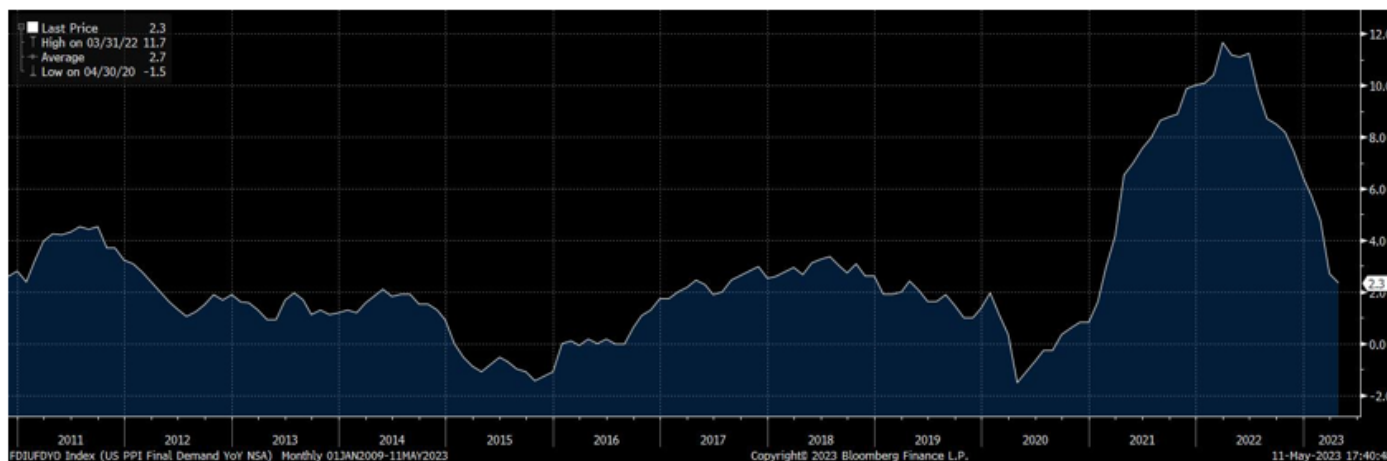
CPI Year-on-Year – Data Appears to be Peaking



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PPI Year-on-Year Has Fallen Sharply



Source: Bloomberg, May 11, 2023

S&P 500 Range-Bound for a Year

The S&P 500 has been in a trading range for one year with a return of 5% since May 11, 2022. This trading range needs to be resolved and we remain of the belief that the market has the ability to break to the upside given the negative or bearish positioning in the market. This would mean the S&P 500 needs to break above 4200. Support is in the 3900-3800 range. But this market does have a major problem: only a few large cap stocks have been driving performance, particularly in the Nasdaq 100. FAANG+ has been the major driver of performance. That means the breadth of the market (advancing issues minus declining issues) remains very poor. So, without a large number of stocks participating in the current uptick, it's a rally that's weak and not sustainable. In addition, the bank stocks continue to be volatile and are trending down without a bottom in place. This itself creates risk for the market as well. Bottom line: yes, markets can rally based on a few stocks driving performance, but we would not be chasing this rally.

S&P 500 Index – Range-Bound for 1-Year with a Gain of 5%

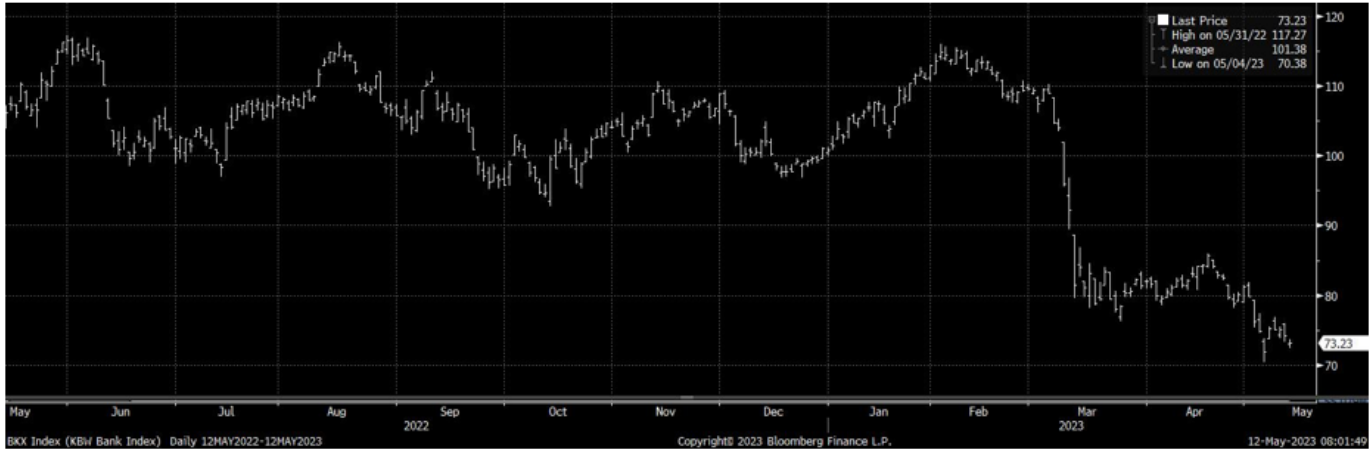


Source: Bloomberg, May 11, 2023

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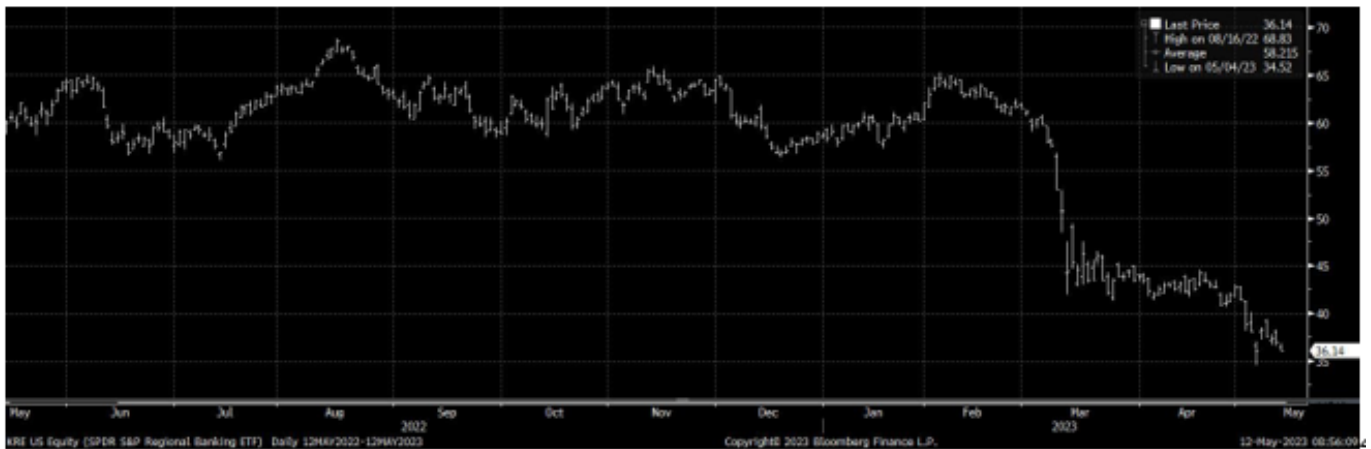
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KBW Bank Index – Bank Stocks Still Falling, a Risk to the Economy and Markets



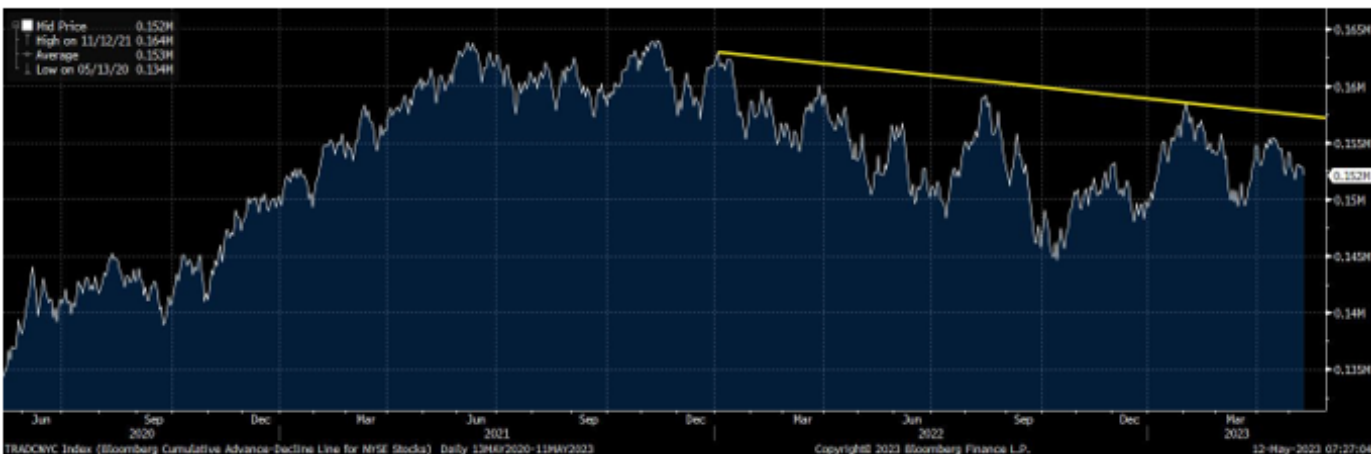
Source: Bloomberg, May 11, 2023

SPDR S&P Regional Bank Index (KRE) – Stocks Still Falling with No Bottom in Sight



Source: Bloomberg, May 11, 2023

NYSE Bloomberg Cumulative Advance-Decline Line – Trend is Negative



Source: Bloomberg, May 11, 2023

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Nasdaq 100 the Strongest Index in the Market Being Driven By FAANG+



Source: Bloomberg, May 11, 2023

Alphabet – Google (GOOGL) Breaks to the Upside



Source: Bloomberg, May 11, 2023

Microsoft (MSFT) Breaks to the Upside and Could Test Old Highs



Source: Bloomberg, May 11, 2023

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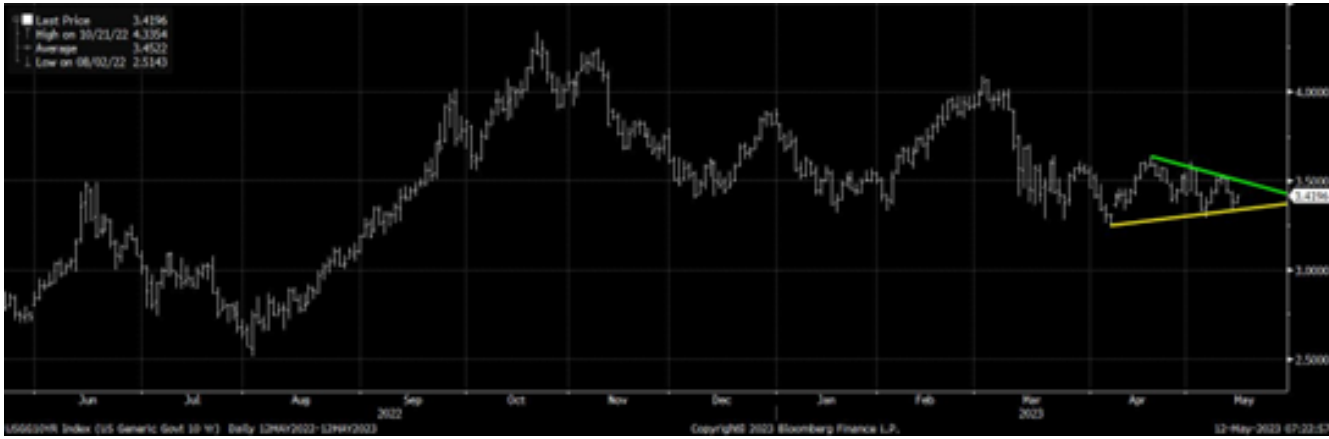
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Meta Platforms (META) Also Breaks to the Upside and Could Move Higher



Source: Bloomberg, May 11, 2023

10-Year Treasury Yields Have Been Falling – A Break of 3.3% Would Indicate Lower Rates



Source: Bloomberg, May 11, 2023

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iShares 20-Year Treasury Bond ETF Appears to Have Bottomed

The long-end of the bond market appears to have bottomed as measured by the iShares 20-year Treasury ETF (TLT). If we are correct on inflation peaking and if/when Congress resolves the debt ceiling, interest rates are positioned to fall. Looking at the TLT, a rally of 15%-20% is possible, in our opinion. We would view a rally as an up move in a longer-term downtrend.



Source: Bloomberg, May 11, 2023

Bitcoin Correcting

Bitcoin (BTC) broke above its 200-day moving average back in January and, in March, broke above resistance at \$25,000, reaching the \$30,000 level. BTC is now correcting and likely testing the breakout level of \$25,000, which is now the first support level. Additionally, support is \$23,500 and the 200-day moving average is near \$22,276. We believe BTC is in a longer-term uptrend but with periods of extreme volatility as its historical moves have been as much as 80% both up and down.

Bitcoin (BTC)



Source: Bloomberg, May 11, 2023

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Is the Consumer Still Happy Spending?

This is the week that consumers will tell us how we're doing.

With the coming release of retail sales and housing data, all eyes will be on these measures of consumer behavior and economic health.

But don't expect much reaction from the markets, as everything is feeling bogged down by the debt ceiling situation and the Congressional negotiations. Granted, it seems inconceivable that a default would actually happen, so, if a resolution can't happen by the X date, June 1, expect Congress to kick the can again.

In the meantime, feel free to reach out with your questions.



Calendar

Mon.

8:30 a.m. Empire State manufacturing, Chicago Fed President Gools
 9:15 a.m. Minneapolis Fed President Kashkari speaks
 Earnings Catalent, Lordstown Motors, Tower Semiconductor, Navitas Semiconductor

Tue.

8:15 a.m. Cleveland Fed President Mest
 8:30 a.m. U.S. retail sales
 9:15 a.m. Industrial production
 10:00 a.m. Business inventories, Home builder confidence index, Fed Vice Chair Barr testifies
 10:30 a.m. Richmond Fed President Barkin speaks
 12:15 p.m. New York Fed President Williams speaks
 2:30 p.m. Chicago Fed President Goolsbee on TV
 7:00 p.m. Atlanta Fed President Bostic and Chicago Fed President Goolsbee on panel
 Earnings Agilysys, Baidu, Home Depot, HUYYA, Keysight Technologies, Kyndryl, Sea Limited, Stratasys, Tencent Music, Tupperware

Wed.

8:30 a.m. Housing starts, Building permits
 Earnings Boot Barn Holdings, Cisco Systems, Copart, Jack In The Box, StoneCo, Synopsys, Take-Two Interactive Software, Target, TJX, Trip.com Group, Wix.com, ZTO Express

Thu.

8:30 a.m. Philadelphia Fed factory survey, Initial jobless claims
 9:15 a.m. Fed Gov. Philip Jefferson speaks
 9:30 a.m. Fed Vice Chair for Supervision Barr testifies
 10:00 a.m. Existing home sales, U.S. leading economic indicators
 Earnings Alibaba Group Holding, Applied Materials, Bath & Body Works, Bilibili, Brady, Canada Goose, Canadian Solar, Deckers Outdoor, Dole, DXC Technology, Farfetch, Flowers Foods, Nio, Nutanix, Ross Stores, The Children's Place, Vipshop, Walmart

Fri.

8:45 a.m. New York Fed President Williams speaks
 11:00 a.m. Fed Chairman Powell and former Fed Chairman Bernanke on panel
 Earnings Deere, Foot Locker

Source: MarketWatch/Kiplinger

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