




Sanctuary Week Ahead

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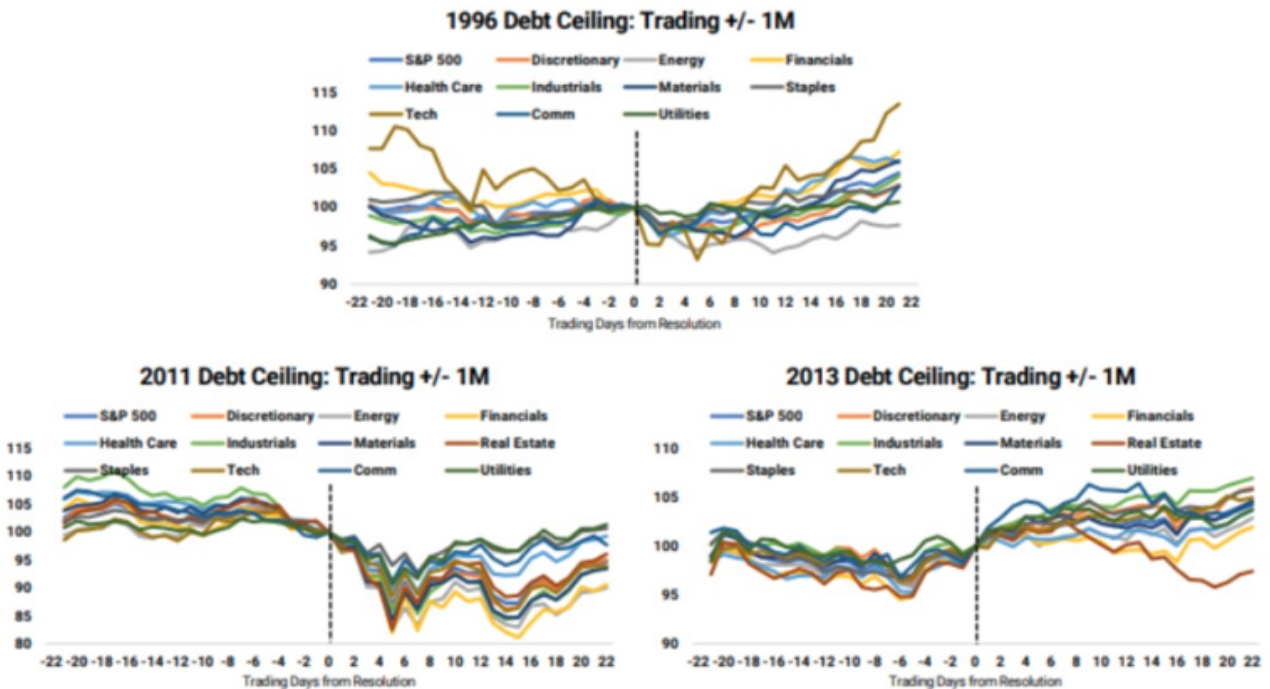
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Week of
 May 22, 2023

Impasse On The Debt Ceiling Appears To Be Cracking

A path to resolving the debt ceiling debate appears to be within sight. A quick review of how the market and various sectors behaved during debt ceiling crises shows poor performance during negotiations – but once a deal is struck, markets recover.

Granted, in 2011, there was the debt downgrade after the resolution of the debt ceiling and markets did decline more – but a bottom and a recovery did occur. Today, it's all a bit different. Frankly it's atypical to have markets rallying in the hopes of a resolution. This is the unexpected but happy surprise we're seeing with the Nasdaq, where the FANG+ Mega Cap tech-related stocks are leading the charge higher. But expect volatility until a deal is done.



Week of



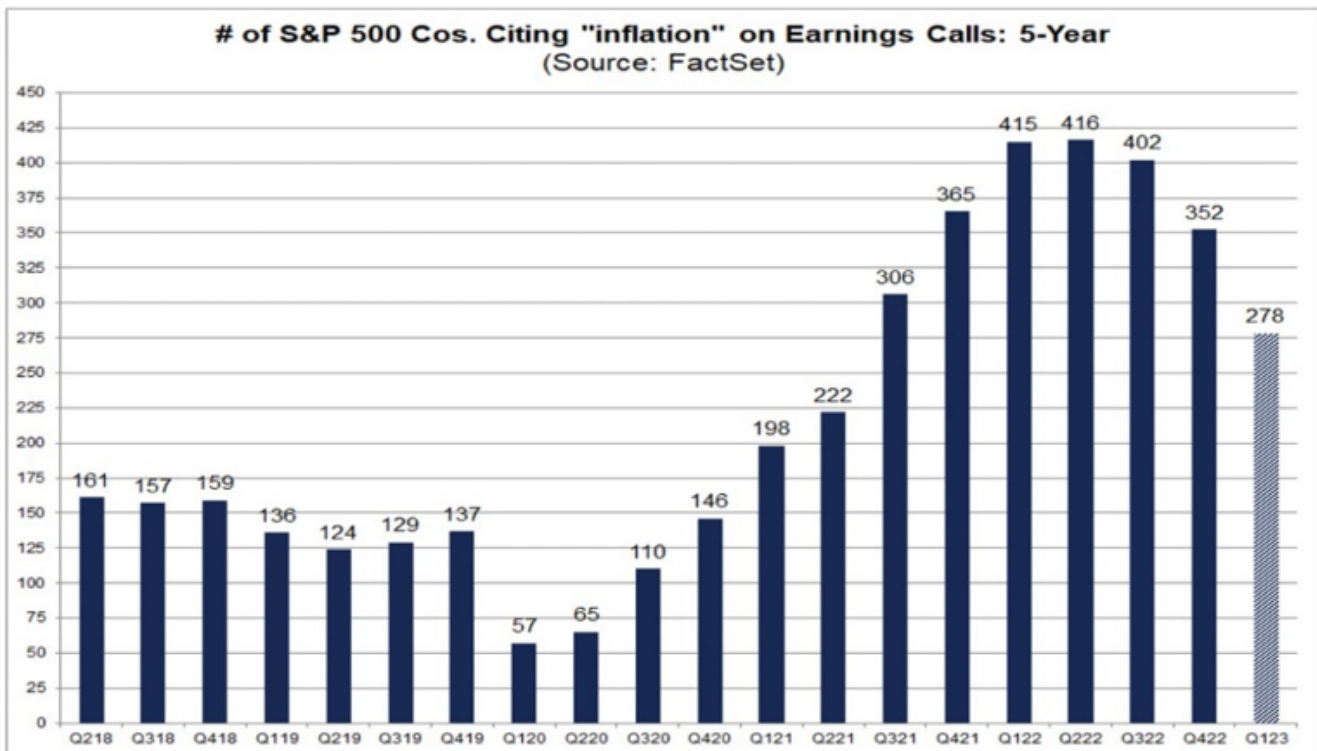
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Earnings Surprise To The Upside And Inflation Comments Are Falling

According to FactSet, so far 92% of the companies in the S&P 500 have reported earnings for the first quarter. Of that group, 78% have reported actual EPS above the mean EPS estimate, which is above the 10-year average of 73%. Because equity markets had been pricing in a deep recession in earnings that did not materialize, stocks now have to reprice higher based on this fact.

Diving into the data, we see that consumer prices increased by less than 5% year-over-year in April 2023 for the first time since April 2021. So it's not a surprise that fewer S&P 500 companies than normal commented on inflation during their earnings conference calls for the first quarter.

FactSet Document Search (which allows users to search for keywords or phrases across multiple document types) was used to get this data. Through Document Search, FactSet searched for the term "inflation" in the conference call transcripts of all the S&P 500 companies that conducted earnings conference calls this year from March 15 through May 11. Of these companies, 278 cited the term "inflation" during their earnings calls – which is down sharply from the peak number of mentions (416) in 2Q22. This supports, in our view, that inflation is peaking.



Source: FactSet, May 15, 2023

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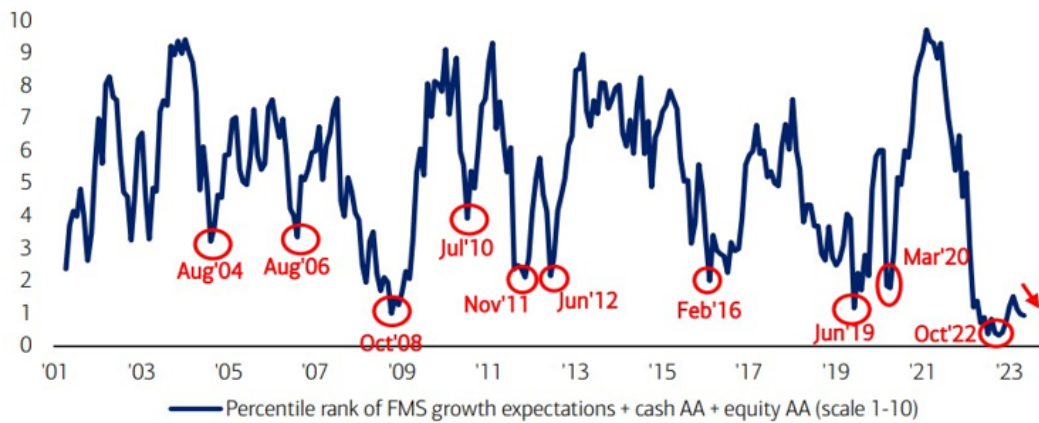
Sentiment And Positioning Remain Bearish, A Contrary Signal

We have been pointing out for a while now that positioning in the market is extremely bearish. Markets are mean-reverting and tend to do the opposite of what everyone else is doing. This is known as contrarian investing. Since sentiment and positioning are so negative, we remain in the camp that markets are more likely to rally.

May Manager Survey More Pessimistic: Worst Since Reading in '23 on Higher Cash and Lower Growth

Bank of America Global Fund Manager Survey

Percentile rank of FMS growth expectations + cash AA + equity AA



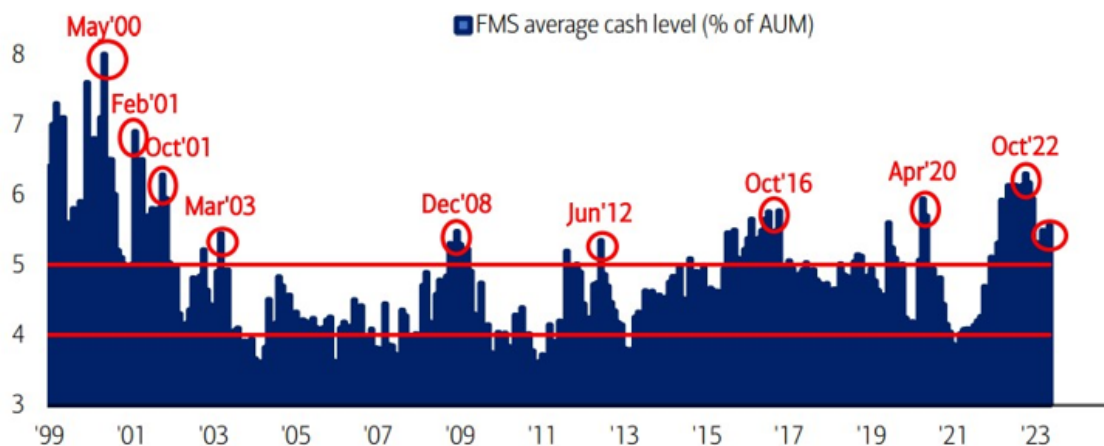
Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

Source: Bank of America, May 16, 2023

Cash Levels Elevated and Rise in May to 5.6% from 5.5%

FMS average cash level % of AUM



Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

Source: Bank of America, May 16, 2023

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Nasdaq 100 Index Breaking to the Upside

With earnings better than expected, inflation data coming in softer than expected, and debt ceiling negotiations signaling a more positive tone, the Nasdaq 100 breaks to the upside led by the Mega Cap FANG+ stocks. If this breakout holds, it could lead to a test of the market highs back in 2021 – and that is something that no one has factored into their forecasts! But do notice that no one is talking about the test of the October low anymore.



Source: Bloomberg, May 19, 2023

NYSE FANG+ Index Leading The Rally

Mega Cap Technology and tech-related names are leading the charge as seen in the FANG+ index. The highs from 2021 will likely get tested.



Source: Bloomberg, May 19, 2023

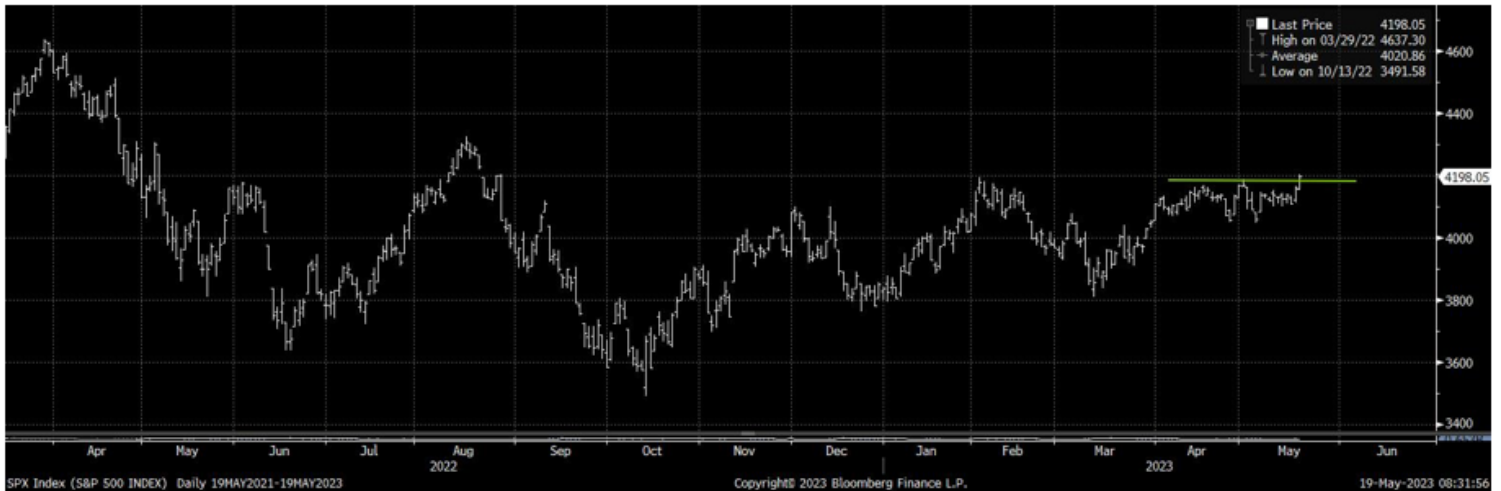
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S&P 500 Attempting A Breakout

As FANG+ rallies, the S&P 500 is also trying to break out to the upside. We would like the index to break and hold above 4200 to confirm the breakout. A breakout here would also call for a test of the old highs near 4700-4800.



If Equity Markets Continue to Rally Interest Rates can Rise but New Highs are Not Expected 2-Year Treasury Yields



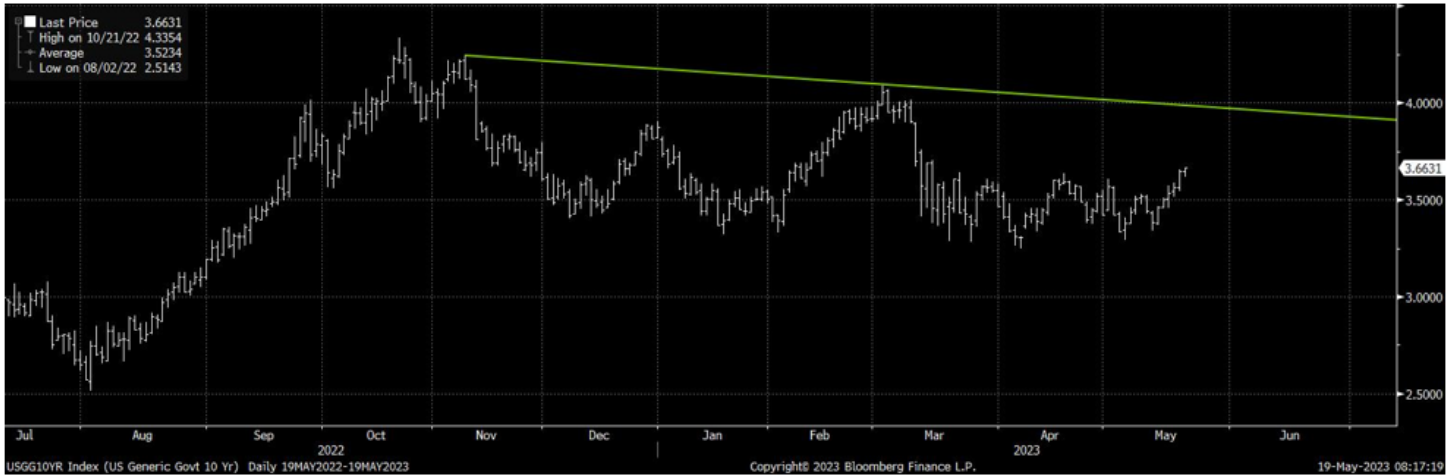
Source: Bloomberg, May 19, 2023

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10-Year Treasury Yields



Source: Bloomberg, May 19, 2023

What Time Is It For The Markets? You Can Tell By The Minutes.

This is the week that we'll learn about the latest thinking from the Fed.

We'll get GDP data on Thursday and Core PCE (Personal Consumption Expenditures) data on Friday – and those are important numbers – but all eyes will be on Wednesday's release of the Minutes from the latest meeting of the Federal Open Market Committee (FOMC). So far, Fed-speak has remained hawkish, with the rhetoric calling for holding interest rates higher for longer. So, everyone will be looking to the Minutes for any hint that there might be a change in direction. Why? Because the market is still expecting rate cuts this year, creating a quandary because the Fed is saying that ain't gonna happen. Let's see what the Minutes reveal – if anything.



Calendar

Mon.

8:30 am St. Louis Fed President James Bullard
11:00 am San Francisco Fed President Mary Daly
11:05 am Atlanta Fed President Raphael Bostic, Richmond Fed President Tom Barkin speak
Earnings: Global-E Online, HEICO, Nordson, Zoom Video Communications

Tue.

9:00 am Dallas Fed President Lorie Logan speaks
9:45 am S&P flash U.S. services PMI
9:45 am S&P flash U.S. manufacturing PMI
10:00 am New home sales
Earnings: Agilent, AutoZone, BJ's Wholesale, Dick's Sporting Goods, Intuit, Lowe's, Palo Alto Networks, Toll Brothers, Urban Outfitters, V.F. Corp, Vipshop, Williams-Sonoma

Wed.

12:40 pm Fed Gov. Christopher Waller speaks
2:00 pm Minutes of Fed's May FOMC meeting
Earnings: Abercrombie & Fitch, America's Car-Mart, American Eagle, Analog Devices, Digital Turbine, Dycom, Guess?, Kohl's, Modine Manufacturing, Nvidia, Petco Health and Wellness, Photronics, Snowflake, Splunk, The Children's Place, UiPath

Thu.

8:30 am GDP (second reading)
8:30 am Initial jobless claims
9:50 am Richmond Fed President Tom Barkin speaks
10:00 am Pending home sales
Earnings: 23andMe, Autodesk, Best Buy, Burlington Stores, Catalent, Costco Wholesale, Deckers Outdoor, Dollar Tree, Gap, Genesco, Lions Gate Entertainment, Manchester United, Marvell Technology, Medtronic, NetEase, Nutanix, Pinduoduo, Ralph Lauren, RH, Royal Bank of Canada, Sumo Logic, Titan Machinery, Toronto-Dominion Bank, Ulta Beauty, VMware, Weibo, Workday

Fri.

8:30 am PCE
Earnings: Big Lots, Booz Allen Hamilton, Buckle, Hibbett

Source: MarketWatch/Kiplinger

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