



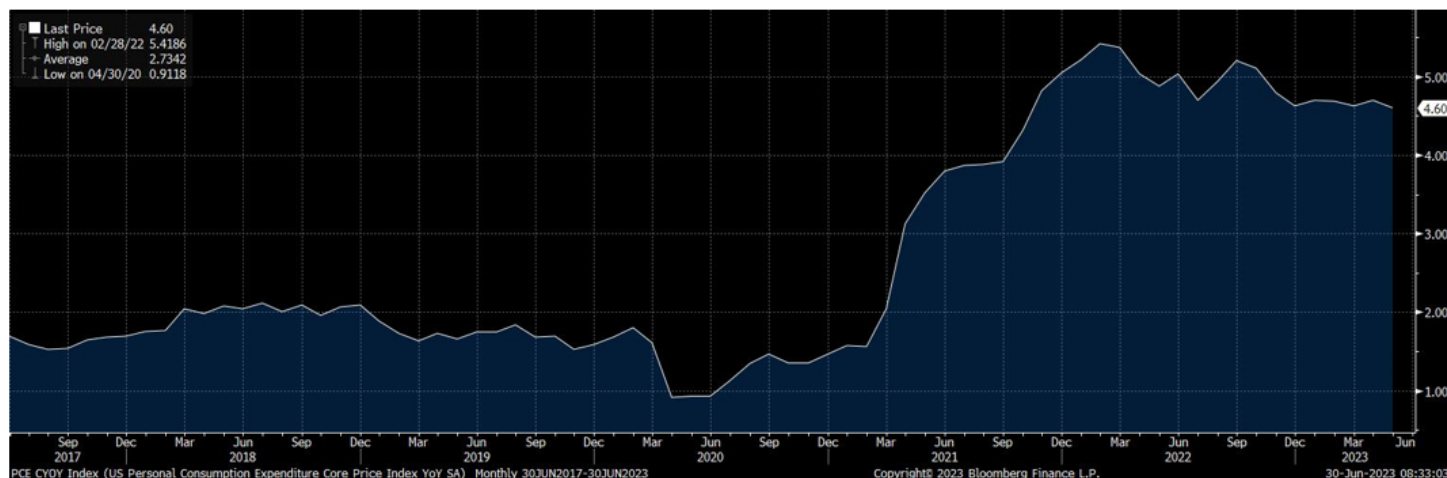
Week of  
 **July 3, 2023**

### Core Price Consumption Expenditure (PCE) Year-over-Year Ticks Down Slightly

Last Friday, the year-over-year Core PCE data came in slightly below expectations at 4.6% (vs. 4.7%). This inflation gauge – the Federal Reserve’s favorite – remains elevated and above the Fed’s goal of 2%, but it is slowly falling.

This data should support the Fed continuing its rate hikes in July; we believe you can expect a 25-basis point bump. Meanwhile, the equity market is rallying on the data because they’re focused on the end of the rate cycle coming. Given the recent stronger economic data and still elevated inflation, bonds are holding rates high. We still believe rates are in a peaking process.

### Core Price Consumption Expenditure (PCE) Year-over-Year Elevated But Slowly Falling



Source: Bloomberg, June 30, 2023

### Great News: The Big Banks Pass Fed Stress Test

Last week, the Fed released the results of stress-testing 23 of the biggest banks for a severe recession and they all passed. This should help sustain confidence in the banking system as sound and resilient – just as the Fed has been evangelizing since March, when Silicon Valley Bank, Silvergate Bank, Signature Bank all failed, followed by First Republic Bank in May. Despite this great news, the large banking stocks are not trading as well as the market – as measured through the relative price index comparing the KBW Bank Index (BKX) to the S&P 500. This line has fallen sharply, showing how the bank stocks have underperformed. They appear to be stabilizing a minor positive. Banks may trend better in the second half of the year, but we don’t believe they will outperform the market sustainably. It may take several more quarters for the bank stocks to “buck” their weak trend and cash in on the rest of the market’s rally.

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## KBW Bank Index (BKX) with Relative Price to S&P 500



Source: StockCharts.com, June 30, 2023

### If Only This Was Year-End

With the close of the first half of 2023, the S&P 500 is up nearly 16% and the Nasdaq 100 is up nearly 32%. Wow, what a year so far! If you recall, most forecasters were saying the first half of this year would not be good and the second half would improve. But remember: the crowd is often wrong. So, where is the crowd as we move into the second half of the year? Well, they're a mix – there are plenty of bulls but still some bears. Markets don't peak on pessimism, they peak on optimism, and we are not there yet.

Here are some optimistic numbers from CNBC: Since 1980, the market in the first half of the year has closed up 15% or higher 10 times. In each of those 10 years, the market has also closed up for the full year – with an average return of 23%. Powerful!

### Bloomberg Regime Equity Model More Positive

Bloomberg keeps a Regime model to measure where the equity market is in terms of potential returns and it went to a moderate positive reading as we entered June. (This model has several indicators, explained below.) We have been pointing since our Year Ahead report in early December 2022 that the markets would improve. The Monthly Stochastic Indicator – a long-term price momentum indicator – was the most oversold since 2008-2009 and we were looking for a buy signal which did occur earlier in 2023. We now have another price momentum indicator that we are watching for a buy signal: the Monthly Moving Average Convergence/Divergence (MACD) price momentum indicator. The MACD turns two trend-following indicators, both moving averages, into a momentum oscillator by subtracting the longer moving average from the shorter one. This indicator is currently very close to a buy signal – which would make the second longer-term price momentum indicator move to a bullish reading. We still anticipate the highs of the S&P 500 near 4800 to be tested. But near-term, we may have a consolidation / correction given the spectacular move so far this year. We remain buyers of the market.

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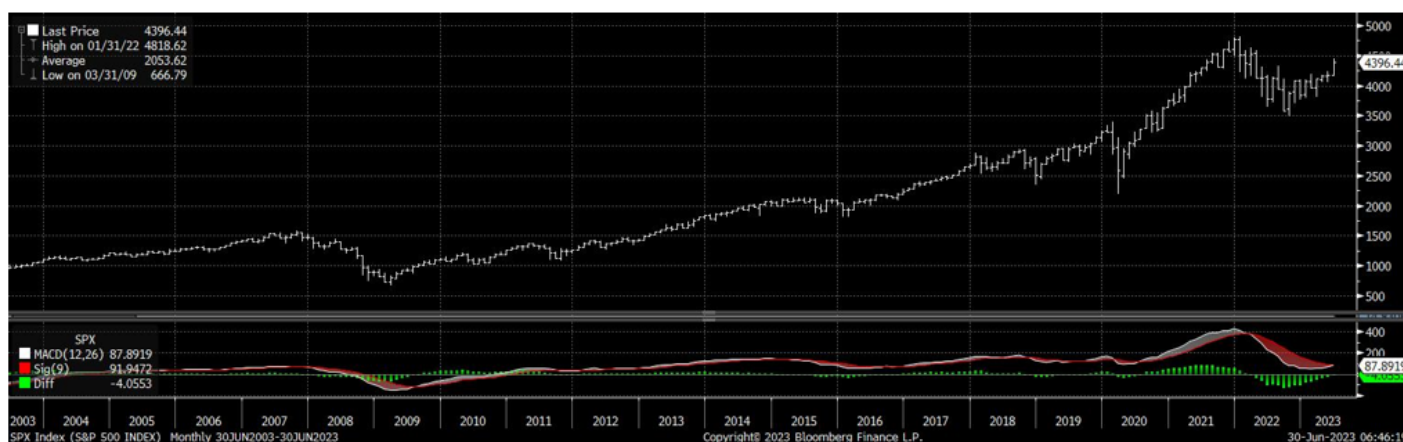
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## Definition of the Bloomberg Equity Regime Model

"Signals that define the S&P 500's regime suggest that stocks have finally shifted out of the phase associated with the worst forward returns and into one associated with more moderate gains. Our model clusters market periods into three regimes -- accelerated growth (green), moderate growth (yellow) and decline (red) -- based on six factors that define phases: correlation between index member returns, the percentage the S&P 500 is above its 200-day moving average, year-over-year price-to-book change, BAA bond spreads, year-over-year change in the M2 money supply and trailing realized six-month volatility."

Source: Bloomberg, June 7, 2023

## S&P 500 Index with Moving Average Convergence / Divergence (MACD) Indicator Near a Buy Signal

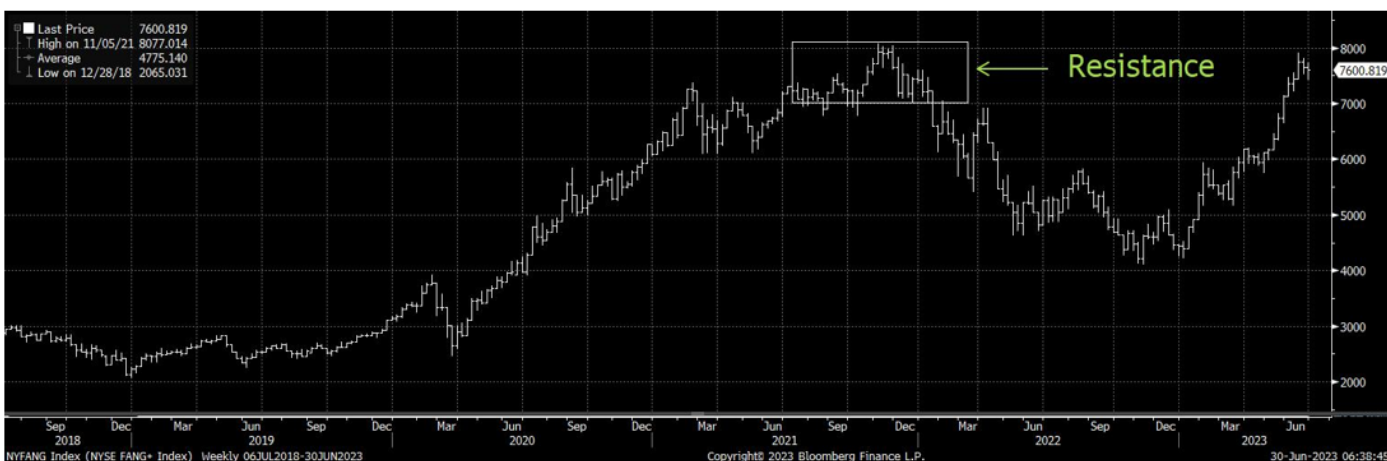


Source: Bloomberg, June 30, 2023

## FANG+ Index At Resistance – May Have A Pause That Refreshes

The FANG+ Index has been the leader in this market with its Mega Cap Technology stocks setting a torrid pace. Year-to-date, the index is up 74% and is now trading near the record highs that were reached in late 2021. As an index or a stock reaches resistance – particularly record highs – you often get consolidation. The reason is all the investors who purchased at the highs have been underwater for some time, so when they break even, they sell. Once the selling is exhausted, the stock or index can move higher. The big surprise this year would be if FANG+ moves to new record highs. As we pointed out in last week's edition, the one stock just breaking out is Apple (APPL) – which could pause, but we would expect its rally to continue into the second half of the year. The Monthly MACD indicator has moved to a Buy on Apple. This is not what happens in a bear market. This is a Bull that is running.

## FANG+ Index May Pause As It is Into Resistance – Question: New Highs to Come in 2023?

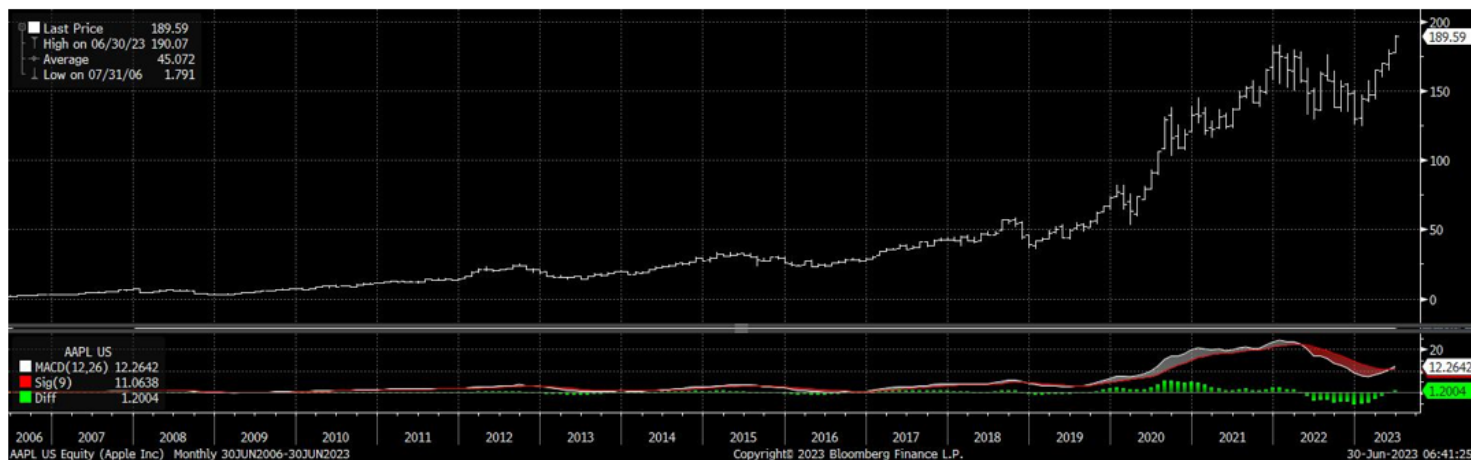


Source: Bloomberg, June 30, 2023

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## Apple (AAPL) at All-Time Highs with MACD on a Buy Signal



Source: Bloomberg, June 30, 2023

## Market Breadth Slowly Expanding

The Bloomberg NYSE Stock Cumulative Breadth index is slowly improving. This breadth measure remains above its 200-day moving average and is reversing a downtrend. This measure also supports equities moving higher this year.

## Bloomberg NYSE Stock Cumulative Breadth Index



Source: Bloomberg, June 30, 2023

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## All Eyes on Red, White and Blue ... But No Holiday For the Bull

### This is the week that we hope the Fourth's Fireworks are good omens for 2H 2023

Data is light this week, given the holiday, but we'll see ISM Manufacturing data out today, which may catch the attention of anyone working. But mostly people will be looking at recaps and stats from the first half – mouth agape! – and hoping for more of the same in the second half. On Friday, we'll get employment data for the month of June, which the Fed will surely be watching. We remain Bullish and believe the fireworks will in fact continue through the rest of 2023 – but not in a straight line.

#### Positioning: Important Timing

This is the time of year to check if your portfolio is in line with your goals. Given the great moves in the equity market, maybe some rebalancing is appropriate. Also don't forget the bond market – remember 60/40 is a viable model (RIP Harry Markowitz, the father of modern portfolio theory). Good value remains in bonds, but the bond portfolio over time may need more rebalancing and laddering than in past years. Stay in Quality in all asset classes.

Wishing you all a very happy and safe Fourth of July!





# Calendar

**Mon.**

9:45 am: S&P flash U.S. manufacturing PMI  
 10:00 am: ISM manufacturing, Construction spending  
 All markets close early

**Tue.**

July 4 holiday, all markets closed

**Wed.**

8:15 am: ADP employment  
 10:00 am: Factory orders  
 2:00 pm: Minutes of Fed's June FOMC meeting

**Thu.**

8:30 am: Initial jobless claims, U.S. trade deficit  
 9:45 am: S&P flash U.S. services PMI  
 10:00 am: Job openings, ISM services  
 Earnings: Levi Strauss

**Fri.**

8:30 am: U.S. employment report  
 Earnings: AZZ

Source: MarketWatch/Kiplinger

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