



Week of  
 **July 10, 2023**

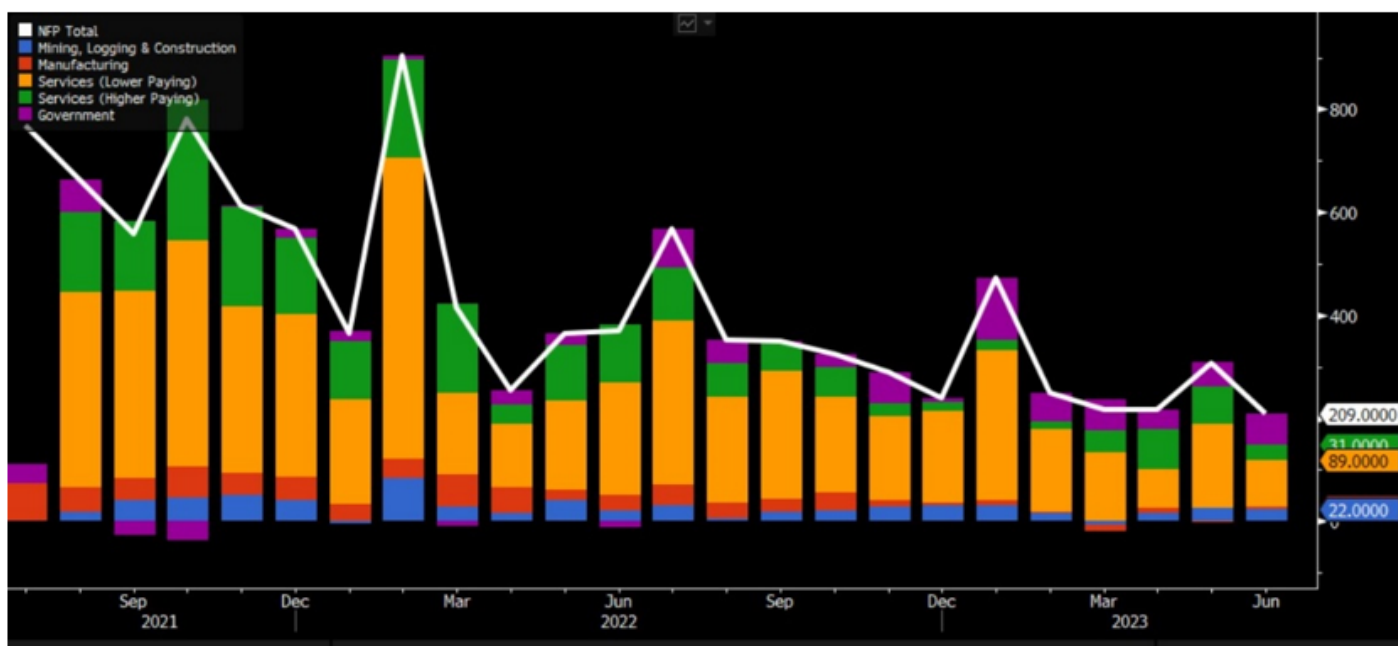
## Jobs Jobs Jobs – But Cracks Continue To Spread

Last Friday's job report came in softer than expected as cracks continue to show in the labor market. Reminder: this is what the Federal Reserve is looking for to slow down the economy, which would slow down inflation.

Non-farm and private payrolls came in below expectations and revisions to the previous month came down. The employment rate remains low, coming in at 3.6%, down from 3.7%. Average hourly wages remain sticky at 4.4% growth year-on-year, BUT wages have been falling.

As we have been highlighting recently, initial jobless claims are also showing cracks with higher claims being reported. And yes, it's true that the Fed wants and needs more weakening in the job market, but overall, these reports are positive for interest rates and the stock market.

## Non-Farm Payrolls Are Weakening



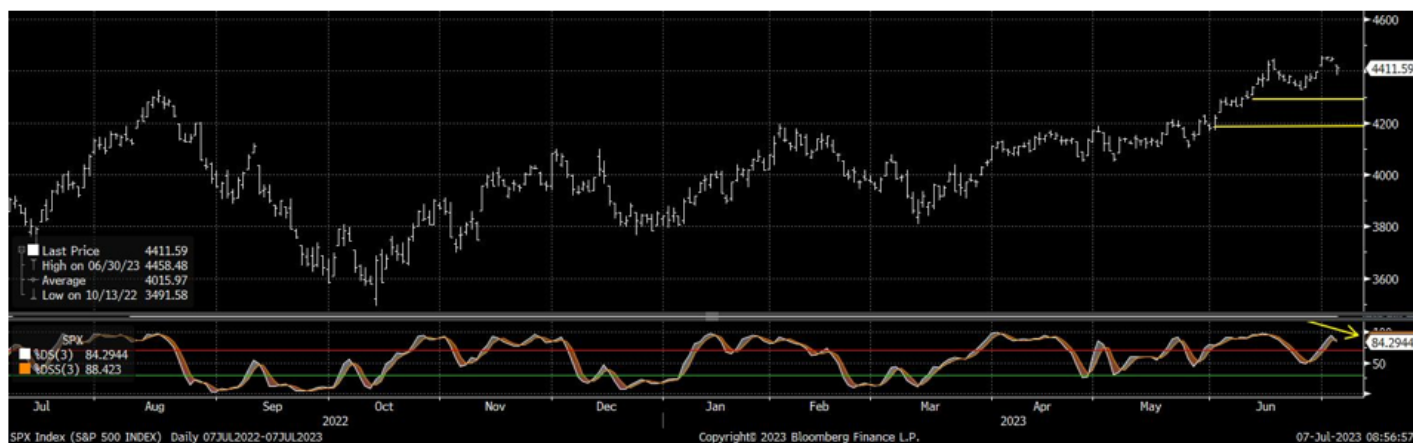
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## The Pause That Refreshes

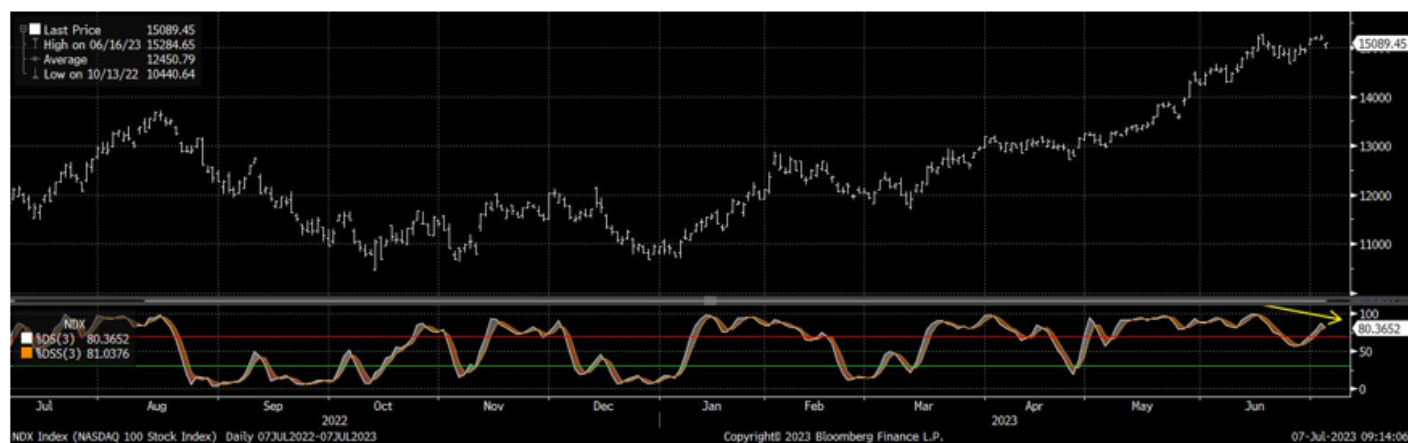
Fireworks came early for the stock market with the first half having amazing returns with the S&P 500 up 15.9% and Nasdaq 100 up 38.8%. After this powerful rise, it would be very normal to give back some of the gains and consolidate. We believe the market is in a corrective phase with a 5%-10% correction likely. But we remain buyers of the market as we're looking for higher highs after this corrective phase. We believe the S&P 500 can test the old highs near 4800.

### S&P 500 with 14-Day Stochastic – Short-Term Overbought With Correction Underway



Source: Bloomberg, July 7, 2023

### Nasdaq 100 with 14-Day Stochastic – Short-Term Overbought With Correction Underway



Source: Bloomberg, July 7, 2023

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## Interest Rates Fail to Push Higher – Topping Process Still in Place

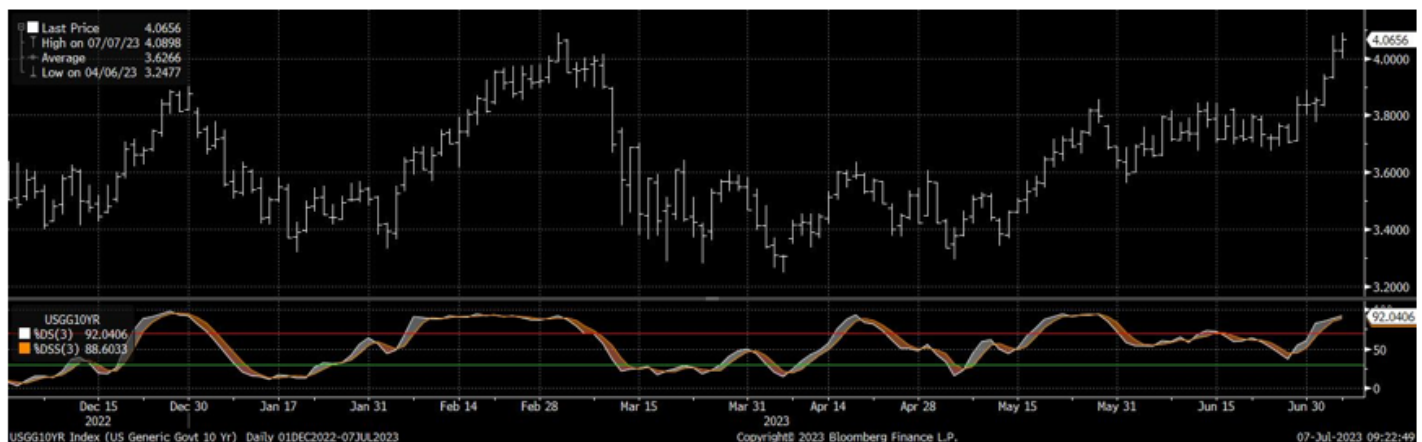
We have been in the camp that believes interest rates are in a topping process as inflation gauges have been falling. Last week, the 2-year Treasury Yield broke to a new intra-day recovery high at 5.1%, testing the previous high set in March – but it failed to hold this level. Regardless, the action here still appears to be a topping process for rates. Last Friday's weaker than expected employment report was positive for the rates market. The market is still anticipating another Fed rate increase of 25 basis points later this month. We believe the market is already pricing in that hike in anticipation that we're getting to the end of the rate hike cycle. However, we do expect the Fed to continue to have hawkish comments as long as inflation gauges remain above the Fed's inflation target of 2%.

## 2-Year Treasury Yield with 14-Day Stochastic – Overbought and Failing to Breakout



Source: Bloomberg, July 7, 2023

## 10-Year Treasury Yields with 14-Day Stochastic – Overbought and Failing to Make New Highs



Source: Bloomberg, July 7, 2023

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## Consumer & Producer Price Data Are The Tea Leaves of Our Time

**This is the week that all eyes will be on the latest inflation gauges and the beginning of 2Q23 earnings.**

With CPI data on Wednesday and PPI data on Thursday, it will be raining inflation indicators this week. And the Fed will be eagerly awaiting the results. Let's see if they make a splash. If the data points are strong, expectations would be up for rates and down for the stock market. But if the numbers are in line with expectations or lower, then we should see rates drop and a drop for the market as well, as part of a corrective move.

Second Quarter of 2023 earnings season begins this week. The Street will be focused on some of the big banks that will report on Friday of this week. Some of the highlights should be from JP Morgan Chase, Citigroup, Wells Fargo and BlackRock.

### Positioning: Important Timing

Reiterating last week's message: Now is a smart time to check if your portfolio is in line with your goals. Given the great moves in the equity market, you might need to consider rebalancing. We see 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.



# Calendar

**Mon.**

10:00 am: Wholesale inventories, Fed Vice Chair Barr speaks  
 11:00 am: San Francisco Fed President Daly speaks, Cleveland Fed President Mester speaks  
 3:00 pm: Consumer credit  
 Earnings: PriceSmart, WD-40

**Tue.**

6:00 am: NFIB optimism index

**Wed.**

8:20 am: Consumer price index, Richmond Fed President Barkin speaks  
 1:00 pm: Atlanta Fed President Bostic speaks  
 2:00 pm: Fed Beige Book  
 Earnings: AngioDynamics, MillerKnoll

**Thu.**

8:30 am: Initial jobless claims, Producer price index  
 2:00 pm: Federal budget  
 6:45 pm: Fed Governor Waller speaks  
 Earnings: Conagra, Delta Air Lines, Fastenal, PepsiCo, Progressive, Washington Federal

**Fri.**

8:30 am: Import price index  
 10:00 am: Consumer sentiment  
 Earnings: BlackRock, Citigroup, JP Morgan Chase, State Street, UnitedHealth Group, Wells Fargo

Source: MarketWatch/Kiplinger

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