



Sanctuary Week Ahead

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 Week of **July 17, 2023**

You Can Bank On The Banks – 2Q Earnings Season Starts On A Positive Note

A great start to Earnings Season with JP Morgan (JPM), Wells Fargo (WFC) and Citi (C) reporting 2Q earnings better than what the Street was expecting. Bank stocks rallied early in the trading day but sold off by the close – except for JPM.

Bank stocks are in a trading range and still face major upside resistance. Technically the best positioned stock of the group is JPM. The bigger banks will fare better, but overall Banks as a sector still appears to be a Value Trap. The benefit to Banks is “clipping a dividend.” We would stay with the large banks.

At this very early stage, the second quarter earnings season for the S&P 500 is off to a strong start, according to FactSet. Both the number of positive earnings surprises and the magnitude of these earnings surprises are above their 10-year averages. A stronger earnings season would support the recent rally in the equity markets.

Something to keep in mind: July is typically a well-performing month, leading up to markets having a peak in August, which in turn sets up seasonal weakness in September and October. We continue to believe that the second half of the year will be choppy, but we expect to end the year on a strong positive note.

KBW Bank Index – It Can Rally But Strong Overhead Resistance



Source: Stockcharts.com, July 13, 2023

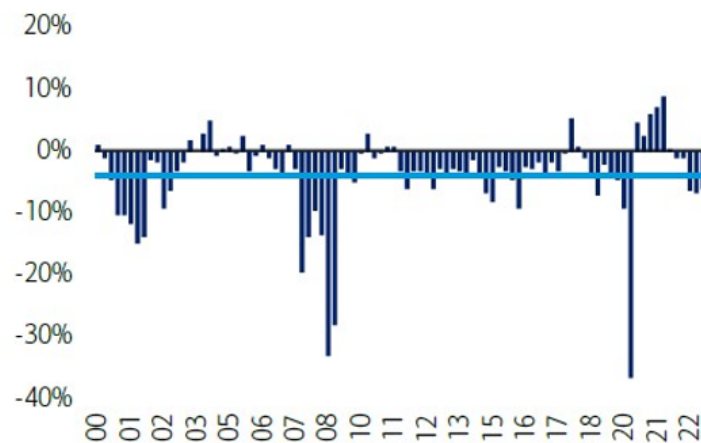
Earnings Estimate Revisions Are Troughing – Markets Respond To Changes In Revisions

We have entered 2Q23 earnings season and earnings are expected to be down for the quarter but much less than originally forecast. Earnings estimate revisions are highly correlated to the direction of the equity market. Despite earnings being down, they are improving, and this is what the market is responding to. Earnings by 4Q23 are expected to be positive. So, the current equity market rally is based on fundamentals not just technicals. The market in our view is responding to the outlook of earnings improving, plus the expectation of inflation coming down along with interest rates.

But we believe that analysts are getting the earnings portion of their P/E estimates wrong – which means the market may not be as expensive as originally thought. We don't believe the equity market is very overvalued. Also, lower interest rates will allow the price/earnings multiples to expand. So, before we get to a peak in the market, we believe that price/earnings multiples could be 25-30x. Today, based on current earnings expectations, the market is trading at 20x.

Exhibit 3: 2Q EPS -2% in in last 3mos vs. 4% average; first quarter with a smaller cut in a year

Bottom-up S&P 500 EPS revision by quarter in 3mos. before reporting season, 2000-2Q23

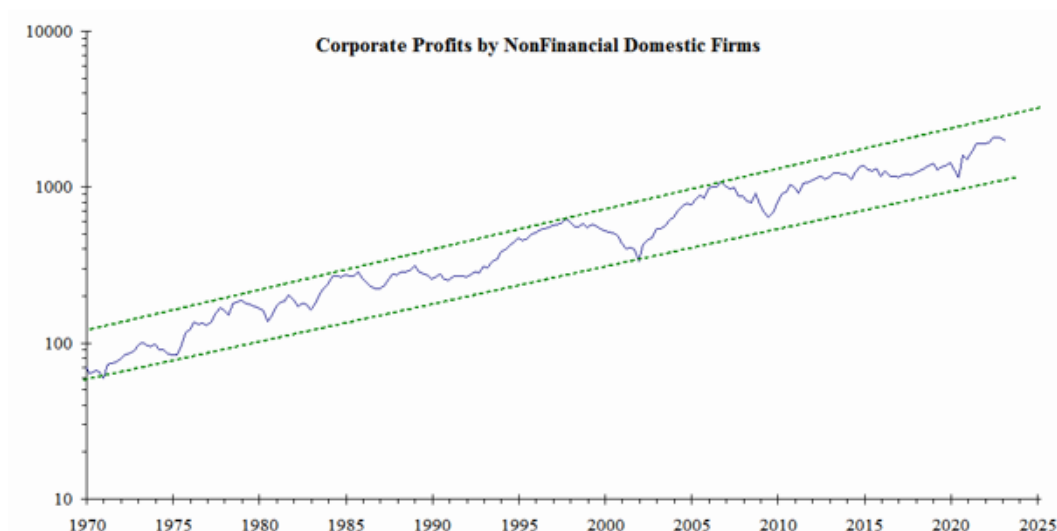


Source: FactSet, BofA US Equity & Quant Strategy

BofA GLOBAL RESEARCH

Source: BofA, July 11, 2023

Corporate Profits Have Dipped But No Significant Contraction



Source: Bureau of Economic Analysis & National Income and Product Accounts 1Q23

Dow Jones Transportation Index Is Joining The Party With A Breakout

The Dow Jones Transportation Index is now joining the party with a technical breakout and a buy signal from the monthly price momentum indicator Moving Average/Convergence Divergence (MACD). This is helping to broaden out the breadth of the market, confirming the strength of this market rally.

Dow Jones Transportation With Monthly Moving Average/Convergence Divergence: A Buy Signal



Source: Bloomberg, July 14, 2023

Market Breadth Breaking to the Upside, Confirming A Sustainable Rally

The cumulative measure of advancing issues minus declining issues (known as market breadth) is now breaking to the upside. More stocks are joining the rally, which gives strength and quality to the Bull.

Bloomberg Cumulative Advance-Dcline Line Of NYSE Stocks – Bullish Breakout!



Source: Bloomberg, July 14, 2023

New Highs-New Lows – Bullish Trend With More Stocks Hitting New Highs

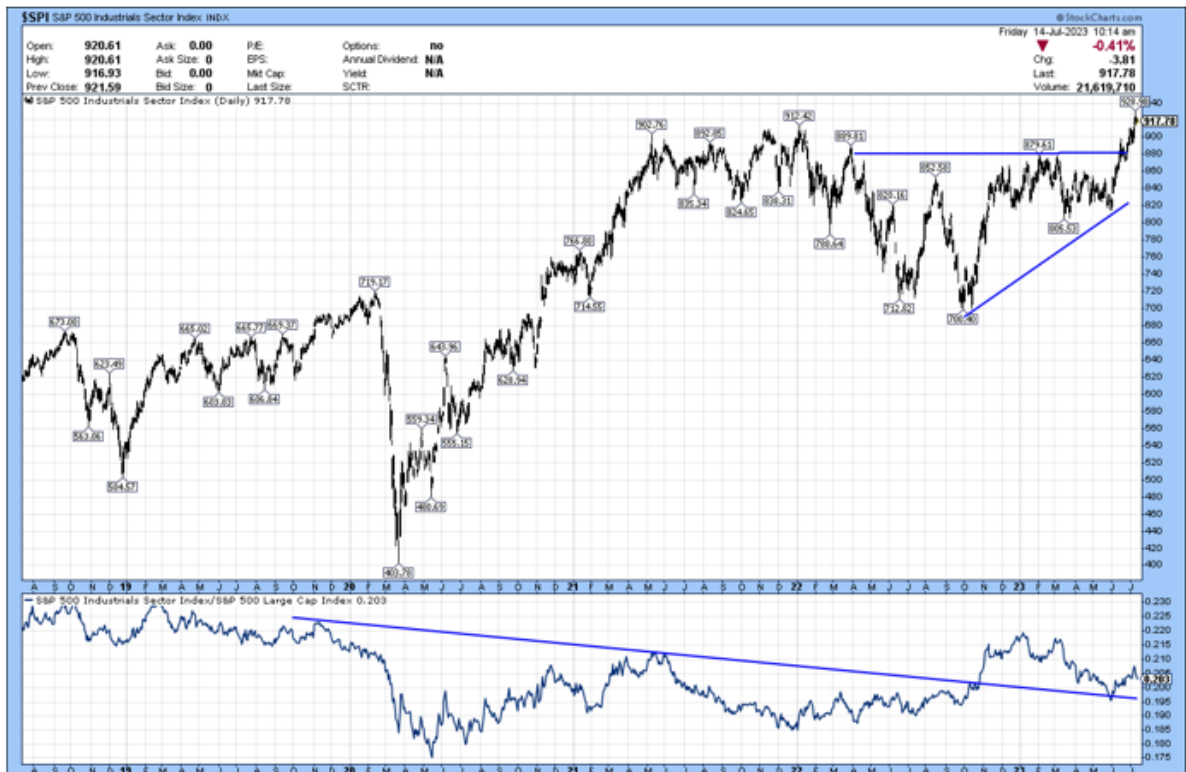


Source: Bloomberg, July 14, 2023

A Big Capex Cycle Coming and Benefits Industrials

The Capex (Capital Expenditures) cycle is expected to have significant growth as the legislation from the Biden Administration [such as the Infrastructure Investment and Jobs Act (IIJA), the CHIPS and Science Act and the Inflation Reduction Act] will be adding significant stimulus to the economy this year. In the table below, we are focused on the increased outlook for capex, particularly in the industrials sector. According to Bank of America, there's been a significant upgrade to capex spending for industrials this year, from 0.9% in the beginning of 2023 to nearly 16% now. We believe markets still need to price in this improvement.

S&P Industrials Break to an All-Time High!



Source: Stockcharts.com, July 13, 2023



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Significant Increase In Forecast For Capex Spend In 2023

Exhibit 4: 2023 capex forecasts have been revised up since the beginning of the year
Changes to BofA 2023/2024 process capex growth forecasts based on bottom-up analysis

	2023	2023E		2024E			
	Actual	Beginning of the year*	Old**	New	Beginning of the year*	Old**	New
Oil/Gas	19.4%	12.4%	11.1%	12.6%	1.3%	0.6%	1.5%
Utilities	13.5%	4.0%	4.4%	2.3%	9.5%	5.1%	5.5%
Metals/Mining	6.6%	5.9%	13.5%	14.2%	-21.9%	-7.3%	-5.8%
Industrials	11.7%	0.9%	9.8%	15.8%	1.6%	0.9%	0.9%
Chemicals	6.4%	17.4%	17.7%	23.3%	-17.2%	-3.2%	-2.2%
MLP	14.8%	3.5%	14.6%	22.9%	-9.0%	-13.4%	-8.5%

Source: BofA Global Research estimates, based on global coverage with the exception of utilities and MLPs (N.A. only)

*Forecasts published on 01/10/23

**Forecasts as of 03/03/23

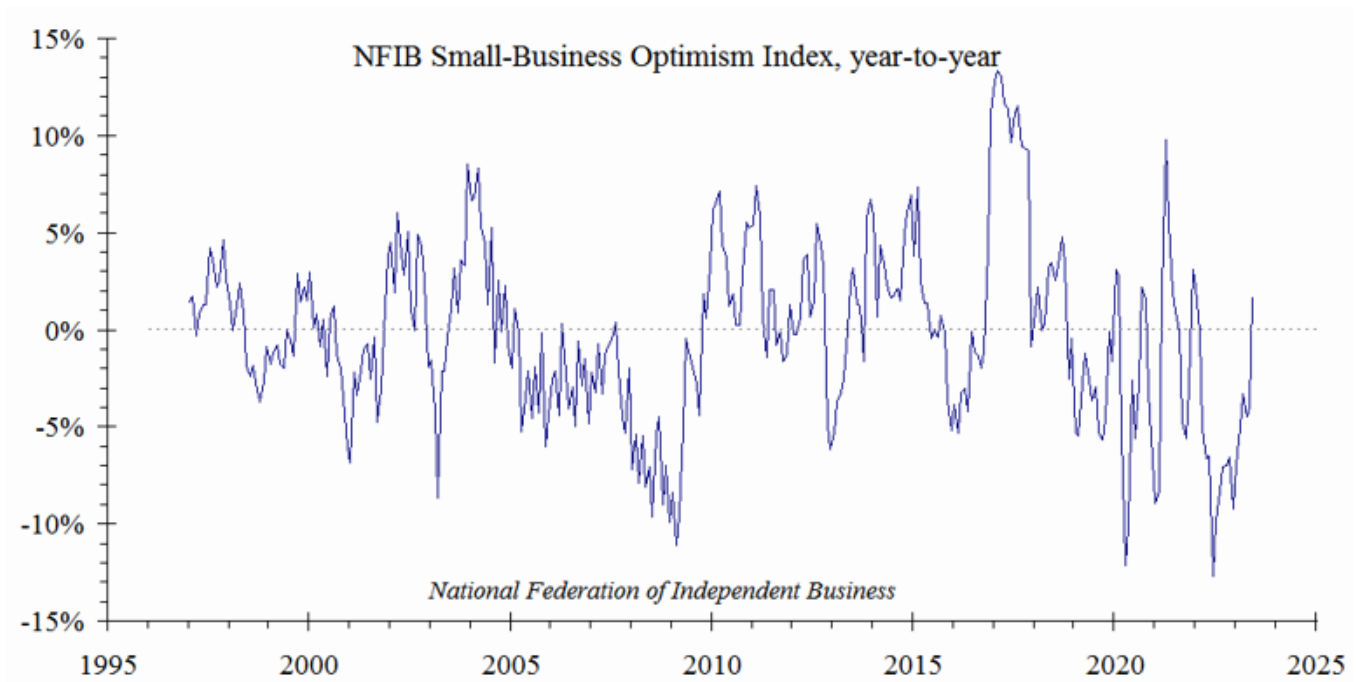
BofA GLOBAL RESEARCH

Source: BofA, May 19, 2023

What Caught Our Eye Last Week

Number 1: When American small business owners are feeling good about their prospects, it's a good sign for the economy. As seen in the chart below, Small Business Optimism has experienced sharp positive upticks – another positive indicator for the economy and markets.

NFIB Small Business Optimism Index



Source: National Federation of Independent Business, June 2023

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Number 2: Japan is no longer in a deflationary economy – inflation has taken hold with Consumer Prices (CPI) ex Fresh Food and Energy hitting 4.3%. This is its best measure in over 30 years! The inflation story helps to explain why the Japanese equity market performance is up 24% in local currency this year.

Japan Nationwide CPI Ex Fresh Food & Energy



Source: Bloomberg, July 14, 2023

All Eyes On Continued Bank Earnings & Retail And Housing Data

This is the week that earnings reports will continue to set the tone for the markets.

Today we'll see U.S. retail sales data, followed throughout the week with data on housing starts and existing home sales. Data like this helps paint a picture of the consumer – and the consumer's willingness to spend. Initial jobless claims will be out on Thursday, and whether those numbers balance out or bolster the consumer measurement, we know that the Fed will be watching... like a hawk? Likely, but that remains to be seen.



Calendar

Mon.

8:30 am
Earnings: Empire State manufacturing survey
Equity Lifestyle Properties

Tue.

8:30 am: U.S. retail sales
9:15 am: Industrial production
10:00 am: Business inventories, Home builder confidence index
Earnings: Bank of America, Bank of New York Mellon, Charles Schwab, Hasbro, Interactive Brokers, J.B. Hunt Transport Services, Lockheed Martin, Morgan Stanley, Novartis, Omnicom, Pinnacle Financial Partners, PNC, Prologis, Synchrony Financial, Western Alliance Bancorp

Wed.

8:30 am: Housing starts
Earnings: Alcoa, Ally Financial, ASML, Baker Hughes, Citigroup Financial Group, Cohen & Steers, Crown Castle, Discover Financial Services, Equifax, First Horizon, Goldman Sachs, Halliburton, International Business Machines, Kinder Morgan, Las Vegas Sands, M&T Bank, Nasdaq, Netflix, Rexford Industrial Realty, SL Green Realty, Steel Dynamics, Tesla, U.S. Bancorp, United Airlines, Zions Bancorp

Thu.

8:30 am: Initial jobless claims, Philadelphia Fed manufacturing survey, Existing home sales, U.S. leading economic indicators
Earnings: American Airlines, Badger Meter, Blackstone, Capital One Financial, CSX, D.R. Horton, Fifth Third, Freeport-McMoRan, First Financial, Genuine Parts, Intuitive Surgical, Johnson & Johnson, KeyCorp, Knight-Swift Transportation, Marsh McLennan, Newmont Goldcorp, Philip Morris International, PPG Industries, Pool, SAP, Snap-On, Travelers, Truist Financial, W.R. Berkley

Fri.

Earnings: None Scheduled
American Express, AutoNation, Comerica, Huntington Banc, Regions Financial, Roper Technologies, SLB

Source: MarketWatch/Kiplinger

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