



Sanctuary Week Ahead

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 Week of **August 14, 2023**

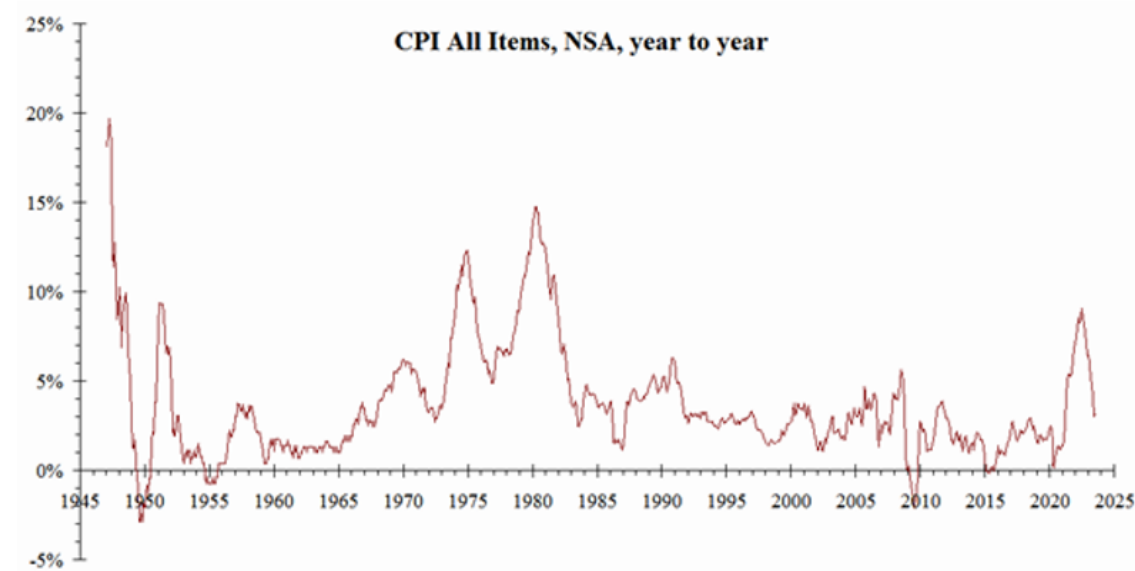
Inflation Data Bullish But Bond Yields Still Look to Firm

Last week, Consumer (CPI) and Producer (PPI) Price indexes were released for the month of July with CPI coming in better-than-expected year-to-year at 3.2% (vs. expected 3.3%) and PPI coming in stronger than expected year-to-year at 0.8% (vs. expected 0.7%).

There has been more downward progress on producer prices than on consumer prices. Overall inflation data looks to have peaked. In examining the patterns of historical inflation, the pattern of CPI appears – in our view – to be similar to the 1950s and not the 1970s. If this is correct, prices should continue to go down over time – which would allow the Fed to eventually pause on raising interest rates. However, a strong employment market may pressure the Fed to still raise rates. The next rate decision won't happen until September (Federal Open Market Committee, or FOMC, meeting will be held on September 19-20.) However, the market will be paying close attention to the comments coming from the annual Jackson Hole Fed meeting taking place on August 24-26.

Despite the improvement in inflation, the back end of the yield curve is rising on the 10- and 30-year Treasury bonds. Yields look to be breaking to the upside with a trend toward 5%. The 2-year Treasury yield remains stable. The higher rates on the back end appear to be more of a pricing of stronger economic growth and concerns over supply coming to the market than due to inflation.

CPI All Items, NSA, Year to Year



Source: Bureau of Labor Statistics, July 2023



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Producer Prices Final Demand Year-To-Year



Source: Bloomberg, August 11, 2023

2-Year Treasury Yield - Stable



Source: Bloomberg, August 11, 2023



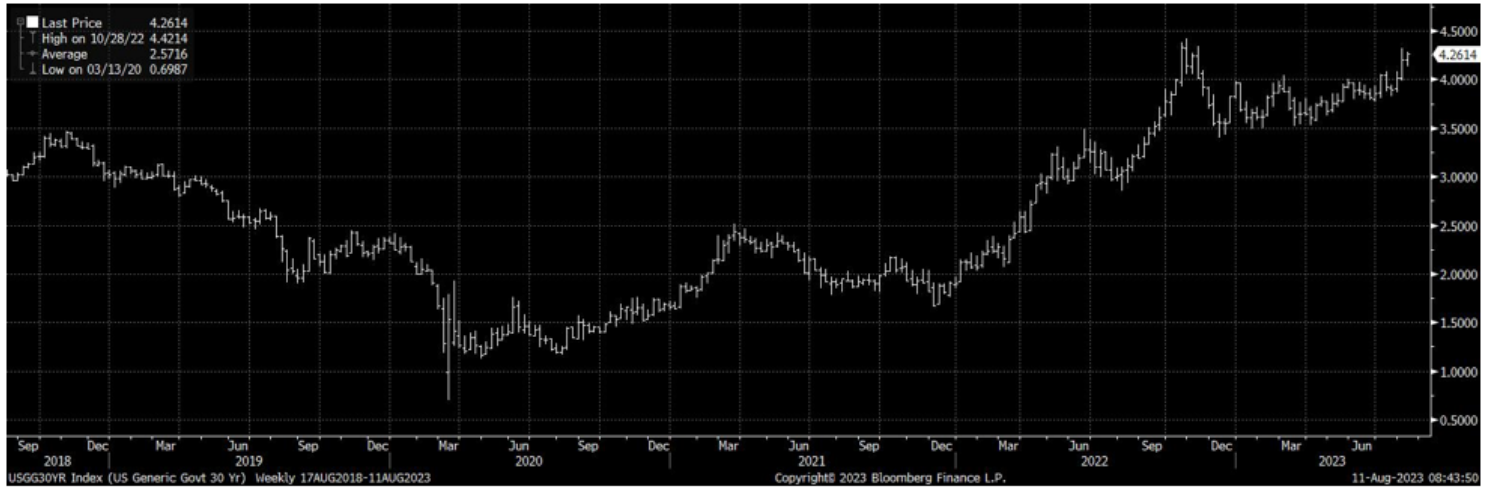
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10-Year Treasury Yield Rising



Source: Bloomberg, August 11, 2023

30-Year Treasury Yield Rising



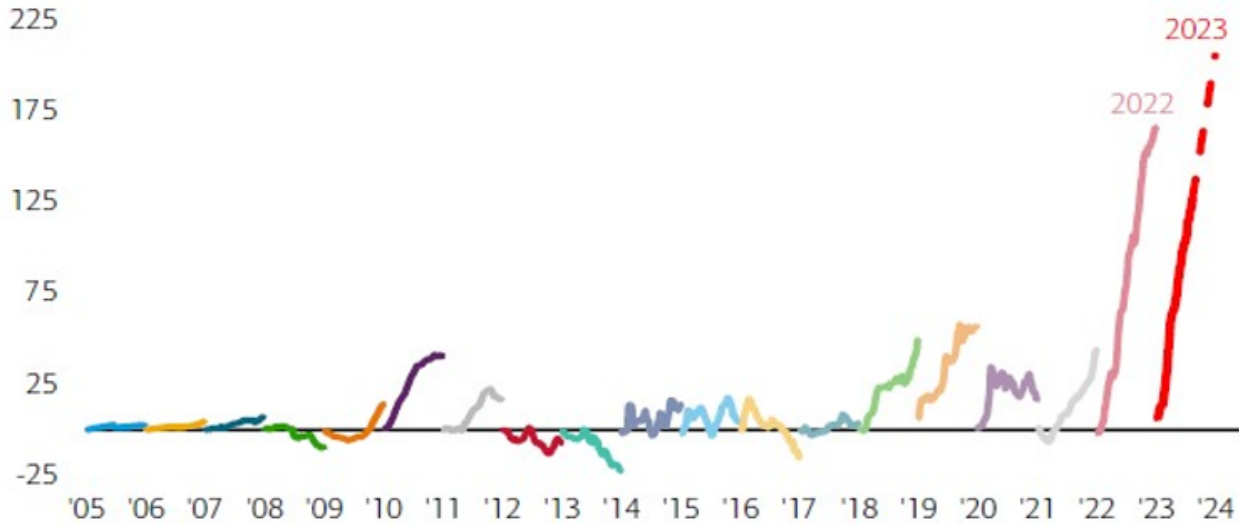
Source: Bloomberg, August 11, 2023



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As Interest Rates Have Moved From Zero To 4-5%, Treasury Inflows Have Risen Sharply

Cumulative annual inflow to Treasuries (\$ bn)



Source: BofA Global Investment Strategy, EPFR

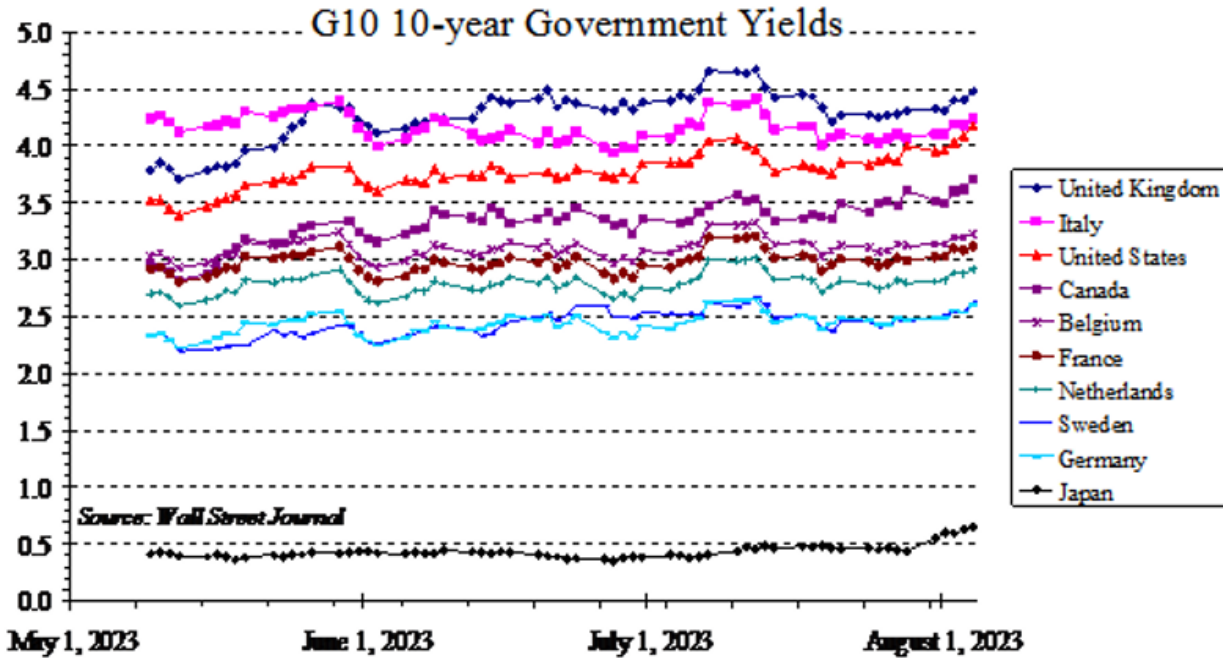
BofA GLOBAL RESEARCH

Source: Bank of America, August 11, 2023

Someone Is Buying Treasuries

With the recent Fitch downgrade in the U.S. debt rating, plus the amount of supply the Government needs to issue to fund the deficit and an increasing interest rate burden to pay on that debt, there have been concerns on who will be buying U.S. Treasuries in this environment. Well, the demand so far has been extremely strong! U.S. Government debt is known for being risk-free as the paper is backed by the Government and the U.S. has not defaulted. Also looking at G10 10-year government (i.e., sovereign) paper, the U.S. still has one of the highest rates in the world with a very high credit rating (AA+ from both Fitch and S&P). We don't see a concern in the U.S. government selling U.S. government paper to fund the deficit.

G10 10-Year Government Yields

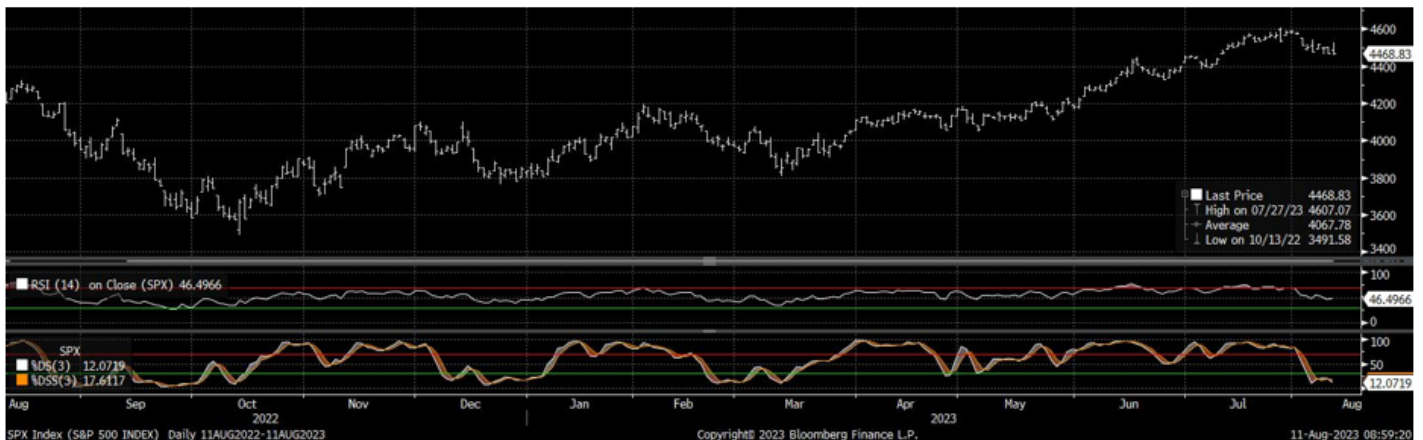


Source: Wall Street Journal, August 4, 2023

S&P 500 In Seasonal Correction: Risk 5%-10% From Highs

The S&P 500 has entered a seasonal correction and can pull back 5%-10% from the highs reached in late July. Looking at the short-term price momentum indicators of the Relative Strength Index (RSI), the correction is underway but not oversold yet. The 14-Day Stochastic is oversold. What this tells us is we could have a choppy move down. Markets historically have a significant bottom in the month of October. So, this corrective phase could last a while. The back-up in bond yields is also putting pressure on equities. Rates on the back-end may need to peak before the market bottoms.

S&P 500 with Relative Strength Index (RSI) Still Correcting and 14-Day Stochastic Oversold



Source: BofA Global Research, July 2023



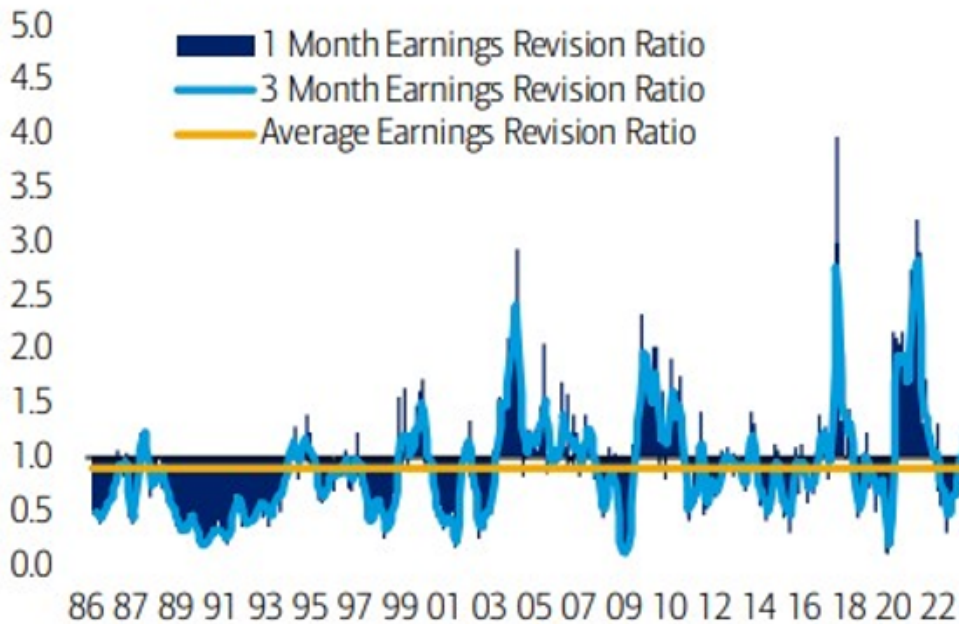
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Earnings Estimate Revisions Keep Rising

Earnings estimate revisions are the best predictor of stock prices. Looking at the 3-month earnings revision ratio, earnings numbers are going up. This is a positive for the markets and gives you confidence that this is only a market correction within a bull market.

Three Month Earnings Estimate Revision is now 1.04x

S&P 500 earnings estimate revision ratio, 1/86-7/23



Source: BofA US Equity and Quant Strategy, I/B/E/S

BofA GLOBAL RESEARCH

Source: Bank of America, August 6, 2023

China's Consumer Prices Contract to A Negative 0.3% - Deflation In The Second Largest Economy

We pose these questions as something to ponder seriously: With China's consumer prices falling into negative territory and showing deflation, will this collapse spill over into other economies? And, if yes, is this bullish for falling pricings in the U.S. economy, as well? Our thinking: the contraction of China's consumer prices can be a positive for global pricing overall to come down.



Week of **August 14, 2023**

China Consumer Price Index Year-to-Year



Source: Bloomberg, August 11, 2023

All Eyes Will Be On Retail Sales and Housing Data

This is the week that “what they said then” will impact “what they say next.”

On Wednesday, the minutes from last month's FMOc meeting will be released. What the committee members said – and their tone (hawkish? dovish?) – will have a direct impact on next week's big meeting, when the Fed hosts its annual Jackson Hole meeting (officially: the 2023 Economic Policy Symposium "Structural Shifts in the Global Economy," on August 24-26). In the meantime, we also get retail sales data this week, which will give us a glimpse into what the consumer is spending on and how the housing market is doing during its seasonal strong period.

Amongst the flood of constant data, we believe that the most concerning data point this month is China printing a deflationary number. We will be watching closely, gauging considerations for the U.S. consumer as well as the global economies.



Calendar

Mon.

Earnings

Alcon, Heron Therapeutics, JinkoSolar, Monday.com

Tue.

8:30 am

U.S. retail sales, Import price index

10:00 am

Business inventories

11:00 am

Minneapolis Fed President Kashkari speaks

Earnings

Agilent, Cardinal Health, CAVA Group, Coherent, H & R Block, Home Depot, HUYA, IHS Holding, On, Sea Limited, Tencent Music

Wed.

8:30 am

Housing starts, Building permits

9:15 am

Industrial production, Capacity utilization

2:00 pm

FOMC minutes of July meeting

Earnings

3D Systems, Alarm.com, AppLovin, Ballard Power, Cisco Systems, Clean Energy Fuels, Coeur Mining, Enersys, Genpact, GoodRx, Illumina, Infinera, Jack In The Box, Jazz Pharma, Lions Gate Entertainment, LL Flooring Holdings, Manulife Financial, Nomad Foods, ODP Corp, OGE Energy, Pan Am Silver, PENN Entertainment, Plug Power, Reynolds Consumer Products, Roblox, Stratasys, Taboola, The Beauty Health Company, The Trade Desk, Valvoline, Vertex, Warby Parker, Wendy's, Wynn Resorts

Thu.

8:30 am

Initial jobless claims, Philadelphia Fed manufacturing survey

10:00 am

U.S. leading economic indicators

Earnings

Applied Materials, Bilibili, Dole, Farfetch, Keysight Technologies, Lumentum, Ross

Stores, Tapestry, Walmart

Fri.

Earnings

Buckle, Deere, Estee Lauder, Palo Alto Networks, Vipshop

Source: MarketWatch/Kiplinger

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