



Sanctuary Week Ahead

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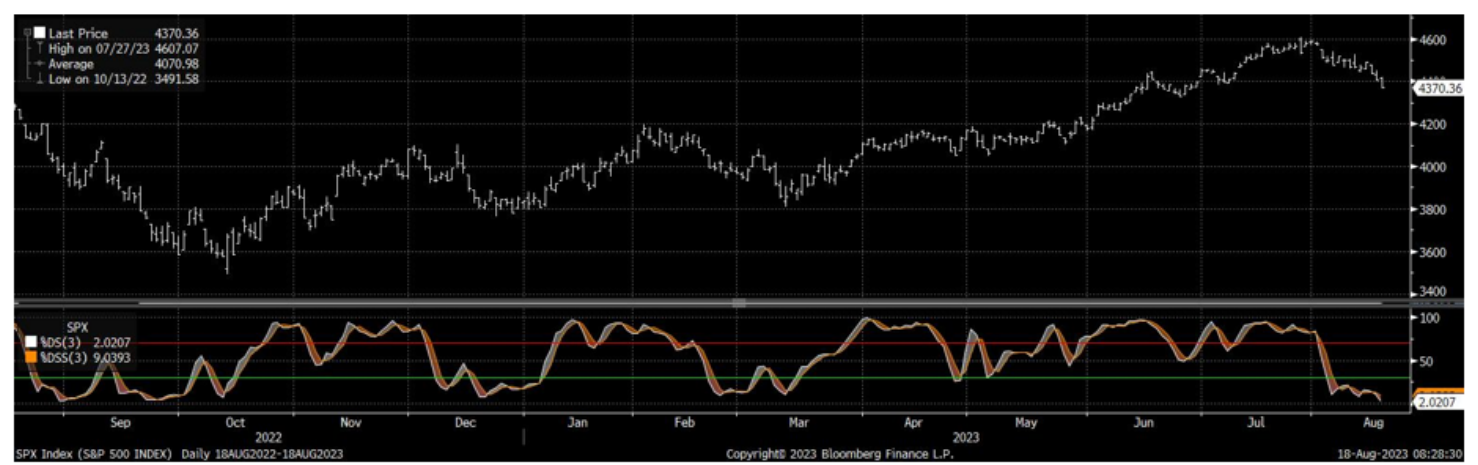
 Week of **August 21, 2023**

Markets Oversold Short-Term But Still Overbought Medium-Term: Expect Volatility

In a week jam-packed with data and news, it's important we keep an eye on the big picture.

As we have been writing, the equity market has entered a seasonal correction after extraordinary gains of 15% on the S&P 500 and 30% on Nasdaq. Corrections refresh a market but can be unsettling. It is normal to correct one-third to one-half of a move, therefore we have been expecting a 5%-10% pullback on the S&P 500 and 10%-16% on Nasdaq. As of Friday's close, the S&P 500 is down 5.2% and Nasdaq is down 8.0%. Short-term, the market is very oversold, but on the medium-term, it's overbought. This could lead to a very choppy (up and down) style market. Looking at the McClennan Oscillator, an indicator of market breadth, we see more evidence that the market is oversold near-term. A brief rally can occur, but we still don't have signs that a bottom is in place. We are buyers of this dip.

S&P 500 With Price Momentum Indicator 14-Day Stochastic - Oversold



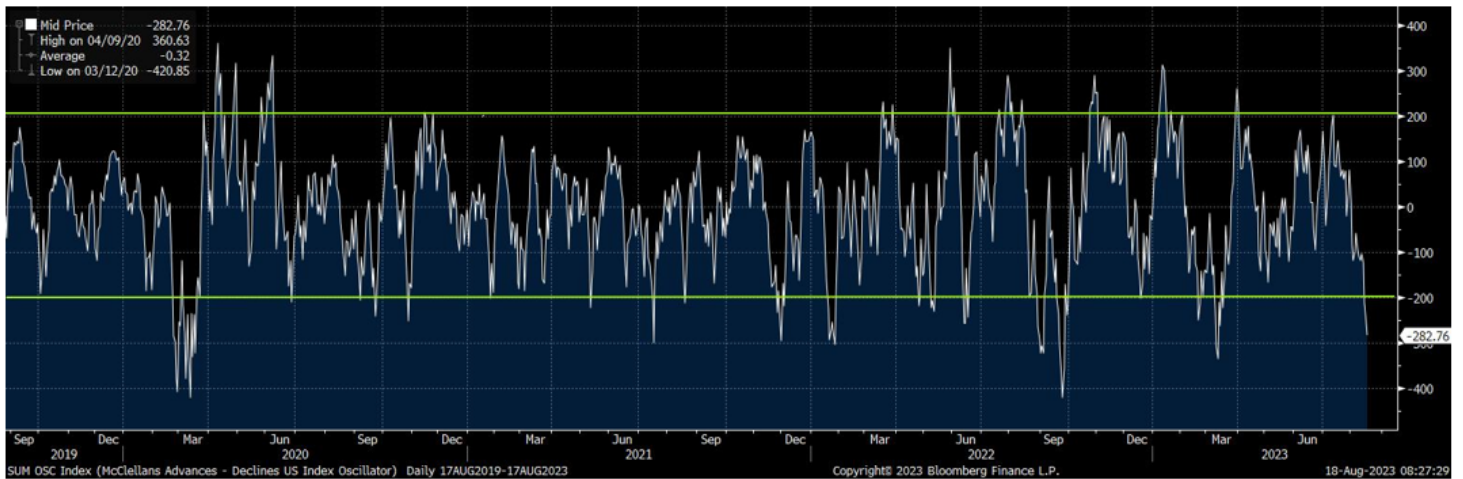
Source: Bloomberg, August 18, 2023

S&P 500 With Price Momentum Indicator 14-Week Stochastic - Overbought



Source: Bloomberg, August 18, 2023

McClellan Advance-Dcline Oscillator – Oversold Market Breadth



Source: Bloomberg, August 18, 2023

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Bond Yields Rising – Can Still Go Higher

The 10-year Treasury yield has broken to the upside and appears to be tracking up towards 5%. Why is this happening? First off, the U.S. Government needs to sell more Treasuries than was anticipated to fund the deficit, and this is leading to concerns of the cost of this funding. According to Strategas, a macro research firm, “The U.S. has hit its fiscal inflection point of the net interest cost hitting 14% of tax revenue and when debt servicing costs are rising for the first time in 35-years.” Importantly, this new issuance is taking place at a time when the Federal Reserve is no longer buying Treasuries (quantitative easing) but is selling the Treasuries on its balance sheet (quantitative tightening).

There is also a concern that the U.S. economy will have no landing, meaning there are signs the economy is reaccelerating. Economic data, such as retail sales, has been coming in much stronger than anticipated, up 0.7% month-to-month vs. an expected 0.4%. Stronger data is impacting the estimate for 3Q23 GDP. The GDPNow Federal Reserves estimated model (a nominal/unadjusted number) is projecting 5.8% as of August 16th. This has recently been a volatile indicator, but it is pointing to a stronger not weaker economy. Other factors impacting bond yields are the Fitch Ratings’ downgrade of the U.S. debt, along with Japan easing off its yield curve control. In addition, traders have been aggressively shorting the Treasury futures market.

10-Year Treasury Bond Yield Tracking Toward 5%



Source: Bloomberg, August 18, 2023

Earnings Better Than Forecast: Earnings Season Is 90% Complete, Overall Better Than Expected

According to Strategas (August 15th), with earnings season more than 90% complete, it’s safe to say that expectations have been better for the quarter despite growth remaining -3.8%. This exceeded the -5.7% estimate on July 1st and even exceeded the expected growth rate of -3.9% on April 1st. Energy has been the major detractor, but this should begin to reverse in the coming quarters.

The 2023 EPS earnings estimates continue to move higher and are now approaching \$221.50. However, 2024 estimates remain unchanged over the past several weeks, putting expected earnings growth at 11.4%. This is elevated relative to history and a long way away from recession-type earnings numbers.

Future Risk To Markets – Government Shutdown

Brookings.edu has written, “Congress appears to be on track to trigger a government shutdown on October 1, 2023, because it is not expected to pass the 12 appropriations bills that fund the government operations before the start of the new fiscal year.” Should this occur, it will likely bring volatility to the markets in the month that tends to have extreme volatility most often; October is also the month that has major market lows.

Banks Still At Risk And Can Cause Market Volatility

Fitch Ratings analysts told CNBC last week, "The ratings agency cut its assessment of the [banking] industry's health in June, a move that analyst Chris Wolfe said went largely unnoticed because it didn't trigger downgrades on banks." The analyst also said, "Another one-notch downgrade of the industry's score, to A+ from AA-, would force Fitch to reevaluate ratings on each of the more than 70 U.S. banks it covers." *A risk of a downgrade in the Banks will likely keep the stocks under pressure and/or they may underperform the market.*

More Downside Risk To The Chinese Equity Market

In China, there have been continued releases of weak economic data, bad earnings, and what appears to be some defaults on payments. This has put pressure on the China equity market. Further downside should be anticipated.

Shanghai Stock Exchange Composite – Weakening

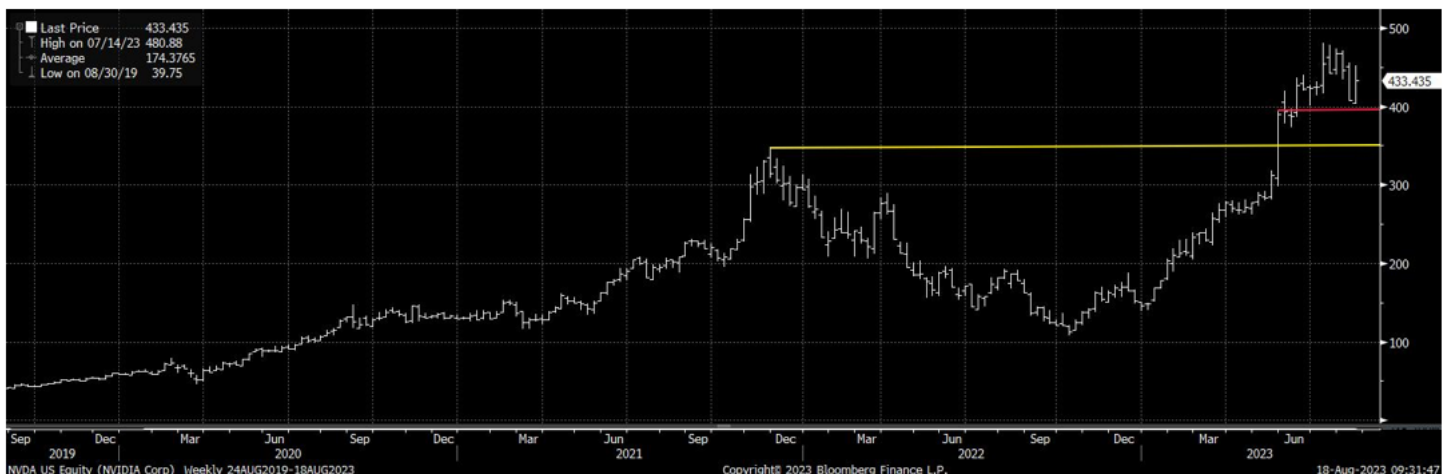


Source: Bloomberg, August 18, 2023

Big Earnings Report Coming From Nvidia This Week

This Wednesday, after the market close, Nvidia (NVDA) will be reporting numbers. *What will the stock do?* Technically speaking, the stock appears to be a bit topy. Whether its earnings are good or disappointing, the stock looks vulnerable to a pullback within an uptrend. A break of the \$400 level could push toward \$350 or a nearly 12.5% correction from current levels or a 27% correction off the highs. A move like this would impact markets negatively.

NVDA U.S. Equity Weekly



Source: Bloomberg, August 18, 2023

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Bitcoin Has Flash Crash

At this writing, it is not yet fully determined what caused the sharp decline in Bitcoin late last week. Some noted that the Bitcoin crash last Thursday coincided with the publication of a report in The Wall Street Journal that said Elon Musk's SpaceX wrote down the value of Bitcoin it owns last year and in 2021, with the space rocket maker and explorer managing a slim profit after two years of losses. Gareth Soloway, President, CFO, & Chief Market Strategist at InTheMoneyStocks.com, said on X (Twitter) that owing to thin volume, the SpaceX news probably exacerbated selling "and increased the dump with so few buyers available." Technically, more downside toward the 50-day moving average is possible, near \$23,665.

Bitcoin



If A Tree Falls In The Forest...

This is the week that a flood of economic news and data could overwhelm the traditionally slow trading volume.

We're entering the period of summer when trading volume is historically scarce. And, coincidentally, this week offers a cornucopia of economic data and news. On the data front, we'll get home sales, PMI Services, PMI Manufacturing, initial jobless claims, durable goods, and consumer sentiment. And the potential market-moving news will include Nvidia's earnings, Bitcoin's explanation, and topping the list: announcements and interviews from the Fed's annual Jackson Hole retreat (2023 Economic Policy Symposium "Structural Shifts in the Global Economy").

With thin trading and potential big news, we could have exaggerated moves in the marketplace. Buckle up!



Calendar

Mon.

Earnings
Fabrinet, Nordson, Zoom Video Communications

Tue.

9:00 am
10:00 am
Earnings
Medtronic, Toll Brothers, Urban Outfitters
S&P Case-Shiller home price index (20 cities)
Job openings, Consumer confidence
BJ's Wholesale, Canadian Solar, Coty, Dick's Sporting Goods, La-Z-Boy, Lowe's,

Wed.

8:15 am
8:30 am
inventories, Advanced wholesale inventories
10:00 am
Earnings
Body Works, Dvcom, Foot Locker, Guess?, Kohl's, NetApp, Nvidia, Peloton, Snowflake, Splunk, Williams-Sonoma
ADP employment
GDP (revision), Advanced U.S. trade balance in goods, Advanced retail
Pending home sales
Abercrombie & Fitch, Advance Auto Parts, Analog Devices, Autodesk, Bath &

Thu.

8:30 am
PCE Index, Core PCE index
9:45 am
Earnings
Technology, Nordstrom, Petco Health and Wellness, Royal Bank of Canada, Toronto-Dominion Bank, Ulta Beauty, Workday, Weibo
Initial jobless claims, Personal income (nominal), Personal spending (nominal),
Chicago Business Barometer
Affirm, Burlington Stores, Dollar Tree, Frontline, Gap, Hain Celestial, Intuit, Marvell

Fri.

8:30 am
10:00 am
Earnings
U.S. nonfarm payroll, U.S. unemployment rate, U.S. hourly wages
ISM manufacturing, Construction spending
Hibbett

Source: MarketWatch/Kiplinger

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