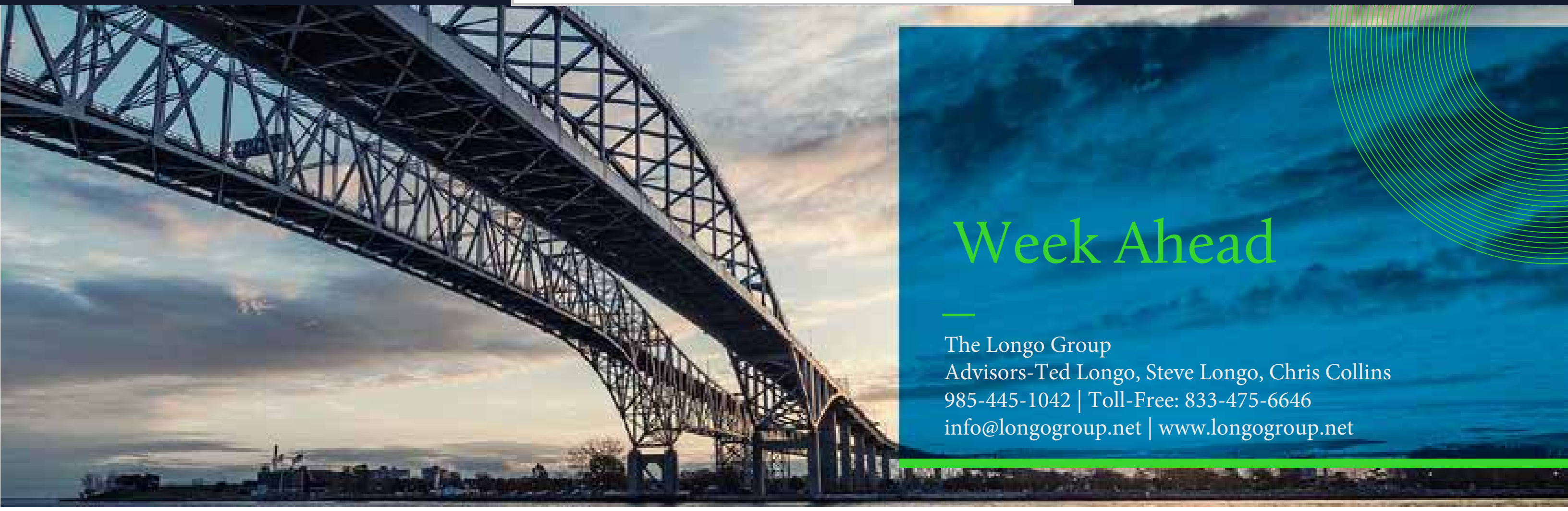
# The Longo Group

Independent Financial Firm




The Longo Group
Advisors-Ted Longo, Steve Longo, Chris Collins
985-445-1042 | Toll-Free: 833-475-6646
info@longogroup.net | www.longogroup.net

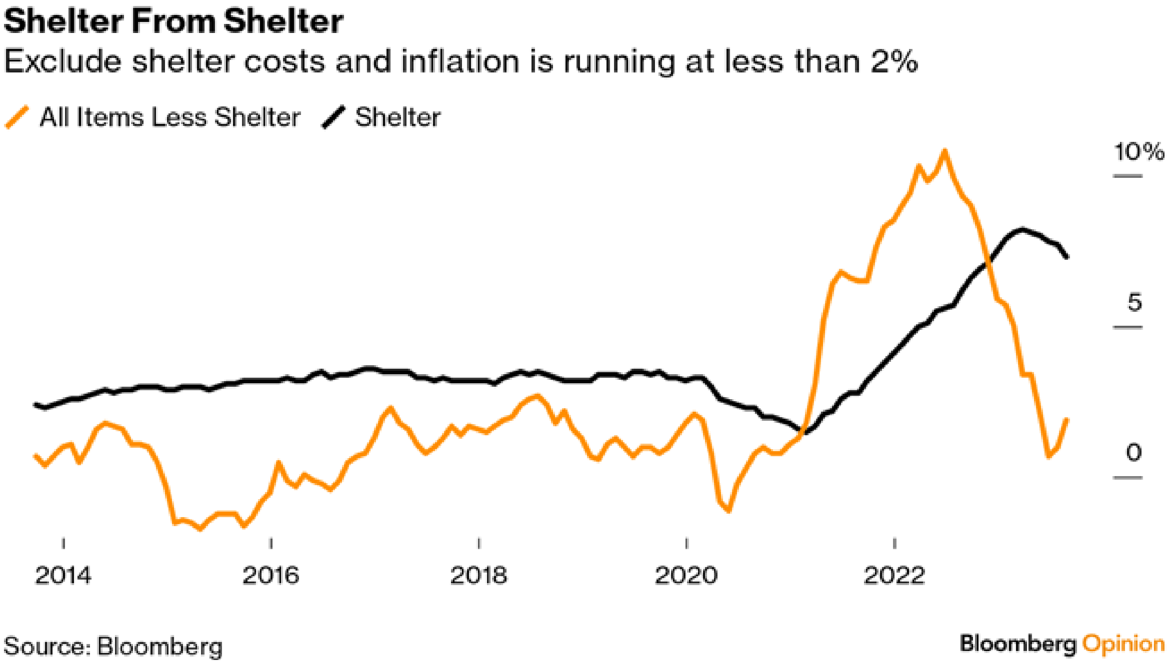
Week of **September 18, 2023**

## Inflation Data Comes In Hot But the Market Yawns

### The Consumer Price Index for August came in at 3.7% year-to-year, slightly higher than the consensus estimate of 3.6% year-to-year.

Most of the increase was due to shelter costs. But the services side of the data came in softer than expected, and this was the data point that the bond market seemed to focus on more.

### Shelter From Shelter

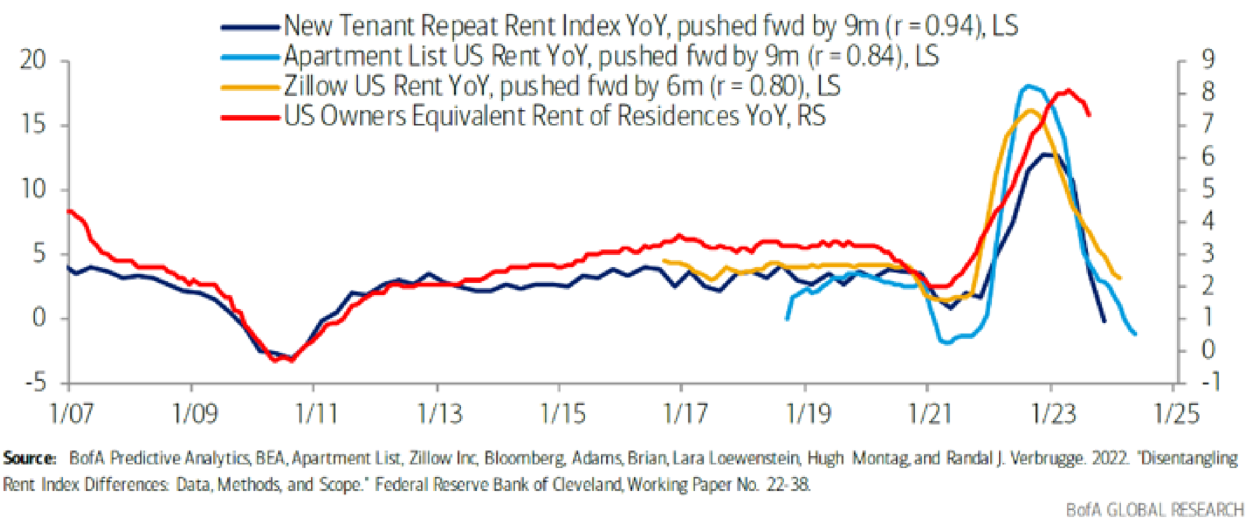



*Source: Bloomberg, Bureau of Labor Statistics, September 2023*

## Week of **September 18, 2023**

Bank of America's recent analysis of shelter costs, based in turn upon a study by the Federal Reserve Bank of Cleveland, suggests that shelter costs should begin to decline over the next nine months.

### BofA Shelter Costs

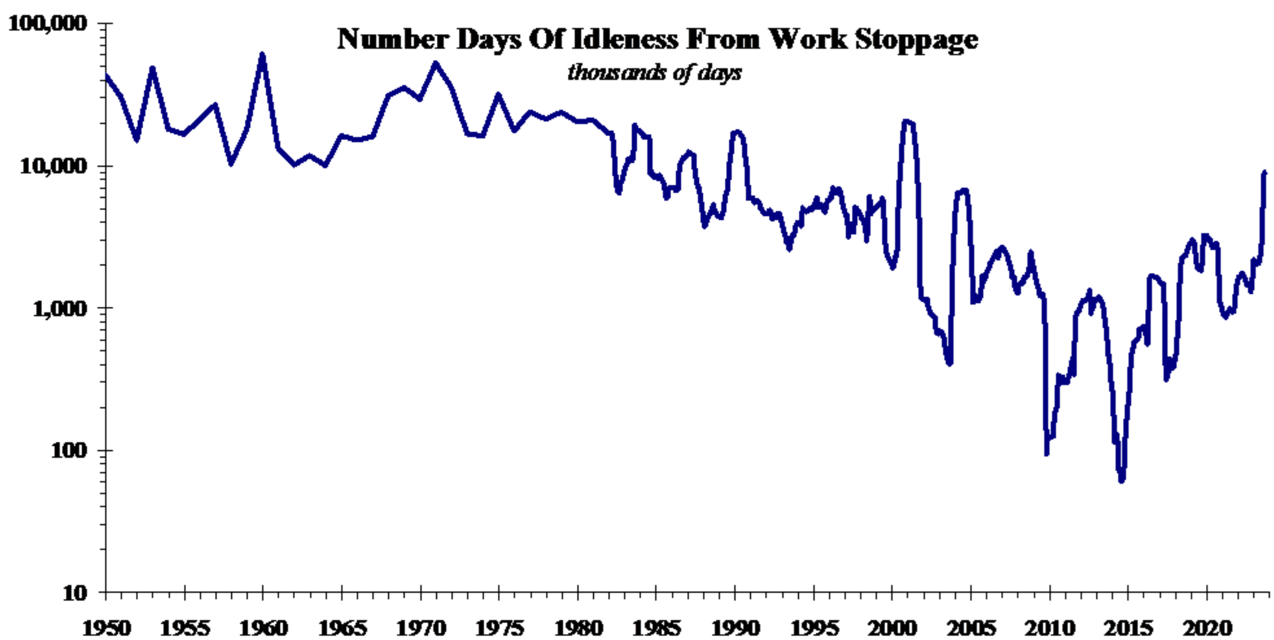



*Source: Bank of America Global Research, September 2023*

### Another Labor Strike – Now UAW

A new market concern is the United Auto Workers (UAW) strike against the U.S. auto manufacturers: Ford, GM, and Stellantis (formerly Fiat Chrysler). It's been many years since there has been a widespread auto strike. The UAW is calling this a "stand-up strike," stopping work at only one plant for each of the auto makers. (At least for now.) This approach maximizes UAW's bargaining position while minimizing the effect of the union's industrial action on the broader economy.

### Number Days of Idleness from Work Stoppage

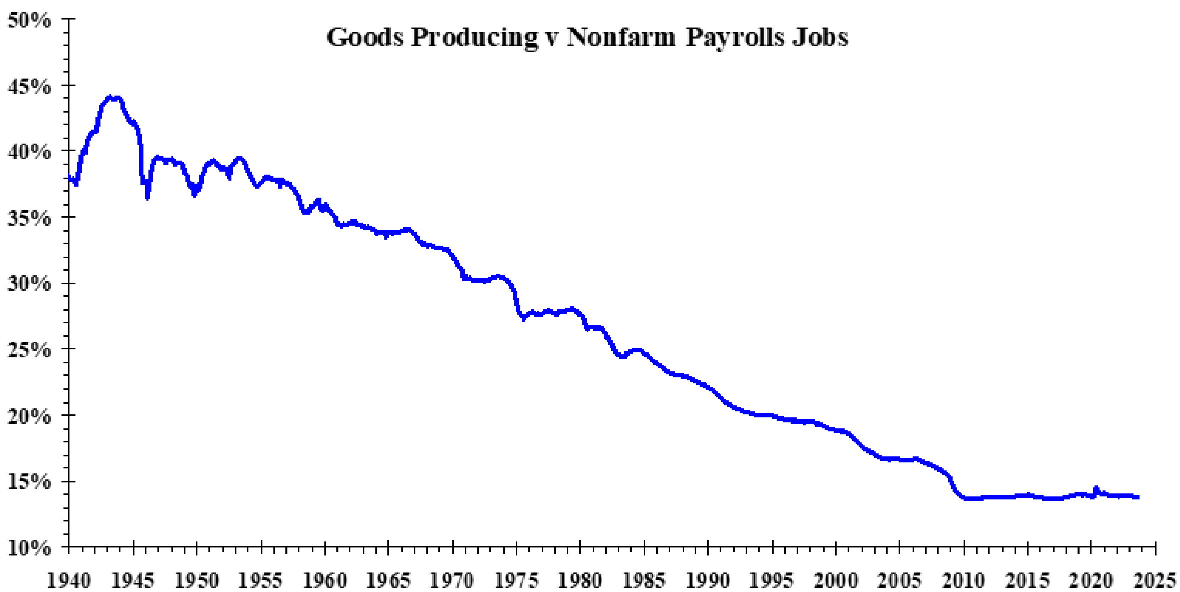



*Source: Bureau of Labor Statistics, Sanctuary Wealth, September 15, 2023*

Week of **September18,2023**

But even the effect of a settlement between the automakers and UAW has less impact on the broader economy than it would years ago. Why? Because jobs in the U.S. have shifted from manufacturing to services. Since 1950, manufacturing jobs have declined from just under 40% to less than 15% today.

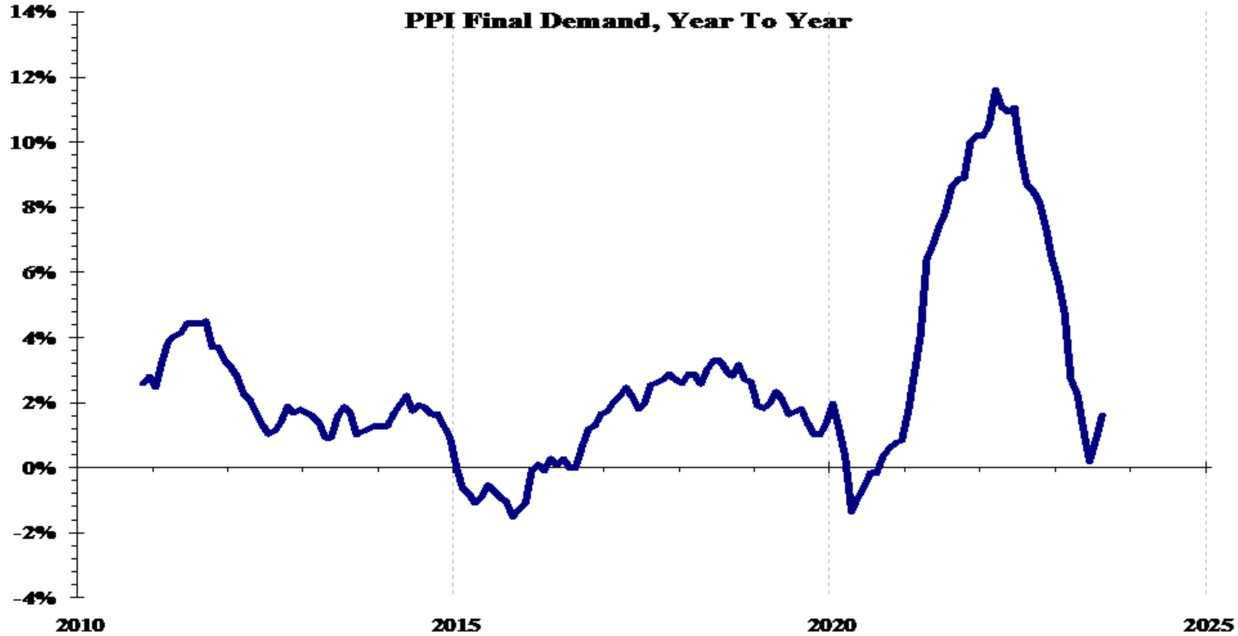
## Goods Producing v. Nonfarm Payroll Jobs




*Source: Bureau of Labor Statistics, Sanctuary Wealth, September 15, 2023*

## Producer Prices Pop Higher

The Producer Price Index (PPI) for final demand measures the average change in prices received by domestic producers of goods, services, and construction sold for personal consumption, capital investment, government, and export. PPI for final demand in August increased 1.6% year-to-year, which was higher than the consensus estimate of 1.3% year-to-year. But frankly, the market also yawned at this data point. Why? The higher reading was driven mostly by energy prices – which the market already expected to be volatile at this time.

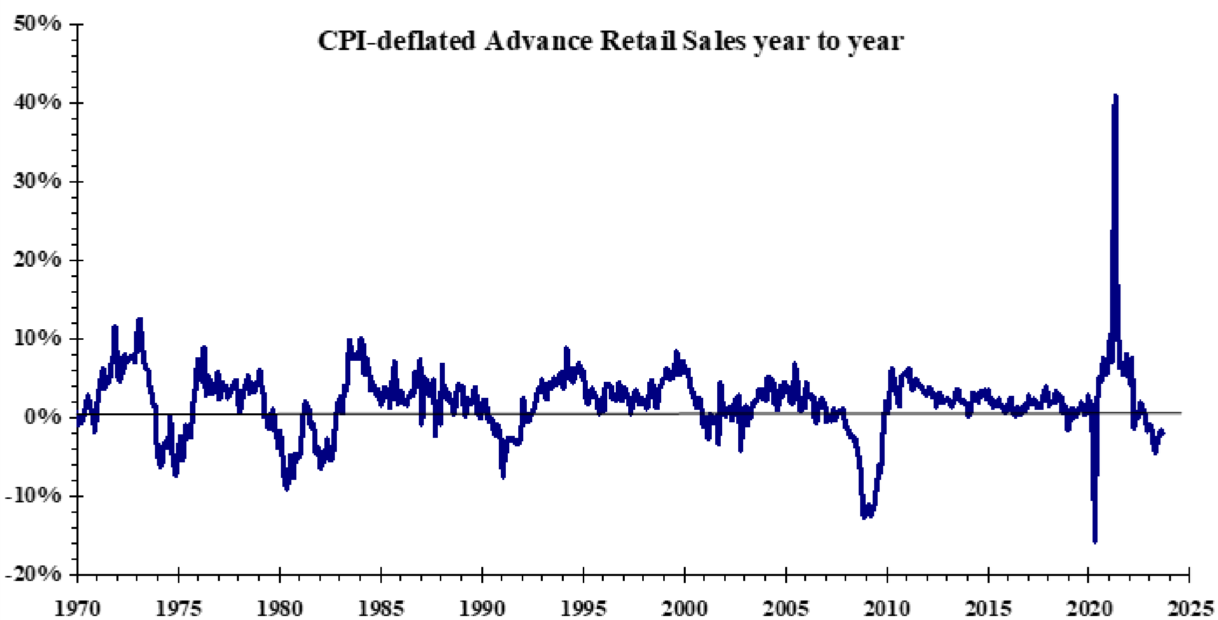



*Source: Bureau of Labor Statistics, Sanctuary Wealth, September 15, 2023*

Week of **September 18, 2023**

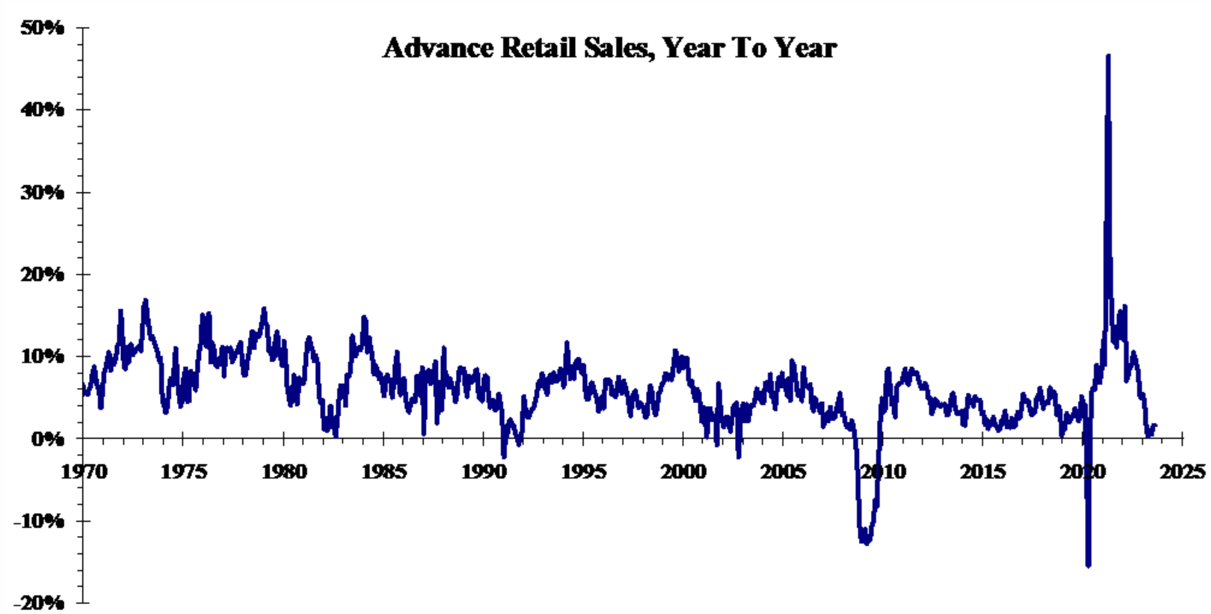
## Retail Sales Come in Hot

Advance retail sales were reported moving at 0.6% month-to-month, a much faster pace than the expected 0.1%. However, when inflation is taken into account, real retail sales actually declined 2.0% on a year-to-year basis. It's also worth noting that there were significant downward revisions to last month's data.




*Source: Bureau of Labor Statistics, Sanctuary Wealth, September 15, 2023*

Without accounting for inflation, advance retail sales are growing slowly and may have bottomed – which would be "soft landing" scenario the Fed is looking for.



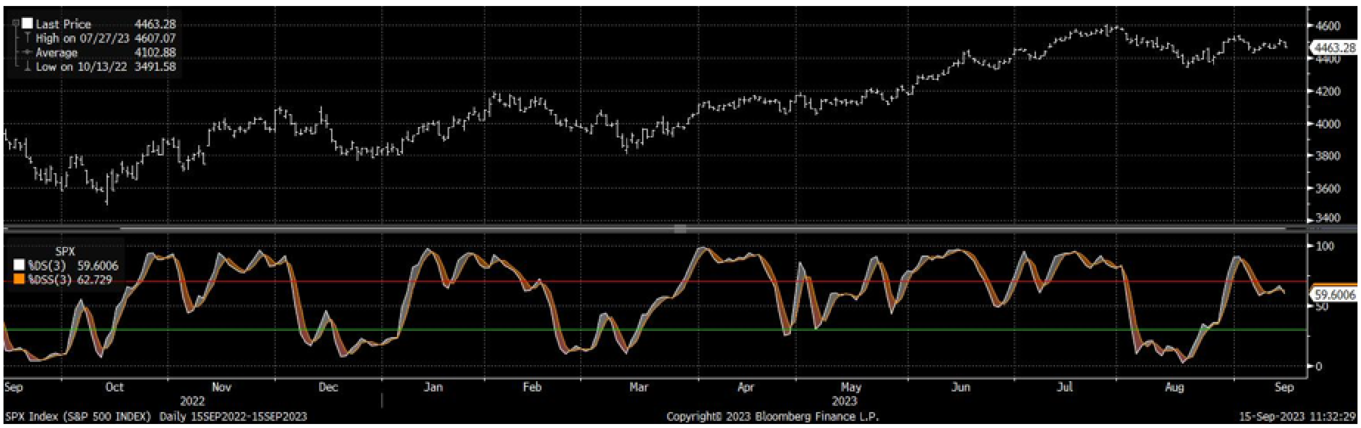

*Source: Bureau of Labor Statistics, Sanctuary Wealth, September 15, 2023*

Week of **September 18, 2023**

## Equity Markets Still In A Correction

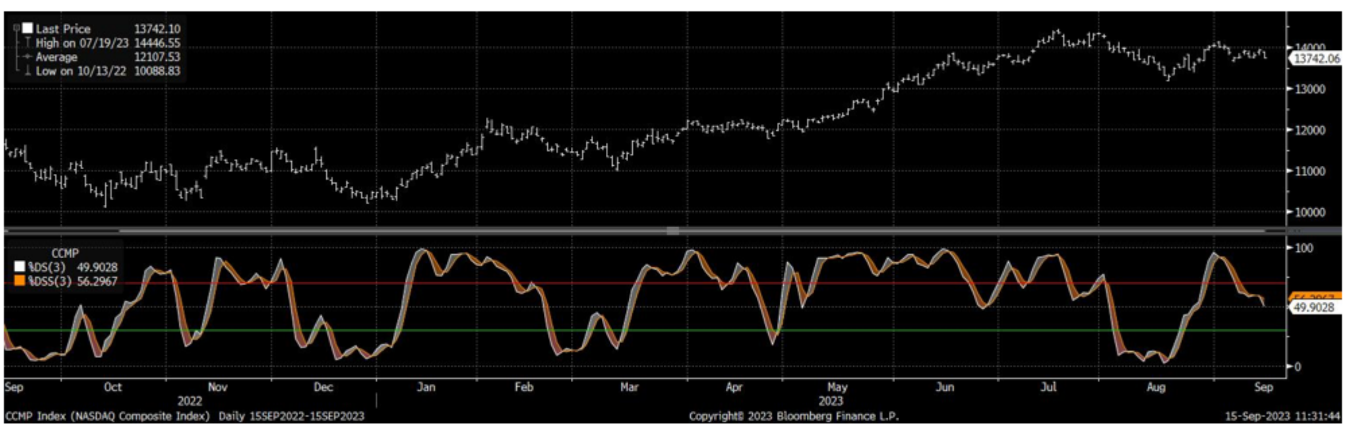
The equity markets are still correcting from very overbought levels during the seasonal weak period of the market. We would anticipate getting buy signals next month in October, which historically is a good time to be buying stocks for a year-end rally. Equity markets still have the ability to make new highs before the end of the year. We remain buyers of the market.

## S&P 500 Still Correcting From Overbought Reading (14-Day Stochastic)




*Source: Bloomberg, September 15, 2023*

## Nasdaq Is Also Still Correcting From Overbought Reading (14-Day Stochastic)

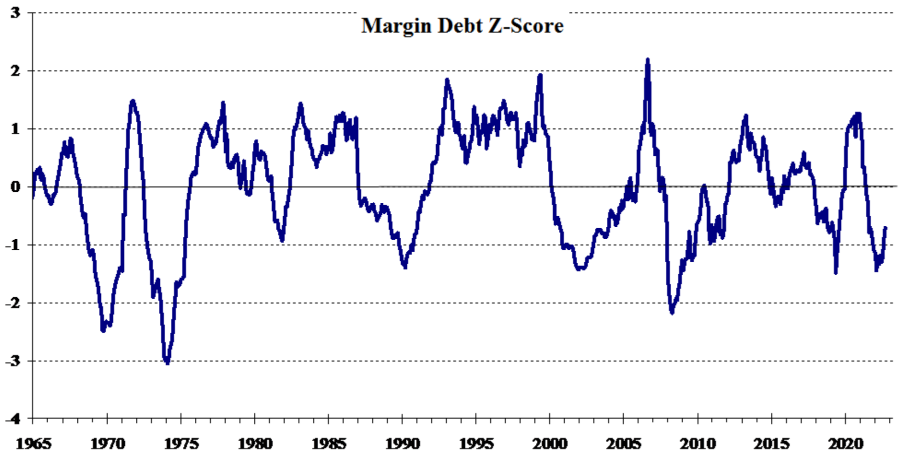



*Source: Bloomberg, September 15, 2023*

## Margin Debt Is Low Meaning the Equity Market Is Not Leveraged

Equity markets peak on high leverage not low leverage. Leverage is low, which means the market has significant room to add leverage, driving stock prices higher! Here we look at the Margin Debt Z-score, which measures the number of standard deviations a given data point lies above or below mean. So what we see here is a reflection of the amount of variability of margin debt. Note that the equity market tends to peak at 1 or above. Today the reading is below a negative 1. This gives a lot of room for the equity market to add leverage.

## Week of **September 18, 2023**

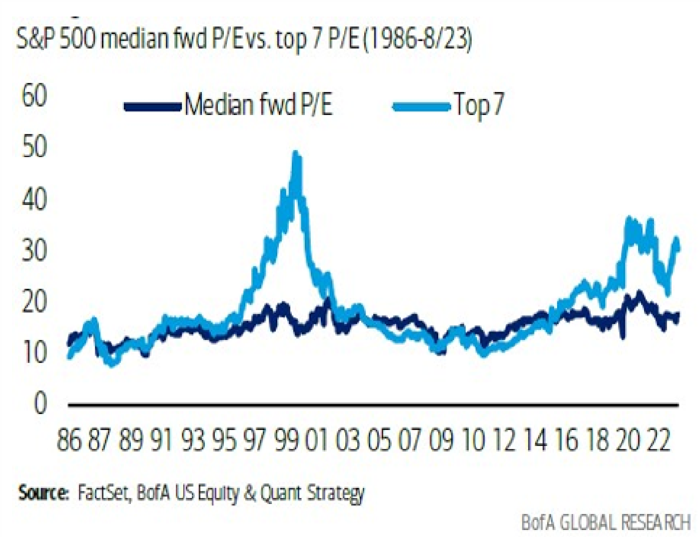


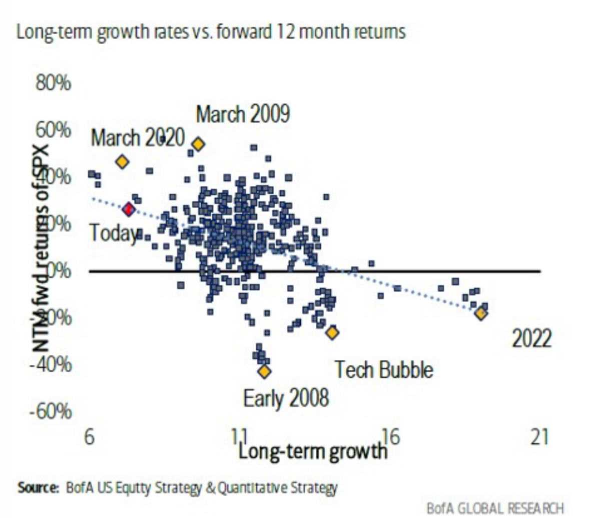

*Source: FINRA, Bloomberg and Sanctuary Wealth, August 31, 2023*

## Market Valuations Are NOT Expensive, They're Cheap!

Beauty is in the eye of the beholder. There are various valuations models, and here we look at a few that show that the equity market is not expensive. Examining the median forward price-to-earnings ratio (p/e), stocks are not expensive and not cheap. They are neutral. BUT: looking at the market a different way, taking long-term growth rates and plotting them against 12-month forward returns, the market is indeed cheap.

## The S&P 500 Median P/E Is Low



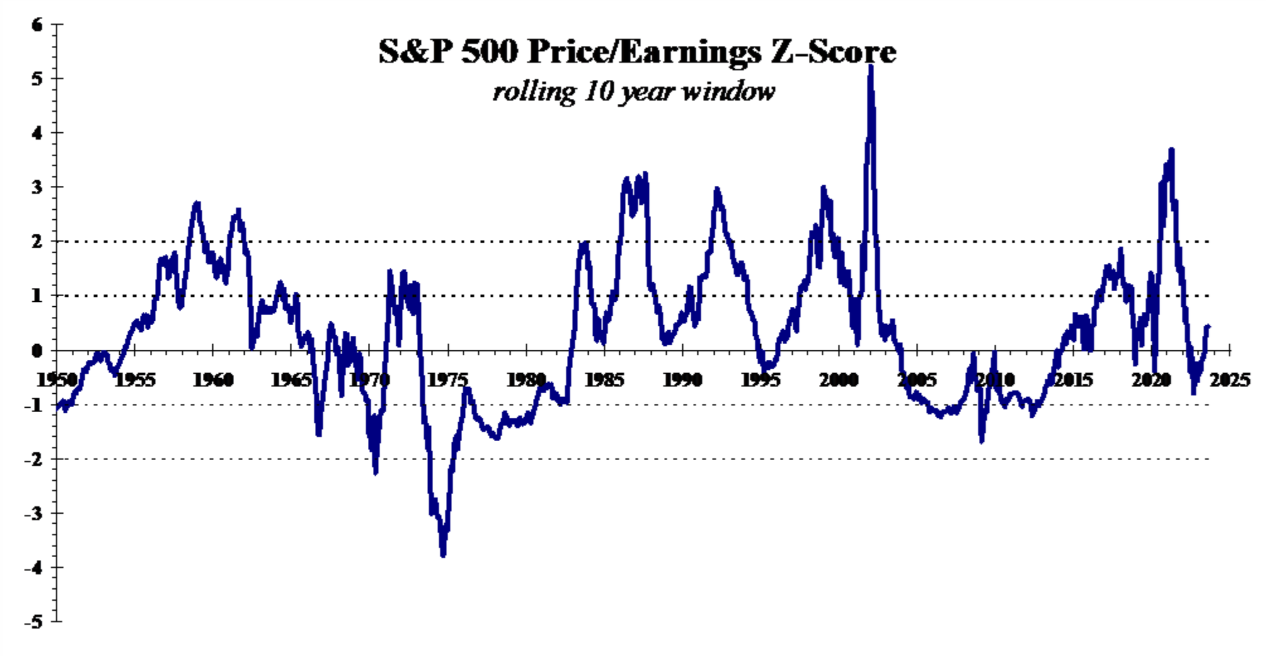




*Source: Bank of America, September 2023*

## Normalized Valuations Show A Very Cheap Stock Market

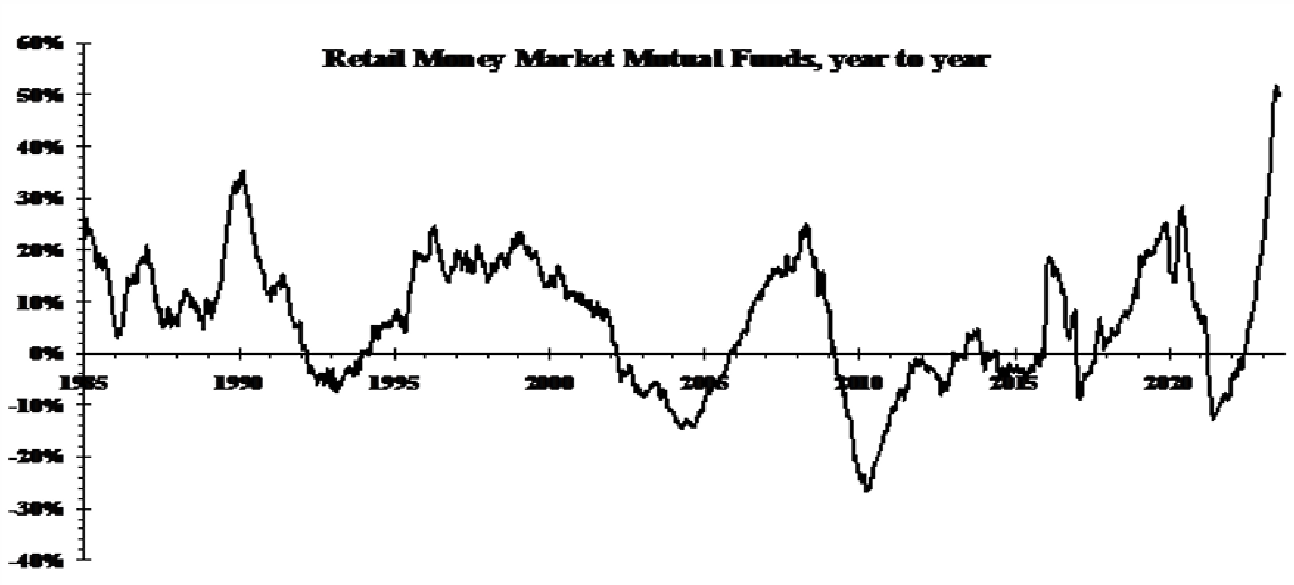
The trailing price-to-earnings ratio (p/e) changes within every market cycle. One way to compare various periods is to normalize the data. Here we take 10-year rolling periods for trailing p/e and take a look at the Z-score, which measures the standard deviation. What we found to be very surprising is how low the p/e is, based on this measure. Markets are not as expensive as they appear. P/E multiples expand during secular bull markets – which we are in! We continue to believe the p/e can expand significantly. Historically the Z-score moves to 2 or above before a major peak in stock prices. Today it stands at 0.43. Also note, the Z-score has not dropped to -2 since the 1970s so we are not getting deeply inexpensive markets, as we did during this time period. Since the mid-1980s, the Federal Reserve has provided both stimulus, through lower interest rates, and liquidity whenever there has been any financial or economic stress. This has prevented the stock market from achieving extremely cheap valuations. Going to -1 or near -1 is the range where the p/e becomes attractive now. In 2022, the Z-score reached -0.80, signaling the market was trading at an attractive valuation.

Week of **September 18, 2023**




## Historic Increase In Cash Levels

For the first time in over a decade, consumers can earn a meaningful return on cash, and so they are running to cash in droves. High cash levels are a bullish indicator for equity markets. Why? Because it represents future buying power.




*Source: Federal Reserves, Sanctuary Wealth, September 15, 2023*

## It’s Dressing Up Time

There are only ten trading days before the end of 3Q23. When quarter-end is within sight, window dressing is common – that’s when portfolio managers want to own what is working and remove what has not been working. The big surprise this quarter is the run up in the Energy sector, which is very under owned. Energy is up 12.55%, quarter-to-date. Expect some window dressing in this sector.

Week of **September 18, 2023**

## S&P 500 Sector Returns 3Q to Date (June 30th-September 15th)


*Source: Bloomberg, September 15, 2023*

## Energy Stocks On The Move As Oil Prices Breakout!

## Invesco Equal-Weight Energy ETF (RSPG)


*Source: StockCharts.com, September 15, 2023*

Week of **September 18, 2023**

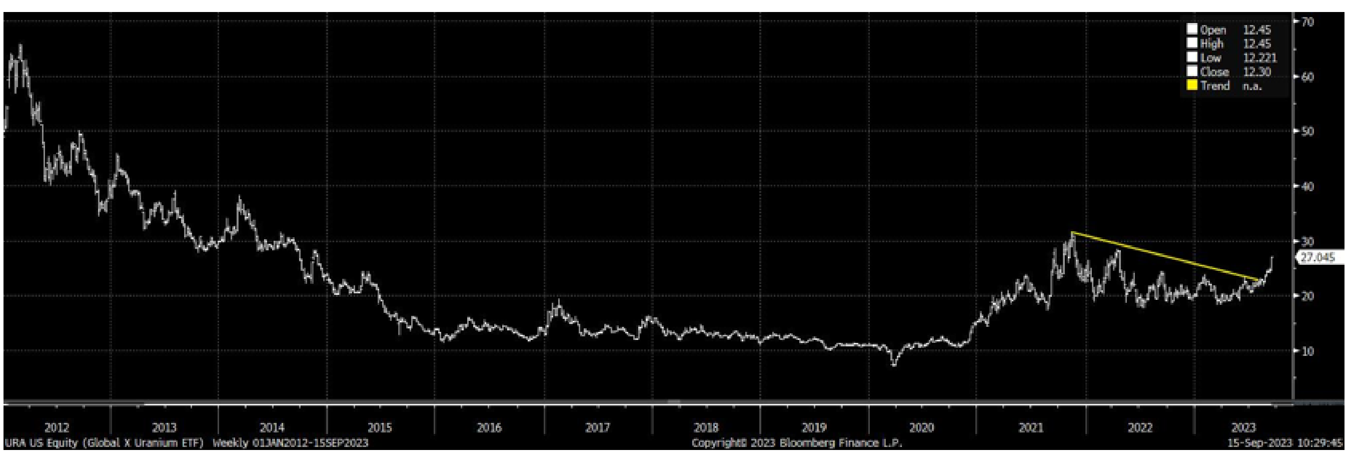
## WTI Crude Oil Breaks To the Upside: Resistance Targets, $95-97; $100-$110; $120-125


*Source: StockCharts.com, September 15, 2023*

## What We Found Interesting Last Week: Uranium Based Companies Breaking Out

## Uranium is Radiating – Nuclear Demand Maybe Picking Up?

## Global X Uranium ETF (URA) – Tracks Solactive Global Uranium & Nuclear Components Index




*Source: Bloomberg, September 15, 2023*

Week of **September 18, 2023**

## All Eyes On The Fed Rate Decision This Week

### This is the week that investors hold their breath to see if the Fed will hold its breath, too.

The Federal Reserve (Fed) will announce its next decision on interest rates on Wednesday, Sept 20th. The market is expecting a pause – meaning no change this time, but the Fed will continue its data obsession as it marches to its interest rate decision in November.

This week, feeding the data dependency of the Fed and the markets, we'll see the home builder confidence index and other housing data, along with manufacturing and industrial data, and of course initial jobless claims. We should also see the FOMC Dot Plot, published quarterly, which reveals where the 7 Fed Board Governors and 12 regional bank presidents believe the Federal Funds rate should be in the future.

# Calendar

| | | |
|---|---|---|
| **Mon.** | 10:00 am<br>Earnings | Home builder confidence index<br>Stitch Fix |
| **Tue.** | 8:30 am<br>Earnings | Housing starts, Building permits<br>Apogee Enterprises, AutoZone, Endava, Steelcase |
| **Wed.** | 2:00 pm<br>2:30 pm<br>Earnings | Fed interest-rate decision<br>Fed Chair Powell press conference<br>FedEx, General Mills, KB Home |
| **Thu.** | 8:30 am<br>10:00 am<br>Earnings | Initial jobless claims, Philadelphia Fed manufacturing survey, U.S. current account deficit<br>U.S. leading economic indicators, Existing home sales<br>Darden Restaurants, FactSet |
| **Fri.** | 8:50 am<br>9:45 am<br>1:00 pm<br><br>Earnings | Fed Gov. Lisa Cook speaks<br>S&P flash U.S. services & manufacturing PMI<br>Minneapolis Fed President Neel Kashkari speaks, San Francisco Fed President Mary Daly speaks<br>No noteworthy earnings reports |

Source: MarketWatch/Kiplinger



250 W 96th Street, Suite 300
Indianapolis, IN 46260
(317) 975-7729