The Longo Group
Independent Financial Firm

Week of **September 25, 2023**

Fed Sticks The Soft Landing But Higher Rates Rattle Markets

It was a big week last week with the FOMC meeting and the quarterly release of the Dot Plots, plus initial jobless claims fell sharply. All this rattled the rates market, moving interest rates at the short- and long-end to cycle highs, taking stocks down with the bond market.

So, let's review the FOMC meeting. We don't believe anything new was learned. As expected, the Federal Reserve (Fed) held rates steady at 5.25% and said it will continue to reduce holdings on the Fed's balance sheet, which is known as quantitative tightening. The Fed has consistently said "higher interest rates for longer," and this point was driven home in the Dot Plots. The market was hoping for two rate cuts next year. What we see though is possibly one more rate hike this year of 25 basis points and maybe one rate cut next year. The real interest rate cuts expected by the Fed are not until 2025. The Dot Plot revealed the expected Fed Funds rate to be 5.6% this year, 5.1% in 2024, and 3.9% in 2025. This is what the bond and stock markets did not like, and their reaction drove both 2- and 10-year Treasury yields to cycle highs with technical breakouts. As a result, we expect 2-year Treasuries to reach the 6% area and 10-year Treasuries up to the 5% area.

Higher interest rates are also adding to concerns about the government's funding of the federal deficit and the cost of this funding. We believe investors will welcome higher rates in their portfolios – levels which have not been available for over fifteen years.

Initial jobless claims are a good leading indicator of the employment market. Last week's claims were the lowest since February – an indication the job market still remains strong. Also, the Federal Reserve is not looking for a recession anytime soon. Chair Powell said the economy is stronger than expected. He also said the Fed will proceed carefully and remain data dependent.

Initial Jobless Claims Fall Sharply

Source: Bloomberg, September 22, 2023

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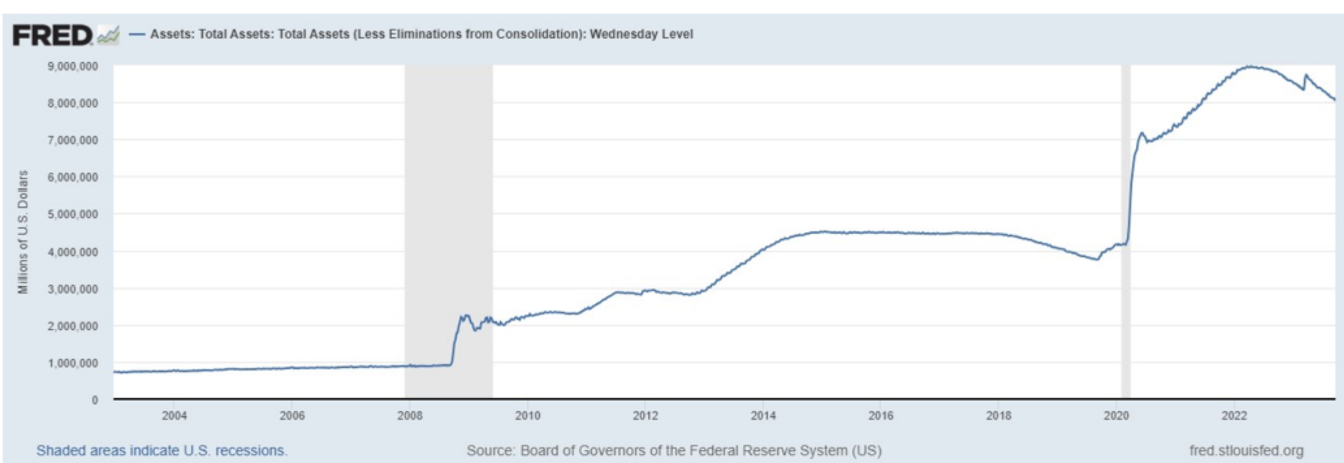
2-Year Treasury Yield Tracking Toward 6%

Source: Bloomberg, September 22, 2023

10-Year Treasury Yield Tracking Toward 5%

Source: Bloomberg, September 22, 2023

Fed's Balance Sheet Continues To Contract, Known As Quantitative Tightening



Source: Federal Reserve, September 22, 2023

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Higher Interest Rates Drive US Dollar Higher

Higher interest rates are also impacting the US Dollar. Higher interest rates make the US Dollar more attractive to overseas investors, so the dollar is rising. The Dollar index looks to track higher, up toward 110. This will negatively impact international investing as a higher dollar translates into lower returns as foreign currency buys fewer dollars.

US Dollar Index: Dollar Strong On Higher Interest Rates

Source: Bloomberg, September 22, 2023

Equity Markets Remain In A Correction

Volatility is finally spiking in the equity market. We had anticipated a correction in the equity markets back in July. Market indices did peak in late July, and the market has been in a correction. The correction is not completed yet. We expect a good buy signal next month in October. Markets are now oversold in the short term. What we need now is to get the intermediate indicators oversold. Here we look at the weekly price momentum indicator, the Stochastic. It is approaching an oversold level for the S&P 500 and the Nasdaq 100. We need this indicator to get oversold and generate a buy signal by turning back up. It is going to take weeks to get this reading.

The S&P 500 has corrected 6.0% from the high in July and the Nasdaq 100 has corrected 7.7%. We were looking for a 5%-10% correction on the S&P 500, and as we've passed the 5% mark, more downside should be expected. Our first good level of support on the S&P 500 is 4200 followed by the 4150 area. The Nasdaq 100 was up more, so it will go down more. We were expecting 10%-16% correction, and so far the index is down 7.7%. So, there is more downside risk here also. The Nasdaq 100 is near current support at 14,660 and the next area of support is 13,860.

Additional risk to the market is the threat of a likely government shutdown on October 1. Although this sounds unsettling, we have been here before. Historically – since 1977 – the average number of days for a government shutdown is 8. But – if you look at the historical average from a more recent year, 1995 – then the average length of the shutdown is 18 days. This can surely add to market volatility, but, ultimately, it is still a temporary event as the situation always gets resolved. Remember, during corrections, the news is always bad, so patience is needed.

We remain constructive on stocks as earnings estimates and earnings forecasts for the S&P 500 for 2024 remain positive with growth around 11%-12%.

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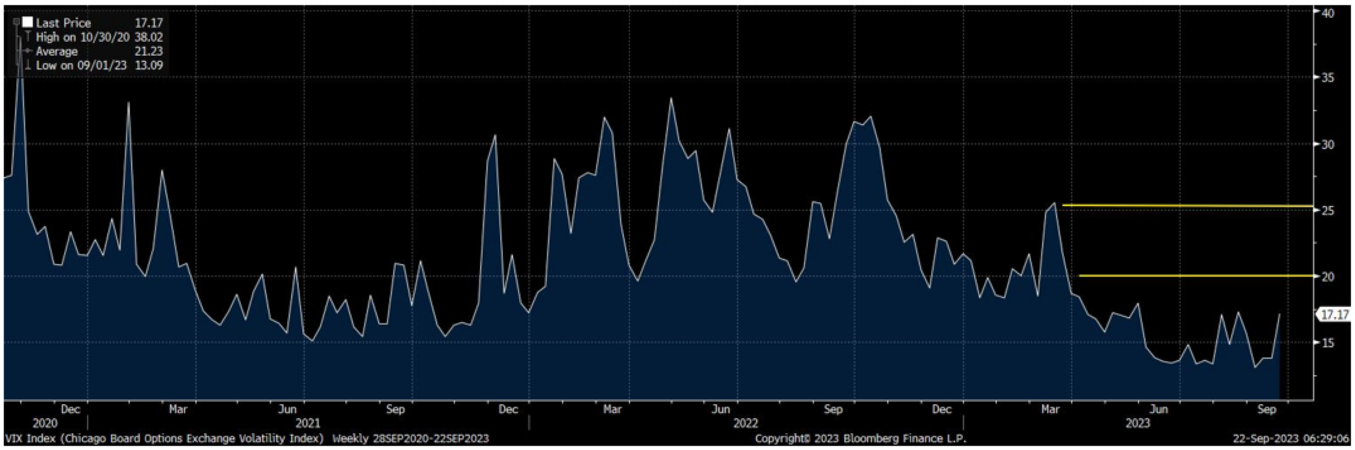
VIX Volatility Index: Volatility Is Spiking Higher



Source: Bloomberg, September 22, 2023

S&P 500 Index With Weekly Stochastic Correcting And Not Oversold

Source: Bloomberg, September 22, 2023

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Nasdaq 100 QQQ With Weekly Stochastic Correcting And Not Oversold

Source: Bloomberg, September 22, 2023

All Eyes On A Possible Government Shutdown Adding to Volatility

This is the week that could see quarter-end volatility driven by portfolio jockeying (but not data).

This week we'll get some more housing data plus consumer confidence data from the Conference Board, but none of that should move the needle. What should shake things up during this last week of 3Q23 is the volatility caused by the window dressing and tax loss selling by many mutual fund portfolio managers. (Note: a good number of mutual funds have their tax year-end in October.) We're entering the seasonal volatility period, and October is the month with above average volatility – about 35% higher than the other eleven months. But October is also the month that often offers a great buying opportunity for stocks, as the market moves into its seasonally strongest period of November and December.

Against this backdrop, we're layering in added concerns about the looming government shutdown plus there are signs that the UAW strike is actually heating up. So, buckle up, take a deep breath, and Be Patient.

Calendar

Mon.

None schedule

Earnings	Thor Industries

Tue.

8:30 am	New home sales
9:00 am	S&P Case-Shiller home price index (20 cities)
10:00 am	Consumer confidence
1:00 pm	Fed Gov. Bowman speaks
Earnings	AAR Corp, Cintas, Costco Wholesale, Ferguson, MillerKnoll, TD Synnex, Progress Software, United Natural

Wed.

8:30 am	Durable-goods orders
Earnings	Concentrix, H.B. Fuller, Jefferies, Micron Technology, Paychex, Worthington

Thu.

8:30 am	Initial jobless claims, GDP (revision)
1:00 pm	Fed Gov. Cook speaks
4:00 pm	Fed Chairman Powell speaks
Earnings	Accenture, BlackBerry, CarMax, Jabil, Nike, Vail Resorts

Fri.

8:30 am	Personal income, Personal spending, PCE Index, Advanced U.S. trade balance in goods, Advanced retail inventories, Advanced wholesale inventories
9:45 am	Chicago Business Barometer
10:00 am	Consumer sentiment (final)
Earnings	Carnival

Source: MarketWatch/Kiplinger

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