

# Week Ahead

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 Week of **October 2, 2023**

## Congress Averts A Government Shutdown At The Eleventh Hour

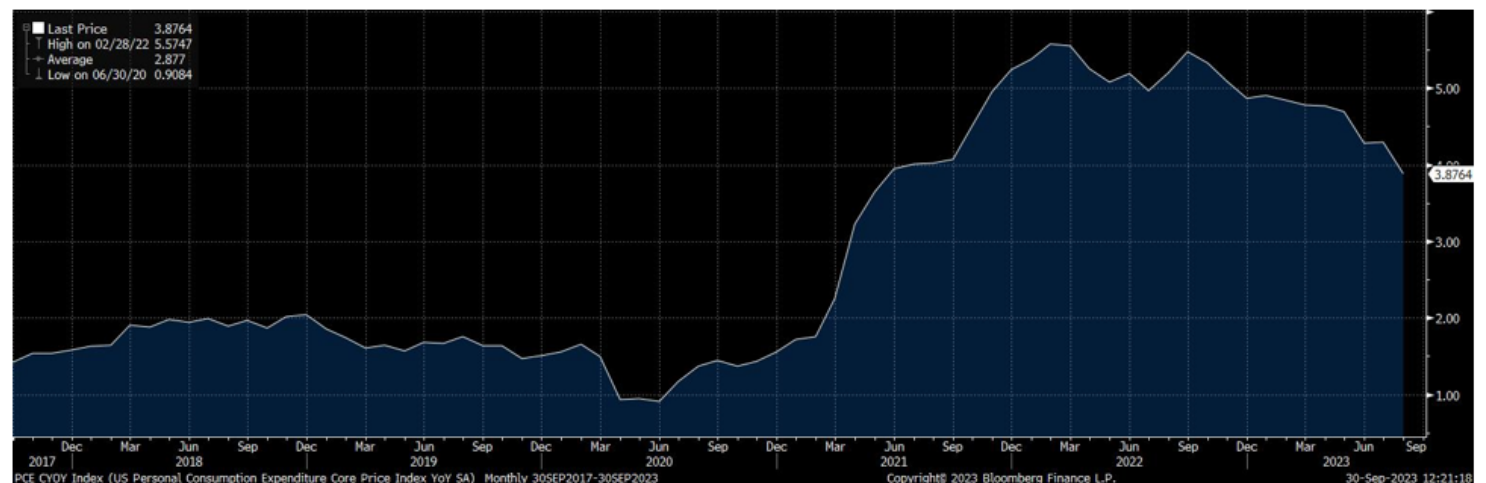
**Congress averted a government shutdown, for at least the next 45 days. It is possible that we can be in the same position come mid-November, but the pressure valve is being released for the time being.**

Still, the delay gives Congress time to come up with a solution on appropriations. So, Congress is simply kicking the can down the road.

## Data Still Suggests Inflation Has Peaked For This Cycle

The positive data reported last week showed that inflation – as measured by Core Personal Consumption Expenditures (PCE), the Federal Reserve's (Fed) favorite measure of inflation – came in as expected at 3.9% year-to-year for August and lower than July at a revised 4.3%. This should give the Fed some comfort for having held interest rates at the last FOMC meeting and not raising them. But because the Fed remains data dependent, there is still a risk of a 25 basis point hike at the November FOMC meeting, which, by the way, will occur before the next deadline for a government spending bill (Nov. 17).

## Core Price Consumption Expenditure (PCE) – Peaking

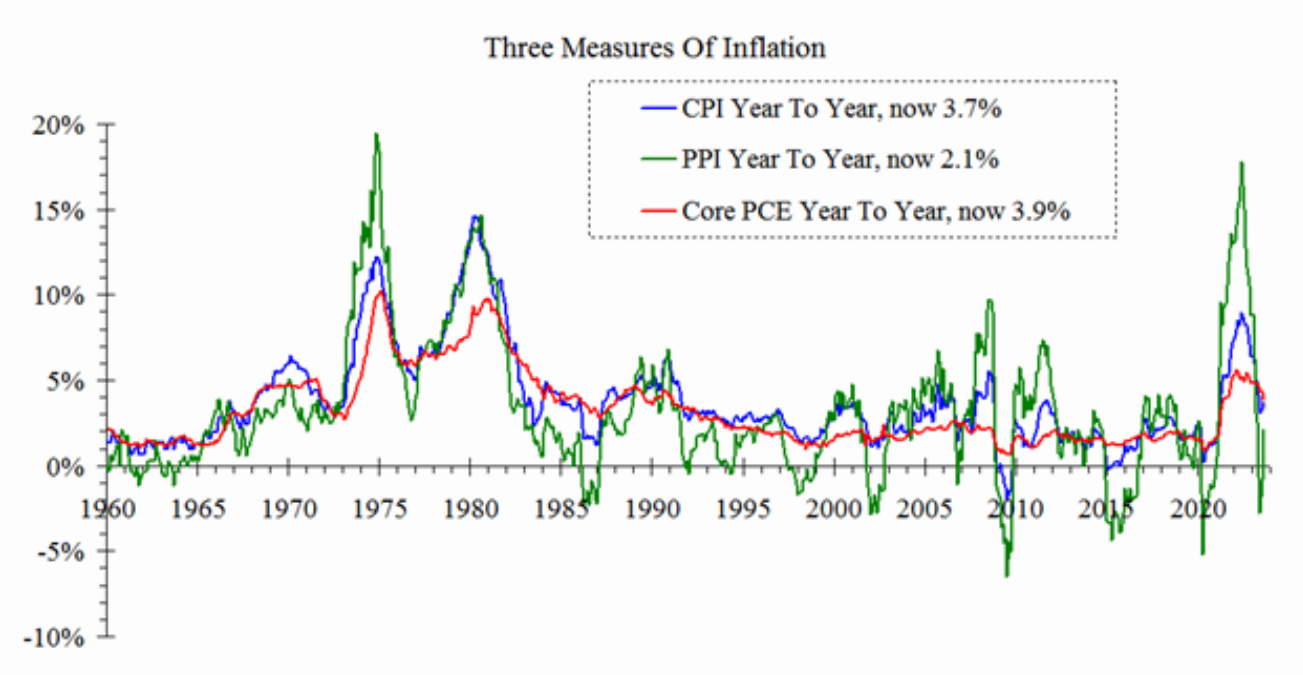


Source: Bloomberg, September 30, 2023



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## All Inflation Data Points To A Peak In Inflation In This Cycle



Source: Bureau of Labor Statistics, Bureau of Economic Analysis, Sanctuary Wealth, September 30, 2023

## 2-Year Treasury Yields The Highest In 17 Years

2-Year Treasury yields have moved to levels last seen in 2006. There is a fair amount of resistance at this level, so we may have rates chop around at this level and not surge much higher. This would be consistent with the recent inflation data.

## 2-Year Treasury Yields The Highest Since 2006



Source: Bloomberg, September 30, 2023

## 10-Year Treasury Yields Still On Track To Climb To 5%

The 10-Year Treasury yield broke above the 4.3% area, which now indicates higher yields tracking toward the 5% area.

## 10-Year Treasury Yields Tracking Toward



Source: Bloomberg, September 30, 2023

## Tough 3Q23 For Stocks And Bonds

	Last 9/29/2023	Month End 8/31/2023	Month to Month	Quarter End 6/30/2023	Quarter to Quarter	Year End 12/31/2022	Year To Date	Year Ago 9/29/2022	Year To Year
S&P 500	4288.05	4507.66	-4.9%	4450.38	-3.6%	3839.50	11.7%	3640.47	17.8%
NA\$DAQ Composite	13219.32	14034.97	-5.8%	13787.92	-4.1%	10486.48	26.3%	10737.51	23.1%
NA\$DAQ 100	358.27	377.99	-5.2%	369.42	-3.0%	266.28	34.5%	271.87	31.8%
Russell 2000	1785.10	1899.68	-6.0%	1888.73	-5.5%	1761.25	1.4%	1674.93	6.6%
S&P Consumer Discretionary Sector	1264.00	1344.81	-6.0%	1330.54	-5.0%	1005.48	25.7%	1143.25	10.6%
S&P Consumer Staples Sector	727.38	763.99	-4.8%	778.82	-6.6%	779.13	-6.6%	708.45	2.7%
S&P Energy Sector	694.19	677.49	2.5%	623.58	11.3%	672.34	3.2%	557.60	24.5%
S&P Financial Sector	552.16	570.68	-3.2%	561.11	-1.6%	589.74	-3.1%	509.98	8.3%
S&P Health Care Sector	1501.22	1549.31	-3.1%	1548.62	-3.1%	1585.54	-5.3%	1431.45	4.9%
S&P Industrials Sector	857.57	912.89	-6.1%	908.09	-5.6%	831.40	3.1%	709.87	20.8%
S&P Information Technology Sector	2905.58	3121.19	-6.9%	3085.84	-5.8%	2172.17	33.8%	2121.09	37.0%
S&P Materials Sector	494.54	520.84	-5.0%	521.93	-5.2%	489.55	1.0%	429.27	15.2%
S&P Real Estate Sector	213.82	231.96	-7.8%	236.67	-9.7%	232.37	-8.0%	223.72	-4.4%
S&P Communications Sector	222.21	229.72	-3.3%	216.08	2.8%	159.37	39.4%	164.75	34.9%
S&P Utilities Sector	299.20	317.74	-5.8%	332.80	-10.1%	358.48	-16.5%	339.19	-11.8%
S&P 500 Total Return	9246.74	9709.68	-4.8%	9559.67	-3.3%	8178.02	13.1%	7719.09	19.8%
3 month Treasury Bill Price	98.63	98.64	0.0%	98.67	0.0%	98.90	-0.3%	99.19	-0.6%
3 month Treasury Bill Total Return	240.68	239.56	0.5%	237.51	1.3%	232.09	3.7%	230.01	4.6%
10 Year Treasury Bond Future	108.06	111.03	-2.7%	112.27	-3.7%	112.30	-3.8%	112.45	-3.9%
10 Year Treasury Note Total Return	278.73	285.15	-2.3%	286.96	-2.9%	283.28	-1.6%	281.47	-1.0%
iShares 20+ Year Treasury Bond ETF	88.69	96.64	-8.2%	102.94	-13.8%	99.56	-10.9%	103.79	-14.5%
S&P Municipal Bond Total Return	254.67	261.67	-2.7%	263.92	-3.5%	257.42	-1.1%	247.60	2.9%
iShares S&P National Municipal Bond NAV	102.31	105.23	-2.8%	106.62	-4.0%	105.23	-2.8%	102.23	0.1%
S&P 500 Investment Grade Corporate Bond Total Return	422.07	432.86	-2.5%	434.66	-2.9%	421.24	0.2%	408.26	3.4%
S&P Investment Grade Corporate Bond	86.28	88.51	-2.5%	89.28	-3.4%	88.23	-2.2%	86.60	-0.4%
S&P Investment Grade Corporate Bond Total Return	448.92	458.98	-2.2%	459.68	-2.3%	445.34	0.8%	432.67	3.8%
\$PDR Bloomberg High Yield Bond ETF	90.40	92.46	-2.2%	92.03	-1.8%	90.00	0.4%	88.25	2.4%
iShares iBoxx High Yield Corporate Bond ETF	73.72	75.26	-2.1%	75.07	-1.8%	73.63	0.1%	71.72	2.8%
Gold	1848.63	1940.19	-4.7%	1919.35	-3.7%	1824.02	1.3%	1680.54	11.3%
Bitcoin	26903.18	26013.12	3.4%	30390.91	-11.5%	16579.06	62.3%	19508.14	37.9%

Source: Bloomberg, Sanctuary Wealth, September 30, 2023S

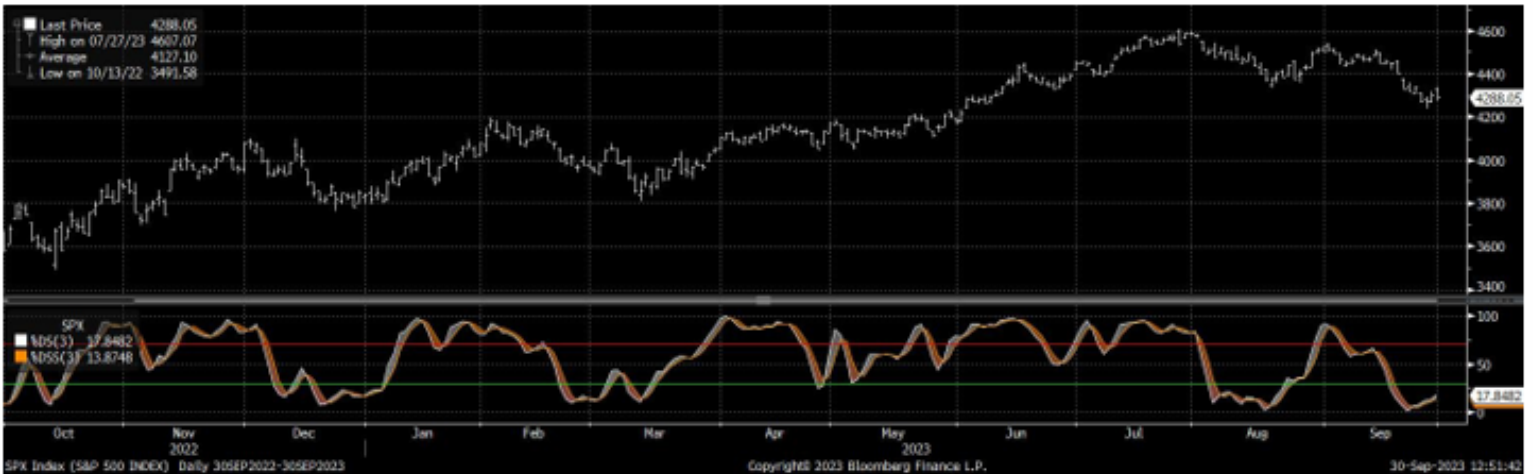


Week of **October 2, 2023**

## Stocks Can Rally Short-Term With Stochastic Reading Oversold

Stocks could have a choppy rally over the coming week or two as we now have an oversold reading on the 14-Day Price Momentum Stochastic.

### S&P 500 Now Short-Term Oversold On The 14-Day Price Momentum Stochastic



Source: Bloomberg, September 30, 2023

### S&P 500 Not Oversold On Weekly Stochastic

On the weekly Stochastic, the market is not oversold. We would like this indicator to get oversold, bottom, and then turn up to signal a good entry level to buy stocks for a year-end rally, which we do anticipate. There is support in the 4200 area on the S&P, but many investors are highlighting this area. Therefore, the market will likely need to break this level in order to flush out the market and get a bottom. This may result in a full 10% correction, which would point to a test of the 4145 area and would mark a 10% correction from the high of 4706 reached in July.

### S&P 500 With 14-Week Price Momentum Stochastic Is Not Oversold



Source: Bloomberg, September 30, 2023



Week of **October 2, 2023**

## GDP Growth On Track To Stay Positive

The GDPNow tracker from the St. Louis Fed is pointing to real GDP growth at 4.9% for 3Q23. Here's how the Fed defines this model: "GDPNow is a nowcasting model for gross domestic product (GDP) growth that synthesizes the bridge equation approach relating GDP subcomponents to monthly source data with factor model and Bayesian vector autoregression approaches. The GDPNow model forecasts GDP growth by aggregating 13 subcomponents that make up GDP with the chain-weighting methodology used by the US Bureau of Economic Analysis."

Positive economic growth normally translates to better earnings for companies. It is amazing that the Fed has raised interest rates 525 basis points and yet economic growth remains positive. But this is most likely because employment data remains strong – the economy is still at full employment. Full employment translates to consumer spending. Now, spending habits may be changing, but spending is still occurring. Our sense is that the consumer will continue to spend into the holiday season even if they need to add to credit.



Source: Federal Reserve/Bank of Atlanta, September, 2023

## Real GDP Growth Says Soft Landing

The year-to-year growth rate in real GDP is turning up – not down! Going into 2024, growth rates appear to be positive. This should translate to an improving backdrop for earnings.



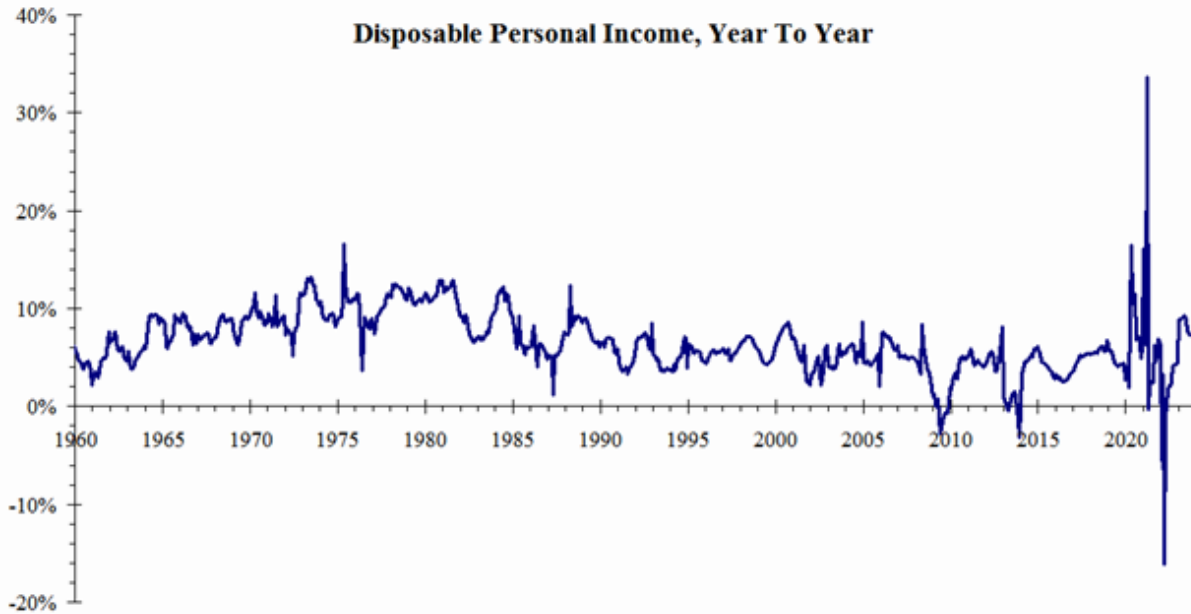
Source: Bureau of Economic Analysis, Sanctuary Wealth, September 30, 2023



Week of **October 2, 2023**

## The Consumer Still Has Money To Spend

Disposable personal income on a year-to-year basis still remains robust, up 7.3% in August.

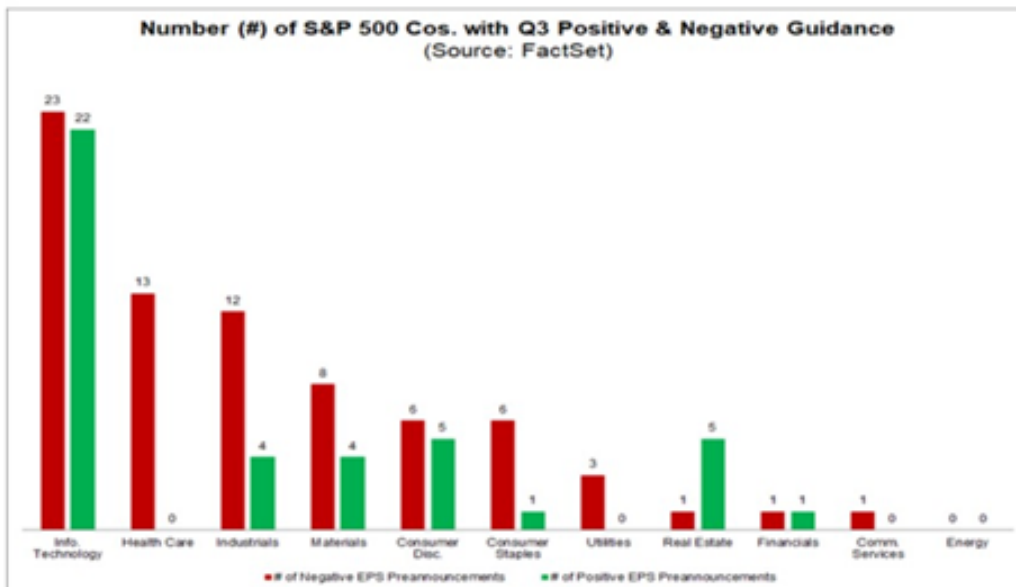


Source: Bureau of Economic Analysis, Sanctuary Wealth, September 30, 2023

## 3Q23 Earnings Seasons Is About To Begin

There have been some early pre-announcements of negative guidance going into the third quarter of earnings. According to FactSet, the number of companies issuing negative EPS guidance is above the 5-year average of 58 and above the 10-year average of 63. However, the number of companies issuing positive EPS guidance is also above the 5-year average of 39 and above the 10-year average of 36.

As a result, the overall number of S&P 500 companies issuing EPS guidance for the third quarter (116) is above the 5-year average of 97 and above the 10-year average of 99. This is good news because some of the bad news should already be discounted in the market. The official start of earnings season begins in mid-October. So, stay tuned.

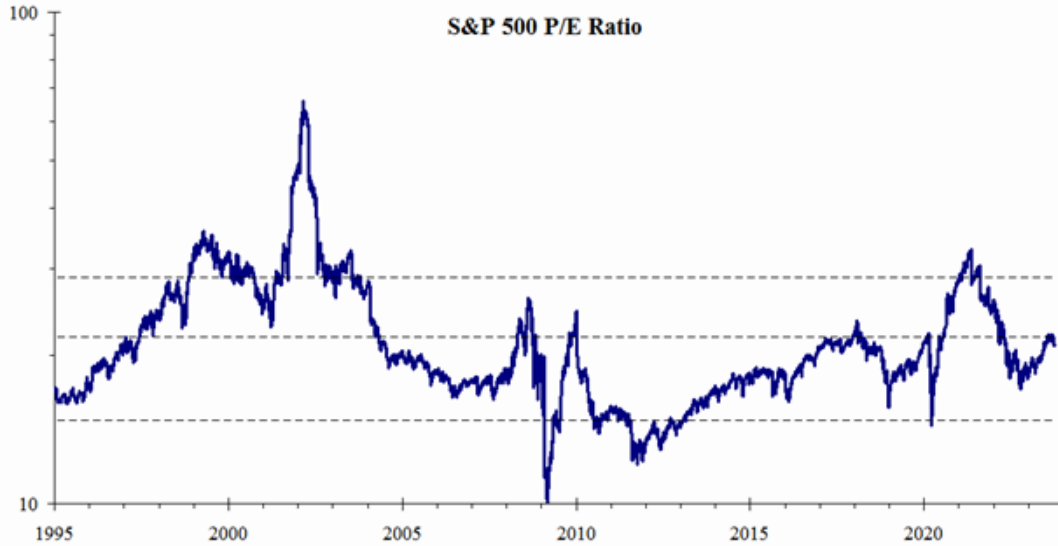


Source: FactSet, September 29, 2023



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## Price-Earnings In Log Form Show Valuations Are Not Expensive



Source: Bloomberg, Sanctuary Wealth, September 30, 2023

## Profit Margins Look To Turn Up

Profit margins based on price momentum (taking the rate of change of the rate of change, known as the second differential) appear to have bottomed and are turning higher. If this is true, this should positively impact earnings going forward.



Source: Bloomberg, Sanctuary Wealth, September 30, 2023



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## Manufacturing Data By State Are All Positive Year-On-Year

Aug-2023	Jul-2023	M-M	Aug-2022	Y-Y	State	sorted rank
172.51	172.24	0.16%	166.74	3.46%	Utah	1
171.68	171.81	-0.07%	165.32	3.85%	Arizona	2
163.77	163.45	0.20%	158.12	3.57%	Texas	3
163.56	163.61	-0.03%	158.31	3.32%	Idaho	4
163.46	162.85	0.37%	158.35	3.22%	South Carolina	5
163.34	162.93	0.25%	160.81	1.57%	California	6
162.33	161.89	0.27%	157.22	3.25%	Georgia	7
161.56	161.51	0.03%	157.64	2.49%	Colorado	8
161.41	161.05	0.22%	156.27	3.29%	Florida	9
160.47	160.37	0.06%	154.17	4.08%	New Hampshire	10
160.30	160.35	-0.03%	148.76	7.76%	Massachusetts	11
159.37	159.01	0.22%	152.82	4.28%	Washington	12
157.94	157.67	0.17%	151.66	4.14%	Oregon	13
157.18	156.98	0.13%	150.85	4.20%	Nevada	14
154.11	153.53	0.38%	148.67	3.66%	North Carolina	15
153.42	153.21	0.13%	148.82	3.08%	Tennessee	16
151.86	152.02	-0.10%	149.98	1.26%	Minnesota	17
151.12	150.41	0.47%	147.12	2.72%	North Dakota	18
150.27	149.99	0.18%	142.56	5.41%	Vermont	19
149.85	149.37	0.32%	144.56	3.66%	South Dakota	20
148.87	147.90	0.66%	138.25	7.69%	Maryland	21
146.84	146.47	0.26%	142.48	3.06%	Virginia	22
142.15	142.09	0.05%	137.53	3.36%	Nebraska	23
141.19	140.75	0.31%	137.09	2.99%	Arkansas	24
139.76	139.83	-0.05%	136.52	2.37%	Maine	25
139.69	139.54	0.11%	136.95	2.00%	Kansas	26
<b>138.76</b>	<b>138.66</b>	<b>0.07%</b>	<b>134.51</b>	<b>3.16%</b>	<b>United States</b>	<b>27</b>
138.02	137.82	0.15%	133.61	3.31%	Alabama	28
137.49	137.25	0.17%	133.12	3.28%	Delaware	29
136.98	137.04	-0.04%	133.20	2.84%	Oklahoma	30
135.55	136.00	-0.33%	135.21	0.25%	New Jersey	31
135.34	135.75	-0.30%	132.22	2.36%	West Virginia	32
134.96	135.34	-0.29%	134.01	0.71%	Missouri	33
134.57	134.31	0.19%	132.02	1.93%	New York	34
133.87	133.98	-0.09%	131.53	1.77%	Indiana	35
132.97	132.59	0.29%	130.23	2.10%	Rhode Island	36
132.85	132.95	-0.08%	129.70	2.43%	New Mexico	37
132.83	132.84	-0.01%	128.47	3.39%	Ohio	38
132.26	132.35	-0.07%	128.87	2.62%	Illinois	39
131.67	131.63	0.03%	128.46	2.49%	Kentucky	40
131.42	131.92	-0.38%	129.06	1.83%	Iowa	41
129.41	129.10	0.24%	124.26	4.14%	Pennsylvania	42
129.02	128.91	0.08%	125.53	2.78%	Montana	43
127.35	127.51	-0.12%	123.89	2.80%	Michigan	44
126.83	126.70	0.10%	122.54	3.50%	Hawaii	45
125.01	124.80	0.17%	121.70	2.72%	Connecticut	46
124.57	124.98	-0.33%	122.76	1.47%	Mississippi	47
122.96	122.27	0.56%	118.34	3.90%	Wyoming	48
116.49	117.63	-0.97%	112.90	3.18%	Wisconsin	49
113.02	112.96	0.06%	111.93	0.98%	Alaska	50
108.49	108.18	0.29%	106.64	1.74%	Louisiana	51

Source: Federal Reserve Bank of Philadelphia, September, 2023

## All Eyes On A Government Shutdown

**This week starts Q4 and we expect choppy volatility to eventually give way to a year-end rally.**

With the threat of a government shutdown now in the rear-view mirror, inflation and employment will again take the lion's share of headlines – and investor anxieties. Meanwhile, we can now focus on key data on services, manufacturing, and employment to be released this week. We do expect to see continued strength, but that won't offset choppy volatility.

BUT there's always light at the end of the tunnel. Hang in there. We expect good news will lead us into a rewarding holiday season.





# Calendar

**Mon.**

9:45 am  
10:00 am

S&P final U.S. manufacturing PMI  
ISM manufacturing, Construction spending

**Tue.**

10:00 am  
Earnings

Job openings  
Cal-Maine Foods, McCormick & Company

**Wed.**

8:15 am  
9:45 am  
10:00 am  
Earnings

ADP employment  
S&P final U.S. services PMI  
Factory orders, ISM services  
AngioDynamics, Helen of Troy, Resources Connection, RPM, Tilray

**Thu.**

8:30 am  
Earnings

Initial jobless claims, U.S. trade deficit  
Conagra, Constellation Brands, Lamb Weston, Levi Strauss

**Fri.**

8:30 am  
3:00 pm

U.S. employment report, U.S. hourly wages, Hourly wages year over year  
Consumer credit

Source: MarketWatch/Kiplinger

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