



Week Ahead

The Longo Group

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Week of October 9, 2023

The Crude Realities of War and Economies

There is never anything good about war and the destruction and massacre of a country. Global war is ugly but often has little impact on the U.S. economy because it is far away and does not impact the economy.

The recent breakout of war between Hamas and Israel should not impact the U.S. economy unless crude oil prices surge. This is the crude reality. Stock prices move based on earnings and if this war does not significantly impact the earnings outlook negatively, stocks should not have a substantial impact. But should crude oil surge above \$100 and stay above this level (see chart below) this outlook could shift more negatively, especially given the fact the U.S. Strategic Oil Reserves are at a 40-year low.

WTI Crude Oil – A Break Above \$100 Would Point to Higher Oil Prices



Source: Bloomberg, October 9, 2023

What Assets Are Beneficiaries If Equities Fall Sharply

The biggest beneficiary from a sharp decline in equities should be Treasuries, (not our base case view), particularly the long end of the curve as a flight to safety takes place. Yes money markets would likely continue to see inflows, but the long end of the curve would likely see prices rise and yields fall sharply. 10-year Treasury yields could fall to the 4% level and this might signal an intermediate top in yields. The next few days and weeks should determine the direction in yields.



Week of October 9, 2023

10-Year Treasury Yields With 14-Month Stochastic – Extremely Overbought



Source: Bloomberg, October 9, 2023

September Jobs Data Stuns To The Upside

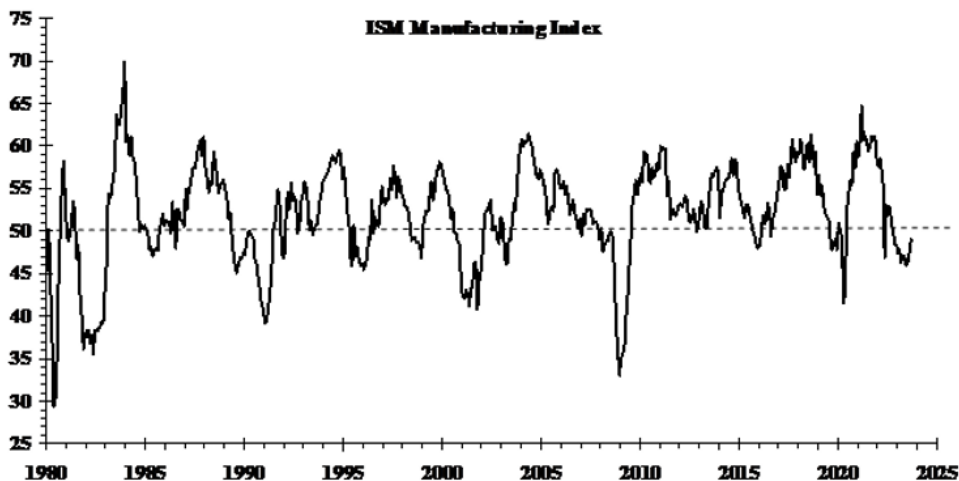
Last Friday, we received the September jobs data, and it was significantly above expectations with nonfarm payrolls coming in at 336,000 versus the expected 170,000. Private payrolls came in at 263,000 versus the expected 160,000 and manufacturing came in at 17,000 versus 5,000. These numbers frankly stunned and baffled Wall Street. We had gone from expecting a recession to expecting a soft landing – this data does not indicate a soft landing!

Two silver linings in the data were the unemployment level and wages. The unemployment level came in at 3.8% versus 3.7%, and the average hourly wages year-to-year came in at 4.2% versus 4.3%. This data points to the Federal Reserve (Fed) raising rates an additional 25 basis points in November. If manufacturing is bottoming, it is possible the economy is reaccelerating. So, interest rates are going to stay top of mind for the Fed and Wall Street.

Manufacturing Data Appears To Be Bottoming

The September PMI Manufacturing data came out last week, and it is still below the important 50 mark. But the data does appear to be bottoming, as it has been improving. A move above 50 would indicate that manufacturing is no longer in a recession, but is, in fact, in a reacceleration. Other positives in the report were that new orders are also improving as pricing is falling.

ISM Manufacturing Index

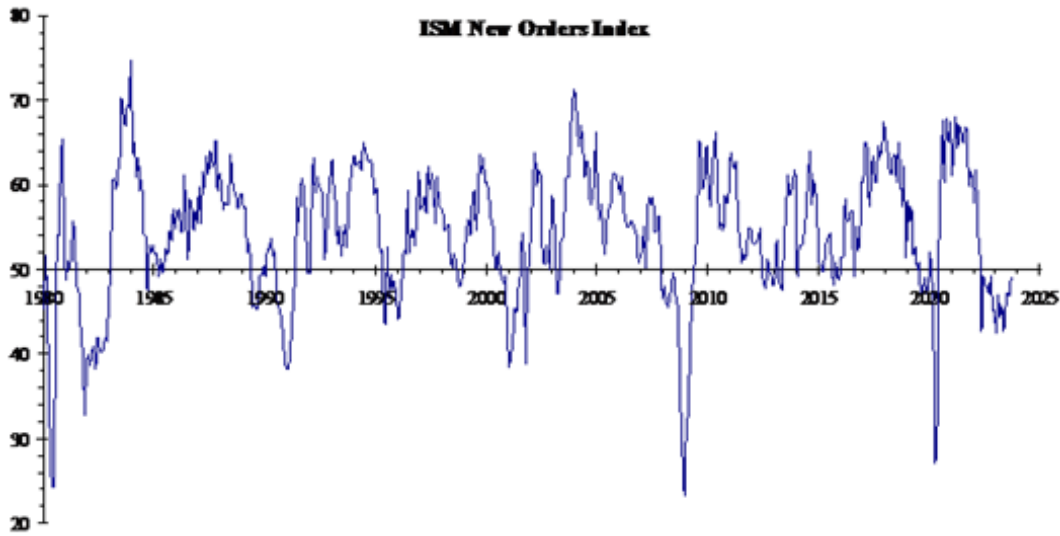


Source: Institute for Supply Management, October 2023



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ISM New Orders Index



Source: Institute for Supply Management, October 2023

ISM Report on Manufacturing Activity

Index	Sep	Aug	Change	Direction	Rate of Change	Trend* (Months)
Manufacturing PMI®	49.0	47.6	1.4%	Contracting	Slower	11
New Orders	49.2	46.8	2.4%	Contracting	Slower	13
Production	52.5	50.0	2.5%	Growing	From Unchanged	1
Employment	51.2	48.5	2.7%	Growing	From Contracting	1
Supplier Deliveries	46.4	48.6	-2.2%	Faster	Faster	12
Inventories	45.8	44.0	1.8%	Contracting	Slower	7
Customers' Inventories	47.1	48.7	-1.6%	Too Low	Faster	4
Prices	43.8	48.4	-4.6%	Decreasing	Faster	5
Backlog of Orders	42.4	44.1	-1.7%	Contracting	Faster	12
New Export Orders	47.4	46.5	0.9%	Contracting	Slower	4
Imports	48.2	48.0	0.2%	Contracting	Slower	11
OVERALL ECONOMY				Growing	From Contracting	1
Manufacturing Sector				Contracting	Slower	11

Source: Institute of Supply Management, Manufacturing PMI®, September 2023



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10-Year and 2-Year Treasury Yields Spiking Higher

Stronger economic data is leading to a spike in interest rates. Last week, jobs data came in significantly higher than expected. Our thoughts have been that the 10-year Treasury yield is heading toward 5%. The recent sell-off has been sharp but orderly. As for 2 Year yields, they are hovering around 5%. The question the market will begin to ask itself is this: If economic data stays stronger than expected, will 2- year yields begin to head toward 6%? The war now in the Middle East can impact Treasuries if there is a flight to safety.

10-Year Treasury Yield Heading Towards 5%



Source: Bloomberg, October 6, 2023

2-Year Treasury Yields Hovering Around 5%; Market Will Question: Is 6% Next?



Source: Bloomberg, October 6, 2023



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Equity Markets Oversold But Capitulation Needed For A Bottom

Very near-term, we have oversold readings from the 14-day stochastic and the RSI (Relative Strength Index). This is why stocks rallied on Friday and could rally more. But weekly data is not oversold yet, so this tells us more work is needed on the downside or time trading sideways, in order to reach oversold readings. The VIX index, a measure of market volatility, is rising but may need to spike above 20 to signal a bottom.

With many in the market hyper-focused on the 4200 level on the S&P 500, we would now anticipate an undercut of this level to 4150-4145 or a full 10% correction off the July intra-day high. We remain buyers of this market and a year-end rally is still anticipated.

VIX Volatility Index Rising But May Need A Spike Higher For Capitulation



Source: Bloomberg, October 6, 2023

S&P 500 With 14-Day Stochastic And Relative Strength Index (RSI) – Readings Oversold



Source: Bloomberg, October 6, 2023



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S&P 500 With 14-Week Stochastic And Relative Strength Index (RSI) – Readings Not Oversold



Source: Bloomberg, October 6, 2023

Market Breadth Still Needs Oversold Reading

The McClellan advance-decline line indicators of market breadth are pointing to more downside being needed in the stock market in order to get an oversold reading. Readings are close. We could get a bullish reading in the next week or two.

McClellan Advance-Dcline Line Oscillator Needs Not Oversold – Need -200 Reading



Source: Bloomberg, October 6, 2023



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McClellan Advance-Dcline Index Summation Not Oversold Need -2000 Reading



Source: Bloomberg, October 6, 2023

FANG Plus Leadership Is Outperforming In This Correction – A Bullish Indication

The leadership in this market cycle has been the FANG stocks, and when leadership of the market outperforms in a down tape, it indicates they will remain leadership and this is only a market correction. Should FANG lose its market leadership, however, this would indicate something else is happening within the market – something more negative. That would lead to questions about the future of the market and how much it will correct on the downside. But the current FANG leadership gives us confidence that what we're experiencing now is only a market correction. It is important for leadership to stay intact during a correction!

FANG Plus Index With Relative To S&P 500 – Holding Leadership



Source: Stockcharts.com October 6, 2023



Week of October 9, 2023

It's Raining Inflation Data

This is another week that will see inflation data pored over like tea leaves and entrails.

This week we'll get Producer Price Index (PPI) data [Wednesday] and Consumer Price Index (CPI) data [Thursday] – and these indicators of inflation may be the only thing able to calm the markets. If the data meets or is below expectations, then bonds might break from their rapid spiking and equities might see less volatility.

The recent intensity in the markets has been driven by higher interest rates, particularly the 10-Year Treasury, which has gone parabolic to the upside. What's been concerning is the velocity of its increase. When moves happen so rapidly, financial accidents can happen. To slow the pace of such moves, we need positive inflation data. The recent War in the Middle East may cause a flight to safety in Treasuries driving prices up and yields down.

Stronger economic data indicates that we'll have higher rates for longer – and it appears that the markets are finally starting to believe this, and that's impacting their movement. This could now change given the recent events.

A silver lining for a stronger economy: stronger corporate earnings!

Third Quarter of 2023 earnings season begins this week. Eyes will be on some of the big banks that will report on Friday of this week, including Citigroup, JPMorgan Chase & Co., PNC Financial Services Group Inc. and Wells Fargo and with one of the largest asset managers, BlackRock.

So, hang on tight, and welcome to October – a scary month but a month of important bottoms!!



Calendar

Mon.

9:00 am
12:50 pm

Dallas Fed President Logan speaks
Fed Gov. Jefferson speaks

Tue.

6:00 am
10:00 am
Earnings

NFIB optimism index
Wholesale inventories
AZZ, Neogen, PepsiCo

Wed.

8:30 am
2:00 pm

Producer price index
Minutes of Fed's September FOMC meeting

Thu.

8:30 am
Earnings

Initial jobless claims, Consumer price index
Delta Air Lines, Domino's Pizza, Fastenal, SMART Global, Walgreens Boots Alliance

Fri.

8:30 am
10:30 am
Earnings

Import price index
Consumer sentiment (preliminary)
BlackRock, Citigroup, JPMorgan Chase & Co., PNC Financial Services Group Inc.,
UnitedHealth Group, Wells Fargo

Source: MarketWatch/Kiplinger's/CNBC

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