



Week Ahead

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Week of October 16, 2023

Inflation Remains Sticky And It's Making A Mess

Last week, both the Producer Price Index (PPI) and the Consumer Price Index (CPI) came in slightly higher than expected. Inflation year-on-year continues to look to have peaked and is falling.

The pace has gotten choppy, and this is normal. But with CPI above the Federal Reserve (Fed) target of 2% inflation, the risk is that interest rates will remain high as the Fed plays defense and considers an additional 25 basis point hike before the end of the year.

Producer Price Index Year-Over-Year At 2.2%



Source: Bloomberg, October 13, 2023

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Consumer Price Index Year-Over-Year At 3.7%

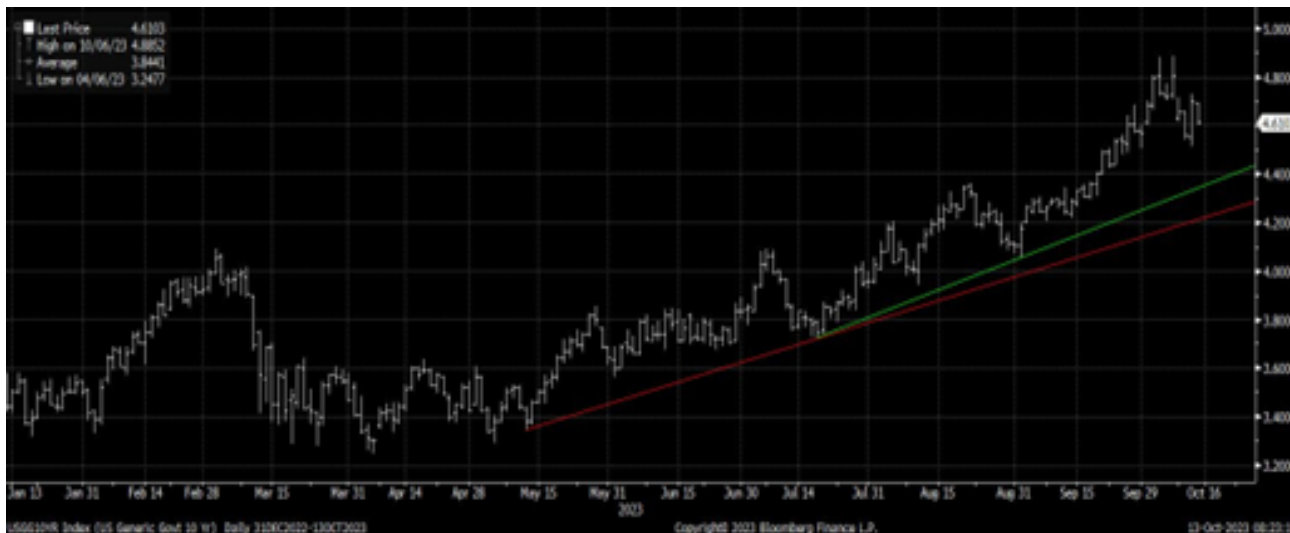


Source: Bloomberg, October 13, 2023

10-Year Treasury Yields Bounce Around Between Flight To Quality And Higher Inflation

Last week, the 10-year Treasury yield bounced around; first, the terrorist attack in Israel caused a flight to safety, with yields falling sharply; then, we received higher inflation data, which moved yields higher. Technically, the trend in rates remains up with resistance at 4.8%-5.0% and support near 4.4%. Rates may now bounce between these levels of support and resistance.

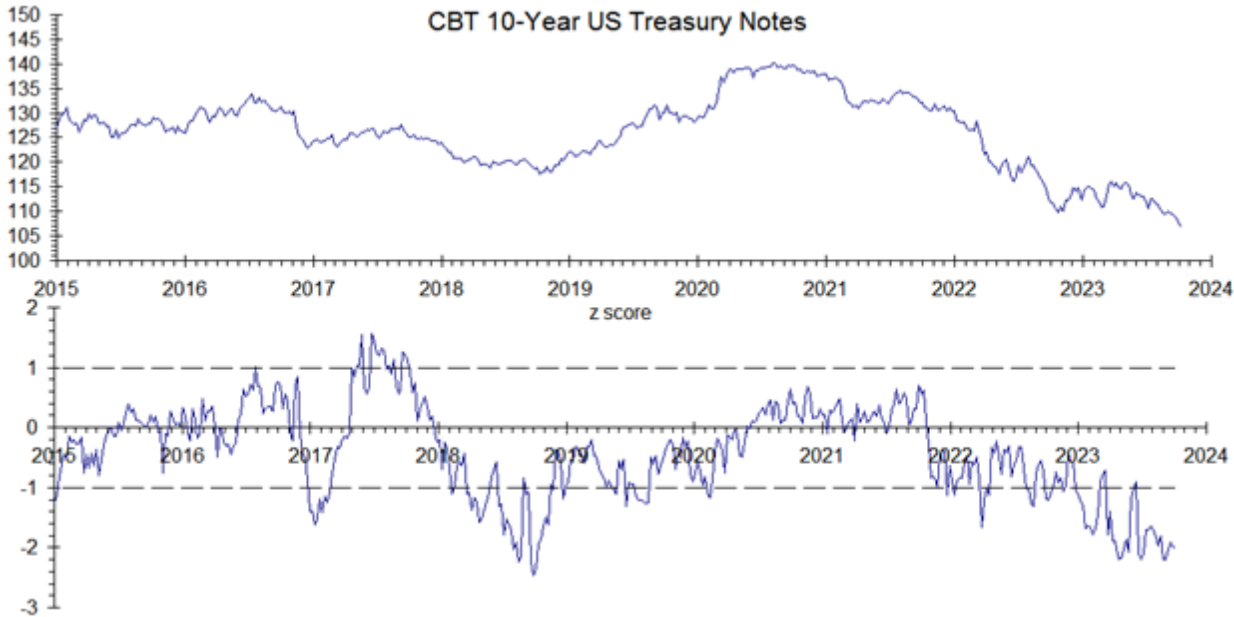
10-Year Treasury Yield – Trend Still Up



Source: Bloomberg, October 13, 2023

Non-Commercials Are Very Short 10-Year Treasury Futures

Non-Commercials – what is also referred to as fast money (hedge funds) – are extremely short, with traders in 10-year Treasury futures betting prices will continue to fall (yields rise). Short sellers can be right, but if price action goes against them, they will close out their short positions, pushing prices higher and yields lower. We believe this can also continue to add to the volatility in the bond market.



Source: Commodity Futures Trading Commission, Chicago Board of Trade, Bloomberg, Sanctuary Wealth, October 13, 2023

Because last week's bond auction went poorly, we took a look at the 30-year Treasury yield (see below). As the U.S. deficit rises, more funding through Treasuries will be necessary. The trend in rates remains up with resistance at 5.05% and support around 4.5%.

10-Year Treasury Yield – Trend Still Up



Source: Bloomberg, October 13, 2023

Volatility For Bonds Remains Elevated

The ICE BofA MOVE Index (MOVE) measures bond volatility. As you can see in the chart below, volatility remains high. This indicates we may see yields move around in a choppy fashion, responding sequentially to a flight to safety, economic data releases, and supply coming to market. The large short positions in the market are likely to also add to this volatility. There are now more influences on bond yields that are likely to keep volatility elevated.

ICE BofA MOVE Bond Volatility Index – Volatility Remains Elevated

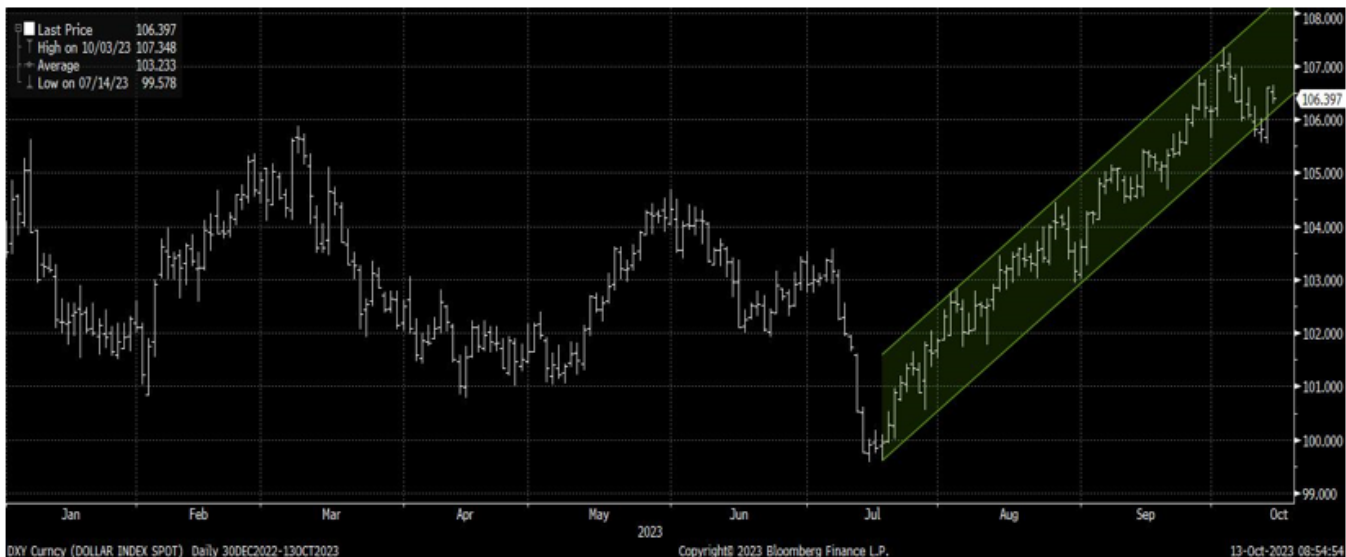


Source: Bloomberg, October 13, 2023

High Interest Rates & A Flight To Safety Asset – U.S. Dollar To Remain Strong

With U.S. interest rates remaining firm and higher for longer – and now with the war between Israel and Hamas – the U.S. Dollar is likely to be a safety asset, keeping the currency strong.

The U.S. Dollar Remains Strong And Can Strengthen As A Flight To Safety



Source: Bloomberg, October 13, 2023

Major Banks Launched Earnings Season With A Positive Tone

Several of the major banks reported earnings last Friday; J.P. Morgan, Wells Fargo and PNC Financial all reported better than expected earnings. Bank stocks are extremely oversold and holding support levels. If earnings continue to be positive, the group can rally, but we continue to believe banks are value traps. We don't expect this area of the market to be or become leadership. We continue to believe banks will be discounted due to the unrealized losses of their bond holdings on their balance sheet.

Importantly, U.S. regulators proposed in Basel III Endgame at the end of July significantly altering the regulatory capital regime for U.S. banks. According to Ernst & Young LLP, the proposal would modify how the largest U.S. banks think about regulatory capital and extends more granular, rigorous requirements to U.S. regional and mid-size banks. These regulations are expected to limit bank lending, which should negatively impact their earnings. Jamie Dimon, CEO of J.P. Morgan Chase, has been very vocal on this proposed legislation and the negative impact it would have on banks.

KBW Bank Index With 14-Week Stochastic – Extremely Oversold So Can Bounce



Source: Bloomberg, October 13, 2023

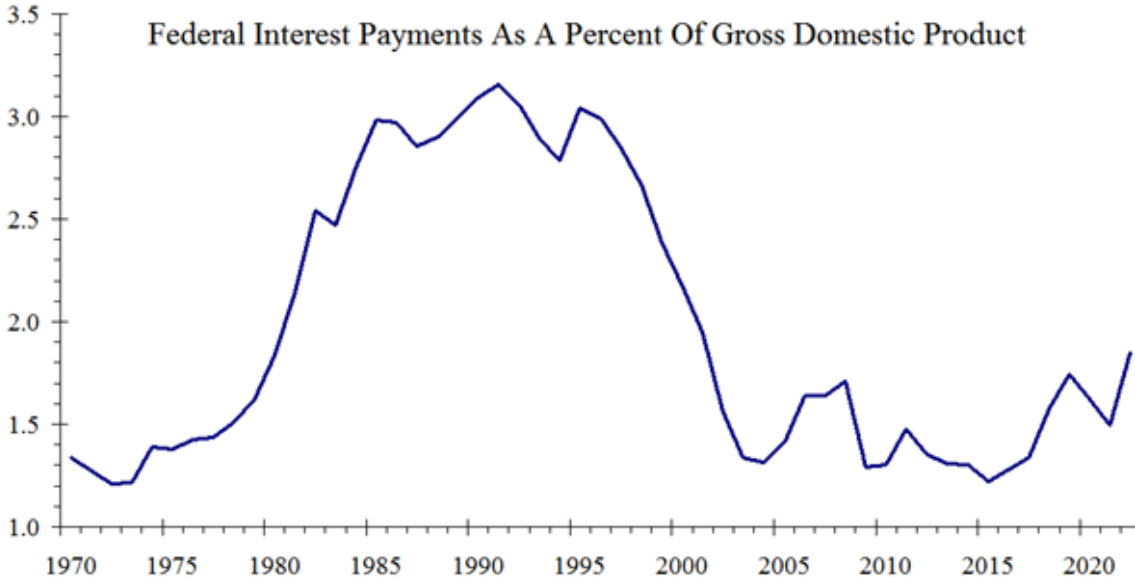
S&P 500 Remains In A Correction But Time To Buy Is Here

Short-term, the equity market is overbought again on this brief rally. The weekly price momentum Stochastic is oversold but improving. The outlook remains positive for stocks – as long as the war between Israel and Hamas does not escalate in the region (and bring in the likes of Iran), which could lead to significantly higher oil prices (i.e., as sustained price above \$100 a barrel).

The economy remains strong with full employment. Consumers may be spending down their savings and adding to their credit, but most consumers are still able to spend. They might have become more selective in their purchases, but we continue to believe that consumers will spend into the holidays (caveat: if oil prices remain below \$100). If you compare debt levels of consumers, businesses, and the government, consumers have the best balance sheet, followed by businesses (see chart below). It's the government that has the leverage. This is not a problem for the economy at this time, as debt servicing as a percentage of GDP remains below 3%. Should debt servicing rise above 3%, however, that could put pressure on rates and the government to enact some fiscal discipline.

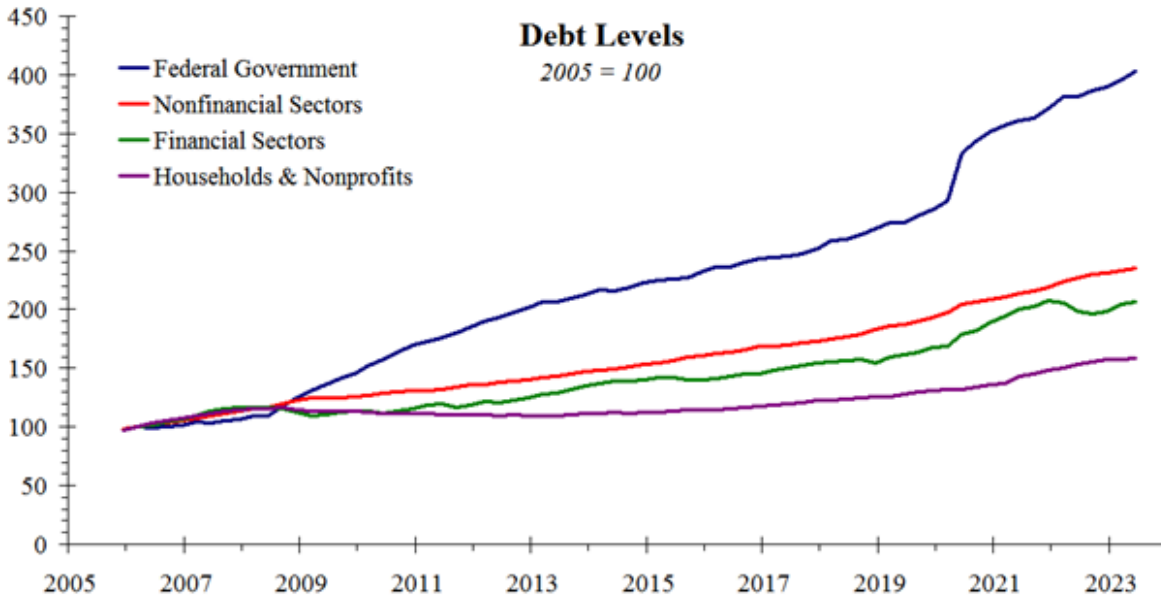


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Source: Office of Management and Budget, Bureau of Economic Analysis, St Louis Federal Reserve

Last data point 2022, 1.85%. October 13, 2023



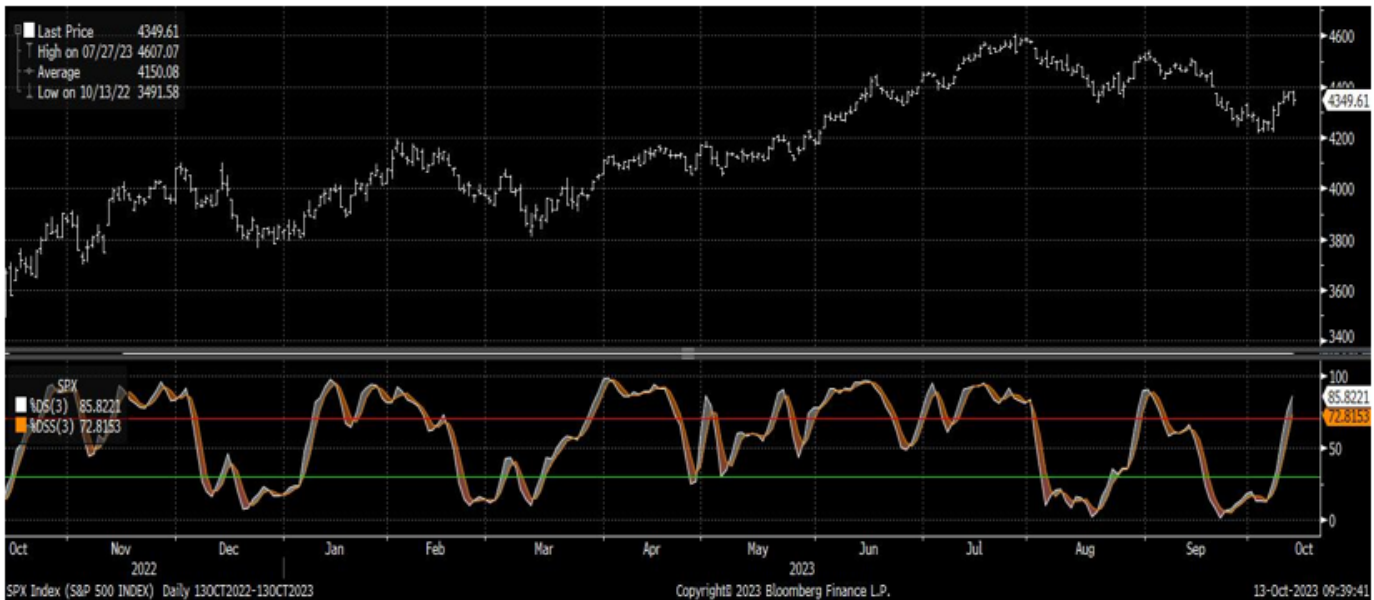
Source: Bureau of Economic Analysis National Income and Product Accounts, Sanctuary Wealth, October 10, 2023, Last datum 2023 Q2



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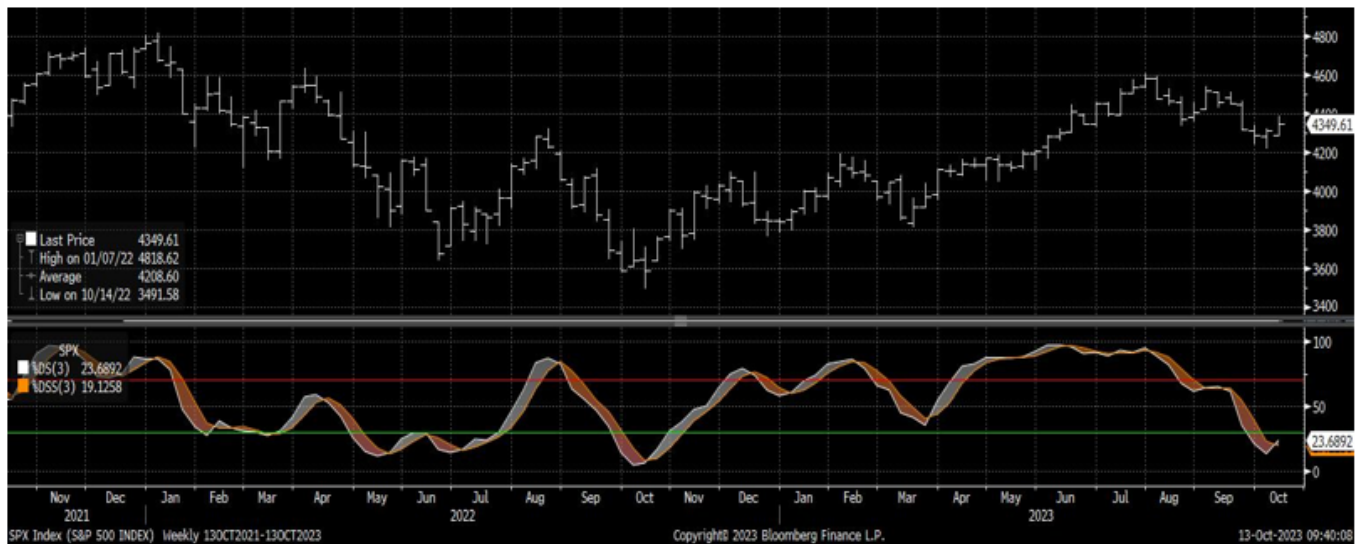
S&P 500 support levels are 4200-4150. We believe the markets could sell off again in the coming weeks, and we would be buyers of this sell-off, positioning for a rally into November and December. Again, if the war between Israel and Hamas does not escalate, this would be our base case. Should the war escalate, and crude oil prices rise sharply, a deeper correction in the markets is likely to take place (not our base case). Remember, when it's time to buy equities, the news is usually bad. War is ugly and heartbreaking, but as long as war doesn't impact the U.S. economy negatively, stocks can rally. This is a historical reality.

S&P 500 With Daily Stochastic With Overbought Levels



Source: Bloomberg, October 13, 2023

S&P 500 With Weekly Stochastic With Oversold Levels



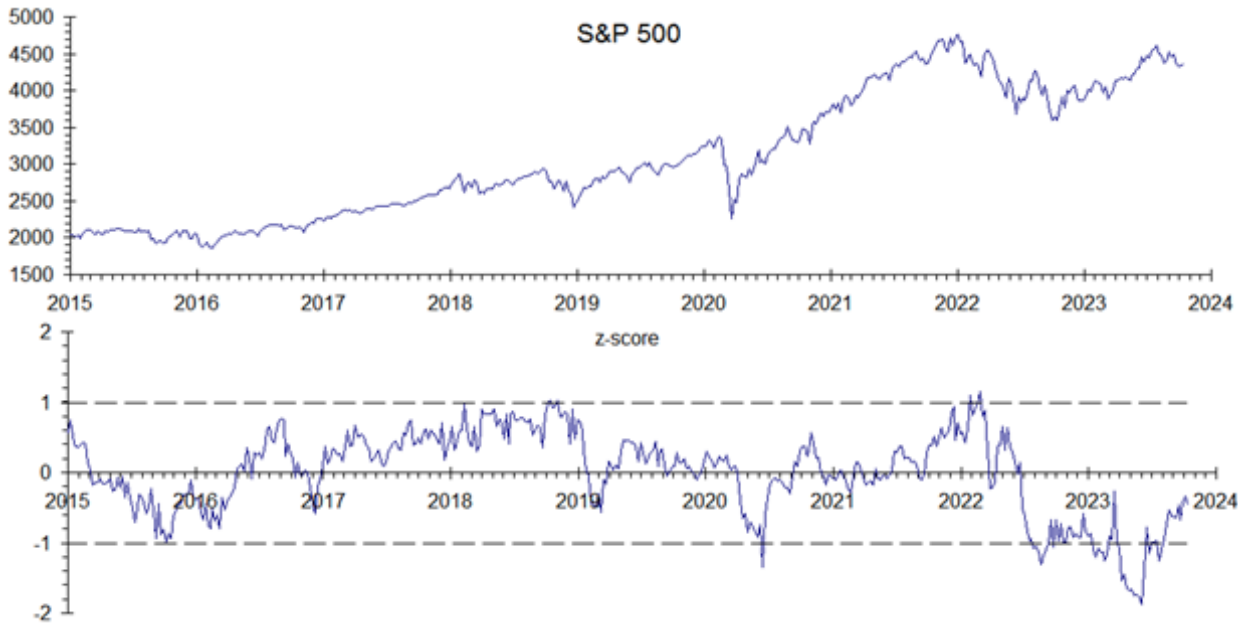
Source: Bloomberg, October 13, 2023



Week of October 16, 2023

Normalized Short Interest Reached Levels Not Seen Since 2020

Non-commercial short interest – which is known as “fast money” (we’re talking about hedge funds) – for the S&P 500 reached levels not seen since 2020. Short interest is when investors sell equities on margin because they are negative on stocks or are hedging portfolios. Short interest can put a floor on stocks, meaning it limits how much stocks can go down. Shorts have begun to cover or close out positions. The market is now slightly short, and if the markets follow history, these levels should eventually go long. The market has buying power to go higher into the holiday season.

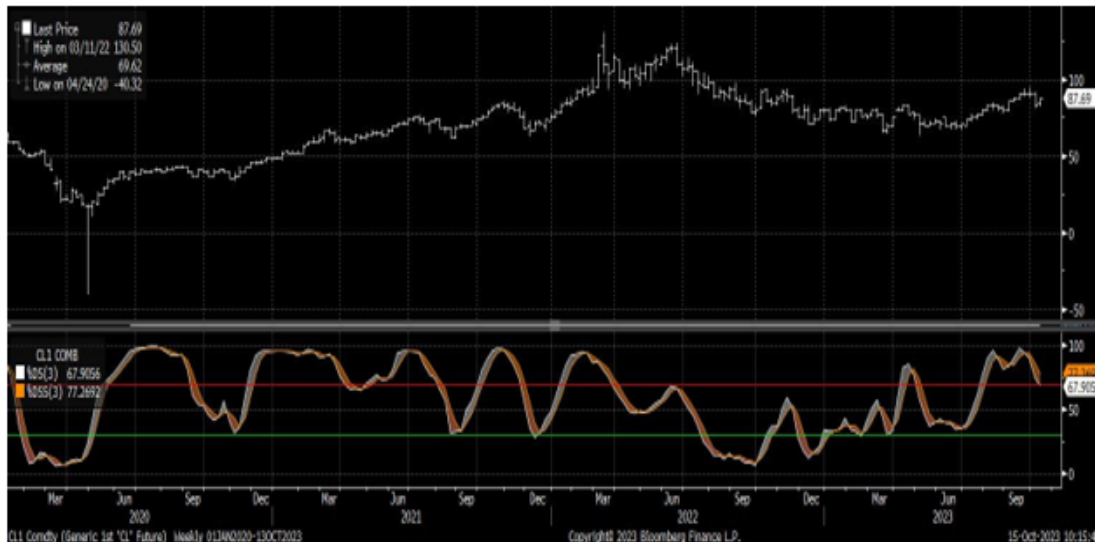


Source: Bloomberg, Sanctuary Wealth, October 2023

Crude Oil Overbought – Could Sell-Off But A Break Above \$100 Calls For Much Higher Prices

Crude Oil is positioned to fall or at least remain stable with pricing now very overbought. Major resistance is at \$100. Should the war in Israel-Hamas war escalate, impacting oil prices to the upside, a move above \$100 and staying above \$100 would signal much higher prices.

WTI Crude Oil With Weekly Stochastic – Overbought And Near Resistance



Source: Bloomberg, October 13, 2023

Asset Quilt Returns Year-to-Date: Stocks Up The Most While REITS The Worst

Ranked cross asset returns by year since 2000

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023*
Commodities 58.2%	US Treasuries 6.7%	Commodities 36.9%	MSCI EM 36.3%	REITS 32.0%	MSCI EM 34.9%	REITS 37.8%	MSCI EM 39.8%	US Treasuries 14.9%	MSCI EM 79.9%	Gold 29.2%	US Treasuries 9.8%	REITS 23.8%	S&P 500 32.4%	S&P 500 13.7%	S&P 500 1.4%	Commodities 17.9%	MSCI EM 37.8%	Cash 1.8%	S&P 500 31.9%	Gold 24.8%	Commodities 46.2%	Commodities 31.1%	S&P 500 12.4%
US Treasuries 13.4%	Global IG 4.6%	Gold 25.8%	MSCI EAFE 39.2%	Commodities 26.7%	Commodities 33.7%	MSCI EM 32.8%	Commodities 33.9%	Gold 4.3%	Global HY 62.8%	MSCI EM 19.2%	Gold 8.9%	Global HY 18.3%	MSCI EAFE 23.3%	REITS 11.7%	US Treasuries 9.9%	Global HY 14.8%	MSCI EAFE 25.9%	US Treasuries 6.9%	REITS 27.4%	MSCI EM 18.8%	REITS 37.1%	Cash 1.5%	MSCI EAFE 4.9%
REITS 8.9%	Cash 4.4%	Global IG 14.9%	REITS 33.9%	MSCI EM 26.9%	Gold 17.8%	MSCI EAFE 28.9%	Gold 31.9%	2.1%	MSCI EAFE 32.9%	REITS 15.9%	Global IG 4.9%	MSCI EM 18.9%	Global HY 8.9%	US Treasuries 6.9%	Cash 8.1%	S&P 500 12.9%	S&P 500 22.9%	Gold -1.9%	MSCI EAFE 22.9%	S&P 500 18.4%	S&P 500 28.7%	Gold -0.8%	Global HY 3.9%
Cash 6.2%	Global HY 3.1%	US Treasuries 11.8%	Commodities 30.1%	MSCI EAFE 36.7%	MSCI EAFE 14.9%	Gold 23.2%	MSCI EAFE 11.8%	-8.3%	REITS 31.7%	S&P 500 15.1%	Global HY 2.8%	MSCI EAFE 17.9%	REITS 8.7%	Global IG 3.2%	MSCI EAFE -0.8%	MSCI EM 11.2%	Gold 12.9%	Global HY -3.2%	Commodities 20.1%	Global IG 10.3%	MSCI EAFE 11.9%	US Treasuries -12.9%	Cash 3.7%
Global IG 3.1%	Gold -0.7%	Cash 1.8%	Global HY 36.7%	Global HY 12.4%	REITS 16.7%	S&P 500 15.8%	US Treasuries 9.1%	Global HY 27.9%	S&P 500 26.9%	Global HY 13.9%	S&P 500 2.1%	S&P 500 16.9%	Global IG 0.1%	Gold 0.1%	REITS -3.4%	Gold 8.4%	REITS 11.9%	Global IG -3.4%	MSCI EM 16.9%	MSCI EAFE 8.4%	Global HY 1.4%	Global HY -13.2%	Commodities 1.9%
Gold -5.4%	MSCI EM -2.4%	Global HY -1.1%	S&P 500 38.7%	S&P 500 15.9%	S&P 500 4.9%	Global HY 13.9%	Global IG -37.9%	Commodities 26.1%	Commodities 13.3%	Cash 8.1%	Global IG 11.1%	Cash 8.1%	Cash 6.8%	Global IG 4.3%	Global IG 10.2%	Global HY -3.9%	REITS -3.9%	Gold 17.9%	US Treasuries 8.2%	Cash 0.2%	MSCI EAFE -13.9%	Gold -0.3%	
Global HY -6.9%	REITS -7.8%	REITS -2.4%	Gold 19.9%	Global IG 9.4%	Cash 3.1%	Global IG 7.2%	S&P 500 5.1%	Commodities -42.8%	Gold 25.2%	MSCI EAFE 9.2%	Commodities -2.8%	Gold 8.3%	Commodities -2.1%	Global HY -0.1%	Global HY -4.2%	REITS 1.3%	Global IG 9.3%	S&P 500 -4.3%	Global HY 13.7%	Global HY 8.9%	MSCI EM -2.3%	Global IG -16.7%	Global IG -0.5%
S&P 500 -9.7%	S&P 500 -11.9%	MSCI EM 4.9%	Global IG 14.9%	Gold 4.4%	US Treasuries 2.8%	Cash 4.9%	Cash 5.9%	MSCI EAFE -13.1%	Global IG 19.2%	Global IG 6.9%	REITS -9.4%	US Treasuries 2.2%	MSCI EM -2.3%	MSCI EM -1.8%	Gold -10.4%	US Treasuries 1.1%	Commodities 7.6%	Commodities -13.1%	Global IG 11.4%	Cash 0.5%	US Treasuries -2.4%	S&P 500 -18.1%	MSCI EM -0.8%
MSCI EAFE 14.9%	MSCI EAFE -21.2%	MSCI EAFE -15.7%	US Treasuries 2.2%	US Treasuries 3.9%	Global HY 1.8%	US Treasuries 3.1%	Global HY 3.8%	REITS -82.2%	Cash 0.2%	US Treasuries 5.9%	MSCI EAFE -11.7%	Cash 0.2%	US Treasuries -3.1%	MSCI EAFE -4.9%	MSCI EM -14.9%	MSCI EAFE 1.9%	US Treasuries 2.4%	MSCI EAFE -13.2%	US Treasuries 7.2%	REITS -4.4%	Global IG -3.9%	Global IG -19.8%	US Treasuries -2.9%
MSCI EM -30.8%	Commodities -21.4%	S&P 500 -22.1%	Cash 1.1%	Cash 1.9%	Global IG -3.9%	Commodities -0.2%	REITS -10.9%	MSCI EM -51.2%	US Treasuries -2.1%	Cash 0.1%	MSCI EM -19.2%	Commodities -0.3%	Gold -27.3%	Commodities -29.3%	Commodities -25.4%	Cash 0.3%	Cash 0.8%	MSCI EM -14.3%	Cash 2.2%	Commodities -15.9%	Gold -4.1%	REITS -25.2%	REITS -8.5%

Source: BofA Global Investment Strategy, Bloomberg *2023 YTD

BoFA GLOBAL RESEARCH

Earnings Season Will Take Center Stage For The Next Few Weeks

This week, corporate earnings, the war between Israel and Hamas, and global geopolitics will absorb everyone's attention.

Some of the economic data that the market will focus on this week includes retail sales – which will help determine how the consumer is spending. We also will get insight into the housing market and the economy with industrial production data and the Conference Board's Leading Economic Index (LEI). Fed Chair Powell speaks on Thursday, and all will listen for any hint about the Fed's next move in interest rates (as of now a pause is expected for rates at the November meeting).

As the world watches the overwhelming scale of atrocities unfold in Israel and Gaza (especially on social media), we expect investors will feel paralyzed. And this will continue until there are signs of an easing of the war tensions.

An unfortunate truth is that it is during the worst of times when investors should be buying equities.



Calendar

Mon.

8:30 am
10:30 am
4:30 pm
Earnings

Empire State manufacturing survey
Philadelphia Fed President Patrick Harker speaks
Philadelphia Fed President Patrick Harker speaks
Charles Schwab, Equity Lifestyle Properties

Tue.

8:30 am
9:15 am
10:00 am
10:30 am
speaks
10:45 am
Earnings

U.S. retail sales
Industrial production
Home builder confidence index
Fed Gov. Michelle Bowman speaks, Minneapolis Fed President Neel Kashkari
Richmond Fed President Tom Barkin speaks
Albertsons, Bank of America, Bank of New York Mellon, Fulton Financia,
Goldman Sachs, Hancock Whitney, Interactive Brokers, J.B. Hunt Transport Services, Johnson & Johnson,
Lockheed Martin, Pinnacle Financial Partners, Prologis, United Airlines, Wintrust Financial

Wed.

Housing starts
Fed Gov. Chris Waller speaks
New York Fed President John Williams speaks
Fed Beige Book
Fed Gov. Lisa Cook speaks
Abbott Labs, Alcoa, Ally Financial, ASML, Citizens Financial Group, Crown Castle,

Thu.

8:30 am
10:00 am
12:00 pm
1:20 pm
1:30 pm
4:00 pm
6:40 pm
Earnings

Initial jobless claims, Philadelphia Fed manufacturing survey
Existing home sales, U.S. leading economic indicators
Fed Chairman Jerome Powell speaks
Chicago Fed President Austan Goolsbee speaks
Fed Vice-Chair for Banking Michael Barr speaks
Atlanta Fed President Raphael Bostic speaks
Dallas Fed President Lorie Logan speaks
Alaska Air, American Airlines, AT&T, Badger Meter, Blackstone, CSX, Fifth Third,
Freeport-McMoRan, Genuine Parts, Intuitive Surgical, KeyCorp, Knight-Swift Transportation, Lindsay Corp,
Manpower, Marsh McLennan, Philip Morris International, Pool, Snap-On, Truist Financial, Union Pacific,
WD-40, Webster Financial, WNS

Fri.

12:15 pm
Earnings

Cleveland Fed President Loretta Mester speaks
American Express, Autoliv, Comerica, Huntington Banc, Regions Financial, SLB

Source: MarketWatch/Kiplinger's/CNBC

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