



Corner

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October
2023

Executive Summary

As we move into November and December, the strongest seasonal period for the equity market is upon us. October is known for its higher-than-average volatility, but more importantly, it is the month of important bottoms. We are buyers of this market. *The risk to the rally?* Higher oil prices. Unless events in the Middle East escalate and cause oil prices to rise sharply, the market is positioned to rally.

The equity market is overbought in the very short term but is now oversold on the weekly stochastic. So, the market can be choppy going into the end of October, but we are buyers on pullbacks. Technology remains the leadership with semiconductors our favorite. Industrials and Energy are emerging leadership. During times of war, Aerospace & Defense tend to perform well. Infrastructure “build and rebuild” is a long-term economic trend, along with onshoring and reshoring. Farming is using technology and is expected to use artificial intelligence. Supplies of oil are limited compared to demand. Energy prices are expected to remain firm.

Equity Markets Positioned To Rally Into Year-End

Positioning Into Year-End

We remain bullish equities going into year-end and look for the seasonal rally to begin soon. We do anticipate a little more choppiness near-term and would be buyers on any pullback. *We favor Cycicals over Defensives, Growth over Value, Large Cap over Small Cap, Quality over Low Quality, and leadership remains Technology. Emerging leadership is shared by Industrials and Energy.* The Federal Reserve (Fed) will likely tread a little more cautiously given the events that are occurring in the Middle East. If economic data remains strong and crude oil stays below \$100, the risk would be an additional 25 basis point rate hike before the end of the year.

There are early signs that the U.S. economy on the industrial and manufacturing side has bottomed and could improve, keeping the U.S. economy strong overall. A strong economy translates into better earnings; better earnings lead to higher stock prices. We believe the U.S. economy and stocks will be stronger than consensus expectations.

Technically the market has support near the 200-day moving average around 4200. A slight undercut of this level would not change our view of buying stocks. The next level of support is 4150-4145. Resistance is near 4400. A break above this resistance should allow the S&P 500 to test the levels near 4600. The next move would be the test of the all-time highs near 4800. A break of this level would signal a move to 5400.

Correction Nearly Complete – Bull Trend Intact

S&P 500 With 14-Week Stochastic: Oversold Reading



Source: Bloomberg, October 15, 2023

The Magnificent 7 Remain Leaders

The Bloomberg Magnificent 7 Total Return Index (BM7T) comprises the seven stocks leading the charge in the stock market. BM7T consists of Nvidia Corp. (NVDA), Tesla Inc. (TSLA), Meta Platforms Inc. (META), Amazon.com Inc. (AMZN), Alphabet Inc. (GOOGL), Apple Inc. (AAPL) and Microsoft Corp. (MSFT). According to Bloomberg, in the past year, this group of companies has seen a 28% increase in the forward 12-month earnings per share consensus forecasts, while the S&P 500 saw little change and the Nasdaq saw a decline (see chart below). In addition, BM7T's forward price-earnings ratio is lower than that of the Nasdaq at 27 times and becoming cheaper in relation to the S&P 500. But these stocks are surely not cheap. *Growth stocks outperform when earnings are scarce, and these stocks have earnings and are growth stocks. Expect Growth to outperform and for this group of stocks to maintain their leadership.*



Corner - **October 2023**

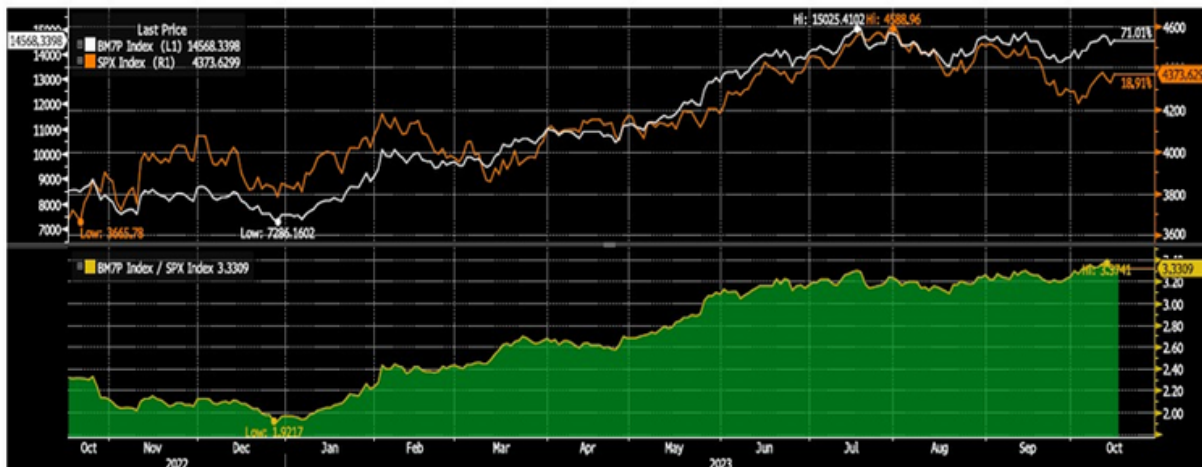
Magnificent 7 (BM7T) Compared to S&P 500 In Price and Earnings



Source: Bloomberg, October 3, 2023

Magnificent 7 Reached New Relative Price High Showing Continued Leadership

Magnificent 7 Compared to S&P 500 (top) With Magnificent 7 Relative to S&P 500



Source: Bloomberg, October 17, 2023

Magnificent 7 Index Trending Higher



Source: Bloomberg, October 16, 2023

How S&P 500 Performed During Significant Historical Events

The long-term trend in the equity market is up. Looking at historical events and their impact on stocks, all periods with negative returns at +250-days occurred during secular bear markets.

Negative Returns Took Place During Secular Bear Markets – The US Market Remains In A Secular Bull

S&P 500 Performance Following Significant Historical Events						
Event	Date	Day Of	+20-Days	+65-Days	+125-Days	+250-Days
Germany Invades France	5/10/1940	-3.0%	-23.6%	-15.0%	-3.1%	-19.6%
Pearl Harbor	12/7/1941	-3.8%	0.3%	-10.5%	-5.6%	3.7%
JFK Assassinated	11/22/1963	-2.8%	6.3%	11.8%	15.7%	23.9%
Penn Central Bankruptcy	6/21/1970	-0.5%	0.4%	8.1%	17.5%	31.1%
Oil Embargo	10/16/1973	0.1%	-5.3%	-13.3%	-15.0%	-35.4%
Pres. Nixon Resigns	8/9/1974	-0.9%	-13.8%	-7.1%	-2.8%	6.7%
Continental Illinois Bailout	5/9/1984	-0.3%	-3.2%	3.3%	5.3%	12.4%
1987 Stock Market Crash	10/19/1987	-20.5%	9.7%	8.1%	15.3%	22.4%
Iraq Invades Kuwait	8/2/1990	-1.1%	-9.3%	-11.3%	-3.0%	10.0%
Soros Breaks Bank of England	9/16/1992	0.0%	-2.5%	3.7%	7.5%	10.0%
1st World Trade Center Bombing	2/26/1993	0.2%	1.0%	2.4%	3.8%	6.3%
Asian Financial Crisis	10/8/1997	-0.9%	-3.2%	-3.6%	13.1%	1.1%
U.S.S Cole Yemen Bombing	10/12/2000	-2.6%	5.3%	0.0%	-11.0%	-17.5%
9/11 Terror Attacks	9/11/2001	-4.9%	4.9%	10.0%	12.2%	-14.3%
Iraq War	3/20/2003	0.2%	2.0%	12.1%	17.2%	28.3%
Bear Stearns Collapse	3/14/2008	-2.1%	3.1%	4.9%	-3.0%	-41.7%
Lehman Brothers Collapse	9/15/2008	-4.7%	-15.9%	-23.4%	-36.8%	-12.6%
U.K. Votes to Leave EU (Brexit)	6/24/2016	-3.6%	6.4%	6.0%	11.2%	19.5%
NBA Shutdown (COVID)	3/11/2020	-9.5%	0.3%	10.9%	21.5%	41.4%
Israel Invasion	10/9/2023	0.6%	?	?	?	?
Average		-3.2%	-1.9%	-0.1%	3.2%	4.0%

Source: Strategas, October 10, 2023



Inflation Ticks Higher For CPI But Trend Is Down And Could Hit 2% In Time

Consumer Price Index Year-to-Year at 3.7%. Hitting 2% Is Possible (Yellow Dashed Line)



Source: Bloomberg, October 15, 2023

Core Consumption Price Expenditure Year-to-Year Was 3.9% In August



Source: Bloomberg, October 15, 2023



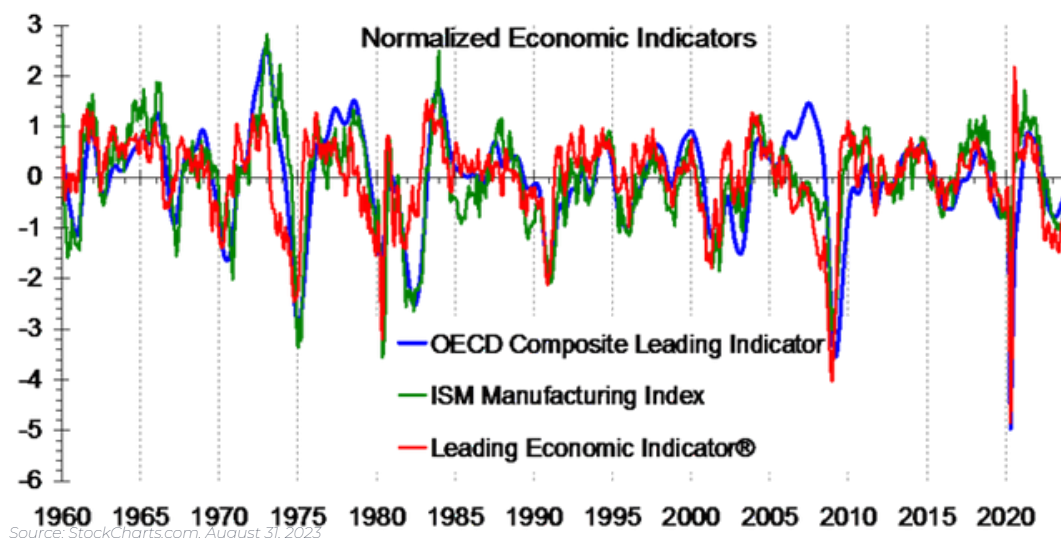
Earnings Appear To Be Troughing & Are Forecast to Improve Into 2024



Source: Bloomberg, October 11, 2023

What If Economic Growth Is Troughing?

When we examine three important measures of growth of the U.S. economy – the OECD Composite Leading Indicator, and the ISM Manufacturing and Leading Economic Indicators – we see that they all appear to be bottoming and improving. If this is the case, GDP growth should remain robust in the U.S., which in turn should positively impact the earnings outlook. This is not the base case view on Wall Street, so this would be a surprise.



Source: Organisation for Economic Co-operation and Development, Institute for Supply Management, Conference Board, Sanctuary Wealth, October 16, 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

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 also likely to add to this volatility. There are now more influences on bond yields that tend to keep volatility elevated.

ICE BofA MOVE Bond Volatility Index – Volatility Remains Elevated



Source: Bloomberg, October 13, 2023

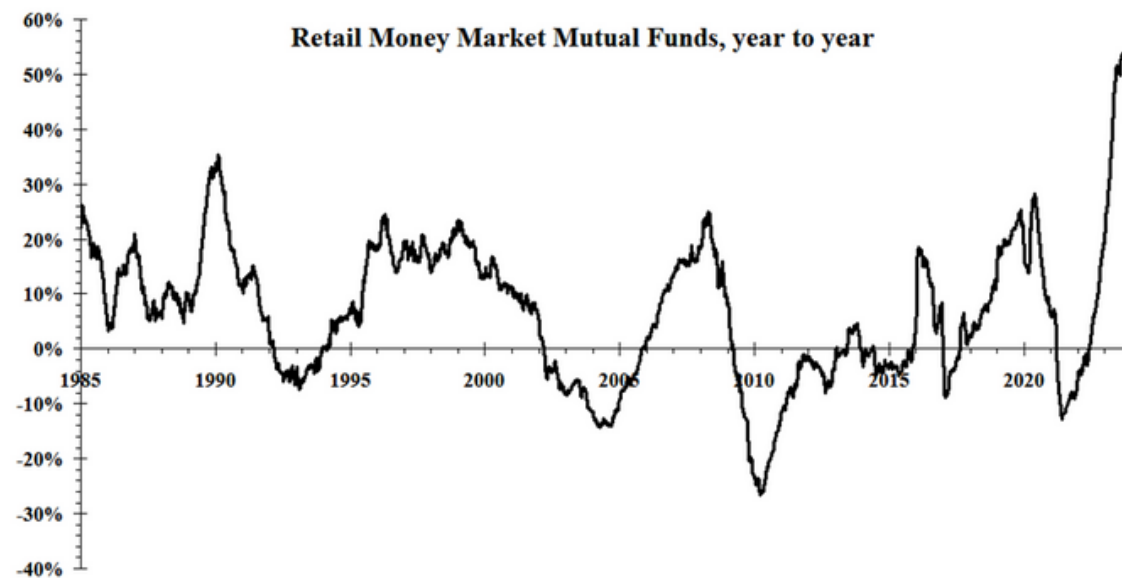


Investors Are Voting: Cash Is King As Levels Continue To Surge

ICI Money Market Funds Continue To Surge At Nearly \$6 Trillion



Growth Rate Of Cash Is At Historic Levels



Source: Federal Reserve Board Release H.6, October 17, 2023



Private Client Equity Holdings At Bank Of America Are Not Elevated

BofA private client equity holdings as % of AUM



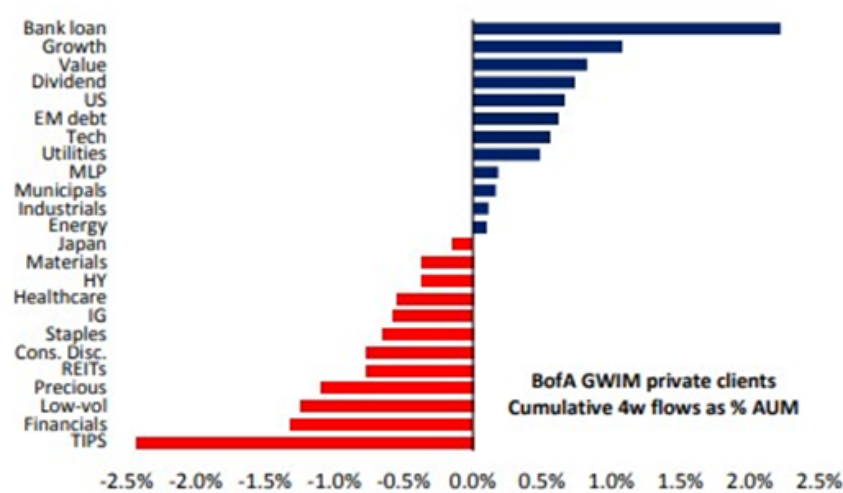
Source: BofA Global investment Strategy

BofA GLOBAL RESEARCH

Source: BofA, October 5, 2023

Retail Is Long Bank Loans And Growth & Value And Underweight TIPS And Financials

BofA private clients 4-week ETF flows as % of AUM



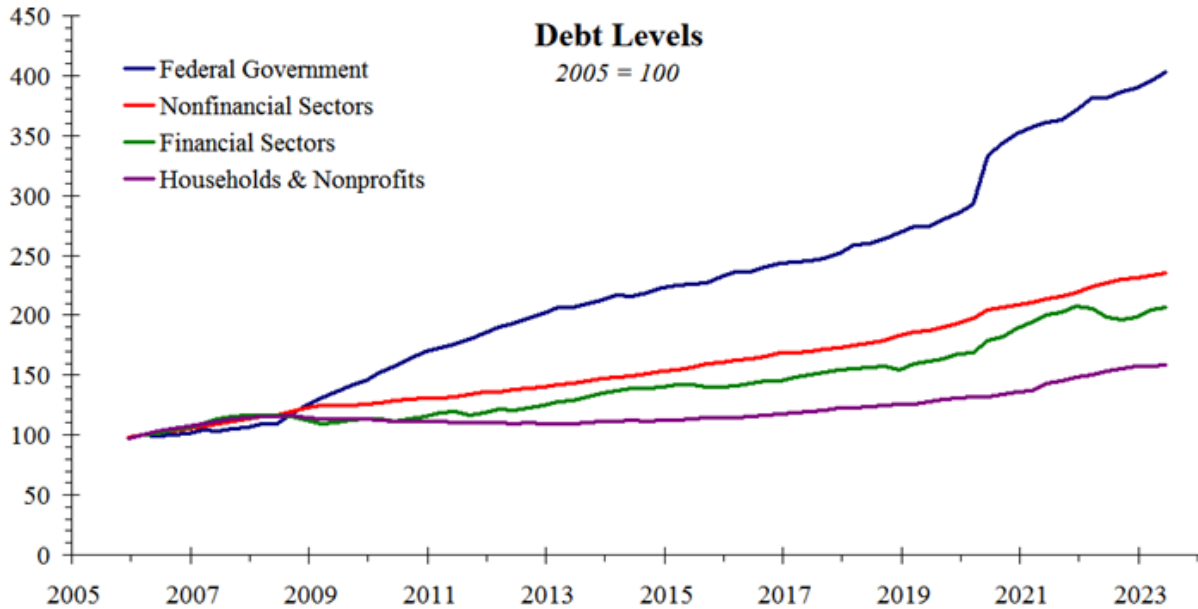
Source: BofA Global investment Strategy

BofA GLOBAL RESEARCH

Source: BofA, October 5, 2023

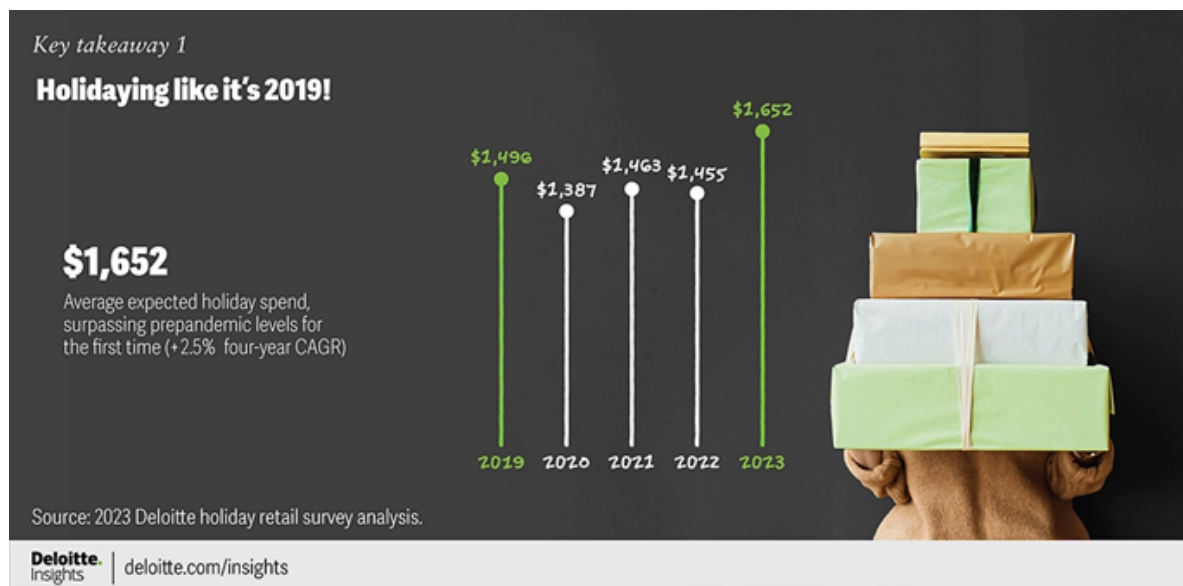


Consumer Is Not Leveraged Nor Are Businesses -- It's The Government That Is Leveraged



Source: Bureau of Economic Analysis, October 10, 2023

Deloitte Consumer Survey Concludes Holiday Spending To Grow 14% With Average Spend at \$1652



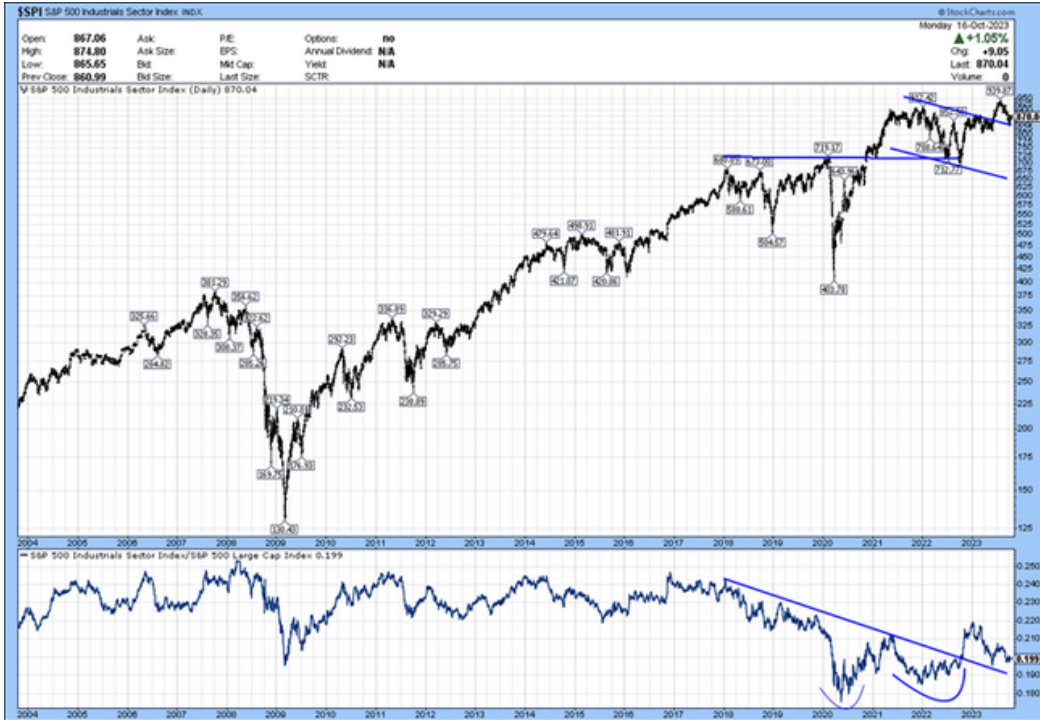
Source: 2023 Deloitte holiday retail survey

Consumers expect to spend \$1,652, surpassing prepandemic holiday spending levels for the first time. Many trends, including spending, have normalized or surpassed prepandemic levels, indicating consumers may be ready to put pandemic restraints behind them.



Infrastructure And Stronger Economy Bullish For Industrial Companies

Emerging Leadership From Industrials



When There Is War Buy Aerospace & Defense



Market Favors Cyclical Over Defensive Sectors, A Sign the Bull Is Still Running

Consumer Discretionary Outperforming Consumer Staples



Growth Has Outperformed During This Correction – Growth Is Leadership





Technology Continues To Be Leadership



Semiconductors Remain Leaders Within Technology





S&P 500 Breaks Above A 20-Year Base Relative To Small Caps: Large Cap Leaders



Energy Emerging Leadership: The Best Value In The Market

U.S. crude oil production is set to surge to a record this year, according to a U.S. government report in early October. Production is projected to reach 13.16 million barrels a day in the fourth quarter, according to the Energy Information Administration's monthly Short-Term Energy Outlook. That's up from the prior estimate of 12.94 million barrels a day. This record forecast underscores the increasingly vital role the U.S. plays in the global oil market, as OPEC+ leaders Saudi Arabia and Russia have extended their production cuts, further tightening supplies.

Energy Sector Relative To S&P 500





Small Cap Energy Looking Interesting



Small Caps With No Financial Exposure Still Look To Underperform

US Small Cap Cash Cows ETF (CALF) With Relative To S&P 500 – No Leadership





Private Funds Leading Lending Despite Higher Interest Rates

Private Lending Is Disintermediating The Banking System

THE WALL STREET JOURNAL.

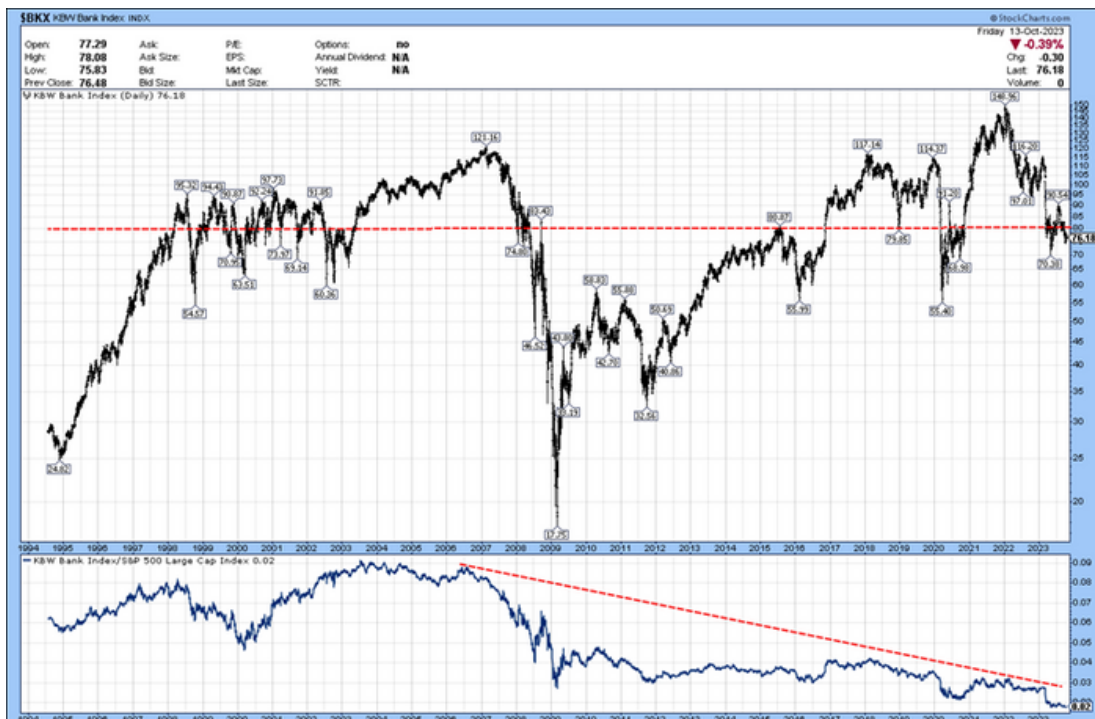
FINANCE

The New Kings of Wall Street Aren't Banks. Private Funds Fuel Corporate America.

With interest rates at multiyear highs, hedge funds and private equity are taking over lending

Oct. 8, 2023 9:00 am ET

Banks To Continue To Underperform: Value Traps

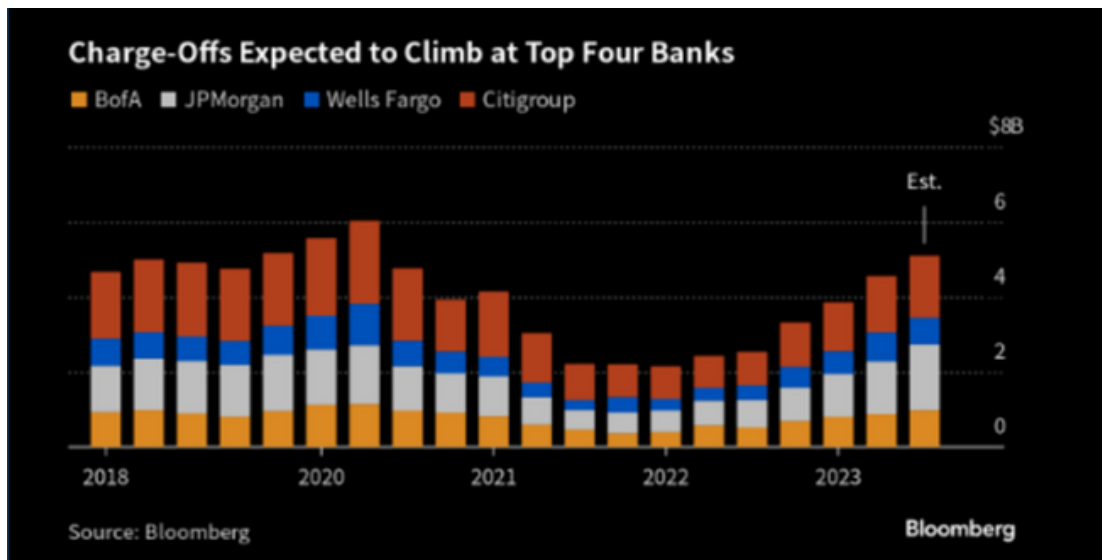




Regional Banks Can Rally Into Year-End But No Leadership



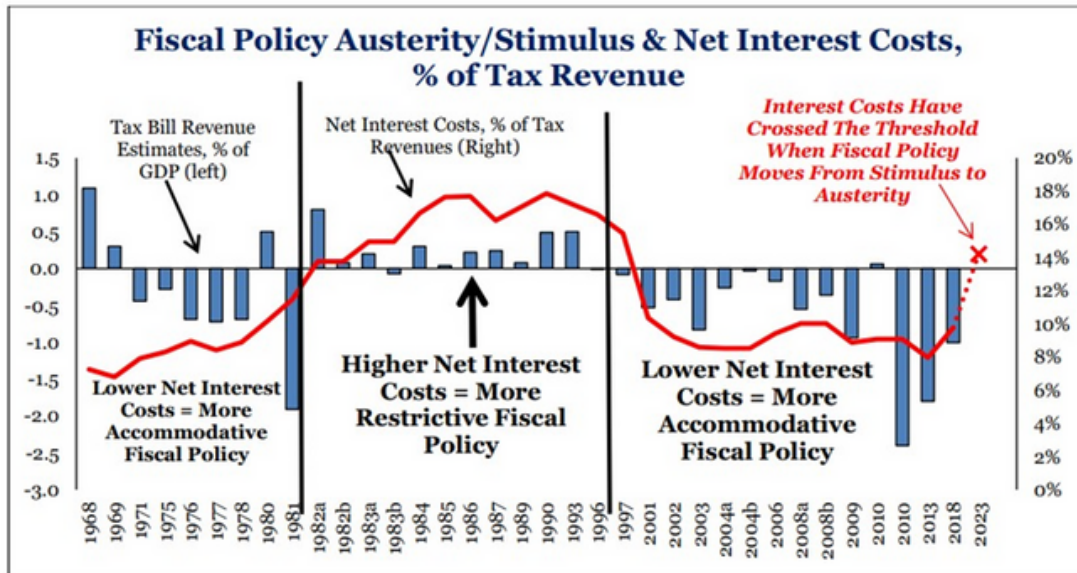
Estimated Charge-Offs For Banks Expected To Rise



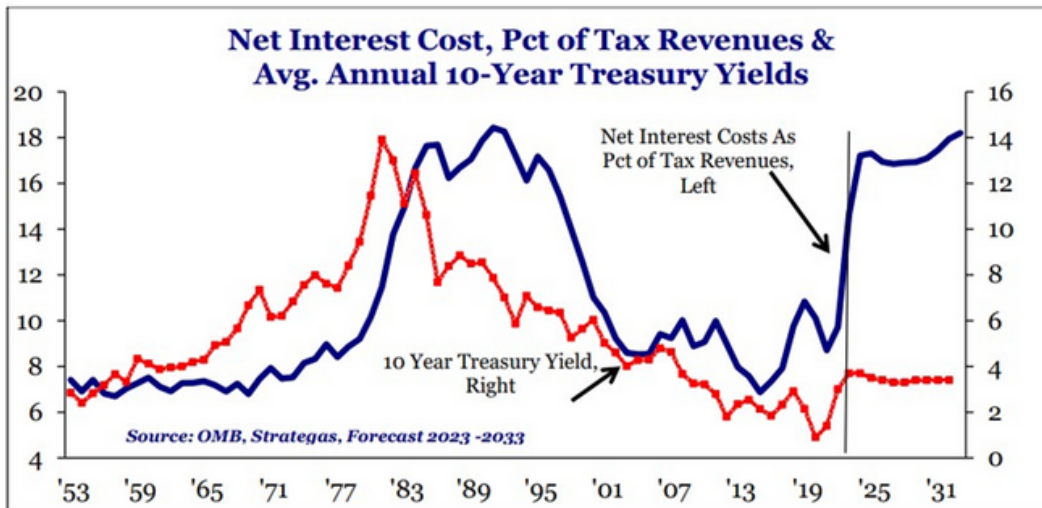
Source: Bloomberg, October 11, 2023



Risk Next Year Due To Higher US Debt Costs Is Fiscal Austerity



Source: Strategas, October 10, 2023



Source: Strategas, October 2023



Last Words

The seasonal correction is almost complete, and we expect a strong year-end rally. The consumer has the ability to continue to spend – the Deloitte consumer survey says spending is expected to rise 14% into the Holiday Season. We would be adding equities on any additional pullbacks. Earnings are expected to trough and grow into 2024. Treasuries may have more volatility. There remains a risk that the Federal Reserve considers an additional 25 basis point rate hike into year-end if economic data remains strong.

War is ugly and heartbreaking. But as long as crude oil remains below \$100, our economy should remain strong. The time to buy stocks is when the news is at its worst. The keys to smart investing are patience, positioning, and a disciplined focus on long-term goals. It is always good to review the goals of a portfolio and determine whether any rebalancing makes sense. We maintain our view to focus on quality investments.

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