



Week Ahead

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Week of October 30, 2023

Halloween Tricks And Year-End Treats

Last week, we saw some economic reports that indicated just how strong the US economy really is. Third quarter GDP was reported at a 4.9% annualized quarterly rate, stronger than the expected 4.5%.

On top of that, Durable Goods Orders, anticipated as a 1.9% month-to-month increase, came in at a blistering 4.7% increase. However, prices remained under control, as the PCE Core Deflator, the Fed's favorite inflation measure, reported at 3.7% year-to-year, just as expected.

There is still the risk that the Fed will raise interest rates an additional 25 basis points. However, we believe the Fed will proceed cautiously given the ongoing threat of an escalation in the Middle East.

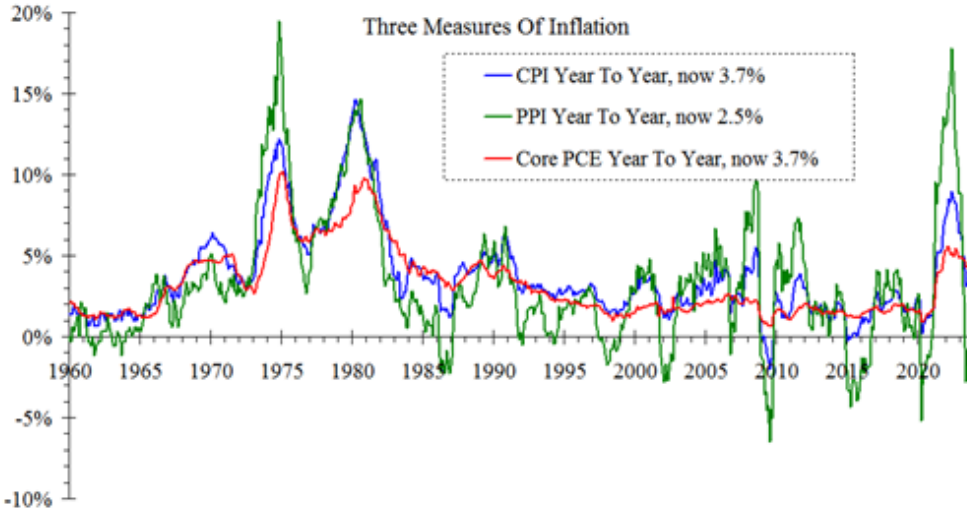
Real GDP Continues Upward Trend



Source: Bureau of Economic Analysis, Sanctuary Wealth. October 27, 2023

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Inflation Has Peaked As Measured By Three Inflation Gauges : CPI, PPI, Core PCE

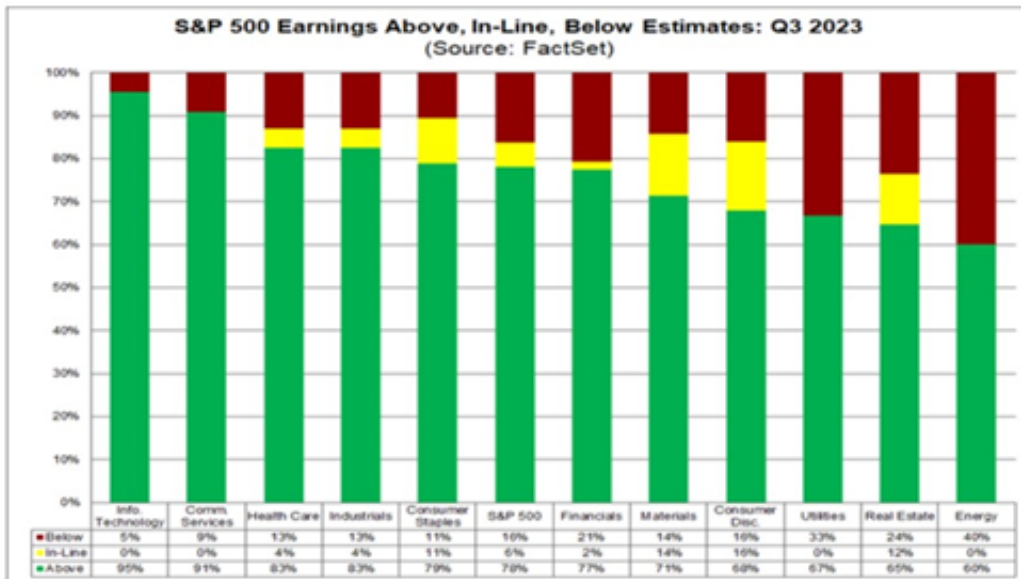


Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Sanctuary Wealth, October 27, 2023

Earnings Look Strong – So Far, So Good

As of last Thursday, nearly half the S&P 500 companies had reported earnings. Of these, 192 beat earnings estimates, while only 42 missed estimates. In addition, almost twice as many companies reported better-than-expected sales than reported worse-than-expected sales. According to FactSet, the S&P 500 is now reporting year-over-year growth in earnings for the first time since Q3 2022. This is not what many had forecast, so this is a positive development for the market.

Technology and Communication Services Reporting Best Q3 Numbers So Far



Source: FactSet, October 27, 2023

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10-Treasury Yields Likely To Remain Volatile

For now, interest rates have respected the 5% yield marker on the 10-year Treasury, an important psychological level. The trend in rates remains up with the risk of 5% being retested. Should this level break, the next resistance level is from June 2006-June 2007 in the range of 5.20%-5.32%. Higher rates would likely continue to put pressure on equities. Should 10-year Treasuries become a flight to quality with a continued sell-off in equities, in addition to the escalation of attacks in the Middle East, a break below 4.79% would indicate lower yields near 4.5%. It is possible rates would move in a trading range because of so much uncertainty and a volatile equity market.

10-Year Treasury Yields On The Move Between Flight To Quality, Stronger Growth and Supply



Source: Bloomberg, October 28, 2023

Fixed Income Volatility Is High

The MOVE index, the fixed income version of the VIX index, has risen considerably, suggesting that price volatility in Treasuries, and consequently yield volatility, should continue for a while.

Merrill Lynch Option Volatility Estimate (MOVE) Index: Volatility Remains Elevated



Source: Bloomberg, October 27, 2023

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Not To Be Outdone, VIX Continues To Rise

Last week, we highlighted the breakout of the VIX equity volatility index. The VIX still continues to rise, indicating that stock prices will probably continue to remain volatile. Higher volatility usually means lower prices. The S&P 500 has broken below its 200-day moving average. As we noted last week, we expect the next level of support around 4150-4145, with further support near 4050, which would mark a 50% retracement of the market's move from its October 2022 low to its high this past July. There is good support around the 4000 level (see chart below). The daily and weekly Stochastics are very oversold. We remain buyers of this pullback, still expecting a year-end rally.

The VIX Index Is Beginning To Spike: Look For A Spike To 25-30



Source: Bloomberg, October 27, 2023

S&P 500 Weekly Stochastic In Oversold Territory



Source: Bloomberg, October 27, 2023



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The Generals Are The Last Fall

The so-called "Magnificent Seven" stocks – what Wall Street refers to as "the Generals," meaning the leaders of the market returns – refers to Apple (AAPL), Microsoft (MSFT), Alphabet (GOOGL), Amazon (AMZN), Nvidia (NVDA), Tesla (TSLA) and Meta Platforms (META). They are aptly named because they have driven nearly all of the S&P 500's year-to-date gains. During corrections, the Generals are the last to decline. The Magnificent 7 have driven index returns because of their outsized weighting in the index. They represent nearly 28% of the S&P 500 index. But last week, they took some hits as megacap stocks started to drop and the Nasdaq 100 entered correction territory (down 10%), but importantly, they have outperformed so far in this correction. Outperforming during a decline indicates they retain leadership of the market. Now that the Generals are correcting, we are closer to completing this sell-off.

Magnificent Seven's Magnificent Now Correcting But Still Have Relative Outperformance

Magnificent 7 and S&P 500 (Top) and Magnificent 7 Relative To S&P 500 (Bottom)



Source: Bloomberg. October 27, 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	-2.0%	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 27, 2023

Positioning Into Year-End

We continue to look for a seasonal rally to begin in November and carry us through December. We remain bullish on equities going into year-end. Choppiness will remain our companion in the front end, and we would be buyers on any pullback. What do we like? Here's our mantra and we're sticking to it: Cyclical over Defensives, Growth over Value, Large Cap over Small Cap, Quality over Low Quality. As stated above, leadership remains with Technology, but emerging leadership is shared by Industrials and Energy. The Israel-Hamas crisis and rising tensions in the Middle East will likely keep the Fed treading cautiously. However, anything that forces crude oil to rise above \$100 and stay there threatens this scenario. This is a good time of the year to consider tax-loss harvesting and rebalancing portfolios.

All Eyes Will Remain On the Fed, Earnings And Nonfarm Payrolls

This week moves us closer to a seasonal rally, but not without the lingering specter of escalation in the Middle East.

Earnings will remain a key focus. This week, we will receive reports on the Conference Board's Consumer Confidence Index and the Institute for Supply Management (ISM) Purchasing Manager's Index (PMI) as well as nonfarm payrolls. But the main focus will be the Fed and Federal Reserve Chair Jerome Powell's comments on Wednesday.

We expect positive data and a near-term completion of the market sell-off. But as we look to put the Halloween frights of October behind us, and race towards a market Thanksgiving, we cannot lose sight of the potential impact of military action by any of the players in the Middle East situation. Oil prices are not just an indicator, they're a trigger. As long as oil prices remain below \$100, markets can rally.



Calendar

Mon.

Earnings AGNC Investment, Amkor, Arch Capital, Arista Networks, Boise Cascade, Chegg, Check Point Software, Comstock, Cushman & Wakefield, Denny's, Douglas Dynamics, FMC Corp, Forward Air, Harmonic, Independence Realty Trust, Kemper, Kforce, Lattice Semiconductor, Leggett & Platt, McDonald's, Monolithic Power, ON Semiconductor, ONE Gas, Otter Tail Power, Piedmont Office Realty Trust, Pinterest, PotlatchDeltic, PriceSmart, Public Storage, Rambus, Simon Properties, SoFi Technologies, Tenet Healthcare, Transocean, V.F. Corp, Varonis Systems, Vornado Realty Trust, Welltower, Western Digital, Wolfspeed, XPO, ZoomInfo Technologies

Tue.

8:30 am Employment cost index
9:00 am S&P Case-Shiller home price index (20 cities)
9:45 am Chicago Business Barometer
10:00 am Consumer confidence
Earnings Advanced Micro Devices, AGCO Corp, Allegion, Ametek, Amgen, Ares Management, Assurant, Bio-Techne, Caesars Entertainment, Cameco, Caterpillar, Chesapeake Energy, Cognex, Douglas Emmett, Eaton, Ecolab, Enterprise Products, Equitrans Midstream, Equity Residential, First Solar, Freshworks, Franklin Resources, GE HealthCare, Global Payments, Graphic Packaging, Green Plains, Hubbell, Incyte, Inspireity, International Game Technology, Leidos, LXP Industrial Trust, Marathon Petroleum, Match Group, Meritage Homes, MGIC Investment, MPLX LP, MSCI, Neurocrine Biosciences, Noble, O-I Glass, ONEOK, Paycom Software, Pfizer, PROS Holdings, Shutterstock, Sirius XM, Sprouts Farmers Market, Sysco, Thomson Reuters, TopBuild, UFP Industries, Voya Financial, Xylem, Yum China, Zebra Technologies

Wed.

8:15 am ADP employment
9:45 am S&P U.S. manufacturing PMI
10:00 am Job openings, ISM manufacturing, Construction spending
2:00 pm Federal Reserve decision on interest rates
2:30 pm Fed Chairman Powell press conference
Earnings Aflac, Airbnb, Albemarle, Alkami Technology, Allstate, Altice USA, American Financial Group, American International Group, American Water Works, Apollo Global Management, Astec Industries, Arcosa, Avis Budget, Axalta Coating Systems, Bally's, Bausch + Lomb, BioMarin Pharmaceutical, Boston Properties, Brinker, Builders FirstSource, C.H. Robinson, California Resources Corp, Camping World, Canada Goose, CDW, CF Industries, Cheesecake Factory, Chefs' Warehouse, Clean Harbors, Cognizant Technology Solutions, Confluent, Core Labs, CVS Health, Dine Brands, DoorDash, DuPont, DXC Technology, e.l.f. Beauty, Electronic Arts, Energy Transfer, Entergy, Estee Lauder, Etsy, Exact Sciences, Extreme Networks, Fastly, First Watch Restaurant Group, Garmin, Generac Holdings, GlaxoSmithKline, Herbalife Nutrition, Host Hotels, Hudson Pacific Properties, Humana, IDEXX Labs, Ingersoll-Rand, Innovative Industrial Properties, IQVIA, Janus Henderson Group, Kraft Heinz, Lemonade, Lincoln National, Magnolia Oil & Gas, Manitowoc, Marathon Oil, Marriott Vacations, Martin Marietta Materials, McKesson, MeridianLink, MetLife, MicroStrategy, Mondelez International, Murphy USA, National Storage Affiliates, Northern Oil & Gas, Norwegian Cruise Line, Nu Skin, Nutrien, Paramount Group, Park Hotels & Resorts, PayPal, Prudential, PTC, Qorvo, Qualcomm, Radian Group, Radware, Rayonier, Revolve Group, Roku, Scotts Miracle-Gro, Service Corp, Silicon Motion, Sinclair Broadcast, SiTime, SolarEdge Technologies, Sturm Ruger, Super Micro Computer, TE Connectivity, Trane, Trimble, Tyler Technologies, Verisk Analytics, Wayfair, Werner Enterprises, Williams Cos, Wingstop, Yum! Brands, Zillow

Thu.

8:30 am Initial jobless claims, U.S. productivity, unit-labor costs
10:00 am Factory orders
Earnings 1-800-FLOWERS, ACADIA Pharmaceuticals, ACCO Brands, ACI Worldwide, ADT, ATI, Allegiant Travel, Allegro Microsystems, American Electric Power Company, American Homes 4 Rent, Apple, Aptiv, Arrow Electronics, Atlassian, Autohome, Avient, Ball Corp, Bausch Health, Baxter, Bill.com, Block, Booking Holdings, BorgWarner, Canadian Natural Resources, Cars.com, Cheniere Energy, Chuy's, Cirrus Logic, Clearway Energy, Cohu, Con Edison, ConocoPhillips, Crocs, CubeSmart, Cummins, CyberArk Software, DigitalOcean, DMC Global, DraftKings, Dropbox, Duke Energy, El Pollo Loco, Eli Lilly, Entegris, EOG Resources, Evolent Health, Exelon, Expedia Group, Ferrari, Five9, Floor & Décor, Fortinet, Fox Corp, Fox Factory Holding, Funko, Gildan Activewear, GoDaddy, Haemonetics, Helios Technologies, Holly Energy Partners, Howmet Aerospace, Huntington Ingalls, Horace Mann, Huron Consulting, Hyatt Hotels, IdaCorp, Intercontinental Exchange, InterDigital, Ionis Pharmaceuticals, Iron Mountain, ITT, Kellanova, Knowles, Lamar Advertising, Live Nation, Marriott, MasTec, Mercer International, Mister Car Wash, Moderna, Molson Coors Brewing, Motorola Solutions, MP Materials, Murphy Oil, NRG Energy, OGE Energy, Omnicell, Organon, Palantir Technologies, Papa John's, Paramount Global, Parker-Hannifin, Paylocity, Peloton Interactive, PENN Entertainment, Pinnacle West, Pioneer Natural Resources, Pitney Bowes, Portillo's, PPL Corp, Qualys, Quanta Services, RE/MAX Holdings, Reinsurance Group of America, Ryan Specialty Group, S&P Global, SBA Communications, Sealed Air, Shake Shack, Shopify, Skyworks Solutions, Southern, Southwestern Energy, Spirit Realty Capital, SPX Corp, Starbucks, Stryker, Sweetgreen, Tempur Sealy International, Trinity Industries, Universal Display, Ventas, Virtu Financial, Wendy's, Westlake, WW, Yelp, Zoetis

Fri.

8:30 am U.S. nonfarm payrolls, unemployments rate
9:45 am U.S. services PMI
10:00 am ISM services
Earnings AMC Networks, American Axle, Bloomin' Brands, Brookfield Renewable Partners, Cardinal Health, Cboe Global Markets, Church & Dwight, Cinemark, Dominion Energy, Fluor, Gartner, GrafTech International, Healthcare Realty, Koppers Holdings, Physicians Realty Trust, Plains All American, Protolabs, Scripps, Semptra Energy, Telus, U.S. Silica, W.P. Carey

Source: MarketWatch/Kiplinger's/CNBC

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