



Week Ahead

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 **Week of November 13, 2023**

Fed Chair Jerome Powell Knocks The Wind Out Of The Sails Of The Strong Equity Rally

Last week, there were a number of Federal Reserve (Fed) speakers making the rounds, sharing their points of view – but the one who impacted the equity market the most was Fed Chair Jerome Powell. .

He came out with unexpectedly hawkish comments. It appears that he wants to damp down any expectations that the Fed is done raising rates, as the market is already pricing in rate cuts beginning in May of next year. He pulled out his favorite phrase from former Fed Chair Paul Volcker, that the Fed will be “Keeping At It.” He said if there was strong economic growth, it might warrant a response and, if it becomes appropriate to tighten policy, the Fed will do so. He also highlighted that inflation remains well above the Fed’s target of 2%, and that the labor market is tight. Based on Powell’s comments, the stock market – which was on a record winning streak – began to give up some of its recent gains. But the S&P 500 shrugged this off last Friday, breaking above key resistance of 4400 and closing at 4415.

Yields also spiked as last Thursday’s 30-year Treasury auction did not go well. On top of that, there was a disruption in the Treasury auction as a ransomware attack took place against the U.S. unit of the Industrial & Commercial Bank of China (ICBC). While there was no disruption in settlements, it appears this did affect the liquidity of the market. More information is expected as they investigate this attack.

As for the spike in yields and sell-off in the equity market, this is just part of the volatility of both markets. It would not be surprising to get a brief pullback in the equity market, as the recent rally has created an overbought reading near term. The month of November historically is the strongest with the returns coming early in the month, then a pause or correction, and finally, a strong finish.

Buying Power Still Available For Year-End Rally

The Bank of America Bull & Bear tactical market indicator shows a strong buy signal. One strong factor is the amount of cash available for future buying power. *We are still buyers of this equity market and believe the November rally goes into December and possibly January.*

Strong Buy Signal For Equities

Chart 1: BofA Bull & Bear Indicator
Down to 1.4 from 1.5



Source: BofA Global Investment Strategy
The indicator identified above as the BofA Bull & Bear Indicator is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. This indicator was not created to act as a benchmark.

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Source: Bank of America, November 4, 2023

Stocks Have Had More Bear Corrections Than Normal

The S&P 500 has had three Bear markets within a five-year period, which, based on history, represents excessive price adjustment. A Bear market is defined by being down 20% or more. The normal number of Bear corrections is 1 every 3 to 4 years. There was a Bear in 2018, 2020 and 2022, and recently the S&P 500 was down 10%. Based on price only, this market is not extended. *We remain Bulls and believe this market is still in a secular Bull market that will achieve new highs next year.*

S&P 500 Bear Corrections In 2018, 2020, 2022 And Correction In 2023



Source: Bloomberg, November 7, 2023

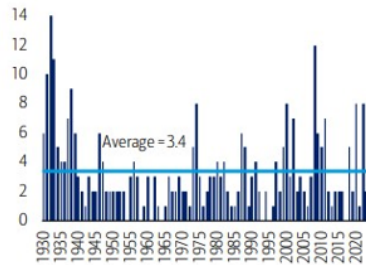
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Historical Patterns Of Market Corrections And Bear Markets

Pullbacks are normal, time is on your side for equities

Exhibit 48: 5%+ pullbacks occur more than three times a year on average

of 5%+ pullbacks on the S&P 500 since 1930

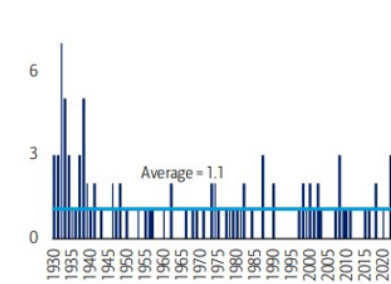


Source: BofA US Equity & Quant Strategy, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 49: 10%+ corrections occur once a year on average

of 10%+ pullbacks on the S&P 500 since 1930

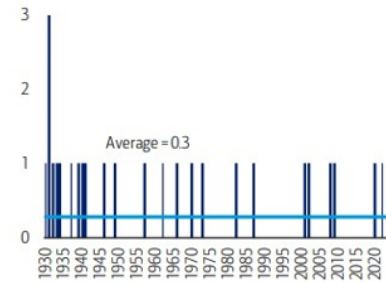


Source: BofA US Equity & Quant Strategy, Bloomberg

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Exhibit 50: 20%+ pullbacks occur every 3-4 years on average

of 20%+ pullbacks on the S&P 500 since 1930



Source: BofA US Equity & Quant Strategy, Bloomberg

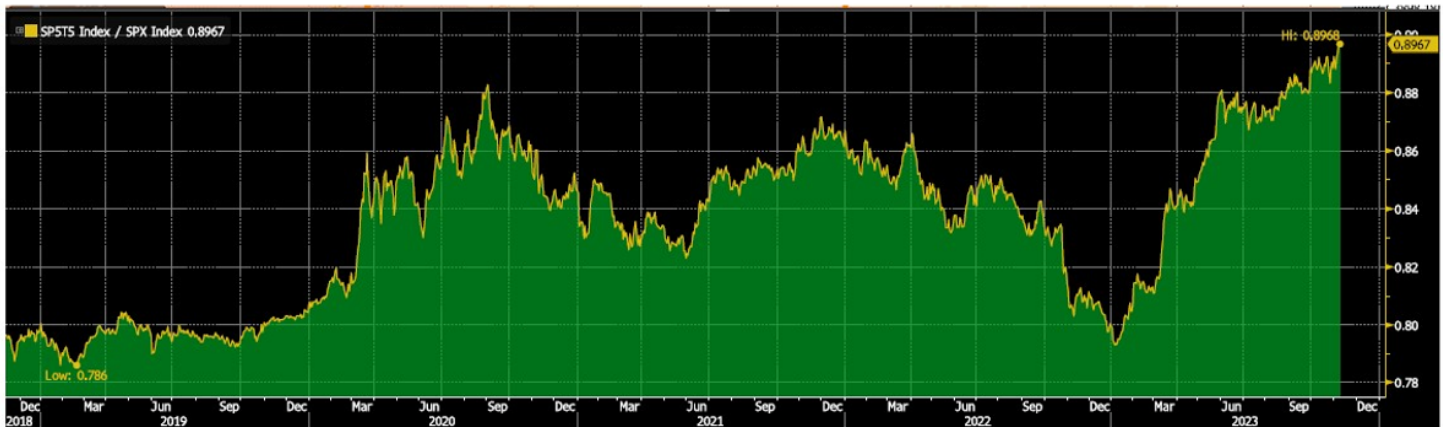
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Source: Bank of America, November 2023

Mega Cap Stocks Leading The Rally

Looking at the S&P 500 Top 50 relative to S&P 500, there was a breakout to new record highs. *Mega Caps remain the market leaders.*

S&P 500 Top 50 Moves To Record High Relative To S&P 500



Source: Bloomberg, November 10, 2023

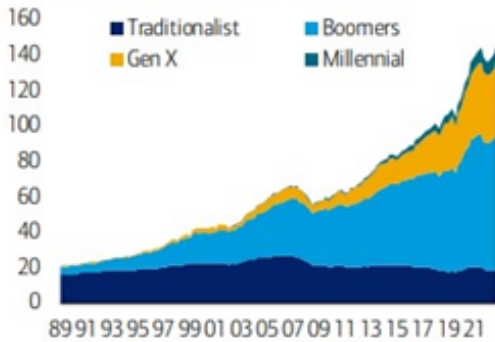
Will Santa Be Delivering Presents?

There is a lot of concern that the consumer is spending down savings and adding to credit. But what about their overall net worth (which is a good predictor of consumer spending)? Consumer net worth is at a record all-time high. The majority of the wealth is with Baby Boomers. With interest rates at 5%, many are *earning cash on their cash* for the first time in 16 years. We believe Santa will be delivering presents this year!

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Household Net Worth At All-Time Record

Exhibit 35: Household net worth = \$146T (540% of GDP)
Boomers + Traditionalists = 2/3 of total net worth
Higher rates = higher interest income for older generations
Household net worth by generation (1989-2Q23)



Source: Haver Analytics, BofA US Equity & Quant Strategy

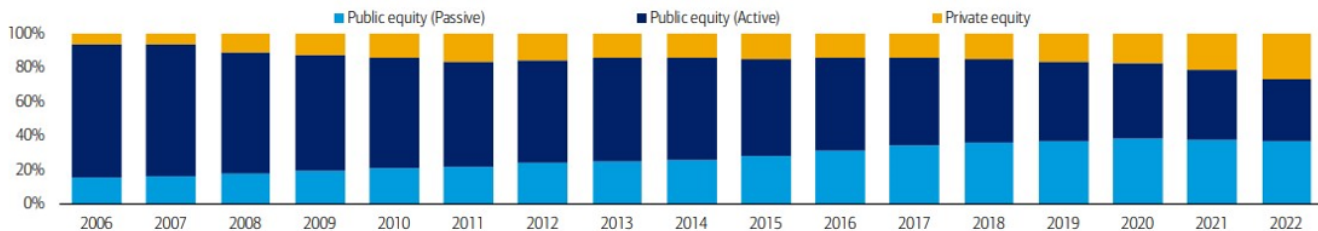
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Pension Asset Allocation Model Shifting To The Wealth Management World

Over the past 16 years, pension asset allocations have shifted significantly away from public active equities to passive public equities, but more importantly, to the private equity markets as well. This new asset allocation approach for pension funds is now drifting to the wealth management industry as the private markets have democratized the asset class, making it available to the individual investor with better liquidity options. This appears to be a secular shift to the industry where passive investing and private markets will continue to grow within the individual asset allocation portfolio.

New equity barbell: passive and private

Exhibit 40: Active public equity supplanted by passive & private equity
Pension allocation: Public equity (Active)*, Public equity (Passive)*, Private Equity as a % of total equity



Source: Pensions & Investments, Strategic Insights, SimFund, BofA US Equity & US Quant Strategy. Based on US pension funds within the top 1000 that have available asset allocations. Total equity includes public equity (global, international, and domestic) and private equity. *We make assumptions on mix shift based on SimFund US AUM tracked in passive vs active.

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Source: Bank of America, October 2023

All Eyes Wide Open After Moody's Moves U.S. Credit Outlook to Negative with Government Shutdown Looming Large

This week we'll see a parade of economic data and political positioning against a backdrop of inflation worrying.

We'll feast on Core CPI and Core PPI (Consumer Price Index and Producer Price Index) data this week, and retail sales will tell us about consumers' appetite as they head towards holiday shopping. But overshadowing the economic crystal ball gazing are three specters. First is the looming threat of a government shutdown. Will Washington take definitive budget action by the November 17 deadline? Or will they continue to "kick the can," and push us out to another interim deadline? The second is last Friday's action by Moody's to move the U.S. Credit rating to negative right before the risk of a government shutdown. The third shadow is the December Fed meeting, when the next interest rate decision will be made. Another pause? Another hike? Powell will keep everyone guessing.

Just remember historically a government shutdown has a limited impact on the equity and bond markets. Moody's credit outlook move to negative puts pressure on Congress not to kick the can down the road again. Should a debt downgrade occur, we would expect some negative reaction to interest rates and stocks. Let's hope we don't go down this road. Meanwhile, we have a Fed that is totally data dependent. We will get to see the numbers this week that will influence the next Fed meeting in December. We are ready for the ride.



Calendar

Mon.

8:50 am Fed Governor Lisa Cook speaks
 2:00 pm Monthly U.S. federal budget
 Earnings AECOM, Fortrea, Genius Sports, Harrow, Henry Schein, Monday.com, The Beauty Health Company, Sun Life, Tower Semiconductor, Tyson Foods

Tue.

3:00 am New York Fed President John Williams speaks
 5:30 am Fed Vice Chair Philip Jefferson speaks
 6:00 am NFIB optimism index
 8:30 am Consumer price index
 10:00 am Fed Vice Chair for Supervision Michael Barr testifies to Senate panel
 12:45 pm Chicago Fed President Austan Goolsbee speaks
 Earnings Alcon, Aramark, CAE, Canadian Solar, Energizer, Home Depot, HUYA, IHS Holding Limited, Oaktree Specialty Lending, On, Paysafe, Sally Beauty, Sea Ltd., Tencent Music, Varex Imaging, Vipshop, WalkMe

Wed.

8:30 am Producer price index, Core PPI, U.S. retail sales, Empire State manufacturing survey
 9:25 am New York Fed President John Williams speaks
 10:00 am Business inventories, Fed Vice Chair for Supervision Michael Barr testifies to House panel
 3:30 pm Richmond Fed President Tom Barkin speaks
 Earnings Advance Auto Parts, Catalent, Cisco Systems, Copa Holdings, Endava, Hillenbrand, J&J Snack Foods, JD.com, Kulicke & Soffa, Palo Alto Networks, Sonos, Target, Tetra Tech, TJX

Thu.

7:10 am Fed Vice Chair for Supervision Michael Barr speaks
 8:30 am Initial jobless claims, Import price index, Philadelphia Fed manufacturing survey, Cleveland Fed President Loretta Mester speaks
 9:15 am Industrial production
 9:15 am Capacity utilization
 9:25 am New York Fed President John Williams speaks
 10:00 am Home builder confidence index
 10:30 am Fed Governor Christopher Waller speaks
 10:35 am Fed Vice Chair for Supervision Michael Barr speaks
 12:00 pm Fed Governor Lisa Cook speaks
 Earnings Alibaba Group Holding, Applied Materials, Bath & Body Works, Beazer Homes, Berry Global, Borr Drilling, Brady, BrightView, Dolby Labs, Dole, Gap, Macy's, Post, Ross Stores, Shoe Carnival, Stratasys, UGI Corp, Warner Music Group, ZTO Express

8:30 am Housing starts, Building permits
 8:45 am Boston Fed President Susan Collins speaks
 9:45 am Fed Vice Chair for Supervision Michael Barr speaks, Chicago Fed President Goolsbee speaks
 10:00 am San Francisco Fed President Daly speaks
 10:15 am Boston Fed President Susan Collins TV appearance
 Earnings BJ's Wholesale, Buckle, Spectrum Brands, Twist Bioscience

Fri.

Source: MarketWatch/Kiplinger's/CNBC

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