



Week Ahead

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Week of November 27, 2023

It's All About Interest Rates

The S&P 500 has been tracking the direction of the 10-year Treasury yields. So, what is the next move in rates?

In the chart below, we look at the 10-year yield, which has fallen sharply from 5% to 4.4%. The yield came down to test the 100-day moving average near 4.3% and held. The rate is oversold and can rally up to test the 50-day moving average near 4.6%. We expect this will put pressure on equities, which are very overbought near-term and into important resistance near 4550-5000 on the S&P 500. The VIX volatility index also confirms that a pullback can occur as it has fallen sharply and is very oversold. *But we would view any pullback as a buying opportunity as we are expecting the S&P 500 to track up to 5200-5400 in 2024. Volatility brings opportunities.*

10-Year Treasury Yield With Moving Averages: Yields Could Move Higher Near-Terms



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S&P 500 With Daily Stochastic: Readings Are Very Overbought



VIX Volatility Index With Daily Stochastic: Oversold And Can Spike Higher



Positioning Is Bearish So Investors Will Be Bucking The Bull In Equities

Historically, when you are invested with the crowd, the opposite happens. This is called “contrarian investing.” When we look at positioning, we see that stocks are positioned bearishly. So, we believe investors will be bucking the Bull in equities as we enter 2024. Mutual Funds have a higher-than-normal cash level, which is a defensive position, and this cash can be deployed into the equities market. Examining the level of investment risk, mutual funds are biased defensively, positioned in Low Beta stocks, which have lower volatility to the market. Positioning is the lowest in a decade. And importantly, Wall Street strategists still have a low allocation to equities with levels just off a six-year low. So, the contrarian call is to have a bullish bias toward equities.

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Mutual Funds Still Have High Levels Of Cash

Cash as a % of US large cap fund AUM



Source: BofA US Equity & Quant Strategy, FactSet Ownership
BofA GLOBAL RESEARCH

Source: Bank of America, November 21, 2023

More Defensively Positioned In Low Beta vs. High Beta

LO relative weight in High (top decile S&P 500) vs. Low Beta



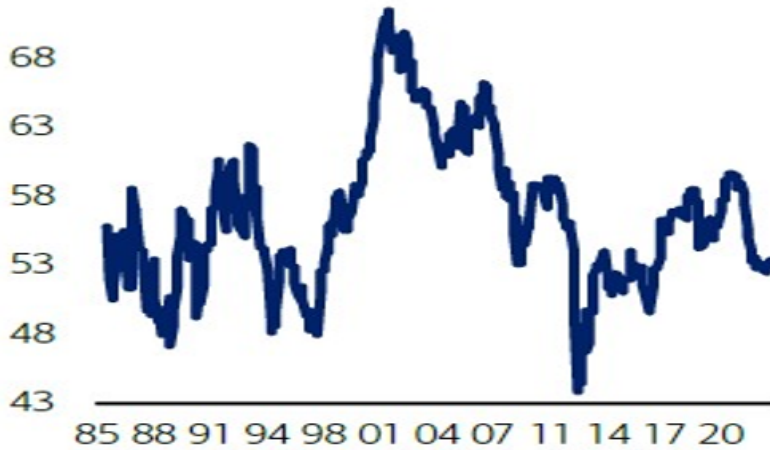
Source: BofA US Equity & US Quant Strategy, FactSet Ownership

BofA GLOBAL RESEARCH

Source: Bank of America, November 21, 2023

Wall Street Strategists Still Recommending Low Allocation To Equities: A Contrarian Bullish Signal

Average recommended allocation to stocks by Wall Street strategists (1985-10/2023)



Source: BofA US Equity & Quant Strategy
BofA GLOBAL RESEARCH

Source: Bank of America, November 23, 2023

3Q Earnings Calls Had Lower Recession & Inflation Comments

Earnings are important, and we look at a trend in the mentions of “recession” and “inflation” made by corporate management during 3Q earnings comments. According to FactSet, there has been a collapse in recession comments and a sharp fall in inflation comments. As the S&P 500 earnings growth rate appears to have troughed, we believe earnings have troughed as well. We also believe that earnings can begin to expand in 2024. Earnings will remain scarce, which favors Growth companies.

Earnings Growth Rate Should Expand In 2024

S&P 500 earnings breadth & quarterly EPS growth YoY (2002-3Q23)



Source: BofA US Equity & Quant Strategy, FactSet

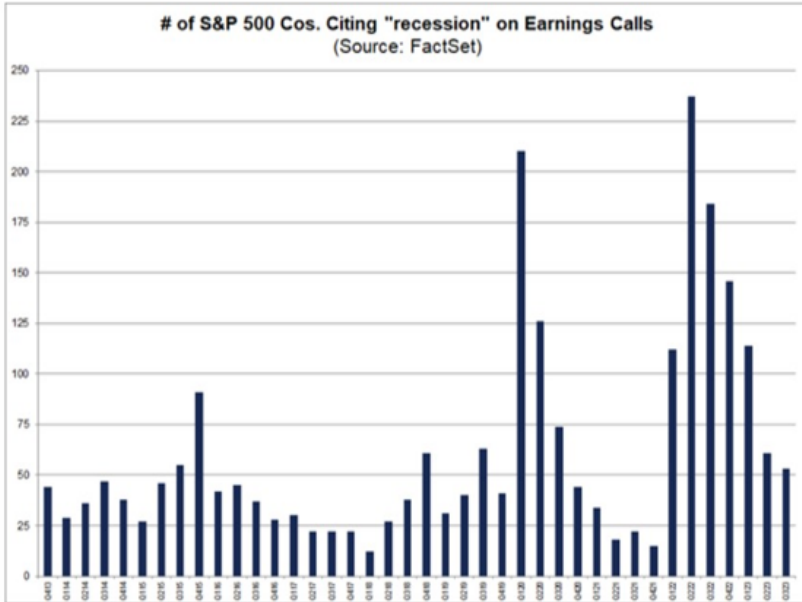
BofA GLOBAL RESEARCH

Source: Bank of America, November 23, 2023



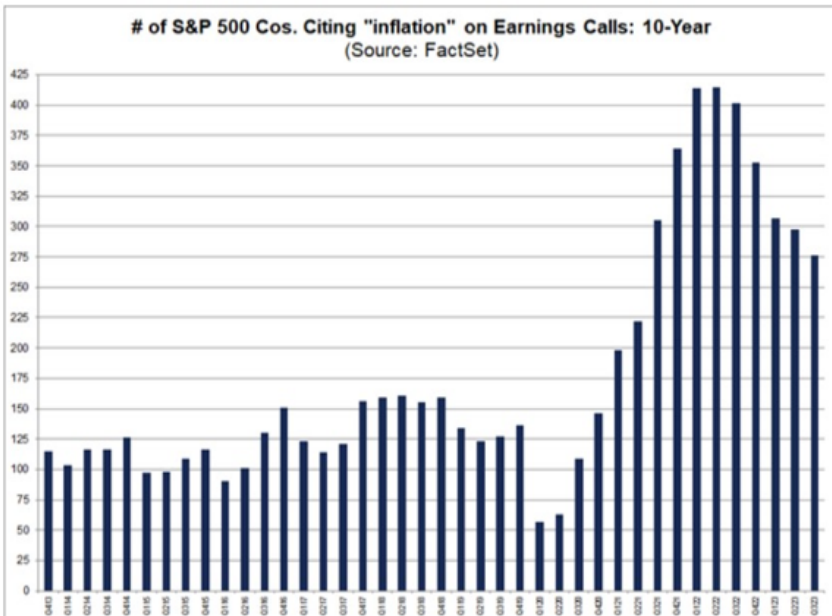
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3Q Earnings Calls Comments About Recession Collapse



Source: FactSet, November 20, 2023

3Q Earnings Call Comments About Inflation Fall Sharply



Source: FactSet, November 20, 2023

Positioning

As we move into year-end, it is important to review your portfolio and consider any rebalancing that might be needed to adjust for tax losses. We recommend positioning for what we believe will be the Bucking Bull Market for stocks and bonds in 2024. We remain positive on Mega Cap versus Small Cap, though we are expecting a rally in small caps that can be sizable. So, we would rent Small Caps, but buy Big Caps. We favor Growth over Value and Cyclical over Defensives. We like the fixed income market and would consider adding to duration. We favor Treasuries, Investment Grade, and Municipals. Importantly, High Yield is also holding important levels. Investors who can take on more risk might also consider High Yield. Importantly, overall, we still recommend Quality investments.



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Market Performance

	Last 11/24/2023	Month End 10/31/2023	Month to Date	Quarter End 9/29/2023	Quarter to Date	Year End 12/30/2022	Year To Date	Year Ago 11/24/2022	Year To Year
S&P 500	4559.34	4193.80	8.7%	4288.05	6.3%	3839.50	18.7%	4027.28	13.2%
NASDAQ Composite	14250.85	12851.24	10.9%	13219.32	7.8%	10466.48	36.2%	11265.32	26.3%
NASDAQ 100	389.51	350.87	11.0%	358.27	8.7%	266.28	46.3%	288.82	34.9%
Russell 2000	1807.50	1662.28	8.7%	1785.10	1.3%	1761.25	2.6%	1863.52	-3.0%
S&P Consumer Discretionary Sector	1334.14	1207.03	10.5%	1264.00	5.5%	1005.48	32.7%	1106.37	20.6%
S&P Consumer Staples Sector	742.94	717.39	3.6%	727.36	2.1%	779.13	-4.6%	794.68	-6.5%
S&P Energy Sector	645.08	652.01	-1.1%	694.19	-7.1%	672.34	-4.1%	703.13	-8.3%
S&P Financial Sector	587.20	537.67	9.2%	552.16	6.3%	569.74	3.1%	596.95	-1.6%
S&P Health Care Sector	1525.24	1451.16	5.1%	1501.22	1.6%	1585.54	-3.8%	1585.78	-3.8%
S&P Industrials Sector	897.85	832.11	7.9%	857.57	4.7%	831.40	8.0%	851.70	5.4%
S&P Information Technology Sector	3267.66	2903.54	12.5%	2905.56	12.5%	2172.17	50.4%	2345.86	39.3%
S&P Materials Sector	509.76	478.64	6.5%	494.54	3.1%	489.55	4.1%	517.93	-1.6%
S&P Real Estate Sector	227.39	207.55	9.6%	213.82	6.3%	232.37	-2.1%	241.43	-5.8%
S&P Communications Sector	240.22	217.76	10.3%	222.21	8.1%	159.37	50.7%	169.18	42.0%
S&P Utilities Sector	316.50	302.87	4.5%	299.20	5.8%	358.48	-11.7%	356.44	-11.2%
S&P 500 Total Return	9855.84	9052.31	8.9%	9246.74	6.6%	8178.02	20.5%	8562.28	15.1%
3 month Treasury Bill Price	98.65	98.63	0.0%	98.63	0.0%	98.90	-0.3%	98.94	-0.3%
3 month Treasury Bill Total Return	242.70	241.76	0.4%	240.68	0.8%	232.09	4.6%	231.07	5.0%
10 Year Treasury Bond Future	108.39	106.17	2.1%	108.06	0.3%	112.30	-3.5%	112.95	-4.0%
10 Year Treasury Note Total Return	281.91	275.17	2.4%	278.73	1.1%	263.28	-0.5%	264.38	-0.9%
iShares 20+ Year Treasury Bond ETF	89.80	83.58	7.4%	88.69	1.3%	99.56	-9.8%	103.25	-13.0%
S&P Municipal Bond Total Return	263.20	251.78	4.5%	254.67	3.3%	257.42	2.2%	255.60	3.0%
iShares S&P National Municipal Bond NAV	105.27	101.05	4.2%	102.31	2.9%	105.23	0.0%	105.09	0.2%
S&P 500 Investment Grade Corporate Bond Total Return	431.67	413.90	4.3%	422.07	2.3%	421.24	2.5%	422.94	2.1%
S&P Investment Grade Corporate Bond	87.84	84.50	3.9%	86.28	1.8%	88.23	-0.4%	88.73	-1.0%
S&P Investment Grade Corporate Bond Total Return	459.94	441.35	4.2%	448.92	2.5%	445.34	3.3%	446.00	3.1%
SPDR Bloomberg High Yield Bond ETF	91.87	88.92	3.3%	90.40	1.6%	90.00	2.1%	92.16	-0.3%
iShares iBoxx High Yield Corporate Bond ETF	75.00	72.57	3.3%	73.72	1.7%	73.63	1.9%	75.16	-0.2%
Gold	2000.82	1983.88	0.9%	1848.63	8.2%	1824.02	9.7%	1755.24	14.0%
Bitcoin	37858.25	34650.56	9.3%	26903.18	40.7%	16579.06	128.3%	16543.55	128.8%

Source: Sanctuary Wealth, Bloomberg, November 25, 2023

All Ears Open For Fed Governor Comments And All Eyes On All-Important Core PCE

This is the week we listen for hints of whether the Fed will stay on hold in December.

The Federal Open Market Committee (FOMC) won't meet until December 12-13, but we'll be paying attention to the many Fed Governors speaking this week. Plus, we get the all-important Core PCE (Personal Consumption Expenditures Price Index) inflation data on which the Fed puts a lot of weight. If we get a higher-than-expected PCE number on Thursday, we might see 10-year Treasury yields rise again, which would put pressure on equities. This represents the biggest risk to the market this week, with its impact trickling into December.

Other economic reports of importance this week are the Leading Economic Indicator (LEI), data on how the consumer is spending, and ISM Manufacturing data.



Calendar

Mon.

10:00 am New home sales
Earnings Cerence, Zscaler

Tue.

9:00 am S&P Case-Shiller home price index (20 cities)
10:00 am Consumer confidence
10:00 am Fed Gov. Christopher Waller speaks
10:00 am Chicago Fed President Austan Goolsbee speaks
10:45 am Fed Governor Michelle Bowman speaks
1:05 pm Fed Governor Michael Barr speaks
3:30 pm Fed Governor Michael Barr speaks
Earnings AZEK, Bank of Montreal, CrowdStrike, Hewlett Packard Enterprise, Intuit, Leslie's, NetApp, Pinduoduo, Splunk, Workday

Wed.

8:30 am GDP (first revision)
8:30 am Advanced U.S. trade balance in goods
1:45 am Cleveland Fed President Loretta Mester speaks
2:00 pm Fed Beige Book
Earnings Arrowhead, Bilibili, Credo Technology Group, Dollar Tree, Donaldson, Farfetch, Five Below, Foot Locker, Hormel Foods, La-Z-Boy, Nutanix, Okta, Patterson Companies, Petco Health and Wellness, PVH, Salesforce, Snowflake, Synopsys, Vestis, Victoria's Secret, Zuora

Thu.

8:30 am Initial jobless claims, Personal income (nominal), Personal spending (nominal), PCE index
9:05 am New York Fed President John Williams speaks
9:45 am Chicago Business Barometer (PMI)
10:00 am Pending home sales
Earnings Academy Sports + Outdoors, ASO, Ambarella, American Woodmark, Big Lots, Cracker Barrel, Dell, Domo, Frontline, Kroger, PagerDuty, Royal Bank of Canada, Titan Machinery, Toronto-Dominion Bank, UBS AG, UiPath, Ulta Beauty, Zumiez

Fri.

3:00 am Fed Governor Michael Barr speaks
10:00 am ISM manufacturing, Construction spending, Chicago Fed President Austan Goolsbee speaks
11:00 am Fed Chair Jerome Powell speaks
2:00 pm Fed Chair Jerome Powell and Fed Governor Lisa Cook talk to local leaders in Atlanta
TBA Auto sales
Earnings Genesco

Source: MarketWatch/Kiplinger's/CNBC

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