The Longo Group
Independent Financial Firm

# Week Ahead

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**Week of December 18, 2023**

## Wow! An Early Holiday Present For Investors As The Fed Signals Rate Hikes Are Done

### In a move that surprised the markets last week, Chair Jerome Powell said in his news conference, "We believe that we are likely at or near the peak rate for this cycle."

This comment came after the FOMC decision to hold rates flat. On top of that came the FOMC Dot Plot forecasting three interest rate cuts in 2024 for a total of 75 basis points. (The Dot Plot, published quarterly, reveals where the 7 Fed Board Governors and 12 regional bank presidents believe the Federal Funds rate should be in the future.) However, the market has already priced in a more aggressive rate cut for a total of 100 basis points, targeting a Fed Funds rate near 4.25%. In related news, the Fed also lowered its forecast for the Core Price Consumption Expenditure (PCE) to 3.2% from 3.7%.

Despite overbought conditions in equities, stocks surged on this bullish news – and despite rates being so oversold, interest rates across the curve collapsed. With year-end looming, investors scrambled to get investment exposure and portfolio managers "window dressed" their portfolios to make their holdings attractive to their clients.

## Fixed Income: From The Bucking Bull To Running With The Bulls

The 10-Year Treasury yield has collapsed from 5.0% to 3.9% in such speed that the plummet was a shock to investors. With traders very short this Treasury note and the Fed signaling rate cuts next year, there was a race to close out short positions, forcing yields down sharply. So, what's next? Since we're just days away from closing the books for 2023, it is unlikely rates will backup much from here. The break of the trendline does signal lower rates as we move into 2024. The next level of support is near 3.2%. We do believe that, before this bullish rate cycle is completed, it is possible that rates could fall to 2.5%. But a backup to 4.1%-4.2%, near the trendline, should occur before we reach new lows for this cycle.

As for the 2-Year Treasury yield, two important trendlines have been broken, pointing to lower rates into 2024. Over the coming months, the 2-Year Treasury yield can fall to the range of 4.0%-3.5%. But a backup in rates could also occur to test the breakdown level near 5.0%. So, expect the Bucking Bull to impact the rates markets as we enter 2024.

## Week of December 18, 2023

### 10-Year Treasury Yield Breaks Below Trendline Pointing To Lower Rates Ahead


### 2-Year Yield Breaks Trend And Falls Sharply – Lower Rates Expected Into 2024

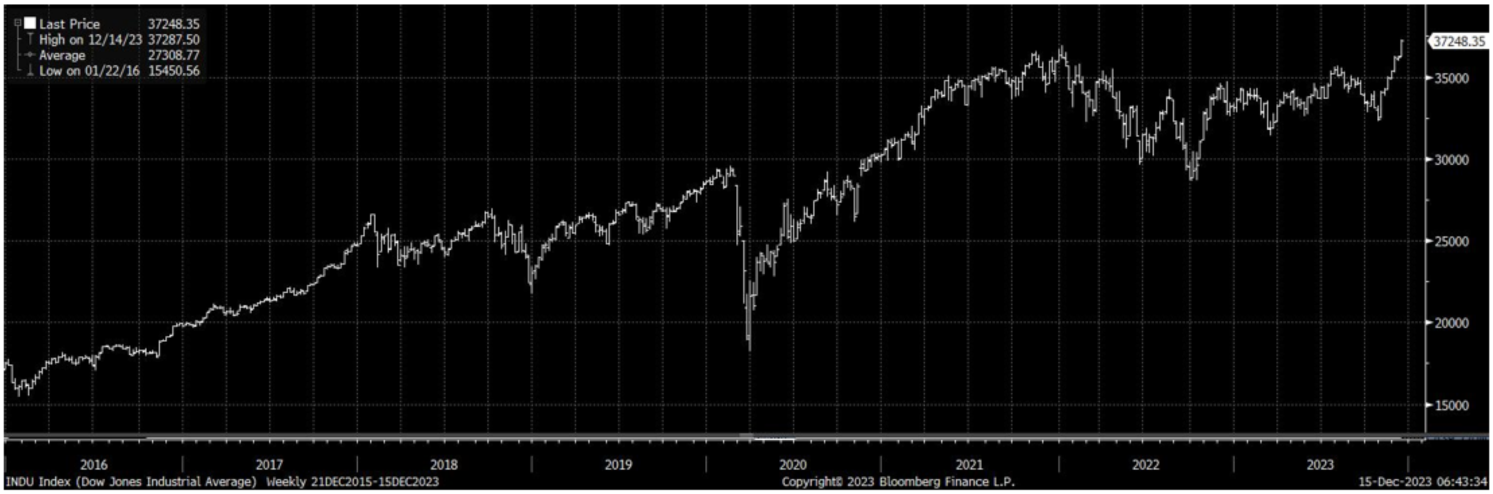

### Stocks Surge; DJIA Hits Record All-Time High; A Broadening Of Stocks Participating

Equities love a lower interest rate environment, and with the Fed's surprise pivot to lowering rates in 2024, stocks surged. The standout reaction among the indexes was the Dow Jones Industrial Average (DJIA), which has lagged in returns this year, rose to reach a new record all-time high last week. The rally is having a broadening out of the number of stocks participating, confirming the strength of this move. The Bloomberg Cumulative S&P 500 advance-decline line reached a record all-time high, again confirming this rally has legs and can continue into 2024.

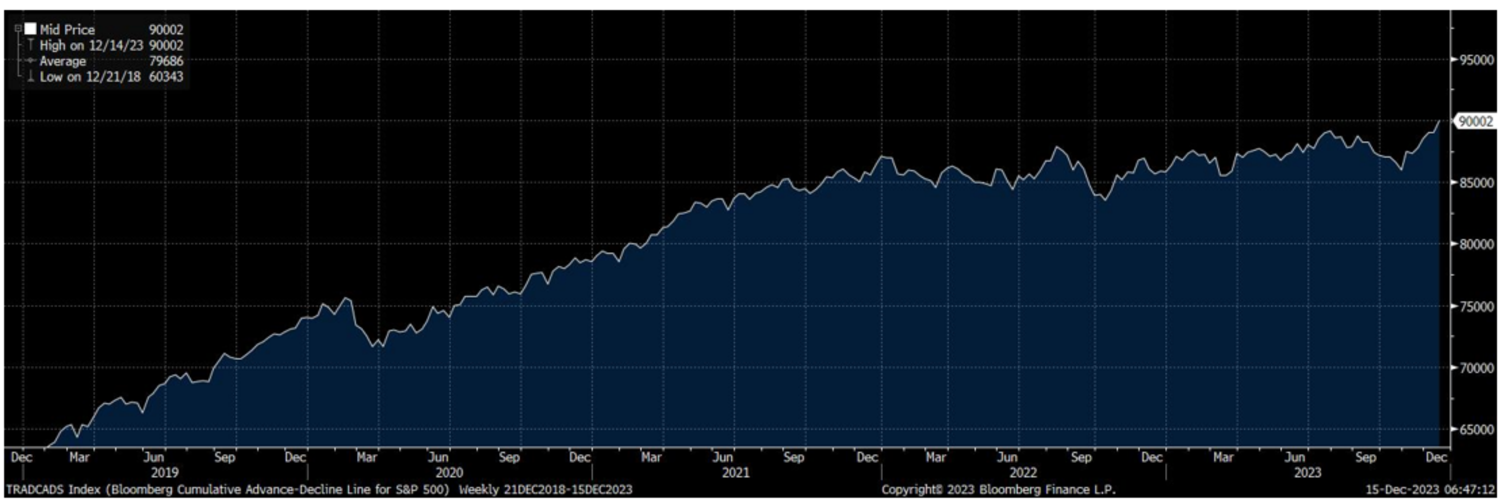
*With both bonds and stocks having such strong moves into the end of the year, it does raise the risk that the first quarter of 2024 has volatility and markets temporarily take a pause.*

## Week of December 18, 2023

### Dow Jones Industrial Average Hits Record All-Time High




### Bloomberg Cumulative S&P 500 Advance-Decline Line Hits Record All-Time High



## Week of December 18, 2023

### Interest Rate Sensitive Sectors Utilities & Real Estate To Benefit From Lower Rates

Utilities and Real Estate both have the best monthly stochastic reading since 2008-2009. These sectors benefit from a lower interest rate environment.

### Dow Jones Utilities Index With 14-Month Stochastic Nearing A Buy Signal


### S&P 500 Real Estate Index With 14-Month Stochastic Near A Buy Signal


### Small Caps: Rent But Don't Own

Small Caps, which had been down in 2023, have gotten an early jump on their seasonal "January Effect" rally, as we noted back in early November. This rally can be sustained in a lower interest rate environment. The iShares Russell 2000 ETF (IWM) has rallied sharply off the low already, but a break of resistance (yellow line in accompanying chart) would point to a rally into resistance near the level of 220. *We still believe that Mega Cap/Large Cap Growth stocks remain the leaders of the market, so we want to "rent" Small Caps and not own them.*

## Week of December 18, 2023

### iShares Russell 2000 ETF (IWM) – Break Of Resistance Points To A Test of 220 Resistance Level


### Industrials Break to Record All-Time High – A Favored Cyclical Sector

Industrials – a sector we had anointed as "emerging leadership" – broke out last week to a record all-time high. Lower rates will also benefit this sector. Importantly, the Moving Average Convergence/Divergence price momentum indicator gave a weekly buy signal. We continue to favor this sector going into 2024.

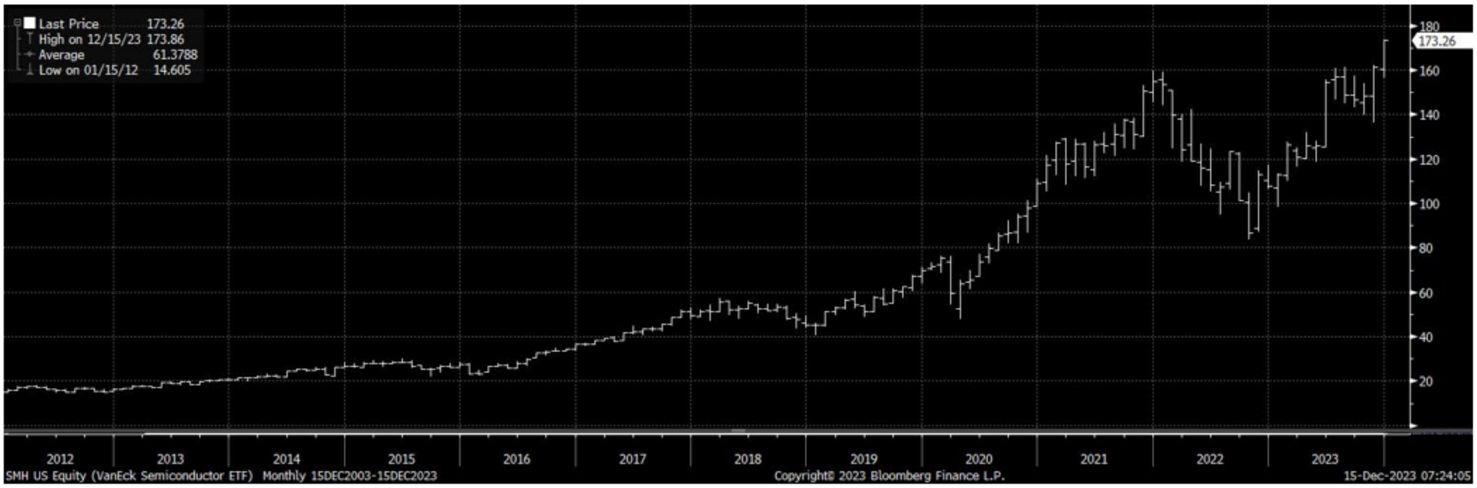
### Industrials Break Out To Record All-Time High With Weekly MACD Buy Signal


### Semiconductors Hit Record All-Time High, Remain Leaders

Semiconductors have been a favorite sector and remains so going into 2024. The VanEck Semiconductor ETF (SMH) also broke out of a significant base to a record all-time high, pointing to significant gains that should occur in 2024. *Semiconductors remain leadership in the market entering 2024.*

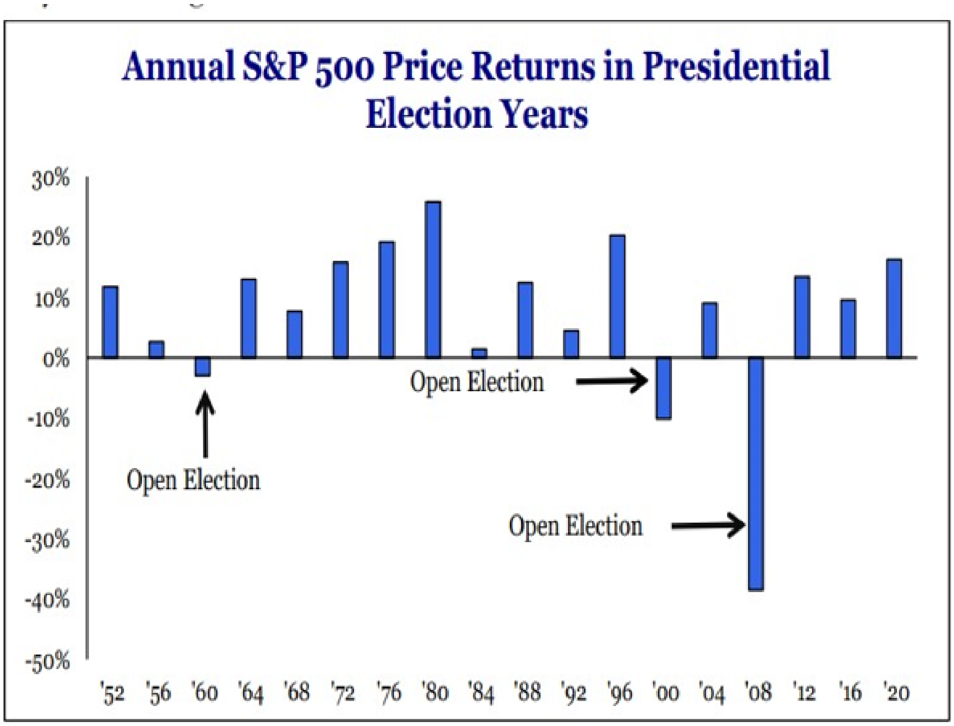
## Week of December 18, 2023

### VanEck Semiconductor ETF (SMH): Big Base Breakout to Record Highs




### Remember: The Presidential Cycle is Bullish For Incumbent Presidential Re-Election

*These points are worth reiterating from our "2024 Year Ahead Outlook"*: According to Strategas, since 1952, the S&P 500 has not declined in a year in which an incumbent president was running for re-election. Stocks have declined in presidential election years, but in each of those cases, it was a year in which there was an open election with no incumbent running (1960, 2000, and 2008). This makes sense, because presidents want to be re-elected and will use whatever policy levers are needed to boost the U.S. economy. In fact, every president who avoided a recession two years before their re-election went on to win election. And every president who had a recession in the two years before their reelection went on to lose. We have noticed that presidents like to prime the pump in the year prior to the presidential election with the hope that the stimulus feeds into the economy in the actual election year. Data demonstrates this. Of the four-year presidential cycle, the best performing year for stocks is Year 3 of a president's term, and real GDP growth is strongest in the presidential election year itself. In the cycles of an incumbent running for re-election (compared to an open election), this effect is stronger for both stocks and growth. Interestingly, the current cycle is matching up nearly perfectly with the historical cycle heading into 2024.



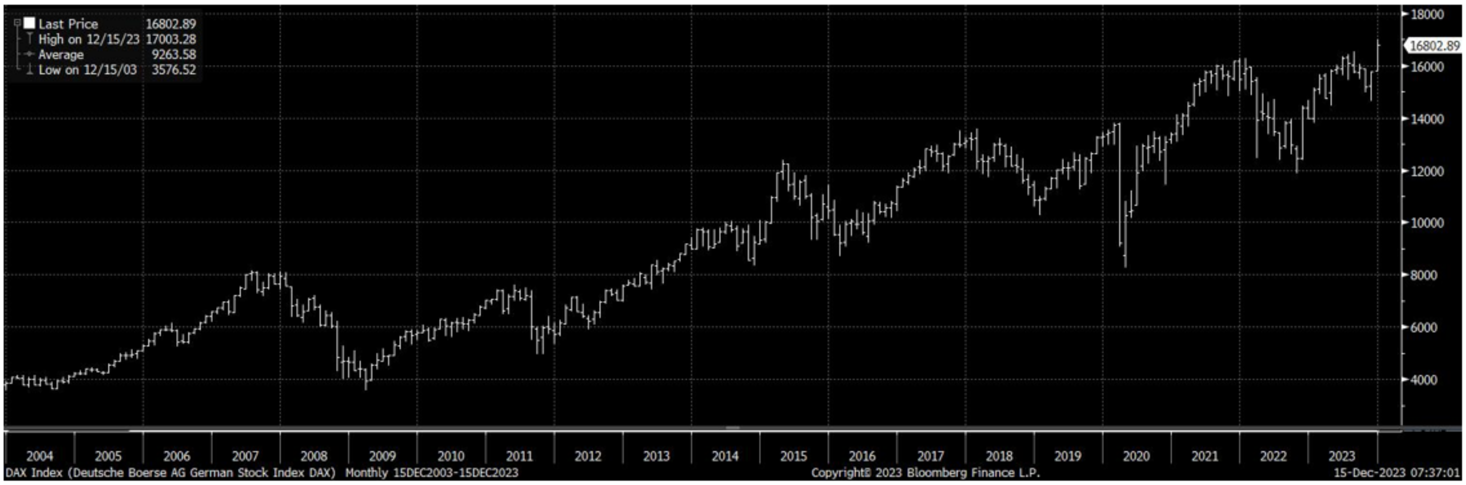

*Source: Strategas, November 6, 2023*

### Week of December 18, 2023

## A Chart That Caught Our Eye: German Dax Index Hitting Record All-Time High

The Dax, Germany's equity market benchmark index, reached a record-all time high – and, surprisingly, it did so at a time when the country's GDP is signaling a possible recession. Not what most investors were likely expecting!

## German Dax Index Hits Record All-Time High As Economy Looks To Be In A Recession




## Market Performance

| | Last 12/15/2023 | Month End 11/30/2023 | Month to Date | Quarter End 9/29/2023 | Quarter to Date | Year End 12/30/2022 | Year To Date | Year Ago 12/15/2022 | Year To Year |
|---|---|---|---|---|---|---|---|---|---|
| **S&P 500** | 4719.19 | 4567.80 | 3.3% | 4288.05 | 10.1% | 3839.50 | 22.9% | 3895.75 | 21.1% |
| **NASDAQ Composite** | 14813.92 | 14226.22 | 4.1% | 13219.32 | 12.1% | 10466.48 | 41.5% | 10810.53 | 37.0% |
| **NASDAQ 100** | 405.34 | 388.83 | 4.2% | 358.27 | 13.1% | 266.28 | 52.2% | 276.89 | 46.4% |
| **Russell 2000** | 1985.13 | 1809.02 | 9.7% | 1785.10 | 11.2% | 1761.25 | 12.7% | 1774.61 | 11.9% |
| **S&P Consumer Discretionary Sector** | 1416.96 | 1336.91 | 6.0% | 1264.00 | 12.1% | 1005.48 | 40.9% | 1058.81 | 33.8% |
| **S&P Consumer Staples Sector** | 749.43 | 744.26 | 0.7% | 727.36 | 3.0% | 779.13 | -3.8% | 782.22 | -4.2% |
| **S&P Energy Sector** | 638.29 | 641.28 | -0.5% | 694.19 | -8.1% | 672.34 | -5.1% | 648.88 | -1.6% |
| **S&P Financial Sector** | 620.17 | 595.09 | 4.2% | 552.16 | 12.3% | 569.74 | 8.9% | 562.23 | 10.3% |
| **S&P Health Care Sector** | 1558.59 | 1527.10 | 2.1% | 1501.22 | 3.8% | 1585.54 | -1.7% | 1598.35 | -2.5% |
| **S&P Industrials Sector** | 951.80 | 902.92 | 5.4% | 857.57 | 11.0% | 831.40 | 14.5% | 830.55 | 14.6% |
| **S&P Information Technology Sector** | 3386.07 | 3273.08 | 3.5% | 2905.56 | 16.5% | 2172.17 | 55.9% | 2249.46 | 50.5% |
| **S&P Materials Sector** | 534.42 | 517.20 | 3.3% | 494.54 | 8.1% | 489.55 | 9.2% | 497.94 | 7.3% |
| **S&P Real Estate Sector** | 249.47 | 233.02 | 7.1% | 213.82 | 16.7% | 232.37 | 7.4% | 240.96 | 3.5% |
| **S&P Communications Sector** | 237.27 | 234.77 | 1.1% | 222.21 | 6.8% | 159.37 | 48.9% | 160.31 | 48.0% |
| **S&P Utilities Sector** | 322.36 | 316.57 | 1.8% | 299.20 | 7.7% | 358.48 | -10.1% | 361.77 | -10.9% |
| **S&P 500 Total Return** | 10213.48 | 9879.02 | 3.4% | 9246.74 | 10.5% | 8178.02 | 24.9% | 8292.64 | 23.2% |
| **3 month Treasury Bill Price** | 98.66 | 98.65 | 0.0% | 98.63 | 0.0% | 98.90 | -0.2% | 98.92 | -0.3% |
| **3 month Treasury Bill Total Return** | 243.45 | 242.84 | 0.3% | 240.68 | 1.2% | 232.09 | 4.9% | 231.65 | 5.1% |
| **10 Year Treasury Bond Future** | 112.41 | 109.80 | 2.4% | 108.06 | 4.0% | 112.30 | 0.1% | 114.70 | -2.0% |
| **10 Year Treasury Note Total Return** | 292.26 | 284.84 | 2.6% | 278.73 | 4.9% | 283.28 | 3.2% | 289.38 | 1.0% |
| **iShares 20+ Year Treasury Bond ETF** | 99.15 | 91.56 | 8.3% | 88.69 | 11.8% | 99.56 | -0.4% | 108.32 | -8.5% |
| **S&P Municipal Bond Total Return** | 271.31 | 266.64 | 1.8% | 254.67 | 6.5% | 257.42 | 5.4% | 259.82 | 4.4% |
| **iShares S&P National Municipal Bond NAV** | 107.82 | 106.63 | 1.1% | 102.31 | 5.4% | 105.23 | 2.5% | 106.12 | 1.6% |
| **S&P 500 Investment Grade Corporate Bond Total Return** | 454.51 | 437.89 | 3.8% | 422.07 | 7.7% | 421.24 | 7.9% | 433.80 | 4.8% |
| **S&P Investment Grade Corporate Bond** | 91.56 | 88.64 | 3.3% | 86.28 | 6.1% | 88.23 | 3.8% | 90.72 | 0.9% |
| **S&P Investment Grade Corporate Bond Total Return** | 480.76 | 464.60 | 3.5% | 448.92 | 7.1% | 445.34 | 8.0% | 457.12 | 5.2% |
| **SPDR Bloomberg High Yield Bond ETF** | 94.64 | 92.68 | 2.1% | 90.40 | 4.7% | 90.00 | 5.2% | 92.30 | 2.5% |
| **iShares iBoxx High Yield Corporate Bond ETF** | 76.93 | 75.71 | 1.6% | 73.72 | 4.4% | 73.63 | 4.5% | 75.00 | 2.6% |
| **Gold** | 2019.62 | 2036.41 | -0.8% | 1848.63 | 9.2% | 1824.02 | 10.7% | 1776.85 | 13.7% |
| **Bitcoin** | 42240.95 | 37750.77 | 11.9% | 26903.18 | 57.0% | 16579.06 | 154.8% | 17399.63 | 142.8% |

*Sources: Bloomberg, Sanctuary Wealth, December 17, 2023*

## Week of December 18, 2023

### Holiday Data Bells To Continue To Ring This Week

**This week offers more ripples from Fed decision and tone – and possible waves from new data during light trading days.**

As we approach year-end, the data releases this week will continue to ring and can have market-moving impact – especially as trading volumes begin to dry up, exacerbating market moves. This week we get the all-important Core PCE (Personal Consumption Expenditures Price Index) along with data on housing, the consumer and manufacturing. The Bucking Bull is gathering steam as we move into year-end and enter 2024.

# Calendar

| | | |
|---|---|---|
| **Mon.** | 10:00 am | Home builder confidence index |
| | Earnings | HEICO |
| **Tue.** | 8:30 am | Housing starts, Building permits |
| | Earnings | Accenture, FactSet, FedEx, FuelCell Energy, Steelcase, Worthington |
| **Wed.** | 8:30 am | U.S. current account |
| | 10:00 am | Existing home sales |
| | Earnings | BlackBerry, General Mills, Toro, MillerKnoll, Winnebago |
| **Thu.** | 8:30 am | Initial jobless claims, GDP Revision, Philadelphia Fed manufacturing survey |
| | 10:00 am | U.S. leading economic indicators |
| | Earnings | AAR Corp, Apogee Enterprises, CarMax, Carnival, Cintas, Mission Produce, Nike, |
| | Paychex | |
| **Fri.** | 8:30 am | Durable-goods orders, Personal Income, Core PCE index |
| | 10:00 am | New home sales, Consumer sentiment (final) |

Source: MarketWatch/Kiplinger's/CNBC



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