



Week Ahead

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Week of January 2, 2024

Thank You, 2023!!! We Welcome 2024 With Open Arms!

In 2023, the Bull ran for stocks, as expected, and (finally!) for the fixed income markets as well. It was simply a spectacular year.

In generations to come, when investors are looking at past returns, they will not nitpick and come up with excuses for why stocks had such a good year. A retro look at the data should prove that earnings troughed and the markets were able to determine when interest rates had peaked. Remember: equity markets discount six months into the future.

So, what should investors expect as we enter 2024? As we glide into the new year, the S&P 500 is just about 49 points (~1%) shy of the intraday all-time high of 4818. Historically, when approaching a record high, the market does not clear that hurdle on the first try. It can take a few attempts. The market short-term is overbought, and now that the market is up sharply, the bulls are starting to show up. So, don't be surprised if the market has a pullback – as much as 5.0%. This Bull will Buck, and it will be easier to ride if you expect the bucking. The MACD (the moving average convergence/divergence trend-following momentum indicator) is still on a buy signal – which gives us confidence the S&P 500 will achieve new record highs this year. So, we remain buyers with the expectation that the S&P 500 to be able to reach 5200–5400 – which would be up 8%-11% from its record high. This is a Presidential Election year, which traditionally is good for the equity market – especially when the incumbent runs. (Run, Joe, run!)

Table of Returns For Core Price Consumption Expenditure

	Nov 2023	Oct 2023	Nov 2022
Core PCE, Year To Year	3.16%	3.39%	5.09%
Core PCE, 6 mo roc	0.93%	1.16%	2.43%
Core PCE, 3 mo roc	0.54%	0.58%	1.09%
Core PCE, 6 mo roc, annualized	1.87%	2.34%	4.92%
Core PCE, 3 mo roc, annualized	2.16%	2.33%	4.45%
PCE excluding food and energy, Year To Year	3.16%	3.39%	5.09%
PCE excluding food and energy, 6 mo roc	0.93%	1.16%	2.43%
PCE excluding food and energy, 3 mo roc	0.54%	0.58%	1.09%
PCE excluding food and energy, 6 mo roc, annualized	1.87%	2.34%	4.92%
PCE excluding food and energy, 3 mo roc, annualized	2.16%	2.33%	4.45%
PCE excluding food, energy, and housing, Year To Year	2.42%	2.66%	4.64%
PCE excluding food, energy, and housing, 6 mo roc	0.53%	0.81%	2.06%
PCE excluding food, energy, and housing, 3 mo roc	0.34%	0.41%	0.88%
PCE excluding food, energy, and housing, 6 mo roc, annualized	1.07%	1.63%	4.16%
PCE excluding food, energy, and housing, 3 mo roc, annualized	1.36%	1.64%	3.56%

Source: Bureau of Economic Analysis, Sanctuary Wealth, December 31, 2023

Week of January 2, 2024

Nasdaq 100 Reaches Record High! MACD On A Buy Signal!

We made the case many years ago that the Nasdaq indices were the "Digital Index of Our Times." Now that artificial intelligence (AI) is taking hold of the global economy, the Nasdaq 100 has already reached a *record all-time high!!!* This is a Leadership Index for the market.

Nasdaq 100 With Moving Average/Convergence Divergence (MACD) On A Buy Signal



Dow Jones Industrial Average Hits Record All-Time High

The Dow Jones Industrial Average also reached a record all-time high!!! The Dow lagged most of 2023 but has kicked into gear breaking out of a major base with a buy signal on the MACD. *This equity market rally has strong legs!*

S&P 500 Approaching Record High With Monthly Stochastic On A Buy Signal

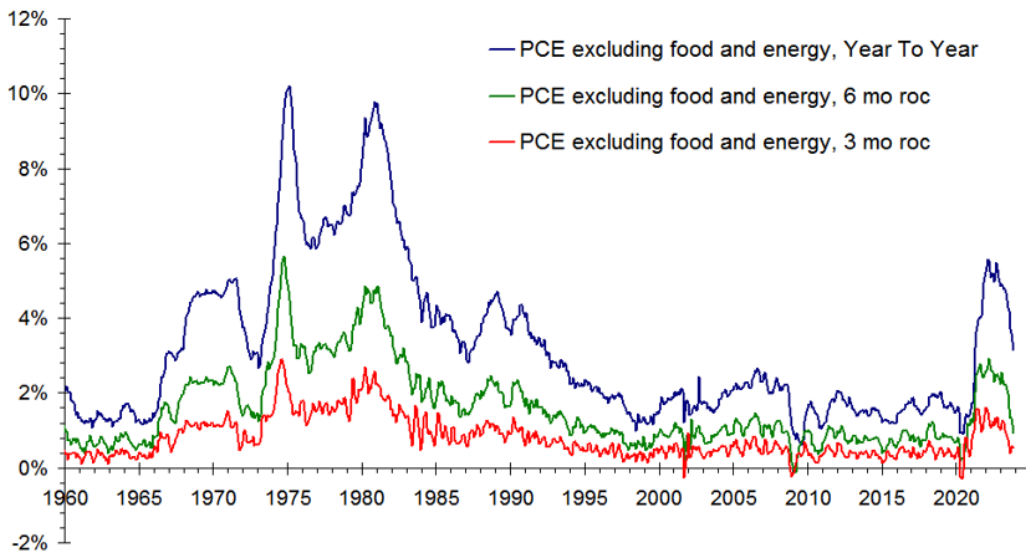


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Rates To Come Down In 2024 – 60/40 Is Not Dead!

The Bull began charging when the Federal Reserve, in its FOMC meeting last month, pointed to rates peaking and said it expected to begin cutting rates this year. The market took the Bull by the horns (to coin a phrase) and interest rates across the curve plummeted. With employment strong and no recession on the doorstep, why would the Fed want to even think about cutting interest rates? Well, when Fed Chair Powell & Co. looked at inflation, particularly their favorite measure: the Core PCE (Personal Consumption Expenditures Price Index), on a 3- and 6-month annualized basis, inflation has fallen sharply... **And inflation has already reached the Fed's target of 2%!!!** (See accompanying table.) The market may be a bit ahead of the Fed in terms of the number of rate cuts, but we believe rate cuts are coming, and this is bullish for both stocks and bonds! And that means the 60/40 Portfolio is back! Fixed income securities are most likely going to add return and income to a portfolio. But take note: while we are bullish for rates to fall in 2024, future rates are at risk of rising, so laddering a portfolio will be extremely important.

Core Personal Consumption Expenditures Price Index



Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Sanctuary Wealth, December 31, 2023

10-Year Treasury Rates Have Peaked!

Technically, the 10-Year Treasury yield has broken down, signaling rates peaked in 2023. This uptrend line and the 50-day moving average have been broken. We believe rates could fall to 3.5% over the medium term. Depending on how fast inflation falls and how much economic growth occurs, rates could drop to as low as 3.0%-2.5% before bottoming.

U.S. 10-Year Treasury Yields Could Fall to 3.5%



Week of January 2, 2024

2-Year Treasury Yield Has Major Top, Pointing To Lower Rates

Short-term rates are also plummeting and should test support levels near 3.5%.

2-Year Treasury Yield Still Falling - Expecting A Test Of 3.5%



January Effect For Small Cap Is Underway!

As we first reported in our November 6th edition of the WEEK AHEAD, we've been making the case that the January Effect for Small Caps was already underway. This is a seasonal bullish run that typically occurs for small cap stocks in the month of January. We still see some room for small caps to rally, but we don't expect them to take over leadership. We want to rent and not own this segment of the market.

iShares Russell 2000 ETF – More Upside Expected



Week of January 2, 2024

Regional Banks To Still Rally

Regional banks were down sharply but have also rallied sharply as the market is pricing in multiple cuts to interest rates in 2024. We continue to see more upside, but we are also renting this area of the market, not owning.

S&P Regional Banking ETF



Utilities And Real Estate Sectors To Benefit From Lower Rates

Both Utilities and Real Estate are near buy signals on the monthly stochastic price momentum indicator. Readings are the best since 2008-2009. Lower rates should further boost these stocks.

S&P 500 Utilities Sector With Monthly Stochastic Near A Buy Signal



 **Week of January 2, 2024**

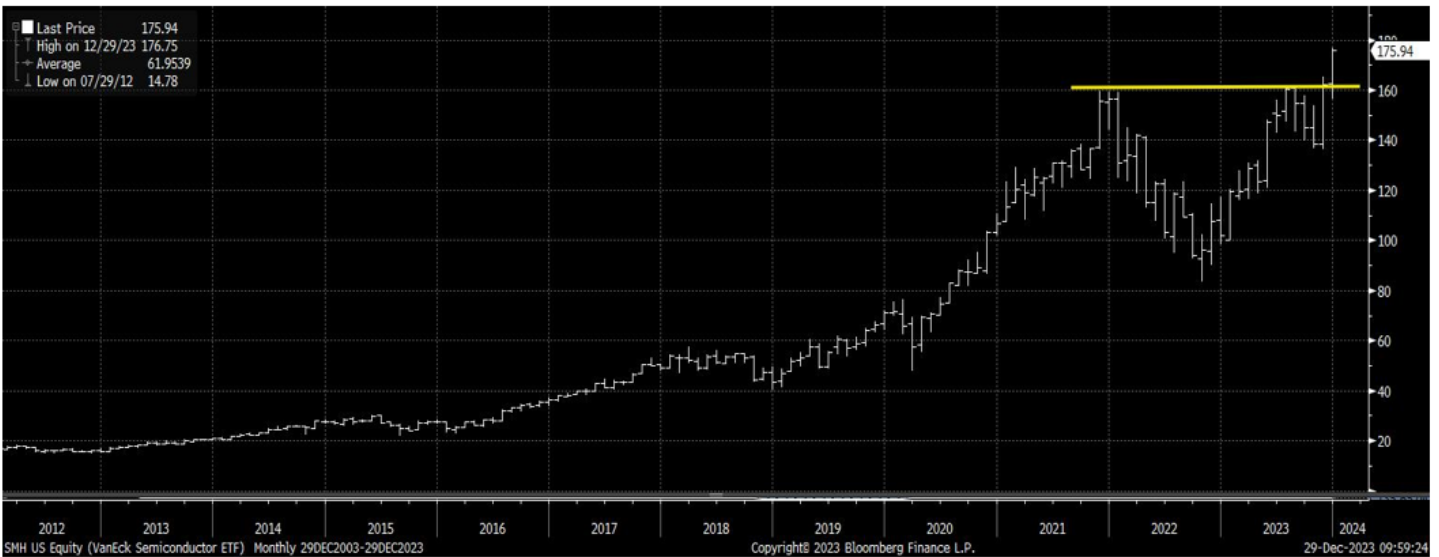
S&P 500 Real Estate Sector with Monthly Stochastic Near A Buy Signal



Semiconductors Still Major Leaders In This Market

We maintain that Semiconductors are the leaders of this market. *The VanEck Semiconductor ETF (SMH) has broken out of a major base to a record all-time high!!!*

VanEck Semiconductor ETF – Major Breakout!



 **Week of January 2, 2024**

S&P 500 Industrial Sector Has Major Breakout To New Record Highs

Legislation from the Biden Administration [such as the Infrastructure Investment and Jobs Act (IIJA), the CHIPS and Science Act and the Inflation Reduction Act] should benefit the Industrial sector in 2024 as spending is expected to kick into high gear this year.

S&P 500 Industrial Sector – New Leadership Within The Market



Positioning

We maintain our views on positioning as we enter 2024. 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 Caps, though we expect the rally in Small Caps to continue near-term. So, to be specific, we would rent Small Caps, but own Big Caps. We favor Growth over Value, and Cyclical over Defensives. We like the fixed income market and would consider adding to duration especially if interest rates backup here near-term. We favor Treasuries, Investment Grade, and Municipals. *Importantly, High Yield is also holding significant levels. Investors who can take on more risk might also consider High Yield. Importantly, overall, we still recommend Quality investments.*



Week of January 2, 2024

Market Performance

	Last 12/29/2023	Month End 11/30/2023	Month to Month	Quarter End 9/29/2023	Quarter to Quarter	Year End 12/30/2022	Year to Year
S&P 500	4769.83	4567.80	4.4%	4288.05	11.2%	3839.50	24.2%
NASDAQ Composite	15011.35	14226.22	5.5%	13219.32	13.6%	10466.48	43.4%
NASDAQ 100	409.52	388.83	5.3%	358.27	14.3%	266.28	53.8%
Russell 2000	2027.07	1809.02	12.1%	1785.10	13.6%	1761.25	15.1%
S&P Consumer Discretionary Sector	1418.09	1336.91	6.1%	1264.00	12.2%	1005.48	41.0%
S&P Consumer Staples Sector	762.32	744.26	2.4%	727.36	4.8%	779.13	-2.2%
S&P Energy Sector	640.05	641.28	-0.2%	694.19	-7.8%	672.34	-4.8%
S&P Financial Sector	626.35	595.09	5.3%	552.16	13.4%	569.74	9.9%
S&P Health Care Sector	1590.37	1527.10	4.1%	1501.22	5.9%	1585.54	0.3%
S&P Industrials Sector	964.73	902.92	6.8%	857.57	12.5%	831.40	16.0%
S&P Information Technology Sector	3397.16	3273.08	3.8%	2905.56	16.9%	2172.17	56.4%
S&P Materials Sector	539.62	517.20	4.3%	494.54	9.1%	489.55	10.2%
S&P Real Estate Sector	251.58	233.02	8.0%	213.82	17.7%	232.37	8.3%
S&P Communications Sector	246.00	234.77	4.8%	222.21	10.7%	159.37	54.4%
S&P Utilities Sector	321.92	316.57	1.7%	299.20	7.6%	358.48	-10.2%
S&P 500 Total Return	10327.83	9879.02	4.5%	9246.74	11.7%	8178.02	26.3%
3 month Treasury Bill Price	98.66	98.65	0.0%	98.63	0.0%	98.90	-0.2%
3 month Treasury Bill Total Return	243.98	242.84	0.5%	240.68	1.4%	232.09	5.1%
10 Year Treasury Bond Future	112.89	109.80	2.8%	108.06	4.5%	112.30	0.5%
10 Year Treasury Note Total Return	294.12	284.84	3.3%	278.73	5.5%	283.28	3.8%
iShares 20+ Year Treasury Bond ETF	98.88	91.56	8.0%	88.69	11.5%	99.56	-0.7%
S&P Municipal Bond Total Return	272.94	266.64	2.4%	254.67	7.2%	257.42	6.0%
iShares S&P National Municipal Bond NAV	108.42	106.63	1.7%	102.31	6.0%	105.23	3.0%
S&P 500 Investment Grade Corporate Bond Total Return	455.89	437.89	4.1%	422.07	8.0%	421.24	8.2%
S&P Investment Grade Corporate Bond	91.76	88.64	3.5%	86.28	6.4%	88.23	4.0%
S&P Investment Grade Corporate Bond Total Return	482.66	464.60	3.9%	448.92	7.5%	445.34	8.4%
SPDR Bloomberg High Yield Bond ETF	94.73	92.68	2.2%	90.40	4.8%	90.00	5.3%
iShares iBoxx High Yield Corporate Bond ETF	77.39	75.71	2.2%	73.72	5.0%	73.63	5.1%
Gold	2062.98	2036.41	1.3%	1848.63	11.6%	1824.02	13.1%
Bitcoin	41935.34	37750.77	11.1%	26903.18	55.9%	16579.06	152.9%

Source: Sanctuary Wealth, Bloomberg, December 31, 2023

Still On The Lookout For Inflation

This week all eyes will be on employment data and ISM reports on manufacturing and services.

The important data kicking off the new year this week include December job openings, jobless claims, employment, unemployment as well as ISM Manufacturing and ISM Services. It's possible that these inflation indicators may reveal the risk that the Fed is behind the curve, and any rate cuts this year will be "late to the dance" – which also means the market has been correct in already baking in the expected cuts. And just as we've seen a negative PPI print, it's possible we could see a negative CPI print as well.

As we launch into the new year, here's something else to keep in mind. The Wall Street saying, "As goes January, so goes the year," suggests a correlation between January's equity market performance and the year's overall returns. This means a positive January often leads to a positive year, while a negative January indicates a potentially negative annual return. This concept was originated in 1972 by Yale Hirsch, creator of the Stock Trader's Almanac series. His indicator has shown remarkable accuracy. The Stock Trader's Almanac notes that from 1950 to 2021, years that began with a positive January for the S&P 500 typically yielded an average annual return of 17.6%. During that period, the indicator only failed eleven times, boasting an 84.5% accuracy rate. And it held true for 2022 and 2023.

Are you ready for the Bull now?



Calendar

Mon.

New Year's holiday, markets closed

Tue.

9:45 am S&P final U.S. manufacturing PMI
10:00 am Construction spending

Wed.

8:30 am Richmond Fed President Tom Barkin speaks
10:00 am U.S. job openings, ISM manufacturing
2 pm Minutes of Fed's December meeting
TBA Auto sales
Earnings: Cal-Maine Foods, Resources Connection, Simulations Plus, UniFirst

Thu.

8:15 am ADP employment
8:30 am Initial jobless claims
9:45 am S&P final U.S. services PMI
Earnings: Conagra, Lamb Weston, Lindsay Corp, Radius Recycling, RPM Inc, Simply Good Foods, Walgreens Boots Alliance

Fri.

8:30 am U.S. employment report, U.S. unemployment rate, U.S. hourly wages, Hourly wages (year over year)
10:00 am ISM services, Factory orders
1:30 pm Richmond Fed President Tom Barkin speaks
Earnings: AngioDynamics, Constellation, Greenbrier

Sat.

11:15 am Dallas Fed President Lorie Logan speaks

Source: MarketWatch/Kiplinger's/CNBC

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