



Week Ahead

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Week of February 5, 2024

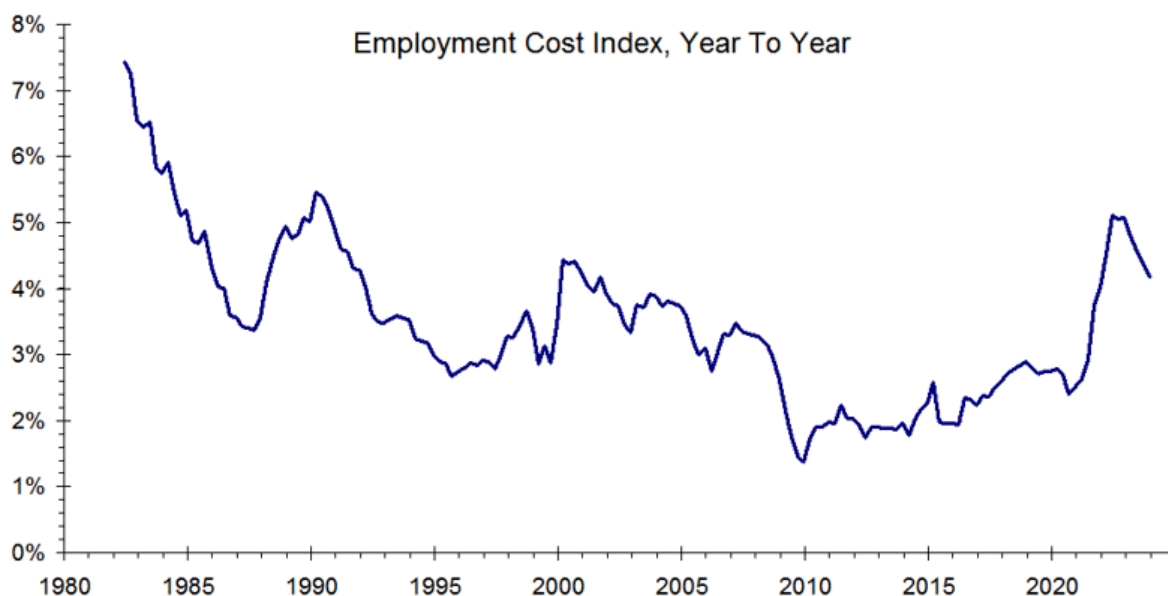
Early Spring Expected And Stocks Already Celebrating

Punxsutawney Phil says it will be an early spring, but the market's not waiting – stocks are already celebrating! The Bull is still running.

Last week, the Federal Reserve said it did not expect to cut interest rates in 1Q24 and the markets' first reaction was negative – but the buzzkill didn't last long. In the midst of a heavy earnings season, markets resumed their uptrend as many of the major technology and related companies reported positive earnings, including Meta (META), which had strong earnings and initiated a dividend.

Fed Chair Jerome Powell did say that the FOMC (Federal Open Market Committee) is watching the Employment Cost Index as a measure of future inflation and commented it was moving in right direction – *downward!* (See accompanying chart.) Note: the markets are still expecting as many as four interest rate cuts this year.

Employment Cost Index



Source: Bureau Labor Statistics, Sanctuary Wealth, February 2, 2024



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GDP Growth Remains Strong!

GDP growth remains strong, which points to an economy that is still growing. A growing economy generally leads to positive earnings growth. Positive earnings growth, in turn, should lead to a positive return for the S&P 500. According to Bloomberg, sour expectations set up S&P 500 companies for success, as those who have already reported in the 4Q earnings season have helped lift the index's pace. The S&P 500 is now tracking at roughly double the expectations for growth, at 2.3% versus the expected 1.2%. Over the next few weeks, key companies face a higher bar. Technology is expected to carry the index while other sectors will likely continue to struggle.

GDP Growth Is Improving



Source: Bureau of Economic Analysis, Sanctuary Wealth, February 2, 2024

BofA Sell Side Indicator Still Bullish

The Sell Side Indicator (SSI) from Bank of America has been a reliable contrarian indicator – in other words, it has been a bullish signal when Wall Street was extremely bearish, and vice versa. The SSI reading for January is still in neutral territory, but it's reading closer to a buy signal than to a sell signal. The indicator is slightly below its 15-year average of 54.6%. The SSI's current level indicates an expected price return of +14% over the next 12 months or 5450 for the S&P 500 by year-end 2024, matching our expected range of 5200-5400! When the SSI has been here or lower, the 12-month forward S&P 500 returns were positive 94% of the time. *This indicator confirms to us that the market remains in a bull market.*

Bank Of America Sell Side Indicator – Positive Reading

Exhibit 1: Equity sentiment ticked down 24bp in January, its first decline since October

Sell Side Indicator, 8/1985-1/2024



Source: BofA US Equity & Quant Strategy Note: Buy and Sell signals are based on rolling 15-year +/- 1 standard deviation from the rolling 15-year mean. A reading above the red line indicates a Sell signal and a reading below the green line indicates a Buy signal

BofA GLOBAL RESEARCH

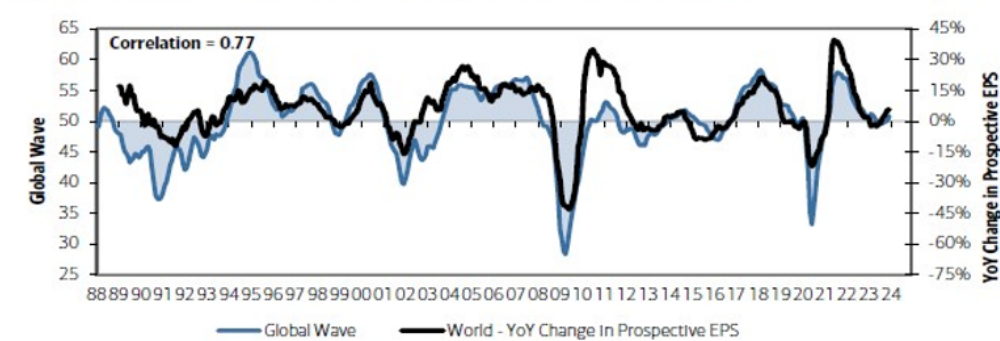
Source: Bank of America, February 1, 2024

BofA Global Wave and Earnings Signal Global Equities Are Attractive

In the last week of January, the Bank of America Global Wave signaled a trough in the global cycle, suggesting investors could now position for a sustained upturn in global equities. The Global Wave measures economic indicators, credit and earnings to forecast major turning cycles for the global equity markets. The aggregate earnings estimate of stocks globally typically moves in tandem with the Global Wave (77% correlation) which explains why equity markets and cyclical assets tend to outperform when the Global Wave is rising. In the year after all Global Wave trough signals, on average, global equities rallied 16.5%, Emerging Markets outperformed the US by 3.1%, and the best performing global sectors were Technology, Diversified Financials, Media, Consumer Discretionary, and Industrials.

Global Wave and GLOBAL Prospective EPS

Chart 1: Global Wave and GLOBAL Prospective EPS
Global earnings estimates tend to move in tandem with the Global Wave



Source : BofA Global Quantitative Strategy, MSCI, IBES, Haver, Bloomberg, OECD, IMF, ICE Bond Indices, National Statistics Database
The sentiment indicator identified as Global Wave above 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 sentiment indicator was not created to act as a benchmark.
BofA GLOBAL RESEARCH

Source: Bank of America, January 31, 2024

Global Wave Economic Inputs

Table 2: Components of the Global Wave

The Global Wave is an amalgamation of seven components representing various aspects of the global economy

Components	Type
Global Industrial Confidence	Output
Global Consumer Confidence	Demand
Global Capacity Utilisation	Investment
Global Unemployment	Labour Market
Global Producer Prices	Prices
Global Credit Spreads	Bond Market
Global Earnings Revision Ratio	Equity Market

Source : BofA Global Quantitative Strategy

BofA GLOBAL RESEARCH

Source: Bank of America, January 31, 2024



Week of February 5, 2024

Could The Equity Market Be In The Early Stages Of A Major Breakout?

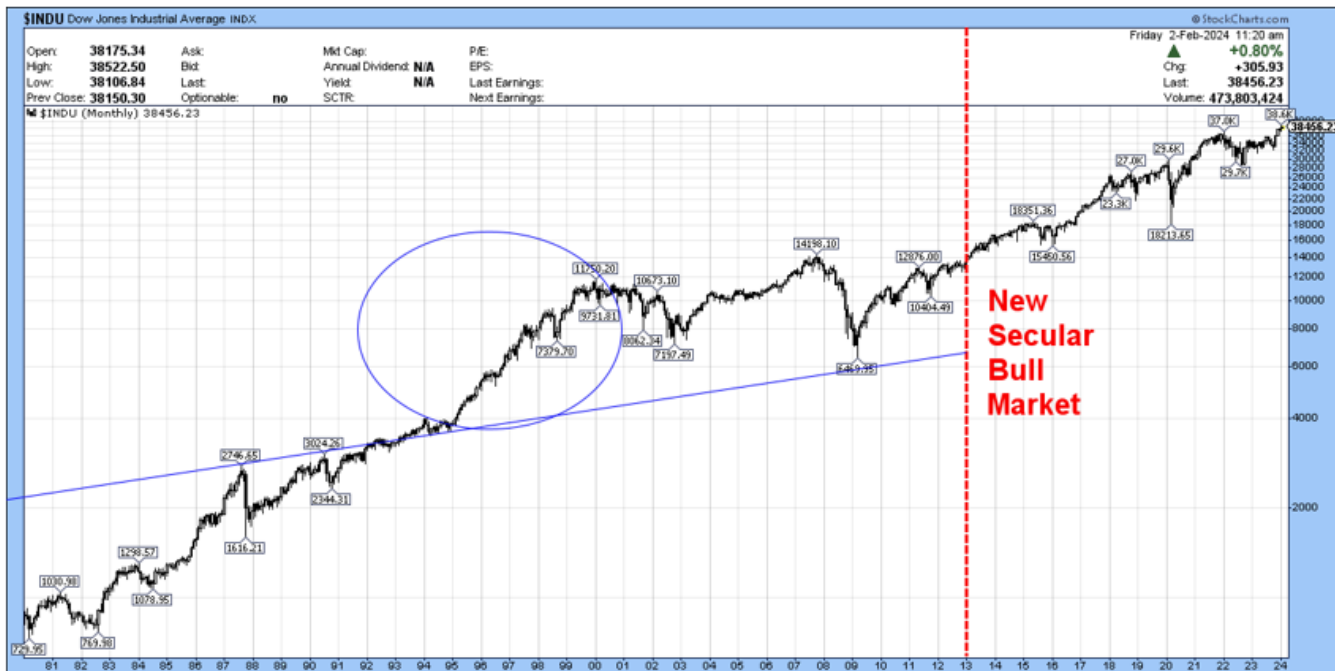
Back in 1995, the Dow Jones Industrial Average (DJIA), which is not technology heavy, had a major breakout, which we believe was reflective of the new age of personal computing and related technologies – which not only impacted the U.S. economy but global economy as well. Here's what Fed Chair Alan Greenspan said exactly 27 years ago (February 5, 1996):

"The rapid acceleration of computer and telecommunication technologies can reasonably be expected to appreciably raise our productivity and standards of living in the twenty-first century certainly, and quite possibly in some of the remaining years of this century."

Productivity gains in the business world, especially in manufacturing, propelled by computer technology, drove markets and economies. And now we're seeing it all over again, in our view.

We believe that AI (Artificial Intelligence) has the same if not higher potential to impact the markets – and this time, the new technology could have an impact on a much grander scale. The leading companies creating AI and related emerging technologies are primarily in America, and therefore, the U.S. should see the biggest impact on earnings and stock prices. If our thesis is correct, the market should break out and rally sharply (so much so that some may eventually call this a bubble). Based on cycle work and the move from 1995-2000, we could see a move in the equity markets that lasts until 2029-2030. At that point, we would most likely see the end of the secular bull market which has been in place since 2013.

Dow Jones Industrial Average Had A Major Breakout In 1995 – Can This Be Repeated?





Week of February 5, 2024

Dow Jones Industrial Average (DJIA) – Fresh New Breakout

Zooming in on the Dow Jones Industrial Average (DJIA), we see the index is breaking out of a 3-year trading range with the monthly price momentum indicator Moving Average Convergence/Divergence (MACD) with a Buy Signal. We expect the index to continue to move higher – *and if our thesis on AI is correct, there's a strong possibility we'll see a Dow of 50,000!*

Dow Jones Industrial Average With Monthly MACD Buy Signal



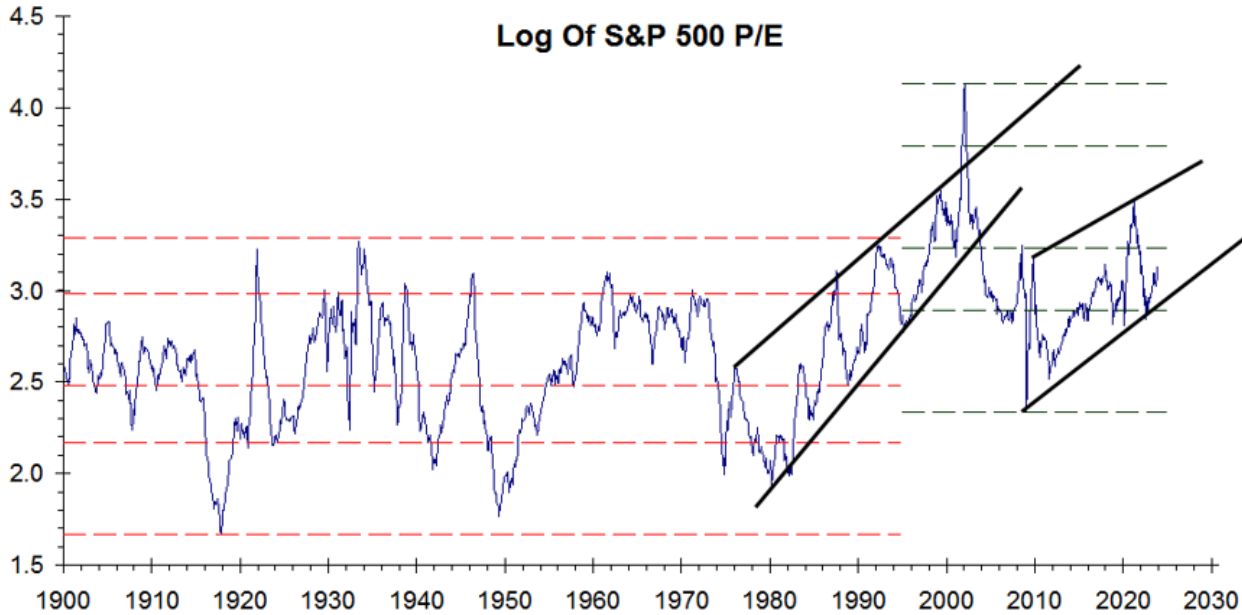
Price Earnings Multiples Expand During Secular Bull Markets

We look at the price/earnings ratio (P/E) for the S&P 500 on a logarithmic scale. Why do this? Logarithmic price scales are better than linear price scales at showing less severe price increases or decreases. Also, they are better at showing patterns. They can help visualize how far a price must move to reach a buy or sell target. In the accompanying chart, notice the range from 1980 to 2000 – it's a 20-year range when the market was in a secular bull market. The P/E ratio expanded with an upward bias. The ratio dipped but never got as cheap as it was historically. There was a major shift in market valuation. We believe this cycle is similar to the 1980-2000 range, and that this time the P/E ratios are likely to move to records before the market peaks – if our thesis on artificial intelligence is correct. The P/E trend for this cycle bottomed in 2010 and is rising like the last cycle. *If this is correct, valuations are actually cheap!* If this cycle lasts 20-years like the last cycle, its peak should be 2030.



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Log of S&P 500 P/E



Source: Standard & Poor's, Sanctuary Wealth, February 2, 2024

We Believe Growth Is Leadership

Growth historically outperforms when earnings are scarce. Earnings are troughing but are certainly not abundant. Scarcity of earnings drives price/earnings (P/E) ratios higher as demand outstrips supply. If artificial intelligence is the new driver of economic and earnings growth, we believe the Growth investment cycle can move higher into a Mega Super Cycle.

Growth Continues To Outperform Value



Week of February 5, 2024

Technology Remains Leadership

Technology has been the leadership of this market cycle with Semiconductors in the role of Leaders of the Pack. The Nasdaq indices house many of the technology stock leadership. This week, we look at the Nasdaq Technology Index (NDXT) versus the Nasdaq 100 (QQQ). The relative ratio has been in a trading range since 2006. The current trend is for the NDXT to outperform the QQQ.

Nasdaq Technology Outperforming Nasdaq 100

Nasdaq Technology vs. Nasdaq 100



Source: Bloomberg, February 2, 2024

Regional Banks Resume Downtrend

Regional banks had a strong rally, but this rally appears to be over (see the top part of the accompanying chart). The relative price of the Regional Bank SPDR ETF (KRE) to the S&P 500 has also resumed its downtrend (see the bottom part of the accompanying chart). We still see Banks overall as value traps.

Regional Banks (KRE) Relative To S&P 500





Week of February 5, 2024

A Chart That Caught Our Eye – Uranium Miners

Uranium miners are breaking out. Is something new happening in nuclear power?

Sprott Uranium Miners ETF (URNM) Is Breaking Out





Week of February 5, 2024

Market Performance

	Last 1/26/2024	Month End 12/29/2023	Month to Date	Quarter End 12/29/2023	Quarter to Date	Year End 12/29/2023	Year to Date	Year Ago 1/26/2023	Year To Year
S&P 500	4890.97	4769.83	2.5%	4769.83	2.5%	4769.83	2.5%	4060.43	20.5%
NASDAQ Composite	15455.36	15011.35	3.0%	15011.35	3.0%	15011.35	3.0%	11512.41	34.2%
NASDAQ 100	423.81	409.52	3.5%	409.52	3.5%	409.52	3.5%	293.34	44.5%
Russell 2000	1978.33	2027.07	-2.4%	2027.07	-2.4%	2027.07	-2.4%	1903.06	4.0%
S&P Consumer Discretionary Sector	1377.67	1418.09	-2.9%	1418.09	-2.9%	1418.09	-2.9%	1125.24	22.4%
S&P Consumer Staples Sector	769.72	762.32	1.0%	762.32	1.0%	762.32	1.0%	764.07	0.7%
S&P Energy Sector	643.85	640.05	0.6%	640.05	0.6%	640.05	0.6%	714.77	-9.9%
S&P Financial Sector	642.82	626.35	2.6%	626.35	2.6%	626.35	2.6%	602.72	6.7%
S&P Health Care Sector	1622.26	1590.37	2.0%	1590.37	2.0%	1590.37	2.0%	1558.72	4.1%
S&P Industrials Sector	960.37	964.73	-0.5%	964.73	-0.5%	964.73	-0.5%	852.73	12.6%
S&P Information Technology Sector	3598.29	3397.16	5.9%	3397.16	5.9%	3397.16	5.9%	2375.40	51.5%
S&P Materials Sector	520.05	539.62	-3.6%	539.62	-3.6%	539.62	-3.6%	527.24	-1.4%
S&P Real Estate Sector	241.83	251.58	-3.9%	251.58	-3.9%	251.58	-3.9%	251.33	-3.8%
S&P Communications Sector	268.00	246.00	8.9%	246.00	8.9%	246.00	8.9%	181.30	47.8%
S&P Utilities Sector	311.10	321.92	-3.4%	321.92	-3.4%	321.92	-3.4%	350.38	-11.2%
S&P 500 Total Return	10598.23	10327.83	2.6%	10327.83	2.6%	10327.83	2.6%	8656.27	22.4%
3 month Treasury Bill Price	98.66	98.66	0.0%	98.66	0.0%	98.66	0.0%	98.83	-0.2%
3 month Treasury Bill Total Return	244.95	243.98	0.4%	243.98	0.4%	243.98	0.4%	232.68	5.3%
10 Year Treasury Bond Future	111.03	112.89	-1.6%	112.89	-1.6%	112.89	-1.6%	114.86	-3.3%
10 Year Treasury Note Total Return	290.47	294.12	-1.2%	294.12	-1.2%	294.12	-1.2%	290.73	-0.1%
iShares 20+ Year Treasury Bond ETF	93.78	98.88	-5.2%	98.88	-5.2%	98.88	-5.2%	106.98	-12.3%
S&P Municipal Bond Total Return	270.52	272.94	-0.9%	272.94	-0.9%	272.94	-0.9%	264.66	2.2%
iShares S&P National Municipal Bond NAV	107.44	108.42	-0.9%	108.42	-0.9%	108.42	-0.9%	108.02	-0.5%
S&P 500 Investment Grade Corporate Bond Total Return	451.30	455.89	-1.0%	455.89	-1.0%	455.89	-1.0%	437.48	3.2%
S&P Investment Grade Corporate Bond	90.72	91.76	-1.1%	91.76	-1.1%	91.76	-1.1%	91.19	-0.5%
S&P Investment Grade Corporate Bond Total Return	478.58	482.66	-0.8%	482.66	-0.8%	482.66	-0.8%	461.55	3.7%
SPDR Bloomberg High Yield Bond ETF	95.01	94.73	0.3%	94.73	0.3%	94.73	0.3%	93.63	1.5%
iShares iBoxx High Yield Corporate Bond ETF	77.63	77.39	0.3%	77.39	0.3%	77.39	0.3%	76.39	1.6%
Gold	2018.52	2062.98	-2.2%	2062.98	-2.2%	2062.98	-2.2%	1929.21	4.6%
Bitcoin	41994.36	41935.34	0.1%	41935.34	0.1%	41935.34	0.1%	23080.96	81.9%

Source: Bloomberg, Sanctuary Wealth, February 3, 2024

Earnings To Continue to Steal The Show

This week, all eyes will be on earnings – but all ears will be tuned to comments from Fed Governors.

Last week Meta (META) shocked investors with its earnings, its outlook and by initiating a dividend; the next day, the stock rallied over 20%. Technology and tech-related companies continue to steal the show as they are showing that they're rallying on fundamentals (this is not a bubble!). Expect earnings to be in the spotlight this week. On the economic data side, the market will be focusing this week on revisions due on the Consumer Price Index (CPI). In Fed Chair Powell's speech last week, he said the previous year's revisions were a surprise. Let's see what happens this year! And let's hear what the Fed Governors have to say (and not say!) about the expectations for interest cuts this year. Interestingly, there will be more Fed speeches this week (15) than data releases (13).



Calendar

Mon.

9:45 am S&P final U.S. services PMI
10:00 am Chicago Fed President Austan Goolsbee TV appearance, ISM services
2:00 pm Atlanta Fed President Raphael Bostic gives welcoming remarks
Earnings: Affiliated Managers, Air Products, Allegiant Travel, Amkor, BellRing Brands, Cabot, Caterpillar, Chegg, Coherent, Crown Holdings, Estee Lauder, Fabrinet, Golub Capital, Hillenbrand, IDEXX Labs, J&J Snack Foods, Kforce, Kilroy Realty, McDonald's, NXP Semiconductors, ON Semiconductor, Palantir Technologies, Rambus, Simon Property Group, Simpson Manufacturing, Skyline Champion, Tyson Foods, Varonis Systems, Vertex Pharmaceuticals

Tue.

12:00 pm Cleveland Fed President Loretta Mester speaks
1:00 pm Minneapolis Fed President Neel Kashkari speaks
2:00 pm Boston Fed President Susan Collins speaks
7:00 pm Philadelphia Fed President Patrick Harker speaks
Earnings: Advanced Energy, AGCO Corp, AllianceBernstein, Amdocs, American Financial Group, Amgen, Aramark, Arrowhead Pharmaceuticals, Assurant, Atmos Energy, Autohome, Carlisle Companies, CAVA Group, Centene, Check Point Software Technologies, Chipotle Mexican Grill, Cincinnati Financial, Cirrus Logic, Cognizant Technology Solutions, Cummins, DHT, Diodes, Douglas Emmett, DuPont, e.l.f. Beauty, Edwards Lifesciences, Eli Lilly, Energizer, Enphase Energy, Equitable Holdings, Essex Property, Exelixis, FirstService, Fiserv, Ford Motor, Fortinet, Freshworks, Frontier Group Holdings, Gartner, GE HealthCare, Gilead Sciences, H & R Block, Hertz Global, Himax Technologies, Jacobs Engineering, Klaviyo, KKR, Kyndryl, Lear, Linde, Lumen Technologies, Madison Square Garden Entertainment, MSG Sports, MicroStrategy, Nabors Industries, O-I Glass, Omnicom, Pan Am Silver, Precision Drilling, Prudential, Rexford Industrial Realty, Sensata Technologies, Silicon Motion, Snap, Spirit Aerosystems, Spotify Technology, Sonos, Tradeweb Markets, UBS AG, Valvoline, V.F. Corp, Werner Enterprises, Western Union, Willis Towers Watson, Xylem, Yum China

Wed.

8:30 am U.S. trade deficit
11:00 am Fed Gov. Adriana Kugler speaks
11:30 am Boston Fed President Susan Collins speaks
12:30 pm Richmond Fed President Tom Barkin speaks
2:00 pm Fed Gov. Michelle Bowman speaks
3:00 pm Consumer credit, CBO briefing on budget and economic outlook
Earnings: Adient, Alibaba Group, Allstate, Ares Capital, Arm Holdings, ASGN, Axcelis Technologies, B2Gold, Black Hills Corp, Bunge, Cameco, Carlyle Group, Confluent, CoreCivic, Coty, CVS Health, Dayforce, Emerson Electric, Encompass Health, Enersys, Envista, Equifax, Everest Group, First American Financial, FleetCor, Fox Corp, Franco-Nevada, Globe Life, GoPro, Green Plains, Griffon, Hain Celestial, Hilton, Kennametal, Kinross Gold, Knowles, Kodiak Gas Services, Manulife Financial, MasterCraft, Mattel, McKesson, MKS Instruments, Molina Healthcare, Monolithic Power, Murphy USA, National Fuel Gas, NETGEAR, New York Times, News Corp., Omega Health, O'Reilly Automotive, Paycom Software, Paycor, PayPal Holdings, Penske Automotive Group, Performance Food Group, Radian Group, Radware, Reynolds Consumer Products, Roblox, Scotts Miracle-Gro, Silicon Labs, TechTarget, Thomson Reuters, TTM Technologies, Vishay Intertechnology, Walt Disney, XPO, Yum! Brands

Thu.

8:30 am Initial jobless claims
10:00 am Wholesale inventories
12:05 pm Richmond Fed President Tom Barkin speaks
Earnings: Affirm, Apollo Global Management, ArcelorMittal, Ares Management, Arrow Electronics, Asbury Automotive, AstraZeneca, Axalta Coating Systems, Baxter, Bill.com, BorgWarner, Boyd Gaming, Canadian Natural Resources, Capri Holdings, Cenovus Energy, Colliers International Group, ConocoPhillips, CyberArk Software, Dexcom, Doximity, Duke Energy, Dynatrace, Expedia Group, First Majestic Silver, FirstEnergy, Flowers Foods, Fortis, Genpact, Gildan Activewear, Harley-Davidson, Hershey Foods, Illumina, Intercontinental Exchange, The Interpublic Group of Companies, ITT, Kellanova, Kenvue, Kimco Realty, Leggett & Platt, Lincoln National, Lions Gate Entertainment, Lumentum, Masco, Mettler-Toledo, Mohawk Industries, Motorola Solutions, NNN REIT, Omnicell, Paylocity, Philip Morris International, Pinterest, PROS Holdings, Ralph Lauren, RBC Bearings, S&P Global, Snap-On, SolarWinds, Spectrum Brands, Spirit Airlines, Synaptics, T. Rowe Price, Take-Two Interactive Software, Tempur Sealy International, Tenet Healthcare, Transdigm Group, Under Armour, VeriSign, Warner Music Group, WEX, Wheaton Precious Metals, Zimmer Biomet

Fri.

8:30 am CPI seasonal factor revisions
1:30 pm Dallas Fed President Lorie Logan speaks
Earnings: Algonquin Power & Utilities, AMC Networks, Catalent, Enbridge, Essent Group, Magna International, Mr. Cooper Group, Newell Brands, PepsiCo, Plains All American, Restaurant Brands International, TELUS International, W.P. Carey

Source: MarketWatch/Kiplinger

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