Week Ahead

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Scrooge Is Hanging Around - Jobs Look Just Fine

Last week, the ISM (Institute for Supply Management) services data showed a significant rise in prices paid which unsettled the fixed income markets as inflation concerns percolated again.

Then later in the week, the December labor market report came in very strong and significantly above expectations with the unemployment rate ticking down to 4.1% from 4.2%. Wage growth was stable (which is a good sign for the Fed regarding inflation). Many are calling this a blowout report. The U.S. is clearly showing exceptionalism with the strength of the economy and jobs market translating into a strong equity market. So, what's wrong with this picture? Well, this changes what the Federal Reserve (Fed) is likely to do with interest rates. Remember: last year the Fed was lowering interest rates because of its concern over the softening of the labor market – so much so that it lowered rates by 1.0% (100 basis points) from September to December. Heading into the release of the jobs report, the market expected two interest rate cuts in 2025 and now, following the report, the market is saying maybe only one rate cut in the fall. So, the bond market bucked on this news, with interest rates rising across the yield curve —which sent equities lower as they are richly valued. Yes, it is seasonally normal for interest rates to go up in December and into the first quarter of the new year, but for the start of 2025, the market needs to rebalance its expectations, taking rates higher and stocks down.

The Fed has been data dependent, making longer-term forecasting obsolete. But this is also creating more volatility in the equity and bond markets as they constantly face the need to reprice expectations.

10-Year Treasury Yield Tracking To 5.0%

Our original thinking as published in our Year Ahead Report last November was for interest rates to fall into 2025, but we reversed course in December, highlighting the risk of rates rising seasonally as well as stronger economic data. The 10-Year Treasury yield is tracking near 5.0% as the economy is showing signs of strength along with concerns over inflation and the deficit. Technically, looking at the Fibonacci ratios from 2020 lows to the high of 1994, the next resistance level is 5.0%. Expect volatility to continue in both the equity and fixed income markets as the 10-Year looks to be tracking to 5.0%.

10-Year Treasury Yield With Fibonacci Levels from '20 Lows To '94 High

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2-Year Treasury Yield Up Against Important Resistance

The 2-Year Treasury yield also moved on the jobs data last week pushing back up to resistance near 4.3%. This is an important level to hold. A breach of this level moves short rates to 4.6%.

2-Year Treasury Yield With Resistance at 4.3% - A Break Pushing The Yield to 4.6%

Stocks Continue To Buck Into 2025

Our theme for 2024 was the Bucking Bull as we expected stocks to be volatile. There were five corrections last year, but the stock market still closed up 23%. With interest rates tracking higher, stocks continue their bucking into 2025. Remember that equity markets were overbought in December and the correction began after the Fed did a hawkish rate cut on December 18th. Stocks are oversold in the near term but have not been able to stabilize. The risk is that the correction continues, particularly if rates continue to go up. We enter earnings season this week, which can cause periodic periods of stock volatility as well. Looking at the technicals, there is support in the 5700-5600 range, which would be less than a 10% correction. We just need some good news to resume the rally.

S&P 500 With Fibonacci Levels From August Low To December High

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Stocks Richly Valued As Rates Rose Adjusting Valuations

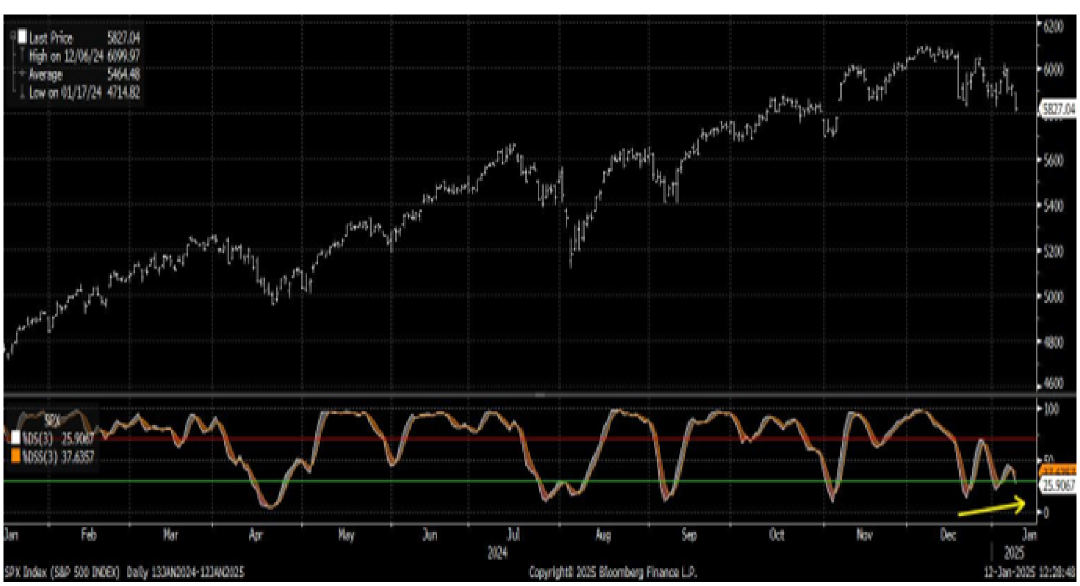
The equity market was trading at a 25x earnings multiple when the correction began, which, from a historical perspective, is very expensive. Now that rates are rising, the market is readjusting the price-earnings multiple. It is currently around 24x, which is still very rich. But we don't expect a significant contraction in valuation. Our call has been that price-earnings multiples expand during secular bull markets. Normalizing the data over the past five years using the Z-Score, we see that the valuations are not at an extreme level. This gives us confidence that the movement is just a correction.

Source: Bloomberg, Sanctuary Wealth, January 10, 2025

S&P 500 Oversold Near-Term With Momentum Improving

The S&P 500 is oversold near-term with an improving momentum in the 14-Day Stochastic. Notice in the accompanying chart that the indicator has higher lows, which shows improving momentum. With the risk of continued rising rates and the onset of the 4Q24 earnings season, equity market volatility is likely to persist. But we have confidence this is just another correction – which provides a buying opportunity. We project the S&P 500 can reach 7200-7400 this year.

S&P 500 With 14-Day Stochastic Oversold With Improving Momentum



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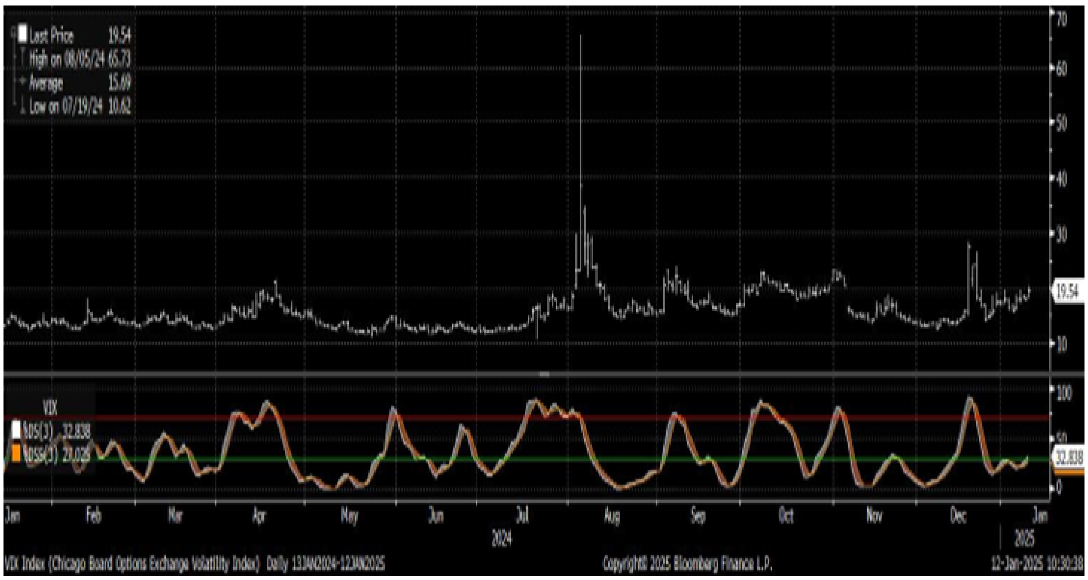
VIX Volatility Index At Risk Of Rising

The Cboe Volatility Index (VIX) spiked in December as the correction began near 30 and then retrenched. But the index is oversold and positioned to rise, indicating the risk is that the pullback is not completed yet. Typically, after a spike higher, you can get a second lower spike. Historically, a move above 20 indicates a buying opportunity.

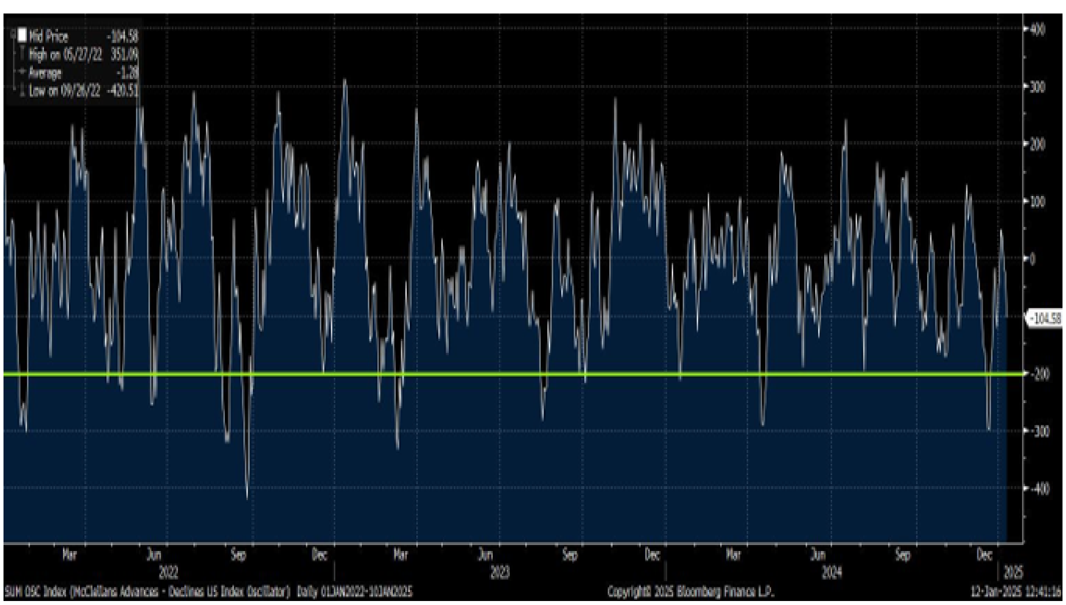
Cboe VIX Volatility With 14-Day Stochastic Oversold Risk Of Rising



McClellan Oscillator Gave Buy Signal

Market breadth (advancing issues-declining issues) always contracts during a correction. Breadth is not a good timing indicator on its own as it typically peaks long before a bear market begins – often a year or more. The McClellan Oscillator measures market breadth over a shorter period of time and has a good tracking record of calling when markets are at or near the bottom of a correction. The indicator gave a buy signal at -200 in December.

McClennan Oscillator Signaled A Buy In December



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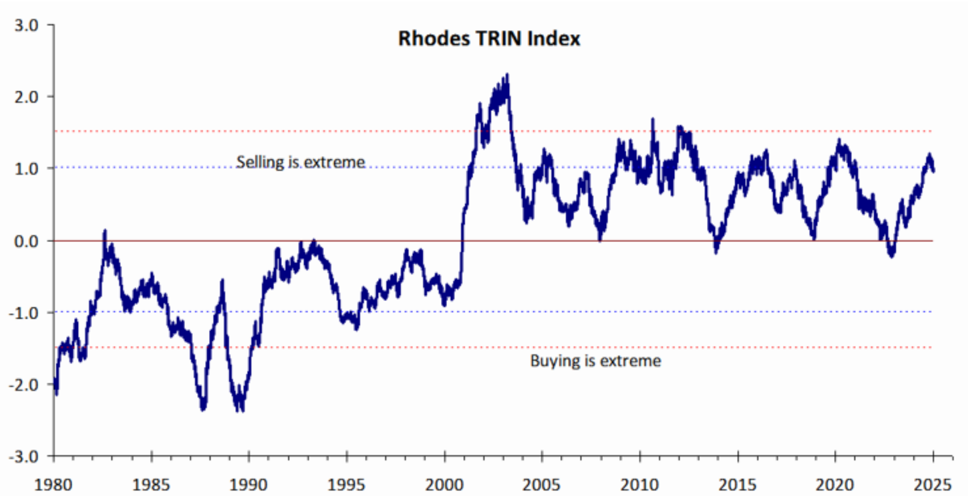
Custom Breadth Indicator Shows Extreme Selling

We created our own indicator called the Rhodes TRIN Index. This indicator takes the log of the ratio of advances to declines and then takes the product of the daily moves. This follows with normalizing the data. This is a contrarian indicator, so with an extreme selling reading, it indicates we should be close to a bottom in the equity market.



Source: Bloomberg, Sanctuary Wealth, January 10, 2025

Crude Oil Moving – Up Against Important Resistance

Winter is here and it's a cold one. With a cold winter and low inventory, WTI crude oil is rallying and has hit major resistance near $77-$78. A sustainable move to $80 or higher should push the commodity higher near $84-$85. But we have been at these levels before. This should not derail the equity market, in our view. :

WTI Crude Oil Hits Trendline Resistance At $78

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Pipelines Look Good In Energy

Looking at energy stocks, we were impressed with how pipeline/gas stocks are performing. Kinder Morgan (KMI) caught our eye last week, as it just had a breakout of an eight-year trading range. With KMI's 4% dividend yield and this breakout, we think the stock will be getting some attention soon.

Kinder Morgan (KMI) With An 8-Year Breakout

Consumer Spending Surges in December

The Bank of America Institute reported last week that the consumer continued to show solid momentum with spending up 2.2% in December 2024. Services continue to drive spending, and retail spending enjoyed a resurgence in December. A strong consumer translates to a strong economy which leads to strong corporate earnings. Earnings are expected to continue to expand in 2025 with estimates ranging 13%-15%. If this materializes, our target range for the equity market should be achievable.

Exhibit 1: Consumers continued to show solid momentum, with spending up 2.2% YoY in December 2024
Total credit and debit card spending growth per household, based on Bank of America card data (monthly, YoY%, non-seasonally adjusted (NSA))

Source: Bank of America internal data

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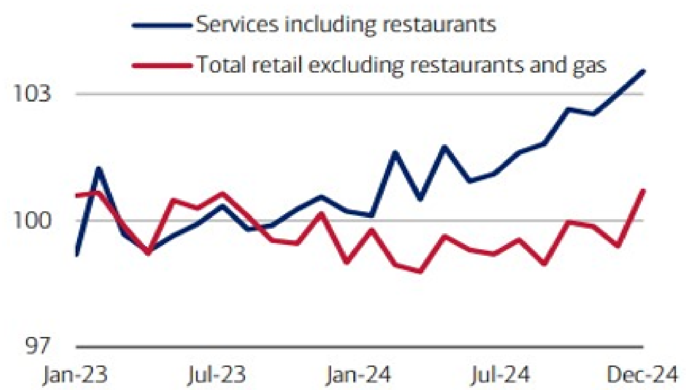
Exhibit 2: Services spending continued to be strong in December, and retail spending experienced a rebound
Spending by category, based on Bank of America card data (monthly, index 2023 = 100, seasonally adjusted (SA))



Source: Bank of America internal data

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Insurance Stocks At Risk Of A Bear Market Correction

Given the tragic fires in Los Angeles County, California, we take a look at insurance stocks. They have already corrected 11%, but a break of the trendline shown in the accompanying chart would indicate to us that the group is likely heading toward a full bear market correction of 20% or more.

S&P 500 Insurance Stocks At Risk Of A Deeper Correction

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Market Performance

	Last 1/10/2025	Month End 12/31/2024	Month to Date	Quarter End 12/31/2024	Quarter to Date	Year End 12/31/2024	Year to Date	Year Ago 1/11/2024	Year To Year
S&P 500	5827.04	5881.63	-0.9%	5881.63	-0.9%	5881.63	-0.9%	4780.24	21.9%
NASDAQ Composite	19161.63	19310.79	-0.8%	19310.79	-0.8%	19310.79	-0.8%	14970.18	28.0%
NASDAQ 100	507.19	511.23	-0.8%	511.23	-0.8%	511.23	-0.8%	409.35	23.9%
Russell 2000	2189.23	2230.16	-1.8%	2230.16	-1.8%	2230.16	-1.8%	1955.46	12.0%
S&P Consumer Discretionary Sector	1808.57	1831.16	-1.2%	1831.16	-1.2%	1831.16	-1.2%	1404.75	28.7%
S&P Consumer Staples Sector	834.54	853.65	-2.2%	853.65	-2.2%	853.65	-2.2%	768.72	8.6%
S&P Energy Sector	673.60	654.85	2.9%	654.85	2.9%	654.85	2.9%	623.93	8.0%
S&P Financial Sector	787.16	804.44	-2.1%	804.44	-2.1%	804.44	-2.1%	626.52	25.6%
S&P Health Care Sector	1629.21	1604.75	1.5%	1604.75	1.5%	1604.75	1.5%	1642.58	-0.8%
S&P Industrials Sector	1112.52	1115.65	-0.3%	1115.65	-0.3%	1115.65	-0.3%	949.83	17.1%
S&P Information Technology Sector	4529.80	4609.52	-1.7%	4609.52	-1.7%	4609.52	-1.7%	3406.05	33.0%
S&P Materials Sector	524.63	529.77	-1.0%	529.77	-1.0%	529.77	-1.0%	525.68	-0.2%
S&P Real Estate Sector	246.26	255.92	-3.8%	255.92	-3.8%	255.92	-3.8%	246.44	-0.1%
S&P Communications Sector	344.17	341.66	0.7%	341.66	0.7%	341.66	0.7%	249.96	37.7%
S&P Utilities Sector	384.36	384.95	-0.2%	384.95	-0.2%	384.95	-0.2%	319.82	20.2%
S&P 500 Total Return	12797.39	12911.82	-0.9%	12911.82	-0.9%	12911.82	-0.9%	10354.69	23.6%
3 month Treasury Bill Price	98.92	98.92	0.0%	98.92	0.0%	98.92	0.0%	98.66	0.3%
3 month Treasury Bill Total Return	257.29	256.97	0.1%	256.97	0.1%	256.97	0.1%	244.34	5.3%
10 Year Treasury Bond Future	107.39	108.75	-1.3%	108.75	-1.3%	108.75	-1.3%	112.34	-4.4%
10 Year Treasury Note Total Return	290.61	293.94	-1.1%	293.94	-1.1%	293.94	-1.1%	293.26	-0.9%
iShares 20+ Year Treasury Bond ETF	85.46	87.33	-2.1%	87.33	-2.1%	87.33	-2.1%	96.71	-11.6%
S&P Municipal Bond Total Return	276.51	278.14	-0.6%	278.14	-0.6%	278.14	-0.6%	272.62	1.4%
iShares S&P National Municipal Bond NAV	105.77	106.40	-0.6%	106.40	-0.6%	106.40	-0.6%	108.29	-2.3%
S&P 500 Investment Grade Corporate Bond Total Return	460.25	465.24	-1.1%	465.24	-1.1%	465.24	-1.1%	453.48	1.5%
S&P Investment Grade Corporate Bond	89.33	90.28	-1.1%	90.28	-1.1%	90.28	-1.1%	91.24	-2.1%
S&P Investment Grade Corporate Bond Total Return	491.21	495.89	-0.9%	495.89	-0.9%	495.89	-0.9%	480.53	2.2%
SPDR Bloomberg High Yield Bond ETF	95.34	95.47	-0.1%	95.47	-0.1%	95.47	-0.1%	94.98	0.4%
iShares iBoxx High Yield Corporate Bond ETF	78.53	78.65	-0.2%	78.65	-0.2%	78.65	-0.2%	77.62	1.2%
Gold	2689.76	2624.50	2.5%	2624.50	2.5%	2624.50	2.5%	2028.91	32.6%
Bitcoin	94620.17	93714.04	1.0%	93714.04	1.0%	93714.04	1.0%	46163.13	105.0%

Source: Bloomberg, Sanctuary Wealth, January 10, 2025

Earnings And Inflation Data Can Bring Calm Or Volatility

> ***This week begins the earnings parade, with new inflation data helping to drive – or slow – the pace.***

This week is the official start of earnings season with the Banks reporting first. Layering on top of earnings announcements, we get the Consumer Price Index (CPI) and Producer Price Index (PPI) numbers, giving the markets more data on inflation. The bond market will be hypersensitive to what these indexes say. If data comes in higher than expected, rates are at risk of moving higher. Plus, we will get a read on the consumer with the release of retail sales data. With Bank of America reporting strong spending, the risk is that the data will come in even stronger. So, buckle up for a week of news that will likely be market-moving.

Calendar

Mon.

2:00 pm Monthly U.S. federal budget
Earnings: KB Home*

Tue.

6:00 am NFIB optimism index
8:30 am Core PPI
10:00 am Kansas City Fed President Jeffrey Schmid speaks
2:00 pm Fed Beige Book
3:05 pm New York Fed President Williams delivers opening remarks
Earnings: Progressive

Wed.

8:30 am Core CPI, Empire State manufacturing survey
9:00 am Richmond Fed President Barkin speaks
11:00 am New York Fed President Williams speaks
12:00 pmChicago Fed President Goolsbee speaks
Earnings: JPMorgan Chase, BlackRock, BNY Mellon, Citigroup, Goldman Sachs, Wells Fargo

Thu.

8:30 am Initial jobless claims, Import price index, Philadelphia Fed manufacturing survey
10:00 amBusiness inventories, ome builder confidence index
Earnings: UnitedHealth Group, Bank of America, Morgan Stanley, U.S. Bancorp, PNC Financial Services Group,M&T Bank

Fri.

8:30 am Housing starts, Building permits
9:15 am Industrial production, Capacity utilization
Earnings: SLB, Citizens Financial Group, State Street

*Earnings reflect highlights
Source: CNBC, Kiplinger's, MarketWatch

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