February 27th, 2023

Weekly Market Guide

The market finally took a breather this week after a strong start to the calendar year. While we thought a "rest" was inevitable as the market was in overbought territory, the market had been resilient and the technical momentum was becoming difficult to ignore. However, the technical picture has quickly reversed course with the S&P 500 down nearly 5% off its recent high and over 2% over the last week after a failed break-out amid a rally in break-even inflation expectations, interest rates and the U.S. Dollar.

The index now is sitting right near key support levels (uptrend support at 3995, 50-DMA at 3980, and 200-DMA at 3940) as MACD is moving lower and RSI is suggestive that the market may be near-term oversold levels. We believe the S&P 500's failed break-out is a reality check and reminder that **1) markets are not ready to see an easy glide path back to new all-time highs and 2) volatility is likely to continue even within the 3700-4300 range over the coming weeks/months.**

For now, we continue to see inflation and the path forward from the Fed as the main focus for investors. The eventual terminal rate for federal funds will continue to be hotly debated, but it appears **the market is now pricing in more of a hike-and-hold strategy by the Fed vs. prior expectations of pivot in the back half of the year**, which is likely pressuring equities as interest rates move higher. Yesterday's, FOMC minutes suggest that while the Fed members see more increases as warranted as "inflation is unacceptably high", the members will continue to debate the pace of rate hikes, as more aggressive actions can allow the Fed to reach its intended targets quicker while a more measured approach will allow the Fed to assess the impact of the rate hikes. However, the market has increased expectations for the terminal rate of hikes since the beginning of February as inflation has proved stickier as seen by market implied break-even inflation expectations.

Tomorrow, PCE data, a favored inflation metric for the Fed, is expected to be released, and we believe this could be a catalyst. A PCE reading showing moderation in inflation could entice buyers, pushing equities above the recent peak. A more neutral report could cause a short-term relief rally as the market seems to be oversold in the near-term with both RSI and the % of equities above the 10-day confirming the recent selling pressure. However, a PCE reading suggestive that inflation may be stickier, could further pressure equities. A break below the 200-DMA, the technical picture deteriorates, and the S&P 500 could slide to the 3850-3900 area followed by 3800 level. We would use weakness as opportunity to accumulate favored stocks for the longer-term as the percentage of equities trading above the longer-term averages (50-DMA and 200-DMA) remain in uptrends and supportive for equities.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-0.3%	-1.6%
S&P 500	3.9%	-7.3%
S&P 500 (Equal-Weight)	4.2%	-2.9%
NASDAQ Composite	9.9%	-14.0%
Russell 2000	7.6%	-4.3%
MSCI All-Cap World	4.7%	-8.8%
MSCI Developed Markets	6.4%	-6.1%
MSCI Emerging Markets	2.7%	-18.6%
NYSE Alerian MLP	4.1%	16.3%
MSCI U.S. REIT	6.1%	-13.4%

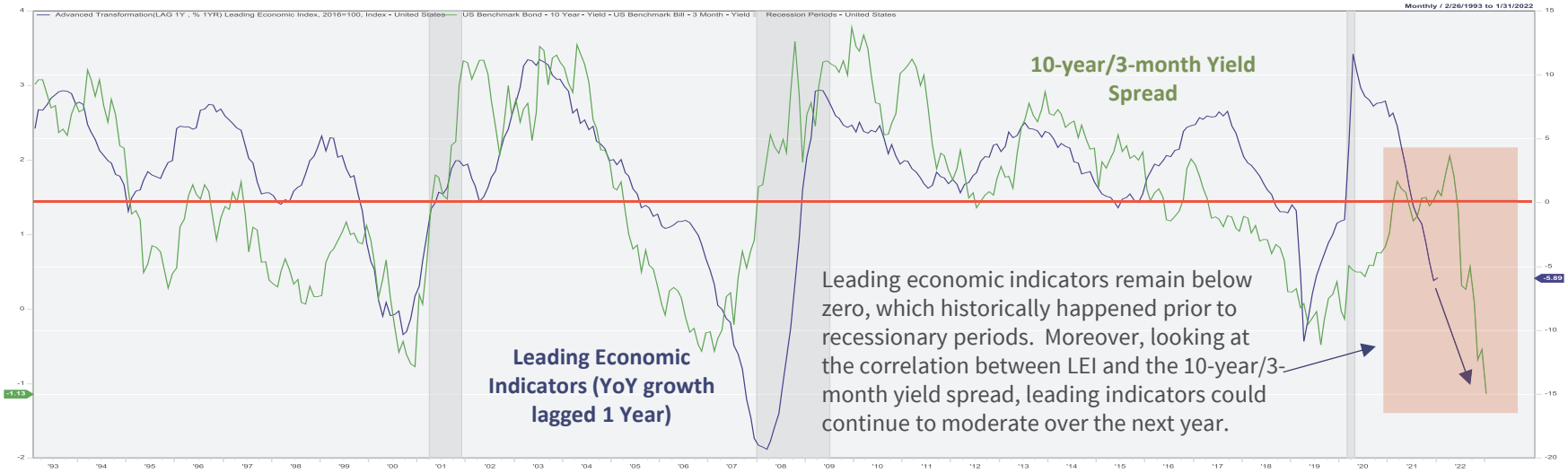
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Consumer Discretionary	13.0%	10.7%
Communication Svcs.	10.5%	7.7%
Information Technology	9.4%	27.1%
Real Estate	4.0%	2.7%
S&P 500	***3.9%***	-
Financials	3.7%	11.6%
Materials	3.6%	2.7%
Industrials	2.1%	8.4%
Consumer Staples	-1.8%	6.8%
Health Care	-4.7%	14.6%
Energy	-5.2%	4.8%
Utilities	-5.5%	2.9%

Source: FactSet

MACRO: US

The macro calendar was relative light during the holiday shortened week and following last week's busy economic calendar. However, this week's data continues to point to more of the same. The economy is showing signs of slowdown (leading economic indicators -0.3% MoM in January), but not suggestive of a hard landing (Markit PMI Services for February surprised to the upside and are back into expansionary territory). The housing market remains challenged with existing home sales for January missing estimates at 4 million vs. consensus at 4.1 million and MBA Mortgage Applications falling 13.3% W/W from the prior reading of 7.7%. And finally, the jobs market remains tight with initial claims for the week falling to 192K, which was below consensus expectations of 200K and the prior reading of 195K. **The path forward for the Fed remains challenging with the recent FOMC minutes suggestive that while the Fed members see more increases as warranted as "inflation is unacceptably high", the members will continue to debate the pace of rate hikes,** as more aggressive actions can allow the Fed to reach its intended targets quicker while a more measured approach will allow the Fed to assess the impact of the rate hikes. Tomorrow's PCE reading, will hopefully provide more clarity on the stickiness of inflation, as this remains a favored metric for the Fed.

Event	Period	Actual	Consensus	Prior
Export Price Index NSA M/M	JAN	0.80%	0.0%	-3.2%
Import Price Index NSA M/M	JAN	-0.20%	-0.05%	-0.10%
Leading Indicators SA M/M	JAN	-0.30%	-0.30%	-0.80%
PMI Composite SA (Preliminary)	FEB	50.2	47.6	46.8
Markit PMI Manufacturing SA (Preliminary)	FEB	47.8	47.2	46.9
Markit PMI Services SA (Preliminary)	FEB	50.5	47.0	46.8
Existing Home Sales SAAR	JAN	4,000K	4,100K	4,030K
MBA Mortgage Applications SA W/W	02/17	-13.3%	-	-7.7%
Chicago Fed National Activity Index	JAN	0.23	-	-0.46
Continuing Jobless Claims SA	02/11	1,654K	1,696K	1,691K
GDP Chain Price SAAR Q/Q (Second Preliminary)	Q4	3.9%	3.5%	3.5%
GDP Chain Price SA Y/Y (Second Preliminary)	Q4	6.4%	6.3%	6.3%
GDP SAAR Q/Q (Second Preliminary)	Q4	2.7%	2.9%	2.9%
GDP SA Y/Y (Second Preliminary)	Q4	0.90%	-	1.0%
Initial Claims SA	02/18	192.0K	200.0K	195.0K

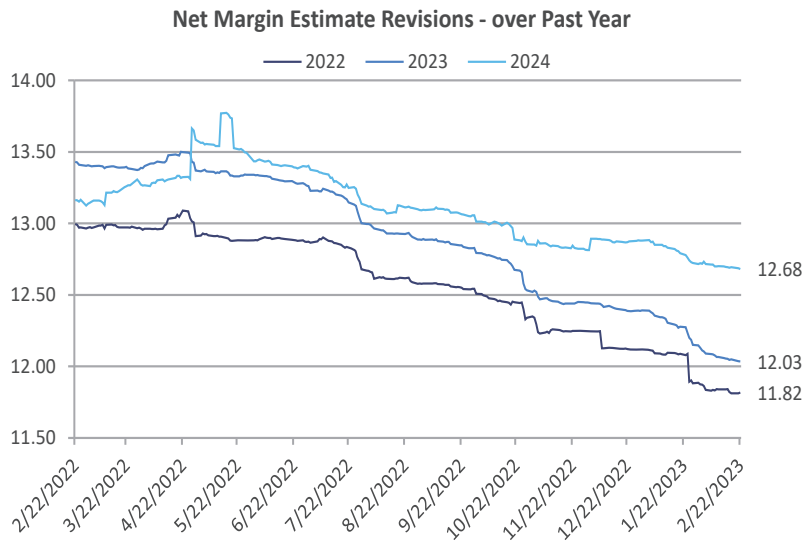


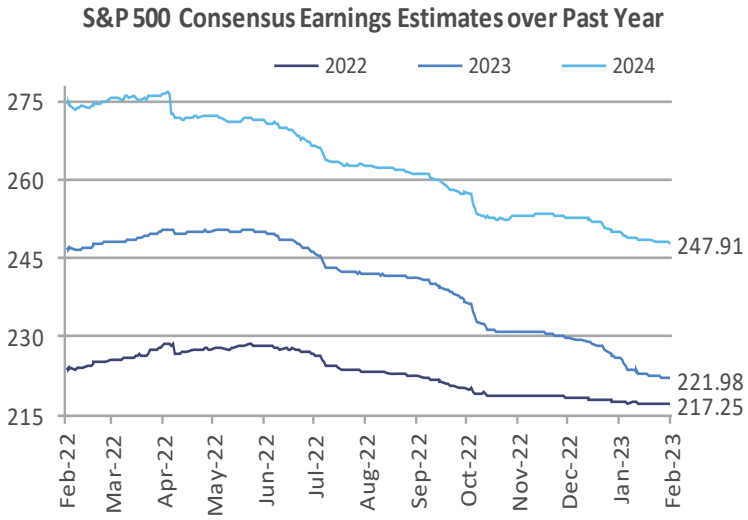
Source: FactSet

FUNDAMENTALS

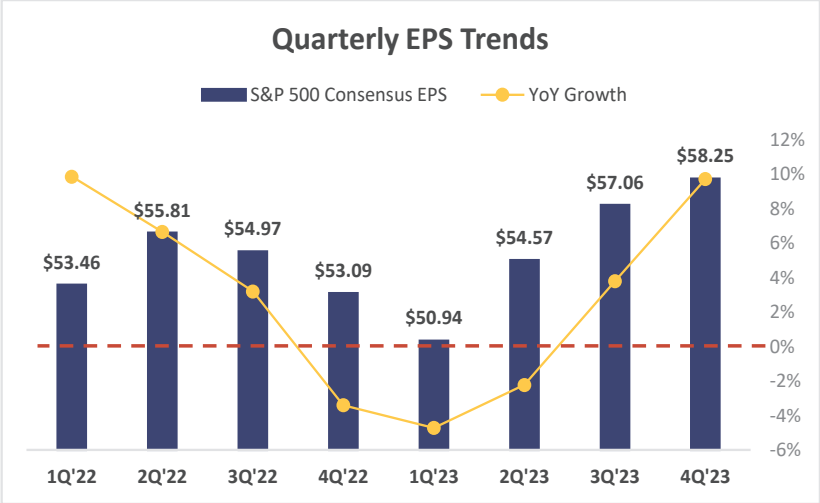
Earnings revisions continue to be pressured and could continue to move lower. Our estimate for 2023 is $215 vs. the consensus estimate of $221.98. As seen in the prior slide, leading economic indicators could continue to move lower, which would put further pressure on earnings and margins. Currently, 4Q'22 earnings are projected to finish with a negative growth rate YoY. However, 1Q'22 earnings are projected to see further YoY declines. While 1Q'22 is projected to see the worst of the declines in YoY comparisons, we would expect earnings to continue their downward revision path as the year progresses, and 2023 estimates to continue to be revised lower.

Margins will continue to be a major focal point as inflation is likely to continue to eat into profits for companies. Mixed with the potential for top-line growth to be pressured, this could lead to further margin compression and challenges to the bottom-line growth, which is our rationale for seeing a slight compression in earnings in 2023 vs. the projected growth by consensus of 2.2%.





EPS Growth Estimates	
2022	5.2%
2023	2.2%
2024	11.7%



Source: FactSet

TECHNICAL: S&P 500

Source: FactSet

The technical picture has quickly reversed course with the S&P 500 now sitting right on key support levels and RSI suggestive of near-term oversold and MACD moving lower. While we continue to believe the technical positives remain difficult to ignore, we believe the S&P 500's failed break-out is a reality check and reminder that 1) markets are not ready to see an easy glide path back to new all-time highs and 2) volatility is likely to continue even within the 3700-4300 range over the coming weeks/months.

Inflation continues to be a key focus for investors. Tomorrow, PCE data, a favored inflation metric for the Fed, is expected to be released, and we believe this could be a catalyst. A PCE reading showing moderation in inflation could entice buyers, pushing equities above the recent peak. A more neutral report could cause a short-term relief rally. However, a PCE reading suggestive that inflation may be stickier, could further pressure equities.

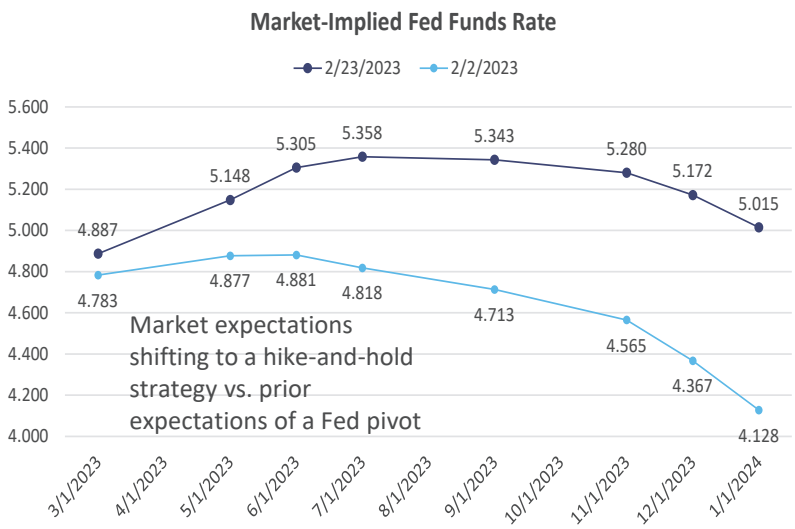
Converging on several key support levels: The S&P 500 is currently trading near several key support levels including:

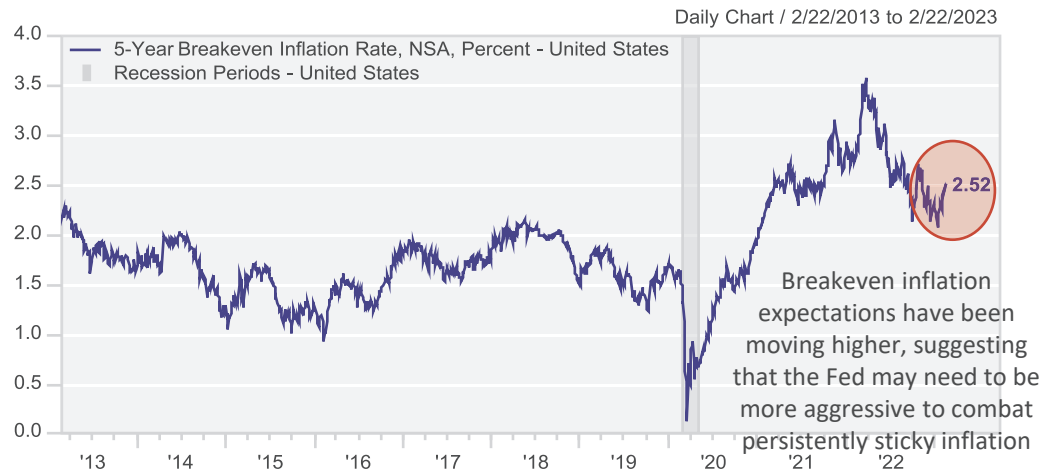
- **Uptrend Support: 3995**
- **50-DMA: 3980**
- **200-DMA: 3940**

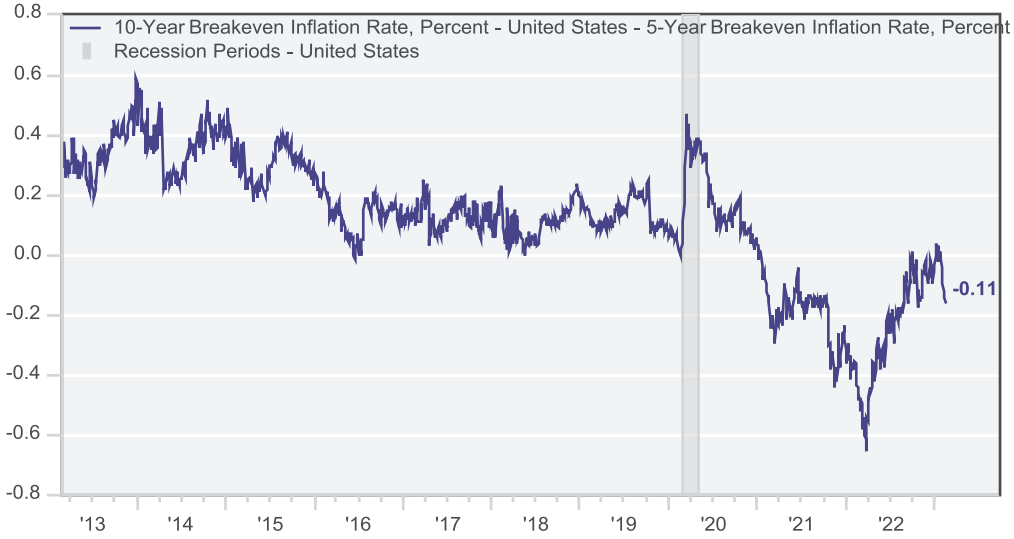
However, a break below the 200-DMA, the technical picture deteriorates, and the S&P 500 could slide to the 3850-3900 area followed by 3800 level. We would use weakness as opportunity to accumulate favored stocks for the longer-term.

FED EXPECTATIONS

The eventual terminal rate for federal funds will continue to be hotly debated, but it appears the market is now pricing in more of a hike-and-hold strategy by the Fed vs. prior expectations of pivot in the back half of the year, which is likely pressuring equities as interest rates move higher. **Yesterday's, FOMC minutes suggest that while the Fed members see more increases as warranted as "inflation is unacceptably high", the members will continue to debate the pace of rate hikes,** as more aggressive actions can allow the Fed to reach its intended targets quicker while a more measured approach will allow the Fed to assess the impact of the rate hikes. However, the market has increased expectations for the terminal rate of hikes since the beginning of February as inflation has proved stickier as seen by market implied break-even inflation expectations.







Source: FactSet

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