



## Weekly Market Guide

U.S. equities kicked off the 4<sup>th</sup> quarter the same way it ended the 3<sup>rd</sup> quarter, with equities on their heels as selling pressure persists. The S&P 500 has been consolidating, as it nears support, following the Fed's "hawkish pause". Currently, the S&P 500 is less than 1% above its 200-DMA, but selling pressure has been intense, pushing the S&P 500 into oversold territory with less than 7% and 35% of S&P 500 members trading above their respective 50-DMA and 200-DMA. **For those investors with excess cash, we would continue to accumulate favored sectors at these levels.**

**Areas to Watch:** The overall uptrend remains in place for now. The obvious key **support level is the 200-DMA, which is currently at 4203**. However, we see a **strong band of support in the range of 4171-4203**. In the event the equities rally from oversold, we would watch 4332 followed by 4401 as potential areas of resistance.

**10-Year Yield Influence on Out-of-Favored Sectors:** In the near-term, we continue to closely monitor bond yields and the yield curve as the US 10-year Treasury yield has become an important market influence again. The 10-year yield sharp move higher north of 4.7% has caused the yield curve to steepen, but has **put significant pressure on higher yielding areas such as Utilities and interest-rate sensitive areas such as Real Estate, which are both down over 20% from their 52-week highs**. We believe the next move in the 10-year yield is likely to be a major determinant in the direction of these sectors in the short-term, despite being sharply oversold. A reprieve in the rate of ascent for the 10-year yield could be an opportunity for these out-of-favored sectors for a near-term bounce.

**Intermediate Outlook for Equities:** We remain optimistic in the intermediate outlook for equities (12-18 months outlook) as we see the possibility for equities to return back to highs by year-end 2024, even if there remains the possibility for the U.S. economy to slip into a recession. As we highlight in the [2023 3rd Quarter Equity Market Update](#), our expectation of \$220-\$230 in earnings power in 2024 with our belief that a 21-22x P/E multiple is warranted produces a price objective of 4620-5060 by year-end of 2024, which would be a possible return to an all-time high for the S&P 500.

Equity Market Indices	Price Return	
	Year to Date	12 Months
Dow Jones Industrial Avg	-0.4%	11.9%
S&P 500	10.2%	15.0%
S&P 500 (Equal-Weight)	-2.1%	5.7%
NASDAQ Composite	24.8%	20.7%
Russell 2000	-1.9%	1.1%
MSCI All-Cap World	6.5%	14.3%
MSCI Developed Markets	1.6%	17.8%
MSCI Emerging Markets	-1.8%	7.2%
NYSE Alerian MLP	10.3%	17.0%
MSCI U.S. REIT	-8.5%	-6.3%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Communication Svcs.	39.5%	9.0%
Information Technology	33.1%	27.7%
Consumer Discretionary	22.8%	10.6%
<b>S&amp;P 500</b>	<b>10.2%</b>	-
Industrials	1.4%	8.3%
Energy	1.3%	4.7%
Materials	0.6%	2.4%
Financials	-5.5%	12.7%
Health Care	-6.3%	13.4%
Consumer Staples	-7.9%	6.6%
Real Estate	-11.5%	2.2%
Utilities	-19.5%	2.4%

Source: FactSet

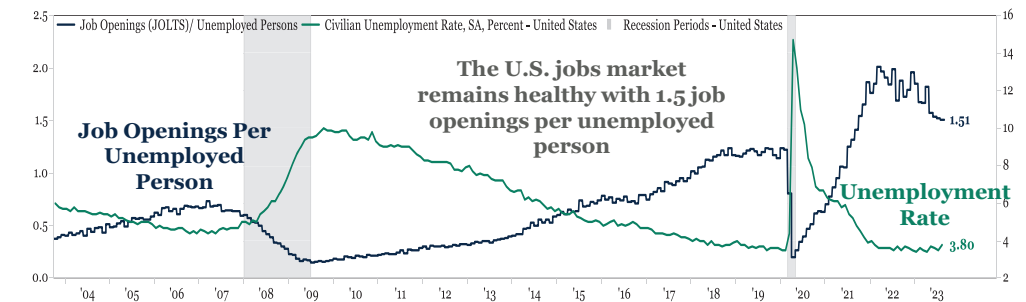
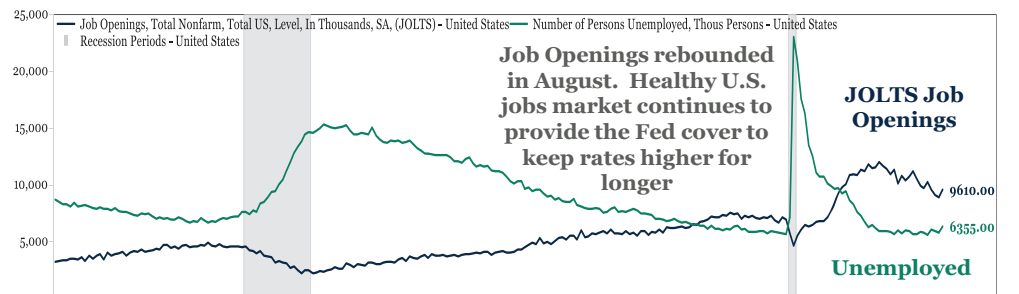
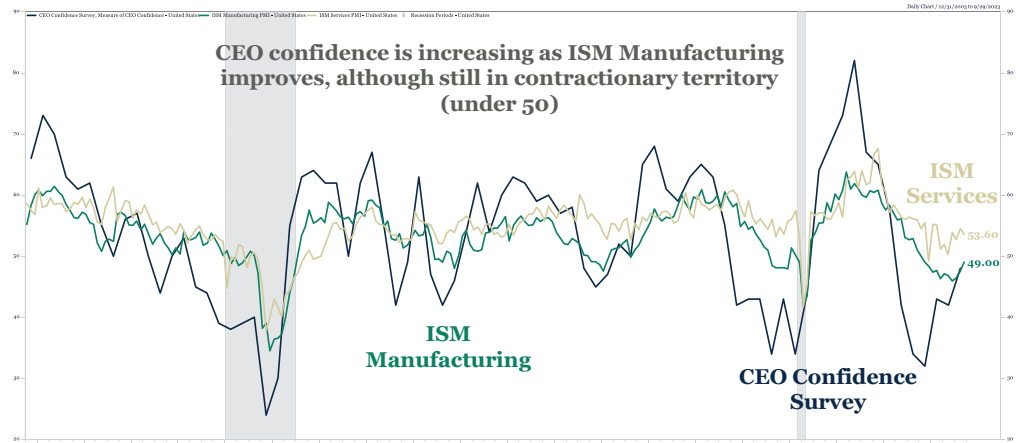
## MACRO: US

Overall, the macro environment remains mixed. The lagged impact of higher rates are having very little impact on the U.S. jobs market. In fact, there are still 1.5 job openings per unemployed person as JOLTS Job Openings saw a rebound in August to ~9.6M. This provides the Fed cover to keep rates higher for longer.

However, in other areas of the economy, there continues to be softness. ISM Manufacturing for September remains in contractionary territory at 49.0 despite coming in above expectations of 47.8 and Services at 53.6 slowed from 54.5 in the month prior. For now, we continue to believe a recession is possible, albeit mild and short-lived.

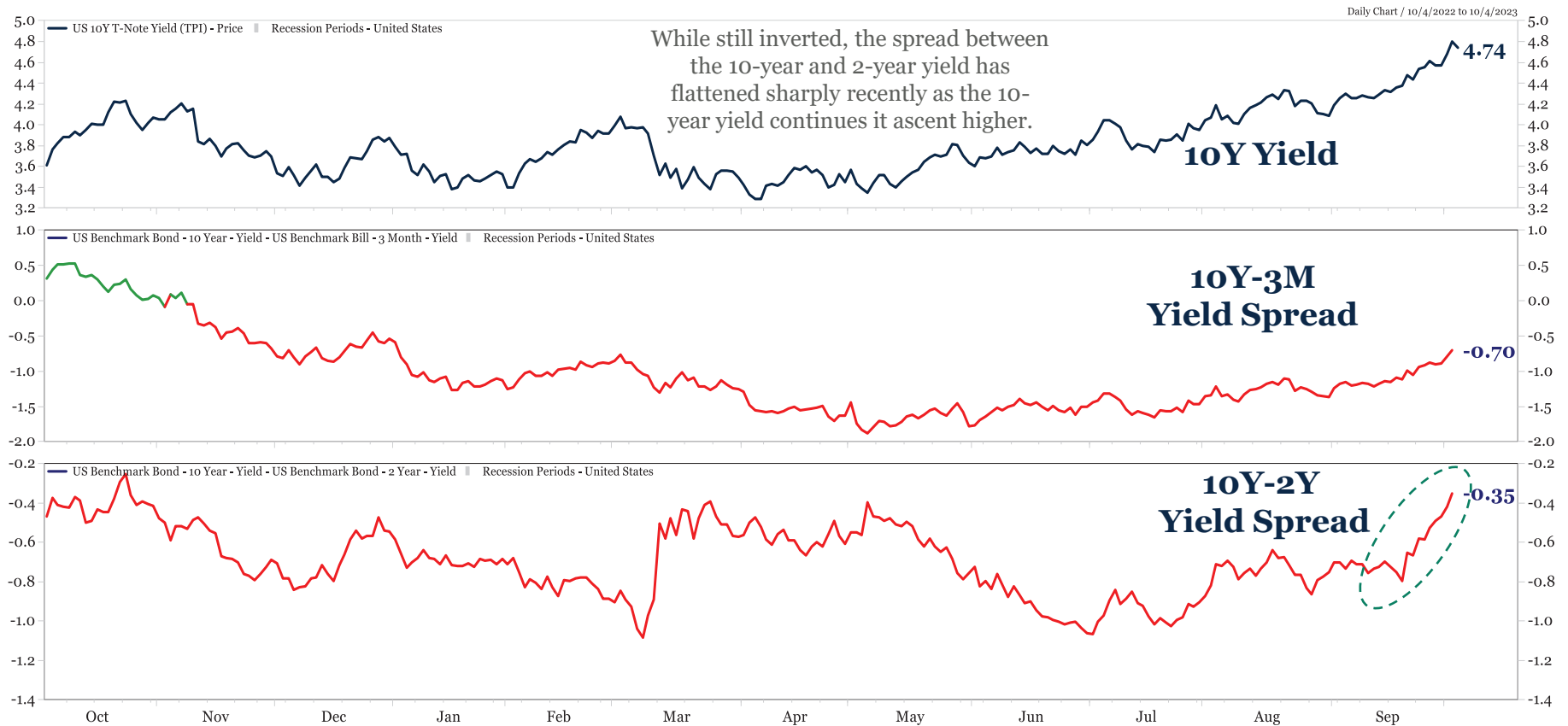
Event	Period	Actual	Consensus	Surprise	Prior
Continuing Jobless Claims SA	09/16	1,670K	1,675K	-5.0K	1,658K
GDP SAAR Q/Q (Final)	Q2	2.1%	2.3%	-0.20%	2.1%
GDP SA Y/Y (Final)	Q2	2.4%	2.5%	-0.10%	2.5%
Initial Claims SA	09/23	204.0K	215.0K	-11.0K	202.0K
Pending Home Sales Index SAAR	AUG	71.8	77.2	-5.4	77.3
Pending Home Sales M/M	AUG	-7.1%	-0.20%	-6.9%	0.52%
BEA Total Light Vehicle Sales (Final)	AUG	15.4M	15.4M	-0.03M	15.0M
Core PCE Deflator M/M	AUG	0.14%	0.20%	-0.06%	0.22%
Core PCE Deflator Y/Y	AUG	3.9%	3.9%	-0.02%	4.3%
PCE Deflator SA M/M	AUG	0.39%	0.50%	-0.11%	0.21%
PCE Deflator Y/Y	AUG	3.5%	3.5%	-0.02%	3.4%
Personal Consumption Expenditure SA M/M	AUG	0.40%	0.45%	-0.05%	0.90%
Personal Income SA M/M	AUG	0.40%	0.40%	-0.0%	0.20%
Chicago PMI SA	SEP	44.1	48.0	-3.9	48.7
Michigan Sentiment NSA (Final)	SEP	68.1	67.7	0.40	67.7
Markit PMI Manufacturing SA (Final)	SEP	49.8	48.5	1.3	48.9
Construction Spending SA M/M	AUG	0.50%	0.45%	0.05%	0.89%
ISM Manufacturing SA	SEP	49.0	47.8	1.2	47.6
JOLTS Job Openings	AUG	9,610K	8,900K	710.0K	8,920K
ADP Employment Survey SA	SEP	89.0K	145.0K	-56.0K	180.0K
PMI Composite SA (Final)	SEP	50.2	50.1	0.07	50.1
Markit PMI Services SA (Final)	SEP	50.1	50.2	-0.10	50.2
Core Capital Goods Orders Growth Monthly M/M (Final)	AUG	0.93%	0.90%	0.03%	0.91%
Durable Orders ex-Transportation SA M/M (Final)	AUG	0.36%	0.40%	-0.04%	0.40%
Durable Orders SA M/M (Final)	AUG	0.15%	0.20%	-0.05%	0.20%
Factory Orders SA M/M	AUG	1.2%	0.45%	0.75%	-2.1%
ISM Services PMI SA	SEP	53.6	53.7	-0.10	54.5

Source: FactSet



## YIELD CURVE

We continue to closely monitor bond yields and the yield curve as the US 10-year Treasury yield has become an important market influence again. Despite still being inverted, the yield curve has experienced a sharp ascent higher in the 10-year yield which has outpaced shorter yields, causing the spread between the 10-year and short-term yields, most notably the 2-year, to steepen recently. Traditionally, inverted yield curves have been a precursor to contractions in the economy and negative for the Financial sector as spreads narrow. However, a steepening of the yield curve could be positive for the Financial sector.



Source: FactSet

## TECHNICAL: S&P 500



Source: FactSet

Selling pressure continues to kick off the 4<sup>th</sup> quarter as equities continue to consolidate as it nears support following the Fed's "hawkish pause". Currently, the S&P 500 is less than 1% above its 200-DMA. Selling pressure has been intense, pushing the S&P 500 into oversold territory with less than 7% and 35% of S&P 500 members trading above their respective 50-DMA and 200-DMA.

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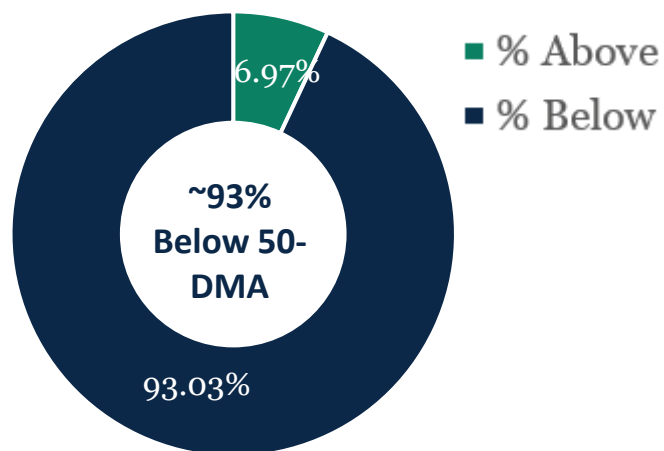
The overall uptrend remains in place for now. The pullback may ultimately have more to go in time or price, but the selloff is becoming overdone in the short-term. Watch bond yields—the US 10-year Treasury yield has become an important market influence again.

## % ABOVE 50-DMA AND 200-DMA

Despite the S&P 500 only off its 52-week high by ~8%, ~93% of S&P 500 members are trading below their respective 50-DMA, which has historically been near a tradeable area. In addition to Utilities, which we will discuss later, Consumer Discretionary stood out as zero members are trading above their respective 50-DMA. On the other hand, Comm. Services has held up the best with 22% of members still trading above their 50-DMA. We will continue to monitor, but we would continue to accumulate favored sectors on pullbacks.

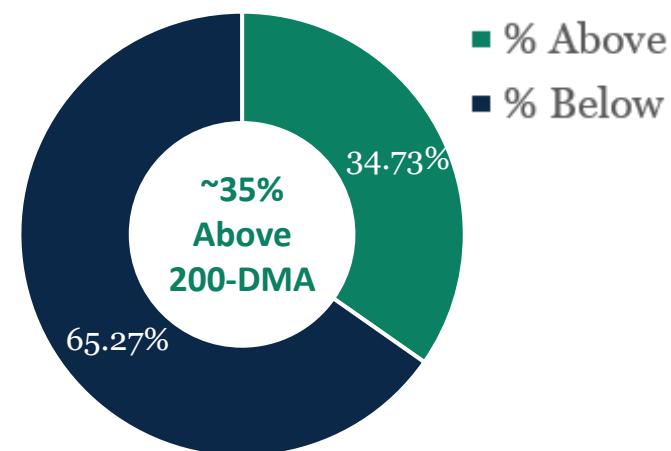
Sector	10 DMA % Above	20 DMA % Above	50 DMA % Above	200 DMA % Above	Index % From 52 Week High
Materials	14	14	17	41	-9.0%
Energy	4	0	13	87	-9.3%
Technology	19	6	9	61	-9.4%
Real Estate	0	0	0	10	-21.8%
Comm. Services	26	9	22	48	-3.4%
Cons. Discretionary	4	2	0	29	-9.7%
Financials	4	4	11	28	-12.3%
Industrials	7	8	1	40	-10.1%
Health Care	9	9	9	25	-8.9%
Consumer Staples	5	5	3	16	-10.9%
Utilities	0	0	0	7	-21.8%
<b>S&amp;P 500</b>	<b>8</b>	<b>6</b>	<b>7</b>	<b>35</b>	<b>-8.0%</b>

### % of S&P 500 Members Above 50-DMA



Source: FactSet

### % of S&P 500 Members Above 200-DMA



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