



Week Ahead

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Week of June 10, 2024

Very Strong Jobs Report

What's wrong with strong job growth? Absolutely nothing! It's great that the U.S. economy remains strong, with more jobs getting added and wages getting better (even if only slightly).

But this latest flex from the jobs markets puts into question the ability of the Federal Reserve (Fed) to cut interest rates anytime soon. Last Friday's job report was significantly stronger than consensus (272,000 vs. 180,000 nonfarm payrolls), outweighing the minor uptick in the unemployment rate, to 4.0%. So, markets need to adjust to this new information, and we will see rates rise and stocks correct. But ultimately, strong economic data is better for the equity market, in our view, because it helps corporate earnings continue to grow. The idea of cheering for a much weaker economy – as some do – is misguided. Even amid healthy forecasts, the global rate cycle has already begun to fall, with Canada and Europe cutting interest rates last week.

G7 Countries Begin to Cut Interest Rates

Canada began the interest rate cut trend on June 5, cutting its benchmark rate by 25 basis points from 5.0% to 4.75%. The European Central Bank (ECB) followed suit on June 6 by also cutting its rates 25 basis points from 4.0% to 3.75%. On the strength of the jobs data, the U.S. market is pulling back on its expectations of a Fed rate cut by September – but, importantly, it still believes a 25 basis point cut will happen. The Fed will remain data dependent and will continue to digest more and more inflation indicators throughout the summer. A rate cut is simply not a slam dunk. However, it's important to remember that last year, the market believed the Fed would start cutting rates – it didn't – but the equity market rallied 24% anyway! Never forget: Markets go up on earnings! And earnings estimates continue to rise for the second quarter. *So, we remain equity Bulls and, in our view, any bucking is an opportunity to buy, buy, buy.*

Rates Back Up But Contained In A Downtrend

The stronger jobs numbers shocked investors, pushing interest rates higher across the yield curve. You'll see in the accompanying charts that 2-Year Treasury yields have a downward bias and within the downtrend are range-bound. Likewise, 10-Year Treasury yields clearly have broken down and are testing their downtrend line near 4.4%. We continue to believe interest rates have peaked for the cycle.

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2-Year Treasury Yield Range-Bound With Downtrend



10-Year Treasury Yields Testing Broken Trendline Near 4.4%

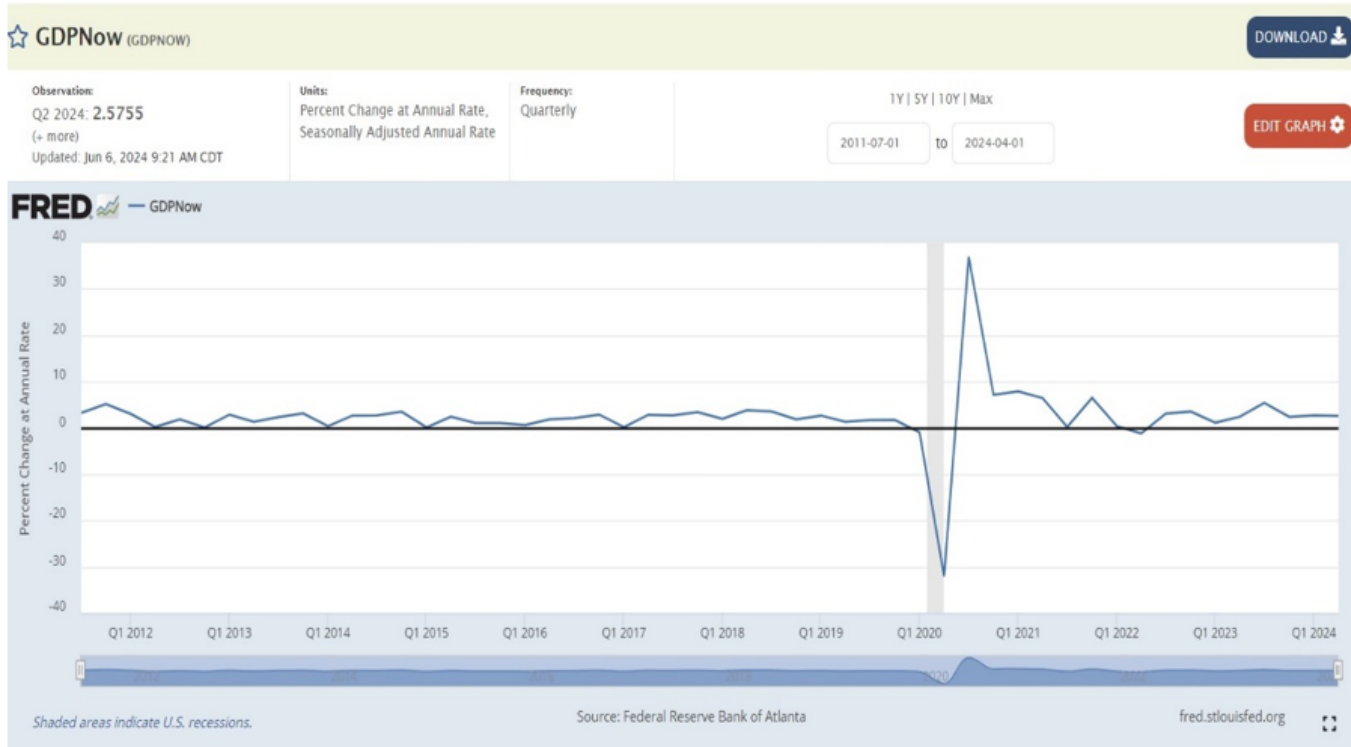


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Economic Growth Still Projected To Be Strong At 2.6%

The Atlanta Federal Reserve GDPNow economic tracker (not an official Fed forecast) has ticked down to 2.6% from over 3%, but this rate of growth is still considered strong and supports the thesis that corporate profits will continue to grow.

Atlanta Federal Reserve GDPNow Tracker



Mega Cap Tech Remains Leadership

Granted, most investors are not technical analysts. But even those who might consider themselves "chartists" don't seem to be focusing on the long-term (at least not the younger generation). And we believe they're missing out on opportunities when it comes to understanding – and appreciating – the magnitude of Big Tech as the market's current leadership.

The accompanying charts show two major ETFs that track key Tech industry indexes: VanEck Semiconductor ETF (SMH) and NYSE FANG+ (NYFANG). Both are showing inverse head and shoulders patterns. This pattern is formed by three clear troughs: a lower "head" between two higher "shoulders." It indicates a potential shift from a bearish to a bullish trend when the price breaks above the "neckline." What we're seeing with both SMH and NYFANG is an extraordinary breakout over a three year base. This is exciting! The big smiles on the charts are not a coincidence. Those of us who chart these patterns are ecstatic – because we also know that they have legs... these indexes will only go higher, in our view.

It also confirms that market leadership – Technology – is intact!

VanEck Semiconductor ETF (SMH) With 3 Year Breakout! Long Runway Ahead



NYSE FANG+ Also Has Significant Breakout: Going Much Higher

NYSE FANG+ With 3-Year Head and Shoulders Bottom Breakout



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Chart We Found Interesting Last Week

The old HP computer company is now Hewlett Packard Enterprise (HPE), “a global edge-to-cloud company.” Well, they’ve caught the “AI bug” and it appears to be doing wonders for them too. The accompanying chart shows a clear breakout. This is a stock to keep an eye on.

Hewlett Packard Enterprise (HPE) – Breaking Out On AI Business



Market Performance

	Last 6/7/2024	Month End 5/31/2024	Month to Date	Quarter End 3/29/2024	Quarter to Date	Year End 12/29/2023	Year to Date	Year Ago 6/8/2023	Year To Year
S&P 500	5346.99	5277.51	1.3%	5254.35	1.8%	4769.83	12.1%	4293.93	24.5%
NASDAQ Composite	17133.13	16735.02	2.4%	16379.46	4.6%	15011.35	14.1%	13238.52	29.4%
NASDAQ 100	462.96	450.71	2.7%	444.01	4.3%	409.52	13.0%	353.15	31.1%
Russell 2000	2026.55	2070.13	-2.1%	2124.55	-4.6%	2027.07	0.0%	1880.78	7.8%
S&P Consumer Discretionary Sector	1445.29	1423.51	1.5%	1485.49	-2.7%	1418.09	1.9%	1253.45	15.3%
S&P Consumer Staples Sector	828.01	824.23	0.5%	814.23	1.7%	762.32	8.6%	763.84	8.4%
S&P Energy Sector	683.43	708.04	-3.5%	721.24	-5.2%	640.05	6.8%	624.43	9.4%
S&P Financial Sector	688.05	691.28	-0.5%	701.32	-1.9%	626.35	9.9%	549.44	25.2%
S&P Health Care Sector	1703.44	1670.88	1.9%	1723.97	-1.2%	1590.36	7.1%	1512.14	12.7%
S&P Industrials Sector	1032.74	1042.88	-1.0%	1066.71	-3.2%	964.73	7.0%	865.78	19.3%
S&P Information Technology Sector	4124.37	3972.21	3.8%	3821.05	7.9%	3397.16	21.4%	2916.83	41.4%
S&P Materials Sector	563.60	575.27	-2.0%	585.16	-3.7%	539.62	4.4%	499.75	12.8%
S&P Real Estate Sector	237.46	238.00	-0.2%	248.16	-4.3%	251.58	-5.6%	233.44	1.7%
S&P Communications Sector	301.34	296.23	1.7%	284.29	6.0%	246.00	22.5%	212.11	42.1%
S&P Utilities Sector	353.03	367.47	-3.9%	333.49	5.9%	321.92	9.7%	336.93	4.8%
S&P 500 Total Return	11650.49	11494.70	1.4%	11418.03	2.0%	10327.83	12.8%	9215.87	26.4%
3 month Treasury Bill Price	98.65	98.65	0.0%	98.66	0.0%	98.66	0.0%	98.69	0.0%
3 month Treasury Bill Total Return	249.76	249.50	0.1%	247.21	1.0%	243.98	2.4%	236.71	5.5%
10 Year Treasury Bond Future	109.31	108.80	0.5%	110.80	-1.3%	112.89	-3.2%	113.03	-3.3%
10 Year Treasury Note Total Return	289.36	287.70	0.6%	291.09	-0.6%	294.12	-1.6%	289.80	-0.2%
iShares 20+ Year Treasury Bond ETF	91.50	90.45	1.2%	94.62	-3.3%	98.88	-7.5%	102.06	-10.3%
S&P Municipal Bond Total Return	271.77	269.12	1.0%	272.69	-0.3%	272.94	-0.4%	262.58	3.5%
iShares S&P National Municipal Bond NAV	106.20	105.49	0.7%	107.42	-1.1%	108.42	-2.0%	106.16	0.0%
S&P 500 Investment Grade Corporate Bond Total Return	452.48	450.71	0.4%	453.46	-0.2%	455.89	-0.7%	432.44	4.6%
S&P Investment Grade Corporate Bond	89.84	89.57	0.3%	90.59	-0.8%	91.76	-2.1%	89.15	0.8%
S&P Investment Grade Corporate Bond Total Return	481.47	479.69	0.4%	481.59	0.0%	482.66	-0.2%	457.89	5.2%
SPDR Bloomberg High Yield Bond ETF	93.93	94.35	-0.4%	95.20	-1.3%	94.73	-0.8%	91.59	2.6%
iShares iBoxx High Yield Corporate Bond ETF	76.89	77.13	-0.3%	77.73	-1.1%	77.39	-0.6%	74.70	2.9%
Gold	2293.78	2327.33	-1.4%	2229.87	2.9%	2062.98	11.2%	1965.46	16.7%
Bitcoin	69270.57	67630.41	2.4%	69654.16	-0.6%	41935.34	65.2%	26645.50	160.0%

Source: Bloomberg, Sanctuary Wealth, June 8, 2024

A Powell Sandwich: Fed Rate Decision Between Two Slices Of Inflation Data

This week will bring eagerly awaited inflation data and a Fed meeting with a foregone conclusion.

We'll get key inflation data this week, with Core Consumer Price Index (CPI) numbers on Wednesday and Core Producer Price Index (PPI) numbers on Thursday. And in between those reports, the Federal Open Market Committee (FOMC) will announce its interest-rate decision. But the strong jobs data from last Friday makes a Fed decision to "hold on rates" a foregone conclusion – no one is expecting a cut at this time. However, the FOMC meeting is important because the market will be hyper-focused on the Fed's comments. And we'll all be studying the quarterly dot plot – which is a visual representation of where top Fed policymakers think the key federal funds rate is headed and how many cuts they're expecting.

Two more market observations to share: recently, even on down days, stocks have been rallying into the close – this is a sign of a strong market. Because markets discount 6 months in advance, during June, you can expect markets to begin pricing in 2025 earnings. So, what we're seeing now is another sign that markets believe that earnings will continue to grow.

Our Bull has room to run!



Calendar

- Mon.** Earnings: Calavo Growers, FuelCell Energy, Lovesac, Yext
- Tue.** 6:00 am NFIB optimism index
Earnings: Academy Sports + Outdoors, Casey's General Stores, Oracle
- Wed.** 8:30 am Consumer price index, Core CPI
2:00 pm FOMC interest-rate decision, Monthly U.S. federal budget
2:30 pm Fed Chair Jerome Powell press conference
Earnings: Broadcom, Dave & Buster's Entertainment, Oxford Industries, Torrid
- Thu.** 8:30 am Initial jobless claims, Producer price index, PPI year over year, Core PPI
Earnings: Adobe, Korn Ferry, Signet Jewelers, Veradigm, Wiley
- Fri.** 8:30 am Import price index
10:00 am Consumer sentiment (prelim)

Source: MarketWatch/Kiplinger

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