

Concenture Week Ahead

Robert Gilliland

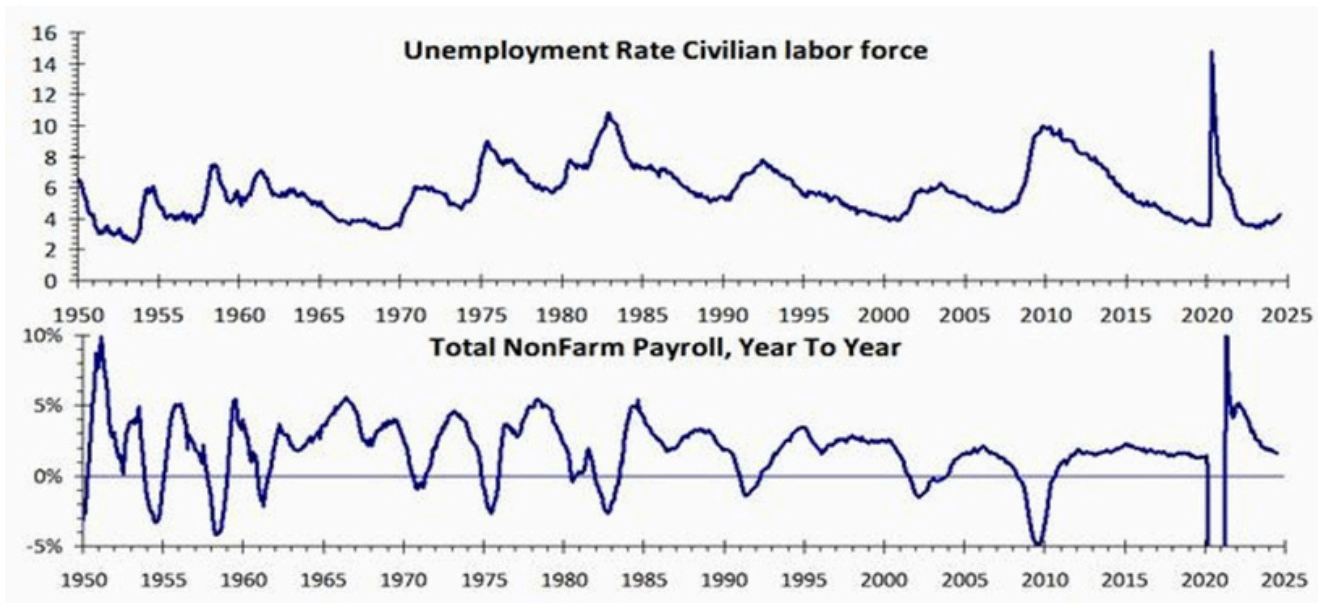
 Week of August 5, 2024

Too Early, Too Late Or Will It Be Just Right?

Investors have been debating all year whether the economy was slowing – and if so, by how much – and most importantly, what should the Federal Reserve (Fed) be doing with interest rates?

The Fed has been claiming to be data dependent, and recent economic data suggests inflation is indeed slowing, but the economy itself is slowing more. The market has been pricing in a soft landing, but recent manufacturing data has come in very weak, with last Friday's July job report showing much weaker job growth for both non-farm and private payrolls. Adding to this data, the unemployment rate had another big uptick to 4.3% (the low in 2023 was 3.4%). So, the market is now concerned the economy is heading toward a hard landing, i.e., a recession. As a result, the market is now factoring in five interest rate cuts by January 2025. Our barometer for a recession will be if the 2-year Treasury yield falls and stays below 3.5%. Rate cuts are surely coming, but will they be enough to slow the economy – but not so much that it crashes into a recession? The debate now is: can the Fed cut rates soon enough and deep enough for a "Just Right" economy?

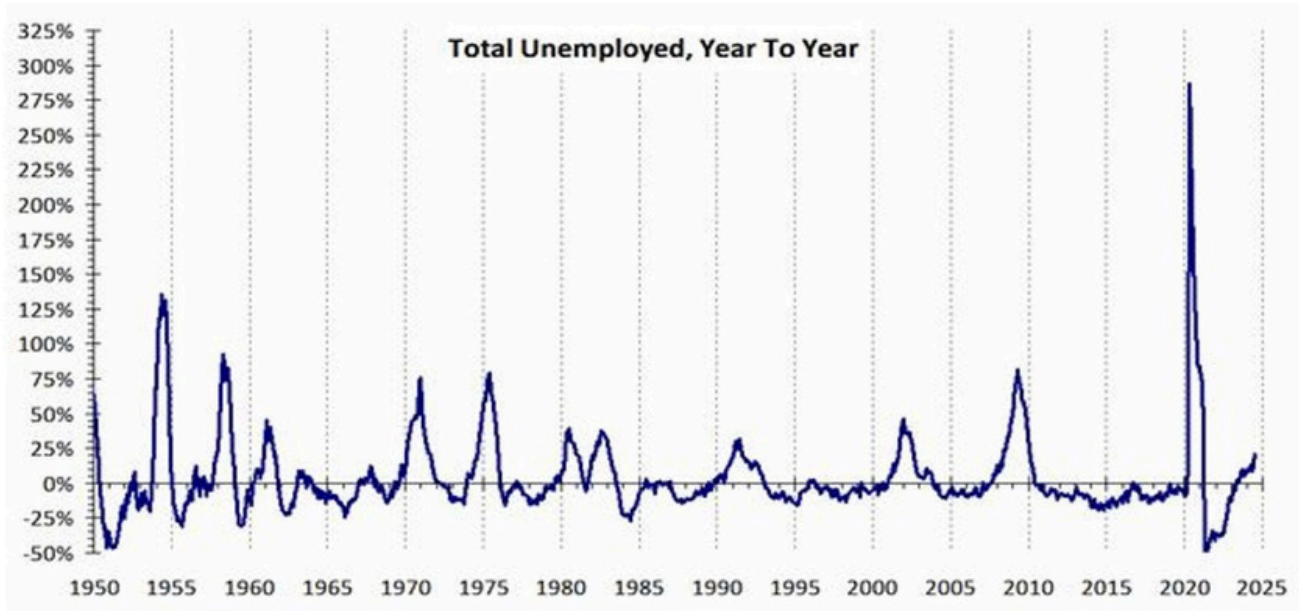
The Level Of Unemployment Is Rising



Source: Bureau of Labor Statistics, Sanctuary Wealth, August 2, 2024

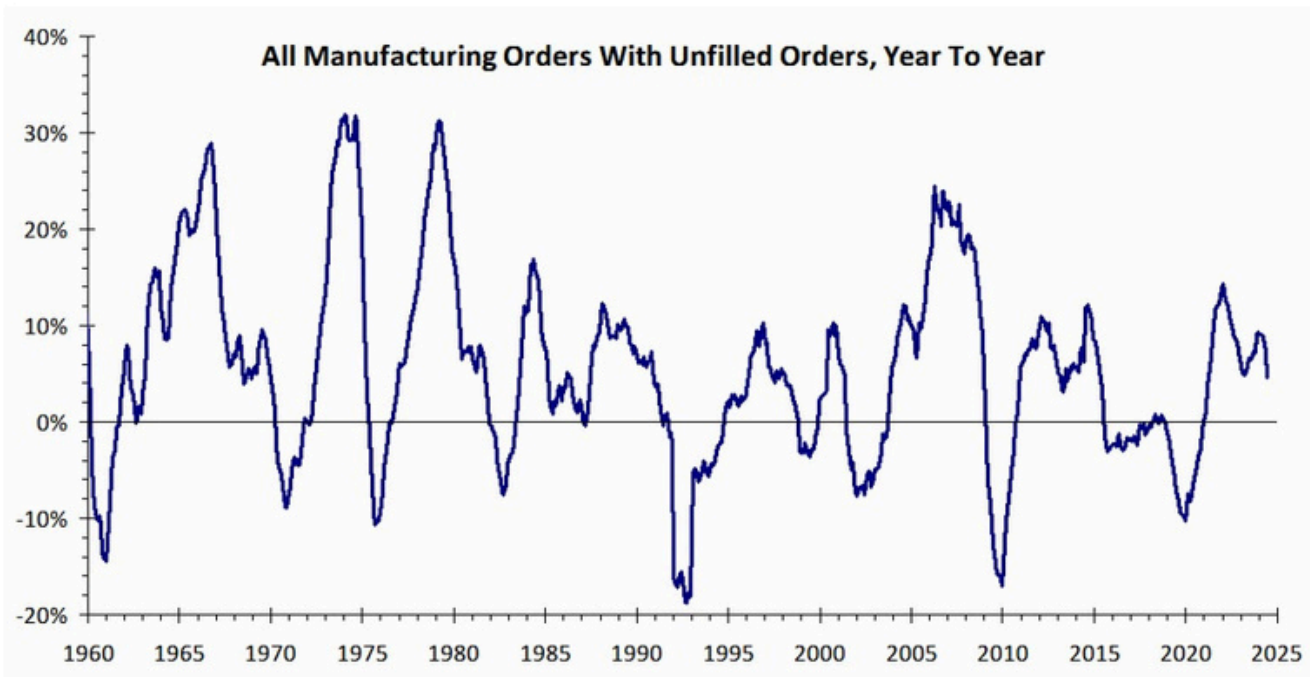


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Source: Bureau of Labor Statistics, Sanctuary Wealth, August 2, 2024

Manufacturing Is Slowing Sharply



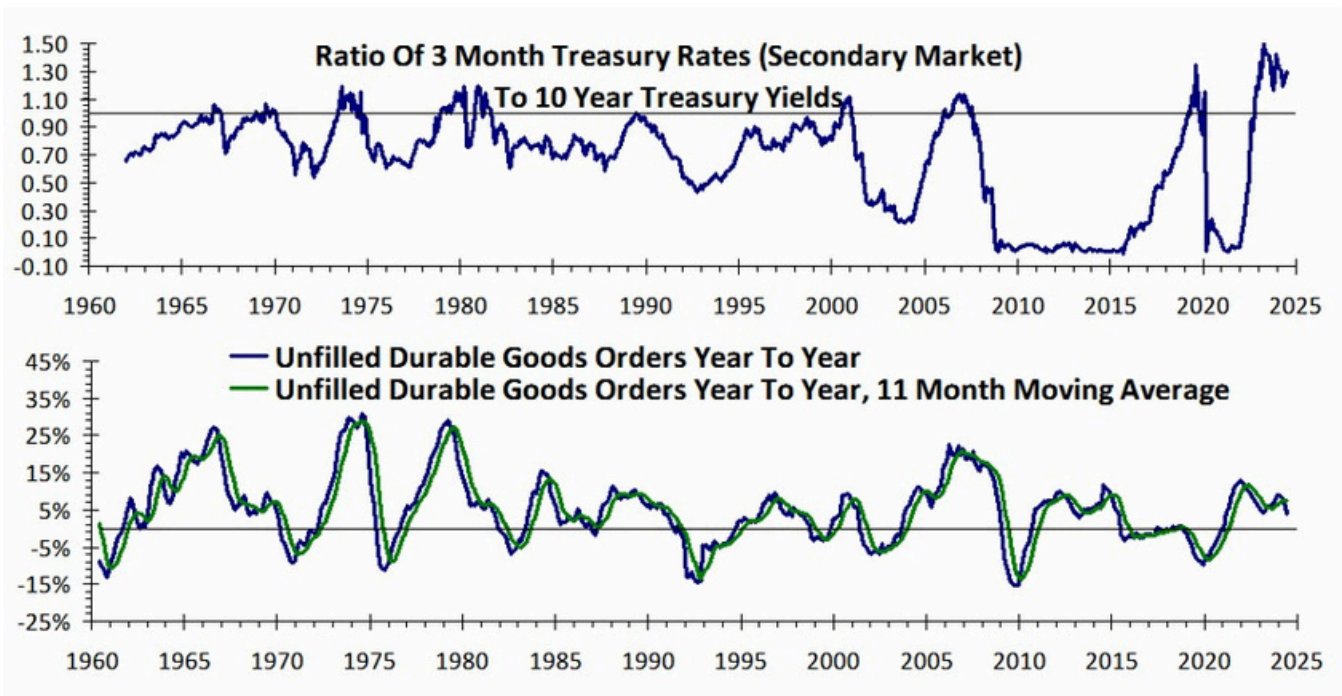
Source: Bureau of the Census, Sanctuary Wealth, August 2, 2024



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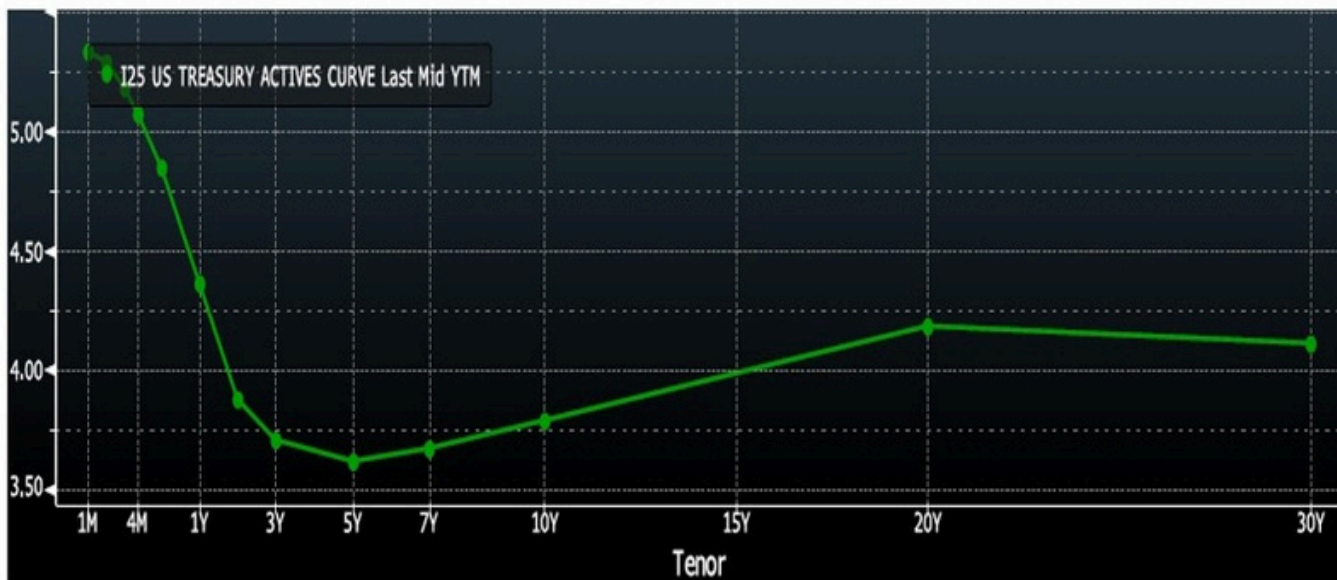
Two Peaks That Indicate Rate Cuts Are Coming: Treasury Ratios & Unfilled Durable Goods

Historically, a peak in the ratio of 3-month Treasury yields to 10-year Treasury yields, combined with a peak in unfilled durable goods orders, signals that lower interest rates are coming.



Source: Bloomberg, Bureau of the Census, Sanctuary Wealth, August 4, 2024

U.S. Treasury Yield Curve: Market Is Expecting Short Term Rates To Plummet



Source: Bloomberg, August 2, 2024

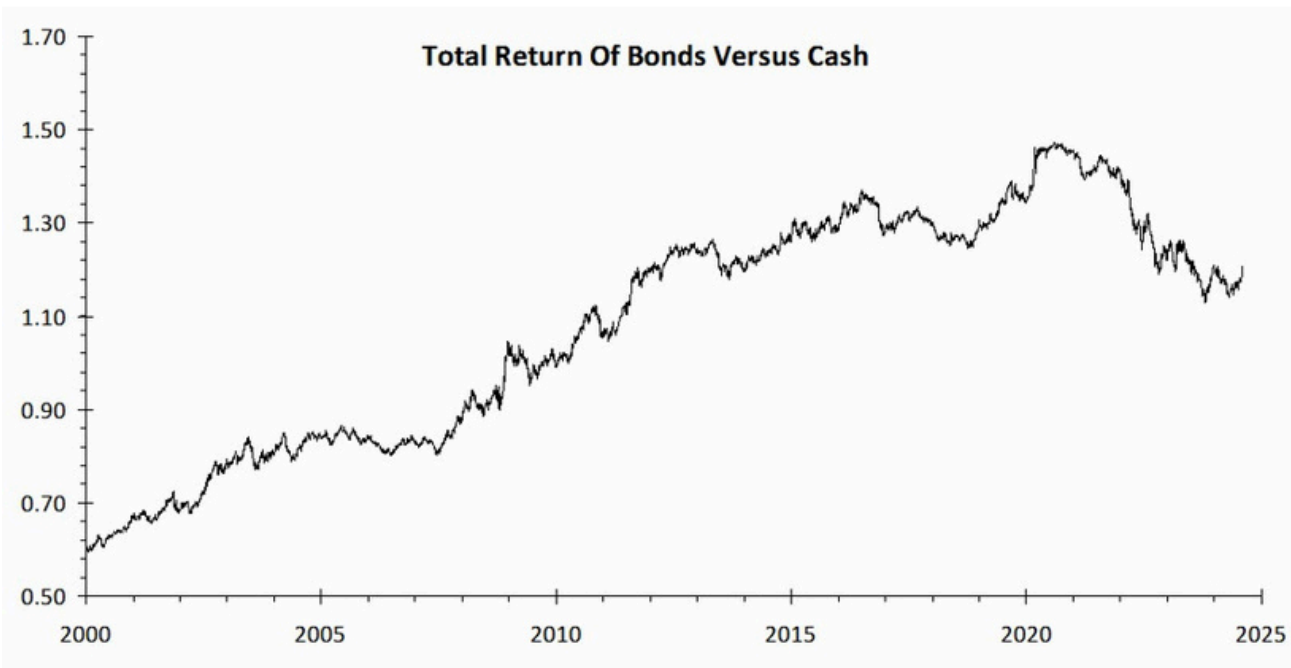


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Yield Curve Steepening As Short Term Rates Collapse On Weaker Economic Data
Historically A Steepening Signals Volatility In Equities
Yield Curve For 2 Year – 10 Year Treasuries



Bonds Now Look More Attractive Relative To Cash: Double Bottom In Place



Source: Bloomberg, Sanctuary Wealth, August 3, 2024



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2-Year Treasury Yield With Major Top – Is A 2% Handle Coming?

We believe the 2-Year Treasury yield has formed a major top. A break of 3.5% and holding below this level would tell us the market is pricing in a recession. We had believed that this risk was for next year – but now we must watch this closely. A solid break of 3.5% points to a range of 2.5%-1.2%. Lock in rates now because they have clearly topped!

2-Year Treasury With Major Top Formation: Support Range 4.0%-3.5%



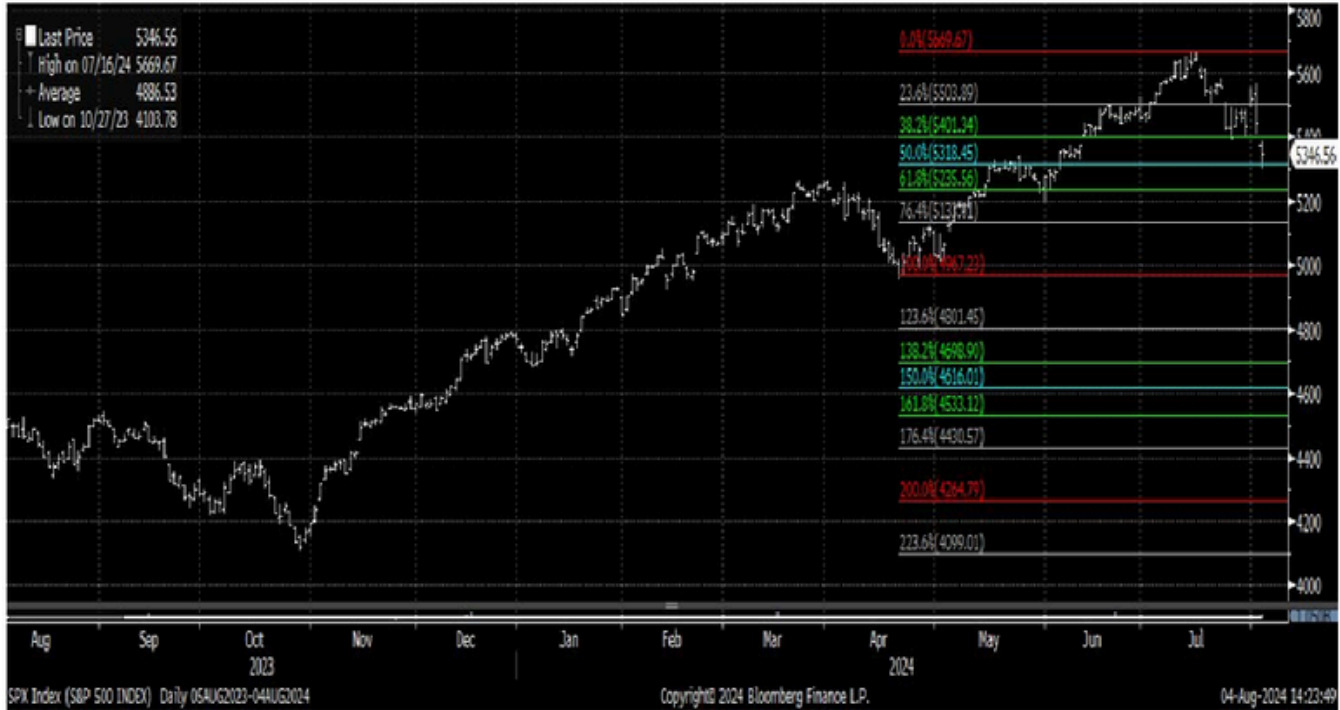
S&P 500 Historically Up In August Of Presidential Election Years

The month of August in Presidential election years shows the S&P 500 up 71% of the time with an average return of 3.1% (1.0% median return). The equity market is now very oversold. A good flush-out in sentiment was signaled in the VIX index and ARMs Trading index. Indicators of market breadth, such as the McClellan Summation Index, need further movement to confirm that market breadth has fully capitulated. It is normal for equities to correct one-third to one-half a move, so markets that are up a lot, correct a lot. Occasionally the correction is as much as 61.8%. The S&P 500 has corrected 50% of the move from the April 2024 lows while the Nasdaq 100 has corrected 61.8%. Last week, we saw increased fear gauges and excessive selling signals. Capitulation appears to have been achieved. Equities can have a strong rally in August.



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The S&P 500 Has Corrected 50% Of The Rally Since April Lows



The Nasdaq 100 Has Corrected 50% Of The Rally Since April Lows



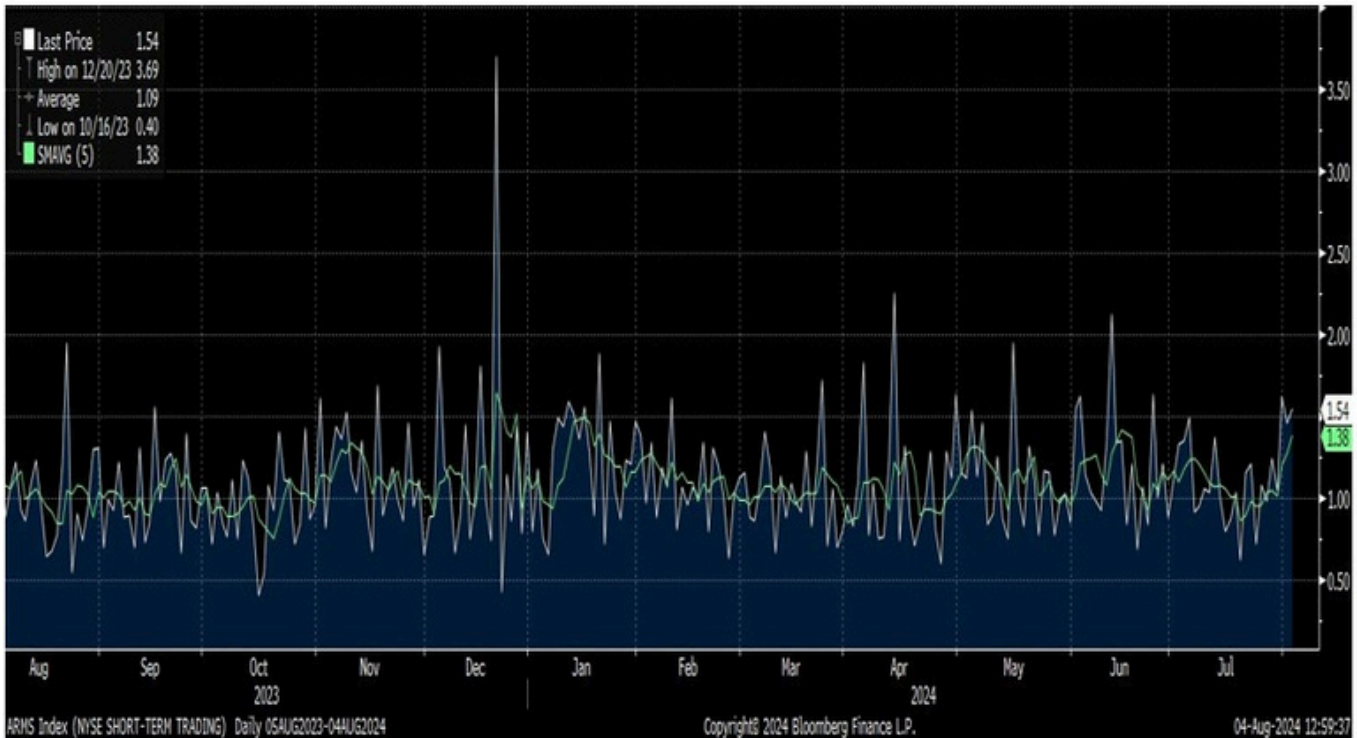


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Market Capitulation Signaled With VIX Volatility Spiking Up Near 30



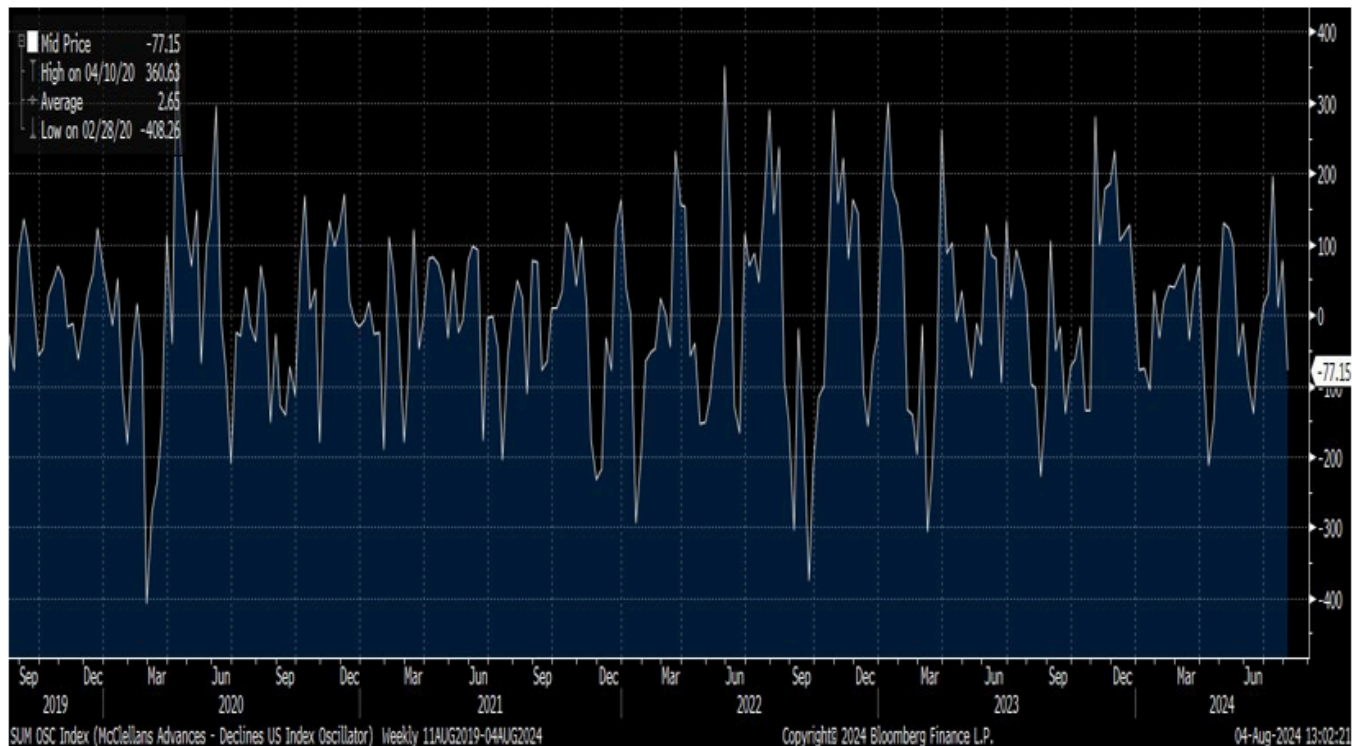
ARMS NYSE Trading Index Rising Signals Close To A Bottom In Stocks



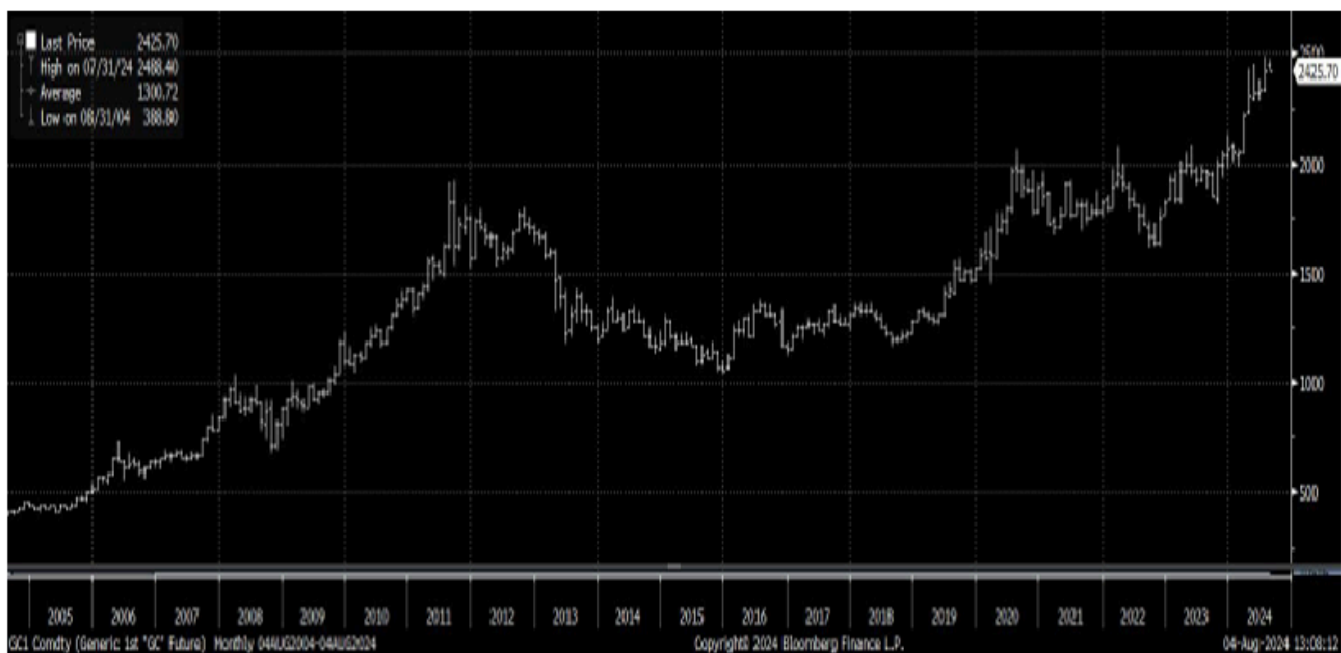


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McClellan Summation Index Still Needs Some Work



Gold Medal Goes To Gold





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2Q24 EPS Coming In Strong

According to FactSet, at the end of last week, 75% of companies in the S&P 500 have reported results for Q2 2024. Of these companies, 78% have reported EPS above estimates, which is above the 5-year average of 77% and above the 10-year average of 74%. In aggregate, companies are reporting earnings that are 4.5% above estimates.

During the past week, positive EPS surprises reported by three of the Magnificent 7 companies (in three different sectors) were the largest contributors to the increase in the overall earnings growth rate for the Nasdaq 100 index over this period. Since June 30, upward revisions to EPS estimates and positive EPS surprises were reported by companies in the Financials, Consumer Discretionary, Communication Services, and Information Technology sectors, the largest contributors to the increase in the overall earnings growth rate for the S&P 500 index over this period. These moves were partially offset by downward revisions to EPS estimates and negative EPS surprises reported by companies in the Energy and Healthcare sectors.

Eight of the 11 sectors are reporting year-over-year growth in earnings for 2Q24. Six of these 8 sectors are reporting double-digit growth: Communication Services, Information Technology, Financials, Utilities, Health Care, and Consumer Discretionary. On the other hand, 3 sectors are reporting a year-over-year decline in earnings, led by the Materials sector.

Market Performance

	Last 8/2/2024	Month End 7/31/2024	Month to Date	Quarter End 6/28/2024	Quarter to Date	Year End 12/29/2023	Year to Date	Year Ago 8/3/2023	Year To Year
S&P 500	5346.56	5522.30	-3.2%	5460.48	-2.1%	4769.83	12.1%	4501.89	18.8%
NASDAQ Composite	16776.16	17599.40	-4.7%	17732.60	-5.4%	15011.35	11.8%	13959.71	20.2%
NASDAQ 100	448.75	471.07	-4.7%	479.11	-6.3%	409.52	9.6%	373.79	20.1%
Russell 2000	2109.31	2254.48	-6.4%	2047.69	3.0%	2027.07	4.1%	1961.40	7.5%
S&P Consumer Discretionary Sector	1414.01	1516.58	-6.8%	1492.14	-5.2%	1418.09	-0.3%	1326.59	6.6%
S&P Consumer Staples Sector	850.74	834.36	2.0%	819.86	3.8%	762.32	11.6%	790.90	7.6%
S&P Energy Sector	678.47	712.42	-4.8%	698.23	-2.8%	640.05	6.0%	663.21	2.3%
S&P Financial Sector	700.04	727.47	-3.8%	684.26	2.3%	626.35	11.8%	582.52	20.2%
S&P Health Care Sector	1757.39	1742.67	0.8%	1700.33	3.4%	1590.36	10.5%	1547.02	13.6%
S&P Industrials Sector	1038.80	1081.94	-4.0%	1031.96	0.7%	964.73	7.7%	921.18	12.8%
S&P Information Technology Sector	4024.50	4249.09	-5.3%	4341.09	-7.3%	3397.16	18.5%	3078.00	30.8%
S&P Materials Sector	567.59	580.51	-2.2%	556.50	2.0%	539.62	5.2%	527.26	7.6%
S&P Real Estate Sector	262.65	258.33	1.7%	241.17	8.9%	251.58	4.4%	234.90	11.8%
S&P Communications Sector	294.18	297.29	-1.0%	310.19	-5.2%	246.00	19.6%	224.82	30.9%
S&P Utilities Sector	377.01	369.64	2.0%	346.33	8.9%	321.92	17.1%	328.62	14.7%
S&P 500 Total Return	11669.18	12052.09	-3.2%	11907.15	-2.0%	10327.83	13.0%	9680.36	20.5%
3 month Treasury Bill Price	98.68	98.68	0.0%	98.66	0.0%	98.66	0.0%	98.65	0.0%
3 month Treasury Bill Total Return	251.82	251.66	0.1%	250.53	0.5%	243.98	3.2%	238.60	5.5%
10 Year Treasury Bond Future	114.14	111.81	2.1%	109.98	3.8%	112.89	1.1%	110.23	3.5%
10 Year Treasury Note Total Return	304.62	298.32	2.1%	292.03	4.3%	294.12	3.6%	283.18	7.6%
iShares 20+ Year Treasury Bond ETF	98.28	94.81	3.7%	91.78	7.1%	98.88	-0.6%	94.85	3.6%
S&P Municipal Bond Total Return	278.19	275.77	0.9%	273.41	1.7%	272.94	1.9%	261.69	6.3%
iShares S&P National Municipal Bond NAV	107.95	107.29	0.6%	106.67	1.2%	108.42	-0.4%	105.27	2.5%
S&P 500 Investment Grade Corporate Bond Total Return	469.05	463.87	1.1%	453.34	3.5%	455.89	-2.9%	427.99	9.6%
S&P Investment Grade Corporate Bond	92.43	91.47	1.1%	89.77	3.0%	91.76	0.7%	87.87	5.2%
S&P Investment Grade Corporate Bond Total Return	498.68	493.39	1.1%	482.45	3.4%	482.66	3.3%	454.16	9.8%
SPDR Bloomberg High Yield Bond ETF	94.79	95.84	-1.1%	94.27	0.6%	94.73	0.1%	91.04	4.1%
iShares iBoxx High Yield Corporate Bond ETF	77.70	78.54	-1.1%	77.14	0.7%	77.39	0.4%	74.21	4.7%
Gold	2443.24	2447.60	-0.2%	2326.75	5.0%	2062.98	18.4%	1934.06	26.3%
Bitcoin	62551.57	64559.96	-3.1%	60118.16	4.0%	41935.34	49.2%	29284.99	113.6%

Source: Bloomberg, Sanctuary Wealth, August 3, 2024

Will Stocks Find Their Footing To Have An August Rally?

This week's sleepy economic data might be outshined by Olympic medal counts.

Finally, we get a slight reprieve as this will be a light week for economic data, with our focus turning to ISM Services and Initial Jobless Claims. Of course, earnings will continue to dominate the headlines. But all will be watching to see if stocks can find a bottom and then begin building up towards a rally. And of course, the market will be watching for interest rates to stabilize and stop falling...at least for now.



Calendar

- Mon.**
 - 9:45 am S&P final U.S. services PMI
 - 10:00 am ISM services
 - Earnings*: Tyson Foods, Avis Budget, CSX, Diamondback Energy, Fidelity National, Palantir Technologies, Simon Properties
- Tue.**
 - 8:30 am U.S. trade deficit
 - Earnings: Uber Technologies, Caterpillar, Aramark, Constellation Energy, Hyatt Hotels, Starwood Property Trust
- Wed.**
 - 3:00 pm Consumer credit
 - Earnings: Walt Disney, American Financial Group, CVS Health, Ralph Lauren, Suncor Energy, Sunoco, Robinhood Markets, CF Industries, Occidental Petroleum, Super Micro Computer
- Thu.**
 - 8:30 am Initial jobless claims
 - 10:00 am Wholesale inventories
 - 3:00 pm Richmond Fed President Tom Barkin speaks
 - Earnings: Eli Lilly, Ironwood Pharmaceuticals, Under Armour, Mercer International
- Fri.**
 - Earnings: AMC Networks

Source: MarketWatch/Kiplinger/CNBC

*Earnings reflect highlights

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