

Can Midcap Stocks Ignore Bond Yields?

The graphs below show the daily and weekly graphs of MDY, the midcap ETF, alongside ten-year note yields. The midcap index is breaking out to record highs. Such is not surprising given the S&P 500, Dow Jones Industrial Average, and the Nasdaq also reached new records recently. What is surprising is that the midcap index is setting a record high as interest rates are starting to inch higher again.

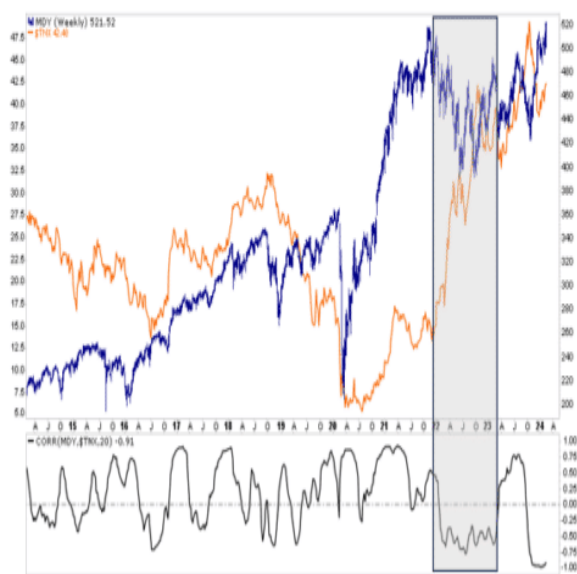
The smaller graph beneath the daily price graph below shows the running 50-day correlation between midcap stocks and ten-year note yields. From August 2023 through year-end, the correlation was almost perfectly inverse. As yields rose, midcaps fell and vice versa. The inverse relationship is not surprising, as midcap stocks have fewer financing options than larger-cap companies, and their earnings tend to be more sensitive to interest rates. Despite the fundamental relationship, the recent uptick in yields does not concern midcap investors as the index moves upward. The weekly graph highlights the periods when the Fed was actively raising rates. As expected, the correlation was decently negative.

If midcaps can ignore higher rates in the short term and benefit more than larger cap stocks when rates decline, as we think is likely over the medium term, midcap stocks may present an alternative to the S&P 500.

Daily



Weekly



Earnings

Time	Symbol	Company Name	Market Cap▼	Fiscal Quarter Ending	Consensus EPS* Forecast	# Of Ests	Last Year's Report Date	Last Year's EPS*
☹	HSBC	HSBC Holdings plc	\$785,159,910,000	Dec/2023	\$0.90	1	2/21/2023	\$1.15
☀	WMT	Walmart Inc.	\$455,768,243,580	Jan/2024	\$1.65	14	2/21/2023	\$1.71
☀	HD	Home Depot, Inc. (The)	\$359,369,146,631	Jan/2024	\$2.76	15	2/21/2023	\$3.30
☀	BHP	BHP Group Limited	\$150,986,781,671	Dec/2023		6	N/A	N/A
☺	PANW	Palo Alto Networks, Inc.	\$115,677,264,000	Jan/2024	\$0.58	14	2/21/2023	\$0.34
☀	BCS	Barclays PLC	\$114,647,720,000	Dec/2023	\$0.36	1	2/15/2023	\$0.31
☀	MDT	Medtronic plc	\$112,648,313,227	Jan/2024	\$1.26	14	2/21/2023	\$1.30
☺	PSA	Public Storage	\$50,334,859,734	Dec/2023	\$4.15	10	2/21/2023	\$4.16
☺	O	Realty Income Corporation	\$37,658,507,960	Dec/2023	\$1.02	7	2/21/2023	\$1
☺	CSGP	CoStar Group, Inc.	\$33,877,825,009	Dec/2023	\$0.28	4	2/21/2023	\$0.35
☺	FANG	Diamondback Energy, Inc.	\$31,952,386,311	Dec/2023	\$4.61	11	2/21/2023	\$5.29
☺	KEYS	Keysight Technologies Inc.	\$27,014,307,230	Jan/2024	\$1.41	5	2/21/2023	\$1.72
☺	IFF	International Flavors & Fragrances, Inc.	\$20,687,821,019	Dec/2023	\$0.75	6	2/08/2023	\$0.97
☀	WLK	Westlake Corporation	\$18,484,305,784	Dec/2023	\$0.81	7	2/21/2023	\$1.79
☀	EXPD	Expeditors International of Washington, Inc.	\$18,307,429,596	Dec/2023	\$1.21	5	2/21/2023	\$1.38
☺	VIV	Telefonica Brasil S.A.	\$18,016,319,396	Dec/2023		N/A	2/15/2023	\$0.13
☀	CNP	CenterPoint Energy, Inc.	\$17,592,200,617	Dec/2023	\$0.32	4	2/17/2023	\$0.28
☺	CE	Celanese Corporation	\$16,556,870,900	Dec/2023	\$2.29	9	2/23/2023	\$1.44
☹	IHG	Intercontinental Hotels Group	\$16,336,941,954	Dec/2023		6	N/A	N/A
☺	SUI	Sun Communities, Inc.	\$15,968,812,940	Dec/2023	\$1.34	3	2/22/2023	\$1.33
☺	GFL	GFL Environmental Inc.	\$13,467,453,381	Dec/2023	\$0.18	7	2/21/2023	(\$0.02)
☹	FMS	Fresenius Medical Care AG	\$12,346,837,933	Dec/2023	\$0.36	4	2/21/2023	\$0.44
☀	ALLE	Allegion plc	\$11,702,960,423	Dec/2023	\$1.57	3	2/22/2023	\$1.60
☺	TOL	Toll Brothers, Inc.	\$10,864,812,913	Jan/2024	\$1.77	8	2/21/2023	\$1.70
☺	CHK	Chesapeake Energy Corporation	\$10,235,430,206	Dec/2023	\$0.42	5	2/21/2023	\$4.22
☺	WSC	WillScot Mobile Mini Holdings Corp.	\$9,602,594,132	Dec/2023	\$0.53	7	2/21/2023	\$0.46
☺	CZR	Caesars Entertainment, Inc.	\$9,310,073,207	Dec/2023	(\$0.03)	8	2/21/2023	(\$0.11)
☹	APLS	Apellis Pharmaceuticals, Inc.	\$8,008,226,283	Dec/2023	(\$0.66)	10	2/21/2023	(\$1.50)
☀	MIDD	The Middleby Corporation	\$7,754,774,220	Dec/2023	\$2.44	6	2/21/2023	\$2.57
☺	GPK	Graphic Packaging Holding Company	\$7,611,534,752	Dec/2023	\$0.69	5	2/07/2023	\$0.59
☺	CIB	BanColombia S.A.	\$7,588,815,030	Dec/2023	\$1.32	2	2/23/2023	\$1.42
☺	TX	Temium S.A.	\$7,511,773,669	Dec/2023	\$1.32	3	2/14/2023	\$0.20
☀	KBR	KBR, Inc.	\$7,448,191,865	Dec/2023	\$0.68	6	2/16/2023	\$0.69
☀	UFPI	UFP Industries, Inc.	\$7,402,669,550	Dec/2023	\$1.68	4	2/21/2023	\$2.10
☺	GMED	Globus Medical, Inc.	\$7,378,825,538	Dec/2023	\$0.59	9	2/21/2023	\$0.59
☀	FLR	Fluor Corporation	\$7,288,646,350	Dec/2023	\$0.56	2	2/21/2023	\$0.43
☺	MTDR	Matador Resources Company	\$7,026,577,345	Dec/2023	\$1.83	6	2/21/2023	\$2.08
☺	GGB	Gerdau S.A.	\$6,961,332,310	Dec/2023	\$0.12	2	4/03/2023	\$0.22
☹	DDS	Dillard's, Inc.	\$6,872,213,519	Jan/2024	\$11.59	3	2/21/2023	\$14.50
☹	CRSP	CRISPR Therapeutics AG	\$6,710,453,038	Dec/2023	(\$0.40)	13	2/21/2023	(\$1.41)
☺	VNOM	Viper Energy, Inc.	\$6,135,970,555	Dec/2023	\$0.47	9	2/21/2023	\$0.28
☀	CHH	Choice Hotels International, Inc.	\$5,913,084,101	Dec/2023	\$1.35	6	2/15/2023	\$1.26
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Economy

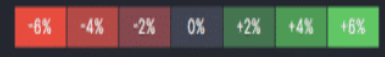
- *No notable economic releases*

Market Trading Update

With the market closing yesterday during President's Day, nothing changed from Friday's close. The two small sell-offs last week, following inflation reports, failed to break the 20-DMA. As such, the bullish trends remain in place for now. [*As noted last week*](#), the market remains within striking distance of new highs, and we have seen some rotation from the 'Mag 7' as shown in the heat map for last week.



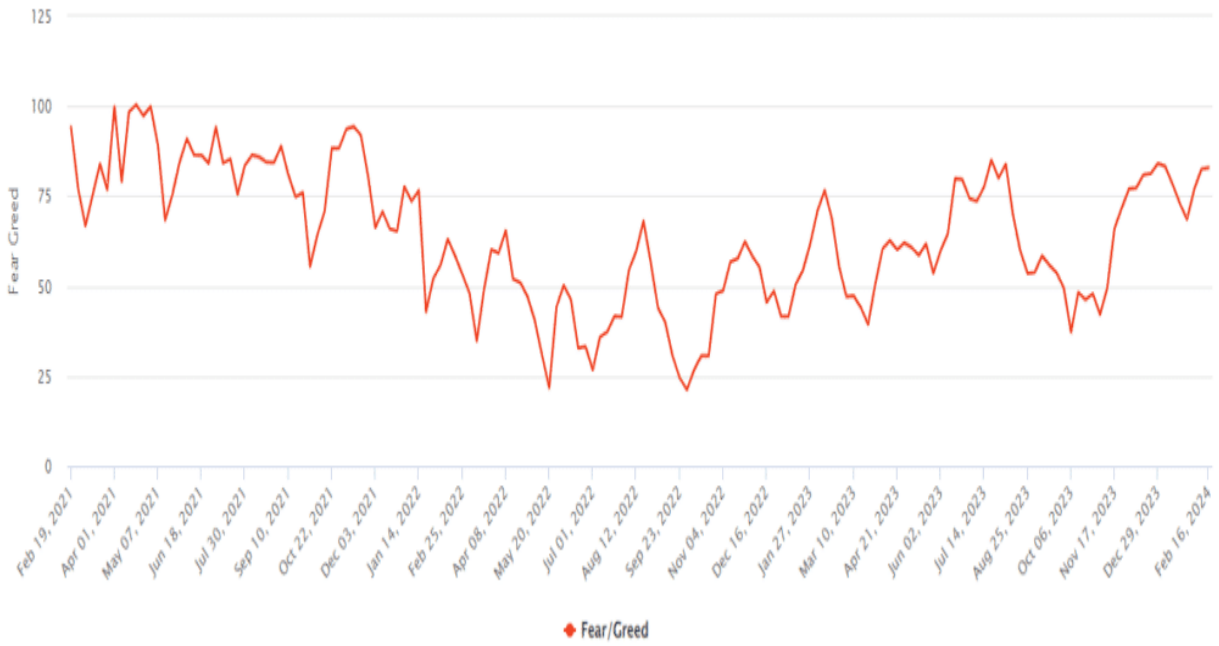
Use mouse wheel to zoom in and out. Drag zoomed map to pan it.
 Double-click a ticker to display detailed information in a new window.
 Mouse hover over a ticker to see its main contributors in a stacked view with a 3-month history graph.



Overall, the market remains strong, and positioning is becoming very stretched on both a technical and absolute positioning basis shown in both our Technical and Positioning data.

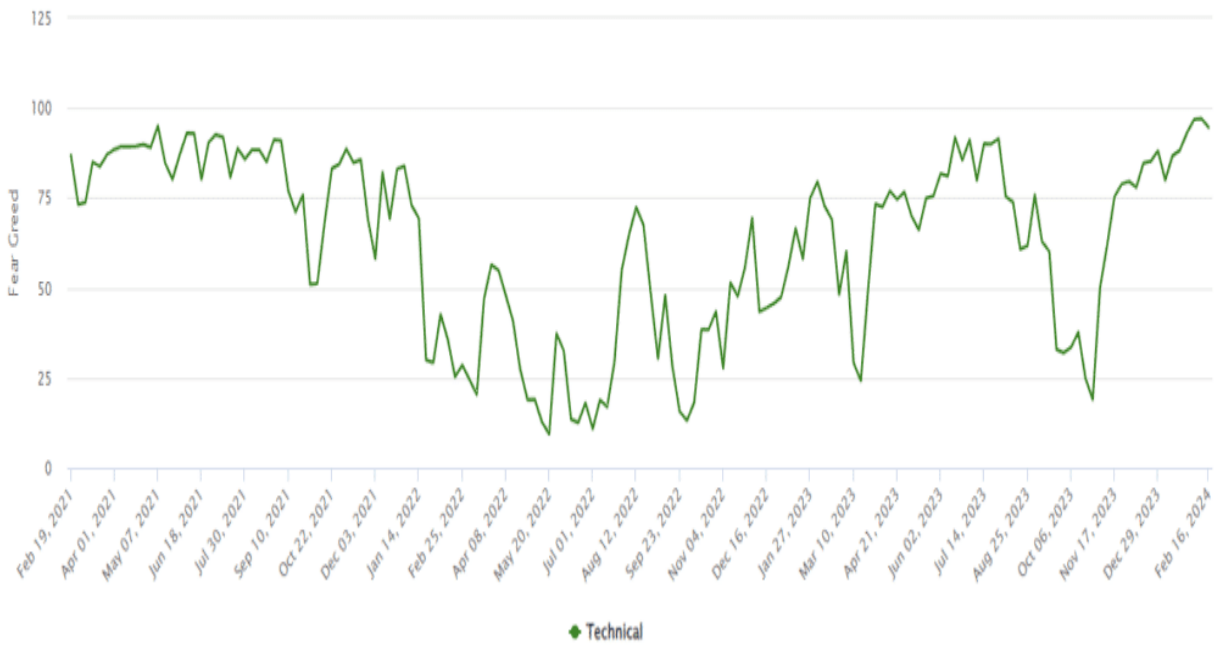
Fear/Greed

YTD 1M 3M 6M 1Y 3Y Max



Technical Gauge

YTD 1M 3M 6M 1Y 3Y Max



Fear/Greed

YTD 1M 3M 6M 1Y 3Y Max



Furthermore, despite the bullish attitudes of investors, breadth continues to deteriorate.



The risk of correction is elevated, so we suggest rebalancing portfolio risk to hedge against a market pullback. The deviation between the S&P and the 200-DMA is rather extreme, suggesting a 5-10% correction is becoming more probable.

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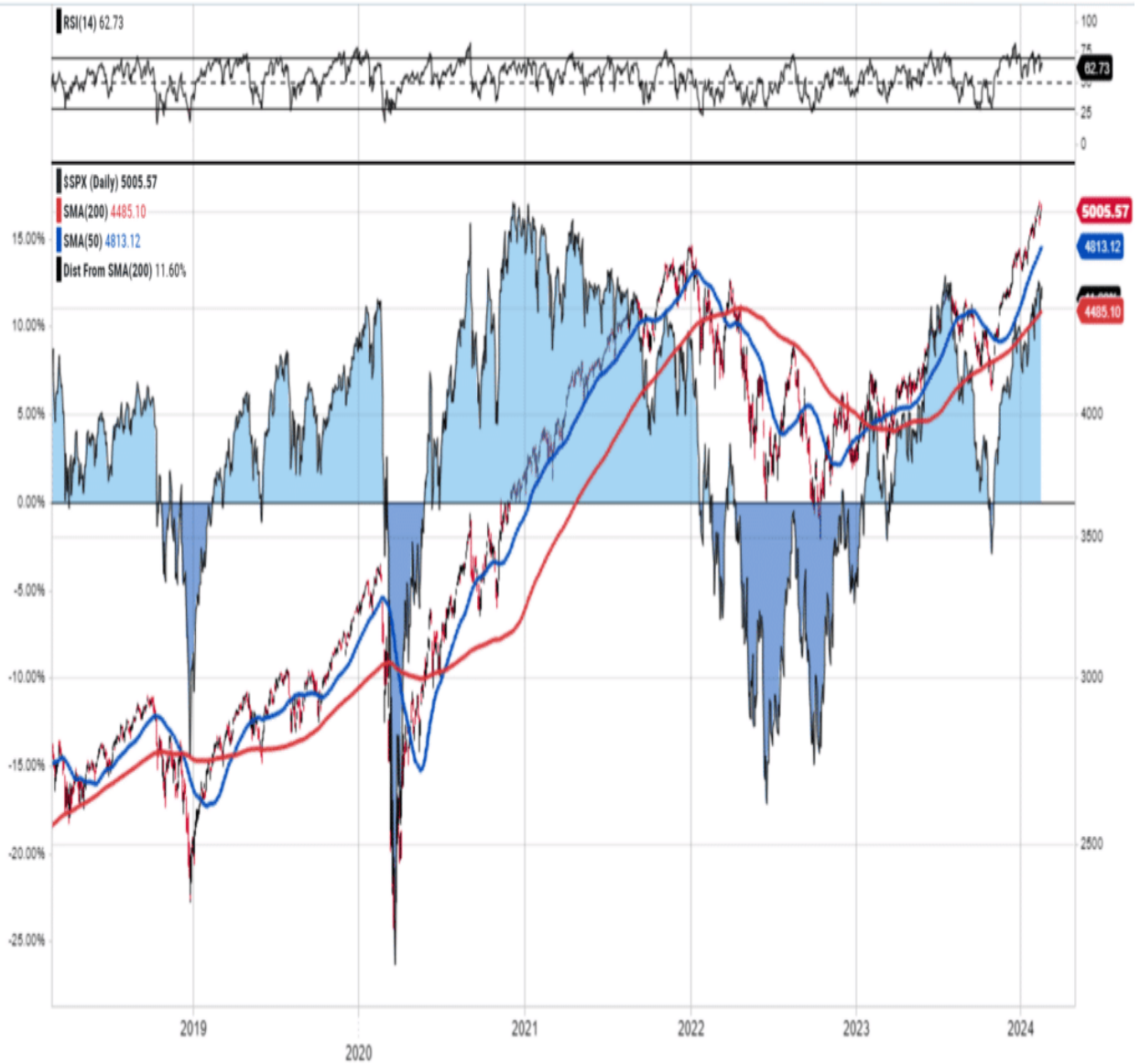
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\$SPX - S&P 500 Large Cap Index

5,005.57 ▼

16-Feb-2024

O: 5,031.13 H: 5,038.70 L: 4,999.52 V: 2.301b -24.16 (-0.48%)



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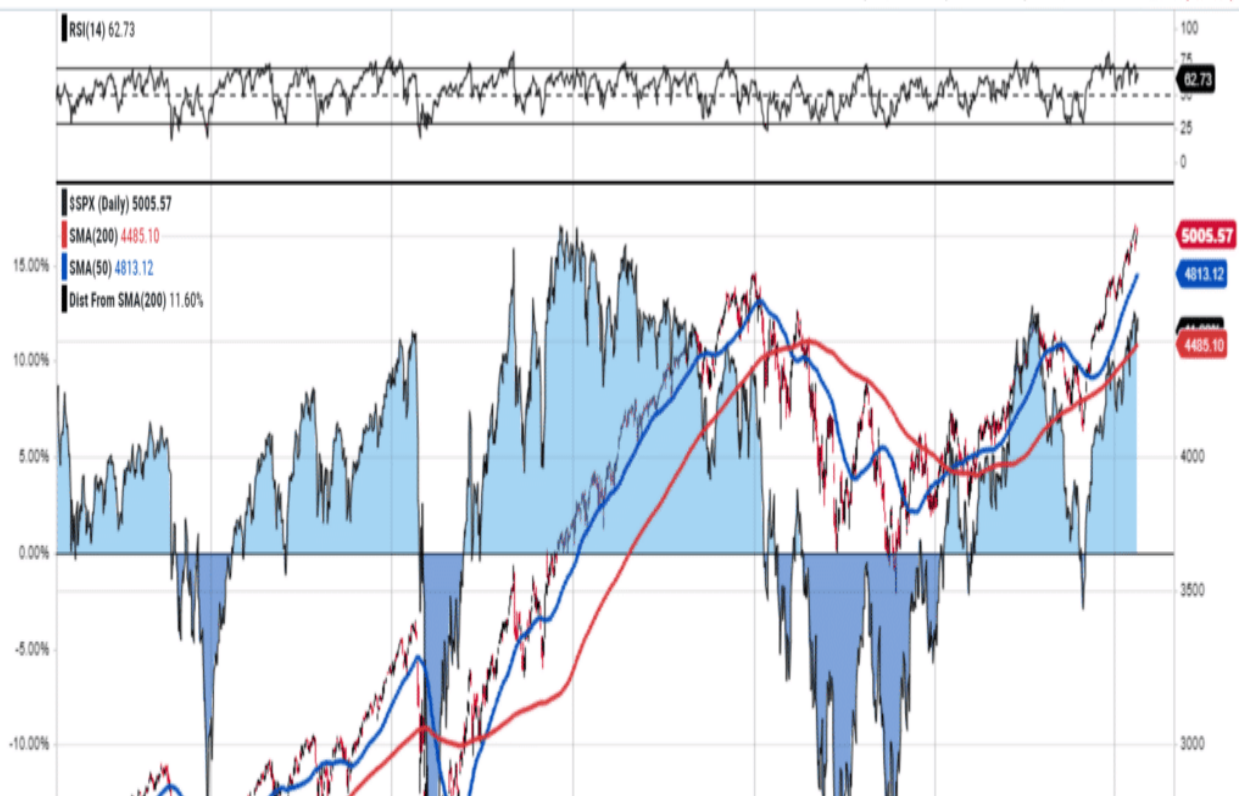
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The Week Ahead

The FOMC minutes on Wednesday will be followed closely for more information about what the Fed is looking for before it feels comfortable cutting interest rates. Because the minutes are more of an update than the actual minutes, the Fed may share its views on the uptick in CPI and PPI. Even if the minutes are not illuminating, a slew of Fed members speaking this week will elaborate on recent inflation data.

There is little important economic data this week. Again, initial jobless claims are worth following closely to gauge whether the employment markets are weakening.

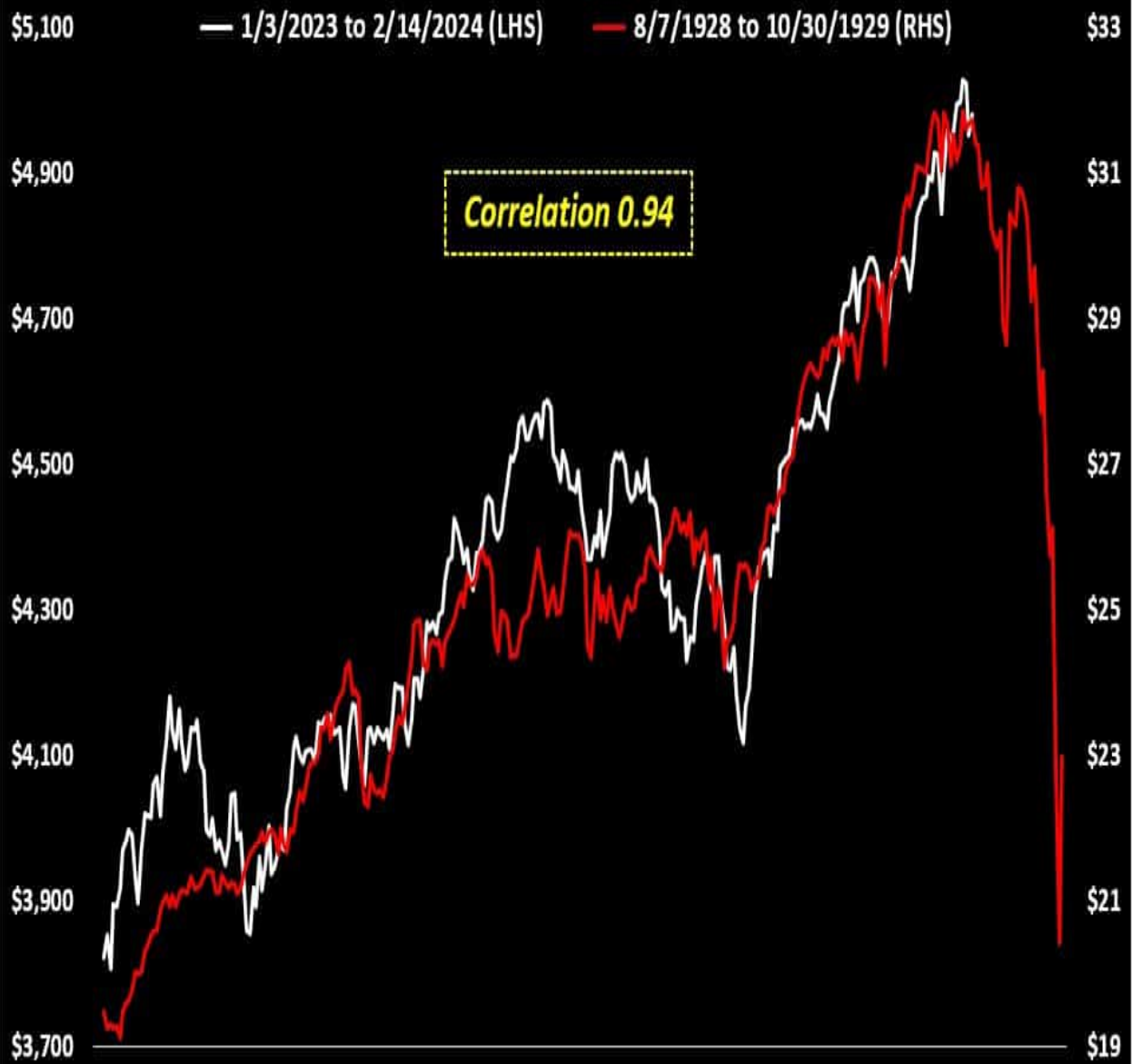
Market Analogs Reveal Your Biases But Not The Future

A reader sent us the first graph below and asked our thoughts. Our answer was that analogs could tell any story, but most often not the correct story.

1929 was 95 years ago. A lot has changed since then. History may rhyme at times, but just because two line graphs look eerily similar doesn't mean history will repeat. To help provide context for that statement, consider the second graphic. Nautilus shows two bullish and two bearish graphs that compare prior markets that line up well with the current market. All four have extremely high correlations.

Many times, our biases are revealed with analog graphs. While it's important to appreciate similar patterns, we must factor in fundamentals, liquidity, geopolitics, economics, and a plethora of other factors that move markets.

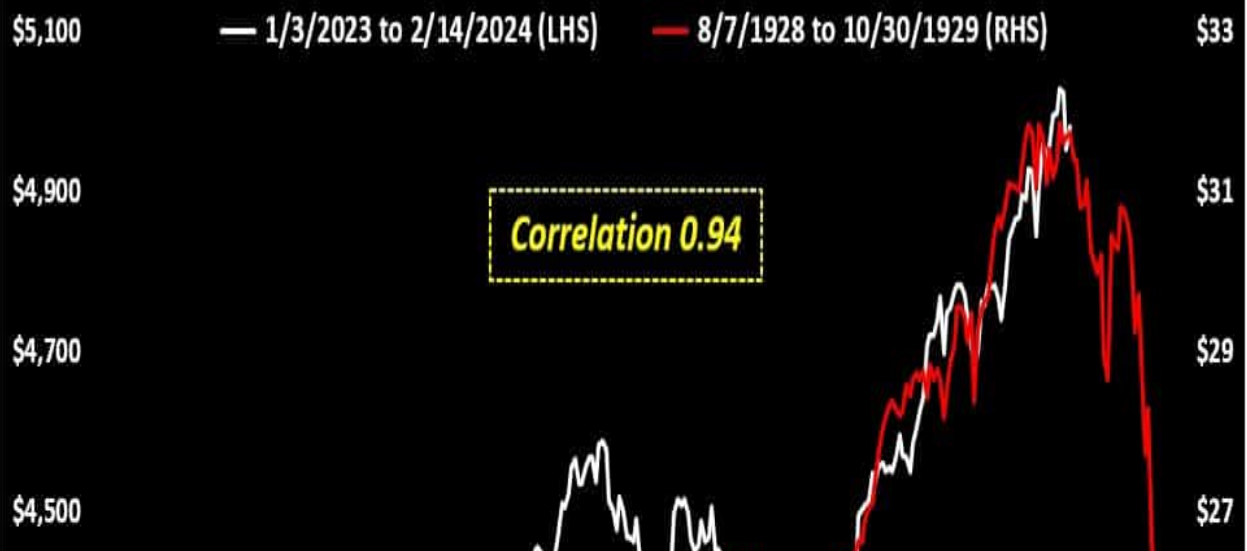
S&P 500 Now vs. 1929



Source: Bloomberg, Nathaniel Gilbert

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S&P 500 Now vs. 1929



For the Bulls

For the Bears



Data Source: FactSet 8/19/2022 10:28

For the Bulls

For the Bears



PPI Follows CPI Higher

Like CPI last Tuesday, the PPI data was hotter than expected. The headline number rose 0.3%, above the +0.1% consensus estimate. The core PPI was +0.5%, well above the +0.1% estimate. Generally, service prices rose while goods prices continued to decline slowly. While the recent data point to sticky inflation, it's important to remember that January seasonal adjustments and one-time price changes related to the new year play a bigger-than-average role. Per Zacks:

Also keep in mind that early-year economic prints tend to carry a heavier amount of inflation based on a number of things, including carry-over from the previous year's holiday shopping season. We may need to wait until March or April to see if our longer-term trajectories remain intact toward 2% inflation.

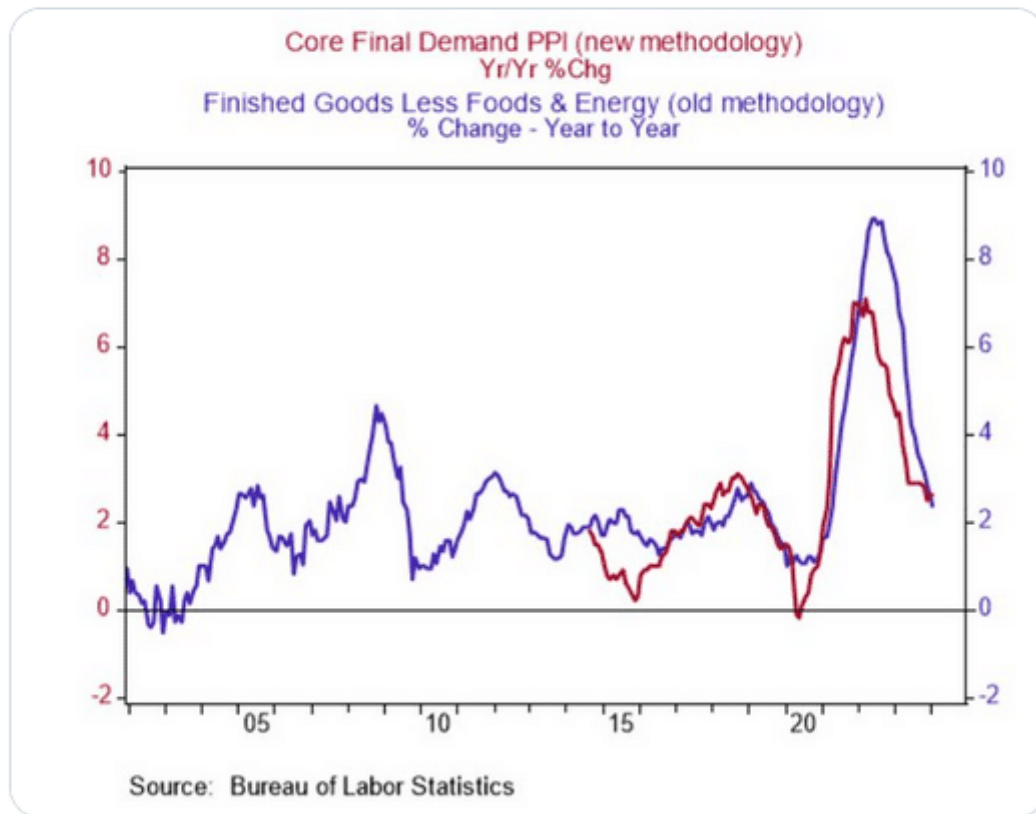
The tweet below from Carl Quintanilla further elaborates on the January effect. The graph shows that the trends lower in PPI remain firmly intact.



Carl Quintanilla @carlquintanilla · 8m

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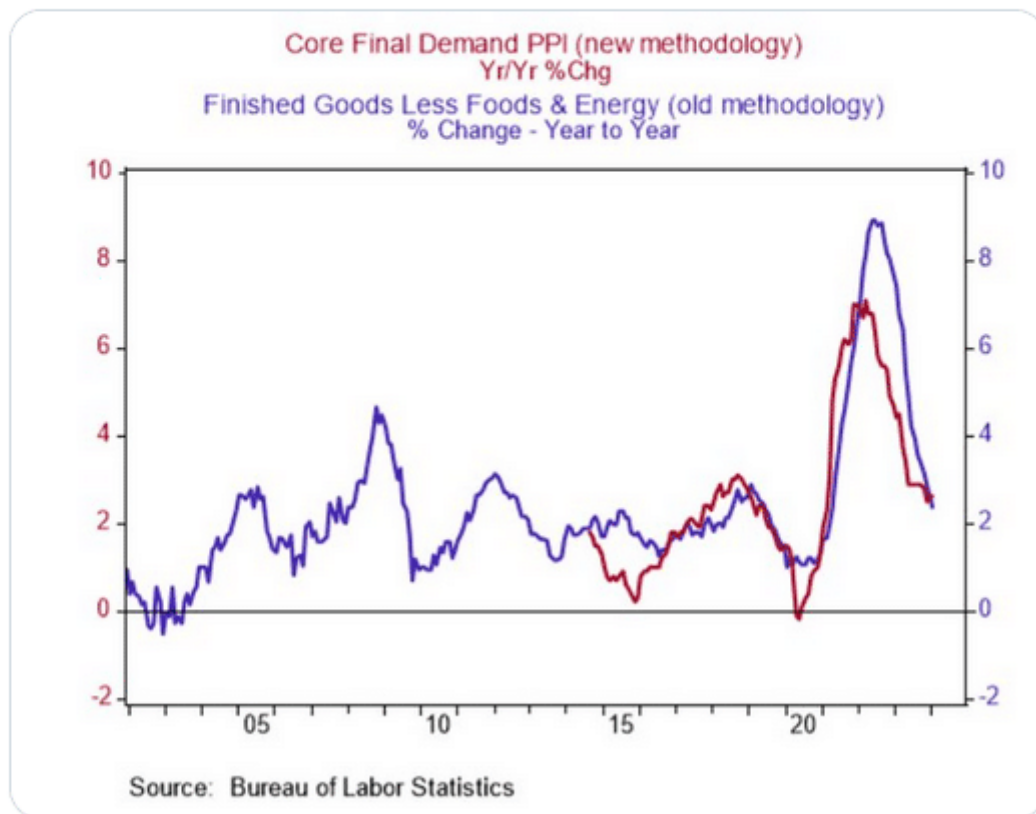
BREAN: “.. Core final demand #PPI prices picked up in January, as they have in January in each of the last four years, which suggests an inadequate seasonal factor for the start of the year might be at work.”



Carl Quintanilla @carlquintanilla · 8m

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Tweet of the Day



Tracy (Chi)  @chigr1 · 49m

 (thought no one wanted these /s)

Saudi Treasury Holdings Hit Highest Level in Nearly Three Years

By Abeer Abu Omar + Get Alerts


February 16, 2024 4:13 AM

Saudi Arabia added nearly \$4 billion to its US Treasury holdings by the end of last year, taking its stockpile to the highest level since early 2021.

The amount stood at nearly \$132 billion in December, according to the latest figures from the Treasury Department. Other top US government debt holders, including China and Germany, also increased holdings in the world's safest asset, potentially taking advantage of attractive yields



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