War Boosts The Defense And Energy Sectors

On the heels of this past weekend?s attack on Israel, Israel declared its first war since 1973. There are many unknowns at this point, but the outbreak of hostilities appears to be much more serious than prior skirmishes. From an investor?s point of view, it?s too early to make trades and alter our portfolios based on assumptions about what might happen. We should start considering the implications of a broader war, possibly including Iran and other Middle Eastern countries.

The market?s initial reaction was weakness in stocks and strength in bonds, gold, and oil. The heat map below, courtesy of FINVIZ, was the market?s initial trading on Monday morning. As it shows, the market?s gut reaction was to buy defense contractors as they would benefit from weapons sales to Israel. Further, because this potential war could involve Iran, the energy stocks are surging. An Israeli strike on oil fields or the Straight of Hormuz will severely crimp global supply. We offer caution as no one knows how this war will play out. If the problems worsen, the heat map below may provide a map for what stocks and sectors over and underperform.


TECHNOLOGY
SOFTWARE - INFRASTRUCTURE
SEMICONDUCTORS
MSFT -0.15%
ORCL +0.47%
ADBE -0.29%
NVDA -2.15%
AVGO +0.36%
AMD -1.06%
TXN -1.08%
CONSUMER ELECTRONICS
AAPL -0.21%
COMMUNICATION SERVICES
INTERNET CONTENT & INFORMATION
GOOG -0.05%
META +0.94%
TELECOM SERVICES
CONSUMER CYCLICAL
INTERNET RETAIL
AUTO MANUFAC
AMZN -1.26%
TSLA -1.74%
CONSUMER DEFENSIVE
DISCOUNT STORES
WMT -1.80%
COST -0.87%
KO -1.29%
PG -0.91%
HEALTHCARE
DRUG MANUFACTURERS - GENERAL
LLY +2.06%
JNJ +0.43%
UNH +0.06%
FINANCIAL
CREDIT SERVICES
INSURANCE - DIVERSIFIED
V -0.87%
BRK-B -0.53%
MA -1.53%
BANKS - DIVERSIFIED
JPM -0.94%
INDUSTRIALS
AEROSPACE & D
BA -0.50%
RTX +4.00%
LMT +8.11%
NOC +9.58%
REAL ESTATE
ENERGY
OIL & GAS INTEGRATED
XOM +3.04%
CVX +2.27%
UTILITIES
BASIC MATERIALS
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.
Hover mouse cursor over a ticker to see its main competitors in a stacked view with a 3-month history graph.
-3% -2% -1% 0% +1% +2% +3%

What To Watch Today

Earnings

Time	Symbol	Company Name	Market Cap ▾	Fiscal Quarter Ending	Consensus EPS* Forecast	# Of Ests	Last Year's Report Date	Last Year's EPS*
	PEP	Pepsico, Inc.	$220,390,555,821	Sep/2023	$2.17	6	10/12/2022	$1.97

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Economy

Time	Event	Impact	Actual	Dev	Consensus	Previous
TUESDAY, OCTOBER 10						
00:00	USD IMF Meeting		-	-	-	-
10:00	USD NFIB Business Optimism Index(Sep)		-	-	-	91.3
12:55	USD Redbook Index (YoY)(Oct 6)		-	-	-	3.5%
14:00	USD Wholesale Inventories(Aug)		-	-	-0.1%	-0.1%
15:30	USD 3-Month Bill Auction		-	-	-	5.345%
15:30	USD 6-Month Bill Auction		-	-	-	5.34%
17:00	USD 3-Year Note Auction		-	-	-	4.66%
17:30	USD Fed's Waller speech			SPEECH		
19:00	USD Fed's Kashkari speech			SPEECH		
22:00	USD Fed's Daly speech			SPEECH		

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Market Trading Update

Yesterday, the market traded off the news of the attack on Israel. As noted, that attack sent oil and defense sectors higher. However, while the rest of the market traded off slightly early in the day, there was buying underneath the surface as investors assessed that the impact, at least for now, would likely be limited. By the end of the day, the market rallied back into positive territory, triggering our MACD *?buy signal.?* Furthermore, bonds rallied on the rotation to safety as the deep oversold condition in bonds attracted buyers.

TradingView

This morning, we are starting earnings season with PepsiCo (PEP) reporting and several Fed speakers this afternoon who will likely reiterate the *?higher for long narrative,?* noting Friday?s headline employment number. Depending on the narratives, such could lead to some volatile trading later in the day. However, after this week, earnings season will kick off in earnest, and investor focus will shift there. Such should provide some near-term support for stocks. Continue to manage risk for now.

The Recent Surge In Rates May Be Reducing Fed Hawkishness

Dallas Fed President Lorie Logan, one of the more hawkish FOMC members, appears to be gently changing her tune. She notes that the recent run-up in long-term interest rates has further tightened financial conditions. To wit:

> *Financial conditions have tightened notably in recent months. But the reasons for the tightening matter. If long-term interest rates remain elevated because of higher term premiums, there may be less need to raise the Fed Funds rate. However, to the extent that strength in the economy is behind the increase in long-term interest rates, the FOMC may need to do more. So, I will be carefully evaluating both economic and financial developments to assess the extent of additional policy firming that may be appropriate to deliver on the FOMC?s mandate.*

As she alludes, might higher long-term interest rates be enough to weaken economic growth and slow inflation further? Therefore, the Fed may not have to hike rates again. The graph below shows the market has assigned a roughly 40% chance of another rate hike at the November or December meeting. It hasn?t materially changed despite higher interest rates.


14 Jun23
26 Jul23
20 Sep23
1 Nov23
13 Dec23
31 Jan24
20 Mar24
1 May24
12 Jun24
31 Jul24
18 Sep24
7 Nov24
18 Dec24
TARGET RATE PROBABILITY HISTORY FOR FEDERAL RESERVE MEETING ON 13 DEC 2023
325-350
350-375
375-400
400-425
425-450
450-475
475-500
500-525
525-550
550-575
575-600
600-625
100%
80%
60%
40%
20%
0%
Nov 2022
Dec 2022
Jan 2023
Feb 2023
Mar 2023
Apr 2023
May 2023
Jun 2023
Jul 2023
Aug 2023
Sep 2023
Oct 2023
1/1/2025 and forward are projected meeting dates

A Lesson In Strong Labor Reports

The headlines below followed last Friday?s BLS labor report.

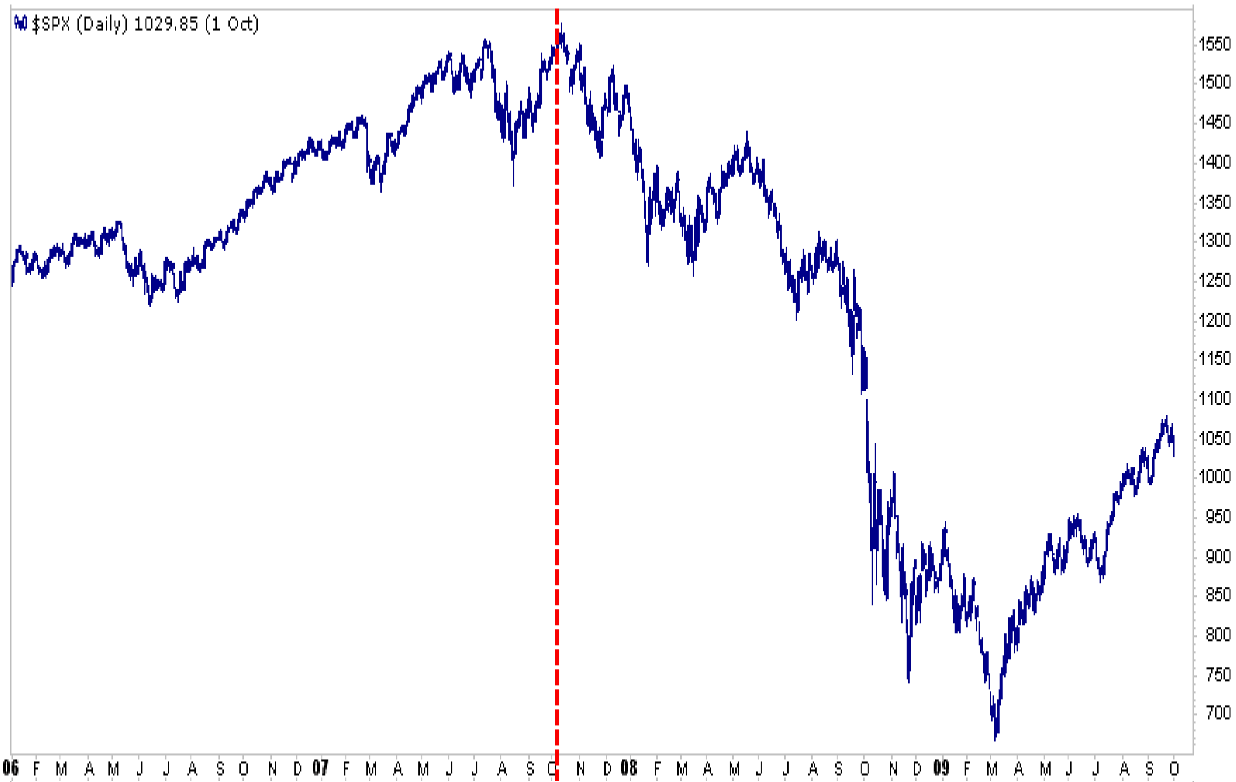
- *Jobs report shock: American economy added a stunning 336,000 jobs in September ? CNN*
- *US Job Growth Sizzles In September ? Reuters*
- *Near Perfect Jobs Report ? Investors Business Daily (IBD)*
- *Strong U.S. Job Growth Shows Economy Is Defying Challenges -New York Times*
- *Economy Adds 336k Jobs In September, In A Stunning Gain ? Washington Post*
- *US Economy Adds 336k Jobs In September, Blowing Past Expectations* ? Fox Business

On October 5, 2007, the BLS reported the economy added 110k jobs in September, marking the 49th consecutive month of job growth. The headlines were equally bullish as the ones above. Talk of a soft economic landing was prevalent. Per the WSJ:

> *Friday?s stock grain were fueled by an unexpectedly strong employment report, suggesting that the economy has enough strength to avoid recession.*

The reason to make this comparison is to stress that the labor market is often the last economic indicator to signal a recession. The market rallied on October 5, 2007, as a soft landing was broadly projected as the likely economic outcome. The following Monday marked the market peak for that five-year bullish trend. The highs of October 8, 2007, would not be matched for another four years.

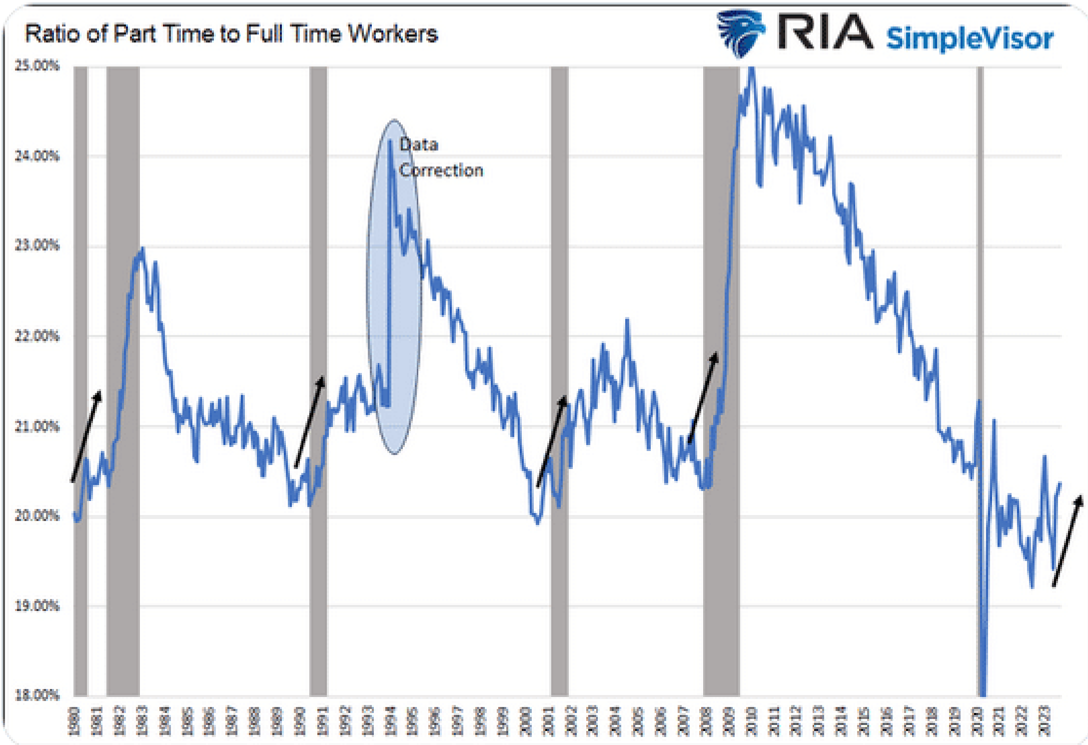
Last Friday?s market reaction was favorable to the employment news, but beneath the headline data, the employment report is beginning to show some weakness. We are not warning of a 2008-like financial crisis, but we offer caution that basing economic forecasts on employment data is fraught with risk. Further, soft landings are extremely rare, so be careful when the consensus is for a soft landing.



Tweet of the Day

Michael Lebowitz, CFA @michaellebowitz · Oct 6

The ratio of Part-Time to Full-Time workers is starting to rise. Soft landing???



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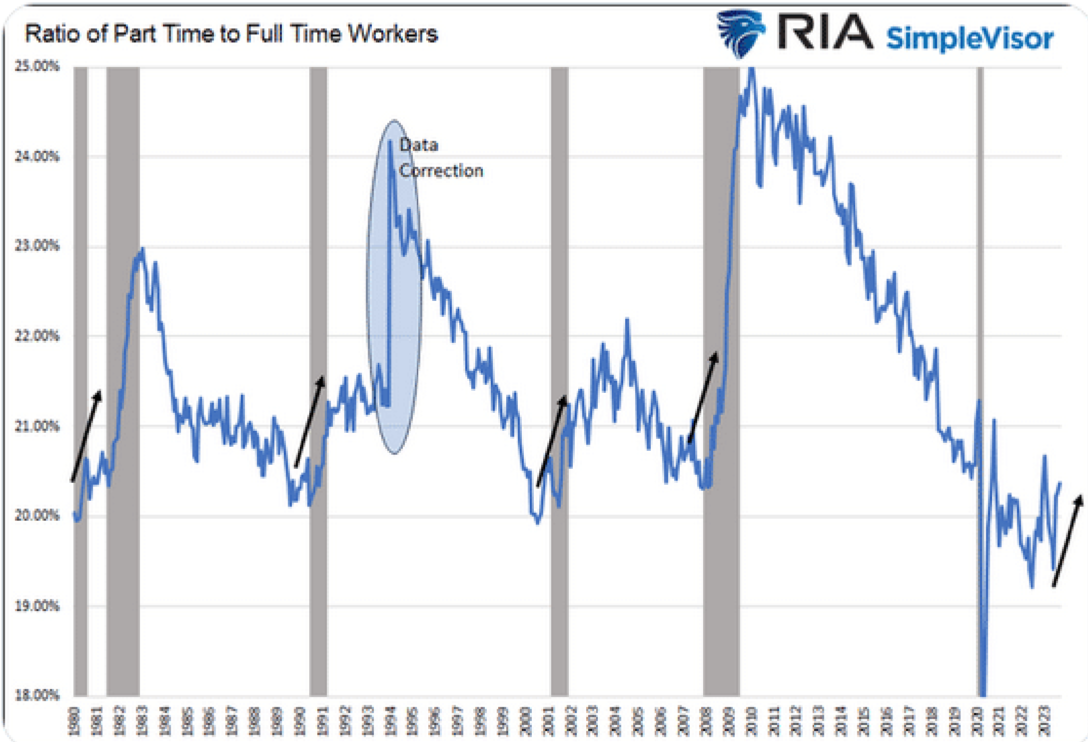

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Post Views: 1

2023/10/10

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