

Major Markets Test A Critical Juncture

The S&P 500 and other major markets are testing a critical juncture. As we highlight below, the S&P 500 pushed through the year-old resistance line that stopped all rallies last year. The index also forms a wedge, with the market setting a higher low in late 2022. Wedges often end with sharp moves, up or down, out of the wedge. A *confirmed* break higher could propel the S&P 500 above the critical resistance defining the bearish trend. Lastly, an inverse head and shoulder pattern has formed as we circle. Such a pattern often proceeds a change from a bearish to a bullish trend.

So the billion-dollar question is, how do these patterns resolve themselves over the coming weeks? A lot may ride on the Fed meeting next week, how investors perceive their tone, and what they may or may not do in the coming months. Further, next Friday's unemployment report and the CPI report in the following week will update investors' economic and inflation views. It will be necessary to closely follow technical and fundamental analysis and the multitude of buy and sell signals throughout this year, as there are a lot of positive and negative forces at work. Our best advice, stay flexible and try not to be dogmatic.

In the sections below, we share a few thoughts from Wall Street analysts.





What To Watch Today

Economics

- 8:30 a.m. ET: **Philadelphia Fed Non-Manufacturing Activity**, January (-17 prior)
- 9:45 a.m. ET: **S&P Global U.S. Manufacturing PMI**, January Preliminary (46.0 expected, 46.2 prior)
- 9:45 a.m. ET: **S&P Global U.S. Services PMI**, January Preliminary (45.3 expected, 44.7 prior)
- 9:45 a.m. ET: **S&P Global U.S. Composite PMI**, January Preliminary (46.4 expected, 45.0 prior)
- 10:00 a.m. ET: **Richmond Fed Manufacturing Index**, January (-5 expected, 1 prior)
- 10:00 a.m. ET: **Richmond Fed Business Conditions**, January (-14 prior)

Earnings

	Company	Time	Estimate		<div><div>✓</div><div>Growth</div></div> <div>Show only confirmed?</div>	Surprise				
✓	MSFT	Microsoft Corp.	4:05 PM ET	\$2.29	\$53.48 B	3.4%	+	=	-	+
✓	VZ	Verizon Communicati...	7:30 AM ET	\$1.21	\$35.37 B	3.8%	+	=	-	+
✓	JNJ	Johnson & Johnson	6:25 AM ET	\$2.22	\$23.91 B	-3.6%	+	=	-	+
✓	GE	General Electric Co.	6:30 AM ET	\$1.11	\$21.68 B	6.8%	+	=	-	+
✓	LMT	Lockheed Martin Corp.	7:30 AM ET	\$7.41	\$18.28 B	3.1%	+	=	-	+
✓	RTX	Raytheon Technologies	6:55 AM ET	\$1.24	\$18.14 B	6.4%	+	=	-	+
✓	TRV	Travelers Companies...	6:55 AM ET	\$3.50	\$8.67 B	-3.8%	+	=	-	+
✓	MMM	3M Company	6:30 AM ET	\$2.34	\$8.06 B	-6.4%	+	=	-	+
✓	COF	Capital One Financial...	4:05 PM ET	\$3.81	\$8.78 B	3.3%	+	=	-	+
✓	DHR	Danaher Corp.	6:00 AM ET	\$2.46	\$7.69 B	-5.6%	+	=	-	+
✓	DHI	D.R. Horton, Inc.	6:30 AM ET	\$2.27	\$6.51 B	-7.7%	+	=	-	+
✓	PCAR	PACCAR, Inc.	8:00 AM ET	\$2.24	\$7.06 B	5.6%	+	=	-	+
✓	UNP	Union Pacific Corp.	7:45 AM ET	\$2.75	\$6.40 B	11.6%	+	=	-	+
✓	TXN	Texas Instruments, Inc.	4:00 PM ET	\$1.96	\$4.61 B	-4.6%	+	=	-	+
✓	HAL	Halliburton Company	6:45 AM ET	\$0.67	\$5.58 B	30.5%	+	=	-	+
✓	CNI	Canadian National R...	4:00 PM ET	\$1.56	\$3.31 B	11.2%	+	=	-	+
✓	IVZ	Invesco PLC	6:55 AM ET	\$0.36	\$1.06 B	-39.9%	+	=	-	+
✓	ISRG	Intuitive Surgical, Inc.	4:05 PM ET	\$1.26	\$1.67 B	7.7%	+	=	-	+
✓	SLGN	Silgan Holdings, Inc.	AMC	\$0.81	\$1.54 B	7.0%	+	=	-	+
✓	NAVI	Navient	4:20 PM ET	\$0.82	\$281.43 M	-64.9%	+	=	-	+
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Market Trading Update

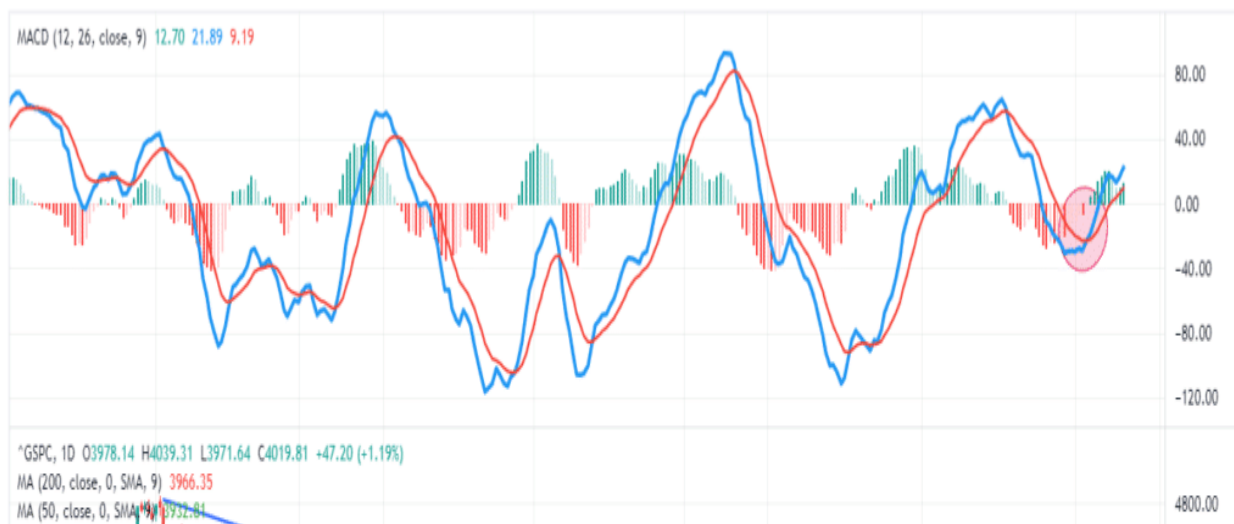
Did the market break out of its consolidation and end the bear market that began last year? If the market can hold above the downtrend that confined the rallies since January last year, such may be the case. Furthermore, the inverse head and shoulders pattern we discussed previously is also very close to confirming a potentially stronger move higher. The market can move higher with the MACD signal intact and not exceedingly overbought, along with the relative strength index.

There are a lot of short-term bullish signals, all converging at the current levels. While it is possible that some bad news or an overly aggressive Fed could negate the signals, the bullish undertones suggest not fighting the market at the moment.

Importantly, these are short-term signals that could last a couple of weeks to a few months. Such does NOT negate another correction later this year.



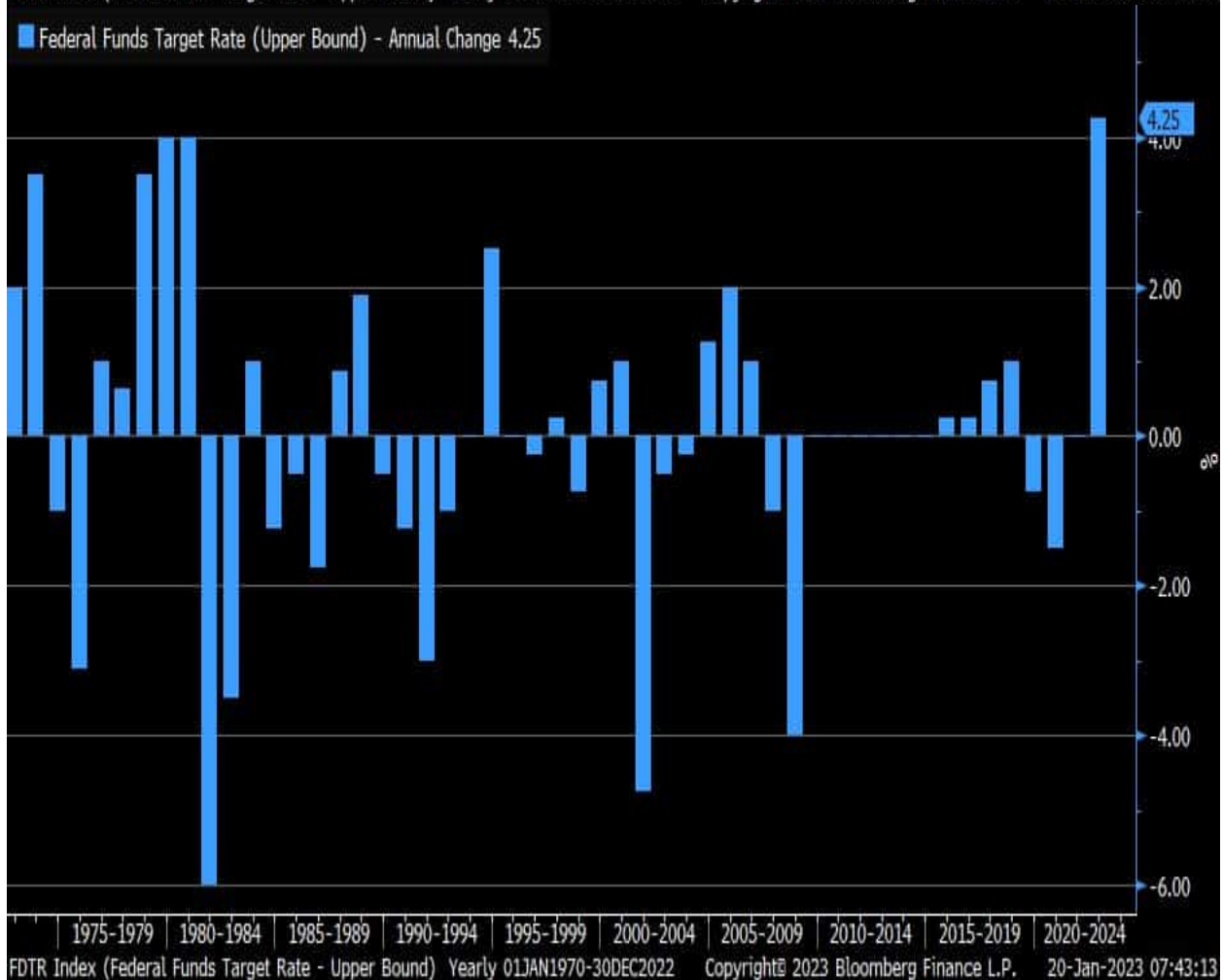
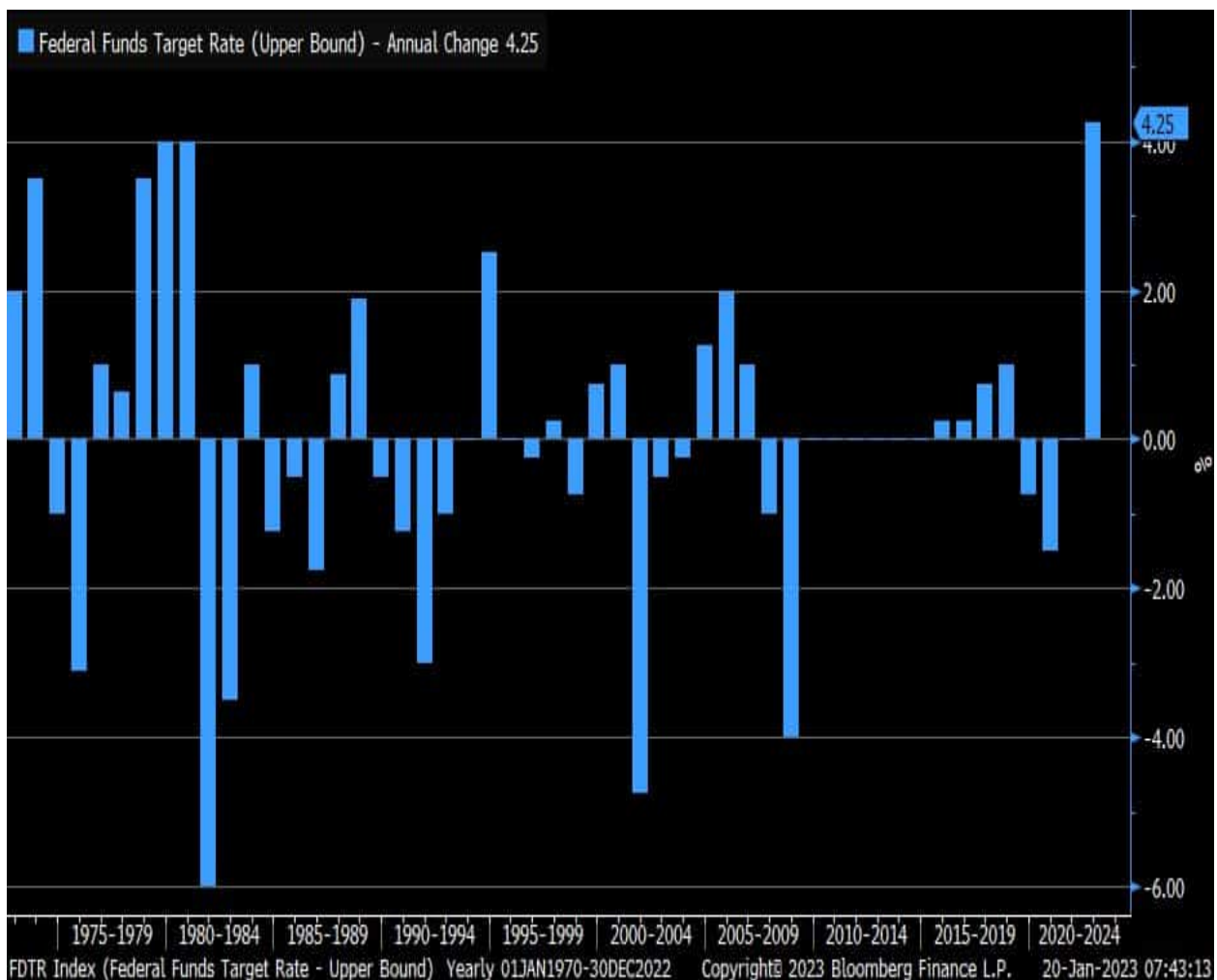
TradingView



Fundamentals First

We led the Commentary with a shorter-term technical map of what has occurred and what the future may portend. While technical analysis is a very important tool for investors, we mustn't lose sight of fundamentals and liquidity.

Forefront in our minds is the fact that the Fed has aggressively raised interest rates and reduced liquidity via QT. QT continues on a \$95 billion-a-month pace, but rate hikes are likely nearing an end. The bulls are focused on the Fed stalling rate hikes but seem unaware that yesterday's rate hikes take a long time to fully affect the economy and markets. The graph below shows that the annual rate increase during 2022 was the greatest since at least 1970. These rate hikes may take nine months or even longer before they are fully felt.

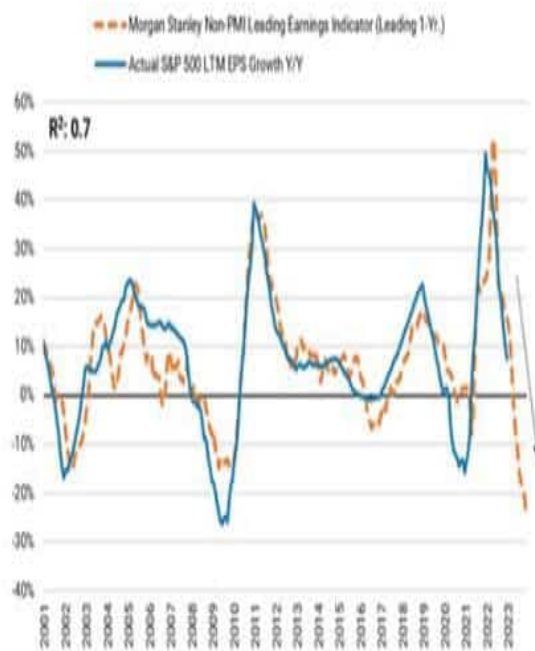


Morgan Stanley's Michael Wilson is Growing Concerned

One of our fundamental concerns is that the economy slips into a recession and earnings fall well below estimates. Michael Wilson from Morgan Stanley, shows below that its earnings model predicts a steep decline in earnings. Further, the difference between their model and what most analysts expect is large. Per Michael:

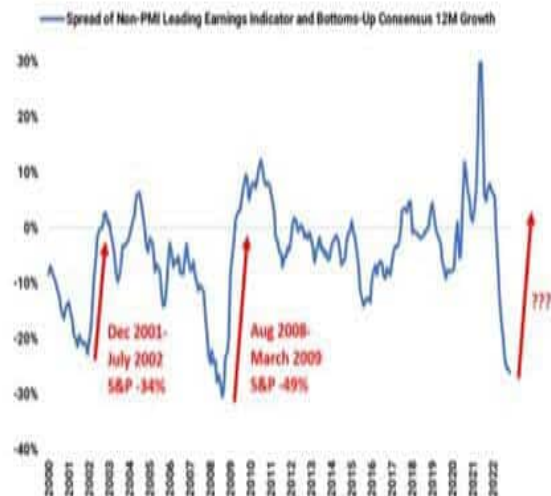
Our work shows further erosion in earnings, with the gap between our model and the forward estimates as wide as it's ever been. The last two times our model was this far below consensus, the S&P 500 fell by 34% and 49%.

Exhibit 1: Our earnings model has been very accurate over time...



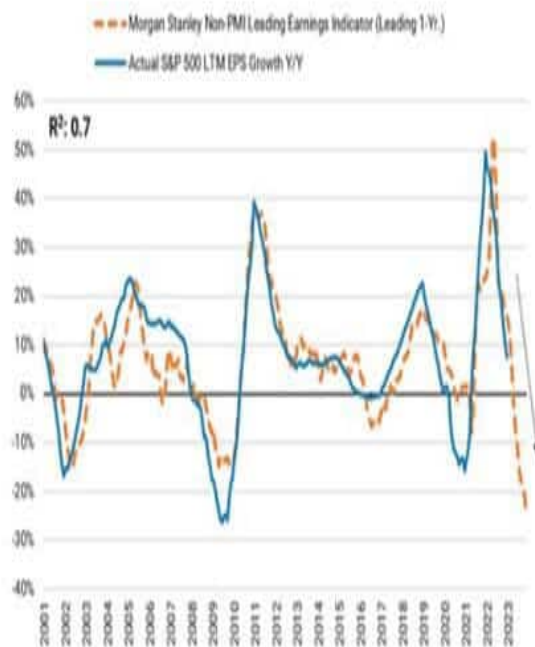
Source: Haver Analytics, FactSet, Morgan Stanley Research

Exhibit 2: ...and the spread between our model and consensus is extremely negative



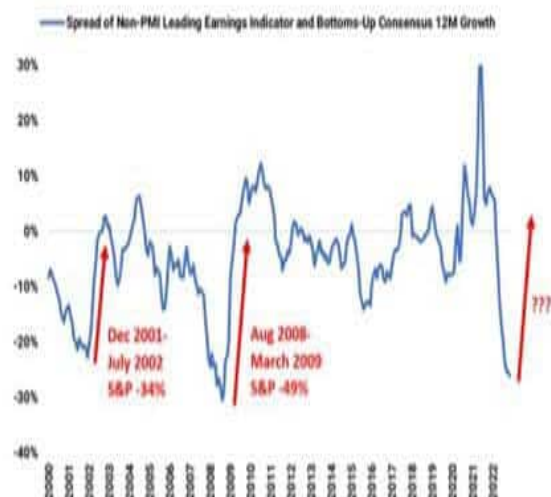
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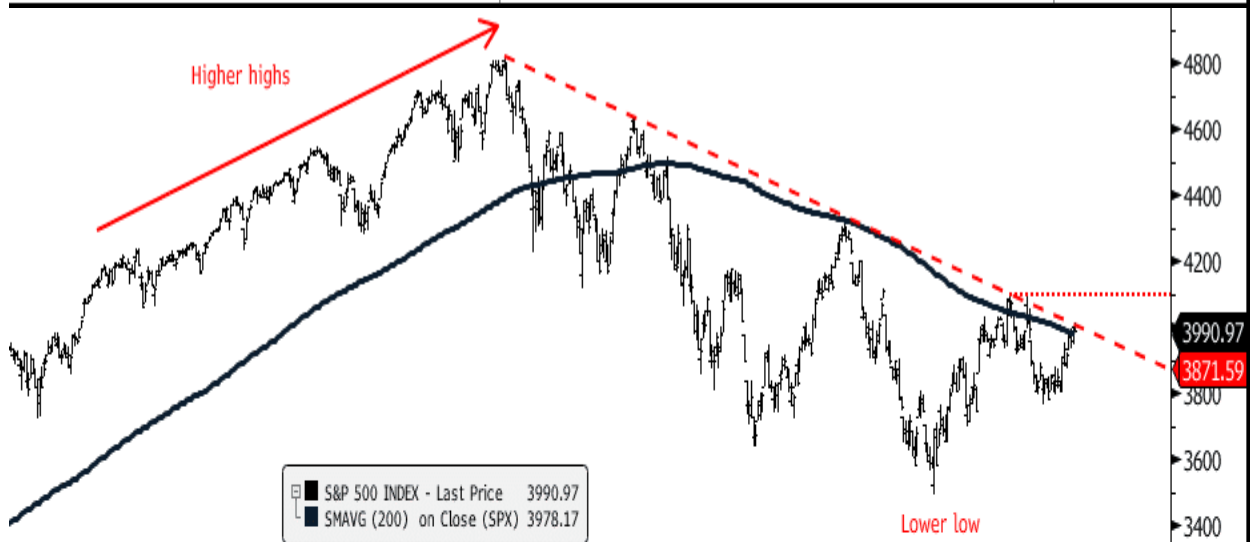
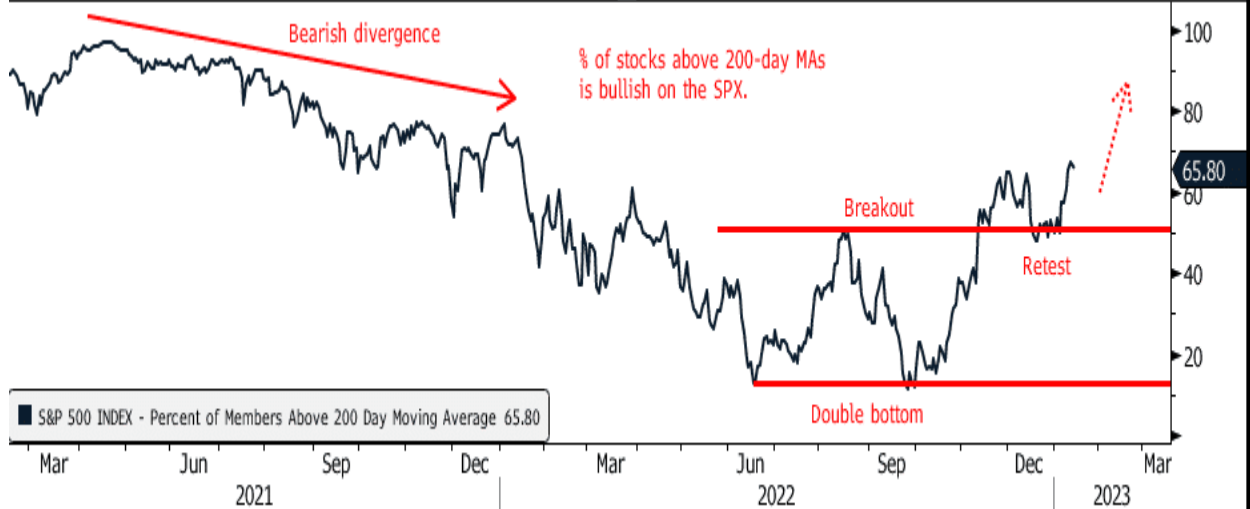
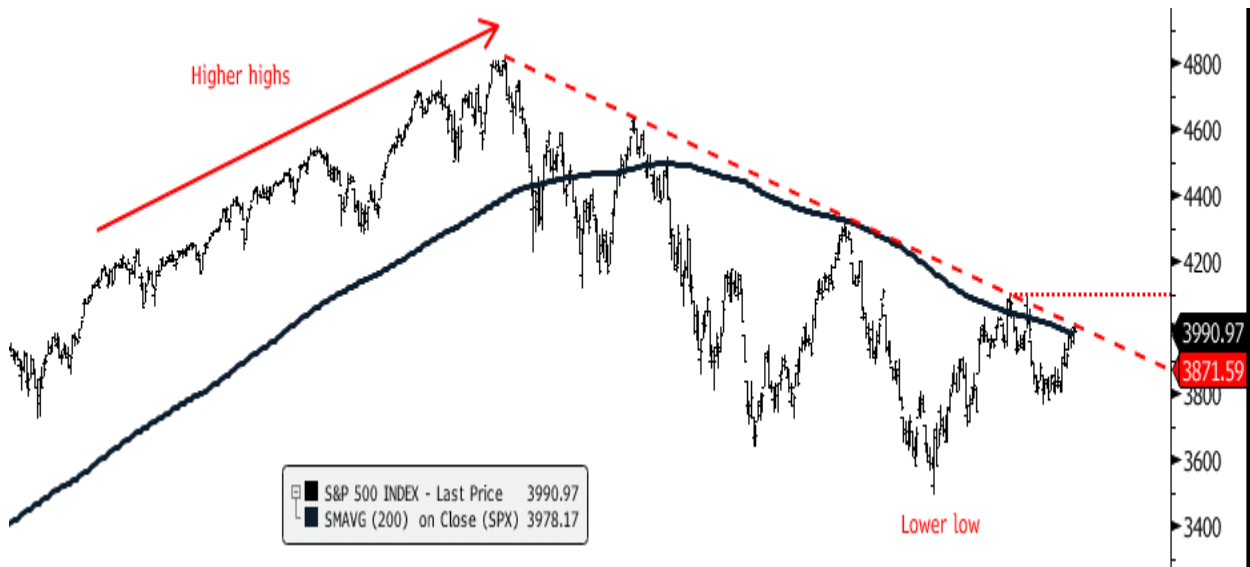
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BofA is Turning Optimistic

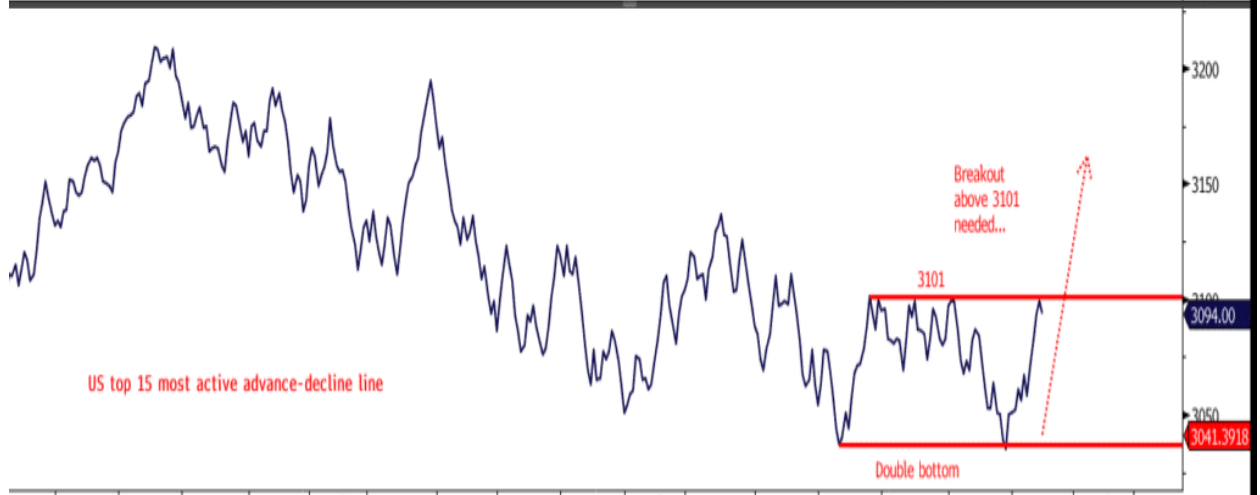
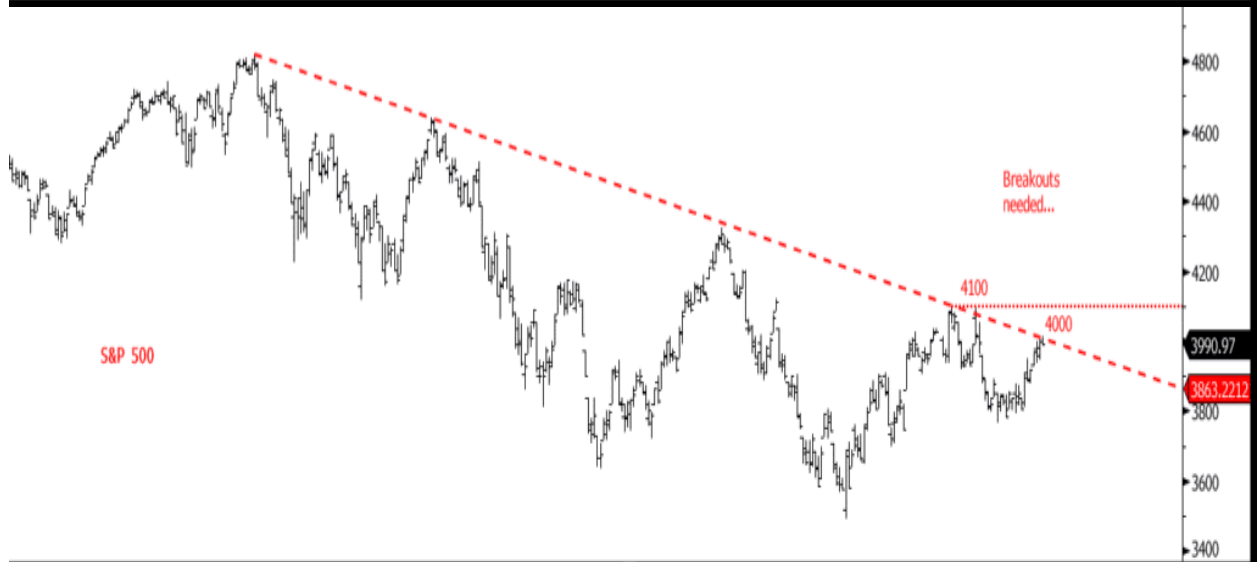
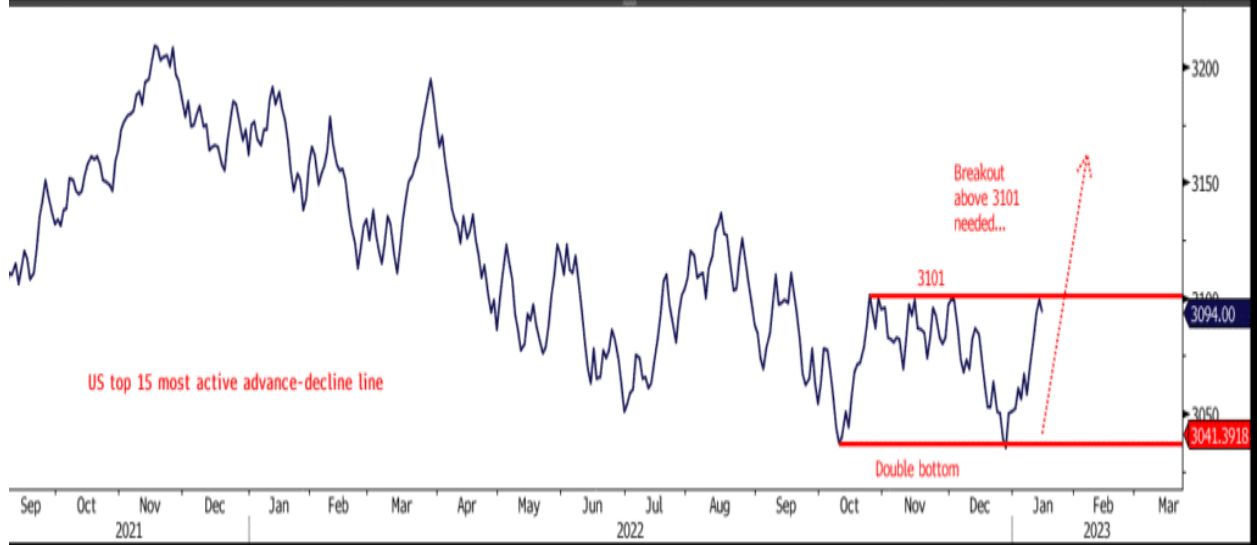
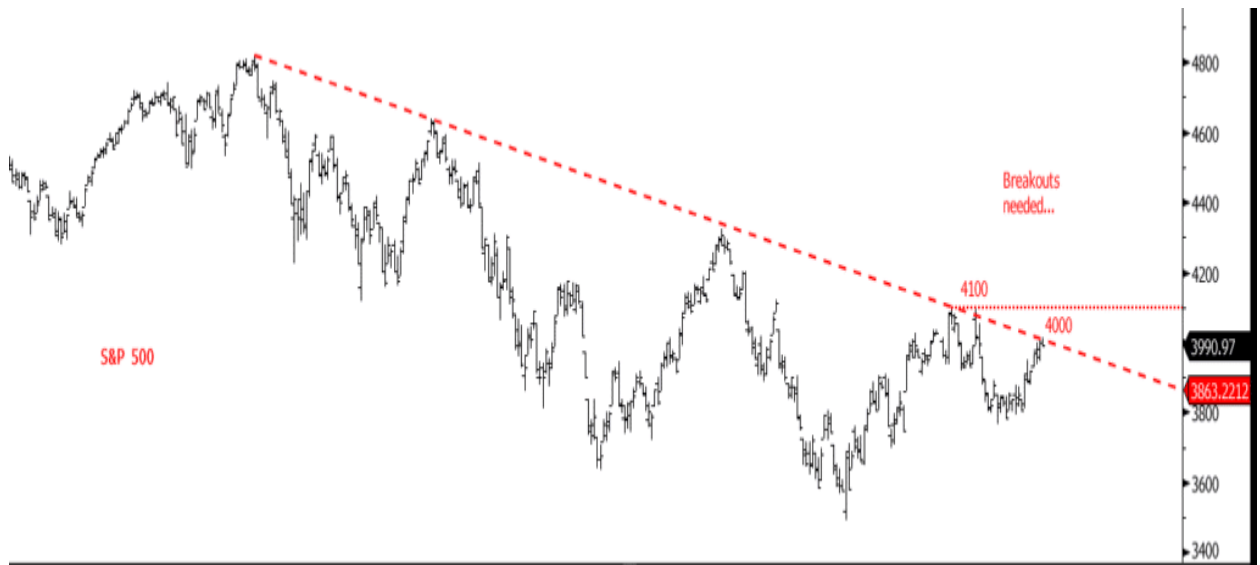
As we led in today's Commentary, the S&P 500 is again bumping into its well-established downward resistance line (dotted red line below). The question we face once again is whether or not the index will break above the line and possibly head much higher. Bank of America is increasingly optimistic that the positive breadth of the market favors a breakout this time. Per BofA:

The percentage of stocks above 200-DMA provides a longer-term indicator of market breadth. Bearish divergences in late 2021 preceded the 2022 correction. Upside breakouts from 2022 bottoms and entering 2023 are positive and a potential bullish leading indicator for U.S. equities.



They add:

The U.S. top 15 most active advance-decline (A-D) line firmed up after hitting a new low in late December. This sets up a potential double bottom for this breadth indicator of actively traded US stocks by share volume. A decisive breakout would favor U.S. equity upside.



Tweet of the Day



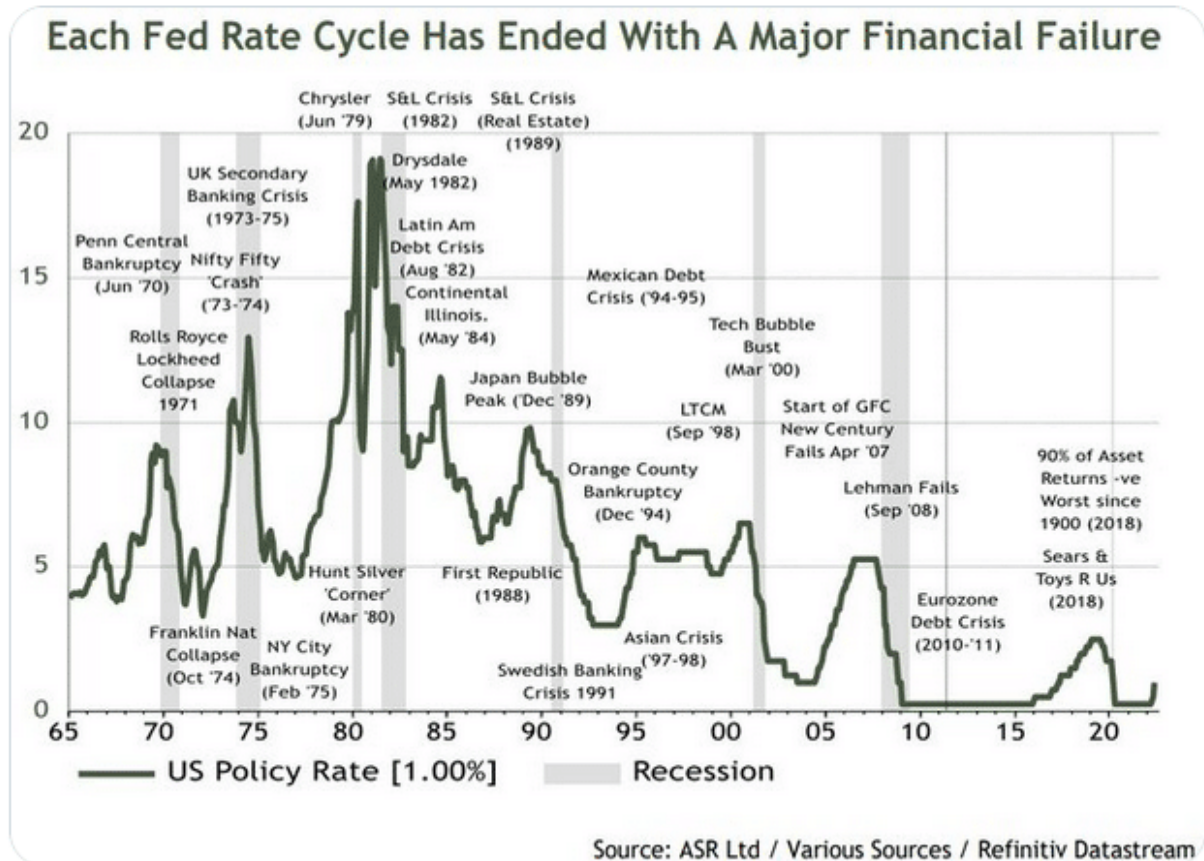
Ayesha Tariq, CFA

@AyeshaTariq

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Historically, we've had a major financial failure or a credit event towards the end of a Fed rate cycle.

Something almost always breaks...



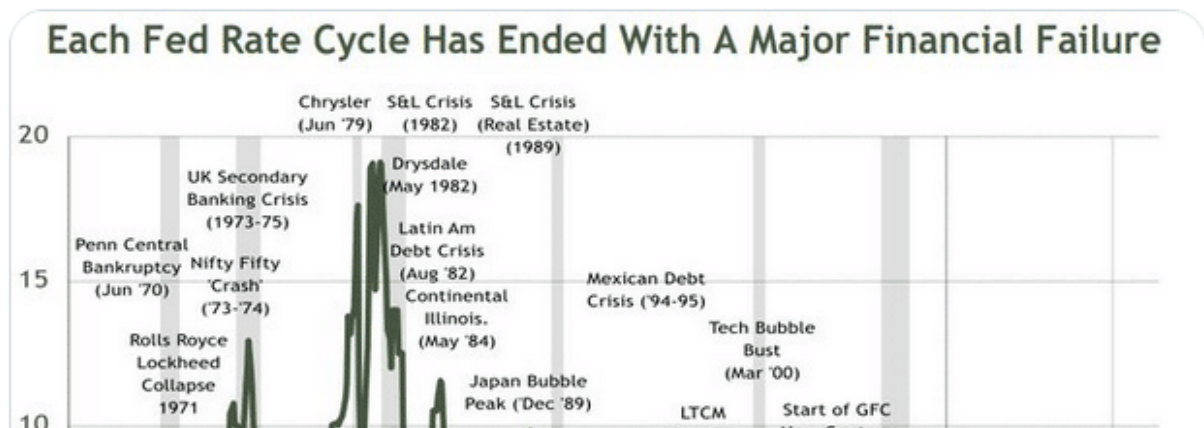
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