Major Market Indicators (MMI) Report October 2023

October 2023 MMI Report

Do Not Fight the Fed Part Three

Chairman Powell and his group of merry men seem to have the market in a virtual headlock pending more rate increases and higher rates for a longer duration until inflation is tamed at two percent. Although the market looks primed for a significant rally from oversold conditions that, like previous recent rallies, may be narrow and rather short-lived. Our intermediate term indicators call for more bearishness. In fact, our current readings are approaching historical lows. The wild card is our EPS momentum indicator shows improving strength from this very important data series.

MMI Bearish

	Score
Market Sentiment	4
Technicals	3
Liquidity	7
Valuation	4
Earnings Momentum	12
Monetary Indicators	0
Overall Assessment	31

*Scores < 50 are bearish.

Market Sentiment: Negative

The VIX is 16.6 which is about neutral. The VXN is at 20.83 which is slightly elevated. Only the put-to-call on the S&P 100 at 1.15 and the put-to-call on the equity index at 0.7 are at bullish levels. The TRIN on the NYSE is at 0.82. The bond confidence indicator is at 0.9, showing bond risk spreads are in line with a mild slowdown. The bull-to-bear pundit ratio is at 1.1 to 1 which is in neutral territory.

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Technical Indicators: Negative

The August / September sell-off has taken most of the technical indicators into negative territory except those propped up by the Magnificent Seven. The NYSE high/low indicator is at 0.15; the advance-to-decline ratio is at 0.769; the weekly advance-to-decline on the NYSE is 0.64. The 10-day moving average up/down volume on the NYSE is neutral; the 10-day moving average up/down on the Nasdaq is slightly negative. The S&P versus its 200-day moving average is +3.05%, the NASDAQ +8.29%, the NYSE (1.91)%, the RSP (4.08%), IWM (6.8)%, and the IWC (11.34)%. The percent of stocks above the 200-day moving average is 33.4, above the 50-day is 24.3%, and above the 20-day is 40.8%

S&P 500 Equal Weighted ETF

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Liquidity Indicators: Negative

NYSE margin equity-to-debt is 25.8%, and cash in money market type accounts exceeds $5.7 trillion. Market capital flows are: $(33) billion from equity funds, $(5.3) billion from new equity issuance including recent new issues in CART and ARM. Buybacks were about $2 billion and M&A was $1 billion with $15 billion in outflows from equity hedge funds in September.

Valuation: Negative

The T. Rowe Price New Horizons fund (our small cap growth stock valuation proxy) trades at 1.6 times the S&P500 PE ratio, which is above our fair value estimate of 1.5 times. The Value Line Equal Weighted Small Cap index is valued at 14.4 times while the Value Line Equal Weighted Universe survey trades at 16.0 times while the S&P 500 trades at 20 times TTM earnings. S&P 500 fair value is 15.5 times= S&P 500 3,184 which is a (27)% decrease in market cap from current levels, as total market cap is 1.6 times GDP which is greater than 1.25 fair value. The EPS yield is 4.6% versus the corporate BBB grade index which yields 6.4%, a negative 180 basis point difference that favors bonds.

EPS Momentum: Positive

EPS momentum keeps improving for the third sequential quarter and could lead the market out of this bear trap. Revisions ratio is 2:1 estimated growth year-over-year. Revisions are up from (0.93) to +0.40 estimated year over year growth. Projected EPS growth for 2024 is +12.2%. The trailing 12-month PEG ratio is 3.78, a negative showing. The average beat ratio is a strong 84% with 6% of the S&P 500 reporting.

Underscoring the gloom apparent in market participants, positive EPS surprise stocks are down two days later by 0.9% and negative surprises are down 3.4% which is above the 10-year average by 110 basis points.

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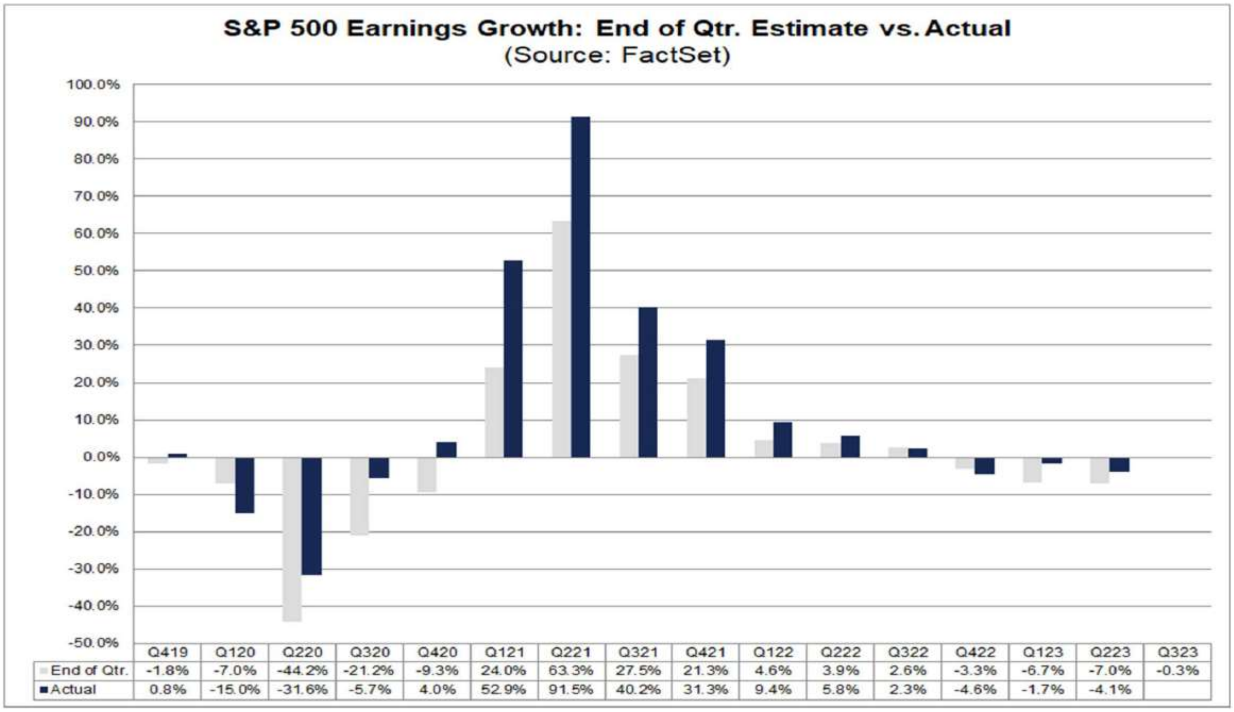

Monetary Indicators: Negative

The Fed has its foot on the neck of the market. Squeezing the intake of money supply of the market while M2 is down 2.6%. Our excess liquidity indicator, (an equation that factors M2 growth with money velocity and current GDP growth to gauge the Fed supportiveness of growth in the economy) is firmly negative, and if we factor in QT (a program of $90 billion on average per month in Treasury bond and mortgage purchases), the impact is even more negative.

Term spread between the one and ten year is 1.17. Meaning the curve is inverted but with a lessening slope. Current conditions may have met neutrality with the forward rate at 5.47% versus the Fed funds rate at 5.33%. Treasury bonds versus high yield is also negative at 218 basis points, where 400 basis points is neutral, thus high yield bonds are not forecasting or priced for a recession.

CPI, the neutral rate in real returns.

The trailing three-month CPI is close to its historical level of 2.29%. However, trailing 12 months CPI is still elevated at 3.7%. If CPI moves back towards its historical levels, 10-year and 30-year bonds are close to their historical means. However, one-year T-bills are elevated significantly by nearly 249 basis points. Even if we assume CPI stays elevated at 3.70%, T-bills appear to be nearly 95 basis points too high. However, it has been estimated that structural changes in consumer and corporate debt have resulted in 30 to 40% less sensitivity to interest rates. If we assume this adjustment and add 30% to 40% additional hikes, that result would amount still to a yield curve or rates that are slightly too high based on 3.7% by approximately 25 basis points.

Based on current earnings estimates and valuations, a bifurcated portfolio approach seems warranted.

Based on a Forward 12-month PEG ratio analysis, the Russell 2000 at 0.69 leads the way. This result is followed by the Magnificent Seven at 1.16 times. Bringing up the rear is the S&P 500 at 1.48 times and "the not so hot" 493 at 1.94. The Singular Research coverage list sports a 1.07 Forward 12-month PEG ratio. Thus, a Magnificent Seven / Singular Research portfolio optimized at 50 / 50 weights provides a 1.12 Forward 12-month PEG ratio.

Indices ranked by Forward 12 months PEG 2024 estimates.

Russell 2000	**0.69**
Singular Research Coverage	**1.07**
Mag 7	**1.16**
S&P 500	**1.48**
S&P 493 "not so hots"	**1.94**
S&P 500 Historical avg	**2.55**

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