James K. Noble CFP® CLU®

What's in this week's Report:

- Why Have Stocks Hit Multi-Month Highs?
- Weekly Market Preview: Real Debt Ceiling Progress is Needed This Week
- Market Implications of Renewed Dollar Strength
- Hard vs. Soft Landing Scoreboard Update
- Why Disappointing Home Depot Earnings Point to a Soft Landing

Futures are little changed despite a lack of progress on the debt ceiling and an increase in trade tensions between the U.S. and China over the weekend.

There was no progress on the debt ceiling over the weekend although Biden and McCarthy will meet again today to resume negotiations.

China banned the use of Micron (MU) chips in what is yet another escalation in U.S./China trade tensions.

Today's focus will be on the debt ceiling and markets will want to hear positive and optimistic commentary from Biden and McCarthy, as the potential "X" date of June 1st is now less than 10 days away.

Market	Level	Change	% Change
S&P 500 Futures	4,207.25	2.50	0.06%
U.S. Dollar (DXY)	103.0880	-0.1100	-0.11%
Gold	1,998.80	-1.50	-0.08%
WTI	71.40	-0.15	-0.21%
10 Year	3.704%	0.014	0.32%

May 22, 2023

Planning Corner

I'm reading new book this week called *The Good Life* that may change your life. The book is really a summary of the longest continuous study of human happiness, the Harvard Study of Adult Development. Researchers have been tracking 724 Boston area men who were teenagers in 1938. That included detailed questionnaires, blood work, genetic testing, as well as follow up interviews with spouses and multiple generations of children and grandchildren. It turns out that blood pressure and cholesterol readings were not indicators of future happiness, the #1 key to a happy life is the quality of our relationships. Humans are social creatures and our ability to sustain and nurture relationships is essential to a happy life. We need people to support us in many ways. I encourage you to watch the Ted Talk from Dr. Robert Waldinger which has been viewed over 44 million times. Consider the role that your financial advisor plays in providing support and call us today!

(201) 350-8461

James K. Noble CFP® CLU®

Stocks

Last Week (Needed Context as We Start a New Week)

Stocks were pinned within a tight range last week as traders continued to weigh debt ceiling drama against the health of the regional banking sector and lingering concerns about inflation and global growth. The S&P 500 ended the week down 0.29% and is now up 7.41% YTD.

Stocks rallied to new 2023 highs last week as optimism about a debt ceiling deal offset a hawkish shift in Fed policy expectations and lingering recession worries. The S&P 500 rallied 1.65% on the week, extending the 2023 gain to 9.18%.

Equities began the week mostly quiet as the debt ceiling negotiations between the White House and House Republicans were in focus. Speaker McCarthy's doubtful comments about the prospects that a deal could be reached weighed modestly on stocks but a dovish tone from the Fed's Bostic helped stocks stabilize and end near session highs. The S&P 500 rose 0.30%.

The market turned lower Tuesday as the combination of weak economic data, cautious earnings out of HD, and hawkish Fed chatter weighed on sentiment before Biden's announcement that he would be returning from the G7 summit earlier than previously planned in order to make sure a default is avoided pressured stocks to new session lows. The S&P 500 dropped 0.64%.

The market ripped back higher on Wednesday amid positive news flow out of both Biden and McCarthy regarding progress towards a deal. Additionally, WAL reported stable deposits which triggered a squeezy rally in the banks and other heavily shorted sectors as retail traders returned in force to the options market. The S&P 500 rose 1.19%.

The rally continued Thursday with more stable trade in bank stocks and renewed hopes for a soft landing given the latest labor market data. More positive headlines about a likely debt ceiling deal helped investors shrug off further hawkish commentary out of multiple Fed speakers (particularly Bullard) and the S&P 500 squeezed up another 0.94% to end the day at a fresh 2023 high.

Continued upside and a solid earnings forecast by DE helped stocks gap higher Friday, but a reversal in regional banks amid cautious comments from Treasury Secretary Yellen saw major indices give back gains. Powell reiterated a likely pause at the June FOMC which contradicted many of the Fed speakers. The S&P 500 ended down 0.14%.

Why Have Stocks Hit Multi-Month Highs?

James K. Noble CFP® CLU®

For the past several weeks we've stressed in this Report that the market's performance must be viewed in the context of what investors think will happen, and it's the deviation from that expectation that creates the "pain trade."

For all of 2023, due to a long and substantial list of risks facing the markets, investors (especially institutional investors) have expected stocks to decline (this is backed by multiple sentiment and investment surveys from throughout the year). But as those risks have failed to materialize, it's caused the "pain trade" to be higher as underinvested managers chase returns higher, and that is exactly why the S&P 500 hit the highest level since August last week.

Put in plain English, money managers expected stocks to extend the losses from 2022 as more bad "stuff" would happen (recession, earnings declines, debt ceiling, higher rates, high inflation, etc.) However, those bad things haven't happened yet, and that has caused stocks to lift and for the rally to be fueled by "chasing."

Again, that was the case last week. Economic data clearly showed the economy is losing momentum, but still mostly pointed to a soft landing. Earnings from major retailers pointed to more restrained consumer spending focused on staples and low-margin items, but not a sudden collapse. The debt ceiling negotiations showed progress and made a debt ceiling breach less likely. All those events are not as bad as feared.

However, it's important to remember that none of them are "good" either. Economic growth is clearly slowing and that's really not good for anything. It's now just a question of by how much (and we won't know that for at least another few months). Earnings growth is challenged, and while companies are navigating it well so far, the slowdown is just in the early innings. Finally, the debt ceiling has shown progress, but there's no deal yet and we've got less than 10 days until the "X" date! Finally, the Fed has likely paused rate hikes, but the market is expecting cuts by year-end, and there was some serious pushback on that idea last week from Fed officials.

Bottom line, not-as-bad-as-feared events have largely fueled the YTD rally, and that can continue, especially if the S&P 500 can sustainably breakout to new highs because that will create more "chasing."

But "not as bad as feared" cannot support a sustainable rally (one that lasts for quarters). Point being, the "pain trade is higher," but at this point it's long in the tooth. And while it's not over, it can't push the S&P 500 sustainably into the mid 4000's (the valuation will get too stretched).

Instead, we need actual positive resolution from these events, i.e. clear soft landing (that doesn't pressure the market multiple), earnings stability (which keeps valuations reasonable), Fed debt ceiling deal, and Fed confirmation that rate cuts are coming sooner than later (the sought-after pivot).

We've advocated maintaining longs throughout 2023 given our recognition that despite numerous risks to markets, investors' expectations were already very cautious. But we also must account for the fact that those risks are still real (hard landing, earnings drop, more-hawkish Fed) and our experience from '99 and

’07 gives us one clear lesson: These risks can take longer to appear than anyone appreciates, but just because they haven’t occurred yet doesn’t mean they won’t occur.

Economic Data (What You Need to Know in Plain English)

Need-to-Know Economic Data from Last Week

Last week’s economic data gave us additional important insight into the current state of economic growth, and the message was clear: Data is still pointing towards a soft landing, and that helped stocks rally last week.

The key report was Wednesday’s retail sales print, and it showed consumer spending remains solid, as control retail sales rose 0.7% vs. (E) 0.3%. Between that and the commentary from retailers (HD/TGT/WMT) about consumer spending shifting but not declining, the takeaway from last week was that the consumer remains broadly in “ok” shape, and as long as that’s the case a soft landing is more likely than the hard landing.

Turning to the first data points for May, Empire and Philly Manufacturing Surveys, they sent a mixed message. Empire tanked, plunging to -31.8, the third deeply negative reading since last August. Philly was still negative at -10.7 vs. (E) -19.8 but it improved from April and while that’s clearly still negative on an absolute basis, it implies we’re not seeing broad-based deceleration in manufacturing, although that will have to be confirmed this week via the national May manufacturing PMIs.

Finally, on the employment front, jobless claims moved down to 242k, well below the 254k estimate and a solid drop from the 264k reading of two weeks ago. Stepping back, clearly there’s been some deterioration in the labor market, although it’s been modest so far this year, and claims remain low enough that they are implying a soft landing over hard landing.

Bottom line, the data is clear: Economic growth is slowing. Yet so far, it’s slowing only gradually and that’s consistent with a soft landing and that’s why stocks rallied last week. However, I want to continue to stress that economic momentum can last much longer than people think (including analysts) and I’ve seen that firsthand in ’99/’00 and ’07/’08. So, just because a hard landing isn’t likely now, it absolutely cannot be ruled out, as the U.S. economy still isn’t even feeling the effects of all the rate hikes and the restrained bank lending. For now, though, a soft landing remains more likely than a hard one (and that’s good for stocks and risk assets broadly).

Important Economic Data This Week

Focus will remain primarily on economic growth this week as the most important economic report this week is Tuesday’s May flash PMIs, and given the divergent signals from Philly and Empire, markets will want to see stability in this data, which means a number that is still above 50. A drop below 50, especially in the services PMI, will increase hard-landing concerns and cause a headwind on stocks.

The next most important report this week comes on Friday via the Core PCE Price Index. The narrative on

the Fed pause has shifted somewhat given the resilient economic data, and if the Core PCE Price Index comes in hotter than expected, then that will challenge the "hike/pause/pivot/cut" narrative that's supported stocks for the past two-plus months.

Staying on Fed policy, we also get the minutes from the May FOMC decision on Wednesday, and while they likely aren't going to contain any material surprises, markets will be looking for any color on how many Fed voters favor a pause going forward (and the market expects the majority do, so any confirmation of that will be positive and any push back on that will be negative). Finally, jobless claims come on Thursday and markets will want to see the claims numbers remain stable and not jump back into the 260k range (or higher), because that will increase concerns about a hard landing.

Bottom line, the bullish script for this market remains: soft landing, Fed pause/pivot/cut, stable earnings and no macro surprises (debt ceiling hit, spread of Russia/Ukraine war, etc.). So far, the expectation of that has powered stocks higher in 2023, but it needs to be further reinforced by this week's data for stocks to hold these gains.

Special Reports and Editorial

The Dollar Index spent more than a month testing a very important support level at 101 before we started to see the signs of a potential bottom form during the week of May 8. The greenback offered further evidence that a near-term bottom was in yesterday as the Dollar Index rallied to a two-month high and now is up more than 2.5% from earlier in the month. If the dollar is about to move meaningfully higher in the coming months, that is a very important factor to keep in mind as it will reintroduce a headwind to most risk assets including stocks and commodities.

Consider the fact that the Dollar Index declined steadily from the Covid-panic peak in 2020 through H2'21, a time period where broad equity market performance was very strong. The dollar started to bottom and slowly trend higher in late 2021, however, and that coincided with the equity bull market starting to lose momentum. In early 2022, the Dollar Index accelerated to the upside largely thanks to the geopolitical uncertainty surrounding the Russian invasion of Ukraine and stocks ultimately turned decidedly lower and the bear market began. Interestingly, the dollar peaked in late September, just two weeks before stocks would put in the lows for the year. Since then, stocks have steadily recovered while the dollar unwound a good portion of its 2022 gains. But that changed last week.

The technical backdrop for the dollar turned bullish last week as we saw 1) A downtrend dating back to the October highs violated, 2) Support at 101, a key Fibonacci retracement level, hold, and 3) Improving price action in several measures of market strength including the RSI on both the daily and weekly time frames. We dove into this analysis deeper in this week's edition of *Sevens Report Technicals*, including key levels to watch and critical upside targets, but in this Report, we are concerned with the fundamental impact of the new uptrend in the dollar and, historically speaking, dollar strength can be pretty detrimental to risk assets.

From a fundamental standpoint, a stronger dollar has a negative impact on the broader stock market because

James K. Noble CFP® CLU®

roughly 40% of S&P 500 constituents' revenue is generated outside the U.S., so in different currencies. A strengthening dollar will begin to weigh on overseas sales, and that will start to be a drag on total revenue and ultimately profits for U.S. based companies, including large caps. And a stronger dollar is the last thing corporate America needs right now with a consumer who is clearly cutting back while valuations are already stretched.

Bottom line, the dollar has made substantial progress at establishing a bottom in the 101 area in recent weeks, and if we are on the brink of a new leg higher in the Dollar Index, expect that to become a renewed source of pressure on the broader U.S. equity market. Looking back in time to the last few major bear markets in stocks, the dollar rallied meaningfully through the dot-com bubble bursting, the GFC, and the onset of the Covid pandemic. So it is clear that keeping tabs on what the dollar is doing is a critical practice, especially during times when the yield curve is deeply inverted and indicating a high likelihood of recession.

To reiterate the timing point from earlier in this section, the Dollar Index peaked and turned lower about two weeks before stocks bottomed last October. Using a roughly similar timetable for stocks to react to current price action in the dollar, we could expect stocks to begin to feel the effects of a stronger dollar by the start of June.

Hard vs. Soft Landing Scoreboard Update

The "Hard Landing vs. Soft Landing" question is the most important one for markets over the medium- and longer-term here for this simple reason: If there's a soft landing then stocks are cheap, and a 10%-20% rally isn't out of the question. If there's a hard landing then it doesn't matter what the Fed does because rate cuts will be too late, and a 10%-20% decline is likely.

Given these high stakes, and the lack of a comprehensive way to monitor whether the data is pointing to a hard or soft landing, last month I created the "Hard Landing vs. Soft Landing Scoreboard," so that we can all "follow along" until data definitively points to a winner. The point of it is to help us recognize, as early as possible, which outcome is most likely and to position accordingly (by adding growth-oriented longs or getting materially defensive).

Like all things *Sevens Report* related, I want to keep it succinct, so I'm not listing a lot of economic data points. Instead, I've included the "Big Three" data points from each month (job adds, ISM Manufacturing PMI and ISM Services PMI), along with a measure of consumer spending (because consumer spending is 2/3rd of the economy and if it slows, the economy will slow), a measure of business spending (because business spending is a solid part of the economy), and the most timely measure of unemployment (because that will deteriorate before the monthly jobs report).

To help determine if the Scoreboard is pointing more towards a hard or soft landing, I decided to compare the most-recent data to the readings one month ago and three months ago. The reason for that is simple: Hard landings don't happen gradually, they happen suddenly. Soft landings do happen gradually. So,

comparing activity to a year ago isn't helpful in determining if we're getting a hard landing. Activity can be down over a year ago, but those declines don't automatically mean a hard landing. Conversely, if activity is off sharply from three months ago (or a month ago) that does imply something has changed and the economy is quickly losing momentum (a hard landing).

Hard Landing vs. Soft Landing Scoreboard				
	Current	One Month Ago	Three Months Ago	Hard Landing/ Soft Landing
ISM Manufacturing PMI	47.1	46.3	47.4	Hard Landing
ISM Services PMI	51.9	51.2	55.2	Soft Landing
Job Adds (Non-Farm Payrolls)	253k	165k	472k	Soft Landing
Retail Sales	$597.99B	$595.61B	$603.21B	Soft Landing
NDCGXA	$74.32B	$74.60B	$74.73B	Soft Landing
Jobless Claims	264k	242k	200k	Soft Landing

Unlike other regular features in the Sevens Report that are updated monthly (Market Multiple Table, Market Multiple Chart, Economic Breaker Panel) the Hard Landing/Soft Landing Scoreboard will be updated as data becomes available in an effort to keep us on top of any signals, and this is that first such update.

Considering the updated data, the conclusion of the Scoreboard hasn't changed: **A soft landing is currently more likely than a hard landing.** That said, there has been some additional deterioration in jobless claims that bears watching, but at this point it's not enough to signal a hard landing.

Of the "Big Three" monthly economic reports, only one is flashing hard landing. Of the three most-important monthly economic reports (ISM Manufacturing PMI, ISM Services PMI and the Employment Report, only one, the ISM Manufacturing PMI, is pointing towards a hard landing. That PMI is solidly in contraction territory (below 50). However, both it and the ISM Services PMI rose from the previous month, implying some stability in those data sets. Looking at Jobs Adds (i.e. the monthly jobs report), clearly hiring has slowed from the breakneck pace of earlier this year, but monthly job adds in the 150k range is still very solid, and not at levels that imply a hard landing. *What signals hard landing going forward? ISM Manufacturing PMI declining further, ISM Services PMI dropping below 50 in the next month or two, and job adds dropping below 150k starting next month.*

James K. Noble CFP® CLU®

There are few signs that U.S. consumer spending is materially slowing. Retail sales, which is the most comprehensive measure of consumer spending each month, is little changed from where it was three months ago, and if we were headed for a hard landing, we'd expect a bigger decline in the retail sales data. But even beyond the macroeconomic data, earnings commentary does not imply we are seeing a material collapse of consumer spending (and that includes the Home Depot commentary). Bottom line is consumer spending may be slowing, but it's not imploding like we would expect in a hard landing (at least not yet). *What signals a hard landing? Retail sales roll over and begin to drop sharply, falling to multi-month lows within the next three months.*

Business spending is slowing, but it's not collapsing. New orders for non-defense capital goods excluding aircraft (NDCGXA) is the best metric we have for national business spending and investment, and it's essentially little changed from one month and three months ago. Again, in a hard landing scenario, we should be seeing much steeper declines in this data. *What signals a hard landing? NDCGXA falling to multi-month lows in the next three months.*

Employment is deteriorating, but it's not bad enough to warn of a hard landing. Employment is a lagging economic indicator, which means it only deteriorates after the economy has slowed materially. But jobless claims is one of the most current employment indicators and that's why we watch it weekly and include in the Economic Breaker Panel. Last week saw a sharp jump in claims to a one-and-a-half-year high, and while 260k claims is still historically low, the pace of deterioration over the past several months is notable. It's not enough to signal a hard landing, yet, but it's something we need to watch closely going forward. *What signals a hard landing? Claims moving above 300k within six weeks.*

To be clear, this analysis does not mean a hard landing *won't* happen. But so far, it is not happening. Yes, the economy is clearly slowing, but not at the pace that we'd consider a hard landing, and that's one of the reasons stocks have proven resilient. Going forward, this hard landing/soft landing debate will continue and remain critically important for the next material move in stocks, so we are going to keep this Hard Landing vs. Soft Landing Scoreboard updated, so that we know, ahead of our competition, if a hard landing is more likely or the threat of it is removed, because either outcome will require adjustment in portfolios to protect against volatility or seize opportunities.

Why Disappointing Home Depot Earnings Point to a Soft Landing

The U.S. economy is mostly consumer driven, and that means that certain national retailers can offer anecdotal insights into the state of the economy, and so it was yesterday as Home Depot posted "ok" earnings but underwhelming guidance. In doing so, HD hinted that, so far, the economy is headed for a soft landing.

Starting with the results, HD beat on earnings ($3.82 vs. (E) $3.80) but missed on revenue ($38.60B vs. (E) $37.26B) and substantially cut forward guidance, and the reason was clear: Home Depot shoppers were

coming less frequently, and when they were in the store, they were spending less money.

Specifically, HD management made several important observations about the consumer. First, demand for large-ticket items (they cited patio furniture, grills, etc.) has decreased markedly, implying consumers are restraining from large purchases amidst growing economic uncertainty. Second, demand for high-dollar renovation projects has dropped sharply (think kitchen remodels, flooring, etc.). Third, customers were demonstrating clear price sensitivity for the first time in a while. Fourth, demand for "necessities" (plumbing, electrical, and other areas that might be used more for maintenance, repairs and DIY work) saw steady demand.

What does that all mean? It's only one company's insights, but it implies a soft landing for the economy, not a hard landing. Here's why. Demand for housing "essentials" (again plumbing, electrical, etc.) remained "fine" implying the consumer has capacity to spend, but that same consumer is clearly pulling back on discretionary and "luxury" items (floors, counter tops, cabinets, etc.) Basically that buying pattern hints at a consumer that still has money but is being more deliberate, thoughtful, and frugal (terms forgotten during the pandemic and recovery). That's typical of a mild slowdown (soft landing) not a hard landing (where spending collapses all together).

So, what does that mean for us? It speaks to the attractiveness of consumer staples, because consumers continue to have capacity to spend, they're just spending more on necessities and not on discretionary items. Bottom line, the HD earnings results were a disappointment, but the management commentary pointed to a soft landing. In that environment we continue to think that consumer staples ETFs could do well as the economy continues to lose momentum, and combining a market-cap and equal-weight staples ETF will give total exposure to staples as the economy continues to slow.

Jim Noble

James K. Noble CFP® CLU®

James K. Noble CFP® CLU®

Investment Advisory Representative (IAR), NPA Asset Management

CERTIFIED FINANCIAL PLANNER™ Practitioner since 2011

Providing financial planning, brokerage services, estate planning, and fiduciary investment management for individuals and families.

Contact:

jnoble@nationwideplanning.com

YouTube

The Retirement Channel with Jim Noble CFP(R)

(201) 350 - 8461

James K. Noble CFP® CLU®

James K. Noble CFP® CLU® has been featured in these national finance publications

Bloomberg

FOX

yahoo! finance

DIGITAL JOURNAL

MarketWatch

Disclaimer: The Monday Matters Weekly Market Update is provided to clients and subscribers on an informational basis and is not intended to be considered investment advice or recommendations to buy or sell any security or a solicitation to buy or sell any security. Information contained in The Monday Matters Weekly Market Update is compiled from a variety of sources and is not necessarily complete and its accuracy is not guaranteed. Neither the information contained in The Monday Matters Weekly Market Update, or any opinion expressed in the Newsletter constitutes a solicitation for the purchase of any future or security referred to in the Newsletter. The Newsletter is strictly an informational publication and does not provide individual, customized investment or trading advice to its clients. CLIENTS SHOULD VERIFY ALL CLAIMS AND COMPLETE THEIR OWN RESEARCH AND CONSULT A REGISTERED FINANCIAL PROFESSIONAL BEFORE INVESTING IN ANY INVESTMENTS MENTIONED IN THE PUBLICATION. INVESTING IN SECURITIES, OPTIONS AND FUTURES IS SPECULATIVE AND CARRIES A HIGH DEGREE OF RISK, AND SUBSCRIBERS MAY LOSE MONEY TRADING AND INVESTING IN SUCH INVESTMENTS.

Representatives are registered through, and securities are sold through Nationwide Planning Associates, Inc., Member FINRA/SIPC, located at 115 West Century Road, Suite 360, Paramus, NJ 07652. Investment advisory services are offered through Nationwide Planning Associates, Inc. Insurance sold through licensed NPA Insurance Agency, Inc. Non-deposit investment products are not federally insured, involve investment risk, may lose value and are not obligations of or guaranteed by the Broker/Dealer. Nationwide Planning Associates, Inc. is a registered Broker/Dealer