Daily Technical Strategy

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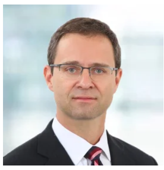
2023 Technical Outlook: Bear Market Lows Likely in Place



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Year-end Target (SPX) 4500

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Globally, 2023 should be a transitionary year where SPX enjoys a far better year than 2022. Most weakness could be concentrated in Q2 before sharp rallies into Fall and a stairstepping rally into year-end. Increasingly, it's right to expect that markets have made their bear market bottoms last October 2022.

Two Possible Outcomes:

1. Base Case- Equity markets turn up sharply in 1Q into mid-March, and pullbacks prove brief before further gains in a stair-stepping fashion to end the year up 15%. In this case, despite a mild late Spring bounce in US Dollar and Treasury yields, this proves short-lived, and no meaningful Equity weakness occurs and inflation falls off steadily all year. The US likely avoids recession in 2023 – YE target 4500
2. Equity markets falter between March and June and then again in Fall 2023 before rally back into year-end- a choppier sideways year albeit with rally into year-end helping returns. Inflation stays with markets longer than expected given a sharp rally in Energy commodities and both TNX and DXY move back to highs, albeit briefly in 2023. In this case, it's still likely SPX gains 5-10% but would be not as linear of a rally

Conclusions

- Equity markets likely to show a far better first half than many anticipate as historical Pre-election year tendencies look to be directly opposite Wall Street consensus
- Volatility likely could materialize from March-May and/or August-October, but 2023 as a whole should be higher by 15% as US stocks respect inflation falling more than the prospect of negative earnings revisions
- Energy's dominance should continue this year, and could be joined by Materials and Industrials, with Technology showing most of its strength in 2H 2023
- Growth still under pressure vs. Value but could rebound in the back half of 2023
- Small caps have shown some initial signs of bottoming out and both Small and mid-caps might outperform Large caps in 2023
- Commodities and Emerging markets could outperform on falling US Dollar
- Treasury Yields and US Dollar should fall further in 1H 2023, but look to have a bounce which could take yields higher in 2Q-3Q before weakening into 2024
- Commodities outperformance should be led by Metals in 1H and Energy likely also shows a sharp rebound this year
- Cryptocurrencies should strengthen with stocks in 1Q 2023 before weakening into Summer. Best buying opportunities on weakness could materialize in May/June

2023 Sector Ratings

		Overweighted	Underweighted
Overweight	Energy	Integrated oil, Oil Services, Refiners	E&P's, Solar/ESG/Clean Energy
	Industrials	Aerospace/Defense, Machinery, Elect Eqmt, Transp-Shipping, Trucking	Transport-Airlines, Industrial Conglom, Professional Svcs
	Technology	Hardware/Storage Semiconductor Mfg/Eqmt	Software
	Healthcare	Pharmaceuticals, Biotech, Medical Devices	Managed Care
Neutral	Consumer Discretionary	Homebuilders, Retailing-Discount, Leisure-Lodging, Svcs	Retailing-Internet, Retail-Specialty, Autos
	Financials	Brokerages, Money Center Banks	Regional banks, Insurance
	Utilities	Water Utilities Gas Utilities	Multi-utilities Electric utilities
	Materials	Metals & Minings (Precious/Base), Building-wood Products	Chemicals
Underweight	REITS	Real Estate Development/Op finance-Property REITS	Mortgage REITS
	Comm Services	Telecom	Media-Periodicals, Books
	Consumer Staples	Tobacco, Food-Grain/Confectionary Beverages	Food-Dairy, Meat, Packaged

Source: Fundstrat

Why Bear Market lows could likely be in place

- **Momentum and trends remain positive short-term, and not overbought**. SPX higher by over 500 points since 10/13 intra-day lows.
- **Breadth expansion has been robust since October 2022** with >60% of SPX issues above their respective 200-day moving average (m.a.)
- **Equal-weighted market gauges like Value Line have broken out** above downtrends from Jan 2022 and SPX and NASDAQ could accomplish this by end of January
- **Broad sector leadership has proven impressive**, with Equal-weighted Materials, Industrials, Consumer Discretionary, all up more than 15 in % in the rolling 3-month period, outperforming SPX
- **Technology shows evidence of breaking out** of its intermediate-term downtrend, and this should help this sector play catch-up
  Cycles bullish for 2023- Both cycle composites along with Pre-election year seasonality show a far better year for 2023 than 2022.

- **Sentiment still bearish** – Despite sentiment having gradually improved in the last month, net Non-commercial S&P Futures positions remain negative and most Strategists have lackluster 2023 targets. Positioning remains very much defensive
- **DeMark weekly exhaustion "13 Countdown" (Buy) are now in place** for QQQ, AAPL, AMZN, MSFT and close for GOOGL
- **US Dollar and Treasury yields have both turned down sharply,** giving optimism that highs might be in place; Most cycles show these downtrends lasting through Q1

Equal-weighted market indices breaking out !   Value Line Geometric Avg- 1700 Equal-weighted US Stocks gives a bit clearer message as to the strengthening of the broader market that's been seen, despite Tech's big drag on SPX and QQQ.

Source: Trading View

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