



Your Weekly Roadmap

September 13, 2024

Tailwinds, Choppiness Anticipated Ahead of Next Week's FOMC

Our Views



Tom Lee, CFA, CFA^{AC}

HEAD OF RESEARCH

- After tumbling 4% to begin September, the S&P 500 has clawed its way back to nearly flat. We continue to see equities as challenging between now and Election Day. The best-case scenario has the S&P 500 between 5,350 to 5,700.
- Into next week's Sept FOMC rate decision, equities probably strengthen. The reasons are obvious. The Fed funds rate of 5.50% is super restrictive (core inflation has been running at roughly 2% for the past 6 months), and this week's August CPI and PPI data show inflation trending close to the 40-year averages.
- Many fear that this first Fed cut will be bad for stocks. However, our analysis of previous Fed "first cuts" shows that in six out of six historical precedents in which the first cuts arrived in a non-recessionary backdrop – a "no landing" scenario like our present one, forward returns for stocks have been positive one, three, six, nine, and 12 months later.
- Nevertheless, we are still in the challenging eight-week period into election day (11/5), and the most recent declines suggest that turbulence into the rest of the month (past next week) could still be potentially significant.
- **Bottom line: Small-caps lead, Fed is dovish**

[Read the Latest First Word](#)



Mark L. Newton, CMT^{AC}

HEAD OF TECHNICAL STRATEGY

- Short-term trends turned back to bullish following Wednesday's close above 5525, and Technology has snapped back with a vengeance following its recent two-month pullback to support. We've seen some definite evidence of QQQ starting to outperform SPY as Growth makes a comeback.
- In my view, triangle pattern resistance for both SPX and QQQ should be tested into next week ahead of our long-awaited FOMC meeting, and any break above this resistance could allow for even further acceleration into October before any drawdown.
- However, given the back-month negative seasonality trends, initially it's expected that the area near 5650 should prove to be strong resistance for SPX, and arguably will be a line in the sand for Bulls.

[Read the Latest Daily Technical Strategy](#)



Sean Farrell ^{AC}

HEAD OF CRYPTO STRATEGY

- **Election Thoughts:** This week's price action reaffirms our view that while the election could positively impact crypto prices through a "Trump Premium," it is unlikely to negatively impact prices via a sustained "Harris discount."
- **Fed Policy:** A declining RRP facility, coupled with a volatile SOFR, could provide the Fed with sufficient support to cease Quantitative Tightening (QT) next week, alongside a likely 25 basis points rate cut.
- **Altcoin Strength:** Recent relative altcoin strength is encouraging, as it suggests seller exhaustion among crypto-native holders.
- **Core Strategy:** We remain optimistic about the outlook for crypto as we approach year-end, viewing a market leaning toward a soft landing as constructive for prices. However, (1) the absence of near-term catalysts, (2) the lack of market confidence around a soft landing, and (3) continued negative seasonality render it appropriate to keep some dry powder on hand. Our focus remains on the majors, with selective exposure to altcoins like HNT, MKR, and STX. As a reminder, our Core Strategy allocation model is included at the end of each note, along with our crypto equity baskets and trade recommendations.

[Read the Latest Crypto Strategy](#)



L. Thomas Block

WASHINGTON POLICY STRATEGIST

- Most observers, including Republicans, viewed Tuesday evening's Presidential debate as a win for Vice President Harris.
- It is unclear whether that will translate into a meaningful benefit for her campaign, however.
- Meanwhile a federal government shutdown looms, with a deadline of September 30 to pass a Continuing Resolution to keep the government open. This week, House Speaker Mike Johnson encountered challenges from both his Democratic opposition and the conservative wing of his own party in getting a CR passed.

[Read the Latest US Policy](#)



Wall Street Debrief – Weekly Roundup

Key Takeaways

- The S&P 500 surged 4.02% this week, closing at 5,626.02. The Nasdaq did even better, closing up 5.95% at 17,683.98. Bitcoin was at 59,708.30 on Friday afternoon, up almost 9% from Monday levels.
- The latest numbers showed inflation continuing to cool ahead of the next FOMC meeting on September 18, which we expect to provide tailwinds for stocks.
- However, seasonality and other technical indicators continue to suggest choppiness from now until Election Day.

"If you have a clear mind, you won't have to search for direction. Direction will come to you." – Phil Jackson

Good evening,

September has been quite a ride for investors so far. After a nosedive of 4% at the beginning of the month, the S&P 500 has largely clawed its way back.

Inflation continues to fall, with August CPI and PPI data released this week showing that inflation is trending close to 40-year averages. While Core CPI came in hotter than expected, Fundstrat Head of Research Tom Lee interpreted the data as "better than it looks." It "doesn't change the fact that inflation is indeed falling fast," he added.

Aside from the statistically lagging shelter component, the biggest contributors to August Core CPI were travel-related – airline fares and (non-shelter) lodging. "Did inflation suddenly accelerate in Shelter and airline fares?" Lee asked rhetorically. "We don't think so. To us, this looks more like seasonal-adjustment noise." Also, the auto-insurance component, long a key contributor to CPI, appears to be finally slowing. On a YoY basis, it peaked at +22% earlier in the year, but in August, it came in at 16.5%.



There appears to be consensus agreement that the inflation numbers will not cause the Fed to push back the rate cuts that officials have recently hinted will begin at next Wednesday's Federal Open Markets Committee (FOMC) meeting. However, the bearishly inclined are arguing that this first Fed cut will actually be bad for stocks, noting (correctly) that historically, stocks have fallen half the time immediately after the Fed makes its first cut of a cycle.

However, Head of Data Science "Tireless" Ken Xuan and his team took a deeper look historical cycles and came to a different conclusion. Examining the last 11 Fed "first cuts," Xuan found that five of them took place with a recessionary backdrop. The other six came during a non-recessionary, "no landing" scenario such as the one in which we currently find ourselves. The difference in historic post-cut win ratios between the two categories is significant and best illustrated by our Chart of the Week:



DON'T FIGHT THE FED: Fed cut versus economic cycle

We are here



Fed cut + recession:

July '74, April '80, June '81,
Jan '01 and Sept '07

Fed cut + "no landing":

Jan '71, Oct '84, Oct '87,
July '89, July '95, Sept '98

	% return (avg)	Win-ratio		% return (avg)	Win-ratio
1W	-0.3%	20%	1W	-0.1%	67%
1M	0.5	60	1M	5.2	100
3M	-7.5	20	3M	9.7	100
6M	-3.5	20	6M	14.0	100
9M	-4.0	40	9M	16.0	100
12M	-2.3	40	12M	16.5	100

Source: Fundstrat, Bloomberg, Datastream, Kenneth French Data Library

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Lee, Xuan, and the Fundstrat team also discovered an interesting statistic. When looking at the historical "first four trading days" of September and examining the 20 worst instances for stocks, not once in those 20 precedents has September ended up positive. "We just saw the fourth-worst start for September," Lee noted, "and sure, history is made to be broken, but in my view, this is telling us that we are in for a challenging time leading up to Election Day."

Head of Technical Strategy Mark Newton acknowledged that "the stock market has been a lot choppier since July, but outside of Technology, it has mostly held up extraordinarily well. And with regard to Technology, despite this huge sell off, it really has not broken levels to think that Tech is going to weaken from here. In fact, Tech has been an outperformer all week."



"It's really important for trend followers that the S&P 500 gets up above the 5,650 level," he asserted. "That will allow for a pretty decent rally, in my view, but for now, we're still sort of choppy and range bound, held by 5400 on the downside and 5650 on the upside."

Presidential Election

At our weekly research huddle, discussion turned to the election and to Tuesday night's Presidential debate. As Washington Policy Strategist Tom Block summed up, "I don't think anybody can argue this, and I think every Republican I spoke with has agreed: the Vice President won the debate. She is clearly very good at debating, and she was clearly very well-prepared." That said, he noted wryly, "I don't know what prize you actually win when you win a debate."

Or, as Lee noted, "the election odds remain super tight, still too close to call."

Newton observed, "We have seen some interesting election-based types of trades start to happen. Post-debate, we've seen a big shift into clean energy, with very strong outperformance in \$ICLM, the global clean energy ETF. On the other hand, automobiles and health insurers were hit hard. So that's arguably a minor Harris-driven sector rotation. Time will tell whether this lasts."

Head of Digital Strategy Sean Farrell conceded that there was some overnight crypto weakness on Tuesday evening that started around the time of the debate. "But there was a broader risk-off move at the time – yields were coming down, and so was the dollar." Furthermore, Bitcoin and other crypto assets rebounded the next day, unlike other assets that some see as part of the Trump trade. "To us, this lends credence to our current view that while there is a 'Trump premium', there is not necessarily a sustained 'Harris discount'."

Elsewhere

U.S. data showed household incomes rose in 2023, the first such increase since the COVID-19 pandemic. The Census Bureau reported that inflation-adjusted median household income rose 5% from \$77,540 in 2022 to \$80,610 in 2023. The national poverty rate fell 0.4 percentage points to 11.1%. The strongest gains were seen in the Midwest, while the weakest in the West.

Firefighters are making slow but steady progress in battling three separate wildfires that have destroyed 100,000 acres in Southern California. Containment on the Line, Bridge, and Airport wildfires was at 21%, 3%, and 8%, respectively, as of midday Friday. Perhaps counterintuitively, cooling temperatures are impeding firefighters' efforts, as they result in smokier fires that limit the ability of firefighters to deploy air tankers in the fight.

South Korean authorities arrested two Samsung executives, alleging they stole chipmaking technologies for China. Seoul police alleged that the executives, surnamed Choi and Oh, helped Chinese companies build factories to manufacture 20-nm DRAM memory chips.

The SEC heightened regulations governing large auditing firms, implementing a new rule that would require them to bring in at least one independent outsider to oversee their work. The rules were recommended by the Public Company Accounting Oversight Board (PCAOB) over the objection of accounting powerhouses including PwC and EY.

OpenAI unveiled its latest versions of ChatGPT, claiming that they are capable of complex reasoning. The models, codenamed Strawberry and released as o1 and o1-mini, are able to use "chain-of-thought" reasoning that automatically breaks down complex problems into smaller, simpler steps without user prompting.

Jared Isaacman and Sarah Gillis became the first non-professional astronauts to complete a spacewalk this week, spending 20 minutes outside of a SpaceX Dragon vehicle. In previous spacewalks, astronauts entered space via an airlock that left most of the craft sealed off, but the two took a different approach, exiting while leaving the interior of the capsule entirely exposed. The two astronauts also tested newly designed spacesuits, which unlike previous government versions, are flexible and comfortable enough to be worn full time rather than just during the spacewalk – though they must remain tethered to the spacecraft for life support.

Boeing workers went on strike for the first time since 2008. Seattle and Oregon members of the International Association of Machinists and Aerospace Workers walked off the job after soundly rejecting the tentative deal union leaders had negotiated with the airliner manufacturer, which included 25% wage increases over a four-year period and improved benefits.

Federal Reserve Bank of Atlanta President Raphael Bostic was found to have engaged in improper trading. The Fed's [Office of Inspector General found](#) no evidence that Bostic had traded on insider information about Fed deliberations, but he nevertheless violated internal Fed rules governing trading that resulted in the appearance of insider trading. Bostic told investigators he relied on money managers and had been aware of the trading activities in question.

China fined PwC \$65 million for its audit work of Evergrande, the collapsed real-estate developer. PwC was also barred from operating in the country for six months. The Ministry of Finance said PwC issued "false audit reports" and claimed the firm's auditing procedures had "serious defects."

Key tech executives met at the White House to brief the administration on AI-related infrastructure issues, including energy and power-grid demands, data-center capacity, and semiconductor manufacturing. In attendance were Nvidia CEO Jensen Huang, OpenAI CEO Sam Altman, Anthropic CEO Dario Amodei, Microsoft President Brad Smith, Google President Ruth Porat, and Amazon Web Services CEO Matt Garman .

And finally: Britain's Donald Sheppard, who participated in D-Day on June 6, 1944 and then went on to help liberate Bergen-Belsen concentration camp in Germany, has died at age 104. Sheppard was able to attend a ceremony commemorating the 80th anniversary of D-Day this summer. Asked recently about his longevity, he responded: "Wine, whiskey, and salt. That's what I swear by."



Important Events

Retail Sales Data Ex Auto and Gas, August Tue, Sep 17 8:30 AM ET

Est.: 0.3% Prev.:0.4%

NAHB Housing Market Index Tue, Sep 17 10:00 AM ET

Est.: 40 Prev.: 39

FOMC Decision Wed, Sep 18 2:00 PM ET

Est.: 5.00% – 5.25% Prev.: 5.25% – 5.50%



Stock List Performance

Strategy	YTD	YTD vs S&P 500	Inception vs S&P 500	
Upticks	+20.38%	+2.43%	+10.29%	View



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