

Holiday Hop or Drop??

Presented by:



Sam Stovall, CFP, Chief Investment Strategist



Vincent Randazzo, CMT, Head of Technical Research

cfraresearch.com

Disclaimer

Disclaimer: This presentation is for informational purposes only and is not a recommendation to buy or sell securities or engage in any investment activity.

Anticipating “Q4-ria”

Sam Stovall, CFP, Chief Investment Strategist

Topics of Discussion

▪ Historical Perspective

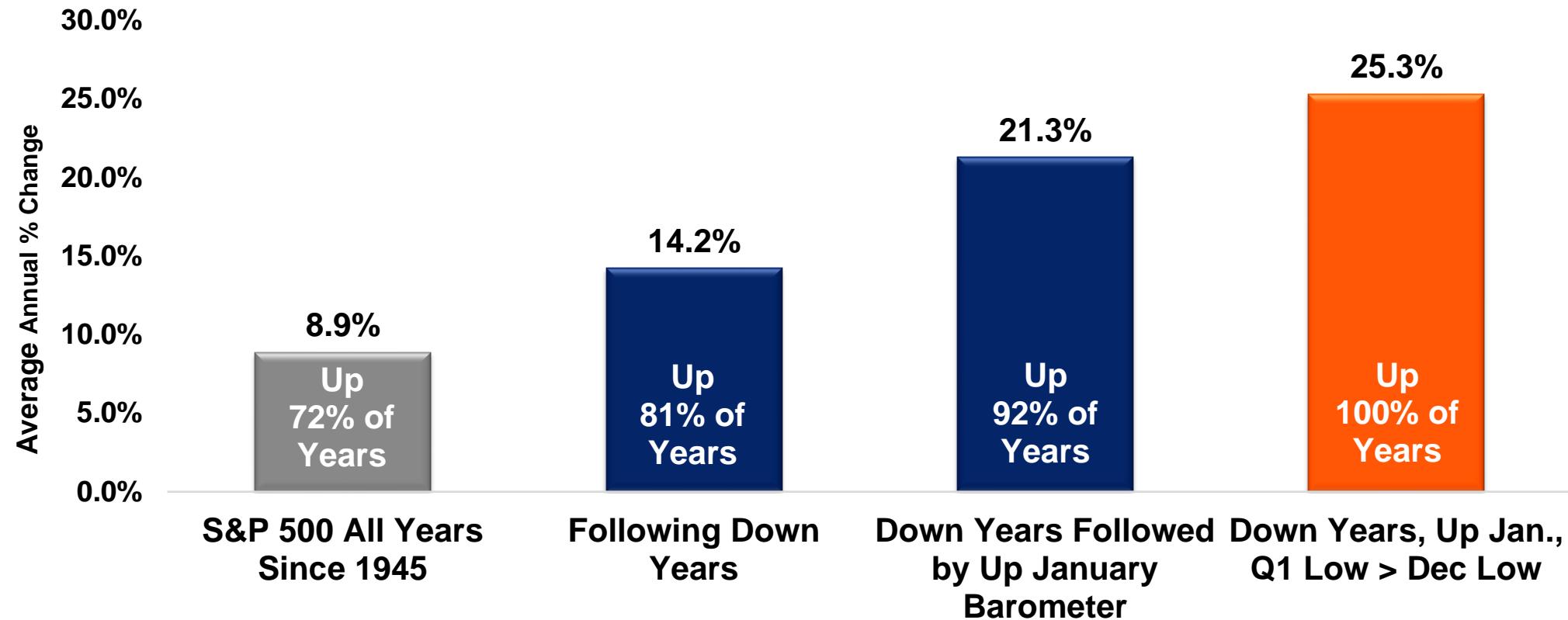
- Traditional Multiple Expansion Early in a Bull Market
- Typical Seasonal/Cycle Selloff After Rising 20% From Bear Market Low
- Happy Birthday, Bull?

▪ Fundamental Forecasts

- Economic Soft Landing Expected
- 2024 EPS Recovery Projected
- End of the Fed's Rate-Tightening Cycle & Equity Market Reaction
- Sector Recommendations

S&P 500 Early-Year Indicators Have Been Favorable

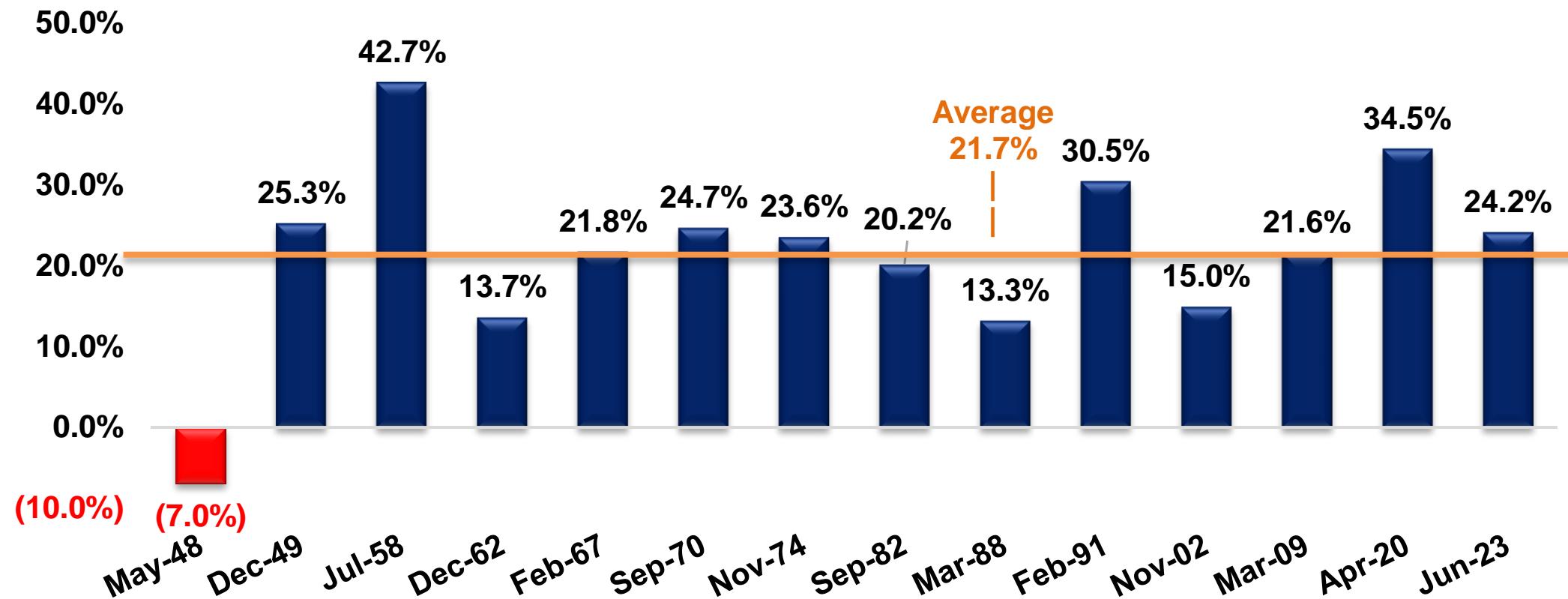
Higher-Than Average Annual Returns Typically Followed Down Years and Positive STA Signals



Source: CFRA, Stock Trader's Almanac (STA), S&P Global. Past performance is no guarantee of future results. Data: 12/31/44-3/31/23.

S&P 500 Multiple Expansion in New Bull Markets

The S&P P/E on Trailing EPS Rose by an Average of Nearly 22% from the Bear Market Bottom to the 20% Climb



Source: CFRA, S&P Global. Past performance is no guarantee of future results. Data as of 6/8/23.

New Bull Markets Since WWII

Impressive Duration/Magnitude of Gains Until S&P 500 Subsequently Declined 5%+

Bear Market		Days to		Total Bear Mkt. % Decline	New Bull Mkt. Up 20%		Advance After Closing Above +20% Level			Subsequent % Decline	12 Mos. After 20% Advance		Total Recovery of Bear Mkt. Loss	
		Start	End		20% Drop	Bear Bottom	Date	Days	Date		Date	% Chg.	Date	Mos.
5/29/46	5/19/47	103	355	(28.5)	5/15/48	362	6/15/1948	31	3.1	(20.6)	5/15/49	(9.9)	6/9/50	37
6/15/48	6/13/49	363	363	(20.6)	12/3/49	173	6/12/1950	191	18.2	(14.0)	12/3/50	19.1	1/7/50	7
8/2/56	10/22/57	445	446	(21.6)	7/25/58	276	8/3/1959	374	29.3	(13.9)	7/25/59	27.0	9/24/58	11
12/12/61	6/26/62	167	196	(28.0)	12/5/62	162	10/28/1963	327	18.4	(6.5)	12/5/63	18.1	9/3/63	14
2/9/66	10/7/66	201	240	(22.2)	2/14/67	130	5/8/1967	83	7.3	(6.5)	2/14/68	2.2	5/4/67	7
11/29/68	5/26/70	426	543	(36.1)	9/24/70	121	4/28/1971	216	24.9	(13.9)	9/24/71	17.2	3/6/72	21
1/11/73	10/3/74	320	630	(48.2)	11/5/74	33	11/7/1974	2	0.1	(13.6)	11/5/75	18.7	7/17/80	69
11/28/80	8/12/82	451	622	(27.1)	9/14/82	33	11/9/1982	56	16.2	(7.1)	9/14/83	34.3	11/3/82	3
8/25/87	12/4/87	55	101	(33.5)	3/8/88	95	3/17/1988	9	0.7	(5.6)	3/8/89	9.1	7/26/89	20
7/16/90	10/11/90	87	87	(19.9)	2/6/91	118	4/17/1991	70	9.0	(5.6)	2/6/92	15.6	2/13/91	4
3/24/00	10/9/02	353	929	(49.1)	11/21/02	43	11/27/2002	6	0.5	(14.7)	11/21/03	10.9	5/30/07	56
10/9/07	3/9/09	274	517	(56.8)	3/23/09	14	3/26/2009	3	1.2	(5.4)	3/23/10	42.7	3/28/13	49
2/19/20	3/23/20	22	33	(33.9)	4/8/20	16	6/8/2020	61	17.5	(7.1)	4/8/21	49.0	8/18/20	5
1/3/22	10/12/22	161	282	(25.4)	6/8/23	239	7/31/2023	53	6.9	(6.6)	?	?	?	?
All Bear Markets:		245	382	(32.2)		130		106	11.0	(10)		19.5		23
20%-40% Bears:		226	297	(27.0)		157		134	13.8	(10)		18.2		13
40%+ Bears:		316	692	(51.4)		30		4	0.6	(11)		24.1		58

Source: CFRA, S&P Global. Past performance is no guarantee of future results – data as of 9/30/23.

Government Shutdowns Don't Derail Bull Markets

More of a Headline Event than a Bottom-Line Event

Government Shutdowns		S&P 500 % Change			Number of Days
Close	Reopen	Week Before	Day of	Tot. Close	
9/30/1976	10/11/1976	(1.4)	(0.1)	(3.5)	11
9/30/1977	10/13/1977	0.9	0.7	(2.5)	13
10/31/1977	11/9/1977	1.1	(0.3)	0.4	9
11/30/1977	12/9/1977	(2.0)	0.3	(1.0)	9
9/30/1978	10/18/1978	0.7	0.4	(2.0)	18
9/30/1979	10/12/1979	(0.2)	(1.5)	(5.2)	12
11/20/1981	11/23/1981	(0.8)	0.8	0.7	3
9/30/1982	10/2/1982	(1.8)	0.3	(0.1)	2
12/17/1982	12/21/1982	(3.1)	1.6	2.4	4
11/10/1983	11/14/1983	0.3	0.3	1.6	4
9/30/1984	10/3/1984	0.3	(0.9)	(2.2)	3
10/3/1984	10/5/1984	(1.6)	(0.7)	(0.6)	2
10/16/1986	10/18/1986	1.3	0.3	(1.2)	2
12/18/1987	12/20/1987	3.3	2.5	2.7	2
10/5/1990	10/9/1990	2.2	(0.4)	(2.4)	4
11/13/1995	11/19/1995	0.7	(0.1)	0.7	6
12/15/1995	1/6/1996	(0.1)	(0.1)	0.2	22
10/1/2013	10/16/2013	(0.9)	0.8	2.4	15
1/19/2018	1/22/2018	0.4	0.4	1.2	3
12/22/2018	1/26/2019	(7.1)	(2.7)	9.4	35
Averages	20	(0.4)	0.1	0.1	9

Source: CFRA, S&P Global. Past performance is no guarantee of future results. Data as of 9/30/23.

Seasonal Softness: July 31-September 30

All sizes and styles, plus 10 of 11 sectors, and 86% of the S&P 1500's 153 sub-industries fell

Regions/Sizes/Sectors	% Chg.	Best S&P 1500 Sub-Industries	% Chg.
Energy	3.6	Coal & Consumable Fuels	40.8
Communication Services	(3.9)	Oil & Gas Refining & Marketing	10.1
Health Care	(4.4)	Integrated Oil & Gas	6.8
S&P 500 Growth	(5.7)	Education Services	6.6
Financials	(6.3)	Commercial Printing	4.7
S&P 500	(6.6)	Security & Alarm Services	4.6
Nasdaq-100	(6.6)	Reinsurance	4.1
Consumer Discretionary	(7.6)	Wireless Telecom. Services	2.7
S&P 500 Value	(7.6)		
Industrials	(8.0)	Worst S&P 1500 Sub-Industries	% Chg.
Consumer Staples	(8.2)	Passenger Airlines	(22.1)
S&P MidCap 400	(8.3)	Tires & Rubber	(22.7)
Info. Technology	(8.3)	Diversified Chemicals	(24.1)
Materials	(8.6)	Independent Power Producers	(24.7)
S&P SmallCap 600	(10.2)	Leisure Facilities	(25.6)
Real Estate	(11.0)	Drug Retail	(25.8)
Utilities	(12.2)	Health Care Technology	(26.5)
		Forest Products	(27.4)
Positive Sectors:	9%	Positive Sub-Industries:	14%

Source: CFRA, S&P Global.

Q4-ria (Optimism Starts in October)

History Points to Favorable Total Returns in Q4 of Pre-Election Years and Full Election Years

Pres. Cycle	Average S&P 500 % Changes (w/o dividends reinvested)					Batting Averages (Frequency of Price Gains)				
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Year 1	0.4	2.5	1.8	5.8	11.0	62%	62%	62%	85%	62%
Year 2	(0.6)	(2.9)	4.0	6.5	6.9	33%	50%	75%	75%	50%
Year 3	8.0	5.1	3.6	5.7	24.0	92%	75%	75%	100%	92%
Year 4	0.7	4.6	4.1	5.9	15.5	58%	75%	75%	92%	100%
All Years	2.1	2.3	3.4	6.0	14.3	61%	65%	71%	88%	76%

Source: CFRA, S&P Global. Data: 12/31/45-9/22/23.

Happy Birthday, Bull

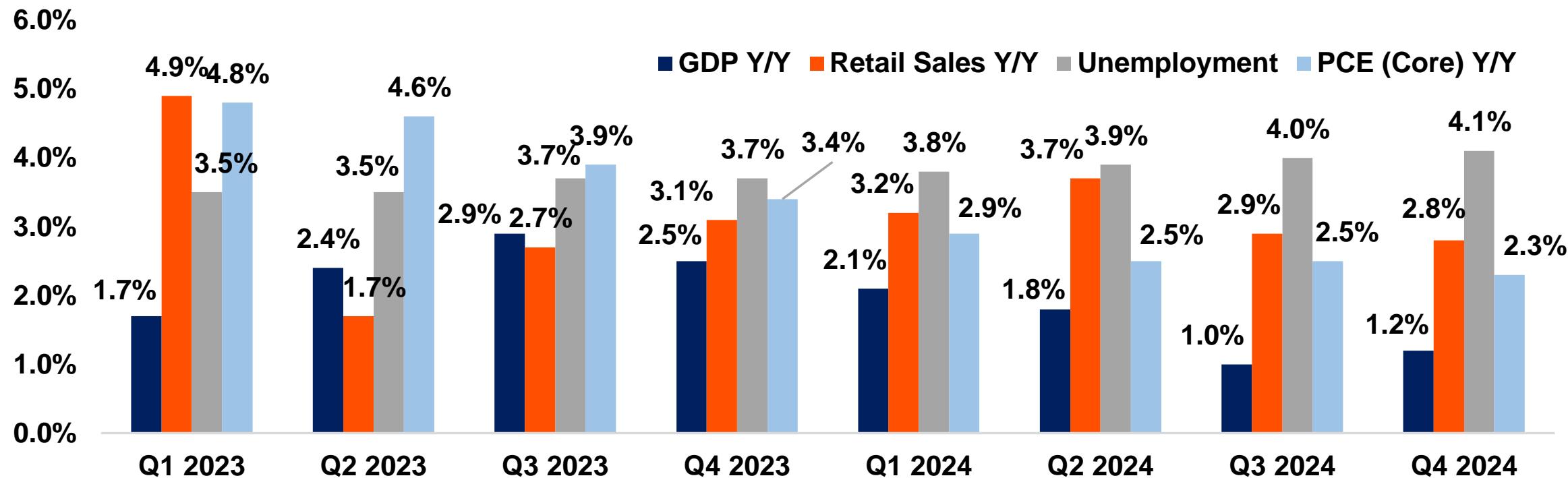
S&P 500 Bull Market Annual Returns Typically Started to Struggle in Year 3. Year 2 Average Gain = 12.6%

Start	End	Yr. 1	Yr. 2	Yr. 3	Yr. 4	Yr. 5	Yr. 6	Yr. 7	Yr. 8	Yr. 9	Yr. 10	Yr. 11	Total %
5/17/47	6/15/48	19.0%											22%
6/13/49	8/2/56	42.1%	11.9%	13.1%	-2.3%	20.0%	38.6%	17.2%					267%
10/22/57	12/12/61	31.0%	9.7%	-4.8%	28.4%								86%
6/26/62	2/9/66	32.7%	17.4%	2.0%									80%
10/7/66	11/29/68	32.9%	6.6%										48%
5/26/70	1/11/73	43.7%	11.1%										74%
10/3/74	11/28/80	38.0%	21.2%	-7.1%	6.1%	6.8%	18.0%						126%
8/12/82	8/25/87	58.3%	2.0%	13.4%	29.7%	36.6%							229%
12/4/87	7/16/90	21.4%	29.3%										65%
10/11/90	3/24/00	29.1%	5.6%	14.5%	1.1%	24.4%	20.9%	38.0%	1.8%	35.6%			417%
10/9/02	10/9/07	33.7%	8.0%	6.6%	12.9%	15.9%							101%
3/9/09	2/19/20*	68.6%	15.7%	3.9%	13.2%	21.1%	10.7%	-4.3%	18.9%	17.8%	-1.6%	56.1%	401%
3/23/20	1/3/22	74.8%											114%
10/12/22	7/31/23	28.3%											
Avg. Since 1947		39.5%	12.6%	5.2%	12.7%	20.8%	22.1%	16.9%	10.3%	26.7%	-1.6%	56.1%	156%

Source: CFRA, S&P Global. Past performance is no guarantee of future results. Data as of 9/30/23. *Within 20 days of a complete year.

Economic Projections

No Recession Projected for 2023 or 2024



Source: Action Economics. Data as of 10/2/23.

Fundamental Forecasts

Weakness in 2023, Followed by Recovery in 2024

Indicator	Year	Forecast	Year	Forecast
S&P 500 EPS	2023E:	219.22	2024E	245.40
S&P 500 Revenues	2023E:	0.9%	2024E	5.2%
Real GDP (Q4/Q4)	2023E:	2.5%	2024E	1.2%
Unemployment (Q4/Q4)	2023E:	4.0%	2024E	4.2%
Core PCE (Dec/Dec)	2023E:	3.3%	2024E	2.2%
Fed Funds Rate (Q4)	2023E:	5.63%	2024E	4.38%
10-Year T-Note (Q4)	2023E:	4.50%	2024E	4.30%
FRB Major \$ Index Chg	2023E:	0.5%	2024E	2.5%
WTI \$ Average (Q4)	2023E:	92.07	2024E	102.13

Source: *Action Economics, ** S&P Capital IQ Consensus Estimates. Past performance is no guarantee of future results. Data as of 9/25/23.

Global Growth Projections

Wall Street Consensus Estimates Point to a GDP/EPS Growth Recovery in 2024

Global Market	Price % Chg.		GDP Growth		EPS Growth		NTM P/E			Relative P/E			Div. Yield
	YTD	2022	2023E	2024E	2023E	2024E	Now	Avg.	Pr/Disc.	Now	Avg	Pr/Disc.	
S&P 500	11.7	(19.4)	2.2	1.5	(0.0)	11.9	18.6	16.3	14.3	NA	NA	NA	1.7%
> S&P MidCap 400	3.0	(14.5)	--	--	(11.7)	14.6	14.2	17.4	(18.5)	0.78	1.07	(27.1)	1.8%
> S&P SmallCap 600	(0.5)	(17.4)	--	--	(11.5)	20.9	13.8	18.4	(24.8)	0.76	1.13	(32.9)	2.2%
S&P Developed Ex-U.S. BMI	3.8	(18.6)	1.6	1.5	(2.7)	10.1	12.6	13.5	(6.8)	0.68	0.84	(19.2)	3.1%
> S&P EUROPE 350	6.5	(11.5)	0.7	1.2	(1.3)	6.4	12.2	13.4	(8.9)	0.66	0.81	(18.7)	3.4%
> S&P United Kingdom BMI	1.2	(2.2)	0.1	0.9	(10.8)	6.8	10.7	13.2	(19.4)	0.57	0.70	(18.0)	3.9%
> S&P Germany BMI	6.0	(20.6)	(0.3)	1.0	(2.7)	11.7	10.8	13.8	(21.9)	0.58	0.72	(20.1)	3.3%
> S&P Japan BMI	22.4	(5.6)	1.6	1.0	15.4	7.6	13.0	14.5	(10.0)	0.70	0.76	(8.0)	2.2%
> S&P Korea BMI	14.5	(26.9)	--	--	(31.2)	59.3	13.0	10.9	19.2	0.70	0.57	21.9	1.8%
> S&P Australia BMI	(0.0)	(7.8)	--	--	(10.0)	3.1	15.1	16.6	(8.8)	0.81	0.87	(6.9)	4.2%
S&P Emerging BMI	0.8	(20.5)	3.6	4.0	4.1	17.5	11.3	10.3	10.3	0.61	0.61	(0.0)	2.4%
> S&P China BMI	(8.3)	(22.0)	4.5	4.4	8.5	17.6	10.3	12.6	(17.8)	0.56	0.66	(16.1)	1.7%
> S&P India BMI	11.9	1.5	5.8	6.4	29.0	12.2	21.8	19.9	9.3	1.17	1.05	11.3	0.3%

Source: S&P Global, Action Economics. Data as of 9/25/23.

S&P 500 Earnings Expectations

Wall Street Consensus Estimates Point to an EPS Growth Recovery in 2024

EPS Y/Y % chgs. S&P 500 Sector	2023					2024				
	Q1A	Q2A	Q3E	Q4E	Year	Q1E	Q2E	Q3E	Q4E	Year
Communication Services	(13.4)	11.3	26.2	44.5	15.5	28.3	19.0	14.0	14.1	18.2
Consumer Discretionary	36.2	41.7	15.6	19.6	27.1	12.6	7.4	16.8	19.7	14.0
Consumer Staples	2.30	6.0	0.2	5.9	3.6	6.82	7.7	10.4	8.7	8.4
Energy	18.7	(49.3)	(37.5)	(23.5)	(28.3)	(14.2)	17.0	8.4	8.4	3.8
Financials	(5.7)	(3.4)	(0.3)	(3.2)	(3.2)	3.8	5.0	7.9	10.6	6.8
Health Care	(14.9)	(26.6)	(10.8)	0.8	(13.3)	5.1	26.8	11.8	11.1	13.1
Industrials	25.9	9.3	6.4	5.5	10.7	13.0	7.2	19.1	15.5	13.5
Information Technology	(8.7)	3.3	4.0	13.4	3.1	18.5	14.8	18.9	18.5	17.7
Materials	(20.2)	(24.9)	(17.7)	(8.9)	(18.8)	(5.0)	3.5	19.0	14.1	7.2
Real Estate	(22.4)	(3.6)	(28.7)	54.5	(7.5)	4.2	(10.1)	17.5	14.2	5.6
Utilities	(3.9)	(2.4)	8.1	26.9	6.0	10.2	9.3	2.6	5.5	6.6
S&P 500	(1.2)	(5.6)	(1.0)	8.2	(0.0)	8.4	12.3	13.3	13.6	11.9
S&P MidCap 400	(12.4)	(20.5)	(11.6)	3.9	(11.7)	10.0	10.0	17.5	20.5	14.6
S&P SmallCap 600	(18.7)	(22.9)	(16.7)	5.5	(11.5)	8.6	26.7	25.8	22.1	20.9

Source: S&P Global. Data as of 9/25/23.

Pops Typically Followed the End of Rate Hikes

Sector & Sub-Industry Returns Nine Months After the Last Rate Hike*

Regions/Sizes/Sectors	% Chg.	Best S&P 1500 Sub-Industries	% Chg.
Financials	22.5	Homebuilding	36.6
Real Estate***	20.1	Tires & Rubber	29.5
Consumer Staples	18.6	Construction Materials	27.2
Utilities	17.9	Tobacco	26.0
Health Care	16.6	Other Diversified Financial Services	25.8
S&P 600	16.5	Multi line Insurance	23.7
S&P 400	16.3	Property & Casualty Insurance	23.3
Information Technology	16.3	Diversified Banks	22.4
Communication Services	16.1		
Industrials	13.6		
S&P 500	13.2		
S&P 500 Value**	12.5	Specialty Stores	5.0
Nasdaq 100	12.0	Trading Companies & Distributors	4.4
Consumer Discretionary	11.8	Steel	2.9
Materials	9.3	Diversified Chemicals	2.8
S&P 500 Growth**	8.4	Housewares & Specialties	2.7
Energy	8.3	Metal & Glass Containers	1.5
		Wireless Telecommunication Services	0.0
		Gold	(7.1)
Positive Sectors:	100%	Positive Sub-Industries:	99%

Source: CFRA, S&P Global. Past performance is no guarantee of future results. *Since 1990. **Since 1995. ***Since 2016.

Sector Recommendations

Growth Leadership Should Resume Once the Corrections has Concluded

S&P 500 Sector	Price Change		2024 EPS		NTM P/E to Proj. 5-Yr. EPS Grth.	Actual Sector % Weightings	Recommended Sector Emphasis
	YTD	2022	Growth Est. %	P/E on NTM EPS			
Communication Services	39.4	(40.4)	18.2	16.4	0.9	8.9	Overweight
Consumer Discretionary	25.7	(37.6)	14.0	24.7	1.1	10.7	Overweight
Consumer Staples	(6.6)	(3.2)	8.4	18.8	2.5	6.6	Underweight
Energy	3.2	59.0	3.8	12.1	2.6	4.7	Marketweight
Financials	(3.1)	(12.4)	6.8	13.4	1.2	12.8	Marketweight
Health Care	(5.3)	(3.6)	13.1	17.0	1.8	13.4	Marketweight
Industrials	3.1	(7.1)	13.5	18.0	1.6	8.3	Marketweight
Information Technology	33.8	(28.9)	17.7	25.2	1.8	27.5	Overweight
Materials	1.0	(14.1)	7.2	17.8	1.8	2.4	Marketweight
Real Estate	(8.0)	(28.4)	5.6	32.6	3.9	2.4	Marketweight
Utilities	(16.5)	(1.4)	6.6	15.1	2.4	2.4	Underweight
S&P 500	11.7	(19.4)	11.9	18.6	1.4	NA	NA

Source: CFRA, S&P Global. Past performance is no guarantee of future results – data as of 9/30/23.

Summary

- S&P 500 likely to challenge 4,200 during seasonally weak August-to-early-October period.
- Q3 EPS seen declining less than 1%. Yet, in 54 of the last 56 quarters, the actual results were better than EOQ estimates. S&P Capital IQ sees Q4 EPS up 8.2% and 2024 EPS +11.9%.
- Many global central banks have likely ended their rate-tightening programs. Fed should be next.
- Q4 of pre-election years for first term administrations since WWII posted gains averaging nearly 6% on a total return basis and advanced 100% of the time. Ditto for the Election Year.
- The market has traditionally jumped 13% in the nine months after the last rate hike, bringing all sizes, styles, and sectors up along with it.
- Mid- / small-caps and international markets look appealing, along with cyclical sectors.