AUGUST 24, 2023

WEEKEND AT BERNARD'S

Five Steps Up. How Many Down?

Want to read more? Visit weekendatbernardsblog.com, and subscribe at stratosrj.com/subscribe. Don't forget to follow Stratos Investments of Raymond James on social media to stay up-to-date.

In our blog, "Is AI the New Roaring '20s?" (June 29), Stratos wrote that the S&P 500 (4376) was likely to make a high during the summer. In our Stratos Self Check (July 12), we predicted a likely trend down once a new high was in place.

Stratos anticipated that August might start a correction trend. After a strong breakout rally from 4307, the S&P made new highs on July 27 at 4607, which is close to a 7% breakout that started on June 12. We now expect the S&P 500 to continue lower in August through October with potential losses for each month. Stratos considers our fifth step (4527) a good technical pivot point. The weakness from recent highs in August tested our initial support level around 4347, so recent strength is not unexpected. If this is the beginning of a correction, Stratos anticipates at least two or three steps lower before potentially heading back to test new highs.

We are raising our **intermediate support level** from 4127 to **4176**. We are keeping our **primary support level** at **3947**. We are raising our **base camp support** from 3794 to **3843** and our **line in the sand** from 3631 to **3701**. If the S&P goes above our pivot point, the negative trend has probably been broken, and the uptrend that started last October would be in play.

Stratos' concerns for U.S. equity prices over the short-term include higher commodity prices, inflation, and higher interest rates. Most current market forecasts are indicating inflation is now trending lower. Inflation concerns have been reduced, but we think this is misplaced optimism. Stratos Global Commodity strategy showed significant inflation indicators during July, which suggest much higher inflation than the market is currently projecting. During the first six months of 2023, most commodities, including agricultural, metal, and

STRATOS INVESTMENTS of RAYMOND JAMES®

Stratos S&P 500 Market Analysis

Initial Support:
4347

Intermediate Support:
4176

Primary Support:
3947

Base Camp Support:
3843

Line in the Sand:
3701

Downside Target:
2577

energy prices, trended lower. As we wrote in May, oil prices held our $65 level and have tested $85 since June, which is up over 25% and adds further concern about the Fed's ability to meet their 2% inflation targets. Our research indicates that inflation is closer to 4%, which makes sense when mortgage rates are currently trading above 7%. We further expect the Fed will be forced to raise interest rates four to eight times. In the long term, housing prices are up 35% since 2020.

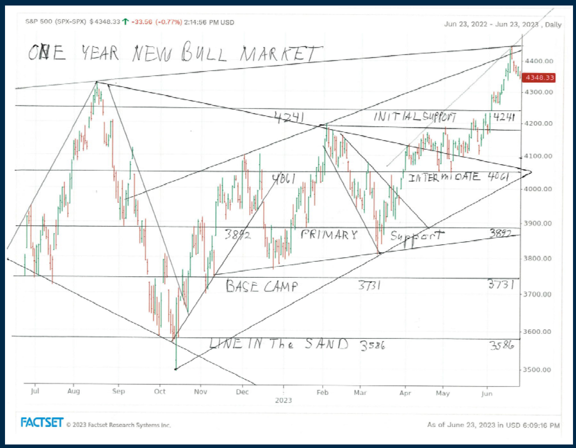
With the war in Ukraine now focusing on supply disruption, food prices as well as other commodities are likely to go higher. Even though China has suffered economically because of our trade sanctions, the political environment is becoming more open to reengaging with China, which could further demands into 2024 in the commodity space. Any increased demand or supply disruption will keep inflation above the 2% target.

Over the next few weeks, there is the potential for a U.S. government shut-down based on what we consider political incompetence. It is hard to predict how this will affect the market over the long-term, but for the short term, it is unlikely to be a positive. When you factor all of our concerns together, it allows us to project a strong possibility of a technical correction of two (4176) to three (3947) steps down in U.S. equities after such a strong first half.

Artificial intelligence has been a very positive momentum driver. It is hard to predict how much more momentum can come from this recent frenzy. If the S&P does trade above our pivot point, this would indicate that we are less concerned with the obvious but looking beyond.

Good Trading for the Long Term!

Stratos Market Analysis



Bernard K. Semon
VICE PRESIDENT, INVESTMENTS
PORTFOLIO MANAGER – STRATOS INVESTMENTS

STRATOS INVESTMENTS of RAYMOND JAMES®

Bernard.Semon@RaymondJames.com
D 915.534.4005 F 844.597.8378
4503 N. Mesa, El Paso, TX 79912
StratosRJ.com

Stratos Investments of Raymond James
@stratosinvestrj
bernardsemon