March 1, 2023

Is It Bear Weather?

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Are we afraid of a storm that is not coming, or did the storm already pass? Is the storm here, or is it just beginning? What is your answer?

It is rare when economic concepts, such as high inflation and interest rates, work together with a strong economy and high employment. As Stratos expected in December, the S&P 500 (3951) closed right at our intermediate level of support of 3783, which was the lowest close since the beginning of the October rally and proved to be an excellent reentry point. In addition, we predicted the retesting of our final resistance of 4132, which took place on February 1, 2023. As we stated in our January blog, "A Ray of Light," we considered **4152-4307 no man's land**. The most recent S&P high was 4195 in February.

Stratos's blogs have been accurate since October, recommending equity purchases near the lows, identifying recent resistance levels, and calling the most recent pull-back. As we planned in January when the S&P penetrated 4132, Stratos started reducing equity exposure by 30%-40% by selling our underperformers. We are anticipating two possibilities. The first is based on a one-year bull cycle that eventually closes above 4307, confirming a new bull market. Based on the S&P's highest, most recent close of 4179, we are looking for an opportunity to put money back to work around our new **intermediate level of support (3861)**—not far from today's current levels. If our intermediate level of support does not hold, we do not expect our **primary support (3672)** to be enough of a sell off. We would look for our **base camp level of support (3537)** to be our last bull opportunity to reengage. If the market fails to hold our **line in the sand of 3392,** our downside target would be in play. If we project a continuation of the January cycle, it could lead us to our year-end target of 4473 for the S&P 500 or higher.

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Stratos S&P 500 Market Analysis

No Man's Land: 4152-4307

Intermediate support: 3861

Primary support: 3672

Base camp support: 3537

Line in the sand: 3392

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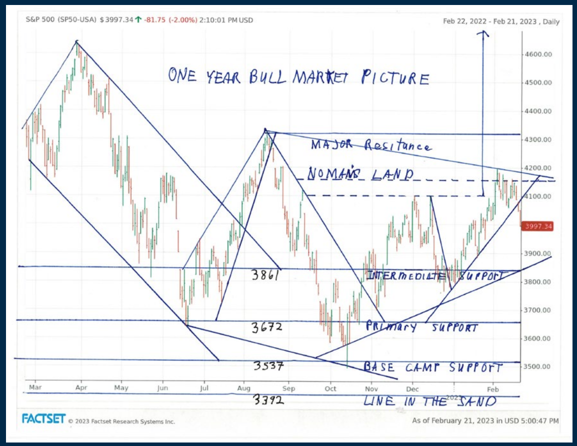
Our five-year picture is more pessimistic based on current concerns of higher interest rates and the Fed trying to combat an unrealistic inflation target. This picture indicates the market recently failed to meet the no man's land test and now has huge downside potential. Breaking under 3784, our prior intermediate support would be a technical negative, confirming a strong possibility of new lows. This could lead to a disastrous decline in equities. Stratos' **downside target is 2683**. These results would most likely be caused by high interest rates, uncontrollable inflation, huge deficits, and fears throughout the financial system, in general, with exorbitant energy costs.

Stratos takes an agnostic view, believing that U.S. stocks are currently undervalued based on future earnings and the safety our market offers. Recent weakness in the dollar help support U.S. equities, even if the economy enters a technical recession. Employment levels show remarkable resilience, and the consumer is still relatively strong with money in the bank.

Stratos expects inflation to remain around 4% overall except for energy costs. We expect energy prices to go higher once China and the rest of the world demand increases. We further state that there is a put in oil around \$65-\$70 that has continued to hold for the last six months, giving more reason to expect an upside move in oil when the world economies start to improve toward the end of the year.

Stratos knows that predicting the weather is very difficult. We know that we have been through a major storm. The weather appears to be partly cloudy with a small possibility of another hurricane but more likely smooth sailing. We should know more as summer approaches.

Stratos Market Analysis



Good Trading for the Long Term!

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