OCTOBER 26, 2023

WEEKEND AT BERNARD'S

How Many More Steps Down?

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Stratos remains a strong bull for U.S. equities for the foreseeable future. Most market declines are painful but necessary. We forecasted the recent sell-off in the S&P 500 (4137). The question is simple: At what level do we reinvest into new stock positions as we are anticipating a significant move higher in U.S. equities over the next 12 to 18 months?

In our October 2022 blog, "Mr. Hyde Should Prevail," Stratos anticipated a potential bottom to the 2022 U.S equity bear market. In January 2023 in "A Ray of Light," we believed in the beginning of a new bull market, which was confirmed in March and eventually broke out in May. As we wrote in June in our blog, "Is AI the New Roaring '20s?" we expected U.S. stocks to make a short-term technical high during the summer, which took place on July 28th. In our July Self Check, we considered potential negative returns to the S&P for three consecutive months, including October. In our August blog, "Five Steps Up. How Many Down?" we noted that the S&P 500 had the potential to move down two or three steps before we would reinvest into new equity positions.

Based on our step theory and technical research, Stratos anticipated the S&P would fall two (4176) or three (3947) steps before the end of the year, which is typically normal and healthy at the beginning of a bull market cycle. From a technical standpoint, there are gaps at 4115 (May 24, 2023), 4061 (May 4, 2023), and 3971 (March 28, 2023). A gap is where no trades took place at certain prices from that day's close, creating a gap the next day. Ideally, these gaps are filled, and we potentially have an opportunity to invest in the S&P 500 at our third step down, which is our **primary support of 3947**. Our **base camp support** in the S&P 500 is **3843**, and our **line in the sand** is **3701**. Because the S&P has been remarkably resilient over the last ten months, we are looking for technical strength to eventually guide us back into the market.

In our September Self Check, Stratos wrote that interest rates would continue higher, With mortgage rates now above 8% and potentially moving higher, there is a certain point where the economy will start to move into a recession. Five sectors in the S&P 500 are already in recession in our opinion. Although housing numbers are extremely strong year

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Stratos S&P 500 Market Analysis

Initial Resistance: 4347

Intermediate Support: 4176

Primary Support: 3947

Base Camp Support: 3843

Line in the Sand: 3701

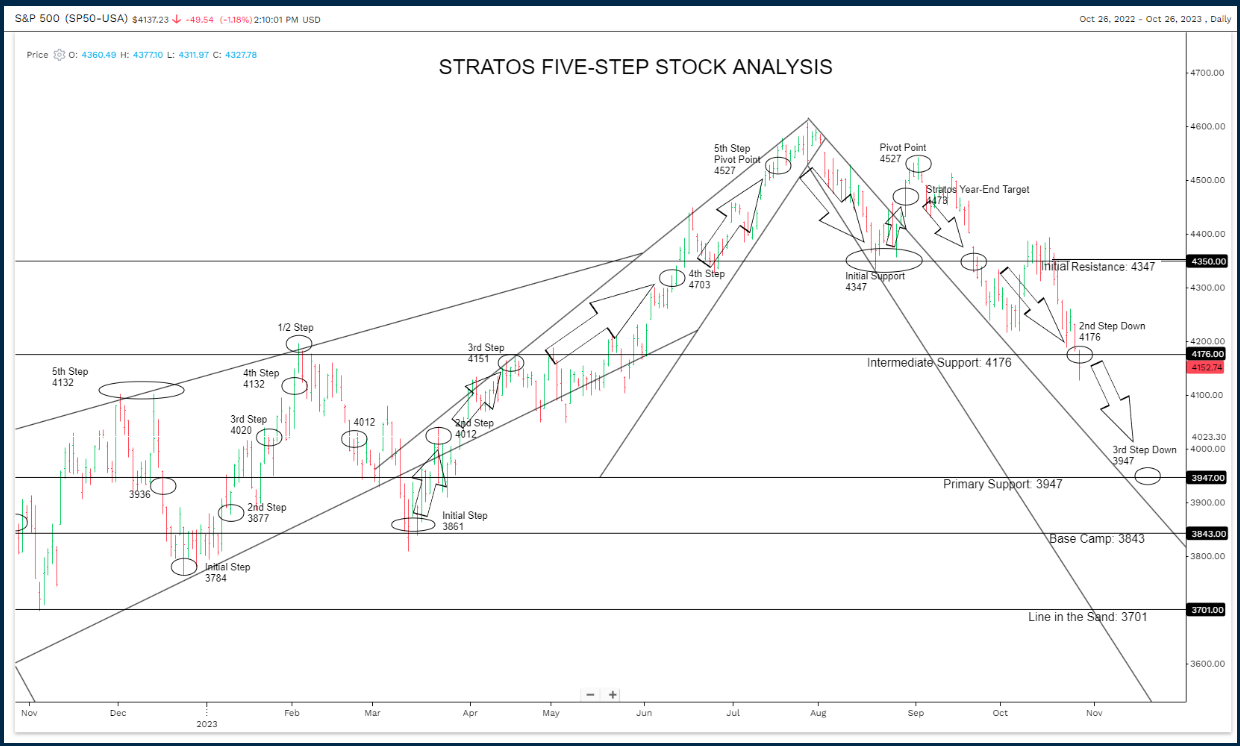
Downside Target: 2577

over year, we expect further increases in interest rates to start slowing down the housing market and the economy. Based on this, we expect higher interest rates for a shorter time, which is opposite the current market opinion. We hope this would add fuel to a stock market rally. We do not see commodity prices moving much lower over the foreseeable future, which makes the Fed's job harder than it looks. With the strength of the U.S. dollar likelycontinuing through 2023, the Fed's inflation target of 2% seems quite unrealistic. Any further rate hikes are likely to affect the economy negatively but may not necessarily impact stock prices over the next four quarters. We expect oil ($84) to stay above $75, which would indicate a strong demand and prosperous economy.

Stratos's research indicates U.S. stocks are undervalued and have the potential to move 20%-25% higher once this technical correction comes to an end. As long as our line in the sand is not breached, we remain bullish.

Good Trading for the Long Term!

Stratos Market Analysis



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