



BEEN THERE, DONE THAT NOW WHAT ?

Been There, Done That, Now What? Truth of the Tape

Lighthouse Canton Playbook
September 2024

Been There, Done That, Now What? Truth of the Tape

Of the possible interpretations of the FED leading with a double barrel cut (full disclosure, this wasn't our base-case), the growth narrative is clearly the one the market is bought into. For a change, market moves are in sync, equities up, bonds down, copper and oil up, all playing to the "growth is good and will remain so" expectation. While there are no doubt lingering concerns (and we share and discuss these below) on whether growth can hold up, price action needs to be respected. A convincing breakout past mid-July highs on equities, higher long dated treasury yields and a stall in gold should point to a "risk-on" positioning. This then bodes well for the 'mag-7" shedding their "lag-7" status and assume market leadership.

The bigger question is, will monetary easing deliver the utopian "soft-landing" and importantly, what metrics will settle the debate. In our view, the currently softening labor market remains very much the epicenter of this debate – a continuation of recent pressures in the jobs market will negate the growth argument. Equally, a stabilization in jobs and consumption will support the growth opportunity.

For our current caution to be reversed, we will be guided by (a) price action – will equities sustain the breakout or not (b) labor and consumption data. For now, we are tactically positioning along the uptrend through reduced reliance on equity hedges.

How to Position

- **Equities** – sustained breakout (at least into the end of the week) above mid-July highs would favor growth positioning, especially in laggard growth names –technology, consumer discretionary and luxury.
- **Equity Hedges** – Our proprietary market signals model prompted us to reduce hedges early last week and a sustained breakout will prompt further reduction inequity hedges.
- **Fixed Income** – A pause on going all in on duration is warranted until data merits extending duration further. Our model portfolios have c5 duration, a positioning we remain comfortable with for now.
- **Commodities** – A risk on environment will also be in sync with a stall on gold. Industrial commodities are likely beneficiaries.

Action, Reaction – Truth of The Tape

A strong follow through for equities, after the muted response on 18th Sep (post FED is pushing S&P futures above the mid-July all-time highs. A confirmed breakout, ideally into the end of the week, will solidify the bullish case for equities. As noted earlier, cross-market price action is for a change in sync – equities and industrial commodities up, bonds down and gold stalling.



Source: Tradingview.com

What is perhaps more critical is the strong price action in the tech heavy Nasdaq 100, languishing in recent months. Tech sector under-performance (c750bp) since mid-July has been driven by growth concerns and as these potentially alleviate, tech and Nasdaq 100 should ideally resume outperformance.



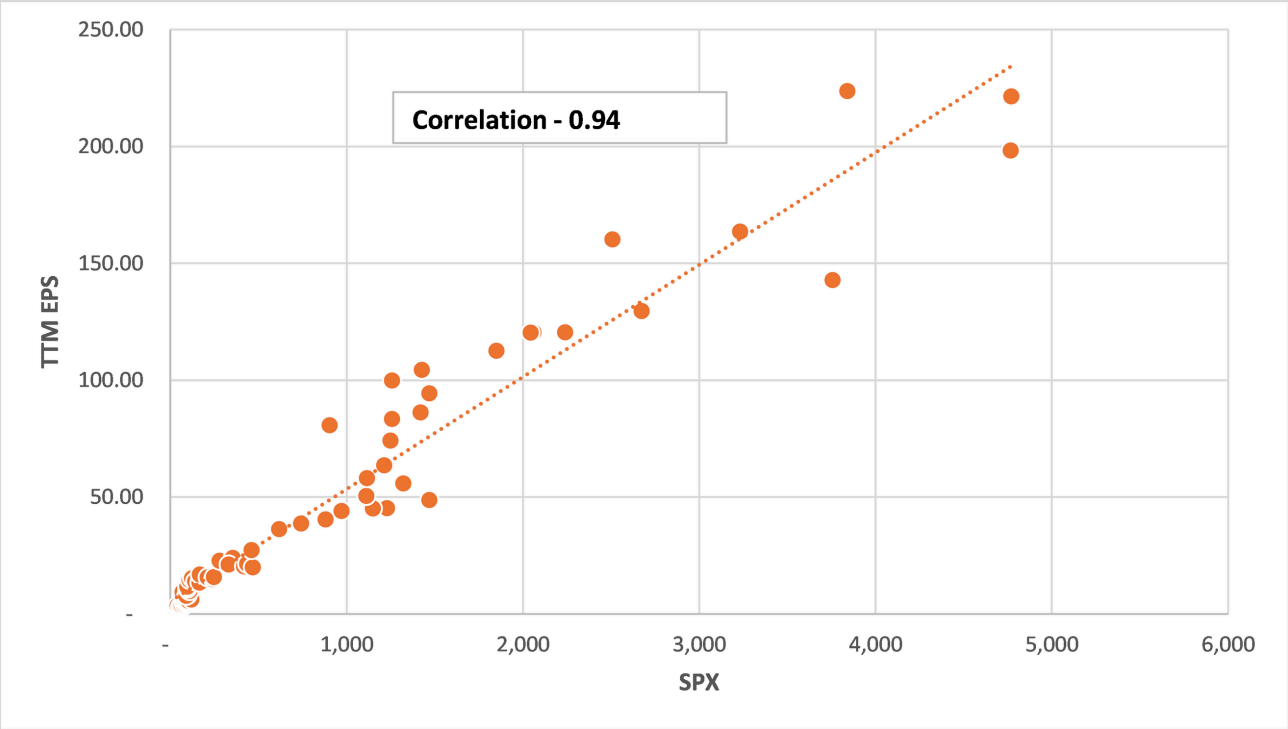
Source: Tradingview.com

In tandem to the move higher in equities, gold appears to be stalling (after a stellar performance) and growth sensitive commodities, copper and oil, appear to be reversing up. Equally importantly, a reversal in long-dated bonds is also in sync with the growth trade.

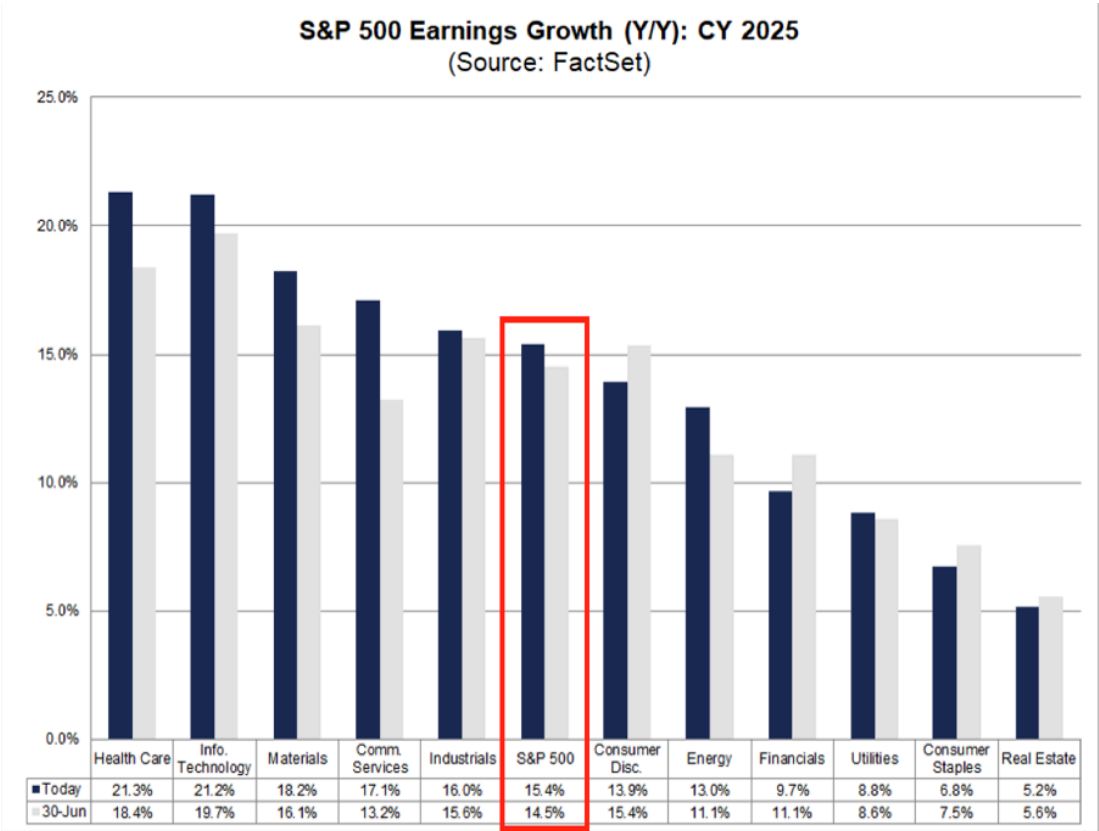
Top left - Oil; Top Right - Copper; Bottom left - Gold; Bottom Right - Treasury Yields



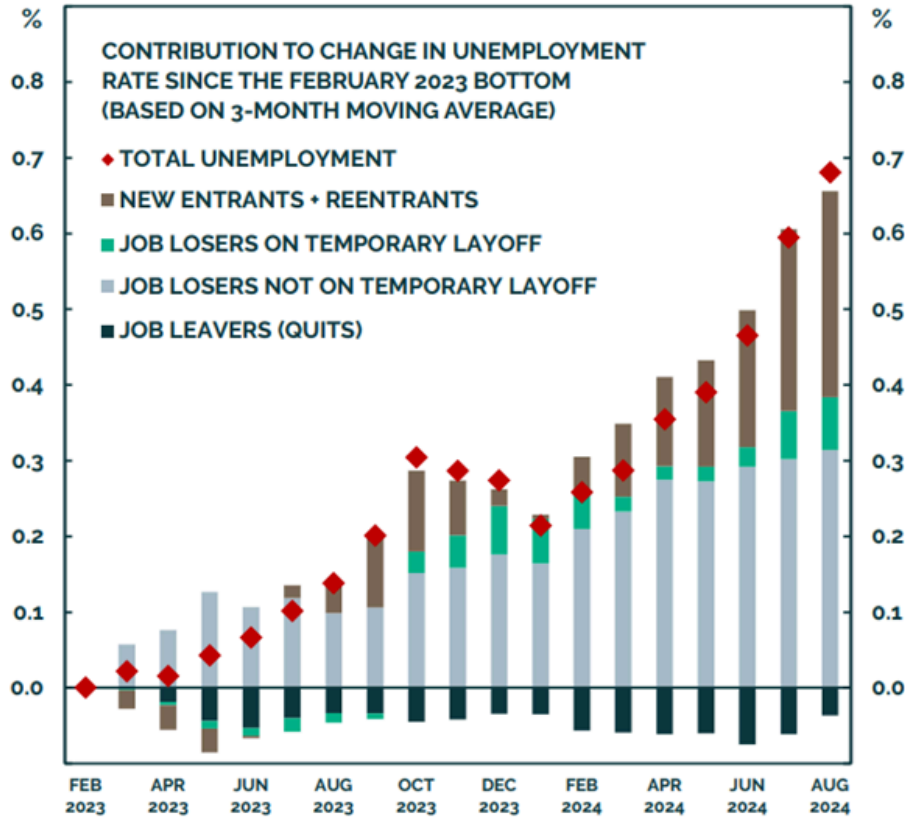
In our note (Price is What You Pay, Value is What You Get; Jun 2024) we argued that earnings growth have the highest (north of 90%) correlation with equity performance – so yes, growth is critical. On current consensus, S&P earnings are expected to accelerate from 10% in 2024 to 15% in 2025. We have been and remain skeptical of these lofty growth estimates in the face of a slowing economy, which begs the question on whether or not our top-down view is too conservative – after all the central bank appears confident of delivering a goldilocks outcome.



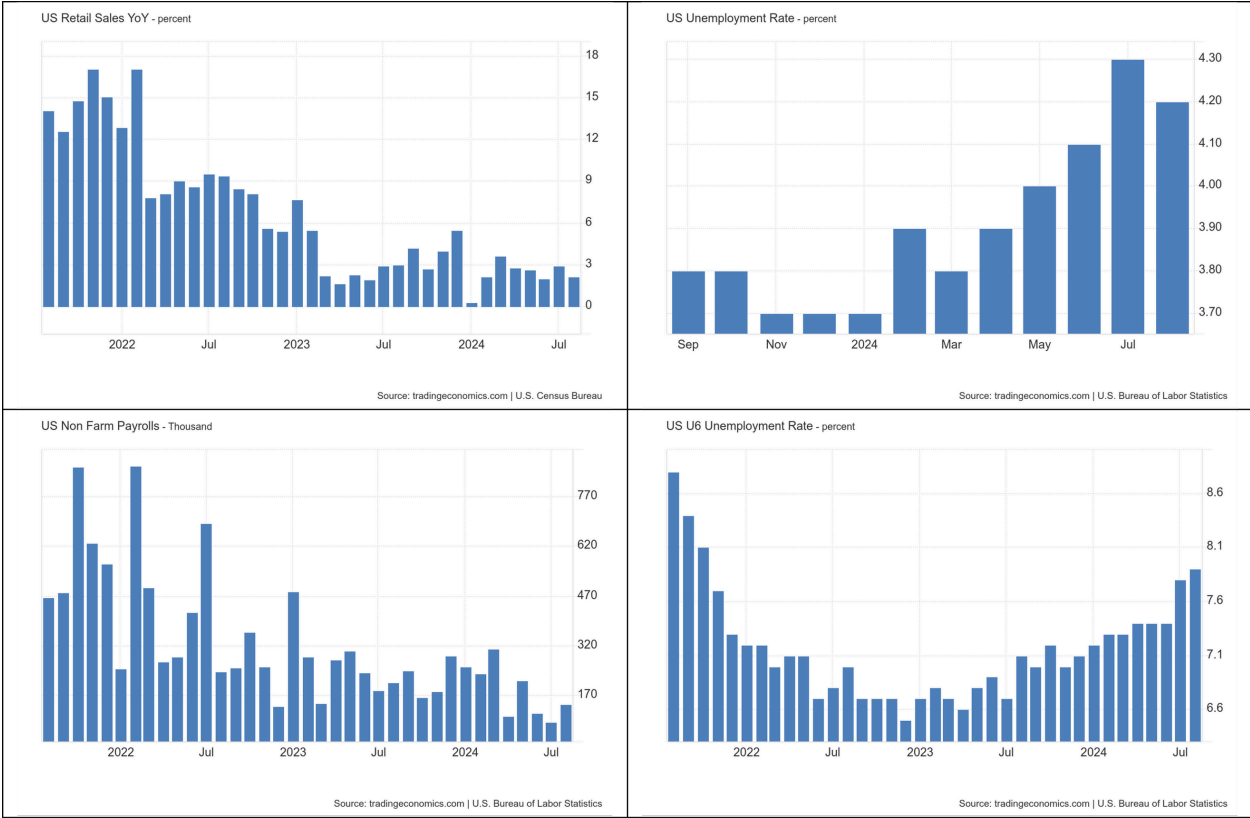
Source: Lighthouse Canton



Consumption, while holding up, has been decelerating for a while, in tandem with a gradual softening in the labor market. With the largest contributor to unemployment rates increasing being job losses, the biggest risk to consumption (and hence economic growth) trends comes from a further deterioration in the jobs market. With payrolls, decelerating and job losses on the rise, risks to consumption appear elevated.



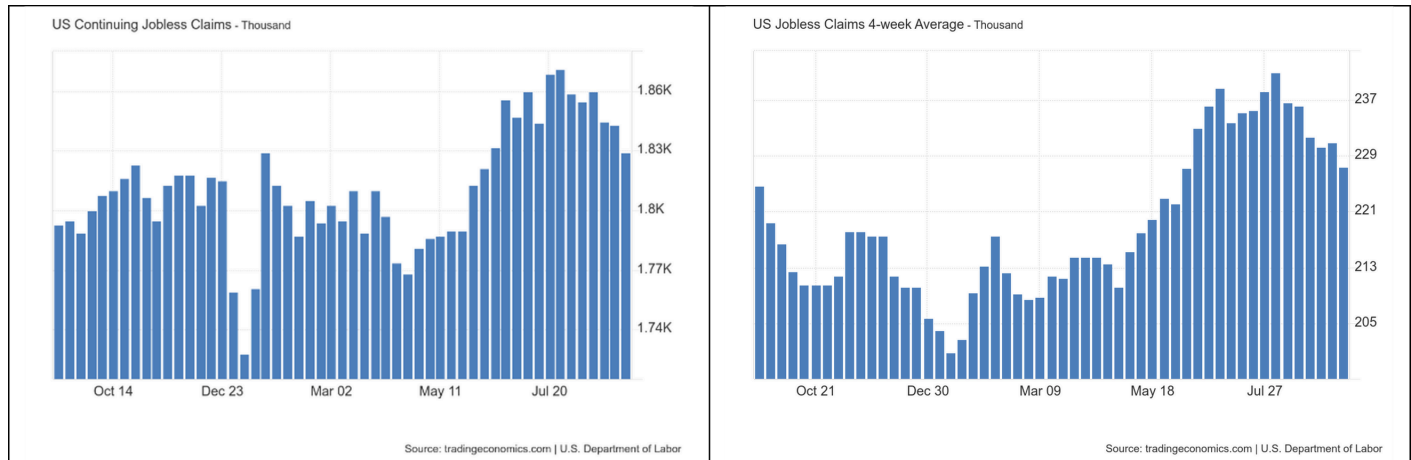
Source: BCA



source: Tradingeconomics.com

..but There Are Positives Too

Balancing the negatives is higher frequency(weekly) data on jobless claims – for six weeks now, continuing claims have been decelerating (albeit elevated vs. 1Q'24), matched by a similar trend in initial jobless claims (4-week average). So, at the margin, there appear to be some easing in pressures.



Source: Tradingeconomics.com

What Will Change Our View

- **Labor** - Our skepticism on growth originates from expected labor market weakness and our focus remains on trends. Should the stabilization in the jobs market take hold, a key plank of our caution on growth view will become seriously challenged.
- **Price Action**– Ultimately market signals need to be respected, as noted before, a sustained breakout into new highs, will challenge our cautious view.

Positioning

- **Equities** – Our model portfolio has been growth biased, with dynamic hedges to help reduce volatility. Tactically, we have reduced our hedges (don't fight the trend), with further reduction in hedges warranted should the uptrend sustain. We have also added to beaten down growth names to our model portfolio.
- **Fixed Income** – Our model portfolio has been adding duration with solid positive impact a yields retreated. Thus far, while bonds have seen a correction, it's not yet enough to warrant any major change in positioning. Labor market data will be a key variable in determining whether to add duration. We continue to hold the view that lower interest rates will likely continue to favor bonds, although a growth environment will not warrant extending duration.
- **Gold** – We have been positive on gold, an asset class that has been a stellar performer. While lower interest rates continue to support a positive view, greater confidence in growth will dent some of the positives in favor of risk assets. For now, expect Gold to consolidate.

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