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## September Strategy Picture Book

Investors have plenty to consider this September. What is traditionally a challenging period for stocks to begin with, has been complicated by the anticipated start of a Federal Reserve easing cycle next week, and now the recent uninversion of the 2s/10s U.S. Treasury Yield Curve. In our note, [An-tic-i-pa-tion](#), we highlighted the historical performance of the S&P 500 Index (SPX) following the start of a rate cut cycle based on recessionary and non-recessionary environments. As expected, SPX performance was significantly better following initial rate cuts that were not associated with a recession within twelve months (Page 5).

**Another recession indicator flashes red.** The July employment report triggered a widely followed recession indicator known as the “[Sahm Rule](#)”. In the past, when this indicator has been triggered, it has coincided with every recession since 1970. Now, the 2-year/ 10-year U.S. Treasury Yield Curve is flashing a warning sign. Last week, the yield on the 10-year UST closed above the 2-year yield after being below it for 542 consecutive days— the longest on record. Prior times the yield curve normalized after such a prolonged inversion (over 100 days) the economy was either already in a recession or within 13 months of the start of a recession (Figure 1).

**Figure 1: Since the mid-1970’s uninversions of the 2-yr/10-yr yield curve have surrounded recessions**

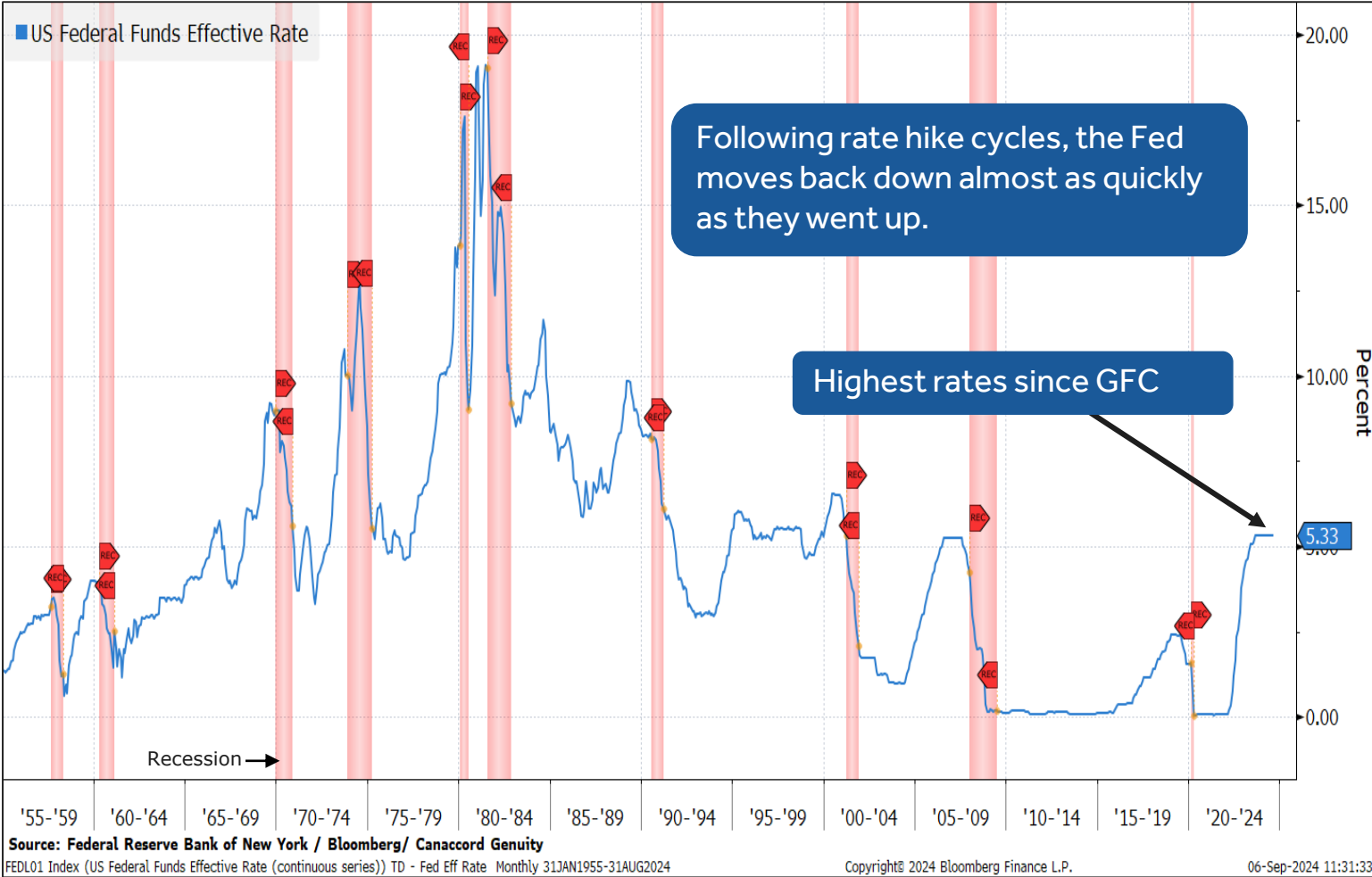
Inversion Date	Uninverted Date	2-Yr Yield	10-Yr Yield	Spread	# of Days Inverted	Start of Recession vs. Uninversion
8/17/1978	5/2/1980	10.049	10.242	0.19	428	Jan '80 4m Earlier
9/11/1980	10/26/1981	15.569	15.602	0.03	281	Jul '81 3m Earlier
1/5/1989	6/30/1989	8.042	8.077	0.04	122	Jul '90 13m Later
2/11/2000	12/29/2000	5.096	5.112	0.02	222	Mar '01 3m Later
8/14/2006	3/21/2007	4.527	4.536	0.01	150	Dec '07 9m Later
7/5/2022	9/4/2024	3.754	3.755	0.001	542	?

Source: Bloomberg/ Canaccord Genuity

Past performance does not predict future results

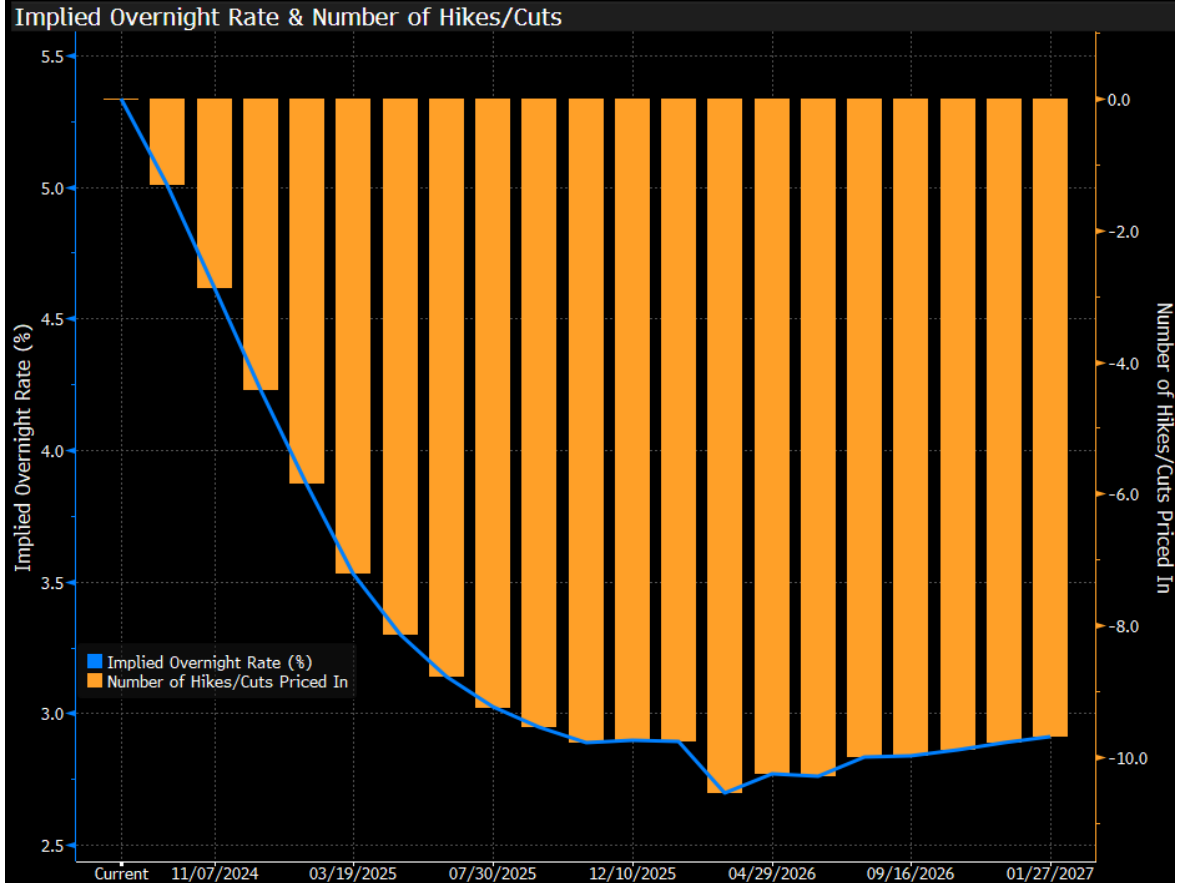
**Summary.** Although the employment picture and history of yield curve normalizations discussed above suggests that the economy is in or is headed for a recession, we continue to believe the market is setting up for a rally heading into the end of the year. Based on market history over the last 65 years, when the SPX has been up 10-15% in the first half of the year (like it was this year) the second half was higher every time by a median of 10.9% (page 39).

# Rate Outlook – Fed Cuts on the Horizon



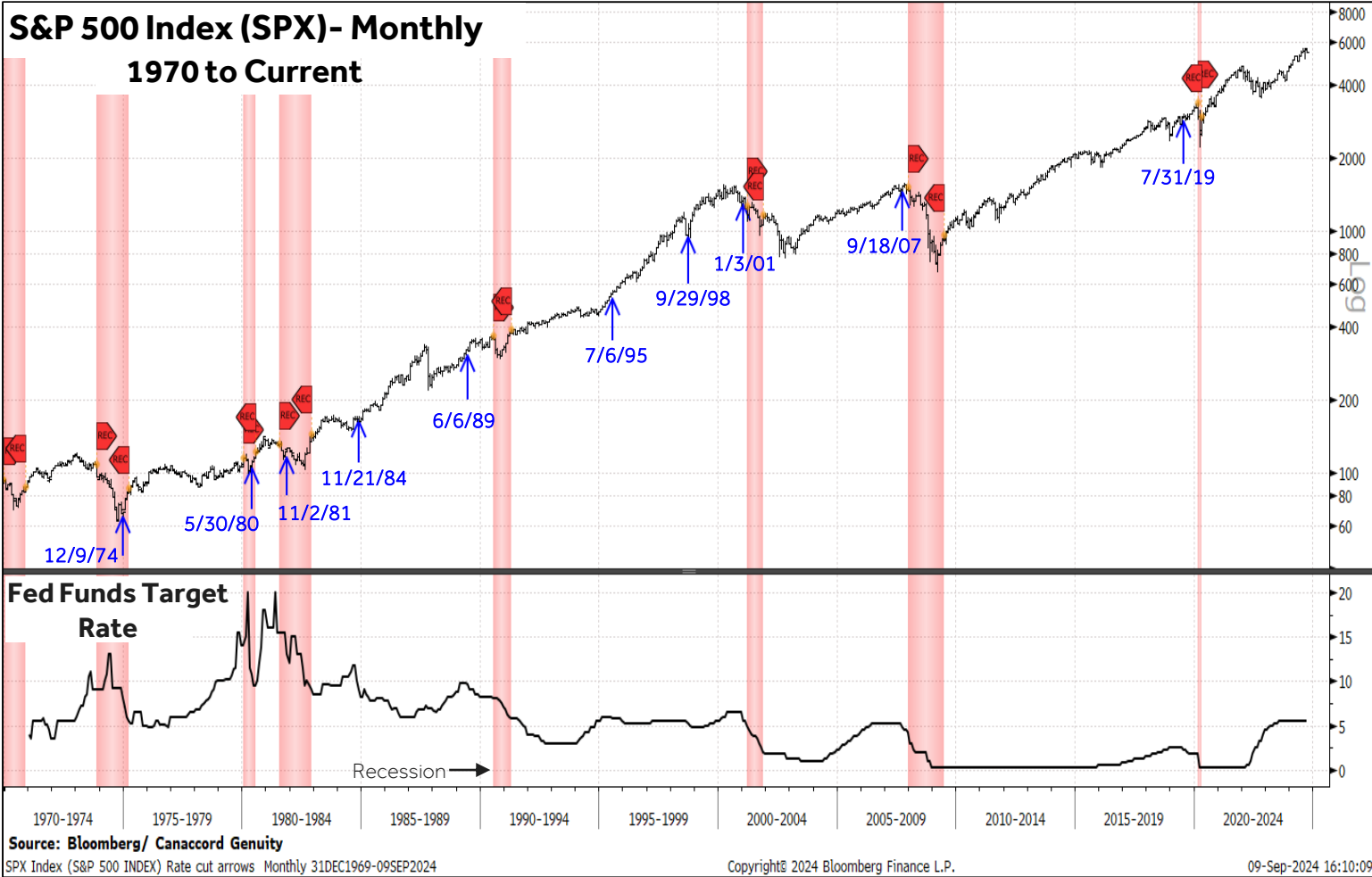
# Rate Outlook – Market Expecting 4 Rate Cuts By Year-End

Current market expectations



Source: Bloomberg 9/09/2024

# Rate Outlook – SPX With History of Initial Rate Cut Cycles



Past performance does not predict future results

# Rate Outlook – Stocks Do Better After Initial Cut Outside of Recessions

Index Performance Following First Rate Cut Without A Recession Within 12 Months									
Initial Rate Cut	Three Months Later			Six Months Later			Twelve Months Later		
	SPX	COMP	RTY	SPX	COMP	RTY	SPX	COMP	RTY
11/21/1984	9.5%	18.1%	17.4%	15.3%	21.0%	16.6%	22.4%	27.3%	22.2%
6/6/1989	7.7%	4.8%	3.0%	7.5%	1.9%	-2.1%	12.6%	3.8%	-1.2%
7/6/1995	5.1%	6.2%	5.5%	11.3%	8.5%	9.1%	18.7%	21.6%	18.5%
9/29/1998	18.4%	25.8%	12.0%	24.9%	43.8%	9.2%	20.9%	57.5%	15.2%
<b>Avg.</b>	<b>10.2%</b>	<b>13.7%</b>	<b>9.5%</b>	<b>14.7%</b>	<b>18.8%</b>	<b>8.2%</b>	<b>18.6%</b>	<b>27.5%</b>	<b>13.7%</b>
<b>Median</b>	<b>8.6%</b>	<b>12.1%</b>	<b>8.8%</b>	<b>13.3%</b>	<b>14.7%</b>	<b>9.1%</b>	<b>19.8%</b>	<b>24.4%</b>	<b>16.8%</b>
<b>% Pos.</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>75.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>75.0%</b>

Source: [www.ndr.com](http://www.ndr.com), Bloomberg, Canaccord Genuity

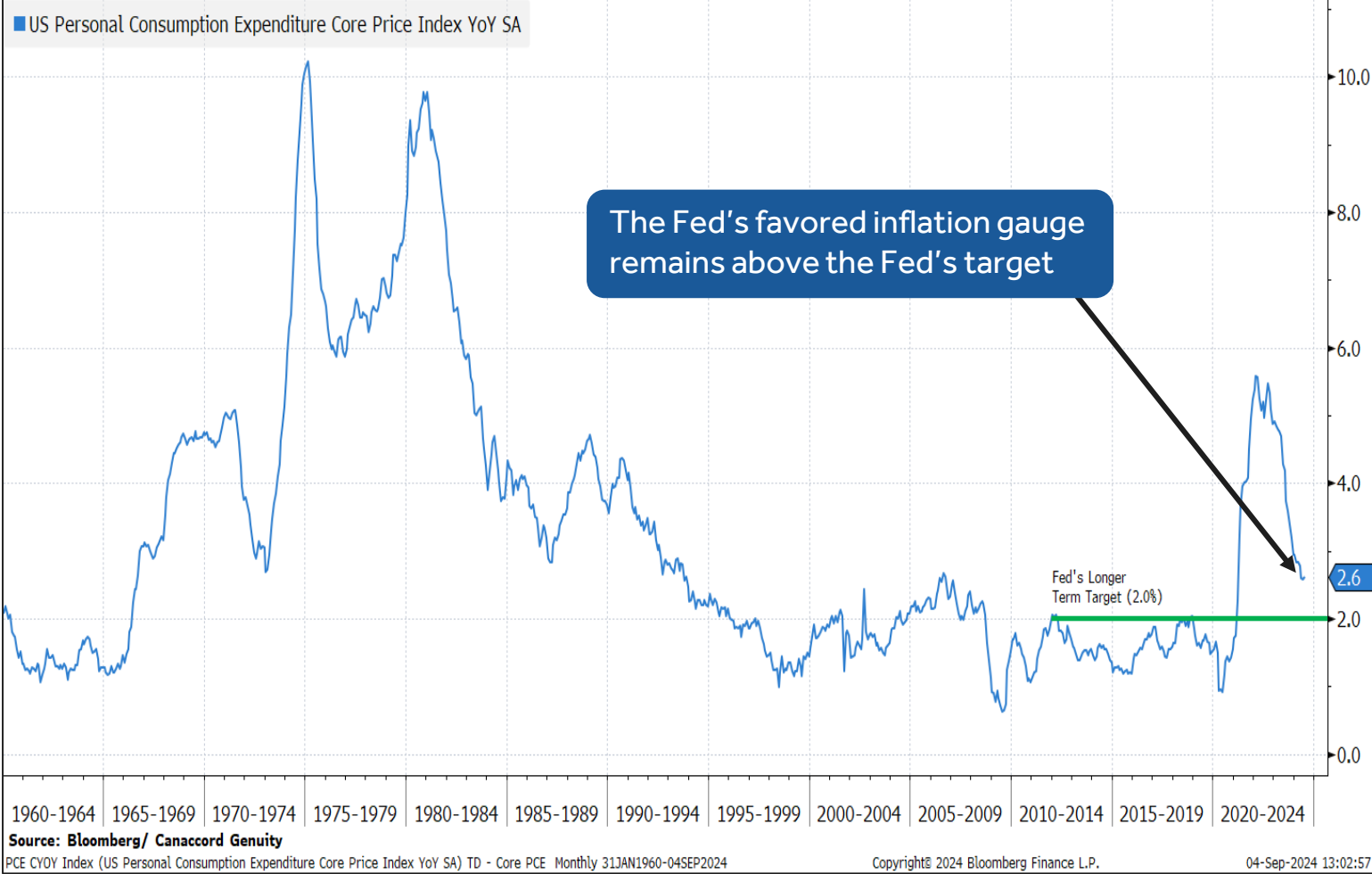
Past performance does not predict future results

Index Performance Following First Rate Cut With A Recession Within 12 Months									
Initial Rate Cut	Three Months Later			Six Months Later			Twelve Months Later		
	SPX	COMP	RTY	SPX	COMP	RTY	SPX	COMP	RTY
12/9/1974	29.5%	29.3%	n/a	39.0%	45.1%	n/a	33.1%	28.7%	N/A
5/30/1980	10.0%	20.7%	23.0%	26.3%	38.4%	40.6%	19.2%	48.5%	53.3%
11/2/1981	-5.0%	-5.0%	-5.0%	-6.0%	-6.2%	-5.9%	10.7%	10.3%	11.7%
1/3/2001	-17.9%	-36.1%	-11.9%	-8.4%	-18.2%	2.4%	-13.5%	-21.9%	2.3%
9/18/2007	-4.3%	-2.1%	-6.5%	-12.4%	-14.5%	-15.5%	-20.6%	-17.1%	-10.3%
7/31/2019	1.9%	1.4%	-0.8%	8.2%	11.9%	2.5%	9.8%	31.4%	-6.0%
<b>Avg.</b>	<b>2.4%</b>	<b>1.4%</b>	<b>-0.2%</b>	<b>7.8%</b>	<b>9.4%</b>	<b>4.8%</b>	<b>6.4%</b>	<b>13.3%</b>	<b>10.2%</b>
<b>Median</b>	<b>-1.2%</b>	<b>-0.3%</b>	<b>-5.0%</b>	<b>1.1%</b>	<b>2.9%</b>	<b>2.4%</b>	<b>10.2%</b>	<b>19.5%</b>	<b>2.3%</b>
<b>% Pos.</b>	<b>50.0%</b>	<b>50.0%</b>	<b>20.0%</b>	<b>50.0%</b>	<b>50.0%</b>	<b>60.0%</b>	<b>66.7%</b>	<b>66.7%</b>	<b>60.0%</b>

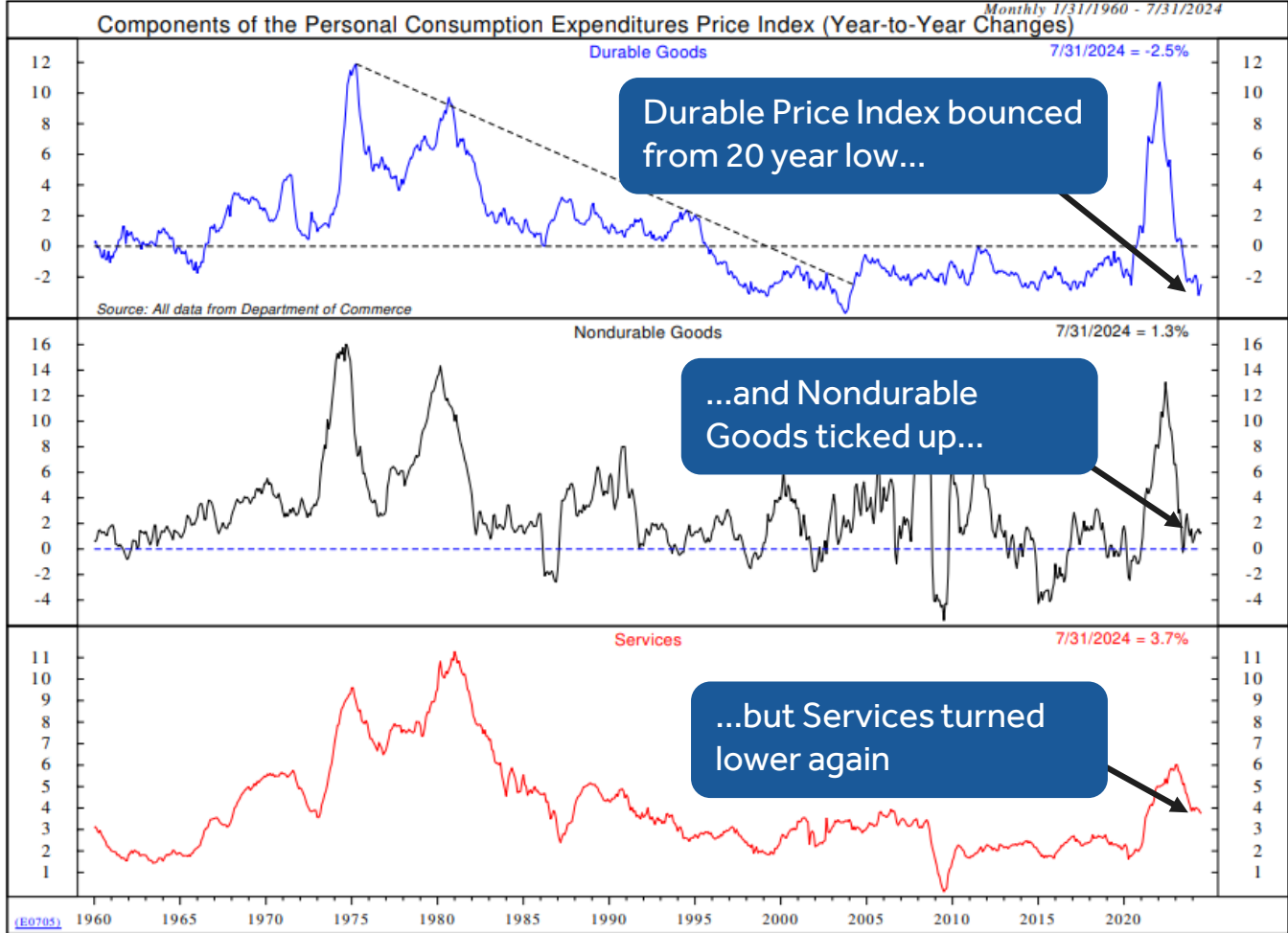
Source: [www.ndr.com](http://www.ndr.com), Bloomberg, Canaccord Genuity

Past performance does not predict future results

# Inflation Outlook – Core PCE Trending Toward Fed Target...

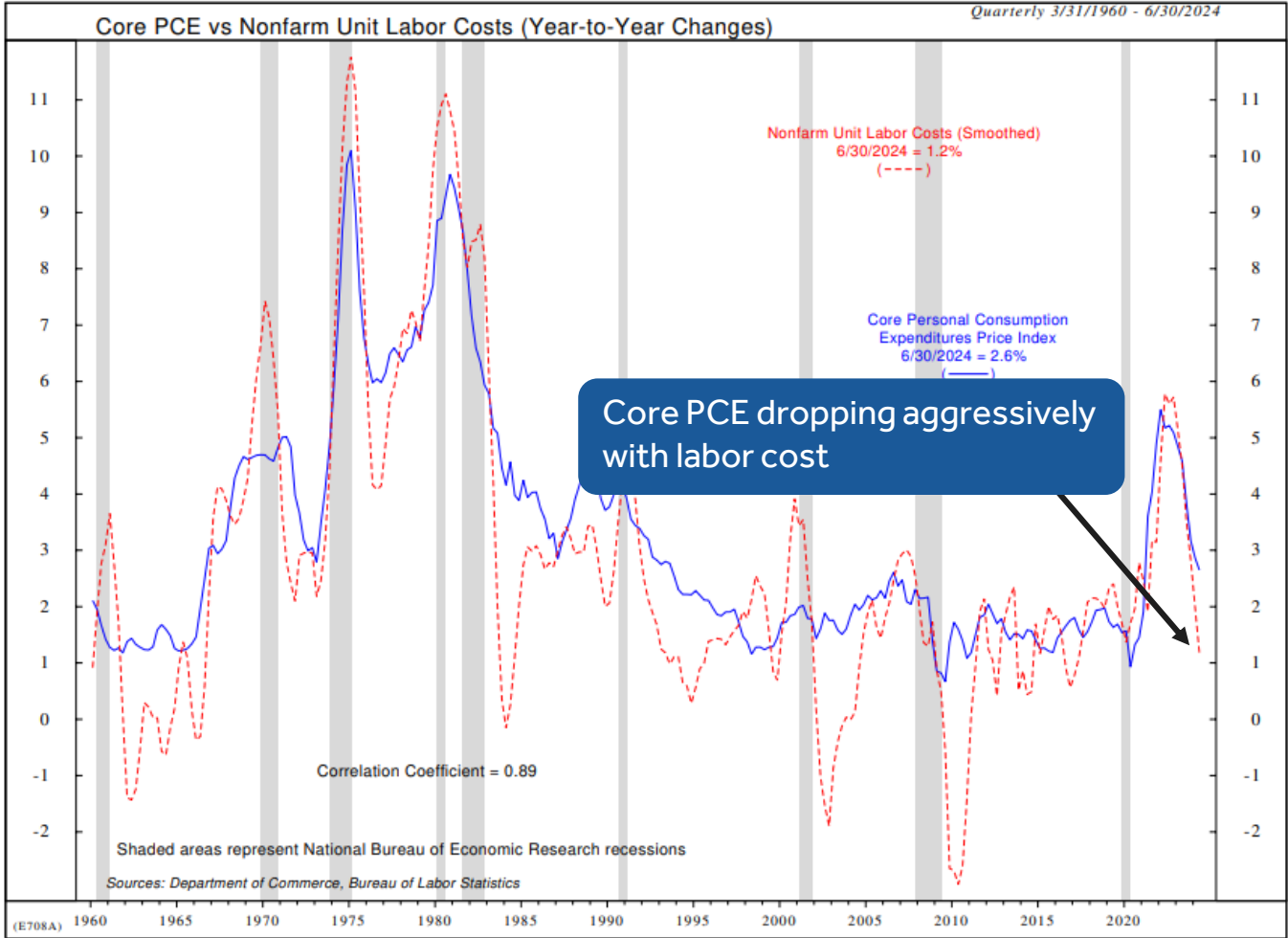


# Inflation Outlook – ...Although Goods Decline Has Stalled



Source: [www.ndr.com](http://www.ndr.com) / Canaccord Genuity

# Inflation Outlook – Labor and Productivity Key to Further Improvement

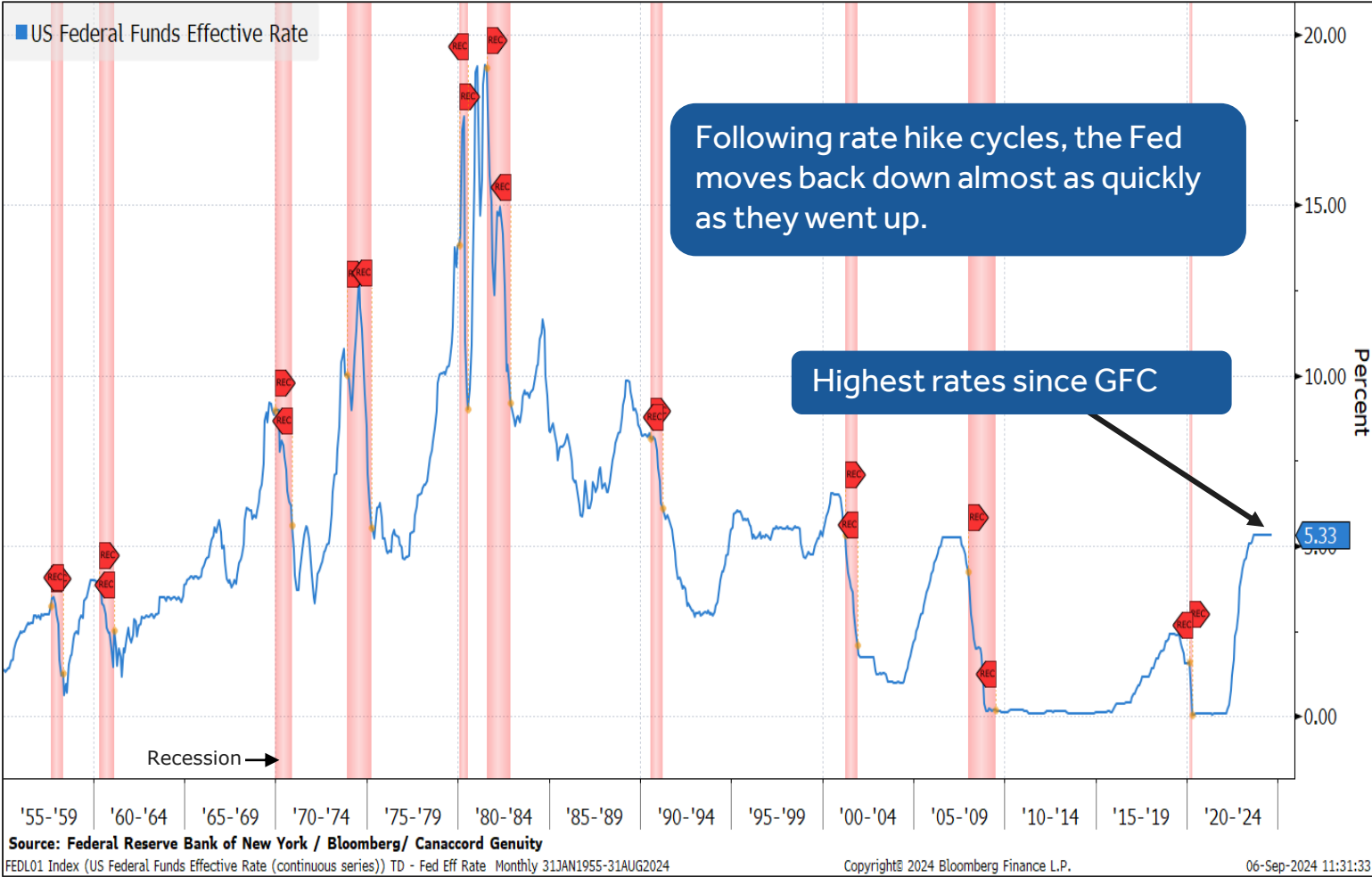


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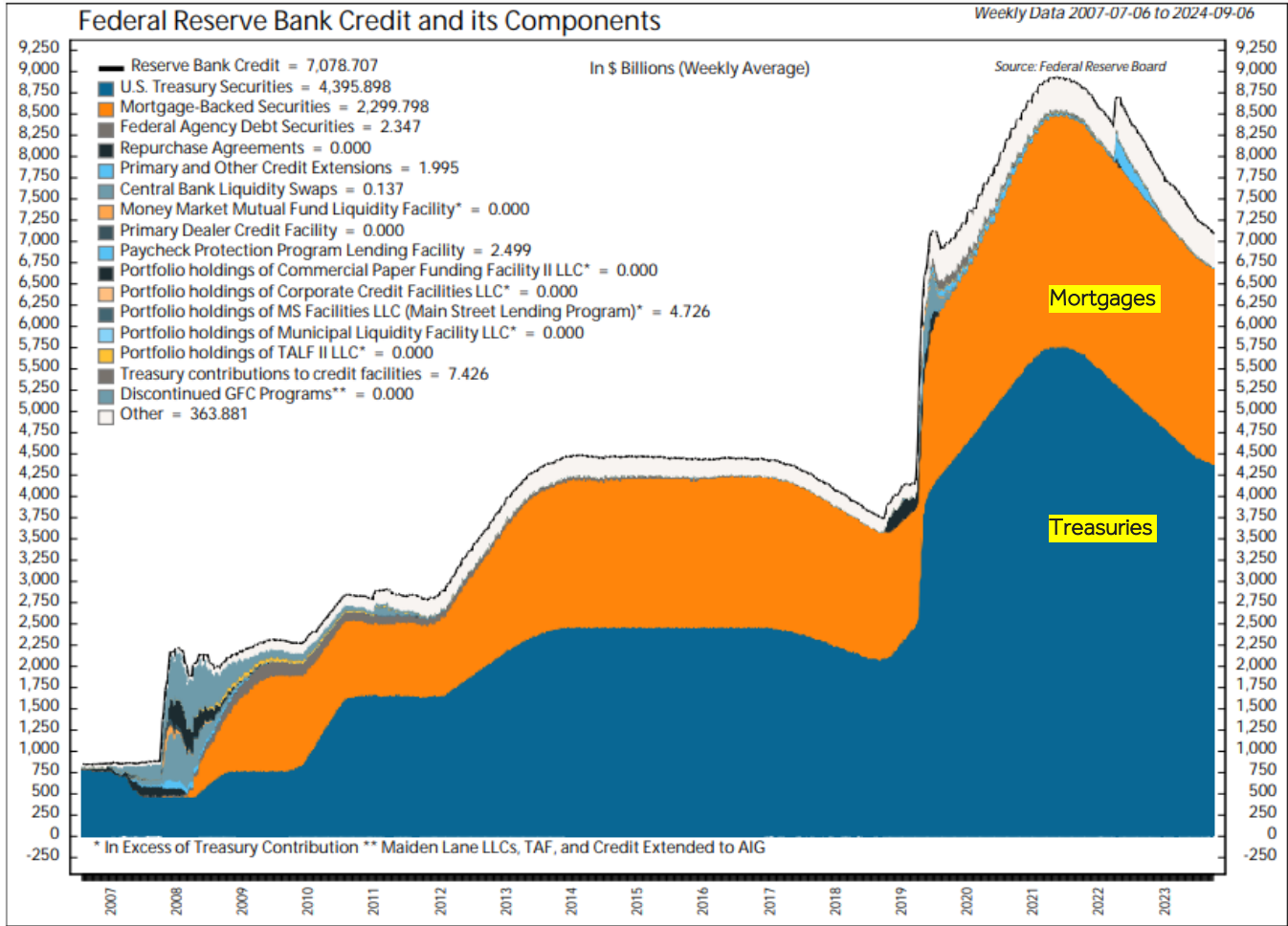
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# Credit Outlook – Fed Cuts on the Horizon



# Credit Outlook – The Fed Still Engaged In QT



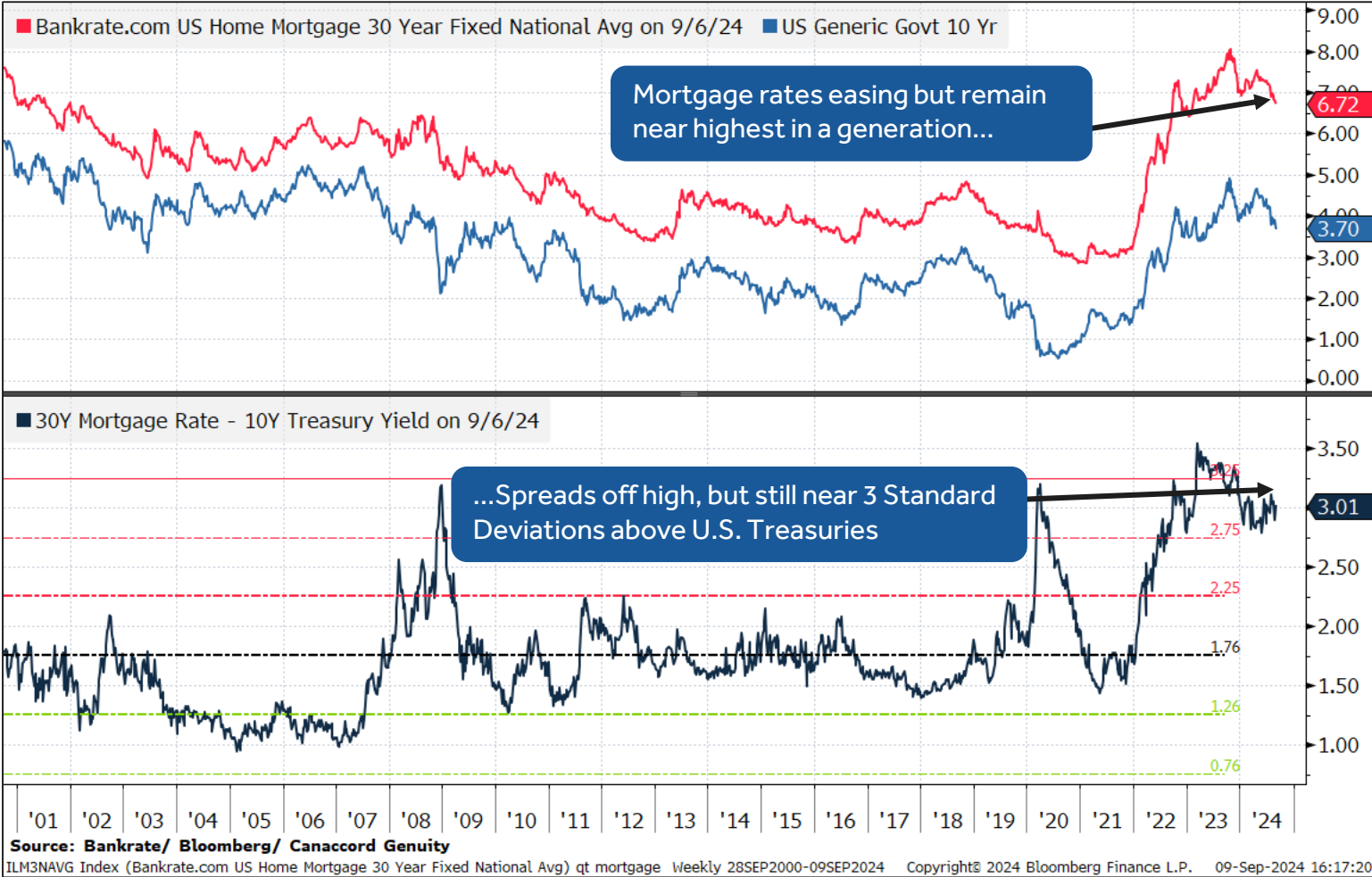
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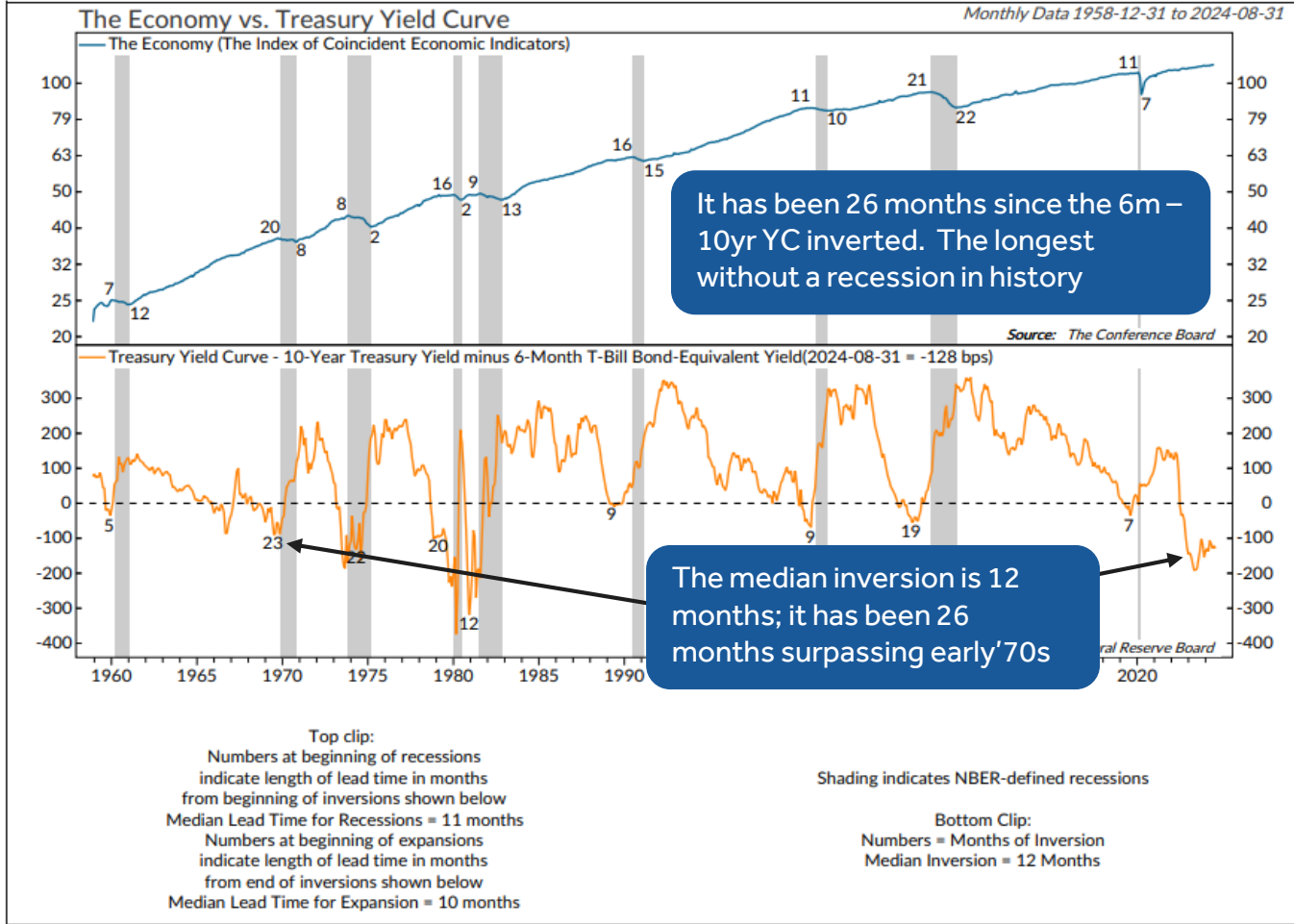


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# Credit Outlook – QT Impact Still Seen in Wide Mortgage Spreads



# Credit Outlook – A Historically Long and Sharp Inversion on 6m/10yr...



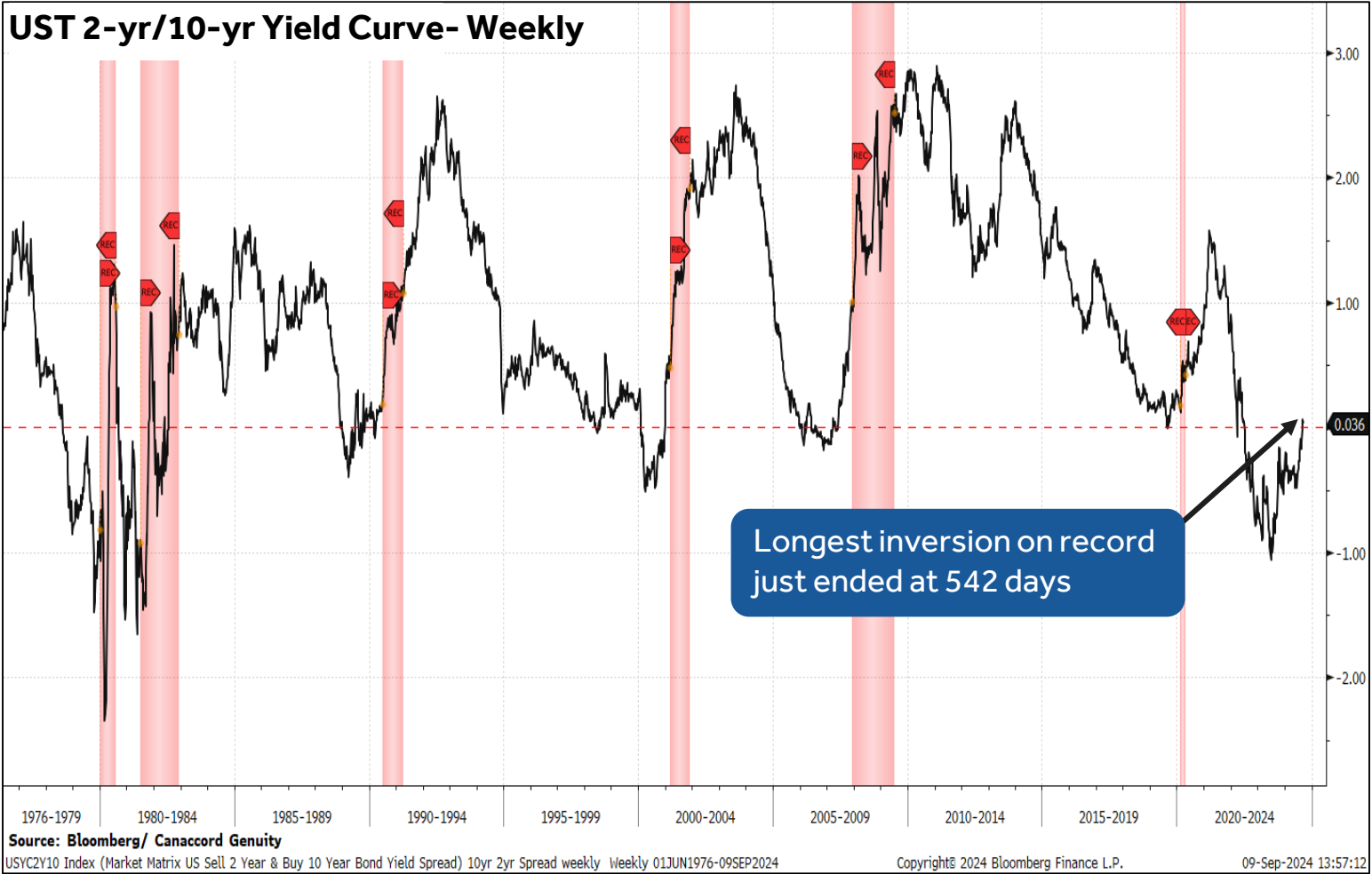
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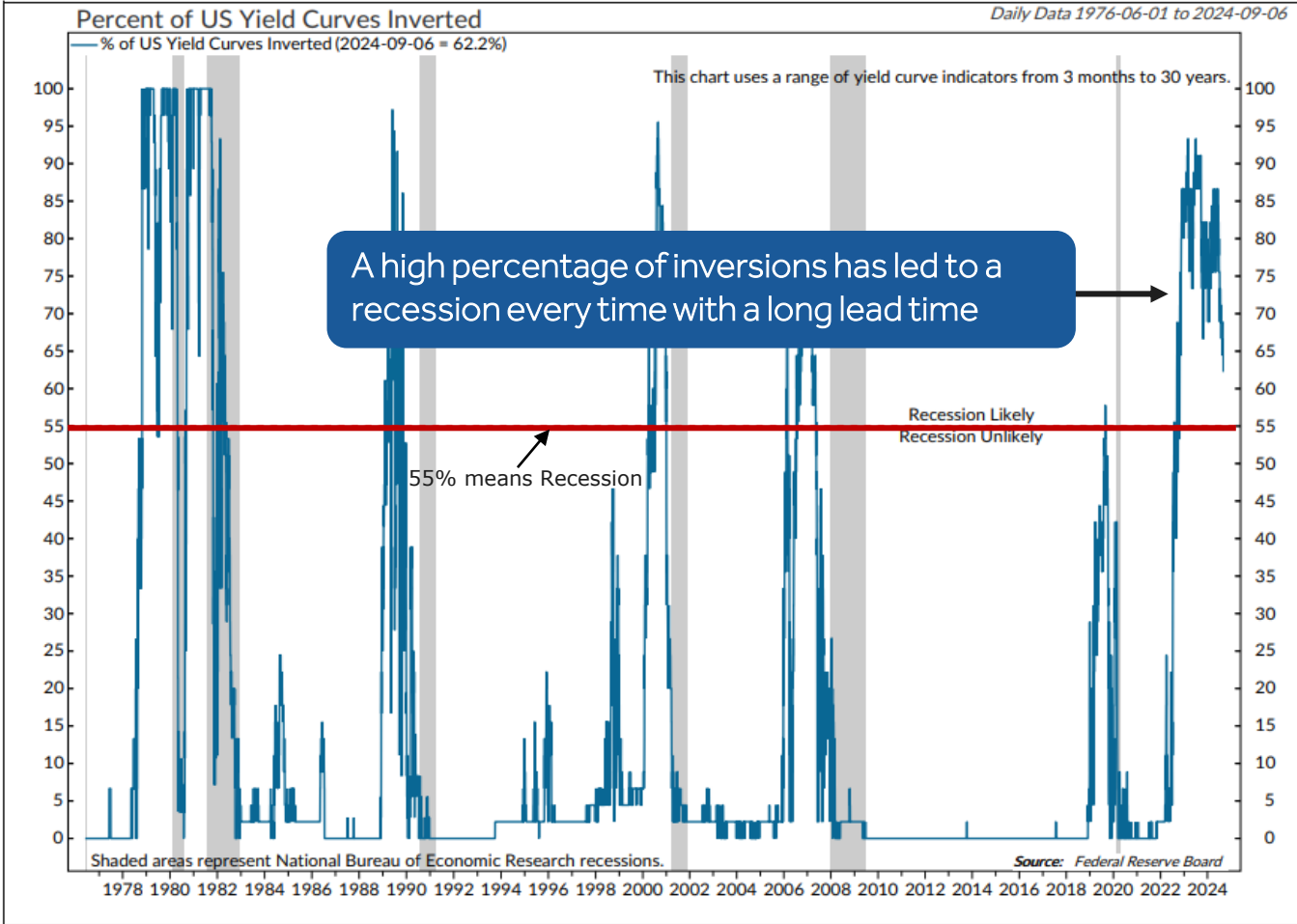


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# Credit Outlook – ...Has Ended on the 2yr/ 10yr Yield Curve...



# Recession Outlook – ...But # of YC Inversions Still Signaling Recession



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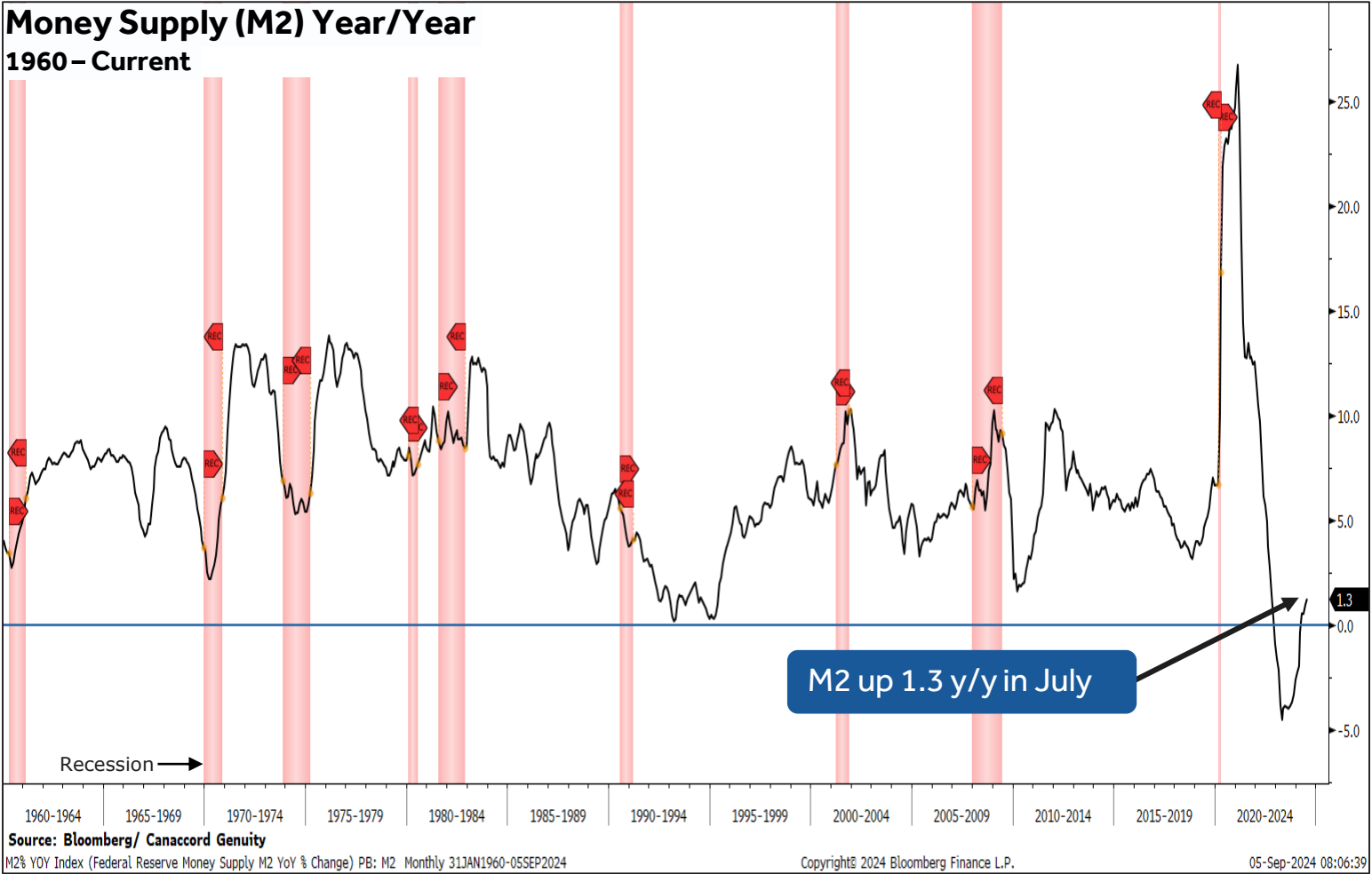
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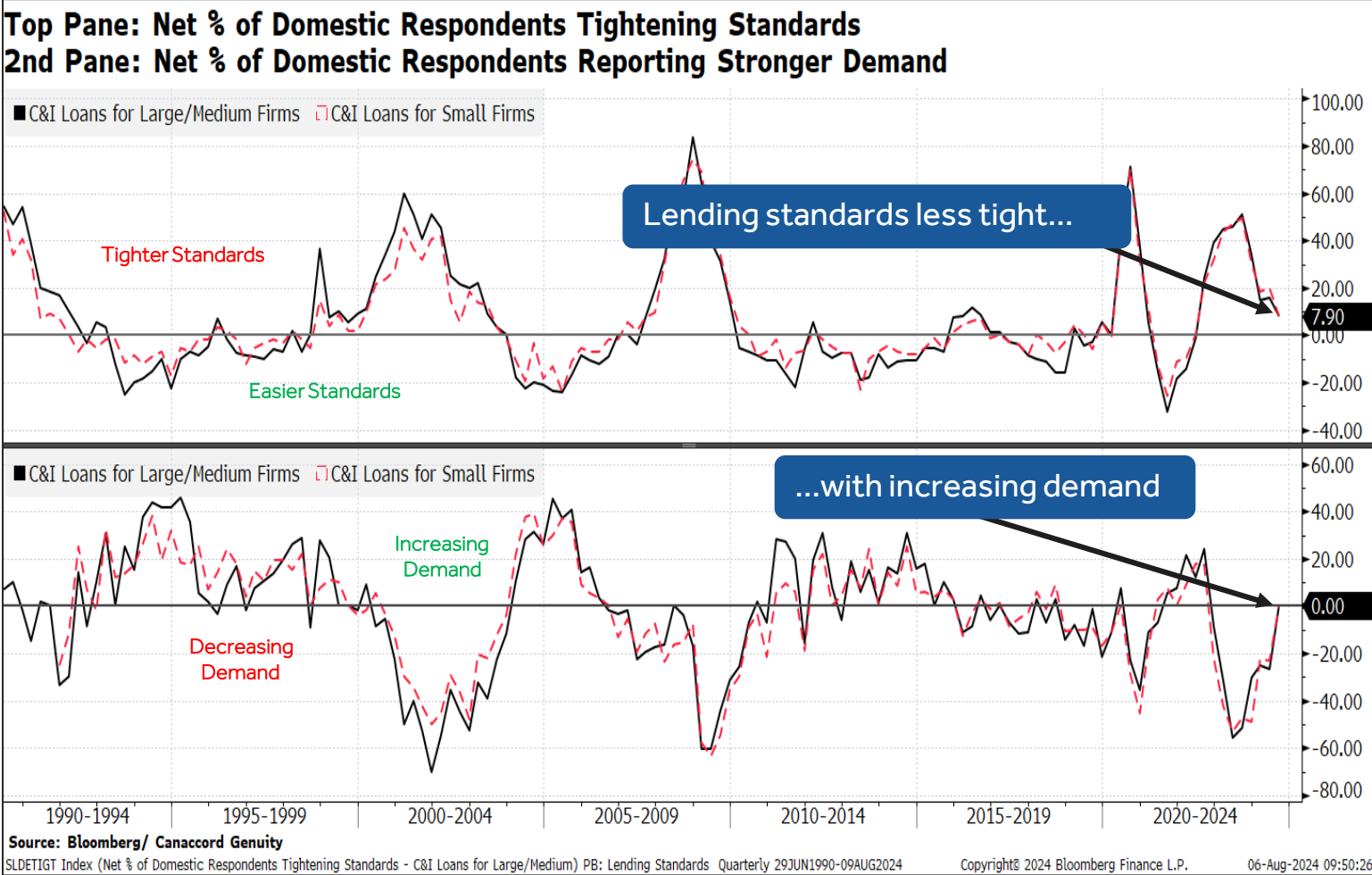
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Past performance does not predict future results

# Credit Outlook – M2 Growth Positive After Historically Weak Levels

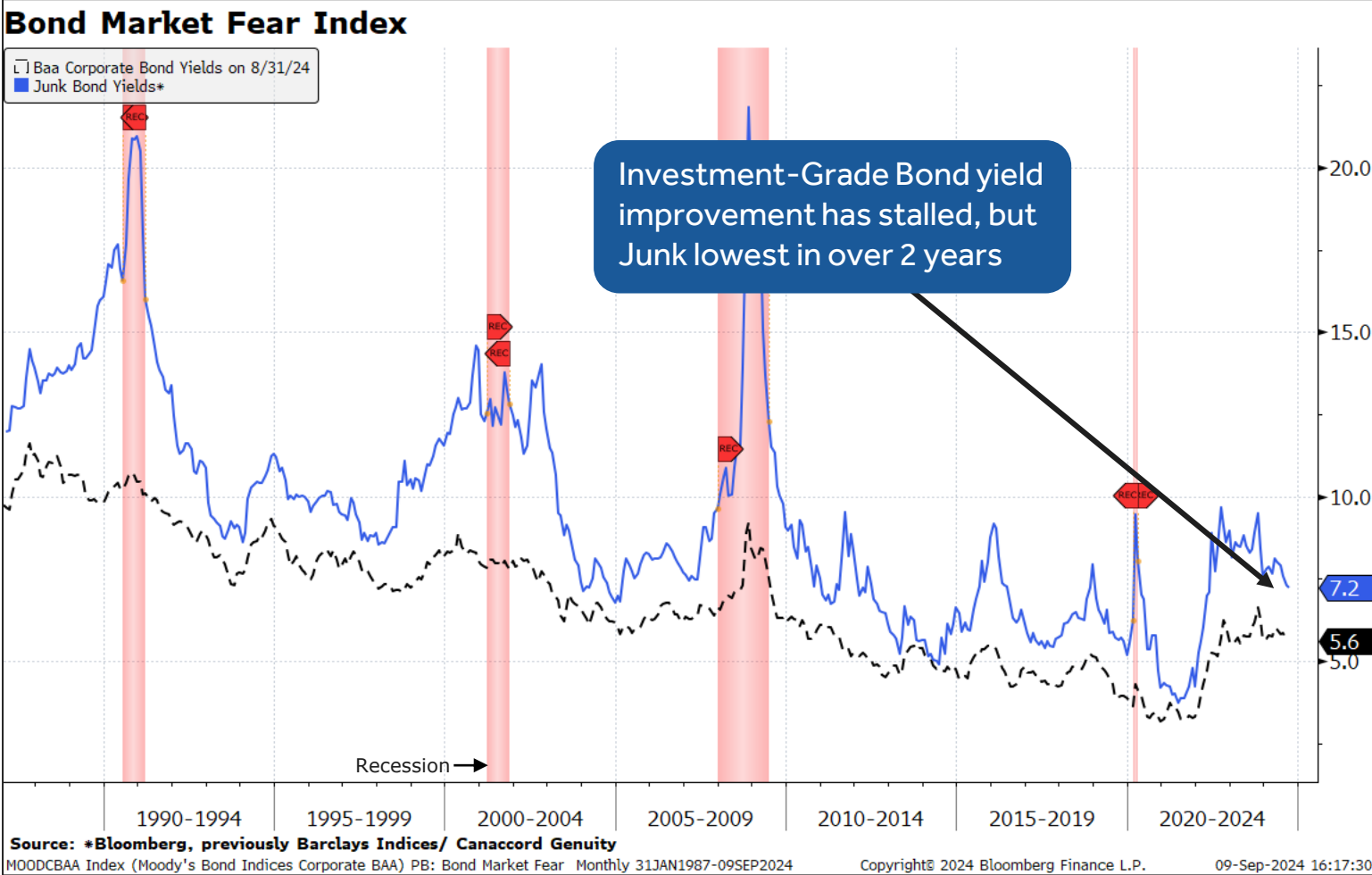


# Credit Outlook – C & I Bank Lending Standards Off Worst Levels



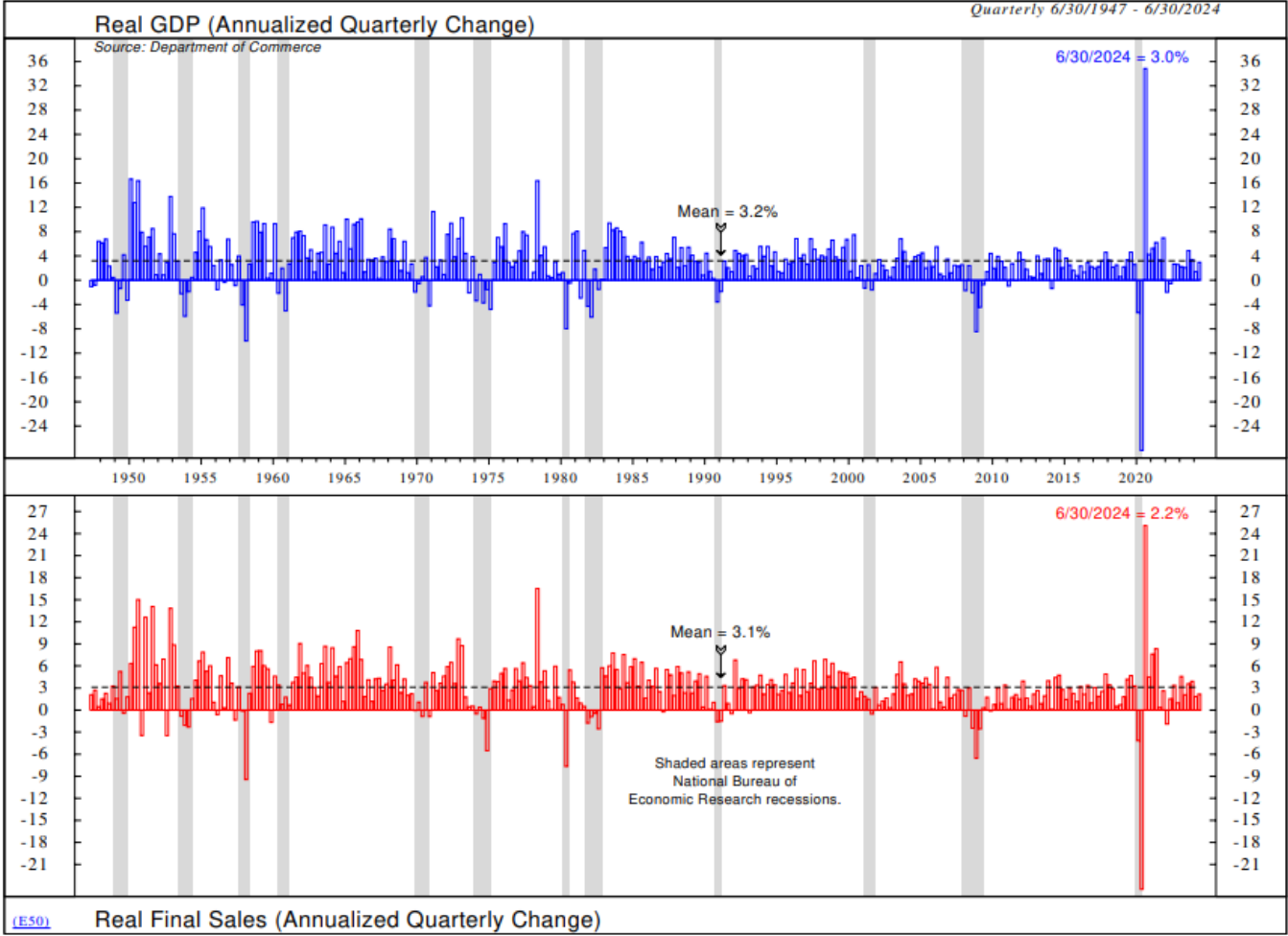


# Credit Outlook – Corporate Credit Off Peak But Still Elevated



Past performance does not predict future results

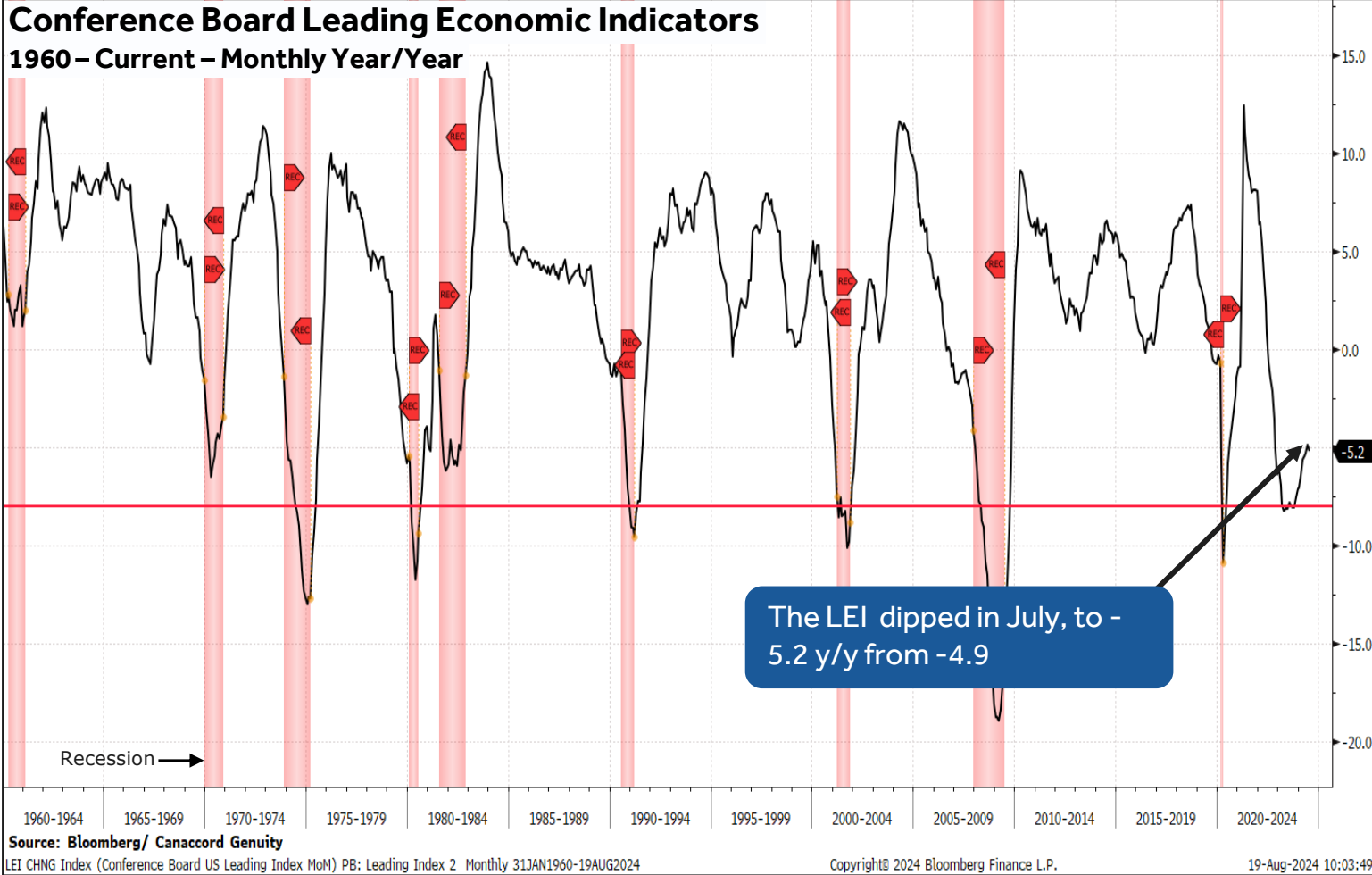
# Economic Outlook – Expect GDP Growth to Slow In 2H/2024



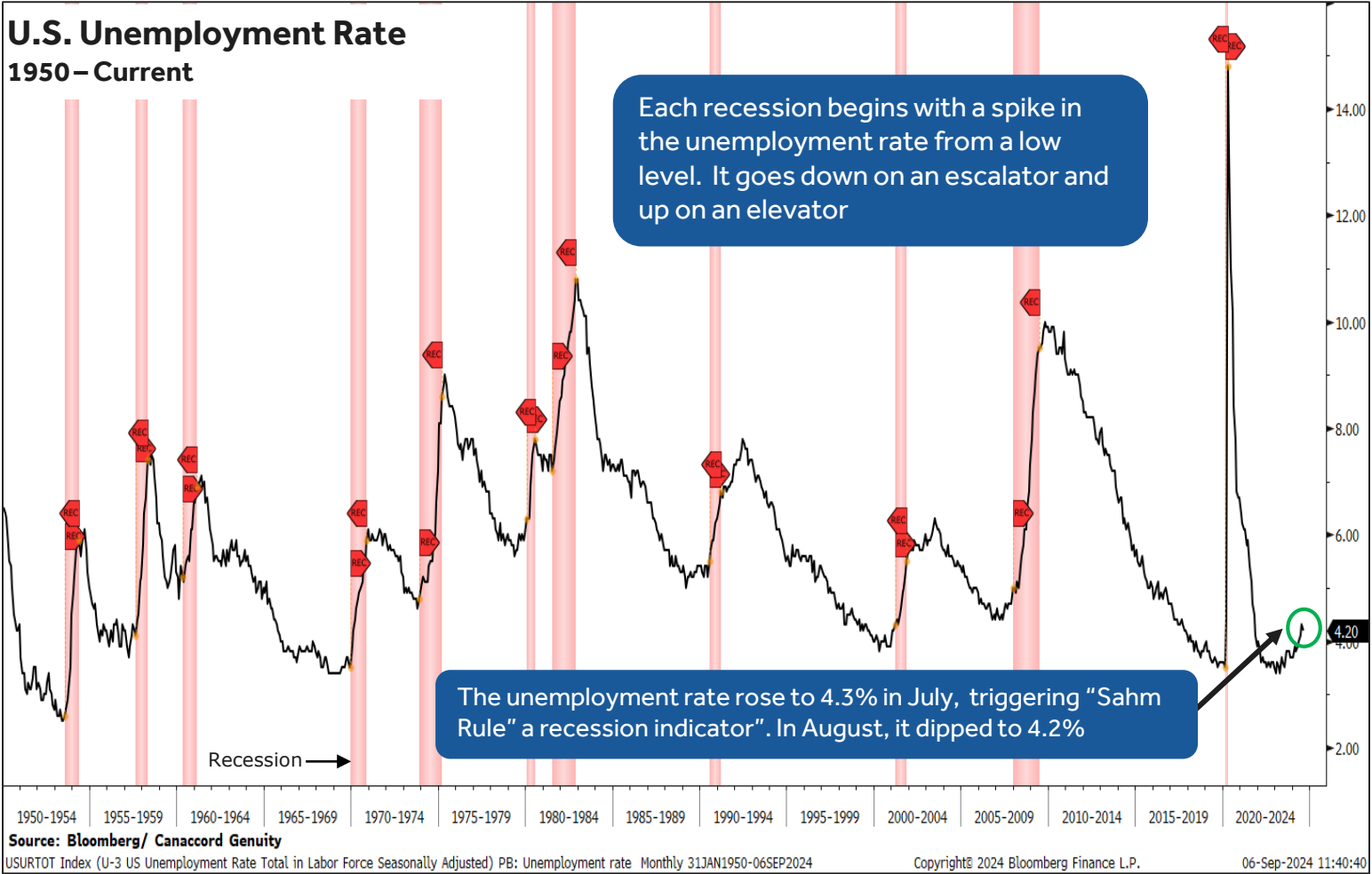
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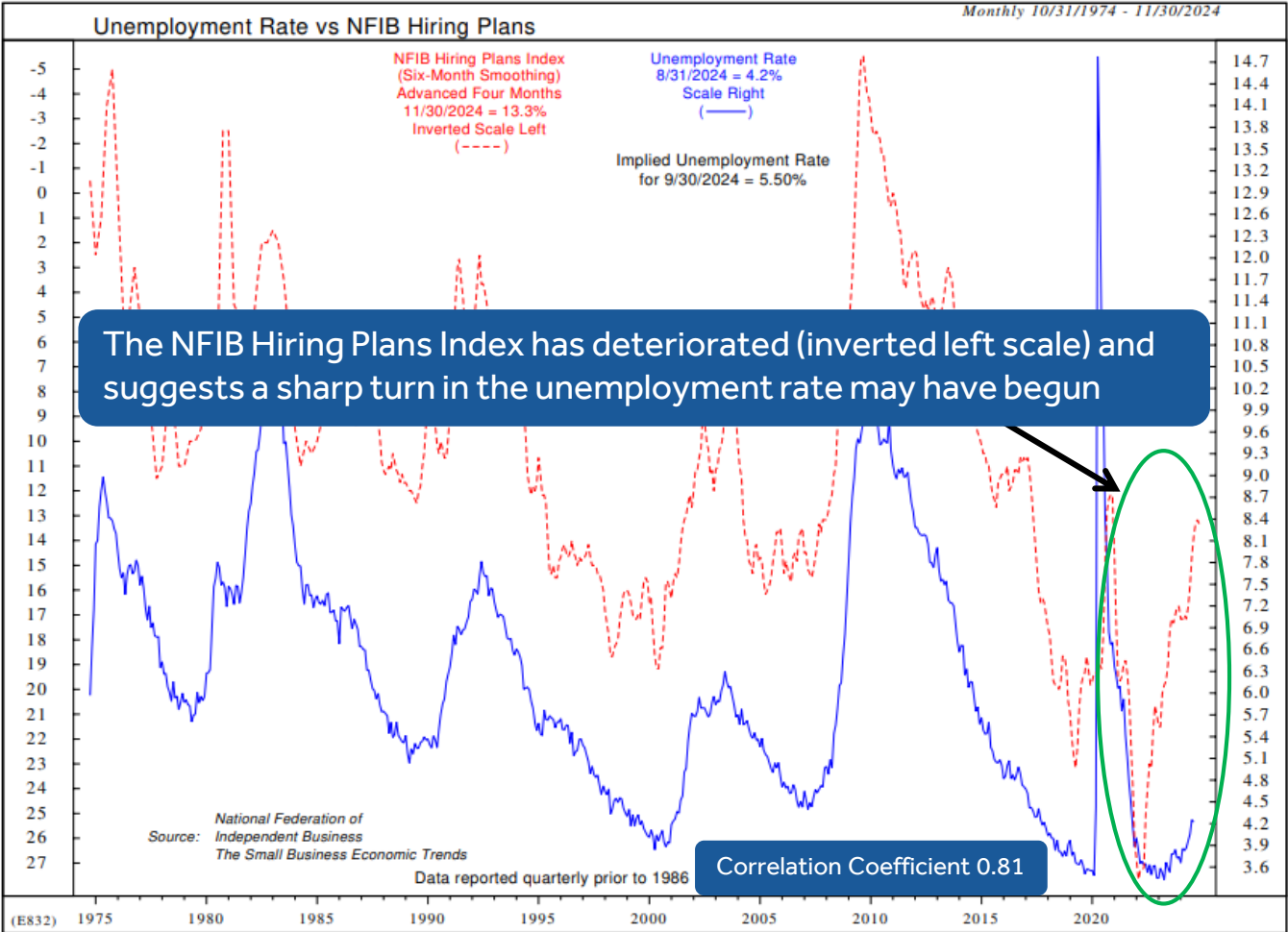
# Economic Outlook – Leading Economic Index Pivoted



# Economic Outlook – The Unemployment Rate Likely to Continue Higher



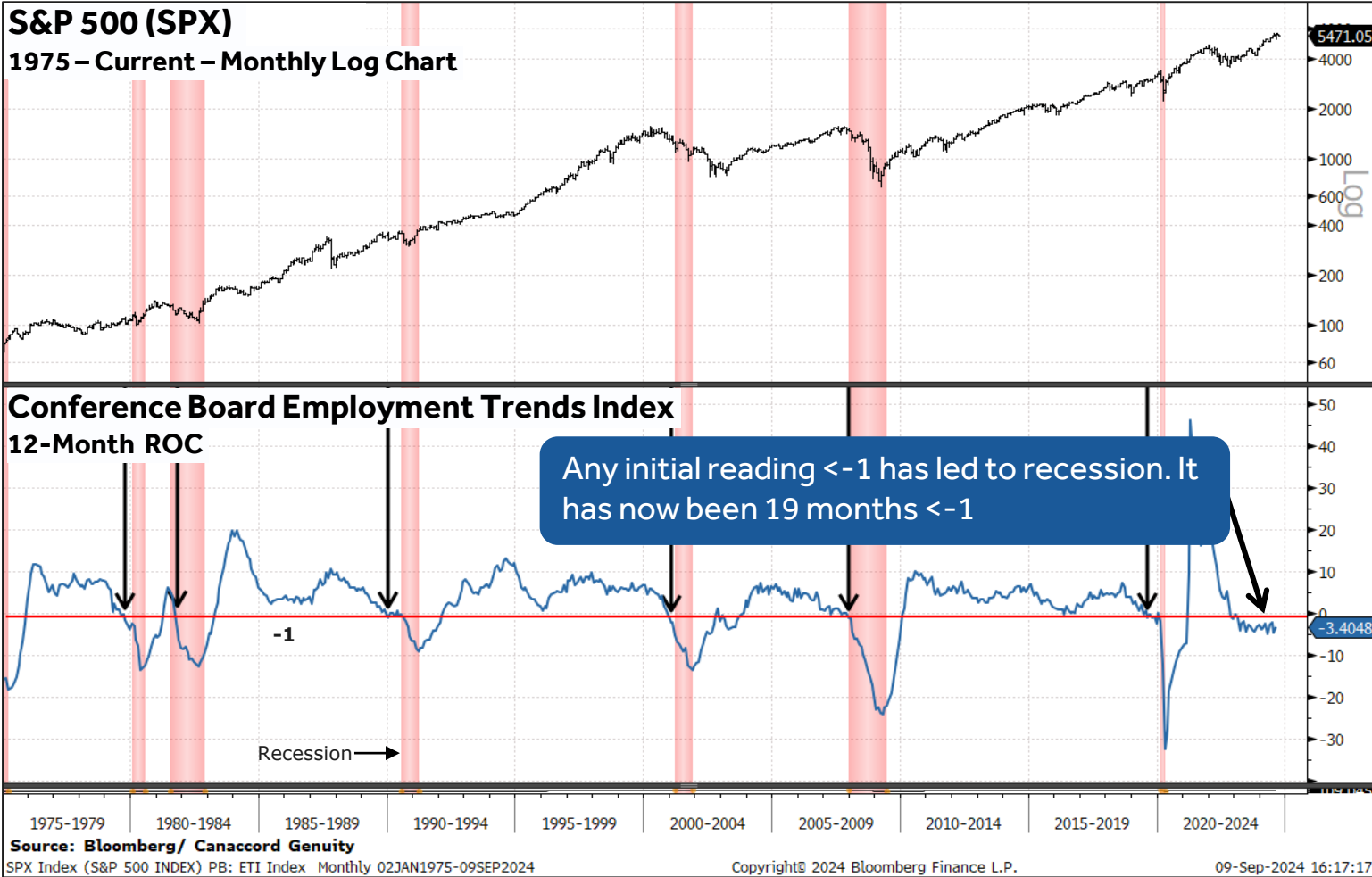
# Economic Outlook – As NFIB Hiring Plans Getting Weaker...



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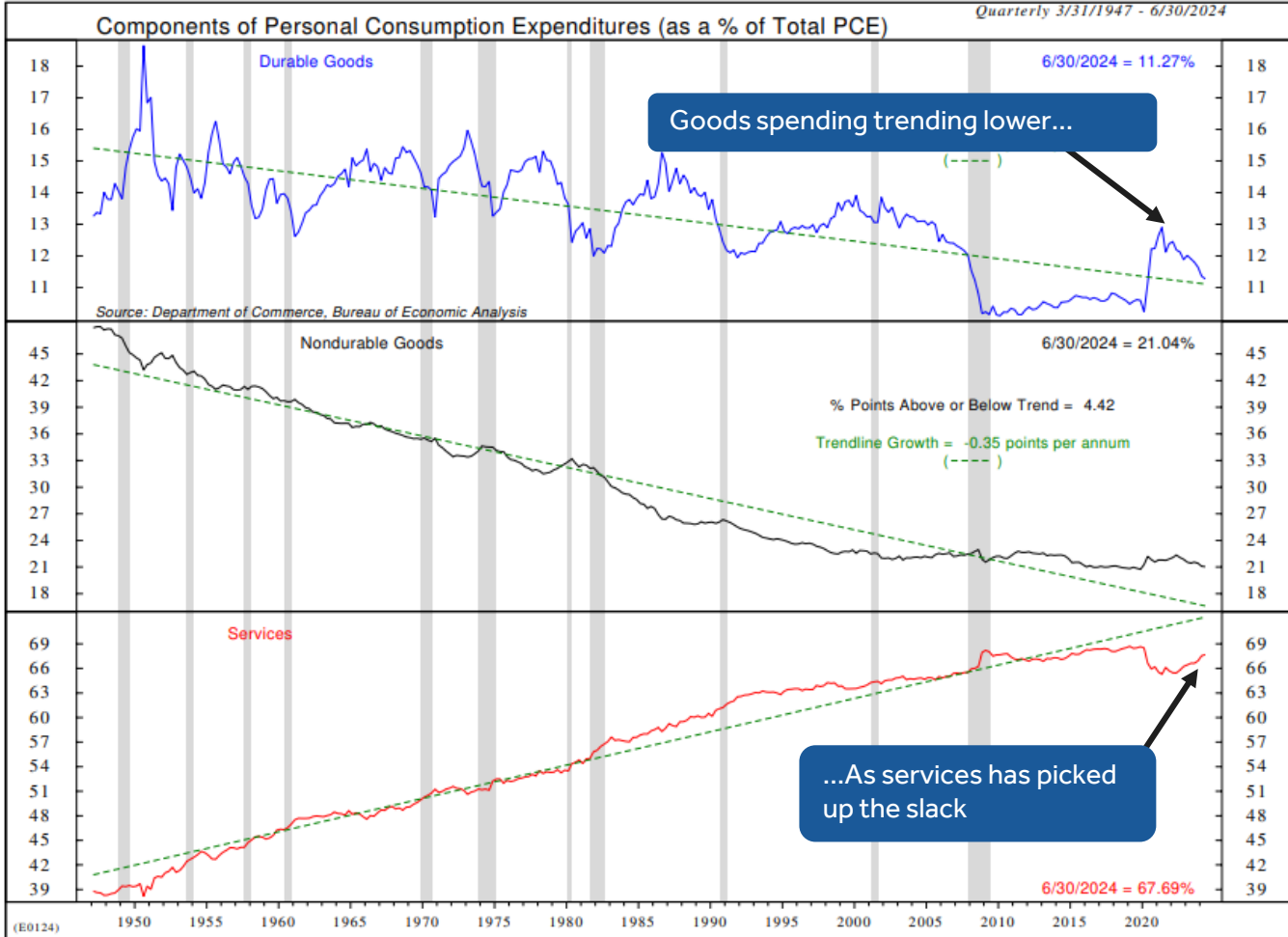
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# Economic Outlook – ...And Leading Employment Measure Negative...



Past performance does not predict future results

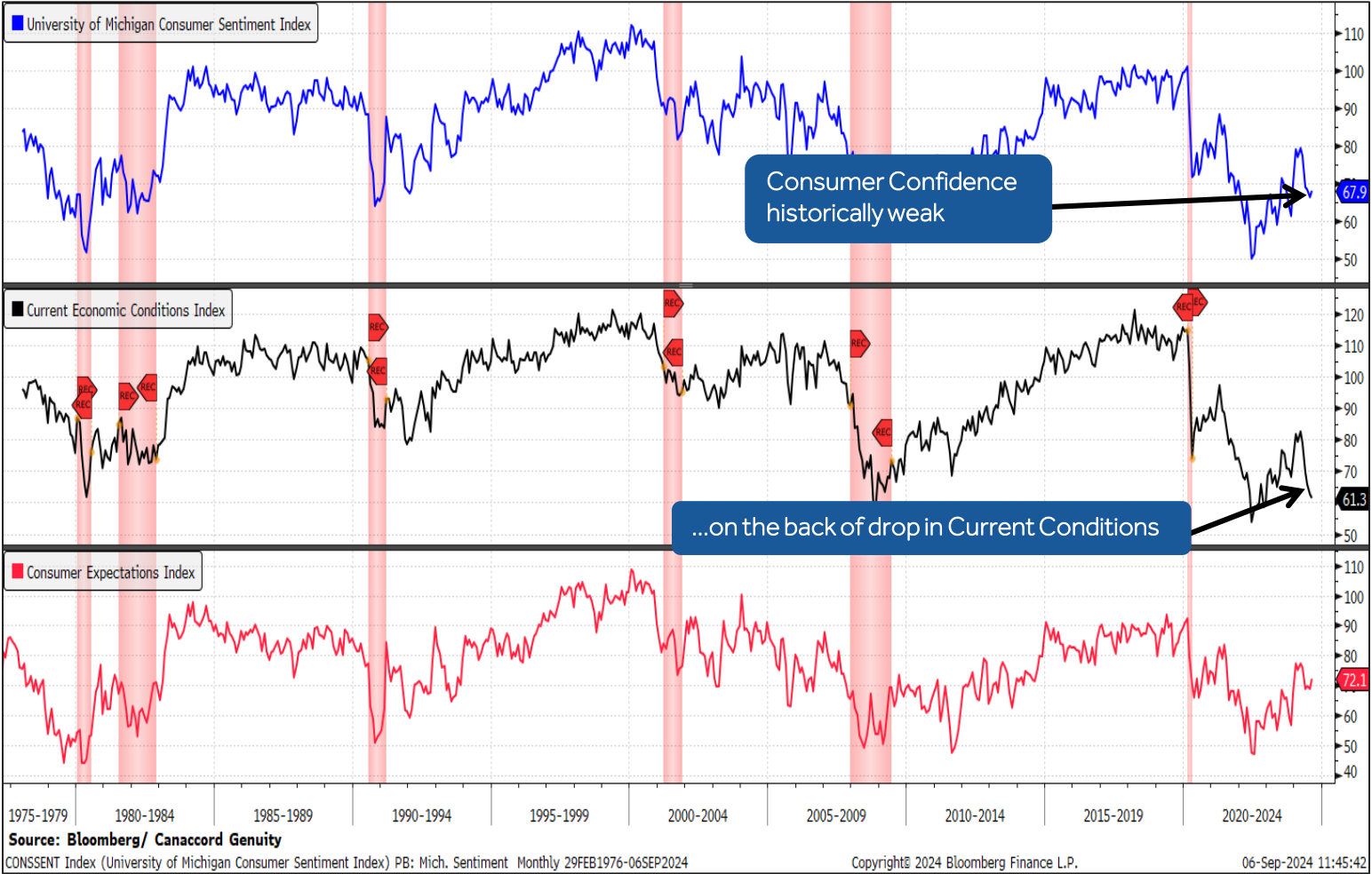
# Economic Outlook – ...Could Stall Services Spending Bounce...



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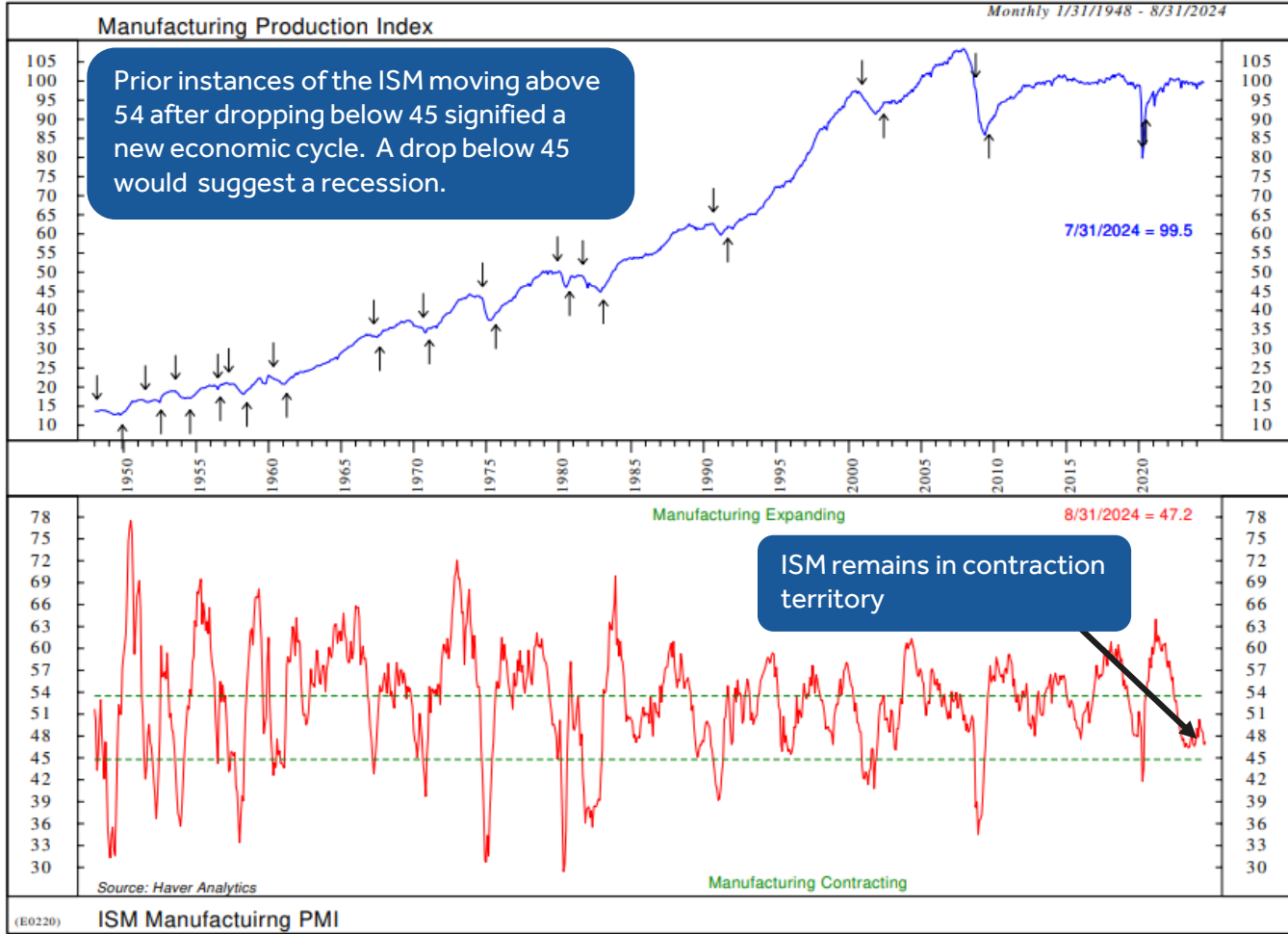
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# Economic Outlook – ... And Further Impact Consumer Confidence





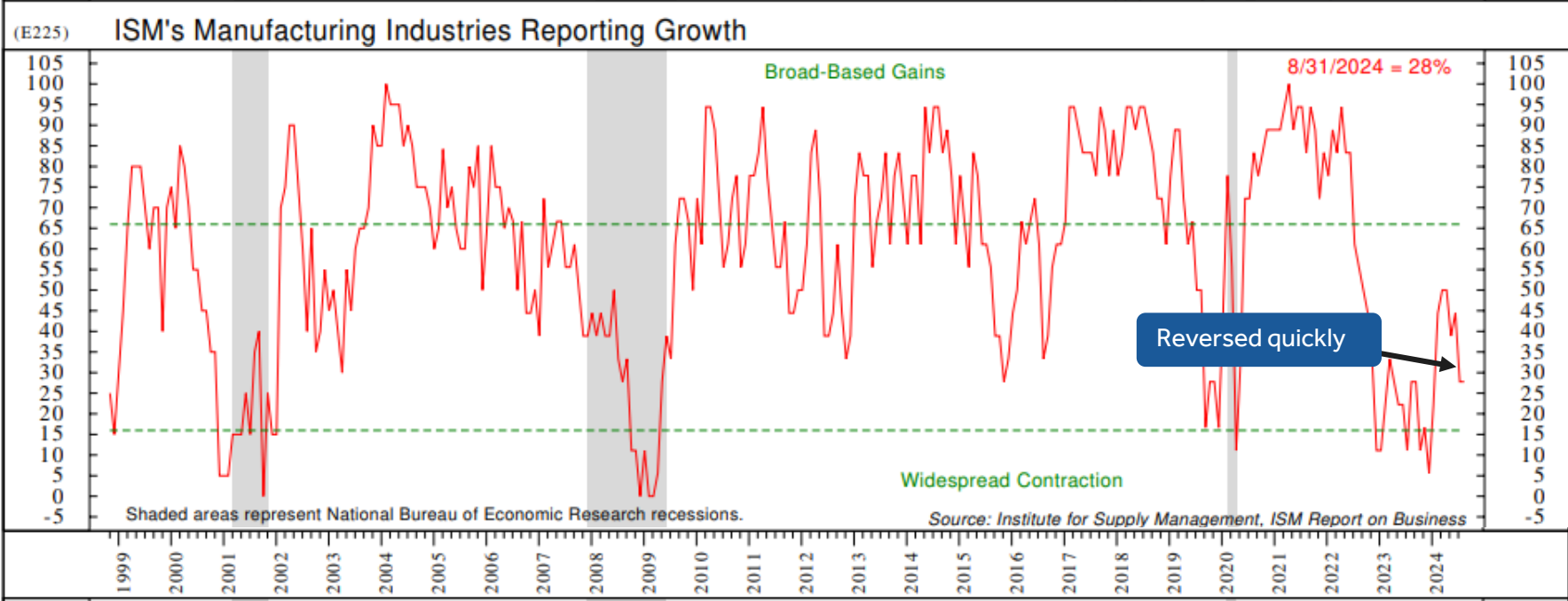
# Economic Outlook – ISM Manufacturing Remains Weak



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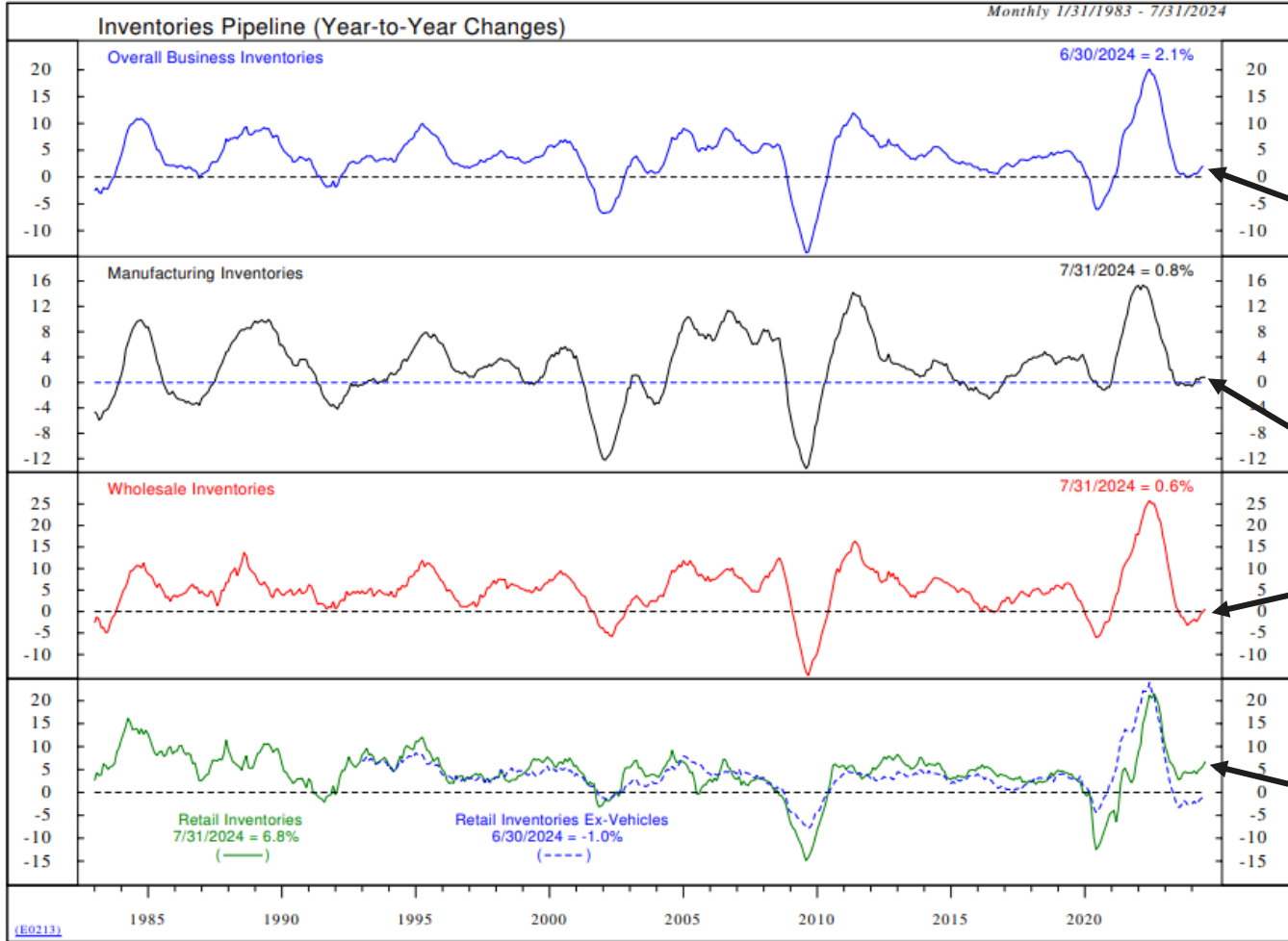
# Economic Outlook – ISM Manufacturing Industries Reporting Growth



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# Economic Outlook – Signs Are There for Inventory Replenishment...



Overall Business inventories stabilizing...

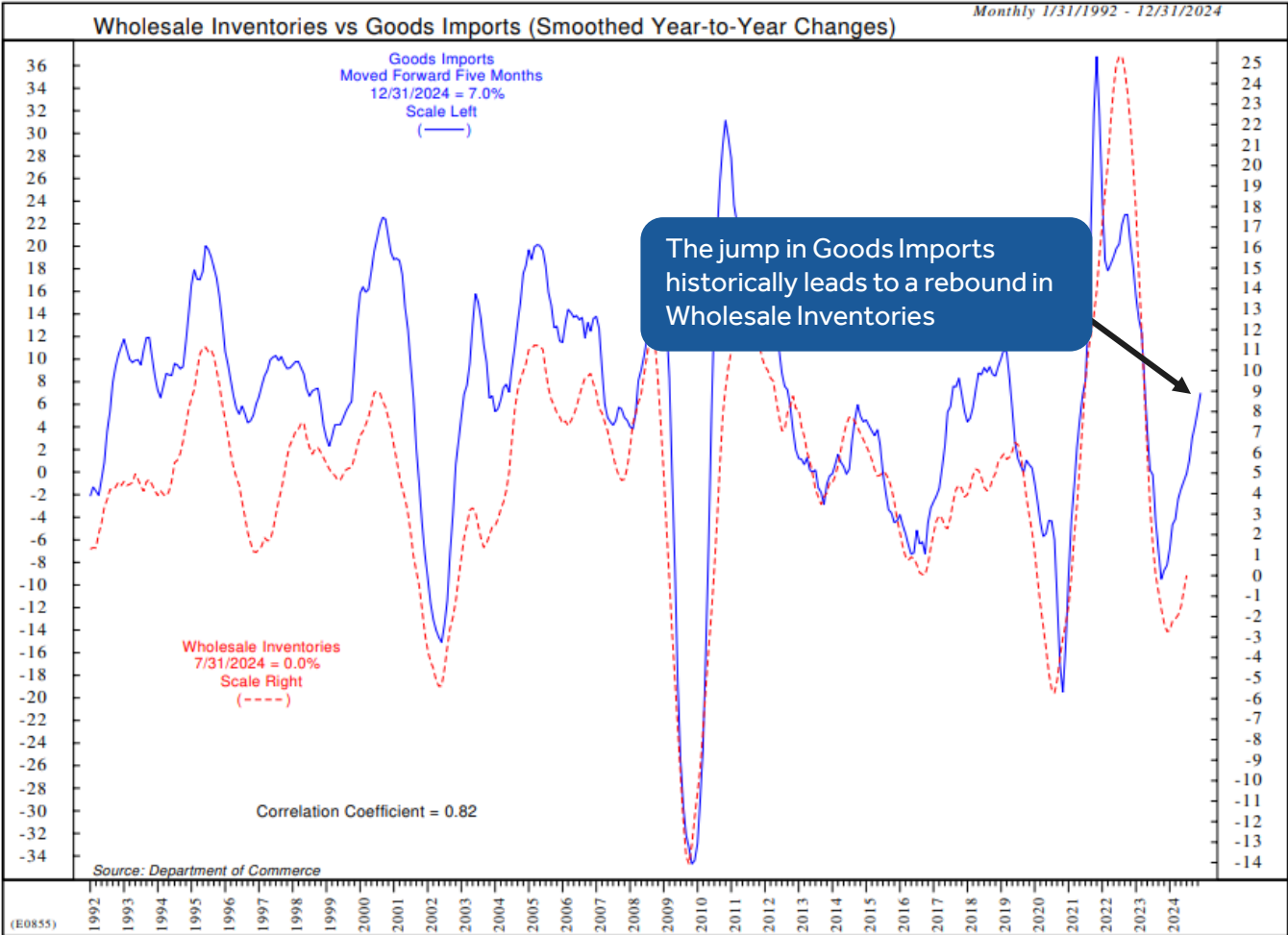
...along with Manufacturing & Wholesale inventories...

...and Retail

Source: [www.ndr.com](http://www.ndr.com) / Canaccord Genuity

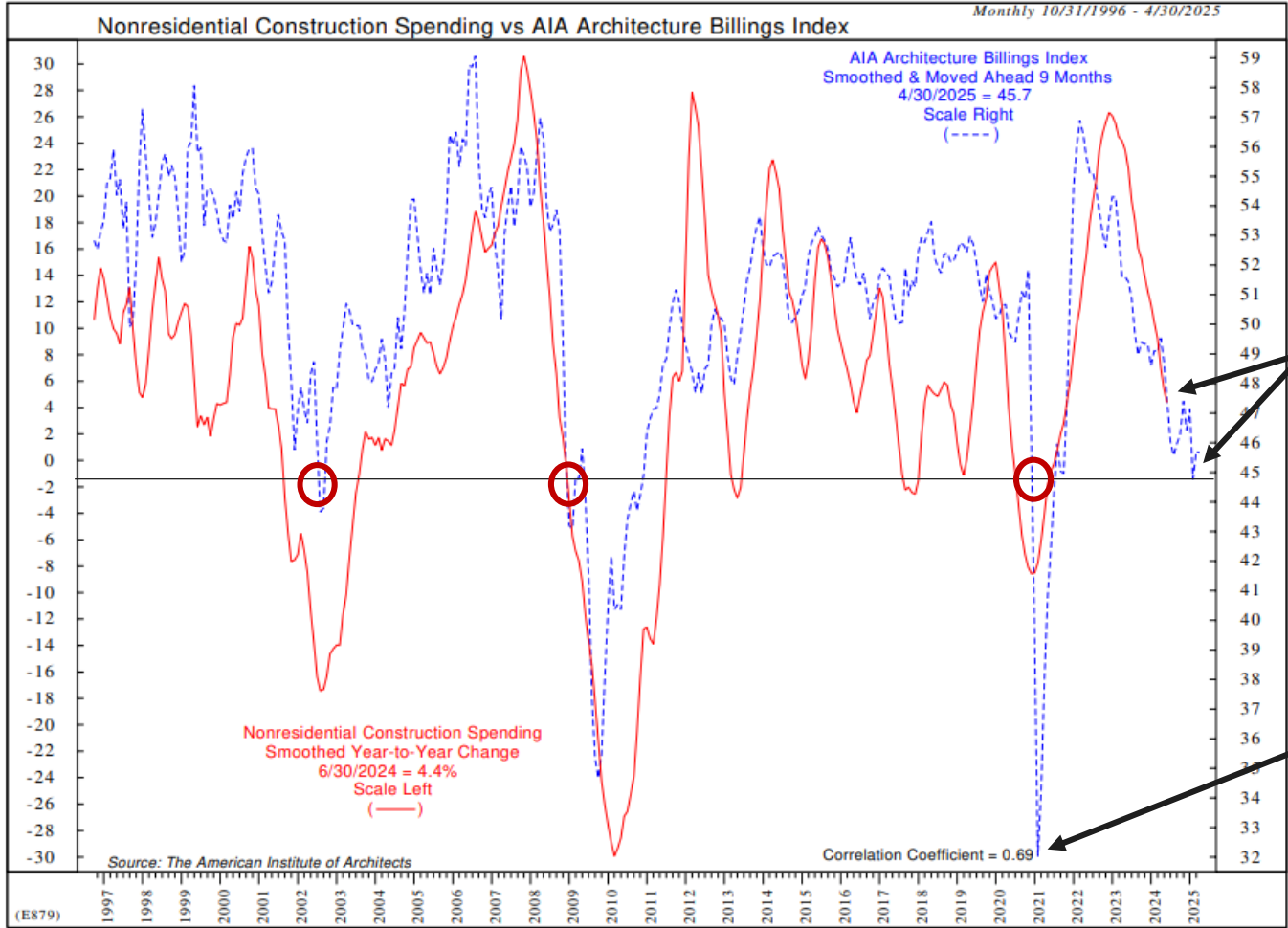
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# Economic Outlook – ...as Goods Imports Signaling Inventory Build



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# Economic Outlook – But Non-Res Construction Likely to Weaken



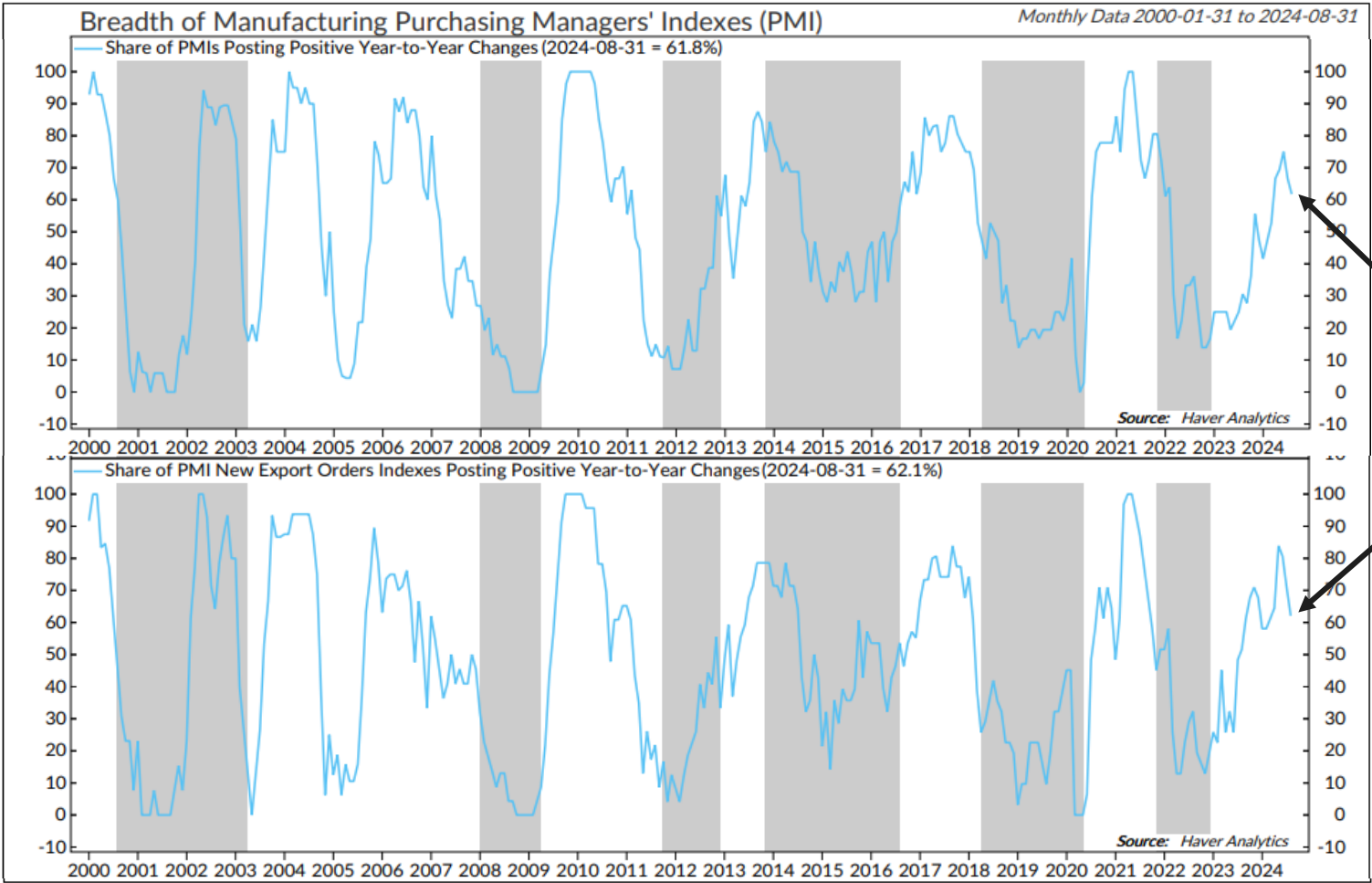
The AIA Billings Index suggests a further contraction in Non-Res Construction

There is a high correlation, which suggests a continued drop in non-res construction

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# Economic Outlook – Global PMIs Suggesting Manufacturing Recovery



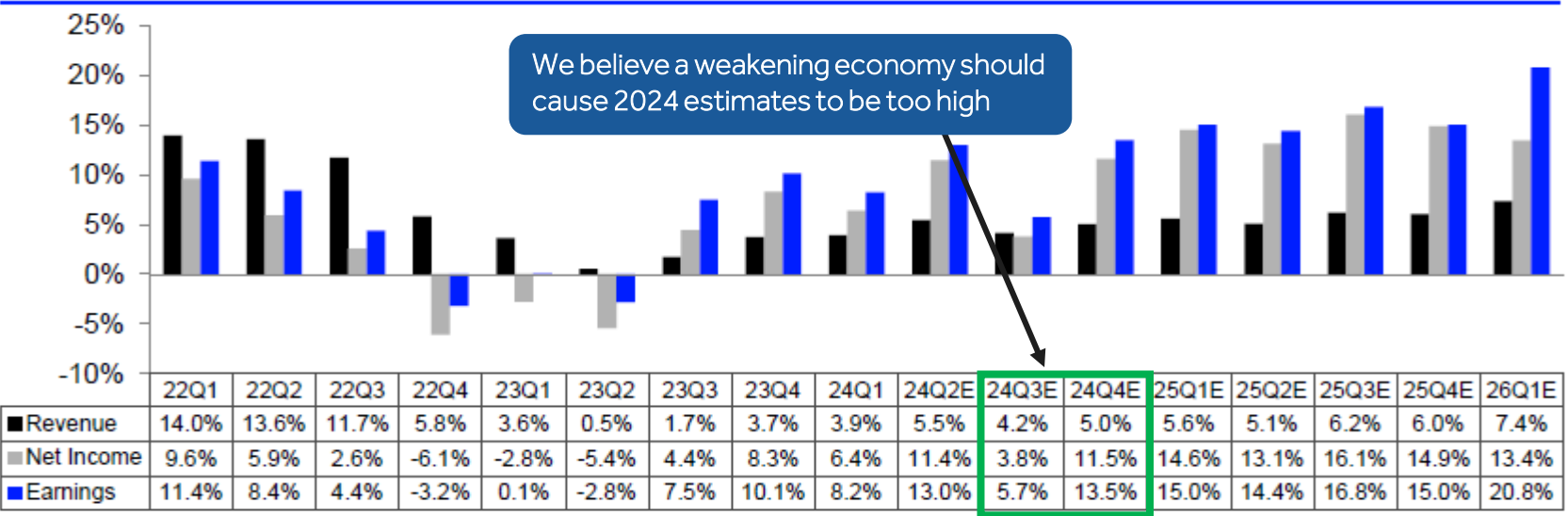
% of positive global PMIs and new export orders giving back some of recent gain

Customized client version of IE250B  
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# Earnings Outlook – Consensus SPX EPS May Be Too Optimistic



Source: LSEG I/B/E/S

# Earnings Outlook – Current 2024 SPX EPS Est. Up 9.6% from 2023

## QUARTERLY REPORTED RESULTS AND FUTURE EXPECTATIONS Industry Analyst Estimates - S&P 500 Bottom Up (\$/share)

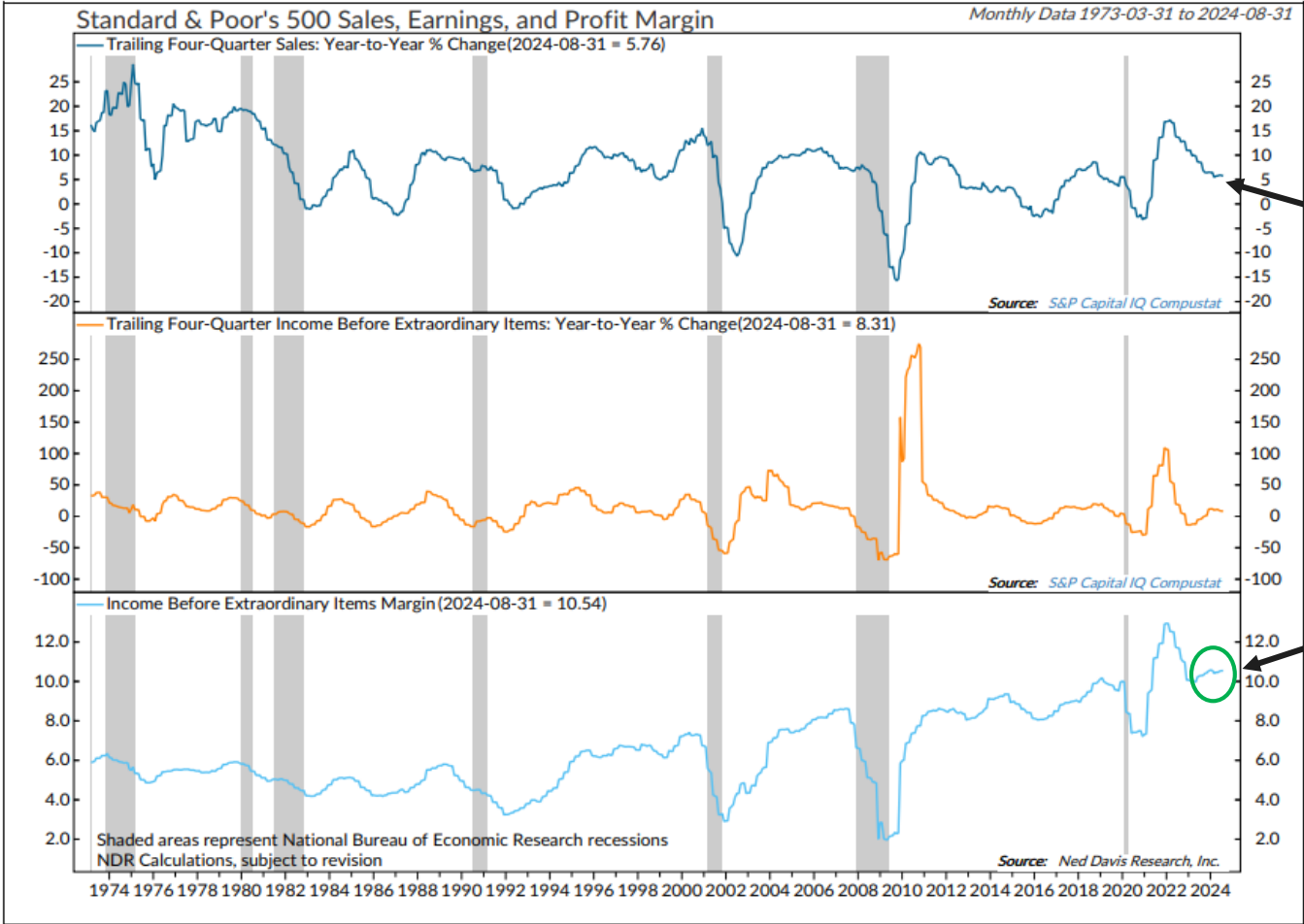
Year	1Q	2Q	3Q	4Q	CY
2010	19.71	21.48	21.75	22.55	85.28
2011	23.50	24.14	25.65	24.55	97.82
2012	25.60	25.84	26.00	26.32	103.80
2013	26.74	27.40	27.63	28.62	109.68
2014	28.18	30.07	30.04	30.54	118.78
2015	28.60	30.09	29.99	29.52	117.46
2016	26.96	29.61	31.21	31.30	118.10
2017	30.90	32.58	33.45	36.02	132.00
2018	38.07	41.00	42.66	41.18	161.93
2019	39.15	41.31	42.14	41.98	162.93
2020	33.13	27.98	38.69	42.58	139.72
2021	49.13	52.58	53.72	53.95	208.12
2022	54.80	57.62	56.02	53.15	218.09
2023	53.08	54.29	58.41	57.16	221.36
2024	56.56	60.76	61.50	64.39	242.51
2025	65.17	69.54	72.27	74.42	279.74
2026					315.13

Current 2024 SPX Operating EPS est. is \$242.51, up from \$221.36 in 2023

Source: LSEG I/B/E/S



# Earnings Outlook – Weaker Economy Suggests Slower EPS Growth



A continued drop in sales should cause margins to weaken further...

...and margins have never been near double digits in soft landing or recession

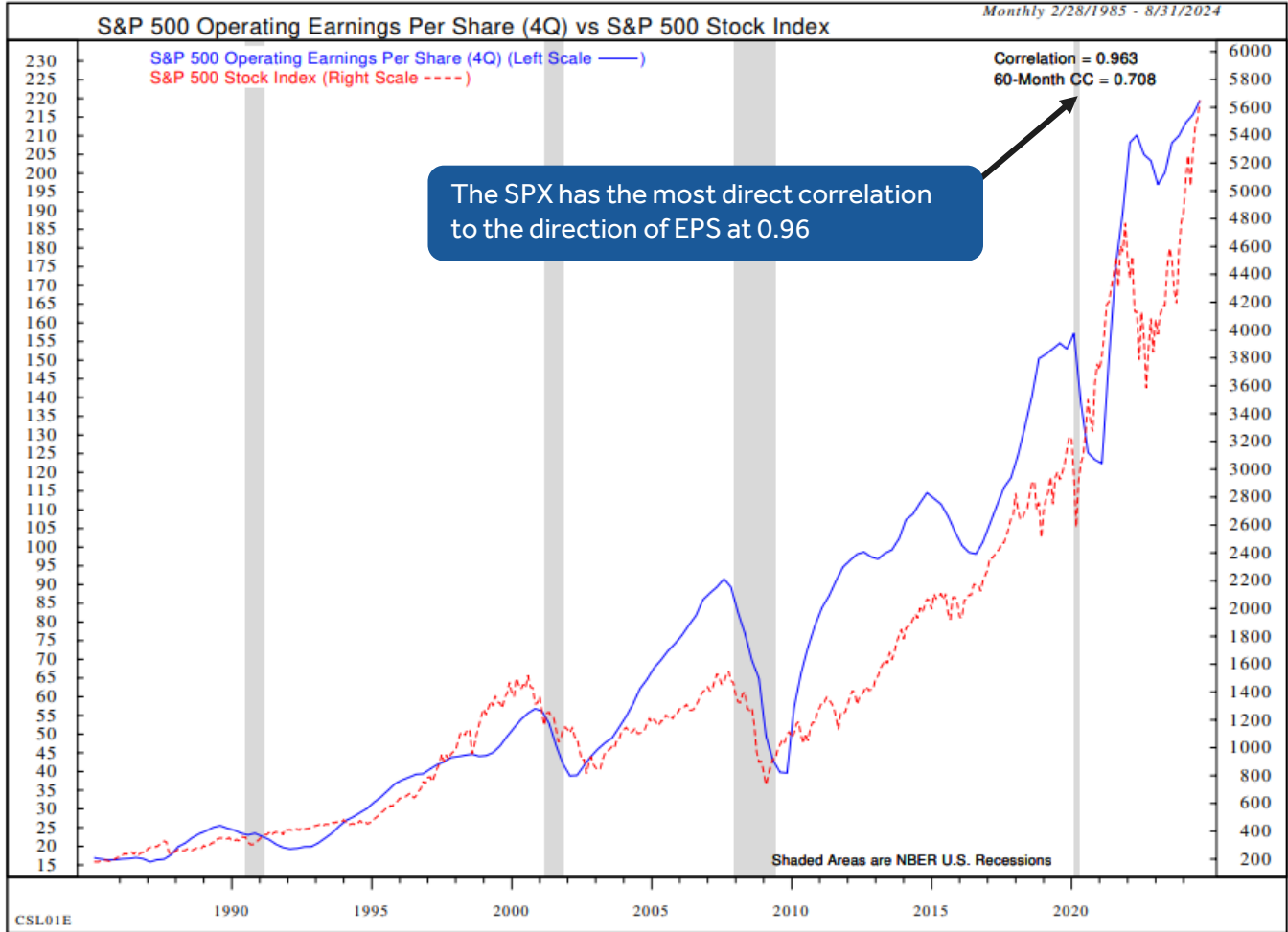
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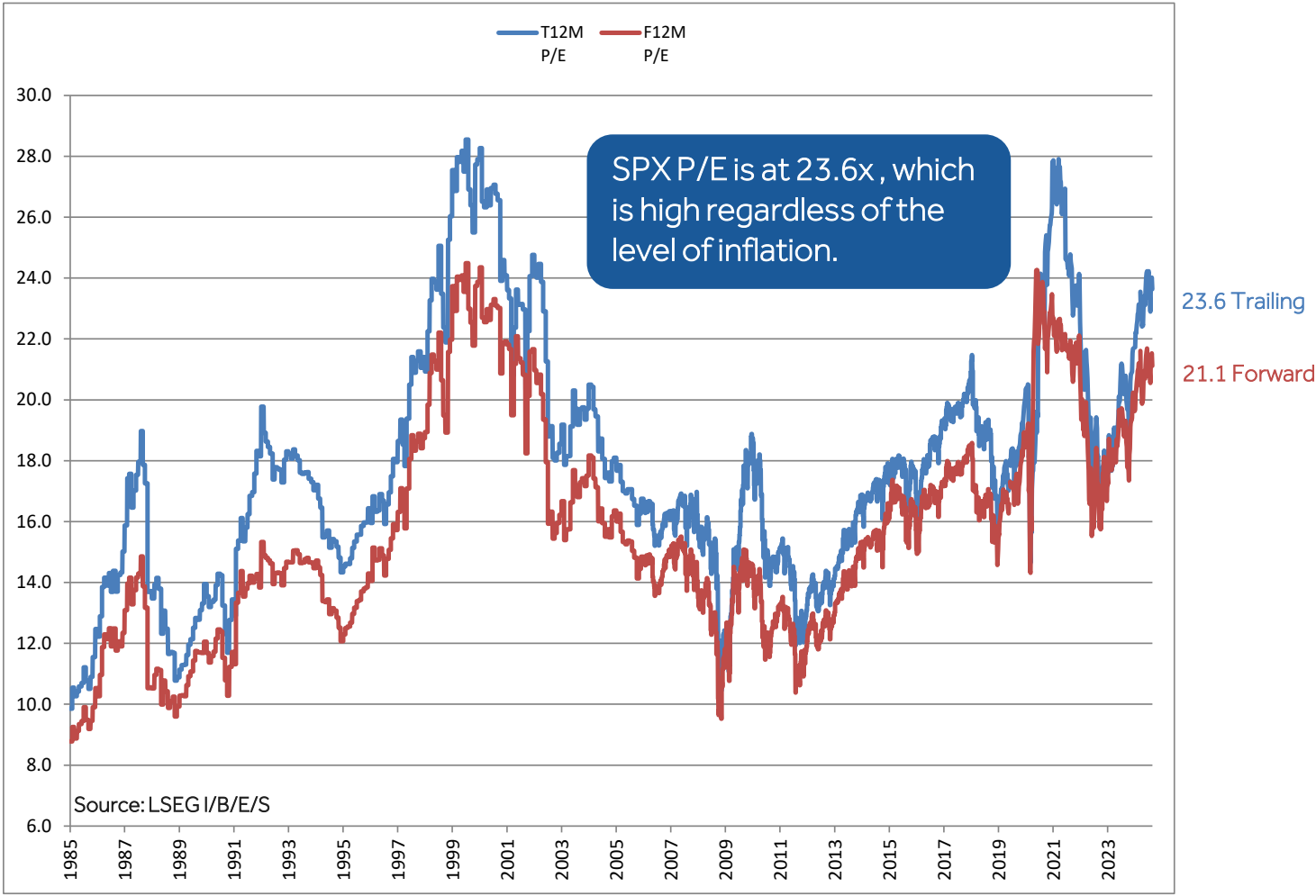
# Earnings Outlook – The SPX Correlates to DIRECTION of EPS



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Past performance does not predict future results

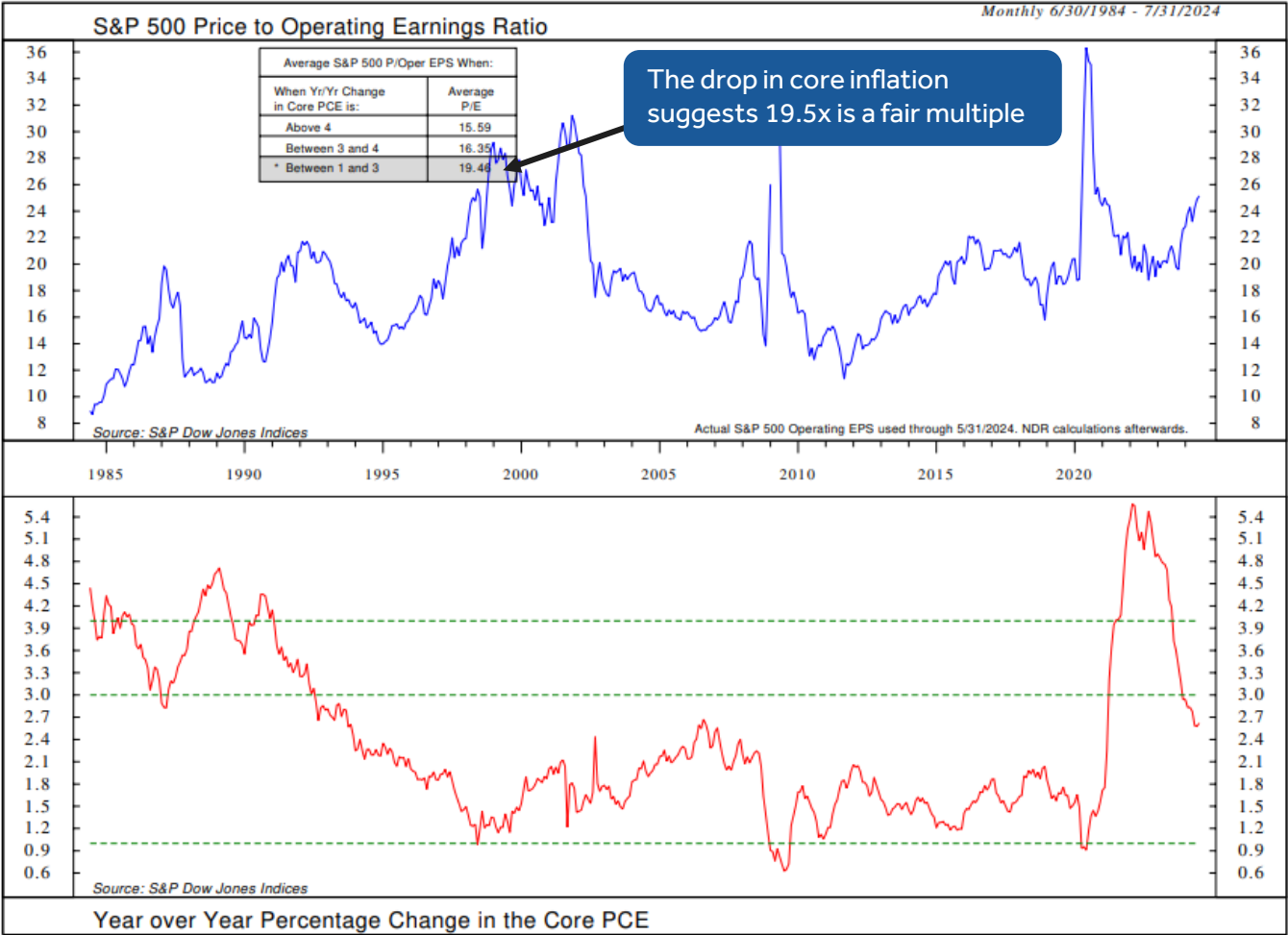
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# Valuation Outlook – Elevated Valuations May Limit SPX Upside



Past performance does not predict future results

# Earnings Outlook – The SPX P/E Driven By Core PCE That Is Declining



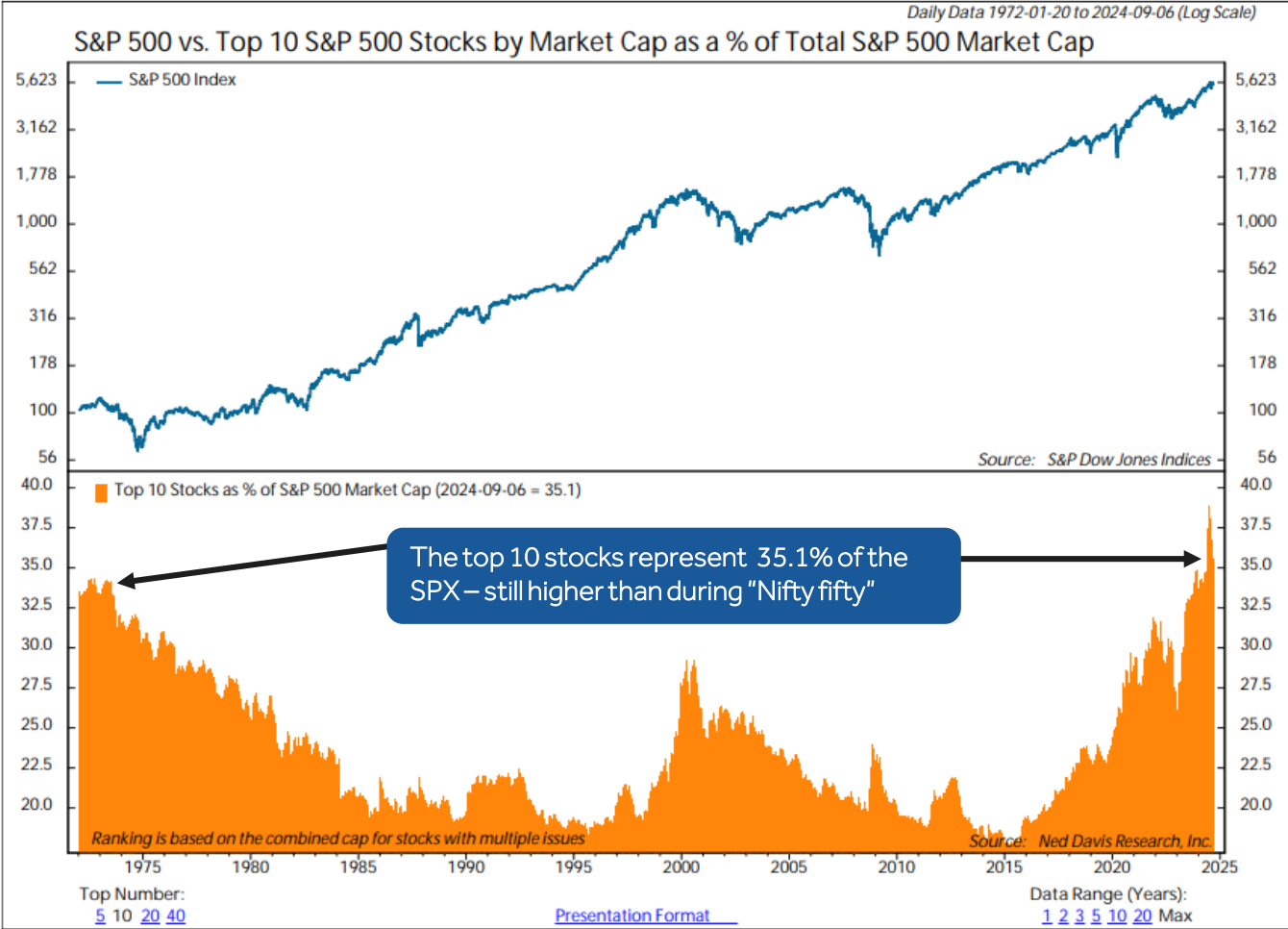
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# Tactical Outlook – The Tactical Backdrop Suggests Buying Weakness

1. The SPX continues to be top-heavy, but a reversal has begun and could be generational
2. A first-half gain of 10-15% for the SPX leads to additional gains in the second half, historically
3. The June CPI report sparked a rally in the Russell 2000 & Equal Weight SPX relative performance off historic lows
4. Our shorter-term tactical indicators are neutral while volatility remains elevated
5. Our intermediate-term sentiment indicators have moved to neutral

# Tactical Outlook – SPX Concentration Beginning to Lessen



Source: [www.ndr.com](http://www.ndr.com) / Canaccord Genuity  
 Past performance does not predict future results



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# Tactical Outlook – 1<sup>st</sup> Half Up 10-15%, Leads to A Positive 2<sup>nd</sup> Half

S&P 500 (SPX) 1st Half			2nd Half
Date	SPX	% Chg	% Chg
6/30/1958	45.24	13.13%	22.04%
6/30/1961	64.64	11.24%	10.69%
6/30/1967	90.64	12.83%	6.43%
6/28/1985	191.85	14.72%	10.13%
6/30/1988	273.5	10.69%	1.54%
6/30/1989	317.98	14.50%	11.14%
6/28/1991	371.16	12.40%	12.37%
6/30/1999	1372.71	11.67%	7.03%
6/30/2003	974.50	10.76%	14.10%
6/28/2013	1606.28	12.63%	15.07%
6/30/2021	4297.5	14.41%	10.91%
6/28/2024	5460.48	14.48%	?

Source: Bloomberg /  
Canaccord Genuity

<b>Avg.</b>	<b>11.04%</b>
<b>Median</b>	<b>10.91%</b>
<b>% Pos.</b>	<b>100.00%</b>

Since 1957, second half up 100% of the time when the first half up between 10% - 15%

Past performance does not predict future results

# Tactical Outlook – Record Underperformance of RTY & SPW in 1<sup>st</sup> Half...

Russell 2000 Underperformance of > 5% in the 1st Half of Year						
1st Half Performance				2nd Half Performance		
Date	RTY % Chg	SPX % Chg	Diff.	RTY % Chg	SPX % Chg	Diff.
6/30/1995	13.51%	18.61%	-5.11%	11.42%	13.07%	-1.65%
6/30/1997	9.39%	19.49%	-10.11%	10.33%	9.64%	0.70%
6/30/1998	4.29%	16.84%	-12.55%	-7.79%	8.41%	-16.20%
6/30/2020	-13.61%	-4.04%	-9.57%	37.01%	21.15%	15.86%
6/30/2023	7.24%	15.91%	-8.67%	7.32%	7.18%	0.15%
6/28/2024	1.02%	14.48%	-13.46%			

Source: Bloomberg / Canaccord Genuity

The Russell 2000 Index lagged the SPX by 13.46%, the most on record (since 1979)

SPX Equal Weight Underperformance of > 5% in the 1st Half of Year						
1st Half Performance				2nd Half Performance		
Date	SPW % Chg	SPX % Chg	Diff	SPW % Chg	SPX % Chg	Diff
6/30/1998	10.60%	16.84%	-6.23%	-0.22%	8.41%	-8.63%
6/30/2020	-11.77%	-4.04%	-7.73%	25.21%	21.15%	4.06%
6/30/2023	5.97%	15.91%	-9.94%	5.28%	7.18%	-1.90%
6/28/2024	4.07%	14.48%	-10.41%			

Source: Bloomberg / Canaccord Genuity

The Equal Weight S&P 500 lagged the SPX by 10.41%, the most on record (since 1990)

Past performance does not predict future results



# Tactical Outlook –...Sparked an Outsized Move After the June CPI...

Dates	Equal Weight SPX (SPW)			S&P 500 Index (SPX)			Diff
	SPW	Chg	% Chg	SPX	Chg	% Chg	
11/9/2020	4821.43	194.85	4.21%	3550.5	41.06	1.17%	3.04%
4/19/1999	1118.3	3.33	0.30%	1289.48	-29.52	-2.24%	2.54%
4/12/2000	1157.76	2.36	0.20%	1467.17	-33.42	-2.23%	2.43%
5/18/2020	3906.81	201.78	5.45%	2953.91	90.21	3.15%	2.30%
4/14/1999	1092.9	7.07	0.65%	1328.44	-21.38	-1.58%	2.23%
4/9/2009	1122.08	62.48	5.90%	856.56	31.4	3.81%	2.09%
7/11/2024	6775.64	78.32	1.17%	5584.54	-49.37	-0.88%	2.05%

Source: Bloomberg/ Canaccord Genuity

The SPW's 1-day outperformance vs. SPX was the 7<sup>th</sup> largest on record...

Dates	% Change Equal Weight SPX Minus % Change SPX					
	1-Month	2-Months	3-Months	6-Months	9-Months	12-Months
4/14/1999	6.24%	7.88%	3.77%	0.41%	-5.78%	-2.79%
4/12/2000	2.99%	1.87%	-0.05%	5.76%	16.58%	22.13%
4/9/2009	6.85%	6.18%	2.66%	11.12%	13.65%	17.99%
5/18/2020	2.48%	0.86%	-0.10%	4.64%	7.12%	14.89%
11/9/2020	2.81%	2.83%	2.61%	8.49%	4.58%	4.02%
7/11/2024	3.46%	4.78%*				
<b>SPW Outperformed</b>	<b>100.0%</b>	<b>100.0%</b>	<b>60.0%</b>	<b>100.0%</b>	<b>80.0%</b>	<b>80.0%</b>

Source: Bloomberg/ Canaccord Genuity

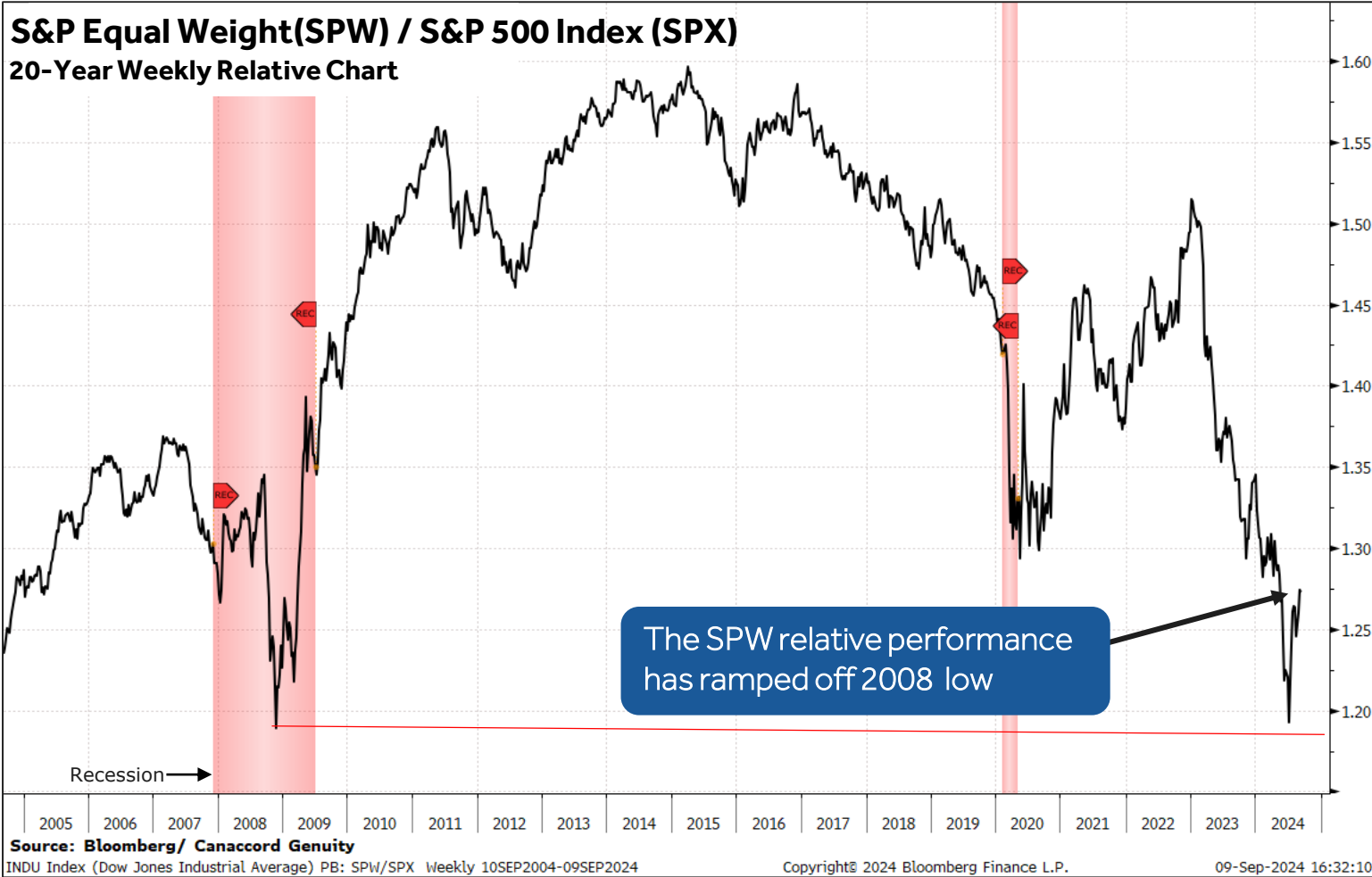
\* As of 9/9/24

So far, equal weight outperforming

..which has led to consistent outperformance going forward

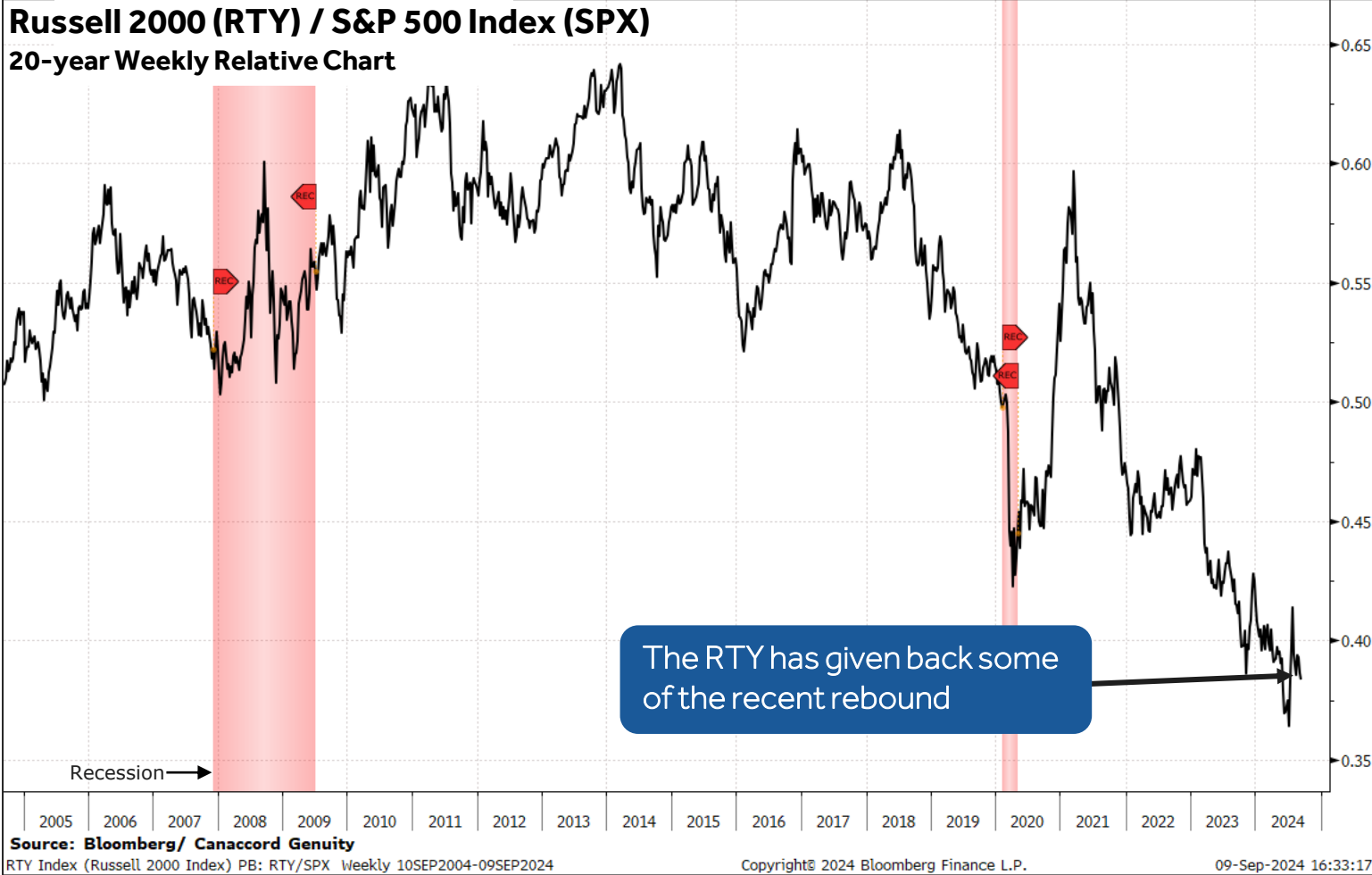
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# Tactical Outlook – ...Which Turned SPW Relative Performance...



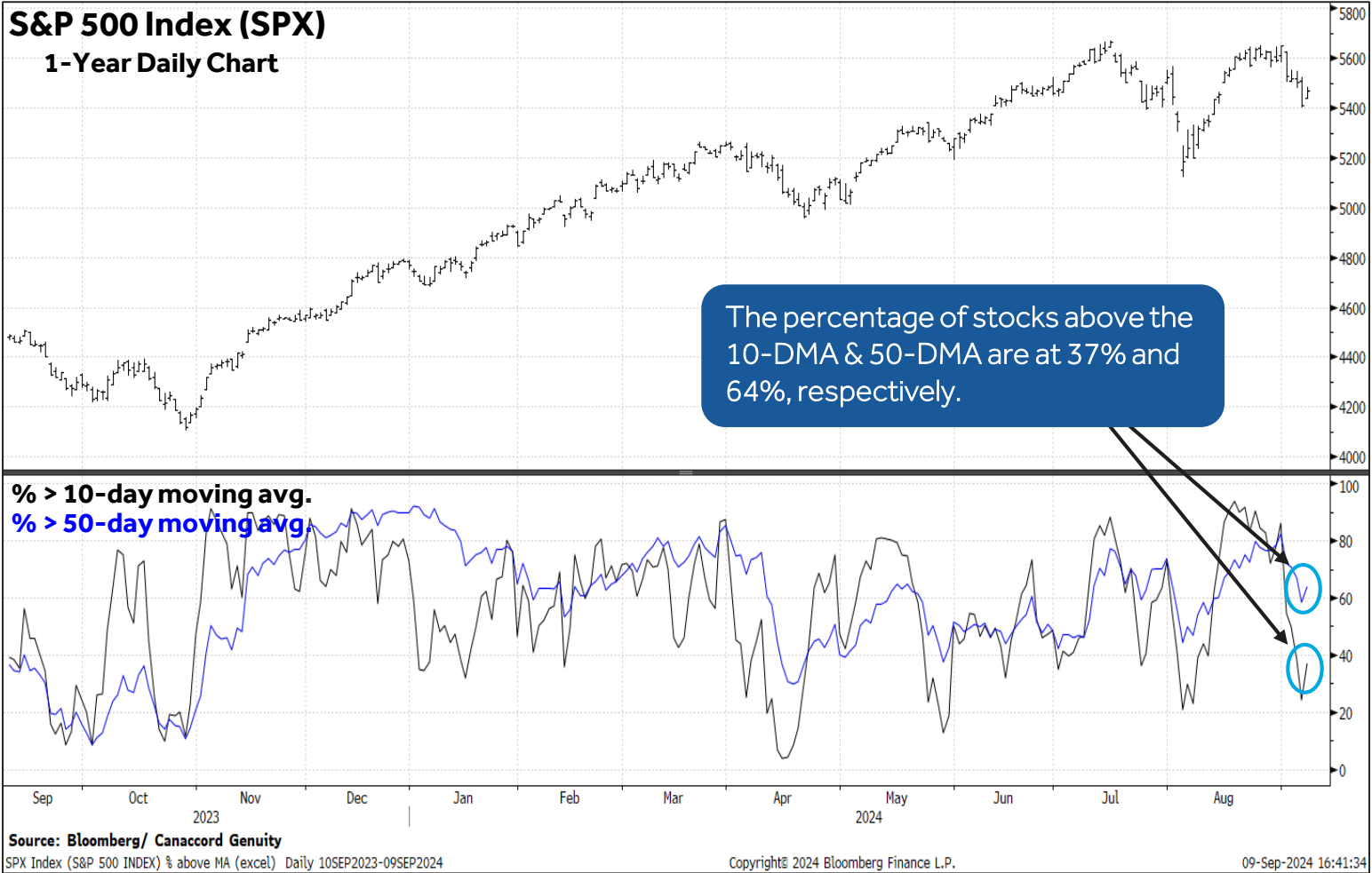
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# Tactical Outlook – ...and RTY Relative Performance



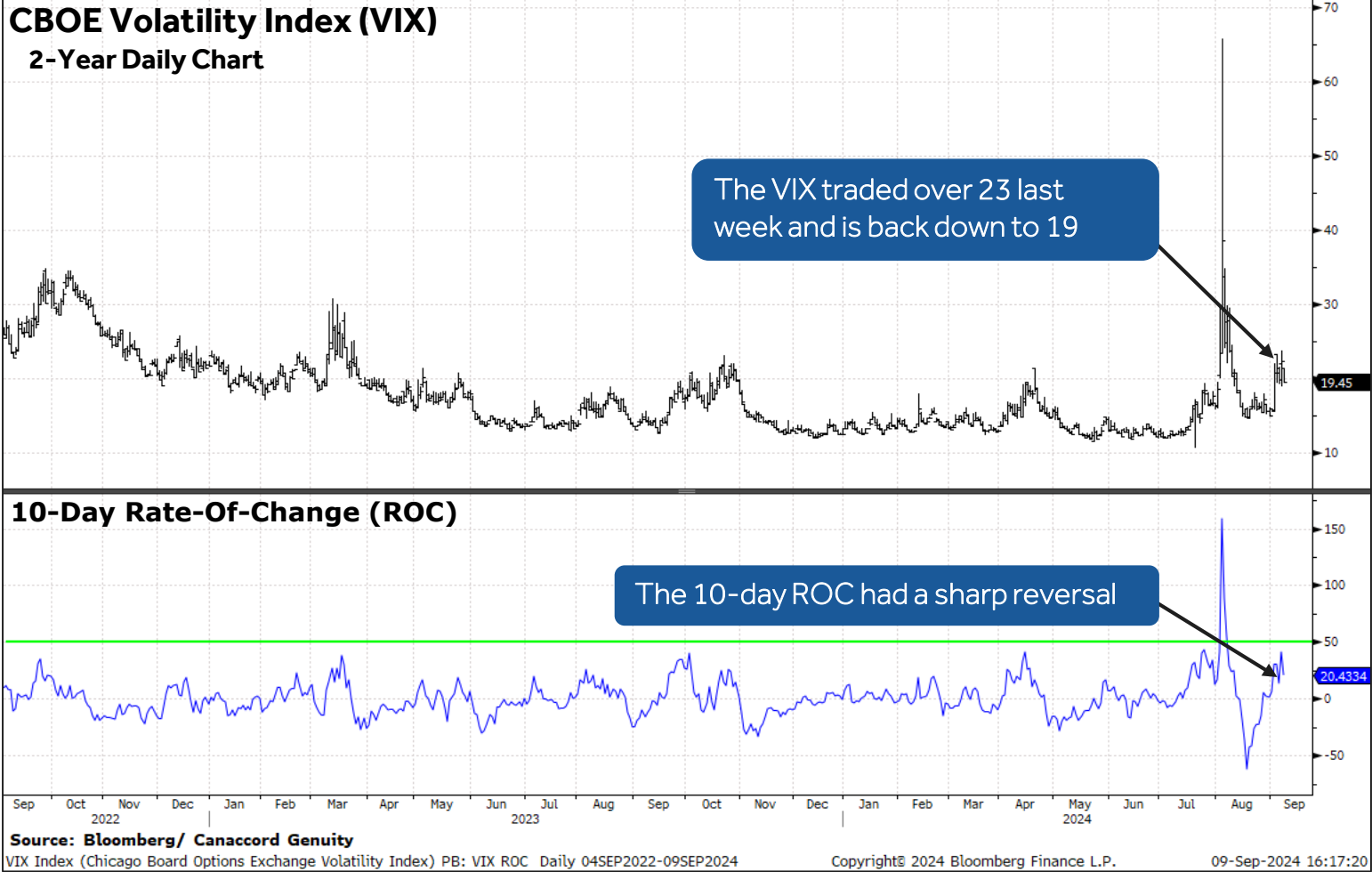
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# Tactical Outlook – Percent Above 10- & 50-DMA are Neutral



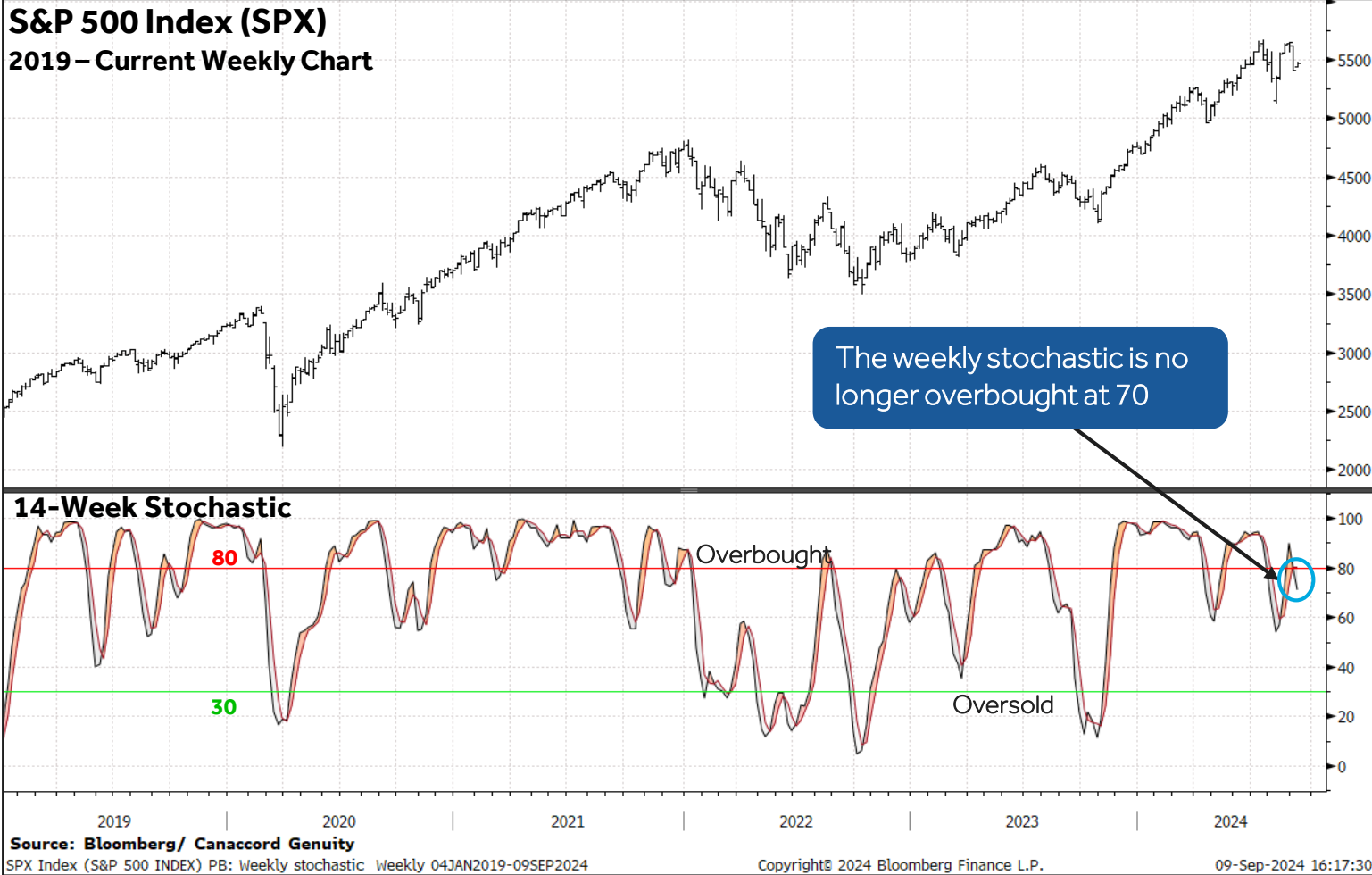
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# Tactical Outlook – Volatility Moved Higher Again



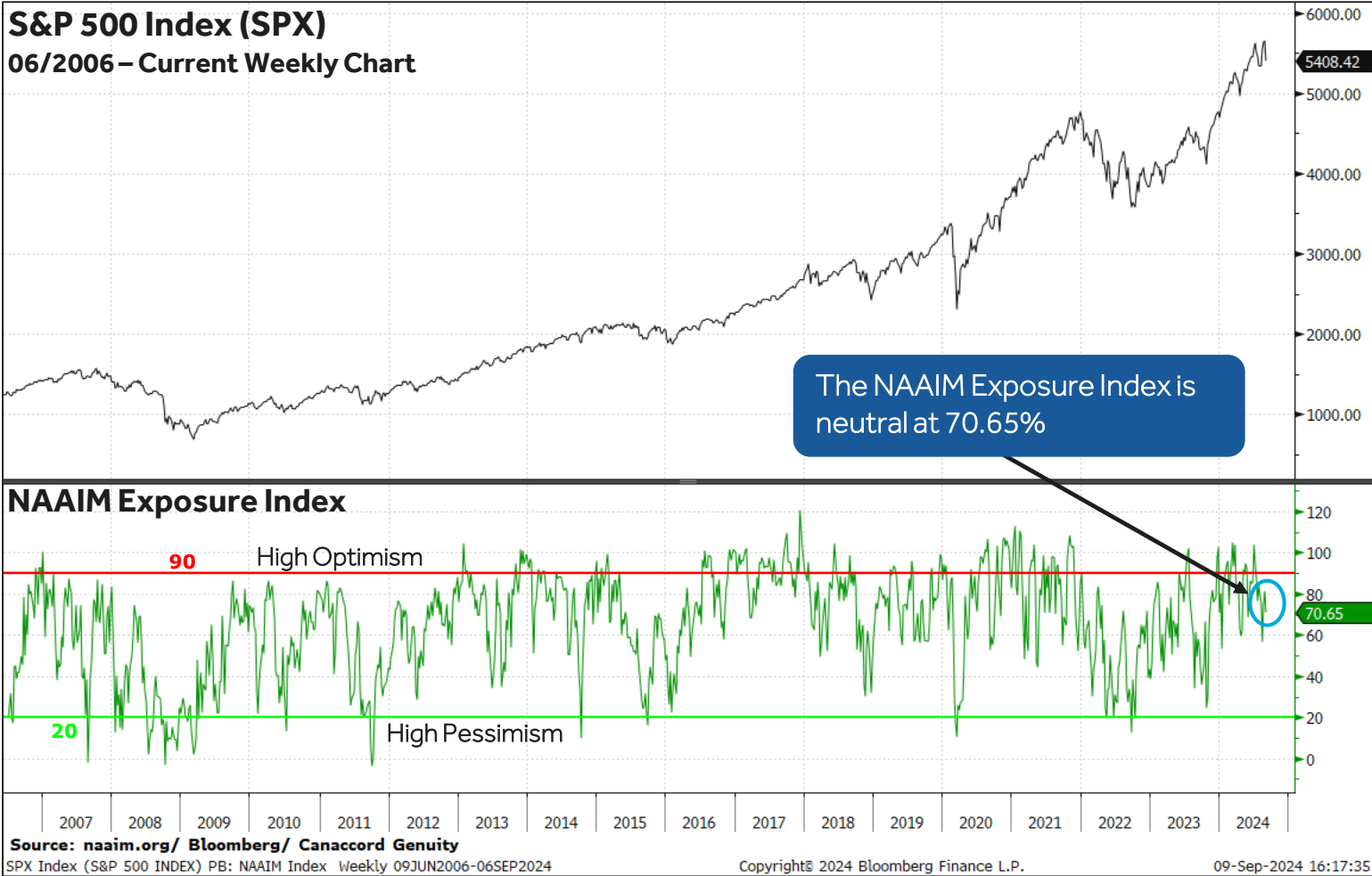
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# Tactical Outlook – Weekly Stochastic Pulling Back



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# Tactical Outlook – NAAIM Exposure Index Is Back to Neutral



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Date and time of first dissemination: September 10, 2024, 05:00 ET

Date and time of production: September 09, 2024, 22:22 ET

## Distribution of Ratings:

### Global Stock Ratings (as of 09/10/24)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	610	66.96%	22.79%
Hold	132	14.49%	11.36%
Sell	15	1.65%	6.67%
Speculative Buy	145	15.92%	48.97%
	911*	100.0%	

\*Total includes stocks that are Under Review

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