Weekly Macro Market Report

October 21, 2019

U.S. Broad Equity Market Outlook

Intermediate-Term: Bullish

(*Will always be Bullish or Bearish)*

Our intermediate-term Risk Model remains on a "Buy" signal, although indicators are fairly stagnant. While the Buy signal has to be respected in the near-term and does suggest upside potential, it may not ultimately be a strong and long-lasting signal. That would fit with our overall bearish outlook for stocks in the longer-term. Therefore, while our longer-term outlook is still cautious at best, our near-term strategy is focused on buying dips to support, though selectively. Chart-wise, large-caps do have the potential for one more blow-off move to new highs, particularly if they can maintain key pivot support reclaimed a week ago. Smaller-cap and broader stock indices also reclaimed key pivot support, opening up further near-term upside. Longer-term, however, the small/broad indices are still displaying vast under-performance and the space will likely still be the focus of any shorting/hedging efforts when the time comes. For now, though, we would be less aggressive in maintaining any short exposure. Overall, the intermediate-term risk situation warrants moderate net long exposure to equities, and only in high relative strength areas. Our strategy is presently focused on increasing long exposure via short-covering and buying relative strength areas into pullbacks to support. We continue to see potential new highs in the large-cap space, however, again, we believe any near-term new highs may be relatively short-lived. It still appears that the 4th quarter 2018 selloff was perhaps the first volley in a longer-term cyclical bear market *in the broad market*. Remember to follow Daily Strategy Session posts and videos to stay abreast of developments.

In the longer-term, again, our view is that the broad market has begun, or is due to commence, a significant bear market. And given the fact that our long-term background measures having attained excessively bullish levels, we envision a bear market of significant magnitude to develop in order to unwind such excesses.

- Potential relative strength candidates include low-volatility, real estate, consumer staples, utilities, housing, technology, large-caps and select health care areas. Areas showing under-performance and which should be avoided currently are smaller and broad market indices as well as financials. These situations are in flux, so keep on top of the Daily Strategy posts as things develop.
- Internationally, broad indices (e.g., the ACWX, Global Dow, EAFE) are still forming lower highs, longer-term, which is a global equity market concern. Thus, this continues to be an area to avoid. Emerging markets may offer best prospects for *long-term* allocation of capital. However, in the near-term, the broad emerging market index is lagging, hitting lower highs. Individually, Brazil and Russia appear to be within newer longer-term bull markets and can be bought into pullbacks to support. India remains in an overall bull market, but a more mature one. We would be less aggressive in accumulating more exposure there at this time. Smaller EM countries (e.g., Thailand, Indonesia, Taiwan, The Philippines) may be setting up major breakouts, in the long-term, and may offer the best long-term potential in global equities. Japan looks good longer-term and is consolidating near-term. However, it may have more work to do before its intermediate-term correction runs its course. China's Shanghai Composite is trading near must-hold longer-term support. We are standing aside there now. In the longer-term, we would sell major rallies. Core European stock markets, e.g., STOXX 600, France, Germany, are consolidating YTD rallies. We would continue to sell rallies to resistance nearby there athough, like US markets, they may have one more burst to new highs in them. The UK FTSE-100 is still above its long-term breakout level. It does hold potential above those levels; however, recent deterioration and the lower highs are a concern in the near-term. On the other hand, Switzerland has broken out and has potential for further significant upside as long as the breakout level holds. Various PIIGS markets do show near-term potential as well which may contribute to a global risk-on move in the near-term.
- In other markets, the 10-Year and 30-Year Treasury Yields broke above key pivot points, opening the way for further near-term upside. In the intermediate-term, however, yields are still in downtrends and bonds are still a buy into yield spikes to resistance. Longer-term, we are still looking for a secular low in yields at some point in the not-too-distant future and expect yields to head higher for decades to come. Broad commodity indices are in an intermediate-term downtrend and we are focused on selling all rallies there to major resistance. Crude oil is also in a longer-term downtrend and we remain sellers into rallies there as well. Industrial metals, e.g., copper, are in intermediate-term downtrends and we would also be selling rallies into resistance there. Gold and silver remain in intermediate-term uptrends and can be bought into pullbacks to support. Natural gas is firmly in a longer-term downtrend and we would continue to sell rallies into resistance there. The Dollar Index is consolidating above its recent tight trading range and continues its intermediate-term rally. The benefit of the doubt remains to the upside there, despite near-term technical damage last week. Meanwhile, the Euro is bouncing somewhat off of multi-year lows. In the intermediate-term, however, the benefit of the doubt there is still to the downside despite reclaiming some near-term technical ground last week. The Yen is consolidating its breakout above its longer-term pennant and has further upside potential. Grains are bouncing in the near-term, but continue to trade down near decade lows and can be avoided for now. Lastly, Bitcoin is consolidating its most recent intermediate-term rally and is mired in a trading range; though, in the near-term, it is testing potential support.

Bottom Line: Our intermediate-term Risk Model remains on a "Buy" signal, although indicators are fairly stagnant. While the Buy signal has to be respected in the near-term and does suggest upside potential, it may not ultimately be a strong and long-lasting signal. That would fit with our overall bearish outlook for stocks in the longer-term. Therefore, while our longer-term outlook is still cautious at best, our near-term strategy is focused on buying dips to support, though selectively. Chart-wise, large-caps do have the potential for one more blow-off move to new highs, particularly if they can maintain key pivot support reclaimed a week ago. Smaller-cap and broader stock indices also reclaimed key pivot support, opening up further near-term upside. Overall, the intermediate-term risk situation warrants moderate net long exposure to equities, and only in high relative strength areas. Our strategy is presently focused on increasing long exposure via short-covering and buying relative strength areas into pullbacks to support.

Short-Term: Neutral

(*Will be Bullish, Bearish or [often] neutral – used more for trade entry/exit timing purposes)*

With our Risk Model on a "Buy" signal, we are open to buying dips to support in high relative strength areas, although, potentially only for a trade. Relative strength leading large-cap indices did follow through last week to the upside after reclaiming key near-term pivot levels. After testing near rally/all-time highs, large-caps did pull back slightly to end the week. However, as long as the pivot levels can be maintained, we do still see the possibility for one more blow-off move to new highs. Exposure may thus be added into dips to these pivot levels in large-cap indices and other high relative strength areas. Smaller-cap and broader stock indices continue to display relative weakness, though, they too reclaimed their key pivot levels. That opens more upside for them in the near-term as well, though, within a trading range. For now, we are not looking to add any short exposure there. In the longer-term, however, this space is still a focus of shorting/hedging efforts. To reiterate, our focus currently is to cover short exposure into a pullback to support nearby and add long trading exposure in high relative strength areas, also at support.

Sector-wise, relative strength leaders include low-volatility, real estate, consumer staples, utilities, housing, technology, large-caps and select health care. Areas showing under-performance and which should be avoided currently are smaller and broad market indices as well as financials.

• In international equity markets, Brazil and Russia are testing, or bouncing off, near-term support and can continue to be bought into such tests. Smaller EM's (e.g., Thailand, Philippines, Indonesia, Taiwan) are setting up potential major breakouts and can also be bought on pullbacks to support as well. The MSCI EM Index is lagging, with lower highs on the chart so we are avoiding that market right now. India is bouncing off near-term support within its more mature bull market. China's Shanghai Composite is testing near its reclaimed broken long-term Up trendline. While it too may bounce from there, we would continue to avoid the market based on its longer-term under-performance. Broad global indices like the EAFE and ACWX are in the middle of their recent trading range. They also continue to show longer-term under-performance so we would still be selling them into resistance. Core European markets (e.g., STOXX 600, Germany, France) are testing near-term resistance. There is still a possibility there of a temporary pop to new highs so we would not be aggressive in selling or shorting these markets. However, our preference is to continue to reduce exposure into rallies to resistance there. The U.K. is unattractive in the near-term now as it has plenty of resistance just above. Switzerland traded back down near another test of its major breakout level. It continues to be a long target on pullbacks to that breakout support. Also, again, various PIIGS markets do show near-term potential as well which may contribute to a global risk-on move in the near-term.

• The 10-Year and 30-Year Yields have bounced back above key near-term pivot levels within their intermediate-term downtrends. This opens up further upside in yields in the near-term. Thus, while we would continue to buy bonds at yield bounces to resistance in the intermediate-term, we would reduce bond exposure here in the near-term, especially into tests of the key pivot support. The U.S. Dollar Index is consolidating its recent move to new high ground for its rally. It did break some technical support last week for the first time in awhile so that does make the chart a bit more vulnerable in the near-term. On the flip side, the Euro did reclaim some near-term technical support, opening up further upside in the near-term. The Yen is consolidating its pennant breakout to new rally highs. It may have further longer-term upside potential and can be bought on pullbacks to support. After breaking key near-term resistance based on a news event, crude oil has pulled back down below the level again. It is trading close to near-term support; however, it remains within a longer-term downtrend and we would continue to sell rallies to resistance. The same can be said for broad commodity indices which also lost all of their news-driven spikes as well. They too are sells into rallies to resistance. Copper is testing multi-year lows. We would continue to sell bounces into resistance there as well, near-term and longer-term. Gold is in a near-term consolidation or pullback phase within an intermediate-term rally. It can still be bought into pullbacks to support, though, it is presently above such support. Silver is also in a near-term pullback mode within an intermediate-term rally. Presently, it is testing a key near-term pivot level so we would hold off on any aggressive positioning until a decisive break of the pivot level. Overall, though, it can also be bought into pullbacks to support. Natural gas is bouncing small off of near-term support; though, it remains in a longer-term downtrend – and a sell into rallies. Meanwhile, the grain market is testing near-term resistance as it continues to trade near decade lows. We'd continue to stand aside there. Lastly, Bitcoin broke down below its recent consolidation and is now testing near-term support. It may be bought nearby, for a short-term trade/bounce.

Bottom Line: With our Risk Model on a "Buy" signal, we are open to buying dips to support in high relative strength areas, although, potentially only for a trade. Relative strength leading large-cap indices did follow through last week to the upside after reclaiming key near-term pivot levels. After testing near rally/all-time highs, large-caps did pull back slightly to end the week. However, as long as the pivot levels can be maintained, we do still see the possibility for one more blow-off move to new highs. Exposure may thus be added into dips to these pivot levels in large-cap indices and other high relative strength areas. Smaller-cap and broader stock indices continue to display relative weakness, though, they too reclaimed their key pivot levels. That opens more upside for them in the near-term as well, though, within a trading range. For now, we are not looking to add any short exposure there. In the longer-term, however, this space is still a focus of shorting/hedging efforts. To reiterate, our focus currently is to cover short exposure into a pullback to support nearby and add long trading exposure in high relative strength areas, also at support.