THE LYONS SHARE

Weekly Macro Market Report

February 24, 2020

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. However, several Model components are Negative and are coming from extended levels. Therefore, we are on high alert for a "Sell" signal going forward. Another concern continues to be extreme bullish investor sentiment. Chart-wise, several key indices and relative strength leaders are consolidating near new high ground and still in a constructive position, technically. Overall, the intermediate-term risk situation still warrants a healthy net long exposure to equities, in high relative strength areas. Our intermediate-term strategy is still focused on buying dips to support in relative strength areas – but selectively and at more robust support levels, i.e., we aren't buying as aggressively at the initial minor support levels into pullbacks. We are also focused on booking partial profits as positions encounter key extension resistance. Smaller-cap and broader stock indices are still displaying longer-term under-performance, including longer-term lower highs. Thus, we continue to avoid the space and it continues to be an overall market concern of ours. Additionally, while the Buy signal and widespread breakouts do give further upside the benefit of the doubt, the breakout and subsequent up-leg may be the final blow-off of this bull market – and may not ultimately be sustainable.

Longer-term, we do still maintain an overall bearish outlook for stocks. Once 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. It is still possible that the 4^{th} quarter 2018 selloff was 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.

• Potential relative strength candidates include large-caps, technology, health care, consumer discretionary and industrials sectors as well as interest rate-sensitive sectors, like low-volatility, real estate, housing, consumer staples, high dividend stocks and utilities. On a shorter-term basis, some previous laggards are showing potential, e.g., biotech, and select financials. Areas showing under-performance and which should be avoided currently are smaller and broad market indices as well as energy. 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. **Emerging markets** may offer best prospects for *long-term* allocation of capital. However, the broad EM indices are also hitting lower highs longer-term, so, other individual EM countries are still more attractive. **Brazil** and **Russia** are 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. Among smaller EM countries, **Taiwan** is undergoing a major breakout in the long-term and may offer the best long-term potential in global equities (although, it may be vulnerable in the near-term as it is hit key breakdown resistance). **Japan** looks to be in a relatively new secular bull market and can be bought into pullbacks. **China**'s Shanghai Composite is hitting longer-term lower highs and we would continue to sell, or short, major rallies (including nearby at major breakdown resistance). Core **European** stock markets, e.g., **STOXX 600**, **France**, **Germany**, are back at or near new rally/all-time highs. They likely have further near-term potential, but we'd continue to reduce exposure into longer-term rallies to resistance. The **UK** FTSE-100 is still above its long-term breakout level. It does hold potential above those levels; however, recent under-performance and lower highs are a concern in the near-term. On the other hand, Northern European markets, like **Switzerland**, **Sweden, Denmark**, **Finland** and the **Netherlands** have broken out to new highs and hold potential for further significant upside as long as the breakout levels holds. Exposure may be added there into pullbacks to support. Various **PIIGS** (e.g., **Italy**, **Greece**, **Spain**) are also in position to potentially contribute further to the global risk-on rally in the near-term.
• In other markets, the **10-Year and 30-Year Treasury Yields** are near multi-year lows within intermediate-term downtrends and bonds are still a buy into yield spikes to resistance. Longer-term – eventually, not yet -- we are still looking for a secular low in yields and expect yields to eventually head higher for decades to come. **Broad commodity indices** are bouncing off long-term support levels, but remain in a longer-term downtrend and we are focused on selling all rallies there to major resistance. **Crude oil** is also bouncing off longer-term support levels in the near-term, but within a longer-term downtrend. 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 significant support. They are still encountering potentially major longer-term resistance so we would not chase this rally as they could consolidate further before a sustainable new upleg. **Natural gas** is trading near multi-year lows within a longer-term downtrend. We would continue to sell rallies into resistance there, for now. The **Dollar Index** broke to new highs within an intermediate-term uptrend and the benefit of the doubt remains to the upside. Meanwhile, the **Euro** broke to new lows within an intermediate-term downtrend and benefit of the doubt remains to the downside. The **Yen** lost support at its breakout area, reversing its outlook to bearish. **Grains** are consolidating following a near-term rally, but continue to trade below key longer-term resistance. Lastly, **Bitcoin** is in a longer-term consolidation phase and has considerable longer-term resistance above. In the near-term, however, it did continue its bounce off of a key support level, hitting, and breaking several profit-taking resistance levels. While it holds further near-term upside *potential,* it is consolidating below the latest resistance now, underscoring the importance of pocketing gains at resistance.

Bottom Line: Our intermediate-term Risk Model remains on a "Buy" signal. However, several Model components are Negative and are coming from extended levels. Therefore, we are on high alert for a "Sell" signal going forward. Chart-wise, several key indices and relative strength leaders are consolidating near new high ground and still in a constructive position, technically. Overall, the intermediate-term risk situation still warrants a healthy net long exposure to equities, in high relative strength areas. Our intermediate-term strategy is still focused on buying dips to support in relative strength areas – but selectively and at more robust support levels, i.e., we aren't buying as aggressively at the initial minor support levels into pullbacks. We are also focused on booking partial profits as positions encounter key extension resistance. Smaller-cap and broader stock indices are still displaying longer-term under-performance, including longer-term lower highs. Thus, we continue to avoid the space and it continues to be an overall market concern of ours. Additionally, while the Buy signal and widespread breakouts do give further upside the benefit of the doubt, the breakout and subsequent up-leg may be the final blow-off of this bull market – and may not ultimately be sustainable.

Short-Term: Neutral

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

With our Risk Model still on a "Buy" signal, we are open to buying dips to support in high relative strength areas. Therefore, conditions still do warrant a healthy exposure to stocks. However, as the Model is threatening to turn to a "Sell" from an extended position, we are not interested in chasing prices higher nor are we interested in aggressively buying shallow dips. We are still open to buying dips to robust support levels in high relative strength areas as, from a chart perspective, many key market segments and sectors are still constructively positioned near rally and/or all-time highs. With that said, given the weakening in our Risk Model, as well as the still-high investor sentiment readings, we will also be more willing to sell weaker positions that lose technical support. Additionally, we will continue to take profits in areas as they reach key Extension resistance levels above. Of continued concern is the fact that smaller-cap and broader stock indices continue to under-perform and are apparently forming near-term lower highs on their charts. Given the longer-term under-performance among the space, we still prefer that our allocation preference be elsewhere – and would even sell those areas at current chart resistance. Speaking of selling, our first "short" in many months (and perhaps a year) looks to be ripe in China at current levels.

Potential relative strength candidates include large-caps, technology, health care, consumer discretionary and industrials sectors as well as interest rate-sensitive sectors like low-volatility, real estate, housing, consumer staples, high dividend stocks and utilities. That latter group re-emerged last week and may have further potential on the back of a potential declining yield-tailwind. On a shorter-term basis, some previous laggards are showing potential, e.g., biotech (especially) and select financials (maybe). Those areas may be bought into dips to support ahead of a potential breakout and a potential near-term leadership role. Areas showing under-performance and which should be avoided currently are smaller and broad market indices as well as energy. These situations are in flux, so keep on top of the Daily Strategy posts as things develop.

• In international equity markets, **Brazil** and **Russia** are nearing support levels within long-term bull markets. **Taiwan** is pulling back from a test of its recent post-virus near-term breakdown level. We will look to reload lower near its longer-term breakout level. Other smaller EM's (e.g., Thailand, Philippines, Indonesia) may be setting up potential major breakouts, longer-term. In the near-term, however, they are struggling so we would wait for a more constructive set-up. The MSCI **Emerging Markets** Index is lagging longer-term, with lower highs on the chart. Near-term, it is pulling back from key potential resistance/profit-taking levels and we have no interest in getting involved there. **India** is consolidating near short-term resistance levels. It is also within a more mature bull market so we would not be too aggressive in adding more exposure in that market. **China**'s Shanghai Composite is also rebounding from its sharp selloff due to the virus outbreak. It is now testing its post-virus, broken major support levels and we would did add short exposure at nearby resistance levels as it continues its longer-term under-performance. **Broad global indices** like the EAFE, Global Dow and ACWX are testing potential near-term resistance within their consolidation of recent rallies to new rally highs. They continue to set lower highs, longer-term, and, thus, we would continue to sell rallies there. Core **European** markets (e.g., STOXX 600, Germany, France) are consolidating near new rally, or all-time, highs. While we would still be reducing exposure into longer-term rallies to major resistance there, they do appear to hold decent near-term breakout and upside potential, i.e., for a short-term trade. The **UK** is consolidating below resistance, near-term, and we are not interested in the market at this time. **Switzerland**, **Sweden**, **Denmark, Finland** and the **Netherlands** are also trading at or near new all-time or multi-year highs. They continue to show relative strength and can be bought into pullbacks to support, although, the former two are testing potentially key Extension resistance nearby. Also, again, various **PIIGS** markets are consolidating near multi-year highs and are in position to potentially continue their near-term runs higher and contribute further to the global risk-on rally – again, in the near-term only.

• In other markets, the **10-Year and 30-Year Yields** are testing their lows from last year. They would appear to have further downside potential in the near-term following perhaps a brief consolidation nearby. Thus, we would still be looking to buy bonds into yield spikes to resistance in the near-term. The **U.S. Dollar Index** has broken above rally/multi-year highs, opening further upside in the near-term. On the flip side, the **Euro** is now hitting new multi-year lows again, opening the path to further near-term downside within the confines of a longer-term downtrend. The **Yen** has broken below its pennant breakout support level, switching its outlook to bearish and opening further downside. **Crude oil** is now bouncing some off of multi-year support. But it remains within a longer-term downtrend and we would continue to sell rallies to resistance. The same could be said of the broad **commodity indices** which also pulled back sharply and are bouncing some off of longer-term support. We would continue to be sellers into rallies to resistance there as well, including nearby. **Copper** is bouncing small off of longer-term support levels as well and we would continue to sell bounces into resistance as it remains suspect in the longer-term. **Gold** is breaking out to new rally high and threatening to overtake potentially major resistance within its intermediate-term rally. We would ride with the long exposure we have there but would not chase prices higher right now as it may still have further consolidation to undergo prior to a sustainable new up-leg. **Silver** is also testing key short-term resistance. It too has work to do to get through key resistance within its intermediate-term rally. However, further long exposure can be added to silver as well into pullbacks to major support levels. **Natural gas** is bouncing off multi-year lows to near short-term resistance and remains a sell into rallies. The **grain** market is consolidating its near-term rally but remains under near-term resistance and within an overall trading range so we'd continue to stand aside there. Lastly, after bouncing off major longer-term support, **Bitcoin** is pulling back from a test of a key profit-taking level near ~10,200. It does hold further potential upside in the near-term as long as it holds above that longer-term support -- and possibly long-term upside – if it can get above the aforementioned resistance as well as that near ~11,000.

Bottom Line: With our Risk Model still on a "Buy" signal, we are open to buying dips to support in high relative strength areas. Therefore, conditions still do warrant a healthy exposure to stocks. However, as the Model is threatening to turn to a "Sell" from an extended position, we are not interested in chasing prices higher nor are we interested in aggressively buying shallow dips. We are still open to buying dips to robust support levels in high relative strength areas as, from a chart perspective, many key market segments and sectors are still constructively positioned near rally and/or all-time highs. With that said, given the weakening in our Risk Model, as well as the still-high investor sentiment readings, we will also be more willing to sell weaker positions that lose technical support. Additionally, we will continue to take profits in areas as they reach key Extension resistance levels above.