

# Technical Speculator

*Timely Analysis for the Informed Investor*

MARKETS - COMMODITIES - CURRENCIES

September 2018



## Strategy

### Bull market, good economics, deflation

#### Key Observations

- **Equity recovery continues in spite of trade war rumblings.** Q1 pullback just one of many (the sixth so far since 2009) within a secular bull market.
- At present, the broader market (S&P 500) appears to have successfully retested the rising 50-week moving average (m/a) line, suggesting a resumption of the bull market. Key support is at 2810.
- We recommend that investors stay long in the deflationary sectors (consumer cyclicals, industrials, financials, healthcare and technology) and underweight inflationary groups (materials, energy, and industrial and precious metals).
- We remain long-term bulls on the market and continue to see comparisons to the 1980s and 1990s.
- We reiterate our year-end 2018 price objective of 3000 for the S&P 500.

#### Micro-thoughts

- **U.S. economy: bullish** – Despite all of the near-term uncertainty with the Trump-induced trade war, we still believe that a sustainable economic recovery continues to unfold. The unemployment rate is at an 18-year low, at 3.90%, U.S. consumer confidence is trending higher, and housing values continue to rise.
- **10-year bond yields: bullish** – We believe that a secular bottom has occurred in interest rates. There is some resistance at 3.00%. Higher levels are expected in Q4. The expected movement is a measured advance to 3.25% by year-end.
- **U.S. dollar: bullish** – The U.S. Dollar Index (DXY) continues to make a recovery from the 2017 correction low. A combination of a strong economy and the outlook of higher interest rates bodes well for the dollar. Models point to par (\$1.00).

	<u>Since Last Month</u>	<u>Year to Date</u>	<u>Since Inception Mid-2003</u>
<b>TS Model Portfolio</b>	1.33%	7.45%	<b>517.45%</b>
S&P 500	2.88%	7.46%	186.77%

15-year average for the TS Model Portfolio: 13.52%  
15-year average for the S&P 500: 7.19%

<https://www.technicalspeculator.com/services/ts-model-growth-portfolios>

New dividend income portfolio launched – 5.50% yield

- **Commodities: negative** – The Commodity Research Bureau (CRB) Index remains under pressure from the strong US\$. The index has underperformed the S&P 500 over the past five years. The outlook, going forward to year-end, suggests a continuation of the current pattern.

#### Market commentary: Bull market continues

In spite of the ongoing trade war and concerns that this action, if it continues, will limit global growth, the U.S. markets are poised to set new all-time highs in the weeks to come. Models point to 3000 for the S&P 500 by year-end, 28,100 for the Dow, and 8000 for the NASDAQ.

There has also been shift in performance among sectors over the past couple of months. Deflationary sectors (industrials, financials, technology, healthcare, and consumer cyclicals) are once again outperforming inflationary sectors (materials, metals, energy and gold (see **Chart 36** on page 14). This development is aided by the rising U.S. dollar. A deflationary investing environment creates prolonged bull markets, low volatility, and minimal inflationary pressure – all favourable elements.