Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES

February 2021 18th Year

Strategy

Mostly favourable conditions

Key Observations

- **Equity recovery continues in spite of increasing COVID-19 cases and U.S. economic weakness.** Year-end rally posts new all-time high for major U.S. market indexes.
- Primary North American stock indexes remain in a secular 12-year upward trend.
- We recommend investors stay long in the deflationary sectors of the market (industrials, financials, consumer cyclicals, healthcare and technology) and continue to underweight inflationary groups (materials, energy and precious metals). Market weighting on base metals.
- We remain long term bulls on the market and continue to see comparisons to the 1980s and 1990s.
- Our next price objective for the S&P 500 is 4,135 followed by 4,700.

	Since Last Month	*Year to Date*	*Since Inception mid-2003*
TS Model Portfolio	-0.47%	-0.47%	781.11%
S&P 500	-1.13%	-1.13%	271.42%

18-year average for the TS Model Portfolio – 13.14%
18-year average for the S&P 500 - 7.73%

https://www.technicalspeculator.com/services/ts-model-growth-portfolios 8.00% average dividend yield

Micro Thoughts

- **U.S. Economy: Recovering –** Despite all of the near-term uncertainty with COVID-19 and the rollout of the vaccines, we continue to believe a sustainable economic recovery continues to unfold. The U.S. Unemployment rate is still declining from a high of 14.70 percent, now at 6.70 percent, U.S. Business confidence is trending higher, and housing values continue to rebound from a low in May 2020.
- **10-year Bond Yields: Bottoming** – We believe a secular bottom in interest rates has occurred in late 2020. There is some resistance at 1.00 percent. Higher levels are expected this coming year with 1.25 percent as a first target.
- **U.S. dollar: Expected low** – The U.S. dollar index (DXY) continues to trend lower plagued by a diminishing interest for safety and concerns about the rising levels of debt. The dollar's weakness is expected to continue into early 2021.
- **Commodities: Measured rebound** – The GSCI Commodity index is benefiting from the weak U.S. dollar. Upward strength is also being aided by the rising U.S. 10 year T-bond yields. Base metal prices in particular, are profiting from this environment. Precious metals, however, are not being aided by this economic environment.

Market Commentary: **Pull back in Feb/Mar expected. Bull market continues in Q2**

In-spite of the on-going COVID-19 concerns and the economic fallout from that pandemic, global growth is anticipated to grow this year. The U.S. markets are poised to set new all-time highs in the months to come. There has also been shift in performance among sectors over the past couple of months. Deflationary sectors (industrials, financial, technology, health care and consumer cyclicals) have a near equal performance to inflationary sectors (materials, base metals, energy, and gold). This development is largely due to the declining U.S. dollar.

Investors are encouraged to remain fully invested and add to favourable holdings (stocks and ETFs) after the expected weakness in February and March.

Donald W. Dony, FCSI, MFTA – January 08, 2021

Commodities

Rally strength aided by weak dollar

KEY POINTS:

- **The advance of the S&P GSCI Commodity Index is now overbought**
- **Downward trend for commodities still in force**
- **Performance from deflationary assets on par with inflation since April 2020**
- **S&P Energy Index takes top spot in performance**
- **Rebounding WTIC nears resistance level**
- **Q4 natural-gas bounce stalls**
- **Rally in gasoline prices nears a peak**
- **Gold's pullback appears brief**
- **Rapid jump in silver price flattens**
- **Industrial Metals Index run hits overbought level**
- **Rally in copper prices shows support at $3.40 to $3.50**
- **Likely price support at $0.89 for the big dollar**
- **Commodity strength expected to weaken if US$ rebounds**

S&P GSCI outlook: Lifting

Outlook neutral/positive: Aided by the outlook of lifting 10-year bond yields and U.S. inflation, the S&P GSCI Commodity Index ($GTX) is continuing its rise from the low in April (**Chart 1**). Having passed through the key 50-week moving average (m/a), it is now near overbought. Buying momentum (Relative Strength Index [RSI]) is now at 67.

Five-year curve-fitting models suggest that the current upward movement is likely at a crest. The outlook: a gradual downward drift over the next few months. The expected target by early Q2 has improved slightly, to 1900 (**Chart 1a**).

Chart 1

Chart 1a

The 12-year perspective illustrates that the primary movement is still down. A fresh new low in early 2020 marks the direction. An 7 year downward trend (**Chart 1b**).

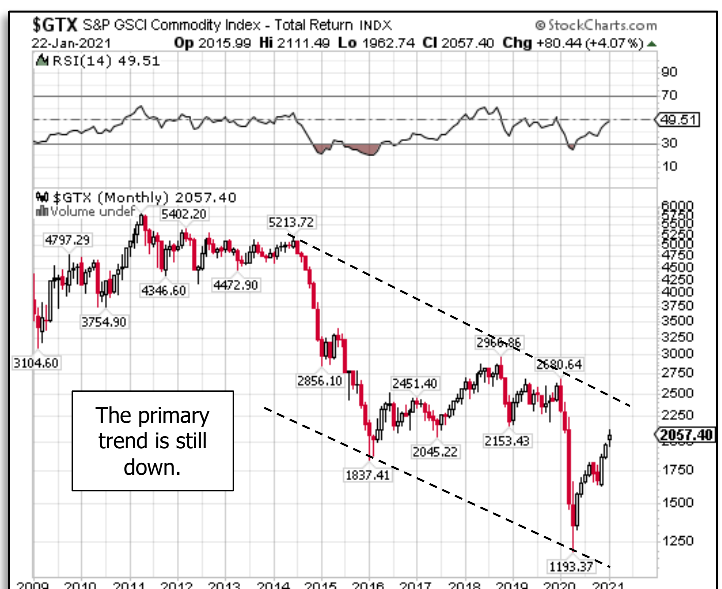

Chart 1b

Bottom line: The commodity index appears to likely be at a crest. Some mild price weakness is expected over the next few months. Profits should be taken on the current rise.

Deflation vs. inflation: Equal

The price pattern of near-equal performance between inflationary assets (commodities) and deflationary assets (stocks) is still holding (**Chart 2**). The recovery in the U.S. economy should aid the strength of the rebound in deflationaries in Q2.

Chart 2

Relative performance: GSCI vs. S&P

The S&P GSCI Commodity Index has had equal performance to the S&P 500 since April. Performance strength is leaning toward the commodity index, as buying momentum (RSI) moves above 50 (**Chart 3**).

Chart 3

Commodity performance: Energy

The S&P GSCI Energy Index ($GJX) had the top performance over the last 90 days, with the agriculture sector in second position. Note the relative price weakness of the US$ (down about 3.00%). That is aiding all of the natural-resource prices (**Chart 4**). Until the U.S. dollar's performance improves, expect commodity prices to remain strong.

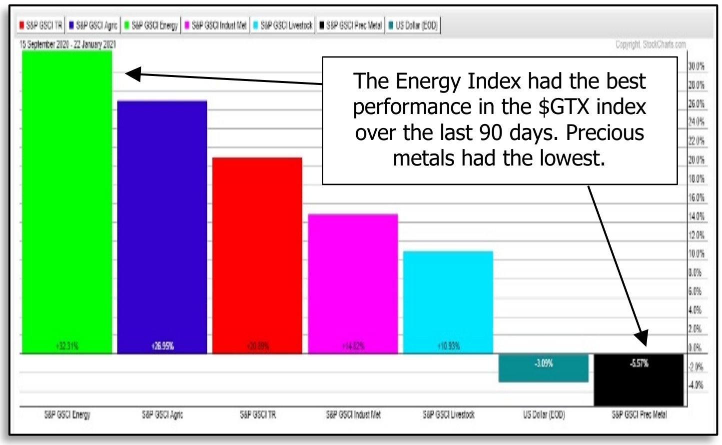

Chart 4

WTIC: Mild upward trend nears peak

Outlook neutral/positive: Light crude oil prices have successfully rebounded up to the 50-week m/a and crossed over it (**Chart 5**), pushing buying momentum (RSI) up to a nearly overbought level (confirming price strength). The first price resistance level at around $52.00 to $53.00 should halt the advance. Underlying price support is at $39.00.

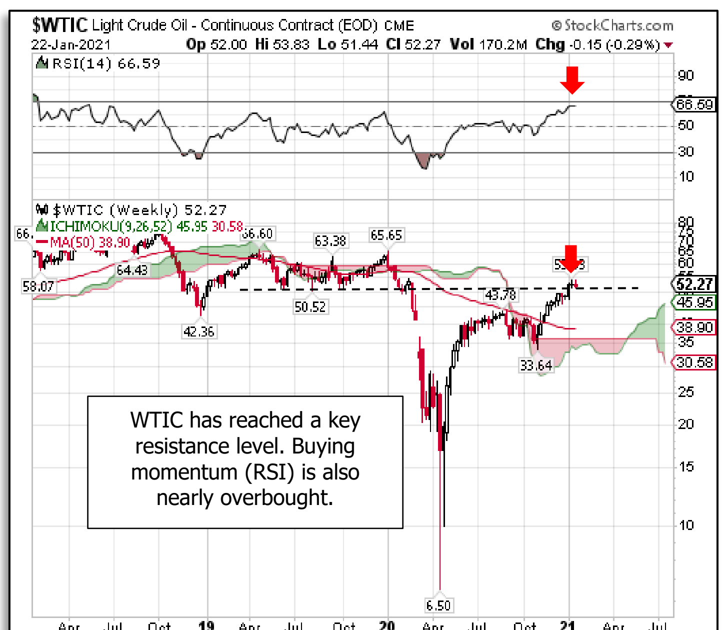

Chart 5