Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES – SECTORS

April 2023

Strategy

A change is coming

Key Observations:

- **Outlook: Nearing the end of the bull market**
- Bull market peak in January 2022. Slow decline in Q2/23 expected.
- The current bull market has lasted 14 years.
- S&P 500, NYSE and the Dow Jones Industrial Average all rolling over into Q2.
- S&P GSCI Commodity Index now outperforming the S&P 500 since early 2021. Sign of a mature bull market.
- Late market cycle sectors dominate. Precious and base metals sectors are outperforming the S&P 500. First time in 14 years
- US Inflation reaches a 40-year high of 9.1%, now easing toward 5.5% by mid-year.
- US yield curve inversion continuously suggesting a recession and market decline by 2023.
- US and Canadian CPI expected to rise until mid-2023
- Unemployment rate anticipated to rise in 2023
- US 10yy on Gov't T-bonds set to retest 4.0%.
- Bond prices expected to bottom as yields near crest.

Micro Thoughts

- **U.S. Economy. Outlook: Stalling**
  We continue to see a low-trajectory economic slide unfolding for 2023. Annual GDP to stay around 1.4%. The US unemployment rate is expected to start advancing (now at 3.60%), hitting 4.0%+ in mid-2023. U.S. consumer confidence is projected to decline by mid-year. US bankruptcies are projected to begin rising by Q3.
- **10-year Bond Yields. Outlook: Cresting in Q2**
  US inflationary pressures are easing. US banking system challenges support demand for safer government debt. Inflationary pressures remain to indicate some additional rate increases are likely.
- **U.S. dollar. Outlook: Slow rise to 106.00**
  The U.S. dollar index (DXY) continues to enjoy favourable tailwinds, among investors concerned looking for safe-haven assets. Fresh economic data shows inflation slowly falling indicating a likely softening of the Fed's rate policy by mid-year.
- **Commodities. Outlook: Trending flat to down**
  Inflation is easing, recession fears holding oil prices down. US dollar holding support. All elements play against most commodity prices. Metals and livestock are expected to perform best into mid-year. The commodity sector is outperforming the S&P 500 starting in 2022.

Market Commentary: Transition starting

We recognize that for many investors, tensions are building about the longevity of this bull market. After going up for over 14 years, how much more is there? Before assuming the market's duration, investors need to review key gauges about the markets, sectors, and the economy.

At this junction, the economic signs of a mature market abound. Some of the key elements are the steady rise in interest rates, high levels of inflation, inverted yield curves, late-cycle sector strength, and commodities (GTX) outperforming the S&P 500.

Elements that we expect to unfold later this year are an increase in unemployment starting in the tech sector and expanding into other industries. A pivot from the Fed's current interest rate policy, a steady downward drift in inflationary pressure, a slow rise in bond prices, and the negative impact of the inverted yield curves.

Our models are suggesting weakness in the stock market. The first downside target is 3,600 for the S&P 500, 29,900 for the Dow, 9,925 for Nasdaq, and 19,000 for the TSX.

Donald W. Dony, FCSI, MFTA – March 24, 2023

Commodities

Recession fears mount

Key Points:

- **GTX continues to stall, closely tracking lower US inflation and 10y T-bond yields**
- **Deflationary assets show some performance against inflationary assets**
- **A weaker trend builds in WTI**
- **Natural Gas prices likely on a base, and oversold**
- **Gasoline prices head to $2.10**
- **Jump in gold prices as safe-haven pressure grows with financial sector fears**
- **Silver prices find support at $20.00**
- **Industrial metals index crest and rollover move on recession fears**
- **Copper prices find demand waning as investor turn to safe-haven assets**
- **US dollar index points to $1.06 on global financial sector fears**

GTX: Following bond yields down

Outlook negative: The S&P GSCI Commodity Index (**GTX**) continues to weaken and closely track the trend of the US 10-year T-bond yields. Both assets are feeling no love from investors as the recession fears mount.

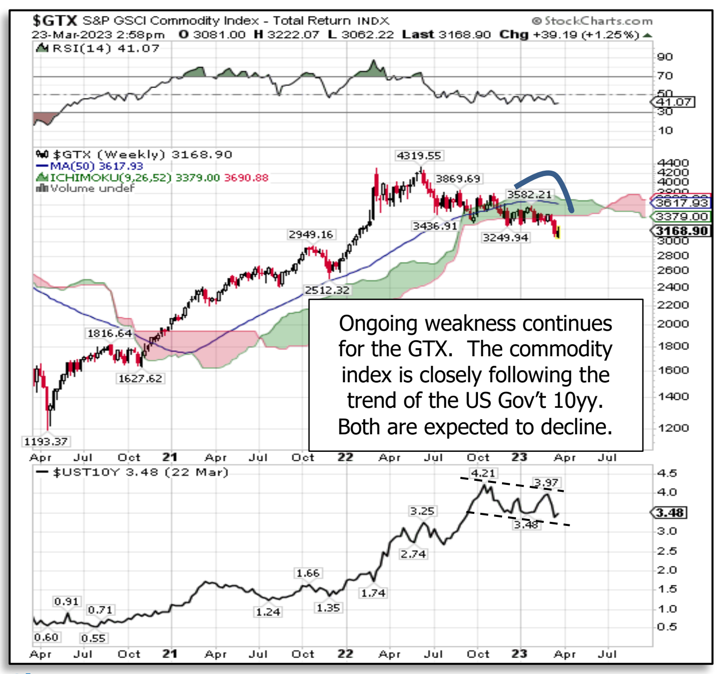

Chart 1

Inverted yield curves, rising interest rates, and now renewed fears about systemic risk in the US banking sector are driving investors away from higher-risk commodities and toward safer investment plays.

The S&P GSCI Commodity Index (GTX) has struggled to advance over the last 9 months, now under the 50-week m/a. Buying momentum (RSI) is negative (not confirming additional strength). RSI has been negative for all of the last 9 months. 2,570 is the first support level (**Chart 1**).

5-year forecast models suggest lower levels are coming in Q2 (**Chart 1a**).

What does it mean? There are a number of negative factors affecting commodities now. Recession fears are the main concern for investors. The stalling of the US 10-year T-bond yields suggests to investors the cycle of Fed rate hikes may be coming to an end. The latest unraveling of SVB and US regional banks hammered the appetite for riskier assets. This action opened the door for a possible pause in the Fed's tightening cycle and a possible cut in interest rates. All items that are not favourable to natural resources.

	Since Last Month	*Year to Date*	*Since Inception mid-2003*
TS Model Portfolio	0.31%	1.39%	**777.78%**
S&P 500	4.00%	7.03%	310.93%

The 19-yr average for the TS Model Portfolio – 11.60%
The 19-yr average for the S&P 500 – 7.40%

TS Model Income Portfolio – 10.05% average div. yield

Inflation vs deflation: Recession fears

Outlook neutral: Inflationary assets' performance continues to be taking a backseat to deflationary assets (**Chart 2 on page 3**).

What does it mean? This trend of deflationary assets' performance over inflationary assets is expected to continue in Q2. Recessionary fears are remaining in the minds of investors now heightened due to the troubles with the US banking sector.

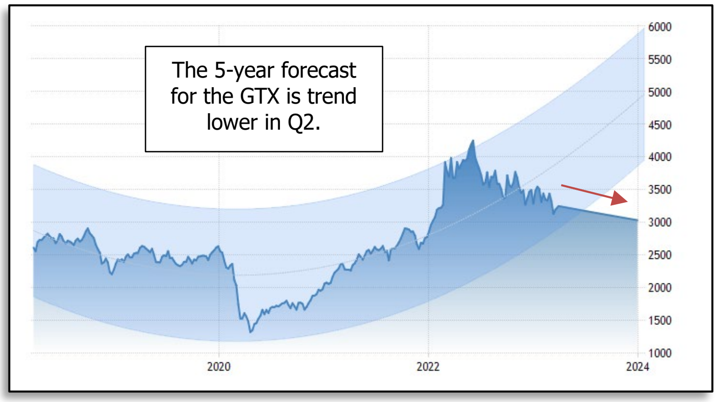

Chart 1a

Chart 2

Commodity performance: Metals win

The US dollar's recent retreat has aided the precious metals sector more than any other commodity group. Metals (precious and industrial) and livestock are typically late market cycle sectors (**Chart 3**).

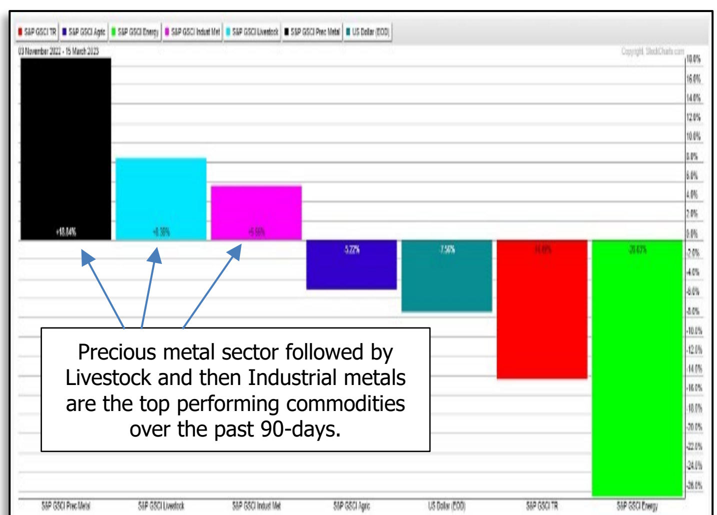

Chart 3

What does it mean? The Fed's aggressive interest rate policy last year helped push up the dollar. But that pattern has now changed. Recession fears should keep the Fed's interest rate hikes contained. This action will benefit precious metals. We expect continued leadership from this commodity group in Q2.

WTIC: Weakening trend remains

Outlook: neutral/negative: Investors continue to mull over the risks still buried in the banking system. The failure of SVB and NY-based Signature bank spills over to risk managers. Some relief came when OPEC+ raised its forecast for Chinese oil demand in 2023 after the country's exit from the zero-Covid policy.

Light crude oil prices continue their slow downward slide which started in Q3 2022. Breaking below the key 50-week m/a 8 months ago. Buying momentum (RSI) is negative (not confirming additional upward strength). 1st price support is at $70. A break below this line points to $59. An expanding negative 'Red Cloud' in Q2/Q3 only adds to the pessimistic view (**Chart 4**).

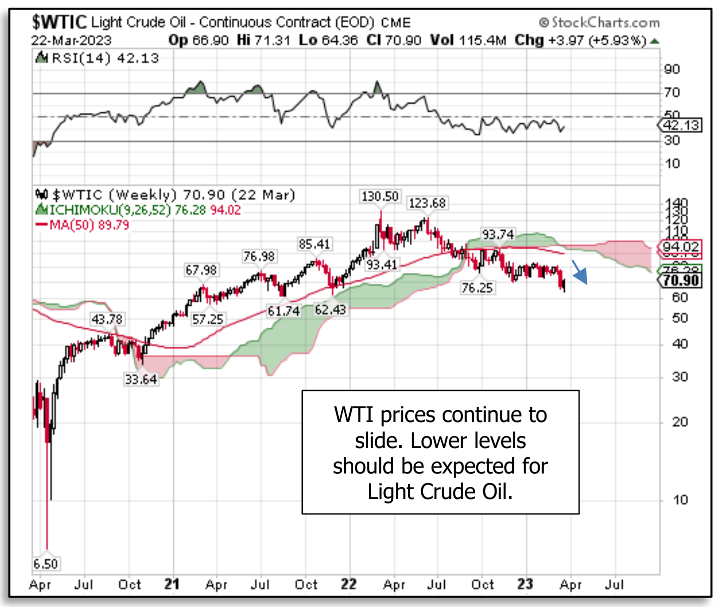

Chart 4

Five-year forecast models suggest a bottoming process over the next few months. The price of WTI is expected to remain under $80 into the summer months (**Chart 4a on page 4**).

What does it mean? Economic concerns still dominate oil prices. WTIC is expected to remain in a weakening consolidation over the next few months. Long-term energy bulls may wish to continue to hold. For everyone else, lower position size. The new target is $69.