Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES – SECTORS

February 2024

Strategy

Late market cycle expandsion

Key Observations:

- **Outlook: Nearing the end of the expansion phase of the business cycle**
- Market strength is expected to continue into Q2.
- The current bull market has lasted 15 years. Now mature.
- Late business cycle sectors of Financials, Health Care, and Industrials powering the S&P 500.
- The S&P 500 still trending opposite to the US dollar.
- $USD weakness anticipated with the Fed rate policy pivoting in 2024.
- US inflation rate easing, 2.80% target by mid-year.
- S&P Commodity Index (GTX) still underperforming the S&P 500 since mid-2022.
- WTI prices bottoming, a slight rise in Q2 expected.
- 10-year US and Canadian Gov't bond yields decline further in 2024 as rates ease.
- Bond prices are expected to rise as yields crest.
- 31 global inverted yield curves, including the US and Canada, continue to signal a recession in 2024.
- US and Canadian CPI cresting after two years of rising.
- Unemployment rate expected to rise in 2024 as layoffs increase.

Micro Thoughts

- **US Economy. Outlook: Stalling**
  We continue to see low-trajectory economic growth unfolding for 2024. Annual GDP to stay around 2.4%. The US unemployment rate is expected to start advancing (now at 3.70%), led by the technology sector, hitting 4.30%+ in mid-2024. U.S. consumer confidence is projected to remain modestly positive in mid-year. US retail sales remain under pressure, 2024 numbers expected to be below 2023.
- **US 10-year Bond Yields. Outlook: Decreasing**
  US inflationary pressures are easing. Fed expected to pivot in mid-2024. 3.87% target in Q2.
- **U.S. dollar. Outlook: Slow decline to 103.00**
  The U.S. dollar index (DXY) continues to feel the headwinds of a softening economy, the prospect of lower interest rates, and declining inflationary pressures. Fed rate pivot expected by mid-2024.
- **Commodities. Outlook: Trending flat to down**
  Inflation is easing. Abundant supply and limited demand are holding oil prices down. Industrial metal prices are retreating as key consumer demand remains cautious. Gold is holding its value as the US dollar is anticipated to drift lower in Q2.

Market Commentary: Transition starting

We recognize that for many investors, tensions are building about the longevity of this bull market. After going up over 15 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 are many. Some of the key elements are the steady rise in interest rates, inflation, inverted yield curves, and late-cycle sector strength. 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 steady downward drift in inflationary pressure, and a slow rise in bond prices.

A pivot from the Fed's current interest rate policy is expected to cause a decline in the US dollar. This action should be beneficial for the S&P 500, as the dollar and the SPX have been in opposite directions since early 2022.

We expect a measured rise for the markets going into mid-year. Our first target of 4,860 was met. 5,060 is the next target for the S&P 500. 39,550 for the Dow, 16,500 for Nasdaq, and 21,800 for the TSX.

Donald W. Dony, FCSI, MFTA – January 20, 2024

Commodities

Weakness continues into Q1

Key Points:

- **S&P Commodity Index GTX rides with T-bond yields. Outlook is lower for both in Q1.**
- **Deflationary assets dominate inflationary assets since Q2, 2022**
- **The strength of the US dollar continues to weaken commodity 90-day performance**
- **Demand not war is driving oil prices now**
- **Natural gas prices nearing resistance at $3.55**
- **Gasoline prices slump on low demand outlook**
- **The bounce in Gold prices continues**
- **Price containment continues for silver**
- **Possible floor Industrial metals index at 400**
- **Copper prices try to find support at $3.55, but the outlook into Q1 is still flat**
- **Early signs of weakness for livestock ETF**
- **More containment for the US dollar starts to roll over. Models now point lower to 100.50**

Chart 1

	Since Last Month	*Year to Date*	*Since Inception mid-2003*
TS Model Portfolio	2.05%	2.05%	**892.08%**
S&P 500	1.59%	1.59%	384.57%

The 19-yr average for the TS Model Portfolio – 11.76%
The 19-yr average for the S&P 500 – 7.96%

TS Model Income Portfolio – 7.94% average div. yield

GTX: Still limping along

Outlook Neutral: The S&P GSCI Commodity Index (GTX) trend continues to tread water as global inflationary pressures ease and investors question the reality of an economic rebound in 2024. Supportive evidence comes from the pullback in the US 10-year yields. With US inflation easing, yields are retracing some of the advances over the last two years. The coordination of movements between these two assets provides insight into the future movement of the GTX (**Chart 1**).

In addition, economic expansion for most major world economies continues to shrink. Month after month of softer-than-expected data from the US and China only adds to investors' concerns about the need for commodities.

A probable peak in the US 10-year T-bond yields suggests a flattening trend of the GTX going forward as yields are anticipated to keep retreating. This coordination of movements between these two assets provides insight into the future movement of the GTX (**Chart 1**).

The GTX is still holding in an extended consolidation with 3,825 as a solid resistance level. Buying momentum (RSI) is negative (not confirming additional upward strength). The negative 'Red Cloud' continues throughout Q1. This suggests more price weakness or stalling for the commodity index. Now on the first price support level of 3,200.

5-year forecasting models suggest the trend for the GTX should continue to fade and trade at 3,290 by the end of Q1 (**Chart 1a** on page 3).

What does it mean? The recent Q4 rollover of GTX is reinforced by the slow decline in US T-bond yields. This action is negative for the GTX. The year-end target of 3,425 was met. The new downside target is 3,115. More weakness is expected in Q1. Do not add to the position.

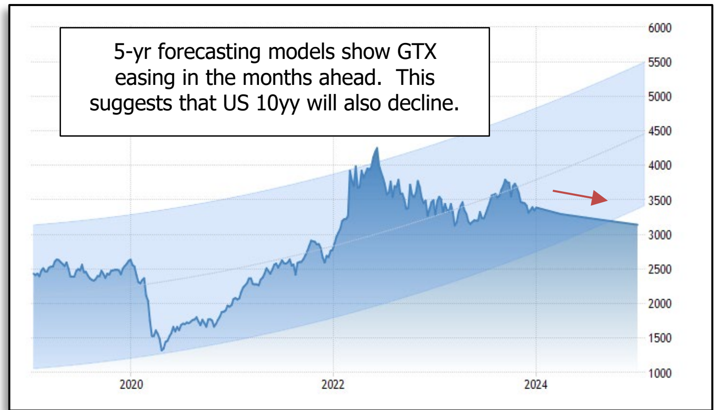

Chart 1a

Deflation vs. Inflation: Deflation wins

Outlook Neutral/negative: The 3-year performance between inflationary assets and deflationary assets shows inflationary assets continues to underperform against deflationary assets since mid-2021 (**Chart 2**).

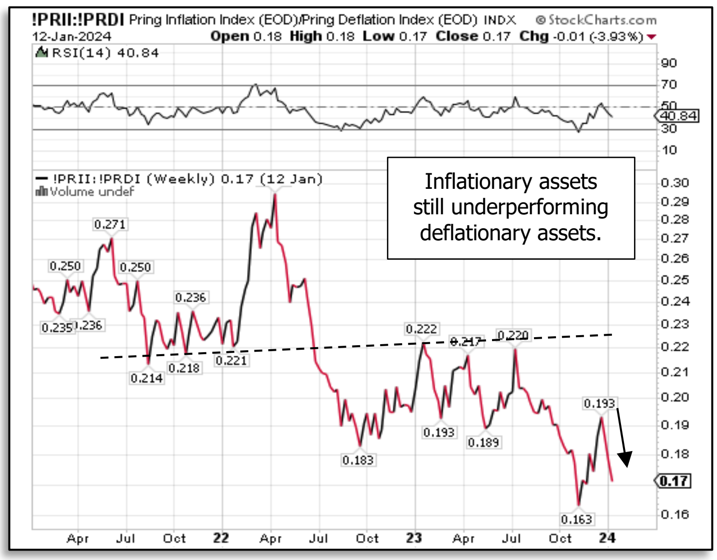

Chart 2

What does it mean? A continually stronger-performing deflationary asset-driven market is normally more bullish for the stock market than an inflationary-driven market. We expect this trend to continue.

Commodity performance: Gold

Outlook: Negative: Only the precious metal group posted a positive return over the last 90 days. All of the other commodity groups had a negative return. As the GTX remains in a weakened trend (see **Chart 1**), this reinforces that negative stance (**Chart 3**).

What does it mean? This illustrates the overall weakness of the GTX index over the last 90 days. Only the precious metal group shined. Energy had the lowest performance.

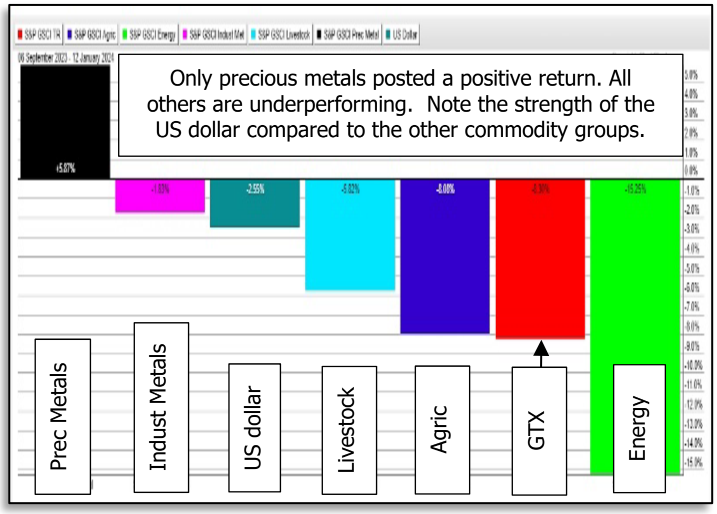

Chart 3

WTIC: On key support level

Outlook: Neutral/negative: Investors continue to monitor the disruption in the Middle East. In Libya, protesters threatened to shut down several more gas and oil facilities after shutting down the Sharara field, which removed 300,000 barrels per day of oil. In the non-OPEC countries, demand uncertainty continues to weigh on oil prices.

The 1yr trend is flat. WTI is below the key 50-week m/a. Buying momentum (RSI) is negative (not confirming additional upward strength). 1st price support is at \$68.50. A negative 'Red Cloud' continues to expand in Q1 (**Chart 4**).

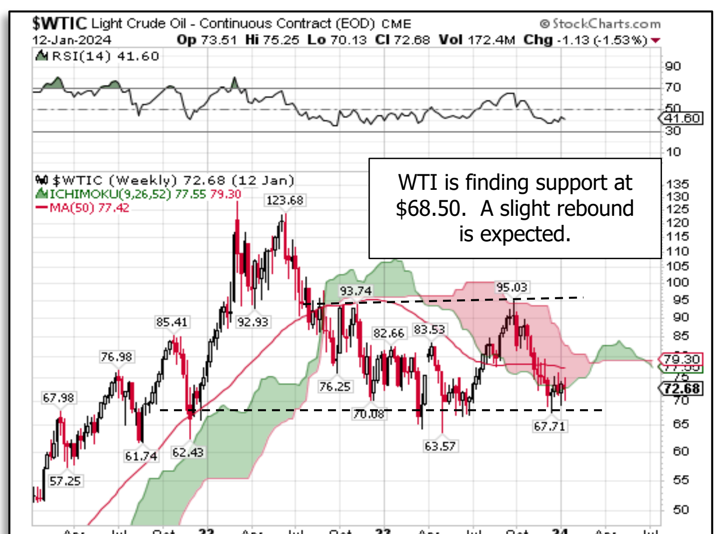

Chart 4