Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES

December 2019

Commodities

Livestock, gold sectors star this month

KEY POINTS:

- **Commodity index (CRB) continues to base-build; staying below the 50-week m/a**
- **Deflation still dominant over inflation**
- **Livestock index posts best 90-day performance among weak competition**
- **WTIC trend remains flat-to-down**
- **Natural-gas prices stall again at $2.80**
- **Gold and silver find support after rally**
- **Industrial Metals Index continues to decline**
- **No love for copper, as prices hit resistance**
- **U.S. Dollar Index trend slowly weakens, as softer economics play out**

	Since Last Month	*Year to Date*	*Since Inception mid-2003*
TS Model Portfolio	3.40%	23.30%	**547.83%**
S&P 500	3.38%	28.45%	214.10%

16.5-year average for the TS Model Portfolio: 12.02%
16.5-year average for the S&P 500: 7.20%

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

CRB outlook: Long term base builds

Outlook neutral/negative: Medium-term (three-year) view of the Commodity Research Bureau (CRB) Index is rebounding off of the long-term base of 166 to 168. Short-term bounces are continuing to hit resistance at the 50-week moving average (m/a), or around 180 to 185. Buying momentum (Relative Strength Index [RSI]) is positive, but starting to curl downward. (**Chart 1**).

Shorter-term perspective (12-month) curve-fitting models show the CRB advancing up to the top of the curve. The expectation is for sharp decline, similar to past performances (**Chart 1a**).

Bottom line: The current recent reflex bounce off of the main support level is hitting resistance again. Look for price weakness to build over the next month or two. A retest of the base at 168 to 170 should be expected.

Chart 1

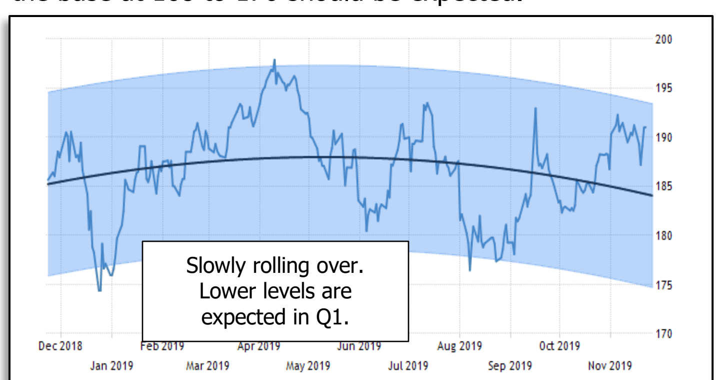

Chart 1a

Deflation vs. inflation

Deflationary assets continue to outperform inflationary assets. The index is now at a three-year high, and still advancing. There is a tight correlation between the U.S. dollar and deflationary performance, particularly since mid-2017.

Bottom line: Deflationary assets (financials, technology, industrials, consumer products, etc.) have been outperforming inflationary assets (commodities) since mid-2017, with no indication of weakening. We expect this trend to continue well into 2020 (**Chart 2**).

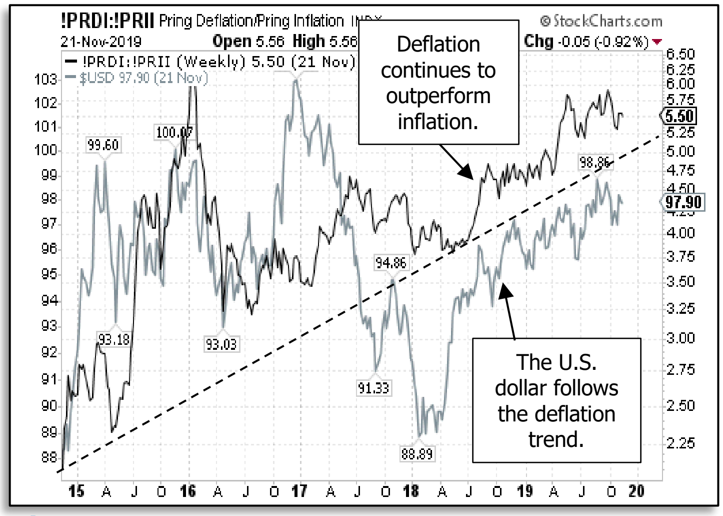

Chart 2

Commodity performance: Livestock

The S&P GSCI Livestock Index had the best 90-day performance, followed by precious metals. Commodity performance of either positive or negative was largely split this quarter (**Chart 3**). This is the second month in a row that the energy and agriculture sectors had a negative return.

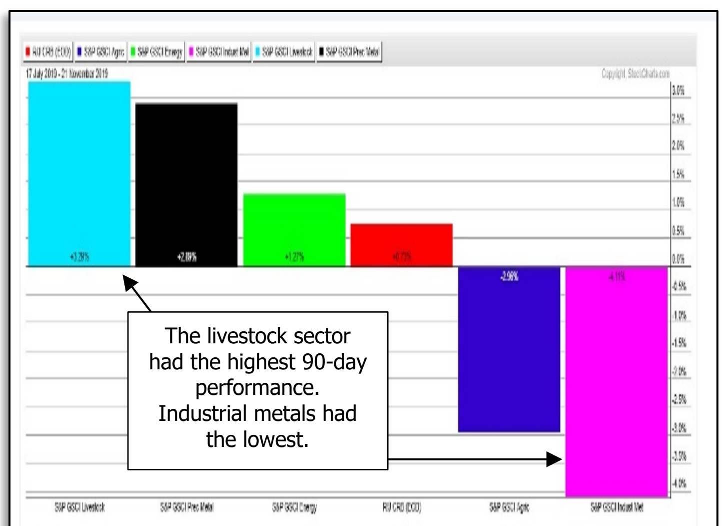

Chart 3

WTIC: More consolidation

Outlook neutral/negative: The medium-term (three-year) view is that light crude oil prices remain in a tight consolidation around a falling 50-week m/a. Price resistance at $60.00 is expected to hold in Q4 and into Q1 2020. Buying momentum (RSI) is at a neutral reading (not confirming a breakout). First support is at $51.75 (**Chart 4**).

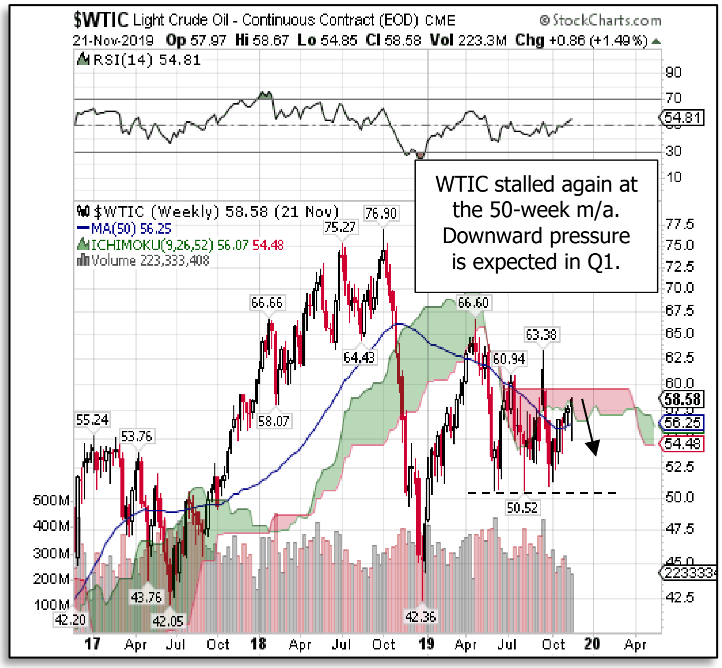

Chart 4

Shorter-term (12-month) curve-fitting models changed direction in Q3 (**Chart 4a**). The curve is suggesting a slightly more bearish outlook in early Q1. After this current bounce, WTIC prices are expected to pull back to about $52 to $53 over the next few months.

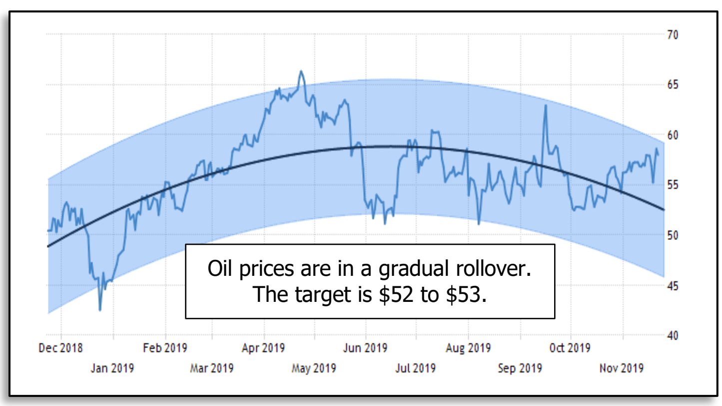

Chart 4a

Bottom line: Light crude oil prices are expected to drift downward over the next few months, with levels between $48 and $50 in early 2020.

Sell into strength now, and wait on the sidelines.

Natural gas: At resistance

Outlook neutral/negative: A weak rally is unfolding off of the $2.10 support line was cut short as the price hit the 50-week m/a. Buying momentum (RSI) is positive, but starting to roll over, suggesting limited lift (**Chart 5**).

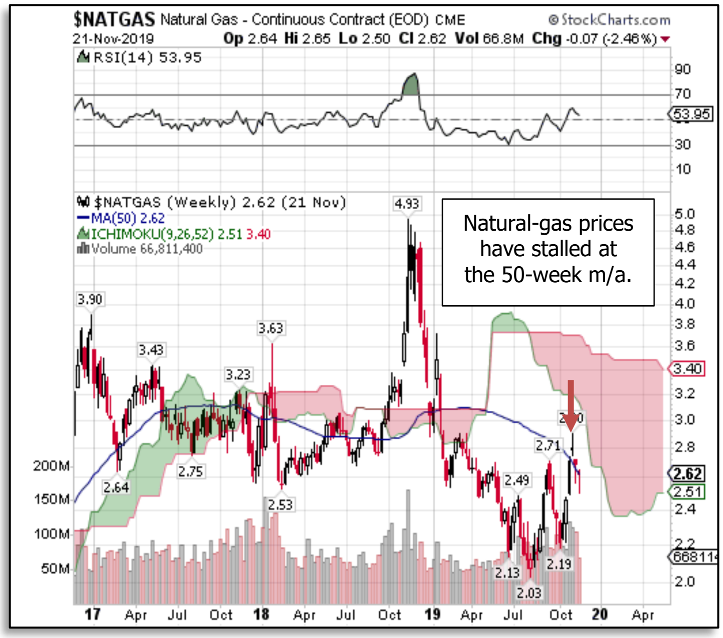

Chart 5

Shorter-term (12-month) curve-fitting models show a trend that is starting to change. Natural-gas prices are now in a favourable curve. Models suggest that prices will remain between $2.25 and $2.80 in Q1 (**Chart 5a**).

Bottom line: There are few signs of price strength in natural-gas prices at this moment. Stay on the sidelines for now. Traders may want to add to positions in January.

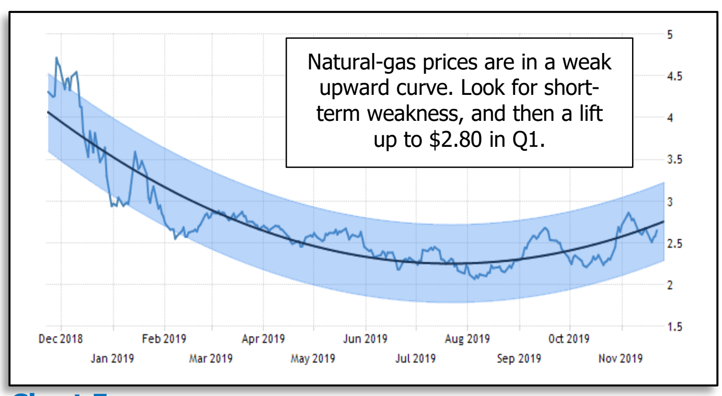

Chart 5a

Gasoline: On support

Outlook neutral: The medium-term (three-year) view of the current trend in gasoline prices (GASO) is flat, holding at the $1.60 support line, and below the 50-week m/a. Buying momentum (RSI) is negative (supporting the price weakness) and continues to fade. We suspect additional softness, and that a retest of $1.50 to $1.52 is coming in the next month or two (**Chart 6**).

Chart 6

Shorter-term (12-month) curve-fitting models (**Chart 6a**) show that the curve is now rolling over.

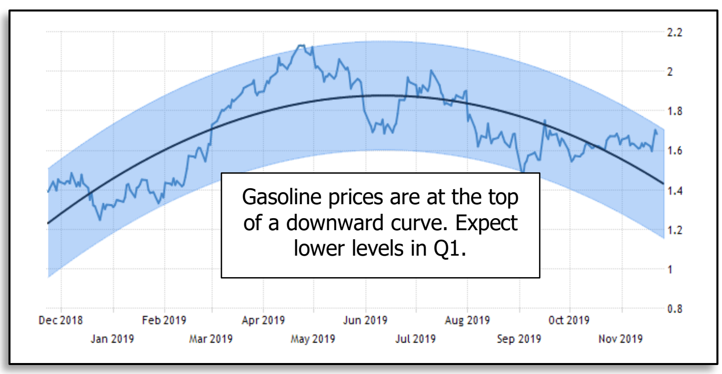

Chart 6a

Bottom line: Gasoline prices move with oil prices. As our models suggest that oil prices are slowly weakening, we expect gas prices to follow. Our target is $1.50 to $1.52. Wait on the sidelines for now.

Gold: Short-term pullback

Outlook neutral: The medium-term (three-year) view shows a positive breakout from two years of consolidation. After the overbought RSI levels (70+) in Q3, a soft, limited pullback appears to now be unfolding. The first support level of $1,435 should catch any decline (**Chart 7**).

Chart 7

Shorter-term (12-month) curve-fitting models show gold recoiling from the lower band level. A movement up to $1,500 to $1,540 is expected by year-end or early Q1. However, models also show that a weakening trend is developing. Gold prices are projected to stay below $1,500 for most of Q1 (**Chart 7a**).

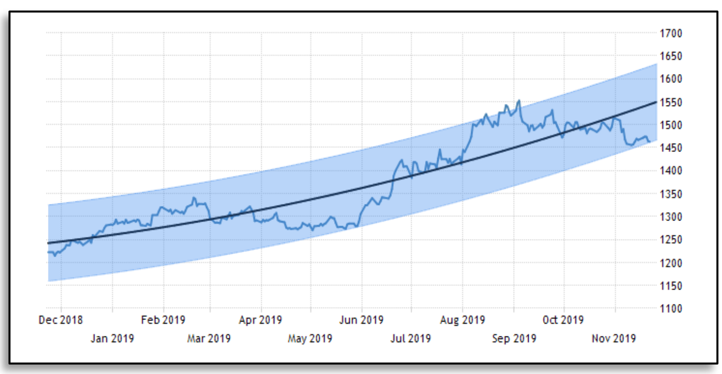

Chart 8

Bottom line: Expect gold to have a limited upward bounce over the next few weeks. The first support line is at $1,435. Should this line break, $1,400 is the next level. We Would suggest not adding to the position at this time. Continue to hold.

Silver: Short-term pullback

Outlook neutral/positive: The poor sibling to gold is trading in an equal – although weaker – pattern to the yellow metal. The medium-term (three-year) chart shows a slow rise from a double-bottom formation in Q4 2018 and Q2 2019 (**Chart 8**). The current pullback should find price support around $16.50 to $16.75. Buying momentum (RSI) is neutral (around 50).

Chart 8

Shorter-term (12-month) curve-fitting models suggest that silver prices should have a limited rebound to year-end, but nothing much higher than $17.00 to $17.50 (**Chart 8a**).

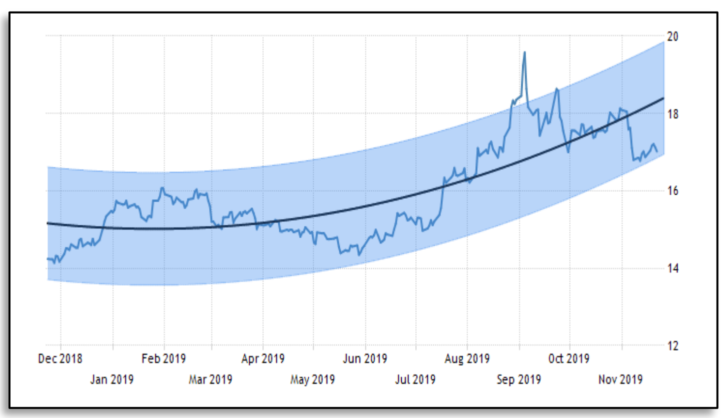

Chart 8a

Bottom line: Expect some limited rebound over the next month or two. We would suggest not adding to the position at this time. Continue to hold.

Industrial metals: Stopped at m/a

Outlook neutral/negative: The current trend hit the downward-sloping 50-week m/a and stalled. This is the fourth failed attempt this year to cross the m/a. A retest of the base (306) is unfolding (**Chart 9**). Buying momentum (RSI) is fading, confirming lower levels.

Bottom line: A retest of the base appears to be starting. If the index breaks down through 306, then 280 is the next lower support line.

Chart 9

Copper: More price weakness

Outlook negative: The medium-term (three-year) trend is still flat-to-down. Another retest of the base at $2.50 is unfolding. Copper prices continually struggle to pass the downward-sloping 50-week m/a. Buying momentum is negative, confirming the weakness (**Chart 10**).

Shorter-term (12-month) curve-fitting models show the downward trend in force. Copper prices appear ready to challenge the top of the curve (**Chart 10a**).

Bottom line: Current action points to another failed attempt to advance. We suspect that more downside price action is coming in the months ahead. Remain on the sidelines.

Corn: Back on base

Outlook negative: Overproduction and trade war uncertainty are still slamming corn prices. Weather issues are adding to the problem. Prices have fallen 24% from the July peak. More base-building appears to be forming. RSI

Chart 10

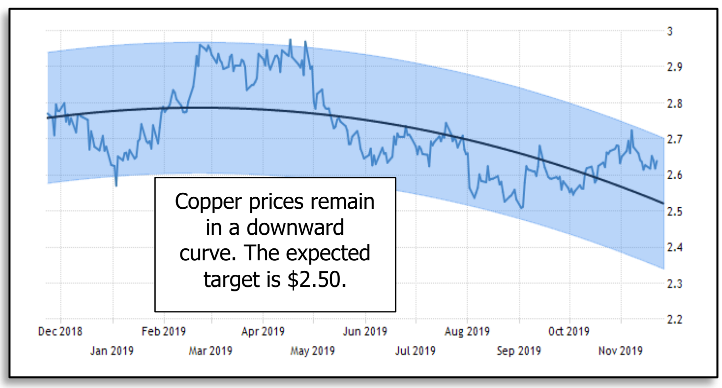

Chart 10a

is fading (confirming the weakness). The first support level is at $3.50 a bushel (**Chart 11** on page 6).

Shorter-term (12-month) curve-fitting models show corn prices slowing rolling over. Expect more price weakness over the next few weeks (**Chart 11a** on page 6).

Bottom line: Corn prices appear to be going nowhere but down. Use the current bounce to lower position size, then remain on the sidelines for now.

U.S. dollar: Weak upward trend

Outlook neutral/positive: The trend from early 2018 is still higher, and based on recent weakness from the RSI, it looks like another retest of the rising 50-week m/a is coming by year-end. Price resistance sits firmly at $0.996. Unlikely to go above $0.996 next year. Weaker economics for the U.S.

Chart 11

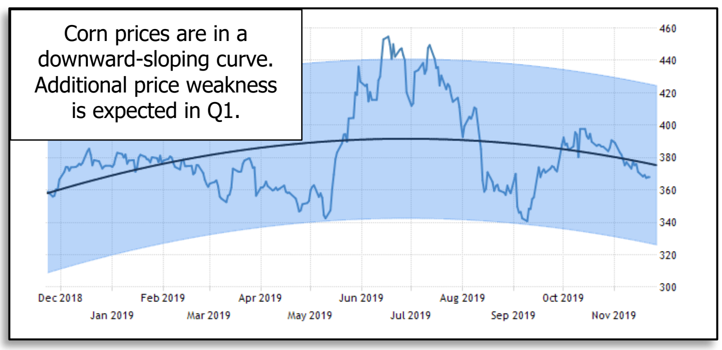

Chart 11a

and a possible rate cut in early 2020 are not helping the dollar's advance (**Chart 12**).

Shorter-term (12-month) curve-fitting models show the dollar hitting the median line and pulling back. Models point lower, to a move to the bottom of the curve ($0.975) in early 2020 (**Chart 12a**).

Bottom line: Although the US$ is still advancing (new high in August), the DXY is expected to weaken over the next one to two months. Investors should continue to hold their positions in the U.S. dollar, but start reducing only if the greenback drops down to $0.97.

What does it all mean?

Deflationary pressures are clearly the dominant force in the markets now. This is not good news for commodities in general. Most natural-resource prices are struggling, at this juncture. There may be some short-term relief coming from the U.S. dollar, as our models suggest some short-term price weakness in the currency in Q1. As some price weakness appears to be developing, this action should help precious metals, which have a tight opposite correlation to the big dollar. No other commodities appear to be good investments at this time.

Chart 12

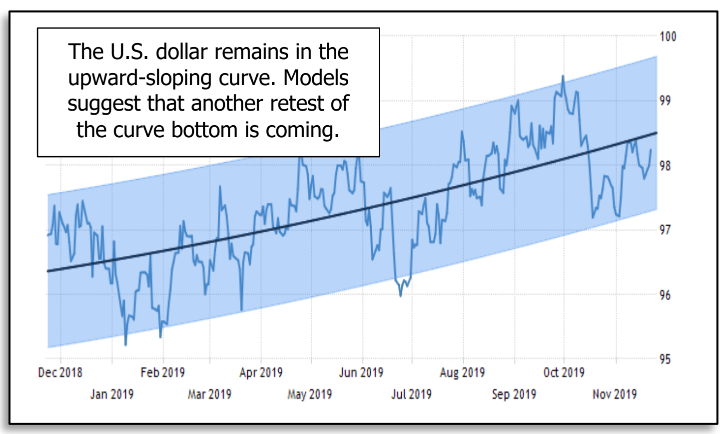

Chart 12a

What should investors do?

Gold and silver appear to be the only commodities that may take advantage to the weaker dollar. However, we are doubtful of any meaningful run. We suggest that most commodity traders continue to hold a tight stop on any position, or just to play it safe and stay on the sidelines this month.

International Equities

Breakouts & new highs greet indexes

KEY POINTS:

- **Breakout continues for Dow Jones Global World Index; new all-time highs expected in Q1**
- **Japan's Nikkei posts the highest 90-day performance**
- **Weakness continues for China's Shanghai**
- **Downside pressure continues for Hang Seng**
- **Recovery builds for South Korea's KOSPI**
- **India's BSE appears near a crest**
- **Germany and France lead Europe's recovery**
- **The trend remains down for Mexico's Bolsa**
- **Brazil's Bovespa prints another high**
- **Australia's ASX rise levels off**

Overview: New highs

Outlook positive: The barrier of 409 that has kept the Dow Jones Global World Index (DJW) contained for almost two years has been broken, to the upside. The 409 level now represents major price support. Buying momentum (RSI) is now positive (above 50), confirming the strength (**Chart 13**). All good signs.

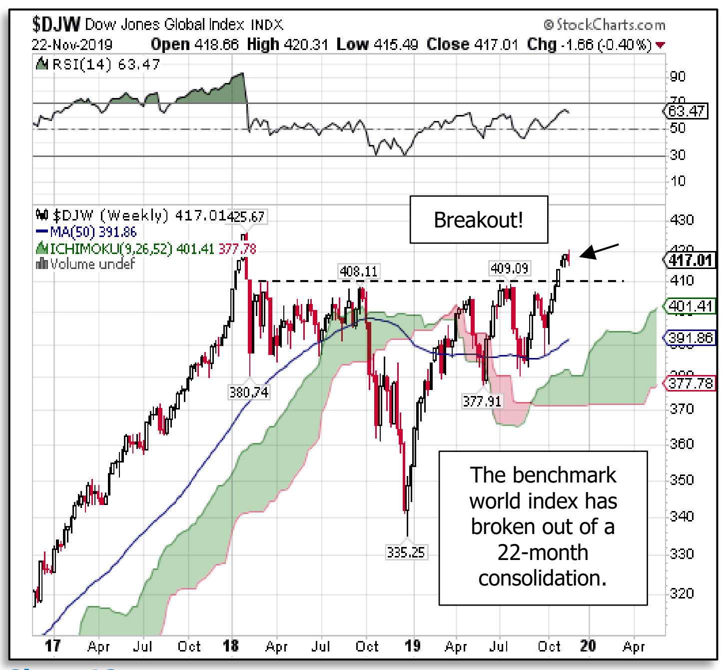

Chart 13

From a 12-year perspective, the DJW is still in the ongoing secular bull market. Buying momentum (RSI) has a positive reading, suggesting that higher levels are coming. Now heading to 427, which is the next resistance line and target (**Chart 13a**).

Bottom line: The bull market is intact. With the recent breakout above 409, the benchmark DJW is showing no signs of weakness. The next target is 427, followed ultimately by 460.

Chart 13a

World Index ex-US: Lifting

Outlook positive: Having broken above 1950, the index has moved out of a year-to-date (YTD) consolidation and is starting to rebound. Buying momentum (above 50) is positive and confirming the renewed strength (**Chart 14** on page 8).

From a longer perspective (12 years), without the S&P 500, the trend of the MSCI World Stock Index ex-US is clearly not as strong as with the DJW, but the bullish pattern of higher highs and higher lows is still evident. We suspect that more upside strength lies ahead in Q1 for the index. The next target is 2050 (**Chart 14a** on page 8).

Bottom line: A gradual improvement appears to be taking shape for the index. This is good news for the global markets.

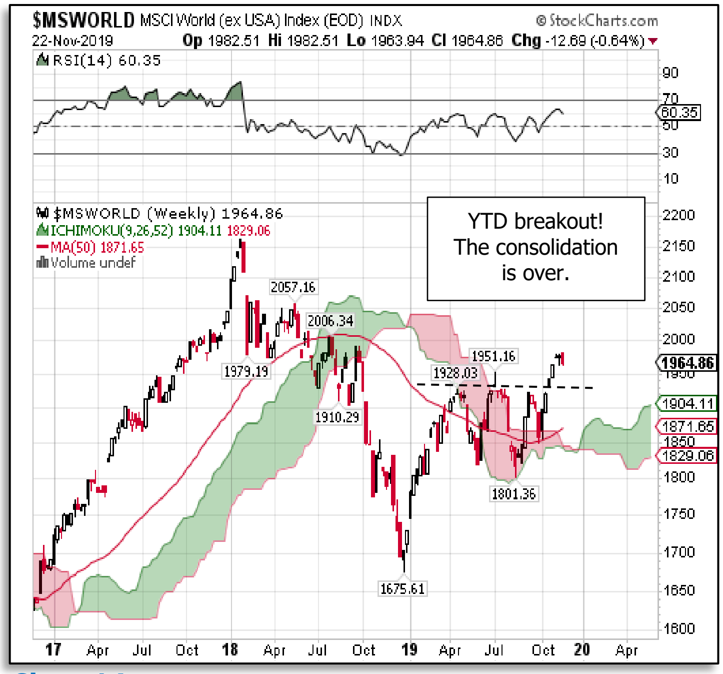

Chart 14

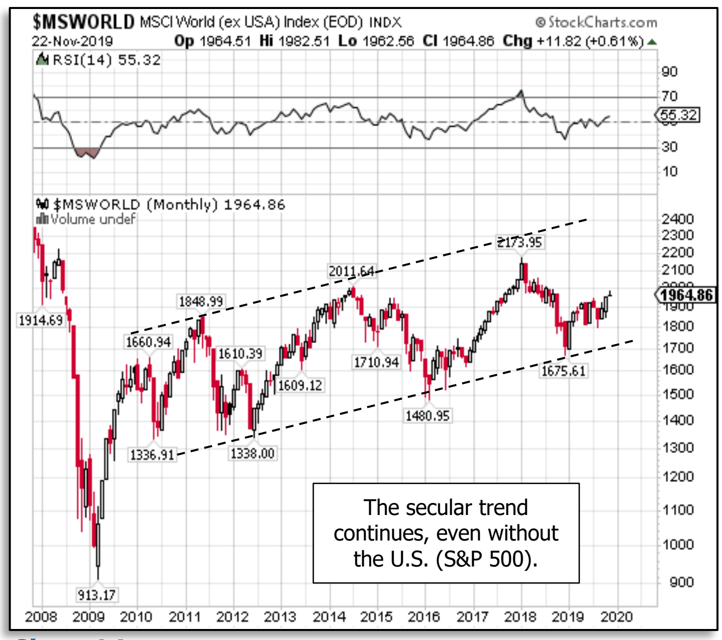

Chart 14a

Suggested portfolio weighting – through Q1/20
Sector Overweight: *Brazil, India, U.S.A., Australia*
Sector Market Weight: *Canada, China, Europe, Japan*
Sector Underweight: *Hong Kong, South Korea*
Suggested market percentage weighting – 2020

60% (*India, Brazil, U.S.A., Australia*)
35% (*Asia, Canada, Europe, China*)
5% cash

Global performance: Brazil leads

The 90-day performance shows Brazil's Bovespa leading the global arena again, with surprise recovery from the indexes of Japan and Taiwan (second and third). Less than half of the world indexes outperformed the benchmark DJW; the vast majority underperformed the DJW. The bottom performers were all Asian (**Chart 15**).

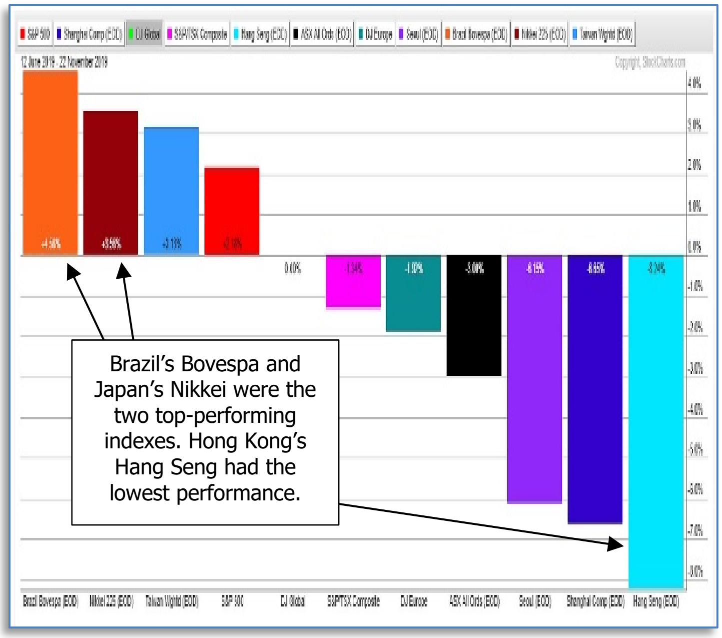

Chart 15

Emerging markets: Consolidating

Outlook neutral: The medium-term (three-year) view of the index shows an ongoing consolidation starting in Q4 2018. Stiff price resistance continues at $44.00. Buying momentum (RSI) is positive, but shows signs of fading strength. First underlying support now sits at 42.00. More time is needed before a breakout can occur (**Chart 16** on page 9).

Bottom line: Emerging-market indexes have been in a confined formation since the start of the year. We suspect that the current indecision is not over. Stay on the sidelines until the index is above 44.00, then buy.

China: Weakness continues

Outlook neutral/negative: The medium-term (three-year) trend is still flat. Price action continues to consolidate just above the 50-week m/a. The index has found support at the m/a since April 2019. Buying momentum (RSI) is now fading, confirming more price weakness (**Chart 17** on page 9).

Shorter-term (12-month) curve-fitting models illustrate a slowly weakening stance for the Shanghai (**Chart 17a** on page 9). As the curve is starting to turn down, any upward movement is likely going to find resistance at the 3000 mark.

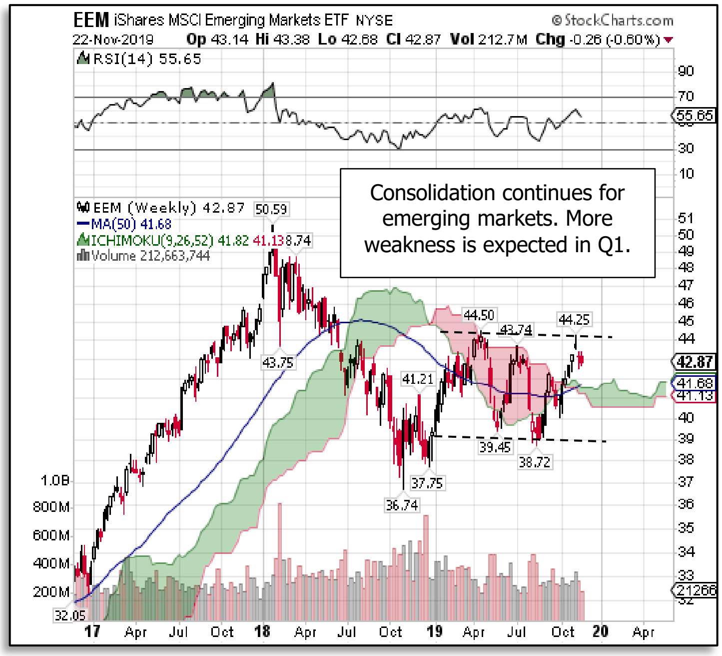

Chart 16

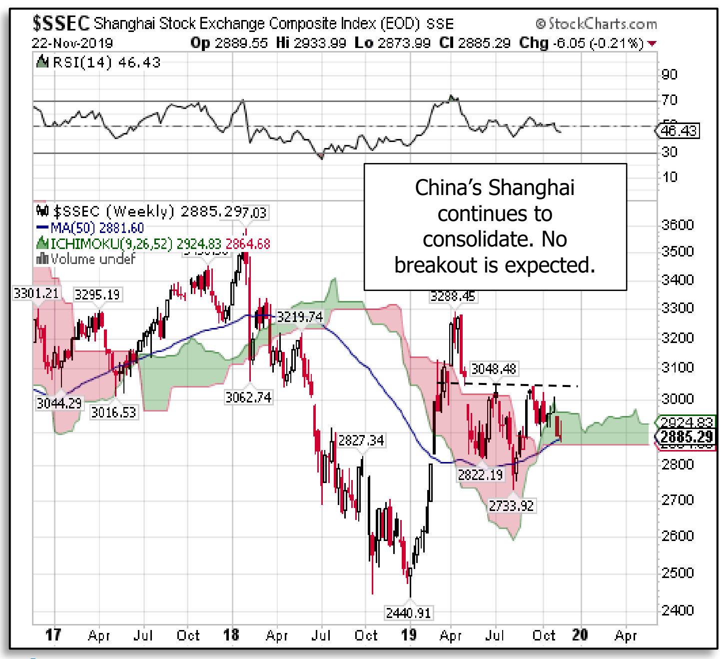

Chart 17

Bottom line: We suspect that the Shanghai only has more potential to trend down rather than up. Models point to a limited decline down to 2650. Do not add to positions at this time.

Japan: Improving strength

Outlook positive: The medium-term (three-year) trend is still flat. Recent break strength above the key 50-week m/a is promising. Buying momentum (RSI) is now

Chart 17a

positive, confirming the building support. Solid price support at 22,000 adds to the outlook (**Chart 18**).

Shorter-term (12-month) curve-fitting models show that a rising bullish trend is developing (**Chart 18a**).

Bottom line: Returning strength: the breakout in October points to higher levels over the next few months. The target is 24,375. Add to positions on any weakness.

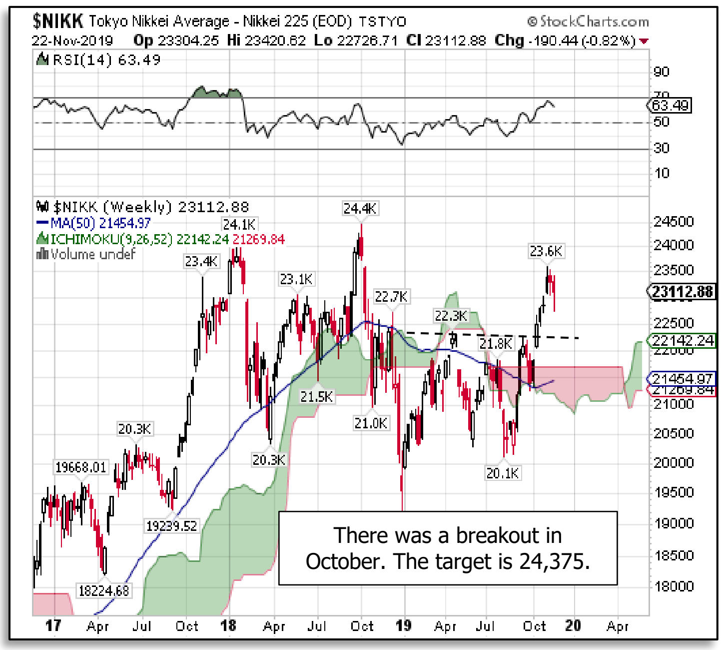

Chart 18

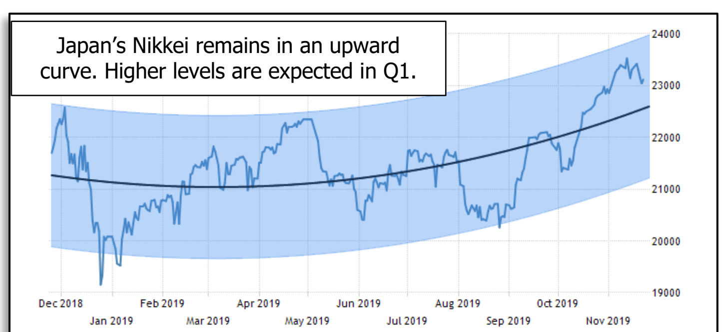

Chart 18a

Hong Kong: Weakening stance

Outlook neutral/negative: The YTD trend is flat. The Hang Seng (HSI) recently reached the 50-week m/a and failed to cross. Buying momentum (RSI) is negative and fading (not confirming). All signs are displaying building weakness (**Chart 19**).

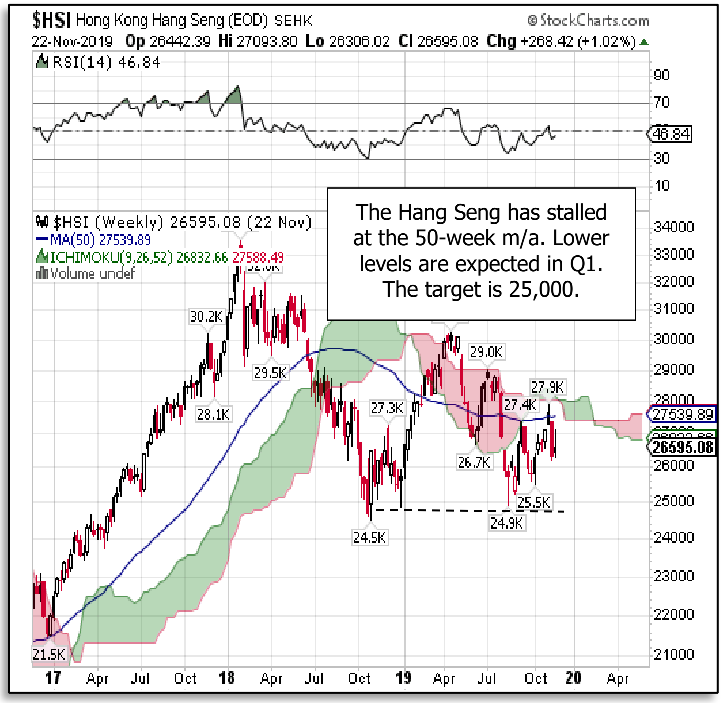

Chart 19

Shorter-term (12-month) curve-fitting models show that the HSI is rolling over. Weakness is expected to continue into Q1 (**Chart 19a**).

Bottom line: We suspect that the index will continue to drift lower over the next few months, toward a retest of the 25,000 level. Stay on the sidelines.

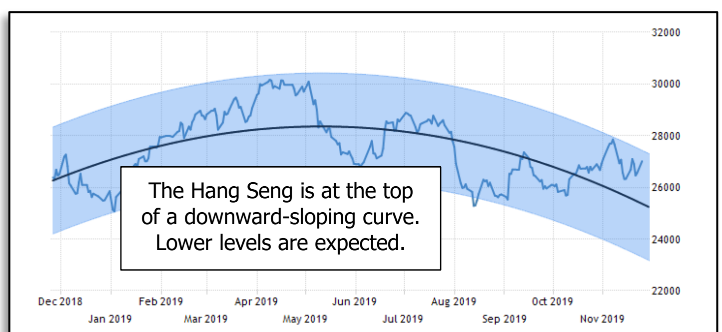

Chart 19a

South Korea: Recovery

Outlook neutral: The medium-term (three-year) trend is recovering. The index has broken through the declining 50-week m/a. This is positive. Buying momentum is now above 50, confirming the strength. The next resistance level is at 2225 (**Chart 20**).

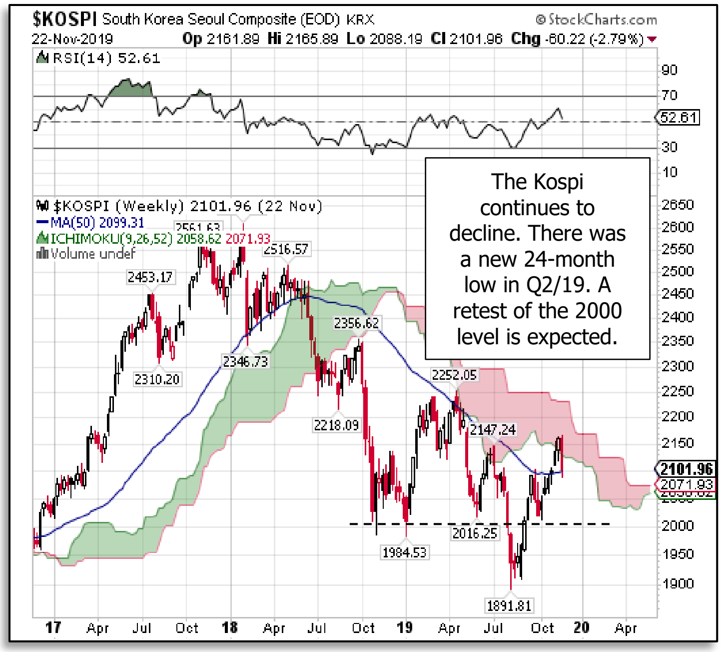

Chart 20

Short-term (12-month) curve-fitting models show the KOSPI at the top of a downward curve (**Chart 20a**).

Bottom line: We suspect that the current strength will not hold; a short-term pullback is expected. Wait for the retracement to develop, then add to the position.

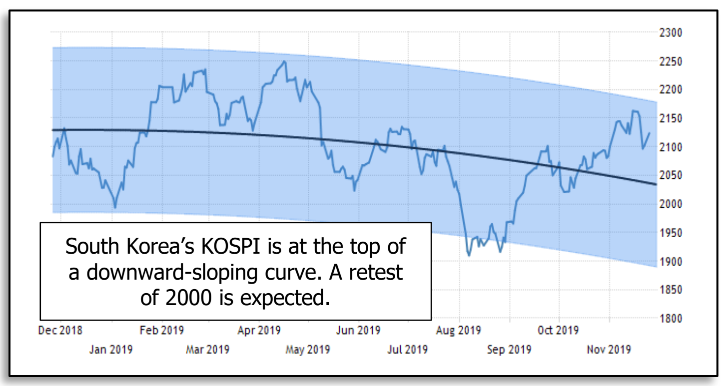

Chart 20a

India: Possible crest developing

Outlook neutral/positive: The medium-term (three-year) trend is up. The index posted another all-time high in November. Buying momentum (RSI) is above 50, confirming strength. Underlying support is at 40,000 (**Chart 21** on page 11).

Shorter-term (12-month) curve-fitting models show a weakening trend and a possible crest developing. The index is at the top of a flattening curve (**Chart 21a** on page 11).

Bottom line: Although there was a new all-time high in November, the upward trend appears to be weakening. We suggest not adding to the position at this time and are raising the stop to 38,800.

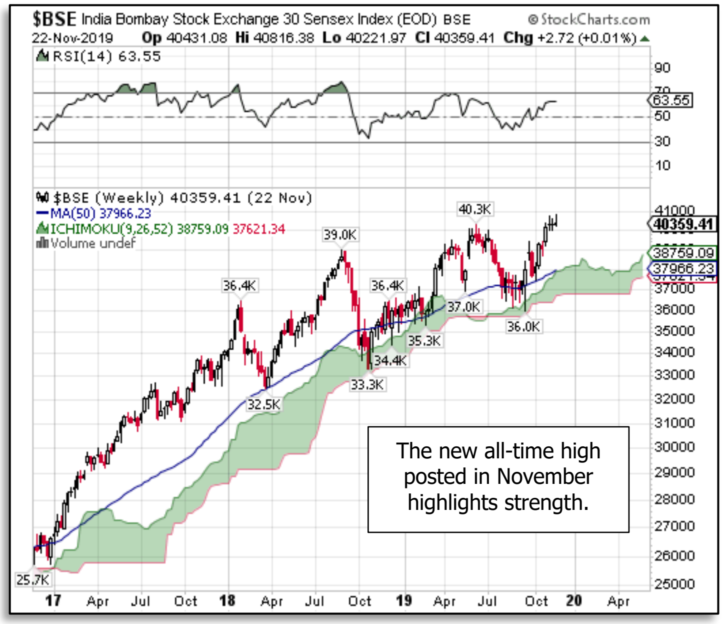

Chart 21

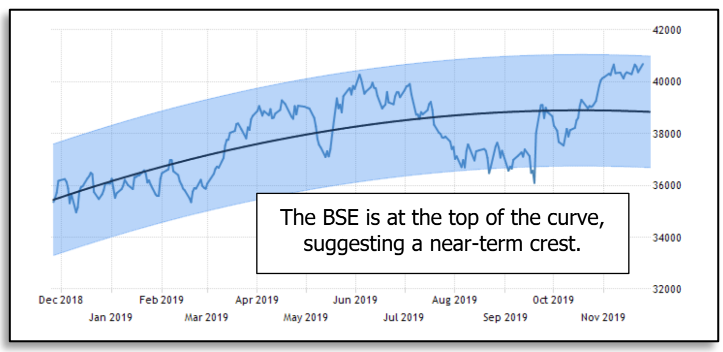

Chart 21a

Europe: Breakout developing

Outlook neutral/positive: Although the major (three-year) trend is still flat, the recent breakout of the YTD consolidation is promising. The index is just above the 330 resistance level, and buying momentum (RSI) is supportive of the rise, with a positive reading – all positive signs. The next overhead resistance line is at 348 (**Chart 22**).

Bottom line: The European index is showing signs of building strength. We suggest adding to the position. The target is now 348.

Chart 22

Germany: Breakout

Outlook positive: The medium-term (three-year) trend is flat, but the YTD breakout through resistance at 12,600 is encouraging. Buying momentum (RSI) is well above 50, confirming a strengthening trend. Solid price support is at 12,600 (**Chart 23**).

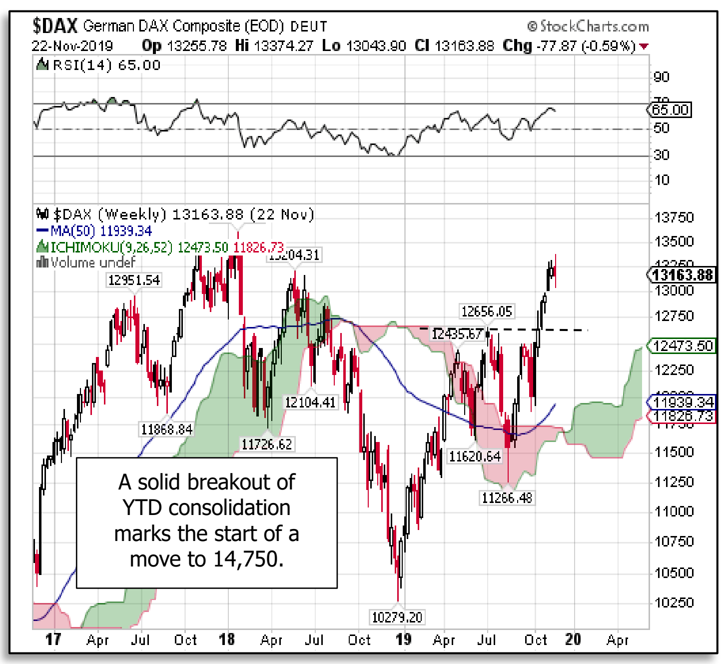

Chart 23

Shorter-term (12-month) curve-fitting models show an upward curve. The DAX is challenging the top of the curve, and some level of pullback is expected over the next month (**Chart 23a** on page 12).

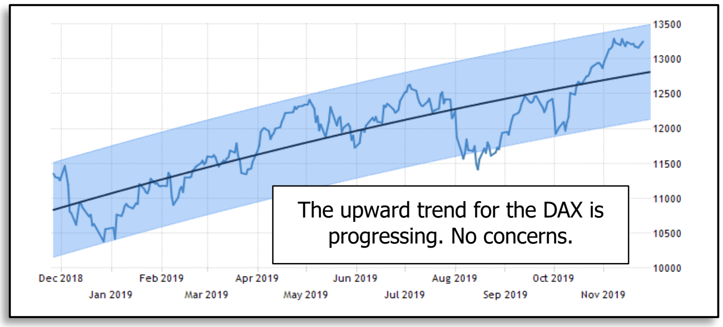

Chart 23a

Bottom line: The positive breakout is encouraging. We expect some level of minor pullback over the next month or two, but the main trend is up. The new target is 14,750.

France: Solid breakout

Outlook positive: The medium-term (three-year) trend is up. A new all-time high was posted in November. Price resistance at 5675 was broken in October. Buying momentum (RSI) is positive (above 50), confirming strength (**Chart 24**).

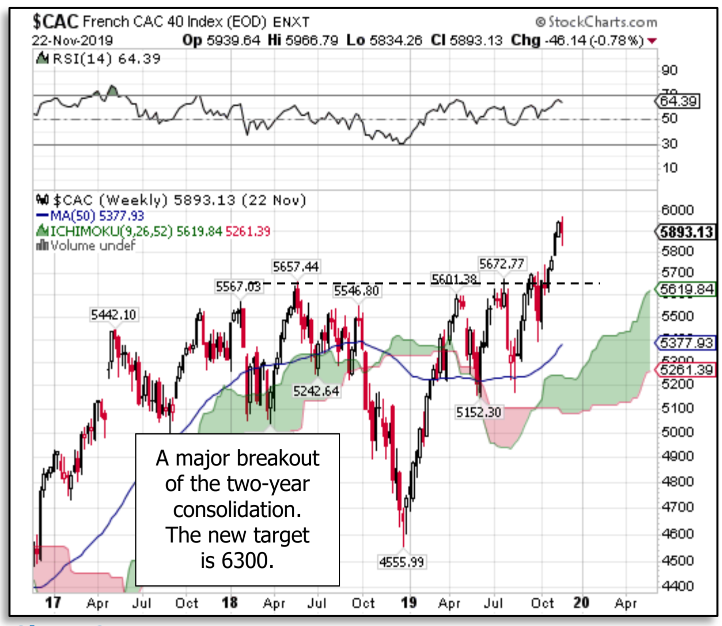

Chart 24

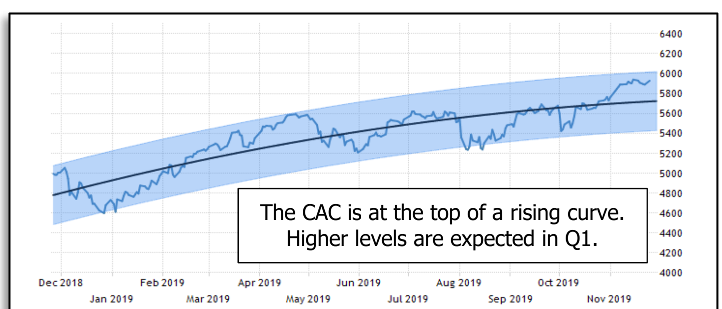

Chart 24a

Shorter-term (12-month) curve-fitting models show an upward-trending curve, and the index at the top of that curve (**Chart 24a**)

Bottom line: The breakout is encouraging. Some short-term level of pullback is likely over the next one to two months. The new target is 6300.

Spain: Fading strength continues

Outlook neutral/negative: The medium-term (three-year) trend is flat-to-down. The YTD trend is flat. The index continues to struggle to advance above the 50-week m/a. RSI is neutral and appears to be curling down, not confirming a breakout yet (**Chart 25**).

Chart 25

Shorter-term (12-month) curve-fitting models show the index in a slow rollover within a downward-sloping curve. This points to lower levels for Q1 (**Chart 25a**).

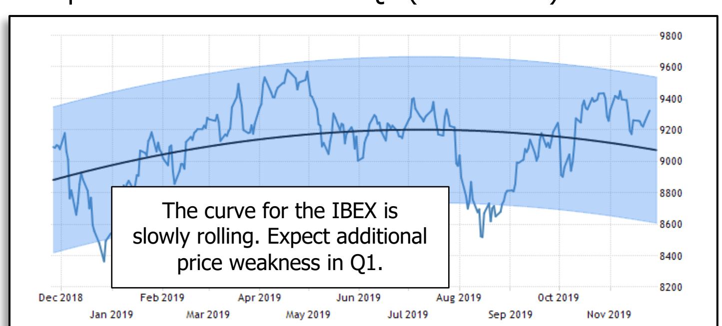

Chart 25a

Bottom line: The index still struggles to break above the 50-week m/a. More time is needed. Any breakout is expected to be short term. Stay on the sidelines for now.

Mexico: Downward trend

Outlook negative: The medium-term (three-year) trend is down, with a fresh new low in August (**Chart 26**). Buying momentum (RSI) is neutral, but starting to curl lower. A retest of the 50-week m/a is expected.

Chart 26

Shorter-term (12-month) curve-fitting models show that the curve is starting to trend lower (**Chart 26a**).

Bottom line: Additional price weakness should be anticipated over the next month or two. The index should find support at 42,000.

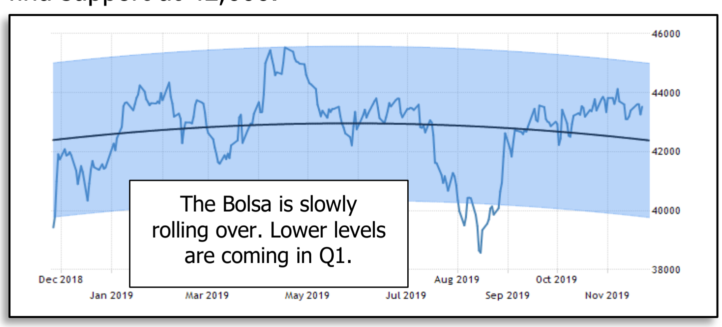

Chart 26a

Brazil: Strong upward trend

Outlook positive: Our target of 10,750 has been reached. The medium-term (three-year) trend is up. The Bovespa Index continues to stay above the rising 50-week m/a. The index just printed a new all-time high in November (109,700). Buying momentum (RSI) is above 50, suggesting that more upside strength is developing (**Chart 27**).

Chart 27

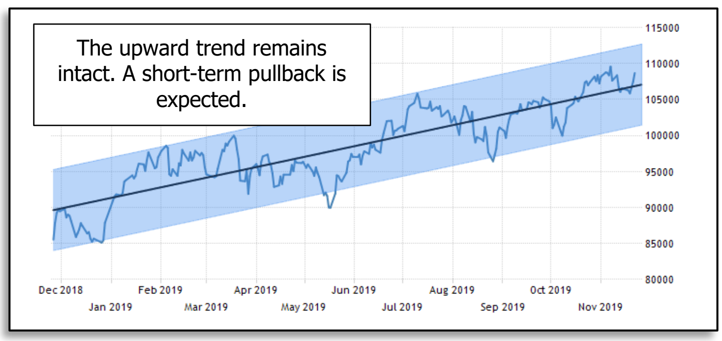

Chart 27a

Shorter-term (12-month) curve-fitting models are still displaying a positive upward trend. A retest of the rising 50-week m/a is expected by Q1 2020 (**Chart 27a**).

Bottom line: Models suggest a short-term pullback down to 10,000 to 10,025. Add to positions at that juncture.

Australia: Starting to crest

Outlook neutral/positive: The YTD trend is up. The index moved to a new all-time high in July (6850.10) and is still well above the rising 50-week m/a. Buying momentum (RSI) is above 50, confirming the strength (**Chart 28** on page 14).

Shorter-term (12-month) curve-fitting models show that the curve still trending up, but that the index is below the median line. This suggests that some short-term price weakness is starting (**Chart 28a** on page 14).

Chart 28

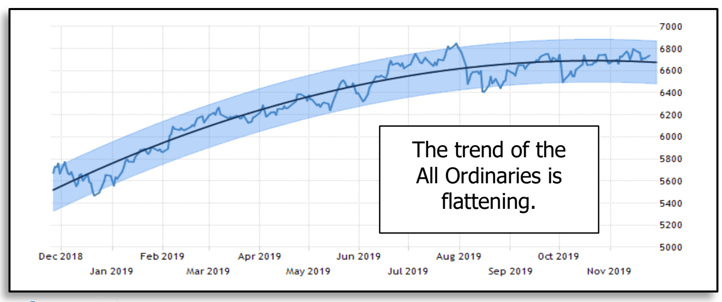

Chart 28a

Bottom line: The index is expected to soften in Q4/Q1. We are lowering our Q1 2020 target to 6550. Flatter, range-bound performance is expected, going into Q1. Still one of the best-performing world indexes.

What does it all mean?

The global bull market is still in good shape and expected to continue advancing higher in early 2020. At this juncture, many global markets have broken out of multi-month consolidations. This is encouraging. World markets climbed to record levels in November on optimism over China trade relations and a fresh wave of merger and acquisition activity. There is still some lingering uncertainty around Trump's trade war with China, because optimism has surfaced several times before, only to have hopes dashed is last-minute talks. This is causing some weakening of world economics. However, the markets are a forward-looking mechanism, and with new highs from the benchmark Dow Jones Global World Index, the secular bull market is still progressing.

What should investors do?

As the global markets start to advance, there are lots more bullish choices to review this month.

European indexes, which have stalled for most of 2019, are now some of the most promising. France's CAC and Germany's DAX are our top picks, along with Japan's Nikkei. South Korea's KOSPI also appears interesting. Positions that we suggest continuing to hold are Brazil's Bovespa and India's BSE. We suggest tightening the stops on Australia's ASX, as a crest appears to be forming.

U.S. & Canadian Equities

Bull market returns with new breakouts

KEY POINTS:

- **U.S. economy still growing, but at a slower pace**
- **High percentage of stocks advancing bodes well for the NYSE, S&P 500 and TSX**
- **Key U.S. economic markers remain mixed**
- **Breakouts occurring in all major markets New all-time highs posted in November**
- **Sector strength moves away from 'safe havens', points to return of deflationary sector growth**
- **U.S. yield curve signals more growth ahead**
- **No growth in Canadian economy in Q1**

KEY ECONOMIC NUMBERS

- U.S. annual GDP: 2.00%
- U.S. interest rate: 1.80%
- U.S. inflation rate: 1.70%
- U.S. jobless rate: 3.60%
- U.S. gov. budget: (-3.80%)
- U.S. debt/GDP: 106.00%
- U.S. current account to GDP: (-2.40)
- U.S. currency: $0.978
- U.S. population: 327.17 million
- Canadian annual GDP: 1.60%
- Canadian interest rate: 1.75%
- Canadian inflation rate: 1.90%

- Canadian jobless rate: 5.50%
- Canadian gov. budget: (-0.70%)
- Canadian debt/GDP: 89.70%
- Canadian current account to GDP: (-2.60)
- Canadian currency (CAD/USD): $1.33
- Canadian population: 37.31 million

U.S. economy starts to fade, with a 2.00% annual GDP growth versus 2.30% last quarter. Inflation eases at 1.70%, well below the Fed's 2.00% target. Unemployment rate remains low, at 3.60%. U.S. dollar's advance is cresting.

Canadian economy (GDP) is flat, with no measurable growth in 18 months. Jobless rate at a four-month high, at 5.50%. The outlook for the Canadian economy into Q4/19 is for flat GDP growth, as in 2018, with levels well below 2.00%. Inflation steady at 1.90%.

Suggested portfolio weighting – into late 2019
Sector Overweight: *Industrials, technology, financials*
Sector Market Weight: *Cyclicals, healthcare, staples*
Sector Underweight: *Gold, energy, mining, materials*
Suggested market percentage weighting – 2019
U.S. market: 50% (S&P 500, Dow, NASDAQ)
International markets: 15% (Europe, Asia, etc.)
Canadian market: 30% (TSX)
Cash: 5%

Breadth Barometer: 69% positive

Outlook positive: The average percentage of advancing stocks (above their 200-day m/a's) on the NYSE, S&P 500 and TSX at the end of November was **68.65%** versus **68.90%** for the end of August. Same level, very positive.

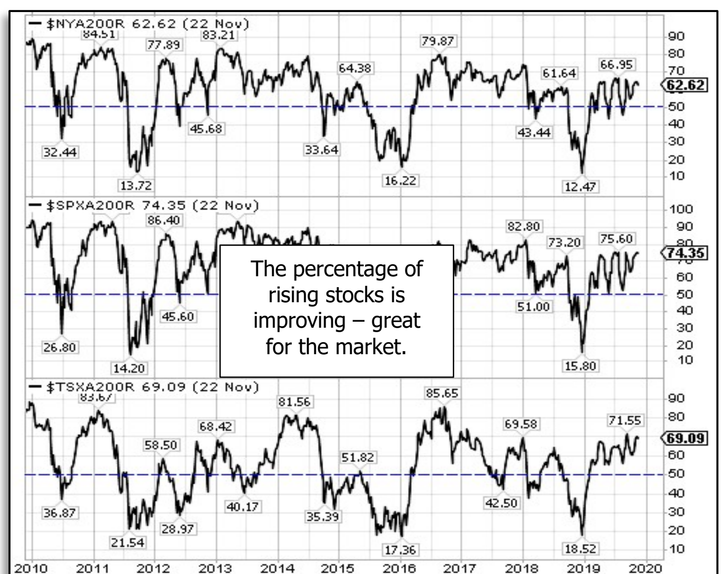

Chart 29

Trade war uncertainties are easing. This percentage level produces an upward trend in the markets. Levels above 60% are bullish for the markets.

Bottom line: The bull market is back. Market percentages have rebounded. The current levels suggest more upward growth into early 2020 (**Chart 29**).

Key economics: U.S. housing

Outlook positive: The U.S. housing market remains one of the key forward-looking economic indicators for the U.S. stock market. Both building permits and new home sales remain in line with the S&P 500. Both are trending up (**Chart 30**).

Bottom line: Building permits (optimism about future growth) and new home sales remain positive; no signs of weakness. Housing is the biggest investment most people make. These are positive for the stock market.

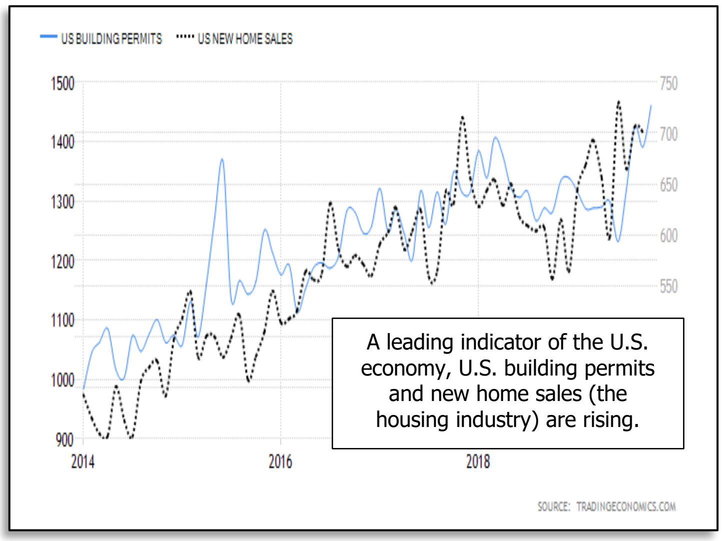

Chart 30

Key economics: Consumer confidence

Outlook neutral: One of the strongest areas of the U.S. economy appears to be starting to fade: consumer confidence has been one the pillars of the economy since 2017. It now appears to be weakening slightly.

Bottom line: Weakness in consumer confidence is eroding GDP growth. Models forecast the level of consumer confidence to slip down to 92 by Q1 2020, and to drift lower in Q2 2020 (**Chart 31** on page 16).

Key economics: Unemployment rate

Outlook neutral: The U.S. unemployment rate remains near a 50-year low (**Chart 32** on page 16). Again, this is positive news for the market.

Bottom line: The U.S. unemployment rate and the S&P 500 trend in opposite directions (**Chart 32a** on page 16).

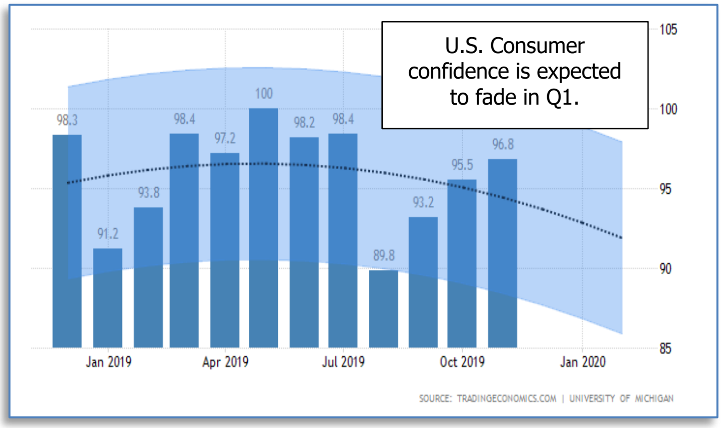

Chart 31

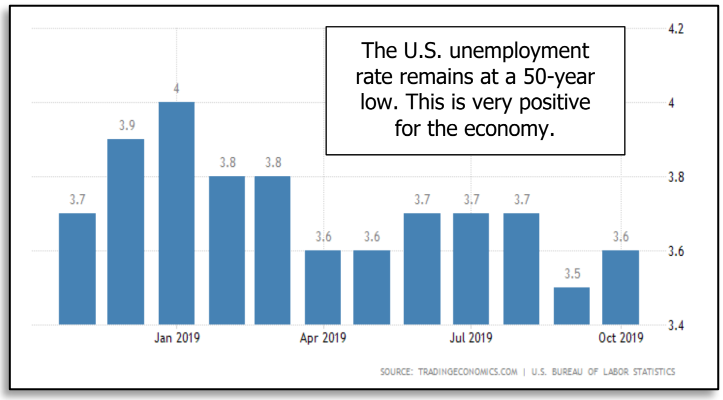

Chart 32

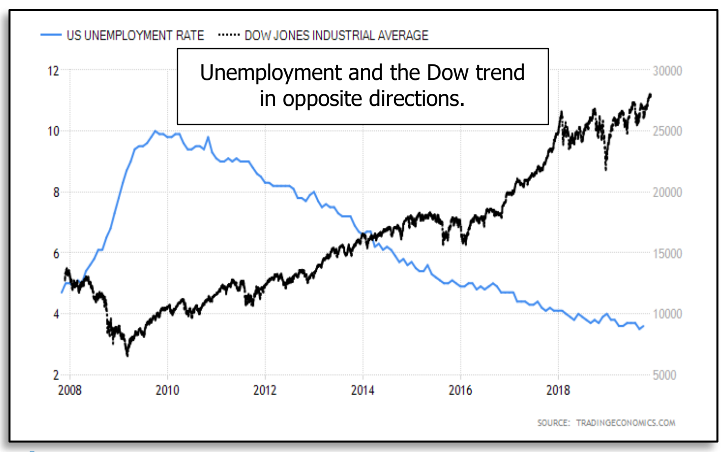

Chart 32a

The U.S. unemployment rate in Q1 2020 is projected to be 3.70%.

CDN economics: Business confidence

Outlook neutral/negative: Canada's business confidence rate continues to falter: the last two quarters have plunged to levels not seen since 2015 (**Chart 33**). Business confidence and the GDP have a close correlation.

Bottom line: Canada's business confidence is a key driver of the Canadian economy. The sharp decline would suggest that the annual GDP will likely remain low into Q1 2020.

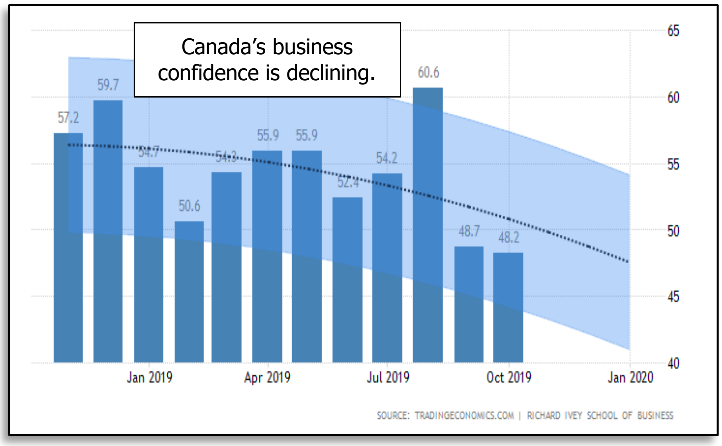

Chart 33

Index performance: S&P 500 leads

Outlook positive: Over the past 90 days, all major indexes posted a positive return except for the commodities-heavy S&P/TSX Venture Index. The S&P 500 led the returns, with the NASDAQ and the TSX taking second and third spots.

Bottom line: Strength in the indexes emphasizes the current bullish buoyancy in the equity markets (**Chart 34**).

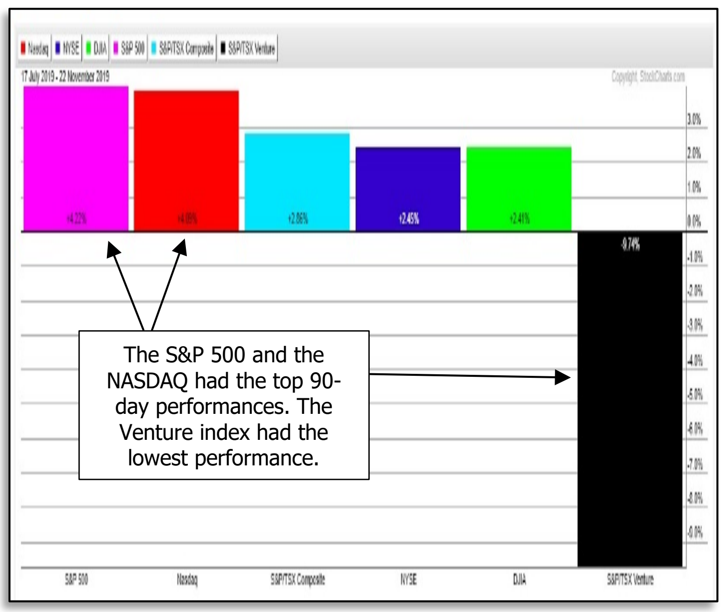

Chart 34

Stocks vs. bonds: Equal performance

Outlook neutral: Equities (risk) and bonds (safety) have been performing equally since December 2018. Money flow is balancing between the two asset classes, as money managers continue to hedge their bets. However, as the

S&P 500 made a new all-time high in July, we expect that equities will start outperforming bonds in Q1 2020.

Bottom line: Stocks (risk) are expected to start outperforming bonds (safety) over the next few months, as the market swings back to growth and risk (**Chart 35**).

Chart 35

NYSE: Breakout

Outlook positive: Recent price action has powered a topside breakout through the resistance line of 13,260, reversing a 23-month consolidation. Buying momentum (RSI) is positive (above 50) – confirming (**Chart 36**).

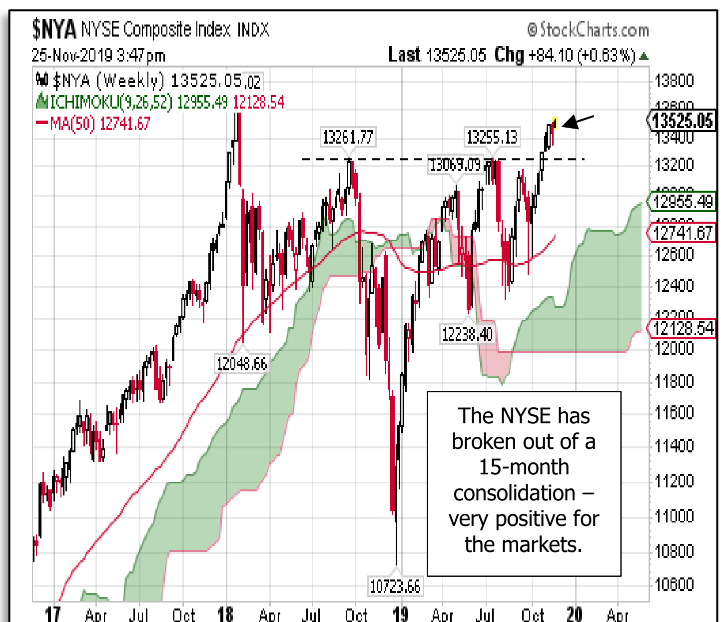

Chart 36

The long-term (12-year) view of the index illustrates the secular upward trend. The recent breakout suggests that some higher levels are coming in the months ahead. RSI is positive (above 50) – confirming (**Chart 36a**).

Bottom line: The secular bull market is still intact. Add to positions on any weakness. The next target is 13,775, and then ultimately 14,900.

Chart 36a

S&P 500: Upward trend

Outlook positive: The medium-term (three-year) trend is up. The recent breakout of the Q3 consolidation confirms the advance. A new all-time high in November is positive. Buying momentum (RSI) trend is above 50, confirming the uptrend. The index is well above the rising 50-week m/a. No negatives apparent (**Chart 37**).

Chart 37

The long-term secular rise is still in place. The 12-year trend points to higher levels into Q1 2020. The RSI is rising and positive – confirming (**Chart 37a** on page 18).

Chart 37a

Bottom line: The upward movement is progressing. A new high signals that the bull market is alive and well. Add to the position on any weakness. The index is nearing the next target of 3200, then ultimately to 3400 in the second half of 2020.

Dow: Higher levels in Q1

Outlook positive: The medium-term (three-year) trend is up, and the Dow Jones Industrial Average (DJIA) posted a new all-time high in November. Buying momentum

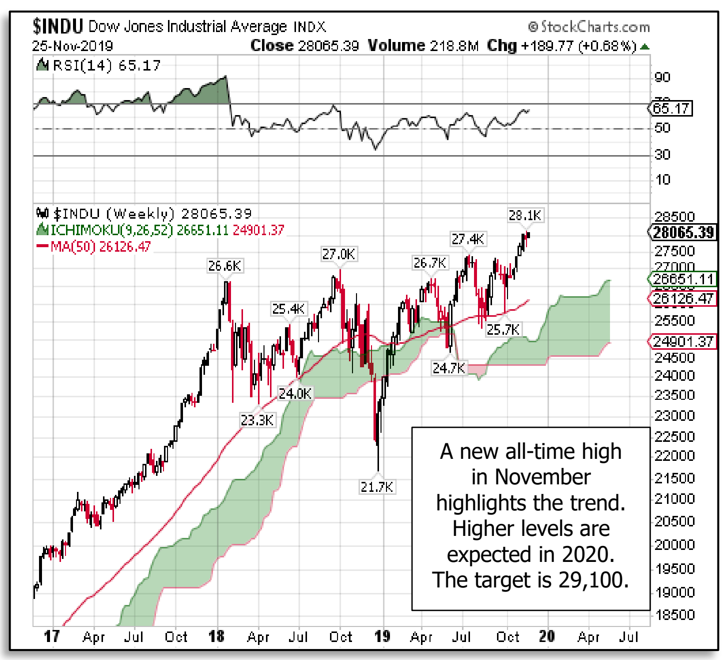

Chart 38

(RSI) is positive (above 50), confirming the current rise. First price support is at 27,400. Everything looks positive for higher levels in Q1.

Bottom line: The DJIA is directionally higher and expected to advance over the next few months. The break above 27,400 suggests a move to the next target of 29,100. Add to positions on any weakness (**Chart 38**).

NASDAQ: All-time high

Outlook positive: The medium-term (three-year) trend is up, and the index posted a new all-time high in November. Buying momentum is supportive, as the RSI is above the 50 level (confirming). First support is at 8350 (**Chart 39**).

Bottom line: Technology continues to be the right sector for this market. We suspect that more upside lies ahead. The next target is 9000.

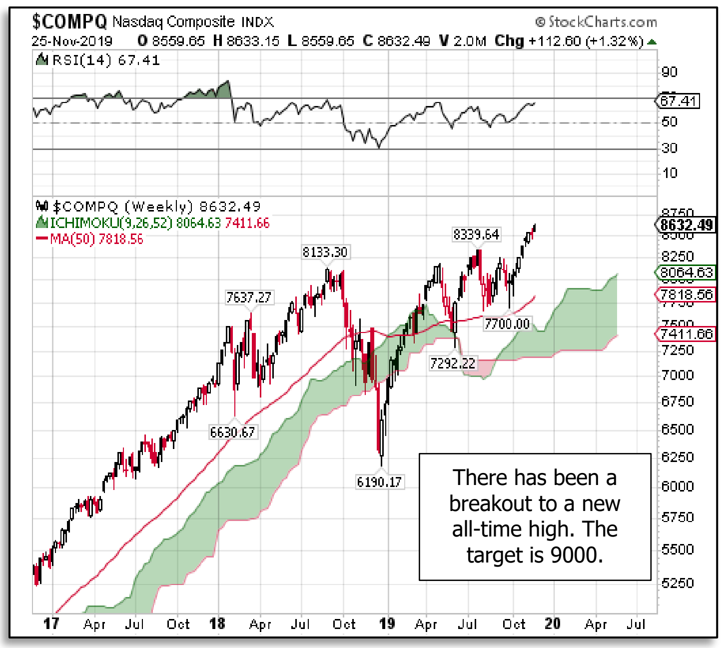

Chart 39

TSX: Breakout to new high

Outlook positive: The medium-term (three-year) trend is up. A constructive topside breakout due to a surging financial sector has pushed the index to a new all-time high. The RSI remains above 50, confirming the trend. Key support now is at 16,750 (**Chart 40** on page 19).

The long-term viewpoint (12 years) shows an upward trend. The RSI is positive, suggesting more upside movement in the months to come; a bullish outlook for 2020 (**Chart 40a** on page 19).

Bottom line: A recent breakout to a new all-time high points to higher levels ahead. The next upside target is 17,750. Add to the position on any weakness.

Chart 40

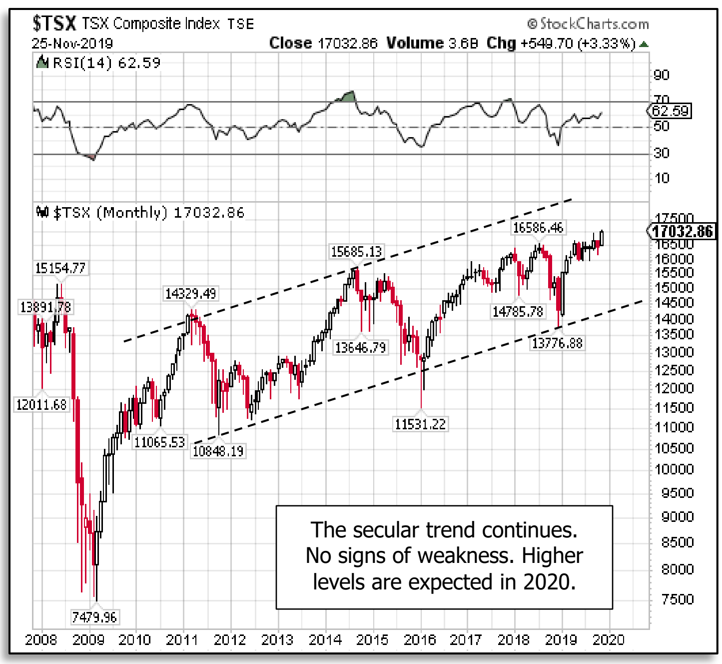

Chart 40a

S&P/TSX Venture: Negative trend

Outlook negative: The three-year trend continues to be down. The index is remaining below the declining 50-week m/a. Buying momentum (RSI) is oversold, confirming a likely low. A reaction bounce up to 575 is likely coming.

Bottom line: Use this reaction bounce to lower position size. W suspect that more price weakness lies ahead. Continue to avoid (**Chart 41**).

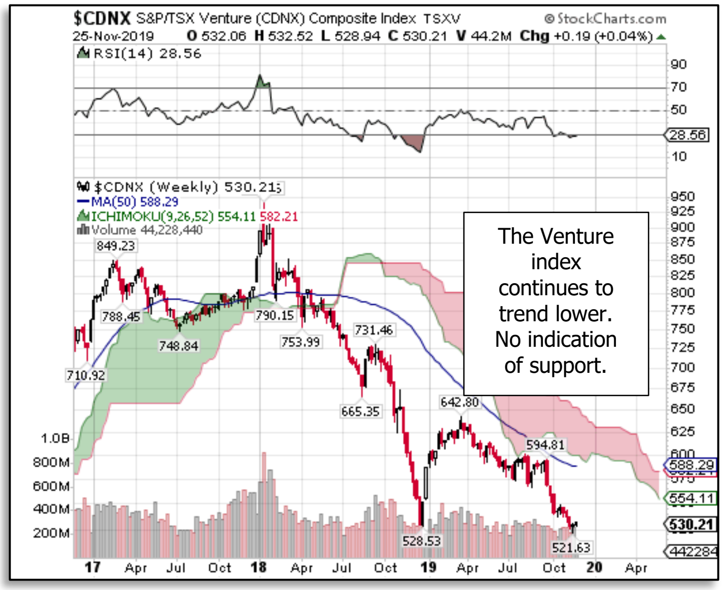

Chart 41

Sector rotation: S&P 500: 90 days

All industry groups except energy and consumer discretionaries posted a positive return over the last 90 days. The market is in a full risk-on mode (**Chart 42**).

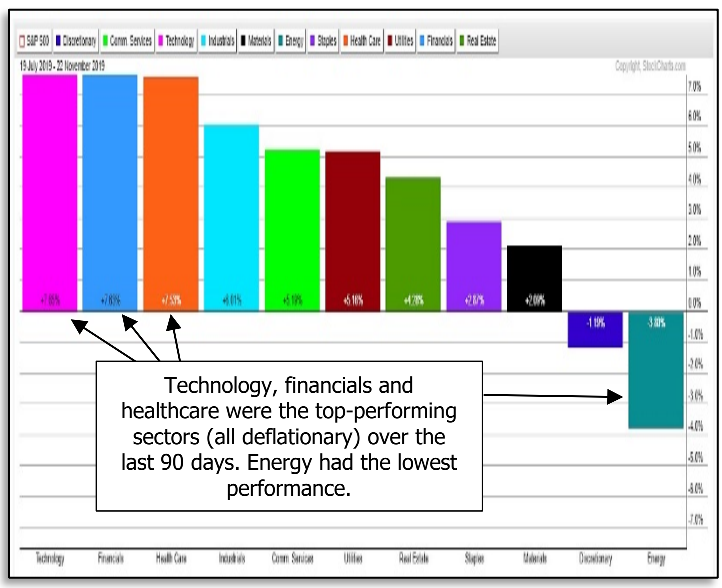

Chart 42

Bottom line: A solid risk-on stance has developed for the S&P 500 sectors. This underpins the current topside strength of the index.

Sector rotation: TSX: 90 days

Most sectors were positive over the last 90 days, with only two posting a negative return: energy and healthcare. This is the same as in last three months (**Chart 43**

Bottom line: Growing sector performance is one of the reasons that the TSX has broken out to a new high. We expect this trend to persist in Q1.

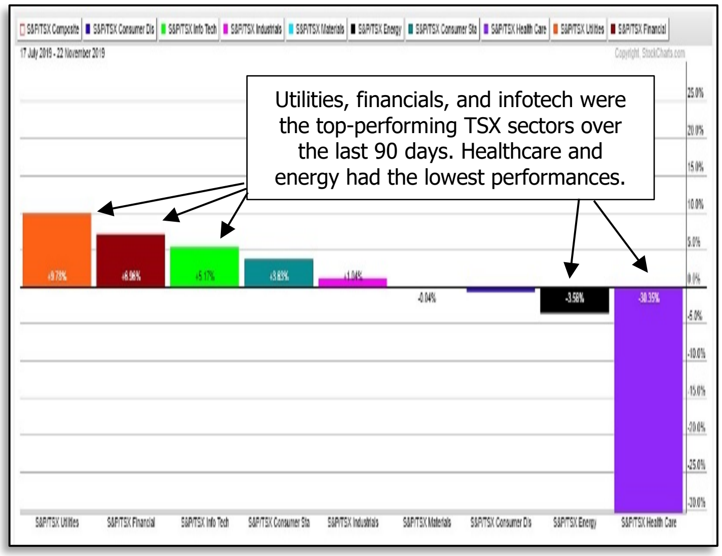

Chart 43

U.S. yield curve: Back to normal

Outlook positive: The U.S. yield curve has moved back to a healthy, normal position, in spite of all the chaos in Washington. Economic factors that drove the short-term yields higher than longer yields in September (see the October issue, page 21) have greatly eased. Levels are now forecasting ongoing growth in the U.S. economy and stock market (**Chart 44**).

What does all of this mean?

The collective evidence is clearly pointing to higher levels for the U.S. and Canadian stock markets. Although there is ongoing turmoil in Washington, this is not altering the view of most investors. The outlook for the markets, going forward into the first quarter of 2020, remains positive, and higher levels are expected.

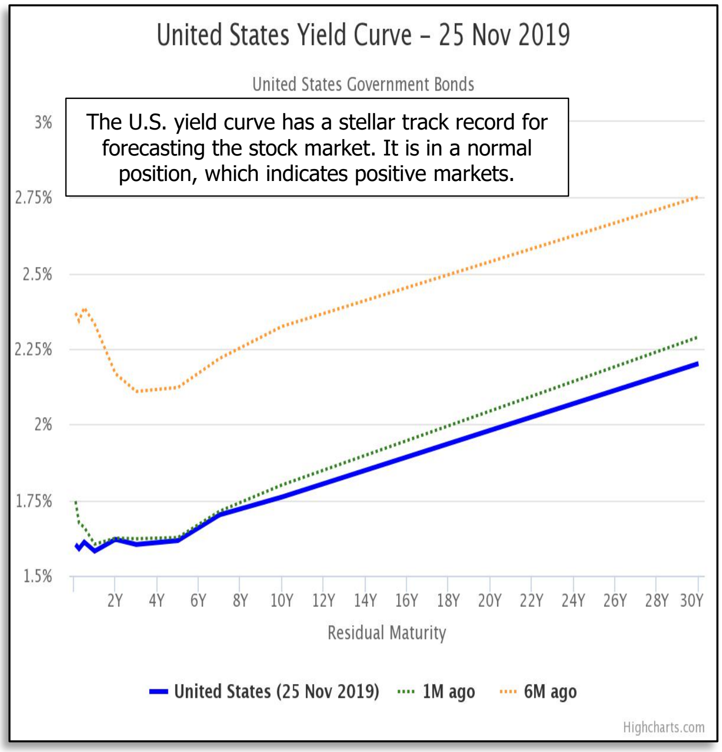

Chart 44

What should investors do?

We continue to stress that investors should focus on deflationary sectors during this bull market. As we pointed out in **Chart 2** on page 2, this is the best-performing area of the markets. The inflationary sectors (commodities) should be left for the short-term traders.

We will repeat our recommendations from the last few months, because they still apply: the technology, industrial and financial sectors are our favourite industry groups. Buying the sector through exchange-traded funds (ETFs) is a simple method of capturing the potential upside of these specific sectors. We suggest looking at **XIT** and **XFN** on the TSX. In the U.S. we suggest **XLI** for industrials, **XLK** for technology and **XLF** for financials.

Final bell

Curtesy of Hedgeye

Disclaimer. Please read

The *Technical Speculator* and the *TS Model Growth Portfolios* are independent publications. The information included on this website is for information purposes only. The opinions expressed should not be considered investment advice to buy or sell securities, but rather the author's opinion only. You assume all risks associated with investment decisions made on the basis of information contained on this website.

The *Technical Speculator* and the *TS Model Growth Portfolios* and its author make no representations about suitability of the services or information contained on this website or publications for any purpose. All such services and information are provided "as is" and "as available," without warranty of any kind, express or implied. The information contained herein is believed to be accurate, but this cannot be guaranteed. The *Technical Speculator* and the *TS Model Growth Portfolios* and/or the author have not taken any steps to verify the adequacy, accuracy or completeness of the information provided. The profiles, critiques, and other editorial content of the *Technical Speculator* and the *TS Model Growth Portfolios* may contain forward-looking statements relating to the expected capabilities of the companies or markets mentioned herein. The reader should verify all claims and do his or her own due diligence before investing in any securities mentioned. Investing in securities is speculative and carries a high degree of risk. Neither the *Technical Speculator* and the *TS Model Growth Portfolios* nor the author make any warranty, express or implied, of any kind whatsoever, and none of the parties shall be liable for any losses, damages, costs or expenses, of any kind or description, relating to the adequacy, accuracy or completeness of the available information or the use of the available information. The analysis does not purport to be a complete study of the securities mentioned herein, and readers are advised to discuss any related purchase or sale decisions with a registered securities broker. Reports within the *Technical Speculator* and the *TS Model Growth Portfolios* are for information purposes only and are not solicitations to buy or sell any of the securities mentioned. The author may or may not have equity positions in the securities mentioned in the *Technical Speculator* and the *TS Model Growth Portfolios*.