Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES

February 2017

Strategy

Into a new year

Key Observations

- U.S. equity indexes have successfully broken out of a multi-year consolidation which spanned 2015 and the first half of 2016. Key indexes (S&P 500, Dow, NYSE, NASDAQ) have all moved higher after the breakout.
- At present, the broader market (S&P 500) appears to have successfully retested the uptrend support line of 2110 and advanced to a new all-time high.
- The U.S. dollar continues to advance and is now above par ($1.00). The Commodity Research Bureau Index (CRB) remains in a multi-year downward trend with a 20-year low in early 2016.
- We recommend investors stay long the deflationary sectors of the market (industrials, financials, consumer cyclicals, and technology).
- We remain long term bulls on the market and continue to see comparisons to the 1980s and 1990s.
- We reiterate our year-end 2017 price objective of 2,600 for the S&P 500.

Micro Thoughts

- **U.S. Economy –** The new President is expected to revive and heighten economic recovery in 2017. The unemployment rate is at a nine year low (4.7%), U.S. consumer confidence is trending higher and is at a seven year high, and housing values continue to rise.
- **10-year Bond Yields** – We believe a secular bottom in interest rates has occurred in mid-2016. The benchmark 10-year bond has formed a base at 1.65%-1.75% and suggest a measure advance to 2.75% later this year.
- **U.S. dollar** – The U.S. dollar index (DXY) continues to make higher highs and higher lows on the weekly data. With invigorated economic data in the U.S. and a positive string of potential rate increases this year, the outlook suggests higher levels in 2017. We view the increasingly positive correlation between the U.S. dollar and the S&P 500 as a bullish sign for this economic recovery. Our models point to a retest of $104 later this year.
- **Commodities** – The CRB Index continues to make new post 2009 lows. We suspect a strengthening economic outlook in the U.S. dollar will be a meaningful on-going headwind for the commodity sector. Overall, lower commodity prices are bullish for the consumer cyclical sector and the market.

Market Commentary: The bull keeps running

We have commented several times over the past few years that that the current market has many parallels to the markets of the 1980s and 1990s. Strong U.S. dollar, prolonged business and market trends and low volatility to name a few.

The new U.S. President is the wild card this year. His policies, both domestic and international have the potential to disrupt the bull market. Though we expect the secular upward trend in equities to continue this year, we also recognize the short-term volatility that can be created.

The top-down revenue growth among global companies is growing and encouraging, particularly in Europe. Potential Fed interest rate increases this year should slow the YoY advance of mid-term U.S. bonds but we see no evidence of the 10-year uptrend ending.

The benchmark S&P 500 is starting its ninth year of advancing. Similar to the 1980s and 1990s where the markets rose for 20 years, we believe there is still more room to run. S&P 500 is expected to reach 2,600 by year-end and the Dow to 22,000 by Q4.

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