Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES

July 2019

Commodities

Only corn prices shine

KEY POINTS:

- **Dow outperforming commodities expected for to last another seven to eight years**
- **More weakness expected for the CRB in Q3**
- **Deflationary assets continues to outperform inflationary assets**
- **Weather issues bring agricultural index to the top in 90-day performance**
- **Oil prices still in a downtrend; $50 target**
- **Natural-gas prices point to $2.05**
- **Gold breaks resistance, heads to $1,440**
- **Copper prices find support at $2.60**
- **Corn prices soar, with wet planting season**
- **U.S. dollar edges higher; set to retest $0.983**

	Since Last Month	*Year to Date*	*Since Inception Mid-2003*
TS Model Portfolio	+3.90%	+19.70%	**540.89%**
S&P 500	-3.75%	+17.59%	194.10%

16-year average for the TS Model Portfolio: 12.28%
16-year average for the S&P 500: 6.96%

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

New dividend income portfolio launched: 6.87% yield

CRB outlook: The Dow is winning

Outlook negative: From a longer-term perspective, stocks (Dow) have been outperforming commodities since 2011 (**Chart 1**). Stocks and commodities rotate in performance about every 18 years – the pattern for 100+ years. With stocks (Dow) taking the lead, commodities (the Commodity Research Bureau [CRB] Index) are expected to underperform for another seven to eight years. Our three-year outlook for the CRB remains negative, going into Q3. A retest of the 168-to-170 support level is expected. Fifteen-month curve-fitting models show a continued downward trend. Lower levels are expected (**Chart 2**). Buying momentum (Relative Strength Index [RSI]) is below 50 (confirming

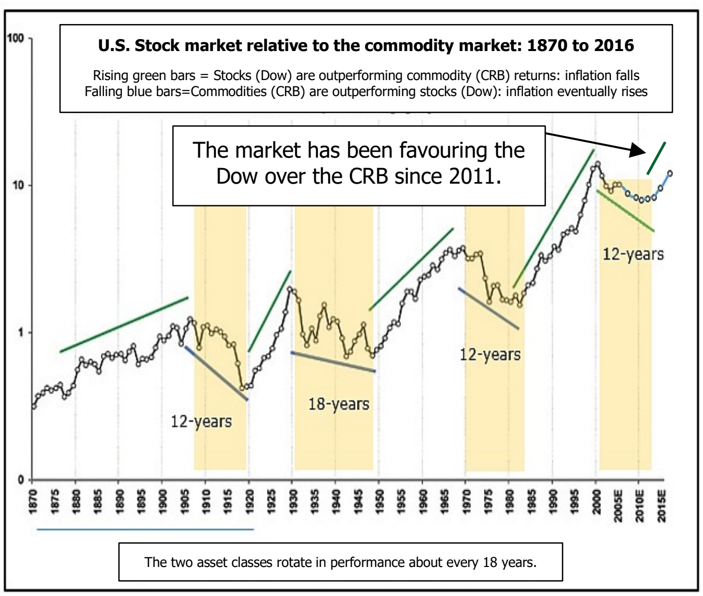

Chart 1

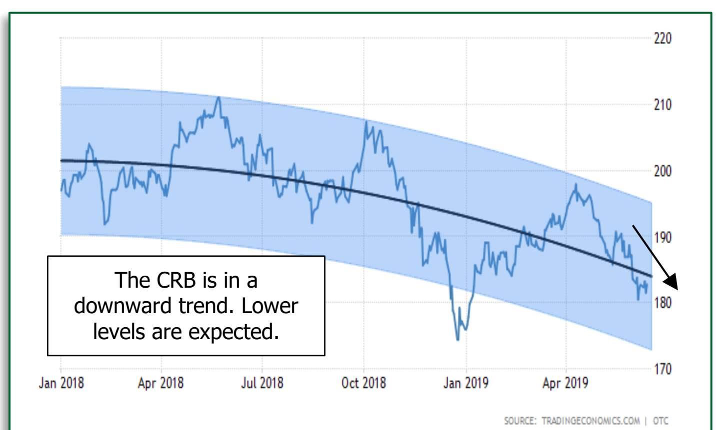

Chart 2

Chart 2a

negative price action) (**Chart 2a**).

Bottom line: Long term, the CRB is expected to underperform the Dow for most of the next seven to eight years. In a three-year perspective, watch for additional price weakness, and a retest of the 168-to-170 support level (**Chart 2a**). Stay on the sidelines for now.

Deflation vs. inflation

Deflationary assets (!PRDI) have been outperforming inflationary assets (!PRII) since mid-2016. That trend continued to strengthen over the past 12 months, with a breakout to a new 52-week high in May.

Deflationary assets include consumer products, financials, technology, industrials, healthcare and real estate (**Chart 3**).

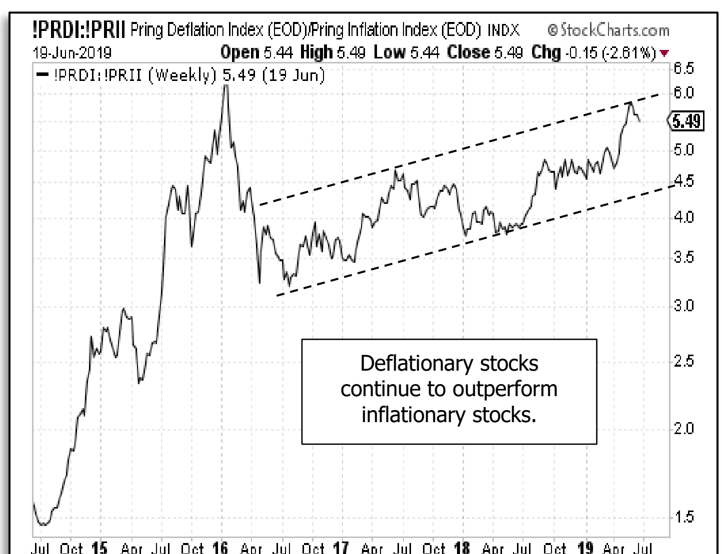

Chart 3

Bottom line: We expect this trend to continue throughout this year. The upward trend of deflationary asset performance over inflationary implies that commodities are facing ongoing headwinds in 2019. We see no evidence that this trend will change this year.

Commodity performance: Agriculture

The S&P GSCI Agriculture Index had the best 90-day performance, followed by precious metals. and remember: a strengthening U.S. dollar is generally bad for natural resources (**Chart 4**).

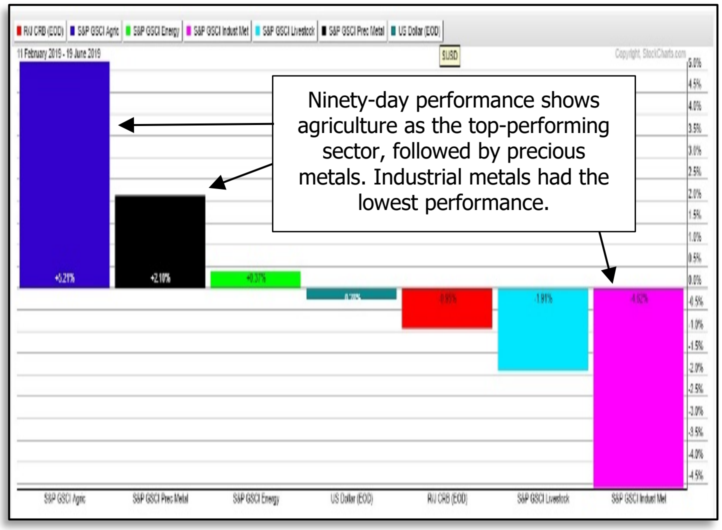

Chart 4

WTIC: lower levels

Outlook negative: Light crude oil prices are presently recoiling after landing on key support at $50.00. Buying momentum (RSI) confirms that buying strength is lifting, but is expected to fade fast (**Chart 5**). First underlying support

Chart 5

is now back near the December 2018 low, with a target of $46.00. Fifteen-month curve-fitting models (**Chart 5a**) suggest some short-term price stability at the current level, and then lower levels building in Q3. The overall trend is still down.

Bottom line: Light crude oil prices are rolling over. Lower levels are expected over the next few months. Not a great time to be an energy bull. Stay on the sidelines.

Chart 5a

Natural gas: Down to $2.05

Outlook negative: The outlook for natural-gas prices couldn't be much worse. Prices broke the support level we mentioned last month ($2.50). Now $2.05 is the next target. Buying momentum (RSI) is still solidly negative (below 50 – confirming) (**Chart 6**). Fifteen-month curve-fitting models show ongoing weakness with natural-gas prices, and in a solid downward curve. Models suggest that prices will stay below $2.50 in mid-year and trade around $2.05 to $2.20 in Q3 (**Chart 6a**).

Bottom line: There are no signs of strength in natural-gas prices. Avoid for now and stay on the sidelines.

Chart 6

Chart 6a

Gasoline: Cresting prices

Outlook neutral/negative: After gasoline prices (GASO) crested in April/May at just above $2.00, they have now fallen onto key support at $1.65. Buying momentum (RSI) is curling up (confirming a bounce). We suspect there will be some short-term support $1.65, and then lower levels as Q3 unfolds (**Chart 7**).

Chart 7

Chart 7a

Fifteen-month curve-fitting models (**Chart 7a** on page 3) show some price stability at the current level, but weakness building into Q3. The target in Q3 is $1.60.

Bottom line: Gasoline prices move with oil prices. Since our models suggest that oil prices are rolling over, we expect gas prices to follow. Use this current stability to sell into strength, and then stay on the sidelines.

Gold: Breakout and overbought

Outlook neutral/positive: Finally! A breakout after the fifth attempt. Gold has hit this $1,375 level multiple times since Q3 2017. Buying momentum (RSI) is positive and overbought (confirming the current strength). Expect some retracement in July. The first support level is at $1,350. With the breakout, $1,440 is the target (**Chart 8**).

Chart 8

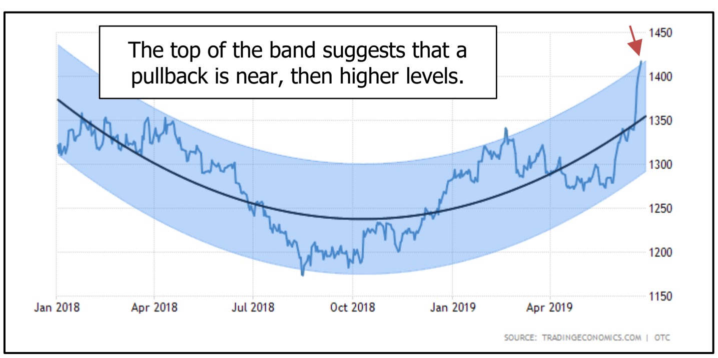

Chart 8a

Fifteen-month curve-fitting models show that the main trend is up, suggesting that higher prices are likely this time. Expect gold to remain around $1,350, near term, and then to slowly advance over the next few months (**Chart 8a**). Add to positions.

Silver: Rising off the base

Outlook neutral: The poor sister to gold has finally found some price support around $14.00. The resistance level of $15.75 is still there, holding down any potential upside move. Buying momentum (RSI) is neutral, compared with negative last month (**Chart 9**).

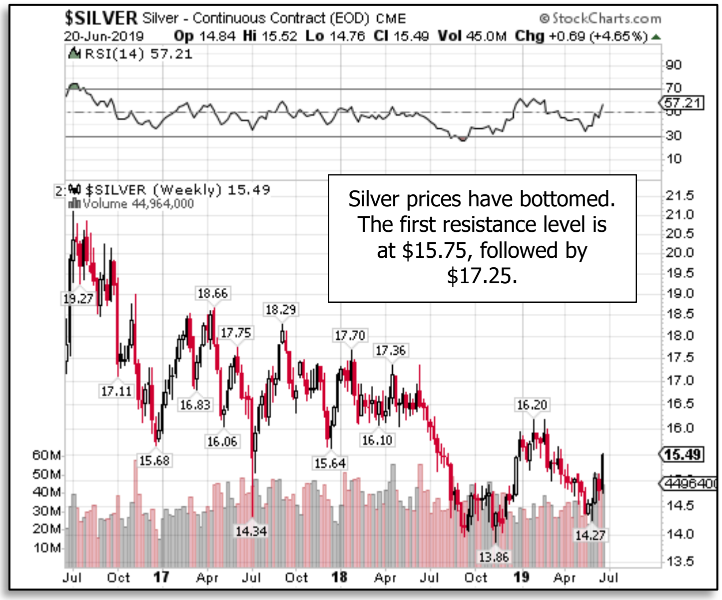

Chart 9

Fifteen-month curve-fitting models (**Chart 9a**) show that silver prices are beginning an upward curve, but are still below the middle line.

Bottom line: We believe that silver prices need more time. We would suggest starting to buy the commodity at $16.25. Until then, stay on the sidelines.

Chart 9a

Industrial metals: Nearing support?

Outlook neutral: Although the rally up to the key 50-week moving average (m/a) failed and rolled over, the index appears to be finding support at round 310. Buying momentum (RSI) is very negative, almost oversold, suggesting that a bounce could be near.

Bottom line: We suspect that the current price weakness is almost complete. Wait on the sidelines for now. Add to the position ONLY above 355 (**Chart 10**).

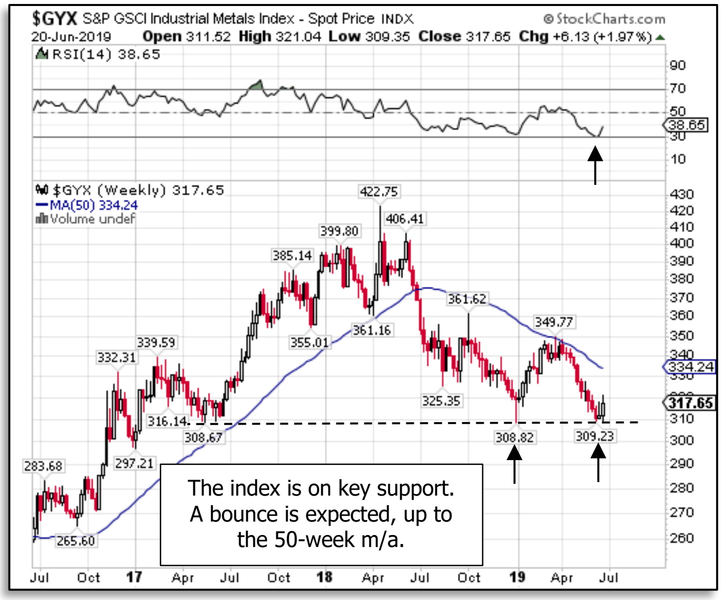

Chart 10

Copper: Nearing support?

Outlook neutral: The recent movement above the key 50-week m/a failed in Q2 and has now fallen back to key support at $2.60. Buying momentum (RSI) is confirming the uptick strength, with a reading coming off oversold. The first resistance line is at $2.85 (**Chart 11**).

Chart 11

Fifteen-month curve-fitting models show copper at the bottom of the band, suggesting that the recent drop in price is likely almost complete. Encouraging that the curve is now moving up. Models suggest that some near-term strength in Q3 at $2.60 will likely hold (**Chart 11a**).

Bottom line: The recent upward trend shift in curve-fitting models suggest that the worst of the price slide is likely over. We expect some price stability and mild recovery in Q3. Add to the position on a close above $2.85.

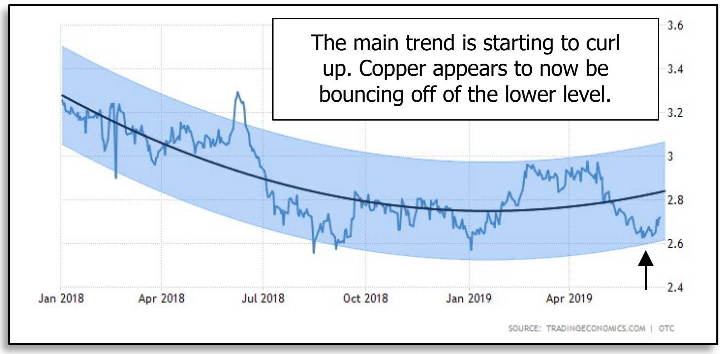

Chart 11a

Corn: Breakout!

Outlook positive: Corn has been slammed with one the wettest, coldest starts to the planting season in 50+ years. Prices, in response, have shot up and broken out of a three-year trading band. RSI is confirming the strength (**Chart 12**).

Chart 12

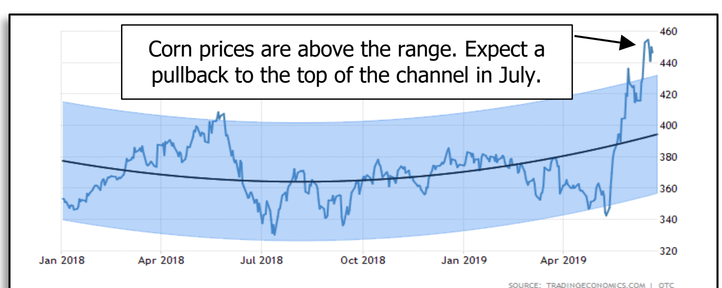

Chart 12a

Fifteen-month curve-fitting models show a strong, positive picture for corn prices. Both the trading band and the centre line are pointing up (**Chart 12a** on page 5). However, corn prices have moved too high, too fast, and some retracement should be expected. Corn prices are expected to move back to the curve.

Bottom line: The outlook over the next few quarters remains positive. Adverse weather conditions should make this year's planting one of the most trying, thus keeping the price firm. We expect corn prices to pull back to $4.20 in the short term. Add to the position on confirmation of support.

U.S. dollar: Fading strength

Outlook neutral/positive: The greenback was continuing to inch its way higher, supported by favourable economic data in Q1/Q2. Until the Fed spoke. The recent announcement from the Federal Open Market Committee (FOMC) to hold off any interest rate increases has quieted the calls from most dollar bulls. Technically, the greenback is starting to break the support of the 50-week m/a. Buying momentum is below 50 (now fading – confirming) showing that the pressure is easing. This is good news for the commodity sector (**Chart 13**).

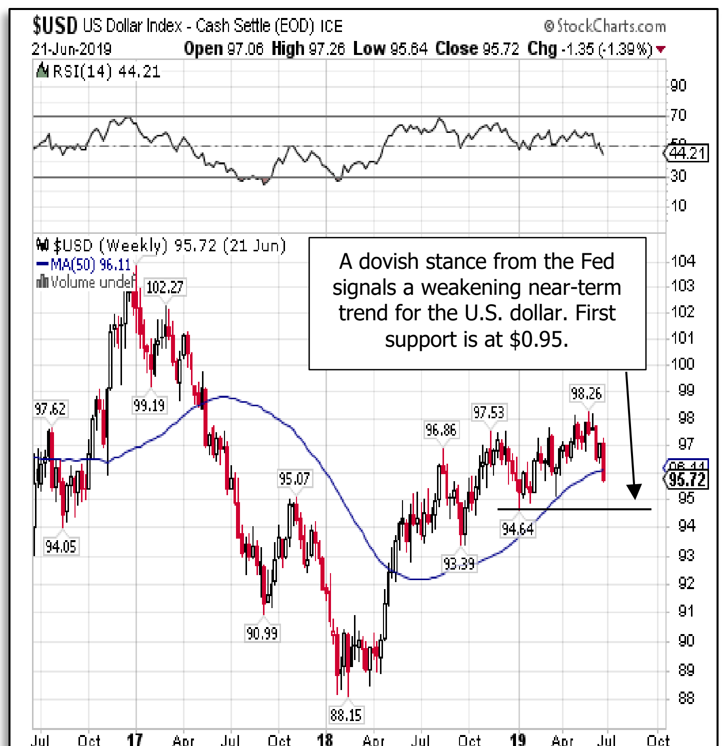

Chart 13

Bottom line: The rally in the U.S. Dollar Index should be nearing completion. We suspect that there are some additional tailwinds for the dollar, but the main movement is likely over. We suggest not adding to the position at this time.

Fifteen-month curve-fitting models suggest that the run in the dollar is nearing a crest (**Chart 13a**). As both the band and the centre line are flattening, a move up to $0.983 is likely the peak. The new downside target is $0.95.

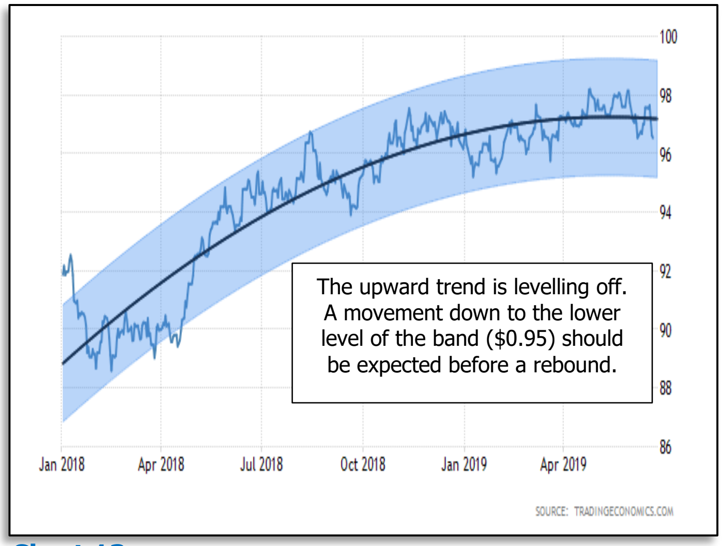

Chart 13a

What does it all mean?

There appears to be a gradual slowing in the advance of the U.S. dollar. A more dovish tone is coming out of the Fed, which signals no more rate hikes, for now. Models for the big dollar point to a low of $0.95, likely in July. This is good news for commodities in the short term. The markets, however, are still in a dominant deflationary stance (this phase started in 2012), and it is getting more robust – which puts U.S.-priced commodities on the back foot, longer term. Rallies in natural resources will still occur, like WTIC's run in Q1, but they are not expected to be as long as they might be during periods dominated by inflation, such as 2000 to 2012. We suggest keeping your commodity trades short term, and limiting their duration to weeks.

What should investors do?

Most commodity prices are not doing well and are still in a largely negative trend (energy). A few appear to be close to a potential base (copper and silver), whereas gold has already broken through the key resistance level of $1,400. The one star is corn prices. Thanks to challenging weather patterns (excessive rain), as this article explains, planting conditions are far from ideal.

As always, we suggest staying with the strongest candidate. To trade corn, we would propose the Teucrium Corn Fund (**CORN**) or the iShares Global Agriculture Index exchange-traded fund (ETF) (**COW**).

International Equities

Green shoots are starting to show

KEY POINTS:

- **Overall improving strength for world markets**
- **Australia's ASX leads in 90-day performance**
- **Emerging markets need more time before advancing**
- **China's Shanghai starts to stabilize**
- **Japan's Nikkei finds a base**
- **Support builds for South Korea's Seoul index**
- **A lift starts on Europe's index**
- **France's CAC leads European indexes**
- **Spain's stock market still struggles**
- **No stopping Brazil's Bovespa**
- **Australia's ASX reaches new all-time high**

Overview: Retesting the high

Outlook neutral/positive: The primary trend is higher. The index continues to remain contained between 370 and 405. Year to date (YTD) shows no difference in price action from 2018. Buying momentum (RSI) is recovering, suggesting more upside trading in Q3 should be expected (**Chart 14**).

Chart 14

From a 12-year perspective, the Dow Jones Global World Index (DJW) is clearly still in the ongoing secular bull market. Buying momentum (RSI) has now moved to a positive reading (confirming the continuation of the uptrend) (**Chart 14a**).

Chart 14a

Bottom line: The bull market is intact. There are no immediate signs of weakness or concern. Once through 405, 427 is the next target, followed ultimately by 460.

World index ex-US: Trading range

Outlook neutral: Not much has changed in the last month. The index stalled its advance after the Q1 rally. Hitting the 1930 resistance level in May brought the index to a stop. Some renewed strength in buying momentum (now above 50) is positive, but not yet confirming a new uptrend. First downside support is at 1800 (**Chart 15** on page 8).

Bottom line: We suspect that more time is needed before a sustained advance can develop. Do not add to positions at this time. Wait until the index crosses 1935.

Global performance: Australia leads

The 90-day performance shows Australia's All Ordinaries (ASX) leading the global arena. Brazil's Bovespa and China's Shanghai come in second and third, respectively. Seven world indexes outperformed the benchmark DJW, and all but Japan's Nikkei had a positive 90-day performance – encouraging. We anticipate that this positive price action will continue into late Q3 (**Chart 16** on page 8).

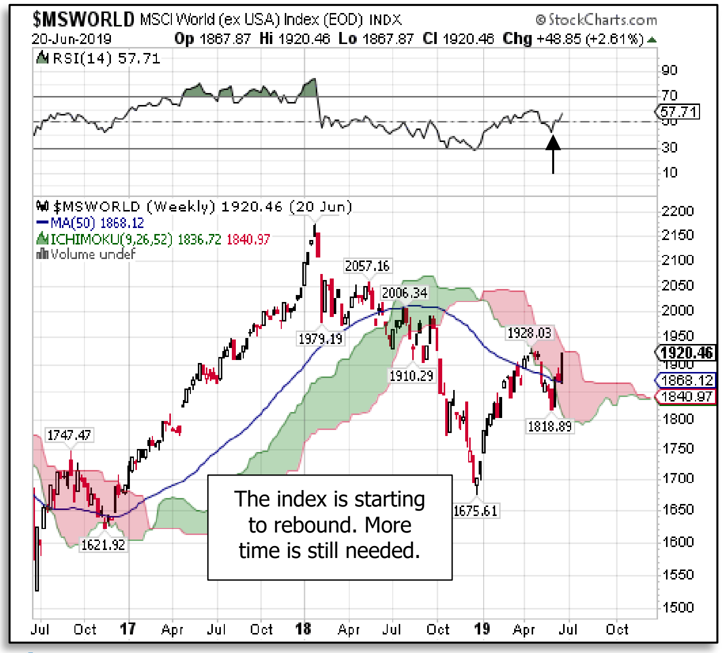

Chart 15

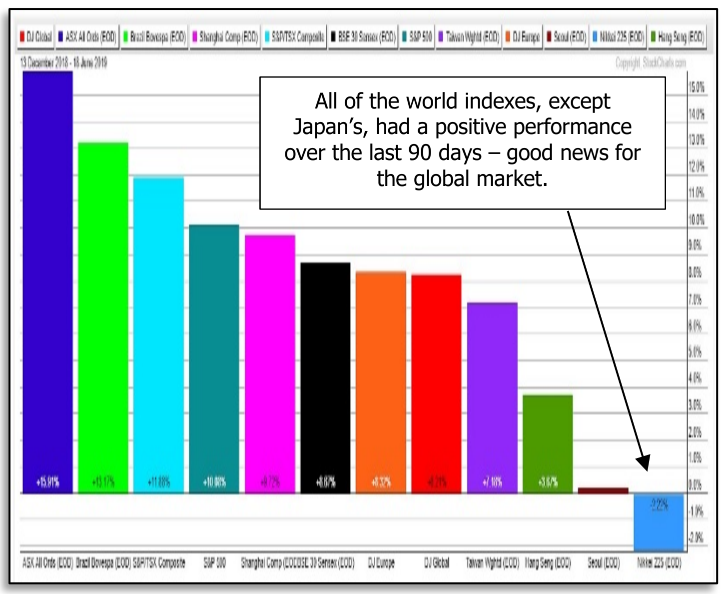

Chart 16

Suggested portfolio weighting – through mid/19
Sector Overweight: *Brazil, India, U.S.A., Australia*
Sector Market Weight: *Canada, China, Europe*
Sector Underweight: *Hong Kong, South Korea, Japan*
Suggested market percentage weighting – 2019

50% (*India, Brazil, U.S.A., Australia*)
40% *(Asia, Canada, Europe, China)*
10% cash

Emerging markets: Some strength

Outlook neutral: Emerging markets have stemmed the downward pressure that occurred in 2018. The index is currently backfilling and gaining support. It appears that more time is needed before an upward trend can start. Underlying support is at 40.

Bottom line: Emerging market indexes are slowly recovering, in spite of the Trump trade war. We suspect that the current weakness is likely over. Stay on the sidelines until the index is above 45 (**Chart 17**).

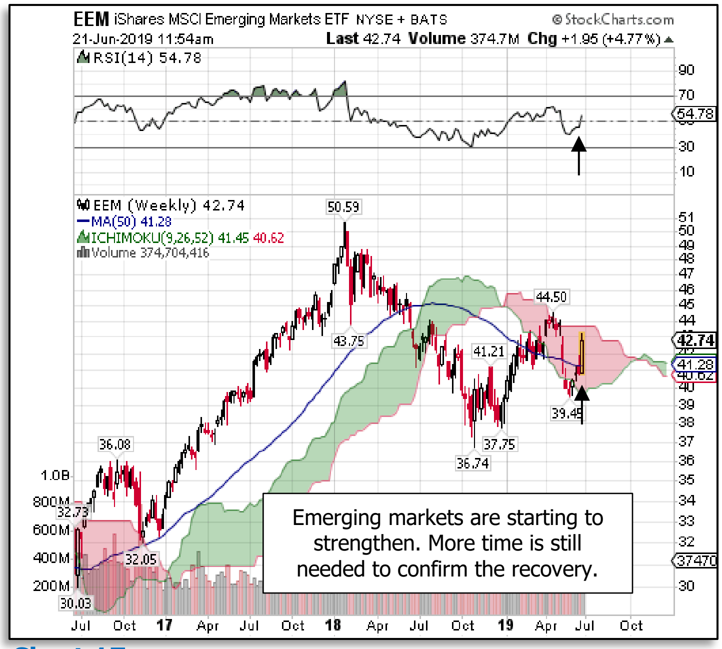

Chart 17

China: Pullback to support

Outlook neutral: The major (two-year) trend is flat. Price action continues to consolidate. The index has found price support at the key 50-week m/a. Buying momentum (RSI) is neutral. Underlying support is at 2800. First upside resistance is now at 3050 (**Chart 18** on page 9).

Bottom line: We suspect that more price consolidation/ stability is coming over the next month or two. Wait until 3100 is crossed before adding to the position. Once through 3100, look for a retest of 3275.

Japan: Consolidation

Outlook neutral: Although the index failed to remain above the key 50-week m/a in April, it now appears to be building a base at the 20,000 level. Buying momentum (RSI) has moved up from negative to neutral (confirming the building support). The index needs to close above 23,000 before there is sufficient evidence of a new uptrend (**Chart 19** on page 9).

Chart 18

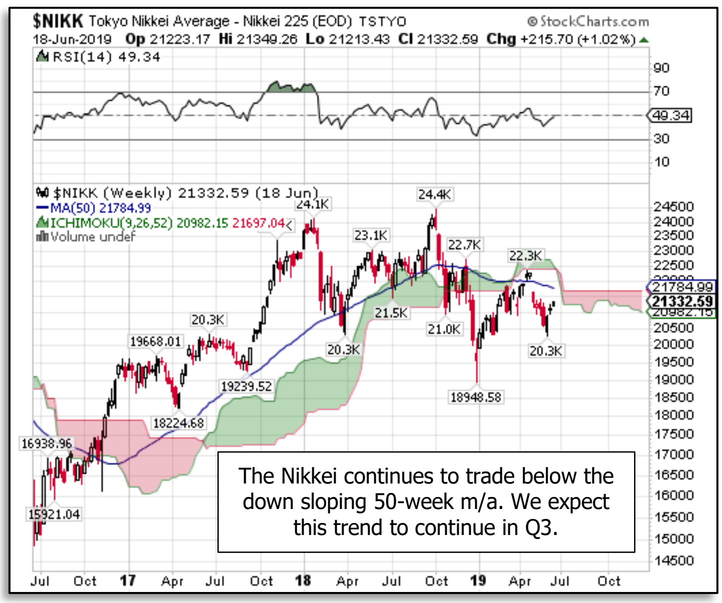

Chart 19

Bottom line: More time is needed. Wait for the Nikkei to cross above 23,000 before adding to the position. Once through, 24,375 is the target.

Hong Kong: Pullback to support

Outlook neutral: Similar price action to China. The two-year trend is flat. The index broke above the key 50-week m/a and then fell back. Buying momentum (RSI) is still neutral, but starting to curl up (encouraging). Now on first support at 27,000 (**Chart 20**).

Chart 20

Bottom line: We suspect the index needs more time to build a base. Stay on the sidelines until 29,500 is crossed.

South Korea: Base-building

Outlook neutral: The major (two-year) trend is still down. A base at 2000 appears to be building. The index failed to pass through the key 50-week m/a, which is acting as price resistance. Buying momentum is negative (confirming the weakness). More consolidation between 2000 and 2250 is expected over the next few months (**Chart 21**).

Bottom line: Base-building is still developing. Stay on the sidelines until there is a movement above 2250. Once through, 2500 is the first target.

Chart 21

India: Upward trend continues

Outlook positive: The major (two-year) trend is up. The index successfully bounced off of the rising 50-week m/a in May and reached a new all-time high in June. Buying momentum (RSI) is above 50 (confirming the rise). Underlying support is at 38,200. The next target level of 39,750 has been met. The next target is 42,000 (**Chart 22**).

Bottom line: There was a new all-time high in June. The upward trend appears to be holding. Add to the positions on any weakness.

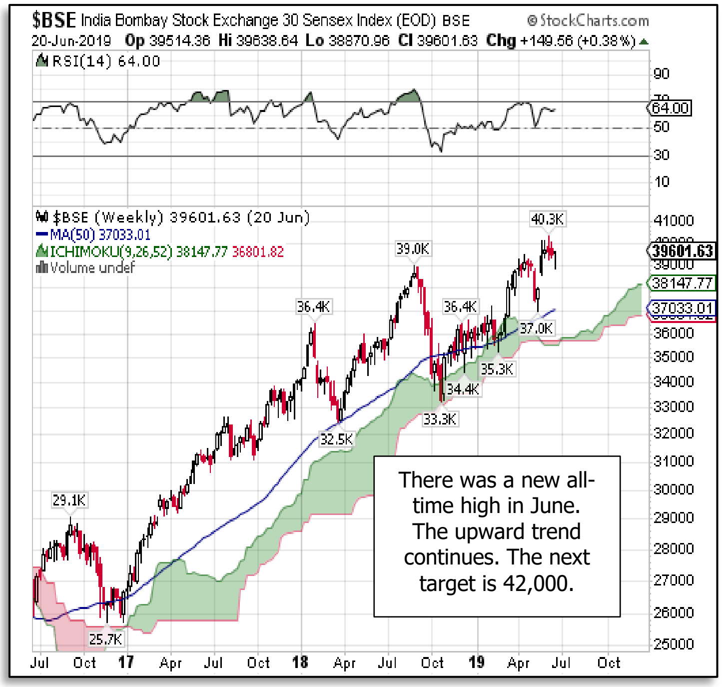

Chart 22

Europe: Improving stance

Outlook neutral/positive: The major (two-year) trend is flat. The index is at the key 50-week m/a and appears to have found price support at 310 to 315. Buying momentum (RSI) is neutral (around 50) – not confirming, yet (**Chart 23**).

Bottom line: The index appears to be strengthening. Price action is slowly turning positive. We would suggest buying the position at 335. The first target is 352.

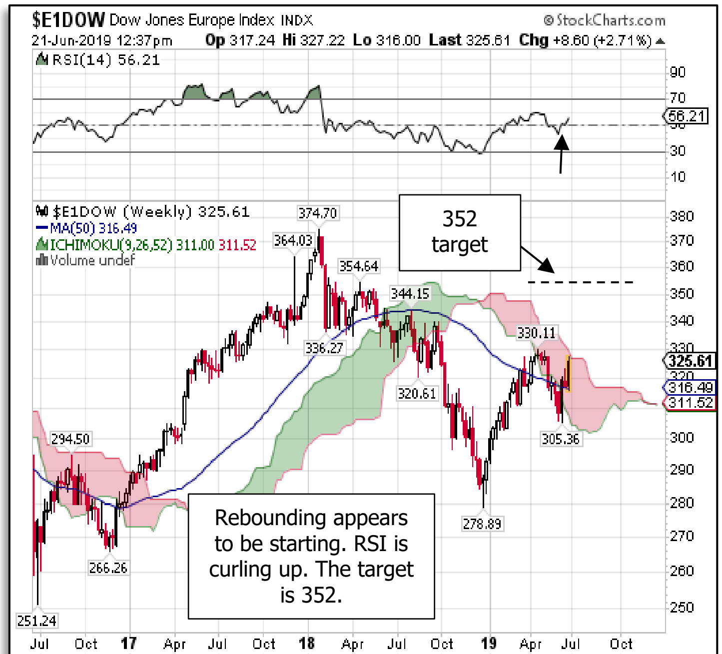

Chart 23

Chart 24

Germany: More consolidation

Outlook neutral: The two year trend is flat. Index is testing the level of the 50-week m/a at 11,750. Buying momentum (RSI) is above 50 (confirming a strengthening trend) – good news. The first resistance level is at 12,825 (**Chart 24**).

Bottom line: The index still needs to cross the 12,500 level before an uptrend can begin. We suspect that this will happen over the next month. Stay on the sidelines for now. Once 12,500 is crossed, then add to the position. The first target is 12,825, followed by 13,600.

France: Breakout!

Outlook positive: The major (two-year) trend is flat. The index is above the key 50-week m/a and holding. Buying momentum (RSI) is positive (above 50), confirming that higher levels are coming. Downside price support is at 5200.

Bottom line: The current bounce is gaining strength. No concerns. Add to the position now. The next target is 5660, followed by 6100 (**Chart 25**).

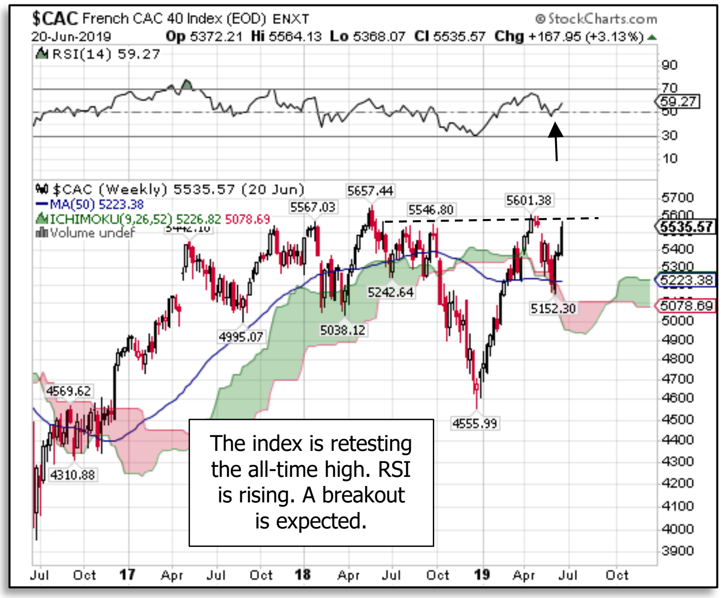

Chart 25

Spain: Retesting the m/a

Outlook neutral/negative: The two-year trend is down. The index is following the declining 50-week m/a, suggesting more weakness into mid-year. RSI is around 50 (non-confirming an advance) (**Chart 26**).

Bottom line: More time is needed. Stay on the sidelines for now. Add to the position only when 9550 is reached. Once achieved, 10,000 will be the next target.

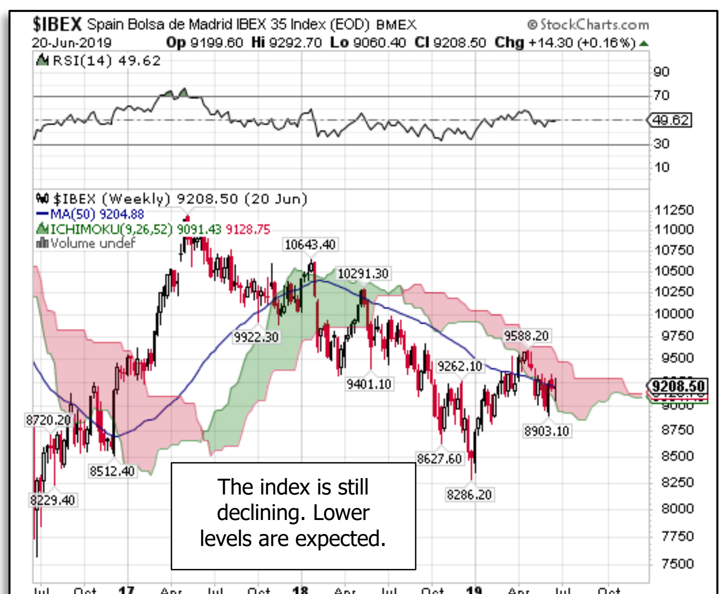

Chart 26

Italy: Inflection point

Outlook neutral: The major (two-year) trend is flat. The index broke through the 50-week m/a, and then dropped back to the line, similar to other European indexes. Buying momentum (RSI) is neutral (non-confirming), suggesting that more restricted trading is coming in mid-year. On the first support level at 2125 (**Chart 27**).

Bottom line: Stay on the sidelines until 2300 is crossed. Once through, the next target is 2400, followed by 2550.

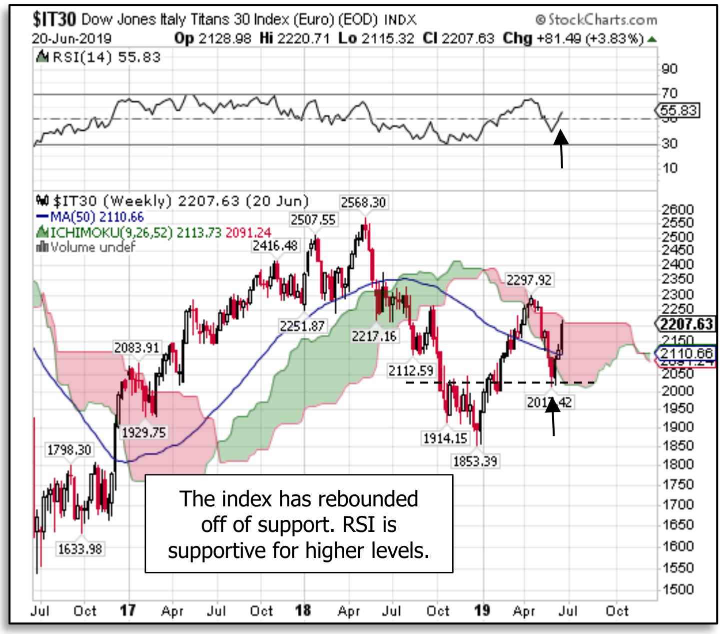

Chart 27

Brazil: Upward trend continues

Outlook positive: The major two-year trend is up. The Bovespa Index has bounced off of the rising 50-week m/a (again). Buying momentum (RSI) is positive (encouraging) suggesting that more upside strength is developing. First support at 82,750 should hold any price decline. Some price resistance at 100,000.

Bottom line: We suspect that more upside lies ahead. Add to positions on any weakness. The next target is 107,000 (**Chart 28** on page 12).

Australia: New all-time high

Outlook positive: The index has moved to a new all-time high of 6668.30. Buying momentum (RSI) is still positive (confirming the ongoing rise). We suspect that higher levels will develop in mid-year. Currently sitting on support at 6500 (**Chart 29** on page 12).

Bottom line: Add to positions on any weakness over the next couple of months. Models suggest that there is more upside to come. The next target is 6850. No concerns. One of the best-performing world indexes.

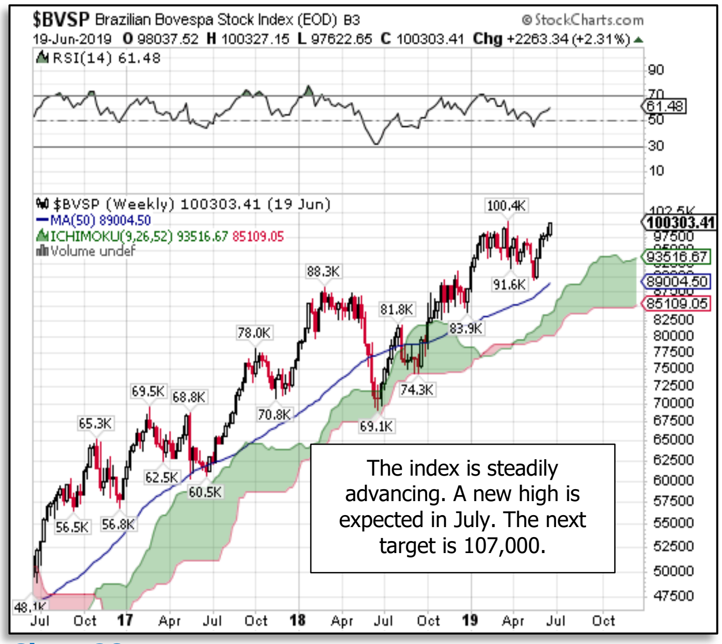

Chart 28

Chart 29

What does it all mean?

The secular bull market is still in great shape and is expected to continue advancing higher. At this juncture, global markets are largely in the process of still trading within a contained range. Many indexes, however, are moving steadily toward the top end of that range, whereas some indexes (India, Brazil and Australia) were never in a range. Some of the pressure from the Trump trade war with China appears to be easing, although at this juncture, it is anyone's guess whether it will be totally resolved this year. Until the trade spat is resolved, we suggest keeping a 10% position in cash.

What should investors do?

Our mantra remains the same: **stay with the leaders.**

We continue to like France's CAC, Brazil's Bovespa, India's BSE, Australia's All Ordinaries, Canada's TSX, and the S&P 500. These are all outperforming the benchmark Dow Jones Global World Index. They are our favourites. They all appear very positive, and we suspect that higher levels are coming in Q3. We would suggest looking at the following ETFs: **EWQ**, **EWZ**, **INDA**, and **EWA**, **XIU** and **SPX**.

U.S. & Canadian Equities

Mostly bullish outlook

KEY POINTS:

- **U.S. economy still growing, but cracks starting to show**
- **Canada's GDP growth stalling**
- **U.S. unemployment rate reaches a low**
- **Business confidence gauge keeps falling**
- **More stocks rising than falling – a good thing**
- **NASDAQ leads in market performance**
- **Uncertainty still holds with bond performance**
- **U.S. stock markets look great; set for new highs**
- **TSX positioned to retest the all-time high**

KEY ECONOMIC NUMBERS

- U.S. annual GDP: 3.20% ↑
- U.S. interest rate: 2.50% ↑
- U.S. inflation rate: 1.80% →
- U.S. jobless rate: 3.60% →
- U.S. gov. budget: (-3.80%) ↓
- U.S. debt/GDP: 105.40% →
- U.S. current account to GDP: (-2.40) →
- U.S. currency: $0.9763 →
- U.S. population: 325.72 million →
- Canadian annual GDP: 1.30% ↓
- Canadian interest rate: 1.75% →

- Canadian inflation rate: 2.00%
- Canadian jobless rate: 5.40%
- Canadian gov. budget: (-0.70%)
- Canadian debt/GDP: 90.60%
- Canadian current account to GDP: (-2.60)
- Canadian currency (CAD/USD): $1.34
- Canadian population: 37.31 million

U.S. economy continues to expand at a moderate pace, with 3.20% annual GDP growth. Expectations are for a slowing economy into Q3. Inflation eases with 1.80%, still below the Fed's target. Unemployment rate edged down to 3.60%. U.S. dollar's advance slows. Canadian economy (GDP) is flat, with no growth in 13 months. Jobless rate edges down to 5.40%. Weakness remains for the CAD$ against the US$ into mid-year. The outlook for the Canadian economy into mid/19 is for flat GDP growth, as in 2018, with levels well below 2.00%.

<u>Suggested portfolio weighting – into mid/19</u>
Sector Overweight: *Industrials, technology, financials*
Sector Market Weight: *Cyclicals, healthcare, staples*
Sector Underweight: *Gold, energy, mining, materials*
<u>Suggested market percentage weighting – 2019</u>

U.S. market: 45% (S&P 500, Dow, NASDAQ)
International markets: 15% (Europe, Asia, etc.)
Canadian market: 30% (TSX)
Cash: 10%

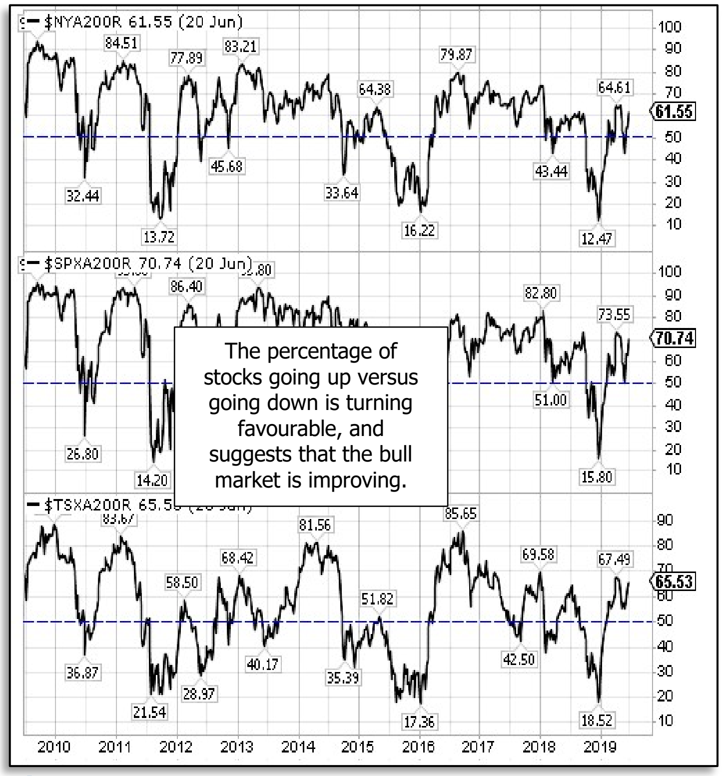

Chart 30

Breadth Barometer: 61% positive

Outlook neutral/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 June was **60.83%** versus 54.53% for last month. Recovery is still developing. This percentage level produces a slightly rising trend in the markets. Levels above 60% produce an upward trend.

Bottom line: The market percentages are slowly improving. The current levels are encouraging for more upside growth in Q3 (**Chart 30**).

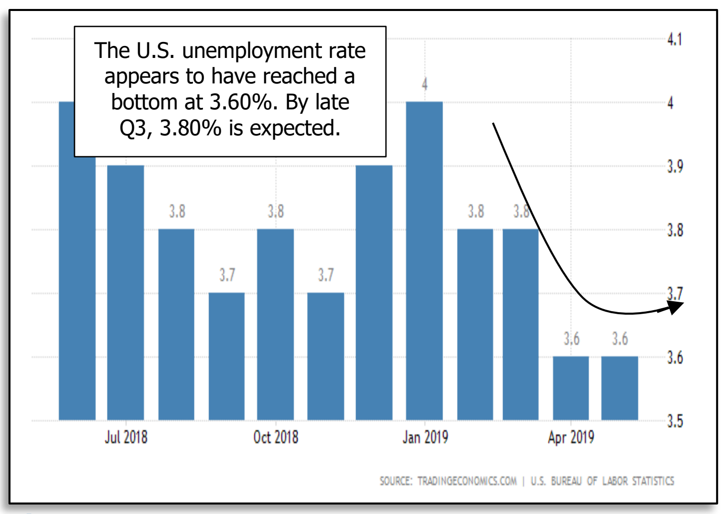

Chart 31

Key economics: U.S. unemployment

Outlook neutral/positive: U.S. unemployment continues to remain at 3.60%, a 49-year low. Models suggest that this is the bottom. The target for late Q3 is 3.80%, and 4.00% in nine to 12 months.

Bottom line: Economic conditions (trade wars, decreasing manufacturing output, and eroding business confidence) are suggesting that 3.60% is a low, and a slight rise to 3.80% should be expected over the next few quarters (**Chart 31**).

Key Economics: Business confidence

Outlook negative: U.S. business confidence continuous to slump, after peaking in the first half of 2018. The downward trend in confidence is expected to continue into Q3, with 50.00 as the target (**Chart 32** on page 14)**.**

Bottom line: Ongoing weakness in business confidence is eroding GDP growth. The New Orders Index peaked in mid-2018, and the Backlog on Orders Index contracted for the first time since January 2017.

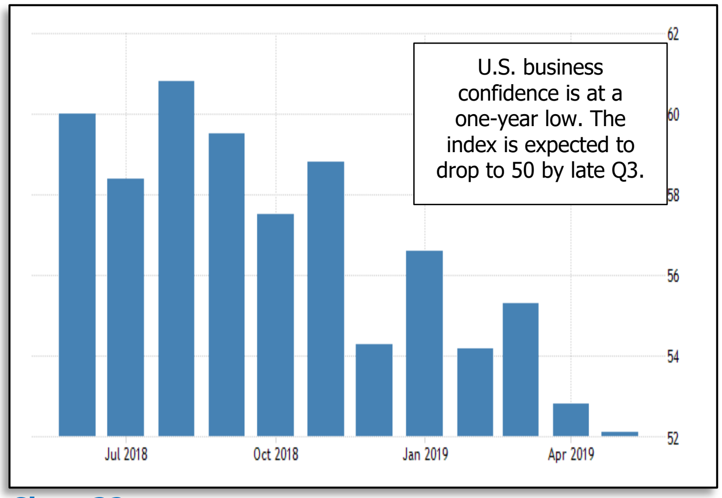

Chart 32

Key economics: U.S. 10-year bonds

Outlook negative: The benchmark 10-year government bond yields continue to nose-dive as deflationary pressure builds in the U.S., and the economy shows increasing evidence of slowing down. But models suggest that rates are near the bottom. The outlook is for 2.17% in late Q3, and 2.30% over the next two to three quarters (**Chart 33**).

Bottom line: Technically, the current U.S. 10-year bond yield slide appears to be nearing a bottom and oversold. We suspect a minor bounce over the next few quarters.

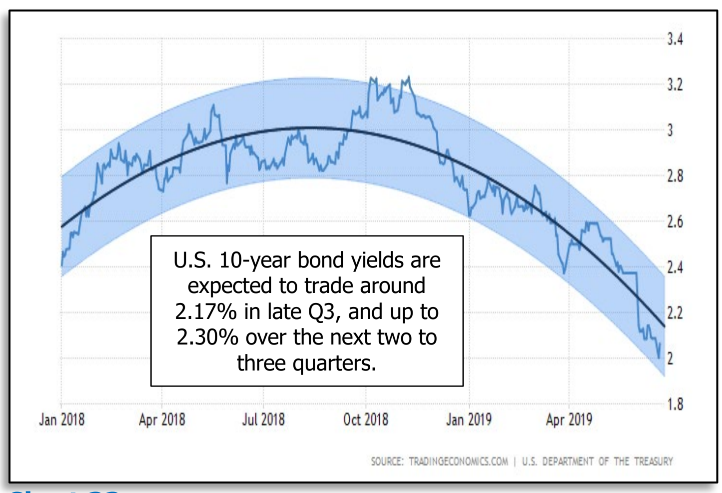

Chart 33

CDN Economics: Annual GDP

Outlook neutral/negative: Canada's annualized GDP growth outlook remains flat, with a Q3 forecast of 1.6%. Household expenditure (consumer spending) is the largest component of GDP (58%). This element remains buoyant, with personal spending and disposable income both up, quarter-over-quarter. However, most other elements of GDP show flat growth (**Chart 34**).

Bottom line: Canada's average annual GDP growth over the past 60 years has been 3.14%. We are anticipating minor growth over the next few quarters, with 1.60% and 1.50% in 2020.

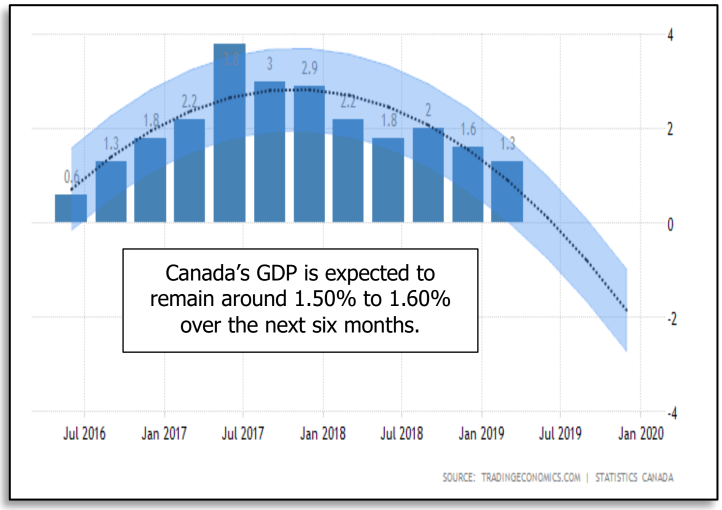

Chart 34

Index performance: NASDAQ leads

Outlook positive: Over the past 90 days, most indexes posted a healthy, positive return. The S&P 500 and the Dow took second and third positions, respectively. The small-cap indexes (TSX Venture and Russell 2000) held the bottom spots.

Bottom line: Weakness in small-cap stocks (Russell 2000 in particular) is an indicator of a risk-off environment. The current strength in the large-cap indexes signals some market uneasiness. The ongoing weakness in the Venture is a reflection on the current state of commodities (**Chart 35**).

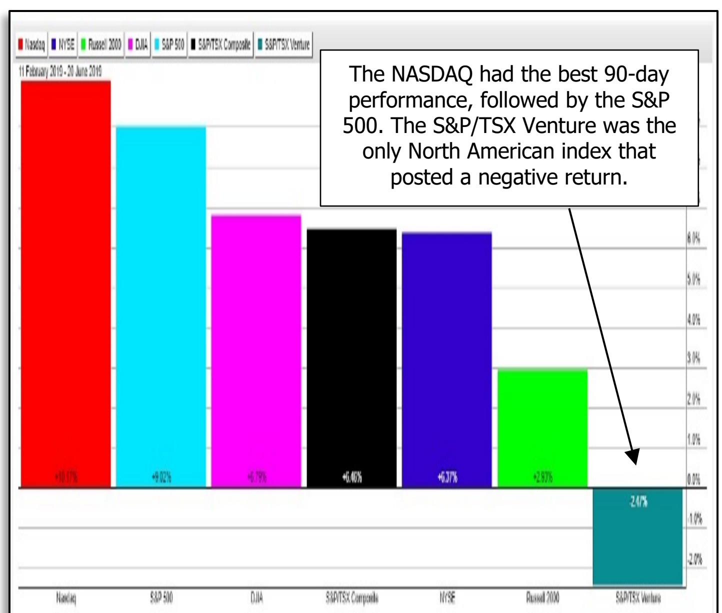

Chart 35

Stocks vs. bonds: Equal performance

Outlook neutral: Equities (risk) and bonds (safety) have been performing equally since December. As the trade war rolls back and forth, money flow is balancing between the two asset classes as money managers hedge their bets.

Bottom line: Concern is waning among money managers. This suggests that stock indexes will likely continue improving, but remain in a trading range until the market conditions clearly improve (**Chart 36**).

Chart 36

NYSE: Retesting resistance level

Outlook neutral/positive: The major (two-year) trend is up. The index has retraced back to the key 50-week m/a and bounced. Buying momentum (RSI) is positive (above 50) – all confirming the new upward strength (**Chart 37**).

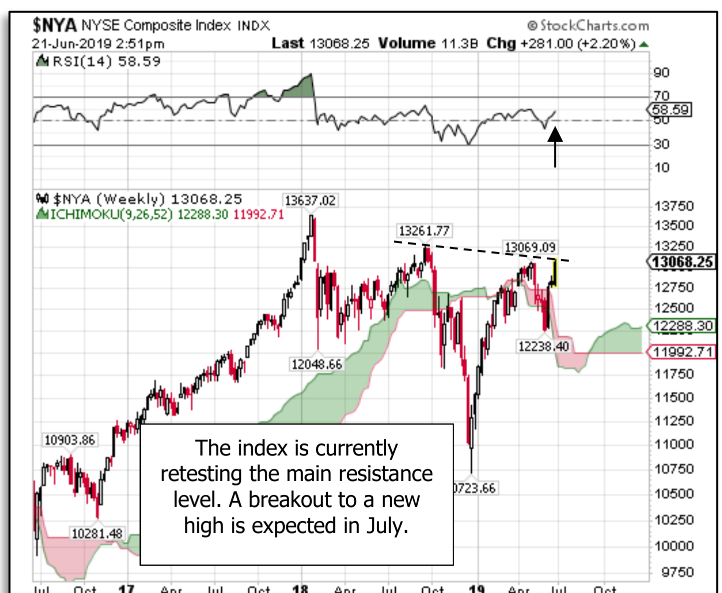

Chart 37

First overhead resistance is at 13,100. A move above this level would confirm that the NYSE is back on solid ground again, and point to 13,775.

The long-term (12-year) view of the index illustrates the secular upward trend. Recent price action is suggesting that some stalling below 13,100 is still in place. A rebound in RSI is enouraging (**Chart 37a**).

Bottom line: The secular bull market is still intact. Some near-term stalling below 13,100 should be expected. Add to positions on any weakness. The next target is 13,775.

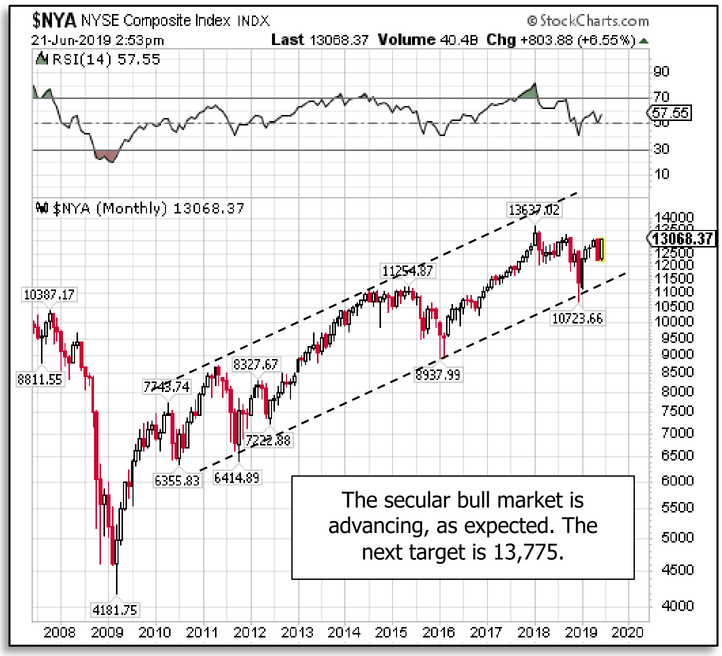

Chart 37a

S&P 500: Retesting the high

Outlook neutral/positive: Recent price action is poised to retest the all-time high at 2954.13. Buying momentum (RSI) recovered in June/July and is still in the positive zone, plus the index is above the rising 50-week m/a (all good developments). The index just missed our target of 3000. We expect that to be achieved over the next couple of months. The next major support line is at 2600 (**Chart 38** on page 16). The long-term secular rise is still in place: some price diversions, but no problems expected. Higher levels are still anticipated in Q3 (**Chart 38a** on page 16).

Bottom line: The upward movement is progressing. Some near-term, short-term stalling is expected. Add to the position on any weakness. The next target is 3200.

Dow: Ready for a new high

Outlook positive: The two-year trend is up. The index is ready to challenge the old high level of 26,800. Although this zone was met three times since 2018, models suggest

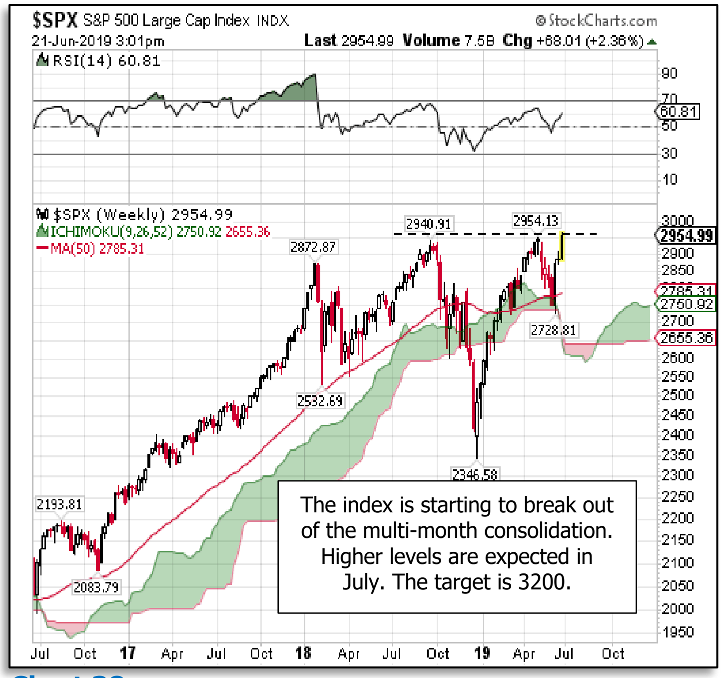

Chart 38

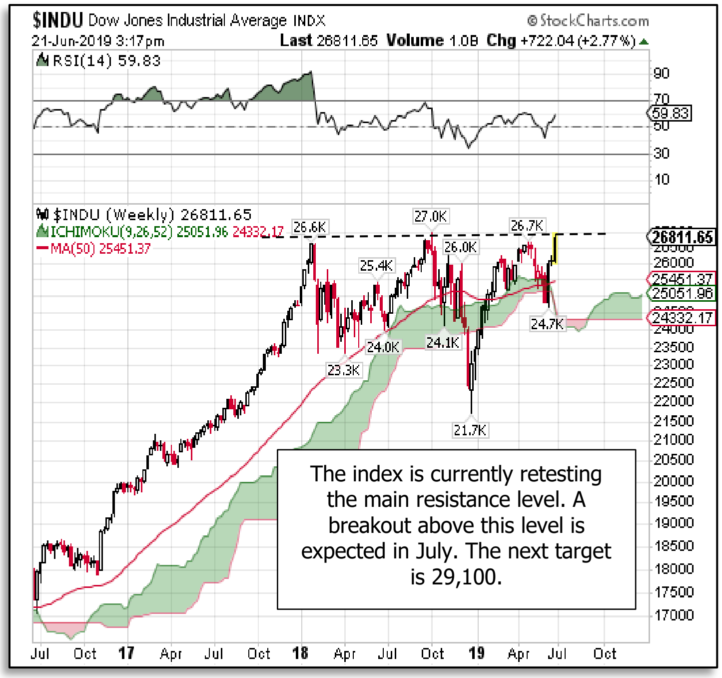

Chart 39

Chart 38a

NASDAQ: Nearing a breakout

Outlook positive: The index is poised to retest the all-time high of 8176.08 by August. A recent pullback to the key 50-week m/a, and then a rebound, plus a rise in buying momentum (RSI) to above 50 suggest higher levels ahead. Currently on the first support level at 7750 (**Chart 40**).

Bottom line: We suspect that more upside lies ahead. Do not expect any major corrections at this juncture. Add to positions on any weakness. The new target is 9000.

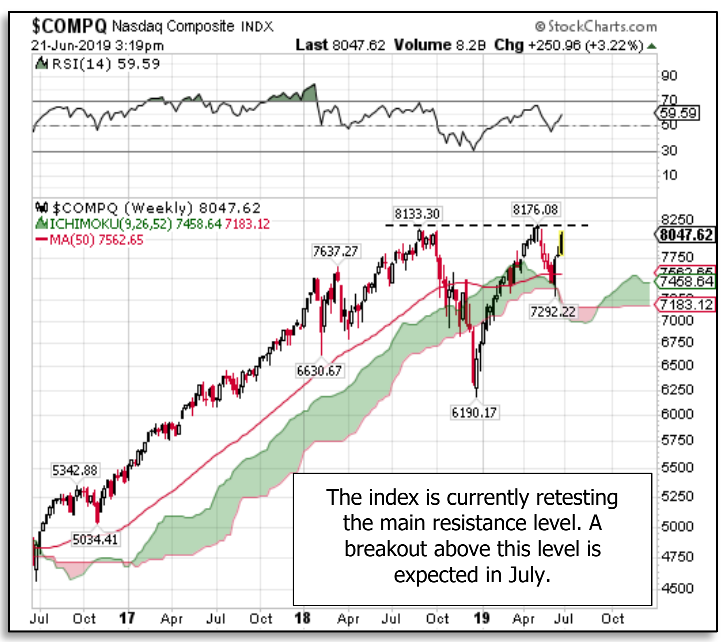

Chart 40

that the Dow will broach this level over the next month or two. Buying momentum (RSI) is positive (confirming the rebounding strength). First price support is at 25,500.

Bottom line: The index is expected to move higher over the next few months. A break above 27,275 would suggest a move to the next target of 29,100. Wait until there is a breakout, and then add to positions (**Chart 39**).

Russell 2000: Weakness continues

Outlook neutral/negative: The recent upward bounce hit the resistance level of 1575 and fell. Buying momentum (RSI) is still positive (above 50), this phase is likely temporary. Any pullback should be caught at the first support level of 1525 (**Chart 41**).

Bottom line: The Russell 2000 is at the key 50-week m/a. We expect the index to remain at or under the m/a in Q3. More consolidation is expected. More time is needed. Wait until the index closes above 1580 before adding to the position. For now, stay on the sidelines.

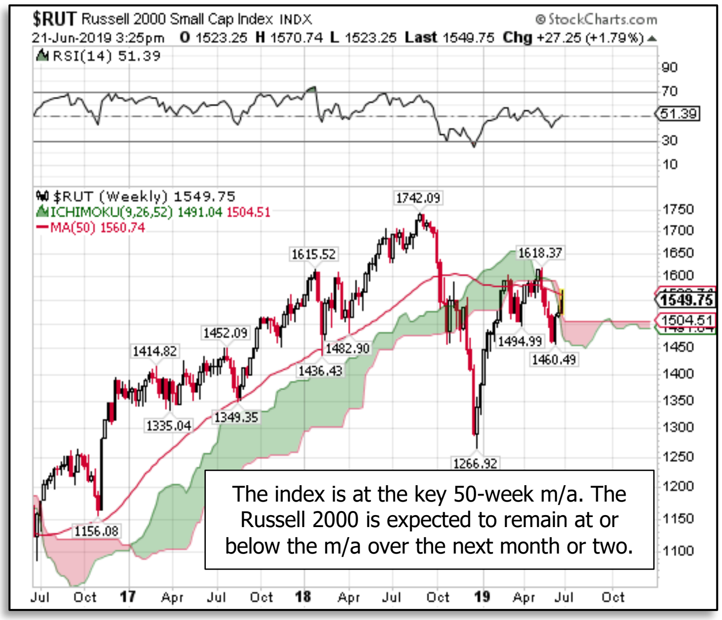

Chart 41

TSX: Higher levels are coming

Outlook positive: The index appears to be on the edge of breaking out of its 18-month consolidation. With its latest retest of the all-time high (16,672.71), the index should move through this level over the next month or two. Buying momentum (RSI) is confirming the strength. The first underside support level is at 16,000 (**Chart 42**).

Bottom line: Wait on the sidelines for a breakout before adding to the position. Once through 16,700, the next upside target is 17,750.

S&P/TSX Venture: Negative trend

Outlook negative: The bounce in Q1/Q2 faded and failed to pass the key 50-week m/a. The movement is expected to continue declining over the next few months. The main downward trend is still in place. Buying momentum (RSI) is negative at 50 (confirming the weakness).

Bottom line: We suspect that more price weakness lies ahead. The next downside target is 525. Avoid (**Chart 43**).

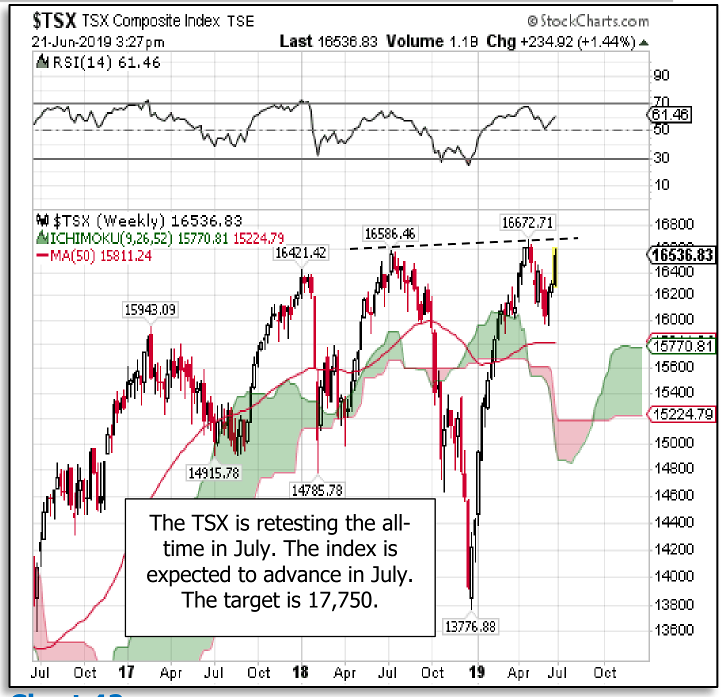

Chart 42

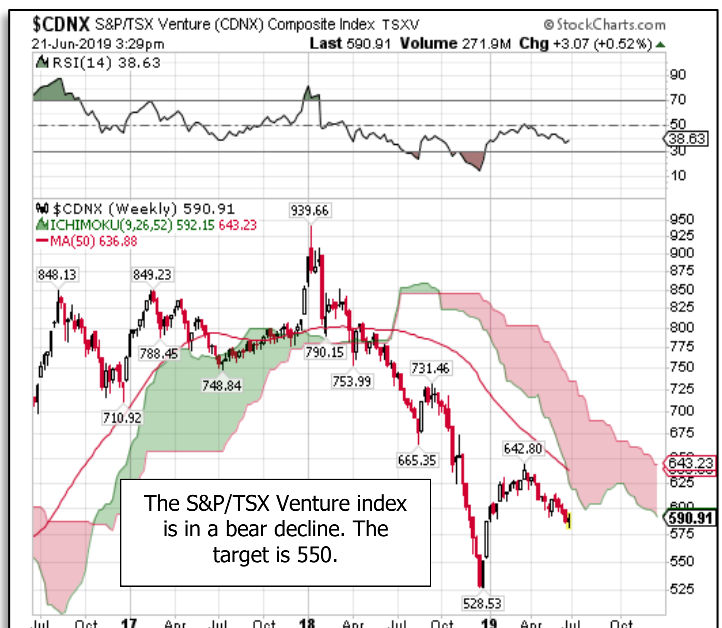

Chart 43

Sector rotation: S&P 500: 90 days

Sector strength is returning. Seven out of 11 industry groups outperformed the S&P 500 over the past 90 days. The technology sector had the best performance this month, as it did last month, too. The poor performance from the industrial and financial sectors suggests that more recovery time is needed for the S&P 500 (**Chart 44**).

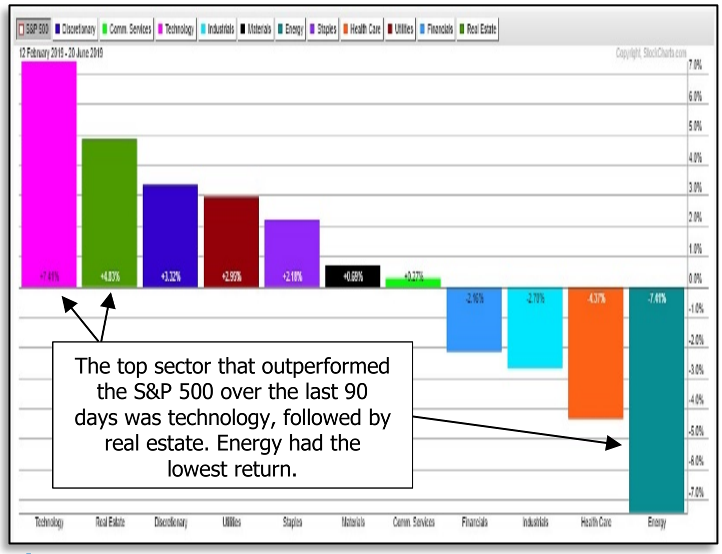

Chart 44

Sector rotation: TSX: 90 days

A similar scenario as in the S&P sectors is playing out on the TSX, only the depth for the sector recovery is not nearly as deep as it is for the S&P 500. Less than half of the industry groups outperformed the TSX. The common ground is that technology was the best performer, and energy was the worst. We noted in May that the energy and materials sectors had started to come alive. That bounce quickly faded (**Chart 45**).

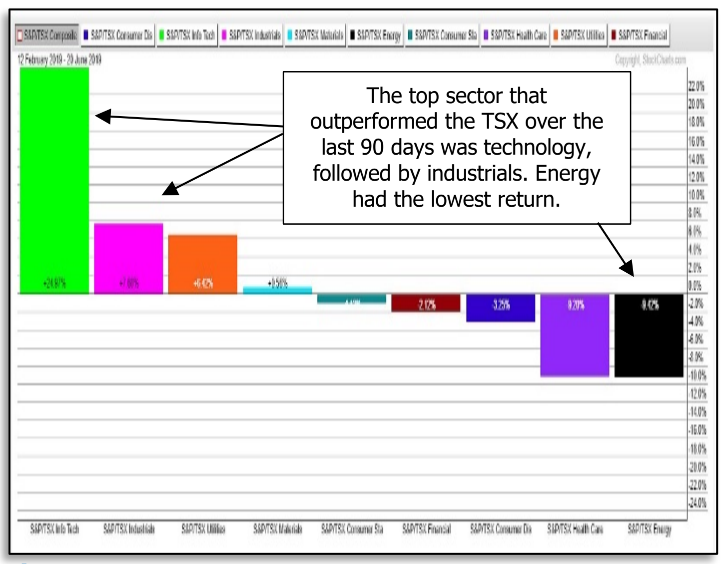

Chart 45

And finally ...

With all of the mixed signals coming from the markets and the political arena, two of the most time-tested gauges are still flashing the green light (the U.S. yield curve and the Advance/Decline (A/D) lines. The yield curve is still in a normal position (**Chart 46**), and the A/D lines have made new all-time highs – both very reassuring. We have followed both of these forward indicators for more than 30 years, and they have never failed to indicate a market top.

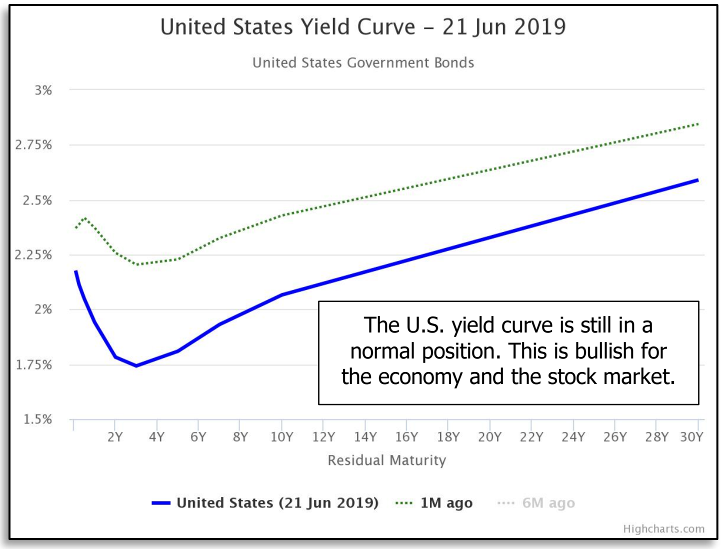

Chart 46

What does all of this mean?

Markets are feeling the uncertainty of the Trump trade war and his unpredictable behaviour. And nothing spooks the markets like uncertainty. However, all of the indicators that we cover are still remaining positive, which suggests that the market is just in a "pause that refreshes." The gradual shift back to risk-on sectors reinforces that outlook to us. The U.S. yield curve is still the best indicator of the economy and stock market. The A/D lines for the NYSE and the S&P 500 just add to the positive evidence. We are not at all concerned.

What should investors do?

We suggest waiting until markets break out of their current trading range and start to advance again before adding to any positions.

We continue to stress that investors should focus on deflationary sectors during this bull market. The inflationary sectors, such as commodities, should be left for short-term traders. The recent weakness in the U.S. dollar should be a welcome gift for natural-resource investors.

We will repeat our recommendations from the last couple of months, because they still apply.

The technology, industrial and consumer discretionary sectors are our favourites for the next five+ years. Buying the sector through ETFs is a simple way of capturing the potential upside of these industry groups. We suggest looking at **XIT** on the TSX, **XLI** for the industrials, **IYM** for technology, and **XLY** for the consumer discretionary sector.

Final bell

"LET ME PUT IT TO YOU THIS WAY: ALL YOUR DISPOSABLE INCOME GOT DISPOSED OF."

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