Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES

July 2020 17th year

Commodities

Limited rebound for most

KEY POINTS:

- **S&P GSCI Commodity Index staging a measured rebound**
- **Good news for commodities: inflationary assets outperforming deflationary since late March**
- **Top 90-day performance goes to gold**
- **WTIC reaches key resistance**
- **Weakness continues for natural-gas prices**
- **Gold prices appear to be nearing a short-term crest**
- **More containment expected for silver prices**
- **Industrial metals still declining**
- **Rally in copper prices appears stalled**
- **The U.S. dollar's trend flattens in Q3**

	Since Last Month	*Year to Date*	*Since Inception mid-2003*
TS Model Portfolio	3.23%	1.67%	**584.59%**
S&P 500	1.23%	-4.04%	210.03%

17-year average for the TS Model Portfolio: 11.95%
17-year average for the S&P 500: 6.87%

https://www.technicalspeculator.com/services/ts-model-growth-portfolios 10.51% average dividend yield

S&P GSCI outlook: Minor rebound

Outlook negative: The S&P GSCI Commodity Index appears to have found tentative price support at the 1300 level, after falling to a new 20-year low. The main driver was the recent plunge in oil prices. Industrial metals, agriculture and livestock prices are also adding to the decline (**Chart 1**). Buying momentum (Relative Strength Index [RSI]) is still negative (confirming the weakness). Solid price resistance is at 1750. Any upside bounce at this juncture appears remote.

Five-year curve-fitting models illustrate no upside potential for the rest of 2020. Models forecast a downward drift in Q3, and a year-end target of 1550 (**Chart 1a**).

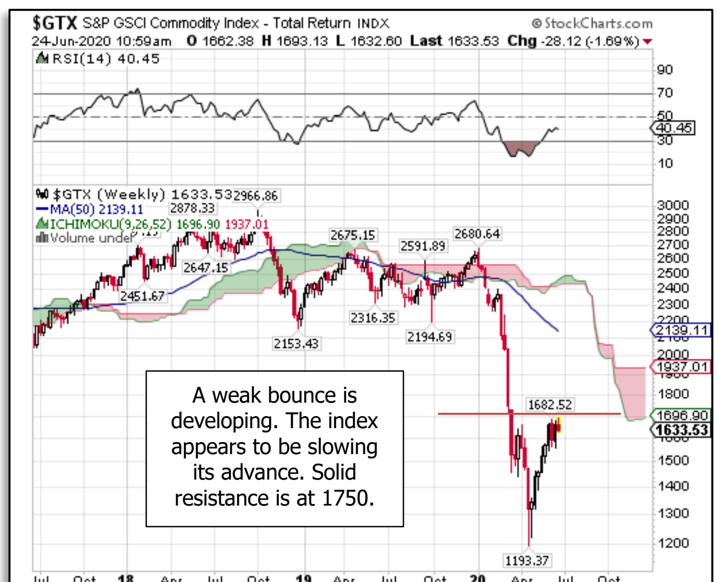

Chart 1

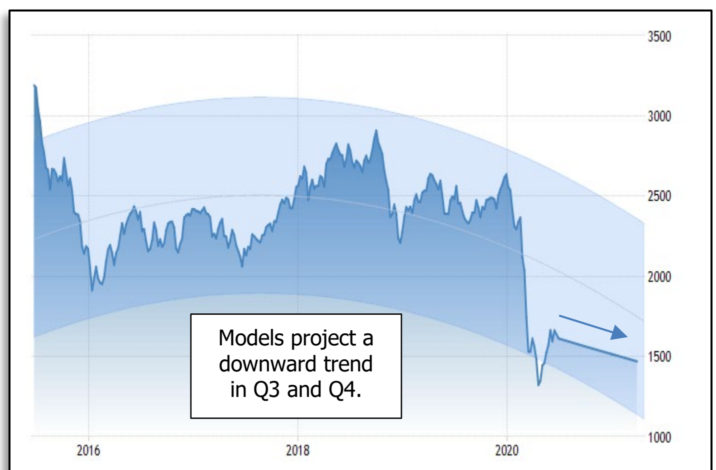

Chart 1a

A longer-term (10-year) view of the commodity index shows a steady decline since 2011. There is no evidence of a trend reversal (**Chart 1b**).

Chart 1b

Bottom line: The GSCI index appears to have little or no upside potential this year. Only the precious-metals sector is showing some upside potential.

Deflation vs. inflation

Inflationary assets (commodities) have been outperforming deflationary assets (financials, industrials, technology, etc.) since late March. This is a reversal of trend from 2018 and 2019 (**Chart 2**). Models suggest that this recent strength in commodities should continue to hold in mid-year.

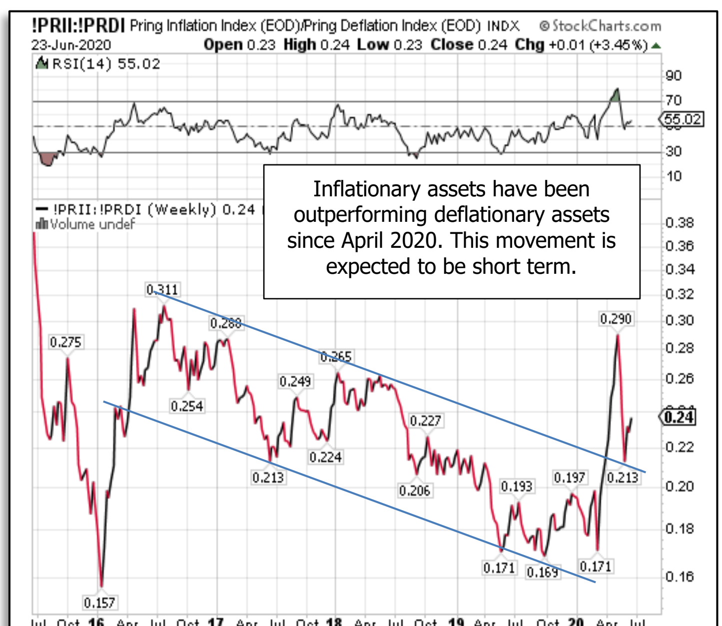

Chart 2

Relative performance: GSCI vs. S&P

The performance from the S&P GSCI Commodity Index continues to underperform the S&P 500. That has been particularly evident since mid-2018. The S&P GSCI is down by more than 28% over the last 90 days. There are no indications of this pattern reversing (**Chart 3**).

Chart 3

Commodity performance: Gold

The S&P GSCI Precious Metals Index ($GPX) is the only commodity group that posted a positive reading over the last 90 days. Note the relative price strength of the U.S. dollar. The rise of the dollar is partly due to the 'safe haven' mentality. It's no surprise that the energy sector had the lowest performance over the last three months (**Chart 4**).

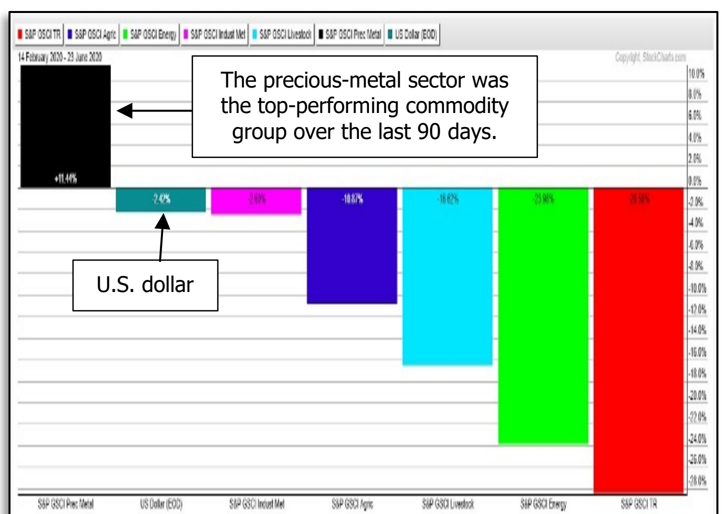

Chart 4

WTIC: Rebound up to $40 to $42

Outlook neutral/negative: Light crude oil prices have successfully rebounded up to the $40-to-$42 resistance band. This was a major area of price support from mid-2016 to late 2019. Now it is a resistance barrier (**Chart 5**). Buying momentum (RSI) is neutral (not confirming ongoing price strength). First underlying price support is at $29.75.

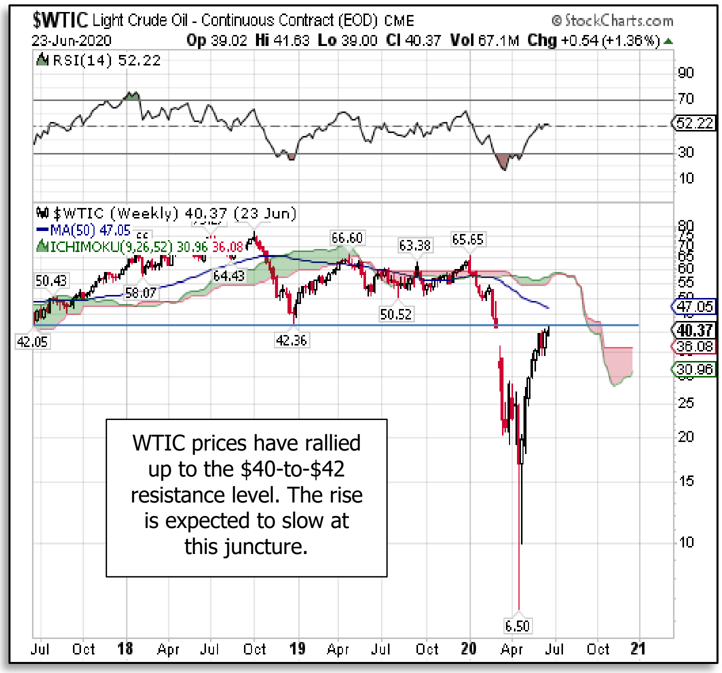

Chart 5

Curve-fitting models (**Chart 5a**) suggest that price weakness will persist throughout most of this year. The Q3 target is $33.00, and the year-end target is $30.00.

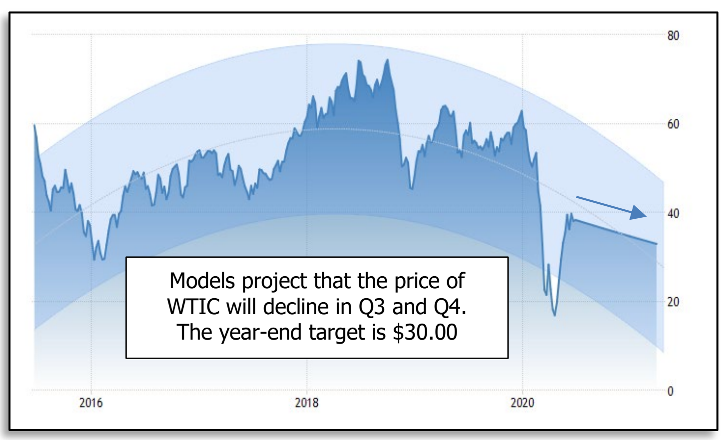

Chart 5a

Bottom line: The current price levels of light crude oil are expected to remain weak throughout this year. WTIC prices are expected to soften for the rest of the year. Stay on the sidelines for now.

Natural gas: Downward trend

Outlook negative: The three-year trend continues to be down, and price weakness is expected into mid-2020. A new low was struck in mid-March, at $1.52. Solid resistance is building at $2.00. Buying momentum (RSI) has been negative since Q4/19 (confirming ongoing weakness). Still below the declining 50-week moving average (m/a). No signs of a recovery, just lower levels to come. First price support is at $1.55 (**Chart 6**).

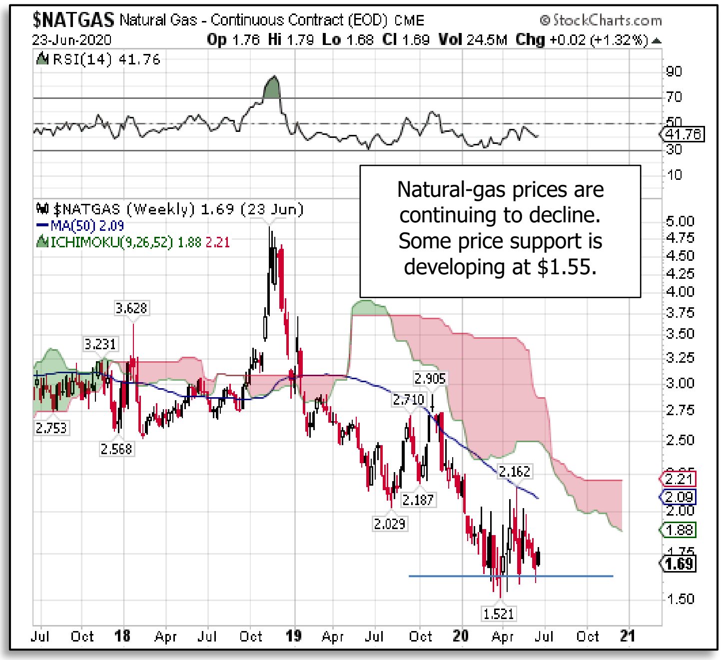

Chart 6

Curve-fitting models (**Chart 6a**) continue to point lower, with a slow drift downward for this year. The projected target in Q3 is $1.55 to $1.60, and $1.40 at year-end.

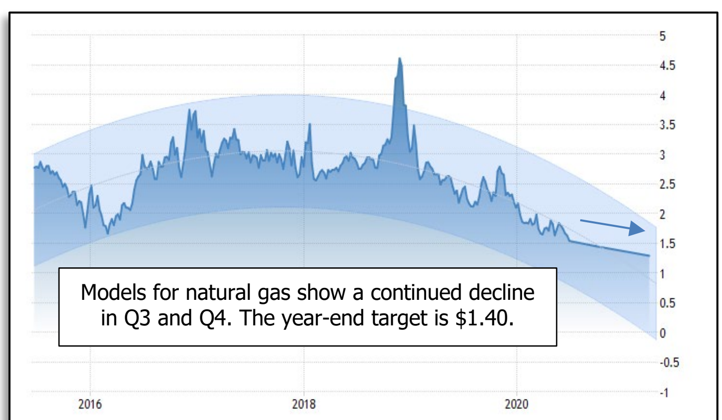

Chart 6a

Bottom line: Weakness continues. There are no signs of price strength in natural-gas prices right now. Stay on the sidelines.

Gasoline: At key resistance

Outlook neutral/negative: Rebounding strength since March has moved gasoline prices up to a key resistance level: $1.25. Buying momentum (RSI) is now neutral (not confirming o-going price strength, yet). We suspect some stability at this juncture, but no additional rebound. First underlying support is at $0.95 (**Chart 7**).

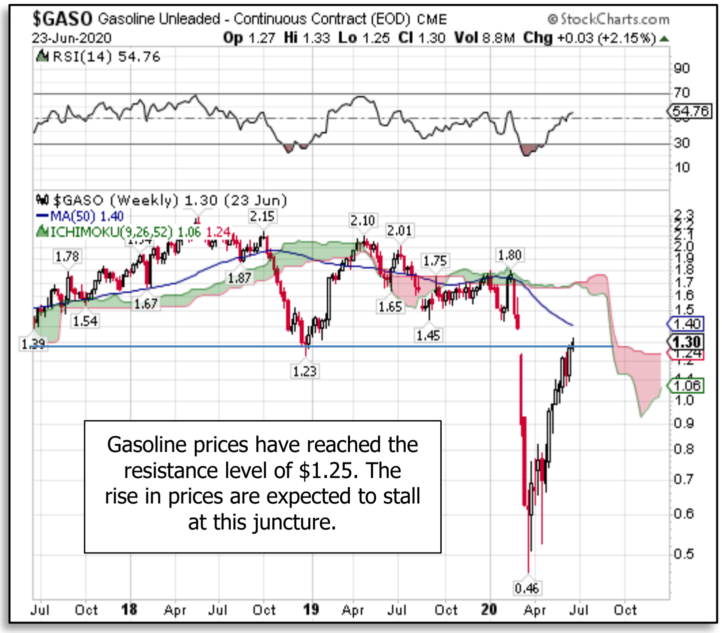

Chart 7

Curve-fitting models (**Chart 7a**) reflect a weakening outlook for gas prices for the rest this year. The Q3 projected target for gasoline is below $1.00 USD/gal., and the Q4 target is $0.95. Remain on the sidelines.

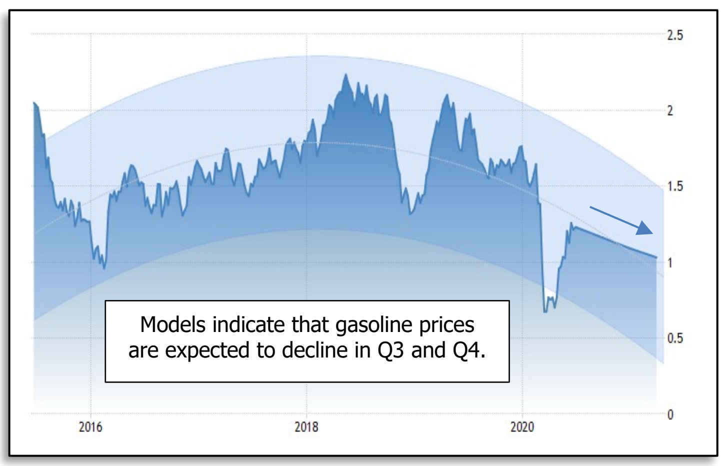

Chart 7a

Bottom line: Gasoline prices move with oil prices. Since our models suggest that oil prices are expected to continue to be weak, so will gas prices.

Gold: Slight pullback into mid-year

Outlook positive: Gold prices soared higher in Q1/Q2 as investors continued to buy the safe-haven metal. A new high of more than $1,788.80 was posted in early April – a price level last seen in November 2012. Buying momentum (RSI) is still positive. Still well above the rising 50-week m/a. Price resistance is building at $1,780 (**Chart 8**).

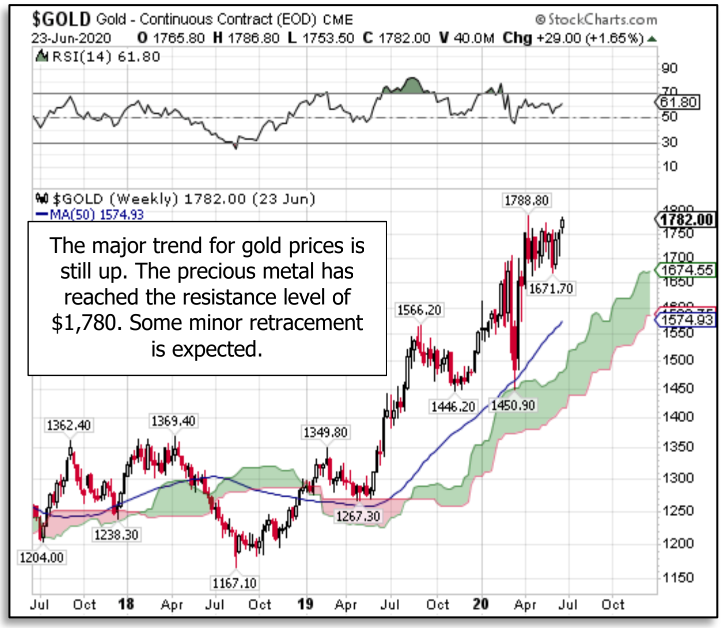

Chart 8

Curve-fitting models indicate a slight drift downward over the next few months, with an expected target range of $1,660 to $1,665 in Q3, and a year-end target of $1,650 (**Chart 8a**).

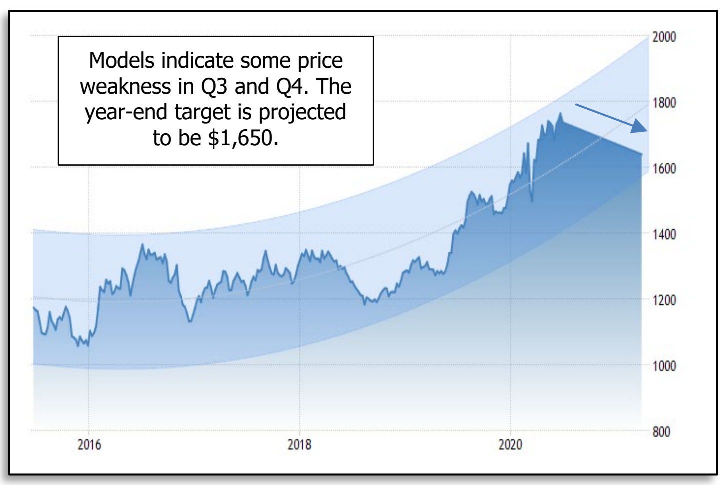

Chart 8a

Bottom line: The upward run in gold prices appears to be nearing another crest. This price top should be similar to

Q3/Q4 2019. Models indicate a gradual weakening in the second half of the year. Take some profits now.

Silver: Lots of price resistance

Outlook neutral: The poor cousin to gold posted a five-year low in March. Quite the difference to the yellow metal. Reaching down to the support level of $12.00, silver is staging a limited rebound, but is struggling around $19.00 (**Chart 9**). Buying momentum (RSI) is positive (confirming additional strength).

Chart 9

Curve-fitting models show a slight weakening picture in the months to come, with a gradual downward slide in Q3 and a target of $16.50. The year-end target is $15.75 (**Chart 9a**).

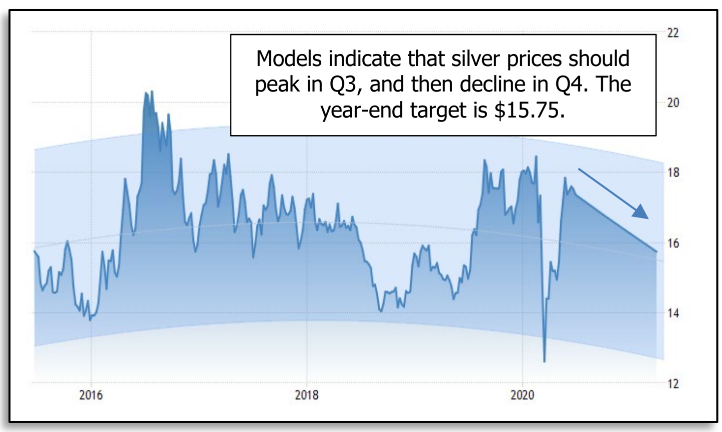

Chart 9a

Bottom line: The outlook for silver is flat. Trim position size during this bounce.

Industrial metals: Downward trend

Outlook negative: The index posted a new three-year low in March, at 255.10. The trend remains down, and there are no signs of a reversal of trend. Buying momentum (RSI) is neutral. The index is still below the declining 50-week m/a, and now at the first price resistance of 290. The first support level is at 285 (**Chart 10**).

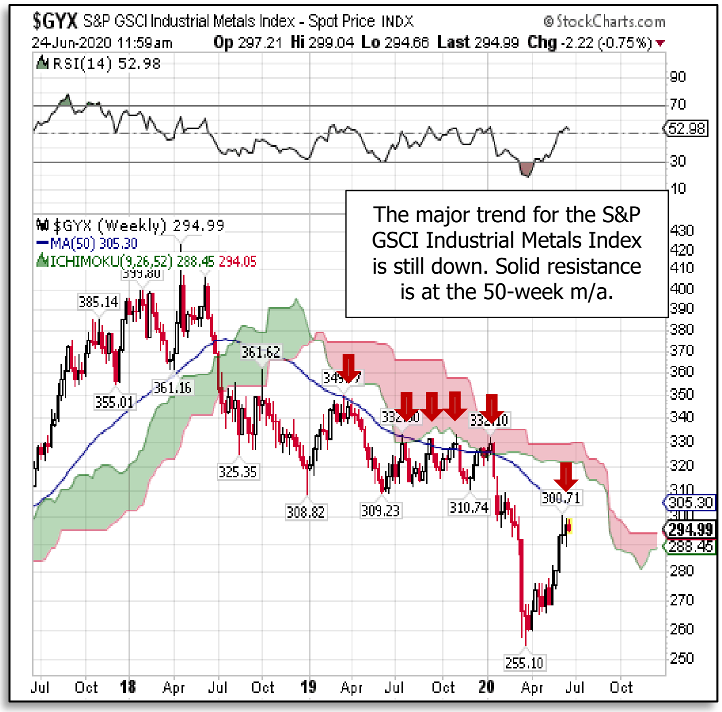

Chart 10

Bottom line: The S&P GSCI Industrial Metals Index is presently in a rebounding bounce, after more than two years of decline. Use this action to lower position size, then stay on the sidelines. Nothing positive for industrial metal prices.

Copper: At key resistance

Outlook neutral/negative: The commodity is now rebounding, after printing a three-year low of $1.97. Copper fell by more than 29% in early Q1. Buying momentum has recovered and is presently positive (confirming the price strength). It is now at the key resistance level of $2.60, and also at the 50-week m/a – both possible barriers. First underlying support is at $2.45 (**Chart 11** on page 6).

Curve-fitting models continue to show a negative outlook for the remainder of this year. The models indicate that a slow drift downward to $2.40 is the year-end target (**Chart 11a** on page 6).

Bottom line: Copper prices have rebounded back up to the key resistance level of $2.60. We expect this upward run to fade. Use any strength to lower position size and stay on the sidelines.

Chart 11

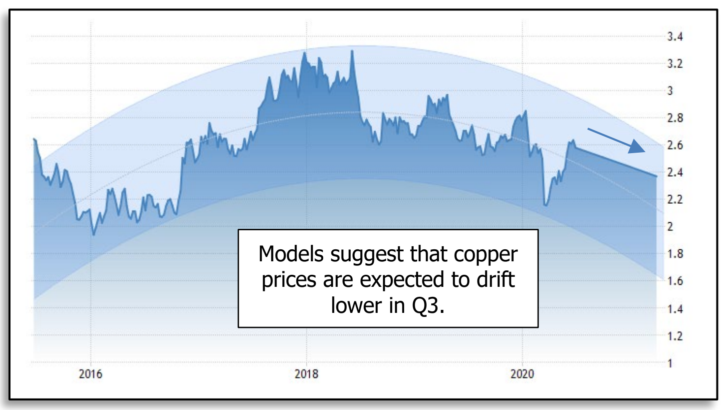

Chart 11a

Livestock: Dipping lower

Outlook negative: The index is still locked in a multi-year trading range. Buying momentum (RSI) is negative (confirming ongoing weakness), and the index is also below the 50-week m/a (not encouraging). It is nearing the next support level of 220. The index recently posted a new five-year low. Any advance is still expected to be very limited (**Chart 12**).

Bottom line: We expect more price weakness over the next few months. Stay on the sidelines.

U.S. dollar: Topping

Outlook neutral: The U.S. dollar's uptrend continues to flatten. After posting a two-year high of $103.96 in late March, the dollar (DXY) has failed to extend and is now in a topping pattern (**Chart 13**). RSI is below 50 (not confirming

Chart 12

any additional price strength), and the index has broken below the 50-week m/a. The first support level is now at $0.95.

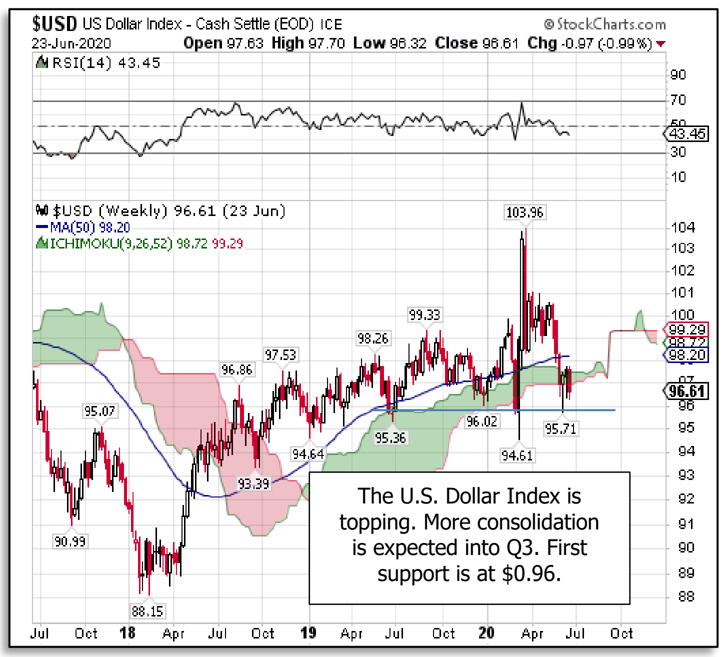

Chart 13

Curve-fitting models show price stability building in mid-year. A year-end target of $0.97 is expected (**Chart 13a** on page 7).

Bottom line: Although the dollar is no longer advancing, the DXY is not expected to weaken much over the next few months. Investors should continue to hold their positions in the U.S. dollar.

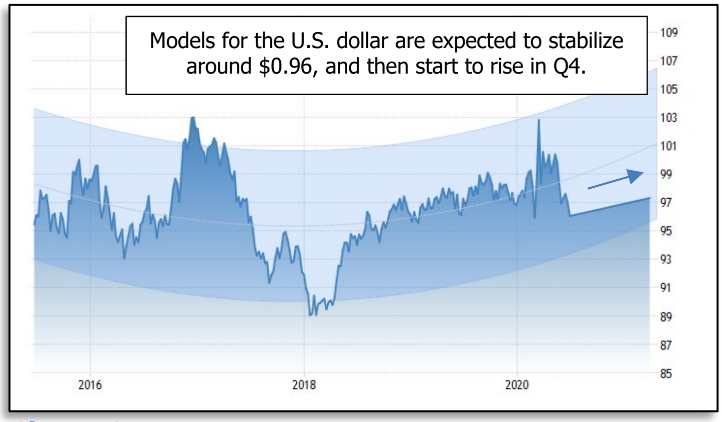

Chart 13a

What does it all mean?

Commodities are currently staging a measured rebound, as the world slowly opens up and industries begin to utilize natural resources. Of all the commodities, gold has been the star performer, and the ONLY resource that has been trending up. This is due to the safe-haven mentality of investors, and to the massive injection of capital by the Fed.

Nevertheless, we are expecting some price weakness in gold over the next few months, with prices settling down to around $1,600.

Oil's recovery is directly related to the global economic expansion. The more growth, the more demand. At this point, our models are expecting prices to slip slightly lower over the next six months (see **Chart 5a**).

Our modelling points to a continuation of this current softness in commodity prices into mid-year, as the world's economies will take time to regroup and start using more natural resources.

What should investors do?

The only buying opportunity this month is in gold. The precious metal is advancing as a safe-haven play. Models point to a slight weakening over the next few months, but still remaining in an upward trend. We would suggest buying only the strongest (i.e., gold).

All of the other commodities are currently in a short-term rebound and at key resistance levels. The risk/reward ratio seems too high toward risk at this time.

International Equities

A recovery is building

KEY POINTS:

- **World markets are recovering**
- **China's Shanghai leads in 90-day performance**
- **Japan's Nikkei rebounds back to 2019 levels**
- **Hang Seng still struggling; hits 25,000 resistance level**
- **India's BSE still in a slow recovery**
- **South Korea's Kospi back to 2019 levels**
- **Germany's DAX jumps up to 13,000**
- **Slow recovery for France's CAC**
- **Mexico's Bolsa still under major resistance**
- **Steady recovery for Brazil's Bovespa continues**
- **Rally up to 6100 for Australia's ASX**

Overview: Strong rebound

Outlook positive: The Dow Jones Global Index (DJW) has broken through several resistance levels (355 and 375) during the current rebound and is now at the 410 resistance mark. Some short-term stalling is likely. Buying momentum has changed from negative to positive (confirming upward strength). First underlying support is at 375. This level should catch any brief pullback (**Chart 14**).

Chart 14

The 12-year perspective shows the DJW back up into the secular uptrend. The lower low in early 2020 was a concern,

Chart 14a

but the index has rallied back (**Chart 14a**). The Global Advance/Decline (A/D) Line (!PRGLAD), a very reliable leading indicator, is at a new all-time high (**Chart 14b**). This is a great indication of prices in Q3/Q4.

Chart 14b

Bottom line: The long-term trend remains up. One of the most reliable leading indicators for world markets is the Global A/D Line. It is still in a secular upward trend, and a new all-time high was just printed. The first target for the DJW is 440, then ultimately to 460.

Suggested portfolio weighting – through Q3/20.
Sector Overweight: *U.S.A., Australia, Japan, Canada, China, Taiwan*
Sector Market Weight: *Brazil, Europe, South Korea*
Sector Underweight: *Hong Kong, India*
Suggested market percentage weighting – 2020

60% (*China, U.S.A., Australia, Canada, Europe, South Korea*)
35% *(India, Hong Kong, Brazil)*
5% cash

World index ex-U.S.: Weak bounce

Outlook neutral: The three-year trend is flat. The index has rebounded past the first support line of 1650 and stalled at the 1750 mark (**Chart 15**). Buying momentum (RSI) is neutral (not confirming).The expectation is for some stalling of the recent rally in July, with price levels around 1750.

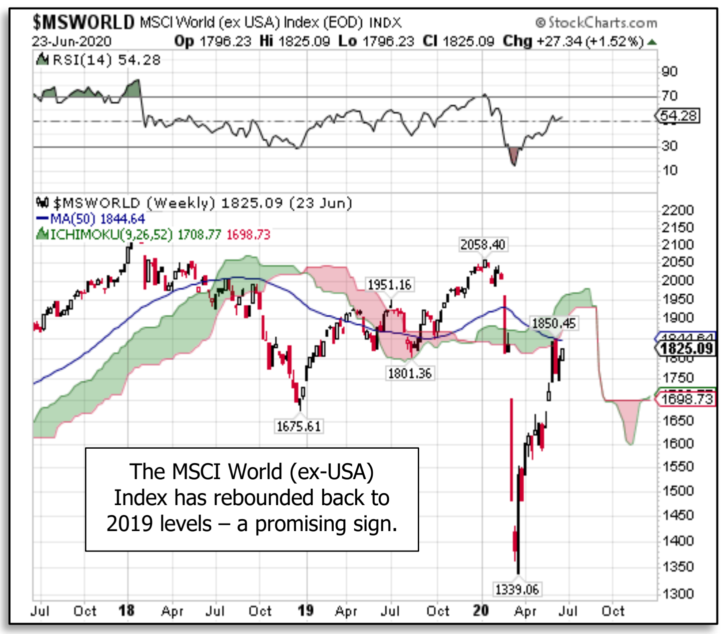

Chart 15

The 12-year perspective of the world index, without the S&P 500, shows a flat trend from 2016. Buying momentum (RSI) is negative, not oversold and rising (**Chart 15a** on page 9).

Bottom line: Market conditions are neutral, at best. The index needs to move above 1950 to start advancing. More time is still needed.

Global performance: China leads

Three months ago, China's Shanghai index had the lowest performance. Jump to Q1 and Q2, and China led all of the

Chart 15a

markets. The 90-day performance shows no global indexes in positive territory. India's BSE and Brazil's Bovespa, which held the top spot for months, are at the bottom for the third month (**Chart 16**).

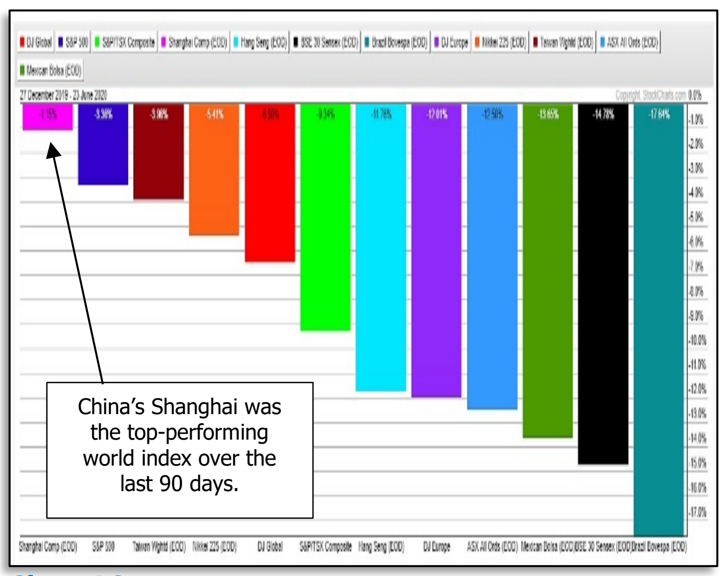

Chart 16

Emerging markets: Improving

Outlook neutral: The three-year trend is flat. Mild upward strength is increasing. The index has broken through two price resistance levels (34.00 and 37.75). Buying momentum (RSI) is neutral (not confirming).

Bottom line: The Emerging Markets Index exchange-traded fund (ETF) appears to be gradually rising. The first target is 45.50. Add to positions (**Chart 17**).

Chart 17

China: Flat trend in mid-year

Outlook neutral: The medium term (three-year) trend is still flat. Price action continues to consolidate just below the 50-week m/a. The index is challenging the first resistance level of 2950 (**Chart 18**). Buying momentum (RSI) is still neutral (not confirming any price strength). First support is at 2625.

Bottom line: We suspect that the Shanghai only has limited potential going into mid-2020. Add to the position only above 2950.

Chart 18

Japan: Stalling at 23,000

Outlook neutral/positive: The index is in a three-year flat trend. The upward bounce in Q2 has found stiff resistance at 23,000. Buying momentum (RSI) is now in a positive position above 50 (confirming the strength). The index is now above the 50-week m/a. The first support level of 21,025 should catch any pullbacks.

Bottom line: The index appears to be staging a mild rebound, which seems to be continuing. More time is still needed. Stay on the sidelines until 23,000 is crossed, then buy. The next upside target is 24,250 (**Chart 19**).

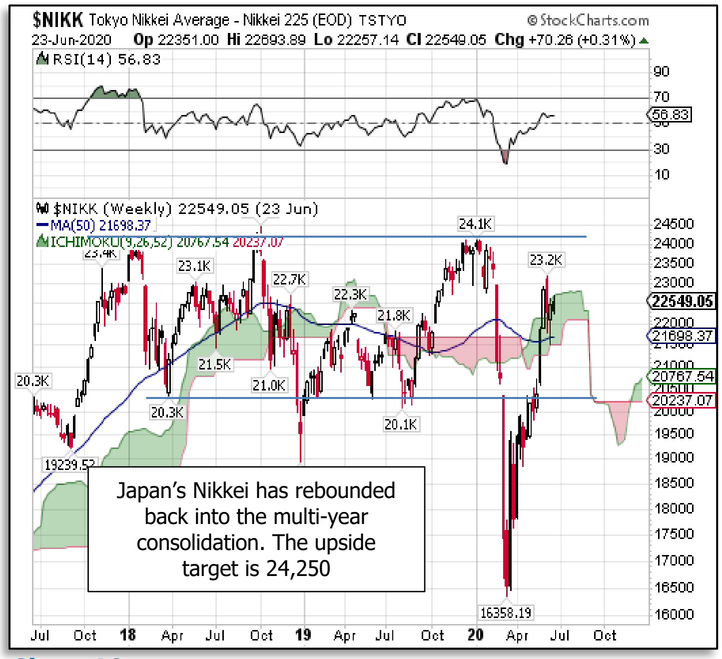

Chart 19

Hong Kong: Stalling at resistance

Outlook negative: The index is trending lower after violating an 18-month support line at 25,000 in early 2020. Buying momentum (RSI) is negative (not confirming any upward strength). First support is at 22,500. We suspect that more backfilling lies ahead (**Chart 20**).

Bottom line: We suspect that the index will continue to struggle below 25,000 over the next few months. More time is still needed. Reduce position size.

South Korea: Rebounding

Outlook neutral/positive: Breaking through two resistance levels (1890 and 1970) in early 2020, the index has rebounded from the deep low in March and is now back into a flat trend. Buying momentum is positive (confirming the strength). We suspect some resistance at 2200 in Q3. The first lower support level is at 1970, and that should hold any pullbacks (**Chart 21**).

Chart 20

Bottom line: The index is staging a gradual rebound. Add to the position once the Seoul Composite crosses 2225. The target is 2475.

Chart 21

India: Violated the upward trend

Outlook negative: After four years of steady advance, the index appears to have hit a wall and violated the trend. Buying momentum (RSI) is negative (confirming the price weakness). The first upside resistance level is 35,250. First underlying support is at 32,500 (**Chart 22**).

Bottom line: The sharp decline in March has wiped out four years of bullish growth. Suspect more base-building and weakness in Q3. Stay on the sidelines until 37,000 is crossed.

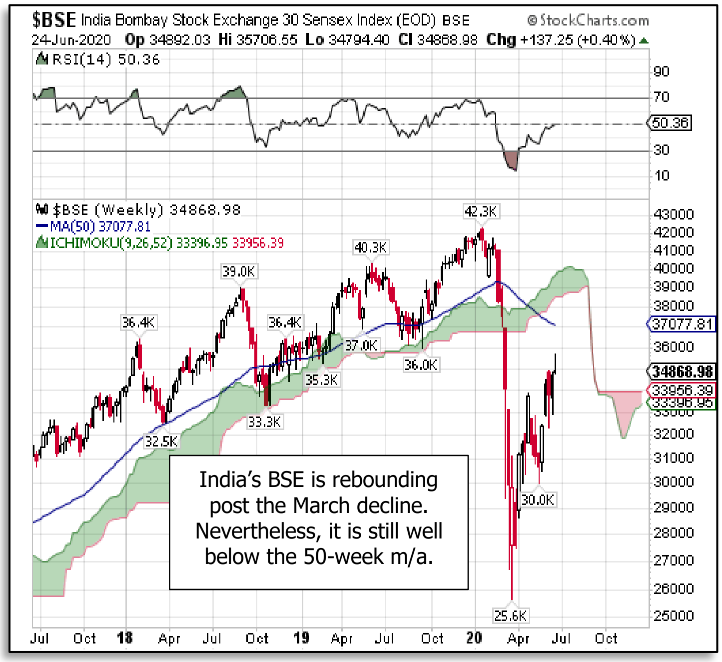

Chart 22

Europe: Rebounding bounce

Outlook neutral: The index has rebounded through two key resistance levels since the March drop (270 and 295).

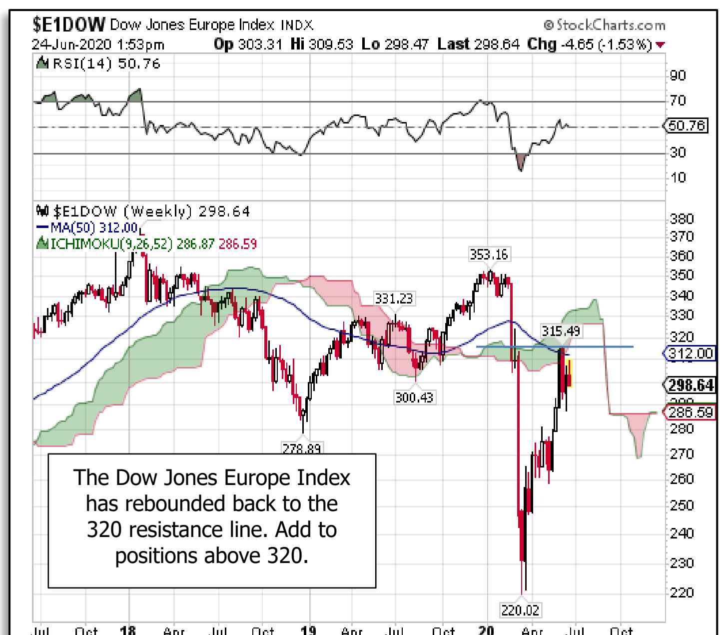

Chart 23

The index is now at the 50-week m/a and the 315 resistance level, which should slow the advance over the next month or two. Buying momentum (RSI) is neutral, around 50 (not confirming the price strength, yet).

Bottom line: The Dow Jones European Index is expected to slowly rise in Q3. Add to positions above 320 (**Chart 23**).

Germany: Starting to rise

Outlook neutral/positive: The index is now rebounding and has crossed two key resistance levels over the last two months (10,759 and 11,400). Buying momentum (RSI) is now positive, suggesting that more price strength lies ahead (**Chart 24**). The first underlying support level is now at 11,400.

Bottom line: Price strength appears to be continuing for the DAX. Add to positions. The target is 14,100.

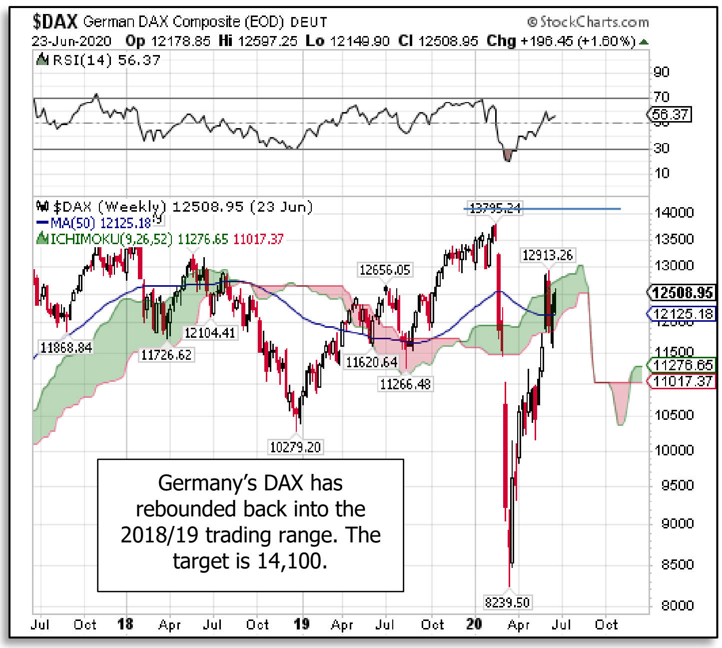

Chart 24

France: Rebounding

Outlook neutral: The rebound from the March low has brought the index back up to the same level it saw in late 2018. The three-year trend is now flat, and the CAC is now hitting some resistance at 5100. Buying momentum (RSI) is neutral, around 50 (not confirming price strength, yet). The first support level is 4750 (**Chart 25** on page 12).

Bottom line: The index is staging a gradual rebound from the Mach low. Add to positions once the CAC is above 5000. Then the target is 6100.

Spain: Still in trouble

Outlook negative: The index appears to have found a floor at 6250. Price action is still very weak. Buying momentum

Chart 25

(RSI) is negative (confirming the ongoing weakness). The index is still below the declining 50-week m/a. Any rally will be stopped at the first resistance level, 7950 (**Chart 26**).

Bottom line: The index is still showing signs of additional weakness. Stay on the sidelines until 8250 is crossed. That might take a while.

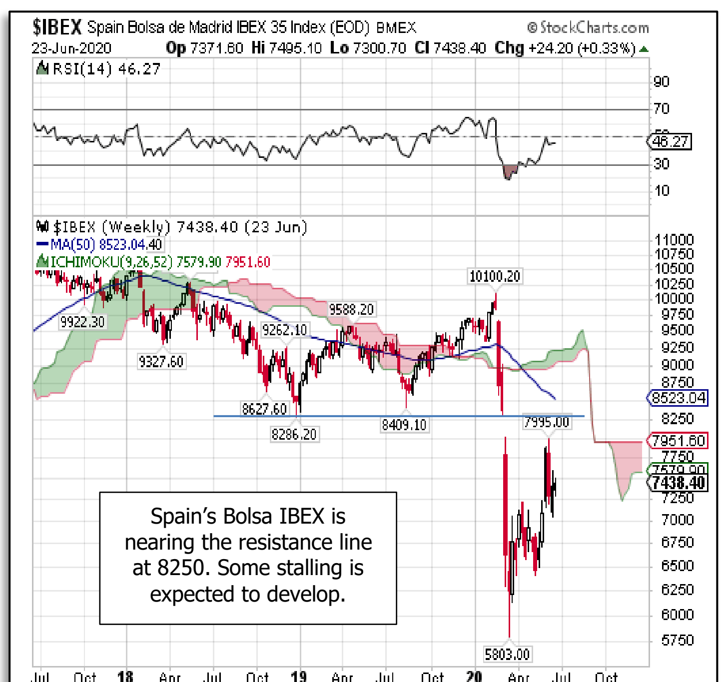

Chart 26

Mexico: Downward trend

Outlook negative: The major trend is lower, in a three-year series of lower lows and lower highs. The index is still below the declining 50-week m/a. Buying momentum (RSI) is negative – below 50. We suspect that further weakness lies ahead (**Chart 27**).

Bottom line: Continue to remain on the sidelines. More time is needed. Wait until there is a move above 43,000 before considering this index.

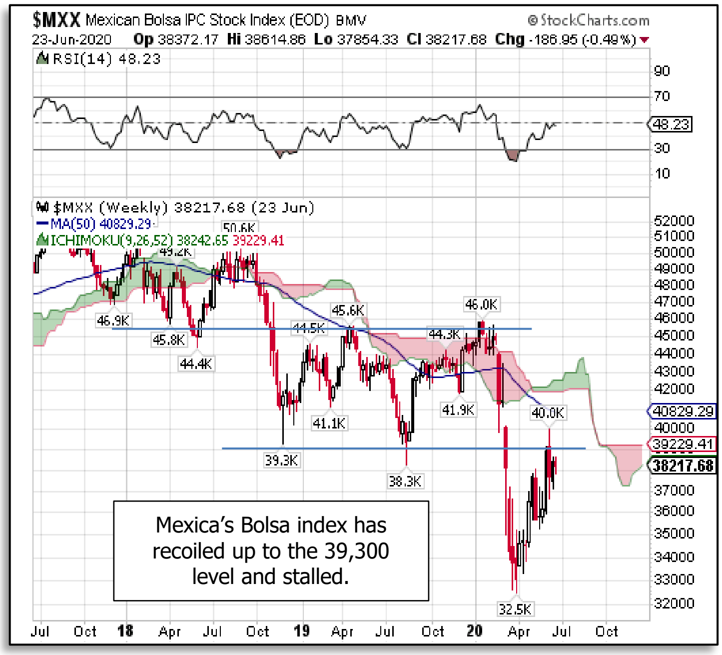

Chart 27

Brazil: Quick rally up to 97,000

Outlook neutral/positive: The sharp rebound since March has reached a possible barrier (the 96,150 resistance line). Buying momentum (RSI) is neutral (not confirming additional upward strength, yet). First support is at 88,875.

Bottom line: The upward rally since March is impressive. A move above the 50-week m/a is still needed to signal that the trend is higher. Wait on the sidelines this month (**Chart 28** on page 13).

Australia: Rally up to 6100

Outlook neutral/positive: A quick rebound of more than 32% has developed for the index, and it is now at the 6100 resistance level. Buying momentum (RSI) is neutral (not confirming additional upward strength, yet). The first support level of 5750 should catch any pullbacks (**Chart 29** on page 13).

Bottom line: The price action appears to be improving, but a move above 6500 is needed before the index can start a major upward trend. Wait for it.

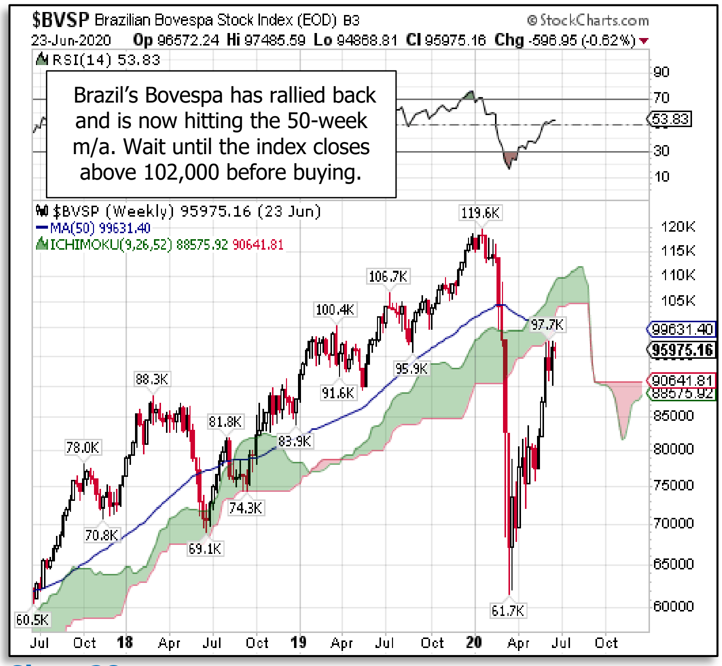

Chart 28

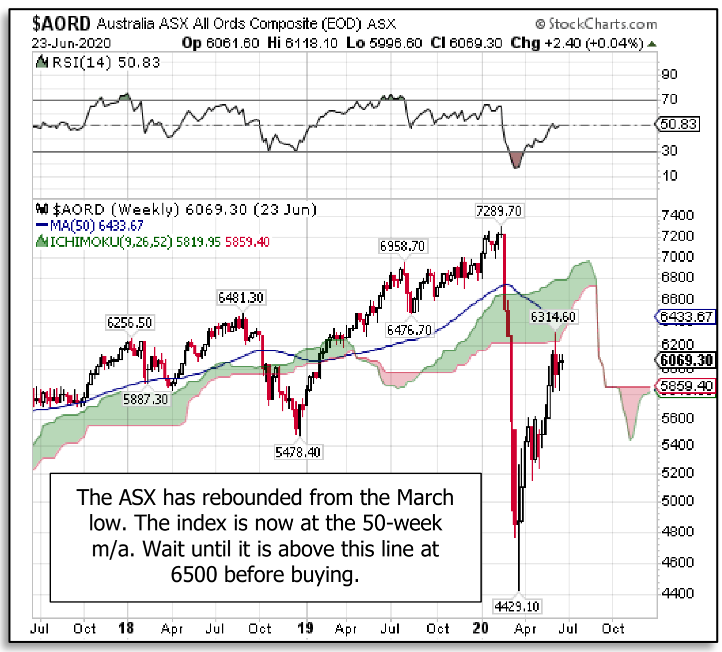

Chart 29

What does it all mean?

Equity markets around the world are staging a gradual recovery from the deep lows posted in March. The benchmark Dow Jones Global Index (DJW) is back to levels that we saw in 2019. Even without the upward strength of the S&P 500, the MSCI World (ex-USA) Index is also up to 2019 levels.

This renewed performance is not so much a reflection of current fundamentals or economics, but rather traders' viewpoints on conditions six to nine months from now.

Not all regions are advancing at the same speed. **Chart 16** on page 9 illustrates which indexes are outperforming the benchmark DJW. China's Shanghai sits at the top of the leader board, then it's the S&P 500.

Investors should remember that there are a number of positive signs continuing to emerge. The U.S. yield curve, one of the most reliable leading indicators of the U.S. market, is in the same position it was in in 2009. Valuations for most world markets are undervalued. The Global A/D Lines are near all-time highs (**Chart 14b** on page 8). These lines measure the number of stocks going up versus the number going down within an index. A/D Lines are leading indicators with a remarkable track record.

What should investors do?

"Selection" is the key word for this month.

As the bull market gradually catches hold in Q3, with more and more world indexes starting to advance, this is the time to look at the leaders.

As long-term readers of our research know, we believe that staying with the strongest horse in the field is often the best strategy. Buying a security whose performance is at the low end of a group or sector is often a recipe for disappointment.

Right now, the four top-performing global indexes are mostly Asian. The S&P 500 is still one the best performers.

We suggests staying with these top performers for now.

The ETF for China is **FXI**, for Japan is **EWJ**, for Taiwan is **EWT**, and for the S&P 500 is **SPY**.

U.S. & Canadian Equities

Steady improvement

KEY POINTS:

- **U.S. unemployment rate declines slightly**
- **Bounce in new-home sales is positive**
- **U.S. consumer sentiment pops up**
- **Debt continues to mount for the U.S.**
- **NASDAQ (again) has best performance**

- **Market slowly shifts from safety to risk**
- **NYSE's sluggish rally from March low**
- **Short-term pause for S&P 500 in July**
- **NASDAQ posts new all-time high**
- **TSX stalls below 16,050**
- **S&P/TSX Venture starts to improve**
- **S&P sectors show lack of broad strength**
- **Only two sectors posted were positive on TSX**

KEY ECONOMIC NUMBERS

- U.S. annual GDP: 0.23%
- U.S. interest rate: 0.25%
- U.S. inflation rate: 0.10%
- U.S. jobless rate: 13.30%
- U.S. gov. budget: (-4.60%)
- U.S. debt/GDP: 107.00%
- U.S. current account to GDP: (-2.30)
- U.S. consumer confidence: 78.90%
- U.S. business confidence: 43.10%
- U.S. currency: $0.97
- Canadian annual GDP: (-0.90)%
- Canadian interest rate: 0.25%
- Canadian inflation rate: (-0.90%)
- Canadian jobless rate: 13.70%
- Canadian gov. budget: (-0.70%)
- Canadian debt/GDP: 89.70%
- Canadian current account to GDP: (-2.60)
- Canadian currency (CAD/USD): $1.35
- Canadian consumer confidence: 42.33%
- Canadian business confidence: 39.10%

U.S. economy continues to slow. The negative effects of COVID-19 on the economy are still building. U.S. annual GDP rate of only 0.23% in Q3. U.S. unemployment rate is easing slightly. Consumer and business confidence levels remaining low. Canada's economy is also deteriorating. Annual GDP is now at -0.90%, and unemployment is at 13.70%. The outlook into mid-year for Canada is for a modest improvement.

Suggested portfolio weighting – into Q3 2020
Sector Overweight: *Industrials, technology, cyclicals*
Sector Market Weight: *Financials, healthcare, consumer discretionary*
Sector Underweight: *Staples, energy, gold, materials*
Suggested market percentage weighting – 2020
U.S. market: 45% (S&P 500, Dow, NASDAQ)
International markets: 25% (Europe, Asia, etc.)
Canadian market: 25% (TSX)
Cash: 5%

Breadth Barometer: 35% still weak

Outlook neutral/negative: 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 **34.99%**, versus **27.78%** in May. Market breadth appears to be slowly improving, and a retest of the March low appears increasingly unlikely. Nevertheless, some degree of retracement should be expected. About 65% of stocks are still declining.

Bottom line: The percentage of rising stocks to declining equities has to get reach 55% (more going up than down) before the bull market can start. A rise up to that percentage will likely take several more months to develop (**Chart 31**).

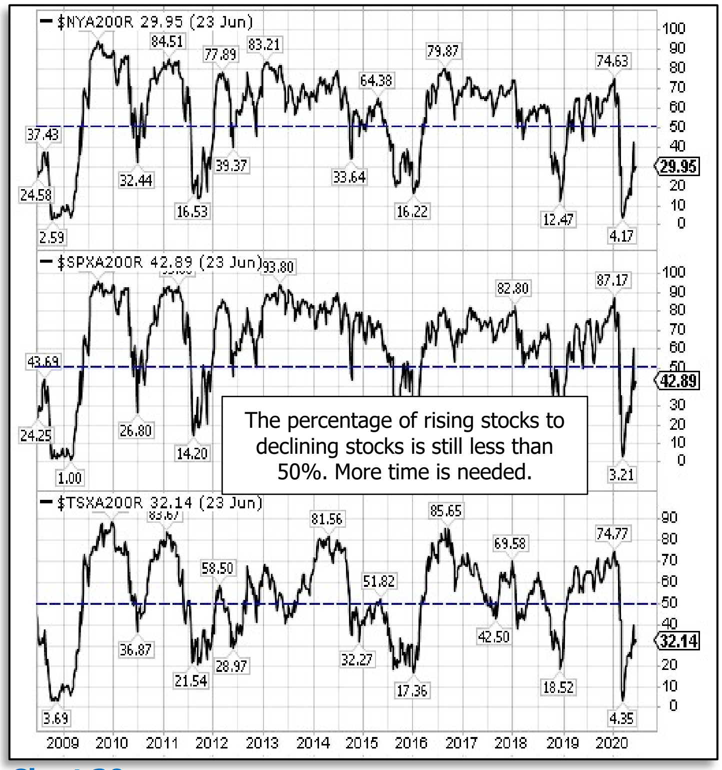

Chart 30

Key Economics: Unemployment rate

Outlook negative: The rate of U.S. unemployed persons dropped slightly to 13.30% (**Chart 31** on page 15). Our models forecast that those levels will start to ease slightly by mid-year, but the numbers for the second half of the year are expected to remain high, with 14% in Q3 and 16% to 17% by year-end.

Initial jobless claims (**Chart 31a** on page 15) are easing slightly, to 1.5 million, which is the lowest in three months. That's a positive sign.

Bottom line: The U.S. Unemployment Index is indicating that the number will stay elevated into mid-year and start to rise again by year-end.

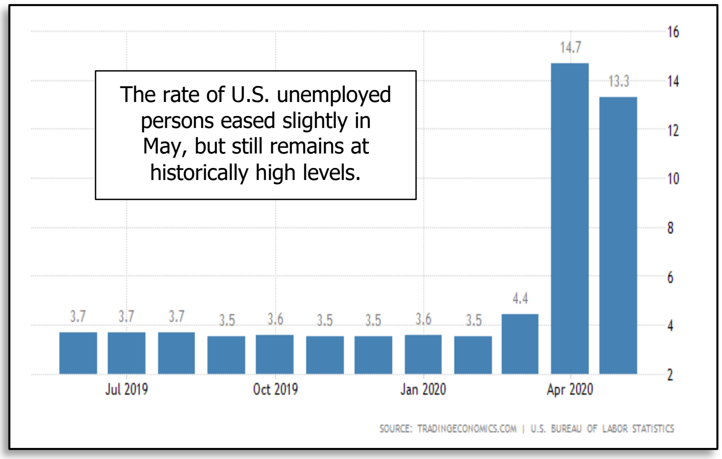

Chart 31

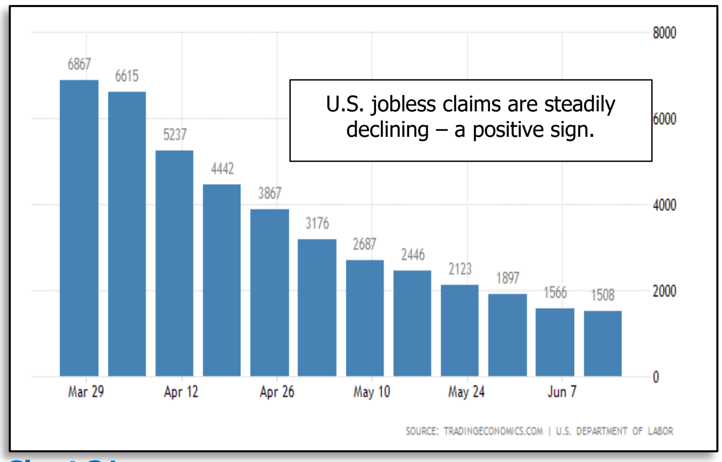

Chart 31a

Key economics: U.S. new-home sales

Outlook neutral/positive: The largest single purchase for most individuals is their home. That purchase of a new home is also a reflection of confidence about the economy and job security. The jump of 16.60% in May is a promising sign.

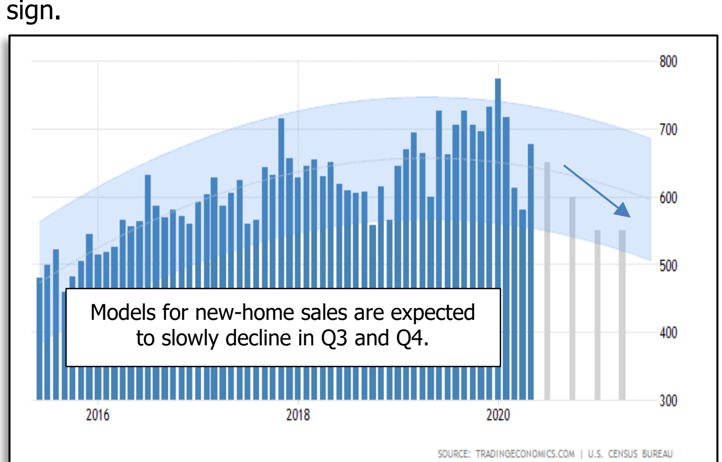

Chart 32

Bottom line: Our projection for U.S. new-home sales in Q3/Q4 is for a slight softening from the most recent bullish data figures, and levels similar to those of 2017 (**Chart 32**).

Key economics: U.S. consumer: Up

Outlook neutral: After the sharp decline in consumer sentiment over the past few months, the level rose measurable in June. There was an improvement in the outlook for personal finances, and a more favourable prospect for the national economy due to the reopening.

Bottom line: More consumers than in the last 50 years are now expecting a decline in the jobless rate. Still, the majority of consumers do not expect a return to favourable economic conditions anytime soon. Models point to similar current levels in Q3/Q4 (**Chart 33**).

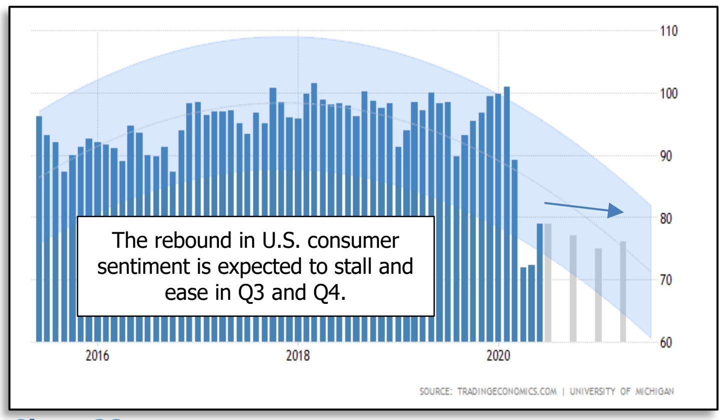

Chart 33

Key economics: U.S. fed debt/GDP

Outlook negative: U.S. debt to gross domestic product (GDP) is expected to reach 120% by the end of 2020. Generally, government debt as a percentage of GDP is used by investors to measure a country's ability to make future payments on its debt.

Bottom line: U.S. federal debt to GDP is projected to increase in 2021 to about 125% (**Chart 34**).

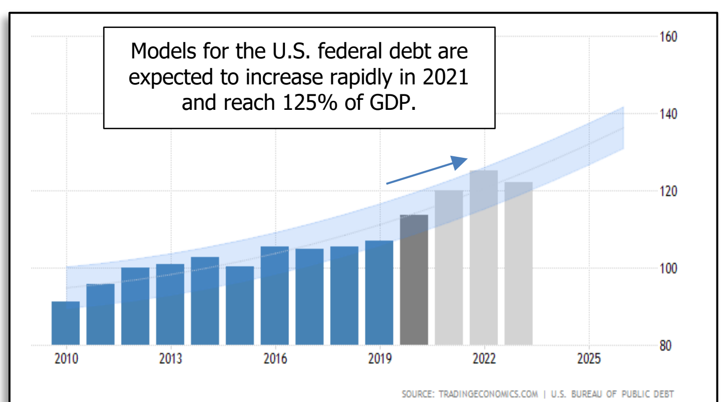

Chart 34

Key economics: CDN annual GDP

Outlook negative: Canada's growth rate is expected to be -4.00% by late Q3, and then slowly improve in Q4 and Q1 2021 (**Chart 35**).

Bottom line: Models project that Canada's annual GDP will only turn positive by early 2021.

In Canada, 70% of GDP is from services (financial, insurance and real estate). Mining and oil extraction only total 4%.

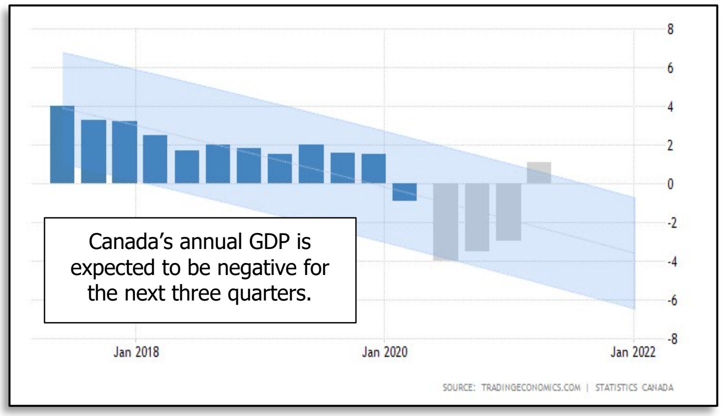

Chart 35

Index performance: NASDAQ

Outlook negative: Over the past 90 days, only two indexes posted a positive return: the NASDAQ and the S&P/TSX Venture. All of the other major indexes posted a negative return. The NASDAQ led the returns (again). The S&P 500 and the Dow Jones Industrial Average (DJIA) took third and fourth positions. The NYSE came in last, with an almost 15% decline over the last 90 days. The (surprising) rebound in the Venture is due to surging strength in gold and energy.

Bottom line: Broader signs of a rebound are not yet present. Better numbers are expected for the next few months (**Chart 36**).

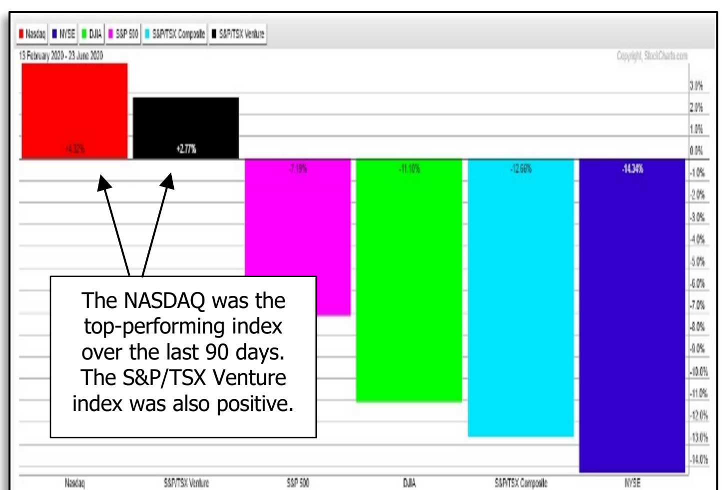

Chart 36

Stocks vs. bonds: Rebounding risk

Outlook neutral/positive: The quick reversal of trend in Q2 saw investors returning to risk (stocks) and out of safety (bonds). Performance since April shows a strong movement toward equities. This is positive for the market.

Bottom line: The recent jump out of safety and into risk is encouraging. We expect this movement will have legs in Q3 (**Chart 37**).

Chart 37

NYSE: Slowly advancing

Outlook neutral/positive: Recent price action is trending higher, post a successful rebound from the March low. The NYSE is now retesting the 50-week m/a and the resistance level of 12,150. Buying momentum (RSI) is now neutral (not confirming additional upside, yet). The first support line at 11,600 should catch any short-term pullbacks (**Chart 38**).

Chart 38

The long-term (12-year) view of the index shows that it broke the secular upward trend and is now retesting the secular uptrend. June price action shows some resistance around 12,000. RSI is neutral (about 50). A return to the secular bull market needs a move above 12,000 (**Chart 38a**).

Chart 38a

Bottom line: The secular bull market for the NYSE appears to be retesting a key level. The test will be if the index rebounds above the 12,000 level, or fails and rolls over. The path is unclear at this juncture. More time is needed.

S&P 500: Advancing in Q3

Outlook positive: The index has now recovered about 85% of the Q1 plunge. It is starting to run into headwinds

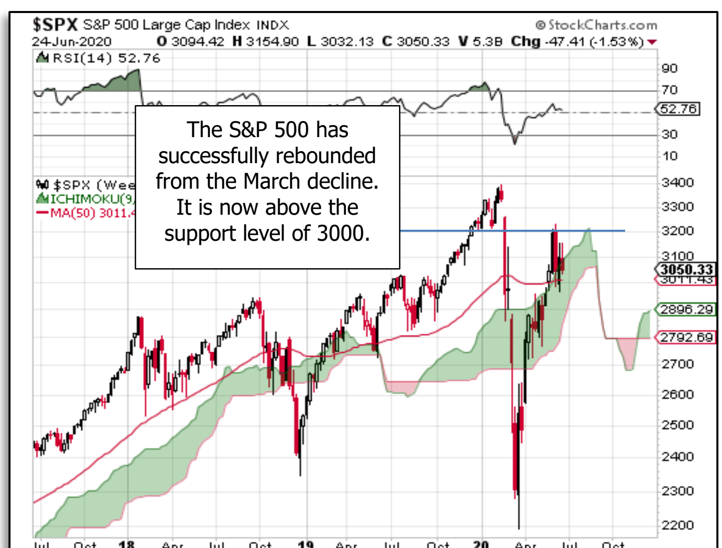

Chart 39

at the resistance level of 3200 (**Chart 39**). Buying momentum (RSI) is positive and rising (confirming upward strength). We suspect that higher levels are coming in Q3. First underlying support is at 3000.

The long-term secular rise is back. The 12-year trend points to higher levels into Q3. RSI is now at a positive reading (confirming upward strength). The first key resistance level is at 3400 (**Chart 39a**).

Bottom line: The sharp recovery of the index from April through June is encouraging. Higher levels are expected. Add to positions. The year-end target is 3400.

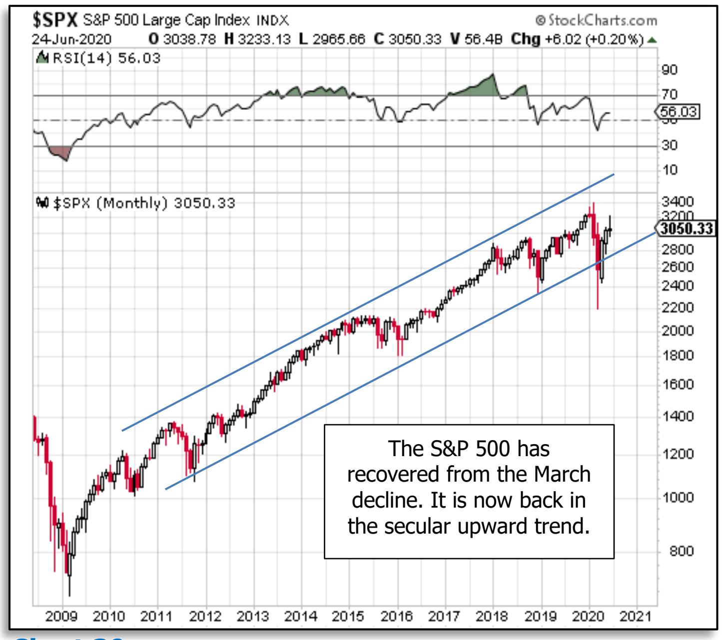

Chart 39a

Dow: At resistance of 27,000

Outlook positive: The rebound from the March low is now hitting the resistance level of 27,000. Buying momentum (RSI) is neutral, suggesting that some price stalling is probable in July. There is no evidence of a major reversal at the time of this writing in late June. Any retracement should be caught at the 24,800 support line (**Chart 40** on page 18).

The long-term (12-year) view shows that the index is back in the upward trend (**Chart 40a** on page 18). Models point to 28,500 as a year-end target.

Bottom line: The index is expected to stall short-term, below 27,000 in July. Add to positions on any weakness.

NASDAQ: New all-time high

Outlook positive: The index has staged the best upward bounce among the U.S. indexes, continuing to make a series of higher highs and higher lows. Surging past the old high of 9838.37, the NASDAQ is now at a new all-time high.

Chart 40

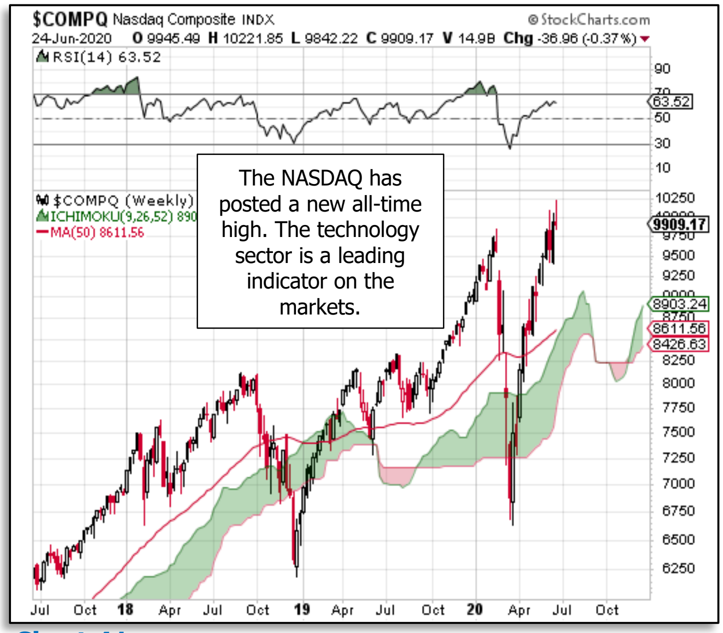

Chart 41

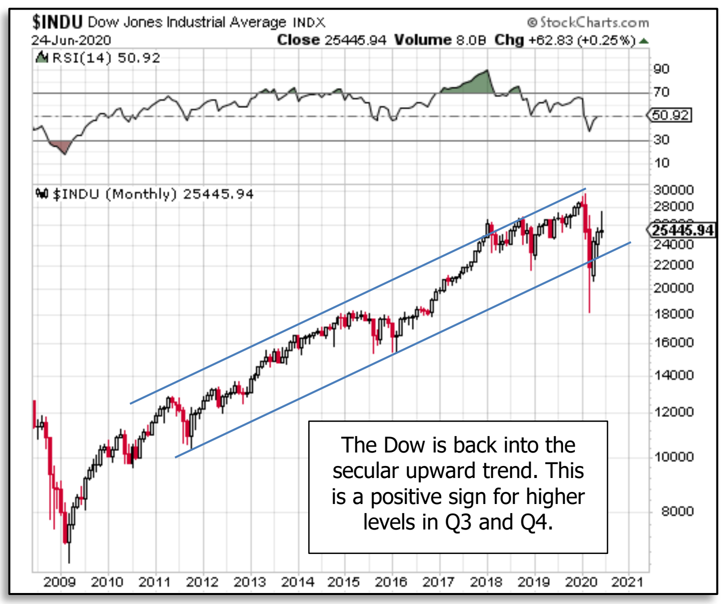

Chart 40a

Buying momentum (RSI) is at neutral (suggesting some price stalling). We suspect a slowing of the uptrend to develop in July. The NASDAQ is now at the 50-week m/a. First underlying support is at 15,150 (**Chart 42**).

Buying momentum (RSI) is positive (confirming the upward strength). The first support line of 9750 should catch any pullbacks (**Chart 41**).

Bottom line: The index has recovered faster than the other major U.S. indexes. Add to positions on any weakness. The next target is 10,550.

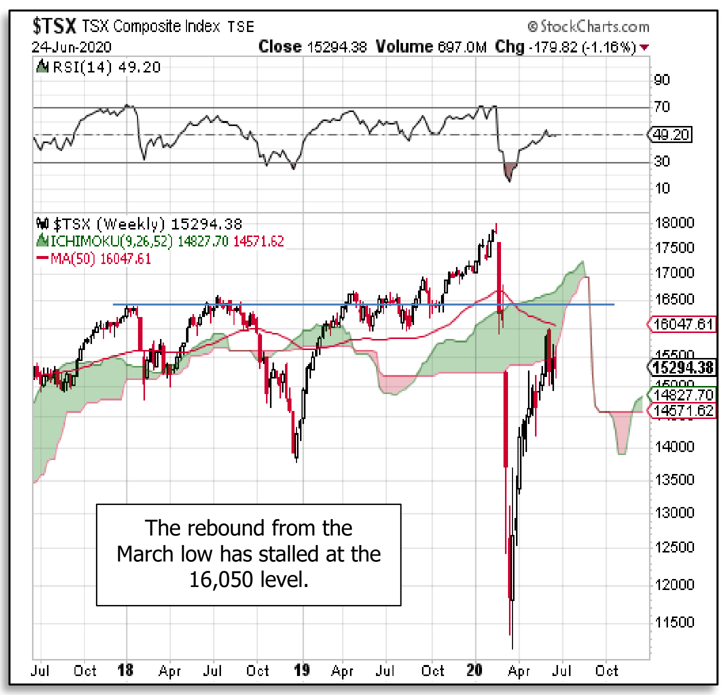

Chart 42

TSX: Some short-term stalling

Outlook neutral/positive: The index has rebounded from the sharp decline in Q1, and now recovered more than 60% of the drop. It is now at the 16,050 resistance line.

The 12-year uptrend is still intact (**Chart 42a** on page 19). The index successfully rebounded back into the secular uptrend line. Long-term buying momentum (RSI) is still neutral (not confirming additional upward pressure).

Chart 42a

Bottom line: Some stalling of the advance should develop in July. After 16,050, the next resistance level and Q4 target is 17,300.

S&P/TSX Venture: Improving

Outlook neutral: Although the major trend continues to decline, two elements are suggesting that a possible change of trend is coming: the index has moved above the 50-week m/a, and buying momentum (RSI) is positive and rising. We suspect that this will be short-lived (**Chart 43**).

Bottom line: Rally strength for the index is coming from precious-metal and energy stocks. Use this bounce to lower position size, and then stay on the sidelines.

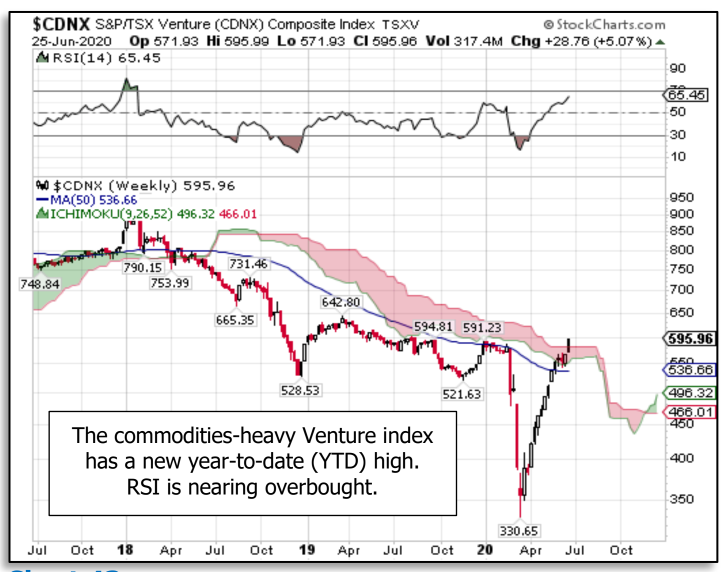

Chart 43

Sector rotation: S&P 500: 90 days

Outlook negative: Only one industry sector had a positive reading over the last 90 days: technology. All of the other sectors posted negative returns, and energy had the lowest performance. Five sectors outperformed the S&P 500: technology, consumer discretionary, communication services, healthcare and materials (**Chart 44**).

Bottom line: Only half of the industry groups are outperforming the index, and only one sector posted a positive return. This indicates that very little is driving the S&P 500 higher, at present.

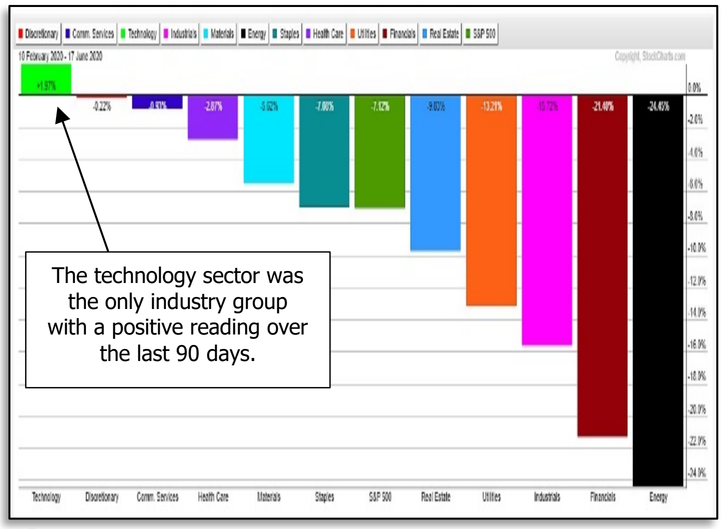

Chart 44

Sector rotation: TSX: 90 days

Outlook negative/neutral: Only two sectors had a positive return over the last 90 days. These were info tech and materials (**Chart 45**). All of the other sectors had negative returns over the last three months.

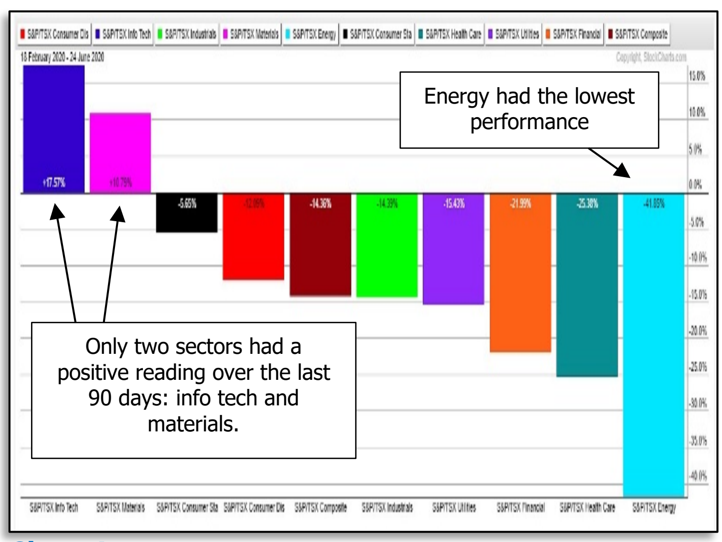

Chart 4

return. Only four sectors outperformed the TSX: info tech, materials, consumer staples, and consumer discretionaries.

Bottom line: The TSX continues to be risk-off. The two largest sectors (financials and energy) underperformed the index. This indicates that very little is driving the TSX higher.

What does all of this mean?

At present, the U.S. and Canadian key economic information is in rough shape, while markets have recaptured 60% or more of the March decline. From our perspective, this is all good news. Stock markets lead the economic data by six to nine months. This is because investors look forward. Our models suggest that some minor pullback or stalling over the summer months should be expected. Not to worry – the secular bull market is definitely intact. Markets are expected to recapture their all-time highs by year-end. The NASDAQ already posted a new all-time high. The S&P 500 should also move to a new high by early Q3.

What should investors do?

Continue to focus on deflationary sectors. Although precious metals are currently showing some upward movement, the rise is from the massive injection of capital from the Fed, and the weak U.S. dollar.

Nevertheless, the most important idea that investors should take away is that the bull market has more upside over the next few years. Short-term pullbacks, like the one we experienced over the last couple of months, are normal and all part of a broader secular trend. Use any retracement as a buying opportunity.

We continue to stress that investors should focus on deflationary sectors (technology, financials, industrials, consumer discretionary products, and healthcare) during this bull market. Limit purchases in inflationary sectors (i.e., commodities) to short-term trades only.