Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES – SECTORS

June 2022

Strategy

Market peak signals abound

Key Observations: Mature market

The bull market has now advanced for 14 years. During this time, the S&P 500 has gained 522% and the TSX has advanced about 172%. The 14-year span is still a few years short of the long-term average. Since 1900, the average bull market duration has been 18 years (**Chart 1**).

So why do we think that the current bull market is nearing its peak?

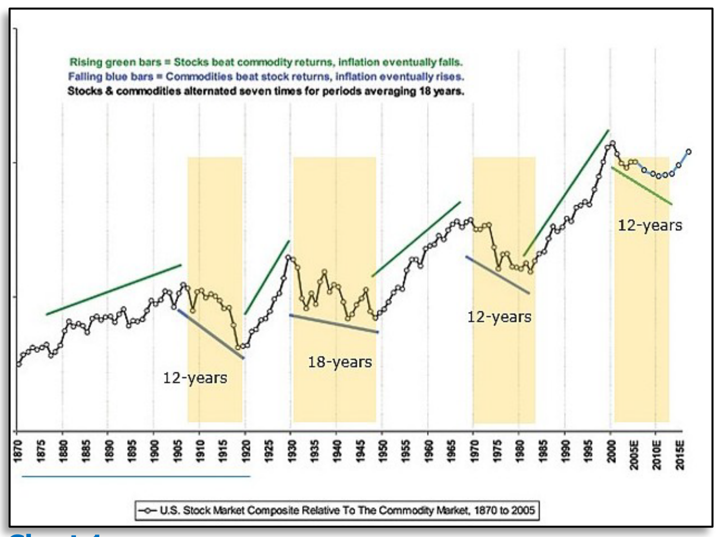

Chart 1

Every market cycle has several elements that always occur when the bull market nears its crest. Most of those are now occurring.

Commodities outperform

One of the most important is when commodities (CRB) start to outperform stocks (Dow). This transfer of asset performance began in mid-2021 (**Chart 2**). Every market cycle had that transfer. The first was in 1907, the second in 1930, the third was in 1970, and the fourth was in 2000.

The most recent transfer of performance just happened in mid-2021 (**Chart 2**). This change in performance also from Dow stocks (which are deflationary) to commodities (which are inflationary), corresponds with a rise in inflation, which causes interest rates to increase (to try and combat the inflationary pressures).

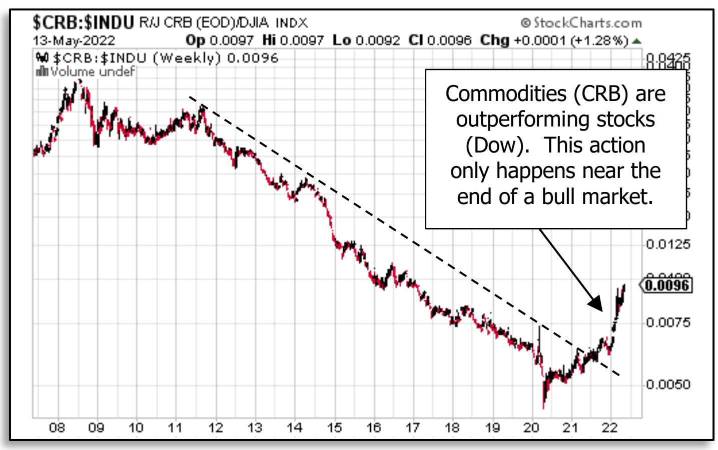

Chart 2

With the increase in inflation, there has been a rise in bond yields and a decline in bond prices. The benchmark US 10-year T-bond has jumped from 0.52% to 3.00% over the last 22 months. The US 10-year Treasury bond price has gone from $140.00 in July 2020 to $117.40 in April 2022, a decline of over 16%.

Sector performance has also changed. Since July of 2021, commodities (energy in particular) and safe-haven sectors, such as consumer staples and utilities, have dominated. Back in 2020, the technology, consumer discretionaries, communication services, and industrial sectors were the top-performing industry groups. These groups were the dominant performers for most of the bull market.

Moving forward, our models suggest that there are about one to four more years of the bull market.

The combination of commodity performance, particularly in the energy and materials sectors, plus the beginning of higher interest rates and the long-term average duration of bull markets (18 years), point to a combination of signals that only develop near the top of the bull market. **Chart 3** illustrates the approximate location of the bull market concerning sector performance, US interest rates, and the economy.

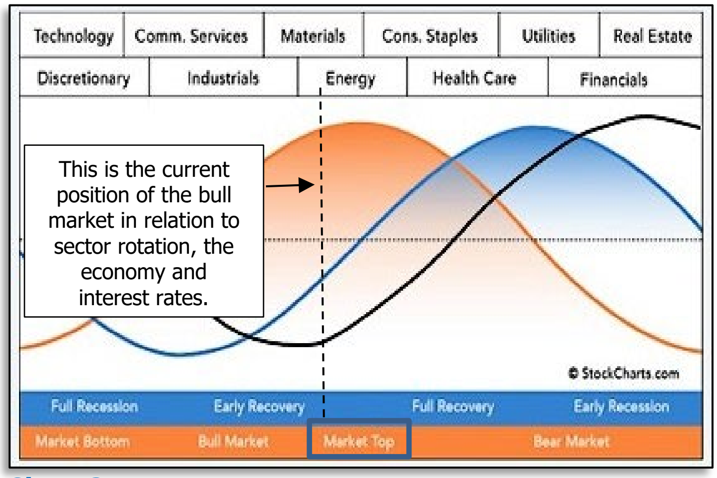

Chart 3

The key that is going to signal the completion of the bull market will be the US Yield Curve (**Chart 4**). Once the Fed has to move short-term rates to higher than long-term rates, then the bull market has approximately six months until the bear market begins. The US Yield Curve has an unbroken record of signaling upcoming bear markets since the 1940s.

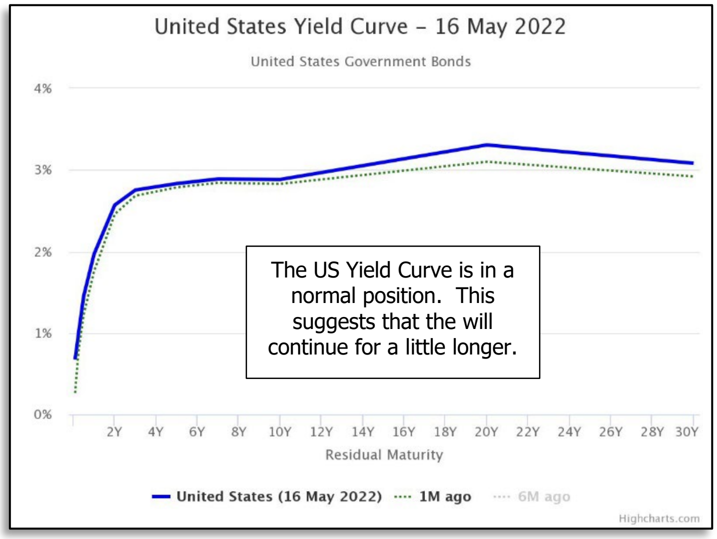

Chart 4

Commodities

Energy & Agriculture lead

Key Points:

- **Commodities are outperforming the S&P 500. This only occurs near the end of the bull market**
- **The upward trend for the GTX continues**
- **Performance between inflationary and deflationary assets shows inflation is still in control**
- **The energy sector takes the top 90-day performance spot, again**
- **WTIC prices slowly advance in Q3, heading to $120**
- **A pullback then higher price levels for Natural gas**
- **Gasoline (GASO) hits all-time high**
- **Gold prices weaken due to rising US bond yields and strong USD**
- **Silver prices stall. More downside expected**
- **Short-term weakness then the upward surge in industrial metals continues**
- **More consolidation for copper prices**
- **The advance continues for S&P Agricultural Index. New highs for wheat and corn**
- **The U.S. dollar bounces over par on safe-haven concerns and interest rate hikes**

Upward trend continues

Outlook positive: The upward trend for the S&P GSCI Commodity Index shows no signs of abating as the index goes into Q3. There is a short-term consolidation pattern developing. This trading formation is expected to break out on the upside. Buying momentum (RSI) is positive and overbought. Well above the rising 50-week m/a. The first support level is at 3610 (see **Chart 5** on page 3).

Bottom line: The performance dominance of commodities (GTX) over stocks has begun. See **Chart 2**. This action has ramifications, not just for natural resources, but also for the current bull market and the economy. The first support is at 3610.

Bottom line: The performance dominance of commodities over stocks has begun. The transition period can last for several years. This action has ramifications, not just for natural resources, and also for the current bull market in equities and the economy.

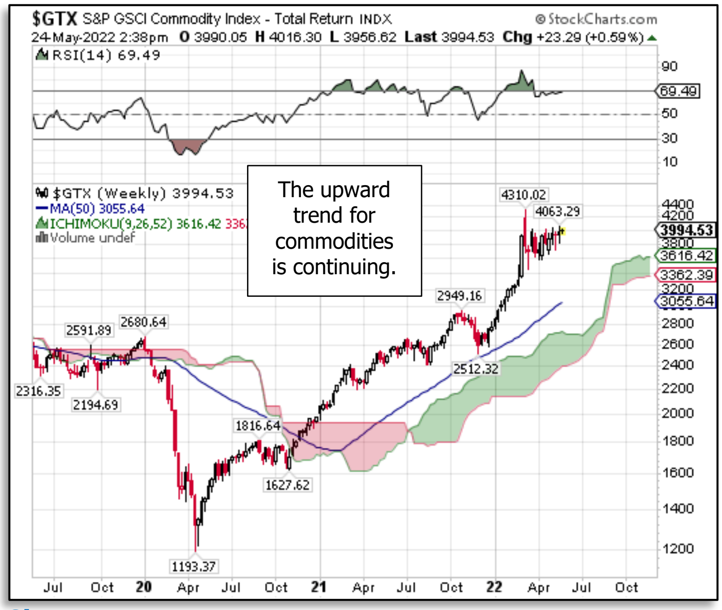

Chart 5

GTX & T-bond yields: Going higher

Outlook positive: The upward trend of the S&P GSCI Commodity Index (GTX) is tightly connected with US bond yields and inflationary pressures (**Chart 6**). The GTX also continues to follow the trend of the US 10-year Treasury yields. As yields have made a breakout of a multi-year high in May, the same can be anticipated for the GTX.

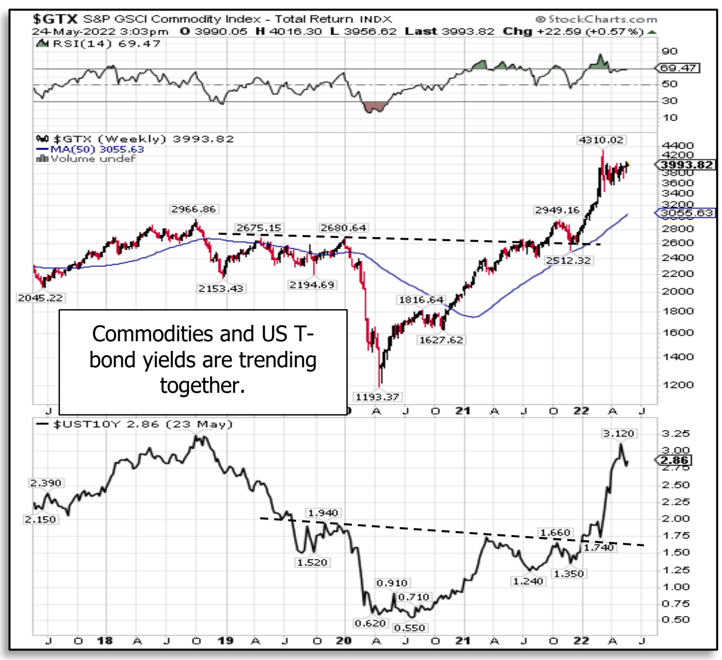

Chart 6

5-year forecast models for the GTX (**Chart 6a**) suggest some short-term trend consolidation and then edging upward into Q3.

What does it mean? The S&P GSCI Commodity Index has been riding with the ongoing rise in the U.S. T-bond yield. The trend for the GTX is expected to remain positive into Q3. The new target is 4,450 followed by 4,700. Continue to hold the position.

Chart 6a

Inflation vs deflation: New high

Outlook positive: Inflationary assets are winning the performance battle with deflationary assets and the ratio has now broken out to a new high in April (**Chart 7**). Inflationary assets (commodities) and the US 10-year T-bond yields are trending together. A short-term pullback is unfolding for both the Inflation/Deflation ratio and bond yields. This retracement is expected to be brief.

What does it mean? The current movement in both indexes suggests that this retracement of inflationary assets performance will be short-lived as US 10-year T-bond yields are expected to advance over the next few months.

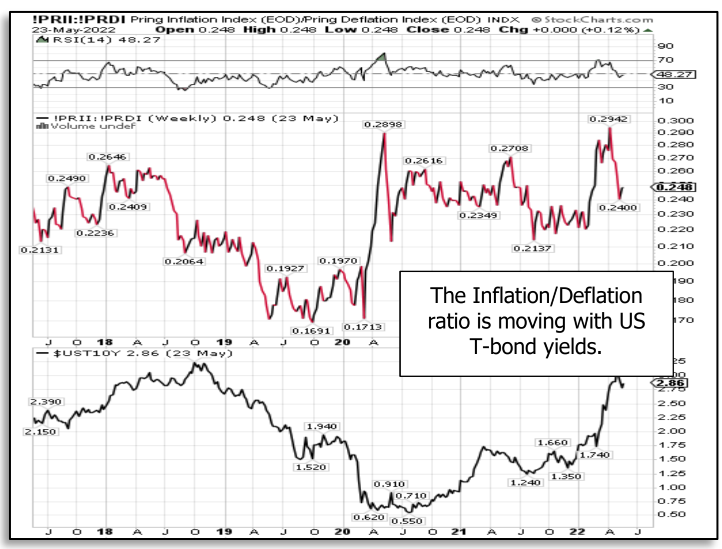

Chart 7