Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES

June 2019

Strategy

Ongoing bull market, minor disruption

Key observations

- **Equity recovery stalls with Trump's trade war rumblings.** Second-quarter (Q2) pullback just one of many (the seventh so far since 2009) within the secular bull market.
- From a technician's standpoint, the late-2018 correction does not violate the long-term trend lines. The latest pullback mirrors the corrections in 2015, 2011 and 2010.
- S&P 500 P/E (price/earnings) multiples remain overvalued. This has been the status since early 2016. The current P/E is 21.66.
- The broader market (S&P 500) posted a new high of 2954.13 in April 2019. Some price struggling remains due to the trade war. Key support is at 2750.
- We recommend that investors stay long in the deflationary sectors of the market (industrials, financials, technology, healthcare, and consumer cyclicals) and underweight inflationary groups (materials, energy, industrials and precious metals).
- We remain long-term bulls on the market and continue to see comparisons to the 1980s and 1990s.
- Our price objective of 3000 was nearly met with 2954.13. Our new target is 3200 for the S&P 500.

Micro thoughts

- **U.S. economy: bullish:** Despite all of the near-term uncertainty with the Trump-induced trade war, we still believe that a sustainable economic recovery continues to unfold. The unemployment rate is at a 49-year low at 3.60%, U.S. consumer confidence is remains strong, and housing values continue to rise.
- **Deflation continues:** An investing environment favouring deflationary sectors over inflationary industries continues to build in Q3.
- **U.S. dollar: bullish:** The U.S. Dollar Index (DXY)
- continues to make a recovery from the Q1/18 correction low. A strong economy bodes well for the dollar. Models point to $.099 to $1.00.
- **10-year bond yields: bearish:** We believe that bond yields have reached a near-term peak at 2.60%. A trading range between 2.40% and 2.60% is expected for the remainder of 2019.
- **U.S. yield curve: normal:** The yield curve remains in a position that suggests a strong U.S. economy and more upside in the stock market.
- **Commodities: negative:** The Commodity Research Bureau (CRB) Index remains under pressure from the strong US$. The index has underperformed the S&P 500 for the past six years. The outlook going forward to year-end suggests a continuation of the current pattern.

Market commentary: Bull market continues after disruption

In -spite of the ongoing Trump trade war and the concerns that this action, if continued, will limit global growth, we believe that the U.S. markets are poised to set new all-time highs by year-end. Models point to 3200 for the S&P 500 by year-end, 29,000 for the Dow, and 8800 for the NASDAQ.

The increasing shift to deflationary sectors (industrials, financials, technology, healthcare, and consumer cyclicals) from inflationary sectors (materials, energy, industrials and precious metals) is encouraging (**Chart 2** on page 3). This markets undertone is positive for further development. A deflationary investing environment creates prolonged business cycles and lengthy bull markets. It also produces low volatility and minimal inflationary pressure.

All are favourable elements.

Donald W. Dony, FCSI, MFTA, May 26, 2019