Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES

March 2016

Strategy

Into mid-year

Key Observations

- Every bull market experiences setbacks, but we believe that the August/September sell-off was just another correction (the fifth since 2009) within a secular bull market.
- At present, the broader market (S&P 500) appears to have successfully retested the uptrend support line of 1800, suggesting a resumption in the bull market.
- We recommend that investors stay long in the offensive sectors of the market (industrials, financials, consumer cyclicals, and technology).
- We remain long-term bulls on the market and continue to see comparisons to the 1980s and 1990s.
- We reiterate our year-end 2016 price objective of 2200 for the S&P 500.

Micro Thoughts

- **U.S. economy –** Despite all of the near-term uncertainty, we still believe that a sustainable but low-trajectory economic recovery continues to unfold. The unemployment rate is at seven-year lows, U.S. consumer confidence is trending higher, and housing values continue to rise.
- **10-year bond yields** – We believe that a secular bottom in interest rates has occurred. The benchmark 10-year bond has formed a base at 1.65% to 1.75% and suggests a measured advance to 2.25% later this year.
- **U.S. dollar** – The U.S. Dollar Index (DXY) continues to make higher highs and higher lows on the weekly chart and is at the rising 50-week moving average (m/a). We view the increasingly positive correlation between the U.S. dollar and the S&P 500 as a bullish sign for this economic recovery.
- **Commodities** – The Commodities Research Bureau (CRB) Index continues to make new post-2009 lows.
- We suspect that a strengthening economic outlook in the U.S. will be a meaningful headwind for the commodity sector. The relief rally in gold looks complete, and the decline in oil prices appears to be nearing an end. However, a move above $38 to $40 is highly unlikely. Lower commodity prices are bullish for the consumer cyclical sector.

Market Commentary:

Every Bull Market Has its Setbacks

We recognize that there are many cross-currents influencing global markets right now, from tensions in the Middle East to the potential problems in China, to the lack of top-down revenue growth among global companies, and potential Fed interest rate increases, to the end of the secular bull market in bonds. However, we believe that the sell-off from August to February was just another correction within a secular bull market. In fact, since 2009, the S&P 500 has endured five setbacks, and each one has proved to be an excellent buying opportunity.

Looking back, from a technician's point of view, the market (S&P 500) had risen almost 65% since early 2012, and it began to lose momentum in late 2014. Some consolidation or backfilling was likely due. In addition, the other major U.S. markets (the Dow Jones Industrial Average [DJIA] and the Russell 2000) broke through their 50-week m/a's in the 4th quarter (Q4) and failed to recover above it. Only the NASDAQ briefly breached the m/a in Q4, only to fall again below it in Q1. At this juncture, the broader market has successfully tested the primary trend line at 1800 and gone higher. The key 200-week m/a has held the decline of the S&P 500, the Dow and the NASDAQ.

We believe that the bull market has more room to run. The S&P 500 is expected to reach 2200 by year-end, and the Dow to retest 18,000 in Q4.

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