Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES

March 2018

Strategy

Into mid-2018

Key Observations

- Every bull market experiences setbacks, but we believe that the February sell-off was just another correction (the ninth so far since 2009) within a secular bull market.
- At present, the broader market (S&P 500) appears to have successfully tested the key support level at 2600. A close above 2700 would suggest a resumption in the bull market.
- We recommend that investors stay long with disinflationary sectors of the market (industrials, financials, consumer cyclicals, and technology) and trade inflationary sectors (metals, energy and materials).
- Our five-year outlook has not changed: we remain long-term bulls on the market and continue to see comparisons to the 1980s and 1990s.
- We reiterate our year-end 2018 price objective of 3000 for the S&P 500.

Microthoughts

- **U.S. economy –** Despite all of the near-term uncertainty about interest rates and inflation, we continue to believe that a sustainable but low-trajectory economic recovery – with an annual P/E (price/earnings) ratio of less than 3% – continues to unfold for this year. The unemployment rate is at a 17-year low, U.S. consumer confidence is measured, and housing values continue to advance.
- **10-year bond yields** – We believe that a secular bottom in interest rates has occurred over the last couple of years. The benchmark 10-year bond has formed a base at 1.65% to 1.75% and suggests a measured advance to 3.50% later this year. The U.S. yield curve is still in a normal position. Three-month government T-bonds would need to move up to 2.75% to be a concern to the stock markets.
- **U.S. dollar** – The U.S. Dollar Index (DXY) continues to decline on the weekly chart and is well below the falling 50-week moving average (m/a). Other world currencies (the euro and Japanese yen, in particular) are more desirable at present.
- **Deflation/inflation** – Since early 2016, deflationary and inflationary pressures have been equal. The longer-term outlook still favours deflation. We expect those pressures to build again in mid-year.
- **Commodities** – On the back of a sagging U.S. dollar, the Commodity Research Bureau (CRB) Index continues to make new 12-month highs. The energy and industrial-metals sectors are the main drivers for this bounce. The relief rally in gold looks near completion at $1,390.

Market commentary:

Just another pullback in a secular bull market

The markets are now recovering from the ninth pullback in the secular advance since 2009. In February, the benchmark S&P 500 fell by more than 10% before mounting a turnaround just days after the fall.

Retracements of 5% to 10% are a normal function of the markets, and they help remove excess bullishness and complacence. Looking back, from a technician's point of view, the market (S&P 500) had risen almost 55% since 2016 without the slightest signal of weakness. This is too much for too long. The U.S. index (S&P 500) is now recovering off of its rising 200-day m/a. In addition, the other major U.S. markets (the Dow Jones Industrial Average [DJIA], the NASDAQ and the Russell 2000) are all rebounding, too. At this juncture, the broader market is still above the primary trend line. Only a decline through 2500 would jeopardize that positive outlook.

We believe that the bull market still has more room to run. The S&P 500 is expected to reach 3000 by year-end, and the DJIA to test 28,100 in Q4.

Donald W. Dony, FCSI, MFTA – February 26, 2018