Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES – SECTORS

March 2022

Strategy

Transition starting

Key Observations: Stock market

- **Outlook: still positive**
- Upward trend continues. Entering the last stage of the bull market, three to five more years expected
- Both the S&P 500 and the Dow Jones Industrial Average posted new all-time highs in January, suggesting a continuation of the bull market in Q2.
- S&P GSCI Commodity Index (GTX) now outperforming the S&P 500 since early 2021
- Base metals and energy sectors are outperforming the S&P 500. First time in 11 years
- Higher interest rates in 2022 suggest overweighting in financials
- We recommend investors overweight in these sectors of the market. Industrials, financials, consumer staples, energy. Market weight in base metals, agriculture, and consumer discretionaries
- After almost 14 years, we believe the secular bull market is becoming mature and is entering a final phase
- Based on 135-year market data, we expect this bull market to continue for 3 to 5 more years.
- We reiterate our year-end 2022 price objective of 5,125 for the S&P 500 and 38,500 for the Dow.

Micro Thoughts

- **U.S. Economy. Outlook: improving**
  We continue to see a sustainable but low trajectory economic recovery unfolding. The unemployment rate continues to decline (now at 4.00%), U.S. consumer confidence is flat, as well as business confidence levels. US inflation sits at 7.50%
- **10-year Bond Yields. Outlook: ongoing rise**
  The Fed's recent announcement of multiple interest rate hikes in 2022 suggests upward pressure on bond yields. The US 10-year T-bond yield has broken out of the Q2/21 to Q4/21 consolidation. Now suggests a measured advance to 2.20% in Q2 and 2.40% in Q3.
- **U.S. dollar. Outlook: slow rise**
  The U.S. dollar index (DXY) continues to have favourable tailwinds. More robust economics and a promise of higher interest rates in 2022 are helping to push the greenback higher. The target is $0.98
- **Commodities. Outlook: trending up**
  The S&P GSCI Index (GTX) continues to be supported by base metals, agriculture, and energy prices. The index recently reached a new high in February. Higher levels are expected in 2022

Market Commentary: Transition starting

Markets (stocks, bonds, and commodities) are in a phase of change. The bull market in stocks has progressed upward for almost 14 years. At this junction, the bull market is about 3/4rds complete. This is based on several factors. (1) The average bull market duration over the last 135 years has been 18 years. This bull market has progressed for about 14 years. That would suggest there are another three to five more years. (2) Sector performance shows that the base metal and the energy sectors are now outperforming the S&P 500. The commodity index (S&P GSCI Commodity Index) is now outperforming the S&P 500. The first time this action has occurred in 11 years. (3) The US plans to start raising interest rates in 2022. This event usually happens when the economic cycle is mature and about 3/4rds complete. These factors suggest that the bull market still has more room to run, and higher levels can be expected in 2022. But, a typical transition toward late market developments is underway.

Our expectation for the S&P 500 is that the index will reach 5,125 and the TSX to reach 22,900 in 2022.

Continues to remain fully invested.

Donald W. Dony, FCSI, MFTA – February 25, 2022

Commodities

Gaining strength

Key Points:

- **S&P GSCI Commodity Index (GTX) continues path upward into 2022**
- **Performance between inflationary and deflationary assets shows a possible "changing of the guard"**
- **The energy sector takes the top 90-day performance spot**
- **WTIC prices reach $95.00 in overbought run**
- **Natural gas prices land on a crucial support level**
- **New high for gasoline prices as oil prices surge**
- **Geopolitical pressures play on gold prices**
- **Silver prices remain capped under the 50-week m/a**
- **The upward surge in base metals continues**
- **Copper prices hold above rising 50-week m/a**
- **The advance continues for S&P Agricultural Index**
- **The U.S. dollar moves higher on safe-haven concerns and interest rate hikes**

	Since Last Month	*Year to Date*	*Since Inception mid-2003*
TS Model Portfolio	-4.96%	-9.21%	**834.29%**
S&P 500	-3.14%	-8.23%	376.62%

The 19-year average for the TS Model Portfolio – 12.69%
The 19-year average for the S&P 500 – 8.70%

https://www.technicalspeculator.com/services/ts-model-growth-portfolios 6.66% average dividend yield

S&P GSCI outlook: Overbought

Outlook positive: The upward trend of the S&P GSCI Commodity Index (GTX) continues to aid and move with the strengthening US T-bond yields (**Chart 1**). The outlook for T-bond yields into Q2 remains favourable, as do the prospects for the GTX.

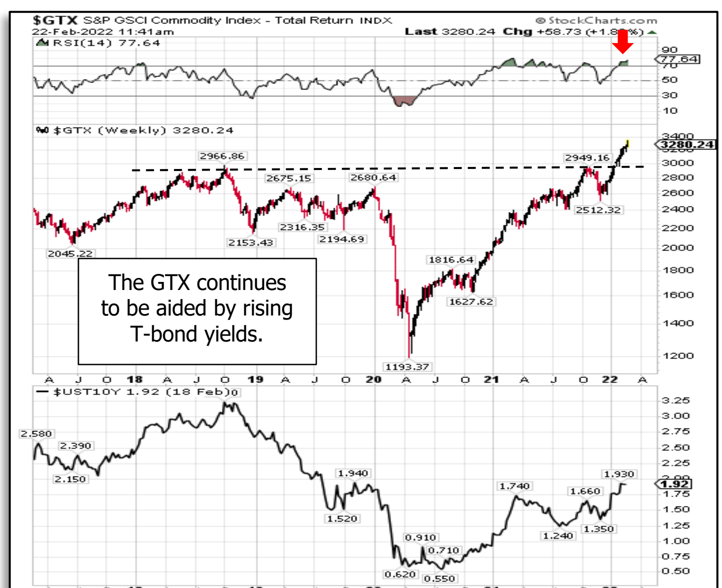

Chart 1

Buying momentum (RSI) for the commodity index is overbought and suggests some retracement or flat consolidation over the next few months. This same action with the GTX occurred multiple times in 2021 when the RSI was overbought. The first support level is at 2,925.

5-year forecast models (**Chart 1a on page 2**) suggest some trend flattening into the second quarter with price levels remaining under 3,150.

What does it mean? The S&P GSCI Commodity Index has been getting a slight lift from the ongoing rise in the US T-bond yields. The trend for the GTX is expected to remain somewhat contained into early 2022, ranging from 2,800 to 3150. Nevertheless, as US T-bond yields are expected to rise this year, so is the S&P GSCI Commodity Index. 3,600 is the target.

Relative performance: GTX vs. S&P

Outlook neutral: The long-term (20 years) relative performance between the two opposing assets shows that the GTX is still underperforming the S&P 500. The 50-month moving average continues to be a pivotal line to cross. This line proved to be an important support level from 2002 to 2007 and a solid, resistant line from 2009 to the present. Buying momentum (RSI) is now positive (over 50), indicating the GTX is gaining performance over the S&P 500.

What does it mean? As long as the relative performance between the GTX and the S&P 500 remains below the declining 50-month m/a, the leadership will stay with the

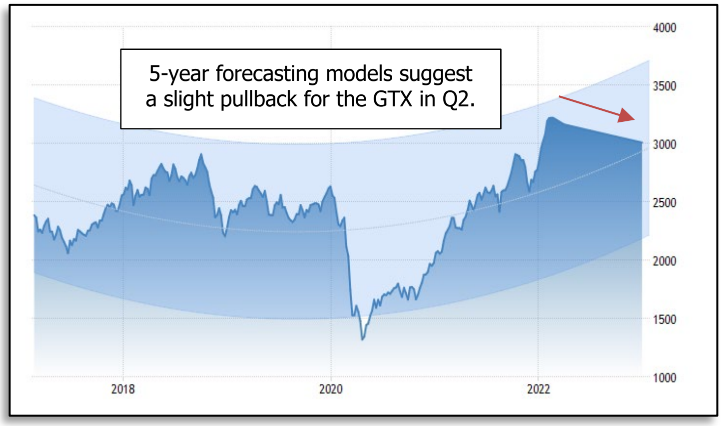

Chart 1a

S&P 500. When the performance comparison moves above the m/a, this will signal that the bull market is nearing an end (**Chart 2**).

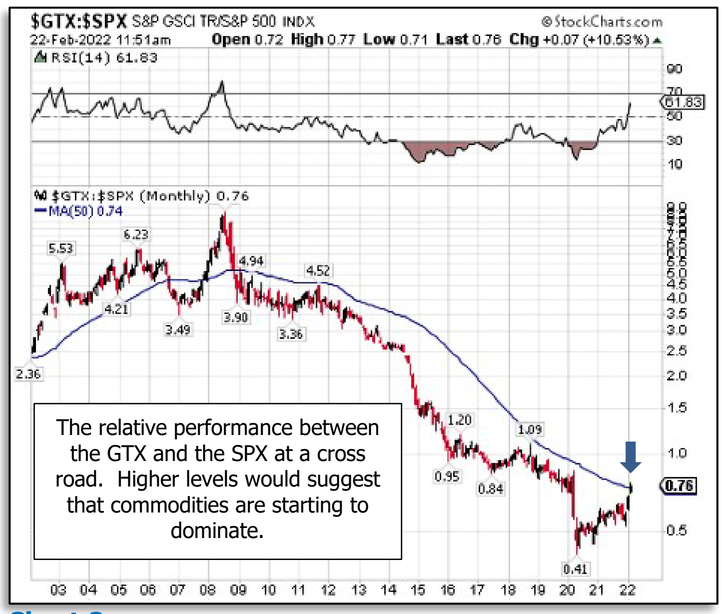

Chart 2

Deflation vs. inflation: Slow change

<u>Outlook neutral</u>: Inflationary assets are slowly winning the performance battle with deflationary assets (**Chart 3**).

Inflationary assets (commodities) had equal performance strength with deflationary investments (Dow stocks) for most of 2020 and mid-2021. But commodities' relative performance decreased over the summer in Q3 and Q4 but regained strength in Q1/22.

<u>What does it mean</u>? A reversal of performance favouring inflationary assets over deflationary appears to be developing in Q1/22. More time is still needed to confirm this new trend.

Chart 3

Commodity performance: Livestock

The S&P GSCI livestock Index had the best 90-day performance. This sector was one of two industry groups that outperformed the benchmark S&P GSCI Commodity Index (GTX). The precious-metals sector had the lowest performance from October through February (**Chart 4**).

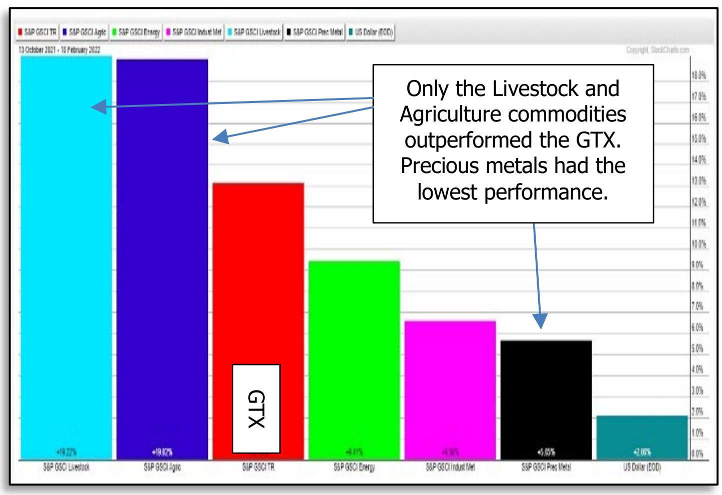

Chart 4

WTIC: Measured advance

<u>Outlook: positive</u>: The EIA has predicted that global oil demand would rise by 3.2 million barrels a day this year; this is roughly 100,000 barrels a day less than what was expected earlier this year. Market jitters connected to a more hawkish Fed monetary policy stance and renewal diplomatic talks with Iran could allow additional oil flows. Iran could add as much as 1.5 million barrels a day if an agreement is reached.

Technically, light crude oil prices maintain a slow but steady advance, with $66 to $67 as a solid support level (**Chart 5 on page 4**). Buying momentum (RSI) is positive (confirming upward strength), suggesting that WTI is well supported.