Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES

March 2019

Strategy

Into mid-year

Key observations

- Every bull market experiences setbacks. We believe that the December sell-off was just another correction (the sixth since 2009) within a secular bull market.
- At present, the broader market (S&P 500) appears to have successfully retested the uptrend support line, suggesting a resumption in the bull market.
- We recommend that investors stay long in the deflationary sectors (industrials, healthcare, financials, consumer cyclicals, and technology). Inflationary sectors (commodities) should be traded on a short-term basis only.
- We remain long-term bulls on the market and continue to see comparisons to the 1980s and 1990s.
- We reiterate our 2019 price objective of 3000 for the S&P 500, and 28,100 for the Dow Jones Industrial Average (DJIA).

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 a nine-year low, 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 U.S. Treasury 10-year bonds have formed a base at 1.65% to 1.75% and suggest a measured advance to 3.33% later this year.
- **U.S. dollar**: The U.S. Dollar Index (DXY) continues to strengthen, making higher highs and higher lows on the weekly chart, and it remains above 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.
- **U.S. yield curve:** The curve remains in a normal position, with increasing yields as the time to maturity extends. This is a healthy angle and indicates that the Fed believes the U.S. economy has more room to grow.
- **Commodities**: The Commodity Research Bureau (CRB) Index has remained in a broad consolidation over the past three years. The relief rally in gold looks complete, and oil prices appear to have moved back to 2016/17 levels ($45 to $55). With both global demand and supply in balance, and a rising US$, the outlook for vastly higher oil prices appears remote.

Market commentary: Secular rise continues

We recognize that some of the disruptions in the U.S. bull market over the last two years were self-inflected. Nowhere is that more evident than during the recent pullback. However, cooler heads appear to be gaining control again, and the focus is slowly reverting back to the economy, corporate profits, and the consumer.

These three key elements illustrate a strong economy. Annual GDP is at 3% (a three-year high), and corporate profits rose 3.5% in the 3rd quarter of 2018 (Q3/18) to an all-time high. Consumer confidence/sentiment remains at similar levels to those of the past two years.

Looking at the market (S&P 500) from a technician's point of view, the recent correction in Q4/18 was similar in percentage to the retracement in mid-2011. We believe that the bull market is at the mid-point of its secular advance and still has much more room to run.

In 2019, the S&P 500 is expected to reach 3000, and the DJIA to rise to 28,100.

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

 www.technicalspeculator.com *dwdony@shaw.ca* *Ph. 250-479-9463*

Commodities

Some relief from pullback in U.S. dollar

KEY POINTS:

- **Another short-term bounce for the CRB**
- **Pro-commodity environment (inflation) loses to deflation**
- **Industrial metals take the top spot in 90-day performance**
- **WTIC prices finding short-term support**
- **Natural gas sits on the base at $2.50**
- **The gold run is losing oxygen at $1,350**
- **Rising target for copper heads to $3.15**
- **Livestock index trend still positive**
- **U.S. dollar strength stalls; awaits Fed signal for more rate hikes**

	Since Last Month	*Year to Date*	*Since Inception Mid-2003*
TS Model Portfolio	4.40%	13.09%	**495.46%**
S&P 500	3.15%	11.36%	178.50%

15-year average for the TS Model Portfolio: 12.06%
15-year average for the S&P 500: 6.99%

Link to TS Model Growth Portfolios

New dividend income portfolio launched: 6.42% yield

CRB outlook: Key level: 183 to 185

Outlook negative/neutral: The nemesis of most commodities is the U.S. dollar. Recent weakness in the greenback has provided a short-term bounce for the CRB. This advance is not expected to have legs, but it can provide a window for traders to lower positions.

Chart 1

Bottom line: Overhead price resistance at 183 to 185 should slow the brief bounce of the CRB. Weakness in the U.S. dollar is not expected to persist. We suggest using this bounce to lower positions (**Chart 1**).

One-year curve-fitting models for the CRB show a well-defined negative trend. This model suggests that lower levels should be expected in the coming months (**Chart 1a**).

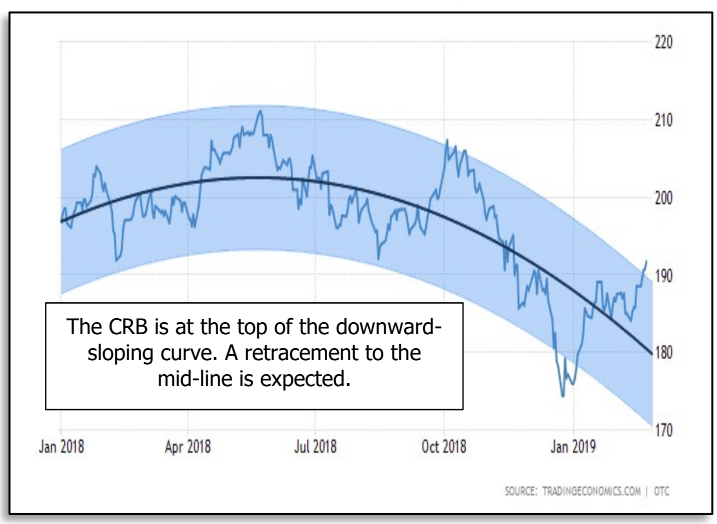

Chart 1a

Deflation vs. inflation: Deflation wins

Outlook negative: Deflationary assets (!PRDI) of consumer products, financials, technology, industrials, etc. are continuing to outperforming inflationary assets (!PRII) (commodities). We expect this trend to strengthen, going into mid-year (**Chart 2** on page 3).

Bottom line: The upward trend of deflationary asset performance over inflationary asset performance implies that commodities are facing headwinds into early 2019.

Chart 2

Commodity performance: pr. metals

The US$ pullback in January, plus the ongoing uncertainty surrounding the White House has sent spot gold higher. The 90-day snapshot of commodity-sector performance highlights the weakness in the benchmark CRB.

Note that the energy sector had the worst performance, again (**Chart 3**).

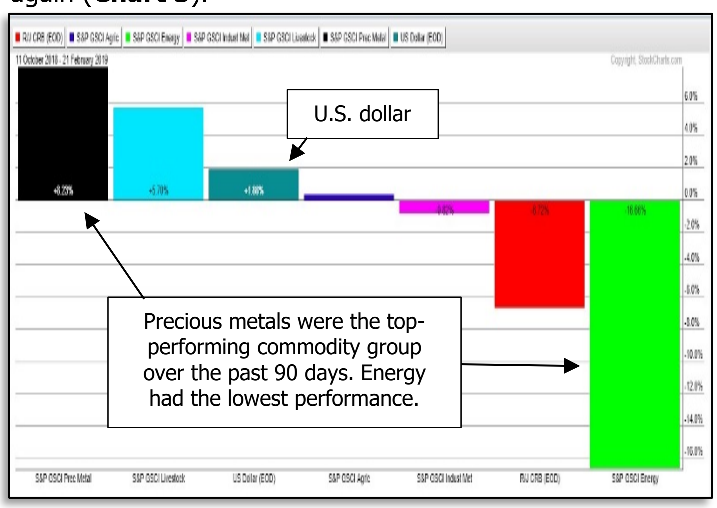

Chart 3

WTIC: Short-term bounce

Outlook neutral: Last month (February issue, page 2), we commented that there was stiff price resistance at $55 to $56 for light crude oil prices (WTIC). Although we feel that there may be a slight overshoot of that level, ultimately, price weakness should develop around that juncture. Buying momentum (Relative Strength Index [RSI]) confirms the short-term strength. Underlying support sits at $52.

Bottom line: A short-term rally is unfolding. Hold the position for now. Do not add (**Chart 4**).

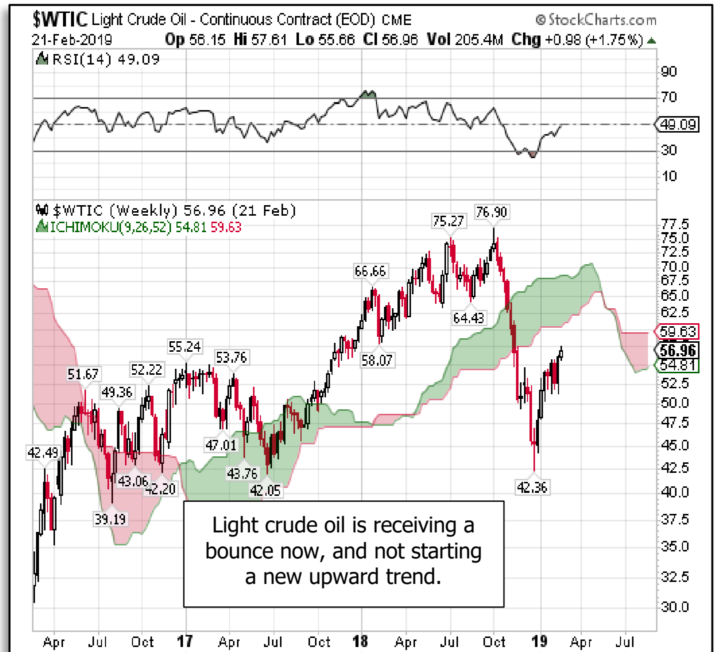

Chart 4

One-year curve-fitting models (**Chart 4a**) continue to display a downward curve. This model points to the low $50s by mid-year.

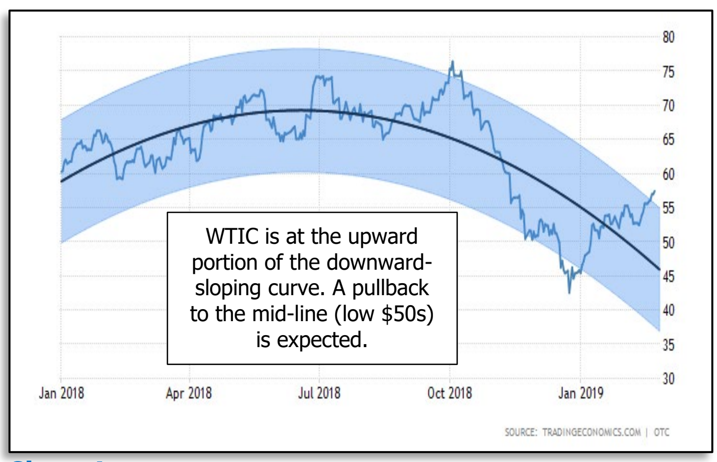

Chart 4a

Natural gas: on support

Outlook negative: On the lower support level of $2.50 to $2.60. The main two-year trend is flat. Buying momentum (RSI) is solidly negative. If $2.50 is broken, $2.05 is the next lower support level (**Chart 5** on page 4).

Bottom line: There is no sign of strength in natural-gas prices. Stay on the sidelines.

Note: March and April are often positive months. A bounce may be coming.

Chart 5

Gasoline: Surprise pop!

Outlook positive: Gasoline prices (GASO) exploded from the key support level of $41.65 in early Q4/18. Now, prices are reaching for the $2.05 level. Buying momentum (RSI) is positive (confirming the rise).

Chart 6

Bottom line: GASO appears set to move to the $2.00-to-$2.05 range. Short-term traders should buy in. All others should use this strength to lower positions, as this rally is not expected to last (**Chart 6**).

Gold: Rally peaking at $1,350 to $1,360

Outlook neutral: Rally strength appears to be nearing completion on the back of a weak U.S. dollar. We suspect that the run in gold will start to turn down in March. Buying momentum (RSI) is overbought, which confirms our outlook. First underlying support is at $1,275 (**Chart 7**).

Chart 7

One-year curve-fitting models suggest that the main trend has turned up, but a short-term retracement down to $1,290 to $1,300 should be expected (**Chart 7a**).

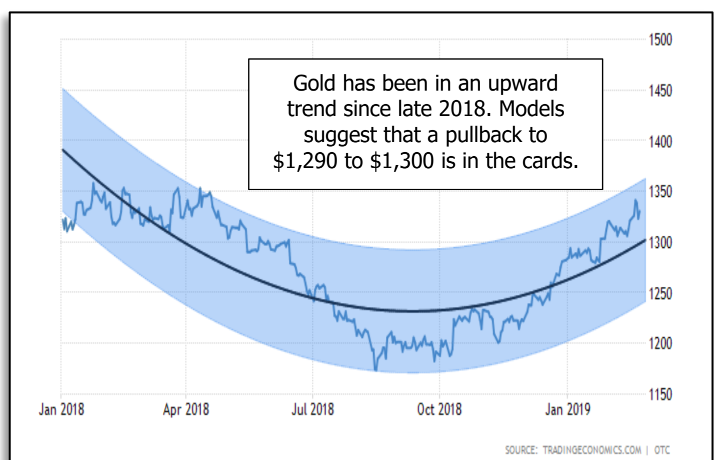

Chart 7a

Silver: At resistance

Outlook neutral/negative: A rally off of the $14.00 base has now reached the first resistance level of $16.00. Buying momentum (RSI) is still positive, but we expect that this rally in silver will stall. First support is at $15.00.

Bottom line: The short rally in silver prices has likely neared its end. Investors should keep a tight stop and be prepared to exit the position (**Chart 8**).

Chart 8

Industrial metals: Ongoing slide

Outlook negative: After breaking down through the declining 50-week m/a in mid-2018, the trend for the index still remains lower. Buying momentum is below 50, which indicates a negative reading. First support is at 310.

Bottom line: The current relief rally should not last; the downward trend for the index is still in place. Only a move above 355 would negate this outlook. Remain on the sidelines until 355 is crossed (**Chart 9**).

Chart 9

Copper: Positive pop

Outlook neutral/positive: The main two-year trend appears to be reversing: a recent breakout at the $2.80 level is positive. Buying momentum (RSI) is above 50 (confirming). Now above the 50-week m/a.

Bottom line: Add to the position. The next target is $3.15 (**Chart 10**).

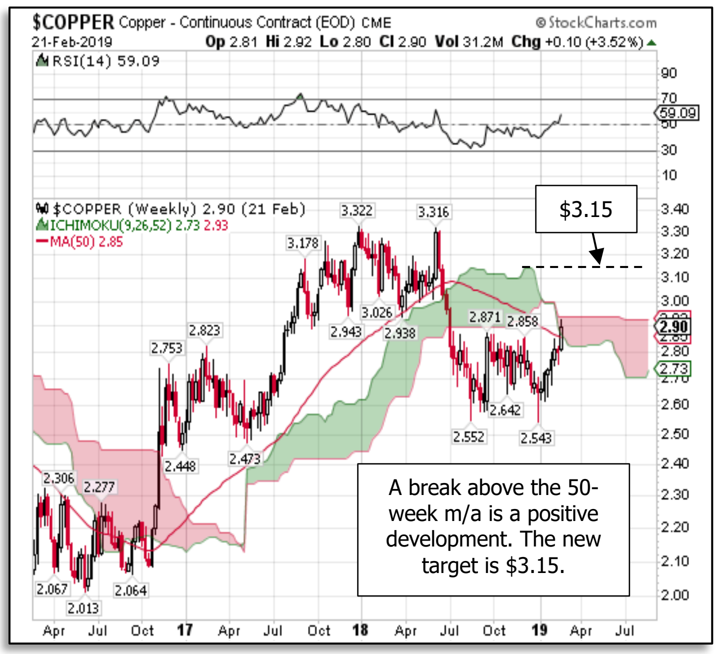

Chart 10

Livestock: Gaining strength

Outlook positive: Gradually strengthening. Still in a pattern of higher highs and higher lows since mid-year. Buying momentum (RSI) confirms. Now above the 50-week m/a. First support is at 266 (**Chart 11** on page 6).

Bottom line: We suspect that more upside lies ahead. The next target is 287, then 300. Add to positions.

U.S. dollar: Rebounding

Outlook positive: Remaining above the rising 50-week m/a. A strong RSI reading suggests more upside ahead (all confirming the rise). First support is at $0.945. First resistance is at $0.973, and then $0.996 (**Chart 12** on page 6).

Bottom line: Positive economics: the best currency in the G20. Suspect more upside lies ahead. The target is $0.996.

Chart 11

Chart 12

International Equities

The recovery gains strength

KEY POINTS:

- **A recovery appears to be unfolding for the DJW**
- **The secular bull trend for global equities continues**
- **Weaker rebound for world index, ex S&P 500**
- **Brazil's Bovespa retains top performance spot**
- **Shanghai index's slide finds a floor**
- **Recovery for Japan's Nikkei**
- **Upward trend continues for India's BSE**
- **Slow rebound for Europe's DAX, CAC and IT30**
- **Brazil's Bovespa roars again**
- **Recovery continues for ASX**

Overview: Rebound continues

Outlook neutral/positive: The main two-year trend is flat. The recoil from the Q4/18 pullback is still unfolding, and the Dow Jones Global World Index (DJW) has now reached the key 50-week m/a. Buying momentum (RSI) is only around 50 (non-confirming). An advance above 390 is still needed to confirm that the bull market is back (**Chart 13**).

The rebound appears to be progressing. From a longer-term perspective, the DJW is clearly still in the ongoing secular bull market (**Chart 13a** on page 7).

Bottom line: The bull market is intact. Some short-term weakness/consolidation over the next one to two months is expected, and a move above the level of 405 is expected by April.

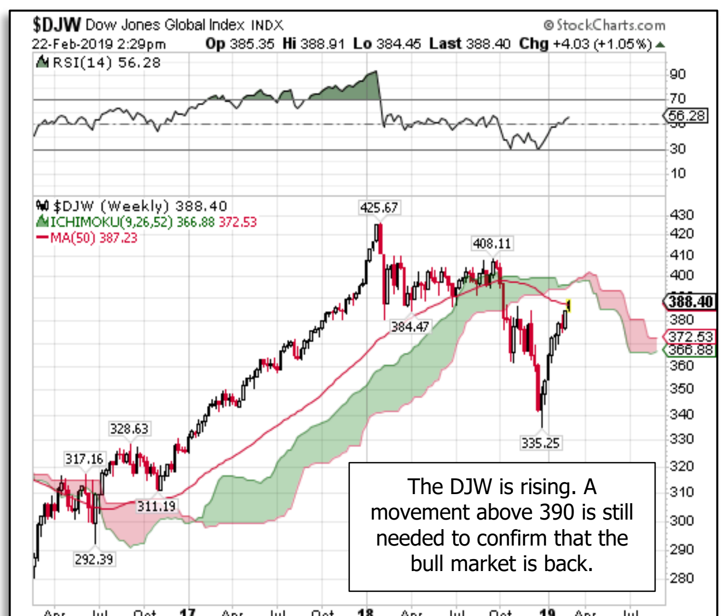

Chart 13

Chart 13a

World index ex-U.S.: Rebounding

Outlook neutral/positive: The major two-year trend is still rebounding. The index has reached the first resistance level of 1860 and stalled. A neutral reading from buying momentum (RSI) confirms the building strength. Still under the 50-week m/a; more time is needed (**Chart 14**).

Bottom line: The move above 1900 would suggest that the correction is complete. Add to the position now.

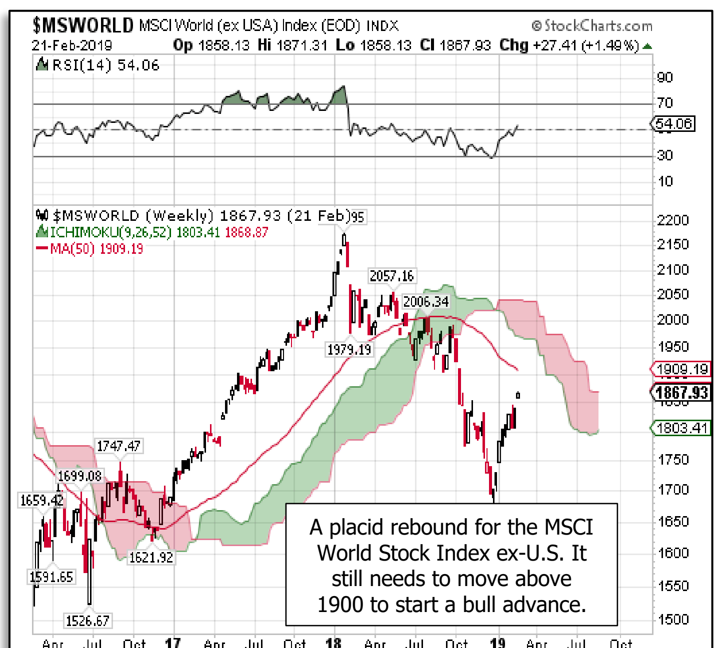

Chart 14

Suggested portfolio weighting – through Q2/19

Sector Overweight: *Brazil, India, U.S.A., Hong Kong*

Sector Market Weight: *Japan, South Korea, Malaysia, Australia*

Sector Underweight: *Canada, Europe, China*

Suggested market percentage weighting – 2019

50% (*India, Brazil, U.S.A.*)

25% (*Hong Kong, Japan, South Korea, Malaysia, Australia*)

25% (*Canada, Europe, China*)

Global performance: Brazil leads

Only one world index stands alone with a positive return over the last 90 days: Brazil's Bovespa. Note that most of the other world indexes had negative returns over the same three months.

Bottom line: The recovery form the recent correction is still unfolding. More time is needed (**Chart 15**).

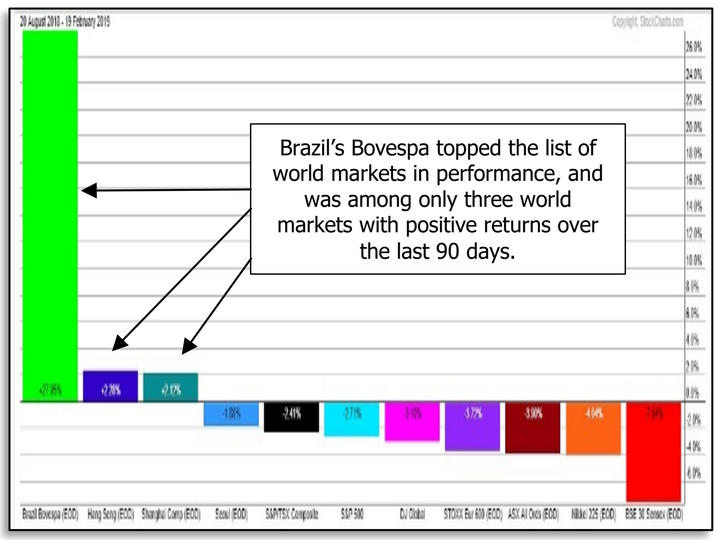

Chart 15

China: Downward slide

Outlook neutral/negative: The major two-year trend is still down and has now landed on the 2450 support level. Buying momentum (RSI) is starting to slowly strengthen and is now at a neutral level – a promising sign. Still too early to suggest that a final low is in. A close above 2850 is required (**Chart 16** on page 8).

Bottom line: There are early signs of returning strength, but not enough at this juncture. Stay on the sidelines for now. Add to positions only at a close above 2850.

Japan: below the key 50-week m/a

Outlook neutral/negative: The index made a break

Chart 16

down through the key 50-week m/a in October, landing on the lower support level of 19,500. An early stage rebound is starting. The first overhead resistance of 21,000 has been broached. Buying momentum (RSI) is still neutral, suggesting that more time is needed (**Chart 17**).

Bottom line: Wait for the Nikkei to cross above 22,000 before adding to the position.

Chart 17

Hong Kong: Starting to recover

Outlook neutral/positive: The index appears to challenging the 50-week m/a and starting a new upward trend. Buying momentum (RSI) is positive and rising (confirmation). The next target is 31,300 (**Chart 18**).

Bottom line: Add to the position now, while the index is breaking out. Definitely improving.

Chart 18

South Korea: Rocket jump

Outlook neutral/positive: The major two-year trend is flat. After the decline that started in mid-2018, the index formed a base at 2000 to 2100. The recent bounce was dramatic, rising through several resistance levels. Buying momentum is now positive (confirming a breakout). First resistance is at 2250 (**Chart 19** on page 9).

Bottom line: Add to the position on any weakness. Once through 2250, 2450 is the next target.

India: Upward trend

Outlook positive: The major two-year trend is up. The index is at the rising 50-week m/a. The recent pullback in Q4/Q1 to the m/a appears to be holding. Buying momentum (RSI) is around 50 (confirming). The next target level is 39,200, and then 39,800 (**Chart 20** on page 9).

Bottom line: The upward trend appears to be holding. Add to the position on any weakness.

Chart 19

Chart 20

Europe: Slowly rebounding

Outlook neutral: The major two-year trend is now flat. The rebound from the 330 low has moved the index up to the 370-to-375 resistance zone. A break through this juncture would suggest a move up to 390. Buying momentum (RSI) is neutral and not yet confirming (**Chart 21**).

Bottom line: The index is slowly recovering. Crossing the 370-375 (50-week m/a) could be a challenge. Wait on the sidelines until this level is crossed.

Chart 21

Germany: New low

Outlook negative: The index has rolled over, and it posted a new low in December. Buying momentum (RSI) is at 50 (confirming the weak trend). The index is still well below the downward-sloping 50-week m/a. These are all negative elements (**Chart 22**).

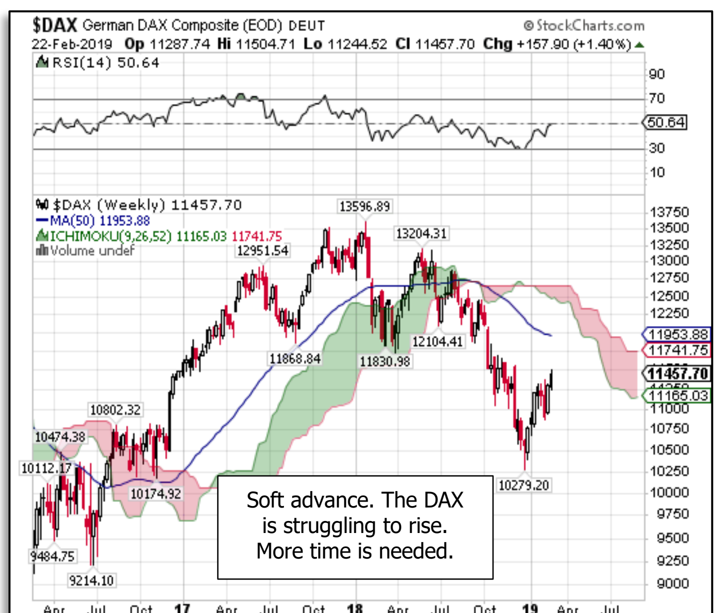

Chart 22

Bottom line: No signs of changing the current trend. Stay on the sidelines until 11,550 is crossed, then add to the position. Once crossed, 12,800 is the first target.

France: Rebounding

Outlook neutral: The major two-year trend is flat. The index is rebounding off of the low in December. Buying momentum (RSI) has recovered from a negative reading and is now positive. Price resistance is still at 5225.

Bottom line: The current bounce is gaining strength. Add to the position at 5225. Once through, 5425 is the next target (**Chart 23**).

Chart 23

Spain: Downward trend

Outlook negative: The ongoing downward trend continues. The index has remained below the falling 50-week m/a since February 2018. The rise in the RSI suggests that a trend reversal may be developing.

Bottom line: The index needs to cross the 9350-to-9500 range before an upward trend can start. Stay on the sidelines until that level is reached.

Italy: Slowly rebounding

Outlook neutral/negative: The major two-year trend is still down. Overhead price resistance is between 2125 and 2180. Buying momentum (RSI) is recovering and now at a neutral reading (encouraging). More time is needed (**Chart 24**).

Bottom line: The first signs of a rebound appear to be taking shape. Wait until 2180 is crossed before adding to the position. Stay on the sidelines for now.

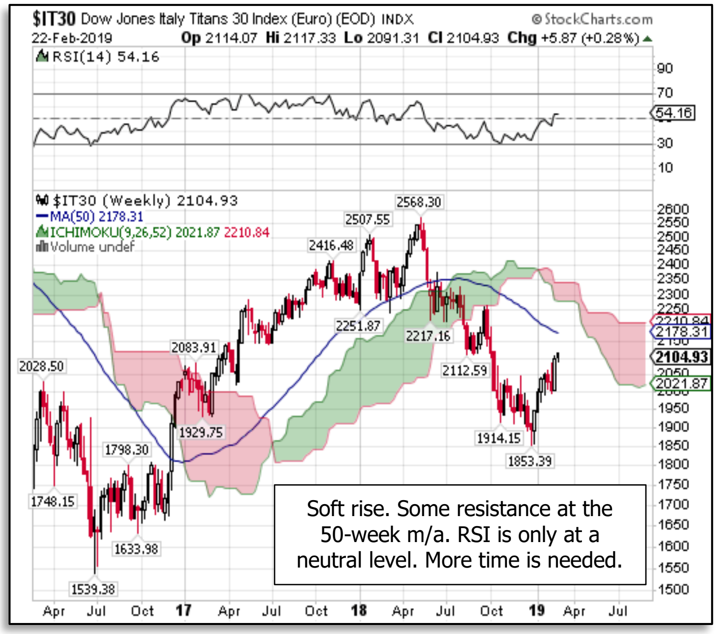

Chart 24

Brazil: New all-time high

Outlook positive: The index printed yet another new all-time high in February. The Bovespa continues to be well above the rising 50-week m/a, and buying momentum (RSI) is positive (both good technical signs). First support is at 90,000.

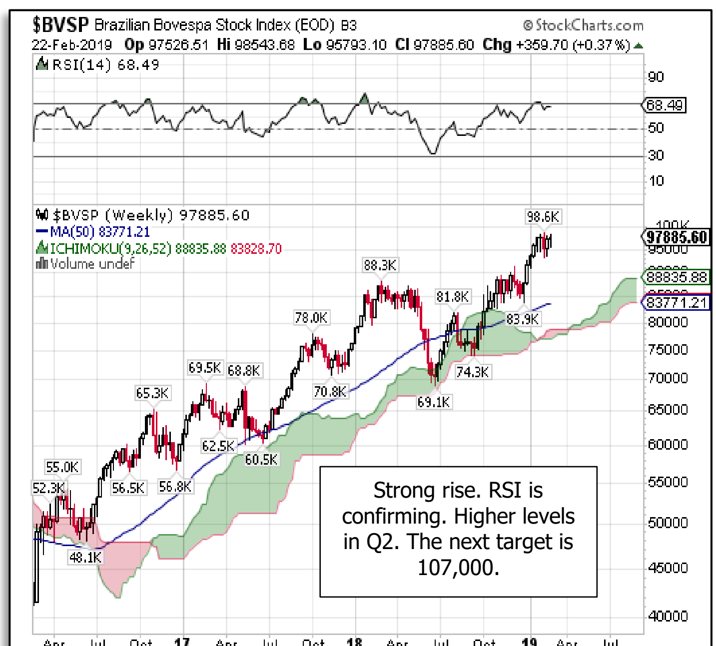

Chart 25

Bottom line: We suspect that more upside lies ahead. Add to positions on any weakness. The next target is 107,000. Looks very positive (**Chart 25** on page 10).

Australia: Above the 50-week m/a

Outlook positive: The index has rebounded strongly since correcting in December. The key 50-week m/a has now been crossed, and RSI is in the positive zone (all positive confirmations). The next upside resistance is at 6275 (**Chart 26**).

Bottom line: Add to positions. Models suggest that there is more upside to come. The next target is 6500.

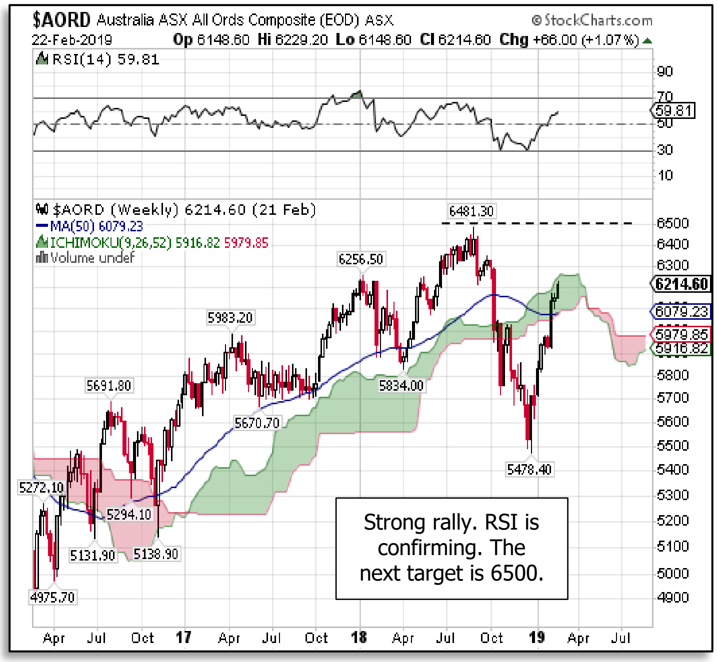

Chart 26

What should investors do?

First, it is always important to look at the big picture. **Chart 13a** illustrates that view. The benchmark Dow Jones Global World Index (DJW) is recovering from a correction; a retracement similar to the pullbacks in mid-2011 and in late 2015. The index remains in the upward-sloping channel.

This main factor tells the investor to stay in the market.

Second, **stay with the leaders.**

Brazil's Bovespa, India's BSE, the S&P 500, and Hong Kong's Hang Seng (in that order) are the leaders and setting the pace for the recovery. The corresponding exchange-traded funds (ETFs) are **EWZ, INDA, SPY** and **EWH.**

We expect many other world indexes to turn positive over the next month or two, as the correction finally unwinds.

Chart 13a

U.S. and Canadian Equities

Market rebound led by the TSX

KEY POINTS:

- **U.S. yield curve still points to positive growth**
- **U.S. 10-year bond yields show little upside**
- **The TSX leads in performance**
- **What the VIX is now saying**
- **Rebound extends for the NYSE and S&P 500**
- **The Dow nears the first resistance level**
- **A milder rebound for the NASDAQ**
- **Strength from technology index push the TSX**
- **Energy sectors hold the worst performance record for S&P 500 and TSX this last 90 days**

Suggested portfolio weighting – through Q2/019
Sector Overweight: *Industrials, technology, financials*
Sector Market Weight: *Cyclicals, healthcare, energy*
Sector Underweight: *Gold, staples, mining, materials*
Suggested market percentage weighting – 2019
U.S. market: 50% (S&P 500, Dow, NASDAQ)
International markets: 25% (Europe, Asia, etc.)
Canadian market: 25% (TSX)

KEY ECONOMIC NUMBERS:

- U.S. annual GDP: 3.00%
- U.S. interest rate: 2.50%
- U.S. inflation rate: 1.60%
- U.S. jobless rate: 4.00%
- U.S. gov. budget: (-3.50%)
- U.S. debt/GDP: 105.40%
- U.S. current account: (-2.40)
- U.S. currency: $0.968
- U.S. population: 325.72 million
- Canadian annual GDP: 2.10%
- Canadian interest rate: 1.75%
- Canadian inflation rate: 2.00%
- Canadian jobless rate: 5.80%
- Canadian gov. budget: (-0.90%)
- Canadian debt/GDP: 89.60%
- Canadian current account: (-3.00)
- Canadian currency (CAD/USD): $1.32
- Canadian population: 36.96 million

U.S. economy continues to expand at a moderate pace as measured by GDP growth. Inflation eases off to 1.60%, still below to Fed's target of 2%. Unemployment rate edged up to 4.00%. U.S. dollar continues to advance. Canadian economy (GDP) is flat, with no growth in 12 months. Jobless rate edges up to 5.80%.

Breadth Barometer: 58% positive

The average percentage of advancing stocks (above their 200-day m/a's) on the NYSE, S&P 500 and TSX at the end of February was **57.9%**, versus 41% for last month. Starting to recover. A movement above 60% would indicate that the bull market has returned (**Chart 27**).

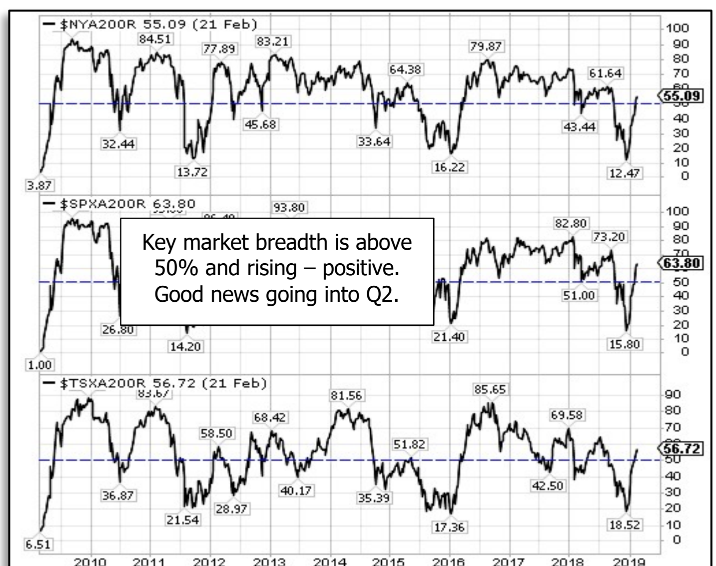

Chart 27

Key economics: U.S. yield curve

Outlook positive: The U.S. yield curve is still holding in a normal healthy position, with long rates (30-year) above short-term rates (one month). This position suggests that the Fed has room to accommodate additional economic growth by raising interest rates when needed (**Chart 28**).

Bottom line: The U.S. Yield Curve Index is arguably one of the most accurate indicators of the economy and the stock market. Short- and long-term rates would have to be equal before there was a market concern.

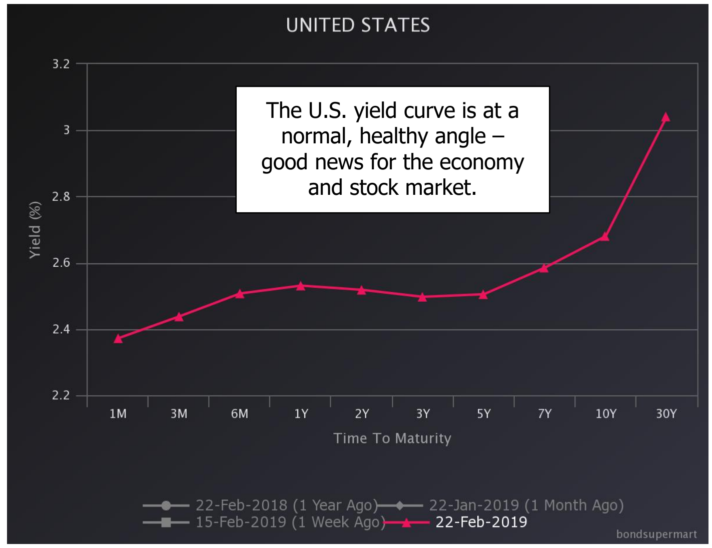

Chart 28

Bonds: 10-year yields on support

Outlook neutral: Benchmark U.S. 10-Year Treasury yields appear to be holding above the 2.65% support level. One-year curve-fitting models are trending down, so we do not expect rates to advance over the next quarter (**Chart 29**).

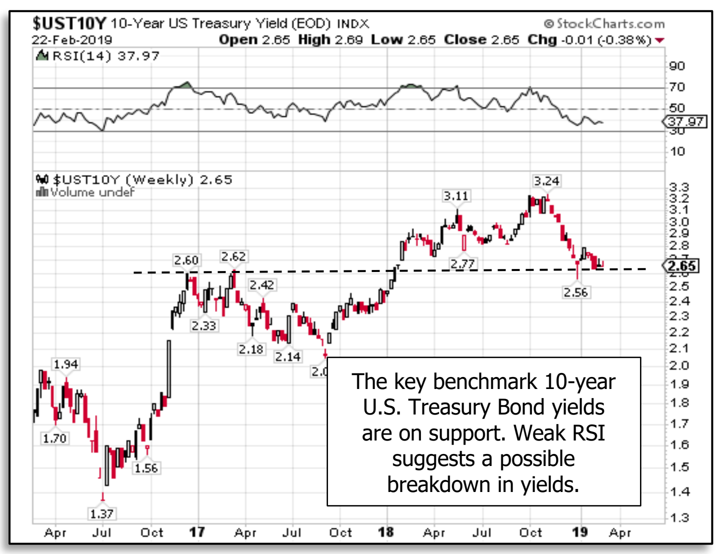

Chart 29

Bottom line: Flat inflationary pressure, plus modest economic growth, suggests slightly stable yields into Q1-Q2/19. This would suggest that the Fed is not going to raise interest rates over the next few months (**Chart 29a**).

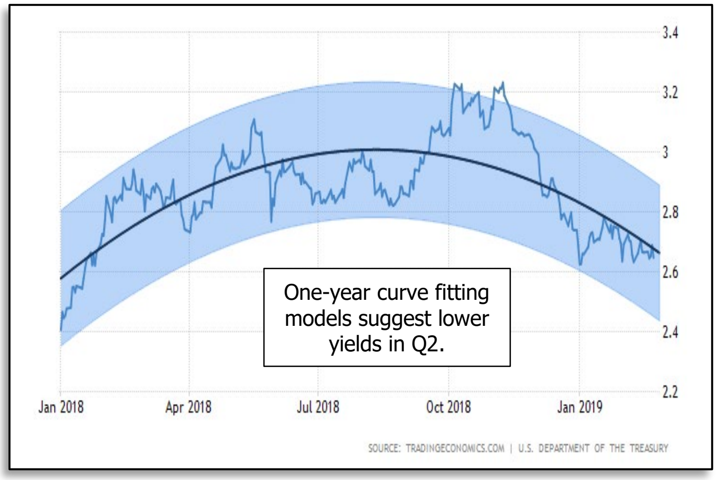

Chart 29a

Key economics: U.S. unemployment

Outlook neutral: Models suggest that the low in the U.S. unemployment rate was met at 3.70% in late Q3/18. One-year curve-fitting models propose that the rate will be between 3.80% and 4.00% into mid-2019 (**Chart 30**).

Bottom line: The low in the U.S. unemployment rate appears to be established. A gradual rise is anticipated in 2019.

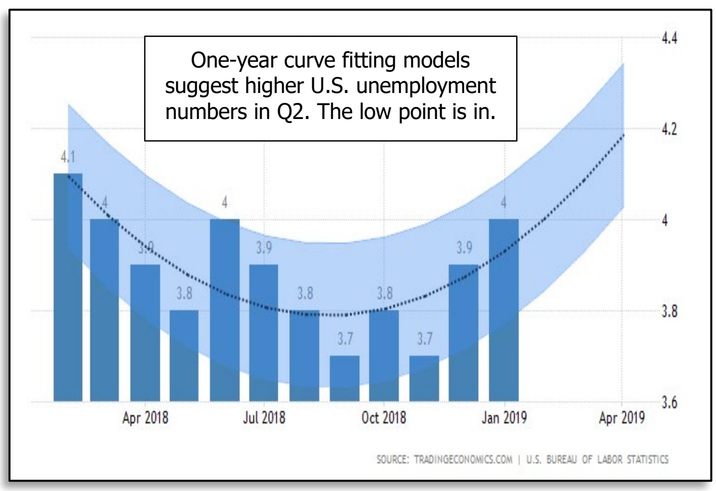

Chart 30

Index performance: TSX leads, but ...

Outlook negative: Over the past 90 days, all indexes posted a negative return. Canada's TSX posted the best 90-day performance, followed by the Dow.

Bottom line: The outlook over the next six to nine months is expected to improve, with the Dow leading again (**Chart 31**).

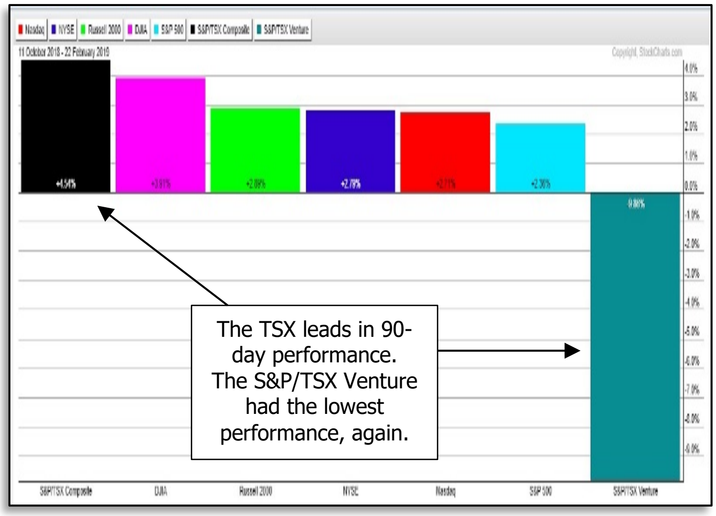

Chart 31

VIX: Elevated concern? No

Outlook neutral/negative: A gradual decline of volatility is developing, since the high in Q4/18. After a steady decline in 2016 and 2017, the VIX (Market Volatility Index) flexed its muscle in 2018, with two spikes to the 29-to-30 level. However, the current outlook shows that volatility is dropping fast.

Bottom line: Models suggest a return to the low-to-moderate risk range of 12 to 13 by March or April (**Chart 32**).

Chart 32

Stocks vs. bonds: Risk is returning

Outlook neutral/positive: The early stage of risk over safety appears to be developing in January and February. Equities (risk) are starting to outpace bonds (safety).

Bottom line: Models suggest that risk should continue to outperform safety into Q2, which is good news for the markets (**Chart 33**).

Chart 33

A long-term (15-year) view of the index illustrates the secular upward trend. Recent price action tested the lower range and rebounded, suggesting that the bull market is still intact (**Chart 34a**).

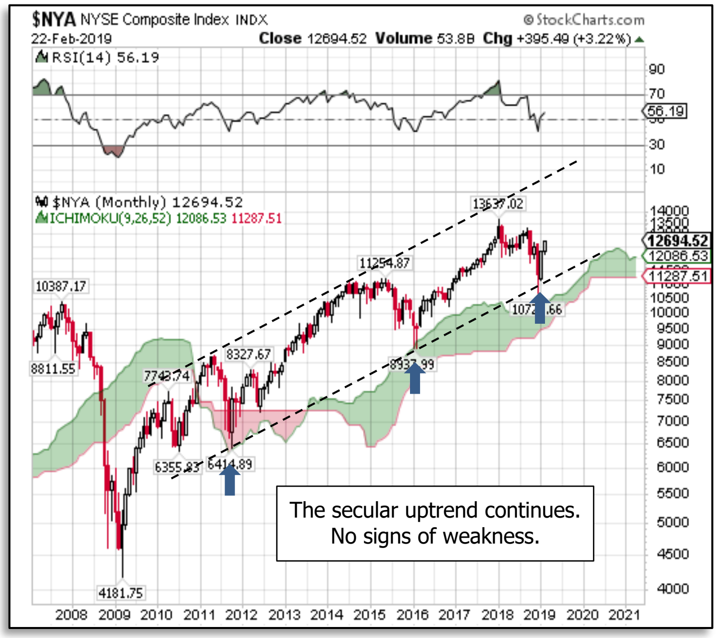

Chart 34a

NYSE: Just above the 50-week m/a

Outlook positive: The major two-year trend is reversing the recent pulback. The index is currently rebounding and is now above the 50-week m/a. Buying momentum (RSI) is positive and confirming (**Chart 34**).

Bottom line: The secular bull market is still intact. The short-term outlook is positive and signals that the upward trend is starting again. The next target is 13,750. Add to positions.

Chart 34

S&P 500: Upward trend starting

Outlook positive: Recent price action lifted the index above the 50-week m/a. Buying momentum (RSI) is

Chart 35

confirming the rise. The rebound is moving to the first resistance level of 2850. A break above that mark points to the first target of 3000 (**Chart 35** on page 14). The long-term secular rise is still in place. No problems expected (**Chart 35a**).

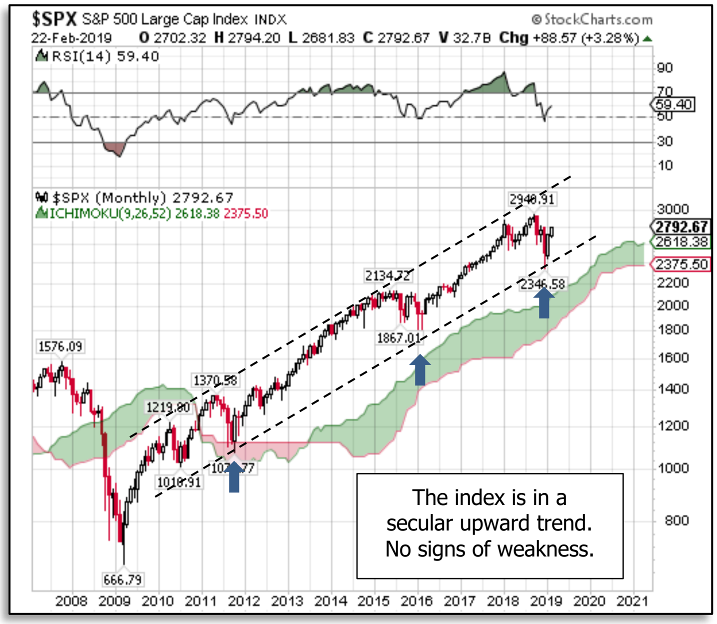

Chart 35a

Bottom line: The upward movement is starting. Add to the position on any weakness. The first target is 3000, followed by 3200.

Dow: Upward trend starting

Outlook positive: The index broke above the key 50-week m/a last month. Buying momentum (RSI) is

Chart 36

confirming strength, with a reading above 50. Price support at 24,000 should hold any short-term pullbacks. First overhead resistance is at 26,250.

Bottom line: The index appears poised to move higher over the next few months. Add to positions on any weakness. The target remains at 28,100 (**Chart 36**).

NASDAQ: Slow rebounding

Outlook positive: The index is now above the key 50-week m/a, and buying momentum (RSI) is positive and rising (all confirming). The first support level is at 7025, and first resistance is at 7775.

Bottom line: A mild rebound from the December pullback is still unfolding. Stock is still in the early stage of a recovery. We suspect that more upside lies ahead. Add to positions. The target is 8225 (**Chart 37**).

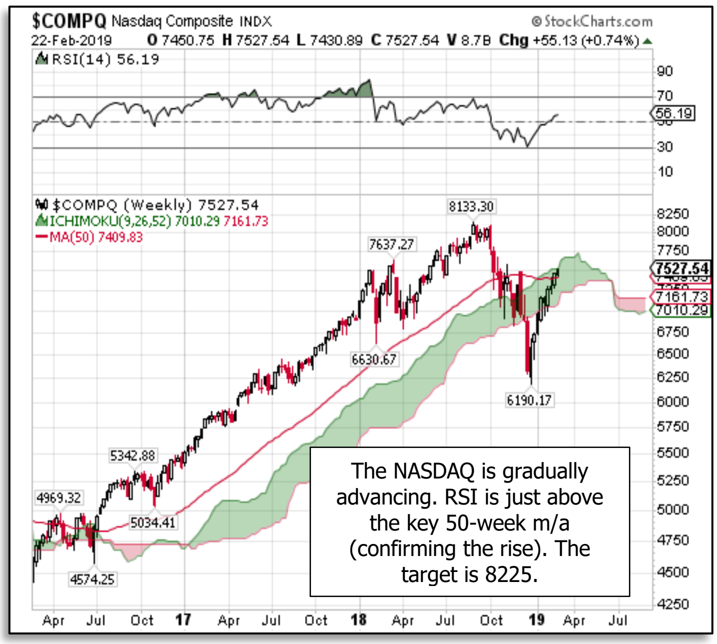

Chart 37

Russell 2000: Rally bounce stalls

Outlook neutral/positive: The recent upward bounce stalled at the 50-week m/a. Buying momentum (RSI) suggests that this barrier will be broached. More time is needed. Any pullback should be caught at the first support level of 1475 (**Chart 38** on page 16).

Bottom line: The Russell 2000 is on a key price-resistance level. RSI indicates that the index will likely advance through the 50-week m/a. Once through, 1750 is the first target.

TSX: Strong rally

Outlook positive: A solid rebound has lifted the TSX. Powered by Info Tech, Consumer staples and Utilities the index is above the 50-week m/a, with buying momentum

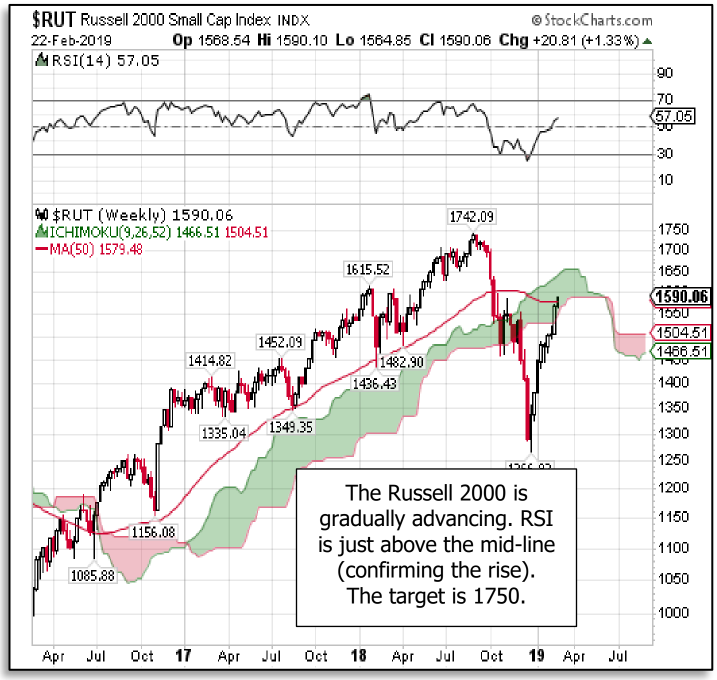

Chart 38

(RSI) above 50 and rising (all confirming). A move through this line (16,000) would suggest a retesting of the next resistance level at 16,675. First support is at 15,250 (**Chart 39**).

Bottom line: The index is in a solid recovery. Add to the position at this point. Once through 16,675, then 17,750 is the next upside target.

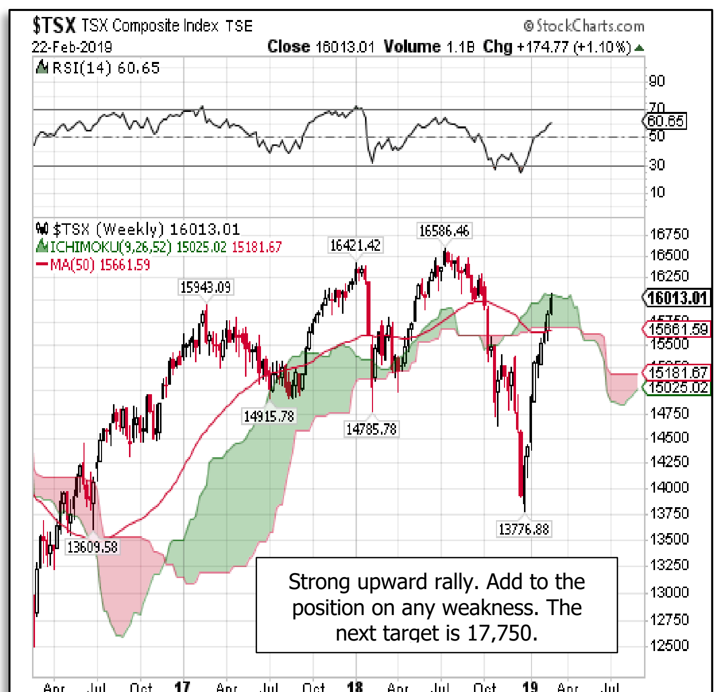

Chart 39

S&P/TSX Venture: Lower levels

Outlook negative: The downward trend continues, with a new three-year low printed in December. There are many strikes against this index now. Buying momentum (RSI) is still below 50, confirming weakness. Overhead resistance at 675 should stop any upward movement.

Bottom line: Avoid. We suspect that more price weakness lies ahead (**Chart 40**).

Chart 40

Sector rotation: S&P 500: 90 days

Three out of four of the top-performing sectors are 'safe havens'. Only materials is a risk sector. Note that all of the industry groups except two had positive returns over the last 90 days – good improvement over the past few months (**Chart 41**).

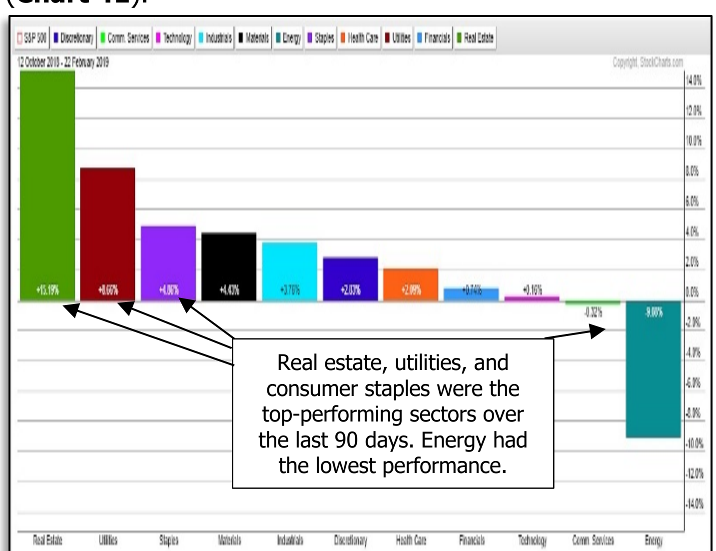

Chart 41

Sector rotation model: Full recovery

Sam Stovall's theoretical model on sector rotation suggests that the economy is near a full recovery. Consumer expectations are still rising, industrial production has been flat since 2010, interest rates are rising slowly, and the yield curve is still normal (**Chart 42**).

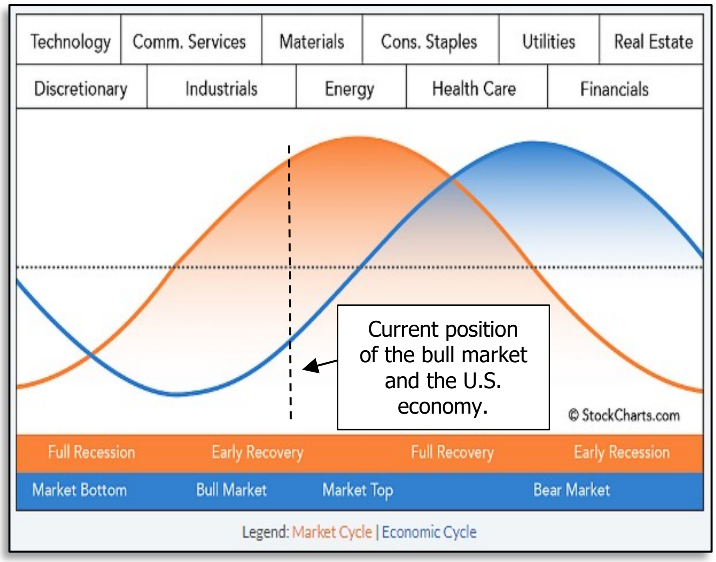

Chart 42

Sector rotation: TSX: 90 days

The safe haven industry groups (utilities and consumer staples) are still strong, but deflationary industry groups are starting to strengthen (promising). As in the S&P 500, the materials sector is the exception. Energy still has the lowest performance. Models suggest that a return to pre-correction sector strength will develop over the next few months (**Chart 43**).

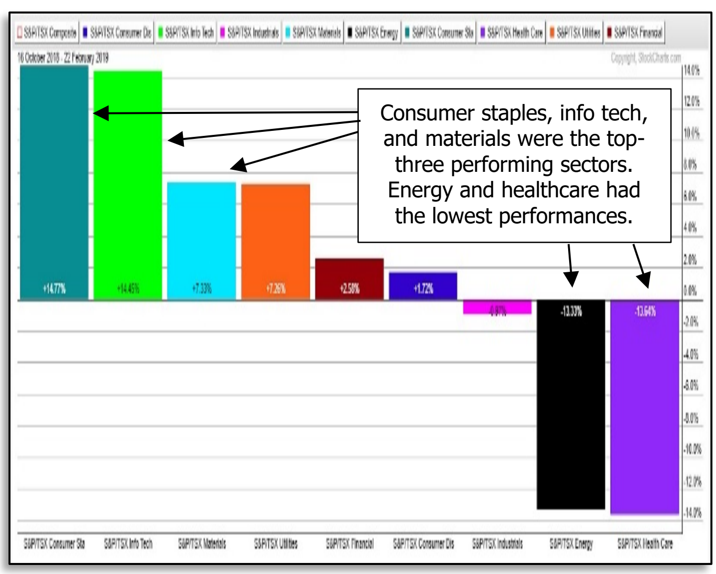

Chart 43

What does all of this mean?

The U.S. yield curve (**Chart 28** on page 12) is one of the most reliable forward-looking indicators on the economy and the markets. It is in a normal, healthy angle and not showing that the economy is overheated. It shows that the Fed has more room to tighten (rise rates) if needed, before the curve flattens or inverts.

The multi-year view of the S&P 500 (**Chart 35a**) is all positive and rebounding within a long (10-year) uptrend.

Chart 35a

This suggests that the markets still have more room to advance, and that there are no technical signs of weakness.

We suggest staying invested at this time, and let the bull market continue.

What should investors do?

The most important thing is to stay invested.

The internet is full of "market experts" stating that the bull market is near its crest, and that a decline is imminent. Don't believe it. The evidence overwhelmingly suggests that there is more upside room to run.

We continue to like deflationary sectors for mid- to long-term investors. The inflationary sectors (commodities) should be left for short-term traders.

The technology and consumer discretionary sectors are our favourites for the next five+ years. Buying the sector through ETFs is a simple method of capturing the potential upside of these industry groups. We suggest looking at **XIT** or **IYM** for technology, and **XLY** for the consumer discretionary sector.

Final bell

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