Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES

October 2019

Strategy

Improving conditions

Key observations

- **Equity recovery. S&P 500 target of 3000 met; 3200 next.** Secular bull market continues. Trump risk (escalating trade war with China, political unrest) remains the biggest threat to the bull market.
- At present, the broader market (S&P 500) has stalled after making new highs of 3027.98 in the 3rd quarter (Q3) (bullish performance). Key support at 2810.
- Any pullbacks to the 50-week moving average (m/a) represent good buying opportunities.
- Based on history, secular bull markets last 18 years. The current bull market can last another five to seven years.
- We recommend that investors stay long in the deflationary sectors of the market (industrials, financials, consumer cyclicals, healthcare, and technology) and underweight inflationary groups (materials, energy, and metals).
- We remain long-term bulls on the market and continue to see comparisons to the last two secular markets (1950 to 1970 and 1982 to 2000).

	Since Last Month	*Year to Date*	*Since Inception mid-2003*
TS Model Portfolio	0.32%	19.19%	**467.30%**
S&P 500	1.87%	19.02%	192.60%

16-year average for the TS Model Portfolio: 12.05%
16-year average for the S&P 500: 6.93%

https://www.technicalspeculator.com/services/ts-model-growth-portfolios 7.05% dividend yield

Micro thoughts

- **U.S. economy: mostly positive –** Despite all of the near-term uncertainty with the Trump trade war and White House dysfunction, we still believe that a sustainable economic recovery continues to unfold. The unemployment rate is at a 19-year low at 3.70%, and U.S. consumer confidence is still strong. Concerns are about the sagging business confidence, declining GDP, and weak manufacturing outlook.
- **10-year U.S. bond yields: rebounding** – Yield support is at 1.50%. We believe that a bottom in interest rates is occurring. Tensions from the U.S. yield curve and the trade war with China have driven up bond prices. Those pressures appear to be easing slightly. More time is still needed.
- **U.S. dollar: nearing a peak** – The U.S. dollar Index (DXY) continues to strengthen. 'Safe-haven' pressures are likely keeping the DXY afloat. Models point to $0.995 as an upside target and price peak.
- **Commodities: below falling 50-week m/a** – The Commodity Research Bureau (CRB) Index still remains under pressure from the strong U.S. dollar. The index is capped below a falling 50-week m/a. The outlook, going forward to year-end, suggests a continuation of the current pattern.

Market commentary

The secular bull market continues. Going into early 2020, our concerns for the bull market are about issues created by the White House. If major political disruption does not occur, we are confident that the U.S. markets are poised to set new all-time highs in the months to come.

Having reached our first target twice of 3000 for the S&P 500 in Q3, the index now points toward 3200. Going into Q1 2020, targets for the Dow Jones Industrial Average (DJIA) are 29,100, and 9,000 for the NASDAQ. The TSX has already broken out of its current multi-month consolidation. The target now is 17,750.

Donald W. Dony, FCSI, MFTA – September 27, 2019

Commodities

Short-term strength for some

KEY POINTS:

- **Commodity index (CRB) continues to base-build; slight bounce off of 168 developing**
- **Deflationary assets continue to outperform inflationary assets**
- **Oil prices slowly starting to recover**
- **Weakness continues for gasoline prices**
- **Natural-gas prices stabilize after reaching target**
- **Safe-haven rush has pushed gold to overbought: retracement expected**
- **Silver at a short-term top: pullback coming**
- **Copper prices need more time to find a base**
- **Overproduction and trade war hit corn prices hard**
- **Safe-haven U.S. dollar slowly rising; likely top at $0.995 in Q4**

CRB outlook: Long term base

Outlook neutral: The Commodity Research Bureau Index (CRB) is rebounding off of the long-term base of 166 to 168. A short-term bounce is likely from these levels. Any recoil is still expected to stall at the 50-week m/a, or around 180 to 185. Buying momentum (Relative Strength Index [RSI]) is negative (not confirming). More base-building is anticipated in early Q4 (**Chart 1**).

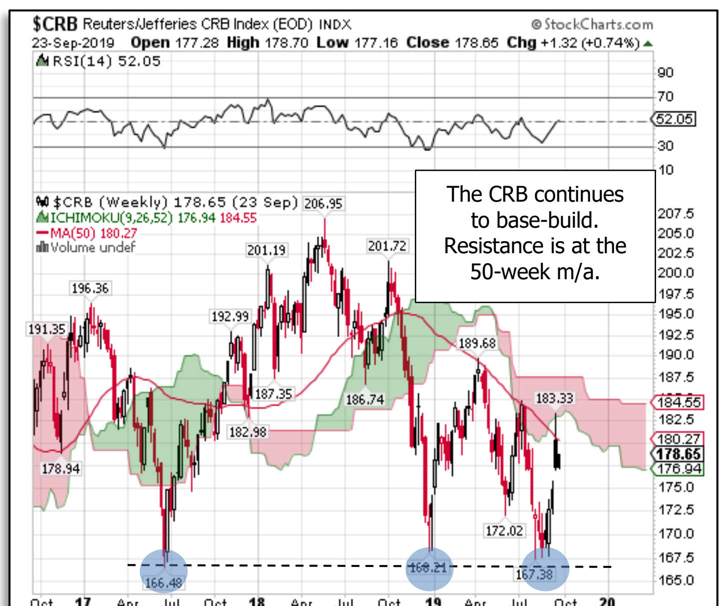

Chart 1

Fifteen-month curve-fitting models are starting to show the CRB in a bottoming trend – positive direction-building (**Chart 1a**).

Bottom line: The recent reflex bounce off of the main support level is good news for commodities. The main driver, at this point, is precious and industrial metals. Look for only a short-term upward movement in early Q4, and stalling at the 180-to-185 level.

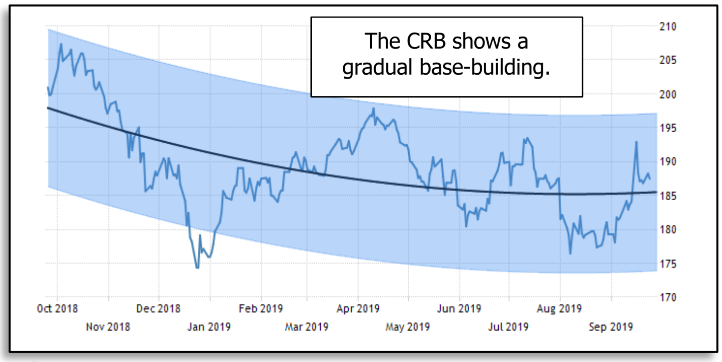

Chart 1a

Deflation vs. inflation

Deflationary assets continue to outperform inflationary assets. The index is now at a two-year high, and still advancing. There is a tight correlation between the US$ and deflationary performance.

Bottom line: Deflationary assets (financials, technology, industrials, consumer products, etc.) have been outperforming inflationary assets (commodities) since early 2018. We expect this trend to continue into 2020 (**Chart 2**).

Chart 2

Commodity performance: Gold

The safe-haven move toward gold and the U.S. dollar is still continuing. The turmoil with the U.S yield curve flattening, and Trump's on-again, off-again, on-again trade war with China is keeping investors on edge.

Gold was the top-performing commodity over the last 90 days, followed by industrial metals. Most commodities posted a negative return (**Chart 3**). Agriculture had the lowest performance.

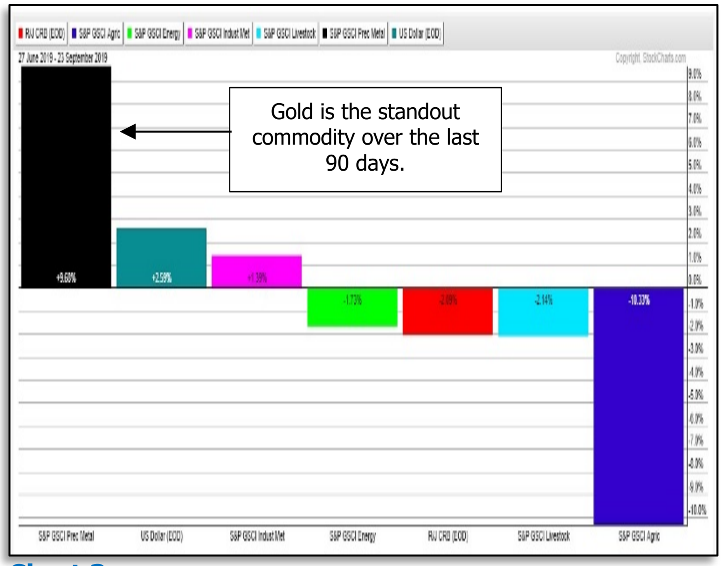

Chart 3

WTIC: Consolidation

Outlook neutral: Light crude oil prices remain in a tight consolidation below a falling 50-week m/a. Price resistance

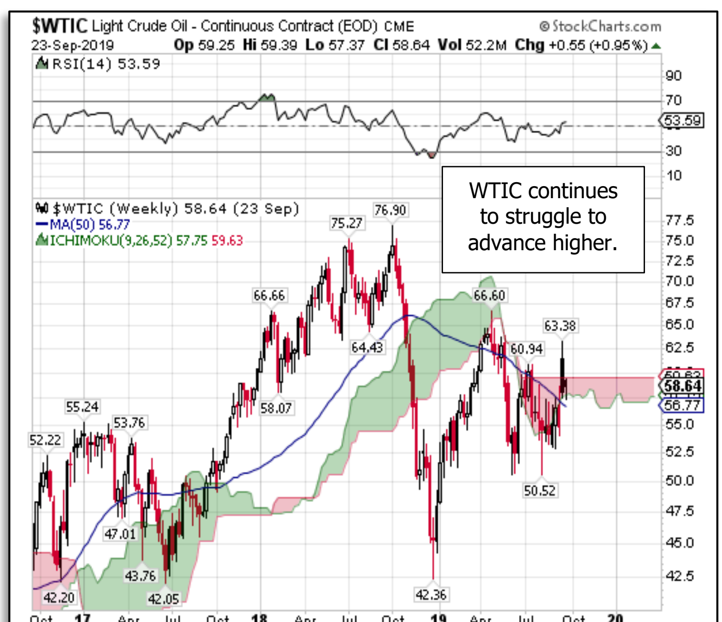

Chart 4

is expected to hold below the m/a. Buying momentum (RSI) is at a neutral reading (not confirming a breakout). First support is at $52.50 (**Chart 4**). 15-month curve-fitting models have changed direction in recent weeks (**Chart 4a**). The curve recovery suggests a slightly more bullish outlook in Q4, and a gradual rise. The median line is anticipated to offer resistance.

Bottom line: Light crude oil prices are expected to drift sideways over the next few months. The current support range of $51.00 to $60.00 should hold.

Wait on the sidelines until WTIC crosses above the 50-week m/a. Once through, the first upside target is $60.50.

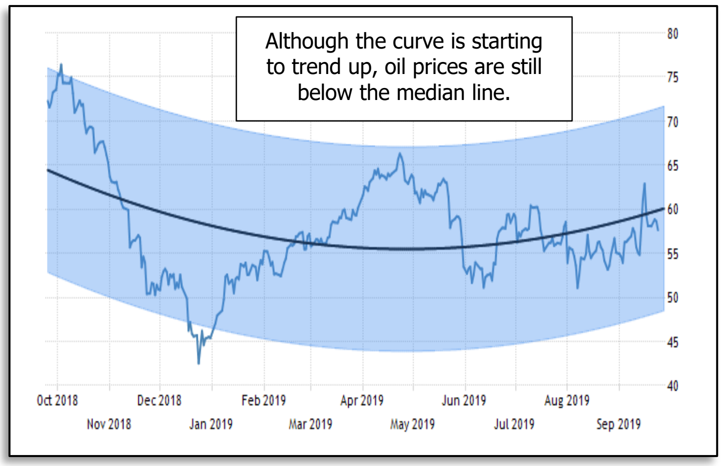

Chart 4a

Natural gas: Weak bounce

Outlook negative: A weak rally is unfolding off of the $2.02 support line. Buying momentum (RSI) is confirming (at 50) the limited lift. Unlikely to have legs (**Chart 5**).

Chart 5

15-month curve-fitting models show that natural-gas prices are within a solid downward curve. Models suggest that prices will stay between $2.00 and $2.55 in early Q4 (**Chart 5a**).

Bottom line: There are no signs of strength in natural-gas prices. Use this bounce to lower positions. Stay on the sidelines.

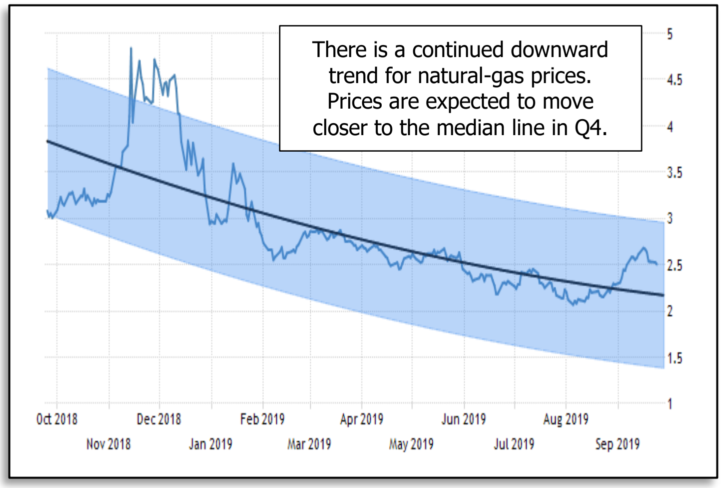

Chart 5a

Gasoline: At resistance

Outlook neutral: The current trend in gasoline prices (GASO) has failed at the $1.80 resistance line. A new year-to-date (YTD) low was posted in July. Buying momentum (RSI) is negative and continues to fade (confirming price weakness). We suspect that additional softness and a retest of support at $1.40 are coming in early Q4 (**Chart 6**).

Chart 6

15-month curve-fitting models (**Chart 6a**) show that the curve is now edging up, but a retest of the lower band for gas prices is the most likely scenario in early Q4.

Bottom line: Gasoline prices move with oil prices. As our models suggest that oil prices are slowly stabilizing, we expect gas prices to follow. Wait on the sidelines for now. Add to positions above $1.80.

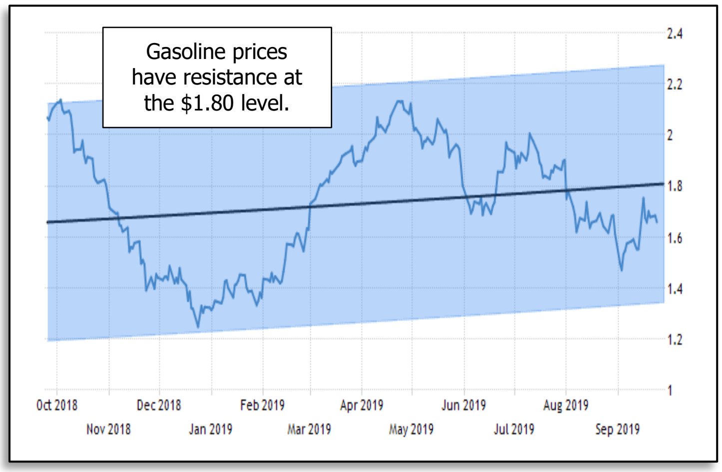

Chart 6a

Gold: Overbought

Outlook positive: A recent upward surge has placed the precious metal into a very overbought level. Flight to safety over the Trump trade war, weak European data and the flat yield curve has driven investors toward safe havens like gold, silver and the U.S. dollar. These drivers are slowly fading for many investors (**Chart 7**). Buying momentum (RSI) is overbought (confirming a likely top).

Chart 7

15-month curve-fitting models show that the main trend is still up. Gold is now heading lower, toward the bottom of the band (**Chart 7a**).

Bottom line: Expect gold to pull back in the near term. The first support line is at $1,450. If this line breaks, $1,400 is the next level. We would suggest not adding to the position at this time. Continue to hold.

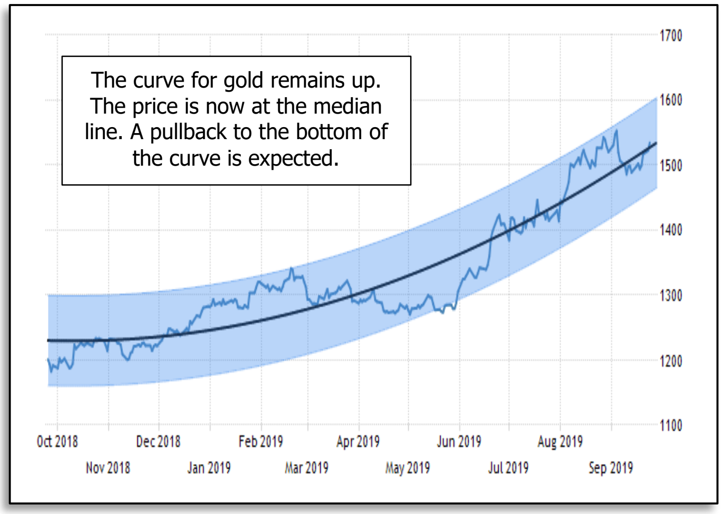

Chart 7a

15-month curve-fitting models show that the curve is turning up (positive), and that silver is above the top of the curve (**Chart 8a**).

Bottom line: Expect some pullback to $17.00 in the next month or two. If this level breaks, then $16.00 is the next support line.

We would suggest not adding to the position at this time. Continue to hold.

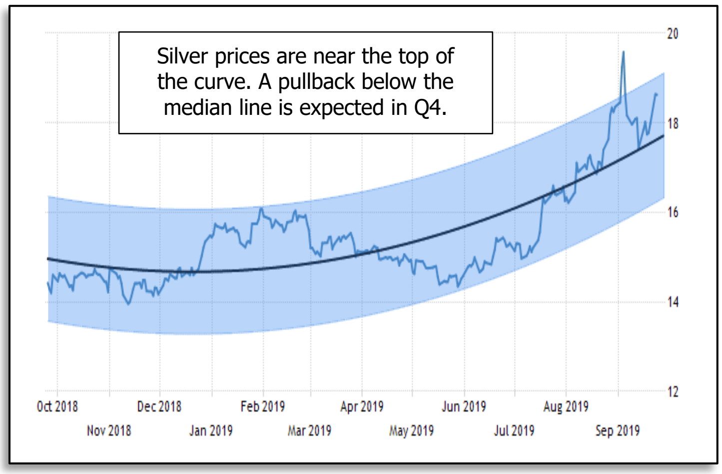

Chart 8a

Silver: Overbought

Outlook positive: The late-Q3 break out of a 12-month base has pushed silver prices to an overbought reading. After reaching our first target of $17.70, a retracement down to the first support level ($17.00) is expected in Q4 (**Chart 8**).

Chart 8

Industrial metals: Downward trend

Outlook negative: The current trend appears to be retesting the bottom at the 310 support level. The downward-sloping 50-week m/a still represents a challenge to the index (**Chart 9**). Buying momentum (RSI) is fading, and now negative (not confirming).

Bottom line: Weakness appears to be continuing. Stay on the sidelines.

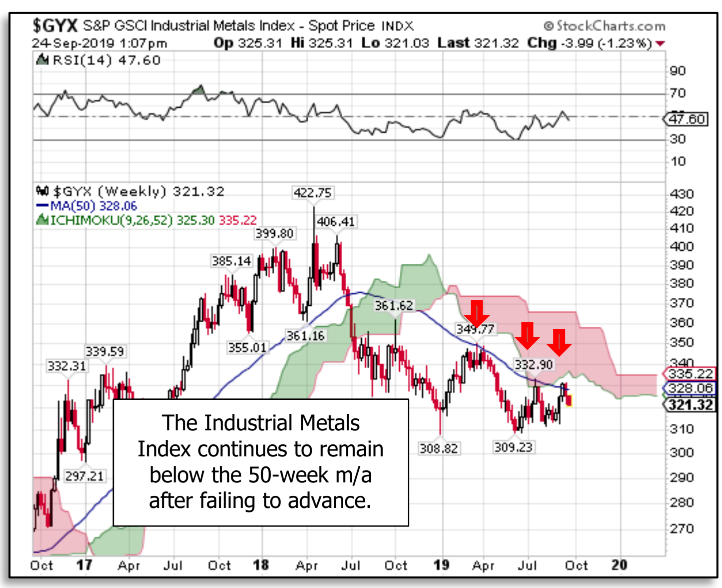

Chart 9

Copper: A new low

Outlook neutral/negative: The trend still remains down. A new YTD low was posted in August, but it is still below the declining 50-week m/a. Buying momentum is neutral (at 50) (**Chart 10**).

Chart 10

15-month curve-fitting models show the downward trend in force. Copper prices appear ready to challenge the top of the curve (**Chart 10a**).

Bottom line: The fresh low in August indicates that copper prices are still in a prolonged downward trend. Current action points to a relief bounce. Use this strength to lower position size. We suspect there will be more downside price action is the months to come. Remain on the sidelines.

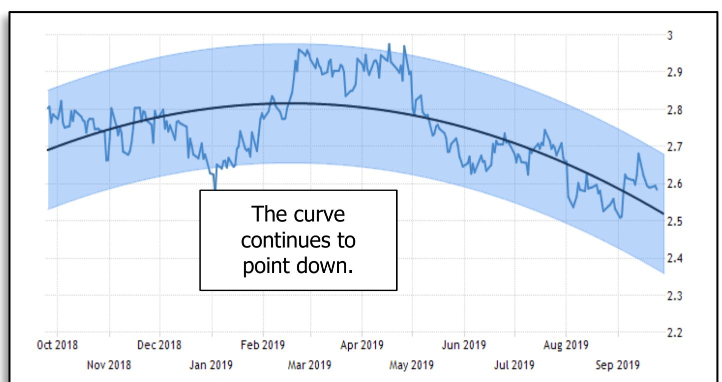

Chart 10a

Corn: Back on base

Outlook negative: Overproduction and trade war uncertainty are still slamming corn prices. Prices have fallen 24% from the July peak and are now on the multi-year base. The first support level is at $3.50 a bushel.

15-month curve-fitting models show that corn prices reached the bottom of the curve and are now recoiling. Expect a limited bounce over the next few weeks (**Chart 11**).

Bottom line: Use the current bounce to lower position size, then remain on the sidelines for now.

Chart 11

U.S. dollar: Still marching toward par

Outlook neutral/positive: The major trend is still higher; recent weakness from the RSI shows that another retest of the rising 50-week m/a is likely coming. Price resistance now sits at $0.996. Recent safe-haven events (flat U.S. yield curve, Trump's trade war with China, political unrest) have eased somewhat, which is good for the dollar. It is unlikely to go above $0.995 (**Chart 12** on page 7).

15-month curve-fitting models show an upward trend. Another retest of $0.995 is expected in Q4 (**Chart 12a** on page 7).

Bottom line: The dollar's upward movement appears to be intact. A retest of the m/a is expected. Investors should continue to hold their positions in the US$ and start reducing only if the greenback drops down to $0.96.

What does it all mean?

Commodities (CRB) are retesting a base and starting to bounce. Natural-resource prices are largely being driven by precious metals (gold and silver), and most recently by the drone attack on the Saudi oil facilities. The U.S. dollar, normally the bane of commodities, is staying aloft under safe-haven pressures. Nevertheless, any strength in

Chart 12

commodities will be short term. The markets still remain in a dominant deflationary stance, which is ultimately negative for natural resources.

What should investors do?

We would suggest that investors stay with gold and silver for the time being. And keep a tight stop on both assets.

Oil prices are rising due to the recent drone strike. We suspect that this movement has legs into Q4, but a tight stop is still recommended.

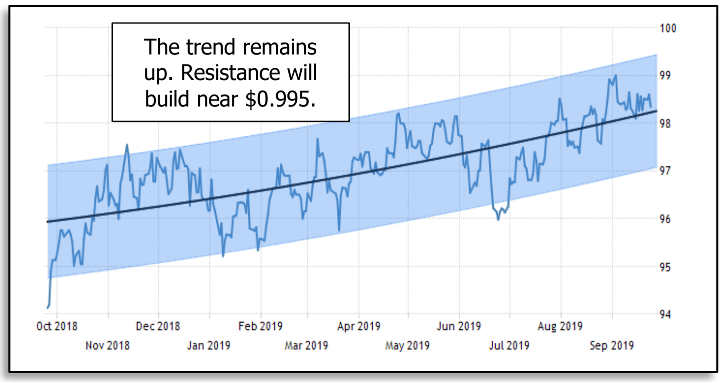

Chart 12a

International Equities

Some struggles remain

KEY POINTS:

- **Price barrier of 409 continues for DJW**
- **World indexes are lifting without the S&P 500**
- **Brazil's Bovespa leads in global performance**
- **More consolidation for emerging markets**
- **Shanghai finds a base and slowly advances**
- **Japan's Nikkei begins to move**
- **Upward trend for India's BSE starts to wane**
- **More consolidation for European indexes**
- **Weakness continues for Germany's DAX**
- **Short-term pullback for France's CAC**
- **Spain's IBEX keeps on declining**
- **New lower target for Brazil's Bovespa**
- **A weakening trend is building for ASX**

Chart 13

Overview: Resistance holds at 409

Outlook neutral/positive: The barrier at 409 continues to repel the Dow Jones Global World Index (DJW). Multiple times over the last 18 months, the index has challenged the line, only to fail. Buying momentum (RSI) is now positive (above

50), suggesting that a breakout could be coming (**Chart 13**).

From a 12-year perspective, the DJW is still in the ongoing secular bull market. Buying momentum (RSI) has a positive reading (suggesting that higher levels are coming). Once past 409, 427 is the next resistance line (**Chart 14**).

Bottom line: The bull market is intact. There are no signs of prolonged weakness. A breakout to new highs is unlikely until Q4. The next target is 427, followed ultimately by 460.

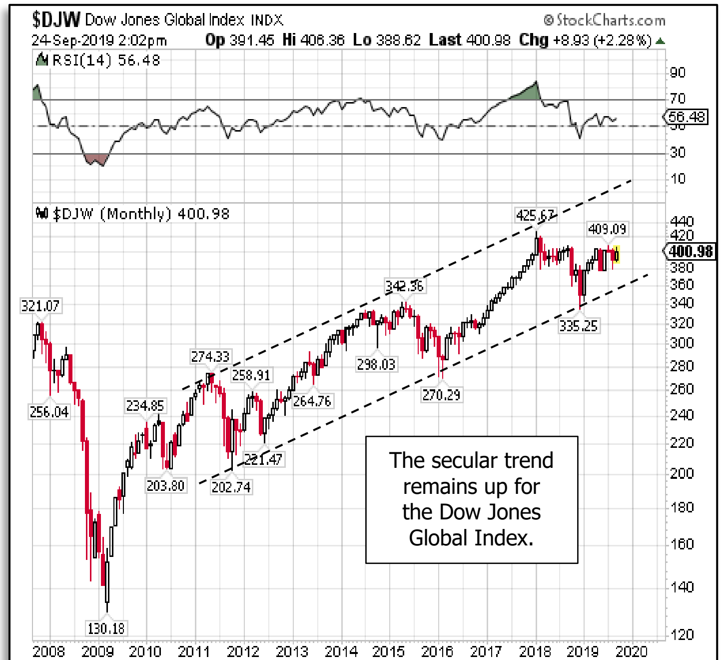

Chart 14

World Index ex-US: Lifting

Outlook neutral/positive: The index is starting to rebound and is now above the 50-week m/a. Buying momentum is positive (above 50) and confirming the renewed strength. First downside support at 1800 is aiding the recovery (**Chart 15**).

From a longer perspective (12 years), without the S&P 500, the trend of the MSCI World Stock Index ex-US is clearly not as strong, but the bullish pattern of higher highs and higher lows is still evident. We suspect that more upside strength lies ahead in Q4. The next target is 2050 (**Chart 15a**).

Bottom line: A gradual improvement appears to be taking shape for the index, which is good news for the global markets.

Global performance: Brazil leads

The 90-day performance shows Brazil's Bovespa leading the global arena, again. Australia's ASX and the S&P 500 came in second and third, respectively. Only three world indexes outperformed the benchmark DJW (**Chart 16** on page 9).

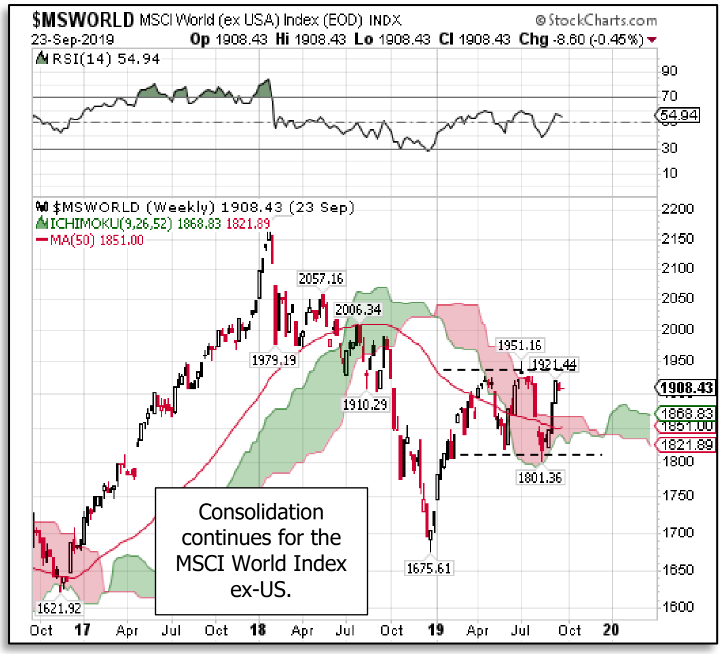

Chart 15

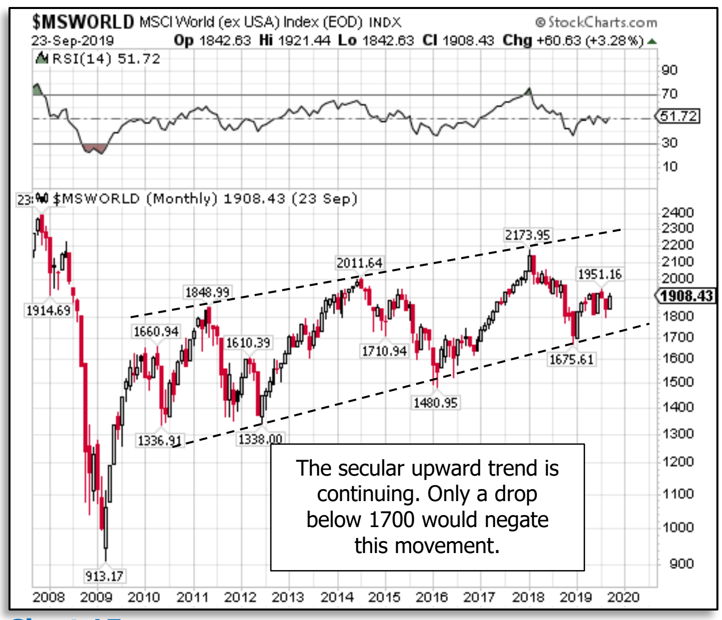

Chart 15a

<u>**Suggested portfolio weighting – through late/19**</u>
Sector Overweight: *Brazil, India, U.S.A., Australia*
Sector Market Weight: *Canada, China, Europe*
Sector Underweight: *Hong Kong, South Korea, Japan*
<u>**Suggested market percentage weighting – 2019**</u>

55% (*India, Brazil, U.S.A., Australia*)
35% *(Asia, Canada, Europe, China)*
10% cash

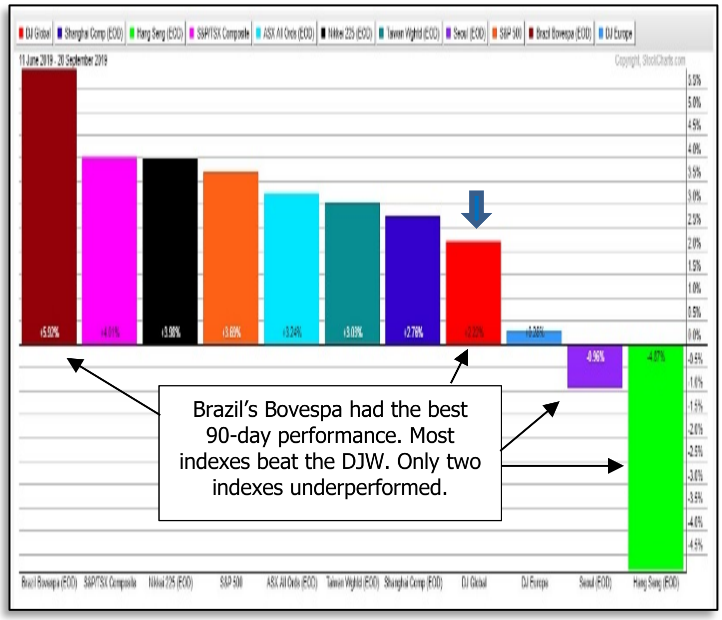

Chart 16

Emerging markets: Consolidating

Outlook neutral: The index is forming a consolidation "wedge" pattern. Buying momentum (RSI) is neutral (confirming the sideways buildup). First underlying support is at 39.00, and resistance sits at 42.00. More time is needed before a direction (either up or down) can be established.

Bottom line: Emerging market indexes have been in a confined formation since the start of the year. We suspect that the current indecision is not over. Stay on the sidelines until the index is above 44 (**Chart 17**).

Chart 17

China: Weak recovery

Outlook neutral: The major (two-year) trend is flat. Price action continues to consolidate above the 50-week m/a. The index has found price support at 2800. Buying momentum (RSI) is only neutral (confirming more consolidation) (**Chart 18**).

Chart 18

15-month curve-fitting models illustrate that a positive recovery is underway for the Shanghai (**Chart 18a**). However, as the curve is now flat, only limited upward movement is expected. Watch for price resistance to build at 3200.

Bottom line: We suspect that the Shanghai has only limited upside potential. Watch for more resistance to build as the index moves toward 3200.

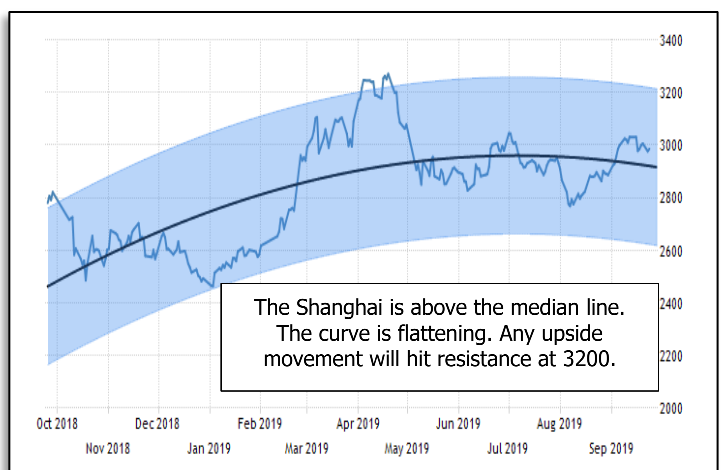

Chart 18a

Japan: Improving strength

Outlook neutral/positive: The YTD trend is flat. A recent breakthrough above the key 50-week m/a is promising. Buying momentum (RSI) is now positive (confirming the building support). Solid price support at 20,000 adds to the outlook. The index needs to close above 22,300 before there is sufficient evidence of a new uptrend (**Chart 19**).

Chart 19

15-month curve-fitting models show that a rising trend is developing (**Chart 19a**).

Bottom line: Returning strength. Wait for the Nikkei to cross above 22,300 before adding to the position. Once through, 24,375 is the target.

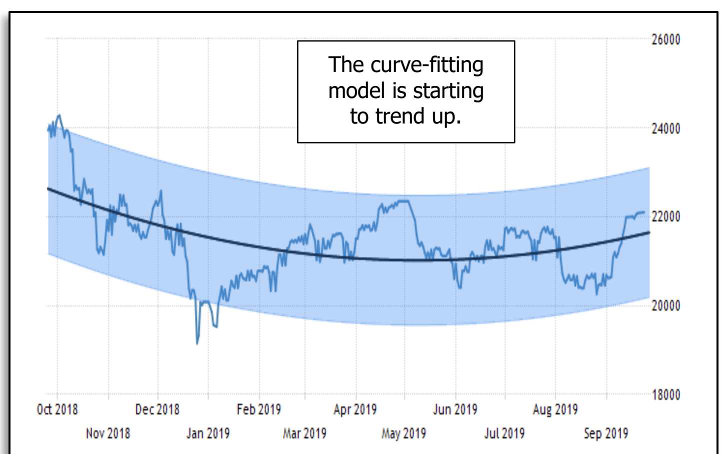

Chart 19a

Hong Kong: Weakening stance

Outlook neutral/negative: The YTD trend is flat. The index is still below the key 50-week m/a. Buying momentum (RSI) is neutral, but fading (not confirming). Resistance is at 27,900 (**Chart 20**).

Chart 20

15-month curve-fitting models for the HSI are rolling over. Weakness is expected to continue into Q4 (**Chart 20a**).

Bottom line: We suspect that the index will continue to drift lower in Q4, toward a retest of the 24,500 level. Use this current strength to lower position size. Stay on the sidelines.

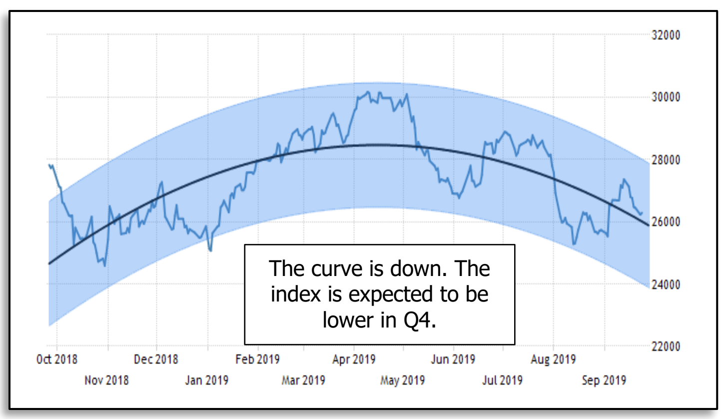

Chart 20a

South Korea: Downward trend

Outlook negative: The YTD trend is still going down, and the index continues to trade below the declining 50-week m/a. This is acting as price resistance. Buying momentum is neutral (not confirming). The next-lower support level is at 1825 (**Chart 21**).

15-month curve-fitting models show the KOSPI moving upward within a downward curve (**Chart 21a**).

Bottom line: We suspect that the current strength will not hold. More weakness is expected. Use this current movement to lower position size, then stay on the sidelines.

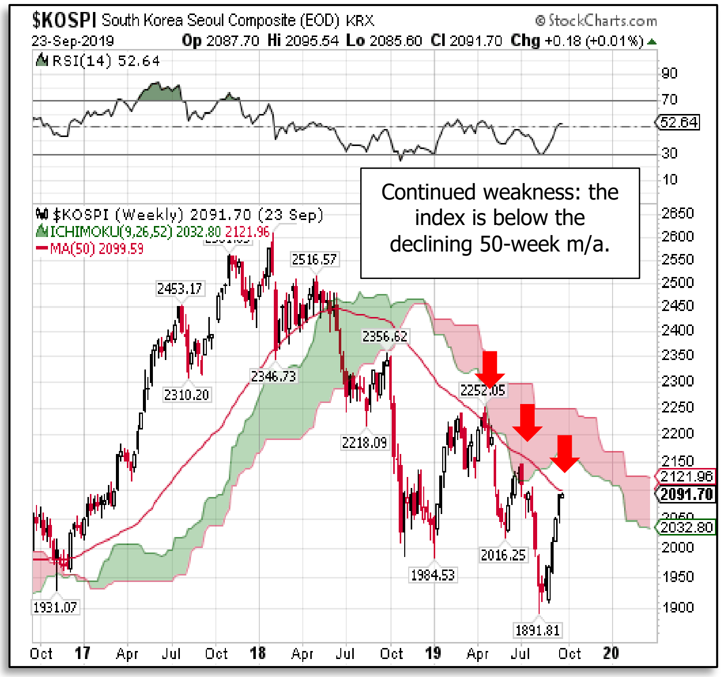

Chart 21

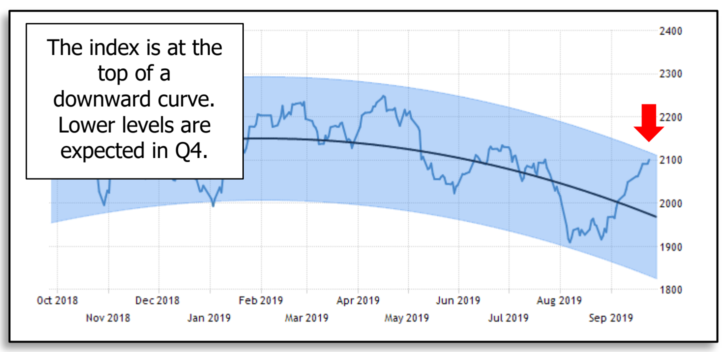

Chart 21a

India: Some weakness developing

Outlook neutral/positive: The major two-year trend is up. The index is resting again on the rising 50-week m/a, as it also did in Q1 and in May. Buying momentum (RSI) is below 50 (confirming the short-term weakness). Underlying support is at 35,725 (**Chart 22**).

15-month curve-fitting models show a weakening trend developing. The index has been below the median line. These two issues point to lower levels (**Chart 22a**).

Bottom line: Although there was a new all-time high in June, the upward trend appears to be weakening. We suggest not adding to the position and raising the stop to 35,700.

Chart 22

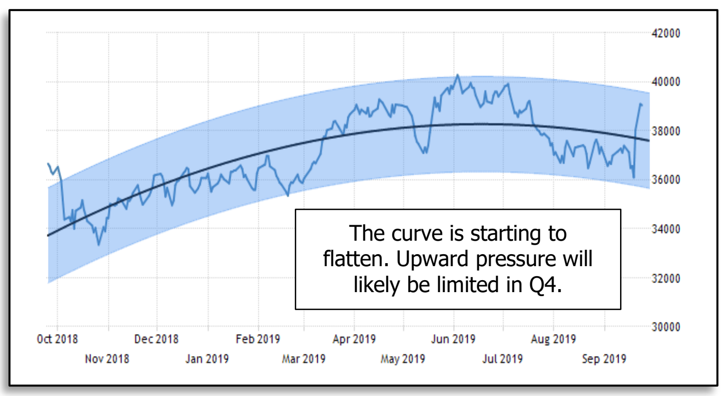

Chart 22a

Europe: Some weakness developing

Outlook neutral: The YTD trend is up. The index is just above the key 50-week m/a and appears to have found short-term price support at 300 to 305. The index appears to be fading somewhat. If the 300-to-305 line breaks, the next-lower support line is 280. Buying momentum (RSI) is neutral (not confirming) (**Chart 23** on page 12).

Bottom line: The European index is still showing signs of weakness. At this juncture, we suggest staying on the sidelines. Evidence is not yet conclusive about a turnaround. Wait until the index breaks above 330 before adding to the position.

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

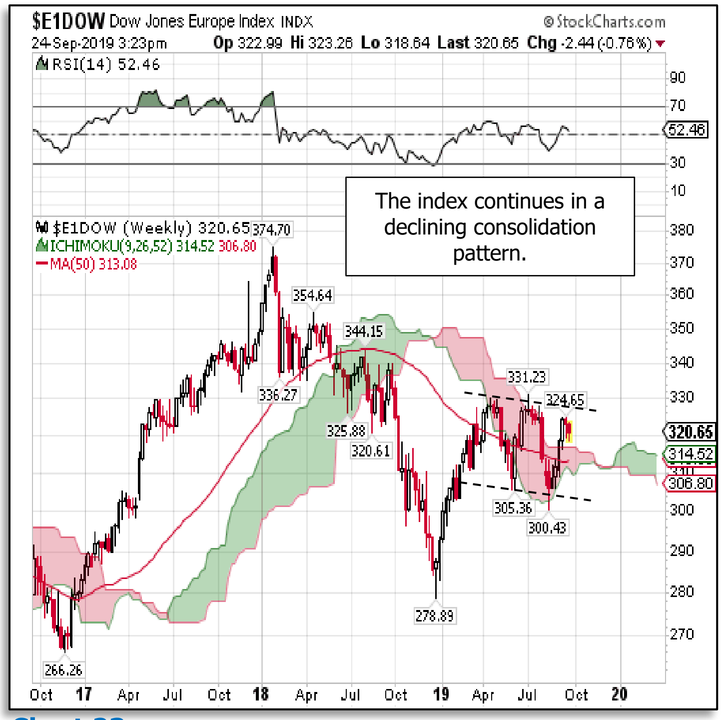

Chart 23

Germany: Consolidation

Outlook neutral/positive: The YTD trend is up. A short-term consolidation above the 50-week m/a is still developing. Buying momentum (RSI) is above 50 (confirming a strengthening trend). Solid price support is at the m/a (**Chart 24**).

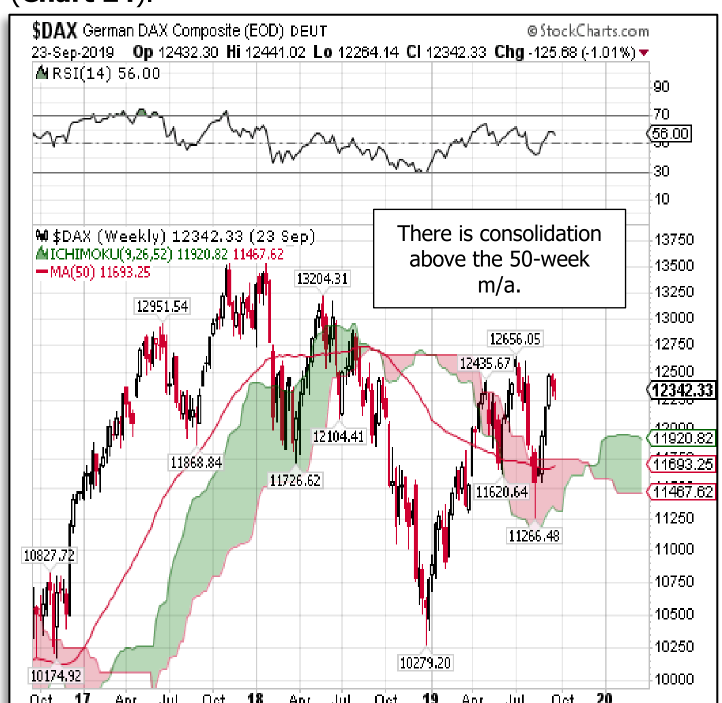

Chart 24

15-month curve-fitting models show an upward curve. The DAX is challenging the median line over the next month (**Chart 24a**).

Bottom line: Current consolidation appears to be short-term and likely going to unwind upwards. Wait until the DAX crosses 12,660 before adding to the position.

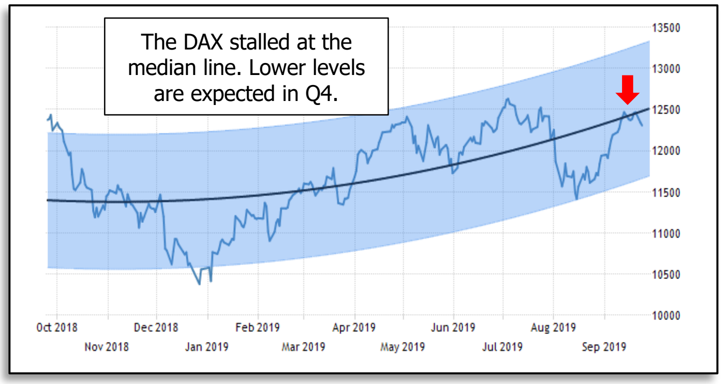

Chart 24a

France: Consolidation

Outlook neutral/positive: The YTD major trend is up. The index is above the key 50-week m/a. Buying momentum (RSI) is now positive (above 50), confirming strength. Stiff resistance is at 5650 (**Chart 25**).

Chart 25

15-month curve-fitting models show an upward curve, and the index just below the median line (**Chart 25a** on page 13).

Bottom line: The current consolidation appears to be short-term and likely going to unwind upwards. Wait until the index crosses 5675 before adding to the position.

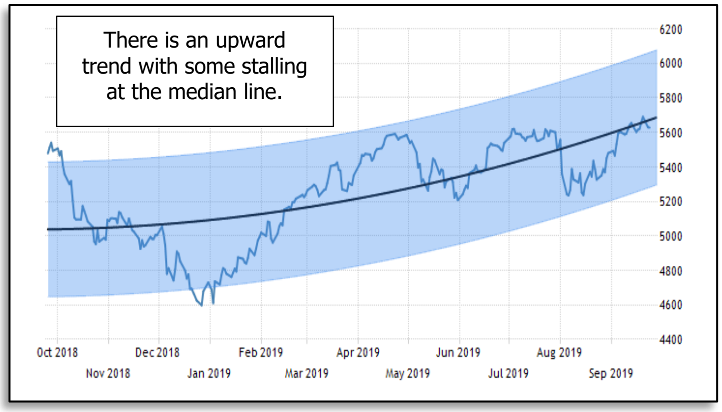

Chart 25a

Spain: Below the declining m/a

Outlook negative: The YTD trend is flat. The index continues to remain below the declining 50-week m/a. This action has been in place since Q1 2018. The RSI is neutral (not confirming a breakout yet) (**Chart 26**).

15-month curve-fitting models show some price support at 9000 within a downward-sloping curve. This points to lower levels in Q4 (**Chart 26a**)

Bottom line: The index still struggles to break above the 50-week m/a. More time is needed. Any breakout is expected to be short term. Stay on the sidelines for now.

Chart 26

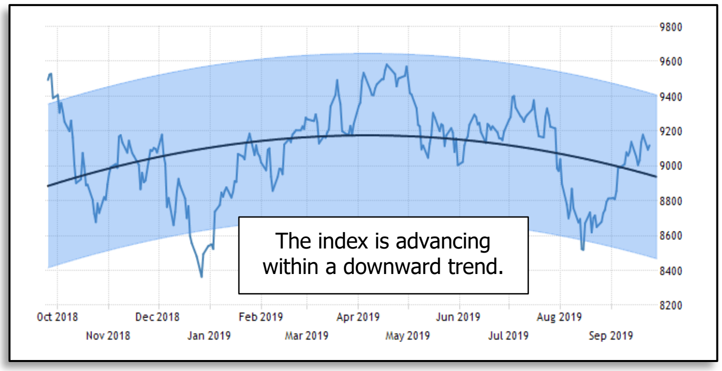

Chart 26a

Italy: Consolidation

Outlook neutral/positive: The YTD major trend is up. The index is above the 50-week m/a. It has price action similar to other European indexes. Buying momentum (RSI) is positive, but starting to wane, suggesting that a pullback from 2300 is likely coming in early Q4. The first support level is at the m/a (2000) (**Chart 27**).

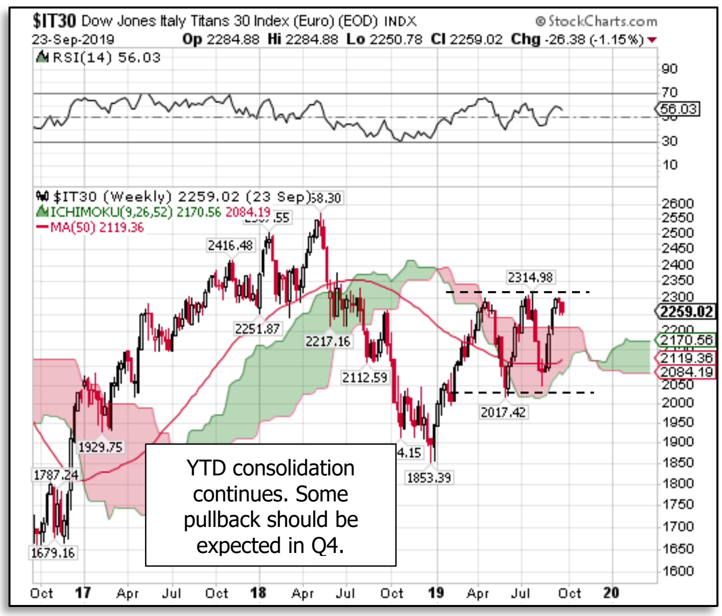

Chart 27

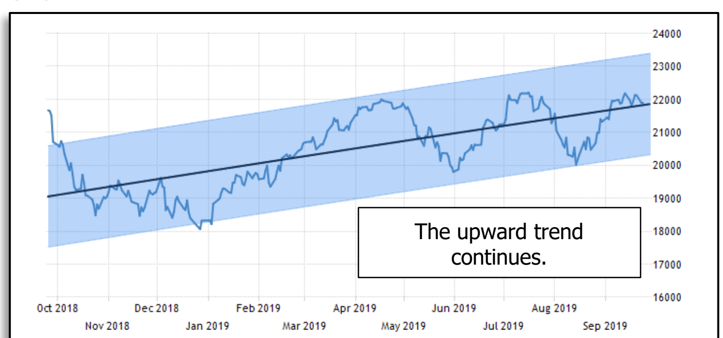

Chart 27a

15-month curve-fitting models show the curve in an upward trend, and the index is resting on the median line N both promising (**Chart 27a** on page 14).

Bottom line: We expect a short-term pullback from the 2000 level in early Q4. Wait for a movement above 2000 before adding to positions.

Brazil: Strong upward trend

Outlook positive: The YTD trend is up. The Bovespa continues to stay above the rising 50-week m/a. The index printed a new all-time high in July (106,700), just missing our target of 107,000. Buying momentum (RSI) is above 50, suggesting that more upside strength is developing (**Chart 28**).

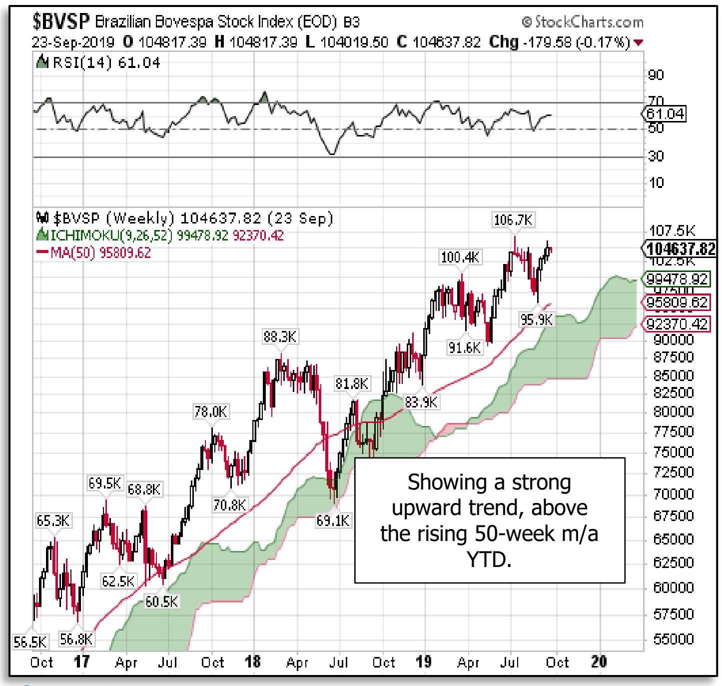

Chart 28

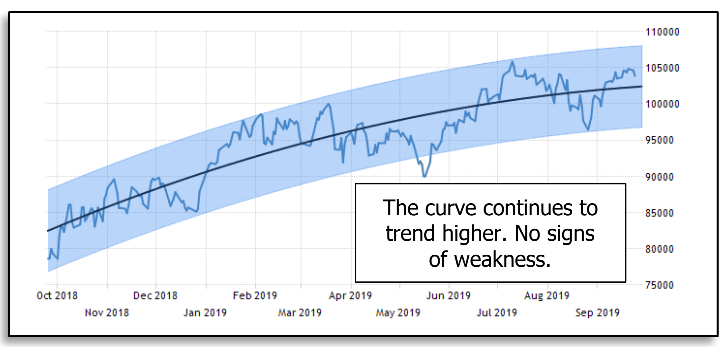

Chart 28a

15-week curve-fitting models are starting to level off. This process will likely continue in Q4. Levelling off suggests that a crest is starting to develop.

Bottom line: We suspect that there is still a little more upside. We are lowering our target to 10,750.

Australia: Weakening trend

Outlook neutral/positive: The YTD trend is up. The index moved to a new all-time high in July (6850.10) and is still well above the rising 50-week m/a. Buying momentum (RSI) is above 50 (confirming the strength) (**Chart 29**).

15-month curve-fitting models show the curve still trending up, but below the median line. This suggests that some short-term price weakness is starting (**Chart 29a**).

Bottom line: The index is expected to soften in Q4. We are lowering our target to 6500. Still one of the best-performing world indexes.

Chart 29

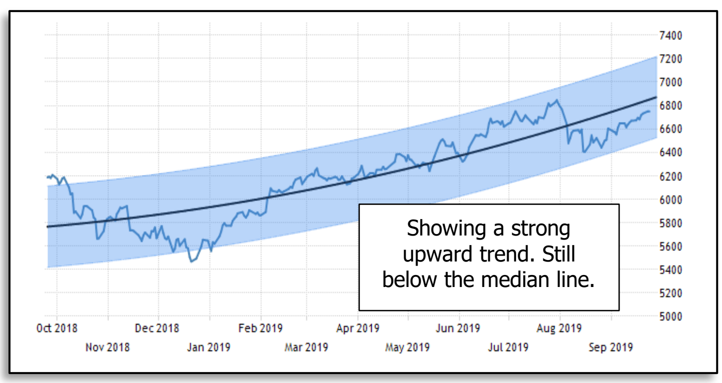

Chart 29a

What does it all mean?

The global bull market is still in good shape and is expected to continue advancing higher in Q4. However, at this juncture, many global markets are in the process of pulling back or cresting, as we indicated in last month's issue. Some of the uncertainty from the Trump trade war with China and the weakening of world economics are spilling over and causing the disruption. Nevertheless, some indexes are bucking the trend and still advancing.

What should investors do?

This month, there is more positive news than negative. Our mantra remains the same: **stay with the leaders.**

We continue to like Brazil's Bovespa, India's BSE, Australia's All Ordinaries, and the S&P 500. They are our favourites. They all appear very positive, and we suspect that higher levels are coming in Q4.

European and Asian indexes are largely retracing, due to the ongoing trade dispute.

U.S. & Canadian Equities

New highs expected in Q4

KEY POINTS:

- **U.S. economy still growing, but showing more problem signs**
- **Canada's annual GDP growth continues to sag**
- **U.S. unemployment rate staying low, at 3.7%**
- **Breadth pops, as more stocks trend up**
- **U.S. annual GDP keeps dropping**
- **U.S. consumer confidence starts to fade**
- **S&P 500 leads in market performance**
- **NYSE still on the edge of breaking out**
- **S&P 500, Dow look great; set for more new highs in Q4**
- **TSX jumps to a new high**
- **Best-performing sectors on the S&P 500 are all safe haven; bottom are healthcare, energy**

KEY ECONOMIC NUMBERS

- U.S. annual GDP: 2.30% ↓
- U.S. interest rate: 2.00% ↓
- U.S. inflation rate: 1.70% →
- U.S. jobless rate: 3.70% →
- U.S. gov. budget: (-3.80%) ↓
- U.S. debt/GDP: 106.00% →
- U.S. current account to GDP: (-2.40) →
- U.S. currency: $0.9837 →
- U.S. population: 327.17 million ↑
- Canadian annual GDP: 1.60% →
- Canadian interest rate: 1.75% →
- Canadian inflation rate: 1.90% ↑
- Canadian jobless rate: 5.70% ←
- Canadian gov. budget: (-0.70%) →
- Canadian debt/GDP: 90.60% →
- Canadian current account to GDP: (-2.60) ↑
- Canadian currency (CAD/USD): $1.33 →
- Canadian population: 37.31 million ↑

U.S. economy continues to expand, but at a slowing pace, with 2.30% annual GDP growth. Inflation remains at 1.80%, still below the Fed's 2.00% target. Unemployment rate remains low, at 3.70%. U.S. dollar's advance is cresting below $0.99

Canadian economy (GDP) is flat, with no measurable growth in 16 months. Jobless rate at a four-month high, at 5.70%. The outlook for the Canadian economy into Q4/19 is for flat GDP growth, as in 2018, with levels well below 2.00%. Inflation steady at 1.90%.

Suggested portfolio weighting – into late 2019
Sector Overweight: *Industrials, technology, financials*
Sector Market Weight: *Cyclicals, healthcare, staples*
Sector Underweight: *Gold, energy, mining, materials*
Suggested market percentage weighting – 2019
U.S. market: 45% (S&P 500, Dow, NASDAQ)
International markets: 15% (Europe, Asia, etc.)
Canadian market: 30% (TSX)
Cash: 10%

Breadth Barometer: 69% positive

Outlook 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 August was **68.90%**, versus 69.17% for last month – a very slight decrease. Trade war uncertainties are easing. This percentage level produces an upward trend in the markets. Levels above 60% are bullish for the markets.

Bottom line: The bull market is back. Market percentages have rebounded. The current levels suggest more upward growth in Q4 (**Chart 30** on page 16).

Key Economics: U.S. annual GDP

Outlook neutral/negative: The U.S. annual GDP growth continues to contract, after peaking in June with 3.2%. White House policies, trade war fears, and fading business confidence are eroding growth prospects in Q4.

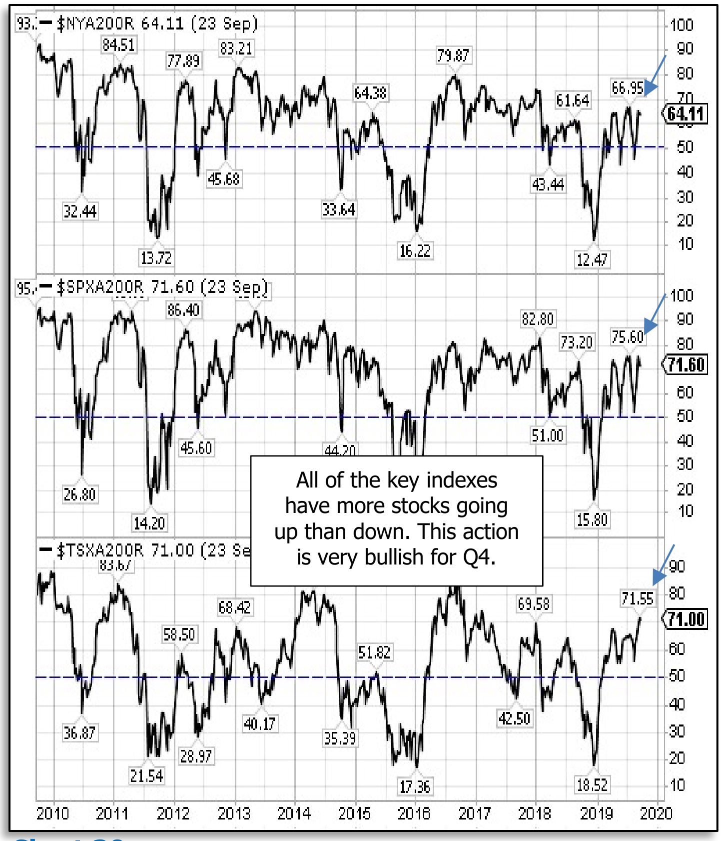

Chart 30

Bottom line: Economic conditions (trade wars, decreasing manufacturing output, and eroding business confidence) are weakening the prospects for an upturn in GDP. The year-end target is 2.00%, and 1.80% in early 2020 (**Chart 31**).

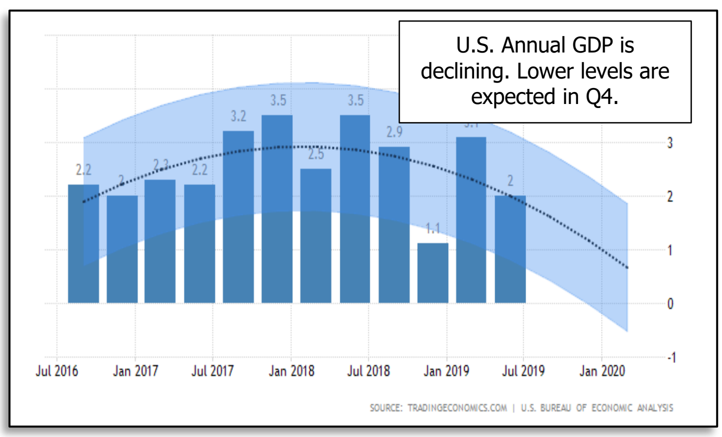

Chart 31

Key economics: Consumer confidence

Outlook neutral/negative: One of the strongest areas of the U.S. economy appears to be fading. Consumer confidence had been one the pillars of the economy since 2017. This area now appears to be reversing that trend.

Bottom line: Weakness in consumer confidence is eroding GDP growth. Models forecast the level of U.S. consumer confidence to slip down to 88 by Q1 and drift lower to 85 in 2020 (**Chart 32**).

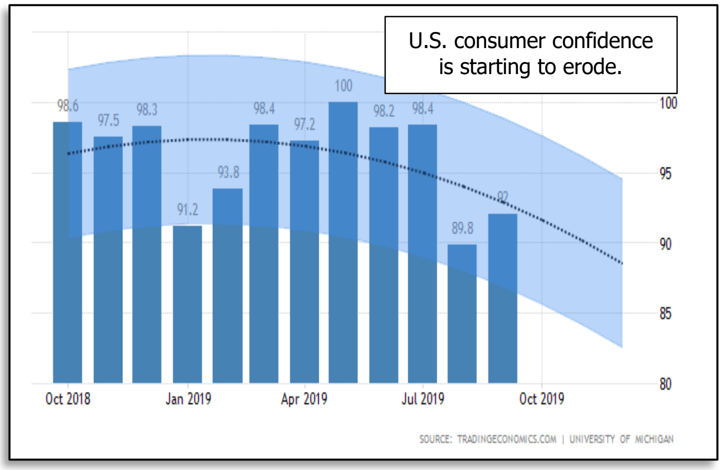

Chart 32

Key economics: Fed fund rate

Outlook neutral: U.S. interest rates just received the second rate cut since the financial crisis. This suggests that the economy is hitting a soft patch. Heightened concerns about the economic outlook and the ongoing trade dispute with China are the main reasons for the cut (**Chart 33**).

Bottom line: The U.S. Fed fund rate is expected to remain in the 1.75%-to-2.00% range in Q4. No prolonged rate cut phase is expected.

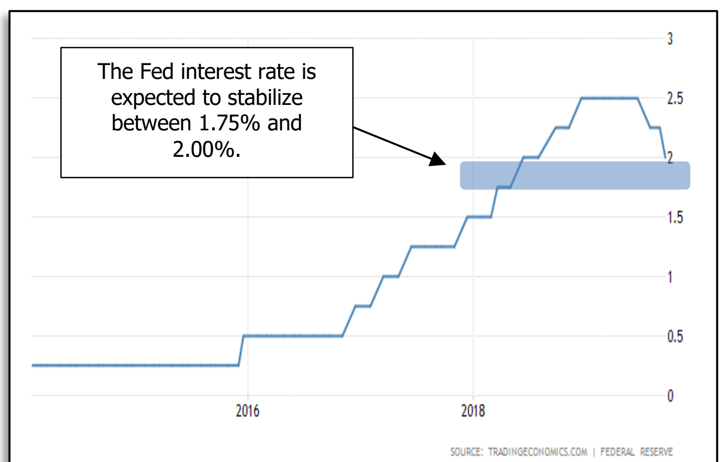

Chart 33

CDN economics: Business confidence

Outlook neutral: Canada's Business Confidence Index continues to remain range-bound. The recent surge to 60.6 is not expected to hold. The outlook into Q4 is for levels back to the Q1 and Q2 range of 53 to 55.

Bottom line: The index is expected to decline back to levels in the first half of 2019 (**Chart 34**).

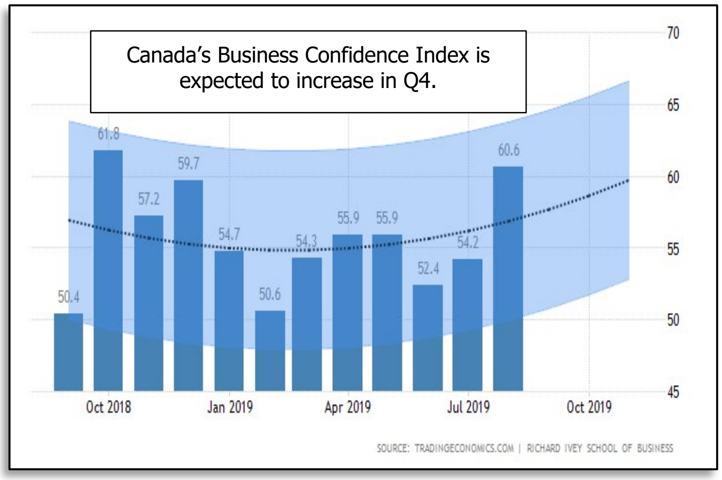

Chart 34

Index performance: S&P 500 leads

Outlook positive: Over the past 90 days, most major indexes posted a positive return. The DJIA led the returns, and the S&P 500 and NASDAQ took second and third positions, respectively. The small-cap indexes (TSX Venture and the Russell 2000) again held the bottom spots, for the second month in a row.

Bottom line: Strength in the indexes stresses the current buoyancy in the equity markets. With the trade war easing, overall performance has quickly increased (**Chart 35**).

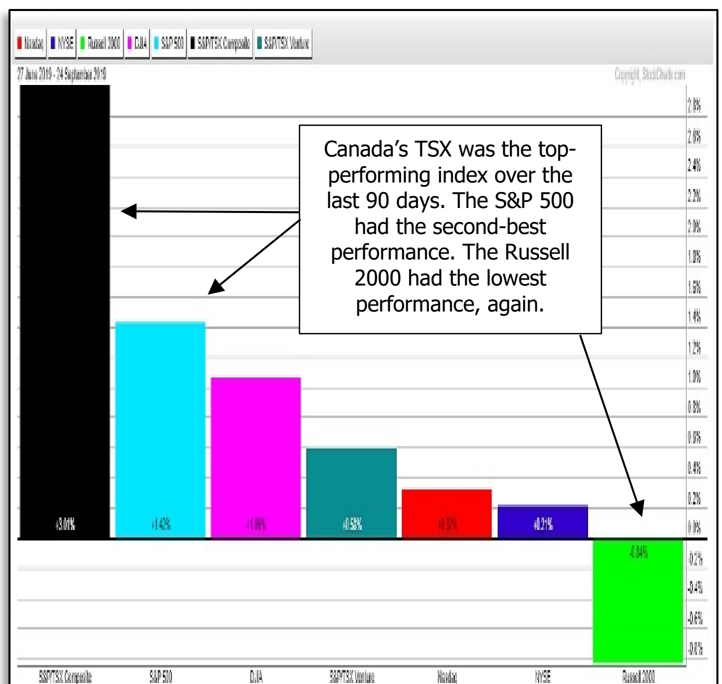

Chart 35

Stocks vs. bonds: Equal performance

Outlook neutral: Equities (risk) and bonds (safety) have been performing equally since December 2018. Money flow is balancing between the two assets classes, as money managers continue to hedge their bets. However, because the S&P 500 made a new all-time high in July, we expect that equities will start outperforming bonds in Q4 (**Chart 36**).

Bottom line: Stocks (risk) are expected to start outperforming bonds (safety) over the next few months as, the market swings back to growth and risk.

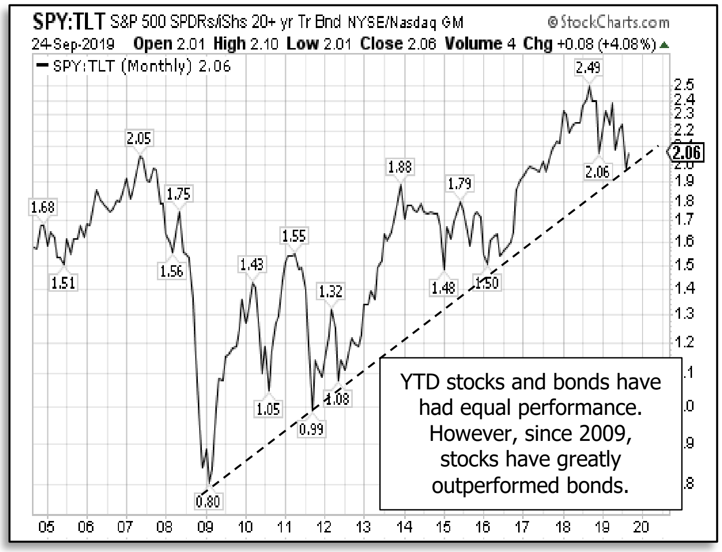

Chart 36

NYSE: Still below key resistance

Outlook neutral/positive: The 13,260 level is still proving to be very solid resistance. The index continues to trade within a narrow band of 12,250 to 13,260. Buying momentum (RSI) is positive (above 50) – confirming another challenge of 13,260. Only a move above 13,260 would confirm that the NYSE is back on solid ground again (**Chart 37** on page 18).

A long-term (12-year) view of the index illustrates the secular upward trend. Recent price action is suggesting some short-term stalling. It will not last. RSI is curling up (above 50), which suggests higher levels (**Chart 37a** on page 18).

Bottom line: The secular bull market is still intact. Some near-term stalling shold be expected below 13,260. Add to positions on any weakness. The next target is 13,775, and then ultimately 14,900.

S&P 500: Upward trend

Outlook positive: The YTD trend is up. The new all-time high in July of 3027.98 was positive. The index is retesting the all-time high. The buying momentum (RSI) trend is

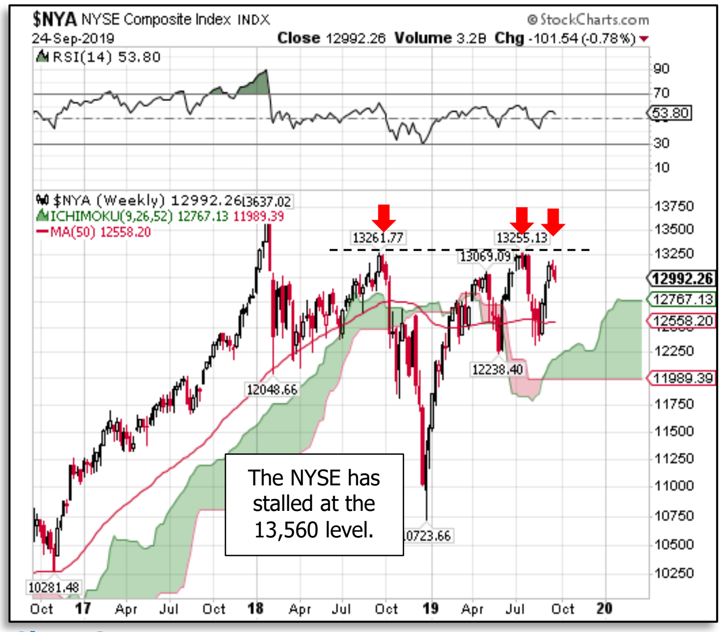

Chart 37

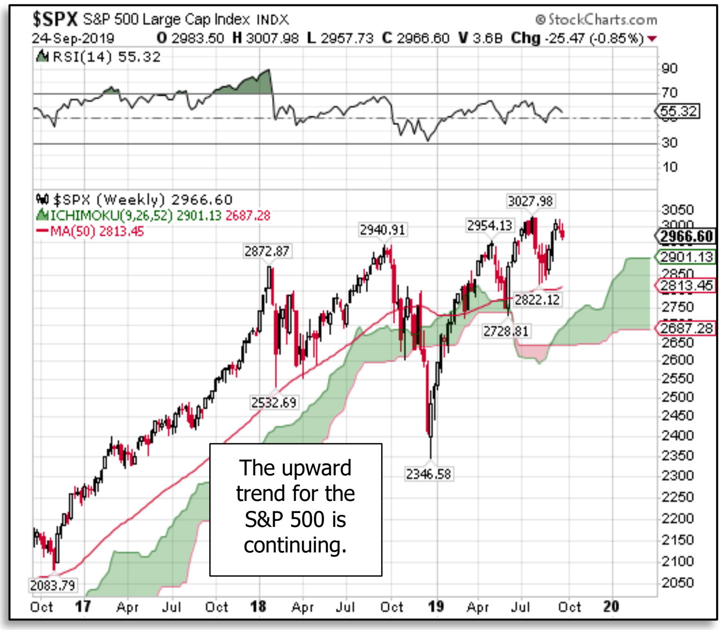

Chart 38

Chart 37a

Chart 38a

above 50 (confirming the uptrend). The rising 50-week m/a is support (**Chart 38**). The long-term secular rise is still in place. The 12-year trend points to higher levels in Q4/Q1. The RSI is positive (**Chart 38a**).

Bottom line: The upward movement is progressing. A new high signals that the bull market is alive and well. Expect some price consolidation over the next month. Add to the position on any weakness. The next target is 3200, and then ultimately to 3400 in the second half of 2020.

Dow: Slow advance

Outlook positive: The YTD trend is up. The index is retesting the all-time high of 27,400. Buying momentum (RSI) is positive (above 50). First price support is at 25,650. Everything looks positive for higher levels in Q4.

Bottom line: The index is expected to move higher over the next few months. A break above 27,400 would suggest a move to the next target of 29,100. Wait for a topside breakout before adding to positions (**Chart 39** on page 19).

Chart 39

NASDAQ: Retest of the all-time high

Outlook positive: The YTD trend is up. The index is close to a retest of the all-time high and currently rebounding off of the rising 50-week m/a. Buying momentum is supportive, as RSI is posting above 50. The first resistance level is at 8,400 (**Chart 40**).

Bottom line: Technology is the right sector for this market. We suspect that more upside lies ahead. Add to positions on a breakout above 8400. The next target is 9000.

Chart 40

Russell 2000: More consolidation

Outlook neutral/negative: The YTD trend is flat-to-down. The index is sandwiched between support at 1450 and resistance at 1600 (**Chart 41**). The third attempt to move above this band has failed. Buying momentum (RSI) is only neutral (not confirming). A retest of 1450 is coming.

Bottom line: The Russell 2000 remains pinned below 1600. Action likely will continue into Q4. More time is needed. Wait until the index closes above 1600 before adding to the position. For now, stay on the sidelines.

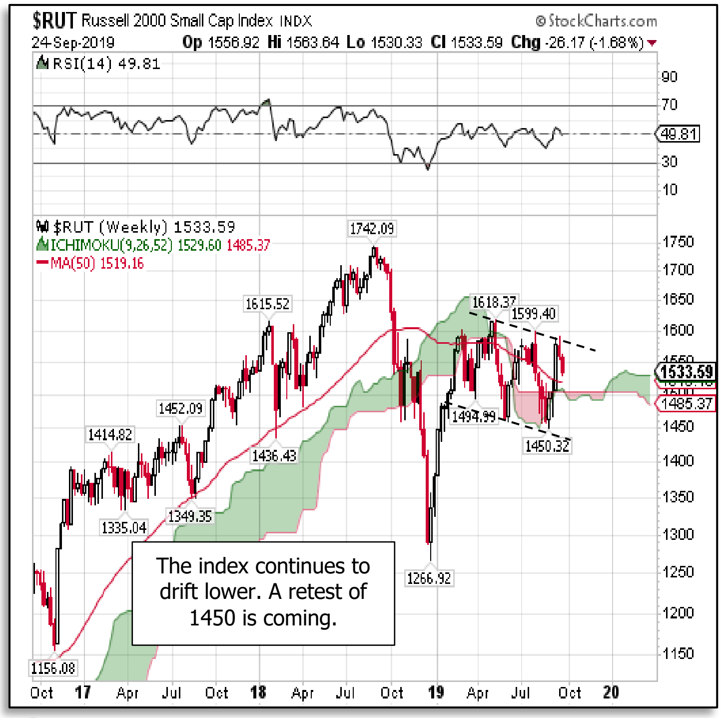

Chart 41

TSX: Breakout to new high

Outlook positive: The YTD trend is up. A constructive topside breakout due to the surging financial sector has pushed the index to a new all-time high. The RSI remains above 50 (confirming the trend). Key support now is at 16,675 (**Chart 42** on page 20).

The long-term (12-year) viewpoint shows an upward trend. The RSI is positive, suggesting more upside movement in Q4/Q1. The outlook is bullish (**Chart 42a** on page 21).

Bottom line: A recent breakout to a new all-time high points to higher levels ahead. The next upside target is 17,750.

S&P/TSX Venture: Negative trend

Outlook negative: The YTD trend is flat. The index continues to fail to pass the key 50-week m/a. It is expected to continue trading flat and below 600 over the next few

Chart 42

Chart 42a

months. Buying momentum (RSI) is negative, at 50 (confirming the weakness). The first support level is at 530.

Bottom line: We suspect that more price weakness lies ahead. *Continue to avoid* (**Chart 43**).

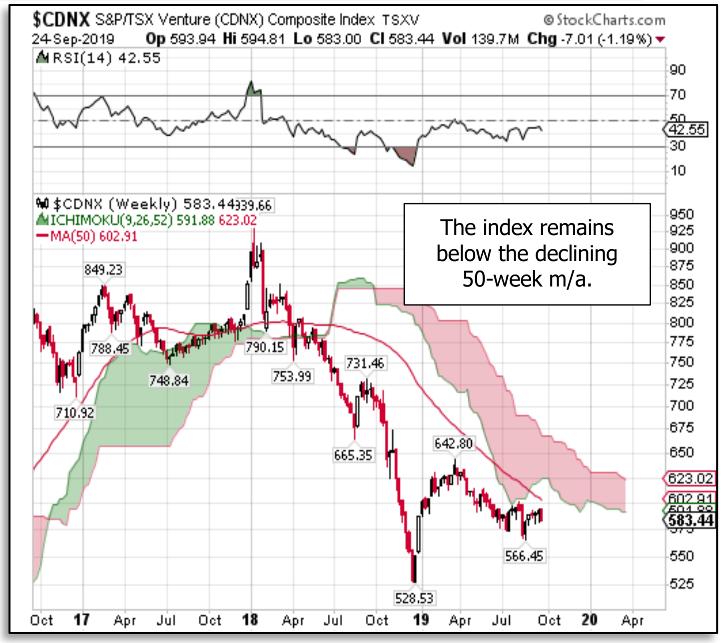

Chart 43

Sector rotation: S&P 500: 90 days

Safe-haven sector performance is still the main theme. Utilities, real estate, and consumer staples groups are the top-performing sectors. Energy and healthcare are at the bottom in performance. Also important: seven sectors are outperforming the benchmark S&P 500 (**Chart 44**).

Bottom line: We are expecting Q4 to show more upside performance from deflationary sectors, as markets move into the seasonally strongest period.

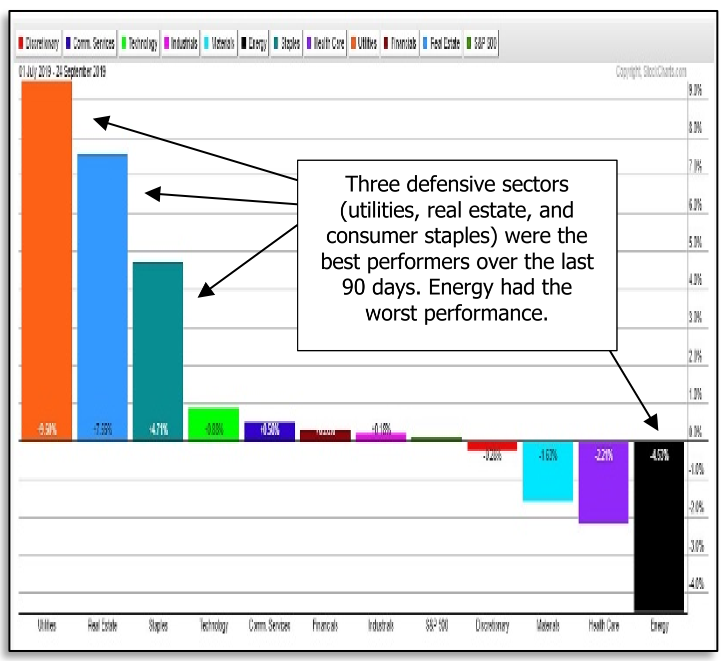

Chart 44

Sector rotation: TSX: 90 days

Most sectors were positive over the last 90 days. Only two sectors posted a negative return: energy and healthcare. This has been the same for the last two months (**Chart 45**).

Bottom line: Growing sector performance is one of the reasons that the TSX has broken out to a new high. We expect this trend to persist in Q4.

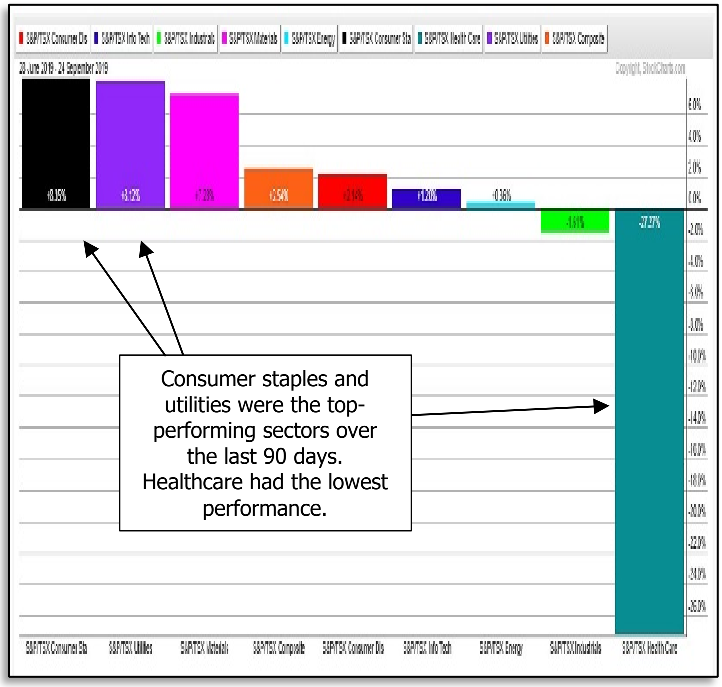

Chart 45

U.S. Yield Curve: A calming trend

Last month, we noted that the U.S. yield curve was nearly flat. Short-term rates (three to six months) were only slightly below long-term rates (30 years). This month, however, the curve angle has eased and moved back to a normal position. Tensions with the Trump trade war have relaxed.

We believe that the brief period in which the curve was flat is not the prelude to a new bear market. In fact, we think that it is just the opposite (**Chart 46**).

What does all of this mean?

The evidence continues to suggest that the secular bull market is still in control. Although bears will highlight potential problems (they always do!), the market isn't putting any weight on these "issues."

Our one concern is the recent U.S. presidential impeachment inquiry. At this juncture (the end of September), the markets do not appear worried. However, as this issue unfolds over the next few months, any bombshell moments could cause the markets to react with a short-term drop.

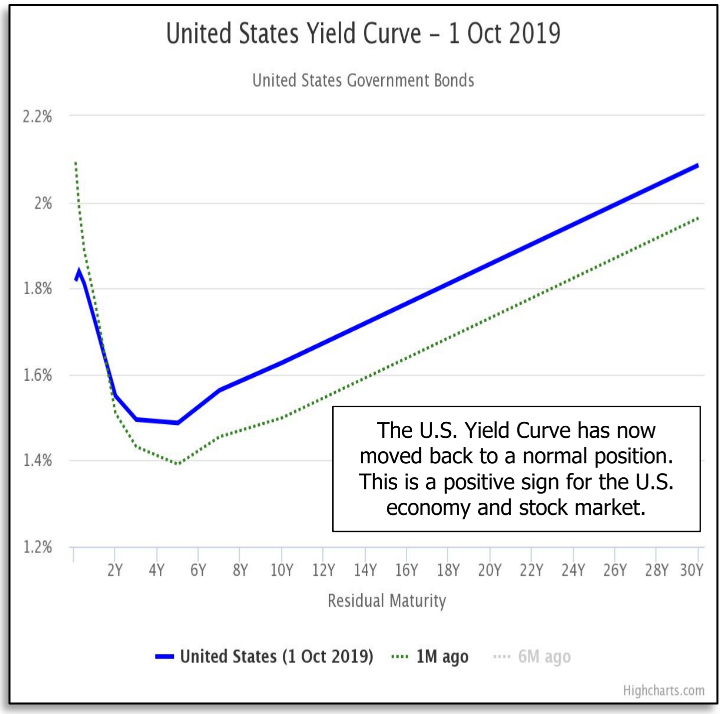

Chart 46

Our key technical indicator (NYSE Advance/Decline [A/D] Lines) is still in a positive position and at a new all-time high. Plus, deflationary assets are still outperforming inflationary assets. This is all good news.

Economically, the U.S. appears to be going into a soft patch. Trump's trade war with China is having an effect on business confidence and manufacturing (both down for the seventh straight month). Consumer confidence and retail sales are now starting to retrace. Consumer confidence was one the main bastions holding up the U.S. GDP, but this key index is also starting to wane.

What should investors do?

We continue to stress that investors should focus on deflationary sectors during this bull market run. The inflationary sectors (commodities) should be left for the short-term traders. The recent U.S. dollar support is a function of safe-haven concerns, as is the run in gold, which is another safe haven.

We will repeat our recommendations from the last couple of months, because they still apply.

The technology, industrial, and consumer discretionary sectors are our favourites for the next five+ years. Buying the sector through exchange-traded funds (ETFs) is a simple method of capturing the potential upside of these industry groups. We suggest looking at **XIT** on the TSX, **XLI** for the industrials, **IYW** for technology, and **XLY** for the consumer discretionary sector.

Final bell

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