# 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**).

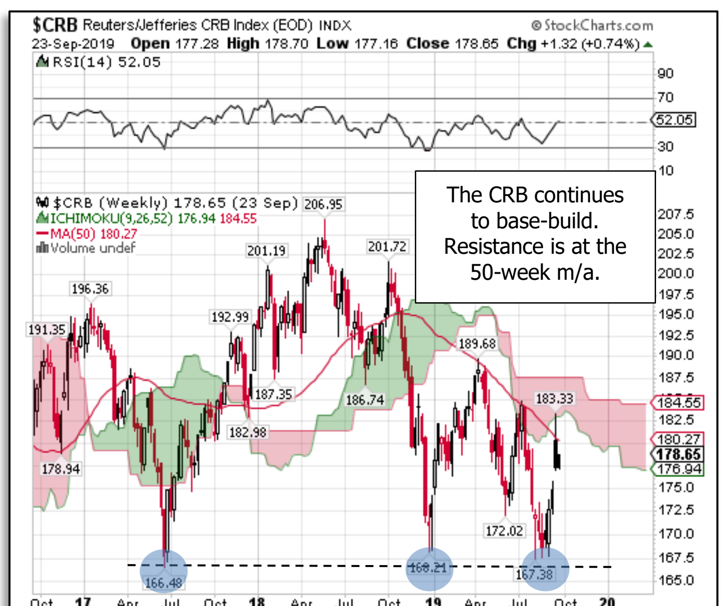


Chart 1

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.

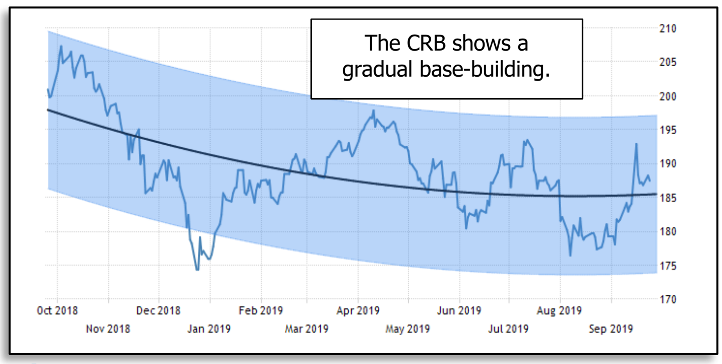


Chart 1a

### 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