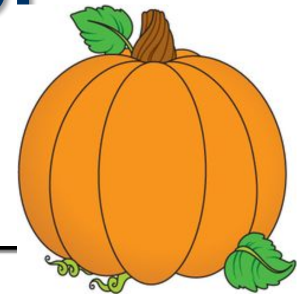
Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES

October 2016



Strategy

Into year-end

Key observations

- The world market (Dow Jones Global Index [DJW]) has experienced a topside breakout and is expected to trend higher in the 4th quarter (Q4).
- At present, the broader North American market (S&P 500) hit an all-time high in August (2193.81), reinforcing our view that the markets are still in a bull advance.
- European markets (STOXX 600) continue to form a base. A continued recovery is anticipated in Q4.
- Asian markets are slowly recovering. More time is still needed.
- Every bull market experiences setbacks, but we believe that the September pullback of about 2% was just another correction (the 66th since 2009) within a secular bull market.
- We recommend that investors stay long in the deflationary sectors of the market (industrials, financials, consumer cyclicals, and technology).
- We remain long-term bulls on the market and continue to see comparisons to the 1980s and 1990s.
- We are nearing our Q4 2016 price objective of 2200 for the S&P 500. The next target is 2400.

Micro-thoughts

- **U.S. economy** – Despite all of the near-term uncertainties – the U.S. presidential election, ongoing soft growth in gross domestic product (GDP), and weak year-over-year (YoY) retail sales – we still believe that a sustainable but low-trajectory economic recovery continues to unfold. With a backdrop of unemployment at seven-year lows (4.90%), U.S. consumer confidence gradually trending higher, and housing values continuing to rise, we feel that the economic picture for the U.S. is positive.
- **10-year bond yields** – We believe that a short-term bounce in interest rates is developing which will likely carry through to year-end. Nevertheless, the primary trend still remains down, with a fresh low printed in July 2016. No base has yet formed.
- **U.S. dollar** – The U.S. Dollar Index (DXY) continues to be locked in a trading band between $0.92 and $1.00. There is a probability of another rate increase by year-end, which is expected to be positive for the dollar. We view the current positive correlation between the US$ and the S&P 500 as a bullish sign for this continued economic recovery.
- **Commodities** – The Commodities Research Bureau (CRB) Index continues to make new post-2009 lows. The most recent was in Q1 2016, at 154.85. The mid-2016 bounce does not change the primary downward trend. However, we suspect that a delay in the next rate increase will create a meaningful bounce for most of the commodity sectors. Gold appears to have found support at $1,300, and the decline in oil prices appears to be nearing an end. A move above $50 for light crude oil (WTIC) is still required before a new upward trend can start.

Market commentary

The markets are remaining in a prolonged bull advance, similar to that of the 1980s and 1990s. New highs should be expected in the coming months and into 2017.

We recognize that there are many cross-currents influencing global markets right now, from tensions in the Middle East to the outcome of the U.S. presidential election, to the potential Fed interest rate increases, to the generally lethargic economic recovery. Nevertheless, the primary upward trend continues to develop.

In addition, the major U.S. markets (the NYSE, the S&P 500, the Dow Jones Industrial Average [DJIA], the NASDAQ and the Russell 2000) have all successfully broken out of a bullish head and shoulders pattern, which points higher into Q4.

Canada's TSX led in performance above the U.S. market