Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES

September 2017

Strategy

To year-end

Key observations

- U.S. equity indexes have continued to post new all-time highs, with only shallow setbacks. Key indexes (S&P 500, Dow, NYSE, NASDAQ and Russell 2000) have all moved to new highs over the summer, confirming the bull trend.
- The TSX continues to underperform the S&P 500, largely due to its 30% commodity weighting.
- Sector strength has favoured disinflationary industry groups over inflationary ones since 2012.
- The U.S. dollar index has declined, year to date (YTD), against the basket and sits near key support around $0.92. Euro strength, in particular, has driven the US$ downward. The Commodity Research Bureau (CRB) Index has remained contained since 2016, after a multi-year downward trend. There was a 20-year low in early 2016.
- We recommend that investors stay long in the deflationary sectors of the market (industrials, financials, consumer cyclicals, and technology) and underweight inflationary sectors.
- Ahead, we remain long-term bulls on the market and continue to see comparisons to the 1980s and 1990s.
- We reiterate our year-end 2017 price objective of 2600 for the S&P 500.

Microthoughts

- **U.S. economy –** The economic recovery continues, in spite of a dysfunctional administration. U.S. consumer confidence is trending higher – now at a seven-year high – and housing values continue to rise.
- **10-year bond yields** – The U.S. yield curve is still normal. We believe that a secular bottom in interest rates occurred in mid-2016. The benchmark 10-year bond has formed a base at 1.50% to 1.75% and suggests a measured advance to 2.75%.
- **U.S. dollar** – A proactive U.S. Federal Open Market Committee (FOMC) suggests that additional interest rate hikes should be expected over the next few quarters. With invigorated economic data and a positive string of potential rate increases this year, the outlook suggests higher levels into late 2017 and early 2018. We view the increasingly positive correlation between the US$ and the S&P 500 as a bullish sign for this economic recovery. Our models point to a retest of par by the end of the year.
- **Commodities** – The CRB Index has stabilized after five years of decline (2011 to 2016). We suspect that a strengthening U.S. economy will keep the tailwinds on the US$, which should keep the commodity sector in check. Overall, lower commodity prices are bullish for the consumer sector and for the market.

Market commentary: The bull keeps running

We have commented several times over the past few years that the current market has many parallels to the markets of the 1980s and 1990s bull market: a stable U.S. dollar, prolonged business and market trends, a normal yield curve, and low volatility, just to name a few.

The U.S. president is the wildcard. His policies, both domestic and international, have the potential to disrupt the bull market. Nevertheless, although we expect the secular upward trend in equities to continue this year, we also recognize the short-term volatility that the president can create. The benchmark S&P 500 is in its ninth year of advance. We believe that the markets are in a similar pattern to the 1980s and 1990s, when they rose for 20 years. We believe that there is still more room to run. The S&P 500 is expected to reach 2600 by year-end, and the Dow is nearing its target of 22,000 by the 4th quarter (Q4).

Donald W. Dony, FCSI, MFTA, August 15, 2017