

*The best trades are the ones in which you have all three things going for you: fundamentals, technical, and market tone. ~ Michael Marcus*

## Report Summary

### S&P 500

- The SPX is in a bear volatile regime on both a monthly and weekly basis and a bull quiet on a daily timeframe. The LT trend is sideways to down while the very ST trend favors further upside to the 3,000-3,100 level fueled by negative sentiment and strong breadth. Credit spreads have begun turning up again though and if this continues will portend the end of this rally.

### UST 10yr Bonds

- Bonds are in a bull trend on a monthly, weekly, and daily basis. The LT path of least resistance remains higher though there are some potential indications that we could see a ST reversal soon.

### Gold

- Gold is in a bull market on a monthly, weekly, and daily basis and the LT path of least resistance is higher. But positioning is getting a little crowded which raises the odds we see continued volatility in the ST.

### EURUSD

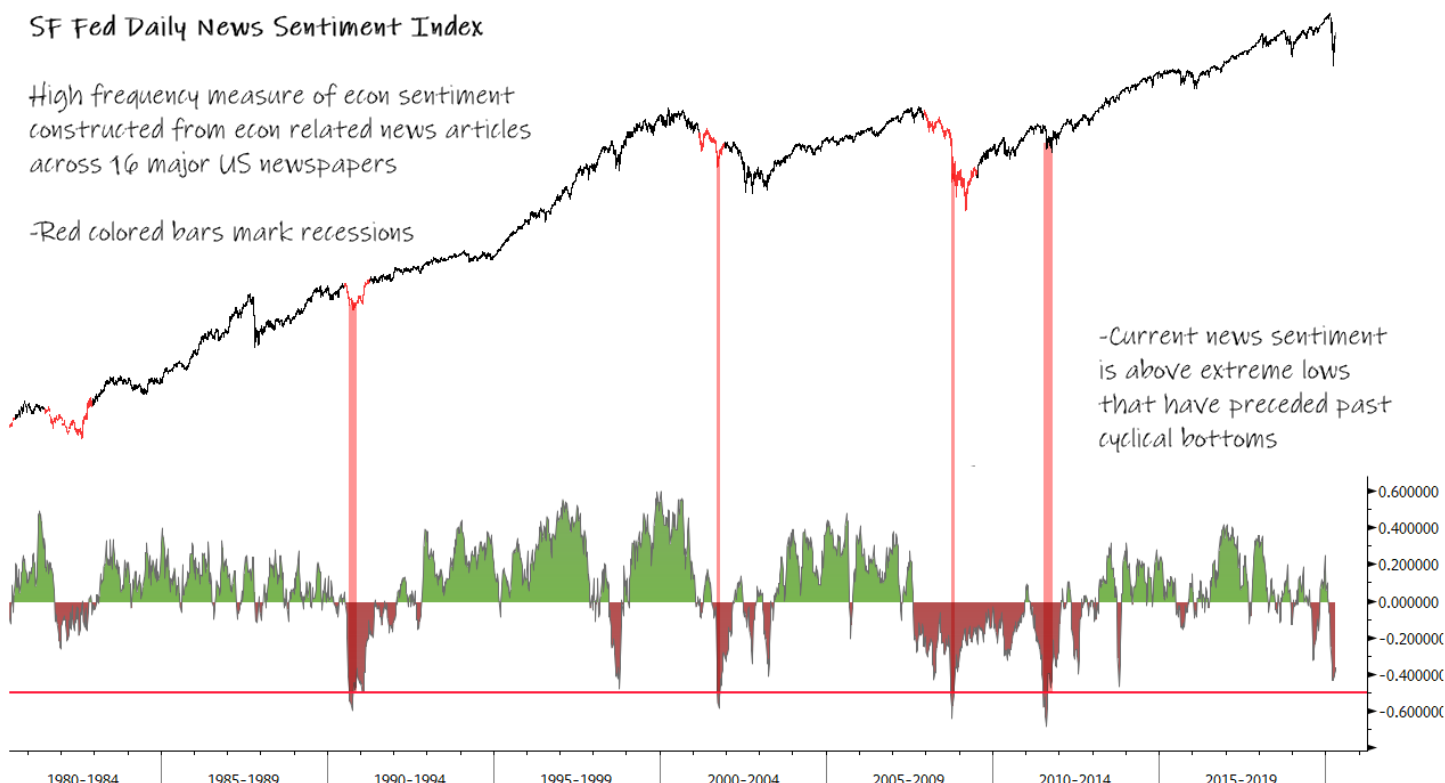
- EURUSD is in a bear market on a monthly and weekly basis. The path of least resistance favors further downside. It's also tightly coiled on a daily timeframe which puts odds on we see a major breakout soon. Stretched bullish positioning tips the odds in favor of a breakout to the downside.

## Chart in Focus

### SF Fed Daily News Sentiment Index

High frequency measure of econ sentiment constructed from econ related news articles across 16 major US newspapers

-Red colored bars mark recessions



SPX Monthly

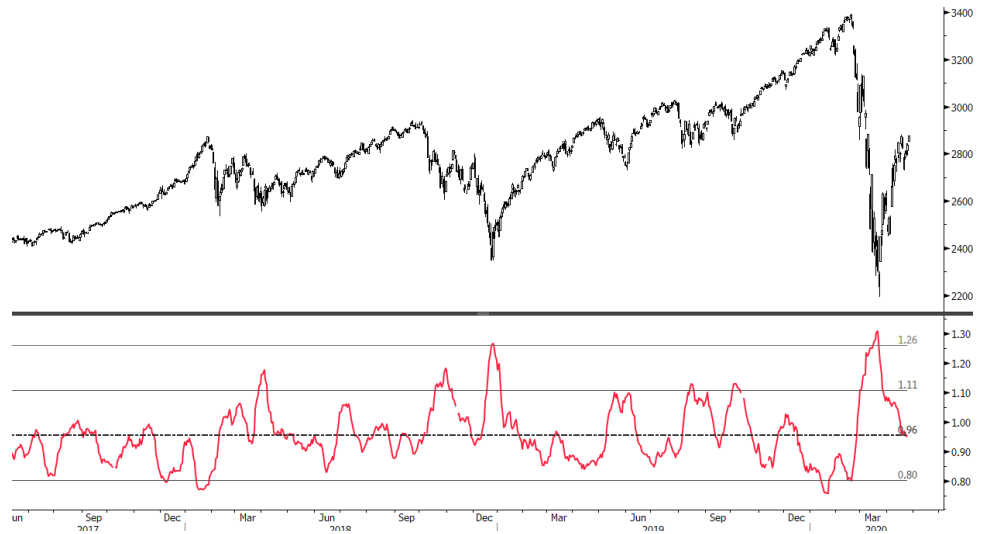


SPX Weekly



Put/Call 10dma

Positioning in options has been coming down from the extreme levels hit at the bottom of last month's selloff. The 10dma PC ratio is currently in neutral territory but will likely trigger a sell signal within the next two weeks if the market continues to move higher.



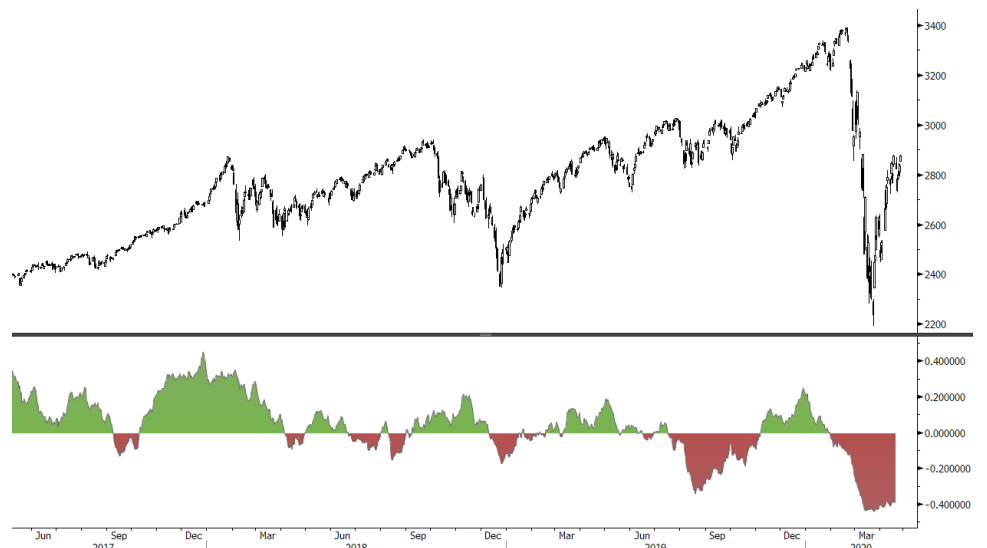
AAll Bull-Bears Ratio

Sentiment has not followed prices higher. In fact, they moved to a new low last week. This shows that investors aren't buying into this rally which means there's still plenty of bears to fuel this rally higher.



SF Fed News Sentiment

This new indicator from the Fed tracks the daily economic sentiment of the 16 largest US newspapers ([link here](#)). This can be used as a contrarian data point. When the indicator hits extremes you want to start looking for a tape that stops confirming the sentiment. It's currently at a cyclical low but still well above bearish extremes that have marked past cyclical bottoms.



MO Breadth Indicator

Our breadth indicator is showing positive breadth (red line above the mid-line). This indicator will roll over and go negative before a major turn in the market.



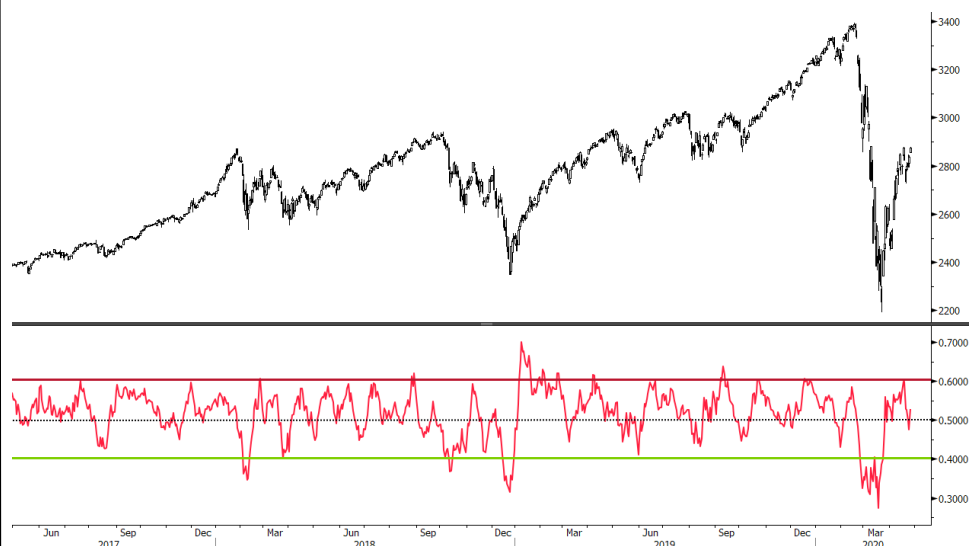
Up-Volume Thrust

This indicator tracks the relative buying pressure in the market by measuring the net volume of advancing issues against the aggregate. The indicator is currently positive and this supports the trend higher.



Zweig Breadth Thrust

Named after the famed market technician who devised this indicator, the Zweig Breadth Thrust indicator. This indicator tracks advancing issues in the market relative to the aggregate. The indicator is positive and supporting higher prices.



Stock/Bond Ratio

Stocks and bonds compete for capital flows and there's a circular relationship that drives the pricing of these two assets. Currently, stocks are at one of their cheapest levels relative to bonds in history. This may not mean much in the short-to-intermediate term but LT it should help keep a floor under equities.



BAA Yield ROC

Credit leads equities. And when the rate-of-change in BAA yields spikes higher it eventually begins to pull capital flows out of stocks and back into bonds — the circular relationship. Yields spiked as we moved into the risk-off environment. They remain elevated and have started to turn up again recently. This needs to be watched closely.



Forward PE Ratio

The SPX's Forward PE Ratio spiked to 22 — a new cycle high — on the back of weaker earnings. The market is expensive and this is a headwind for stocks going forward unless earnings dramatically recover in coming quarters.





Copper/Gold Ratio

In the hierarchy of markets metals sit at the top, right above bonds. Metals tend to sniff out changes in economic conditions before other markets. This is why the copper/gold ratio often leads yields. Currently, the ratio is slightly diverging higher from yields. It's too early to call for a turn but this needs to be watched.



Cyclical vs. Defensive

Similar to Copper/Gold this indicator may also be sniffing out a turn in yields.



Regional Banks vs SPX

Bank stocks relative performance often leads yields at major turning points. Similar to the ratios above, this indicator is pointing to higher yields. We'll need to see if this relative performance lasts.







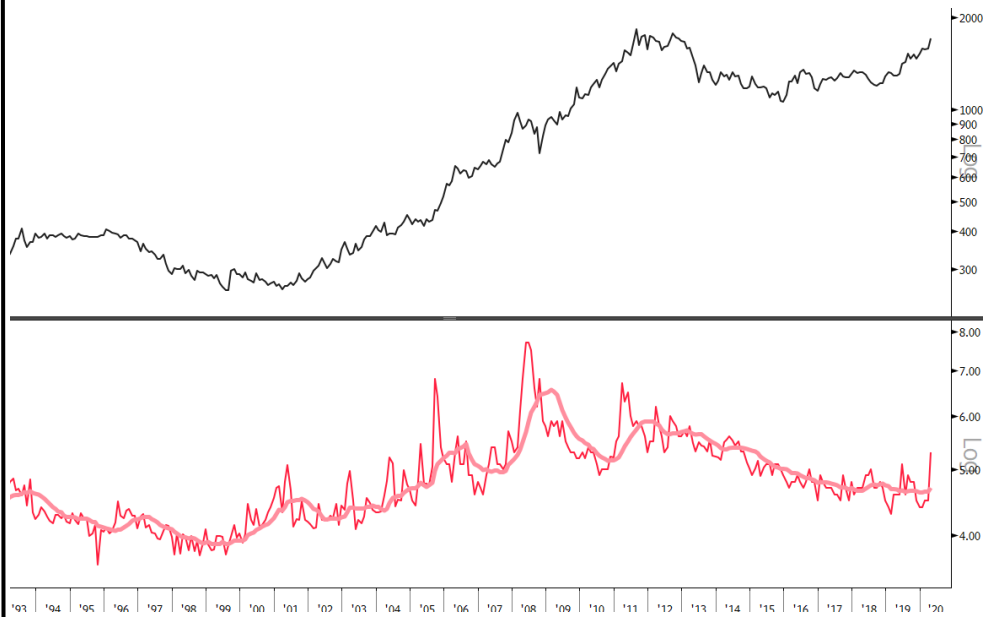
CoT Small Specs

Small specs are long gold and the positioning is a little crowded but not at extremes that have marked major tops in the past.



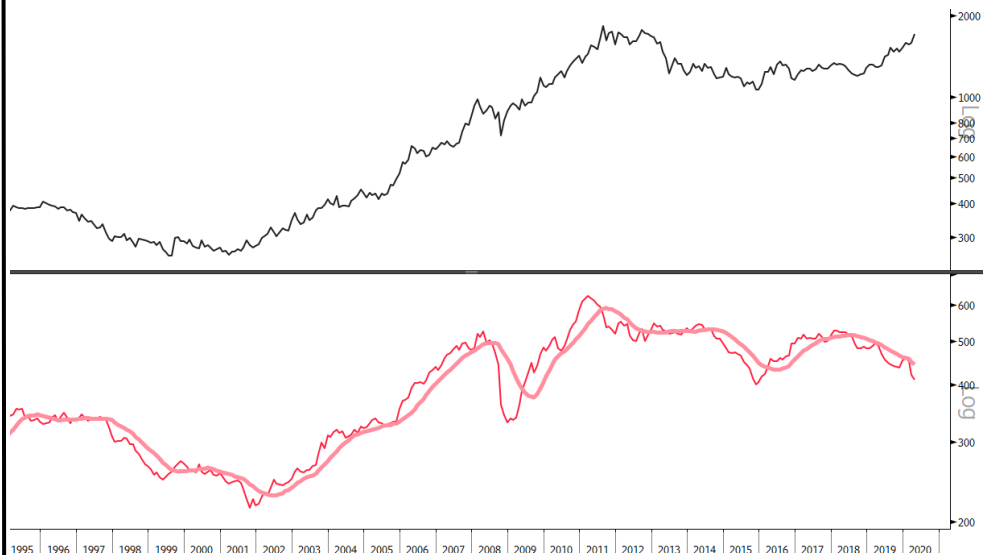
12m Inflation Expectations

Gold is driven by the real price of money (yields minus inflation). Since inflation expectations are a key component into the pricing of bonds and thus yields it's good to track where they're trending over the LT to see where the LT trend in gold is likely headed. And after a decade in decline inflation expectations are starting to perk up.



CRB Spot Industrial Metals

One of my favorite indicators of inflation is the rate of change in spot industrial metals. It provides a real-time lead on what inflationary pressures are doing. The index is still in a downtrend no doubt due to the deflationary forces of the global slowdown and debt overhang.





EURUSD 10yr Spread

Yield differentials drive FX trends over the long-term. The 10yr spread is the real anchor of FX. Trend direction rather than absolute levels are what matter. The spread has been trending in the euro's favor over the last 18m though the spread still favors the USD.



CoT Net Specs

Net specs have become very bullish over the last few months and are nearing cycle highs in positioning. The fact that the tape has failed to respond at all is not a good sign for the euro.



Structural Momentum

Structural momentum measures the price relative to a moving average. It's just another way of viewing major pivot points in trend. Momentum is currently sideways and in a tight range. A break above or below would be notable.



<i>The Four Pillars Portfolio</i>		<u>YTD Return</u>				
		14.40%				
<u>The Core</u>	<u>Allocation</u>					
Large Cap Equities (/ES_M or VOO)	25%					
Short-term Bills (/ZT_M or VGSH)	25%					
Long-term Bonds (/ZB_M or TLT)	25%					
Gold (/GC_M or GLD)	25%					
<u>Big Bets</u>	<u>Thematic</u>	<u>Cost Basis</u>	<u>At Risk</u>	<u>Notional %</u>	<u>Risk Point</u>	<u>Last Price</u>
Teekay Tankers (TNK)	Deep Value/Cyclical	\$20.30	100bps	4%	\$15.20	\$24.54
Overseas Shipholding Group (OSG)	Deep Value/Cyclical	\$2.27	200bps	9%	\$1.70	\$2.46
Cameco (CCJ)	Deep Value/Cyclical	\$7.25	Above B/E	10%	\$8.50	\$10.08