

The Trifecta Report

May 17, 2020

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

S&P 500

The SPX closed down on the week but its lower tail was longer than its body showing that bulls are still in control of the market. Most measures of sentiment are bearish/neutral though retail participation has accelerated dramatically. Breadth is starting to deteriorate, credit spreads are beginning to widen again, and valuations remain a major headwind. Short-term, the SPX looks like it wants to get to the 3k level (200dma). But odds favor a reversal and a leg lower beginning in the next couple of weeks.

GOLD

Gold broke out of its weekly and daily consolidation range and is now headed for the 1,800 level. A level that has acted as major resistance for gold in the past. Fund flows and positioning favor higher prices and the trend broadly remains up. The real test for gold will come when the next round of equity volatility hits. We'll need to see whether gold keeps its positive correlation to stocks or begins to act as a safe-haven counterbalance to equity risk.

UST 10Y

Bonds are in a long-term uptrend but have been trading sideways on a weekly and daily basis. They are attempting to break out to the upside of an extremely tight range. Our indicators all flipped last week and now favor a move higher in bonds (lower yields). Sentiment and positioning also favor a continuation in the trend higher in bonds. We will likely double up our bond position this week.

EURUSD

EURUSD is in a down to sideways trading range on a monthly and weekly basis. It's in a tight coil on a daily basis and like gold, is in breakout mode. The big breakdown in relative growth now puts the odds in favor of a break lower in EURUSD. I'm willing to play a breakout in either direction but think we're likely to see a higher dollar in the weeks ahead as equity volatility comes back and we see another leg down.

Chart in Focus

MSCI World Equities Index



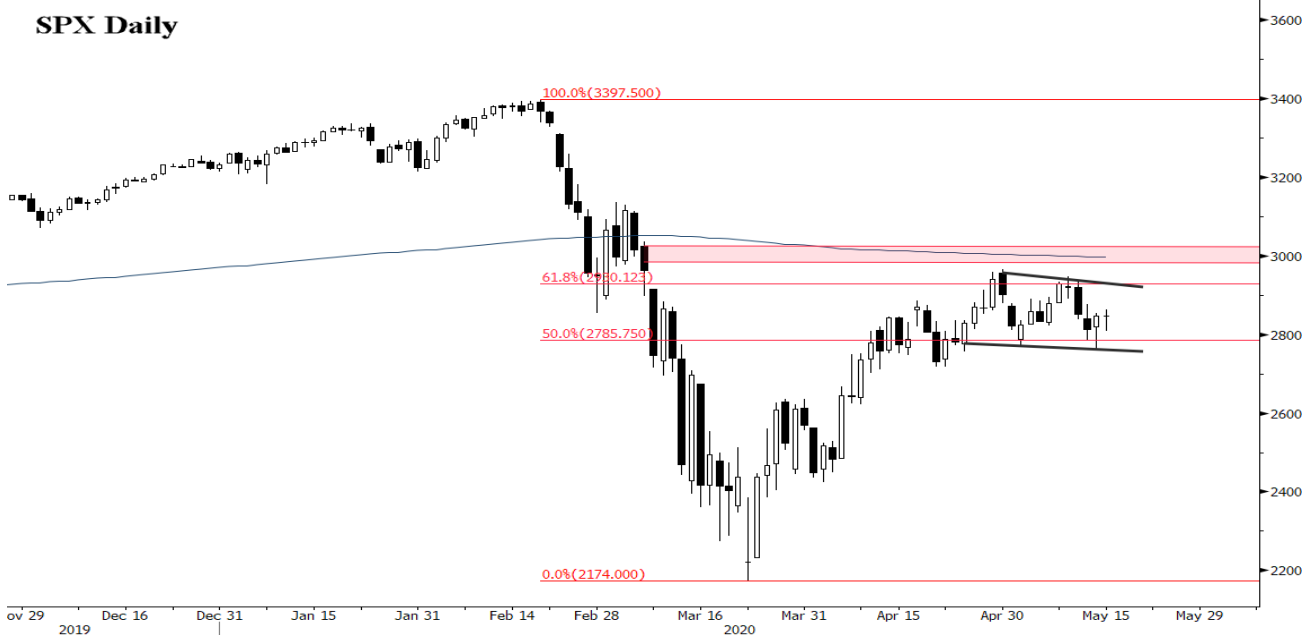
SPX Monthly



SPX Weekly

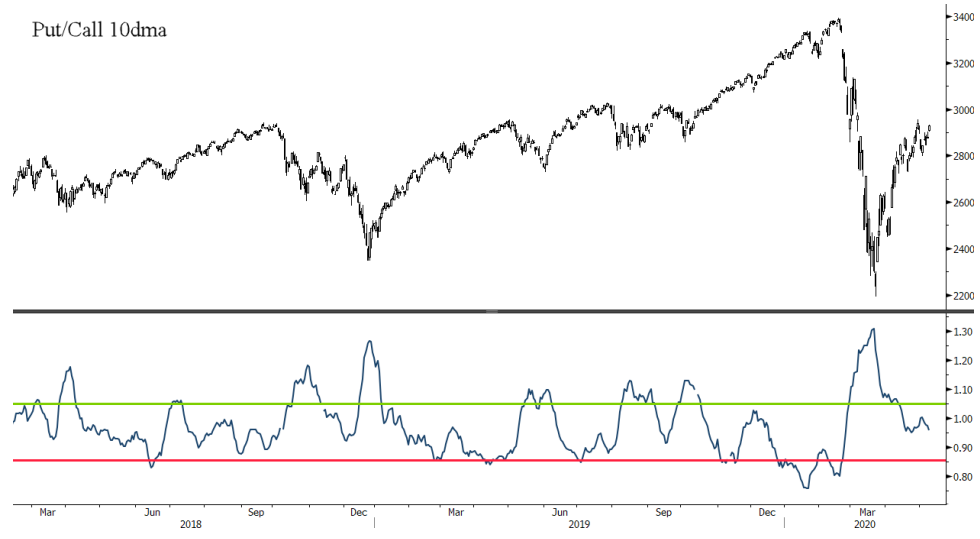


SPX Daily



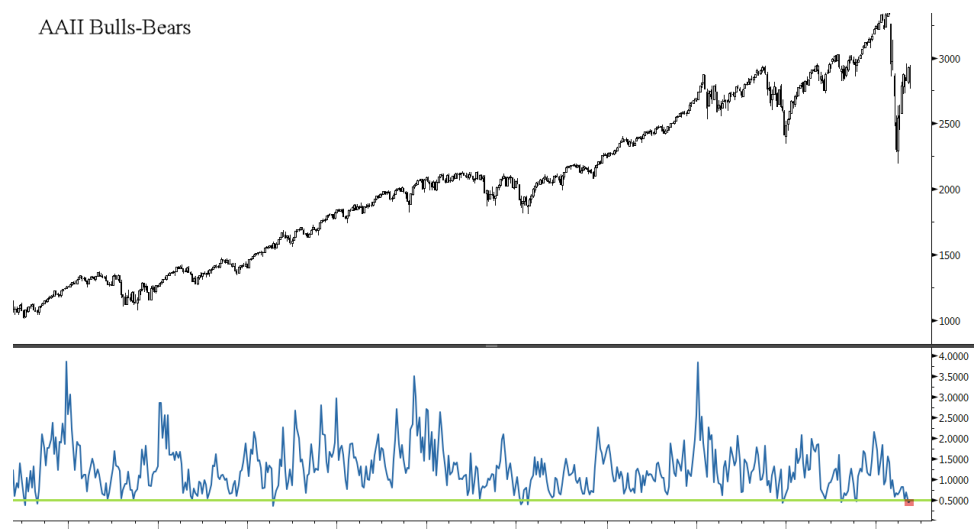
Put/Call 10dma

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 few weeks if the market continues to move higher.



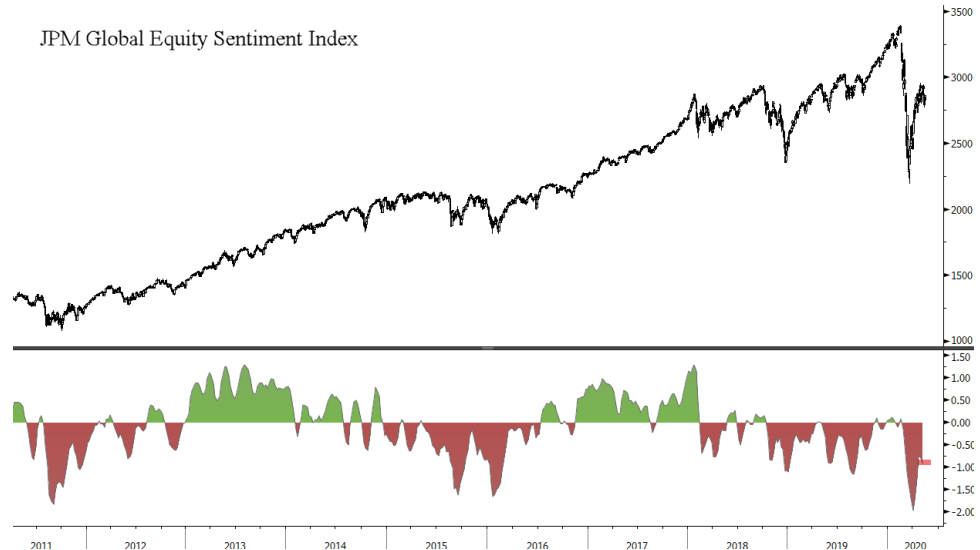
AAII Bull-Bears Ratio

Sentiment has not followed prices higher. In fact, they remain near historical lows. This shows that investors remain skeptical of this rally.



JP Morgan Global Equity Sentiment Index

This is an aggregate measure of global sentiment measuring technical conditions, flows, volatility, positioning, and sentiment. When the moving avg is above 0 it is a broadly favorable environment for equities, and vice-versa. This is true except for when the indicator hits extremes in which case it should be used as a contra. The indicator is currently coming off bearish extremes and improving.



MO Breadth Indicator

Our breadth indicator is showing negative breadth for the first time since March (blue line above the mid-line).

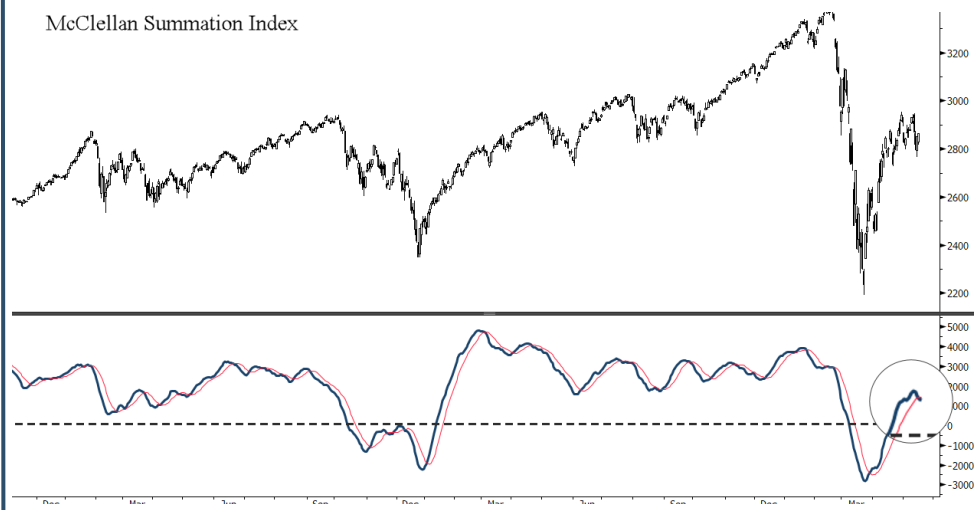
MO Breadth Indicator



McClellan Summation Index

Is a breadth indicator that measures the running total of McClellan Oscillator values (net advances). The blue line is the index and the red line is a 10dma. We can use this indicator in two ways (1) look for divergences between the market and the indicator and (2) look for MA crossovers which typically mark or precede turning points. The indicator turned over last week and crossed below the 10d-ma.

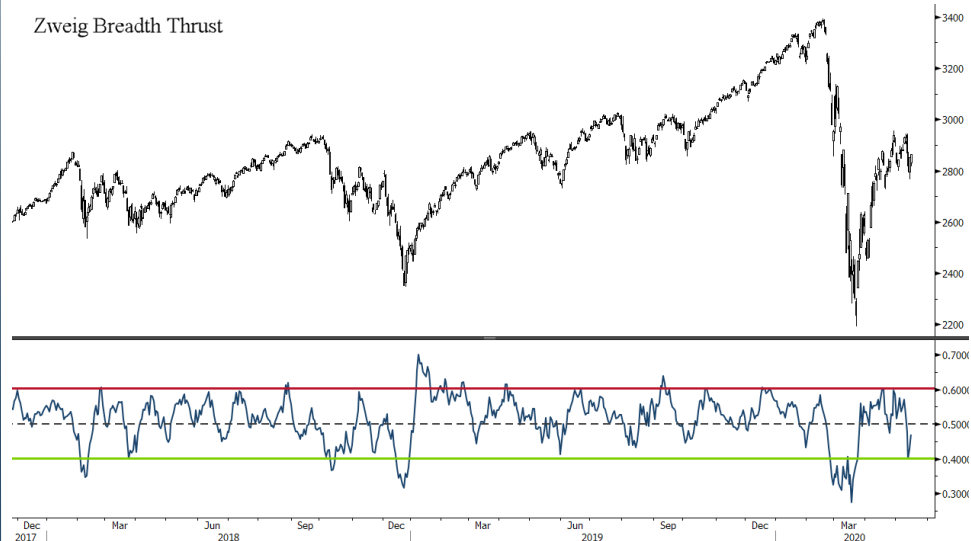
McClellan Summation Index



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 turned negative last week.

Zweig Breadth Thrust



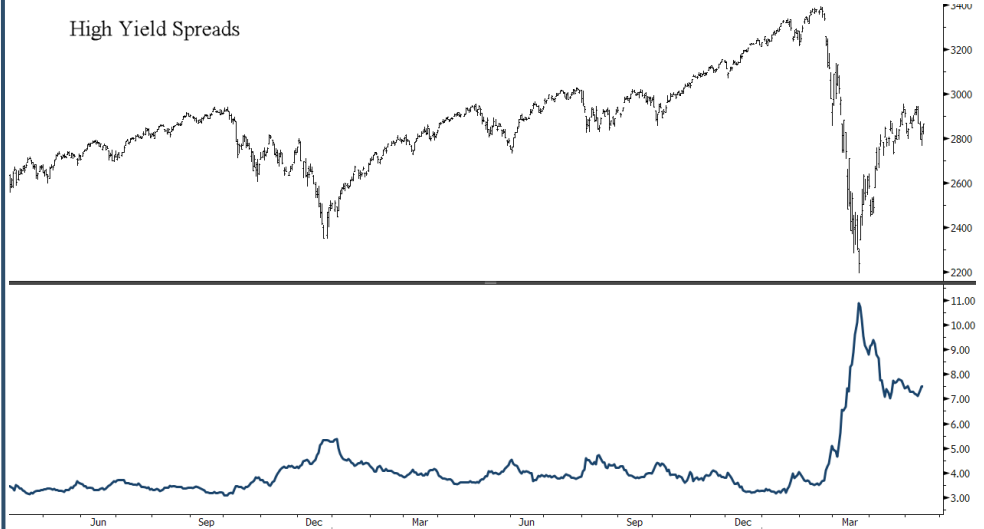
Stock/Bond Ratio

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.



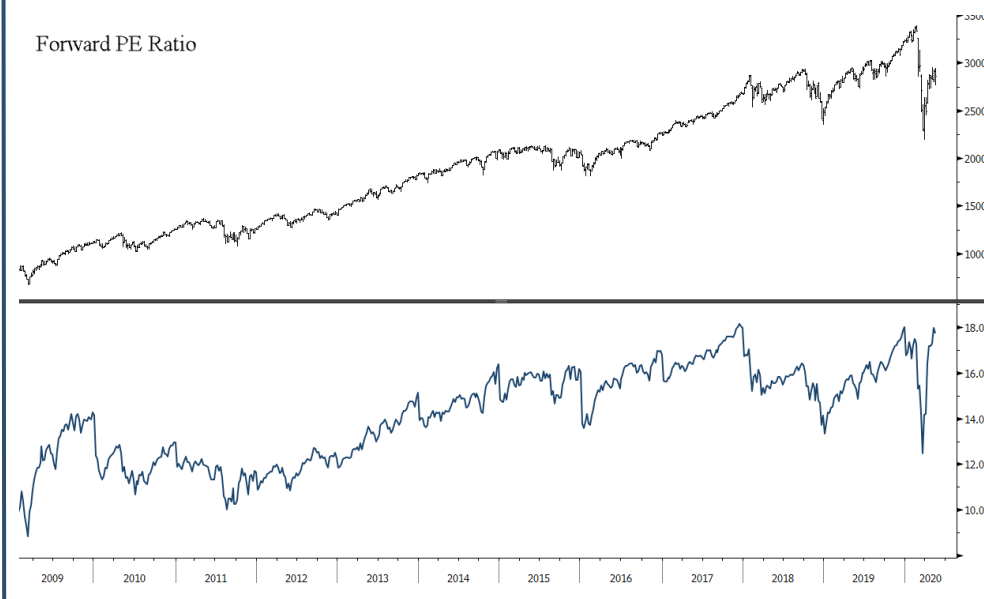
High-Yield Spreads

Credit leads equities. And high-yield spreads are beginning to turn up (widen). If this continues it'll spell trouble for stocks.



Forward PE Ratio

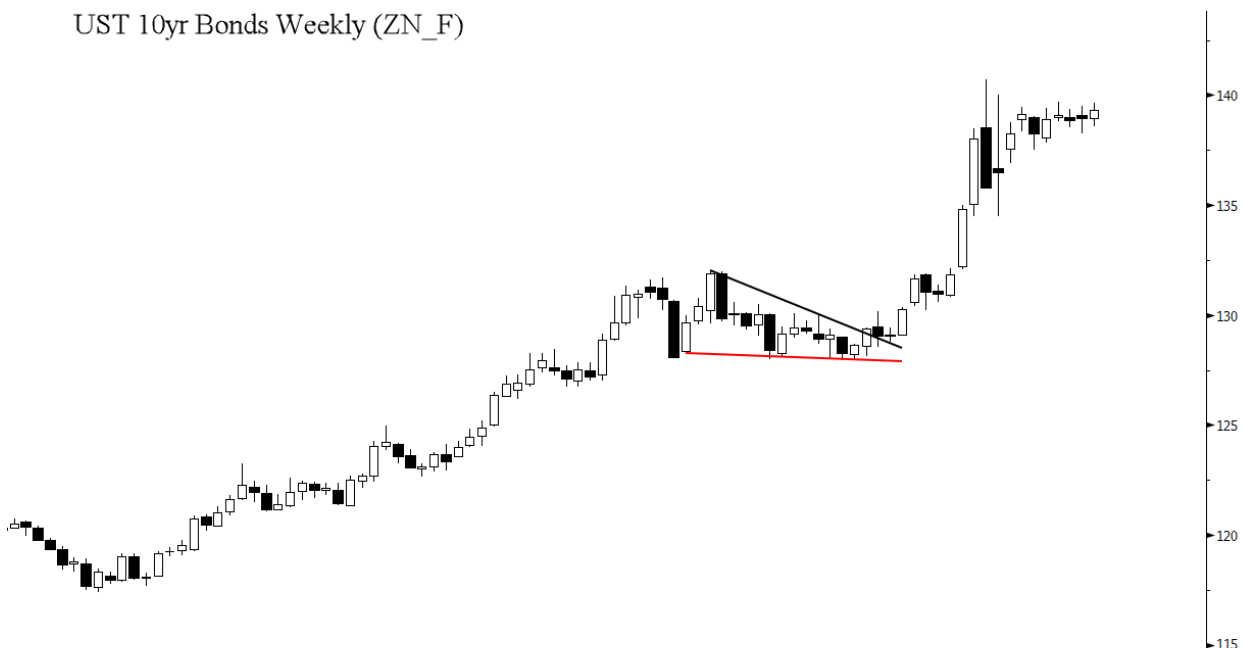
The SPX's Forward PE Ratio spiked to 18, on the back of weaker earnings and higher prices. The market is expensive and this is a headwind for stocks going forward unless earnings dramatically recover in coming quarters.



UST 10yr Bonds Monthly (ZN_F)



UST 10yr Bonds Weekly (ZN_F)

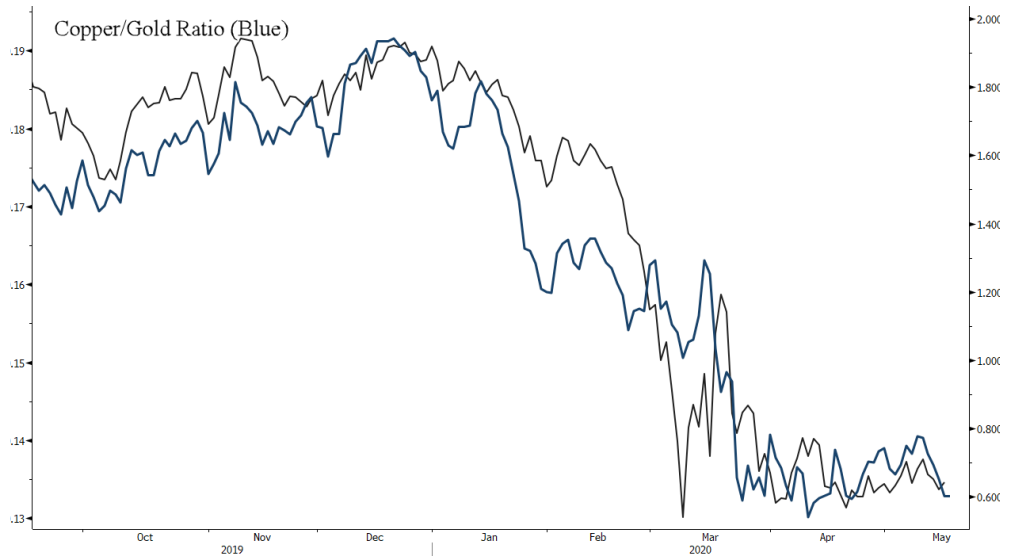


UST 10yr Bonds Daily (ZN_F)



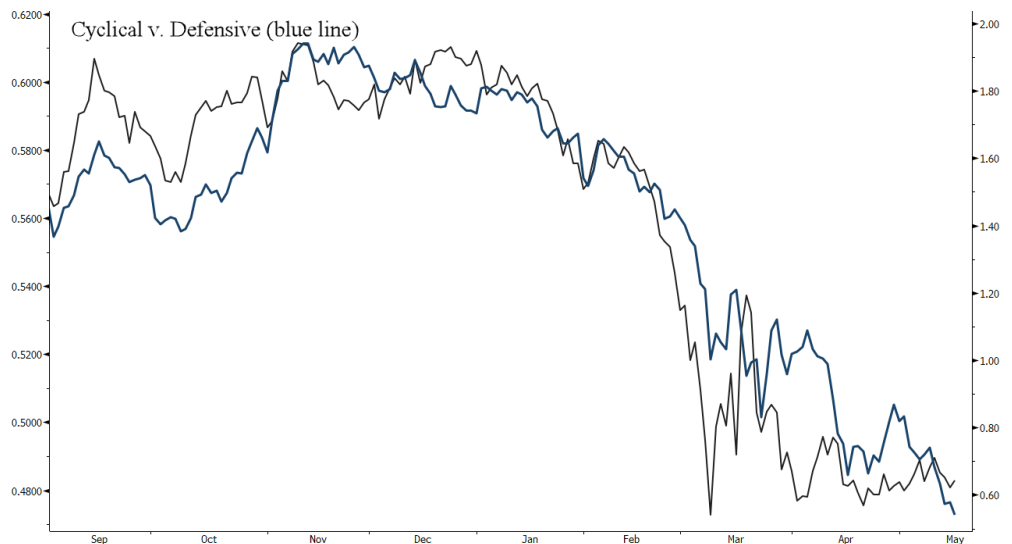
Copper/Gold Ratio

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. The ratio turned lower last week.



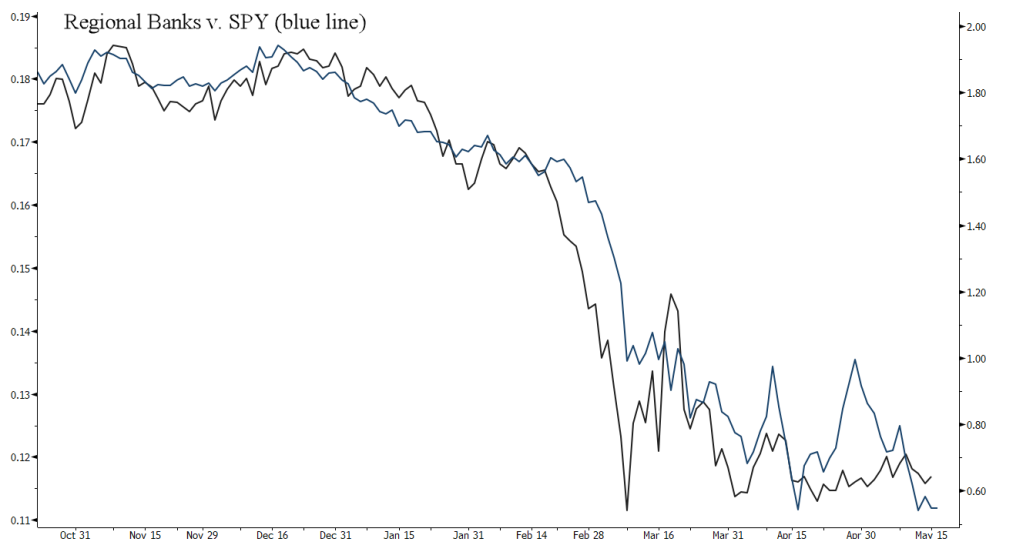
Cyclical vs. Defensive

Similar to Copper/Gold this indicator turned lower last week and now favors a move lower 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 lower yields (bonds up).





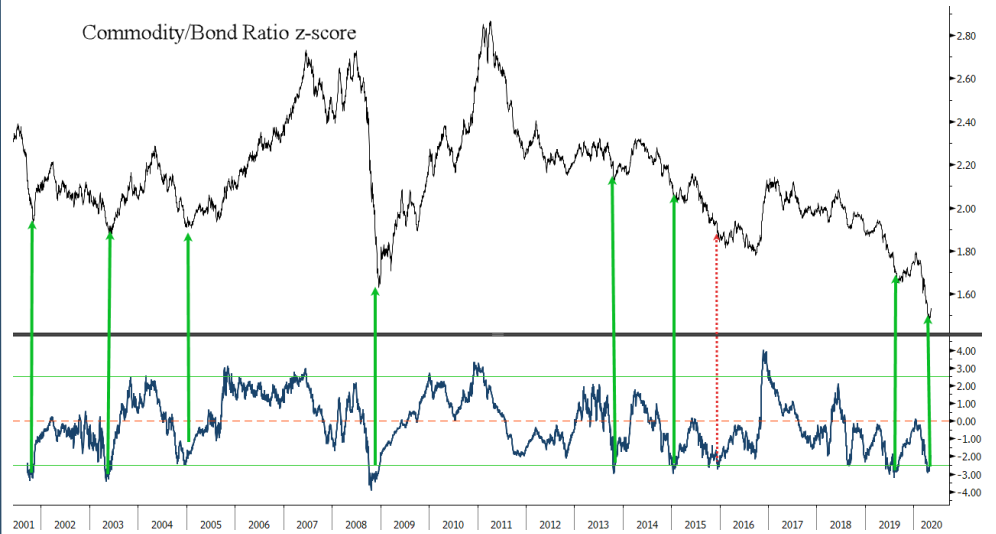
CoT Small Specs Z-score

Small specs are long gold and the positioning is a little crowded but not at extremes that have marked major tops in the past. A spike above the upper green line typically coincides with a short-term top in prices.



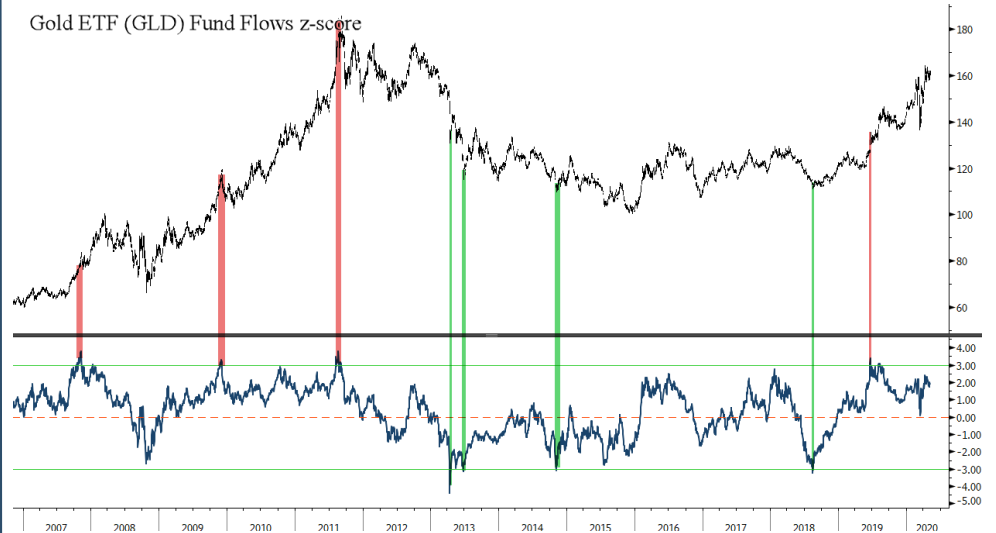
Commodity/Bond Ratio Z-score

The commodity/bond ratio is over 2.5 std below its long-term avg. Historically, when this ratio became this over-sold it has marked or preceded a significant bottom. This is an inflationary indicator developed by long-time market technician Martin Pring. A turn in this ratio would indicate a change in the inflationary regime.



Gold Fund Flows Z-score

Strong positive fund flows are a characteristic of a durable bullish regime. And vice-versa for a bearish one. Only at extremes, should this indicator be used as a contra. Currently, fund flows into gold are positive but not at extremes. This supports the move higher in gold.





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 absolute 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.



EURUSD Relative Growth

Growth is a big factor in bond pricing (yields) which are part of the total return equation which drives speculative flows that create FX trends. Lower relative growth is bearish and vice versa. The blue line below shows that EURUSD relative growth has collapsed. This favors a move lower in EURUSD.



The Four Pillars Portfolio		<u>YTD Return</u>				
		7.90%				
The Core	<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%					
Big Bets	Thematic	Cost Basis	At Risk	Notional %	Risk Point	Last Price
Teekay Tankers (TNK)	Deep Value/Cyclical	\$20.30	100bps	4%	\$15.20	\$16.28
Overseas Shipholding Group (OSG)	Deep Value/Cyclical	\$2.27	200bps	9%	\$1.70	\$1.95
Cameco (CCJ)	Deep Value/Cyclical	\$7.25	Above B/E	10%	\$8.50	\$9.84
Bolloré (BOL)	Hidden Deep Value	\$2.46	100bps	10%	\$2.26	\$2.50
MXNUSD (6MM2020)	Swing	0.04191	100bps	--	0.04045	0.04189