

The Trifecta Report

May 2, 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

GOLD

The SPX had a decently strong monthly close (big bull bar w/ only a small tail on top). There's strong buying pressure which should limit the downside over the coming months. The SPX closed weak on the weekly and daily timeframes after hitting the 0.618 Fib retrace level & coming within spitting distance of our 3,000 target and the 200dma. This raises the odds we see 1-2 weeks of sideways to down action from here.

Gold saw its highest monthly close this cycle, ending the month just below the 1,700 level. It's currently forming a multi-week wedge pattern which should lead to a breakout to either the upside or downside within the next two weeks. The longer-term momentum favors higher prices and the biggest risk to the bull trend at this point is a significant move up in bond yields.

UST 10Y

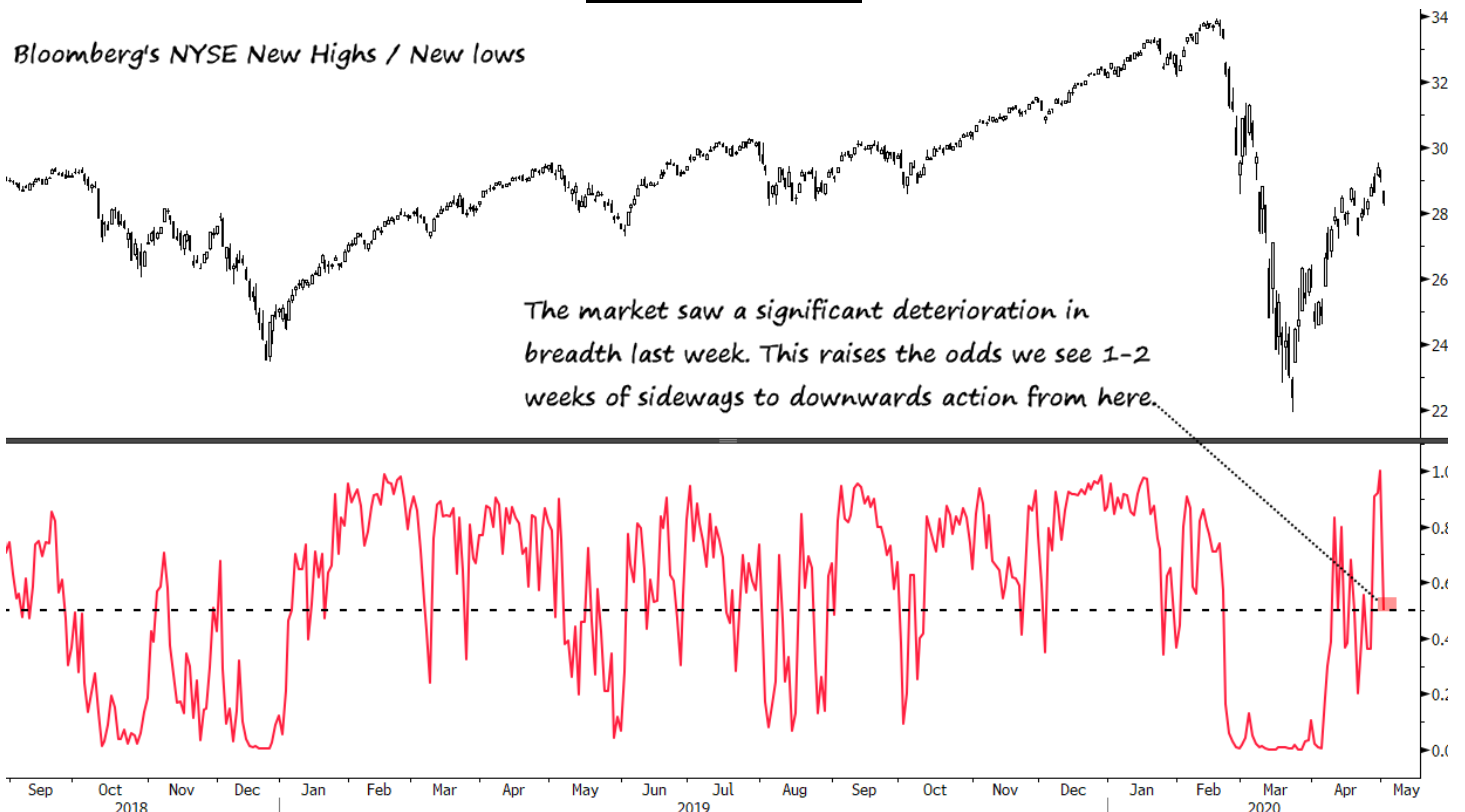
EURUSD

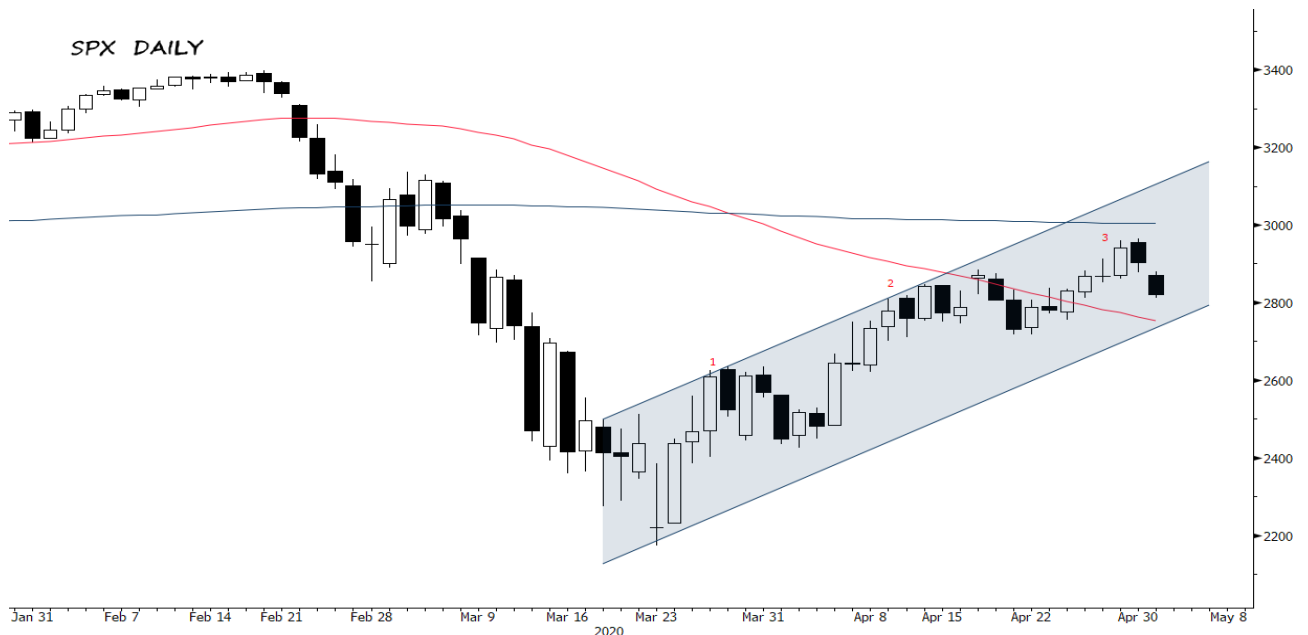
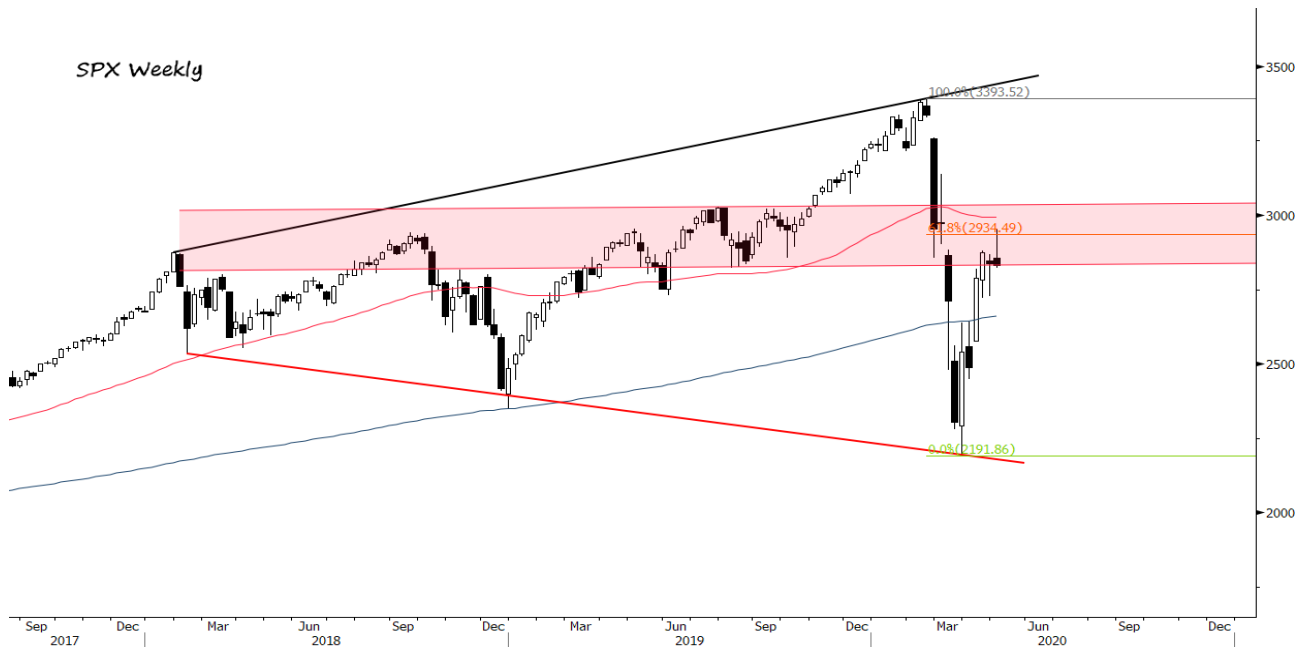
Bonds continue to trade in an extended range. This should be expected after the bullish climax move in March. Coppery/Gold and Cyclical/Defensives may be signaling a selloff for bonds but it's too early to tell. The tape favors a continued trading range sideways.

EURUSD has tried to selloff the last 3-months and each time it was bought (see the long lower tails on the bottom of each candle). This means the market is so far rejecting that lower price level. The pair broke out of its coil on a weekly and daily basis. Odds favor a move higher from here.

Chart in Focus

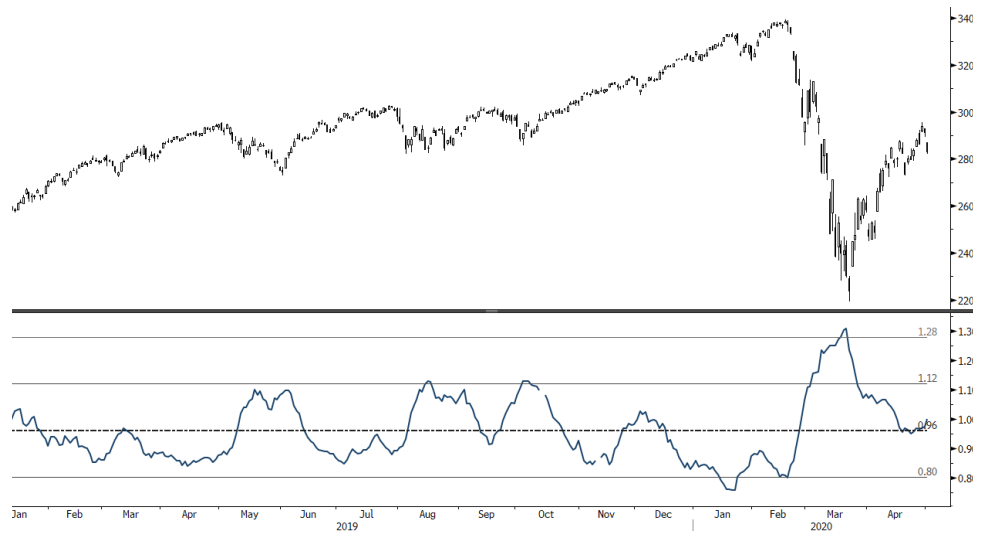
Bloomberg's NYSE New Highs / New lows





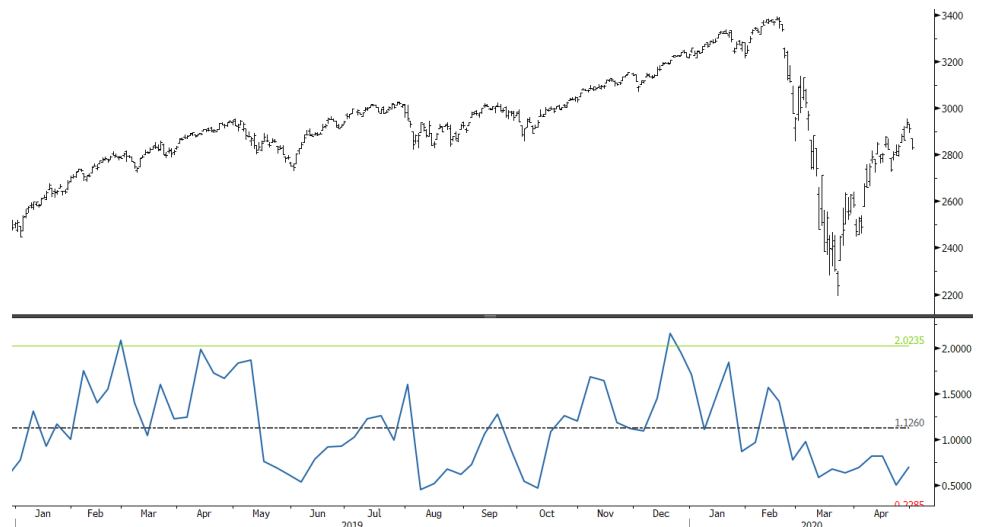
Put/Call 10dma

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.



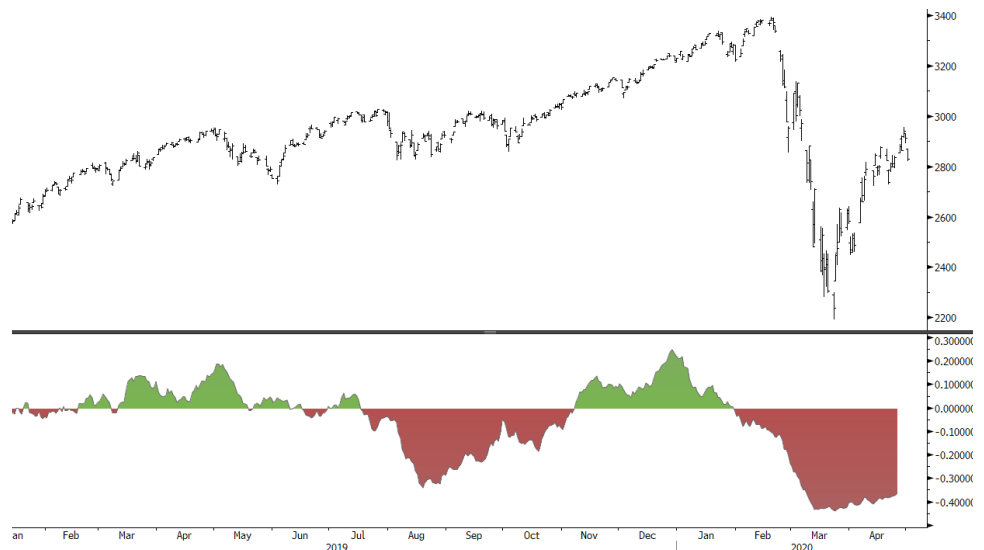
AAll Bull-Bears Ratio

Sentiment has not followed prices higher. AAll Bull-Bears ratio is still negative after only a slight uptick from last weeks lows. This continues one of the longer stretches of consecutive net negative AAll sentiment in years. This should keep a floor under how far stocks can fall from here until sentiment markedly improves.



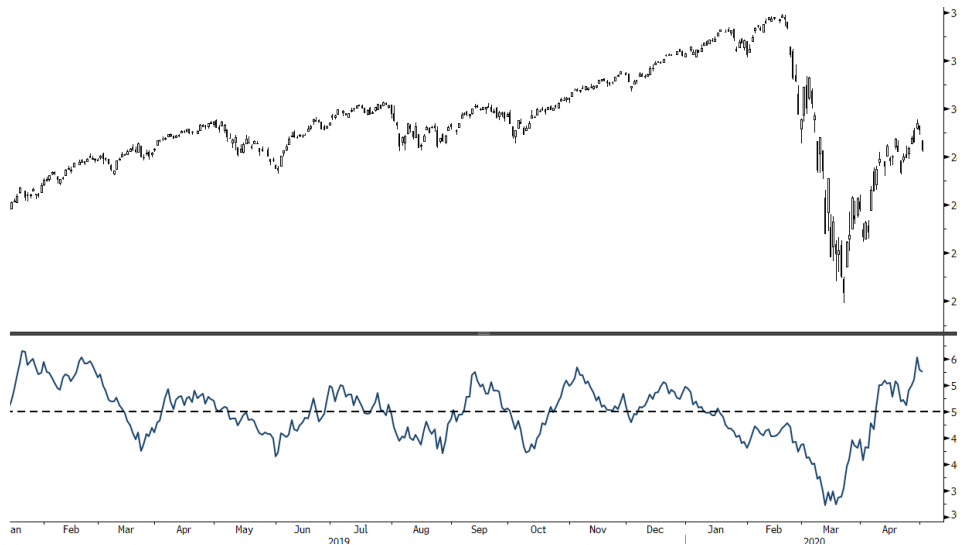
SF Fed News Sentiment

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.



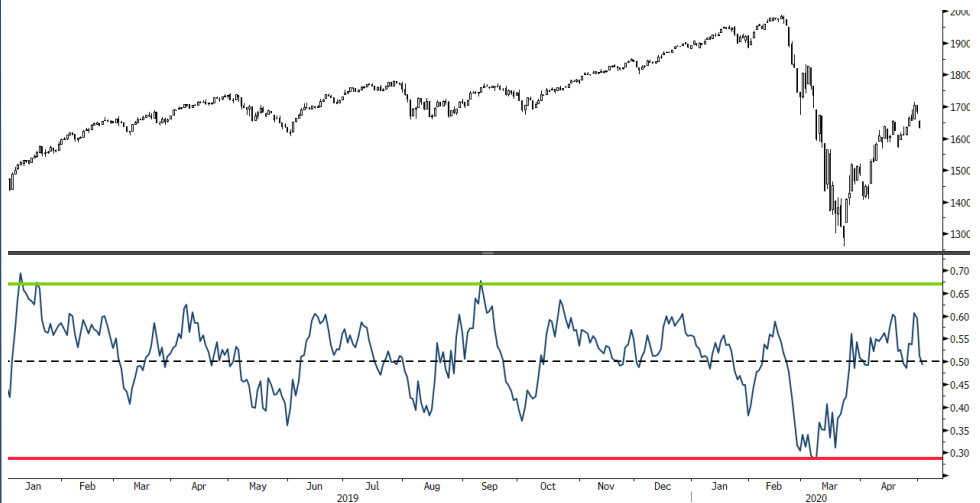
MO Breadth Indicator

Our breadth indicator is showing positive breadth though it did fall versus last week (blue line above the mid-line). This indicator will roll over and go negative before a major turn in the market but that does not preclude smaller short-term selloffs.



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 turned negative last week.



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 only slightly positive and close to giving a sell signal.



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.



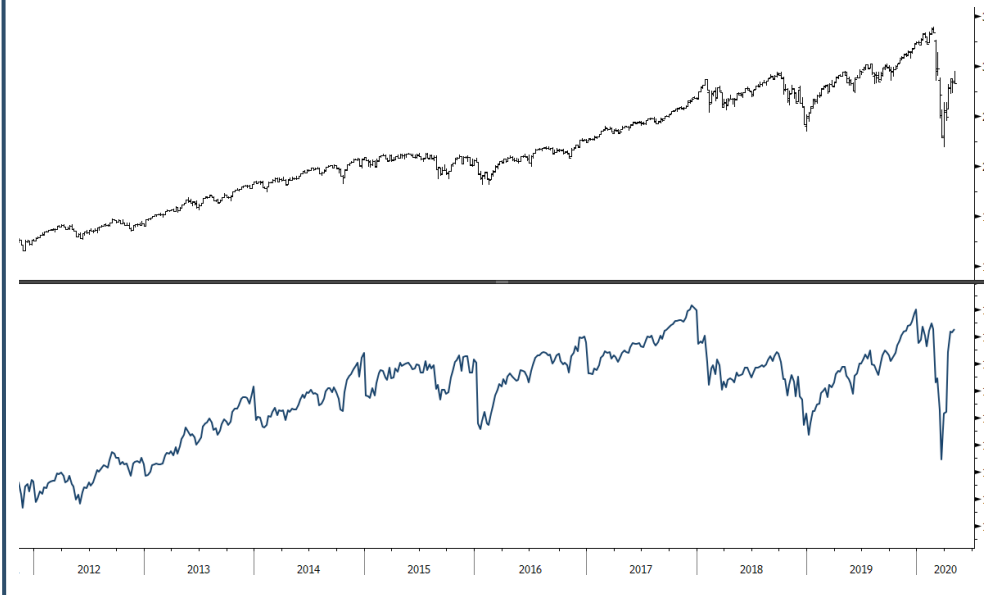
BAA Yield ROC

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 17.5, 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 to move higher.



Regional Banks vs SPX

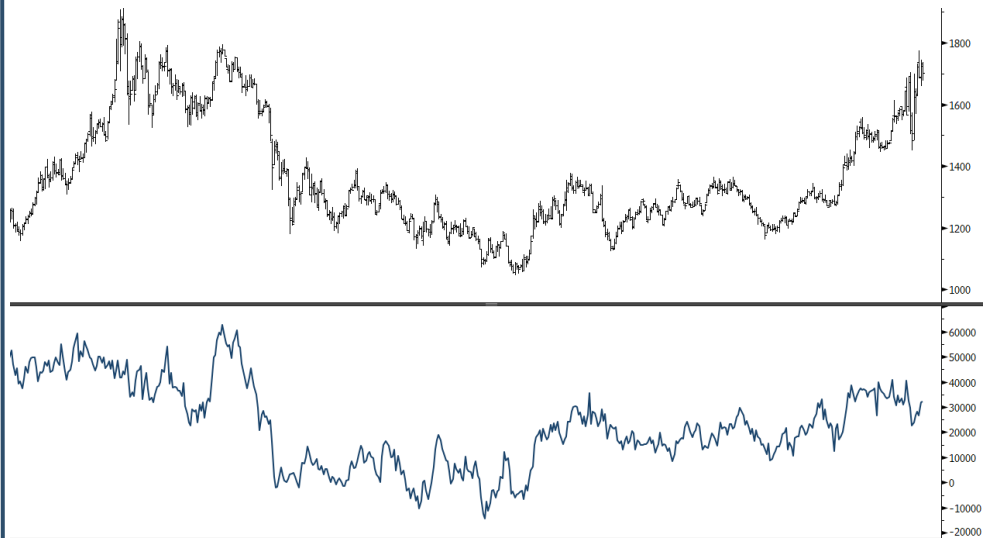
Bank stocks relative performance often leads yields at major turning points. Similar to the ratios above, this indicator is pointing to higher yields. We'll need to see if this relative performance lasts.





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.



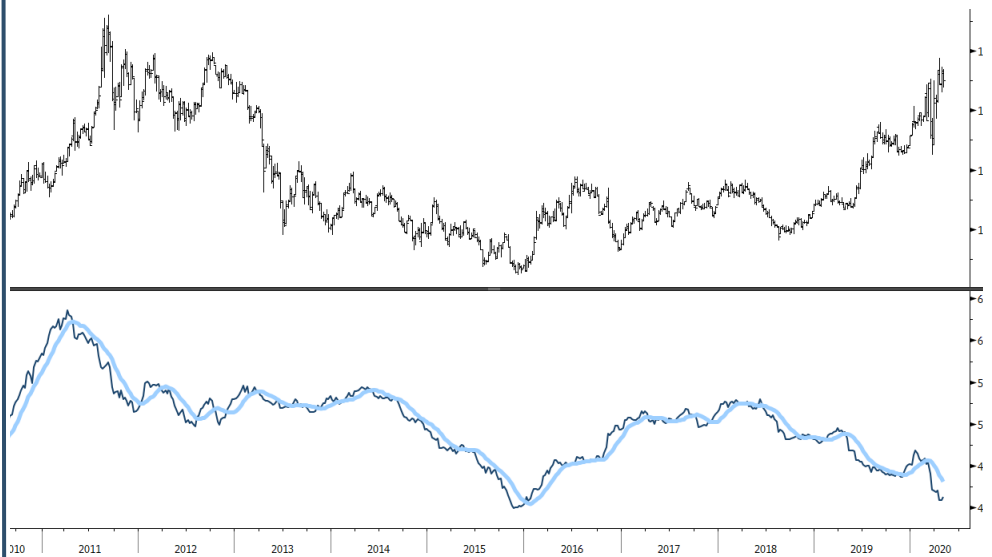
12m Inflation Expectations

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 18-months.



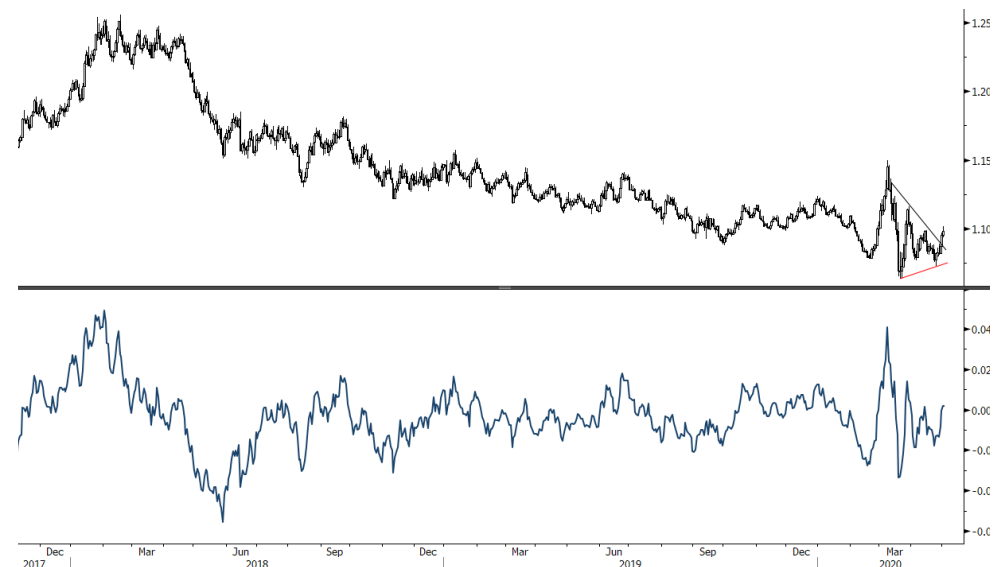
CoT Net Specs

Net specs have turned bullish over the last few months and are nearing cycle highs in positioning.



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.



The Four Pillars Portfolio		<u>YTD Return</u>				
		9.98%				
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	\$18.66
Overseas Shipholding Group (OSG)	Deep Value/Cyclical	\$2.27	200bps	9%	\$1.70	\$2.42
Cameco (CC)	Deep Value/Cyclical	\$7.25	Above B/E	10%	\$8.50	\$10.29
Rolls Royce (RR.LN)	Hidden Deep Value	\$346.00	100bps	8%	\$300.00	\$313.00
Bolloré (BOL)	Hidden Deep Value	\$2.46	100bps	10%	\$2.26	\$2.42