

The Trifecta Report

May 23, 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

There are four trading days left in the month of May. Bulls want a monthly close above April's high and bears want a close below. The bullish close for the week combined with bearish sentiment, narrowing credit spreads, and supportive breadth put the short-term path of least resistance at higher prices. However, put/calls are showing growing complacency and the lack of participation from cyclicals combined with stretched valuations make it odds on the market will hit a local top within 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

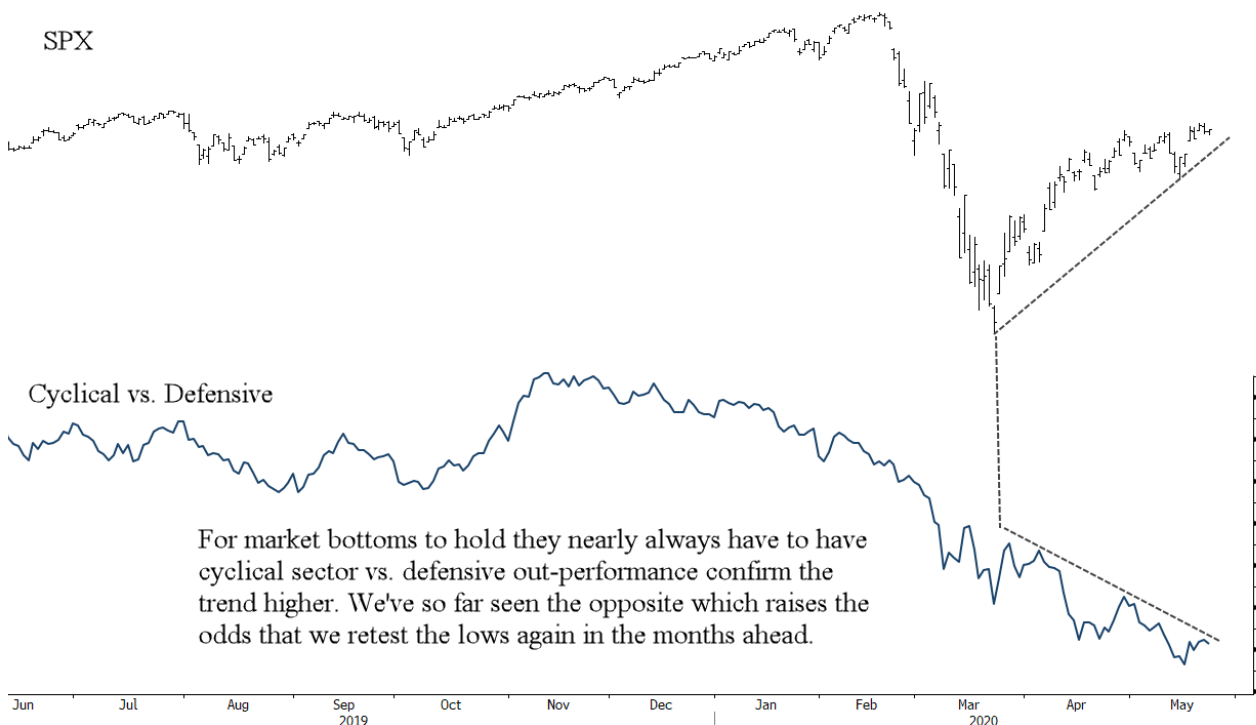
Bonds are in a long-term uptrend but have been trading sideways on a weekly and daily basis. They are attempting to break out to the upside of an extremely tight range. Our indicators all flipped back to neutral last week. Sentiment and positioning favor a continuation in the trend higher in bonds. We will look to double up our bond position once it confirms a breakout.

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. It saw a failed bull breakout from its wedge last week. I'm looking to get short if we see a weak monthly close.

Chart in Focus

SPX

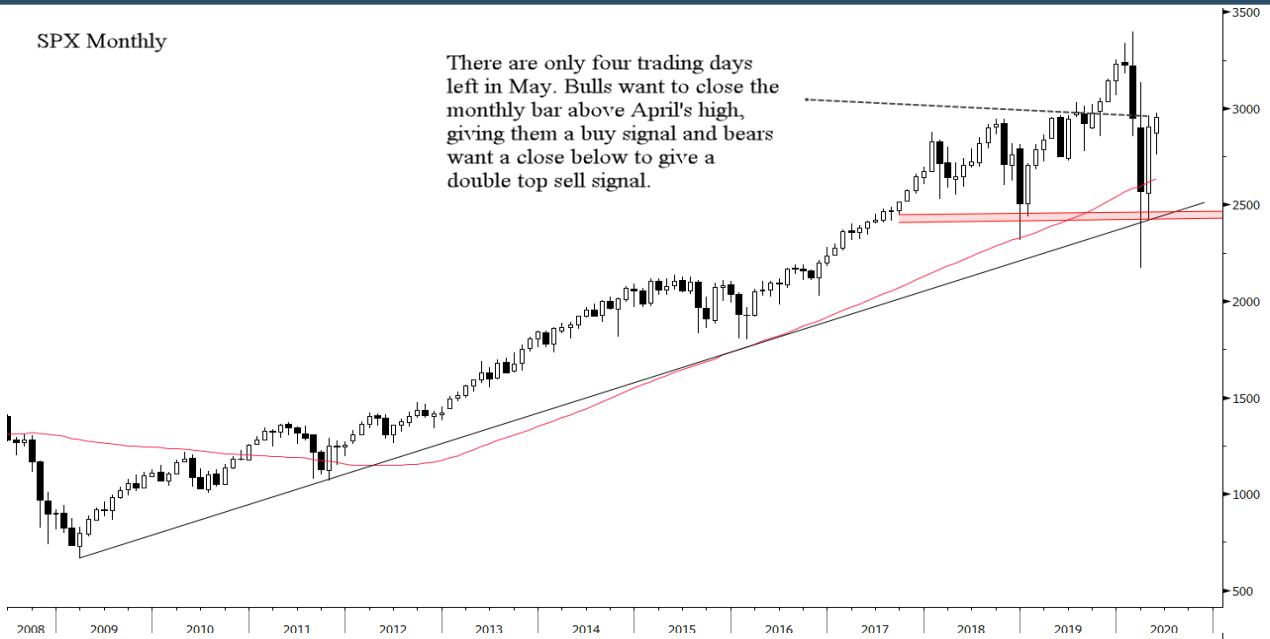


Cyclical vs. Defensive

For market bottoms to hold they nearly always have to have cyclical sector vs. defensive out-performance confirm the trend higher. We've so far seen the opposite which raises the odds that we retest the lows again in the months ahead.

SPX Monthly

There are only four trading days left in May. Bulls want to close the monthly bar above April's high, giving them a buy signal and bears want a close below to give a double top sell signal.



SPX Weekly

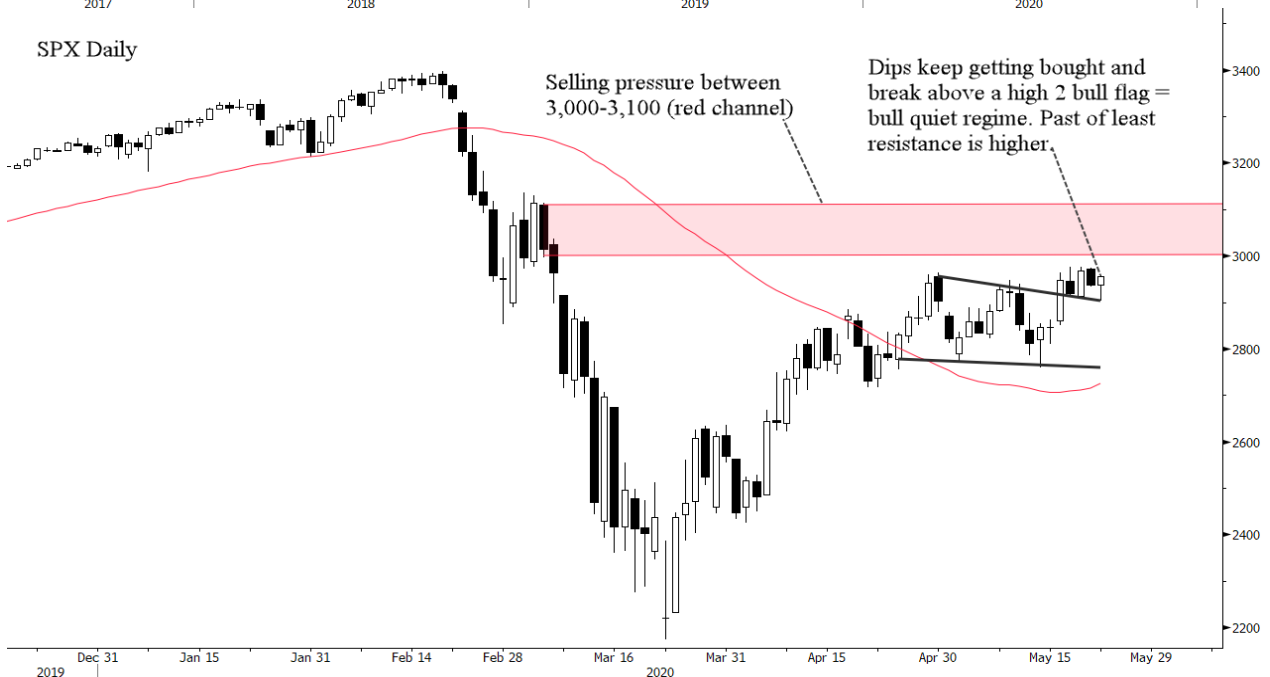
Bullish weekly close but still below April's high. 3,000 and 200dma (red line) continue to act as an attractor. Momentum favors higher prices next week.



SPX Daily

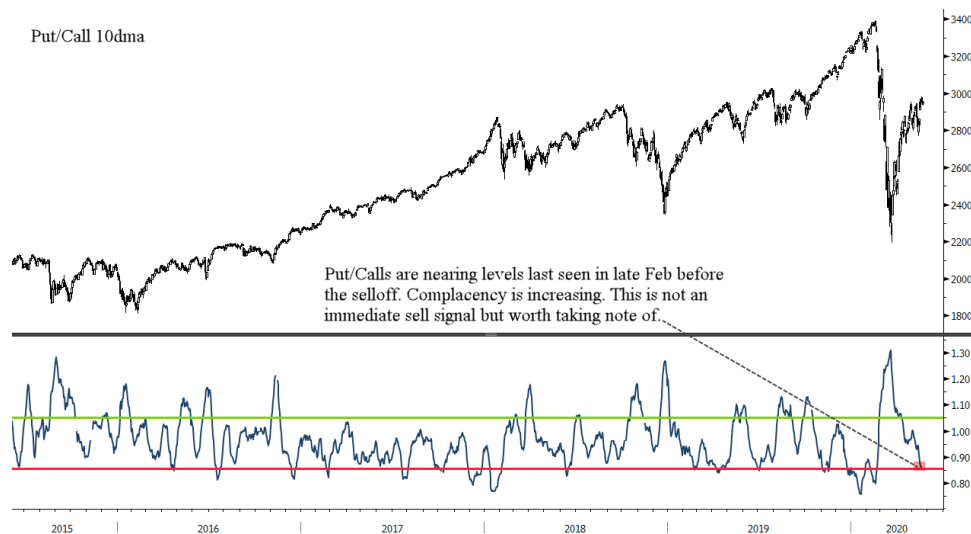
Selling pressure between 3,000-3,100 (red channel)

Dips keep getting bought and break above a high 2 bull flag = bull quiet regime. Past of least resistance is higher.



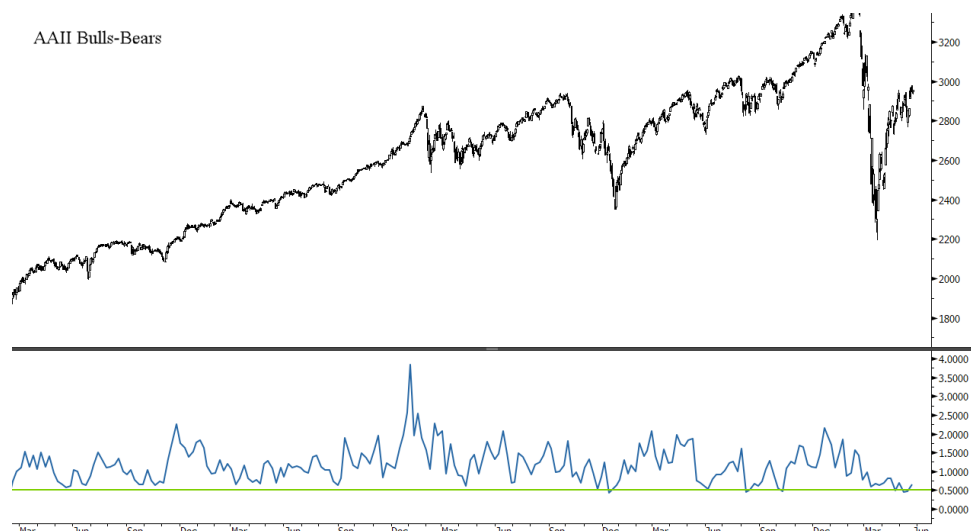
Put/Call 10dma

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 about to trigger a sell signal (crossing below the red horizontal line). This isn't an immediate signal. It just means that the market is becoming complacent, setting the conditions for a selloff.



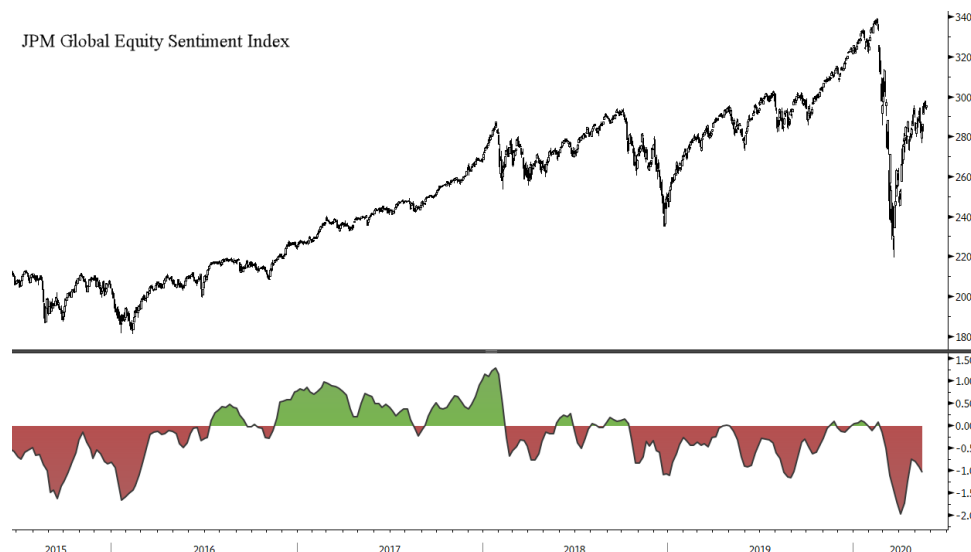
AAll Bull-Bears Ratio

AAll net sentiment bounced this week but is still overall pretty bearish. We'll likely see it dramatically improve in the next 1-2 weeks as the market moves higher, thus giving us a sell signal.



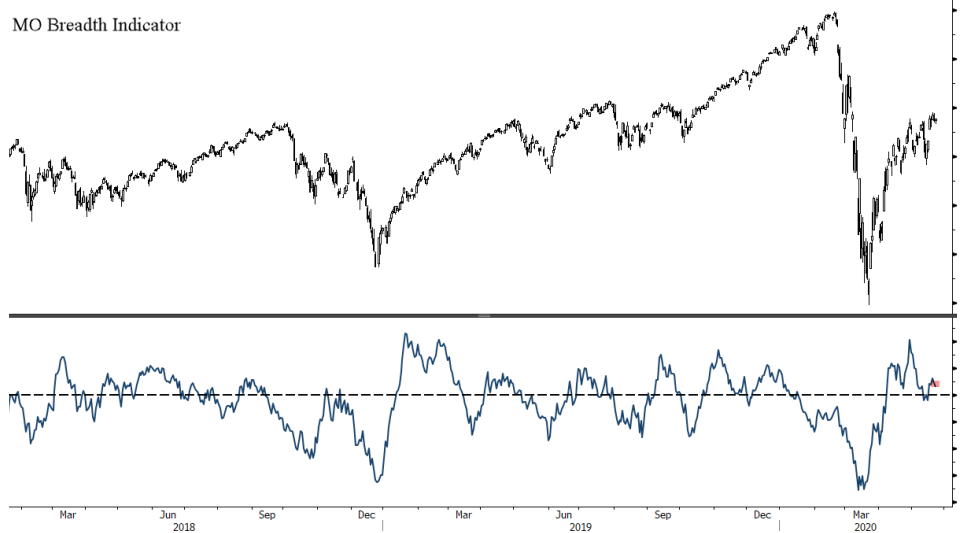
JP Morgan Global Equity Sentiment Index

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 moving lower which is bearish for the intermediate outlook for stocks.



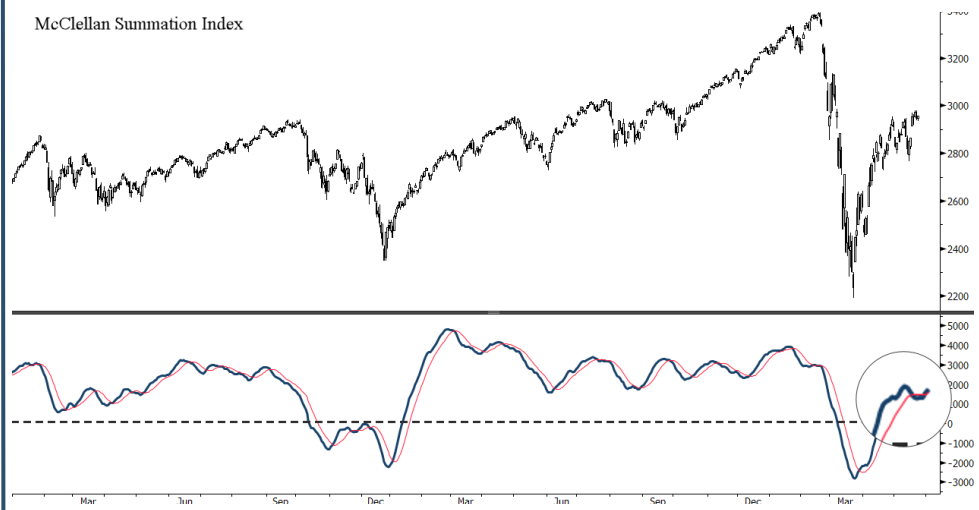
MO Breadth Indicator

Our breadth indicator recovered from last week’s minor negative reading. Breadth still remains supportive of higher prices.



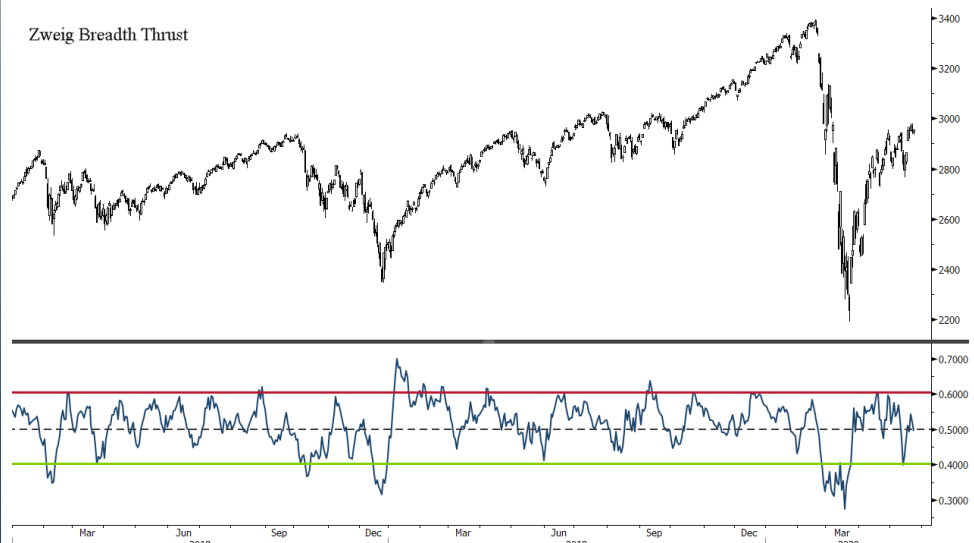
McClellan Summation Index

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 is back above its MA and moving higher. Supporting higher prices.



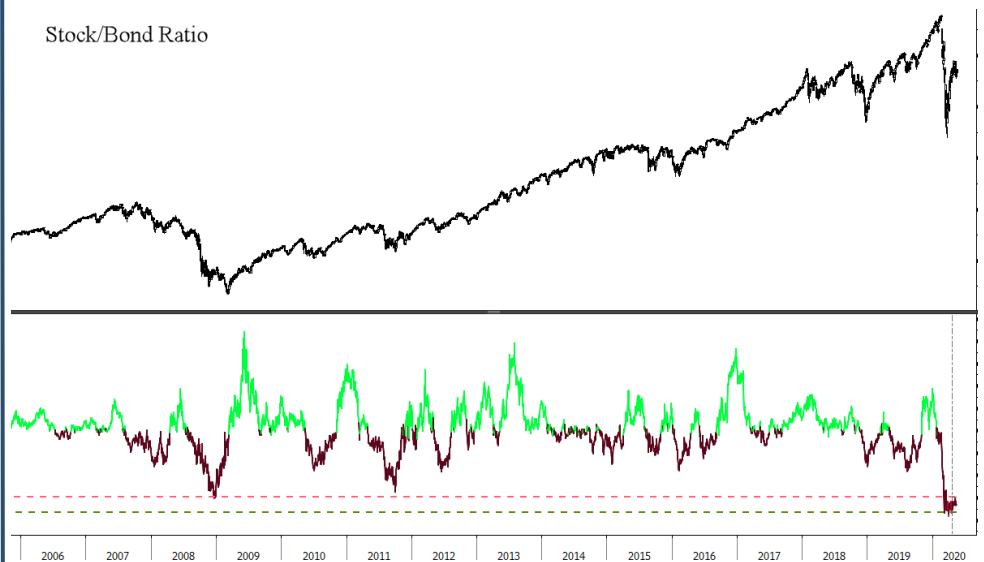
Zweig Breadth Thrust

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 neutral.



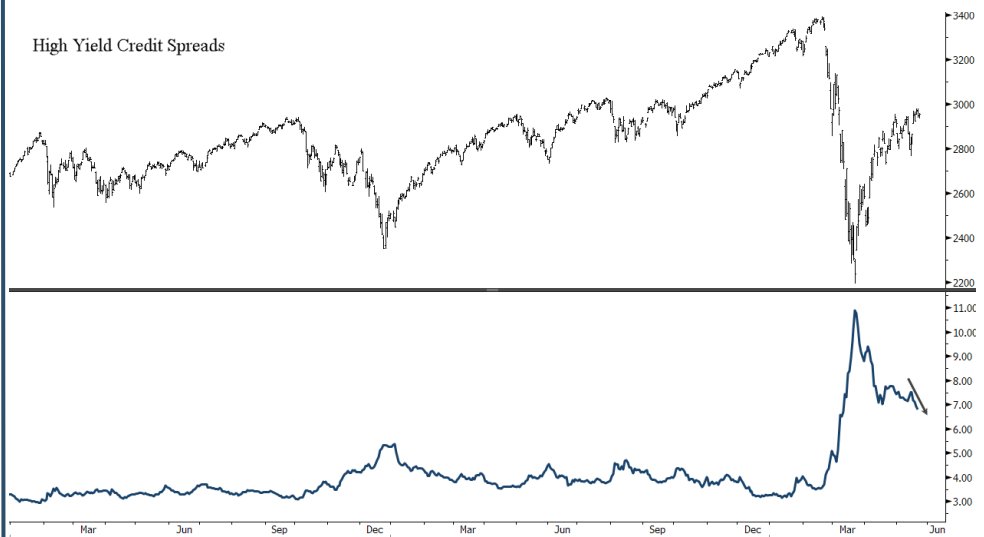
Stock/Bond Ratio

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 narrowed a good deal last week. This is supportive of the move higher in equities.



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 10-yr Bonds Monthly (ZN_F)



UST 10-yr Bonds Weekly (ZN_F)

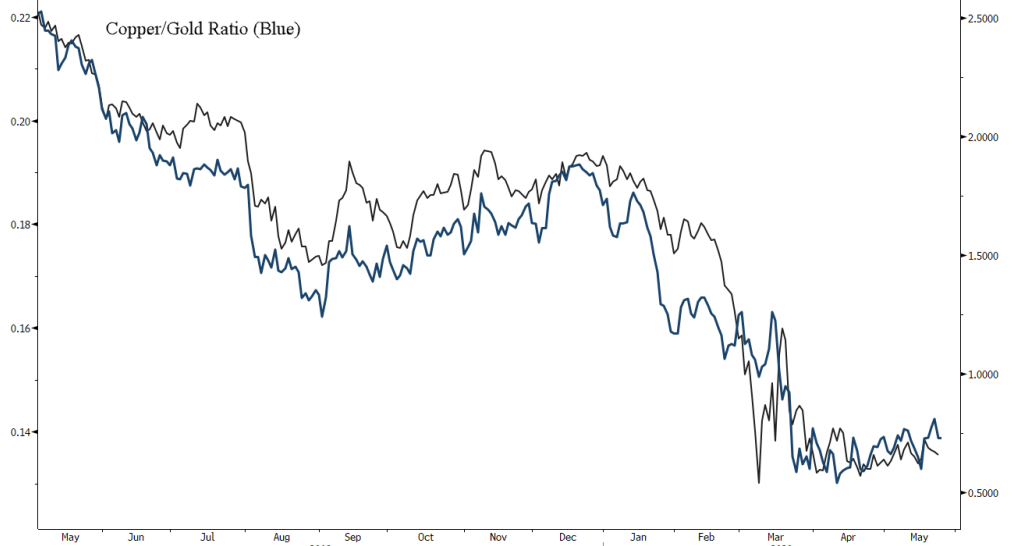


UST 10-yr Bonds Daily (ZN_F)



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 is neutral.



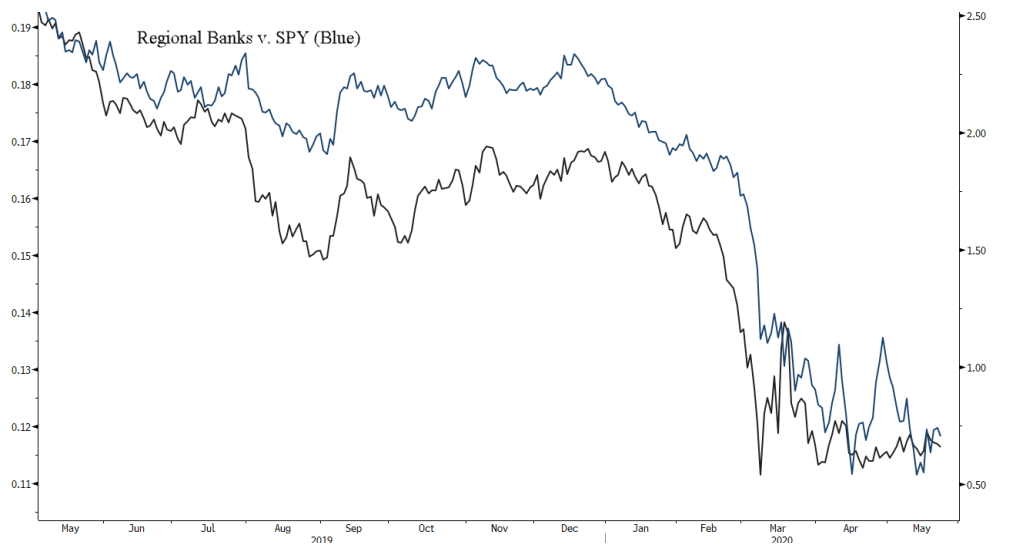
Cyclical vs. Defensive

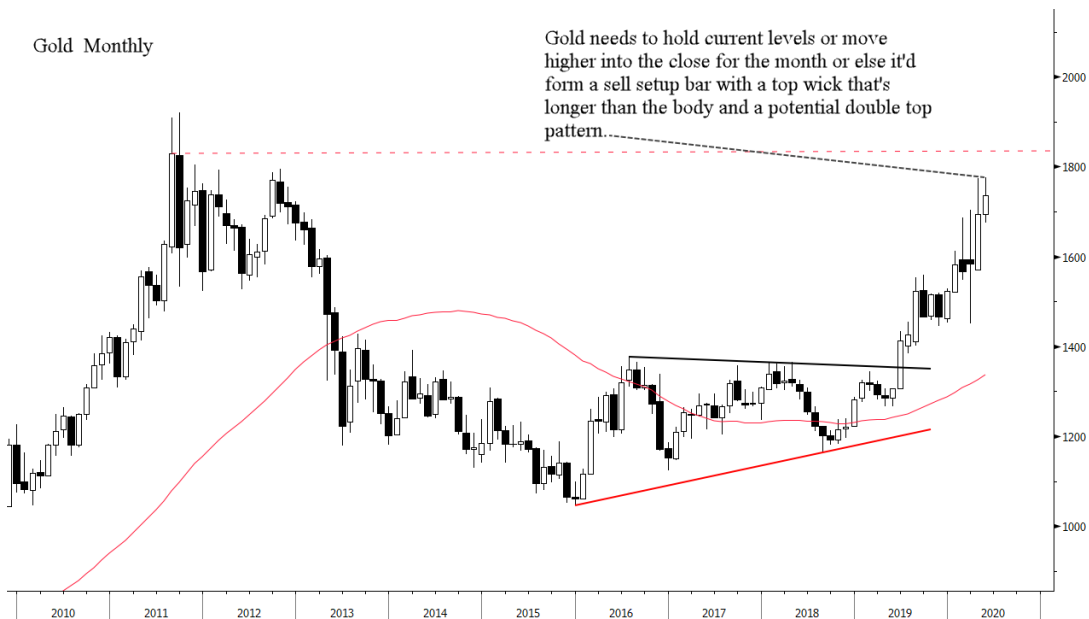
Similar to Copper/Gold this indicator is neutral.



Regional Banks vs SPX

Bank stocks relative performance often leads yields at major turning points. Similar to the ratios above, this indicator is neutral.





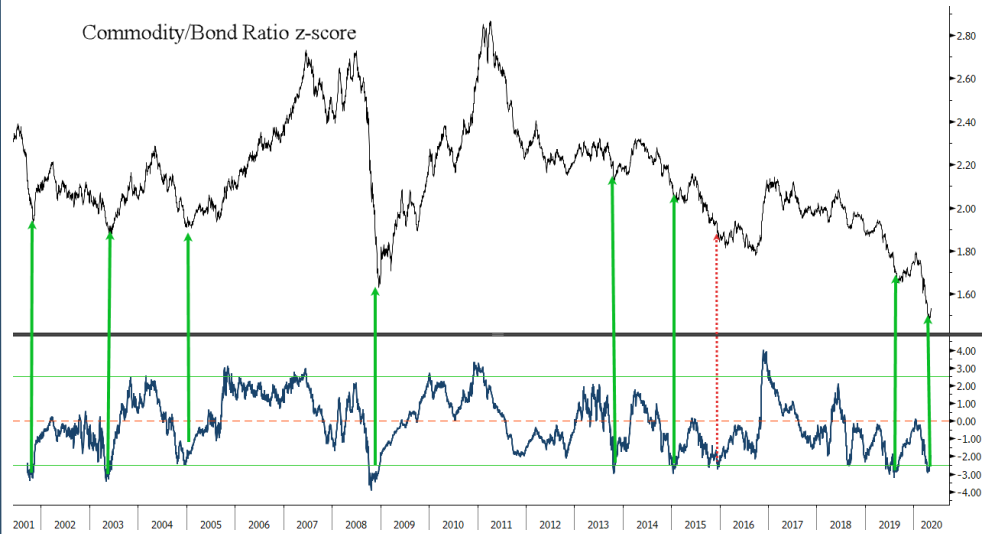
CoT Small Specs Z-score

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.



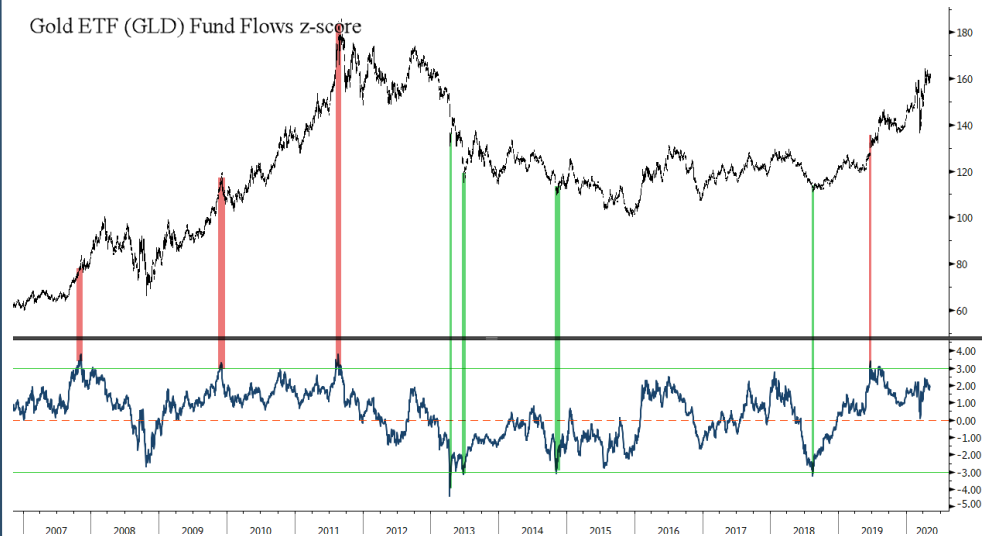
Commodity/Bond Ratio Z-score

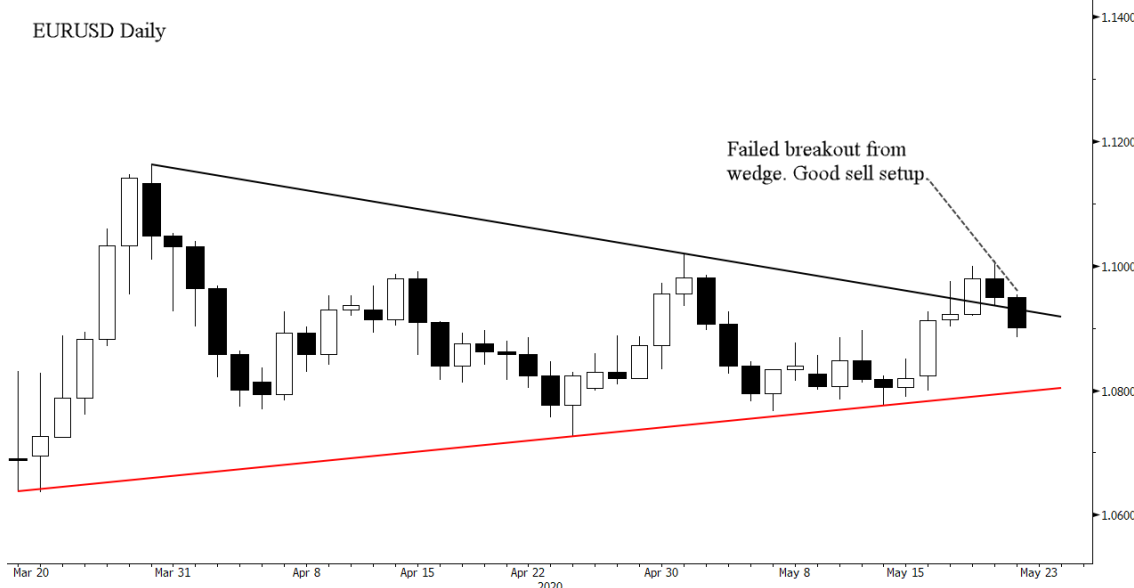
The commodity/bond ratio is over 2.5 std below its long-term avg. Historically, when this ratio became this over-sold it has marked or preceded a significant bottom. This is an inflationary indicator developed by long-time market technician Martin Pring. A turn in this ratio would indicate a change in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





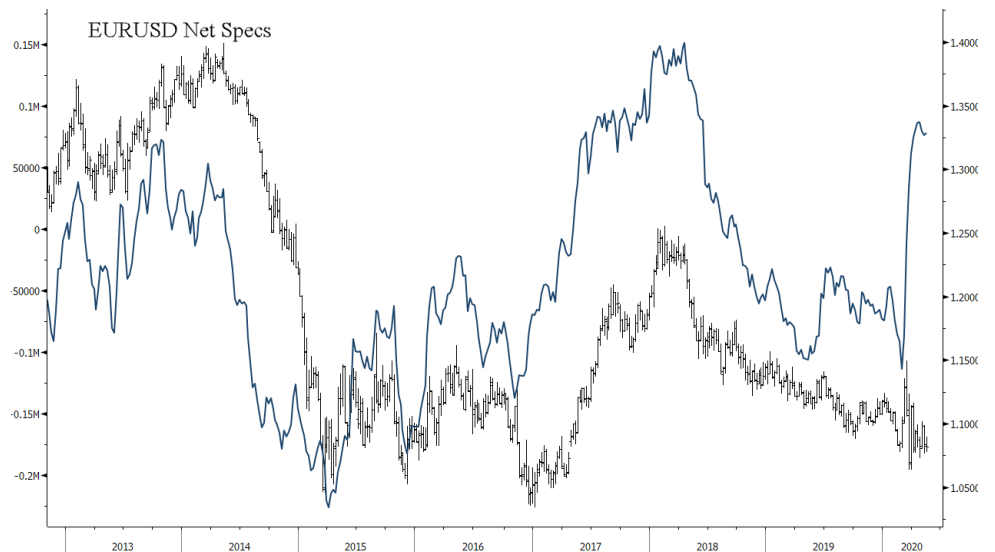
EURUSD 10yr Spread

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.



<i>The Four Pillars Portfolio</i>		<u>YTD Return</u>				
		12.20%				
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	\$16.49
Overseas Shipholding Group (OSG)	Deep Value/Cyclical	\$2.27	200bps	9%	\$1.70	\$2.24
Cameco (CCJ)	Deep Value/Cyclical	\$7.25	Above B/E	10%	\$8.50	\$9.95
Altisource Portfolio Solutions (ASPS)	Deep Value/Swing	\$10.16	B/E	7%	\$8.40	\$12.42
Bolloré (BOL)	Hidden Deep Value	\$2.46	100bps	10%	\$2.26	\$2.51
MXNUSD (6MM2020)	Swing	0.04191	B/E	-	0.04045	0.04381