

# The Trifecta Report

May 30, 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 strong in May, near the top of its monthly range. This raises the odds that it will make higher prices at some point in June. The high of March is acting as an attractor. The market is in a supply range 3,000-3,100, which means bulls will likely take some profits and bears will look for a sign of a short-term top. Put/Call ratios are very stretched though AAll sentiment remains muted. Breadth is improving and low yields are a major tailwind. Path of least resistance is up until we get a technical sell signal.

## GOLD

Gold closed strong on a monthly, weekly, and daily basis. It's still in its 2-month trading range but we'll likely see a breakout soon. Positioning, pinned yields, and relatively muted fund flows put the odds in favor of a breakout higher. Silver, which I made the bullish case for last month, is showing even stronger price action as it works to close the large gold/silver performance gap. The path of least resistance is up for both.

## UST 10Y

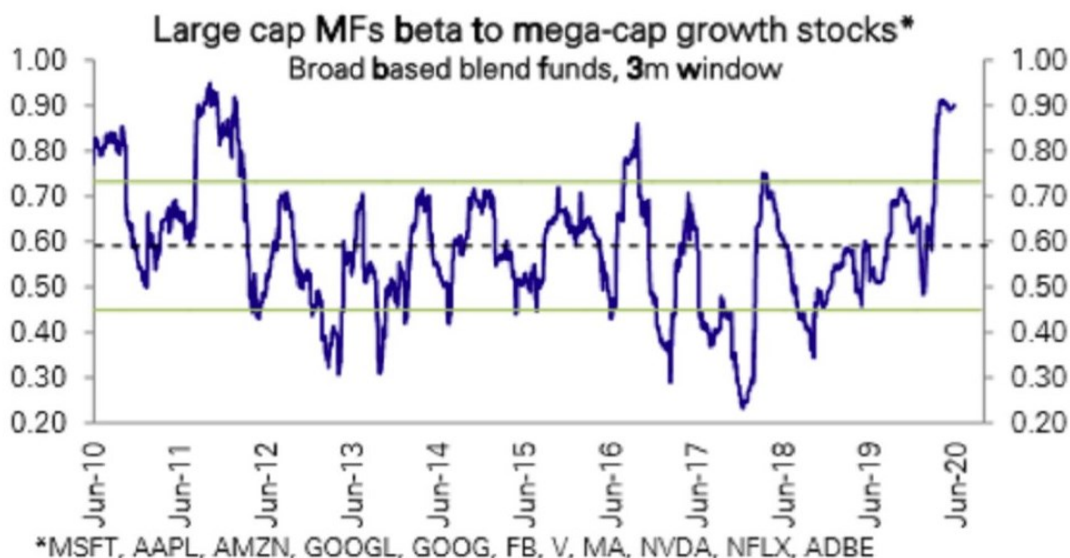
Bonds are in a long-term uptrend but have been trading sideways on a monthly, weekly, and daily basis. They are trading in an extremely tight range. Our indicators are neutral but sentiment and positioning favor a continuation in the trend higher. We will look to double up our bond position if/when it confirms a breakout higher.

## EURUSD

EURUSD is in a down to sideways trading range on a monthly and weekly basis. The euro saw a strong push into the end of the month, making for its strongest monthly close since Jan 20'. EURUSD has now tried to break lower four consecutive months, but the dip has been aggressively bought each time (see the long lower tails on the monthly candles). It's still technically in its sideways trading range but if it can confirm its breakout higher then we'll look to get long.

## Chart in Focus

Figure 27: Active mutual fund exposure to MCG has risen steeply ...



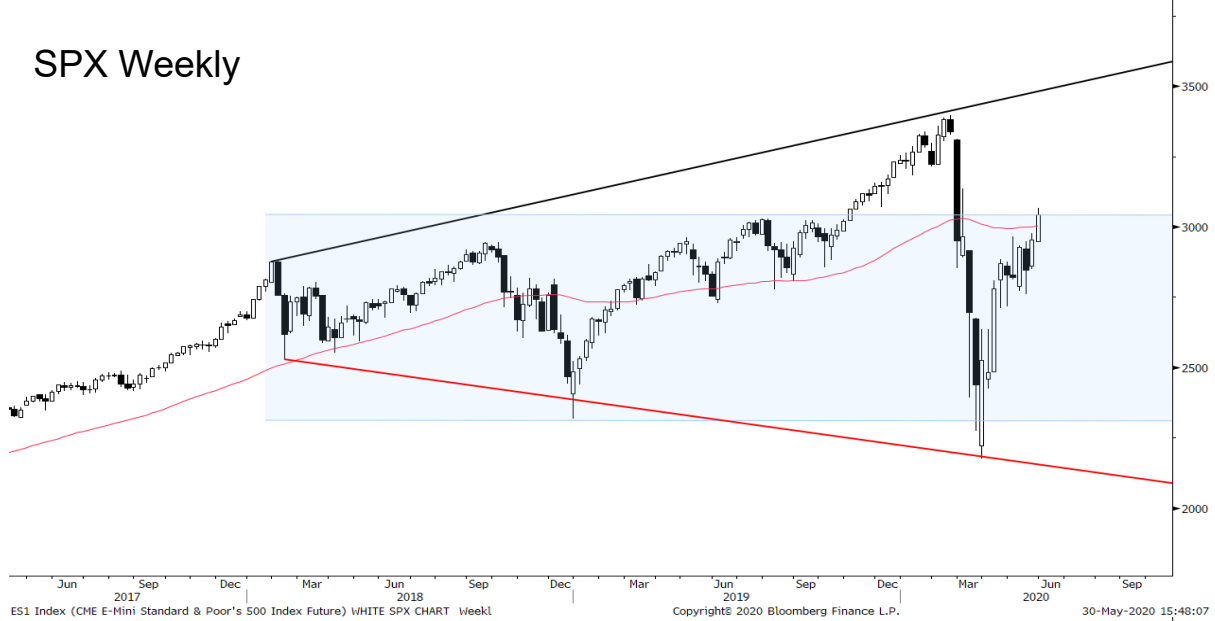
Source : Datastream, Bloomberg Finance LP, Deutsche Bank Asset Allocation

### SPX Monthly

Strong close for the month which raises the odds that we see higher prices in June.  
March high at 3,138 acting as magnet.



### SPX Weekly

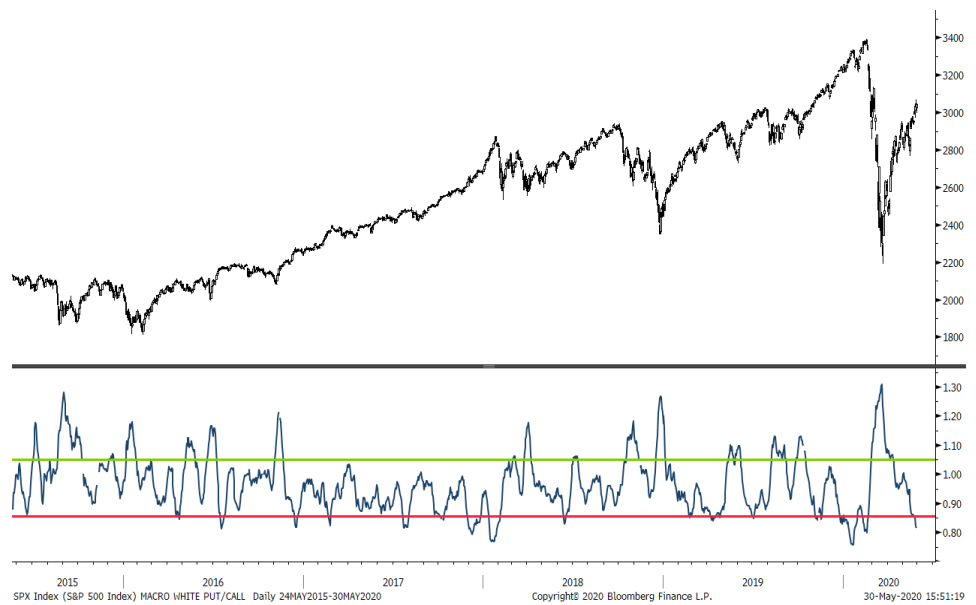


### SPX Daily



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 triggered a sell signal last week (crossing below the red line). This isn't an immediate signal. It just means that the market is complacent, and the conditions are now set for a selloff.



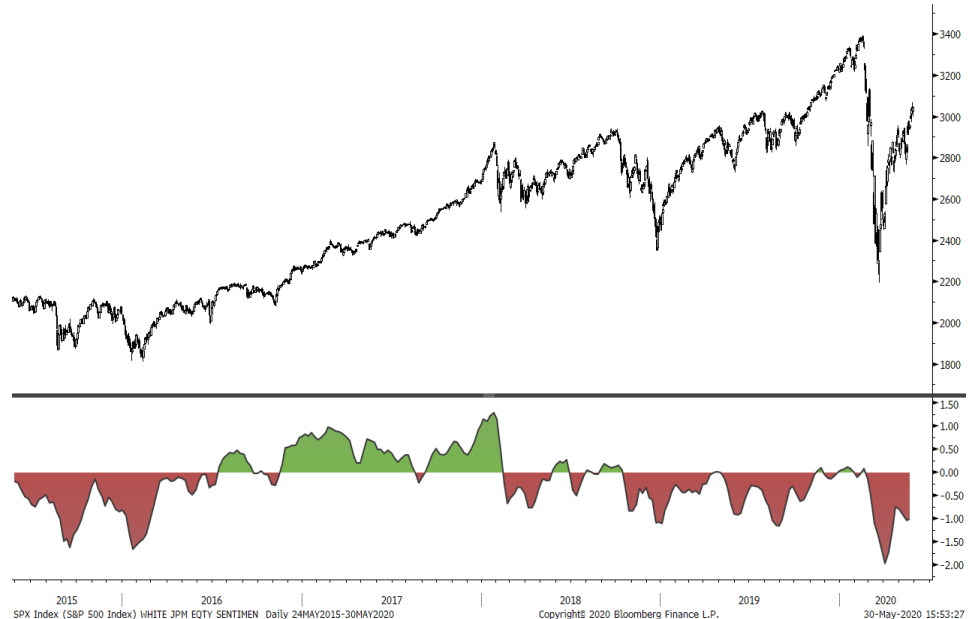
AAll Bull-Bears Ratio

AAll net sentiment bounced this week but remains extremely muted considering the run in equities.



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

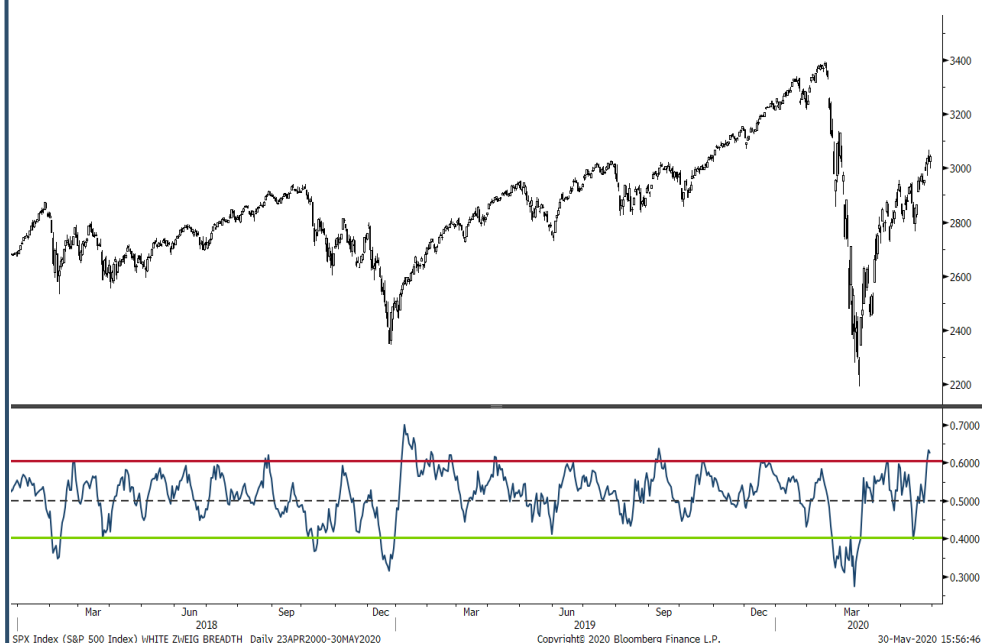
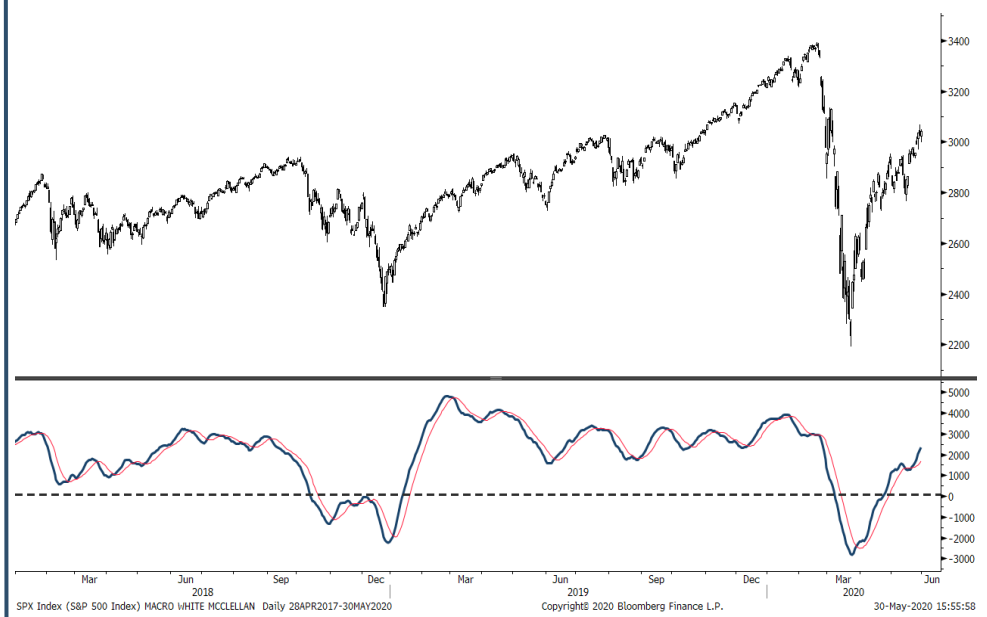
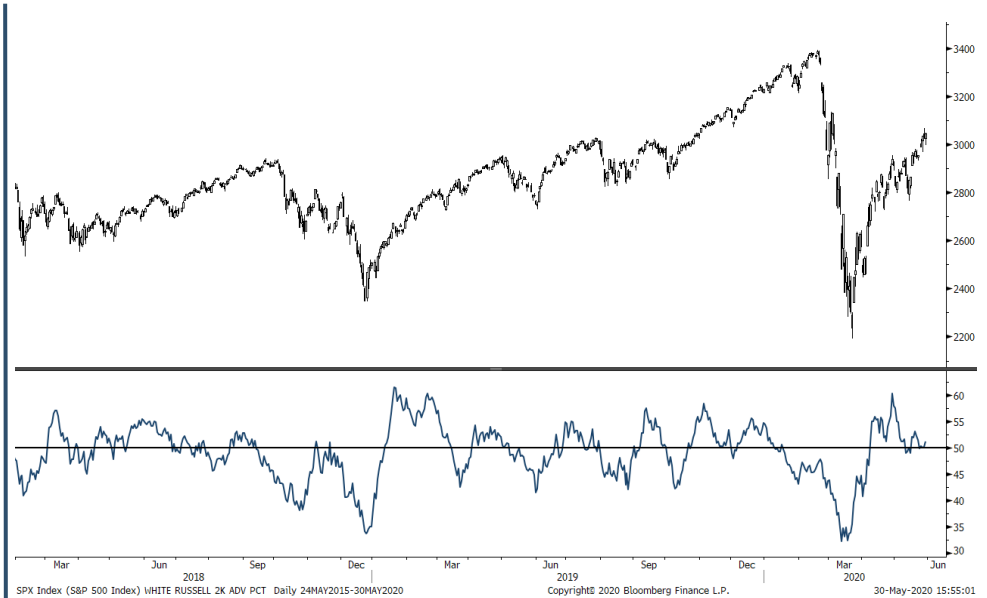
Our breadth indicator remains supportive of higher prices.

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 improved last week showing strengthening breadth.

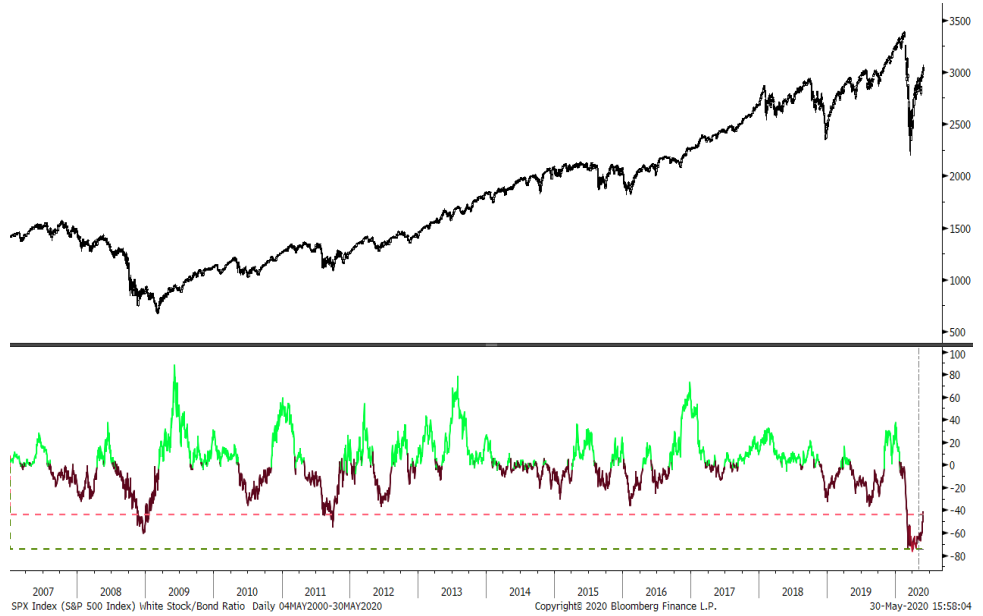
Zweig Breadth Thrust

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 triggered an official “Thrust” buy signal last week** — when the 10dma crosses below the green line and back above the red line in 10 days or less.



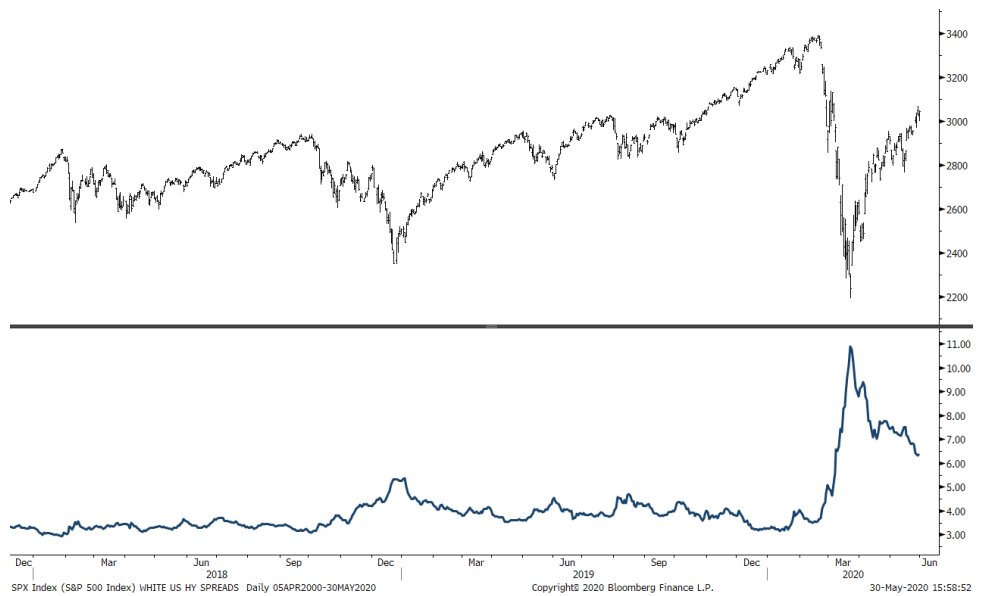
Stock/Bond Ratio

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.



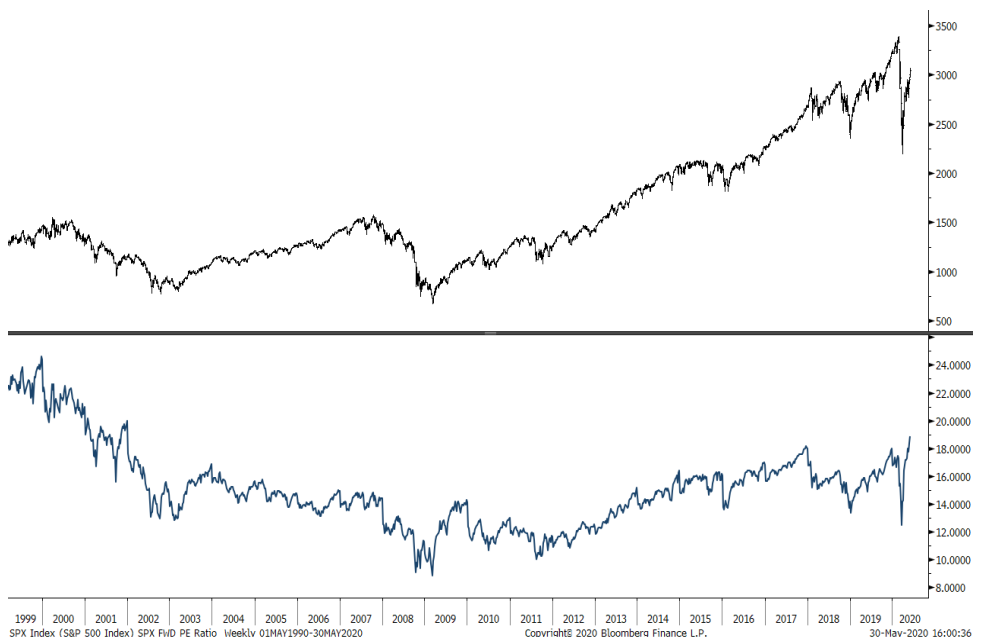
High-Yield Spreads

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 is now at its highest level since the dot-com bubble. The market is expensive and this is a headwind for stocks.



### Bonds (ZB\_F) Monthly



### Bonds (ZB\_F) Weekly

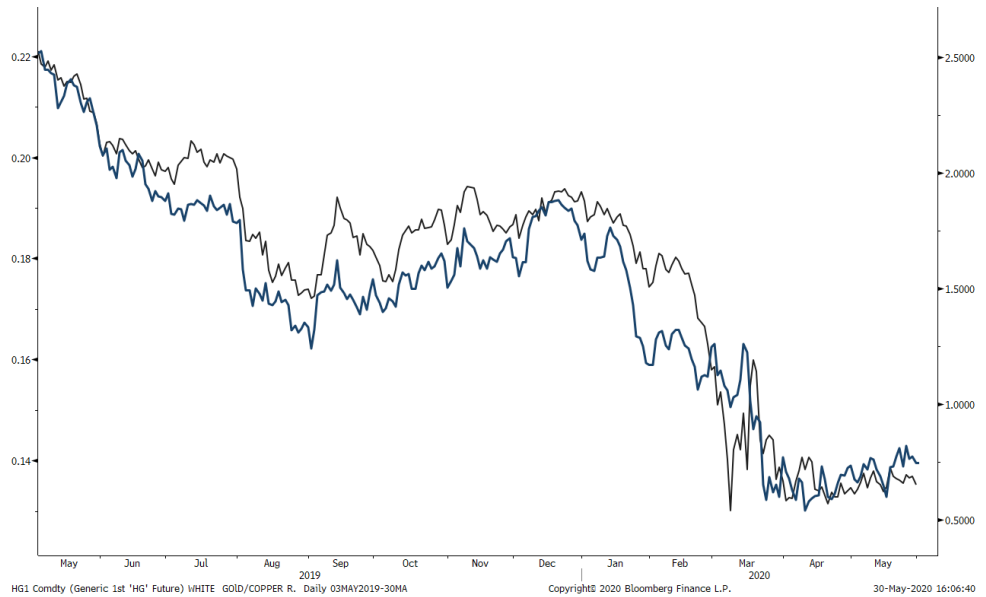


### Bonds (ZB\_F) Daily



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.



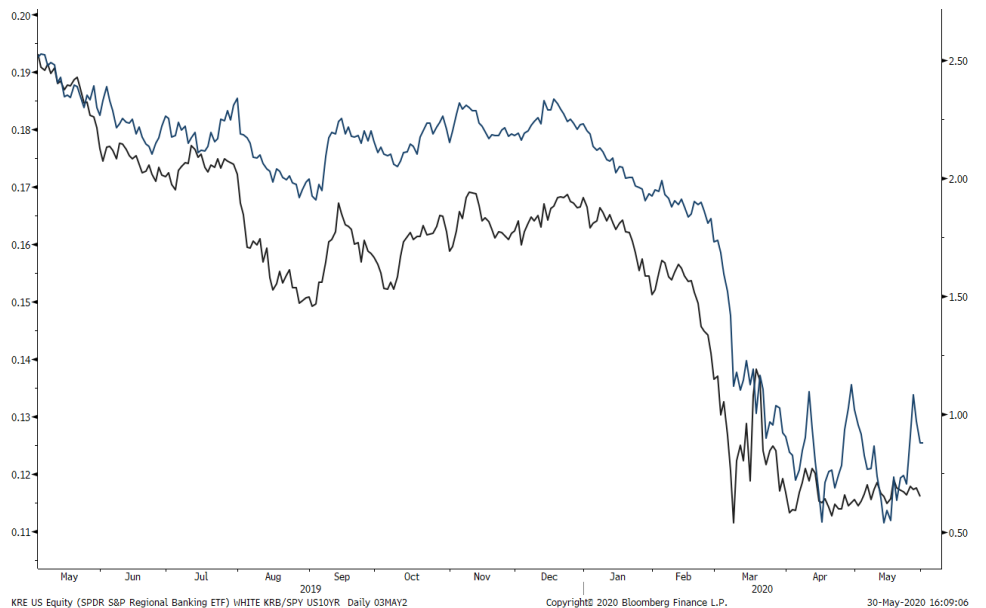
Cyclical vs. Defensive

Similar to Copper/Gold this indicator is neutral.



Regional Banks vs SPX

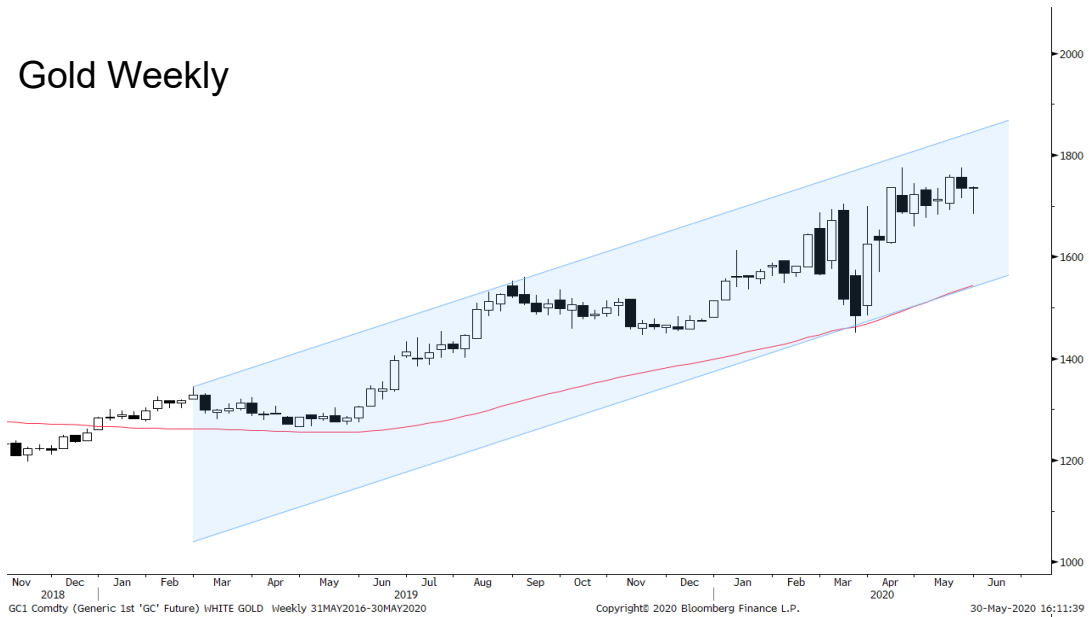
Bank stocks relative performance often leads yields at major turning points. Similar to the ratios above, this indicator is neutral.



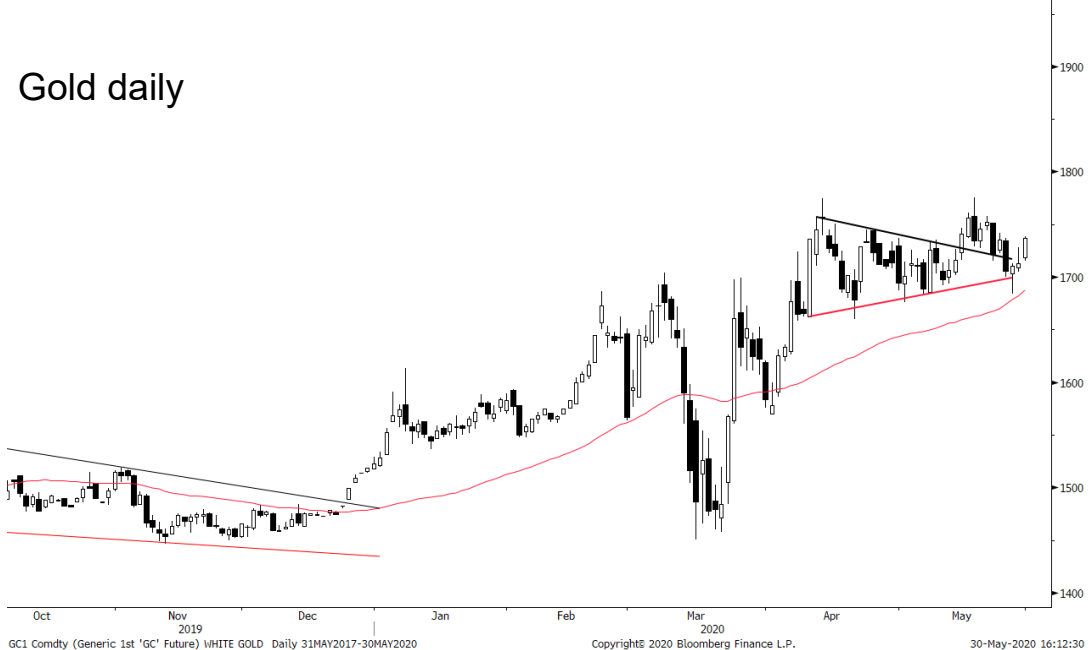
### Gold Monthly



### Gold Weekly



### Gold daily





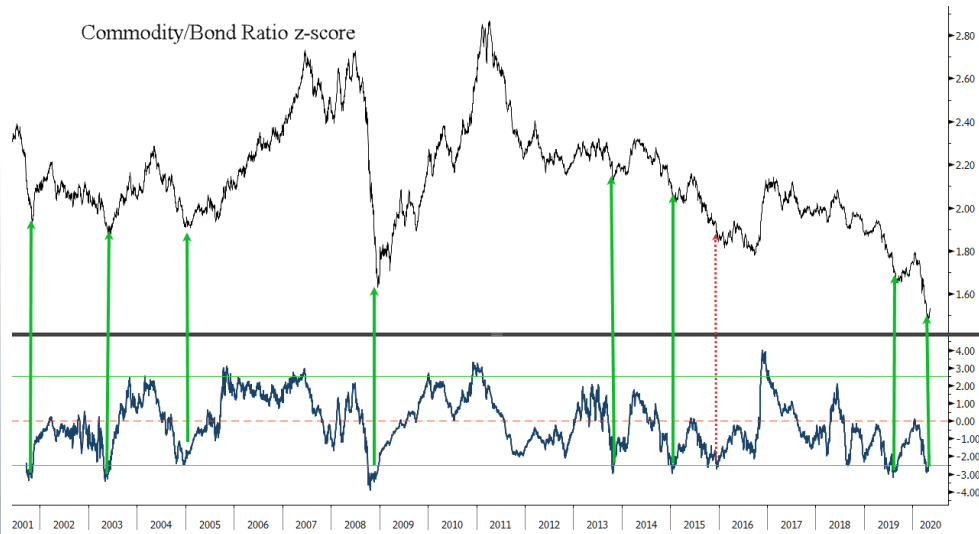
CoT Small Specs Z-score

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.



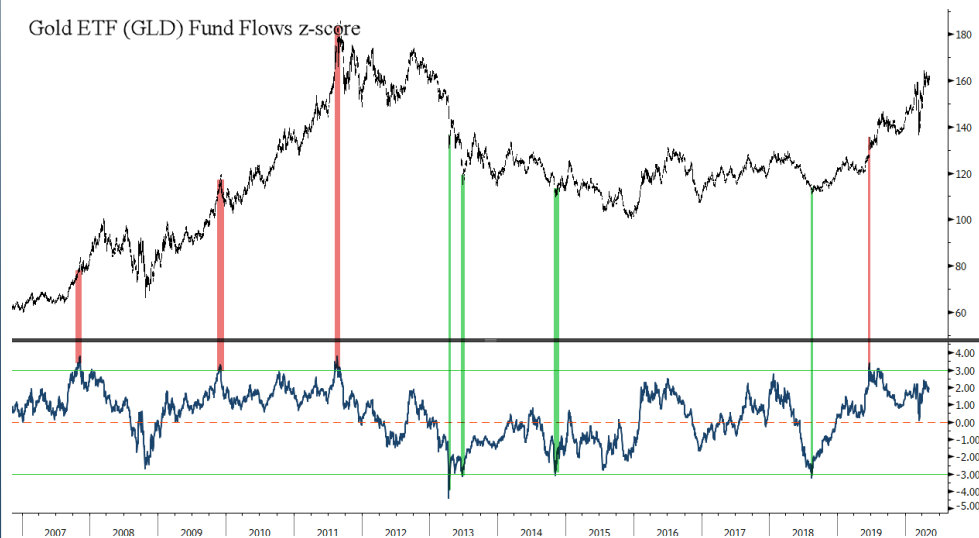
Commodity/Bond Ratio Z-score

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.



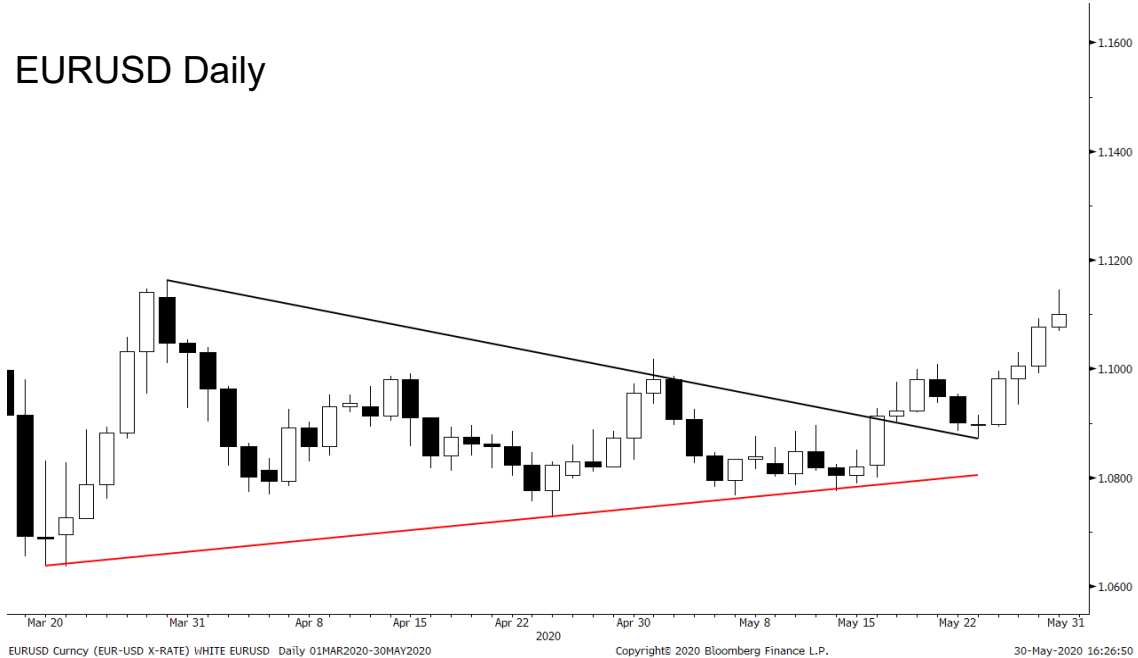
### EURUSD Monthly



### EURUSD Weekly



### EURUSD Daily



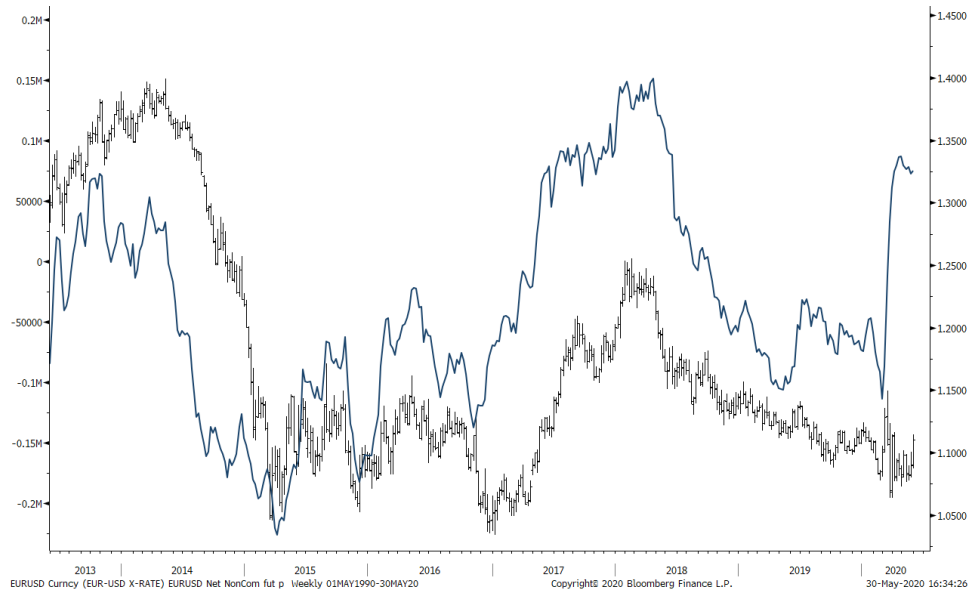
### EURUSD 10yr Spread

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 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.



<b>The Four Pillars Portfolio</b>		<u>YTD Return</u>				
		16.84%				
<b>The Core</b>	<u>Allocation</u>					
<b>Large Cap Equities (/ES_M or VOO)</b>	25%					
<b>Short-term Bills (/ZT_M or VGSH)</b>	25%					
<b>Long-term Bonds (/ZB_M or TLT)</b>	25%					
<b>Gold (/GC_M or GLD)</b>	25%					
<b>Big Bets</b>	<b>Thematic</b>	<b>Cost Basis</b>	<b>At Risk</b>	<b>Notional %</b>	<b>Risk Point</b>	<b>Last Price</b>
Teekay Tankers (TNK)	Deep Value/Cyclical	\$20.30	100bps	4%	\$15.20	\$17.68
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	\$10.56
Altisource Portfolio Solutions (ASPS)	Deep Value/Swing	\$10.16	B/E	7%	\$8.40	\$16.37
Bed Bath & Beyond (BBBY)	Deep Value	\$7.86	150bps	4%	\$5.05	\$7.86
Bolloré (BOL)	Hidden Deep Value	\$2.46	100bps	10%	\$2.26	\$2.70
MXNUSD (6MM2020)	Swing	0.04191	B/E	--	0.04045	0.04493