

The Trifecta Report

June 6, 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 saw another strong close last week. Last week also had a large bull body. The SPX is in a buy climax. Buy climaxes tend to last longer than anybody expects them to. Breadth signals have been incredibly strong across the board. We also saw a clear shift in market structure last week with smallcap value and cyclicals begin to take up leadership. These are bullish developments. On the other hand, Put/Call ratios are historically stretched marking extreme complacency. But, over the short-term, momentum and breadth beat sentiment. The path of least resistance is still up.

GOLD

Gold closed near its lows on the week and formed a bearish weekly engulfing candle. The move higher in bond yields is bad for gold, where the yellow metal is also seeing stretched positioning. On a monthly basis, gold has put in a potential micro double top. We're also seeing reversing fund flows out of GLD which is bearish for the short-term outlook. If gold closes below Friday's low on Monday, that'll confirm a breakout to the downside. Gold remains in a longer-term uptrend. But it's run far and fast and a pullback/consolidation period should be expected.

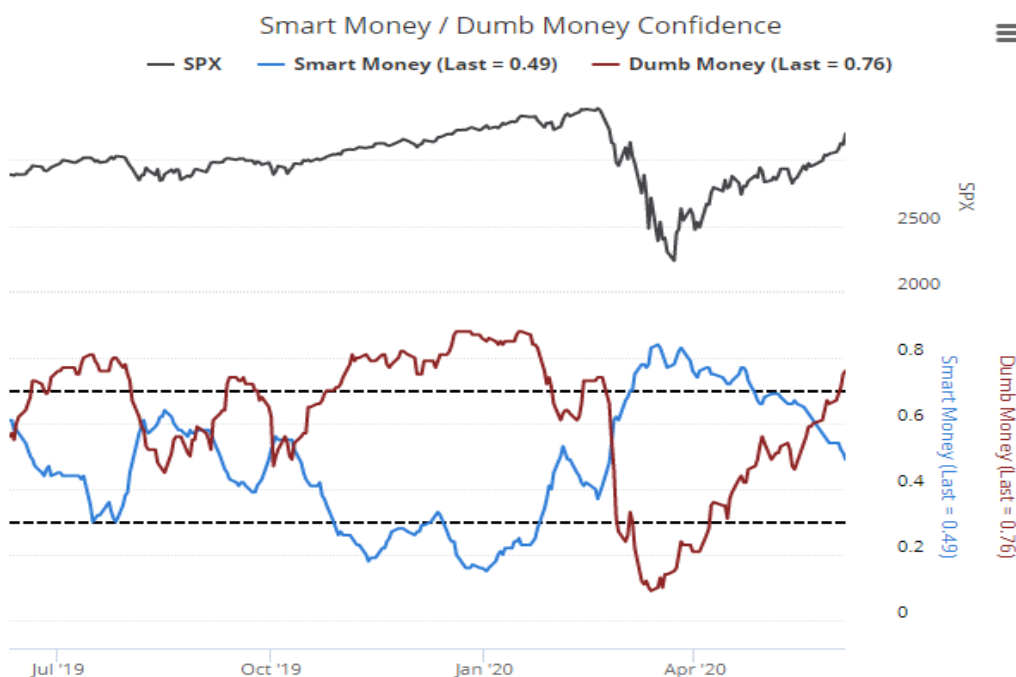
UST 10Y

Bonds are in a long-term uptrend but had been trading sideways on a monthly and weekly basis. On the back of the incredibly strong risk-on sentiment in markets, bonds broke below their trading range. On a monthly basis, bonds broke down below their inside-inside (ii) breakout pattern. Yield indicators are all pointing to a move up in yields (bonds down). This raises the odds that we've seen an intermediate term top in bonds. We should expect sideways to downward action from here.

EURUSD

EURUSD remains in a down to sideways trading range on a monthly and weekly basis. It 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 4 consecutive months, but the dip has been aggressively bought each time (see the long lower tails on the monthly candles). It's still in its sideways trading range and needs to put in some more work to confirm that a new trend has started.

Chart in Focus



SPX Monthly



SPX Weekly

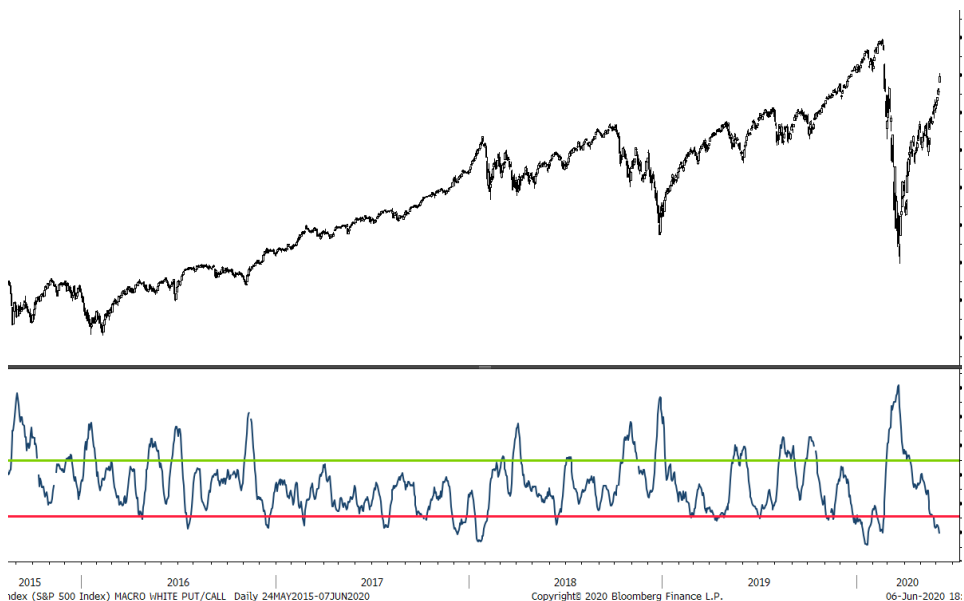


SPX Daily



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 showing extreme levels of complacency. Levels that have only been hit a few other times this cycle. However, this is not an immediate sell signal. It just means that trend fragility has increased.



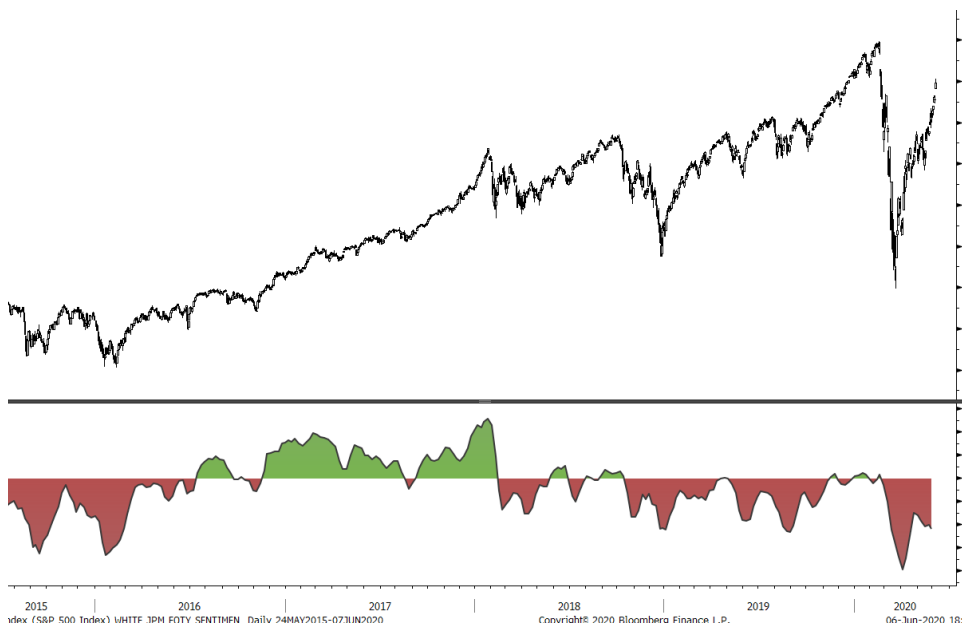
AAll Bull-Bears Ratio

AAll net sentiment increased again this week but remains muted considering the run higher in equities.



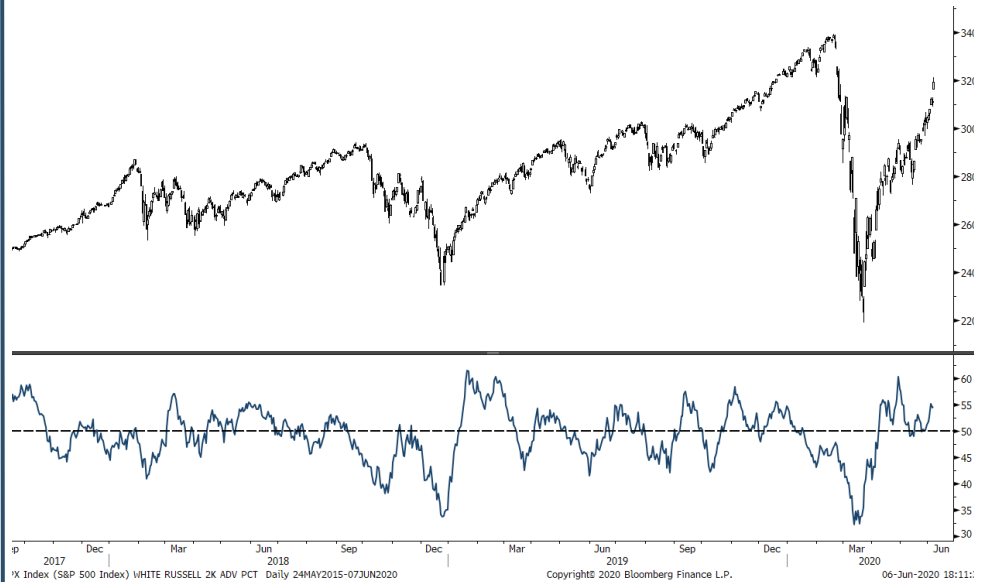
JP Morgan Global Equity Sentiment Index

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.



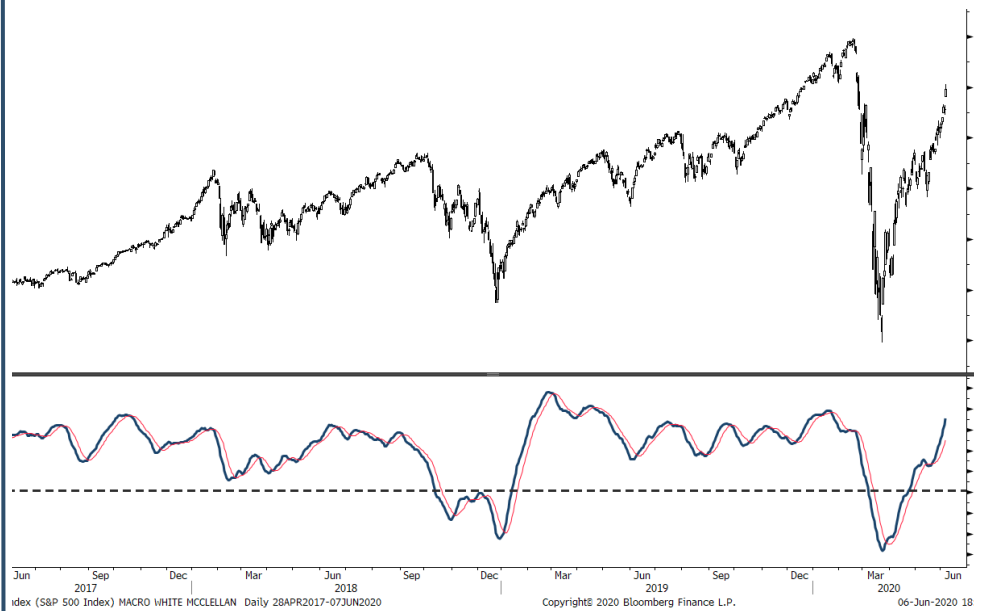
MO Breadth Indicator

Our breadth indicator continues to show very strong participation in this rally. This supports the case for higher prices over the short-term. We should see this indicator roll over before a significant change in trend takes place.



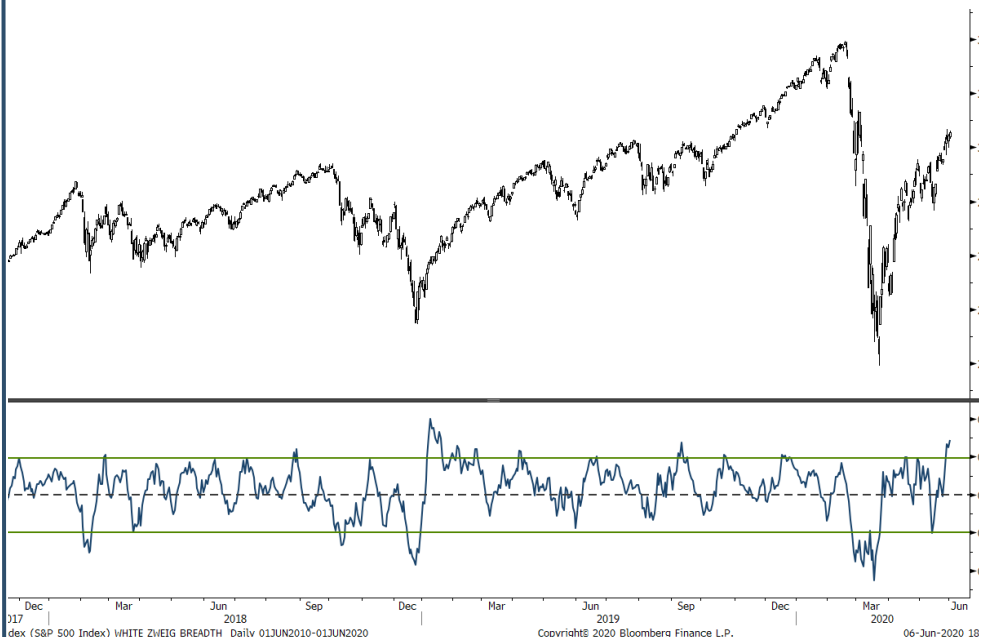
McClellan Summation Index

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 continues to trend higher 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 two weeks ago. This raises the odds we see the trend continue over the intermediate term.



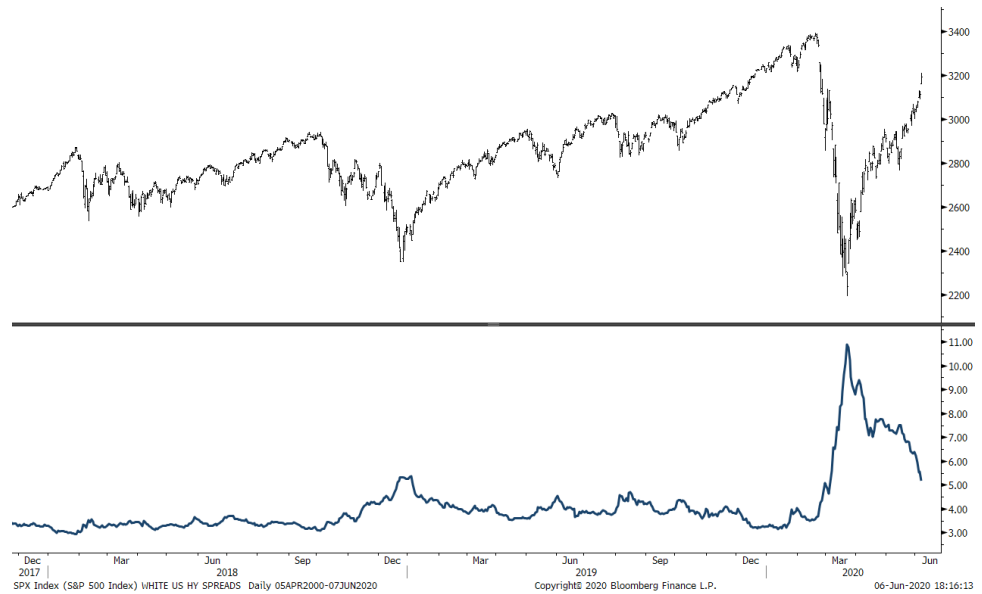
Stock/Bond Ratio

Stocks and bonds compete for capital flows and there's a circular relationship that drives the pricing of these two assets. The stock/bond ratio hit one of its lowest points in history in March. This was very supportive of equities. This rally has worked off those extremes, but historically the ratio overshoots to the other side after hitting an extreme.



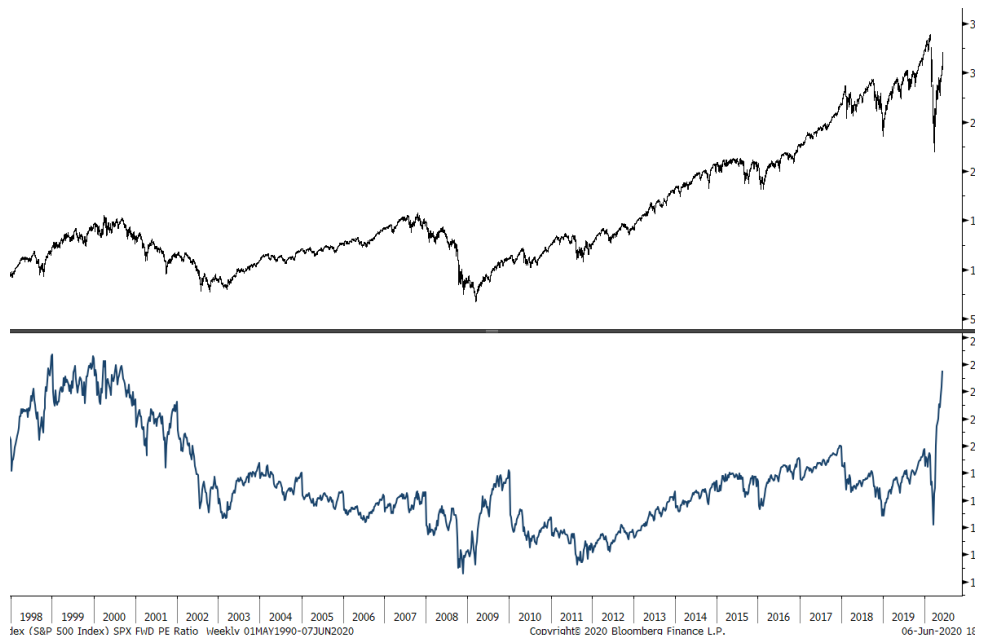
High-Yield Spreads

Credit leads equities. And high-yield spreads narrowed again last week. The move in spreads has been quite something. Liquidity is coming back into the market and this is a very good development for the longer-term outlook for risk assets if this trend can continue to hold.



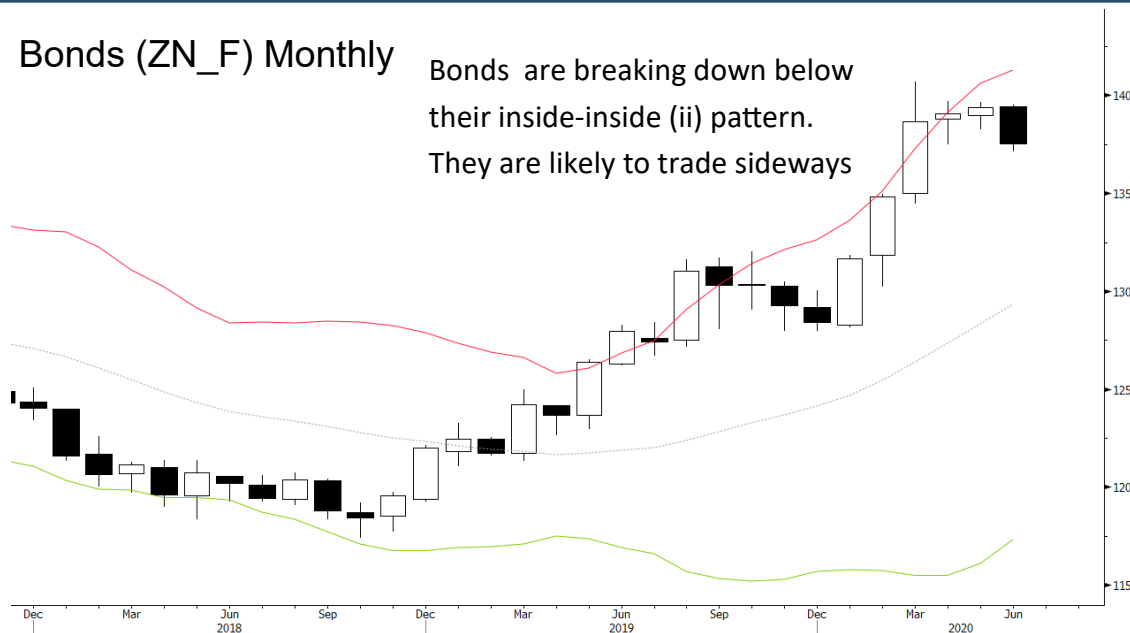
Forward PE Ratio

The SPX's Forward PE Ratio is at its highest levels since the dot-com bubble. Valuations are a headwind for US stocks and these extreme valuations raise the attractiveness of EM and European markets.

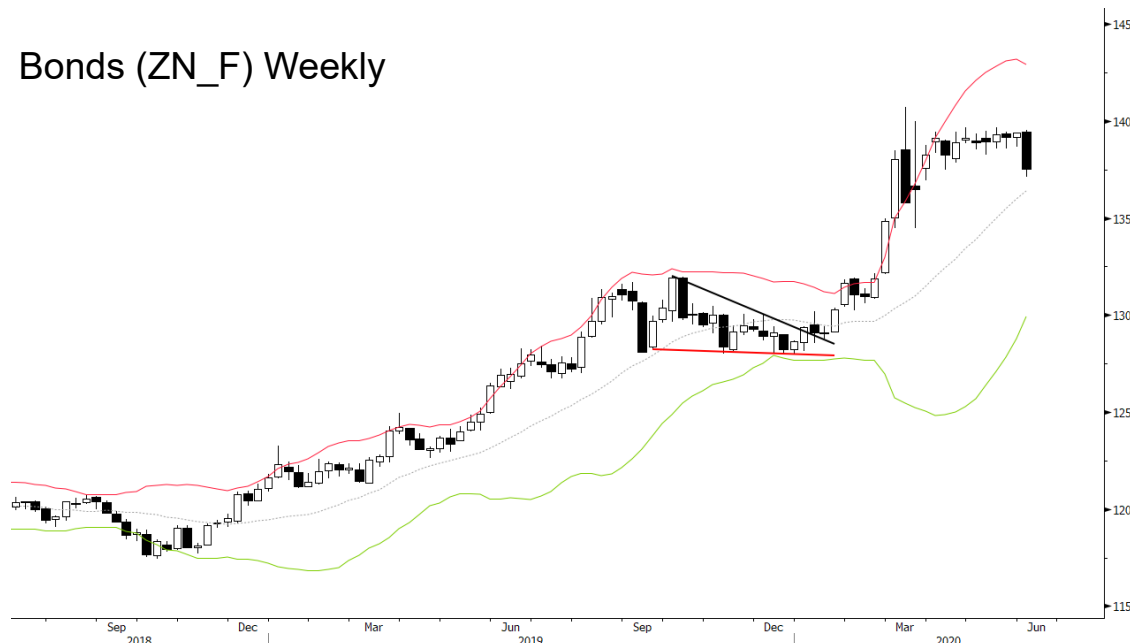


Bonds (ZN_F) Monthly

Bonds are breaking down below their inside-inside (ii) pattern. They are likely to trade sideways



Bonds (ZN_F) Weekly

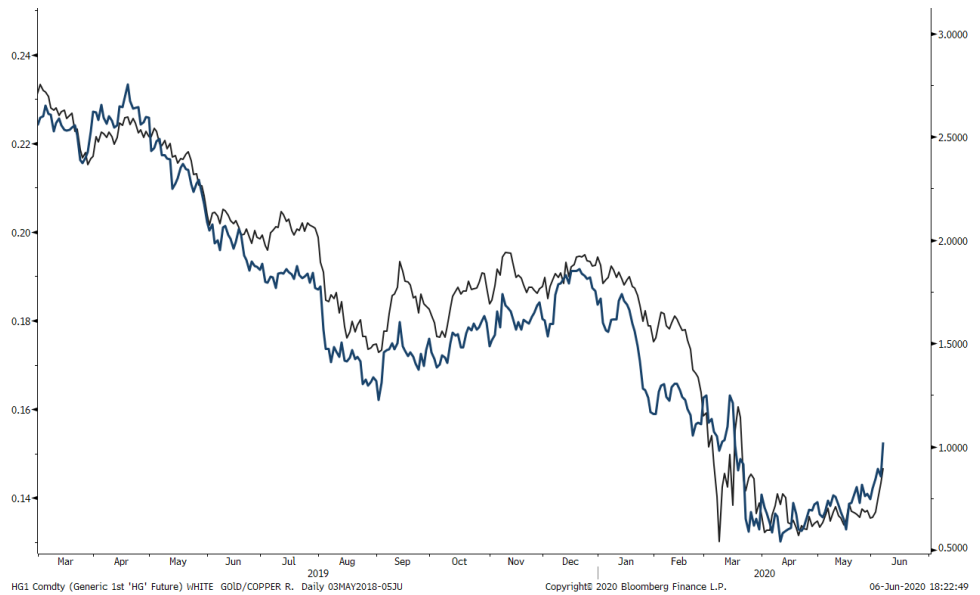


Bonds (ZN_F) Daily



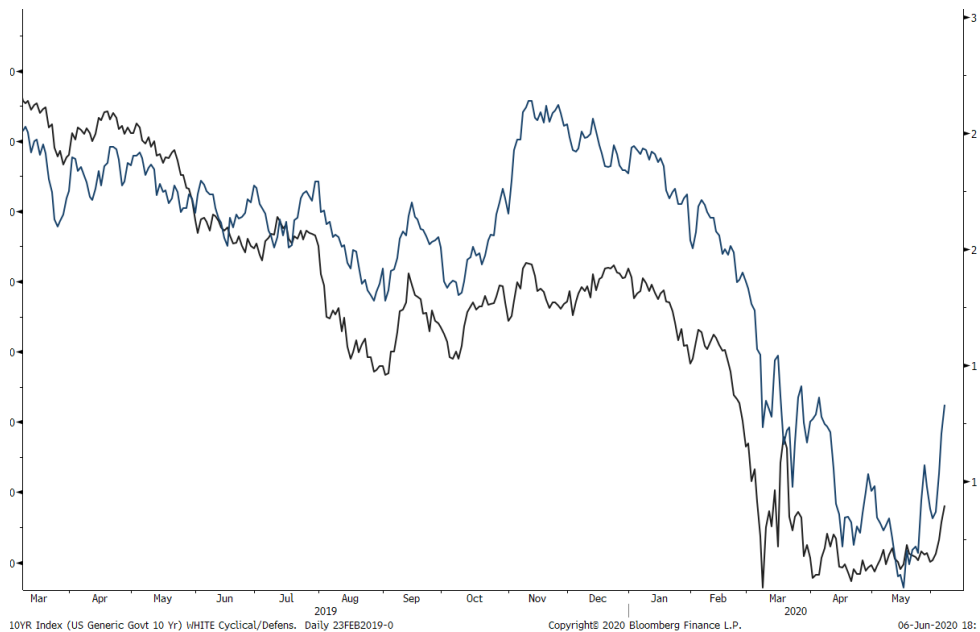
Copper/Gold Ratio

(Blue line = Indicator, Black line = 10-year yield). 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. There were some major shifts in the market structure last week, copper/gold being one of them. The ratio now favors higher yields.



Cyclical vs. Defensive

(Blue line = Indicator, Black line = 10-year yield). Similar to Copper/Gold this indicator is pointing to higher yields (lower bonds).



Regional Banks vs SPX

(Blue line = Indicator, Black line = 10-year yield). Bank stocks relative performance often leads yields at major turning points. Similar to the ratios above, this indicator is pointing to higher yields.



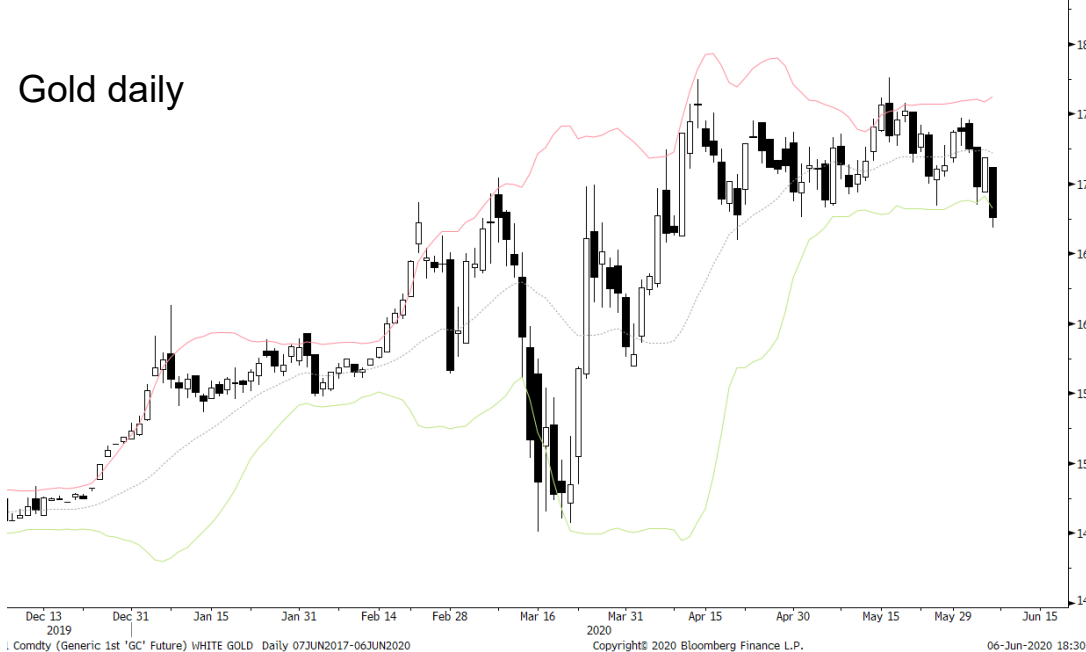
Gold Monthly



Gold Weekly

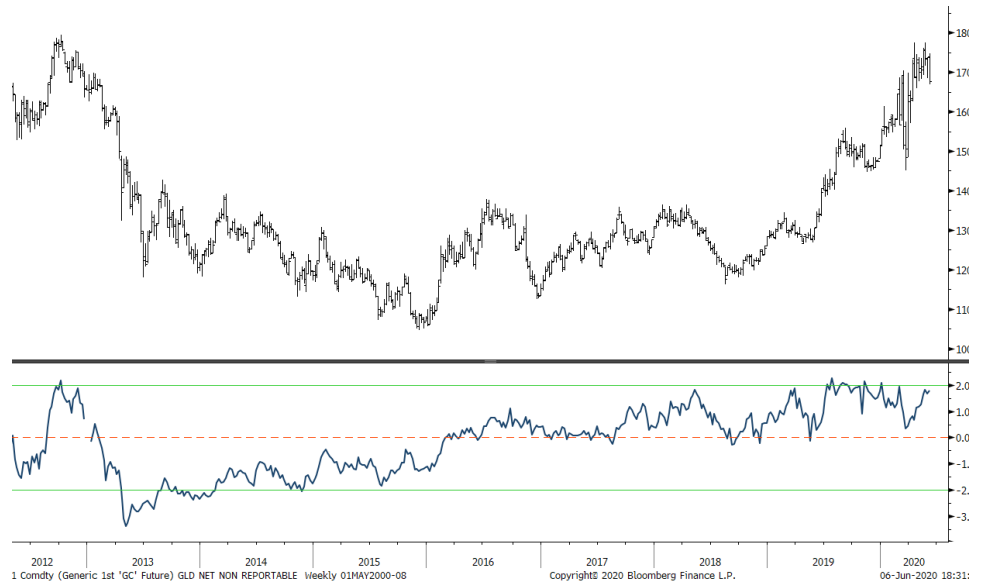


Gold daily



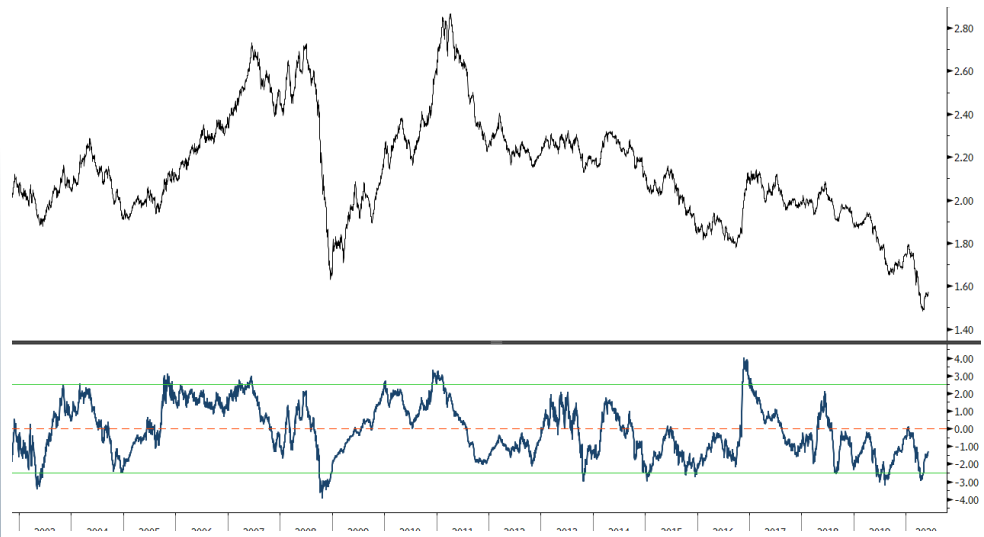
CoT Small Specs Z-score

Small specs are long gold and the positioning is close to being two standard deviations above its average. This makes gold susceptible to a pullback and/or extended trading range.



Commodity/Bond Ratio Z-score

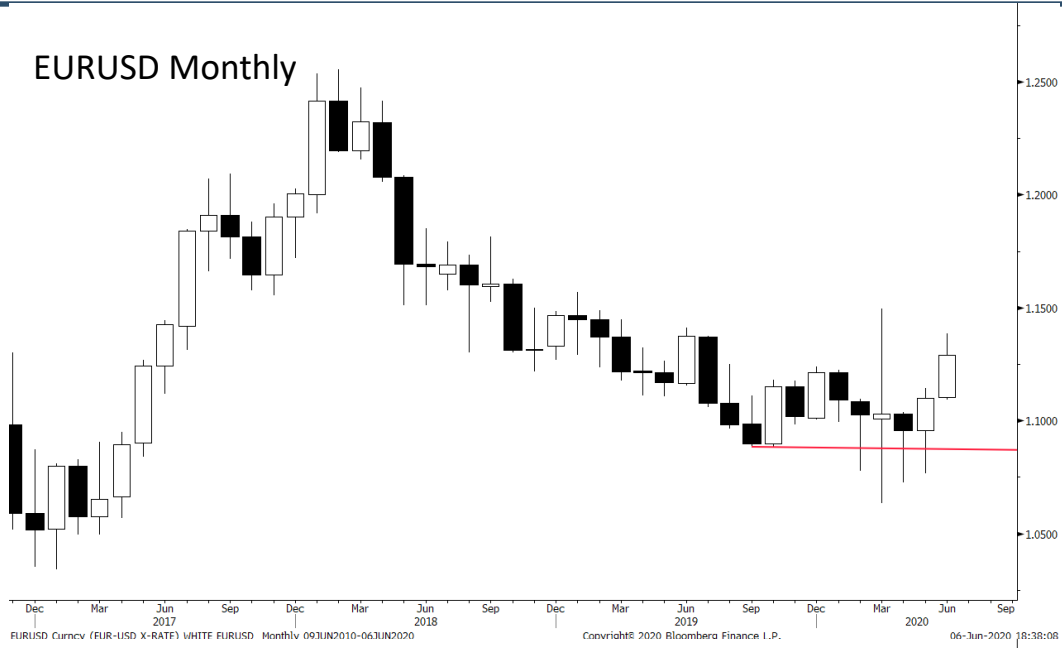
The commodity/bond ratio is over 2.5 std below its long-term avg. Historically, when this ratio became this over-sold it has marked or preceded a significant bottom. This is an inflationary indicator developed by long-time market technician Martin Pring. A turn in this ratio would indicate a change in 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 and not at extremes, but they are declining which could portend weakness over the short-term.





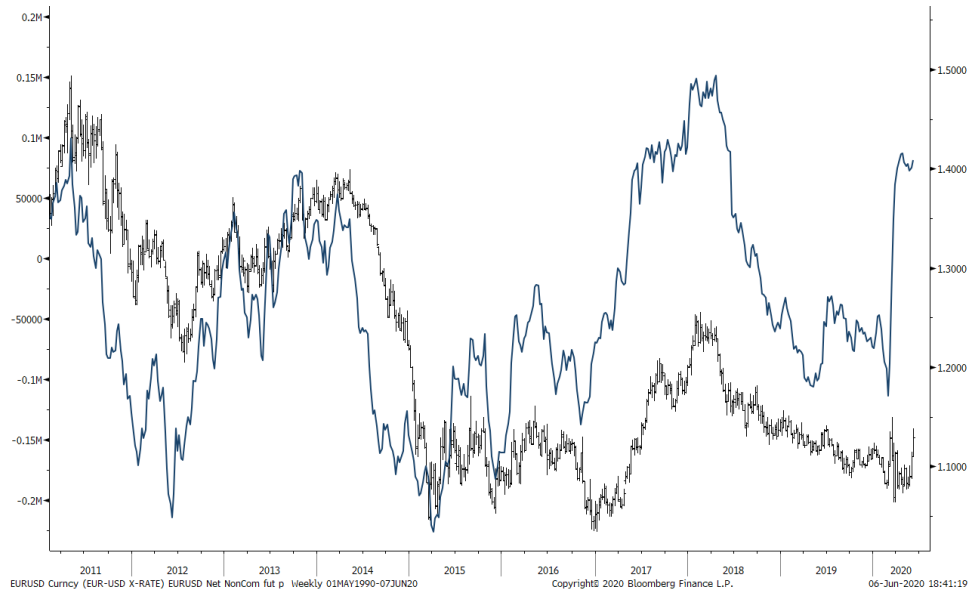
EURUSD 10yr Spread

(Blue line = Indicator, Black line = EURUSD). 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

(Blue line = Indicator, Black line = EURUSD). Net specs have become bullish over the last few months and are nearing cycle highs in positioning.



EURUSD Relative Growth

(Blue line = Indicator, Black line = EURUSD). 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>				
		18.04%				
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	\$16.95
Overseas Shipholding Group (OSG)	Deep Value/Cyclical	\$2.27	200bps	9%	\$1.70	\$2.30
Cameco (CCJ)	Deep Value/Cyclical	\$7.25	Above B/E	13%	\$8.50	\$10.26
Altisource Portfolio Solutions (ASPS)	Deep Value/Swing	\$10.16	B/E	7%	\$8.40	\$15.74
Bed Bath & Beyond (BBBY)	Deep Value	\$7.86	50bps	6%	\$6.85	\$9.32
Bollore (BOL)	Hidden Deep Value	\$2.46	B/E	14%	\$2.26	\$3.02
MXNUSD (6MM2020)	Swing	0.04191	B/E	-	0.04045	0.04633