

Stocks reach 1st Targets & China Cuts Rates

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Executive Summary

The business cycle remains in Stage 1. Stocks have made a higher high, but we need to see a higher low to confirm a new uptrend. We don't want to rush calling this a new Bull Market when we are still navigating through a minefield. China unexpectedly cut rates on economic weakness, which is breaking from other central banks who are in rate hiking cycles.

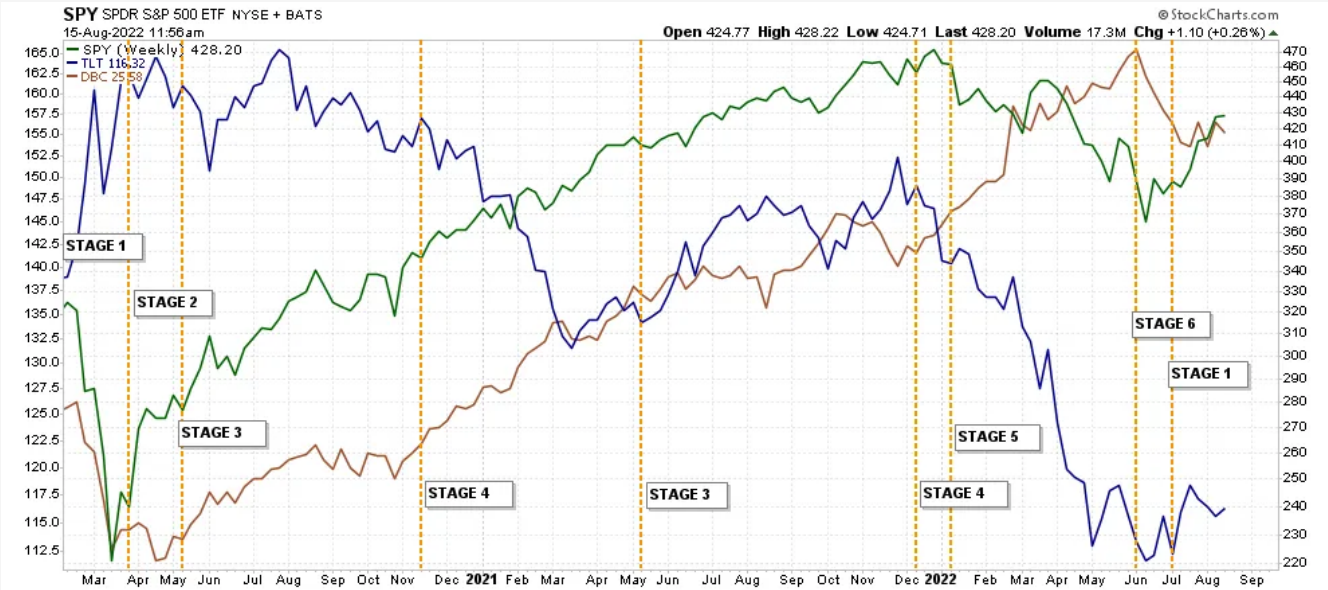
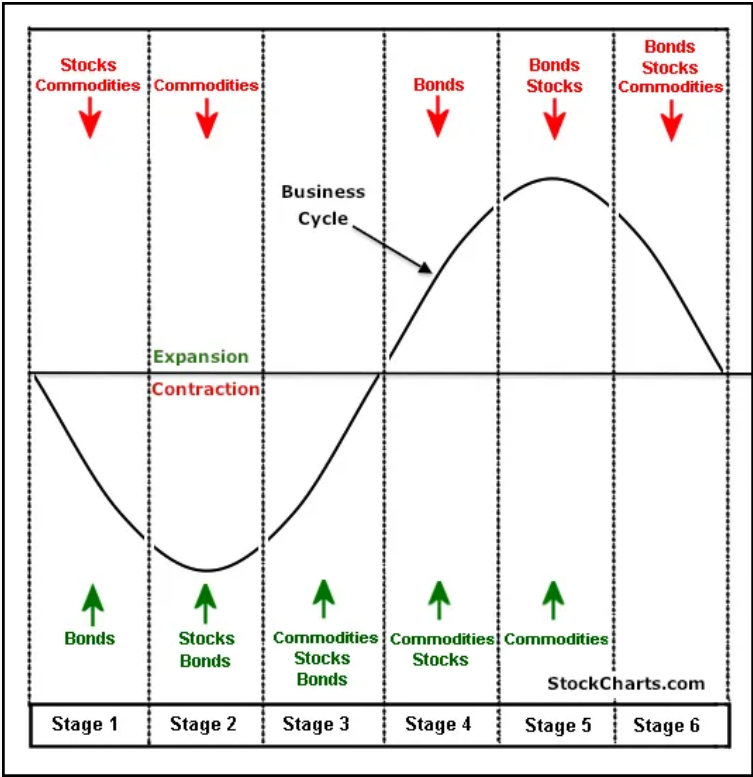
Technology moved into the Leading quadrant as the Q3 Bear Market Rally continues to mature. Real Estate has moved from Lagging to Improving as markets are front running the idea of Fed slowing rate hikes or cutting rates in 2023. Sector Rotation overall continues to suggest a bullish bias.

Stock Indices are reaching minimum targets as momentum begins to pick up, setting up for possible climatic behavior. Technicals show no threatening signs of stopping yet.

"In the morning, when you can't get out of bed, tell yourself: I'm getting up to do the work only a man can do. How can I possibly hesitate or complain when I'm about to accomplish the task for which I was born? Was I made for lying warm in bed under a pile of blankets?"

- Marcus Aurelius -

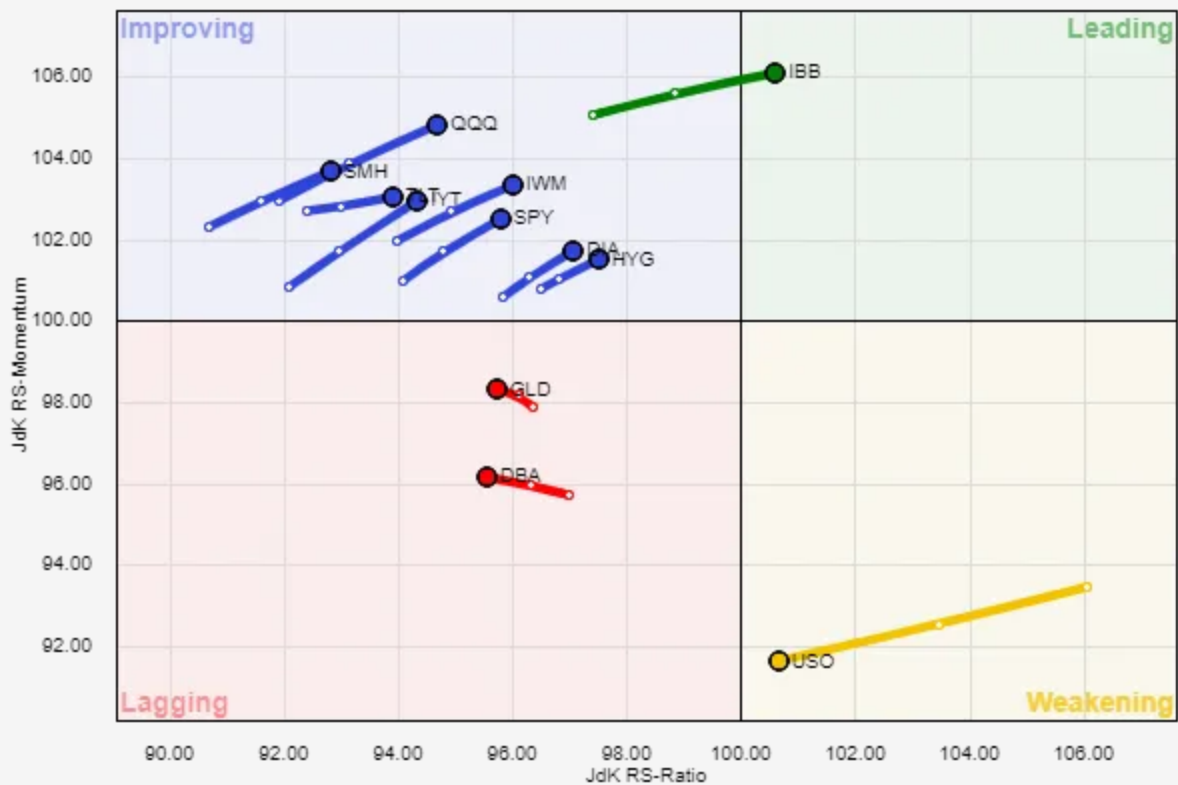
Business Cycle



Bonds (Blue). Stocks (Green). Commodities (Gold).

Stage 1 - Commodities are falling as global economies begin to weaken. Bonds stop their decline and start to improve in anticipation of monetary loosening and accommodative policies.

Asset Rotation



Bond ETFs - HYG, TLT. Stock ETFs - DIA, IBB, IWM, IYT, QQQ, SMH, SPY. Commodity ETFs - DBA, GLD, USO.

Asset Analysis

Biotech (IBB) is the first stock ETF to move from Improving to Leading. All other Stock ETFs are in the Improving quadrant heading towards the Leading quadrant.

Oil (USO) is still on the same down to the left course as last week as it nears entering the Lagging quadrant. Gold (GLD) and Agriculture (DBA) are in the Lagging quadrant which suggests sustained weakness, but are showing some short term bullish signs as they turn towards the Improving quadrant. Again, no rushing in here.

Bond ETFs are in the Improving quadrant as Long Bonds (TLT) continue to build a significant cause. With this bullish technical backdrop for bonds, it is interesting to see the People's Bank of China (PBOC) leading the way with rate cuts as the other central bankers are raising rates (Fed, ECB, RBA) or holding steady (BOJ). China is the second largest GDP in the world and clearly in the Stage 1 business cycle with bearish economic headlines. Growth Slows. Real Estate Crisis. Covid Lockdowns. Is China leading the way for the other Central Bankers?

“It’s always darkest before the dawn.”

- Thomas Fuller -

China Growth Slows Across All Fronts in July, Prompting Unexpected Rate Cut

Move comes after a month in which retail sales, property prices and youth unemployment worsened

Wall Street Journal

China cuts rates as lockdowns and a real estate crisis take their toll



By [Laura He](#), CNN Business

Updated 4:07 AM ET, Mon August 15, 2022

CNN

China unexpectedly reduced two signal interest rates, as policymakers try to inject oomph into an economy weighted down by the country’s strict zero-covid policy...

The Economist

China unexpectedly cuts 2 key rates, withdraws cash from banking system

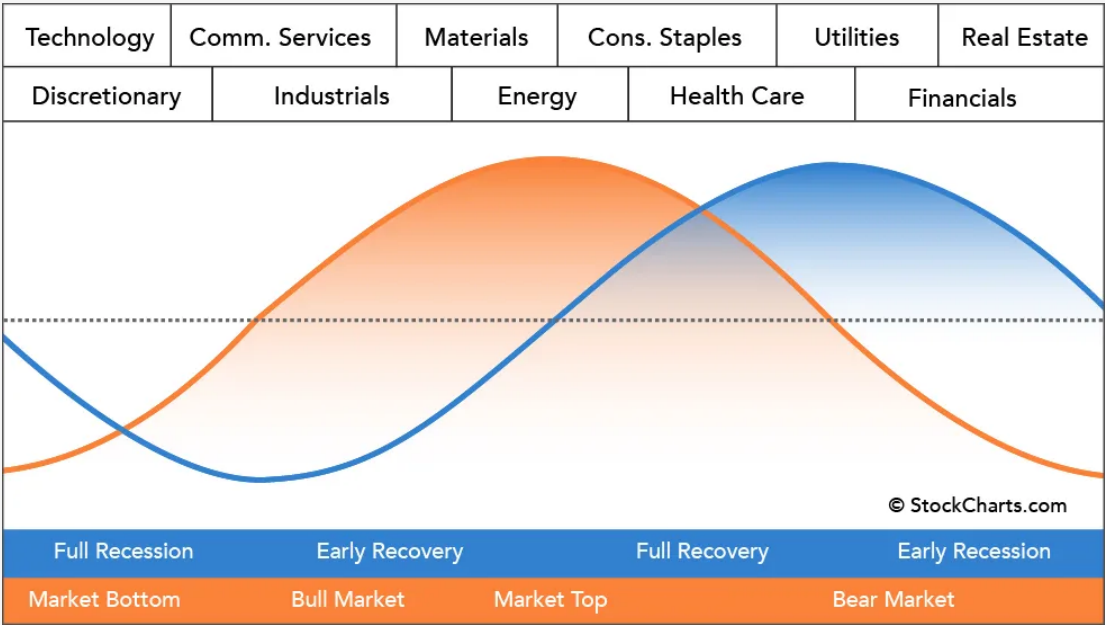
Reuters

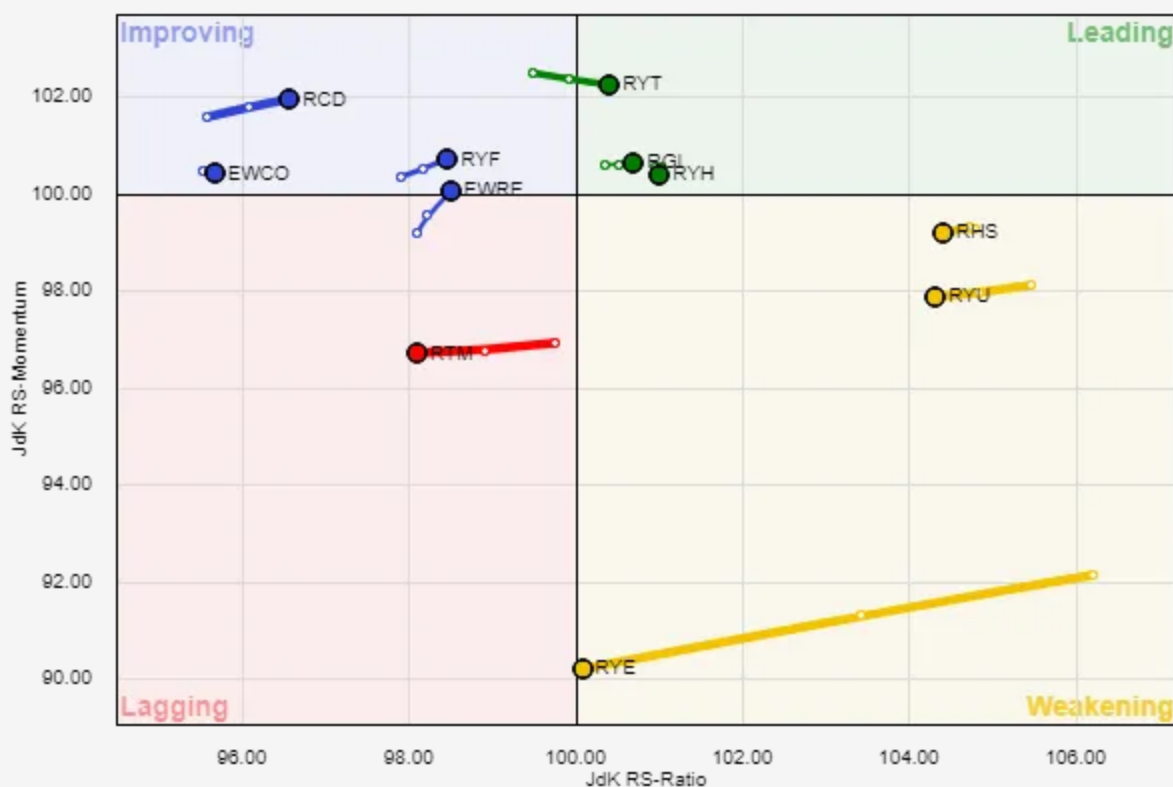
Reuters



CBON - China Bond ETF

Sector Rotation



**Improving**

Discretionary, Communication Services, Financials, Real Estate.

Leading

Industrials, Health Care, Technology.

Weakening

Energy, Consumer Staples, Utilities.

Lagging

Materials.

Sector Analysis

Sector Rotation overall continues to provide a bullish background to this Q3 Bear Market Rally.

Technology moves from Improving to Leading which is expected as the rally matures. This is when we should expect Technology stocks to be in their markup phase and making moves towards their target areas.

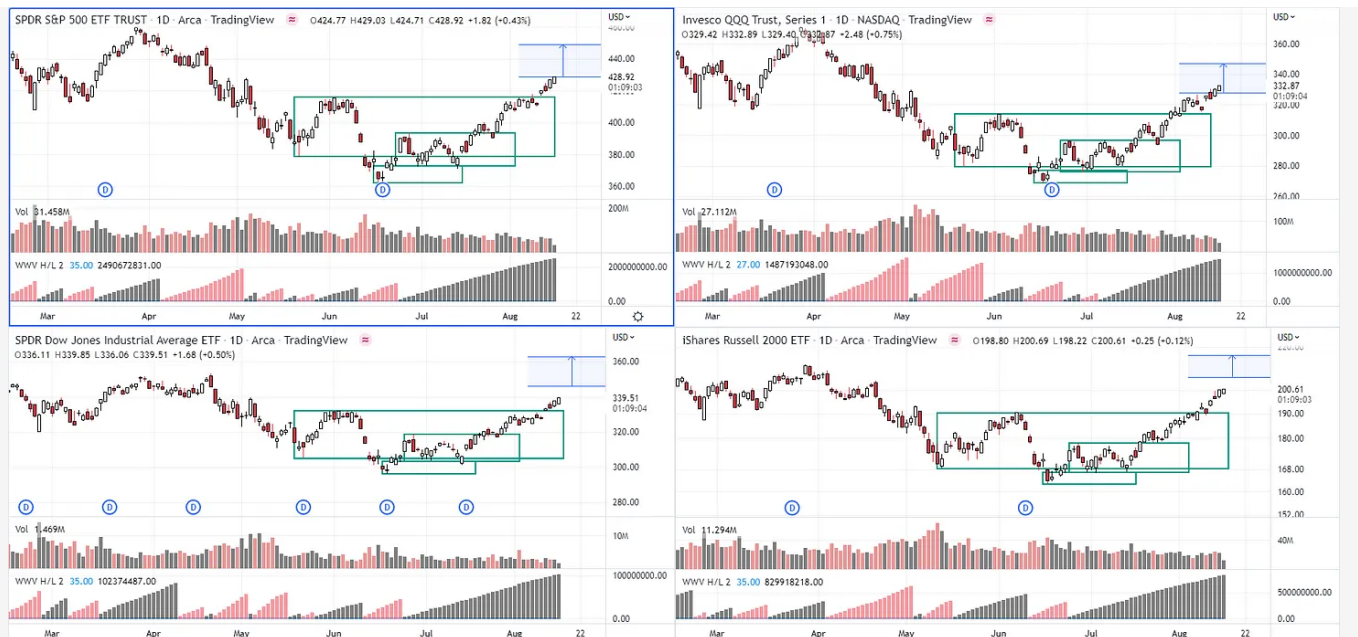
Real Estate moved from Lagging to Improving which looks to be a sign of front running the fed slowing down rate hikes or cutting rates. As rates slow down or head lower, mortgage rates will follow right along. When looking at the National Association of Realtors Housing Affordability Index (below), we can see that the average monthly payment has gone from \$1,265 in June 2021 to \$1,944 in June 2022, a 54% Increase in one year! Mortgage rates have moved from 3.03% to 5.60%, and the percentage of income changed from 17.5% to 25.4%.

Housing demand still remains resilient with demand picking up as soon as rates perform any sort of dip. If rates do start to come down and consumers remain resilient, could Real Estate enter into another significant bull run?

NATIONAL ASSOCIATION OF REALTORS: HOUSING AFFORDABILITY INDEX

Year		Median Priced Existing Single Family Home	Mortgage Rate*	Monthly P & I Payment	Payment as a % of Income	Median Family Income	Qualifying Income**	Affordability Indexes Fixed
2019		274,600	4.04	1054	15.7	80,808	50,592	159.7
2020		300,200	3.17	1035	14.7	84,414	49,680	169.9
2021		357,100	3.01	1206	16.5	87,965	57,888	152.0
2021	Jun	373,700	3.03	1,265	17.5	86,895	60,720	143.1
2021	Jul	371,400	2.92	1,240	17.1	87,192	59,520	146.5
2021	Aug	368,200	2.89	1,224	16.8	87,392	58,752	148.7
2021	Sep	361,800	2.95	1,212	16.7	86,907	58,176	149.4
2021	Oct	362,600	3.12	1,242	17.1	87,211	59,616	146.3
2021	Nov	365,000	3.12	1,250	17.1	87,501	60,000	145.8
2021	Dec	365,300	3.15	1,256	17.2	87,683	60,288	145.4
2022	Jan	360,700	3.51	1,297	17.7	88,114	62,256	141.5
2022	Feb	370,000	3.83	1,384	18.8	88,424	66,432	133.1
2022	Mar	385,400	4.24	1,515	20.3	89,381	72,720	122.9
2022	Apr	401,700	5.05	1,735	23.1	89,985	83,280	108.1
2022	May r	415,400	5.31	1,847	24.5	90,642	88,656	102.2
2022	Jun p	423,300	5.60	1,944	25.4	91,952	93,312	98.5

The Charts



Major Stock Index Daily Charts



Major Stock Index Intraday Charts

Technical Analysis

S&P 500 (SPY) and Nasdaq (QQQ) have reached their minimum targets which suggests this Q3 Bear Market Rally is most likely entering its final phase. Dow Jones (DIA) and Small Caps (IWM) still have 2-3% to go, so we should fully expect that this rally continues. We can't count out how much momentum might come in at the end of this rally, and currently we don't see any threatening signs on the intraday charts.

Targets

- SPY \$429 - \$449 (Minimum Target Met!)
- QQQ \$328 - \$347 (Minimum Target Met!)
- DIA \$346 - \$363 (~1.9% higher from today)
- IWM \$206 - \$216 (~2.7% higher from today)

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