

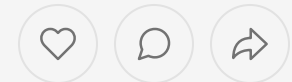
Q3 Bear Market Rally Ends, Expect Trading Range to Begin

August 22, 2022



Marcus Aurelius

Aug 22



Executive Summary

The business cycle remains in Stage 1 as we wait to see how the pullback in Stocks plays out. Stocks had an impressive Q3 Bear Market Rally and the move now looks complete, while Commodities are all in the Lagging Quadrant now.

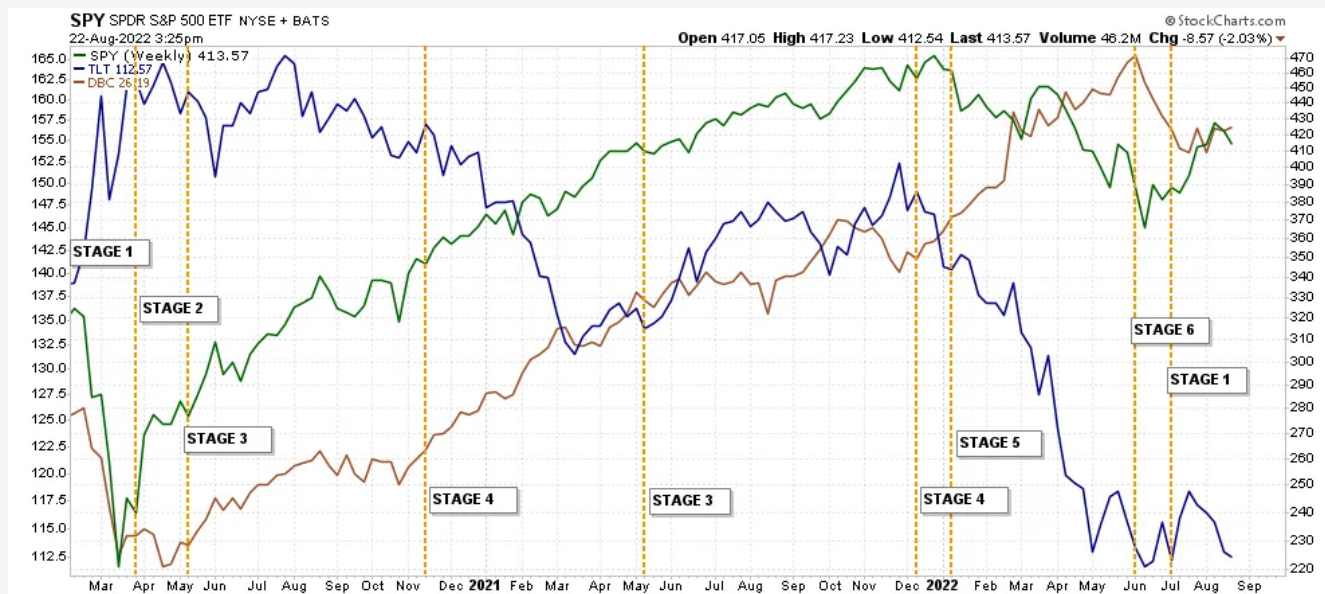
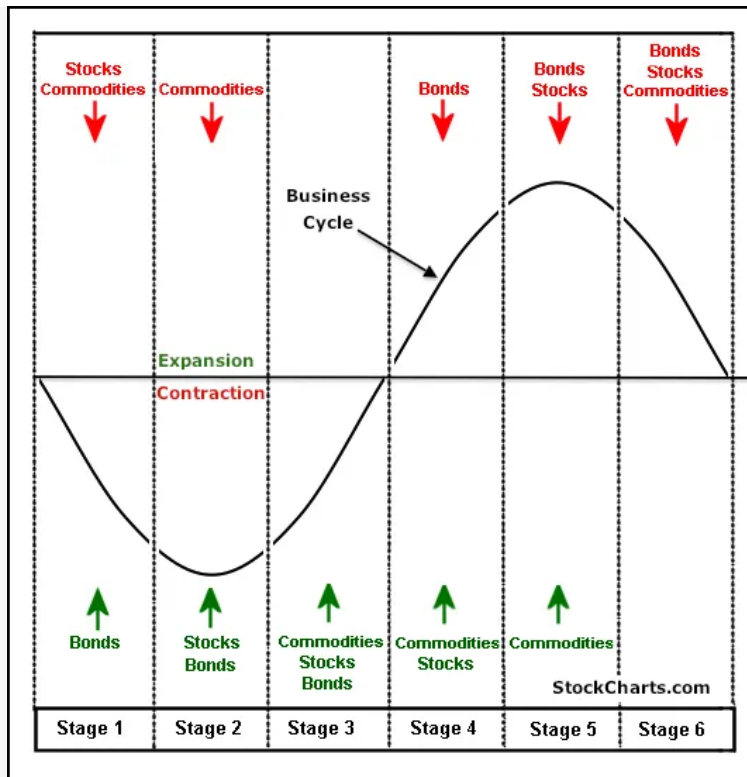
Energy moved into the Lagging Quadrant, while all other sectors didn't change week over week. There are no signs here yet that an imminent change in character is about to take place, and the environment still lends to early cycle behavior.

Stocks performed back up action to their larger trading ranges, and a new trading range should be expected to start. Market Breadth deteriorated significantly signaling the Q3 Bear Market Rally has ended, but short term readings suggest oversold levels and potential stopping action could happen soon.

“Don't become disgusted with yourself, lose patience, or give up if you sometimes fail to act as your philosophy dictates, but after each setback, return to reason and be content if most of your acts are worthy of a good man.”

- Marcus Aurelius -

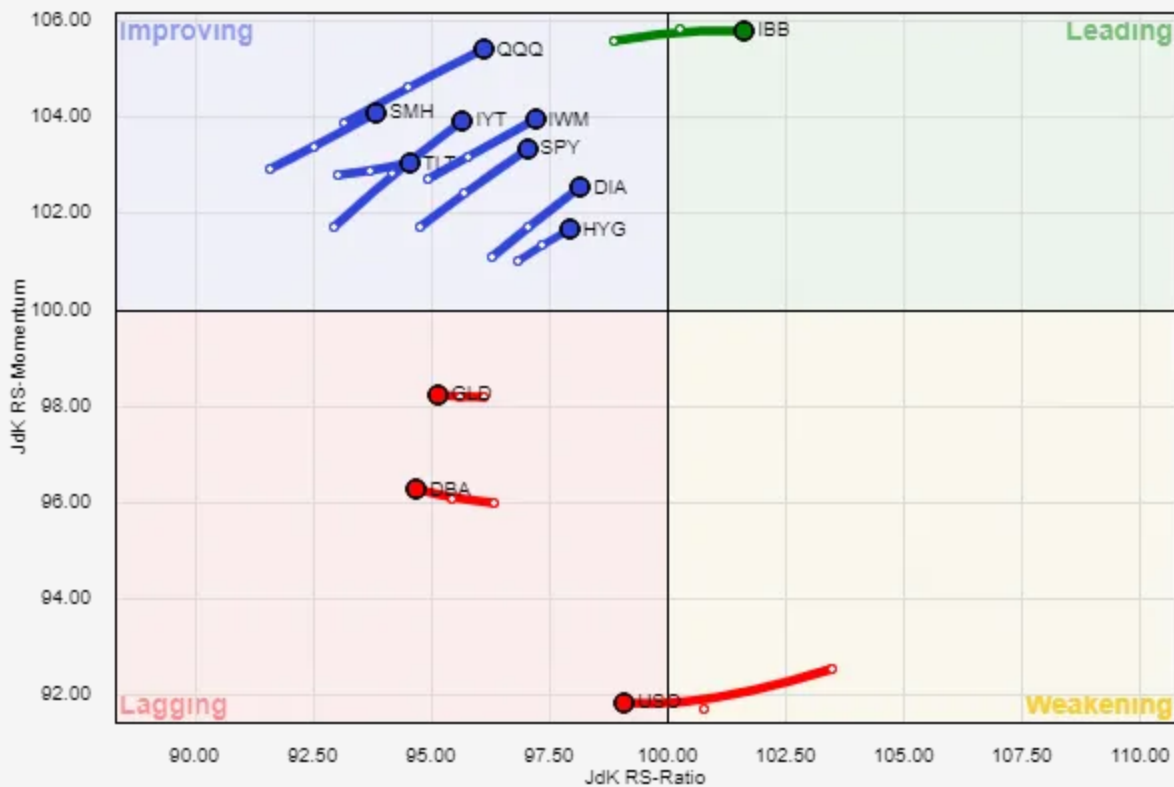
Business Cycle



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

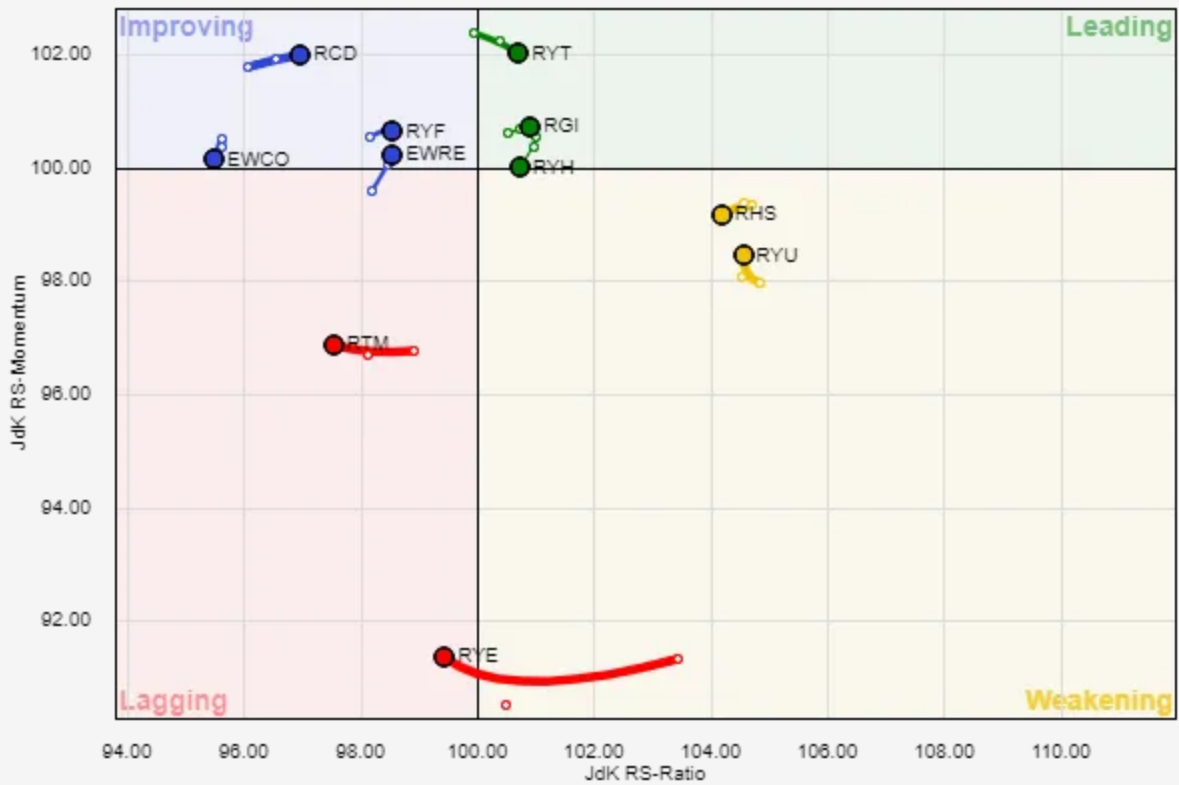
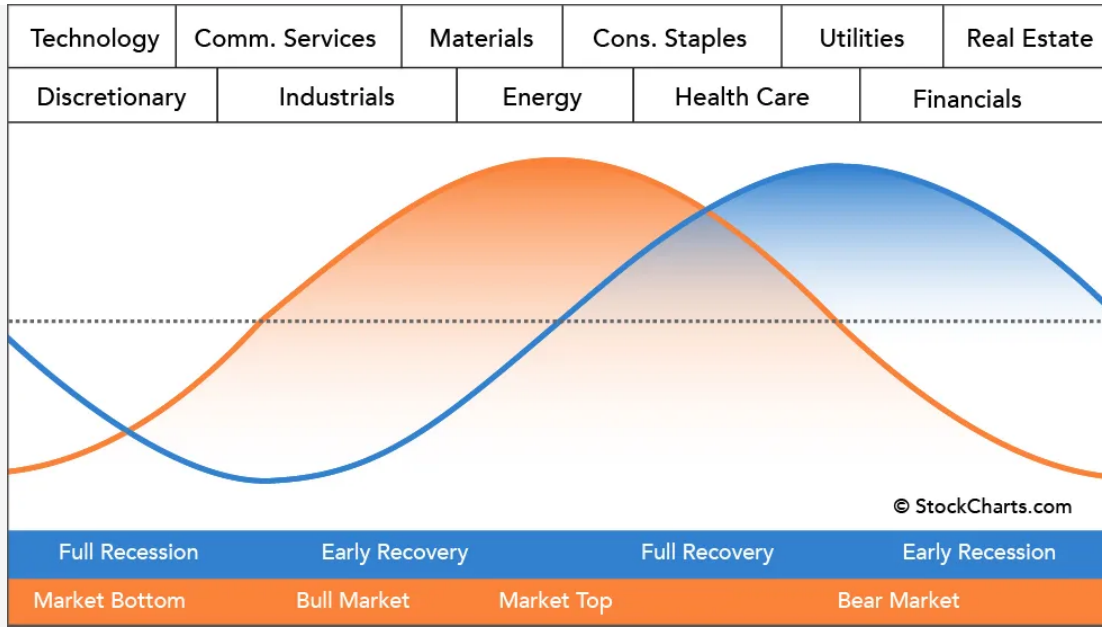


Bond ETFs - HYG, TLT. Stock ETFs - DIA, IBB, IWM, IYT, QQQ, SMH, SPY. Commodity ETFs - DBA, GLD, USO.

Asset Analysis

Stocks all remain in the Improving and Leading quadrants without any hazardous turns yet. Bonds continue to improve as well. Meanwhile, Commodities are all in the Lagging quadrant with Oil (USO) moving from the Weakening to Lagging quadrant this past week. This all remains to be in Stage 1 (possible Stage 2) behavior of the business cycle.

Sector Rotation



Improving

Discretionary, Communication Services, Financials, Real Estate.

Leading

Industrials, Health Care, Technology.

Weakening

Consumer Staples, Utilities.

Lagging

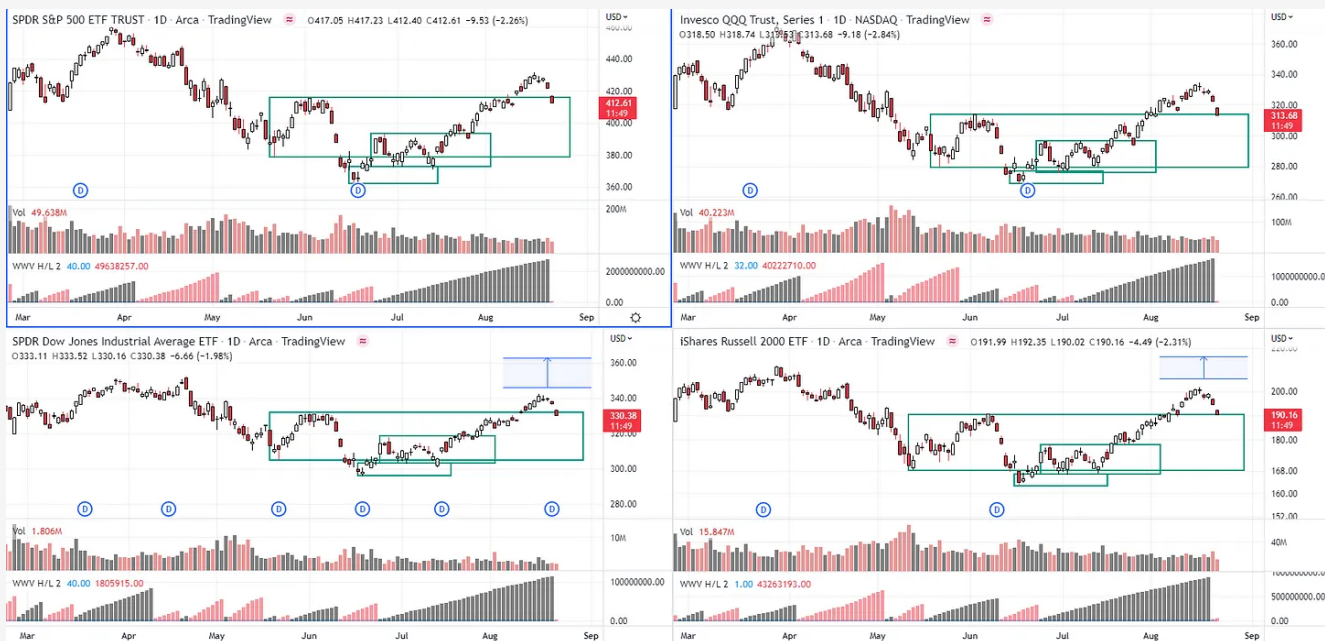
Materials, Energy.

Sector Analysis

Sector Rotation still points to bullish early cycle behavior at this time. There are some potential signs of weakness with Early Cycle Sectors slowing their trajectories and beginning to turn over to head to lower quadrants. And, Financials and Real Estate moving into the improving quadrant. A change in course of Consumer Staples and Utilities back towards Leading would be a larger red flag on the bullish narrative. But, this is early on and will need time to play out. There is no clear change in character here yet as the Q3 Bear Market Rally comes to an end.

The only quadrant change week over week is Energy moving from Weakening to Lagging.

The Charts



Major Stock Index Daily Charts



Major Stock Index Intraday Charts

Technical Analysis

Stock Indices are backing up to their previous trading ranges which they recently broke out of. This type of price action should be expected after a breakout. There is increased downward result without much demand stepping in to absorb, which suggests this move lower may have more room to go. The expectation is still that a trading range will develop near these levels before we see more definitive clues on where the next large directional move will go.

Stock Breadth has significantly decreased this past week which suggests this is the end of the Q3 Bear Market Rally. The short term breadth oscillator created a bearish divergence over the past few weeks which laid the groundwork for this current backing up action. The reading is now nearing extreme oversold levels, so we should still expect stopping action to take place soon.

\$NYA NYSE Composite Index: INDXX

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Open: **15588.32** Ask: **0.00** P/E: Options: **no**
High: **15588.32** Ask Size: **0** EPS: Annual Dividend: **N/A**
Low: **15316.01** Bid: **0.00** Mkt Cap: Yield: **N/A**
Prev Close: **15588.32** Bid Size: **0** Last Size: SCTR:

Monday 22-Aug-2022 3:53 pm
▼ **-1.54%**
Chg: **-240.19**
Last: **15348.13**
Volume: **0**

\$NYA (Daily) 15348.13



\$NYAD -10612.00



Stock Breadth

\$NYA NYSE Composite Index: IND: X

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\$NYMO -29.62 (19 Aug)



Short Term Breadth Oscillator

Targets

- SPY \$429 - \$449 (Minimum Target Met!)
- QQQ \$328 - \$347 (Minimum Target Met!)
- DIA \$346 - \$363 (Only still applicable with stopping action and retest higher.)
- IWM \$206 - \$216 (Only still applicable with stopping action and retest higher.)

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