

Stock Breadth hits 2020 Bearish Extremes

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Marcus Aurelius
Sep 6



Executive Summary

Bond weakness raises doubt on the Business Cycle Stage, but expectations still remain that we are in Stage 1. Stocks and Bonds remain in the Improving quadrant and current structure analysis aligns with potential Phase C / D price action. Meanwhile, Commodities remain in the Lagging quadrant.

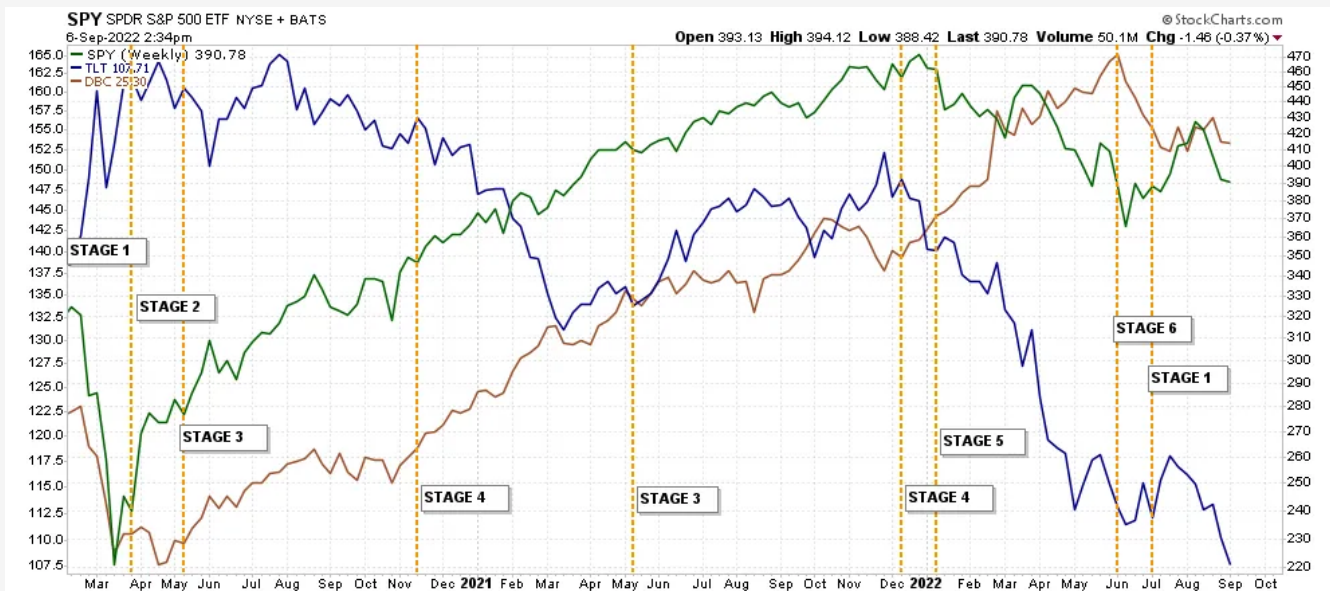
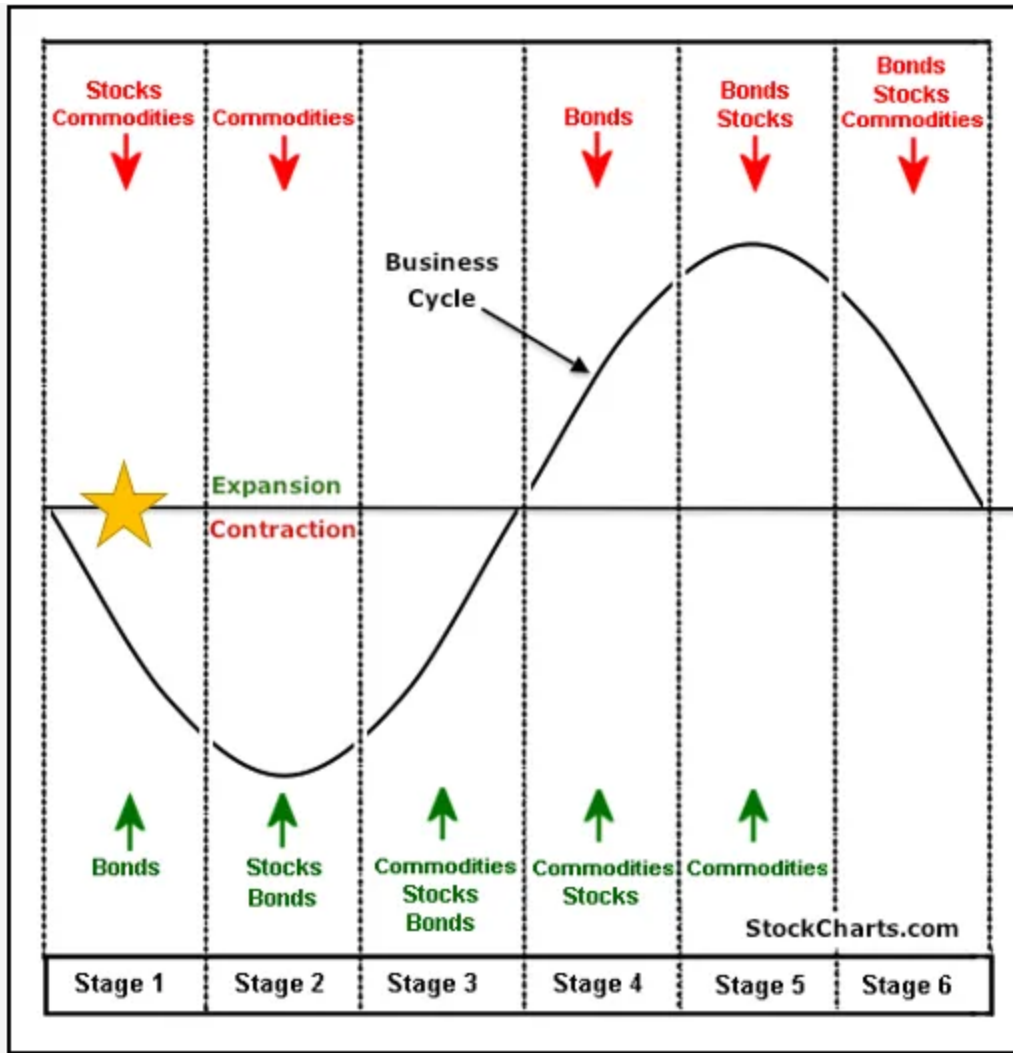
Two sectors moved quadrants from last week, Real Estate and Healthcare. It is expected we will see more rotation from Early Cycle sectors back to Late Cycle sectors if this Bear Market is to persist.

US Dollar strength continues which weighs on the other asset classes. Stock Breadth made a bearish change of behavior for market internals as extreme oversold readings were created which haven't been seen since March 2020. A short term rally or trading range in Stocks this week shouldn't come as a surprise to work off oversold signals.

“Just because you find the work too hard to do, don't leap to the conclusion that it is humanly impossible; but if the work can and should be done by a person, then consider yourself capable of doing it.”

- Marcus Aurelius -

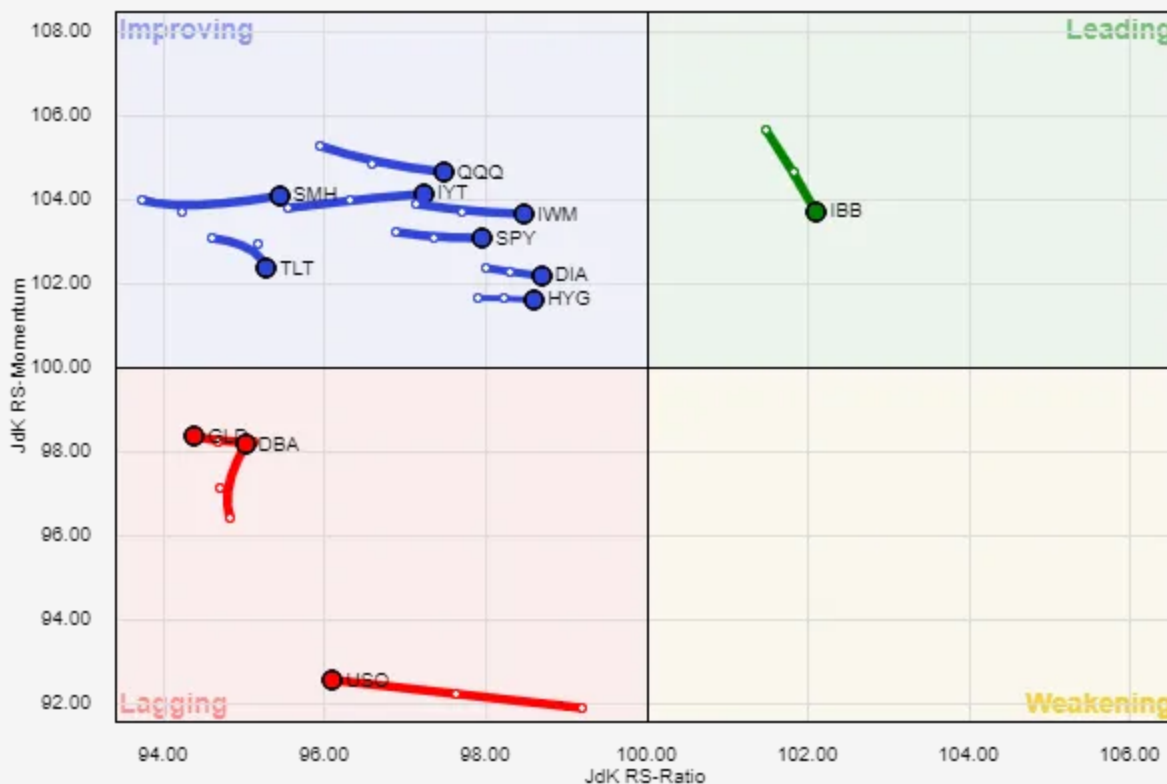
Business Cycle



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



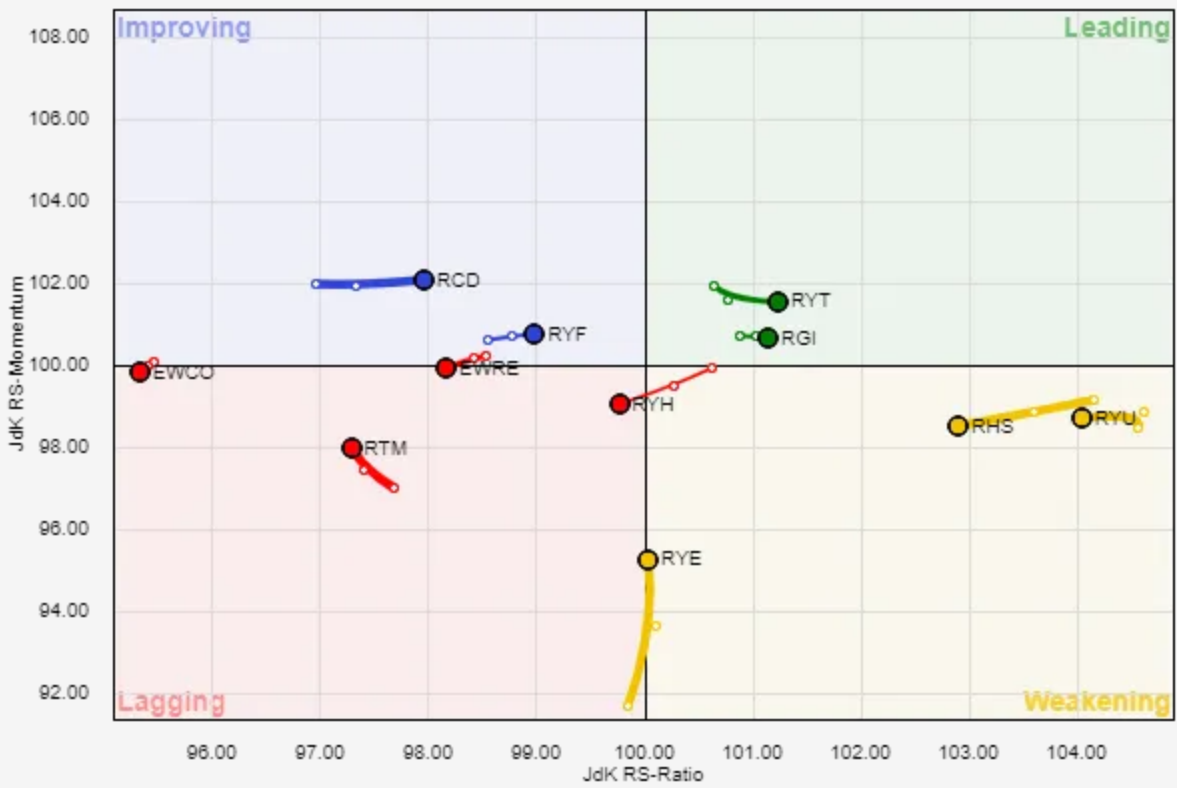
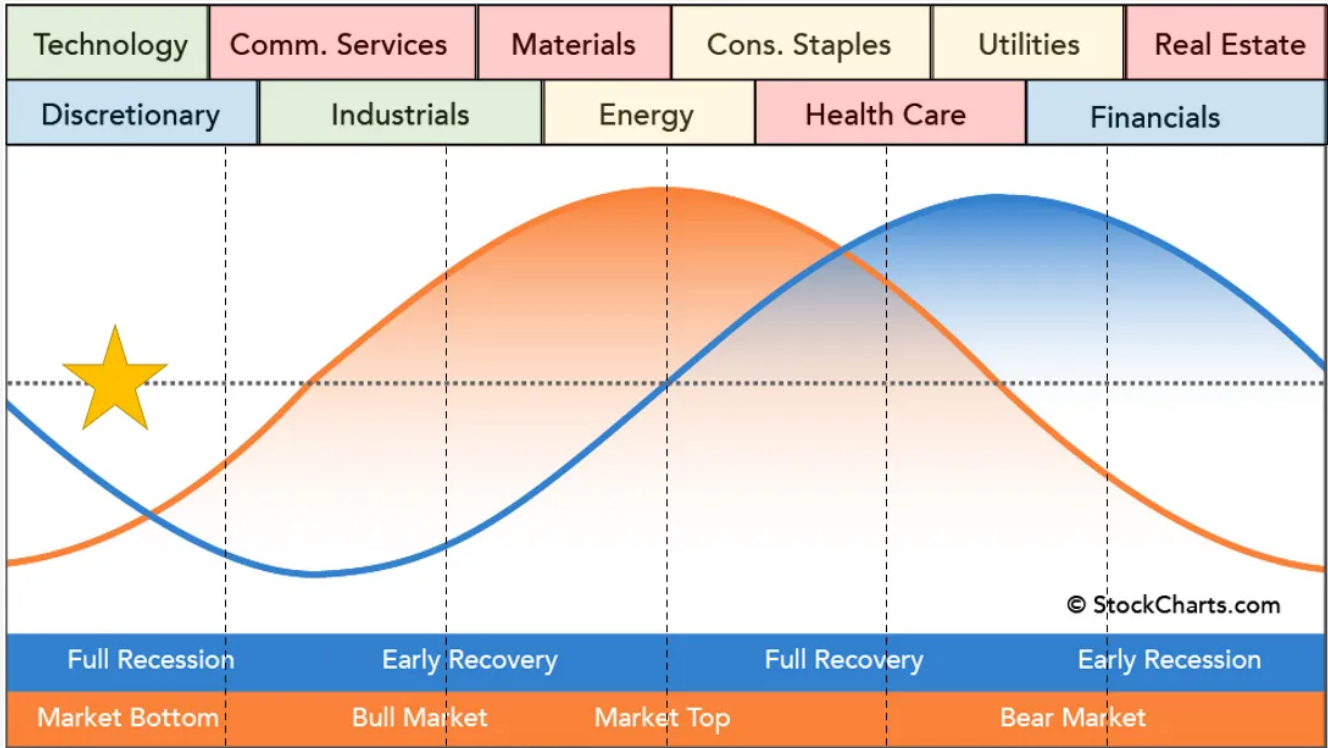
Bond ETFs - HYG, TLT. Stock ETFs - DIA, IBB, IWM, IYT, QQQ, SMH, SPY. Commodity ETFs - DBA, GLD, USO.

Asset Analysis

Stocks and Bonds overall remain in the Improving quadrant and moving in the direction towards the Leading quadrant. TLT is showing the greatest slowdown in momentum with a change in direction back towards Lagging. When looking at the Charts (see below), Stocks and Bonds being in the Improving quadrant align with proper timing of when we could expect Phase C / D behavior to occur. Timing for increased volatility into the Q4 Thunderstorms looks to be aligning.

Commodities remain in the Lagging quadrant with no significant change in momentum or direction since last week.

Sector Rotation



Sector Analysis

There were two quadrant changes since last week with Real Estate moving from the Improving quadrant back to the Lagging quadrant, and Healthcare moving from the Weakening quadrant to the Lagging quadrant.

Current sector rotation continues to point to Stage 1 behavior with a bullish backdrop for stocks. If a trading range develops in stocks and we are to expect a bear market to persist, it would be expected to see more rotation out of the early cycle sectors into the late cycle sectors before the next significant move lower.

The Charts



Daily Charts: UUP - US Dollar, SPY - Stocks, TLT - Bonds, DBC - Commodities

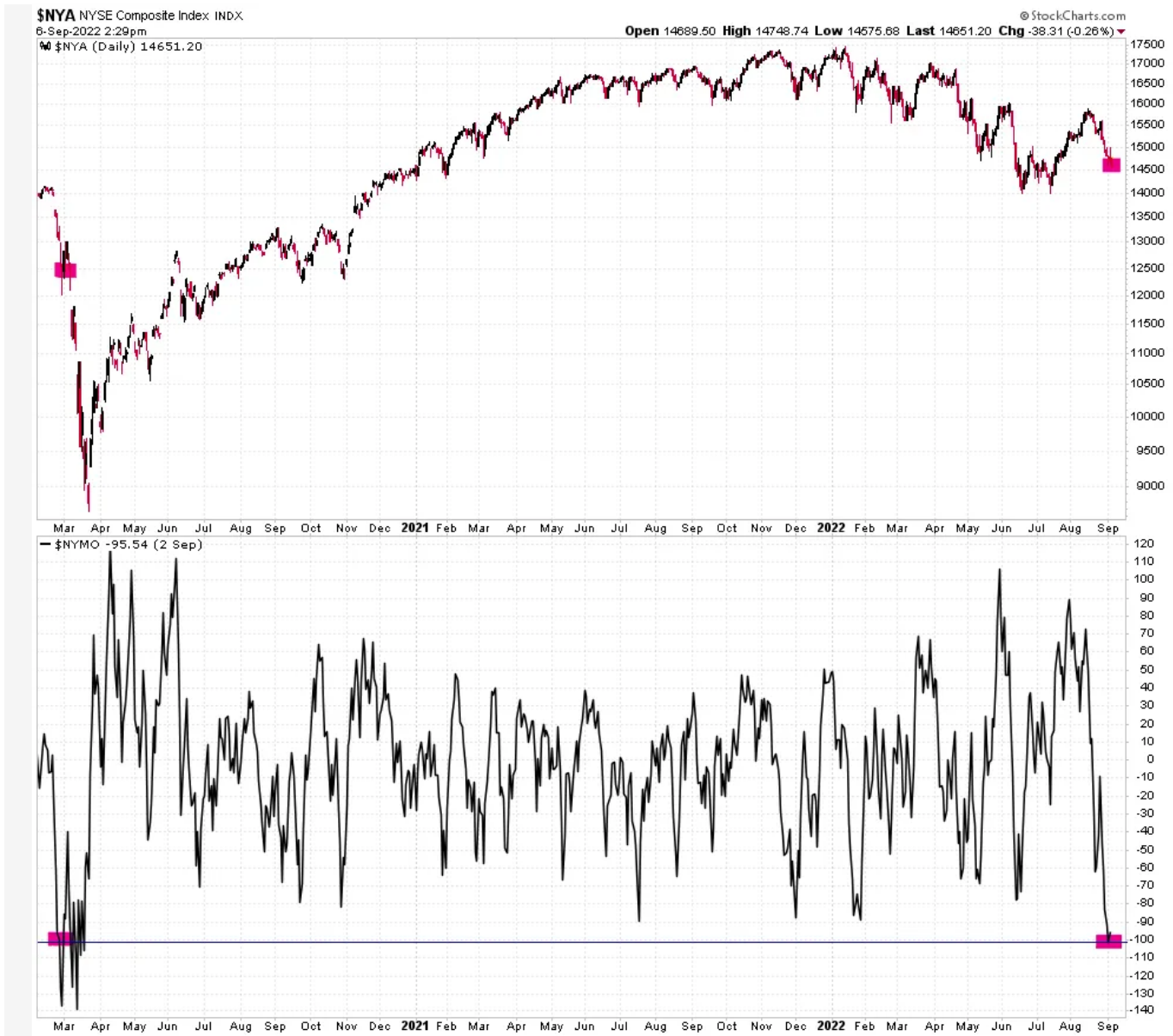


Intraday Charts: UUP - US Dollar, SPY - Stocks, TLT - Bonds, DBC - Commodities

Technical Analysis

The Dollar (UUP) continued its grind higher and is close to reaching current targets (see latest PnF Counts [here](#)). Dollar strength continues to weigh on the other assets.

Stocks (SPY) are attempting to build a trading range at current levels after the recent downswing which led to extremely bearish market internals. Stock Breadth significantly deteriorated and the NYSE McClellan Oscillator posted a -101 reading which is the lowest since March 2020. This should be considered a bearish change of behavior in the market internals, and suggests this Bear Market is not over yet. At such an extreme oversold reading, we should expect the market to produce a counter trend rally higher or at least enter a trading range to work off oversold signals.



NYSE McClellan Breadth Oscillator

Bonds (TLT) are testing the June Lows after a bearish past week. We wait to see if Bullish Phase C Spring Type Action develops or if a Bearish Phase D Sign of Weakness plays out.

Commodities (DBC) broke back down into the trading range after the upthrust action. A short term trading range has developed, but the bias remains to the downside for now.

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Armen Ambartsunyan Sep 6 Liked by **Marcus Aurelius**

Thank you mate! Great summery!

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