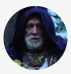
Financial Systems are testing breaking points

September 26, 2022



Marcus Aurelius
Sep 26

5

Executive Summary

The Business Cycle has been moved back to **Stage 6** from a too early call of moving to Stage 1. Bonds continue to breakdown, and Stocks and Commodities are falling right alongside.

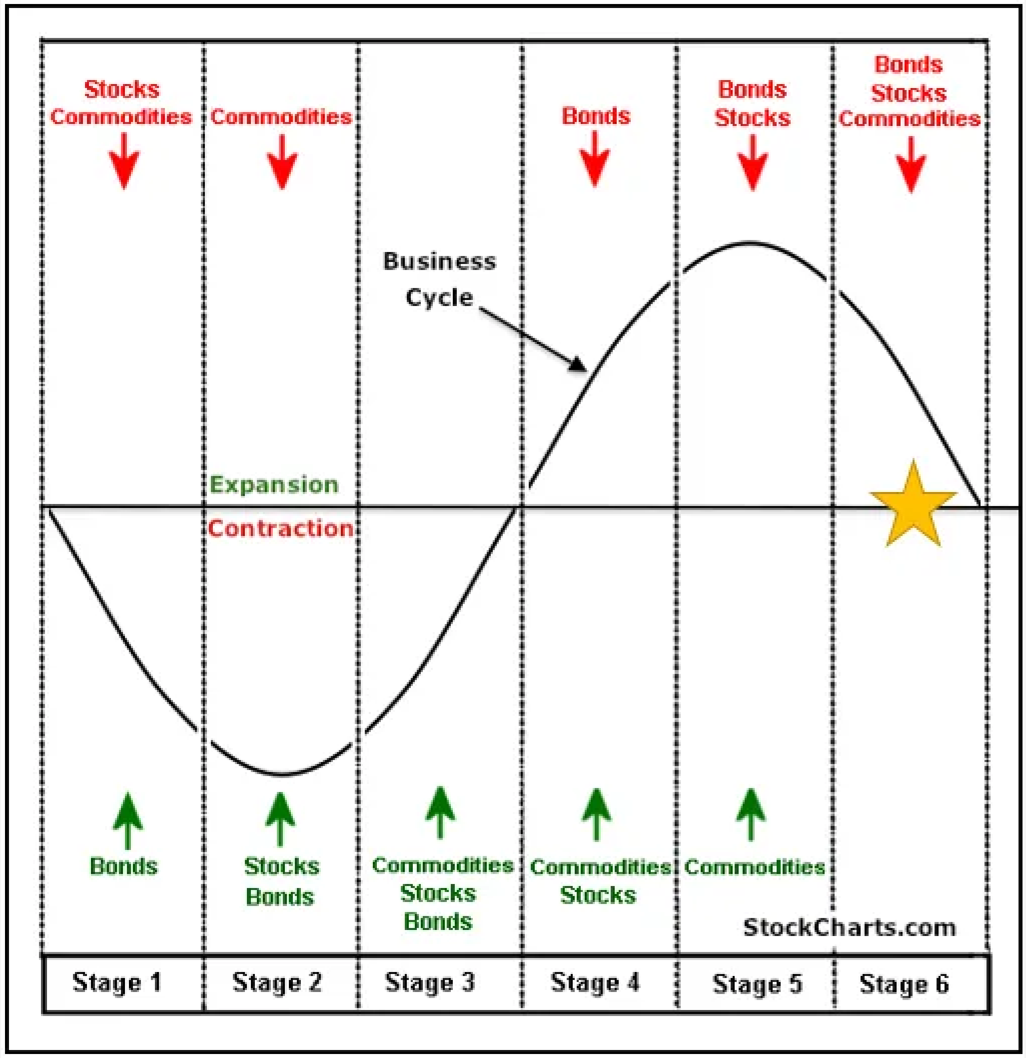
The past week had 3 major events take place: Fed Raising 75 BPS with a higher rates for longer projection, Japan intervenes in the Yen Collapse for the first time since 1998, and the United Kingdom made the biggest tax cuts since 1972 (while simultaneously increasing government spending). UK Pound plunged to an all time low and UK bond yields sky rocketed, total loss of faith.

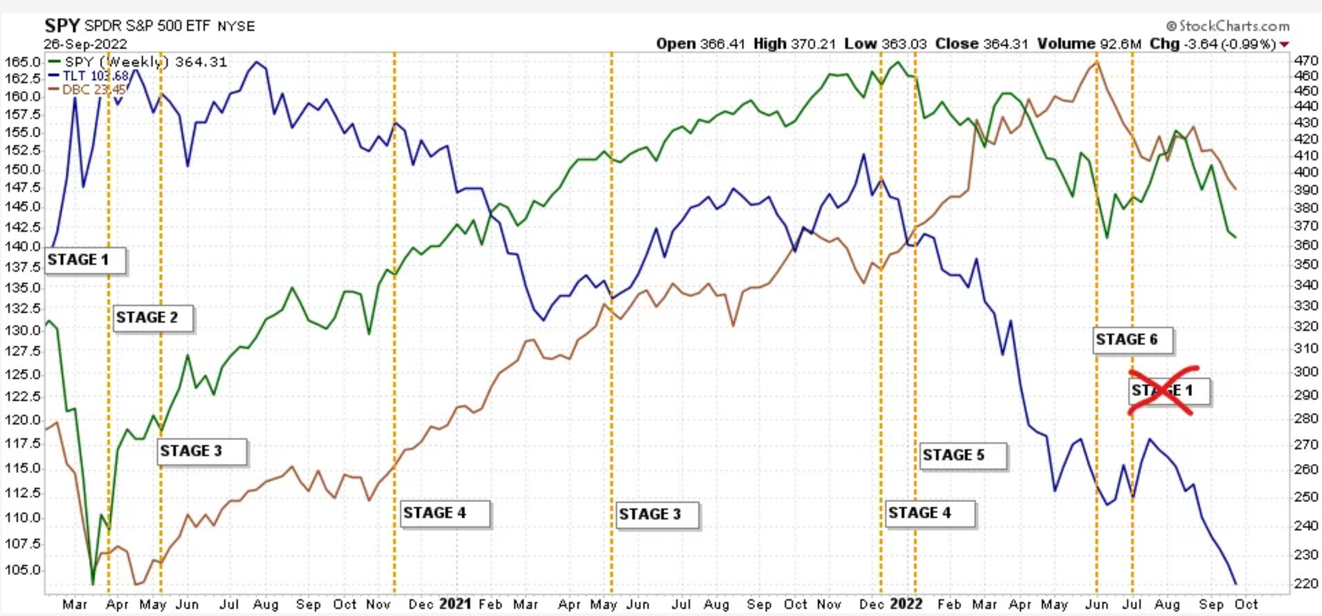
It looks like there are more than enough signs telling us that Financial Systems are testing the breaking limits now, and the Fed's most recent projections of rates heading to 4.6% suggests the Fed Put is **much lower**. Something might have to break in the system before the selling climax / capitulation of the Fed to take place.

Breadth Internals suggest extreme bearishness and oversold readings. But with so many extreme oversold readings clustered together lately, is it oversold? Or is it just the new trend?

> **"There is never any need to get worked up or to trouble your soul about things you can't control. These things are not asking to be judged by you."**
>
> **- Marcus Aurelius -**

Business Cycle

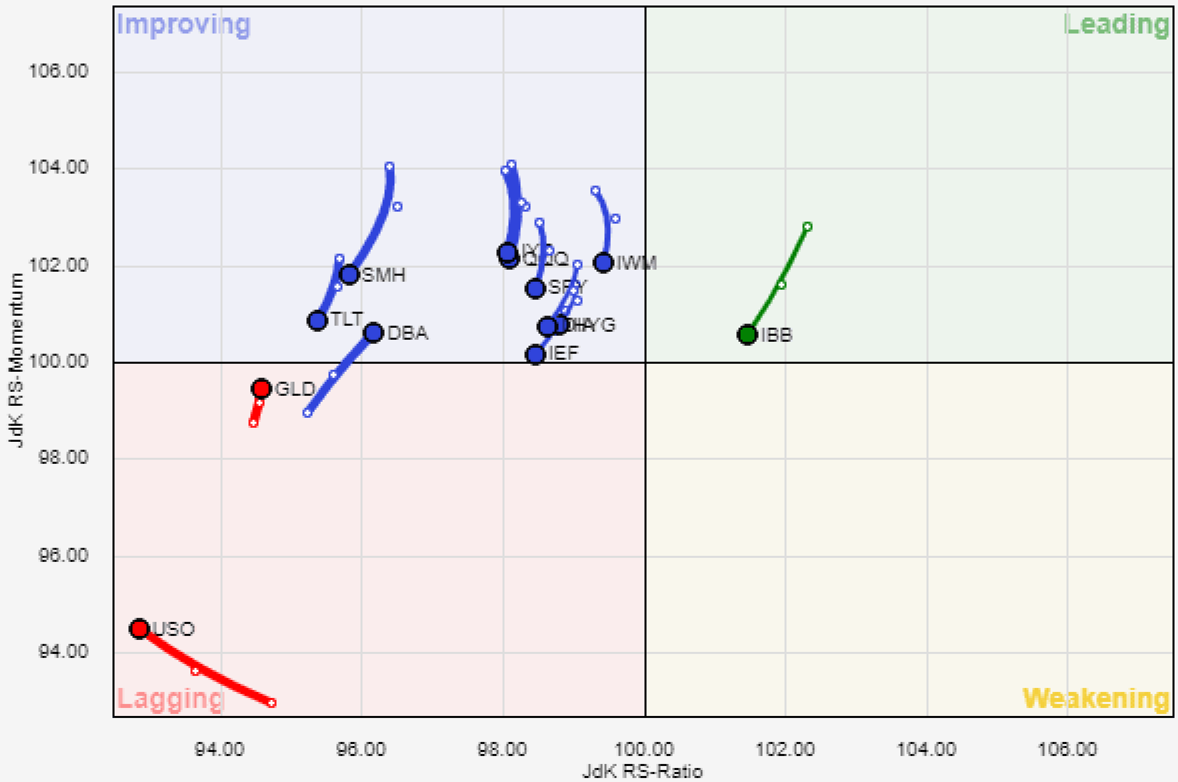




Bonds (Blue). Stocks (Green). Commodities (Gold).

Stage 6 - Economic conditions are tightening which causes interest rates to rise and business conditions to start deteriorating. Stocks and Commodities fall as the economy begins to contract and demand decreases.

Asset Rotation



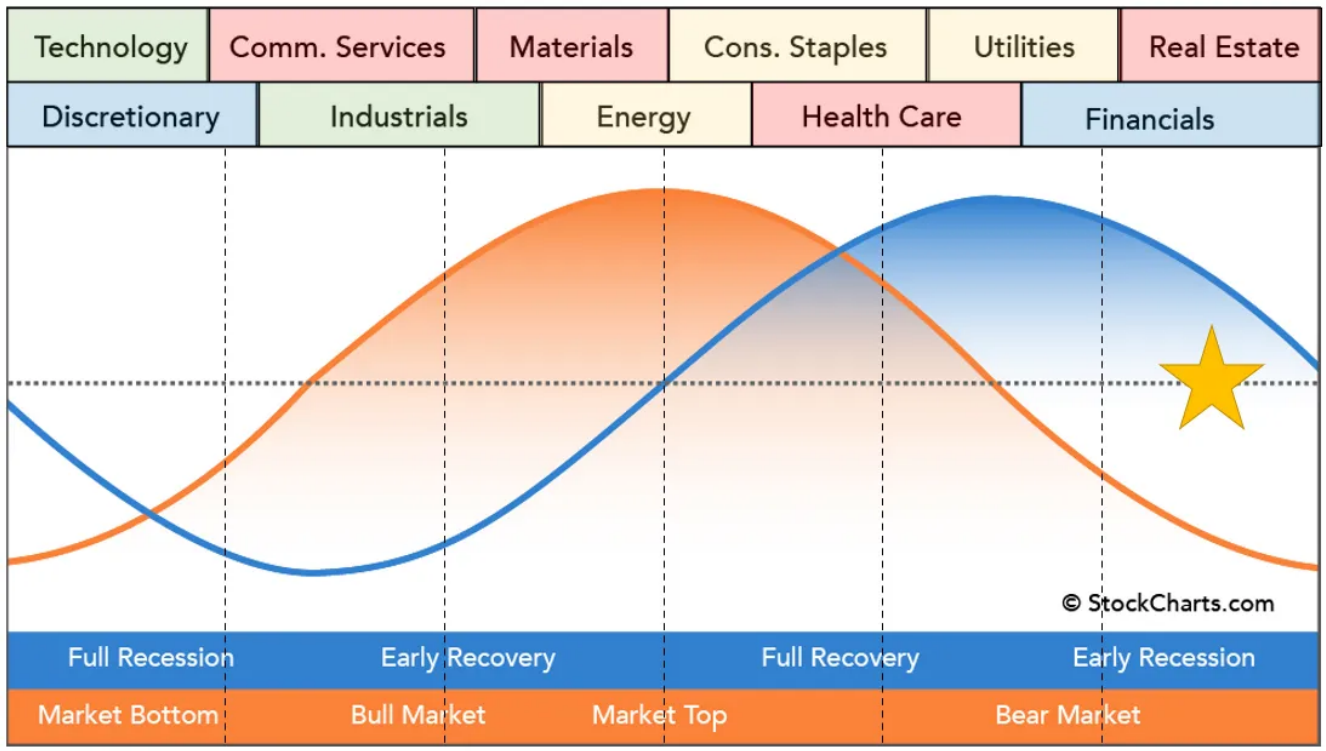
Bond ETFs - IEF, HYG, TLT. **Stock ETFs** - DIA, IBB, IWM, IYT, QQQ, SMH, SPY. **Commodity ETFs** - DBA, GLD, USO.

Asset Analysis

Stocks & Bonds made a fast bearish turn over the past 2 weeks to change direction from heading to Leading, back to now gaining bearish momentum towards Lagging. This failed attempt to gain enough relative strength to move into Leading is a ominous sign and suggests further weakness ahead.

Commodities remain a mixed bag with Gold (GLD) and Oil (USO) in lagging and breaking down, while Agriculture (DBA) attempts to hold in its current trading range. DBA is in improving with potential bearish Phase C behavior though.

Sector Rotation



Sector Analysis

Sector Rotation overall shows that market participants had been leaning towards a potential bottom in Stocks through this past trading range, but the recent action of the last 2 weeks suggests this lean is changing back to bearish though.

Utilities (RYU) have turned the corner and are quickly moving from Weakening back into Leading (Bearish for Stocks). Consumer Staples (RHS) is also attempting to turn the corner and head back to Leading (Bearish for Stocks). Meanwhile, Technology (RYT), Industrials (RGI), and Discretionary (RCD) are turning over as they start to move back towards the bottom left (Bearish for Stocks).

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

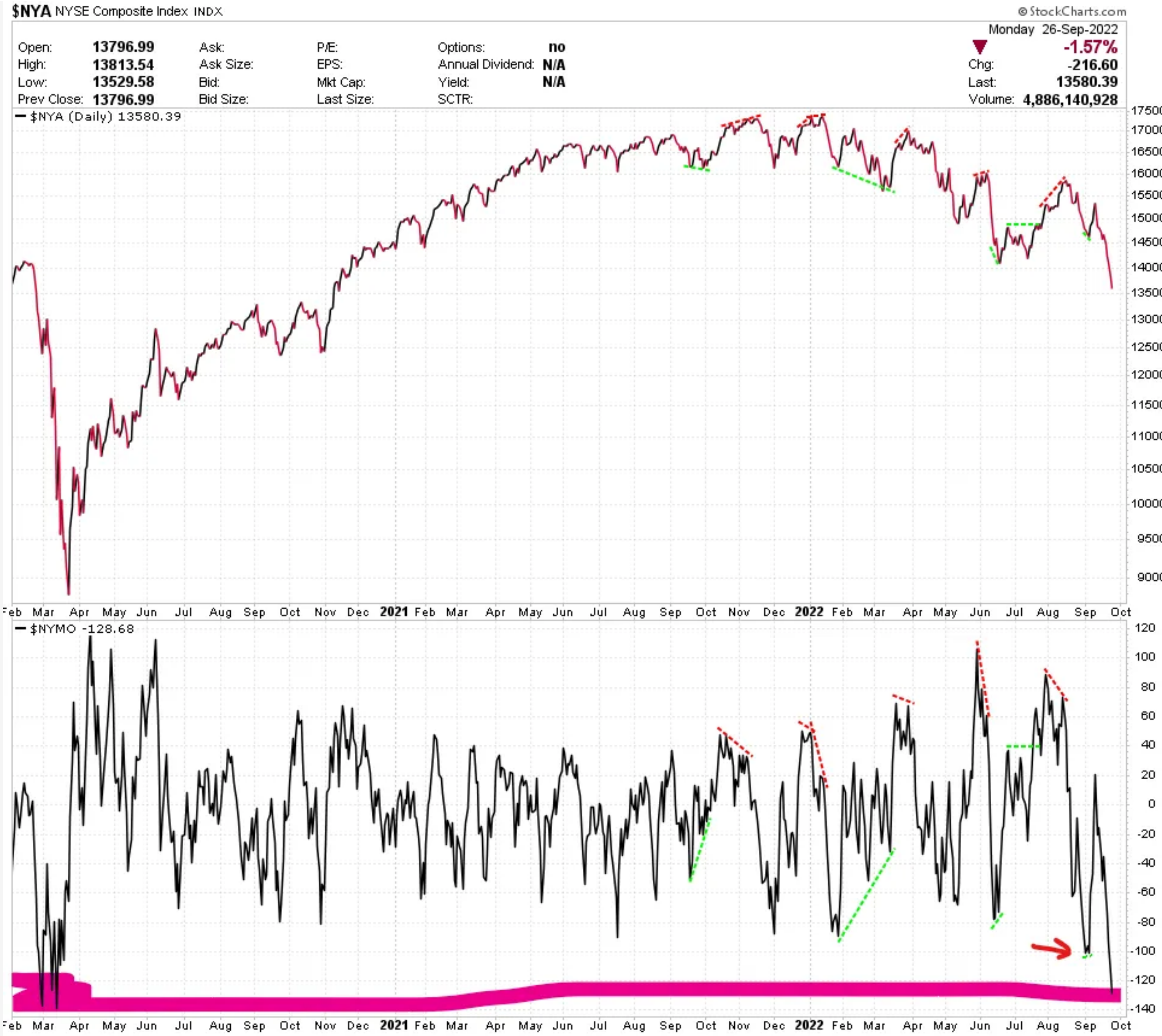
The Dollar (UUP) has started to go parabolic and the repercussions of this on world trade could be enormous and only time will tell how it ends. This is suggesting something is nearing a breaking point in the system.

Stocks (SPY) are back to testing the June Lows and have reached extremely bearish breadth readings. The breadth readings have now gone even further into extreme oversold since the last time the chart was posted back at the beginning of September when we saw the lowest readings since the 2020 Covid Crash. Typically, when we start to see such oversold readings back to back, it is no longer oversold… It is a new trend.

Bonds (TLT) failed to hold support and the markdown continues.

Commodities (DBC) have broken down out of the trading range from July, and a much larger trading range stretching back to March. Bias to the downside.

Could we see a bullish counter trend rally develop at any time? Absolutely, but the analysis and internals as of right now suggests it will be a short lived rally with further downside ahead.



Breadth Indicator

Type your email…
Subscribe

We are not registered as a securities broker-dealer or an investment adviser either with the U.S. Securities and Exchange Commission (the "SEC") or with any state securities regulatory authority. We are neither licensed nor qualified to provide investment advice. Any individual who chooses to invest in any securities should do so with caution. Investing in securities is speculative and carries a high degree of risk; you may lose some or all of the money that is invested. Always research your own investments and consult with a registered investment advisor or licensed stock broker before investing. Past performance is not indicative of future results. To the fullest extent of the law, we will not be liable to any person or entity for the quality, accuracy, completeness, reliability, or timeliness of the information provided in this website, or for any direct, indirect, consequential, incidental, special or punitive damages that may arise out of the use of information we provide to any person or entity (including, but not limited to, lost profits, loss of opportunities, trading losses, and damages that may result from any inaccuracy or incompleteness of this information).

Comments

Write a comment…

© 2022 Marcus Aurelius · Privacy · Terms · Collection notice
Substack is the home for great writing