

Chance of Q4 Thunderstorms rising

October 10, 2022



Marcus Aurelius

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Executive Summary

The Business Cycle is in **Stage 6** as Bonds, Stocks, and Commodities remain in downtrends.

Stocks and Bonds moved into the Lagging Quadrant over the past week as Commodities performed potential Phase C behavior. The Eurodollar futures curve has moved nearly 25 bps higher since the last update, and expectations are moving towards higher rates for longer out into 2024.

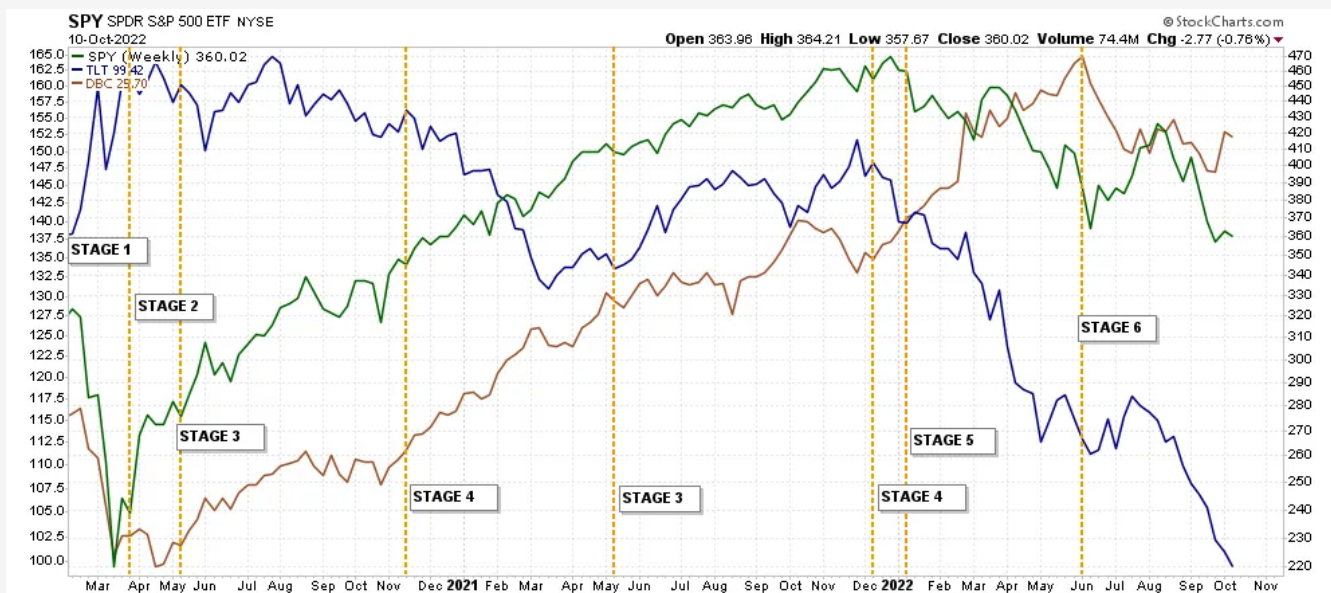
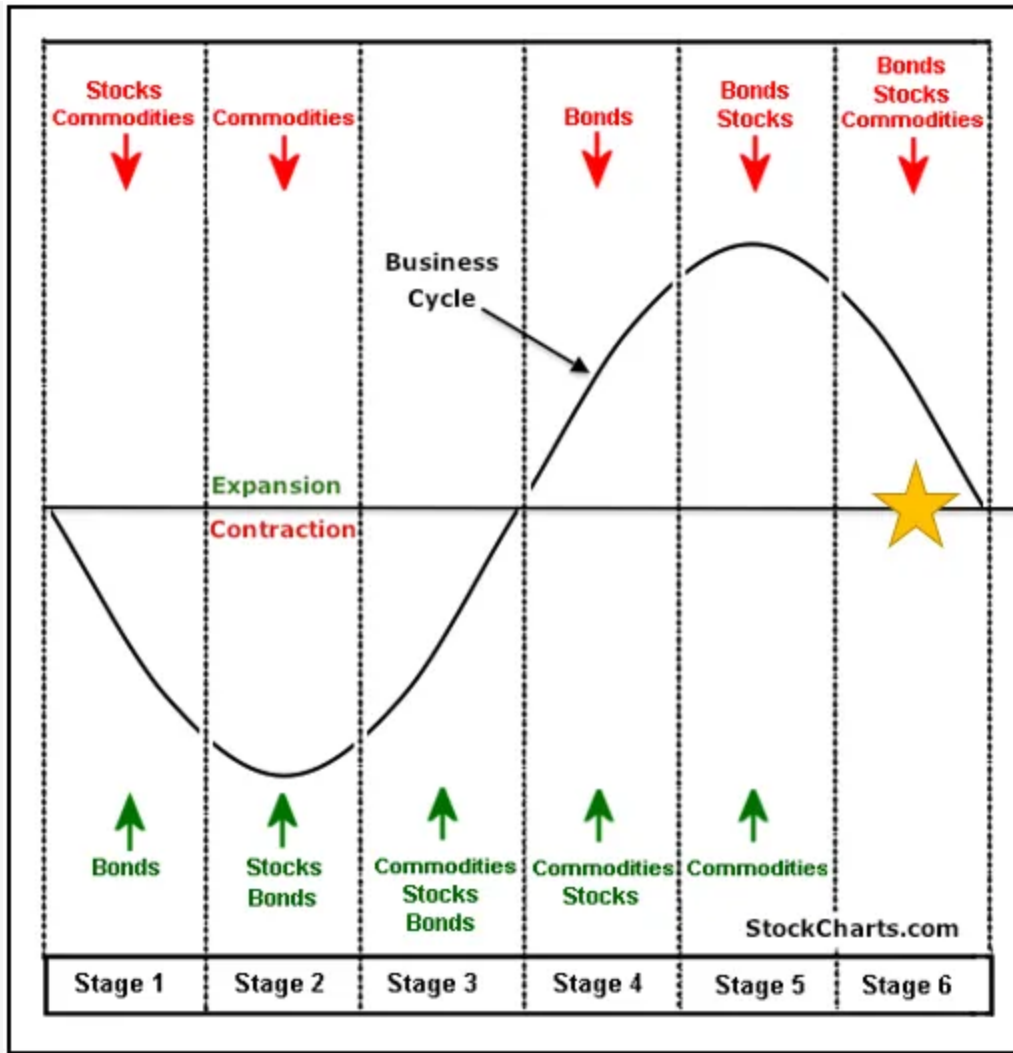
No sector quadrant changes this week as Technology weakened, Energy strengthened, and Defensive Sectors continued to gain bullish momentum. Communication Services is highlighted as a sector of interest.

The NYSE Breadth line has broken to new lows ahead of price which suggests a move lower is still ahead for Stocks.

“My mind, as an instrument of reason, doesn’t invent its own trouble, doesn’t frighten or seduce itself. If there is something else that can frighten or harm me, then let it be so, but under no circumstance will the assumptions and imaginings of my own mind lead me to feel fear or pain.”

- Marcus Aurelius -

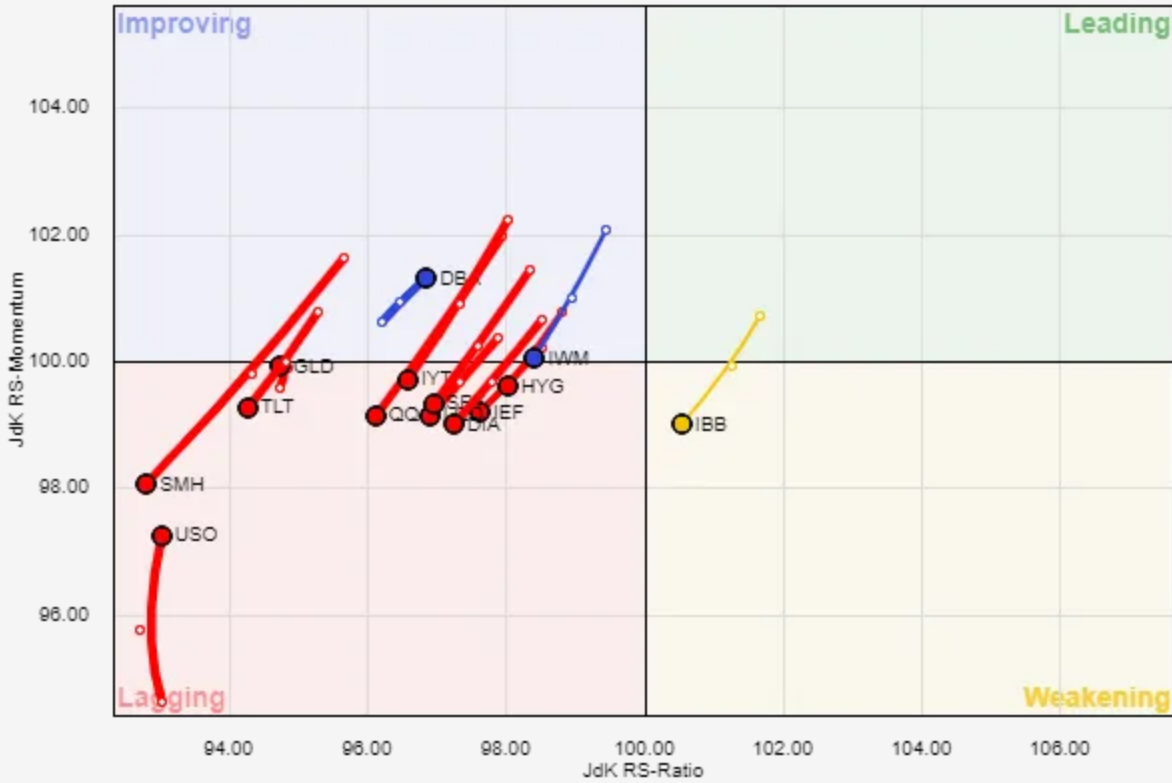
Business Cycle



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



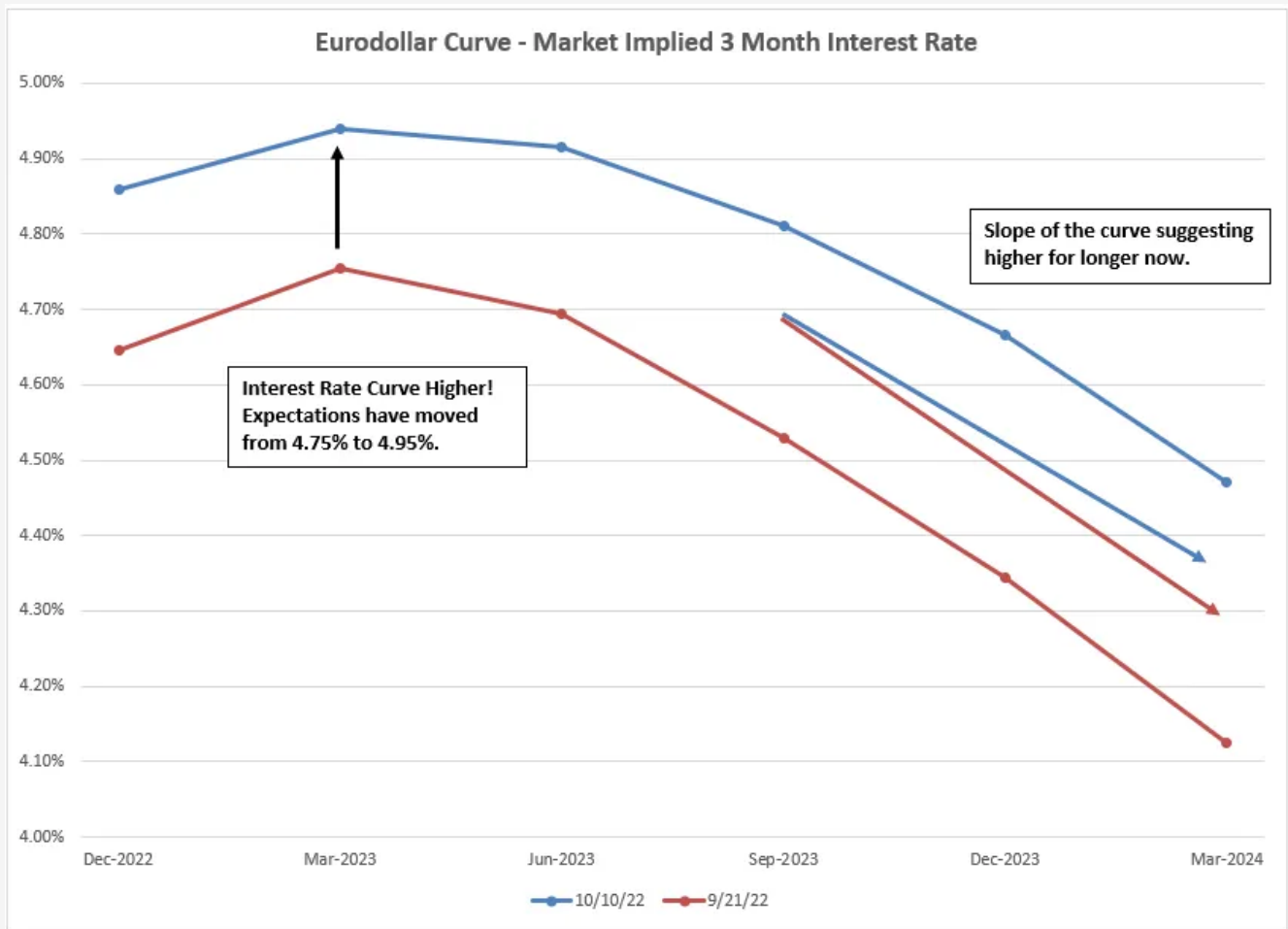
Bond ETFs - HYG, IEF, LQD, TLT. **Stock ETFs** - DIA, IBB, IWM, IYT, QQQ, SMH, SPY. **Commodity ETFs** - DBA, GLD, USO.

Asset Analysis

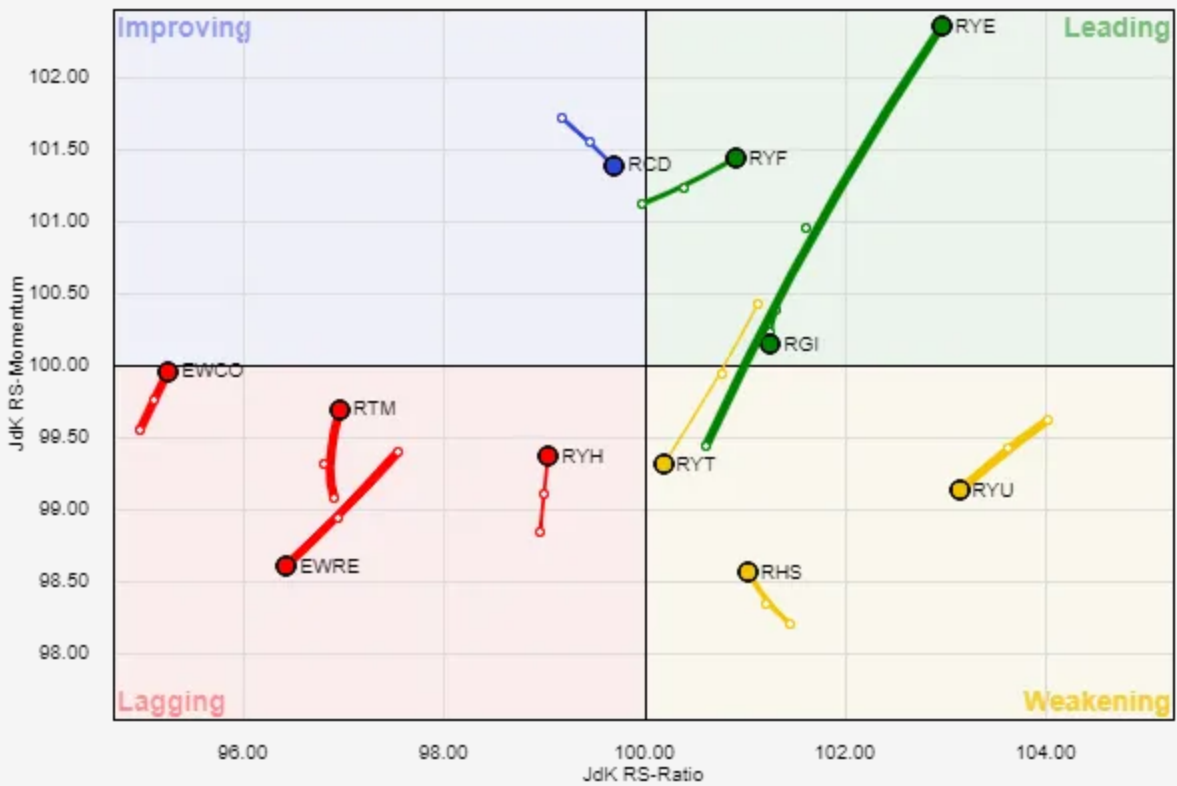
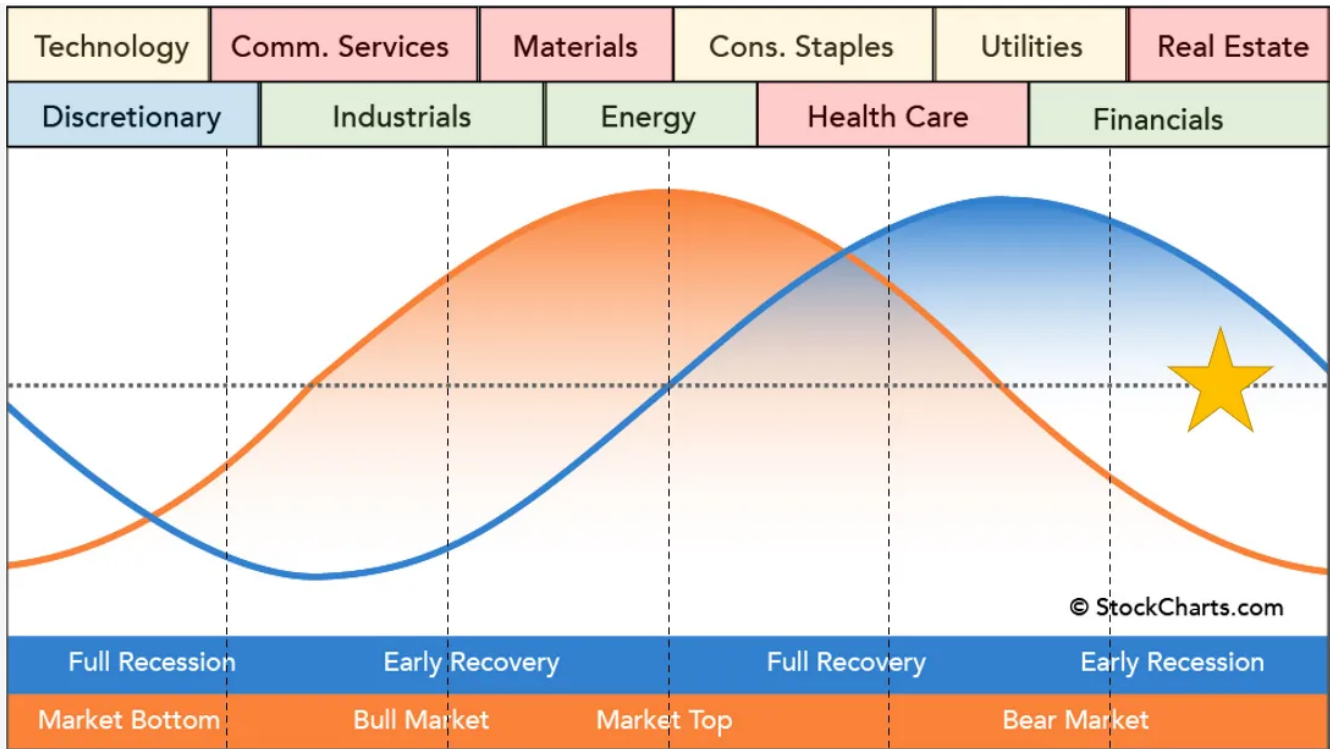
Stocks and Bonds continue their bearish momentum moving into the Lagging quadrant this week. There are no signs of stopping action yet as week over week momentum is strongly to the downside.

Commodities look to be completing a rally into a potential bearish Phase C, increase in momentum towards Improving before turning back towards Lagging. We still wait for the confirmation of a turn which will come on the next downswing and test of this recent rally. See the charts below.

As we look at the Eurodollar Curve for expectations of interest rates, the curve has risen nearly 25 bps since our last update on September 21. Not only is the curve higher, but the slope of the curve out into 2024 is less steep than previous suggesting an expectation for Higher Rates for Longer. The inversion remains in March 2023 which still suggests market participants believe the Fed will stop their rate hiking cycle by Q1 2023... will it be due to the Q4 Thunderstorms?



Sector Rotation



Sector Analysis

There were no quadrant changes this past week. Technology continued its bearish momentum moving through the Weakening quadrant towards Lagging. Energy

continued its extreme bullish momentum surging into the Leading quadrant. Materials, Healthcare, and Consumer Staples continued to gain bullish momentum as market participants take on a more defensive stance.

The most interesting development over the past couple weeks appears to be Communication Services. It has been able to change course from down to the left to now up to the right, and nearing the Improving quadrant. Typically an early cycle sector, this will be an interesting sector to keep an eye on if it turns out that we see signs of a short term rally developing in stocks again.

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 moved back into the upper half of the current trading range suggesting strength remains in the dollar for the time ahead. Price is inside the September 28 breakdown bar at this time, and the expectation is this secondary test upswing could end anywhere from here towards \$30.75. The Dollar remaining at elevated levels can continue to put stress of the rest of the global economic system.

Stocks (SPY) performed an upswing last week and test of the bottom of the large trading range. Price has quickly retreated to testing the lows on Friday and today. Demand was present today creating a demand tail, but tomorrow will be more telling with all markets open after the holiday. (Bond markets were closed for holiday). With the sounds of ice cracking, the bias remains to the downside.

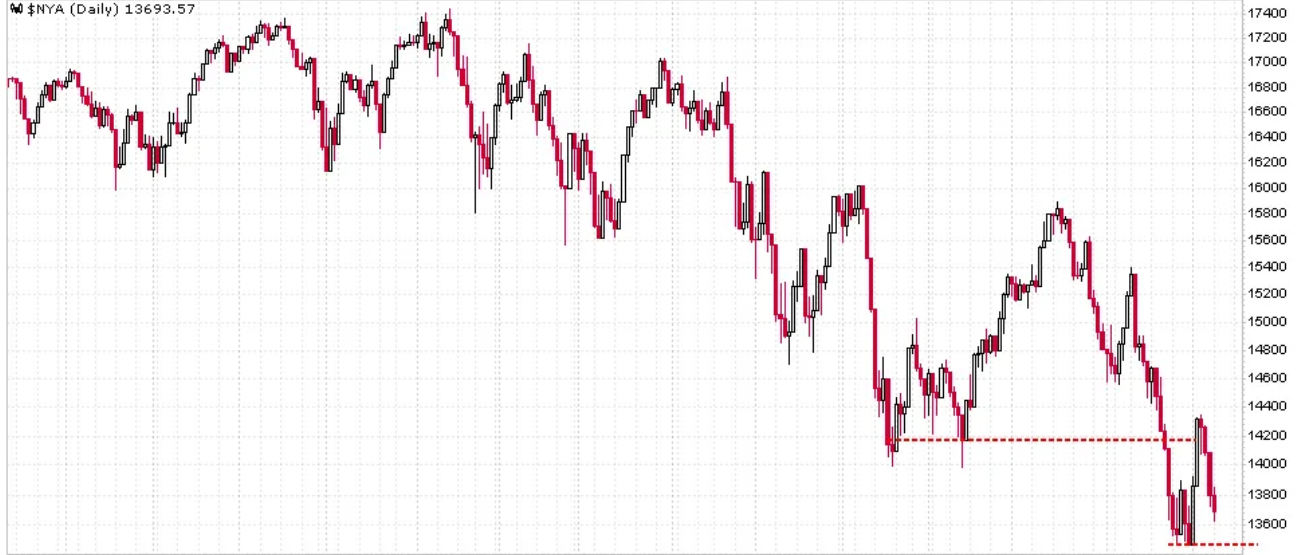
Bonds (TLT) continue to be in a markdown as price has broken below the most recent trading range and closed below the key \$100 level. No stopping action yet.

Commodities (DBC) look to have completed their upswing which has resulted in a lower high for the larger trading range. How this downswing plays out will be key to determining if the bias needs to be changed. At this time, bias remains to the downside with this most recent rally being a Last Point of Supply type behavior.

There are no signs of stopping action in the market internals yet either. The NYSE Breadth line has broken to new lows ahead of price, suggesting price will soon follow. And, Value continues to outperform Growth even through last week's rally. The outperformance of Value over Growth continues to point towards a defensive stance.

\$NYA NYSE Composite Index: INDX

Open: 13798.26	Ask:	P/E:	Options: no	Monday 10-Oct-2022
High: 13846.85	Ask Size:	EPS:	Annual Dividend: N/A	▼ -0.76%
Low: 13629.59	Bid:	Mkt Cap:	Yield: N/A	Chg: -104.69
Prev Close: 13798.26	Bid Size:	Last Size:	SCTR:	Last: 13693.57
				Volume: 0



\$NYAD -30236.00



NYSE Breadth Line

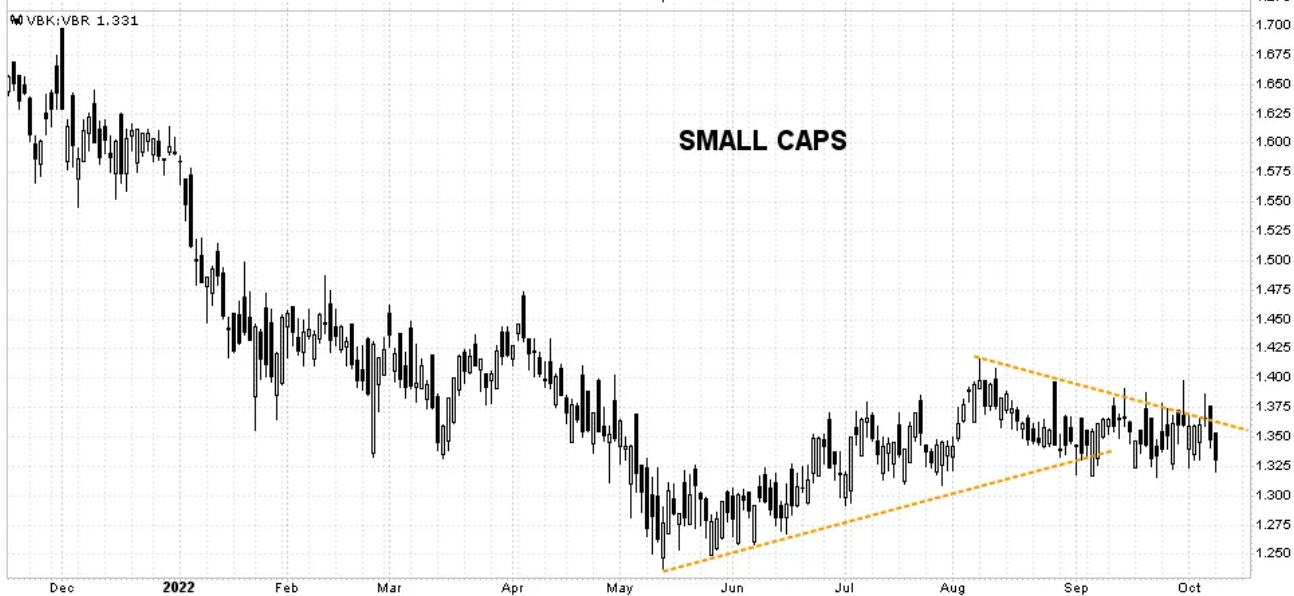
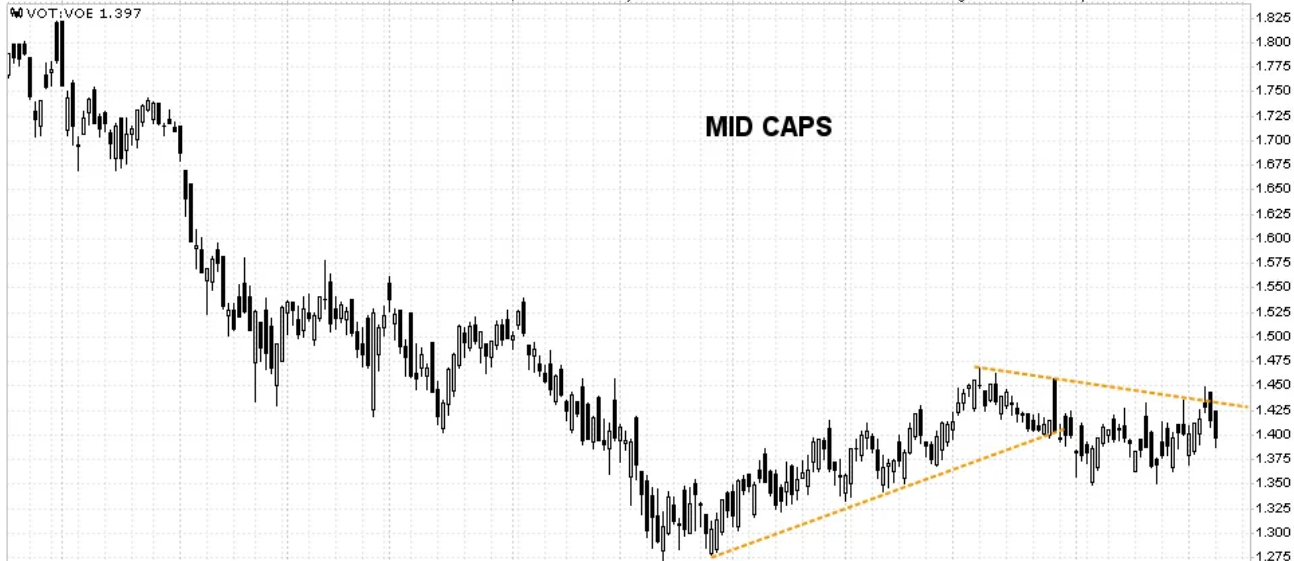
VUG:VTV Vanguard Growth ETF/Vanguard Value ETF NYSE

Open: 1.726	Ask:	P/E:	Options: no	Monday 10-Oct-2022
High: 1.728	Ask Size:	EPS:	Annual Dividend: 0.44769788	▼ -0.78%
Low: 1.690	Bid:	Mkt Cap:	Yield: 26.26%	Chg: -0.013
Prev Close: 1.718	Bid Size:	Last Size:	SCTR:	Last: 1.705
				Volume: 0

VUG:VTV (Daily) 1.70



LARGE CAPS



Growth vs Value

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