

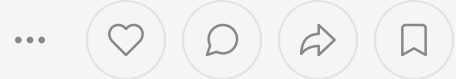
Q4 calling for clear skies ahead?

October 24, 2022



Marcus Aurelius

1 min ago



Executive Summary

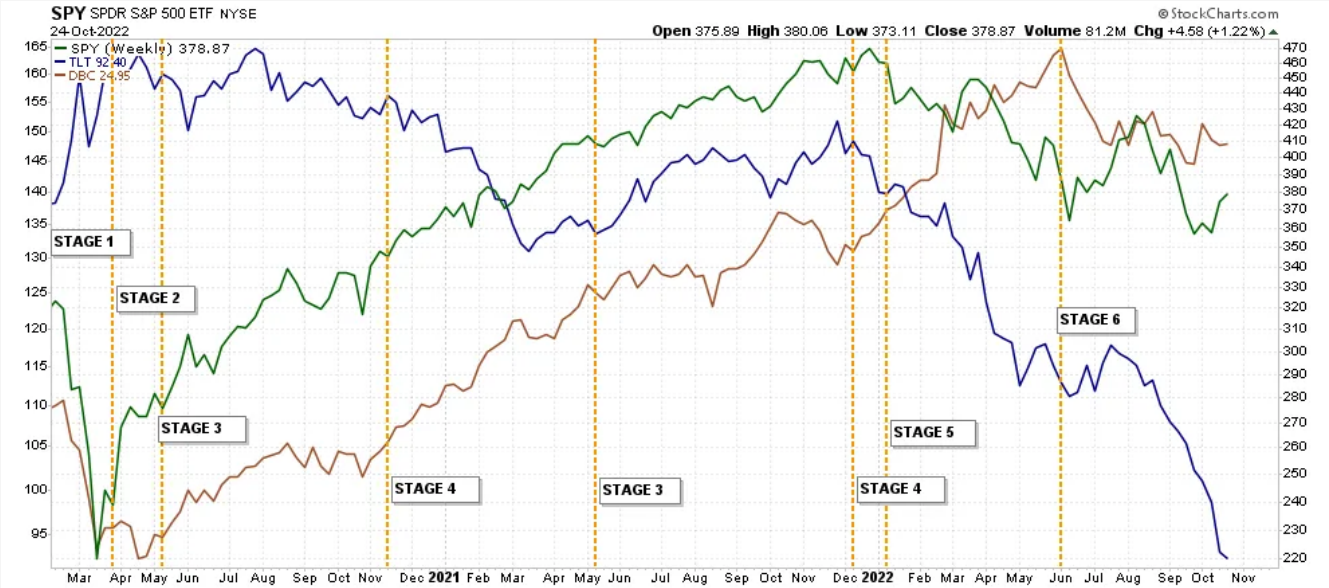
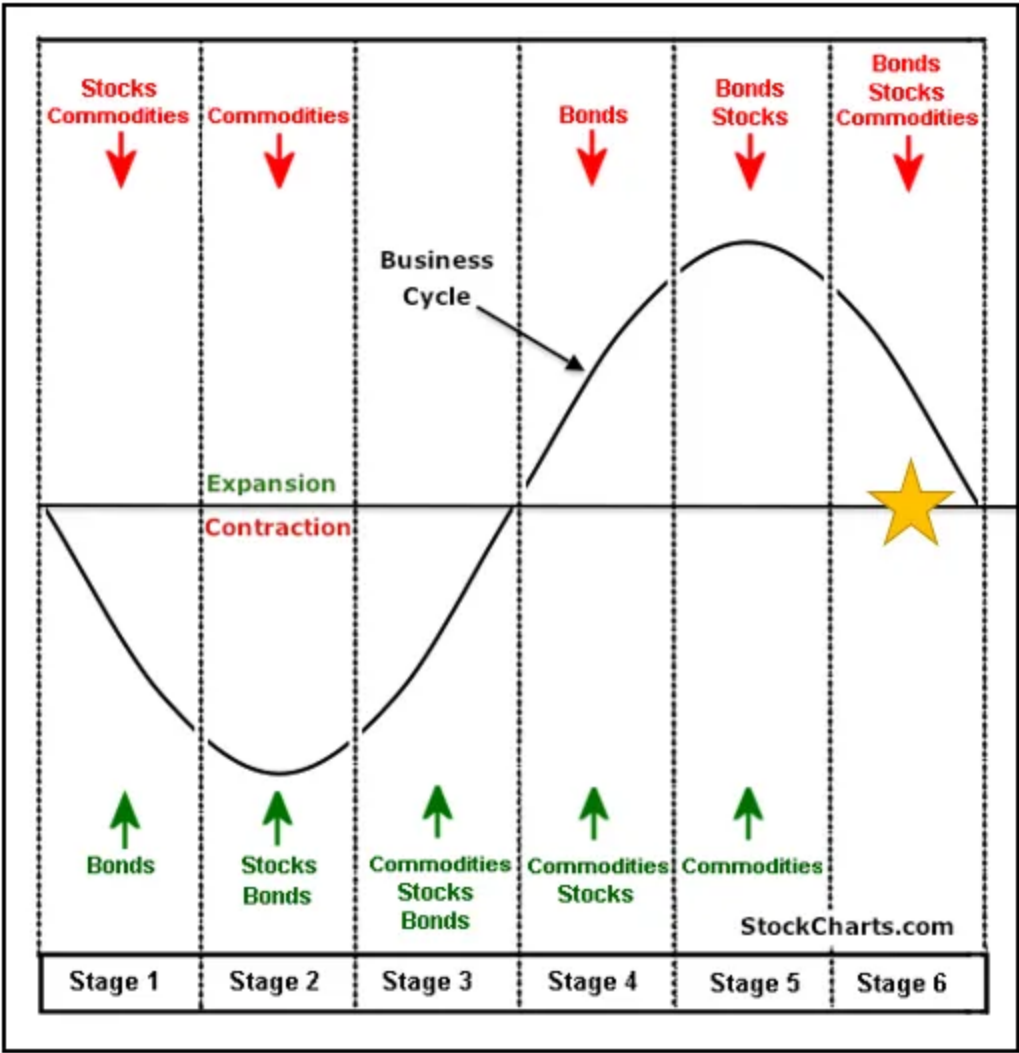
The Business Cycle is in **Stage 6** as Bonds, Stocks, and Commodities remain in downtrends.

Two weeks ago on October 10th, the Marcus Report title was "Chance of Q4 Thunderstorms rising" and since then, stocks broke to new lows on a hot CPI release to only quickly turn around in an amazing intraday rally of 5%+. The latest "Past Week with PnF Charting" showed the Ice cracking and expecting the next leg lower as long as price couldn't lift higher from current levels. Well, after the price action taking place on Friday, the expectation has to be changed from a forecast of Q4 Thunderstorms to a forecast for Q4 Clear Skies ahead.

"Living is more like wrestling than dancing: you have to stay on your feet, ready and unruffled, while blows are being rained down on you, sometimes from unexpected quarters."

- Marcus Aurelius -

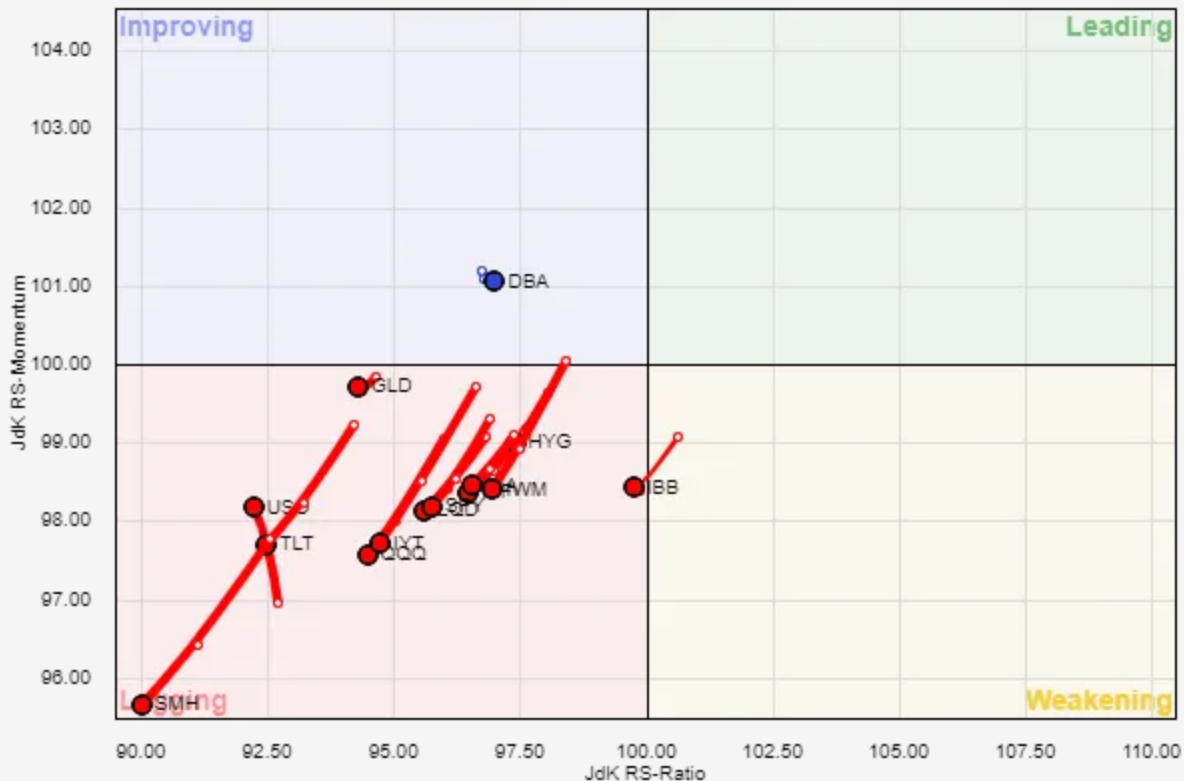
Business Cycle



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

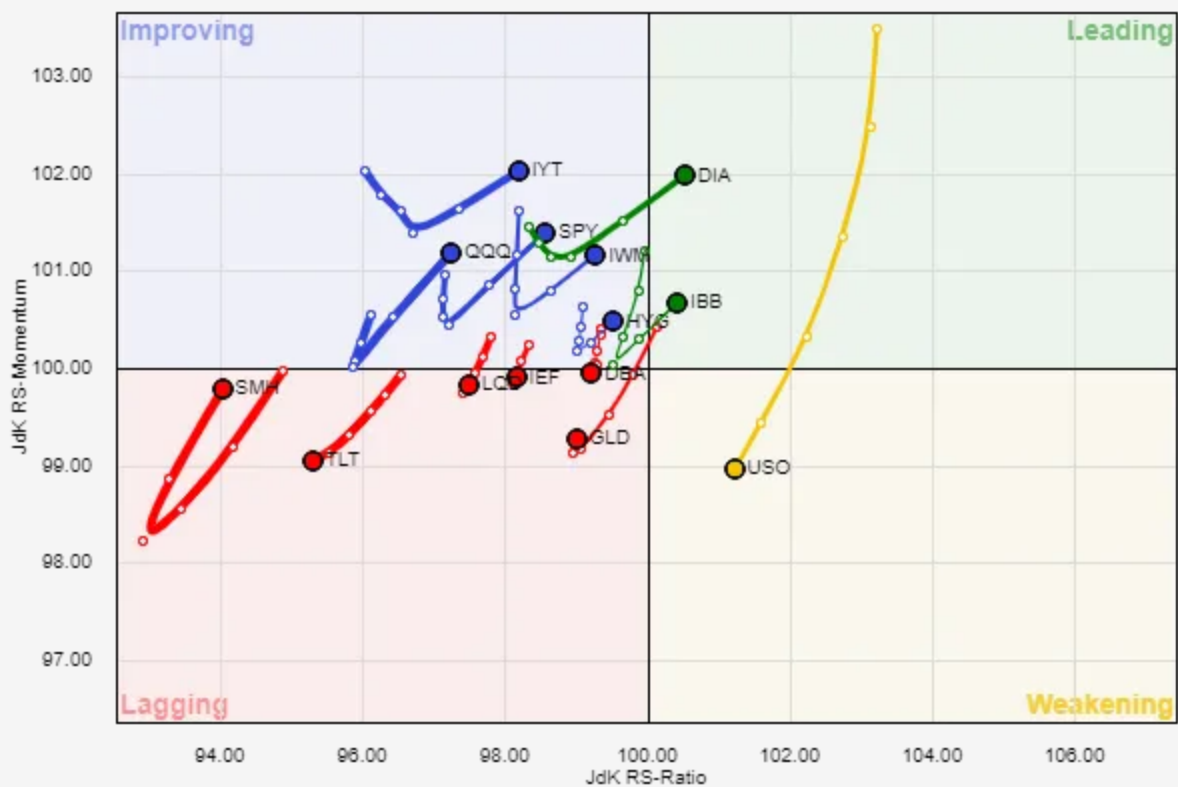


Bond ETFs - HYG, IEF, LQD, TLT. Stock ETFs - DIA, IBB, IWM, IYT, QQQ, SMH, SPY. Commodity ETFs - DBA, GLD, USO.

Asset Analysis

Stocks, Bonds, and Commodities remain in the Lagging quadrant.

There are some signs of slowing downward momentum when examining the daily RRG timeframe. What looked like the setup for a retest of lows going into last Thursday & Friday, has instead resulted in a sharp turn for stocks back towards Leading.




What caused this sharp abrupt turn? I came across an article today that I thought the headline and description might have captured it well. Now, I always remind myself with Zerohedge articles to take it with a grain of salt (and maybe a shot of tequila), but I thought the article description hit on the overarching theme.

"White House Officials Were Knocking On Fed Chair Powell's Door Last Week": McDonald



"We believe the Fed, the White House, the Wall Street Journal, and the Bank of Japan – were all working closely together on Friday morning."

MON OCT 24. AT 8:47 AM

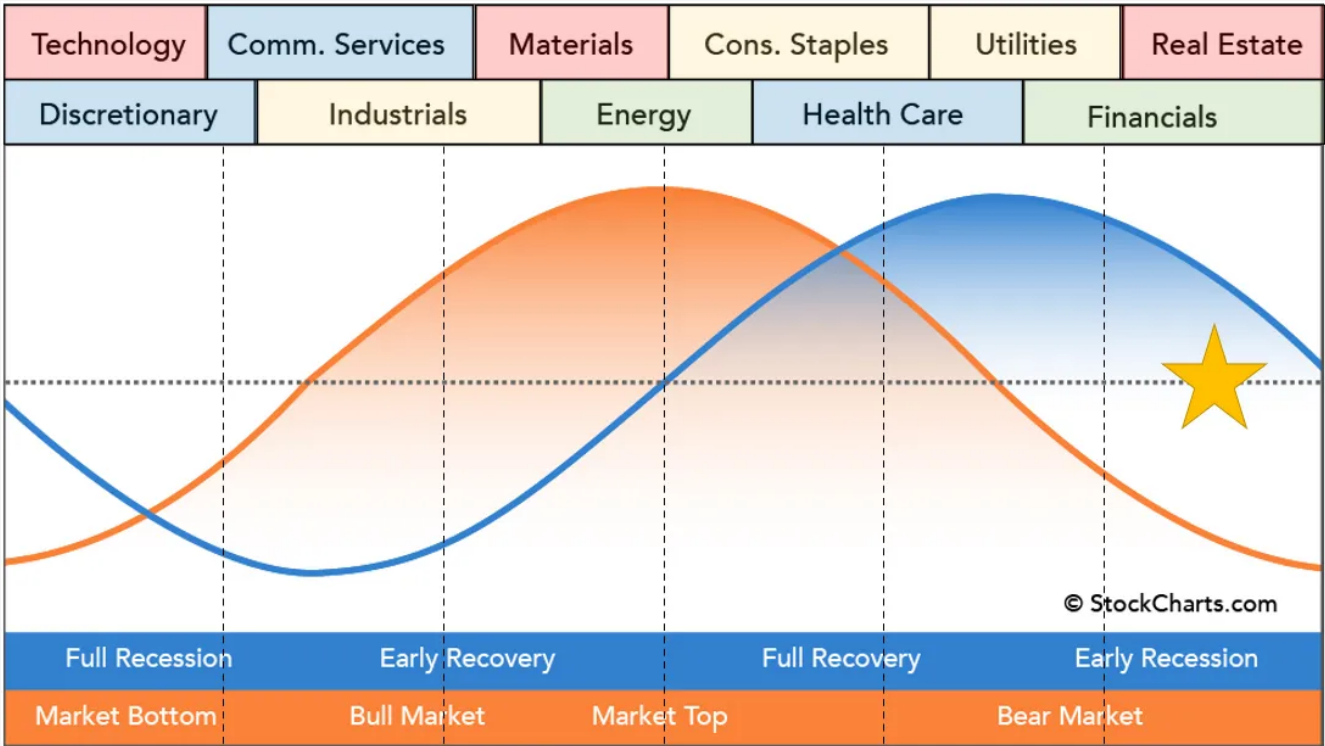
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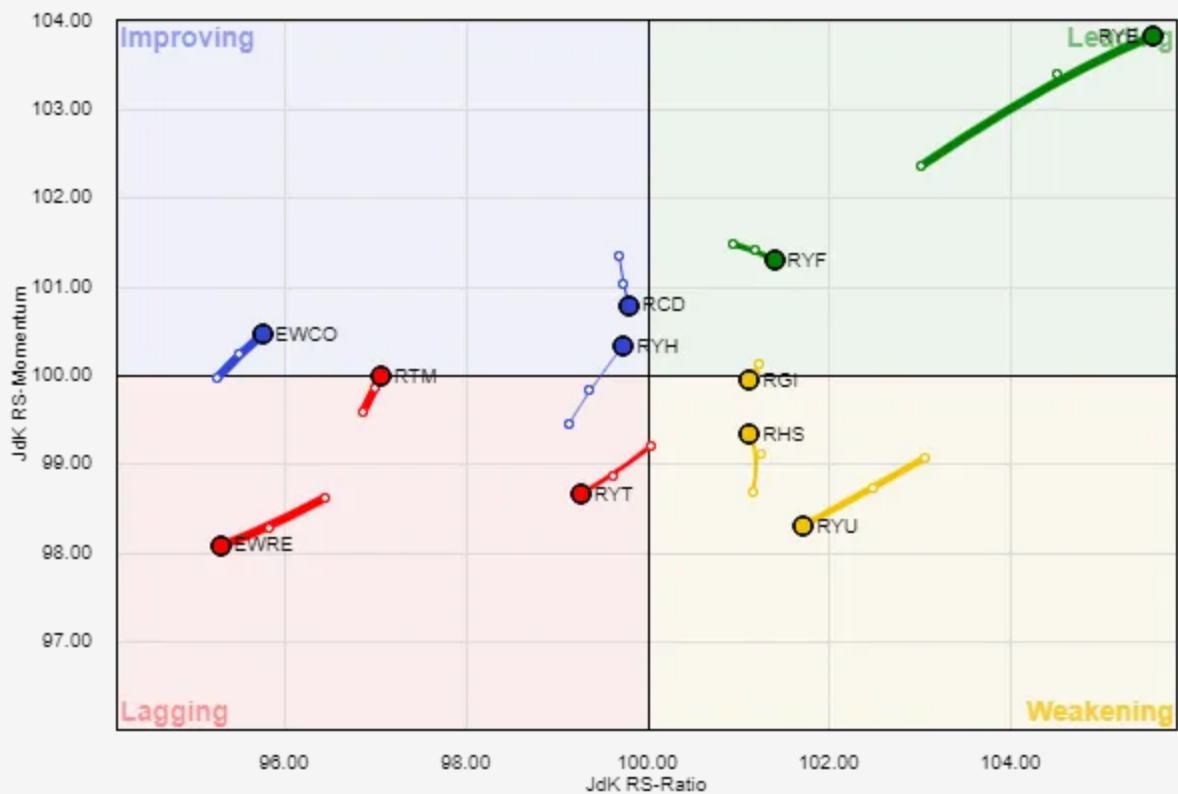
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Last Friday's price action seemed like a bullish change of behavior or at least a confirmation of the bullish change of behavior after the CPI Data Release which led to a 5%+ intraday rally. The BOJ intervened in the Yen, Long Bonds (TLT) put in a climatic type gap down and large volume increase, and the Wall Street Journal reported that fed

officials are quietly discussing their desire to slow things down. The background is there for clear skies to be coming in Q4.

Sector Rotation

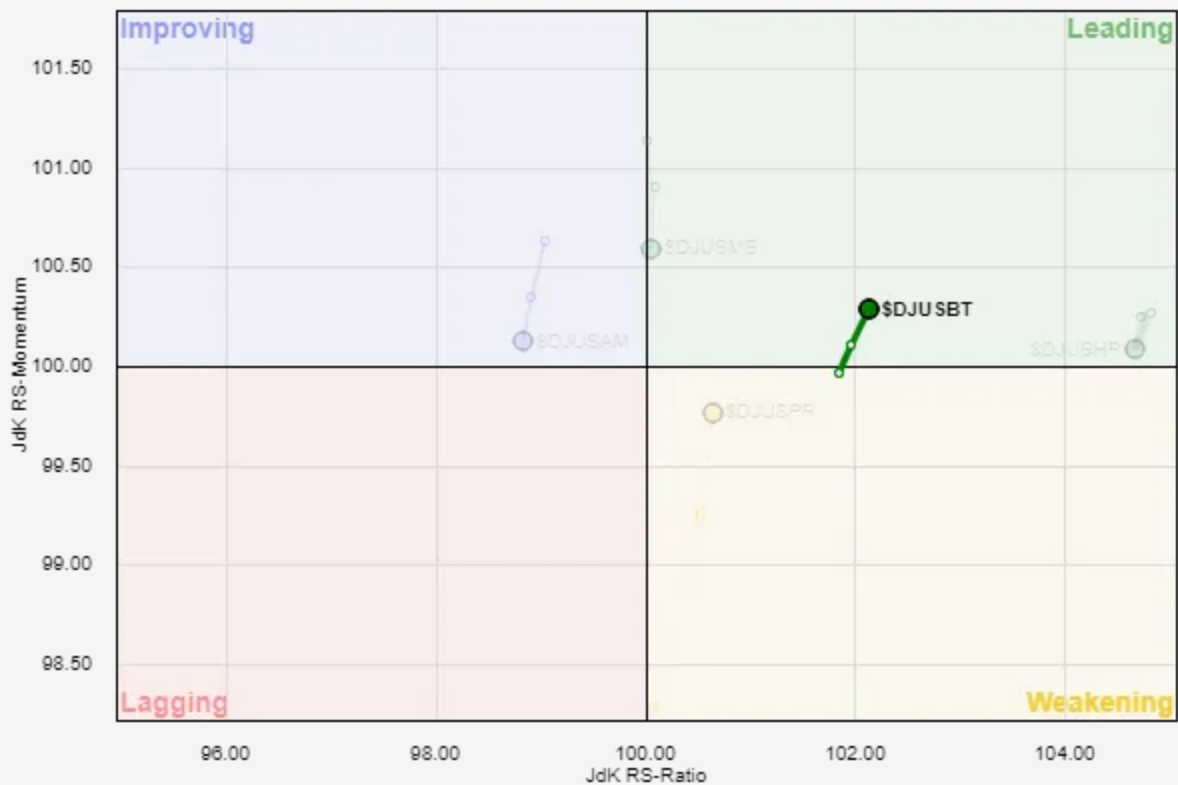




Sector Analysis

There were two quadrant changes this week with Healthcare moving from Lagging to Improving, and Industrials from Leading to Weakening. One note, Materials is right on the cusp on moving into Improving which would add another early to mid cycle sector into the Improving camp.

Healthcare is typically considered a more defensive sector when we think of Healthcare Providers and Medical Supplies. These are services and items people need in any economic backdrop. So, how could it be that Healthcare moving into Improving might help the early cycle bull case?



RRG Healthcare Industries

When we drill down into the Healthcare Sector and examine the Healthcare Industries, this is where we see that Biotechnology is the recent outperformer carrying the sector forward. Biotechs are a higher risk early cycle type of industry which highlights the potential that market participants might be expecting Q4 Clear Skies ahead.

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) remains in the trading range with sideways price action. As long as the Dollar can remain at or below these levels, it should give enough reprieve for other assets to form a potential rally.

Stocks (SPY) are testing the upper bound of the current trading range around \$380. The bullish price action from Oct 13 & Oct 21 suggests the momentum is now to the upside. The expectation would be for price to test further at the \$370-\$380 level or perform a breakout over and then retest lower of \$380 before the Q4 Clear Sky Rally fully plays out.

Bonds (TLT) look to have created potential stopping action with a climatic type gap down and climatic type volume increase, see the red arrows on the Daily Chart above. The expectation is for price to hold the \$92 level in the short term and that an Automatic Rally back towards \$100 could develop soon.

Commodities (DBC) continue to hold the key 50% retracement level of the last bullish change of behavior upswing. This keeps the bullish change of behavior valid, and given the current backdrop with Bonds and Stocks, the bias is changed to neutral at this time.

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