

Improving Q3 Expectations lend to a Bear Market Rally Unfolding

June 27, 2022



Marcus Aurelius

Jun 27

Executive Summary

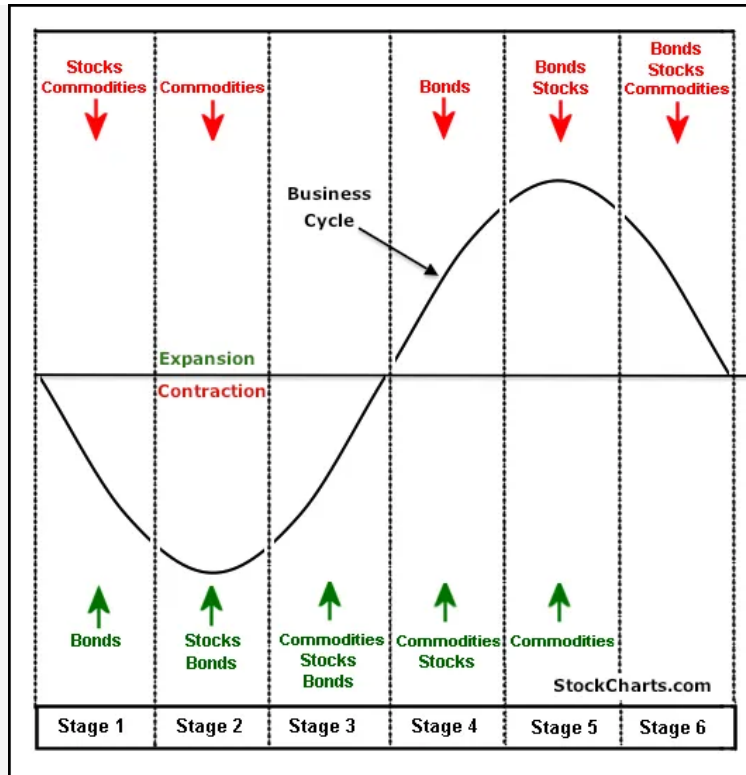
Commodities continue to weaken as we near Stage 6. Bonds and growth stocks are showing promising relative strength with Eurodollar futures pointing to a stronger Q3 than recently expected. This could lend to a bear market rally unfolding over the next few weeks.

Markets look to have broken out of short term accumulation structures with price targets roughly 8-13% higher from current levels.

“You will recall how impregnable your mind is when it withdraws into itself and steadfastly refuses to do what it doesn’t want to do, even when its refusal is unreasonable. Imagine then what it’s like when it arrives at a decision calmly and reasonably. Free from passions, the mind is a veritable fortress. A man cannot find a more secure place to take refuge and remain unassailable forever. Ignorant is he who fails to see this, and truly ill-fated is he who sees but fails to take refuge.”

- Marcus Aurelius -

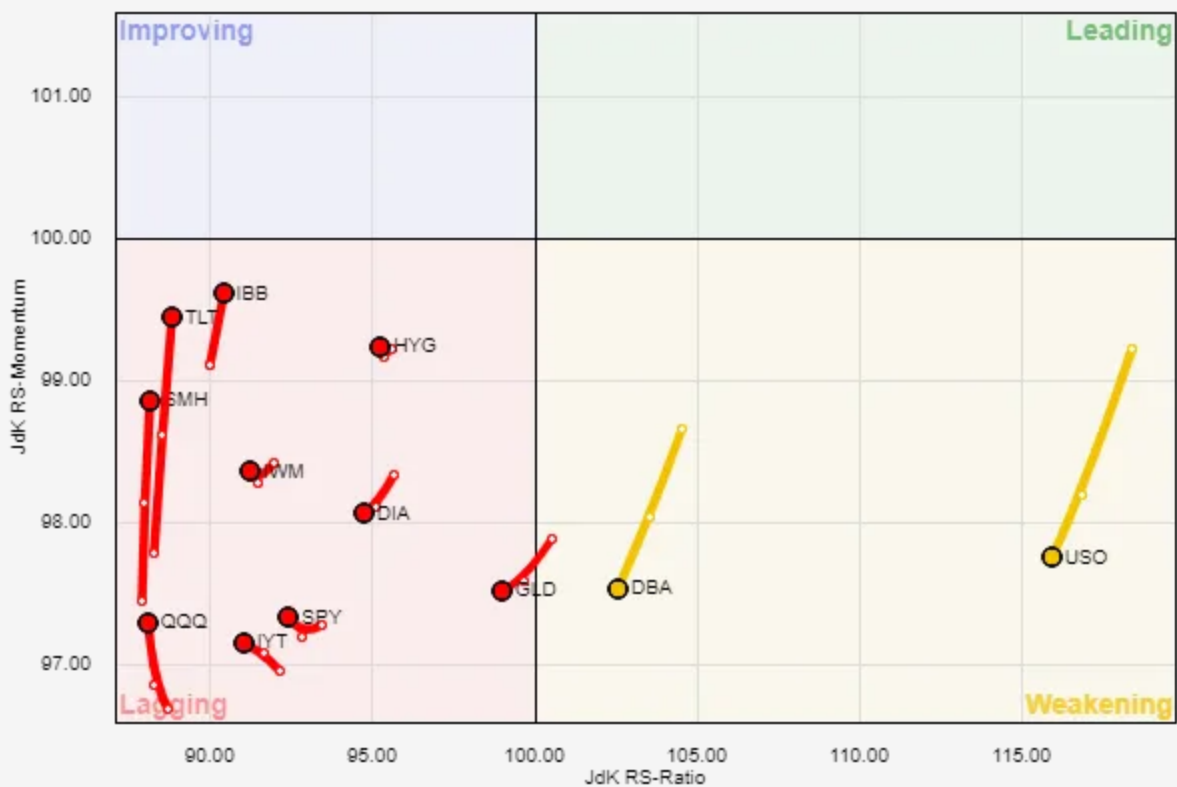
Business Cycle



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

Stage 5 - We are in a late business cycle environment which corresponds with the rising concerns of a potential recession and economic downturn.

Asset Rotation





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







Asset Analysis

Commodities weakened further over the last week with Agriculture (DBA) dropping ~5%. This is helping the storyline that Inflation has peaked / or is in the process of peaking. We could be in Stage 6 now, but will need to see breakdown of key levels or a series of lower lows and lower highs before we can confirm.

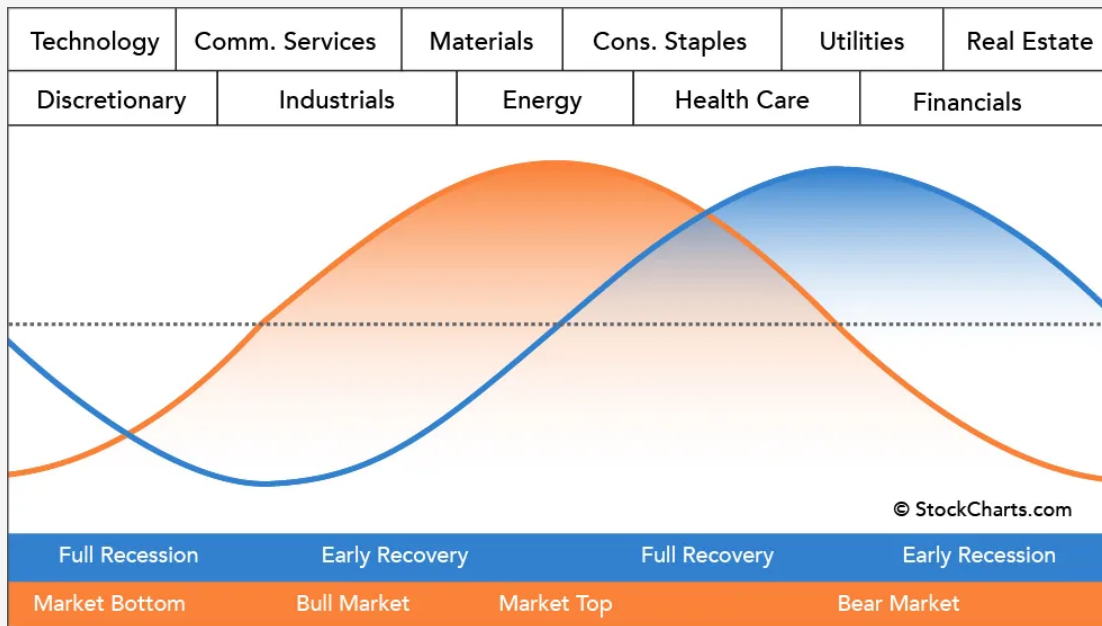
Bonds (TLT), IBB (Biotech), and Semiconductors (SMH) continue to move towards the improving quadrant. This lends to the idea that we could be finding a short term bottom for equities and currently in the early innings of a bear market rally.

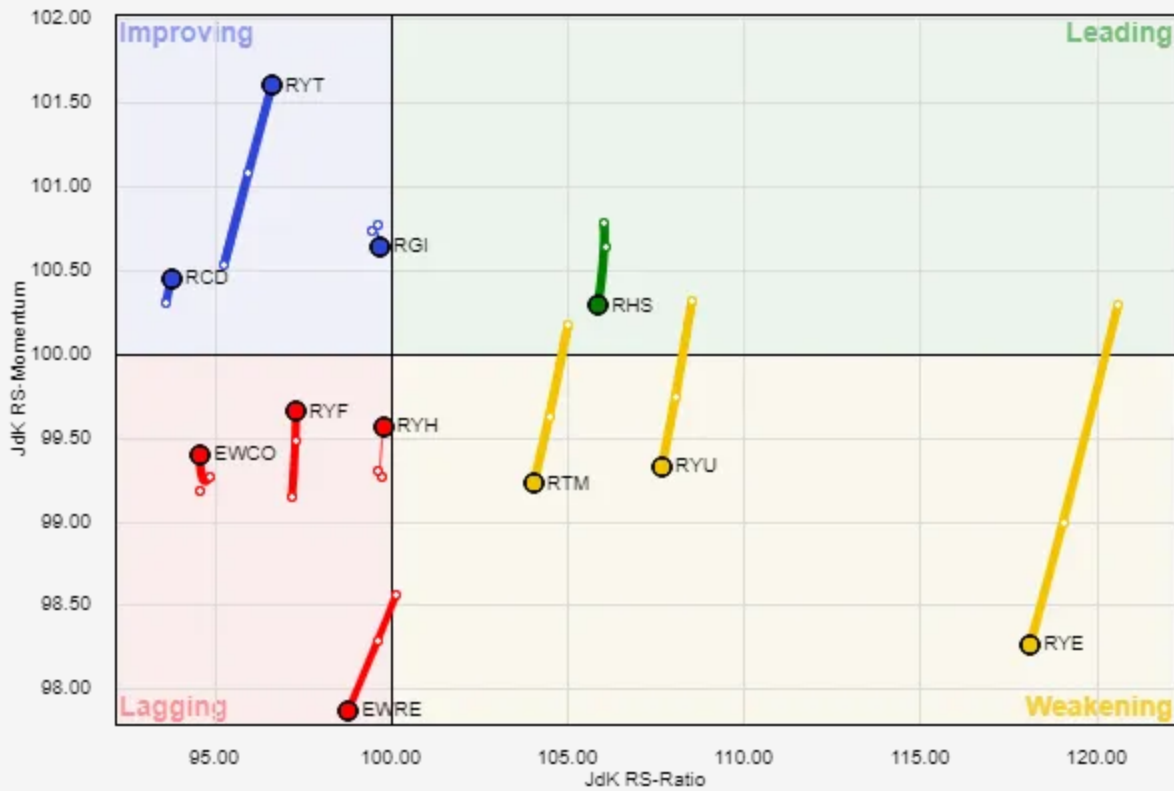
The inversion in Eurodollar futures moved from the December 2022 contract to the March 2023 contract which suggests a softer landing than previously thinking. This could mean a stronger Q3 and not rapid slowdown which would be bullish for equities.

06. Eurodollar ▾ +  

Symbol	Last	Chg%
 GEU2022	96.720	-0.01%
 GEZ2022	96.215	-0.02%
 GEH2023	96.195	-0.02%
 GEM2023	96.300	-0.02%
 GEU2023	96.440	-0.01%
 GEZ2023	96.550	-0.01%

Sector Rotation





Improving

Discretionary, Technology, Industrials.

Leading

Consumer Staples.

Weakening

Energy, Utilities, Materials.

Lagging

Communication Services, Financials, Real Estate, Health Care.

Sector Analysis

Sectors didn't change quadrants from last week, so there isn't much to report. Overall, the rotation taking place continues towards bullishness for equities.

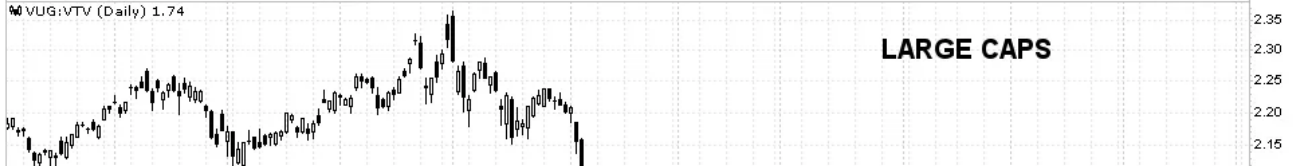
VUG:VTV Vanguard Growth ETF/Vanguard Value ETF NYSE

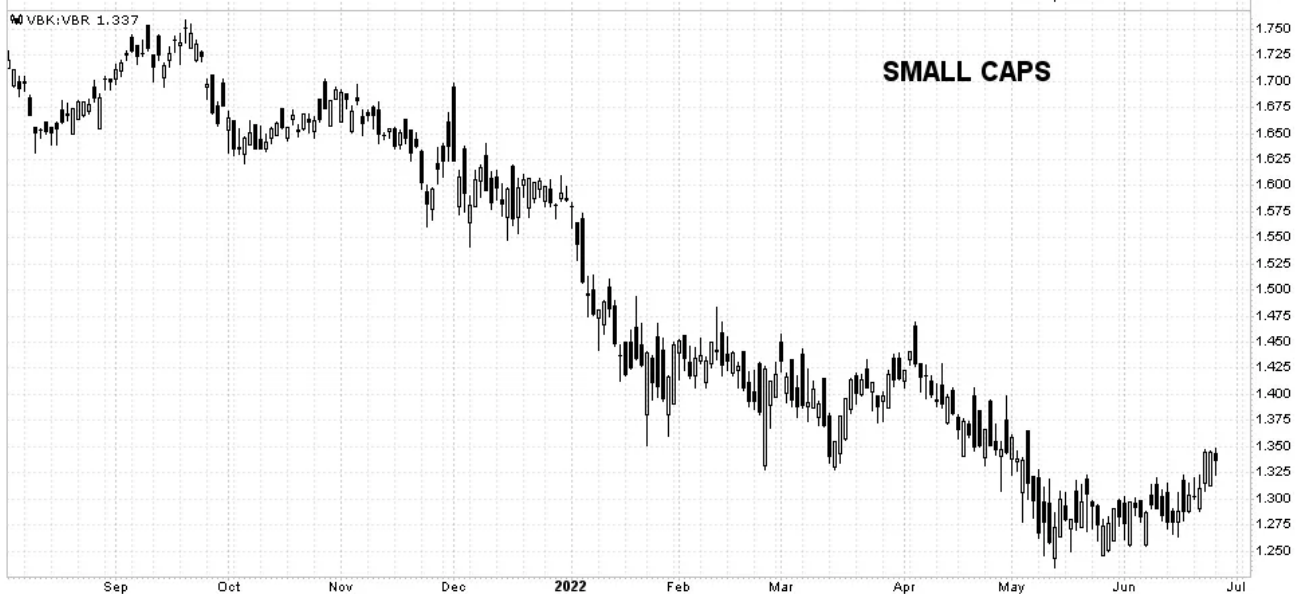
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Open: 1.757	Ask:	P/E:	Options: no
High: 1.762	Ask Size:	EPS:	Annual Dividend: 0.4375637
Low: 1.729	Bid:	Mkt Cap:	Yield: 25.20%
Prev Close: 1.759	Bid Size:	Last Size:	SCTR:

Monday 27-Jun-2022
 ▼ -1.30%
 Chg: -0.023
 Last: 1.736
 Volume: 0

VUG:VTV (Daily) 1.74





Growth Stocks vs Value Stocks by Market Cap

Last week, we covered the S&P 500 P/E Ratio and that institutions might be ready to start buying stocks that have gone on sale from the peaks. We are seeing this show up in Growth Stocks showing relative strength over Value stocks. This is occurring across all

market cap sizes (Large, Mid, Small) which is bullish behavior. The charts above show local higher highs and higher lows which can represent a change in character from the previous markdowns.

The Charts



Major Stock Index Daily Charts



Major Stock Index Intraday Charts

Technical Analysis

The stock indices have created a short term structure at the lows over the last 2 weeks. Friday's price action was extremely bullish breaking out of these smaller structures and starting a short term markup. The blue price target boxes are the targeted zones based on point & figure counts. Current bias is to the upside as this bear market rally unfolds.

The Trades

Holds

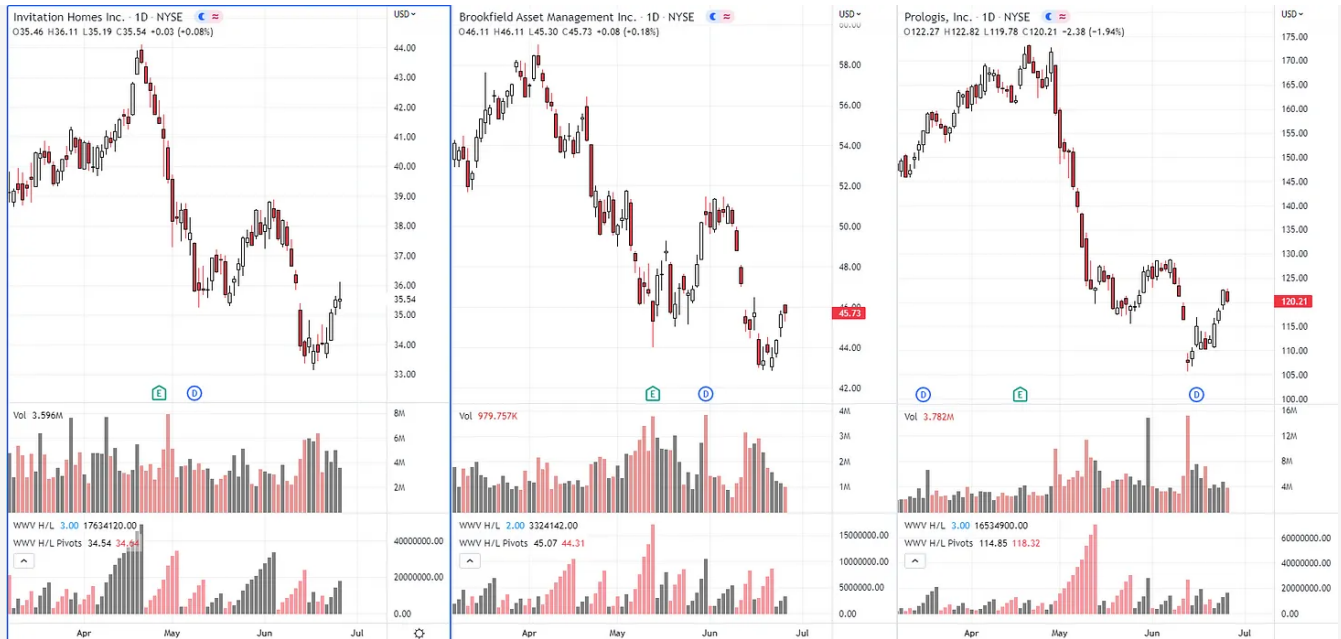
New long positions were entered in Technology (ON) and Industrials (PCAR) last week. Expecting a move higher as the market indices move towards the target zones.



ON 16 P/E, +111% EBITDA | PCAR 15 P/E, +30% EBITDA

Closes

Real Estate Shorts (INVH, BAM, PLD) have all been closed out last week as the market looks to be in a potential strong upswing.



New Longs

None at this time.

New Shorts

None at this time.

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