

The Business Cycle moves into Stage 1 as Bonds find their footing

July 18, 2022



Marcus Aurelius

Jul 18

Executive Summary

The Business Cycle moves into Stage 1 as commodities enter a downtrend and bonds stop their decline.

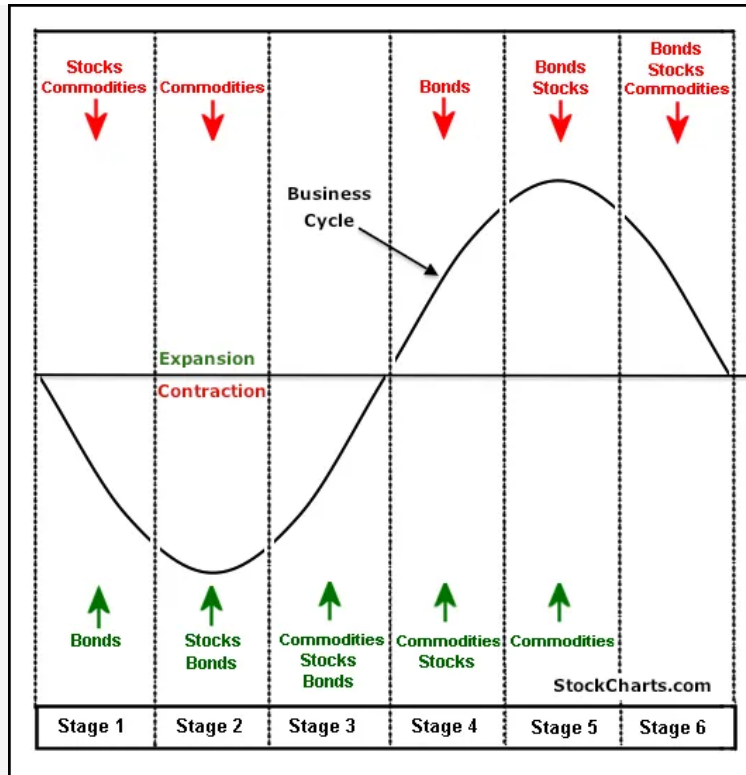
Stocks have held ground as they build a cause for the Q3 Bear Market Rally. Commodities continued to weaken and enter downtrends as concerns of a global economic slowdown continue to grow. Bonds might have priced in all of the expected Fed rate hikes for now, which could offer some reprieve to stocks.

Early cycle sectors (Technology, Discretionary, Communication Services, Industrials) continue to improve as mid to late cycle sectors (Materials, Energy, Consumer Staples, Utilities) begin to weaken. This is short to intermediate term bullish behavior for the Q3 Bear Market Rally.

“When you’re feeling overwhelmed and confused by the evil in your circumstances or the attacks of your enemies, fall back at once into yourself, while not losing contact with the forces pressing down on you. By thus keeping yourself in harmony with your own nature, you will not only find refreshment but be prepared to win the field.”

- Marcus Aurelius -

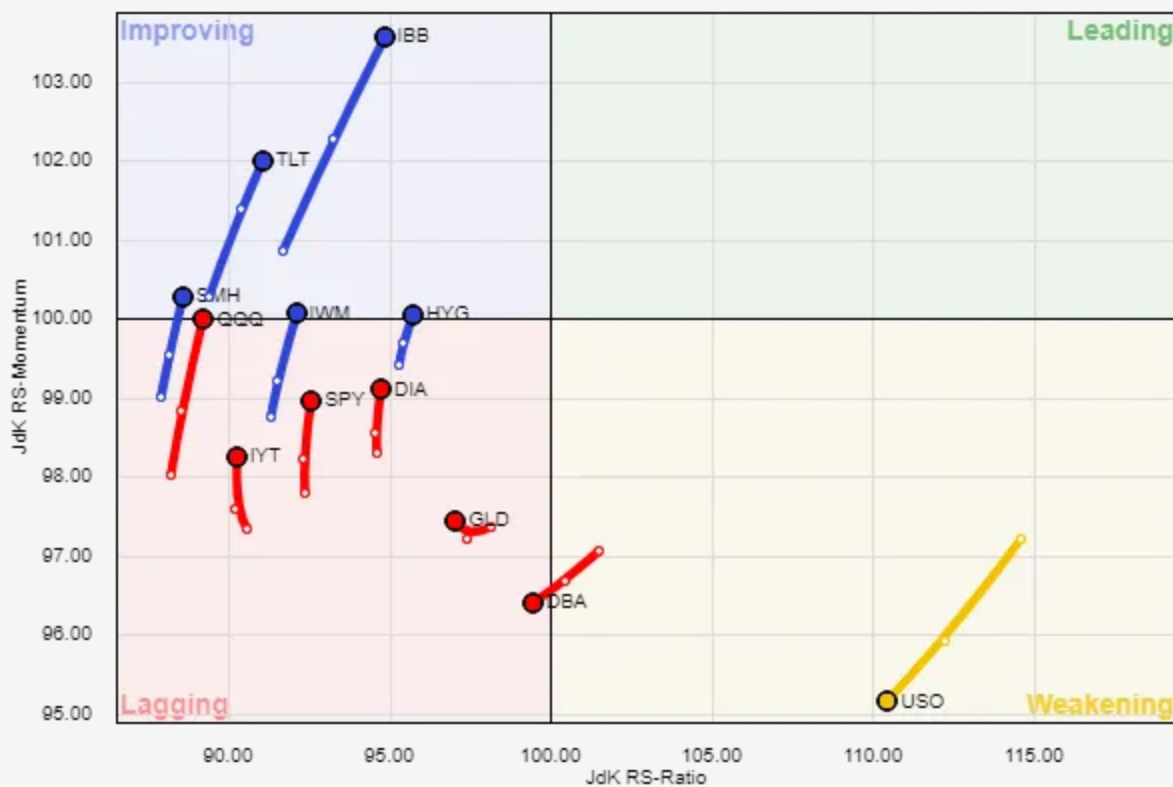
Business Cycle



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

Commodities move into markdown as Gold (GLD) and Agriculture (DBA) are in the lagging quadrant now. Oil (USO) is well into the weakening quadrant and moving towards lagging.

Bonds (TLT) move further into the improving quadrant while all Stock ETFs are in the improving quadrant or quickly moving in that direction. This lends to the Q3 Bear Market Rally unfolding soon.

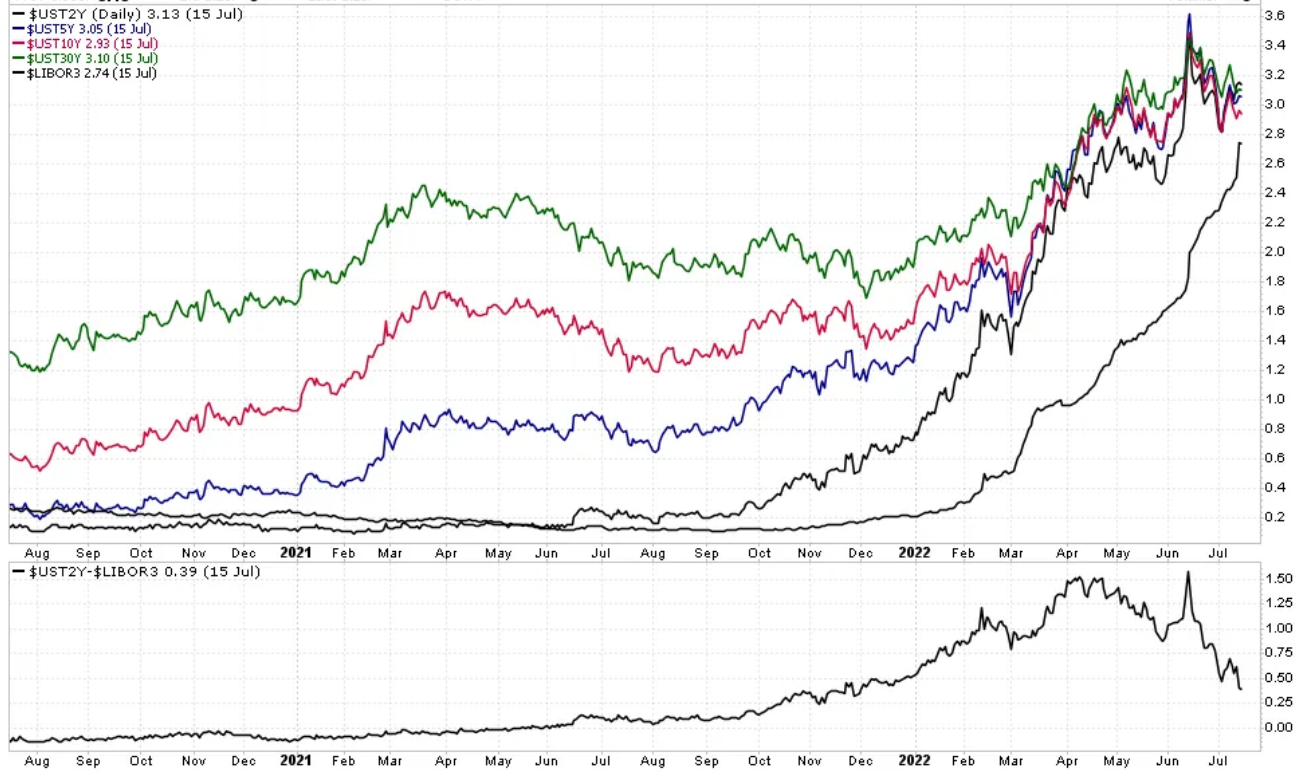
The 3 Month LIBOR (London Interbank Offered Bank) is closing the gap on the 2 Year US Treasury suggesting markets believe we are nearing the interest rate that the Fed will raise to for now.

\$UST2Y 2-Year US Treasury Yield (EOD) INDX

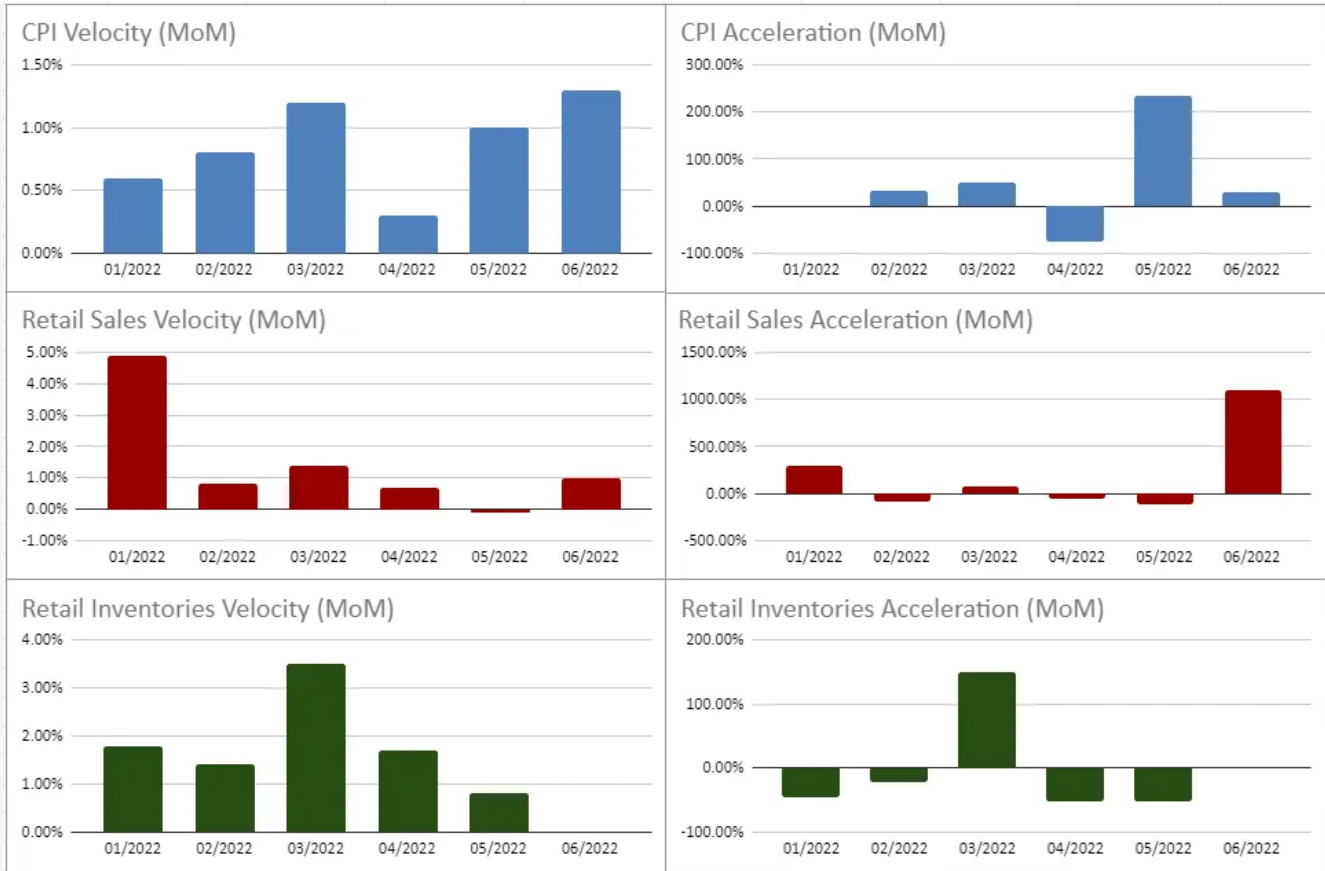
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Open: **3.13** Ask: **0.00** P/E: **NaN** Options: **no**
 High: **3.13** Ask Size: **0** EPS: **NaN** Annual Dividend: **N/A**
 Low: **3.13** Bid: **0.00** Mkt Cap: Yield: **N/A**
 Prev Close: **3.15** Bid Size: **0** Last Size: SCTR:

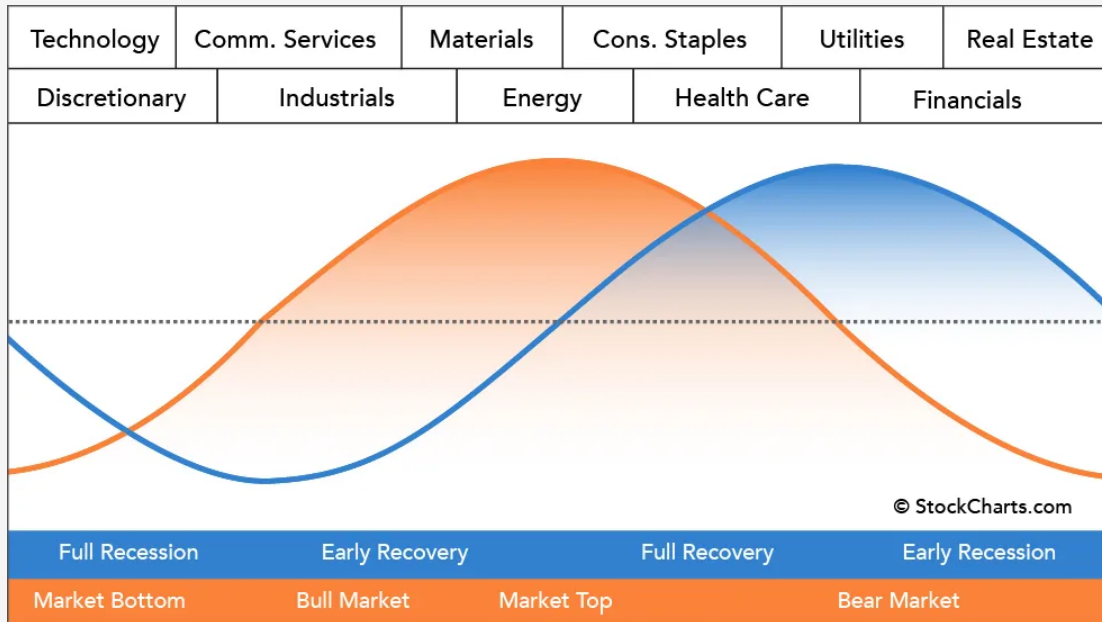
Friday 15-Jul-2022
 ▼ **-0.63%**
 Chg: **-0.02**
 Last: **3.13**
 Volume: **0**

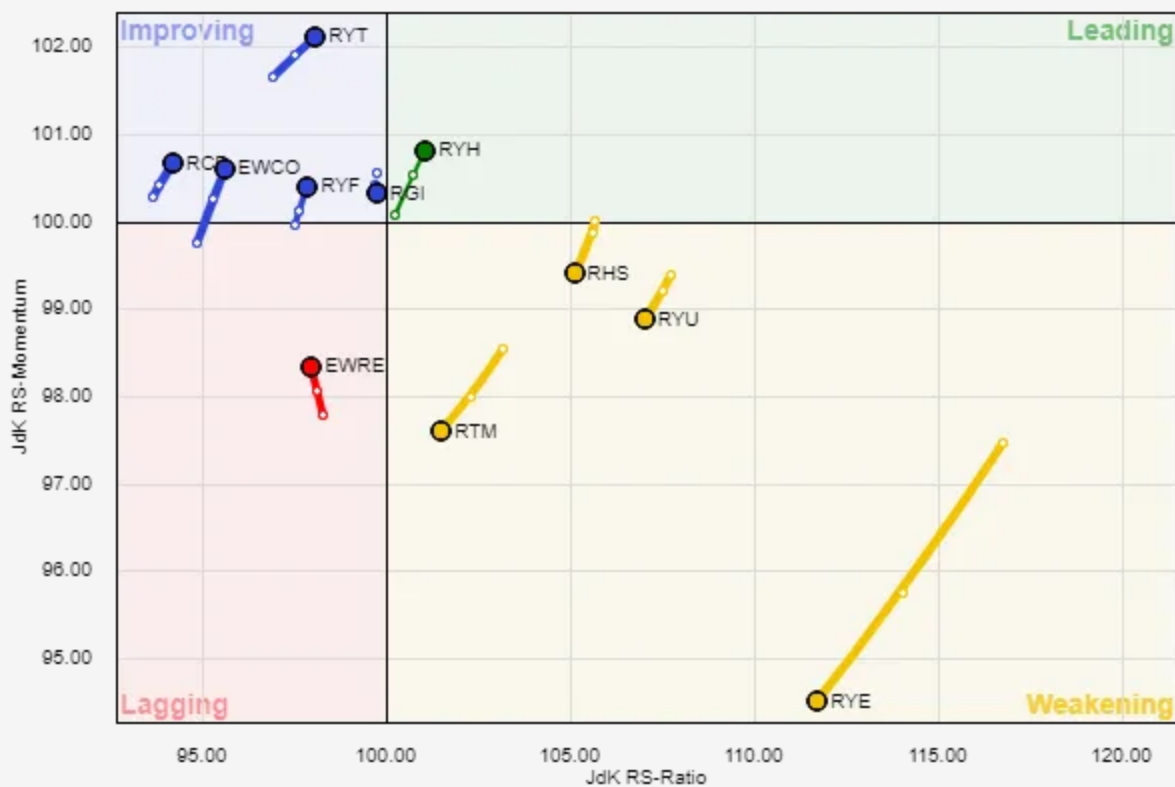


CPI came in hot again last week and with a 1%+ MoM change. But, the change of the change (Acceleration) actually slowed and when combined with the drop in commodities, could justify the idea of inflation leveling off or slowing down here. Retail Sales surprisingly came in strong which lines up with the bias of Q3 being better than most are anticipating. The consumer remains resilient, for now. Overall, these data points continue to provide positive backing to the Q3 Bear Market Rally.



Sector Rotation



**Improving**

Discretionary, Communication Services, Technology, Industrials, Financials.

Leading

Health Care.

Weakening

Energy, Consumer Staples, Materials, Utilities.

Lagging

Real Estate.

Sector Analysis

Early cycle sectors are clearly in the improving quadrant and mid to late cycle sectors in the weakening quadrant.

The Charts



Major Stock Index Daily Charts



Major Stock Index Intraday Charts

Technical Analysis

The stock indices continue to be in a trading range as a short term bottom is being formed. Prices are currently in an upswing on the daily charts and performing testing of the recent spring-type action from last week. For this test, we would like to see lower volume (seller's exhausted) and possibly a gap fill (green box in charts above) to not leave

any holes behind us. The continuation higher should exude strength and move with ease to feel confident that the Q3 Bear Market Rally has arrived.

The Trades

Holds

Holding onto Industrials (PCAR) with Spring type action last week, and need to see price back above \$84 to feel confident that the bias is still to the upside.



Closes

Technology (ON) was stopped out unfortunately, and price has since moved back above entry price. Cost of doing business on this one.



New Longs

Discretionary (BABA) is back above its 63 Day Moving Average and in a current trading range suggesting signs of accumulation. The Chinese government is providing a potential tailwind as they have moved to a more accommodative stance.



New Shorts

None at this time.

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