

Consumer Staples turn on a bullish course as a possible marker for the CPI Report

August 8, 2022



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Executive Summary

The business cycle remains in Stage 1. Stocks and Bonds are improving as they head towards Leading, with Commodities remaining in the Weakening and Lagging quadrants at this time.

No major change in Sector Rotation this week as early cycle sectors continue to Improve as mid to late cycle sectors continue to Weaken and Lag.

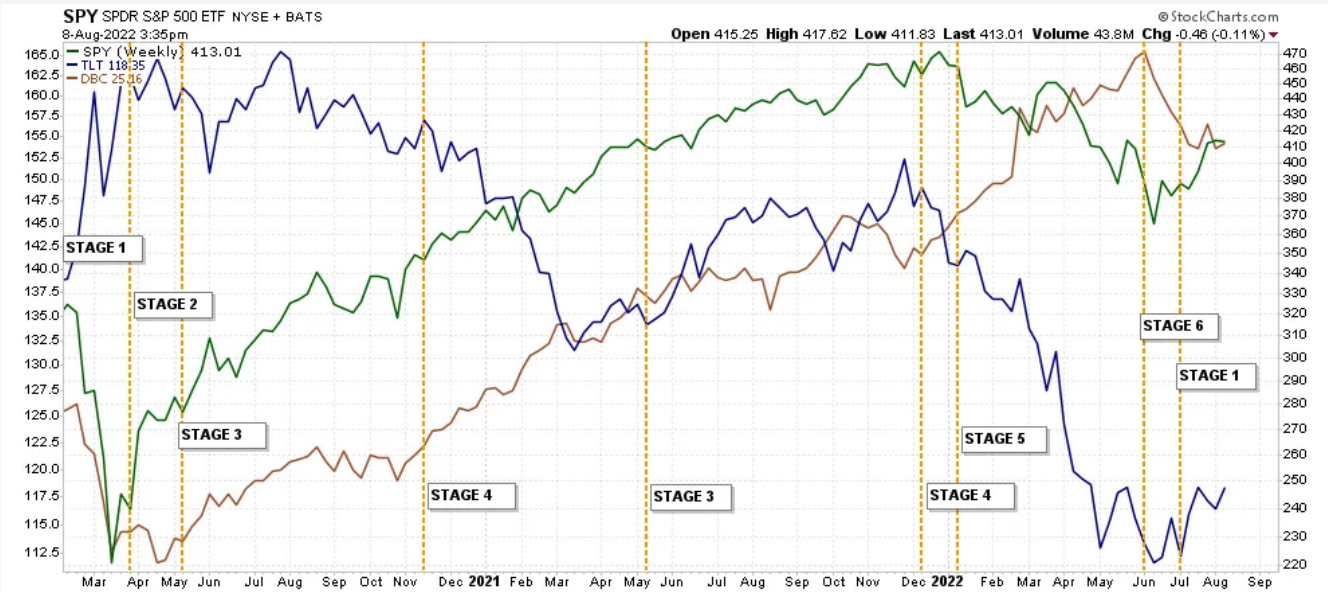
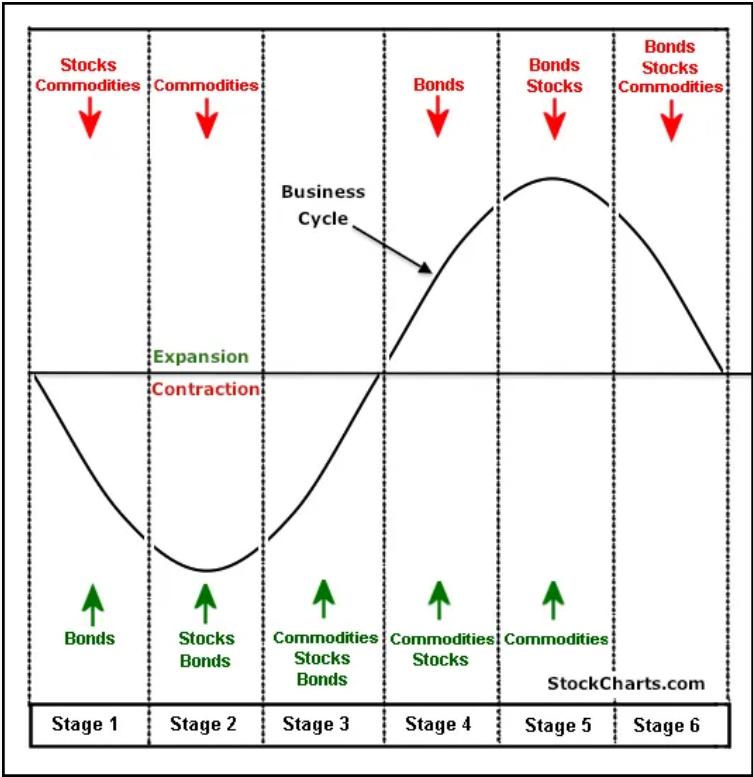
Consumer Staples have shown recent strength over the last 2 weeks, which raises the question, Why? Could it be a marker for the upcoming CPI Report? See more detail in Sector Rotation below. July CPI Data is set to be released on Wednesday which will be a major catalyst for the market.

The Q3 Bear Market Rally remains in tact with a slowdown in momentum over the past week which should be expected at these levels.

“Be like a rocky promontory against which the restless surf continually pounds; it stands fast while the churning sea is lulled to sleep at its feet.”

- Marcus Aurelius -

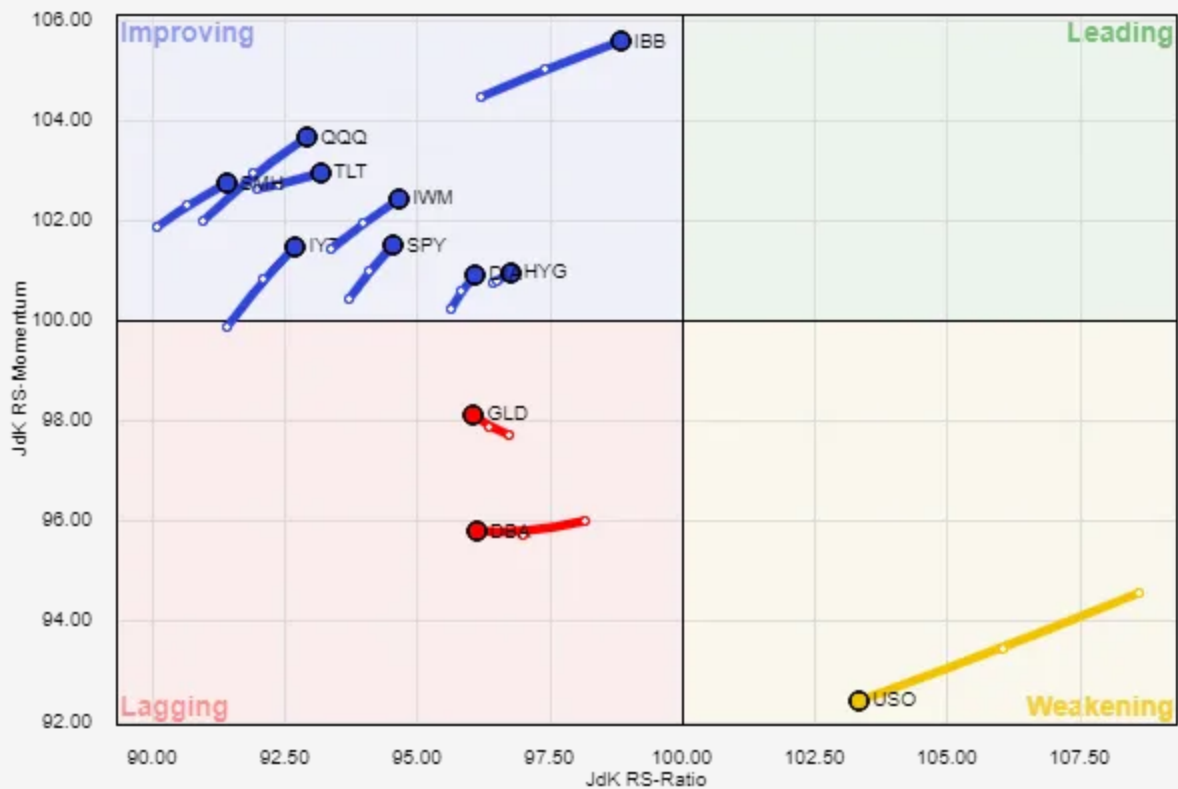
Business Cycle



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



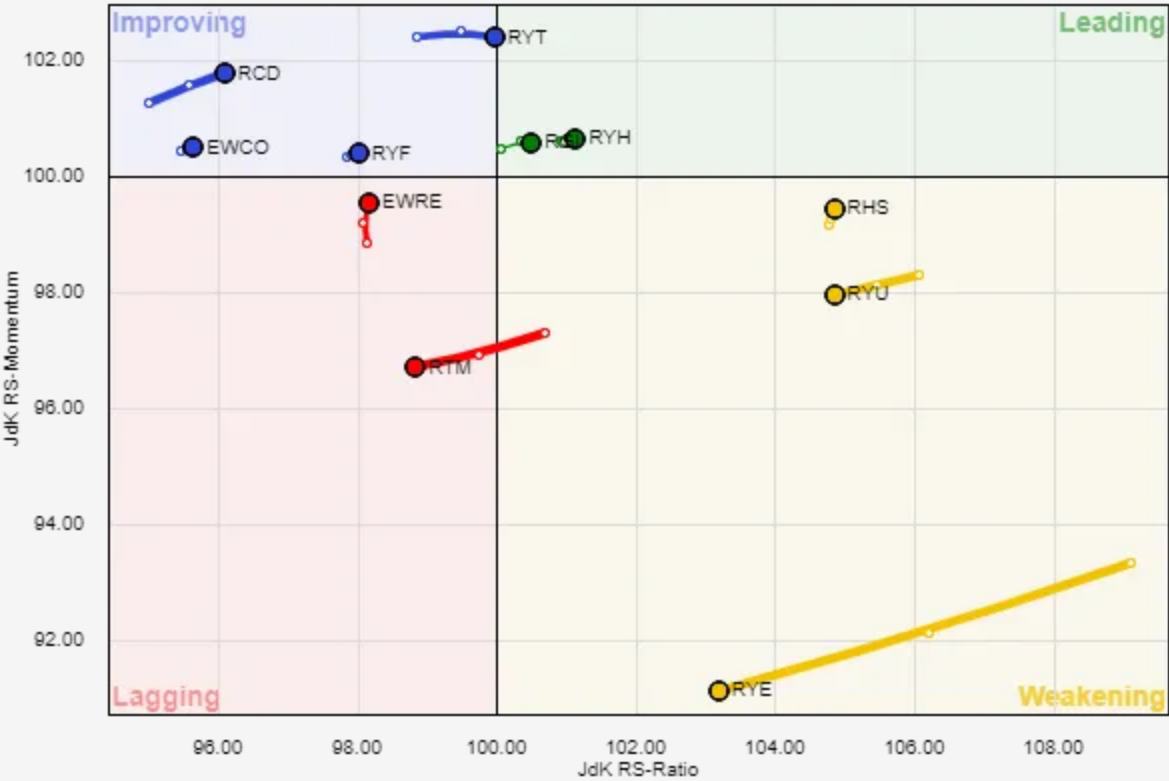
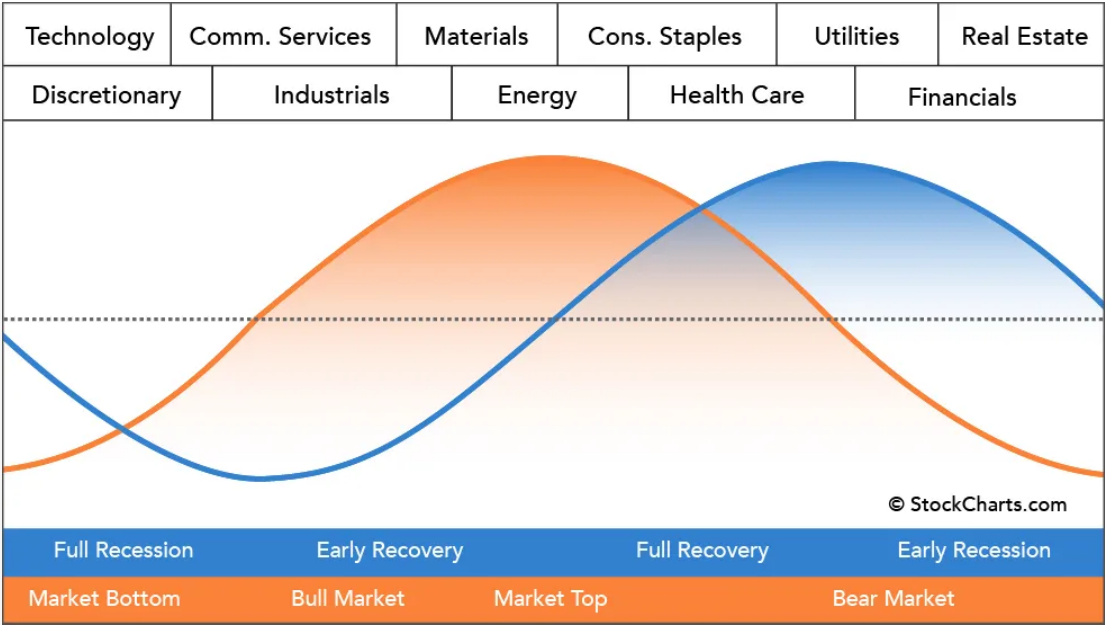
Bond ETFs - HYG, TLT. Stock ETFs - DIA, IBB, IWM, IYT, QQQ, SMH, SPY. Commodity ETFs - DBA, GLD, USO.

Asset Analysis

Stocks and Bonds are all in the Improving quadrant with some slight decrease in momentum from last week, but all heading to the upper right Leading quadrant.

Commodities all remain in the weakening or lagging quadrant this week. Gold (GLD) continues to make progress as it's direction starts to move toward the Improving quadrant, but still more work to be done here for now. Agriculture (DBA) is also attempting to hold ground, but based on the technical analysis, is in a downtrend with this current trading range pointing towards re-distribution.

Sector Rotation



Improving
Discretionary, Communication Services, Technology, Financials.

Leading
Industrials, Health Care.

Weakening

Energy, Consumer Staples, Utilities.

Lagging

Materials, Real Estate.

Sector Analysis

No sectors changed quadrants this week. Technology is close to entering the leading quadrant as this Q3 Bear Market Rally continues to mature.







The change in direction of Consumer Staples (RHS) is worth noting. Over the last 2 weeks, it has stopped the move down and is now moving back towards the Leading quadrant.

Now why would Consumer Staples change trend in the middle of the Q3 Bear Market Rally... defensive move ahead of the next downswing? Possibly. Or, a sign that inflation might have peaked and the margin squeeze on staples will be easing?

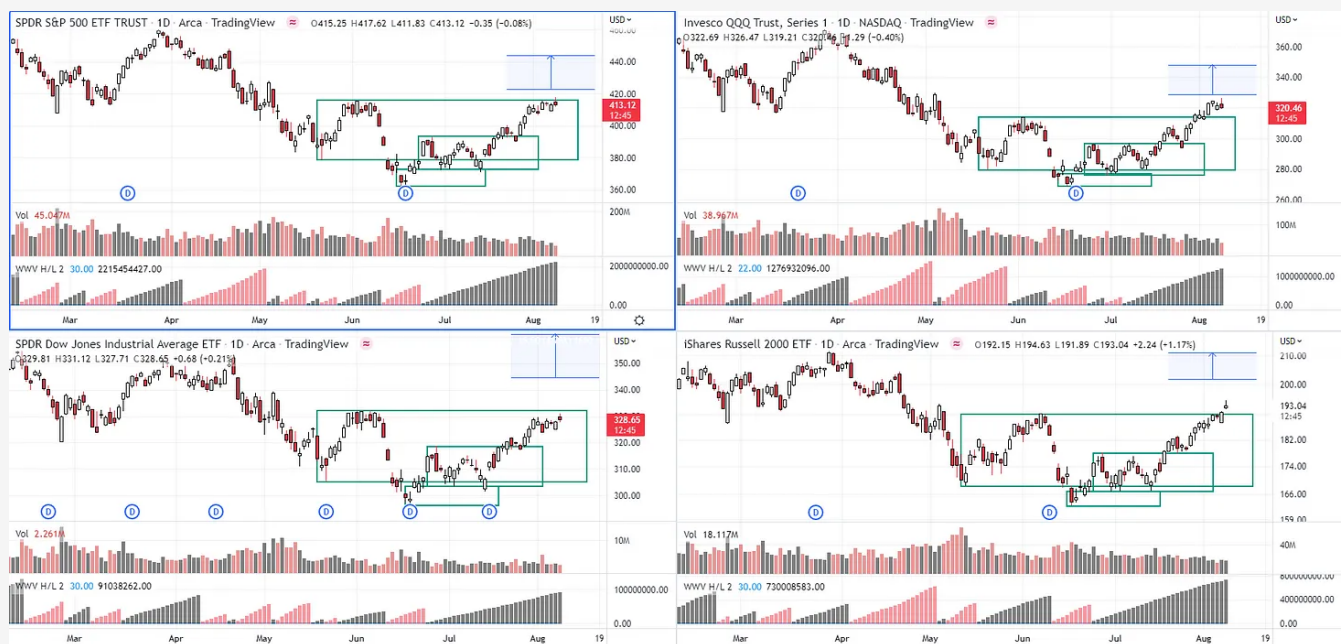
While groceries over all are inelastic as food is a basic necessity, competing grocers and brands are hesitant to pass along too many costs as consumers will seek out replacement options. If the price of raw goods slows, that push to pass prices along to the consumer can slow as well.



July CPI is set to be released on Wednesday, August 10, 2022. It should be a catalyst to get markets moving.

| | | | | | | |
|-------|---|-----|-------|----------------------|------|--|
| 05:30 |  | USD | ★ ★ ★ | Core CPI (MoM) (Jul) | 0.5% | 0.7%  |
| 05:30 |  | USD | ★ ★ ☆ | Core CPI (YoY) (Jul) | 6.1% | 5.9% |
| 05:30 |  | USD | ★ ☆ ☆ | Core CPI Index (Jul) | | 294.35 |
| 05:30 |  | USD | ★ ★ ★ | CPI (YoY) (Jul) | 8.7% | 9.1% |
| 05:30 |  | USD | ★ ★ ☆ | CPI (MoM) (Jul) | 0.2% | 1.3%  |

The Charts



Major Stock Index Daily Charts



Major Stock Index Intraday Charts

Technical Analysis

Indices have been consolidating at the upper bound of this 4 month trading range, with QQQ and IWM already breaking out above. Selling / Taking Profits should be expected at these levels, so the recent action should be taken as non-threatening for now. The attempts to test lower have been met with buying so far and the amount of supply has remained subdued. The bias still points to the upside from here.

The Targets have been refined since last week with roughly 5.0% to 7.5% remaining in the Q3 Bear Market Rally.

Targets

- SPY \$423 - \$444 (~5.0% higher from today)
- QQQ \$329 - \$348 (~5.5% higher from today)
- DIA \$345 - \$361 (~7.5% higher from today, *this count might be a bit stretched*)
- IWM \$202 - \$211 (~7.0% higher from today)

The Trades



The Trades Section is under construction! A new weekly post will be coming soon offering a more detailed view.

Holds

Industrials: PCAR

Communication Services: RBLX

Technology: FTNT, QCOM

Consumer Discretionary: BABA, CHWY, LCID, TCOM



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