Martin Pring's InterMarket Review

Publishing a synopsis of the world's Intermarket Analysis for over 35 years.

February, 2023

11161 E State Road 70, Suite #110, PMB 344, Bradenton, FL 34202
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VOL. 40, NO. 9

Market Summary

1. S&P Composite and World Stock ETF cross above their 12-month MAs as the Stock Barometer goes bullish.
2. Some primary trend indicators for U.S. and global stocks hinting at a mini-bull market.
3. If so, it's likely to be part of an overall secular topping out process.
4. Several economic indicators tick to the upside, hinting at a soft landing.
5. Long-term trend favoring U.S. stocks now moving in favor of the rest of the world.
6. Gold close to a major upside breakout, so is copper.
7. Indicators suggest the primary trend commodity bear market may turn out to be more of a trading range.

Contents

Markets Requiring Action

Markets approaching important benchmarks.
(These are not predictions, merely important chart points.)

Commodities: CRB Spot RM — Monthly close above 612 or a positive 12-month MA crossover; above 596 for a positive 65-week EMA cross.

Currencies: U.S. Dollar Index — Above 104.4 for a positive 12-month MA cross Friday close for; above 103.2 for a positive 65-week EMA cross.

Credit Markets: iShares 20+ Year Treasury Bond ETF (TLT) — Above $113.3 for a positive 12-month MA cross; Friday close above $118 for a positive 65-week EMA cross.

Global Equities: MSCI World ETF — Below 89.4 for a negative 12-month MA crossover and below $89.7 for a negative 65-week EMA cross.

Precious Metals: Gold — A month-end close below $1812 for a negative 12-month MA crossover; a Friday below$1793 for a negative 65-week EMA crossover.

U.S. Equities: S&P Composite — Month-end close below 4040 for a negative 12-month MA crossover; below 4029 for a negative 65-week EMA cross.

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2023 SUBSCRIPTION RATES: E-mail - $75.00 introductory quarter, $100.00 quarterly renewal, (12 issues). All payments in U.S. currency only, please.

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Chart of the Month:

MSCI World ETF (ACWI) and a G7 LEI Derivative

This chart demonstrates that the fortunes of global equities are usually closely tied to those of the world economy. In that respect, the green highlights show when the oscillator derived from the G7 LEI crosses above its 6-month MA. Normally, a great stock market buying opportunity is signaled. One notable exception occurred in 2001, when the indicator correctly identified a forthcoming recovery, but the stock market chose not to respond immediately. In this situation, the ACWI failed to decisively cross above its 12-month MA. In the current one it has. That does not guarantee a rally, but it surely increases the odds substantially. ■

iShares MSCI World Stock ETF (ACWI) and a G7 LEI Derivative

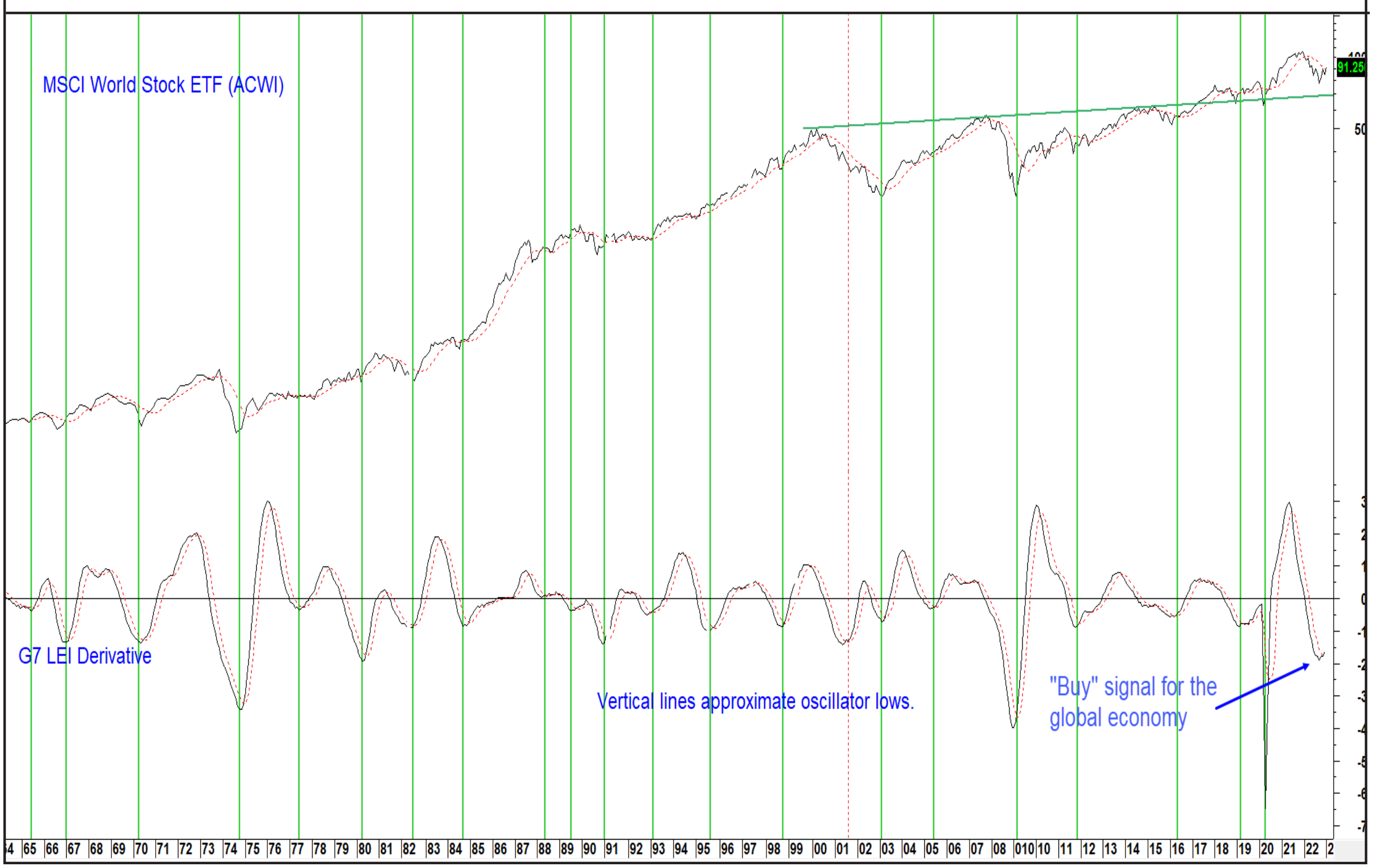


Chart 1

Guidelines for IMR Asset Allocations

The portfolio allocations presented on page 4 the Intermarket Review (IMR) have two functions. First, they are intended as a guide for a neutral investor; i.e., one who lies between conservative and aggressive. For example, we may recommend a 40% allocation to US stocks. An older more conservative subscriber looking for income and safety may conclude that such an allotment may be too aggressive. On the other hand, a younger investor, who has time and cash flow on their side, could find the 40% overly conservative. The basic point is that these allocations should only be taken at face value if you consider yourself to be a neutral investor.

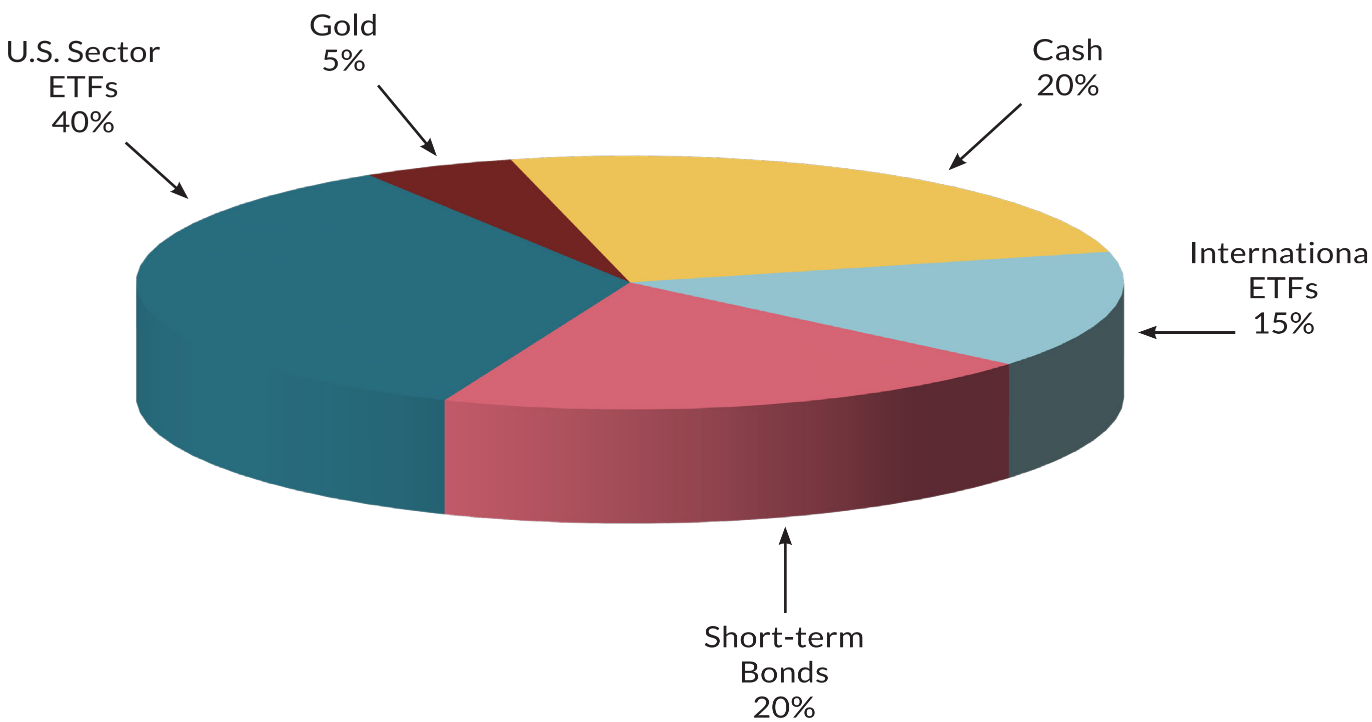
The second purpose of our allocations is to summarize our thinking about the markets in a practical, executable way. For example, we might conclude from the position of our indicators that inflation hedge stocks and commodities are headed higher. In that instance, the allocation page would be used to emphasize those views by recommending inflation driven sectors, resource based country ETFs, such as Canada and Australia, as well as commodity index ETFs or individual commodity ETFs. We might even include an inverse bond ETF to undermine our inflationary expectations. By the same token, if our indicators suggest a global bear market for equities, that portion of the portfolio would be greatly reduced. This equity exposure would most likely comprise defensive sectors such as utilities and consumer staples. Greater exposure to long-term bonds and cash would round out the picture.

Various asset classes and sectors perform differently in different parts of the business cycle. Our recommendations are usually consistent with the prevailing stage as flagged by our models. Technical factors that we take into consideration are long-term moving averages, such as the 12-month or 65-week time span, the absolute long-term KST, relative action and the long-term KST for relative action. Individual US equity sectors are compared to the S&P Composite and country ETFs to the MSCI World Stock ETF (ACWI).

Since there is always a bull market somewhere and some investors have an insatiable appetite to be constantly active, we do, from time-to-time, recommend spreads where it's possible to take advantage of a trend in a relationship that can benefit regardless of the market's direction. For example, transports tend to be an early cycle leader and energy a laggard. If the technicals were consistent, a long transports/short energy ETF trade might be appropriate.

In most instances, risk management stop losses are recommended. The stop will typically be placed below a previous short-term low or more commonly under a 65-week EMA. Each month the stop levels are reviewed and where possible are raised. When a market or sector is considered vulnerable, stops will be tightened aggressively. Because markets can move strongly between issues, new subscribers should always assess the risk between current prices and stop levels to make sure that the difference is manageable. If it is not, it probably means the security in question is overstretched and you are better advised to wait for a correction. ■

Asset Allocation Recommendations



Recommended U.S. Sector ETFs

Established Holdings —

Energy Select Sector SPDR Fund (XLE)**75

Global X Internet of Things ETF (SNSR)**$28

Invesco S&P 500 Equal Weight Consumer Discretionary ETF (RCD)**$115

Invesco S&P SmallCap Consumer Discretionary ETF (PSCD)** $80

iShares U.S. Aerospace & Defense ETF (ITA)**$105

iShares U.S. Oil & Gas Exploration & Production ETF (IEO)** $79

ROBO Global Robotics & Automation Index ETF (ROBO)** $47

VanEck Gold Miners ETF (GDX)** $28

VanEck Oil Refiners ETF (CRAK)** $27.50

VanEck Uranium + Nuclear Energy ETF (NLR)**$54

First Trust NYSE Arca Biotechnology Index Fund (FBT)** $145

First Trust Water ETF (FIW)*** $86

Global X Copper Miners ETF (COPX)*** $45.75

Global X Lithium & Battery Tech ETF (LIT)*** $75

Recommended U.S. Sector ETFs ~ *continued*

Industrial Select Sector SPDR Fund (XLI)*** $104

Invesco MSCI Global Timber ETF (CUT)*** $33

Invesco S&P 500 Equal Weight Industrials ETF (RGI)*** $194

Invesco Solar ETF (TAN)*** $90

iShares U.S. Financial Services ETF (IYG)*** $175

iShares U.S. Home Construction ETF (ITB)

iShares U.S. Industrials ETF (IYJ)*** $104.50

International —

Global X MSCI Greece ETF (GREK)** $24

iShares MSCI France ETF (EWQ)** $32.50

iShares MSCI Mexico ETF (EWW)** $45

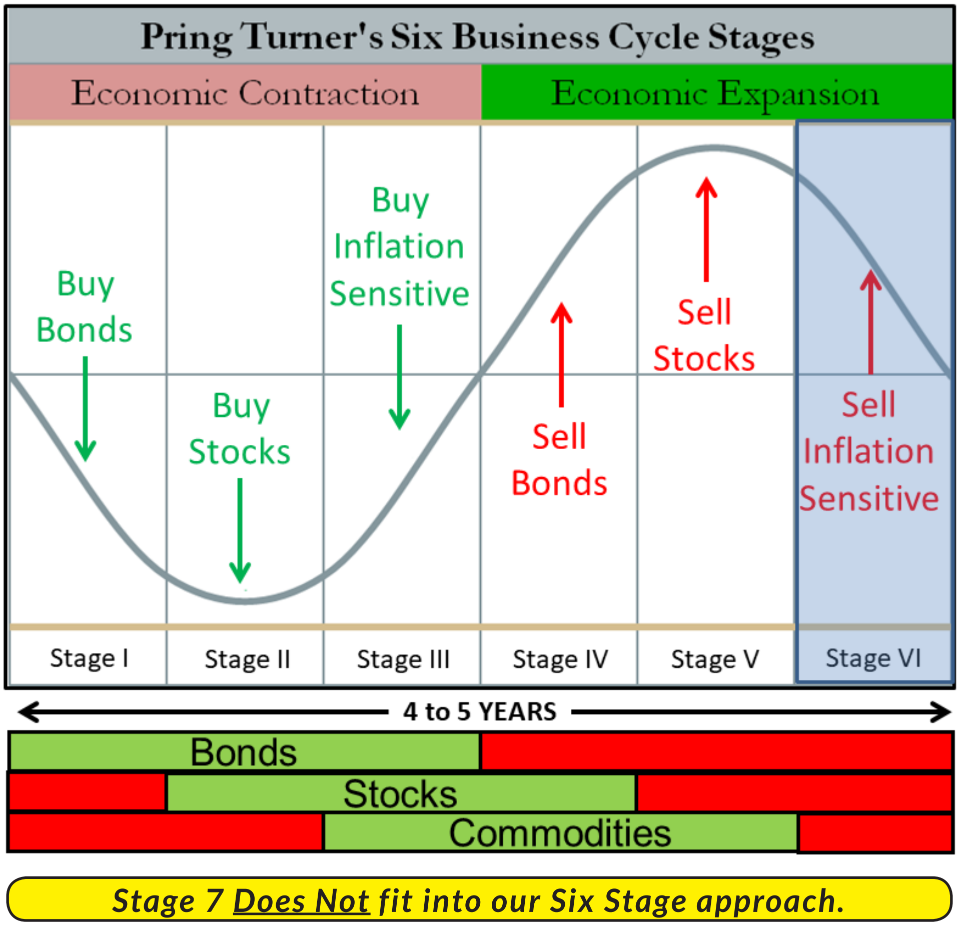
iShares MSCI Spain ETF (EWP)** $23

iShares MSCI Thailand ETF (THD)** $70

WisdomTree Japan Hedged Equity Fund (DXJ)** $63

WisdomTree Japan SmallCap Dividend Fund (DFJ)** $61.50

Key — * Dependent on market action, ** Stop is based on Friday close, *** Buy on Friday close above.



STAGE 7 – SECTOR WINNERS

Stage 7 Commodity Winners	Annual*
Copper	17.7%
Crude	12.8%
Cattle	11.7%
Cotton	9.1%

* Monthly change annualized percent

Stage 7 Sector Winners	Annual*
Brokers	17.6%
Health	18.2%
Oil	17.6%
Home Builders	15.9%
Metals	23.3%

* Monthly change annualized percent

Stage 7 Summary	Annual*
Bonds	-1.5%
Commodities (CRB Spot)	-4.1%
Stocks	9.4%

* Monthly change annualized percent

Stage 7 Summary 1955-2011

- Signals 16
- Average Duration 2.6 months
- % of total period 6.4%

- Stage 7 figures are monthly returns on an annualized basis. They represent averages of Stage 7 performance for the 16 Stage 7 signals since the mid-1950s. Individual Stage 6 performance may vary considerably from the average.
- This performance data only measures sectors/industry groups where a multi-decade price history exists. Thus, it does not include internet stocks, etc.
- Performance is based on price, not total return.
- Click here for more information on the business cycle and the six stages.

U.S. Dollar-Based Asset Allocation

January saw our Stock Barometer move to a 50% bullish reading. Normally, we refer to the Six Business Cycle Stages but in actuality, there are eight possible combinations. The remaining two have bonds and commodities in a bearish mode and stocks bullish (Stage 7) and bonds and commodities bullish with stocks being bearish (Stage 8). The latest Stock Barometer buy signal now places the current cycle in a Stage 7, as bonds and commodities remain bearish. The Poor Man's Barometer combination, where the three markets are compared to their 12-month MAs, is also in Stage 7.

Between the 1950s and 2011, there were 16 defined barometer Stage 7 environments lasting an average of 2.6-months and taking up 6.4% of the time. During those periods, stocks gained an average of 9.4% on a monthly annualized basis, compared to -1.5% for bonds and -4.1% for commodities. A table reflecting the performance of the Poor Man's approach between 1900 and 2011 can be seen here.

This improving environment, along with positive vibes emanating from other primary trend indicators offers sufficient evidence to ***carefully*** increase the equity allocation in areas of improving relative action. We say carefully because a ***failure of the improving indicators to hold January's gains would likely be followed by a significant setback.***

Last month, in trying to argue from a contrary point of view, we offered some alternative scenarios to the consensus recession position. One was a harder than expected landing and another was a soft landing to be later followed by a recession, at a time when recessionary expectations had dissipated and therefore less expected. The most recent economic data and market action suggest the chances of an up now/ down later scenario for both stocks and the economy have increased.

At first glance, that may appear inconsistent with a secular topping out scenario. However, the initial phase of a secular reversal often takes the form of a giant trading range with a downward bias. By way of example, the 1900 and 1966 peak in real stock prices were slightly exceeded by the 1906 and 1968 highs. Yet in hindsight, both were part of an overall topping process. It's also worth noting that these secular bears both took place under the context of a secular bull for both commodities and bond yields. Charts 21 featuring bond yields and 28 for industrial commodities, indicate that a similar combination exists today.

Returning to the primary trend, we see several emerging signs that last October may have been a turning point. For example, the derivative of the G7 LEI has just crossed above its 6-month MA, an event that has universally indicated a global economic recovery of some kind. Except for the 2001 signal, which the market overrode in favor of unwinding the tech bubble, all the remaining signals were followed by higher stock prices. The recent sharp rise in the economically sensitive copper price, placing it on the threshold of a primary bull signal, is another positive global sign.

In the U.S., a long-term price oscillator for the ECRI Weekly LEI has started to turn up, as has the MACD for the Philadelphia Fed's Future Capital Spending Index for the second month in a row. Finally, our own Pring Turner LEI Recession Caller, having reached its recessionary threshold, has begun to stall. Thus at least temporarily staving off a contractionary signal.

Technically we see several encouraging signs, such as a long-term smoothed momentum (KST) reversal in University of Michigan sentiment numbers, upside reversals in global and U.S. long-term diffusion indicators, an upturn in the KST of the ratio between stocks and commodities, as well as some reliable breadth thrust numbers.

The totality of this evidence suggests that a more aggressive stance towards equities is justified. However, since quite a few of our primary trend indicators remain in the bearish camp and the secular trend has probably reversed to the downside, some degree of caution is still required.

Allocations

In view of an improvement in some of our primary trend indicators and the fact that we were stopped into several ETFs in January, we are raising our U.S. equity allocation to 40%; split between the 2-star recommended industry groups and sectors on page 4, and the 3-star candidates as we get stopped in because of upside breakouts. Notable changes also include the liquidation of the SPDR S&P ETF SPY) and a switch between First Trust Natural Gas (FCG)for the VanEck Vectors Oil Refiners (CRAK) ETF.

The International Section points out that the favorable trend between the U.S. and rest-of-the-world has changed, either to an extended trading range environment or a down trend. Either way it represents a shift away from the U.S., so we are recommending several country fund ETFs to the tune of 15% , as displayed on page 4 in the Pie Chart.

We also continue to recommend an exploratory 15% exposure to iShares Core 1-5 Year USD Bond ETF (ISTB) and a 5% allocation to the iShares 7-10 Year Treasury Bond ETF (IEF). Since these are low volatility securities, no stop has been entered.

Finally, we were stopped into a 5% position forthe SPDR Gold Shares (GLD), which now has a Friday close protective stop at $164. ■

Martin J. Pring

February 1, 2023

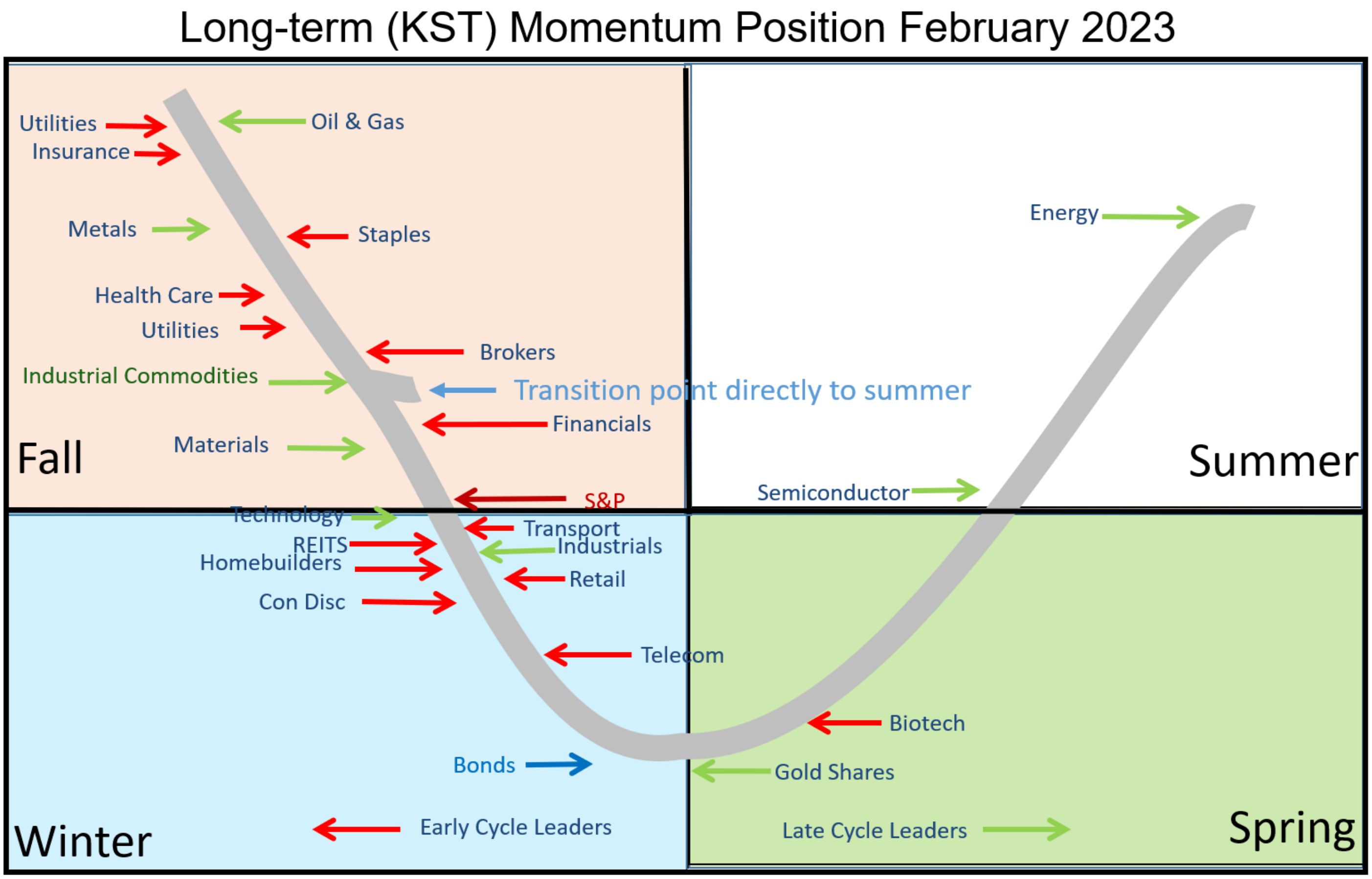


Figure 1

The schematic rendition of sector positions vis-à-vis their long-term KST (see Figure 1) continues to reflect a loss of upside momentum. As we move forward, more sectors are dropping into the Winter position. Major bear market lows typically develop first, when a large number of sectors enter the winter quadrant. Second, when that number begins to shrink, as market leaders progress into the spring quadrant. Mild bears have resulted when a large number of sectors transition directly from fall to summer via the "transition point". The overall message from Figure 1 is that we are likely to see more downside movement before the bear market is over. Some other indicators, discussed in the Global and Stock Market sections, are more optimistic. ■

World Overview & Global Financial Markets

We believe that world bonds are in a secular bear market. That said, the degree of decline that took place last year probably indicates they have already completed the first down leg. That's a moot point, because some form of base building appears to be underway, and the intermediate KSTs for both indexes are rising and remain at a subdued level. Further near-term gains are therefore probable.

World Bond Index in Local Currencies and an Intermediate KST

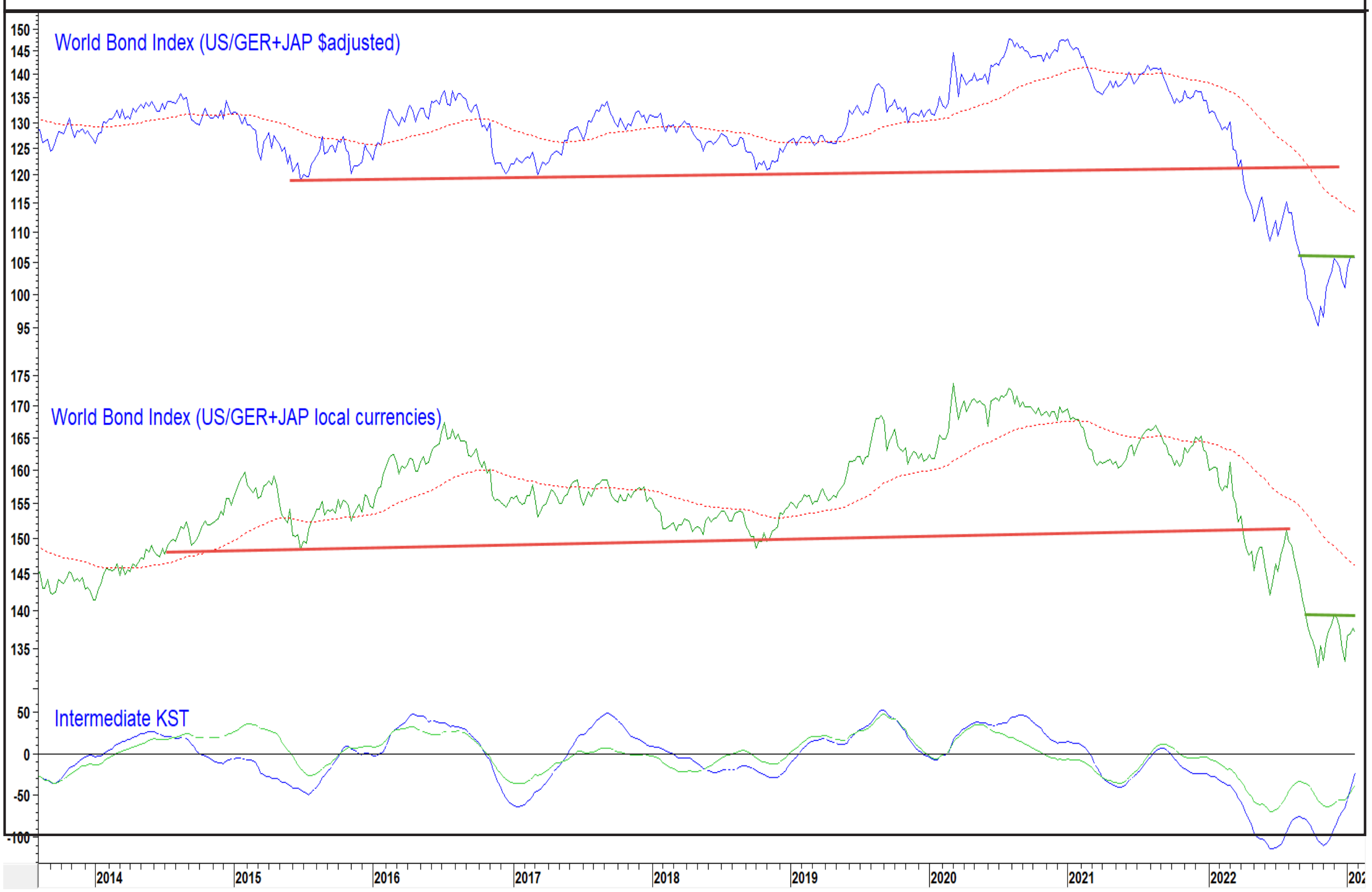


Chart 2

Global Commodity Index and Two Indicators

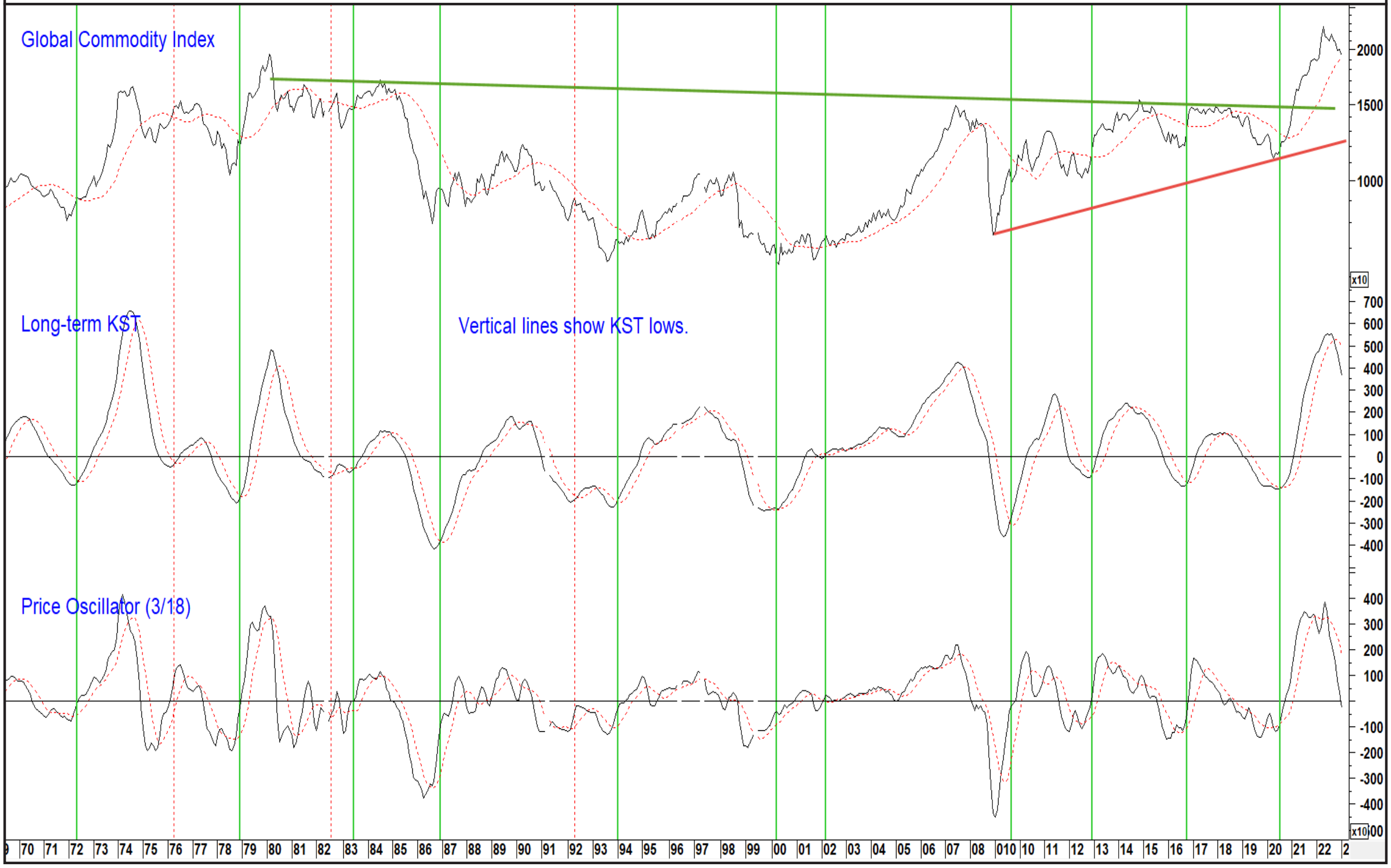


Chart 3

Our Global Commodity Index in Chart 3 continues to correct and has now reached support in the form of its 24-month MA. The high and declining long-term KST suggests that further corrective activity, whether it takes the form of a trading range or lower prices, is likely in the coming months.

Several of our long-term equity indicators have begun to reverse to the upside, suggesting a bull market is now underway. Chart 1 leads the rationale for that view since it shows that a derivative of the G7 LEI has just crossed above its 6-month MA, suggesting it has bottomed for the cycle. The vertical lines demonstrate such action has consistently been a forerunner of higher global stock prices. Note that did not happen following the spurious 2001 signal, which is why we are encouraged by the fact that the market has started to respond with a month end close above the 12-month MA, an event that did not take place in 2001.

Other long-term technical indicators are also hinting at an upturn. The Coppock Curve, in Chart 4, is calculated by combining an 11- and 14-month ROC and smoothing the result with a 10-month weighted moving average. It goes bullish when it first crosses below zero and then turns up. Previous signals since the 1980s have all been successful except for the 2001 experience, when the market did not respond to an emerging recovery because it was busy unwinding the tech bubble. January saw this indicator tick very slightly to the upside once again.

Our Moving Average Volatility Indicator or MAVI in Chart 5 is constructed by combining four different equally weighted price oscillators with differing parameters into one series, so it's partially a trend indicator and part momentum. Long-term buy signals are triggered when the MAVI bottoms out. It's not a perfect approach but has worked well since the mid-1960s.

iShares MSCI World Stock ETF (ACWI) and the Coppock Curve

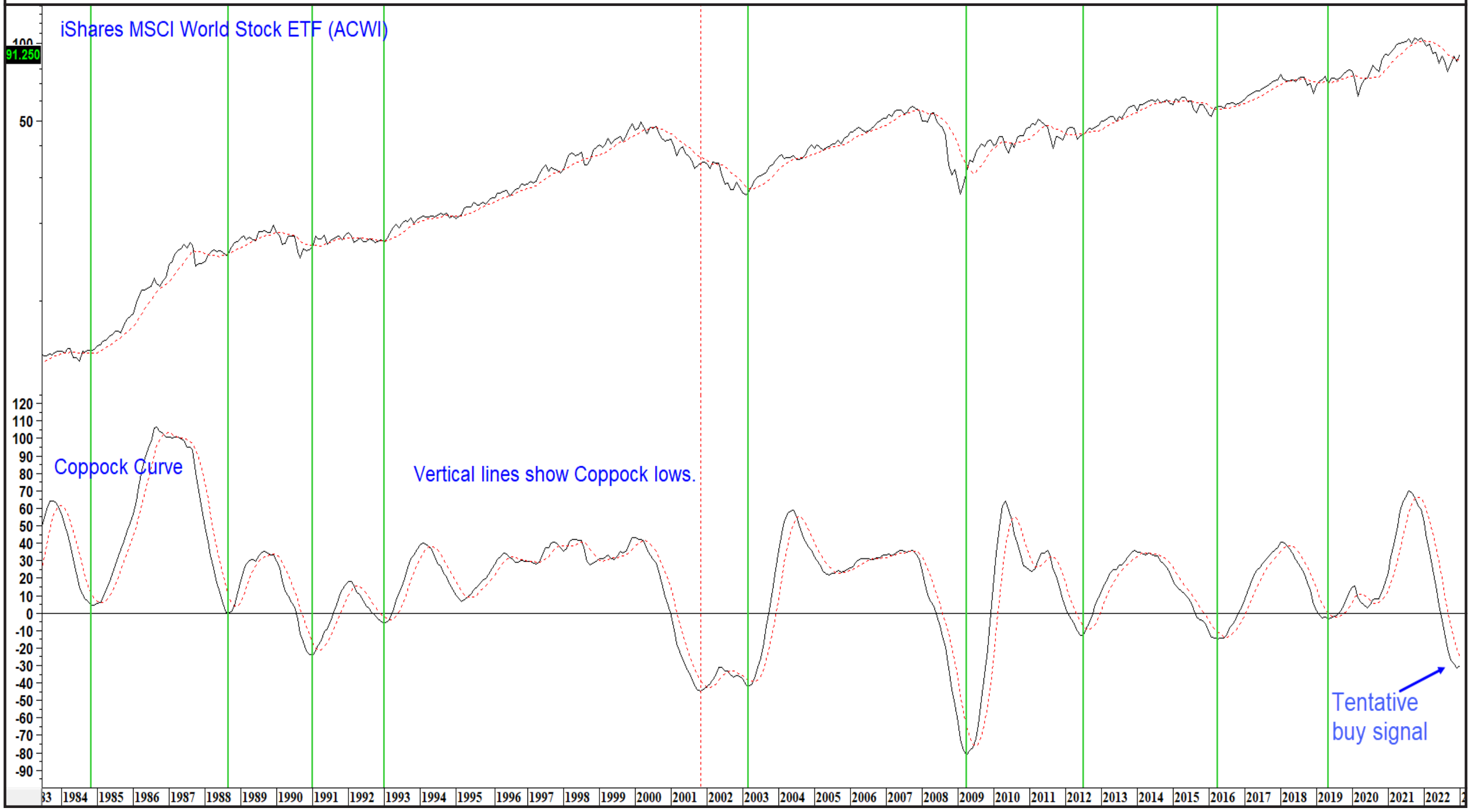


Chart 4

iShares MSCI World Stock ETF (ACWI) and a MA Band Volatility Index (MAVI)

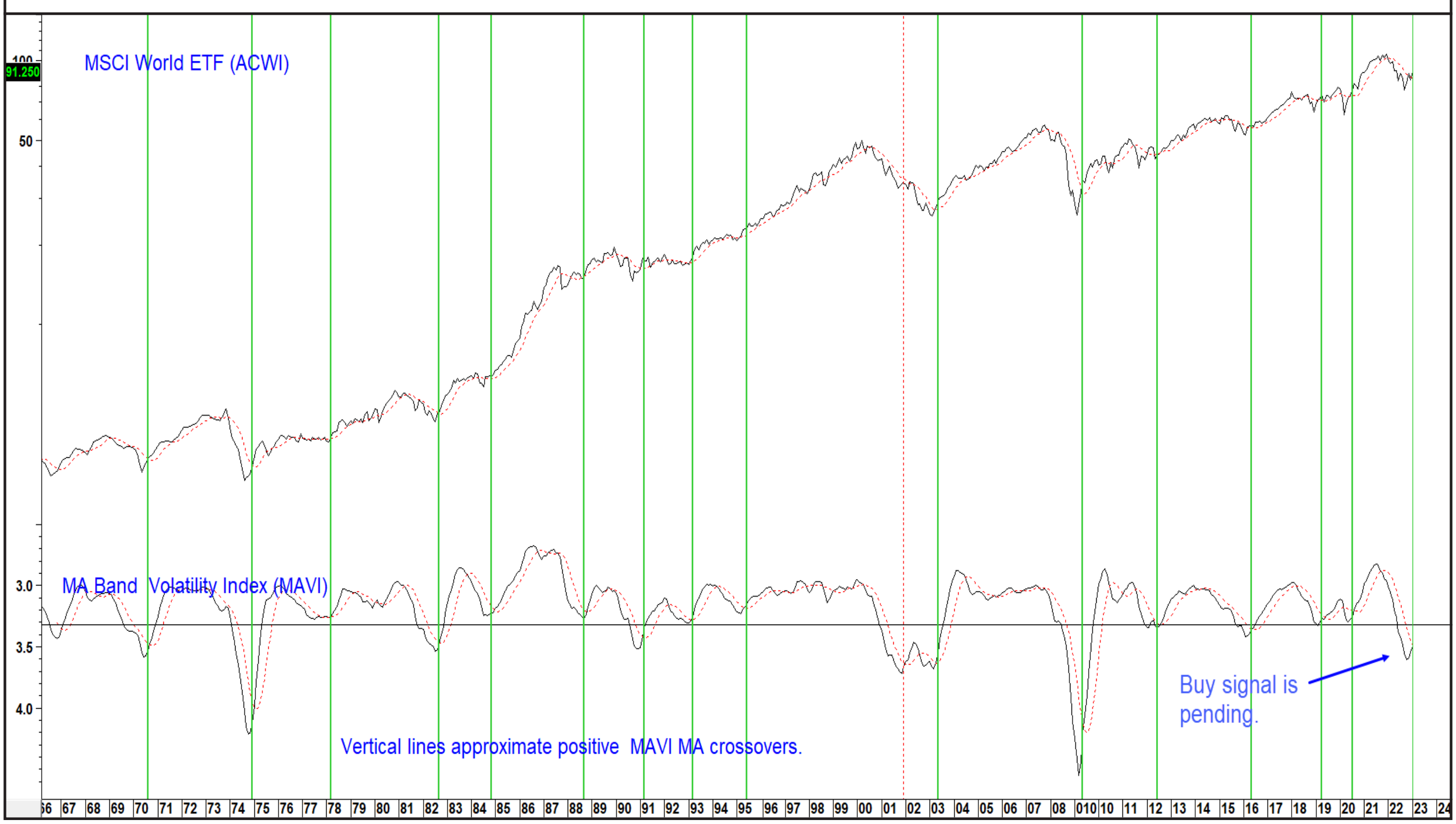


Chart 5

iShares MSCI World Stock ETF (ACWI) and a Global Diffusion Indicator

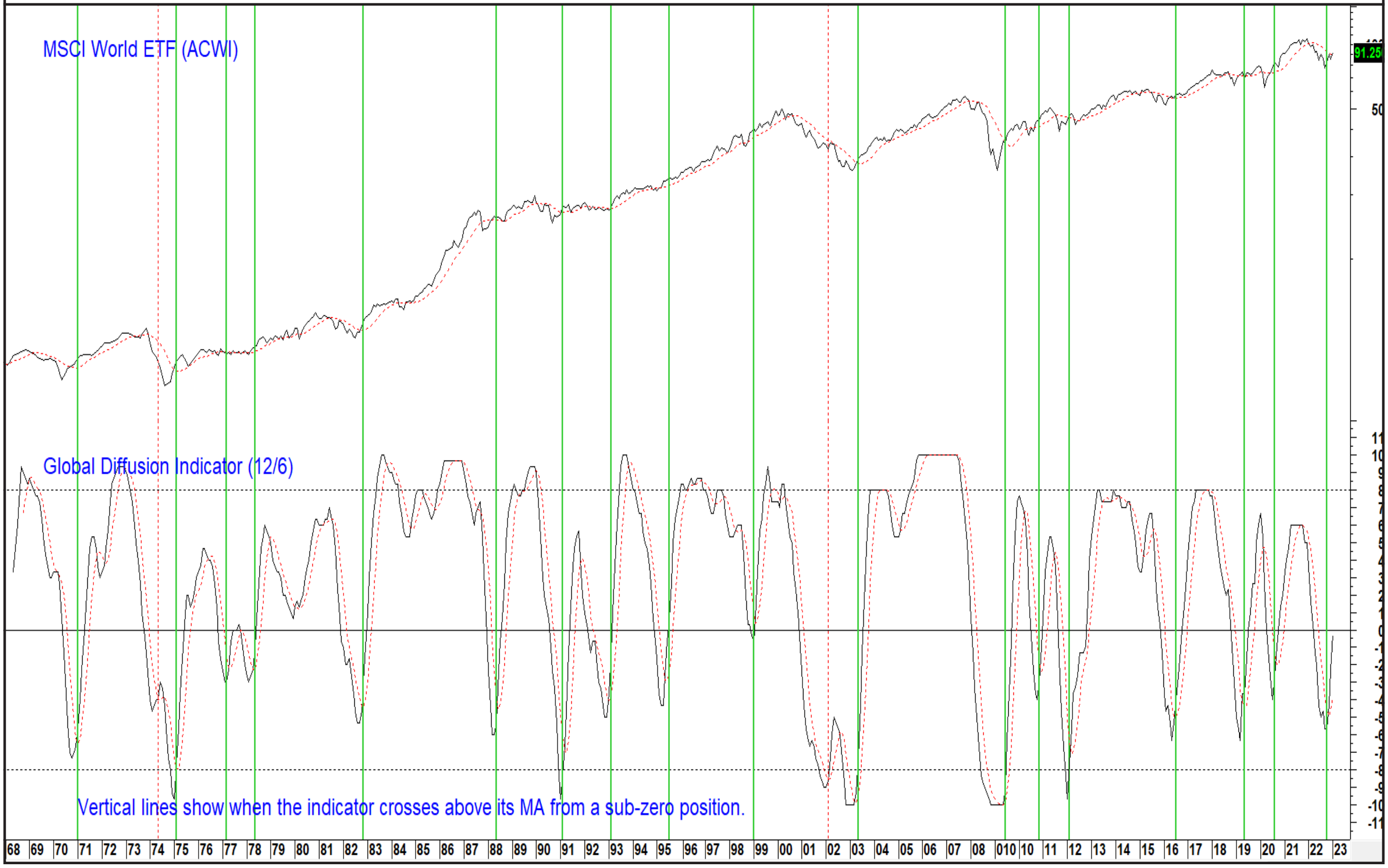


Chart 6

Chart 6 features a diffusion indicator monitoring a basket of local currency indexes trading above their 12-month MAs. The actual data have been smoothed with a 6-month MA to iron out misleading signals. This series has just gone positive by decisively crossing its MA from a sub-zero position. That's good news, because the indicator has only failed twice in the period covered by the chart compared to 18 successful signals.

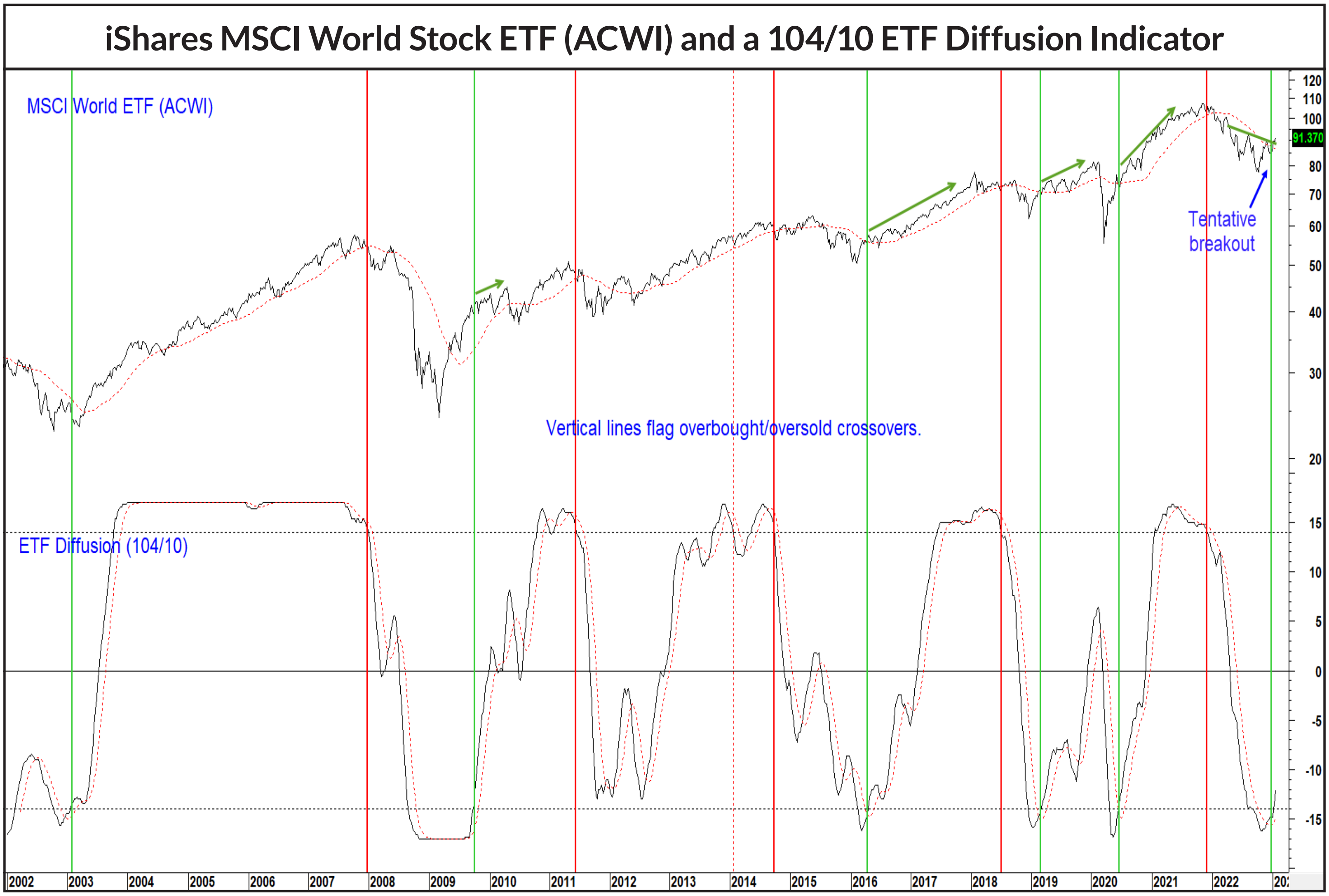


Chart 7

Finally, Chart 7 also features a diffusion indicator, this time based on a universe of individual country ETFs expressed in dollars that are above their 104-week or 2-year MAs. Buy (green) and sell (red) signals are generated as this series moves beyond its overstretched zones and re-crosses them on its way back towards zero. Late January saw the generation of another positive signal combined with an upside breakout from a small base. ■

U.S. Stock Market

The Secular Trend

Signals regarding the direction of the secular trend are still mixed but lean to the bearish side. The distinction is important since the vast majority of primary bear markets that develop under the context of a declining secular trend tend to last far longer and are of greater magnitude than when the trend is positive.

Chart 8 relates inflation adjusted stocks to those for commodities and bonds in an attempt to assess whether there is any connection between their secular trends and those for equities. The shaded areas flag differing environments, as painted by the three markets. For example, green indicates a secular bull market for equities, where bond yields generally experience a secular decline and commodities a trading range or gentle decline. Between 1949 and 1968, the secular bull for stocks did run into a head wind of rising bond yields but commodities were stable. Pink and orange shading indicate secular bear markets. Pink is displayed when both yields and commodities are in a rising secular mode. Orange also sports a rising commodity trend but surprisingly, falling yields. The most consistent common denominator is that

Secular Trends for Three Markets

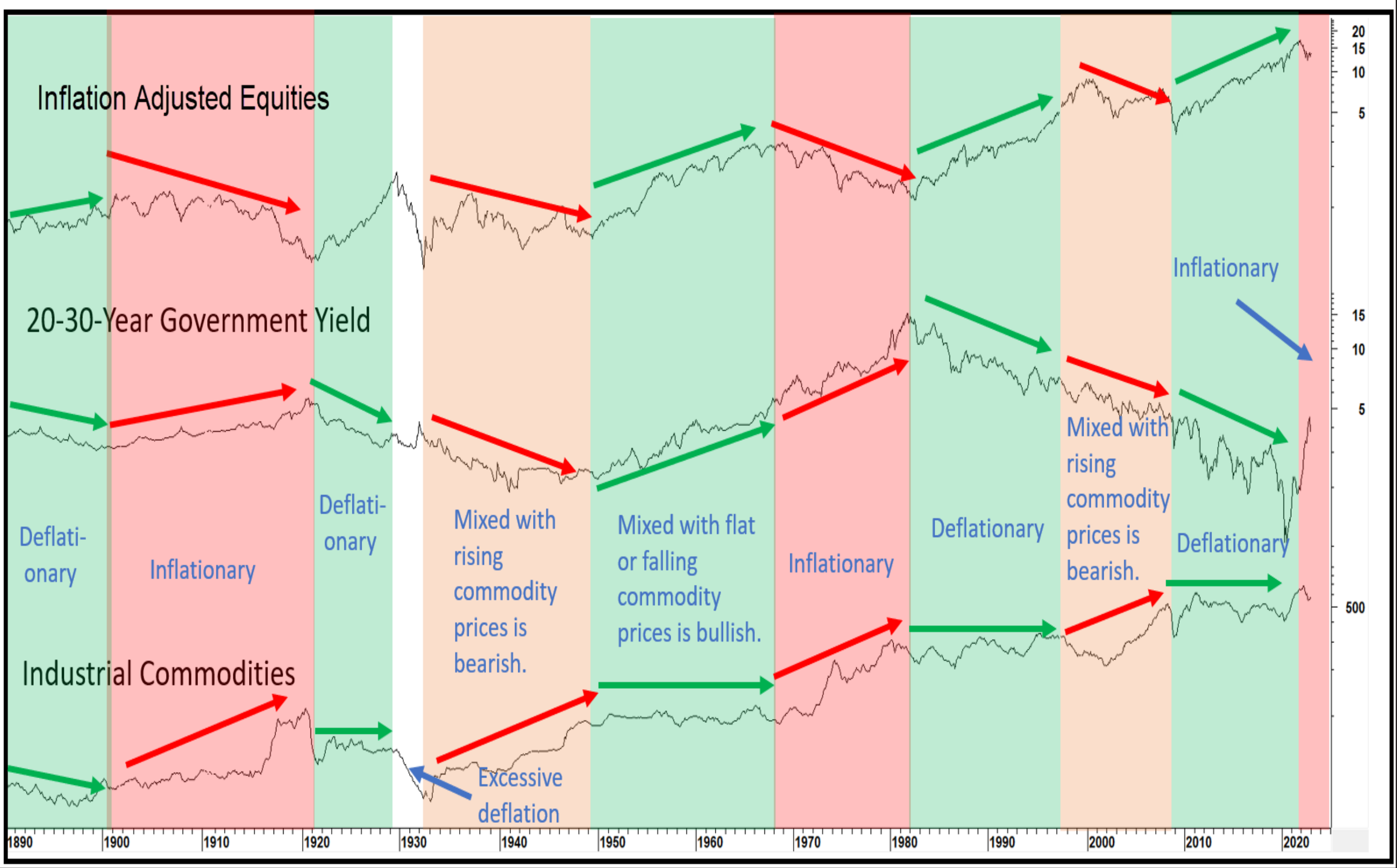


Chart 8

secular equity bears develop when commodities are in a secular uptrend, secular bulls materialize when they are flat or declining slightly. The 1929-49 secular bear represents a major exception to this rule. That's because it can be split into two parts; a relatively short period of sharp deflation between 1929 and 1933, which was then followed by an inflationary period for the remaining 16 years.

Our long-term price oscillators currently classify both bond yields (Chart 22) and commodities (Charts 28 and 29) as being in a secular bull market. In 1900 and 1968, two previous secular peaks that proved to be a deadly secular combination.

Chart 9 displays our secular price oscillator for inflation adjusted stocks. It uses 60- and 360-month EMAs as parameters and is currently at a very overstretched reading. In the past, reliable signals developed when the indicator crossed below its 48-month MA. At the moment, it's dangerously close to the average but has not yet triggered a signal.

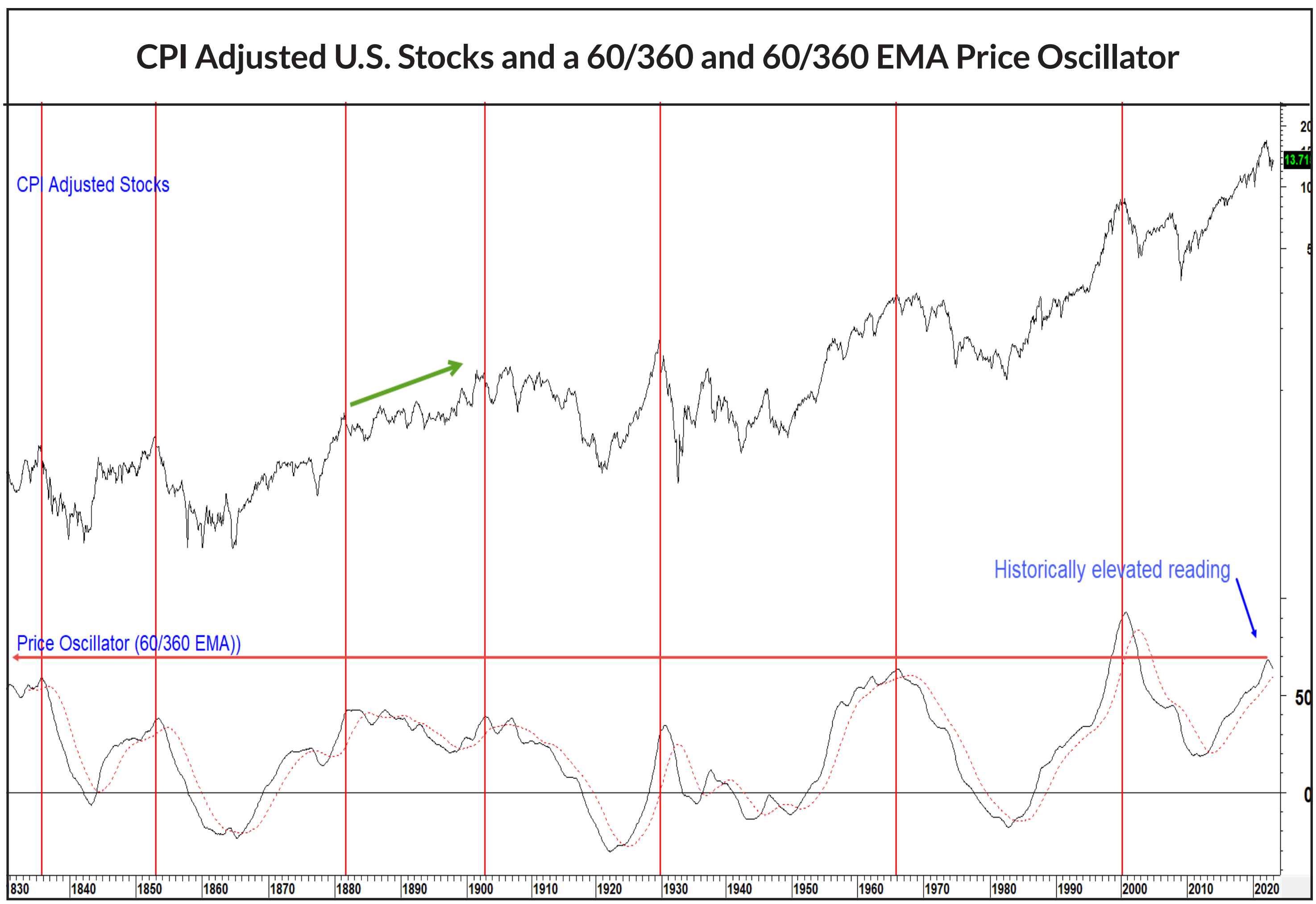


Chart 9

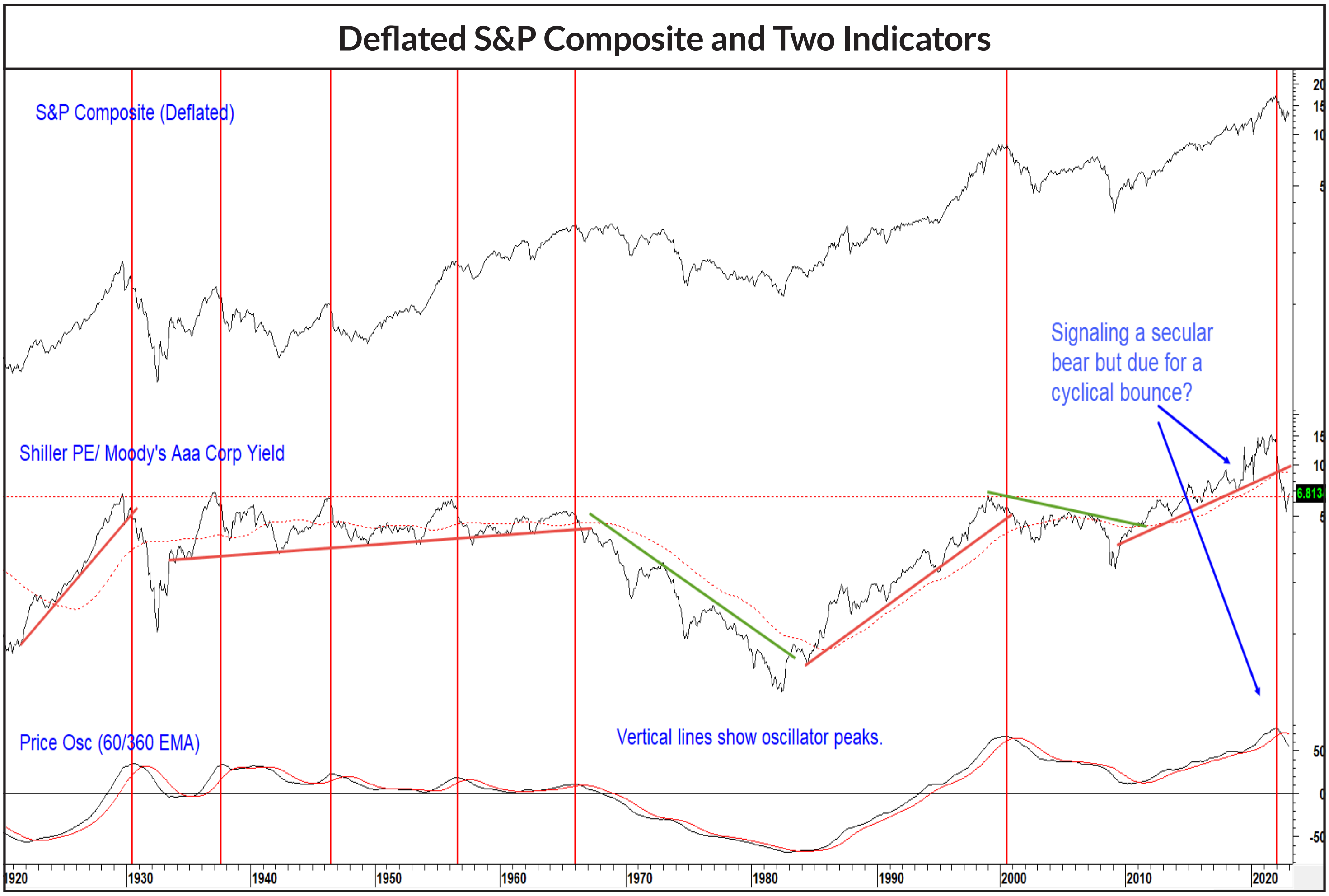


Chart 10

The ratio between the Shiller PE or CAPE and the yield on Moody's Corporate AAA bonds reflects stock market valuation in relation to the context of current interest rates. After applying a 60/360 price oscillator, this relationship also offers timely secular and occasionally primary trend reversal signals. For instance, the vertical lines in Chart 10 tell us that a decline in inflation adjusted stocks typically unfolds when the oscillator peaks. Three of these signals have also coincided with all the secular peaks since 1919. Occasionally, it's been possible to construct an up trendline for the ratio and its violation confirmed a change in the direction of the secular trend. Recently the oscillator touched a record level indicating an historic overvaluation of stocks relative to bonds. Since then, it has triggered a strong sell signal, violated its 2009-22 up trendline and crossed below the 6.5 level — a traditionally overstretched zone. This indicator is offering a strong piece of evidence that a secular bear market is underway, although it's overstretched level on the downside is leaving room for a counter-cyclical rally.

S&P Composite and the Stock Barometer

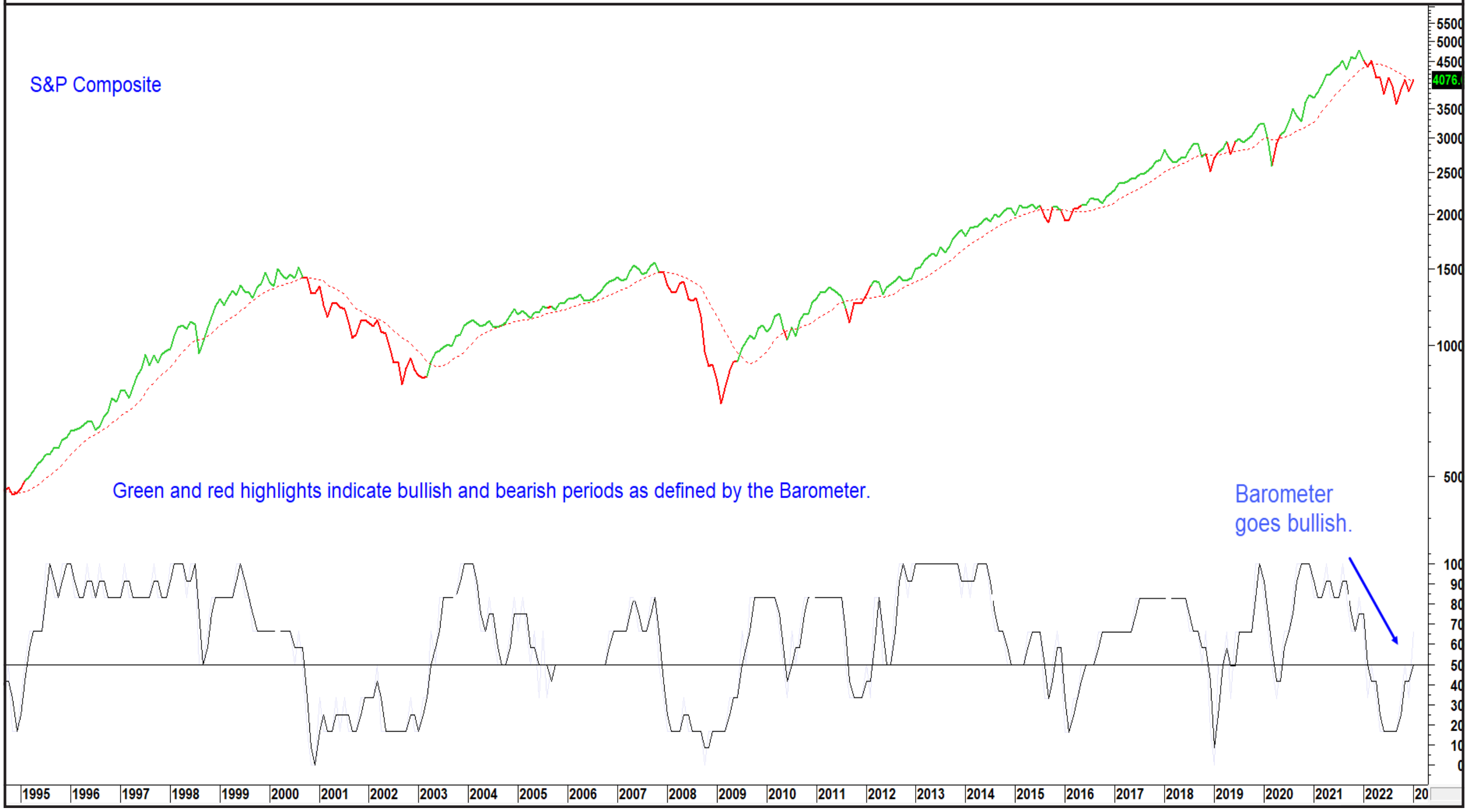


Chart 11

Primary Trend

Our Stock Barometer in Chart 11 improved to a bullish 50%. Several of our primary trend indicators also support the idea that a new uptrend may be in the wind. That may appear to contradict a secular bear market scenario, but history shows that the two things can be true at the same time. That's because secular bears occasionally begin as slow rolling affairs, only later accelerating to the downside. Using month-end closes for ***real*** stock prices, the initial down leg in the 1900-1920 and 1966-1982 secular bears were limited to 32% and 20% respectively (35% if the top is measured from 1968). That compares to 2022 drop of 29%, which is certainly in the ballpark. It's also worth bearing in mind that both secular bears developed under an environment when both commodities and yields were in a secular bull market, the exact same conditions that are currently prevailing.

Most of our primary trend indicators are negative at the moment, but several have begun to tick up, suggesting a turn could be at hand. Let's consider some of them from a monetary, economic, psychological technical and chronological business cycle aspect.

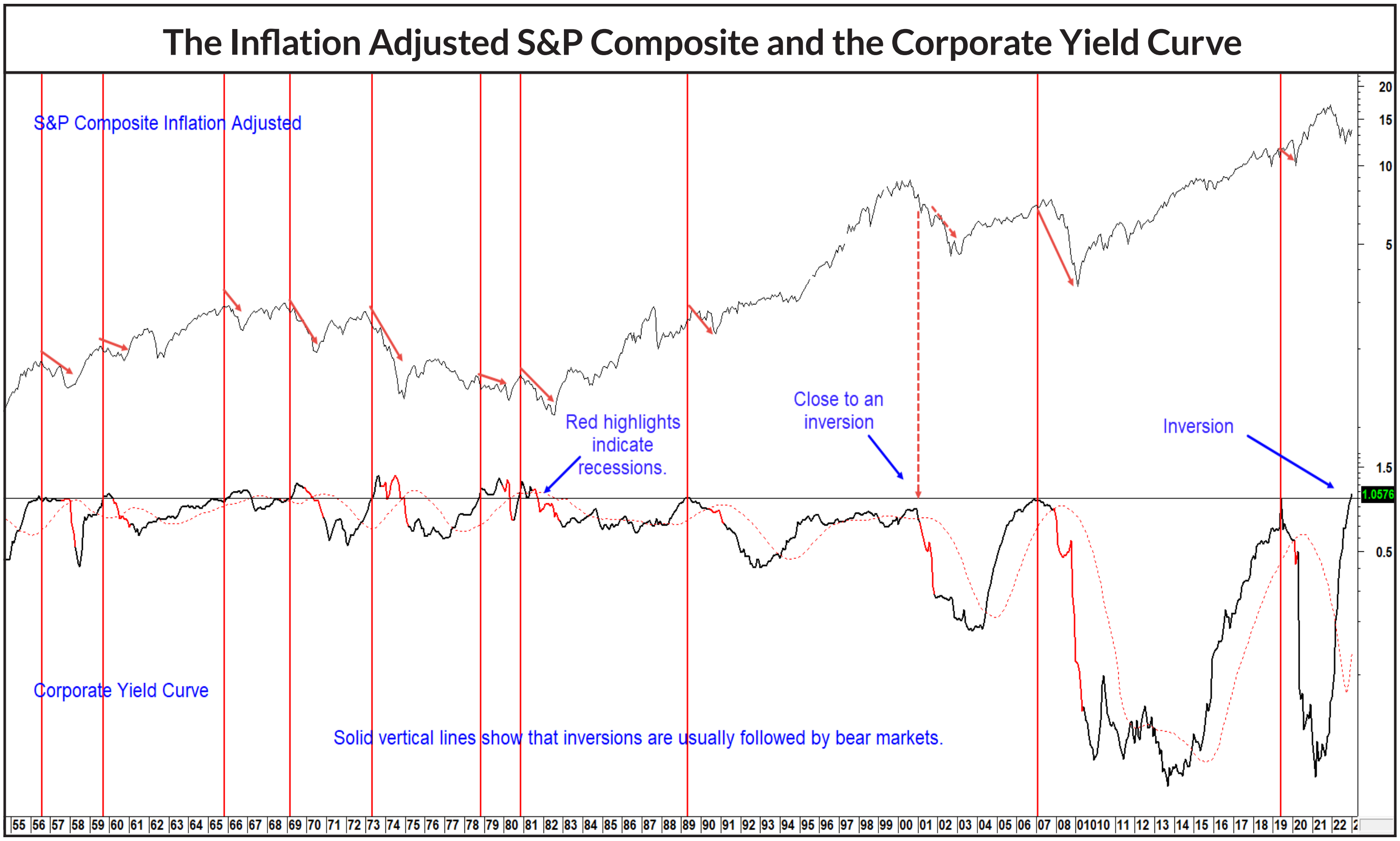


Chart 12

Monetary

Chart 12 compares the inflation adjusted S&P to the corporate yield curve. In this instance, the yield on 3-month commercial paper is compared to that for Moody's corporate Aaa yield. The vertical lines show when the curve initially inverts i.e., when the money market yield crosses above its Aaa counterpart. Such action reflecting tight money. The arrows tell us that stock prices typically retreat following an inversion. That's because equities are discounting the recession that invariably follows. Since the curve has only recently inverted, the implication is that the bear market has further to run.

Our Financial Velocity indicator in Chart 13, which you can read about here, combines the momentum of bonds, stocks and commodities into one series. It's at an extreme oversold reading only surpassed in 1921, 1929 and 2009. That means it could turn bullish by reversing to the upside at any time. The vertical lines indicate that such sub-zero upside reversals have consistently been followed by a rally in the stock market.

Economic

Except for the post 2001 recovery, which the market chose to ignore for many months, the primary trend of equities is very much determined by swings in the economy. For instance, the vertical lines in Chart 14 show when our Master Economic Indicator (MEI) drops below the horizontal green line and then re-crosses it. This typically signals a new recovery and confirms an equity bull market is underway. January saw this series bounce from the line. That doesn't mean a reversal is underway. However, this over-stretched status means that business activity would have to fall apart in short order if the indicator is to maintain its downward trajectory.

Deflated Equities and a Coppock Financial Velocity Indicator

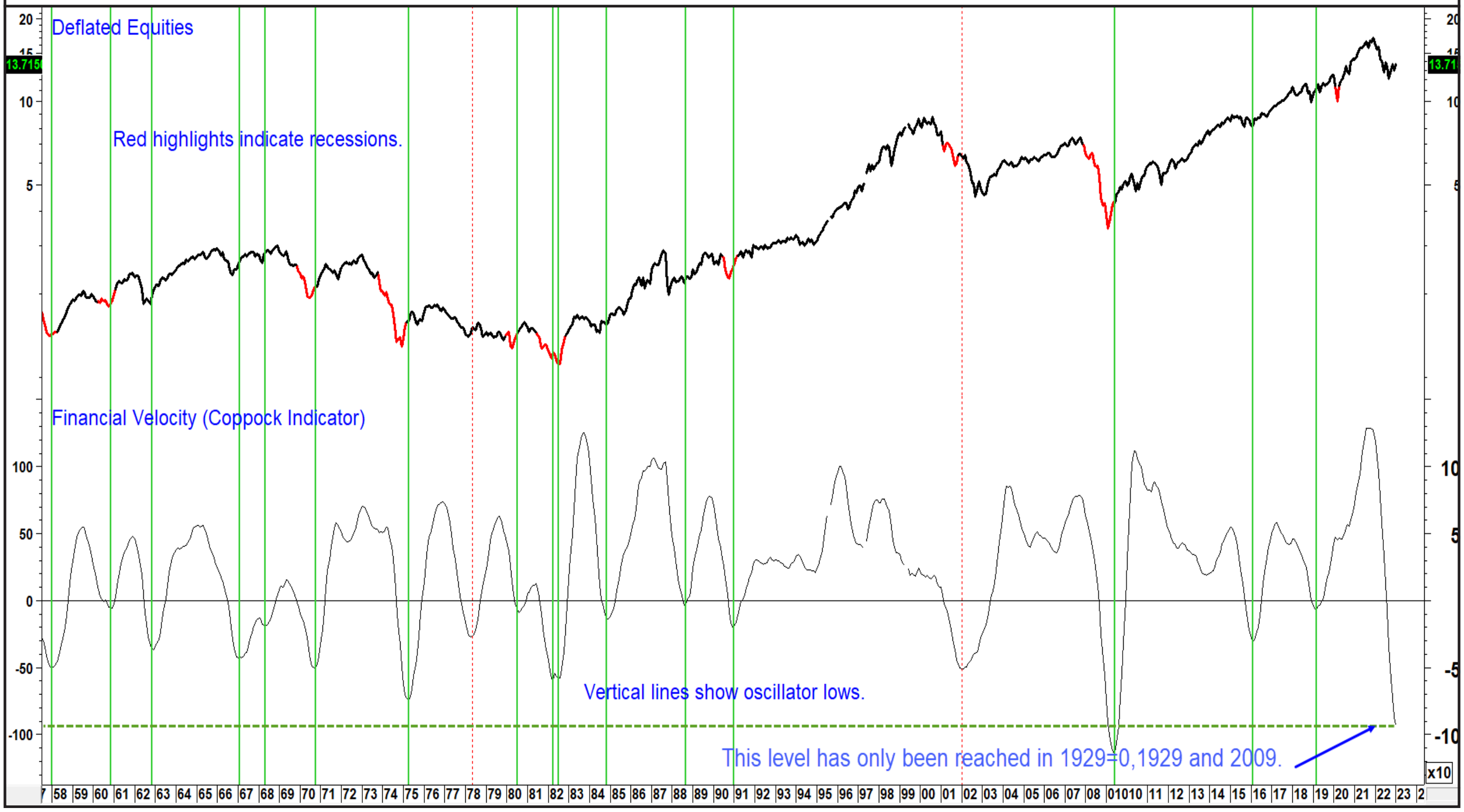


Chart 13

S&P Composite and the Master Economic Indicator

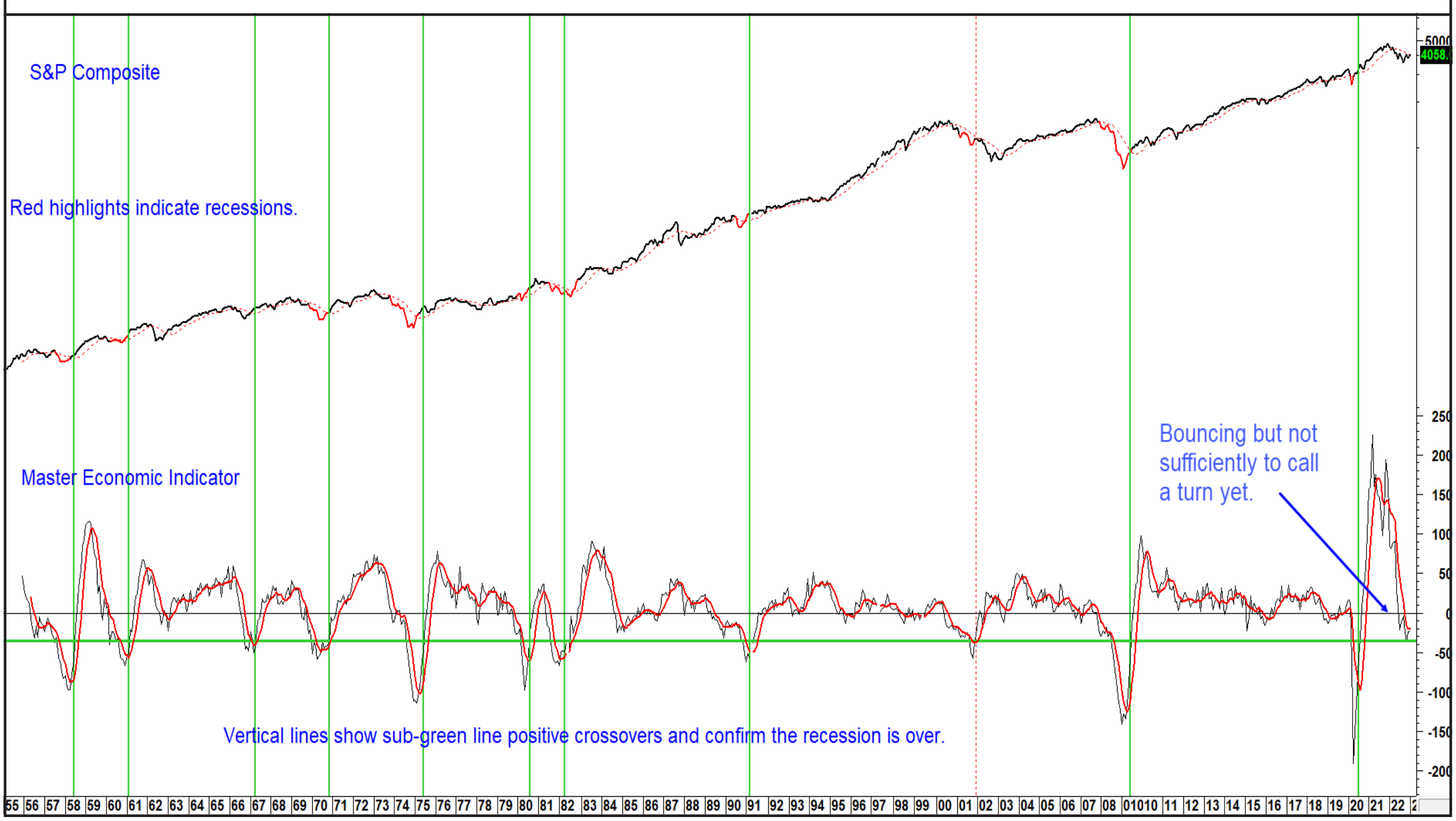


Chart 14

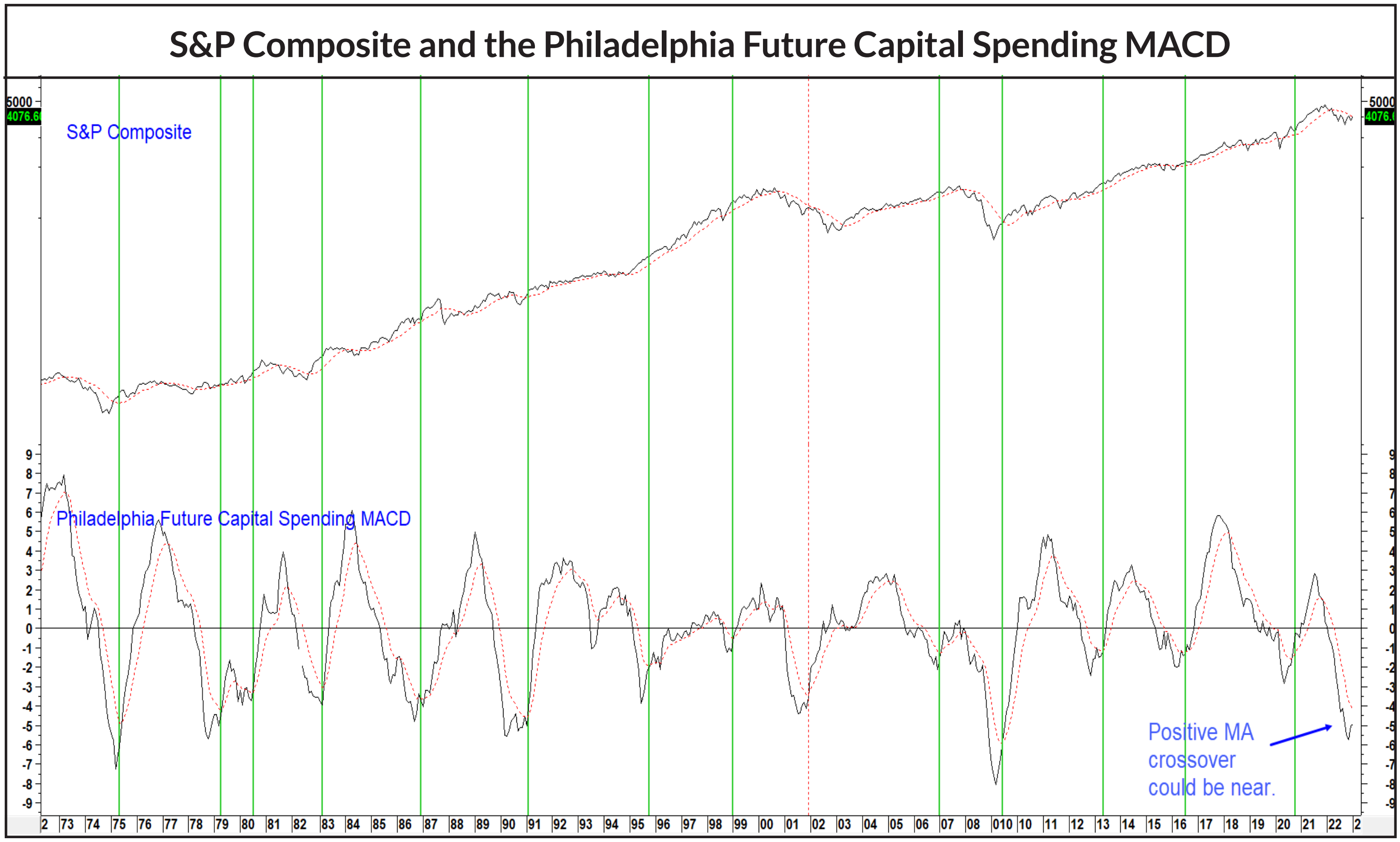


Chart 15

One of our favorite LEIs is the Philadelphia Feds Future Capital Spending Index, shown in Chart 15 in MACD format. The vertical lines tell us when this oscillator crosses above its signal line. This type of action normally indicates a forthcoming improvement in the economy, resulting in a bull market for equities. The MACD has been rising for two months but has not quite met the moving average crossover threshold. That said, its recent action is more consistent with a soft landing than a hard one.

The ECRI weekly LEI in Chart 16 is also showing promise, as its price oscillator using the 6- and 15-month parameters, has reversed to the upside. The vertical lines show that such reversals are typically followed by an improving economy and stock market.

Sentiment

In Chart 17, the Michigan consumer sentiment numbers are very volatile. However, when smoothed with a long-term KST calculation, this data offers useful long-term buy signals for equities. That happens when the KST experiences a positive MA crossover from a level close to or below zero. Valid signals have been flagged by the vertical green lines, false positives by the red dashed ones. The indicator has already reversed to the upside, suggesting that stock prices will follow.

S&P Composite and a 6/15 EMA ECRI Weekly LEI Price Oscillator

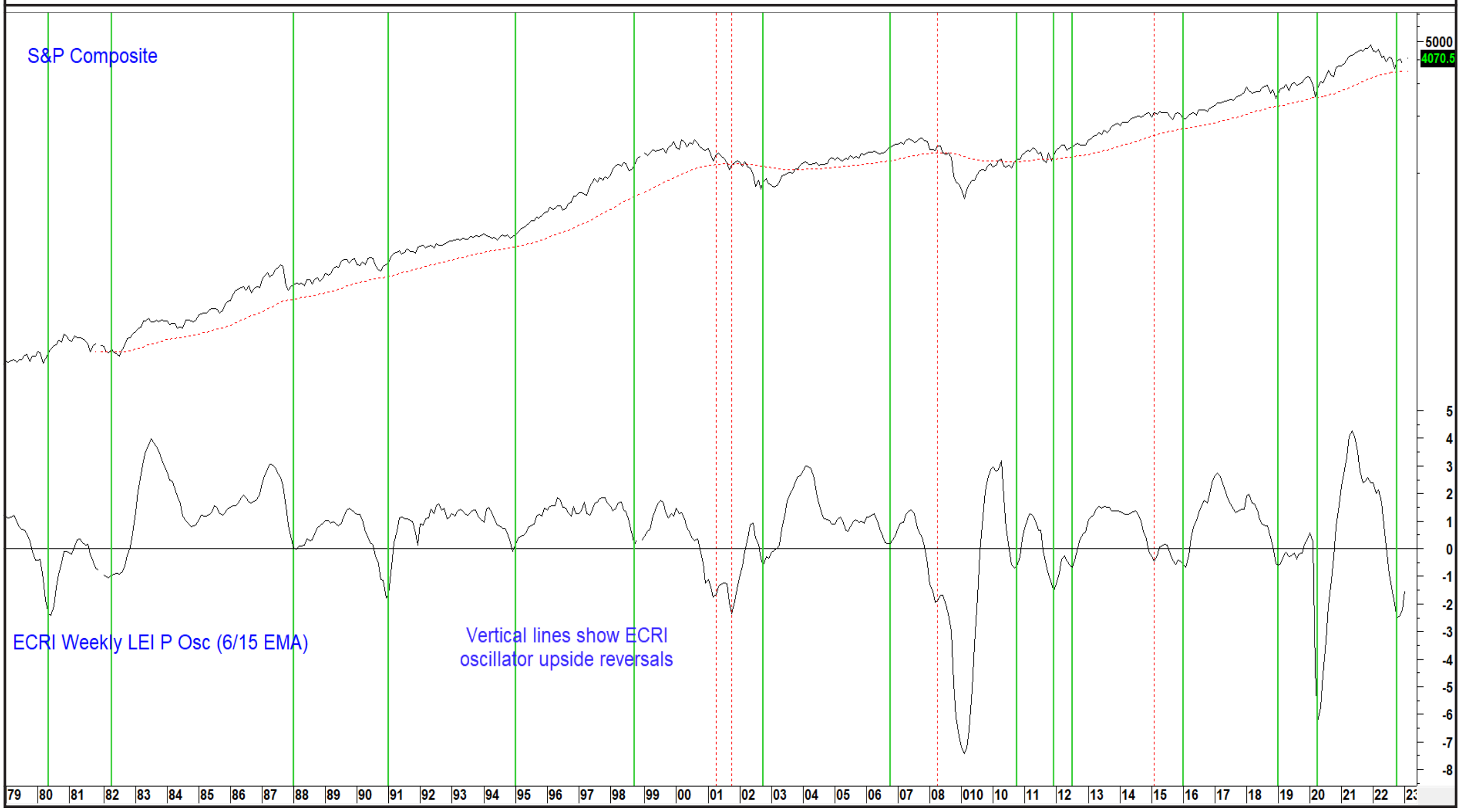


Chart 16

S&P Composite and Michigan Consumer Sentiment

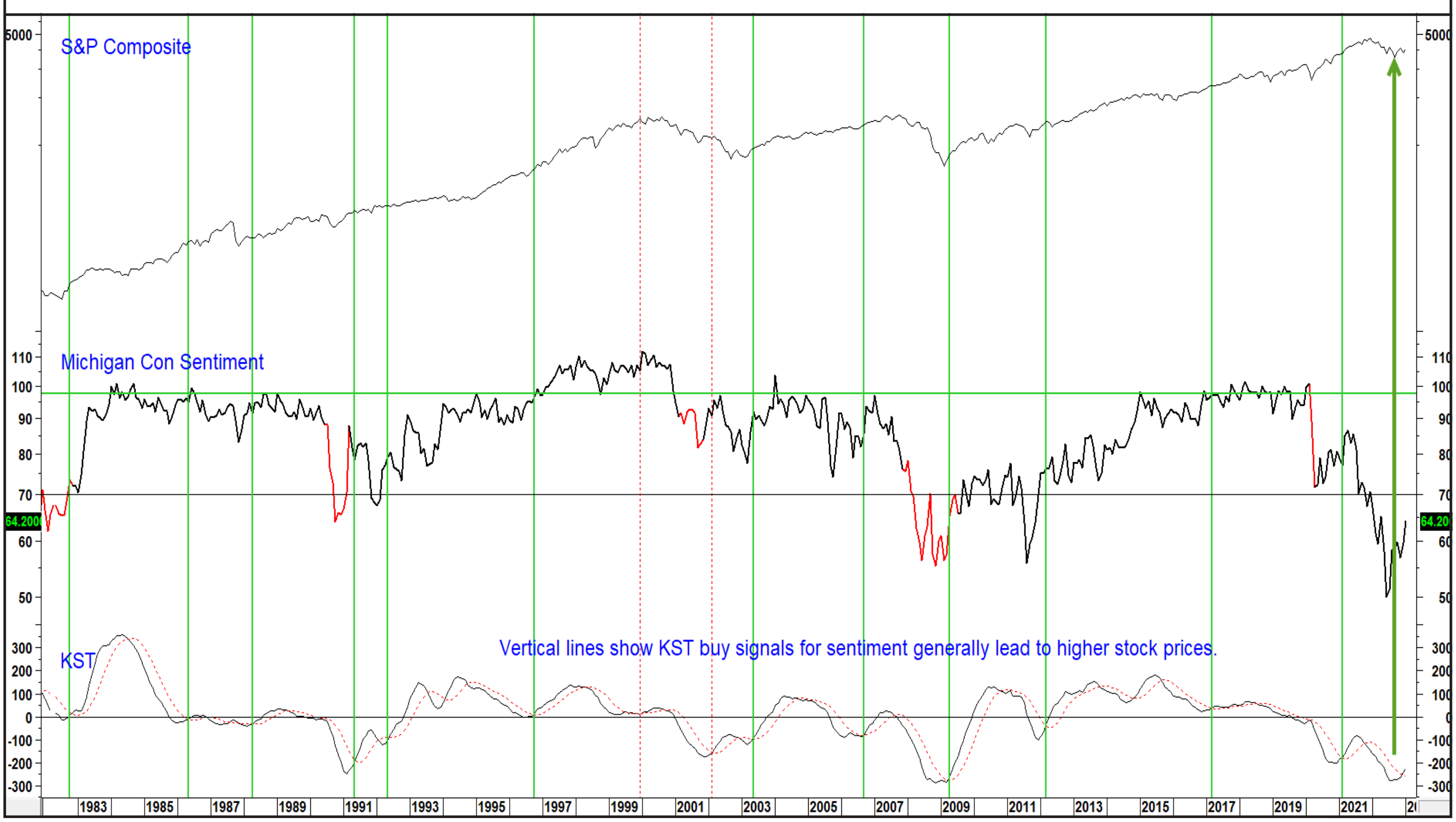


Chart 17

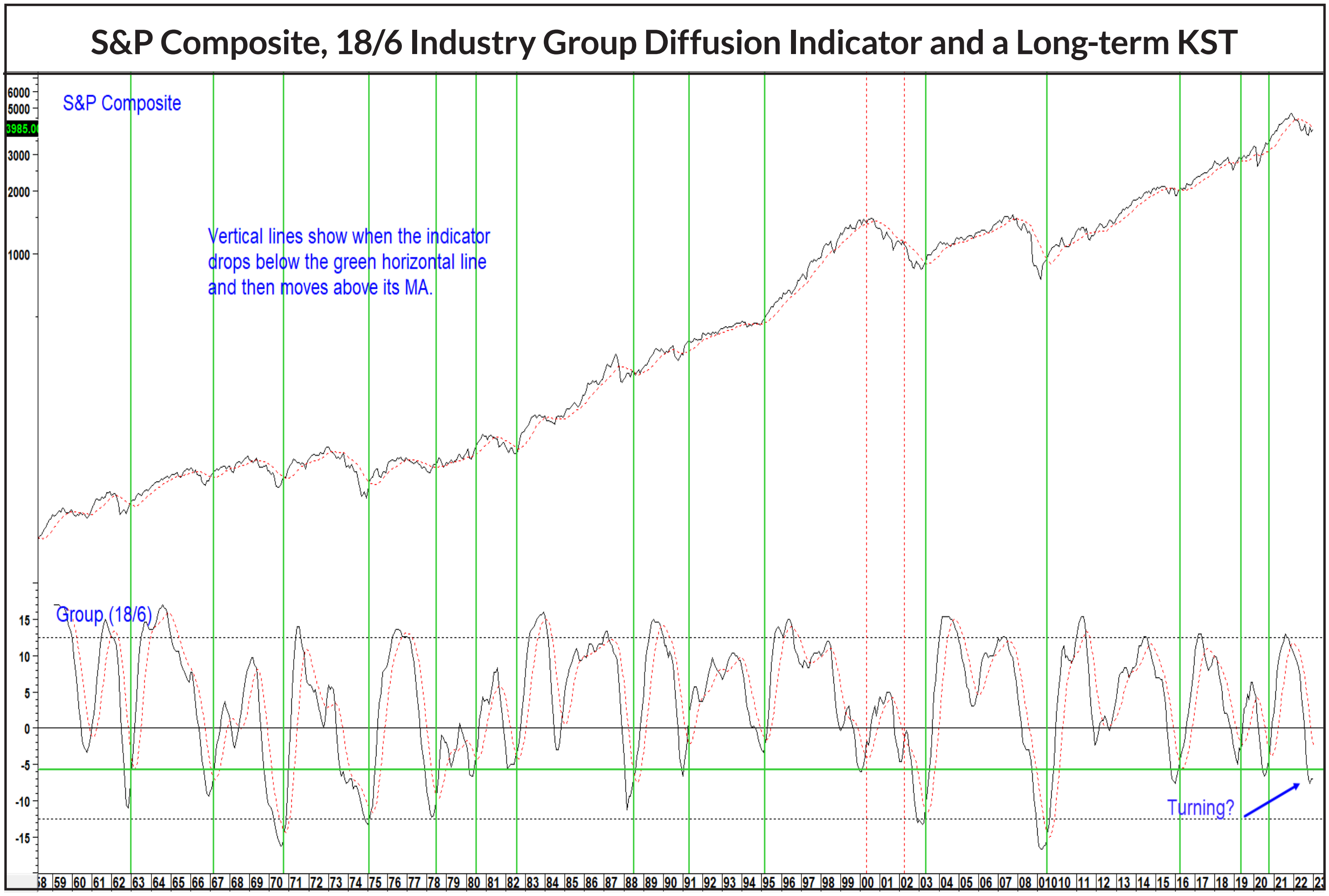


Chart 18

Technical

Chart 18 features a diffusion indicator that monitors a universe of industry groups above their 18-month moving average. Since the raw data is somewhat jagged, the series plotted in the chart has been smoothed with a 6-month MA. Once again, the vertical lines represent oversold reversals, the bulk of which were followed by rising prices. January saw the indicator hook to the upside suggesting that another buy signal is waiting in the wings.

Chart 19 shows the NYSE Composite compared to a price oscillator using the 6- and 180-week parameters. The green vertical lines tell us when the oscillator sinks to or below the red horizontal line and subsequently crosses above zero. The solid lines represent periods when it drops below the red line and dashed ones when it bounces from it. All instances since the 1970's were followed by a stock market rally of some kind. That indicator recently went bullish again.

Chronological

Stocks are a leading indicator of the economy and commodities more of a coincident one. It is not surprising therefore, when the ratio between them reverses to the upside it often signals a new bull market. In this respect, Chart 20 compares the S&P Composite to a long-term KST of the stock/commodity ratio. This series has just begun to rally above its 9-month MA to trigger its seventeenth buy signal since the 1940's.

Conclusion

Secular bear markets either begin abruptly or experience a trading range with a downward bias, only later picking up steam on the downside. We think the odds of a secular bear market are better than even. However, we also notice that several primary trend indicators are in the process of turning. If our secular bear scenario pans out, that means any forthcoming bull market will form part of an overall secular topping out process, in which marginal but meaningless new all-time highs could be achieved. ■

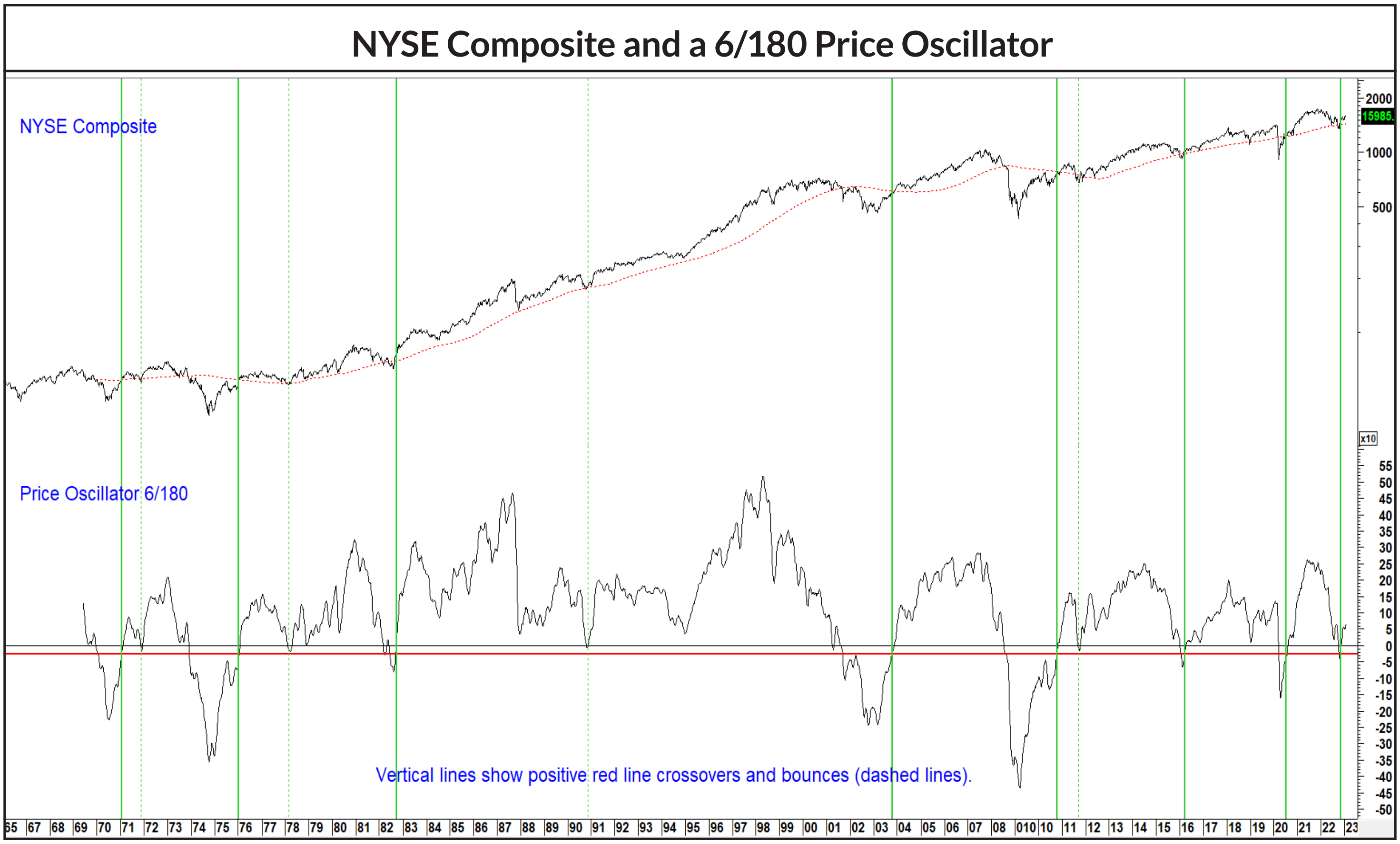


Chart 19

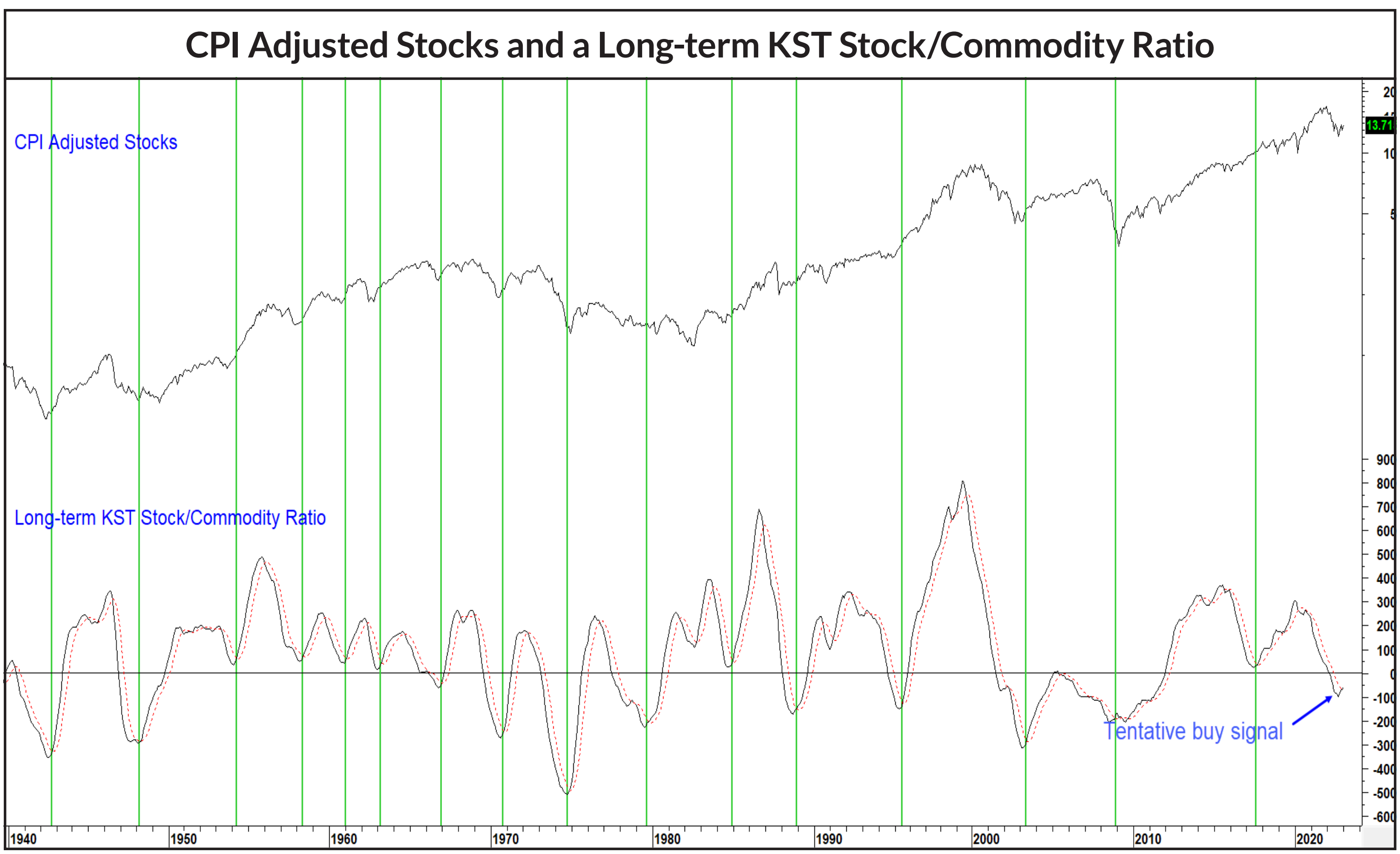


Chart 20

U.S. Credit Markets

Secular Trend

In the previous section we referred to the fact that bond yields are in a secular bull market. Chart 21 offers some evidence in that direction. First, the green highlights indicate when the 9-month EMA is above its 96-month counterpart. Red reflects when it's below. The ellipses point out the few false signals generated using this approach. This technique has recently triggered its first secular buy signal since the 1950s. Second, the yield itself has decisively violated its secular down trendline. Third, the 240-month ROC has broken out from a huge base. Finally, the 18-month ROC ended the secular bear by reaching a record oversold condition, subsequently reverting to a record overbought reading. That's a technical event known as an "extreme swing". Such action by definition is unusual, but it's also a characteristic of a change in very long-term psychology from bearish to bullish.

Government 20-year Yield and an 18- and 240-month ROC Indicators

Chart 21

3-month Commercial Paper Yield and the Growth Indicator

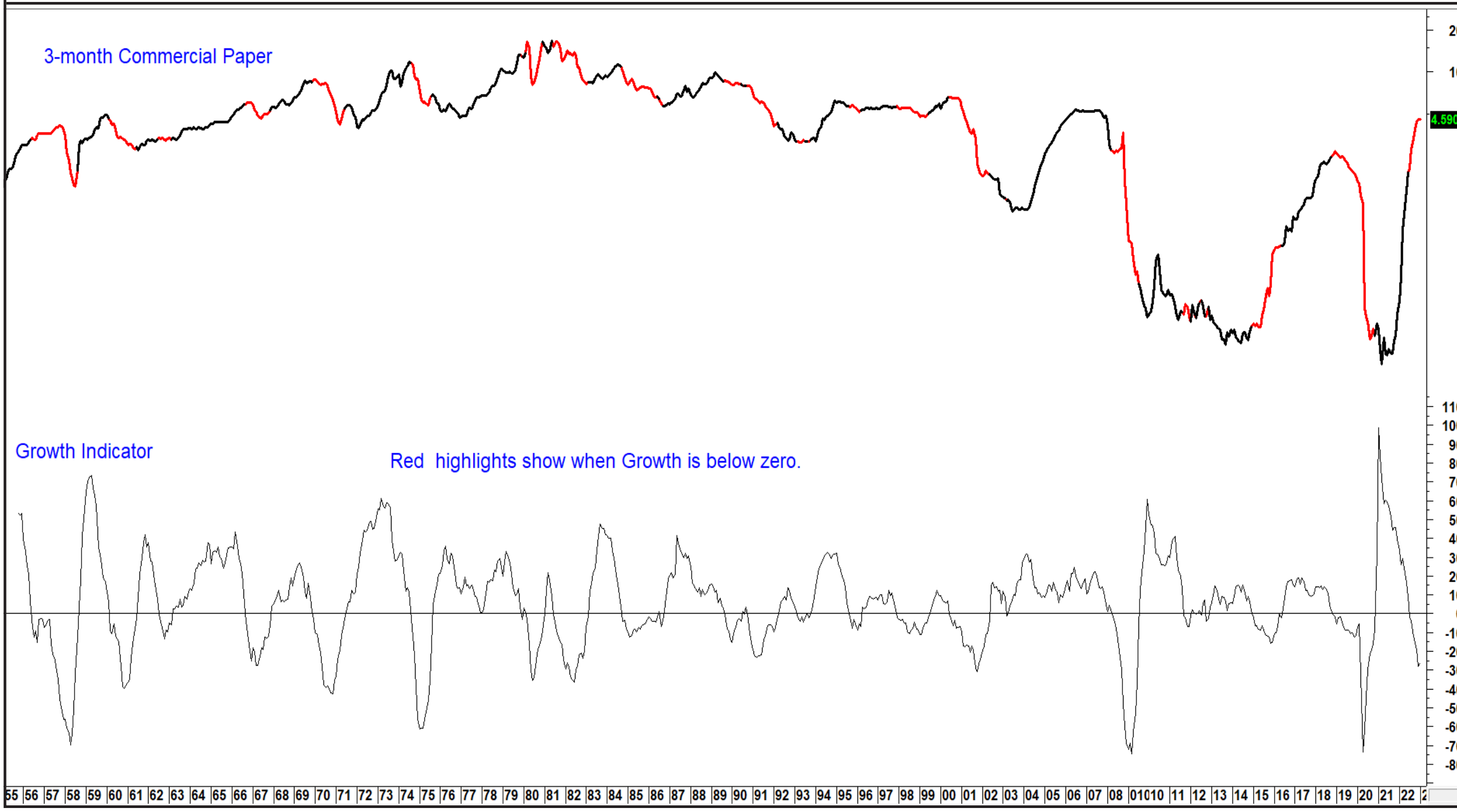


Chart 22

Money Market Yields

The red highlights in Chart 22 indicate when our growth indicator is below zero. In the vast majority of cases, it reflects the fact that business activity is more consistent with lower money market yields than higher ones. It ticked sideways in the latest reporting period but remains well below the equilibrium point.

Chart 23 also hints at lower rates since it shows that market rates, in the form of the 5-year yield, may have already peaked. The downside penetration of its bull market trendline is so far a marginal one. However, if it becomes more pronounced that will be important because this yield typically leads the officially set federal funds rate.

Longer Dated Maturities

Our Bond Barometer in Chart 24 remains in a bearish posture for prices at a 25% reading. That said, two of its components, the yield and long-term KST relative to their 12- and 9-month MAs have begun to narrow the gap, as shown in Chart 25.

Effective Federal Funds Rate with a Government 5-year Yield

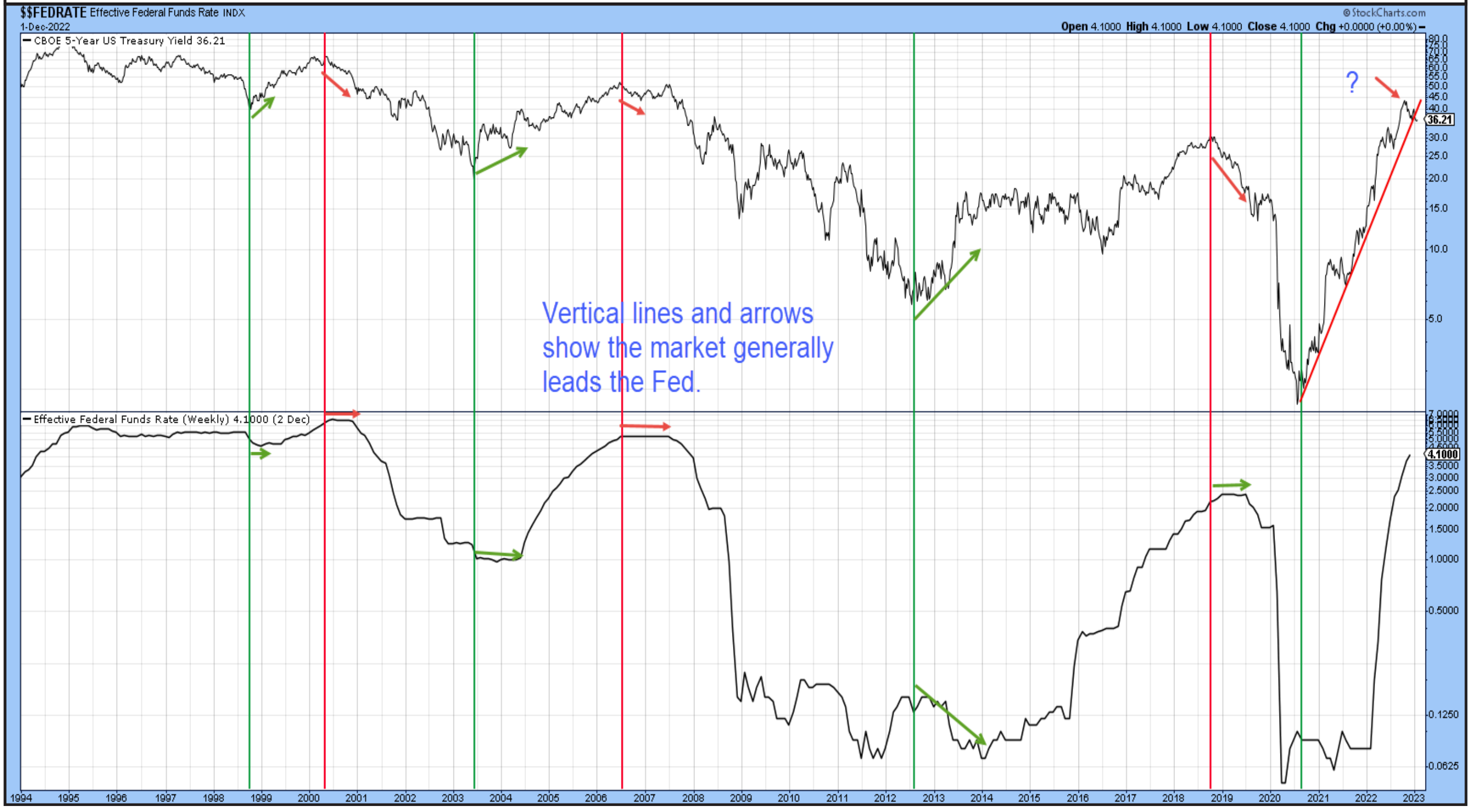


Chart 23 *Courtesy from StockCharts.com*

iShares 20+ Year Treasury Bond ETF (TLT) and the Bond Barometer

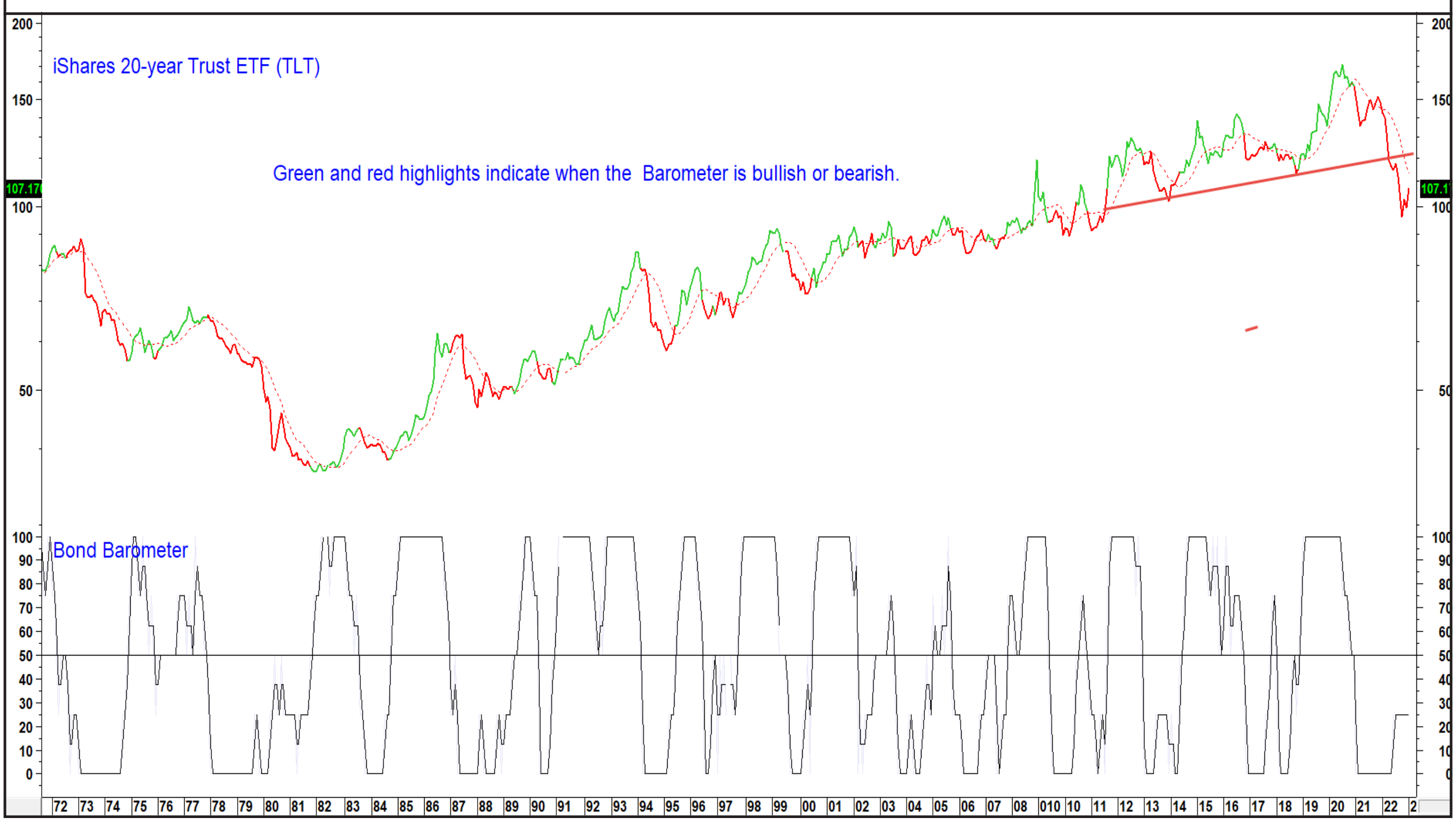


Chart 24

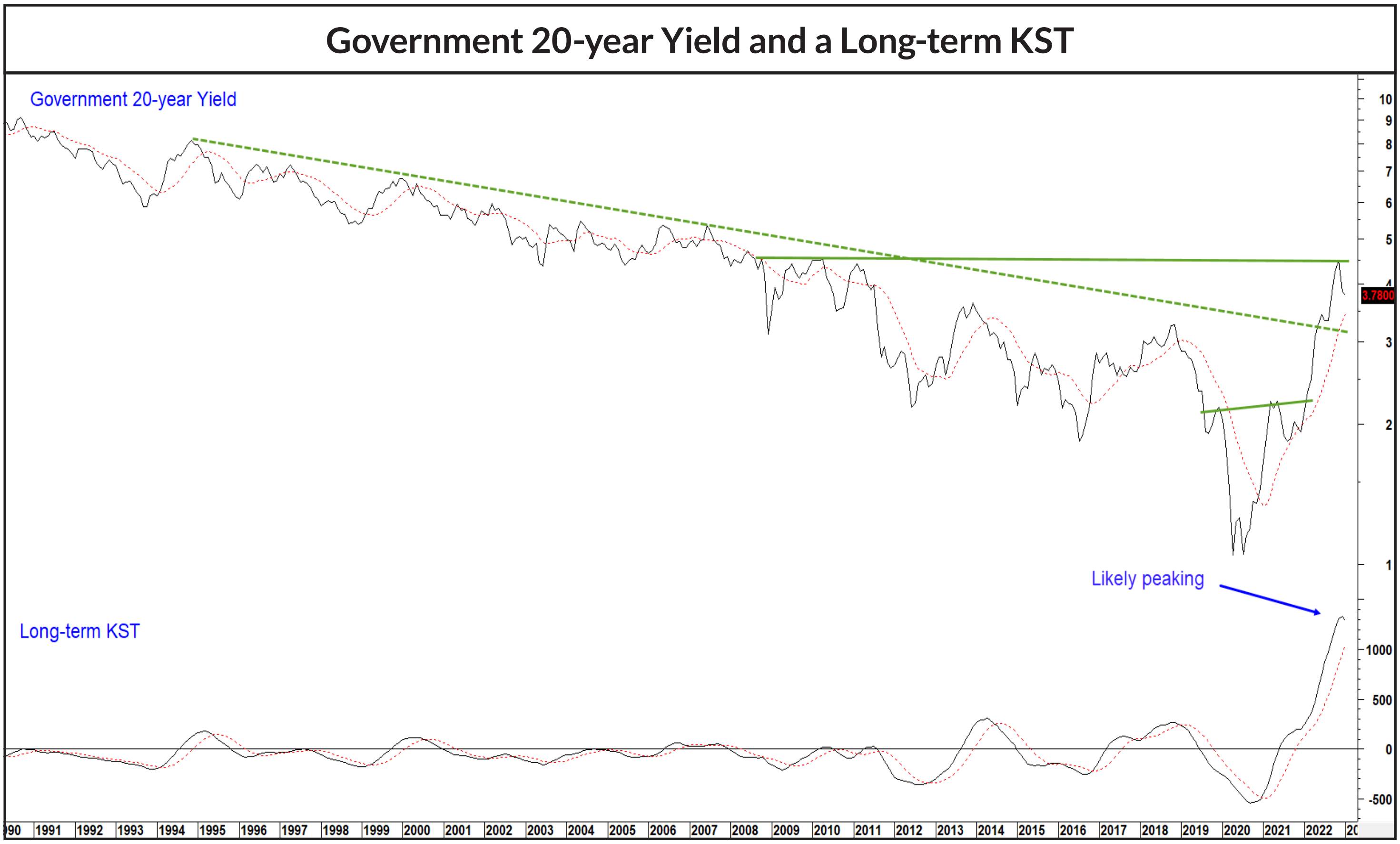


Chart 25

Moreover, the weekly plotted yield (Chart 26) has tentatively completed a bearish upward sloping head and shoulders formation at a time when both momentum series are in a negative trend.

Finally Chart 27 shows that the KST for the ratio between government and Moody's Baa corporate yield has started to peak from an extreme level. That's important because falling momentum is associated with weaker confidence and a softer economy. The arrows tell us that previous KST peaks have been associated with a trend of declining yields. ■

Government 20-year Inverted Yield and Two KSTs

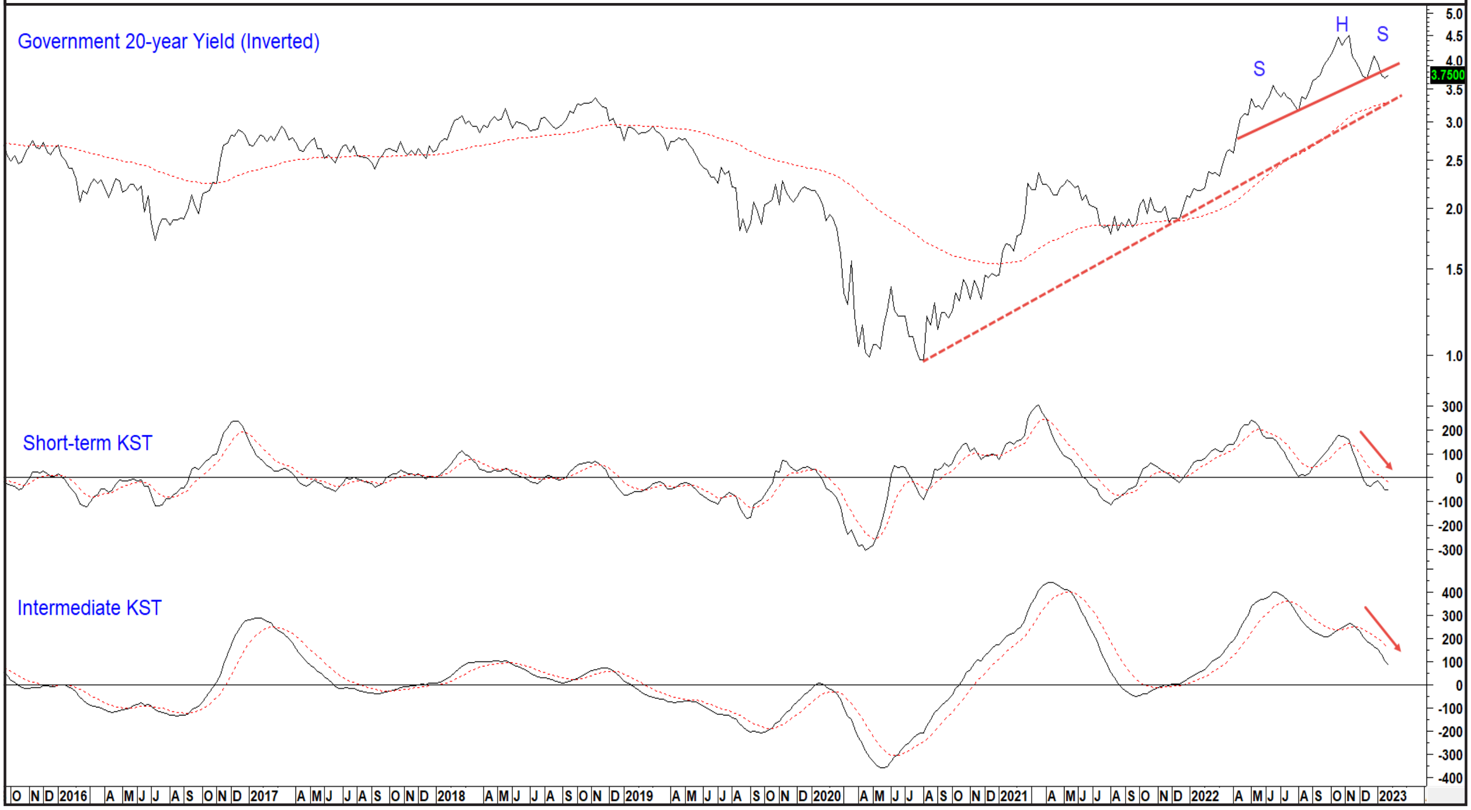


Chart 26

Government 20- 30-year Yield and a Government/Baa KST

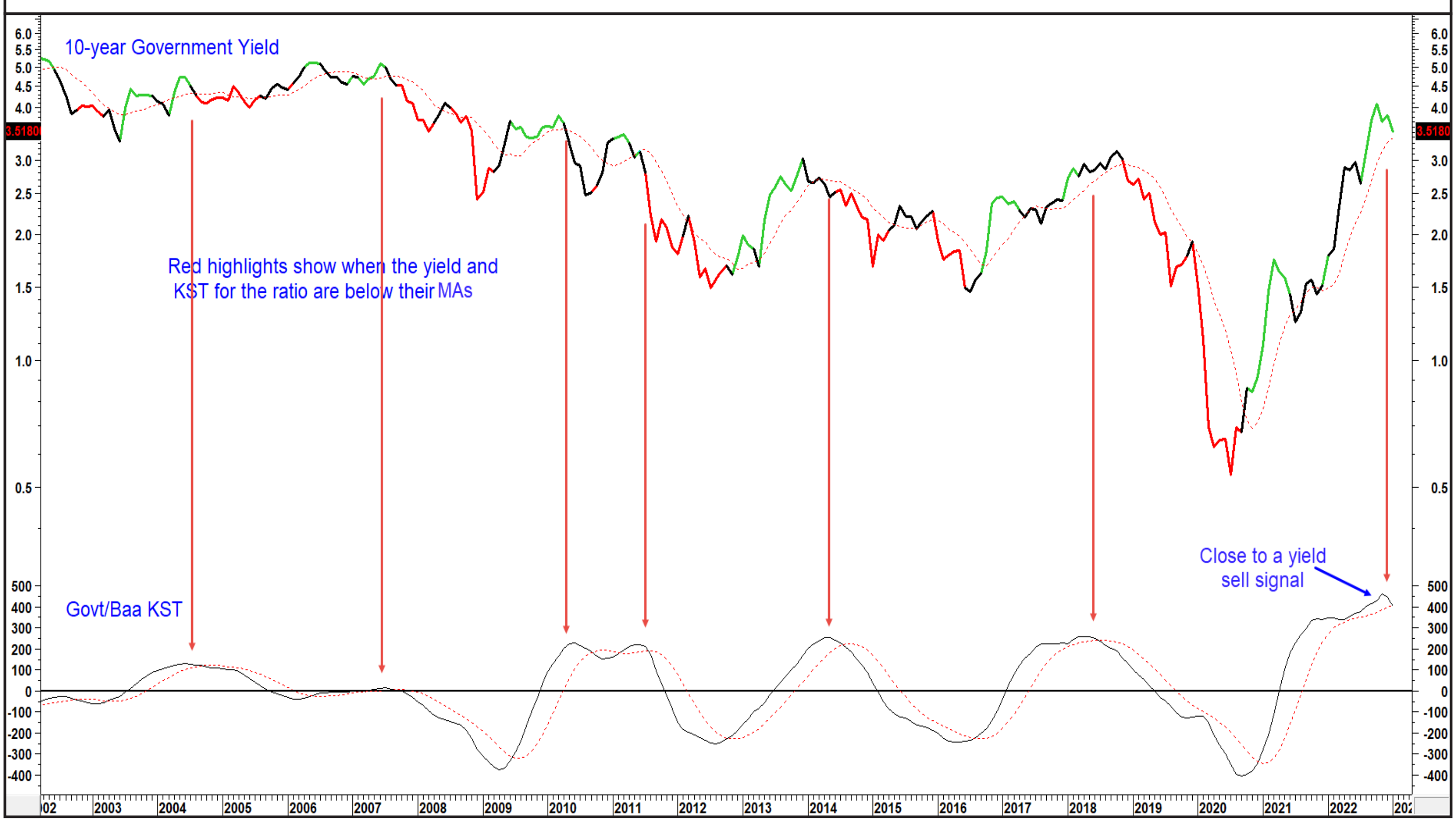


Chart 27

Commodities

Secular Trend

The green arrows in Chart 28 tell us when the oscillator in the middle window crosses above its 48-month MA. It's certainly not a perfect indicator, but the oscillator does give us an approximate fix on the direction and maturity of the prevailing secular trend. Early last year it crossed above its MA, signaling a secular uptrend. A rising secular trend typically means that primary uptrends are likely to have greater duration and magnitude than their bearish counterparts. Nevertheless, it's not impossible that the recent stabilizing trend could be a prelude to an actual sell signal. That's not true for a similar measure using the more broadly based CRB Composite, shown in the chart's bottom window.

U.S. Commodity Prices and Two 60/360 Price Oscillators

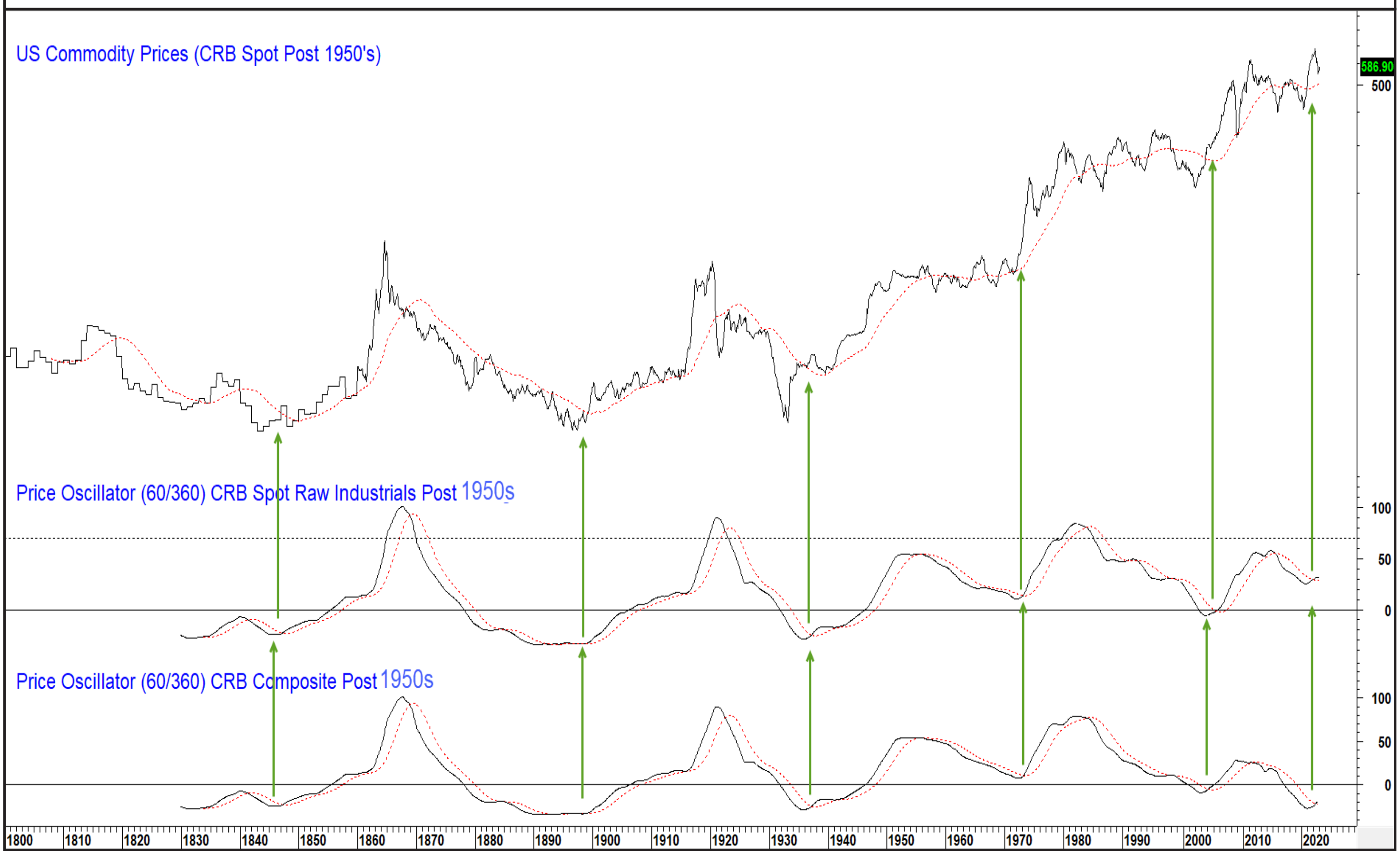


Chart 28

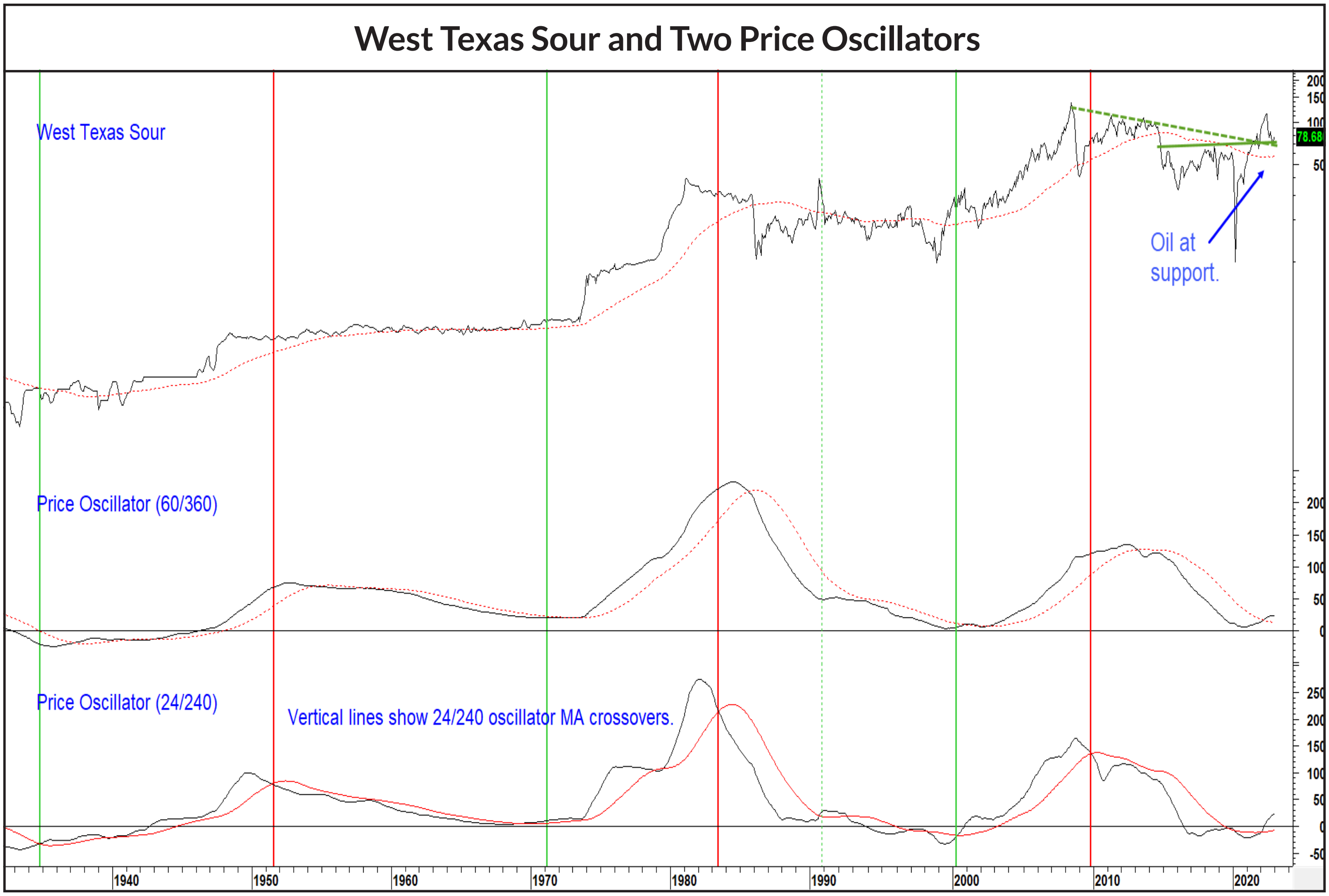


Chart 29

Oil

A key commodity, which is not represented in the CRB Spot Industrial Index, is crude oil. It's shown in Chart 29, along with two price oscillators. Buy and sell signals develop at the vertical lines, which reflect MA crossovers of the 24- 240-month combination featured in the bottom window. This series, like its 60- 360-month counterpart, is signaling a secular bull. The upper window shows that the crude price has fallen back to key support in the area of the two extended trendlines. That suggests prices may hold for a while. However, the overstretched nature of the long-term KST (see Chart 35 for gasoline) suggests that if prices do hold, it's more likely to be part of a trading range rather than a runaway bull market.

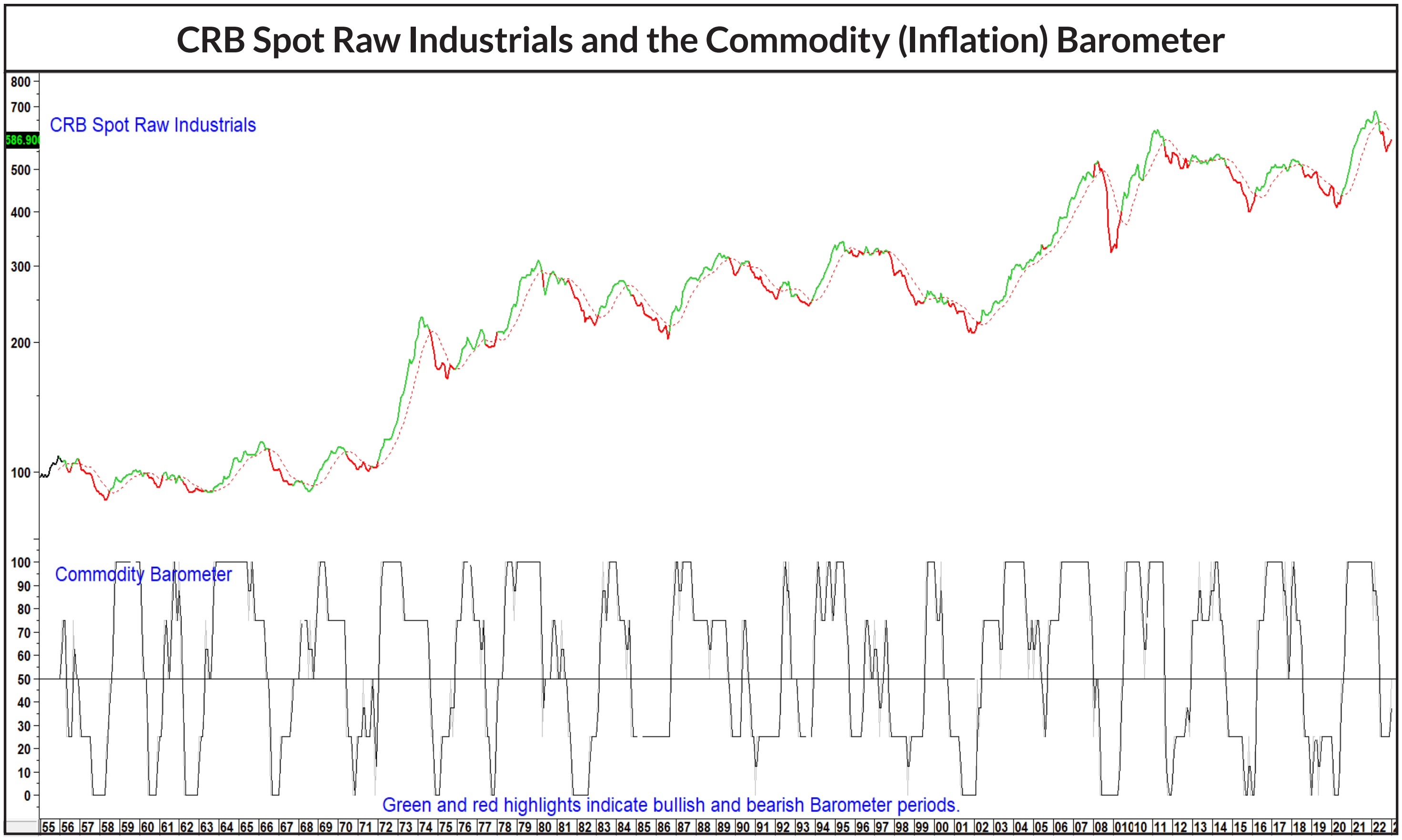


Chart 30

Most cyclical commodity indicators in our toolbox are currently pointing south, so an important test of the secular bull market scenario will be taking place in the next few months. If prices weaken significantly, that won't be welcome news for commodity bulls. On the other hand, if they can shrug off these primary bear market signals with a sideways digestion of 2020-22 gains, it would certainly be in character with an ongoing secular bull market.

Primary Trend

Our Commodity or Inflation Barometer reached a bullish reading in January but the official benchmark uses a 2-month MA in an attempt to filter out whipsaws. However, if the S&P Composite and Commodity/bond ratio remain above their 12-month MAs. This model will go bullish in February, probably resulting in a Stage 4 environment, which is bullish for stocks and commodities but not bonds.

Charts 30 and 31 relate the CRB Spot Raw Industrials to the economy. The price oscillator for the capacity utilization rate, in the bottom window of Chart 30, is right at zero, which is its threshold for a primary trend commodity sell signal. This is one of the few indicators that didn't go bearish during the 2001-2008 bull market. Its principal weakness is that its signals occasionally develop after the bear market has been underway for a while.

The Philadelphia Fed's Delivery Time Index, or rather its MACD, is featured in Chart 32. It has recently fallen to a level that nearly matches its 1975 record low. That means an upside reversal is likely to take place soon, as the current speed of its downside velocity

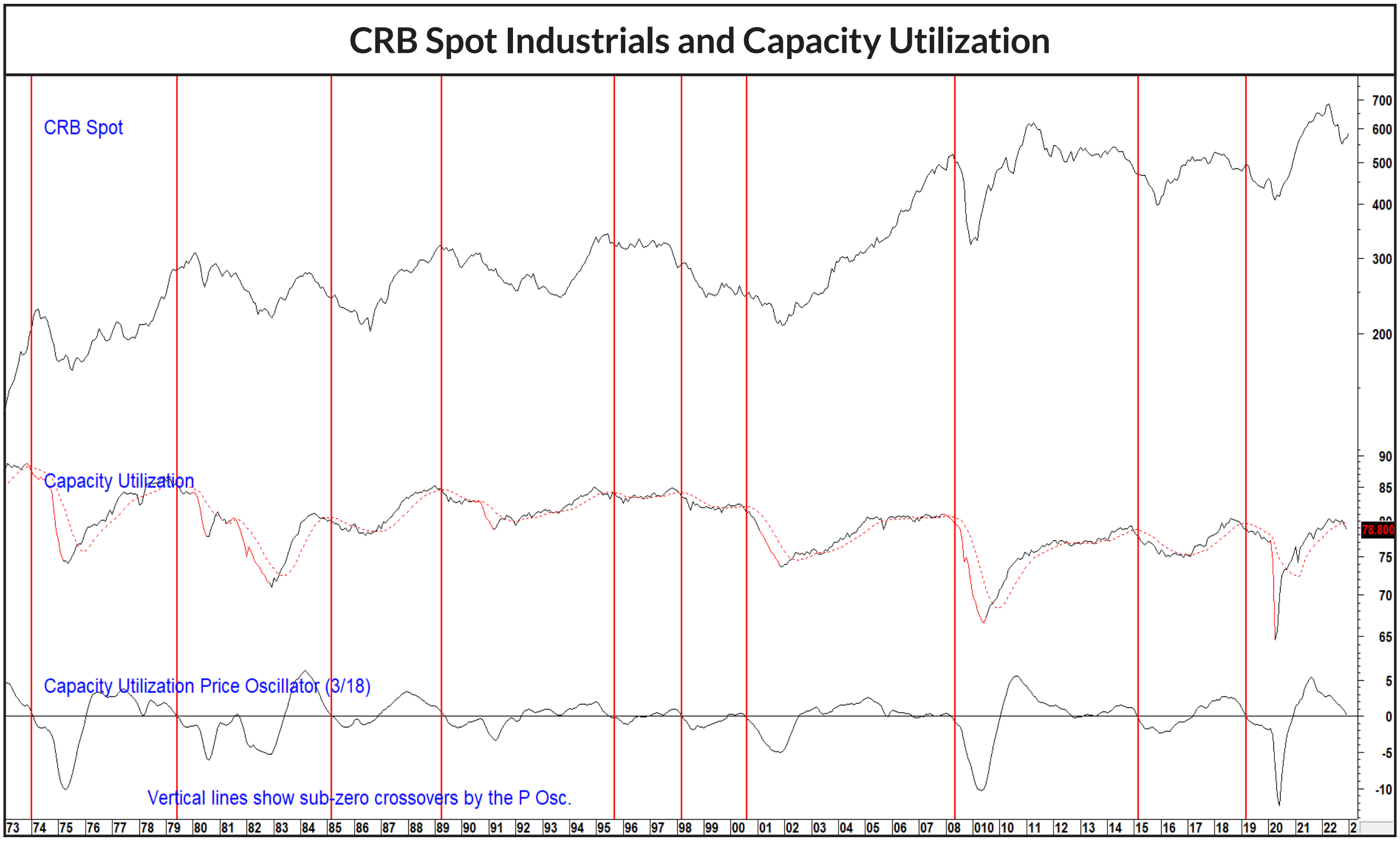


Chart 31

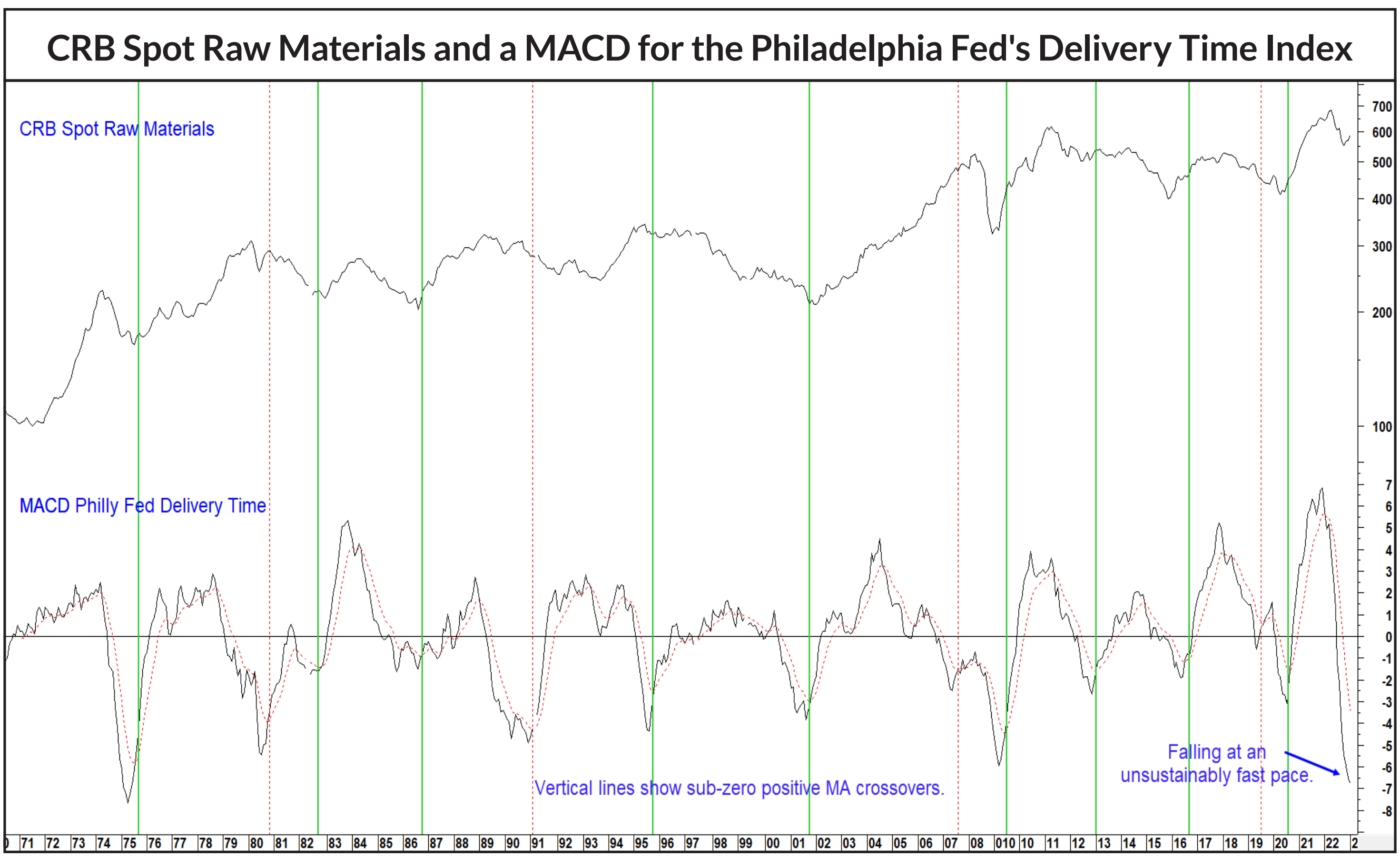


Chart 32

CRB Spot Raw Industrials and a Smoothed ROC

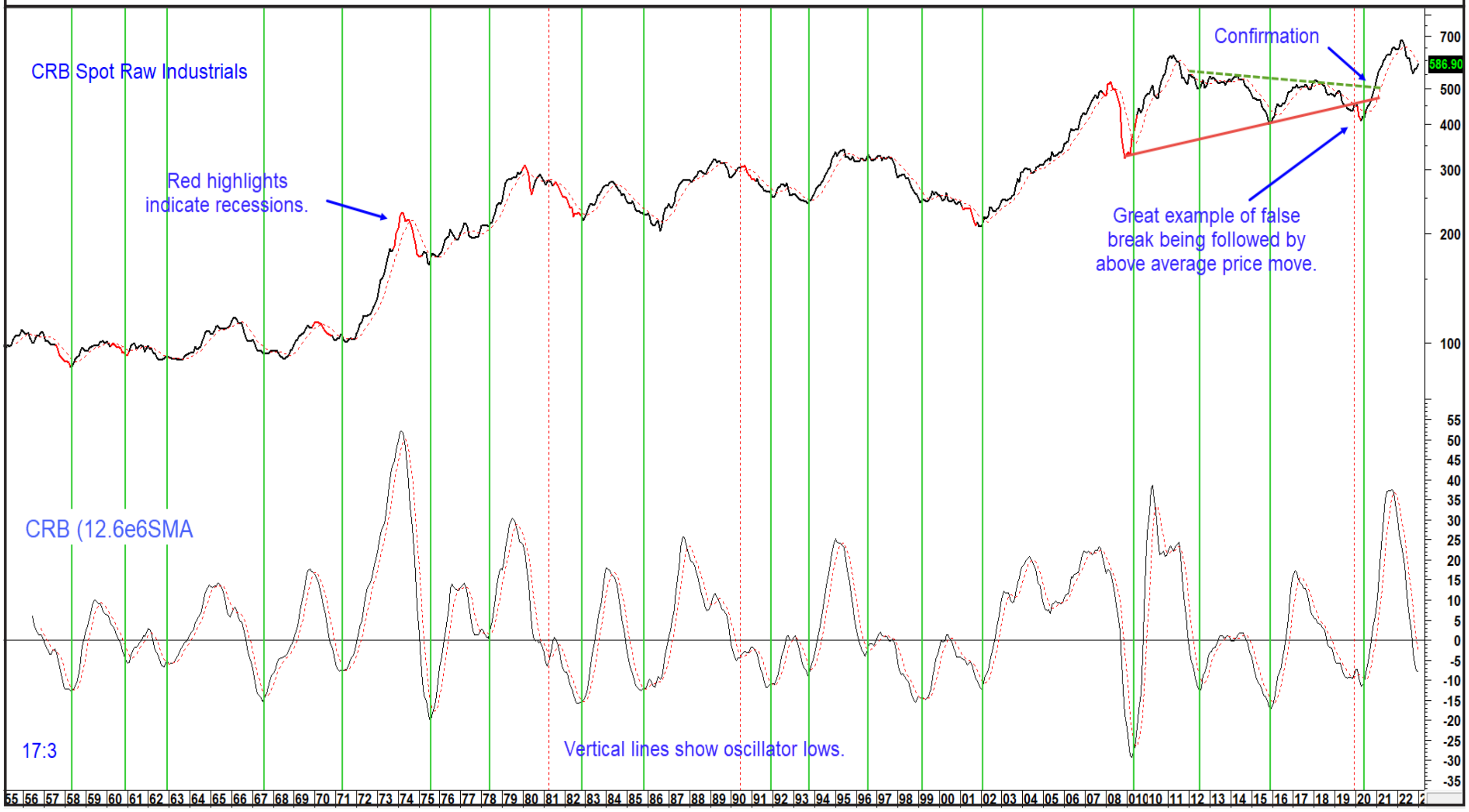


Chart 33

High Grade Copper and a 6/15 EMA Price Oscillator

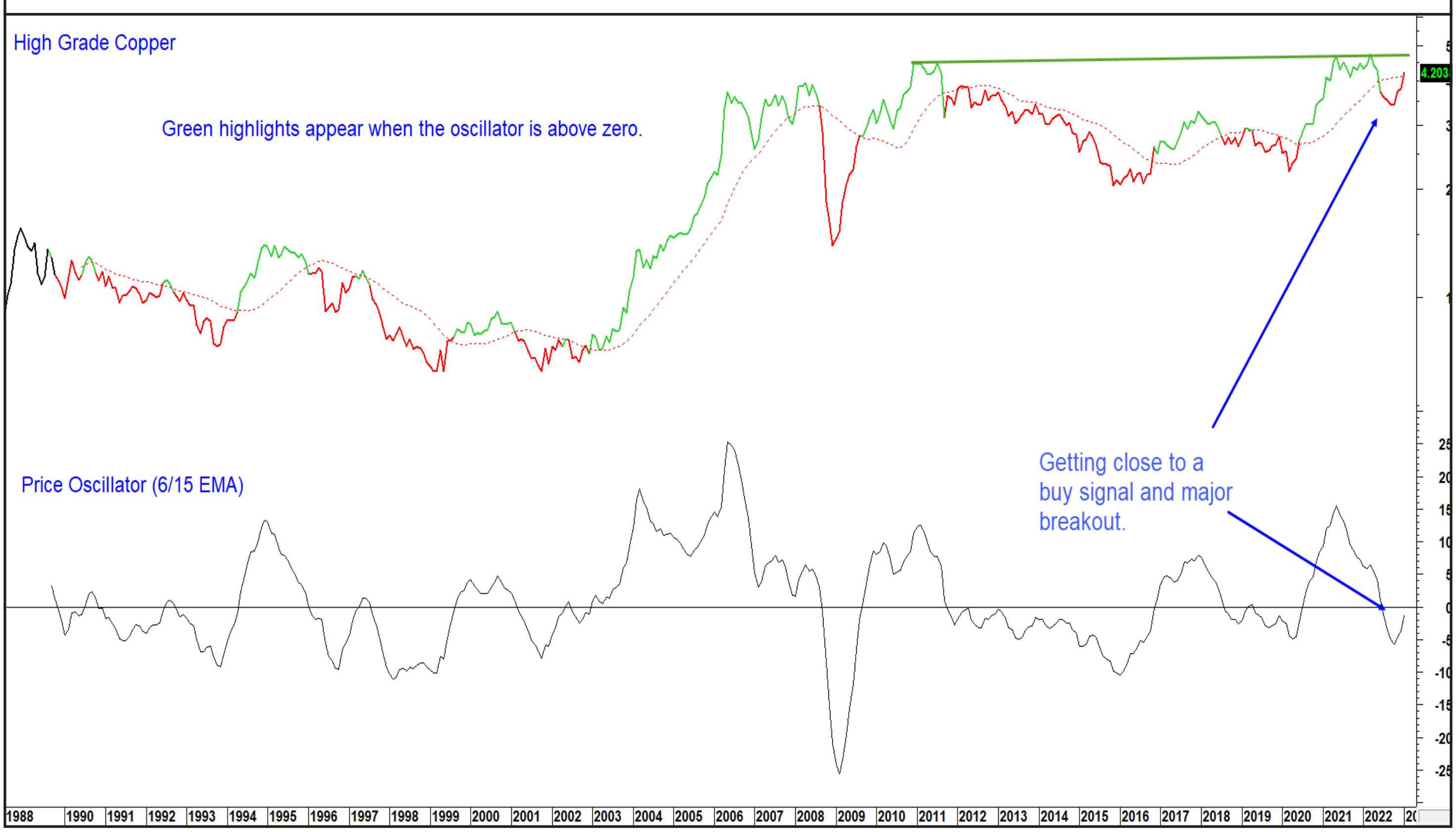


Chart 34

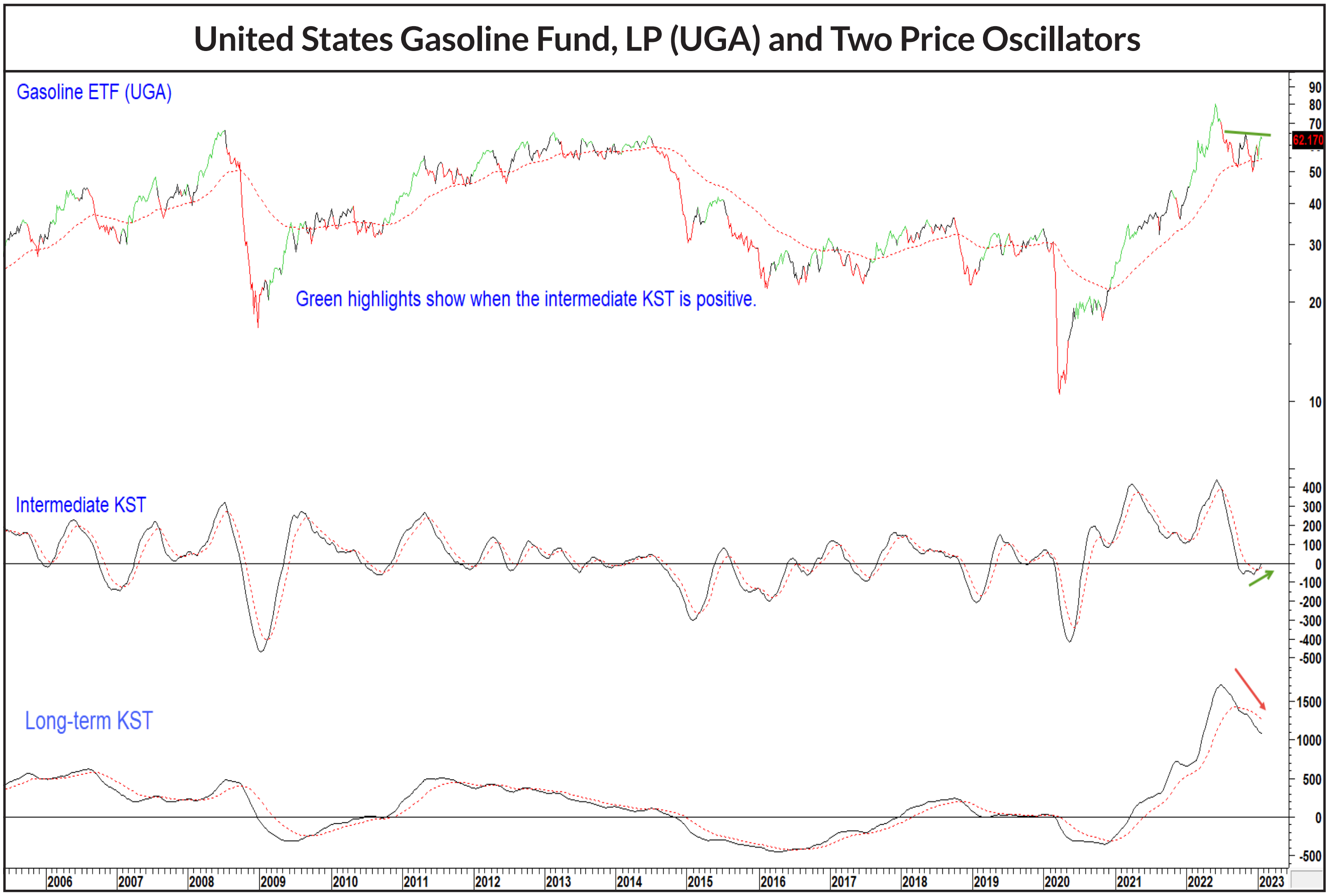


Chart 35

is clearly unsustainable. The vertical lines show that upside reversals are usually followed by a rally or trading range. Since the secular indicators are positive, the current primary bear market could well take the form of a trading range as opposed to a decline.

Chart 33 features a 12-month ROC, smoothed by a 6-month EMA for the CRB Spot Raw Industrials. The dashed red line is a 6-month simple MA of the smoothed ROC. Lows in this indicator have consistently been followed by a commodity rally or trading range. It's still declining, but has reached a moderately overstretched level from which an upside reversal could easily take place.

Copper

Copper is a key commodity and economic indicator, due to its use in multiple industries. Given current weak economic conditions, its recent strength has not only surprised, but also alerted us to the possibility that recent price gains are also transmitting a signal of improving business activity. From a primary trend point of view, Chart 34 indicates that the price is still below its 2022-20?? multi-year resistance trendline. However, the oscillator in the lower window is extremely close to returning a positive zero crossover and therefore a major buy signal and green highlight. It's also worth noting that the price is already above its 24-month MA, a benchmark that has proven to be reasonably reliable in the last few years.

Chart 35 sets the scene for the crude oil price through a proxy in the form of the Gasoline ETF (UGA). Two things are evident. First, the long-term KST is bearish and overextended and in need of corrective action. Second, the price is trading above its 65-week EMA at a time when the intermediate series has just gone bullish. This combination suggests the possibility of a rangebound environment going forward. ■

International Markets

The U.S. stock market has been in a major uptrend versus the rest of the world since 2008. Charts 36-38 indicate this relationship may well be in the process of changing, to either a downtrend or multi-year trading range. For instance, Chart 36 shows that the ratio has already triggered a bear signal from our RSI model. It goes negative when the 6-month EMA of an 18-month RSI drops below its 12-month simple MA and this is confirmed by the ratio crossing below its 9-month MA. This relationship itself is right at its secular up trendline. So, a near-term bounce should not be surprising.

Green and red highlights are determined in Chart 37 by whether the ratio's 6-month EMA is above or below its 15-month counterpart (zero crossovers for the oscillator in the chart). The oscillator is not yet bearish, but the sharp drop in its trajectory, combined with a negative 24-month MA crossover, suggests a sell signal is close at hand.

Finally, Chart 38 tells us that the short-term KST has reached a level not seen since the turn of the century. As an indication of the power of such multi-year extreme readings, the late 2008 record high signaled a major reversal to the upside. The current mega oversold condition offers one piece of evidence that the secular advance has come to an end. Going forward, that means either a major bear or multi-year trading range. Note that the price has broken down from a pattern known as a broadening formation with a flat bottom. Such patterns are often followed by above average price moves.

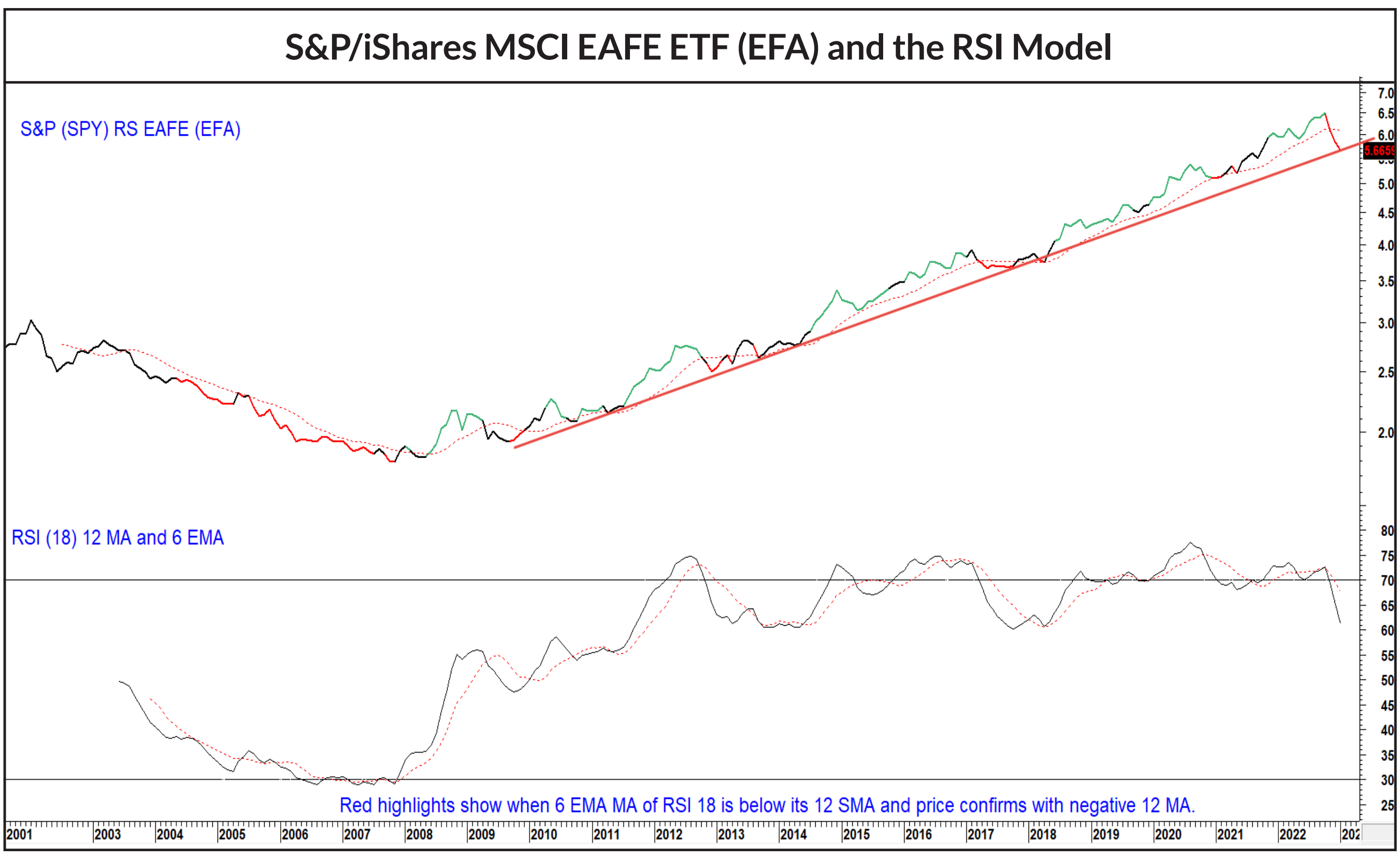


Chart 36

S&P/iShares MSCI EAFE ETF (EFA) and a 6/15 EMA Price Oscillator

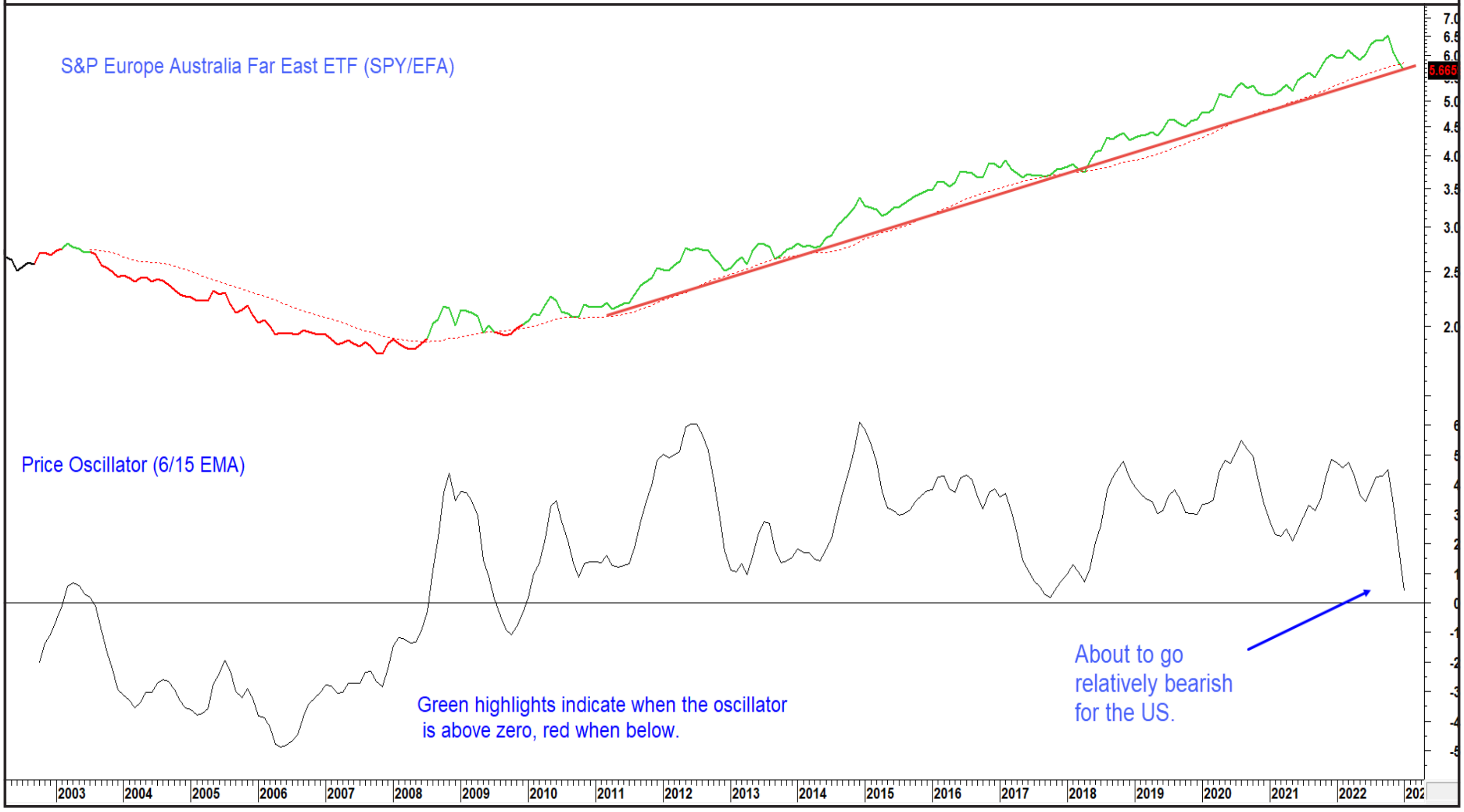


Chart 37

S&P/iShares MSCI EAFE ETF (EFA) and a Short-term KST

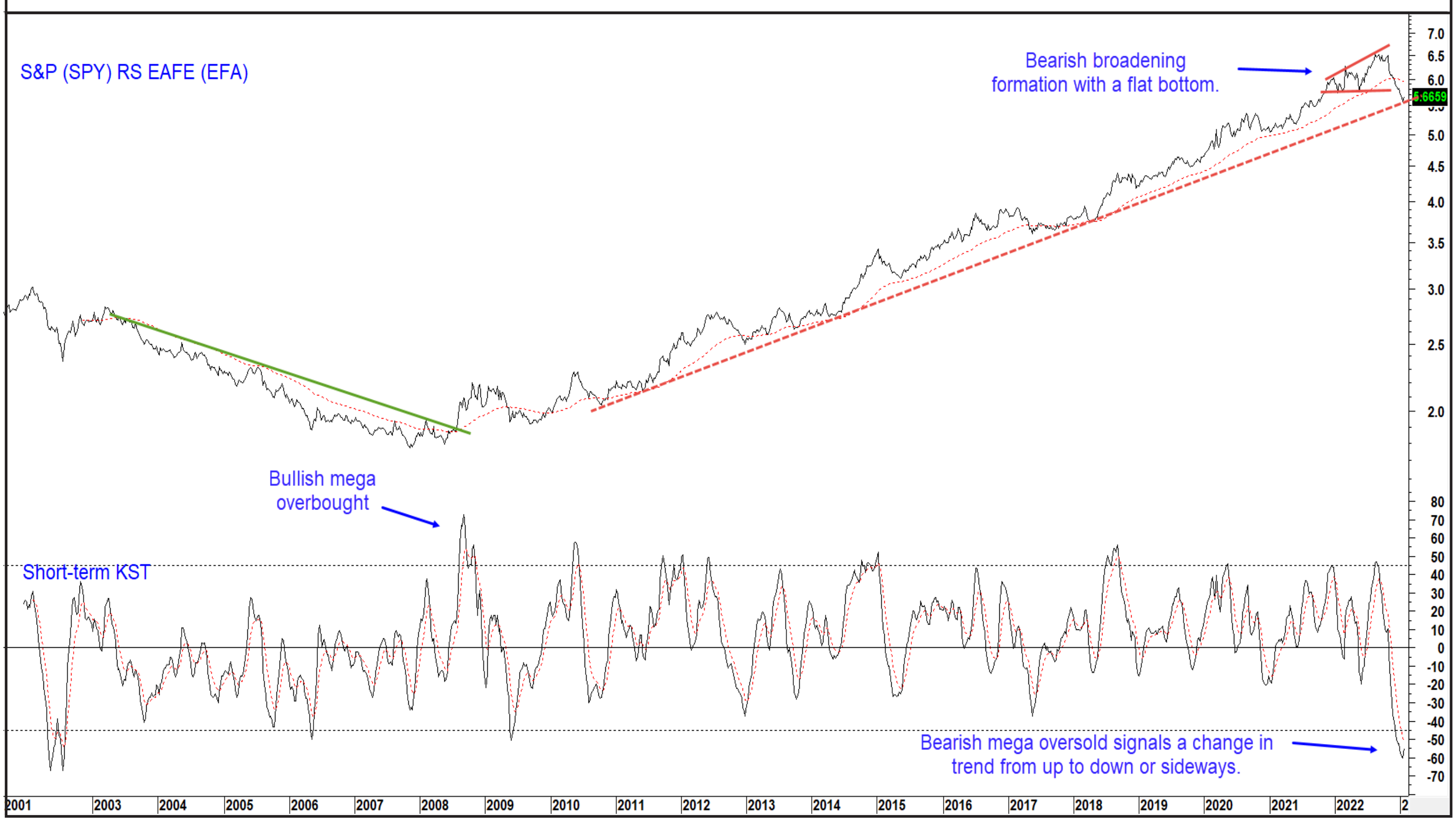


Chart 38

iShares MSCI Eurozone ETF (EZU) and Three Indicators

Chart 39

Global X MSCI Greece ETF (GREK) and Three Indicators

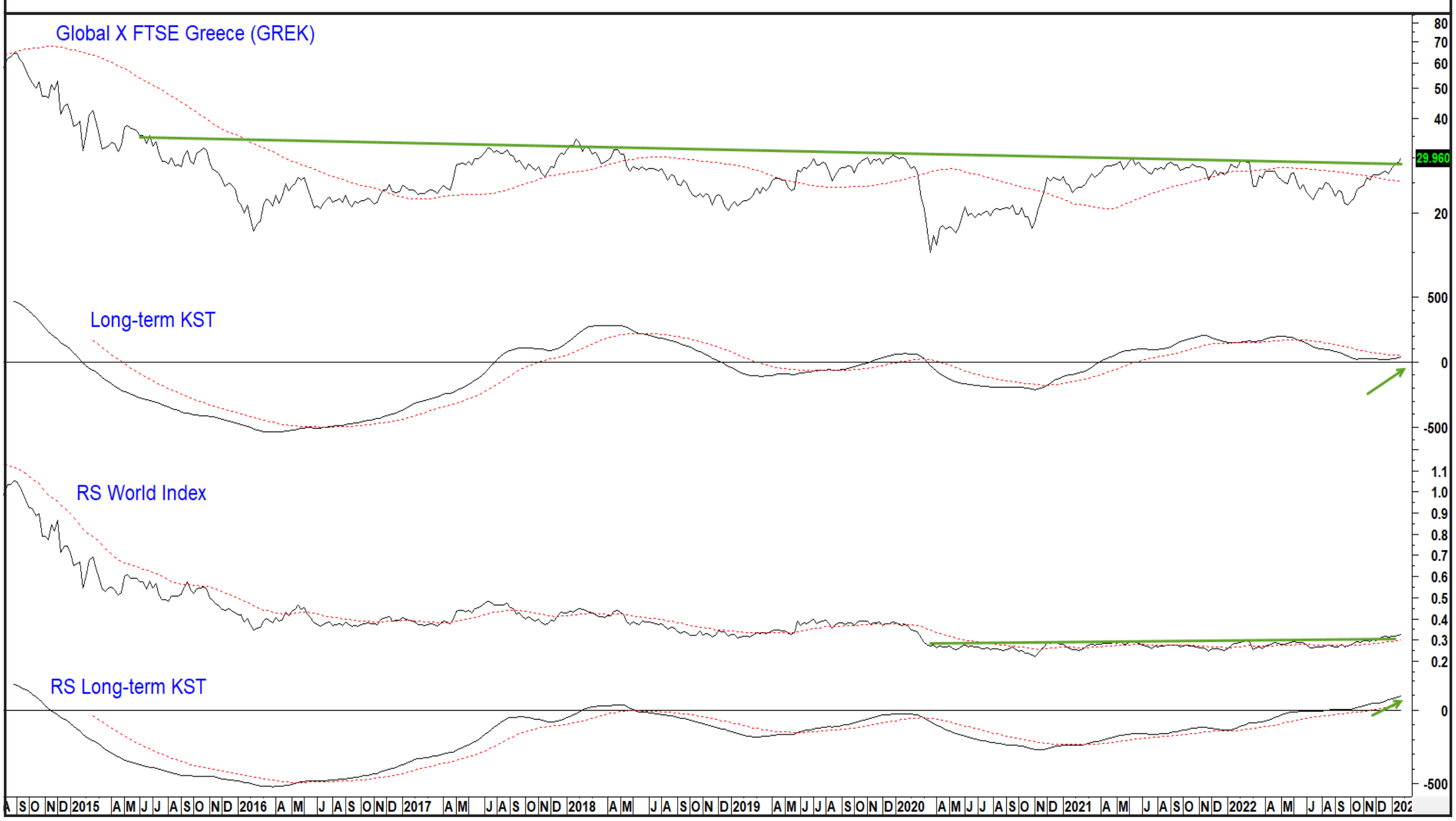


Chart 40

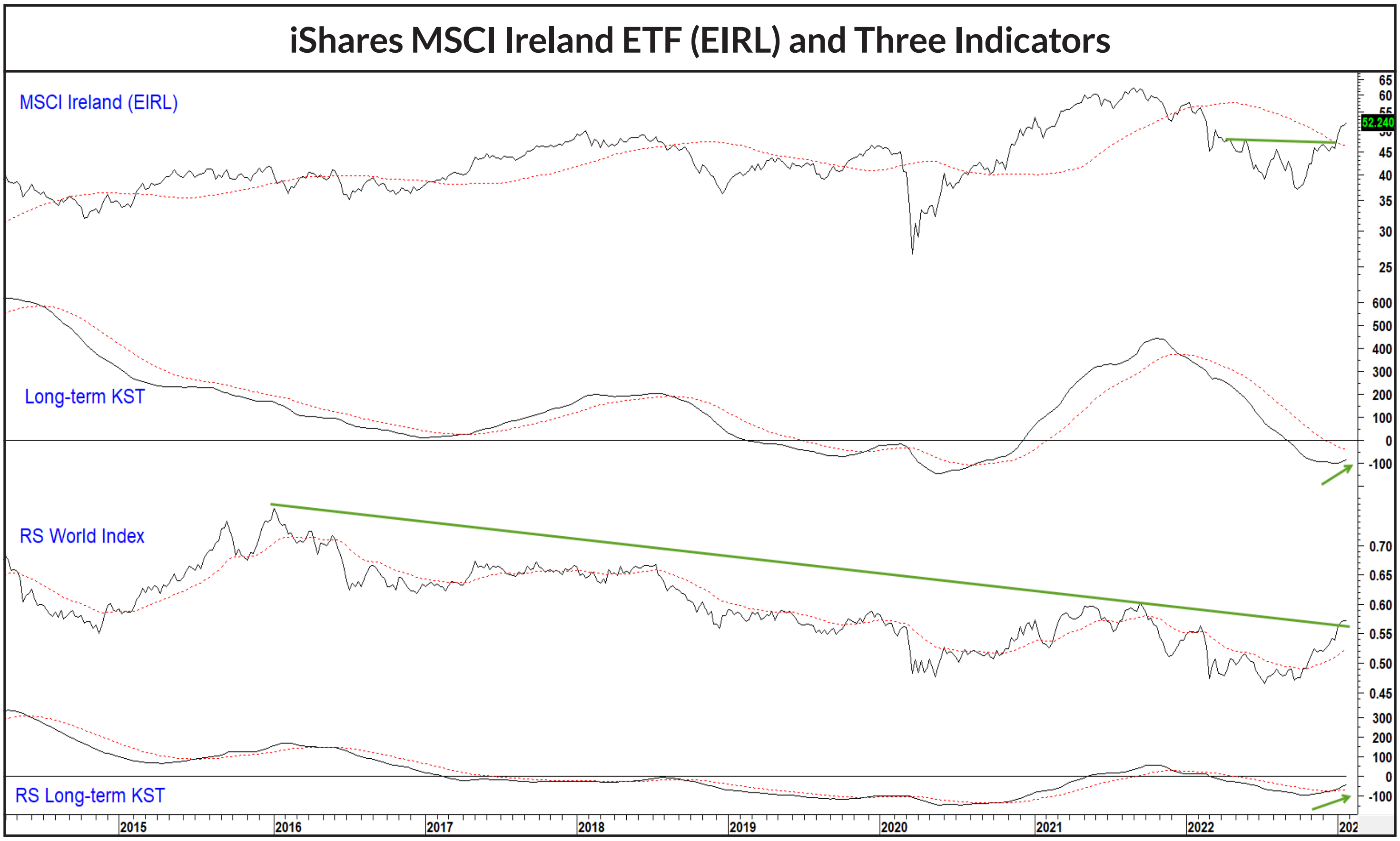


Chart 41

Europe

The iShares MSCI Eurozone ETF (EZU) experienced a false breakdown from an upward sloping head and shoulders in 2022. It's now back above its 2008-2022 down trendline, as is the RS line. In the last couple of weeks, the price has broken above its 65-week EMA and completed a small inverse head and shoulders. All this evidence argues in favor of higher prices and a superior performance by European stocks in general.

Both the Greek and Irish ETFs (GREK and EIRL) have broken out from bases, that for GREK being somewhat larger. Relative action is also positive and even the two momentum series have begun to turn up.

Japan & Thailand

The WisdomTree Japan SmallCap Dividend Fund (DFJ) has just completed a small base. The trend in relative action is positive, which also suggests this ETF has the ability to outperform in the period ahead.

The iShares MSCI Thailand ETF (THD) has broken out from a very large base. It too is being supported by strong relative activity. ■

WisdomTree Japan SmallCap Dividend Fund (DFJ) and Three Indicators

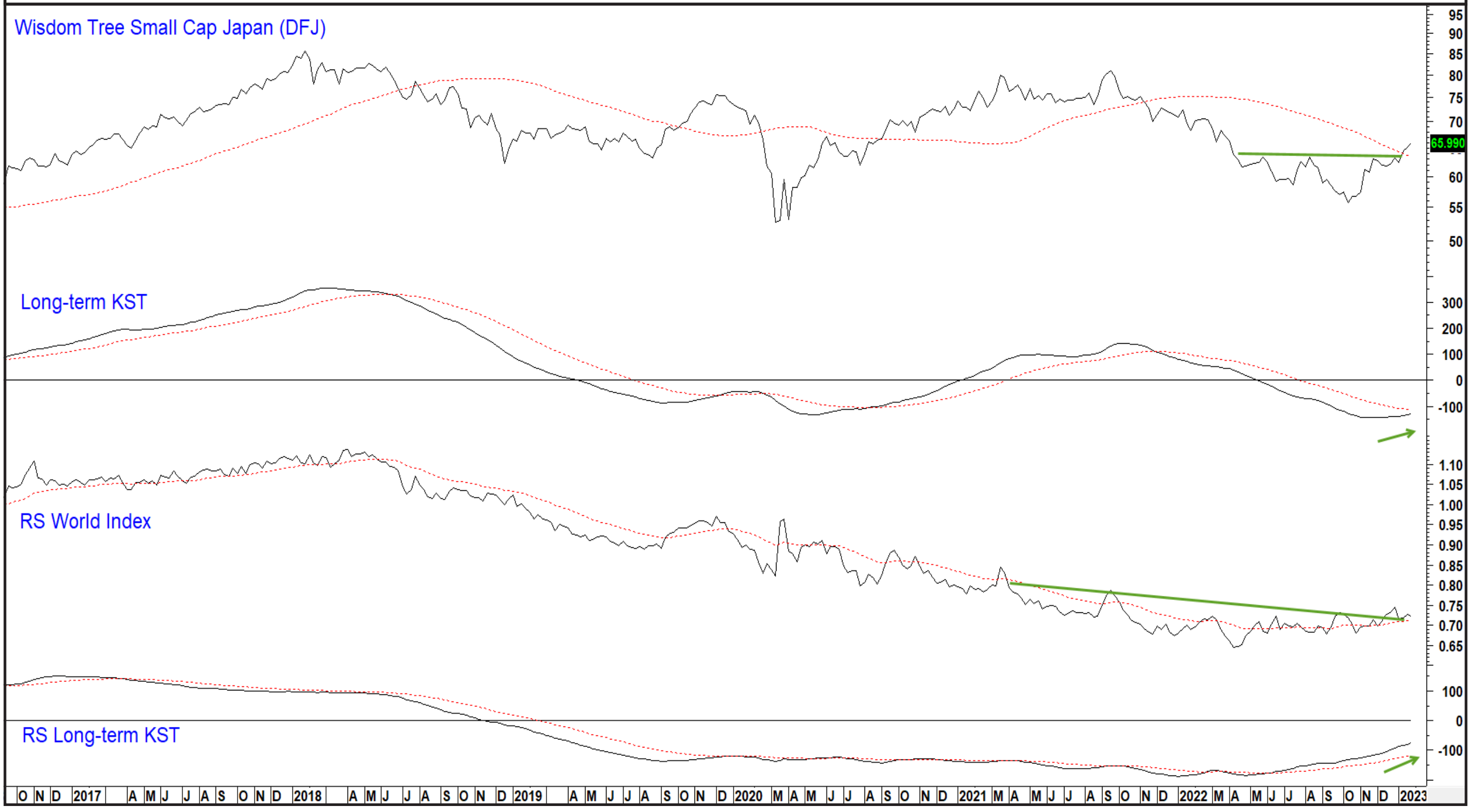


Chart 42

iShares MSCI Thailand ETF (THD) and Three Indicators

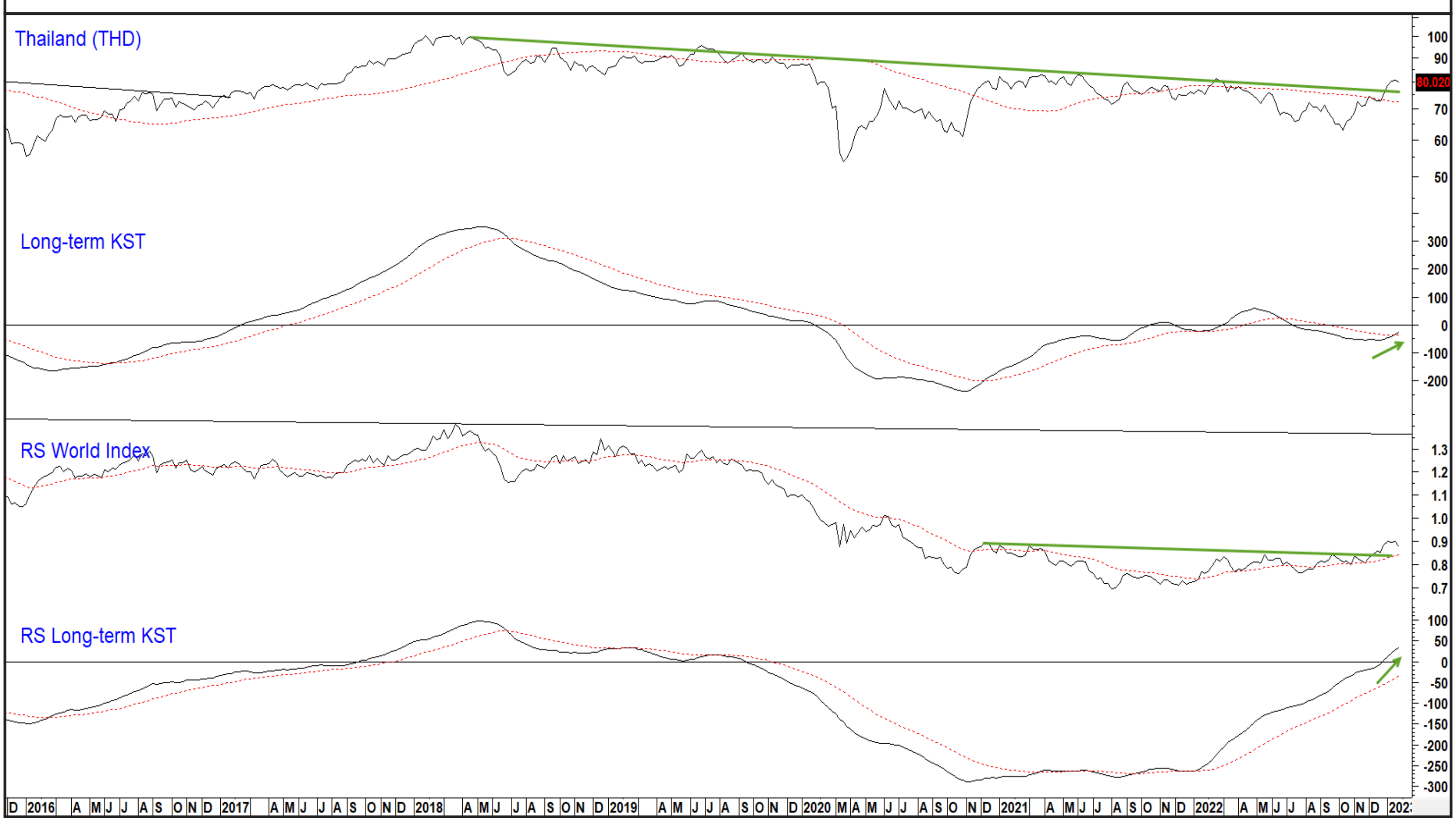


Chart 43

Currencies

U.S. Dollar Index

Red highlights appear in Chart 44 when the long-term KST for the Index is below its 9-month MA and is confirmed by the Index itself trading under its 12-month MA. The model is currently in a black neutral position because the KST, while declining, remains above its MA. Usually when the KST peaks it continues its downward trajectory, so we are assuming that a sell signal will be forthcoming.

U.S. Dollar Index and a Long-term KST

Chart 44

Euro and a Long-term KST

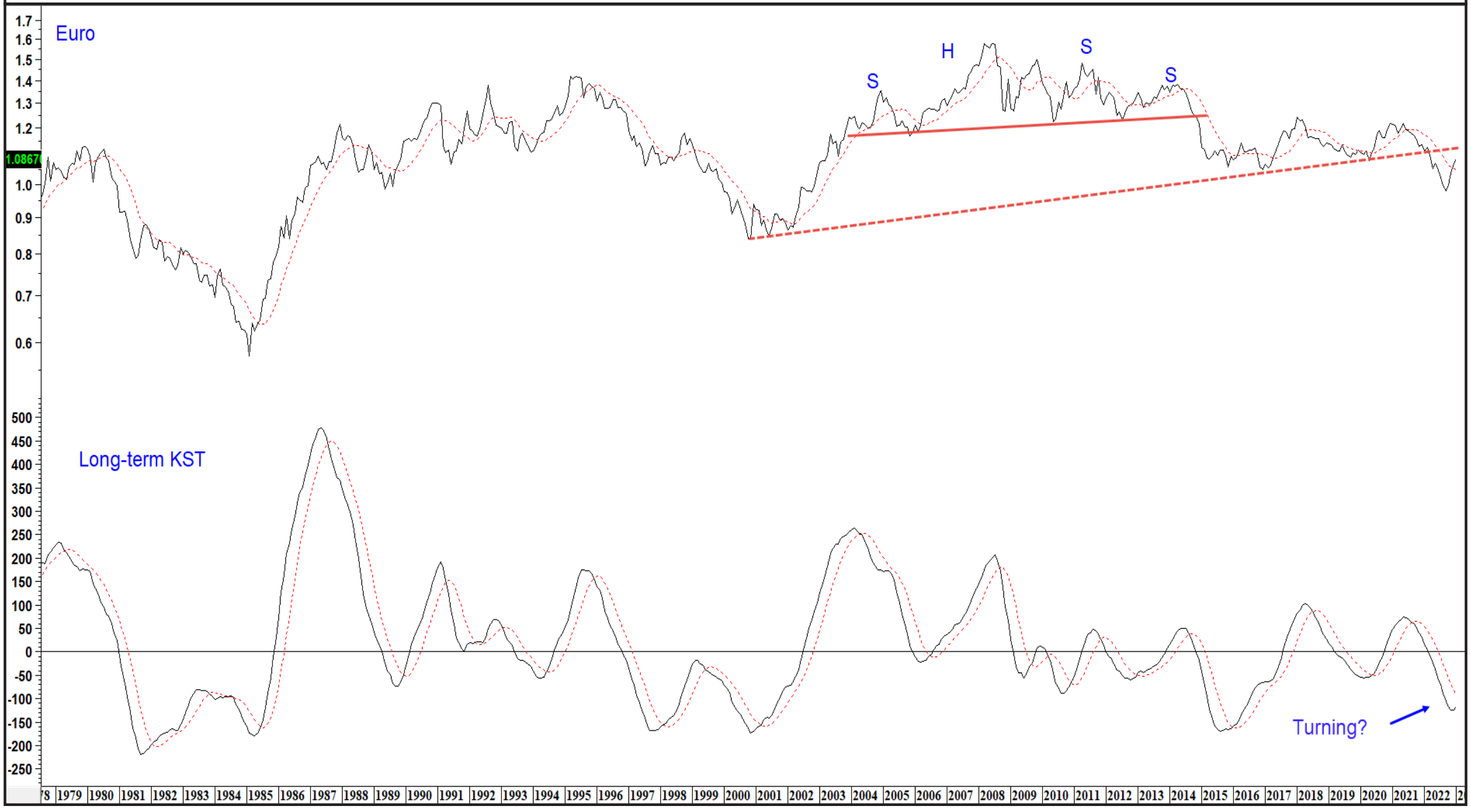


Chart 45

Japanese Yen and a Long-term KST

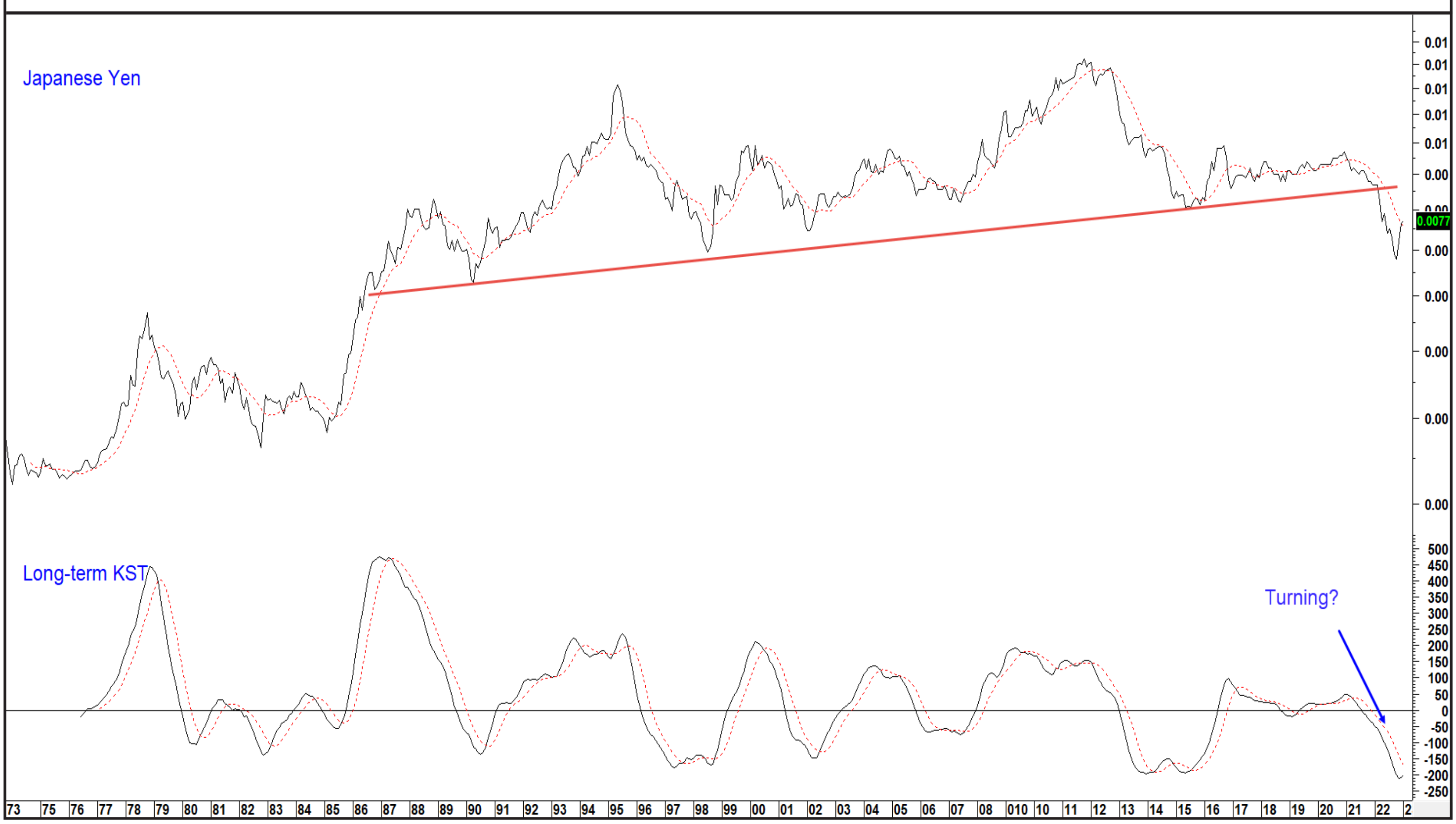


Chart 46

Canadian Dollar and Three KSTs

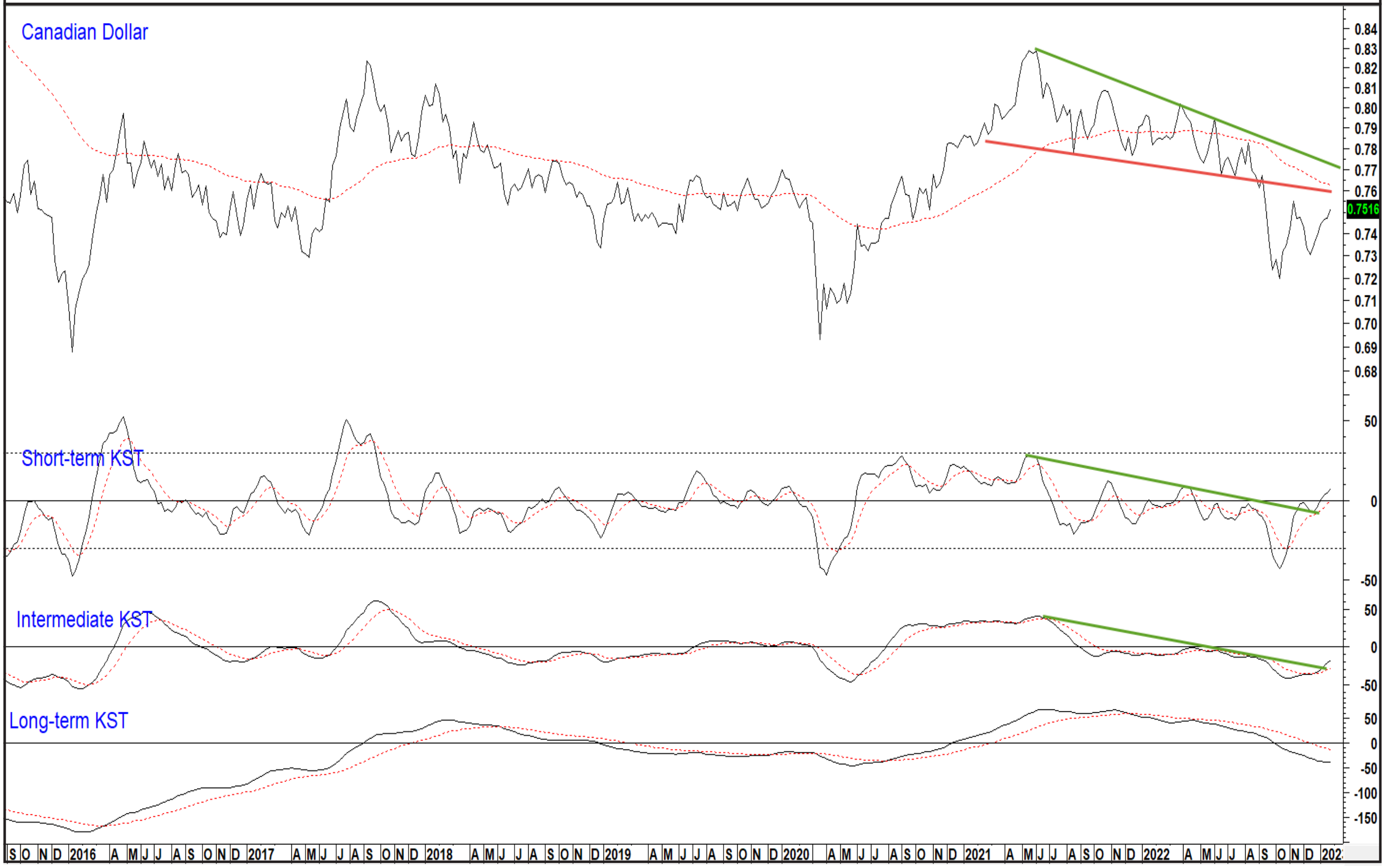


Chart 47

Euro

The euro is in a mirror image of the dollar, except to say that it will soon run into resistance at the extended breakdown trendline and its 2008-22 down trendline.

Japanese Yen

The yen, in Chart 46, is experiencing a strong snapback from a very oversold condition. Once again resistance is evident at the extended breakdown trendline.

Canadian and Australian Dollars

The Canadian dollar, in Chart 47, is experiencing a short-intermediate rally. We are treating it as a correction in a bear market. However, should the price manage to surpass its 65-week EMA and extended breakdown trendline in the 78c area, that could be a game changer.

CRB Composite, the Australian Dollar and a Long-term KST

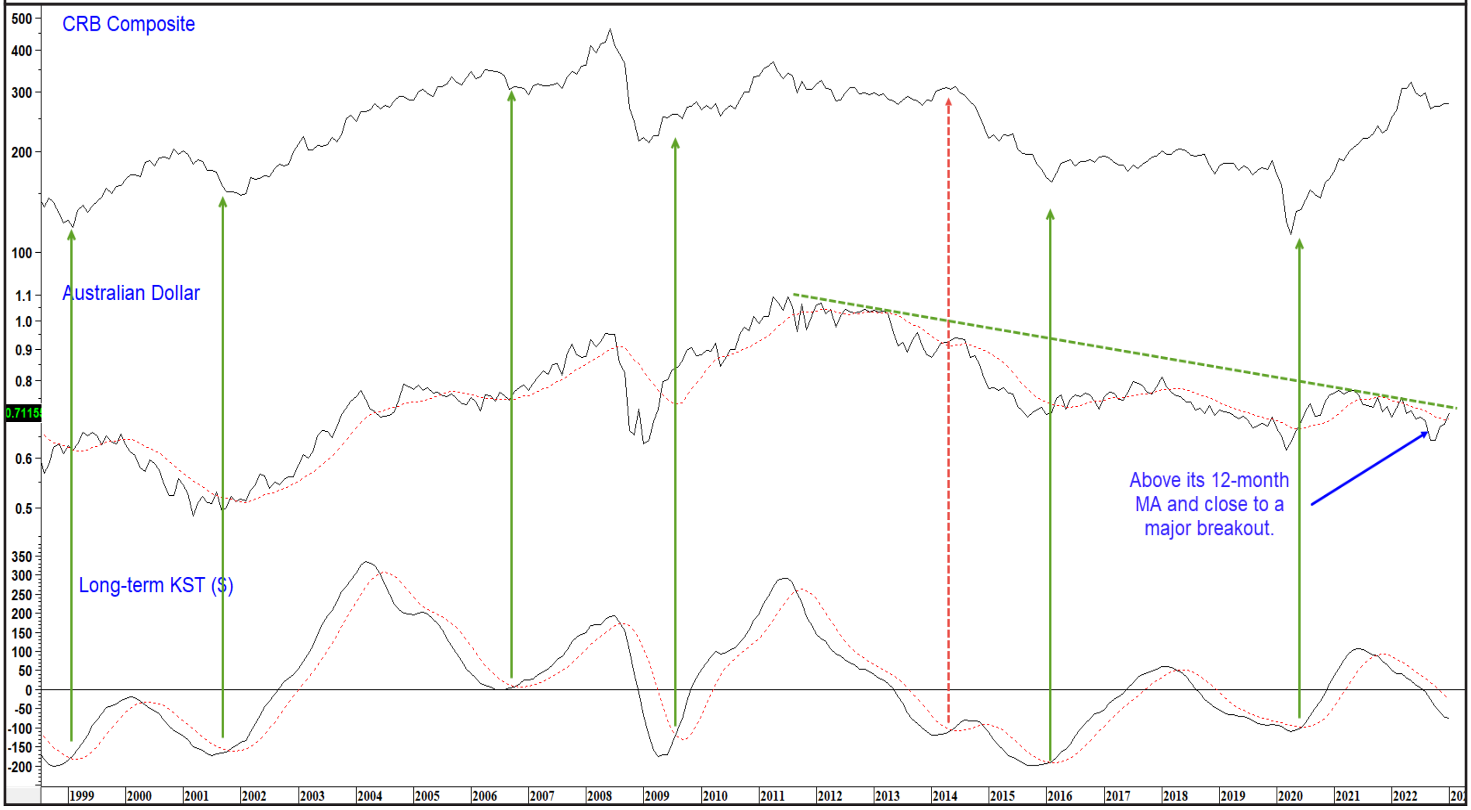


Chart 48

Chart 48 demonstrates the strong relationship between the Aussie dollar and commodity prices. The currency is offering a mixed picture at the moment, since it's above its 12-month MA but below its secular down trendline. If it can rally above the line with a decisive month-end close above 74c, it would probably be sufficient to reverse the downward trajectory of the KST. That's important since upside KST reversals have been associated with a commodity rally, as you can see from the green arrows. ■

Precious Metals

One of our favorite long-term gold indicators is the 6/15-EMA model, featured in Chart 49. That's because it generally triggers trend reversal signals close to the final turning point and has not been subject to many whipsaws over the decades. That said, it looks as though the most recent signal was false because the price is once again back above its 12-month MA and the oscillator is north of zero.

Whipsaw signals are usually followed by above average moves in the opposite direction to the whipsaw and a multi-year resistance trendline (Chart 50) appears just above current prices. If the usual implications of a false move apply in this case, that line should be surpassed in short order.

A small rally from here would also enable an upside reversal in gold's long-term KST, which has already begun to tick higher. The chart also features our Dollar model. This approach goes bullish for gold and earns a green highlight when the dollar is falling (i.e., below its 12-month MA) and gold responds by trading north of its own 12-month MA. The latest buy signal adds further fuel to the bullish case.

Finally, Chart 51 shows the whipsaw, described earlier, but from a weekly perspective. Now the price is right at resistance at a time when both the short- and intermediate KSTs are bullish. An upside breakout therefore seems likely. One problem is the overbought nature of the short-term KST. However, if this really is a primary bull market, it should be able to shrug off that overextended momentum and simultaneously push the long-term KST into a bullish mode. ■

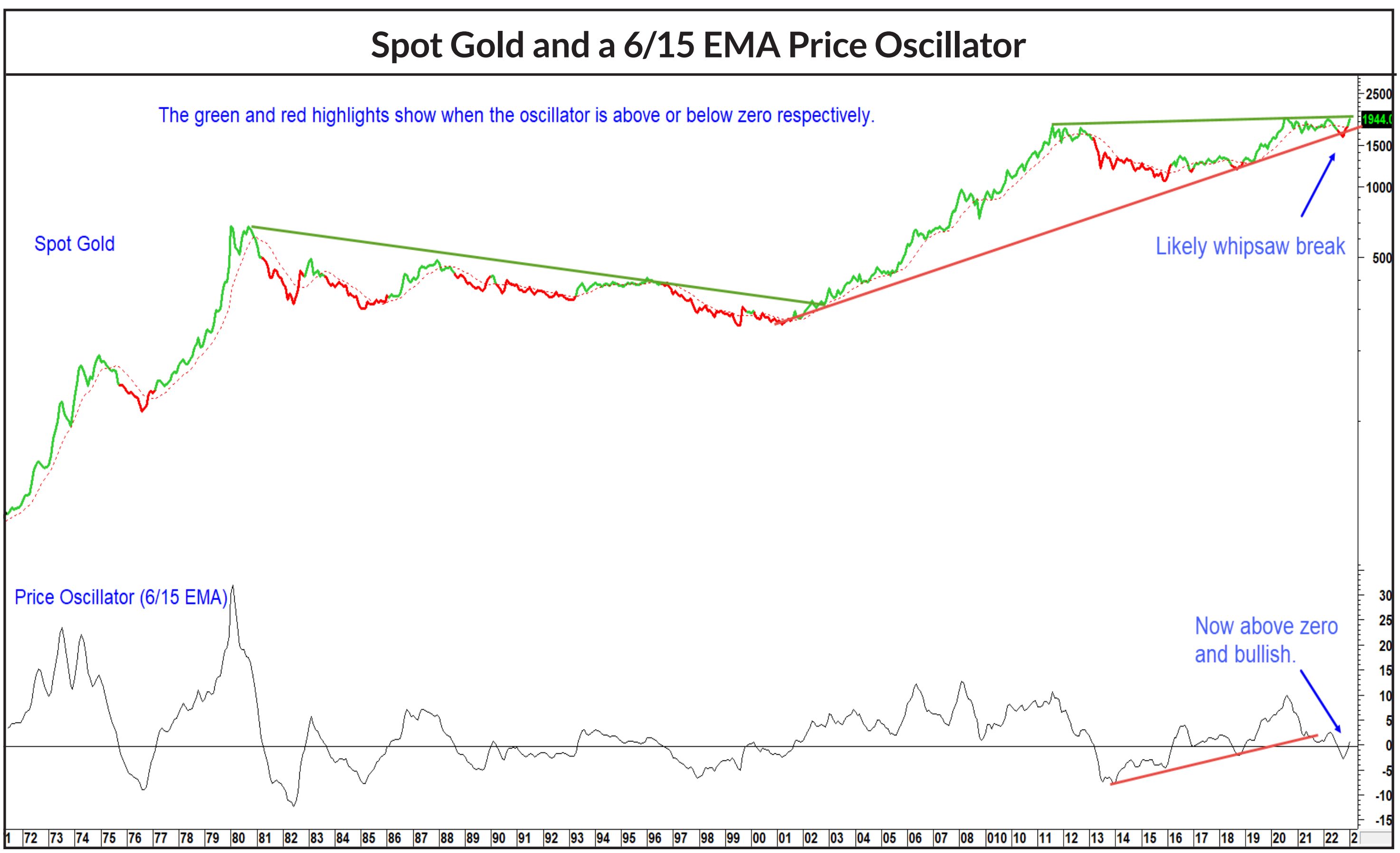


Chart 49

Spot Gold and a Long-term KST

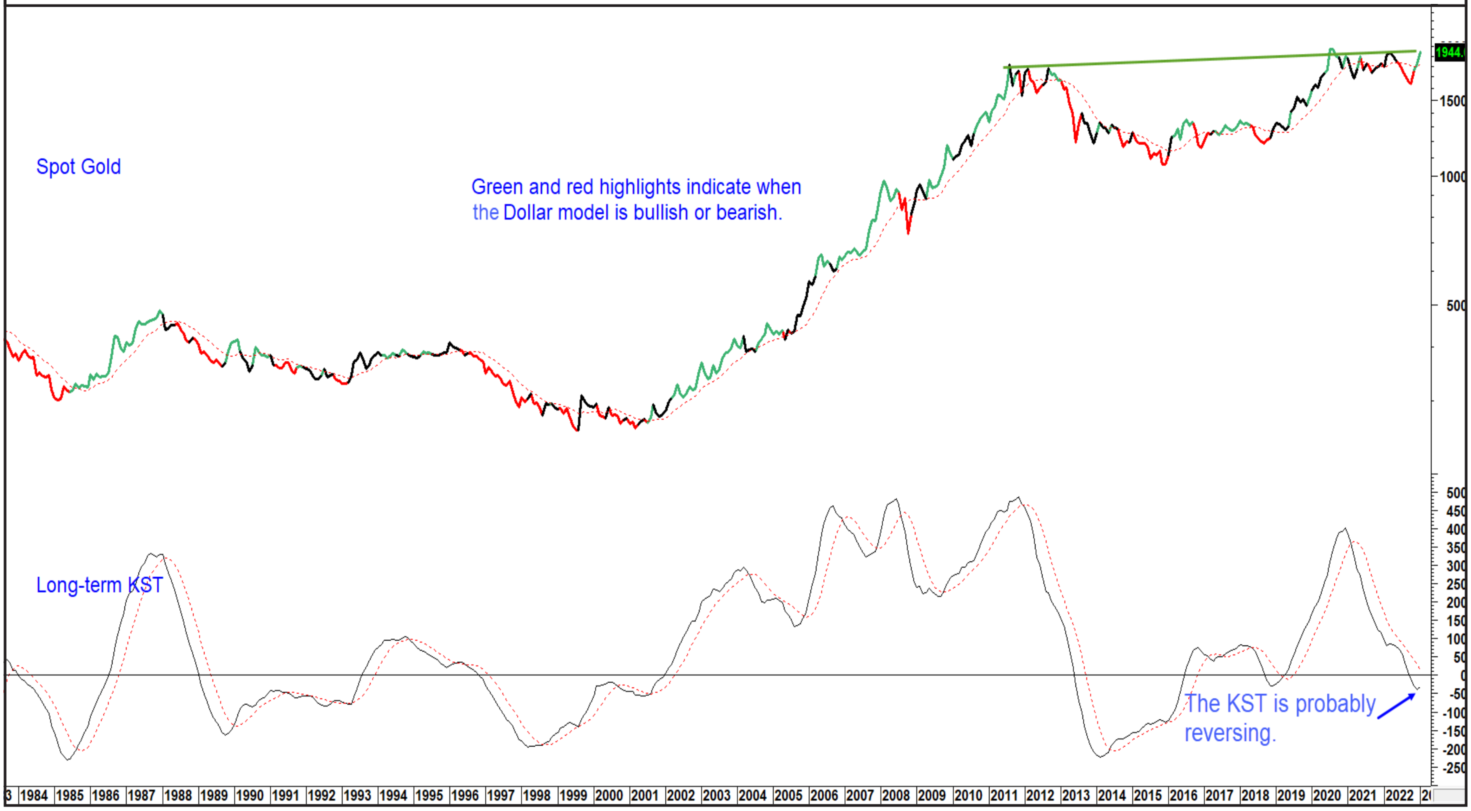


Chart 46

New York Spot Gold and Three KSTs

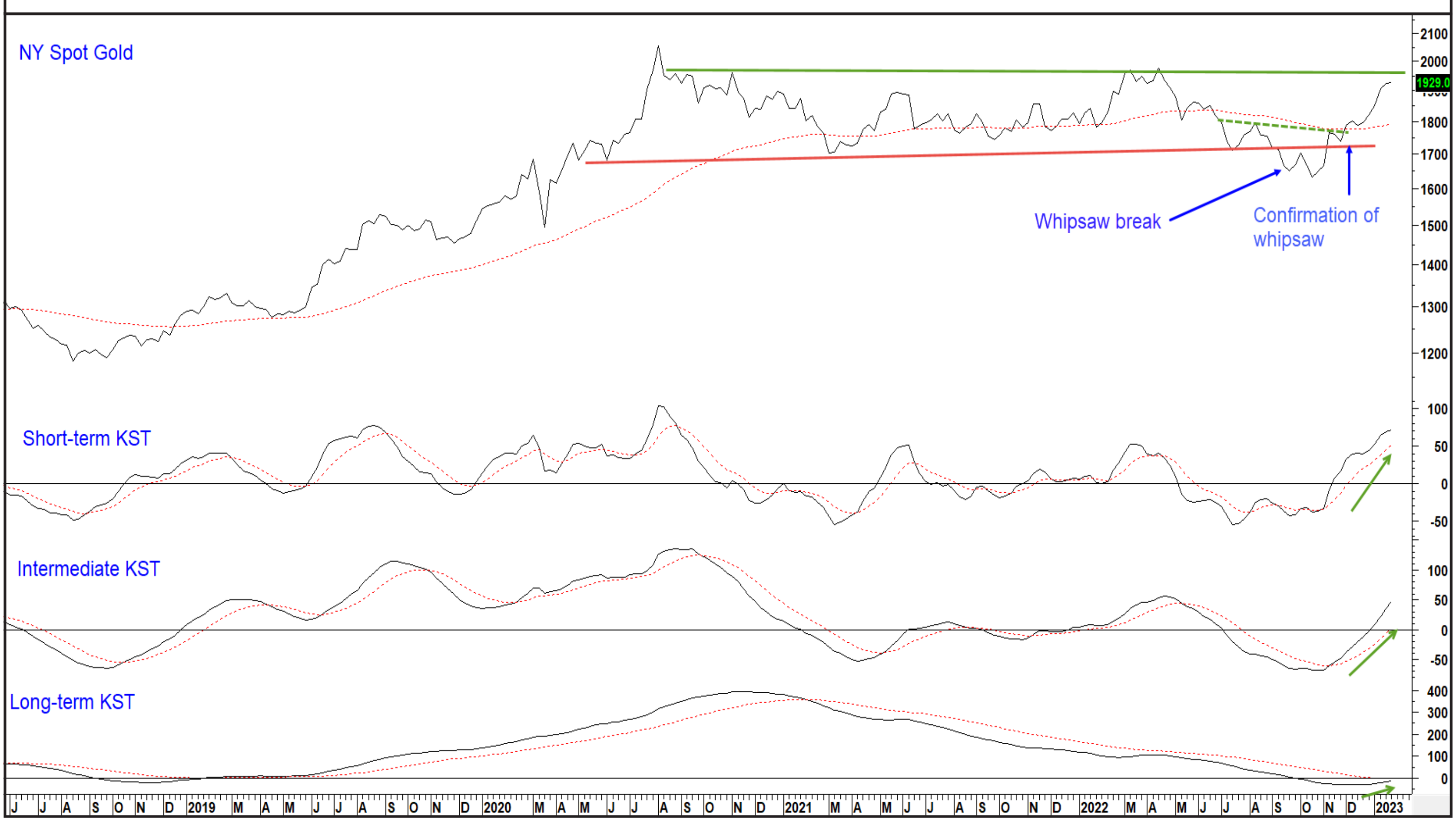


Chart 47