Financial Research Education & Data

Volume 14, Issue 83
Trading Week Starting
November 21, 2022

The FRED Report

Summary of Market View

WE WISH ALL A HAPPY THANKSGIVING

In Stocks, we discuss internal indicators, which continue to improve – suggesting our yearend rally scenario is intact. Then we discuss the Transportation ETFs – and the Transportation indexes – in response to a question we had on last Thursday's call. In Fixed Income, we discuss Bond sentiment and also the sentiment indicator known as bullish consensus or Market Vane.

In Commodities, we discuss the Dollar, again in response to a question on the call. This is important here and is at an interesting juncture. In International we discuss Greece and Turkey, as we always do at Thanksgiving! Last, in Chart of Interest, we look at an attractive Healthcare ETF. Since Healthcare is an Overweight in our Sector Review, this has strong potential.

INSIDE THIS ISSUE:

Special points of interest:

- There has been continued improvement in internal indicators last week and this keeps the yearend rally thesis alive.
- The last time bullish sentiment was this low was 1999. After a rally, prices (and bullish sentiment) actually went lower, into a final low in January 2000!

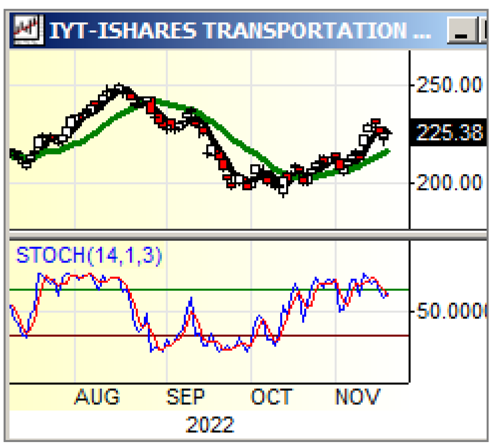
Stocks Review

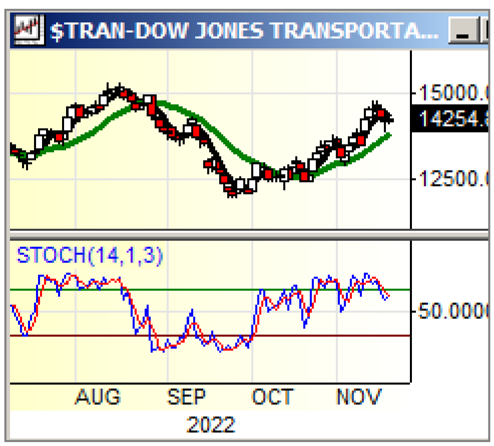
There has been continued improvement in internal indicators last week and this keeps the yearend rally thesis alive. This week should see some choppiness and volume could be lighter than usual for Thanksgiving week. Tough years often lead to traders taking time off sooner. Seasonally, Thanksgiving is often up at the end of the week, but choppy at the beginning, and this looks to be what could happen this year.

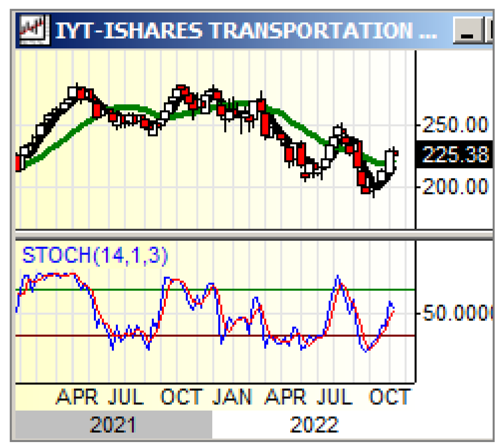
We are going to look at the Transportation Index ETFs. We will look at two ETFs: IYT (iShares® Dow Jones Transportation Index) and XTN (SPDR® S&P Transportation Index ETF). In addition, we will take a look at the Dow Transportation Index. Most people do not know that IYT was changed, and no longer mimics the Dow Jones Transportations, as it was changed in the summer of 2021. At the time, we opined that it would start to underperform the Dow Transports, and that has been the case, by and large. There is another Transportation Index ETF, FTXR (First Trust NASDAQ Transportation ETF), but this does so little volume we cannot use it, and it tracks the other two ETFs. We will not cover FTXR today.

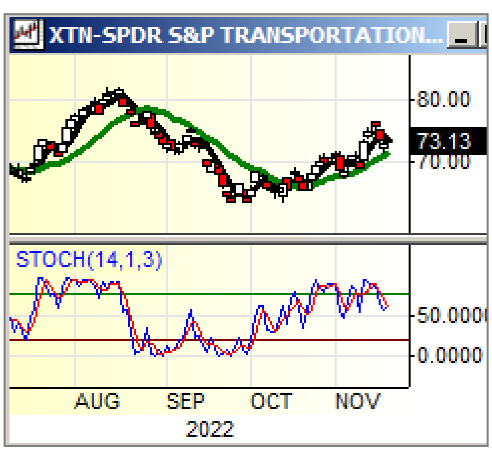
First, we will look at IYT and XTN. The modification of IYT has made it more like XTN. IYT is market cap weighted but the capitalization methodology added to the Dow Transportations is designed to reduce was the concentration risk of DJT. IYT looks to have 50 or so stocks instead of 20. XTN is an equally weighted index that also has more stocks than the Dow Transportations (also around 50 stocks). It is the best of the Transportation ETFs, in my view, and has outperformed IYT since the change. Second, we will look at the Dow Transportations. DJT is the benchmark index. It is older, so it is price weighted. It has 20 stocks. As you can see from the weekly charts it has been performing better, and we will look at the technicals, below.

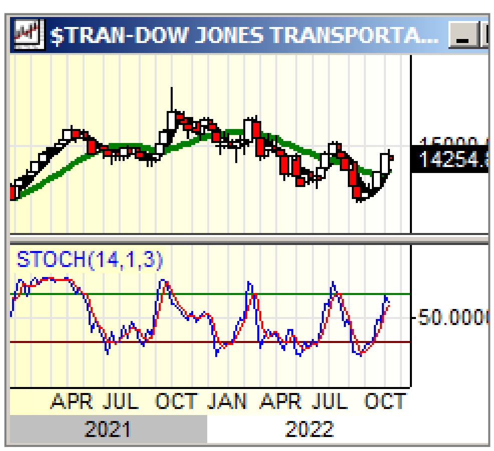
Since we have analyzed and commented on IYT, we will do so here, but we include a chart of DJT so you can see how much better it has been. IYT has moved just below the high of 2018 to 2020, which is intermediate support (note that DJT held this area). Although the trend remains down, back above 220 is a plus. The daily stochastic is in slight sell mode and the weekly is positive, suggesting some consolidation. This looks a tad weak, but it is positive at least for a counter trend rally as long as the 200-area low can hold. We show charts, below.

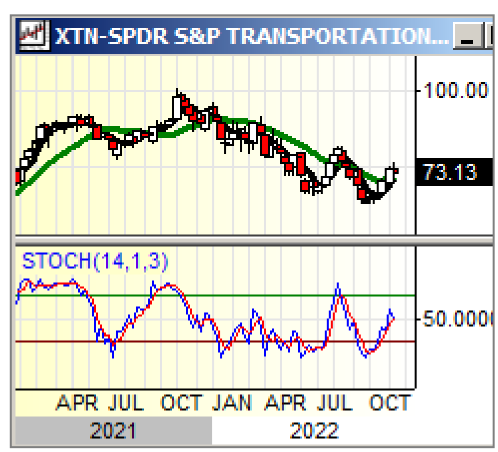










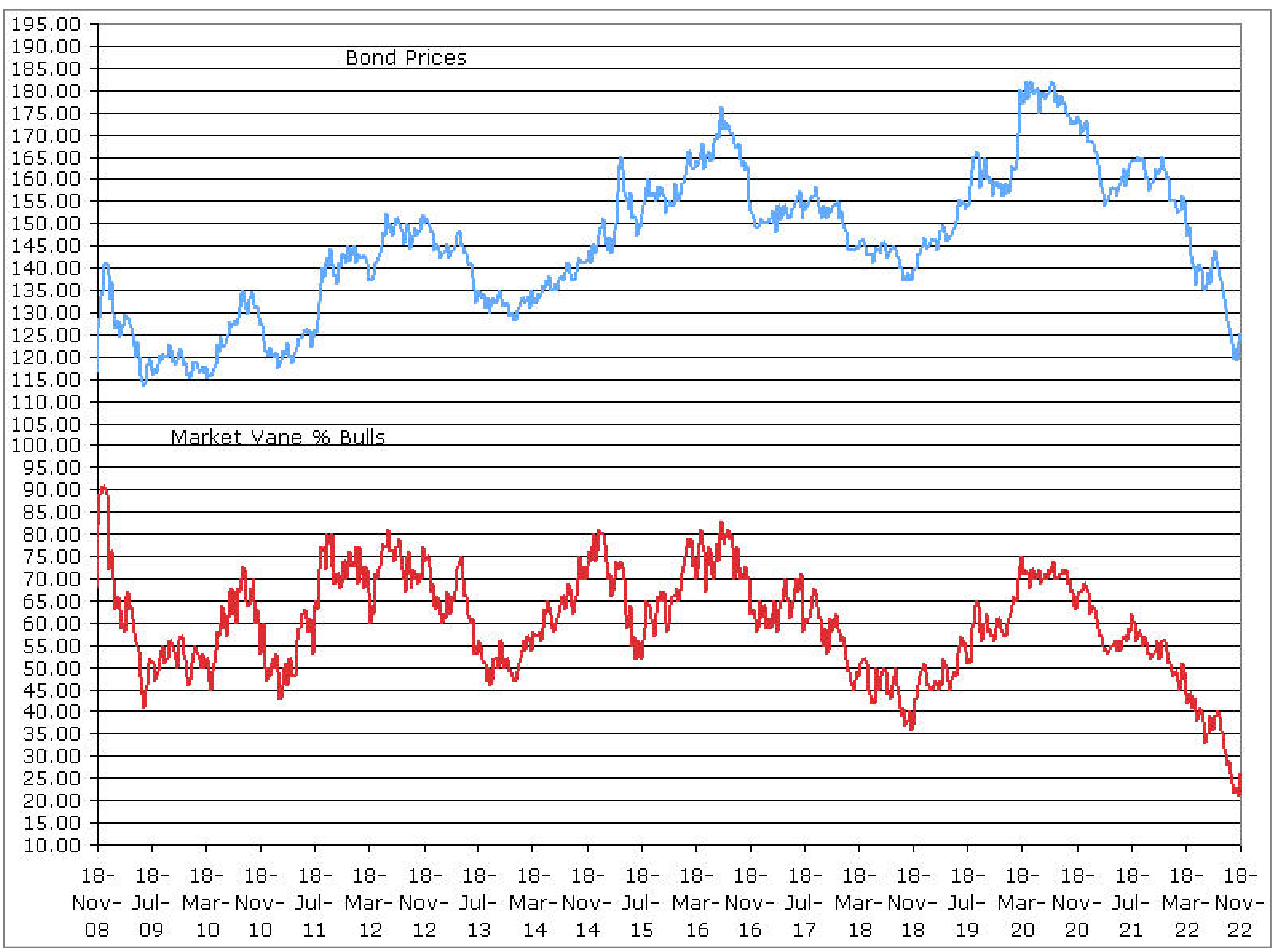


Fixed Income Review

We show our bond sentiment chart, which is %Bulls from market Vane. As long-time readers know, we prefer to chart Bearish sentiment, but there is not a good service available that collects that data, so this will have to do. Sadly, we cannot do a legible chart back to the beginning of the data in 1996 but we can tell you the last time (and only time in our data series) bullish sentiment was this low was 1999. After a rally, prices (and bullish sentiment) actually went lower, into a final low in January 2000! The decline actually took about six months. This is in line with our forecast of a rally followed by lower lows in bonds. There is a caveat, though, as we discuss below.

"The last time (and only time in our data series) bullish sentiment was this low was 1999."

One thing we should mention is that there are some problems with the long-term data series from Market Vane. The biggest is that this is a sentiment poll, and over time they have changed the people that they poll several times. And, the changes have been dramatic – from Mutual Fund Managers to Floor Traders on the CBOE. There are real questions about the applicability of this as a long data series. This is why we do not use Market Vane for stocks. The problem is that there just aren't that many sentiment polls for commodity traders (and bond futures ARE a commodity). Market Vane is better than nothing, but ultra long-term comparisons should be taken with a grain of salt. However, the current group of *"pollees"* has been the same for the last ten years or so, making this chart useful in gauging sentiment. We show the chart, below.



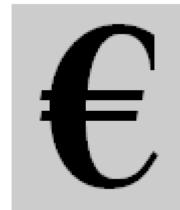
"When the weekly buy recycles the next dollar advance could start, and it looks as if this will not be until 2023, so there is some time to build a base."

Commodity Review

We have had some questions regarding the dollar. This has had a great year so far and has pulled back in a way that suggests consolidation. The overall signal from momentum indicators is that when this pullback ends, the dollar will make new highs, creating the possibility of a divergence top. This is the same signal we have on interest rates, by the way! So, the question is basically when and how this pullback ends. We will look at DXY rather than UUP for this analysis (DXY is the Cash settled Dollar – the symbol on Stockcharts is $USD).

Support on DXY is the 105-area with layers down to 103. Resistance and key numbers on the upside are 107.50 to 110. Above 107.50 would target 110. Above 110.50 would likely turn the short-term trend back to up, from sideways. A look at the stochastics suggests the daily is about to recycle into a buy and the weekly is down, but not yet oversold. When the weekly buy recycles the next dollar advance could start, and it looks as if this will not be until 2023, so there is some time to build a base – this indicator configuration suggests that consolidation is likely.

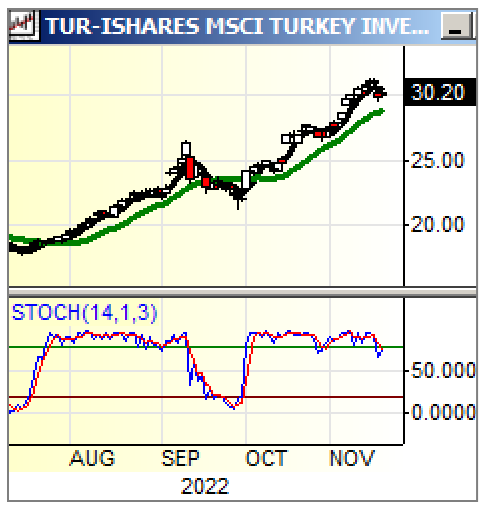
International Review

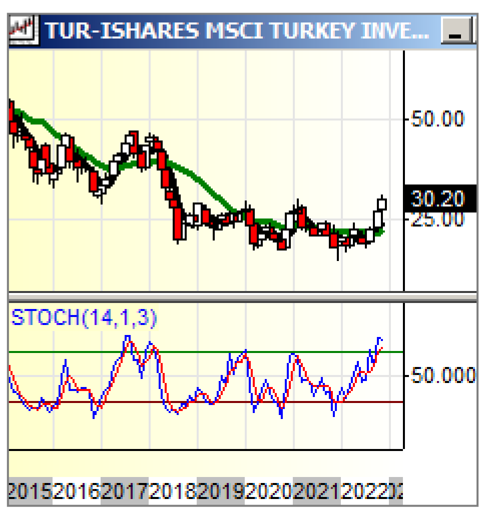


Today, we will look at GREK (Global X FTSE Greece 20 ETF) and TUR (iShares® MSCI Turkey Index Fund), as a way to get some international exposure. These are both interesting intermediate charts, as they have been basing since 2018 (GREK since 2016!). We will look at GREK first.

This is a range between 20 and 30, with some excursions below 20 both in 2016 and 2020. The daily and weekly stochastics are overbought, and the 5/20 moving averages are positive on both timeframes. The monthly stochastic is a new buy recycle, so this may be ready to move through the top of the trading range.

The chart of TUR is stronger, and it does more volume. This is a range from around 19 to around 30 – now being tested. The price of Turkey is up this year, with most of the increase happening since August. Obviously, stochastics are overbought on the daily and weekly – this is at the top end of the range – but in this case the monthly is overbought as well. Since the moving averages are positive on all timeframes, *this could really start to cook!* International has been tough this year, but TUR could be a good addition to portfolios on a move through last week's high. The next resistance is 40.





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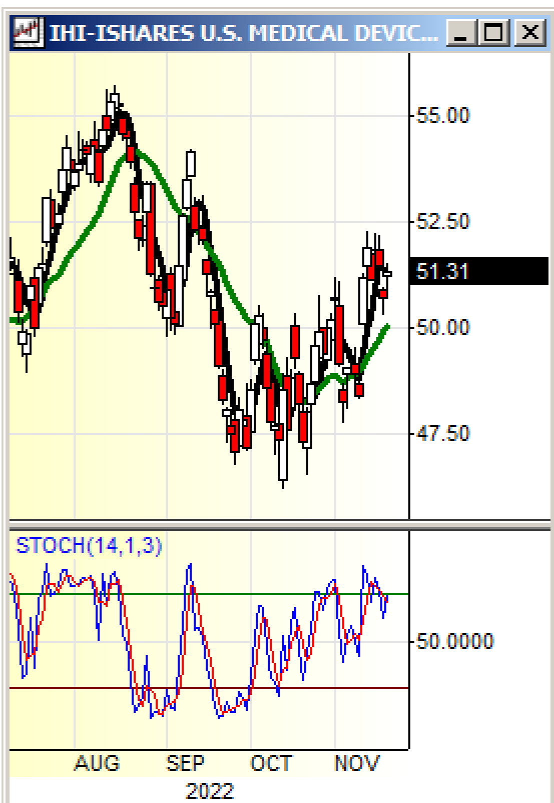
Weekly Chart of Interest

One of our clients pointed out IHI (iShares® Medical Devices ETF) as an interesting way to invest in the Healthcare sector. This is a strong chart that has had a pullback to the 2020 high and held it. Support is the 46-area, and resistance is the 55 to 60-area in layers. This is a base with potential that could do well in 2023.



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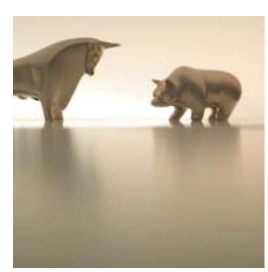

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