Financial Research Education & Data

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Trading Week Starting
March 13, 2023

The FRED Report

Summary of Market View

Stocks have fallen into the 380-area on SPY we have been looking for, and in the time frame we have mentioned as ideal. We discuss various indicators, including some of the Bank and Financial ETFs. Traders should be putting money to work in this area, looking for a rally to the top end of the range. In Fixed Income, we show our interest rate indexes, and note that TLT has rallied midway through its projected trading range.

In Commodities, we look at Lumber Oriented ETFs, as Lumber was one of the first commodities to react to slowing inflation, and we show our perpetual contract of Lumber itself in Chart of Interest. Last, in International, we discuss Small Cap Europe. This area is still under owned, based on the volume we see in these ETFs.

INSIDE THIS ISSUE:

Special points of interest:

- Traders should be putting money to work in this area, looking for a rally to the top end of the range.
- We note that good trading bottoms are formed on emotion and are seeing this.
- Our concerns suggest that the market will NOT break out to the upside on the rally we see out of this area, but rather will move to the top end of the range and fail (this is in line with our forecast).
- Our indicators have suggested that rates will be in a range for a while, and we see nothing to change this.

Stocks Review

"We are in the buy zone we have been looking for since January 31st."

On last Thursday's call, we mentioned that it would be a shorter call because "not a lot was going on and the market seems dull." Be careful what you wish for! However, we have been looking for the market to decline into March expiration, and a successful test of the 380-area on SPY. We continue to look for this, although we could see 380 a bit earlier than Friday.

Still, we are in the buy zone we have been looking for since January 31st. As an aside – several clients asked about the 50 and 200-day average violations. I do not use those moving averages so they are not important to me. Advisors who raised cash through the sale of speculative junk at the beginning of February should now begin putting that money to work, ideally on a down open on Monday, although stocks are up overnight. We note that good trading bottoms are formed on emotion and are seeing this. We do have some concerns.

The first and biggest is that everything I read and every client email I receive is convinced that Silicon Valley Bank is the event that will cause the Federal Reserve (FED) to pause and the bull market to resume. Put/Call did not spike to the downside. Still, stocks are likely to rally from this area. However, our concerns suggest that the market will NOT break out to the upside on the rally we see out of this area, but rather will move to the top end of the range and fail (this is in line with our forecast). We are very close to a trading buy pattern but would be ready to sell out on a rally, as we did at the end of January.

Let's talk about Financial ETFs, particularly XLF (SPDR® Select Sector Financial ETF), KBE (SPDR® S&P Bank Index ETF), and KRE (SPDR® S&P Regional Bank Index ETF). The first thing to note is that, as mentioned in the Sector Reviews over the last few months, Accumulation has been weak relative to other sectors. Now, we may be seeing the reason why this is (remember, Accumulation Models have nothing to do with timing). In our Sector Stocks we have emphasized credit card stocks but we do have one Regional Bank on the list – based in Ohio. XLF has failed at the resistance in the 36 to 38-area and is now testing 32-area support. Much below this support would suggest a more severe decline in Financials. It is no surprise to note that the daily stochastic is oversold, and the weekly is in sell mode, about halfway down the range. KBE has broken support in the 44 area and is moving to the next support at 40 to 36. Resistance is now 44 to 36. The stochastic pattern is the same as XLF. The most critical of these is KRE. It has broken support in the 58-area and is moving to test 48 to 46. Resistance is the 58-area. The stochastic pattern is the same as the others.


XLF-FINANCIAL SELECT SECTOR S...
37.00
36.00
35.00
34.00
32.93
32.00
STOCH(14,1,3)
50.0000
NOV
DEC
JAN
FEB
MAR
2022
2023


KBE-SPDR KBW BANK ETF-Daily
50.00
47.50
45.00
42.50
40.88
40.00
STOCH(14,1,3)
50.0000
NOV
DEC
JAN
FEB
MAR
2022
2023


KRE-SPDR S&P REGIONAL BANKIN...
65.00
62.50
60.00
57.50
55.00
52.50
50.69
STOCH(14,1,3)
50.0000
NOV
DEC
JAN
FEB
MAR
2022
2023


XLF-FINANCIAL SELECT SECTOR S...
40.00
37.50
35.00
32.93
30.00
STOCH(14,1,3)
50.0000
JUL
OCT
JAN
APR
JUL
OCT
JAN
2021
2022
2023


KBE-SPDR KBW BANK ETF-Weekly
60.00
57.50
55.00
52.50
50.00
47.50
45.00
42.50
40.88
STOCH(14,1,3)
50.0000
JUL
OCT
JAN
APR
JUL
OCT
JAN
2021
2022
2023


KRE-SPDR S&P REGIONAL BANKIN...
75.00
70.00
65.00
60.00
55.00
50.69
STOCH(14,1,3)
50.0000
JUL
OCT
JAN
APR
JUL
OCT
JAN
2021
2022
2023

Fixed Income Review

Today, we will write about our interest rate indexes. These are FVX (CBOE 5-year Treasury Yield Index), TNX (CBOE 10-year Treasury Yield Index), and TYX (CBOE 30-year Treasury Yield Index). The trading in these reflects what we mentioned in the Equities section at the beginning of this report – sentiment is in favor of the SVB bank failure being the event that causes the FED to pause. Our forecast has been for rates to be in a trading range and the action in these indexes does not suggest otherwise. Last week, recall we mentioned that TLT (not shown) is a range from roughly 100 to 110, and it is now in the middle of this range. A look at these indexes shows the short rates remain stronger, consistent with this viewpoint. All are in high-level consolidations.

"Our forecast has been for rates to be in a trading range and the action in these indexes does not suggest otherwise."

FVX is the strongest of these charts, as the latest advance has moved this close to the old high of the advance in short-term rates. The old high was 45, and this recently hit 44 or so. Support here is the 35-area, which could be tested – but might not be, before the next advance. The key here is to watch TLT – it if gets to 110 and stalls this may stop moving down as well. TNX has peaked below the October 2022 high, after making a new high for 2023, in the 40-area. Support on this is the 34-area, which is a double bottom, and therefore unlikely to be broken easily. TYX has had the weakest rally of these. The latest rally has not challenged the 44 to 45 area October 2022 high, but instead has double topped at 40, testing the December 2022 high, and exceeding it slightly. Support is also the 35-area and should hold easily for a while.

Our indicators have suggested that rates will be in a range for a while, and we see nothing to change this. The Accumulation Model on TLT has improved but does not suggest a big breakout is likely. We've spoken to several clients who bought TLT to trade, and our advice remains – hold here but look to sell in the 109 to 110 area.

Commodity Review

We will look at the two Lumber and Forestry Product ETFs we use, as these markets generally are leading indicators of recession. These are WOOD (iShares® Global Timber and Forestry) and CUT (Invesco® Timber ETF). We show the continuous contract for Lumber in Chart of Interest section of this report. These have traded similar to the chart of SPY, as they are equities, but they are a little weaker. We show charts relative to SPY rather than the standard stochastic charts we normally use. The reason for this is we want to see whether these commodity-oriented stocks trade more in line with equities or Lumber. Now, let's look at the individual ETFs.

WOOD is slightly stronger than CUT, so we will look at this first. It has support from around 64, and resistance is the 80-area, which has been recently tested. The daily stochastic is in buy mode, but not showing momentum, while the weekly is oversold, having just moved below 20. This should test at least 70 this week, and if it holds it that is a strong bottoming sign that could lead to some basing action. Two additional notes: WOOD does slightly more volume but has a slightly lower yield, at 2.29% vs. 2.65%. CUT is pretty much the same pattern, but it is weaker as long as below the 30-area, which was, until recently, short-term support.

The next support is relatively close by at 28, near the October 2022 low. Resistance is the 33 to 34 area, and only the bottom end of this has been tested, unlike WOOD. The stochastic pattern is the same as WOOD, but weaker as the daily stochastic is oversold, suggesting a failed buy recycle. The weekly stochastic is also oversold and in a similar fashion to WOOD. Earlier, we mentioned that we would show charts relative to SPY, and they are below. Notice that both of these were a bit stronger than SPY in 2022, but that this changed in May of 2022 as inflation reports became more favorable. With intermediate-term stochastics oversold on these, as well as on Lumber itself, this may be ready to gain a bit on a relative basis.

International Review

We will take a look at some of the Small Cap International ETFs we follow. These are SCZ (iShares® MSCI EAFE Small Cap Index Fund), DFE (Wisdom Tree Small Cap Dividend European ETF), and IEUS (iShares® MSCI Small Cap Europe Index Fund). These are interesting, as although Europe has become "fashionable" again, this interest has not spilled over into the small cap units. Of these three, SCZ is the most liquid, and is the strongest chart. DFE has some volume and the highest yield, and IEUS is the most illiquid.

The best chart and the most active is SCZ. It has traded up into short-term resistance in the 58 to 60 area. There is support from 55 to 50. The daily stochastic is in buy mode but looks to be failing, and the weekly is a sell pattern and about halfway down. The yield is 1.9%. DFE is stronger short-term, with support around 55, then 50, and resistance has just been tested in the 60-area. If this is exceeded next resistance is 65 to 68. The daily stochastic is oversold; the last buy recycle did fail unlike SCZ (so far). The weekly is in sell mode and similar but stronger than SCZ. Where this really excels is the yield, which I am seeing as anywhere from 5.5% to 7.25%, depending on the source.

Please check with your desks on this – we have seen many other instances where International ETFs have less than clear dividend rates as dividends are paid at different times. We will not bother charting IEUS, as the chart pattern is the same as SCZ but it is so thin we would not use it. The only thing that may have some bearing is that the yield, at 2.8%, is stronger than SCZ. However, with volume at around 6K a day it is not worth using, in our view.

THE FRED REPORT

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Weekly Chart of Interest

We show the long-term Lumber chart below. We note that the monthly and quarterly stochastics are both down and oversold, but not yet in buy mode. Lumber is testing, and so far holding support at the 2019 to 2020 highs. This has come close to a buy recycle once this year, and the next advance should lead to a buy recycle, and higher prices, at least according to the monthly chart. A move above 600 would suggest this is underway.

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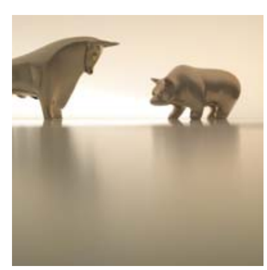

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