Financial Research Education & Data

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Trading Week Starting
July 31, 2023

The FRED Report

Summary of Market View

In Stocks, we discuss the possibility of a short-term pullback in equities, and then look at the low volatility ETFs. Several advisors have asked about these, as they have not performed this year. In Fixed Income, we look at Bond ETFs with several durations and note that there is some chance that we see a bit of a spike in the interest rate markets. We have mentioned this on conference calls and while it seems a bit far-fetched to some, this is a big enough risk that we should discuss it.

In Commodities, we discuss the Energy Sector, both stocks and futures, but with emphasis on the stocks. In International we discuss Australia and Canada. Last, in Chart of Interest, we have a link to an article of interest from Geoff Garbacz.

INSIDE THIS ISSUE:

Special points of interest:

- Stocks had a reversal day last Thursday, and we believe this is part of the short-term topping process we have been looking for.
- We have been looking at the possibility of a move back down to the 420-area on SPY, and as part of that a move down to 135 on QQQM. If this pullback occurs, and we see those price levels, we would add money.

Stocks Review

Stocks had a reversal day last Thursday, and we believe this is part of the short-term topping process we have been looking for. Friday saw some attempted snapback – again this looks to be part of the pattern. Stocks have been stronger than most people anticipated, but markets have rallied to resistance and are giving some sell indications. We have been looking at the possibility of a move back down to the 420-area on SPY, and as part of that a move down to 135 on QQQM. If this pullback occurs, and we see those price levels, we would add money. We have also noted that for new clients we would be adding money right away – there is a chance we are wrong on this, and in any event intermediate indicators still look strong on stocks.

We have not looked at the low volatility stock ETFs for a while. The main two of these are SPLV (Invesco®S&P 500 Low Volatility ETF) and USMV (iShares®MSCI Minimum Volatility ETF). There is a low volatility offering from Vanguard, VFMV (Vanguard Minimum Volatility ETF), but it does so little volume we will ignore it for the purpose of this article. These have not performed in 2023 but may be ready for a rally over the next month or so. Several advisors have indicated they are overweight in this area, and if this happens, advisors may want to trim positions. Trim – but not eliminate – after all these are good ETFs that can add stability to a portfolio. There are some differences in these ETFs we will discuss.

SPLV has two advantages in down markets. First, there are no sector constraints so if there is a difficult sector, such as Tech in 2000, or Financials in 2007, the ETF can rotate out of these. Second, this rebalances quarterly, so the reaction time is a bit quicker. In contrast, USMV must hold every sector, but can hold lower or higher weighting. Also, it rebalances only twice a year – which can contribute to better performance in an up market, but often makes performance worse in a down market. Remember – volatility can occur both up and down. In most ways, we prefer SPLV – after all, the main reason to own Low Volatility is insurance and SPLV is better insurance. But, if you are considering a tax swap in this area, the defects of USMV are unlikely to hurt you moving into yearend 2023. We show weekly charts, below.

Fixed Income Review

Today, we will look at IEI (ishare®Barclays 3 - 7 Year Treasury Bond), IEF (ishare®Barclays 7 - 10 Year Treasury Bond), and TLT (iShare®Barclays 20 Year Treasury Bond). Over the last two weeks we have suggested a quick surge in interest rates is possible, that would lead to false breakouts in the interest rate indexes we follow. An additional way to look for this is to look at the trading in ETFs. While we mostly trade and analyze TLT, the other two ETFs are important to benchmark as a way to get some early warning of an interest rate surge.

IEI is the shortest duration of these three. It is a trading range, as is TLT, but we note that it is much closer to the bottom end of the range than TLT. The range is from 112.50 to 121.50 or so. A move below 112 would suggest that a spike in rates is occurring. The daily stochastic is in sell mode, and the weekly is a buy recycle. IEF is also a range (roughly 92 to 96) and has a double bottom right around 95. If this breaks, a test of 92 is possible, and below that would lead to a nice surge in these rates. The stochastic pattern is the same as IEI, just a bit weaker. We have spent a lot of time on TLT, and over the last couple of weeks have noted that it has been trading weaker than we expected. Short-term support on TLT is 99 or so and is being fully tested. There is a gap at 95 that is the next downside target, and below that would target 91 or lower. Resistance is 105, then 110, and this remains a range for now. The stochastic pattern is the same as the others, but again – weaker. We will show weekly charts of these, and clients should look for a false breakdown in some of these (perhaps not TLT) as a signal to buy. In fact, a false breakdown in IEI would be a buy on TLT or on individual bonds as well. If this idea works, and the set up looks like it could work although most say it is a bit far fetched, be ready.

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Commodity Review

Oil has rallied over the last few weeks, in line with the favorable seasonality we have discussed. Gasoline has rallied as well. However, oil stocks have not done as well as we anticipated, and the seasonally favorable period should peak in mid to late August. Sadly, the oil stock ETFs have not done as well as oil, mostly because some earnings have not been strong. We will look at XLE (SPDR® Select Sector Energy ETF), RSPG (Invesco® Equal Weight Energy Index), and PSCE (Invesco® Small Cap Energy Portfolio) in this article.

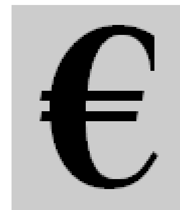
"Traders who bought XLE in June for the seasonal rally into August should consider sale at 90 or so"

XLE is the biggest of these ETFs, but it is not the best of these, because over 40% of it consists of two stocks, CVX and XOM. These two names have not been performing as well as other names, so XLE has lagged a bit. XLE has support from 75 to 70, and resistance is the 90-area. The daily stochastic is overbought and not in sell mode, but the weekly has a bit more upside. Traders who bought this in June for the seasonal rally into August should consider sale at 90 or so.

RSPG is stronger. It has support around 70 or so, and resistance is 75. Intermediate resistance is 80 and should be tested. Traders should sell this in the 78 to 80 area, which should be hit in August. The daily stochastic is overbought, and the weekly is also (stronger than XLE). PSCE has had a five for one reverse split. This is challenging trading resistance at 55, and next resistance is 58 to 60. The daily and weekly stochastics are overbought – and a bit stronger even than RSPG.

We are at an interesting juncture in this seasonal trade, as there are three variables to consider. First, it looks as if the stock market should have a pullback, as we mentioned in the Stock section of this report. Second, a look at both USO and oil futures themselves, shows that they have outperformed the stocks on the upside. The same is true of UGA and Gasoline futures. The stocks have been weaker than the commodities, but do look like more upside, as we have discussed. On balance, we believe the correct strategy is to hold the stock ETFs into August, using the targets we've discussed, but use some risk management if the market begins a pullback. We show daily charts, below – and suggest looking at the other timeframes.

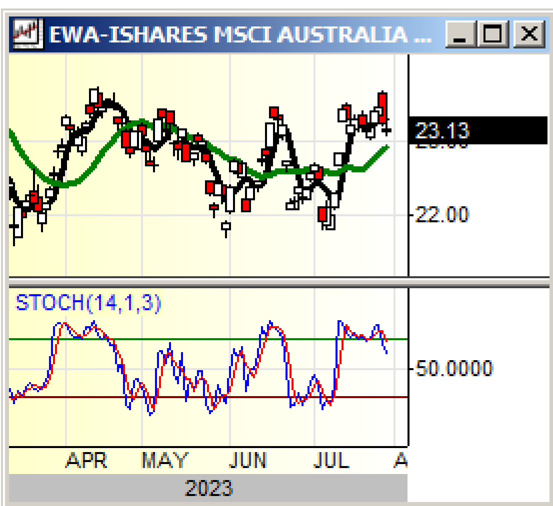
International Review

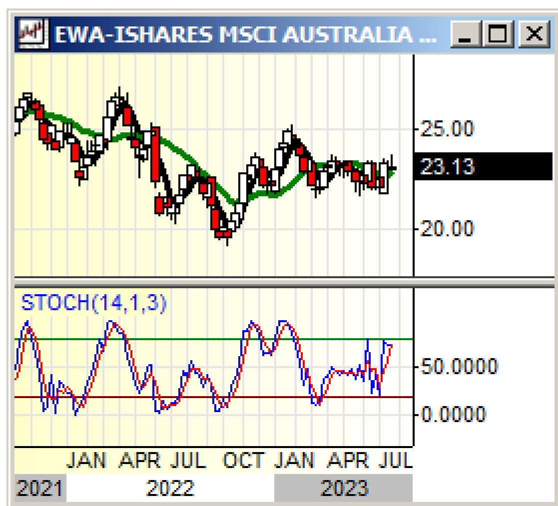


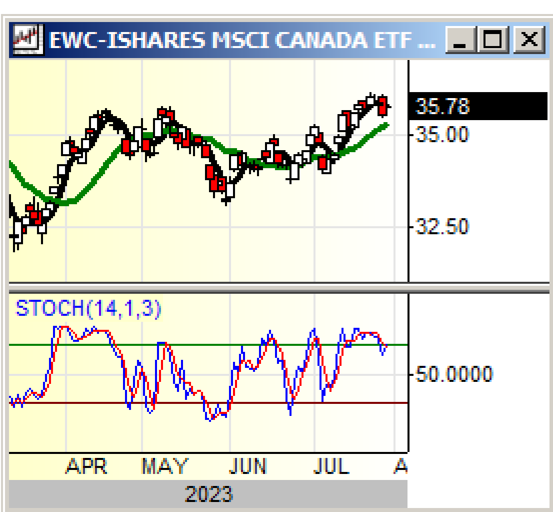
We have not looked at EWA (iShares® MSCI Australian Index Fund) and EWC (iShares® MSCI Canadian Index Fund) in a while. These are commodity-oriented economies, with Australia's proximity to China, and Canada's proximity to the US, an indicator of the respective strength of those larger economies. Which of these is more attractive now?

While a look at short-term charts suggests that these are quite similar, a look at the intermediate shows that EWC is trading better and has been for some time. We say this because EWA is trading below the 2020 high, and EWC pulled back to test that high successfully in 2022. Now, it has started to move out of the consolidation and could test the 38 to 41-area. While we would not use EWA in models at this time, we will take a closer look. EWA has support from 22 to 20, and short-term resistance is 24. Above this would target 26. The daily stochastic is in slight sell mode and the weekly is overbought but not yet in sell mode. Please note that this is trading right around the 2020 high. In contrast, EWC has short-term support around 34, and intermediate support is around 32. It is trading at short-term resistance in the 36-area, and above this would target 40, close to a new high. The 2020 high is right around 30 so this has substantially more strength. The stochastic pattern is the same as EWA, but a bit stronger. We show daily and weekly charts, below. All of this suggests/confirms that the US economy really is stronger than China's and has been since 2020.

"All of this suggests/confirms that the US economy really is stronger than China's and has been since 2020."







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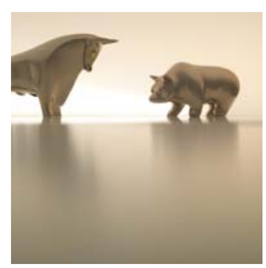
Weekly Chart of Interest

On Thursday's call we talked about the concept of "Greedflation" that is letting companies get away with price increases. Here is that story:

https://t.co/UX0oZZ0NGL

About Our Organization



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