Financial Research Education & Data

Volume 15, Issue 66
Trading Week Starting
September 11, 2023

The FRED Report

Summary of Market View

First, we want to wish everybody Happy Options Expiration this Friday! Monday is the anniversary of the September 11th attacks, Never Forget. After a quick discussion of the market we take a look at the Oil Stock ETFs and have some discussion of oil. In Fixed Income, we discuss the Utilities ETFs. These are at the bottom of ranges and looks interesting.

In Commodities, we discuss Uranium, in answer to some questions on last Thursday's call. We believe that Clean Energy HAS to include Nuclear, and some of the stocks suggest the market is thinking this way as well. Look at the chart of SO – it is trading better than the index and has opened a nuclear power plant vs. NEE, which is attempting to use wind and solar. In International, we discuss Middle Eastern ETFs. They are not doing much in spite of the Saudi Arabian price cuts. Last, in Chart of Interest, we look at Israel.

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Special points of interest:

- It is Options expiration, and triple witching as well, so don't read too much into the action.
- According to the Erlanger work, utilities have some seasonal strength starting in October – and since they are at the bottom of the range it is probably a decent time to start to add these to portfolios.
- As technicians, we would buy NLR right away, with a possible position in URNM for clients that want the actual commodity.

Stocks Review

Indicators suggest this should be a relatively choppy week. We could see some weakness from here. Short-term breadth is weakening but the indicators are not in buy patterns. We would expect some upside early in the week, and then a pullback at the end of the week. It is Options expiration, and triple witching as well, so don't read too much into the action.

We have had some questions on the oil stocks, as oil has rallied a bit more than we expected, and favorable seasonality has ended. This is a bit of a surprise! While we expected oil to be higher at yearend, we did expect a pullback in both oil and the Oil Stock ETFs. We will look at XLE (SPDR® Select Sector Energy ETF), RSPG (Invesco® Equal Weight Energy Index), and PSCE (Invesco® Small Cap Financial Portfolio). First, we note that USO is challenging the 80-area breakout, and much above this would target the 90-area. In addition, UGA has broken out above the 69-area and is consolidating above that breakout. It could hit new multiyear highs on this advance. Again, we expected this advance in line with seasonality starting in late October. Now, let's look at the Equity ETFs. For now, these ETFs are a hold.

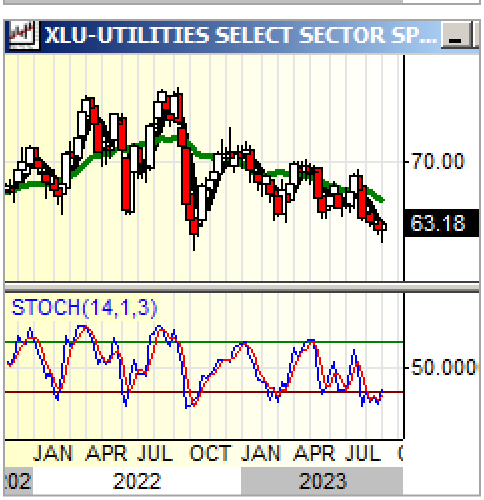
XLE is the biggest of these units. It is also a lousy ETF, as it is cap weighted and almost 48% consists of XOM and CVX. In past Fred Report Weeklies, we mentioned that we traded this from June to August and sold it at 90, our price target, in mid-August. It is above there now, but not by much. Both the daily and weekly stochastics are overbought and not in sell mode. It is close to a breakout. RSPG is a similar pattern, also close to a breakout of the 80-area resistance. The daily stochastic is weaker than XLE, in slight sell mode, while the weekly is overbought. PSCE is a similar pattern, with support around 50 and resistance in the 61-area. The daily and weekly stochastics are both overbought, and not yet in sell mode, in contrast with RSPG. These are all intermediate term holds but may actually fall off a bit into October. We will employ trading cash should that occur, or we get a daily stochastic recycle.

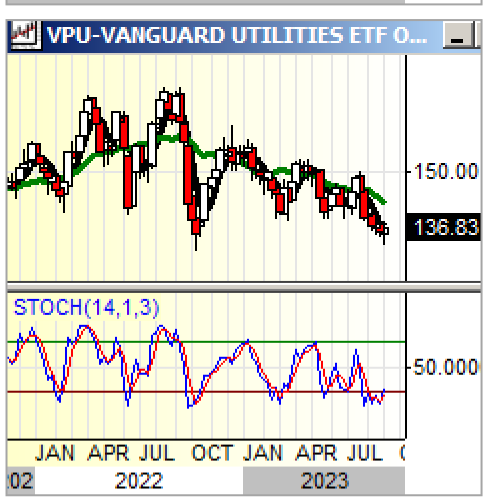
Fixed Income Review

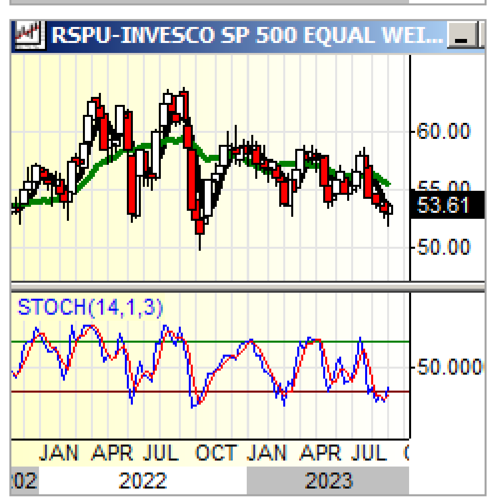
We will look at the Utilities today although this is the fixed income section. This is appropriate as Utilities are primarily an income vehicle. We have had questions not only on our Thursday call, as well as from consulting level clients. The main ETF for Utilities is XLU (SPDR® Select Sector Utilities ETF), which we use in our Sector Review. There are others, principally RSPU (Invesco® Equal Weight Utilities Index) and VPU (Vanguard Utilities ETF). There are other funds that bill themselves as "Utility" but are really infrastructure funds. An example here is IGF (iShares® Global Infrastructure Fund ETF), not a bad ETF – and in some ways a better chart, but also not Utilities. According to the Erlanger work (courtesy of Geoff Garbacz), utilities have some seasonal strength starting in October – and since they are at the bottom of the range it is probably a decent time to start to add these to portfolios.

"According to the Erlanger work utilities have some seasonal strength starting in October."

XLU is the biggest of these ETFs, but it is not the best chart. This is a trading range, from the 60-area on the low end, to the 70, then 75-area on the high end. The daily stochastic is a buy recycle, and the weekly is oversold. This is in position to rally. VPU is almost identical. VPU is a range from the 130-area to 150, then 160. The daily stochastic is a buy recycle and just a bit stronger than XLU, while the weekly is the same. Of these two units, we would choose XLU for two reasons: First, the price is lower, making it easier to position in accounts, and second XLU does roughly ten times more volume. The best chart of these is RSPU. The pattern is similar on the weekly chart, but the daily chart is showing stronger performance. It is also an intermediate-term range, from 50 to 60 or so. The stochastic pattern is the same, but RSPU is trading better vs. the October 2022 low. We show daily and weekly charts, below.







Commodity Review

We had some discussion on last Thursday's call about Nuclear Power and its role in the Clean Energy movement. As the discussion progressed, we realized we had not covered Uranium in months, so we will cover it here. There are several Uranium ETFs: NLR (VanEck Uranium and Nuclear Energy ETF), URA (Global X Uranium ETF), and URNM (Sprott Uranium Miners ETF). There are some interesting wrinkles to these that we discovered on a quick look at holdings, etc. Teams should have their analysts look at these carefully. The first two of these are based on indexes and mostly consist of companies in the nuclear business. URNM invests in physical uranium and, like their gold ETF, allows you to take physical delivery of the uranium (*I am just kidding on that last!*). So, let's have a look at these.

NLR is, by far, the best performing of these ETFs intermediate term, as well as the thinnest one. It is at new highs and the others are not. Support is the breakout, around 60, and there is no real resistance. The yield on this is the highest as well, at 1.68% (not much but better than a kick in the @)$$). The daily and weekly stochastics are overbought, not a surprise given the performance. This is our favorite of these.

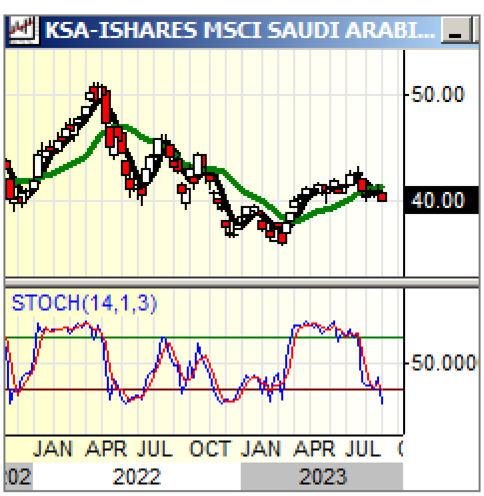
The next one we cover is URA. This is below the 2021 high and is near resistance at 25. Support is the 20 to 18-area. The yield on this is much lower than NLR, at 0.20%. One interesting thing is that this holds some units of physical uranium via URNM. The daily and weekly stochastics are also overbought, not a surprise as this is this is at 52-week highs. A look at the intermediate chart shows the weakness vs. NLR. It appears that this is the most popular of these ETFs. URNM is a bit stronger than URA, but it is virtually the same pattern. It is fully testing the 40-area resistance, while URA is slightly below the equivalent level. If this is decisively penetrated the next resistance is 46 to 48. The stochastic pattern is the same as the others, and obviously this has no yield, as it is physical uranium. As technicians, we would buy NLR right away, with a possible position in URNM for clients that want the actual commodity.

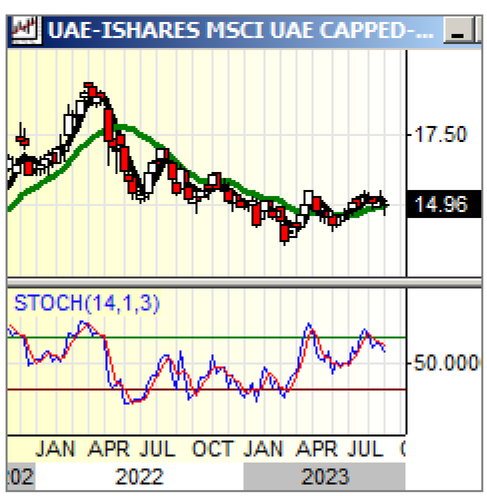
International Review

Since this has turned into the "Energy" issue, we will take a look at the Middle Eastern countries. There area several of these but the biggest and most important is KSA (iShares® Saudi Arabia Index). We will also look at UAE (iShares® MSCI UAE Capped ETF) and EGPT (Market Vectors Egypt ETF). KSA is really the only one of these that is worth doing. It has Oil, and also does decent volume (450K or so), while UAE (5K) and EGPT (21K) are very thin.

So, let's look at KSA. This has supported at the 2018 high – around 35. The recent bounce has created a support zone in the 40-area, which is where KSA is currently. Resistance is 45 or so, and then 50. The daily stochastic is oversold, and has not turned up, while the weekly is own but not yet oversold. If you are looking for a speculative international investment, you could buy a daily recycle. UAE is another oil producer. The pattern is similar to KSA, but it is weaker as this supported at the 2020 high rather than the higher high in 2018. Support is 14, and resistance is 16 or so, then 18. It ranks around 8th in the world in oil production. The daily stochastic is a new buy recycle, and the weekly is a new sell recycle, implying consolidation. KSA is more attractive than UAE.

The last one of these is EGPT. It also produces oil, but vastly less (t is around 27th in the world). The most important product is probably cotton, with Jewelry and plastics next important. Agriculture such as rice and onions are also important. The point here is that this is Middle Eastern country that is not known for oil production. This is a completely different chart from the prior two units. It is a short-term base that is testing resistance. The daily stochastic is overbought and in slight sell mode, and the weekly is also. Support is from 16 to 18, and resistance is 21 to 23. EGPT is interesting, and would be my second choice in this region, after KSA. We show charts, below.





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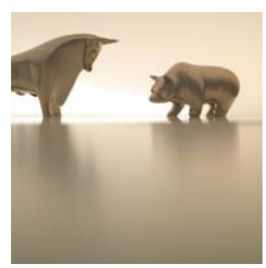
Weekly Chart of Interest

Since we cover the Arab countries in the international section, we will look at Israel here. There are two ETFs: EIS (iShares® MSCI Investable Israel Index), and ISRA (Market Vectors Israel ETF). Both of these have become quite thin over the last year, with EIS doing more volume. As you can imagine, the charts are quite similar. Since liquidity issues plague both of these, and advisors would likely have to do a creation, either of these is doable, but EIS is a better short-term chart. ISRA is breaking support at 35, and unless back above there soon could test 31 to 30, where we would buy a recycle. Resistance is 35, and if that is recovered, 40. The daily stochastic is coming down, and the weekly is oversold. This is not a good chart. EIS is holding short-term support at 54 to 52, and short-term resistance is 56 to 60, in layers. The stochastic pattern is better, but still weak, with a short-term that is coming down from a higher level, and the weekly is also oversold. We show weekly charts, below.

About Our Organization



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