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The FRED Report – Monthly Review

Monthly Research Piece: A Trend Model Update

By Cam Hui - Humble Student of the Markets

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Summary of Monthly Piec

ASSET CLASSES:

STOCKS:

Rating the Three Market Principles:
As readers know, we break the stock market down into three basic market principles: (a) Sentiment, (b) Internal Momentum, and (c) External Momentum. I will review these here.

Sentiment: *We use two indicators to measure sentiment. These are options activity and certain sentiment polls. For options, we use total CBOE volume and take the figure directly from the CBOE website. For our sentiment poll numbers, we prefer using % Bears from Investors Intelligence. We use only the % Bear's number because, in our opinion, the bears almost always act. It is rare to find a complacent bear. Sentiment is what we call a "Condition Indicator". By this, we mean it has nothing to do with timing trades – rather it is part of the overall mosaic of market activity.*

Our current reading of the sentiment indicators is NEUTRAL/POSITIVE. %Bears is almost at 30. It is normally in the 30's at bottoms and was over 40 at peak bearishness in 2022. The increase in %Bears has happened in a short time. Normally this takes longer in a decline to get to these levels. The Put/Call indicator is the problem, as it has showed short-term complacency until the last two days. We have discussed this in various venues. **We rate sentiment POSITIVE/NEGATIVE here because the intermediate sentiment indicator is at intermediate bottoming levels but Put/Call has not shown the "panic" associated with major trading bottoms.**

Internal Momentum: *We use several Breadth indicators to measure internal momentum. We publish three indicators in this Monthly Review: The McClellan Oscillator, an Indicator of New Highs on the NYSE vs. New Lows, and our own breadth oscillator – called **Fred's Breadth Oscillator**, or FBO. The McClellan gives great trading signals, while the last two are also "Condition Indicators".*

Our current reading of the internal momentum indicators is NEUTRAL. The daily FBO has been volatile, with big swings up and down, and it is close to bottoming levels, but could still have a bit more to go. **The McClellan Oscillator** is positive, but overbought, it could be signaling a pause. **New Highs/New Lows** is still down. The **weekly FBO** is still diverging from price and has been since 2022. The combined picture from these indicators is intermediate term is neutral overall.

External Momentum: *We use several price indicators to measure this, and these are primarily tactical indicators. We use the 5 and 20 period moving averages, and a simple crossover to determine trend. We use Stochastics, another standard indicator, to measure overbought/oversold levels, or as we prefer to consider them, areas of risk and reward. The one criticism of Stochastics is that they are too sensitive, so we also have our own Price Oscillator we publish, called **Fred's Price Oscillator, or the FPO**.*

Summary of Monthly Piece…. continued

Our current rating of the External Momentum indicators is POSITIVE. Daily indicators are overbought. **Weekly indicators** are oversold and in buy configurations on many. Most of these indexes have rebounded, and individual stocks have fallen enough so that many indexes and stocks have weekly buy recycles. Accumulation neutral. XLF and XLI still have favorable intermediate charts.

CONCLUSION: Equities fell a bit more than anticipated after surprising news. However, the market bottomed and has started what looks like it could be the expected summer rally. This should be a complex and not a “V” bottom – we look for a retest this month. Intermediate sentiment suggests a strong rally is likely after this turmoil is over but it could take longer than expected.

FIXED INCOME: TLT is improving. MUB, LQD, and HYG have bottoming formations, and are stronger than TLT. TLT is building a base. First targets in the 92-area have been hit. We are still on a buy signal. TLT should still challenge 95 or better by July.

COMMODITIES:
Oil and Gasoline start positive seasonality at the end of May. Watch oil via USO, UGA and DBC carefully. The oil stocks have been weak due to negative seasonality through May. There could be more weakness. UGA held support, as did USO and nearby futures. GLD and SLV have rallied, but Accumulation Models remain relatively weak. These could peak this month. Industrial Metals (DBB) have perked up. Our favorite broad-based Commodity Index ETF, DBC, is still in the range, but doing worse than expected. Copper is close to multiyear highs, suggesting no recession is likely despite the recent decline. Agriculture normally makes a seasonal low in October, and we are now seeing improvement in these markets. These markets normally bottom in October/November and peak in July. Watch SOYB, as it is the smallest crop, and it often rallies first.

INTERNATIONAL:
International markets are advancing. Emerging markets now have weaker accumulation models than EFA does, and EFA gapped above resistance. China has hurt Emerging Markets, but Accumulation was picking up. Chinese prices improved – but are getting hit on tariff news. Developed markets still look better than emerging markets short-term, and while Europe is doing well now this may not last through 2025. The Dollar Index (DX#F or UUP) is a consolidation for now, and it is at the bottom of the range. The Yen looks more like a bottom and could move into a range. We are still recommending individual European ETFs. Watch EWL, our favorite, but EWG is starting to perform well also. It was a multiyear breakout before the recent market turmoil. Japan and India are long-term favorites but could consolidate, although India has held the bottom of the range.

SECTORS:
We are overweight XLI and XLF. These have strong accumulation models and intermediate charts are better than most of the sectors. XLV is stabilizing as RFK Jr. takes the helm. **We are underweight XLRE and IYZ, although they are improving.** XLU is performing well but may consolidate – it is defensive and strong right now**.** We keep XLRE as an Underweight as it is a downtrend in spite of the recent strength in this market turmoil. Banks are a concern and may be a crowded trade. Insurance and Credit Cards look strong and XLF is holding up very well on this rebound. IYW pulled back sharply, but it has revalidated support. Accumulation has improved on the rebound in IYW and QQQ, suggesting there is some improvement, although rotation out of the sector continues. Small Cap is showing Accumulation but price is weak. MDY is weak. Large Cap High Relative Strength Tech is a hold as it pulls back. XTN is weaker than we would like to see and there is a Dow Theory sell signal, a concern although we do not use Dow Theory per se. XLE could weaken into late May. XLB is weak, and accumulation is weaker than other strong sectors. It is pulling back now. XLP is trading well, and dividend stocks are improving. The narrow market was improving prior to this break, and intermediate-term Breadth Momentum is weak, a concern. We did have a Zweig Breadth Thrust, an indication the market will do well in 2025, in line with our forecast. We continue to use RSP. We have added satellite positions in XLG for aggressive investors. We are recommending VBR and XMHQ for those wanting to add Small and Mid. We recommended adding in mid-April

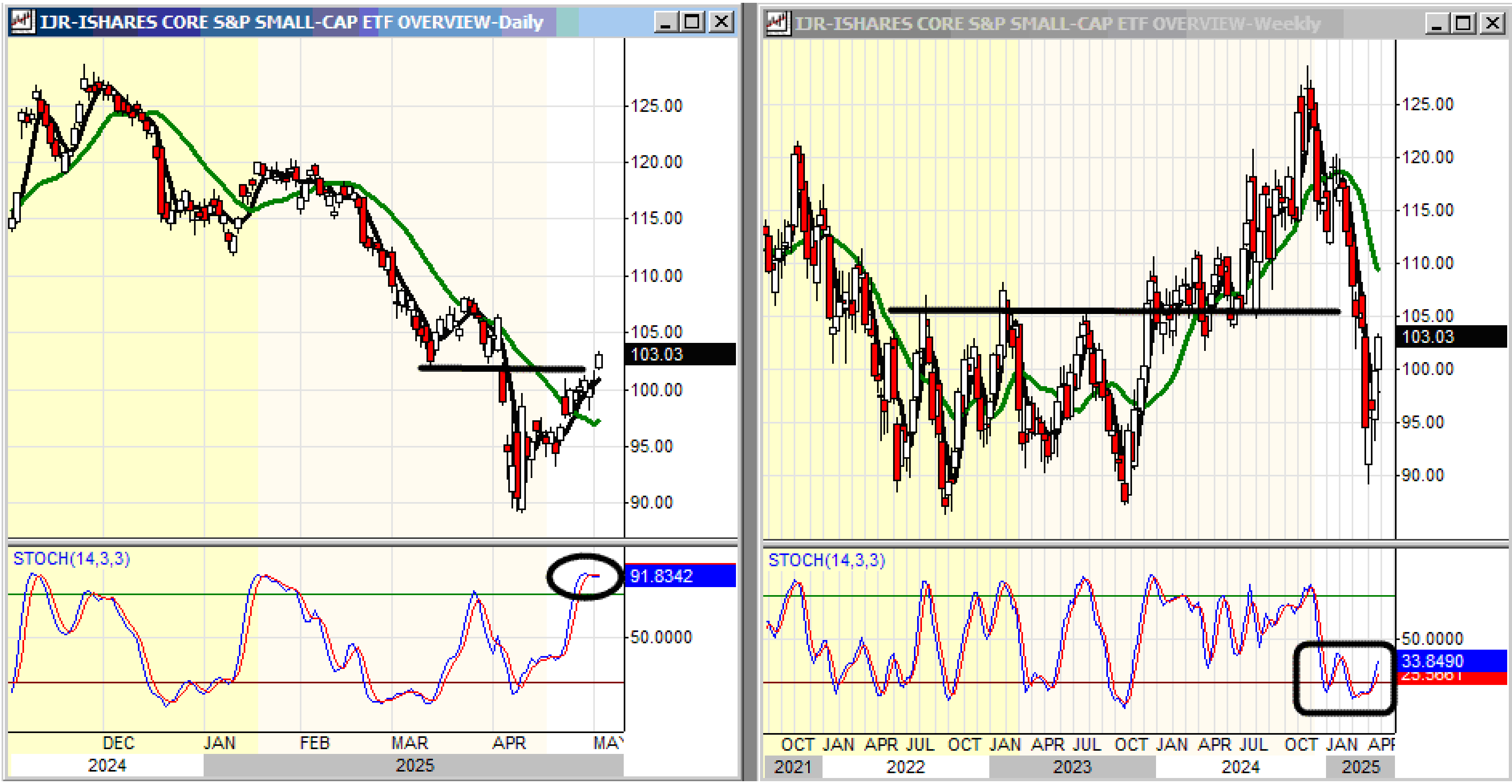
Market Review: Price Charts – SPY – SP 500 ETF

<u>SPY has rallied and is through resistance:</u> Accumulation models on SPY weakened on the last decline, more than on QQQ. This held the 500 to 475 support and rallied through 550-area resistance. The daily stochastic is overbought and the weekly is in buy mode. Intermediate-term Breadth indicators remain weak but shorter-term ones have improved, becoming overbought in some instances. We have had a Zweig Breadth thrust. While we had been looking for a rally to begin in March, tariff news surprised not only us but others looking for this as well. However, this could be the summer rally we have forecasted.

Market Review: Price Charts – MDY – MidCap SPDRS ETF

MDY has moved into layers of support: MDY is still weaker than SPY is, despite moving to new highs on a closing basis. The daily stochastic is overbought, and the weekly is in buy mode. The pattern relative to SPY is still weak. Below, and then back above 500 is a plus. Look at XMMO, XMHQ, and DON as stronger alternatives to invest in Mid Caps. We expected an advance in March. Now, buy this weekly recycle. Back above 560 to 575 would suggest a strong summer.

Market Review: Price Charts – IJR – IShares S&P SmallCap 600 Index ETF

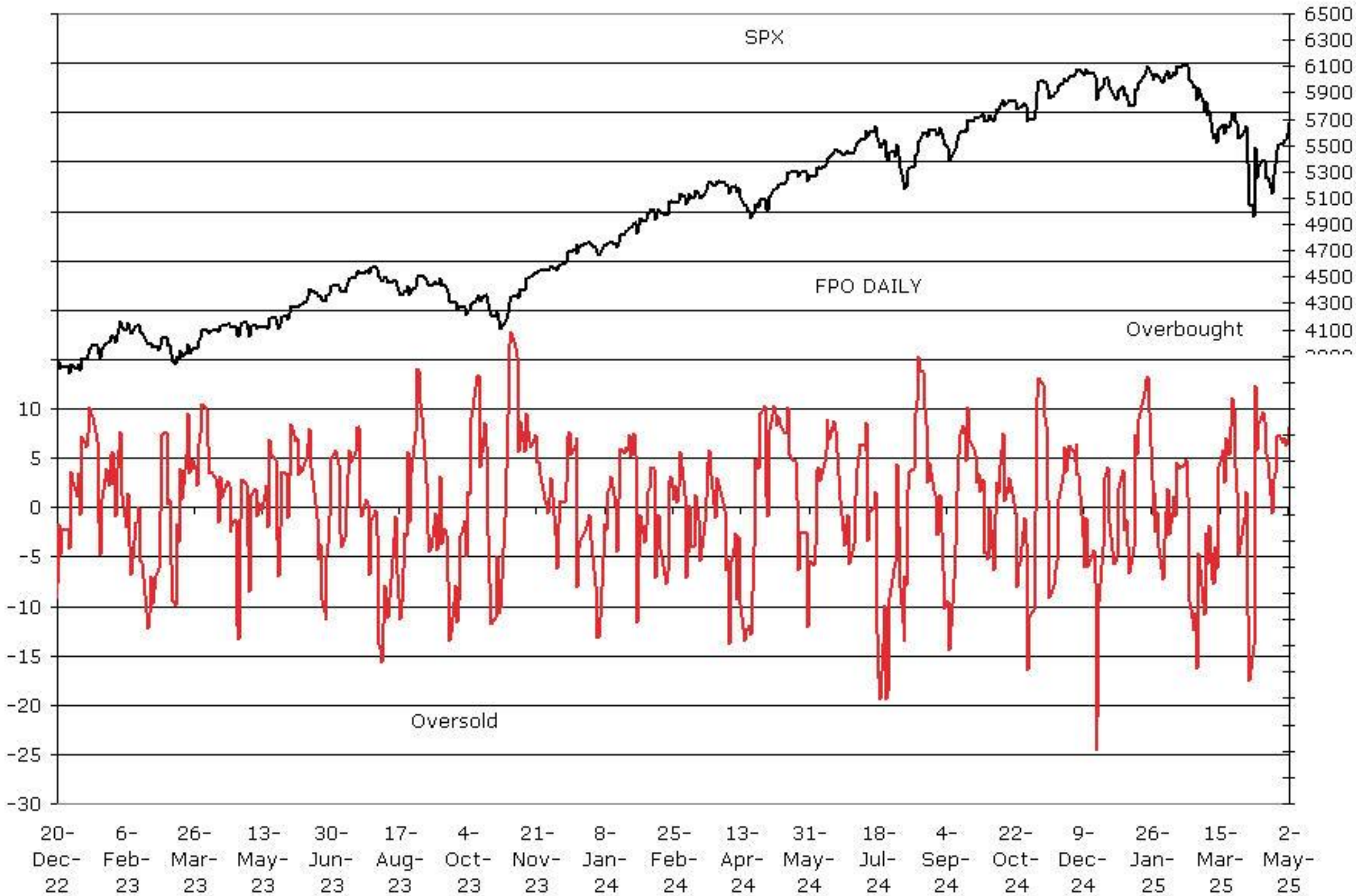


<u>Small Cap has broken most support areas:</u> The daily Stochastic is overbought, while the weekly is in buy mode. Smaller Cap names are still the weakest in terms of price, but accumulation has improved on this decline, although it is not as strong as it was in 2020. Value is outperforming here, unlike the large caps. Watch VBR, it is stronger than this, and IWM. Small Cap could still perform well in 2025, as it should be less affected by tariffs. Above 105 would signal recovery and above 107 should signal new highs.

Market Review: Price Charts – XTN – SP Transportation Index

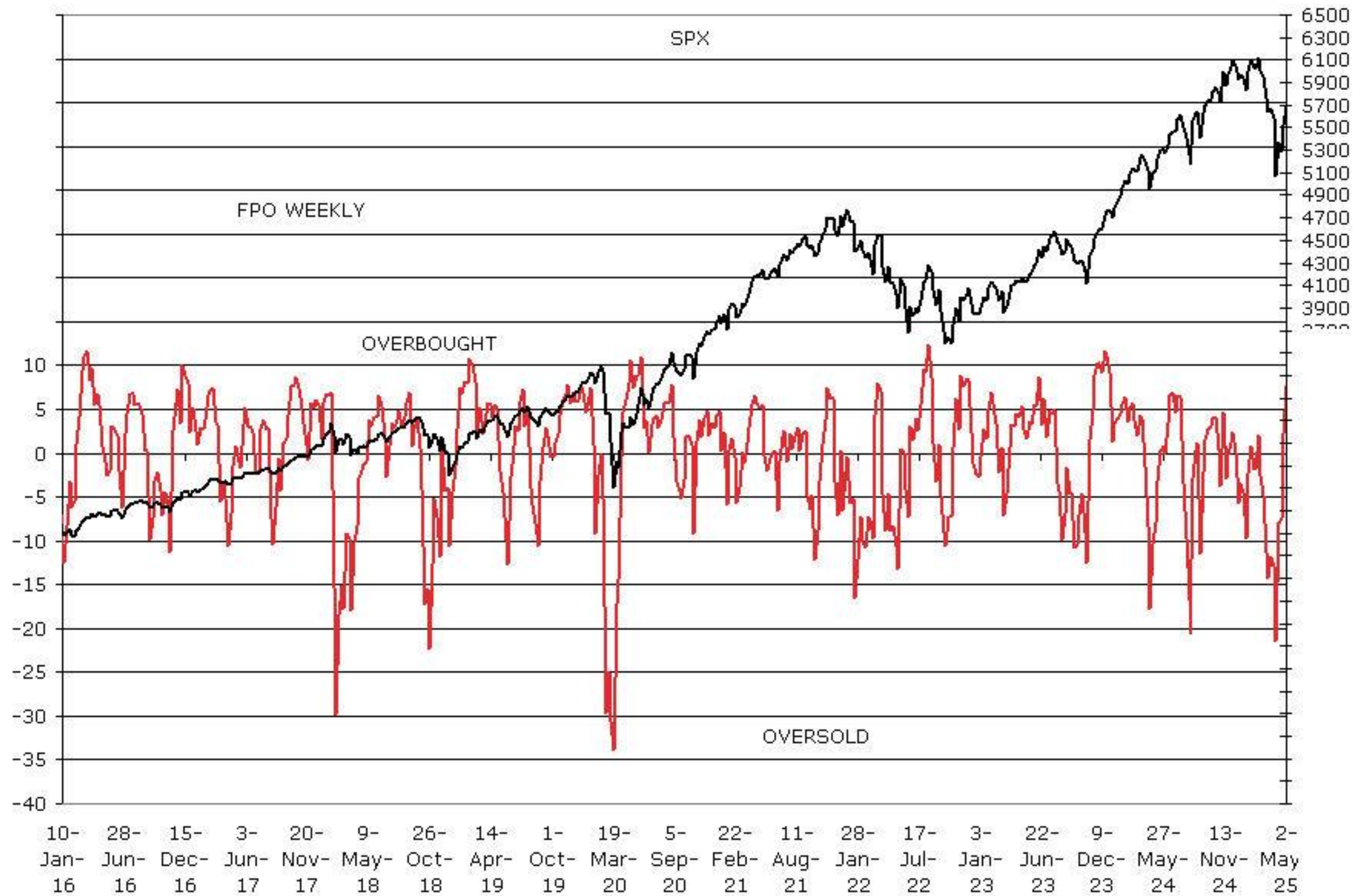
XTN may have a false breakdown: As we have said for years, our favorite indicator of economic strength is the Transportations. Indeed, when the Transports lead, the market is generally strong. For just one example, the Transports made new highs before the Industrials off the bottom in 2020, and there are many other examples. Transports have been weaker since 2021. The daily stochastic is in buy mode and almost overbought. The weekly is a new buy recycle. Transports have been forecasting some economic problems in 2025 (but in all fairness, since 2021). Ideally, a rally should take this above 75. Otherwise, this is forecasting continued difficulty in 2025 as they are lagging the major indexes.

Market Review: Price Charts – Daily – Fred's Price Oscillator



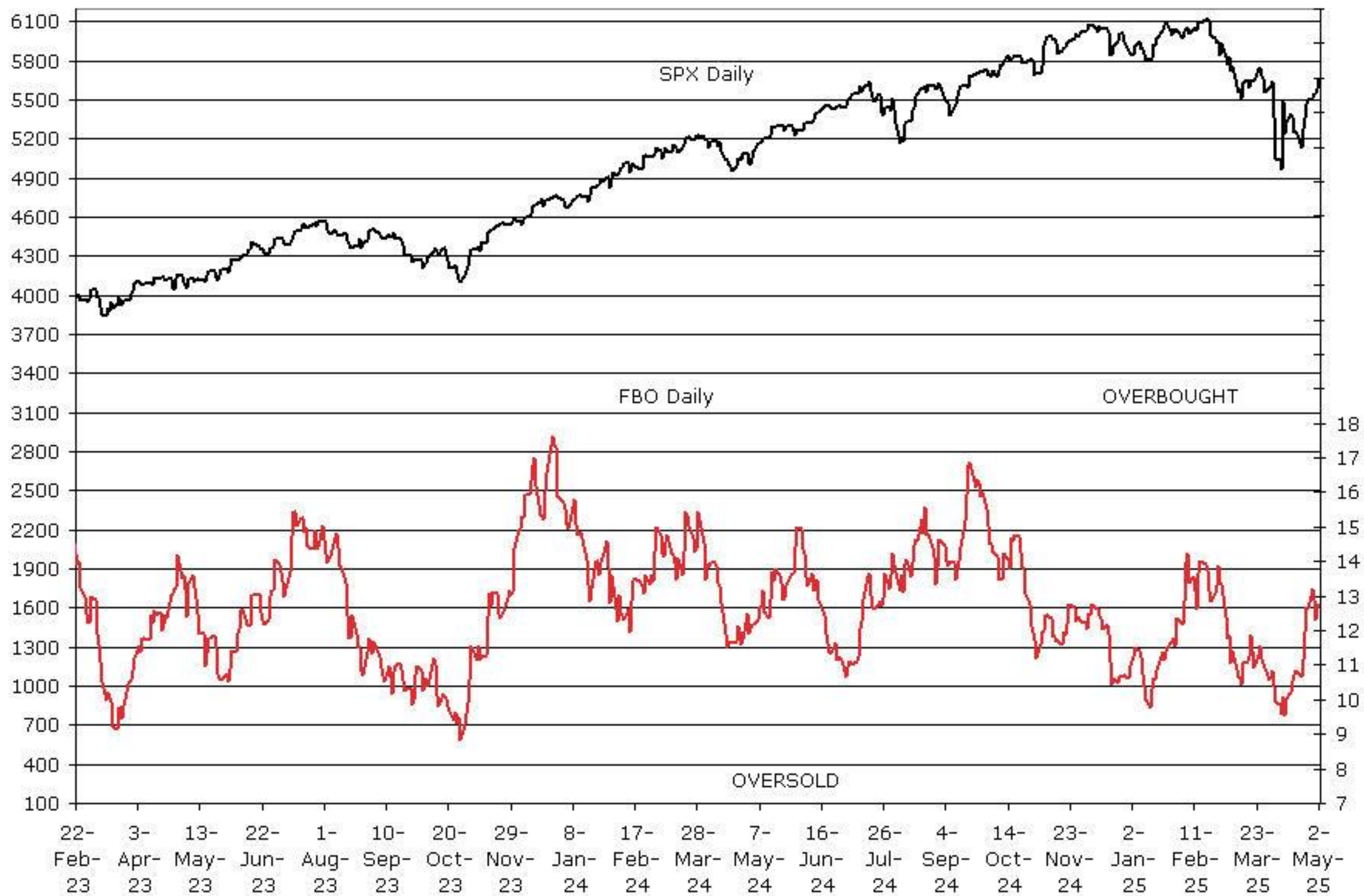
<u>The daily FPO is advancing:</u> This indicator is up, and not overbought. The pattern on this indicator does suggest some upside from here. The market has revalidated support. SPY held the 500 to 485-area we mentioned in our alert and rallied. The decline was a surprise to us, but this indicator became oversold, and this rally may be the start of the summer advance we have been forecasting. A move above the 575 area could hit new highs. We do expect a retest of the closing low on SPY, but that needs to occur in the next two weeks or it is probably off the table.

Market Review: Price Charts – Weekly – Fred's Price Oscillator



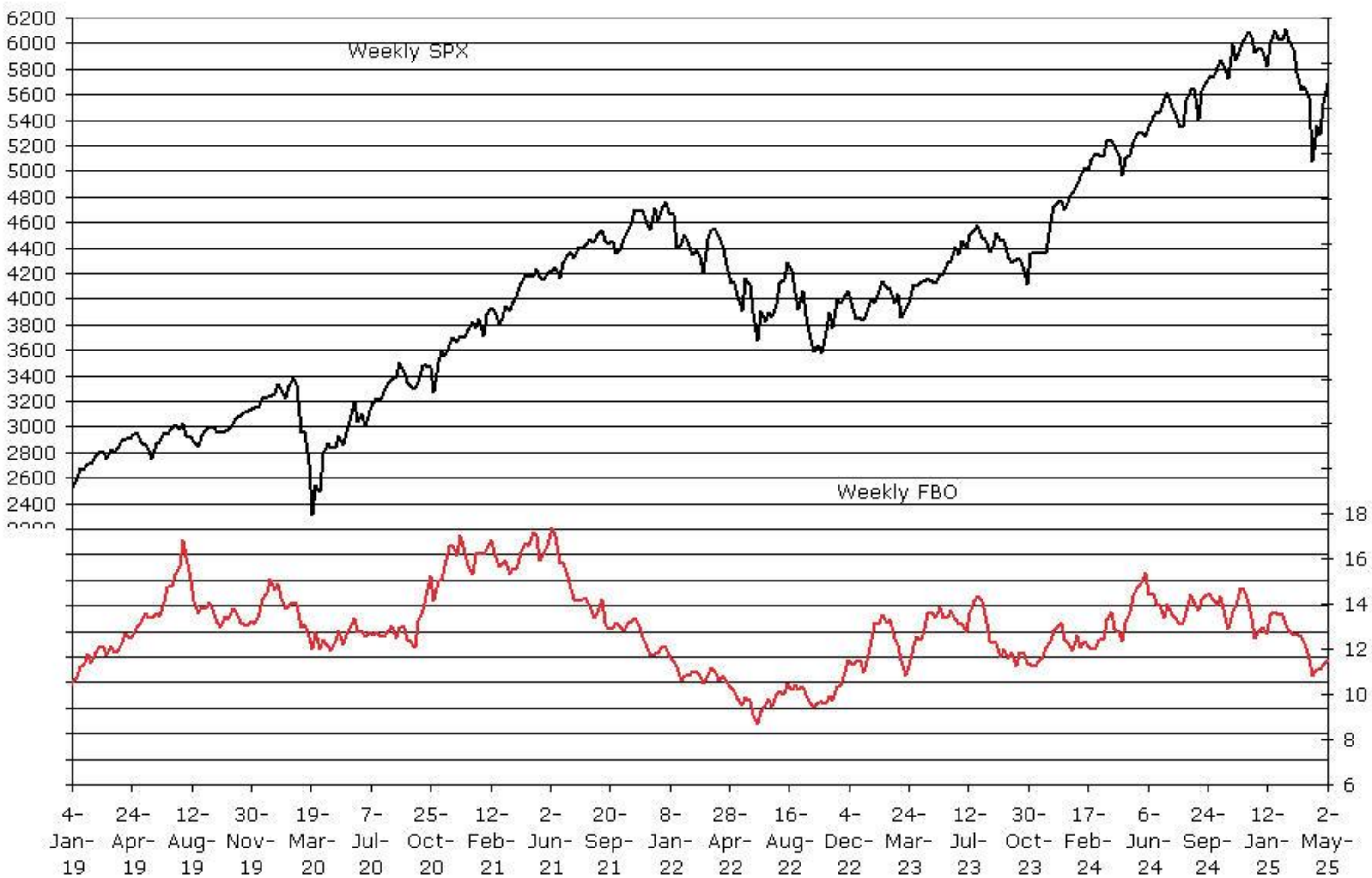
The Weekly FPO has also rallied: This indicator has not showed good momentum on the last advances, with multiple lower highs. Stocks had been acting about as expected until the tariff news. The weekly FPO has shown enough momentum on this advance to suggest further upside. A retest is possible but overall, this is much improved. It is showing momentum on the upside.

Market Review: Internal Momentum – Daily Fred's Breadth Oscillator



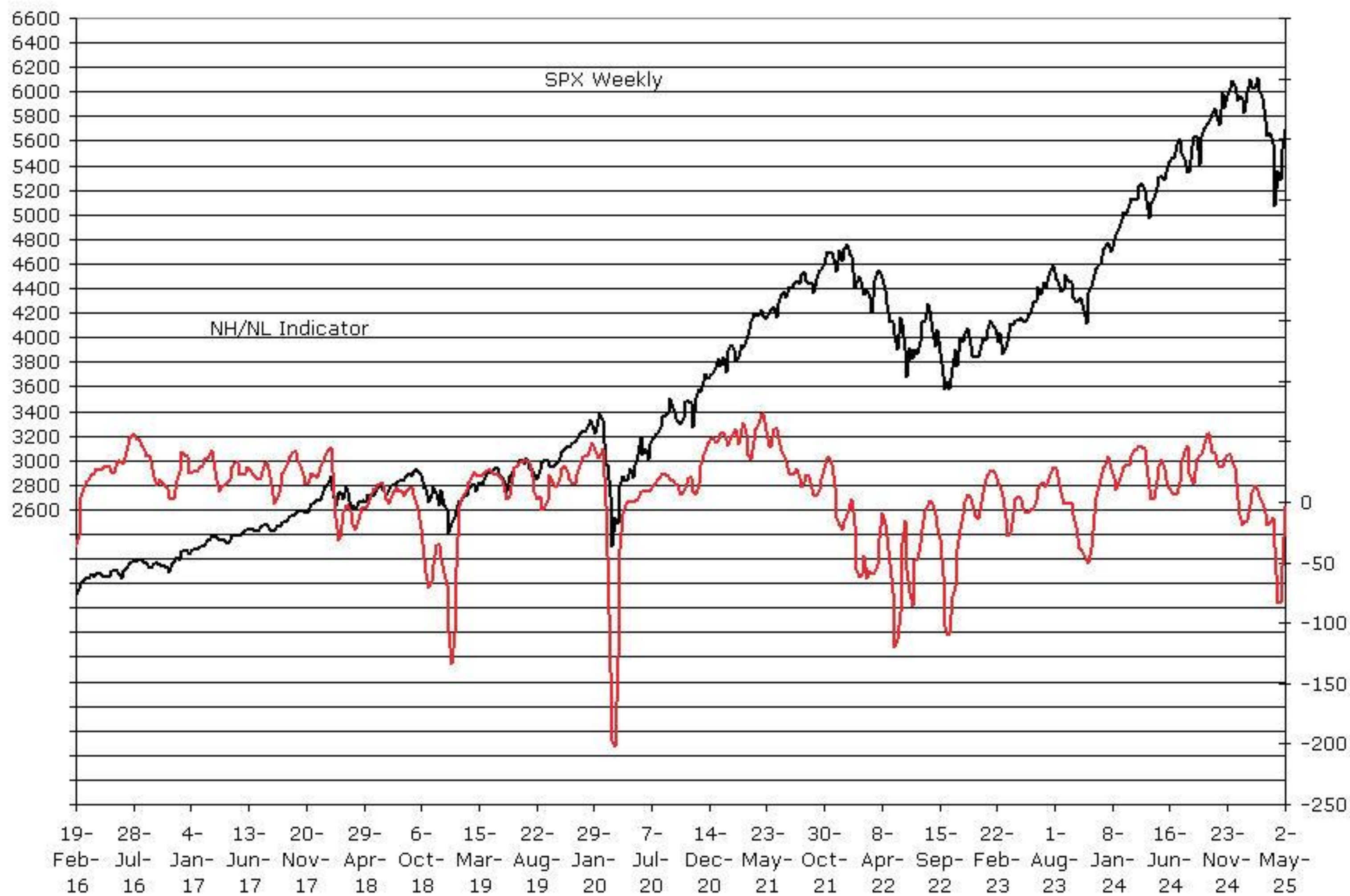
Breadth momentum has a double bottom: This indicator was diverging since early 2024. The narrowness of the market was a concern, and you can see this indicator failed to advance on the last short-term rally. We recommended adding money at 500 on SPY. This had a pullback on the last decline and has held support in the 9-area, a move we expected per the last Monthly Review. We have had stronger breadth recently, and this indicator should make new highs on this rally – at least 15 and hopefully higher, if this is to be graded bullish.

Market Review: Internal Momentum – Weekly Fred's Breadth Oscillator



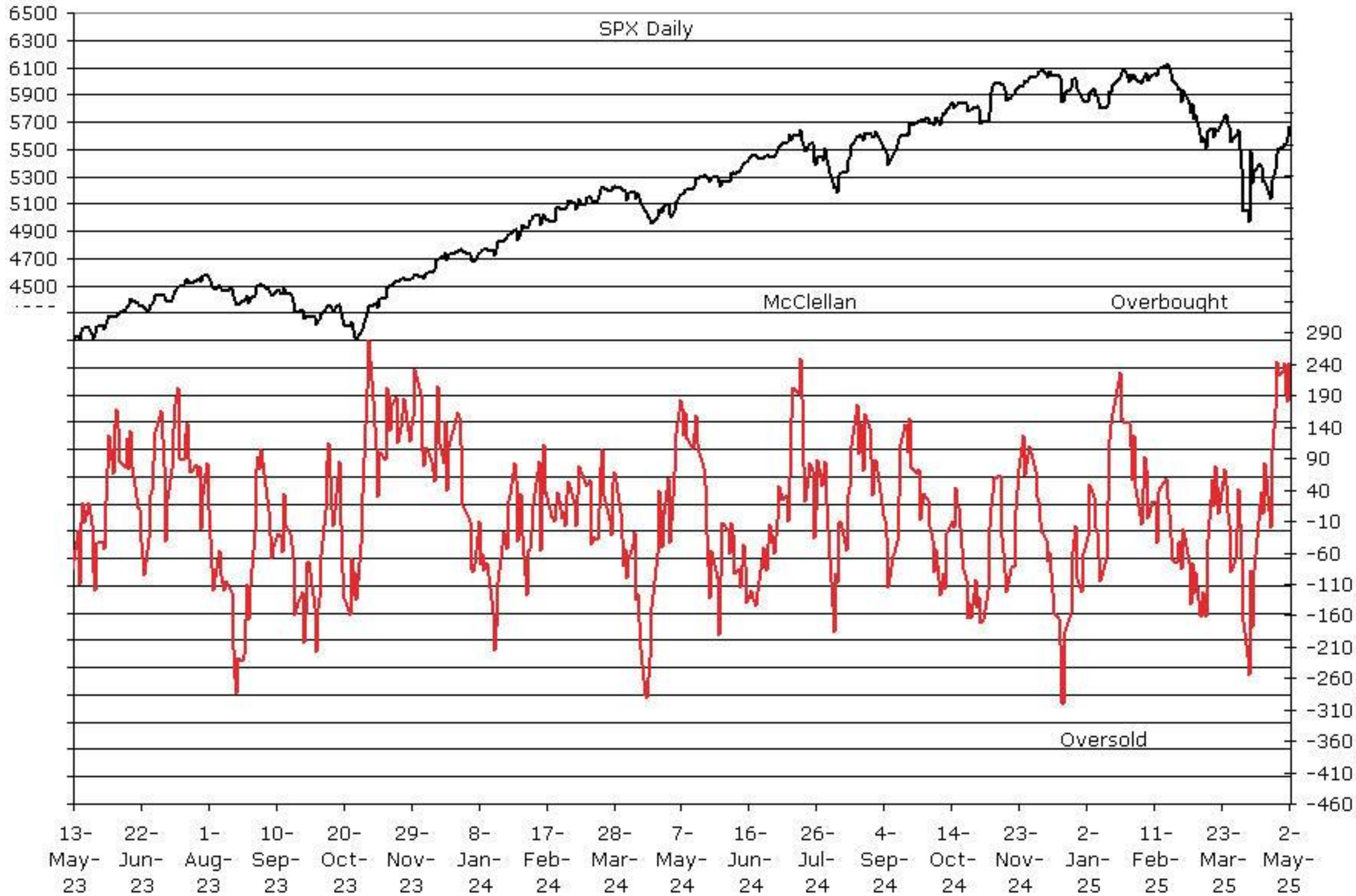
The Intermediate FBO is still weak: Weekly breadth momentum rallied from oversold after breaking the lows from 2016 and 2018. This is positive, but it has been weak since the low in 2022. Normally this indicator bottoms for a while before a significant advance in price, and the advance continued, but the indicator continued to make lower highs. The indicator has held some support but needs to move above the 13-area by the end of summer 2025, or we will have some concerns for the second half of 2025.

Market Review: Internal Momentum – Fred's New Highs/New Lows Indicator



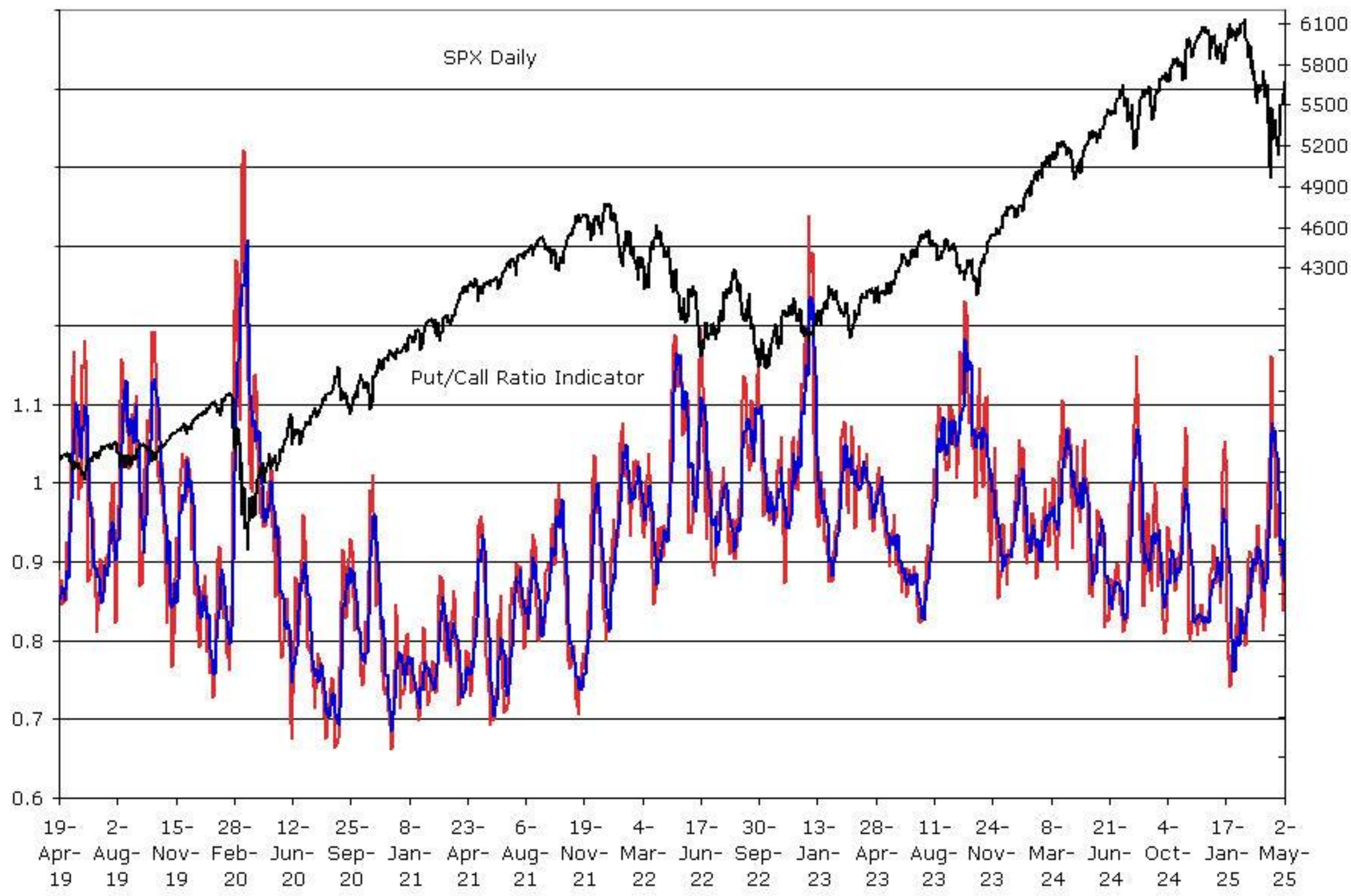
New Highs/New Lows has been weak since 2022: This tool measures the difference between the amount of new highs and new lows on the NYSE. This broke down hard before the market peaked in 2021. This indicator improved a bit in 2024, but started to weaken in 2025, forecasting the recent pullback. In some ways, this is actually stronger now, as New Highs New Lows did not make big new lows on this pullback at least so far. If this indicator can stabilize over the next couple of weeks it would be positive.

Market Review: Internal Momentum – McClellan Oscillator



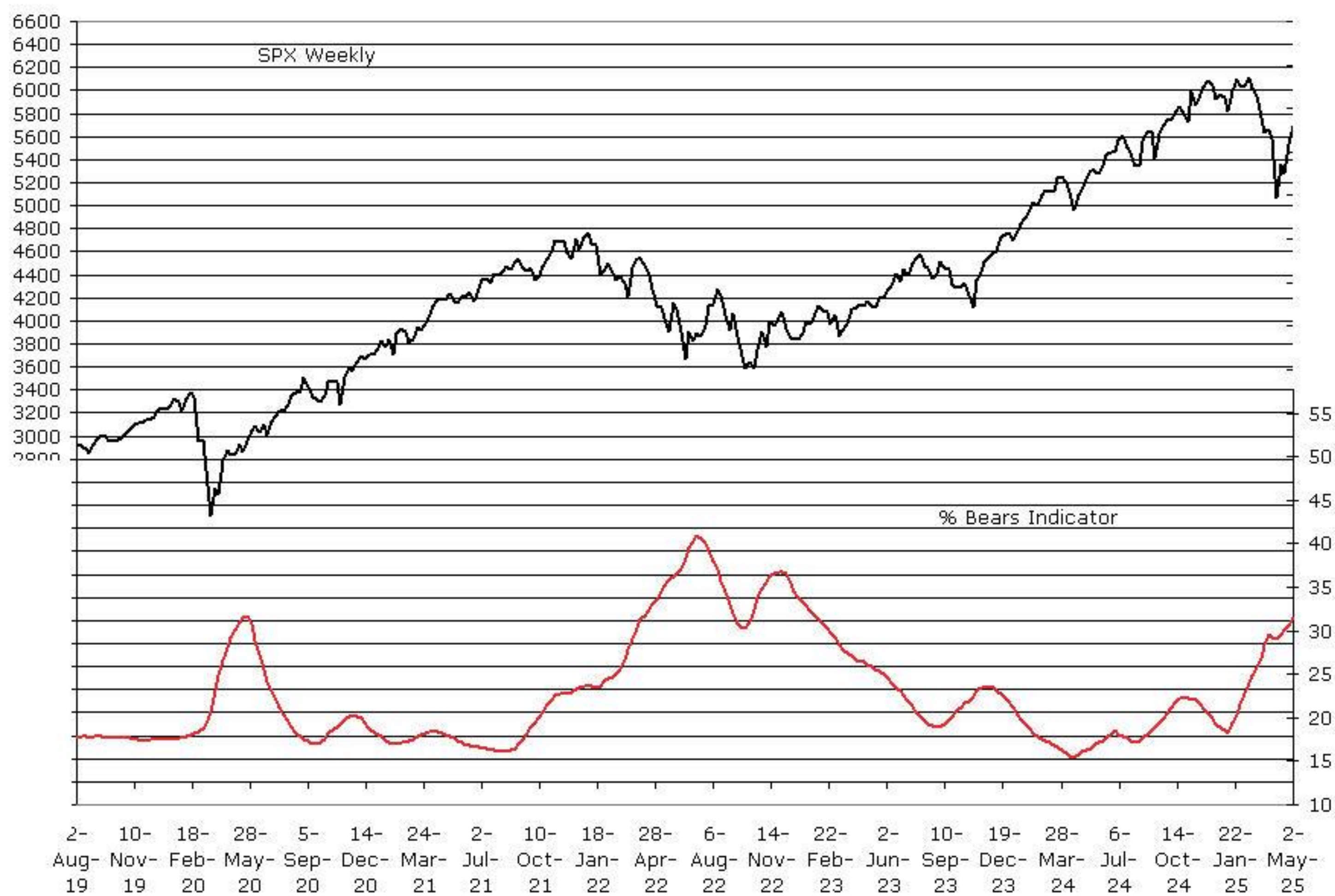
<u>The McClellan Oscillator has come close to resistance</u>: This rallied from oversold but could have more to go. The indicator suggested some upside last month and this still does. The McClellan is around +240, which means it can get more overbought, but we have seen pullbacks from this area as well. Overall breadth is improving short-term. However, the intermediate-term picture is still weaker than we would like to see. The McClellan is our most sensitive breadth indicator so it looks stronger than our FBO's.

Market Review: Sentiment – Put/Call Ratio



Put/Call is showing lots of short-term bullishness: Sentiment indicators are “condition” indicators for us, and not timing tools. Put/Call is more of a short-term indicator. We have been looking for a spike in this indicator and finally got it, before this rally occurred. This indicator is the only one we have that suggested the decline could occur. The surprise of the tariff news finally gave the spike. I believe that Put/Call is the most important indicator we have to evaluate expectations of a news event.

Market Review: Sentiment – Investors Intelligence % Bears Indicator (moving averages)

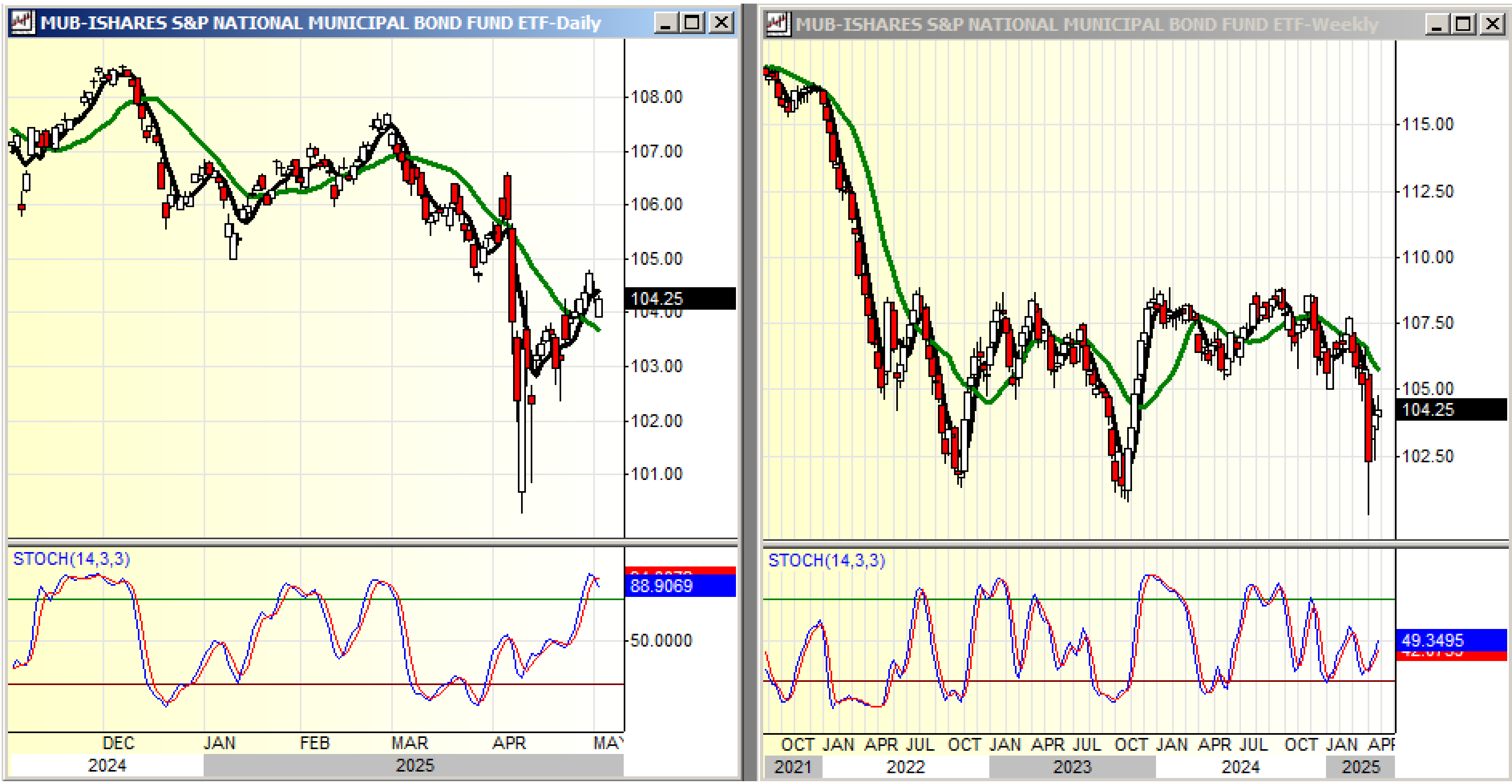


Investor's Intelligence %Bears is a strong and improving pattern: This moved above the 40-area in 2022, the highest reading in years. Since October 2022, this remained elevated. The last move below 20 and then back above it is quite positive, suggesting investors were quick to turn bearish on any decline. Now above 30 is a plus, as the indicator is where it was during the depths of the Pandemic in 2020. Overall, this suggests the sentiment backdrop is positive intermediate term. This suggests the next market buy signal may be greeted with skepticism. When you look at Put/Call (previous page) and combine it with this, it suggests short-term problems that have improved, and long-term positives.

Other Markets: Bonds – TLT – iShares Barclays 20+ Year Treasury Bond

TLT bottomed and traded up to our first target: TLT hit and exceeded the 92-area target. The daily and weekly stochastics are in sell mode, suggesting a little more decline is possible. This is a base, and we continue to look for 95 or higher by the end of July. Look at the other Bond ETFs in this report – TLT looks worse. We remain neutral intermediate-term, but within that context, this should move higher into the summer. We would try and sell this around 100 if we see this sooner than summer. We will buy the next daily recycle that holds 84.

Other Markets: Bonds – MUB – iShares National Muni Bond

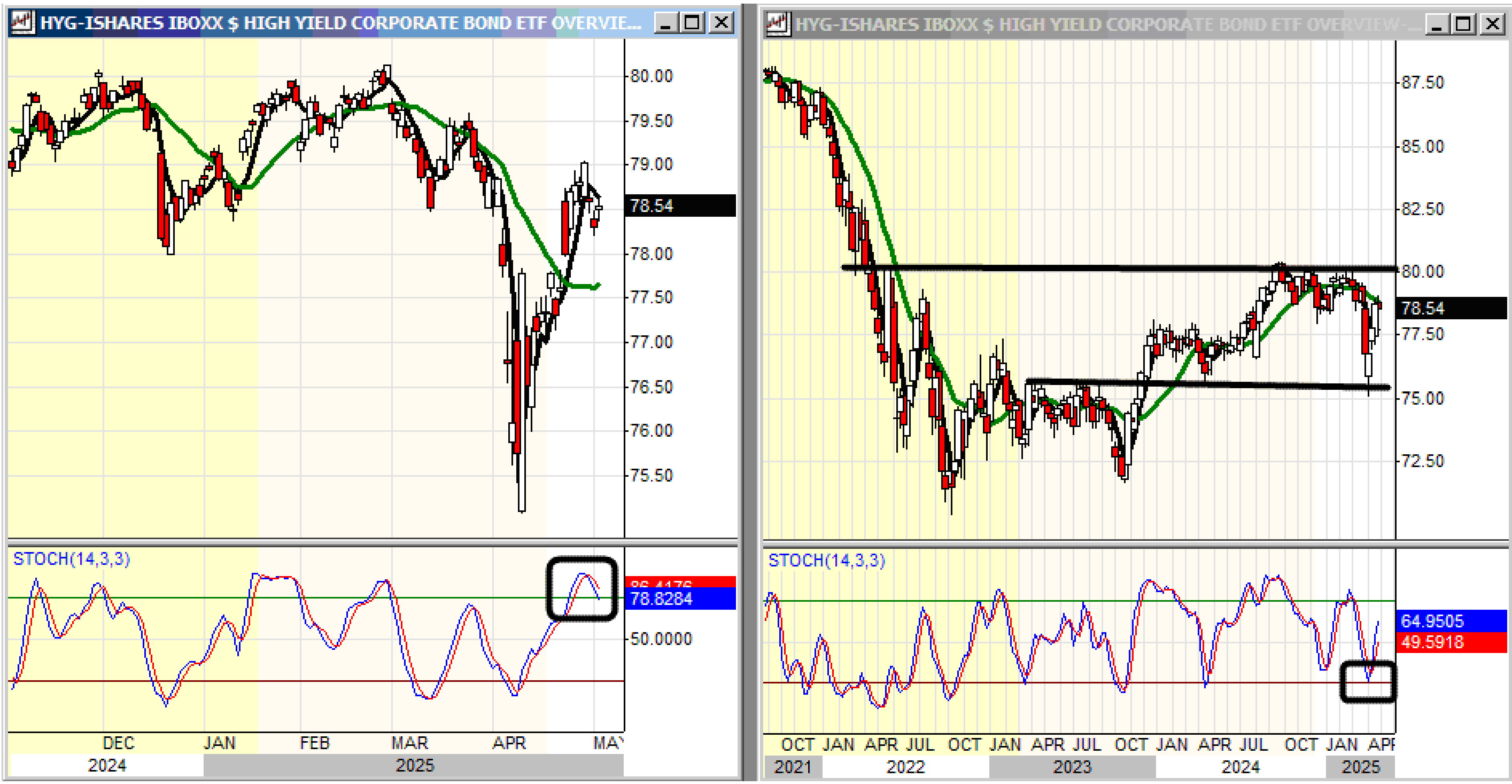


<u>MUB is broke support at 105:</u> This broke below, and above, the 2022 low. We have been using MUB above 105 to suggest rate rises should slow or reverse. Now, this is below 105. This is stronger than TLT. The daily stochastic is overbought, and the weekly is a buy pattern with waning momentum. This pattern has weakened and back below 105 is a concern, suggesting higher rates are possible. This has been our favorite Bond ETF. The intermediate pattern is a base. This should be up over the next month or so, ideally above 107.

Other Markets: Bonds – LQD – iShares iBoxx $ Invest Grade Corp Bond

<u>LQD is also stronger than TLT:</u> Corporates were where the Federal Reserve (FED) was buying the most bonds in 2020. The FED supported this during the pandemic, and afterward this market went to where it should have been. LQD had a double bottom in the 100-area. The daily and weekly stochastics are in sell mode. This should be able to exceed 111 by the end of July, even if it fails in here. We would sell a move to 111 to 115.

Other Markets: Bonds – HYG – iShares iBoxx $ High Yield Corp Bond

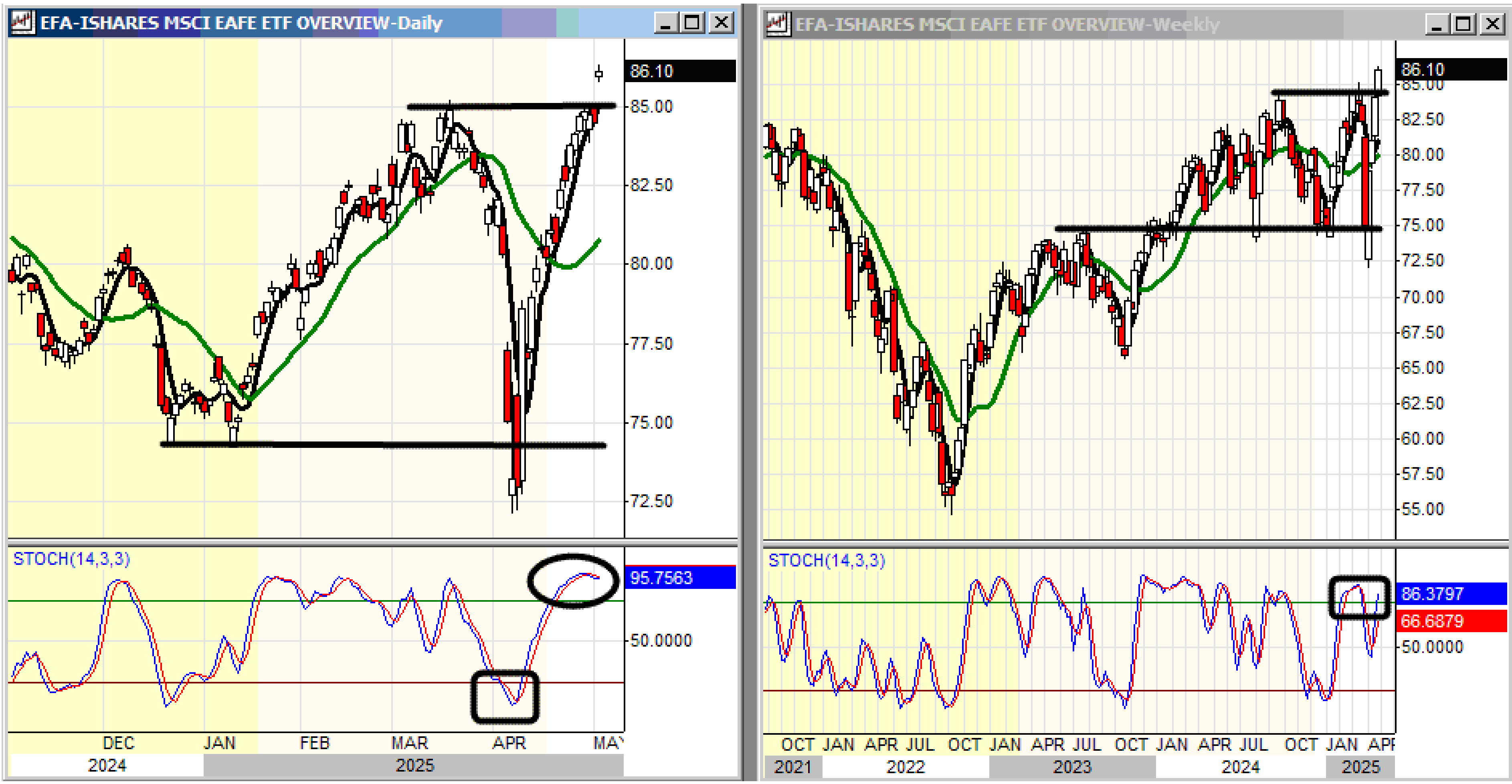


<u>The High Yield Bond ETF failed at 80-area resistance</u>: The daily stochastic is overbought, and the weekly is in buy mode. Watch this carefully as it held the 75-area support after a sharp decline. Confirmation of a new uptrend will be a move above 80, which has failed so far but was tested again. Back below 75 suggests a test of 72, lower than this would be a concern and a surprise. So far, this is stronger than most Bond ETFs in spite of current weakness.

Other Markets: International – EEM – iShares: MSCI Emerging Markets

<u>EEM moved below, and above 43-area support:</u> This moved through the 44-area resistance and then broke down through that area. The daily stochastic is overbought and the weekly stochastic is inconclusive, but in buy mode. EEM is still an intermediate term range. This is not a favorite Emerging Market play. We continue to recommend an active manager or mutual fund solution for Emerging Markets. Look at EELV to avoid China exposure when that country becomes too volatile.

Other Markets: International – EFA – iShares: MSCI EAFE Index



EFA gapped above 85-area resistance, as drawn: EFA peaked in the 82 –area, with a potential exhaustion gap to 84. This area held for many months. It is significant that EWG has improved, suggesting Europe should do well. We also like Japan – it may have ended a secular bear market. The daily and weekly stochastics are overbought. We have felt that, by summer, the US should be outperforming international markets. The key 75-area mentioned in the last Monthly, was fully tested and held. Back below 84 would suggest this rally is ending.

Other Markets: Currencies – FXE – CurrencyShares Euro Trust

FXE is fully testing 105-area resistance: Accumulation models still suggest that FXE is vulnerable. The Euro broke above, but is now below, resistance in the 104 to 105-area. This held the 95-area support before this heads for new lows, and it has held. We will watch what happens on the next weekly sell recycle. However, the trading thus far suggests FXE will remain in a trading range, exactly as we expect the dollar to do.

Other Markets: Currencies – FXY – CurrencyShares Japanese Yen Trust

<u>The Japanese Yen has bottomed, per the last Monthly</u>: When FXY broke the 80-area and fell off sharply, it started a completely new downtrend. FXY recently made a higher low. The weekly recycled as well. FXY remains intermediate-term weak. Longer-term, it looks as if FXY could move into a trading range, which should be positive for the Japanese equity markets. If the daily recycles and this holds 58, a low is probably in. It looks like this has occurred at 61. Above 66-area resistance would target 68 to 72.

Other Markets: Currencies – DXY – US Dollar Index

The dollar moved below, then above support: The dollar broke out of the long-term trading range. This rallied through much of 2021 and hit trading targets as mentioned here in 2022. Look at FXE on p.22 as well, to get a handle on the dollar. The dollar moved out of the 2023 to 2024 range. The intermediate picture is still strong. Look at a long-term chart of the dollar. The dollar is a multiyear uptrend (since 2008) and this has resumed. Look at DXY on Bigcharts.com. This should stay in a trading range for most of 2025.

Other Markets: Commodities – DBC – PowerShares DB Commodity Index

DBC is still building a base in the 20 to 26-area: DBC is testing the low end of the trading range. The daily and weekly stochastics are in sell mode. This still is a bottoming pattern, but seasonal tendencies suggest oil is down into the spring. This hurts DBC as it is around 30% oil. Agriculture has positive seasonality now. This is not a bad chart, but it is a downtrend that may change this summer on the next buy signal. We bought the last recycles. Buy the next daily recycle. If this breaks 20 we would have some concerns.

Other Markets: Commodities – GLD – SPDR Gold Shares

GLD may have started to break down: GLD Accumulation has improved, but given the move it has had, it is still a bit weak. The daily stochastic is in sell mode, and the weekly is overbought. Gold rallied on seasonal strength, but this has ended and it may be starting to break down. Much below 290 targets 270. Several indicators are now giving some selling indications. There is the strong possibility of an intermediate term peak this month. GLD is a hold for now, for investors but be sure you have a stop loss point. Traders should sell this.

Other Markets: Commodities – USO – United States Oil

<u>USO tested resistance in the 77-area and failed:</u> The daily stochastic is oversold, and the weekly is in buy mode. USO has a positive intermediate chart but seasonal weakness is going on. There is strong support in the 65 to 60-area, and this is being tested. Oil still looks to be a range, but it is weaker than we expected. Some of this price action is due to the equity market turbulence. We have to see how this holds up this month. This is a new weekly buy recycle so it could rally from here.

<u>Other Markets</u>: Commodities – UGA – United States Gasoline Fund

<u>UGA is still a base</u>: The daily stochastic is in sell mode. The weekly is a buy pattern. This is a strong chart as long as the 55 - area can hold intermediate-term. Gas prices are falling. A move above 65 again would be our cue to look for higher oil prices and above that again targets 75 by summer. A move above the 75 resistance could target new highs, but would be unlikely, in our view. Traders have sold this; investors can hold for now. This should have a summer rally but remember gas prices were generally lower in the first Trump Administration.

ETF Sector Charts: Consumer Discretionary (XLY)

<u>Consumer Discretionary broke short-term support:</u> XLY held the 170-area intermediate support, although it did test it as we thought it might. Note that AMZN, a major component, looks very similar to XLY. This is a neutral chart longer-term although it looks worse short-term. We now have a daily stochastic that is overbought, and a new weekly recycle. The Accumulation Model is still weaker than we would like, suggesting a bit more turbulence is possible in this sector in 2025 – this is what we have seen. We think our stock ideas are solid names even if the sector is showing less accumulation. We would buy this weekly recycle, ideally at 190. 170 should hold for a while. EQUAL WEIGHT

ETF Sector Charts: Consumer Staples (XLP)

XLP is defensive and holding up well: The intermediate-term chart broke out above 77.50 then moved below, is now above it once again. We recommended buying the last daily and weekly recycles. XLP is defensive and trading well. Since it moved above 77.50, it hit new highs, per our comments in the August Monthly. The daily stochastic is in sell mode and the weekly is a sell pattern, although somewhat inconclusive. This is short-term up as long as above 77. It looks like some money is flowing in here. Keep adding on recycles. EQUAL WEIGHT

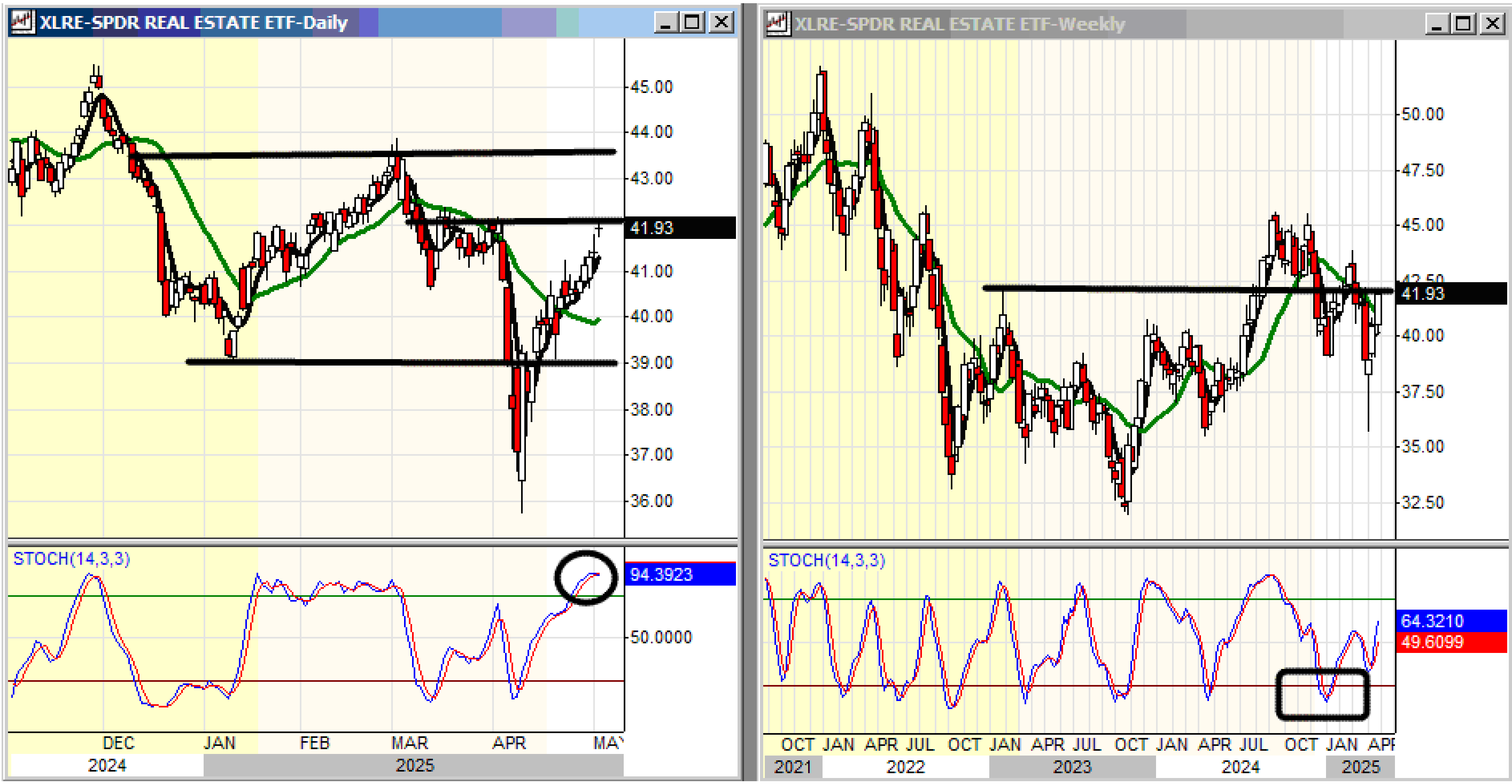
ETF Sector Charts: Energy (XLE)

XLE is an intermediate-term consolidation: Seasonal weakness ends in May/June. The daily stochastic is in sell mode, and the weekly is a buy recycle. XLE has strong accumulation. Compare this to USO – it is weaker but this should change. XLE does have some capitalization issues, but weakness in CVX is balanced by some strength in XOM. The move above 90 targeted 93 on a trading basis, which hit, and suggests 110 is possible for investors in 2025. This rallied into the end of March. We need to be careful as seasonals are still negative for another few weeks, but the support at 75 has held so far. Buy the next daily recycle. EQUAL WEIGHT

ETF Sector Charts: Financials (XLF)

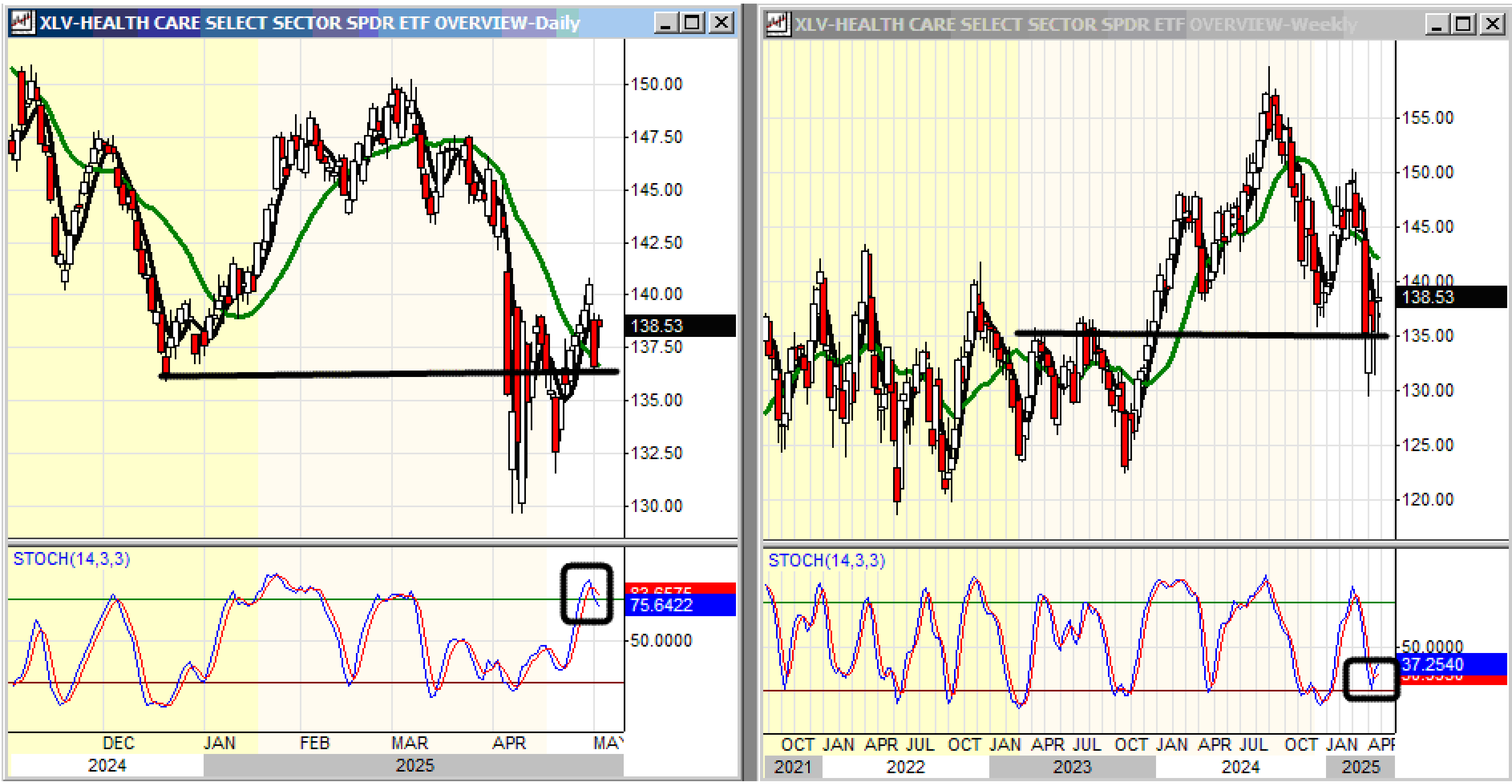
<u>XLF tested and held support:</u> XLF hit new highs but sold off with the market. The daily Stochastic is overbought. The weekly is turning up in a high risk buy. We are surprised at the weakness in Banks, but other subgroups are trying to hold up. We added on the last daily recycle. Credit cards are also a strong subgroup intermediate-term. XLF should still outperform in 2025, and the chart is one of the strongest in this report. However, this has turned into a crowded trade and we will watch this at the end of a summer rally. Watch banks carefully as if they don't rally there could be problems. OVERWEIGHT

<u>ETF Sector Charts</u>: Real Estate (XLRE)



<u>XLRE is holding up:</u> This has probably made an intermediate-term bottom. Please see the long-term charts of IYR as it is similar to XLRE, but with more data. Interest rates have affected the real estate markets and XLRE is reflecting the rate situation, which the markets think is improving, but we are not sure it is – watch TNX, and TYX, which have failed at 5% so far, but could go through that number. This has held but it is not doing well. Below 42 is a concern, but this may trade back and forth around this area. The latest trading has held support, and the intermediate chart is a base. However, this still is weak relative to the other sectors. UNDERWEIGHT

ETF Sector Charts: Health Care (XLV)



XLV broke below, and above support: XLV broke down, below support in the 135-area, but is now back above. This has been weak since the election but has a weekly recycle after the decline. Accumulation on XLV remains strong. The daily stochastic is overbought, so some choppiness and a recycle is likely. This could be the retest we have been talking about. XLV is holding support on a closing basis, but back above 145 would be ideal. This is not a bad looking chart given the recent market action, and you can try to buy it here. Below 130 would be a concern. EQUAL WEIGHT

ETF Sector Charts: Industrial (XLI)

<u>XLI broke below, and above 120-area support:</u> The accumulation model on XLI remains very strong. The daily stochastic is overbought, and the weekly is in buy mode. XLI's strength was not widely acknowledged, so it should have more to run. This remains a strong formation as long as XLI is above 115 and holding this general area and closing above it was strong in this correction. XLI performed well in 2024 yet the markets are ignoring the performance of XLI. This is performing well and should do even better in the summer. OVERWEIGHT

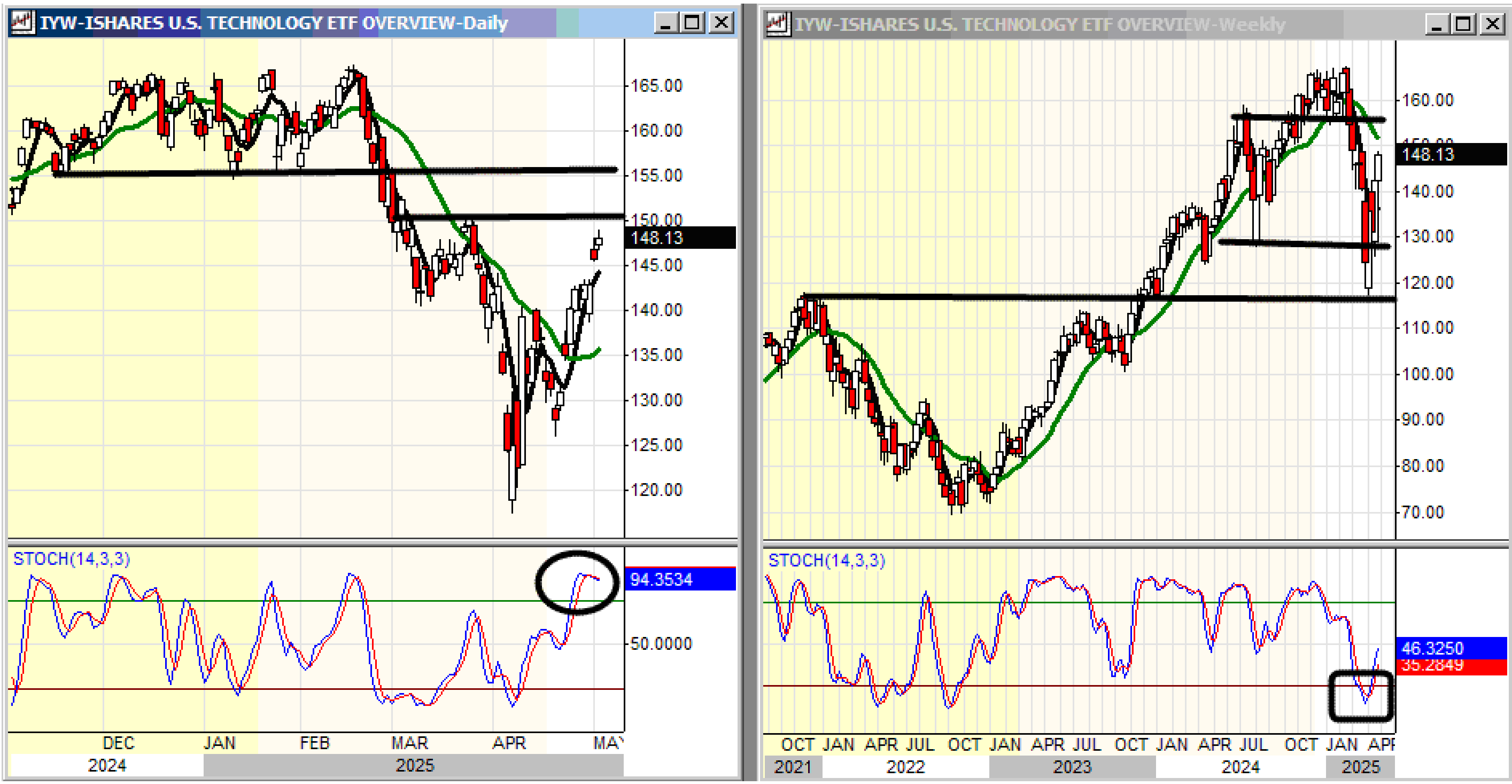
ETF Sector Charts: Materials (XLB)

XLB broke and revalidated 82-area support: XLB is weaker than we thought it would be. Short-term support from 82 broke on a gap. The Accumulation was weak, suggesting this could have problems and this is why we have been an equal weight. The weekly stochastic is a buy pattern, the daily is overbought. Back above 85 would start to correct this downtrend. The intermediate-term trend is now sideways rather than up, and the weak Accumulation and price action keeps it from being a favorite. EQUAL WEIGHT

ETF Sector Charts: Utilities (XLU)

XLU held the 72-area support: This broke out above 77 and is above there once again. The daily stochastic is overbought. The weekly is a buy pattern and almost overbought. Income Investors were buying this on pullbacks, as we have recommended over the last six years. This is also an AI play, as the power grid should be attracting more money. These can do well in 2025, even after this correction is over. So far, this is outperforming and is functioning as a defensive sector. We remain an equal weight. Back below 75 would suggest the rally is over, but this is still an income play for now, and dividend stocks look a bit better. EQUAL WEIGHT

ETF Sector Charts: Technology (IYW)



IYW Broke and revalidate the key 130-area: IYW has broken support in the 130-area, but it is now back above it. Tech has been everyone's favorite overweight for a while, and because of this Tech has been overvalued. To some extent this correction is masking an unwind of many tech over weights. The daily stochastic is in buy mode, and the weekly is oversold. We have consistently said not to sell the ultra high relative strength tech names, and they are trading better than the rest of the sector, but there are less of them. Buy the very best companies on recycles for your Tech allocation. We thought Tech should have problems later in 2025, so weakness here is not a surprise, although the overall market weakness is. Accumulation has started to improve on IYW and QQQ on this decline. EQUAL WEIGHT

ETF Sector Charts: Telecom (IYZ)

This is fully testing 25-area support: This broke out above 25 and retested that area, now support. IYZ is defensive and holding. We moved to an Underweight in February 2021. We have seen some advance in T, which is the probably the biggest reason this improved. The daily stochastic is overbought, and the weekly is a high-risk buy. This is still one of the weaker sectors intermediate-term, but it is improving and part of the rotation out of Tech we are seeing. For now, we will maintain our underweight. We want to see how this trades after this market turmoil ends. UNDERWEIGHT

Research Piece: A Trend Model Update

By Cam Hui - Humble Student of the Markets

From Fred:

We take great pleasure introducing Cam Hui, publisher of Humble Student of the Markets. Cam is an old friend from Merrill Lynch, and one of the best Quantitative Analysts we have met in our career. His models are fully tested and robust. We are going to publish Trend Asset Allocation Model in our Monthly Review, with updates and Commentary as needed throughout the month. This piece by Cam introduces the model to subscribers. We are lucky to have Cam on board.

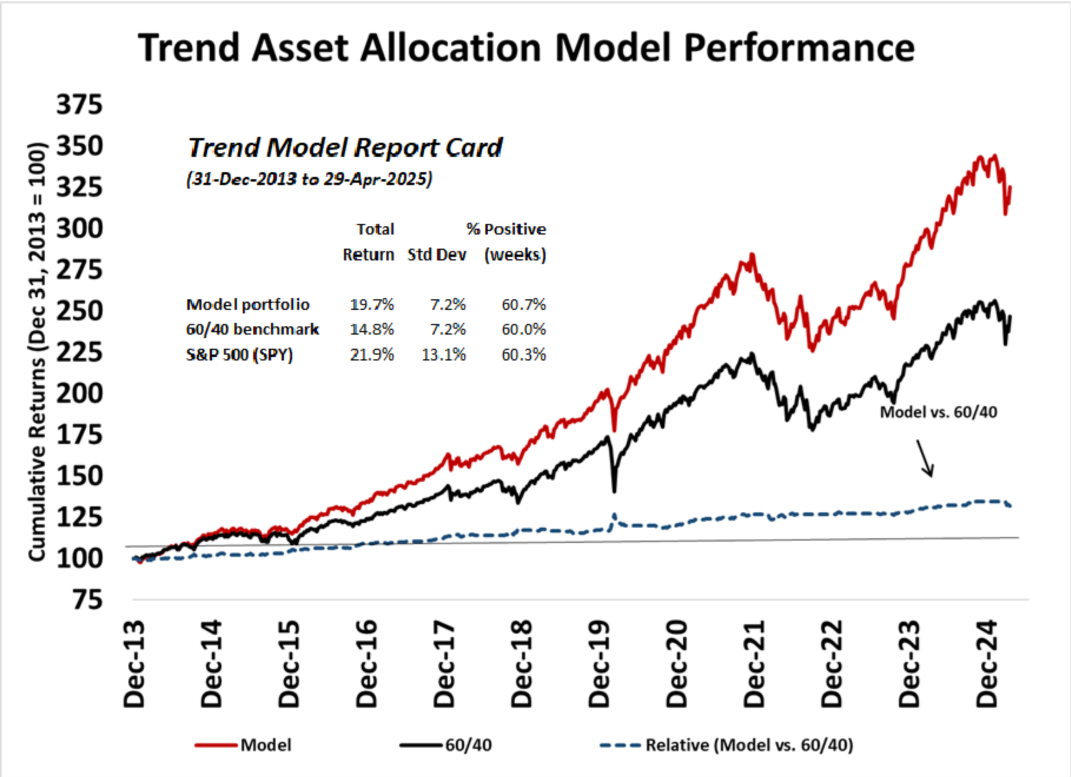
A Trend Model Update

Our Trend Asset Allocation Model is a market timing model that has been running since 2013. While the model only issues buy, hold and sell signals for stocks, investors nevertheless need to make their own decisions on how much to buy and sell. Based on our out-of-sample signals, we created a model portfolio by varying the equity weight by 20% around a 60% SPY and 40% IEF benchmark. The turnover characteristics of the model portfolio is manageable, averaging 3.5 signals per year in the last five years.

The risk-adjusted returns of the model portfolio are strong. The model has beaten the 60/40 benchmark on 1, 2, 3 and 5-year time horizons, as well from inception for the period from December 31, 2013 to April 29, 2025. In addition, it was able to achieve these returns with controlled risk, equivalent to roughly an 85/15 stock/bond asset mix with 60/40 risk. As the dotted line in the chart depicting relative performance shows, the model mainly reached the superior risk-adjusted returns by sidestepping the really ugly bear markets over the study period.

- 1 year: Model 9.5% vs. 60/40 8.7%
- 2 years: Model 13.3% vs. 60/40 11.4%
- 3 years: Model 9.6% vs. 60/40 7.7%
- 5 years: Model 10.9% vs. 60/40 9.0%

Exhibit 1: Trend Asset Allocation Model Performance



Source: Humble Student of the Markets

Here is what it's saying now.

Trend Asset Allocation Explained

The philosophy of trend-following investing is simple. Use a long-dated moving average to establish the trend and a short-dated moving average for risk control. These classes of models tend to identify macro-economic trends which are persistent. Applied properly and with the proper risk controls, an investor using such an approach should be able to achieve superior returns.

Our Trend Asset Allocation Model is based on the application of trend-following principles to global stock markets and commodity prices. We use it to monitor the main three trade blocs, the U.S., Europe and Asia, which is mainly China, to arrive at an overall risk-on, neutral or risk-off signal for asset markets.

With that preface, let's take a quick tour around the world to see what the model is telling us now.

A Tour Around the World

Starting in the U.S., the S&P 500 is recovering after a downdraft. It is testing the 50 dma from below and remains under the 200 dma.

Technically, the recovery above the 50 dma would be a sign of a trend change. However, trend-following models suffer from an implementation feature of possible whipsaw signals around a moving average. In practice, we would like to wait for confirmation before making a formal change of signal.

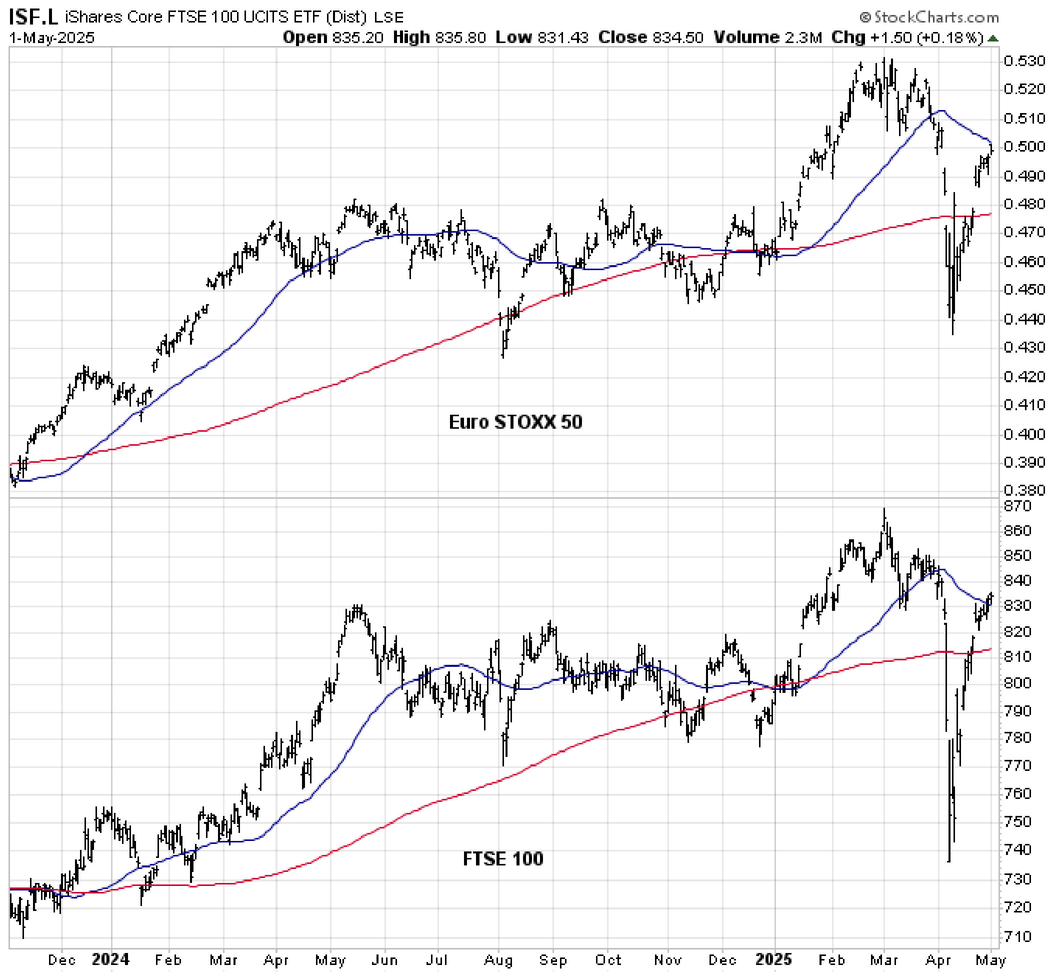
Rank the U.S. as neutral to negative.

Exhibit 2: S&P 500

Source: StockCharts

Across the Atlantic, European stocks are exhibiting a similar pattern of pullback and recovery (all indices are shown in local currency). While European trends paralleled U.S. ones, the magnitude of the decline was less. We would rank Europe as neutral.

Exhibit 3: Euro STOXX 50 and FTSE 100



Source: StockCharts

It’s a different story in Asia. We tend to discount the Chinese stock market as it doesn’t reflect the Chinese economy. We instead rely on the behaviour of other Asian markets as signals of the Asian trade bloc. Most Asian markets are trading below their 50 dma. Call this a negative.

Exhibit 4: Trump Policy Factors

Source: StockCharts

As China is a voracious consumer of commodities, commodity price signals are important indicators of the health of the Chinese economy and the global economic cycle. Global commodity prices are weak. In particular, the cyclically sensitive copper/gold and the more broadly diversified base metals/gold ratios are not showing any signs of life.

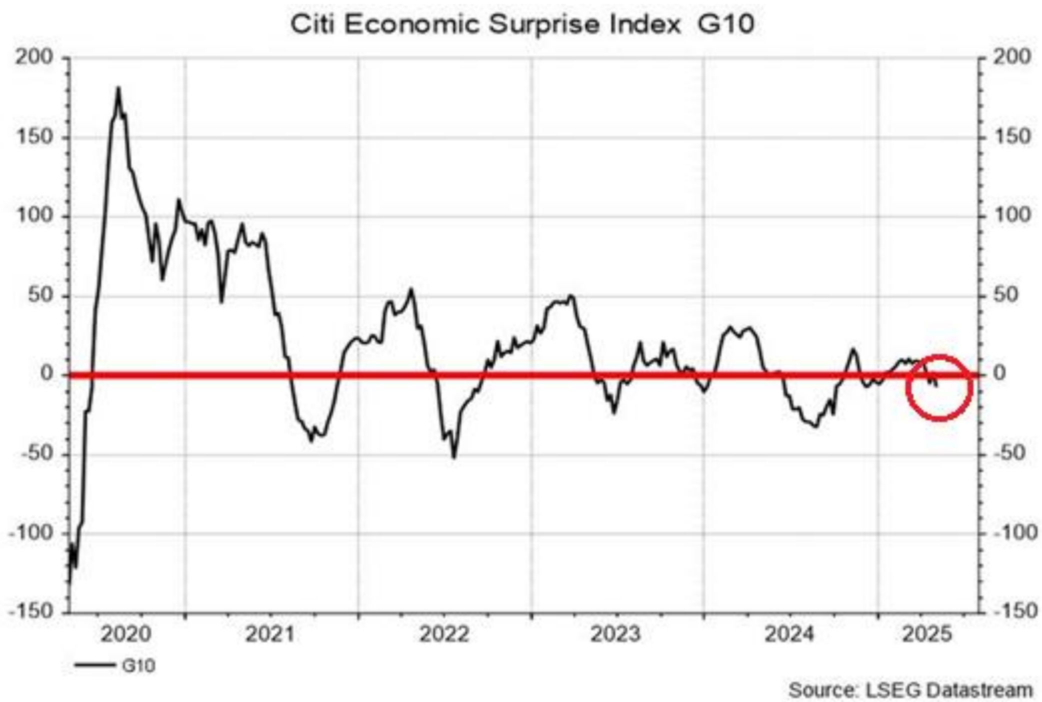
Exhibit 5: Commodity Prices Are Weak

Source: StockCharts

In conclusion, our quick tour around the world shows that the main components of our trend-following models are either weak or neutral. Putting it all together, this calls for a risk-off defensive posture to portfolio construction.

The combination of a weakening G10 Economic Surprise Index, which measures whether economic releases are beating or missing expectations…

Exhibit 6: G10 Economic Surprise Index



Source: LSEG Datastream

…and expectations of an escalating trade war is not conducive to strong equity returns.

Exhibit 7: Trade War Factor Steadily Rising

Source: StockCharts

Below is a listing and definition of various proprietary and non-proprietary technical indicators we rely on during our analysis of the markets:

Moving Averages:
Moving averages are one of the building blocks of Technical Analysis, and there are almost as many ways to use this indicator as there are technicians.

At the FRED Report we teach and use a dual moving average crossover system to determine trend. Our favorites are the 5 period and 20 period moving averages. We consider the trend to be up if the 5 is above the 20, and down if below it.

Stochastics:
The Stochastic Oscillator is one of the commonly used momentum oscillators and is standard on charting programs. There are two lines on the chart below, %K and %D.

%K is the faster of the two lines and represents a mathematical formula that *measures where the current close is in relation to the trading range of the last "X" periods of time*. We use a 14-period look-back, so in plain English %K says where the current close is in the trading range of the last 14 days, expressed as a %.

At the FRED Report, we use it somewhat differently than is commonly taught. The standard way to use the indicator is to register a buy signal when it moves below, and then above, 20 (the lowest 20% of closing prices in the last 14 days). A sell signal is when the indicator moves above, and then below 80 (the highest 80% of closes over the last 14 days).

The other line, %D, is a 3-period moving average of %K. We have found that the Stochastic is sensitive, so we advocate taking signals only in the direction of the trend. When looking at the standard FRED report chart, this would mean taking buy signals when the 5 is above the 20 and sell signals when the 5 is below the 20 but using a different technique to exit positions. The reason for this is the Stochastic is quite sensitive, and can give early indications, especially in new trends. It also can get "stuck" in the direction of trends, which connotes strength and not weakness. Another, preferred interpretation is to use the indicator to measure risk. An example: buy in an uptrend, not when the stochastic is at 90% but rather wait until it falls below 50%, This way, even if a stock, commodity, or ETF does not give one of the "classic" signals, you can still use the indicator to assess risk, and leg into positions.

Fred's Price Oscillator (FPO):
This is an oscillator that I invented, using a combination of high, low and closing prices. Unlike the Stochastic, which is sensitive, this indicator is designed to be less sensitive. Other than that, it is, of course, proprietary, so we do not disclose much about the construction of the indicator. One of the characteristics of the tool is that when the Oscillator moves below/above -15/15 the market often creates a divergence. For those of you who do not know that term it means that price will make a new low/high and the oscillator will not confirm it. That is usually the sign of a turn. On sharp strong market moves, a couple of these divergences can occur. We use weekly data in our examples for you, as we have that data going back to the 1970's on the SPX, and farther on the Dow Industrials, which work the same way. We would note that we keep FPO's on the commodities, but rarely publish these, as most subscribers are interested in stocks. Like most oscillators it is most useful at bottoms, so our examples show bottoms. We can, and will, show some analysis of tops as they occur.

Fred's Breadth Oscillator (FBO):
This is an Oscillator that I invented. Unlike the McClellan Oscillator, which is sensitive and gives a lot of signals, this tool is more of a trend following indicator. It is proprietary to the FRED report, so we do not disclose much about the construction of the tool. It generally moves between 12 and 18. Moves below 12 or above 18 imply a divergence bottom or top is coming with high probability. This tool works best at extremes, and patterns can be significant. It also gives clearer signals at bottoms than tops, although when tops are perceived to be occurring, we will publish these charts, appropriately annotated. The FBO is only useful on the stock market, where advance/decline data is published.

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