Financial Research Education & Data

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Trading Week Starting
May 27, 2025

# The FRED Report

## Summary of Market View

In Stocks, we discuss a couple of market indicators, and then look at the Industrial Sector. Industrials have been one of our favorite Sector Overweights for months and continue trading well, making new highs just before the last sharp pullback. In Fixed Income, we look at two bond alternatives that are stronger than Treasuries.

In Commodities, we discuss some indications on gold and oil, and then move into a discussion of Lumber and Forestry ETFs and follow that up with a long-term chart of Lumber, in Chart of Interest. Last, in International, we discuss International REITs. These are as bad relative to European Markets as US REITs are to the S&P 500.


INSIDE THIS ISSUE:



### Special points of interest:

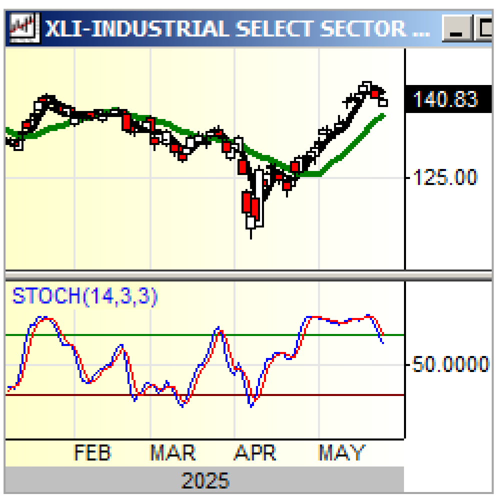
- Our Accumulation Models continue to suggest a rally into the July time period.
- Readers will recall that we have been concerned about higher rates for the last six months or so – but that our forecast has been for this risk to show up later in 2025.

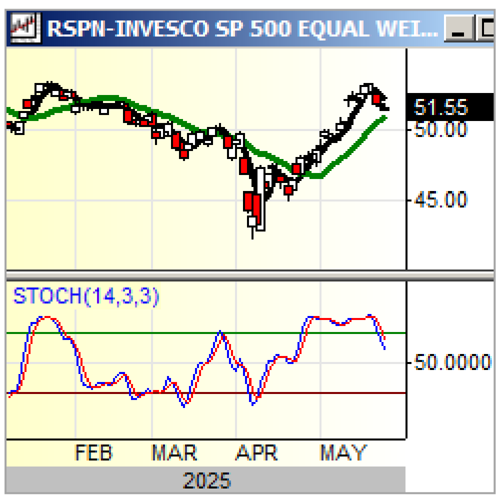
# Stocks Review

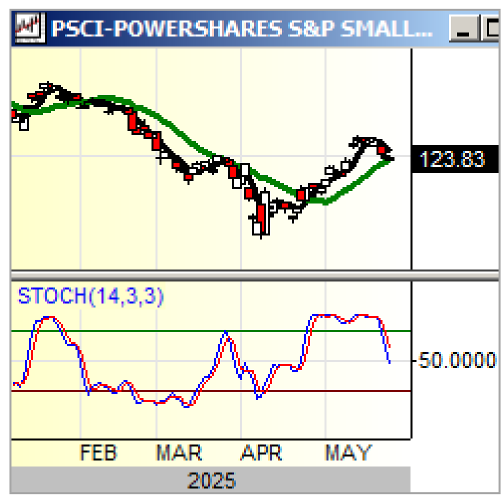
There are a couple of market related things we should mention before we get into our discussion of Industrials. The first is that the old Merrill Lynch indicator is at -1 and has been for a while. We don't use this indicator (never liked it), but that should answer the question we had on this. The second is that our **Accumulation Models** continue to suggest a rally into the July time period. The models showed Accumulation on last week's decline. Indicators were overbought coming into last week, and we figured up last week, and down this week. Now it looks as if we could see a rally into the end of May.

There are still recession fears in the air. However, one of our favorite sectors, **Industrials**, made new highs recently suggesting no recession is likely to us. We will look at **XLI (SPDR® Select Sector Utilities ETF), RSPN (Invesco® Equal Weight Industrial Index),** and **PSCI (Invesco® Small Cap Industrials Sector ETF)** here. When looking at these, it does become apparent that the larger cap units are the strongest, as XLI is outperforming all of these and it is Cap Weighted. This is not unusual in this environment, as cap weighted. We will look at all three of these. **XLI** is the strongest of these as it made new closing highs. The last pullback has moved the daily stochastic into sell mode. The weekly is overbought. While this is up on a gap, there is short-term support at 140, with intermediate support at 130 or so. Through 145 would be confirmation of the latest breakout.

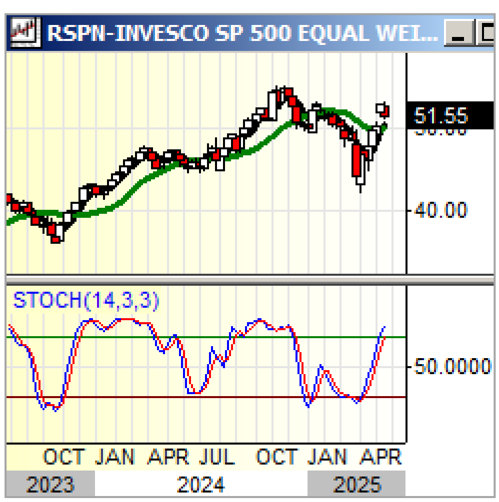
The next strongest of these is **RSPN**. This has not had a breakout, but the chart is still reasonably strong, and more important, stronger than RSP (just as XLI is stronger than SPX). The patterns are similar, with support at the gap (around 50), then 45, but there is resistance on this chart in the 53 to 55-area. The stochastic pattern is the same. The last of these, **PSCI**, has tested and failed at resistance in the 130-area. Support is in layers from 123 to 120. The stochastic pattern is weaker, with a daily stochastic in sell mode, and a weekly halfway up the range. Note that PSCI is stronger than IWM. We show daily and weekly charts, below.

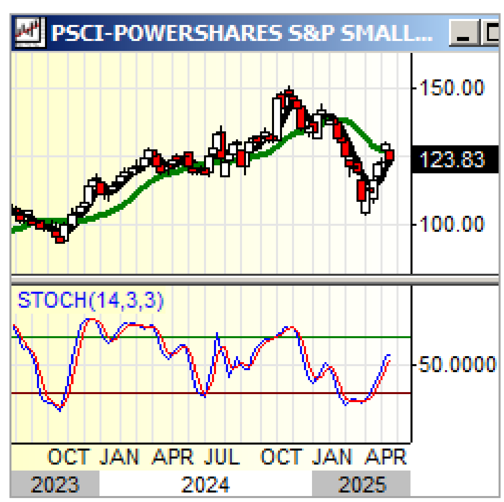




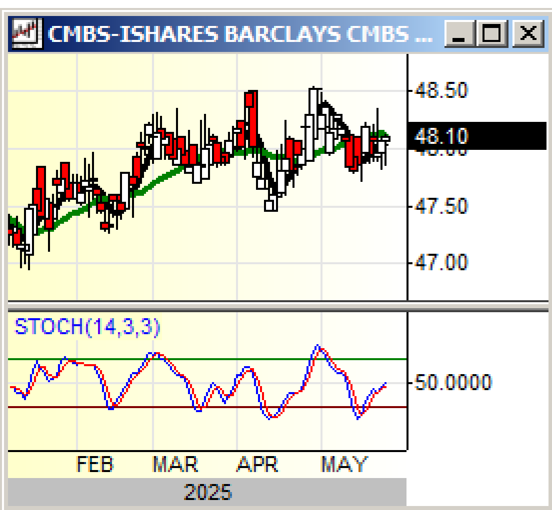


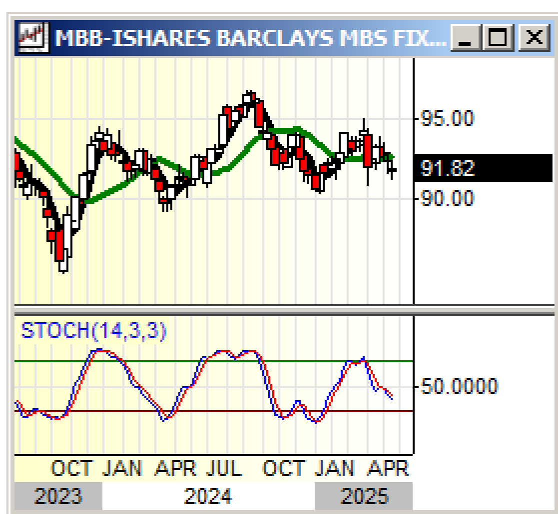
# Fixed Income Review

Last week was interesting in the bond market. We have had a taste of higher rates, but so far both **TNX** and **TYX** look to have stabilized. Readers will recall that we have been concerned about higher rates for the last six months or so – but that our forecast has been for this risk to show up later in 2025. We think that is still the case, but if we are wrong, stocks could have more trouble sooner than we expect. Today, we will look at a couple of the bonds ETFs that pertain to Housing and credit to see if there is stress in this area. These are **MBB (iShares® Barclays MBS Bond Fund)** and **CMBS (iShares® Barclays CMBS Bond Fund)**. These areas of the market were impacted in the Financial Crisis in 2008.

Let's see how they are doing now given the recent stresses in the long end of the curve. Of these two, **CMBS** is the stronger chart. It has support from 47.50 to 47, and resistance is 49. The yield is just over 3.3%. The daily stochastic is in buy mode, and the weekly is a slight sell pattern, which suggests a rally in this consolidation that will ultimately fail. **MBB** is weaker. It has support around 91, and resistance is 95 or so. The daily stochastic is a failed buy recycle that looks like a second one is close by, and the weekly is in sell mode. The yield is 4.1%, a bit more than CMBS and more than **TLT**. Overall, these are a bit stronger than TLT. We show charts, below.





# Commodity Review

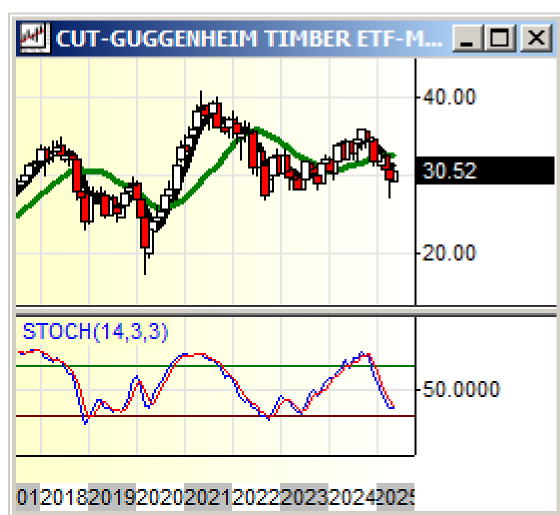
We have no big changes in Commodities, except to mention that GLD's Accumulation is up again. From the standpoint of Accumulation, the metals are improving. Physical Oil has improved as well. This should be a decent summer for these two markets.

*"From the standpoint of Accumulation, the metals are improving."*

We have been asked about the lumber markets and construction, and not looked at these in a while, really since 2022. We look at actual Lumber in the Chart of Interest section. Here we look at two ETFs in that area, that advisors are more likely to use. These are **WOOD (iShares® Global Timber and Forestry)** and **CUT (Invesco® Timber ETF)**. Of these two, the strongest is WOOD, but both are not really attractive. While neither does much volume, WOOD also trades twice the volume, so it is by far the better choice. In fact, if you are in CUT and want to take a tax loss, sell it as quickly as you can, and transfer into WOOD. We will look at these briefly, below.

**WOOD** has support from 70 to 64 in layers, and resistance is 80 to 81 longer-term. A move above 75 would imply a test of 81. The daily stochastic is in sell mode, and the weekly is a buy pattern, suggesting prices could go higher. **CUT** has support from 30 to 28, and resistance is 34 to 36. The stochastic pattern is the same as on wood but weaker. The overall observation we have is that these markets are not suggesting a recession is on the way, but there are more attractive areas to invest.



# International Review

We will look at some international REITs today, as we have not covered these in a long time, and we had some questions. These are **IFGL (iShares® International Developed Real Estate ETF), VNQI (Vanguard International REIT ETF),** and **RWX (SPDR Wilshire International Real Estate Fund)**. US REIT ETFs are trading badly because of interest rates. International rates are going up so this is not the only factor, and these charts are similar to each other. They are building bases on the monthly charts and are weaker than US REITs. Let's look at a couple of yields to see if these international REITs are better than their domestic brethren. Please bear in mind that international equities and ETFs can have some different payment rules, so that yields quoted are often erroneous. By this we mean that they can be understated.

*"US REIT ETFs are trading badly because of interest rates."*

The international units, on balance, have higher yields than their US counterpart. Check these for yourself, but they are mostly over 4%. The best of the internationals is **VNQI**, as it has the highest yield, at roughly 4.7%. This has support around 37.50, and resistance is 45 to 50. With the daily stochastic in sell mode and the weekly overbought, VNQI is likely to stay in this range for a while. As mentioned, all of these ETF's patterns are so similar, we will only analyze this one. Since this is underperforming other international ETFs, such as **EFA** and **EWG**, these ETFs would seem to be bad choices for portfolios.



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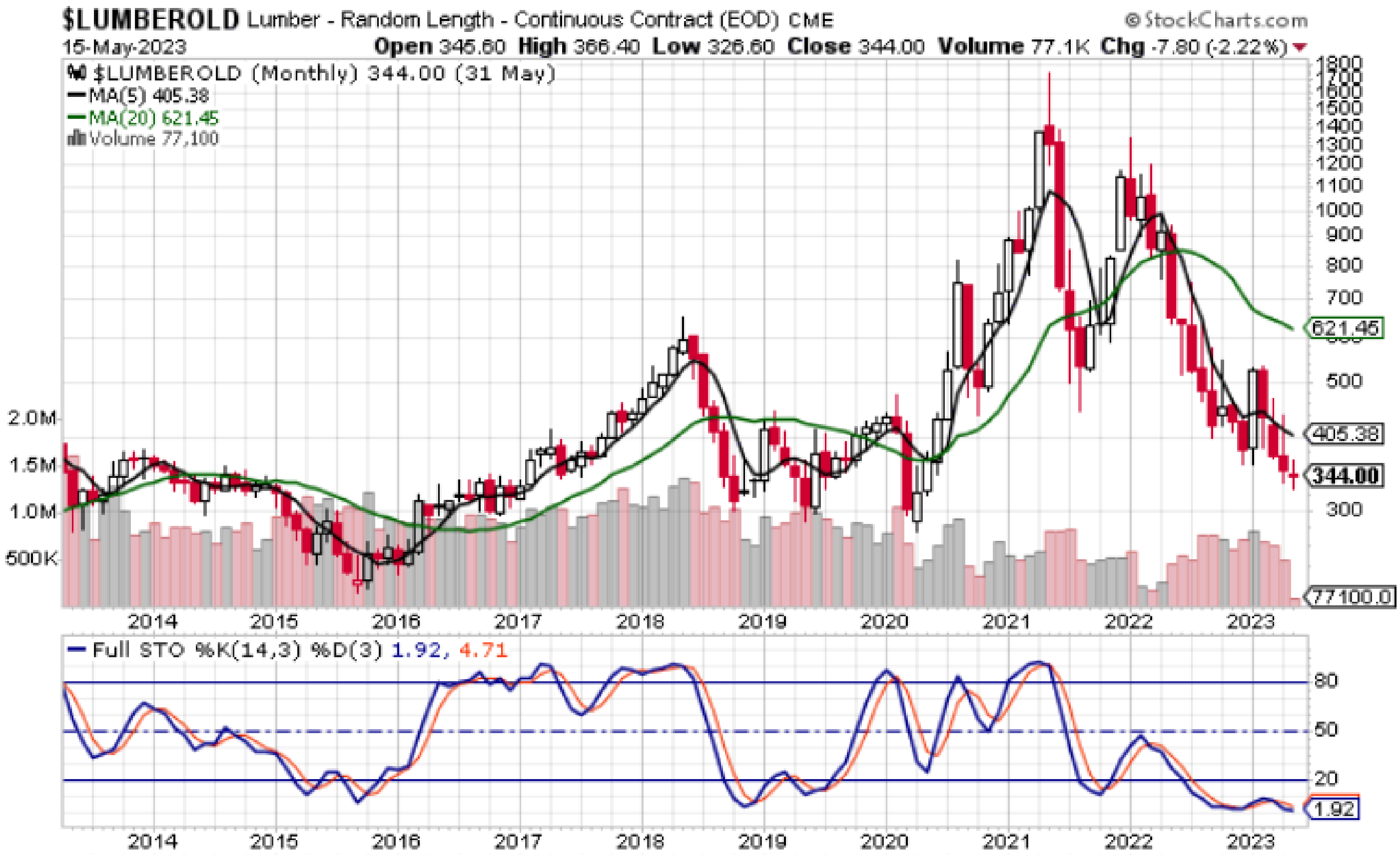
# Weekly Chart of Interest

We will look at our continuous contract for Lumber. A continuous contract is a way to meld individual contracts together to create a long-term trend for a commodity. Lumber is down near normal price levels over the last few years, suggesting that there is no undue pressure on the housing market, and inflation is not a factor, at least from lumber prices, in home building.



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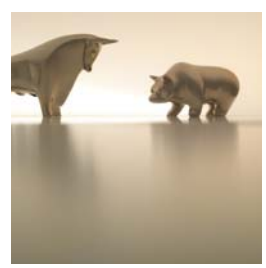

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