Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES

October 2024

Strategy

Rates are falling

Key Observations

- **Q4 is expected to provide market strength.** S&P 500 is expected to retest 5670 by year-end. A resumption in the bull market in 2025.
- The Fed is starting to pivot on rates. One year after the first rate cut, the average market advance is a 5% return (**Chart 1**).
- 2023/24 US Yield curve inversion flattens. The positive spread between the 10y-1y is expected in Q1/25. An inverted curve has predicted the last 7 recessions.
- We recommend investors stay long in the deflationary sectors and industries that benefit from lower rates (industrials, financials, consumer staples, healthcare, utilities, and real estate) and underweight inflationary groups (materials, energy, and precious metals).
- We believe the bull market is mature, nearing the crest. Currently 15 years old.
- We reiterate our year-end 2024 price objective of 5768 for the S&P 500.

- **Commodities: Negative** – The market (GTX) continues to be under pressure and follows the 10-year bond yields. Headwinds are declining oil prices and weak demand for industrial metals. Price support and target is at 3300.

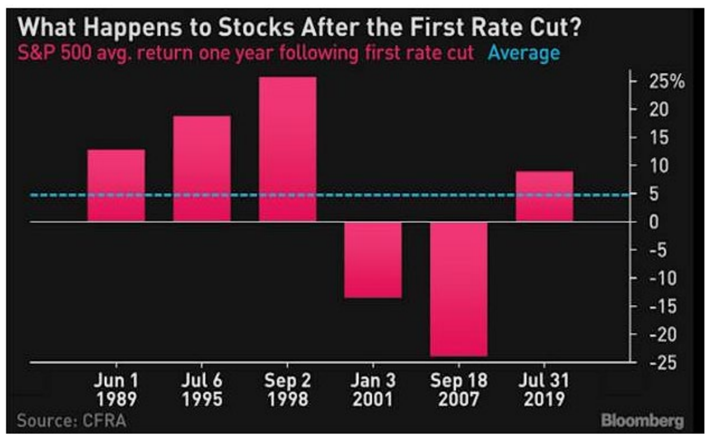

Chart 1

Micro Thoughts

- **U.S. Economy: Weakening—**Unemployment is rising, the labour market is slowing, and industrial production is negative. Inflation continues to ease. The target is 2.3% by year-end. All indicators point to a business cycle peak. The US slowdown is in progress.
- **10-year Bond Yields: Easing lower** – Interest rate cuts are adding to the reduction in bond yields. The expected movement is a measured pullback to 3.70% by year-end.
- **U.S. dollar: Bear bounce—**The U.S. dollar index (DXY) continues to slide as rate cuts diminish the bullish tone. It is finding measured support at 101. A bounce to 102.00 by year-end is expected.

Market Commentary: **Bull market continues**

The Fed's pivoting on interest rates is positive for the markets in the short term. Our concern lies with two factors. The first is the track record of inverted yield curves and the following recessions. Once a curve flattens and becomes positive, a recession occurs within a year.

The 2nd concern is the apparent near-term peak in the business cycle. Elements that are part of that process are rising unemployment, easing monetary policy, declining economic output, and low consumer confidence. All of these are present now.

Models point to 5670 for the S&P 500 by year-end, 43,900 for the Dow, and 18,500 for NASDAQ.

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Commodities

More down than up

Key Points:

- **Weaker patch for S&P Commodity Index GTX as index heads to 3300**
- **Lower levels for the US 10yy spells downward pressure for the GTX in Q4**
- **The precious metals sector holds on to the top in 90-day performance, again**
- **WTI retesting base at $65 in Q4**
- **Another disappointing rally for Natural gas**
- **Another breakout for gold as the precious metal starts to run to $2790 target**
- **Silver prices rest before Q4 run starts**
- **Industrial metals ETF (GYX) slumps back**
- **Rapid decline for copper prices in Q3 lands on key $4.00 support level, and sticks**
- **Parallel dance between the US dollar and US 10YY continues. New lower target**

	Since Last Month	*Year to Date*	*Since Inception mid-2003*
TS Model Portfolio	0.88%	20.00%	**1,066.54%**
S&P 500	2.02%	20.81%	476.25%

The 19-yr average for the TS Model Portfolio – 12.21%
The 19-yr average for the S&P 500 – 8.56%

TS Model Income Portfolio – 9.93% average div. yield

GTX: New downward trend

Outlook Neutral/Negative: The S&P GSCI Commodity Index (GTX) and the US 10-year T-bond yields continue to trade in lock-step. The Fed has suggested that September will start the rate pullback. At the time of this writing (September 15), the first rate reduction date had not been announced. Recent US inflation data continues to soften. The latest US inflation rate is 2.50%. One of the Fed's favorite inflation gauges (the US PCE Price Index), is also at 2.50%. These two key measures indicate that the inflation battle is almost over.

As rates come down they will affect both assets in the same fashion. Pushing bond yields lower, and commodity prices (GTX) are expected to follow. The GTX has broken downward from the two-year consolidation.

Chart 1

The GTX shows negative buying momentum (RSI) (not confirming additional upward strength). There is an expansion of the positive 'Green Cloud' in Q4 suggesting some measured support. A sudden decline of GTX is unlikely. With the Fed now expected to start pivoting, 3300 is the new downward target (**Chart 1**).

US 10-yy is expected to hold around 3.70% to 3.80% in Q4.

The long-term view is slightly more promising for both the GTX and US 10-year yields next year. The GTX is still in multi-year consolidation. The positive 'Green Cloud' stretches into 2025. 10-year T-bond yields are nearing a very solid price support level at 3.25%. This level dates back to late 2013 (**Chart 1a on page 3**).

What does it mean? The weakness in both assets displayed over the last couple of months due to the Fed finally (we hope) pulling the trigger on rates has changed our view for Q4. Both assets are expected to continue easing off over the next few months.

Chart 1a

Deflation vs. Inflation: Deflation wins

Outlook Negative: The 5-year performance between deflationary assets and inflationary assets shows an ongoing higher performance and dominance from deflationary assets (Dow) over inflationary assets (commodities) (**Chart 2**).

What does it mean? A continually stronger-performing deflationary equity market is normally more bullish for the stock market than an inflationary-driven market. We anticipated a more even performance between the two asset groups in early 2025.

Chart 2

Commodity performance: Gold wins

Outlook: Negative: Only one commodity groups posted a positive return over the last 90 days – precious metals. All the other commodity groups were negative (**Chart 3**).

What does it mean? We expect ongoing performance from the precious metals because of safe haven accumulation, China buying, and a weak US dollar. The Fed's rate pivot should ease the dollar even more and aid most natural resource prices. Ongoing strength in precious metals normally occurs near the end of a market cycle.

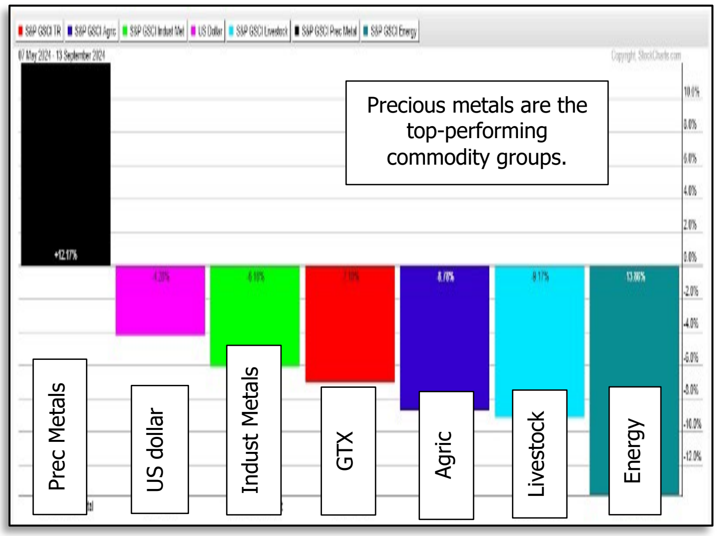

Chart 3

WTIC: Range-bound

Outlook: Neutral: Light crude oil moved above $70 driven by ongoing disruptions to US gulf infrastructure (Hurricane Francine) and the US interest rate cut. (**Chart 4**) However, concerns continue over slowing demand from

Chart 4