

Trend Report

7/2017

The background image shows a laptop screen with a financial chart. The chart features a green line representing a data series, with a red horizontal line indicating a threshold or target. Below the chart is a table with multiple columns and rows of data, including numerical values and some text labels. The laptop keyboard is visible in the foreground, and the overall scene is dimly lit, suggesting an indoor setting.

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Summary

The Good...

- Economic growth continues to accelerate.
- Stocks remain the strongest asset class from a relative strength perspective.
- Intermarket relationships suggest that we remain in a risk-on environment.

The Bad...

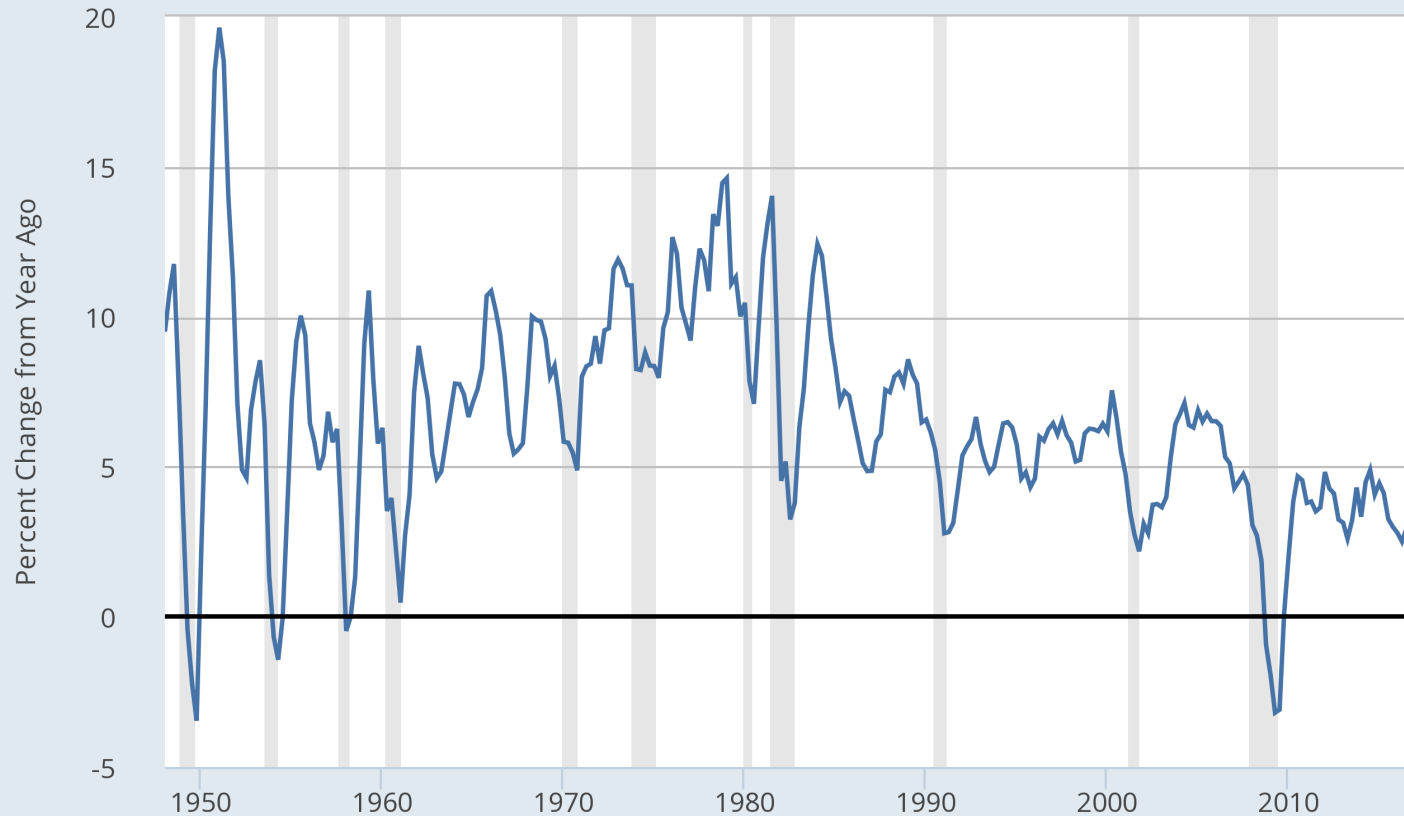
- The reflation period has peaked and inflation has fallen since the beginning of the year.
- The US Economy, although heading in the right direction, is still sluggish.
- The ECRI Weekly Leading Index appears to have peaked.

The Ugly...

- The average of four long-term valuation indicators suggests that the US stock market is in a bubble.
- Buying and holding the S&P 500 from these levels should generate an average return of close to 0% per year over the next 10 years.

What Should We Do?...

- Follow the trend and stay with the momentum of the market.
- Buy strength and sell weakness
- Pay close attention for potential trend reversals in key intermarket relationships.
- Do not buy and hold.



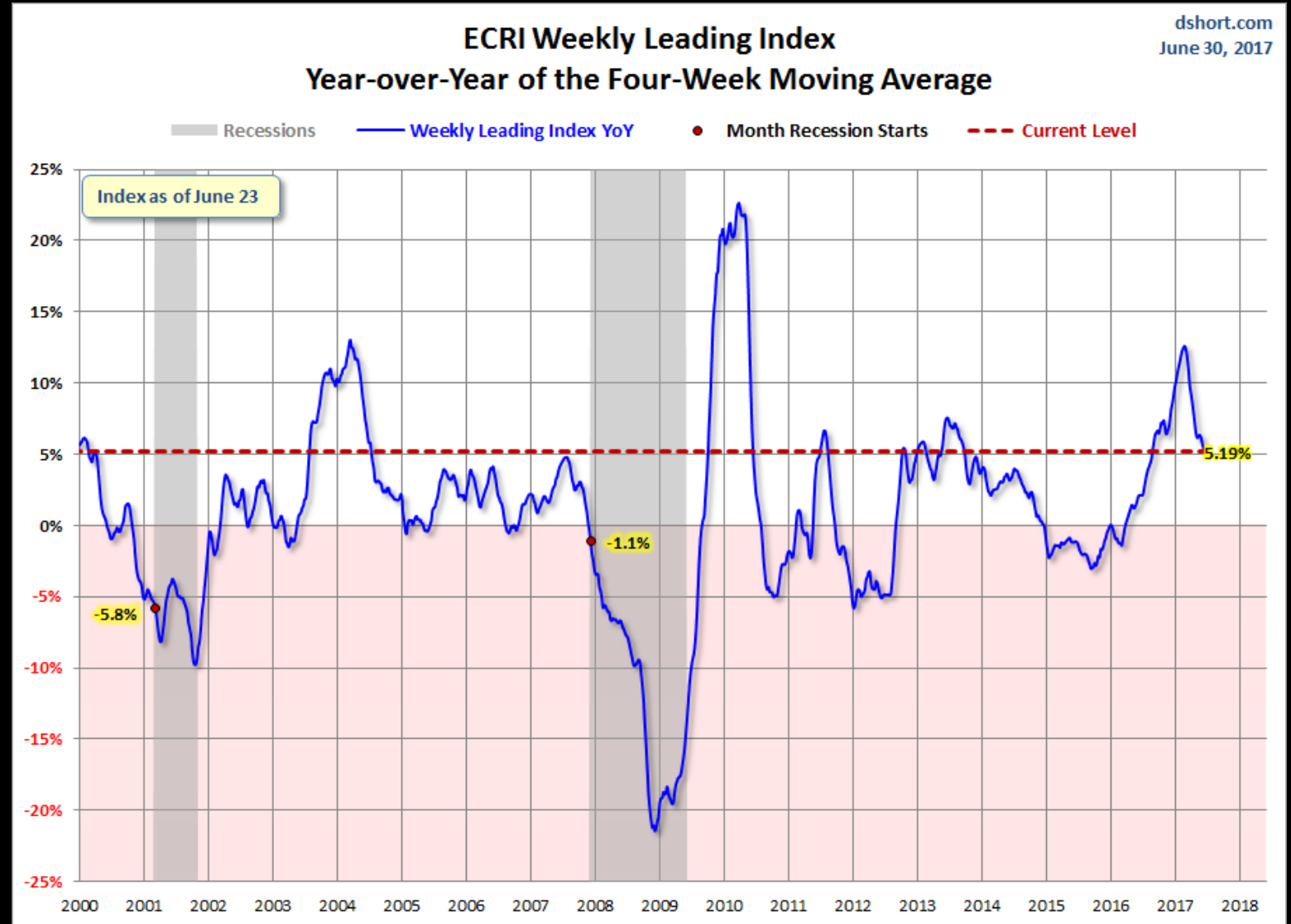
Source: U.S. Bureau of Economic Analysis

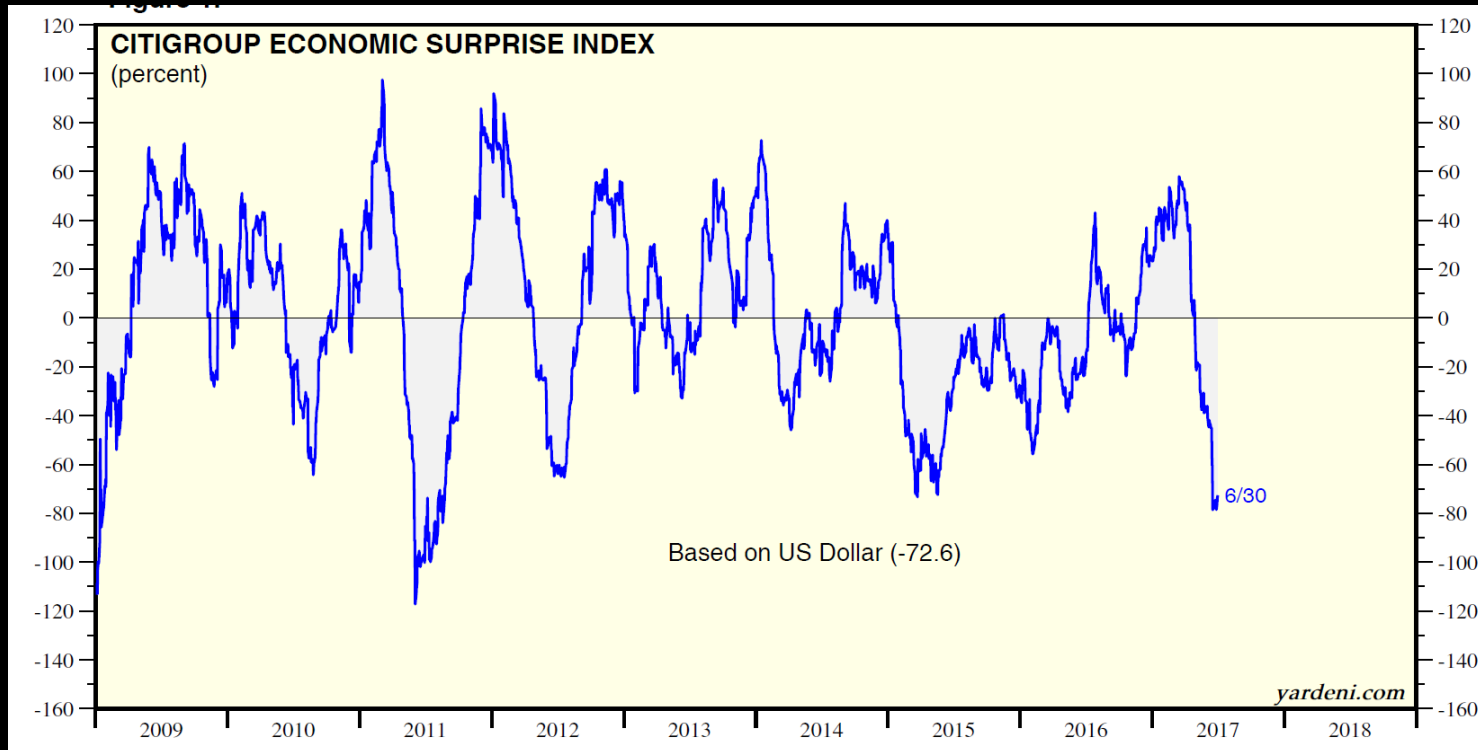
fred.stlouisfed.org

myf.red/g/ehGt

- Nominal GDP has continued to accelerate from the bottom in Q2 2016.
- The growth rate is lackluster compared to historical figures.
- We expect a continued acceleration for Q2 17 and possibly Q3 2017.
- Nominal GDP is our best measure of current economic activity.

- The ECRI Weekly Leading Index remains in a positive trend since bottoming in early 2016.
- Lately, the leading index has stalled and is consolidating.
- The growth rate has dropped after peaking in early 2017.
- The rate of acceleration resembles historic recoveries.
- It is our opinion that we are still in a recovery from the global growth recession we witnessed in 2015-2016.





- The Citi Economic Surprise Index for the US continued to breakdown after we featured it in our trend report last month.
- The economic surprise index measures whether the economic data reported is surprising to the upside or disappointing to the downside.
- It will be interesting to see if this index has bottomed.
- If the index has bottomed, this would be positive for the US stock market.

SPY:AGG SPDR S&P 500 ETF/Shares Core U.S. Aggregate Bond ETF NYSE

3-Jul-2017

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Open 2.23 High 2.23 Low 2.22 Close 2.22 Volume 22 Chg +0.01 (+0.35%) ▲

— SPY:AGG (Weekly) 2.22
— EMA(13) 2.20
— EMA(21) 2.18

Stocks continue to
outperform bonds.



— MACD(13,21) 0.020



SPY:GLD SPDR S&P 500 ETF/SPDR Gold Shares NYSE

3-Jul-2017

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Open 2.09 High 2.10 Low 2.09 Close 2.09 Volume 3 Chg +0.04 (+1.83%) ▲

— SPY:GLD (Weekly) 2.09

— EMA(13) 2.02

— EMA(21) 2.00

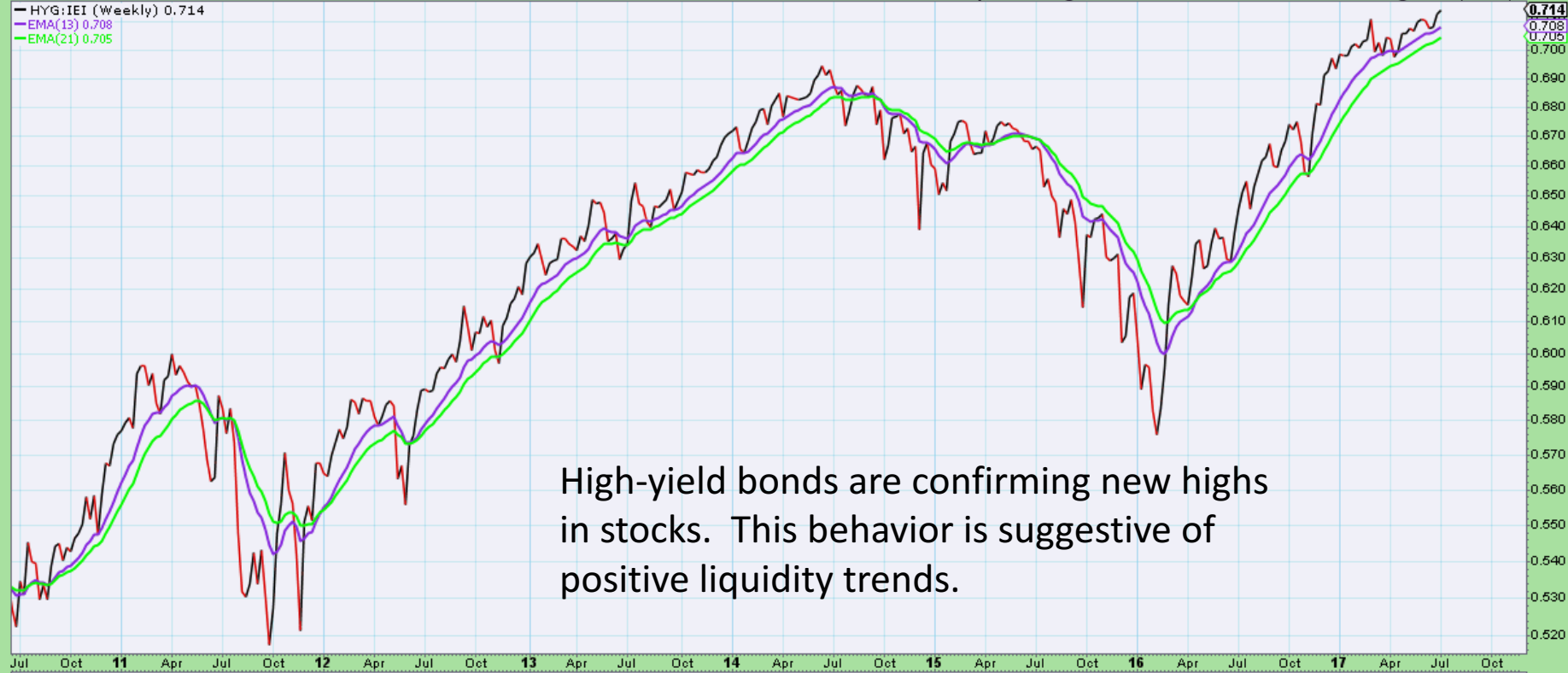
Stocks have broken out to new highs against Gold. This is encouraging for risk assets.



HYG:IEI iShares iBoxx \$ High Yield Corporate Bond ETF/Shares 3-7 Year Treasury Bond ETF NYSE
3-Jul-2017

© StockCharts.com
Open 0.715 High 0.716 Low 0.713 Close 0.714 Volume 14 Chg +0.001 (+0.14%) ▲

— HYG:IEI (Weekly) 0.714
— EMA(13) 0.708
— EMA(21) 0.705



High-yield bonds are confirming new highs in stocks. This behavior is suggestive of positive liquidity trends.

— MACD(13,21) 0.0036



7-Jul-2017

Open 1.070 High 1.071 Low 1.063 Close 1.063 Volume 0 Chg +0.000 (+0.04%) ▲



SPY:VEU SPDR S&P 500 ETF/Vanguard FTSE All-World ex-US ETF NYSE
3-Jul-2017

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Open 4.85 High 4.86 Low 4.84 Close 4.84 Volume 32 Chg +0.00 (+0.07%) ▲

— SPY:VEU (Weekly) 4.84
— EMA(13) 4.86
— EMA(21) 4.89

US stocks are starting to exhibit weakness against international equities. This is usually a positive sign for global growth.



— MACD(13,21) -0.025

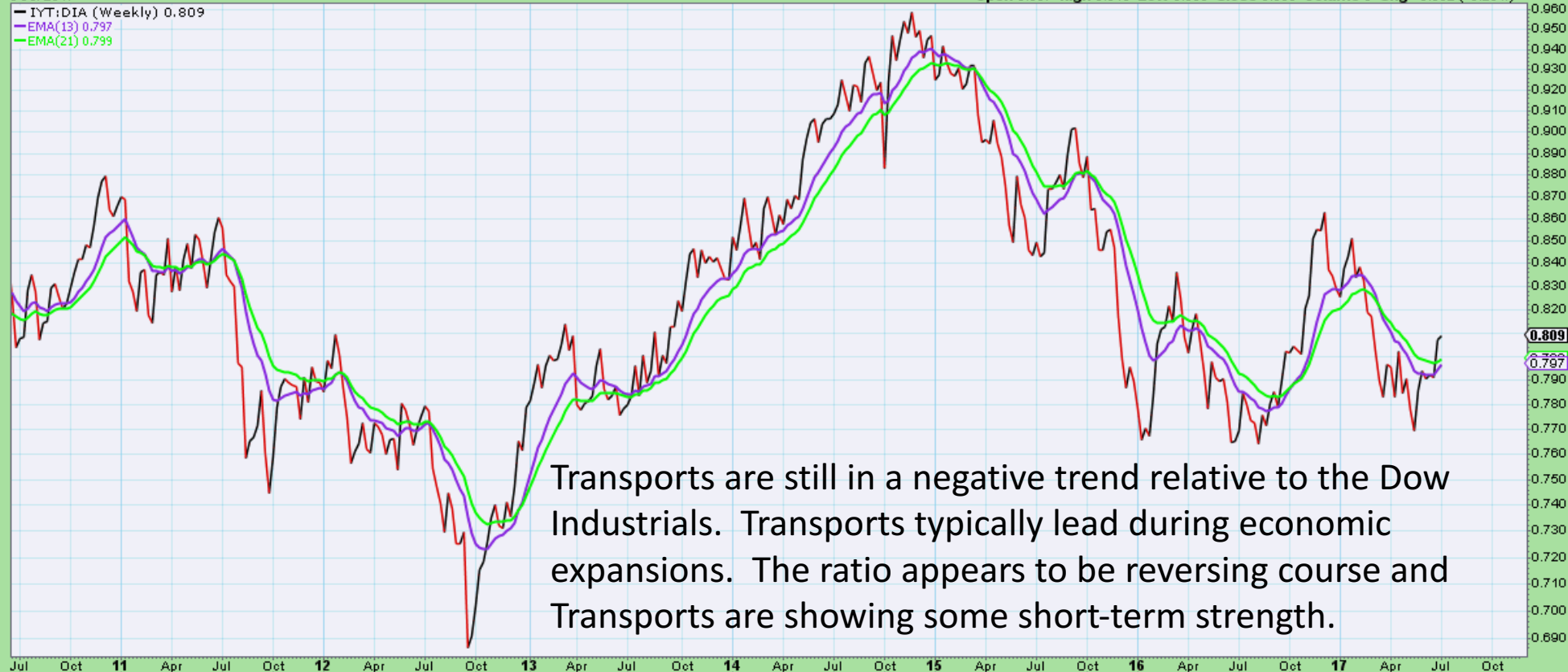


IYT:DIA iShares Transportation Average ETF/SPDR Dow Jones Industrial Average ETF NYSE
3-Jul-2017

Open 0.807 High 0.813 Low 0.806 Close 0.809 Volume 0 Chg +0.002 (+0.26%)

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IYT:DIA (Weekly) 0.809
EMA(13) 0.797
EMA(21) 0.799



Transports are still in a negative trend relative to the Dow Industrials. Transports typically lead during economic expansions. The ratio appears to be reversing course and Transports are showing some short-term strength.

MACD(13,21) -0.0025



QQQ:SPY PowerShares QQQ/SPDR S&P 500 ETF Nasdaq GM/NYSE

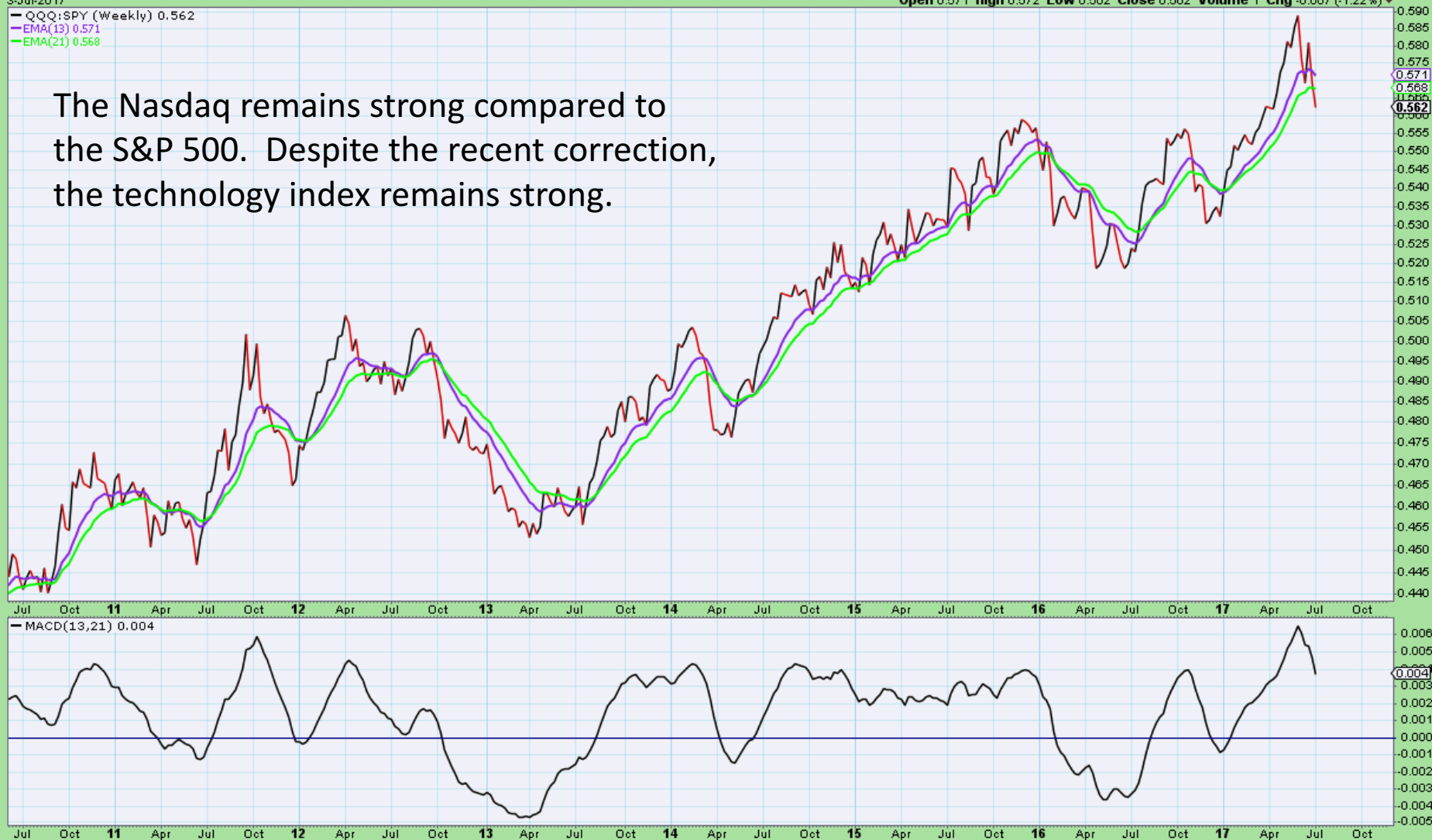
3-Jul-2017

Open 0.571 High 0.572 Low 0.562 Close 0.562 Volume 1 Chg -0.007 (-1.22%)

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— QQQ:SPY (Weekly) 0.562
— EMA(13) 0.571
— EMA(21) 0.568

The Nasdaq remains strong compared to the S&P 500. Despite the recent correction, the technology index remains strong.



IWM:SPY iShares Russell 2000 ETF/SPDR S&P 500 ETF NYSE

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3-Jul-2017

Open 0.584 High 0.588 Low 0.583 Close 0.587 Volume 0 Chg +0.004 (+0.67%)

IWM:SPY (Weekly) 0.587
EMA(13) 0.582
EMA(21) 0.583



MACD(13,21) -0.001



Asset Class-Relative Strength

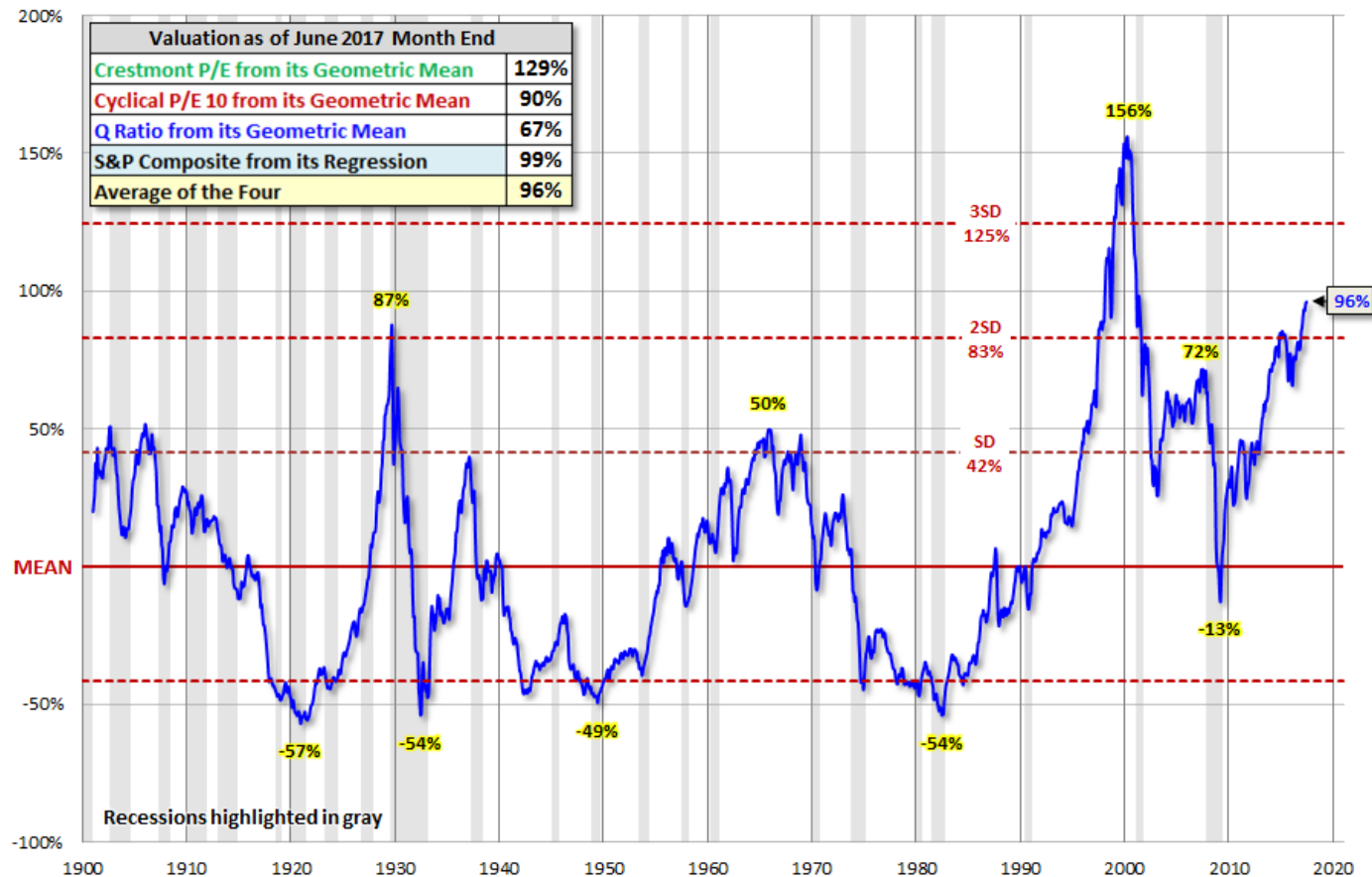
Symbol	Description	Ranking
VEA	International Stocks	1
VWO	Emerging Markets	2
VT	All World Stocks	3
VV	Large Cap US Stocks	4
VTI	Total US Stock Market	5
VO	Mid-Cap US Stocks	6
VB	Small-Cap US Stocks	7
LQD	US Investment Grade Corporate Bonds	8
GLD	Gold	9
HYG	High Yield US Bonds	10
IEF	US Treasuries	11
TIP	Inflation Protected Bonds	12
DBC	Commodities	13

- International and emerging market stocks remain the top-ranked asset classes from a relative strength perspective.
- Commodities are the weakest asset class.
- Large-Caps are the strongest US equity market segment.

Average of the Four Valuation Indicators (Geometric)

With Standard Deviations Highlighted

dshort.com
July 2017
Data through June



- A bubble can be defined as a market condition where prices exceed fundamental value by a two standard deviations.
- As of the end of June, the average of four historically accurate valuation measures indicate we are indeed in a bubble.
- The chart illustrates that on average, we are approximately 96% overvalued compared to the long-term average.

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All Charts were derived from the following data sources: www.econ.yale.edu/~shiller, Global Financial Data, Standard and Poors, St Louis Federal Reserve, and Stockcharts.com

Technical analysis is only one form of analysis. Investors should also consider the merits of Fundamental and Quantitative analysis when making investment decisions. The S&P 500 is not an investable index and is a product of Standard and Poors, a McGraw-Hill Company.

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Stocks offer long-term growth potential, but may fluctuate more and provide less current income than other investments. An investment in the stock market should be made with an understanding of risks associated with common stocks, including market fluctuations. While stocks generally have a greater potential return than government bonds and treasury bills, they involve a higher degree of risk. Government bonds and treasury bills, unlike stocks, are guaranteed as to payment of principal and interest by the US Government if held to maturity.

Dividends are not guaranteed and are subject to change or elimination

Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility. These risks are heightened in emerging markets.

Asset-backed securities: Generally, when interest rates decline, prepayments accelerate beyond initial pricing assumptions which could cause the average life and expected maturity of the securities to shorten. Conversely when interest rates rise, prepayments slow down beyond the initial pricing assumptions and cause the average life and expected maturity of the securities to extend and the market value.

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