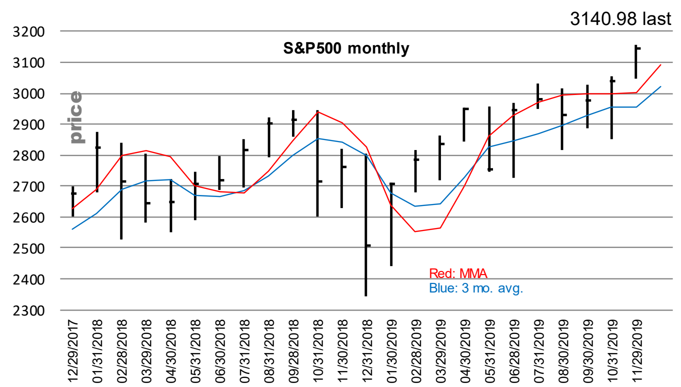
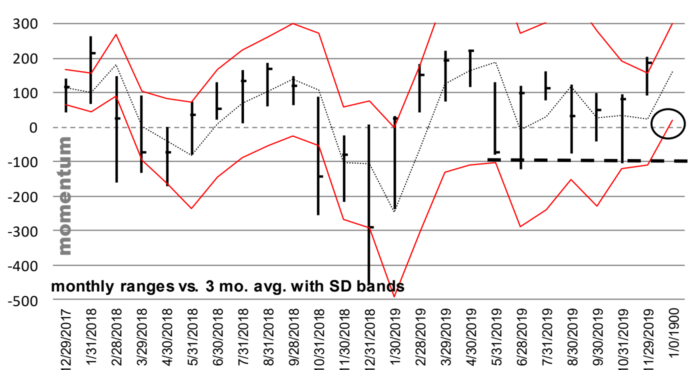
360° WEEKEND REPORT

MSA

December 1, 2019

U.S. stock market





MSA has been living in momentum charts since its beginning in 1992. So we've had many real-life market situations to assess and much time to reflect on the validity of the structures that we identify. And we've also done extensive work in the archives—going back a century.

And if there's one overarching conclusion that MSA has learned by immersing itself in the technical realities of momentum structure, it's this:

If a momentum structure is clear, not at all subjective, then that structure will likely be used as a trend-change structure—a starting gate for a new direction. The issue is almost never *if*, but *when*.

Furthermore, the larger the structure (meaning the time spent by the market building that structure), then the greater the implications of trend change once that structure is broken. And obviously if the time-scale of the trend structure is longer-term, then the implication is that the new trend will also likely be more significant.

But what we've seen develop in the U.S. stock market over the past decade-plus is something we can't match up with any prior stock market situation going back a century. We have all significant time-scales of trend now prepped for downside sell signals. In 1929 and 1987 the time-scale of breakage was based solely on quarterly momentum structures being violated. Not monthly or annual momentum structures.

This time the S&P500 has developed monthly, quarterly, and annual momentum structures.

We've never seen such alignment.

And those layered points of breakage/sell signals are in relatively close proximity to each other.

Meaning that if monthly momentum breaks, the quarterly momentum trigger will likely be broken through in turn. And the annual momentum trigger is rising monthly and is only single-digit percentages below the quarterly trigger level.

The minefield is fairly compact.

And what makes us more confident these structures will be used is that the price charts do not reek of technical vulnerability: no massive clear floors or multi-point uptrends nearby on the S&P500's price charts. Therefore, the price watchers don't see anything nearby that's potentially alarming. That's often case at major tops in any market. The price chart breaks, but only well after momentum has and well below the price chart peak. And that's probably the reason for the silly notion that a market that's 20% off its high has entered the bear category. Because too often that's what it takes to tell most investors "it's over."

Comments on the monthly momentum chart on page one:

3-mo. avg. momentum has now generated an overbought/sell signal reading. After the November close, the lower standard deviation band rose above the zero line (circled). The last time our momentum SD band overbought reading occurred was in late 2017/January 2018.

Another feature is that the new price highs now are not matched by new 3-mo. avg. oscillator highs. The April peak remains the 3-mo. avg. oscillator's most recent high. And when trading begins in December, the momentum readings will begin to drop due to the sharp rise in the new 3-mo. avg. If we see a trade to 3115 in December, that will nip out the November oscillator low, a measurable first sign of rollover beginning on this time scale. A process.

We've said in recent reports that we expect December to produce a high and then provide some initial evidence of rollover, but not anything dramatic and decisive. Instead, we think the sharp upward adjustment in the 3-qtr. moving avg. after the next twenty days will put the market into a vulnerable position. December will likely be "transitional." Meaning instead of a one-way, mini blow-off as we've seen recently, more two-sided and wobbly action should develop. And we still suspect that a further percent or so gain above the November price high will occur in December.

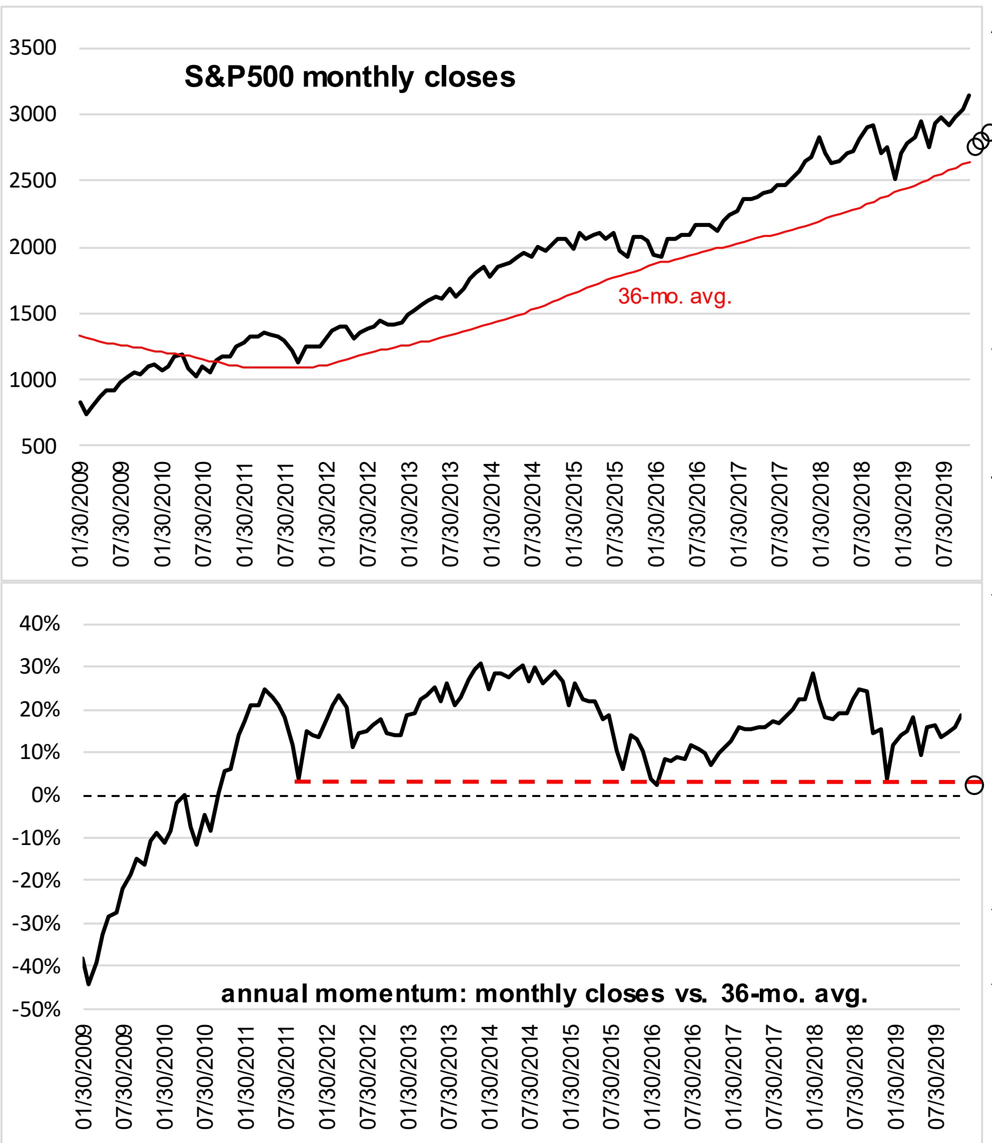
Major negative trigger numbers are not likely to occur until Q1.

Also, the 3-mo. avg. momentum chart has produced several selloff lows around 100 points below the zero line—not a deep level, not oversold (noted by the black horizontal). But a clear structure. If we see momentum drop below those lows (again, probably not in December but more likely in January), then this oscillator signals what for it will be significant structural breakage.

S&P500: Quarterly and annual momentum

Quarterly momentum (charts in our November 16th 360Weekend Report) has established three reaction lows in 2019, each of them halting mere decimals above the rising 3-qtr. moving avg. That action has created a perfect horizontal structure which will come out when the S&P500 touches its rising 3-qtr. avg. That average this quarter is at 2844.47. That average is currently estimated to rise to **2957** in Q1. And if the index adds more to the upside in December, then that average will adjust higher.

We also argue that if at anytime in Q1 2020 the index trades to within 2% of the zero line, we expect to see that downturn to drive the index through its 3-qtr. avg./zero line. Admittedly that's something of a "judgment call" on our part and we won't go into the boring details underlying that assessment. We labelled it as a "set trigger" level. Meanwhile, trading to the 3-qtr. avg. itself will be the full breakage level for that long-term oscillator. Two percent over the projected 3-qtr. moving avg. will be around **3016** next quarter. If quarterly is triggered, then we expect an assault on the annual structure.



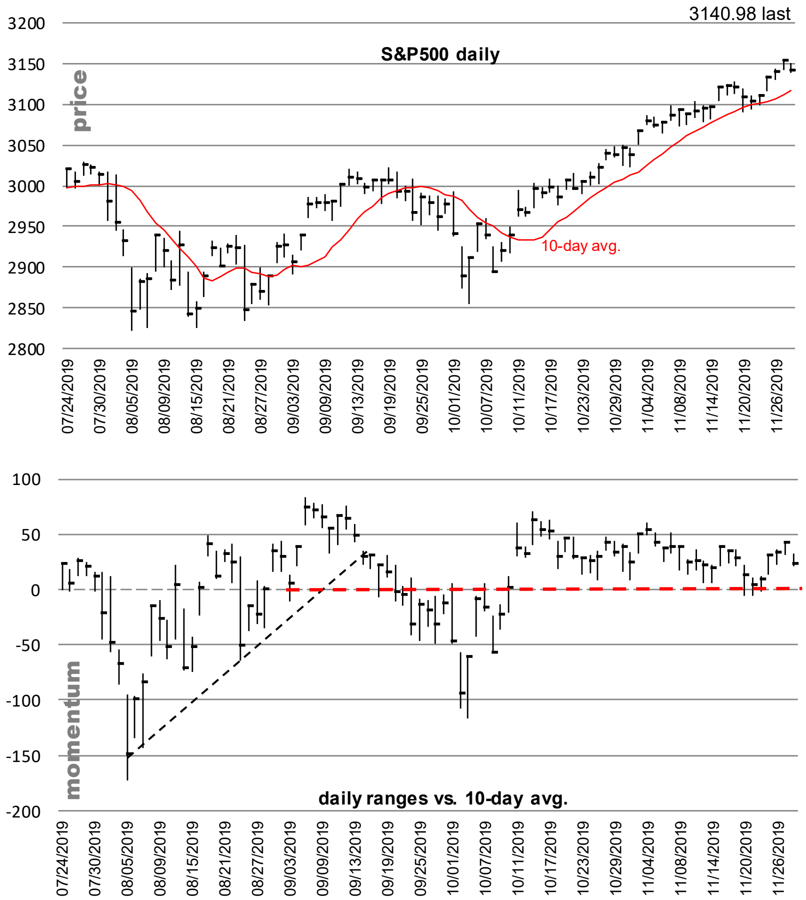
Annual momentum has produced three major reaction or "correction" lows over the past decade: 2011, 2016, 2018. Each produced a low monthly closing reading on either side of 3% above the 36-mo. avg./zero line (red horizontal). None was as low as 2% over the mean. We argue that even trading to 2% over will likely implode this chart.

Two percent over the zero line by January equates to a price of around **2751** (the zero line is then projected to be 2697.60). For February **2775** (when the zero line is projected to be 2721) and for March **2798** (when the zero line is projected to be 2743).

Going back a century, MSA cannot find a trend structure that has such clarity, age, and objective precision on any long-term momentum charts, quarterly or annual.

Once broken, any *initial* leg of decline will likely be **30% or more below** the mean/zero line before any first bear market rally.

S&P500: Short term

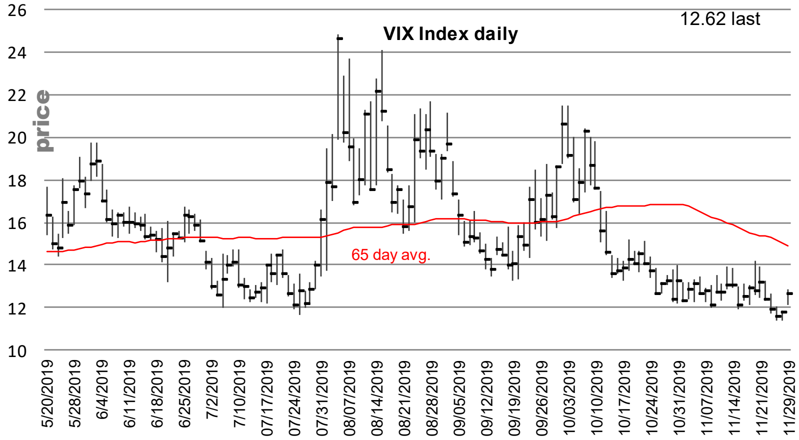


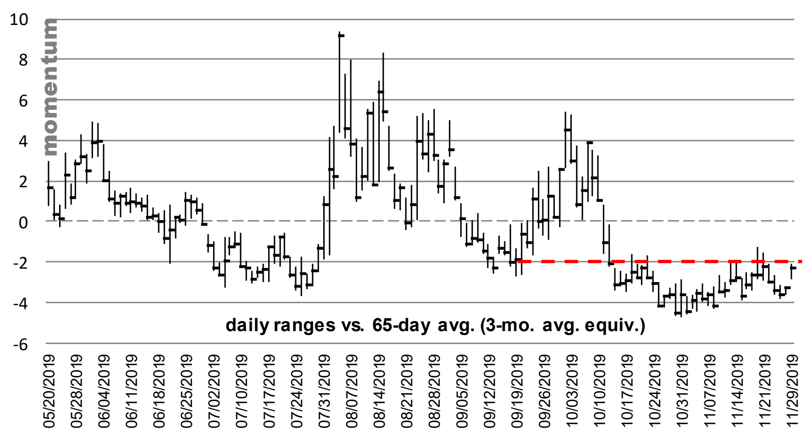
MSA has also been watching for a short-term signal of decline. Our assessment several weeks ago was that the 10-day avg./ zero line was likely now important. Not just a number in space, but a structurally-used level.

After the structural trend breakage that we identified in mid-September on this oscillator (which produced a 200-point drop), notice that subsequent rally efforts crested at the zero line. The 10-day was then acting as structural resistance. Once it was overcome in early October, the pullbacks were towards the zero line, never closing below. The decline two weeks ago precisely used the zero line as support and then fired a rally off of it.

So if we see a daily close below the zero line, it's likely that will produce near-term decline. That average for Monday is 3123; Tuesday around 3126; Wednesday 3128, etc.

Again, any short-term violation might begin the process of trend deterioration and topping action, but we still believe that any noticeable or major downturn will likely be a Q1 2020 event based on intermediate trend and quarterly momentum trend factors.

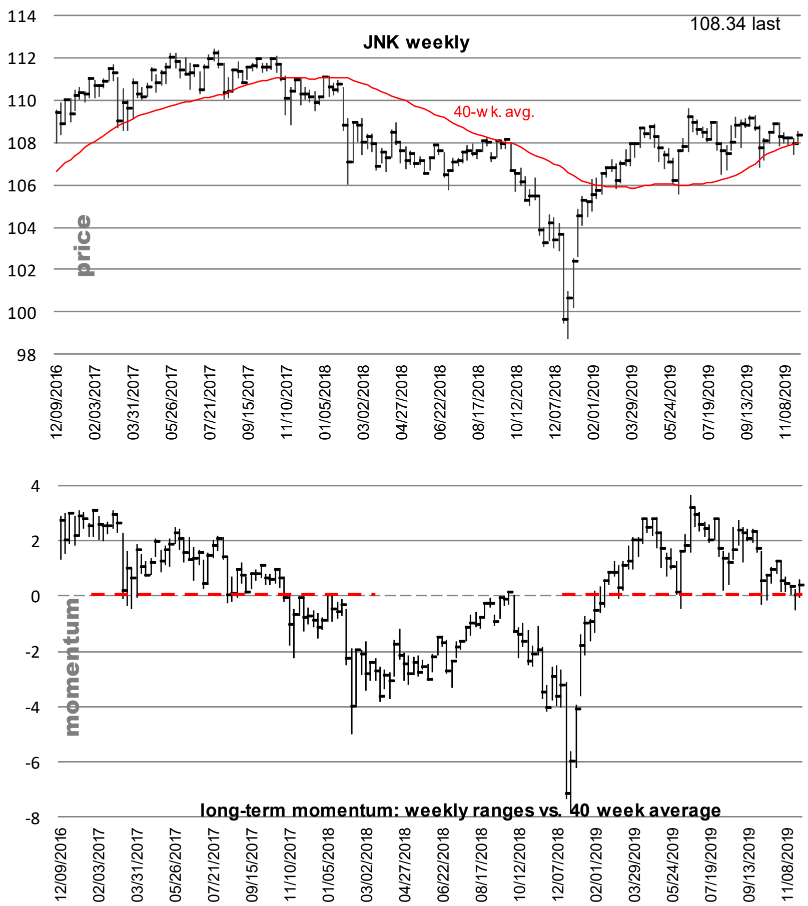




CBOE S&P500 Volatility Index (VIX)

In recent reports on VIX we identified the –2 level. If VIX could produce a daily close **less than two points** below the 65-day avg., that would close momentum over the red horizontal. It tried last week but couldn't close above that level. If it closes Monday at 12.90 or higher, Tuesday at 12.80, Wednesday at 12.73 or higher, then we assume upside is underway and likely the inverse for S&P500 price action is possible.

It's best to watch this indicator and also the short-term oscillator of the S&P500 for coincidence in signals.



High-yield/high-risk Corporate Bonds

We've been monitoring this debt category due to its general technical (momentum) overlay to the S&P500.

The recent few weeks have shown a minor divergence **with JNK** (SPDR Bloomberg/ Barclays High Yield Corp. Bond ETF) **and HYG** (iShares High Yield Corp. Debt ETF), both sinking down towards clear momentum structures at their 40-wk. avg./ zero lines while the S&P500 managed to continue to push up away from a comparable much-used structure.

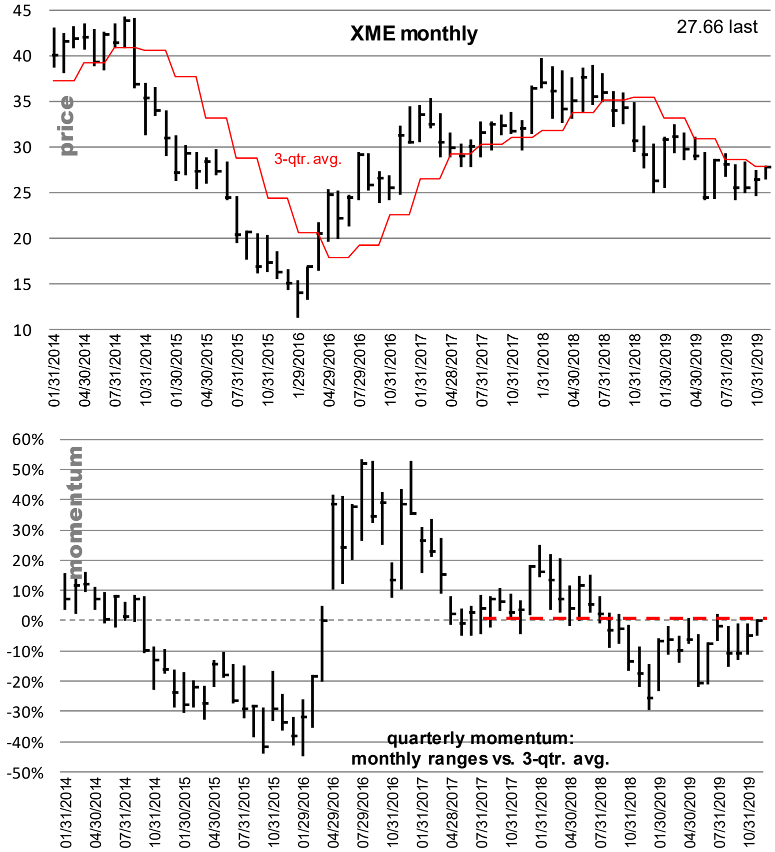
So far, despite the anemic action by JNK and HYG, they haven't closed below the red line structure on a weekly closing basis. So for now it's a staring game between corporate debt and the S&P500. We suspect that if corporate debt breaks structure, it will have significance for the S&P500's technical and fundamental action.

So it's yet another "side mirror" situation worth monitoring due to its obvious relevance to the U.S. stock market.

JNK's 40-wk. avg. this week is **108**. It closed last week at **108.34**.

For HYG (charts not shown, though they're an overlay of JNK), its 40-wk. avg. is now at **86.53**. HYG closed last week at **86.94**.

If both HYG and JNK close a week credibly below their marginally rising 40-wk. averages, then you can assume downside is beginning. And at that point you can begin to have doubts about the S&P500 holding its recent firmness.



SPDR S&P Metals and Mining sector

Top 10 holdings: Coeur Mining, Hecla Mining, Reliance Steel and Aluminum, Commercial Metals, Steel Dynamics, Freeport-McMoRan, Allegheny Technologies, Nucor, U.S. Steel, Newmont.

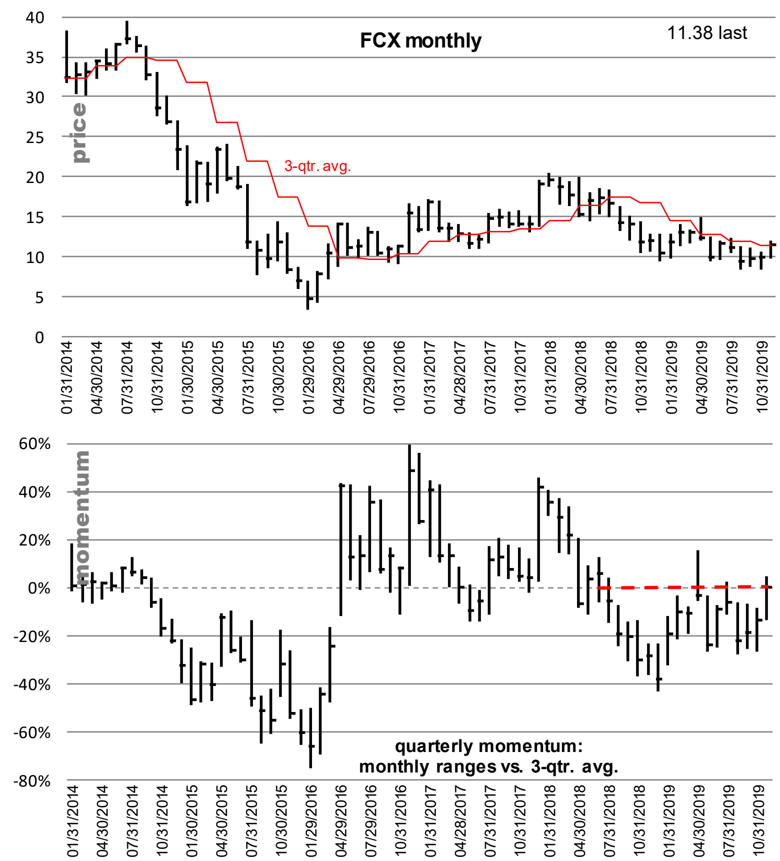
Quarterly momentum has built a clear structure. Repeated rallies to the zero line have been repelled there. There have been no monthly closes over the 3-qtr. avg. since action dropped below it in summer 2018.

27.78 is the zero line this quarter. If December closes above that level, you can assume upside is underway. The 3-qtr. avg. is projected to drop to 26.96 in Q1 2020.

Freeport-McMoRan Copper and Gold

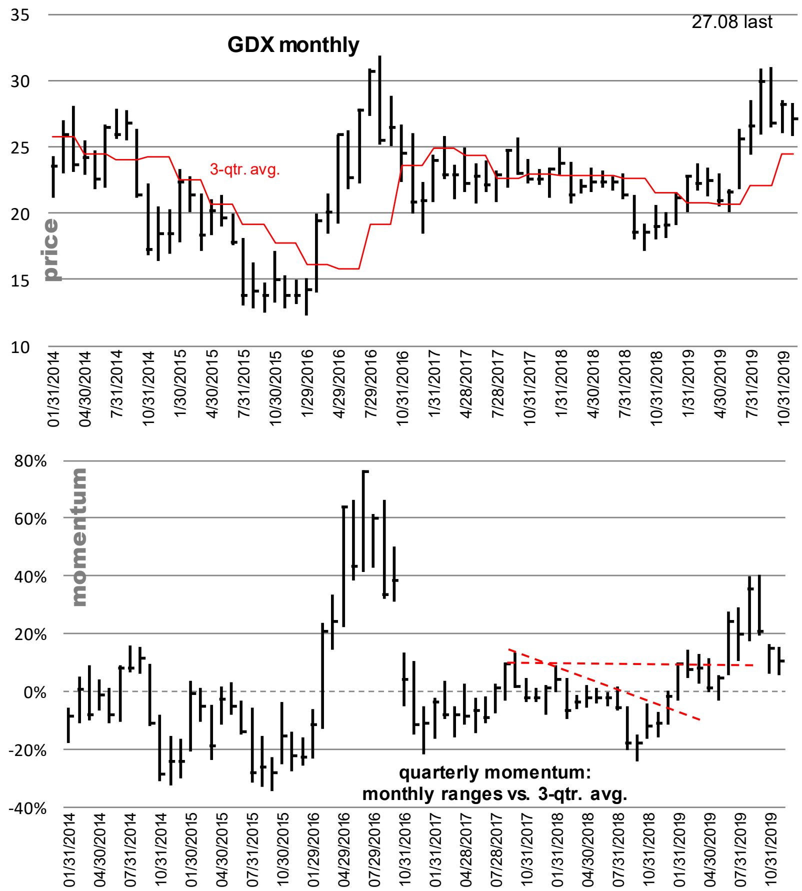
The 3-qtr. avg. for this quarter is 11.395. The November close was 11.38.

In Q1 2020 the 3-qtr. avg. is projected to drop to 10.85.



MSA prefers to identify long-term technical situations that are ripe for turning. Meaning most of their risk potential has been drained from them and reward will likely be high double- or triple-digit percentage potential.

That is certainly not the case for the broader U.S. stock market. But there are many situations in the commodity-related stock category that have those attributes. MSA is simply defining and updating them, and waiting on sufficient breakout signals.



GDX (VanEck Vectors gold miners ETF)

GDX came to life back in late 2018, coincident with gold. At the time MSA also urged long GDX (we were using 40-wk. avg. momentum, similar to this 3-qtr. avg. oscillator).

The first breakout level was in specified our December 2nd, 2018, report. **19.80** was the trigger level. GDX achieved that the next week.

A secondary breakout (horizontal) occurred in early June (see our June 9th report) as our **23** weekly closing trigger was achieved the next week. Our specified initial target was at least 30.

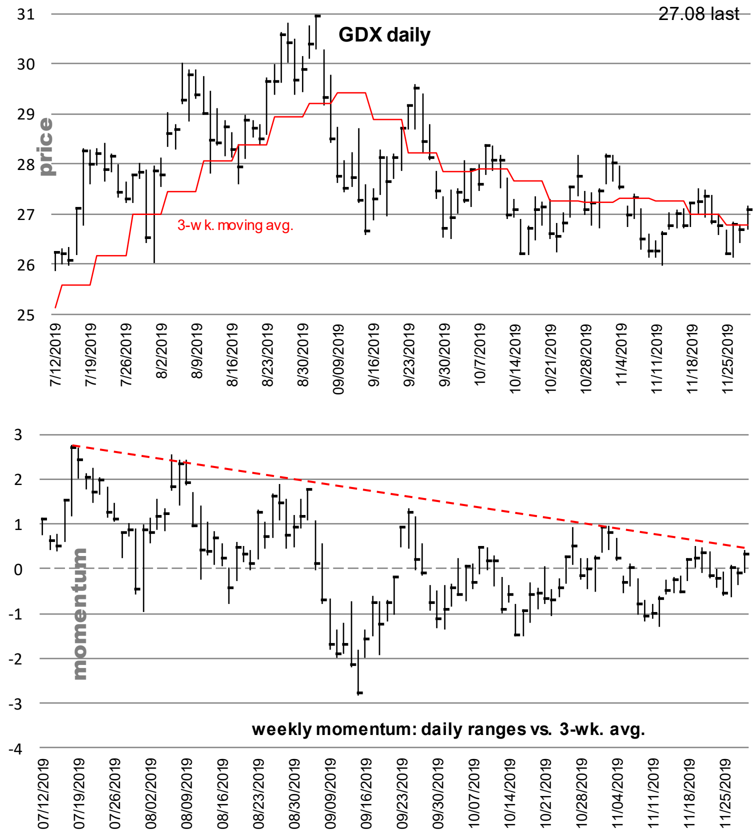
In sum, we look for structures that are likely to generate double-digit percentage moves or greater in their first major leg, with potentials well beyond that as a further bull (or bear) trend unfolds. Keep that in mind when monitoring the charts on the prior page.

So now GDX is caught in a corrective process but holding well. Contrast the past four months' price chart action with the price action following the mid-2016 surge. Totally different tonal behavior. And with the current price above 27, that means that even with the up and down redundant action of the past several months, GDX is still holding a gain of 37% above its initial buy signal.

In order to identify a level that would indicate resumption of upside, we defer to less long-term metrics. See the next page.

GDX weekly (3-wk. avg.) momentum

Close a day **27.40** or higher this week and the action will be credibly above the trend line on momentum as well as the last peak along that line two weeks ago.

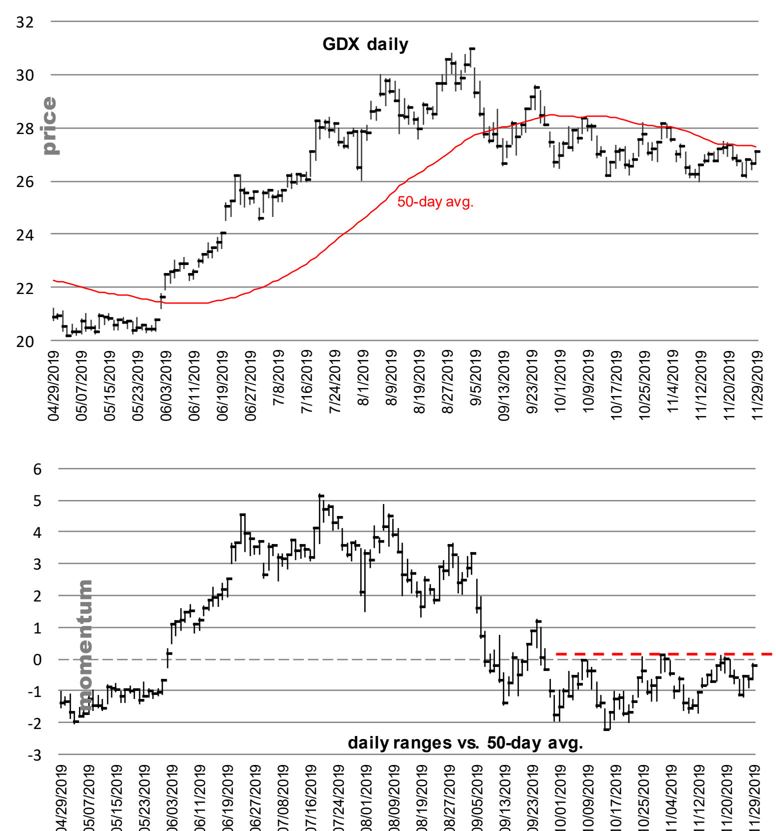


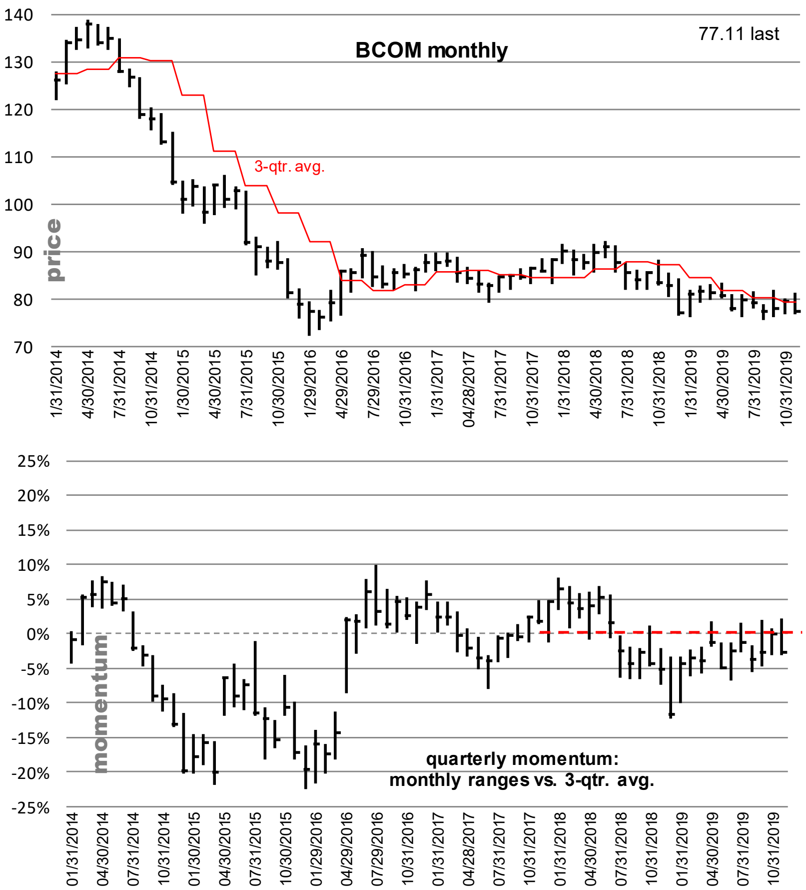
GDX vs. 50-day avg.

The corrective process was effectively over by mid-September with a low at 26.60. Since then there's been narrow up and down price action.

For this intermediate trend momentum chart the red horizontal structure is defined by repeated failed rallies up to zero line area (one was marginally above the zero line). A daily close .20 over the 50-day avg. will amply overcome that structure. For Monday that requires **27.48**, Tuesday **27.46**, Wednesday **27.44**, etc.

The 3-wk. and 50-day agree fairly tightly on what's needed to turn this process back to the upside.





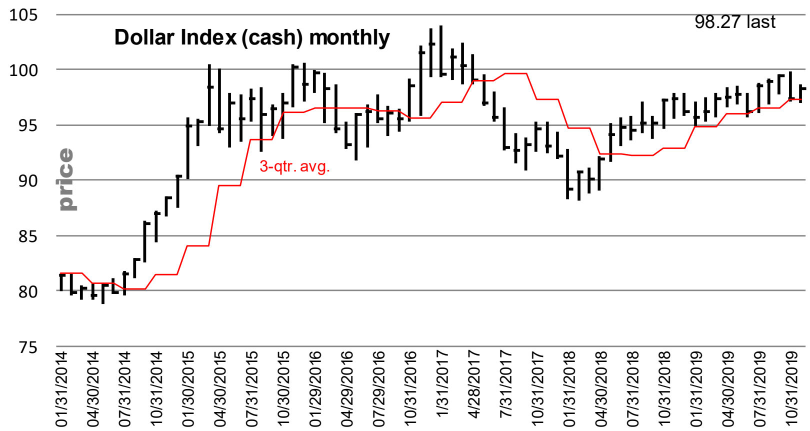
Bloomberg Commodity Index

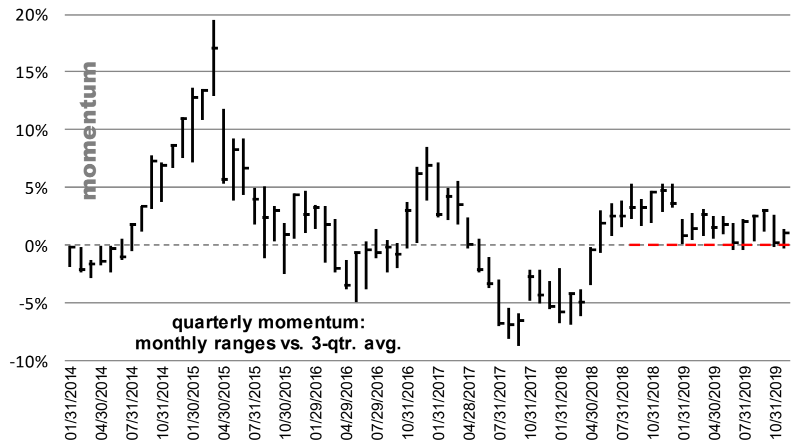
Our identification of the zero line as the key level was apparently correct. For December we'll need to see a monthly close **above 79.35**. But next quarter the zero line adjusts down to an estimated **78.78**. And if BCOM drops more by the end of this quarter, then that number will adjust down as well.

So we continue to monitor. And we expect that after a monthly close over this excessively-used structure, the upside will shock in terms of tone, speed, and percent.

One point to make. Despite repeated use of the zero line as resistance, the downside has been nil over the past year. In fact, last year's close was 76.71.

Dollar Index (1)

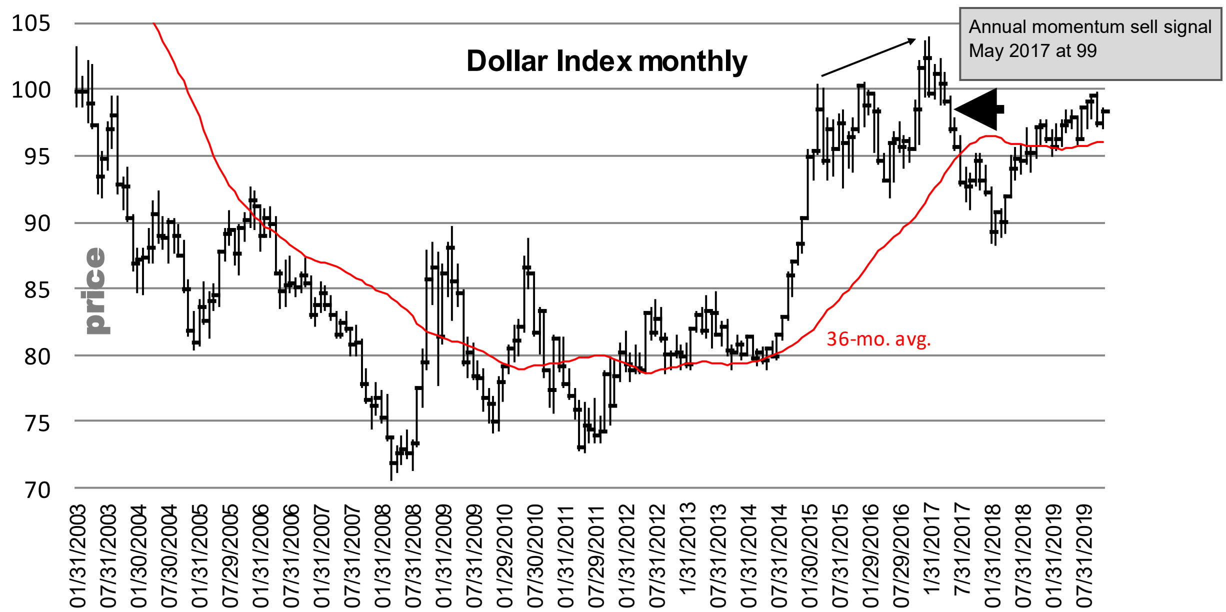


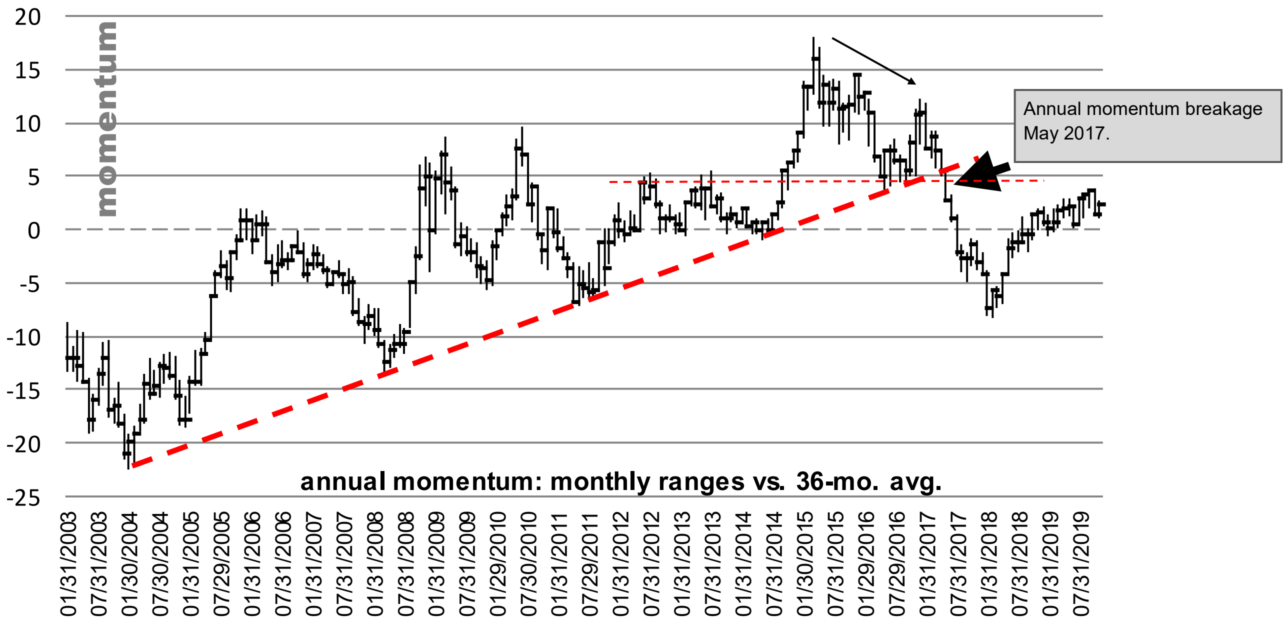


Pounding on the zero line for support over and over and over (the inverse of BCOM, by the way).

Meanwhile, the Dollar has managed a 2% gain since last December.

The 3-qtr. avg./zero line remains at **97.27** this quarter but is estimated to adjust up to **97.83** next quarter. Monitor for a monthly close below.





Dollar Index (2)

No comments.

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