November 4, 2024

Capital Market Commentary: November 4, 2024

Pre-Election Note.

The purpose of this note is to compare the overall capital market environment and portfolio positioning as we entered the week of the 2016 election to how we enter this week's election.

The morning of November 8th, 2016 (US Election Day), capital markets had been trending mostly sideways since the end of May the previous year. And at that time, the Relative Strength portfolio was positioned defensively with a mix of cash/treasury bonds, precious metals (PMs) and inverse index ETFs to protect part of the remaining equity exposure that was mostly in technology. It was a tense time, and I was ready for all outcomes to market's response to whoever would win.

Through the late evening of November 8th and into the early morning of the 9th, capital markets absorbed the election results, initially by a global equity selloff that saw in some countries almost a 10% decline. US futures markets were off -5%. I am not going to lie - I was happy (and think most of my clients were as well) with my portfolio positioning as I went to bed that night.

However, by 10am EST the next morning, not only had all those losses been recovered, by the end of trading on November 9th, the S&P 500 (SPX) finished up over 1% and many sectors did much better.

This was the biggest reversal that I had ever witnessed and by 10:30am, I sold all the hedges and by the end of the day had the portfolio back to a normal equity positioning.

Below is the note I wrote to all my clients and investors on the afternoon of November 9th:

Post-Election Capital Market Commentary: November 9, 2016

SD Steinberg, Daniel M (Wealth Mgmt MS)
To

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Wed 11/9/2016 1:53 PM

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Last night's election results ignited massive global losses overnight for most asset classes except for gold. In the US "futures" market, the circuit breakers were hit when the S&P 500 traded down -5%. When most went to bed last night, the expectations were for a very ugly day in the "cash" markets today. The exact opposite has occurred with all US indexes currently in positive territory. In my last note, I wrote the following: "because what I would like to see is a market that sells off (for whatever reason…), yet the technical indicators that I rely on for primary trend direction and strength, do not deteriorate significantly. This would create a "positive divergence", and coupled with an oversold market in high relative strength sectors, ideal for deploying cash that I have had waiting in the wings this entire year." Although it occurred in the futures market, the scenario that I wrote about happened, and for the cash market to hold like this is the first example of a significant positive divergence that I have been waiting on for it seems like ages.

As of this morning, I have removed my remaining hedges and begun to deploy cash into the strongest relative strength sectors in the capital markets. There will be corrective phases as this market advances, however I will use these as buying opportunities unless my technical indicators deteriorate and stops on positions get hit. Although I do not expect this to happen, my process for risk management will always be in effect.

If you have any questions please let me know. Thanks.

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From the morning of November 9th, 2016, when this reversal occurred, to October of 2018, capital markets enjoyed robust returns with very little volatility - almost a perfect investment environment.

Fast forward to where we stand today:

Capital markets have been in a bullish primary trend since October of 2022.

2024 Year-to-date returns on some of the major US equity indexes, asset classes and sectors are as follows:

The S&P 500 (SPX):	+20%
The Dow Jones Industrial Average (DJII):	+11.50%.
The NASDAQ Composite:	+21.50%.
The Russell 2000 index of Small Cap Stocks:	+9%.
Gold:	+32%.
Silver:	+35%.
Oil:	+8%.
Long-Term Treasury Bonds:	-8%.
Utilities:	+23%.
The Dow Jones Transportation Index (DJT):	+2.8%.

(Source: Thompson One)

The Relative Strength portfolio currently consists of a mix of US equity (mostly Large Cap equity, and overweight technology and industrial sectors), precious metals (PMs), commodities, and a modest position in treasuries (that will be sold if rates break out of resistance mentioned in last week's note. Rising rates is the market's way of rejecting the Fed's rate cutting policy and a sign of further inflationary pressures to come.)

This positioning indicates that heading into this week's election, capital markets and the Relative Strength portfolio are on a bullish footing relative to how we entered the 2016 election; however, there are some similarities, mostly represented by the presence of PMs that reflect a departure from how one would normally be invested in a bullish primary trend.

Below is the support and resistance chart I use to show the currently position of SPX. As you can see, SPX has weakened over the course of last week and moved back down into Upper Support. I wrote in last week's note that there were negative divergences in place and these types of "conditions" could lead to some downside volatility. So, it was no surprise to see the pullback last week.

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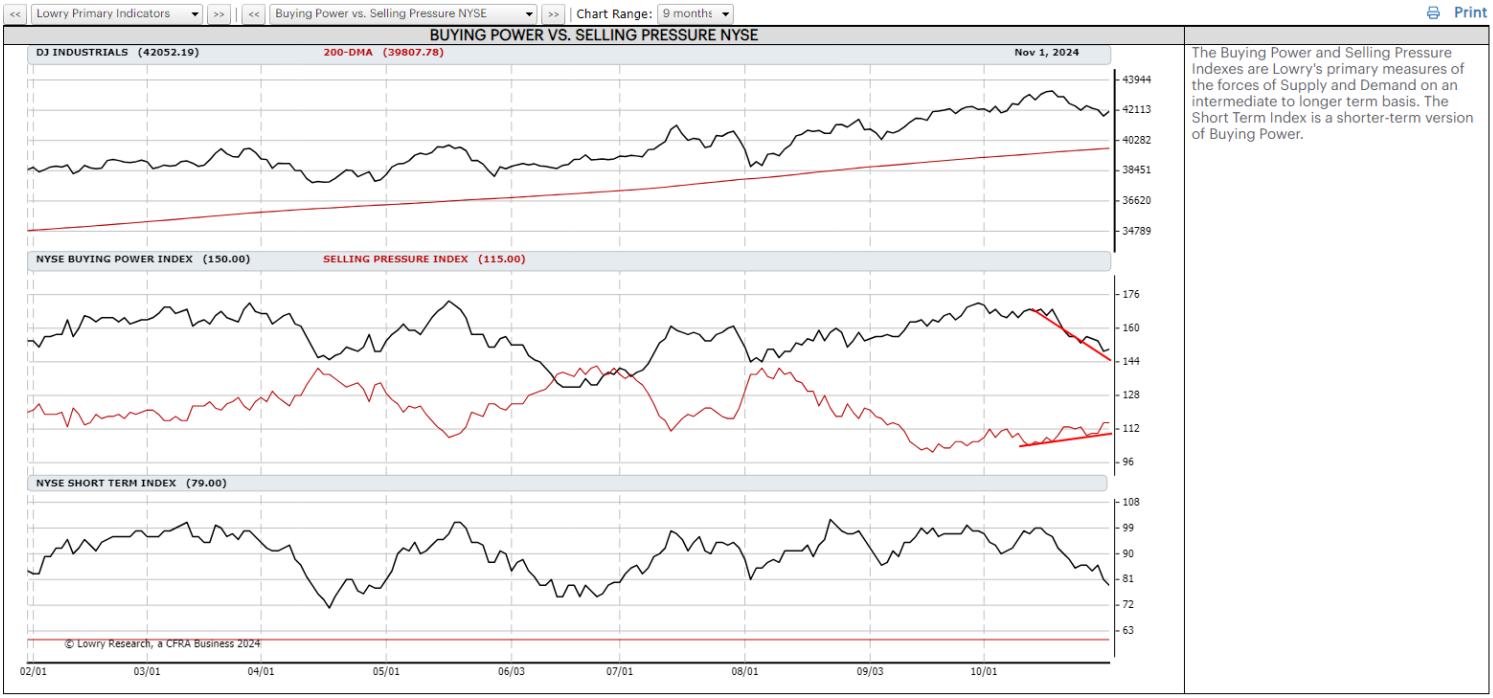
What should also come as no surprise is if we see additional volatility this week, especially after the election results (or lack thereof). The question most relevant to our work here is the following: "Will this be volatility to ignore or volatility to respect?" Technical analysis does not forecast or predict; it provides, based upon the facts at hand, the "odds" of which directional movement has the advantage and what would have to happen, depending on what indicator you are looking at, to take action.

As the chart above outlines, as long at SPX remains in or above Upper Support, volatility should be ignored. A break of Upper Support will demand attention (and most likely some of our positions might go to a sell signal). And a break of Lower Support would justify volatility to be respected and more defensive positioning warranted. We will have to wait and see how the market absorbs what lies ahead.

Also, as you might have expected, demand, in the form of Lowry Research's Buying Power (BP)/Selling Pressure (SP) index, had a sharp decline. What is still worth noting is that BP is falling more that SP is rising. This reluctance of selling is supportive of the bullish primary trend. It remains more of a "buyers strike". Should selling intensity pick up and equal BP's decline, that would be cause for concern. And if SP should move into a dominant position over BP, that would be a problem. And possibly a big one.

Interactive Market Graphics

Use the drop-downs above the table to switch between graphs and date ranges. Graph descriptions are noted on the right side.



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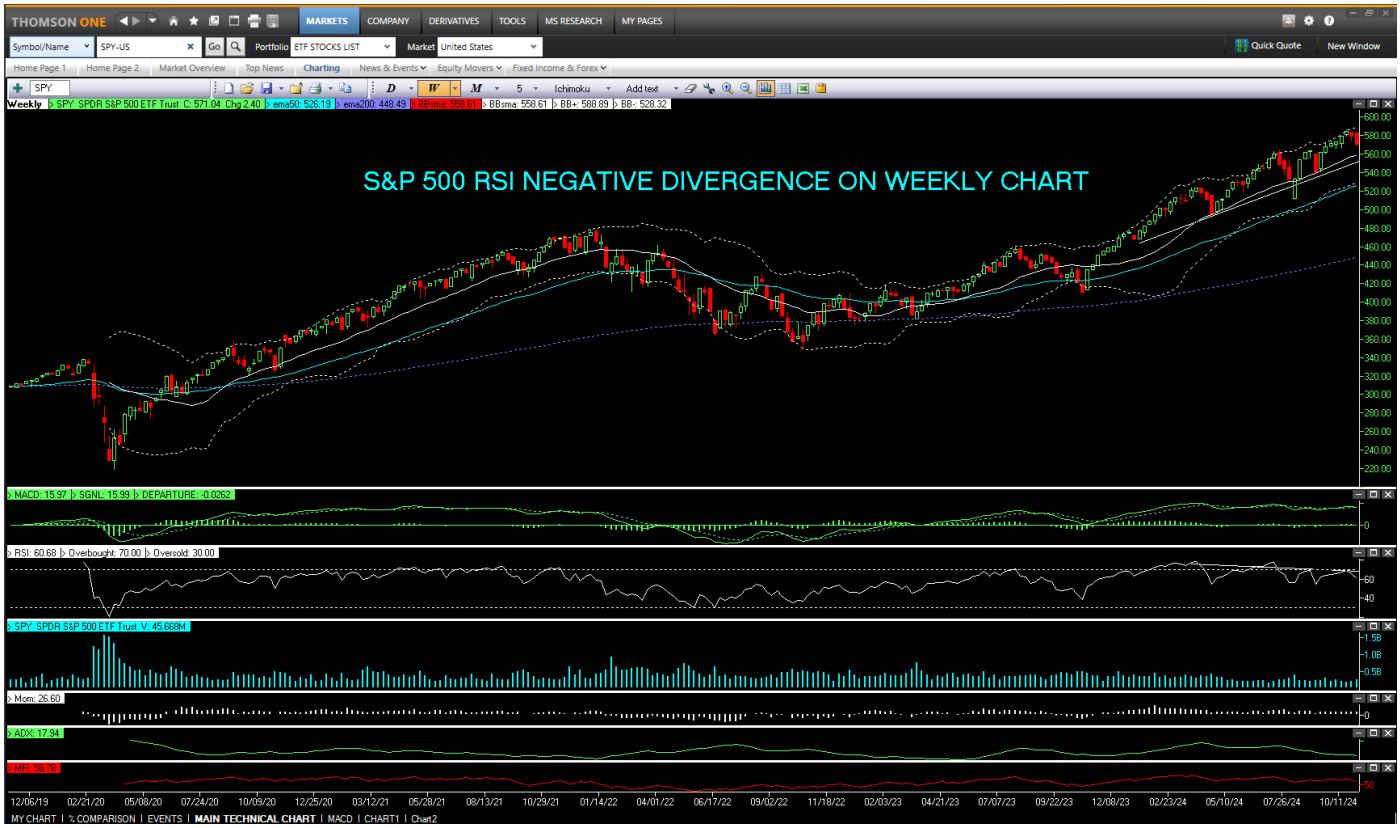
And as long as we are discussing potential concerns and problems, let's review the following charts: The first is the weekly chart of SPX. There is a negative divergence on RSI to price. The second chart shows the daily chart of the Dow Jones Transportation average (DJT) that shows divergence in RSI and MACD. These are items to monitor and if they don't clear up on the next market rally, would move into the concern category. I have always used DJT as a litmus test for the overall market's trend. A validation of the Dow Theory would be very confidence inspiring, whereas non-confirmation often has preceded changes in trend.



(Source: Thompson One)

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I want to close this note on the topic of risk.

Whether you have been reading my market commentaries for years or are new to my practice, everything I do regarding managing capital focuses on risk and how to manage and minimize it. Risk, according to this definition provided by Wikipedia that best aligns with my work and philosophy, is as follows: "In simple terms, risk is the possibility of something bad happening. Risk involves uncertainty about the effects/implications of an activity with respect to something that humans value, often focusing on negative, undesirable consequences."

Right now, odds favor the bullish primary trend; however, when this trend ends and the risk of "undesirable consequences" becomes the more likely outcome, we will be ready.

Thanks, and have a good week. Or maybe I should say good luck to us all.

-Dan

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