

July 11, 2023

# Smart Sector Strategy Update and the Big 9

## Summary

Domestic equity market proxies ended lower last week. Within the context of the SPX's uptrend, large cap growth/technology/SPX's short-term momentum has indeed started to churn. While once again **acknowledging near-term headwinds**, today's report will focus on charts/commentary directly and indirectly relevant to our **Smart Sector Strategies**—domestic equities, international markets ex U.S., and fixed income. Additionally, I will discuss the **"Big 9"** and their importance in dictating the direction of the large cap growth/technology indices.

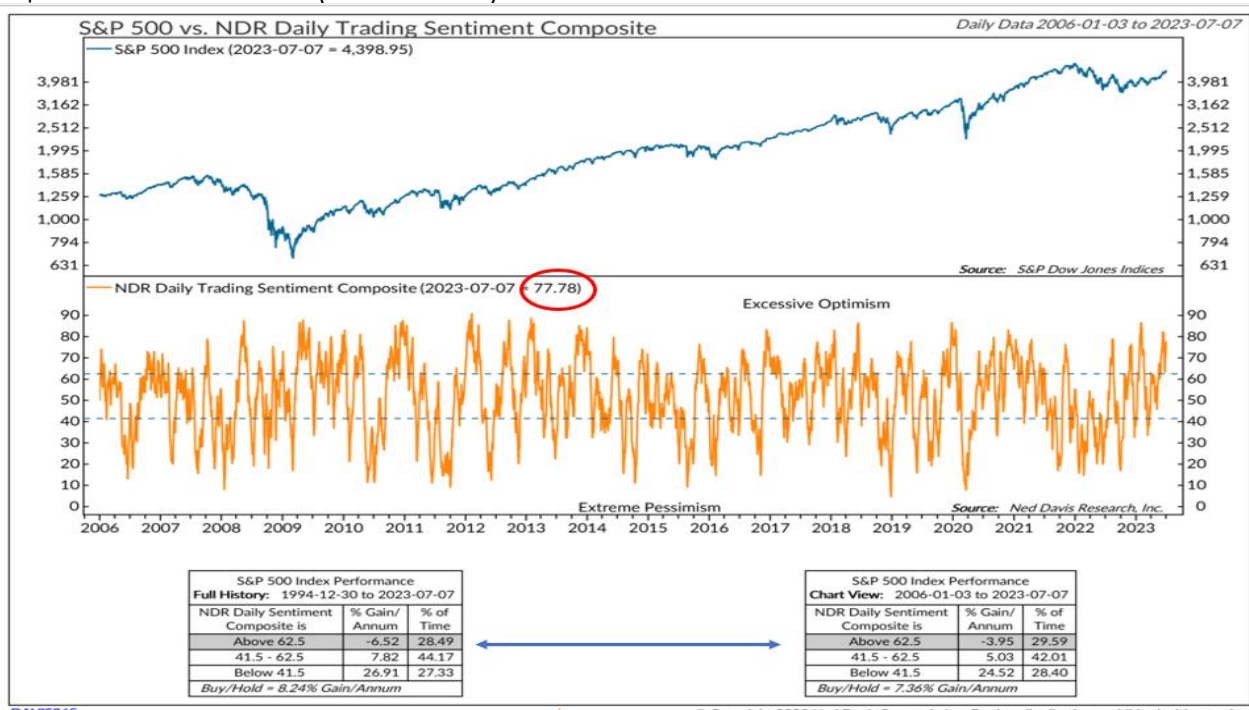
## Smart Sector Strategies

### U.S. Equity Strategy

The NDR Catastrophic Stop Loss Model, one of the risk management components of the strategy, still supports a fully invested position versus the S&P 500 benchmark. If the NDR model suggests a higher cash allocation, we will follow. We have an objective, unemotional plan to reduce exposure should conditions warrant.

Besides this week's inflation report and the start to earnings season, there are **four near-term headwinds** with which the domestic equity market is contending: **1.** Still-lofty bullish sentiment—Figure 1; **2.** Short-term interest rates offer a *reasonable* alternative for the investment dollars of some, not all, investors; **3.** Cycles (NDR S&P 500 Cycle Composite for 2023); **4.** Negative momentum divergence—Figure 2.

**Figure 1: S&P 500 vs. NDR Daily Trading Sentiment Composite.** | Sentiment is still Excessively Optimistic. Until the condition is worked off, the market is likely to back-and-fill over the near-term—please refer to the two performance boxes (blue arrows).



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**Figure 2: S&P 500 and Relative Strength Index (RSI).** | Please refer to the explanation about RSI below the chart. Also note the support (in green) and resistance (red lines) levels shown inside the chart.



RSI is a momentum oscillator that measures the speed and change of price movements. A **bearish divergence**, like now, forms when the index records a higher price high and RSI forms a lower high. When RSI does not confirm a new price high, it implies weakening momentum. *RSI should not be confused with relative strength analysis (RS).* **RS** measures the price movement of two separate proxies against each other to identify which is outperforming and which is underperforming.

**Note: Mid-Cap and Small Cap** proxies have recently successfully retested breakout levels and have been outperforming (mid-cap)/moving in-line with (small-cap) the SPX since June 1. **This is their chance!**

## International Markets ex U.S. Strategy

**Germany** remains an “underweight.” NDR states, “The Ifo German business climate survey (a leading indicator of German economic activity) missed expectations, to a level consistent with recession risk. At the same time inflation remains way above the European Central Bank’s (ECB) 2% target. But Germany has among the highest unit labor cost growth.”

**Figure 3: German DAX Index.** | Stalled at resistance, momentum reversed, & an uptrend line violation.



Within the context of the “**Core and Explore**” aspects of this strategy, **South Korea** and **Poland** were among some of the top-ranked “Explore” markets.

**Figure 4: South Korea and Poland** – price charts with rising 200-day MA. | Please see verbiage inside each chart, including critical near-term support. Please reach out for a relative strength chart.



# Fixed Income Strategy

The Fed paused in June but indicated more hikes later this year. Consequently, it was not stocks but interest rates that experienced pre- and post-Independence Day fireworks.

**Figure 5: CBOE 10-Year U.S. Treasury Yield Index.** | I thought the bulls were running in Pamplona, Spain, last week. I did not expect such speed in the interest rate market. The March '23 and October-November '22 peaks are significant points of resistance. Support (green lines) and how TNX reacts to these levels will be critical guideposts.



Floating rate notes typically outperform during a rising rate environment, according to NDR.

**Figure 6: Barclays Investment Grade Floating Rate ETF vs. U.S. Aggregate Bond ETF.** | Within the exceedingly difficult fixed income complex, having exposure (overweight) here as been value added.



# Magnificent 7, Elite 8, or the Big 9

By now, you would have had to be living under a rock to not have heard the commentary about the fill-in-the-blank number of stocks driving the Large Cap Growth/Technology/SPX indices higher thus far in 2023. These stocks have been called everything from the **Magnificent 7** (AAPL, AMZN, MSFT, GOOGL, TSLA, NFLX, and META) to the **Elite 8** (all previous, plus NVDA) and the **Big 9** (all previous, plus AVGO).

Nonetheless, at the end of the day, there are near-term headwinds already in play. But when it comes to identifying the formation of **potentially major downtrends (like what we saw in late 2021 early 2022)** by Large Cap Growth (Technology), the S&P 500, and the NASDAQ Composite, we would expect to initially see **a majority of these stocks roll over and start forming price patterns of lower peaks and lower troughs**. Our view is, until that occurs, **it is unlikely the indices will experience a major decline**.

I created charts illustrating the topping process we saw in late 2021/early 2022. If you are interested, please reach out. I may also dive deeper into this analysis in my upcoming webinars. In the meantime, **following the NYSE FANG+ Index** may be more time efficient—see Figure 7.

**Figure 7: NYSE FANG+ Index** with 13, 21, & 50-day MA (red, green & lime respectively). | Please use the price labels or levels shown in the thumb nail chart (right side) or the larger chart (left side) accordingly.



**NOTE:** Relative to **Figure 2** in last week's report (7.5.23), there were issues with the verbiage. The correct verbiage is the following, which lines up with the charts shown in Figure 2:

**Figure 2: Select Equal-Weight Domestic Equity Market Proxies – 1-Month Performance.** | While they didn't outperform their respective cap- or price-weighted index (mid-caps were the exception), equal-weight indices moved higher, in sync, with their cap-/price-weighted brethren. A continuation of this trend is needed as we move into 2H23.

Please let me know if you would like to schedule a call to go over the process and discipline underpinning our **Smart Sector with Catastrophic Stop**, **Smart Sector International**, and/or **Smart Sector Fixed Income** strategies.

Day Hagan Asset Management appreciates being part of your business, either through our research efforts or investment strategies. Please let us know how we can further support you.

**Art Huprich, CMT®**  
**Chief Market Technician**  
**Day Hagan Asset Management**

—Written 07.10.2023. Chart source: Stockcharts.com unless otherwise noted.

## Upcoming Events

[Enhance Your Portfolio Process with the Day Hagan/Ned Davis Research Smart Sector® Series and NDR Catastrophic Stop, hosted by Art Day, on July 19, 2023, at 1:15 p.m. EDT](#)

[Enhance Your Portfolio Process with the Day Hagan/Ned Davis Research Smart Sector® Series and NDR Catastrophic Stop, hosted by Art Day, on July 19, 2023, at 4:15 p.m. EDT](#)

[Day Hagan Technical Analysis, hosted by Art Huprich, CMT, on July 25, 2023, at 4:15 p.m. EDT](#)

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