

August 15, 2023

## Wall Street Narrative & Smart Sector Update

### Summary

Considering [the S&P 500's \(SPX\) bearish short-term Outside Reversal](#) and move below support, the SPX's target being met, excessively optimistic sentiment, and a seasonally sloppy period for equities (August/September), Wall Street's narrative has been about both bullish and bearish *non-price-related* macroeconomic themes.

### Smart Sector Strategies

#### U.S. Equity Strategy

The **NDR Catastrophic Stop Loss model**, one of the main risk management components of the Smart Sector strategy, suggests a fully invested equity position relative to its benchmark (SPX). However, several of its indicators have moved closer to neutral levels. **We have an objective, unemotional plan to reduce exposure should these indicators move the model toward a higher cash allocation.**

From a *non-price-related, macroeconomic, fundamental perspective*, the Bulls are focused on a soft landing, disinflation traction, peak Fed rate hike policy, consumer resilience, the AI secular growth tailwind, and record money market fund assets (FOMO—fear of missing out). Simultaneously, the Bears are espousing higher-for-longer monetary policy (Fed's job is not yet done), lagged effects of tightening, liquidity headwinds, sticky inflation pressure, U.S. debt downgrade, China recovery woes, and the recent uptick in energy prices and yields (TIAA—there is an alternative).

**Figure 1: S&P 500 with 21-day MA (red dashed line, resistance), 50-day MA (green dashed line, support) and 150-day MA (blue dashed line, support).** | Numerous *areas of overhanging selling pressure* (resistance), starting at approximately 4527 and scaling higher, are highlighted in red. Areas of support are highlighted in green, starting with last Friday's low/rising 50-day MA, at approximately 4444.



**Please Note:** Over the past few weeks, the SPX has opened stronger (higher) but closed weaker (down or well off its intraday high), a sign that **the current pullback has not run its course**. A good guidepost of when the current consolidation/pullback ends will be when this pattern no longer occurs, or when *the market opens weaker (lower) and closes strong (up or well off its intraday low)*.

Following the most recent update, the **NDR Sector Allocation Model**, another risk management component of the Smart Sector strategy, recommended an *overweight position in Energy*.

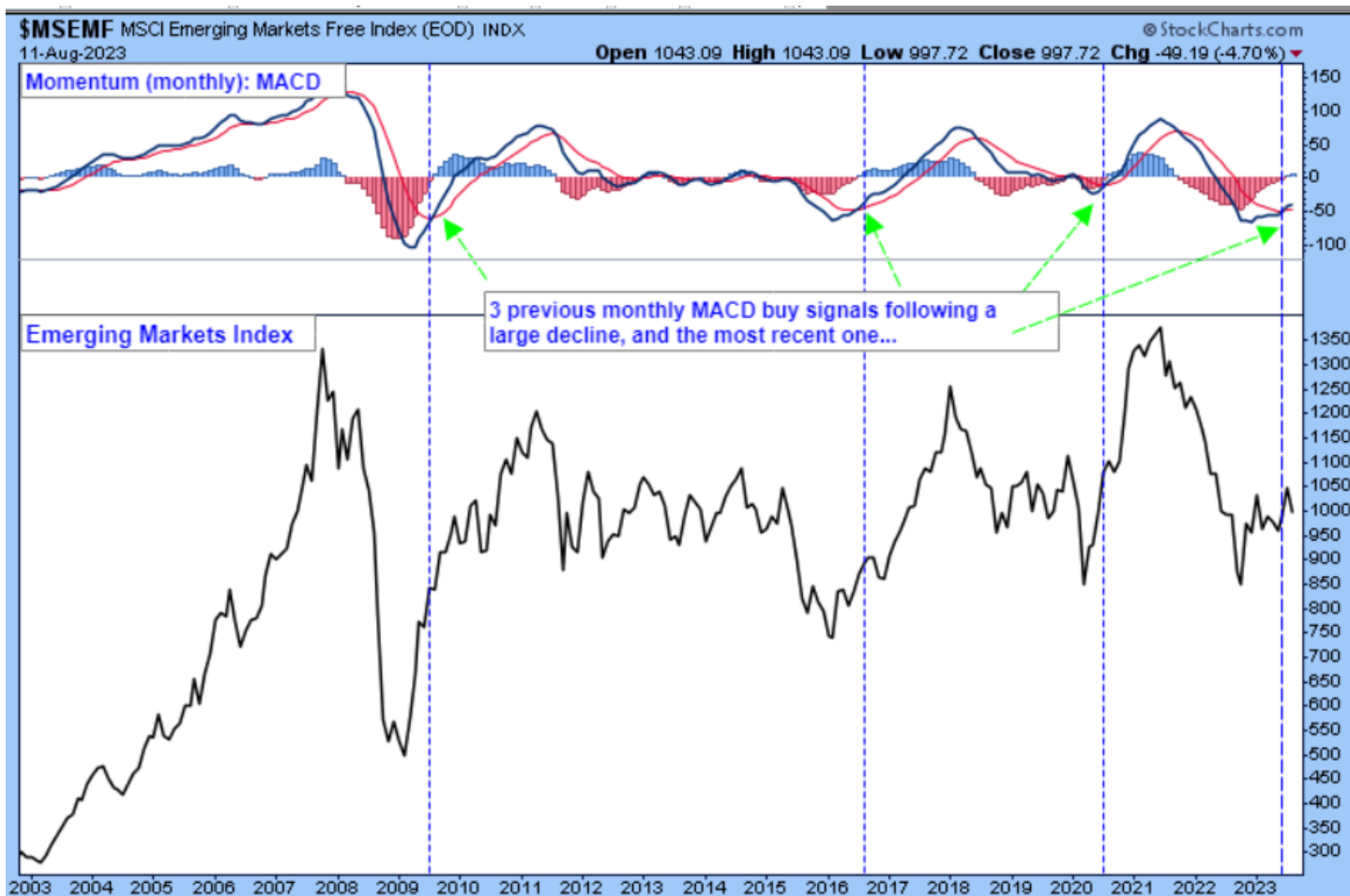
**Figure 2: Energy versus SPX and Technology.** | A relative strength chart of Energy (XLE) versus the SPX, and specifically Technology (XLK), lends credence to this assessment.



## International Markets ex U.S. Strategy

Both the "Core" and "Explore" aspects of the strategy overweighted several countries associated with Emerging markets. From a macro, *non-trading perspective*, Figure 3 supports this.

**Figure 3: Emerging Markets Index with Momentum** – monthly data. | While there was some hesitation following each of the previous monthly buy signals—which appears to be occurring this time—sharp gains were realized over *time*.



With a large sector weighting in finance and energy, **Canada** received an overweight rating. NDR notes, "Earnings revisions jumped as analysts have become more optimistic on the individual companies. Inflation slowed to within the central bank's control range for the first time since March 2021."

**Figure 4: Canada** with 200-day MA (blue dotted line) plus **Toronto Stock Exchange A/D Line**. | Following a bullish move above its February and April/May price peaks, a pullback occurred here, as did many global markets. Proximity to support (green line and blue line) provides a good entry point and helps identify a stop-loss point.



## Fixed Income Strategy

Why do I feel the time is right for a strategy that will help navigate the current interest rate cycle?

**Figure 5: U.S. 10-Year U.S. Treasury Yield w/12-month MA.** | When it comes to answering “Why,” they say a picture is worth a thousand words...



Relative to this strategy, NDR states “**Emerging Market (EM) bonds**’ allocation... is now **overweight**... Emerging Markets have a positive relationship with rising commodity prices. During the month of July, commodity strength improved.” Figure 6.

**Figure 6: GSCI Commodity Index, Crude, Natural Gas and Gasoline.** | As expected, resistance has done its job on all four charts—red line. However, given what still appears to be a historically high underweight position in the commodity complex (Bank of America Global Fund Manager Survey), I wouldn't be surprised to see resistance violated in some of these charts at some point.



**Note:** Please reach out for a chart of Emerging Market Bond proxy.

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 08.13 & 14.2023. 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 August 16, 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 August 16, 2023, at 4:15 p.m. EDT](#)

[Day Hagan Technical Analysis, hosted by Art Huprich, CMT, on September 12, 2023, at 4:15 p.m. EDT](#)

## Disclosure

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