

Day Hagan *Chart Jamboree*

2H23: Themes

“A Chart is a pattern of human behavior.” ~William O’Neil

Please Note: Next Chart Jamboree will be September 2023

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2H23 Themes (select, not listed in order of importance)

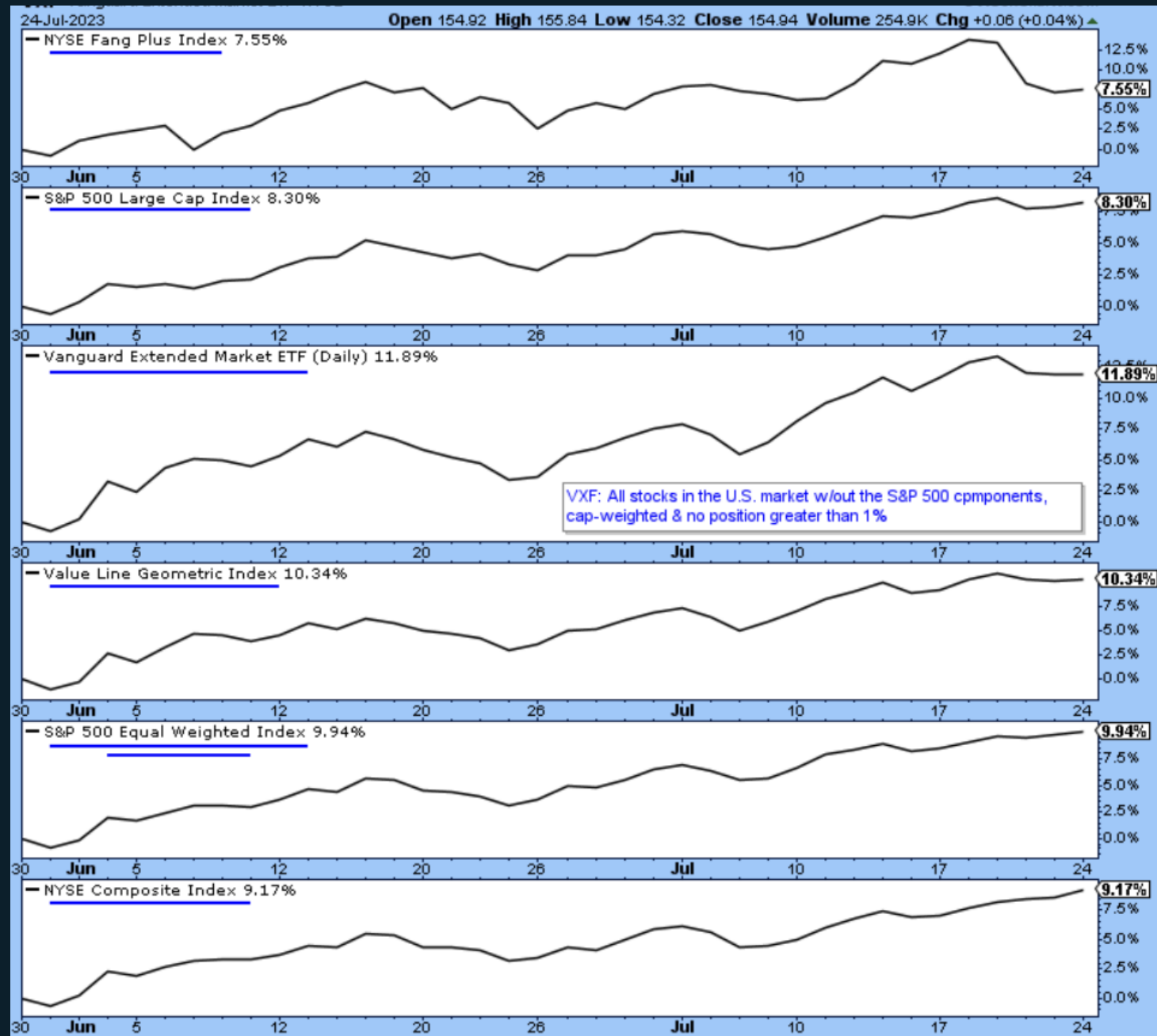
- **Breadth/Participation:** Has been improving since June (minimum) – Rotation. Does it continue?
- **Central Bank(s) Policy/Actions:** Wednesday's Q&A (forward guidance) will be an important dynamic
 - High Yield Option Adjusted Spreads: Not expanding, still supportive—please reach out for a chart
 - “A standout of economic strength has been emerging economies outside of China.” ~NDR
- **U.S. Dollar Index:** Bounced from where it should. Now, contending w/ resistance (as are stock proxies).
- **Interest Rates (10-Year Yield):** *Stuck in the Middle with You*, until some type of resolve...
- **Commodities:** Does recent strength (oil/energy) affect the soft-landing narrative? Opportunities?
- **Small (& Mid-Cap) vs Large:** Been a good trade...Approaching new inflection point...
 - **Regional (& Big) Banks:** Most recent highlight, 7.18.23 report – reach out for updated charts
- **Risk-On vs Risk-Off Proxies:** Refer to slide #8—High Yield Bond proxy
- **Sideline Cash** (supportive/bullish) vs. **Seasonality & Sentiment** (headwind/bearish)

We continue to take a weight-of-the-evidence approach—“See the Signals.” As our models go, so will we.

2H23: Participation, Rotation

- High stock market concentration is not a bearish development in and of itself. If the largest stocks can hold up on an absolute basis while breadth broadens out, the market can move higher as leadership rotates.
- Improving Cap Breadth:** More than 58% of S&P 600 small-caps and more than 71% of S&P 400 mid-caps were above their 200-day moving average (a/o 7.21.23), indicating improving breadth beyond U.S. mega-caps. Please reach out for a chart.

Takeaway: “Rotation” has occurred since at least the beginning of June - so far, so good. Supportive!



Rotation... Following a series of encouraging inflation reports, global equities have been driven by a shift toward soft landing expectations, enabling the advance to broaden out.

These clips depict relative strength trends—flattening, declining, rolling trends. Starting to reverse?

Takeaway: “We are watching for a rotation from Tech into better-valued sectors which would increase the chances of breadth improvement and reduced concentration.” NDR

Supportive!

Cap-Weighted Broad Sector Leadership Trends



UIP518A



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2H 23 Theme: U.S. Dollar Index

With many cross-asset influences (emerging markets, commodities, multinational corps and their profit margins), it bears watching this index daily.

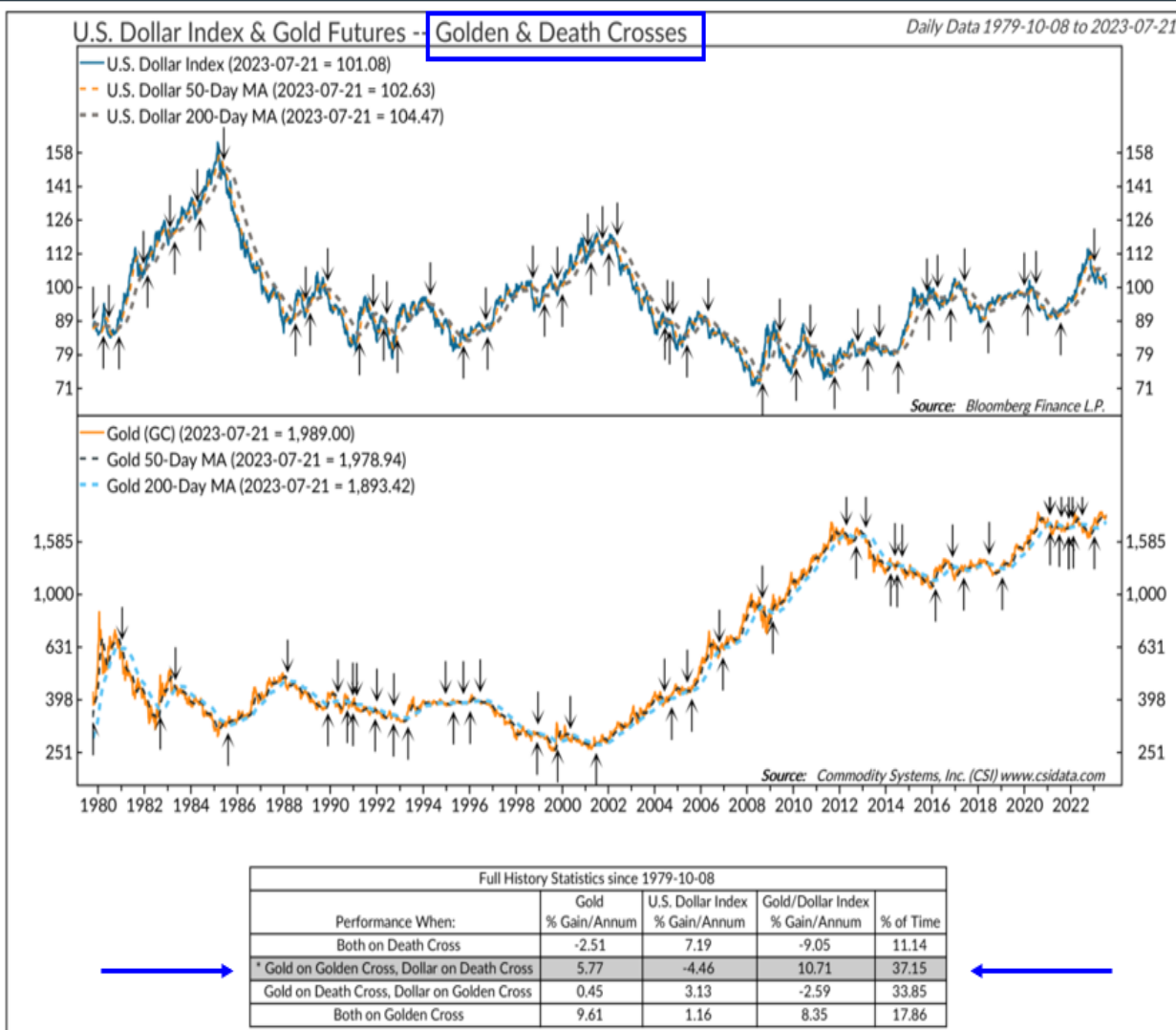
Takeaway: Is it possible that the falling dollar over the past nine months turns out to be a tailwind for upcoming earnings results?

Given the ramifications for overseas markets, please let us know if you'd like to schedule a call to go over the process & discipline underpinning our **Smart Sector International strategy**.



A non-trading chart from NDR: U.S. Dollar Index and Gold.

KISS: Improving short-term momentum (top frame) has produced a test of resistance (red lines).



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2H23 Theme: Interest Rates

Stuck in the Middle With You
(Steelers Wheel)

Takeaway: Don't be surprised by a choppy fixed income market until participants and policymakers see clearer evidence of slower growth and cooling inflation in the back half of 2023.

Given the ramifications for the fixed income markets, please let us know if you'd like to schedule a call to go over the process & discipline underpinning our **Smart Sector Fixed Income strategy**.



Takeaway: A 52-week high with a rising 200-day MA is one way of viewing Wall Street's current desire to take on risk.

Please let us know if you'd like to schedule a call to go over the process & discipline underpinning our **Smart Sector Fixed Income strategy**.



2H23 Theme: Commodities

In homage to the recent MLB All-Star game, won by the out-of-favor National League for the first time since 2012 (11 years), we are seeing signs of life by another “out-of-favor” complex.

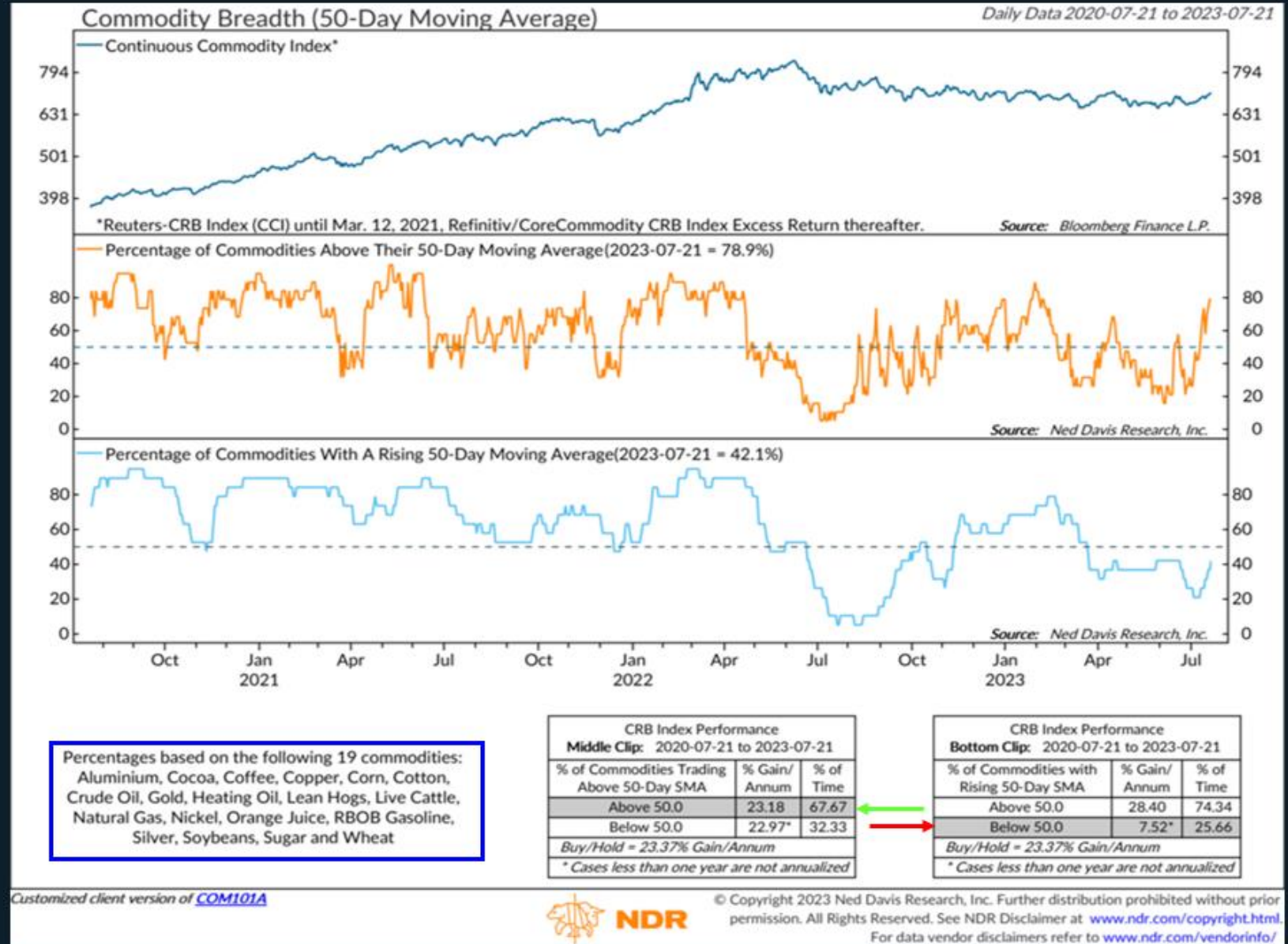
Takeaway: Does recent strength (oil/energy) affect the soft landing narrative (& subsequent broadening equity participation)?



Takeaway: Commodity breadth is improving short-term, using a 50-day MA.

% Commodities above 200-day MA, now at 63%, turned “bullish” at the close yesterday, 7/24/23.

Note: Commodity trends are often effective leading indicators of inflation. Since bond prices are highly sensitive to inflation, it is important to watch the trends of commodity prices.



Contrarian = Commodities

Energy (value, dividends) on a pullback only.

The **NDR Sector Allocation Model**, a major component of our equity-centric **Smart Sector with Catastrophic Stop strategy**, will update 8/1/23.

Let's see if it continues to shift towards cyclical areas of the equity market.



\$WTIC Light Crude Oil - Continuous Contract (EOD) CME

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24-Jul-2023

Open 77.01 High 79.28 Low 76.44 Close 78.74 Volume 34.0M Chg +1.67 (+2.17%) ▲



"Support. Are my aging eyes deceiving me?" (June webinar)

Next objective



No prediction of how long this lateral trend persists.

What I will say is that market participants will likely get bearish (risk-off) if this decisively breaks topside

\$2.84

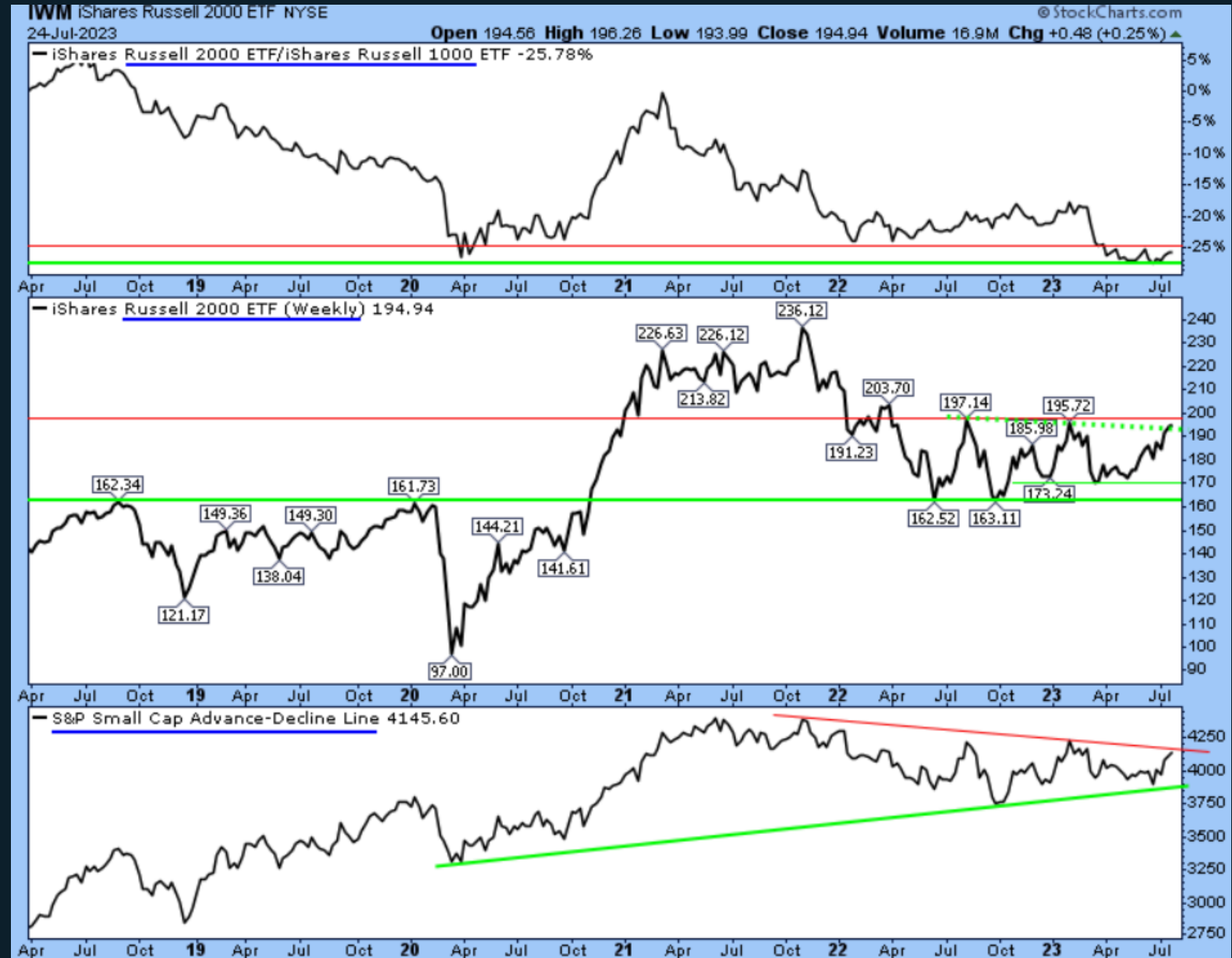
2H23 Theme: Small vs. Large

It's Now or Never

Elvis Presley, 1960

Takeaway: On a relative basis (top frame), actual basis (middle frame) or A/D Line basis (lower frame), we need topside breakouts for the uptrend to extend deeper into the 2H of '23, especially if the Magnificent 7, Elite 8, or Big 9 pull in.

While I like what I am seeing, "it's now or never."



2H23 Theme: Sentiment

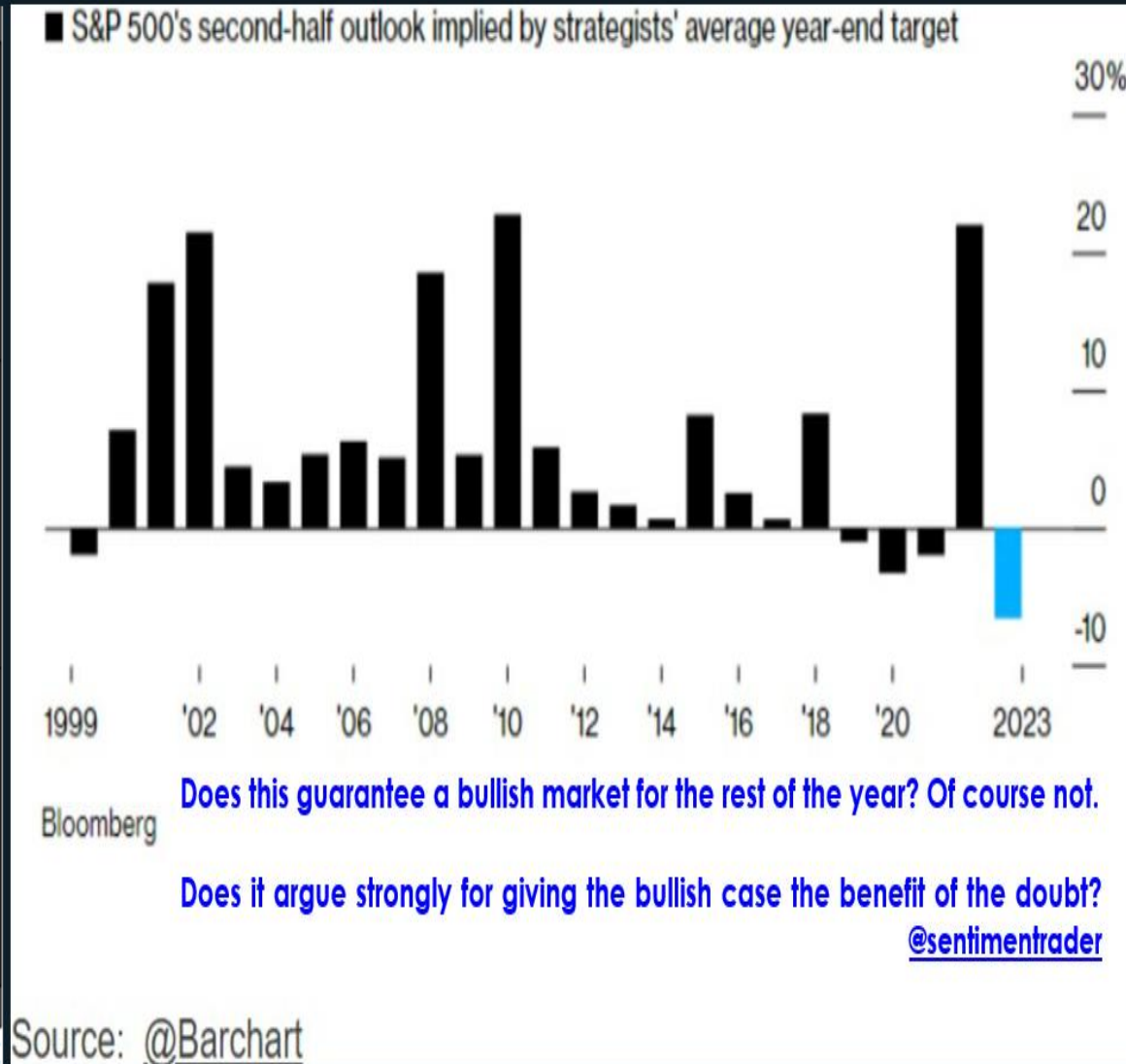
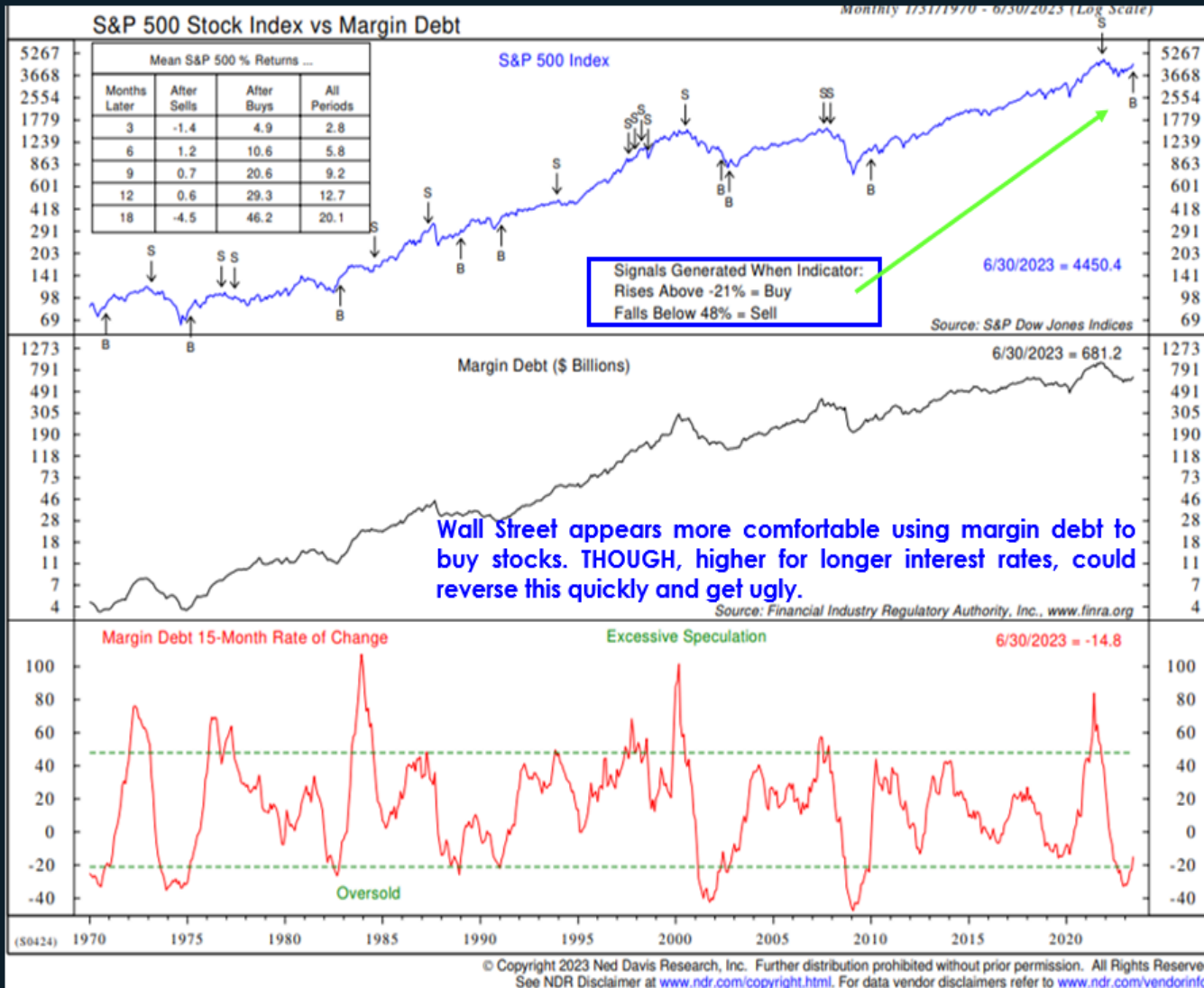
“Nothing Like Price to Change Sentiment” ~Helene Meisler (HM)

- Recent market strength has pushed both the **NDR Daily Trading Sentiment Composite** and the **Crowd Sentiment Poll** into their extreme optimism modes. Both can stay that way for a while.
- This is an indication that investors are pricing in perfection in the near-term during this earnings season as well as economic data and Fed policy. These readings alone are not a reason to get defensive, but it shows that the hurdle rate is high for the market to continue its current trajectory in the near-term.
- If optimism is relieved without too much technical damage, it would support a continuation of the rally and cyclical sector leadership deeper into the second half.

In terms of signals, we look for extremes (like now) and then a reversal for a sell signal.

Potential Sideline Catalysts (buying power)

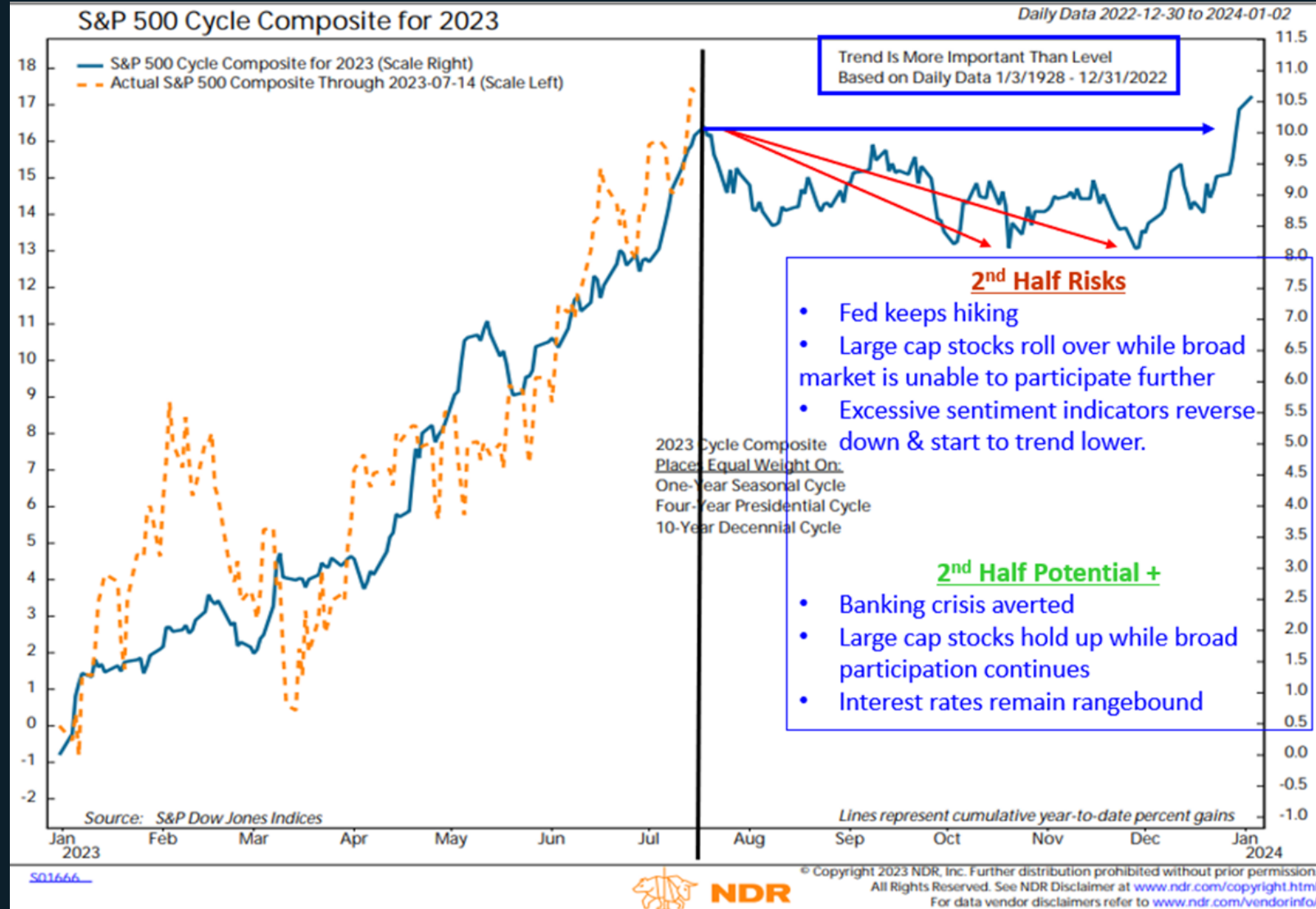
While I have a problem with this tactic (margin debt to buy stocks), the buy (B) & sell (S) signals have added value.



2H23 Theme: Seasonality

Takeaway: Currently, this suggests that a seasonal headwind is building.

Note: Outside forces can overwhelm cycles and seasonal trends; therefore, we view this as a secondary indicator.



Bottom Line

(Slides 17 & 18)

- Model and additional indicator deterioration would dictate a cut in equity exposure. **It hasn't happened yet**, as the **NDR Catastrophic Stop Model** supports a bullish thesis relative to the S&P 500. But we will be quick to decrease equity exposure should our models and indicators turn more bearish.
 - The question now, **"How might a Catastrophic Stop sell signal be generated?"**
 - **There are several paths to a sell signal**, but I would expect to see our shorter-term trend and relative strength factors reverse to sell signals along with measures of market sentiment evidencing signs of reversing as fear starts to build, including **credit spreads widening** and **high-yield/EM bonds underperforming**.
 - We would also likely see **breadth and supply/demand reverse**.
- For the rally to continue into the second half of 2023, breadth needs to move in sync with the indices—**sector rotation continues**—as it has since the beginning of June.
- **Downside risk remains, especially if the Fed stays aggressive. But upside risk is present if inflation remains subdued and the soft-landing narrative isn't disrupted.**

- “Steep uptrend lines are hard to maintain so they often get broken. **It's what happens on the subsequent rally that counts—does a lower price peak get recorded?**” ~HM
- **Sectors:** The laggards (poor/uninspiring relative strength trends) need to continue to participate and, ideally, become the leaders (improving/strong relative strength trends), at least for a while.
 - In other words, Information Technology, Consumer Discretionary, and Communication Services take a breather—profit taking/buyer fatigue. At the same time, Energy, Financials, Industrials, and Materials have a go at it.
 - **Financial vs. Technology** has an interesting (bottoming) look. Let me know if you'd like to see the chart.
 - The **NDR Sector Allocation Model**, a major component of the **Smart Sector U.S. Equity strategy**, updates next Tuesday, 8/1/23.
- Small/Mid-Caps tend to outperform Large Caps when recession fears abate—**soft vs. hard landing.**
- **Commodity trends** are often effective leading indicators of inflation. Since bond prices are highly sensitive to inflation, it is important to watch the trends of commodity prices.

Trends

A Chart is a Pattern of Human Behavior

~William O'Neil

KISS: Keep it Simple S...

We are in the heaviest week of Q2 earnings along with the FOMC release on Weds, with the market expecting a 25-basis point rate hike. "The market sentiment is expecting this to be the last rate hike but only the press conference with Chairman Powell will shed light on the forward policy.

"This coincides with the huge volume of earnings releases on tap with over 160 companies representing nearly 40% of S&P 500's market cap scheduled to report." ~JPM



KISS...

Closer to resistance than support...

Resistance = red horizontal lines and upper price label

Support = green horizontal lines and lower price labels

Takeaway: See slide 25 – bullet points 2 and 7 - **bolded**.



KISS...

Closer to resistance
than support...

Resistance = **red** horizontal lines and upper price label

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Day Hagan Technical Analysis

KISS...

Closer to resistance than support...

Resistance = **red** horizontal lines and upper price label

Support = **green** horizontal lines and lower price labels

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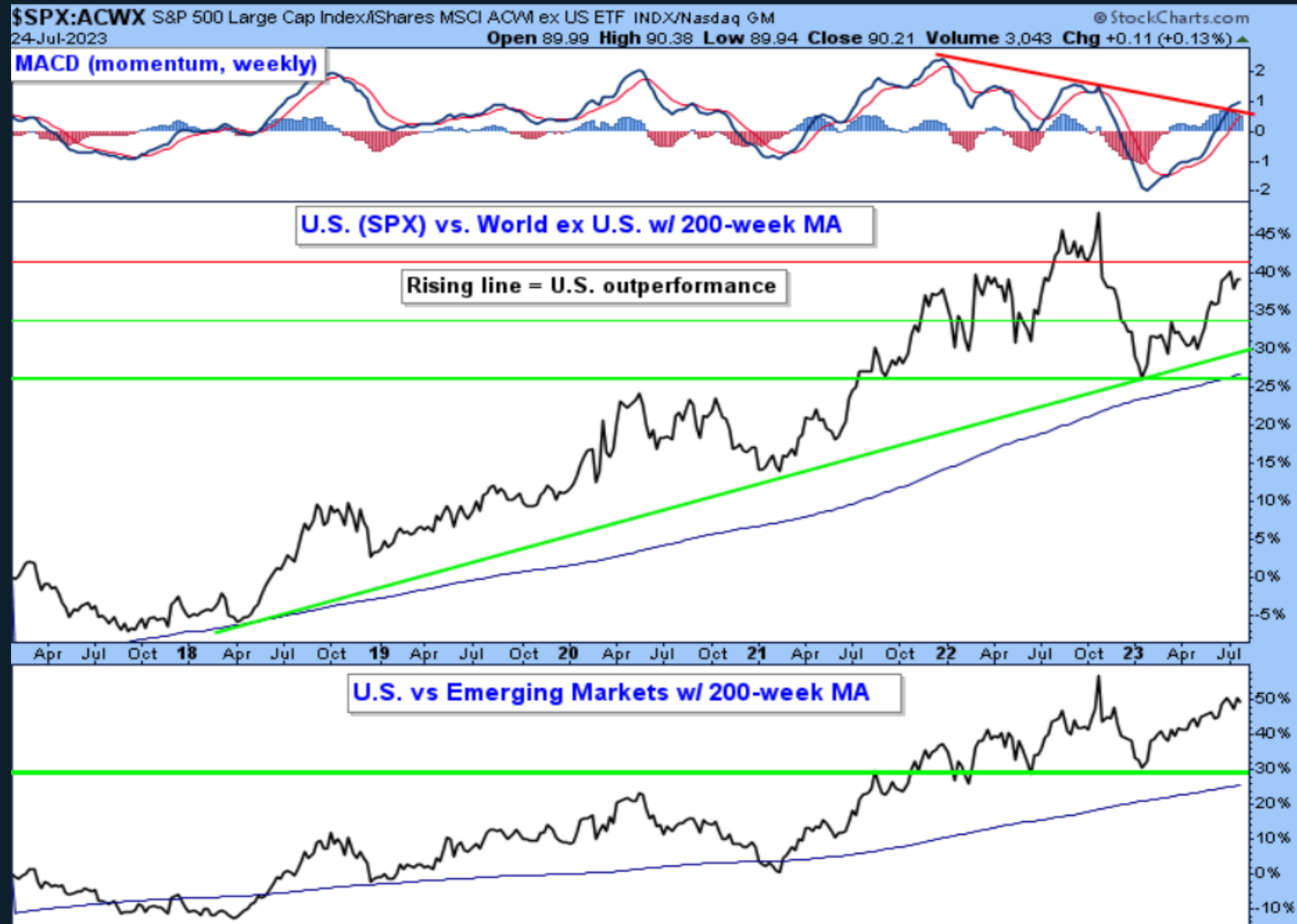


U.S. vs. The World ex. U.S. – weekly (domestic vs. overseas/emerging relative strength analysis)

If this relationship is going to stall/consolidate/reverse, this is the area where it should start.

Takeaway: Until then, U.S. > World ex U.S. & Emerging

Please reach out about how the **DH/NDR Smart Sector International strategy** is positioned.



Final Thoughts Until Next Webinar (September 2023)



Bob Farrell: “Market Rules to Remember” (a select list)

- Markets tend to return to the mean over time.
- **Excesses in one direction will lead to an opposite excess in the other**—pendulum swings both ways.
- There are no new eras—excesses are never permanent. *Jesse Livermore: A lesson I learned early is that there is nothing new in Wall Street. There can't be because speculation is as old as the hills. Whatever happens in the stock market today has happened before and will happen again.*
- Exponential rapidly rising or falling markets usually go further than you think, but they do not correct by going sideways—even though a hot group will ultimately revert back to the mean, a strong trend can extend for a long time. Once this trend ends, however, the correction tends to be sharp, e.g., NASDAQ '98-'00 followed by 2000-2002/3 bear.
- The public buys the most at the top and the least at the bottom.
- Fear and greed are stronger than long-term resolve (“Would you rather be right or make money?” ~NDR. Don't let emotions cloud your decisions or affect your long-term plan. Plan your trade and trade your plan. Prepare for different scenarios so you will not be taken by surprise with sharp adverse price movement. Sharp declines and losses can increase the fear factor and lead to panic decisions in the heat of battle.
- **Markets are strongest when they are broad & weakest when they narrow to a handful of blue-chips.**
- When all the experts and forecasts agree—something else is going to happen.
- Bull markets are more fun than Bear markets.

Thank You for allowing us to be part of your success

For More Information

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The Russell 2000 is an index comprised of the 2000 smallest companies on the Russell 3000 list. It is a widely recognized indicator of small capitalization company performance.



Day Hagan Technical Analysis

A time-tested, disciplined approach
to investing.

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