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ASSET MANAGEMENT

Day Hagan *Chart Jamboree*

It Don't Come Easy

"To expect the unexpected shows a thoroughly modern intellect."
Oscar Wilde

Presented By:

Art Huprich, CMT®
Chief Market Technician

May 2023

It Don't Come Easy: YTD Narrative, though 5.19.23

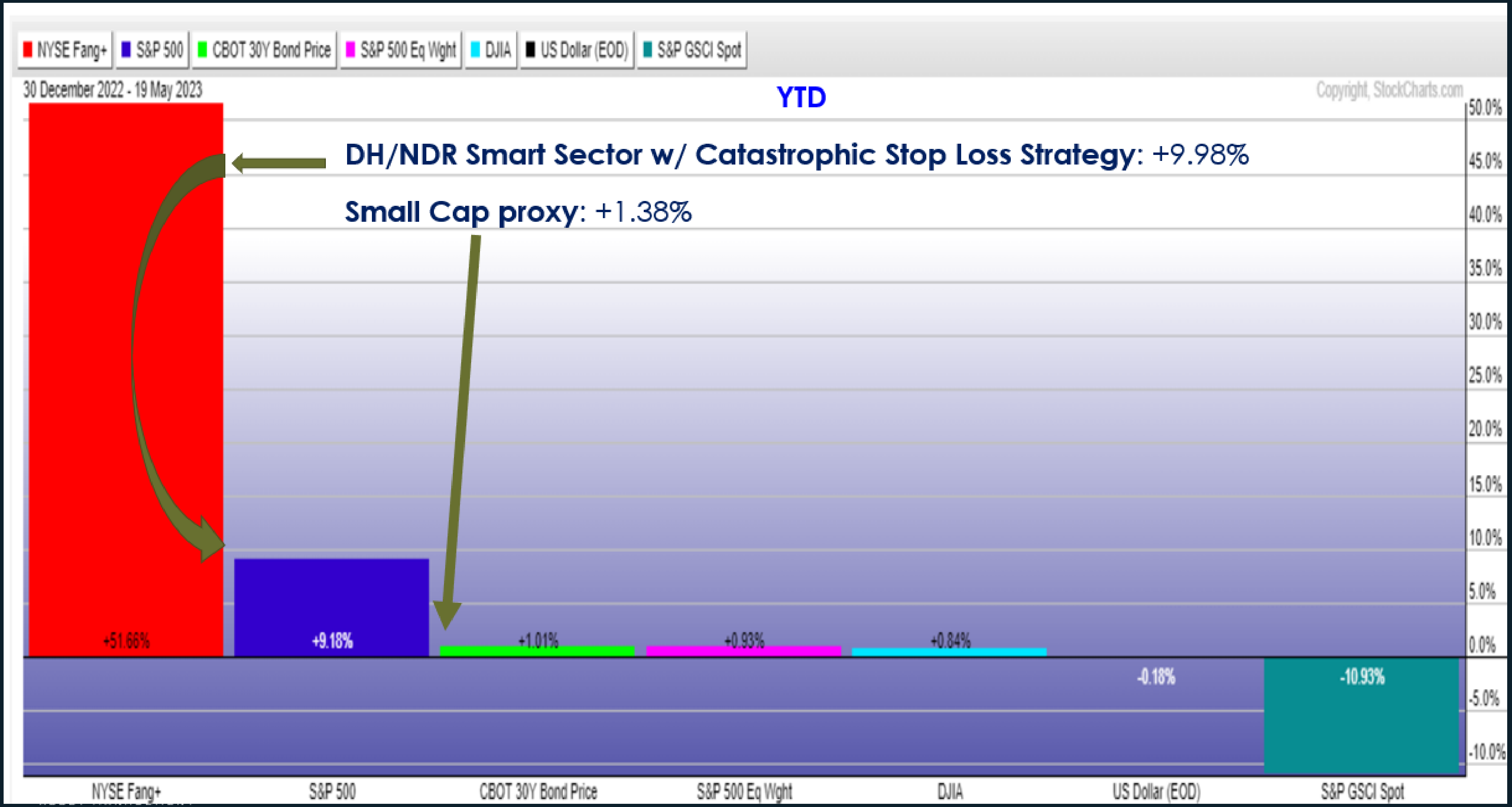
Takeaway: Why it's essential to pay attention to measures based on price… far less affected by bias or transient trends. The **DH/NDR Smart Sector with Catastrophic Stop Strategy** is unemotional, indicator driven and benchmarked against SPX.

"2023 = Inverse of 2022

The worst performers of the equity market in '22 (Nasdaq/Tech/Growth) have been the best performers thus far in '23.

And the best from '22 (Energy/Value/Equal Weight) have become the worst."

Charlie Bilello

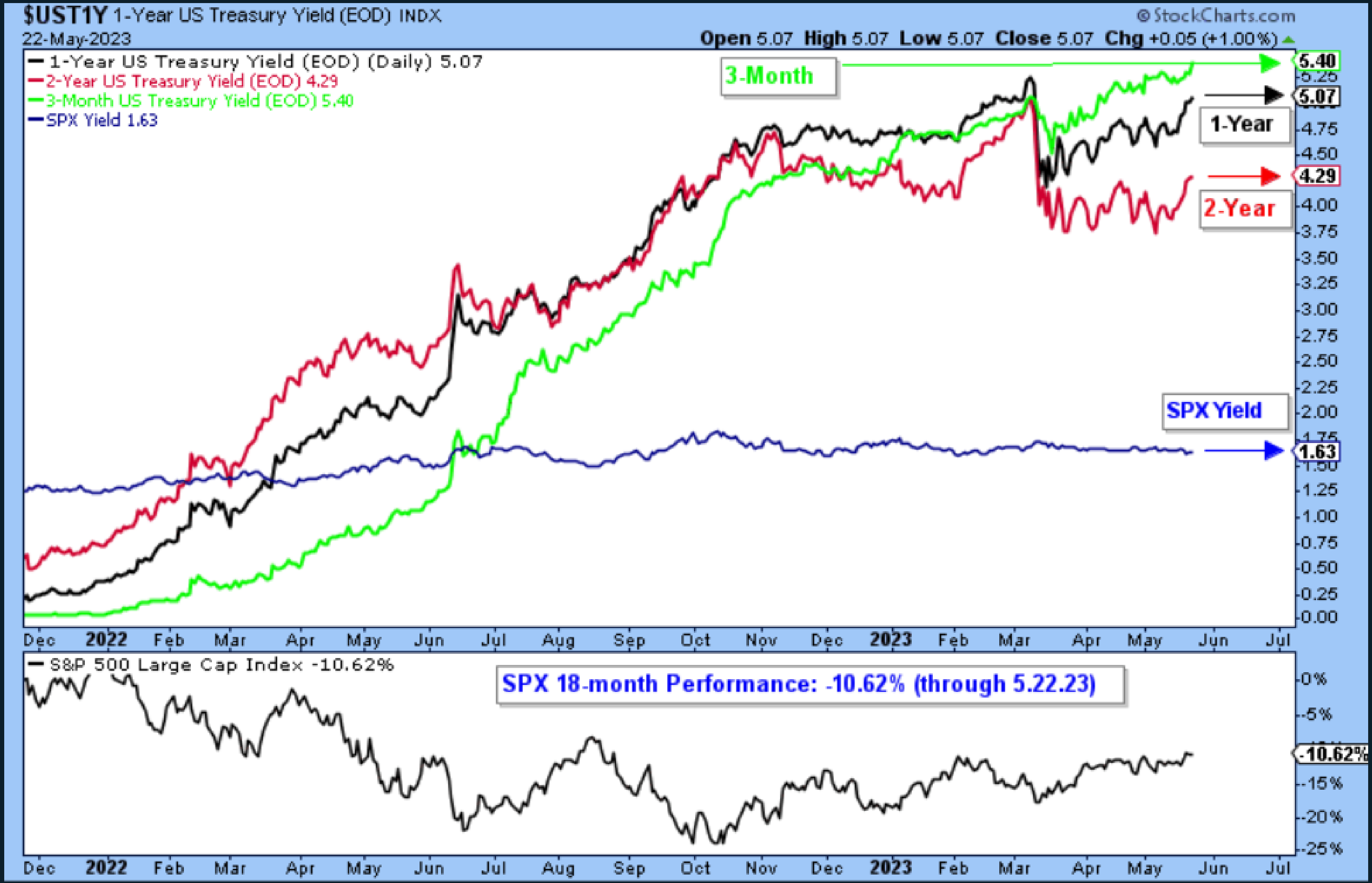


Elephant(s) in the Room
(Headwinds)

- **TIAA**: Higher yields present a reasonable alternative… "Creating a relative valuation ceiling. S&P 500 GAAP earnings yield is 4.88%, 35 basis points below the current T-bill yield of 5.23%…" (a/o 5.16.23) ~ NDR
- **Breadth** measures **need to broaden for the rally to extend**. Intermediate-term and long-term breadth gauges show that participation is lacking**.**
    - **Improved breadth would make a sustained rally deep into the second half more likely**. Specifically, **cyclical Value sectors** (financial, energy, materials) need to start to participate in rallies.
- Fed officials are playing down the **rate cuts** that are priced in later this year. I see a pause, not cuts.
    - Unless there is another disruptive credit event, the Fed is likely to hold rates higher for longer.
- The **regional banking mini-crisis** has triggered fears over whether rate hikes have exposed systemic risks and led banks to tighten lending standards, both of which may push the economy into recession.
- The **debt ceiling debate** has introduced another tail risk. More details, for your review, at the end.

TIAA…

Takeaway: We need to remain cognizant of this.



If a handful of stocks are rallying and everything else is falling, it is a warning sign of a top.
If mega-caps are leading a broad rally, it is much less of a concern.

The initial reaction to the regional banking crisis was to pile into cash-flow rich companies—mega-cap tech companies. The largest stocks drive cap-weighted indices, and in a given year, a small number account for most of the gains, which is not unusual.

Takeaway: Previous short-term breadth improvement was a good start – ex. Zweig Breadth Thrust.

But intermediate & long-term confirmation **is needed** and **has not yet happened**!

4 stocks account for 50% of NDX YTD gains...which is typical

NDX 100 Index Contribution in Years of +10-25%

Year	NDX % Gain	# Stocks Accounting for 50% of Return
1987	10.50	2
1988	13.54	2
1993	10.58	3
1997	20.63	2
2004	10.44	2
2007	18.67	3
2010	19.22	3
2012	16.82	4
2014	17.94	4
2023 YTD*	19.75	4
Median		**3**

*Through 4/4/2023 2023 not included in summary statistics. Source: Bloomberg Finance, L.P.

Ned Davis Research SSF23_13.1

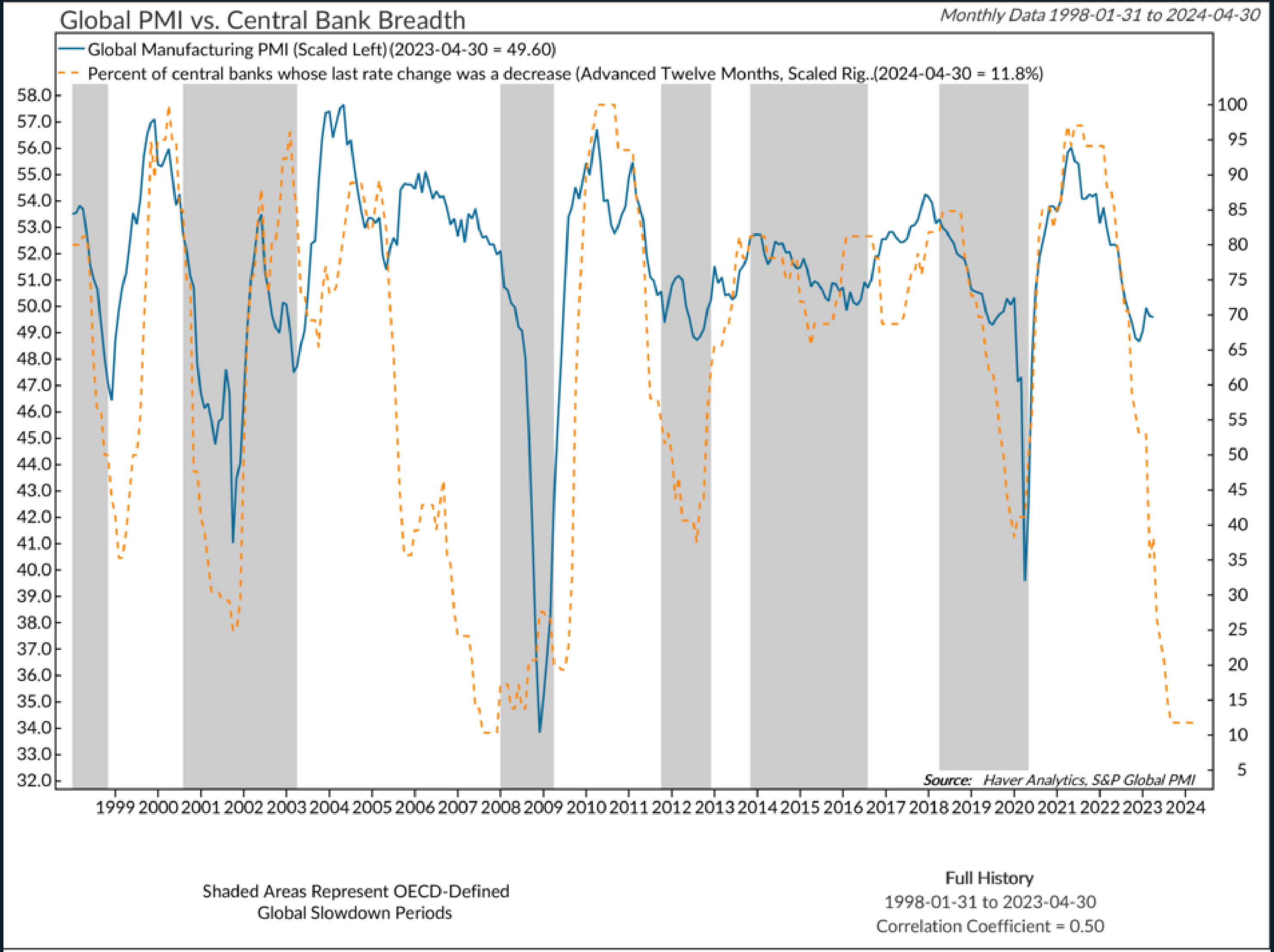
In a **healthy uptrend**, defined as **broad participation**, would we be seeing these type of dismal readings?

No, we wouldn't.

Tight Monetary Policy May/Should Impact Economic Growth

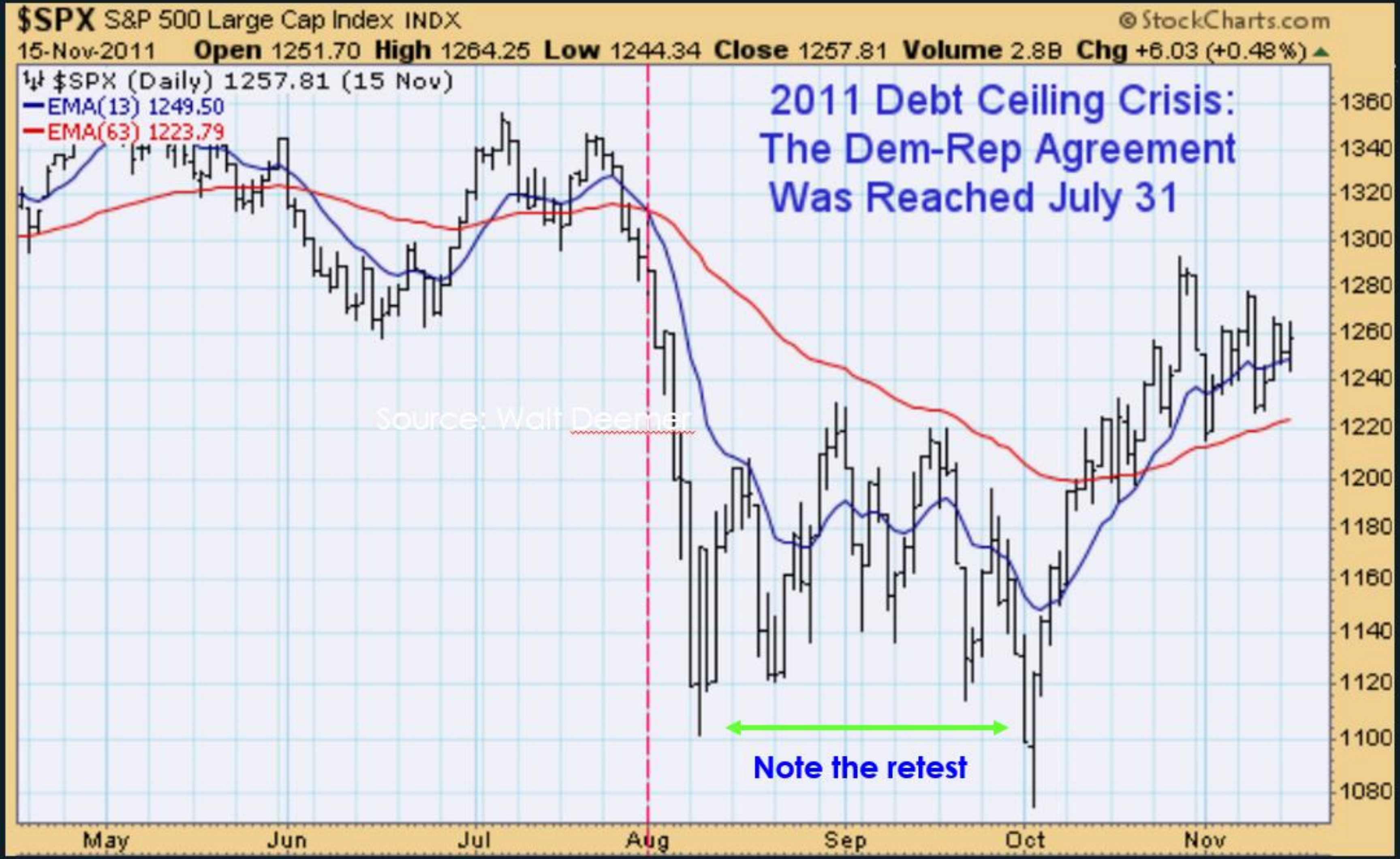
"Prior to the banking fallout economic risks were to the downside
as the delayed and full impact of tight monetary policy hasn't been fully felt."

Takeaway: "More stringent lending standards will weigh on economic growth and increase downside pressure on the global economy late this year or early next year."



During the 2011 debt ceiling crisis, most of the damage was done *after* an agreement to raise the debt ceiling was reached (red vertical dashed line).

Takeaway
Buy the rumor, sell the news?



Source: Walt Deemer

Favorable/Supportive Factors

- **Credit spreads**: Elevated from lows, but given banking crisis, inverted yield curve, & recession calls, they remain below peaks from both Sept-Oct '22 & March. **Key guidepost.** Please reach out for chart.

- **Stock/Bond Relative Strength trend:** Set a new 1-year high, turning more favorable for stocks.
  - Maybe the TIAA crowd gets squeezed?

- **U.S. Dollar and Gold:** "If the U.S. would be heading for default, foreign holders of U.S. debt would face losses, confidence in the dollar would be shaken, and a sharp dollar drop would be likely. Gold would stand to benefit, viewed as a hard currency alternative and crisis hedge. Currently neither is performing consistent with default…" ~NDR
  - **Energy Prices** (Gasoline & Crude) are contained.

- **NDR Catastrophic Stop Loss Model:** Despite the "twisting & shouting," the message remains net positive—keeping us on the right side of the major trend and our benchmark (SPX).

Favorable/Supportive Factors

- **Are Mega-Caps simply playing catch-up**?

- **Seasonal/Sentiment:** Favorable until mid-year (seasonal) and big potential tailwind based on 4-week equity fund flow including ETFs (sentiment).

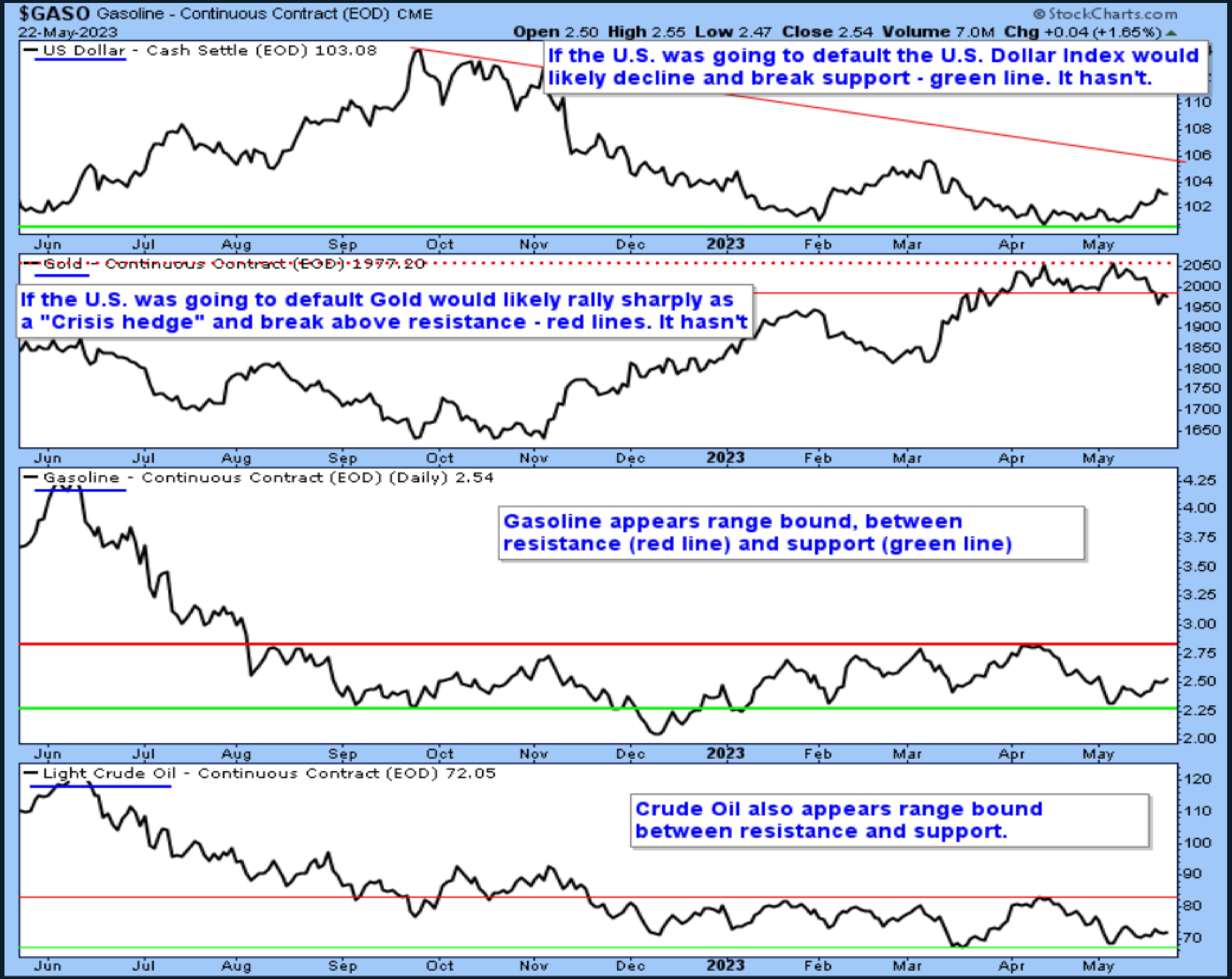
- **Peak Inflation**: Yes, I know, I know. But it will remain sticky.

- Financials / Banks / **Regionals / Communities** have stabilized.

Bottom line: 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 the banking turmoil worsen and/or our models and indicators turn more bearish.

Takeaway

Please see verbiage inside each frame.



A Catch Up Move?

A very interesting question. If "markets can remain irrational longer than many [the bears] can remain solvent," the answer is yes.

I say "Yes."

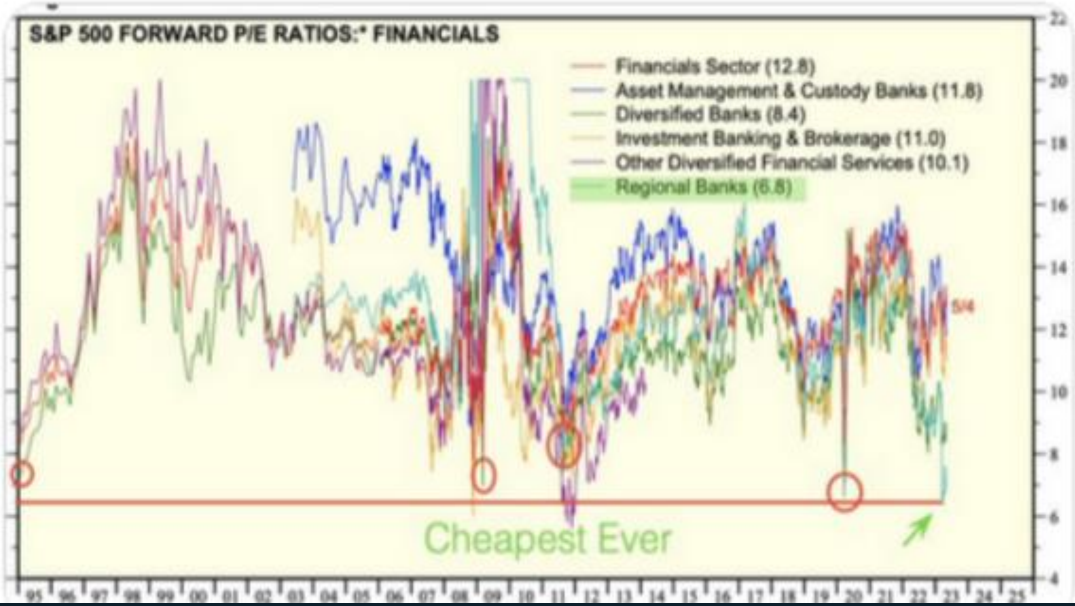
Seth Golden @SethCL · 2h

Regional banks, on a forward P/E basis, are the cheapest they have been on record! (est 1994)

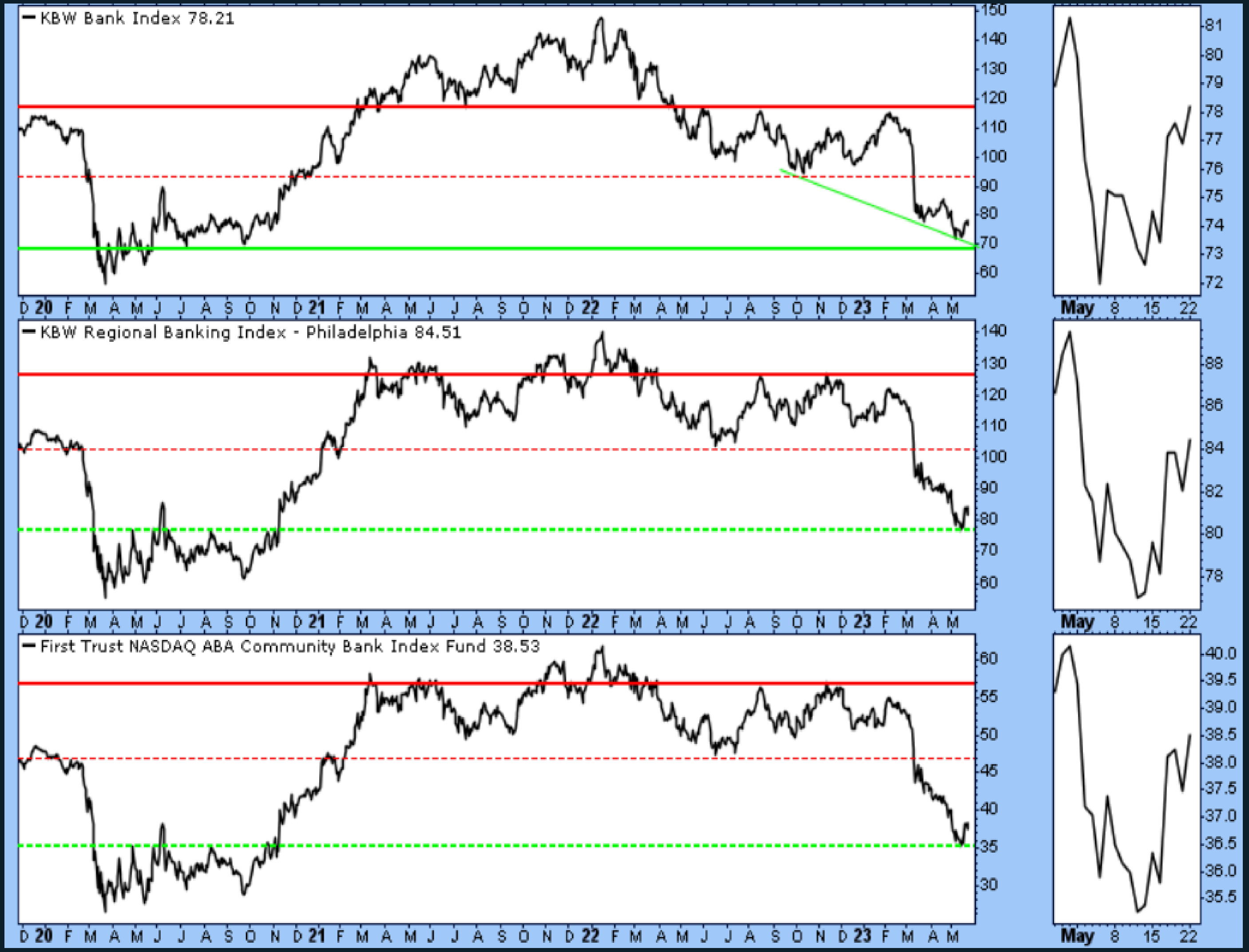
Cheaper than during the height of 2020 Pandemic.

Priced for death ☠️⚠️

$SPX $KRE $XLF $SPY

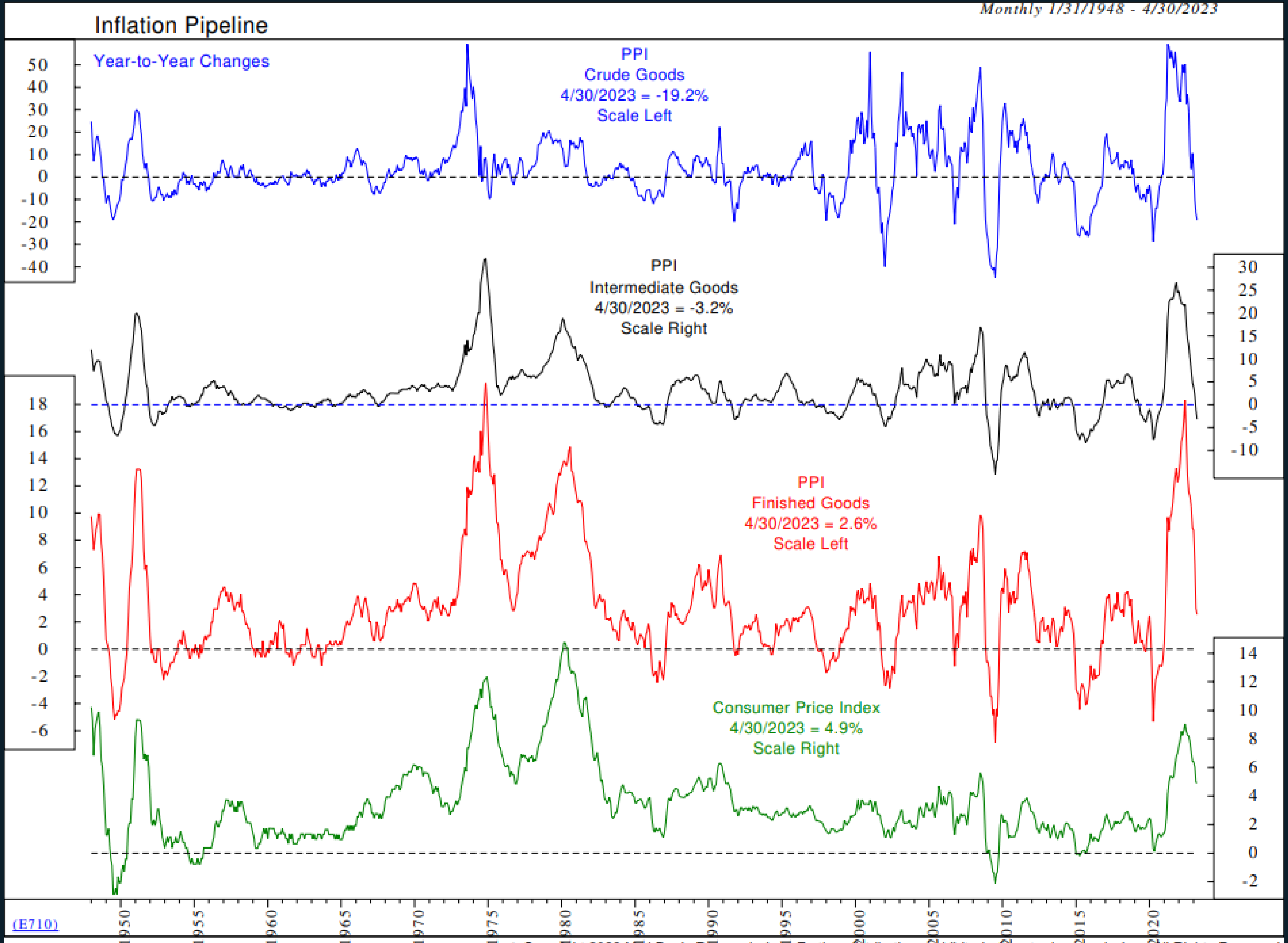


…and down near support, though **the bottoming process will be long and arduous**… Stops are a must!



"Inflation Pipeline" shows that prices at the Crude, Intermediate, and Finished stages of production are heading smartly lower. So far, prices have been stickier at the Consumer Price level. This isn't unusual. However, market forces clearly show inflation pressures abating all along the pipeline.

Takeaway: The Inflation Pipeline's message is that inflation has peaked, though we believe it will remain sticky.



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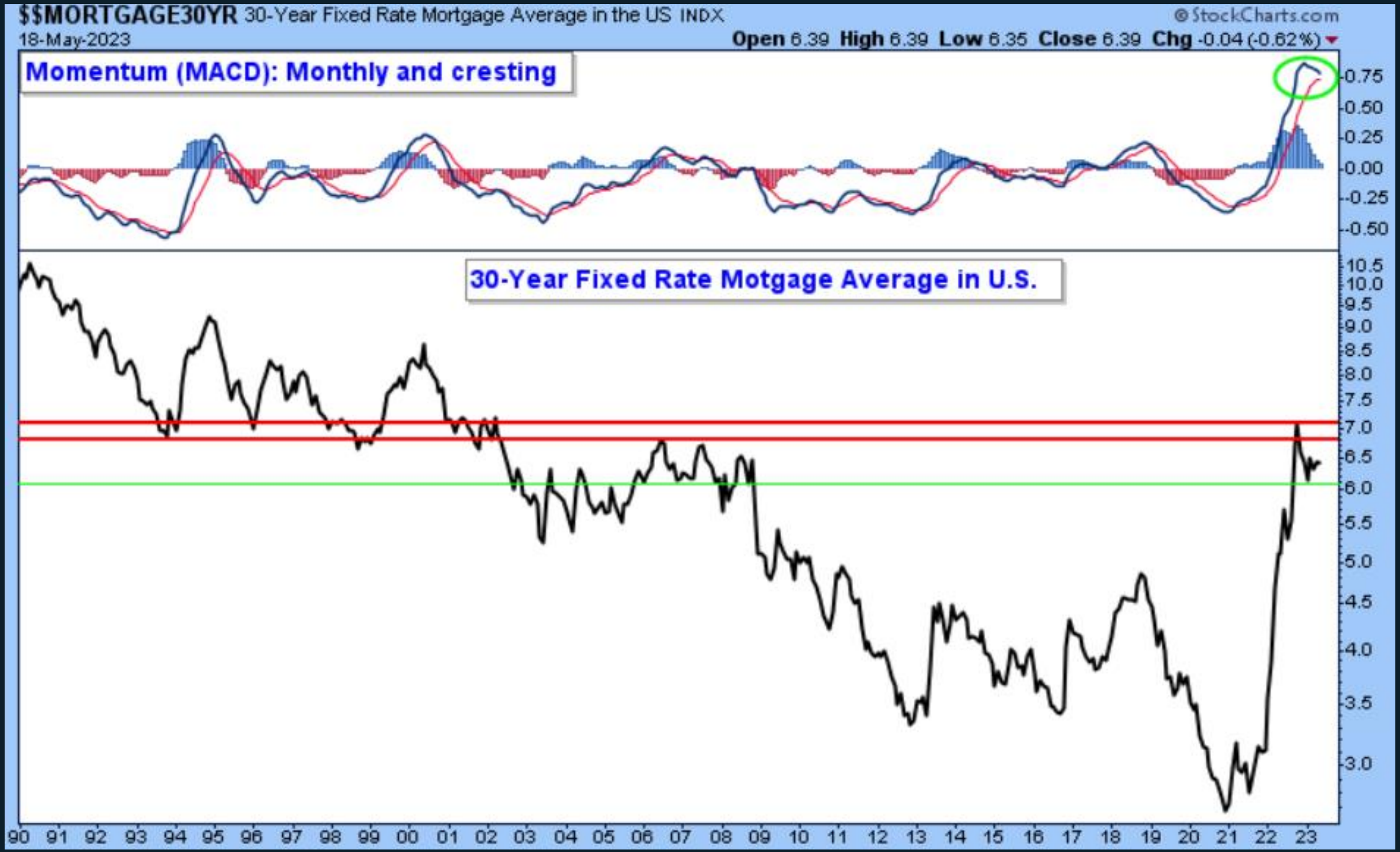
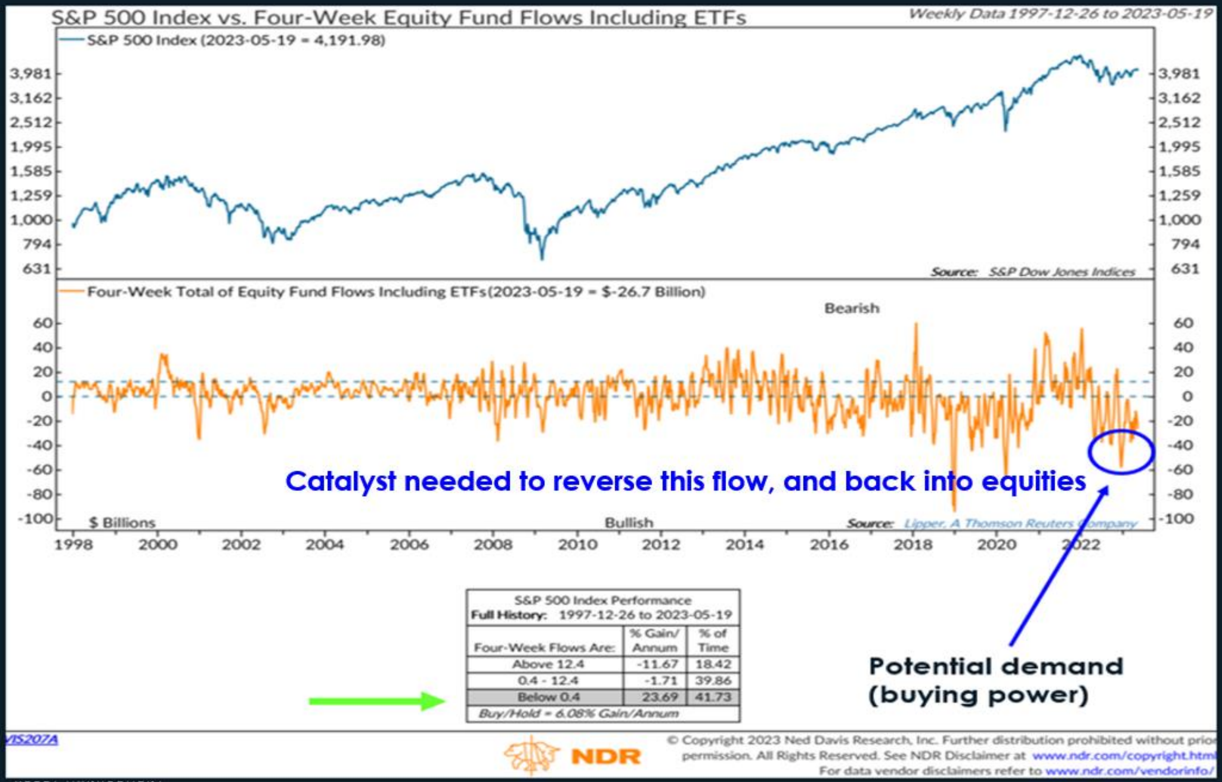
My wife is smiling again…

Chart source: Charlie Bilello

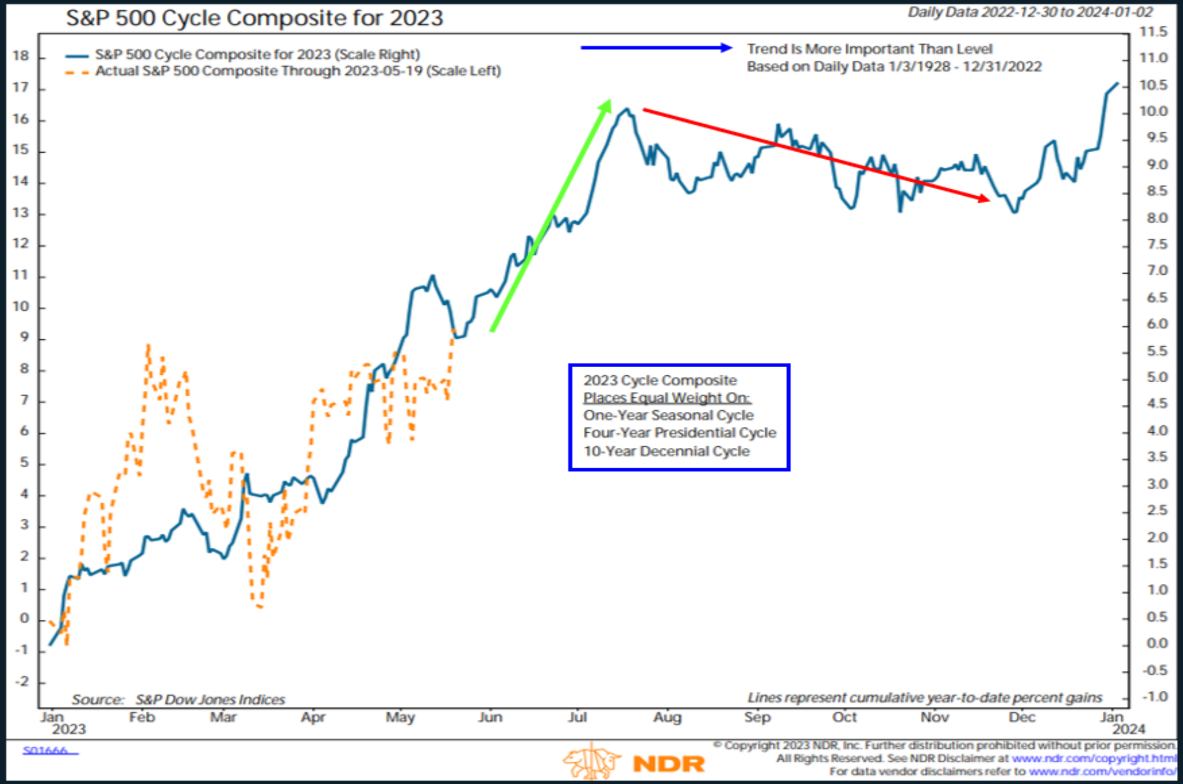
Headwinds to Tailwinds (PTP – Past the Peak)…

Have Mortgage Rates Peaked?





S&P 500 Index Performance Full History: 1997-12-26 to 2023-05-19		
Four-Week Flows Are:	% Gain/ Annum	% of Time
Above 12.4	-11.67	18.42
0.4 - 12.4	-1.71	39.86
Below 0.4	23.69	41.73
Buy/Hold = 6.08% Gain/Annum		



Equity outflows not typical at major peaks

Sentiment Tug of War

Short-term (not shown) = Excessive Optimism

Ratio of Insiders Sales to Buys. Readings under 12:1 are Bullish. Those over 20:1 are Bearish. The total top 20 sales and buys are 436,123,726 and 55,511,211 respectively; Source: Thomson Reuters

Note: As we have experienced, outside forces can overwhelm cycles & seasonal trends…

Trends

Price, Relative Strength

and Interest Rates

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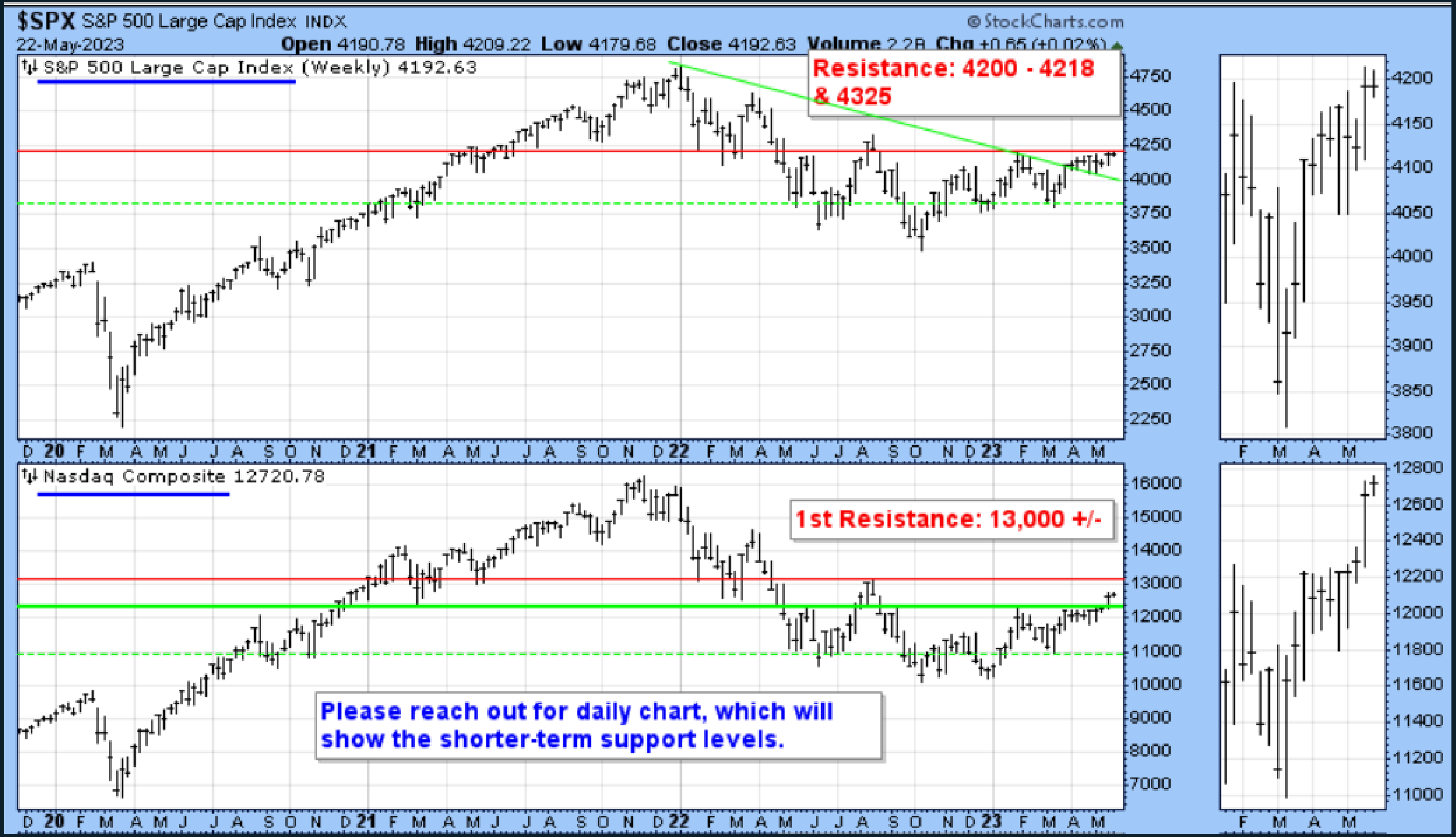
Weekly charts



Please use the thumbnail charts for short-term levels.

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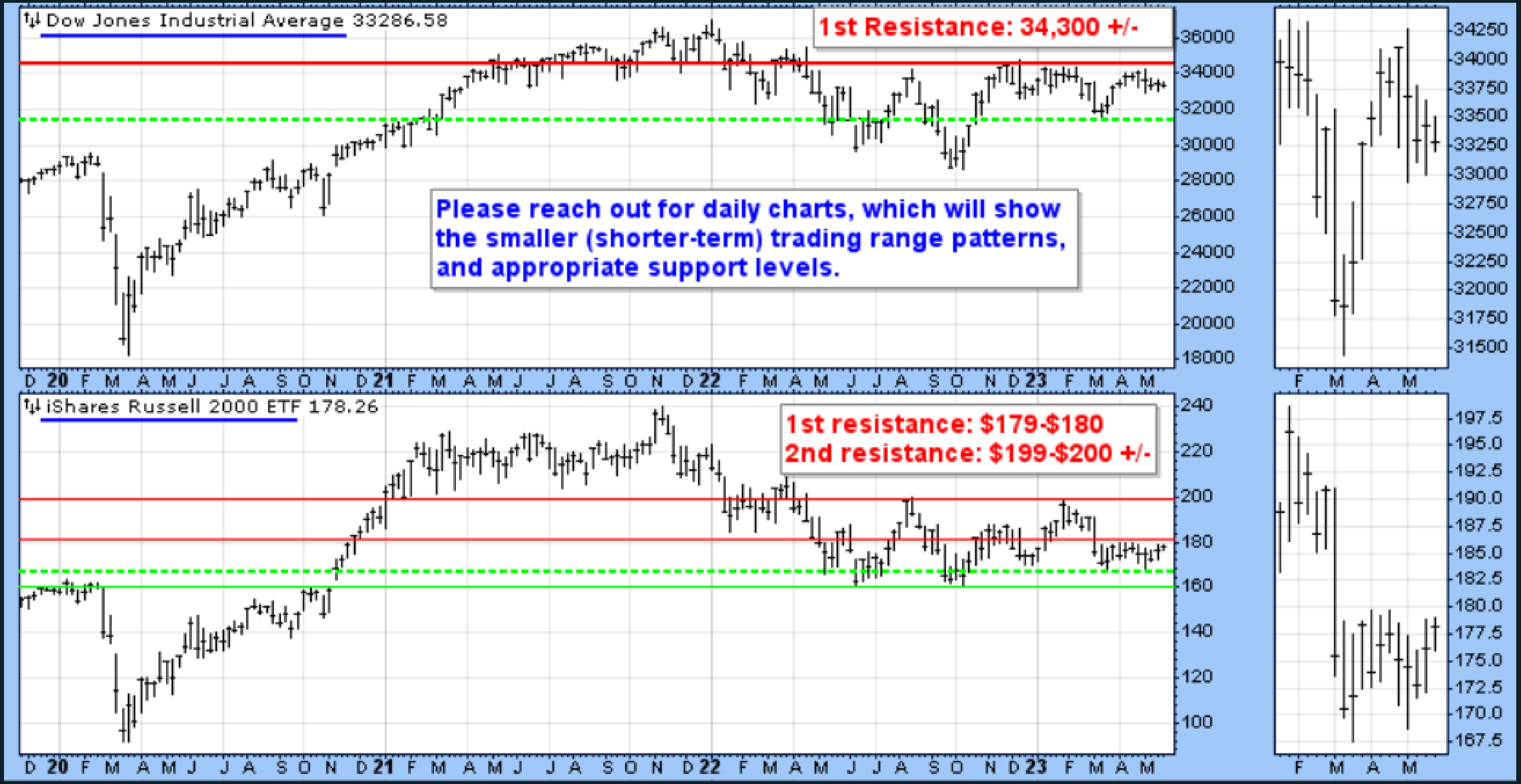
(unless you are benchmarked against the SPX)

Weekly charts



Please use the thumbnail charts for short-term levels.

S&P 500: 1-year daily

Don't be surprised to see some hesitation.

Takeaway: 4200 to 4218 & 4325 remain key inflection points—resistance.

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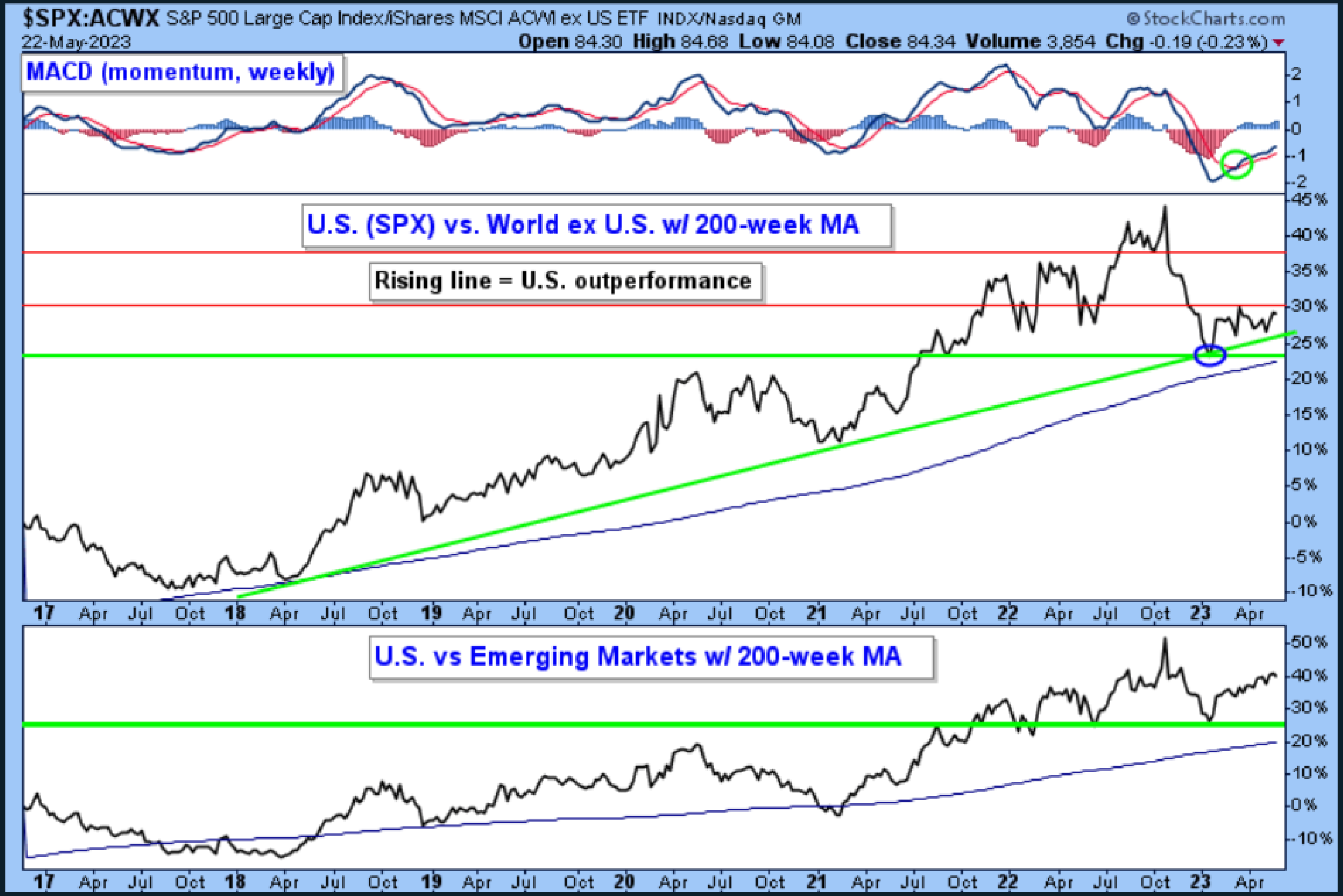
U.S. vs. The World ex. U.S. – weekly
(domestic vs. overseas relative strength analysis)

Takeaway

- **Neutral** due to overhanging selling pressure, resistance.
  - If lower red horizontal line is broken, overweight U.S.
  - If green support lines and/or blue circle is broken (middle frame), underweight U.S.
- U.S. over Emerging (lower frame)
- Please reach out about the **DH/NDR Smart Sector International strategy.**



Other interesting overseas chart configurations: South Korea, Mexico, Chile, Netherlands, Poland, Saudi Arabia, Sweden, Denmark, and Taiwan.

Let's discuss how the **DH/NDR Smart Sector International Strategy** is currently positioned.

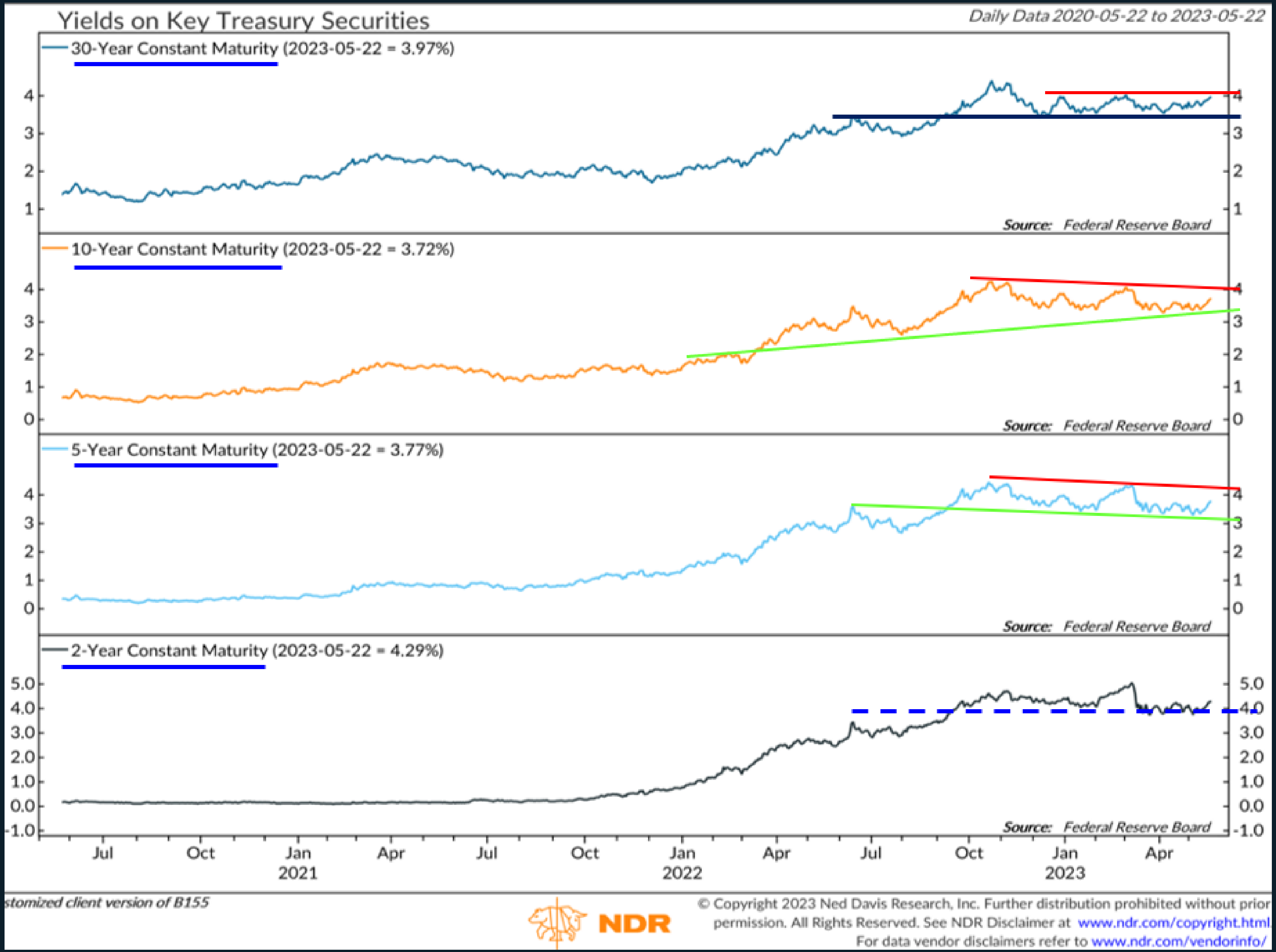
Interest Rates – Various maturities

Stuck in the Middle with You

Stealers Wheel, 1972

Important support and resistance levels.

Takeaway: A recession would likely be **led by** a breaking of support—**a guidepost.**



Learn the Pattern and It Changes

The trend of "Anything but Small Caps" has been well documented. But if there is one thing we've learned over the years, it's that the market teaches us a pattern over and over again. Once we learn the pattern, the market changes that pattern. **Note:** The pattern has been changing – "less bad."

Commodities: *Can't Like it*

While there are individual pockets of strength within this complex, from a big picture perspective, until a more definitive basing pattern develops, as my wife would say in her sweet southern accent, "I can't like it."

Said another way: "Unless you are looking for a hedge against something else 'breaking,' I'm not a fan."

Additional Observations

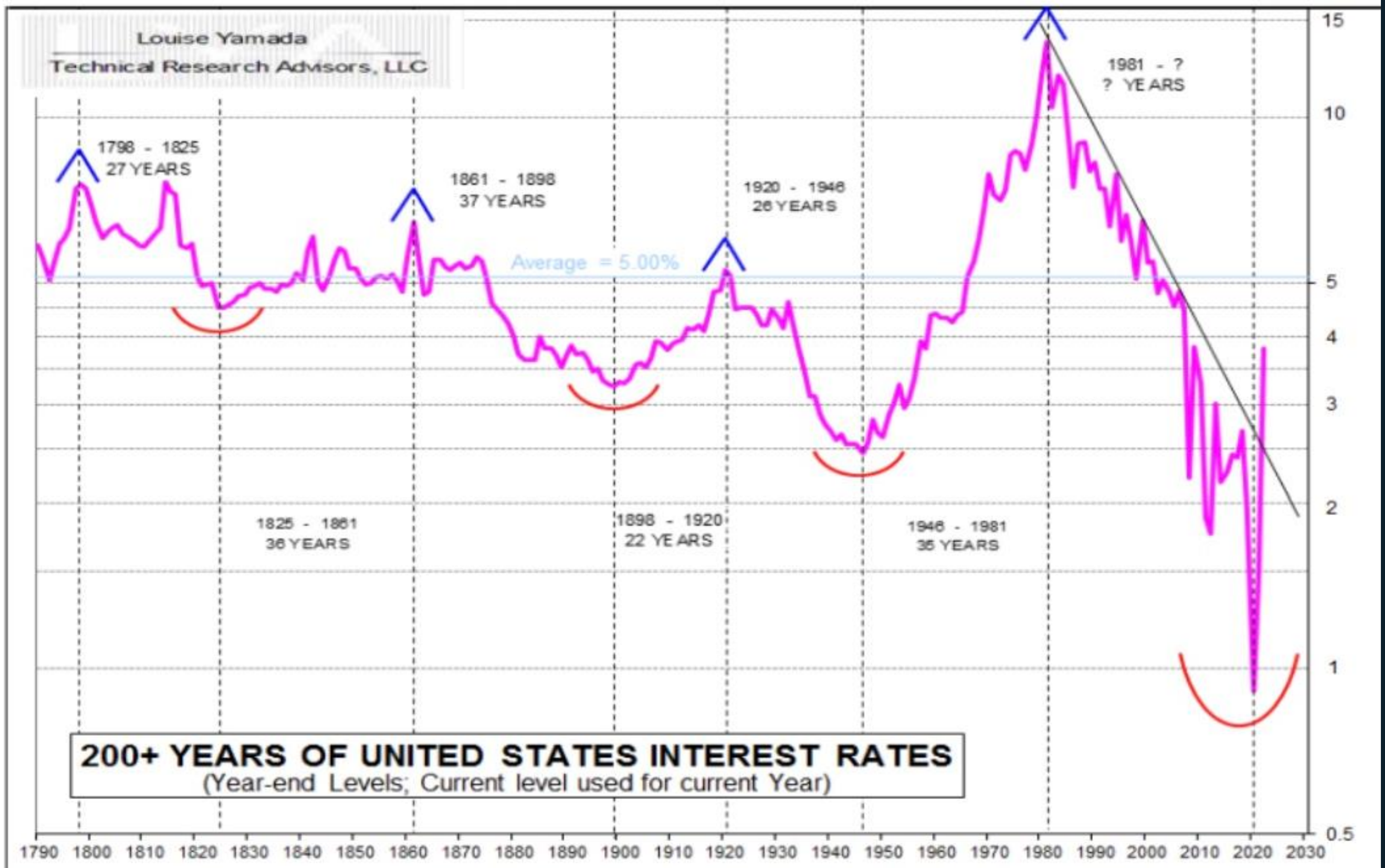
Grind It Out / Down and Difficult / Wear 'em Out

I've highlighted the period between 1980 and 5.9.23 previously, using Stockcharts.

I am including this chart so you can see the **length of the previous secular cycles.**

Please reach out for an updated chart, starting in 1980.

Figure 2. 200+ Years of United States Interest Rates (Year-end plot through December 2022)



Data Used in Chart:

Foreign loan made to U.S. government: 1790, 1792, 1794.
Average foreign loans made to U.S. government: 1791.
Federal government bonds: 1798-1820, 1860-1.
Federal government average new issue: 1841.
Federal government average market yield: 1842-8..

New England municipals: 1821-5, 1827, 1829-30, 1832-40, 1849-59, 1865-1884.
Highest grade corporates (RR): 1862-4, 1885-98.
30-year prime corporates: 1899-1976.
30-year treasury bond yield: 1977-2007
10-year treasury bond yield: 2008-present.

Note: 1821 - U.S. debt insignificant. 1833 - No federal debt all all. Interpolated: 1793, 1795-7, 1822, 1826, 1828, 1831.

Chart source and excellent service: Louise Yamada Technical Research Advisors

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I Can Only Imagine

(MercyMe,1999)

One of the ultimate **"Risk on"** guideposts.

Takeaway: A close above $31.23 resistance **that holds** (red line) and/or is accompanied by a flattening-to-rising 200-day MA (blue dashed line) would be a notable change and imply that Wall Street is taking on additional risk…

Growth vs. Value (Non-Growth)

Takeaway: Given the following, should we even be having this discussion? (but I'm sure we/I will…)

Growth and Value are artificial constructs created by index providers. Occasionally a large # of big stocks jump from one style to another.

Based on this table by NDR, S&P's December rebalance shuffled several FANMAG stocks from Growth to Value. MSFT, META (Facebook), & AMZN are among the top 4 weights in the S&P 500 Value Index. Interestingly, MSFT and AMZN are also in the top 10 for the S&P 500 Growth Index.

Go Figure.

The S&P Value Index is loaded up with FANMAG

Top 10 Holdings in S&P Value and Growth Indices

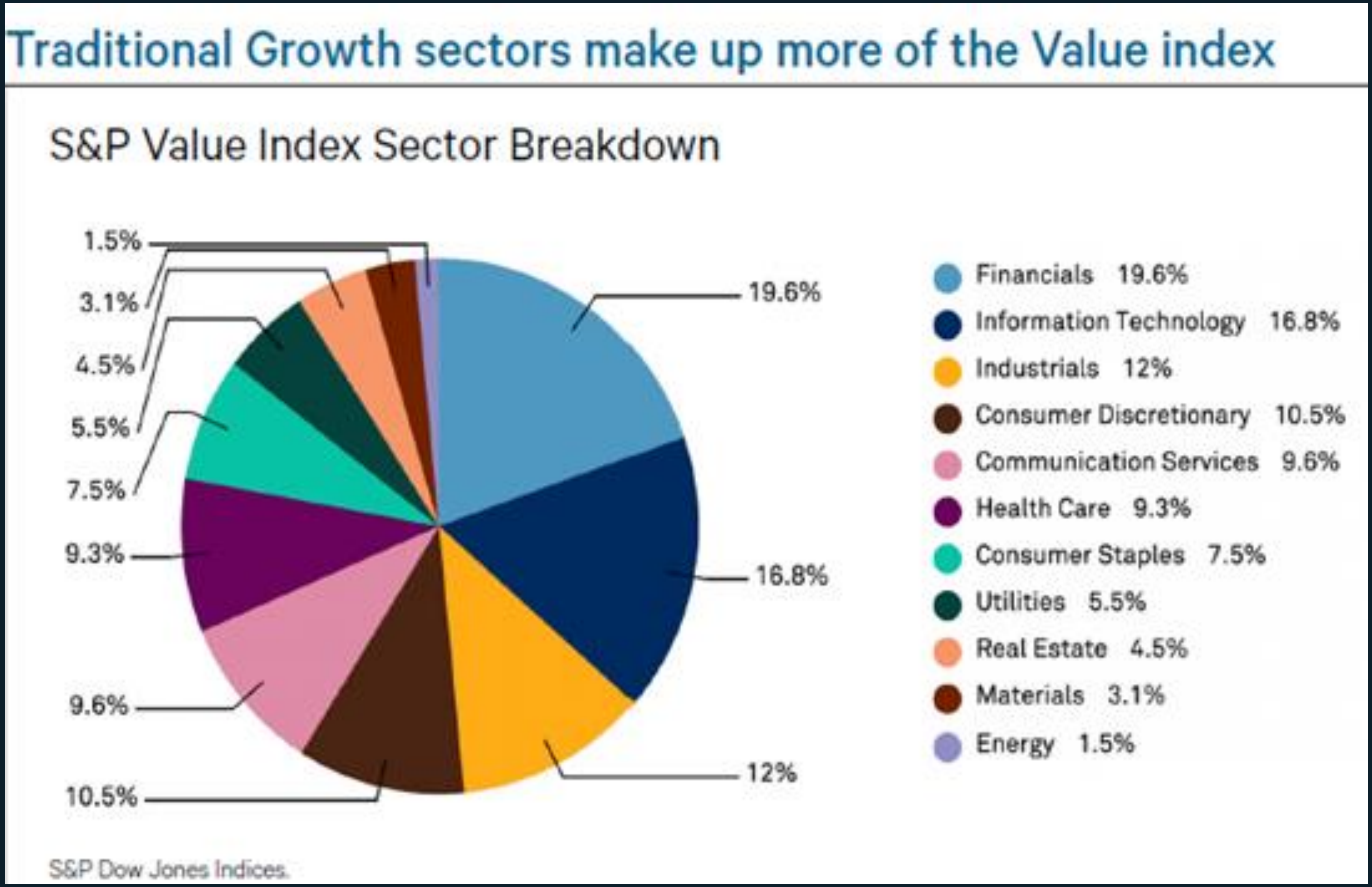
Value Index Constituents	Sector	Growth Index Constituents	Sector
Microsoft	Technology	Apple	Technology
Berkshire Hathaway	Financials	Microsoft	Technology
Meta Platforms	Communication Services	Nvidia	Technology
Amazon	Consumer Discretionary	Alphabet A	Communication Services
Walmart	Consumer Staples	Alphabet C	Communication Services
Bank of America	Financials	Exxon	Energy
Salesforce	Technology	UnitedHealth	Heath Care
JP Morgan Chase	Financials	Tesla	Consumer Discretionary
Cisco Systems	Technology	Amazon	Consumer Discretionary
Disney	Communication Services	Visa	Financials

As of April 28, 2023. Sources: S&P Dow Jones Indices, Ned Davis Research.

Ned Davis Research T_SP20230502.1

The chart by NDR shows the sector breakdown of the **S&P Value Index**. **Financials** has consistently been the largest sector in the index and remains so. But its 19.6% weight has rarely been lower. At 15%, **Energy's** weight in the index is at a record low.

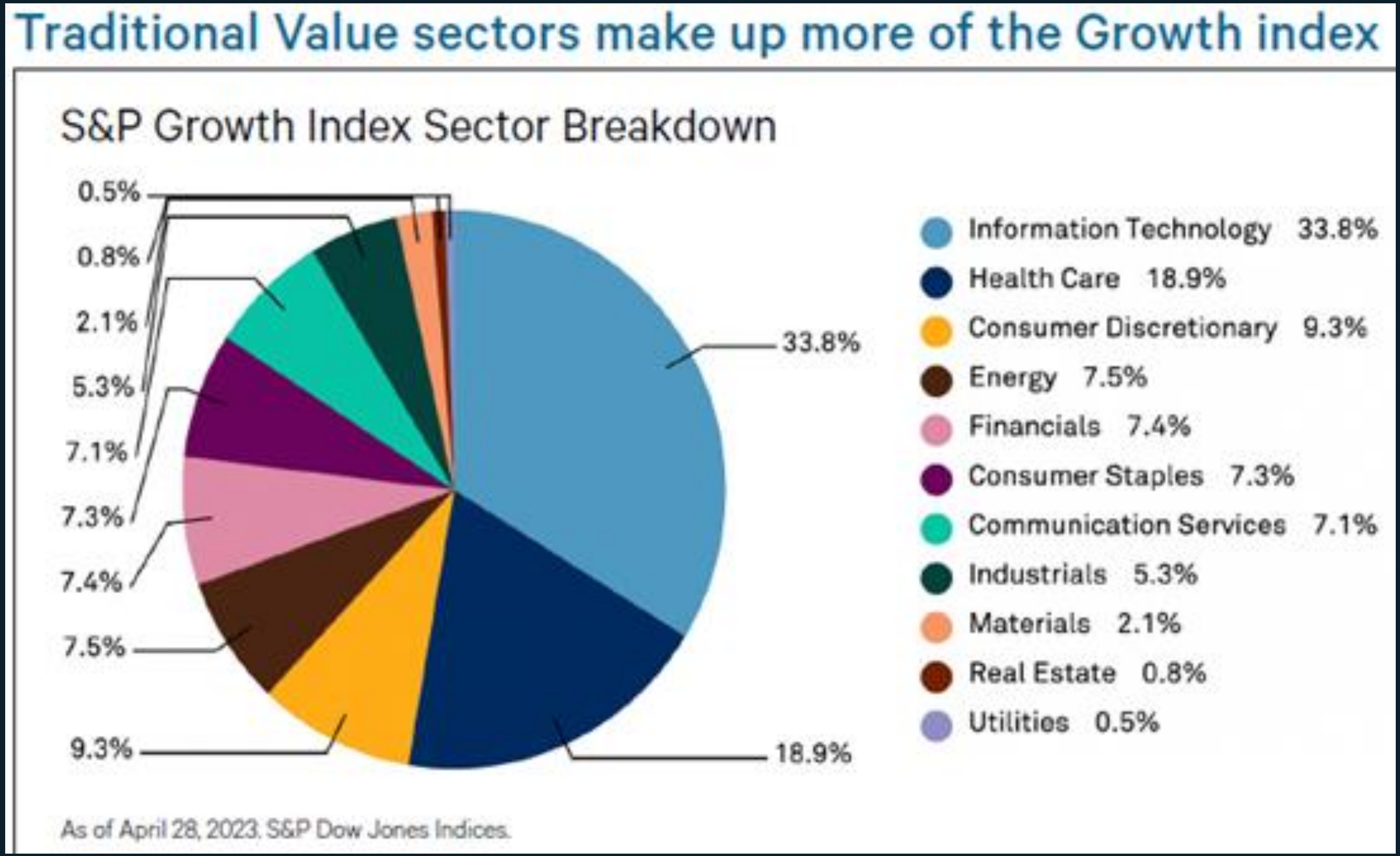
Alternatively, Technology, Consumer Discretionary, & Comm. Services have seen their % rise the most. The 3 traditionally Growth sectors' combined weighting is almost 37%. **Technology** weight in the Value Index is near its record high. **Consumer Discretionary** and **Comm. Services** are at their highest % since 2013 and 2002 respectively.



Takeaway: Let's discuss this lunacy and how the NDR Sector Allocation Model helps us navigate these periods.

The chart by NDR shows the sector breakdown of the **S&P Growth Index** (a/o 4.28.23). **Technology** weighs in at over 1/3 of the weight, down from 45% for most of 2022. **Consumer Discretionary** 9.3% weight is 3rd highest but its smallest slice of the Growth Index since 2011.

Alternatively, **Health Care's** almost 19% weight is its highest since 2016. **Financials** weight is similar to 2022. **Energy** and **Consumer Staples** now make up their largest % of the index since 2012 and 2017 respectively.



Takeaway: Let's discuss this lunacy and how the NDR Sector Allocation Model helps us navigate these periods.

FYI

Source: J.P. Morgan

- **NO DEAL (DEFAULT)*:*** This is still a very unlikely scenario. According to the White House, a short default in US treasuries could lead to -0.5mn in Jobs reduction, -0.6% in real GDP and 0.3% increase in UR, while a protracted default could lead to a 6.1% contraction in real GDP. Recall that during GFC, GDP declined 4.3% and UR increased 5%.
  - **POTENTIAL MARKET IMPACT**: An actual US default, either a short-term or protracted one, could lead to a panic single day risk-off event in equities. To look at the market impact, we may use the 2011 Treasuries downgrade as a guidance: on August 4, 2011, a downgrade triggered a 4.8% decline in SPX. Therefore, an actual default of US may lead to a >5% single day selloff event (since this century, the largest single-day selloff in SPX is 12% on March 16, 2020). The 2011 episode triggered a ~20% peak-to-trough decline and that would likely be the minimum move to expect in the event of a default.

Estimated Economic Effects of Debt Ceiling Standoff: Q3 2023

Measure	Brinkmanship	Short Default	Protracted Default
Jobs, millions	-0.2	-0.5	-8.3
Real GDP, % annualized growth	-0.3	-0.6	-6.1
Unemployment, percentage points	0.1	0.3	5.0

Source: CEA analysis.

Table 1: Estimated Economic Effects of Debt Ceiling Standoff: Q3 2023

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FYI

Source: J.P. Morgan

DEBT CEILING HISTORY

There have been 3 major credit events for US Debt: (i) August 2011 debt downgrade, the first in US history; (ii) October 2013 debt downgrade; (iii) March 2014 debt upgrade.

- **AUGUST 2011** – the downgrade occurred on August 4 triggering a 4.8% decline in the SPX. The index remained volatile with a 6.7% decline on Aug 8, 4.4% decline on Aug 10, a 4.5% decline on Aug 18. During this time, the VIX had averaged ~20 coming into the downgrade, increasing to 31.7 on Aug 4, peaking at 48 on Aug 8. The VIX fell below 25 on Oct 28. The 10Y yield was 2.74% on August 1 falling to 2.11% on Aug 10 and hitting a 52-week low on Sep 22 at 1.72%.
- **OCTOBER 2013** – the downgrade occurred on Oct 15. The SPX fell 71bps that day. It would take until Nov 7 to have a 1-day decline that exceeded that, -1.3%. On Oct 10, the 10Y yield was 2.65% and increased on Oct 15 to 2.73% before making a near-term low on Oct 23 at 2.50%. The VIX was 15.5 on Oct 1 and spiked to 20.34 on Oct 8 and then fell back into the 13's by the following week.
- **MARCH 2014** – the upgrade occurred on March 21. The SPX fell 29bps that day. The VIX was trading in the 14-15 range into the upgrade and move lower, seeing a near-term low of 12.13 on May 13. The 10Y yield increased in the 2 weeks after the upgrade from 2.69% to 2.80% and then made a near-term low on May 15 at 2.49%.

NDR's Senior U.S. Economist, Veneta Dimitrova, describes **"Four scenarios for the debt ceiling standoff."** It provides a good foundation for deciphering the current talks. Excerpt below:

Possible outcomes

Even though President Biden is meeting with Congressional leaders today, we don't expect a swift resolution to the current debt impasse. The negotiating parties seem too dug into their corners, with the GOP demanding spending cuts in the current and future years and the Democrats insisting on a clean debt ceiling increase.

We highlight four possible scenarios in the table at right.

Given that the June 1 X-date is fast approaching, the time for proper negotiations is limited. But since history suggests that the debt standoff will likely be resolved, we favor the outcome of a temporary debt ceiling suspension either for a brief period of time or until September when Congress will be debating the budget for the next fiscal year. The government has done this repeatedly, including seven times between

Four scenarios for the debt ceiling standoff

1. Clean debt ceiling increase (10% odds) Debt default averted. GOP gives up on spending cut demands. No change in the 2023 economic growth outlook.	**2. Biden caves to some GOP demands (20%)** Debt default averted. Government spending cuts in 2023-2024. Rising uncertainty among investors and businesses that spending approved by one Congress can be undone by the next. Slower economic growth in 2023-2024.
3. Debt ceiling suspended (65%) Debt default averted. It creates time for extended negotiations. Some government spending cuts. Issue resurfaces after the suspension ends. If pushed until fall 2023, it adds the risk of a government shutdown to the risk of default. Slower economic growth in 2023-2024.	**4. Standoff continues past X-date (5%)** Partial default. Government misses payments, including to retirees, veterans, military personnel, contractors, etc. but not bond payments. U.S. debt downgraded by credit agencies. Inventors demand a higher risk premium. Decline in confidence and spending. The economy falls into recession.

Thank You for allowing us to be part of your success

For More Information

Presented By: Art Huprich, CMT®
Email: Art.Huprich@DayHagan.com

Day Hagan Asset Management
1000 S. Tamiami Trail
Sarasota, FL 34236
(800) 594-7930 or (941) 330-1702

@DayHagan_Invest

Day Hagan Asset Management

DayHagan.com

DHFunds.com

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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.

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Technical Analysis

A time-tested, disciplined approach to investing.

Presented By:

Art Huprich, CMT®
Chief Market Technician