

ACTIONABLE IDEAS FOR THE ACTIVE INVESTOR

ALPHA INSIGHTS

VOLUME 4 ~ REVIEW & OUTLOOK ~ ISSUE 1

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Analysts' Bio, Methodology, and Disclaimer.

EXECUTIVE SUMMARY

Top-Down

- ❑ The S&P 500 index rallied more than 71% off the March 23rd low to close the “Year of the Rat” up 18.40% on a total return basis, led by the Technology, Discretionary, and Communication Services sectors. Energy was the worst performing sector, down almost 33% for the year, followed by Real Estate and Financials which each declined by about 2%.
- ❑ As the market vaulted to new all-time highs in November, many foreign markets joined in, while U.S. market participation broadened out substantially, leading the small and mid-cap averages to record highs as well. The percentage of NYSE stocks above their 200-DMA increased to 87%, while the same measure for Nasdaq stocks reached 73%.
- ❑ Investor sentiment swung from a euphoric state in February, to the depths of despair in March, only to come around full-circle by the end of August. As we flip the calendar forward to 2021, most of the measures that we monitor look fairly balanced. To be sure, there’s a definite sense of optimism in the markets today, but not the same complacency that we saw going into 2020. It’s more of a – “we love our stocks, but we’re nervous about the market” – sort of vibe.
- ❑ Importantly, market internals are quite constructive. Intermarket divergences have been resolved. There was a Dow Theory confirmation signal triggered as both Industrial and Transportation averages soared to new highs in synchronicity last month. Meanwhile, breadth is expanding, as evidenced by the new all-time high in the Advance-Decline line.
- ❑ 2020 EPS estimate revisions continue to be positive, suggesting that analysts were just too aggressive with their initial cuts in March. While valuations remain historically high, and global debt levels have scaled new heights this year, markets appear to be discounting a sustainable economic recovery as unemployment recedes and companies successfully pivot to digital strategies resulting in lower overhead.
- ❑ While a healthy market correction could be right around the corner, based upon our weight of the evidence methodology, we are constructive toward equities in 2021, with an emphasis on small and mid-cap stocks.

Bottom-Up

- ❑ Our monthly RS-Momentum analysis of the eleven S&P 500 equally-weighted sectors ranks Technology and Financials as leadership, with Communications, Energy, and Real Estate showing improvement. Industrials, Materials, and Discretionary have weakened in relative strength terms, while Utilities, Staples, and Healthcare are now lagging.
- ❑ Growth remains superior to Value, while Small and Mid-cap issues are taking over the lead from Large-caps. From a factor perspective, Momentum ranks first, followed by High Beta, and ESG, while Low Volatility, Value, and High Dividend remain at the back of the line.
- ❑ Our Strategic Risk Allocation Model triggered a monthly reversal signal in December, moving our strategic Stock/Bond positioning from a 50/50 portfolio allocation, to an 80/20 portfolio allocation.
- ❑ We detail our complete list of S&P 500 leaders and laggards by sector. Herein, we identify those issues that we expect to outperform, and those that we expect to underperform during the month of January.
- ❑ Trade Set-Ups: On the Large-Cap front, we consider the shares of V, JNJ, GPN, BKNG, & JAZZ to be timely for long positions. On the Smid-Cap front, we consider the shares of IBKR, ALGT, BCPC, CNMD, & WIRE to be timely for long positions.
- ❑ Overseas markets experienced another month of strong gains in December. We recommend overweight exposure to South Korea, the Netherlands, Japan, India, and Switzerland. We recommend underweight exposure to Italy, Spain, France, the UK, and Brazil.
- ❑ On the macro front, Bitcoin remains our leadership focus, but commodities are showing renewed strength led by WTI crude and gold last month. The U.S. Dollar is near an important inflection point. The US T-Note held its 200-DMA, as the 10-year yield penetrated trend resistance.



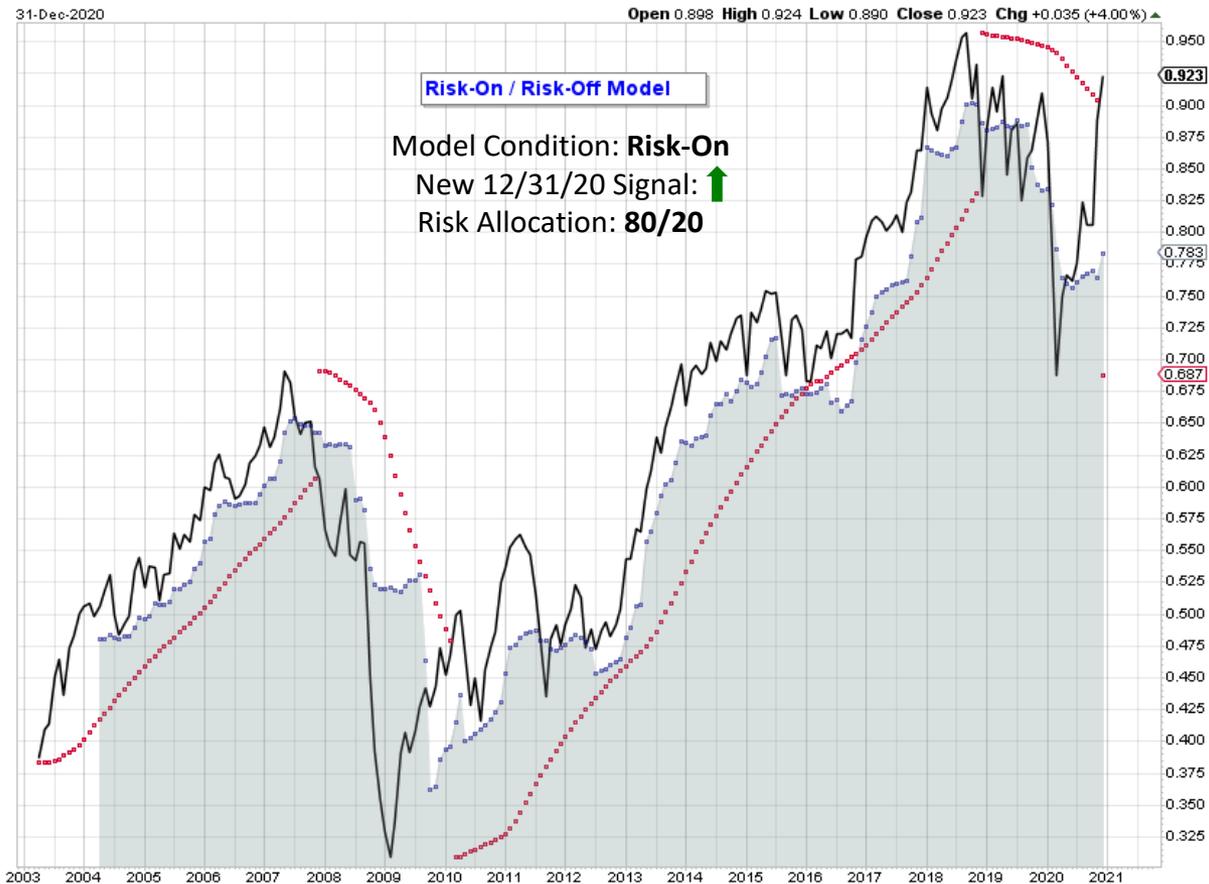
Source: Hedgeye.com

U.S. EQUITY MARKETS

- Strategic Risk Allocation Model
- Large-Cap
- Mid-Cap
- Small-Cap
- Asset Class, Factor, & Style Box Leadership
- Breadth, Sentiment, Valuation, Earnings, Margin Debt, Fiscal & Monetary Policy, Yield Curve, & Economic Cycle

STRATEGIC RISK ALLOCATION MODEL

The model seeks to optimize portfolio exposure to equity assets relative to fixed-income assets across three potential strategic Stock/Bond allocation preferences: Risk-On = 80/20; Neutral = 50/50; and Risk-Off = 20/80.



Source: StockCharts.com

PREFERRED ELLIOTT WAVE COUNT

Our preferred analysis concludes that the first six-months of the year could see steadily positive equity returns. If our target of SPX 4000 +/- 35 handles is achieved by June, then the back-half of the year could be a little hairy.

Cycle Wave V:

Primary Wave (5)

Motive Wave (5) of V of (I) Near Completion

Motive Wave iii of 5 of (5) in Progress



Source: StockCharts.com

U.S. LARGE CAP S&P 500 INDEX

BULLISH (+16.26% YTD)

Observations:

- ❑ **Price** closed December up 3.71%, posting a new all-time and monthly closing high. A primary uptrend remains intact.
- ❑ **Momentum** remains staunchly positive, but failed to make a new high leaving a negative divergence in place.
- ❑ **Relative strength** of large-cap stocks vs. small and mid-caps has turned down, breaching trend support after posting a new 10-year high in September.
- ❑ **Trend Bullish: Above 3230**
- ❑ **Trend Bearish: Below 2950**

Conclusions:

- ❑ **Upgrading to Bullish** from Neutral.
- ❑ **Underweight.** The trend remains up, and the S&P 500 is holding well-above chart support. The weight of the evidence from our detailed analysis of fundamental and technical data leaves us increasingly constructive toward the prospects for equities in 2021. On the one hand, our work suggests at least another 6% upside potential may exist. On the other hand, our work favors small and mid caps stocks over large-caps, which might mean that the S&P 500 index sees only 6% upside in the next year.

- ❑ **Target = 3965**



Source: StockCharts.com

U.S. MID CAP S&P 400 INDEX

BULLISH (+11.81% YTD)

Observations:

- ❑ **Price** closed December up 6.37%, posting a new all-time and monthly closing high. A primary uptrend remains intact.
- ❑ **Momentum** posted a new 12-year high, after surging above a 7-year resistance structure to confirm price.
- ❑ **Relative strength** vs. S&P Composite 1500 is staging an impressive bullish reversal, having just penetrated trend resistance.
- ❑ **Trend Bullish: Above 2065**
- ❑ **Trend Bearish: Below 1660**

Conclusions:

- ❑ **Overweight.** The Mid-Cap index may be benefiting from a valuation-based rotation in fund flows as investors seek out growth at a reasonable price. The new all-time and monthly closing high confirmed by momentum has established a new primary uptrend. If our concerns over high valuations and exuberant sentiment are valid for Large-caps, then the relatively undervalued, underowned Mid-caps appears to be a safer bet with significantly greater upside potential.

- ❑ **Target = 2735**



Source: StockCharts.com

U.S. SMALL CAP S&P 600 INDEX BULLISH (+9.57% YTD)

Observations:

- ❑ **Price** closed December up 8.16%, posting a new all-time and monthly closing high. A new primary uptrend has been established.
- ❑ **Momentum** has posted a new 12-year high, after surging above an 11-year resistance structure.
- ❑ **Relative strength** vs. S&P Composite 1500 is staging an impressive bullish reversal, having just penetrated trend resistance.
- ❑ **Trend Bullish: Above 1021**
- ❑ **Trend Bearish: Below 845**

Conclusions:

- ❑ **Upgrading to Bullish** from Neutral.
- ❑ **Overweight.** The trend is now up. The bull case for Small-cap stocks has been revived with this month's new all-time high. Like their Mid-cap cousins, Small-caps are relatively undervalued, and underowned when compared to Large-cap stocks. We see the surge in momentum to a new post-2018 high as a leading indicator of further upside potential for price in the months immediately ahead. A breach of chart support at 1021 would move us back to the sidelines.

- ❑ **Target = 1515**

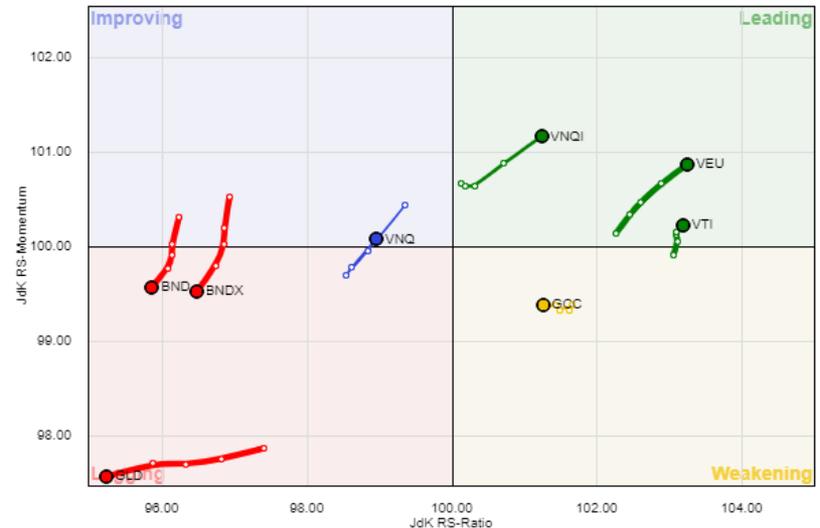


Source: StockCharts.com

GLOBAL ASSET CLASS LEADERSHIP

| | <u>Global Asset Class Rank</u> | <u>DEC Return</u> | <u>TTM Return</u> |
|---|--------------------------------|-------------------|-------------------|
| | 1. Gold Bullion (GLD) | + 7.0% | + 24.8% |
| ↑ | 2. U.S. Equities (VTI) | + 4.7% | + 21.1% |
| | 3. Int'l Equities (VEU) | + 5.7% | + 11.1% |
| ↓ | 4. U.S. Fixed-Inc (BND) | + 0.2% | + 7.7% |
| | 5. Commodities (GCC) | + 3.9% | + 1.4% |
| ↓ | 6. Int'l Fixed-Inc (BNDX) | + 0.4% | + 4.7% |
| ↑ | 7. U.S. Real Estate (VNQ) | + 2.7% | - 4.6% |
| | 8. Int'l Real Estate (VNQI) | + 3.6% | - 7.2% |

Global Asset Rotation Model



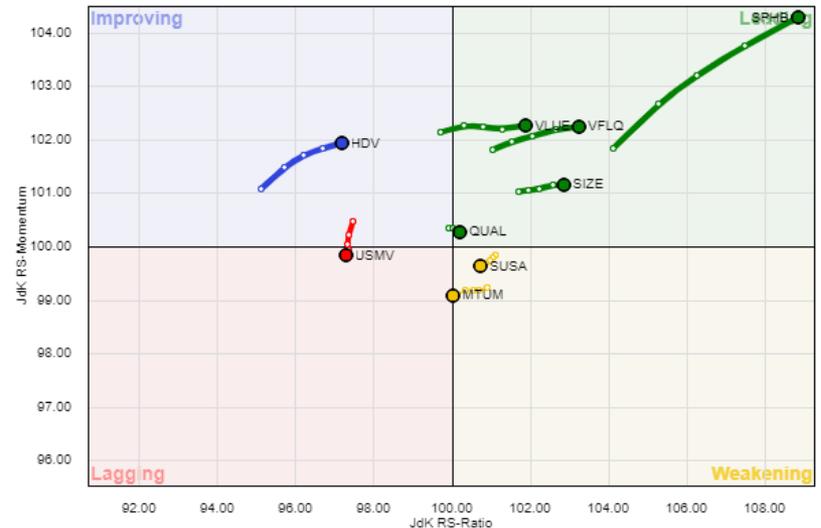
Source: StockCharts.com

RS Benchmark: 60% MSCI All-Country World Index / 40% Barclay's U.S. Aggregate Bond Index

U.S. FACTOR LEADERSHIP

| | <u>U.S. Factor Rank</u> | <u>DEC Return</u> | <u>TTM Return</u> |
|---|----------------------------|-------------------|-------------------|
| | 1. Momentum (MTUM) | + 3.4% | + 29.9% |
| | 2. High Beta (SPHB) | + 7.1% | + 25.6% |
| | 3. Env/Soc/Gov (SUSA) | + 3.4% | + 24.7% |
| | 4. Small Market Cap (SIZE) | + 4.3% | + 16.3% |
| ↑ | 5. High Quality (QUAL) | + 3.7% | + 17.0% |
| | 6. High Liquidity (VFLQ) | + 6.0% | + 7.7% |
| ↓ | 7. Low Volatility (USMV) | + 2.3% | + 5.6% |
| ↑ | 8. Low Valuation (VLUE) | + 2.9% | - 0.2% |
| | 9. High Dividend (HDV) | + 2.1% | - 6.5% |

U.S. Factor Rotation Model



Source: StockCharts.com

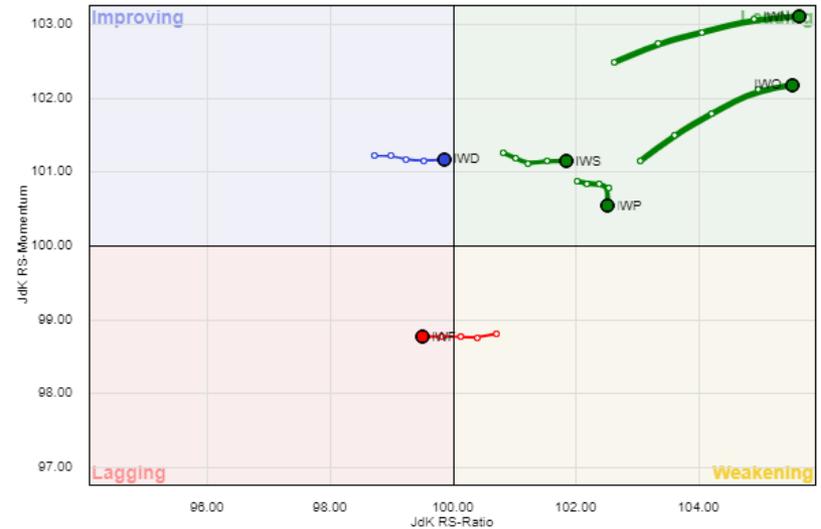
RS Benchmark: MSCI USA Index

U.S. STYLE BOX LEADERSHIP

| <u>U.S. Style Box Rank</u> | <u>DEC Return</u> | <u>TTM Return</u> |
|-----------------------------|-------------------|-------------------|
| 1. Small-Cap Growth (IWO) | + 9.3% | + 34.7% |
| ↓ 2. Large-Cap Growth (IWF) | + 4.5% | + 38.3% |
| 3. Mid-Cap Growth (IWP) | + 4.8% | + 35.3% |
| 4. Small-Cap Value (IWN) | + 8.0% | + 4.7% |
| 5. Mid-Cap Value (IWS) | + 4.6% | + 4.8% |
| 6. Large-Cap Value (IWD) | + 3.7% | + 2.7% |

RS Benchmark: Russell 3000 Index

U.S. Style Box Rotation Model



Source: StockCharts.com

“THE DIE IS CAST” ..UPDATE

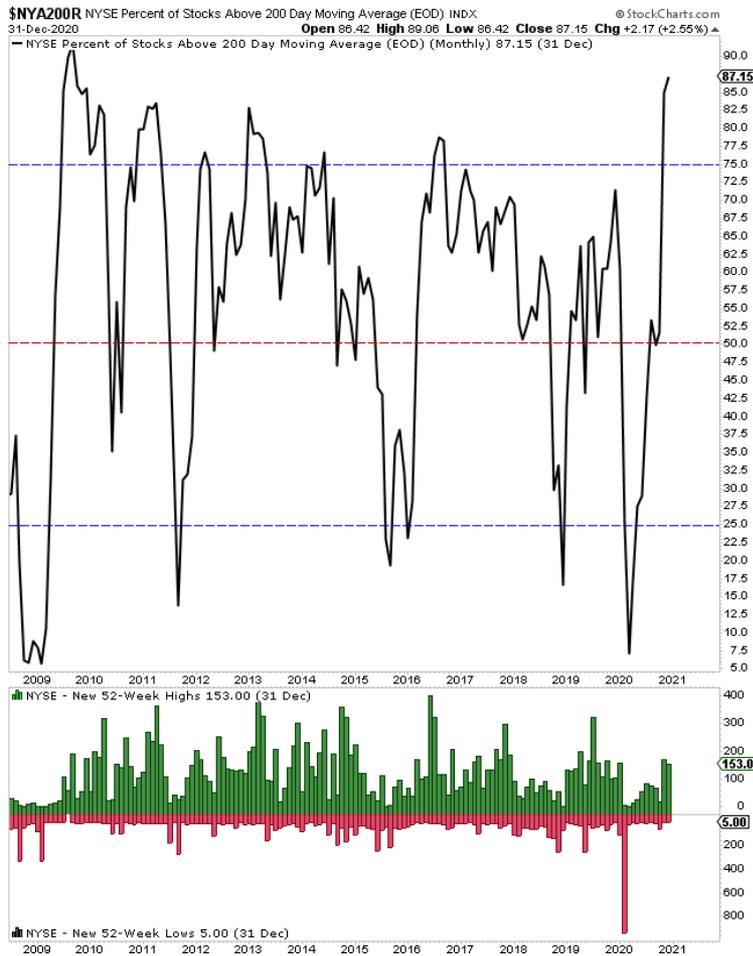
Last month, we published this chart along with our [LinkedIn article](#) of the same title. This updated chart confirms our observation that small-cap stocks, as represented by the Russell 2000 index, are poised to continue to outperform mega-cap FAANG stocks, which now represent about 50% of the Nasdaq 100 index.



Source: StockCharts.com

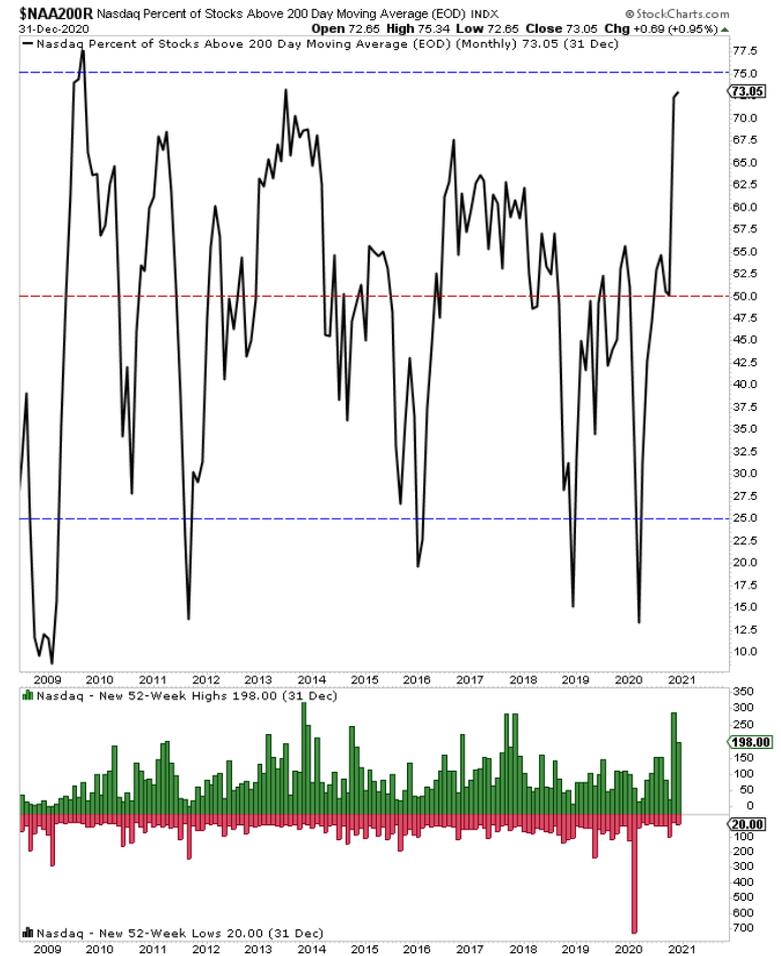
MARKET PARTICIPATION = BROADENING

NYSE % Stocks Above 200-DMA



New
52-Week
Highs
and
Lows

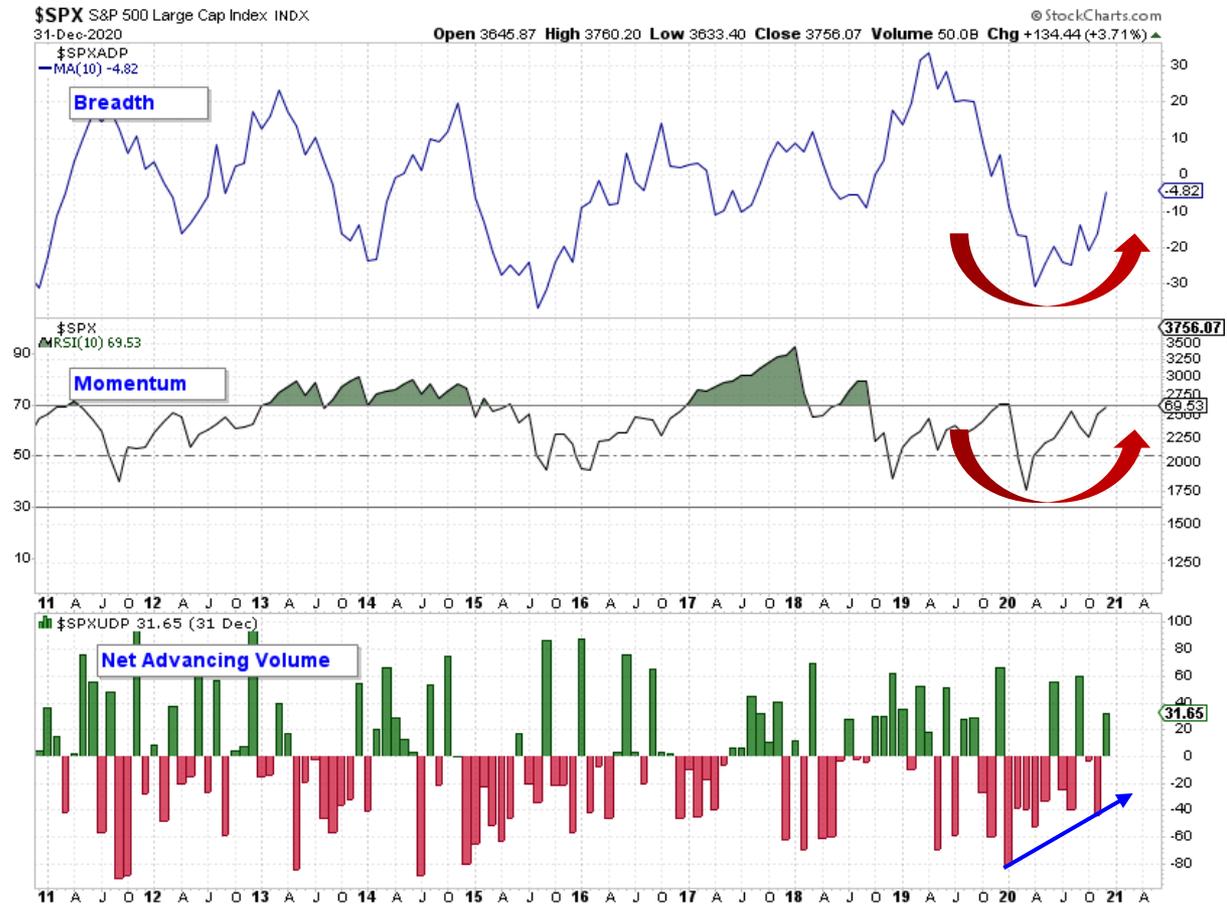
NASDAQ % Stocks Above 200-DMA



Source: StockCharts.com

MARKET INTERNALS = IMPROVING

There are green shoots of renewed vigor evident in the data.

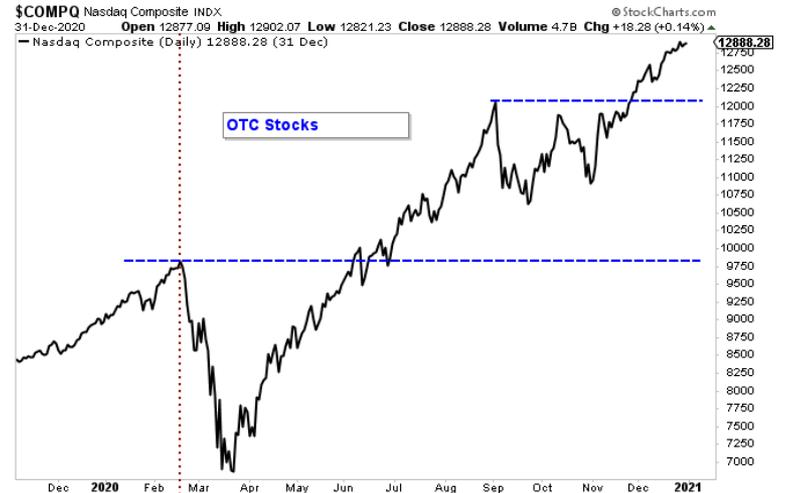


INTERMARKET SIGNALS = CONFIRMING

S&P 500 Cap-Weight vs. S&P 500 Equal-Weight



NASDAQ OTC Stocks vs. NYSE Listed Stocks



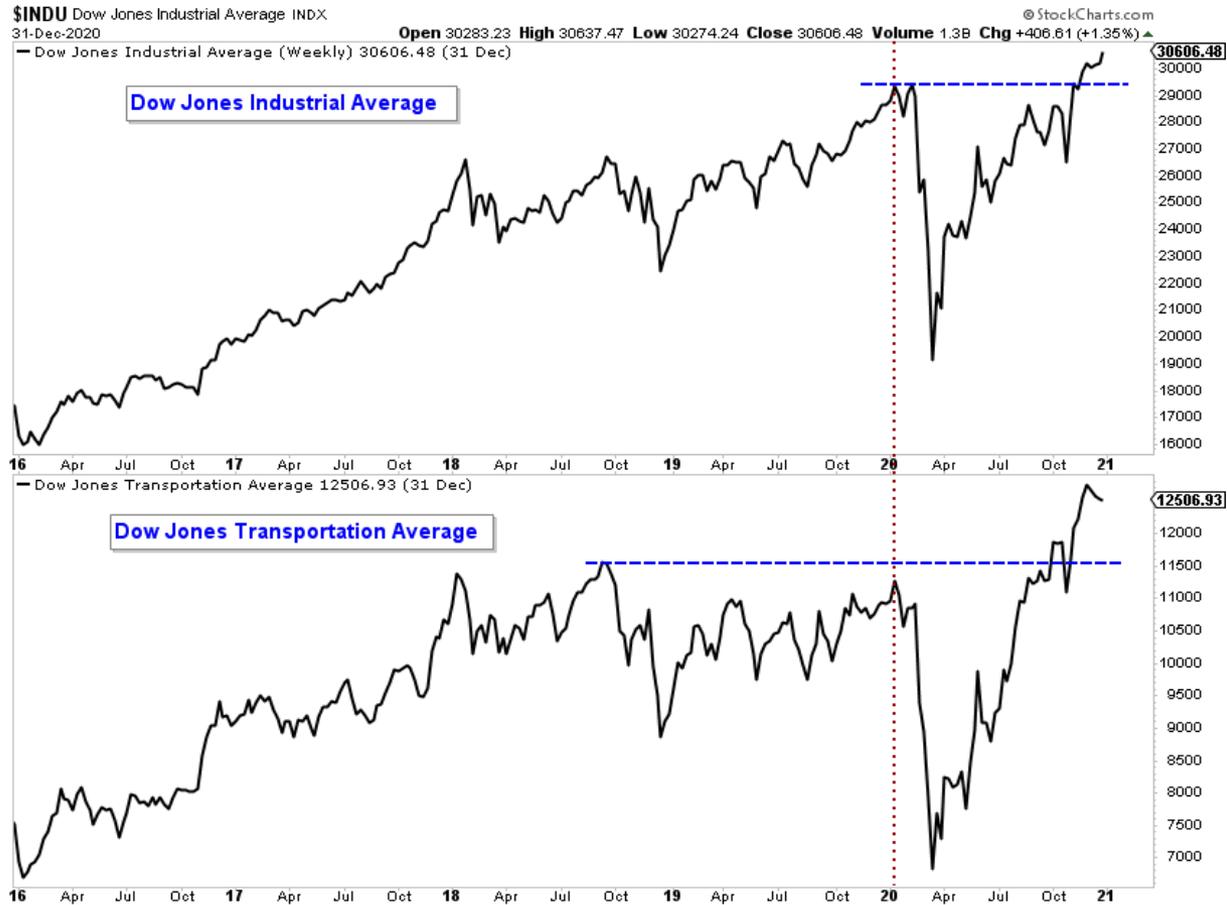
Source: StockCharts.com

ADVANCE-DECLINE LINE = CONFIRMING



Source: StockCharts.com

DOW THEORY SIGNAL = CONFIRMING



Source: StockCharts.com

VOLATILITY = NORMALIZING

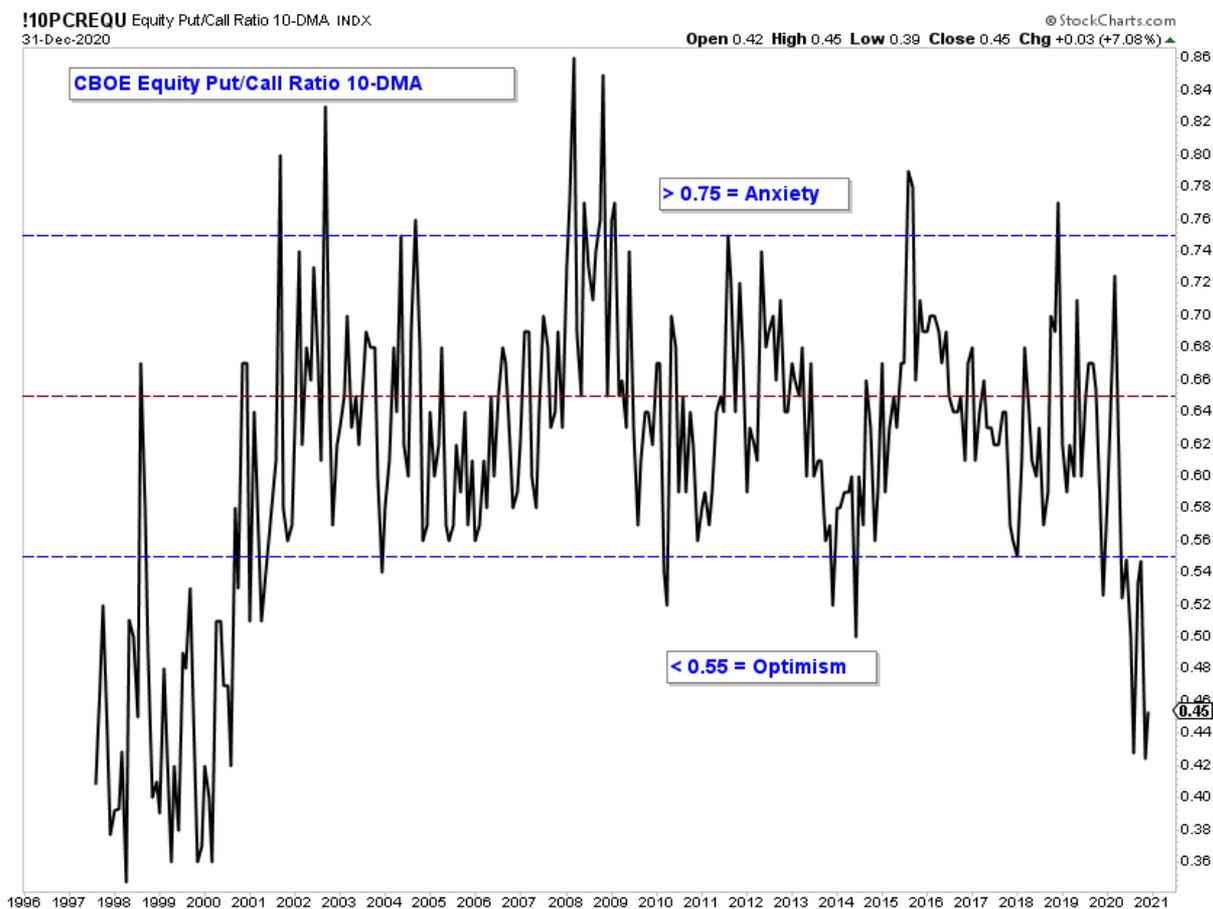
Volatility as measured by the VIX has receded from its September-October highs, and has again re-entered the neutral zone. Moreover, a penetration of the 20% bound would suggest a complete reset to pre-crisis levels.



Source: StockCharts.com

STOCK MARKET SENTIMENT = OPTIMISTIC

The Equity Put/Call Ratio's 10-day moving average has entered the zone of optimism, but remains well-above past extremes. While potentially a contrarian bearish signal, sentiment can remain optimistic for years, as witnessed during the Tech Bubble.



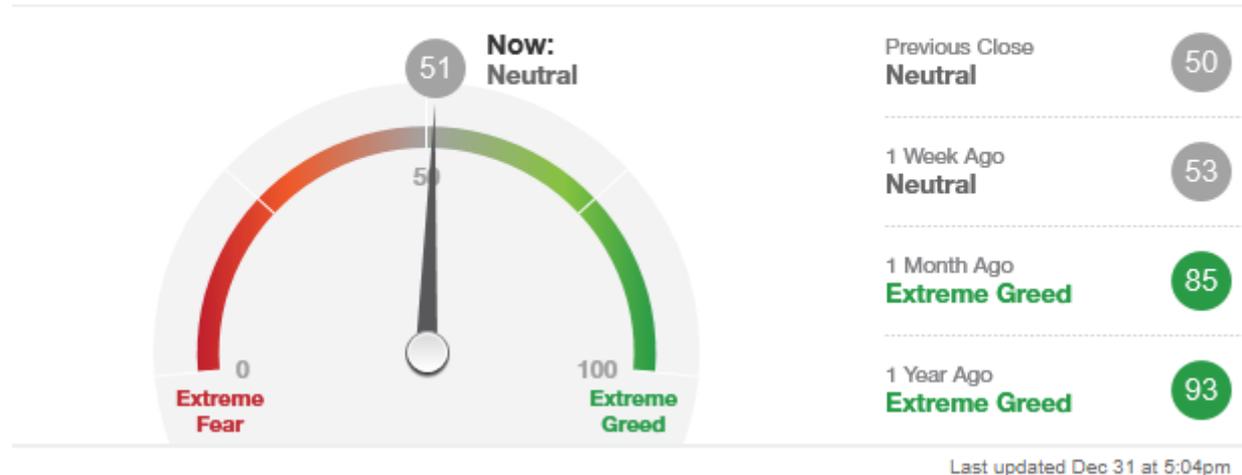
Source: StockCharts.com

FEAR & GREED INDEX = NEUTRAL

CNN's Fear & Greed index tracks seven indicators of investor sentiment on an intermediate time horizon: 1) Net 52 week highs and lows on the NYSE; 2) S&P 500 above or below its 125-DMA; 3) McClellan Volume Summation Index; 4) VIX above or below its 50-DMA; 5) CBOE 5-day average Put/Call ratio; 6) Difference in 20-day Stock and Bond returns; 7) Yield spread between junk bonds and investment grade bonds.

Fear & Greed Index

What emotion is driving the market now?



Source: Money.CNN.com

BOND MARKET SENTIMENT = NEUTRAL

Herculean efforts by the Fed to backstop the corporate bond market appears to have sufficiently calmed the market. The “Smart Money” is now beginning to wade back into the deep end of the pool.



Source: StockCharts.com

SHORT DURATION VS. LONG DURATION

Our model favors **long duration** bonds over short duration bonds. That bias is currently on watch for a potential reversal. A monthly close above the 15-year regression mean would tilt our preference toward short duration securities.



INFLATION PROTECTED VS. FIXED-RATE

Our model favors **fixed-rate** bonds over inflation protected bonds. That bias is currently on watch for a potential reversal. A monthly ratio close above the 15-year regression mean would tilt our preference toward TIPS.

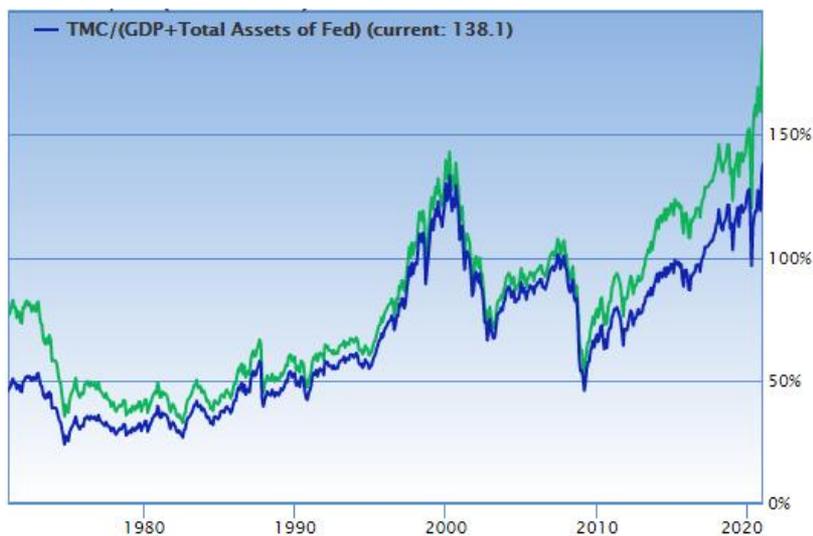


Source: StockCharts.com

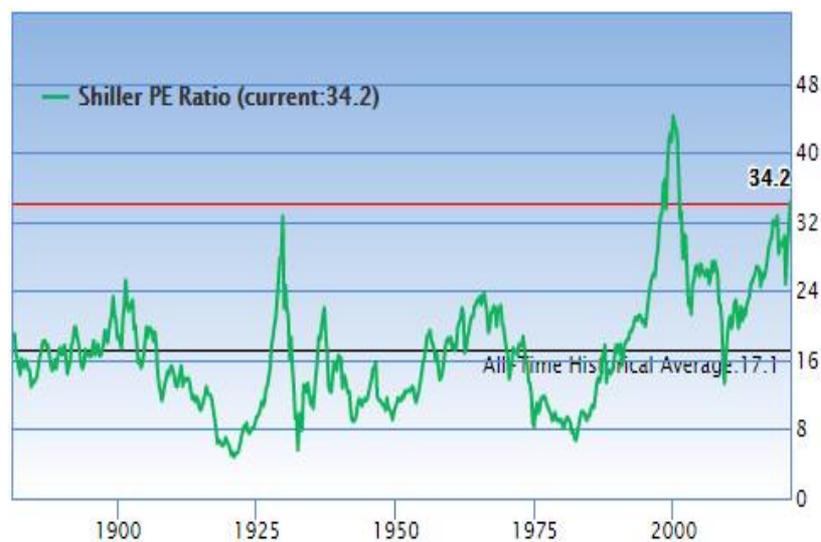
VALUATION = HISTORICALLY EXTREME

Total U.S. Market Cap to GDP = 186.4%, a new record extreme. A new modified version of this measure adds Total Assets of the Fed to the denominator. Under this rubric, Total U.S. Market Cap to Modified GDP = 138.1%. That compares with its prior high of 133.2% recorded in March of 2000. In addition, the Shiller Cyclically-Adjusted Price to Earnings (CAPE) Ratio = 34.2x vs. its pre-crisis February 2020 high of 31.2x, and a historical average of 17.1x.

Mkt Cap to Modified GDP Ratio = 138.1%



Shiller CAPE Ratio = 34.2x



Source: GuruFocus.com as of 12/31/20

S&P EPS ESTIMATES = REVISIONS

3Q20 reported results have made it clear that analysts' initial estimate cuts were too aggressive. We too expected far more damage to earnings from the economic fallout of the COVID-19 quarantine. A successful pivot to digital, along with deep cuts to SG&A have allowed many businesses to push through the pandemic, while others have found ways to thrive.

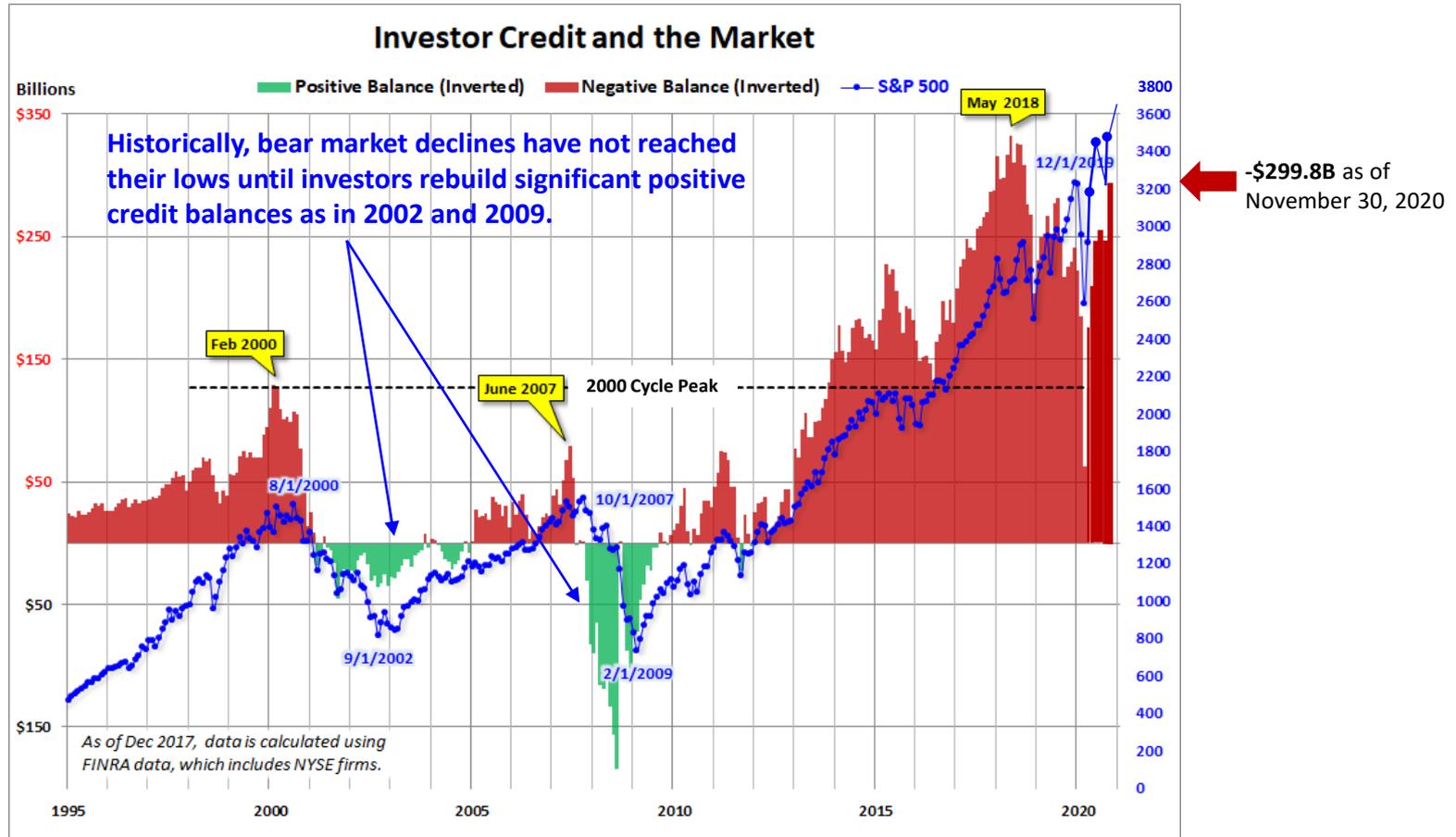
| Operating EPS Y/Y % chgs. | 2020 | | | | | 2021 | | | | |
|-----------------------------|---------------|---------------|--------------|---------------|---------------|--------------|--------------|-------------|-------------|-------------|
| S&P 500 Sector | Q1A | Q2A | Q3A | Q4E | Year | Q1E | Q2E | Q3E | Q4E | Year |
| Communication Services | (10.3) | (21.7) | (0.2) | (13.0) | (11.5) | 5.7 | 24.7 | 12.9 | 19.9 | 15.7 |
| Consumer Discretionary | (57.5) | (65.4) | (0.4) | (31.1) | (37.7) | 67.7 | NM | (3.9) | 46.8 | 43.4 |
| Consumer Staples | 6.8 | (4.6) | 6.0 | (0.6) | 1.8 | 1.4 | 9.3 | 6.3 | 9.5 | 6.7 |
| Energy | (29.7) | (169.4) | (108.2) | (99.4) | (107.3) | (61.3) | NM | NM | NM | NM |
| Financials | (22.8) | (51.1) | (5.0) | (9.7) | (22.5) | 16.3 | 74.7 | (6.9) | 5.9 | 15.7 |
| Health Care | 5.4 | 2.6 | 7.4 | 2.4 | 4.4 | 12.4 | 8.7 | 8.7 | 16.0 | 11.4 |
| Industrials | (30.2) | (80.6) | (49.1) | (38.0) | (49.8) | (2.0) | 346.4 | 78.0 | 72.8 | 75.8 |
| Information Technology | 5.4 | 3.7 | 7.7 | 2.6 | 4.8 | 12.6 | 14.1 | 12.0 | 16.6 | 14.0 |
| Materials | (14.6) | (29.3) | (1.7) | 6.1 | (11.1) | 28.5 | 54.9 | 22.5 | 18.0 | 30.2 |
| Real Estate | 10.2 | (47.4) | (49.8) | (40.3) | (34.0) | (35.1) | (1.8) | 40.4 | 22.9 | (0.5) |
| Utilities | 3.9 | 6.0 | 1.0 | 2.2 | 3.1 | 3.7 | 1.7 | 2.4 | 9.0 | 3.9 |
| S&P 500 | (11.9) | (33.1) | (8.0) | (12.6) | (16.4) | 8.7 | 43.5 | 12.0 | 22.1 | 20.3 |
| S&P MidCap 400 | (29.2) | (50.5) | (6.9) | (6.1) | (23.2) | 38.9 | 100.6 | 21.0 | 22.8 | 37.8 |
| S&P SmallCap 600 | (85.2) | (71.0) | 7.3 | (7.7) | (36.0) | 662.0 | NM | 10.6 | 31.0 | 77.5 |

| Quarterly & Annual EPS | 2020 | | | | | 2021 | | | | |
|-----------------------------|--------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|---------------|
| S&P 500 Sector | Q1A | Q2A | Q3A | Q4E | Year | Q1E | Q2E | Q3E | Q4E | Year |
| Communication Services | 1.97 | 1.84 | 2.21 | 2.20 | 8.21 | 2.08 | 2.30 | 2.49 | 2.63 | 9.50 |
| Consumer Discretionary | 3.91 | 3.60 | 10.85 | 6.64 | 25.00 | 6.56 | 9.11 | 10.43 | 9.75 | 35.85 |
| Consumer Staples | 7.32 | 7.31 | 8.61 | 7.79 | 31.03 | 7.42 | 7.99 | 9.15 | 8.54 | 33.09 |
| Energy | 3.09 | (4.17) | (0.45) | 0.03 | (1.49) | 1.20 | 2.09 | 3.06 | 2.95 | 9.30 |
| Financials | 7.18 | 4.68 | 8.83 | 8.11 | 28.80 | 8.35 | 8.18 | 8.22 | 8.58 | 33.33 |
| Health Care | 17.56 | 18.29 | 18.94 | 17.22 | 72.02 | 19.74 | 19.88 | 20.59 | 19.98 | 80.20 |
| Industrials | 5.92 | 1.72 | 5.00 | 5.24 | 17.88 | 5.80 | 7.68 | 8.91 | 9.06 | 31.44 |
| Information Technology | 16.44 | 16.54 | 18.59 | 20.94 | 72.52 | 18.52 | 18.88 | 20.83 | 24.41 | 82.64 |
| Materials | 3.85 | 3.86 | 4.50 | 4.44 | 16.65 | 4.95 | 5.98 | 5.50 | 5.24 | 21.67 |
| Real Estate | 1.60 | 1.10 | 0.82 | 1.00 | 4.53 | 1.04 | 1.09 | 1.16 | 1.23 | 4.51 |
| Utilities | 4.27 | 3.63 | 5.28 | 3.20 | 16.38 | 4.42 | 3.69 | 5.41 | 3.49 | 17.01 |
| S&P 500 | 34.16 | 27.72 | 38.84 | 36.32 | 137.03 | 37.12 | 39.79 | 43.51 | 44.36 | 164.78 |
| S&P MidCap 400 | 18.11 | 13.18 | 24.50 | 24.81 | 80.60 | 25.15 | 26.44 | 29.65 | 30.46 | 111.08 |
| S&P SmallCap 600 | 1.44 | 3.61 | 13.16 | 12.41 | 30.61 | 10.93 | 12.79 | 14.55 | 16.26 | 54.33 |

Source: S&P Capital IQ & CFRA.com as of 12/31/20

ANATOMY OF THE NEXT MARGIN CALL

As we stated unequivocally in the March issue, the 1Q20 drawdown was a margin call. We've been closely tracking margin debt since then and can report that after a reduction to levels just below the June 2007 peak, net negative credit balances have since expanded, and now far exceed their *pre-crisis* peak, a set-up that is poised to fuel the next market decline.



Source: FINRA.com as reported on 12/23/20

ECONOMIC GROWTH STUNTED

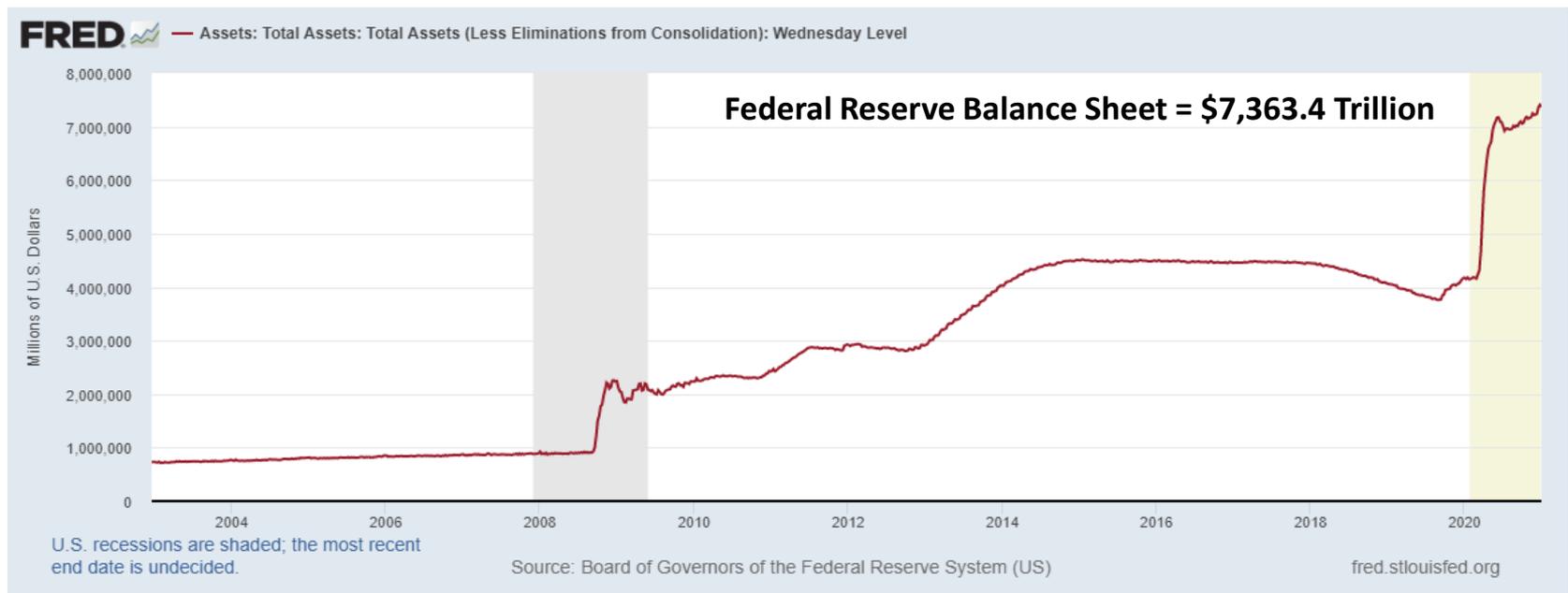
Headline GDP growth for Q3 has widely been reported in the media as 33.2%. In reality, that is an annualized growth rate. The actual Q3 GDP growth rate was 7.4%. Very respectable, but not the record shattering phenomenon that some media outlets would have you believe. Indeed, GDP declined by 10.1% in the first half of the year. On a chained-dollar basis, GDP rose just \$1.64 Trillion after declining -\$2.22 Trillion over the prior two quarters. This shortfall leaves Real GDP some \$670 Billion, or about 3.4%, below it's Q4 2019 record peak. Without the immediate aid of a comprehensive fiscal stimulus bill, U.S. economic growth is likely to remain stunted until an effective vaccine can be broadly distributed to the world's population at large.



Source: fred.stlouisfed.org as of 12/22/20

MONETARY STIMULUS = QE 4-EVER

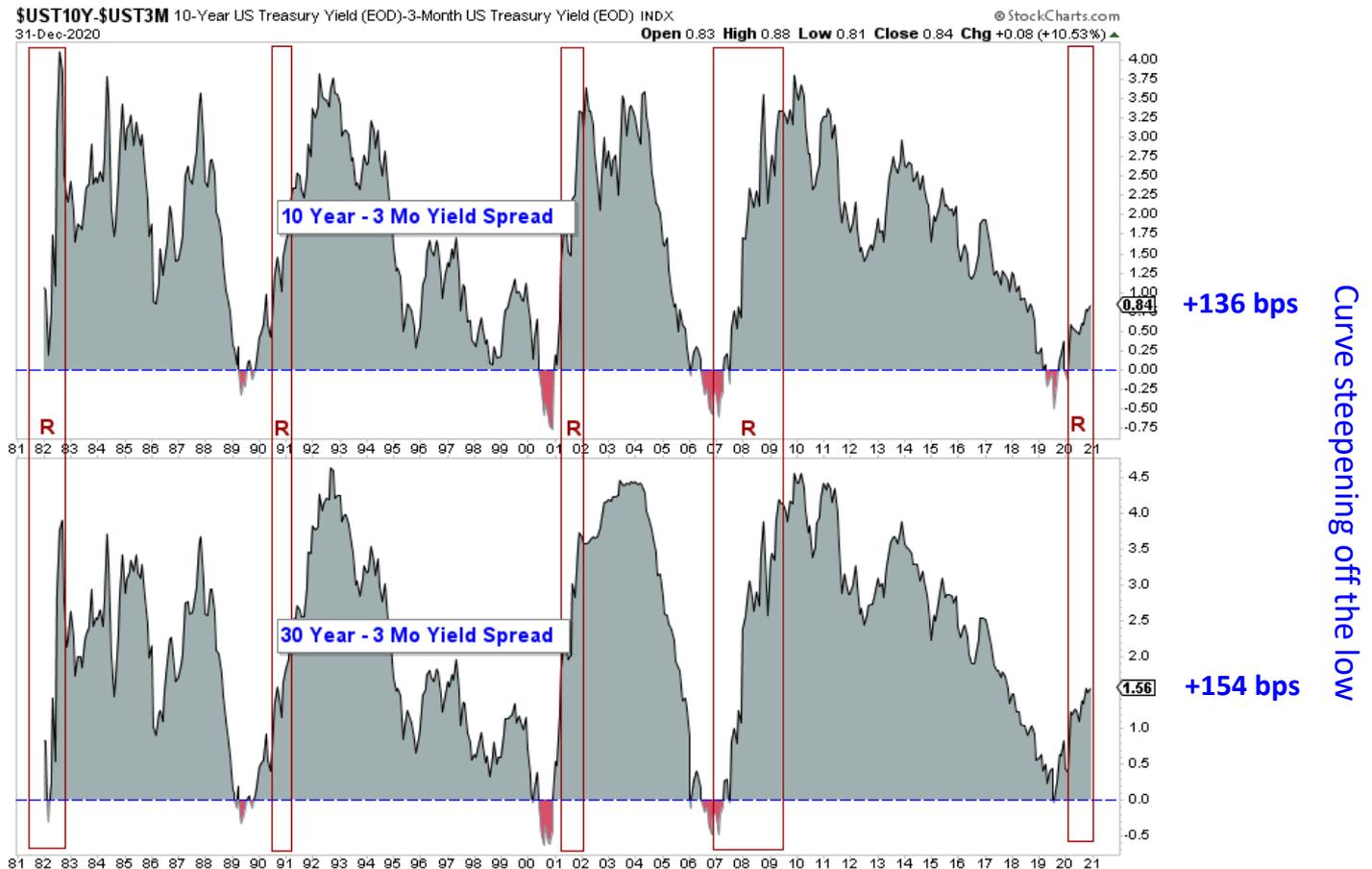
In conjunction with Jay Powell's address at the 44th annual Economic Policy Symposium, the Federal Reserve released the text revisions to its policy framework which, like many expected, mark a shift in how the FOMC targets inflation, moving from a set target, to an average that allows inflation – following sustained periods of weakness such as now – to exceed the FOMC's 2 percent long-term goal. Powell noted that the Fed funds rate is now being constrained by its lower bound, in turn raising the risk that downward pressures on employment and inflation have increased. Powell said that it is appropriate to pursue a strategy designed to “make-up” for past below target inflation. In short, the Fed has lost control and they know it.



Source: fred.stlouisfed.org as of 12/30/20

YIELD CURVE = RECESSION IN PROGRESS

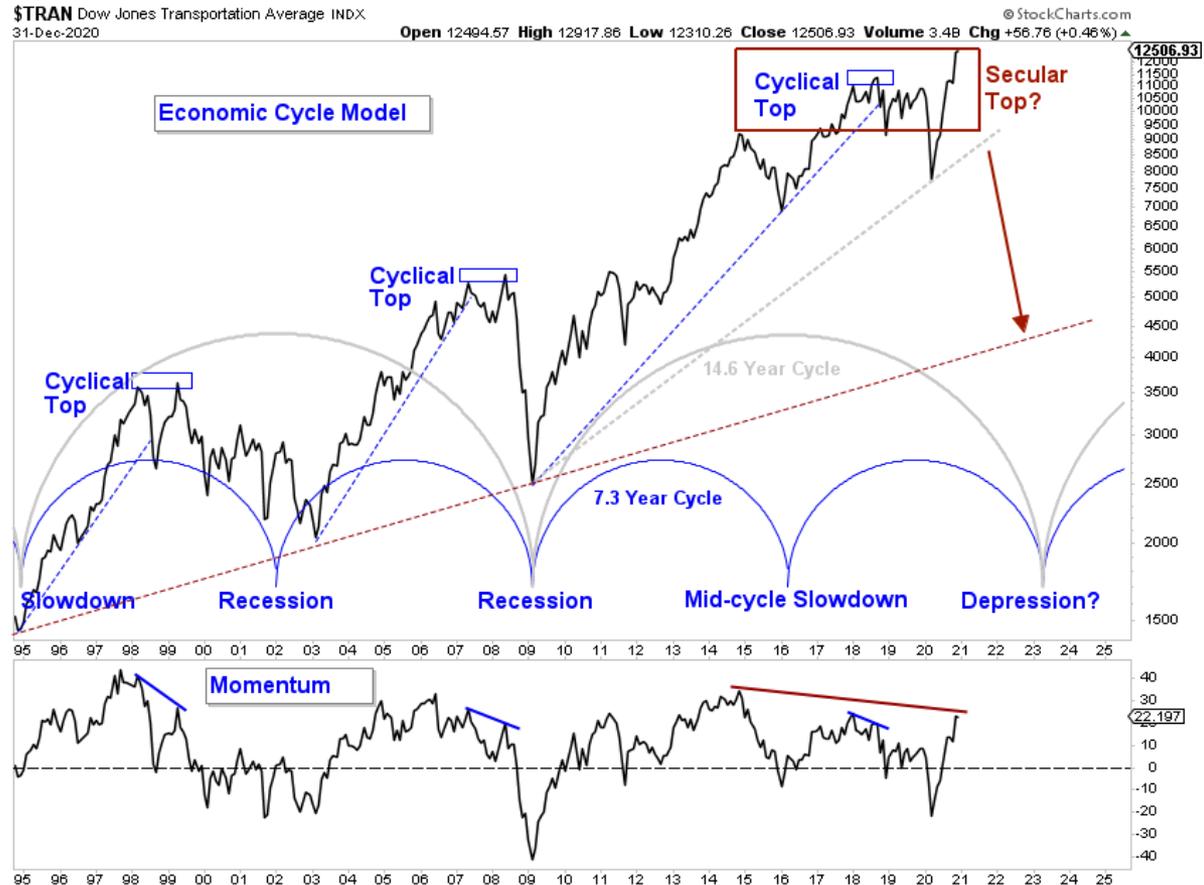
Recessions typically emerge during the curve steepening phase immediately following an inversion. We remain very early in the steepening process.



Source: StockCharts.com

ECONOMIC CYCLE = SECULAR TOP?

Our Economic Cycle Model made a new all-time high in December. While economic cycle momentum is positive, it has yet to exceed its 2014 peak level, leaving a structural negative divergence in place. The magnitude of this deviation elevates the possibility that the 14.6-year cycle is poised to peak soon. If so, then the new trend, when it begins, will likely be down through 1Q 2023.



Equity Proxy for U.S. Economy

U.S. Economic Momentum

Source: StockCharts.com



Source: Hedgeye.com

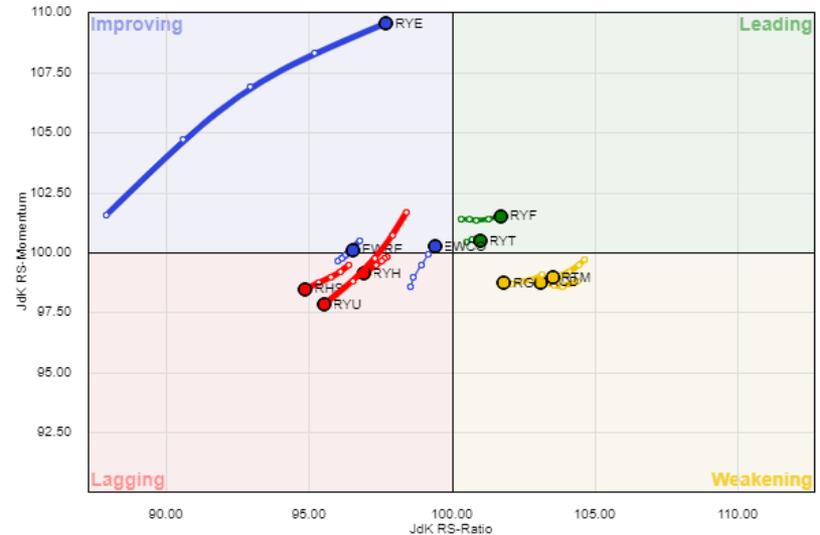
SECTOR ROTATION

- S&P 500 Sector Leadership
 - Equal-Weight Sector RS-Momentum Rank
 - Cap-Weight Sector Technical Analysis

U.S. EQUAL-WEIGHT SECTOR LEADERSHIP

| | <u>U.S. Sector EW Rank</u> | <u>DEC Return</u> | <u>TTM Return</u> |
|---|----------------------------|-------------------|-------------------|
| | 1. Technology (RYT) | + 5.8% | + 30.2% |
| ↑ | 2. Comm Svcs (EWCO) | + 5.3% | + 22.1% |
| | 3. Materials (RTM) | + 3.1% | + 22.8% |
| | 4. Healthcare (RYH) | + 4.3% | + 18.8% |
| | 5. Industrials (RGI) | + 2.2% | + 18.1% |
| | 6. Discretionary (RCD) | + 3.6% | + 11.4% |
| | 7. Financials (RYF) | + 6.9% | + 5.5% |
| | 8. Staples (RHS) | + 1.6% | + 6.2% |
| ↑ | 9. Real Estate (EWRE) | + 2.8% | - 2.9% |
| ↓ | 10. Utilities (RYU) | + 0.5% | - 2.7% |
| | 11. Energy (RYE) | + 7.9% | - 32.4% |

U.S. Sector Rotation Model



Source: StockCharts.com

RS Benchmark: S&P 500 Equal-Weight Index

S&P 500 SECTOR TECHNOLOGY

BULLISH (+43.62% YTD)

Observations:

- ❑ **Price** closed December up 5.54%, to post a new all-time and monthly closing high. A primary uptrend remains intact.
- ❑ **Momentum** remains staunchly positive, but failed to make a new high with price, leaving a negative divergence in place.
- ❑ **Relative strength** vs. the average S&P stock turned down after posting a new all-time high in August, and may need more time to correct before reasserting itself.
- ❑ **Trend Bullish: Above \$109**
- ❑ **Trend Bearish: Below \$90**

Conclusions:

- ❑ Technology advanced three positions to the **#1 rank** in our sector RS-Momentum work this month.
- ❑ **Market Weight.** The trend remains positive and the new all-time high supports our bullish technical opinion. Yet, the extended position of price vs. trend, and a negative momentum divergence raise some near-term concerns. A monthly close below chart support at \$109 would move our view to neutral; a close below \$90 to bearish.

- ❑ **Target = \$137**



Source: StockCharts.com

S&P 500 SECTOR COMMUNICATIONS

BULLISH (+26.90% YTD)

Observations:

- ❑ **Price** closed December up 3.35%, posting a new all-time and monthly closing high. A primary uptrend remains intact.
- ❑ **Momentum** remains staunchly positive, but failed to make a new high with price, leaving a negative divergences in place.
- ❑ **Relative strength** vs. the average S&P has turned down after posting a new all-time high in August and appears poised to test trend support.
- ❑ **Trend Bullish: Above \$59**
- ❑ **Trend Bearish: Below \$49**

Conclusions:

- ❑ Communications advanced four positions to the **#2 rank** in our sector RS-Momentum work this month.
- ❑ **Market Weight.** The trend remains positive, and the new all-time high supports our bullish technical opinion. The extended position of price vs. trend, and a negative momentum divergence raise near-term concerns. A monthly close below chart support at \$59 would move our view to neutral; A close below trend support at \$49 would warrant a downgrade to bearish.
- ❑ **Target = \$78**



Source: StockCharts.com

S&P 500 SECTOR MATERIALS

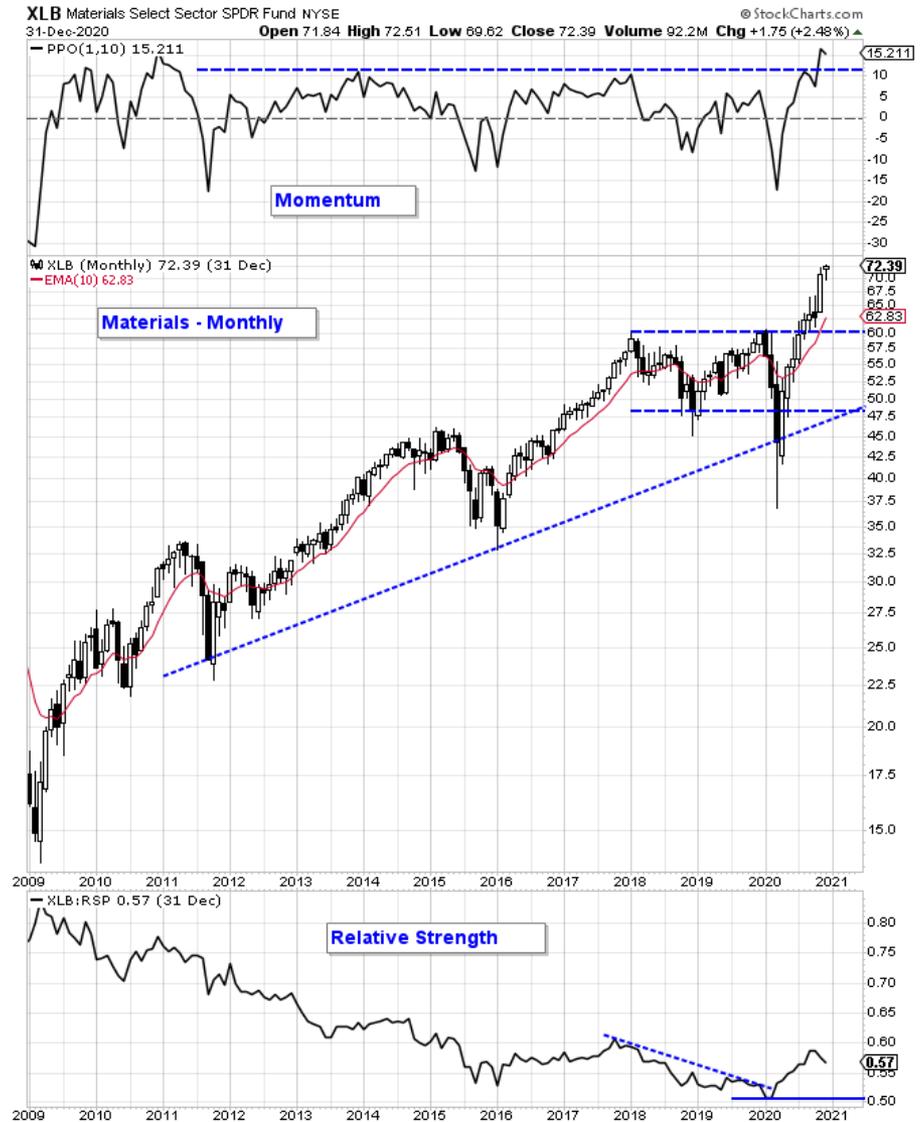
BULLISH (+20.46% YTD)

Observations:

- ❑ **Price** closed December up 2.48%, posting a new all-time and monthly closing high. A primary uptrend remains intact.
- ❑ **Momentum** remains staunchly positive after surging above a 7-year resistance structure to confirm price.
- ❑ **Relative strength** vs. the average S&P stock has staged a bullish reversal off a 10-year low, after penetrating trend resistance, but has turned down from a persistent uptrend.
- ❑ **Trend Bullish: Above \$60**
- ❑ **Trend Bearish: Below \$48**

Conclusions:

- ❑ Materials slipped two positions to the **#3 rank** in our sector RS-Momentum work this month.
- ❑ **Overweight.** Robust price action with strong momentum supports our bullish technical view. A monthly close below chart support at \$60 would move our view to neutral; A monthly close below trend support at \$48 would warrant a downgrade to bearish.
- ❑ **Target = \$82**



Source: StockCharts.com

S&P 500 SECTOR HEALTH CARE

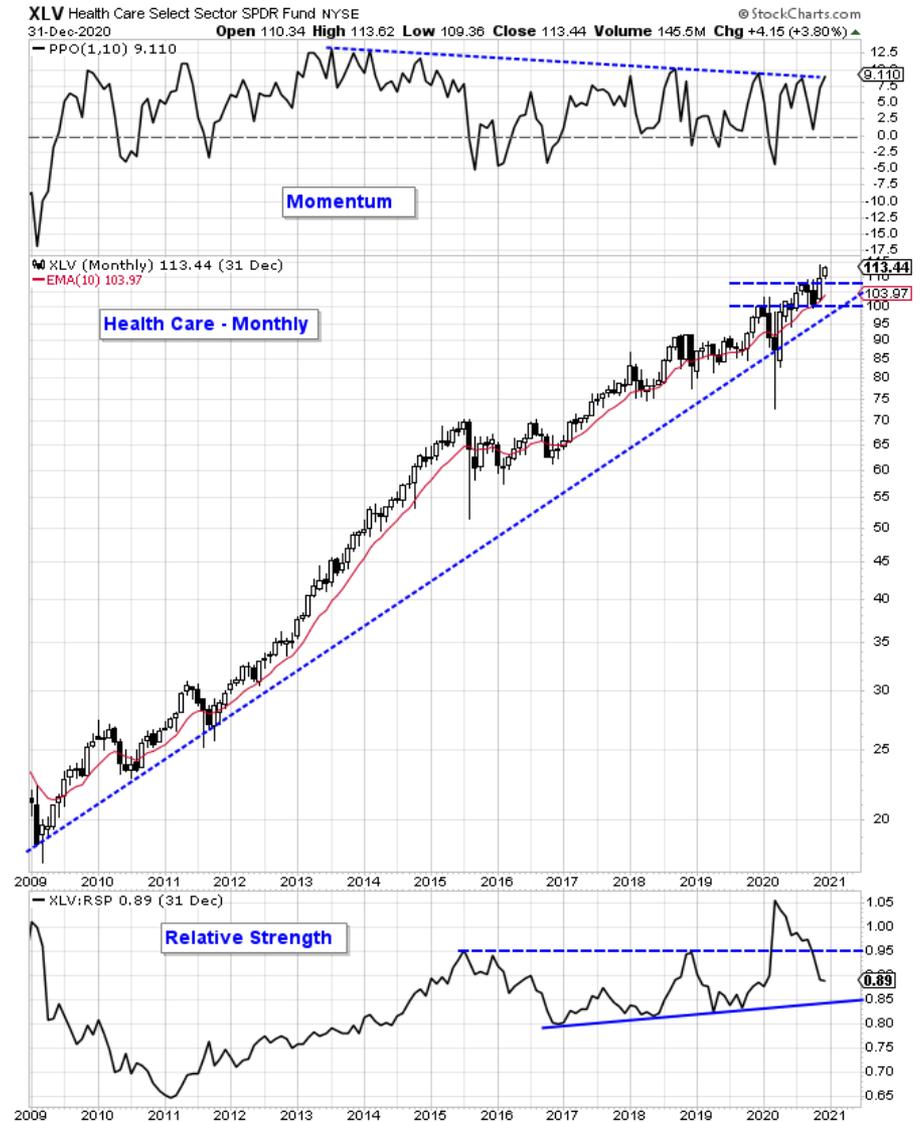
BULLISH (+13.30% YTD)

Observations:

- ❑ **Price** closed December up 3.80%, to post a new monthly closing high. A primary uptrend remains intact.
- ❑ **Momentum** remains positive, and penetrated an 8-year resistance structure, making a new annual high with price to resolve the most recent negative divergence.
- ❑ **Relative strength** vs. the average S&P stock, having penetrated overhead resistance, has pulled back into the prior range after posting a 10-year high in March.
- ❑ **Trend Bullish: Above \$108**
- ❑ **Trend Bearish: Below \$101**

Conclusions:

- ❑ Health Care advanced two positions to the **#4 rank** in our sector RS-Momentum work this month.
- ❑ **Market Weight.** The trend remains positive, and the new monthly closing high supports our bullish technical opinion. The new momentum high puts an end to a string of negative divergences. A monthly close below chart support at \$108 would move our view to neutral; A close below trend support at \$101 to bearish.
- ❑ **Target = \$131**



S&P 500 SECTOR INDUSTRIALS

BULLISH (+10.91% YTD)

Observations:

- ❑ **Price** closed December up 1.01%, posting a new monthly closing high. A primary uptrend remains intact.
- ❑ **Momentum** remains staunchly positive after surging above a 7-year resistance structure to confirm price.
- ❑ **Relative strength** vs. the average S&P stock was rejected at trend resistance, following a furious bullish reversal off the March low. Expect another attempt.
- ❑ **Trend Bullish: Above \$81**
- ❑ **Trend Bearish: Below \$70**

Conclusions:

- ❑ Industrials slipped three positions to the **#5 rank** in our RS-Momentum work this month.
- ❑ **Overweight.** Robust price action coupled with strong momentum has led to a new monthly closing high. A monthly close below chart support at \$81 would move our view to neutral; A monthly close below trend support at \$70 would warrant a downgrade to bearish.
- ❑ **Target = \$107**



Source: StockCharts.com

S&P 500 SECTOR DISCRETIONARY BULLISH (+29.63% YTD)

Observations:

- ❑ **Price** closed December up 2.48%, posting a new all-time and monthly closing high. A primary uptrend remains intact.
- ❑ **Momentum** remains staunchly positive, but failed to make a new high with price, leaving a negative divergences in place.
- ❑ **Relative strength** vs. the average S&P stock has turned down since posting a new all-time high in September and appears poised to test trend support.
- ❑ **Trend Bullish: Above \$138**
- ❑ **Trend Bearish: Below \$115**

Conclusions:

- ❑ Discretionary slipped three positions to the **#6 rank** in our sector RS-Momentum work this month.
- ❑ **Market Weight.** The trend remains positive, and the new all-time high supports our bullish technical opinion. Yet, the extended position of price vs. trend, and a negative momentum divergence raise some near-term concerns. A monthly close below chart support at \$138 would move our view to neutral; A close below trend support at \$115 would warrant a downgrade to bearish.
- ❑ **Target = \$170**



Source: StockCharts.com

S&P 500 SECTOR FINANCIALS

NEUTRAL (-1.74% YTD)

Observations:

- ❑ **Price** closed December up 6.31%, posting a new recovery high and challenging, but still holding below chart resistance. The trend remains neutral.
- ❑ **Momentum** remains smartly positive, but still held below an 8-year resistance structure.
- ❑ **Relative strength** vs. the average S&P stock has turned up, bouncing off a 9-year low posted in October.
- ❑ **Trend Bullish: Above \$30**
- ❑ **Trend Bearish: Below \$23**

Conclusions:

- ❑ Financials advances one position to the **#7 rank** in our RS-Momentum work this month.
- ❑ **Market Weight.** Improving price action and accelerating momentum led to new recovery high within an established range, supporting a neutral technical rating. A monthly close above chart resistance at \$30 would warrant an upgrade to bullish. A monthly close below trend support at \$23 would warrant a downgrade to bearish.
- ❑ Target = N/A



Source: StockCharts.com

S&P 500 SECTOR STAPLES

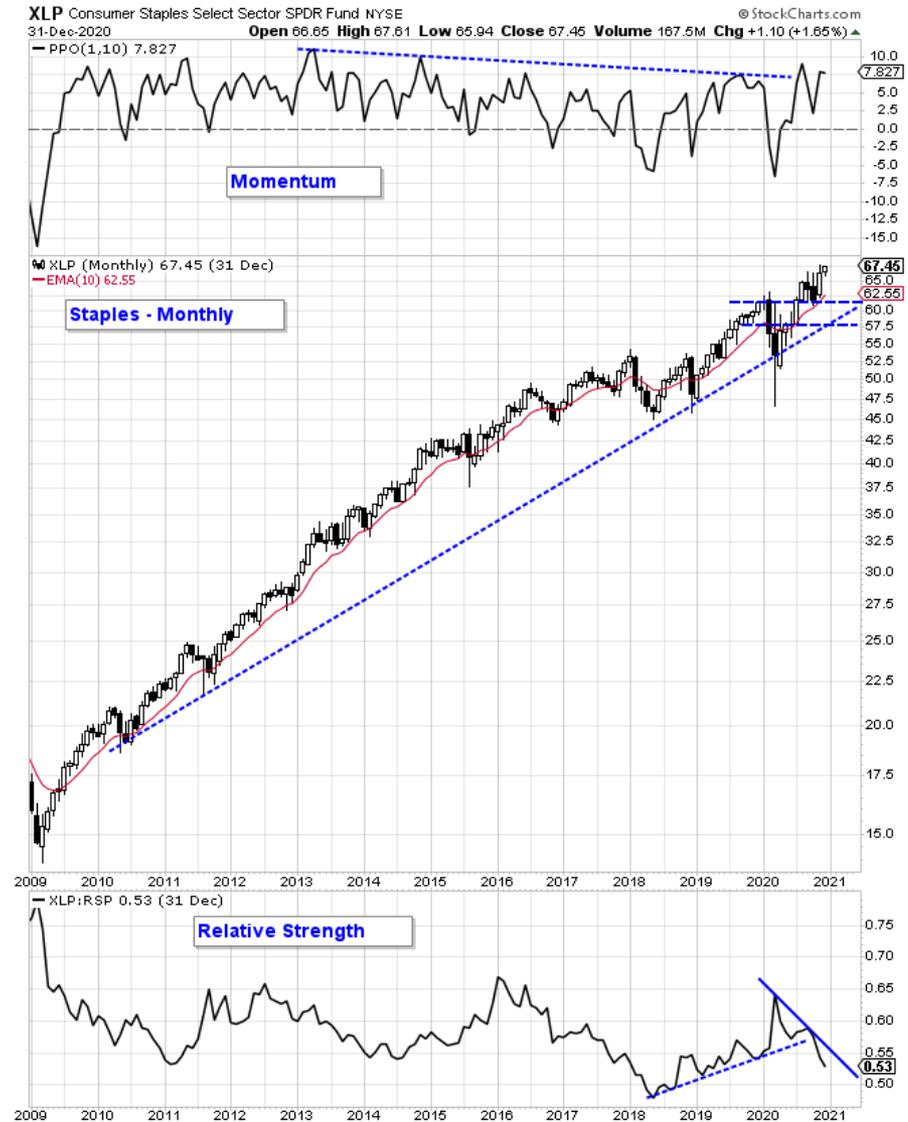
BULLISH (+10.11% YTD)

Observations:

- ❑ **Price** closed December up 1.65%, posting a new monthly closing high. A primary uptrend remains intact.
- ❑ **Momentum** remains positive, but failed to make a new high with price, leaving a negative divergences in place.
- ❑ **Relative strength** vs. the average S&P stock continues lower, following a breach of trend support after posting a 4-year high in March.
- ❑ **Trend Bullish: Above \$62**
- ❑ **Trend Bearish: Below \$57**

Conclusions:

- ❑ Staples slipped one position to the **#8 rank** in our sector RS-Momentum work this month.
- ❑ **Market Weight.** The trend remains positive, and while the new monthly closing high supports our bullish technical opinion, the negative momentum divergence raises some concerns about its sustainability. A monthly close below chart support at \$62 would move our view to neutral; A close below trend support at \$57 would warrant a downgrade to bearish.
- ❑ **Target = \$72**



Source: StockCharts.com

S&P 500 SECTOR REAL ESTATE NEUTRAL (-2.19% YTD)

Observations:

- ❑ **Price** closed December up 1.46%, posting a new monthly recovery closing high while challenging, but holding below chart resistance. The trend remains neutral.
- ❑ **Momentum** remains positive, but held below a 10-year resistance structure.
- ❑ **Relative strength** vs. the average S&P stock is plunging lower after breaching trend support, following a failed challenge of trend resistance.
- ❑ **Trend Bullish: Above \$39**
- ❑ **Trend Bearish: Below \$32**

Conclusions:

- ❑ Real Estate advanced one position to the **#9 rank** in our sector RS-Momentum work for the month.
- ❑ **Underweight.** Improving price action and accelerating momentum led to new recovery close within an established range, supporting a neutral technical rating. A monthly close above chart resistance at \$39 would warrant an upgrade to bullish. A monthly close below trend support at \$32, a downgrade to bearish.
- ❑ Target = N/A



Source: StockCharts.com

S&P 500 SECTOR UTILITIES NEUTRAL (+0.51% YTD)

Observations:

- ❑ **Price** closed December up 0.62%, posting a new monthly recovery closing high, but held well-below chart resistance. The trend remains neutral.
- ❑ **Momentum** remains positive, but is range-bound within a well-defined 8-year, lateral, channel structure.
- ❑ **Relative strength** vs. the average S&P stock has turned down since breaching trend support after posting an 8-year high in March.
- ❑ **Trend Bullish: Above \$68**
- ❑ **Trend Bearish: Below \$60**

Conclusions:

- ❑ Utilities slipped one position to the **#10 rank** in our sector RS-Momentum work this month.
- ❑ **Market Weight.** Improving price action and positive momentum led to new monthly recovery closing high within an established range, supporting a neutral technical rating. A monthly close above chart resistance at \$68 would warrant an upgrade to bullish. A monthly close below trend support at \$60 would warrant a downgrade to bearish.
- ❑ Target = N/A



Source: StockCharts.com

S&P 500 SECTOR ENERGY

BEARISH (-32.67% YTD)

Observations:

- ❑ **Price** closed December up 4.48%, recapturing the 200-DMA and posting a new recovery high, but closing well-below chart resistance. A primary downtrend remains intact.
- ❑ **Momentum** has turned positive, and appears poised to challenge a 7-year resistance structure.
- ❑ **Relative strength** vs. the average S&P stock bounced after posting a new 20-year monthly low in September.
- ❑ **Trend Bullish: Above \$65**
- ❑ **Trend Bearish: Below \$43**

Conclusions:

- ❑ Energy held at the **#11 rank** in our sector RS-Momentum work this month.
- ❑ **Underweight.** Despite improving price action and accelerating momentum price failed below chart resistance, supporting a bearish technical rating. A monthly close above chart resistance at \$43 would warrant an upgrade to neutral. A monthly close above trend resistance at \$65 would warrant a upgrade to bullish.
- ❑ **Target = \$15**



Source: StockCharts.com



Source: StockCharts.com

PORTFOLIO POSITIONING

- ❑ Leaders and Laggards
 - ❑ Top 5 Ranked RS-Momentum Leaders by Sector
 - ❑ Bottom 5 Ranked RS-Momentum Laggards by Sector

TECHNOLOGY

December Leaders vs. Laggards
 Long/Short Spread = +18.2%

| chart | visible | tail | symbol | name | sector | industry | price | %chg |
|-------|---------|------|--------|--|------------|-------------------|---------|---------|
| 📈 | ✓ | 🟢 | MU | Micron Technology, Inc. | Technology | Semiconductors | 75.18 | 🟢 17.0 |
| 📈 | ✓ | 🟢 | CDNS | Cadence Design Systems, Inc. | Technology | Software | 136.43 | 🟢 17.0 |
| 📈 | ✓ | 🟢 | SNPS | Synopsys, Inc. | Technology | Software | 259.24 | 🟢 15.0 |
| 📈 | ✓ | 🟢 | ADSK | Autodesk, Inc. | Technology | Software | 305.34 | 🟢 11.9 |
| 📈 | ✓ | 🟢 | HPQ | HP Inc. | Technology | Computer Hardware | 24.59 | 🟢 11.3 |
| 📈 | | | \$SPT | S&P 500 Information Technology Sector Index | | | 2291.28 | 🟢 6.4 |
| 📈 | ✓ | 🟡 | NVDA | NVIDIA Corp. | Technology | Semiconductors | 522.20 | 🔴 -1.5 |
| 📈 | ✓ | 🟡 | MSI | Motorola Solutions Inc. | Technology | Telecom Equipment | 170.06 | 🔴 -1.5 |
| 📈 | ✓ | 🟡 | GLW | Corning, Inc. | Technology | Telecom Equipment | 36.00 | 🔴 -2.9 |
| 📈 | ✓ | 🔴 | FIS | Fidelity National Information Services, Inc. | Technology | Software | 141.46 | 🔴 -4.4 |
| 📈 | ✓ | 🔴 | CRM | Salesforce.com, Inc. | Technology | Software | 222.53 | 🔴 -10.1 |

Source: StockCharts.com

COMMUNICATIONS SERVICES

December Leaders vs. Laggards
 Long/Short Spread = +15.0%

| chart | visible | tail | symbol | name | sector | industry | price | %chg |
|-------|---------|------|--------|---|------------------------|--------------------------|--------|--------|
| 📊 | ✓ | 🟢 | DIS | Walt Disney Co. | Communication Services | Entertainment | 181.18 | 🟢 23.1 |
| 📊 | ✓ | 🟢 | TTWO | Take-Two Interactive Software, Inc. | Communication Services | Internet | 207.79 | 🟢 17.8 |
| 📊 | ✓ | 🟢 | DISCA | Discovery, Inc. | Communication Services | Entertainment | 30.09 | 🟢 9.5 |
| 📊 | ✓ | 🟢 | LYV | Live Nation Entertainment, Inc. | Consumer Discretionary | Recreational Services | 73.48 | 🟢 9.3 |
| 📊 | ✓ | 🟢 | IPG | Interpublic Grp Of Cos | Communication Services | Media Agencies | 23.52 | 🟢 4.3 |
| 📊 | | | \$SPTS | S&P 500 Communication Services Sector Index | | | 221.92 | 🟢 2.3 |
| 📊 | ✓ | 🔴 | FOX | 21st Century Fox Inc. | Communication Services | Entertainment | 28.88 | 🔴 0.5 |
| 📊 | ✓ | 🔴 | FOXA | 21st Century Fox Inc. | Communication Services | Entertainment | 29.12 | 🔴 -0.1 |
| 📊 | ✓ | 🔴 | FB | Facebook, Inc. | Communication Services | Internet | 273.16 | 🔴 -1.7 |
| 📊 | ✓ | 🔴 | VZ | Verizon Communications | Communication Services | Fixed Telecommunications | 58.75 | 🔴 -3.0 |
| 📊 | ✓ | 🔴 | LUMN | Lumen Technologies Inc | Communication Services | Fixed Telecommunications | 9.75 | 🔴 -6.8 |

Source: StockCharts.com

BASIC MATERIALS

December Leaders vs. Laggards
 Long/Short Spread = +9.9%

| chart | visible | tail | symbol | name | sector | industry | price | %chg |
|-------|---------|------|--------|----------------------------------|-----------|------------------------|--------|--------|
| ☐☐☐ | ☑ | █ | FCX | Freeport-McMoRan, Inc. | Materials | Nonferrous Metals | 26.02 | █ 10.6 |
| ☐☐☐ | ☑ | █ | DD | DuPont de Nemours, Inc. | Materials | Specialty Chemicals | 71.11 | █ 10.2 |
| ☐☐☐ | ☑ | █ | ALB | Albemarle Corp. | Materials | Specialty Chemicals | 147.52 | █ 7.5 |
| ☐☐☐ | ☑ | █ | PKG | Packaging Corp Of America | Materials | Containers & Packaging | 137.91 | █ 4.6 |
| ☐☐☐ | ☑ | █ | LYB | LyondellBasell Industries NV | Materials | Commodity Chemicals | 91.66 | █ 4.3 |
| ☐☐☐ | | | \$SPM | S&P 500 Materials Sector Index | | | 455.71 | █ 1.4 |
| ☐☐☐ | ☑ | █ | APD | Air Products and Chemicals, Inc. | Materials | Commodity Chemicals | 273.22 | █ -1.2 |
| ☐☐☐ | ☑ | █ | PPG | PPG Industries, Inc. | Materials | Specialty Chemicals | 144.22 | █ -2.4 |
| ☐☐☐ | ☑ | █ | CE | Celanese Corp. | Materials | Commodity Chemicals | 129.94 | █ -2.8 |
| ☐☐☐ | ☑ | █ | IFF | Intl Flavors & Fragrances | Materials | Specialty Chemicals | 108.84 | █ -2.9 |
| ☐☐☐ | ☑ | █ | BLL | Ball Corp. | Materials | Containers & Packaging | 93.18 | █ -3.1 |

Source: StockCharts.com

HEALTH CARE

December Leaders vs. Laggards
 Long/Short Spread = +19.2%

| chart | visible | tail | symbol | name | sector | industry | price | %chg |
|-------|---------|------|--------|---------------------------------|-------------|-----------------------|---------|--------|
| ☐☐☐ | ☑ | █ | ALXN | Alexion Pharmaceuticals, Inc. | Health Care | Biotechnology | 156.24 | █ 26.2 |
| ☐☐☐ | ☑ | █ | ILMN | Illumina, Inc. | Health Care | Biotechnology | 370.00 | █ 16.7 |
| ☐☐☐ | ☑ | █ | LLY | Eli Lilly & Co. | Health Care | Pharmaceuticals | 168.84 | █ 14.5 |
| ☐☐☐ | ☑ | █ | ALGN | Align Technology, Inc. | Health Care | Medical Supplies | 534.38 | █ 12.4 |
| ☐☐☐ | ☑ | █ | IDXX | IDEXX Laboratories, Inc. | Health Care | Medical Supplies | 499.87 | █ 10.0 |
| ☐☐☐ | | | \$SPHC | S&P 500 Healthcare Sector Index | | | 1324.01 | █ 4.0 |
| ☐☐☐ | ☑ | █ | BIIB | Biogen Inc. | Health Care | Biotechnology | 244.86 | 0.4 |
| ☐☐☐ | ☑ | █ | STE | Steris plc | Health Care | Medical Equipment | 189.54 | -1.1 |
| ☐☐☐ | ☑ | █ | DGX | Quest Diagnostics Inc. | Health Care | Health Care Providers | 119.17 | █ -4.5 |
| ☐☐☐ | ☑ | █ | CNC | Centene Corp. | Health Care | Health Care Providers | 60.03 | █ -5.0 |
| ☐☐☐ | ☑ | █ | REGN | Regeneron Pharmaceuticals, Inc. | Health Care | Biotechnology | 483.11 | █ -6.0 |

Source: StockCharts.com

INDUSTRIALS

December Leaders vs. Laggards
 Long/Short Spread = +5.9%

| chart | visible | tail | symbol | name | sector | industry | price | %chg |
|-------|---------|------|--------|----------------------------------|------------|---------------------------|--------|--------|
| ☺☺☺ | ☑ | ■ | TDG | TransDigm Group Inc. | Industrial | Aerospace | 618.85 | ■ 4.6 |
| ☺☺☺ | ☑ | ■ | GE | General Electric Co. | Industrial | Diversified Industrials | 10.80 | ■ 3.9 |
| ☺☺☺ | ☑ | ■ | EMR | Emerson Electric Co. | Industrial | Diversified Industrials | 80.37 | ■ 2.8 |
| ☺☺☺ | ☑ | ■ | HON | Honeywell Intl | Industrial | Diversified Industrials | 212.70 | ■ 1.6 |
| ☺☺☺ | ☑ | ■ | AME | Ametek, Inc. | Industrial | Diversified Industrials | 120.94 | ■ 1.1 |
| ☺☺☺ | | | \$SPI | S&P 500 Industrials Sector Index | | | 749.54 | 0.1 |
| ☺☺☺ | ☑ | ■ | ROK | Rockwell Automation | Industrial | Industrial Machinery | 250.81 | ■ -2.0 |
| ☺☺☺ | ☑ | ■ | CTAS | Cintas Corp. | Industrial | Business Support Services | 353.46 | ■ -2.1 |
| ☺☺☺ | ☑ | ■ | ODFL | Old Dominion Freight Line, Inc. | Industrial | Trucking | 195.18 | ■ -3.3 |
| ☺☺☺ | ☑ | ■ | ITW | Illinois Tool Works, Inc. | Industrial | Industrial Machinery | 203.88 | ■ -3.4 |
| ☺☺☺ | ☑ | ■ | LMT | Lockheed Martin Corp. | Industrial | Defense | 354.98 | ■ -4.5 |

Source: StockCharts.com

CONSUMER DISCRETIONARY

December Leaders vs. Laggards
 Long/Short Spread = **+18.2%**

| chart | visible | tail | symbol | name | sector | industry | price | %chg |
|-------|---------|------|--------|---|------------------------|----------------------------|---------|---------|
| 📊 | ✓ | 🟢 | ROST | Ross Stores, Inc. | Consumer Discretionary | Apparel Retailers | 122.81 | 🟢 12.1 |
| 📊 | ✓ | 🟢 | WYNN | Wynn Resorts Ltd | Consumer Discretionary | Gambling | 112.83 | 🟢 11.5 |
| 📊 | ✓ | 🟢 | ETSY | Etsy Inc. | Consumer Discretionary | Special Consumer Services | 177.91 | 🟢 10.8 |
| 📊 | ✓ | 🟢 | MGM | MGM Resorts International | Consumer Discretionary | Gambling | 31.51 | 🟢 10.1 |
| 📊 | ✓ | 🟢 | BKNG | Booking Holdings Inc. | Consumer Discretionary | Travel & Tourism | 2227.27 | 🟢 8.5 |
| 📊 | | | \$SPCC | S&P 500 Consumer Discretionary Sector Index | | | 1302.56 | 🟢 1.8 |
| 📊 | ✓ | 🔴 | DG | Dollar General Corp. | Consumer Discretionary | Specialty Retailers | 210.30 | 🔴 -3.5 |
| 📊 | ✓ | 🟡 | LB | L Brands, Inc. | Consumer Discretionary | Apparel Retailers | 37.19 | 🔴 -4.2 |
| 📊 | ✓ | 🔴 | DHI | DR Horton Inc. | Consumer Discretionary | Home Construction | 68.92 | 🔴 -9.0 |
| 📊 | ✓ | 🟡 | WHR | Whirlpool Corp. | Consumer Discretionary | Durable Household Products | 180.49 | 🔴 -10.2 |
| 📊 | ✓ | 🟡 | BBY | Best Buy Co, Inc. | Consumer Discretionary | Specialty Retailers | 99.79 | 🔴 -10.9 |

Source: StockCharts.com

FINANCIALS

December Leaders vs. Laggards
 Long/Short Spread = +13.4%

| chart | visible | tail | symbol | name | sector | industry | price | %chg |
|-------|---------|------|--------|--------------------------------------|-----------|---------------------|--------|--------|
| ☐☐☐ | ☑ | █ | DFS | Discover Financial Services | Financial | Consumer Finance | 90.53 | █ 14.8 |
| ☐☐☐ | ☑ | █ | GS | Goldman Sachs Group, Inc. | Financial | Investment Services | 263.71 | █ 12.6 |
| ☐☐☐ | ☑ | █ | COF | Capital One FncI Corp. | Financial | Consumer Finance | 98.85 | █ 12.6 |
| ☐☐☐ | ☑ | █ | MSCI | MSCI, Inc. | Financial | Specialty Finance | 446.53 | █ 11.0 |
| ☐☐☐ | ☑ | █ | SIVB | SVB Financial Group | Financial | Banks | 387.83 | █ 9.6 |
| ☐☐☐ | | | \$SPF | S&P 500 Financials Sector Index | | | 490.43 | █ 4.0 |
| ☐☐☐ | ☑ | █ | WLTW | Willis Towers Watson Public Ltd. Co. | Financial | Insurance Brokers | 210.68 | █ 0.9 |
| ☐☐☐ | ☑ | █ | BRK/B | Berkshire Hathaway, Inc. | Financial | Reinsurance | 231.87 | 0.1 |
| ☐☐☐ | ☑ | █ | TFC | BB&T Corp. | Financial | Banks | 47.93 | █ -1.2 |
| ☐☐☐ | ☑ | █ | NTRS | Northern Trust Corp. | Financial | Asset Managers | 93.14 | █ -2.4 |
| ☐☐☐ | ☑ | █ | SPGI | S&P Global Inc. | Financial | Specialty Finance | 328.73 | █ -3.8 |

Source: StockCharts.com

CONSUMER STAPLES

December Leaders vs. Laggards
 Long/Short Spread = +10.5%

| chart | visible | tail | symbol | name | sector | industry | price | %chg |
|-------|-------------------------------------|------|--------|---------------------------------------|------------------|--------------------------|--------|------|
| | <input checked="" type="checkbox"/> | | PM | Philip Morris Intl Inc. | Consumer Staples | Tobacco | 82.79 | 10.7 |
| | <input checked="" type="checkbox"/> | | MNST | Monster Beverage Corp. | Consumer Staples | Soft Drinks | 92.48 | 9.9 |
| | <input checked="" type="checkbox"/> | | EL | Estee Lauder Cos. | Consumer Staples | Personal Products | 266.19 | 8.2 |
| | <input checked="" type="checkbox"/> | | LW | Lamb Weston Holdings, Inc. | Consumer Staples | Food Products | 78.74 | 7.6 |
| | <input checked="" type="checkbox"/> | | STZ | Constellation Brands, Inc. | Consumer Staples | Distillers & Vintners | 219.05 | 7.0 |
| | | | \$SPST | S&P 500 Consumer Staples Sector Index | | | 696.32 | 1.4 |
| | <input checked="" type="checkbox"/> | | CLX | Clorox Co. | Consumer Staples | Nondurable Home Products | 201.92 | -0.6 |
| | <input checked="" type="checkbox"/> | | K | Kellogg Co. | Consumer Staples | Food Products | 62.23 | -1.1 |
| | <input checked="" type="checkbox"/> | | HRL | Hormel Foods Corp. | Consumer Staples | Food Products | 46.61 | -1.3 |
| | <input checked="" type="checkbox"/> | | KR | Kroger Co. | Consumer Staples | Food Retailers | 31.76 | -2.1 |
| | <input checked="" type="checkbox"/> | | KMB | Kimberly Clark Corp. | Consumer Staples | Nondurable Home Products | 134.83 | -3.9 |

Source: StockCharts.com

REAL ESTATE

December Leaders vs. Laggards
 Long/Short Spread = +9.3%

| chart | visible | tail | symbol | name | sector | industry | price | %chg |
|-------|---------|------|--------|---|-------------|---------------------------|--------|--------|
| ☺☺☺ | ☑ | █ | AIV | Apartment Investment and Management Co. | Real Estate | Residential REITs | 5.28 | █ 28.8 |
| ☺☺☺ | ☑ | █ | VTR | Ventas, Inc. | Real Estate | Specialty REITs | 49.04 | █ 3.3 |
| ☺☺☺ | ☑ | █ | CBRE | CBRE Group, Inc. | Real Estate | Real Estate Services | 62.72 | █ 2.6 |
| ☺☺☺ | ☑ | █ | MAA | Mid-America Apartment Communities Inc. | Real Estate | Residential REITs | 126.69 | █ 2.2 |
| ☺☺☺ | ☑ | █ | SLG | SL Green Realty Corp. | Real Estate | Industrial & Office REITs | 59.58 | █ 1.7 |
| ☺☺☺ | ☑ | ■ | O | Realty Income Corp. | Real Estate | Retail REITs | 62.17 | █ 1.6 |
| ☺☺☺ | | | \$SPRE | S&P 500 Real Estate Sector Index | | | 227.90 | 0.1 |
| ☺☺☺ | ☑ | ■ | PLD | ProLogis, Inc. | Real Estate | Industrial & Office REITs | 99.66 | -0.4 |
| ☺☺☺ | ☑ | █ | SBAC | SBA Communications Corp. | Real Estate | Specialty REITs | 282.13 | ■ -1.3 |
| ☺☺☺ | ☑ | █ | AMT | American Tower Corp. | Real Estate | Specialty REITs | 224.46 | ■ -3.6 |
| ☺☺☺ | ☑ | ■ | CCI | Crown Castle Intl Corp. | Real Estate | Diversified REITs | 159.19 | ■ -4.0 |

Source: StockCharts.com

UTILITIES

December Leaders vs. Laggards
 Long/Short Spread = +12.3%

| chart | visible | tail | symbol | name | sector | industry | price | %chg |
|-------|-------------------------------------|---|--------|--------------------------------|-----------|--------------------------|--------|---|
| ☺☺☺ | <input checked="" type="checkbox"/> |  | NRG | NRG Energy Inc. | Utilities | Conventional Electricity | 37.55 |  15.5 |
| ☺☺☺ | <input checked="" type="checkbox"/> |  | FE | Firstenergy Corp. | Utilities | Conventional Electricity | 30.61 |  14.6 |
| ☺☺☺ | <input checked="" type="checkbox"/> |  | SO | Southern Co. | Utilities | Conventional Electricity | 61.43 |  1.3 |
| ☺☺☺ | <input checked="" type="checkbox"/> |  | EXC | Exelon Corp. | Utilities | Conventional Electricity | 42.22 |  1.1 |
| ☺☺☺ | <input checked="" type="checkbox"/> |  | EIX | Edison Intl, Inc. | Utilities | Conventional Electricity | 62.82 |  1.1 |
| ☺☺☺ | | | \$SPU | S&P 500 Utilities Sector Index | | | 319.07 |  -1.1 |
| ☺☺☺ | <input checked="" type="checkbox"/> |  | LNT | Alliant Energy Corp. | Utilities | Conventional Electricity | 51.53 |  -2.3 |
| ☺☺☺ | <input checked="" type="checkbox"/> |  | WEC | WEC Energy Group, Inc. | Utilities | Multiutilities | 92.03 |  -3.9 |
| ☺☺☺ | <input checked="" type="checkbox"/> |  | D | Dominion Energy, Inc. | Utilities | Conventional Electricity | 75.20 |  -4.1 |
| ☺☺☺ | <input checked="" type="checkbox"/> |  | ED | Consolidated Edison, Inc. | Utilities | Conventional Electricity | 72.27 |  -7.1 |
| ☺☺☺ | <input checked="" type="checkbox"/> |  | ETR | Entergy Corp Hldg Co. | Utilities | Conventional Electricity | 99.84 |  -10.5 |

Source: StockCharts.com

ENERGY

December Leaders vs. Laggards
 Long/Short Spread = +14.2%

| chart | visible | tail | symbol | name | sector | industry | price | %chg |
|-------|---------|------|--------|-----------------------------|--------|--------------------------|--------|--------|
| ☐☐☐ | ☑ | █ | FANG | Diamondback Energy, Inc. | Energy | Exploration & Production | 48.40 | █ 11.2 |
| ☐☐☐ | ☑ | █ | HAL | Halliburton Co. | Energy | Oil Equipment & Services | 18.90 | █ 7.9 |
| ☐☐☐ | ☑ | █ | DVN | Devon Energy Corp. | Energy | Exploration & Production | 15.81 | █ 7.7 |
| ☐☐☐ | ☑ | █ | MRO | Marathon Oil | Energy | Integrated Oil & Gas | 6.67 | █ 5.0 |
| ☐☐☐ | ☑ | █ | FTI | TechnipFMC Plc | Energy | Oil Equipment & Services | 9.40 | █ 4.8 |
| ☐☐☐ | | | \$SPEN | S&P 500 Energy Sector Index | | | 286.14 | █ -1.3 |
| ☐☐☐ | ☑ | █ | WMB | Williams Cos., Inc. | Energy | Pipelines | 20.05 | █ -4.9 |
| ☐☐☐ | ☑ | █ | COP | ConocoPhillips | Energy | Integrated Oil & Gas | 39.99 | █ -6.5 |
| ☐☐☐ | ☑ | █ | KMI | Kinder Morgan Inc. | Energy | Pipelines | 13.67 | █ -7.3 |
| ☐☐☐ | ☑ | █ | CVX | Chevron Corp. | Energy | Integrated Oil & Gas | 84.45 | █ -7.5 |
| ☐☐☐ | ☑ | █ | COG | Cabot Oil & Gas Corp. | Energy | Exploration & Production | 16.28 | █ -8.4 |

Source: StockCharts.com



Source: Hedgeye.com

ACTIONABLE TRADE IDEAS

Targeting a minimum 15% appreciation potential over 3-6 months with a 3:1 positive risk skew.

Bullish Large-Cap Set-ups:

- Visa (V)
- Johnson & Johnson (JNJ)
- Global Payments (GPN)
- Booking Holdings (BKNG)
- Jazz Pharmaceuticals (JAZZ)

Bullish Smid-Cap Set-ups:

- Interactive Brokers (IBKR)
- Allegiant Travel (ALGT)
- Balchem Corp (BCPC)
- CONMED (CNMD)
- Encore Wire (WIRE)

BULLISH VISA (V)

Reports 1Q21 January 27th @ 4:05 PM ET



Source: StockCharts.com

BULLISH JOHNSON & JOHNSON (JNJ)

Reports 4Q20 January 26th @ 6:40 AM ET



Source: StockCharts.com

BULLISH GLOBAL PAYMENTS (GPN)

Reports 4Q20 January 28th @ 6:55 AM ET



BULLISH BOOKING HOLDINGS (BKNG)

Reports 4Q20 February 4th @ 4:00 PM ET



Source: StockCharts.com

BULLISH JAZZ PHARMA (JAZZ)

Reports 4Q20 February 1st @ 4:05 PM ET



BULLISH INTERACTIVE BROKERS (IBKR)

Reports 4Q20 January 19th @ 4:00 PM ET



BULLISH ALLEGIANT TRAVEL (ALGT)

Reports 4Q20 January 27th @ 4:00 PM ET



BULLISH BALCHEM (BCPC)

Reports 4Q20 January 27th @ 7:00 AM ET



BULLISH CONMED (CNMD)

Reports 4Q20 January 27th @ 7:00 AM ET



Source: StockCharts.com

BULLISH ENCORE WIRE (WIRE)

Reports 4Q20 January 26th @ 5:15 PM ET



Source: StockCharts.com



Source: Hedgeye.com

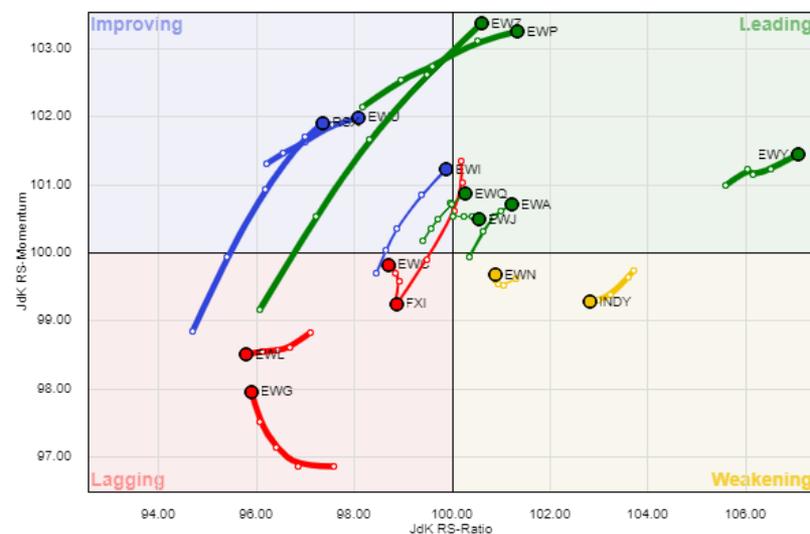
FOREIGN EQUITY MARKETS

- Developed
 - Canada, Australia, UK, Germany, Switzerland, France, Netherlands, Italy, Spain, and Japan
- Emerging
 - China, India, Brazil, Russia, and South Korea

MSCI FOREIGN MARKET LEADERSHIP

| | <u>MSCI Foreign Market Rank</u> | <u>DEC Return</u> | <u>TTM Return</u> |
|---|---------------------------------|-------------------|-------------------|
| | 1. South Korea (EWY) | + 13.5% | + 39.4% |
| | 2. Netherlands (EWN) | + 6.6% | + 23.2% |
| ↑ | 3. Japan (EWJ) | + 5.3% | + 15.4% |
| | 4. India (INDY) | + 8.9% | + 10.0% |
| | 5. Switzerland (EWL) | + 5.1% | + 11.8% |
| | 6. Germany (EWG) | + 4.8% | + 10.1% |
| ↑ | 7. Australia (EWA) | + 6.3% | + 8.3% |
| ↓ | 8. China (FXI) | - 0.3% | + 8.9% |
| | 9. Canada (EWC) | + 3.1% | + 5.5% |
| ↑ | 10. Russia (RSX) | + 9.4% | - 0.1% |
| ↑ | 11. Italy (EWI) | + 3.9% | + 1.7% |
| ↑ | 12. France (EWQ) | + 2.9% | + 2.9% |
| ↑ | 13. Spain (EWP) | + 2.8% | - 3.9% |
| | 14. United Kingdom (EWU) | + 4.8% | - 11.8% |
| ↑ | 15. Brazil (EWZ) | + 12.3% | - 20.4% |

MSCI Country Rotation Model



Source: StockCharts.com

RS Benchmark: MSCI All-Country ex-US Index

FOREIGN MARKET LEADERSHIP...CONTINUED

Emerging Mkts Leading Developed Mkts



Foreign Mkts Lagging Domestic Mkts



Source: StockCharts.com

DEVELOPED MARKETS AUSTRALIA

BULLISH (+8.29% YTD)

Observations:

- ❑ **Price** closed December up 6.31% to post a new all-time and monthly closing high. A primary uptrend remains intact.
- ❑ **Momentum** remains resolutely positive, following a surge above an 8-year resistance structure to confirm price in November.
- ❑ **Relative Strength** vs. developed markets rallied off a higher low after breaching trend support in March, but remains below trend resistance.
- ❑ **Trend Bullish Above: \$22**
- ❑ **Trend Bearish Below: \$17**

Conclusions:

- ❑ **Market Weight.** Robust price action and accelerating momentum led to new all-time high supporting our bullish technical view. A monthly close below chart support at \$22 would move our view to neutral; A monthly close below trend support at \$17 would warrant a downgrade to bearish.
- ❑ **Target: \$29**



Source: StockCharts.com

DEVELOPED MARKETS CANADA

BULLISH (+5.52% YTD)

Observations:

- ❑ **Price** closed December up 3.11% to post a new all-time and monthly closing high. A primary uptrend remains intact.
- ❑ **Momentum** remains resolutely positive, following a surge above a 6-year resistance structure to confirm price in November.
- ❑ **Relative Strength** vs. developed markets has breached the lower boundary of a lateral consolidation structure signaling future relative underperformance potential.
- ❑ **Trend Bullish: Above \$29**
- ❑ **Trend Bearish: Below \$23**

Conclusions:

- ❑ **Market Weight.** Robust price action and accelerating momentum led to new all-time, supporting our bullish technical rating. A monthly close below chart support at \$29 would move our view to neutral; A monthly close below trend support at \$23 would warrant a downgrade to bearish.
- ❑ **Target: \$39**



Source: StockCharts.com

DEVELOPED MARKETS UNITED KINGDOM NEUTRAL (-11.80% YTD)

Observations:

- ❑ **Price** closed December up 4.83% to post a new recovery high, but held well-below chart resistance. The trend remains neutral.
- ❑ **Momentum** remains positive, but is holding below a 10-year resistance structure.
- ❑ **Relative strength** vs. developed markets is turning up from an all-time low in October, after breaching the low boundary of a 8-year descending trend channel.
- ❑ **Trend Bullish: Above \$33**
- ❑ **Trend Bearish: Below \$27**

Conclusions:

- ❑ **Underweight.** Robust price action and improving momentum led to new recovery high, but still short of chart resistance, supporting our neutral technical rating. A monthly close below chart support at \$27 would move our view to bearish; A monthly close above trend resistance at \$33 would warrant an upgrade to bullish.
- ❑ **Target: N/A**



Source: StockCharts.com

DEVELOPED MARKETS GERMANY

NEUTRAL (+10.09% YTD)

Observations:

- ❑ **Price** closed December up 4.81% to post a new recovery high, but failed below chart resistance. The trend remains neutral.
- ❑ **Momentum** remains positive and has penetrated a 7-year resistance structure.
- ❑ **Relative strength** vs. developed markets has turned sharply lower since July after staging an aggressive bullish reversal from a 10-year low.
- ❑ **Trend Bullish: Above \$33**
- ❑ **Trend Bearish: Below \$24**

Conclusions:

- ❑ **Market Weight.** Robust price action and accelerating momentum led to new recovery high, but failed at chart resistance, supporting our neutral technical rating. A monthly close below chart support at \$24 would move our view to bearish; A monthly close above trend resistance at \$33 would warrant a upgrade to bullish.
- ❑ **Target:** N/A



Source: StockCharts.com

DEVELOPED MARKETS FRANCE

BULLISH (+2.86% YTD)

Observations:

- ❑ **Price** closed December up 2.88% to post a new all-time and monthly closing high. A primary uptrend remains intact.
- ❑ **Momentum** remains resolutely positive, following a surge above a 4-year resistance structure to confirm price in November.
- ❑ **Relative strength** vs. developed markets has checked back after it reversed make a higher, high from a 3-year low in October.
- ❑ **Trend Bullish: Above \$31**
- ❑ **Trend Bearish: Below \$24**

Conclusions:

- ❑ **Underweight.** Robust price action and accelerating momentum led to new all-time high, supporting our bullish technical view. A monthly close below chart support at \$31 would move our view to neutral; A monthly close below trend support at \$25 would warrant a downgrade to bearish.
- ❑ **Target: \$41**



Source: StockCharts.com

DEVELOPED MARKETS ITALY NEUTRAL (+1.69% YTD)

Observations:

- ❑ **Price** closed December up 3.93% to post a new recovery high, but failed below chart resistance. The trend remains neutral.
- ❑ **Momentum** remains resolutely positive, after surging above a 6-year resistance structure in November.
- ❑ **Relative strength** vs. developed markets has turned up from an all-time low in October, but remains below trend resistance.
- ❑ **Trend Bullish: Above \$31**
- ❑ **Trend Bearish: Below \$19**

Conclusions:

- ❑ **Underweight.** Robust price action and accelerating momentum led to new recovery high within an well-establish trading range, supporting our neutral technical rating. A monthly close below chart support at \$19 would move our view to bearish; A monthly close above trend resistance at \$31 would warrant an upgrade to bullish.
- ❑ **Target: N/A**



Source: StockCharts.com

DEVELOPED MARKETS SPAIN

NEUTRAL (-3.94% YTD)

Observations:

- ❑ **Price** closed December up 2.80% to post a new recovery high, but held well-below chart resistance. The trend remains neutral.
- ❑ **Momentum** remains resolutely positive, after surging above a 6-year resistance structure in November.
- ❑ **Relative strength** vs. developed markets has turned up from an all-time low in October, but remains below trend resistance.
- ❑ **Trend Bullish: Above \$32**
- ❑ **Trend Bearish: Below \$21**

Conclusions:

- ❑ **Underweight.** Robust price action and accelerating momentum led to new recovery high within a well-established range, supporting our neutral technical rating. A monthly close below chart support at \$21 would move our view to bearish; A monthly close above trend resistance at \$32 would warrant an upgrade to bullish.
- ❑ **Target: N/A**



DEVELOPED MARKETS SWITZERLAND

BULLISH (+11.80% YTD)

Observations:

- ❑ **Price** closed December up 5.11% to post a new all-time and monthly closing high. A primary uptrend remains intact.
- ❑ **Momentum** remains positive, and has penetrated an 8-year resistance structure to resolve a series of negative divergences.
- ❑ **Relative strength** vs. the average S&P stock has breached a steep uptrend after posting a new all-time high in March.
- ❑ **Trend Bullish: Above \$40**
- ❑ **Trend Bearish: Below \$35**

Conclusions:

- ❑ **Overweight.** Switzerland has one of the most constructive technical trends on the European continent. Now that momentum has confirmed price, our only concern relates to the continued deterioration in RS, which could prove temporary. A monthly close below chart support at \$40 would move our view to neutral; A monthly close below trend support at \$35 would warrant a downgrade to bearish.

- ❑ **New Target: \$54**



Source: StockCharts.com

DEVELOPED MARKETS NETHERLANDS BULLISH (+23.23% YTD)

Observations:

- ❑ **Price** closed December up 6.59% to post a new all-time and monthly closing high. A primary uptrend remains intact.
- ❑ **Momentum** remains staunchly positive, posting a new high after surging above a 9-year resistance structure to confirm price in November.
- ❑ **Relative strength** vs. developed markets posted a fresh new all-time high in December.
- ❑ **Trend Bullish: Above \$34**
- ❑ **Trend Bearish: Below \$25**

Conclusions:

- ❑ **Overweight.** The Netherlands has the most constructive technical credentials on the European continent. Robust price action and accelerating momentum led to new all-time and monthly closing high, supporting our bullish technical view. A monthly close below chart support at \$34 would move our view to neutral; A monthly close below trend support at \$25 would warrant a downgrade to bearish.

- ❑ **New Target: \$46**



Source: StockCharts.com

DEVELOPED MARKETS JAPAN BULLISH (+15.40% YTD)

Observations:

- ❑ **Price** closed December up 5.34% to post a new 25-year and monthly closing high. A primary uptrend remains intact.
- ❑ **Momentum** remains resolutely positive, after surging above a 7-year resistance structure to confirm price in November.
- ❑ **Relative strength** vs. developed markets has resolved a 4-year consolidation to the upside, and is now consolidating before attempting to accelerate higher.
- ❑ **Trend Bullish: Above \$60**
- ❑ **Trend Bearish: Below \$49**

Conclusions:

- ❑ **Overweight.** Robust price action and accelerating momentum led to new monthly closing high, supporting our bullish technical view. A monthly close below chart support at \$60 would move our view to neutral; A monthly close below trend support at \$49 would warrant a downgrade to bearish.
- ❑ **New Target: \$82**



Source: StockCharts.com

EMERGING MARKETS CHINA NEUTRAL (+8.92% YTD)

Observations:

- ❑ **Price** closed December up 0.27% to post a slight new monthly recovery close, but failed below chart resistance. The trend remains neutral.
- ❑ **Momentum** remains positive, but is holding well below a 9-year resistance structure.
- ❑ **Relative strength** vs. emerging markets has collapsed below a 5-year shelf of support.
- ❑ **Trend Bullish: Above \$50**
- ❑ **Trend Bearish: Below \$34**

Conclusions:

- ❑ **Market Weight.** Mixed price action, lackluster momentum, and deteriorating RS has led to repeated failure below chart resistance, reaffirming our neutral technical rating. A monthly close above chart resistance at \$50 would warrant an upgrade to bullish; A monthly close below trend support at \$34 would move our view to bearish.
- ❑ **Target:** N/A



Source: StockCharts.com

EMERGING MARKETS INDIA BULLISH (+10.01% YTD)

Observations:

- ❑ **Price** closed December up 8.85% to posting a new all-time and monthly closing high. A primary uptrend remains intact.
- ❑ **Momentum** remains staunchly positive, and has accelerated after surging above a 6-year resistance structure to confirm price in November.
- ❑ **Relative strength** vs. emerging markets has stabilized above a 6-year support shelf since March, and has since penetrated trend resistance.
- ❑ **Trend Bullish: Above \$39**
- ❑ **Trend Bearish: Below \$31**

Conclusions:

- ❑ **Overweight.** Robust price action and accelerating momentum led to a new all-time and monthly closing high, supporting our bullish technical view. A monthly close below chart support at \$39 would move our view to neutral; A monthly close below trend support at \$27 would warrant a downgrade to bearish.
- ❑ **Target: \$52**



Source: StockCharts.com

EMERGING MARKETS BRAZIL

BEARISH (-20.35% YTD)

Observations:

- ❑ **Price** closed December up 12.32% to post a new recovery high, but held well-below chart resistance. A primary downtrend remains intact.
- ❑ **Momentum** remains positive, and has accelerated to penetrate a 5-year resistance structure.
- ❑ **Relative strength** vs. emerging markets has breached trend support, but turned up after posting an 18-year low in October.
- ❑ **Trend Bullish: Above \$62**
- ❑ **Trend Bearish: Below \$48**

Conclusions:

- ❑ **Underweight.** Strong price action and accelerating momentum led to new recovery high within a long-term downtrend, supporting our bearish technical rating. A monthly close above trend resistance at \$48 would move our view to neutral. Only a monthly close above \$62 would warrant a bullish opinion.
- ❑ **Target: \$18**



Source: StockCharts.com

EMERGING MARKETS RUSSIA NEUTRAL (-0.10% YTD)

Observations:

- ❑ **Price** closed December up 9.41% to post a new recovery high, but failed at chart resistance. The trend remains neutral.
- ❑ **Momentum** remains positive, but is holding below a 10-year resistance structure.
- ❑ **Relative strength** vs. emerging markets has bounced since breaching trend support following a new multi-year high in January.
- ❑ **Trend Bullish: Above \$26**
- ❑ **Trend Bearish: Below \$16**

Conclusions:

- ❑ **Market Weight.** Robust price action and accelerating momentum led to new recovery high within a well-established range, but failed at chart resistance, supporting our neutral technical rating. A monthly close below chart support at \$16 would move our view to bearish; A monthly close above trend resistance at \$26 would warrant an upgrade to bullish.
- ❑ **Target:** N/A



Source: StockCharts.com

EMERGING MARKETS SOUTH KOREA

BULLISH (+39.43% YTD)

Observations:

- ❑ **Price** closed December up 13.47% to post a new all-time and monthly closing high. A primary uptrend remains intact.
- ❑ **Momentum** remains staunchly positive, accelerating to a new 18-year high, after surging above a 6-year resistance structure to confirm price in November.
- ❑ **Relative strength** vs. emerging markets has resolved back above trend resistance following an eight-year low that penetrated a multi-year support structure.
- ❑ **Trend Bullish: Above \$75**
- ❑ **Trend Bearish: Below \$53**

Conclusions:

- ❑ **Overweight.** Robust price action and accelerating momentum led to a new all-time and monthly closing high, supporting our bullish technical view. A monthly close below chart support at \$75 would move our view to neutral; A monthly close below trend support at \$53 would warrant a downgrade to bearish.
- ❑ **Target: \$103**



Source: StockCharts.com



Source: Hedgeye.com

MACRO PERSPECTIVES

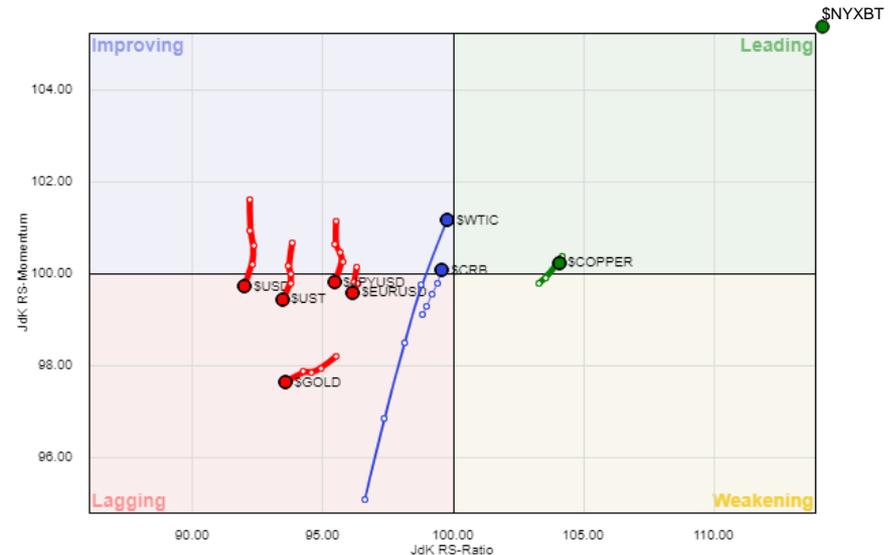
- Macro Leadership & Rotation Model
- Commodities: CRB Index, Copper, Gold Bullion, WTI Crude Oil
- Currencies: Bitcoin, U.S. Dollar Index, EURUSD, JPYUSD
- Rates: 10-Year U.S. Treasury Note

MACRO ASSET LEADERSHIP

| <u>Macro Asset Rank</u> | <u>DEC Return</u> | <u>TTM Return</u> |
|-----------------------------|-------------------|-------------------|
| 1. Bitcoin (\$NYXBT) | + 47.6% | + 296.6% |
| 2. Gold (\$Gold) | + 6.4% | + 24.4% |
| ↑ 3. Copper (\$Copper) | + 2.4% | + 25.8% |
| ↓ 4. Euro (\$EURUSD) | + 2.5% | + 9.0% |
| ↓ 5. 10-Year T-Note (\$UST) | - 0.6% | + 7.2% |
| ↓ 6. Japanese Yen (\$JPUSD) | + 1.1% | + 5.2% |
| ↑ 7. CRB Index (\$CRB) | + 7.0% | - 9.7% |
| ↓ 8. U.S. Dollar (\$USD) | - 2.1% | - 6.4% |
| ↑ 9. WTI Crude (\$WTIC) | + 8.9% | - 20.5% |

RS Benchmark: S&P 500 Index

Macro Rotation Model



Source: StockCharts.com

COMMODITY R/J CRB INDEX NEUTRAL (-9.68% YTD)

Observations:

- ❑ **Price** closed December up 4.84%, posting a new monthly recovery closing high. The trend remains neutral for now.
- ❑ **Momentum** remains positive, having surged above a 13-year resistance structure in November. Momentum tends to lead price.
- ❑ **Relative strength** vs. the S&P 500 index has been in decline since mid-2011, but has stabilized around a 50-year low established in April.
- ❑ **Trend Bullish: Above 210**
- ❑ **Trend Bearish: Below 153**

Conclusions:

- ❑ **Benchmark Weight.** Given the price action in the oil patch since April, it's likely that the CRB has made a low. The November momentum surge is probably confirming a durable trend reversal. Once we have identified a high confidence bullish set-up, we'll position to take advantage of a what could be a more sizable bounce. That would include some improvement in RS, in addition to the evolution of a readable price pattern.

- ❑ **Target = N/A**



Source: StockCharts.com

COMMODITY COPPER BULLISH (+25.81% YTD)

Observations:

- ❑ **Price** closed December up 2.36%, to post a new 8-year monthly closing high. A primary uptrend remains intact.
- ❑ **Momentum** remains positive, having surged above a 4-year resistance structure to confirm price in November.
- ❑ **Relative strength** vs. the other 18 commodities that make up the CRB index has paused after rallying to post a new all-time high in November.
- ❑ **Trend Bullish: Above \$3.32**
- ❑ **Trend Bearish: Below \$2.80**

Conclusions:

- ❑ **Overweight.** Robust price action and strong momentum led to a new 8-year monthly closing high, supporting our bullish technical view. A monthly close below chart support at \$3.32 would move our view back to neutral; A monthly close below trend support at \$2.80 would warrant a downgrade to bearish.
- ❑ **Target = \$4.44**



Source: StockCharts.com

COMMODITY GOLD BULLION BULLISH (+24.42% YTD)

Observations:

- ❑ **Price** closed December up 6.41%, posting a bullish engulfing candle line to recover the 200-DMA. If the November low marked the end of a fourth wave correction, then one more new high to around \$2,400 appears likely, as our wave count illustrates.
- ❑ **Momentum** has turned positive, following a successful test of structural support.
- ❑ **Relative strength** vs. the other 18 commodities that make up the CRB index has turned down since its April high, and appears poised to test trend support.
- ❑ **Trend Bullish: Above \$1,877**
- ❑ **Trend Bearish: Below \$1,767**

Conclusions:

- ❑ **Upgrading to Bullish** from Neutral.
- ❑ **Overweight.** We expect gold to move higher, especially if inflationary pressures emerge following the myriad monetary stimulus initiatives sponsored by global central banks. Importantly, we also see gold as likely to outperform all other commodities if we are in the midst of a deflationary debt liquidation.
- ❑ **Target = \$2,400**



Source: StockCharts.com

COMMODITY WTI CRUDE OIL NEUTRAL (-20.54% YTD)

Observations:

- ❑ **Price** closed December up 7.01%. The LT trend appears to have bottomed, after breaching prior key support, and posting a new 40-year low in April. So far, it's looking like our double zigzag (W-X-Y) count is correct. A new advance appears to be in progress and should carry beyond the prior (X) wave.
- ❑ **Momentum** has turned positive, but remains contained by a 10-year resistance structure.
- ❑ **Volatility** is often considered to be a contrarian measure of sentiment. Higher levels imply fear. Spikes in the OVX above 50% have tended to closely correspond with important price lows. A new all-time historical extreme high was posted in March.
- ❑ **Trend Bullish: Above \$64**
- ❑ **Trend Bearish: Below \$33**

Conclusions:

- ❑ **Market Weight.** As all will now know, the downside risk is no longer limited to zero in the front month futures contract, but the historic extreme in volatility and the 40-year low in momentum suggest that a price low may have also been achieved in April.
- ❑ **Target = N/A**



Source: StockCharts.com

CRYPTOCURRENCY BITCOIN/US DOLLAR BULLISH (+296.60% YTD)

Observations:

- ❑ **Price** closed December up +47.60%, posting a new all-time and monthly closing high. A primary uptrend remains intact.
- ❑ **Momentum** remains resolutely positive, but has yet to exceed its 2018 high, leaving a negative divergence in place. This could soon be resolved.
- ❑ **Relative Strength** vs. the 19 most widely traded commodities, as illustrated by the CRB index, posted a new all-time high in December.
- ❑ **Trend Bullish: Above \$13,850**
- ❑ **Trend Bearish: Below \$10,770**

Conclusions:

- ❑ **Overweight.** We turned Bullish on this crypto leader on August 1st, at \$11,226, stating that, “some might think this sounds crazy, but we see the potential for a triple here.” Our ridiculous \$34,000 published target has now been achieved. Robust price action, coupled with strong momentum and a recent new high in RS continues to support our bullish technical view. A monthly close below chart support would move us to the sidelines; A monthly close below trend support would warrant a downgrade to bearish.

- ❑ **New Target: \$36,570**



Source: StockCharts.com

CURRENCY US DOLLAR INDEX BULLISH (-6.42% YTD)

Observations:

- ❑ **Price** closed December down 2.14%. The long-term trend remains up, but the recent decline appears to be countertrend. Our contrarian bullish view is based upon a capitulation sell-off and an extreme in bearish sentiment and positioning by speculators.
- ❑ **Momentum** remains negative after a breaching the zero bound in June. The long-term trend is up and needs to offer structural support here.
- ❑ **Relative Strength** vs. the G10 Currency Harvest Index has breached a 6-year support shelf.
- ❑ **Trend Bullish: Above 94.80**
- ❑ **Trend Bearish: Below 88.15**

Conclusions:

- ❑ **Overweight.** On the one hand, a close above key resistance would suggest that a bearish-to-bullish reversal was in progress. A bullish resolution would project a measured move to approximately 115. On the other hand, a monthly close below key support would favor the double-top bear case. That translates to a 5:1 positive risk skew. A sustained breach of the 2018 low would invalidate our contrary bullish view.

- ❑ **Target = 115**



Source: StockCharts.com

CURRENCY EURO/US DOLLAR BEARISH (+8.97% YTD)

Observations:

- ❑ **Price** closed December up 2.45%. The long-term trend remains down, but the recent advance appears to be part of a larger degree countertrend rally. Headlines abound predicting the end of the U.S. Dollar. We are more sanguine.
- ❑ **Momentum** remains positive, but has been coiling around the zero bound since 2016.
- ❑ **Relative Strength** vs. the G10 Currency Harvest Index remains range bound between two converging trend lines. A breakout above or below will be telling.
- ❑ **Trend Bullish: Above 1.24**
- ❑ **Trend Bearish: Below 1.09**

Conclusions:

- ❑ **Underweight.** Price action in this currency pair is essentially the mirror image of the DXY. On the one hand, a close below key support would suggest a new leg of the decline was underway. A bearish resolution would project a measured move to approximately 0.80. On the other hand, a monthly close above key resistance would open the door for a test of the structural downtrend and possibly the 2018 high.

- ❑ **Target = 0.80**



Source: StockCharts.com

CURRENCY YEN/US DOLLAR BULLISH (+5.20% YTD)

Observations:

- ❑ **Price** closed December up 1.06% and appears to be emerging from a well-defined trading range bound by converging trend lines from above and below that are characteristic of a lateral consolidation of the “Barrier Triangle” variety. If the wave (B) triangle of a larger degree three wave correction is complete, then wave (C) should advance to the 61.8% retracement of the 2012/15 five wave decline.
- ❑ **Momentum** remains positive and has penetrated trend resistance to confirm price.
- ❑ **Relative Strength** vs. the G10 Currency Harvest Index remains contained below an 8-year shelf of resistance.
- ❑ **Trend Bullish: Above 0.95**
- ❑ **Trend Bearish: Below 0.87**

Conclusions:

- ❑ **Overweight.** Generally, triangle patterns are fairly predictable. They tend to resolve in the direction of the prior trend. If our analysis of waves (A) and (B) is correct, then wave (C) should soon make a new recovery high. JPY is generally considered a safe haven currency and in times of crisis, it tends to trade with a positive correlation to the DXY.

- ❑ **Target = 1.12**



Source: StockCharts.com

INTEREST RATES

10-YEAR US TREASURY NOTE

BULLISH (+7.24% YTD)

Observations:

- ❑ **Price** closed December down 0.61%, but well-above chart support and held the 200-DMA. The coronavirus pandemic and its impact on global growth has increased demand for safe haven assets like T-Notes. While 10-year yields have deeply surpassed their 2019 lows, they are slowly edging higher off their nadir.
- ❑ **Momentum** remains slightly positive, but has pulled back sharply, breaching trend support, after surging to a 20-year high in April.
- ❑ **Fed funds rate** will likely remain in the zero to 25 bps range indefinitely. Chairman Powell has indicated that the FRB is willing to allow the economy to run hot for a while before raising rates again. In addition, unlimited QE and emergency backstop facilities in the Repo and money markets could remain a permanent policy tool.
- ❑ **Trend Bullish: Above 133**
- ❑ **Trend Bearish: Below 128**

Conclusions:

- ❑ **Overweight.** Economic uncertainty and the various related Fed interventions in an attempt to avert a more serious financial crisis virtually insures that bond yields will remain low. Bonds remain a reliable hedge.

❑ **Target = 152**



Source: StockCharts.com



Source: Hedgeye.com

APPENDIX

- Methodology
- Analyst Bio
- Disclaimer

METHODOLOGY

- ❑ The analysis contained herein utilizes data visualization techniques related to historical monthly and weekly price and volume statistics for publicly traded securities and popular indexes.
- ❑ The analysis employs an evidence-based approach to identify change and to evaluate the sustainability of long-term price trends for a variety of broad markets, their sub-sectors, and the constituents that comprise their indexes.
- ❑ Emphasis has been placed on the use of equal-weight index data to conduct this analysis where appropriate in order to reduce the influence of more heavily weighted large-cap issues and their ability to skew the results of a given study.
- ❑ Relative strength (RS) measures the performance of one or more variables vs. a benchmark. Of all the factors that have ever been tested, RS has consistently demonstrated the greatest efficacy in terms of its predictive value. Our analysis considers both the RS factor and its 2nd derivative, the momentum of the RS factor over a specified time period.
- ❑ Observations are objective, based upon the body of knowledge that comprises the subject of technical analysis as defined by the CMT Association, but conclusions are subjective and are based upon the judgement and experience of this analyst.
- ❑ Ratings reflect this analyst's opinion: Bullish / Bearish / Neutral correspond to Overweight / Underweight / Market Weight. A Bullish rating indicates that the data support further improvement. A Bearish rating indicates that the data support further deterioration. A Neutral rating indicates that the data is currently inconclusive.
- ❑ The use of plain language where possible has been given preference over industry jargon in order to simplify the explanation and interpretation of this analysis. A glossary of terms specific to the discipline of technical analysis can be found at: [Technical Analysis Glossary of Terms](#)
- ❑ Some readers may be unfamiliar with the use of Relative Rotation Graphs. A detailed discussion of this subject can be found at: [Relative Rotation Graphs 101](#)

ANALYST BIO

- ❑ Jeffrey W. Huge, CMT has over 30 years of investment industry experience across global equity and debt capital markets. He is President & Chief Investment Officer at JWH Investment Partners, a private family office and independent research firm.
- ❑ Prior to launching JWH Investment Partners, Mr. Huge was Managing Director of The Leuthold Group and Leuthold Management, where he co-managed a global macro hedge fund alongside respected contrarian-value investor Steve Leuthold.
- ❑ Previously, he held senior level positions in institutional sales, trading, and portfolio management at several top investment banks including Oppenheimer, Citigroup, and Merrill Lynch, where he specialized in equity markets, technical analysis, and global macro strategy.
- ❑ Mr. Huge earned his MBA in Finance from the University of St. Thomas, and holds a Bachelor's degree in Economics from the University of Minnesota. He completed advanced training and was certified in portfolio management under the instruction of Professor Emanuel Derman, Ph.D. at Columbia University's Center for Financial Engineering.
- ❑ Mr. Huge is a [CMT Charterholder](#) and has been a member of the CMT Association since 2005.

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