

ACTIONABLE IDEAS FOR THE ACTIVE INVESTOR

ALPHA INSIGHTS

VOLUME 3 ~ REVIEW & OUTLOOK ~ ISSUE 3

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We detail our analysis of key U.S. equity market indexes, along with market breadth, investor sentiment, valuation, leverage, fiscal and monetary policy issues, economic cycle momentum, and the yield curve. We also update our strategic Buy/Sell Model for risk assets, along with our Rotation Models for Global Asset Classes, Factors, and Style Boxes.

❑ [Sector Rotation \(Page 26\)](#)

We detail our analysis of the eleven S&P 500 sectors and update our Sector Rotation Model.

❑ [Portfolio Positioning \(Page 39\)](#)

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We detail our analysis of swing trade set-ups for companies whose shares we consider to be timely for either a long or short position over the next one to six months based upon their current technical credentials.

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We detail our analysis of 15 developed and emerging foreign equity markets and update our Country Rotation Model.

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We detail our analysis of key commodities, currencies, crypto, and rates.

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Analysts' Bio, Methodology, and Disclaimer.

EXECUTIVE SUMMARY

Top-Down

- ❑ The S&P 500 index crashed -15.8% from its peak to trough, closing the month of February down -8.41% as the outbreak of a new coronavirus in China spread around the globe. Market breadth collapsed, with the number of NYSE stocks above their 200-DMA falling from 60% to 25%, while the number of new 52-week lows made a 22-year high, reaching 938 on the NYSE, and 726 on the NASDAQ for the month.
- ❑ Investor sentiment turned fearful, as the CBOE VIX more than doubled to close over 40% by the end of the month. Yet, by other measures, like the 10-DMA on the Equity Put/Call ratio, it has only moved to a neutral level in February from its 5-year low in December. Non-confirmations between large-caps and small-caps, as well as industrial and transportation indexes remain unresolved.
- ❑ Following four consecutive Y/Y quarterly earnings declines, major banks are now downgrading their expectation for 2020 to zero growth. Meanwhile, equity valuations remain historically extreme by most measures, as global debt scales new heights in both absolute and relative terms.
- ❑ Consecutive \$1 trillion + annual deficits in the US appear likely due to a lack of fiscal discipline in Washington, while expectations for a Fed rate cut in March have increased to 95%. Moreover, we've identified a potential "mega-top" in our economic cycle model, which may portend significant bearish consequences for global equity markets in 2020.
- ❑ As illustrated on page six, our preferred wave count suggests that last month's market action was just the beginning of a much larger degree bear market collapse in global equities yet to come.

Bottom-Up

- ❑ Our monthly RS-Momentum analysis of the eleven S&P 500 equally-weighted sectors ranks Technology, Healthcare, and Utilities as leadership, with continued improvement from Communications, Staples, and Real Estate.
- ❑ Financials (downgraded to Neutral) and Industrials (downgraded to Bearish) have been weakening, while Discretionary, Materials (downgraded to Bearish), and Energy (downgraded to Bearish) are lagging.
- ❑ Our long/short alpha candidates recorded a positive spread of +2.97% for the month of February, producing a positive absolute return of +17.31% for the trailing 12-month period ended 2/29/20; Positive alpha of +1,123 bps vs. the SPX.
- ❑ We consider the shares of NLOK, NFLX, SBAC, & ALB to be timely for long positions; we consider the shares of SBUX, RHI, TXT, & WFC to be timely for short positions.
- ❑ In the US, we downgraded our opinion on the S&P 400 Mid-Cap index to Bearish from Neutral.
- ❑ Overseas, we downgraded our opinions on Australia (EWA), the UK (EWU), Germany, (EWG), Japan (EWJ), and Brazil (EWZ) to Neutral from Bullish.
- ❑ On the macro front, we downgraded our opinion on the CRB index to Bearish from Neutral, and downgraded our opinions on Gold and WTI Crude to Neutral from Bullish.



Source: Hedgeye.com

U.S. EQUITY MARKETS

- Strategic Buy/Sell Model
- Large-Cap
- Mid-Cap
- Small-Cap
- Asset Class, Factor, & Style Box Leadership
- Breadth, Sentiment, Valuation, Fiscal & Monetary Policy, Yield Curve, & Economic Cycle

STRATEGIC BUY/SELL MODEL

[Details & Performance History](#)

- ❑ Our Strategic Buy/Sell Model triggered a **neutral signal** on December 31, 2019.
- ❑ This was the first change since the model triggered a sell signal on October 31, 2018, taking us completely out of equities (SPY) in our strategic asset allocation portfolio, and putting us 100% into bonds (TLT).
- ❑ The model's cumulative performance since the last signal on 12/31/19 through 2/29/20 is as follows:
 - **Buy/Sell Model: +3.44%**
 - S&P 500 TR index: -8.27%
- ❑ **YTD Model Alpha = + 1,171 bps**
- ❑ Our current allocation remains positioned: 50% in stocks (SPY) and 50% in bonds (TLT).



POTENTIAL PATHS FOR THE S&P 500

Preferred Elliott Wave Count:

Wave III Complete / Wave (A) of IV in Progress



Alternate Elliott Wave Count:

Wave (4) Complete / Wave (5) of III in Progress



Source: StockCharts.com

U.S. LARGE CAP S&P 500 INDEX NEUTRAL (-8.56% YTD)

Observations:

- ❑ **Price** closed February down -8.41%, posting a bearish “long body” candle line on heavy monthly volume, but *held above* key support and its long-term ascending trend line off the 2009 lows.
- ❑ **Momentum** remains positive but has reversed substantially all of its 2019 progress and is now testing trend line support.
- ❑ **Relative strength** of large-cap stocks are now dominating their small and mid-cap peers, having penetrated the upper boundary of a 9-year trading range, but also suggesting narrow leadership.
- ❑ **Key Resistance** = 3230
- ❑ **Key Support** = 2945

Conclusions:

- ❑ **Benchmark Weight.** The S&P 500 peaked on February 19th then declined by 15.8% over the subsequent seven trading days. Our expectation for a meaningful correction has come to fruition, but if the preferred wave count illustrated on the previous page is correct, then **the risk exists for much greater downside potential in the weeks and months ahead.**

- ❑ Target = N/A



Source: StockCharts.com

U.S. MID CAP S&P 400 INDEX

BEARISH (-12.07% YTD) 

Observations:

- ❑ **Price** closed February down -9.63%, posting a bearish “long body” candle line on heavy monthly volume, *breaching* prior key support and its long-term ascending trend line off the 2009 lows.
- ❑ **Momentum** has turned sharply negative, retracing substantially all of its 2019 progress and is now testing trend line support.
- ❑ **Relative strength** of mid-cap stocks posted a fresh new 10-year low in February vs. the S&P Composite 1500. A persistent downtrend remains in place.
- ❑ **Key Resistance = 1970**
- ❑ **Key Support = 1663**

Conclusions:

- ❑ **Downgrading to Bearish** from Neutral.
- ❑ **Underweight.** The Mid-Cap index peaked on February 20th then declined by 16% over the subsequent six trading days. Our expectation for a meaningful correction has come to fruition, but if our preferred wave count for S&P 500 is correct, then the risk exists for much greater downside potential for all stock markets in the weeks and months ahead.
- ❑ Target = N/A



Source: StockCharts.com

U.S. SMALL CAP S&P 600 INDEX BEARISH (-13.36% YTD)

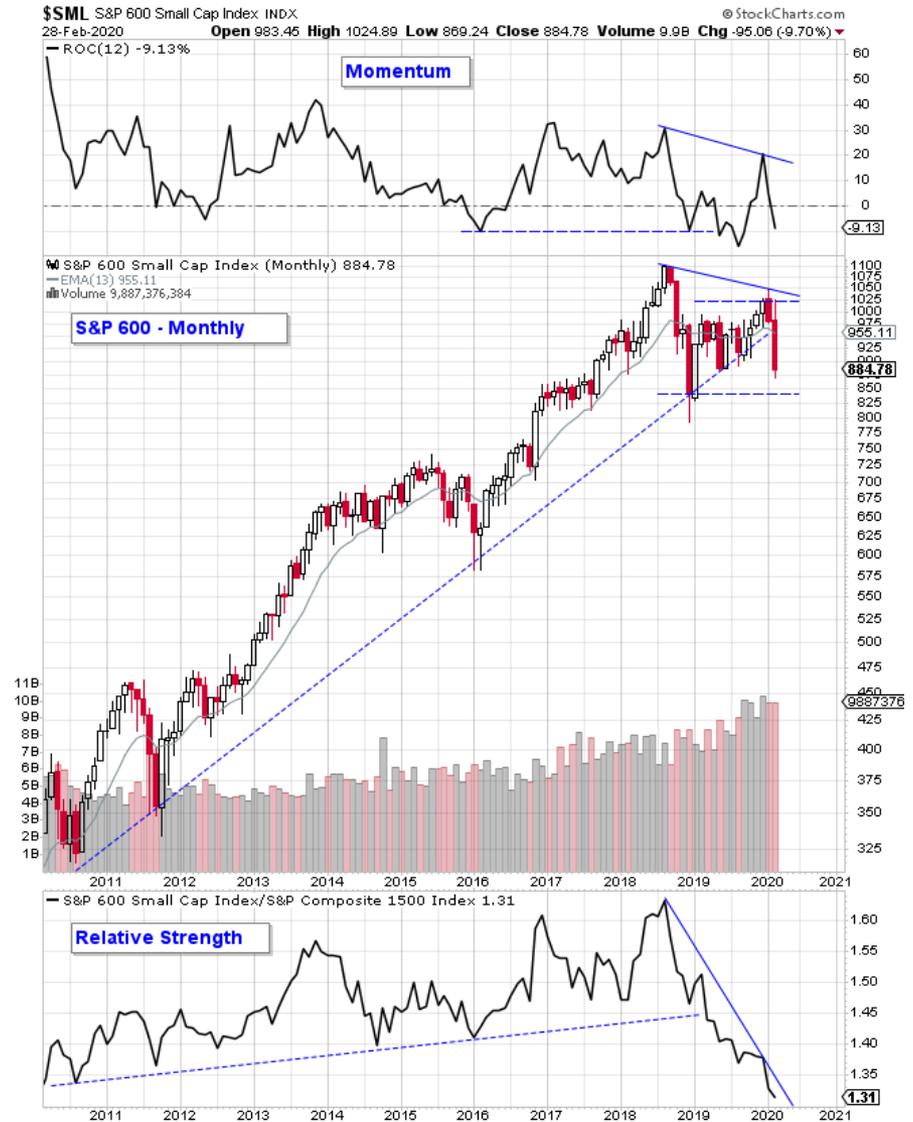
Observations:

- ❑ **Price** closed February down -9.70%, posting a bearish “long body” candle line on very heavy volume, *breaching* prior key support and its long-term ascending trend line off the 2009 lows.
- ❑ **Momentum** turned sharply negative, retracing most of its recovery progress, leaving a lower high in place, and now appears poised to test its 2019 low.
- ❑ **Relative strength** of small-cap stocks vs. the S&P Composite 1500 breached a large support structure in 2019, and posted a fresh new 10-year low in February. A persistent downtrend remains in place.
- ❑ **Key Resistance** = 1026
- ❑ **Key Support** = 845

Conclusions:

- ❑ **Underweight.** The recovery in small-cap stocks peaked on January 17th then declined by 16.9% into the February low. Thus, the bull market advance in small-caps off the 2009 low appears to have reached its terminal point in August of 2018. The S&P 600 index is now more than 21% below its all-time high confirming a bear market (by CNBC standards).

- ❑ **Target** = 750

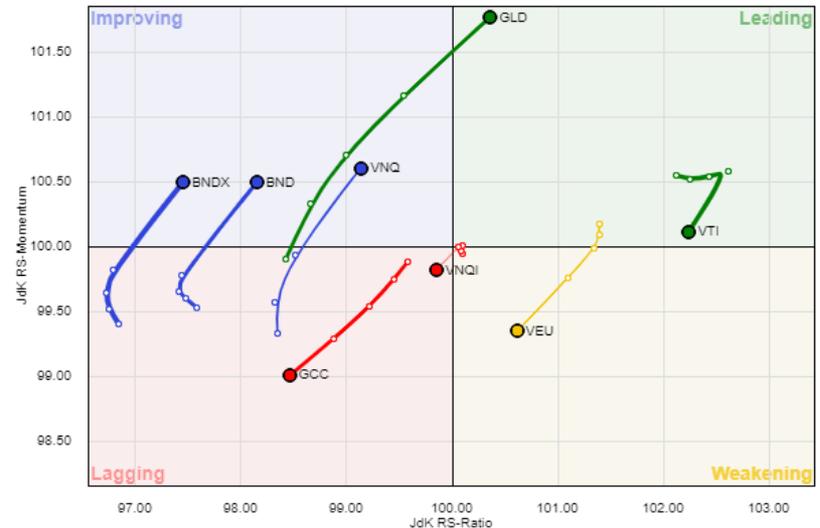


Source: StockCharts.com

GLOBAL ASSET CLASS LEADERSHIP

	<u>RS-Momentum Rank</u>	<u>FEB Return</u>	<u>TTM Return</u>
1.	Gold Bullion (GLD)	- 0.6%	+ 19.7%
2.	U.S. Equities (VTI)	- 8.0%	+ 6.9%
3.	U.S. Real Estate (VNQ)	- 7.0%	+ 7.7%
4.	U.S. Fixed Income (BND)	+ 1.7%	+ 11.7%
5.	Int'l Fixed-Income (BNDX)	+ 0.7%	+ 9.3%
6.	Int'l Equities (VEU)	- 6.6%	+ 0.5%
7.	Int'l Real Estate (VNQI)	- 5.9%	+ 2.6%
8.	Commodities (GCC)	- 4.8%	- 7.2%

Global Asset Rotation Model



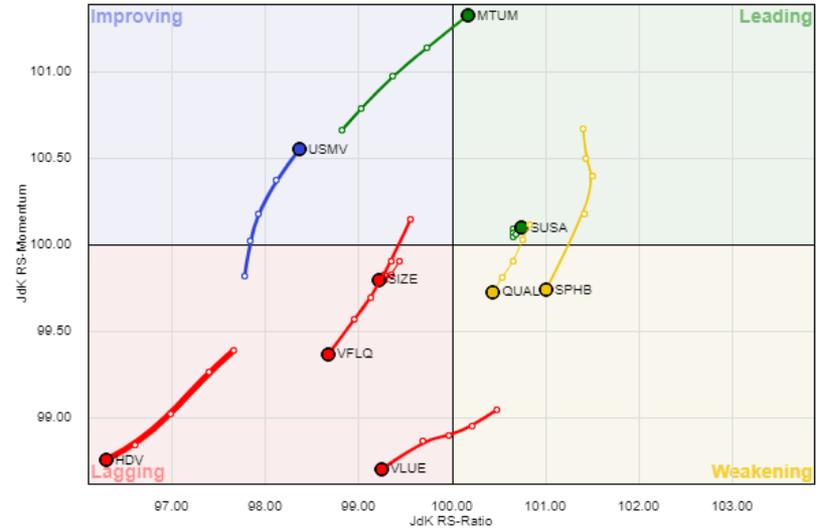
Source: StockCharts.com

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

U.S. FACTOR LEADERSHIP

<u>RS-Momentum Rank</u>	<u>FEB Return</u>	<u>TTM Return</u>
1. Momentum (MTUM)	- 7.2%	+ 11.3%
2. Env/Soc/Gov (SUSA)	- 7.4%	+ 9.0%
3. Low Volatility (USMV)	- 8.7%	+ 8.7%
4. High Beta (SPHB)	- 9.2%	- 0.6%
5. High Quality (QUAL)	- 8.3%	+ 7.9%
6. Small Market Cap (SIZE)	- 8.6%	+ 1.6%
7. High Liquidity (VFLQ)	- 9.3%	- 1.7%
8. Low Valuation (VLU)	- 9.6%	- 1.2%
9. High Dividend (HDV)	- 9.9%	- 5.0%

U.S. Factor Rotation Model



Source: StockCharts.com

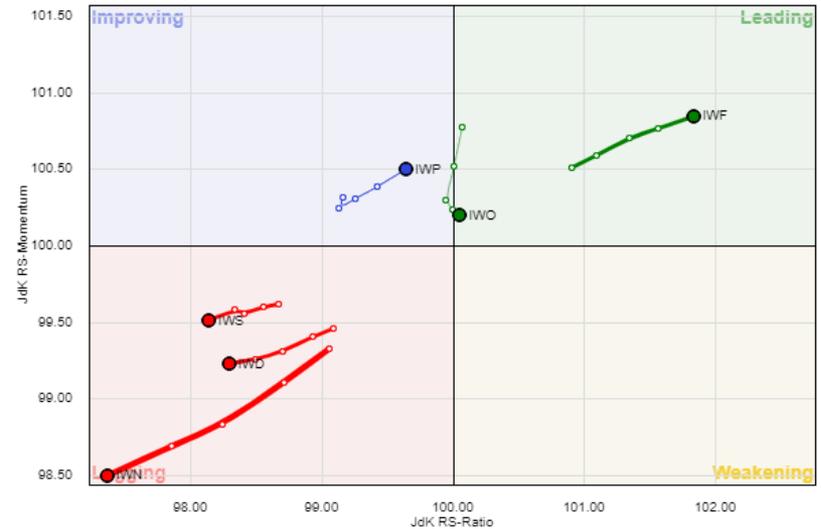
RS Benchmark: MSCI USA Index

U.S. STYLE BOX LEADERSHIP

<u>RS-Momentum Rank</u>	<u>FEB Return</u>	<u>TTM Return</u>
1. Large-Cap Growth (IWF)	- 6.6%	+ 15.0%
2. Small-Cap Growth (IWO)	- 7.1%	- 0.5%
3. Mid-Cap Growth (IWP)	- 6.9%	+ 7.6%
4. Mid-Cap Value (IWS)	- 9.8%	- 1.4%
5. Large-Cap Value (IWD)	- 9.3%	+ 0.8%
6. Small-Cap Value (IWN)	- 9.6%	- 9.3%

RS Benchmark: Russell 3000 Index

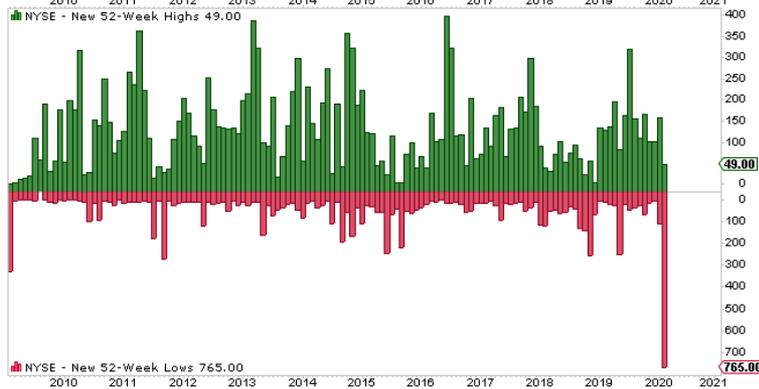
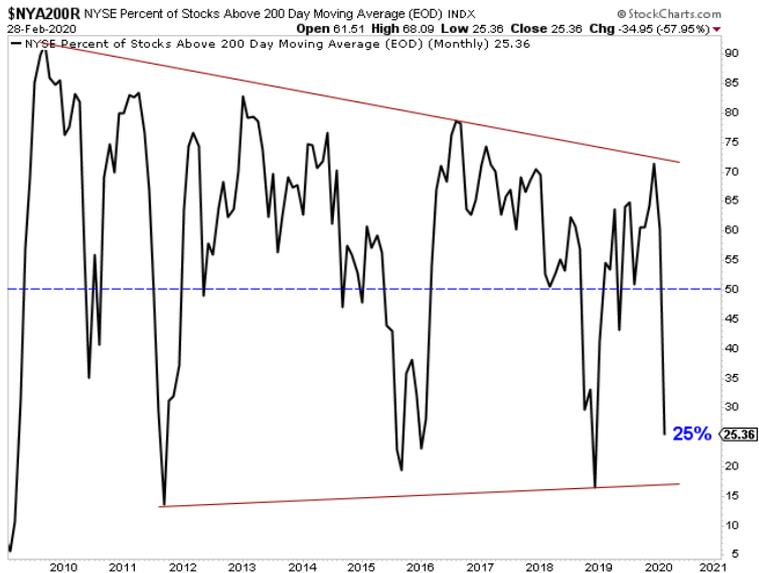
U.S. Style Box Rotation Model



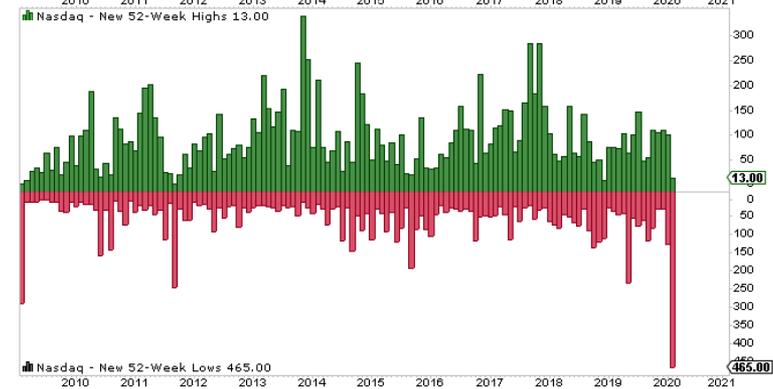
Source: StockCharts.com

MARKET BREADTH = COLLAPSING

NYSE % Stocks Above 200-DMA



NASDAQ % Stocks Above 200-DMA

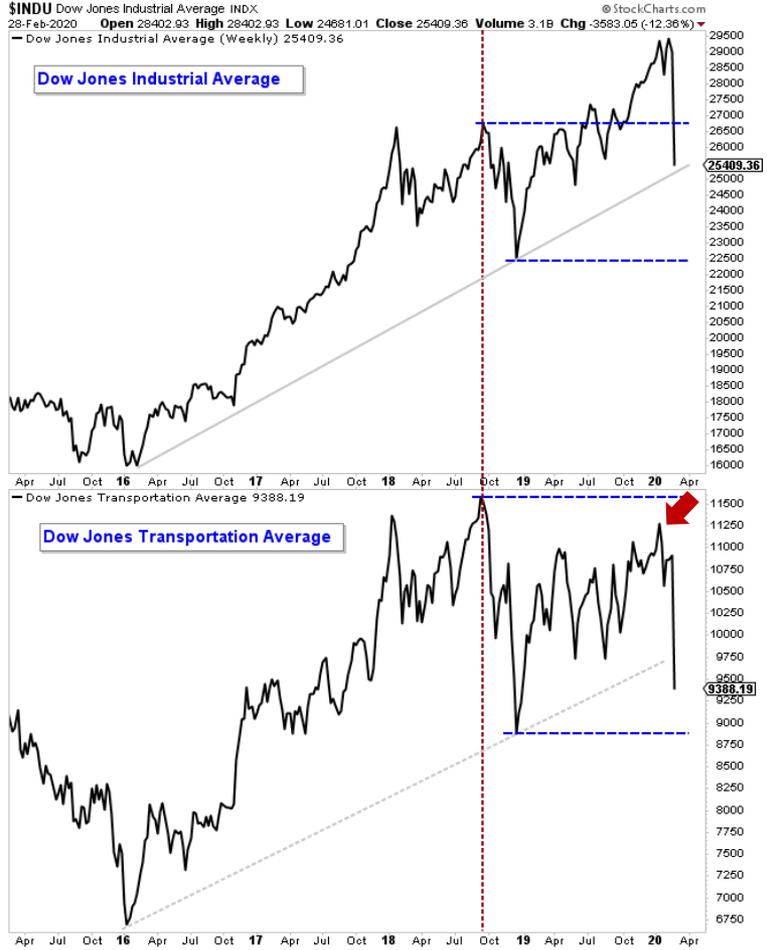


**New
52-Week
Highs
and
Lows**

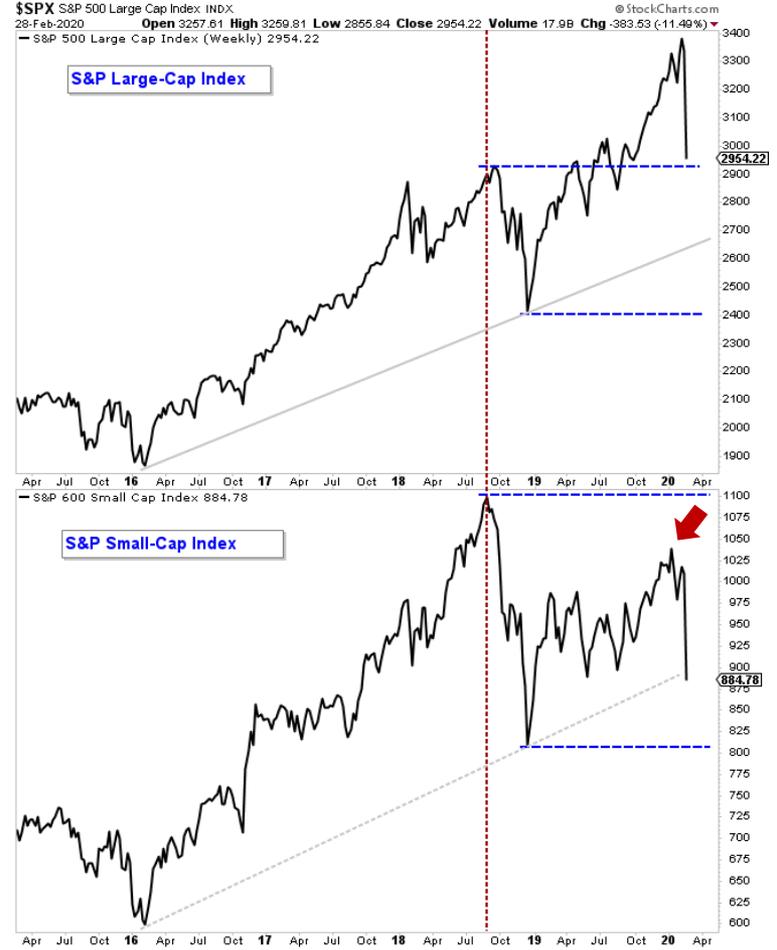
Source: StockCharts.com

INTERMARKET = NON-CONFIRMATIONS

Industrials vs. Transports

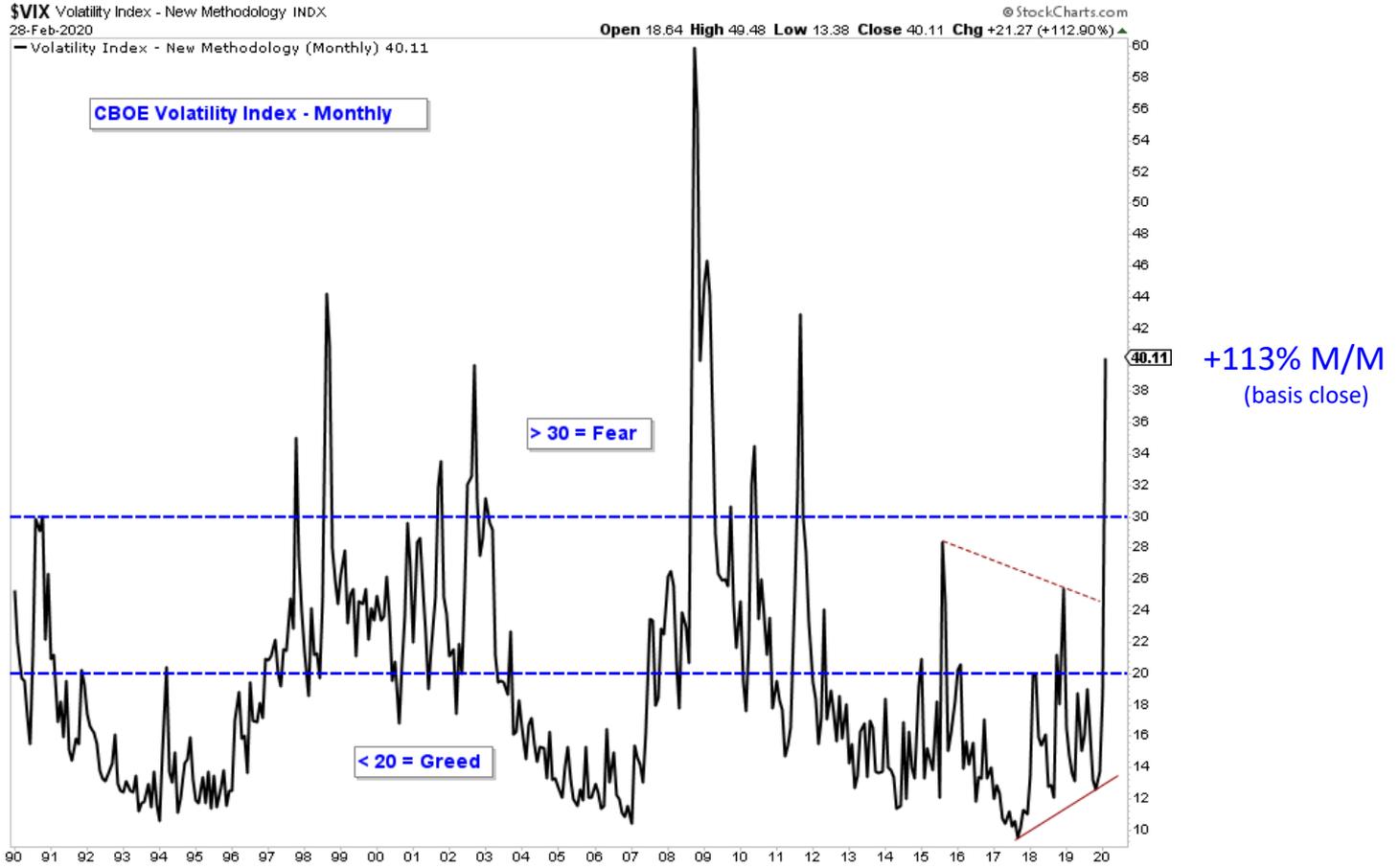


Large-Cap vs. Small-Cap



STOCK MARKET SENTIMENT = RISK-OFF

On the one hand, the surge in volatility suggests a reigning of investor optimism



Source: StockCharts.com

STOCK MARKET SENTIMENT = NEUTRAL

On the other hand, that trend change may still have quite a ways to go



Source: StockCharts.com

BOND MARKET SENTIMENT = RISK-OFF

The “Smart Money” continues the shift out of low quality and into high quality



Source: StockCharts.com

VALUATION = HISTORICALLY EXTREME

Total U.S. Market Cap to GDP at 146% after hitting a New Extreme of 155% in January

Total Market Cap to GDP Ratio



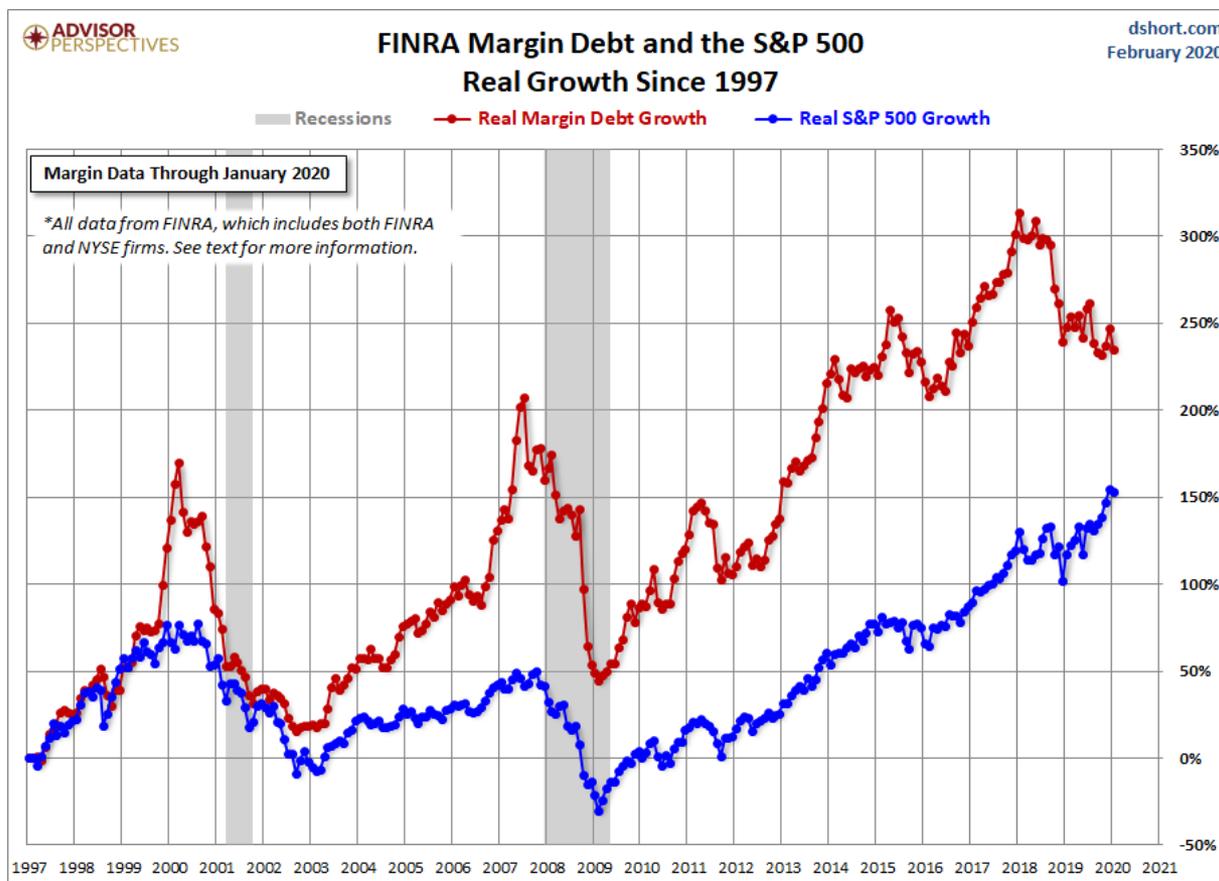
Total Market Cap Relative to GDP



Source: GuruFocus.com

THE ANATOMY OF A MARGIN CALL (1)

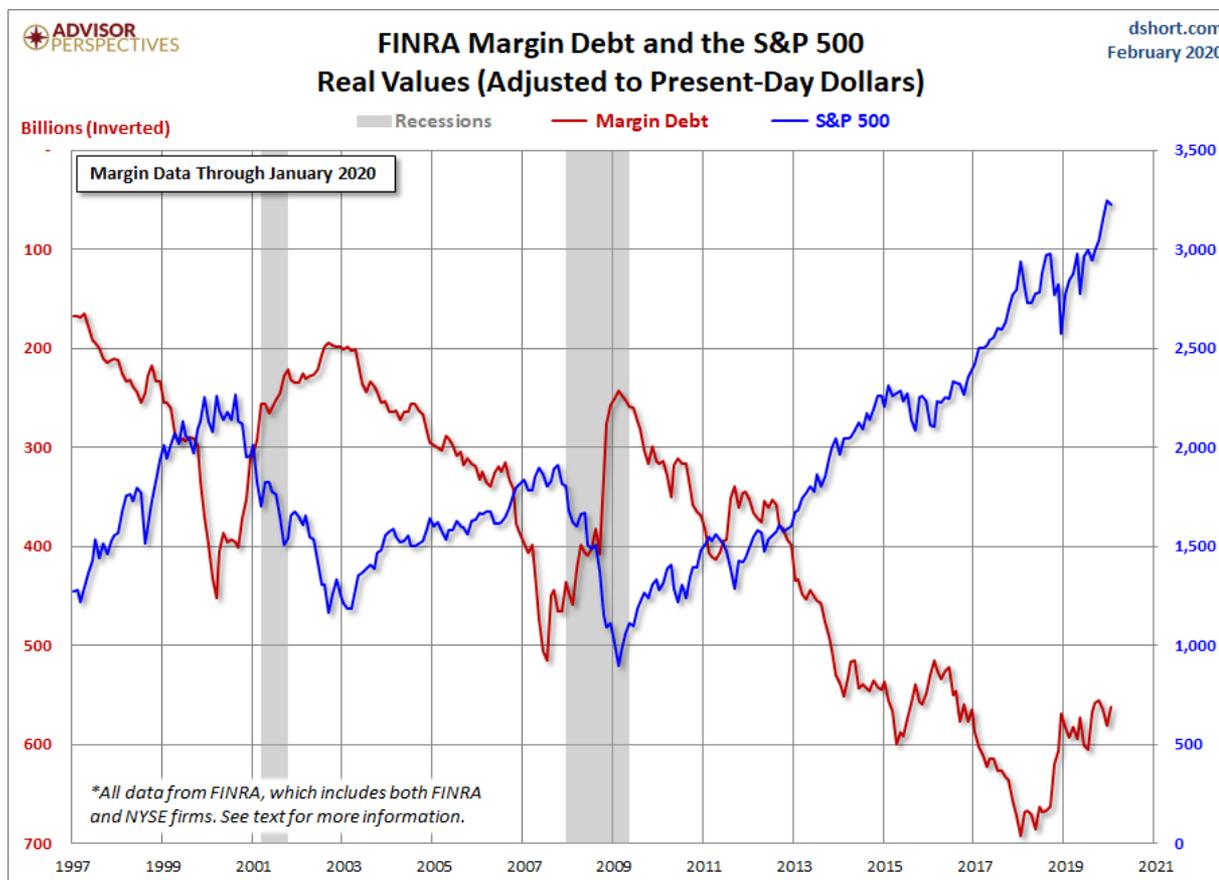
Real Margin Debt Growth vs. Real S&P 500 Growth



Source: advisorperspectives.com

THE ANATOMY OF A MARGIN CALL (2)

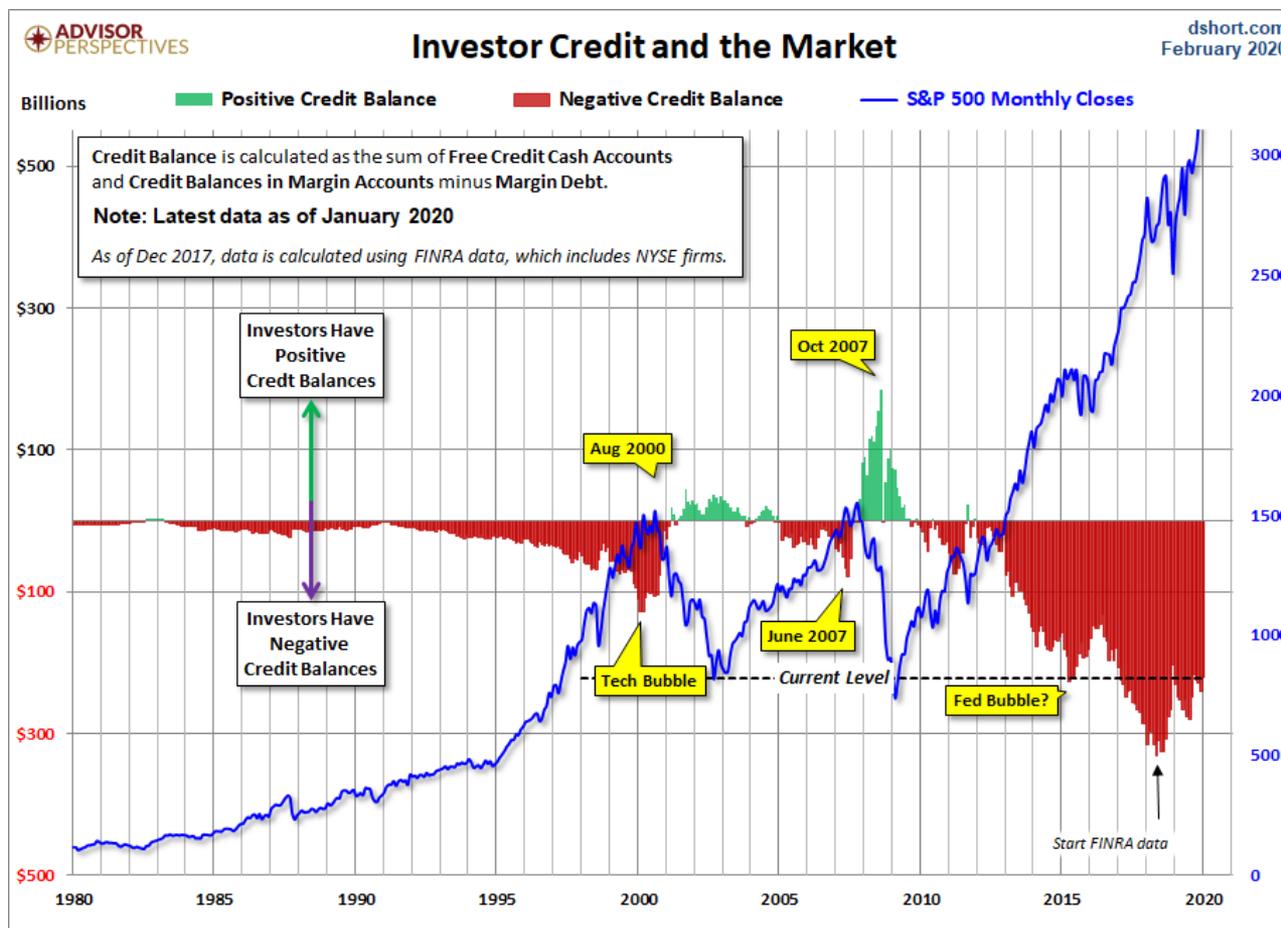
Total Margin Debt (inverted) Relative to the S&P 500 Index



Source: advisorperspectives.com

THE ANATOMY OF A MARGIN CALL (3)

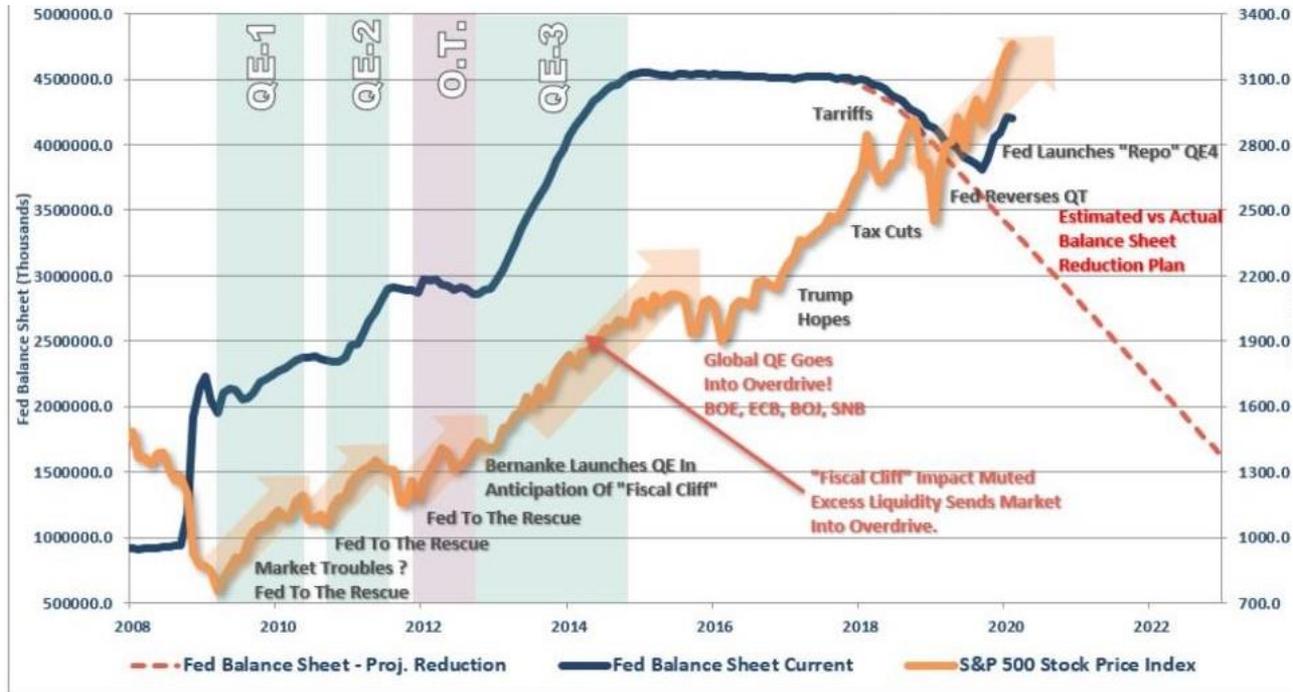
It will be painful working off the extreme in negative credit balances this cycle



Source: advisorperspectives.com

MONETARY POLICY = QE5 ON DECK?

We expect QE5 to eclipse QE3, but its effect on equity markets may pale in comparison

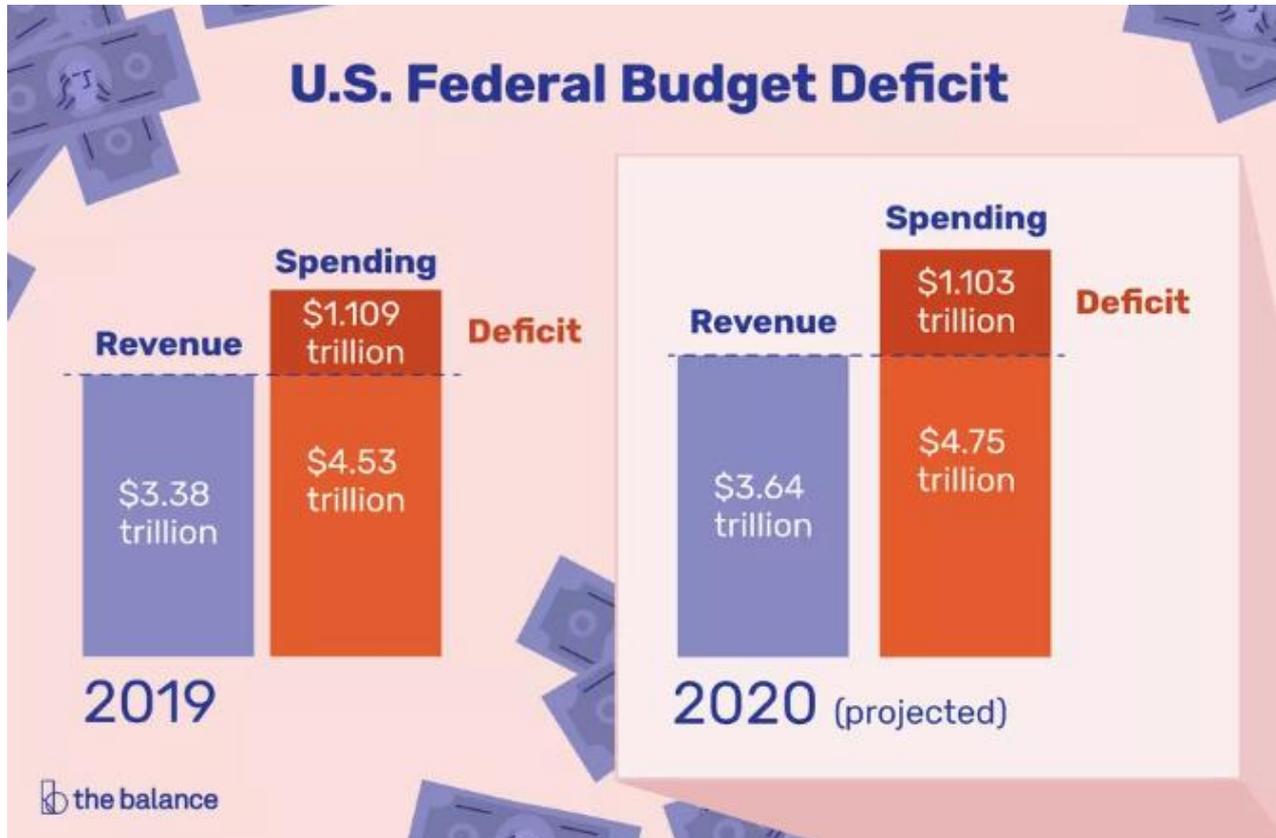


	Start	Finish	\$ Increase	% Increase	S&P Start	S&P Finish	Point Gain	% Gain	Effectiveness
QE1 (\$ Bil)	\$ 937,907.00	\$ 2,372,145.00	\$ 1,434,238.00	152.92%	753.9	1196.1	442.3	58.67%	1.6:1
QE2	\$ 2,344,102.00	\$ 2,909,094.00	\$ 564,992.00	24.10%	1057.3	1352.5	295.2	27.92%	1.0:1
QE3	\$ 2,855,696.00	\$ 4,555,234.00	\$ 1,699,538.00	59.51%	1308.5	2082.8	774.3	59.17%	1.0:1
ECB (1.13/US)	\$ 2,637,562.38	\$ 4,892,346.30	\$ 2,254,783.92	85.49%	2082.8	2794.1	711.3	34.15%	1.5:1
QE4	\$ 3,810,935.00	\$ 4,202,123.00	\$ 391,188.00	10.26%	2976.5	3260.49	284.0	9.54%	1.0:1

Source: realinvestmentadvice.com

FISCAL POLICY = TAX CUT 2.0 ON DECK?

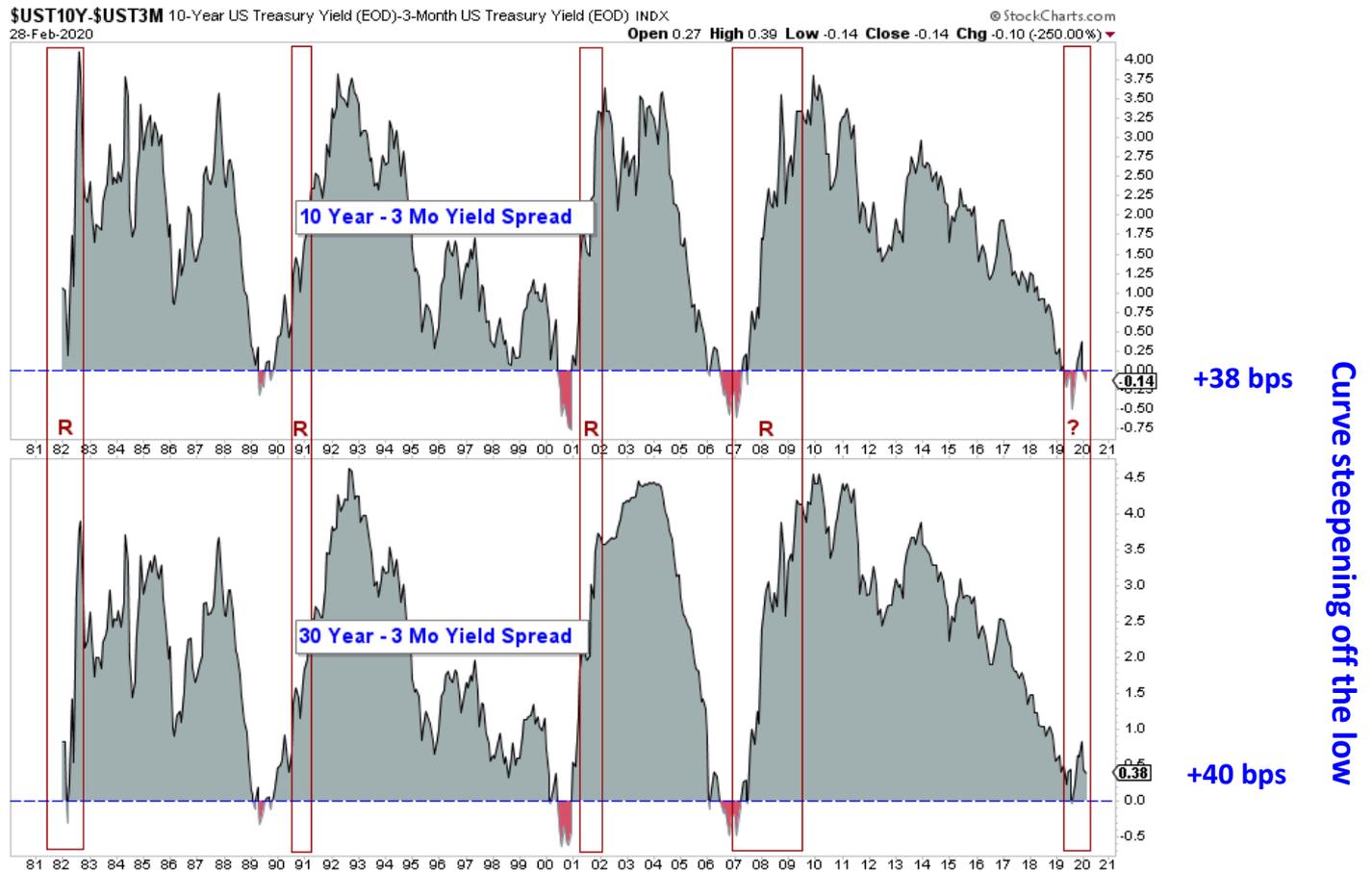
“Tax Cuts 2.0 to help the middle class...That’s still our goal.” ~ Larry Kudlow, 1/15/20



Source: thebalance.com

YIELD CURVE = 2020 RECESSION LIKELY

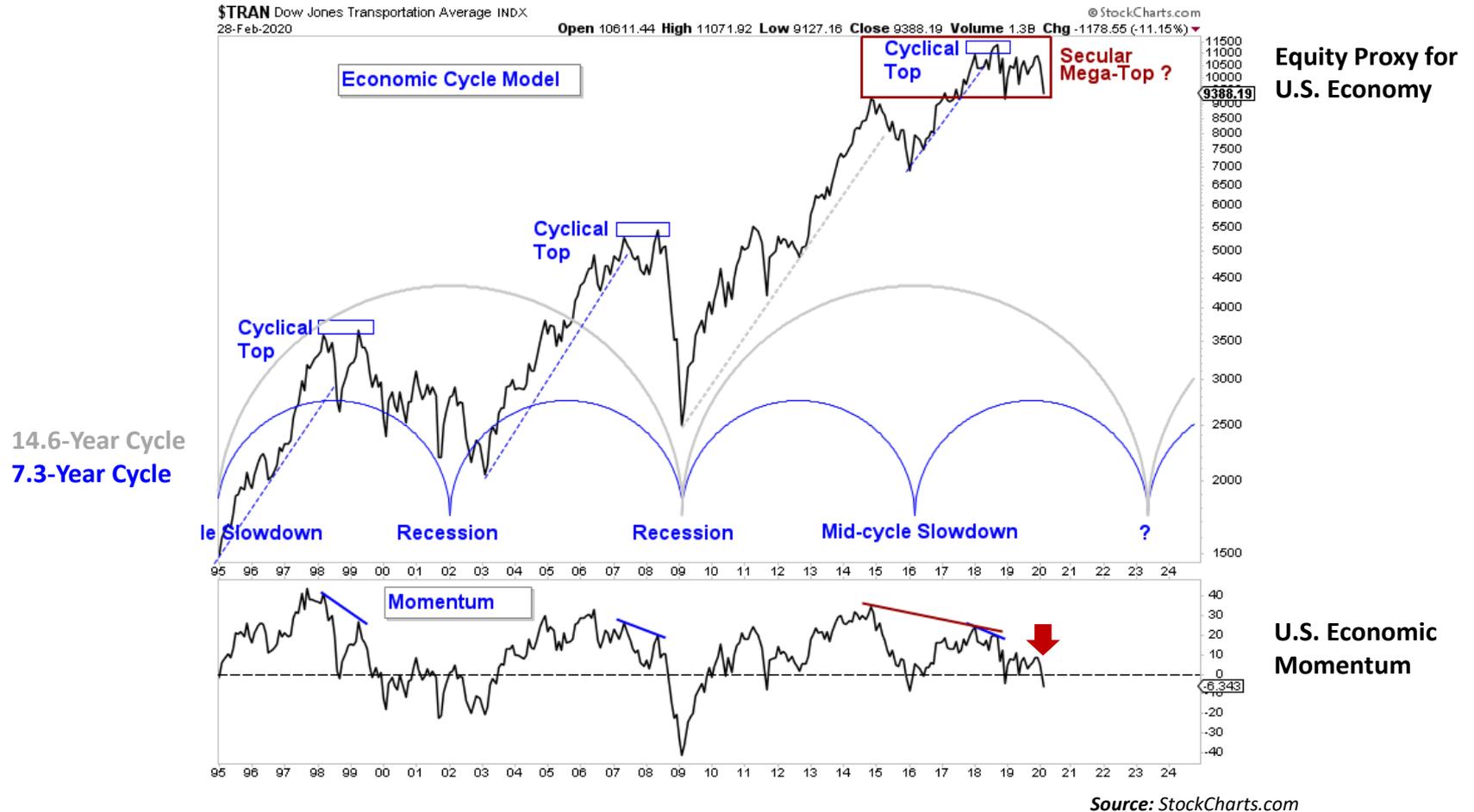
Recessions typically emerge during the steepening phase immediately following an inversion

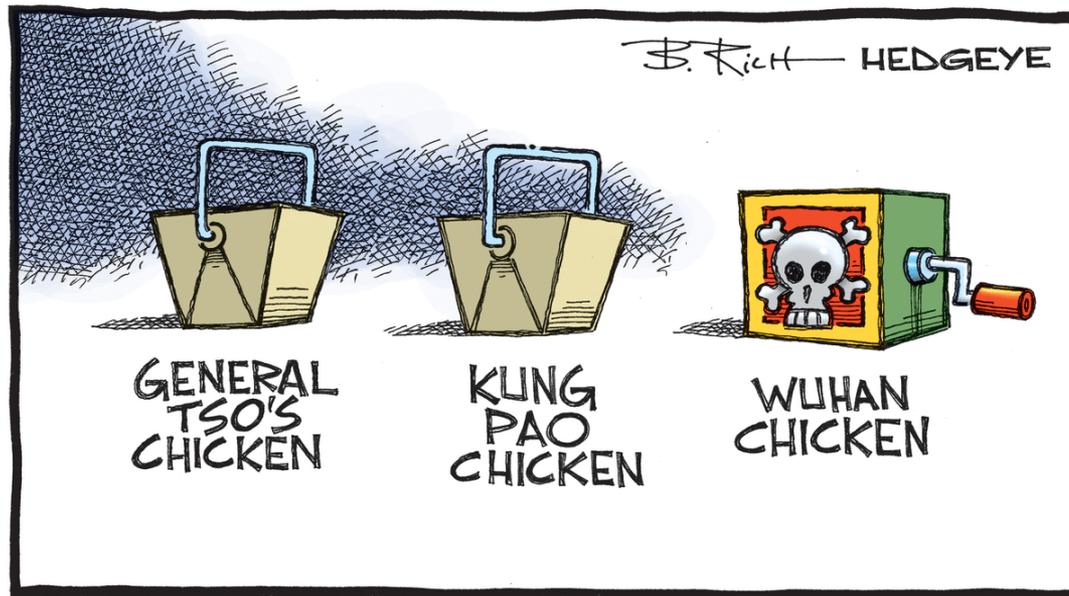


Source: StockCharts.com

ECONOMIC CYCLE = SECULAR TOP

The Economic Cycle Momentum is Now Negative!





Source: Hedgeye.com

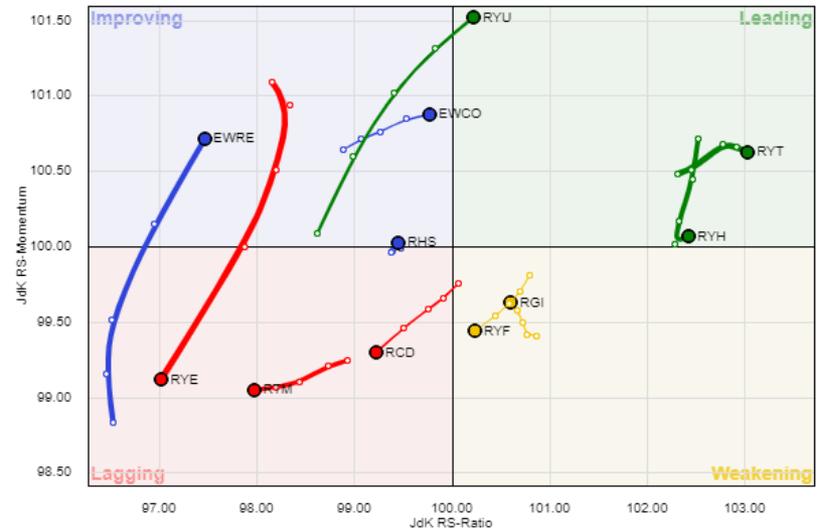
SECTOR ROTATION

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

U.S. EQUAL-WEIGHT SECTOR LEADERSHIP

	<u>RS-Momentum Rank</u>	<u>FEB Return</u>	<u>TTM Return</u>
1.	Technology (RYT)	- 7.5%	+ 11.3%
2.	Healthcare (RYH)	- 6.0%	+ 4.2%
3.	Utilities (RYU)	- 10.7%	+ 9.0%
4.	Communications (EWCO)	- 7.6%	+ 0.9%
5.	Staples (RHS)	- 9.0%	+ 6.5%
6.	Real Estate (EWRE)	- 7.7%	+ 3.0%
7.	Industrials (RGI)	- 9.8%	+ 1.9%
8.	Financials (RYF)	- 11.2%	- 0.5%
9.	Discretionary (RCD)	- 10.2%	- 5.1%
10.	Materials (RTM)	- 9.5%	+ 4.9%
11.	Energy (RYE)	- 14.7%	- 26.2%

U.S. Sector Rotation Model



Source: StockCharts.com

RS Benchmark: S&P 500 Equal-Weight Index

S&P 500 SECTOR TECHNOLOGY

BULLISH (-3.60% YTD)

Observations:

- ❑ **Price** closed February down -7.30% on heavy volume, posting a new all-time high, but the long upper shadow and bearish “engulfing” candle line suggest potential further weakness ahead, despite holding above key support.
- ❑ **Momentum** remains positive, but has reversed much of the progress since making a new 9-year high. A test of trend line support appears in the cards, while a negative divergence in place.
- ❑ **Relative strength** vs. the average S&P stock remains in a steep uptrend, posting a fresh new all-time high.
- ❑ **Key Resistance** = \$95
- ❑ **Key Support** = \$82

Conclusions:

- ❑ Technology holds the **#1 rank** in our sector RS-Momentum work for the second month in a row.
- ❑ **Overweight**. The trend remains up and to the right, despite weak price action and deteriorating momentum, while new RS highs help support our Bullish technical opinion. A breach of key support would warrant a downgrade to neutral.
- ❑ **Target** = \$107



S&P 500 SECTOR HEALTH CARE BULLISH (-9.08% YTD)

Observations:

- ❑ **Price** closed February down -6.59% on heavy volume, testing key support, but holding its ascending long-term trend line.
- ❑ **Momentum** remains positive but has retraced much of its 2019 progress, and appears poised to test trend line support.
- ❑ **Relative strength** vs. the average S&P stock has been range bound since 2015 and has been struggling to challenge the upper boundary of the range.
- ❑ **Key Resistance** \$102
- ❑ **Key Support** = \$91

Conclusions:

- ❑ Health Care held the **#2 rank** in our sector RS-Momentum work for the second consecutive month.
- ❑ **Overweight.** The trend remains constructive supporting a bullish technical view, yet profit taking, a sharp reversal in momentum, and lackluster RS warn of potential further weakness. A breach of key support would warrant a downgrade to neutral.
- ❑ **Target** = \$109



S&P 500 SECTOR UTILITIES

BULLISH (-3.78% YTD)

Observations:

- ❑ **Price** closed February down -9.86% on heavy volume, after making a new all-time high. While the trend remains constructive, the bearish “engulfing” candle line implies potential further weakness.
- ❑ **Momentum** remains positive, but breached trend support after failing to confirm the new high in price, establishing a small degree negative divergence.
- ❑ **Relative strength** vs. the average S&P stock has been advancing sporadically off the 2018 low, and has resolved to the upside, posting a new 3-year high last month.
- ❑ **Key Resistance** = \$69
- ❑ **Key Support** = \$59

Conclusions:

- ❑ Utilities advanced one position to the **#3 rank** in our sector RS-Momentum work this month.
- ❑ **Overweight.** Weak price action and deteriorating momentum raise some concerns. Our bullish technical view depends upon price holding above key support. A breach thereof would warrant a downgrade to neutral.
- ❑ **Target** = \$69



Source: StockCharts.com

S&P 500 SECTOR COMMUNICATIONS

NEUTRAL (-5.35% YTD)

Observations:

- ❑ **Price** closed February down -5.84% on heavy volume, after making a new all-time high. While the trend remains constructive, the long body bearish “engulfing” candle line implies potential further weakness ahead.
- ❑ **Momentum** remains positive, but has retraced much of its prior vertical ascent, establishing a new small degree negative divergence.
- ❑ **Relative strength** vs. the average S&P stock penetrated trend line resistance, and now appears poised to challenge the 2018 high.
- ❑ **Key Resistance** = \$54
- ❑ **Key Support** = \$51

Conclusions:

- ❑ Communications slipped one position to the **#4 rank** in our sector RS-Momentum work this month.
- ❑ **Market Weight.** Tepid price action and deteriorating momentum, despite improving RS continues to favor a neutral technical view. A breach of key support would warrant a downgrade to bearish.
- ❑ Target = N/A



Source: StockCharts.com

S&P 500 SECTOR STAPLES

BULLISH (-7.92% YTD)

Observations:

- ❑ **Price** closed February down -8.21% on heavy volume, after making a new all-time high, but held trend line and key support levels. While the trend still remains constructive, the long body bearish “engulfing” candle line implies potential further weakness ahead.
- ❑ **Momentum** remains positive, but has pulled back following a new 9-year high in January, establishing a new small degree negative divergence.
- ❑ **Relative strength** vs. the average S&P stock has been advancing sporadically off the 2018 low, confirmed by the recent successful test of trend support.
- ❑ **Key Resistance** = \$64
- ❑ **Key Support** = \$54

Conclusions:

- ❑ Staples held at the **#5 rank** in our sector RS-Momentum work this month.
- ❑ **Market Weight.** Weak price action and deteriorating momentum raise some concerns. Our bullish technical view depends upon price holding above key support. A breach thereof would warrant a downgrade to neutral.
- ❑ **Target** = \$65



Source: StockCharts.com

S&P 500 SECTOR REAL ESTATE BULLISH (-4.86% YTD)

Observations:

- ❑ **Price** closed February down -6.22% on heavy volume, after posting a new all-time high. The long upper shadow and bearish “engulfing” candle line suggest potential further weakness ahead.
- ❑ **Momentum** remains positive, but has breached trend support and has been struggling to challenge its 2015 highs.
- ❑ **Relative strength** vs. the average S&P stock has been advancing sporadically off the 2018 low, confirmed by the recent successful test of trend support.
- ❑ **Key Resistance** = \$40
- ❑ **Key Support** = \$33

Conclusions:

- ❑ Real Estate advanced three positions to the **#6 rank** in our sector RS-Momentum work for the month.
- ❑ **Market Weight.** Weak price action and deteriorating momentum raise some concerns. Our bullish technical view depends upon price holding above trend line and key support levels. A breach thereof would warrant a downgrade to neutral.
- ❑ **Target** = \$43



Source: StockCharts.com

S&P 500 SECTOR FINANCIALS

NEUTRAL (-13.61% YTD)



Observations:

- ❑ **Price** closed February down -11.25% on heavy volume, breaching trend line and prior key support levels after making a new all-time high. The long upper shadow and bearish “long body” candle line suggest potential further weakness ahead.
- ❑ **Momentum** remains slightly positive, but has retraced substantially all of its 2019 progress, establishing a new small degree negative divergence.
- ❑ **Relative strength** vs. the average S&P appears poised to test trend support after aborting a bullish reversal.
- ❑ **Key Resistance** = \$29
- ❑ **Key Support** = \$23

Conclusions:

- ❑ **Downgrading to Neutral** from Bullish.
- ❑ Financials slipped on position to the **#7 rank** in our RS-Momentum work this month.
- ❑ **Market Weight.** Weak price action and deteriorating momentum favor a neutral technical view. A breach of key support would warrant a downgrade to bearish.
- ❑ Target = N/A



Source: StockCharts.com

S&P 500 SECTOR DISCRETIONARY NEUTRAL (-7.65% YTD)

Observations:

- ❑ **Price** closed February down -7.57% on heavy volume, breaching prior key support after posting a new all-time high, but holding above trend line support. The long upper shadow and bearish “engulfing” candle line suggest potential further weakness ahead.
- ❑ **Momentum** remains positive, but has retraced substantially all of its 2019 progress, establishing a new small degree negative divergence.
- ❑ **Relative strength** vs. the average S&P stock turned down from its August high and breached trend line support in October and is struggling to recover.
- ❑ **Key Resistance** = \$125
- ❑ **Key Support** = \$113

Conclusions:

- ❑ Discretionary held at the **#8 rank** in our sector RS-Momentum work this month.
- ❑ **Market Weight.** Weak price action and deteriorating momentum favor a neutral technical view. A breach of key support would warrant a downgrade to bearish.
- ❑ Target = N/A



Source: StockCharts.com

S&P 500 SECTOR INDUSTRIALS

BEARISH (-10.30% YTD)



Observations:

- ❑ Price closed February down -9.90% on heavy volume, breaching trend line and prior chart support, after making a new all-time high. The “tweezer top” and bearish “long body” candle line suggest further weakness ahead.
- ❑ Momentum has turned negative, retracing all of its 2019 progress, and establishing a new small degree negative divergence.
- ❑ Relative strength vs. the average S&P stock penetrated trend line support in late 2019 and is now trending lower.
- ❑ Key Resistance = \$79
- ❑ Key Support = \$63

Conclusions:

- ❑ Downgrading to Bearish from Neutral.
- ❑ Industrials slipped two positions to the #9 rank in our RS-Momentum work this month.
- ❑ Market weight. Weak price action and deteriorating momentum and RS support a bearish technical view. A breach of key resistance would warrant an upgrade to neutral.
- ❑ Target = \$63



Source: StockCharts.com

S&P 500 SECTOR MATERIALS

BEARISH (-14.16% YTD)



Observations:

- ❑ **Price** closed February down -8.52% on heavy volume, breaching key support, but holding above trend. The long upper shadow and bearish “long body” candle line suggest potential further weakness ahead.
- ❑ **Momentum** turned negative, retracing all of its 2019 progress. A small negative divergence remains in place.
- ❑ **Relative strength** vs. the average S&P stock breached a shelf of support, posting a fresh new 10-year low.
- ❑ **Key Resistance** = \$58
- ❑ **Key Support** = \$49

Conclusions:

- ❑ **Downgrading to Bearish** from Neutral.
- ❑ Materials held at the **#10 rank** in our sector RS-Momentum work this month.
- ❑ **Underweight.** Weak price action and deteriorating momentum and RS support a bearish technical view. A breach of key resistance would warrant an upgrade to neutral.
- ❑ **Target = \$49**



Source: StockCharts.com

S&P 500 SECTOR ENERGY

BEARISH (-24.60% YTD)



Observations:

- ❑ **Price** closed February down -15.29% on heavy volume, breaching trend line and prior chart support levels. A major topping pattern of the “Head & Shoulders” variety has replaced our previous large degree lateral consolidation scenario until proven otherwise.
- ❑ **Momentum** has collapsed, following a brief ascent into positive territory in late 2019, posting a four year low.
- ❑ **Relative strength** vs. the average S&P stock just posted a fresh new 10-year monthly low.
- ❑ **Key Resistance** = \$50
- ❑ **Key Support** = \$43

Conclusions:

- ❑ **Downgrading to Bearish** from Neutral.
- ❑ Energy remains at the **#11 rank** in our sector RS-Momentum work this month.
- ❑ **Underweight**. Exceptionally weak price action and deteriorating momentum and RS support a bearish technical view. A breach of key resistance would warrant an upgrade to neutral.
- ❑ **Target** = \$43



Source: StockCharts.com



Source: Hedgeye.com

PORTFOLIO POSITIONING

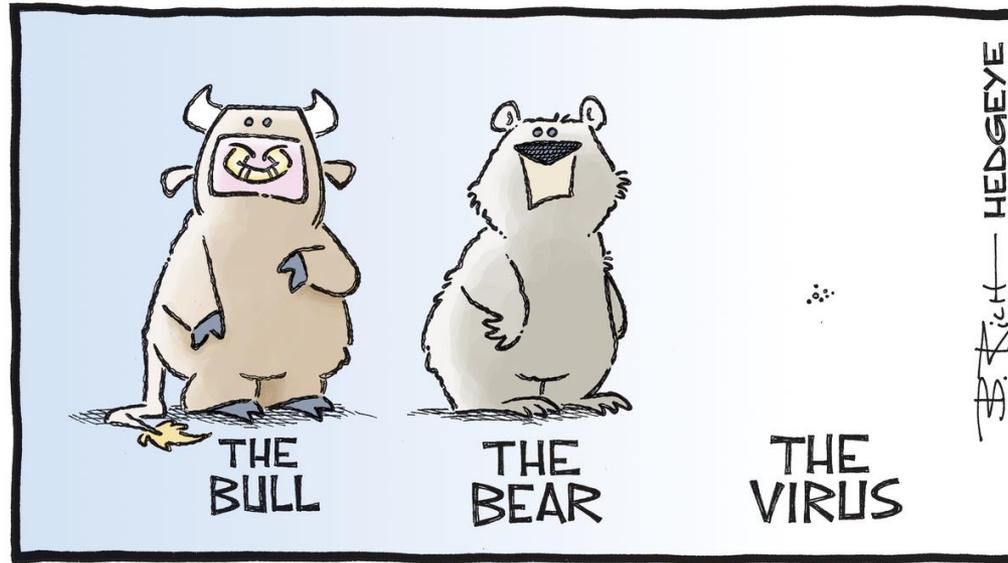
- Leaders and Laggards
 - Long/Short Alpha Candidate List by Sector – March
 - This segment has been discontinued.
 - Long/Short Performance Report Card – February
 - This will be the final performance report.

LEADERS AND LAGGARDS

We recently closed on the sale of our proprietary “Leaders and Laggards” long/short alpha candidates selection strategy to a third party. While the strategy can still be applied to the investment endeavors of our family office, the terms of the transaction require that we cease publication of this data going forward. In lieu of this change, we will soon begin expanding upon the number of “Actionable Trade Ideas” and “Macro Perspectives” to be regularly published in our monthly *Review & Outlook*.



Source: www.pawswithacause.org



Source: Hedgeye.com

ACTIONABLE TRADE IDEAS

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

Bullish Long Set-ups:

- Norton LifeLock (NLOK)
- Netflix (NFLX)
- SBA Communications (SBAC)
- Albemarle (ALB)

Bearish Short Set-ups:

- Starbucks (SBUX)
- Robert Half Int'l (RHI)
- Textron (TXT)
- Wells Fargo (WFC)

BULLISH NORTON LIFELOCK (NLOK)



Source: StockCharts.com

BULLISH NETFLIX (NFLX)



Source: StockCharts.com

BULLISH SBA COMMUNICATIONS (SBAC)



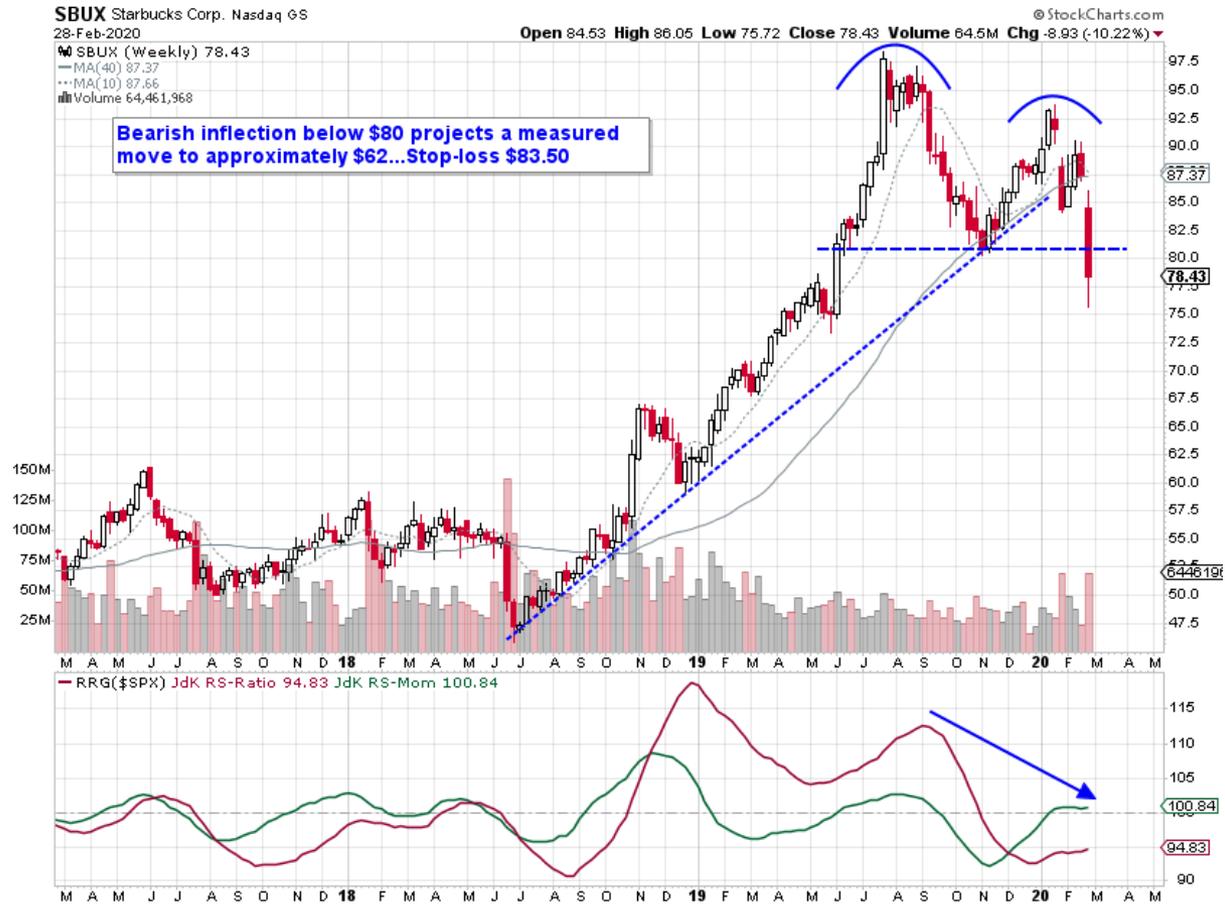
Source: StockCharts.com

BULLISH ALBEMARLE (ALB)



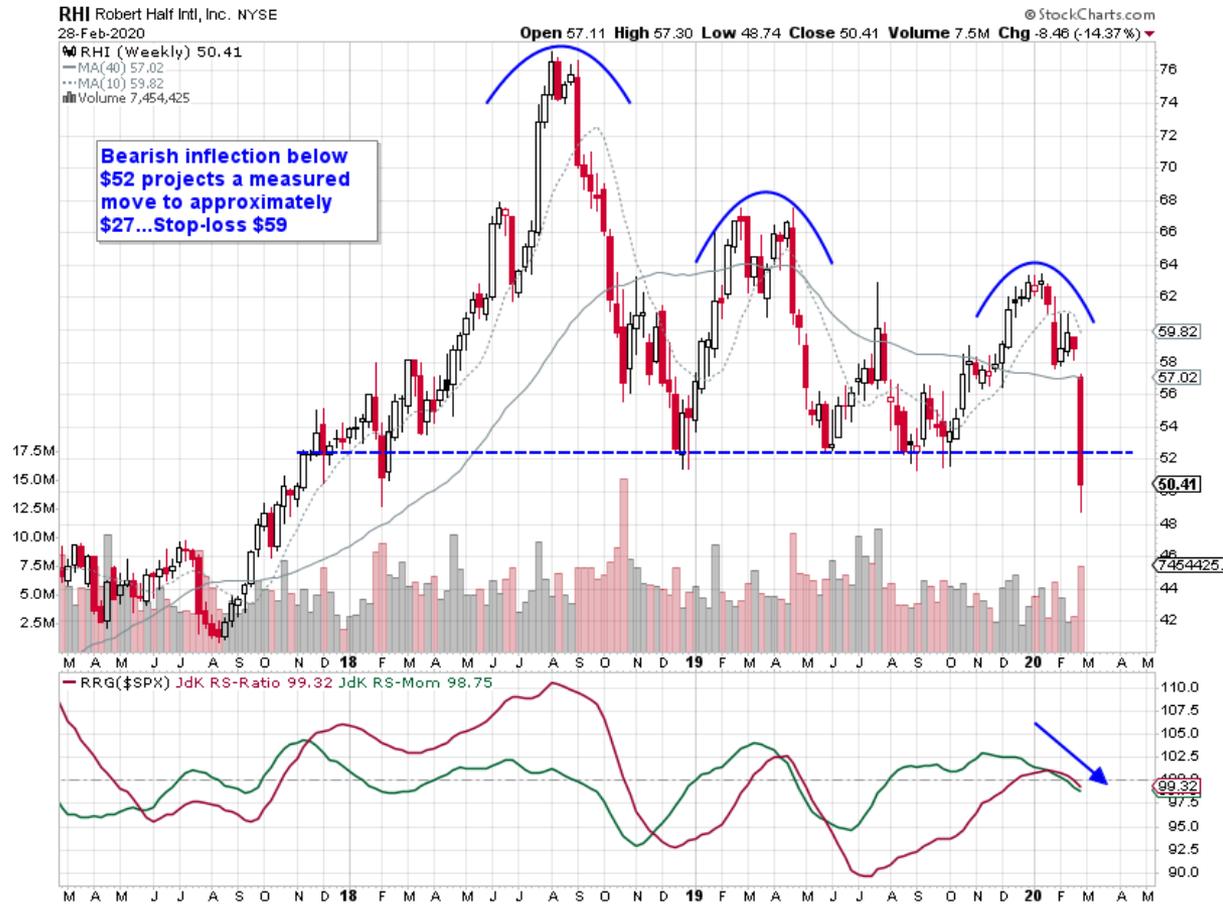
Source: StockCharts.com

BEARISH STARBUCKS (SBUX)



Source: StockCharts.com

BEARISH ROBERT HALF INT'L (RHI)



Source: StockCharts.com

BEARISH TEXTRON (TXT)



Source: StockCharts.com

BEARISH WELLS FARGO & Co.(WFC)





Source: Hedgeye.com

FOREIGN EQUITY MARKETS

Developed

- Canada, Australia, UK, Germany, Switzerland, France, Netherlands, Italy, Spain, and Japan

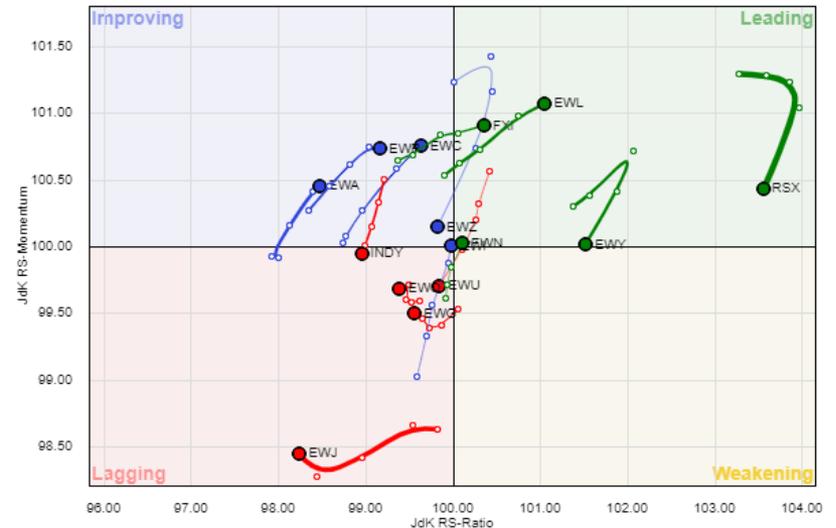
Emerging

- China, India, Brazil, Russia, and South Korea

MSCI FOREIGN MARKET LEADERSHIP

<u>RS-Momentum Rank</u>	<u>FEB Return</u>	<u>TTM Return</u>
1. Switzerland (EWL)	- 7.0%	+ 11.8%
2. China (FXI)	+ 2.3%	- 4.1%
3. Netherlands (EWN)	- 6.9%	+ 5.7%
4. Russia (RSX)	- 13.1%	+ 10.7%
5. Canada (EWC)	- 7.0%	+ 1.3%
6. Spain (EWP)	- 6.1%	- 6.2%
7. Australia (EWA)	- 9.6%	- 1.6%
8. Italy (EWI)	- 5.4%	+ 4.6%
9. South Korea (EWY)	- 4.7%	- 10.8%
10. Brazil (EWZ)	- 12.3%	- 8.3%
11. United Kingdom (EWU)	- 10.2%	- 6.1%
12. France (EWQ)	- 7.9%	+ 1.2%
13. Germany (EWG)	- 8.1%	- 1.3%
14. India (INDY)	- 6.4%	+ 2.2%
15. Japan (EWJ)	- 8.3%	- 0.5%

MSCI Country Rotation Model



Source: StockCharts.com

FOREIGN MARKET LEADERSHIP...CONTINUED

Emerging Mkts *basing* vs. Developed Mkts?



Foreign Mkts Lagging Domestic Mkts



Source: StockCharts.com

DEVELOPED MARKETS AUSTRALIA

NEUTRAL (-11.13% YTD)



Observations:

- ❑ **Price** closed February down -9.61% on average volume, breaching trend and key support levels. The long upper shadow and bearish “long body” candle line suggest potential further weakness ahead.
- ❑ **Momentum** has turned negative, breaching trend support and retracing all of its 2019 progress. A new small degree negative divergence is now evident.
- ❑ **Relative strength** vs. developed markets has been consolidating since penetrating trend line resistance.
- ❑ **Key Resistance** = \$21
- ❑ **Key Support** = \$18.5

Conclusions:

- ❑ **Downgrading to Neutral** from Bullish.
- ❑ **Market Weight.** The prior “Cup & Handle” observation has been moved to the back burner. Weak price action and deteriorating momentum favor a neutral technical view. A breach of key support would warrant a downgrade to bearish.
- ❑ **Target:** N/A



Source: StockCharts.com

DEVELOPED MARKETS CANADA

BULLISH (-7.69% YTD)

Observations:

- ❑ **Price** closed February down -7.01% on heavy volume, despite making a new all-time high. The long upper shadow and bearish “long body” candle line suggest potential further weakness ahead.
- ❑ **Momentum** remains positive, but breached trend support and has retraced substantially all of its 2019 progress. A new small degree negative divergence is now evident.
- ❑ **Relative strength** vs. developed markets made a new recovery high in August, but has been struggling to stage a bullish reversal after penetrating trend line resistance.
- ❑ **Key Resistance** = \$29
- ❑ **Key Support** = \$26.5

Conclusions:

- ❑ **Overweight.** The trend remains constructive supporting our Bullish technical view, but weak price action and deteriorating momentum raise some concerns over the implied bullish resolution to the multi-year “Cup & Handle” base formation. A breach of key support, would move us to the sidelines.

- ❑ **Target: \$35**



Source: StockCharts.com

DEVELOPED MARKETS UNITED KINGDOM NEUTRAL (-14.08% YTD)



Observations:

- ❑ **Price** closed February down -10.23% on average volume, breaching trend and prior key support levels. The bearish “long body” candle line suggests potential further weakness ahead.
- ❑ **Momentum** has turned negative, breaching trend support and retracing all of its 2019 progress. A small degree negative divergence is now evident.
- ❑ **Relative strength** vs. developed markets has breached chart support to post a fresh new 10-year low in February.
- ❑ **Key Resistance** = \$34
- ❑ **Key Support** = \$28

Conclusions:

- ❑ **Downgrading to Neutral** from Bullish.
- ❑ **Market Weight.** The prior “Cup & Handle” observation has been moved to the back burner. Weak price action, RS, and deteriorating momentum favor a neutral technical view. A breach of key support would warrant a downgrade to bearish.
- ❑ Target: N/A



Source: StockCharts.com

DEVELOPED MARKETS GERMANY

NEUTRAL (-10.82% YTD)



Observations:

- ❑ **Price** closed February down -8.10% on average volume, breaching trend line support. The long upper shadow and bearish “long body” candle line suggest potential further weakness ahead.
- ❑ **Momentum** has turned negative, breaching trend support, and retracing much of its 2019 progress.
- ❑ **Relative strength** vs. developed markets collapsed in 2018 and made a new low in 2019. A successful test of that low and penetration of trend line resistance, has resulted in a stalled bullish reversal attempt.
- ❑ **Key Resistance** = \$29.5
- ❑ **Key Support** = \$24.5

Conclusions:

- ❑ **Downgrading to Neutral** from Bullish.
- ❑ **Market Weight.** Weak price action, the breach of trend line support, and deteriorating momentum favor a neutral technical view. A breach of key support would warrant a downgrade to bearish.
- ❑ Target: N/A



Source: StockCharts.com

DEVELOPED MARKETS FRANCE

BULLISH (-11.56% YTD)

Observations:

- ❑ **Price** closed February down -7.87% on average volume, posting a bearish “long body” candle line, but held above trend and key support levels.
- ❑ **Momentum** remains slightly positive, but has pulled back from recent highs. A large degree negative divergence remains in place vs. the 2018 high.
- ❑ **Relative strength** vs. developed markets has turned down, breaching trend support, after posting a new 8-year high in June.
- ❑ **Key Resistance** = \$32
- ❑ **Key Support** = \$28

Conclusions:

- ❑ **Overweight.** Weak price action, RS, and deteriorating momentum suggest some further consolidation may lay ahead, yet the constructive trend supports our Bullish technical view. A breach of key support, would move us back to the sidelines.
- ❑ **Target: \$39**



Source: StockCharts.com

DEVELOPED MARKETS ITALY

NEUTRAL (-7.66% YTD)

Observations:

- ❑ **Price** closed February down -5.35% on light volume, despite making a new recovery high. The long-term trend remains constructive, and is holding well-above key support, but the long upper shadow and outside down monthly candle warrant caution.
- ❑ **Momentum** remains positive, but has pulled back from recent highs, breaching trend support.
- ❑ **Relative strength** vs. developed markets has turned up, penetrating the upper boundary of a multi-year consolidation pattern.
- ❑ **Key Resistance** = \$31
- ❑ **Key Support** = \$22

Conclusions:

- ❑ **Market Weight.** The long-term trend appears to have the characteristics of a lateral consolidation pattern of the “Barrier Triangle” variety. If this proves accurate, then a bullish inflection above the 2018 high, if sustained, could portend significant upside potential. A breach of key support would warrant a downgrade to bearish.
- ❑ Target: N/A



Source: StockCharts.com

DEVELOPED MARKETS SPAIN

NEUTRAL (-9.09% YTD)

Observations:

- ❑ **Price** closed February down -6.14% on average volume after making a new recovery high, breaching trend, but holding above key support. The long upper shadow and outside down monthly candle warrant caution.
- ❑ **Momentum** has turned negative, following a failed challenge of trend resistance, and breached trend support in February.
- ❑ **Relative strength** vs. developed markets is attempting to turn up and may now be poised to challenge trend resistance, after making a new 10-year low in November.
- ❑ **Key Resistance** = \$30
- ❑ **Key Support** = \$25

Conclusions:

- ❑ **Market Weight.** The long-term trend appears to have the characteristics of a lateral consolidation pattern of the “Symmetrical Triangle” variety. If this proves accurate, then a bullish inflection above the 2018 high, if sustained, could portend significant upside potential. A breach of key support would warrant a downgrade to bearish.
- ❑ Target: N/A



Source: StockCharts.com

DEVELOPED MARKETS SWITZERLAND BULLISH (-6.79% YTD)

Observations:

- ❑ **Price** closed February down -7.02% on above average volume, after posting a new all-time high. The long-term trend remains constructive, but the long upper shadow and outside down monthly candle warrant some caution.
- ❑ **Momentum** remains positive, but has backed-off recent highs, to penetrate trend support. A small degree negative divergence remains evident.
- ❑ **Relative strength** vs. developed markets posted a fresh new all-time high in February.
- ❑ **Key Resistance** = \$41
- ❑ **Key Support** = \$36

Conclusions:

- ❑ **Overweight.** Switzerland has by far the most constructive technical credentials on the European continent. The monthly close above \$36 confirms a new leg of the advance is now underway. A monthly close below key support would lead us to move to the sidelines.
- ❑ **New Target: \$47**



Source: StockCharts.com

DEVELOPED MARKETS NETHERLANDS

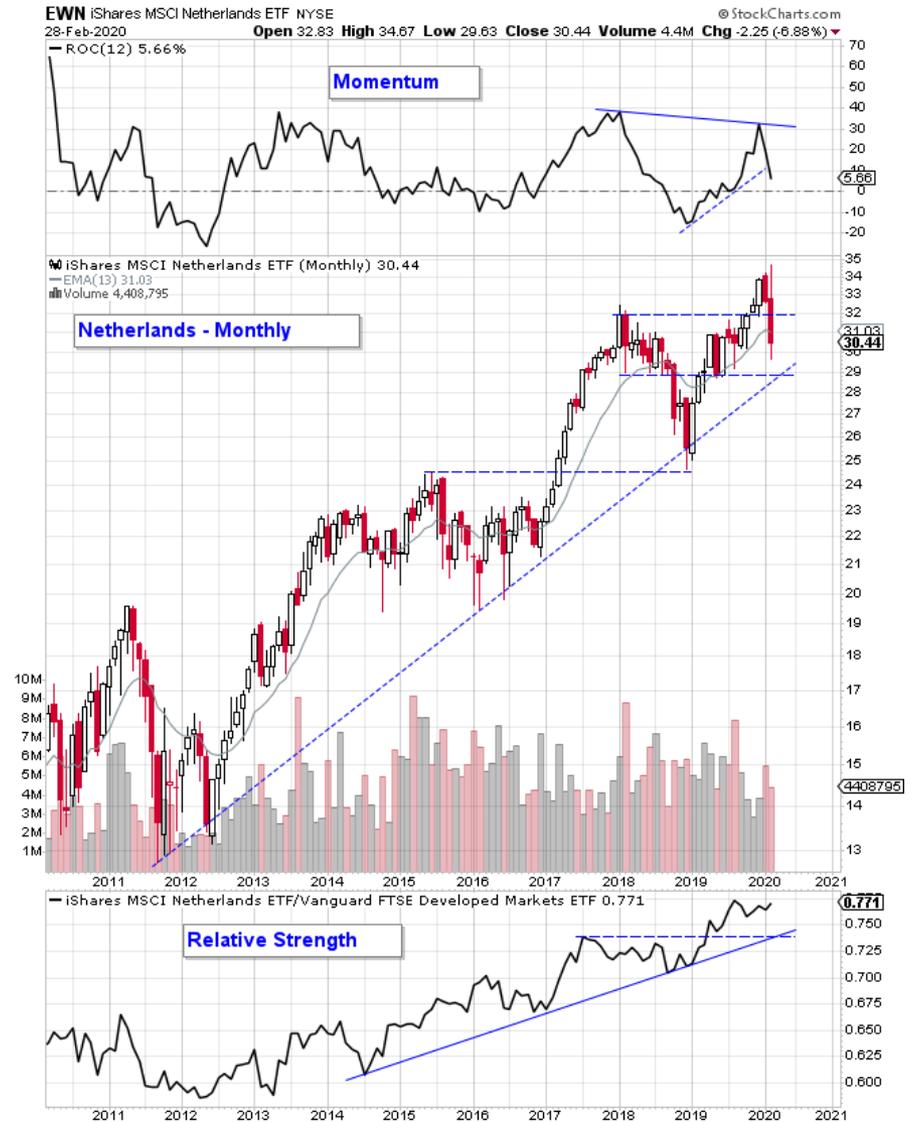
BULLISH (-10.10% YTD)

Observations:

- ❑ **Price** closed February down -6.88% on average volume, despite posting a new all-time high. The trend remains constructive, although the long upper shadow and bearish “long body” candle line suggest some caution is warranted.
- ❑ **Momentum** remains positive, but has backed-off recent highs to penetrate trend support. A small degree negative divergence was established.
- ❑ **Relative strength** vs. developed markets posted a new all-time high in August, and appears poised to challenge that level again.
- ❑ **Key Resistance** = \$32
- ❑ **Key Support** = \$29

Conclusions:

- ❑ **Overweight.** The long-term trend is decidedly bullish. The monthly close above \$32 confirms that the next leg of the advance is underway. A monthly close below key support would lead us to move to the sidelines.
- ❑ **New Target: \$39**



Source: StockCharts.com

DEVELOPED MARKETS JAPAN NEUTRAL (-10.60% YTD)



Observations:

- ❑ **Price** closed February down -8.29% on heavy volume, breaching trend and prior key support levels. The bearish “long body” and outside down monthly candle warrant caution.
- ❑ **Momentum** turned negative, retracing much of its 2019 progress, but held above trend support.
- ❑ **Relative strength** vs. developed markets has been range bound since late 2015. A successful challenge of the upper boundary of the range would strengthen the bull case.
- ❑ **Key Resistance** = \$55
- ❑ **Key Support** = \$49.5

Conclusions:

- ❑ **Downgrading to Neutral** from Bullish.
- ❑ **Market Weight.** Weak price action, the breach of trend line support, and deteriorating momentum favor a neutral technical view. A breach of key support would warrant a downgrade to bearish.
- ❑ Target: N/A



Source: StockCharts.com

EMERGING MARKETS CHINA

BEARISH (-6.81% YTD)

Observations:

- ❑ **Price** closed February up +2.32% on heavy volume, posting a bullish “harami” candle line, but held well-below trendline and key resistance levels. The near-term trend appears to be that of a large degree lateral consolidation pattern dating back to the 2009 low.
- ❑ **Momentum** remains negative, but is holding above trend support.
- ❑ **Relative strength** vs. emerging markets had been range bound since late 2016, but rebounded sharply in February to penetrate trend resistance, after posting a new 5-year low in January.
- ❑ **Key Resistance** = \$45
- ❑ **Key Support** = \$37.5

Conclusions:

- ❑ **Underweight.** The future performance of China’s stock market appears dependent upon multiple externalities including but not limited to the resolution of the Wuhan coronavirus and subsequent economic recovery, the timing and terms of a phase 2 trade deal with the U.S., and geopolitical events in Hong Kong and the South China Sea. A monthly close above key resistance would lead us to upgrade our rating neutral.

- ❑ **Target: \$30**



Source: StockCharts.com

EMERGING MARKETS INDIA NEUTRAL (-9.02% YTD)

Observations:

- ❑ **Price** closed February down -6.43% on above average volume, but holding above trend and key support. The long upper shadow on the monthly candle line suggests that caution may be warranted.
- ❑ **Momentum** remains positive, but is consolidating back to trend support. A negative divergence remains in place.
- ❑ **Relative strength** vs. emerging markets posted a new all-time record high last May, but has since pulled-back only to breach trend line support.
- ❑ **Key Resistance** = \$39
- ❑ **Key Support** = \$35

Conclusions:

- ❑ **Market Weight.** Bearish price action, deteriorating momentum, and lackluster RS suggest additional consolidation may be necessary. A new monthly closing high would lead us to upgrade our view to Bullish. A monthly close below trend line support would lead us to downgrade our opinion to bearish.
- ❑ **Target:** N/A



Source: StockCharts.com

EMERGING MARKETS BRAZIL NEUTRAL (-19.16% YTD)

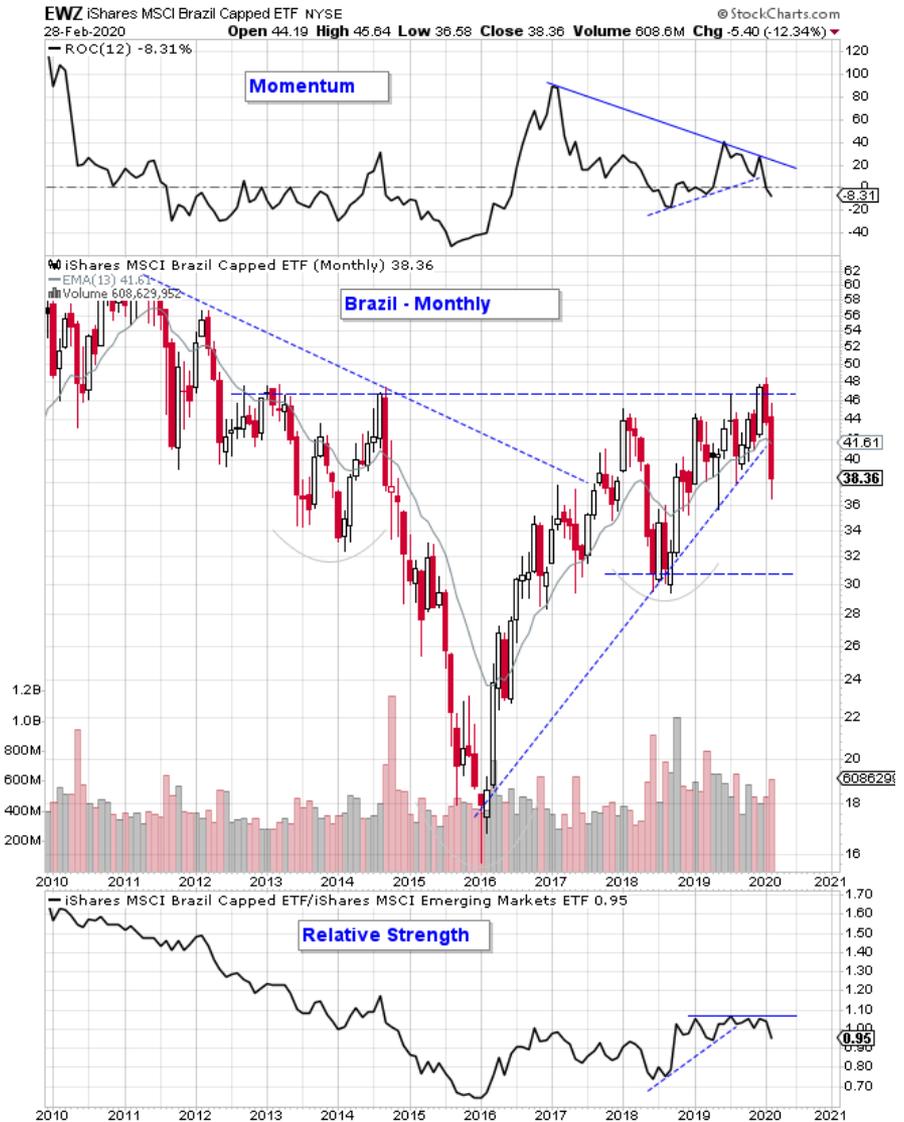


Observations:

- ❑ **Price** closed February down -12.34% on above average volume, breaching trend and prior key support levels. The bearish “long body” candle line suggests the potential for further weakness ahead.
- ❑ **Momentum** remains negative, having breached trend support after a failed challenge of trend resistance.
- ❑ **Relative strength** vs. emerging markets was rejected at chart resistance and has since turned down to breach trend line support.
- ❑ **Key Resistance** = \$47
- ❑ **Key Support** = \$31

Conclusions:

- ❑ **Downgrading to Neutral** from Bullish.
- ❑ **Market Weight.** The prior inverted “Head & Shoulders” observation has been moved to the back burner. Weak price action, lackluster RS, and deteriorating momentum favor a neutral technical view. A breach of key support would warrant a downgrade to bearish.
- ❑ **Target:** N/A



Source: StockCharts.com

EMERGING MARKETS RUSSIA

BULLISH (-14.42% YTD)

Observations:

- ❑ **Price** closed February down -13.13% on average volume, but held above key support. The set-up remains bullish after resolving above the neckline of a multi-year base formation of the “Head & Shoulders” variety. The primary uptrend remains intact.
- ❑ **Momentum** remains positive, but has retraced much of its 2019 progress, breaching trend support. A successful challenge of resistance would reinvigorate the bull case.
- ❑ **Relative strength** vs. emerging markets has pulled back after posting a new 5-year high in January.
- ❑ **Key Resistance** = \$28
- ❑ **Key Support** = \$21

Conclusions:

- ❑ **Overweight.** The monthly close above \$23 projects a measured move to approximately \$35. A monthly close below key support would lead us to downgrade our opinion to neutral.
- ❑ **Target: \$28**



Source: StockCharts.com

EMERGING MARKETS SOUTH KOREA

NEUTRAL (-11.63% YTD)

Observations:

- ❑ **Price** closed February down -4.67% on heavy volume, following a failed challenge of key resistance. The long upper shadow on the monthly candle line suggests that caution may be warranted.
- ❑ **Momentum** turned negative, after what appeared to be a developing bullish reversal, but thus far is holding above initial support.
- ❑ **Relative strength** vs. emerging markets has turned down after penetrating a multi-year descending trend line from an eight-year low.
- ❑ **Key Resistance** = \$64
- ❑ **Key Support** = \$49

Conclusions:

- ❑ **Market Weight.** The 2018-19 decline began earlier and lasted longer than most other countries, while the recovery has been shallow, hence our neutral technical view. A monthly close above key resistance would lead us to upgrade our opinion to bullish. A close below key support would result in a downgrade to bearish.
- ❑ **Target:** N/A



Source: StockCharts.com



Source: Hedgeye.com

MACRO PERSPECTIVES

- Commodities: CRB Index, Copper, Gold Bullion, WTI Crude Oil
- Infrastructure: MLP Index
- Currencies: Bitcoin, U.S. Dollar Index, EURUSD, JPYUSD
- Rates: 10-Year U.S. Treasury Note

COMMODITY R/J CRB INDEX BEARISH (-14.18% YTD)



Observations:

- ❑ **Price** closed February down -6.38%, but appears to have completed an (a-b-c-d-e) “Symmetrical Triangle” formation. This is typical of 4th waves and is considered to be a continuation pattern of the larger degree trend. If this interpretation is correct, then wave 5 down should terminate below the wave 3 low to complete the impulse pattern before a larger degree upward correction ensues.
- ❑ **Momentum** remains negative, as “wave 5” takes the stage, and has breached trend line support.
- ❑ **Relative strength** vs. the S&P 500 index has been in decline since mid-2011, but may be near stabilizing.
- ❑ **Key Resistance** = 190 (= “wave e” high)
- ❑ **Key Support** = 155

Conclusions:

- ❑ **Downgrading to Bearish** from Neutral.
- ❑ **Underweight.** The wave count projects one more lower low. Once we have identified a high confidence low, we’ll position to take advantage of a what could be a sizable bounce. Until then, stay on the sidelines or play short for a trade to our stated target below.
- ❑ **Target = \$130**



Source: StockCharts.com

COMMODITY COPPER NEUTRAL (-9.19% YTD)

Observations:

- ❑ **Price** closed February up +0.91%, testing, but holding above key support. The near-term trend has been down since 2017 and appears suspect below key resistance. The long-term trend has been down since 2011.
- ❑ **Momentum** remains negative after failed attempt to break out into positive territory in December.
- ❑ **Relative strength** vs. the other 16 commodities that make up the CRB index held trend line support, and has turned up, penetrating trend line resistance.
- ❑ **Key Resistance** = \$3.00
- ❑ **Key Support** = \$2.50

Conclusions:

- ❑ **Benchmark Weight.** A small degree “Head & Shoulders” top formation remains evident. A monthly close below \$2.50 would confirm a move lower and lead us to downgrade our view to Bearish. A monthly close above key resistance would result in an upgrade to Bullish.
- ❑ Target = N/A



Source: StockCharts.com

COMMODITY GOLD BULLION NEUTRAL (+2.86% YTD)



Observations:

- ❑ **Price** closed February down -1.34%, after posting a new recovery high, to end the month near the bottom of its \$140 range. The long upper shadow and “shooting star” type candle line is indicative of a trend termination.
- ❑ **Momentum** remains positive, but has been consolidating below its 2019 high, leaving a negative divergence in place vs. the “wave 3” price high.
- ❑ **Relative strength** vs. the CRB index posted a fresh new all-time record high in February.
- ❑ **Key Resistance** = \$1691
- ❑ **Key Support** = \$1446

Conclusions:

- ❑ **Downgrading to Neutral** from Bullish.
- ❑ **Benchmark Weight.** The new recovery high fell 2.5% short of our previously published target of \$1735 (the 78.6% retracement). It’s still possible for that target to be achieved, but within the context of heightened volatility and the “black swan” type exogenous events of the time, we think gold had its chance and failed to seize the day.
- ❑ Target = N/A



Source: StockCharts.com

COMMODITY WTI CRUDE OIL NEUTRAL (-26.70% YTD)



Observations:

- ❑ **Price** closed February down -13.19%, breaching trend and prior key support, posting another long shadow and bearish “long body” candle line.
- ❑ **Momentum** remains deeply negative, and has now reversed all of its 2019 progress.
- ❑ **Volatility** is often considered to be a contrarian measure of sentiment. Higher levels imply fear. Spikes in the OVX above 45% have tended to closely correspond with important lows in price (blue arrow).
- ❑ **Key Resistance** = \$51
- ❑ **Key Support** = \$41

Conclusions:

- ❑ **Downgrading to Neutral** from Bullish.
- ❑ **Benchmark Weight.** A likely OPEC response to price weakness, coupled with the assumptions of further geopolitical unrest in the Middle East, a dovish Fed policy tilt, and a bearish US dollar tilt favor the benefit of the doubt. Our Neutral technical view depends upon price holding above key support. A breach thereof would warrant a downgrade to bearish.
- ❑ Target = N/A



Source: StockCharts.com

INFRASTRUCTURE ALERIAN MLP INDEX **BEARISH** (-20.72% YTD)

Observations:

- ❑ **Price** closed February down -15.11%, but held above key support, posting a “long body” candle line with a long lower shadow. It is now 48% below its 2017 high and 68% below its 2014 high.
- ❑ **Momentum** plunged deeper into negative territory after its failed challenge of trend line resistance.
- ❑ **Relative strength** vs. the S&P 500 index posted a fresh 10-year low in February, but the steep decline in progress since 2014 has flattened considerably.
- ❑ **Key Resistance** = 222
- ❑ **Key Support** = 176

Conclusions:

- ❑ **Underweight.** MLPs have been under pressure in large part due to their high correlation to crude oil, but also because high dividend stocks as a factor have underperformed dramatically YTD (see page 11). In the past, when they have deviated this far below their 36-month EMA, it was followed by a significant bounce over the next year. Hence, we expect a bounce into resistance.
- ❑ **Target** = N/A



Source: StockCharts.com

COMMODITY NYSE BITCOIN INDEX BULLISH (+19.70% YTD)

Observations:

- ❑ **Price** closed February down -6.56%, failing near trend resistance, but holding above trend line and key support levels. The impulsive character of the advance off the 2018 low suggests that the uptrend should be respected.
- ❑ **Momentum** remains strongly positive, and has emerged from a year-long base to make a new high.
- ❑ **Relative Strength** vs. the 17 most widely traded commodities, illustrated by the CRB index, penetrated trend line resistance in January and has resumed its bullish reversal.
- ❑ **Key Resistance** = 15400 (= 78.6% retracement)
- ❑ **Key Support** = 6500

Conclusions:

- ❑ **Overweight.** Despite a normal consolidation of gains, the successful challenge of prior resistance allows for additional upside potential near-term. A new all-time high would project a measured move to approximately 34200. A failure to hold key support would move us to the sidelines.
- ❑ **Target: 15400**



Source: StockCharts.com

CURRENCY US DOLLAR INDEX BEARISH (+2.11% YTD)

Observations:

- ❑ **Price** closed February up +0.89%, failing near the upper boundary of its trend channel, then retracing nearly 2/3s of its advance. By our work, a close beneath the lower boundary of the channel would confirm a trend change lower.
- ❑ **Momentum** remains slightly positive, but is holding below trend resistance, while a negative divergence has been established vs. the October high in price. A breach of the zero line would confirm our analysis.
- ❑ **Key Resistance** = 99
- ❑ **Key Support** = 96

Conclusions:

- ❑ **Underweight.** We've redrawn the lines, but there is no change to the interpretation. A monthly close below trend line support, the lower boundary of the channel would confirm that a trend change is in progress. A monthly close below key support would open the door for a test of the structural uptrend off the 2011/14 lows and possibly the 2018 low. A close above key resistance would move us back to the sidelines.
- ❑ **Target** = 92, then 88



Source: StockCharts.com

CURRENCY EURO/US DOLLAR BULLISH (-1.64% YTD)

Observations:

- ❑ **Price** closed February down -0.55%, making a new correction low, failing near the lower boundary of the trend channel, posting a bullish “hammer” candle line to close above key support. By our work, a close above the upper boundary of the channel would confirm a trend change higher.
- ❑ **Momentum** remains slightly negative, and is holding above trend support, while a positive divergence has been established vs. the October low in price. A monthly close back above the zero line would confirm our analysis.
- ❑ **Key Resistance = 1.137**
- ❑ **Key Support = 1.09**

Conclusions:

- ❑ **Overweight.** We’ve redrawn the lines, but there is no change to the interpretation. The technical characteristics of the Euro nearly mirror those of the US Dollar. A monthly close above key resistance at 1.137 would open the door to a test of the structural downtrend off the 2011/14 highs and possibly the 2018 high. A breach of key support would move us back to the sidelines.
- ❑ **Target = 1.24, then 1.26**



Source: StockCharts.com

CURRENCY YEN/US DOLLAR BULLISH (+0.58% YTD)

Observations:

- ❑ **Price** closed February up +0.35%, and remains within 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 near complete, then wave (C) should advance to the 61.8% retracement of the 2012/15 five wave decline.
- ❑ **Momentum** remains positive after penetrating trend line resistance, and is consolidating that advance above trend.
- ❑ **Key Resistance = 0.95**
- ❑ **Key Support = 0.87**

Conclusions:

- ❑ **Overweight.** Generally, we would take a neutral stand and wait to see which way price breaks, but 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.
- ❑ **Target = 1.12**



Source: StockCharts.com

INTEREST RATES

10-YEAR US TREASURY NOTE

NEUTRAL (+5.12% YTD)

Observations:

- ❑ **Price** closed February up +2.48%, penetrating key resistance, and posting a new monthly closing high. Concerns over Wuhan coronavirus and its impact on global growth have increased demand for safe haven assets like T-Notes, putting pressure on 10-year yields, which have now surpassed their September lows.
- ❑ **Momentum** remains staunchly positive, surging to a new 11-year high.
- ❑ **Fed fund futures** are now pricing in a 94.9% probability of a 25 basis point cut in policy rates at the March 18th FOMC meeting, according to the CME FedWatch Tool. This suggests that the market now believes that the Fed is behind the curve.
- ❑ **Key Resistance** = 135
- ❑ **Key Support** = 127

Conclusions:

- ❑ **Benchmark Weight.** The consensus view that there is a bubble in sovereign debt, makes it difficult to become too bearish on bonds long-term, however, near-term sentiment has become bullish enough to warrant some caution. That said, the bond market is the smart money!

❑ Target = N/A

March 1, 2020



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: https://stockcharts.com/school/doku.php?id=chart_school:glossary_a
- ❑ Some readers may be unfamiliar with the use of Relative Rotation Graphs. A detailed discussion of this subject can be found at: https://stockcharts.com/school/doku.php?id=chart_school:chart_analysis:rrg_charts

ANALYST BIO

- ❑ Jeffrey W. Hugel, CMT has 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. Hugel 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. Hugel 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. Hugel is a [CMT Charterholder](#) and has been a member of the CMT Association since 2005.

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