

January 2, 2024

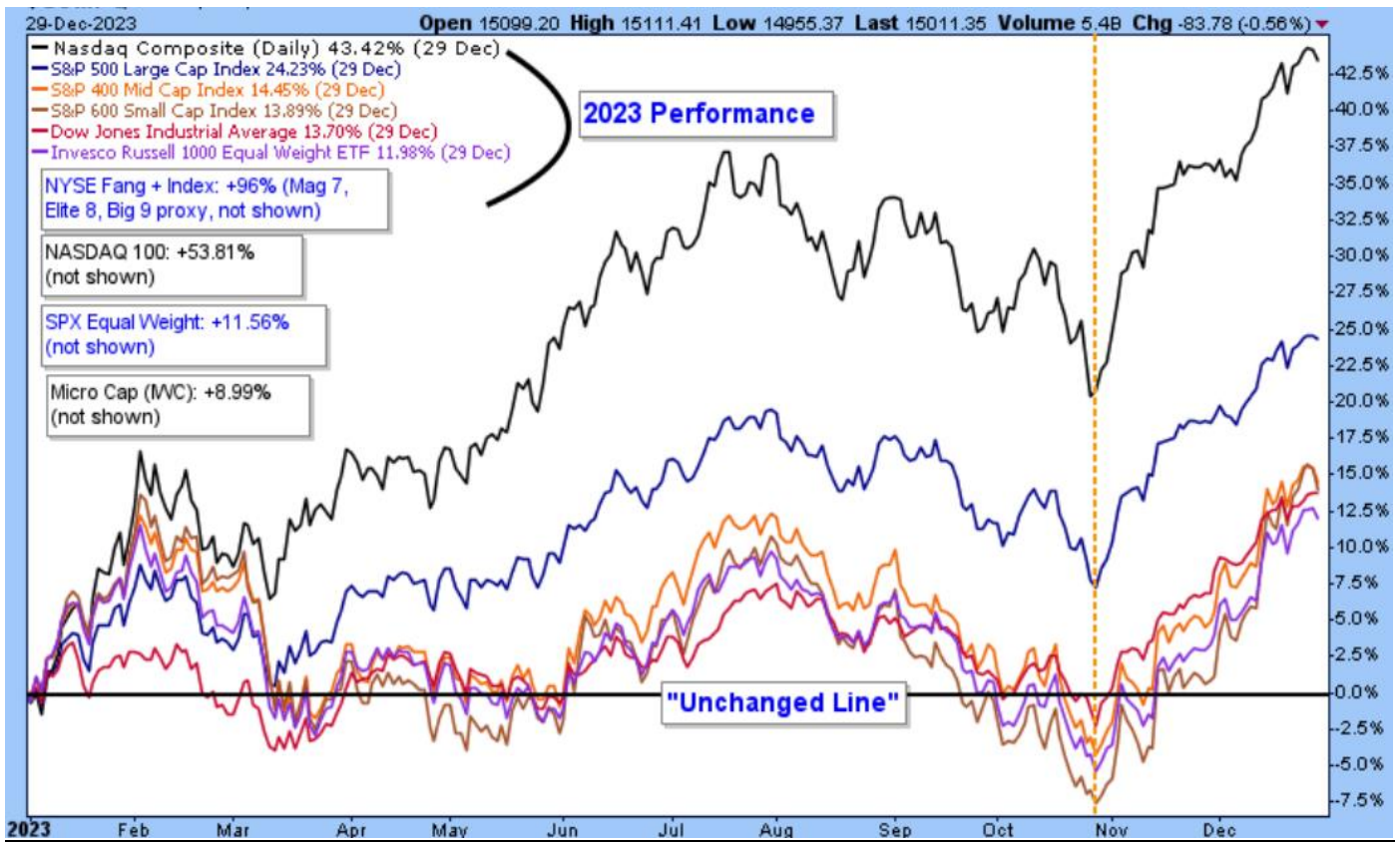
Are You Willing to Bend?

Summary

As we review 2023, let's apply one of Marty Zweig's mantras to 2024: "The market is smarter than I am, so I bend." At Day Hagan, we bend by following objective models and indicators—overweighting statistical probability and underweighting emotion.

2023: What We Experienced

Figure 1: 2023 Performance. | While the last eight weeks went "gangbuster to the upside" (dashed vertical line), the majority of 2023 was a chop-fest for most domestic equity market proxies other than Large Cap Growth—please refer to the unchanged line.



Currently

Figure 2: S&P 500 with Relative Strength Index (RSI). | I am unsure of the extent to which new year flows (equity market inflows versus profit taking) will affect trading as 2024 begins. However, considering proximity to resistance (2022 all-time highs), a small negative momentum divergence (RSI), a contraction in New Highs, and still-extreme bullish sentiment, don't be surprised by some profit taking.



Note: Condition versus Signal – The extreme sentiment readings mentioned above don't represent a sell signal in themselves but depict a condition: many Wall Street participants have already bought. The sell signal won't occur until after the readings reverse direction and decline in earnest.

2024: What We Are Watching

Figure 3: Wall Street Forecast for 2024 (Source: X/Twitter). | In December 2022, most Wall Street strategists predicted negative returns for 2023. Will anyone get it right in 2024?

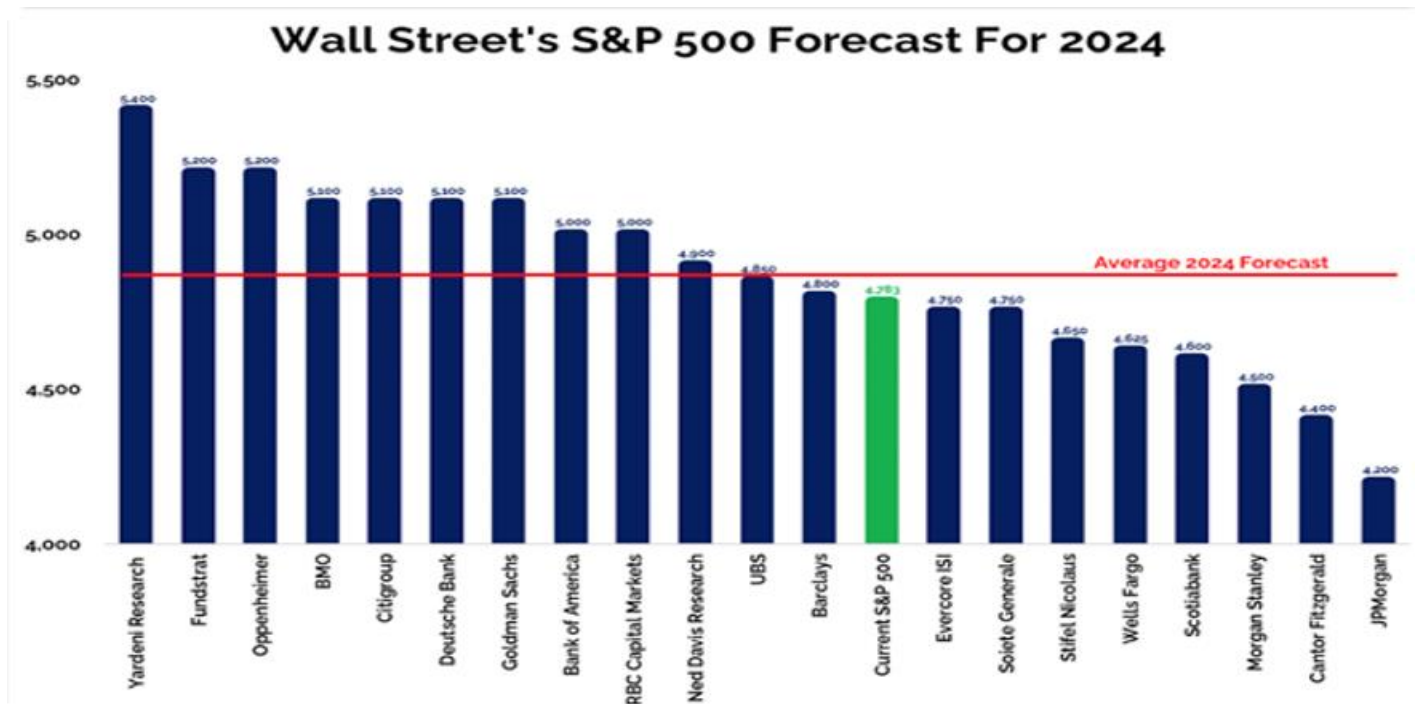


Figure 4: Mutual Fund and ETF Flows (Source: X/Twitter). | Considering Wall Street strategists' negative outlooks in December 2022, this chart shouldn't be surprising. It is noteworthy because of the *potential* buying power it depicts.

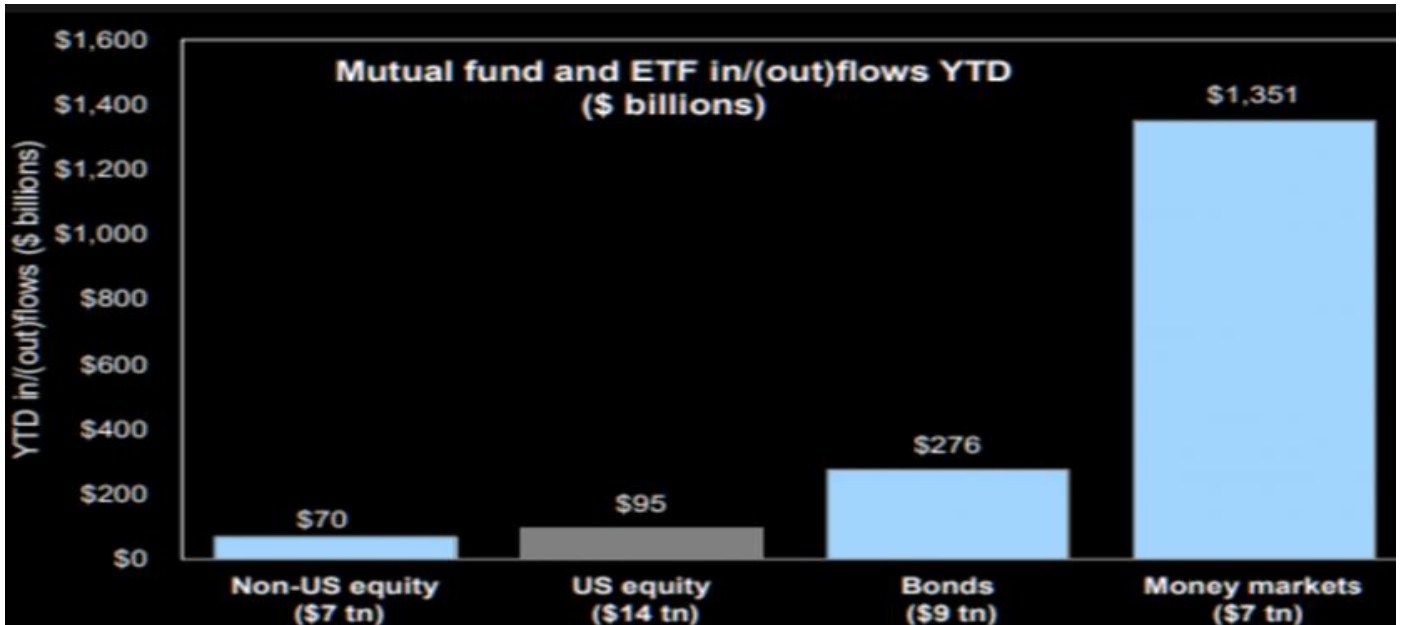
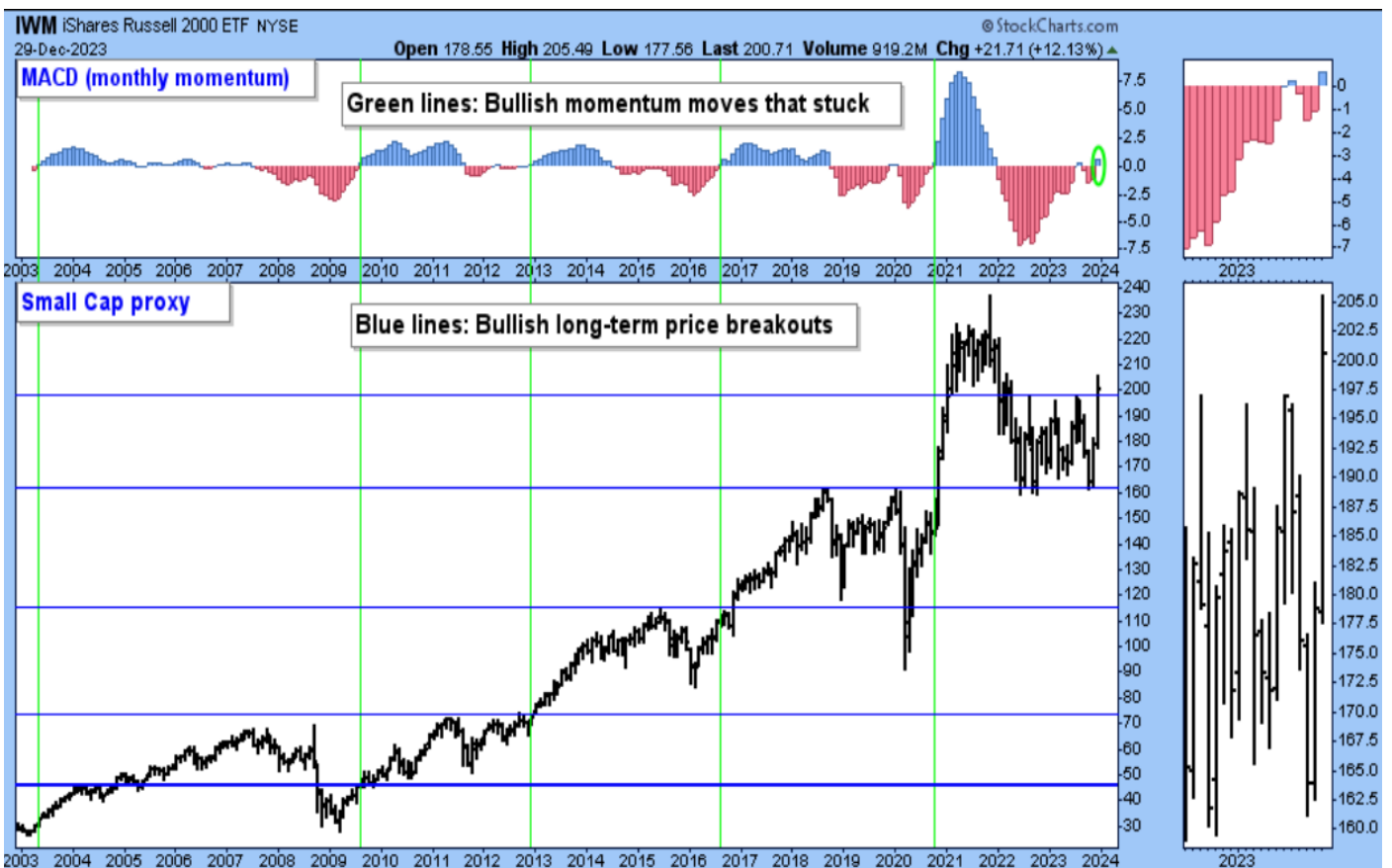


Figure 5: Small Cap Proxy with Momentum (monthly data). | The stock market rarely repeats itself exactly, but it often rhymes. In this case, **if the current surge in monthly momentum sticks** (green circle) and their extremely overbought condition gets resolved, Small Caps (and the average stock) may finally get some love.



Interest Rates, U.S. Dollar Index and Energy prices, the “three-headed monster,” remain top of mind as a pullback in each seemed to provide support to the recent, broadening stock market rally.

Figure 6: 10-Year U.S. Treasury Yield (log chart) with momentum (monthly data, lower frame). | While interest rates still have room to move on the downside, until proven otherwise I believe a new long-term interest rate regime (higher) is still at hand. Near-term (please reach out for a chart), the rubber band is very stretched to the downside and due to snap back. Don't be surprised by a reflex higher in interest rates in and around Friday's employment report.



Figure 7: U.S. Dollar Index with momentum (MACD). | Short-term rally by the U.S. Dollar Index may be part of a headwind for equities as 2024 begins. From a non-trading perspective, please see the verbiage inside the chart.



Figure 8: Light Crude and Gasoline. | Supportive of the economy/consumer, but maybe not the sector. The longer these remain rangebound, the better. Green lines = support; red lines = resistance.

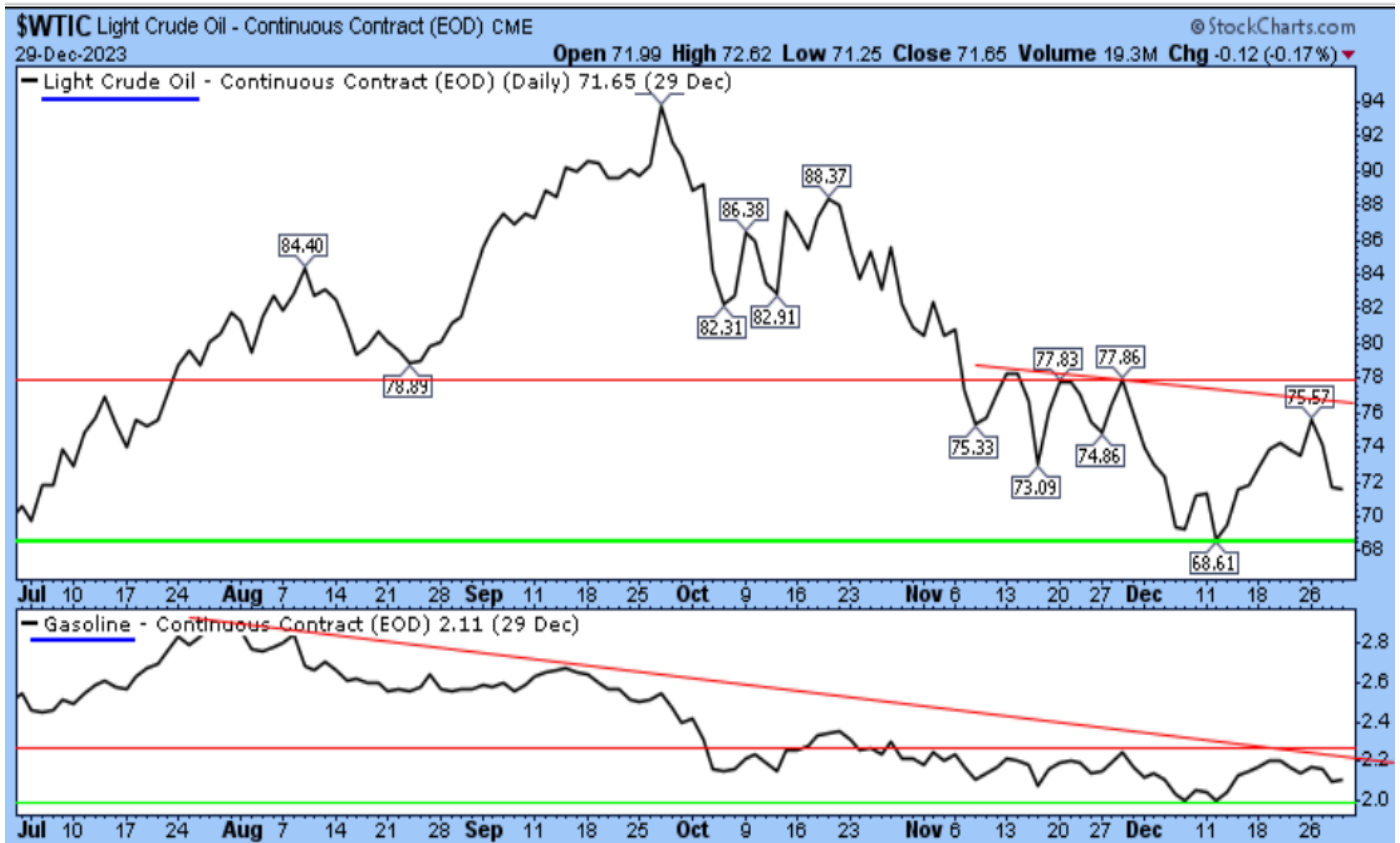


Figure 9 should be viewed as a secondary indicator and is not part of our Smart Sector Strategy models. But considering its accuracy in 2022 and 2023, it is worth acknowledging.

Figure 9: S&P 500 Cycle Composite for 2024. | This chart suggests a volatile first 6 months of 2024, followed by a favorable back half, after the presidential election resolves. Not something many Wall Street strategists are expecting. Don't be surprised.

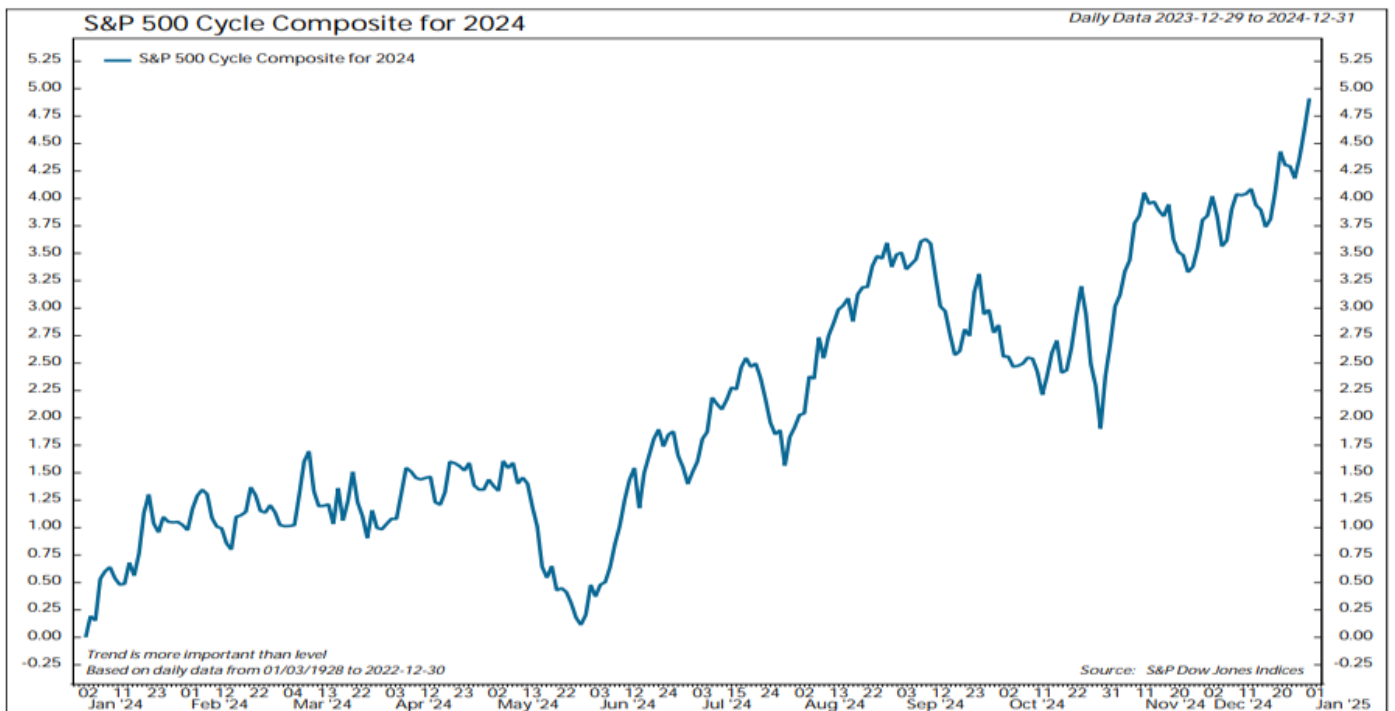


Figure 10: Gold – Continuous Contract (monthly log chart). | Will **Gold's** bullish chart configuration finally take hold in 2024, longer term? My answer: Yes, based on the chart configuration.

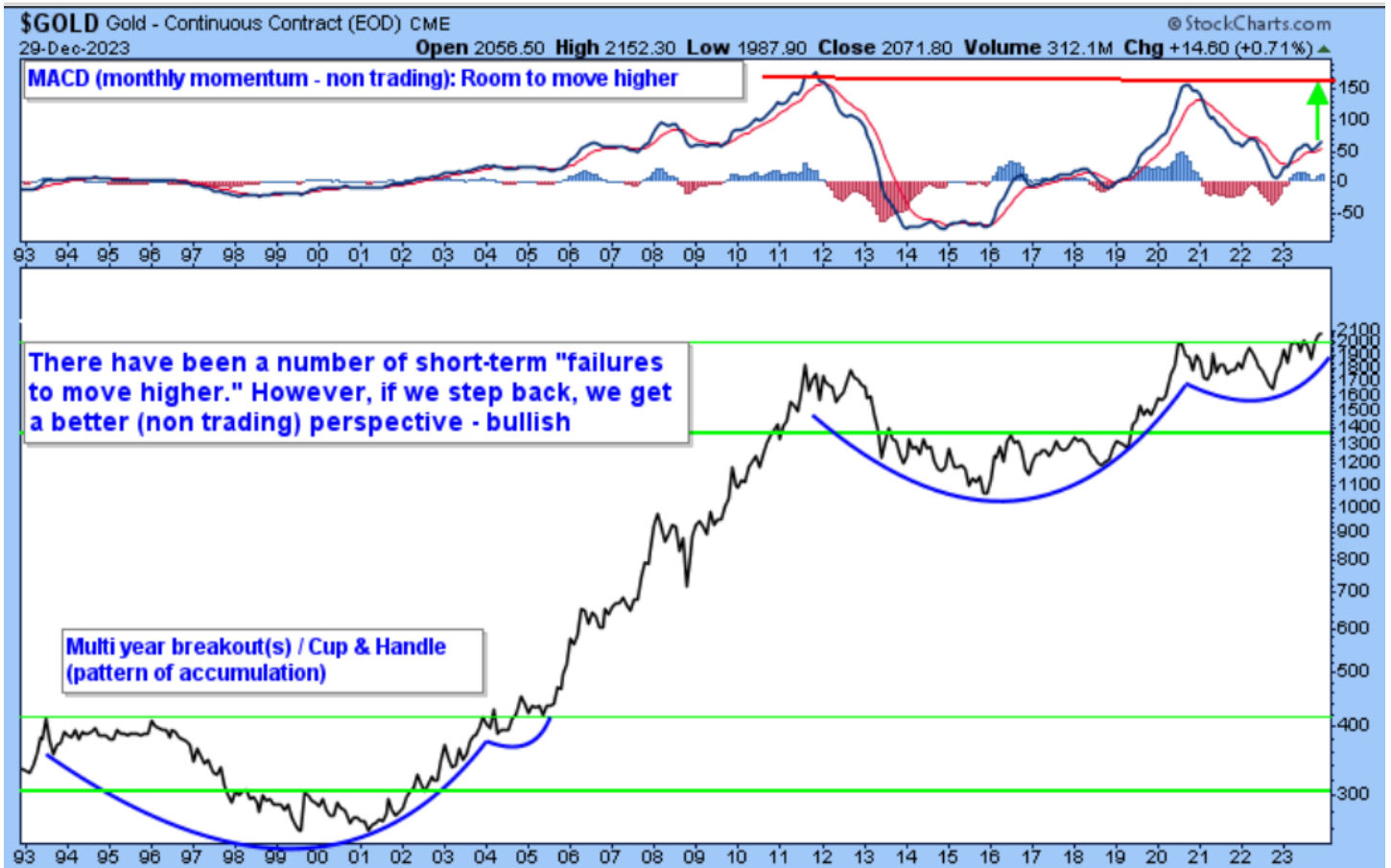


Figure 11: China Internet proxy and Emerging Markets ex China proxy. | Notice the disparity in performance since the October 2022 low (vertical line). These are further areas of potential opportunity very few are discussing, especially since “everyone” was bullish towards China going into 2023.



Please let me know if you would like to schedule a call to go over the process and discipline underpinning our **Smart Sector with Catastrophic Stop**, **Smart Sector International**, and/or **Smart Sector Fixed Income** strategies. The disclosures and Fact Sheet information can be found here: <https://dhfunds.com/literature>.

Day Hagan Asset Management appreciates being part of your business, either through our research efforts or investment strategies. Please let us know how we can further support you.

Art Huprich, CMT®
Chief Market Technician
Day Hagan Asset Management

—Written 12.31.2023 & 01.01.2024. Chart source: Stockcharts.com unless otherwise noted.

Upcoming Events

[Day Hagan/Ned Davis Research Smart Sector® with Catastrophic Stop, hosted by Art Day, on January 17, 2024, at 1:15 p.m. ET.](#)

[Day Hagan/Ned Davis Research Smart Sector® with Catastrophic Stop, hosted by Art Day, on January 17, 2024, at 4:15 p.m. ET.](#)

[Day Hagan Technical Analysis, hosted by Art Huprich, CMT, on January 23, 2024, at 4:15 p.m. ET.](#)

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