

February 6, 2024

# Punxsutawney Phil, Large Cap Bulls, and Smart Sector Update

## Summary

For the most part, the “Index Movers” have held up and marched higher—still bullish. However, under the surface, while a sell signal has not occurred, “conditions” (broad upside participation), which don’t offer a precise timing aspect, are not as rosy and are actually downright poor/weakening.

## Smart Sector Strategies

### U.S. Equity Strategy

The **NDR Catastrophic Stop Loss model**, one of the main risk management components of the Smart Sector strategy, combines time-tested, objective indicators (technical, sentiment, fundamental, and economic) designed to identify high-risk periods for the equity market. Currently, the model continues to recommend a fully invested position versus its benchmark, the S&P 500 (SPX). Within that context, the Internal Composite is positive, and the External Composite is neutral. Some near-term sentiment and technical headwinds are in place, and several composite models are starting to pull back from very bullish levels. If our models shift to bearish levels, we will raise cash.

Relative to last week’s tape action, Punxsutawney Phil predicted an early spring and Wall Street’s Large Cap Bulls happily reacted and bid up many “Index Movers,” the stocks and sectors that have the greatest impact on the direction of Large Cap equity indices. This produced all-time highs for the SPX and DJIA. Simultaneously, *many stocks continue to churn*—move laterally (not participate in the rally) or down. As one respected equity market observer stated over the weekend, “I saw a stat that more than half the stocks in the SPX are down on the year and... it surprised me...”

Hopefully followers of these reports/webinars are not surprised. While the Index Movers have powered higher, we have been discussing the non-confirmations (a **condition** in which Large Cap growth and related equity market proxies are recording new highs, but several internal measuring tools and broader, non-growth-related indices/sectors are not) over the past few weeks. Since this condition doesn’t provide a precise timing aspect, I continue to believe that, *unless resolved, this bifurcated condition will eventually lead to either a time correction or a price correction*. Which will it be? I don’t know yet but will continue to monitor our unemotional models and indicators closely for guidance.

Since most investors currently follow and money managers are benchmarked against the S&P 500, let’s look at the chart and its proximity to support.

**Figure 1: S&P 500 Large Cap (growth) Index.** | Proximity to support (green lines and price labels—blue arrows) is important as *the divergence between “Index Movers and the broader market”* grows. “Pullbacks are the market’s way of correcting that.”



The **NDR Sector Allocation Model** is another risk management component of the Smart Sector strategy. In reviewing the model update for February, the **Communication Services** sector received an overweight recommendation.

**Figure 2: Communication Services proxy with internal measuring tools.** | For the *second consecutive month*, this sector received an overweight allocation, prior to the huge rallies by META and AMZN.

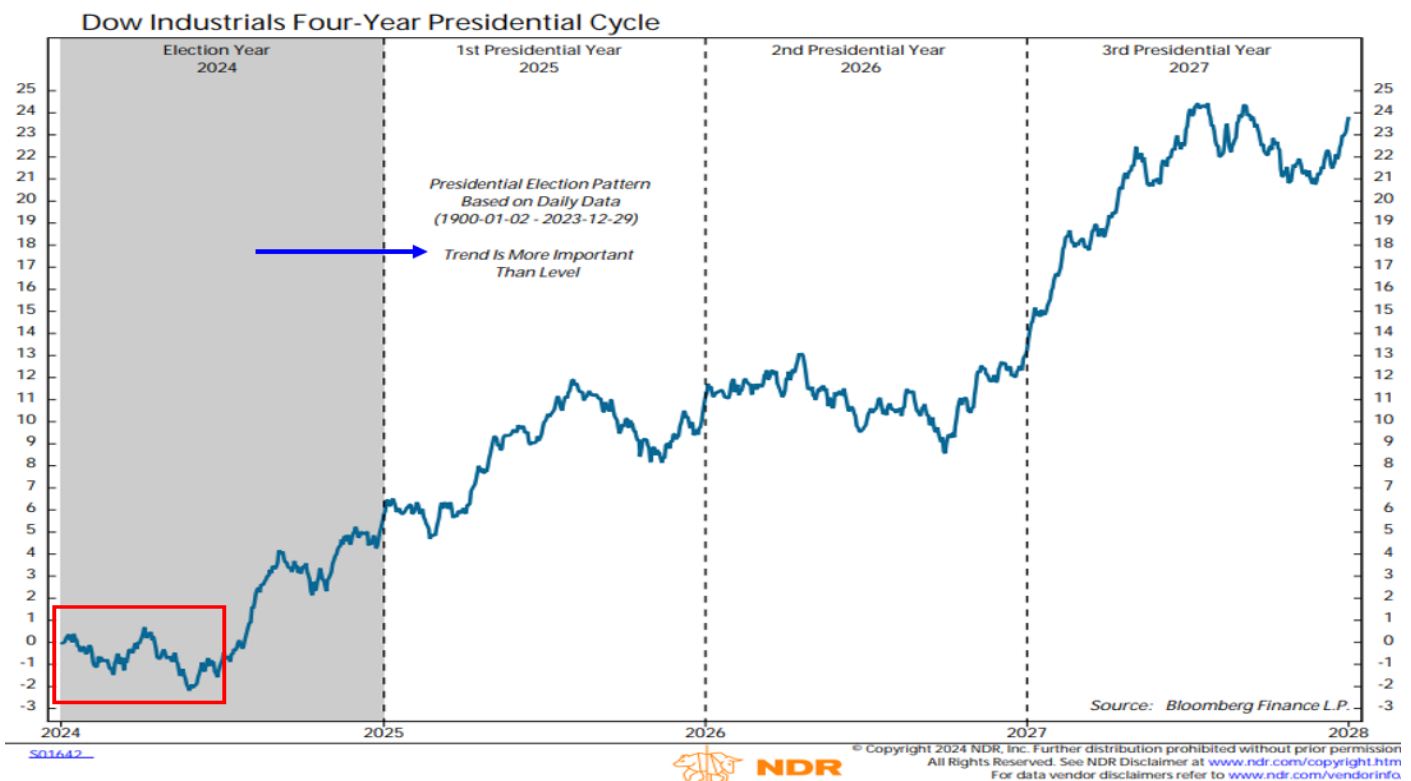


- Reach out for the charts of the other Overweight sectors—**Technology, Health Care, and Financials**—and/or those sectors rated Underweight—**Materials, Industrials, and Utilities**.

## Cycles and Election Years

Presidential elections have historically created angst about how markets can perform in different environments. According to Bespoke Investment Group, “Election years, which is also year four of the Presidential Election Cycle, have historically been the second strongest of the four-year cycle for the S&P 500. Since 1928, the S&P has posted yearly gains in 74% of election years for a median gain of 9.54%,” Figure 3. In my opinion, however, *those returns tell very little about what occurs on a week-to-week/month-to-month basis.*

**Figure 3: Dow Industrials Four-Year Presidential Cycle.** | Historically, election years are volatile for the first few months/quarters but are followed by a stronger second half. Consolidation is common during the early stages of an election year. February has historically been a choppy month.



**Note:** Day Hagan views cycle composites as second-tier indicators because while they are helpful to understand potential seasonal influences, they are easily overshadowed by macroeconomic trends (rates, employment, inflation, economic activity). They are not part of the Smart Sector models.

## International Markets (ex U.S.) Strategy

The “Core” model overweighted several countries, including **Germany**—Figure 4. At the same time, the “Explore” model overweighted a few countries, including **Poland**—Figure 5.

**Figure 4: German Stock Market index (DAX).** | While there are definite periods of rolling volatility, in both directions, long-term base breakouts lend themselves to long-term moves in the same direction.



**Figure 5: Global Advance/Decline Line and Poland.** | Likely due to its heavy technology weighting, the U.S. is still the strongest market based on relative strength analysis. However, this Global A/D Line implies select opportunities exist outside of the U.S.



- **Peru** and **Brazil** are also overweights. Within Latin America, the rate-cutting cycle began last year and continues today with Peru, Chile, Brazil, and Colombia all cutting rates in January.
- If you would like to discuss this strategy with a portfolio manager, please let me know.

# Fixed Income Strategy

**Why do I feel the time is right for a strategy that will help navigate the current interest rate cycle?** While the debate rages on between “Team Transitory” (Federal Open Mouth Committee, aptly labeled by Ed Yardeni) and their critics concerning inflation, the model rated the Short-Term Inflation-Protected Securities proxy Underweight—Figure 6.

**Figure 6: Vanguard Short-Term Inflation-Protected Securities proxy.** | In considering momentum (top frame), resistance (red line), and support (green line), given a bit more price weakness (a chart breakdown) and/or lower inflation readings, this could get very interesting, to the downside. *Stay tuned, stay alert (and stay safe).*



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 02.04-05.2024. Chart source: Stockcharts.com unless otherwise noted.

# Upcoming Events

[Day Hagan/Ned Davis Research Smart Sector® with Catastrophic Stop, hosted by Art Day, on February 21, 2024, at 1:15 p.m. EDT](#)

[Day Hagan/Ned Davis Research Smart Sector® with Catastrophic Stop, hosted by Art Day, on February 21, 2024, at 4:15 p.m. EDT](#)

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

## Disclosure

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