

February 27, 2024

Land of the Rising Sun

Summary

While various measures of short-term breadth continue to diverge, the equity market maxim “the trend is your friend” remains true. This is especially evident with the Large Cap “Index Movers.” As Don Hagan penned, “The Catastrophic Stop model is still positive, and we are aligned with the message. There isn’t yet enough evidence to reduce exposure, especially with the S&P 500 sitting near all-time highs (Figure 1). If our models shift to bearish levels, we will raise cash.”

Japan or Technology?

With parts of the **Technology complex** continuing to underperform short-term (Figure 2), you might have expected the title of this report to be referencing the **Japan Stock Market Index/Nikkei 225 Index** (often referred to as “Nikki” or “Nikkei Dow”) reaching a new, 34-year high (Figure 3). However, the title has more to do with Wall Street’s infatuation with last week’s EPS report and guidance from NVDA. “The sun did indeed rise in the east,” and specifically in the land of Technology. But again, I point out Figure 2 and the fact that the current domestic equity market uptrend has been more about the “Index Movers” instead of all about AI or Technology. As it currently stands, *I view this as supportive of Large Cap equities*, implying okay upside participation.

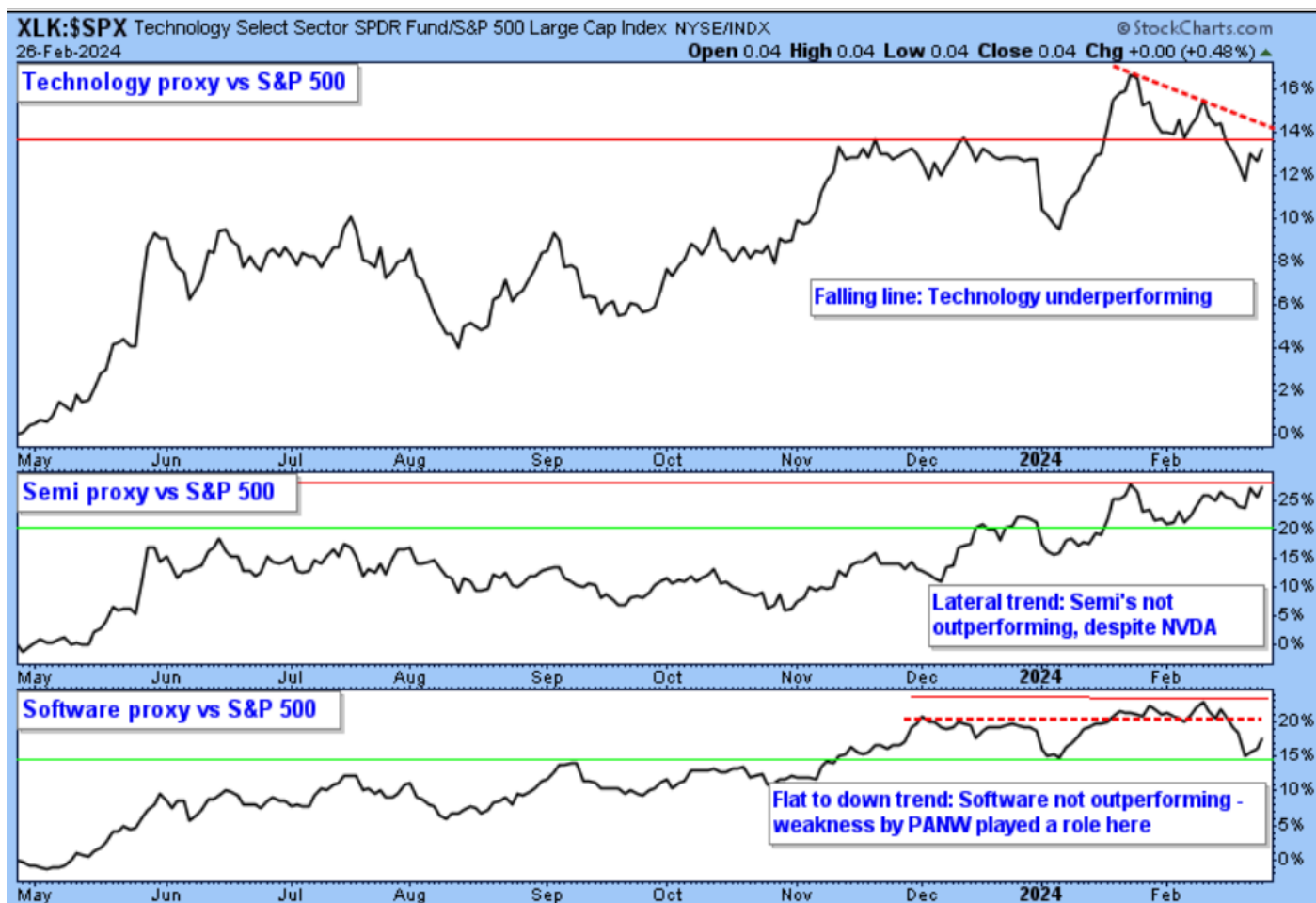
Figure 1: S&P 500 with rising 21-day MA short-term support. | Initial short-term support can be gleaned at both the upside gap (green circle) & rising 21-day MA (blue line, will marginally change each day), down closer to 4980+/- . One guidepost for the strength of the near-term trend is if this area of short-term support will be tested, and how long it takes.



Relative to Figure 2, J.P. Morgan last week noted:

13F filings can be a great way to learn how the hedge fund community put their money to work in the market.... After ranking as a top stock holding in the third quarter, MSFT experienced the largest decline in hedge fund ownership in the fourth.... As of the end of the fourth quarter, the average hedge fund has 13% of their portfolios in "Mag 7" stocks—roughly half their weight in the Russell 3000.... With respect to NVDA only 10% of hedge funds have it as a top 10 holding.

Figure 2: Technology vs. S&P 500 – short-term relative strength trends. | While I question JPM's statement about NVDA, given the chart below I'll take them at their word, until/unless the relative strength ratios say otherwise and break topside.



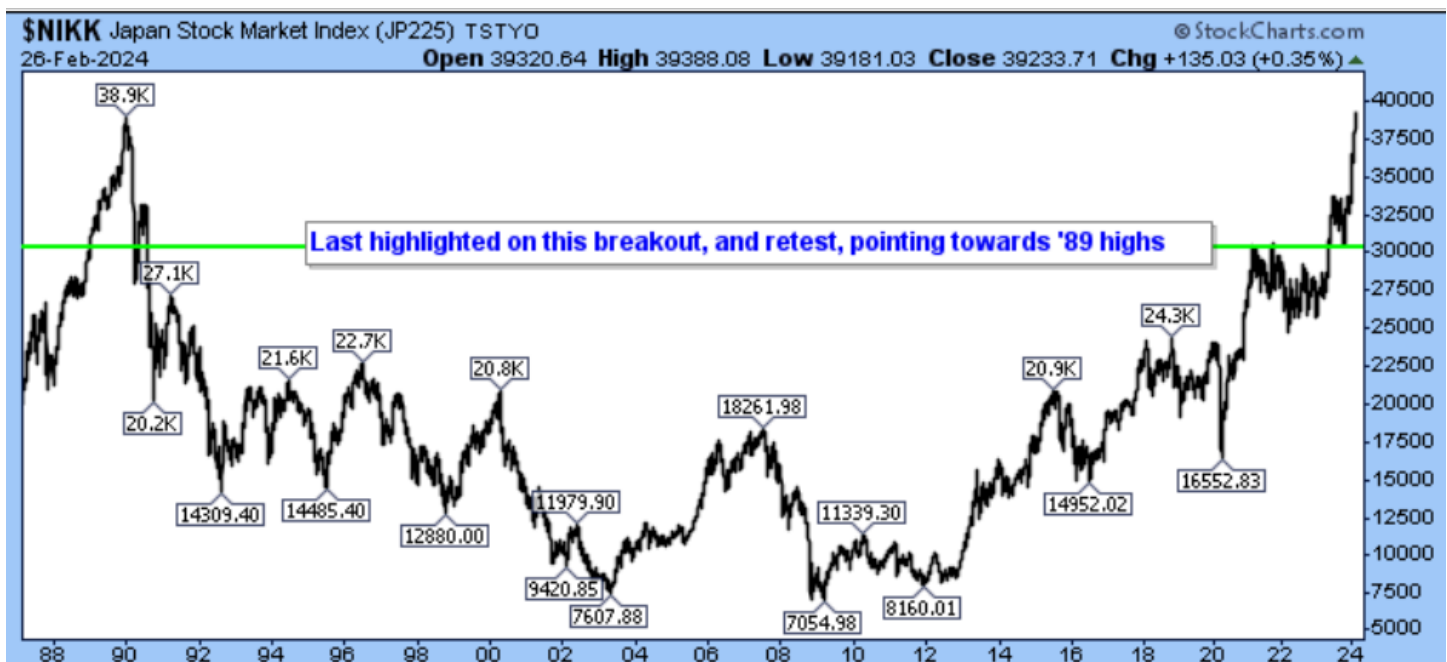
Having lived through JPM's recap of Japan below, the following brought back memories of years gone by:

If you do want to discuss a bubble, then perhaps we can talk about Japan several decades ago. At the height of Japan's bubble in the 1980s, real estate in Tokyo sold for as much as \$139,000 a square foot—more than 350 times as much as top property in Manhattan. This valuation made the land in the Imperial Palace in Tokyo worth more than all the real estate in California. At its peak, the notional value of all the stocks in the Tokyo exchange represented nearly half the value of all equities in the world. Of course, the bubble did eventually burst leading to years of malaise for the Japanese economy and asset prices. But after years of underperformance, the market has come roaring back.... For the first time since 1989, Japan's Nikkei closed at a new all-time high. The 34 years between all-time highs is about a decade longer than the S&P 500 went before it eclipsed its all-time high from the Great Depression.

JPM further penned:

Are we looking at a changed Japan? Maybe. Since the 1990s, Japan's policymakers have kept an ultra-easy policy stance to encourage inflation, and signs are now just pointing to more sustainable progress (investors are betting on the Bank of Japan to raise rates this year). A weaker yen has also boosted Japan's export-oriented economy and market—a big driver behind Japan's double-digit returns in 2023. More importantly though, years of corporate reform efforts may finally be paying off. Japanese firms are returning more cash to shareholders through increased dividends and share buybacks to reignite confidence. That's starting to drive more foreign investment flows into its market. There are still risks. Economic uncertainty remains high and eventual rate hikes could drive Japanese bond yields higher and turn the yen from a tailwind to a headwind for profits. Discussion around corporate reform isn't exactly new. But even with these risks in mind, last week's breakthrough deserves attention.

Figure 3: Japan Stock Market Index (NIKK). | Having fulfilled my initial target, while the trend remains “your friend,” I prefer to see how the most recent move is digested—either through a period of consolidation or a pullback. This is consistent with our belief *that excesses in one direction will usually lead to an excess in the other direction.*



NOTE: Exhibiting the opposite price trend of the “Nikki” are various equity market indices in **China**, as highlighted during my last Chart Jamboree (webinar). Please let me know if you would like to see an updated chart.

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. 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.

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—Written 02.26.2024. Chart source: Stockcharts.com unless otherwise noted.

Upcoming Events

[Day Hagan/Ned Davis Research Smart Sector® with Catastrophic Stop, hosted by Art Day, on March 20, 2024, at 1:15 p.m. EDT](#)

[Day Hagan/Ned Davis Research Smart Sector® with Catastrophic Stop, hosted by Art Day, on March 20, 2024, at 4:15 p.m. EDT](#)

[Day Hagan Technical Analysis, hosted by Art Huprich, CMT, on March 26, 2024, at 4:15 p.m. EDT](#)

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