

March 19, 2024

S&P 500 (Big Cap) Hesitation and Smart Sector Update

Summary

While the primary “trend” remains supportive (higher), a mostly euphoric sentiment backdrop reflects an aggressive, bullish attitude. As a contrarian indicator, sentiment represents a short-term yellow flag. This comes at a time of historical [seasonal weakness for NASDAQ](#) and a period of near-term hesitation for the S&P 500 (Big Cap/Index Movers Complex). Therefore, an equity market breather shouldn't be unexpected and may be beneficial.

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, which is benchmarked against the S&P 500, is still positive, and **we are aligned with its message. If our models (and indicators) shift to bearish levels, we will raise cash.**

Since most investors follow, and money managers are benchmarked against, the S&P 500, let's look at the chart and its proximity to support (green line and blue arrows) and resistance (red box and lines).

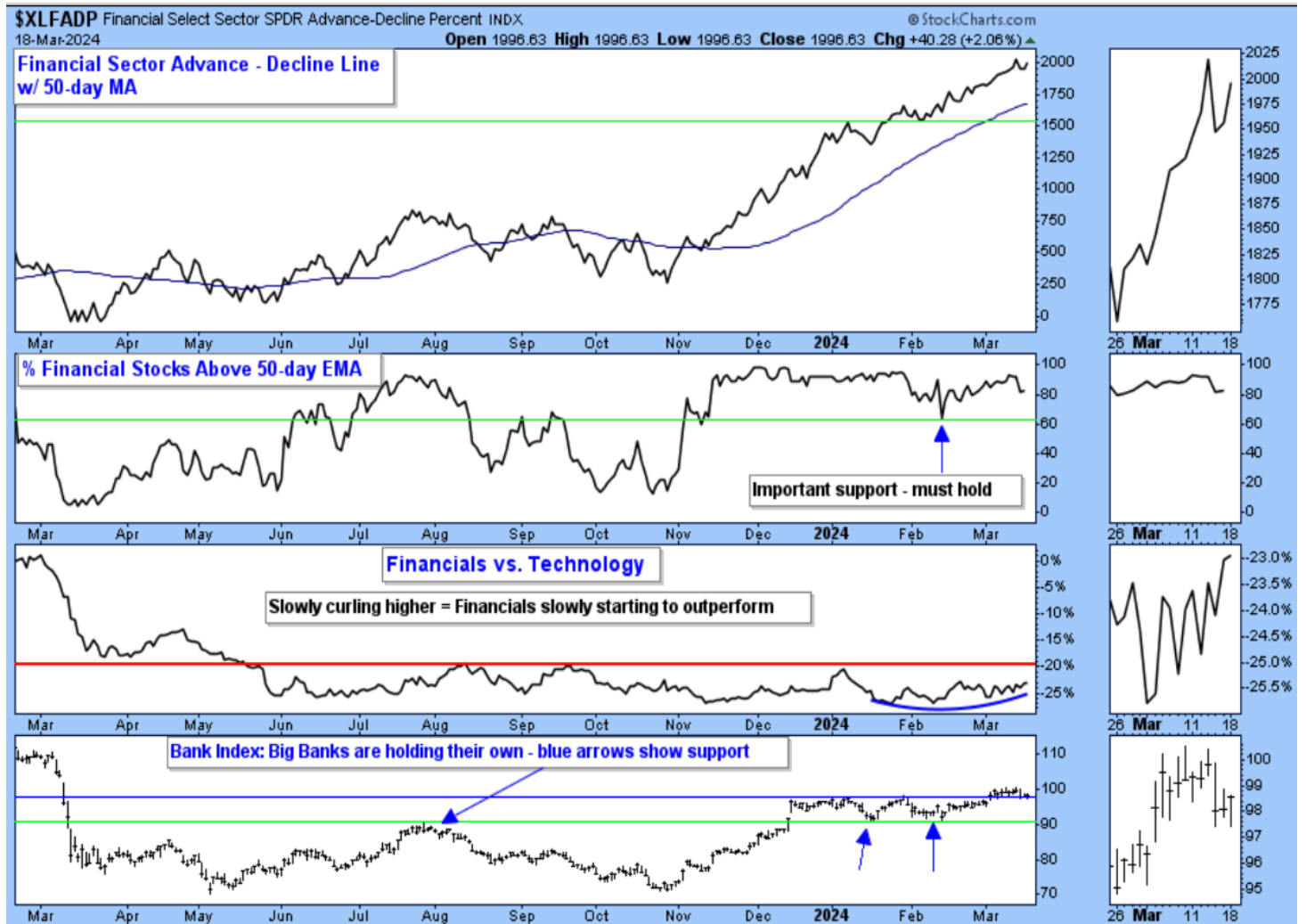
Figure 1: S&P 500 6-month chart (short-term). | A break of the multi-month upward trending support line (green)—currently *around 5100ish*, but since it is rising, it will marginally change each day—would be a change of the pattern. This would imply a test of next support between 5056 and 5038. A failure to hold that area of support would suggest the start of a deeper correction.



The **NDR Sector Allocation Model** is another risk management component of the Smart Sector strategy. Entering March, Information Technology and Financials are **overweight**. Industrials, Health Care, Consumer Discretionary, Consumer Staples, Energy, and Real Estate are **neutral**. Materials, Communication Services (breadth has been relatively weak in 2024), and Utilities are **underweight**.

In looking at the Financials, Ned Davis Research recently stated, “Financials has less mega-cap risk. J.P Morgan and Berkshire are the two biggest constituents, and each makes up less than 10% of the sector’s market cap. The 200-day breadth reading is strong.”

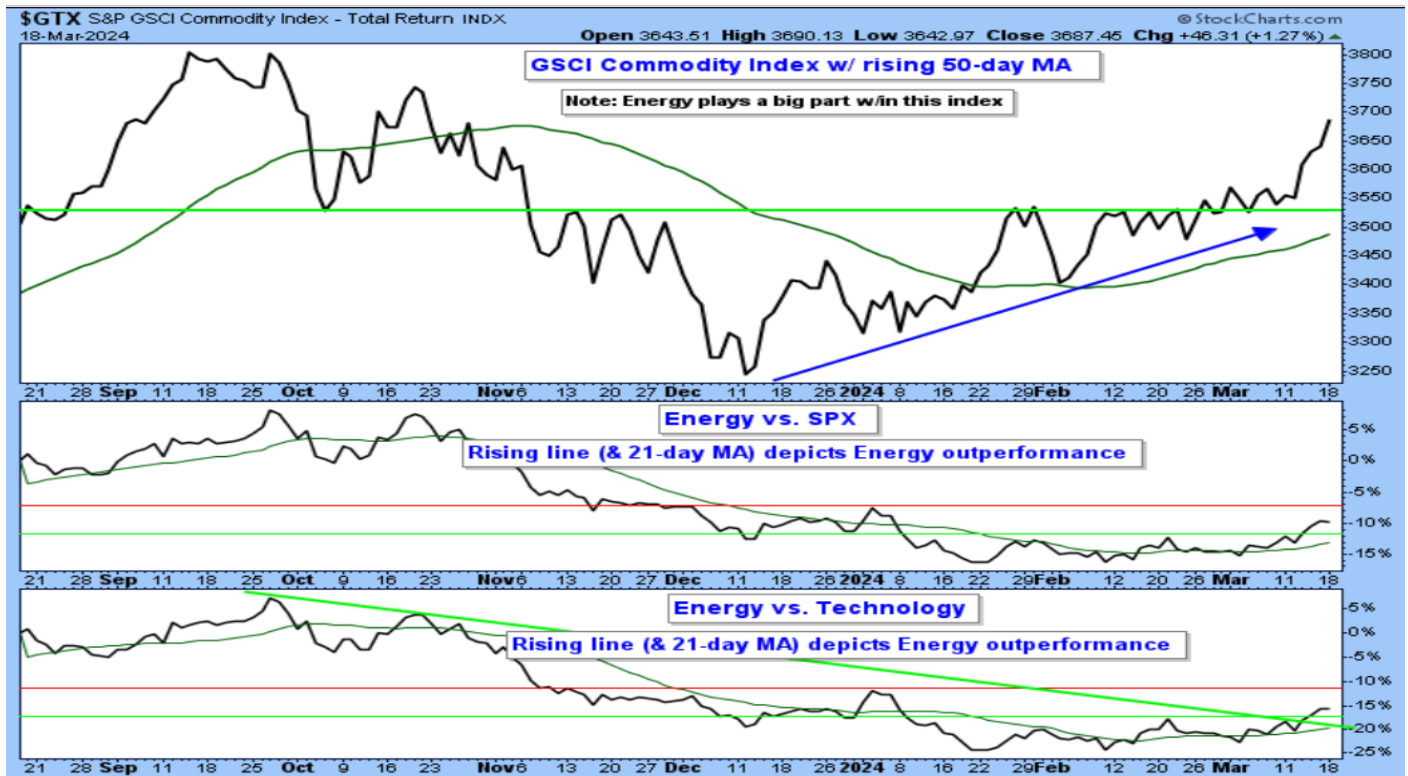
Figure 2: Financial Sector and various internal measuring tools plus **Bank Index**. | As long as support holds (green lines in top, second, and bottom frame) this chart is consistent with NDR's statement and the sector allocation model.



- If you would like to discuss this strategy with a portfolio manager, please let me know.

Figure 3 paints a good picture of an intriguing backdrop relative to the commodity and energy complex. Based on the chart configuration highlighted in last month’s Chart Jamboree, our target for **Crude Oil** remains in the middle \$80s+.

Figure 3: Commodity Proxy and Energy Relative Strength Lines. | They say, “A picture(s) is worth a thousand words.” I don’t think it will take that many to say “improving, supportive.”



International Markets (ex U.S.) Strategy

Entering March, the non-U.S. equity Core model **overweighted** Japan and Germany. China and Canada are **neutral**, and the U.K., France, Switzerland, and Australia are **underweight**. The Explore model **avored** Mexico, Turkey, Brazil, Spain, and the Philippines. Figures 4 and 5 offer some insights.

Figure 4: Global Advance – Decline Line & U.S. versus All Country World Index ex U.S. | Selective overseas exposure and a strategy that incorporates a plan to manage risk seems appropriate.

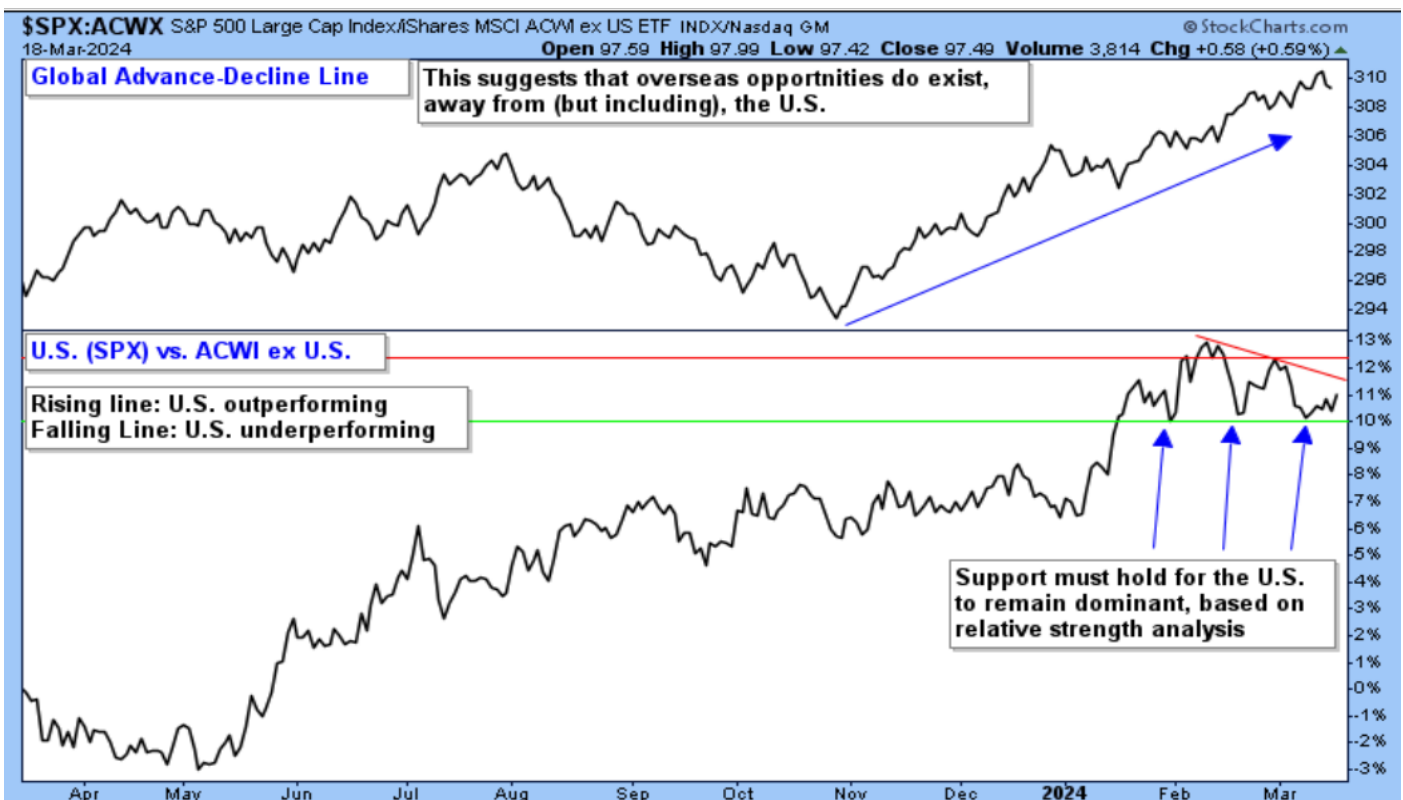
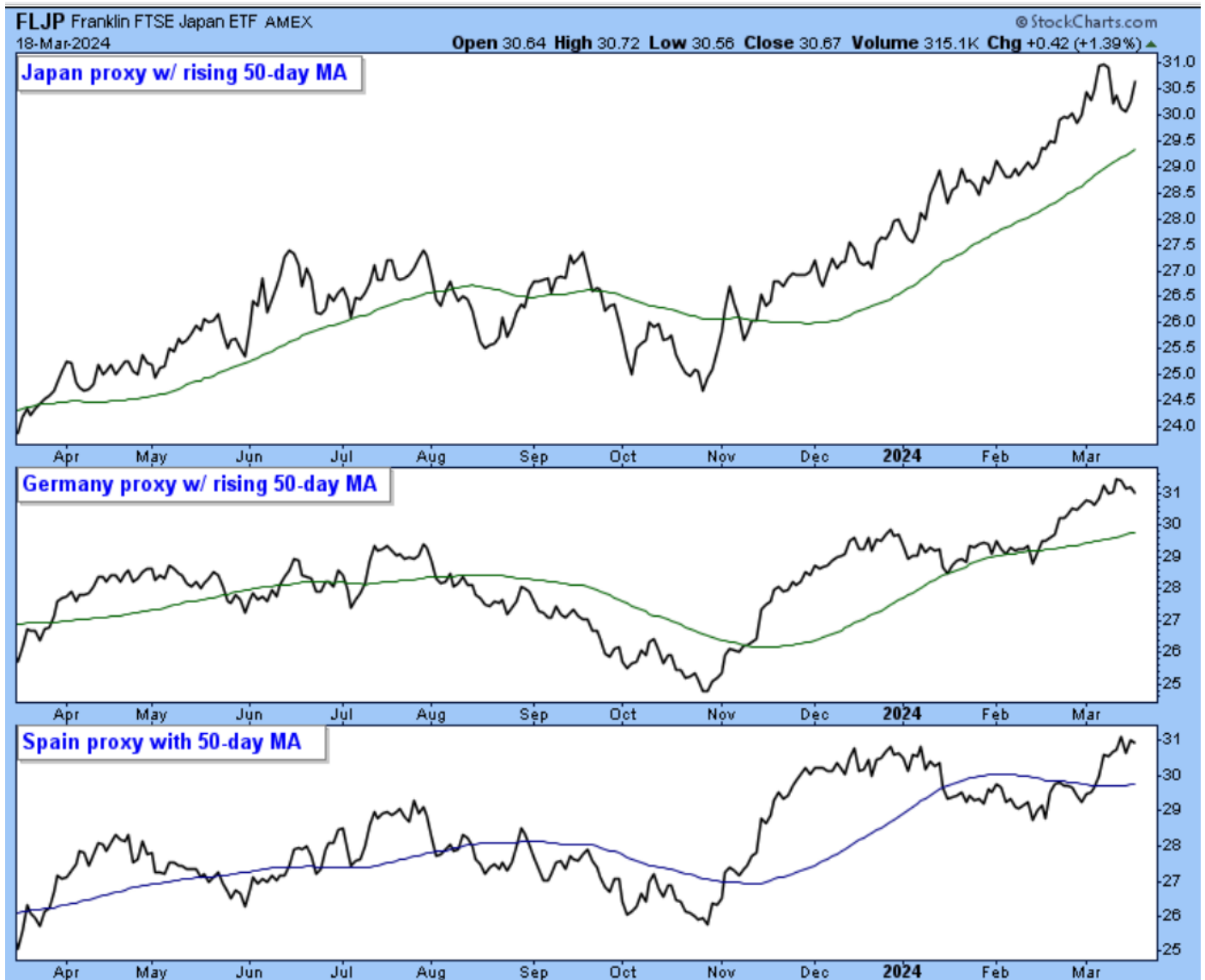


Figure 5: Selective Overseas Proxies Exhibiting a Favorable Price Trend. | The global equity advance continues to include more countries, making the market less dependent on Big Caps/Index Movers.



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Fixed Income Strategy

Entering March, the fixed income allocation strategy continued to favor risk-on leadership but did not rebalance. The model remains **overweight** (versus the AGG benchmark) U.S. Treasuries (allocated across short-, intermediate-, and long-duration), High Yield, and Emerging Market Bonds. The portfolio is **market weight** TIPS and Mortgage-Backed Securities and **underweight** U.S. Floating Rate Notes, U.S. Investment Grade, International Investment Grade, and International Bonds.

Figure 6: Emerging Market & High Yield Bond proxy versus U.S. Aggregate Bond proxy. | Tactically, considering the volatility associated with each of these, **risk tolerance levels should be defined ahead of time and managed accordingly.**



- If you would like to discuss this strategy with a portfolio manager, please let me know.

What We Are Watching

Figure 7: Staples vs. Discretionary (relative strength-cap weighted). | A topside breakout, **which has not occurred**, would imply that Wall Street is increasing its positioning in the defensive/non-Index Movers portion of the equity market, *possibly* at the expense of the Index Movers/Discretionary/Growth segment.



Near-Term Catalysts: Other than Nvidia's AI lovefest during the first three days of this week and the FOMC meeting on Tuesday and Wednesday, it's a quiet week for economic indicators, per Yardeni Research.

AI CATALYSTS (J.P. Morgan)

- o AVGO's AI analyst meeting (Wed 3/20)
- o MU earnings (Wed 3/20)
- o ADBE analyst meeting (Tues 3/26)
- o Google Cloud Next conf. (4/9-11)

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.

Art Huprich, CMT®

Chief Market Technician

Day Hagan Asset Management

—Written 3.17-18.2024. 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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