

December 5, 2023

The Non-Magnificent 493

Summary

With several internal equity market measuring tools closing above some previous peaks (resistance points), last week's tape action was more about stocks other than the "Magnificent 7" that have been the focus of Wall Street for much of 2023.

Wider Participation Last Week

After the equity market's outstanding topside advance over the last month and rising tensions in the Middle East, stocks endured a bout of selling yesterday. The tape action from 11/27/23 through 12/1/23 showed the **NYSE FANG+ Index** (a good proxy for the Magnificent 7) and a momentum proxy fell -0.85% and -0.53% respectively. Concurrently, the **NASDAQ 100** was barely up (+0.10%) and the **S&P 500 (SPX)** gained only +0.77%.

In that timeframe, however, the following also occurred:

- Proxies for **Micro Caps**, **Russell 1000 equal weight**, **Small Caps**, and **Mid-Caps** gained +3.64%, +3.11%, +2.62%, and +2.55% respectively. DJIA gained +2.42%. A Value proxy gained +2.16%.
- **SPX equal weight** proxy outperformed SPX (cap-weighted growth) by 1.62%.
- **Real Estate**, **Materials**, **Industrials** and **Financial** sectors gained +4.65%, +2.75%, +2.26%, and 2.23% respectively.
 - **Gold and Silver** and **Bank** and **Airline indices** rose +7.83%, +5.54% and +4.09% respectively.
- NYSE issues advancing divided by NYSE total active symbols was 84% last Friday, 12/1/23.

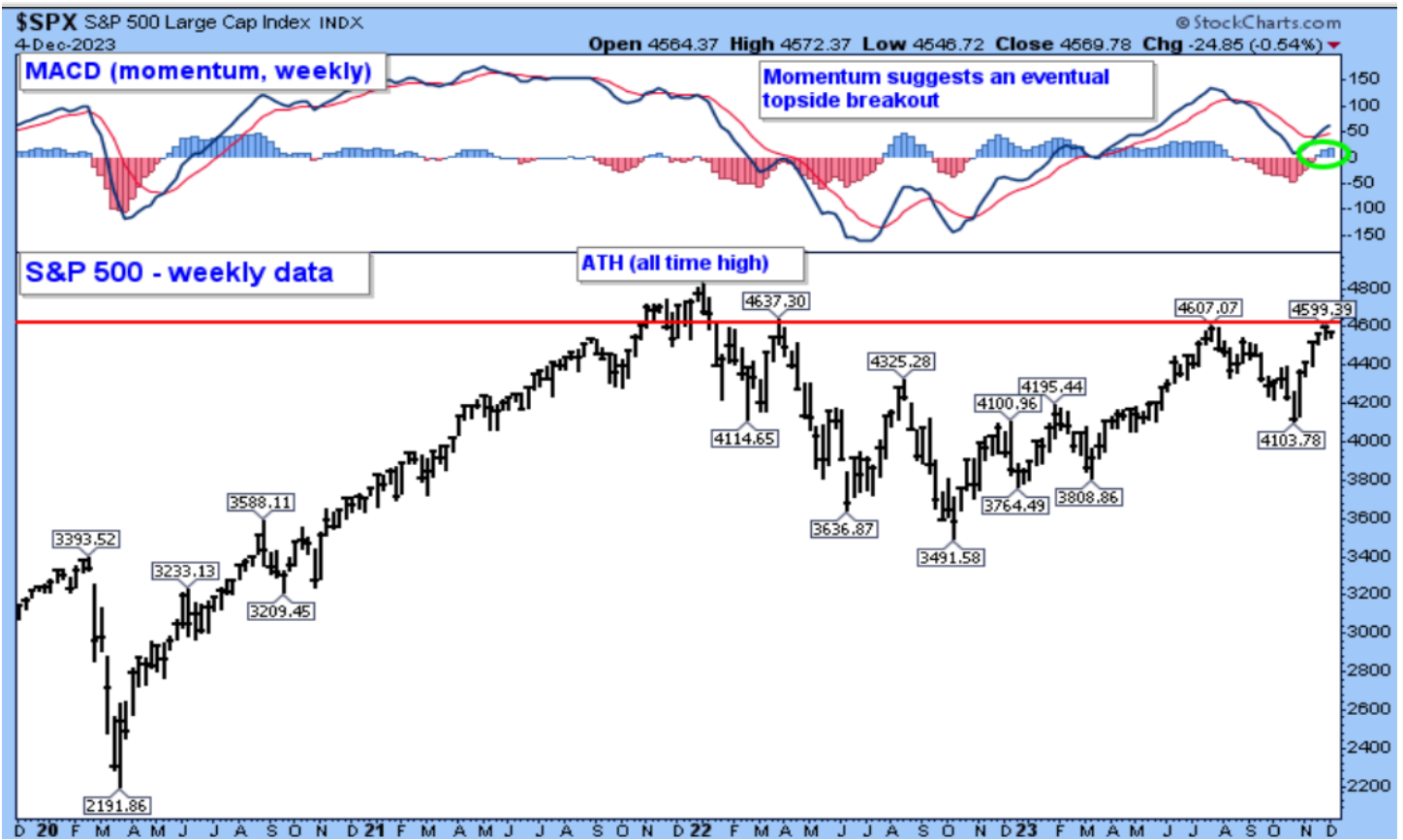
More outperformance and improving breadth readings by a wider array of indicators, sectors, groups, and stocks (the "Non-Magnificent 493," if you will), ideally coupled with a reversal in bullish sentiment, would be supportive of domestic equities into year-end and possibly longer. The quality of any pullback/consolidation period in terms of depth, breadth, and sentiment will also be an important guidepost in determining if a topping process is developing.

In the meantime, please reach out for charts of any of the above. The **Regional Banking Index** looks especially interesting, as does **Gold versus Gold Miners**.

Down-Difficult-Sideways/Grind It Out Era

I've been of the opinion, since spring 2022, that the heading above aptly describes the condition of the domestic equity market. I am still of that opinion, as depicted by Figures 1-3.

Figure 1: S&P 500 with MACD (momentum) – weekly data. | Despite the move up off the October lows from both 2022 and 2023, this large cap growth proxy has yet to break out of a multi-year consolidation pattern. Going forward, the quality of a pullback/consolidation in terms of depth, breadth, and sentiment will be an important guidepost.



Note: From a shorter-term viewpoint, the following areas of support exist: 4537, 4515 to 4500, 4425+/-.

Figure 2: Small Cap proxy with MACD (momentum) – weekly data. | If the domestic equity market broadens out in terms of upside participation, this complex should benefit. If that does not occur, continue to think “range-bound” and invest/trade accordingly. Going forward, the quality of a pullback/consolidation in terms of depth, breadth, and sentiment will be an important guidepost.



Note: From a shorter-term viewpoint, the following areas of support exist: 178 to 176.91, 176 to 174.22.

Figure 3: NASDAQ with MACD (momentum) – weekly data. | Despite all the commotion surrounding this complex (2021 up, 2022 down, 2023 up and sideways), NASDAQ has yet to record a long-term breakout. Strictly from a price perspective (lower frame), the time is right for a pullback/consolidation. Ideally this occurs as investment/trading dollars find a new home versus going to cash. Please reach out for near-term support levels.



And Then There Were Bonds

As fast as stocks have rallied, interest rates have fallen over the past five to six weeks—Figure 4.

Figure 4: CBOE 10-Year U.S. Treasury Yield Index (TNX). | At this point, given proximity to support, I wouldn't be surprised to see interest rates rally and bonds fall. How far and for how long? Their reaction to Friday's employment report (12/8/23), the November CPI report (12/12/23), and the FOMC announcement (12/13/23) will be a good guidepost.



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.

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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