

December 19, 2023

## If You Are Willing to Listen...

### Summary

Depending on the relative strength ratios you follow (we have previously highlighted many), the broad market started participating/outperforming on November 13 (Figures 1 & 2). While this is supportive of equities, it also helped produce extreme bullish sentiment readings. This condition will likely persist into year-end. We will watch to see how this condition resolves as 2024 starts and we get past the first few weeks of new-year flows.

### The Favored Few vs. Loveable Laggards

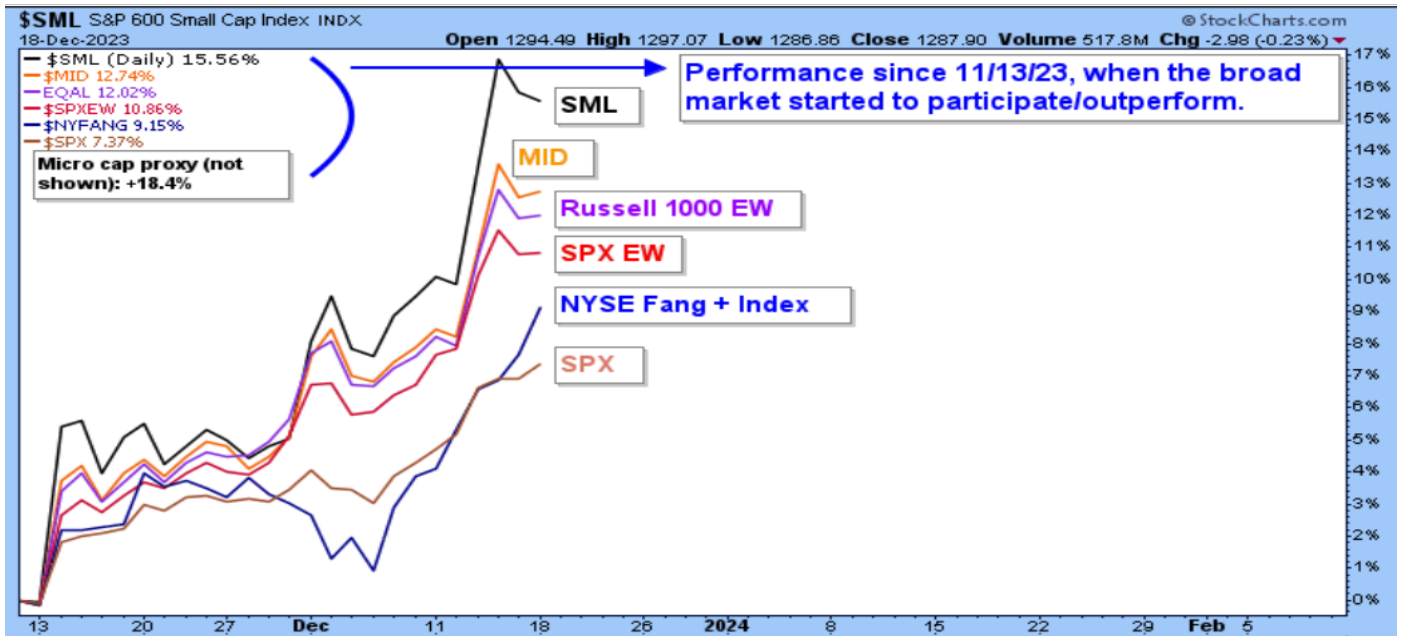
Years ago, Frank Teixeira, who ran the Technical Research team at Wellington Management (they also managed a mutual fund based strictly on technical analysis) and with whom I met several times, consistently stressed, “Markets give you a lot of information if you are willing to listen.” Over the past four to five weeks, analysts have made much of—and will closely scrutinize—the relative strength trends between **capitalization-weighted** (“Favored Few”) indices and **equal-weighted** (“Loveable Laggards”) indices.

**Figure 1: Equal Weight vs. Capitalization Weight.** | While more work is needed (see red horizontal resistance line), since interest rates peaked in late October and especially after interest rates broke down in mid-November, it looks like a trend change is taking place, favoring broader equity market participation—bullish.



JPM recently viewed Figure 1 from a different perspective, writing, “Risk markets continue to rally with equity markets seeing broad participation. Nearly 20% of the S&P 500 is at a new 52-week high, the highest share since May 2021... sign of this rally not just being fueled by the Mag 7.”

**Figure 2: Select Equity Market Proxies Performance Since November 13.** | If interest rates don't spike higher again, there is more room for this relationship (broader market participation) to move higher.



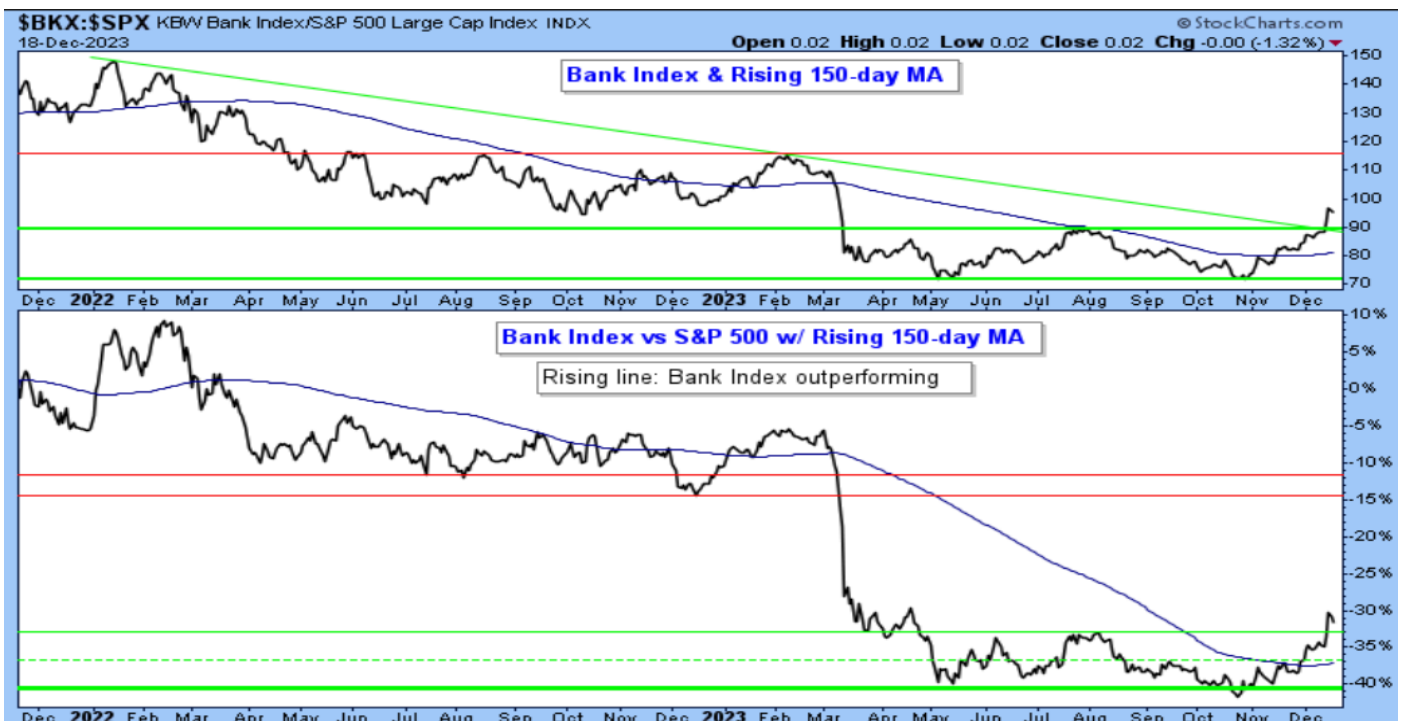
**Note #1:** In lieu of a chart of the **S&P 500**, here are some **ranges of support**: 4637 to 4631 (March 2022 peak, intraday & closing), 4607 to 4588 (July 2023 peak, intraday & closing), and 4550 to 4537. **Resistance**: 4758 to 4819 (January 2022). 4796.56 (all-time closing high).

**Note #2:** The extreme bullish sentiment readings don't represent a sell signal in themselves but depict a condition (many Wall Street participants have already bought). The sell signal, based on these sentiment readings, won't occur until after they reverse direction and decline in earnest.

## Other Charts of Note

Let's turn our attention from the Regional Banking complex to the "big guys," the **Bank Index (BKX)**.

**Figure 3: Bank Index and Bank Index vs. S&P 500.** | Short-term, too far, too fast. However, from a non-trading, pure price perspective, I like what I see.



**Figure 4: Renaissance IPO Index** (bullish sentiment extreme, a different perspective). | With the lower quality parts of the equity market showing price strength, is the transition from a bearish chart configuration to a bullish chart configuration bearish (too much bullish optimism)? Or not?



**Note #3:** IPO is an ETF that tracks all U.S.-listed newly public companies for a period of two years before they are removed, per JPM. JPM also stated, and I would agree, “we are certainly not advocating exposure to this part of the market, but it would be helpful from a capital markets perspective if this activity started picking up after a quiet 2 years.”

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 12.17-18.2023. Chart source: Stockcharts.com unless otherwise noted.

## Upcoming Events

[Day Hagan/Ned Davis Research Smart Sector® with Catastrophic Stop, hosted by Art Day, on December 20, 2023, at 1:15 p.m. ET](#)

[Day Hagan/Ned Davis Research Smart Sector® with Catastrophic Stop, hosted by Art Day, on December 20, 2023, 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](#)

## Disclosure

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