

# Day Hagan *Chart Jamboree*

**2023:** Prices Will Fluctuate, & the U.S. Dollar

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# 2022 Look Back: Excellent visual of the domestic equity & F/I market in 2022

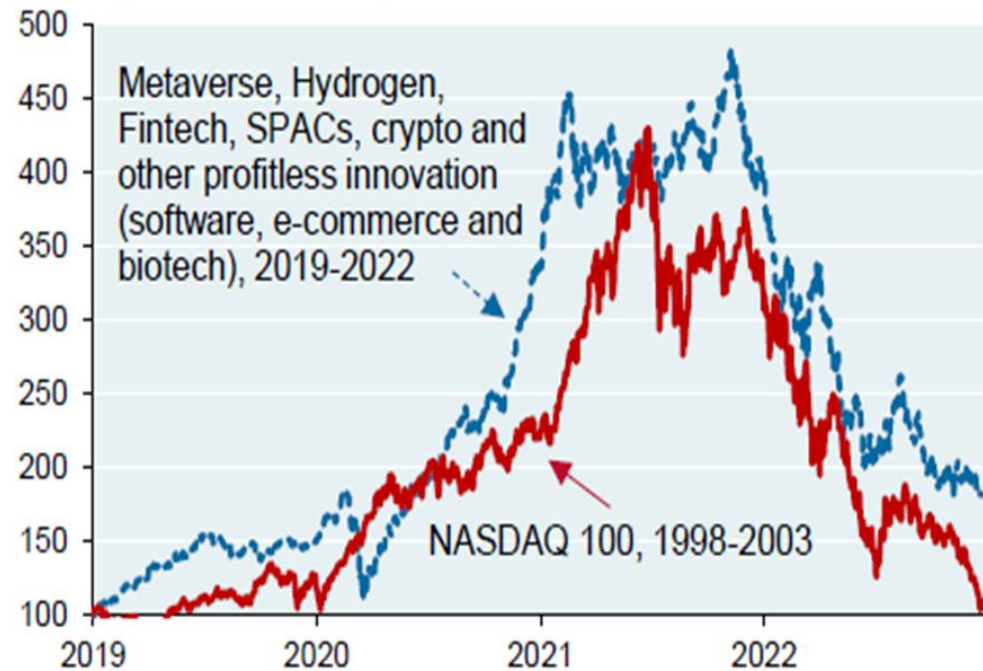
## 2022 Asset Class Total Return Performance

S&P U.S. Aggregate Bond Index	-12.0%
S&P 500 Index	-18.1%
NASDAQ Composite	-32.5%
Dow Jones U.S. Select REIT Index	-26.0%

\*Source: S&P Dow Jones, stockcharts.com, Pring Turner

### Dumb and Dumber

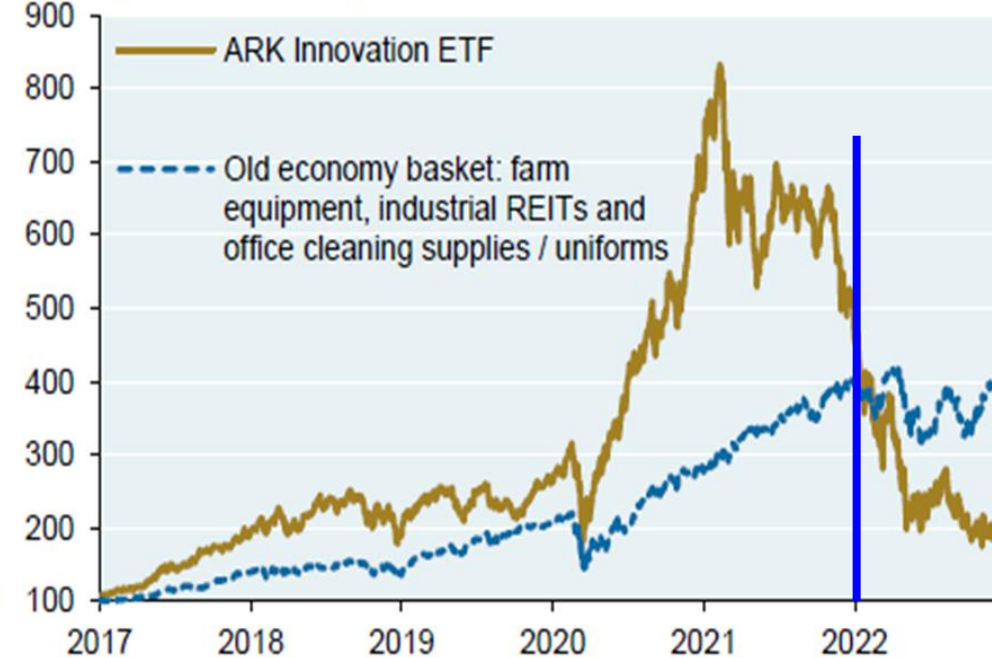
Index (100 = Jan 2019)



Source: Bloomberg, JPMAM. December 27, 2022.

### The Tortoise and the Hare

Index (100 = Dec 2016)



Source: Bloomberg, JPMAM. December 27, 2022.

**2021:** First 10 months all in sync. Last 2 months broad market diverged (weak) as Large Cap Tech propped up market indices...

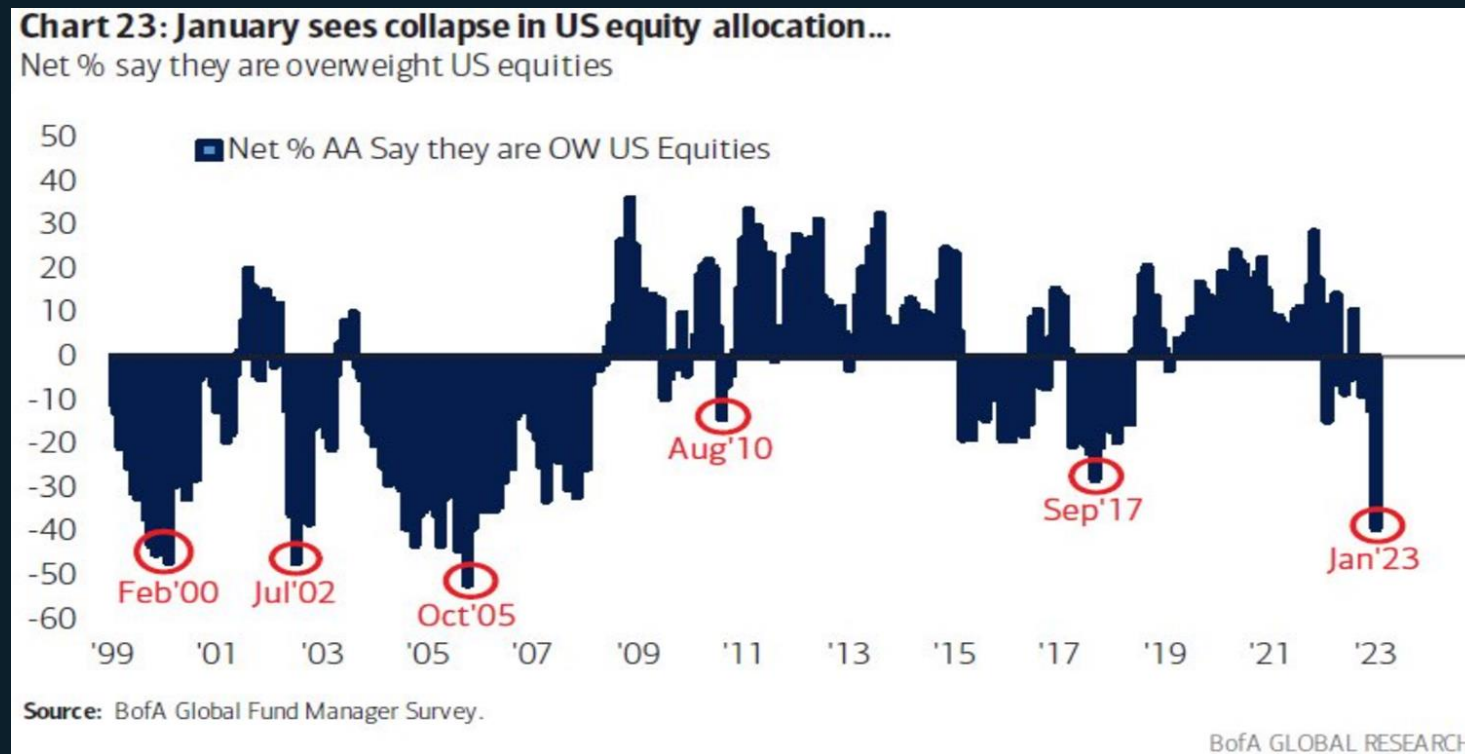
**2022:** First 9-10 months broad market weak. Last 2-3 months broad market working while Large Cap Tech held down market indices...

**2023:** Large Cap Tech exhibiting improving relative strength (RS), as RS trends of “Risk-off” have crested

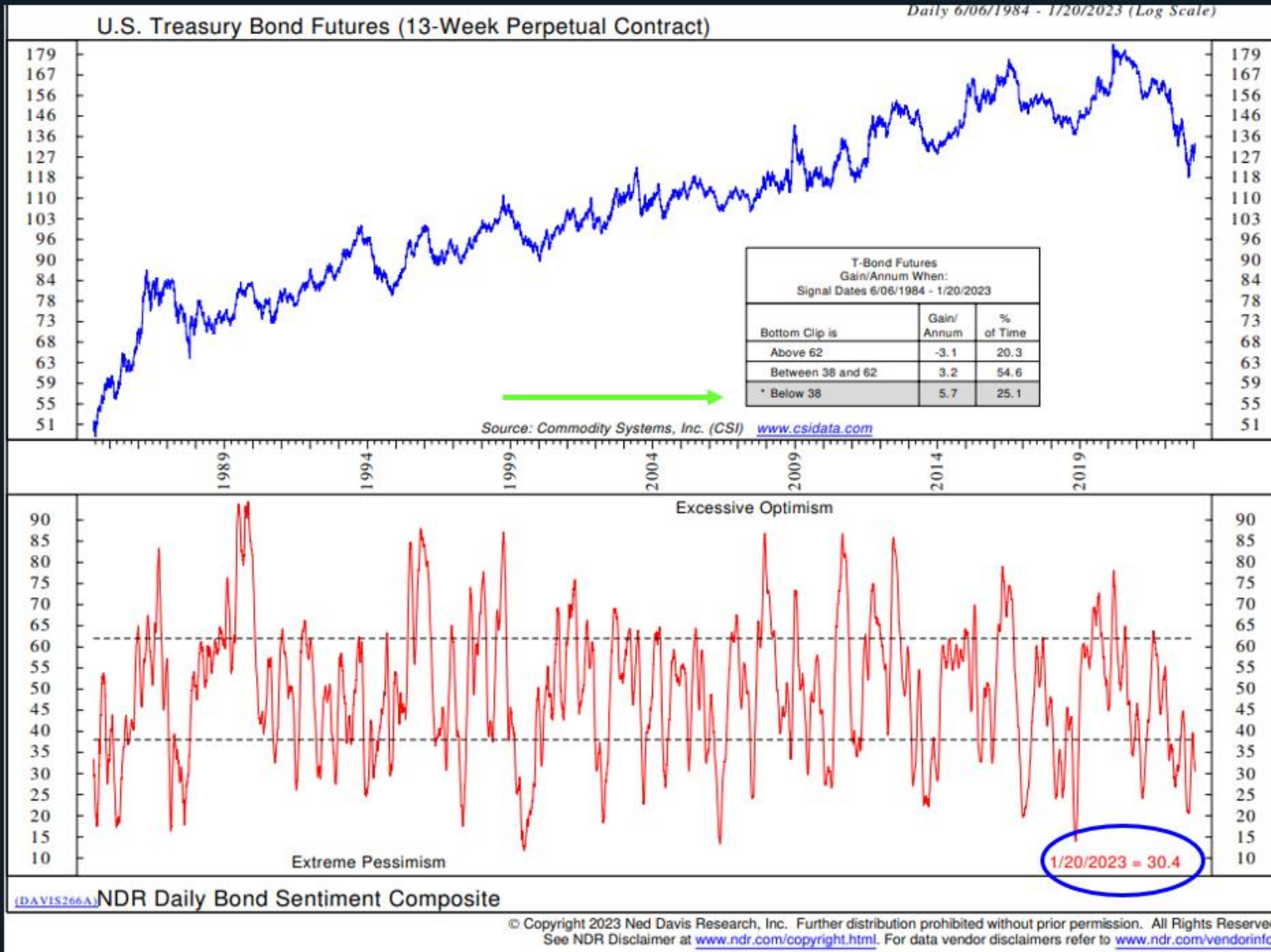
### Consequence of Previous Two Slides

**#1** Investors are the most underweight US equities since 2005 = A lot of potential buying power

Sentiment  
(equities)



**Sentiment** in the Fixed Income arena also suggests a lot of potential...



**2023 Prediction:** Prices will Fluctuate

## 2023 The Year of the Boy Scouts' Motto



**Great call Tavis – 100% agree** – “They know nothing...”

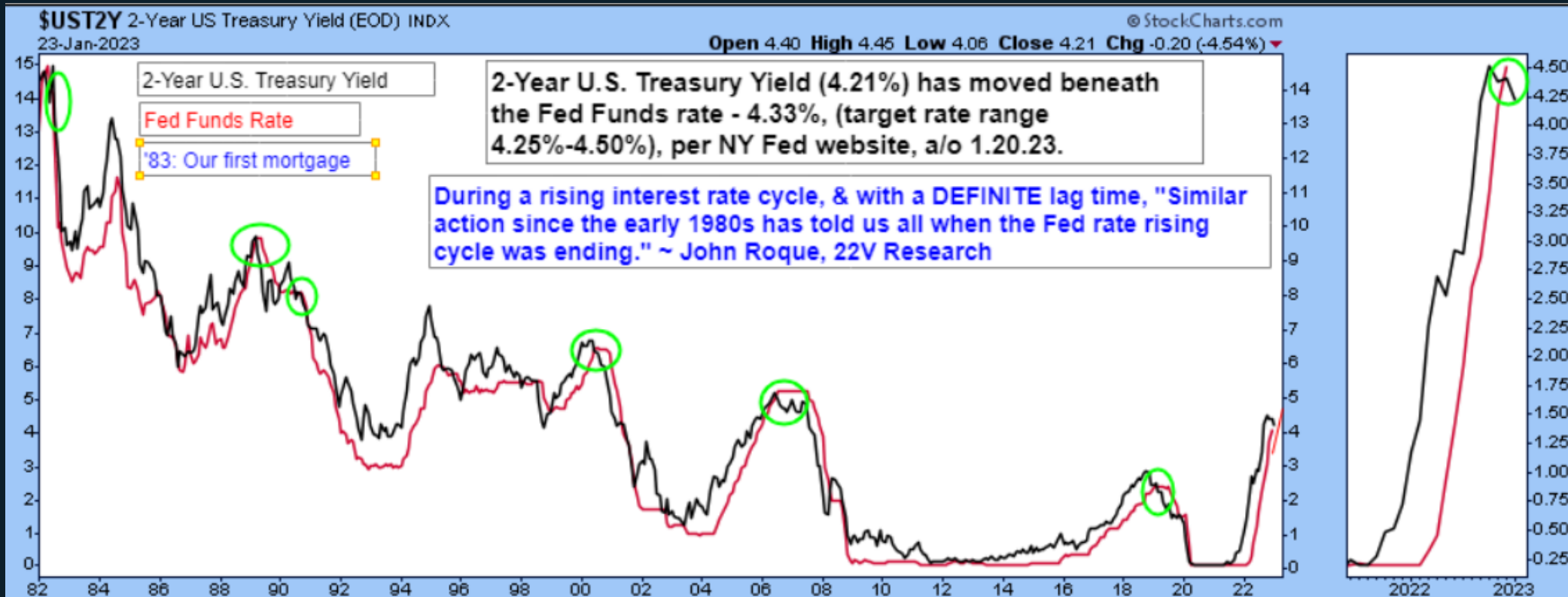
*“I've never been more convinced the Fed's fear of sustained inflation in 2022 as money supply growth was flat will prove as misplaced as their lack of inflation fear was in early 2021 when money supply was growing 20%+.” ~ Tavis McCourt RJF*

# #2

**Takeaway:** If the bond market is the “all-knowing Great Oz,” then the **2-Year U.S. Treasury Yield** (4.21%) is saying the **Fed is close** to being done/should be done --- **I’m NOT talking about cutting** but stopping!

**Fed:** “Transitory...,” “No inflation pressure...,” “System is functioning fine...” (despite QT, debt limit etc.)

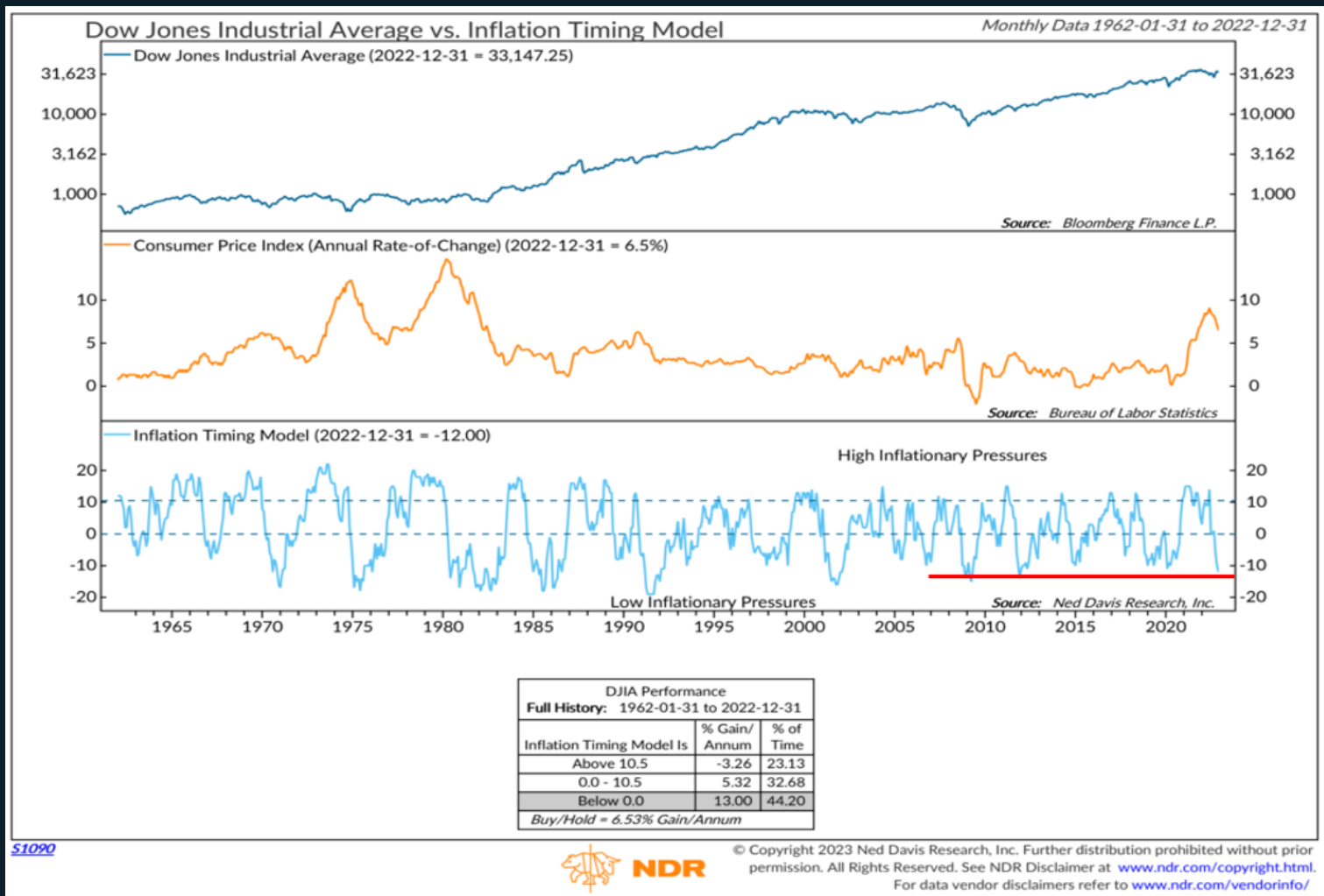
*“Further restrictive policy...target range at year end above 5%”*



**Market:** “They know nothing...” *Is the market early, or wrong?*

## Further Evidence that the Fed Should Take Their Foot Off the Gas / Pause

**NDR Inflation Timing Model** (22 indicators that measure commodity, consumer, production, & industrial prices) has tumbled to its lowest level since December 2011. The implication is that inflation should come down enough to allow the Fed to rethink their “higher for longer” stance relative to hiking interest rates.



Model started moving higher in '20, and in early '21 suggested “inflation” was going to be an issue!”

## Lower Food Prices (ex eggs & shelter) lends credence to the previous slides

**Inflation** (x eggs & shelter)  
is rapidly declining:

The **overall US inflation** rate (YoY % change) moved down in December for the 6th consecutive month. At 6.5%, this is the lowest inflation rate since October 2021.

**Core inflation** (which excludes food/energy) also moved down to 5.7%, its lowest level since December 2021.

@Charlie Bilello

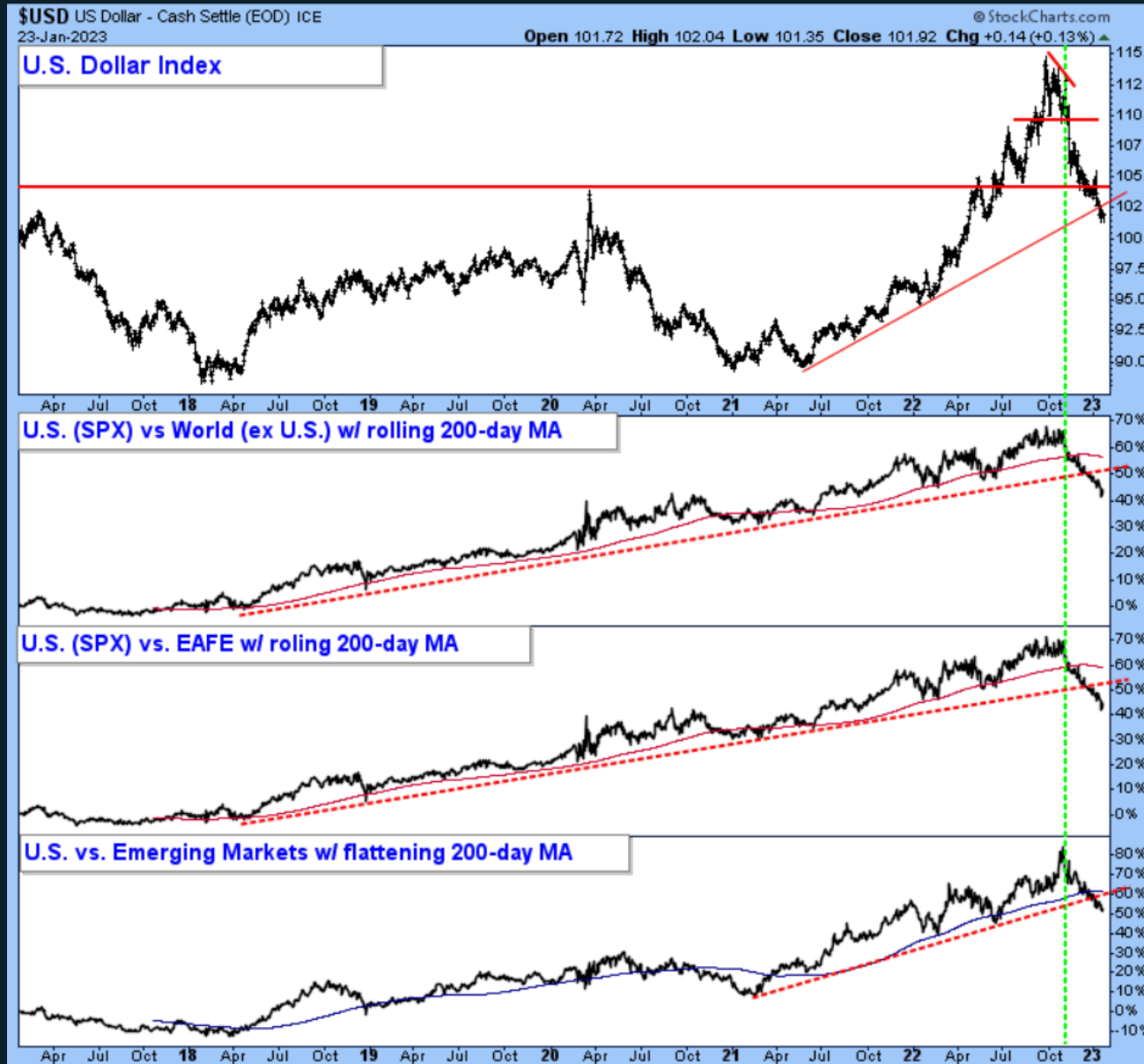




# #3

## Ramification of a Weaker Dollar and China Reopening

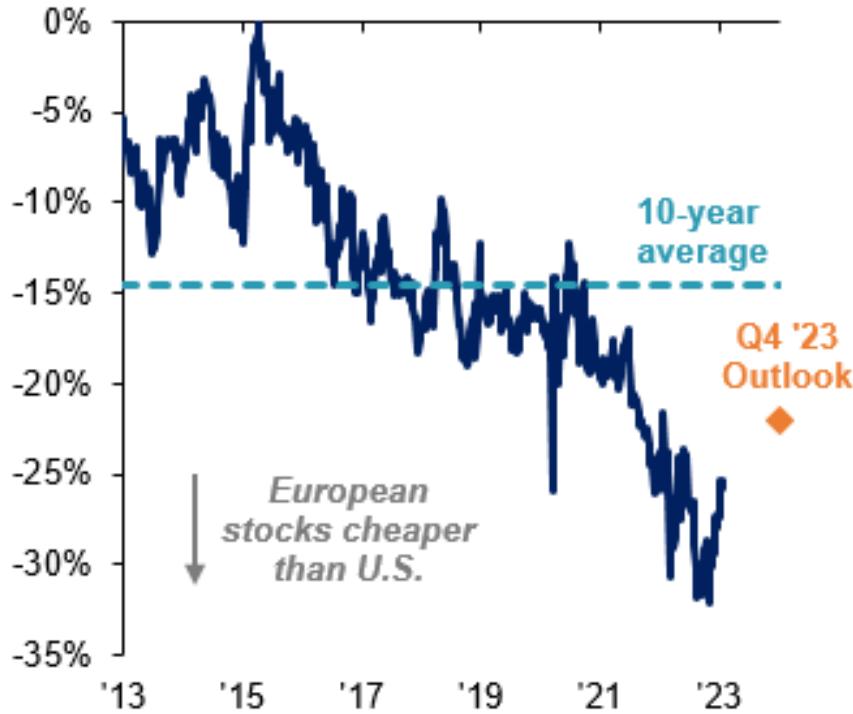
U.S. equities underperform – as important in '23 as the rotation from growth to non-growth was in '22.



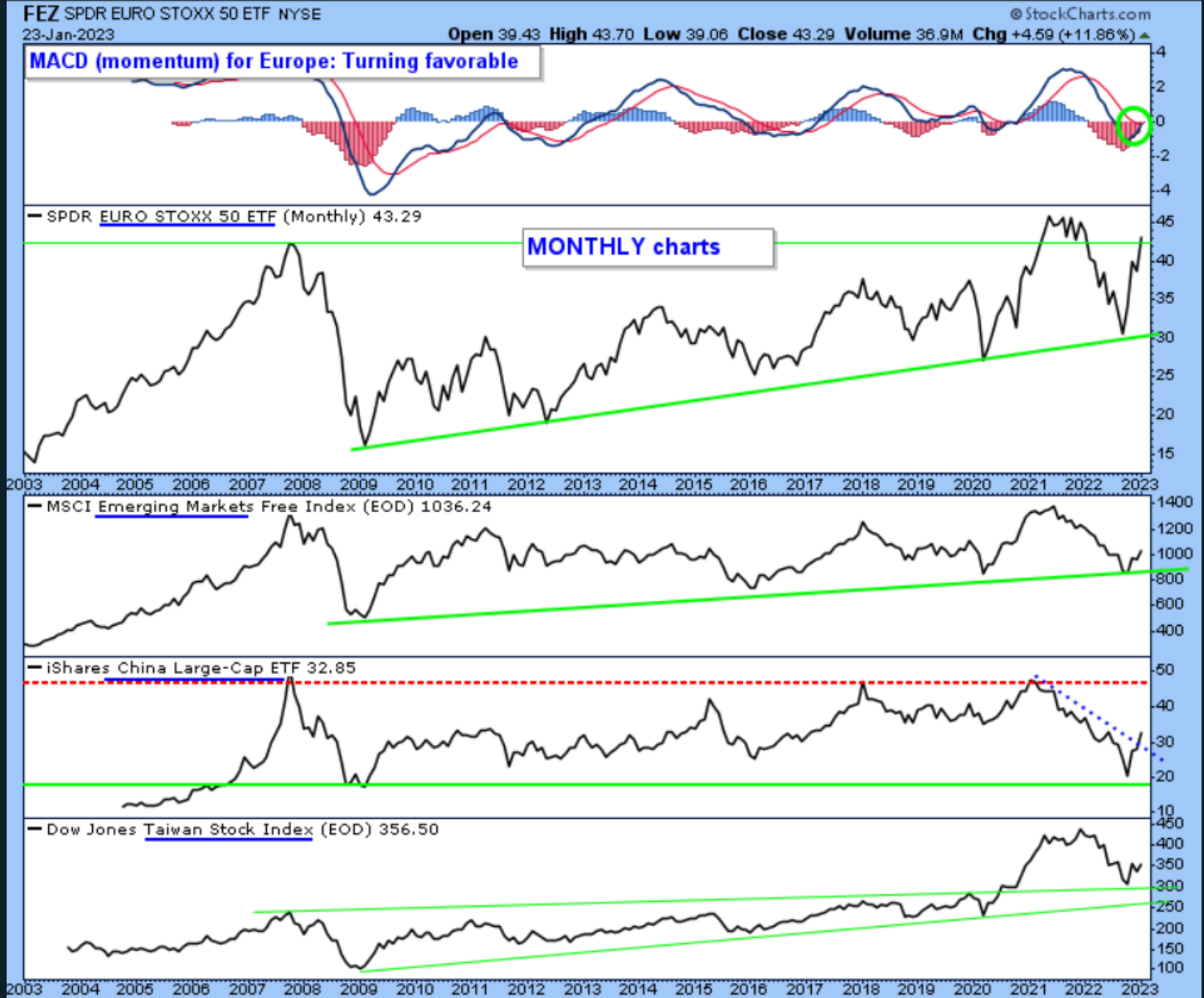
Please reach out about the **DH/NDR Smart Sector International** strategy

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European equities still trading at a steep discount  
Stoxx Europe 600 NTM P/E vs. S&P 500 NTM P/E, %



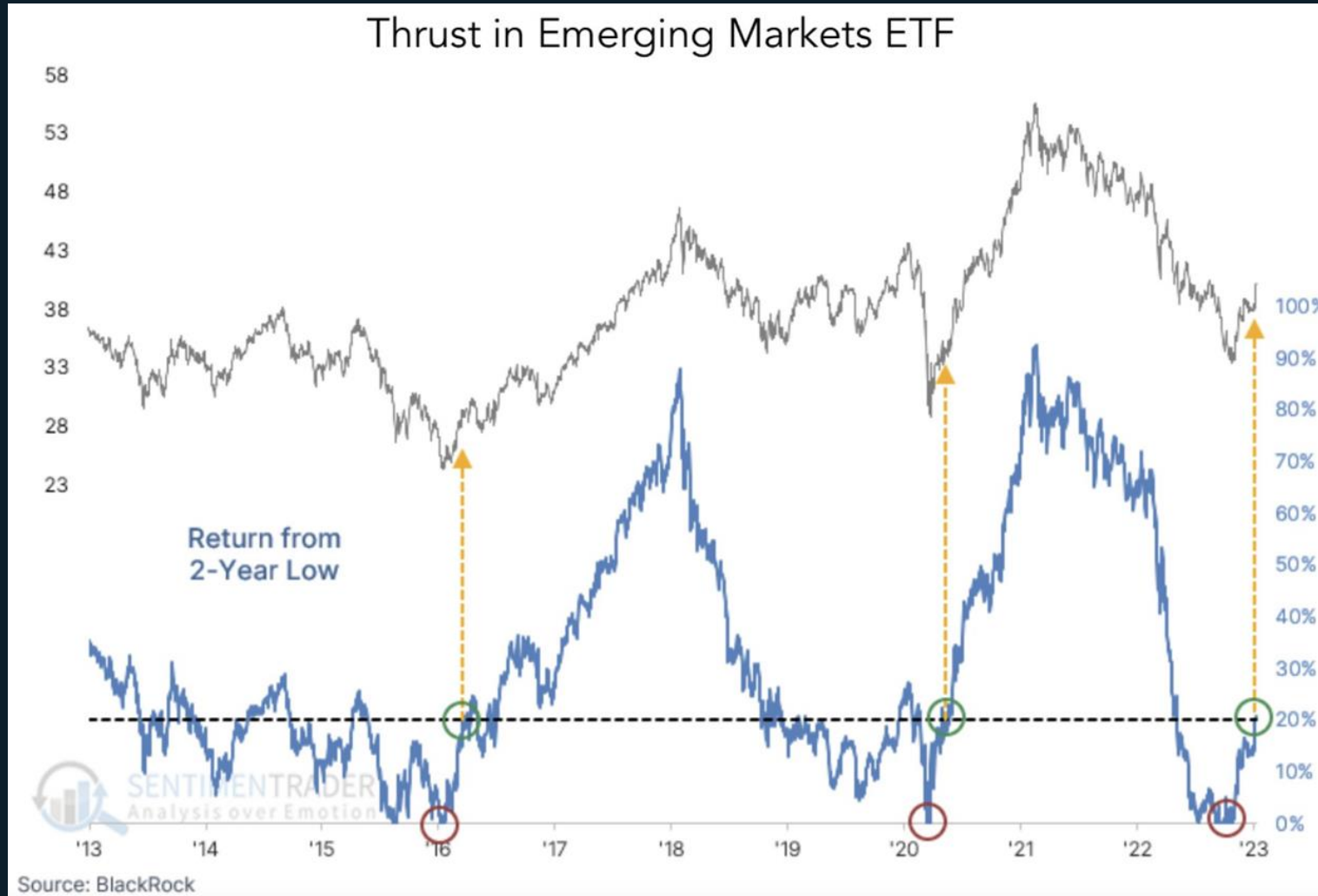
Source: FactSet. Data as of January 20, 2023.



## Emerging Markets Bullish Momentum

Return from 2-year low has spiked from 0% to 20%.

**Takeaway:** While there aren't a lot of statistical occurrences, this has marked the beginning of some strong moves.



## Tailwinds

(besides what has already been shown)

- Improving Breadth / Increasing upside participation (many ways to define this)
  - Higher Price troughs
  - NYSE New Highs-New Lows Cumulative bullish
  - Growth showing relative strength (small cap...)
- Credit Spreads not widening – risk of recession should have them widening – “*Who knows nothing?*”
- Interest rates stabilizing / aren’t rising – “Fed knows nothing!”
- Select commodities still working
- Energy prices are mostly lower
- Sentiment & Seasonality (secondary)
- NDR Catastrophic Stop Loss buy signal

## Headwinds

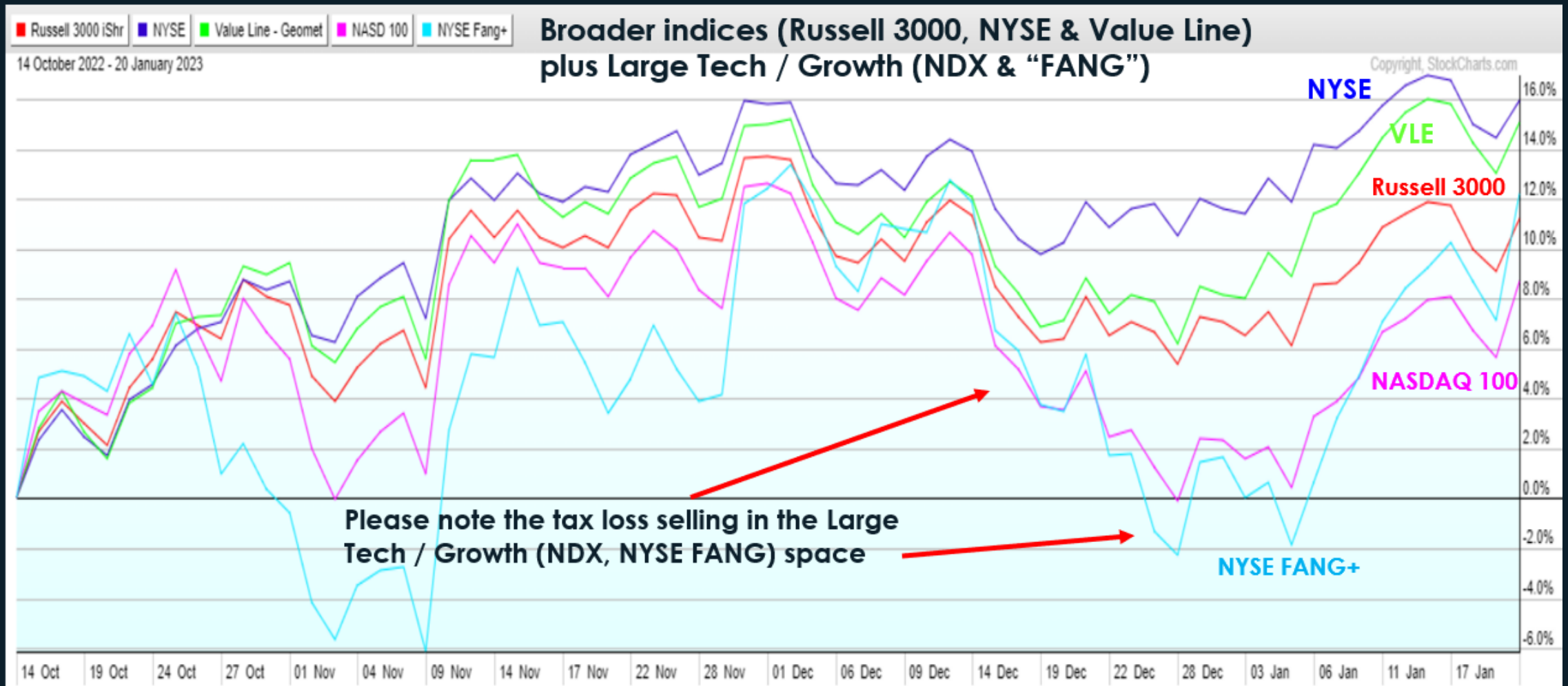
(besides what has already been shown)

- Don’t fight the Fed
  - TIAA (SPX = 1.74%, 1-Year 4.70%)
- Lower Price Peaks / “Nowhere Man”
- Falling long-term moving averages
- NDR Volume Supply > Volume Demand
- Inverted Yield Curves
- Sentiment
- Washington / Politics – seems to always be a mess / headwind.
- Effects of computer trading (algos) isn’t going away

## Undecided

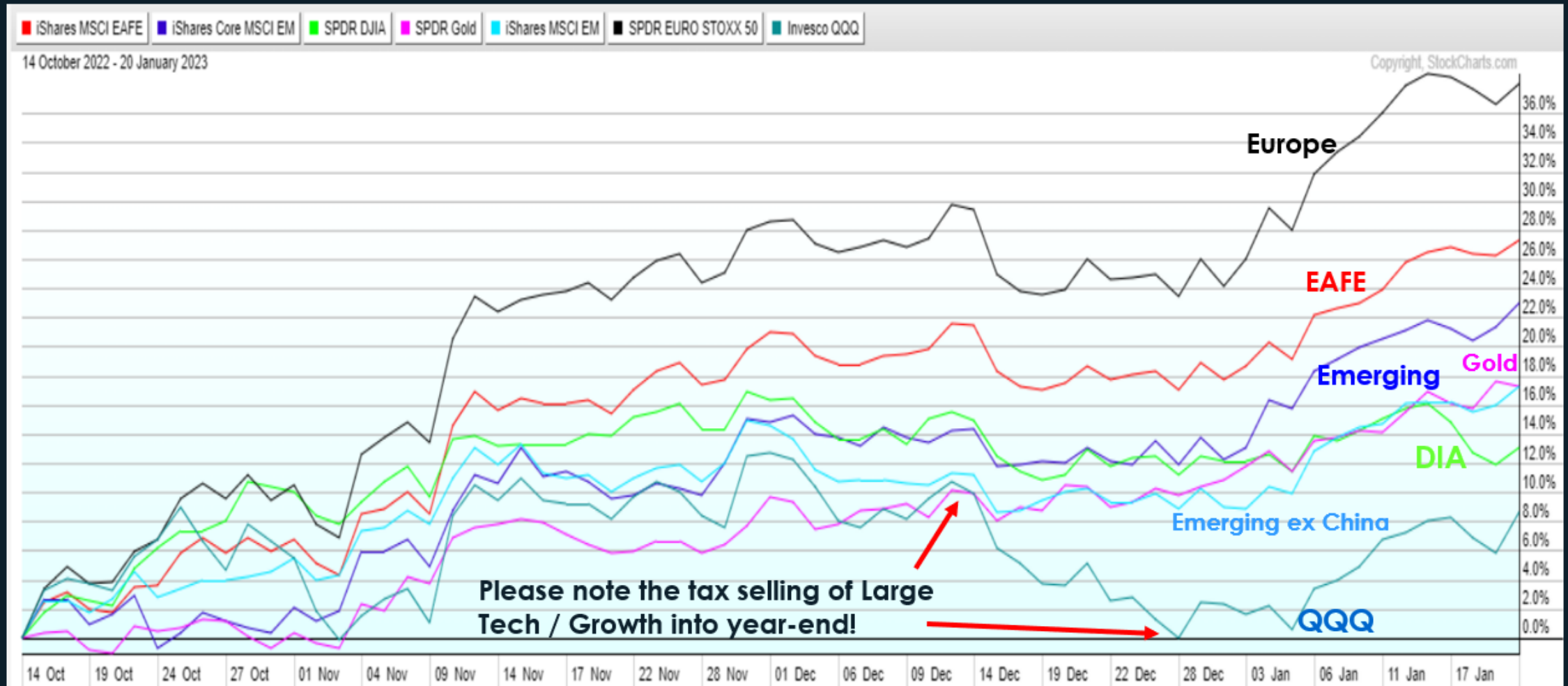
- What happens with Large Cap Tech / Growth
- What has and what hasn’t been discounted – Economy & Earnings

**Performance** as the **10-Year Yield Peaked** in late-October, and the **U.S. Dollar** was already moving lower



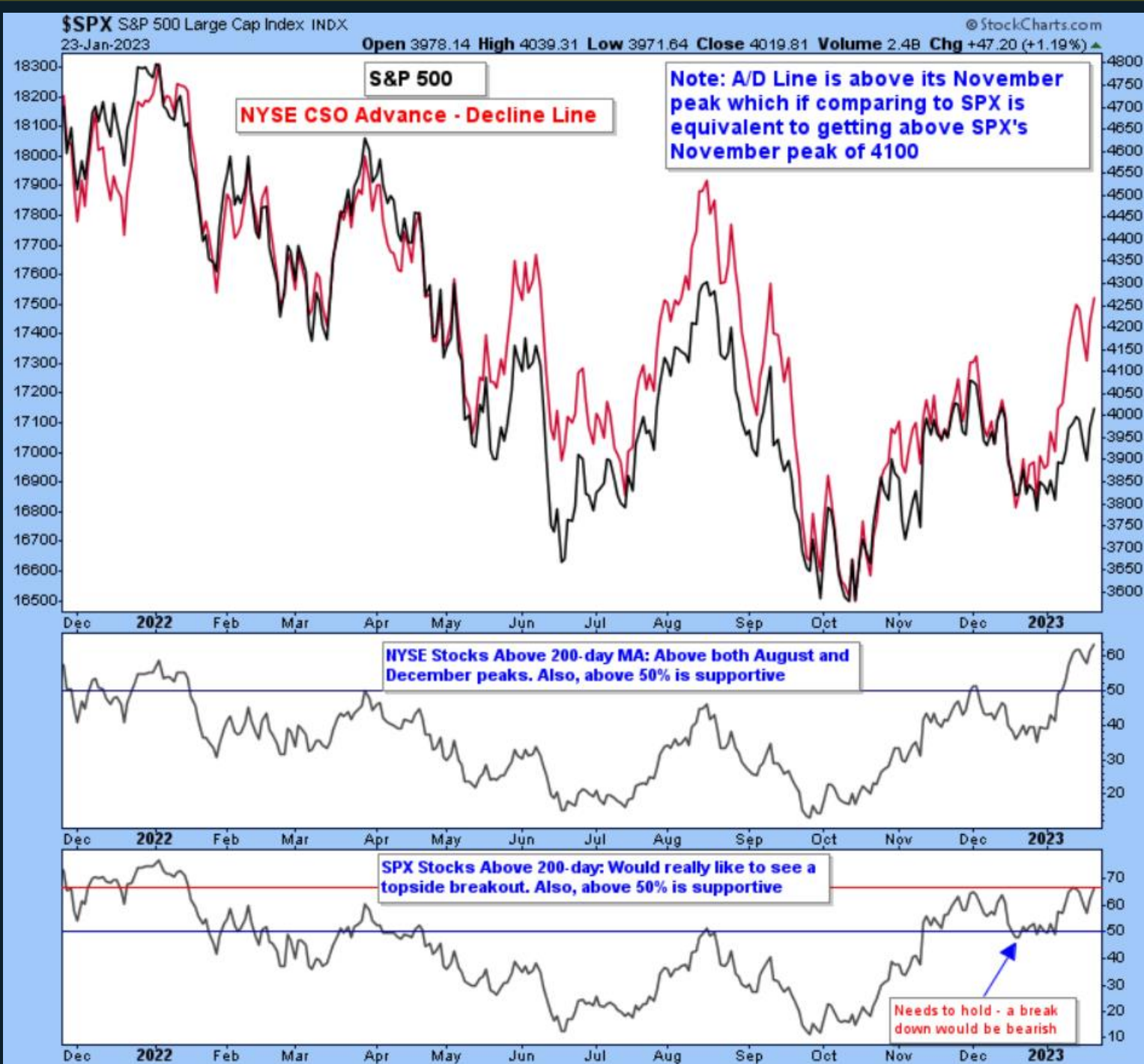
Continuing recovery by **NYSE FANG** (+10% YTD, a/o 1.20.23) / **Large Tech** would extend 2023 rally

**Performance** as the **10-Year Yield Peaked** in late-October, and the **U.S. Dollar** was already moving lower



# Breadth

Defined many different ways



# NYSE New Highs minus New Lows - cumulative

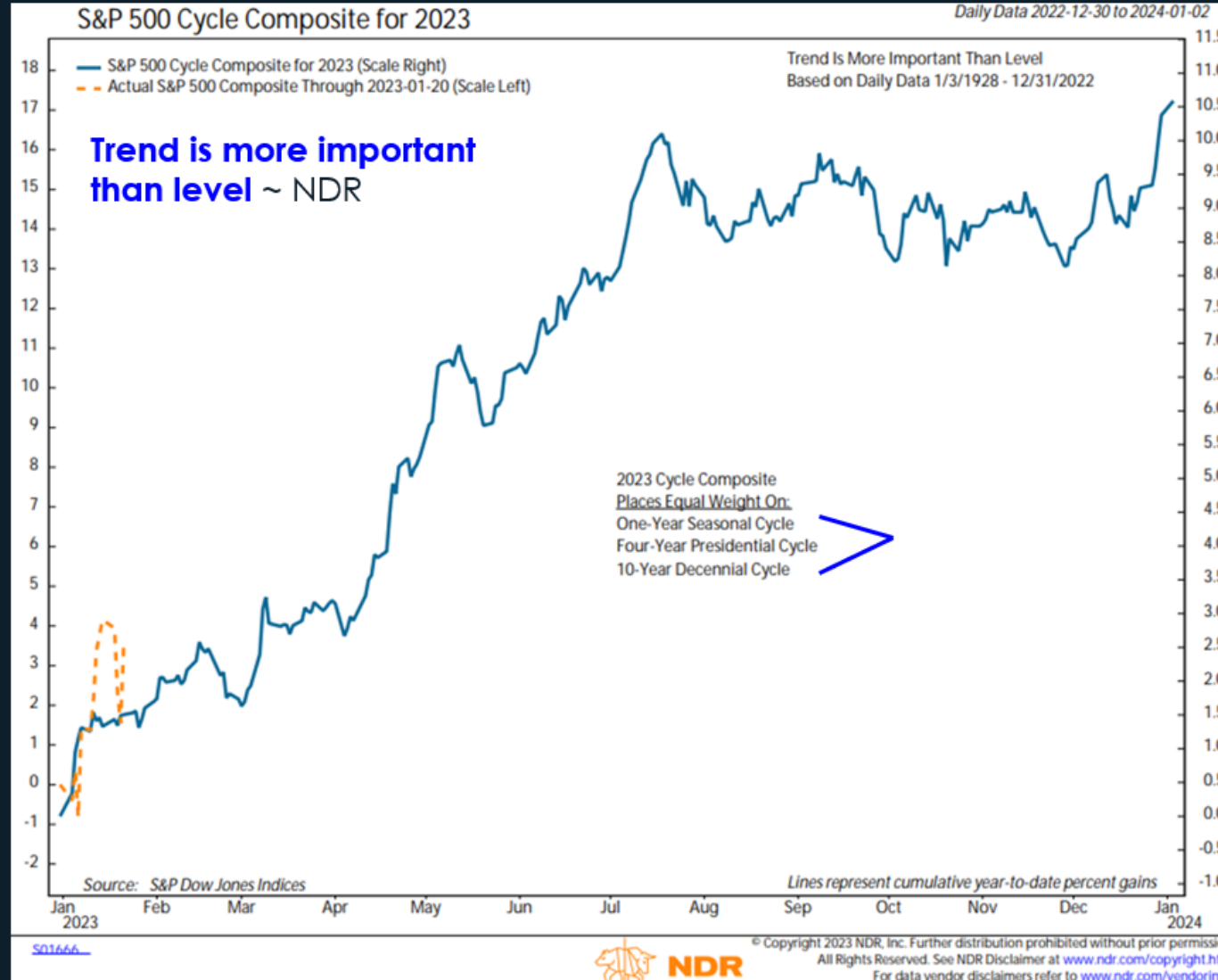




# Cycles and Seasonality

Investing using “seasonality & cycles” should be secondary (IMHO), but they can aid in defining the backdrop.

**Takeaway:** This defines the “Pain Trade” to start 2023, IMHO



**Please Note:**  
Outside forces  
can overwhelm  
cycles & seasonal  
trends...

# Nowhere Man

# #4

“He’s a real nowhere man;  
Sitting in his nowhere land;  
Making all his nowhere  
plans for nobody; **Doesn’t  
have a point of view; Knows  
not where he’s going to...**  
Nowhere man, the world is  
at your command...He’s as  
blind as he can be; Just  
sees what he wants to  
see...Nowhere man don’t  
worry; Take your time, don’t  
hurry; **Leave it all ‘til  
somebody else lends you a  
hand”**

Beatles, 1965



# NASDAQ

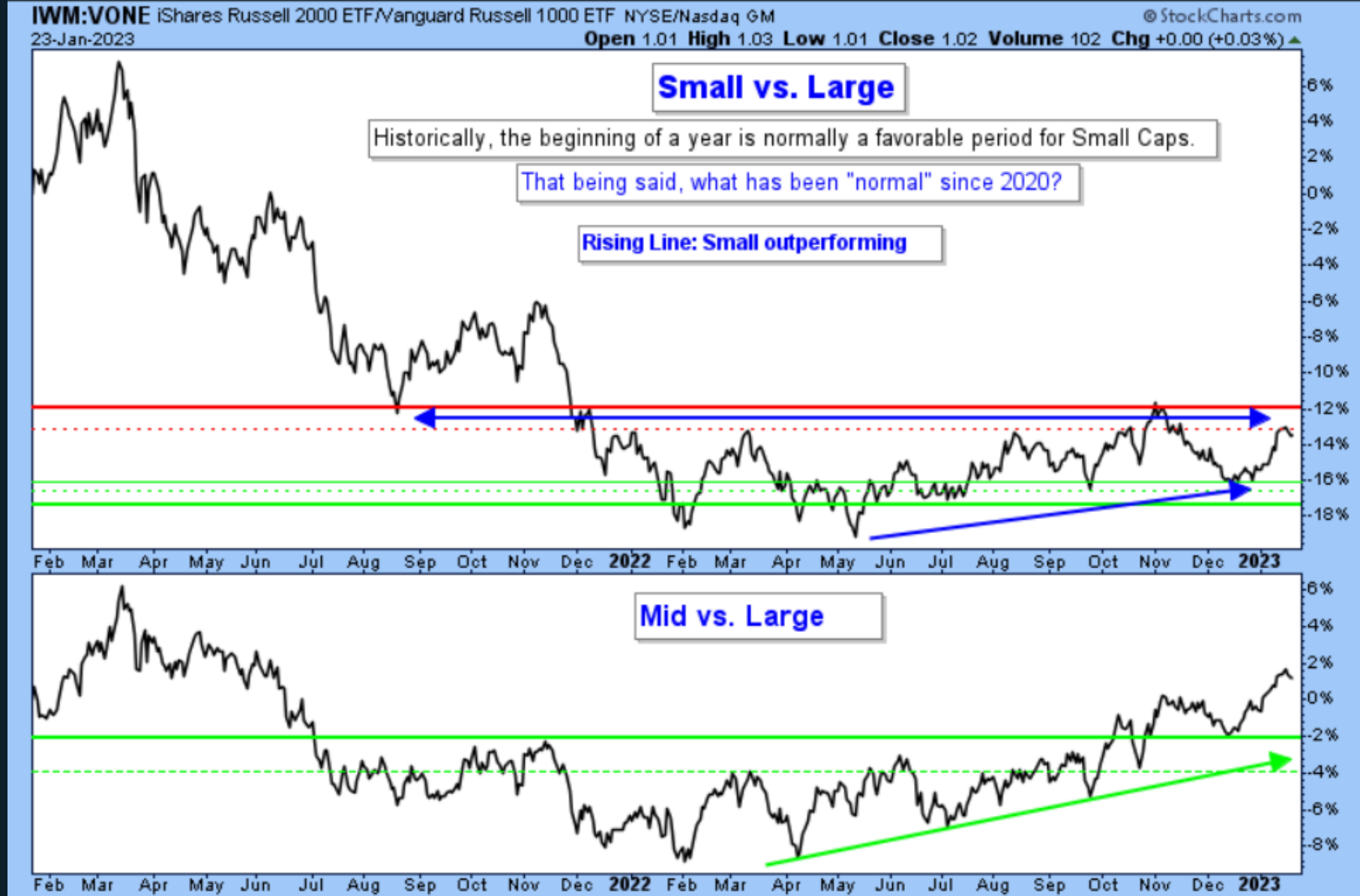
Similar pattern – flat base – can be seen in **Small Cap proxy**, w/ a similar result if/when a breakout occurs.



# Nowhere Man

(Small vs Large  
not  
Mid vs Large)

If Small vs. Large can remain above their 2022 lows during a potential recession, it would make a compelling case for a sustainable period of Small-Cap outperformance.



## 10-Year U.S. Treasury Yield Index

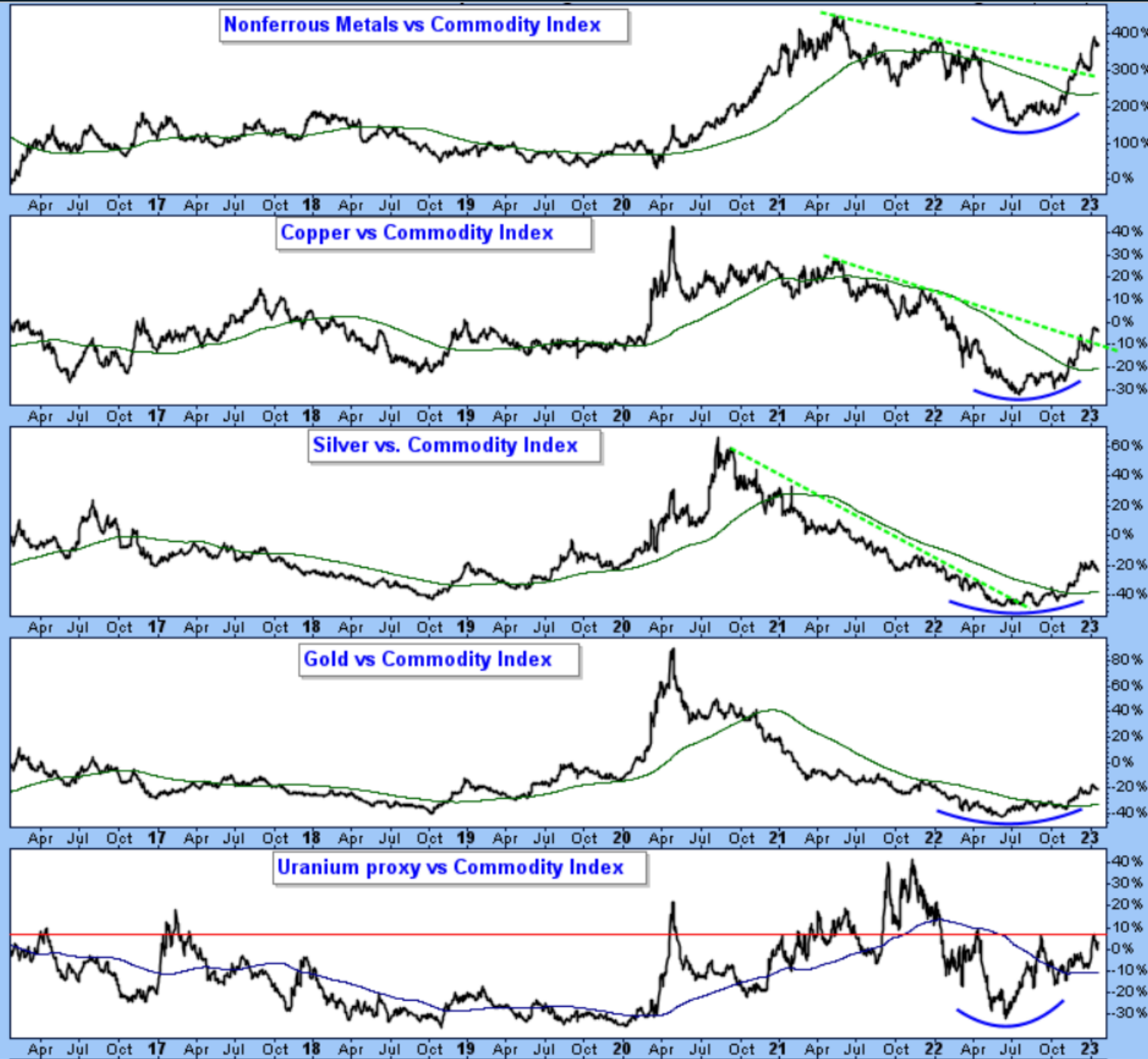
**Key Support:** 33.75, 33.18

**Key Resistance:** 38.87, 39.05



## Commodities

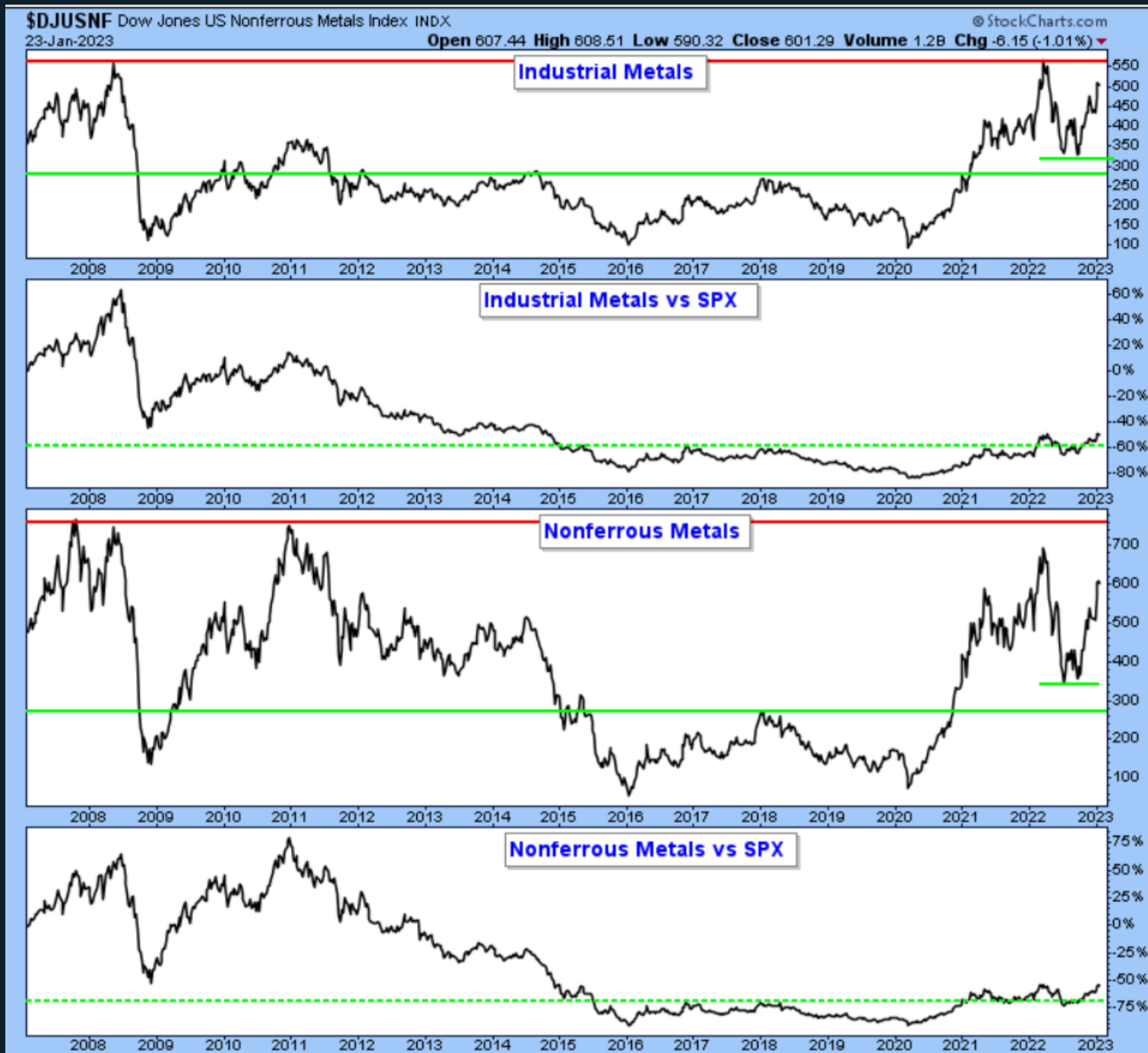
Selectively, not across the board



## Weekly Charts

**Industrial metals:** Copper, nickel, aluminum, zinc, lead, tin, & iron / steel (an alloy of iron & carbon).

**Nonferrous Metals:** Aluminum, copper, lead, nickel, tin, titanium, zinc, copper alloys like brass and bronze



# Crude Oil

**Takeaway:** In this case, call me the **Nowhere Man** as I'm not sure...

**XLE** relative trend has been flat to down since November '22





# Final Point: I'm sticking with it...

“The essence of investment management is the management of risks, not the management of returns. Well managed portfolios start with this precept.” ~ **Benjamin Graham**

*“To those forecasting an up (or down, my addition) year for equities in 2023, it's not the end point that is important, but the path taken to get there.” ~ **Walt Deemer***

## 2022 Regime Change: Down, Difficult, Sideways Grind-it-Out Era

	2009 to 2021	Today
Fed behavior	Highly stimulative	Tightening
Inflation	Dormant	40-year high
Economic outlook	Positive	Recession likely
Likelihood of distress	Minimal	Rising
Mood	Optimistic	Guarded
Buyers	Eager	Hesitant
Holdings	Complacent	Uncertain
Key worry	FOMO	Investment losses
Risk aversion	Absent	Rising
Credit window	Wide open	Constricted
Financing	Plentiful	Scarce
Interest rates	Lowest ever	More normal
Yield spreads	Modest	Normal
Prospective returns	Lowest ever	More than ample

### Tactics

- Buy-Hold-Forget it: NO!
- NDR Cat. Stop Model(s)
- DH/NDR Smart Sector Family strategies
- Protect Downside: Volatility
- More Tactical: Short-term & algos
- Rotation: Asset class
  - Domestic-Int'l
  - Large-Small
  - Value-Growth
  - Sectors – NDR Sector Models
- Sentiment: Volatility

Source: 2022 Oaktree Capital Management, L.P. All Rights Reserved

During periods of volatility and uncertainty, Day Hagan focuses on our models, indicators, and charts, over headlines. This allows us to look past the daily volatility and objectively see what has changed, and what is noise.

Thank You for allowing us  
to be part of your success.



# For More Information

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The Russell 2000 is an index comprised of the 2000 smallest companies on the Russell 3000 list. It is a widely recognized indicator of small capitalization company performance.



# Day Hagan Technical Analysis

A time-tested, disciplined approach  
to investing.

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