DAY HAGAN
ASSET MANAGEMENT

Day Hagan *Chart Jamboree*

Sentiment, Rules of Research, and Participation

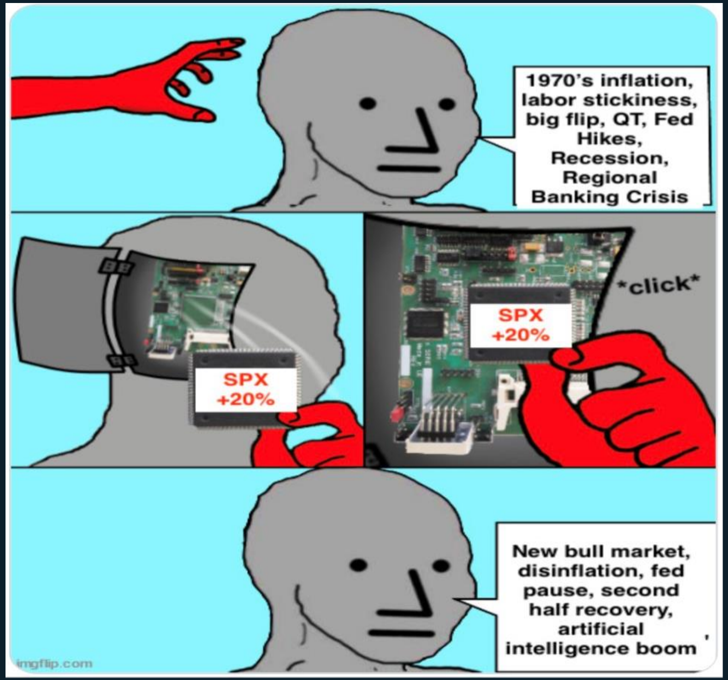
"Rotation: Lifeblood of a Continuing Uptrend"

Presented By:

Art Huprich, CMT®
Chief Market Technician

June 2023

"Nothing Like Price to Change Sentiment" ~Helene Meisler



Currently

S&P 500 (4409.59)

March 2021
SPX = 3841…

- Could we have a pullback?
  - Yes, any time.
- Is it the "end of the world," as some see it?
  - Unless the **NDR Catastrophic Stop Loss Model** gives a sell signal, the odds don't favor it.

- Elite investor **Jeremy Grantham** predicts Brace for the S&P 500 to plunge 50% recession will strike 3/21
- **Nouriel Roubini** says markets should brace for a meltdown as stressors lead to a 'doom loop' in the economy 4/2
- Fed rate hikes will trigger a downturn of greater 'speed and magnitude' than the Great Recession: **Economist** 3/22
- **JPMorgan's long-time bull** says now is the time to sell stocks to buy commodities after recent recovery 8/9/2022
- Billionaire investor **Ray Dalio** says stocks still aren't pricing in the Fed raising rates near a 'very harmful, very damaging' level 12/2022

- **Billionaire investor Leon Cooperman** predicts the S&P 500 will plunge 22% - and warns a US recession lies ahead. 2/28

Quote source: Larry Williams

Takeaway: Listen to and be aware of opinion, but also follow the tape, which is **stretched and overbought, short-term.**

Ned Davis's Rules of Research

1. Don't Fight the Tape – The trend is your friend…

2. Don't Fight the Fed – Pause, cut… Good Grief—"Higher for longer, willing to ….."

3. Beware of the Crowd at Extremes – Crowd psychology impacts the markets and then it reverses

4. Rely on Objective Indicators – Indicators are not perfect but objectively give you consistency; use observable evidence, not theoretical – DH/NDR Smart Sector Strategies – equities, fixed income & int'l

5. Be Disciplined – Anchor exposure to facts, not gut reaction

6. Practice Risk Management – being right or making/not losing $ – DH/NDR Smart Sector Strategies

7. Remain Flexible – adapt to data/indicator, market, & environment changes – Smart Sector Strategies

8. Money Management Rules – humble & flexible; let profits run & cut losses short based on objectives

9. Those Who Do Not Study History Are Condemned to Repeat Its Mistakes

(**10.** Don't Fight the Government—added January '20.)

Some of Today's Discussion…

- **Stocks vs. Fixed Income / Cash** – A LOT of $ on the sidelines
- **Concentration / Participation / Internals**
  - Leadership… how might it change?
  - Banks-Regionals and Big
- **Sentiment**: Short-term vs. Longer-term
- **Small vs. Large**: "Is it live or is it Memorex?"
- **Recession and Tightening Cycles**

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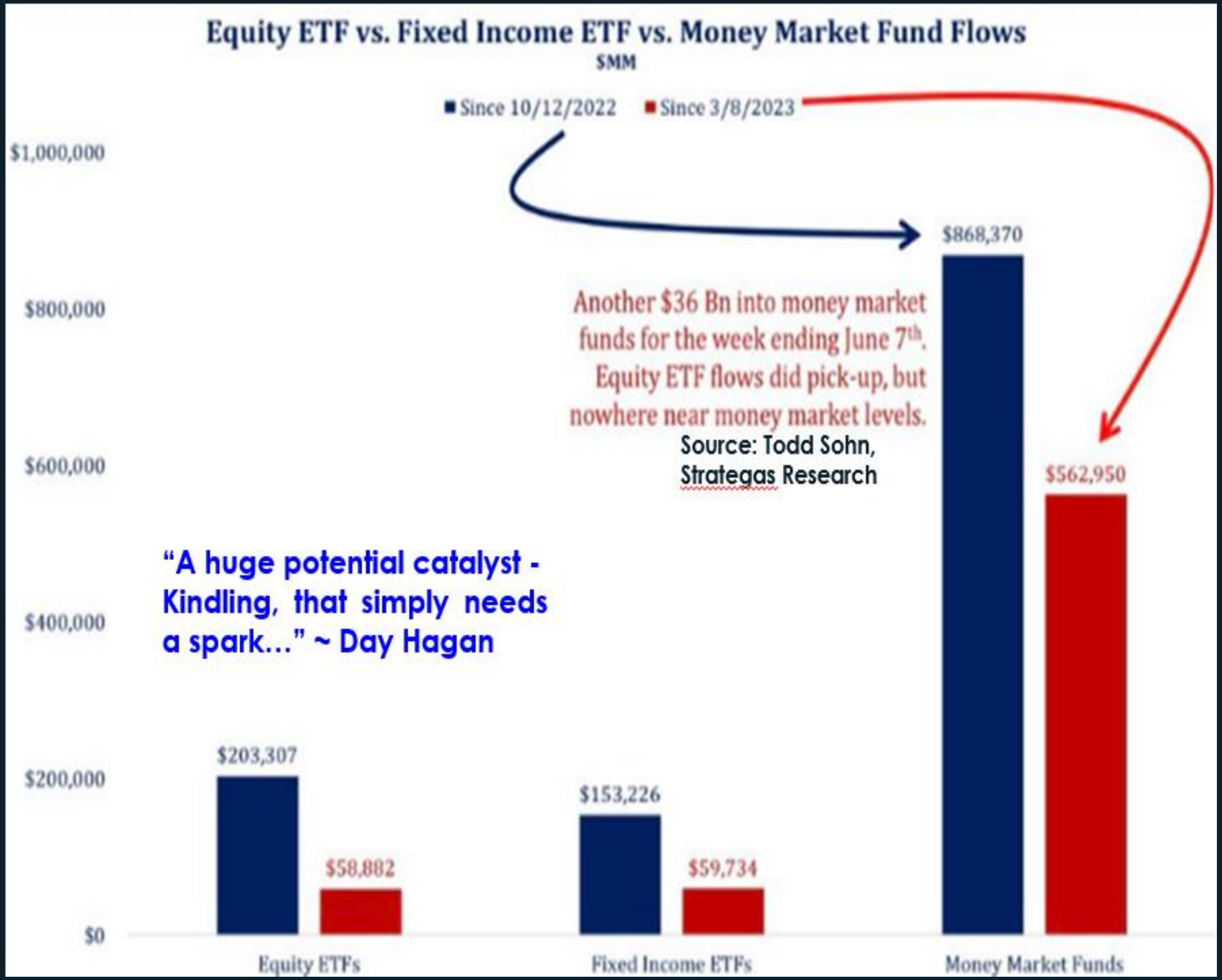
I Get It…

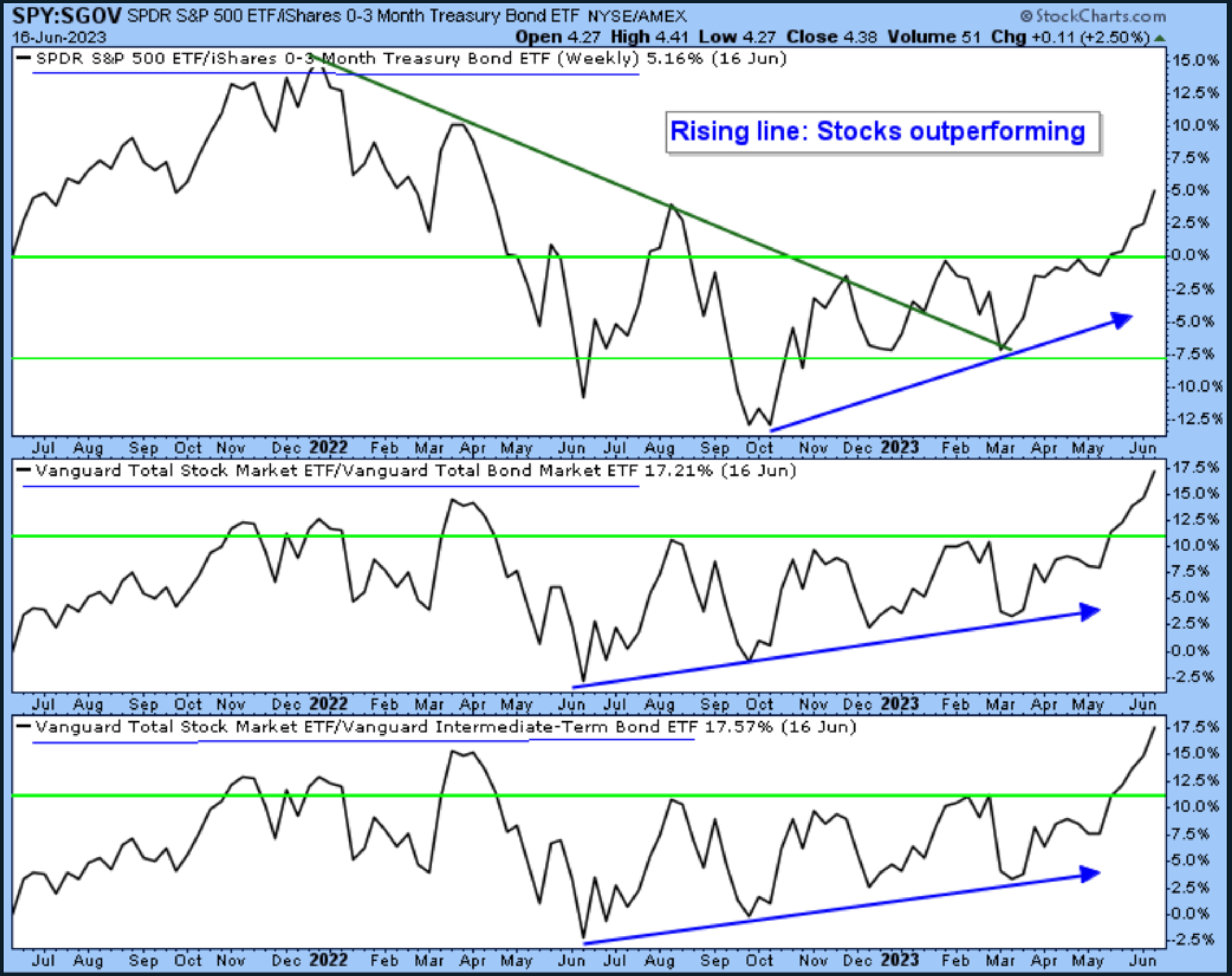
Large Cap Growth (S&P 500) uptrend **but** $ market funds have been, and remain, interesting.

While investors have put a lot of $ to work in Global Equity Funds over the past 1-3 weeks, huge $s are still on the sidelines… just waiting.



Stocks vs. Cash (upper frame) and **Fixed Income** (middle & lower frame) (relative strength analysis)

Takeaway: This is part of, and solidifies, the fully invested position since November 2022, via the SPX, of the **NDR Catastrophic Stop Loss Model**, a major component of the **DH/NDR Smart Sector Global Balanced Portfolio strategies.**

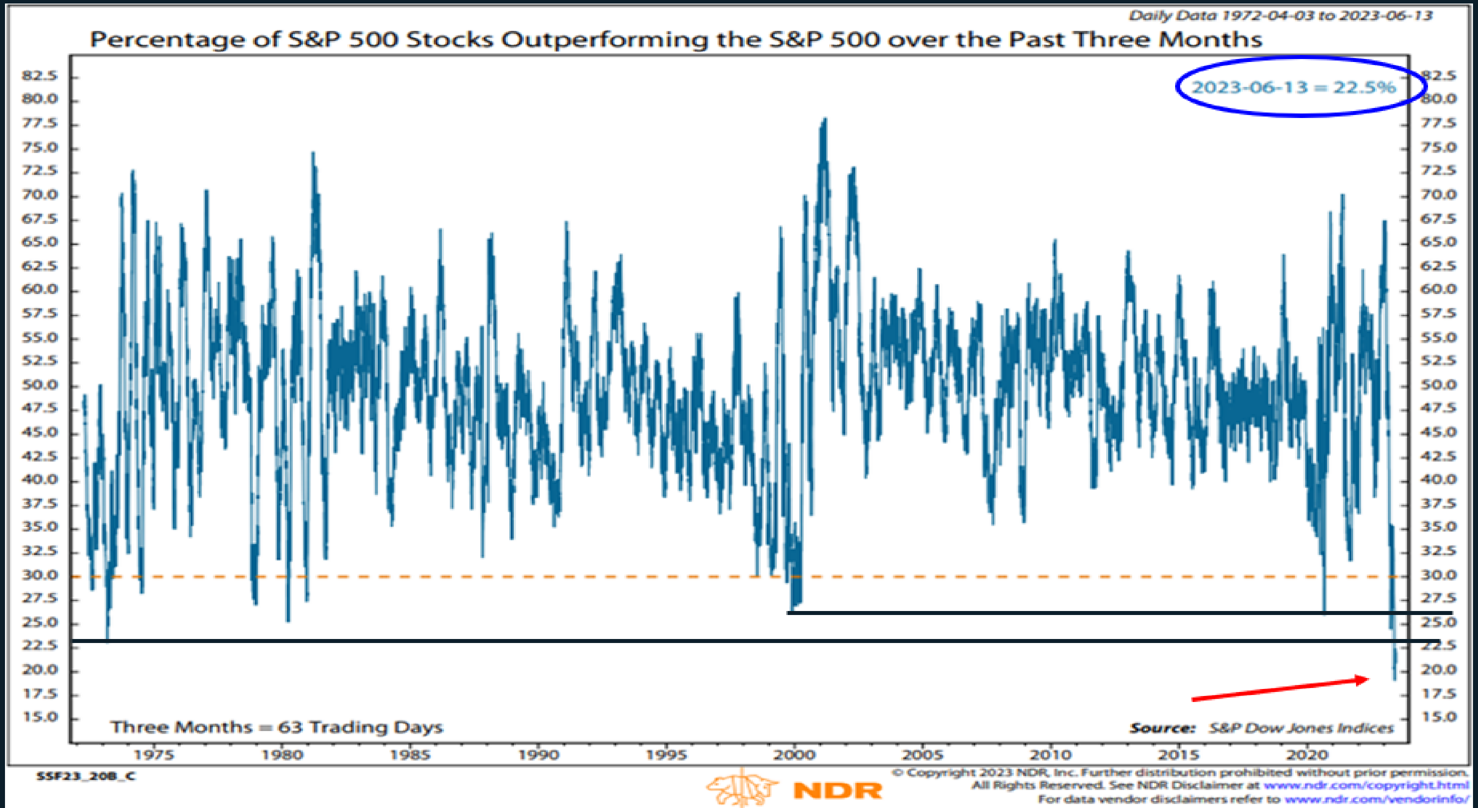


Concentration

Skeptics fear that the rally is too narrow (we can't disagree—it needs to continue to broaden). Various <u>breadth measures *are improving*,</u> **ex., # stocks > MAs**, **Up Vol > Down Vol**, **Cumulative Highs-Lows**. Yet:

- **> 24%** of **S&P 500 stocks** are still down **20%** or more from their 252-trading-day (1-year) highs. Almost 37% are down 15% or more from their 1-year high (a/o 6.16.23)
- **Almost 1/3** of **NASDAQ stocks** are still 50% or more from their 252-day highs. > 63% are down 20% or more from their 1-year high (a/o 6.16.23). *Is the glass half full, or half empty?*
- Over the 3 months ending May 30, only **20.3% of stocks** outperformed the S&P 500.

Please refer back to Rule #6 and #7.



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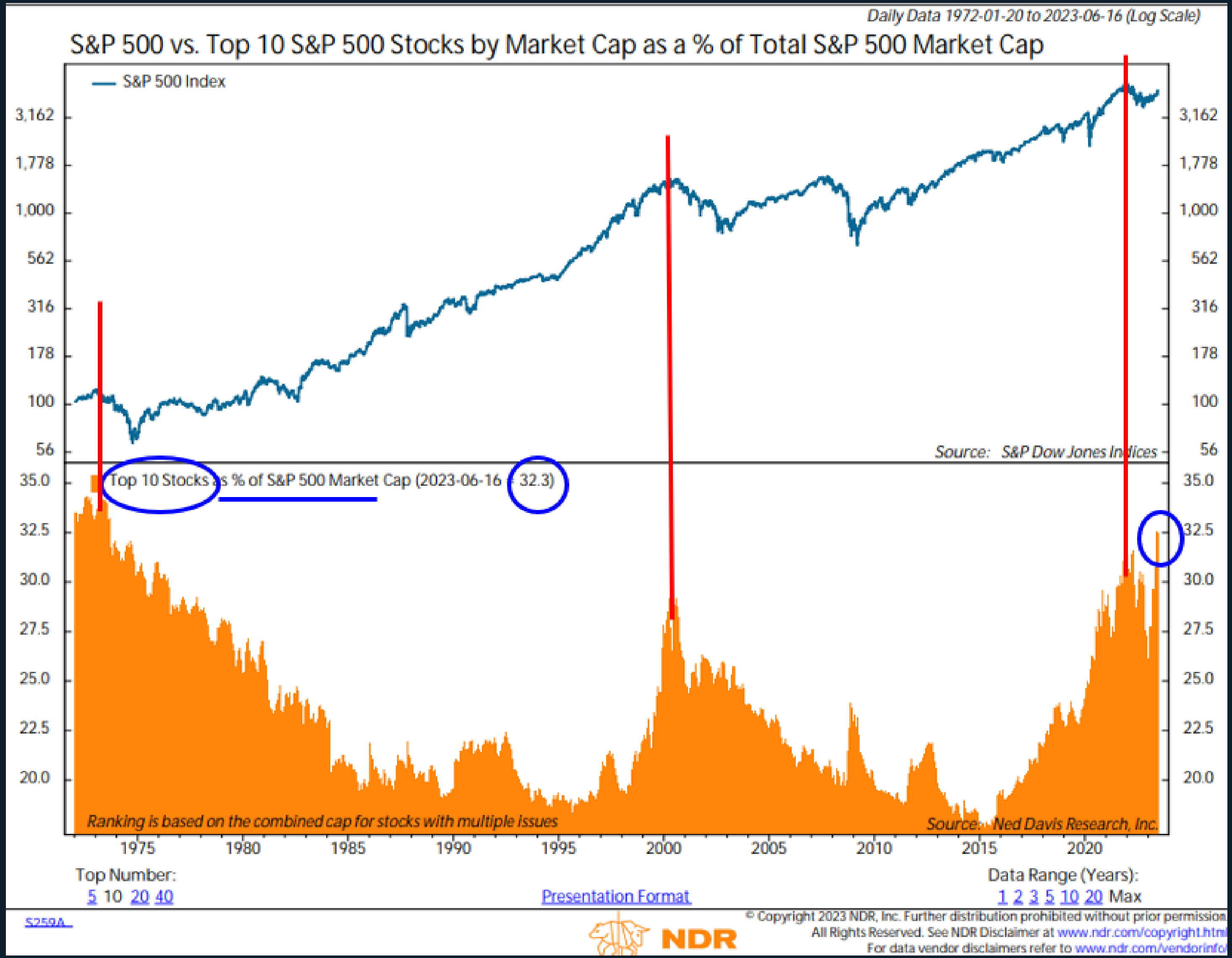
High stock market concentration is not a bearish development in and of itself. If the largest stocks can hold up on an absolute basis while breadth broadens out, the market can move higher as leadership rotates…

‘73, ’00, & ‘21 “Concentration Peaks” came at market highs.

Thus far in ‘23, it is between a price trough & price peak (mid-range?).

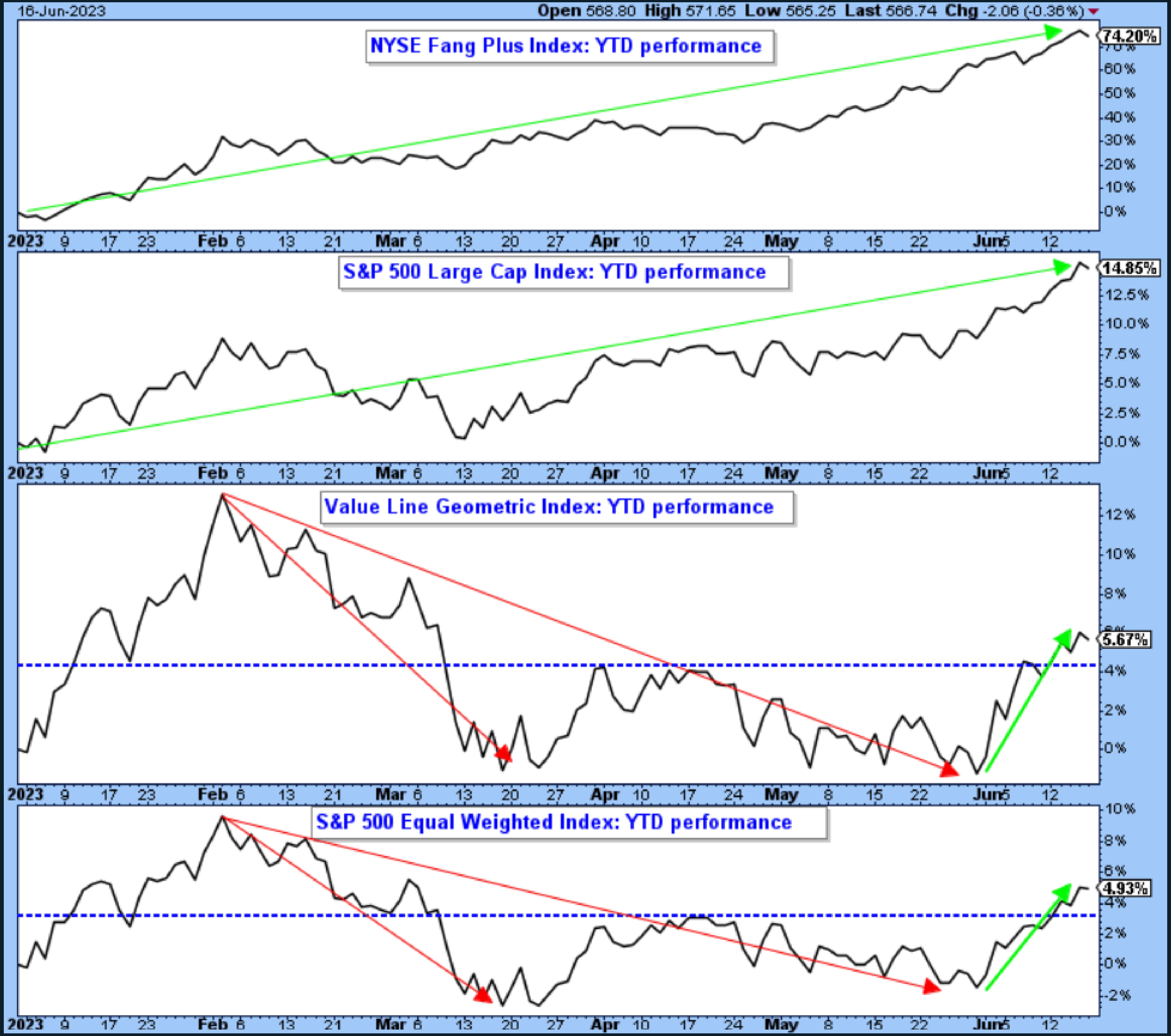
Takeaway: Another reason to stress the necessity of wider participation & what to look for in terms of a change in leadership (see slides farther down)



Still Concentrated

High stock market concentration is not a bearish development in and of itself. **If the largest stocks can hold up on an absolute basis while breadth broadens out, the market can move higher as leadership rotates.**

Takeaway: The "Bench" (lower 2 frames) has been supporting the "Stars" (top 2 frames) in the last few weeks and **must continue** for the current uptrend(s) to continue into the second half of 2023.



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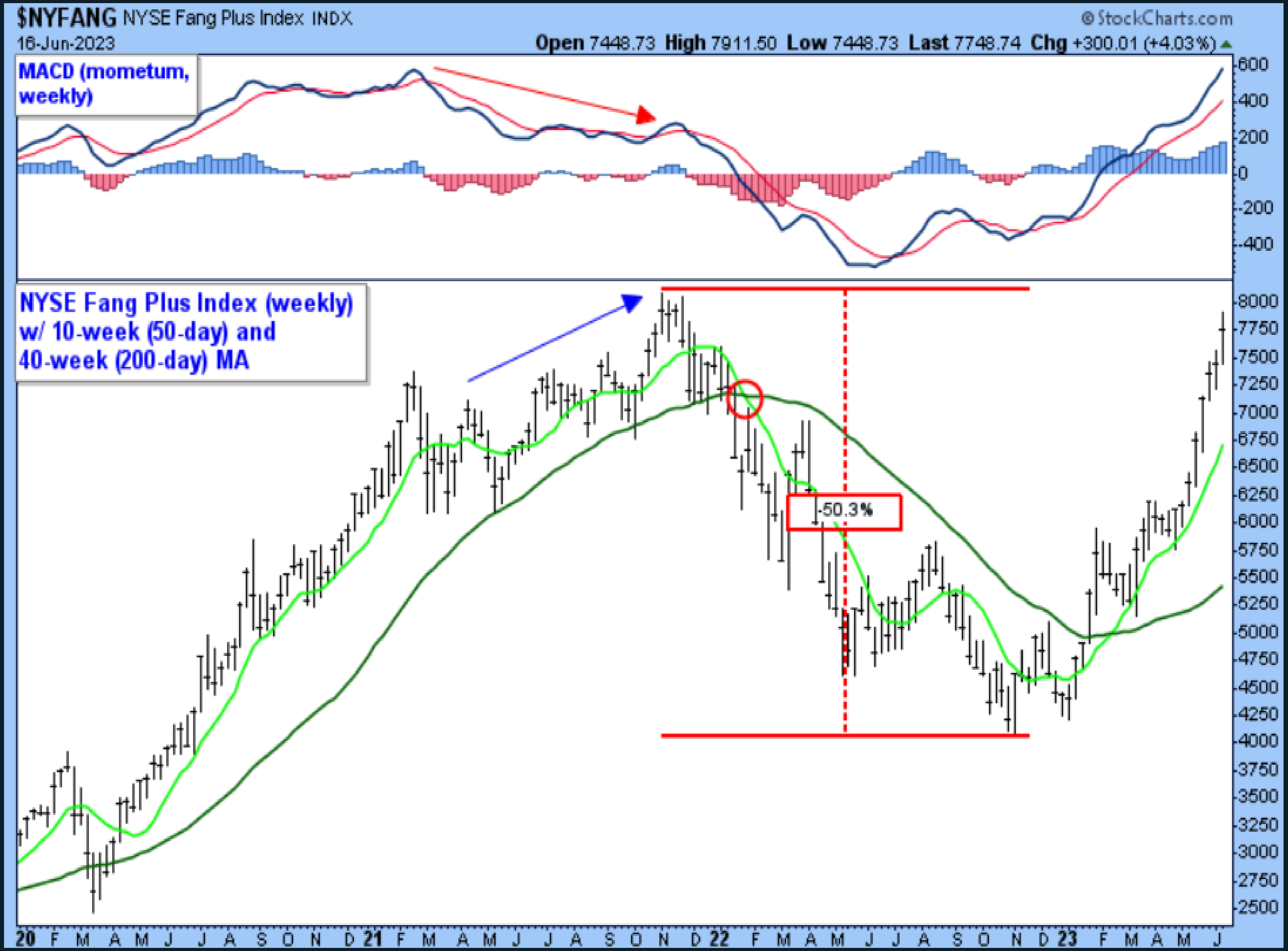
Leadership Change…

- Until the institutional favorites (“Big 9”) undergo a pattern of distribution ala 2021-2022, it’s unlikely Large Cap Growth & related indices seriously corrects.

- While constantly watching the Big 9 (NVDA, TSLA, AAPL, MSFT, AMZN, META, NFLX, GOOGL, AVGO), following the **NYSE FANG+ Index** <u>may be more time efficient</u>… ***Follow the FANG.***

- Near resistance, Price & Momentum
  - If long these stocks, tighten stops and take partial profits while not giving up entire position, but raise stops on balance…

- Reach out for a snapshot of the Big 9 in order to see their 2021-2022 topping process.



Leadership Change?

Takeaway: Higher yields above 39 to 39.5 (3.90% - 3.95%) by the **10-Year Yield Index** may be the catalyst…

Takeaway: How the stocks of the profitable, cash-rich, high margin growth (technology) companies react to higher interest rates **will be a telling guidepost**.

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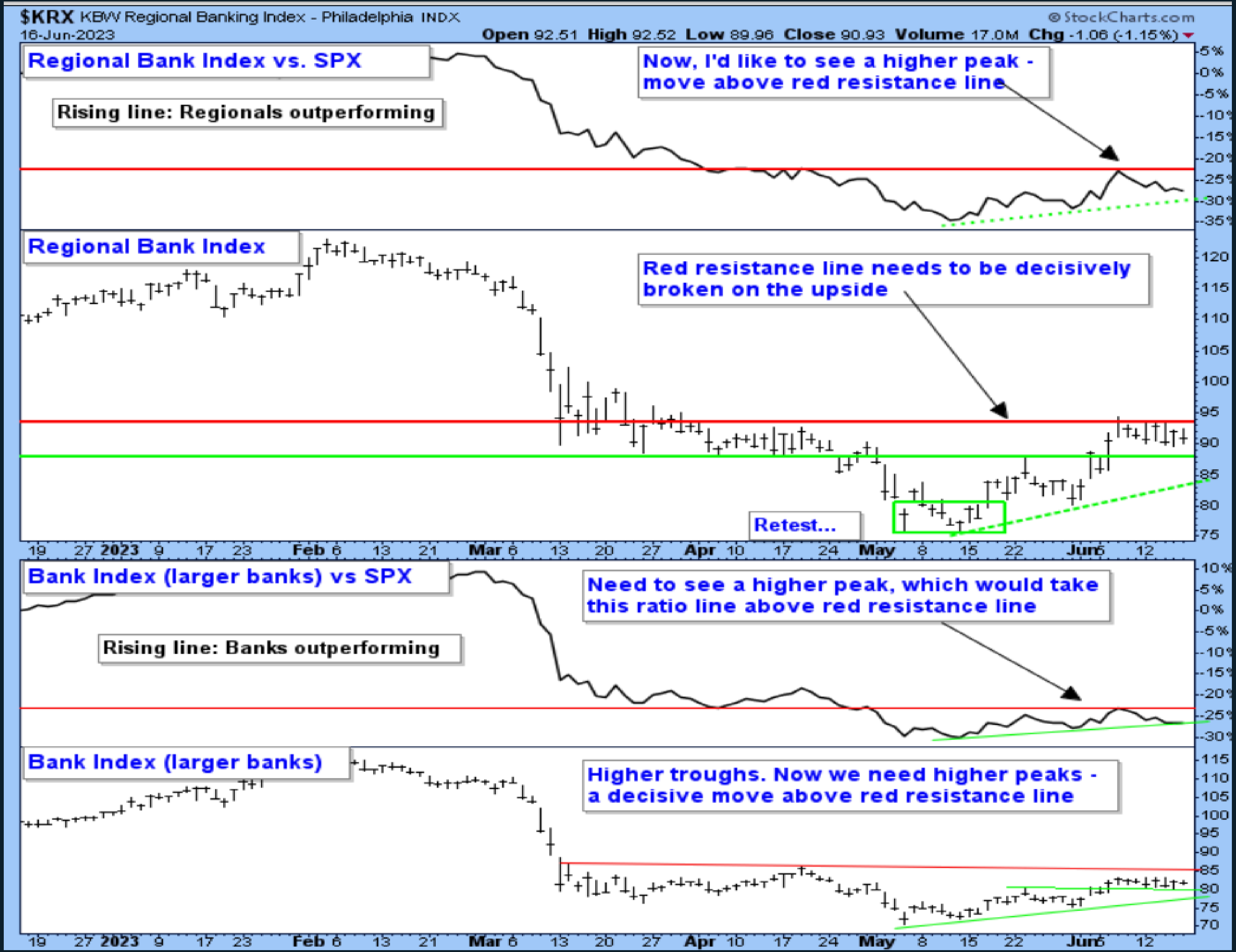
Banks
(Regionals & Big)

Tell me what the Regionals will do, and I'll tell you what the Small Caps will do.

Takeaway: I've stated from the beginning that this was going to take time and be arduous.

I still believe this, and believe it ultimately resolves higher.



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Advance-Decline Line Breadth

Mixed, based on cap size

YTD: In sync, mostly.
February Peak: Not so much.
June 1: In sync, mostly.

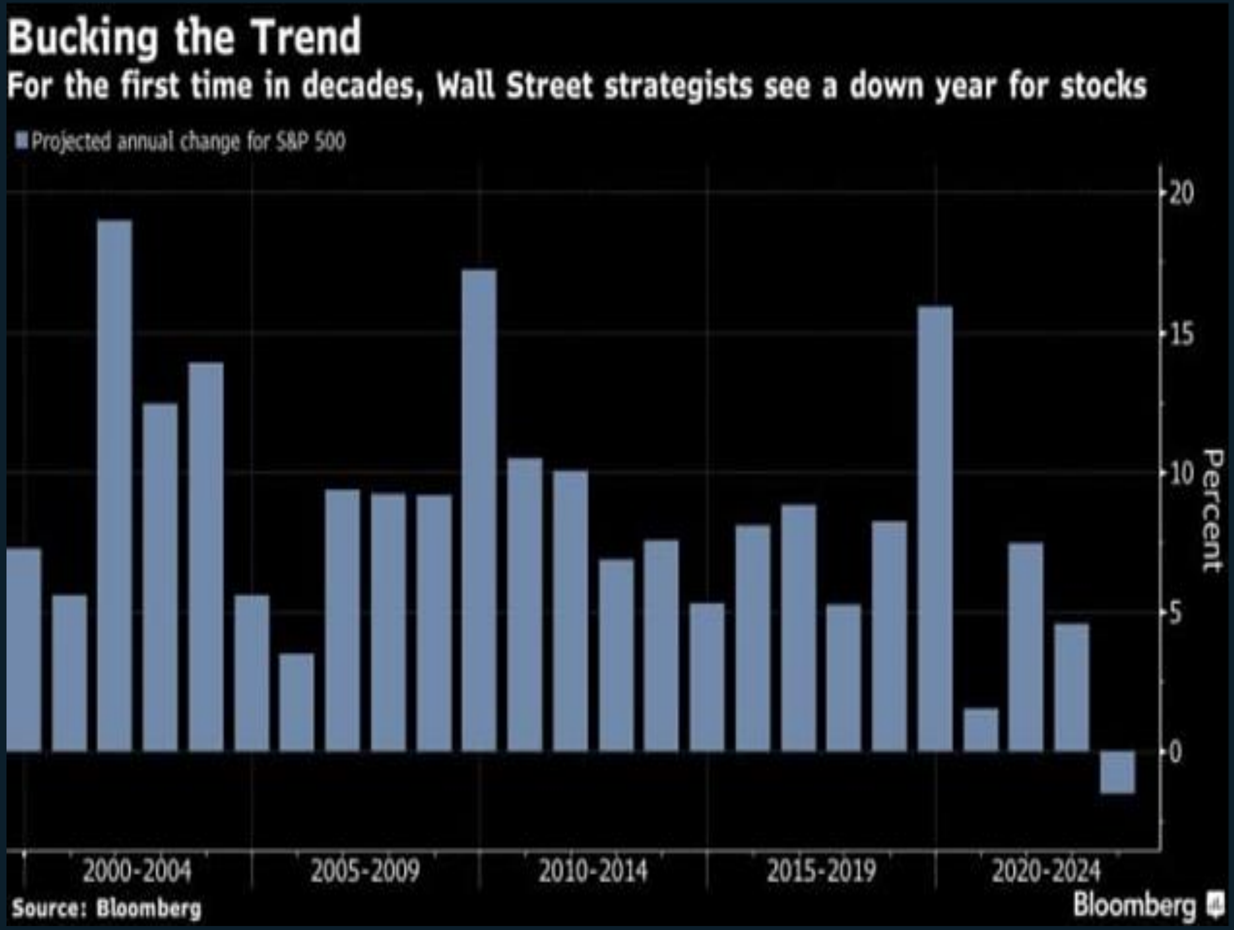
Takeaway: Away from the Large Cap Growth/Technology-related A/D Lines (NDX—not shown, reach out for the chart) we prefer to see all A/D Lines moving higher together, in sync. Until than and/or a leadership change (refer to slide 11), we are comfortable with our U.S. equity-related **Smart Sector strategy** being benchmarked to the SPX, and fully invested.

S&P Sectors: **Industrials** & **Materials** are moving up the performance scale on a 1-week and 1-month basis.

- **More is needed!**

"Nothing Like Price to Change Sentiment" ~Helene Meisler

Entering 2023….



Now…

Rule #3: Beware of the crowd at extremes, & reversals

- NDR's **Daily Trading Sentiment Composite** (short-term) & **Crowd Sentiment Poll** (intermediate-term) are pushing further into "Excessive Optimism" zones.
- **Hedge Fund Sentiment** is pessimistic relative to equities & bonds. **Commodity sentiment** remains pessimistic.

While I am not a fan of this survey, **AAII poll** (individual investors) haven't been this bullish since November 2021, with Bulls now outnumbering Bears by over 22%.

I Can Only Imagine

(MercyMe,1999)

2 ultimate **"risk on"** guideposts.

Based on Stan Weinstein's **Stage Analysis**, I believe IPO would be Stage 2 (bullish, upper frame) and ARKK would be Stage 1 (lower frame)—a move into Stage 2 would be bullish.

Takeaway: Notable changes, when completed, would reflect Wall Street's desire to take on additional risk.

S&P 500 Cycle Composite for 2023

(spot on for most of 2022 and thus far in 2023)

Moving deeper into the 2H '23, the equity market may be forced to thread an ever-shrinking needle of the economy not sliding into recession while also not triggering inflation & more rate hikes.

Please refer back to Rule #6.

Note: As we have experienced, outside forces can overwhelm cycles & seasonal trends.

Small vs. Large

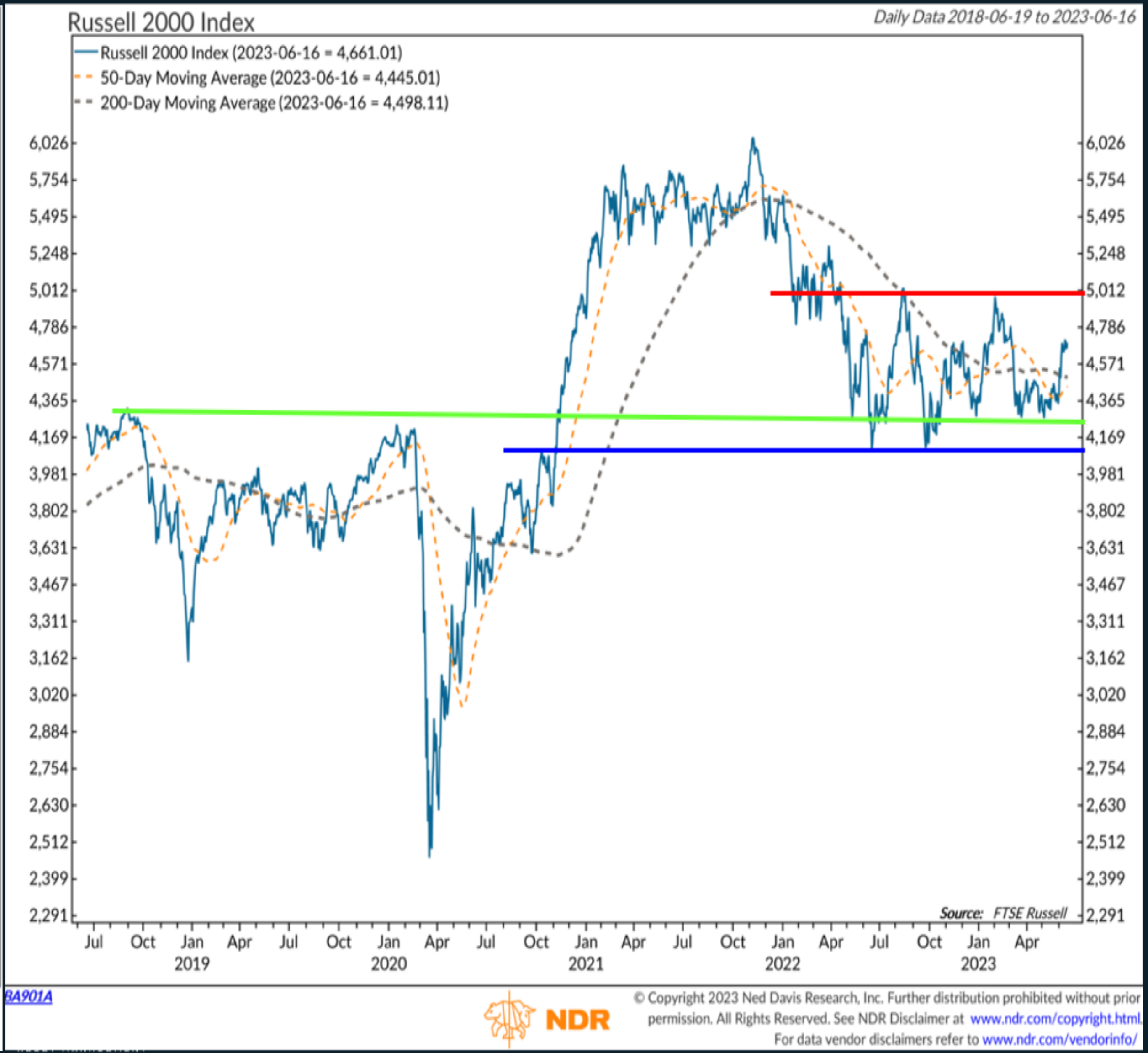
Live or Memorex?

"Is it live or is it Memorex?" was an ad campaign for cassette recording tapes from Memorex.

Could you tell if the sound of the artist was genuine, or was it a recorded copy?

Takeaway: Ideally, the recent incremental improvements, albeit marginal, need to be "live" for the uptrend to extend deeper into the 2H of '23, especially if the "Big 9" pull in.

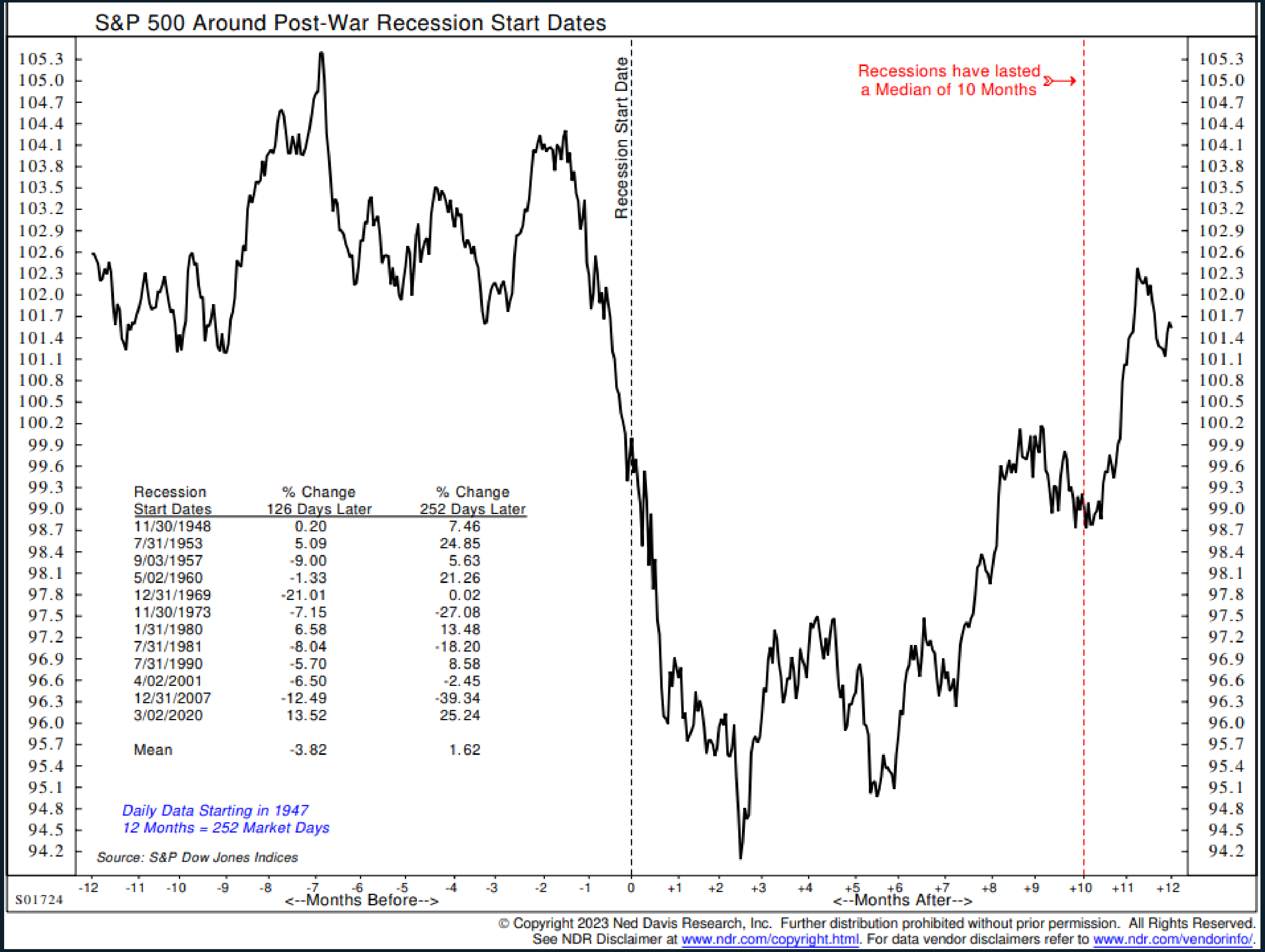
Zoom Out for a Bigger Perspective



Speaking of a *"favorable economic landing,"* additional rate hikes raise the possibility of the Fed pushing the economy into recession in 2024. **Jerome Powell has consistently said** he is willing to cause a recession to keep inflation expectations in check.

The S&P 500 peaks about 6 to 7 months before the start of a recession, on average (chart).

Takeaway: A recession in the first half of 2024 could begin to be reflected in financial markets in 2023 (late?).



Most Tightening Cycles End with a Hard Landing, NOT

a "Favorable Economic Landing"

"…it took an average of two years from the start of the tightening cycle to the recession—the current cycle started in March 2022. And if the Fed were to hike once more next month, then eight months from the end of the cycle would be March 2024…" ~NDR

Takeaway: History shows that most tightening cycles since 1953 ended in a recession (table).

Fed tightening cycles and U.S. recessions

Beginning of Tightening Cycle	End of Tightening Cycle	Real Fed Funds Rate (%)	Recession Start	Months to recession from start of cycle	Months to recession from end of cycle
Jul-1963	Dec-1965	2.81	No recession		
Nov-1967	Apr-1969	2.16	Dec-1969	25	8
Jan-1973	Apr-1974	3.05	Nov-1973	10	-5
Aug-1977	Feb-1980	5.58	Jan-1980	29	-1
Sep-1980	May-1981	6.51	Jul-1981	10	2
Sep-1987	Feb-1989	4.27	Jul-1990	34	17
Feb-1994	Feb-1995	3.15	No recession		
Jun-1999	May-2000	4.29	Mar-2001	21	10
Jun-2004	Jun-2006	2.59	Dec-2007	42	18
Dec-2015	Dec-2018	0.05	No recession		
Median		**3.10**		**25**	**8**

Source: NBER, Ned Davis Research

Ned Davis Research T_BMF23_48.1

Bottom line

- Model and additional indicator deterioration would dictate a cut in equity exposure. It hasn't happened yet, as the **NDR Catastrophic Stop Model** supports a bullish thesis relative to the S&P 500. But we will be quick to decrease equity exposure should the banking turmoil worsen and/or our models and indicators turn more bearish.

    - The question now, "How might a Catastrophic Stop sell signal be generated?"

        - There are several paths to a sell signal, but I would expect to see our shorter-term trend and relative strength factors reverse to sell signals along with measures of market sentiment evidencing signs of reversing as fear starts to build, including credit spreads widening and high-yield/EM bonds underperforming.

        - We would also likely see breadth and supply/demand, reverse.

- For the rally to continue into the second half of 2023, breadth needs to continue to improve—**rotation would be ideal**—as it has since the beginning of June.

- Listen to and be aware of opinion, but also follow the tape, which is **stretched and overbought, short-term.**

Trends

Price, Relative Strength,

and

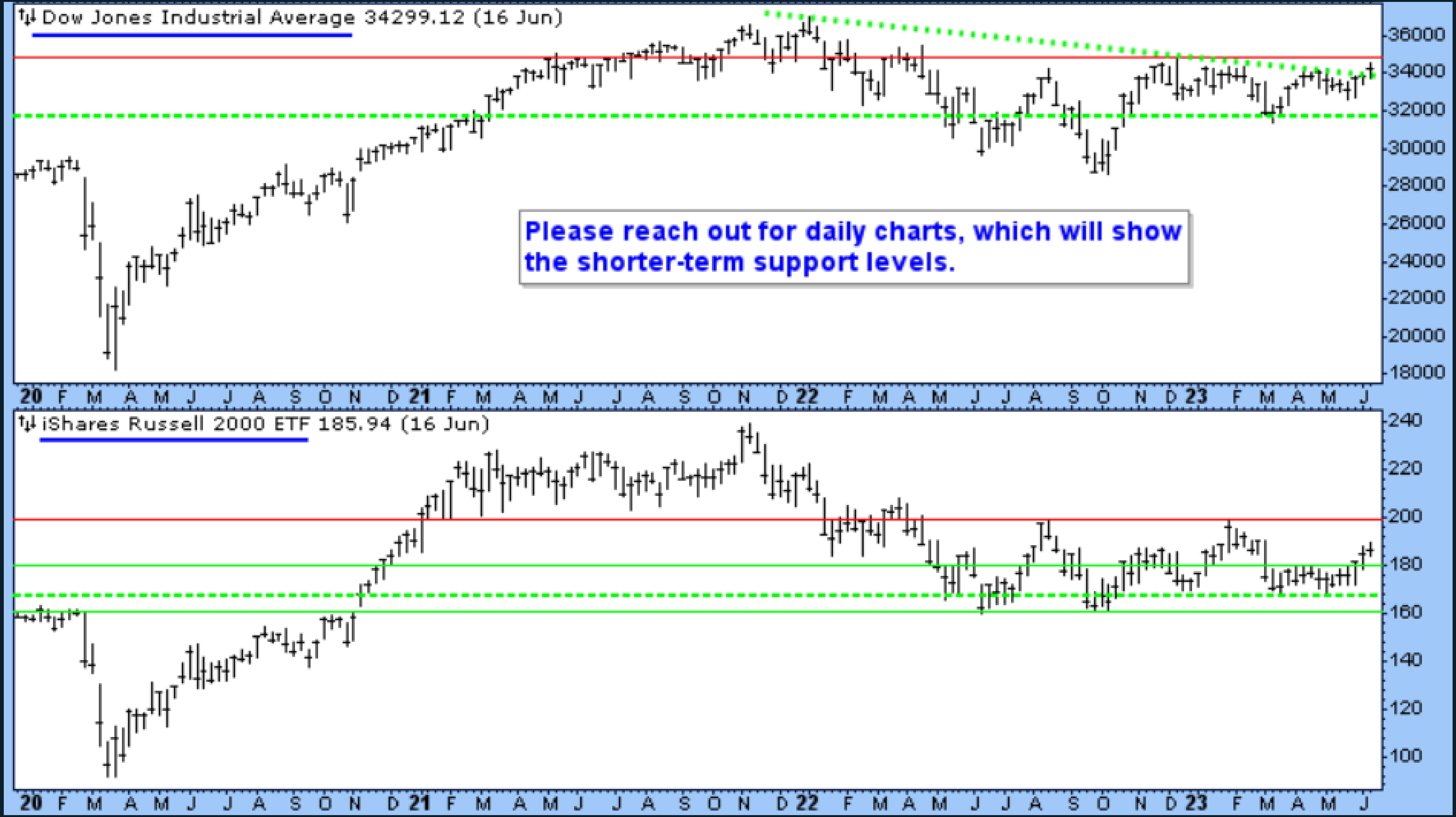
Commodities & U.S. Dollar

It Don't Come Easy

Weekly charts

It Don't Come Easy

(unless you are benchmarked against the SPX)
Weekly charts



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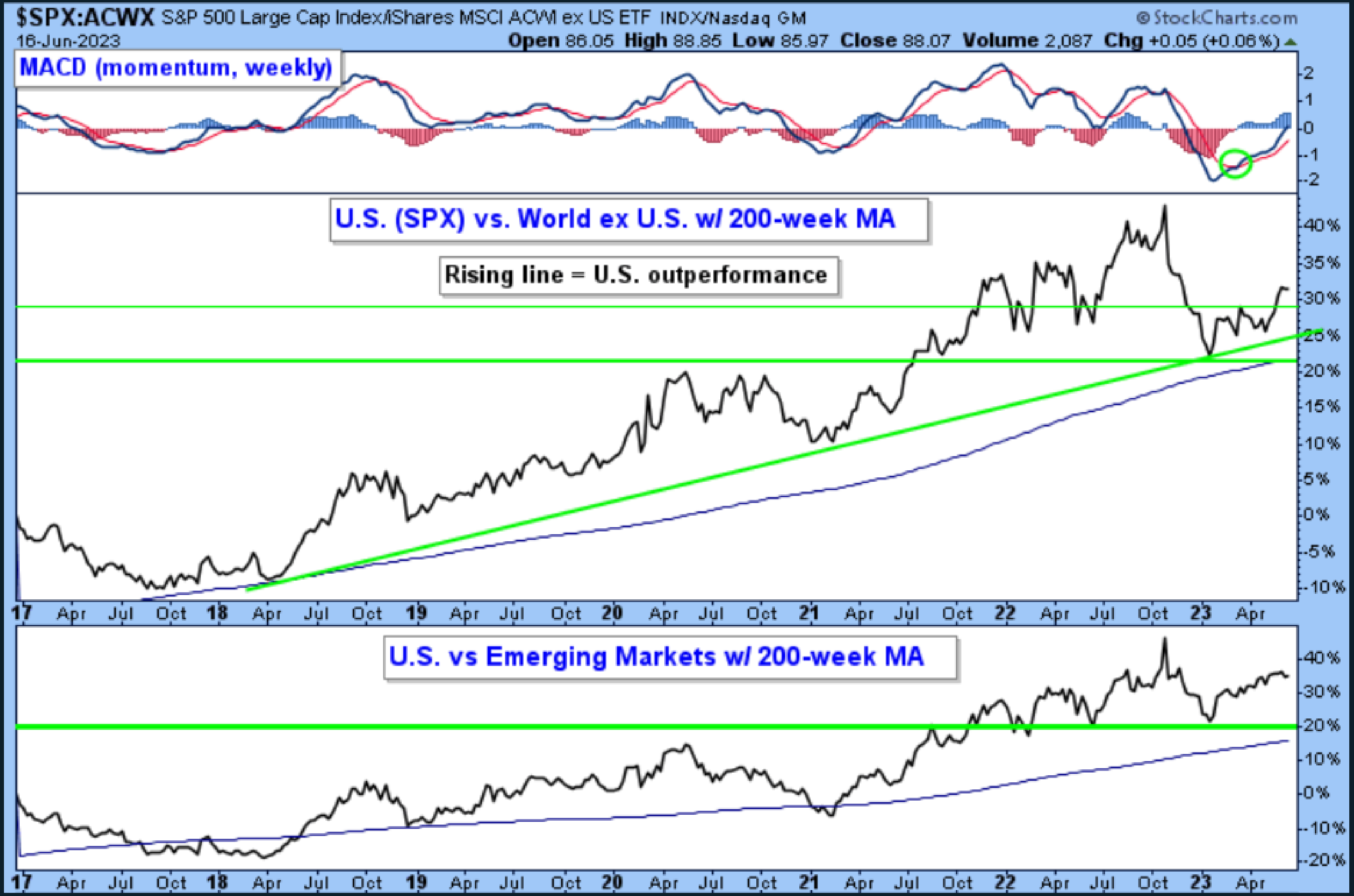
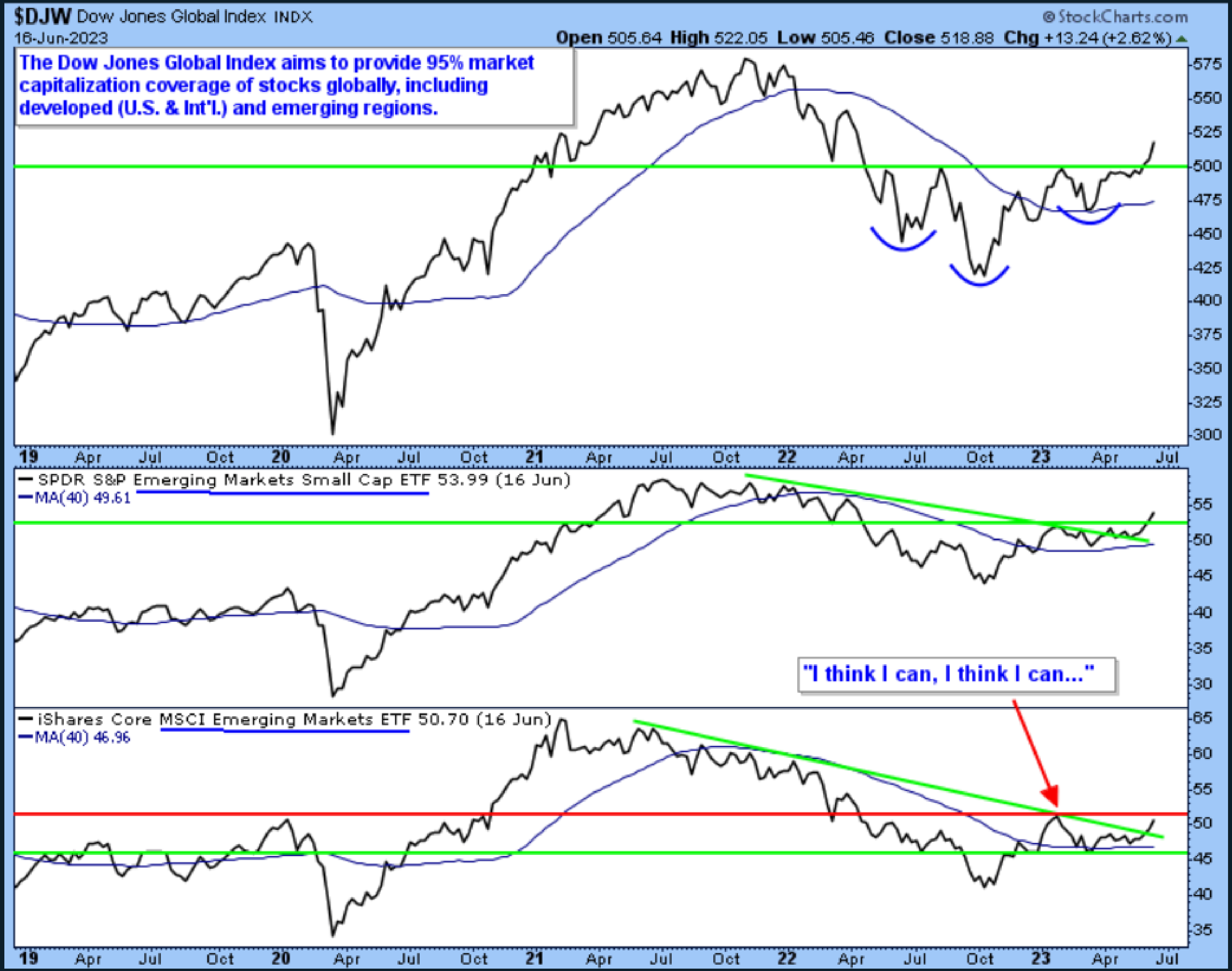
U.S. vs. The World ex. U.S. – weekly
(domestic vs. overseas/emerging relative strength analysis)

Takeaway
U.S. over World ex U.S.
and **Emerging**

- Attractive/improving overseas charts: Japan, Brazil, Argentina, India, S. Korea, Mexico, Chile, Poland, Australia, Germany, Netherlands, Peru (watch closely).
- Please reach out about the **DH/NDR Smart Sector International strategy.**



Let's discuss how the **DH/NDR Smart Sector International strategy** is positioned.



Commodities

Takeaway: Well, we did get some stability over the past month.

That's good, right?

Sentiment is positioned negatively, according to NDR, which, as a contrarian indicator, is bullish.

That's good, right?


$NATGAS Natural Gas - Continuous Contract (EOD) CME
@StockCharts.com
16-Jun-2023
Open 2.55 High 2.65 Low 2.52 Close 2.63 Volume 17.7M Chg +0.10 (+3.91%)
Natural Gas...and the approaching hurricane season :-(
Gasoline
Please stay range bound, pretty please...
Uranium - URA


$WTIC Light Crude Oil - Continuous Contract (EOD) CME
@StockCharts.com
16-Jun-2023
Open 70.27 High 72.03 Low 66.80 Close 71.93 Volume 133.1M Chg +1.76 (+2.51%)
145.29
113.93
109.45
110.31
120.67
86.15
72.04
70.04
78.90
79.98
200-week MA
74.34
64.07
63.05
60.23
62.14
66.93
82.52
37.51
45.29
29.02
49.56
53.99
43.01
45.33
52.51
35.79
16.94
Support? Are my aging eyes deceiving me?

U.S. Dollar Index

With many cross-asset influences (emerging markets, commodities, corporations that derive a lot of revenue overseas etc.), it bears watching this index daily.

Takeaway: Until proven otherwise, the trend remains suspect—weak—but **watch how it reacts to support** (green line).

One Final Thought/Question

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Grind It Out / Down and Difficult / Wear 'em Out

"I keep going back to the chart of the S&P 500 from the 1970s. There was an entire period off the 1974 low… 1975 to the early 1980s that we traded in a very wide range. We often went up or down 20%. I can only imagine the media back then calling bull and bear markets like they were balls and strikes, only to see it reverse." ~Helene Meisler

Takeaway: From a price perspective only, is this possible? Asking for a friend.

Thank You for allowing us to be part of your success

For More Information

Presented By: Art Huprich, CMT®
Email: Art.Huprich@DayHagan.com

Day Hagan Asset Management
1000 S. Tamiami Trail
Sarasota, FL 34236
(800) 594-7930 or (941) 330-1702

@DayHagan_Invest

Day Hagan Asset Management

DayHagan.com

DHFunds.com

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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.

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Day Hagan Technical Analysis

A time-tested, disciplined approach to investing.

Presented By:

Art Huprich, CMT®
Chief Market Technician