

Weekly Market Analysis #365 — 6 August 2021

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This Week

Last week Steve Blumenthal mentioned:

...“fair value” for the S&P 500 is -47.8% below current levels. Call that a good target point to buy equities when the Fed narrative is lost. The second is GMO’s most recent 7-year Asset Class Real Return Forecast. Compounding at -8% per year for seven years is not what investors are expecting.

Oddly enough, a -8 percent return on stocks for seven years would leave us at 55.8% of current levels, and a -47.8% decline would leave us at 52.2% of current levels. That means that these two estimates are surprisingly close to each other even though they were arrived at by very different methods.

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Bill Witherell, Chief Global Economist at Cumberland Advisors, said in [an article](#):

The Eurozone’s economy as measured by GDP expanded by 2% q/q in the second quarter, significantly faster than expected, indeed faster than the economies of the US and China. However, Eurozone GDP was still 3% lower than its pre-pandemic high, while US second-quarter GDP was 0.8% higher.

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Mitch Zacks observed:

According to Bloomberg data, close to \$16 trillion of global debt had a negative yield as of the end of July, which means investors would have to pay money to hold the bonds [to maturity]...U.S. Treasury bond yields are positive...When global investors are looking for positive yielding, safe debt, the U.S. is the place to go — approximately 70% of positive-yielding bonds from G10 countries were U.S. Treasuries.

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Last week I said that for foreigners, the Chinese stock market was a Communist Party puppet show. I still think so, but this week Rob Arnott reminded me that if China wants continued access to western capital, then they have to give some thought to taking care of their foreign investors. The first time the Communist Party clamps down on a Chinese stock and some big western investor gets burned, they will scream bloody murder, and that will very likely trigger an exodus of foreign capital out of the Chinese markets.

[Market Barometers](#)

← Use this link to see all the market barometer charts

I will be first to admit that charts do NOT forecast price – they show path of least resistance and provide an excellent risk management tool. — Peter Brandt

All 4 indexes came up this week. VTI, SPX, and COMPQ made new highs. IWM is still below its March high, but it made a 4-week new high and turned its middle MTA average up again.



By the way, while many cap-weighted indexes are still making new highs, On July 28th [JC Parets posted](#), "The median Nasdaq stock is down 18% from its highs. So if you're waiting for "a correction" in stocks, what do you call the past 5 months?" Staying open to less palatable information helps you be ready to act when bad events surprise the overly optimistic. Like Art Cashin says, "Stay wary, alert, and very, very nimble."

A Closer Look

The SPX made a new high, breaking out of the range it had been in since July 23rd. The advance-decline confirmed price action. Stocks above their 50-day averages got above 60% for the first time in 6 weeks.



[Bullish Universe](#)

← Use this link to get to the live summary table

These are ETFs that are likely to do well during bull markets.

Bullish Universe Analysis for 06-Aug-2021							
Symbol	Description	Instr	MTA 3	RelStr	CMF	NH/NL	MCHist
ARKK	DISRUPTIVE INNOVATION	ETF	UP	0.3:1.7	UP	4/1	0.3
EEM	EMERGING MARKETS	ETF	DN	-1.8:1.7	«up»	2/1	0.2
EFA	EUROPE/AUSTRALIA/FAR-EAST	ETF	UP	0.0:1.7	=up=	7/1	0.4
IBB	BIO-TECH & PHARMA	ETF	UP	2.5:1.7	UP	520/1	0.5
IGV	SOFTWARE	ETF	UP	4.0:1.7	UP	520/1	-0.0
IWM	RUSSELL 2000 (SMALL-CAP STOCKS)	ETF	UP	-1.1:1.7	-UP-	4/2	0.3
IYT	DOW JONES TRANSPORTS	ETF	UP	-1.8:1.7	-dn-	2/19	0.0
QQQ	NASDAQ 100	ETF	UP	3.2:1.7	UP	520/1	-0.1
USMV	USA MIN VOLATILITY	ETF	UP	2.2:1.7	UP	493/1	-0.0
VGK	FTSE EUROPE	ETF	UP	0.6:1.7	=up=	7/1	0.5
VNQ	U.S. REIT INDEX	ETF	UP	2.9:1.7	«DN»	520/2	-0.0
VTI	TOTAL STOCK MARKET	ETF	UP	1.7:1.7	«up»	520/2	0.0

[Bearish Universe Charts](#)

Last week's choices were: DBC 20%, IGV 20%, QQQ 20%, VNQ 20%, VTI 20%.

Top 10 ETFs from the Bullish and Bearish Universes

Sym	MTA	RelStr	Long	High-15%	High-7.5%	Last	Notes
IGV	↑	4.0 →	yes	\$349.75	\$380.61	\$409.56	
QQQ	↑	3.2 →	yes	\$314.22	\$341.94	\$368.05	
VNQ	↑	2.9 →	yes	\$91.03	\$99.07	\$106.91	
TLT	↑	2.7 ↑↑	no	\$128.74	\$140.10	\$147.78	Strong RelStr but rising yield
IBB	↑	2.5 ↑	buy	\$148.62	\$161.74	\$172.12	New high, strong money flow
USMV	↑	2.2 →	no	\$65.08	\$70.82	\$76.46	
DBC	↑	1.9 ↓	yes	\$16.67	\$18.14	\$19.01	
VTI	↑	1.7 →	sell	\$194.54	\$211.70	\$228.87	Far below the leaders
USIG	↑	0.8 ↑	no	\$52.13	\$56.73	\$60.76	
ANGL	↑	0.8 →	no	\$28.19	\$30.67	\$32.90	

Legend: Up: ↑, Down: ↓, Flat/Stable: →

IGV is well above \$400. QQQ remains strong. VNQ made another new high. TLT got above \$150 this week, then dropped below it on Friday. IBB touched \$175 but ended the week at

\$172. USMV is rising steadily. DBC fell back to ~\$19. VTI made another new all-time high. USIG dropped below \$61 on Friday. ANGL has been moving sideways for 5 week.

Although replacing VTI with TLT might look like an obvious choice, it's not black and white. TLT dropped on Friday as its yield rose to 1.3%. Inflation expectations have jumped, driving bond yields up and prices down. Investors seem to think that yields will climb further, and the Fed is unlikely to act until 10-year yields reach 2.0%. That's a potential 50%+ yield increase which, if it materializes, will cause havoc in the bond markets.

That makes IBB a lower RelStr (but also lower-risk) choice to replace VTI. So this week's choices are: DBC 20%, IBB 20%, IGV 20%, QQQ 20%, VNQ 20%. So on Monday I will sell my shares of VTI and move that money into IBB.

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Chasing down the question of why bond yields jumped this week took about an hour. When you see an anomaly on the charts, it's always worth taking some time to track down what caused it. There are times when a search will turn up nothing at all, but it's always a good idea to try.

[Bearish Universe](#)

← Use this link to get to the live summary table

These are ETFs that are likely to do well during bear markets.

Bearish Universe Analysis for 06-Aug-2021							
Symbol	Description	Instr	MTA 3	RelStr	CMF	NH/NL	MCHist
ANGL	FALLEN ANGEL HIGH YIELD BOND	ETF	UP	0.8:1.7	up	1/3	-0.2
BND	TOTAL BOND MARKET	ETF	UP	0.6:1.7	«up»	24/3	-0.1
DBC	DB COMMODITY INDEX	ETF	UP	1.9:1.7	UP	1/3	-0.1
GLD	SPDR GOLD SHARES	ETF	DN	-0.3:1.7	=DN=	1/16	-0.1
GOVT	U.S. TREASURY BOND	ETF	UP	0.7:1.7	UP	24/3	-0.1
HYG	HIGH-YIELD CORP BOND (HD)	ETF	UP	0.1:1.7	DN	1/3	-0.1
JMUB	MUNICIPAL BONDS	ETF	UP	0.4:1.7	DN	1/3	-0.0
MAAX	MUNICIPAL ALLOCATION	ETF	UP	0.5:1.7	UP	1/3	-0.1
PFF	S&P PREFERRED STOCKS	ETF	UP	0.5:1.7	UP	244/1	0.1
SHV	CASH SURROGATE	ETF	DN	-0.0:1.7	UP	6/76	0.0
TIP	TIPS BOND	ETF	UP	0.7:1.7	«UP»	1/2	-0.1
TLT	U.S. 20+ YEAR T-BOND	ETF	UP	2.7:1.7	«up»	3/3	-0.3
USIG	USD INVESTMENT GRADE CORPORATE BOND	ETF	UP	0.8:1.7	«up»	27/4	-0.1
VICI	VICI PROPERTIES	ETF	UP	0.2:1.7	=UP=	1/12	-0.6

[Sector Universe Charts](#)

Top bearish funds doing better than VTI. Sorted by relative strength:

- 1 TLT 2.7
- 2 DBC 1.9

[Sector Universe](#) ← Use this link to get to the live summary table

If your goal is to beat the market, invest in the sectors that are doing better than the market while the market is going up. Pay attention to RelStr (relative strength). As more sectors turn down, shift more and more money into SHV. Hope is not a strategy.

SPX Sector Universe Analysis for 06-Aug-2021							
Symbol	Description	Instr	MTA 3	RelStr	CMF	NH/NL	MCHist
XAR	SPACE & DEFENSE	ETF	UP	-0.7:1.7	DN	1/3	-0.2
XLB	MATERIALS	ETF	UP	-0.6:1.7	-up-	7/1	0.5
XLC	COMMUNICATION SRVCS	ETF	UP	2.2:1.7	-UP-	1/2	-0.1
XLE	ENERGY	ETF	UP	-1.8:1.7	=DN=	1/3	0.3
XLF	FINANCIALS	ETF	UP	0.3:1.7	-UP-	8/1	0.5
XLI	INDUSTRIALS	ETF	UP	0.5:1.7	<<DN>>	8/3	0.1
XLK	TECHNOLOGY	ETF	UP	3.6:1.7	UP	520/1	-0.2
XLP	CONSUMER STAPLES	ETF	UP	0.8:1.7	DN	2/2	-0.1
XLRE	REAL ESTATE	ETF	UP	3.5:1.7	<<up>>	293/1	-0.0
XLU	UTILITIES	ETF	UP	0.7:1.7	=UP=	15/1	0.4
XLV	HEALTH CARE	ETF	UP	2.9:1.7	UP	520/1	0.1
XLY	CONSUMER DISCRETIONARY	ETF	UP	1.8:1.7	=up=	1/1	-0.2
XRT	RETAIL	ETF	UP	0.9:1.7	=DN=	2/3	-0.1

[Auxiliary Universe Charts](#)

SPX Sectors with slopes better than or equal to the VTI Index:

- 1 XLK 3.6
- 2 XLRE 3.5
- 3 XLV 2.9
- 4 XLC 2.2
- 5 XLY 1.8

For what it's worth: I don't know what's driving it, but XRT has run into concerted selling every time it gets above the \$95-\$96 area this year. And lately there seem to be an increasing number of short positions in XRT.

Auxiliary Universe Analysis for 06-Aug-2021							
Symbol	Description	Instr	MTA 3	RelStr	CMF	NH/NL	MCHist
ARKQ	AI & ROBOTICS	ETF	UP	-1.4:1.8	up	4/1	0.3
ARKW	NEXT GENERATION INTERNET	ETF	UP	0.0:1.7	UP	5/2	0.3
BIZD	BDC INCOME	ETF	UP	0.4:1.7	-UP-	1/3	0.0
FIVG	FIFTH GENERATION NETWORKS	ETF	UP	1.3:1.7	UP	122/1	0.4
HACK	CYBER SECURITY	ETF	UP	2.1:1.7	-up-	2/3	-0.2
IHI	U.S. MEDICAL DEVICES	ETF	DN	-27.5:1.7	UP	3/1	-9.7
ITB	U.S. HOME CONSTRUCTION	ETF	UP	0.1:1.7	<<up>>	12/1	0.8
LIT	LITHIUM & BATTERY TECH	ETF	UP	8.8:1.7	=up=	520/1	0.4
SLV	SILVER TRUST	ETF	DN	-2.4:1.7	=DN=	1/18	-0.0
SOXX	PHLX SEMICONDUCTORS	ETF	UP	1.9:1.7	UP	520/1	0.6
SRVR	DATA & TRANSMISSION REIT	ETF	UP	2.2:1.7	UP	3/1	-0.0
USO	UNITED STATES OIL FUTURES	ETF	UP	4.1:1.7	<<up>>	1/3	-0.5
XBI	BIOTECHNOLOGY	ETF	DN	-2.8:1.7	-dn-	2/1	0.3
XHB	HOMEBUILDERS	ETF	UP	0.8:1.7	<<up>>	12/1	0.7
XME	METALS AND MINING	ETF	UP	-0.2:1.7	-up-	1/2	0.4
XOP	OIL & GAS EXP & PROD	ETF	UP	-2.1:1.7	=DN=	1/3	-0.0

[Bullish Universe Charts](#)

Auxiliary Sector ETFs with slopes better than the VTI Index:

- 1 LIT 8.8
- 2 USO 4.1
- 3 SRVR 2.2
- 4 HACK 2.1
- 5 SOXX 1.9