

Weekly Market Analysis #474 — 8 September 2023

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This Week

From the statement, "By keeping my money in the sectors that are providing greater returns than the SPX itself, I am guaranteed to outperform the SPX", it's easy to assume the primary objective of Dynamic Sector Allocation (DSA) is to chase the winners. The real objective is to avoid the losers.

John Mauldin said, "If you do nothing more than sell your losers, you will outperform 80% of all investors."

This all has to do with the Asymmetry of Gains and Losses. Steve Blumenthal calls this ""The Merciless Math of Loss" because "compounding works differently on the way up than it does on the way down".

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Wednesday -- Beijing ordered government officials not to use Apple's iPhones, or other foreign-branded devices, at work. And, as if by magic, Chinese consumers have a ready-made alternative. Smartphone rival, Huawei, released its new high-speed phone last week, and it has been in high demand. China accounted for about 18% of Apple's revenue over the past five years, and the tech giant's shares tumbled 3.5% on Wednesday.

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According to the Federal Reserve's latest Beige Book survey of regional district banks, consumers spent more than expected on tourism but are reining in spending on nonessential retail items. They are also turning to borrowing to support spending after exhausting their savings.

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Inflation-squeezed Americans are defaulting on their credit cards and auto loans at levels not seen since the financial crisis – and the struggle to pay their bills is poised to get worse as interest rates rise and the moratorium on student loans expires.

Low-income and middle-income earners have been especially hit hard by soaring prices on everything from rent, groceries, and new and used cars despite the Federal Reserve's attempts to tamp down stubbornly-high inflation.

This year, credit card delinquencies have hit 3.8%, while 3.6% have defaulted on their car loans, according to credit agency Equifax. Both figures are the highest in more than 10 years.

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Excerpt from Michael Levitt's article "This is Later"

Until our society again values high standards of achievement, character and decency, we stand no chance of cleaning up the messes that the people currently governing our country created. There is no market for truth in America. Accordingly, there is a total lack of candor regarding the true state of the American and global economy. Headlines like "Resilient Economy Defies Expectations" that appeared over the byline of Fed whisperer Nick Timiraos in The Wall Street Journal on September 2 are eyewash designed to distract the masses from the underlying rot. Wherever you turn, the media and Wall Street are focused on discussions of topics that only matter if you have the life-span of a dragonfly (4-6 months).

Patrick Watson's summary of the article ended with, "A crisis is coming not because anyone wants it, but because the events we've allowed leave no other option."

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Excellent interview between Charles Gave and Ed D'Agostino is available [here](#).

[Market Barometers](#)

← Use this link to see all the market barometer charts

Market barometer indexes all declined this week.



A Closer Look

The SPX slid about 1.25% this week with a tiny up move on Friday. NYAD and the percentage of stocks above their 50-day and 200-day averages confirmed price movements.



Chart links: [SPX Price](#), [Advances Minus Declines](#), [Stocks Above 50&200 Averages](#), [NewHigh–NewLows](#)

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SPX Sector Universe Analysis for 08-Sep-2023							
Symbol	Description	Instr	MTA 3	RelStr	CMF	NH/NL	MCHist
XLE	CAP-WTD ENERGY (LG)	ETF	UP	4.44:0.91	-DN-	31/0	0.5
IYT	CAP-WTD TRANSPORT NDX	ETF	UP	2.90:0.91	≡DN≡	0/10	-0.4
ITB	CAP-WTD HOME CONSTRUCTION (SML)	ETF	UP	2.83:0.91	=UP=	0/2	0.1
XLF	CAP-WTD FINANCIALS (XL)	ETF	UP	2.58:0.91	<<dn>>	0/2	0.1
XLY	CAP-WTD CONSUMER DISCR (XL)	ETF	UP	2.31:0.91	UP	1/2	0.4
XLI	CAP-WTD INDUSTRIALS (LG)	ETF	UP	2.23:0.91	≡DN≡	0/10	-0.2
XLC	CAP-WTD COMMUNICATION SRVCS	ETF	UP	2.14:0.91	≡DN≡	0/2	0.1
XRT	EQU-WTD RETAIL (XS)	ETF	UP	2.05:0.91	≡DN≡	0/2	-0.3
SPX	CAP-WTD S&P 500 INDEX	INDEX	UP	1.59:0.91	DN	0/2	0.1
XLB	CAP-WTD MATERIALS (MD)	ETF	UP	1.25:0.91	=dn=	0/2	0.1
XLK	CAP-WTD INFO TECHNOLOGY (XXL)	ETF	UP	1.24:0.88	UP	5/2	0.5
XLV	CAP-WTD HEALTH CARE (XL)	ETF	UP	0.98:0.91	DN	0/8	-0.3
ITA	CAP-WTD SPACE & DEFENSE (SML)	ETF	UP	0.32:0.91	≡DN≡	0/13	-0.3
XLRE	CAP-WTD REAL ESTATE (MD)	ETF	UP	0.00:0.91	DN	0/2	0.2
XLP	CAP-WTD CONSUMER STAPLES (LG)	ETF	DN	-0.98:0.91	=dn=	0/25	-0.1
XLU	CAP-WTD UTILITIES (MD)	ETF	DN	-2.03:0.91	=dn=	1/46	0.1

XLE jumped to the top of the top five, and discretionary spending, XLY, declined to 5th.

1. XLE — energy
2. IYT — transportation
3. ITB — home builders
4. XLF — financials
5. XLY — consumer discretionary

Sector Relative-Strength History

13 weeks of slope history for the 16 sector ETFs and the SPX.

Capital-Weighted Sector ETFs Relative Strength History

16-Jun-2023 to 08-Sep-2023

16 Jun	23 Jun	30 Jun	07 Jul	14 Jul	21 Jul	28 Jul	04 Aug	11 Aug	18 Aug	25 Aug	01 Sep	08 Sep
TECHS	TECHS	TECHS	TECHS	TECHS	DISCR	BLDRS	BLDRS	BLDRS	BLDRS	BLDRS	ENRGY	ENRGY
COMMS	COMMS	DISCR	DISCR	DISCR	BLDRS	DISCR	DISCR	TRANS	TRANS	TRANS	BLDRS	TRANS
BLDRS	DISCR	COMMS	BLDRS	BLDRS	TECHS	TECHS	TRANS	DISCR	DISCR	ENRGY	TRANS	BLDRS
DISCR	BLDRS	BLDRS	COMMS	COMMS	COMMS	TRANS	TECHS	TECHS	COMMS	DISCR	FINAN	FINAN
SP500	SP500	SP500	SP500	SP500	TRANS	COMMS	COMMS	COMMS	FINAN	FINAN	DISCR	DISCR
SALES	SALES	SALES	SALES	TRANS	SP500	SP500	SP500	INDUS	SALES	COMMS	INDUS	INDUS
STAPL	TRANS	TRANS	TRANS	SALES	SALES	SALES	SALES	SALES	TECHS	SALES	SALES	COMMS
TRANS	INDUS	INDUS	INDUS	INDUS	INDUS	INDUS	INDUS	SP500	INDUS	INDUS	COMMS	SALES

Equal-Weighted Sector ETFs Relative Strength History

16-Jun-2023 to 08-Sep-2023

16 Jun	23 Jun	30 Jun	07 Jul	14 Jul	21 Jul	28 Jul	04 Aug	11 Aug	18 Aug	25 Aug	01 Sep	08 Sep
BLDRS	BLDRS	BLDRS	BLDRS	BLDRS	BLDRS	BLDRS	BLDRS	BLDRS	BLDRS	ENRGY	ENRGY	ENRGY
SP500	TECHS	TECHS	TECHS	TRANS	TRANS	TRANS	TRANS	TRANS	TRANS	BLDRS	BLDRS	BLDRS
TECHS	SP500	SP500	TRANS	TECHS	TECHS	INDUS	INDUS	ENRGY	ENRGY	TRANS	TRANS	FINAN
TRANS	TRANS	TRANS	SP500	SP500	INDUS	TECHS	TECHS	INDUS	FINAN	FINAN	FINAN	TRANS
STAPL	INDUS	INDUS	INDUS	INDUS	SP500	SP500	DISCR	DISCR	INDUS	INDUS	INDUS	INDUS
INDUS	COMMS	COMMS	DISCR	DISCR	DISCR	DISCR	SP500	FINAN	SALES	SALES	SALES	SALES
COMMS	DISCR	DISCR	COMMS	COMMS	COMMS	COMMS	ENRGY	TECHS	DISCR	DISCR	SP500	SP500
DISCR	STAPL	DFEND	DFEND	DFEND	DFEND	SALES	SALES	SALES	TECHS	SP500	TECHS	TECHS

Legend

Cap-Wtd	Equal-Wtd	Synonym	Sector Name	Cap-Wtd	Equal-Wtd	Synonym	Sector Name
13. ITA 0.32	10. XAR 1.08	DFEND	AEROSPACE & DEFENSE	6. XLI 2.23	5. RSPN 2.33	INDUS	INDUSTRIALS
7. XLC 2.14	13. RSPC 0.57	COMMS	COMMUNICATION SRVCS	10. XLB 1.25	9. RSPM 1.31	MATER	MATERIALS
5. XLY 2.31	11. RSPD 1.08	DISCR	CONSUMER DISCR	14. XLRE -0.01	12. RSPR 0.69	REALE	REAL ESTATE
15. XLP -0.98	15. RSPS -1.64	STAPL	CONSUMER STAPLES	8. RTH 2.10	6. XRT 2.05	SALES	RETAIL
1. XLE 4.44	1. RSPG 6.41	ENRGY	ENERGY	9. SPX 1.59	7. SPX 1.59	SP500	S&P 500
4. XLF 2.58	3. RSPF 3.24	FINAN	FINANCIALS	11. XLK 1.24	8. RSPT 1.48	TECHS	TECHNOLOGY
12. XLV 0.98	14. RSPH -0.28	HLTHY	HEALTH CARE	2. IYT 2.90	4. XTN 2.71	TRANS	TRANSPORTATION
3. ITB 2.83	2. XHB 3.86	BLDRS	HOMEBUILDERS	16. XLU -2.03	16. RSPU -1.65	UTILS	UTILITIES

Alphabetically, the top 5 In the Cap-Weighted Sector ETFs are Builders, Discretionary Spending, Energy, Financials, and Transports, which is the same as the last 3 weeks.

Detail of XLY



XLY has been climbing since January, but falling since mid-July. If I were holding XLY and it broke the rising purple line, I would sell it immediately. On the other hand, if I were waiting to buy it and it broke up through the green line on positive money flow, I would buy it.

A converging channel indicates pressure is building. Eventually, price has to break out one way or the other, and that break out tends to be a big move. Those two trendlines will cross in the first week of October, and my guess is that the breakout will be in the next two weeks.

A breakout on low volume could be a head-fake, so be careful. But a breakout on heavy volume is usually the real thing.

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