

Weekly Market Analysis #489 — 22 December 2023

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This Week

According to credible sources, inflation is weakening and the economy is slowing. Oddly enough, the SPX options market is pricing in increased risk, so this might mean that the "consolidation" that started this week might actually be a market high developing.

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Federal Reserve Bank of Chicago President Austan Goolsbee cautioned that it's too early to declare victory in the central bank's fight to push the economy to a soft landing target of 2% inflation without a big downturn, saying it's an overstatement to start "counting the chickens."

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Vic Lederman said:

...the Dow is really old. It's the second-oldest stock market index in the U.S. It was created in 1896. (If you're curious, the Dow Jones Transportation Average is the oldest index. It started in 1884.)

Admittedly, the Dow isn't perfect...You see, most indexes these days are "market-cap weighted." That means stocks with the highest market caps make up a bigger chunk of the index. But the Dow doesn't work like that... Instead, it's "price weighted." That means the company with the highest share price is the largest holding. Right now, that's UnitedHealth (UNH). Its stock is around \$520 per share.

This type of weighting is nonsense...After all, we live in a world of stock splits and fractional shares. That means a company can adjust its share price at any time without changing the true value of the shares. So why does an old index with a goofy measurement system matter? That's easy... It tells us something important is happening with the broad market.

These days, the world's largest companies by market cap dominate indexes like the S&P 500 and Nasdaq 100. As a result, many so-called "broad market" exchange-traded funds ("ETFs") just measure what the biggest players are doing. They struggle with measuring actual economic activity.

So it's incredibly important to see the Dow making new highs. Despite the index's flawed weighting system, this basket of stocks gives us a vital look at the U.S. Economy. Even better, history tells us that new highs for the Dow are a "bullish" sign...

I recently looked at the Dow going back to 1950. And what I found was clear...After a new 52-week high in that span, the Dow went on to gain an average of 7% over the next year. The average return over all one-year periods since 1950 is only about 4%. This indicator has a 71% win rate, too. That means 71% of the time since 1950, the Dow has been higher a year later. In other words... history tells us to expect more good times in 2024.

[Market Barometers](#)

← Use this link to see all the market barometer charts

All five of the major indexes are still up.



A Closer Look

The SPX made a 99-week high but ended the week up just 0.75%. The advance-decline did better than price. And stocks above their 50-day and 200-day averages remained near the top of their scale.



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

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

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

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

SPX Sector Universe Analysis for 22-Dec-2023							
Symbol	Description	Instr	MTA 3	RelStr	CMF	NH/NL	MCHist
ITB	CAP-WTD HOME CONSTRUCTION (SML)	ETF	UP	8.74:3.40	up	1/1	0.5
XRT	EQU-WTD RETAIL (XS)	ETF	UP	6.03:3.40	=up=	45/1	0.6
XLRE	CAP-WTD REAL ESTATE (MD)	ETF	UP	5.33:3.40	up	1/2	-0.1
ITA	CAP-WTD SPACE & DEFENSE (SML)	ETF	UP	4.99:3.40	=up=	888/2	-0.2
XLK	CAP-WTD INFO TECHNOLOGY (XXL)	ETF	UP	4.66:3.40	=up=	999/2	-0.1
IYT	CAP-WTD TRANSPORT NDX	ETF	UP	4.44:3.40	up	20/1	-0.1
XLF	CAP-WTD FINANCIALS (XL)	ETF	UP	4.30:3.40	=up=	85/2	-0.1
XLY	CAP-WTD CONSUMER DISCR (XL)	ETF	UP	3.73:3.40	=up=	85/1	0.2
XLI	CAP-WTD INDUSTRIALS (LG)	ETF	UP	3.39:3.40	=up=	999/2	0.1
SPX	CAP-WTD S&P 500 INDEX	INDEX	UP	3.05:3.40	=up=	99/2	0.1
XLB	CAP-WTD MATERIALS (MD)	ETF	UP	2.76:3.40	«UP»	20/1	0.2
XLC	CAP-WTD COMMUNICATION SRVCS	ETF	UP	2.50:3.40	=up=	95/1	0.2
XLU	CAP-WTD UTILITIES (MD)	ETF	UP	1.85:3.40	=DN=	1/4	-0.6
XLV	CAP-WTD HEALTH CARE (XL)	ETF	UP	1.30:3.40	=up=	1/2	0.0
XLP	CAP-WTD CONSUMER STAPLES (LG)	ETF	DN	0.83:3.40	=up=	1/2	-0.2
XLE	CAP-WTD ENERGY (LG)	ETF	DN	-1.88:3.40	«up»	7/1	0.7

All but two sectors have positive MTAs now.

Sector Relative-Strength History

13 weeks of slope history for the 15 sector ETFs and the SPX.

29 Sep	06 Oct	13 Oct	20 Oct	27 Oct	03 Nov	10 Nov	17 Nov	24 Nov	01 Dec	08 Dec	15 Dec	22 Dec
ENRGY	ENRGY	ENRGY	ENRGY	ENRGY	ENRGY	ENRGY	TECHS	TECHS	TECHS	BLDRS	BLDRS	BLDRS
FINAN	FINAN	FINAN	COMMS	COMMS	COMMS	COMMS	COMMS	DFEND	DFEND	TECHS	SALES	SALES
COMMS	COMMS	COMMS	FINAN	FINAN	HLTHY	HLTHY	DFEND	COMMS	BLDRS	DFEND	DFEND	REALE
DISCR	DISCR	HLTHY	HLTHY	HLTHY	FINAN	FINAN	FINAN	BLDRS	COMMS	SALES	TECHS	DFEND
SP500	SP500	SP500	SP500	SP500	SP500	DFEND	SP500	FINAN	FINAN	REALE	REALE	TECHS
INDUS	HLTHY	MATER	MATER	MATER	MATER	SP500	BLDRS	SP500	SP500	FINAN	FINAN	TRANS
MATER	MATER	DISCR	INDUS	INDUS	TECHS	TECHS	SALES	SALES	SALES	COMMS	TRANS	FINAN
HLTHY	INDUS	INDUS	DISCR	TECHS	DFEND	MATER	UTILS	UTILS	REALE	SP500	DISCR	DISCR
TRANS	TECHS	TECHS	TECHS	SALES	INDUS	SALES	INDUS	DISCR	DISCR	DISCR	INDUS	INDUS
TECHS	TRANS	SALES	SALES	DISCR	SALES	INDUS	DISCR	REALE	UTILS	TRANS	SP500	SP500
SALES	SALES	TRANS	TRANS	DFEND	STAPL	STAPL	HLTHY	INDUS	INDUS	INDUS	COMMS	MATER
BLDRS	BLDRS	REALE	DFEND	TRANS	DISCR	UTILS	ENRGY	MATER	MATER	UTILS	MATER	COMMS
REALE	REALE	DFEND	REALE	STAPL	UTILS	DISCR	REALE	STAPL	TRANS	MATER	UTILS	UTILS
DFEND	DFEND	BLDRS	STAPL	REALE	TRANS	REALE	MATER	HLTHY	STAPL	STAPL	HLTHY	HLTHY
UTILS	STAPL	STAPL	UTILS	UTILS	REALE	TRANS	STAPL	TRANS	HLTHY	HLTHY	STAPL	STAPL
STAPL	UTILS	UTILS	BLDRS	BLDRS	BLDRS	BLDRS	TRANS	ENRGY	ENRGY	ENRGY	ENRGY	ENRGY

Legend

Cap-Wtd	Equal-Wtd	Synonym	Sector Name	Cap-Wtd	Equal-Wtd	Synonym	Sector Name
4. ITA 4.99	3. XAR 5.42	DFEND	AEROSPACE & DEFENSE	9. XLI 3.39	9. RSPN 3.55	INDUS	INDUSTRIALS
12. XLC 2.50	12. RSPC 2.81	COMMS	COMMUNICATION SRVCS	11. XLB 2.76	11. RSPM 2.99	MATER	MATERIALS
8. XLY 3.73	7. RSPD 4.29	DISCR	CONSUMER DISCR	3. XLRE 5.33	6. RSPR 4.85	REALE	REAL ESTATE
15. XLP 0.83	15. RSPS 0.96	STAPL	CONSUMER STAPLES	2. XRT 6.03	2. XRT 6.03	SALES	RETAIL
16. XLE -1.88	16. RSPG -1.48	ENRGY	ENERGY	10. SPX 3.05	10. SPX 3.05	SP500	S&P 500
7. XLF 4.30	4. RSPF 5.27	FINAN	FINANCIALS	5. XLK 4.66	5. RSPT 4.94	TECHS	TECHNOLOGY
14. XLV 1.30	13. RSPH 2.12	HLTHY	HEALTH CARE	6. IYT 4.44	8. XTN 3.86	TRANS	TRANSPORTATION
1. ITB 8.74	1. XHB 7.66	BLDRS	HOMEBUILDERS	13. XLU 1.85	14. RSPU 2.09	UTILS	UTILITIES

The top 5 sectors are the same this week but in a somewhat different order.

This Week's Selections

My choices for last week were: ITA 10%, ITB 10%, XLC 10%, XLI 10%, XLF 10%, XLK 10% XLRE 10%, and BIL 30%.

Top ETFs By Slope

Current Holdings

Sym	Slope	Stop	Last
ITB	8.74% ↑↑	\$98.83	\$101.44—
XLRE	5.33% ↑↑	\$38.26	\$39.73 ↓
ITA	4.99% ↑↑	\$123.93	\$125.92↑↑
XLK	4.66% ↑↑	\$188.37	\$192.05—
XLF	4.30% ↑↑	\$36.65	\$37.34 —
XLI	3.39% ↑↑	\$110.65	\$113.13—
XLC	2.50% ↑↑	\$71.03	\$72.61 ↑↑
BIL	0.00% —	\$90.85	\$91.31 —

High-Slope Sectors ETFs

Sym	Slope	Long	Last
XRT	6.03% ↑↑	no	\$70.85 ↑↑
IYT	4.44% ↑↑	no	\$264.53 ↑
XLY	3.73% ↑↑	BUY	\$179.21 ↑↑
SPX	3.05%	Index	\$4719.19↑↑
XLB	2.76%	no	\$85.17 ↑↑
XLU	1.85% —	no	\$63.97 ↑
XLV	1.30%	no	\$135.02 ↑↑
XLP	0.83%	no	\$71.22 ↓

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

Analysis

[ITB](#) is consolidating just above support near \$100. Money flow remains positive. [XLRE](#) gapped above \$40 on Dec 14th, then stalled. It would be easy to build a case for selling it now; however, look at the 7-week trendline channel. If it stays in the channel, I'll wait and see. If it closes below the lower bound of the channel, I'll sell it. [ITA](#) made a 17-year high, then on Wednesday its MACD turned red. Then on Thursday it closed above \$125 again. If it closes below the ATS, then I'll sell. [XLK](#) made an all-time high, then on Wednesday.... Oh, wait, I've seen this movie.

[XLF](#) made an 85-week high. I set my stop (\$36.65) 32 cents below the ATS to give XLF a little wiggle room, but not too much.. [XLI](#) made another all-time high but it's pattern looks familiar. Many of the sectors are moving with the SPX. [XLC](#) made a 95-week high, but despite it's lower slope, it ended the week up 2.24%, almost 3 times the SPX's 0.75%.

[XRT](#) made a 45-week high and it's holding above \$70 and all 6 basic charts are up. [IYT](#)'s CMF turned up at the end of October and it has been strongly positive since mid-November. OBV has also been climbing since late October. Price is within \$3 of its July 31st close at \$267.16. If it breaks that it will make a 21-month high. [XLY](#) made an 85-week high. CMF & OBV continue to climb. All basic charts are up. [SPX](#) made a 99-week high on Tuesday and is pushing up toward the Dec 2021 high. All basic charts are up.

[XLB](#)'s closed within 12 cents of its 31 July high close. When it closes above\$85.72 it will make a 19-month new high. Most basic charts are up but CMF is neutral and volume has been declining for 9 days. [XLU](#) currently fluctuates in a cycle that big enough (price) and wide enough (time) to whipsaw the MTA, so for this ETF we cannot rely that indicator. Even the smoothed slope has a little too much lag for this one. No indicator works for all securities, all the time. Trendline channels and the basic charts work for XLU. [XLV](#) — The 77-week trendline channel and its almost-horizomal centerline says more than any other indicator at this time. [XLP](#) made a low in October 2023 that was lower than the low in October 2022. The advance that followed was lackluster.

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Thoughts and Decisions

I like XLY because its CMF and OBV are both steadily up, it's trend is high enough to be interesting but low enough to be sustainable. If it's CMF start to decline toward zero, be ready to exit.

My sector choices for this week are: ITA 10%, ITB 10%, XLC 10%, XLI 10%, XLF 10%, XLK 10% XLRE 10%, XLY 10%, and BIL 20%.

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Other Securities You May Find Interesting

[DBC](#) — DB Commodity Index ETF — tracks a diversified commodity index

No

[EPD](#) — Enterprise Products Partners — provider of midstream energy services to producers of natural gas, natural gas liquids (NGLs), crude oil, petrochemicals and refined products

Possible support near \$26...maybe.

[KIE](#) — SPDR S&P Insurance Sector ETF

November rally is broken.

[URA](#) — Uranium — global uranium mining industry ETF

Money flow is flat as price tests \$30.

[USO](#) — United States Oil Fund — invests primarily in futures contracts for light, sweet crude oil, other types of crude oil, diesel-heating oil, gasoline, natural gas, and other petroleum-based fuels.

May have found support near \$65. Wait for price above \$70 and good money flow.

[UUP](#) — US Dollar ETF

Back below \$29.09 to \$27.34 last weekend. Oops.