

# ALPHA INSIGHTS

GLOBAL MARKET ANALYSIS | SECTOR ROTATION MODELS | ACTIONABLE STOCK IDEAS

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# EXECUTIVE SUMMARY

## ❑ [U.S. Equity Markets \(Page 3\)](#)

The S&P 500 made a modest new high in June, recovering the majority of the prior month's decline, and the trend of the market has turned decidedly up and to the right. So why have we attached a 70% probability to our "Bear Case" scenario? Under this hypothesis, "wave d" of a five point expanding triangle should peak somewhere in the 2980-3050 range, based upon certain Fibonacci relationships to past highs and lows. Market breadth has now improved to a level that we consider neutral, yet investor sentiment, as measured by the VIX, remains optimistic to say the least, while a new Dow Theory non-confirmation has materialized, and another between large-cap and small-caps persists. We downgraded our opinion on equities to Bearish last month and maintain that view in anticipation of the "wave e" decline ahead. This final downside move in the pattern should take on the characteristics of a washout decline that surpasses the December low before terminating.

## ❑ [Sector Rotation \(Page 16\)](#)

Our monthly RS-Momentum analysis of the eleven S&P 500 equally-weighted sectors ranks Staples, Financials, Utilities, Real Estate, and Communications as leadership, with notable improvement from Health Care. Industrials and Technology have been weakening, while Materials, Discretionary, and Energy are lagging.

## ❑ [Portfolio Positioning \(Page 29\)](#)

We detail our list of long and short alpha candidates by sector for the month of July. We examine last month's portfolio attribution and results in our [June performance report card \(page 41\)](#).

## ❑ [Foreign Equity Markets \(Page 42\)](#)

We examine and detail our opinions on 15 developed and emerging foreign equity markets including Canada, UK, Australia, Germany, France, Italy, Spain, Switzerland, Netherlands, Japan, China, India, Brazil, Russia, and Frontier Markets.

## ❑ [Macro Perspectives \(Page 60\)](#)

We examine and detail our opinions on commodities, gold, WTI crude oil, MLPs, Bitcoin, the US Dollar index, the EUR/USD and JPY/USD crosses, and the 10-year US Treasury yield.

## ❑ [Appendix \(Page 70\)](#)

Methodology; Analyst Bio; Disclaimer.



Source: Hedgeye.com

# U.S. EQUITY MARKETS

- ☐ Large-Cap
- ☐ Mid-Cap
- ☐ Small-Cap
- ☐ Factor & Style Box Leadership
- ☐ Breadth, Sentiment, Dow Theory, Economic Cycle, & Yield Curve

# TWO POTENTIAL PATHS FOR THE S&P 500

## Bull Case Scenario:

### Impulsive Wave (5) Already in Progress



## Bear Case Scenario:

### Corrective Wave (4) Expanding Triangle



# U.S. LARGE CAP S&P 500 INDEX

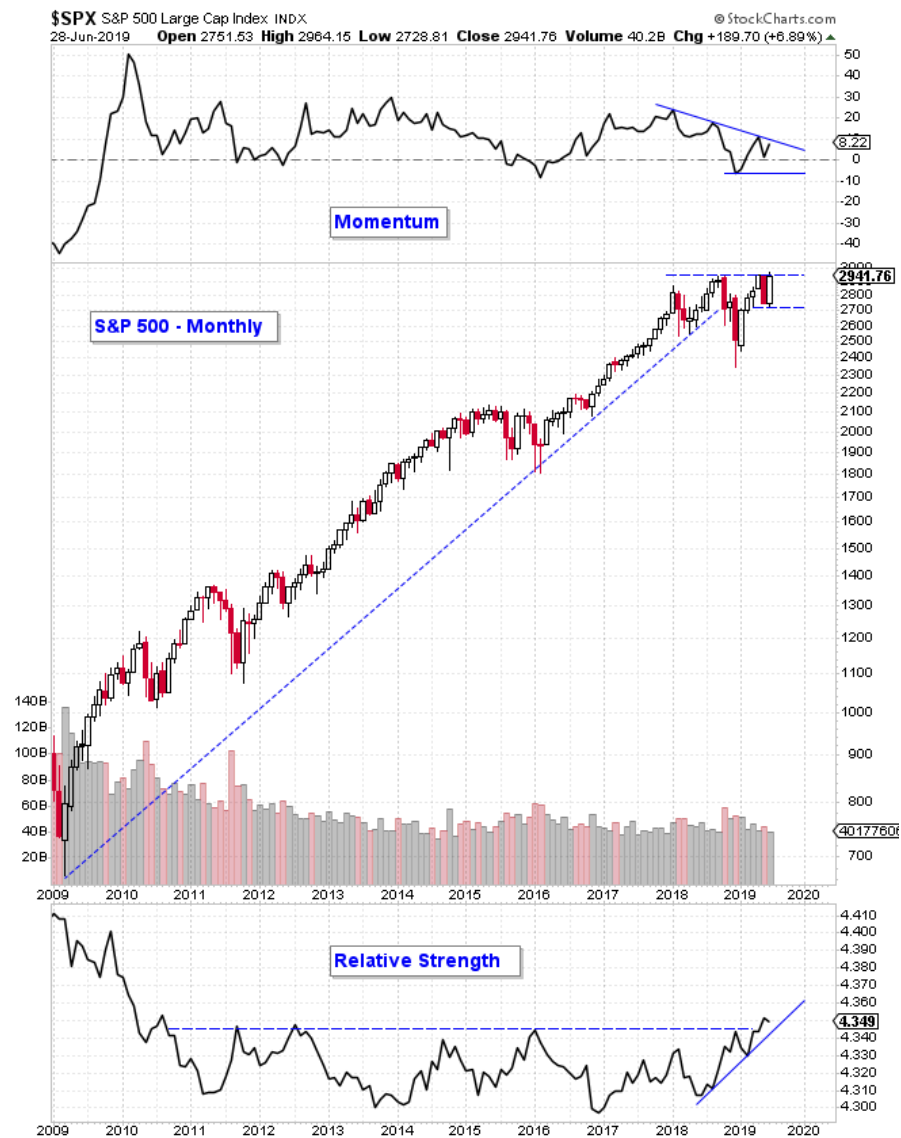
## BEARISH (+17.35% YTD)

### Observations:

- ❑ **Price** made a modest new high in June, nearly reversing its performance during the May meltdown, but closing below key resistance. If “wave d” is indeed underway, it should terminate in the area of 2980-3050 based upon certain Fibonacci relationships.
- ❑ **Momentum** remains positive, but has stalled at trend line resistance. A triple negative divergence remains in place.
- ❑ **Relative strength** of large-cap stocks have now definitively overtaken their small and mid-cap peers, inflecting above the upper boundary of an 8-year trading range, suggesting a new risk-off bias.
- ❑ **Key Resistance** = 2950
- ❑ **Key Support** = 2725

### Conclusions:

- ❑ **Maintaining Bearish view.** Underweight large-cap equity exposure. A breach of key support would confirm that a new bear market is in progress. A monthly close back above key resistance, while unlikely, would move our opinion to Neutral.
- ❑ **Target** = 2250



Source: StockCharts.com

# U.S. MID CAP S&P 400 INDEX

## BEARISH (+16.99% YTD)

### Observations:

- ❑ **Price** failed to make new high in April, creating a non-confirmation between mid and large-cap stocks. The subsequent collapse in May confirmed that fractured condition with the lowest monthly close since December! June produced an inside month, bringing little new information to light.
- ❑ **Momentum** remains slightly negative after halting its advance and reversing back below the zero line in May. Its downtrend persists and a negative divergence remains in place.
- ❑ **Relative strength** of mid-cap stocks flattened somewhat in June after making a new 9-year low in May, thus confirming the downtrend in place.
- ❑ **Key Resistance = 2002**
- ❑ **Key Support = 1770**

### Conclusions:

- ❑ **Maintaining Bearish view.** Underweight mid-cap equity allocation. A breach of key support would confirm that a new bear market is in progress. A monthly close above key resistance, while unlikely, would move our opinion to Neutral.
- ❑ **Target = 1487**



Source: StockCharts.com

# U.S. SMALL CAP S&P 600 INDEX **BEARISH** (+12.82% YTD)

## Observations:

- ❑ **Price** action since last August remains consistent with the early stages of a developing bear market. The failure by price to make a new high in April created a non-confirmation between small and large-cap stocks. Subsequently, prices collapsed in May on record volume, posting the lowest monthly close since December! June produced an inside month, bringing little new information to light.
- ❑ **Momentum** ticked up after plunging below the zero line to make a new 9-year low in May. A large degree negative divergence remains in place.
- ❑ **Relative strength** of small-cap stocks made a new high last August, but has since collapsed, breaching a 10-year uptrend, while confirming a new downtrend.
- ❑ **Key Resistance** = 994
- ❑ **Key Support** = 879

## Conclusions:

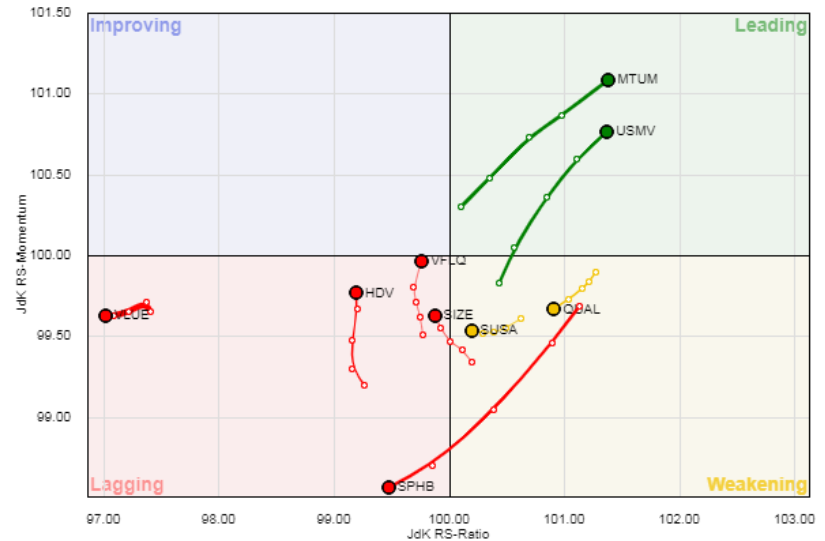
- ❑ **Maintaining Bearish view.** The bull market advance in small-caps off the 2009 low appears to have reached its terminal point. A monthly close above key resistance, while unlikely, would negate this view and result in the upgrade of our opinion to Neutral.
- ❑ **Target** = 643



Source: StockCharts.com

# MSCI FACTOR LEADERSHIP

<u>RS-Momentum Rank</u>	<u>JUN Return</u>	<u>TTM Return</u>
1. Momentum (MTUM)	+ 6.1%	+ 9.9%
2. Low Volatility (USMV)	+ 5.0%	+ 18.7%
3. High Liquidity (VFLQ)	+ 6.8%	- 5.1%
4. High Dividend (HDV)	+ 6.4%	+ 15.1%
5. High Quality (QUAL)	+ 7.1%	+ 11.9%
6. Small Market Cap (SIZE)	+ 7.5%	+ 10.7%
7. Env/Soc/Gov (SUSA)	+ 7.7%	+ 10.4%
8. High Beta (SPHB)	+ 10.3%	- 1.2%
9. Low Valuation (VLUE)	+ 9.6%	+ 0.8%

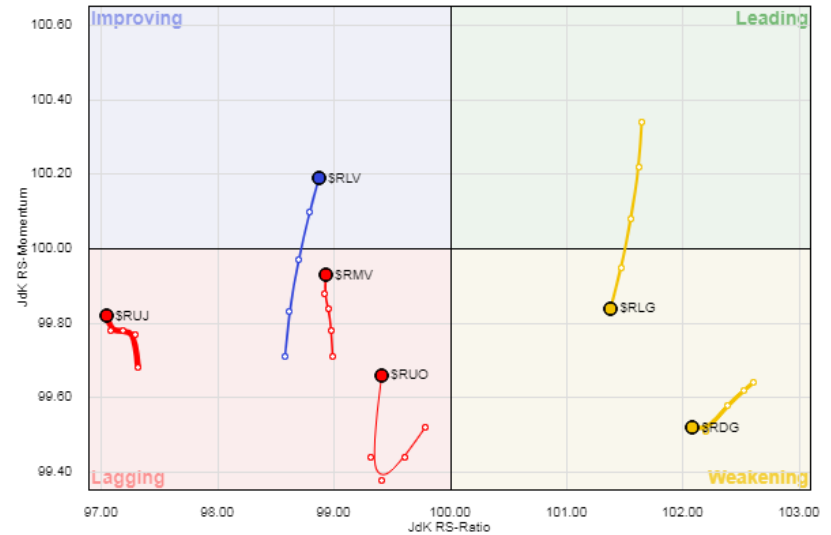


Source: StockCharts.com



# RUSSELL STYLE BOX LEADERSHIP

<u>RS-Momentum Rank</u>	<u>JUN Return</u>	<u>TTM Return</u>
1. Large-Cap Value (RLV)	+ 7.0%	+ 5.7%
2. Mid-Cap Value (RMV)	+ 6.5%	+ 1.4%
3. Large-Cap Growth (RLG)	+ 6.8%	+ 10.3%
4. Mid-Cap Growth (RDG)	+ 6.9%	+ 13.1%
5. Small-Cap Growth (RUO)	+ 7.6%	- 1.2%
6. Small-Cap Value (RUJ)	+ 6.1%	- 8.4%



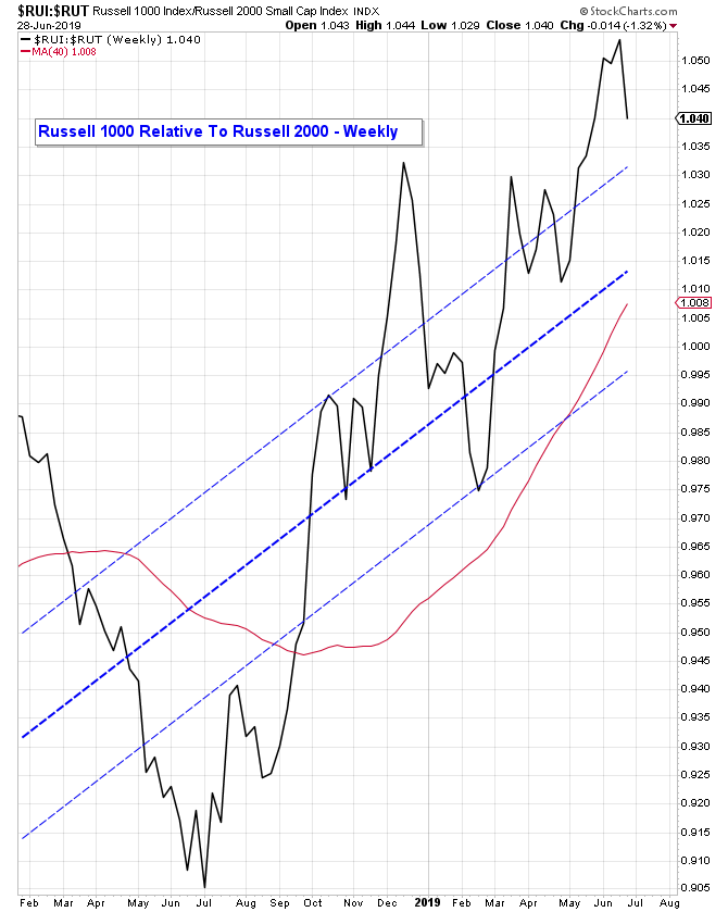
Source: StockCharts.com

# RUSSELL STYLE BOX...CONTINUED

## Growth May Be Peaking



## Large-Cap May Be Peaking



# MARKET BREADTH = NEUTRAL



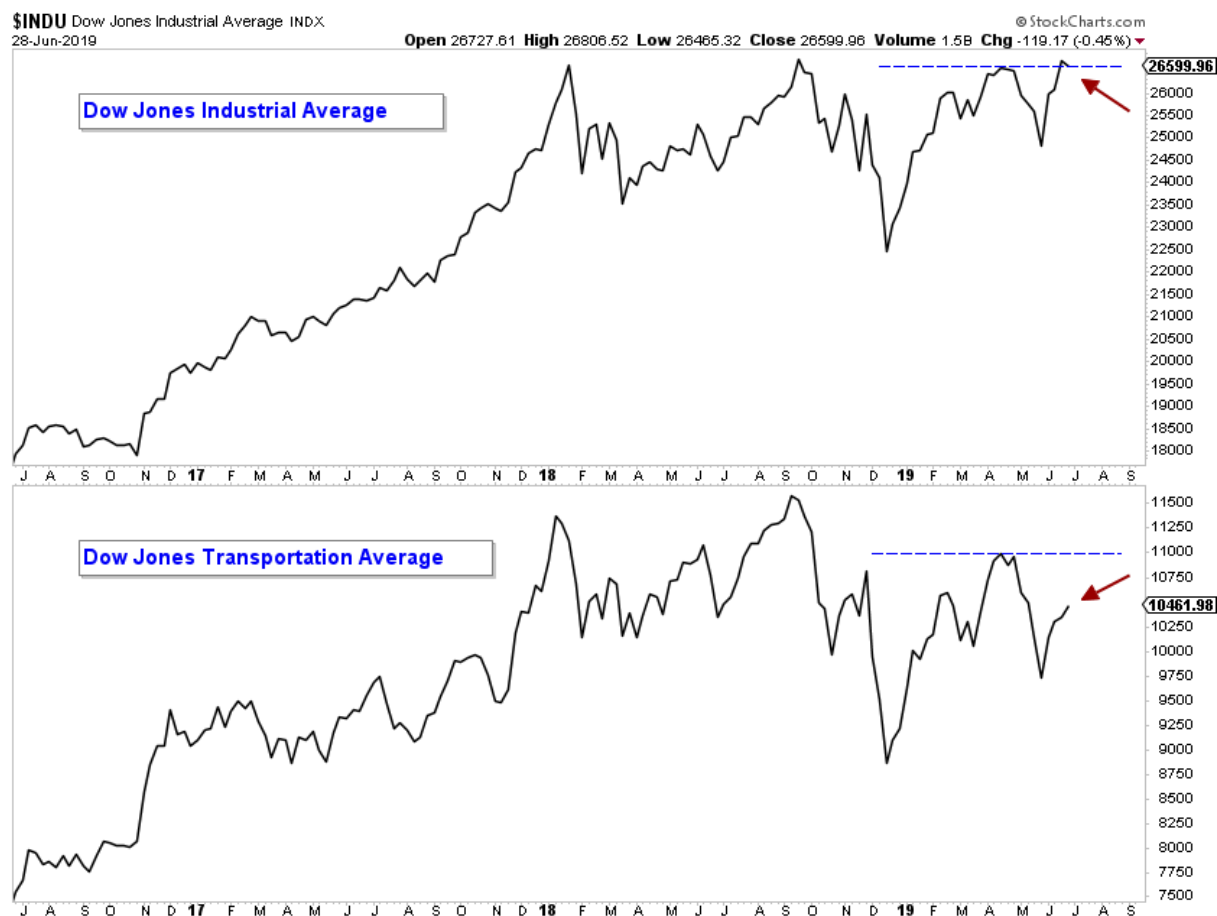
Source: StockCharts.com

# INVESTOR SENTIMENT = OPTIMISTIC



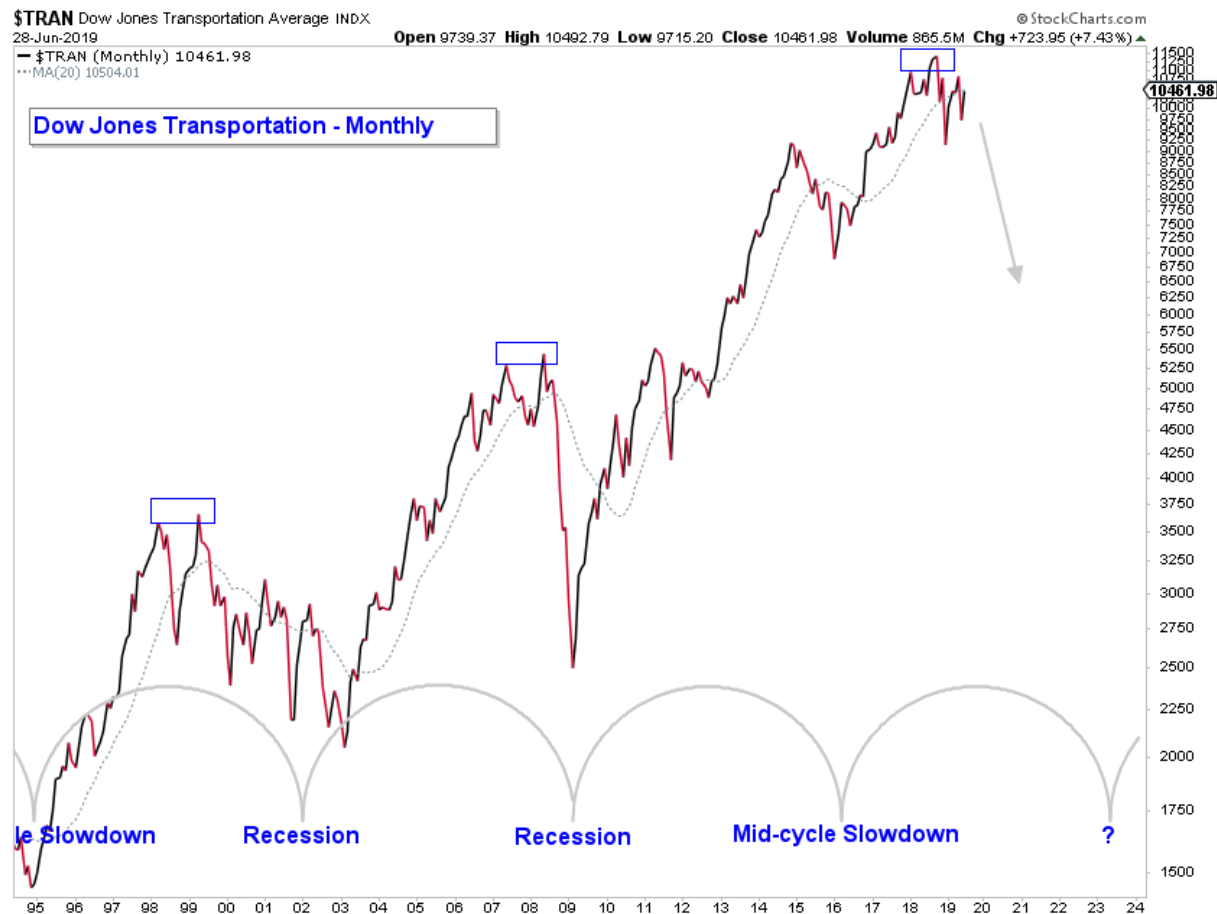
Source: StockCharts.com

# DOW THEORY = NON-CONFIRMATION



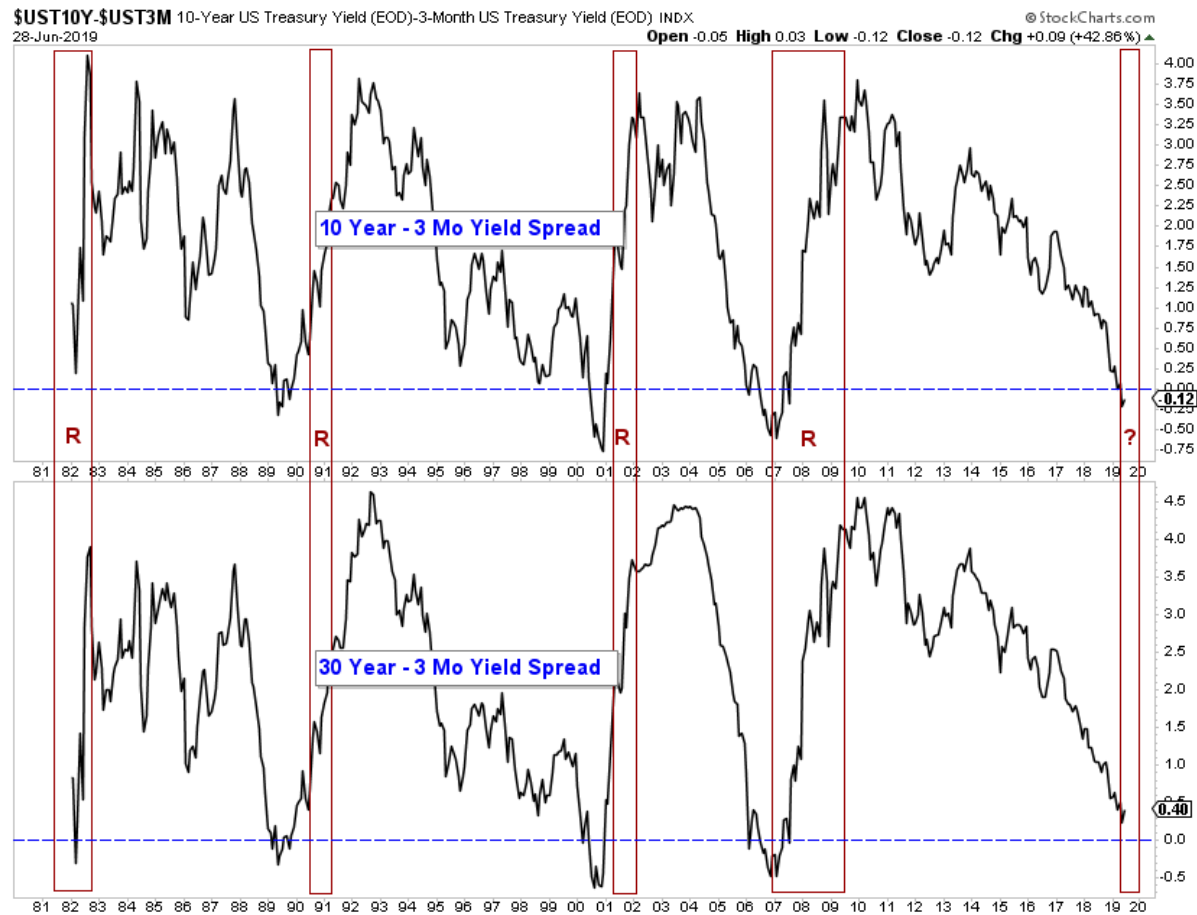
Source: StockCharts.com

# ECONOMIC CYCLE = PEAKING



Source: StockCharts.com

# YIELD CURVE = INVERTED/RECESSION RISK



Source: StockCharts.com



Source: Hedgeye.com

# SECTOR ROTATION

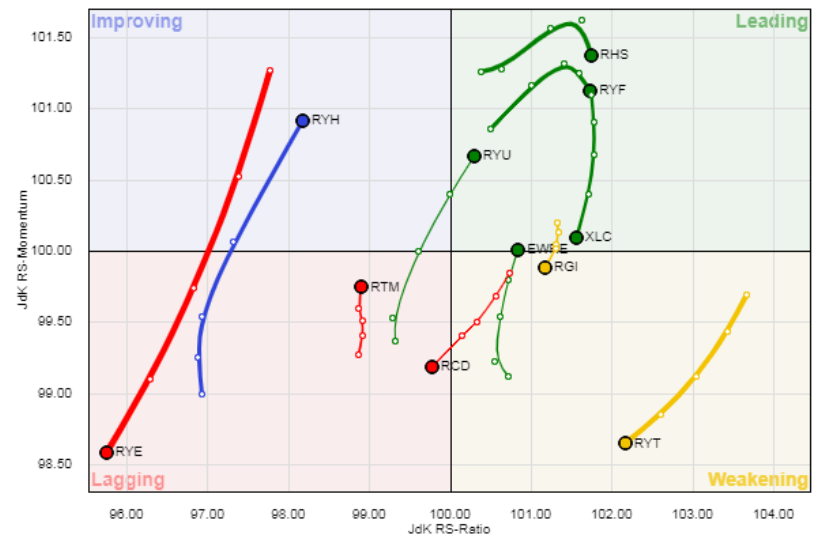
- ☐ S&P 500 Sector Leadership
  - ☐ Sector RS-Momentum Rank
  - ☐ Sector Technical Analysis



# S&P EQUAL-WEIGHT SECTOR LEADERSHIP

<u>RS-Momentum Rank</u>	<u>JUN Return</u>	<u>TTM Return</u>
1. Staples (RHS)	+ 4.6%	+ 9.6%
2. Financials (RYF)	+ 6.2%	+ 4.6%
3. Utilities (RYU)	+ 3.4%	+ 18.9%
4. Real Estate (EWRE)	+ 1.6%	+ 12.6%
5. Communications (EWCO)	+ 6.2%	+ 0.3%
6. Healthcare (RYH)	+ 8.5%	+ 11.8%
7. Industrials (RGI)	+ 8.8%	+ 11.9%
8. Technology (RYT)	+ 9.5%	+ 13.1%
9. Materials (RTM)	+ 12.0%	+ 4.2%
10. Discretionary (RCD)	+ 8.2%	+ 2.9%
11. Energy (RYE)	+ 9.5%	- 20.2%

**S&P 500 Sector RS-Momentum Chart**



Source: StockCharts.com

# S&P 500 EQUAL-WEIGHT STAPLES SECTOR

## LEADING (+16.20% YTD)

### Observations:

- ❑ **Price** rallied to a new all-time high in June, but closed short of key resistance. The attendant weak volume is concerning, and leaves some doubt about the potential for follow through.
- ❑ **Momentum** turned down, but remains positive after penetrating the upper boundary of its descending trend channel. A successful challenge of the 2018 high would negate a prior negative divergence.
- ❑ **Relative strength** vs. the average S&P stock had collapsed since 2016, but appears to have bottomed in mid-2018 and is now struggling to reverse higher.
- ❑ **Key Resistance** = \$134
- ❑ **Key Support** = \$128

### Conclusions:

- ❑ Consumer Staples jumped one positions to the **#1 rank** in our sector RS-Momentum work this month.
- ❑ **Maintain Overweight.** Despite sluggish momentum and RS in June, strong price action gives us reason to favor this sector. KMB and EL, are clear leaders, while LW and KR remain standout laggards.
- ❑ Target = N/A



# S&P 500 EQUAL-WEIGHT FINANCIALS SECTOR

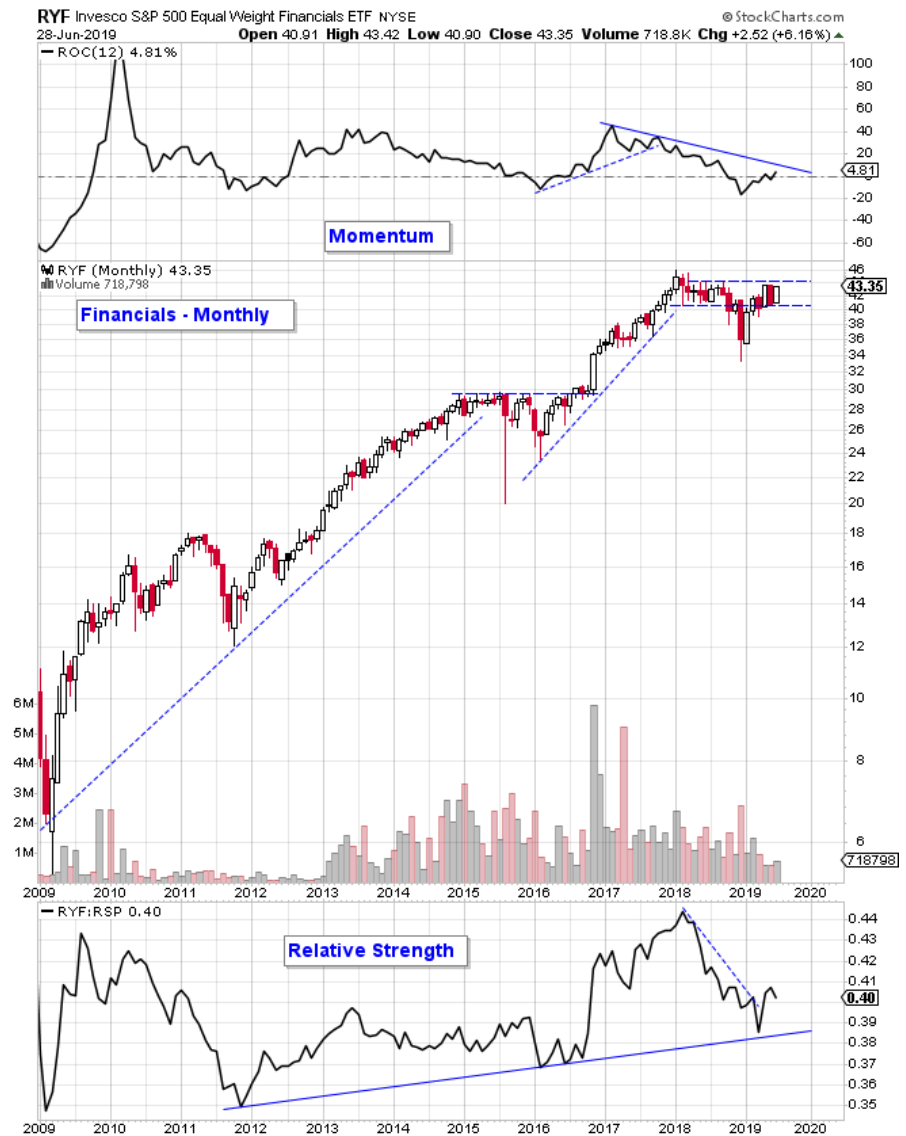
## LEADING (+20.54% YTD)

### Observations:

- ❑ **Price** remains range bound, closing on its high for the month, but below key resistance. June was an inside month, providing little new information.
- ❑ **Momentum** recovered above the zero line, but its downtrend persists, and a clear negative divergence remains in place.
- ❑ **Relative strength** vs. the average S&P stock broke down spectacularly in 1Q18, plunging to test trend line support ascending off the 2012/16 lows, and is struggling with its attempt at a bullish reversal.
- ❑ **Key Resistance** = \$44
- ❑ **Key Support** = \$41

### Conclusions:

- ❑ Financials jumped another four positions to the **#2 rank** in our RS-Momentum work this month.
- ❑ **Maintain Overweight.** Improved price action, confirmed by an uptick in momentum, gives us reason to favor this sector, despite a downtrend in RS. Insurers AON and MET are showing leadership, while discount brokers SCHW and ETFC are lagging.
- ❑ Target = N/A



Source: StockCharts.com

# S&P 500 EQUAL-WEIGHT UTILITIES SECTOR

## LEADING (+12.86% YTD)

### Observations:

- ❑ **Price** posted a new all-time monthly closing high in June, yet closed well-below it, leaving behind a long shadow. While not devastating to the bull case, more often than not, price action of this nature tends to precede a period of consolidation.
- ❑ **Momentum** ticked up in June, and remains positive, having penetrated a multi-year descending trend line, and negating a negative divergence.
- ❑ **Relative strength** vs. the average S&P stock broke out above a 2-year descending trend line in mid-2018, and is re-attempting a bullish reversal after consolidating its initial advance.
- ❑ **Key Resistance** = \$101
- ❑ **Key Support** = \$94

### Conclusions:

- ❑ Utilities jumped six positions to the **#3 rank** in our sector RS-Momentum work this month.
- ❑ **Increase to Market Weight.** Tepid price action and flat momentum support a neutral technical view on this sector. ETR is leading, while NRG is lagging.
- ❑ **Target = \$99** (achieved)



Source: StockCharts.com

# S&P 500 CAP-WEIGHT REAL ESTATE SECTOR LEADING (+17.59% YTD)

## Observations:

- ❑ **Price** posted a new all-time monthly closing high in June, yet closed well-below it, leaving behind a long shadow. While not devastating to the bull case, more often than not, price action of this nature tends to precede a period of consolidation.
- ❑ **Momentum** has flattened out, but remains positive after reversing above a multi-year descending trend line in January, and negating a negative divergence.
- ❑ **Relative strength** vs. the average S&P stock had been in decline since 2Q16, but has since bottomed in early 2018 and is now attempting a bullish upside reversal.
- ❑ **Key Resistance** = \$38
- ❑ **Key Support** = \$33

## Conclusions:

- ❑ Real Estate held at the **#4 rank** in our sector RS-Momentum work for the month.
- ❑ **Maintain Market Weight.** Despite solid price action, flattening momentum and RS raise doubt about the sustainability of this sectors leadership. Cellular Tower REITs EQIX and SBAC remain sector leaders.
- ❑ **Target = \$38 (achieved)**



Source: StockCharts.com

# S&P 500 CAP-WEIGHT COMMUNICATIONS SECTOR

## LEADING (+17.50% YTD)

### Observations:

- ❑ **Price** rallied sharply off a new four-month low, after initially breaching key support in early June, but closed the month below key resistance.
- ❑ **Momentum** remains slightly positive, but has halted its advance after testing a descending trend line off the 2018 highs. A negative divergence remains in place.
- ❑ **Relative strength** vs. the average S&P stock broke its downtrend, and is now struggling to reverse higher.
- ❑ **Key Resistance** = \$51
- ❑ **Key Support** = \$47

### Conclusions:

- ❑ Communications fell four positions to the **#5 rank** in our sector RS-Momentum work this month.
- ❑ **Maintain Overweight.** While price holds above key support, the odds still favor the bull case. DIS and DISH are leading, while TRIP and GOOGL lag.
- ❑ **Target= \$52**



# S&P 500 EQUAL-WEIGHT HEALTH CARE SECTOR IMPROVING (+14.45% YTD)

## Observations:

- ❑ **Price** rallied sharply in June, closing above prior key resistance, and recovering the forward progress lost to April and May.
- ❑ **Momentum** penetrated a descending trend line off the 2018 highs and remains positive, but a negative divergence remains in place.
- ❑ **Relative strength** vs. the average S&P stock peaked in December and has since reversed lower to breach an two-year ascending trend line. The month of June saw a decent ricochet off that low.
- ❑ **Key Resistance \$207**
- ❑ **Key Supports = \$186**

## Conclusions:

- ❑ Health Care moved up four positions to the **#6 rank** in our sector RS-Momentum work this month.
- ❑ **Increase to Market Weight.** A long awaited breakout after four failed challenges of key resistance, gave the bulls something new to cheer about. COO is a standout leader, while MYL is lagging badly.
- ❑ Target = N/A



# S&P 500 EQUAL-WEIGHT INDUSTRIAL SECTOR

## WEAKENING (+22.86% YTD)

### Observations:

- ❑ **Price** rallied to a new monthly closing high in June, recovering the May losses entirely, and closing back above prior key resistance.
- ❑ **Momentum** held above the zero line, but has stalled at trend line resistance, establishing a new triple negative divergence.
- ❑ **Relative strength** vs. the average S&P stock has penetrated year-long descending trend line off the 2018 highs, and is attempting to stage a bullish reversal.
- ❑ **Key Resistance** = \$126
- ❑ **Key Support** = \$115

### Conclusions:

- ❑ Industrials slipped two positions to the **#7 rank** in our RS-Momentum work this month.
- ❑ **Maintain Market Weight.** The new monthly closing high is encouraging, but it must be confirmed by momentum in order for it to hold any weight. ARNC and FBHS are sector leaders, while NLSN and GWW are lagging.
- ❑ **Target** = N/A



Source: StockCharts.com



# S&P 500 EQUAL-WEIGHT TECHNOLOGY SECTOR

## WEAKENING (+26.64% YTD)

### Observations:

- ❑ **Price** rallied sharply off a new four-month low, after breaching key support in May, but closed the month of June below key resistance.
- ❑ **Momentum** remains positive for now, but has struggled to overcome a descending trend line off the 2018 highs, thus establishing a triple negative divergence.
- ❑ **Relative strength** vs. the average S&P stock has staged a successful test of support after posting a new recovery high in April.
- ❑ **Key Resistance** = \$182
- ❑ **Key Support** = \$159

### Conclusions:

- ❑ Technology slipped another rung to the **#8 rank** in our sector RS-Momentum work for the consecutive month.
- ❑ **Maintain Market Weight.** The monthly close back above \$170 re-activates the bull case, but the technical picture suggests that if a new high materializes, it could be the last. Software stocks, including SNPS and ANSS, dominate the leader board.
- ❑ Target = N/A



# S&P 500 EQUAL-WEIGHT MATERIALS SECTOR LAGGING (+17.06% YTD)

## Observations:

- ❑ **Price** posted a new recovery high in June, but stopped short of key resistance. The long-term picture is becoming more constructive and may suggest that we are near completing a lateral consolidation pattern.
- ❑ **Momentum** recovered back above the zero line, but has failed to penetrate the descending trend line off the 2017 highs. A clear negative divergence remains in place.
- ❑ **Relative strength** vs. the average S&P stock has halted its decline and reversed above trend line resistance.
- ❑ **Key Resistance** = \$110
- ❑ **Key Support** = \$97

## Conclusions:

- ❑ Materials gained two positions to the **#9 rank** in our sector RS-Momentum work this month.
- ❑ **Maintain Underweight.** The failure to clear key resistance, remains a stumbling block for the bull case. VMC and BLL both made the leader board for the 3<sup>rd</sup> consecutive month, while ALB and DD continue to lag.
- ❑ Target = N/A



# S&P 500 EQUAL-WEIGHT DISCRETIONARY SECTOR LAGGING (+17.50% YTD)

## Observations:

- ❑ **Price** recovered about 2/3s of the May decline, but fell short of key resistance. The attendant weak volume is also concerning, and leaves some question about the potential for follow through.
- ❑ **Momentum** has recovered back above the zero line, but has stalled below trend line resistance. A negative divergence remains in place.
- ❑ **Relative strength** vs. the average S&P stock has been range bound since penetrating a descending trend line off the 2015 high, and now appears poised to re-test the 2017 low.
- ❑ **Key Resistance** = \$108
- ❑ **Key Support** = \$96

## Conclusions:

- ❑ Discretionary fell four positions to the **#10 rank** in our sector RS-Momentum work this month.
- ❑ **Decrease to Underweight.** The weak relative recovery off the May low speaks to the deteriorating health of the sector's trend. Auto retailer KMX stands out as a leader, while auto parts retailer AAP is lagging. The two may make an interesting pairs trade.
- ❑ Target = N/A



Source: StockCharts.com

# S&P 500 EQUAL-WEIGHT ENERGY SECTOR LAGGING (+13.80% YTD)

## Observations:

- ❑ **Price** remains in a broad, lateral consolidation of the “Symmetrical Triangle” variety. While the June price action only recovered about 60% of the May decline, as long key support at the ascending lower boundary holds, the long-term pattern will remain intact.
- ❑ **Momentum** remains deeply negative. It breached support last year and has been trending lower since.
- ❑ **Relative strength** vs. the average S&P stock has been under pressure since 2011 and posted a 10-year monthly low in May.
- ❑ **Key Resistance** = \$54
- ❑ **Key Support** = \$42

## Conclusions:

- ❑ Energy slipped three positions to the **#11 rank** in our sector RS-Momentum work this month.
- ❑ **Decrease to Underweight.** Despite posting the 2<sup>nd</sup> strongest sector performance for the month of June, weak momentum and relative strength continue to pressure the overall trend. KMI and WMB are leading, while HAL and NOV lag.
- ❑ Target = N/A





Source: Hedgeye.com

# PORTFOLIO POSITIONING

- ❑ Leaders and Laggards
  - ❑ Long/Short Alpha Candidate List by Sector – July
  - ❑ Long/Short Performance Report Card – June

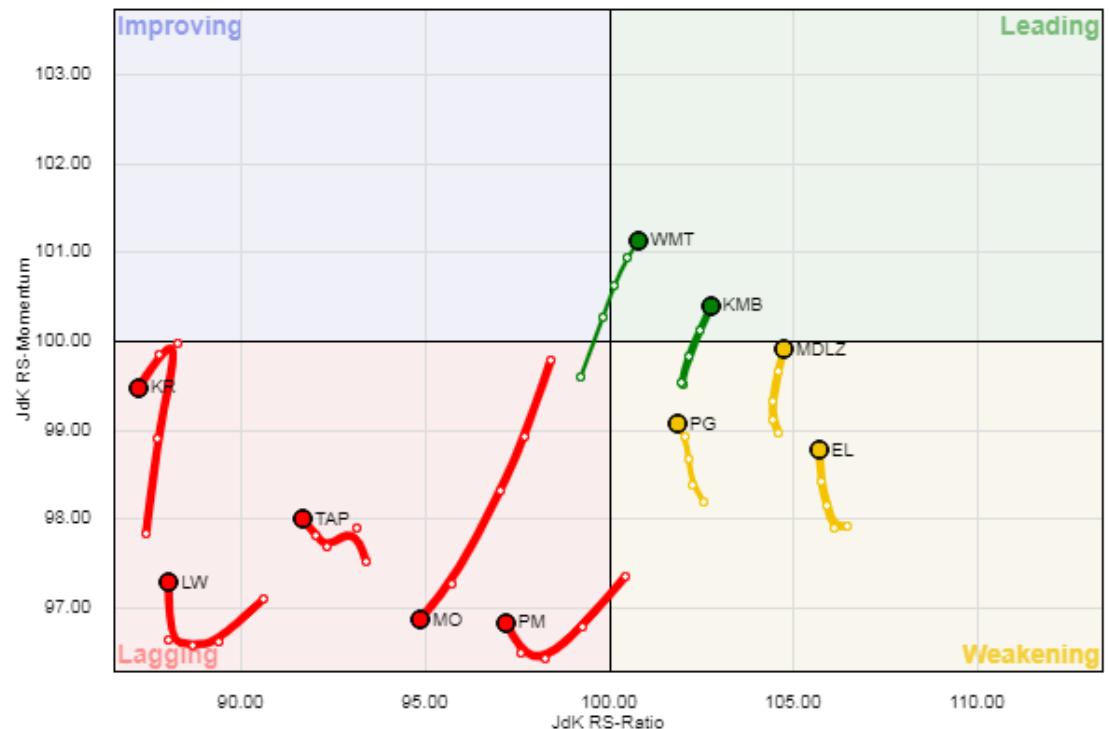
# S&P 500 STAPLES ALPHA DRIVERS

## Long RS-Momentum Leaders

1. Kimberly Clark (KMB)
2. Walmart (WMT)
3. Estee Lauder (EL)
4. Mondelez (MDLZ)
5. Procter & Gamble (PG)

## Short RS-Momentum Laggards

1. Lamb Weston (LW)
2. Kroger (K)
3. Molson Coors (TAP)
4. Altria Group (MO)
5. Philip Morris (PM)



Source: StockCharts.com

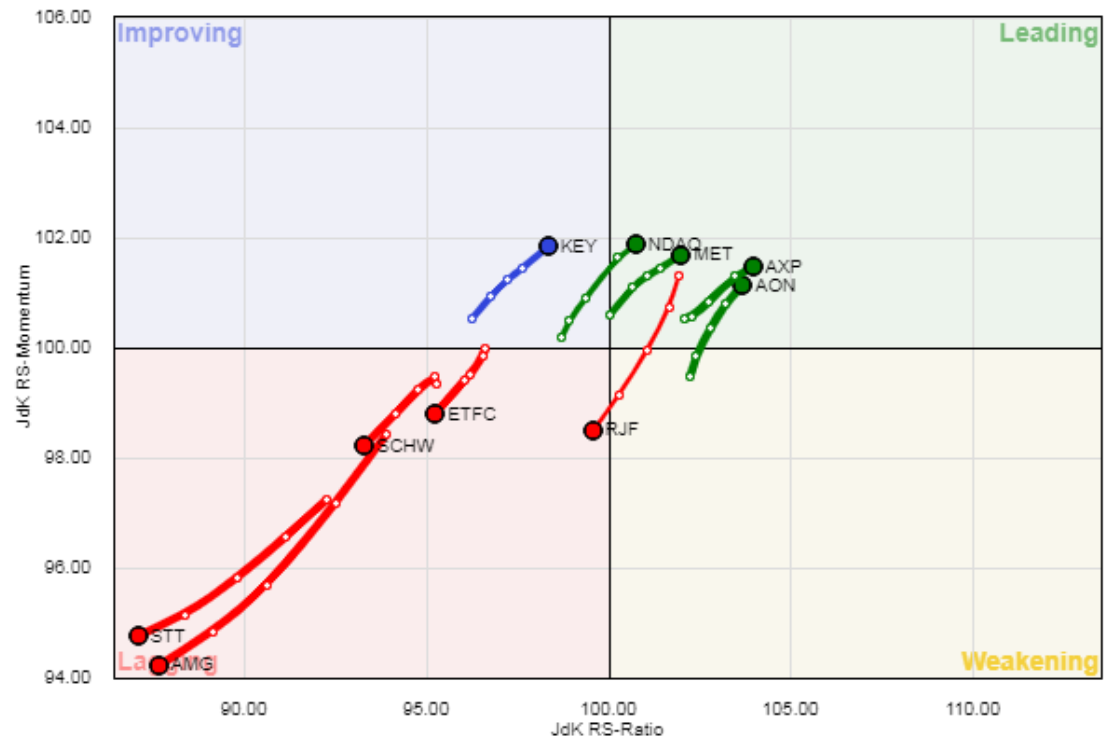
# S&P 500 FINANCIALS ALPHA DRIVERS

## Long RS-Momentum Leaders

1. American Express (AXP)
2. Aon Corp (AON)
3. Metlife (MET)
4. Nasdaq OMX Group (NDAQ)
5. Keycorp (KEY)

## Short RS-Momentum Laggards

1. State Street (STT)
2. Affiliated Managers Grp (AMG)
3. Charles Schwab (SCHW)
4. E\*TRADE Financial (ETFC)
5. Raymond James (RJF)



Source: StockCharts.com

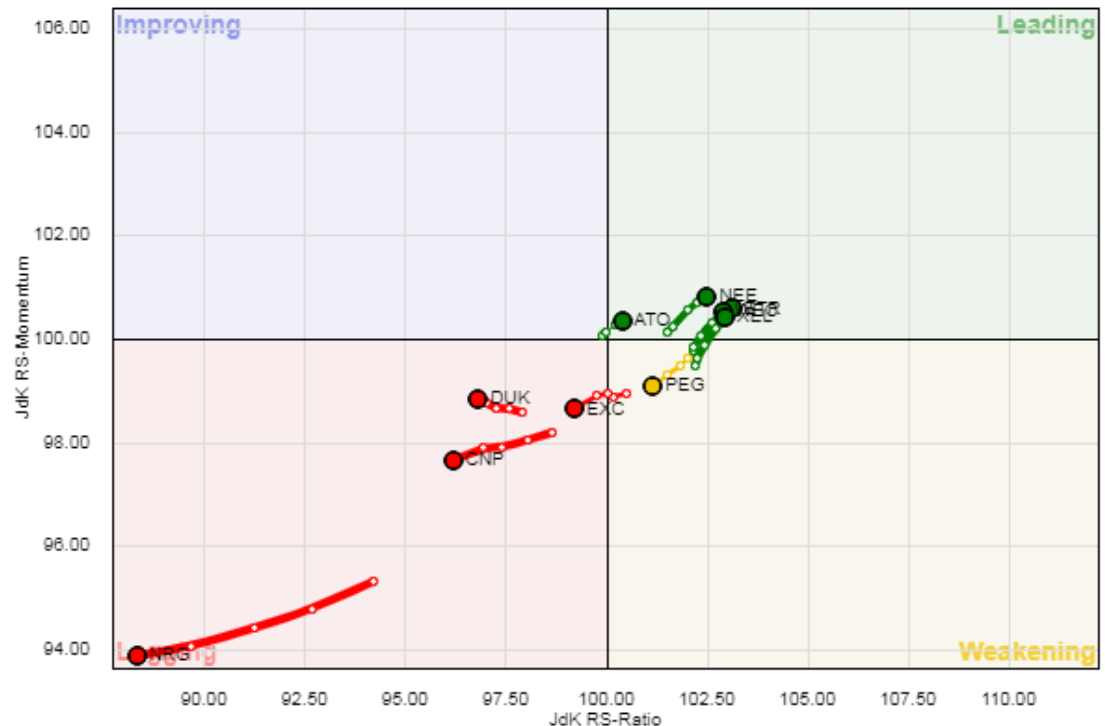
# S&P 500 UTILITIES ALPHA DRIVERS

## Long RS-Momentum Leaders

1. Entergy (ETR)
2. Xcel Energy (XEL)
3. WEC Energy (WEC)
4. NextEra Energy (NEE)
5. Atmos Energy (ATO)

## Short RS-Momentum Laggards

1. NRG Energy (NRG)
2. CenterPoint Energy (CNP)
3. Duke Energy (DUK)
4. Exelon (EXC)
5. Public Service Enterprise (PEG)



Source: StockCharts.com



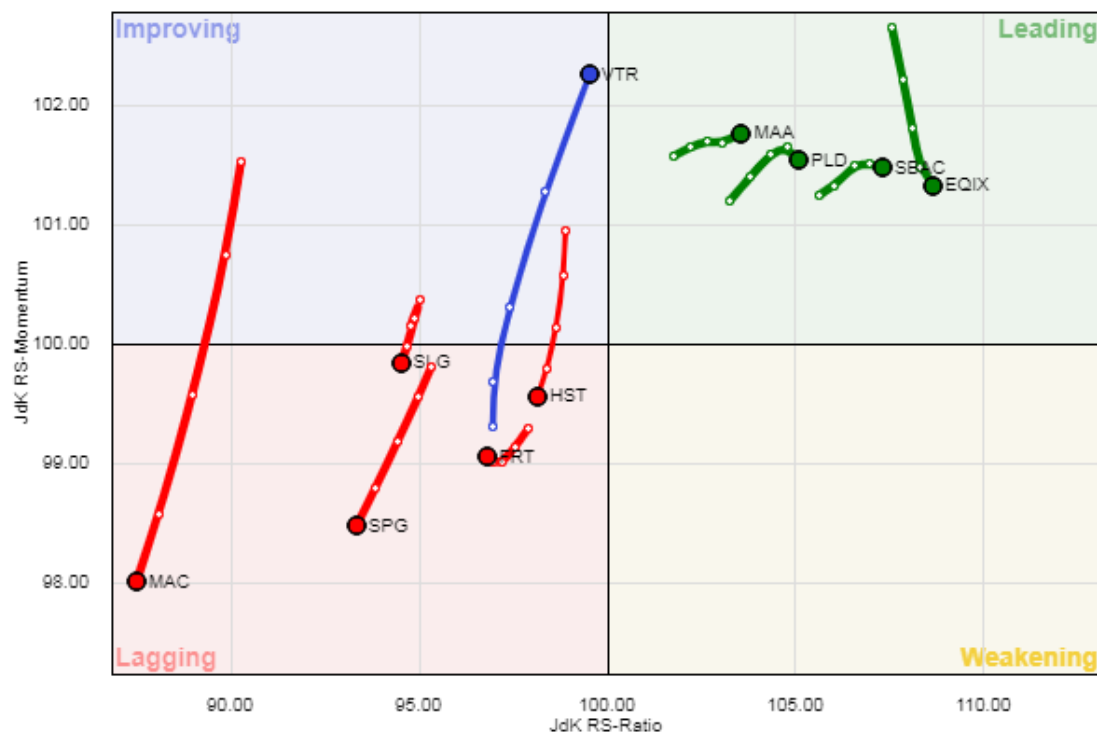
# S&P 500 REAL ESTATE ALPHA DRIVERS

## Long RS-Momentum Leaders

1. Equinix (EQIX)
2. SBA Communications (SBAC)
3. ProLogis (PLD)
4. Mid-America Apartment (MAA)
5. Ventas (VTR)

## Short RS-Momentum Laggards

1. Macerich (MAC)
2. Simon Property Group (SPG)
3. SL Green Realty (SLG)
4. Federal Realty (FRT)
5. Host Hotels & Resorts (HST)



Source: StockCharts.com

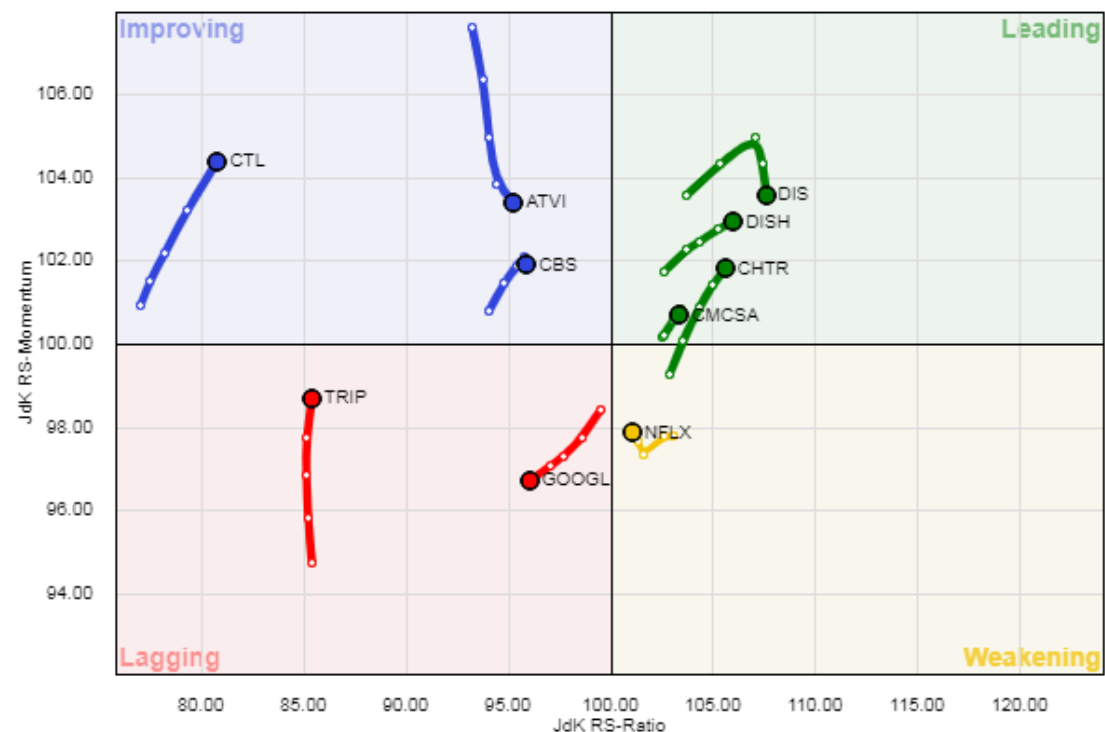
# S&P 500 COMMUNICATIONS ALPHA DRIVERS

## Long RS-Momentum Leaders

1. Walt Disney (DIS)
2. Dish Network (DISH)
3. Charter Comm (CHTR)
4. Comcast (CMCSA)
5. Netflix (NFLX)

## Short RS-Momentum Laggards

1. CenturyLink (CTL)
2. TripAdvisor (TRIP)
3. Alphabet (GOOGL)
4. Activision Blizzard (ATVI)
5. CBS (CBS)



Source: StockCharts.com

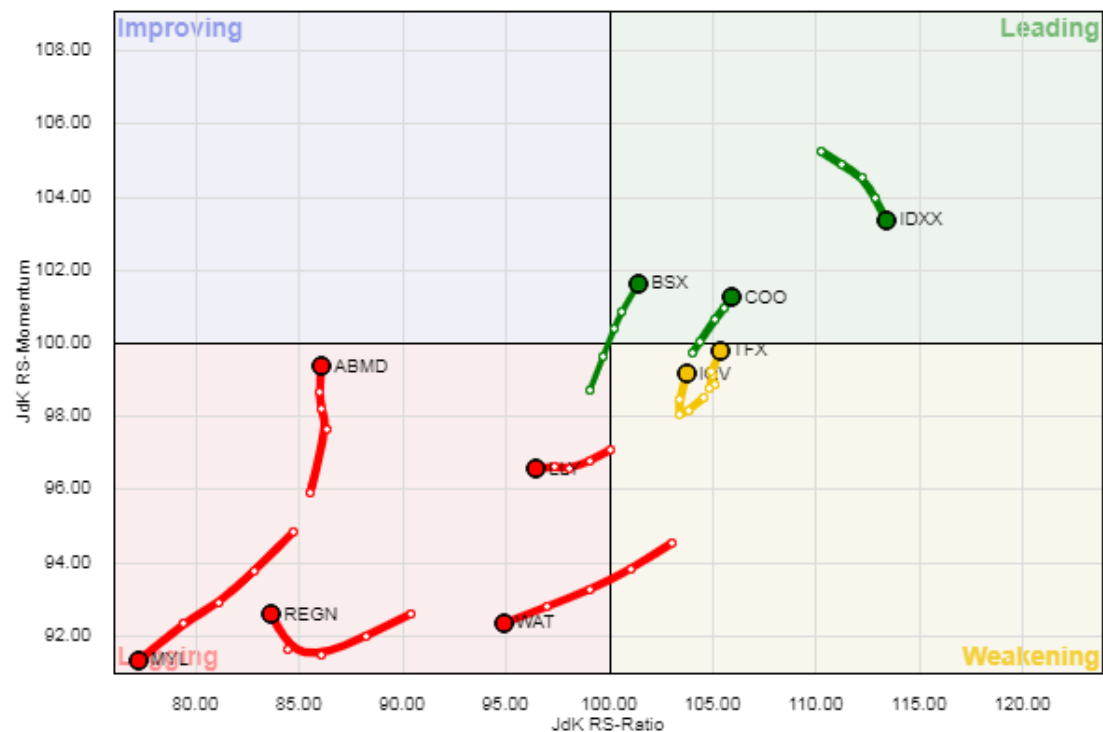
# S&P 500 HEALTH CARE ALPHA DRIVERS

## Long RS-Momentum Leaders

1. IDEXX Labs (IDXX)
2. Cooper Cos. (COO)
3. Boston Scientific (BSX)
4. Teleflex (TFX)
5. Iqvia (IQV)

## Short RS-Momentum Laggards

1. Mylan (MYL)
2. Regeneron Pharma (REGN)
3. ABIOMED (ABMD)
4. Waters (WAT)
5. Eli Lilly (LLY)



Source: StockCharts.com

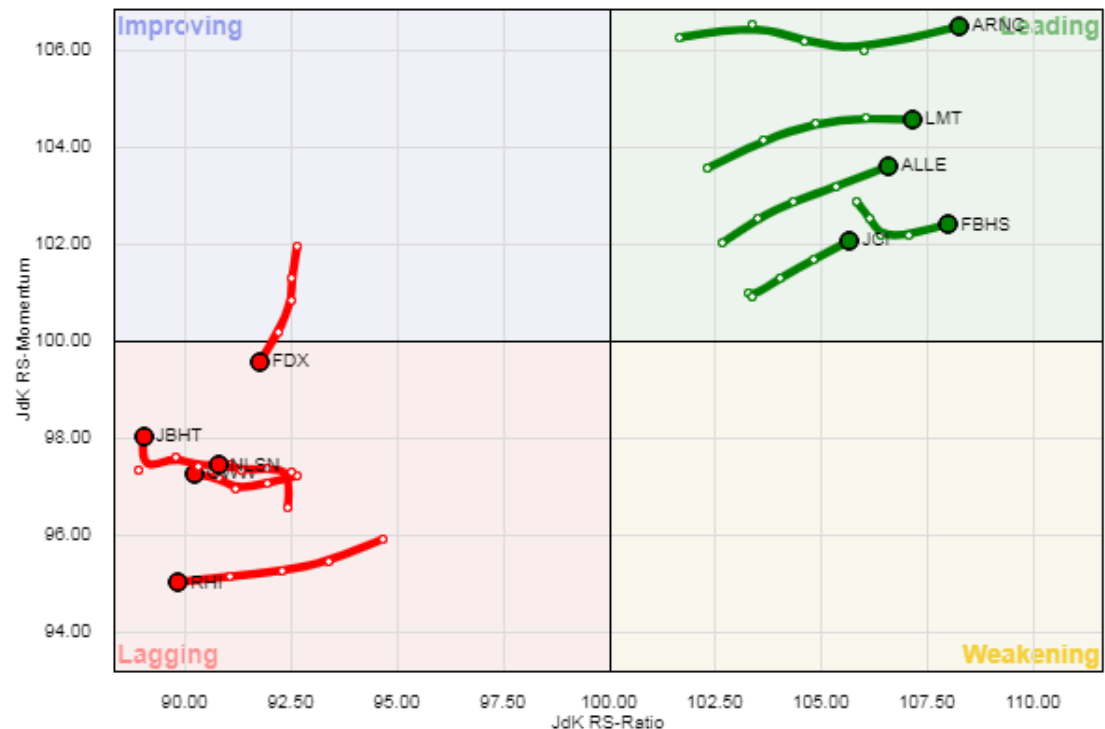
# S&P 500 INDUSTRIALS ALPHA DRIVERS

## Long RS-Momentum Leaders

1. Arconic (ARNC)
2. Lockheed Martin (LMT)
3. Fortune Brands (FBHS)
4. Allegion Public (ALLE)
5. Johnson Controls (JCI)

## Short RS-Momentum Laggards

1. FedEx (FDX)
2. Nielsen (NLSN)
3. WW Granger (GWW)
4. JB Hunt Transportation (JBHT)
5. Robert Half (RHI)



Source: StockCharts.com

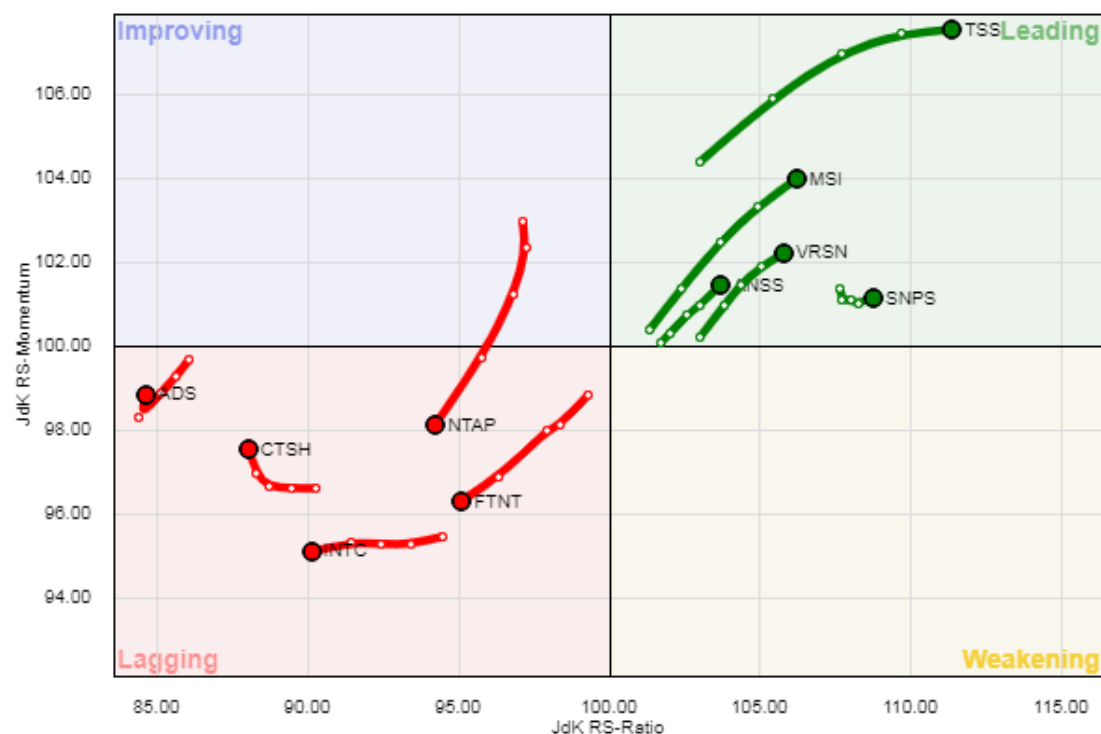
# S&P 500 TECHNOLOGY ALPHA DRIVERS

## Long RS-Momentum Leaders

1. Total System Services (TSS)
2. Synopsys (SNPS)
3. Motorola Solutions (MSI)
4. Verisign (VRSN)
5. ANSYS (ANSS)

## Short RS-Momentum Laggards

1. Alliance Data Systems (ADS)
2. Cognizant Technology (CTSH)
3. Intel (INTC)
4. Fortinet (FTNT)
5. NetApp (NTAP)



Source: StockCharts.com

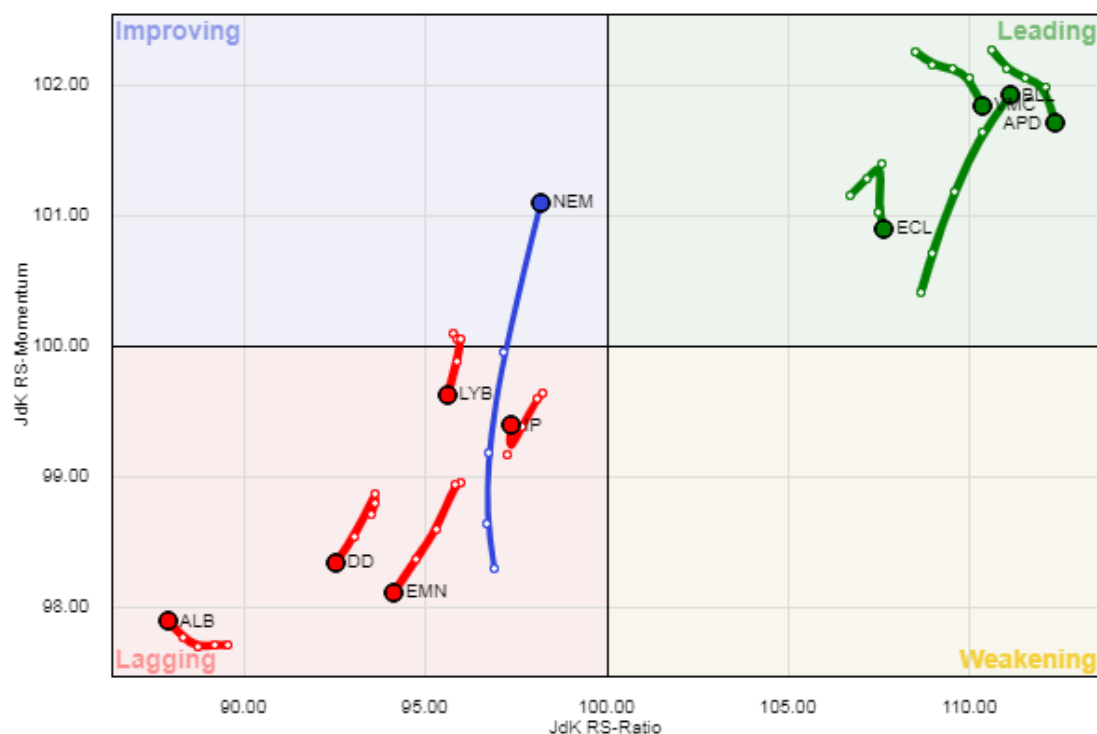
# S&P 500 MATERIALS ALPHA DRIVERS

## Long RS-Momentum Leaders

1. Air Products (APD)
2. Ball Corp (BLL)
3. Vulcan Materials (VMC)
4. Ecolab (ECL)
5. Newmont Goldcorp (NEM)

## Short RS-Momentum Laggards

1. Albemarle (ALB)
2. DuPont (DD)
3. Eastman Chemical (EMN)
4. LyondellBasell (LYB)
5. International Paper (IP)



Source: StockCharts.com

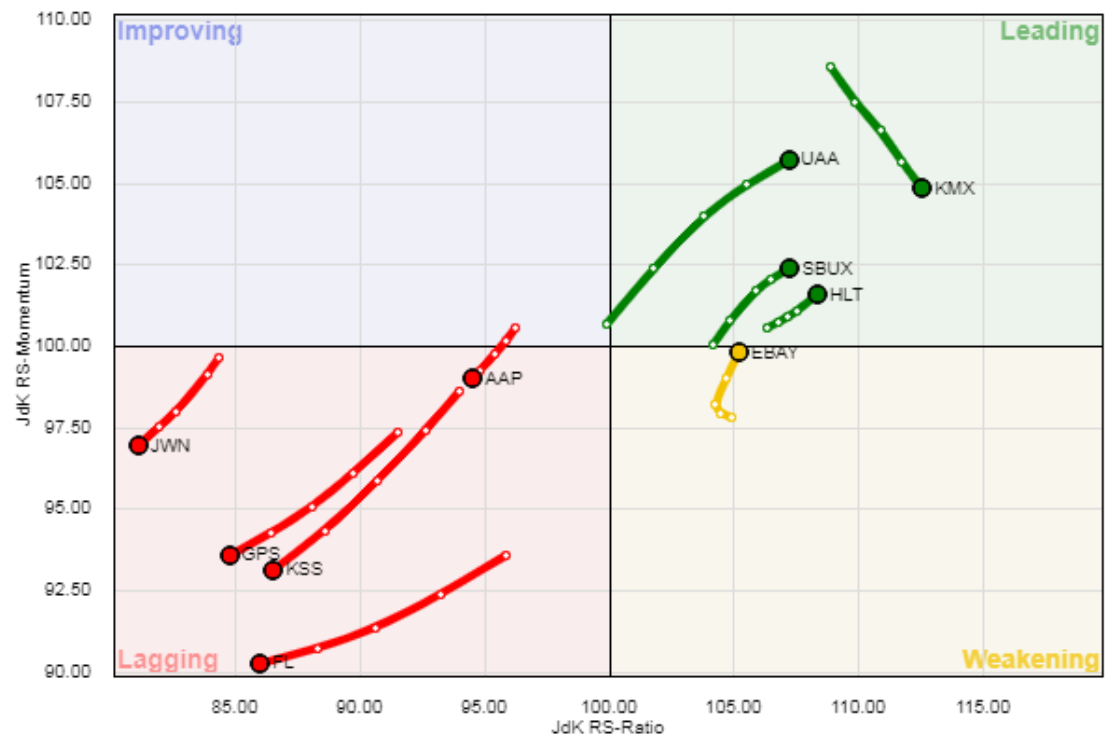
# S&P 500 DISCRETIONARY ALPHA DRIVERS

## Long RS-Momentum Leaders

1. Carmax (KMX)
2. Under Armour (UAA)
3. Hilton Worldwide (HLT)
4. Starbucks (SBUX)
5. eBay (EBAY)

## Short RS-Momentum Laggards

1. Nordstrom (JWN)
2. Foot Locker (FL)
3. Gap (GPS)
4. Kohl's (KSS)
5. Advanced Auto Parts (AAP)



Source: StockCharts.com

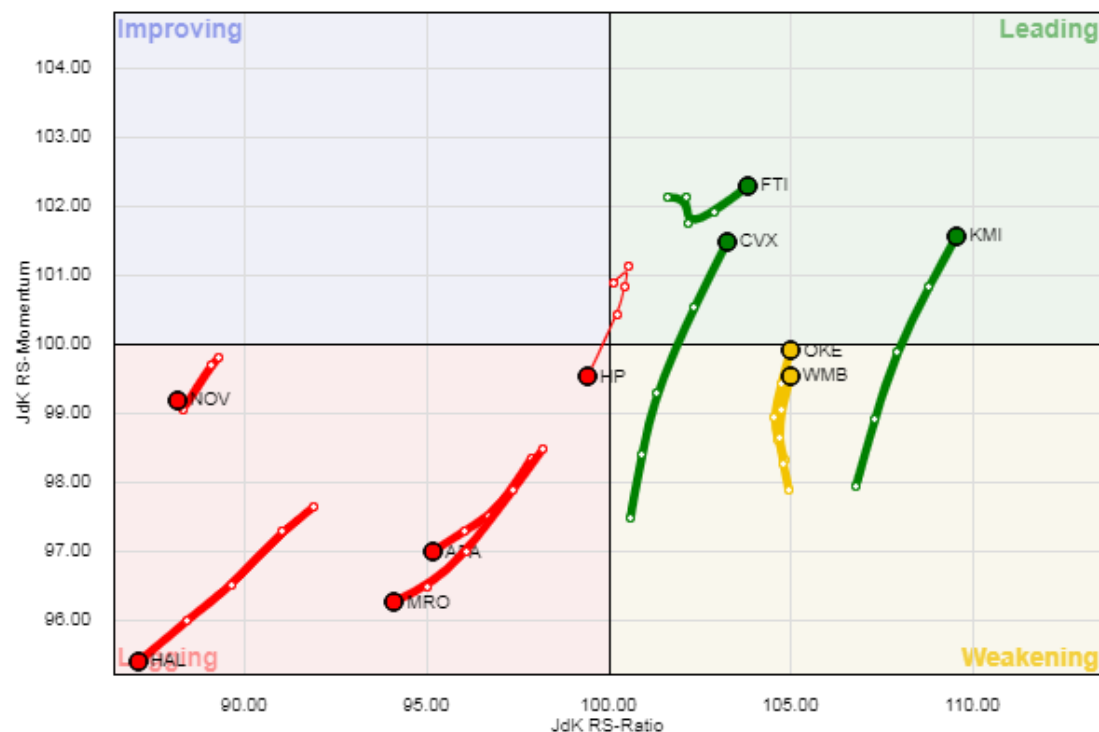
# S&P 500 ENERGY ALPHA DRIVERS

## Long RS-Momentum Leaders

1. Kinder Morgan (KMI)
2. Oneok (OKE)
3. Williams (WMB)
4. FMC Technologies (FTI)
5. Chevron (CVX)

## Short RS-Momentum Laggards

1. Haliburton (HAL)
2. National Oilwell (NOV)
3. Marathon Oil (MRO)
4. Apache (APA)
5. Helmerich & Payne (HP)



Source: StockCharts.com

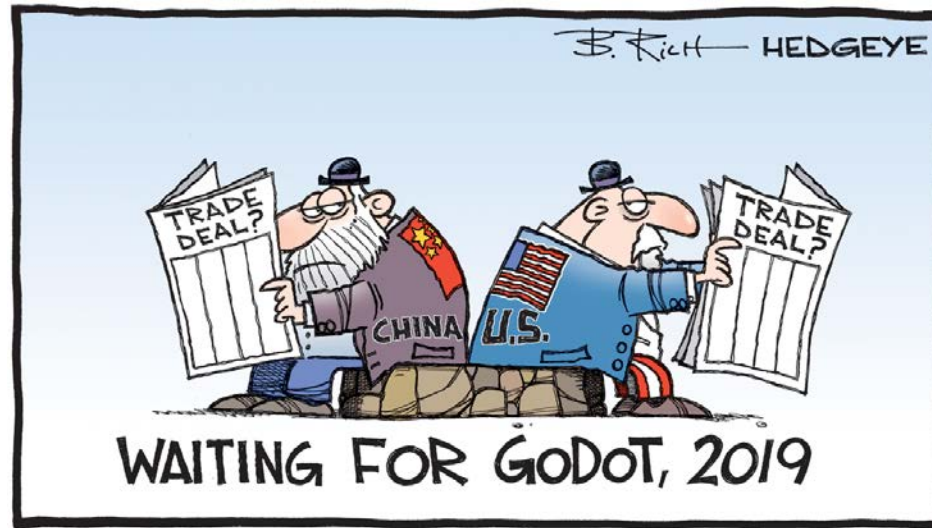


# JUNE PERFORMANCE REPORT CARD

## Long the Leaders / Short the Laggards

													</

Source: Bloomberg and JWH Investment Partners



Source: Hedgeye.com

# FOREIGN EQUITY MARKETS

## ☐ Developed

- ☐ Canada, Australia, UK, Germany, Switzerland, France, Netherlands, Italy, Spain, and Japan

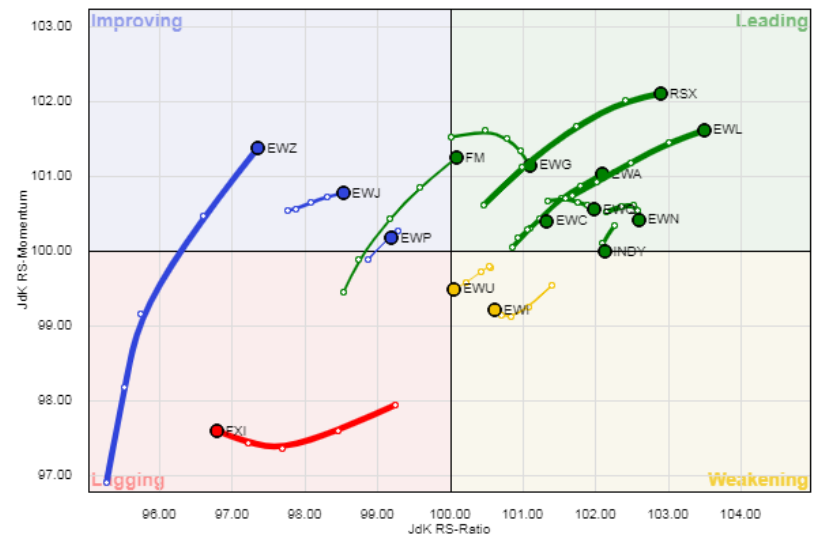
## ☐ Emerging

- ☐ China, India, Brazil, Russia, and the Frontier 100

# MSCI FOREIGN MARKET LEADERSHIP

<u>RS-Momentum Rank</u>	<u>JUN Return</u>	<u>TTM Return</u>
1. Switzerland (EWL)	+ 6.6%	+ 19.4%
2. Russia (RSX)	+ 9.2%	+ 19.1%
3. Australia (EWA)	+ 5.5%	+ 6.2%
4. Netherlands (EWN)	+ 6.6%	+ 5.1%
5. France (EWQ)	+ 8.3%	+ 4.5%
6. Canada (EWC)	+ 5.7%	+ 4.4%
7. Germany (EWG)	+ 7.1%	- 2.4%
8. Frontier 100 (FM)	+ 6.0%	+ 6.7%
9. India (INDY)	- 1.3%	+ 12.2%
10. Brazil (EWZ)	+ 6.3%	+ 41.0%
11. Japan (EWJ)	+ 4.5%	- 4.5%
12. Spain (EWP)	+ 4.2%	- 0.8%
13. Italy (EWI)	+ 9.9%	+ 1.2%
14. United Kingdom (EWU)	+ 4.6%	- 1.8%
15. China (FXI)	+ 7.0%	+ 3.1%

**MSCI Country RS-Momentum Chart**



Source: StockCharts.com

# FOREIGN MARKET LEADERSHIP...CONTINUED

## Emerging Mkts Lagging Developed Mkts



## Foreign Mkts Lagging Domestic Mkts



# DEVELOPED MARKETS AUSTRALIA

**BULLISH** (+19.47% YTD)

## Observations:

- ❑ **Price** made a new all-time high in June, fully recovering its 2018 decline, and inflecting above the neckline of a lateral consolidation pattern of the “Cup & Handle” variety.
- ❑ **Momentum** is now positive, having penetrated a two-year descending trend line, and is attempting to stage a bullish reversal. Yet, a negative divergence remains in place versus the 2018 high.
- ❑ **Relative strength** vs. developed markets has accelerated higher after penetrating a multi-year descending trend line.
- ❑ **Key Resistance** = \$27
- ❑ **Key Support** = \$21

## Conclusions:

- ❑ **Upgrading to Bullish.**
- ❑ **Increase exposure.** The new all-time record high supports a constructive technical view on this country. A breach of key support at \$21 would lead us to downgrade our view to Neutral.
- ❑ **New Target: \$27**



Source: StockCharts.com

# DEVELOPED MARKETS CANADA

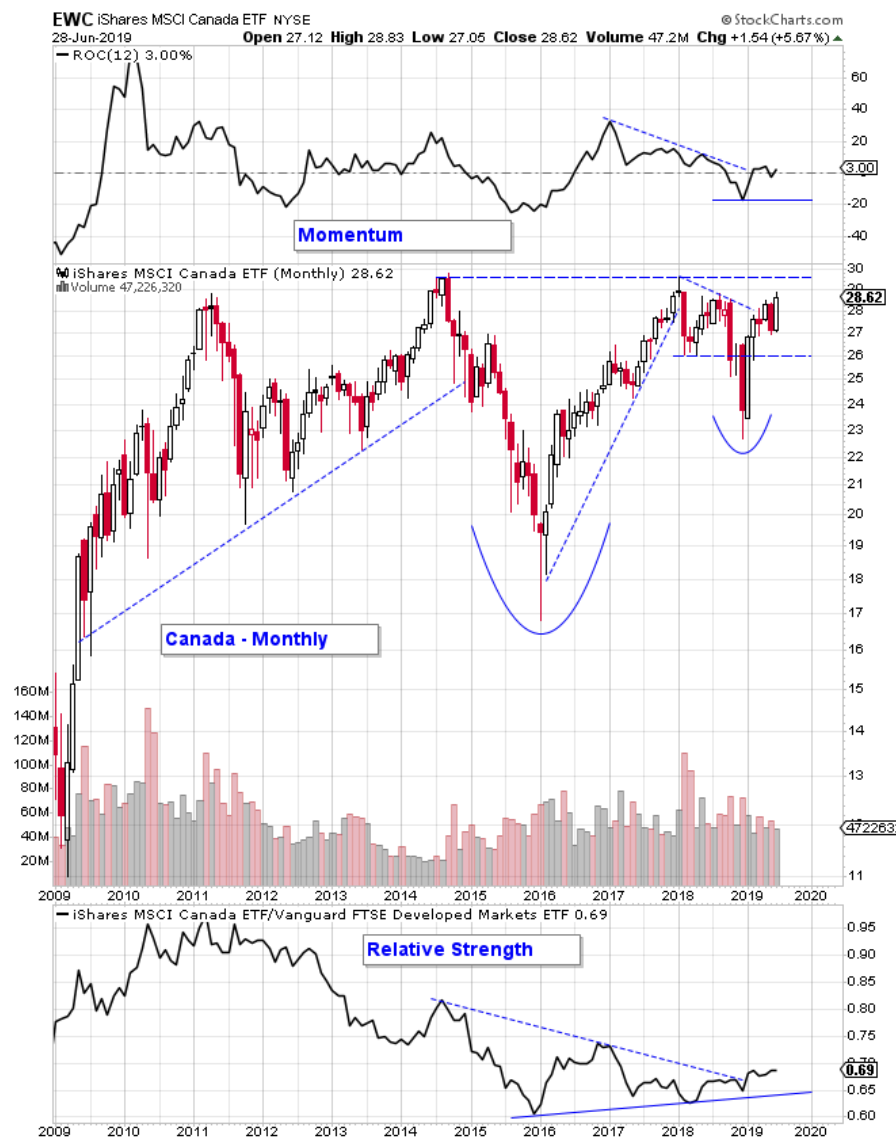
**NEUTRAL** (+20.54% YTD)

## Observations:

- ❑ **Price** rallied to make a new recovery high in June following the May meltdown, but held below key resistance.
- ❑ **Momentum** turned slightly positive after penetrating a two-year descending trend line, but is struggling to stage a bullish reversal.
- ❑ **Relative strength** vs. developed markets is attempting turn up after penetrating a multi-year descending trend line.
- ❑ **Key Resistance** = \$30
- ❑ **Key Support** = \$26

## Conclusions:

- ❑ **Maintaining Neutral view.** Mixed price action and flat momentum, coupled with flat RS supports a neutral technical view. A new monthly closing high would lead us to upgrade our rating to Bullish; If instead a breach of key support, then a downgrade to Bearish.
- ❑ **Target:** N/A



Source: StockCharts.com

# DEVELOPED MARKETS UNITED KINGDOM **BEARISH** (+12.94% YTD)

## Observations:

- ❑ **Price** failed at trend resistance in April and reversed sharply lower in May, but is held well-above key support. June saw a partial retracement of the May decline, but an inside month is of little consequence.
- ❑ **Momentum** remains negative, after penetrating a descending trend line off the 2018 peak, but the higher low may foretell a bullish reversal ahead.
- ❑ **Relative strength** vs. developed markets halted its decline last January and has reversed above a multi-year descending trend line, but with little progress.
- ❑ **Key Resistance** = \$33
- ❑ **Key Support** = \$28

## Conclusions:

- ❑ **Maintaining Bearish view.** The failure to clear its primary downtrend line and key resistance confirms our Bearish technical view on this country. The continued overhang of Brexit may require significantly more time to heal the damage.
- ❑ **Target: \$29**



# DEVELOPED MARKETS GERMANY

**NEUTRAL** (+13.68% YTD)

## Observations:

- ❑ **Price** rallied to penetrate a descending trend line off the 2018 highs in April, but posted a bearish outside-down bar in May, negating the progress of the prior month. June was an inside month that close below key resistance once again.
- ❑ **Momentum** remains deeply negative, but has halted its decline and appears poised to challenge the zero line.
- ❑ **Relative strength** vs. developed markets collapsed in 2018 and made a new low in Q1, but this reversal attempt may successfully challenge trend line resistance.
- ❑ **Key Resistance** = \$28
- ❑ **Key Support** = \$24

## Conclusions:

- ❑ **Maintaining Neutral view.** Despite improving momentum and RS, the continued failure to penetrate key resistance supports our neutral technical view. A new monthly closing high would lead us to upgrade our rating to Bullish; A breach of support, would result in a downgrade to Bearish.

- ❑ Target: N/A



Source: StockCharts.com



# DEVELOPED MARKETS FRANCE

**NEUTRAL** (+18.45% YTD)

## Observations:

- ❑ **Price** rallied sharply in June to penetrate trend line resistance and slightly exceeded the April high. A challenge of the 2018 all-time high is now within reach.
- ❑ **Momentum** halted its decline at a well-developed support level and has crossed back above the zero line, setting the stage for a potential bullish reversal.
- ❑ **Relative strength** vs. developed markets broke out above a well-established resistance level to post a new 8-year high.
- ❑ **Key Resistance** = \$32
- ❑ **Key Support** = \$28

## Conclusions:

- ❑ **Maintaining Neutral view.** Price is holding below key resistance, but accelerating momentum and improving RS may indicate that a resumption of the uptrend is close at hand. A new monthly closing high would lead us to upgrade our rating to Bullish; If instead support is breached, then a downgrade to Bearish would follow.
- ❑ Target: N/A



Source: StockCharts.com

# DEVELOPED MARKETS ITALY

**NEUTRAL** (+17.76% YTD)

## Observations:

- ❑ **Price** rallied to make a new recovery high in June, after holding well above key support during the May meltdown.
- ❑ **Momentum** has halted its decline and is attempting to reverse trend, but remains slightly negative.
- ❑ **Relative strength** vs. developed markets remains range bound in a multi-year consolidation pattern.
- ❑ **Key Resistance** = \$29
- ❑ **Key Support** = \$22

## Conclusions:

- ❑ **Maintaining Neutral view.** The long-term trend appears to have the characteristics of a lateral consolidation pattern of the “Barrier Triangle” variety. If this proves accurate, then a bullish inflection above the 2018 high, if confirmed by momentum, would portend significant upside potential.
- ❑ **Target:** N/A



# DEVELOPED MARKETS SPAIN

**NEUTRAL** (+9.29% YTD)

## Observations:

- ❑ **Price** recovered about 2/3s of the May decline and posted an inside month in June.
- ❑ **Momentum** has halted its decline and is attempting to reverse trend, but remains slightly negative.
- ❑ **Relative strength** vs. developed markets bottomed in 2018 at a well-established support level, and has been struggling with trend line resistance since.
- ❑ **Key Resistance** = \$31
- ❑ **Key Support** = \$25

## Conclusions:

- ❑ **Maintaining Neutral view.** The long-term trend appears to have the characteristics of a lateral consolidation pattern of the "Symmetrical Triangle" variety. If this proves accurate, then a bullish inflection above the 2018 high, if confirmed by momentum, would portend significant upside potential.
- ❑ **Target:** N/A



Source: StockCharts.com

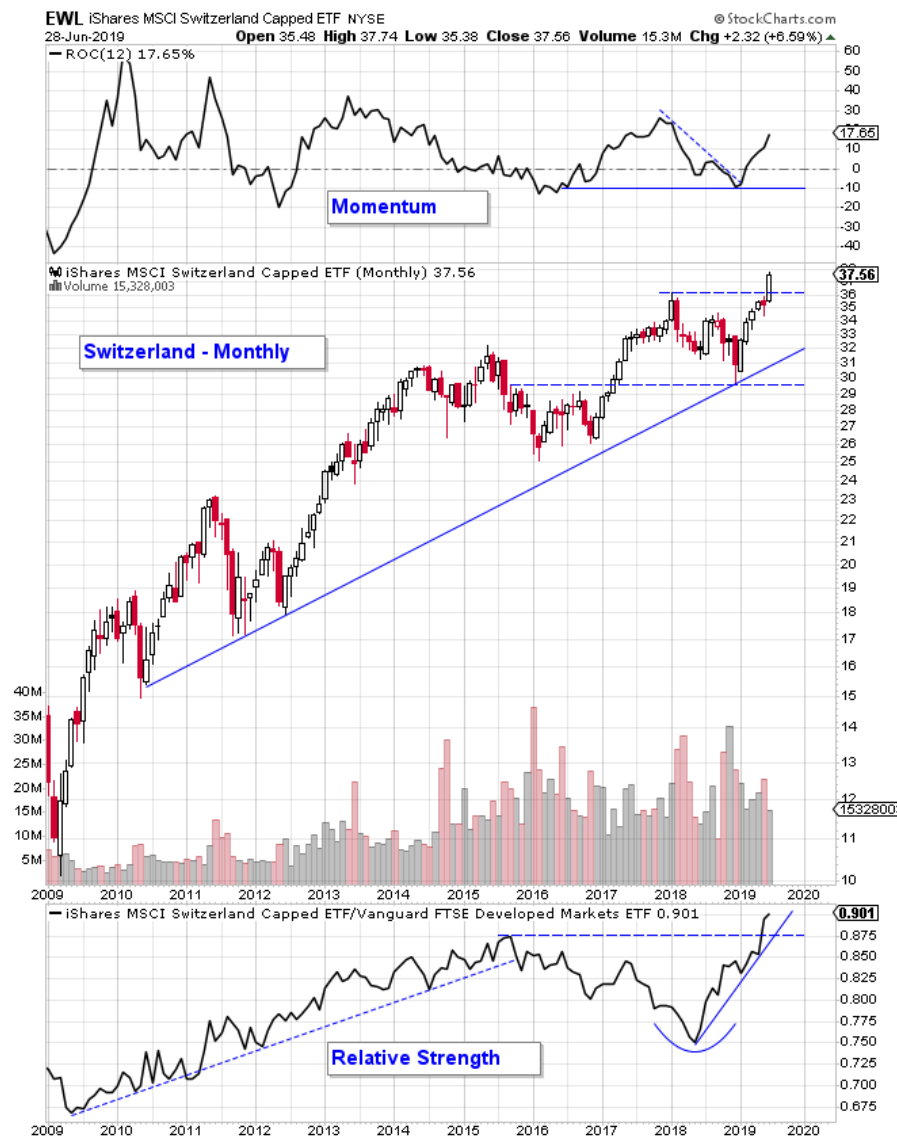
# DEVELOPED MARKETS SWITZERLAND BULLISH (+21.61% YTD)

## Observations:

- ❑ **Price** recorded a new all-time monthly closing high in June. The improved and consistent price action should lead to further gains in the months ahead.
- ❑ **Momentum** remains positive and is in the midst of a powerful bullish reversal that appears poised to challenge resistance to negate a negative divergence versus the 2017 high.
- ❑ **Relative strength** vs. developed markets bottomed in 2018 and has reversed sharply higher to post another new all-time high in June.
- ❑ **Key Resistance** = \$37
- ❑ **Key Support** = \$30

## Conclusions:

- ❑ **Maintaining Bullish view.** Switzerland is by far the strongest market on the European continent. The monthly close above \$37 portends a potential major bullish reversal may be under way. A monthly close below key support would lead us to downgrade our opinion to Neutral.
- ❑ **New Target: \$42**



Source: StockCharts.com

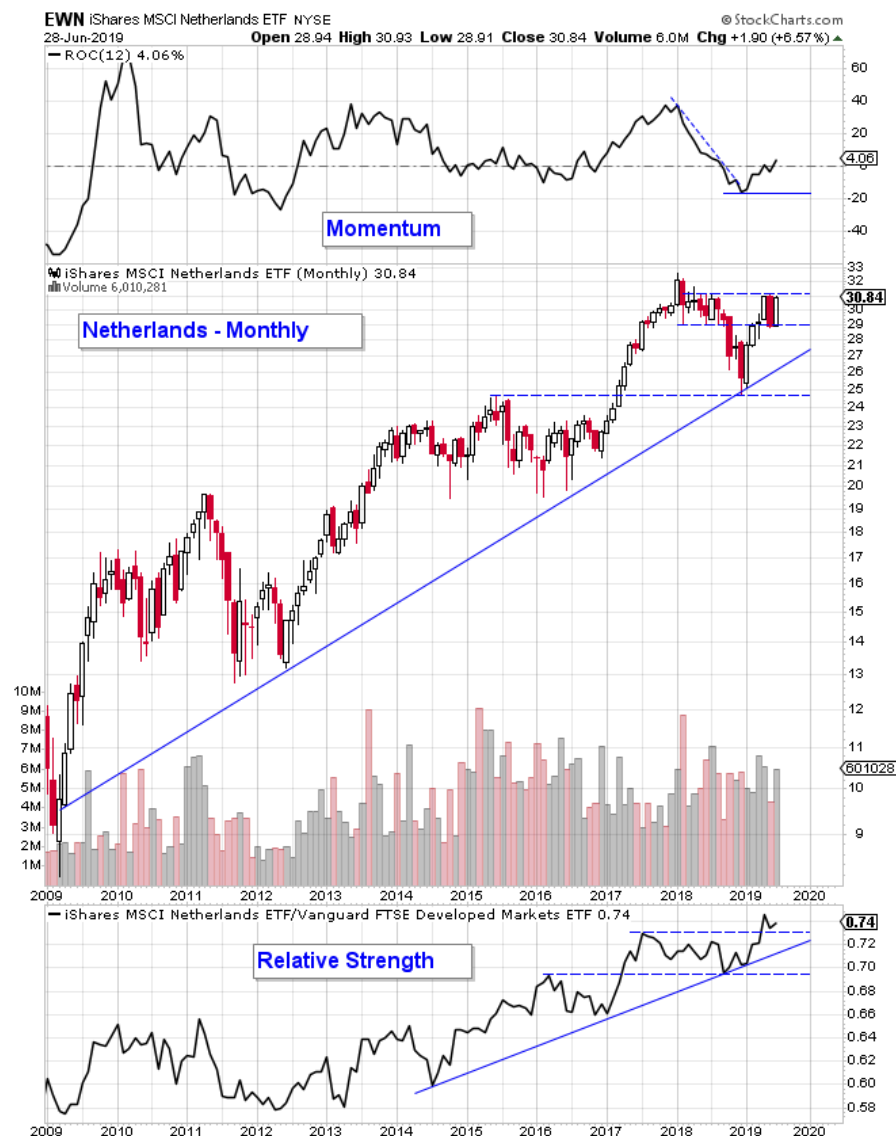
# DEVELOPED MARKETS NETHERLANDS BULLISH (+20.14% YTD)

## Observations:

- ❑ **Price** rallied sharply to challenge the recovery high made in April, but held below key resistance in June.
- ❑ **Momentum** has recovered above the zero line and is now attempting to stage a bullish reversal.
- ❑ **Relative strength** vs. developed markets has staged successful a bullish reversal and is holding near all-time highs.
- ❑ **Key Resistance** = \$31
- ❑ **Key Support** = \$29

## Conclusions:

- ❑ **Maintaining Bullish view.** The long-term trend is decidedly up and to the right. A monthly close above key resistance would confirm the next leg of the advance is underway. A breach of key support would lead us to downgrade our opinion to Neutral.
- ❑ **Target: \$35**



Source: StockCharts.com

# DEVELOPED MARKETS JAPAN

**BEARISH** (+8.65% YTD)

## Observations:

- ❑ **Price** rallied back into key resistance in June, but fell short again, and remains in an established downtrend.
- ❑ **Momentum** has halted its decline and penetrated trend resistance, but remains negative.
- ❑ **Relative strength** vs. developed markets has been range bound since late 2015 and appears poised to test the lower boundary of the range for a third time.
- ❑ **Key Resistance** = \$57
- ❑ **Key Support** = \$50

## Conclusions:

- ❑ **Maintaining Bearish view.** With price action and momentum still showing only minor evidence of improvement, our Bearish technical view appears warranted. A monthly close above key resistance would lead us to upgrade our rating to Neutral.
- ❑ **Target: \$40**



Source: StockCharts.com

# EMERGING MARKETS CHINA

**NEUTRAL** (+10.55% YTD)

## Observations:

- ❑ **Price** realized an approximate 50% retracement of the April-May collapse, but remains well-below key resistance as of month-end June.
- ❑ **Momentum** has halted its decline and recovered the zero line, establishing a new uptrend.
- ❑ **Relative strength** vs. emerging markets has been range bound since late 2016 and has turned down from the upper boundary of the range for at least the third time; a continued sign of weakness.
- ❑ **Key Resistance** = \$46
- ❑ **Key Support** = \$37

## Conclusions:

- ❑ **Maintaining Neutral view.** The future performance of China's stock market will be determined by the timing and terms of a trade deal with the U.S. To a certain extent the outcome is binary. We prefer to wait on the sidelines to see which way the market breaks. A monthly close above key resistance would lead us to upgrade our rating to Bullish. A monthly close below key support would lead us to downgrade our rating to Bearish.

- ❑ Target: N/A



Source: StockCharts.com

# EMERGING MARKETS INDIA

**BULLISH** (+9.34% YTD)

## Observations:

- ❑ **Price** posted another new intra-monthly high, but closed right at key support.
- ❑ **Momentum** remains positive, and is staging a bullish reversal, but a multi-year negative divergence remains in place.
- ❑ **Relative strength** vs. emerging markets posted a new all-time record high in May, but has since retrenched and appears poised to test trend line support.
- ❑ **Key Resistance** = \$43
- ❑ **Key Support** = \$38

## Conclusions:

- ❑ **Maintaining Bullish view.** The new monthly closing high achieved in May portends a major bullish reversal may be under way. A monthly close below key support would lead us to downgrade our opinion to Neutral.
- ❑ **New Target: \$47**



Source: StockCharts.com



# EMERGING MARKETS BRAZIL

**BULLISH** (+15.91% YTD)

## Observations:

- ❑ **Price** rallied in June to challenge initial resistance after posting a bullish hammer in May. It's recovered over 90% of its 2018 decline, and appears to be near completing a potential multi-year base formation of the inverted "Head & Shoulders" variety. A monthly close above \$46 would confirm that a new primary uptrend has been established.
- ❑ **Momentum** turned positive in April and has been staging a clear bearish-to-bullish reversal since.
- ❑ **Relative strength** vs. emerging markets double bottomed mid-year 2018 and has turned decidedly up after penetrating a descending trend line. A bullish reversal remains in progress.
- ❑ **Key Resistance** = \$46/49
- ❑ **Key Support** = \$30

## Conclusions:

- ❑ **Maintaining Bullish view.** A monthly close above \$46 would portend that a major bullish reversal is underway. A monthly close below key support would lead us to downgrade our opinion to Neutral.
- ❑ **Target:** \$62



Source: StockCharts.com

# EMERGING MARKETS RUSSIA

**BULLISH** (+26.03% YTD)

## Observations:

- ❑ **Price** has resolved above the neckline of a multi-year base formation of the “Head & Shoulders” variety. A new primary uptrend has been established.
- ❑ **Momentum** turned positive in April and appears to be staging a bullish reversal after penetrating a descending trend line off the 2017 high.
- ❑ **Relative strength** vs. emerging markets is accelerating higher after it successfully challenged, and penetrated a descending trend line off the 2017 high.
- ❑ **Key Resistance** = \$25
- ❑ **Key Support** = \$22

## Conclusions:

- ❑ **Maintaining Bullish view.** The monthly close above \$23 projects a measured move to approximately \$35. A monthly close below key support would lead us to downgrade our opinion to Neutral.
- ❑ **New Target: \$28; then \$35**



# EMERGING MARKETS FRONTIER 100

## NEUTRAL (+16.37% YTD)

### Observations:

- ❑ **Price** experienced a 7% upward thrust in June. While impressive on a stand alone basis, when looked at in the context of the broad market, the advance off the December low has only recovered approximately 50% of the 2018 decline.
- ❑ **Momentum** has recovered above the zero line and is now staging a near vertical bullish reversal.
- ❑ **Relative strength** vs. emerging markets has resolved to the upside above a descending trend line after making a new six-year low in April.
- ❑ **Key Resistance** = \$31
- ❑ **Key Support** = \$27

### Conclusions:

- ❑ **Maintaining Neutral view.** The 2018 decline has a distinctively impulsive character, while the 2019 recovery appears corrective thus far, taking on the appearance of an (A-B-C) equal swing move, hence our neutral technical view. A monthly close above key resistance would lead us to upgrade our opinion to Bullish. A close below key support would result in a downgrade to Bearish.

- ❑ Target: N/A





Source: Hedgeye.com

# MACRO PERSPECTIVES

- ☐ Commodities: CRB Index, Gold Bullion, WTI Crude Oil, Bitcoin Index
- ☐ Infrastructure: MLP Index
- ☐ Currencies: U.S. Dollar Index, EUR/USD, JPY/USD
- ☐ Rates: 10-Year Treasury Yield

# COMMODITY REUTERS/JEFFRIES CRB INDEX BULLISH (+6.62% YTD)

## Observations:

- ❑ **Price** appears to have bottomed in three waves (A-B-C) as of late-2015, followed by three small-degree impulsive advances, each bifurcated by a three-wave partial correction. The most recent decline allows for a 1-2-(i)-(ii)-i-ii wave count. The alternative could be 1 up, followed by w-x-y (a corrective flat). Both are bullish set-ups.
- ❑ **Momentum** went deeply negative after violating a multi-year ascending trend line, and appears now to have bottomed and is attempting to reverse above a descending trend line off the 2018 high.
- ❑ **Relative strength** vs. the S&P 500 index has been in decline since mid-2011, but in recent months has begun to flatten out.
- ❑ **Key Resistance** = 207
- ❑ **Key Support** = 166

## Conclusions:

- ❑ **Maintaining Bullish view.** Our opinion is based upon price pattern and an impending 3<sup>rd</sup> wave advance. While somewhat speculative, the positive risk skew (4:1) makes this trade appear attractive.
- ❑ **Target** = 240



Source: StockCharts.com

# COMMODITY GOLD BULLION BULLISH (+10.33% YTD)

## Observations:

- ❑ **Price** has resolved above the neckline of a six-year base formation of the “Cup & Handle” variety. There is an old maxim that speaks to the significance of the long-term nature of the pattern: “The bigger the base, the higher in space.”
- ❑ **Momentum** turned positive in May and is now accelerating higher after penetrating a descending trend line off the 2016 high.
- ❑ **Relative strength** vs. the other 16 commodities that make up the CRB index broke out to a new all-time record high.
- ❑ **Key Resistance** = \$1480 (= 50% retracement)
- ❑ **Key Support** = \$1350

## Conclusions:

- ❑ **Maintaining Bullish view.** Explosive price action, accelerating momentum, and renewed leadership among its CRB peers make this barbarous relic a triple threat. A monthly close below key support would move us to the sidelines.
- ❑ **New Targets** = \$1580 (= 61.8% retracement)



Source: StockCharts.com

# COMMODITY NYSE BITCOIN INDEX BULLISH (+216.04% YTD)

## Observations:

- ❑ **Price** has taken on an impulsive character, clearing all prior key resistance levels without halting. Its near vertical ascent suggests that this advance is real.
- ❑ **Momentum** remains staunchly positive, and appears poised to emerge from a year-long base.
- ❑ **Relative Strength:** By comparison, the 17 most widely traded commodities, illustrated by the CRB index, have all significantly underperformed Bitcoin since December. The crypto-king has been staging a powerful bearish-to-bullish reversal in RS since January.
- ❑ **Key Resistance = 15400** (= 78.6% retracement)
- ❑ **Key Support = 6500**

## Conclusions:

- ❑ **Maintaining Bullish view.** The successful challenge of key resistance allows for additional upside potential near-term, especially given the sharp momentum and RS acceleration evident since December. A new all-time high would project a measured move to approximately 34200! A failure to hold key support would cause us to move to the sidelines.
- ❑ **New Target: 15400**



Source: StockCharts.com

# COMMODITY

## WTI CRUDE OIL

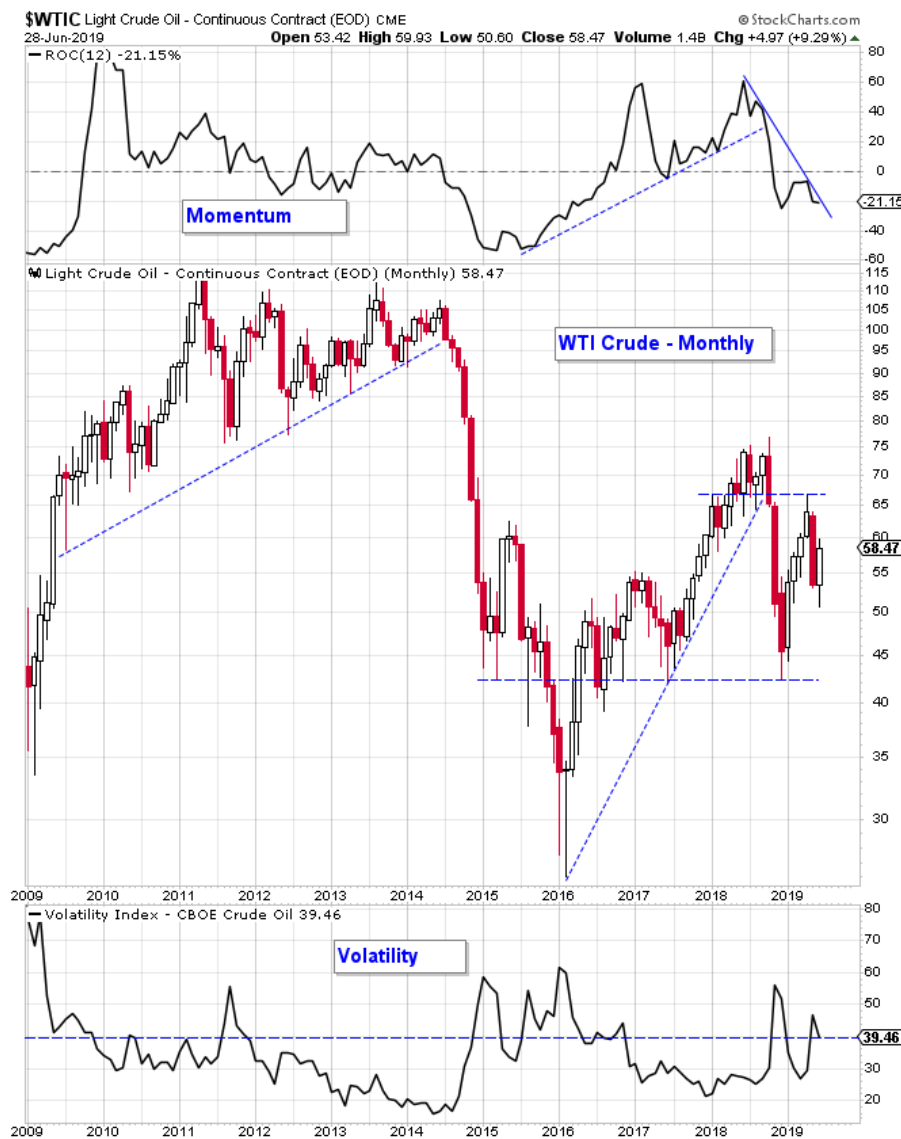
### BULLISH (+28.76% YTD)

#### Observations:

- ❑ **Price** turned down sharply in May, but held key support in June, reversing aggressively off the low to close near the highs of the month. This appears to be a normal 2/3s correction of the Dec-Apr advance. February's monthly close back above \$55 re-activated the bull case. April's monthly close above \$62 built upon those bullish credentials. A close above key resistance at \$65 would confirm that a new leg to the advance is now under way.
- ❑ **Momentum** has turned down again following an attempt to reverse trend, and remains negative.
- ❑ **Volatility** is often considered to be a contrarian measure of sentiment. Higher levels imply fear. Spikes in the OVX above 40% have tended to closely correspond with important lows in price.
- ❑ **Key Resistance** = \$65
- ❑ **Key Support** = \$50

#### Conclusions:

- ❑ **Maintaining Bullish view.** Our opinion assumes a complete retracement of the Q4 decline, and is based upon geopolitical unrest in the Middle East, a dovish Fed policy tilt, and a bearish US dollar tilt.
- ❑ **New Target** = \$81



Source: StockCharts.com



# INFRASTRUCTURE

## ALERIAN MLP INDEX

### NEUTRAL (+12.35% YTD)

#### Observations:

- ❑ **Price** has stalled after recovering over 50% of its 2018 decline, and remains in a downtrend. The weak rally back above the 1Q18 lows suggests a period of stabilization at best.
- ❑ **Momentum** has turned negative again, after attempting to bullish reversal, having penetrated the descending trend line off the 2017 peak.
- ❑ **Relative strength** vs. the S&P 500 index made a new 10-year low after consolidating lost ground, following the steep decline since 2014.
- ❑ **Key Resistance** = 294
- ❑ **Key Support** = \$200

#### Conclusions:

- ❑ MLPs had experienced an increased correlation to WTI crude in recent months, but that appears to be abating.
- ❑ **Maintaining Neutral view.** Notwithstanding the potential for continued price volatility within the recent consolidation range, we find the high dividend yield to be an attractive feature of the asset class.
- ❑ Target = N/A



Source: StockCharts.com

# CURRENCY

## US DOLLAR INDEX

### BEARISH (-0.07% YTD)

#### Observations:

- ❑ **Price** reversed sharply lower in June, breaching an ascending trend line off the 2018 low, but holding above key support, for now. This bearish price action, after making a new recovery high in May, adds to our suspicion that a change of trend is afoot. A monthly close below key support would confirm it.
- ❑ **Momentum** has plummeted, but remains positive, after penetrating a descending trend line off the 2015 high. A test the zero line appears likely.
- ❑ **Key Resistance** = 99
- ❑ **Key Support** = 95

#### Conclusions:

- ❑ **Downgrading to Bearish.**
- ❑ **Reduce exposure.** The breach of the lower boundary of a rising wedge pattern signals a trend change is likely underway. A monthly close below key support at \$95 would open the door for a test of the structural uptrend off the 2011/14 lows. A new recovery high would move us back to the sidelines.
- ❑ **Target = 91**



# CURRENCY

## EURO/US DOLLAR

### BULLISH (-0.82% YTD)

#### Observations:

- ❑ **Price** reversed sharply higher in June, penetrating a descending trend line off the 2018 high, but holding below key resistance. This bullish price action, after making a new correction low in May, suggests that a change of trend may be forthcoming. A monthly close above key resistance would confirm it.
- ❑ **Momentum** remains negative after breaching an ascending trend line off the 2015 low, and taking out support at the 2017 low, but has halted its decline and is attempting a bullish reversal.
- ❑ **Key Resistance** = 1.145
- ❑ **Key Support** = 1.09

#### Conclusions:

- ❑ **Upgrading to Bullish.**
- ❑ **Increase exposure.** The technical characteristics of the Euro nearly mirror those of the US Dollar. Penetration of the upper boundary of a falling wedge pattern signals a trend change ahead. A monthly close above key resistance at 1.145 would open the door to a test of the structural downtrend off the 2011/14 highs. A new correction low would move us back to the sidelines.
- ❑ **Target** = 1.24



Source: StockCharts.com

# CURRENCY

## YEN/US DOLLAR

### BULLISH (+1.65% YTD)

#### Observations:

- ❑ **Price** remains within a well-defined trading range bound by converging trend lines from above and below that are characteristic of a lateral consolidation of the “Symmetrical Triangle” variety. If this is wave B of a larger degree three wave (A-B-C) correction, then wave C should advance to the 61.8% retracement of the 2012/15 decline (1-2-3-4-5).
- ❑ **Momentum** is now positive after penetrating a descending trend line off the 2016 high.
- ❑ **Key Resistance** = 0.95
- ❑ **Key Support** = 0.87

#### Conclusions:

- ❑ **Maintaining Bullish view.** Generally, we would take a neutral stand and wait to see which way price breaks, but triangle patterns are fairly predictable. They tend to resolve in the direction of the prior trend. If our analysis of waves A and B is correct, then wave C should soon make a new recovery high.
- ❑ **Target** = 1.12



Source: StockCharts.com

# INTEREST RATES

## 10-YEAR US TREASURY

### NEUTRAL (-69 bps YTD)

#### Observations:

- ❑ **Yield** plunged further in June sustaining the yield curve inversion (10yr.-3mo.) seen in May, as heightened fears over trade policy and a weak global growth outlook overshadow dovish Fed policy talk.
- ❑ **Momentum** remains deeply negative after collapsing in the fourth quarter of last year. A clear negative divergence remains in place.
- ❑ **Fed** fund futures are pricing in a 60% probability of a 50 bps cut at the September FOMC meeting. President Trump has taken to Twitter in expressing his disapproval of Fed Chairman Jerome Powell, stating that the Fed “blew it” by not cutting rates.
- ❑ **Key Resistance** = 2.61%
- ❑ **Key Support** = 2.03% (*breached*)

#### Conclusions:

- ❑ **Maintaining Neutral view.** With the 2-year/10-year Treasury ratio turning down from a level that has previously marked the top for 10-year yields, it is difficult to become too bearish on bonds long-term, however, near-term bullish sentiment may be overheating.
- ❑ **Target** = N/A



Source: StockCharts.com



Source: Hedgeye.com

# APPENDIX

- ☐ Methodology
- ☐ Analyst Bio
- ☐ Disclaimer

# METHODOLOGY

- ❑ The analysis contained herein utilizes data visualization techniques related to historical monthly and weekly price and volume statistics for publicly traded securities and popular indexes.
- ❑ The analysis employs an evidence-based approach to identify change and to evaluate the sustainability of long-term price trends for a variety of broad markets, their sub-sectors, and the constituents that comprise their indexes.
- ❑ Emphasis has been placed on the use of equal-weight index data to conduct this analysis where ever possible in order to reduce the influence of more heavily weighted large-cap issues and their ability to skew the results of a given study.
- ❑ Relative strength (RS) measures the performance of one or more variables vs. a benchmark. Of all the factors that have ever been tested, RS has consistently demonstrated the greatest efficacy in terms of its predictive value. Our analysis considers both the RS factor and its 2<sup>nd</sup> derivative, the momentum of the RS factor over a specified time period.
- ❑ Observations are objective, based upon the body of knowledge that comprises the subject of technical analysis as defined by the CMT Association, but conclusions are subjective and are based upon the judgement and experience of this analyst.
- ❑ Ratings reflect this analyst's opinion: Bullish / Bearish / Neutral correspond to Overweight / Underweight / Market Weight. A Bullish rating indicates that the data support further improvement. A Bearish rating indicates that the data support further deterioration. A Neutral rating indicates that the data is currently inconclusive.
- ❑ The use of plain language where possible has been given preference over industry jargon in order to simplify the explanation and interpretation of this analysis. A glossary of terms specific to the discipline of technical analysis can be found at: [https://stockcharts.com/school/doku.php?id=chart\\_school:glossary\\_a](https://stockcharts.com/school/doku.php?id=chart_school:glossary_a)
- ❑ Some readers may be unfamiliar with the use of Relative Rotation Graphs. A detailed discussion of this subject can be found at: [https://stockcharts.com/school/doku.php?id=chart\\_school:chart\\_analysis:rrg\\_charts](https://stockcharts.com/school/doku.php?id=chart_school:chart_analysis:rrg_charts)

# ANALYST BIO

- ❑ Jeffrey W. Huge, CMT has 29 years of investment industry experience across global equity and debt capital markets. He is Managing Partner and Chief Investment Officer at JWH Investment Partners, a private family office and independent research firm.
- ❑ Prior to launching JWH Investment Partners, Huge worked at The Leuthold Group and Leuthold Management, where he co-managed a global macro hedge fund alongside respected contrarian-value investor Steve Leuthold.
- ❑ Previously, he held senior level positions in institutional sales, trading, and portfolio management at several investment banks including Oppenheimer, Citigroup, and Merrill Lynch, where he specialized in equity markets, technical analysis, and global macro strategy.
- ❑ Huge earned his MBA in Finance from the University of St. Thomas, and holds a Bachelor's degree in Economics from the University of Minnesota. He completed advanced training and was certified in portfolio management under the instruction of Emanuel Derman at Columbia University's Center for Financial Engineering.
- ❑ Huge is a [CMT Charterholder](#) and has been a member of the CMT Association since 2005.



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