Thackray Newsletter

— Know Your Buy & Sells a Month in Advance —

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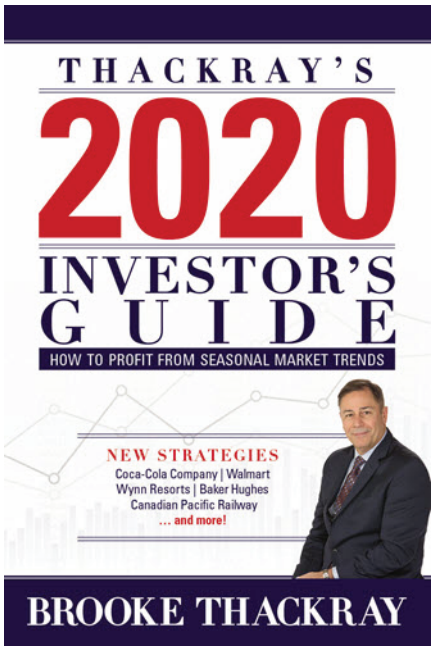
Available at major bookstores and on-line.

New Strategies include Coca-Cola Company, Walmart, Baker Hughes, Canadian Pacific Railway .... and more!



Market Update

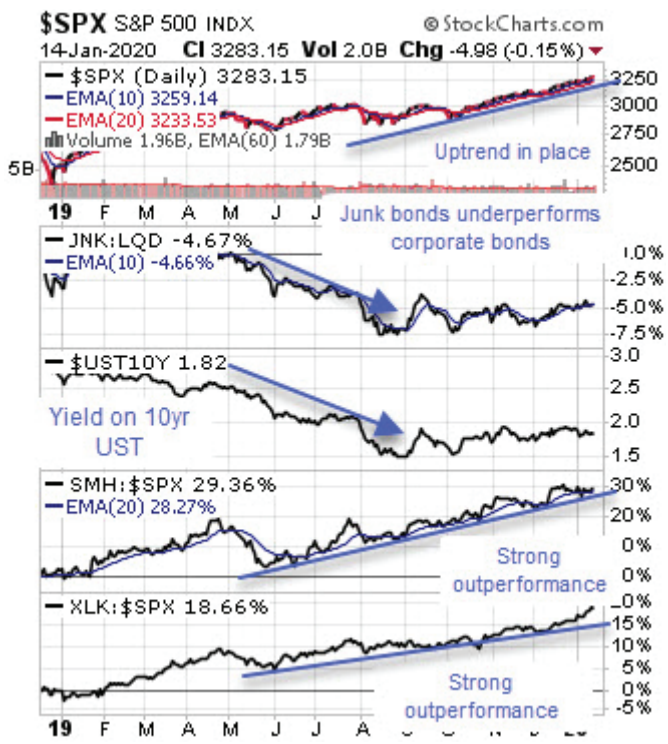
"Muddling" economy leads to moderate stock market potential

The stock market has been plodding higher on mixed signals from the economy. Strong Nonfarm payrolls one month and weaker than expected the next month, increasing wage growth one month and slowing the next and PMI numbers both stronger and weaker than expected. The mixed signals are not just limited to the US. Europe and Asia have also been showing mixed economic signals. There is no question that 2019 was a strong year for the stock market, despite the mixed signals in the economy.

Both bears and bulls are using selective data to build their respective cases for their projections for 2020.

It is doubtful that the S&P 500 will be able to put in a comparable performance in 2020 as it did in 2019. It can still perform well, but expectations should be tempered due to a muddling economy.

The stock market can produce much higher than average returns over a two or three year period without strong eco-



S&P 500 Technical Status

The S&P 500 is currently in an uptrend and has not broken its upward trajectory. All is good (for now). The stock market can keep moving higher, but it is probably a good idea to watch the key sectors shown below in determining the health of the market.

Junk bonds have been outperforming corporates (JNK:LQD) as interest rates have been rising ($UST10Y). This sector will probably be one of the last canaries to indicate deteriorating investment sentiment. Yield chasing will go on for as long as possible.

The semiconductor sector, relative to the S&P 500 (SMH:$SPX) has been on a tear (despite mediocre fundamentals at best). "One year," when the market tops out (sarcasm), the semiconductor sector will probably get "crunched." This sector is probably one of the best canaries to measure market sentiment. When it turns..not good.

The technology sector is still in an uptrend and has recently accelerated its performance relative to the S&P 500 (XLK:$SPX). A cross below its upward trend line will probably occur after the semi sector crosses its trend line, providing confirmation of an investor risk-off mode.

Horizons Seasonal Rotation ETF (HAC : TSX)
Portfolio Exposure as of **December 31st,** 2019

Symbol	Holdings	% of NAV
	Canadian Dollar Exposed Assets	
	Equities	
HXE	Horizons S&P/TSX Capped Energy Index ETF	2.9%
	Commodities	
HUG	Horizons Gold ETF	7.4%
HUZ	Horizons Silver ETF	2.0%
HURA	Horizons Global Uranium Index ETF	0.8%
	United States Dollar Exposed Assets	
	Equities	
HXS	Horizons S&P 500® Index ETF	20.4%
IWD	iShares Russell 1000 Value ETF	17.3%
IWM	iShares Russell 2000 ETF	11.8%
VOO	Vanguard S&P 500 ETF	10.6%
HXQ	Horizons Nasdaq 100® Index ETF	9.4%
XLY	Consumer Discretionary Select Sector SPDR Fund	4.8%
XLF	Financial Select Sector SPDR Fund	4.7%
MDY	SPDR S&P MidCap 400 ETF Trust	4.4%
GDX	Vaneck Gold Miners ETF	2.1%
	US Dollar Forwards (Jan 2020) - Currency Hedge **	1.2%
	Cash, Cash Equivalents, Margin & Other	0.1%
	Total (NAV $338,168,026)	100.0%

** Reflects gain / loss on currency hedge (Notional exposure equals 49.5% of current NAV)

The objective of HAC is long-term capital appreciation in all market cycles by tactically allocating its exposure amongst equities, fixed income, commodities and currencies during periods that have historically demonstrated seasonal trends. The Thackray Market Letter is for educational purposes and is meant to demonstrate the advantages of seasonal investing by describing many of the trades and strategies in HAC.

nomic reports, but this usually happens when the economy is in a bottoming process and investors are slow to see the improving economic conditions. As perceptions "catch up" to the reality of improving economic fundamentals, the stock market continues to perform well in successive years. This was the case in 2009 and 2010.

The economy is currently not in a bottoming process where mixed signals tend to be the norm. The economy may be topping, but most would agree that it is not bottoming. As the economy muddles along, a follow on year of exceptional returns is not likely.

Also, it must be remembered that 2018 was not a good year for the stock market and its major pullback occurred towards the end of 2018, setting up for a strong revaluation in 2019. This time around, we do not have the benefit of a major correction at the end of the year, to set up for strong year-over-year comparables.

The mixed economic signals are largely the result of central banks adding liquidity to the system. The economy is not in a natural organic expansion mode that takes place after it bottoms out. If the central banks were not artificially manipulating interest rates and adding liquidity to the system, it is likely that the major economies around the world would be in more of a slowdown mode.

The Federal Reserve and other central banks will probably continue with their modus operandi of stepping in to support the economy on any sign of weakness, fighting any sign of slowdown tooth and nail.

The problem is that central banks' loose monetary policies are having less and less of an impact. At some point, their actions will be pushing on a string. As consumers and businesses become financially stretched, there will be a point where they will stop borrowing, regardless of how low interest rates become. And if banks start to reduce their loans due to credit risk, the economy is more likely to stumble. Watch for increasing dialogue on banks increasing their credit loss provisions for indications that banks are losing their appetite for lending.

In today's markets it has not been wise to bet on a future potential catalyst affecting the direction of the stock market. Even when catalytic events have occurred, the direction and duration of the effect has been highly unreliable.

From a seasonal perspective, the stock market tends to perform well at this time of the year, until early May. It is possible that over the next few months the stock market will have some sort of correction, but seasonal trends still favor the stock market performing well at this time.

In the "muddling" economy investors should not expect huge persistent multi-year gains from the stock market. Sure, it can happen, but persistent large gains on a year-over-year basis are not likely. It would be wise for investors to temper their expectations.

What the HAC?

In December, HAC exited its position in Canadian banks and took on positions in the Nasdaq-100, gold, gold miners, silver, US financials and small caps. The cyclical sectors of the market, including industrials and materials were exited in December. The positioning of HAC was established to set up for the seasonal trends in the new year.

Seasonal Opportunities

In my December newsletter, I spilt a bit of ink on gold, gold miners and silver, please refer to my December newsletter as a more detailed reference on the relationship between the asset classes.

Gold

The seasonal period for gold is from December 27th to January 26th and can extend into late February with strong momentum. Gold's primary seasonal period is from July 12th to October 9th. The discussion below focusses on the current seasonal period.

Recently, gold received a bit of a boost from the US-Iranian tensions. The success of gold is not going to live and die on geopolitical tensions. In today's world, gold does not have very long sustained rallies on geopolitical tensions.

The main driver for precious metals over the last year has been central banks printing money and lower interest rates.

After a rapid ascent starting in late November, gold has pulled back to the $1550 level. At this point it still has not broken below support. The pull-back in gold has coincided with rising interest rates and vice versa. The opportunity cost of holding gold decreases as interest rates move lower.

The graph below shows the relationship between the yield on the 10Yr US Treasury and the price of gold. In the first red box, the interest rate is moving higher and the price of gold is falling. In the first blue box, the interest rate is moving lower and the price of gold is moving higher. In the last red box, interest rate is moving higher and the price of gold falling. In late 2019 and early 2020, the price of gold moved higher as the interest rate declined marginally.

The above analysis shows the relationship between the price of gold and the 10yr US Treasury. The relationship is a short-term proxy for the relationship of gold with real interest rates as more data points are available in the short-term. As real interest rates fall, gold tends to increase in price. Monitoring interest rate movements will help determine if the seasonal trade has staying power.

My Call: Gold bullion will probably rally into the beginning of February.

Gold Miners

Gold miners have two seasonal periods. The main seasonal period is from July 27th to September 25th and a secondary seasonal period from December 23rd to February 14th.

Gold miners had a solid year in 2019, benefitting from the rising price of gold and rising broad stock market.

In 2020, gold miners have pulled back a bit, on an absolute basis and relative to the S&P 500.

Although gold miners are in one of their strong seasonal periods, if both gold and the stock market were to correct, gold miners would be expected to perform poorly and underperform the stock market.

It should be noted that the current seasonal period for gold miners is considered a minor seasonal period, and not as strong as the summer seasonal period that lasts from early July into late September. In other words, investors should be cautious with gold miners at this time of the year.

My Call: Gold miners will probably bounce one more time and increase into February, before declining around the end of its seasonal period.

Silver

Silver has a strong seasonal period from December 27th to February 22nd

Silver is both a precious metal and an industrial metal. Its performance is being mainly driven by its precious metal properties at this time. If the commodities sector were to get a boost, this would be expected to support higher silver prices.

Silver can be very volatile, and as such, investors should

be cautious with a silver trade. At this time, silver not broken its up trend.

My Call: Silver will probably increase in value until late February.

Technology

Technology has a strong seasonal period from December 15th to January 17th

The technology sector has once again received fund flows from investors and pushed above its trading channel. This stock market rally is running on the strength of technology shares.

As I have previously stated, when the technology sector starts to have a long protracted downturn relative to the S&P 500, it is probably the top of the market for a while. This has not happened so far.

My Call: The technology sector will probably peak relative to the S&P 500 sometime between the end of its seasonal period and the beginning of March.

Emerging Markets

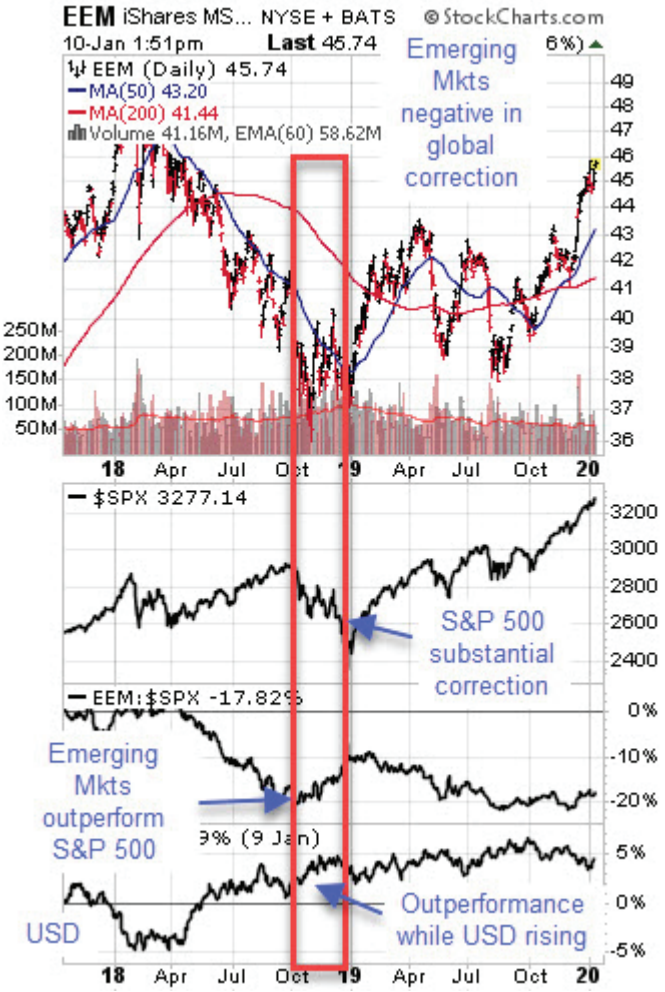
Emerging markets have a seasonal period that lasts from November 24th to April 18th

The traditional relationship between emerging markets relative to the S&P 500 is an inverse relationship to the US dollar. In other words, when the US dollar is rallying, emerging markets tend to underperform. This has partly been because commodities have an inverse relationship to the US dollar. It is also because emerging markets fund a large portion of their debt in US dollars. The stronger that the US dollar becomes, the more expensive it is for the borrowing country to pay off their debts.

Although the inverse relationship to the US dollar still generally holds up, the inverse relationship to commodities is not as strong as it has been traditionally. The reason is that the constituents of the underlying emerging market indexes have become more technology based. This includes China, which is incorrectly classified as an emerging market economy. China has an increasing number of technology related companies, such as Alibaba and Tencent.

Over the next decade, emerging market economies probably represent a better opportunity compared to many other major markets around the world.

It is interesting to note that the emerging markets sector outperformed the S&P 500 in Q4 of last year. This was a time when the S&P 500 was correcting sharply. It used to be that when the US sneezed, the rest of the world "caught a cold." Times have changed. The Q4 outperformance of emerging markets occurred when US dollar was increasing relative to world currencies.



My Call: The emerging market sector will probably outperform the S&P starting in mid-March into mid-April.

Industrials

The industrial sector has a strong seasonal period from January 23rd to May 5th

In the second half of Q4 of 2019, the industrial sector underperformed the S&P 500. Overall, the sector performed at market for 2019. The period of outperformance in 2019 was clustered at the beginning of the year. The industrial sector tends to outperform in spurts. The sector is currently about to start its second seasonal period.

My Call: The industrial sector will probably perform at market, unless the narrative around the US-China trade war shifts to a positive tone or economic signals show persistent improvement.

Materials

The materials sector has a strong seasonal period from January 23rd to May 5th

In 2019, the materials sector underperformed the S&P 500. At the beginning of 2020, the sector underperformed the once again. The performance of this sector is largely dependent on how investors view the progress of trade talks and consequently global economic growth.

The days after the phase-one trade US-China trade deal will help gauge investor enthusiasm for this sector. Given the persistent underperformance of this sector relative to the S&P 500, a more positive perspective on this sector from investors could help the sector to perform well in its seasonal period.

My Call: The materials sector will probably outperform the S&P 500 until mid-April.

Consumer Discretionary

The consumer discretionary sector has a strong seasonal period from October 28th to April 22nd

Amazon represents a large portion of XLY (24%). In March 2019, the consumer discretionary sector strongly outperformed the S&P 500. This was largely the result of

Amazon performing particularly well at this time. March tends to be a very strong month for the retail sector, which is a large portion of the discretionary sector.

In October 2019, the consumer discretionary sector underperformed the S&P 500, largely as the result of Amazon performing poorly at the time.

The consumer discretionary sector tends to perform well at this time of the year, but it is important to follow Amazon's relative performance compared to the S&P 500.

My Call: The consumer discretionary sector will probably moderately outperform the S&P 500 until the end of March.

Retail

The retail sector has a strong seasonal period from October 28th to November 29th and then a second seasonal period from January 21st to April 12th

The retail sector has had a tough time over the last few years, particularly the bricks and mortar stores. Margins have compressed as competition has heated up.

The retail sector underperformed the S&P 500 for most of 2019, except a brief spurt in late summer into October.

The sector is currently at its resistance level. With the current negative sentiment in the sector, it is possible that the sector may start its seasonal period a bit later this year.

My Call: The retail sector will probably delay its stronger seasonal trend into early to mid-February. February and March tend to be strong months of the year for the retail sector.

Financials

The financial sector has a strong seasonal period from December 15th to April 13th

Since late August, the financial sector has been outperforming the S&P 500. It is not a coincidence that the yield on the 10yr US Treasury has been moving higher at the same time, as banks benefit from higher NIMs (net interest margin). Very recently, the sector has shown weakness relative to the S&P 500 in 2020, as the US banks are set to kick off earnings season in mid-January. The performance of the financial sector is largely dependent on the movement of the 10yr UST yield (direction represented by TNX in graph below). With interest rates so low, small movements in the rates can make a big difference in the relative performance of the sector relative to the S&P 500. If the economy shows increasing signs of slowing down, look for the financial sector to underperform, despite being in its strong seasonal period.

My Call: The financial sector will probably perform at market or slightly above market over the next two months.

Canadian Banks

Canadian banks have a strong seasonal period from January 23rd to April 13th

After briefly outperforming the S&P/TSX Composite Index on their strong Q3 earnings, Canadian banks have been underperforming. The Q4 earnings for Canadian banks were generally worse than expected, with the exception of National Bank. In addition, there was more discussion of increasing LLPs (loan loss provisions). As a result, Canadian banks have been underperforming the Canadian stock market.

My Call: The Canadian banking sector will probably perform at market or slightly better than market until the end of March

Energy

The energy sector has a seasonal period from February 25th to May 9th. Like oil, it can start its seasonal rally earlier, especially if the sector been strongly underperforming.

After performing poorly for most of 2019, the energy sector started to show some life in late August and into the fourth quarter of the year. It was largely expected that the energy sector would benefit from tax loss selling, but the new year rally has not played out as expected.

Although the energy sector's seasonal period starts in late February, the sector often puts in a bottom in January.

The sector has bounced around recently with US-Iran tensions. Technically, it is in good shape with rising bottoms which tends to be a bullish pattern.

Although energy is in its pre-seasonal possible buy window, caution should be used entering the sector, especially before the average seasonal start date in February.

My Call: The energy sector will probably perform at market in the short-term and then increasing its relative performance in February.

Canadian Energy

The Canadian energy sector has a strong seasonal period from February 25th to May 9th. Like the US energy sector, the rally can start before the beginning of its seasonal period.

On a technical basis, the Canadian energy sector has developed a bullish double bottom pattern. A break above

$10 on XEG, would be a positive technical development.

My Call: The Canadian energy sector will probably follow the US energy sector higher in February.

Metals & Mining

The metals and mining sector has a strong seasonal period from November 19th to January 5th and then a second seasonal period from January 23rd to May 5th

After underperforming the S&P 500 in early 2019, the metals and mining sector has performed at market since June. There have been some ups and downs along the way, and most recently the sector has been underperforming since mid-December. The sector has now pulled back to its market perform line.

Look for the metals and mining sector to perform well in its seasonal period if the "reflation" narrative takes hold. There is a growing number of investors that believe that inflation is set to creep higher. I am not convinced yet that this is a long-term trend, but on a seasonal basis, the 10yr break-even inflation rate tends to move higher at this time of the year.

In my *Thackray's 2020 Investor's Guide* I outline the seasonality of the B/E inflation rate.

My Call: The metals and mining sector will probably start its seasonal rally in late February with strength in March and April.

Transportation

The transportation sector has a strong seasonal period from January 23rd to April 16th

In 2019, the transportation sector traded in a range, which translates into underperformance relative to the S&P 500.

On a fundamental basis, the transportation sector has shown continued weakness in the Cass Freight Index (trucking index). Many investors have used the Cass Freight index as leading indicator of an economic slowdown. The chart below shows the annual trend of the index from 2016 (anyone notice the seasonality). What the chart does not indicate is that the shipment index has been lower the last twelve months in a row on a year-over-year basis (https://www.cassinfo.com/).

The freight index is only part of the transportation index and poor past performance does not necessarily translate into continued poor performance.

On a technical basis, the sector is at the top of its trading channel. If the economy starts to show persistent growth, the transportation sector is poised to perform well in its seasonal period.

My Call: The transportation sector will probably perform at market or slightly better than market in its seasonal period.

Value

The value sector has a strong seasonal period from November 29th to January 6th and then another strong seasonal period from February 26th to April 19th

The value sector has underperformed the S&P 500 on a multi-year basis, but has managed to perform well in its seasonal periods. In 2019, the sector underperformed the S&P 500. In late 2019 and into early 2020, the sector showed signs of underperforming the S&P 500. The next seasonal period for the value sector starts in late February, at the same time that the energy sector and other resource sectors tend to perform well.

My Call: The value sector will probably start to outperform in late February and possibly continue to outperform until late April.

Small Caps

The small cap sector has a strong seasonal period from December 19th to March 7th.

The small cap sector underperformed the S&P 500 in 2019. The only bright spot of outperformance for the sector was in its seasonal period which finished in early March. After its seasonal period the sector underperformed the S&P 500 once again.

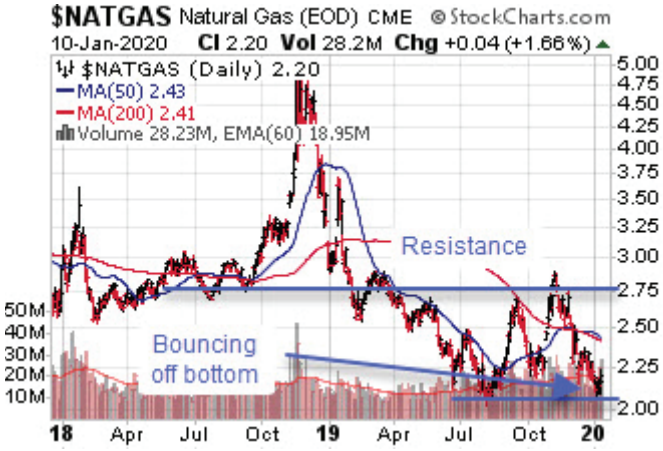
So far, in its seasonal period, the small cap sector has underperformed the S&P 500. February and into the beginning of March tend to be strong for the small cap sector, so the sector still has a chance to perform well in its seasonal period.

My Call: The small cap sector will probably outperform in February and into mid-March.

Natural Gas

Natural gas has a seasonal period from March 22nd to June 19th

At the current time, natural gas is close to its support level, just above $2 MMBTU spot. If natural gas were to be at the current level closer to its seasonal period, this would probably represent a good seasonal opportunity. I will write more about this next month.



My Call: Natural gas will probably stay close to the current level in price until late February and at that time could present a good seasonal opportunity.

Stocks

TJX Companies

TJX Companies has a seasonal period from January 22nd to March 30th

The seasonal period of strength for TJX has worked well from 1990 to 2019. In this period, TJX has been positive 87% of the time and has outperformed the S&P 500 77% of the time. TJX benefits from being an off-price retailer. As other retail companies go bankrupt, TJX has been able to replenish many of its stores with the inventory from the stores that are closing.

Currently, TJX is forming a rising wedge pattern, which often breaks lower. Nevertheless, TJX represents a good seasonal opportunity, but it is important to watch for a break lower out of its pattern, perhaps even before the end of its seasonal period.

My Call: TJX will probably continue to outperform the S&P 500 for the next two months.

Eastman Chemicals

Eastman Chemicals has a seasonal period from January 28th to May 5th

Eastman Chemical has a very strong seasonal period of strength from January 28th to May 5th and then a very weak seasonal period from May 30th to October 27th. For more details on the seasonal results of the juxtaposition of these two seasonal periods, please see *Thackray's 2020 Investor's Guide*, page 21. The graph below shows the results over the last two years.

My Call: Eastman Chemical will probably perform at market in the short-term, before outperforming in February and March.

Currencies

USDCAD

The US dollar has a strong seasonal period from mid-January to mid-March

The US dollar tends to perform well relative to the Canadian dollar starting in January. The US dollar tends to perform well relative to most currencies in January. This is largely the result of an increase in US dollar demand at the beginning of the new year in order for companies to finance equipment and operations for the year.

Starting in late November, the Canadian dollar has outperformed the US dollar. Typically, the Canadian dollar improves in strength in the last half of December, it just happened early this year.

Currently, the US dollar is at the bottom of its trading range relative to the Canadian dollar, representing a good seasonal opportunity over the next two months.

It should be noted that the seasonal period of strength for

the US dollar ends abruptly, as the strongest month of the year for the Canadian dollar is April, with Canadian dollar often starting to show strength in mid-March.

My Call: The US dollar will probably moderately outperform the Canadian dollar over the next two months.

Brooke's Rant

Not QE! Powell's statement rings hollow as he tries to convince himself and others!

In an act to save face, Powell has been adamant that the Federal Reserve buying T-Bills is not Quantitative Easing. A lot has been written about the mechanics of the recent Federal Reserve's actions. It is confusing because the Federal Reserve has both increased its Repo facility and at the same time is buying T-Bills in the open market.

The Repo facility operates to support overnight liquidity between financial institutions. Financial institutions need to maintain certain levels of liquid assets to meet regulatory demands. In order to meet the requirements they borrow money from other institutions overnight, pledging assets such as government bonds and mortgage backed securities. The next day, the trade is automatically reversed and the assets are repossessed, hence the term "repo".

The Federal Reserve plays its part by providing overnight repo financing when financial institutions are not providing adequate lending facilities amongst each other. Although the Dodd Frank regulations have encumbered bank's abilities to provide repo operations amongst themselves, it is rumored that Goldman Sachs has withdrawn substantial amounts of money from its offer for repo operations. Over year-end the Federal Reserve provided record repo facilities to meet year-end liquidity requirements. Although this explains part of the record repo facility from the Federal Reserve, it is not really known why the facility has spiked to record levels.

The Federal Reserve's own data shows that Quantitative Easing is underway once again (https://www.federalreserve.gov/monetarypolicy/bst_recenttrends.htm).

A rising line indicates an increase in the size of the balance sheet. The line has been rising recently.....quantitative easing. Sure, the Fed is increasing its balance sheet by purchasing securities at the short end of the curve, which is not typical, but it is still QE. Once again the balance sheet sits above $4 trillion, despite Powell's denial of QE.

The next round of QE will be called "Not Not QE." A double negative is a positive, which means "Not Not QE," has to be QE. Discussion settled!