Thackray Newsletter

— Know Your Buy & Sells a Month in Advance —

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Gear stick shift for car

Market Update

Investors are starting to shift away from the cyclical sectors of the stock market...what does this mean for the markets?

The cyclical sectors of the stock market collectively outperformed the S&P 500 from August of 2020 until February of this year. In March, the defensive sectors of the market took over and outperformed the S&P 500. In April, the technology sector has been outperforming. The cyclical sectors of the stock market are starting to show fatigue as investors shift to other sectors of the stock market.

Yes, there is a good long-term case for the cyclical sectors of the market to perform well as the economy re-opens and infrastructure spending is expected to increase. Nevertheless, investors are shifting their focus and dollars to other sectors of the market. Why?

S&P 500 Technical Status

The S&P 500 has once again hit an all-time high. Which is a good thing. Nevertheless, there are signs that the S&P 500 might pause its upward ascent.

Currently, the S&P 500 is at the top of its upward trend channel. Typically, a strong catalyst is required to break above the trading channel, but it should not be counted on.

The recent rally in the S&P 500 has a divergent relationship with volume, which has been declining as the S&P 500 has moved higher. This is often a sign that the S&P 500 lacks conviction to move higher.

The S&P 500 has just become overbought on an RSI basis, which by itself does not mean that the market will move lower, but it often indicates that the stock market is susceptible to a correction.

The VIX has moved below 20 for the first time since the pandemic, which is a sign that investors have become complacent. The stock market can perform well with the VIX below 20, but at such levels, disruptive events can have a large impact on the markets.

Currently, the stock market is in its last month of its strong seasonal period and it is a time to be cautious.

Horizons Seasonal Rotation ETF (HAC : TSX)
Portfolio Exposure as of **March 31, 2021**

Symbol	Holdings	% of NAV
	Canadian Dollar Exposed Assets	
	Equities	
HXT	Horizon S&P/TSX 60 Index ETF	14.7%
HEWB	Horizons Equal Weight Canada Banks Index ETF	10.4%
HXE	Horizons S&P/TSX Capped Energy Index ETF	4.0%
	United States Dollar Exposed Assets	
	Equities	
HXS	Horizons S&P 500 Index ETF	40.7%
XLB	Materials Select Sector SPDR Fund	6.0%
XLI	Industrial Select Sector SPDR Fund	5.9%
XLP	Consumer Staples Select Sector SPDR	5.0%
HULC	Horizons US Large Cap Index ETF	3.3%
FHG	First Trust AlphaDEX US Industrials Sector Index ETF	3.2%
XLY	Consumer Discretionary Select Sector SPDR	2.0%
XLI	Utilities Select Sector SPDR	2.0%
	US Dollar Forwards (April 2021) - Currency Hedge **	0.1%
	Cash, Cash Equivalents, Margin & Other	2.7%
	Total (NAV $221,555,994)	100.0%

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.

The economy has been performing well with fairly strong economic reports being published. Recently, the ISM Manufacturing and Services index have rocketed upwards to record levels.

The record levels of the ISM Indexes just announced should have helped the cyclical sectors strongly outperform the S&P 500, but that did not happen. The cyclical sectors increased, but not as much as the S&P 500.

The expectations for the March ISM Manufacturing was 61.3, but the print came in much higher at 64.7 (source: Trading Economics).

The expectations for the March ISM Non-Manufacturing was 59, but the print came in much higher at 63.7 (source: Trading Economics).

It is important to realize that the ISM indexes are diffusion indexes and do not represent absolute levels. In the past, when the ISM indexes have reached extreme levels, they have often reversed. It may take some time to reverse, but to move higher from the current levels is going to be difficult.

According to Pictet Asset Management, their lead index suggests that the ISM may move back to more normal levels in the near future.

The chart below from Morgan Stanley shows the relationship between ISM Prices Paid and ISM Manufacturing. ISM Prices lead by twelve months. The problem is that ISM prices have been falling dramatically. If this relationship is maintained, the ISM Manufacturing index could fall, representing a slowing of economic growth.

Is this as good as it gets?

There comes a time when it is as good as it gets. It is possible that we are in such a time, but the problem is that when investors believe that it cannot get much better, the stock market often moves much higher and a rapid rate. Investors should not necessarily react to "stretched" levels, but it is a time for caution.

Things are not normal at the top -

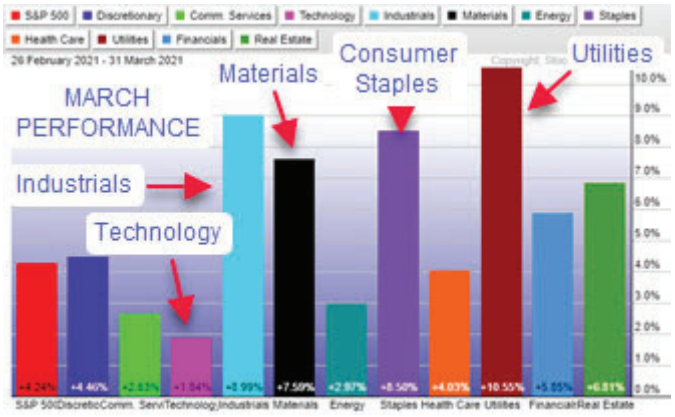
Small Cap underperformance flashing a warning signal

When the S&P 500 was hitting all time highs in Q4 of 2020, the small cap sector of the market was roaring higher, representing a risk-on mode in the stock market. Recently, the small cap sector has been underperforming the market, indicating a shift to risk-off. The small cap sector has been one of the leading sectors of the market and its underperformance should not be taken lightly.

The utilities sector is sending a warning?

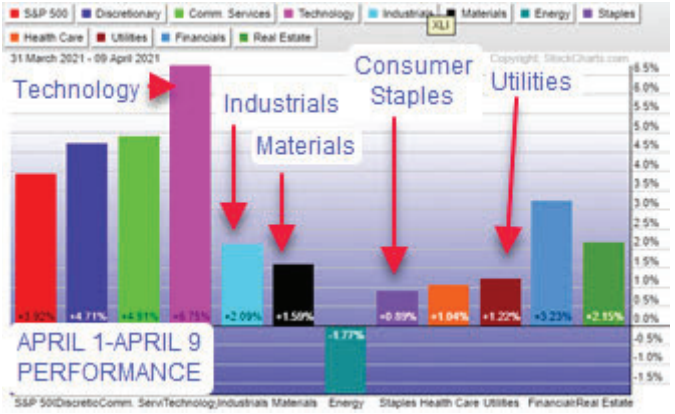
It is not just small caps that have been signalling that the market has been showing signs of fatigue while making higher highs. Some of the defensive sectors of the stock market were the leaders in the market in March. The top performing sector in March was the utilities sector. Yup, the boring utilities sector. What is more amazing is that the sector outperformed while interest rates were moving higher (which is not normal). This is signalling that investors want to remain in the stock market, but want to position themselves conservatively.

It is important to note that investors did not get out of the stock market and go to cash (they seldom do at market tops). The rotation to defensive stocks signals that investors are starting to get concerned with market valuations. The stock market can move higher, but a shift to the defensive sectors indicates a lack of conviction that the stock market will move substantially higher.



The third top performing sector in March was the consumer staples sector. Once again, this is not normal for the consumer staples sector to perform so well in March when interest rates are rising. In March, the industrials and materials sectors performed well, indicating that reflationary trade was still somewhat intact. The technology sector underperformed the S&P 500, largely because of rising interest rates. In other words, investors were making a choice to rotate into the utilities sector and the consumer staples sector instead of the technology sector.

So far in April, as interest rates have stabilized, investors have been rotating out of the cyclical sectors and into technology, consumer discretionary and communications (graph below). The defensive sectors across the board have been underperforming. This could be in part an adjustment from the defensive sectors outperforming to such a large degree last month. What is important to note is that there has not been a rotation back into the cyclical sectors of the economy.



Overall, there are multiple signals in the stock market indicating that the reflationary trade is showing signs of fatigue: small cap sector is underperforming, defensive sectors outperforming for an extended period despite rising interest rates, and money not flowing back into the some of the cyclical sectors of the stock market, such as energy, industrials and materials.

The message here is that investors should be cautious at this time despite a stock market at all-time highs.

continued next page...

The baton is about to be passed to earnings and that is potentially a good thing

When earnings season rolls around, investors focus on earnings and not so much on economic reports. The good news is that earnings are expected to be strong this quarter on a year-over-year basis. The problem is that it is going to be hard to make sense of the number strictly by comparing to last year because in February and March of 2020 a substantial part of the economy was shuttered.

Q1 earnings are expected to rise 25.0% and revenue 8.8% (Refinitiv, April 9, 2021). Another piece of good news is that recently analysts have been increasing their expectations for earnings before the season has started. This is often bullish for the stock market. Typically, analysts reduce their expectations collectively as the earnings season approaches.

This week, the major US banks "unofficially" kick of the earnings season as they report their Q1 earnings. It is important to watch investor reaction to the earnings releases. The base effect of using last year's numbers should help support the stock market. If it does not, then the stock market could be in trouble.

Overall Covid-19 trends remain positive for the markets

There is some good news on the COVID-19 front. Although COVID-19 cases have been rising recently at the global level, the number remains below the January peak. In the US, cases are well below the January peak and have flat-lined since late February. The US currently has 20% of its population fully vaccinated.

Not all countries are trending in the right direction. In contrast to the US, Canada's COVID-19 cases have been increasing and are getting close to its January peak, due largely to different mutations of Covid-19. Also in contrast to the US, Canada has only fully vaccinated 2% of its population (CTV News, April 9, 2021). Currently, CDC has issued a warning, recommending US citizens not to travel to Canada.

On a positive note, the Covid-19 cases in the UK have been falling sharply and are back to last summer's levels, well below the January peak. The United College of London has calculated that the UK has now reached herd immunity with its vaccinations and previous infections. This is good news.

TORONTO SUN

Life Sunshine Girls Driving Comics Puzzles Horoscopes Healthing TheGrowthOp

World / News

Britain to reach herd immunity next week thanks to vaccinations and COVID infections

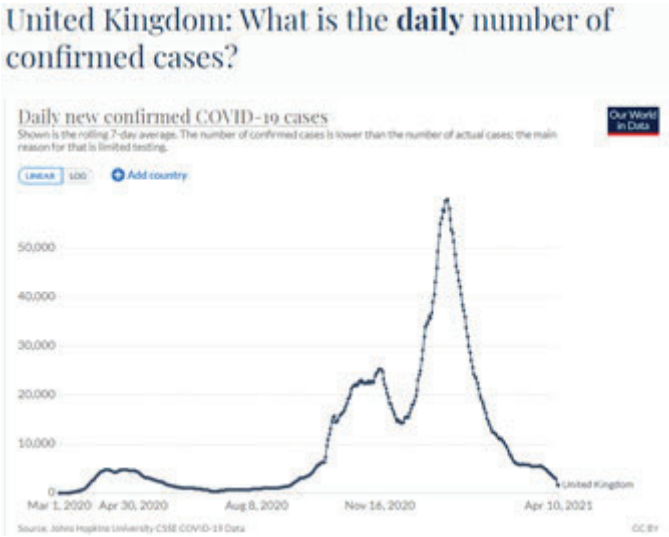
The number of people who have protection against the virus, either through vaccination or previous infection, will hit 73.4 per cent next Monday

The Telegraph

Apr 08, 2021 • 2 days ago • 3 minute read • Join the conversation

U.K. prime minister Boris Johnson on April 7. PHOTO BY TOM NICHOLSON - WPA POOL/GETTY IMAGES

Britain will pass the threshold for herd immunity on April 12, according to dynamic modelling by University College London (UCL), placing more pressure on the Government to move faster in releasing restrictions.



So far, we have not seen the global large decrease in COVID-19 cases as was largely expected if the virus followed the seasonal flu cycle. It is possible that the mutation effect is countering the seasonal trend. Overall, the Covid-19 trends are supportive of a stronger economy in the future.

More stimulus coming - with time delays

We have all seen the commercials on TV advocating time-release medication to smooth the effect of the medication make it last longer. Stimulus packages that are being proposed now and in the future are starting to come with a greater time release effect.

The current proposed stimulus package of $2.3 trillion includes some infrastructure spending, which is expected to be spent over the next eight years. I am not going to get into the efficacy of the stimulus in this newsletter, but it is important to realize that the effect of this proposed stimulus package is largely in the future. It will have a very different effect on the economy and stock market compared to the previous focus of the government just handing out "free" money. In other words, investors are less likely to have a knee-jerk reaction driving up the stock markets just because the word stimulus is mentioned.

Seasonal trends are aligning with market signals

Current seasonal trends support a shift in the stock market away from risk-on sectors of the market, it is just happening earlier than usual.

The stock market typically has its strongest six-month period from late October to early May. So far the stock market has rallied strongly in this time period.

Last summer, the stock market rallied strongly in what is typically the weaker six-months of the year, from early May to late October. This was an unusual circumstance with the Federal Reserve and government flooding the economy and markets with money, causing short-term growth. I have addressed the occurrence of large gains in this weaker six-month seasonal period in my past writings. From 1950 to 2020, when gains of 10% or more have been made in the market, from May 6 to October 27, it has occurred when the economy has been coming out of a recession or has been expanding rapidly. This includes the period of 2020, where the stock market was bouncing off the pandemic bottom in March.

Could it happen again? Yes, but growth expectations are much more subdued and it is unlikely to see a repetition of the same level of gains as last year, despite more stimulus being announced.

Currently, there are signs that the stock market is shifting to a more defensive posture. It is possible that the cyclical sectors could once again dominate and kindle the reflation trade. Given the recent developments in the market, and signals that investors are starting to shift to a less aggressive stance, it would not be expected that the cyclicals would dominate for an extended period of time. This is particularly true as the stock market slips into its six-month unfavorable period from May 6 to October 27.

It is important to note that just because the stock market is moving into its six-month unfavorable period, it does not mean that it is set to crash. It is true, that more large corrections tend to take place in this time period, but the main take away is that the risk-reward scenario decreases and investors are often rewarded by focusing on different sectors of the market. In the unfavorable six-month period for the stock market, there are still seasonal investing opportunities. I will discuss this further in my future newsletters.

Seasonal Opportunities

Energy – Is it ending its strong seasonal period early?

The energy sector has a strong seasonal period from February 25 to May 9

After rallying since last autumn, the price of oil has been pulling back and has now broken its up trend. Recently, after the OPEC+ meeting, the cartel countries have been increasing their oil production above their agreements. Investors have been getting concerned and the price of oil has been declining.

Energy stocks have been performing well since last October, but have recently been underperforming the S&P 500. Currently, energy stocks are on the verge of breaking their up trend. Given that the sector is fast approaching the end of its seasonal period, consideration should be given to exiting the sector early on a seasonal basis.

My Call: The energy sector will probably underperform into July.

Consumer Discretionary – Relying on two stocks?

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

The consumer discretionary sector has recently broken above its resistance line on an absolute basis, which is a good thing.

Relative to the S&P 500, the sector has been showing strength. It should be noted that although the consumer discretionary sector tends to be strong in April, it finishes its seasonal period on April 22.

The top two holdings in Consumer Discretionary Select Sector SPDR Fund (XLY) are Amazon 22% and Tesla 15%. It is important for investors to track the performance of both Amazon and Tesla in order to help determine the direction of the consumer discretionary sector using the ETF XLY.

My Call: The consumer discretionary sector will probably start to underperform in the near future.

Retail –
March Surprise

The retail sector has a strong seasonal period from January 21 to April 12

The retail sector typically performs well in the month of March. In fact, it is one of the strongest months of the year for the sector. In March, the retail sector outperformed the S&P 500. Investors should be looking for the sector to start to underperform the S&P 500 in the near future.

My Call: The retail sector will probably start to underperform the S&P 500 in the short-term.

Industrials –
Looking for traction relative to the S&P 500

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

The industrial sector is part of the reflationary trade. What is interesting is that the sector has recently been underperforming the S&P 500. As interest rates have been stabilizing a lot of the cyclical sectors have been pulling back on a relative basis.

Given that interest rates on a seasonal basis start to decline in early May, investors should be cautious with the industrial sector.

My Call: The industrial sector will probably underperform the S&P 500 over the next few months.

Transportation –
Starting to show relative weakness

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

The transportation sector has been performing well since February, in its strong seasonal period.

The sector is just starting to turn down relative to the S&P 500. This is occurring just as the strong seasonal period for the transportation sector is about to end.

As a result, investors should be cautious with the transportation sector at this time.

My Call: The transportation sector will probably underperform the S&P 500 into September.

Materials –
Still in uptrend, but starting to underperform the S&P 500

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

The materials sector, similar to the industrial sector, has recently been underperforming the S&P 500. Most of this sector is made up of chemical companies. A small part of the sector contains gold mining companies which have been underperforming recently. As the sector finishes its seasonal period shortly, and is underperforming, investors should be cautious with this sector.

My Call: The materials sector will probably underperform the S&P 500 over the next few months.

US Financials –
Stabilizing interest rates doing damage

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

As interest rates have been rising since last summer the US financial sector has been outperforming the S&P 500. Recently, the sector has been underperforming the S&P 500 as interest rates have been pulling back. Given that the sector finishes its seasonal period imminently, investors should be cautious with this sector.

My Call: The US financial sector will probably continue to underperform the S&P 500.

Canadian Banks –
Starting to turn down relative to S&P/TSX

The Canadian banking sector has a strong seasonal period from January 23 to April 13

The Canadian banking sector has been outperforming the S&P/TSX since last summer. Recently, the sector has started to show some weakness relative to the market, although it has not broken its up trend line.

Given that the strong seasonal period ends imminently and the sector is underperforming, investors should be cautious with the Canadian banking sector.

My Call: The Canadian banking sector will probably start to underperform in the near future.

Metals & Mining –
Still in up trend relative to S&P 500, but on an absolute basis is starting to break down

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

The metals and mining sector is a classic reflationary trade. In March, the sector started to underperform the S&P 500, but as of yet, has not broken its relative upward trend line. Investors should be looking for the sector to break its upward trend line relative to the S&P 500 in the near future.

My Call: The metals and mining sector will probably underperform over the next few months.

Small Caps –
Broken upward trends on an absolute and relative basis & Seasonal period has ended

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

Up until recently, the small cap sector has been ripping higher since last summer. The small cap sector has is a beneficiary of the re-opening trade. It also benefited from rising interest rates as it has a large allocation to small banks.

At the end of its seasonal period, in early March, the small cap sector started to underperform the S&P 500. This occurred at same time as interest rates started to decline.

Given that the small cap sector has finished its strong seasonal period and is underperforming the S&P 500...and interest rates could be slowing their ascent, the small cap sector is not a preferred sector at this time.

My Call: The small cap sector will probably underperform the S&P 500 until the fourth quarter of the year.

Emerging Markets –
Continues to underperform

The emerging markets sector has a strong seasonal period from November 24 to April 18

The emerging markets sector outperformed the S&P 500 in January and into February, but as the US dollar started to gain in strength, the sector has been underperforming. In March, the emerging markets sector broke its support relative line compared to the S&P 500. It has since continued to underperform. This sector does not look good in the short term.

My Call: The emerging markets sector will probably underperform until the fourth quarter of the year.

Consumer Staples – Outperforming when it typically does not

The consumer staples sector has a strong seasonal period from April 23 to October 27

The consumer staples sector outperformed the S&P 500 in March, and in April it has underperformed. The consumer staples sector starts its seasonal period in late April. Investors should look for the sector to resume outperformance in its seasonal period. It should be noted that one of the stronger months of the year for the consumer staples sector, on a relative basis compared to the S&P 500, is the month of May.

My Call: The consumer staples sector will probably outperform the S&P 500 over the next few months, particularly in May.

Utilities More good times ahead?

The utilities sector typically performs well in April.

In March, the utilities sector performed very well. It was the top performing major sector. This occurred despite rising interest rates which are not a favorable environment for the utilities sector.

In April, the utilities sector is underperforming the S&P 500. Look for the utilities sector to outperform if interest continue to stabilize or head lower.

My Call: The utilities sector will probably outperform over the next few months.

Health Care – Setting up well before the start of its seasonal period

The health care sector has a strong seasonal period from May 1 to August 2

On an absolute basis, the health care sector has been forming an ascending bullish triangle. Relative to the S&P 500, the sector has been underperforming and is still in a downtrend. The good news is that it is at the bottom of its relative trading channel and is poised to bounce higher.

The current technical setup is favorable, This is particularly true as the strong seasonal period starts soon for the health care sector.

My Call: The health care sector will probably outperform the S&P 500 until the end of July.

US REITS – The Contrarian Trade

The US REITS have a seasonal period from March 8 to September 20

The US REIT sector started to underperform the S&P 500 in Q4 of 2019. Once the COVID-19 pandemic started to rollout, the sector accelerated its underperformance. It was until the beginning of 2021 that the sector started to show strength relative to the market. The sector has not shown strong outperformance and has started to turn down relative to the S&P 500. Nevertheless, the sector is in its strong seasonal period and should be a consideration.

My Call: The US REIT sector will probably outperform the S&P 500 into September.

Canadian REITS – Lackluster performance relative to S&P/TSX

On an absolute basis, the Canadian REIT sector has not performed as well as the US REIT sector. The sector has been performing at market relative to the Canadian stock market.

My Call: The Canadian REIT sector will probably perform at market into September.

US Government Bonds – The Unloved Trade

US government bonds have a strong seasonal period from May 6 to Oct 3

With so much talk of inflation, a large percentage of investors hate government bonds. In fact, there is a very large position of short sellers for government bonds. But that does not mean that bonds cannot outperform. Recently, the net short position in US Treasury Bonds has decreased (rising line in graph below), but still remains well below historical norms.

CFTC CBT US Treasury Bonds
Net Non-Commercial Futures Positions

On a seasonal basis, US government bonds start their seasonal period in a few weeks. Interest rates rose from August into late March, but have since started to stabilize.

Powell has claimed that interest rates have been rising because the economy has been re-opening. Although he is partly right, he has purposely declined to comment on the impact of inflation expectations.

If the expectations of a re-opening of the economy starts to slow and/or inflation expectations recede, bonds could perform well.

Given that the strong seasonal period for US government bonds is starting shortly, investors should not discount the possibility that US government bonds could perform well.

My Call: US government bonds will probably outperform the S&P 500 into late September.

Natural Gas
Bouncing off support?

Natural gas has a strong seasonal period from mid-March until mid-June.

So far in its seasonal period, natural gas has been holding steady, but has not managed to bounce of support, but that could change shortly. May tends to be a strong month for natural gas.

My Call: Natural gas will probably perform well in May and even into June. Expectations for a hotter summer could help boost prices into June. Investors should note that July tends to be a very weak month for natural gas.

Currencies

USDCAD

The US dollar has been performing well against world currencies, but the Canadian dollar has been outperforming the US dollar. What most Canadians do not realize is that the Canadian dollar has been one of the best performing currencies in the world.

The US dollar tends to perform well on a seasonal basis starting in early May relative to the Canadian dollar. If oil continues to decline in price, the US dollar could perform particularly well starting in May.

Above is a graph of the US dollar vs world currencies. The US dollar has been performing well since the beginning of 2021.

Brooke's Rant(s)

Rant #1

You can buy a New York Penthouse for $300,000

Just when you thought the world could not get any crazier….now you can buy a New York penthouse for $300,000.

The catch, its fake. It's a virtual house inside a video game. Yup, people are spending hundred's of thousands of dollars to buy a virtual house. You can never visit the house, you can never invite friends over. You cannot walk to a coffee shop or a restaurant from your house, because it doesn't really exist, but you can say you own it. Maybe someone might be stupid enough to buy it from you. But it is fake. Your can buy your fake real estate from superworldapp.com or another of other competing sites.

According to Robert Scoble, Author & Futurist: Someday not owning this [virtual real estate] will be like passing on Bitcoin when it was far cheaper." Is it just me, or does this smell of FOMO (fear of missing out).

Rant #2

Paying for your neighbor's pension

Free money era – damage from COVID-19 support

With all of the trillions of dollars being given away, nobody seems to be keeping track where the money is going. The main stream media very seldom lists all of the expenditures. They have a list, but is usually missing a few hundred billion here or there.

In Biden's $1.9 trillion dollar stimulus in January, very few main stream media outlets were totally honest about the government spending. There were few articles that included the fact that $86 billion was given away to support failing pensions. Politicians actually had the gall to say that the money was used to support the pensions for the next few decades. But what almost everyone missed was that the pension were badly mismanaged for years and were on the verge of bankruptcy before Covid. In essence, tax payers (some that have very little money) are rewarding incompetence. This is stupid and is a very dangerous trend.

Rant #3

Building your gold-plated retirement fund on the beach

"Top paid LA lifeguards earn up to $392,000 annually: report" (NY Post, March 28, 2021)

You may ask yourself how a lifeguard can get paid $392k a year, including benefits, but it is really based upon the 5-year scam. I don't know the details of anyone mentioned in the article or their pension calculations. In fact, the NY Post article does not discuss how anyone mentioned in the article is able to generate their earnings.

Nevertheless, here is how many workers collude to maximize their pensions. Most defined government pension are calculated using your last five years income. Once you are set to retire in five years, you let everyone else know that you have first dibs on all over-time and extra pay assignments. Your fellow workers naturally agree because they want the same treatment when they are in their last five years. It is an unwritten rule that all of the overtime work is given to the workers in the last five years of their retirement. No exceptions.

The plan is simple, work as many hours as humanly possible and as many days as possible…. for five years. Why? Because you set yourself up for a gold-plated pension. Depending on your union, you get anywhere from 50% of the average of your last five year's salary, to 90%. Yup, you heard me, 90%. In 2016, California Governor Gray Davis stupidly signed a deal that gave California Patrol officers and other unions a deal where they could retire at the age of 50 and make 90% of their peak earnings for the rest of their lives. You cannot make this stuff up.

So, if the lifeguard has a pension that pays out 90% and they retire at the age of 50, making an average of $392,000 in their last five years, they would have a pension of $352,800 every year, for the rest of their lives. If they live until they are ninety, they would make $14,112,000 with no interest and no compounding.

I really should have worked on the beach!

Did I say that a lot of the government pensions are indexed to inflation? As everyone else's hard-earned savings are set to be eroded by inflation that will eventually take place as the result of too much money printing, the government employees will live like kings and queens. And you will be paying for it.