Thackray Newsletter

— Know Your Buy & Sells a Month in Advance —

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In July and August, I will be reducing the amount of content in my publications, as I will be focusing on finishing my next book.

Market Update

Rip off the bandage - Hike the Fed Rate Fast !

Investors want the Federal Reserve to raise rates in order to get the pain over with quickly, so the Federal Reserve can cut rates once again.

It is a foregone conclusion that the Federal Reserve is going to raise its federal funds rate. This has been priced into the market. It may come as a surprise to some, but investors are already pricing in the Federal Reserve cutting rates after it has finished raising rates. Uhmm.

Investors expectations of the Federal Reserve raising rates and then lowering them is captured in the futures markets.

The federal funds rate expectation curve will drive the market this summer !

The shape of the expected federal funds rate curve over time is determined by:

- ♦ *level of terminal rate (highest interest rate before Fed starts cutting the interest rate)*
- ♦ *when terminal rate will be reached*
- ♦ *how fast the Fed will raise its interest rate to get to the terminal rate (slope of curve up to terminal rate)*

S&P 500 Technical Status

The S&P 500 has been forming a pattern of rising into month end and peaking either just before or just after month end, correcting during the month and then repeating the pattern. In other words, the month end has become a pivot point. In 2022, the exception to this was the April month end where the S&P 500 corrected in both April and May.

The month end pattern has formed a series of lower highs and lower lows. This is not a favorable pattern for the stock market.

A positive sign for the S&P 500 would be for it to break above the second last month end high (end of May) at 4200. Given that the S&P 500 is in the six-month unfavorable period for stocks and August and September are the two worst contiguous months of the year, once it gets past the start of July earnings season (mid-to-late July), it is going to be difficult for the S&P 500 to mount an extended rally.

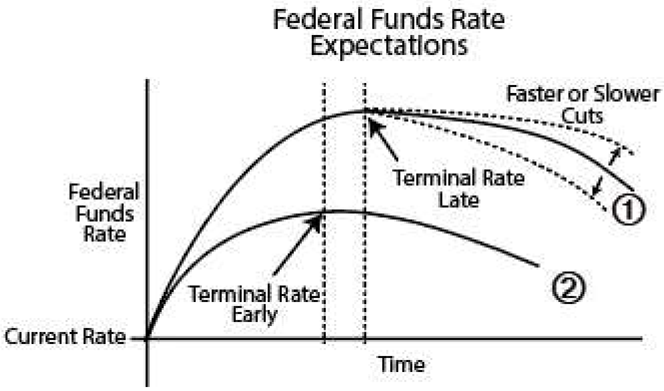
Horizons Seasonal Rotation ETF (HAC : TSX)
Portfolio Exposure as of **June 30, 2022**

Symbol	Holdings	% of NAV
	Canadian Dollar Exposed Assets	
	Equities	
HXT	Horizons S&P/TSX 60™ Index ETF	13.5%
	United States Dollar Exposed Assets	
	Commodities	
HUG	Horizons Gold ETF	8.1%
	Equities	
IBB	iShares Biotechnology ETF	6.3%
XLP	Consumer Staples Select Sector SPDR Fund	8.4%
XLV	Health Care Select Sector SPDR Fund	3.1%
HXS	Horizons S&P 500 Index ETF	47.7%
FHH	First Trust AlphaDEX U.S. Health Care Sector Index	2.2%
XLU	Utilities Select Sector SPDR Fund	6.0%
	US Dollar Forwards (July 2022) - Currency Hedge **	-1.2%
	Cash, Cash Equivalents, Margin & Other	5.9%
	Total (NAV $204,546,301)	100.0%

*** Reflects gain / loss on currency hedge (Notional exposure equals 78.34% 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.

♦ *how fast the Fed will lower rates after reaching the terminal rate (slope of curve after terminal rate)*



The diagram above shows two scenarios, the first with a high terminal rate that occurs late. The second scenario shows a lower terminal rate that occurs earlier. There are of course different permutations of both scenarios, including the speed of the Fed cuts after the terminal rate has been reached.

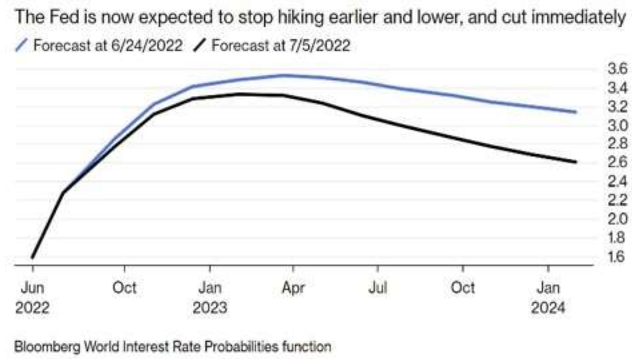
Generally, investors are expecting the Federal Reserve to start cutting rates in the not so distant future. This is based upon the premise that the Federal Reserve will be able to shock the system with rapid rate increases in the near future that will create the necessary demand destruction for interest rates to move lower on their own. In this scenario, the expectation is that the Federal Reserve will start backing off before any significant damage is done to the economy. This is a soft landing scenario with a recession being avoided. The difficulty with this scenario is that anything that the Federal Reserve does will not have an impact on the economy for months, as the effect of monetary policy has to work its way through the economy.

The big risk with the Federal Reserve reaching a low terminal rate quickly and then cutting rates is that it will stoke higher inflation expectations and inflation problems will return to the front burner and become embedded in the economy.

The big risk with the Federal Reserve continuing to raise its federal funds rate for "too long" is that the economy will go into a severe recession. The Federal Reserve has "erred" in its policy by expanding its balance sheet to a ridiculous level, allowing government to spend way too much money and increasing the public debt way too much. This is going to make it difficult for the Federal Reserve to raise rates to an appropriate level to fight inflation and reflect the true cost of capital.

Somehow the Federal Reserve has to try and engineer a soft landing, flying between the two big risks. Naturally, the Federal Reserve will try to exude confidence that it can accomplish the task of avoiding a recession or at least taking the economy into "only a minor recession." History says that they have a low probability of succeeding, but Powell will talk the talk.

Investors will be constantly accessing the flight path of the Federal Reserve and assessing the risks. Recently, investors have shifted their expectations of the Federal Reserve's future rate hikes and are now expecting the Federal Reserve to reach its terminal rate sooner and at a lower level.



The twist and shift of the federal funds rate expectation curve has helped to buoy the stock market. Investors seem to be "okay" with Federal Reserve raising the federal funds rate in large increments. Their attitude seems to reflect the belief that the faster the Federal Reserve raises its key rate, the faster the pain will be over.

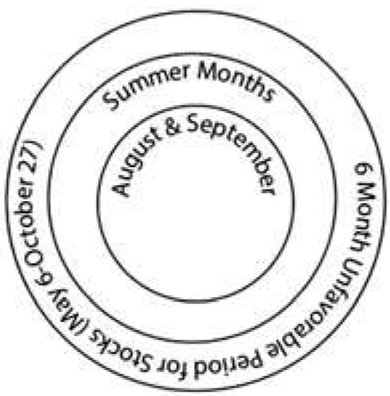
Summer Rally?

At this time of the year, the media often postulates the possibility of a summer rally. The stock market has corrected by over 20% and any upward move in price brings renewed interest in the possibility of the stock market extending a sustained move higher. Is the summer rally, fact or fiction?

The stock market can rally at any time, but there are times of the year when it tends to rally more often and other times when it seldom rallies.

In the unfavorable period for stocks from May 6 to October 27, the S&P 500 has only produced a gain of 10% or greater eight times since 1950. This is in comparison to the other six months of the year where the stock market has rallied 10% or more twenty-nine times. It should be noted that in the rallies of 10% or greater in the unfavorable six months have all occurred when the economy has been bouncing off a recession. We are not coming out of a recession. We may be heading into a recession or we may be in one, but we are not coming out of a recession.

In the summer months from June to September, the stock market has fared even less well. And in August and September, the S&P 500 has once again fared even less well. August and September are the two worst contiguous months of the year.



August & September - Dead Zone

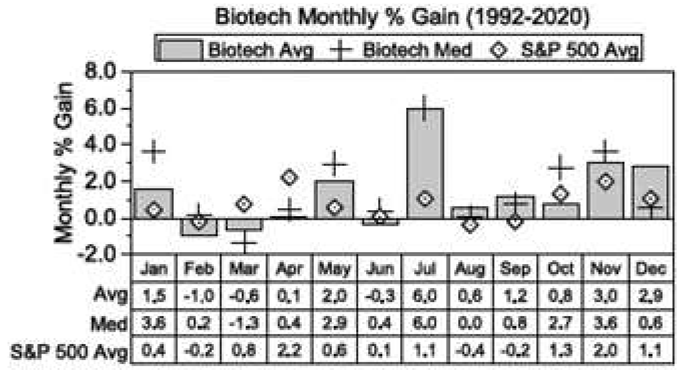
If there is a big drop in the markets, it often happens in August and September. Of course, the stock market can rally in this period, but the rallies tend to be small unless the economy is coming out of a recession. I will write more about the "Dead Zone" in my next newsletter in August.

Seasonal Opportunities

Biotech

The biotech sector has a strong seasonal period from June 23 to September 13.

The biotech sector has been on fire since late June and the start of its strong seasonal period. The sector started to outperform the S&P 500 in April, but its relative performance has recently accelerated.



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Avg	1.5	-1.0	-0.6	0.1	2.0	-0.3	6.0	0.6	1.2	0.8	3.0	2.9
Med	3.6	0.2	-1.3	0.4	2.9	0.4	6.0	0.0	0.8	2.7	3.6	0.6
S&P 500 Avg	0.4	-0.2	0.8	2.2	0.6	0.1	1.1	-0.4	-0.2	1.3	2.0	1.1

July tends to be the strongest month of the year for the biotech sector. In fact, its performance towers above the other months of the year.

The biotech sector has broken out of a double bottom as of late June. This is a good sign for the sector. On a technical basis, IBB could run to 135 if the stock market action is favorable.

My Call: The biotech sector will probably continue to outperform the S&P 500 in July and into August.

Health Care

The health care sector has a strong seasonal period from May 1 to August 2 and then from August 12 to October 24

The health care sector has been outperforming the S&P 500 since late 2021. The sector underperformed the S&P 500 for most of 2020 and 2021, compressing the value of the sector and setting up for a favorable bounce under the right conditions.

In late 2021, investors started to favor the defensive sectors of the market, including the health care sector. They wanted to stay invested in the market, but were concerned about the valuation of the market and were shunning the growth sectors. The health care sector was a beneficiary of the shifting trend. Recently, the sector has accelerated its relative performance compared to the S&P 500.

My Call: The health care sector will probably continue to outperform the S&P 500 into September.

Gold Bullion

Gold bullion has a strong seasonal period from July 12 to October 9.

The price of gold peaked in March and has been correcting as interest rates have moved higher. Gold is now at support (approximately $1750). Gold starts its strong seasonal period this week. The recent correction sets up gold to perform well in its strong seasonal period.

Gold has generally followed the pattern of US government 20-year bonds (TLT). Recently, there has been a divergence between gold and government bonds. Government bonds have been falling at a rapid rate for most of 2022. Gold has fallen since March but not to the same degree as US government bonds. It is possible that gold could correct sharply and catch up to government bonds. This would be quite a drop. But it should be remembered that bonds tend to perform well in August and September. The more likely scenario is for US government bonds to move higher.

My Call: Gold bullion will probably start to move moderately higher in the near future.

Gold Miners

Gold miners have a strong seasonal period from July 27 to September 25.

Gold miners have been performing poorly since April. They have underperformed gold and the S&P 500. They have recently broken through support (approximately $30 for GDX). Gold miners start their strong seasonal period shortly. Although gold miners could move lower, their seasonal sweet spot is just around the corner. Look for gold miners to start finding some stability, especially if the stock market finds some traction.

It is important to note that a favorable condition for gold bullion is for gold miners to perform well and when gold miners are outperforming gold bullion, this often indicates that gold bullion is probably in a sustained upward trend.

My Call: The gold miners sector will probably start to perform moderately well in late July.

US Government Bonds

US government bonds have a strong seasonal period from May 6 to October 3 with the sweet spot of the trade.

After a disastrous January to April performance, US government bonds bottomed in early May (the start of their strong seasonal period), corrected and bounced higher once again. The yield on the 10-year Treasury is consolidating around the 3% level. Despite the Federal Reserve raising its key rate, it is possible for government bond yields to move lower. Typically, the sweet spot for the US government bond seasonal period occurs in August and September.

My Call: US government bonds will probably perform well starting in the second half of July.

Energy

The energy sector has a strong seasonal period from July 24 to October 3. Please note, this is a minor seasonal period and typically works best if the sector has corrected sharply.

The upcoming seasonal period for the energy sector is considered a minor seasonal period and typically works best if a large correction has taken place coming into the seasonal period. Although the sector has recently corrected, it is not necessarily a big enough correction to make the sector an attractive opportunity in its next minor seasonal period.

My Call: The energy sector will probably be volatile and either perform at market or underperform the S&P 500 over the next few months.

Consumer Staples

The consumer staples sector has a strong seasonal period from April 25 to May 31 but can outperform into October.

The consumer staples sector has been outperforming the S&P 500 since late 2021, despite rising interest rates.

On a technical absolute basis, the sector recently fell out of its trading range, but has been climbing back into the range. Nevertheless, the sector has not performed as well as other defensives sectors, such as health care and utilities.

My Call: The consumer staples sector will probably continue to outperform the S&P 500 into September.

Utilities

The utilities sector has a strong seasonal period in the summer months.

The utilities sector has been outperforming the S&P 500 since late 2021, despite rising interest rates. In the current environment, investors are favoring the defensive sectors.

It is interesting to note that the utilities sector has performed strongly when the market has been rising and performing well for a few days and then inflects downward. When this has occurred, investors have rushed into the utilities sector in the short-term.

My Call: The utilities sector will probably continue to perform well into early October.

Volatility

Volatility tends to increase from July 3rd to October 9.

Volatility has been increasing as the stock market has been heading lower since early 2022. Yet, volatility is still relatively low given the market drop. The VIX still has not hit the 40 level, which is often the “magic” level that investors track in order to ascertain some sort of capitulation.

My Call: Volatility will probably start to increase in late July.

Rants

Rant #1

An NFT of Twitter co-founder Jack Dorsey's first tweet has lost almost all of its $2.9 million value (CNBC)

The Greater Fool "Theory" exposed !

"just setting up my twttr"

Jack Dorsey's first tweet

Just over a year ago, someone (not named) bought an NFT of Jack Dorsey's first tweet. This person paid $2.9 million for the NFT. After a year, the person tried to sell the tweet and the highest bid that he received was less than $10. In other words, the NFT was next to worthless.

It appears that the owner of the NFT thought that because it was a unique tweet (the first tweet ever), it would go up in value and it could resold at a higher price. No go. Just because something is unique does not make it valuable. I just split a bit of coffee on the table at Starbucks. The pattern is one of a kind. I could take a picture of the coffee and make an NFT, but really, who cares. Investors thought the same of Jack Doresey's tweet. Who cares.

At some point, the greater fool is exposed when everyone realizes something for what it is, and that something can no longer be passed along to the next greater fool. As the speculative air is released out of the market, expect more greater fools to be exposed. BTW, the owner of Jack Dorsey's tweet, after he failed in his first attempt to sell his NFT, re listed the NFT for $48 million. Okay, who is the greater fool?

Rant #2

This is getting ridiculous!

Governments insist on fighting inflation by creating more inflation. The programs being announced are like pouring gasoline on a fire.

I will avoid naming names and posting pictures of political figures in order to not to be political.

The US government is proposing giving everyone $500 gas cards to combat inflation. This is insane. Creating more money only makes inflation worse. What happens if you do not have a car? What happens if you have two cars? People would be trading gas cards, selling them on the black market, crime would go up and inflation would rise even more.

California is selfishly creating inflation!

California is selfishly stoking inflation. First of all, California is taking steps to release a $17 billion stimulus package to help people suffering from inflation. This is obviously a stupid idea as it will push inflation higher.

Why is California being selfish? If every state followed California and launched a huge stimulus package, this would create inflation across the US. If California is the only state that implements an inflationary stimulus package, the inflation effect gets spread across the country and others pay for California's actions. So, yes, California is acting selfishly.

Canada $9 billion

The Canadian government recently re-announced a $9 billion spending binge. The problem is that they claimed that it would help lower inflation. I am not debating the merits of the program, but it is annoying that the government is falsely claiming that it would lower inflation.

In the 2000's it became fashionable for governments to label all of their spending as investments. Build an ice-rink and call it an investment, spend more money on expenses and call it an investment. Everything was called an investment.

Now, because governments and central banks have created raging inflation, governments claim that all of new spending reduces inflation. This is categorically incorrect and is happening in many nations. It is government misinformation.

All government spending is inflationary. When governments spend money and the central bank buys their bonds, this increases the money supply and is inflationary.

When governments spend money on programs to increase productivity, such as building needed highways etc, in the long-term this spending helps to reduce inflation. However, in the short-term, the spending stimulates inflation until the productivity gains are embedded in the economy.

Governments need to be honest and transparent about their spending. Maybe the Canadian $9 billion spending package is needed, but please do not tell us that it reduces inflation.

Rant #3

The ECB is trying to drive with one foot on the gas and one foot on the brake

The ECB is trying to drive with one foot on the gas and one foot on the brake. The ECB is planning on doing QE and QT at the same time if necessary in order to support the "fragmented" countries. The fragmented countries are mainly the ones that had financial difficulty in the GFC of 2008 and have still not solved their underlying financial issues. This includes Italy. Yields of the "fragmented countries" have been blowing out (rising at a fast rate), while countries such as Germany have extremely low yields.

Lagarde has tried to use Dhraghi's old trick by stating that the ECB will do whatever it takes. She was hoping that words would move the markets. Investors are not in a trusting mood for central bankers. It is not the same as when Dhragi uttered his famous "whatever it takes" words in 2012. Central bankers have lost a lot of credibility after being complicit in creating inflation, denying it exited and then saying that it was transitory.

Investors are skeptical that central bankers will be able to perform the magical act of quantitative tightening and easing at the same time. Buying Italian bonds and selling German bonds. Maybe they should buy on Monday, sell on Tuesday, buy on Wednesday and then sell on Thursday. This seems sensible to me.

Let's see how this works out.

Rant #4

People around the world are rebelling against government policies or execution of policies. Dutch farmers are rebelling against insane policies that will reduce food output.

I am okay naming politicians in this rant, as it pertains to issues outside of North America

The EU has warned that there could be food shortages in the near future because of the Russia-Ukraine war. For some reason, the Netherlands wants to hasten the process and create food shortages all by themselves.

Mark Rutte, the Prime Minister of the Netherlands is introducing legislation to reduce farming operations in the country and reduce food output. Obviously, the farmers will suffer, but so will everyone else as food shortages drive up the costs of basic foods. I am not debating the merits of reducing farming to reduce green house gases, but it does not make sense to knowingly reduce food output when inflation is skyrocketing and food shortages are expected. Sure, if necessary, create a transition plan, but use some common sense in its implementation. It seems these days that common sense is lacking in politicians.

So, why does it matter to investors? Simple, governments around the world are creating a mess and introducing actions that are reducing productivity and raising inflation. Investors should expect that governments will continue to jeopardize the possibility of an economic recovery and reduce potential stock market gains.

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