# Thackray Newsletter

**— Know Your Buy & Sells a Month in Advance —**

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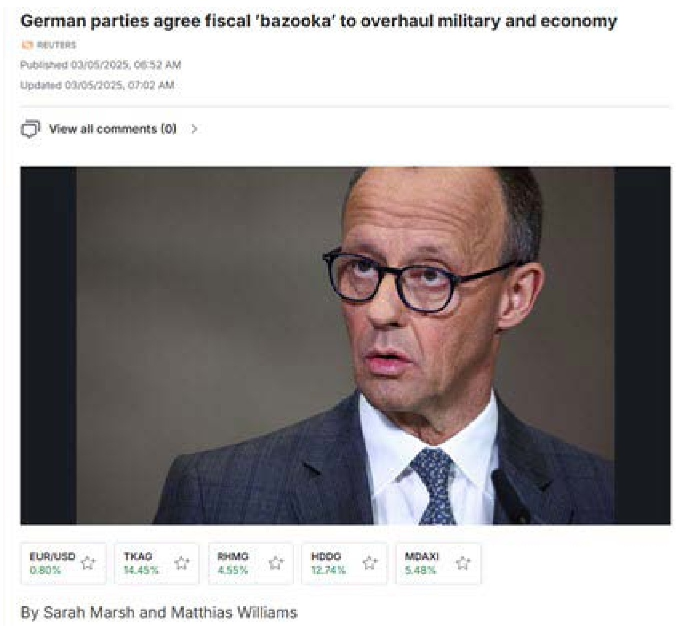
### *Market Update*

### *Bond Vigilantes - Germany & EU making a mistake and the US stock market could pay the price*




On March 5, the new German coalition government launched a fiscal "bazooka" of 500 billion euros to stimulate their economy and increase their military. The new German government (elected on February 23, 2025) did not run on the platform of dramatically increasing govern-


S&P 500 Technical Status

The S&P 500 is breaking lower and has broken its upward trend line. Market breadth has been deteriorating over the last few months at the same time that price momentum has declining and diverging from price.

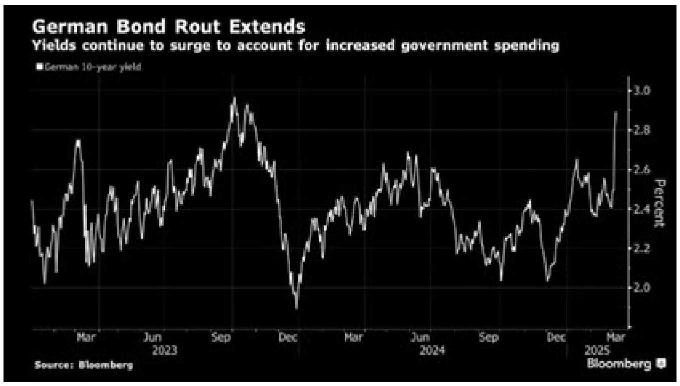
The S&P 500 is getting close to being oversold, using the RSI. It is possible to see a bounce in the near future.

On a seasonal basis, the stock market tends to perform well in the second half of March, into mid-April or early May.

Look for a bounce in the stock market in the near-term.

ment spending. In fact, it ran on not expanding the government debt. Ten days after being elected, it is trying to expand the government debt dramatically. The reason that I bring the new government breaking its commitments, is that it is possible that the German government could continue running deeper and deeper deficits, especially if they declare some emergency or other. Investors should be very careful investing in countries that declare emergencies to ramp up government spending.

The result from the increased German government spending is that German Bund yields spiked higher.

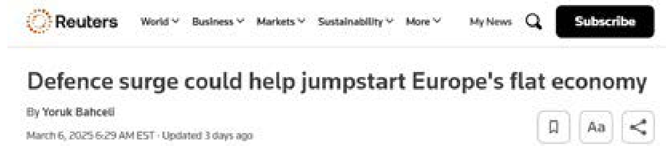



It is not just Germany, but also the EU that is planning on launching a huge stimulus program.


The president of EU, stated that participating in increasing their spending under their plan, will not have the new debt counted as part of the deficit limitations of being an EU member.

As a result of the EU announcement, yields spiked on most European debt. Yields are spiking because bond investors believe that the threat of inflation moving higher has increased, at the same time that the EU has been cutting rates to stimulate the economy. The EU has recently taken its target interest rate to a low 2.5%.

The press which typically takes a Keynesian view, is touting the increased government spending as a good thing for the economy.




Yes, of course in the short-term extra government spending will increase economic activity, but longer term it slows growth and productivity.

Nevertheless, stock investors are more interested in the short-term and see the increased spending as a catalyst for moving stock prices higher.

### *So how does the European dynamics affect the US stock market?*

For more than a decade, Europeans and others have forgone investments in their own countries in order to invest in the hottest sector of the market- technology. If investors wanted to invest in the technology sector, they had no choice but to buy US technology stocks, such as Apple and Microsoft.

Over the last year, the technology sector has stumbled and is underperforming the S&P 500. Recently, relative to the S&P 500, the technology sector has broken below its consolidation box. This is not a good sign.


Currently, foreign investors own approximately 17% of the equity market.

If foreigners were to start to reduce their holdings of US equities on the margin, this would put downward pressure on the equities market.

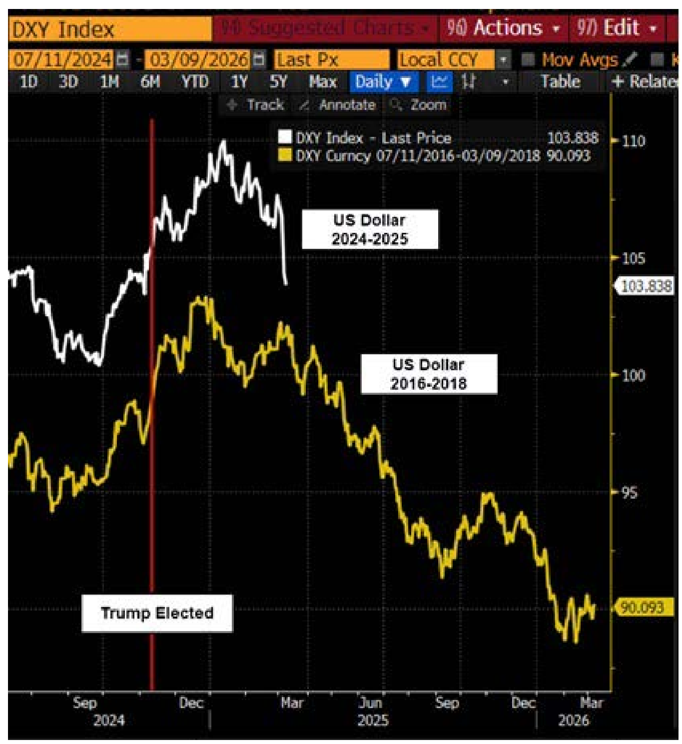
The graph below shows the performance of the S&P 500, Europe, Emerging Markets and China. It is interesting to note that since early 2025 all of the below non-S&P 500 have been outperforming the S&P 500. The S&P 500 is negative YTD, with the other markets performing well.

A weaker US dollar has been a supportive factor of non-US indices performing well, but as previously discussed, an underperforming tech sector has contributed to the situation.


Recently, the US dollar has been pulling back relative to world currencies. The big question is if we are in a similar scenario compared to late the late 90's and early 2000's. There are some huge differences between the tech wreck of the early 2000's compared to today, but some of the dynamics are similar, such as foreign investors pumping money into the tech sector in the US, driving the US dollar higher in the late 90's.

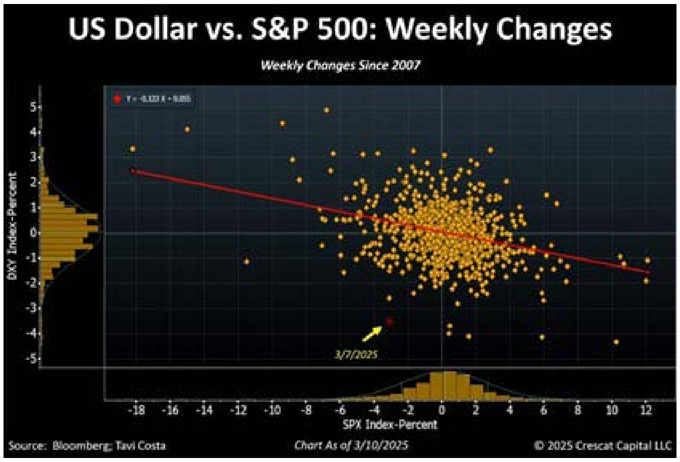
If foreign investors follow their same behavior in the early 2000's, the US dollar could follow a downward path lower over the next few years. There are other dynamics involved in pricing the USD, but foreign demand for US equities and government bonds are big players in US dollar pricing.


The trend for the US dollar performance is eerily similar to the pattern it took in when Trump won his first election in 2016: a run-up before the election and into December and then a slide lower. If the US dollar were to continue to slide, this would help to support non-US stock markets.



### ***USD not such a safe haven investment anymore?***

There has been a recent trend developing where investors are not rushing to the US dollar as a safe haven investment in times of market turmoil. Typically, when the stock market declines, investors rush to the US dollar. This has not been the case recently. As investors have been selling investments, on the margin they have been shifting into assets outside of US, which has been lowering the dollar.




The graph above shows the recent weak inverse correlation between the S&P 500 and the US dollar.

### ***Is the US government trying to prepare investors for some rocky times ahead?***

Recently, on CNBC, Bessent stated that "the economy has become addicted to excessive government spending and there is a going to be a ***detox period***."


In "olden times" a few decades ago, governments used to get in power and cut government spending and try and balance the budget in the first two years and then increase spending in the last two years to try and win votes. In modern times, governments have typically just spent money when they got into power and kept spending more money.

The two years austerity and two years expansion cycle used to be referred to as the Presidential Cycle, because the stock market would tend to follow a similar pattern.

The two last presidents that tried to reign in excessive government spending were Reagan and Clinton. In my last newsletter, I discussed how the stock market performed poorly in the first two years of Reagan's tenure, despite large tax cuts.

Bessent is trying to transition the US economy from being driven artificially and inefficiently from government spending to private enterprise spending. It is the right thing to do in the long-term, but it is going to be a bumpy ride.


The graph above shows the instability of current US economic policy. This is an extremely difficult environment for businesses to operate in. The ping-pong tariff situation of being on-off-on etc has lead to a large amount of uncertainty.

### ***Black Swan in Japan - Yen Carry Trade***

I am on record many times saying that Japan is a slow motion train wreck. At some point, Japan is going to become a huge problem and will probably be a "surprise" black swan.

The current Japanese government debt to GDP ratio is an unsustainable 248%. There are a number of reasons that Japan has been able to get away with such a high debt to GDP ratio and the discussion is outside of the scope of my newsletter.

The problem is that as Japan is suffering from inflation and is being forced to raise interest rates. Higher rates mean that it is becoming more expensive to maintain the debt.


Beware of the yen carry trade!

The yen carry trade occurs when hedge funds or financial institutions borrow in yen, swap to USD and then leverage up investments for investments in the US.

There are two potential problems for the yen carry trade. First, as the US stock market heads lower, particularly the tech sector, investment institutions using the yen-carry trade may be forced to unwind the trade as losses mount in the US dollar investments.

Second, as the interest rate for borrowing yen increases, the cost of the carry trade increases and will force investment institutions to unwind the carry trade in order to meet demands from higher interest rates in yen.

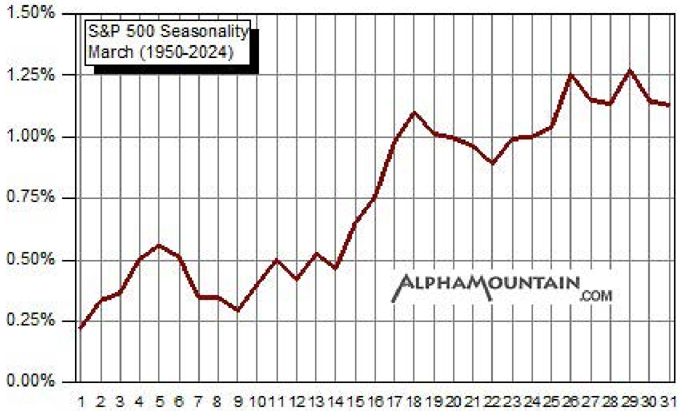
In the summer of 2024, there was a partial unwind of the yen-carry trade and it briefly rocked the US stock market. If we get a situation of both rising interest rates in Japan and a falling US stock market, the situation could be exasperated with further downward pressure on US equities as the yen-carry trade unwinds.

### *Seasonal Trends*

The stock market tends to be strong in the second half of March over the long-term. It continues to be strong into April.

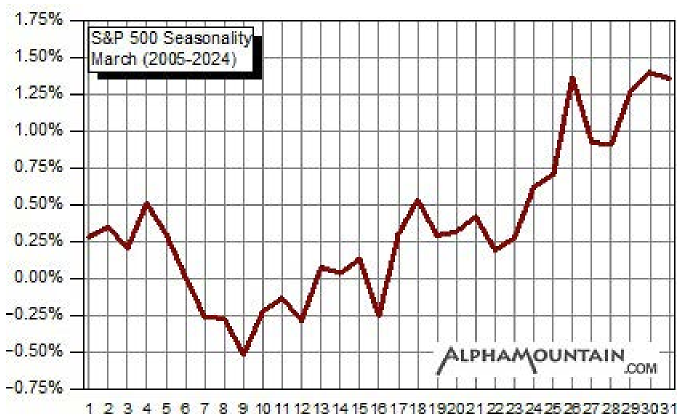
From 1950 to 2024, it is the second half of March which tends to be strong for the S&P 500. Of course, every year is different, but the tendency is for the stock market to perform well in the second half of the month.

***S&P 500 Seasonality - March (1950-2024)***



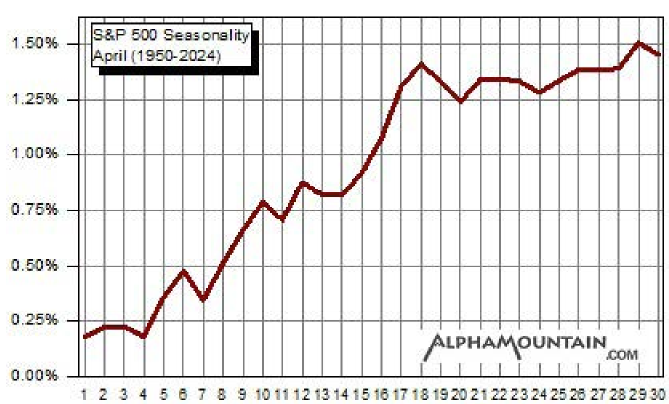

From 2005 to 2024, it is the second half of March which tends to be strong for the S&P 500. The trend is fairly consistent in time, including the last twenty years.

***S&P 500 Seasonality - March (2005-2024)***



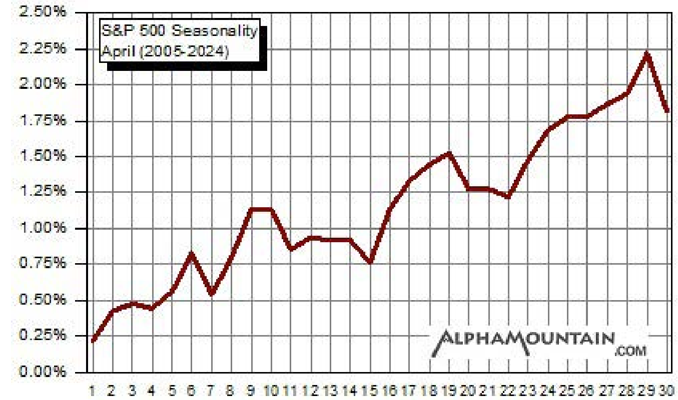

April tends to be one of the strongest months of the year in the stock market. From 1950 to 2024, it is the first half of the month which is the strongest.

***S&P 500 Seasonality - April (1950-2024)***




Over the last twenty years, the seasonal trend of April performing well has been consistent with long-term averages. The difference is that in addition to the first half of the month performing well, the second half of the month tends to be strong as well.

***S&P 500 Seasonality - March (2005-2024)***




There is no guarantee that the market will follow seasonal trends, but investors should be on the lookout for the stock market possibly running out of steam in mid-April or early May.

Bad news for the markets.

Early May is just around the corner and will finish the strong six-month seasonal period for the stock market. This will be discussed in my next newsletter.

***Seasonal Opportunities***

***Gold***

*Gold has a strong seasonal period from mid-March to mid-April*

Gold has been performing well recently, despite a short-term trend of underperforming from late February to mid-March.

Central bank buying has continued in 2025, which has helped to support a higher gold price. The other big driver has been the recent decline in the US dollar.

The fact that gold is performing well at this time, is a testament to the long-term strength of gold.

Generally speaking most commodities tend to perform well from mid-to-late March to the end of April. Gold follows this pattern somewhat, except that it tends to peak in mid-April.

The graph below shows gold peaking in April in 2023 and April 2024.

Gold tends to be weak in May and June, which can be a good setup for gold to start performing well in its next strong seasonal period starting in July.


My Call: Gold will probably continue to perform well into mid-April.

## Energy

*Energy has a strong seasonal period from February 25 to May 9.*

The energy sector has been consolidating for a year. Relative to the S&P 500, it has been consolidating for the last six months.

There is increasing talk of a possible recession, which would ultimately be negative for the energy sector. Trump is talking about deregulating the energy sector, but that is not a short-term situation.

We have just started the strong seasonal period for the energy sector and the sector relative to the S&P 500 is off to a fairly good start.

One of the main reasons that the energy sector is performing relatively well at this time is that money is flowing from the growth sectors of the economy and moving into some of the cyclical sectors, including the energy sector.


My Call: Energy sector will probably outperform the S&P 500 into mid-April.

## Small Caps

*Small Caps have a strong seasonal period from December 19 to March 7*

The small cap sector has just finished its strong seasonal period, in which it did not perform well.

It is important to track the small cap sector as it is a barometer on the economy and implementation of policies.


It should be noted that the small cap sector tends to perform poorly starting in early March. The fact that it has not performed well from December to mid-March, does not negate the negative seasonal trends that occur at this time.

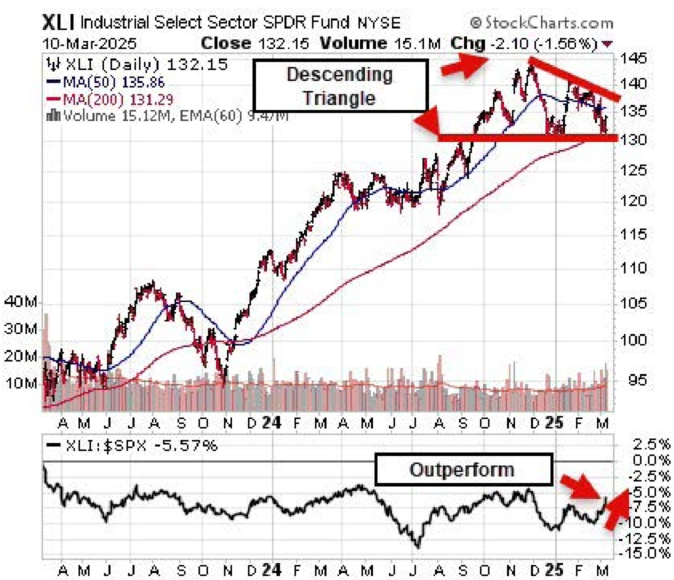
Historically, there has been an inverse relationship between the small cap sector and credit spreads. Recently, as small caps have fallen and entered into a correction, credit spreads have not widened. This could be good news if the bond investors are right and small caps start to perform well. It is more likely that credit spreads are lagging. Something to monitor.


My Call: Small caps will probably continue to underperform.

### *Industrials*

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

The industrial sector has been outperforming the S&P 500 recently. On an absolute basis, the industrial sectors is forming a descending triangle which is bearish, but it is still possible to see a positive breakout to the upside.




Industrials have been outperforming largely as a result of investors shifting out of the growth sectors. The industrial sector has also been a beneficiary of the on-shoring that is a result of the Trump tariffs.

My Call: The industrials sector will probably perform well for the next month and a half.

### *Materials*

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

The materials sector, like the industrials sector has been outperforming the S&P 500.

On a technical basis, the sector has been consolidating and is now at a key support level.


My Call: The materials sector will probably perform well for the next month.

### *Metals & Mining*

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

The metals and mining sector has been consolidating relative to the S&P 500 and is at a key support level on an absolute basis.

The sector has been volatile in its trading band. Despite commodities generally performing well, the metals and mining sector has really not benefitted so far.


My Call: The metals and mining sector will probably perform well into mid-April.

### *Consumer Discretionary*

*The consumer discretionary sector has a strong seasonal period until mid-April*

The consumer discretionary sector rocked higher in November and December. It got ahead of itself and started to pull-back starting in late December.

The sector finishes its seasonal period in mid-April.

The economic slowdown is working its way into higher and higher income groups and is starting to impact purchases on discretionary items.


My Call: The consumer discretionary sector probably continue to underperform over the next few months.

### *Canadian Banks*

*The Canadian banking sector has a strong seasonal period that lasts until mid-April*

The Canadian banking sector has been consolidating relative to the S&P/TSX Composite Index since last September. In August and September of 2024, the sector had a strong performance based upon strong earnings results.

Currently, the sector is consolidating and holding up relatively well. This is often the case when the stock market starts its initial turn lower.

Note: Canadian banks tend to underperform when there is an extended market contraction based upon a slowing economy.


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

### *Emerging Markets*

*Emerging markets have a strong seasonal period that lasts until mid-April*

The emerging markets sector has been forming an ascending triangle pattern, which is a bullish pattern of higher lows.

The sector has been outperforming the S&P 500. This is partly the result of a lower US dollar and also the general trend of money flowing out of US investments.


My Call: The emerging markets sector will probably continue to outperform until mid-April.

## CAD/USD

*CAD/USD has a strong seasonal period from mid-March to the end of April.*

CADUSD has been volatile, as would be expected with tariffs being on-off-on etc.

The US dollar was very strong in autumn in its strong seasonal period in late 2024. Since that time, a pattern of consolidation has taken place. Given that the price of oil has declined over the last two months, The Canadian dollar has held up relatively well.

The good news is that CAD has a strong seasonal period from March 15 to April 30. This is the strongest seasonal period for the Canadian dollar of the year.

On the plus side, commodities have been relatively strong, which would support a higher Canadian dollar. If oil were to perform well in its strong seasonal period, this would help CAD move higher.

On the negative side, the Canadian economy is anemic and is escalating a tariff-trade war. The Canadian approach to bargaining tariffs has been to aggressively go well beyond counter tariffs and try and inflict more pain on the US than they are inflicting on Canada, by using such tactics as putting a 25% tariff on the export of electricity.

The reality is that because Canada exports so much more to the US than the US does to Canada, Canada is really hurting themselves. It may make politicians look good standing up to Trump on TV with an emotional tirade, but it is counter productive.

Despite the Canadian dollar having an upcoming strong seasonal period, the exasperated trade-tariff war could put downward pressure on the Canadian dollar.


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

## Utilities

*Utilities have a strong seasonal period from mid-March to late May*

The utilities sector has been performing well recently, mainly because the investors have been looking for a "safer" place to hide.

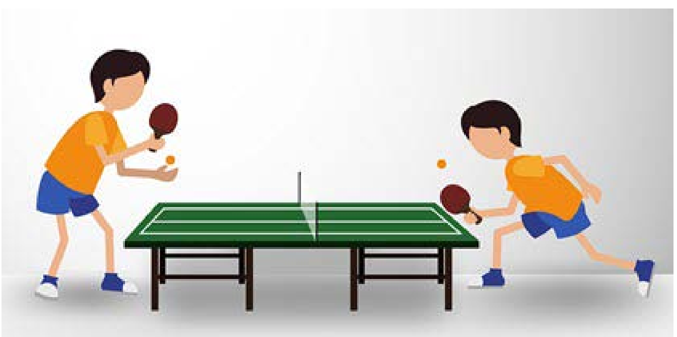
Initially, as the tech sector started to decline, the utilities sector followed suit. This occurred because one of the reasons that the utilities sector has been outperforming is that the sector has been a beneficiary of the narrative of ever increasing need for AI and as a result a greater need for electricity. It is expected that AI will increase the need for electricity 9% by 2030.

More recently, the utilities sector has been performing well as the utilities is a sector relatively free for political posturing in the trade-tariff war.

My Call: The utilities sector will probably moderately outperform the S&P 500 over the next two months.

## *Rants*

### *Rant #1*
### *Tariff Talk - Ping Pong*



Over the last two weeks, many people have asked me what is happening with the tariffs between Canada and the US. My answer was, the tariff situation will probably change before the end of the day.

Following the tariff situation, has been next to impossible. When I was recently on BNN Bloomberg "The Street," the tariff topic came up, but while it was being discussed, it changed and there were a "bunch" of different interpretations.

Even as I am writing this rant, Trump has changed his mind once again and now says that he may hit Canada with Dairy and Lumber tariffs shortly.

The dairy tariff does not make any sense. Canadian dairy products have a cost base that is much higher than the US. Essentially, we sell next to nothing in the way of dairy products into the US. This is part of the "reciprocating" tariffs. Trump is stating that after Canada removes the 250% tariffs on US dairy products, the US will drop its newly implemented tariffs on dairy products. In this case nothing will happen.

You may like Trump's policies or not, but the tariffs are generally a bad idea for everyone.

I did a video on the tariffs on the tariffs back in early February. Most of what I said is still relevant.


I disagree with the way that almost all of the politicians are dealing with this situation. They are way too emotional.

Generally, the politicians would not make good traders.... they are way too emotional. Investors should never let emotion get in the way in making investment decisions. Politicians should never let emotion get in the way of negotiations. It does not do anyone any good and is extremely divisive.

I expect that tariff ping-pong will continue for a while. In the end, I expect some tariffs on Canada to be in place in the end, particularly if Canadian politicians gets too emotional and try and seek revenge (this could be and is a problem).

The stock market seems to be taking the tariff situation in stride and is acting as if everything will be resolved at some point in time. This could be a mistake as now China is joining the ping-pong game.

### *Rant #2*
### *Do NOT count Government Spending in GDP*

Basic economics says that government spending is part of the GDP calculation. At some point in time, we have all seen the formula:

GDP = C + I + G + (X-M)

C= Consumption

I= Investment

G= Government Spending

(X-M)= Exports minus Imports

Currently government spending makes up approximately 17% of GDP in the US.

The above formula is correct in the short-term. Government spending stimulates the economy because it put money into circulation. However, if the government pays one person to dig a hole and another to fill it in, on the books, GDP would have increased and the economy would appear to be better off. Common sense tells us otherwise.

In my economics undergrad, we were taught that there was a positive multiplier to government spending. When the government spends money, it would have a multiplying effect throughout the economy. More recent studies have shown that government spending has a negative multiplier. In other words, after a short-term burst of positive contribution to the economy, it has a negative impact, reducing output and productivity.

In recent decades, whenever there is a problem, governments just throw more money at it. All that this has done is to kick the can down the road and delay the solution.

The irony is that today governments are incentivized to borrow more and spend more to cover up the debt problem. Constantly increasing government spending stimulates the economy in the short-term, but robs the economy of long-term growth.

Should government spending be included in the GDP? It would be best if we disclosed government spending as a separate line item. Report GDP with and without government spending.

### *Rant #3*
### *EU - Getting Ready to Surveil and Modify Consumer Behavior*

The EU is preparing to launch a Central Bank Digital Currency (CBDC) in October. This is very bad news for Europeans.

The CBDC is being launched as a digital currency, replacing paper and coins. This is extremely deceiving and disingenuous.


A CBDC is a surveillance currency at the central bank and ultimately allows the government control all aspects of your spending. Giving them the power to stop people from buying meat if they consume more than their quota or not allowing them to travel. It allows the government create a social credit score system. It sounds dystopian and it is. China has been testing CBDC's in certain regions of China, limiting people's travel and access to public facilities if they have not achieved a desired social score.

Is the EU going to start with dystopian restrictions in October. No. In fact, the CBDC will be a parallel system to the current cash and credit system. You will be able to use cash if you so desire. Of course, the first one or two years will be used for testing, before switching over to CBDC's only. Not Good!

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