Thackray Newsletter

— Know Your Buy & Sells a Month in Advance —

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Stayin' Alive!

..we're stayin' alive, stayin' alive
Ah, ha, ha, ha, stayin' alive, stayin' alive

Beejees -1977

The Beejees are an iconic band from the 1970's. Their big song that is still played on the radio today is "Stayin' Alive." The song is apropos for the current stock market, as investors have been shifting in the AI sector from hyperscalers TO semiconductors TO memory.

In the last few days, the AI trade is barely alive....barely alive.

As a side note. The TV show, The Office Season 5, Episode 14 ("Stress Relief"), during the CPR training scene

S&P 500 Technical Status

The S&P 500 has been forming a positive technical pattern of higher lows and almost forming a bullish ascending triangle. However, there is a problem. Volume has been decreasing.

Falling volumes at the same time the market is rallying translates into a weak rally that might not have a sustaining power.

If the volume increases and the S&P 500 breaks above 7650, this would be a positive setup for further gains.

Watch for possible weakness, with support around 7200 for the S&P 500.

Most likely scenario given weak volume heading into the worst two contiguous months of the year (August and September) is a weaker S&P 500.

Growth Sectors

The technology sector is has been underperforming the S&P 500 since early June.

Communications is bouncing as inflation expectations have been lowering.

Consumer discretionary, yet to show relative increase.

Cyclical Sectors

Industrials, underperforming (reversal from June).

Energy improving.

Materials neutral.

Financials improving since early June after long stretch of underperforming.

With lower inflation expectations, look for continued underperformance of industrials and materials.

Defensive Sectors

Defensives showing market performance, look for moderate outperformance if volatility increases.

in the conference room, the instructor demonstrates chest compressions on a dummy. She recommends doing them to the beat of the Bee Gees' "Stayin' Alive" (about 100 beats per minute, which matches proper CPR rhythm). This is an important fact that could help save lives if you ever need to administer CPR.

The big question is where will investors go next in the AI food chain. The problem is that there is no where else to go. The memory sector is the top of the food chain.

Investors have become very concerned with the rapidly deteriorating cash flow that is taking place in the hyper-scalers sector. It has gone negative.

Currently, Meta and Oracle both have negative free cash flow, and the other hyper-scalers free cash flow has been declining and in some cases fast.

Are the hyper-scalers undervalued and represent a good buying opportunity? Many investment houses have postulated this position. However, at the current time, there is no overwhelming evidence that the narrative is shifting.

Investors have been shifting into the memory sector because of the rapid demand for memory and high margins. The demand increase for memory is a bi-product of demand for AI usage and in particular LLM's (Local Language Models).

Currently, Micron has an 85% gross margin. This is insane. Up until the AI boom, memory was considered a commodity and is nothing special. It really is an electronic commodity. Micron has been able to take advantage of a short term situation and rake in huge amounts of money.

Will it last? I am not convinced. The problem is that there are very few companies producing memory and it takes large amounts of money ($10-$20 billion) and two to three years to green field a production facility. There is a large wave memory fabrication facilities coming on line over the next few years.

Apple is trying to use memory for its devices sourced from a private Chinese company CXMT, which currently produces 10% of worldwide DRAM (memory). Initially, this would only be used for products sold in China.

Most investors would agree with the above statement that memory chip supply is set to increase in the future. The counter argument is that demand is skyrocketing and will continue to skyrocket.

Who wins the argument - Demand or Supply?

History tells us that eventually supply wins the argument - always. Cars are much cheaper (adjusted for inflation) than 100 years ago. Electricity is cheaper and the list goes on. When the Chinese get involved, they speed the commoditization process up dramatically. Their modus operandi is to get market share and then profits. At some point memory will be a commodity with much lower prices. The Chinese will make sure of that.

In the meantime, we have to live. We still have to buy expensive memory. I know- my laptop recently "blew up," and I had purchase another one. It cost me a small fortune to get 128GB of RAM, but I need it now, not in a few years.

The projections for memory companies has gotten extreme and are premised on the fact that memory will not be commoditized.

As I am writing this newsletter, the memory stocks are getting hit hard and the KOSPI is down limit. Maybe it bounces back for another run? It has before.

The KOSPI has performed extremely well because it has two large semiconductor and memory stocks that have been rocketing higher (except for recently): Samsung and SK Hynix. These two companies are 30% and 27% of the KOPSI index. Yikes. I am having flashbacks to the tech wreck in 2000 where Nortel was 35% of the Canadian stock market.

KOSPI has become a gambling market. The South Koreans have jumped in "big time." Recently, 1.2 million investors have had margin calls in South Korea.

Ok, there are only 58 million people in the country, so approximately 2% of the population or 3.4% of the adult population has had margin calls? In addition, the liquidation rate has moved from 2% to 10%. This is insane.

The whole point of me spilling ink on the AI space is that it could be the last stop for the speculators in the short-term. Of course, there will be other places to speculate in the future, but in the short-term, there is a real risk that speculators and investors will "leave" the memory sector and leave the stock market because there is no where else to go. Do you really think that momentum traders and speculators are going to shift to investing in consumer staples. Probably not. Of course, on the margin some investors will potentially shift into the defensive sectors.

If the AI trade is fading, it will be important to monitor if investors are either going into the cyclicals or defensives. If all three groups turn lower, it is likely that the stock market will follow its negative seasonal pattern with poor performance in September and October.

Space X- Reality Check

According to Musk, Space X will be worth more than the world. That is one way to justify a valuation of over 120 Revenue to Price (revenue not earnings).

Space X was launched on June 12. Its IPO price was set at $135 and the first trade price was $161. SpaceX shot up to over $200, but has recently re-entered orbit and now trades at $126 (updated since the graph).

This cycle is fairly normal: hype at the beginning with a rapid rise and then a pull-back to IPO price.

Raymond James just published a report with a $800 price target for SpaceX, target in 2031. I had to double check this. I think that Raymond James is going for clicks on this one.

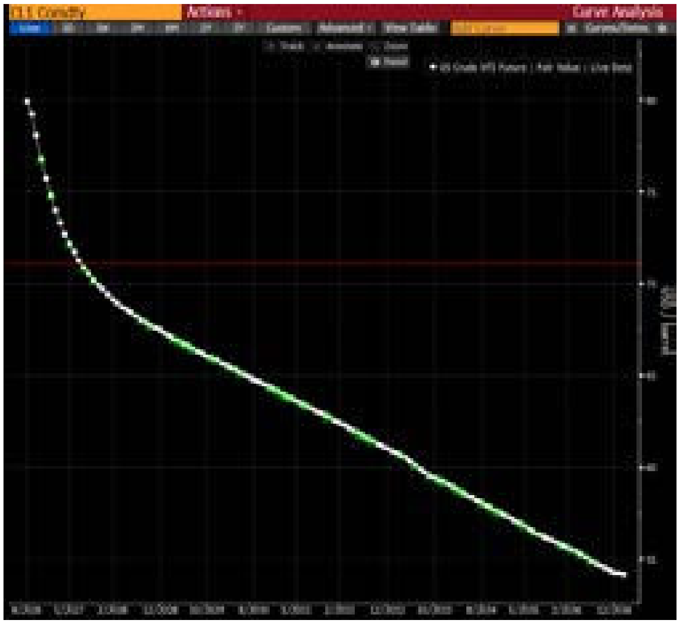
There is an argument that SpaceX could be a leader in the aerospace sector, putting data centers into space etc. Nevertheless, it would be wise for investors to cool their rockets. Maybe SpaceX is a sentiment indicator for FOMO in the market. SpaceX trading around or below its IPO price is not a good sign.

Energy - Opportunity or Bust?

Investors are very polarized: the price of oil is going to head much higher or much lower.

The U.S. government keeps saying that the war with Iran is over and the price of oil is heading much lower. The price of oil (WTIC) has been fallen from over $110 at the beginning of April and has recently bottomed at the beginning of July below $70.

The graph below illustrates the forward curve for CL1 (oil). The curve drops fast over the next few years and below $55 in 2036. In other words, investors are expecting the price of oil to head lower in the future.



No one knows that exact amount of oil barrels that have been lost because of the war. It keeps climbing everyday but it is estimated that 1.5 billion to 2 billion barrels of oil has not been shipped through the Strait of Hormuz since the beginning of the war.

So why has the price of oil not skyrocketed higher to $150 as many claimed it would?

There are three reasons that the price of oil did not crash upwards

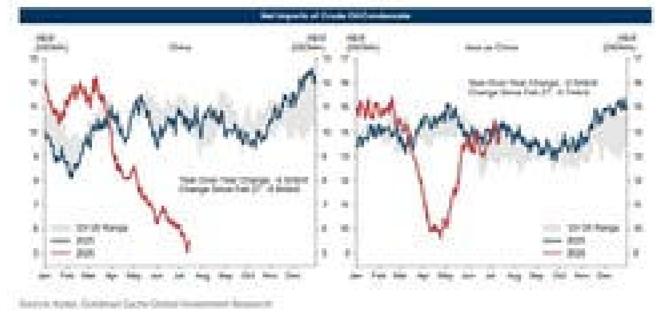
(1) The global economy is slowing and does not demand the same level of oil.

(2) China has huge oil reserves. Instead of buying oil in the market China has been drawing down its reserves. This has had a huge impact on the price of oil.

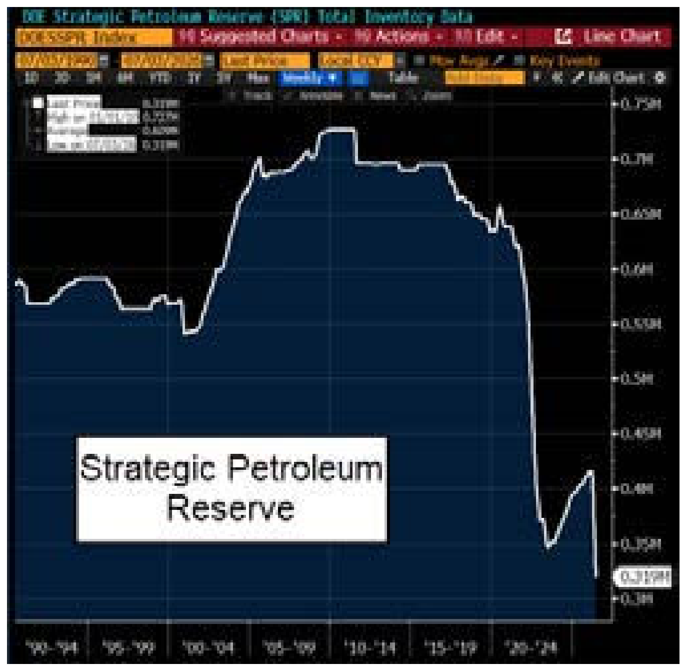
(3) Western countries have been depleting their reserves in order to push the price down.

Below is a graph showing net imports of crude oil for China and Asia ex China. The graph on the left shows China. The blue line is 2025 and the red line is 2026. Net imports have dropped substantially during the US/Israel and Iran war. This compares to the rest of Asia ex China (right hand graph). In 2026 (red line) net imports have been rising since May.

It is a bit concerning that both China and Asia ex-China had net imports dropping fast in March in April, possibly caused by slowing economies. Nevertheless, it is clear that China has made a strategic decision to not increase its net imports and draw on its strategic reserves.



Below is a graph showing the US Strategic Petroleum Reserve. The reserve has been dropping for quite a while, but has recently reaccelerated lower. This graph is very conservative because it measures the absolute level. If the graph were calculated as inventory relative to consumption, the situation would be much more dire.



There is a strong argument to say that the price of oil does not fully reflect the current inventory situation and is based too much on the expectation that oil will start flowing at normal levels in the near future.

It is generally agreed that there are hundreds of millions of barrels of oil "lost" and that it will take a few years to get things back to normal.

There is a substantial risk that the market is not pricing in the fragility of the current situation and that at some point in the next few months inventory depletion will cause prices to jolt higher.

Seasonal trend for energy - turning positive

The energy sector has a strong seasonal period from late July to late September. This period is not as strong as the late February to early May period, but energy still performs well in this time period.

Summer Rally - Ending?
Mid-term Effect - Not Good !

In the summer, there is often a moniker applied to the market when it is positive - it is called a summer rally. Although a lot of writers use this term, they often leave out that if there is a rally it starts in June and ends in mid-July.

It should be noted that the next two months (August and September), on average are the worst two contiguous months of the year on a seasonal basis for the stock market.

This will be the topic of my next newsletter.

Just to cheer everyone up, below is a graph showing the drawdowns heading into mid-term election years. Since 1950, there has been an average 12.7% drawdown from June to October. Yikes.

The S&P 500 is now less than one percent from the all-time-high (ATH) that occurred on June 2. Yes, less than 1%. Yikes, let's hope we do not have an average performance and have a drawdown of 12.7%.

Seasonal Opportunities and Trends

U.S. Financials

The U.S. banks started to release their earnings on Tuesday July 14 before the bell.

The results were fairly decent and the sector moved moderately higher. Good news.

The sector started to underperform the S&P 500 in early 2025, but in June of this year the sector started to perform particularly well.

On an absolute basis, the sector has just had a breakout.

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

Uranium

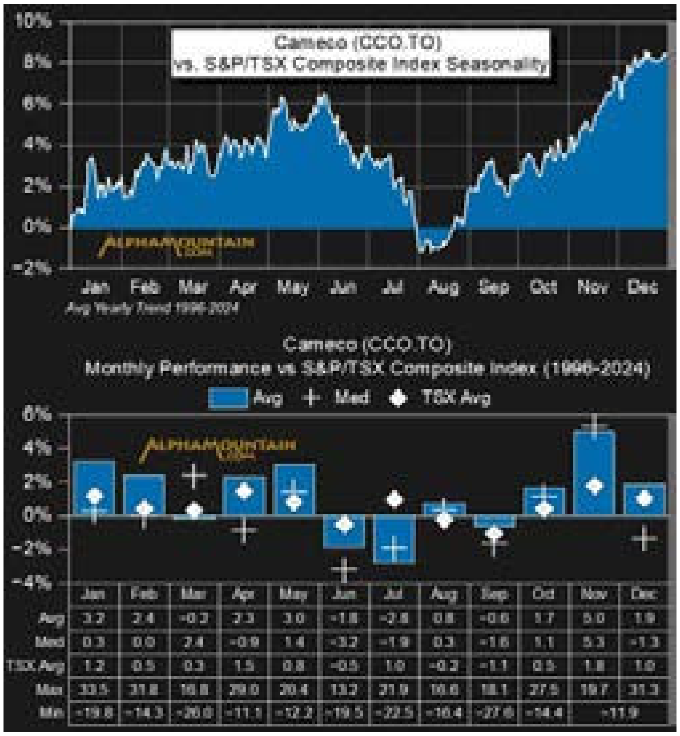
Uranium has been decimated recently. What has changed? Only good stuff. No negative announcements. Yet, the sector has moved lower. Why?

The performance of the uranium sector has been driven by a lack of interest in the sector. Investors have been focused on the AI sector and sucked the investment oxygen out of the room.

The metals and mining sector has also been performing poorly for very similar reasons.

On an absolute basis, the sector is down to support. Relative to the S&P 500

Below is a seasonal graph for Cameco. June and July are the two worst months of the year (by far) for Cameco on a seasonal basis.



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Avg	3.2	2.4	-0.2	2.3	3.0	-1.8	-2.8	0.8	-0.6	1.7	5.0	1.9
Med	0.3	0.0	2.4	-0.9	1.4	-3.2	-1.9	0.3	-1.6	1.1	5.3	-1.3
TSX Avg	1.2	0.5	0.3	1.5	0.8	-0.5	1.0	-0.2	-1.1	0.5	1.8	1.0
Max	33.5	31.8	16.8	29.0	20.4	13.2	21.9	16.6	18.1	27.5	19.7	31.3
Min	-19.8	-14.3	-26.0	-11.1	-12.2	-19.5	-22.5	-16.4	-27.6	-14.4	-11.9	

The good news is that the weak seasonal period for Cameco is almost over...and we enter the strong seasonal period for Cameco. Watch for strong performance to start sometime in September.

My Call: The uranium sector will probably start to perform well in September.

Industrials

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

The industrial sector had a breakout in June, reaching an all-time-high and outperforming the S&P 500. In July, the performance started to fade as investors refocused on the tech sector. Typically, the industrials sector performs well in the first half of July, heading into earnings. It is possible that the strong seasonally rally occurred early this year and it is finished.

My Call: The industrials sector will probably continue to underperform.

Energy

The energy sector tends to perform well from July 24 to October 3

The energy sector started to perform well at the beginning of the year and rallied into late March. The US/Israel and Iran war started on February 28. The energy sector continued to perform well after the war started, but started to underperform in late March as investors expected the war to end shortly.

The war has not ended, it has paused, restarted etc., but it continues on. Investors are still expecting a positive outcome, but are more tenuous as the war has dragged on. The energy sector has responded by moving higher in July, but is still well below its high in late March.

The energy sector starts a strong seasonal period in late July, which lasts until early October. It should be noted that this strong seasonal period is not as strong as the period from late February into early May.

My Call: The energy sector will probably strengthen over the next two months.

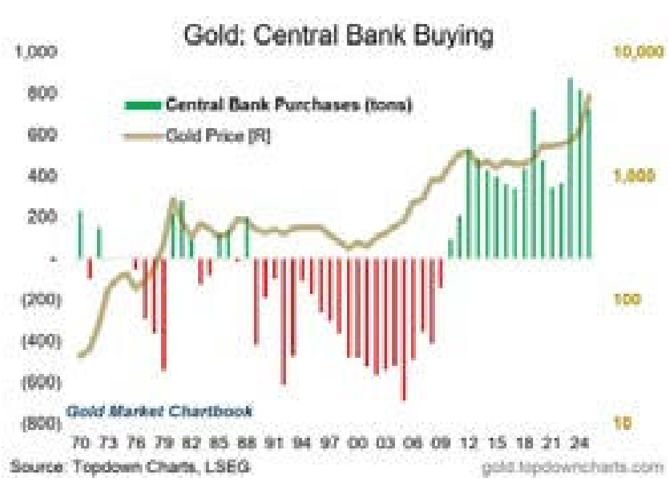
Gold

Gold tends to perform well from July 12 to October 8.

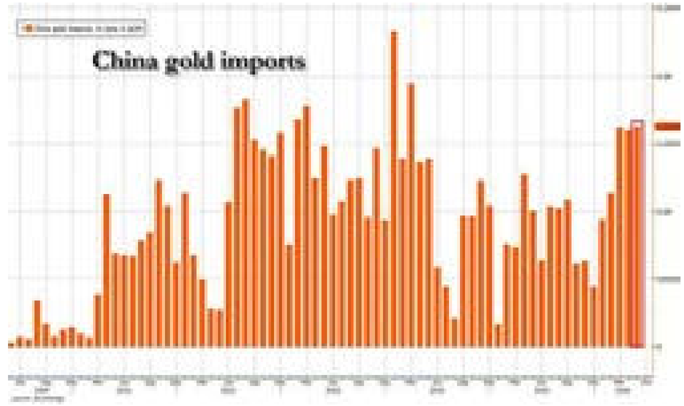
Gold has just started its strong seasonal period and it is starting on the wrong foot.

The graph below shows the cumulative money flow for the gold ETF (GLD). North American investors have been huge sellers.

So who is buying gold? Central Banks. Graph below.

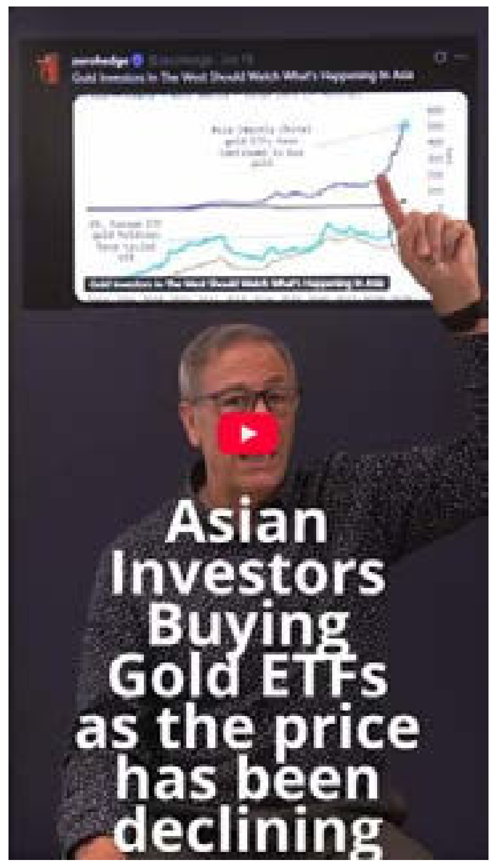


China has ramped up its purchases of gold and continues to be a large buyer.



Recently, I did a short video on who is buying gold.

https://youtube.com/shorts/yJ-z0HSlNEM?feature=share



Technically, gold has not performed well.

Gold broke through its support level at $4250 and is currently trading around its next support level of $4000.

It is entirely possible that gold could move lower. The next level of support is $3500.

However, gold is oversold at the start of its strong seasonal period....maybe a bottom?

My Call: Gold will probably start to gain traction at this level. Especially, if inflation expectations subsides.

U.S. Government bonds

U.S. government bonds tend to perform well from May 6 to October 3

U.S. Government bonds have been performing poorly since last autumn. There was a bump in performance in February, but bonds quickly reversed the trend.

The good news is that the strong seasonal period for government bonds has started. At the beginning of the strong seasonal period, U.S. government bonds rallied, but more recently, they have declined as investors have been concerned that inflation is still a problem.

The good news is that the sweet spot for the seasonal trend is August and September.

My Call: U.S. government bonds will probably start to perform moderately well in the near future.

Canadian Banks

The Canadian banking sector tends to perform well starting from January 23 to April 13

The Canadian banking sector has been on fire, outperforming most sectors in the U.S. and Canada. Why? The Canadian banking sector has been the beneficiary of foreign investors looking to diversify out of the U.S. The Canadian banking sector is very attractive to foreign investors because of its oligopoly structure and high dividends.

A lot of this strong performance occurred for the most part when the U.S. financial sector was underperforming the S&P 500. When the U.S. financials sector outperformed the S&P 500 starting in early June, the Canadian banking sector continued to perform well. Can the Canadian banking sector continue to perform well?

The Canadian banks release their earnings in late August. In the last few years, Canadian banks have released solid Q3 earnings and the sector has performed well into autumn.

Recently, the Canadian banking sector has slowed its outperformance. Watch for the sector's performance after releasing its next earnings in August. It is possible that we could see the sector start slip given its high valuations if earnings are not strong.

My Call: The Canadian banking sector will probably continue to outperform in the short-term, but become more fragile to a downturn in August.

Health Care

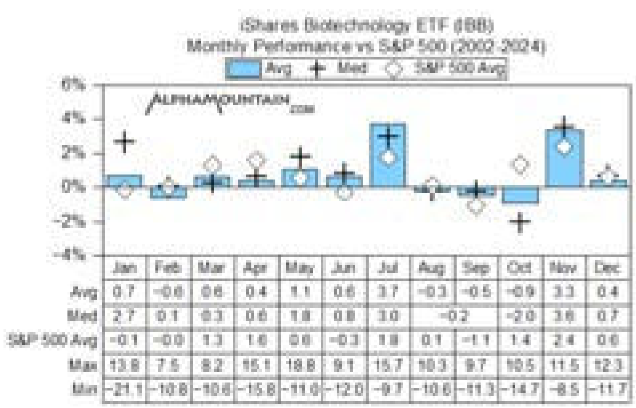
The health care sector has strongly outperformed the S&P 500 since late May. The sector had a double bottom breakout in March. Investors, very recently have been rotating into the defensive sectors. However, the health car sector pulled back recently, back down to support.

My Call: The health care sector will probably be a beneficiary of the very recent rotation out of the technology sector and continue to outperform in August.

Biotech

The health care sector has a strong seasonal period from June 23 to September 15.

July is the strongest month of the year on a seasonal basis for the biotech sector is by far. Typically the strong seasonal period for the biotech sector starts in mid-to-late June.



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Avg	0.7	-0.8	0.6	0.4	1.1	0.6	3.7	-0.3	-0.5	-0.9	3.3	0.4
Med	2.7	0.1	0.3	0.6	1.8	0.8	3.0	-0.2		-2.0	3.6	0.7
S&P 500 Avg	-0.1	-0.0	1.3	1.6	0.6	-0.3	1.8	0.1	-1.1	1.4	2.4	0.6
Max	13.8	7.5	8.2	15.1	18.8	9.1	15.7	10.3	9.7	10.5	11.5	12.3
Min	-21.1	-10.8	-10.6	-15.8	-11.0	-12.0	-9.7	-10.6	-11.3	-14.7	-8.5	-11.7

This year, the biotech sector started its strong rally in early June. It broke above its resistance level in mid-June and kept rallying. In early July, the biotech sector started to pullback on an absolute basis and relative to the S&P 500.

It is entirely possible that the biotech sector has its strong seasonal period early this year.

My Call: The Canadian banking sector will probably pull back a bit more before performing at market.

Rants

Rant #1
Apple Suing OpenAI - This is problematic!

Recently, OpenAI said it might delay its IPO until 2027. I have commented on this in my writings, stating that it would be a mistake to wait and wondered why OpenAI would be putting off its IPO. Well, we have our answer. It is hard to launch an IPO when you have a major lawsuit against you.

I am not going to go through the background and lawsuit in detail, but if you want to do some research on this it is a fascinating story with lots of players and cover-ups.

Definitely, worth the read. Check it out.

Rant #2
Trump launching a Trump “gold” coin

This is not a political comment.

The U.S. government is preparing to launch a Trump one dollar gold coin. It is not real gold.

Typically it is not possible to launch a coin with the head of sitting President without full government approval. There is a loophole with commemorative coins and Trump is preparing to use this loophole.

Despite the “Trump” coin being fake gold, this could be showing Trump’s commitment to gold. Who knows, this one is hard to read.

Rant #2
Germany banning sicks days - There is Hope !

Germany is actually not banning sick days, but rather asking for a doctors note from day one of sickness. They are taking this action due to the abuse sick day policies.

Germany has been poorly managed for years. Germany was once an economic powerhouse, but after poor energy decisions and many other policy errors including a shift towards socialism, the country has become a morbid economic stagnant country. Germany has barely any economic growth and is constantly slipping into and out of a recession.

I am not against sick days (we all get sick at some point), but Germany is trying desperately to make some changes to right the situation. I have been hard on how badly Germany is managed, but I have to give credit where credit is due.

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