T3 – Trends, Tactics & Timing

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Fly me to the moon!

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the technical analyst AWARDS 2020 WINNER

Executive Summary

Global Ranking Model

STRATEGIC (LT)	TACTICAL (MT)	ACTIVE (ST)
OIL	OIL	COPPER
COPPER	COPPER	OIL
INDIA	JAPAN	CHINA
JAPAN	CHINA	JAPAN
WORLD	INDIA	FRANCE
USA	WORLD	CANADA
CHINA	FRANCE	GBPUSD
FRANCE	USA	INDIA
CANADA	CANADA	WORLD
AUSTRALIA	GBPUSD	USA
GERMANY	GERMANY	UK
GBPUSD	USDJPY	GERMANY
UK	AUSTRALIA	USDJPY
SWITZERLAND	UK	EURUSD
EURUSD	SWITZERLAND	AUSTRALIA
USDJPY	EURUSD	SWITZERLAND
GOLD	GOLD	GOLD

Feature media interview: *"Are we at the market top or is there more to come?"*

- ❑ **Cycle model** high alert: Q1 2021

- ❑ **Economic sensitive markets, Copper** & **Oil** remain top of our global ranking model. Copper's spikes above 2012 peak levels is now eyeing the all-time high at 4.62. Oil uptrend steady, but capped under overhead resistance at $66.

- ❑ **Asia outperformance,** led by **India** and **Japan.** India's LT trend unwinds from overbought extremes, amidst new 50k glass-ceiling. Japan *"rising sun"* hits record 30k, after recovering 66% (2/3) from the darkness of its 1989 crash lows.

- ❑ **US** & **Europe** underperforming the world index benchmark. NASDAQ unwinding sharply from all-time highs. Our view is the latest overcrowding into lower quality stocks such as Game stop, is further late-cycle *"irrational exuberance"*. **DAX** remains capped under its pandemic gap 13230-13480. **FTSE100** fails to prior Jan 2021 peak level, near 7k psych level.

- ❑ **Gold** breaches its 200-dMA. Immediate support at 1765 (Dec 2020 low). Note, Gold is still bottom of our ranking model due to its ST oversold nature and relative outperformance of other global, cross-asset markets.

- ❑ **G3FX: USD** downtrend intact, -13% from 2020 peak. **EUR/USD** rangebound, capped under 1.22 resistance. **GBP/USD** trend extends 1.40 psych level. 2018 peak at 1.4377. **USDJPY** countertrend reaction stalls into 200-dMA at 105.47.

Archive Reports	Media Interviews	Educational Material
Japan's rising sun	Is the Big Cycle About to Turn?	Seeking Alpha in a VUCA World
Eye of the storm	S&P500 "Minsky" Risk below 3400	Value of TA
	Asia's Great Reversal	Trading Psychology
The Minsky Moment	Gold rise into $2400	Behavioral Mistakes

T3 Contents

"Immoral Hazard" The Day of Reckoning

President Biden's tenacity paid off and he's coming into power with a big agenda. The top priority is to cure the nation of COVID. There are already over 500k people reportedly dead in his nation. However, the promising light at the end of the tunnel is that **in recent weeks cases have significantly dropped.** This is also coincides with the rollout of new vaccines that are becoming available to offer remedy and protection. Ensuring availability across the country is the sort of job the U.S. does well. **We think Biden will succeed, but it will be expensive.**

The second task is then to save and recover the economy. A shattering of the old economic position has been huge. **It will not go back to the old normal.** That situation has disappeared for good and rhetoric for a *"Great Reset"* is building up. Even after a successful vaccine rollout, herd immunity is not guaranteed and **behavioural consumption patterns will arguably be permanently disrupted.**

In practice, Biden will need to print huge new sums of money. The expression to *"do whatever it takes"* will be given a whole new lease of life. Selling $1.9 trillion of bonds will stretch markets to new extremes. **How much debt is too much and when does it begin to have corrosive economic consequences?** The U.S. has never conducted a fiscal experiment like this. The laws of economics haven't been repealed, no matter what the modern-monetary theorists say.

Everything by longevity tends to get off course, especially if mission critical. The 1964 Sinatra classic song *"Fly me to moon"* was closely associated with the Apollo missions, led by Neil Armstrong. He once said that going to the moon was just a matter of solving a couple of problems. **How to get there and how to get back?** Most critical is not to leave until both problems are solved. Put simply **the marginal risk of error is too great.** This is the current state of affairs, where there is no viable exit, or normalisation strategy.

FIG 1. "IMMORAL HAZARD" THE DAY OF RECKONING
US BUDGET DEFICIT SURPASSES WWII PEAK LEVELS

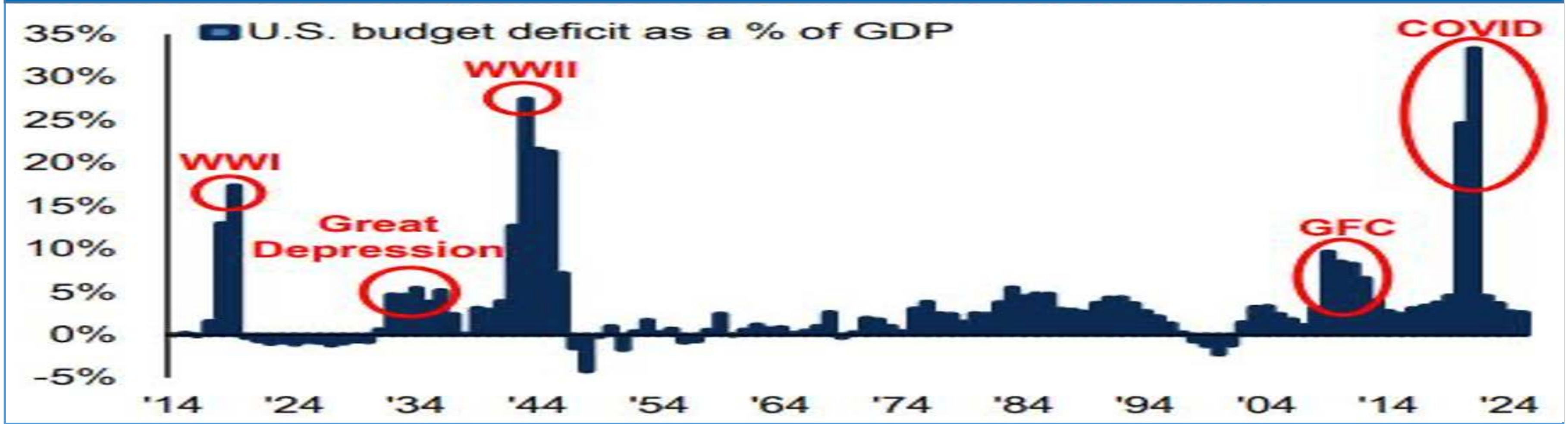

Fig 1. *"Immoral Hazard"* The Day of Reckoning, Source: BofA Global Investment Strategy, GFD, Haver, White House.

Bond yield mean-reversion?

The Fed's balance sheet will grow to higher levels of altitude sickness. The entire financial system will be strained to the point where it will break. Meanwhile, age-old wisdom tells us *"Don't fight the Tape, don't fight the Fed"*, but **should it assume trends are linear and central banks omnipotent?** History teaches us that neither factor was infallible through 2007-2009, during the biggest decline since the Great Depression.

In the old days Government bonds were the lowest risk and safest asset class. It was normal for bonds to be cheap when equities were expensive and vice versa. This situation worked for decades. However, since Mr. Greenspan, a period of printing money to excess has now brought bond yields down to almost zero and in some places even negative. **It is quite clear that bonds are now very expensive indeed.**

The almost 40-year in bear market in US LT yields, down into a record low of 0.664%. Since then, **yields have nearly tripled.** In absolute terms it is not that big, but the **rate of change is huge and will likely fuel similar multiples of a future rise in rates.** Jeremy Grantham, co-founder and chief investment strategist of Boston's GMO, warns of economist Hyman Minsky's dictum that *"stability is unstable".* As far as he is concerned, this is the first time ever that a bubble has formed on top of a weak economy, entirely supported by faith in low rates. He argues that *"At the end of this cycle of stability, all the market has to do is cough.* ***If bond-yields mean-revert even partially, they will be caught high and dry."***

Indeed, this also complements our work that suggests a **growing probability of a default-led spike, akin to the historical rhyme of 1931** (Fig 2). Moreover, the U.S. is now more in debt than at any time including the end of World War II (Fig 1). The printing of money is going to keep coming relentlessly until one day it just has to stop. **The day of reckoning is almost here.**

FIG 2. DEFLATIONARY SPIKE: 1931 VS. NOW

Fig 2. Deflationary spike: 1931 vs. now

S&P500 Minsky risk

Fig 3. Charts our updated technical setup for the *"Minsky moment",* as part of rare late-cycle exhaustion pattern called a *"broadening top".* This behavioural pattern is characterised by massive disagreement between buyers and sellers, with each higher price high (point 1,2 & 5) and lower price low (point 2, 4, 6). Expanding volatility becomes self-feeding. **Point 5 is deemed as the "kiss of death" signal,** which triggers a technical *"Minsky moment"* collapse.

In this case, the grand finale point 5 also marks overhead **roudaphobia level at 4000** that will likely mark another make-or-break point. A reversal signal must be confirmed under 3400, at the prior record set in Feb 2020, with further downside confirmation below psychological level at 3000. There is a risk of precipitous decline which would be symmetrical to the prior linear rise. Our preferred scenario, is a **rolling W-shape retest of the crash low,** from point 5 to 6, followed by another *"rally and the rest of fall".*

Statistical price distribution warns of sharp downside acceleration of at least 28% below key level at 2890. Meantime, **our cycle studies remain negative and intensify,** as part of a cluster signal from mid-February into June, in-line with traditional negative summer seasonality pattern.

FIG 3. S&P500 MINSKY RISK BELOW 3400

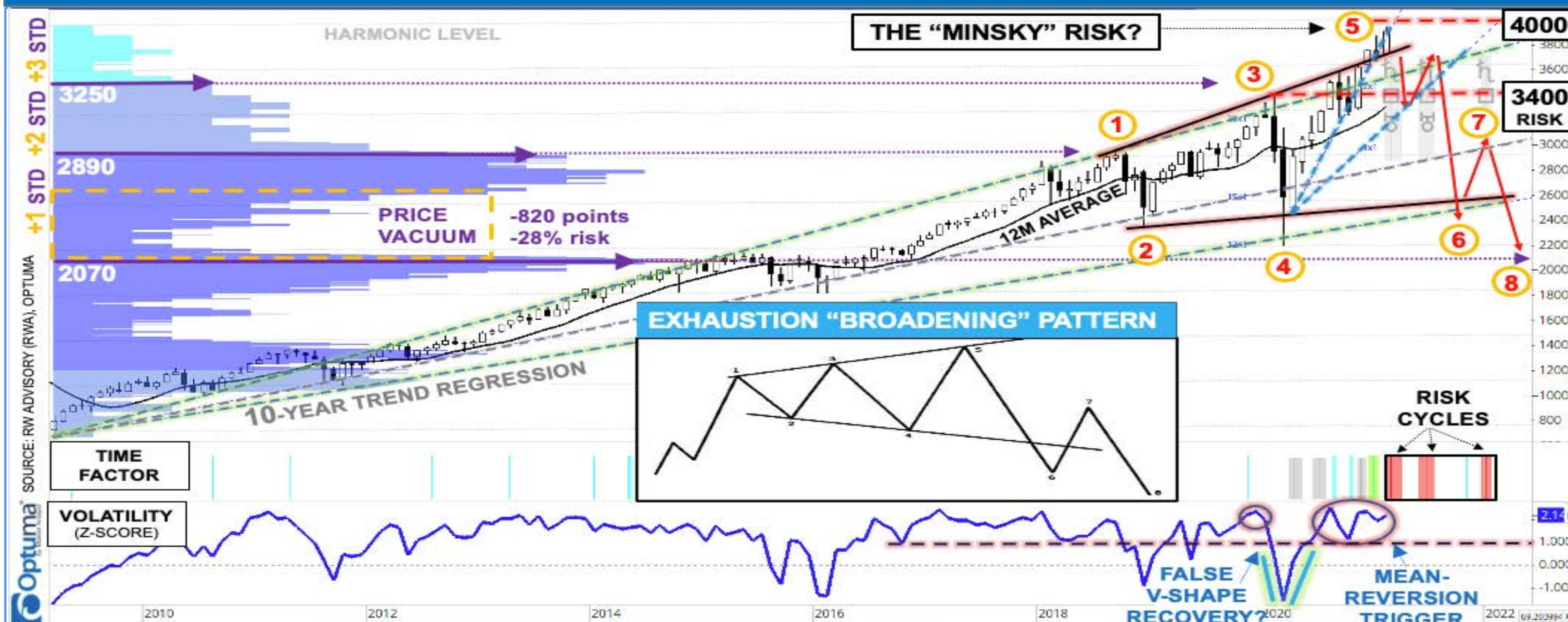

Fig 3. S&P500 Minsky Risk

Irrational Exuberance & 2021 negative surprise

Using many measures of value that have a good track record we find that all equity markets are expensive. Some of them have overextended to an absurd extent. We are **building up to a crisis point where everything is overpriced** and truly *"irrationally exuberant"*. In fact the leveraged options market mega cap play from summer 2020 has now evolved to a more complex and higher risk situation in mini cap stocks.

The so-called "meme" is an example, led by retail money fuelled trades on lower quality stocks, negative earnings and high debt. Fig 4 exhibits a Goldman Sachs Index of 50 most shorted stocks, rocketing in a linear fashion YTD. Herding behaviour is seen across a variety of top trades, including the short squeeze, passive indexing and gamma trades. ***"Greater-fool theory"* reminds us this toxic party does not end well.**

In terms of short-term timing, our seasonality analysis of the January Barometer also offers interesting results. The wall-street adage *"As January goes, so goes the year"* is anecdotal trend extrapolation, that works, more often, then not. However, it is by no means bullet proof. Fig 5 demonstrates that **volatile, late-cycle setups tends to trigger negative surprises.** Furthermore, this was the case in 2020, verging into the pandemic crash during February-March. Since then we have greater asymmetric risk, complex virus mutations and weak economic recovery.

FIG 4. 50 MOST SHORTED STOCKS

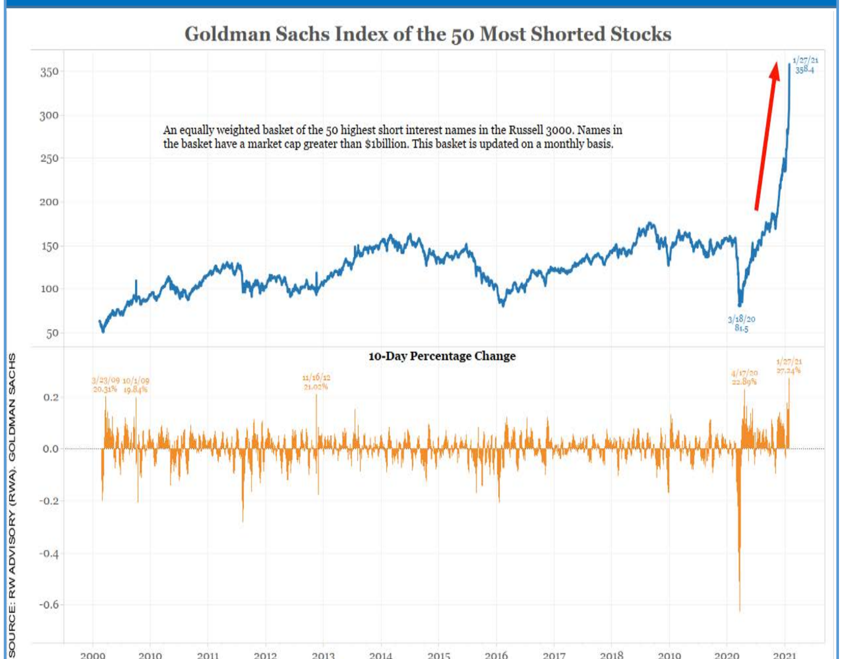

Fig 4. 50 most shorted stocks.

FIG 5. THE JANUARY BAROMETER: NEGATIVE SURPRISE?

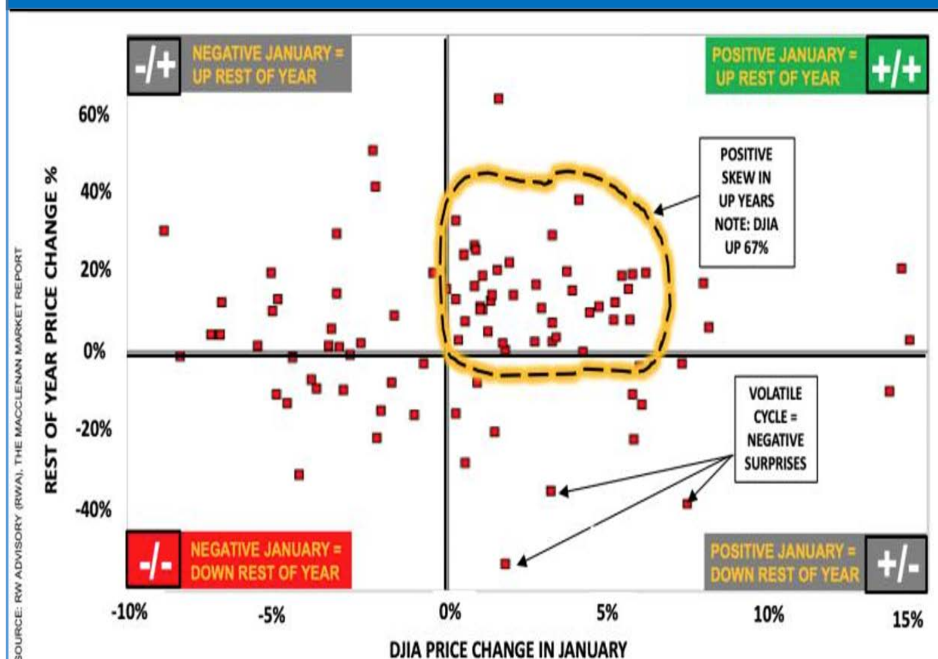

Fig 5. The January barometer: negative surprise?

Best & Worst: India, UK

Meanwhile, top performing Asian markets such as India (Fig 6), is within our global ranking model, in terms of long-term trend performance. However, it is now **unwinding from expensive conditions.** Even so, as technicians, we continue to believe the same long-term trend remains strong. If and once it makes a new high breakout, then we have to buy it. Until then, watch for potential mean-reversion into 46560 and 42000.

Finally we show the UK market in Fig 7. This has experienced a recovery from depressed levels but doesn't loom well, post-Brexit and COVID mutation escalations. In fact, relatively speaking, it looks **more negative than most other markets in our model portfolio universe.** From a technical perspective, FTSE100 failed into prior Jan 2021 peak level, near 7k psych level.

The bottom-line is that all markets, including bonds and equities are expensive. The debt bubble is huge. A Grand super-cycle setback is due. **Think in terms of 1929 to 1933 period.** We think there will be a breakdown soon and a fall to a low in either late 2022 or 2023. Until the breakdown, our preference is to **underweight western equities, own Asian markets,** notably India, China and Japan, of the giant markets.

FIG 6. INDIA OVERBOUGHT REACTION

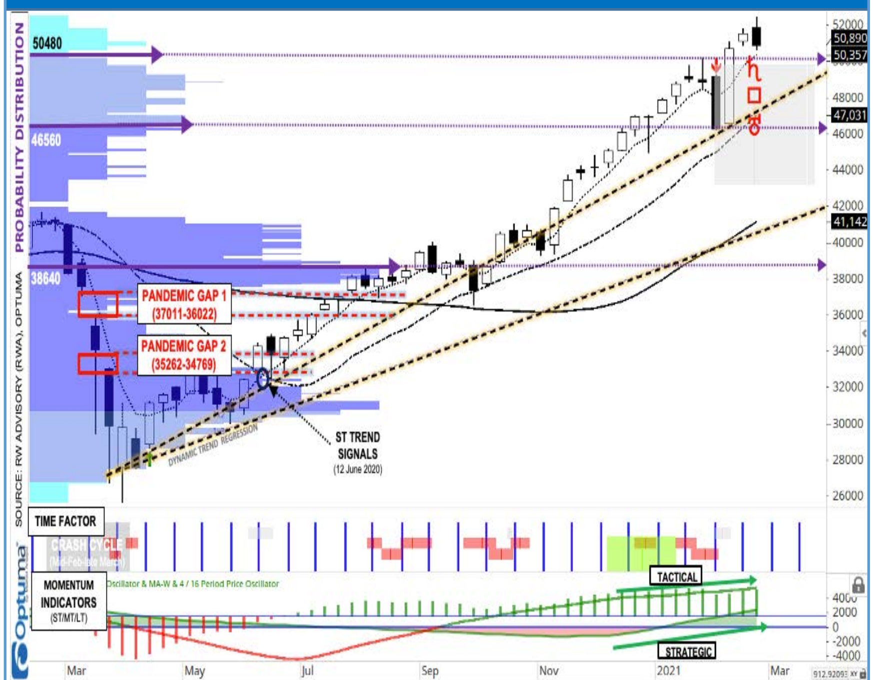

Fig 6. India overbought reaction.

FIG 7. UK POST BREXIT

Fig 7. UK Post Brexit

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