

2H 2020 Technical Strategy

June 30, 2020

Markets

- S&P – Secular uptrend (200-wk sma) dented but not broken
- -35% draw down perspective and proprietary internal quadrant balance indicators point to positive YE returns - BTD
- 4-year cycle backdrop supportive of equities
- The debate: Intermediate-term/weekly indicators moving toward overbought levels. Bear market rally or normal early cycle behavior?
- Short-term pullback from overbought levels finding support near 50-62% retracement band
- EAFE, EM and LatAm have yet to reverse relative downtrends vs US
- US rates: Early signs of bottoming – 10-30 spread steepening!
- USD stalling at long-term downtrend
- Oil: Recovering into next resistance band near \$40. \$30 support
- Gold uptrend intact

Styles, Sectors and Groups

- Growth vs Value uptrend intact but slowing in smid-caps
- High beta (cyclicals) emerging to Low Volatility, Bonds (TLT)
- ETF relative rotation: Growth intact, Cyclicals emerging
- Recommending (cliché) secular + cyclical growth barbell positioning
- Reduce exposure to safety (Utilities, Staples) on bounces
- Bottom line: Accumulate cyclicals at current levels and use pullbacks in Q3 to add to secular growth



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a fundstrat company

Technical Strategy

Rob Sluymer, CFA^{AC}

+1 212 293 7140

inquiry@fsinsight.com | @rsluymer

US Portfolio Strategy

Thomas J. Lee, CFA

| @fundstrat

Global Portfolio Strategy & Asset Allocation

Brian Rauscher, CFA

Jonathan Lesser

Data Science Research

Ken Xuan, CFA

| @fundstrat_ken

Washington Policy Strategy

L. Thomas Block

| @TomBlock_FS

TECHNICALS: Cyclical bottoming after June pullbacks - Cycle backdrop remains bullish

- Investors remain understandably cautious heading into 2H 2020 following the unprecedented volatility of a Q1 crash and Q2 rebound. Equity markets are likely to remain choppy in Q3, but the longer-term cycle backdrop remains supportive of higher equity levels and we continue to caution clients from becoming overly defensive.
- Favoring a balanced portfolio of both secular and cyclical growth with cyclicals now timely** – In our June 9 note ([here](#)) we outlined the likelihood for equity leadership to ebb and flow between secular and cyclical growth with cyclicals likely to pullback after their May surge. Now however, equity markets in general, and cyclicals specifically, are showing evidence of bottoming short-term near rising 50-dma's following pullbacks through June.
- Ideas: Cyclicals are showing evidence of bottoming at important technical support**, most near rising 50-and/or 200-dma's with early evidence of relative performance improving. **Airlines (JBLU, ALK)**, Industrials (**CMI, PCAR**), Rails (**KSU, CSX**), Homebuilders (**DHI, LEN**), Retail (**BBY, DLTR**), Cruise lines (**CCL, RCL**), Chemicals (**LYB, LIN**), Electrical Components: (**APH, TEL**), Semis (**MCHP, TXN, XLNX, MU**), Communication Equipment (**CSCO, LITE**). [Slides 90-111](#)
- Where fund mandates allow, add more cyclicity to portfolios.** We fully appreciate many managers many not be interested in, or in the case of growth managers, may not have the latitude to invest in many of these names, notably the deeply oversold social distancing stocks. The key technical point, however, is that we continue to expect the leadership to ebb and flow between secular growth and cyclical growth through Q3 into YE/2021 with cyclicals incrementally carving out longer-term bottoming profiles. We view the recent pullback in more cyclical stocks to be a timely entry point to increase exposure.
- Growth stocks are now less timely – Wait for pullbacks/pauses in Q3 to increase exposure** - Growth stocks rallied strongly into quarter-end but are becoming overbought short-term and likely to pause/pullback in early Q3. However, while pullbacks would not be surprising, the longer-term technical profiles remains bullish as illustrated by **AMZN, NFLX, BABA, PYPL, ADBE** and **EBAY** emerging from multi-year trading ranges. [Slides 112-118](#)
- The debate: New bull cycle or bear market rally - Our view: New bull cycle** - After a historic rebound in Q2, weekly momentum indicators, tracking 1-2 quarter shifts, are overbought as many markets rally back to their March break down levels. The bearish case suggesting the Q2 rebound is failing is understandable but is not our view. Why? The long-term secular and 4-year cycle backdrop supports a case that the lows in March were major cycle lows and pullbacks in Q3 are likely to be shallow. [Slides 5-28](#)
- Today's note will be used during today's webinar to review our 2H 2020 Outlook

TECHNICAL STRATEGY

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inquiry@fsinsight.com | @rsluymer



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Technical Strategy

Secular Perspective – The Big Picture

4-year cycles within secular bull markets

The Current Cycle – Where are we now?

International Equity Markets

Rates, Currencies and Commodities

US Sector and Group Leadership

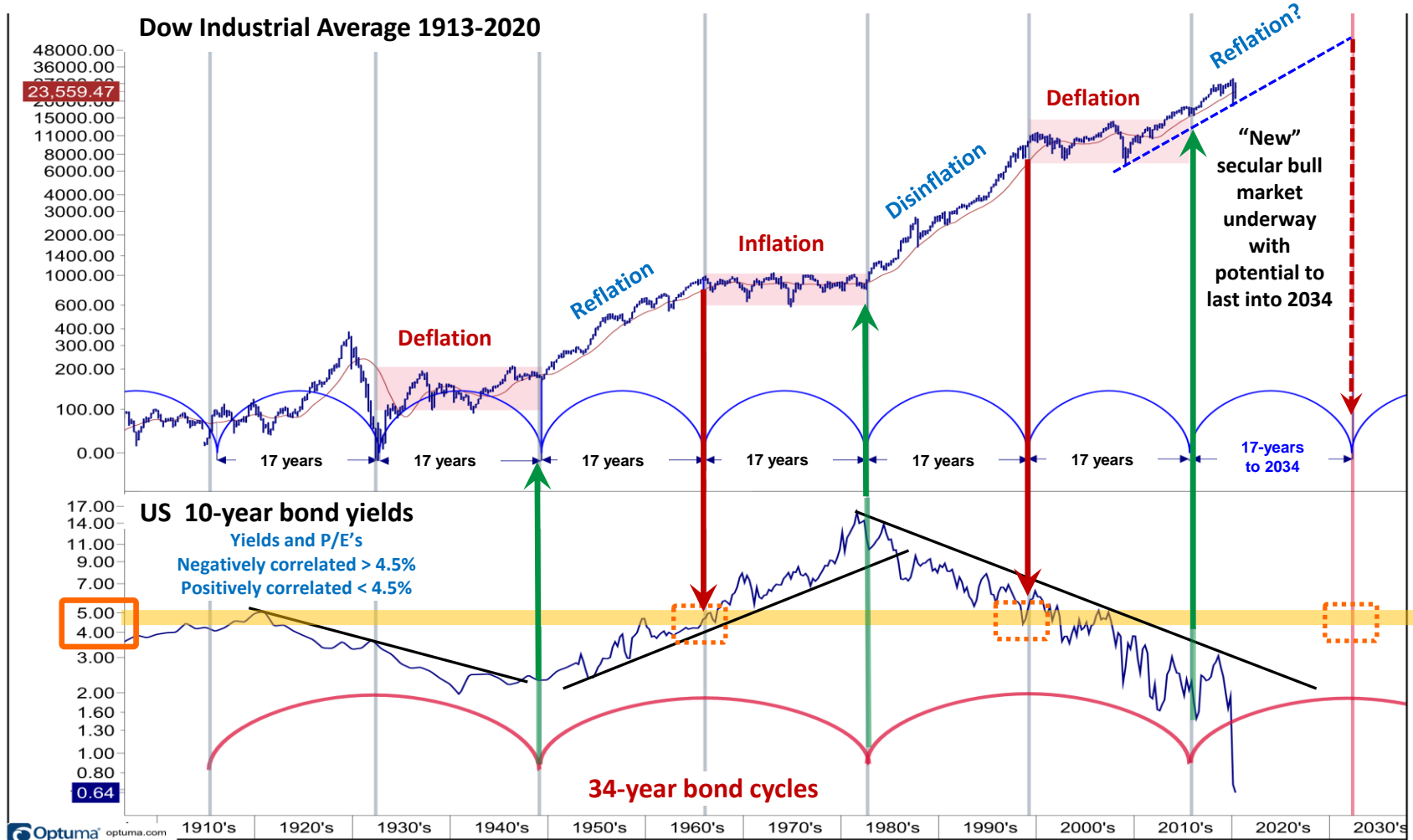
Equity Ideas charts

Appendix – Relative performance screens

Source: Fundstrat, Bloomberg, Optuma

Dow and 10-year Bond Yield with 34 & 17-year cycles

Secular uptrend underway for equities intact potentially lasting into late 2020s/early 2030s

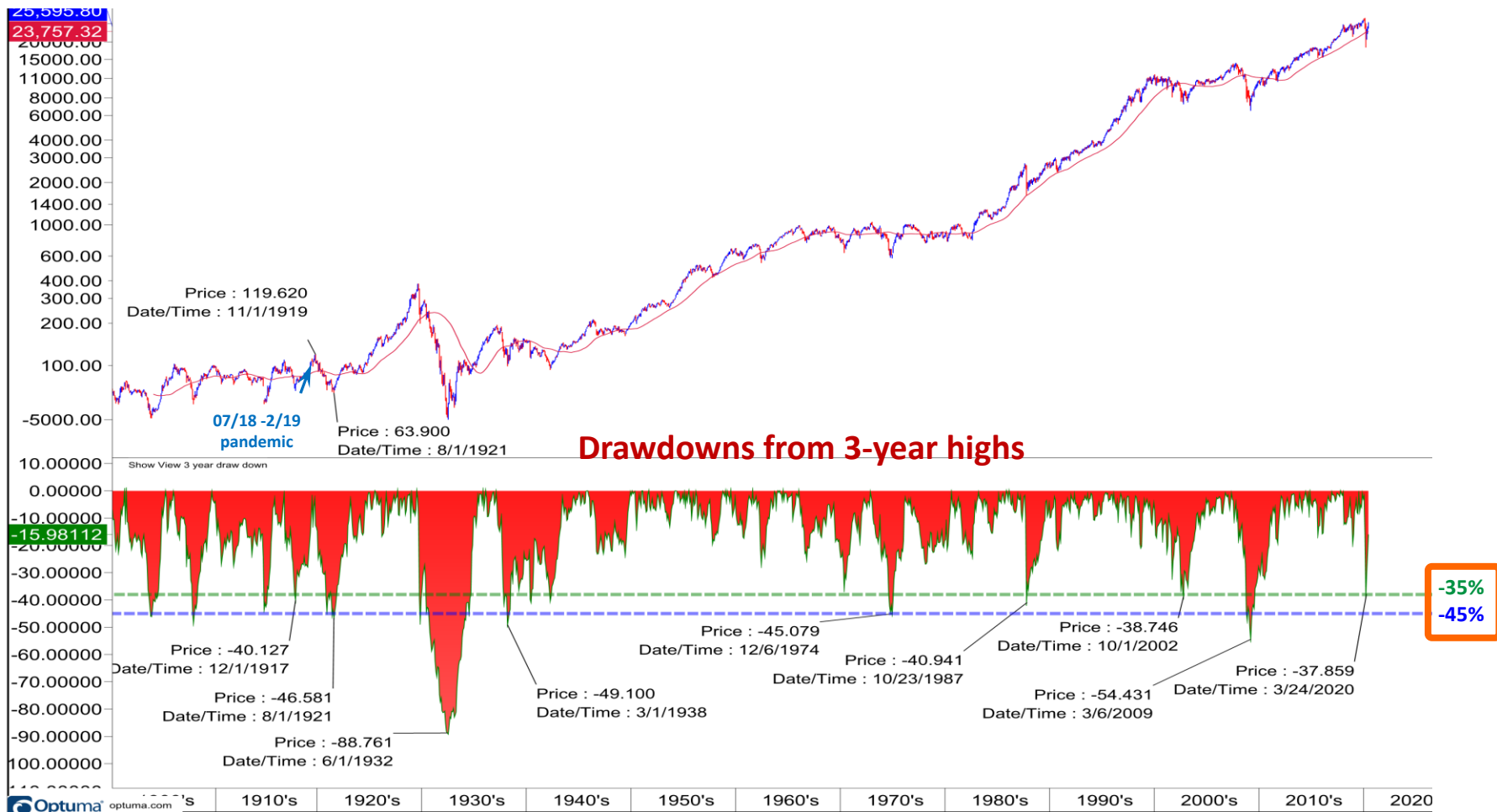


Dow Jones Industrial Index 1900-2020

Outside of 1929, drawdowns from 3-year highs <-35% are near major cycle lows

Outside of the 1929 decline, major bear markets <-35% did not remain in negative territory for very long. A multi-week/multi-month bottoming period is likely needed in Q2 for many stocks, but 9-month forward returns are positive notably after 1945 at the index level

See next page for forward return profiles following <-35% drawdowns



Source: Fundstrat, Bloomberg, Optuma

Dow Industrial index

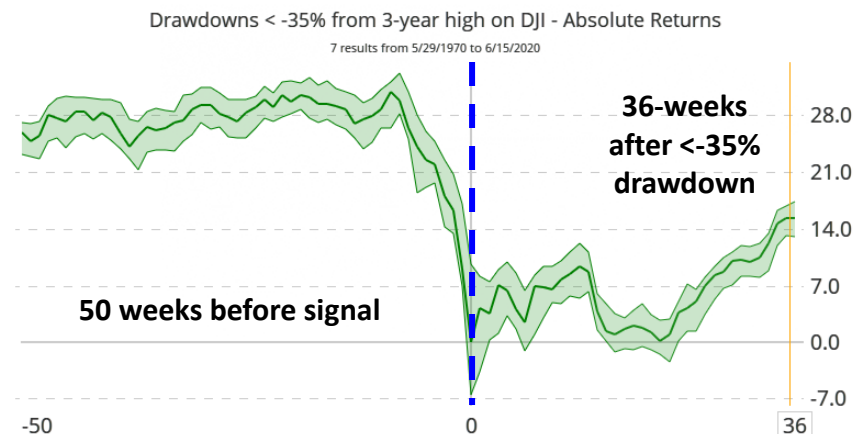
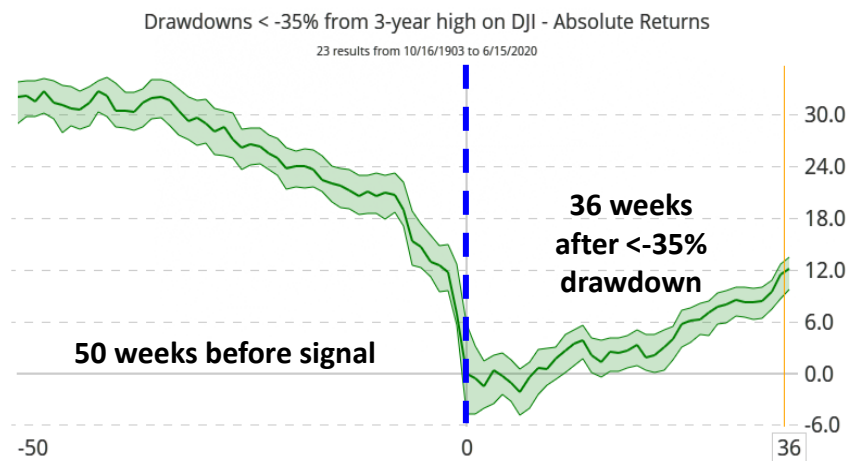
36-week forward returns following <-35% drawdown from 3-year highs

1900-2020

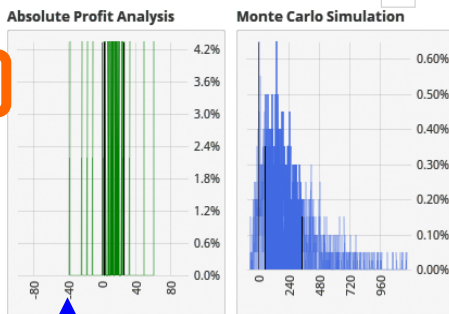
Probability of gain = 81%
 Average 9-month forward return = 12%

1945-2020

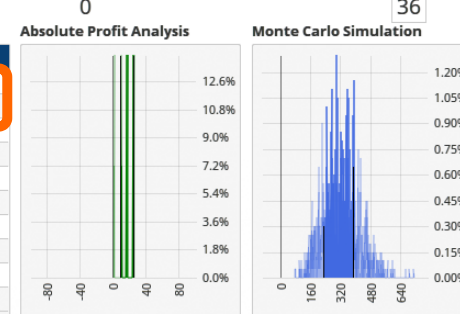
Probability of gain = 100%
 Average 9-month return = 15%



| Statistics | Abs Signal | Index | MC Sim |
|---------------------|------------|-------|---------|
| Probability of Gain | 81.82% | | 91.05% |
| Probability of Loss | 18.18% | | 8.95% |
| Mean Return | 12.13% | | 208.50% |
| Median Return | 14.86% | | 164.42% |
| 80th Percentile | 23.54% | | 339.64% |
| 20th Percentile | 1.05% | | 46.53% |
| Skewness | -0.22 | | 1.55 |
| Kurtosis | 3.52 | | 6.61 |
| Standard Deviation | 22.09% | | 198.09% |



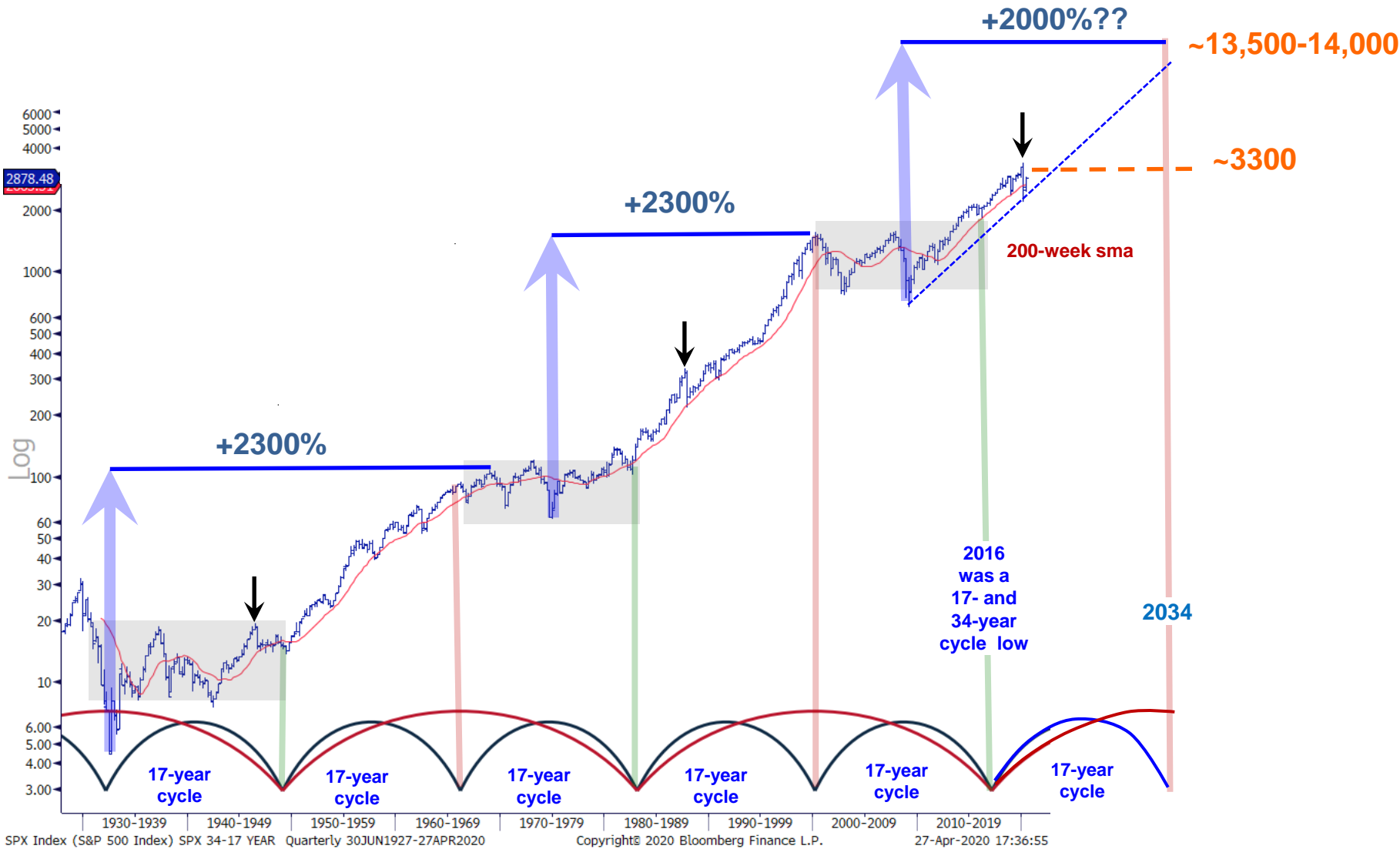
| Statistics | Abs Signal | Index | MC Sim |
|---------------------|------------|-------|---------|
| Probability of Gain | 100.00% | | 100.00% |
| Probability of Loss | 0.00% | | 0.00% |
| Mean Return | 15.26% | | 313.86% |
| Median Return | 16.26% | | 308.30% |
| 80th Percentile | 23.54% | | 389.07% |
| 20th Percentile | 9.27% | | 231.66% |
| Skewness | -0.46 | | 0.37 |
| Kurtosis | 2.03 | | 3.01 |
| Standard Deviation | 9.03% | | 93.53% |



Source: Fundstrat, Bloomberg, Optima

S&P 500: Secular Perspective

If past is prologue to the future, how far could equities rally?



Source: Fundstrat, Bloomberg, Optuma

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4-year cycles within secular bull markets

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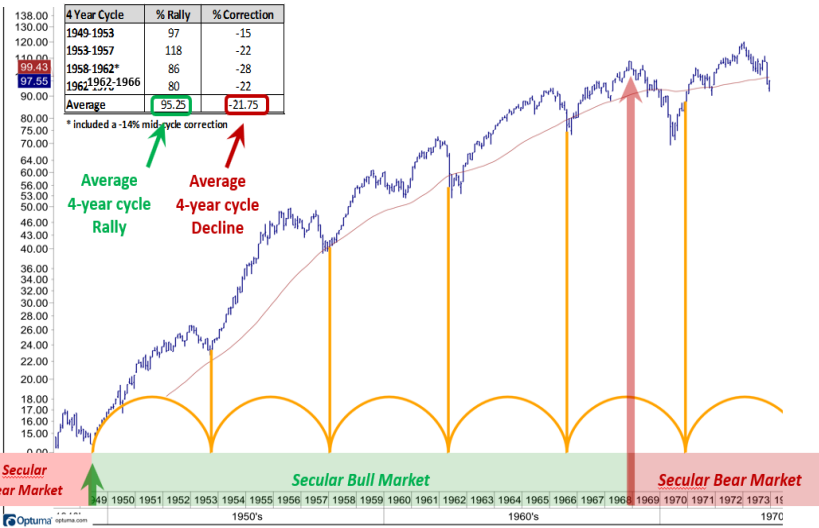
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Appendix – Relative performance screens

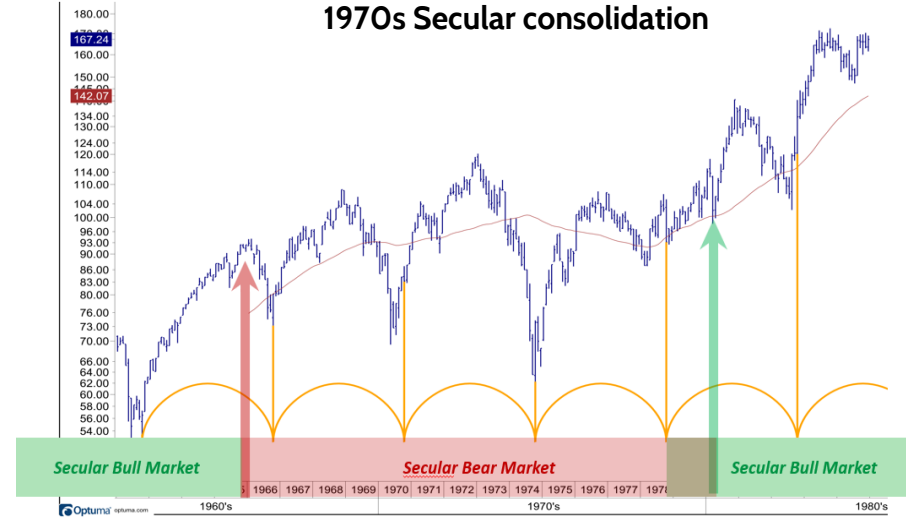
Source: Fundstrat, Bloomberg, Optuma

S&P 500 and 4-year cycles

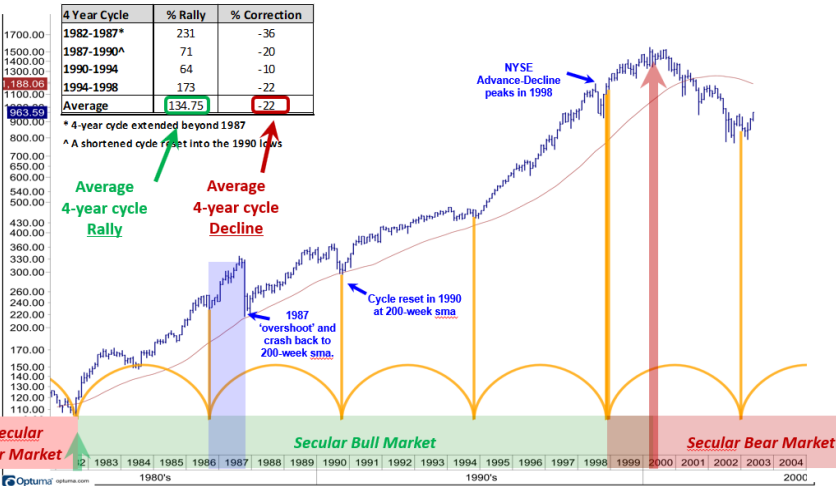
S&P 500: 4-year cycle - 1950s-1960s



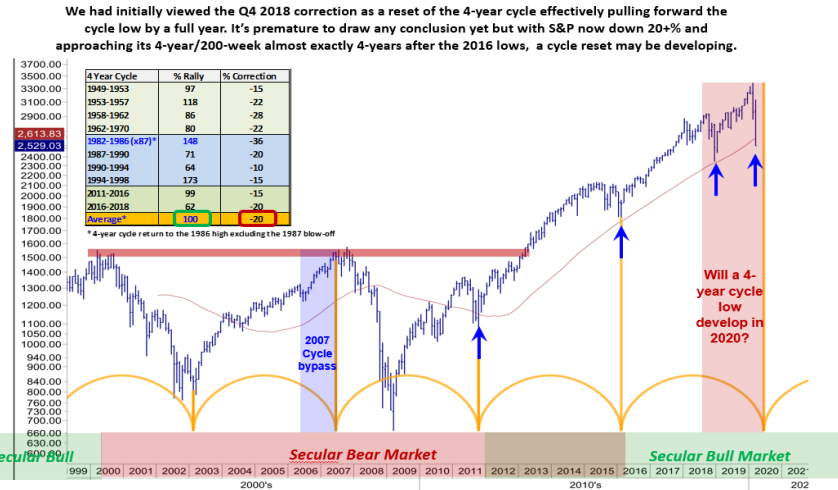
S&P 500: 4-year cycle 1970s Secular consolidation



S&P 500: 4-year cycle - 1980s-1990s



S&P 500: 4-year cycle - 2000s



Source: Fundstrat, Bloomberg, Optuma

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Select US Sectors & Groups

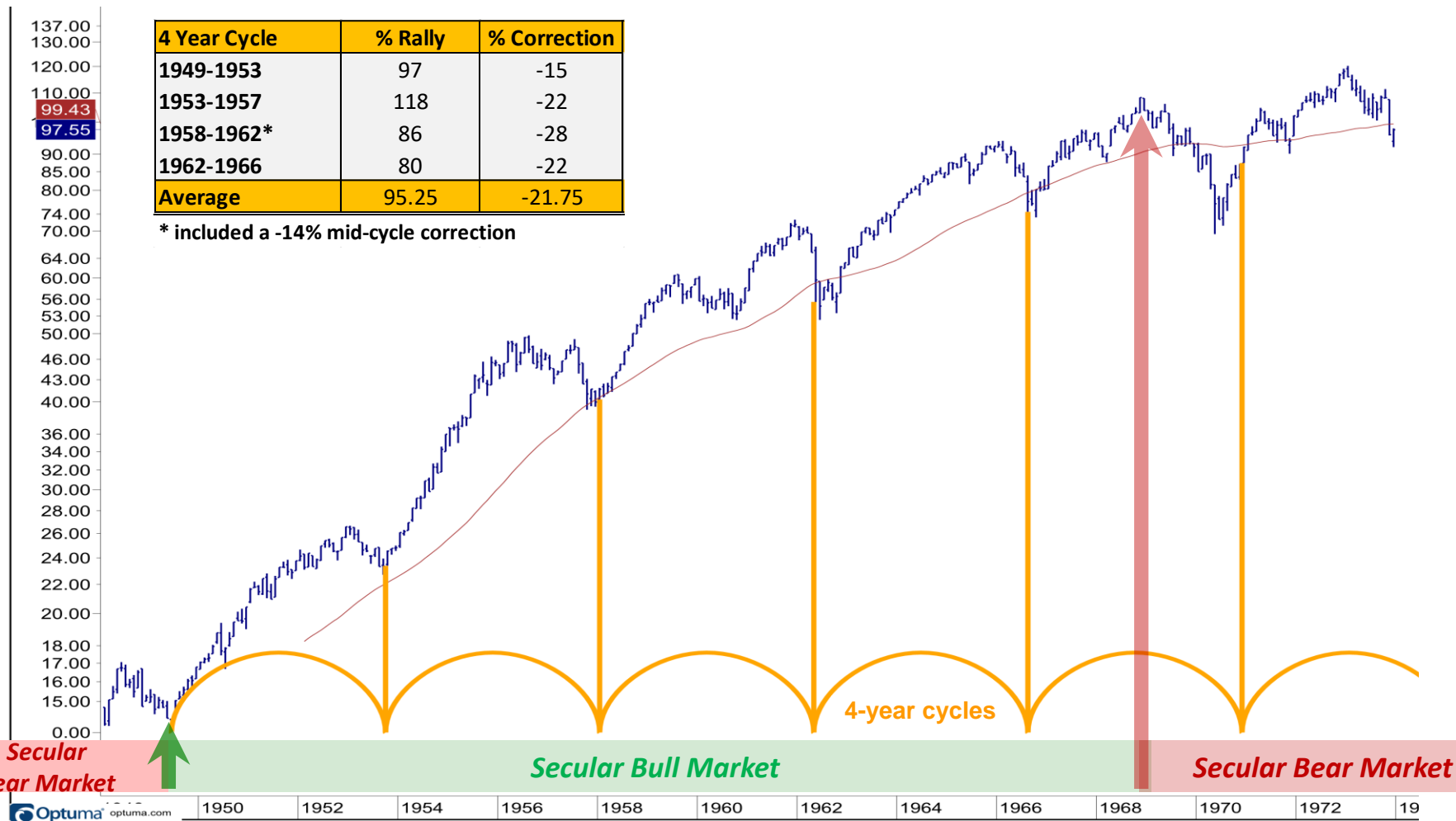
RBC WM Equity Ideas

Appendix

Source: Fundstrat, Bloomberg, Optuma

S&P 500: 4- year cycle – 1950s-1960s

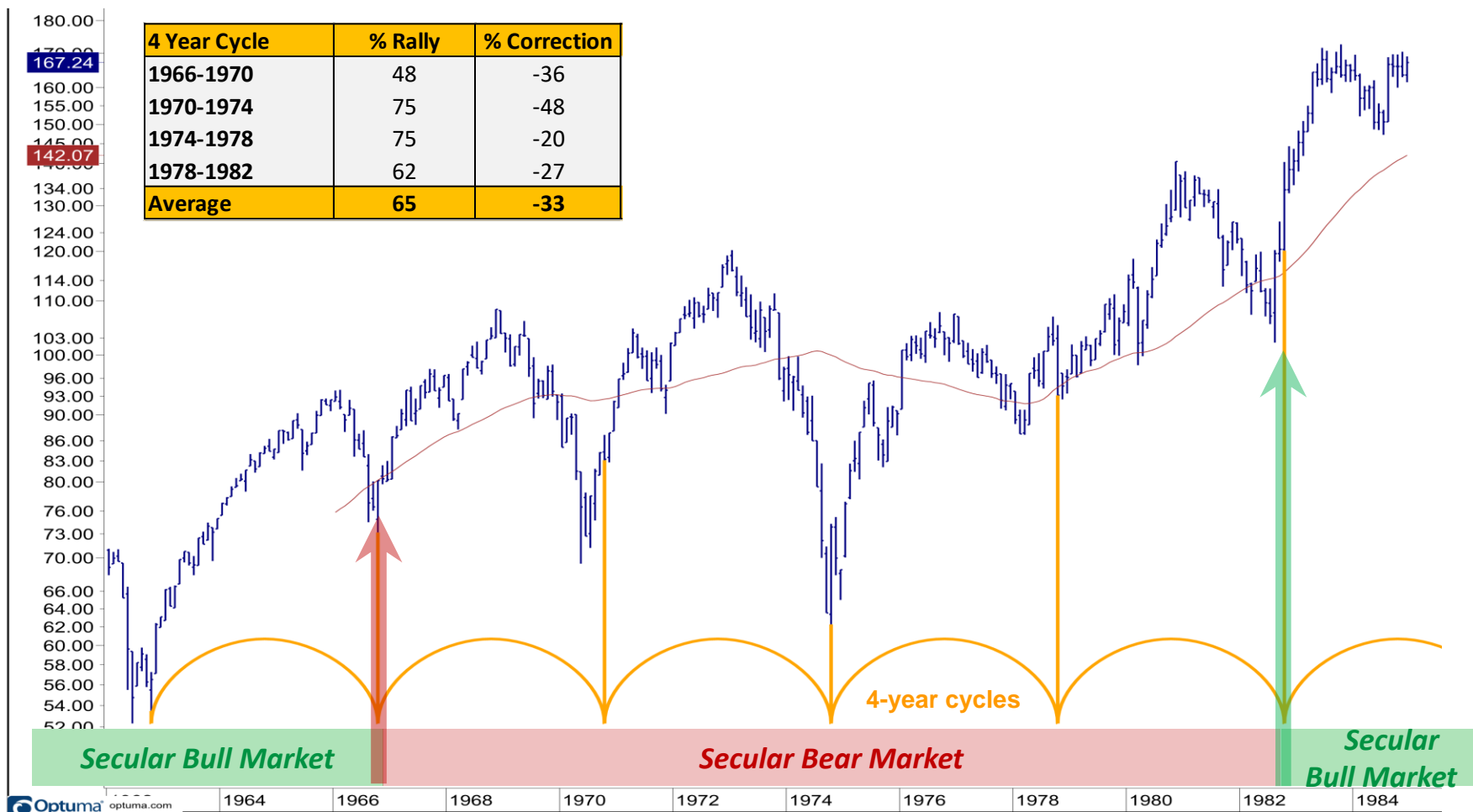
4-year cycle lows regularly developed near the rising 200-week sma during the secular bull market of the 1950s-1960s. 1958, 1962 and 1966 had temporary declines below the 200-week sma before bottoming/recovering 3-5 month later



Source: Fundstrat, Bloomberg, Optuma

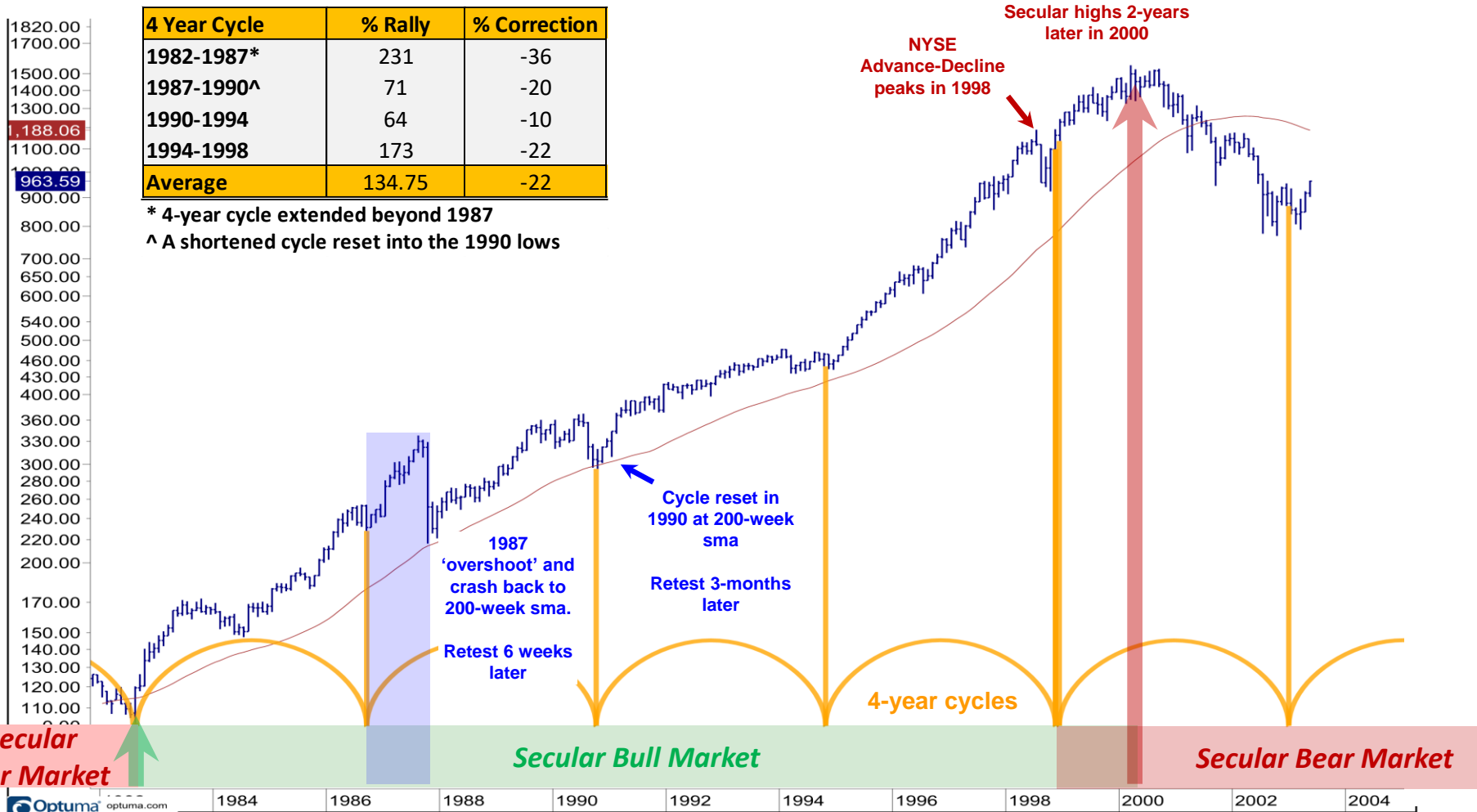
S&P 500: 4- year cycle - 1970s

The bear markets of the 1970s bottomed near 4-year cycle inflections but did so much farther below the 200-week sma



S&P 500: 4- year cycle – 1980s-1990s

Similar to the secular uptrend of the 1950s-1960s, 4-year cycle lows developed near the rising 200-week sma during the 1980s-1990s



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Source: Fundstrat, Bloomberg, Optuma

S&P 500: 4-year cycles in 2000-2020

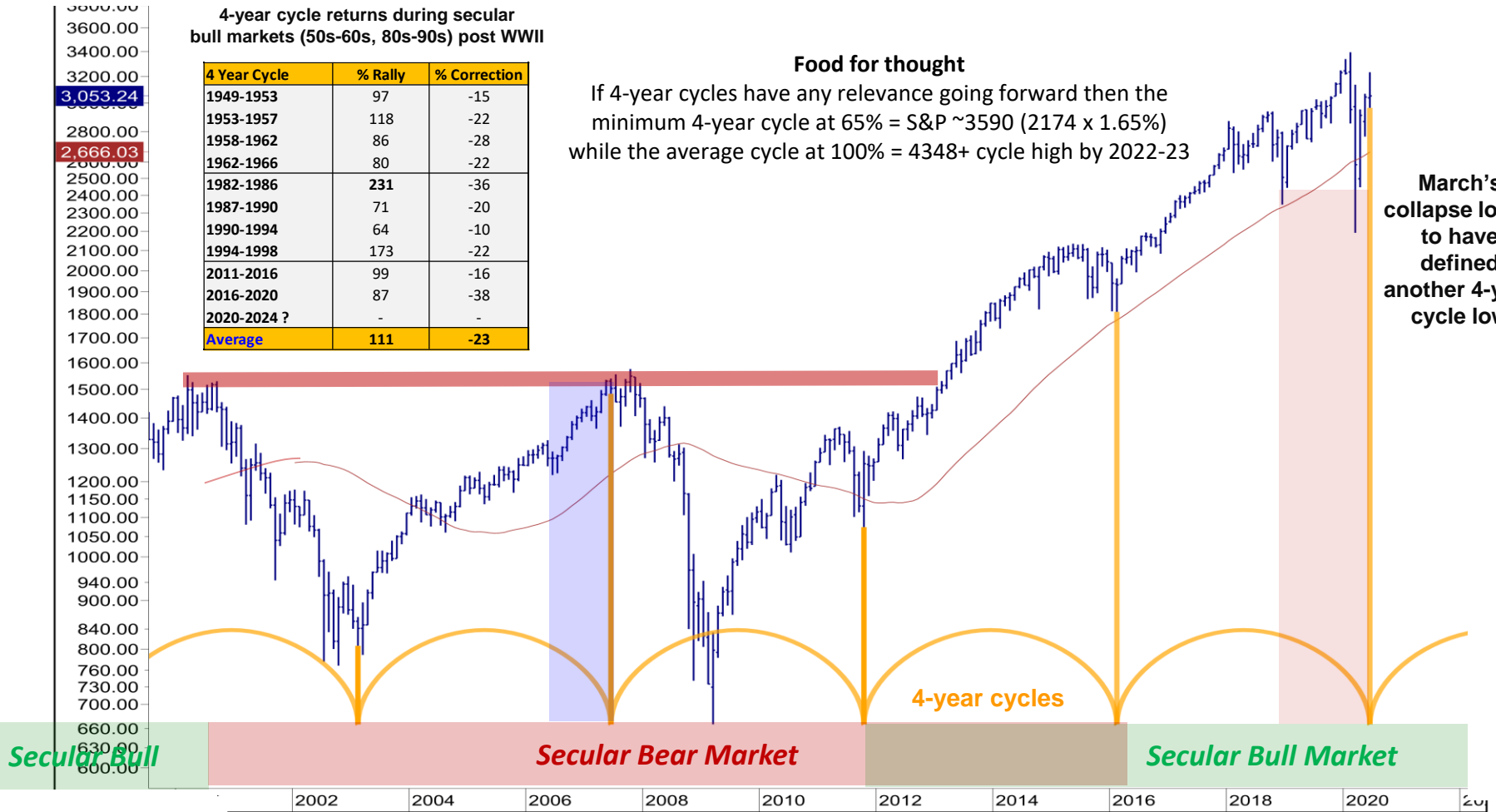
We had initially viewed the Q4 2018 correction as a reset of the 4-year cycle effectively pulling forward the cycle low by a full year. After the Q1 -35% correction the question now is whether the S&P is in the process of establishing another cycle low? We view the Q1 2020 sell-off as having defined another 4-year cycle low.

4-year cycle returns during secular bull markets (50s-60s, 80s-90s) post WWII

| 4 Year Cycle | % Rally | % Correction |
|----------------|------------|--------------|
| 1949-1953 | 97 | -15 |
| 1953-1957 | 118 | -22 |
| 1958-1962 | 86 | -28 |
| 1962-1966 | 80 | -22 |
| 1982-1986 | 231 | -36 |
| 1987-1990 | 71 | -20 |
| 1990-1994 | 64 | -10 |
| 1994-1998 | 173 | -22 |
| 2011-2016 | 99 | -16 |
| 2016-2020 | 87 | -38 |
| 2020-2024 ? | - | - |
| Average | 111 | -23 |

Food for thought

If 4-year cycles have any relevance going forward then the minimum 4-year cycle at 65% = S&P ~3590 (2174 x 1.65%) while the average cycle at 100% = 4348+ cycle high by 2022-23



March's collapse looks to have defined another 4-year cycle low

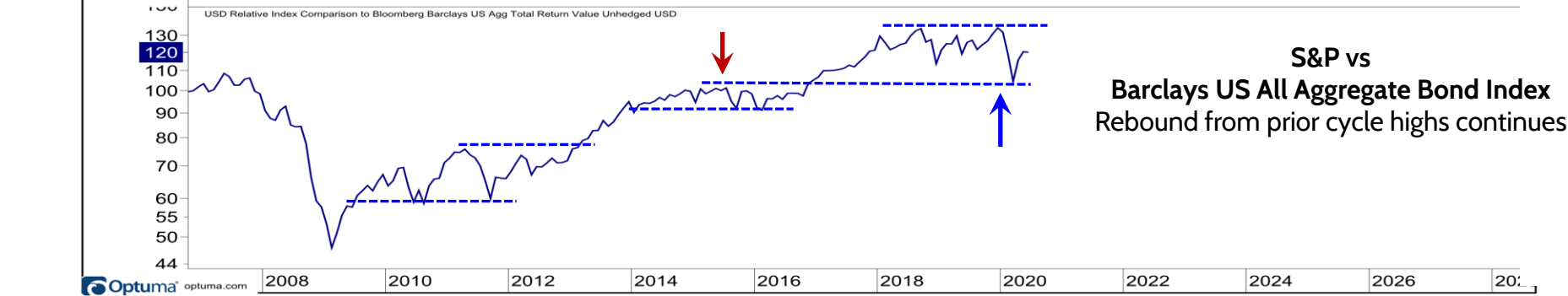
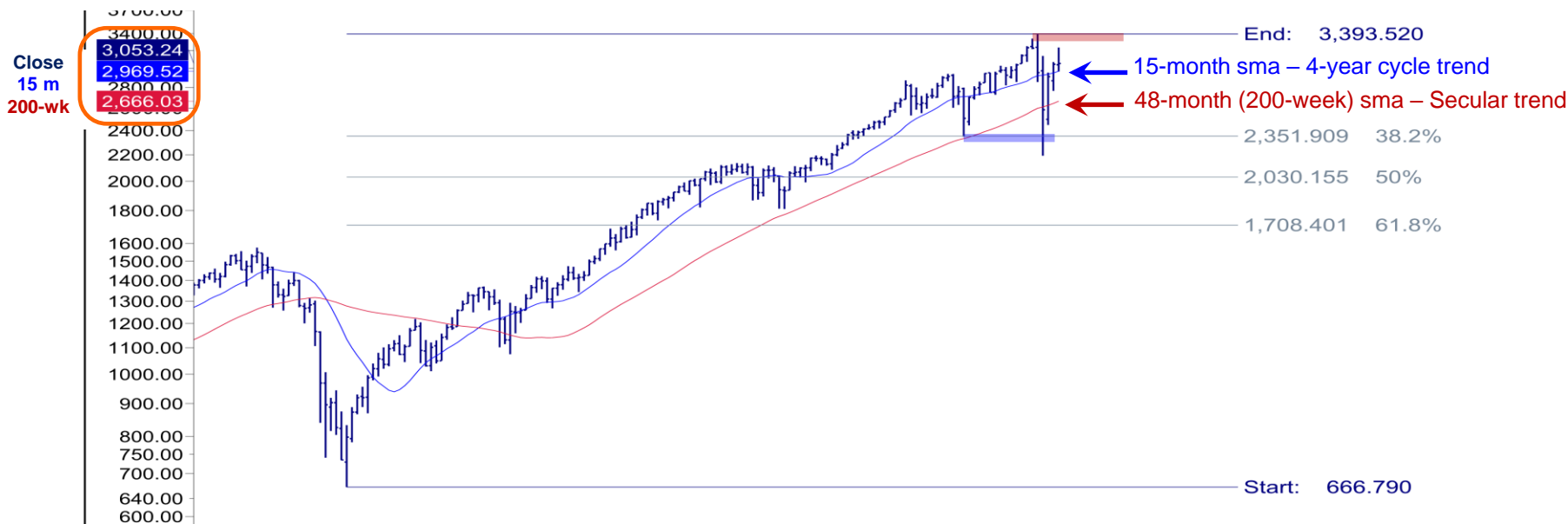
Source: Fundstrat, Bloomberg, Optuma

S&P 500 – 2006-2020

The long-term trend remains positive with the S&P 500 back above two key cycle moving averages:

In April, the S&P rallied back above the 200-week sma which is a proxy for the secular uptrend

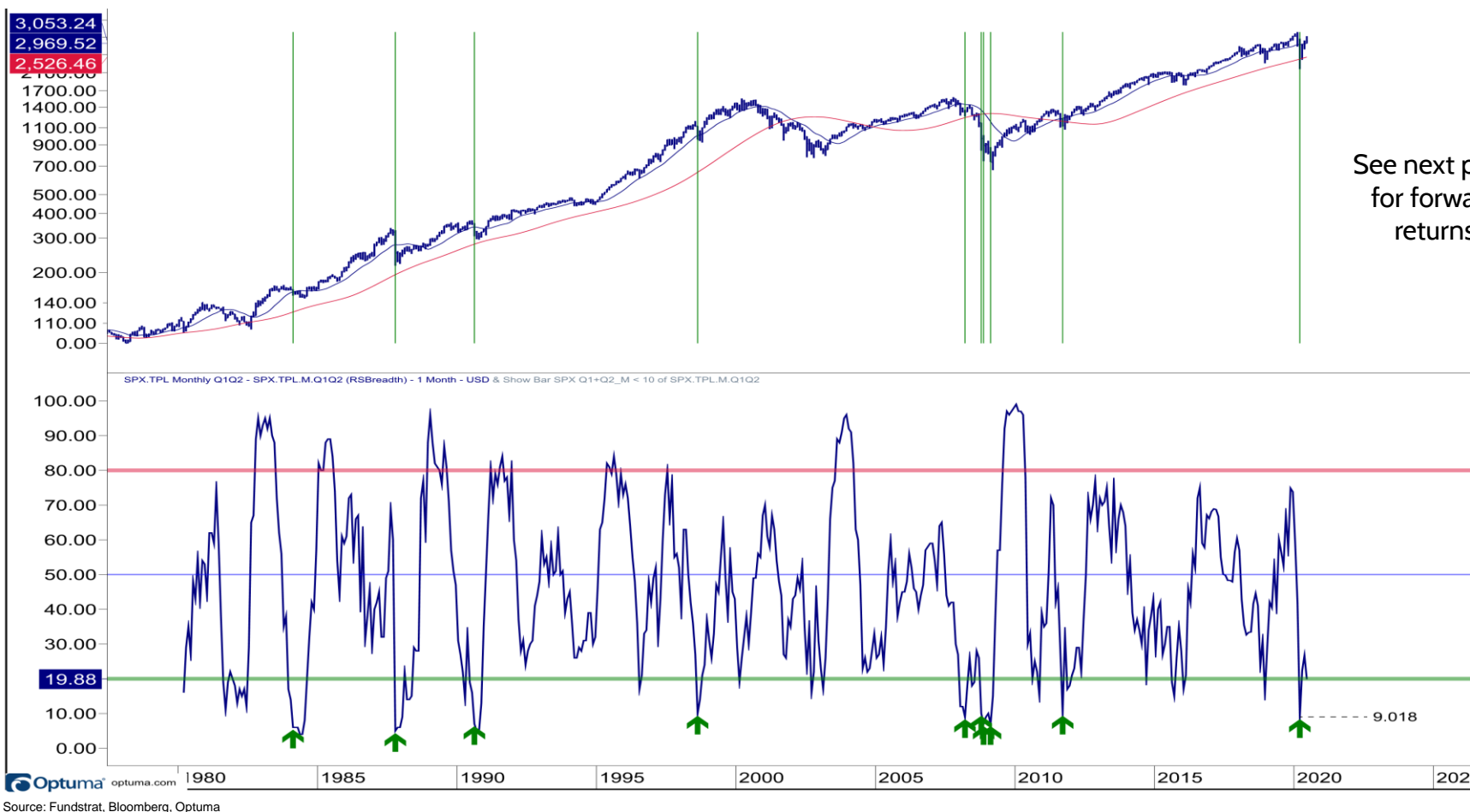
In May, the S&P recaptured the 15-month sma which is a proxy for most cyclical (2-4 year) bull cycles



S&P 500 - Long-term - Monthly

Monthly internals building positively from extreme oversold levels reached in March <10%

Our monthly Quadrant Balance, measuring the percentage of stocks with rising monthly momentum, was under 10% at the end of March. While our sample set is small, such oversold readings generally define a major cycle lows ex 01/2008.



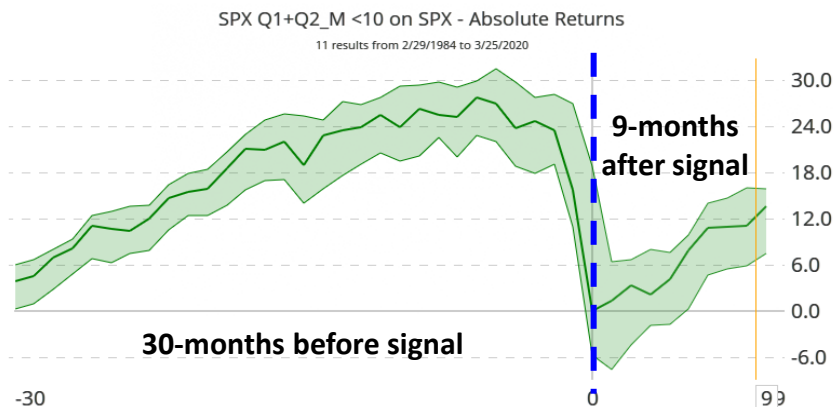
See next page
for forward
returns

S&P forward returns after Monthly Quadrant Balance <10% and > 30%

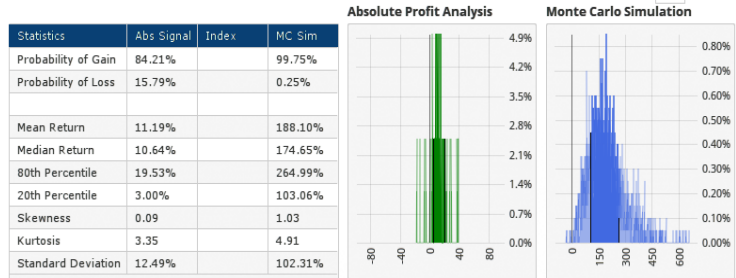
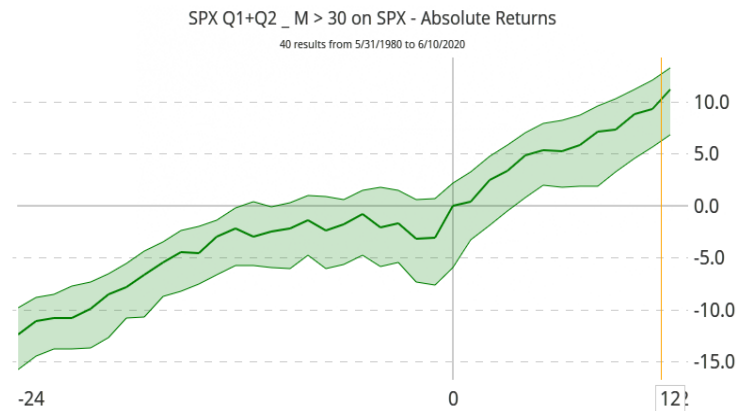
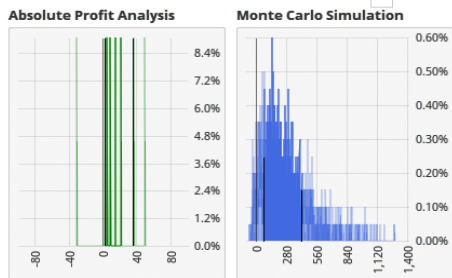
Monthly Quadrant Balance Oscillator measures the percentage of stocks with rising monthly momentum.

In our 3/24 note we highlighted the **positive** forward return profile when our Monthly Quadrant Balance data fell below 10%. For reference, on 4/24 the monthly data was at an extreme low at 4%

Now, with the Monthly Quadrant Balance building to the upside and above 30%, what do the forward returns look like for all instances where the data was > 30%? Still positive 12-months forward!



| Statistics | Abs Signal | Index | MC Sim |
|---------------------|------------|--------|---------|
| Probability of Gain | 88.89% | 93.25% | |
| Probability of Loss | 11.11% | 6.75% | |
| Mean Return | 13.62% | | 256.35% |
| Median Return | 13.88% | | 204.16% |
| 80th Percentile | 35.99% | | 421.93% |
| 20th Percentile | 1.93% | | 63.83% |
| Skewness | -0.44 | | 1.61 |
| Kurtosis | 3.15 | | 8.08 |
| Standard Deviation | 22.82% | | 232.48% |



Source: Fundstrat, Bloomberg, Optuma

S&P 500 - Weekly

The debate: Peak or pause? - Weekly momentum, tracking 1-2 quarter shifts, is now overbought.

In strong trending markets momentum will decelerate and turn down but remain above its zero axis.

If the recent bounce is a bear market bounce (not our view) then it should start to deteriorate from current levels and would need to break below the May lows and rising 200-week sma to (2700-2800) to signal a failing rebound



Source: Fundstrat, Bloomberg, Optuma

S&P 500 - 2015-2020

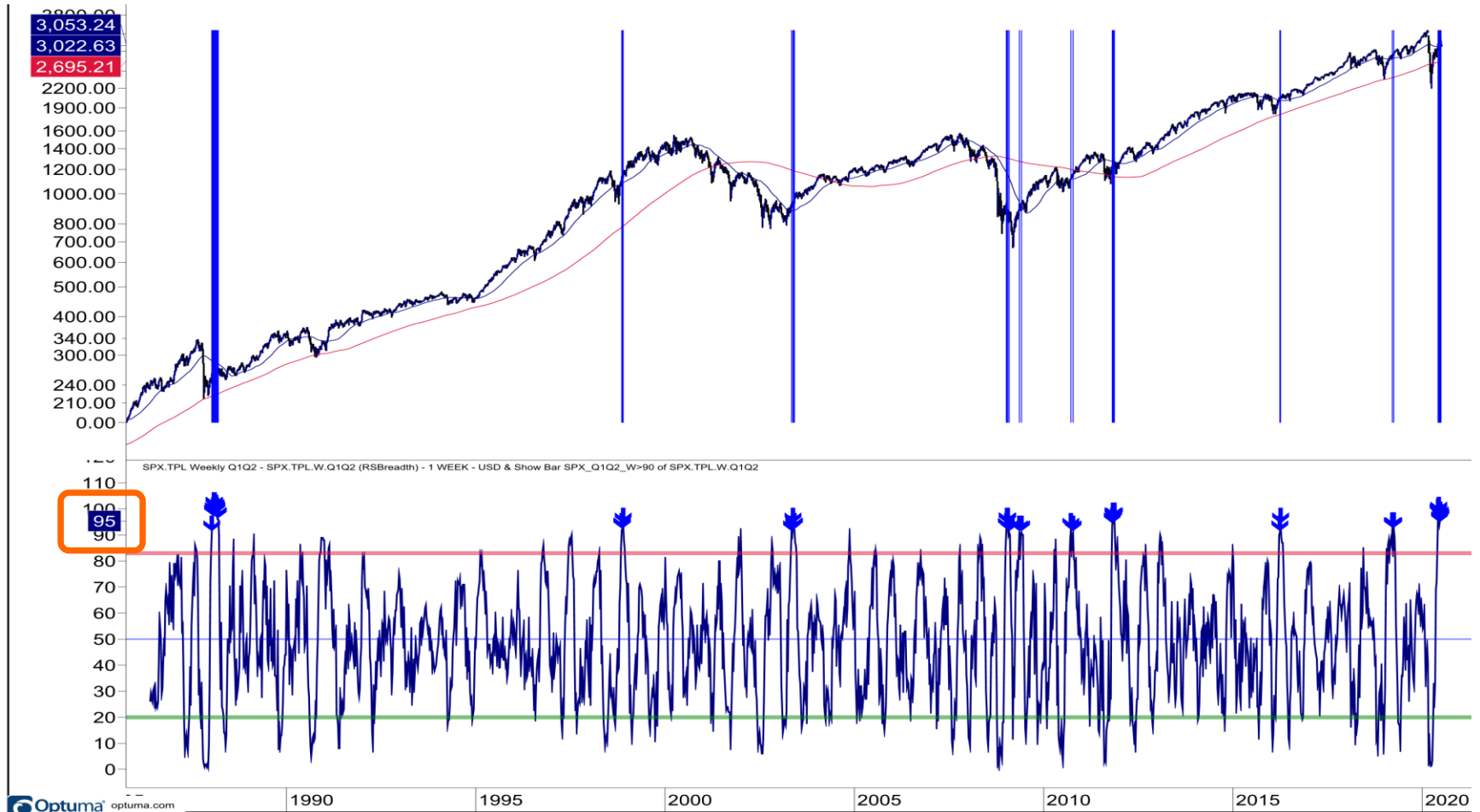
Weekly quadrant balance momentum (bottom panel), measuring the percentage of stocks with positive weekly momentum, has risen to over 90% raising concerns by some investors the market is overbought and poised to correct. On the next 2 pages we review the longer-term implications of this indicator.



S&P Weekly Quadrant Balance > 90%

Weekly Quadrant Balance Oscillator measures the percentage of stocks with rising weekly momentum is currently at 95% from a high of 98%. Such high readings have often developed shortly after major cycle lows.

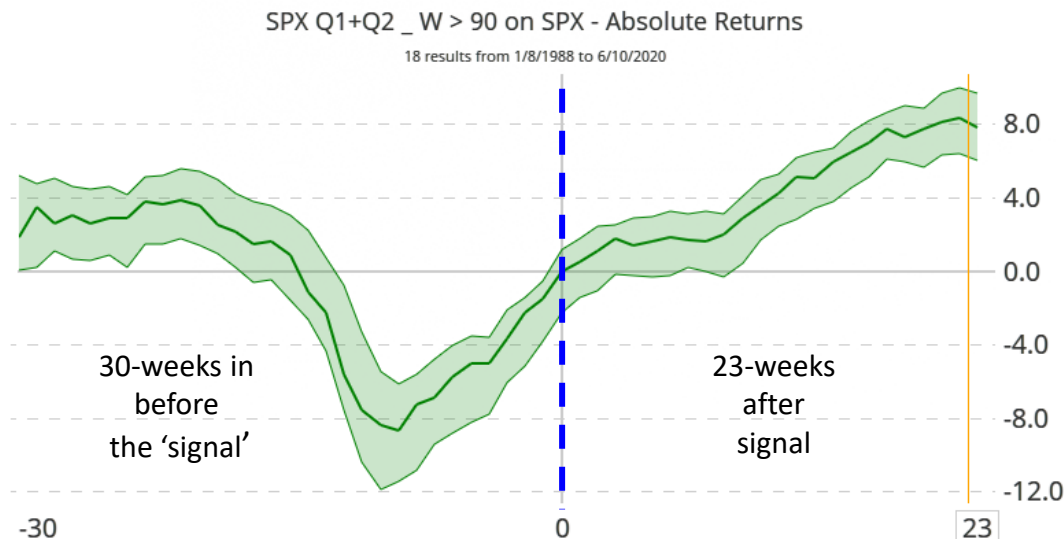
See next page for forward return profiles



Optuma optuma.com
Source: Fundstrat, Bloomberg, Optuma

S&P forward returns after Quadrant Balance > 90%

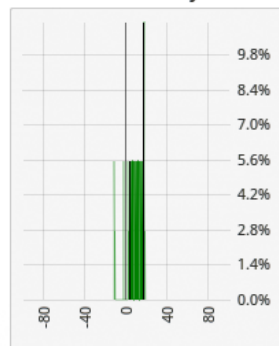
Weekly Quadrant Balance Oscillator measures the percentage of stocks with rising weekly momentum



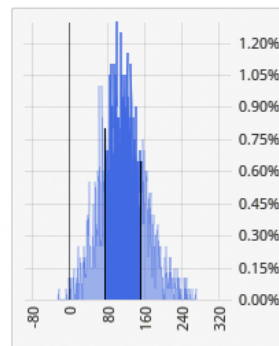
- Since 1988 there have been 18 times the weekly quadrant balance data crossed above 90%, mostly clustered shortly after 10 cycle lows.
- Forward returns over the following 23-weeks (YE 2020) returns were positive 88% of the time.

| Statistics | Abs Signal | Index | MC Sim |
|---------------------|------------|-------|---------|
| Probability of Gain | 88.24% | | 99.70% |
| Probability of Loss | 11.76% | | 0.30% |
| Mean Return | 7.77% | | 113.30% |
| Median Return | 8.58% | | 111.16% |
| 80th Percentile | 15.60% | | 152.79% |
| 20th Percentile | 3.28% | | 74.02% |
| Skewness | -0.77 | | 0.22 |
| Kurtosis | 3.31 | | 2.92 |
| Standard Deviation | 7.75% | | 46.44% |

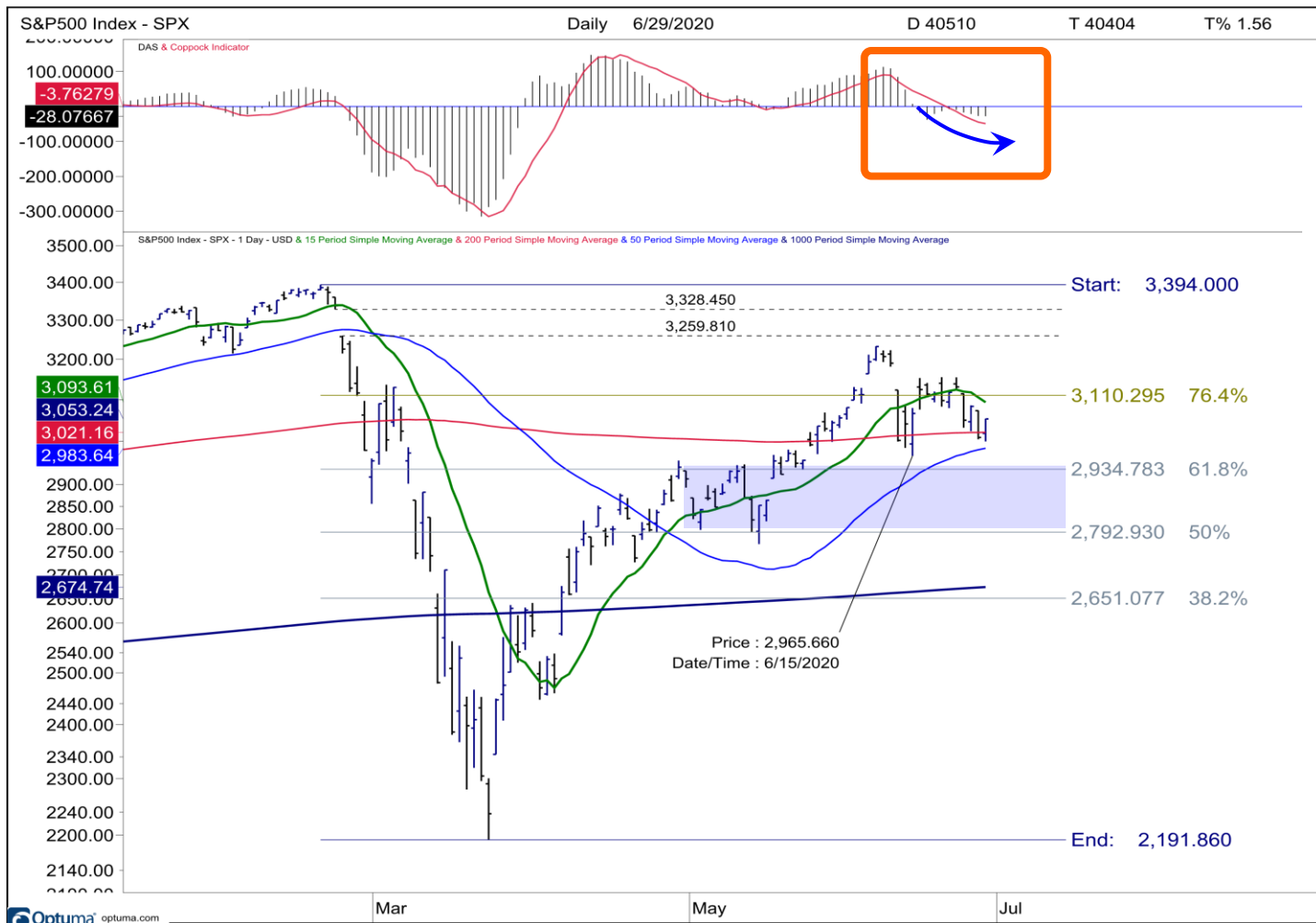
Absolute Profit Analysis



Monte Carlo Simulation



S&P 500 - Short-term lows developing



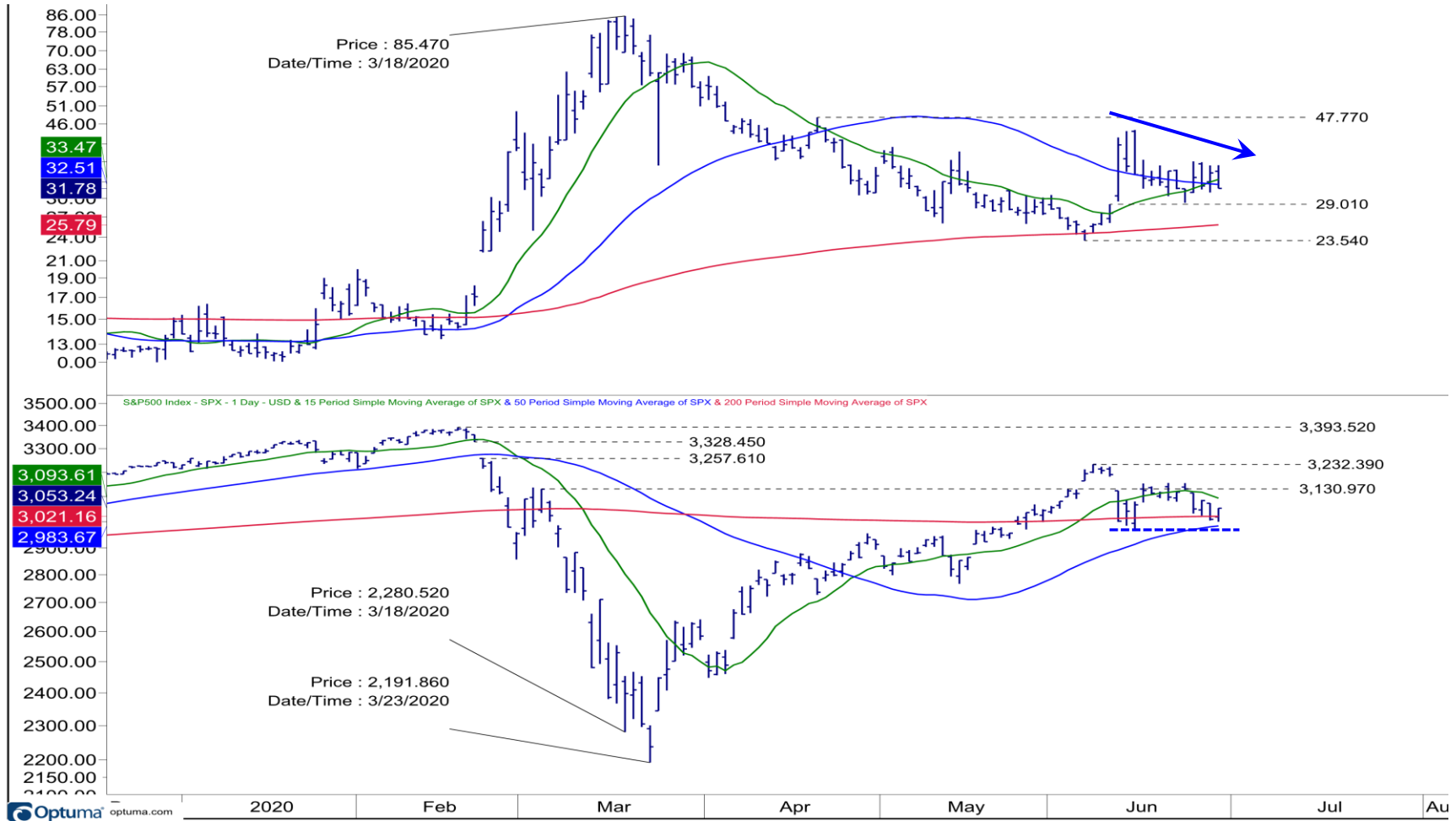
- Daily momentum, tracking 2-4 week swings, is within 1.56% of turning up from oversold levels.

- We expect another short-term rebound to develop from current levels above a broad support band starting between the 200-dma (3018), 50- dma (2952) down through the 50-62% retracement levels (2792-2934)

- Next resistance is at 3259-3528 followed by 3394.

VIX and S&P 500

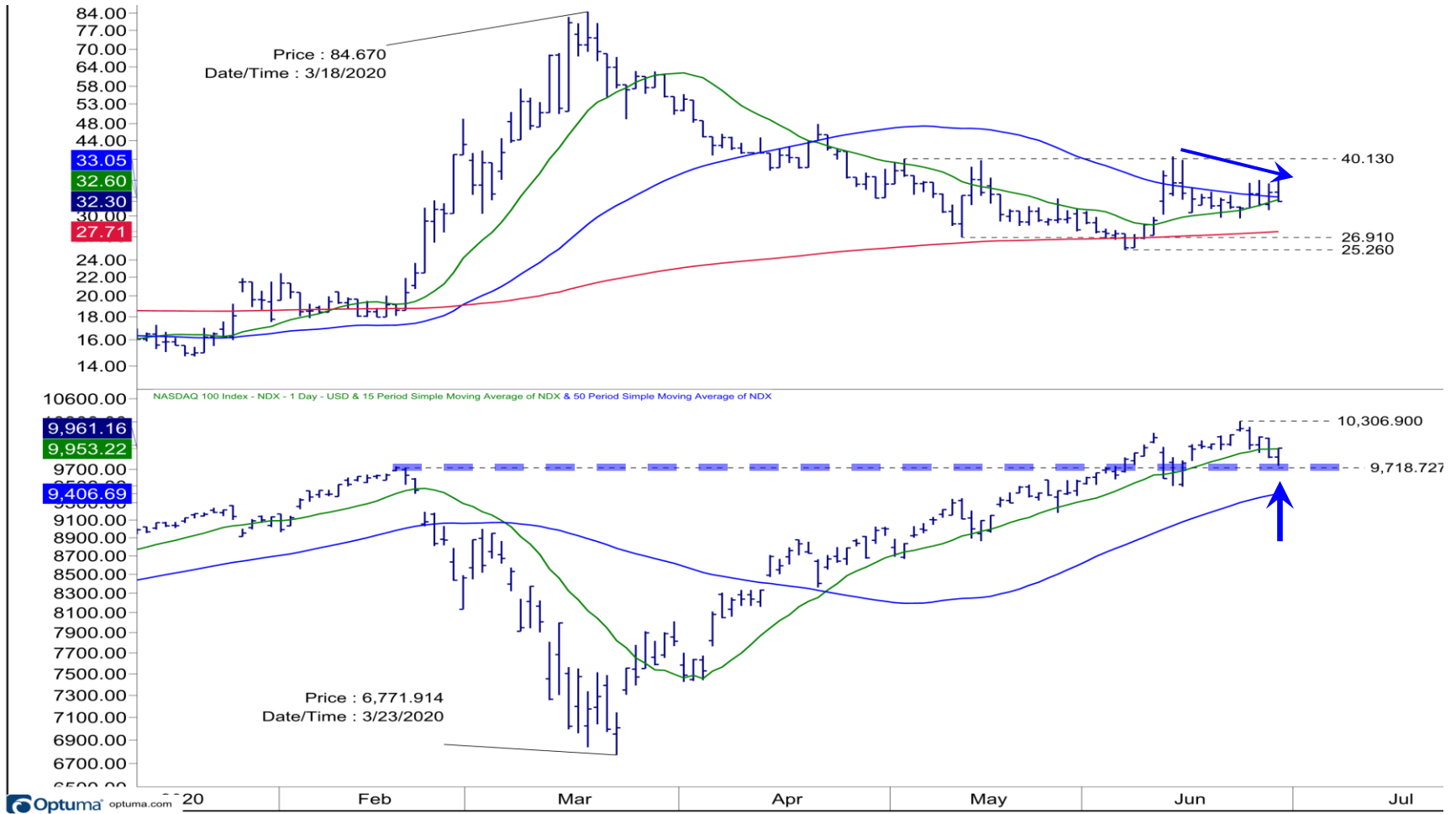
VIX is diverging (+) with lower highs as the S&P retests its June lows and 50-dma.



Source: Fundstrat, Bloomberg, Optuma

VXN (Nasdaq VIX) and NDX 100 Index

VXN stalling at under 40 after a brief rebound back to the May highs



Russell 2000 - Weekly - Pause or Peak?

The Russell 2000 has rallied back into heavy resistance near its 62-76% retracements. In addition weekly index momentum and Quadrant Balance data, measuring the percentage of Russell 2000 stocks with rising weekly momentum, is high/overbought but has yet to peak. In strong trending markets this data is likely to remain elevated particularly if the March lows define a major cycle low similar to early 2016.

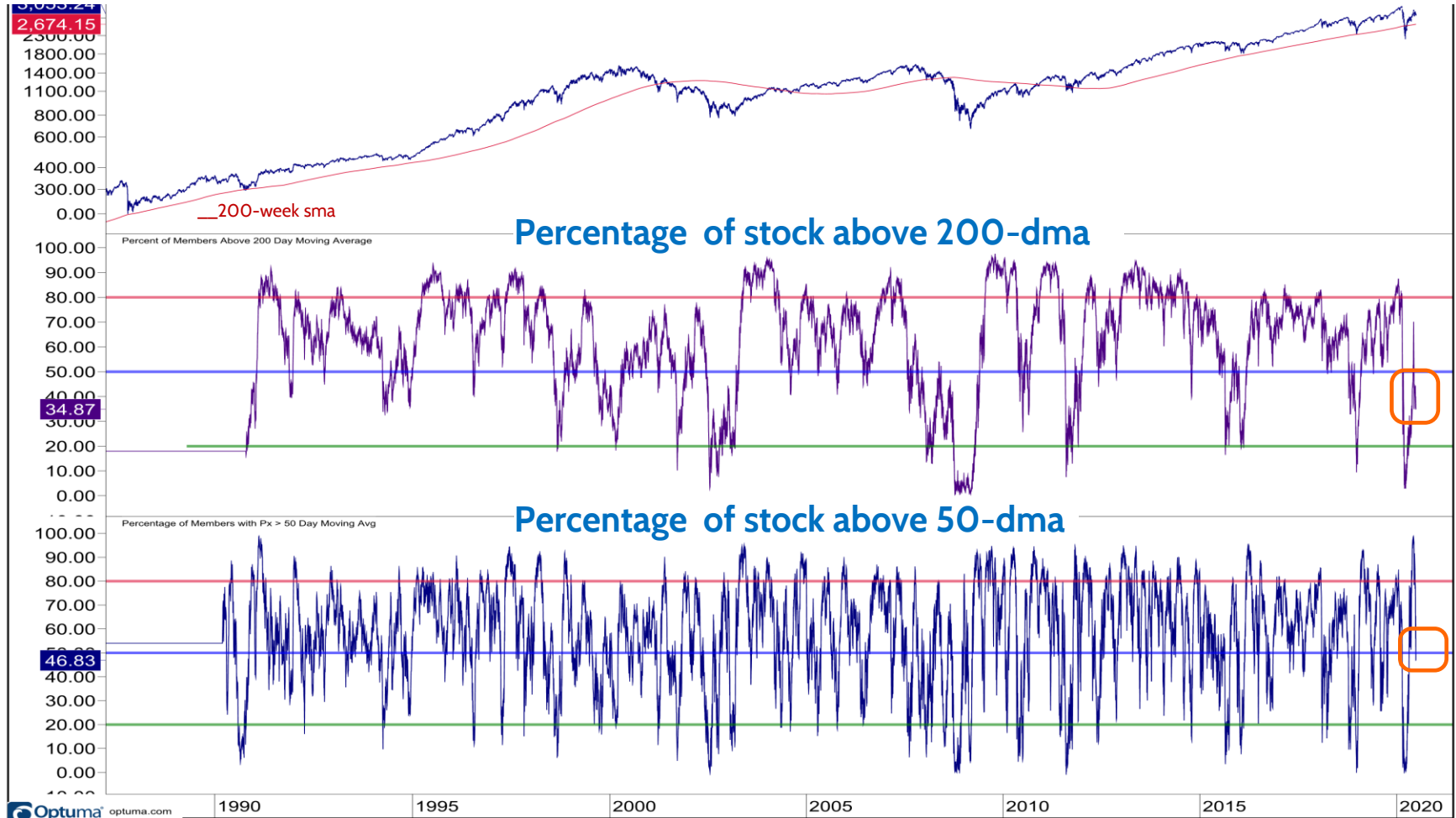


Russell 2000 - Short-term lows developing



S&P 500 - % of Stocks Above 200-dma and Above 50-dma

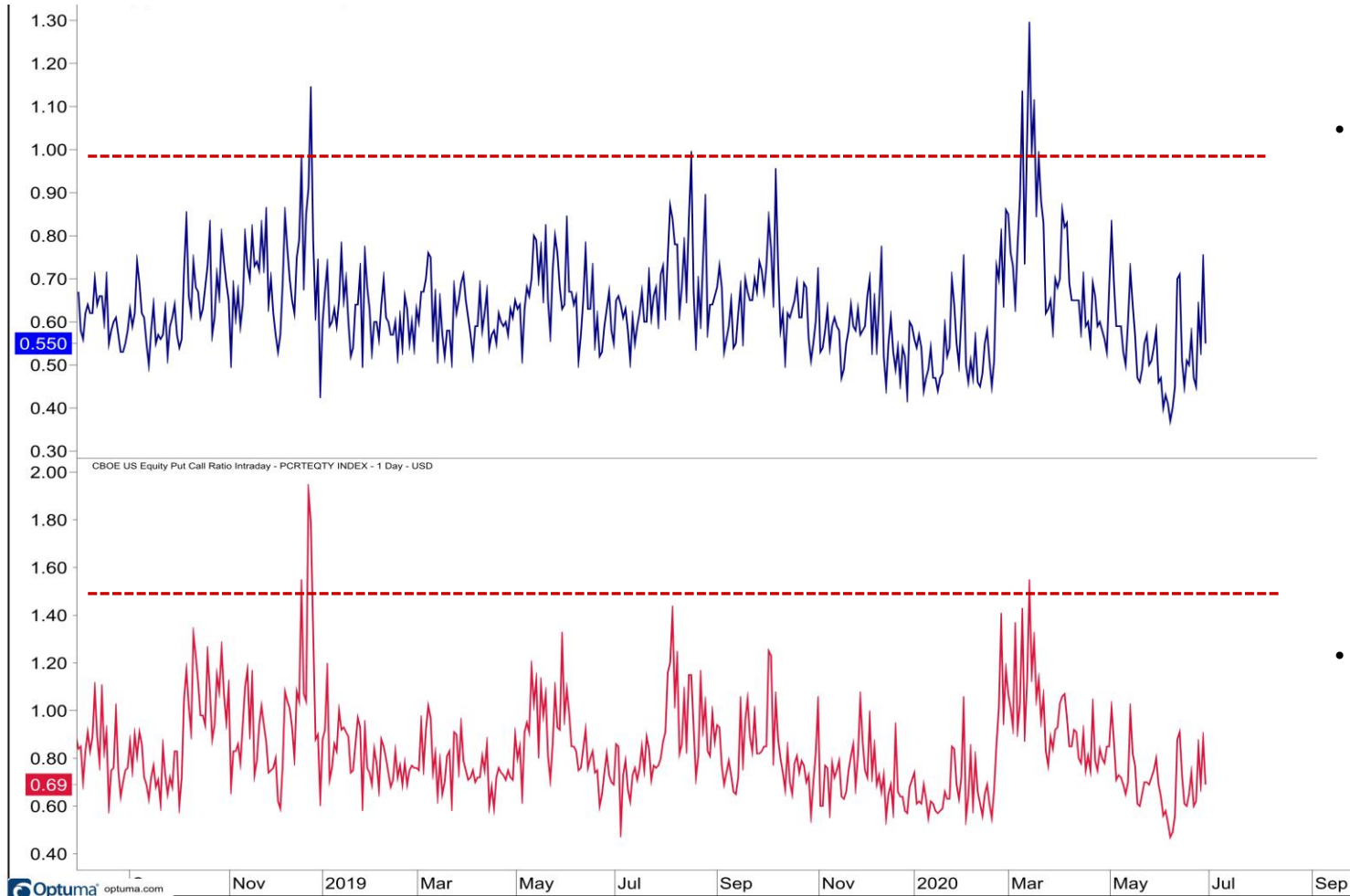
Overbought readings have returned toward neutral after the early Q2 surge



Optuma optuma.com
Source: Fundstrat, Bloomberg, Optuma

CBOE Put/Call

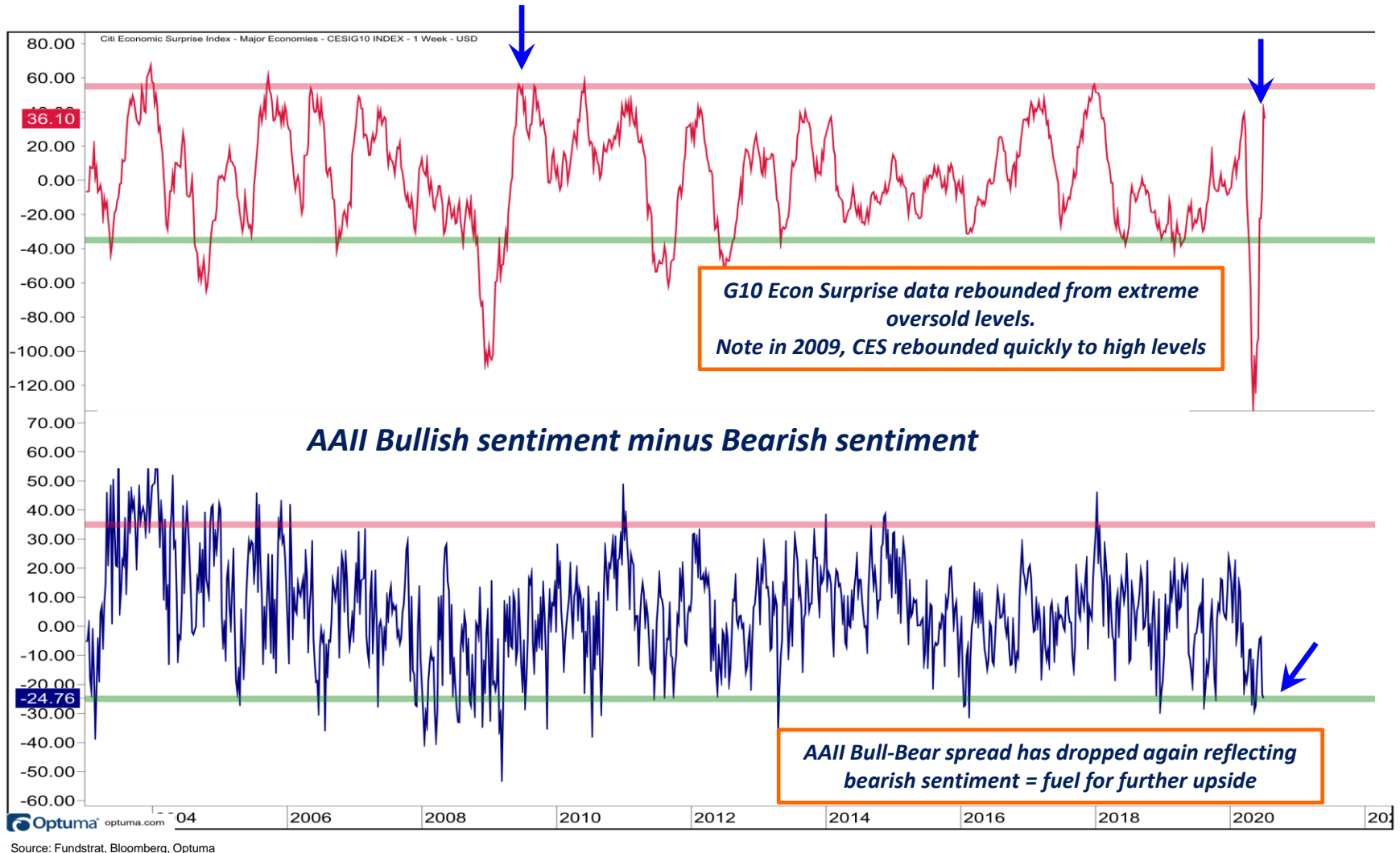
(+) Unwinding from recent new low extremes that developed in late May/early June



- Put Call Equity Ratio retreating from low 'overbought' levels

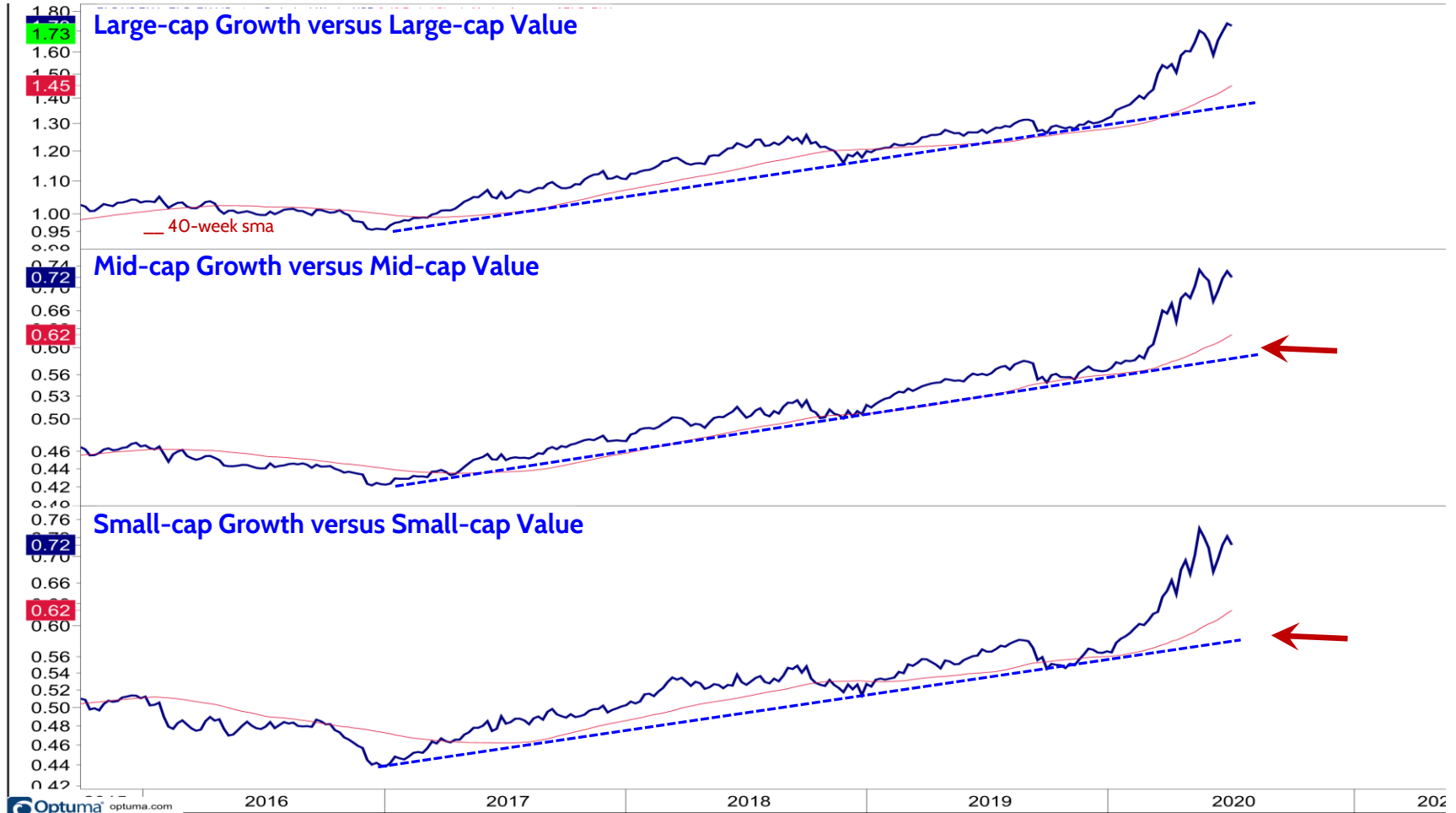
- Intra-day Put Call (includes ETFs etc) has also retreated from extreme lows

Citi G10 Economic Surprise AAII Bullish-Bearish Sentiment -



Growth versus Value – Weekly

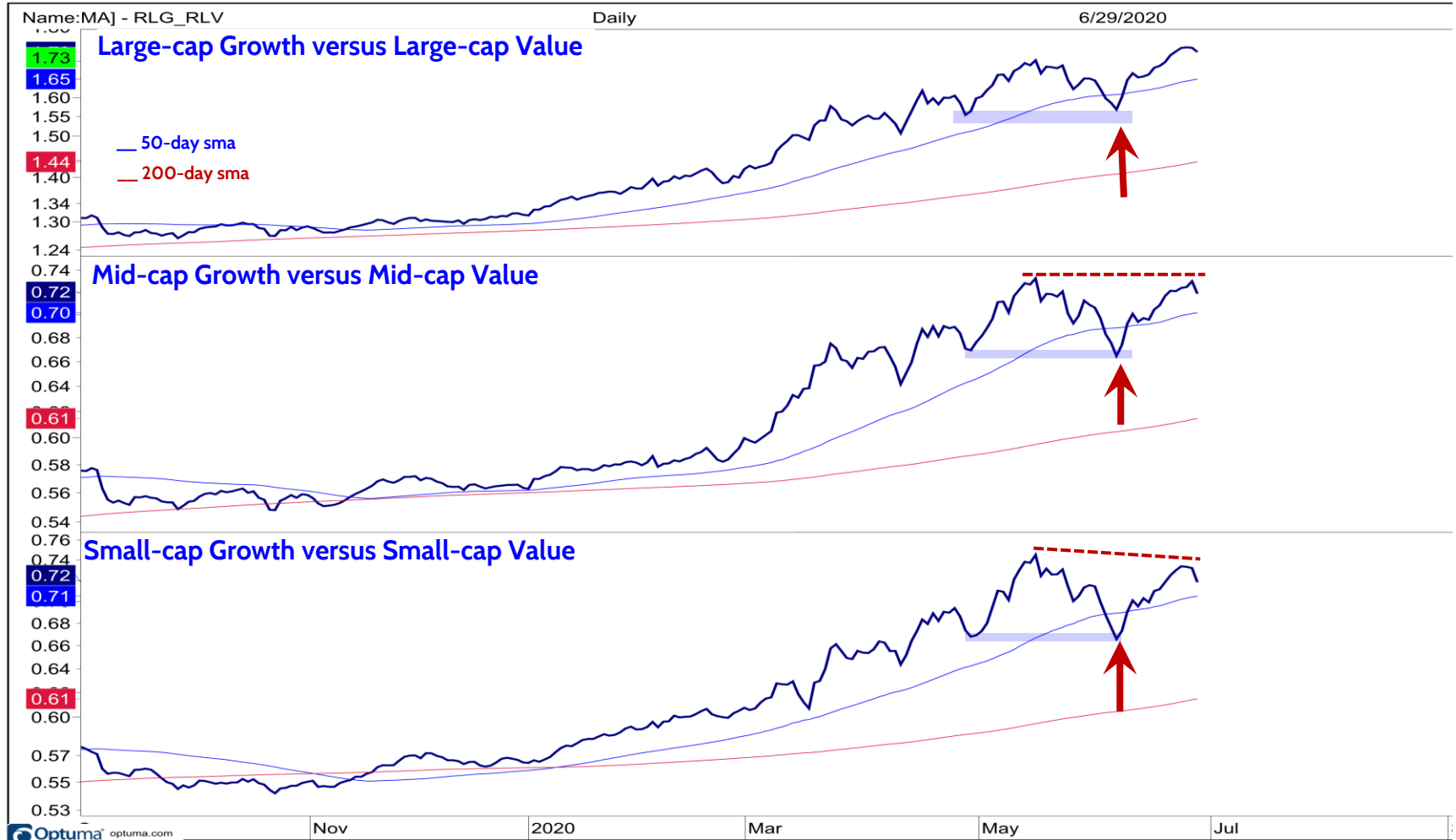
Growth vs Value uptrend pausing at advanced levels above trend



Source: Fundstrat, Bloomberg, Optuma

Growth versus Value – Daily

Short-term divergences in place - June lows define the key downside reversal level



Source: Fundstrat, Bloomberg, Optuma

S&P High Beta (SPHB) vs S&P Low Vol (SPLV) ETFs

High Beta pausing/pulling back after accelerating vs Low Volatility through the Q1 2020 highs!



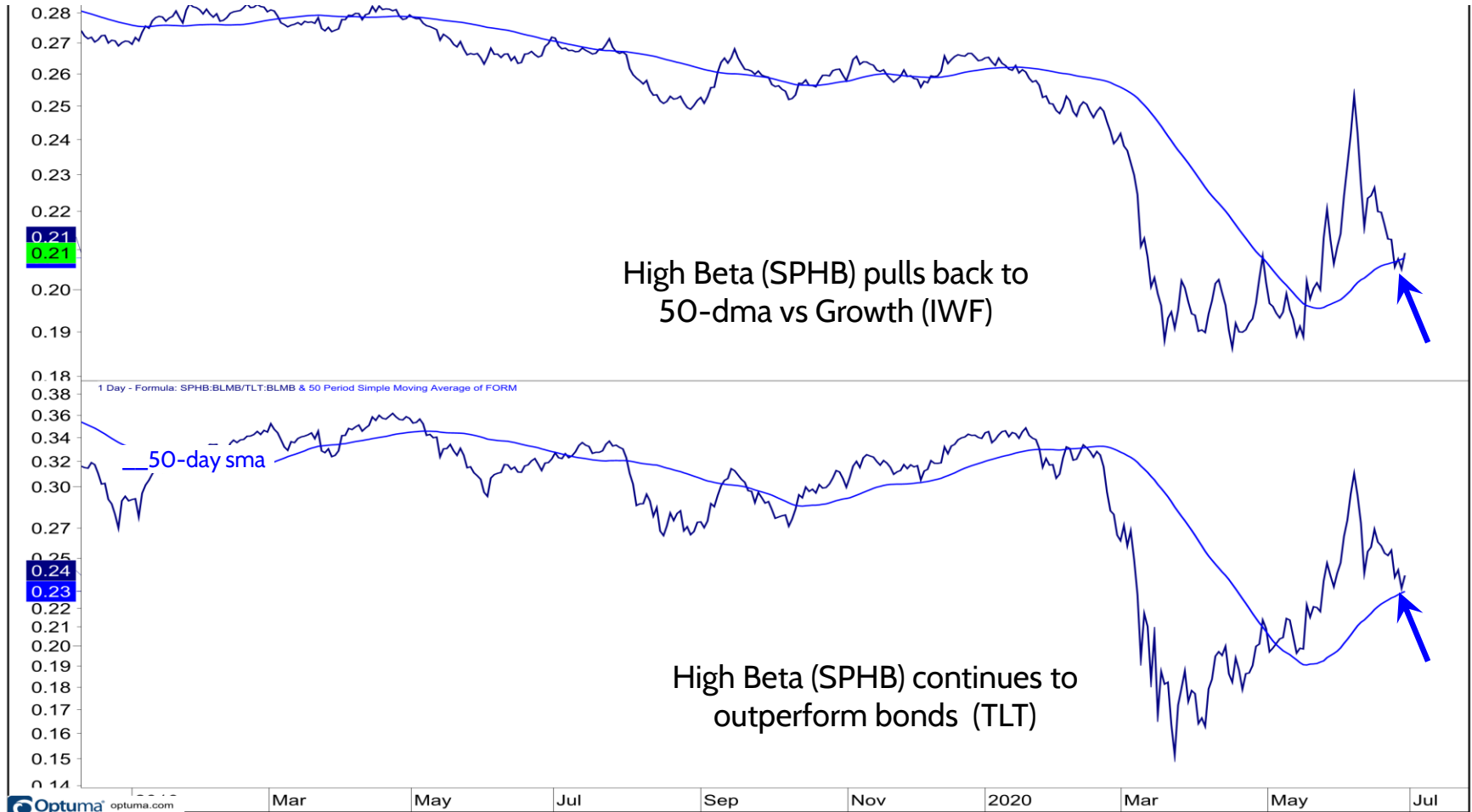
S&P High Beta (SPHB) vs S&P Low Vol (SPLV) ETFs - Daily

Short-term pullback becoming oversold near the rising 50-dma - See cyclical stocks examples in today's note



S&P High Beta (SPHB) vs Large-cap Growth (IWF) and TLT Bond ETF

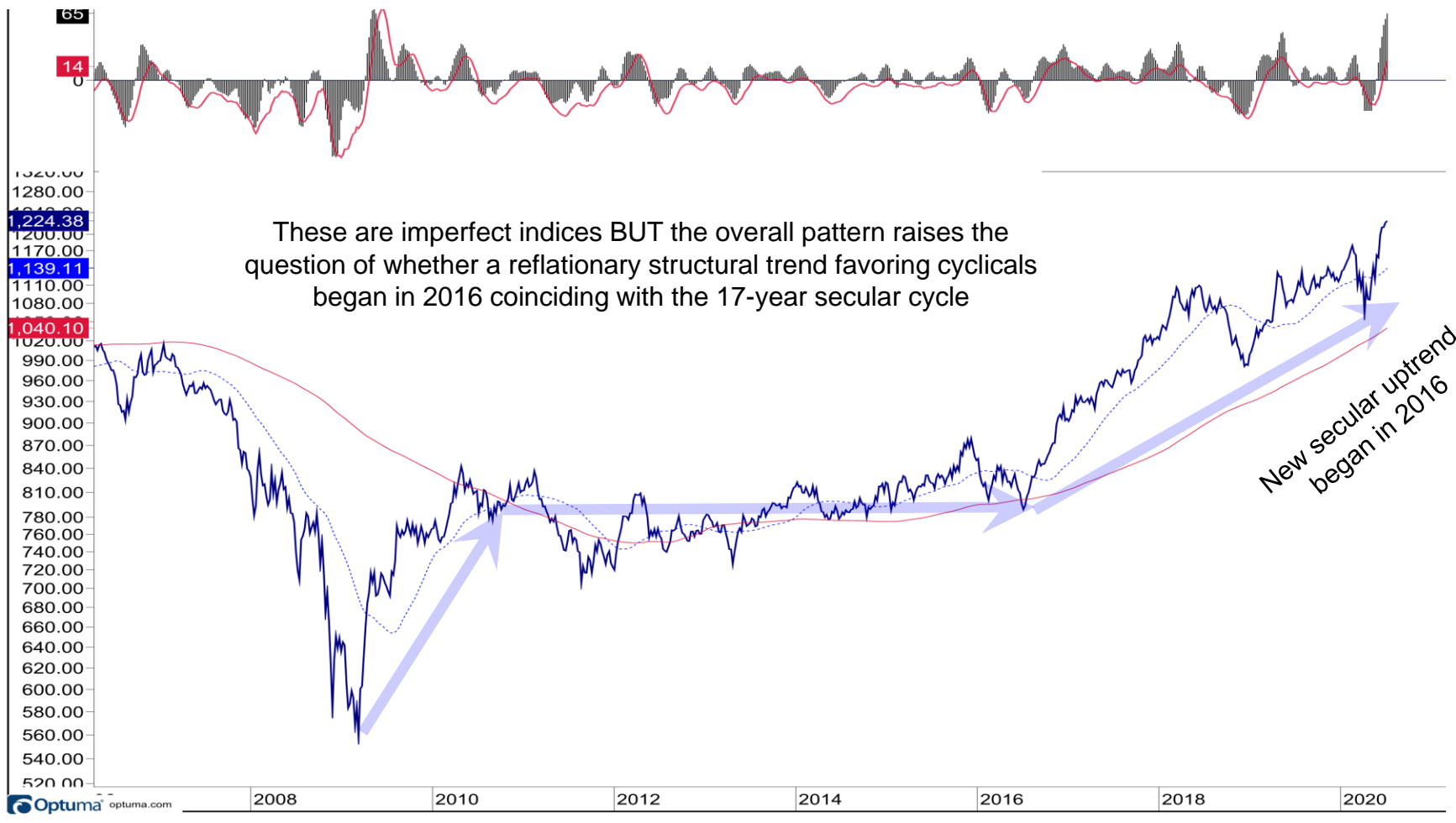
High Beta vs Growth and the TLT Bond ETF has pulled back to short-term support at the 50-dma



Optuma optuma.com
Source: Fundstrat, Bloomberg, Optuma

MSCI Cyclical vs Defensive Sectors (MXCXDRN Index)

Long-term secular recovery in place for US Cyclical vs Defensive sectors



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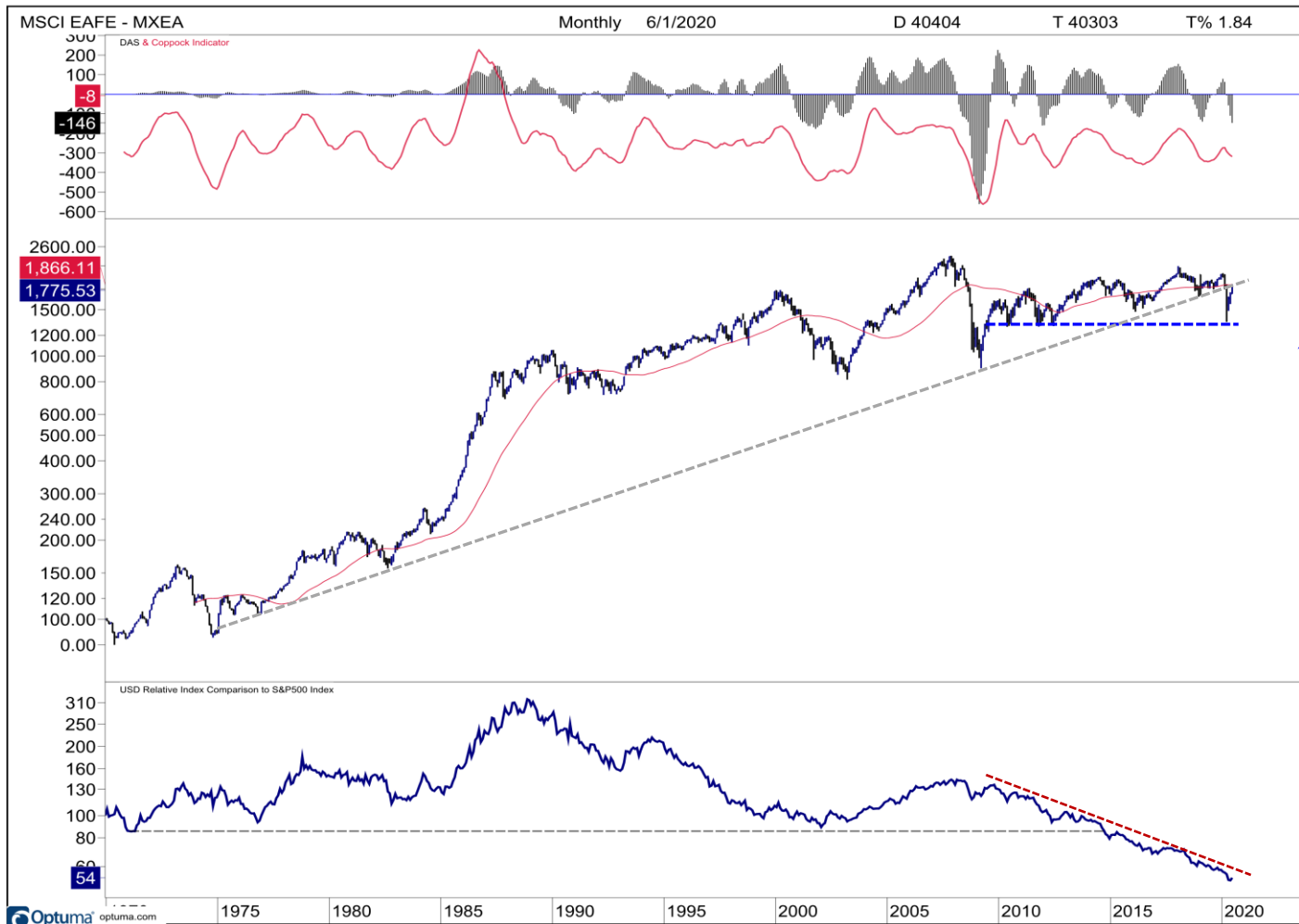
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Source: Fundstrat, Bloomberg, Optuma

Global Markets – MSCI EAFE (MXEA) – Long-term

MXEA index breaking secular price uptrend
 ...with relative relative performance continuing to lead to the downside



- Monthly momentum is negative
- Testing underside of secular uptrend
- ...with...
- ...relative performance vs the S&P 500 in an established downtrend

Global Markets – MSCI EAFE (EFA ETF) – Intermediate-term



- Weekly momentum becoming overbought as...

- ...EAFE stalls at next resistance...

- ...with relative performance vs the S&P 500 testing its established downtrend

MSCI Emerging Markets (MXEF) - Long-term

Secular trend break in place



- Monthly momentum is beginning to turn up...
- ...as EM recaptures its uptrend
- with relative performance vs S&P 500 retesting its long-term downtrend

Global Markets – MSCI EM (EEM ETF) - Weekly



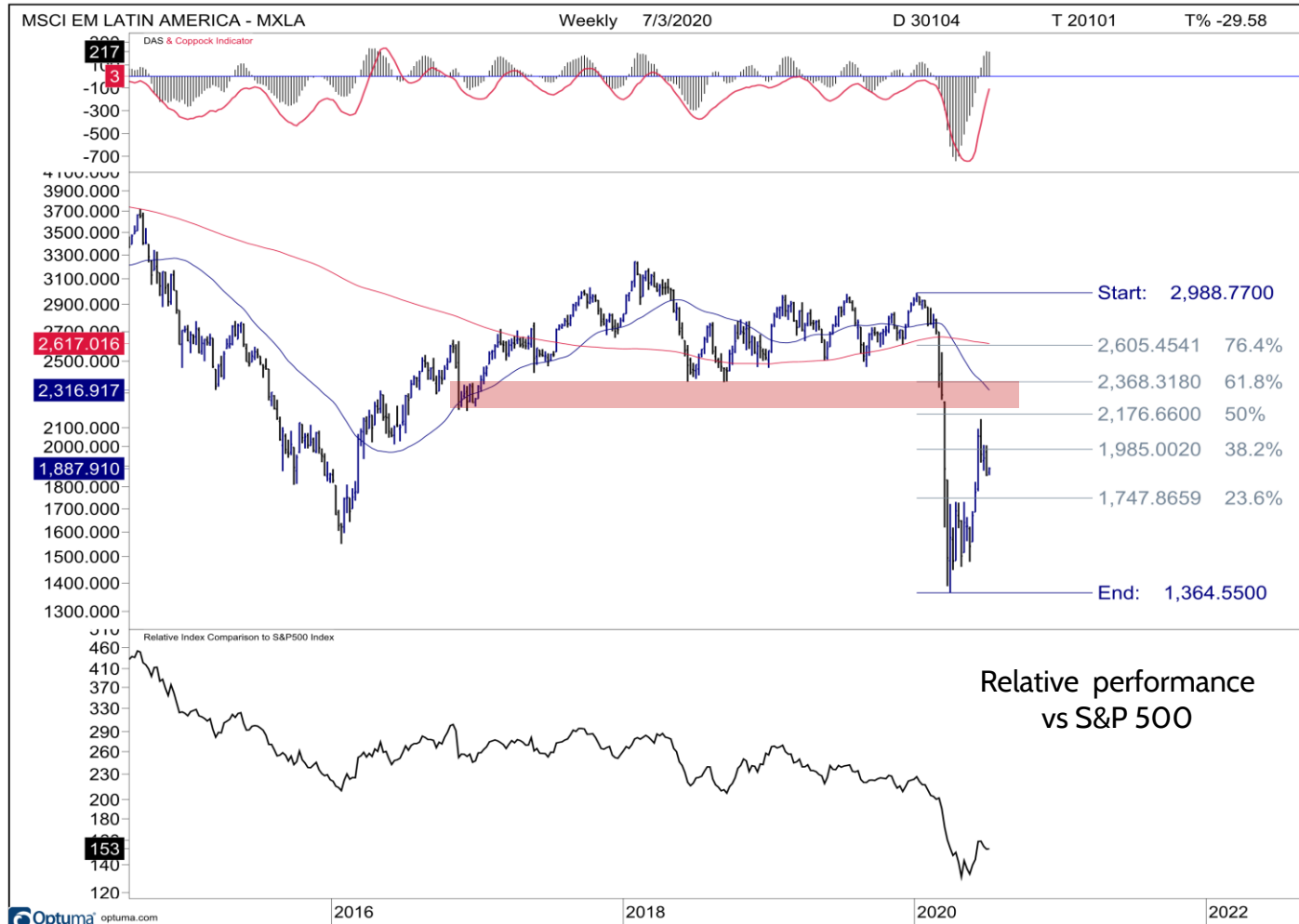
- Weekly momentum becoming overbought as...
- ...the EEM stalls/pauses under resistance
- EEM vs S&P challenging its downtrend
- EEM vs EAFE remains range bound.

MSCI - Latin America - MXLA - Monthly

MXLA stress tests next critical support near 1,654 at the 2016 and 2008 lows with relative performance weak



MSCI – Latin America – MXLA - Weekly



- Weekly continues to build to the upside from oversold levels...

- ...the MXLA pauses at its 50% retracement

- Relative performance vs the S&P 500 remains in a downtrend with very early evidence of firming vs the S&P 500

S&P TSX - Monthly

Secular uptrend break in place with the TSX challenging next key support between 11-12K



S&P TSX - Weekly



- Weekly momentum continues to build to the upside but is becoming overbought as...
- ...the TSX stalls at resistance near 16K at its 200-dma...
- ...with relative performance vs the S&P in a downtrend

S&P TSX - Daily

Testing 15-dma downtrend



- Short-term momentum is beginning to bottom
- ...as the TSX consolidates above 15K near its 50-dma with 16K next resistance
- Relative performance vs the SPX is firming but has yet to convincingly reverse to the upside above the March/April highs.

Technical Strategy

Secular Perspective – The Big Picture

4-year cycles within secular bull markets

The Current Cycle – Where are we now?

International Equity Markets

Rates, Currencies and Commodities

US Sector and Group Leadership

Equity Ideas charts

Appendix – Relative performance screens

US 10-year note yields - Monthly 1980-present



- Deeply oversold within a secular downtrend

US 10-year note yields - Daily



- Range bound between the 50-62% retracement levels at .90-.99% and key downside levels between .58-.64%

- Daily RSI = neutral

US yield curve continues to steepen

US 10-30 spread

Consolidating above 'support' near 50-dma



US 2-10 spread

Consolidating above 'support' near 50-dma



Source: Fundstrat, Bloomberg, Optima

5-year break-evens - Daily

While many risk asset markets churn sideways through June, inflation break-evens continue to trend higher



US Dollar Index - DXY - Monthly

DXY stalling under 101.80- 103.82 resistance

A move above 103.82 would signal a longer-term upside trend acceleration, with 109 and 121 next resistance, with 98.8 a key downside reversal broken this week - Our expectation remains for further downside



US Dollar Index - DXY - Weekly



- Weekly momentum remains negative suggesting a weaker DXY into Q3

- See next page for key levels

US Dollar Index - DXY - Daily



- Daily momentum rebounds back toward overbought levels but, given monthly backdrop, we continue to expect a short-lived rebound
- Bounce from 76% retracement likely to be short lived with resistance near 97.84.

MSCI Emerging Market Currency Index (MXEFOCX0)

Rebound from near 62% retracement is pausing under the 40- and 200-week sma.
 A move above the 200-week would be an encouraging sign for risk assets



WTI Crude Oil Futures - Weekly



- Weekly momentum continues to build to the upside but is no longer early in its upturn as

- Oil challenges resistance near 42.

WTI Crude Oil Futures - Daily



- Challenging 40-42 resistance with next resistance at the 200-dma at 45.
- 25-30 remains support

Gold Spot - XAU - Monthly



Monthly momentum

- Gold is a new bullish uptrend after breaking out of a multi-year base.
- Use pullbacks to accumulate

Gold Spot - XAU - Weekly

Gold remains in an uptrend challenging 1800 resistance but beginning to pause to Copper.
 1500-1600 remains support



Gold GCA Futures – Daily



- Short-term momentum is becoming overbought as Gold tests 1800 resistance
- 1700-1800 trading range remains intact.
- Gold's relative performance vs Copper remains in short-term downtrend

Gold - GDX ETF - Long-term



- Breaking out of a multi-year base with GDX's relative performance (bottom panel) leading to the upside.
- Next resistance is at the 50-62% retracement levels between 39-46

Gold XAU versus S&P

Early signs of a longer-term upside reversal developing

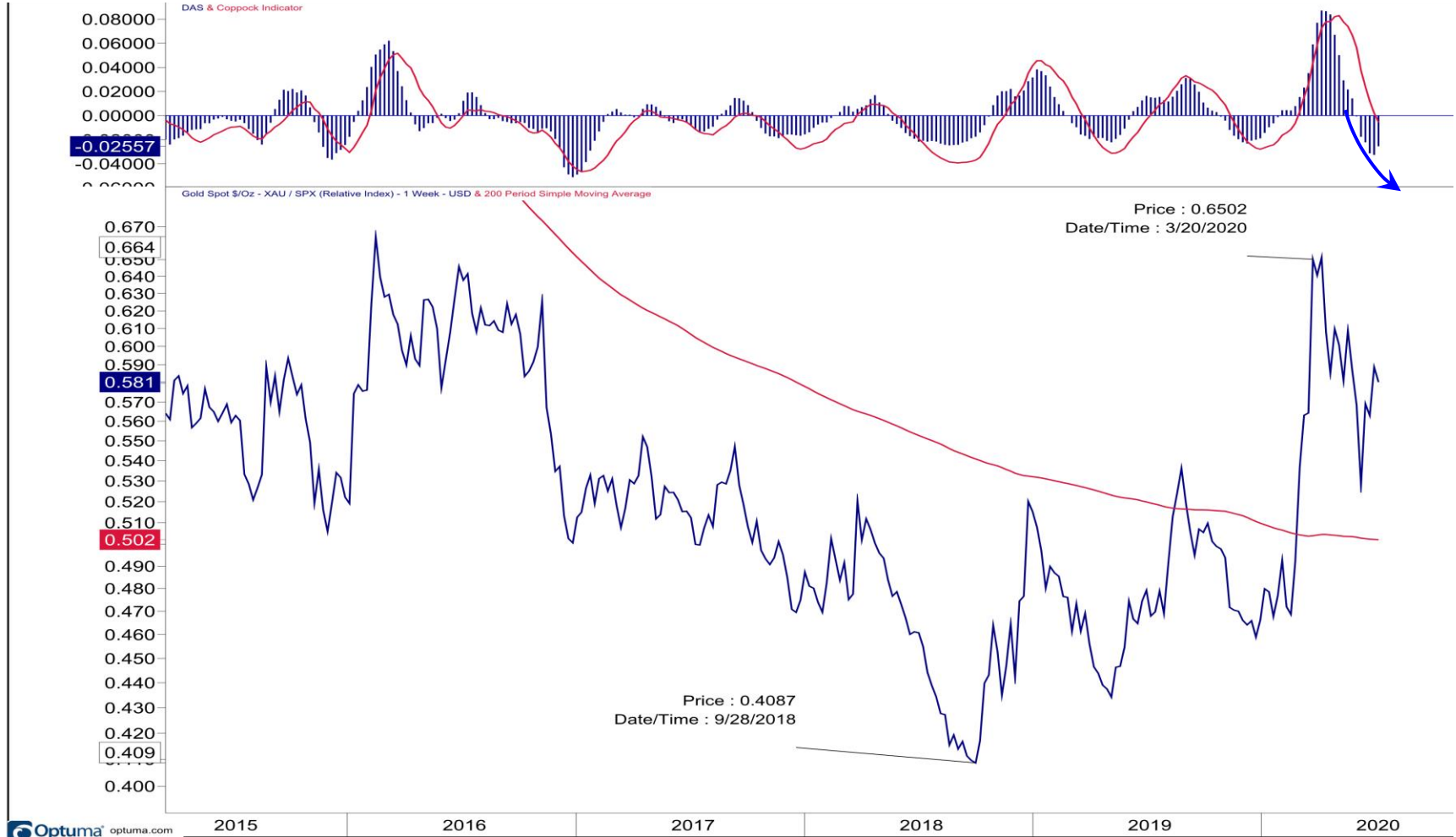


Optuma optuma.com

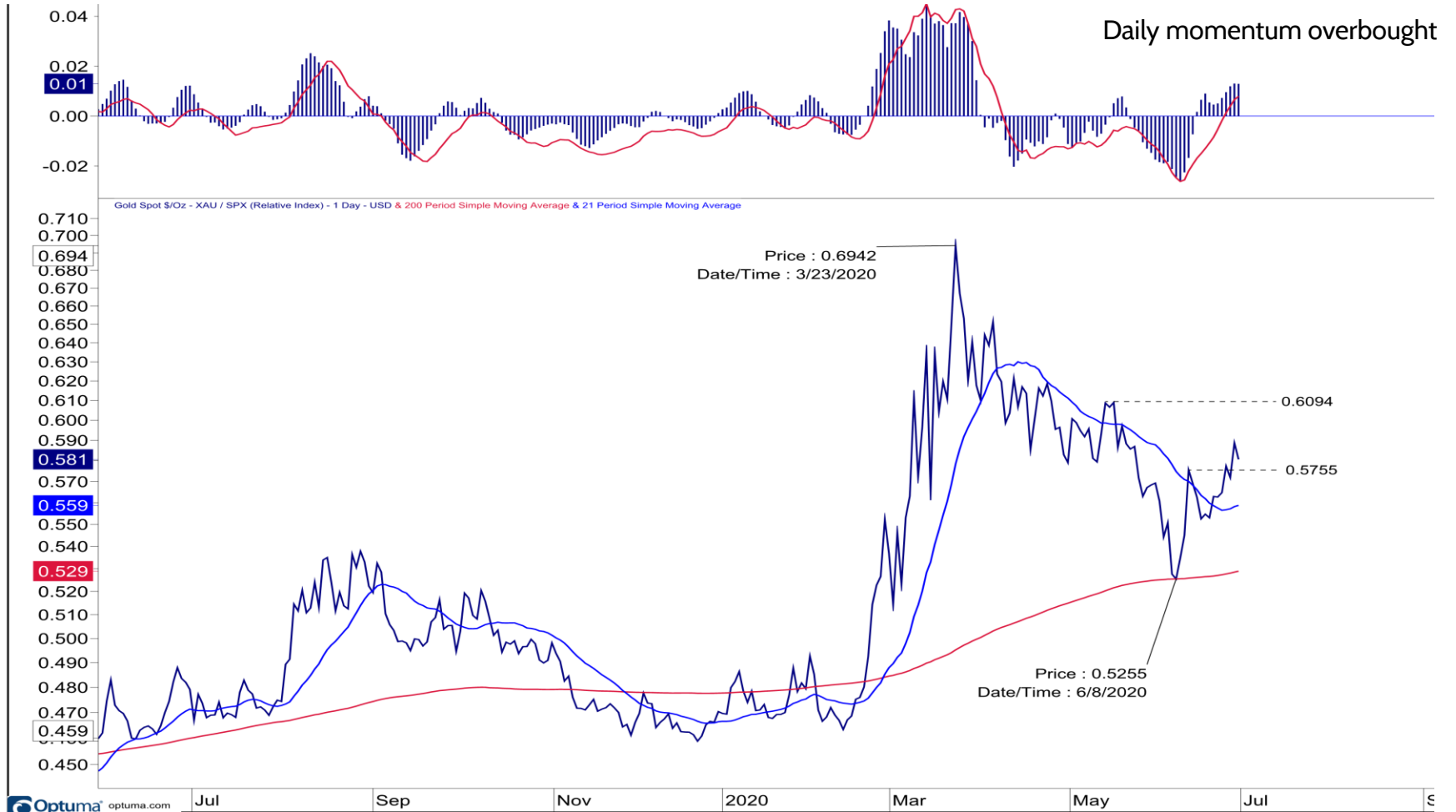
Source: Fundstrat, Bloomberg, Optuma

Gold XAU versus S&P - Weekly

Weekly momentum moving toward oversold levels



Gold XAU versus S&P - Daily



Source: Fundstrat, Bloomberg, Optuma

Copper - Monthly

Rebound from near 2016 cycle lows continues with near resistance between 283-294



Copper - Weekly

Intermediate-term rebound continues with next resistance is near 283



Source: Fundstrat, Bloomberg, Optuma

Technical Strategy

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Appendix

Source: Fundstrat, Bloomberg, Optima

ETF weekly relative performance trend versus the S&P 500

**EARLY
OUTPERFORMANCE**
 Relative close *above* **declining** trend

**ESTABLISHED
OUTPERFORMANCE**
 Relative close *above* **rising** trend

**MARKET
PERFORMANCE**
 Flat/neutral trend

**EARLY
UNDERPERFORMANCE**
 Relative close *below* **rising** trend

**ESTABLISHED
UNDERPERFORMANCE**
 Relative close *below* **declining** trend

MAJOR US EQUITY MARKETS

QQQ - INVESCO QQQ TRUST SERIES

RUSSELL STYLES

- IWB - ISHARES RUSSELL 1000 ETF
- IWM - ISHARES RUSSELL 2000 ETF *
- IWO - ISHARES RUSSELL 2000 GRO
- > IWN - ISHARES RUSSELL 2000 VALU
- IWR - ISHARES RUSSELL MID-CAP

- IWF - ISHARES RUSSELL 1000 GRO
- IWP - ISHARES RUSSELL MID-CAP G

IWS - ISHARES RUSSELL MID-CAP

* IWD - ISHARES RUSSELL 1000 VALU

*Small-caps
beginning to
emerge*

CANADA & SOUTH AMERICA

- ILF - ISHARES LATIN AMERICA 40
- EWZ - ISHARES MSCI BRAZIL ETF
- > EWC - ISHARES MSCI CANADA ETF
- EWV - ISHARES MSCI MEXICO ETF
- BRF - VANECK BRAZIL SMALL-CAP

MSCI EAFE & EMERGING MARKETS

- > EFA - ISHARES MSCI EAFE ETF
- SCZ - ISHARES MSCI EAFE SMALL-
- EEM - ISHARES MSCI EMERGING MA

EURO, RUSS, TURKEY, S AFRICA

- IEV - ISHARES EUROPE ETF
- EZU - ISHARES MSCI EUROZONE ET
- > EWG - ISHARES MSCI GERMANY ETF
- EZA - ISHARES MSCI SOUTH AFRIC
- TUR - ISHARES MSCI TURKEY ETF
- RSX - VANECK RUSSIA ETF

*...with cyclical
markets in early
relative
performance
uptrends*

* EWU - ISHARES MSCI UNITED KINGD

ASIA - PACIFIC

- INDY - ISHARES INDIA 50 ETF
- > AAXJ - ISHARES MSCI ALL COUNTRY
- EWA - ISHARES MSCI AUSTRALIA E
- > EPP - ISHARES MSCI PACIFIC EX J
- > EWY - ISHARES MSCI SOUTH KOREA
- EWT - ISHARES MSCI TAIWAN ETF

- EWJ - ISHARES MSCI JAPAN ETF
- \ SCJ - ISHARES MSCI JAPAN SMALL-
- \ VPL - VANGUARD FTSE PACIFIC ETF

- FXI - ISHARES CHINA LARGE-CAP
- EWL - ISHARES MSCI MALAYSIA ETF

* EWH - ISHARES MSCI HONG KONG ET
 EWS - ISHARES MSCI SINGAPORE E

ETFs at making 2+ week relative highs

ETFs at making 2+ week relative lows

ETF weekly relative performance trend versus the S&P 500

**EARLY
OUTPERFORMANCE**
 Relative close *above* *declining* trend

**ESTABLISHED
OUTPERFORMANCE**
 Relative close *above* *rising* trend

**MARKET
PERFORMANCE**
 Flat/neutral trend

**EARLY
UNDERPERFORMANCE**
 Relative close *below* *rising* trend

**ESTABLISHED
UNDERPERFORMANCE**
 Relative close *below* *declining* trend

FINANCIALS

Financials continued to correct through last week but are no oversold short-term with early signs Banks are firming

- + IXG - ISHARES GLOBAL FINANCIALS
- + KBE - SPDR S&P BANK ETF
- + KRE - SPDR S&P REGIONAL BANKING

KIE - SPDR S&P INSURANCE ETF

\ XLF - FINANCIAL SELECT SECTOR S

\ IAI - ISHARES U.S. BROKER-DEALE

* IYR - ISHARES US REAL ESTATE ET

UTILITIES

PHO - INVESCO WATER RESOURCES

JXI - ISHARES GLOBAL UTILITIES

XLU - UTILITIES SELECT SECTOR

COMMUNICATION SERVICES

- PBS - INVESCO DYNAMIC MEDIA ET * XLC - COMM SERV SELECT SECTOR S > IXP - ISHARES GLOBAL COMM SERVI
- SOCL - GLOBAL X SOCIAL MEDIA E

IYZ - ISHARES US TELECOMMUNICA

CONSUMER STAPLES

Staples & Healthcare lagging

* KXI - ISHARES GLOBAL CONSUMER S

HEALTH CARE

- IBB - ISHARES NASDAQ BIOTECHNOL

IXJ - ISHARES GLOBAL HEALTHCAR

\ XLV - HEALTH CARE SELECT SECTOR

IHI - ISHARES U.S. MEDICAL DEV

* PPH - VANECK PHARMACEUTICAL

CONSUMER DISCRETIONARY

XRT - SPDR S&P RETAIL ETF

XLY - CONSUMER DISCRETIONARY S + PEJ - INVESCO DYNAMIC LEISURE A

* RXI - ISHARES GLOBAL CONSUMER D

> XHB - SPDR S&P HOMEBUILDERS ETF

RTH - VANECK RETAIL ETF

ETFs at making 2+ week relative highs

ETFs at making 2+ week relative lows

Discretionary groups reversing Q1 downtrends

ETF weekly relative performance trend versus the S&P 500

EARLY

OUTPERFORMANCE

Relative close *above* declining trend

INFORMATION TECHNOLOGY

ESTABLISHED

OUTPERFORMANCE

Relative close *above* rising trend

MARKET

PERFORMANCE

Flat/neutral trend

EARLY

UNDERPERFORMANCE

Relative close *below* rising trend

ESTABLISHED

UNDERPERFORMANCE

Relative close *below* declining trend

*Growth leadership slowing
 but has yet to break
 established uptrends*

- * HACK - ETFMG PRIME CYBER SECURI
- AIQ - GLOBAL X ART INTEL & TEC
- * CLOU - GLOBAL X CLOUD COMPUTING
- * FINX - GLOBAL X FINTECH ETF
- SNSR - GLOBAL X INTERNET OF TH
- BOTZ - GLOBAL X ROBOTICS & ART
- * PXQ - INVESCO DYNAMIC NETWORKIN
- IGV - ISHARES EXPANDED TECH-SO
- IXN - ISHARES GLOBAL TECH ETF
- XLK - TECHNOLOGY SELECT SECT S
- SMH - VANECK SEMICONDUCTOR

INDUSTRIALS

*Transports
 emerging*

- EXI - ISHARES GLOBAL INDUSTRIA
- > IYT - ISHARES TRANSPORTATION AV

+ XLI - INDUSTRIAL SELECT SECT SP PPA - INVESCO AEROSPACE & DEFE

MATERIALS

*Materials
 emerging*

- XME - SPDR S&P METALS & MINING
- MOO - VANECK AGRIBUSINESS

- MXI - ISHARES GLOBAL MATERIALS
- * XLB - MATERIALS SELECT SECTOR S
- GDX - VANECK GOLD MINERS

ENERGY

- KOL - VANECK COAL ETF
- OIH - VANECK OIL SERVICES

- * FCG - FIRST TRUST NATURAL GAS E
- > TAN - INVESCO SOLAR ETF
- PBW - INVESCO WILDERHILL CLEAN
- XLE - ENERGY SELECT SECTOR SPD
- > IXC - ISHARES GLOBAL ENERGY ETF
- XOP - SPDR S&P OIL & GAS EXP &

THEMATIC

- PAVE - GLOBAL X US INFRASTRUCT
- PDP - INVESCO DWA MOMENTUM ET
- MTUM - ISHARES EDGE MSCI USA M

- DRIV - GLOBAL X AUTONOMOUS&ELE+
- EBIZ - GLOBAL X E-COMMERCE ETF
- GNOM - GLOBAL X GENOMICS & BIO
- * BFIT - GLOBAL X HEALTH & WELLNE
- LIT - GLOBAL X LITHIUM & BATTE
- LNGR - GLOBAL X LONGEVITY THEM
- MILN - GLOBAL X MILLENNIALS TH
- PKW - INVESCO BUYBACK ACHIEVERS

* PFM - INVESCO DIVIDEND ACHIEVER

*Thematic ETFs remain in
 uptrends but are advanced*

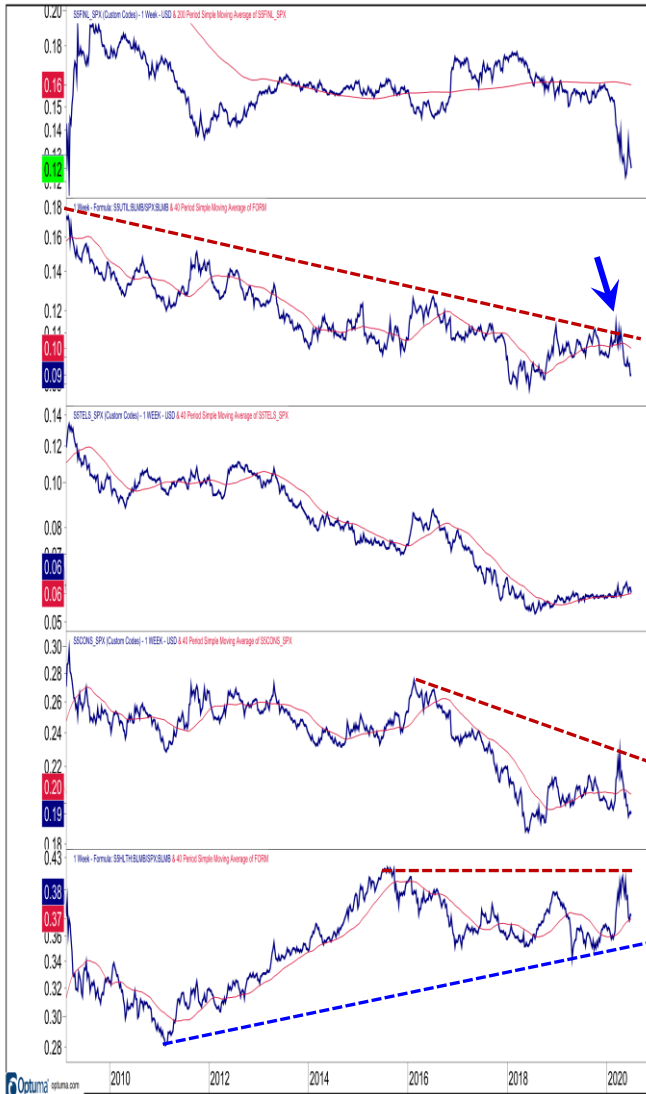
ETFs at making 2+ week relative highs

ETFs at making 2+ week relative lows

See the end of this report for a legend to this page

S&P 500 Sector Relative Performance vs. S&P 500

Weekly data



FINANCIALS
 Key retest of oversold
 lows underway

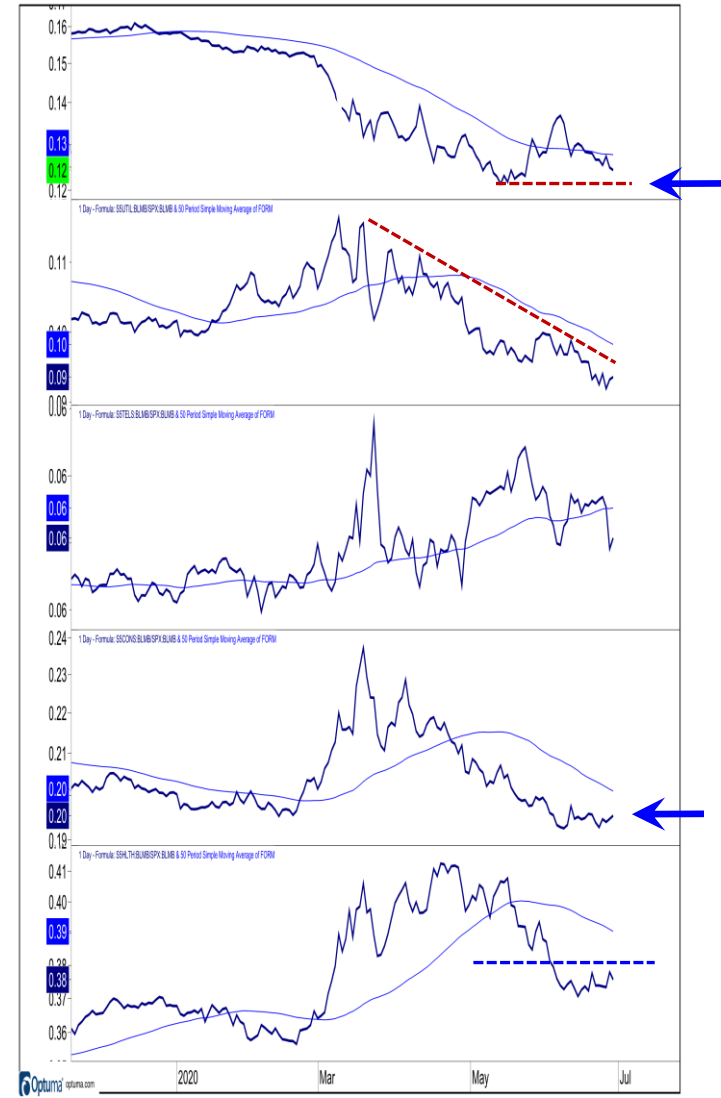
UTILITIES
 Utilities remain in a
 downtrend

**COMMUNICATION
 SERVICES**
 Back in the range

STAPLES
 Lower highs and lower
 lows in place

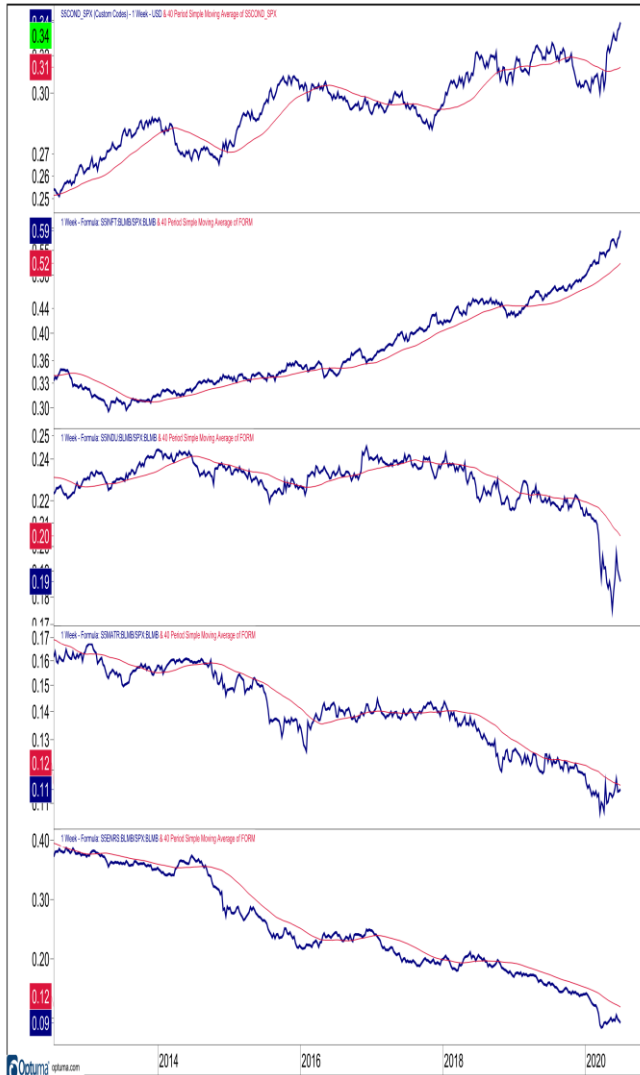
HEALTHCARE
 Relative performance
 pulling back to support

Daily data



S&P 500 Sector Relative Performance vs. S&P 500

Weekly data



DISCRETIONARY
 Long-term uptrend intact
 but advanced – Expect a
 short-term pullback

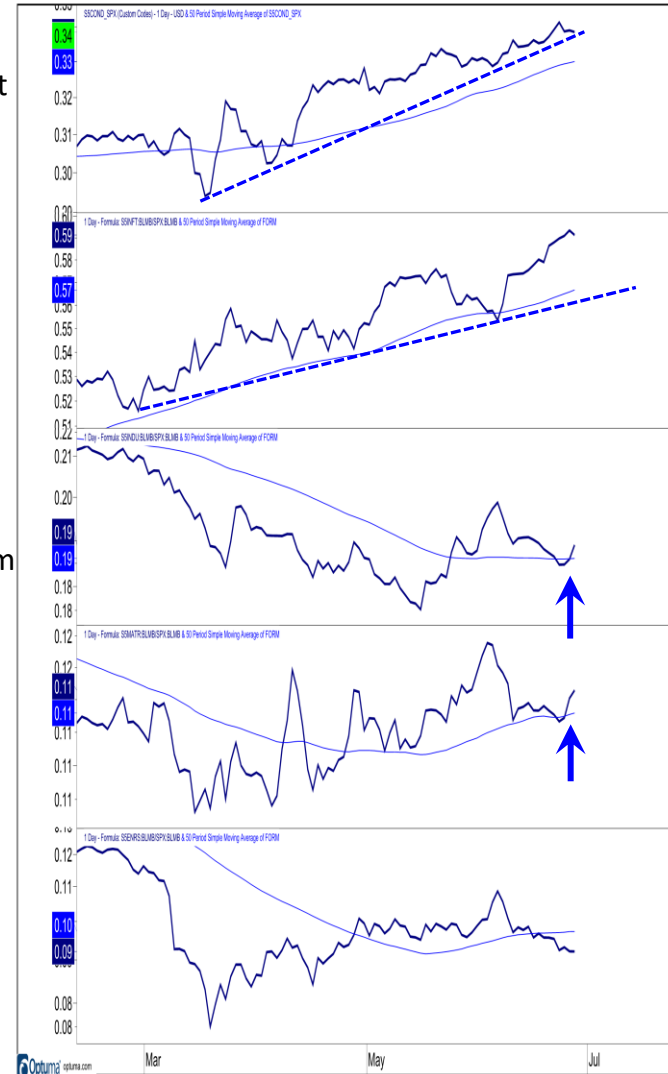
TECHNOLOGY
 Long-term trend intact -
 Overbought short-term

INDUSTRIALS
 Key pullback/retest
 underway with short-term
 lows developing

MATERIALS
 Retest/pullback of
 Q1 lows underway with
 short-term lows
 developing

ENERGY
 Long-term downtrend
 intact

Daily data



S&P 500 Financials - Monthly



- Monthly cycle momentum remains negative with
- ...the financial sector attempting to bottom at the 2015-2016 trading range highs...
- ...but relative performance remains weak and has yet to show evidence of improving

S&P 500 Financial Sector ETF (XLF)



- Daily/short-term momentum is oversold and near upturn levels
- Key upside reversal level is at 23.65 with next resistance at the 200-dma at 27.
- NOTE: Relative performance vs the S&P 500 has yet to show evidence of reversing its June downtrend.

S&P 500 Utilities – Monthly



- Monthly momentum is negative as...
- ...price tests the low end of a 20-year uptrend with...
- ...relative performance in an established downtrend

S&P 500 Staples - Monthly



- Monthly negative and early in a downturn

- Relative performance vs S&P 500 negatively diverges with lower highs
- Use near term bounces to reduce exposure through into Q3.

Biotech iShares IBB - Monthly

(+) The IBB is in the early stages of breaking-out of multi-year base



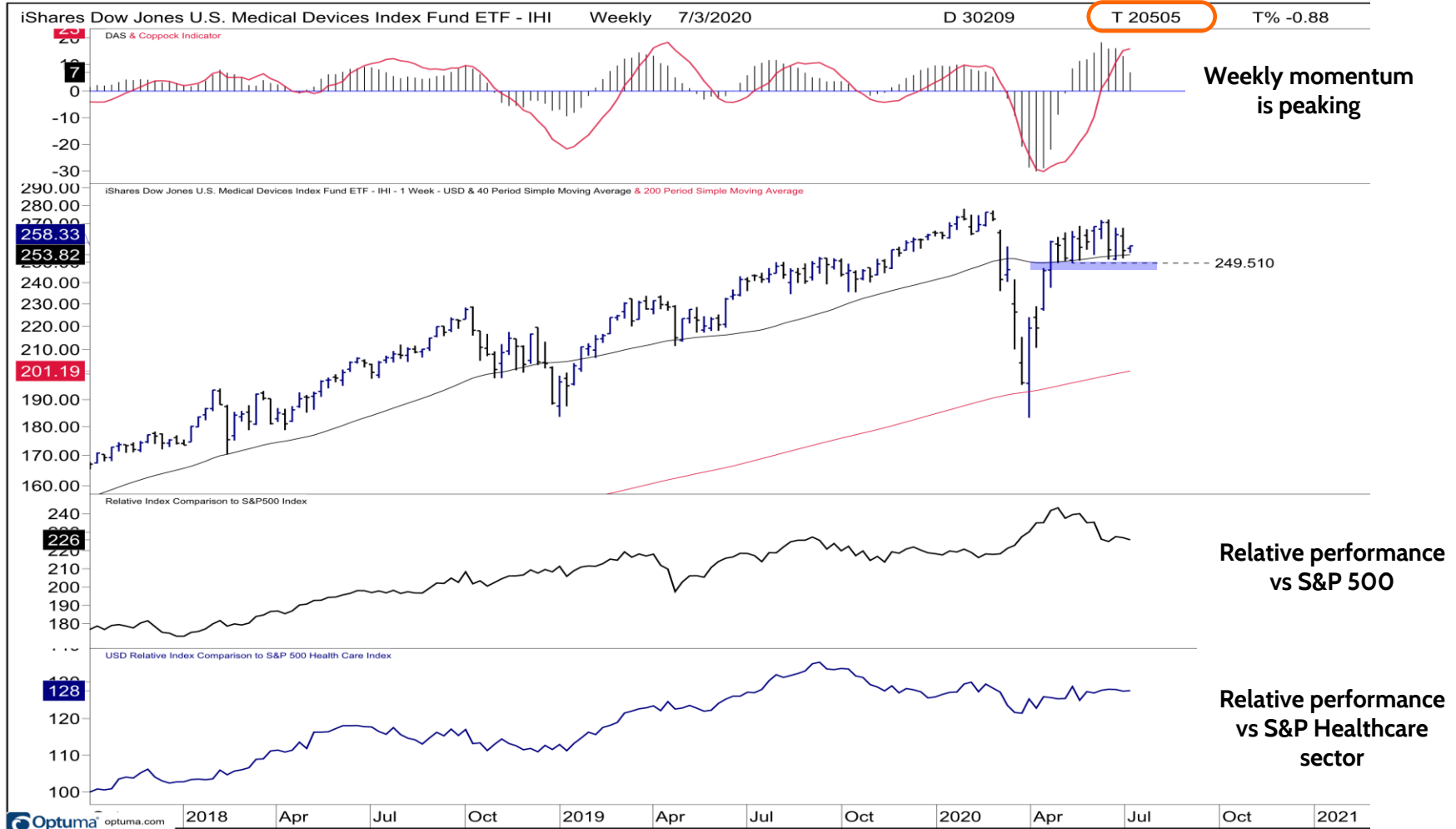
SPDR S&P Biotech ETF - XBI - Monthly

(+) Rallying from 4-year (48-month) sma to new cycle highs and breaking out of multi-year base



iShares Dow Jones Medical Devices ETF - IHI - Weekly

Pausing within a longer-term real and relative performance uptrends intact vs the S&P 500 and sector.



S&P 500 Consumer Discretionary Sector - Weekly

Pausing after surging to new highs – Expect pullbacks to be relatively shallow



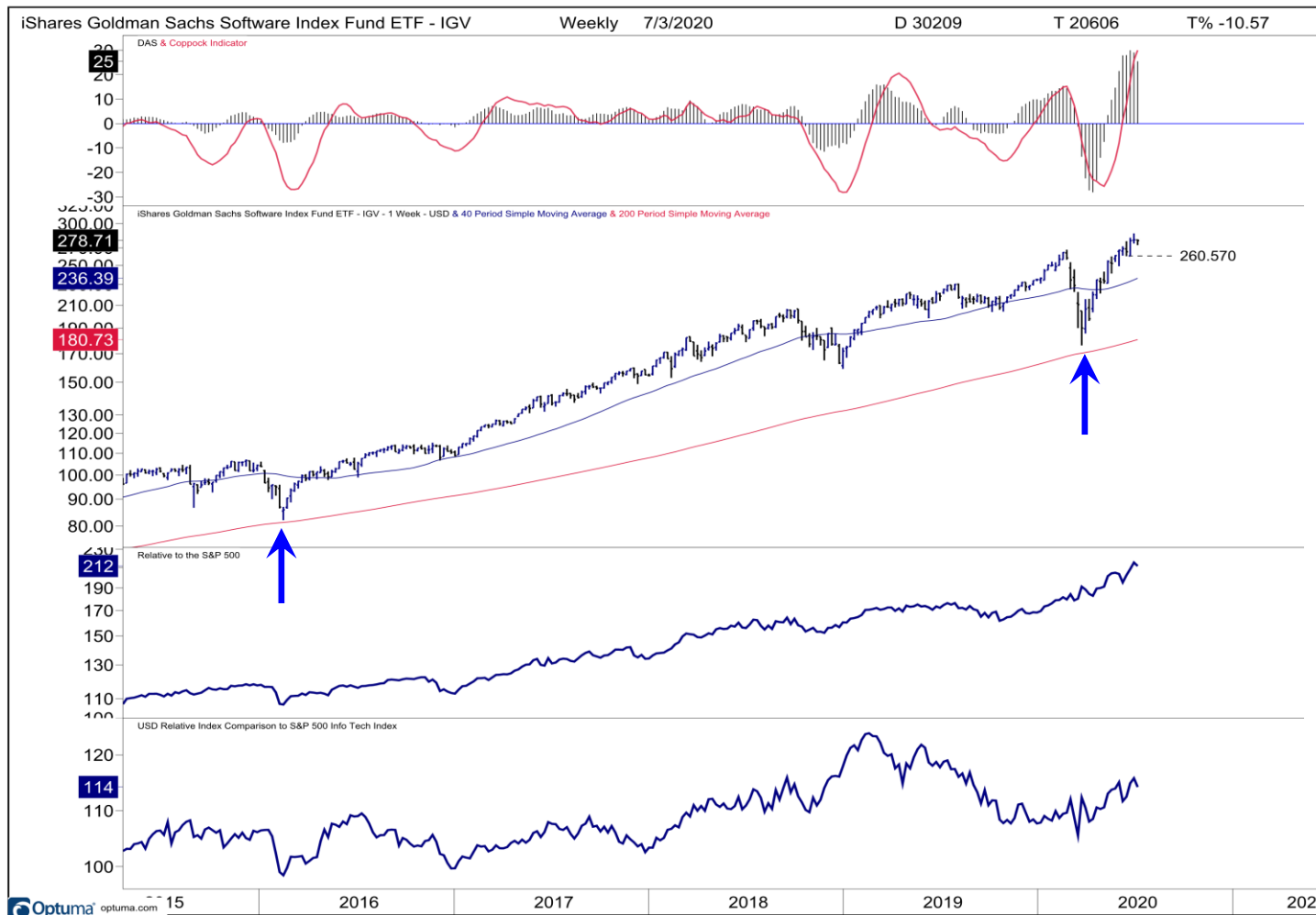
S&P 500 Technology - Monthly

Price uptrend intact nearing upper end of uptrend channel



Software Index IGV ETF

Uptrends intact following reacceleration from the secular uptrend (200-week sma)



- Weekly momentum becoming overbought

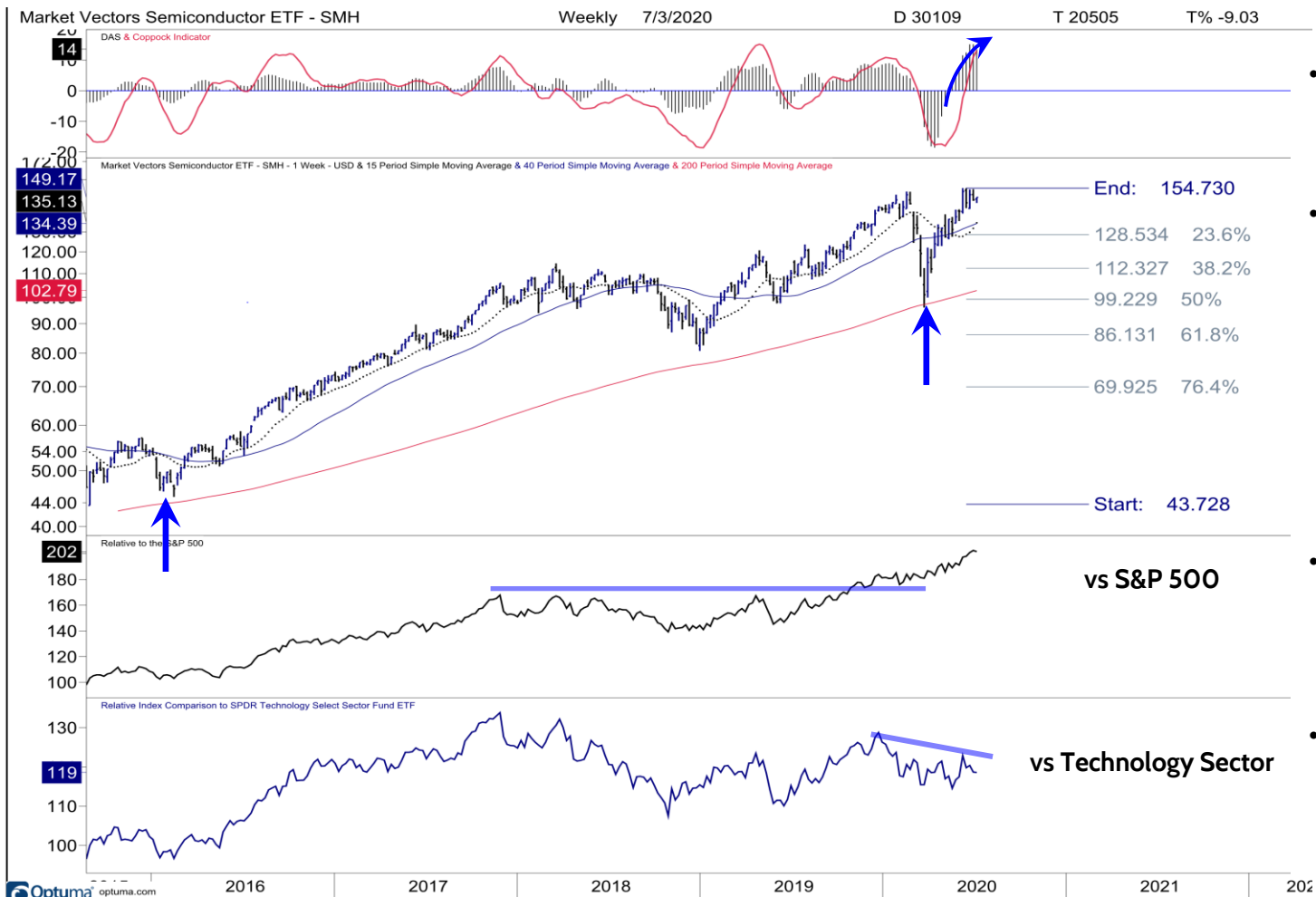
- First support is 260 followed by the 40-week sma at 136.

- ...relative performance versus the **S&P 500** remains in an uptrend

- ...relative performance versus the S&P Technology

Semiconductor ETF (SMH)- Weekly

Overbought tactically after establishing cycle lows at its 200-week sma.



- Weekly momentum is overbought
- Support begins near the 15- and 40-week sma's near 135
- Relative performance vs the S&P 500 remains in an uptrend
- ...and relative performance vs the Technology sector is pausing

S&P 500 Industrial Sector - Monthly



- Monthly momentum remains negative but decelerating
- Rebound from support at the 2015 trading range highs is pausing at the 200-week sma
- Relative performance remains in a downtrend but deeply oversold

S&P 500 Industrial Sector - Daily



- Daily momentum is bottoming
- ... as price pulls back to support at the 50-dma
- ...and relative performance shows very early signs of bottoming

Dow Jones Transportation Index - Daily



- Short-term momentum is bottoming at oversold levels...
- ...as the Transports retest/bounce from support at the 50-dma
- ...with very early signs of relative performance improving

S&P 500 Energy Sector - Daily



- Daily momentum becoming oversold
- ...as the S&P 500 Energy pulls back to support
- ...relative performance has yet to reverse to the upside.

Technical Strategy

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4-year cycles within secular bull markets

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Appendix

Airlines: JBLU

Daily momentum oversold and bottoming as JBLU pulls back to support at its 50-dma



Airlines: ALK

Bottoming at support at its 50-dma



Industrials: CMI

Bottoming at support



Industrials: PCAR

Bottoming at 50- and 200-dma's



Rails: KSU

Bottoming at support



Rails: CSX

Bottoming at 50-dma



Homebuilders: DHI

Bottoming at support



Homebuilders

Bottoming at support



Retail: BBY

BBYs uptrend intact following May-June pause



Retail: DLTR

Bottoming at support



Cruise lines: CCL

Pullback bottoming at support near 50-dma



Cruise lines: RCL

June pullback bottoming at support



Chemicals: LYB

Bottoming at support at 50-dma



Chemicals: LIN

Bottoming at support near 200- and 50-dma



Electrical Components: APH

Bottoming at support



Electrical Components: TEL

Bottoming at support at rising 50-dma



Semis: MCHP

Pullback bottoming at support at 50-dma



Semis: TXN

Pullback bottoming at support at 50-dma



Semis: XLNX

Acceleration underway from key support near 50- and 200-dma



Semis: MU

Acceleration underway from support



Communication Equipment: CSCO

Bottoming at 50-dma



Optical: LITE

Bottoming at 200-dma



Secular Growth: AMZN

Long-term/weekly profiles remain bullish but short-term pullbacks likely underway as cyclicals begin to bottom and reaccelerate. Use pullbacks to accumulate later in Q3



Secular growth: NFLX

Long-term/weekly profiles remain bullish but short-term pullbacks likely underway as cyclicals begin to bottom and reaccelerate. Use pullbacks to accumulate later in Q3



Secular growth: BABA

Use pending pullbacks in Q3 to accumulate BABA given its longer-term chart profile remains bullish.



Secular Growth: PYPL

PYPL is becoming advanced/overbought. Wait for pullbacks to accumulate.



Secular Growth: ADBE

ADBE's leadership trend remains intact but it is becoming overbought and showing early signs of slowing. Expect a pullback in early-mid Q3 – Uses pullbacks to accumulate



Secular growth: EBAY

Similar to PYPL, EBAY's uptrend remains intact but is becoming advanced and vulnerable to a pullback.
 Wait for pullbacks in Q3 to accumulate.



Categorizing Relative Performance Trends through a "Life Cycle"

EARLY OUTPERFORMANCE

Relative performance is breaking **ABOVE** a **DECLINING** relative moving average

ESTABLISHED OUTPERFORMANCE

Relative performance is trending **ABOVE** a **RISING** relative moving average

MARKET PERFORMANCE

Relative performance is **RANGE BOUND** around a **FLAT/NEUTRAL** relative moving average

EARLY UNDERPERFORMANCE

Relative performance is breaking **BELOW** a **RISING** relative moving average

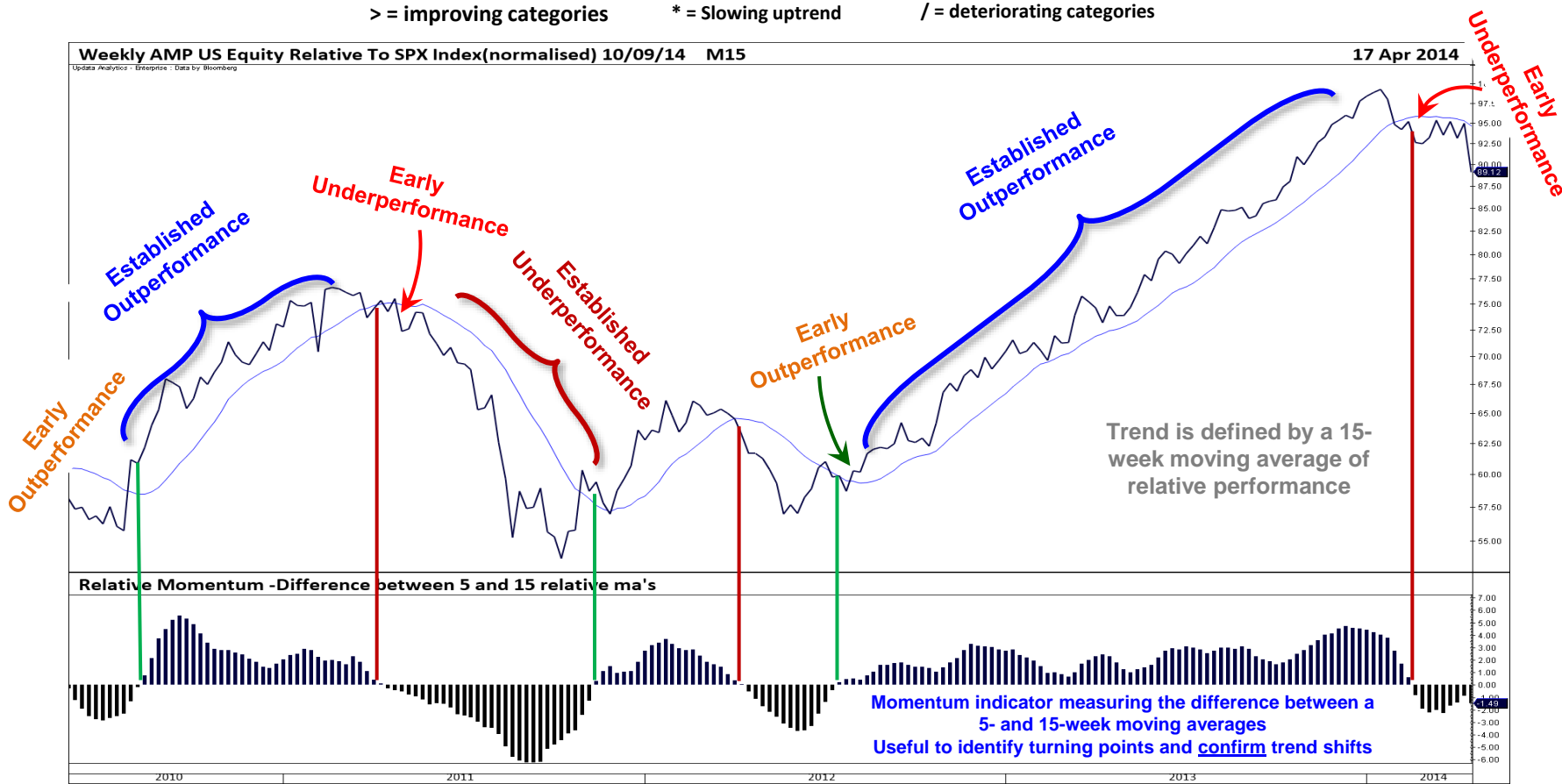
ESTABLISHED UNDERPERFORMANCE

Relative performance is trending **BELOW** a **DECLINING** relative moving average

> = improving categories

* = Slowing uptrend

/ = deteriorating categories



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Positive (+): The analyst expects the performance of his industry/sector coverage universe over the next 6-18 months to be attractive vs. the relevant broad market benchmark, being the S&P 500 for North America.

Neutral (N): The analyst expects the performance of his or her industry/sector coverage universe over the next 6-18 months to be in line with the relevant broad market benchmark, being the S&P 500 for North America.

Negative (-): The analyst expects his or her industry coverage universe over the next 6-18 months to underperform vs. the relevant broad market benchmark, being the S&P 500 for North America.

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