Technical Strategy

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2H2023 Technical Outlook

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Conclusions:

- **Gains of 10-15% more are likely in 2H 2023 for US Equities – Raising my technical target from 4500 to 4700 –** Recent broadening out in market breadth has not yet been followed by an equal broadening out in bullish sentiment.
- **Risk-on Sectors still preferred –** Technology and Industrials are intermediate-term bullish, but likely require consolidation into fall of 2023. My other two 2023 picks for outperformance discussed in January, Energy and Healthcare, likely should make a comeback in 2H 2023.
- **Heightened chance of consolidation from late July into September, and also Mid-November-December this year**, so gains likely won't be uninterrupted. Important to keep a close eye out for negative momentum/breadth divergence, complacency/speculation, and sharp increase in Defensive, which tend to occur ahead of market corrections.
- **US Dollar index likely pulls back to new 2023 lows** given less hawkish monetary policy than BOE and/or ECB, and/or possibility of FOMC hikes causing economic weakness
- **Commodities likely to have a much better Q3/Q4 than first half of the year**. Precious metals and Energy have a good chance of snapping back following a difficult first half 2023.
- **Emerging markets also should strengthen in 2H**. India leads the way, but expect a continued rebound out of Latin America, while China should also begin to rally.

- **Treasuries are likely to strengthen in the weeks/months to come**. Yields have reached resistance and a pullback to test Spring lows looks likely. However, trends call for yields to rally in 2024.

SPX normally continues to gain ground when 1st Half >10% following a Negative year

S&P 500 Gain Through 1H
By Year

2023
YTD return thru 6/30 13%

Returns Through 6/30 (Since 1950)

S&P 500 thru 6/30	n=	Return 7/1 to YE % chg	Win Ratio	Full Year % chg
> 10%	22	8%	82%	25%
5 to 10%	14	6%	86%	14%
0 to 5%	14	3%	64%	6%
0 to -5%	8	4%	75%	1%
< -5%	15	1%	47%	(11%)

Returns Through 6/30 When Prior Year Negative (Since 1950)

S&P 500 thru 6/30	n=	Return 7/1 to YE % chg	Ratio	Full Year % chg
> 10%	9	12%	89%	30%
5 to 10%	2	6%	100%	16%
0 to 5%	3	10%	100%	11%
0 to -5%	0	-	-	-
< -5%	5	3%	40%	(10%)

Source: Fundstrat, Bloomberg

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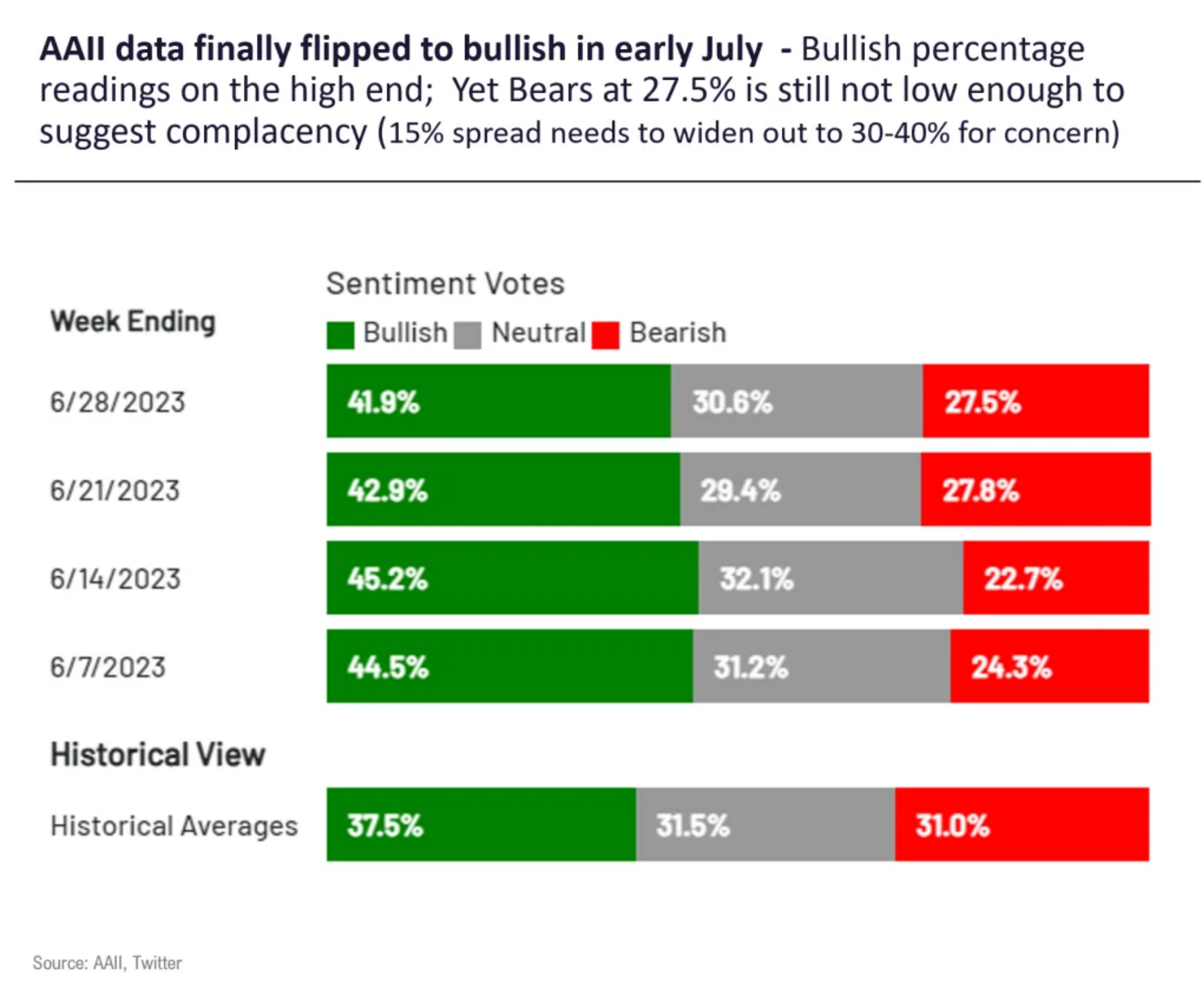
Let's review the Positives which have kicked in over the last seven weeks since mid-May:

- **Rallies have become more broad-based**: Industrials, Discretionary, Materials, Comm. Svcs have all shown strong outperformance
- **Additional strength has begun to materialize:** Two other sectors, Financials, and Healthcare have just begun to stabilize and strengthen heading into the end of June, Meanwhile Transportation has just begun to break out

- **Cycles suggested a late Spring bottom- May/June**: My weekly Cycle composite has turned up sharply right on schedule – Following 3 out of 5 down months for Equal-weighted S&P 500, this was precisely when SPX began to broaden out
- **Sentiment has only recently started to recognize the rally** in indices after having been bearish all year. This isn't exuberance and most Institutions are "NOT" going "All-in"
- **Seasonality trends remain quite bullish for Pre-election years** and markets have just let the best two quarters of the entire four-year cycle. However, July normally is also still bullish



Warning Signs to Look For to think Market correction will happen (Most of these are absent now)

- **Evidence of Speculation and complacency** – While a few investor sentiment polls have gotten more optimistic, these are not yet at levels of complacency/speculation that have resulted in prior market downturns
- **Defensive strength –** When Utilities, Staples, REITS begin to strengthen sharply on an absolute and relative basis, this normally can precede market corrections
- **Negative momentum/breadth divergence –** When fewer and fewer stocks are participating in rallies, this has served as a warning – see early 2020, as well as 2021, as examples
- **Seasonality concerns –** US stocks are now leaving the best two quarters of the entire four-year cycle. While Pre-election years as a whole tend to be bullish, the back half of 2023 could show more volatility
- **DeMark exhaustion** – When TD Combo, TD Sequential 13 countdown signals appear on weekly and/or monthly charts, markets can show potential trend reversals
- **Trend deterioration in key market sectors** like Technology and Financials: If/when these sectors start to break existing uptrends, markets can face possible headwinds
- **Overbought market conditions on weekly, monthly basis** – While some investors have remarked that US Equities are overbought, this has mainly only been seen in $QQQ, and not DJIA, nor weekly or monthly charts of Equal-weighted SPX
- **Intra-market divergence** – Markets are healthiest when indices are moving up in tandem. When this changes and various indices start to lag, that can be problematic and a warning

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