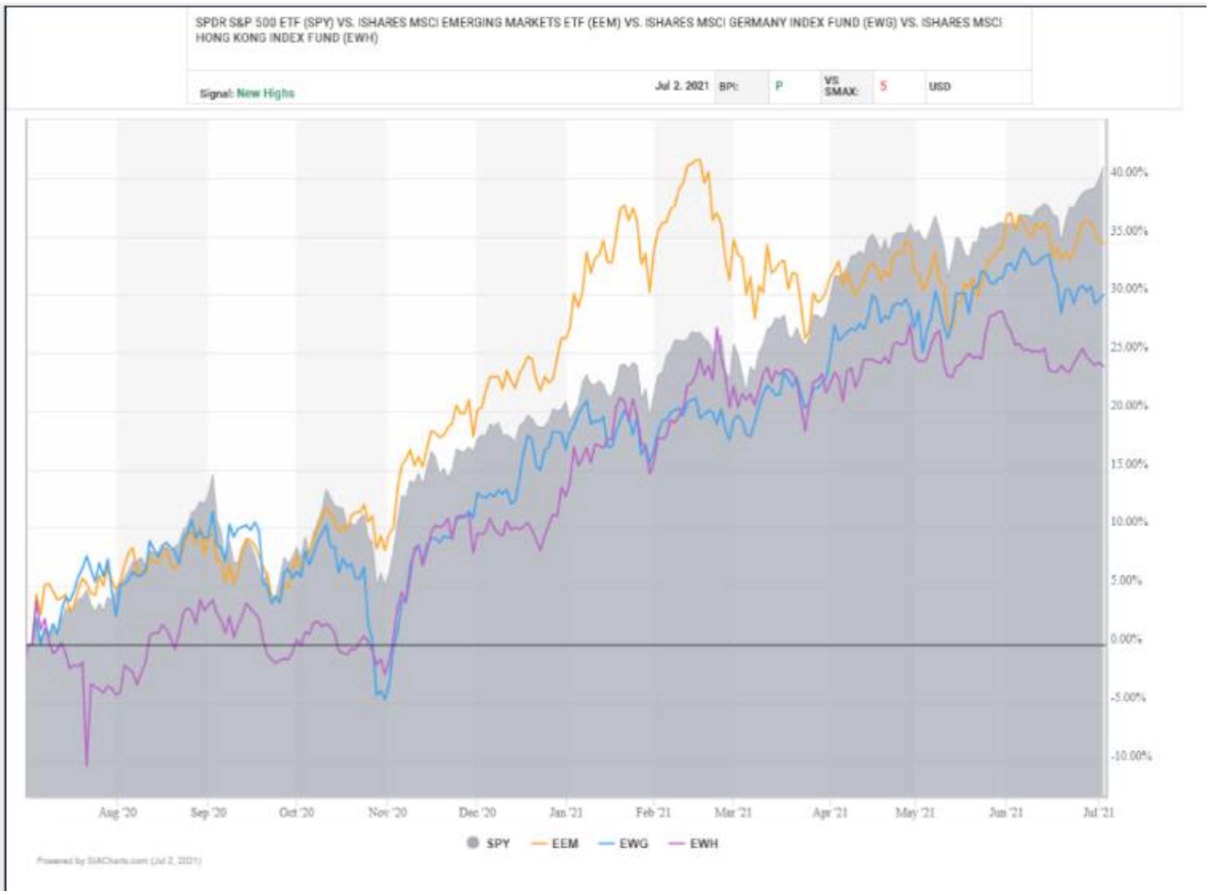
SIACHARTS
STRATEGIC INVESTMENT ANALYSIS

SIACharts Quarterly Chartbook & Outlook – Summer 2021

Global Market Review and Outlook: Key Themes to Prepare for the Coming Quarter

A Sideways Spring Continues into the Summer



Although at different paces, stock markets around the world generally rallied up out of the March 2020 market bottom through the end of the year and into the first weeks of 2021.

However, over the last three months, it has become apparent that this initial liquidity driven boost of recovery anticipation has faded and upward momentum for stocks slowed through the spring. The chart above shows how Emerging Markets (EEM) peaked in January, staged a correction, then levelled off. The S&P 500 was flat through the spring before picking up at the end of June. Hong Kong peaked in late May followed by a peak for Germany in early June before both markets started to backslide.

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Meanwhile, US indices entered a phase of rolling corrections and rebounds over the spring. For example, the NASDAQ 100 (QQQ) peaked in April, staged a sharp correction selloff into May, then resumed its upward course, and broke out to the upside in June. The Russell 2000 (IWM) peaked in March and spent the quarter grinding sideways. The Transportation sector (IYT) rallied into May, then drifted back downward over the last few weeks of the quarter. Rolling takedowns and rebounds such as these can offset each other, leaving broad markets trending sideways.

Combined, this market action indicates that the tone of the market has changed from one of early recovery, to one of consolidation and correction where various indices and sectors which initially raced ahead of their fundamentals recalibrate their price action and values, either through giving back some of their gains or grinding sideways for a while, a trend which could continue into the summer.

Key Investing/Trading Themes for the Coming Quarter

Central Banks and Monetary Liquidity

Three months ago, when producing our spring 2021 quarterly report, US traded interest rates were on the rise along with commodity prices, and investors were becoming concerned that rising inflation could force the Fed and other central banks to start removing some of the easy money liquidity which had provided rocket fuel to the equity market rally that started after the central banks flooded the system with coordinated stimulus in March of 2020.

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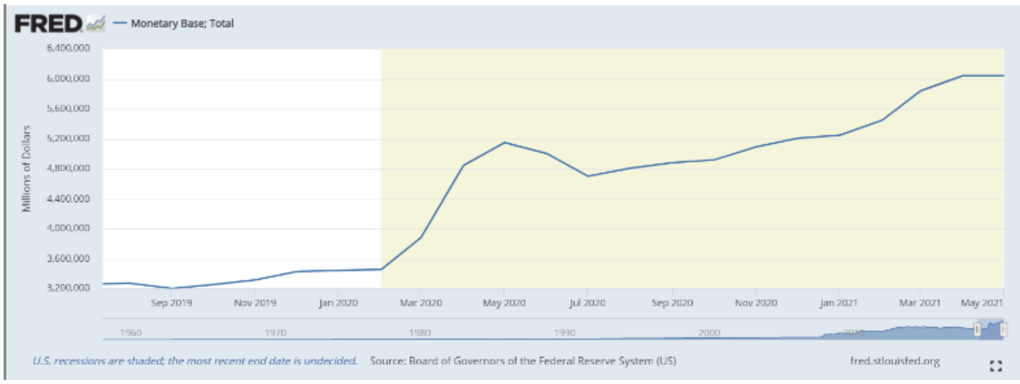
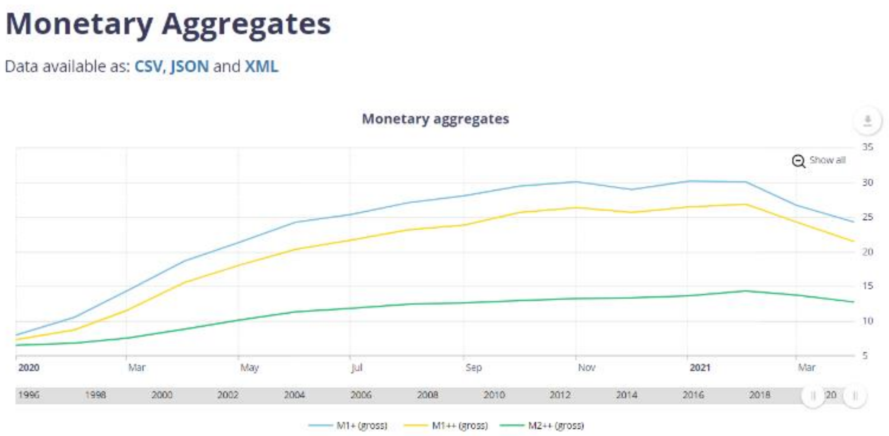
Over the course of the quarter, a steady stream of dovish comments and projections from the Fed convinced investors that the US central bank plans to remain supportive for some time. The 10-year treasury note yield peaked near 1.75% and dropped back toward 1.50% (more on this in the next section) indicated that investor expectations for rising rates had subsided.



The St. Louis Fed Adjusted Monetary Base (aka: the Fed Balance Sheet) shows that pace of growth slowed in Q2 to level off near 6.0 trillion, after rising in the winter from 5.2 trillion in December of 2020 and from 3.5 trillion in February of 2020 before the pandemic stimulus started.

<u>The slowing in US monetary growth could potentially be one of the reasons why US equity market momentum also slowed in the spring.</u>

During the second quarter, the only central bank to start slowing stimulus was the Bank of Canada who started to curtail their first asset purchase program. It is difficult to determine how much of an impact this decision had on the Canadian economy because many provinces went back into lockdown in Q2 while their US counterparts reopened.



The S&P/TSX Composite Index rallied to a new high during the quarter, so this did not have an impact on Canadian equity markets which benefitted from rising energy prices. It is possible the reduction in monetary stimulus may first start to turn up in the red-hot Canadian real estate market.

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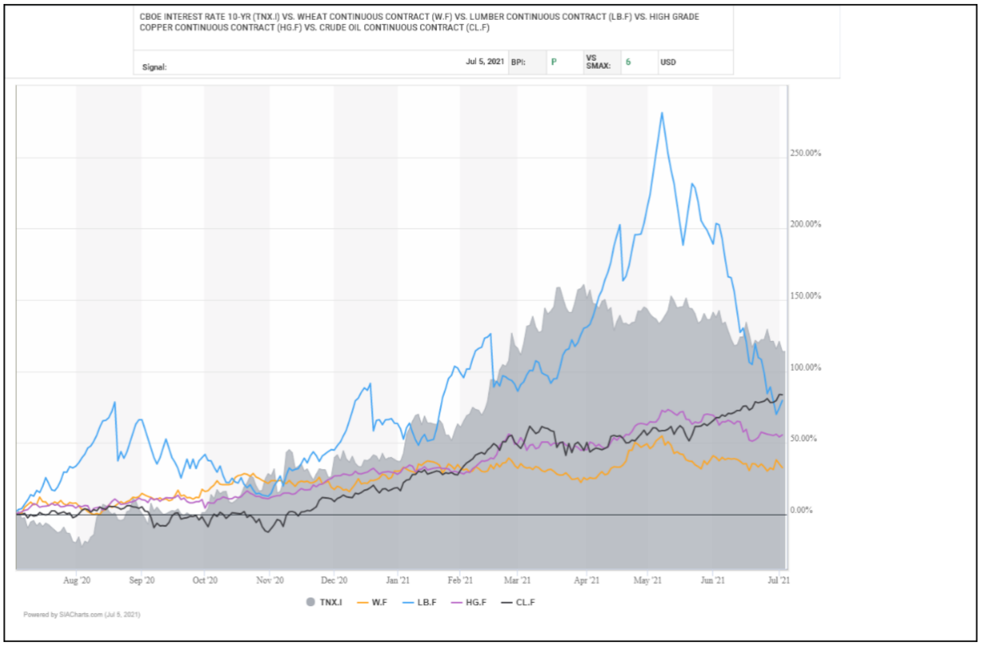
Inflation and Commodity Prices



The grey line in the chart highlights how the US 10-year treasury note yield (TNX.I) roared back to life in the fall and winter, but then peaked in the early spring and has been backsliding in recent months.

The rally in the TNX.I was sparked by rallies in several commodity prices which stoked fears that inflation could take off, forcing central banks to respond by cutting stimulus and/or raising interest rates.

As we moved through the spring, not only did comments from Fed Chair Powell and others showing a willingness to let inflation run in the short-term ease tightening fears, but commodity price action provided evidence confirming the Fed's assessment that price spikes may be temporary. While energy prices steadily climbed right through to the end of June, other commodities such as copper and wheat peaked in May and drifted back downward through June. Lumber perhaps was the most volatile example, soaring in the first half of the quarter and crashing in the second half.

Heading into the summer, the big question for many commodities is whether demand recovery momentum continues, and at what point does a rebound in demand trigger an offsetting increase in supply?

Something else for investors to consider is that commodity prices were extremely depressed in Q2 and Q3 of 2020 but as we move into later 2021 and early 2022 the annual comparisons will move up and inflation could fade naturally.

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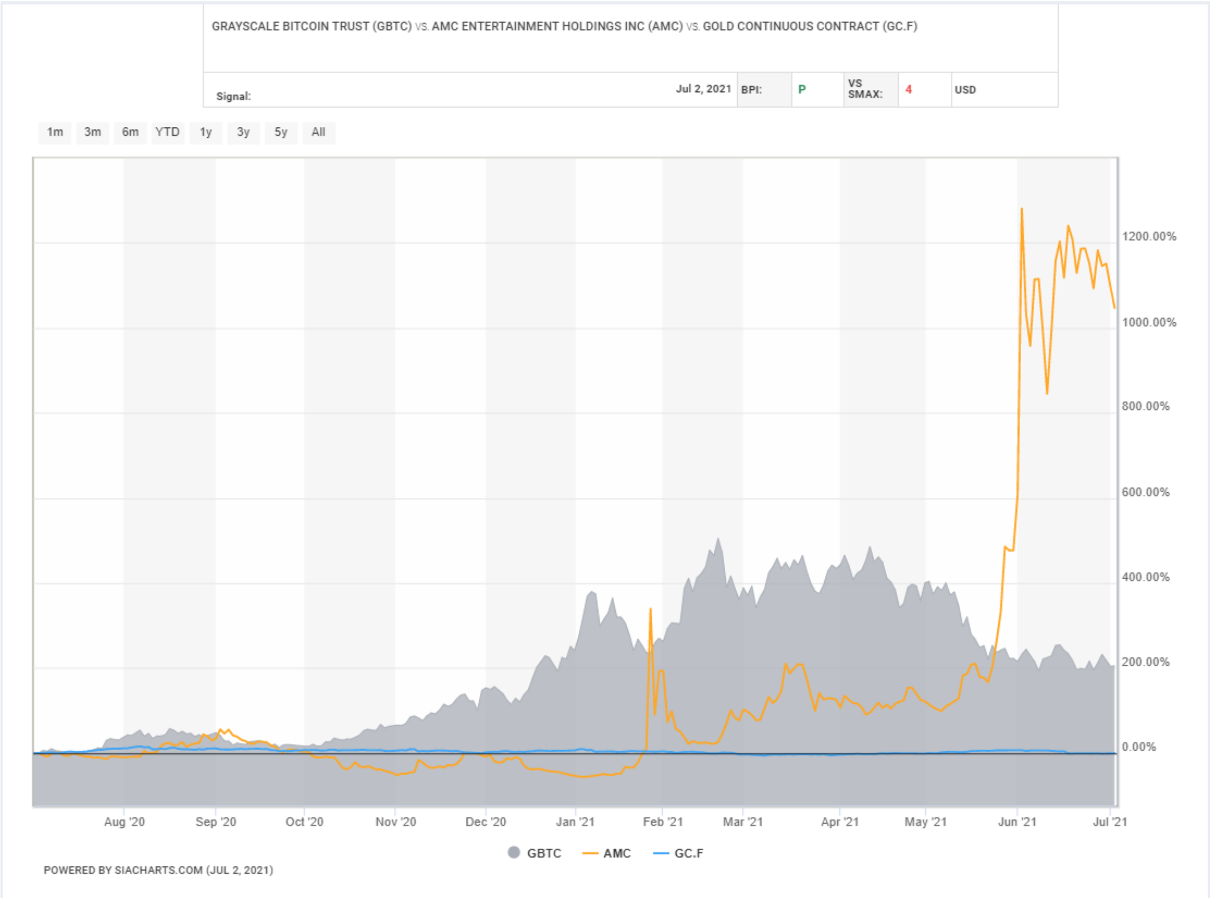
Risk Appetite has Faded…

By the end of the winter, some warning signs related to investor exuberance had started to appear, particularly individual investors charging out of the mainstream indices into alternative areas such as emerging markets, small cap stocks, cryptocurrencies, and Reddit/meme stocks. This type of action often emerges at the end of a bull run when mainstream stocks are fully valued and investors go hunting for opportunities at the margins.



As we mentioned at the top of this review, the main Emerging Markets ETF peaked in February and has been trending flat to downward since then. Through the spring, the fast money moved into other areas. Meme/Reddit/retail trading plays have come in and out of favor over the last few months as shown by action in AMC Theaters (AMC) stock above which popped and dropped in February, then soared in May, and has started to roll over in June. Cryptocurrencies have also been active through the quarter as shown by the longest running Bitcoin ETF (GBTC), which soared between October and March, levelled off through May, and has started to retreat in the last month.

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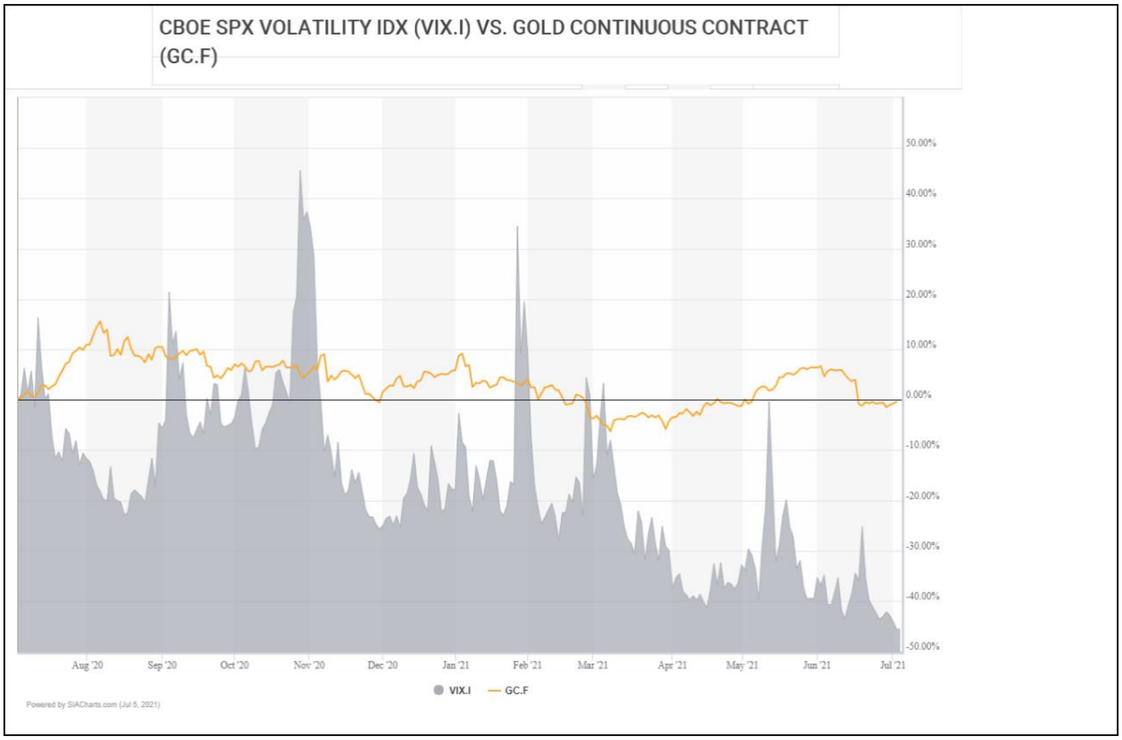
But so has Fear…



While risk markets have been rolling over recently, interesting in its absence is the lack of a rotation into fear plays or defensive havens. Except for a few short blips here and there, the VIX Volatility Index (VIX.I) has been steadily trending downward since the US election in November, a sign that investor confidence, particularly in large cap stocks, continues to improve.

The gold price, meanwhile, has been trending downward since peaking back in August of 2020. Gold did start to pick up a bit between April and early June as the Bitcoin rally faded and capital looking for alternative currencies came back to precious metals. However, this bounce for gold turned out to be short-lived, as the US started a rebound of its own in June.

Although late-stage fast money markets such as those mentioned above rolling over can be suggestive of a market peak, this has not been confirmed by a rotation of capital into defensive positions, suggesting that if there is a shift in sentiment, it is more from positive to neutral than from positive to negative, another sign of a sideways market.

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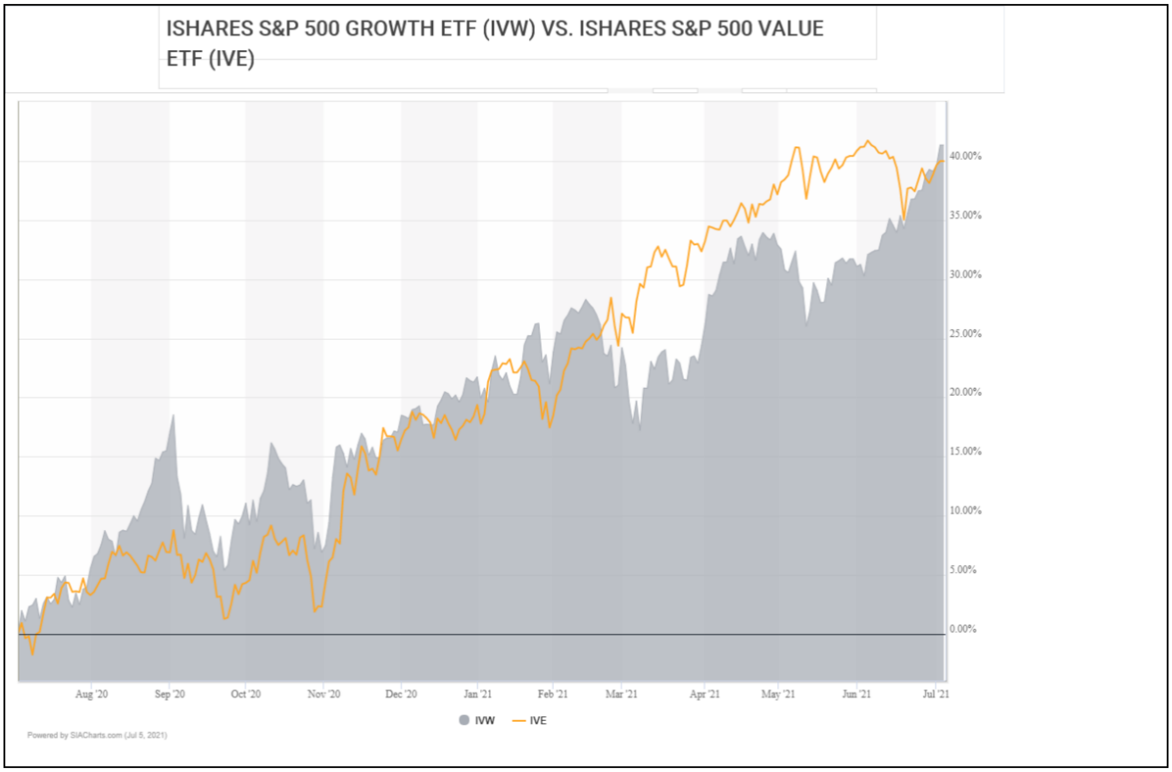
Growth vs. Value



Another way of looking at risk sentiment this is in the traditional comparison of Growth vs Value. The chart shows that Growth (IVW) outperformed through the early recovery in the summer of 2020, but Value (IVE) caught up last fall and then took the lead between February and May.

Recently, Value has levelled off and Growth has accelerated enough that it has managed to catch up and even out this ongoing battle.

Things to Keep an Eye on for Investors in Q2

1) Earnings Season

Perhaps another reason that equity markets have gone sideways lately is that earnings momentum heading into the current quarter is a bit unclear.

A year ago, earnings were heavily distorted by the biggest COVID lockdowns and because of this, year over year comparisons may be difficult.

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The big divergence in results a year ago may also impact results, momentum, and expectations moving forward. Q2 of last year was a spectacular one for stay-at-home stocks, particularly in the communications and technology sectors. Those sectors, year over year comparisons become more difficult and investors may start to ask if their growth momentum can remain high enough to justify their share price and if winter/spring corrections were deep enough to bring valuations back in line.

For stocks impacted more severely by last year's lockdowns and the bigger beneficiaries of this year's drive to reopen, year over year comparisons should be easier. The question is if their business recovery has exceeded or lagged their share price recovery and if they can maintain or accelerate their recovery momentum in the second half of 2021.

2) The Fed's Jackson Hole Conference

Every year in late August, the Fed holds a conference at Jackson Hole, Wyoming, where many of the world's leading central bankers participate. What is most notable about this event is that it has been a popular forum in the past for Fed Chairs to hint toward policy changes they then implemented later in the year.

This year, investors may look to Chair Powell for hints on whether the Fed is considering starting to taper its asset purchase program later this year or into 2022, and if the timetable for future interest rate increases remains the same or is being moved up.

The other central bankers do not usually upstage the Fed, but it may be interesting to see if anyone else hints at changes.

3) Commodity Prices, particularly Crude Oil

Action in commodity prices in the coming weeks may also be of significance for two reasons. First, it would indicate whether inflation pressures are building again or continuing to fade. Second, rising and falling prices provide in part a market assessment on future demand and through that how strong or weak investors are expecting the current global economic recovery to be.

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4) Seasonality

Historically, equity markets have started off the year strong then seen their momentum slow in May-June. The first six weeks of Q3 though earnings season have historically seen equity markets rebound from spring weakness. Mid-August through mid-October has historically been the weakest and most volatile time of the year for stocks. What happens in earnings season and at Jackson Hole could be amplified or offset by seasonal factors.

5) External Surprises

For the most part, markets tend to discount political developments as external noise, but as we saw with the pandemic in 2020, sometimes external forces can have a significant impact on the market. Recent moves by regulators and government officials in China have had a significant impact on recent trading.

The cryptocurrency selloff mentioned earlier was in part sparked by a Chinese government crackdown on the asset class (mining and trading). This seemed like a one-off event at the time, but in July, Chinese regulators announced a cybersecurity investigation into a Chinese company within days of its US listing, a move that also impacted trading/confidence in other Chinese companies inter-listed in the United States.

Summary: Equity market momentum downshifted from a strong uptrend to a sideways trend. This is not unusual at this point in the business cycle as markets which raced up off the bottom now need to recalibrate, a process which started in February and has historically taken 6-12 months to complete. So far, rather than a coordinated sharp drop, both equity and commodity markets have been going through a series of rolling takedowns, where some sectors sold off then bounced while other sectors rallied then faded, all off-setting each other and sending broad indices into sideways ranges that could potentially persist through the summer.

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Asset Class and Sector Ranking Analysis

SIA Charts Asset Class Ranking		
As of June 30, 2021		
Asset Class	Change*	
Commodities	+3	
CAD Equity	-1	
US Equity	-1	
International Equity	-1	
Cash	none	
Currency	none	
Bond	none	
*Change in Ranking Since Mar. 31, 2021		
Source: SIA Charts		

The biggest change in the SIACharts Asset Class Rankings during Q2 was a surge by Commodities from the middle of the pack to top spot, primarily driven by strength in energy prices (crude oil, natural gas, gasoline) and lumber for part of the quarter.

With commodity price strength propelling resource stocks higher, the resource sector sensitive CAD Equity topped all other equity asset classes. The non-equity Cash, Currency, and Bond asset classes remained mired in the bottom of the rankings, firmly below the three equity asset classes, supporting a Green - Favored SIACharts Equity Action Call™.

This quarter saw several changes in the SIACharts Industry & Sector rankings. The most significant move was Financials moving up two spots out of the red zone and into the yellow zone and Industrials moving up two spots from the yellow to the green zone. Sentiment toward banks improved dramatically in the quarter after seniors on both sides of the border slashed their loan loss provisions as economic conditions improved and US banks passed stress tests allowing them to resume paying dividends and buying back stock this summer.

SIA Charts Sectors Ranking		
As of June 30, 2021		
Sector	Group	Change*
Consumer Discretionary	Cyclical	none
Industrials	Cyclical	+2
Energy	Resource	none
Communications Serivces	Cyclical	-2
Consumer Staples	Defensive	+1
Financials	Interest Sensitive	+2
Information Technology	Cyclical	-2
Materials	Resource	-1
Real Estate	Interest Sensitive	+1
Health Care	Defensive	-1
Utlities	Interest Sensitive	none
*Change in Ranking Since Mar. 31, 2021		
Source: SIA Charts		

Resource sectors were split with Energy holding near the top of the table but Materials backsliding as lumber, metals, grains, and softs fell back. Stay at home sectors Technology and Communications both dropped in the rankings, while Industrials, Consumer Staples, and Real Estate moved up as Value sectors outperformed Growth sectors through much of the quarter.

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NASDAQ Composite Index (NASD.I)

The NASDAQ Composite (NASD.I) soared up out of its March 2020 bottom, clawing back its losses by June 2020 and soaring to new highs in and upward trend that continued into February.

After staging a correction in March, the NASDAQ regained its footing and shifted into correction mode through most of the spring.

Recently, NASD.I has broken out to a new all-time highs and has completed a bullish Double Top breakout to add to a previous bullish Spread Double Top pattern.

Based on a cluster of vertical and horizontal counts, next potential resistance for NASD.I appears in the 15,435 to 15,745 area. Initial support appears near 13,975 for a round number, previous breakout, and 3-box reversal cluster. With a bullish SMAX score of 7, NASD.I is exhibiting strength relative to the asset classes.

Dow Jones Industrial Average (DJI.I)

The Dow Jones Industrial Average (DJI.I) is sending mixed signals now.

The Dow Industrials have been in a broad upward trend since March of 2020 but have levelled off in the 33,000 to 35,000 range since May.

At this point it is unclear if this is a pause in an ongoing uptrend or a distribution top before a downturn.

On the bullish side, DJI.I is trading near the top of its current range, is in an X column, and has a positive SMAX score of 7, indicating strength relative to the asset classes. On the bearish side, a Double Bottom Point and Figure chart pattern is still active.

A breakout over 35,000 would be bullish and would signal the start of a new up-leg with next potential resistance between 38,315 and 38,700 based on vertical and horizontal counts. One concern, however, is that it may be difficult for the Dow Transports to confirm a breakout by the Industrials in the near term.

A breakdown below 33,000 would be bearish. It would complete a second double bottom breakdown, signal the start of a new down-leg, and confirm a recent breakdown by the Dow Transports. Next potential downside support on a breakdown appears near 31,100 based on a previous column high.

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Dow Jones Transportation Average (DTX.I)

It is amazing in hindsight to see the Dow Jones Transportation Average with its exposure to the airline and cruise ship sectors that were impacted so badly by COVID lockdowns was able to retrace all of its losses by September of 2020, benefitting from its exposure to railroads and package delivery companies.

The technical picture for the Dow Transports has turned bearish in recent weeks. Following a bearish Double Bottom breakdown below 1,530 last month, DTX.I has continued to fall, retracing its previous high pole rally, and staging its worst breakdown since March of 2020.

Next potential downside support appears near 1,370 based on a horizontal count, while it would take a move back above 1,525 at least to move back into a column of Os and above 1,585 to signal a bullish low pole warning.

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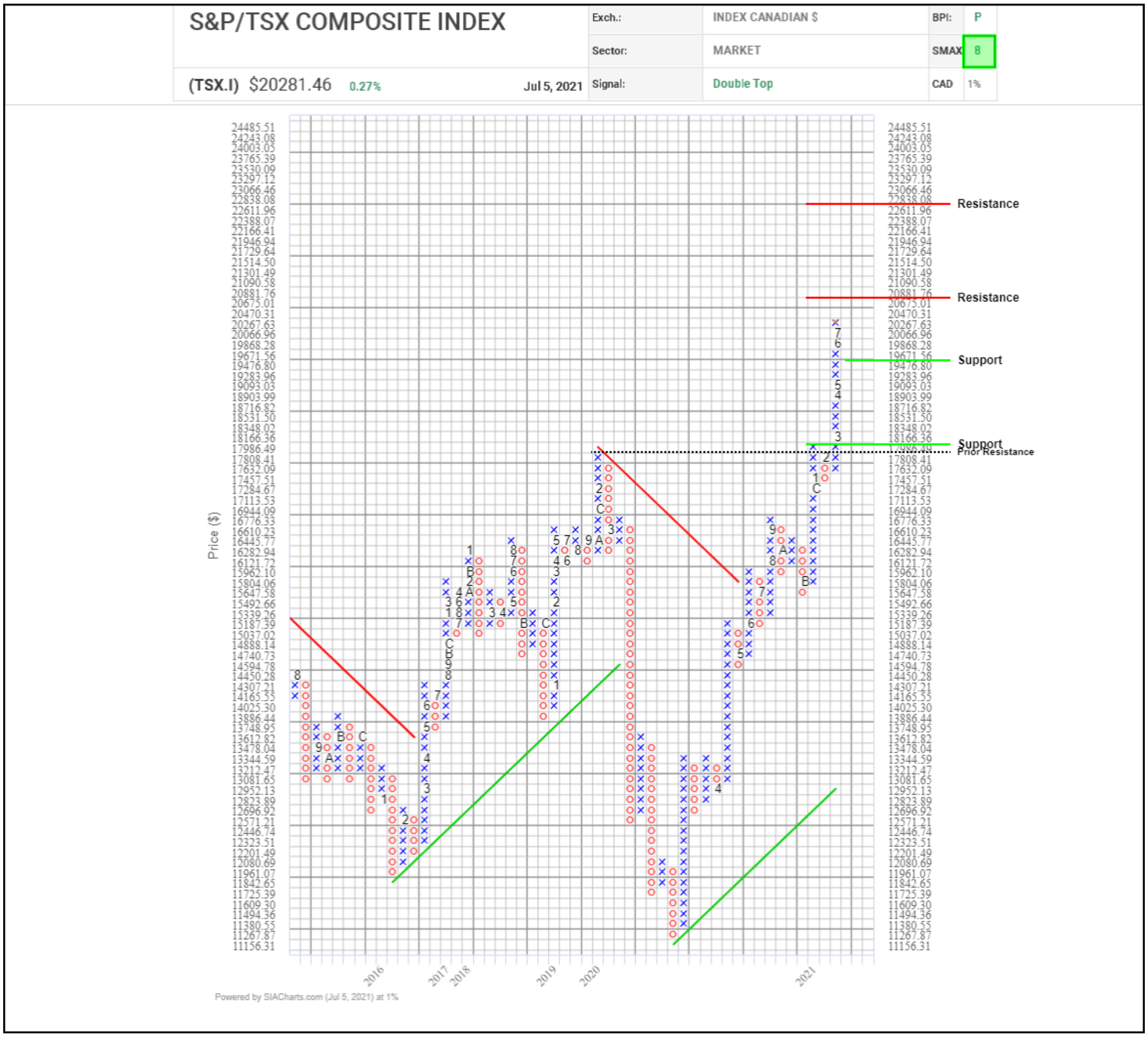
S&P/TSX Composite Index (TSX.I)



Since November, the S&P/TSX Composite Index (TSX.I) has been in a strong uptrend of two high poles divided by only one 3-box correction back in February, propelled by gains in the Energy, Financials, and other sectors. The current advance has carried the index from near 15,500 to new all-time highs above 20,250.

Although the TSX.I is starting to approach a potential resistance point near 20,880 where vertical and horizontal counts cluster, technical indicators have remained bullish. The SMAX score of 8 indicates strength relative to the asset classes and it would take a drop back under 19,475 to trigger a 3-box reversal into an O column.

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Crude Oil Continuous Contract (CL.F)

Coming off of a moderate correction in April, Crude Oil (CL.F) staged another strong surge upward through the spring, boosted by a combination of improving demand and supply management. With perfect SMAX score of 10, CL.F is exhibiting strength relative to the asset classes.

A June breakout carried CL.F to its highest level since 2018 and toward a key technical test. Back in 2018, the price of oil peaked near $76.90 when President Trump opened strategic reserves to increase supply and knock the price back down. Crude oil is once again approaching its 2018 peak. At this point, it remains to be seen what President Biden's pain threshold is, but it's also possible that a supply response could come from elsewhere as the turn of the quarter has found the UAE derailing OPEC+ talks on supply restoration, looking for a better deal for itself within the group.

A breakout over $76.90 would signal the start of a new advance with next potential resistance near $83.15 then $93.35 based on vertical and horizontal counts. A failure to break out would suggest resistance remains in place with initial support possible near $68.20 based on a 3-box reversal.

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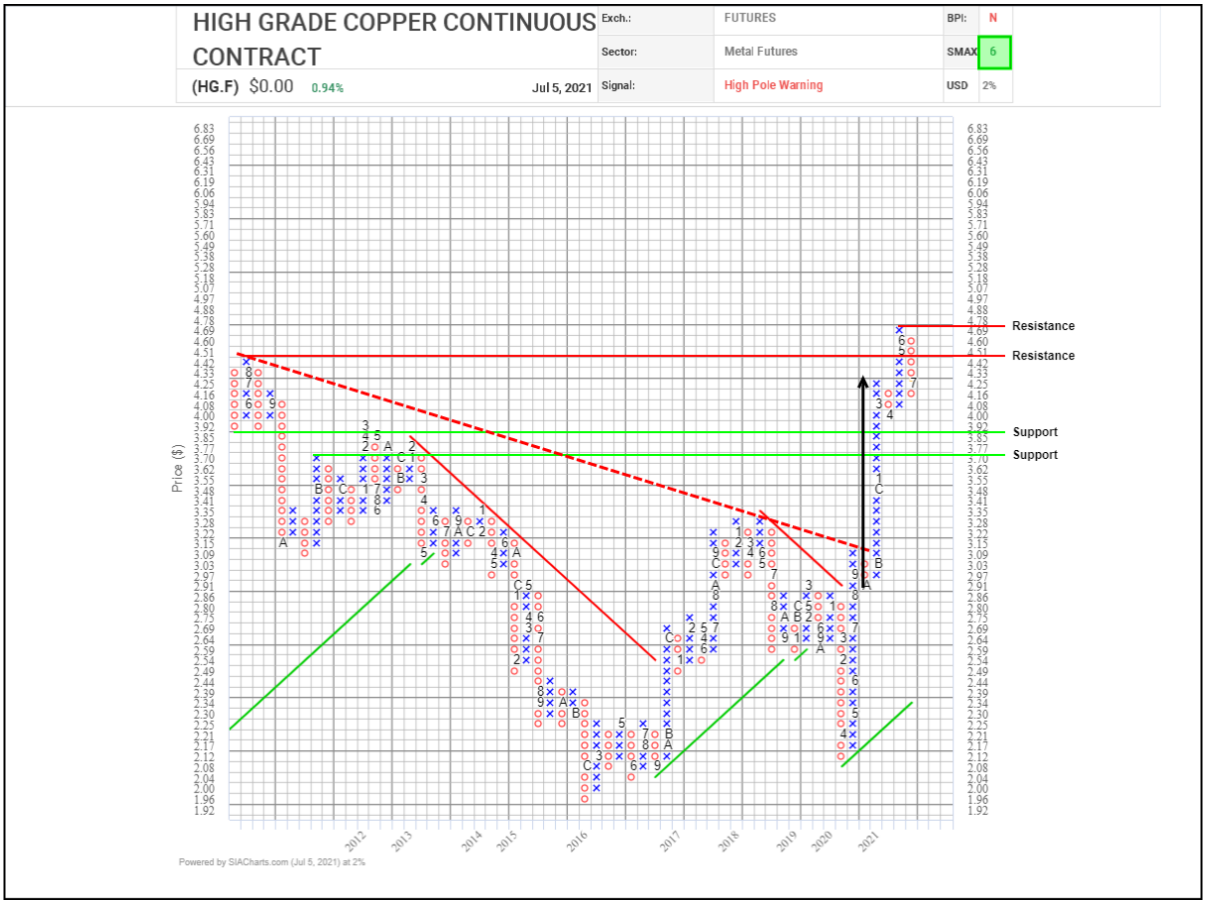
Copper Continuous Contract (HG.F)



As a commodity with wide applications, investors often look to copper for an indication of global demand for resources from economic conditions and of general sentiment toward commodities. This long-term chart highlights the significant of recent action in the copper price.

Back in the winter, copper broke out over $4.00/lb for the first time in over a decade. This indicated the end of a long-term bear market for commodities and the start of a new bull market. New interest in copper continued into the spring and carried the price toward $4.75, within striking distance of $5.00 before faltering.

In recent weeks, a moderate correction has been unfolding in copper that triggered a high pole warning signal, but as long as the pullback remains contained above the $4.00 breakout point, the underlying uptrend remains intact.

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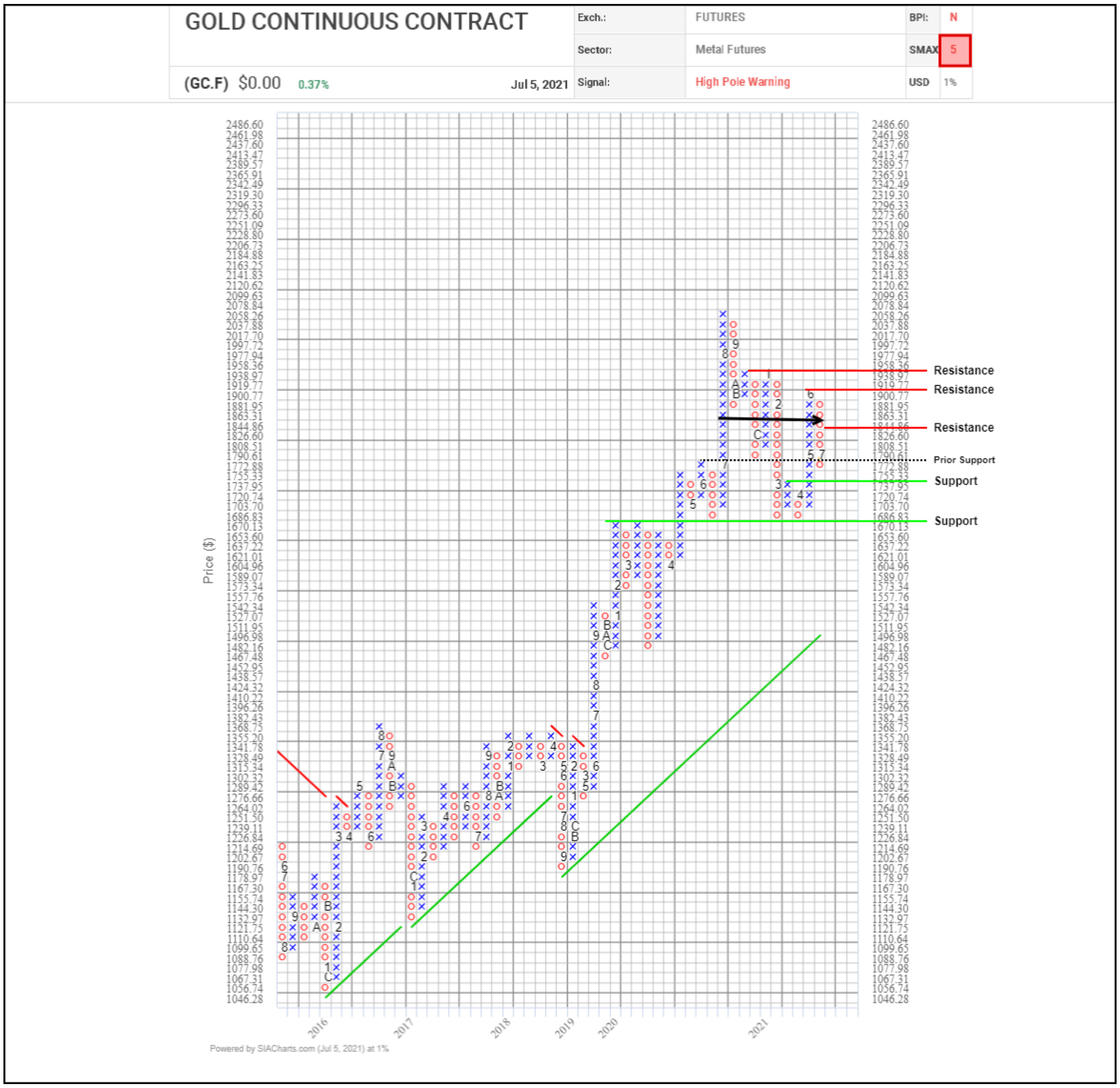
Gold Continuous Contract (GC.F)



Trading in Gold (GC.F) over the last few months has confirmed that the upward trend which peaked last summer above $2,000/oz last summer is over, and a new sideways trend has emerged. Back in March, a selloff was contained by support near $1,675, a previous breakout point.

A spring rebound on inflation concerns carried gold back up above $1,900 briefly but gold then faltered, confirming the high side of the range near $1,960.

The current pullback has broken potential support near $1,775, but more appears possible at a column low near $1,755. Initial resistance appears near $1,845 based on a 3-box reversal.

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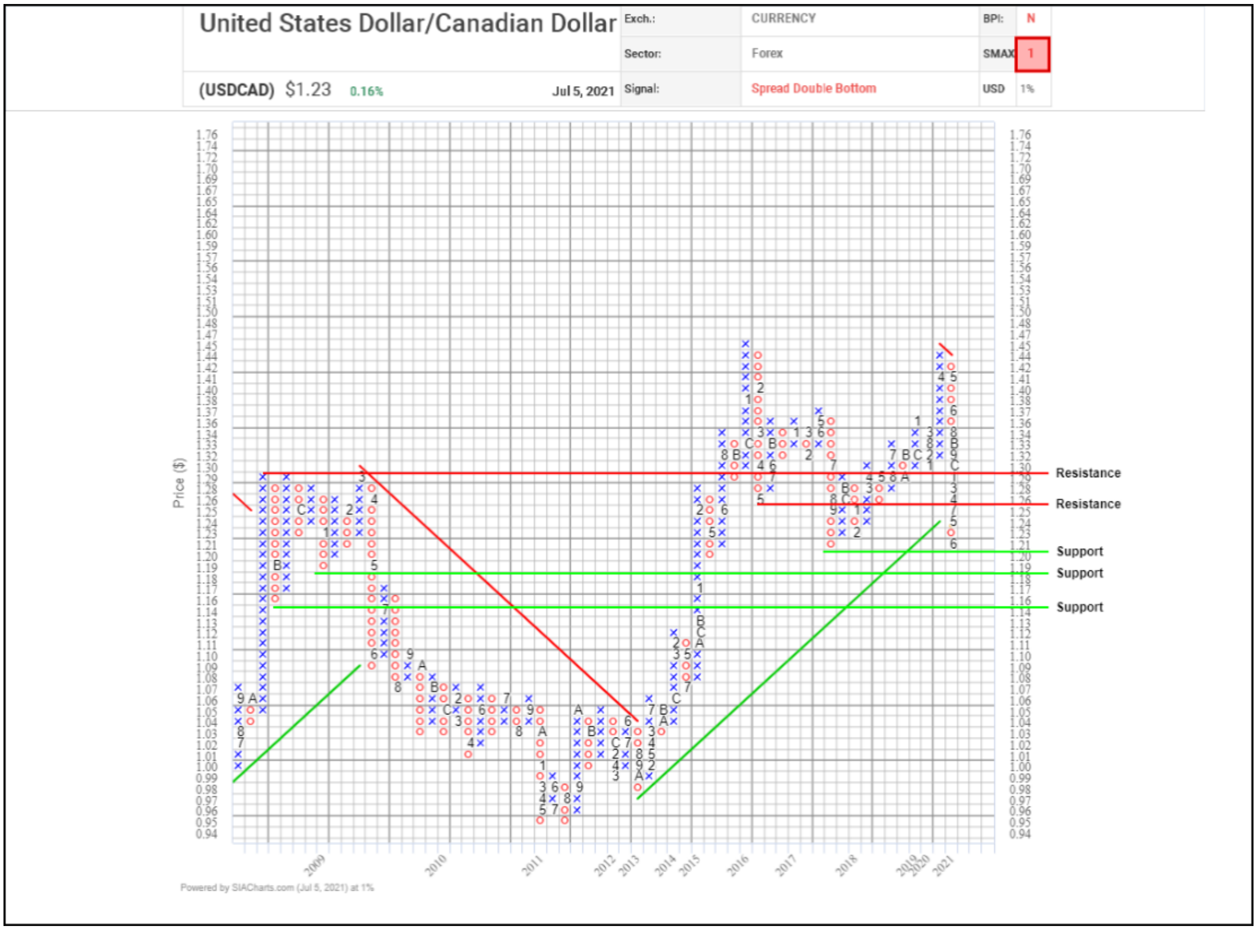
United States Dollar / Canadian Dollar (USDCAD)



Propelled by rising commodity process and a more hawkish central bank (The Bank of Canada started to curtail its asset purchase program while the Federal Reserve Board remained in flat out stimulus mode), the Canadian Dollar continued to climb relative to the US Dollar through the spring.

The US Dollar / Canadian Dollar (USDCAD) has now reached a key technical test after snapping an uptrend line in the spring. The pair has bounced up off of $1.2000, the previous low set back in 2017, confirming support there on a combination of weakening commodity prices causing a tailwind for the Loonie to fade, and a general rebound for the US Dollar against multiple currencies. The central bank divergence remains unchanged.

Initial rebound resistance may appear in the $1.2500 to $1.2600 area where a round number and a 3-box reversal converge. A break below $1.2000 would signal the start of a new down-leg with next potential support near $1.1800 and $1.1400 based on previous column lows.

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