SIACharts Quarterly Outlook & Chartbook – Summer 2022

In this Q3 Outlook, we look at the question of whether stocks and bonds could be close to a bottom or is there potentially more pain to come? Let's look across asset classes, sector analysis, & compare action over this year with the bear market of 2007-2008. We will also look at market seasonality, particularly in midterm election years, and highlight important charts!

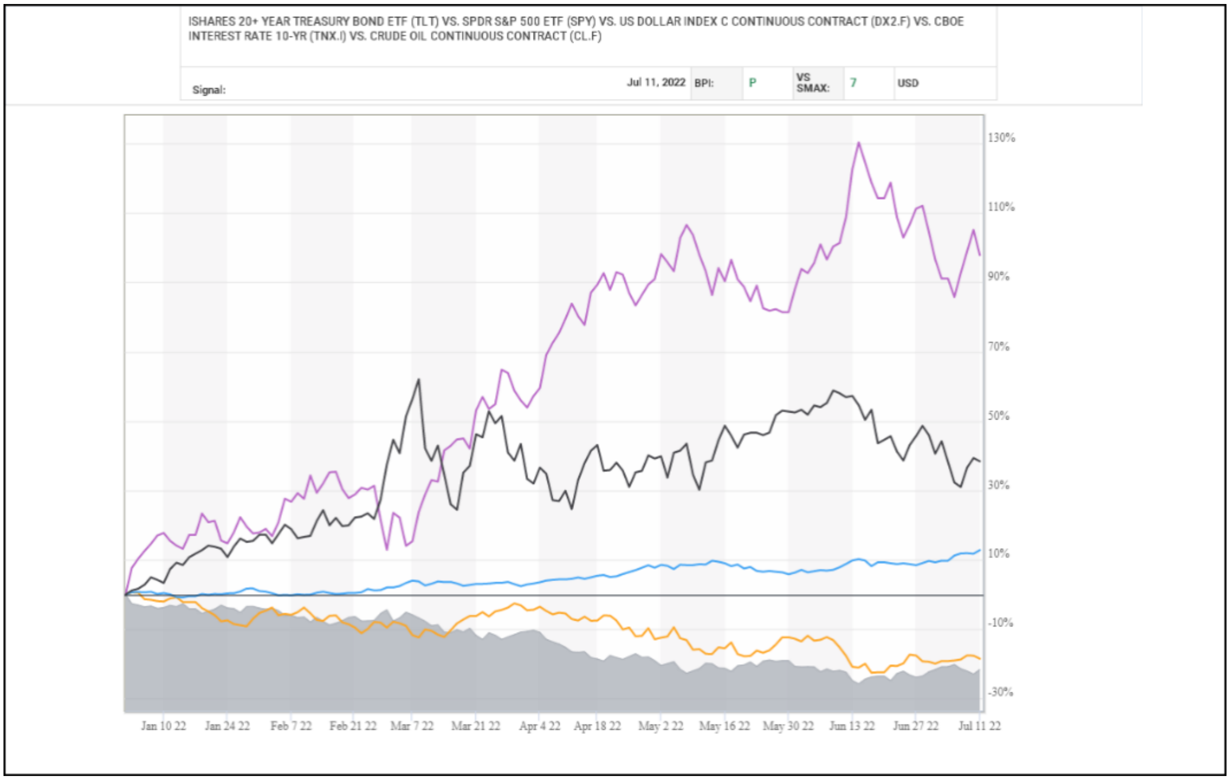
Summary: The first half of 2022 was one of the worst in several decades. Declines in stocks, bonds, cryptocurrencies, and commodities left investors with few places to hide outside of US cash, gold, and oil, but oil has been fading lately. Heading into Q3, inflation remains high, central banks remain in tightening mode, and signs of a recession continue to increase. Experience suggests the second half could be particularly volatile, particularly in the run up to the November US midterm election and with the SIA Equity Action Call™ in the Unfavored Zone, risk for equities remains high.

SIA Charts Inc.
Tel: 1-877-668-1332
Email: siateam@siacharts.com
Web: www.siacharts.com

What Could the Arrival of Stagflation Mean for Different Asset Classes?

Stagflation, a period of high inflation and weak business conditions stormed into the spotlight in the second quarter, after being a growing concern for some time, bursting into prominence for the first time since the late 1970s or early 1980s.

For the last forty years, a downward trend in inflation and interest rates had enabled central banks to focus on strengthening the economy, bringing in stimulus any time things slowed down. This time around, however, despite signs of a slowing economy, central banks have had to shift their focus to fighting inflation. Yesterday, the Bank of Canada raised its benchmark interest rate 1.00% which was more than the 0.75% increase the street had expected and double the pace of the previous meeting's 0.50% hike. Meanwhile, the US announced that consumer price inflation was 9.1%% in June, it's highest level in over forty years! It even appears possible, that rather than propping up a weak economy, central banks may need a recession to purge inflation pressures and other imbalances in economies and markets.



In many ways, Q2 had the feeling of a controlled demolition, with central banks possibly looking to slowly let the air out of asset bubbles while trying to avoid a sudden burst that could cause larger problems. As the quarter progressed, interest rate increases accelerated, with reports of slowing auto and real estate sales, and increasing layoffs increasingly turned up in headlines.

For most of the quarter, it seemed like there was nowhere to hide outside of energy (black). As interest rates (purple) rose, bonds (gray) steadily declined while the US Dollar (blue) rallied. As business

SIA Charts Inc.
Tel: 1-877-668-1332
Email: siateam@siacharts.com
Web: www.siacharts.com

conditions worsened stocks (orange) declined as well, with the S&P 500 falling 20% in the first half, its worst start to a year since 1970.

Toward the end of June, even commodities like oil started to be impacted by recession fears while stocks and bonds stabilized raising the question of whether this is a pause or a bottom.

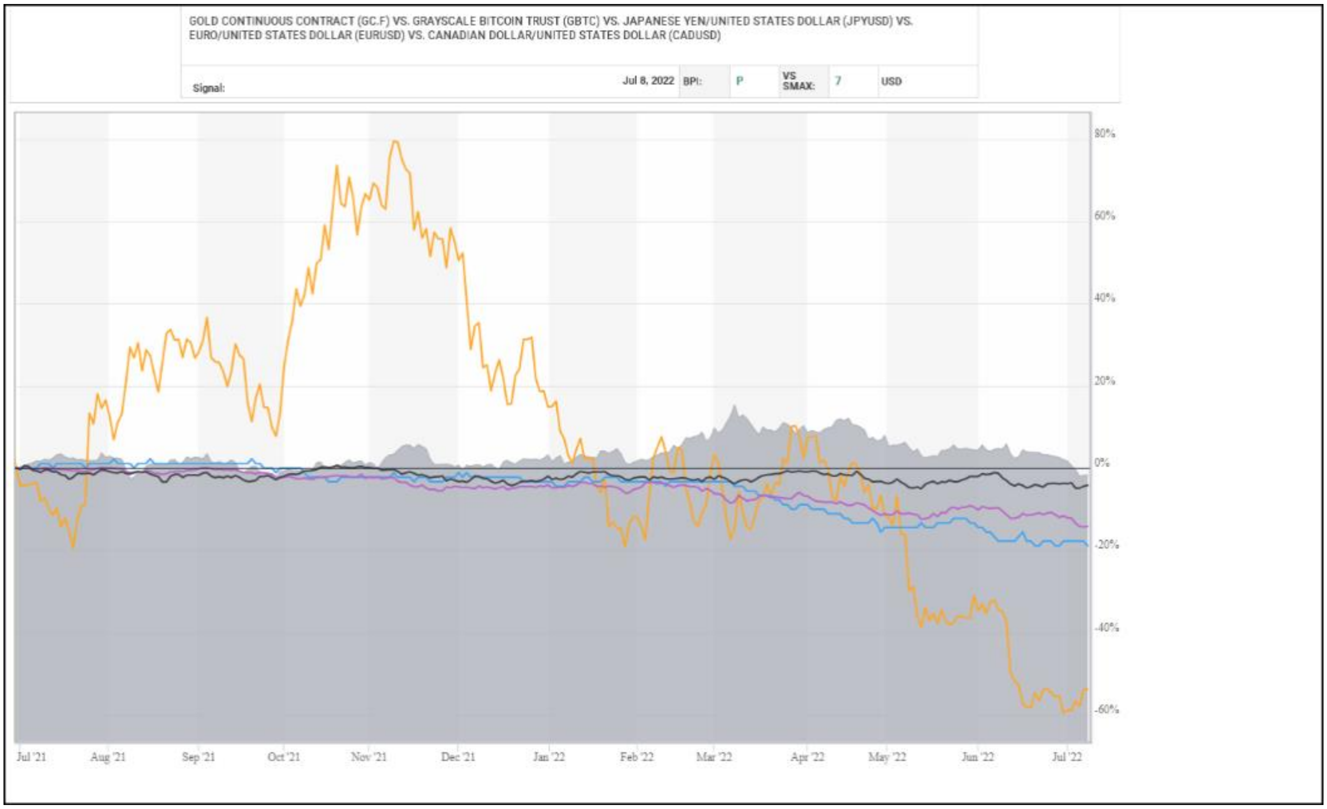
All Major Equity Markets Negative in the First Half

This one year chart shows how international equities including emerging markets (black), Hong Kong (purple) and Germany (blue) have been trending downward for over a year now. US (grey) and Canadian (orange) equities held up longer but have also turned downward in recent months.

The potential impact of sanctions on Germany's energy supply and industry have dragged on its stocks recently, while Hong Kong appears to have stabilized. Canada had been the top performing index and even spent a good chunk of this year in positive territory, but with energy prices turning downward in the last few weeks, it has started to weaken as well.

SIA Charts Inc.
Tel: 1-877-668-1332
Email: siateam@siacharts.com
Web: www.siacharts.com

US Dollar Dominance & What does this mean for Earnings Season



This one year chart highlights how much investor sentiment has changed over the last year. For much of 2021, Bitcoin (orange) soared as enthusiastic traders piled in. Toward the end of last year, Bitcoin started to crumble and so far this year, it has been the worst performing currency by a wide margin with more cautious investors heading for the door in a series of selloffs.

In contrast, gold (grey) has retained its role as a store of value over the last year, only fading a bit recently as the US dollar has soared and overpowered everything else. The Japanese Yen (blue) had historically been seen as a defensive currency, but not this year. The Bank of Japan's refusal to end stimulus and start tightening like other central banks has led to a big selloff in its currency. The European Central Bank dragging its feet plus questions over sovereign degt and vulerability to Russian energy supply has also weighed on the Euro (purple). The Canadian Dollar (black) had been steady relative to the US Dollar but also has slipped back a bit lately with the price of oil backsliding.

The impact of a rising US Dollar on corporate earnings may become more apparent in the current earnings season or the next one. Historically, a higher US Dollar has negatively impacted US companies who export (increase the foreign price of US goods) and large multinationals because earnings from overseas subsidiaries shrink when translated back to a higher US Dollar. In contrast, a higher US Dollar tends to positively impact US companies who import goods, notwithstanding current supply chain problems, while having a neutral impact on domestically focused companies.

SIA Charts Inc.
Tel: 1-877-668-1332
Email: siateam@siacharts.com
Web: www.siacharts.com

Commodity Selloffs Suggest a Recession may be Coming

Coming out of the 2020 bear market, commodity prices soared as economies reopened from COVID lockdowns and monetary stimulus boosted the world economy. Moving into 2021, demand remained strong and commodites were able to continue climbing as supply constraints became more evident. In the cases of crude oil (grey) and wheat (black), disruptions from the war in Ukraine and related sanctions on energy and grains kept those sectors higher for longer.

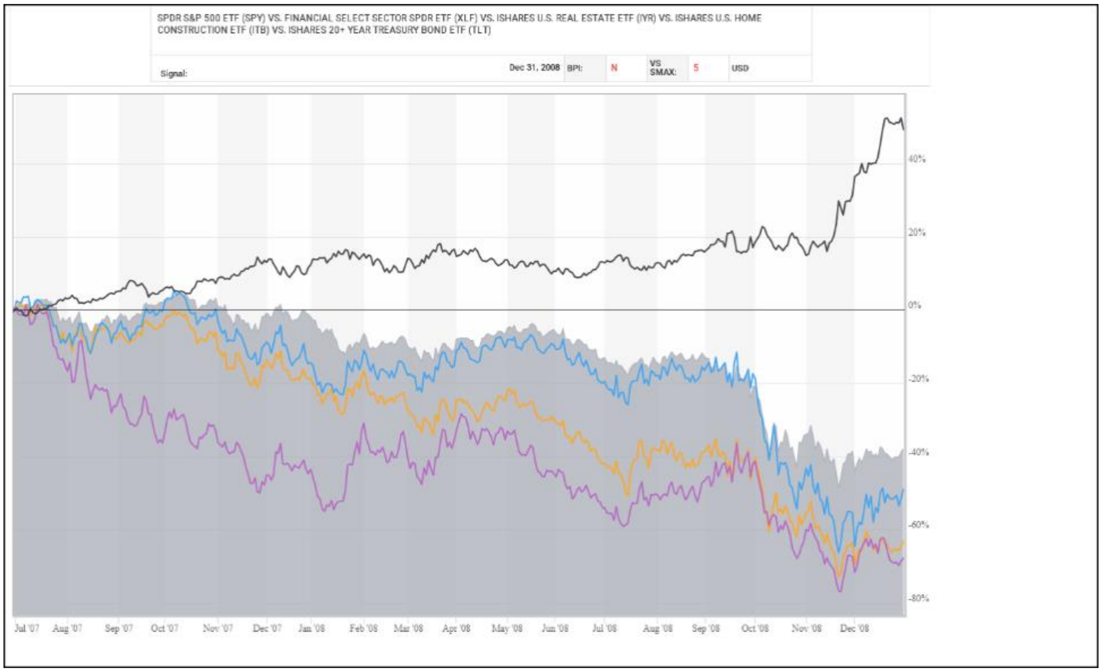
In the last few months, concerns about supply shortfalls have shifted to concerns about demand shortfalls as economies around the world have started to slow due to the impact of rising interest rates (North America), new COVID lockdowns (China) and a combination of factors (Europe).

Supply chain problems in the Automotive sector have kept a lid on platinum (orange) for the last year. lumber (purple) started to crumble in March followed by copper (blue) starting to fall off sharply in May. More recently, crude oil and wheat have started to drop back down as well. These declines also have started to weigh on resource stocks.

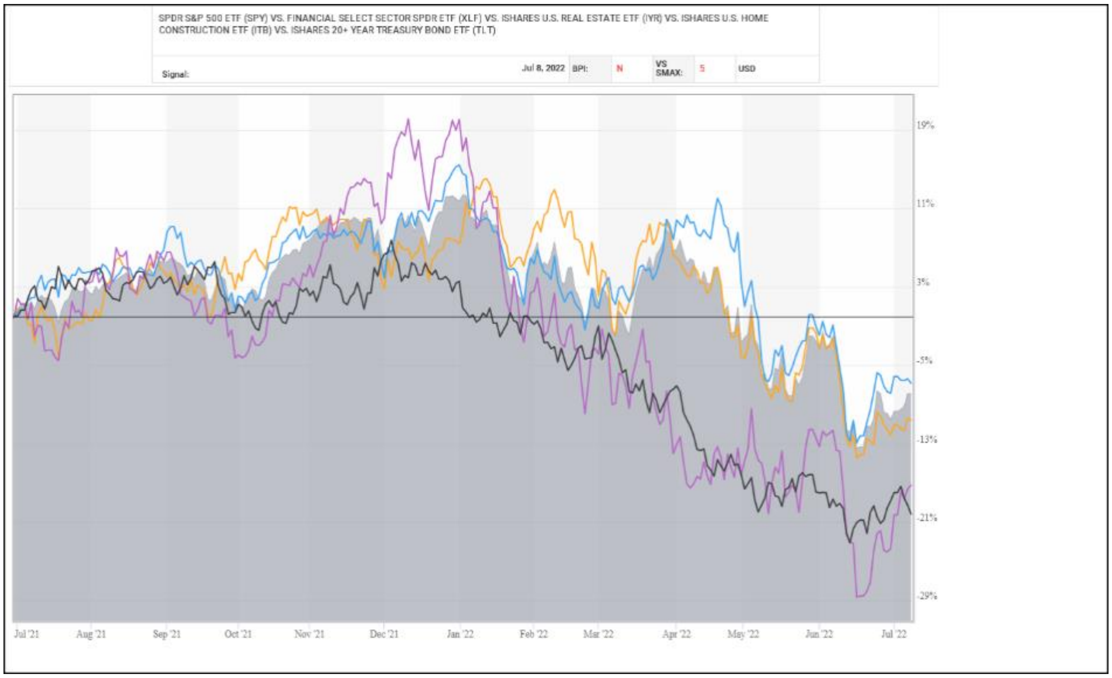
In the next four sections, we contrast sector action mainly in equities in 2021-2022 so far with what happened in 2007-2008.

SIA Charts Inc.
Tel: 1-877-668-1332
Email: siateam@siacharts.com
Web: www.siacharts.com

Sector Analysis – Interest Rate Sensitive ETFs



Before looking at sectors, we will start with the very different action in stocks and bonds. The S&P 500 (grey) peaked in October of 2007 and steadily drifted downward for about a year, losing approximately 20% along the way. In late September, the financial crisis and recession really took hold and the broad market took another sharp 20% tumble. This year, the S&P 500 peaked in January and has been steadily dropping, losing about 20% in the first half of this year.



The biggest difference so far has been in bonds (black). In 2007-2008, bonds acted as a defensive play, steadily rising through most of that time and then really accelerating upward in November of 2008 after stocks crashed and central banks unleashed stimulus.

SIA Charts Inc.
Tel: 1-877-668-1332
Email: siateam@siacharts.com
Web: www.siacharts.com

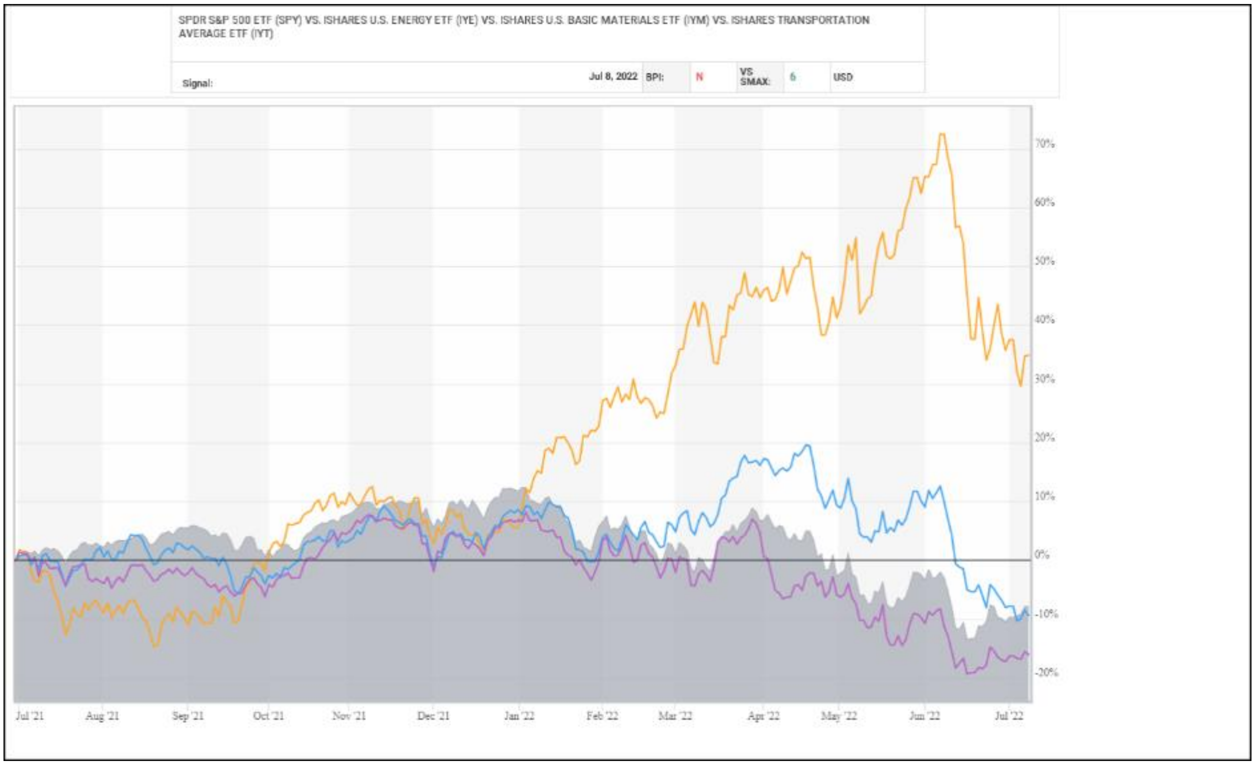
This year, bonds have not provided a cushion, instead consistently falling with stocks as interest rates have climbed.

Looking at the sectors, in both cases, homebuilders (purple) consistently underperformed the markets. In 2007-2008, Financials (orange) increasingly underperformed as time went on and Real Estate (blue) came under heafy pressure near the end of 2008. So far in 2022, Financials and Real Estate have held up well essentially trading in line or slightly better than the overall index.

<u>The 2008 experience does suggest that it is possible that bonds could potentially bottom out first.</u>

Sector Analysis – Commodity Sensitive ETFs

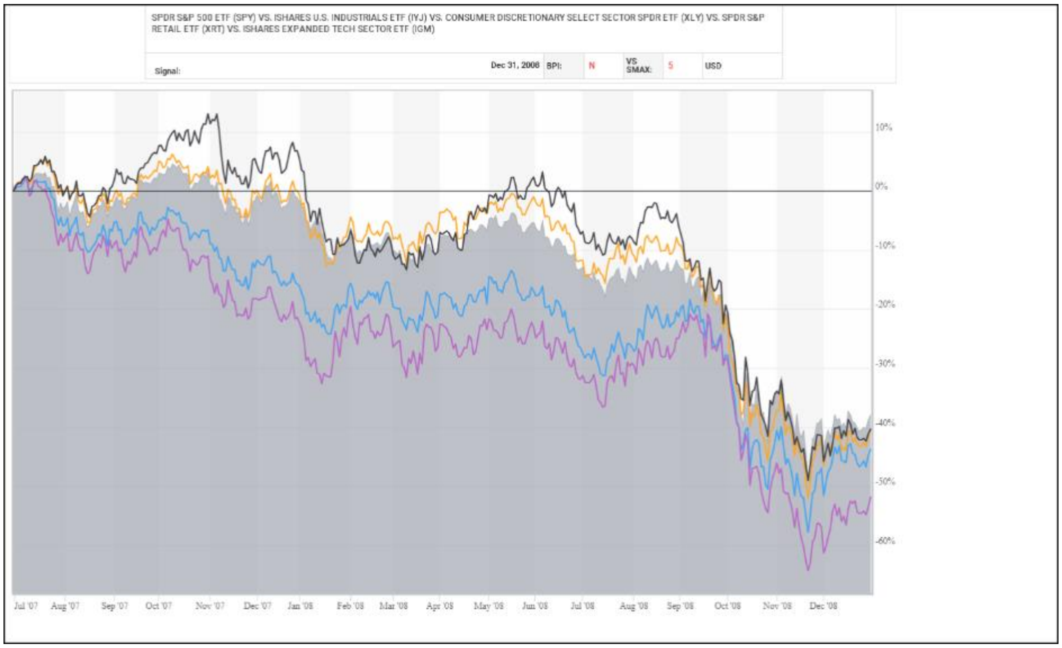
Back in 2007-2008 the performance of Energy (orange) and Materials (blue) ETFs was quite similar, increasingly outperforming up until June of 2008, then steadily declining over the summer before dropping off a cliff in the fall of 2008 as the eocnomy cratered. Transports (purple), outperformed by a smaller amount up to June of 2008, then held steady through the summer and collapsed with the market in the fall of that year.



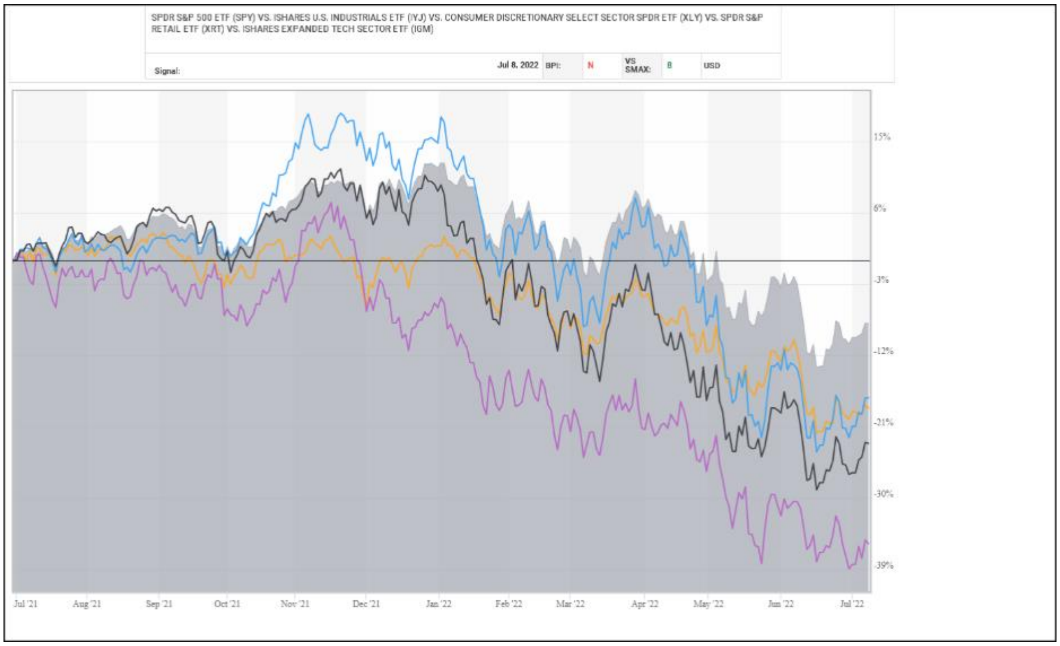
In 2021- 2022, transportation stocks have been underperforming the market, impacted by supply chain snarls at ports and elsewhere, and by rising fuel costs. Energy and materials had been similar to the market in late 2021.

Energy soared from the start of this year through to early June. While they have slumped back quite a bit, energy remains relatively strong compared with the market and other sectors. In contrast, materials only outperformed by a smaller amount from March to May before turning back down and erasing any outperformance relative to the index over the last year.

Sector Analysis – Cyclical ETFs



There are some interesting differences in the relative action of cyclical sectors between time periods. In 2007-2008, retailers (purple) increasingly underperformed the market as the economy went off the rails, with consumer discretionary (blue) only doing a little less badly.



In contrast, industrials (orange) and technology (black) performed in line or slightly better than the S&P until pretty much everything crashed in September of 2008.

This year, retailers once again have been leading the way downward but this time it has been joined by technology and to a lesser extent industrials and consumer discretionary.

SIA Charts Inc.
Tel: 1-877-668-1332
Email: siateam@siacharts.com
Web: www.siacharts.com

Although there has been the occasional trading bounce, so far there has been nothing to suggest we are anywhere near a bottom.

Sector Analysis – Defensive ETFs

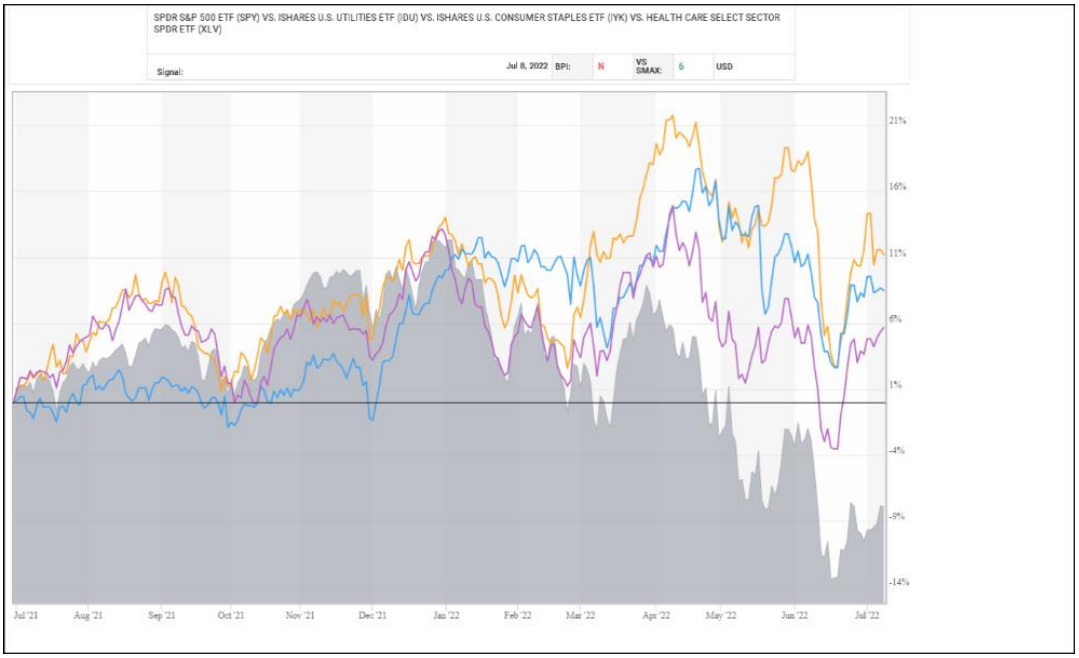
Analysis of market action in 2007-2008 and 2021-2022 indicates that in general, defensive sectors can provide some protection or at least a smaller decline in the early stages of a bear market.

When things really hit the fan and markets crash such as in September of 2008 or March of 2020, as seen below, however, there appears to be no substitute for a tactical rotation into cash.

SIA Charts Inc.
Tel: 1-877-668-1332
Email: siateam@siacharts.com
Web: www.siacharts.com

In 2007-2008, up until July of 2008, Utilities (orange) were the strongest performer, while Consumer Staples (blue), and to a lesser extent Health Care (purple) had last gasp surges

in the late summer of 2008. After pretty much everything fell off a cliff in October of 2008, the defensive groups once again started to outperform but declines of 20%-30% compared to a loss of 40% for the market were still a tough pill to swallow.



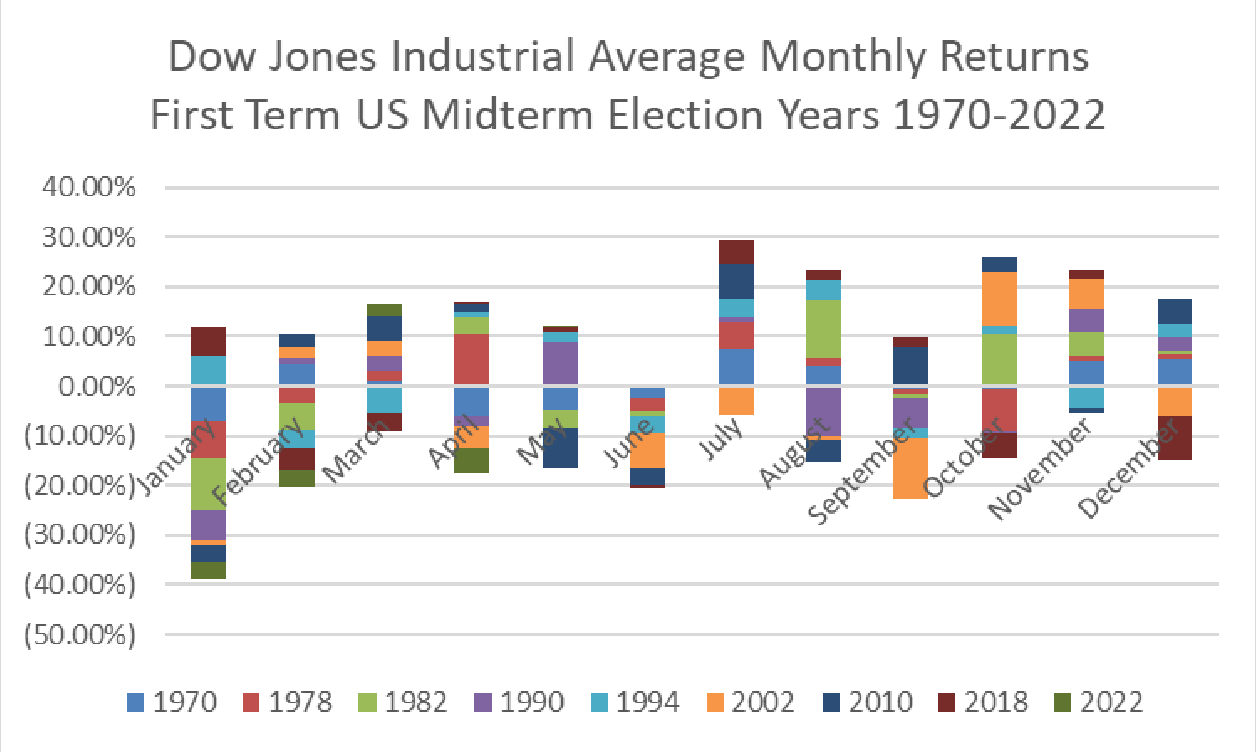
So far this year, all three defensive sectors have held up quite well compared with the overall market and are all still positive over the last year.

Utilities have been the strongest to date, followed by Consumer Staples and Health Care, which has picked up a bit recently.

SIA Charts Inc.
Tel: 1-877-668-1332
Email: siateam@siacharts.com
Web: www.siacharts.com

Seasonality in Midterm Election Years

The US Presidential Cycle follows the notion that Presidents usually undertake their most controversial or unpopular measures in the first two years of their term, then spend the second two years trying to get themselves or their party re-elected. The second year of a president's term has often coincided with significant volatility, and poor performance with major market bottoms often occurring near midterm elections.



The chart above indicates that midterm election years of a first term president since 1970 have tended to start off soft in January, rebound into April, drop off in May and June, rebound in July fall off again in Augurst and bottom out in October. The first half of 2022 followed this seasonal pattern closely, it remains to be seen if that may continue into the second half.

SIA Charts Inc.
Tel: 1-877-668-1332
Email: siateam@siacharts.com
Web: www.siacharts.com

SIACHARTS
STRATEGIC INVESTMENT ANALYSIS

How have US Markets Previously Performed after a Weak Q2 or First Half?

Dow Jones Industrial Average						
Selected Q2 and First Half Returns 1900-2022						
Year	**Q2**	**Q3**		**Year**	**First Half**	**Second Half**
1923	(13.73%)	(1.14%)		1940	(19.33%)	8.26%
1970	(12.99%)	11.27%		1910	(18.18%)	0.00%
1931	(12.79%)	(36.00%)		1982	(16.82%)	28.98%
1920	(11.76%)	(8.89%)		1920	(15.89%)	(21.11%)
2022	**(11.25%)**			1939	(15.58%)	15.38%
2002	(11.15%)	(17.87%)		**2022**	**(15.31%)**	
2010	(9.97%)	10.37%		1913	(14.94%)	5.41%
1906	(9.38%)	8.05%		1907	(14.89%)	(27.50%)
1921	(9.33%)	4.41%		1970	(14.63%)	22.69%
1937	(9.14%)	(8.88%)		2008	(14.43%)	(22.68%)
1910	(8.99%)	(2.47%)		1973	(12.65%)	(4.60%)
1913	(7.50%)	8.11%				
2008	(7.44%)	(4.41%)				
1969	(6.63%)	(6.87%)				
1903	(6.35%)	(23.73%)				
1973	(6.31%)	6.29%				
Source: SIA Charts						

Both the second quarter and the first half of 2022 were a tough time for US markets. For the Dow Jones Industrial Average, it was the worst second quarter since 1970 and the worst first half since 1982.

Following a big selloff, investors often ask if the worst has passed, have markets come down enough and could there be bargains out there?

To find out how markets have responded to steep declines in the past, we looked at the quarterly and first half returns for the Dow Jones Industrial Average for the 122 years between 1900 and 2022. To find comparable situations, we took the Q2 and 1H 2022 returns for the Dow of -11.25% and -15.31% and looked at other years wihtin plus 5% or minus 5% of those returns.

In the case of difficult second quarters, out of 15 comparable years, in 9 years the Dow declined again in Q3, but rebounded in 6 of those years. The most recent close comparable was 2002, where the markets fell through Q3 but then bottomed out in Q4.

In the case of difficult first halves, out of 10 comparable years, the Dow bounced back in the second half of 5 of those years, was flat in one, and continued to sell off in four. In the most recent comparable year, 2008, market declines accelerated in the second half.

SIA Charts Inc.
Tel: 1-877-668-1332
Email: siateam@siacharts.com
Web: www.siacharts.com

US Market Seasonality in the 1970s and early 1980s

At the top of this report, we mentioned that this year has brought the worst case of Stagflation in at least forty years. Based on this, we looked at how the Dow acted seasonally during the 1966-1982 inflationary bear market.

Dow Jones Industrial Average Returns 1966-1982						
Year	**Q2**	**Q3**		**Year**	**First Half**	**Second Half**
1966	(5.84%)	(11.03%)		1966	(10.22%)	(9.77%)
1967	(0.58%)	7.67%		1967	9.55%	5.23%
1968	6.79%	4.24%		1968	(0.88%)	5.13%
1969	(6.63%)	(6.87%)		1969	(7.42%)	(8.36%)
1970	(12.99%)	11.27%		1970	(14.63%)	22.69%
1971	(1.44%)	(0.45%)		1971	6.32%	(0.11%)
1972	(1.17%)	2.58%		1972	4.38%	9.80%
1973	(6.31%)	6.29%		1973	(12.65%)	(4.60%)
1974	(5.20%)	(24.31%)		1974	(5.65%)	(23.19%)
1975	14.32%	(9.68%)		1975	42.53%	(2.96%)
1976	0.30%	(1.20%)		1976	17.61%	0.20%
1977	(0.33%)	(7.53%)		1977	(8.76%)	(9.28%)
1978	8.06%	5.75%		1978	(1.56%)	(1.59%)
1979	(2.44%)	4.40%		1979	4.47%	(0.36%)
1980	10.45%	7.50%		1980	3.46%	11.07%
1981	(2.69%)	(13.01%)		1981	1.35%	(0.10%)
1982	(1.34%)	10.48%		1982	(16.82%)	28.98%
2022	(11.25%)			2022	(15.31%)	
Source: SIA Charts						

Over that 17 year period, the Dow declined in the second quarter 12 times, including a run of 6 negative secone quarters in a row between 1969 and 1974. Out of those 12 years, the Dow declined again in Q3 6 of those years, including losses of more than 10% in 1966, 1974, and 1981. The only year with a worse Q2 than 2022 was 1970 which actually saw a rebound in Q3.

In 9 of those 17 years, the Dow posted a first half decline and out of those 9, the Dow fell again in the second half of the year 6 times. In the years most similar to 2022, 1970 and 1982, the Dow rebounded in the second half.

Summary: The first half of 2022 was one of the worst in several decades. Declines in stocks, bonds, cryptocurrenices, and commodities left investors with few places to hide outside of US cash, gold, and oil, but oil has been fading lately. Heading into Q3, inflation remains high, central banks remain in tightening mode, and signs of a recession continue to increase. Experience suggests the second half could be particularly volatile, particularly in the run up to the November US midterm election and with the SIA Equity Action Call™ in the Unfavored Zone, risk for equities remains high.

SIA Charts Inc.
Tel: 1-877-668-1332
Email: siateam@siacharts.com
Web: www.siacharts.com

Asset Class and Sector Ranking Analysis

SIA Charts Asset Class Ranking		
As of Jun 30, 2022		
Asset Class	Change*	
Cash	+3	
Commodity	-1	
Currency	+3	
US Equity	-1	
Intl Equity	none	
Bond	+1	
CAD Equity	-5	
*Change in Ranking Since Mar 31, 2022		
Source: SIA Charts		

There were several changes to the SIACharts Asset Class Rankings during Q2, in fact only one asset class (International Equity), remained unchanged.

Equity groups fell down the rankings as stocks sold off during the quarter, particularly CAD equity, which fell 5 positions due to a combination of a weakening Canadian Dollar and a late quarter selloff in commodities.

The Commodity asset class was knocked off the top of the heap by Cash. Meanwhile, bonds managed to finally climb up out of the basement.

As a reflection of increasingly heightened equity market risk and the big rotation of capital into the neutral Cash and Currency asset classes, the **SIA Equity Action Call™ downshifted for the second quarter in a row, this time from Neutral to the Unfavored zone**.

SIA Charts Sectors Ranking			
As of Jun 30, 2022			
Sector	Group	Change*	
Energy	Resource	none	Energy
Materials	Resource	none	Materials
Consumer Discretionary	Cyclical	none	Consumer Discretionary
Industrials	Cyclical	none	Industrials
Utilities	Interest Sensitive	+3	Financials
Financials	Interest Sensitive	none	Communications Services
Communications Services	Cyclical	-1	Information Technology
Information Technology	Cyclical	-1	Utilities
Real Estate	Interest Sensitive	none	Real Estate
Consumer Staples	Defensive	none	Consumer Staples
Health Care	Defensive	none	Health Care
*Change in Ranking Since Mar 31, 2022			
Source: SIA Charts			

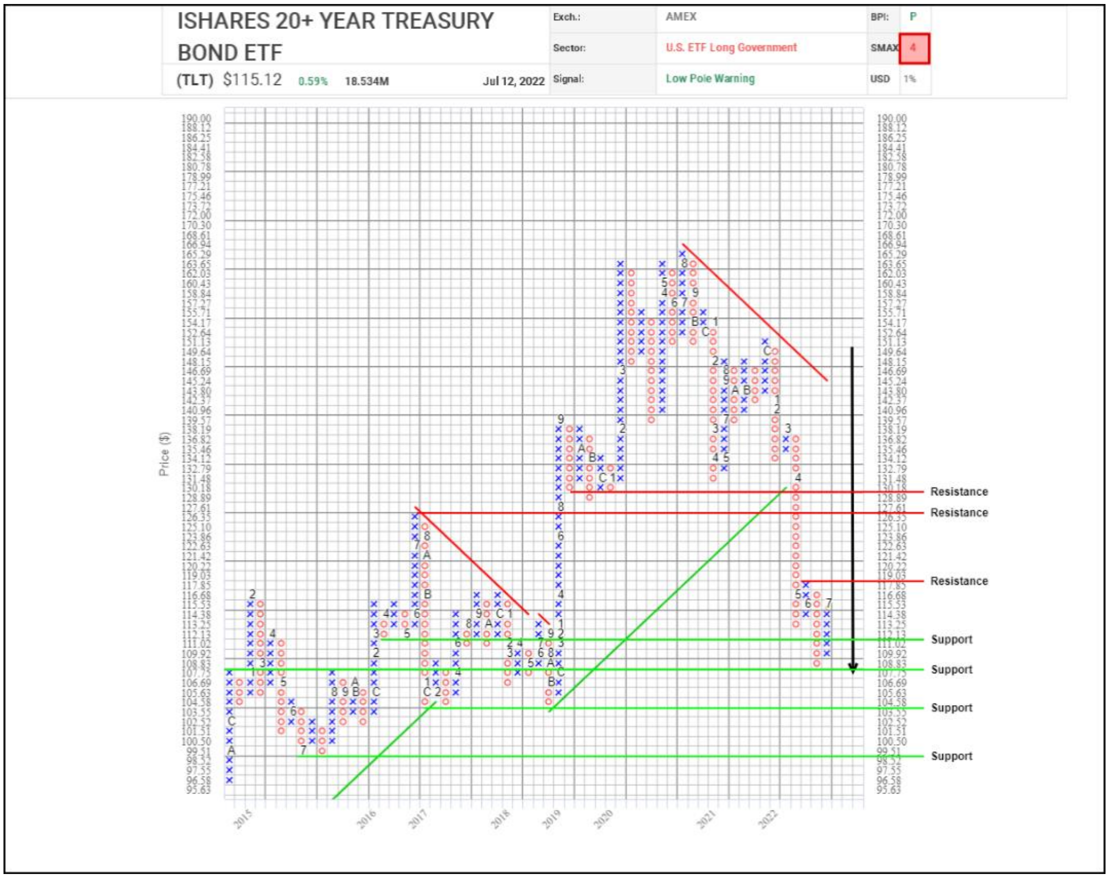
Although commodity prices started to turn downward in June, the resource equity groups managed to hold on to the top positions in the sectors rankings.

Utilities had the biggest upward move, climbing three positions as the sector benefitted from an increase in capital flow toward defensive sectors.

SIA Charts Inc.
Tel: 1-877-668-1332
Email: siateam@siacharts.com
Web: www.siacharts.com

SIACharts Quarterly Chartbook: Spring 2022

iShares US 20+ Year US Bond ETF (TLT)



After soaring upwards in 2019 and 2020, the iShares US 20+ Year US Bond ETF peaked in August of 2020. It then trended sideways through the end of 2021.

Since the start of this year, TLT has been under heavy selling pressure, plunging from near $150.00 down toward a recent low near $107.75 through a series of three bearish Low Poles that extended from Double Bottom breakdowns.

In recent weeks, TLT has started to rebound a bit and is currently on a bullish Low Pole Warning signal, but it is too early to tell if this is a trading bounce within a larger downtrend or the start of a turnaround. To signal the start of a new upswing, TLT would need to close above $119.00 which would complete a bullish Double Top pattern.

On a breakout, next potential resistance may appear near $127.60 or $131.20 based on previous column highs and lows plus a horizontal count. Initial support appears near $111.00 based on a 3-box reversal. A breakdown below $107.75 would signal the start of another down-leg with next potential support near $103.55 or $98.50 based on previous column lows which are near the $100.00 round number.

SIA Charts Inc.
Tel: 1-877-668-1332
Email: siateam@siacharts.com
Web: www.siacharts.com

S&P 500 Index (SPX.I)

Since the last bull market in the S&P 500 Index (SPX.I) peaked back in January, the benchmark has been in retreat recently completing a 20% decline from its peak to signal a technical bear market.

Over the last six months, SPX.I has established a new downtrend of lower highs and bearish pattern completions including Double Bottoms and more recently, a Triple Bottom.

The S&P 500 has bounced back a bit recently and did manage to trigger a bullish Low Pole Warning signal. This rebound, however, has run into resistance at its previous breakdown point. It would need to close above 3,940 to signal that this is a more significant rebound and to close above 4,180 to complete a bullish double top and signal the start of a new uptrend.

On the other hand, a close below 3,637 would complete a bearish Double Bottom pattern and signal the start of a new down-leg with next potential support near 3,565, a previous breakout point, or 3,358, where a previous column high and a long-term, 45-degree uptrend support line appear.

SIA Charts Inc.
Tel: 1-877-668-1332
Email: siateam@siacharts.com
Web: www.siacharts.com

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

In contrast with the S&P 500, the S&P/TSX Composite Index (TSX.I) remained well supported through the winter, benefitting from its higher weighting in Energy and Materials stocks relative to major indices in the US.

The tide, however, appears to have turned for the TSX.I in the second quarter. In April, the index peaked in a Bull Trap where it broke out to a new all-time high by one row, then turned downward. Over the last three months, accumulation has shifted to distribution with the TSX.I completing two bearish Double Bottom breakdowns which extended into Low Poles the latest of which remains active.

Next potential downside support appears in the 17,455 to 17,180 zone where vertical and horizontal counts plus a previous breakout point cluster, then a previous column high near 16,775. Initial resistance on a rebound appears near 19,475 followed by a previous breakdown point near 19,870.

SIA Charts Inc.
Tel: 1-877-668-1332
Email: siateam@siacharts.com
Web: www.siacharts.com

SIACHARTS
STRATEGIC INVESTMENT ANALYSIS

Crude Oil Continuous Contract (CL.F)

Crude Oil's (CL.F) big winter rally carried it up past its 2011 high by one row before it peaked in what could potentially be a bearish bull trap top.

Through the second quarter, the trend of crude oil downshifted from upward to sideways with a $90.00 to $120.00 trading range emerging.

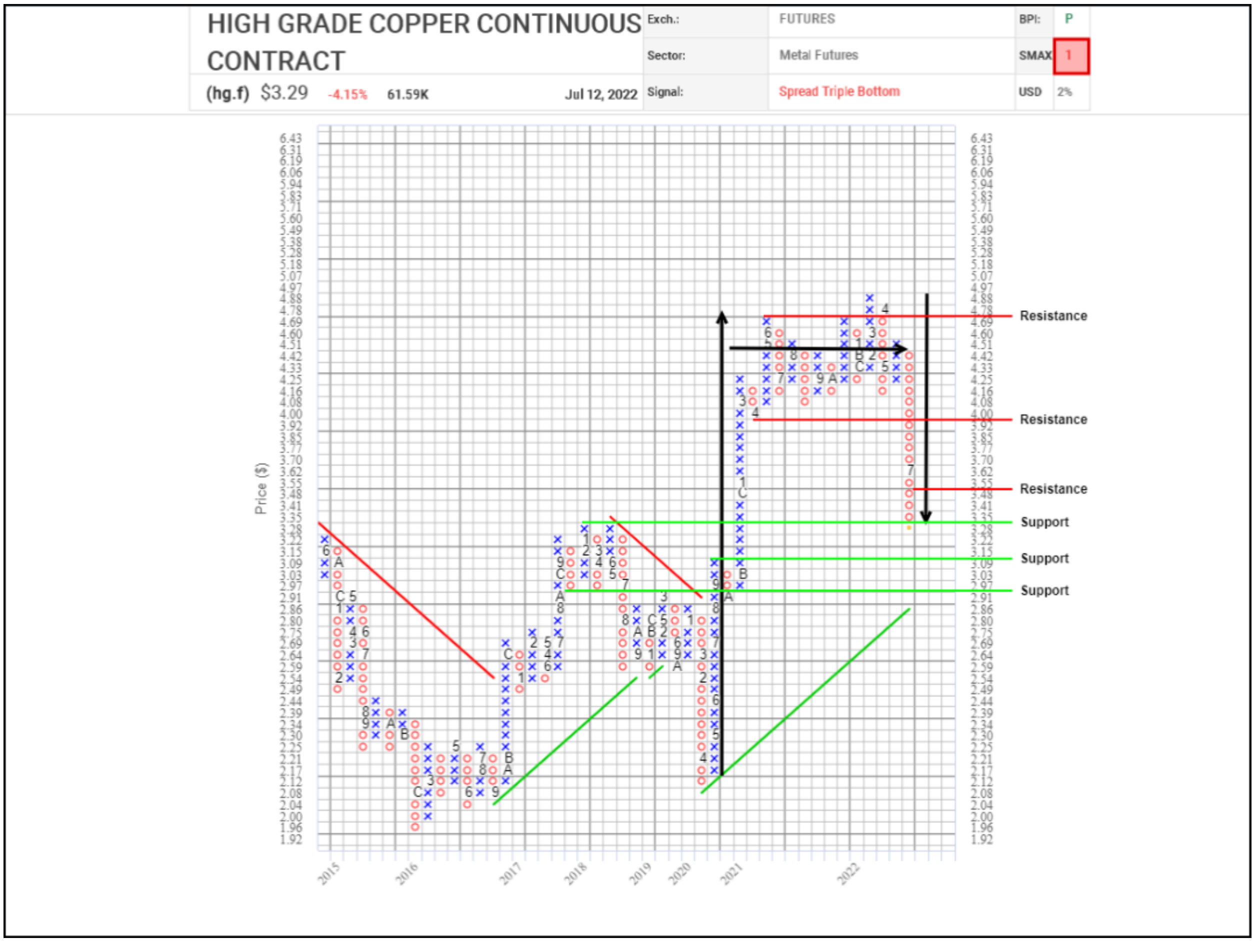
At this point, it is unclear if this is a pause within an ongoing uptrend or a major top forming.

A breakout close above $125.00 would signal the start of a new up-leg for Crude Oil which could potentially retest its 2008 peak near $147.50, just below the $150.00 round number based on a combination of vertical and horizontal counts.

A close below $90.00 would complete a pending bearish Triple Bottom pattern and signal the start of a new downtrend. Such a move would suggest that fears of falling demand have started to outweigh fears of a shortfall in supply and market disruptions. On a breakdown, next potential support appears near $73.40 based on a horizontal count, and a retest of a previous breakout point.

SIA Charts Inc.
Tel: 1-877-668-1332
Email: siateam@siacharts.com
Web: www.siacharts.com

Copper Continuous Contract (HG.F)



With applications in a wide variety of industries, Dr. Copper is widely considered to be one of the markets most sensitive to current global economic conditions and resource demand trends.

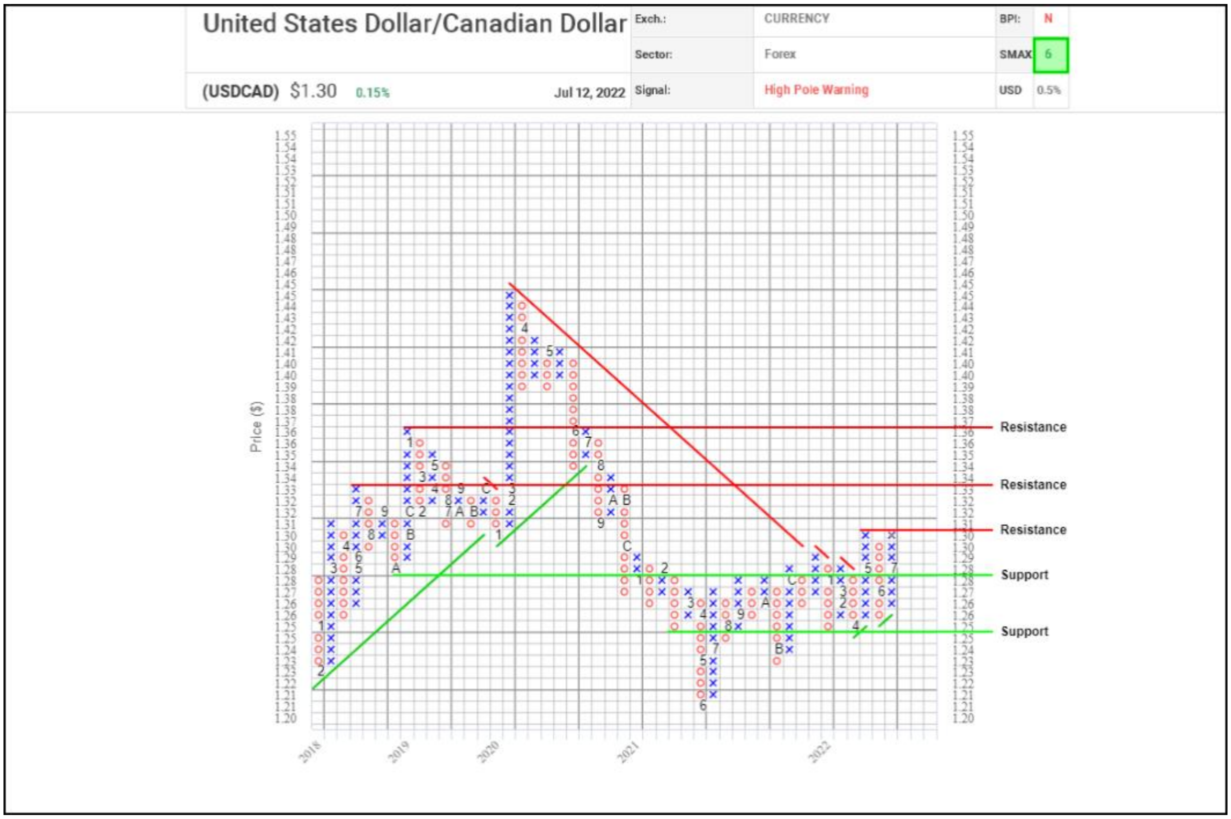
A year-long uptrend in Copper (HG.F) peaked in June of 2021, then shifted into a sideways consolidation trend. Earlier this year, Copper staged a last gasp rally that ended with the orange metal peaking in a Bull Trap where it broke out to a new high by two rows, faltered short of $5.00/lb, then turned downward.

Last month, the bottom fell out from under Copper, and it staged a decisive downturn with a breakdown below $4.00/lb that has since extended into a bearish Low Pole. This action suggests that investors may be starting to anticipate a global recession.

Currently, Copper is testing support at a previous breakout point near $3.30. A breakdown here would confirm ongoing distribution with next potential support in the $2.90 - $3.10 area around the $3.00 round number. Initial rebound resistance appears near $3.55 based on a 3-box reversal.

SIA Charts Inc.
Tel: 1-877-668-1332
Email: siateam@siacharts.com
Web: www.siacharts.com

US Dollar / Canadian Dollar (USDCAD)



The relationship between the US Dollar and the Canadian Dollar (USDCAD) appears to have reached a significant technical turning point.

Even though a rising oil price has historically been positive for the Canadian Dollar, USDCAD steadily crept upward during the second quarter as fearful investors seeking a lifeboat poured money into the US. This sparked a big US Dollar rally that swamped other currencies, driving USDCAD up toward $1.3100 and EURUSD down toward par. Overall in the quarter, although the rising US Dollar impacted many other currencies, the Canadian Dollar and Gold performed relatively well compared with other currencies like the Euro, Pound, Yen, and Bitcoin.

The bigger than expected Canadian interest rate hike of 1% does appear to have shored up support for the Loonie, which appears particularly timely since the price of oil has been under pressure. A drop below $1.2800 would trigger a 3-box reversal with next potential support in a pullback closer to $1.2500.

On the other hand, a move by USDCAD up above $1.3100 would be a significant breakout that would complete a bullish double top pattern and signal the start of a new up-leg. Should that occur, next potential resistance may appear near $1.3400 or $1.3700 based on previous column highs.

SIA Charts Inc.
Tel: 1-877-668-1332
Email: siateam@siacharts.com
Web: www.siacharts.com