Five Star Intermarket Technical Research

Published by Boris Chai CMT

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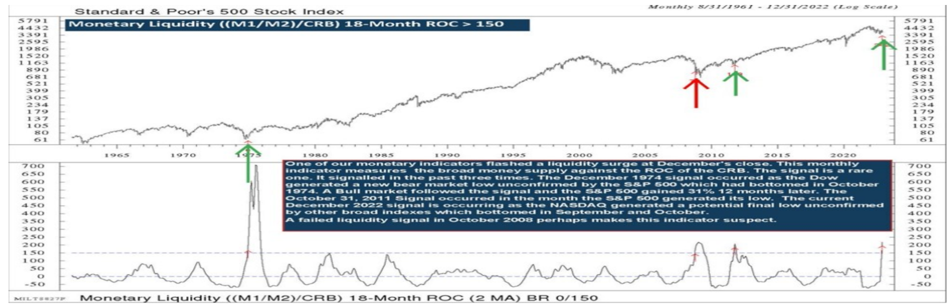
The Invisible Hand



While many market participants may still remain bearish, the world market has been in a rally mode for the entire month. Many traders, fund managers, institutional investors, and retail investors were confused about the market action; significantly, the market rallied when most large-cap companies announced massive job cuts and disappointing earnings. The missed earnings and the stock price actions seem irrelevant at the moment. I had a lot of doubt if the bear market is still valid in the first week of January after the 5-day rally. The "January effect" is significant for the calendar year; if the first 5 days of the week is bullish, the rest of the year will likely be bullish. However, there is no technical evidence that the stock market made a low in October. The Volatility index hasn't made any spike exceeding 40 during the entire bear market; it suggested no panic selling in 2022. During my entire trading years, a market low always associates with a VIX spike when the market sentiment is extremely fearful.

During the final week of December, the CBOE Total Put/Call ratio reached an extremely high level when the major indices were stuck in a narrowed trading range for two weeks. We usually see a spike in the CBOE Total Put/Call ratio when the market is in a severe decline, not within a trading range. So, the price action in the market was very abnormal during the Santa Claus rally and the New Year rally. The reason is the intervention of liquidity injection by the Fed.

We often forget about the "Invisible Hand" or "The Fed Juice" in the market. The "Invisible Hand" is the liquidity injected by the Federal Reserve into the market to prevent any financial crisis. The chart above shows a surge of liquidity at the end of December 2022. Similar interventions happened in 1974, 2009, and in 2013. A Bull market followed the 1974 signal, and the S&P500 gained 31% 12 months later. The current December signal is occurring as the NASDAQ generated a potential final low unconfirmed by other broad indexes, which bottomed in October. So, the Federal Reserve has already stepped in quietly and provided massive liquidity or QEs in the stock market. That's the reason why the US dollar was constantly declining in the last few months, and gold was rallying. The Federal Reserve has turned on the printing machine again. Boris Chai CMT Jan. 28, 2023

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DISCLOSURE

Quantitative Tightening is just a drama

According to FactSet, the total assets in US Federal Reserve at the end of 2022 were 8,551 billion. From 2002 to 2022, the Federal Reserve has increased $7,819 billion in total assets, an increase of 1068%. The Fed announced the QT on June 1, 2022; the US dollar index rallied strongly from June and peaked in September. If the Fed was really doing quantitative tightening from September to January, the US dollar would be rallying, not declining. In fact, the QT has barely reduced 2.4% of the total assets at the end of December 2022. If you believed what Jerome Powell said, “he will do whatever it takes to bring down inflation,” he would completely have misled you. Jerome Powell and the Fed **felt** they needed to be hawkish, but they acted differently. They don’t care about the cost of living of an average American. The Fed will continue to print money, and the Fed is never serious about fighting inflation for Americans.

US Federal Reserve – Total Assets

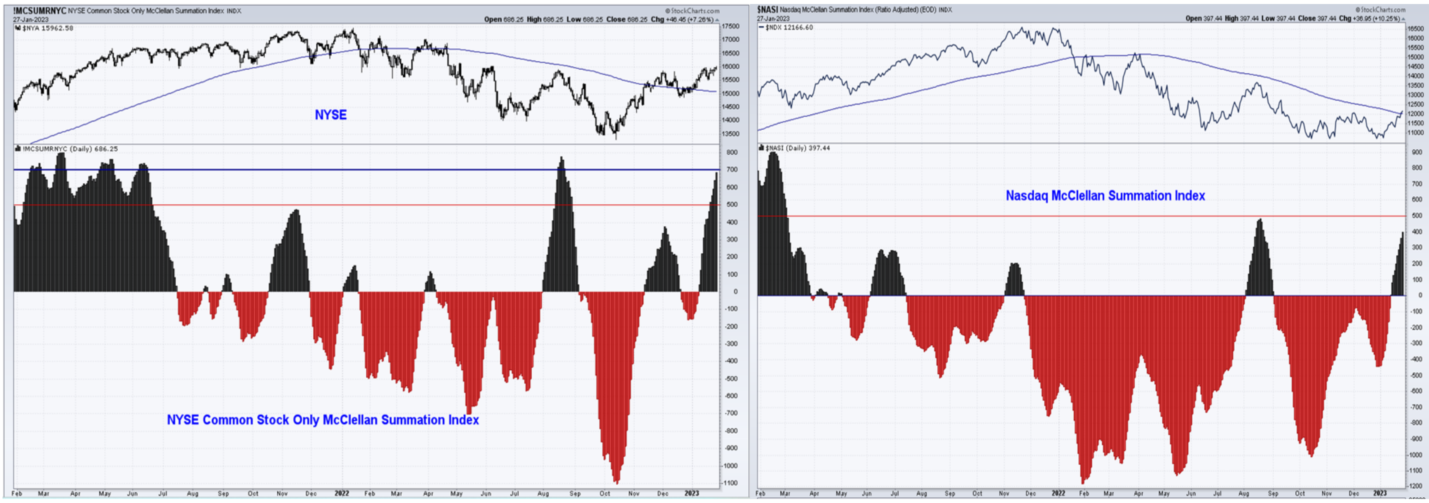
Year End	Assets (in Billions)	$ Increase (in Billions)	% Change
2002	732		
2003	772	39	5.4%
2004	811	39	5.1%
2005	848	37	4.5%
2006	870	22	2.6%
2007	891	21	2.4%
2008	2,239	1,349	151.4%
2009	2,234	-5	-0.2%
2010	2,421	187	8.3%
2011	2,926	506	20.9%
2012	2,907	-19	-0.6%
2013	4,033	1,125	38.7%
2014	4,498	465	11.5%
2015	4,487	-11	-0.2%
2016	4,451	-35	-0.8%
2017	4,449	-3	-0.1%
2018	4,076	-373	-8.4%
2019	4,166	90	2.2%
2020	7,363	3,197	76.7%
2021	8,757	1,394	18.9%
2022	8,551	-206	-2.4%
	Period	$ Increase (in Billions)	% Change
	2002-22	7,819	1068%

The Bond Market is Not Foolish

The inflation-sensitive bond ETF–TIPS broke the declining trendline in January, and the ADX +DI crossed the –DI generating a buy signal. Therefore, the bond market knew the Fed had already turned dovish. If the Fed continues to print money, the bond yield will fall, the bond market will rally, precious metals will rally, stocks will rally, and the bull market will continue. And the US economy may be able to avoid the recession and have a soft landing. So, the asset bubble could be re-inflated by QEs, and the bull market will last permanently. What wishful thinking from a fool! The consequence of addicted QEs conducted by an irresponsible government will trigger uncontrollable hyperinflation in the future. Zimbabwe’s inflation was 2,600% in November 2008 due to mismanagement by the government. The TIPS is flashing warning signals that inflation is coming back. The Fed wants to manufacture a new bull market during a secular inflationary period, and they may get the bull market going in the first half of 2023. However, their action will bring inflation back, as suggested by the TIPS. Investors should own TIPS to hedge inflation.

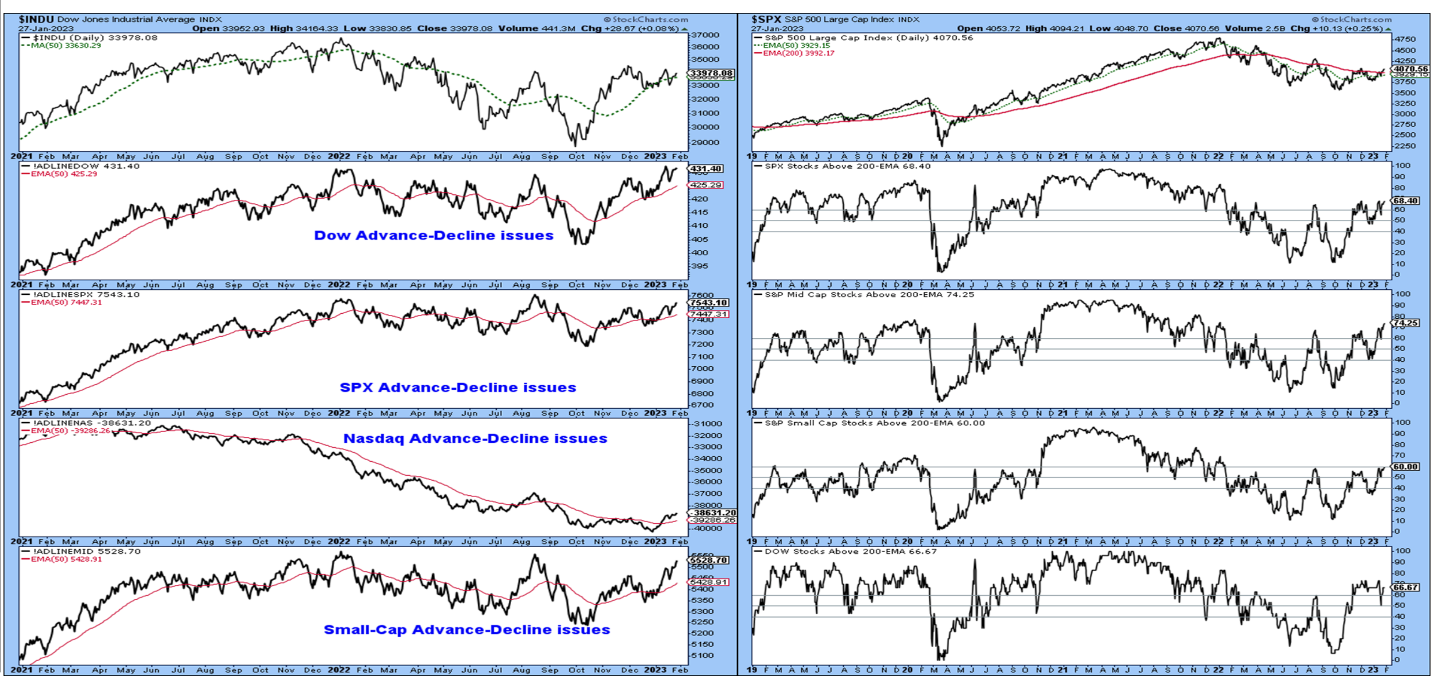
Market Breadth-McClellan Summation Index

The charts below are the NYSE Common Stock Only McClellan Summation index and the Nasdaq McClellan Summation index. The NYSE summation index reached above 700 in August and near 700 in January. When it reached above 500-700, it suggested the participation rate of the majority of the stocks in the NYSE was high enough to generate a bull market signal. The NYSE composite did not confirm the buy signal in August because it failed to rally above the 200-day MA. The current rally took NYSE above the 200-day MA, and the summation index confirmed the buy signal. The Nasdaq summation index was a lot weaker in the August rally, it rallied above the 200-day MA, but the summation index has not gone above 500 yet. The Nasdaq has to rally much stronger in February to confirm the bull market transition with the large-cap broad index.



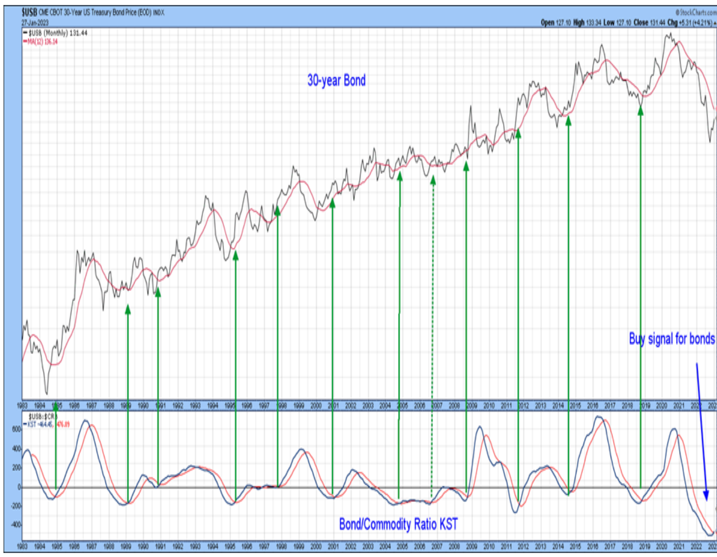
Advance-Decline Issues

The Advance-Decline issues for the Dow, SPX, Nasdaq, and the Small-cap all went above the 50-day MA, and they were making higher highs and higher lows from October to January. Only the Dow's advance-decline issues took out the August high, and the rest of the indexes remained below the August high in January. If all the advance-decline issues take out the August highs, a new bull market will be confirmed by all indexes. In a bull market, the percentage of stocks above the 200-day MA will rise above 60%. The percentage of stocks above the 200-day MA for the Dow, SPX, Nasdaq and the Small-cap rose above 60% in January. The Mid-Cap has even reached 74%. They all made new highs in January after twelve months of decline, which suggests a new bull market is on the way.



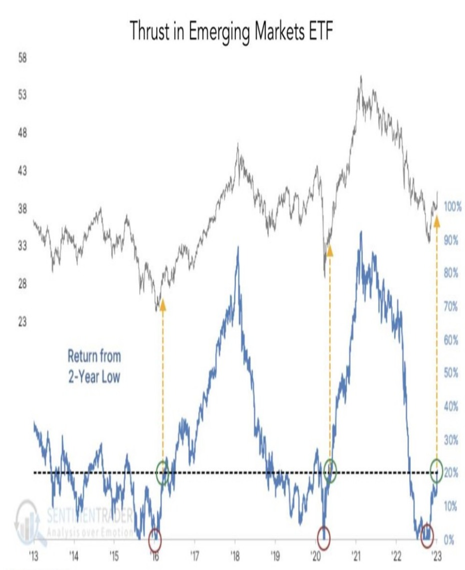
Bond/Commodity Ratio

The Bond/Commodity ratio is a deflation/inflation model. If bonds outperform commodities, the ratio will rise to confirm a falling bond yield and/or falling commodity prices. The Bond/Commodity ratio will rise strongly during the deflationary or disinflationary period. The left chart shows the long-term KST has triggered a buy signal, suggesting that bonds may outperform commodities in 2023. However, the right chart shows the ratio remains in a bottoming process; it went above the 200-day MA and hasn't broken out yet. If the ratio breaks above the horizontal green line, investors should have more exposure in bonds. However, the bond market remains in a secular bear market. The bond market rally could last one or two years, and a lower high below the 2020 all-time high is expected.



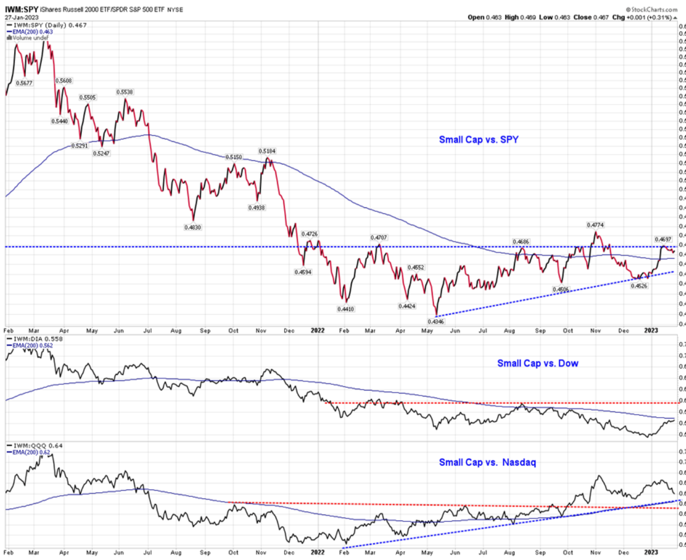
USA vs. International Markets

The ACWX is the iShares MSCI ACWI ex US ETF, it tracks the large-cap and mid-cap of non-US equities. When USA underperforms foreign equities, the $SPX/ACWX falls. The ratio often falls when the US dollar index is also in a downtrend. When the financial condition is loose, international investors will sell the US dollar and repatriate their investment capital into their own countries. Certain countries like Greece, Mexico, Italy, Germany, Spain, France, China, Austria, Netherlands, Thailand, and Australia have been relatively outperforming the US market. The weakness in the US dollar also contributed to a breadth thrust buy signal in the Emerging Markets ETF-EEM. Therefore, the emerging market will deliver a much stronger performance like other foreign market ETFs in 2023. Investors should increase their exposure to foreign equities in 2023 by owning many foreign stocks and non-US ETFs.



Small Cap & High Beta

The large-cap stock indices like the Dow Jones Industrial Average and the NYSE Composite took the lead and rallied much stronger than the Russell 2000 after the October low. However, it is not normal to see the Dow and the NYSE led the Nasdaq and the Russell 2000 during a bull market. In January, the IWM finally took the lead and performed much better than the DOW and S&P500. Nasdaq also regained leadership in January. The Invesco High Beta/Quality ETF ratio also broke out from the descending triangle, which confirmed that investors shifted their investment into high beta stocks. In general, Nasdaq and the Russell 2000 will perform much better than the Dow and the S&P500 in 2023 as investors will deploy their capital into more risky assets.

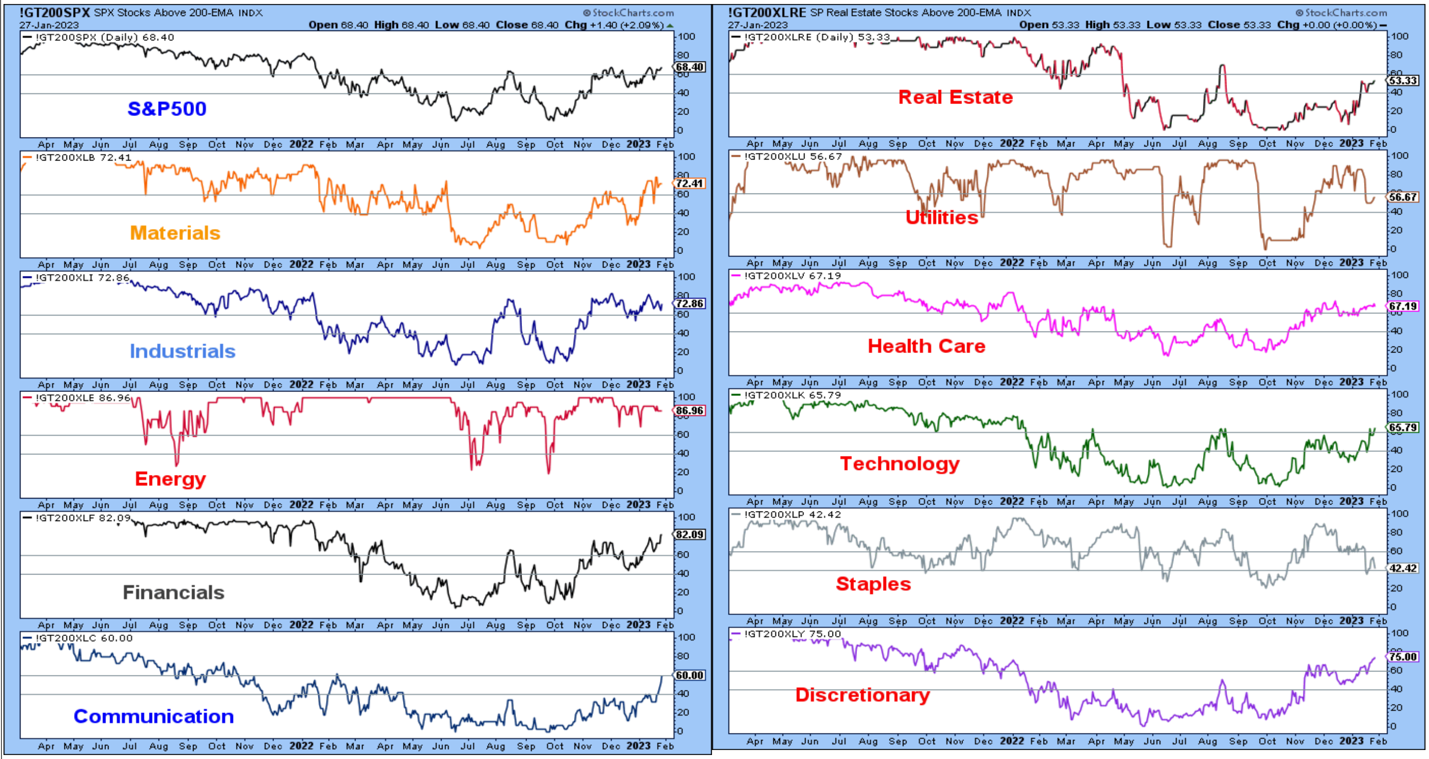


Tech vs. Utilities

The defensive sectors and the Utilities were the worst-performing sectors in January. The Utilities sector lost 1.75%, while the Consumer Cyclical gained 17%, and the Technology sector gained 12.60% in January. The XLK/XLU ratio is a very effective ratio to measure risk on/risk off. In a bull market, money rotates into technology stocks to generate capital gains. Inversely, money rotates into utilities stocks to earn income in a bear market. So, if XLK/XLU is below 200-day MA and in a declining trend, a sell signal in XLK will be triggered. Inversely, if the ratio is above the 200-day MA and in a rising trend, a buy signal in XLK will be triggered. Currently, the ratio is above the 200-day MA and rising in January. The ratio also completed double bottoms and approached the neckline resistance. Once the ratio breaks and closes above 2 on the weekly chart, it suggests a new bull market is underway. Inversely, a failure to break the resistance will be very bearish for technology stocks.

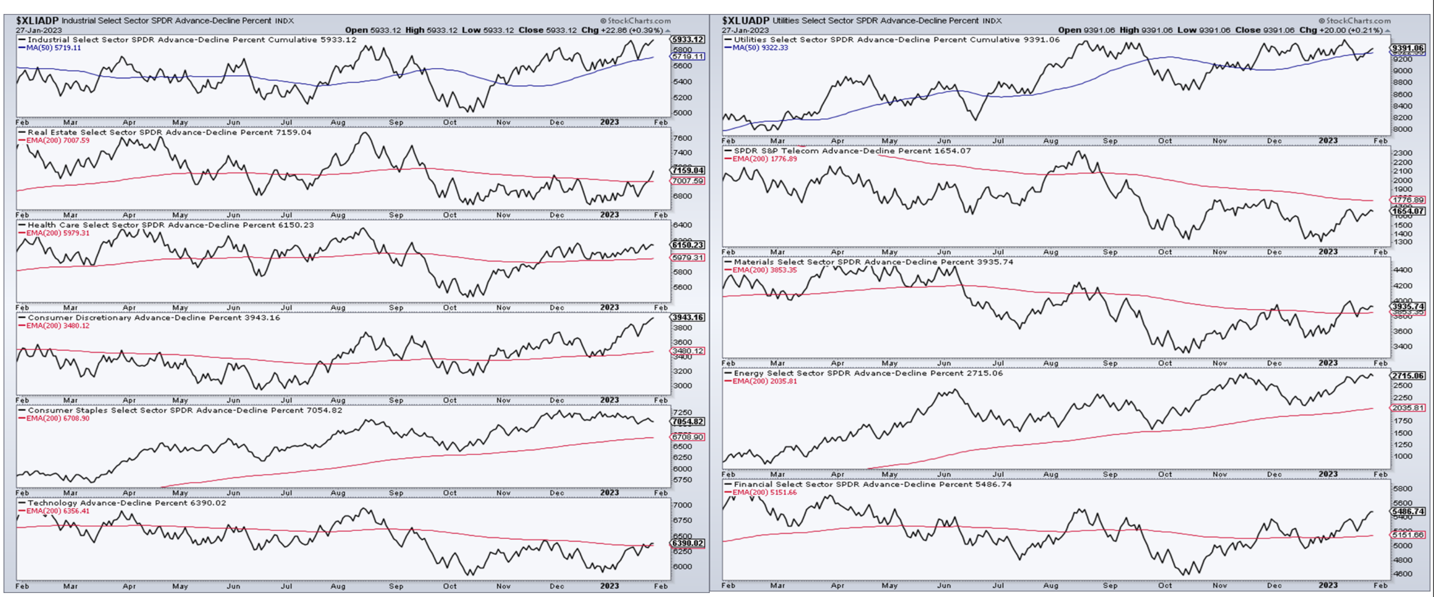
S&P Sector Market Breadth

The percentage of stocks above the 200-day (P200+) MA in the S&P500 has risen from 51.80 to 68.40 in January. Many lagging sectors like Financials, Communication, Real Estate, and Technology rallied strongly in January. All the cyclical sectors rose above 60%. The Financials, Energy, Industrials, Consumer Discretionary, and Materials were the strongest sectors, with over 70% of the stocks above the 200-day MA. The rally was a broad base rally the first time after twelve months of a bear market. Ironically, the rally from the October low was very narrow. The defensive sectors like Consumer Staples and Utilities were weakening as money rotated back to cyclicals.



Sectors Advance-Decline Percent

Many cyclical sectors' cumulative advance-decline percent have crossed above the 200-day EMA in January — Real Estate, Technology, and Materials. The cumulative advance-decline percent of the Industrials, Consumer Discretionary, and Energy sectors have already surpassed the 2022 all-time highs; it suggests these three sectors will make new all-time highs in 2023. In other words, investors should invest in these three sectors in 2023. Even the worst sector, like the Communication sector, also rose. So, " A rising tide lifts all boats" applies well in a bull market.

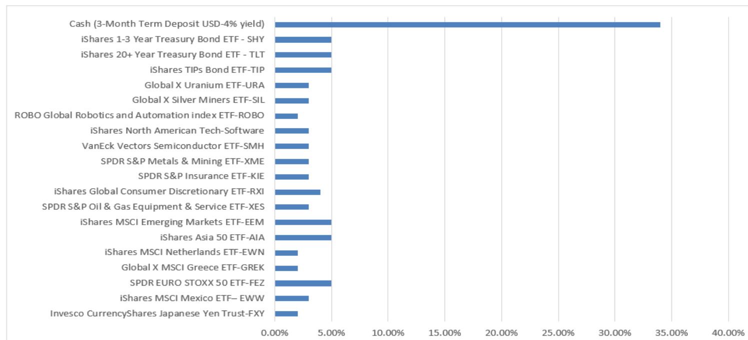


TOP ETFs Asset Allocation

If the US market was positive in January, it usually retraces back some of the gains in early February. So, it is a good time for investors to add positions to their portfolios when the dip-buying opportunity presents itself. For the S&P500, 50-day MA is about to cross above the 200-day MA in the first week of February. Technically speaking, there are not many bearish elements left to keep the bears going except the real economy and the fundamental side of the market. The portfolio below is diversified between countries, sectors, industries, commodities, and treasuries. It is highly recommended to allocate your positions gradually in the next few weeks of February. We always prefer to buy on dips instead of chasing the rally.

Five Star TOP ETFs Asset Allocation

Invesco CurrencyShares Japanese Yen Trust-FXY	2.00%
iShares MSCI Mexico ETF– EWW	3.00%
SPDR EURO STOXX 50 ETF-FEZ	5.00%
Global X MSCI Greece ETF-GREK	2.00%
iShares MSCI Netherlands ETF-EWN	2.00%
iShares Asia 50 ETF-AIA	5.00%
iShares MSCI Emerging Markets ETF-EEM	5.00%
SPDR S&P Oil & Gas Equipment & Service ETF-XES	3.00%
iShares Global Consumer Discretionary ETF-RXI	4.00%
SPDR S&P Insurance ETF-KIE	3.00%
SPDR S&P Metals & Mining ETF-XME	3.00%
VanEck Vectors Semiconductor ETF-SMH	3.00%
iShares North American Tech-Software	3.00%
ROBO Global Robotics and Automation index ETF-ROBO	2.00%
Global X Silver Miners ETF-SIL	3.00%
Global X Uranium ETF-URA	3.00%
iShares TIPs Bond ETF-TIP	5.00%
iShares 20+ Year Treasury Bond ETF - TLT	5.00%
iShares 1-3 Year Treasury Bond ETF - SHY	5.00%
Cash (3-Month Term Deposit USD-4% yield)	34.00%



Five Star Long & Short List

To find stocks on a long list, we want to find oversold stocks above their 200-day MA with a 5-day MA less than the 50-day MA. For short ideas, we want to find overbought stocks below their 200-day MA with a 5-day MA greater than the 65 MA. The long& short lists are designed for short-term swing trading. It is not a buy-and-hold strategy. Investors should trade cautiously and follow the stop-loss discipline. Investors who short stocks face more risks than investors who long stocks. If you are not a disciplined investor, please do not short any stocks.

Long Positions

Symbol	Name	Entry price	Stop Loss
NWBI	Northwest Bancshare	$13.78	$12.00
GIS	General Mills	$78.03	$75.00
BDX	Becton Dickinson	$251.30	$242.70

Best Momentum

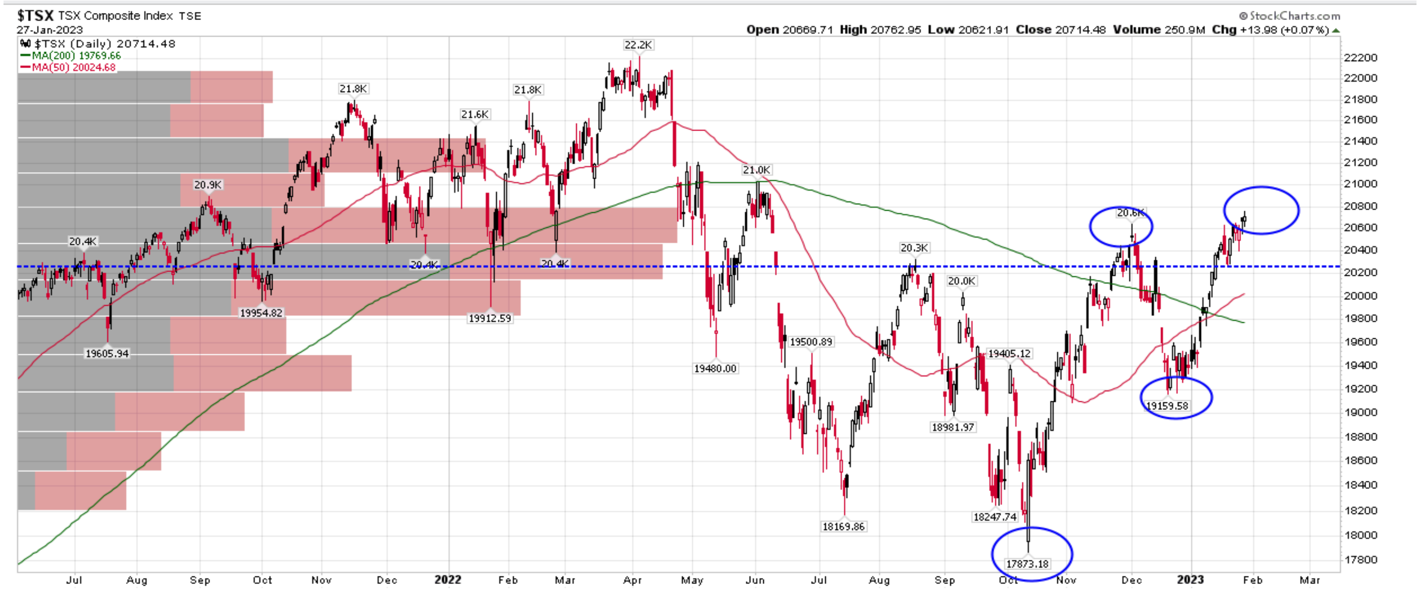
Symbol	Name	Entry Price	Stop Loss
WDC	Western Digital	Target $40	$36.00
STX	Seagate Technology	Target $60	$57.00
SIVB	SVB Financial Group	$293.53	$270.00

Best Dividend

Symbol	Name	Entry Price	Div. Yield
CALM	Cal-Maine Foods	$56.06	5.49%
FDP	Fresh Del Monte	$27.42	2.19%
AHH	Amada Hoffler	$12.50	5.76%

CANADA-TSX

The TSX Composite index officially returned to a bull market in January, the 50-day MA crossed above the 200-day MA (Golden Cross), and TSX made a higher high above the August high and a high low above the December low. TSX is approaching the highest volume by price zone between 20200-20800; once TSX breaks above the zone, a new all-time high is almost certain in 2023. Nine of the eleven sectors are now above the 200-day MA, so the rally from the December low was a broad base rally. The TSX also demonstrated a change of character from a bear market to a bull market. Easy money could be made by owning the BETAPRO S&P/TSX 60 2X Daily Bull ETF-HXU.to



TOP CANADIAN FIVE STAR RANKING STOCKS

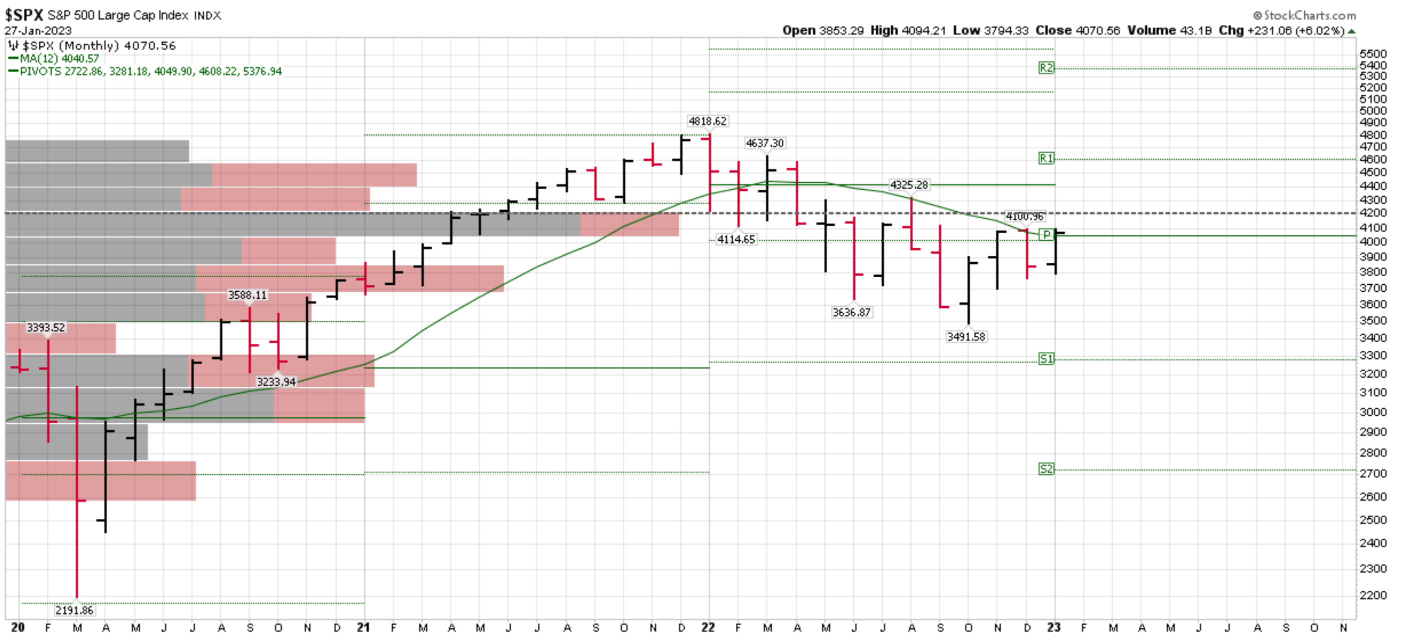
On a relative base, the Infotech, Materials, Health-care and Real Estate have been outperforming the TSX in January. It suggests the previous underperforming sectors now take the lead and the previous outperforming sectors like the Industrials, Energy and Utilities all starting to get weak. The Info-tech and Real Estate sectors regained the 200-day MA after twelve months in a bear market. Even the Telecommunication sector and the Health-care sectors also showed signs of life in January. However, the Financial sector was quite disappointing and it was still below the 200-day MA at the end of January.

ETFs	Bonds/Precious Metals	Financials/Telecom	Materials/Industrials	Consumer Staples
iShares S&P/TSX Global Gold Index ETF-XGD.TO Target entry: $18	Vanguard Canadian Short-term Bond index-VSB.TO Stop Loss @$22	Intact Financial-IFC.TO New	Cameco-CCO.TO Stop Loss @ $31.50	Pet Value-PET.TO Stop loss @ 36.80
	Agnico-Eagle Miners-AEM.TO New	BCE—BCE.TO New	Labrador Iron Ore Royalty-LIF.TO New	
BetaPro S&P/TSX60 2X Daily ETF-HXU.TO New	Newmont Mining-NGT.TO New	TFI International –TFII.TO New	Canadian Pacific– CP.TO New Target entry: $ 92	
	Teck Resource-TECK/B.TO New		AirBoss of America-BOS.TO New	

Market Technical Summary

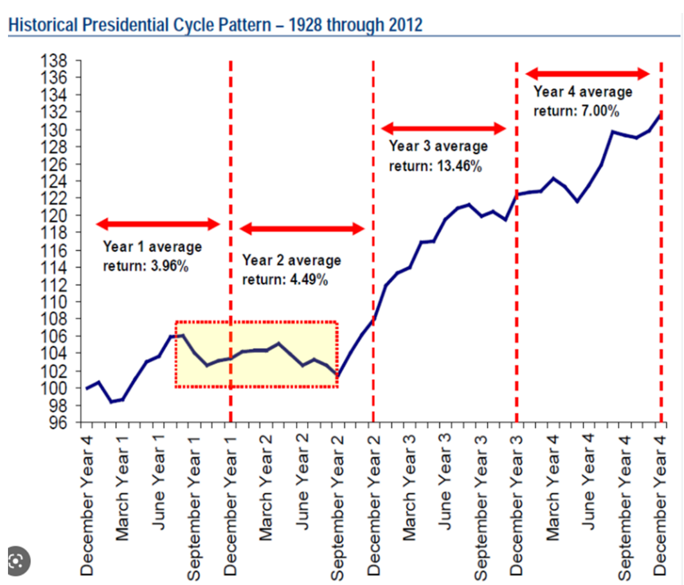
US Market— S&P500

The S&P500 fell 6.6% in December and gained 5.42% at the close of January 27. If S&P500 closes above 4087 on January 31, it will close above the December opening price and the annual Pivot Point-4049.90. The S&P500 may take the entire February to digest the January rally by consolidating within the 4000-4200 range, where the S&P500 will meet the highest resistance areas. Above 4200, the S&P500 could easily reach 4600 (R1). Currently, S&P500 has already regained the 200-day MA and the 12-month MA. If it can remain above the 12-month MA at the end of January, it will confirm the beginning of a bull market after it spent eight months below the 12-month MA. Inversely, if it fails to hold the Pivot Point-4049.90 on January 31, it suggests more sideways price action is required before a real breakout occurs. The S&P500 will likely close above the Pivot Point on January 31. The FOMC meeting on Jan 31-Feb. 01 may provide more clarity about the next market move.



Presidential Cycle

From a quantitative perspective, if S&P500 declines more than 25% during a year, there will be an 88.9% chance that the following year could have an average return of 38%, according to FactSet. In addition to the historical data, 2023 is also Year 3 of the presidential cycle, which is the most bullish year in the four-year presidential cycle. If the bear market has indeed ended in January, investors should expect at least six to seven months of positive return during the bullish seasonal period from October to May. After the bullish period, it could be a different world.



Why A Big Bounce Could Be In The Cards For 2023

>25% Bear Markets During A Year And What Happened Next

	S&P 500 Index Returns		
Year	Date of Bear Market Lows	>25% Intra-Year Bear Market	Return 1-Year After Lows
1962	6/26/1962	-26.4%	32.7%
1970	5/26/1970	-25.9%	44.5%
1974	10/3/1974	-37.6%	34.6%
1987	12/4/1987	-33.5%	21.4%
2001	9/21/2001	-29.7%	-13.7%
2002	10/9/2002	-33.8%	33.7%
2008	11/20/2008	-48.0%	45.0%
2009	3/9/2009	-27.6%	68.6%
2020	3/23/2020	-33.9%	74.8%
2022	10/12/2022	-25.4%	?
		Average	38.0%
		Median	34.6%
		% Higher	88.9%

Source: Carson Investment Research, FactSet 01/23/2022
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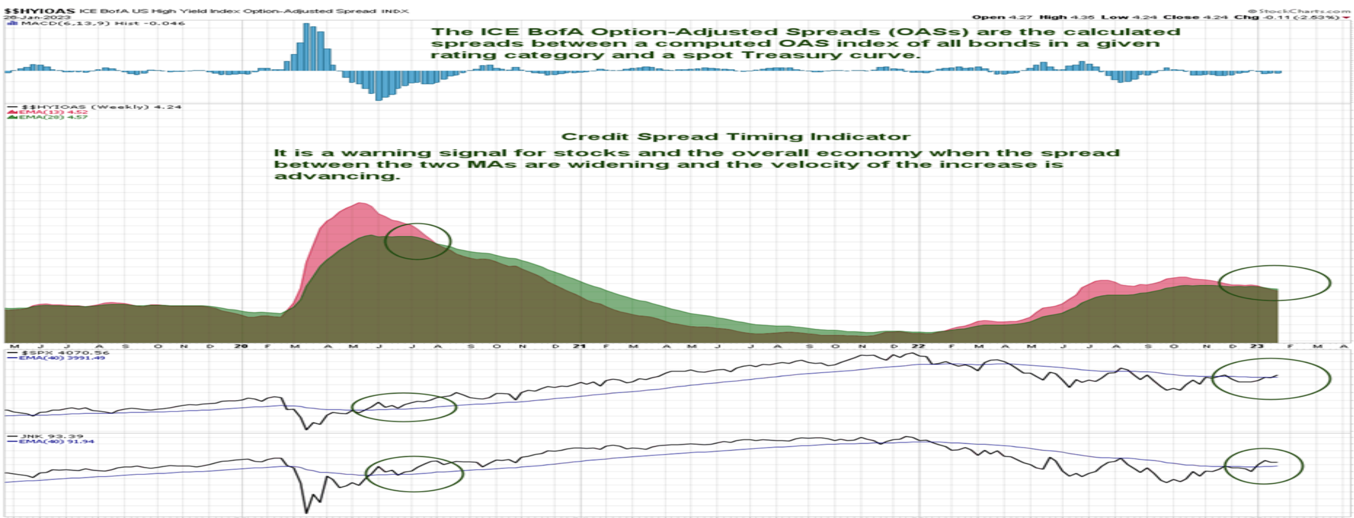
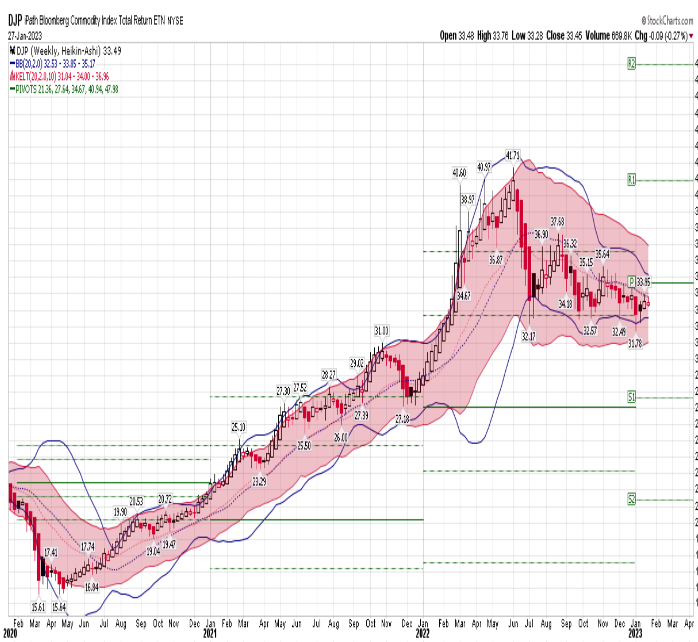
Credit Market

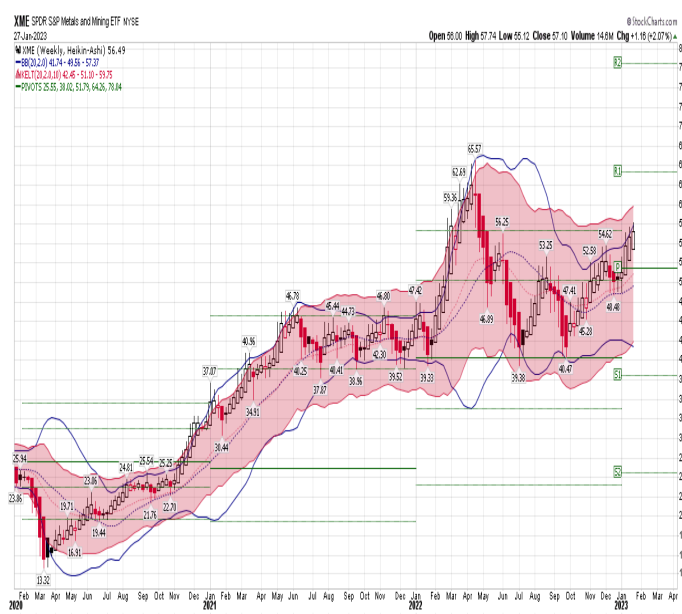
When the credit spread between the high-yield index and the Treasury bonds narrows, it suggests the credit market is loosening. The beginning of a Bull market often associates with a loosening credit market when the central banks injected liquidity into the financial system and the stock market. We saw a similar situation happen during the GFS 2008-2009 when the Fed quietly injected massive liquidity by buying stocks, Treasuries, and ETFs to "Juice Up" the market. After six months, the Fed publicly announced the QEs. The bond market, the currency market, and the precious metals market behaved precisely during the QE period in the last two months. So, there is clear evidence from the credit market that the Fed has turned dovish, and QE is back. Risk-on trade is well alive.



Commodities-Base Metals

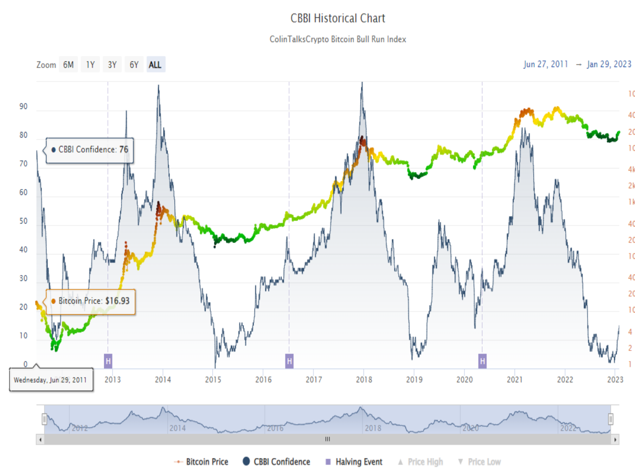
Many commodities reacted very positively when China announced the reopening of business after the prolonged lockdown. It is unlikely that the COVID-19 will pose any threat to the Chinese economy in the next two to three months as 80 percent of the population already caught the virus and built immune resistance to it. Copper and Steel were the leading base metals in the last two months. Aluminum, Uranium, Corn, Soybean, and Sugar all turned bullish in January. The iPath Bloomberg Commodity Index is still consolidating within a very tight range, and a volatility squeeze is currently occurring. On the other hand, the SPDR S&P Metals and Mining ETF–XME has already trended higher by making new highs in January after the volatility squeeze. Therefore, we expect the DJP to break out to the upside eventually. Also, copper tends to lead CPI by a few months, so the inflation rate will be higher.





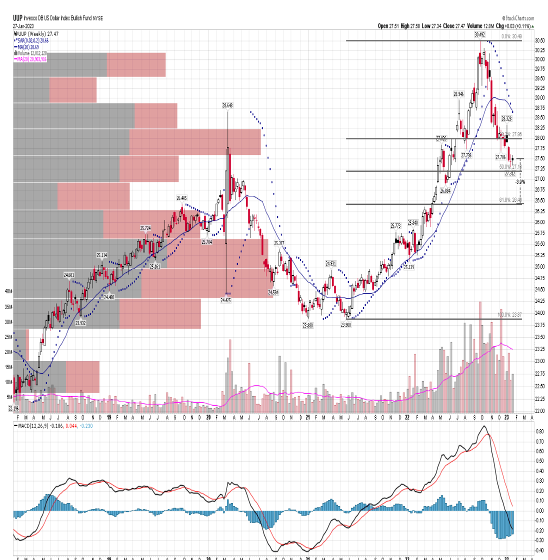
Bitcoin

The CBBI-ColinTalksCrypto Bitcoin Bull Run Index is a Bitcoin index that utilizes advanced, real-time analysis to help investors to understand what stage of the Bitcoin bull run and bear market cycles we are in. The CBBI score indicates that Bitcoin has completed the bottoming process. The CBBI Rainbow line suggests that Bitcoin is entering a bull trend. In January, Bitcoin regained the 200-day MA, and it made a new high that exceeded the November high. The ADX line also shows a strong upside momentum with over 25.16 readings, with +DI crossed above the –DI. The next resistance is the 25200 level. A 38.2% retracement from all-time high could easily take the price back to $36100. So, "Buy on dips" will be the trading strategy.



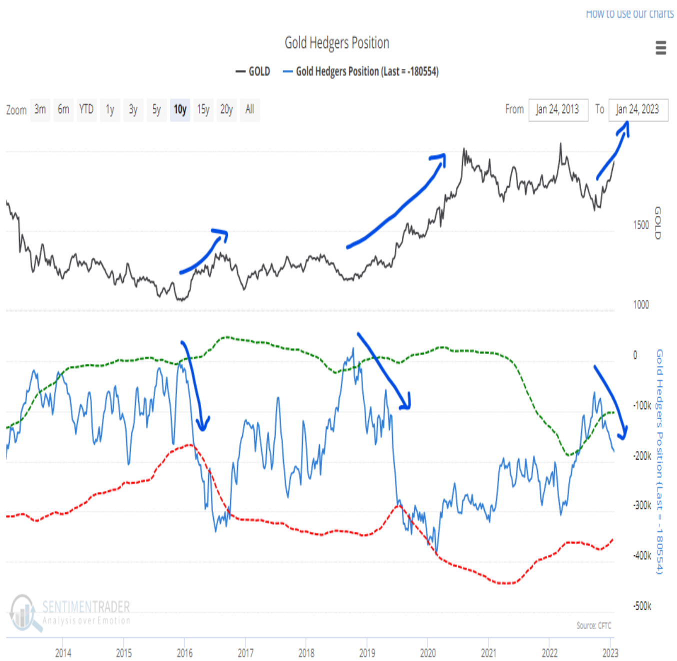
Currency— USD

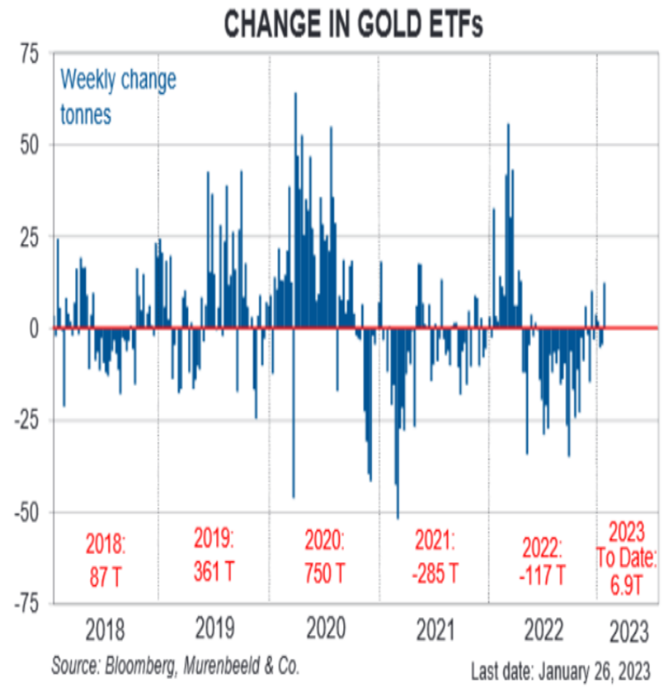
The US dollar decisively fell below the 200-day MA and the Special K line. The 40-day Stochastics is currently locked in a downtrend. If the risk asset's uptrend continues, the US dollar index has to remain bearish even in a bullish seasonal period. The weakness of the US dollar index also confirmed that the Fed was not supporting the US dollar to fight inflation. It will be interesting to see how Jerome Powell delivers his "hawkish" speech in the next FOMC meeting. In the short-term, the US dollar index is too oversold with a massive net short position. Will a relief rally happen soon? It could happen at any time. A counter-trend rally may last two to three weeks, but the short-sellers will continue to sell the dollar when the long-term Treasury yields are declining. The UUP chart suggests the next decline will reach the 61.8% retracement level around $26,40, so another 3.9% decline may be on the way.



Precious Metal—Gold

The gold miners and the gold ETFs finally broke out to the upside in January and confirmed with the gold futures. The change in gold ETFs has made a new high in January; it suggested the buyers have finally supported gold and silver miners. There was a lack of conviction in the market breadth at the initial rally stage, but now the market breadth has expanded to a more broad base. The most encouraging sign is from the prominent commercial players in the gold market. The large gold hedgers finally reversed their hedging positions, which suggests the commercial players turned very bullish on gold, and they unwound their net short positions. Each time when the gold hedgers reduced their hedge positions, gold entered a substantial rally. Investors should be ready to buy gold and silver if there is any pullback in the near future.





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Silver Miners

The Global X Silver Miners ETF-SIL spent two months in a congestion area and broke out to the upside in January. The breakout also cleared the high volume area's resistance ($28-$30), so the long-term upward momentum is rising. The declining trendline will be the next hurdle for the bulls. The weekly RSI hasn't reached the overbought territory yet, so we may see more upside price action until SIL approaches the declining trendline. Coincidentally, the declining trendline resistance matches the 38.2% retracement level from the all-time high. So, investors should expect that the pullback will be bought.