

4 Sept 17, 8.15am/11.15am Morning Call/Webinar

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# US Equity Market

All clear for now

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# US economic cycle – suggesting late stage economic cycle

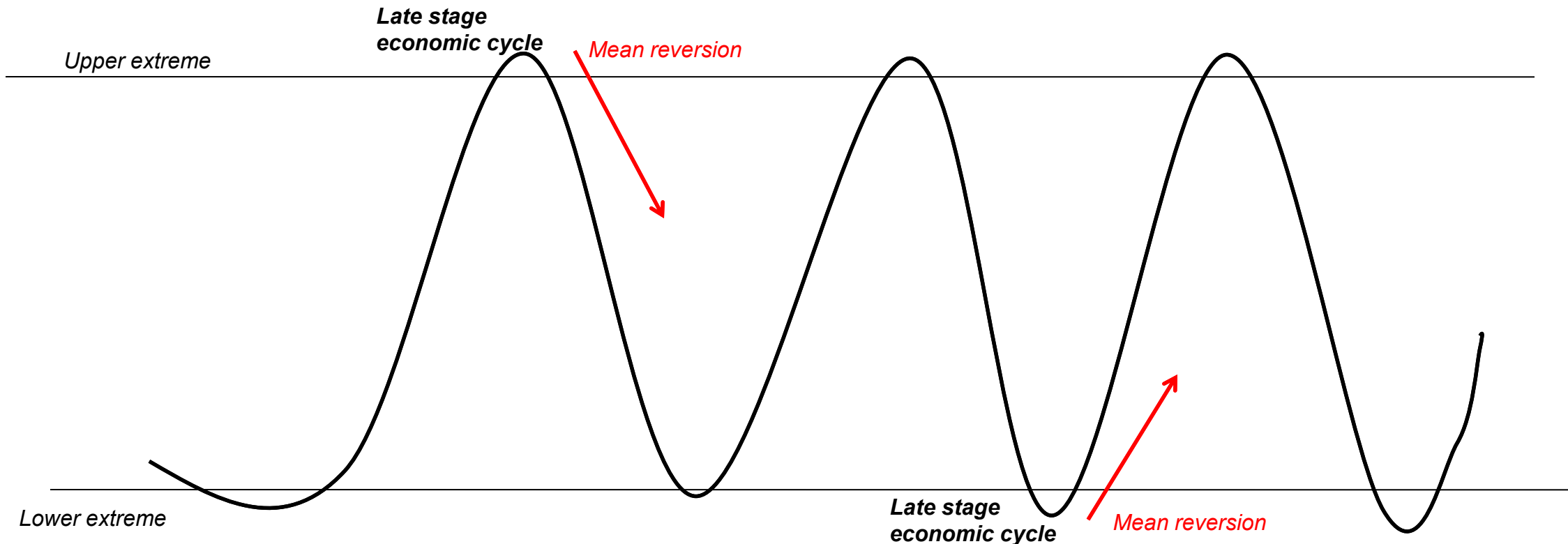
- Third longest economic expansion in history at 98 months
- Average expansionary cycle is about 60 months

Economic Expansion	Duration of Economic Expansion	Economic Contraction	Duration of recession
1933 - 1937	51 month	1937 - 1938	12 month
1938 - 1945	81 month	1945 - 1945	7 month
1945 - 1948	38 month	1948 - 1949	10 month
1949 - 1953	46 month	1953 - 1954	9 month
1954 - 1957	40 month	1957 - 1958	7 month
1958 - 1960	25 month	1960 - 1961	9 month
<b>1960 - 1970</b>	<b>107 month</b>	1970 - 1970	10 month
1970 - 1973	37 month	1973 - 1975	15 month
1975 - 1980	58 month	1980 - 1980	6 month
1980 - 1981	12 month	1981 - 1982	16 month
1982 - 1990	92 month	1990 - 1991	9 month
<b>1991 - 2001</b>	<b>119 month</b>	2001 - 2001	8 month
2001 - 2007	73 month	2007 - 2009	18 month
<b>2009 -?</b>	<b>98 month and counting</b>	?	?

Source: Bloomberg, PSR

# Economic cycle sine wave

- VIX, sentiment indicators and unemployment rate/claims follows a sine wave pattern
- Late stage economic cycle are found near the upper or lower extreme of the range as the mean reversion pattern takes over



# Equity VIX – suggesting late stage economic cycle

- Hitting a low of 8.84, last seen in 2006 just before GFC blew up

## S&P 500 Volatility Index

VIX exceeded the 2006, 9.39 low in July 2017, hitting a new low of 8.84. VIX is currently at the lower extreme of the range where a mean reversion higher is expected to happen.



Source: Bloomberg, PSR

# Non-Commercial short contracts VIX Futures

- hitting unprecedented high showing extreme greed and complacency

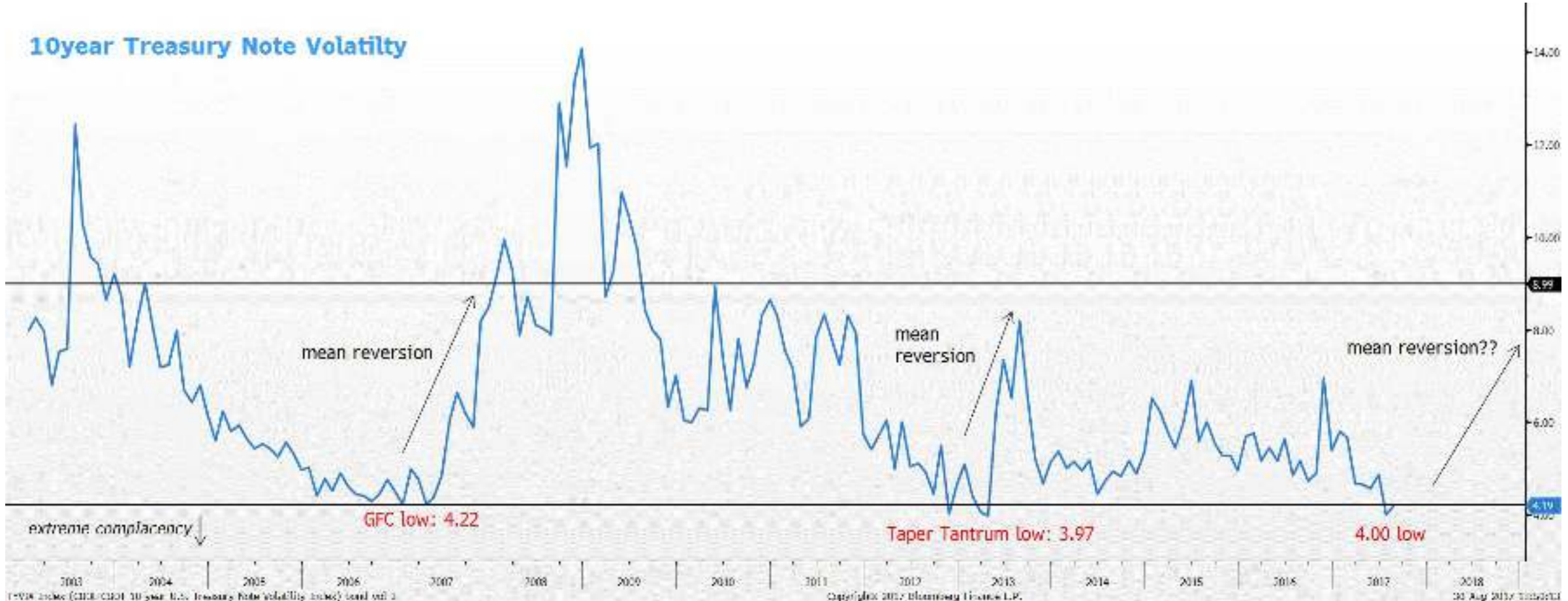


Source: Bloomberg, PSR



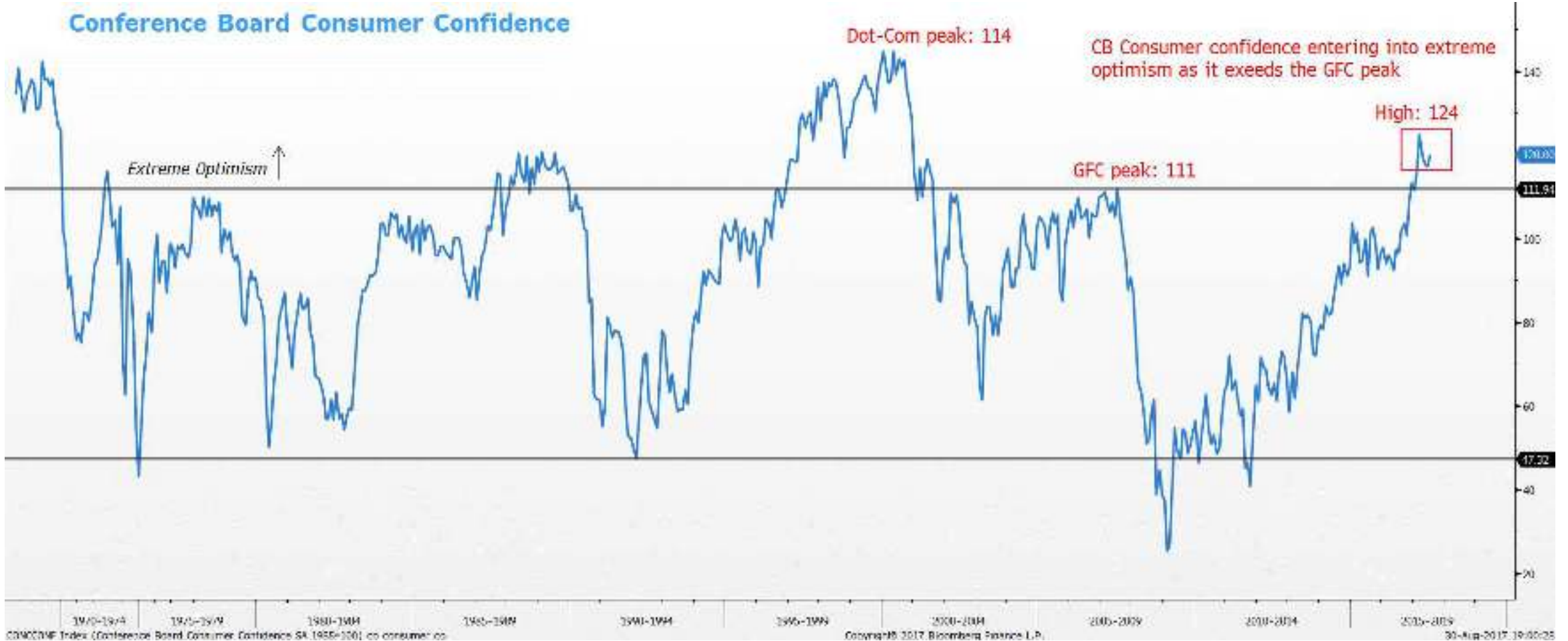
# Treasury VIX – suggesting late stage economic cycle

- hitting a low of 4.00 in July 2017, surpassing the GFC low of 4.22 showing extreme complacency



# Conference Board Consumer Confidence

- Exceeding pre crisis highs, suggesting late stage economic cycle



Source: Bloomberg, PSR



# Umich Consumer Sentiment

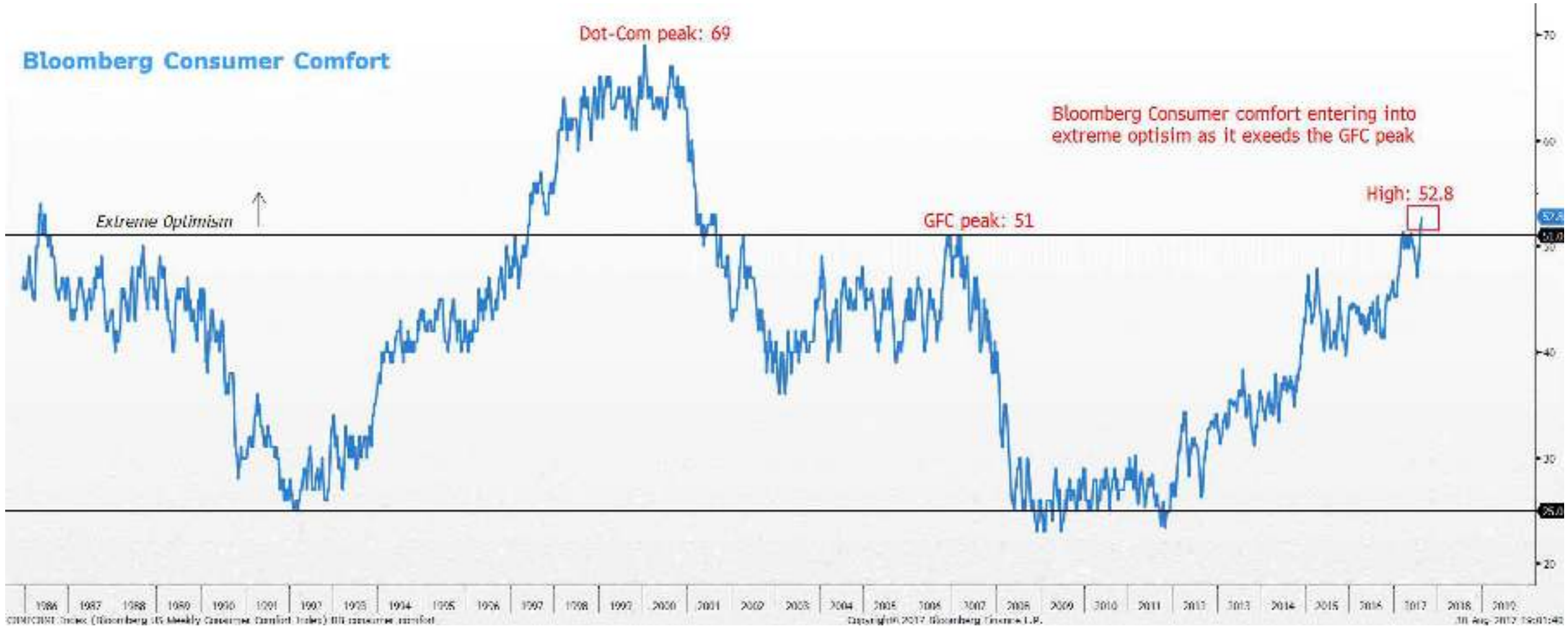
- Exceeding pre crisis highs, suggesting late stage economic cycle

## Umich Consumer Sentiment



# Bloomberg Consumer Comfort

- Exceeding pre crisis highs, suggesting late stage economic cycle



Source: Bloomberg, PSR

# Unemployment rate – suggesting late stage economic cycle

- recent low of 4.4%, last seen in 2001



Source: Bloomberg, PSR

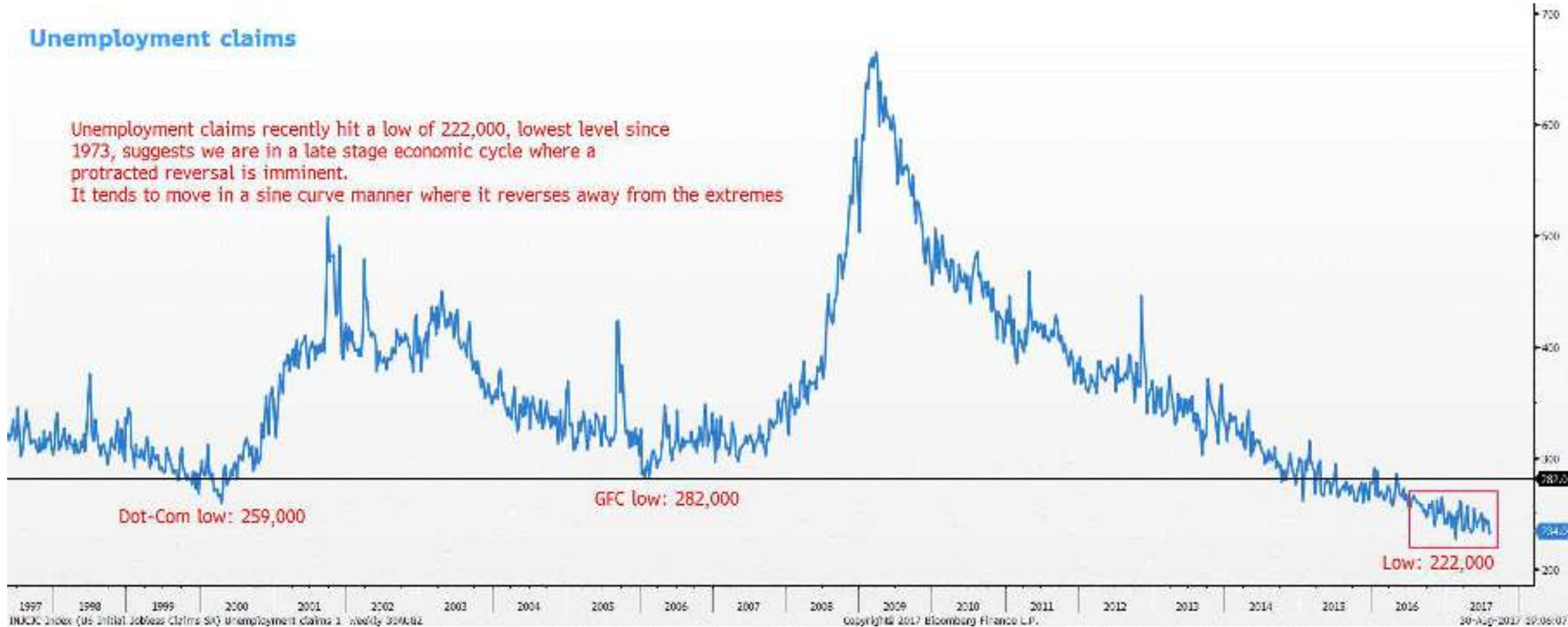


# Unemployment Claims – suggesting late stage economic cycle

- recent low of 220,000, last seen in 1973

## Unemployment claims

Unemployment claims recently hit a low of 222,000, lowest level since 1973, suggests we are in a late stage economic cycle where a protracted reversal is imminent. It tends to move in a sine curve manner where it reverses away from the extremes



Source: Bloomberg, PSR

# Margin Debt – suggesting late stage economic cycle

- at an all-time high of \$550B, 44% above GFC peak



Source: Bloomberg, PSR

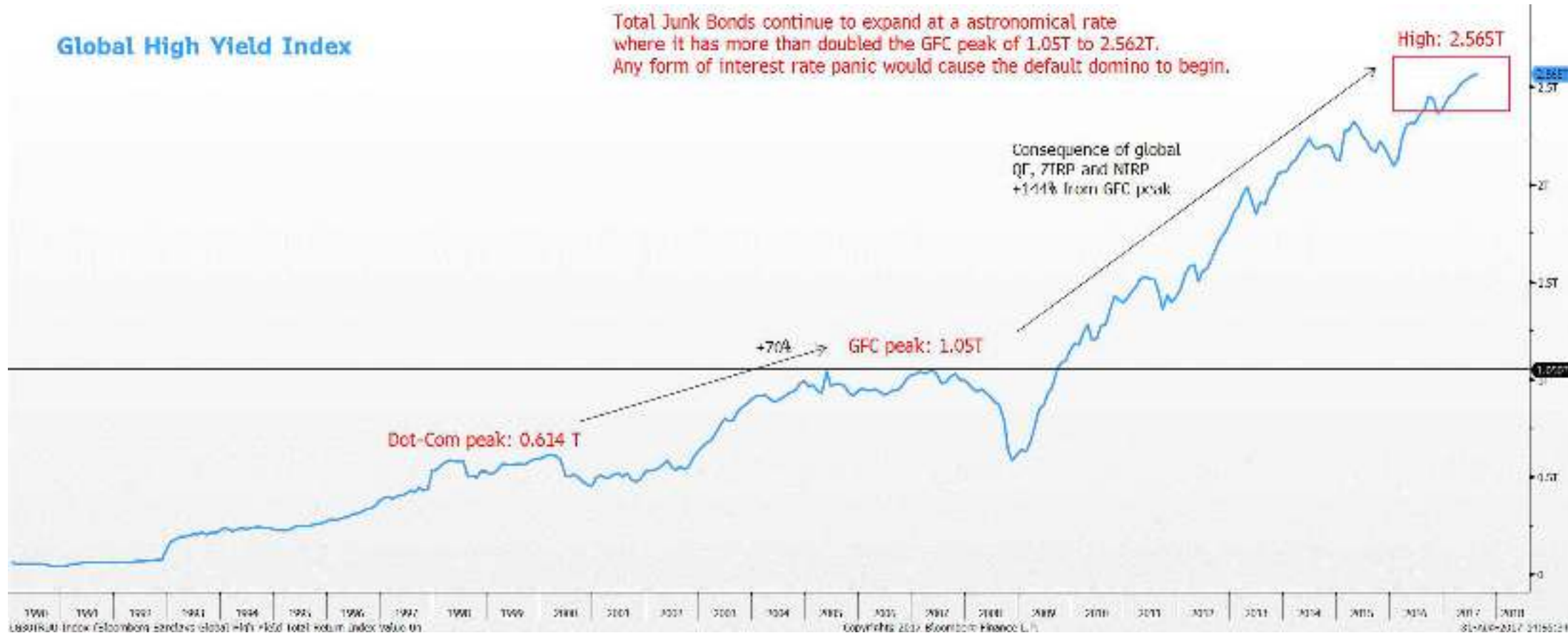


# Global Junk Bond – suggesting late stage economic cycle

- more than doubled from GFC peak, currently at \$2.5T
- Canary in the coalmine

## Global High Yield Index

Total Junk Bonds continue to expand at a astronomical rate where it has more than doubled the GFC peak of 1.05T to 2.562T. Any form of interest rate panic would cause the default domino to begin.



Source: Bloomberg, PSR

# Indicators to watch to identify market cyclical top

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- **Interest rate related**
  - Ted Spread
  - 2s10s Spread
- **Sentiment base**
  - CB consumer confidence
  - Umich consumer sentiment
  - Bloomberg Consumer comfort
- **FED related**
  - Unemployment rate
  - Fed funds rate
- **Price action related**
  - S&P 500 overbought RSI
  - VLG multi-decade triple top

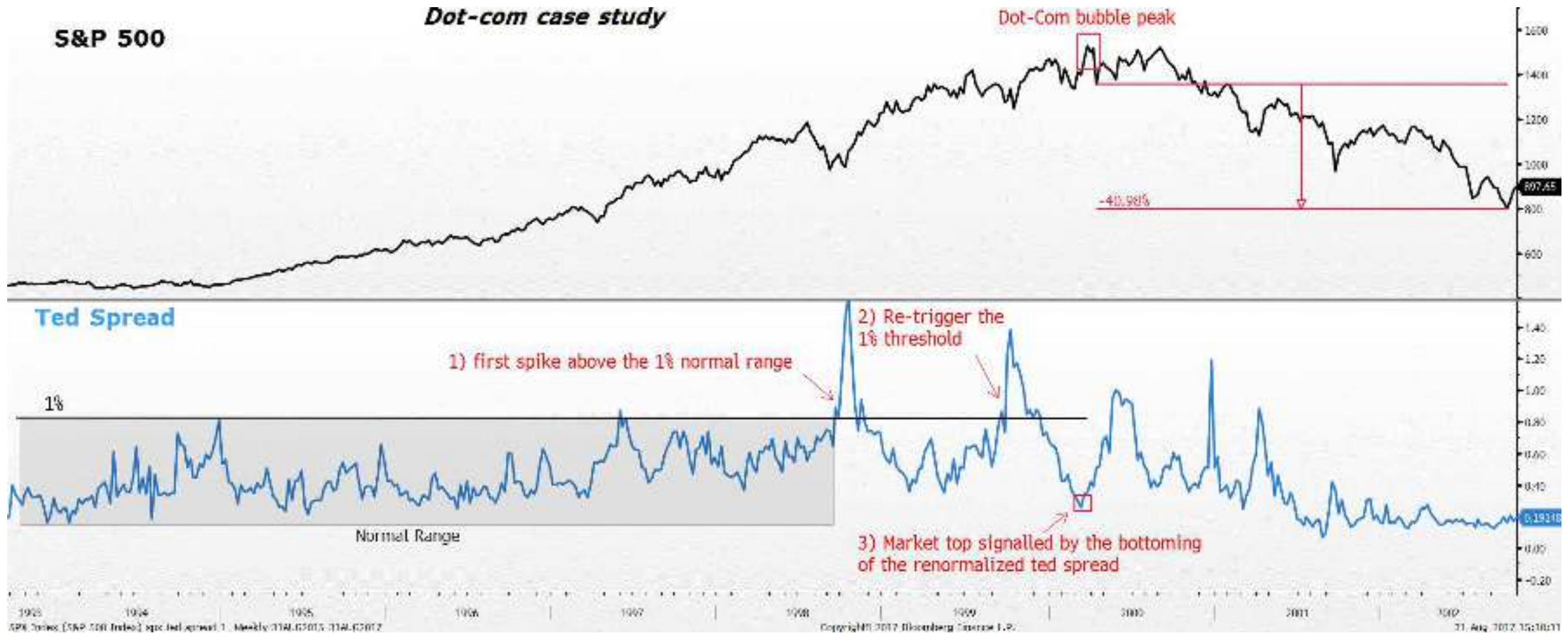
# Ted Spread = 3 month LIBOR rate – 3 month T-bill interest rate

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- Signs of trouble are highlighted by a rising TED Spread
  1. Ted Spread spiking above normal range
  2. Ted Spread re-trigger the 1% threshold
  3. The renormalisation of the Ted Spread off the peak to a new low will be the time when the market forms the cyclical top

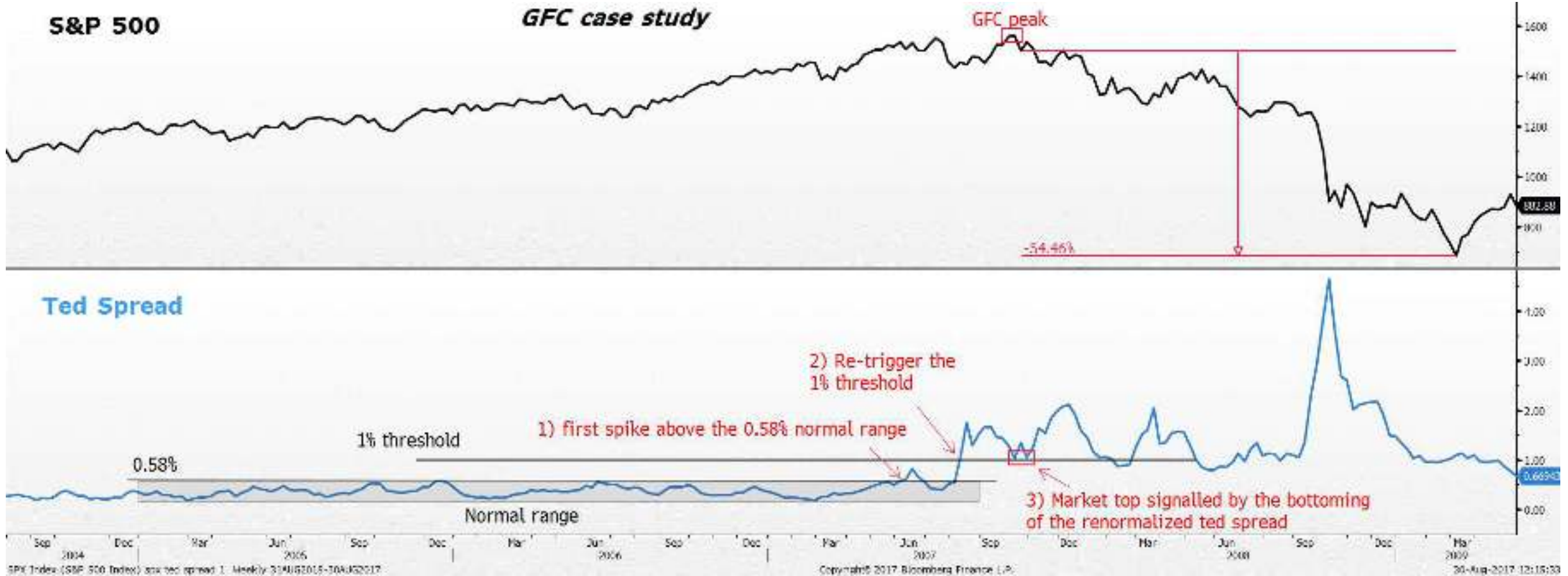
Source: Bloomberg, PSR

# Ted Spread – Dot-Com case study



Source: Bloomberg, PSR

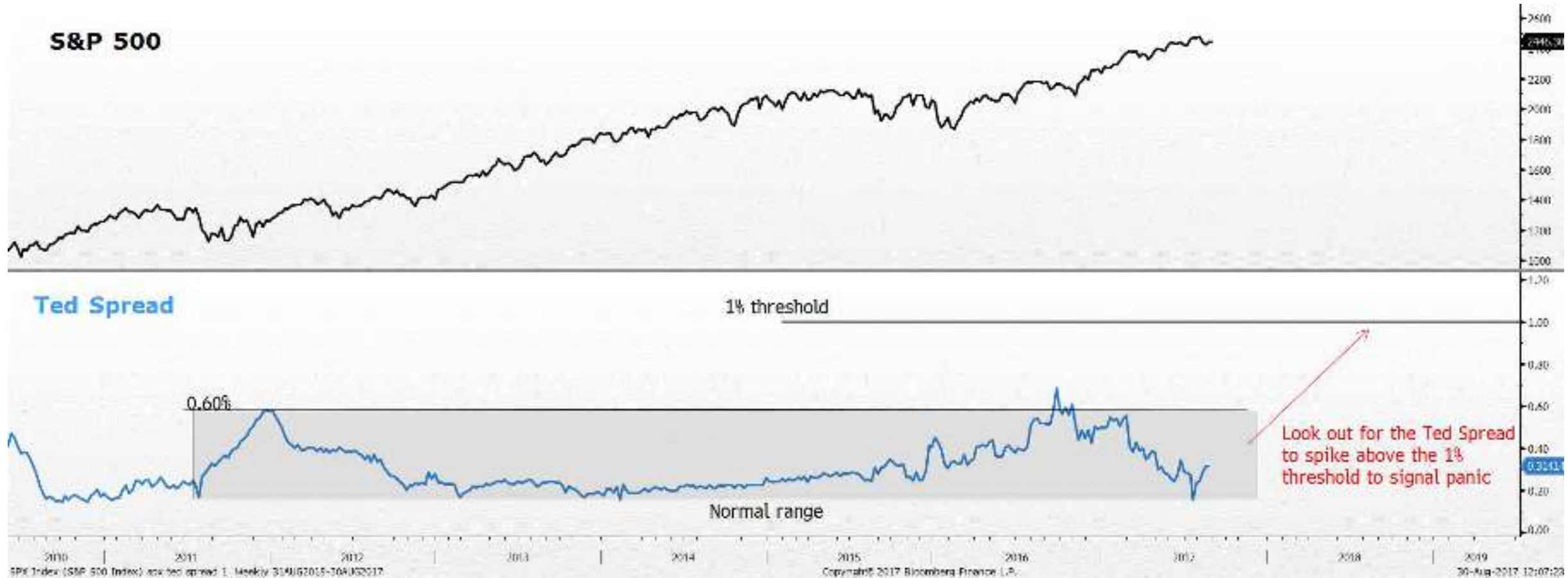
# Ted Spread – GFC case study



Source: Bloomberg, PSR



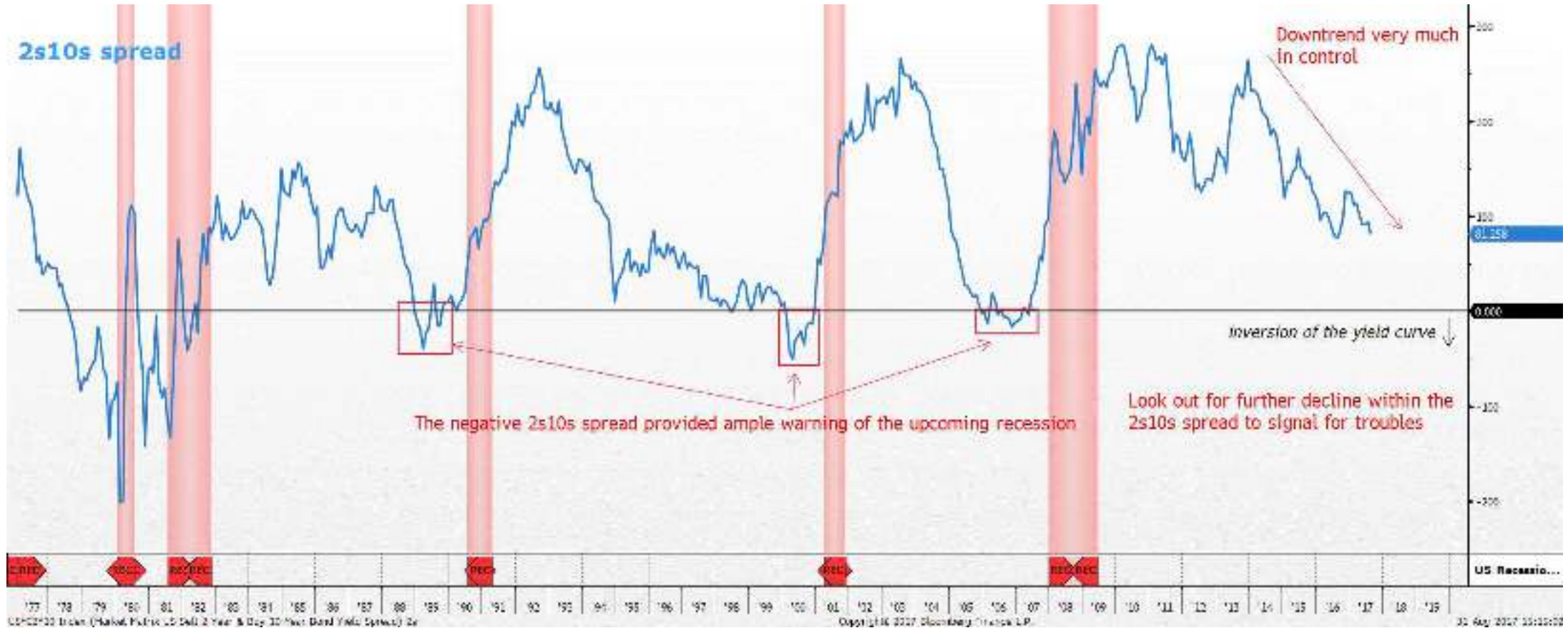
# Ted Spread – current



Source: Bloomberg, PSR

# 2s10s Spread = 10 year treasury yield – 2 year treasury yield

- Signs of trouble are highlighted by a negative 2s10s spread (inverted yield curve)
- Recession follows after the 2s10s spread falls into negative territory



Source: Bloomberg, PSR

# CB consumer confidence

- Entering into dot-com euphoria phase
- Signs of trouble are highlighted by break of the long term uptrend line



Source: Bloomberg, PSR



# Umich consumer sentiment

- Entering into dot-com euphoria phase
- Signs of trouble are highlighted by break of the long term uptrend line



# Bloomberg consumer comfort

- Entering into dot-com euphoria phase
- Signs of trouble are highlighted by break of the long term uptrend line

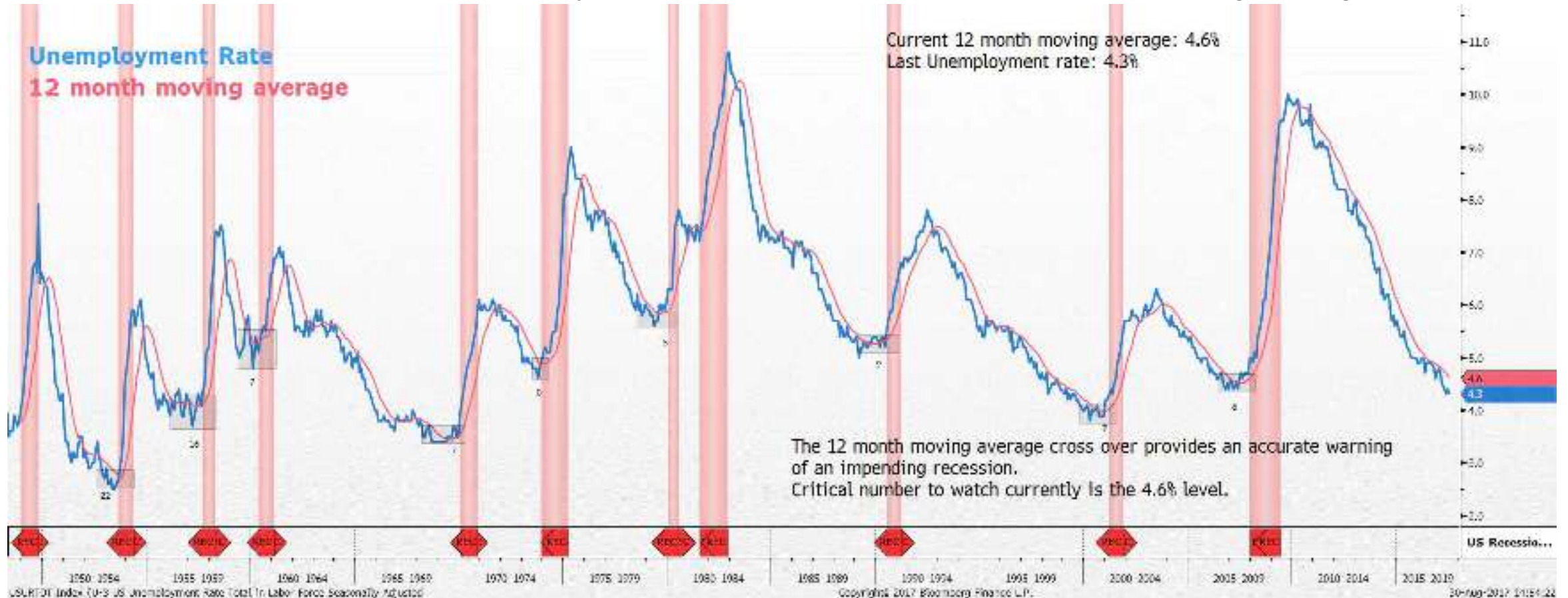


Source: Bloomberg, PSR



# Unemployment rate

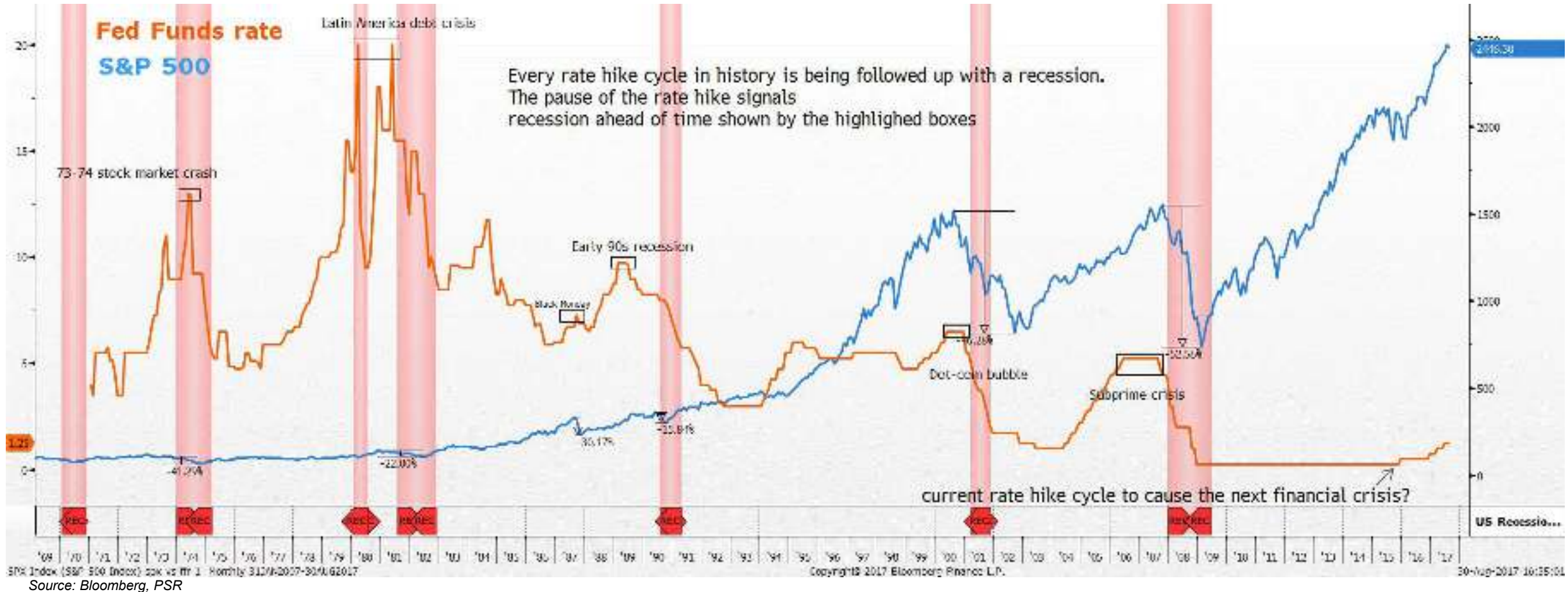
- Signs of trouble are highlighted when unemployment rate reverses sharply off the extreme lows
- Recession follows after the unemployment rate crosses above the 12 month moving average



Source: Bloomberg, PSR

# Fed Funds rate

- New rate hike cycle began in December 2015
- At the end of each rate hike cycle, a recession tends to follow







# Value Line Geometric - showing weakness off the multi-decade triple top

- Break of the long term uptrend line in VLG signals the end of the bull market in S&P 500
- Currently facing the 509 multi-decade triple top





# Indicators bearish signal threshold

Indicator	Threshold	Last	Bearish Signal
Ted Spread	Above 1%	0.31%	Unconfirmed
2s10s Spread	Below 0%	0.81%	Unconfirmed
CB Consumer Confidence	Below uptrend line/112	122.9	Unconfirmed
Umich Consumer Sentiment	Below uptrend line/93.4	97.6	Unconfirmed
Bloomberg Consumer Comfort	Below uptrend line/47	52.8	Unconfirmed
Unemployment rate	Above 12 MA/4.6%	4.4%	Unconfirmed
Fed Funds Rate	Halting of the rate hike cycle	1.25%	Unconfirmed
S&P 500	Below 10MA/2359	2357	Unconfirmed
Value Line Geometric	Below uptrend line/444	518	Unconfirmed

Source: Bloomberg, PSR

US equity market should continue to grind higher until the thresholds are breached

## **ETF**

SPDR DJIA Trust - (AMEX-DIA)

SPDR S&P 500 ETF Trust - (AMEX-SPY)

Powershares QQQ Nasdaq 100 - (Nasdaq:QQQ)

## **CFD**

Wall Street Index USD1 CFD – DJI

US SP 500 Index USD5 CFD – INX

US Tech 100 Index USD5 CFD – NDX.X

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# Ask Questions!

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