BRENTON POINT
WEALTH ADVISORS

November 20, 2023

Investing Environment Review and Outlook – Volume 77

- Q4 Equity Rally
- Zweig Breadth Thrust: Bullish
- CPI Inflation Turn: Consistent with Goldilocks
- 10-Year Yield Reversal: Bullish Equities
- Dollar Decline: Bullish Gold

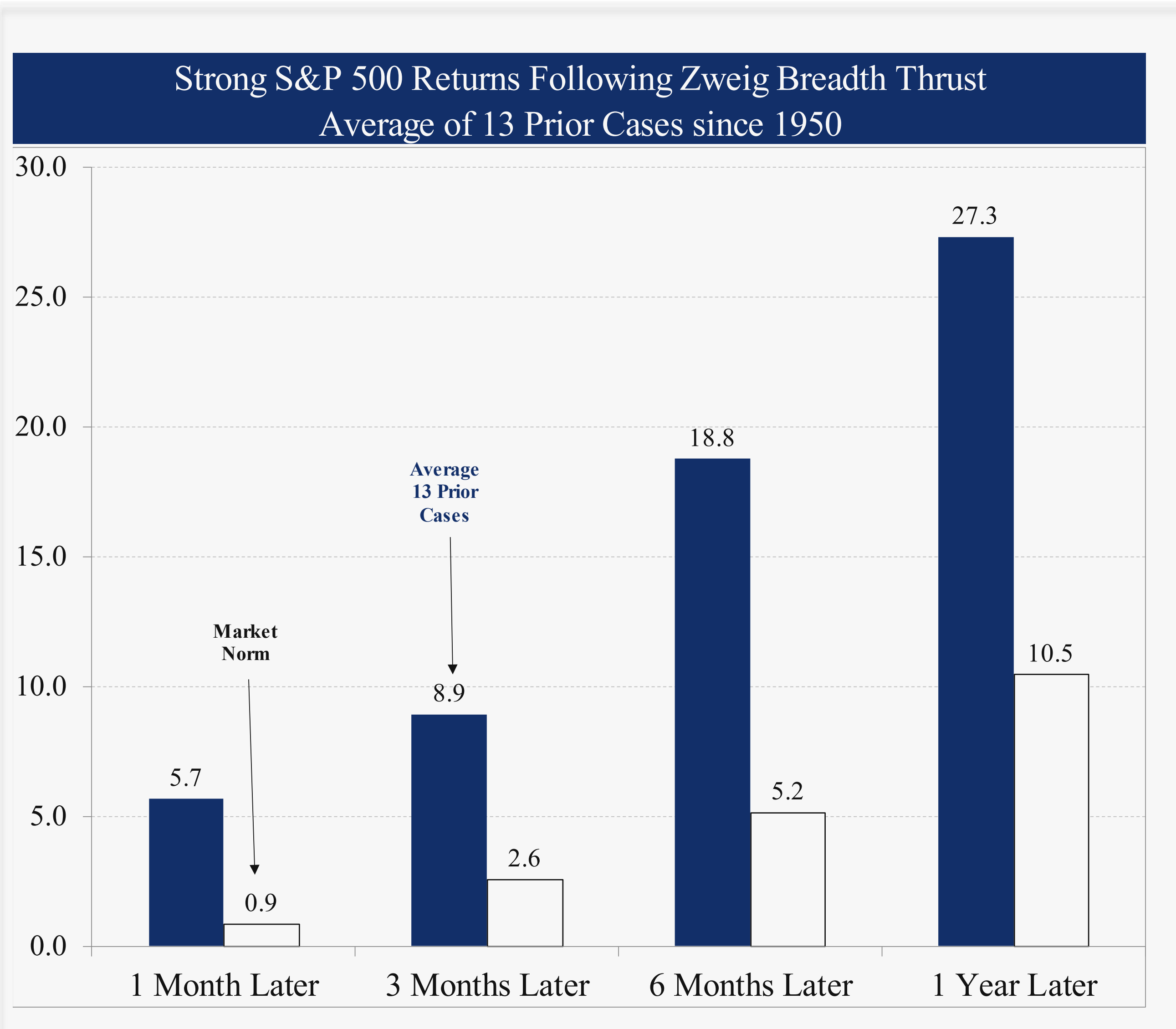
Last month, we discussed the investment implications of the goldilocks economic conditions for U.S. equities and the oversold extreme in bonds. Since then, there were some big market moves in equities, rates and the dollar. This month, we discuss the investment implications of the recent Q4 equity rally, the Zweig Breadth Thrust, and turns in CPI inflation, the 10-year Treasury yield and the Dollar Index. U.S. equities, foreign-developed and emerging markets equities remain bullish 5 ratings. Long-term bonds remain a neutral 3 rating. Gold remains a bullish 5 rating. Industrial commodities remain a bullish 4 rating.

Q4 Equity Rally: Not Extreme

After declining 13% from the July peak to the 10/27/23 low, the S&P 500 rallied 9.6% in just 3 weeks through 11/17/23. For historical perspective, this move is in the top 1% of 3 week moves since 1950. It begs the question whether the market is overbought and might be a high-risk bear market rally as some have said. A Bloomberg headline on 11/20/23 read, “S&P 500 Rally May Be at Risk.” If we consider the 22 prior years that were up over 10% in the first half that we mentioned last month, the median Q4 return following the strong first half in those years was 7.4%. So far, in Q4 the S&P 500 has only rallied 5.3%, so this move is still below the norm for similar years.

Zweig Breadth Thrust: Bullish 12 Months Out

On 11/3/23 after a strong 10-day move higher in the S&P 500, an alternate version of Marty Zweig's Breadth Thrust indicator was triggered. This is a technical measure using NYSE daily advances and declines over a 10-day period. The idea is such strong positive momentum following market weakness is indicative of institutional buying with more to come. After the prior 13 cases since 1950, the S&P 500 was up an average of 9%, 19% and 27% 3, 6 and 12 months later, over 3x the norm.



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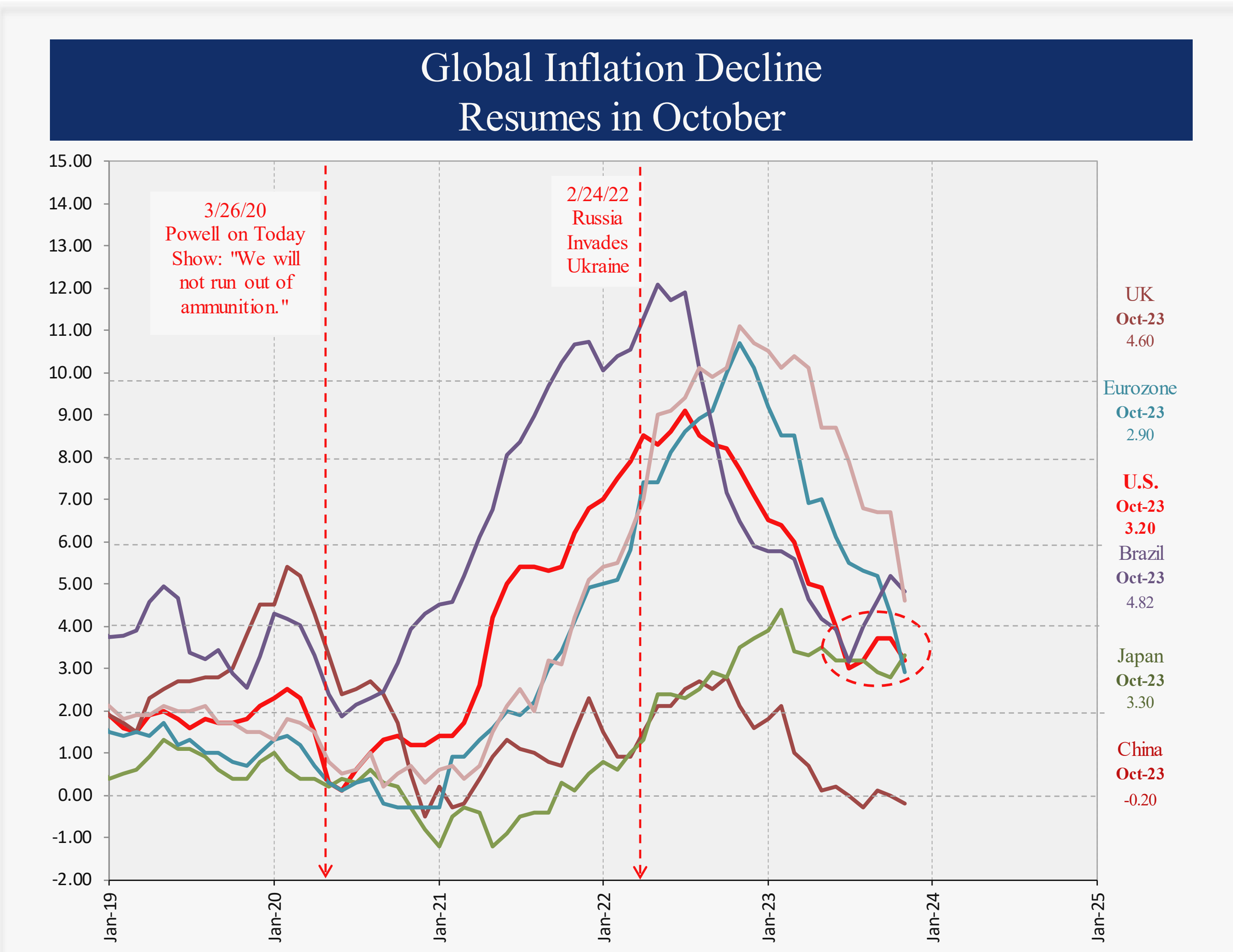
CPI Reversal: Bullish for Equities

The October CPI Inflation report showed the Y/Y CPI declined to 3.2%, down from the August peak of 3.7%. That marks a trend change to the downside, and confirms the goldilocks conditions we discussed last month. Since 1950 the S&P 500 returned 18.8% annualized when the CPI was below 4% and falling, as it is now. This is not just a U.S. phenomenon, as most major countries around the world are experiencing lower inflation as well. The 10-year yield reversed also, from a September peak of 5% to 4.4% on 11/17/23. Since 1950, when the 10-year yield was falling like this, the S&P 500 returned 18.3% annualized, almost 2x the norm, even when the Fed was hiking rates. Returns were consistent over time as well.



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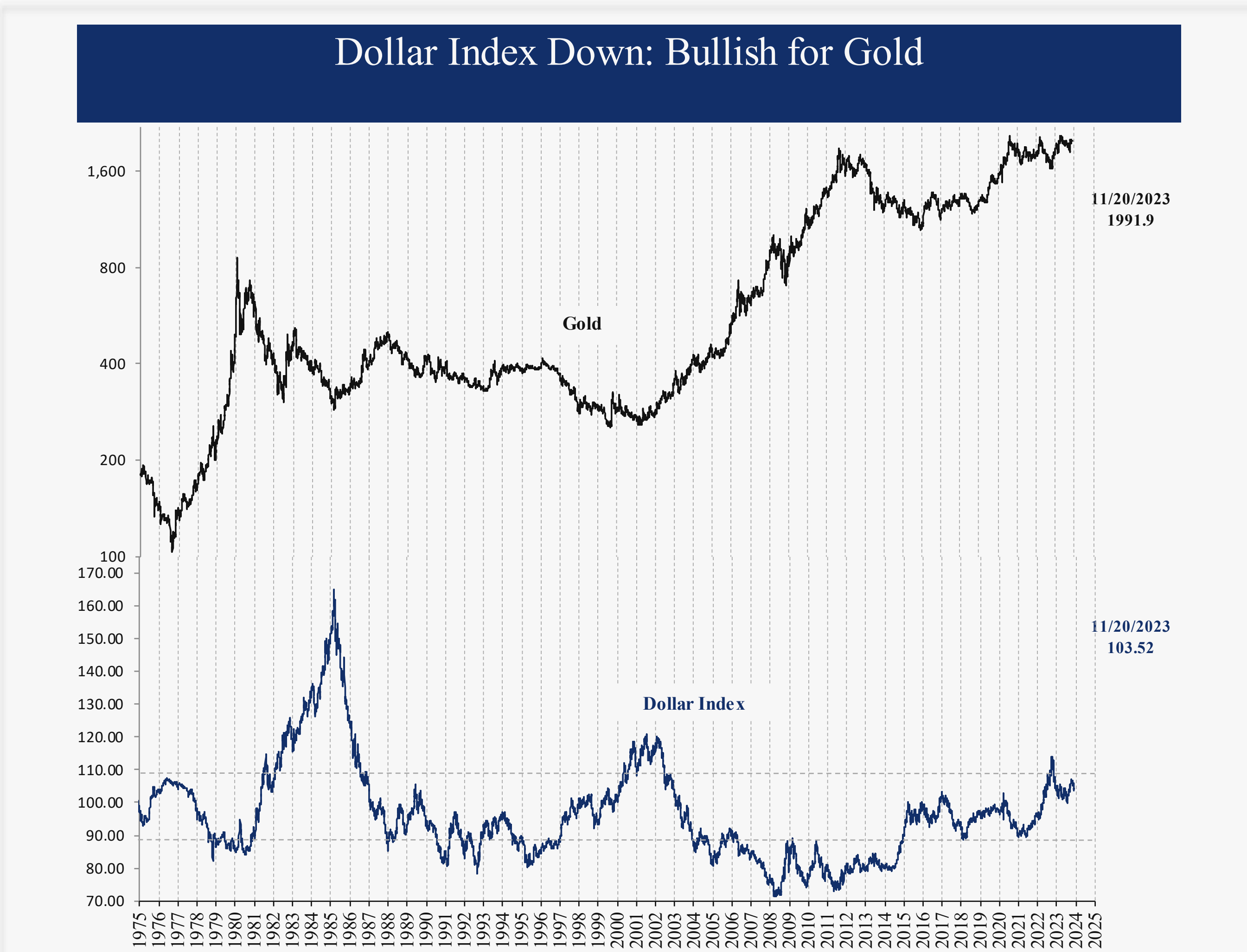
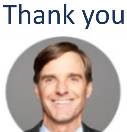
Dollar Index Down: Bullish for Gold

The Dollar Index made a 20-year peak of 115.0 in September 2022, before declining 15% into 2023. After a 7% rally since July, the Dollar Index is down 3.5% in a month and still down 10% from the 2022 peak. The weak dollar is a strong signal for gold historically. Since 1979, when the Dollar Index was weak and confirmed by a move higher in the Yen as we are seeing today, gold returned 17.7% annualized, over 3x the 4.9% norm over that period. Strong returns were also consistent over time, beating the buy/hold norm in every sub period since then. Our gold rating remains a bullish 5.



Summary

This month we discussed the Q4 equity rally, the Zweig Breadth Thrust, the CPI inflation turn and the weak Dollar Index. Economic conditions remain positive for equities both in the U.S. and abroad. Slow growth and falling inflation is consistently positive for equity returns despite the gloomy headlines. International equities remain under owned, and the dollar reversal could be the catalyst needed for a shift from the U.S. to abroad. We will continue to watch our indicators on a daily basis and shift exposures as needed to protect capital. Thank you for your support and please contact us with any questions.



Michael Schaus
Director of Market Research