



Keys To This Week: US Stock Market

October 24th, 2022

Emerging Strategic Bottom In The US Stock Market

*Editor's Note: We produce our **Keys To This Week: The US Stock Market** report later in the day on Mondays to avoid redundancy on our Saturday **The Weekly Wrap-Up** reports, and to try to get a better idea of where the new week may be heading by letting Monday's trading activity show itself.*

Correction Protection Model: Risk Off as of September 13th (from Risk On on September 12th)

Our quantitative model for the US stock market, which uses the S&P 500 (SPX) as a proxy, shifted to “Risk Off” (decreasing market exposure) as of the close on September 13th from “Risk On” (increasing market exposure) on September 12th.

Conclusion, Investment Implications, Strategy

This week, the **Tactical** (monthly) portion of **Table 1** below shifts to a **Positive** distribution of key near-term market factors for the US stock market, from the Negative one that had existed for the previous five weeks. Meanwhile, the **Strategic** (quarterly) portion of the table retains the previous week’s **Positive** alignment of key intermediate-term market factors, from the balanced **Neutral** one that existed for the prior month.

Strategically, the combination of the S&P 500’s recent successful test of major support (Key#1 below), extremes in bearishness according to investor sentiment and market breadth (Keys #6 and #7), recent relative outperformance by stocks versus bonds (Key #5), and 4th Quarter seasonality in the S&P 500 (Key #8) establish **favorable if not ideal conditions for a one to several quarter market bottom to emerge**. **Tactically**, the recent positive shift in the **Asbury 6** (Key #3) combined with new monthly asset expansion in the Invesco QQQ ETF (Key #4) are two indications that this expected rally is beginning. However, we are waiting for a shift back to Risk On in the **Correction Protection Model (CPM)** to confirm it’s underway.

Regarding market **Style, Value** stocks (SPYV) are in the midst of a Sep 6th trend of Strategic relative outperformance versus the S&P 500 and have outperformed the S&P 500 by 1.5% since then. **Globally**, according to our **US vs. The World Model**, 8 of the 25 foreign countries represented by our model are outperforming the S&P 500 on a Tactical and Strategic basis, down from 10 a week earlier. Of these, however, only Peru, France, Mexico, and Brazil appear to be in established outperformance trends.

Strategy: Our Tactical bias remains Risk Off/Negative as of August 23rd. Our longer-term Strategic bias remains Negative as of January 24th.

THE US STOCK MARKET		
	POSITIVE FACTORS	NEGATIVE FACTORS
TACTICAL (one to several weeks)	MARKET INTERNALS: ASBURY 6	PRICE & TREND: SPX
	CHART PATTERNS: SPX	
	ASSET FLOWS: QQQ	
STRATEGIC (one to several months)	RELATIVE PERFORMANCE: SPY v AGG	PRICE & TREND: SPX
	INVESTOR SENTIMENT: SPX	INTERMARKET: TNX
	MARKET BREADTH: NYSE	
	SEASONALITY: SPX	
	STYLE: VALUE STOCKS	
ASBURY RESEARCH KEYS TO THIS WEEK		

FOR THE WEEK OF OCTOBER 24, 2022

Table 1

Listed in the order of their importance and expected impact on market direction

- 1. Price & Trend: S&P 500 (SPX). NEAR TERM, INTERMEDIATE TERM BEARISH. STRATEGIC DECISION POINT.** Halfway through today’s session, **Chart 1** below shows that the US broad market index remains in the midst of major and minor downtrends as defined by its 50- and 200-day moving averages, but is also stabilizing from major underlying support at 3588 and 3394, the September and February 2020 benchmark highs. The minor downtrend will remain valid this week below 3877-3887, which is situated 2.6% above the market.
- 2. Chart Patterns: S&P 500 (SPX). NEAR TERM BULLISH. TACTICAL DECISION POINT.** **Chart 2** below shows an emerging chart pattern in the S&P 500, a bullish inverse head and shoulders pattern. These patterns typically emerge at market bottoms. A sustained rise above 3745 would confirm the pattern and target an additional 7.5% rise to 4025.
- 3. Market Internals: Asbury 6. NEAR TERM BULLISH.** **Table 2** below shows that, through Friday October 21st, four of the Asbury 6 constituent metrics are green

(positive). **The “A6” model** itself turned Positive on Oct 18th after being Negative for most of this year. Four or more metrics in one direction, either Positive (green) or Negative (red), indicate a tactical bias. The dates in each cell indicate when each individual constituent of the “A6” turned either positive (green) or negative (red). When all Asbury 6 constituent metrics are positive, market internals are the most conducive to adding risk to portfolios. Each negative reading adds an additional element of risk to participating in current or new investment ideas.

- 4. Asset Flows: Invesco QQQ Trust (QQQ). TURNING NEAR TERM BULLISH. TACTICAL DECISION POINT.** The rightmost green highlights in the lower panel of **Chart 3** below show that the total net assets invested in QQQ (which tracks the NASDAQ 100) edged above their 21-day moving average on Friday to indicate *an emerging monthly trend of expanding assets*. The other green highlights show that the previous period of monthly asset expansion fueled the Jly 6th to Aug 21st rise in the NASDAQ 100 (upper panel).
- 5. Relative Performance: Stocks (SPY) vs. Bonds (iShares Core U.S. Aggregate Bond ETF, AGG). TURNING INTERMEDIATE TERM BULLISH. STRATEGIC DECISION POINT.** The lower panel of **Chart 4** below shows that as of Oct 20th SPY is beginning a new trend of Strategic (quarterly) relative outperformance versus AGG. Quarterly relative outperformance by SPY (stocks) versus bonds (AGG) is characteristic of sustainable Strategic US stock market advances.
- 6. Investor Sentiment: Stock Market Newsletter Writers. INTERMEDIATE TERM BULLISH.** **Chart 5** below shows that the Investors Intelligence Bulls Minus Bears data is currently hovering at a 12-year least bullish extreme that previously either coincided with or closely led every Strategic bottom in the S&P 500 since 2010.
- 7. Market Breadth: % Of NYSE Composite (NYSE) Stocks Trading Above Their 200-day Moving Average. INTERMEDIATE TERM BULLISH.** The green highlights in **Chart 6** below show that this metric has currently reached a 22-year extreme in weak breath (below 10%) that previously coincided with what have been the most important bottoms in the S&P 500 during the period.
- 8. Seasonality: S&P 500 (SPX). INTERMEDIATE TERM BULLISH.** **Chart 7** below shows that the final week of October is the weakest of the entire 4th Quarter in the S&P 500

based on data since 1957, and that the seasonal trend becomes significantly stronger in November and December which are the 1st and 3rd strongest months of the year.

9. Style, Growth vs Value: SPDR Portfolio S&P 500 Value ETF (SPYV).

INTERMEDIATE TERM POSITIVE FOR VALUE. The green highlights in the lower panel of **Chart 9** below show that SPYV is in a Sep 6th emerging trend of Strategic (quarterly) relative outperformance versus the S&P 500 (SPY). SPYV has outperformed SPY by 1.5% since then. We view relative outperformance by Value as a defensive position by investors.

10. US Interest Rates: 10-Year Treasury Yields (TNX): **INTERMEDIATE TERM**

NEGATIVE FOR STOCKS. **Chart 9** below plots the CBOE 10-Year Treasury Yield Index (which tracks US 10-Year yields) weekly since 1995, showing that it has recently broken overhead resistance at 40.14 which equates to a 4.10% 10-Year Treasury Yield. This clears the way for a potential rise to the next key level at 53.39, which equates to a 5.34% yield. Since these yields have had a significant inverse linear correlation to the S&P 500 for the past 12 months, the recent rise above TNX 40.14 warns of further upcoming weakness in the US broad market.



Chart 1



Chart 2

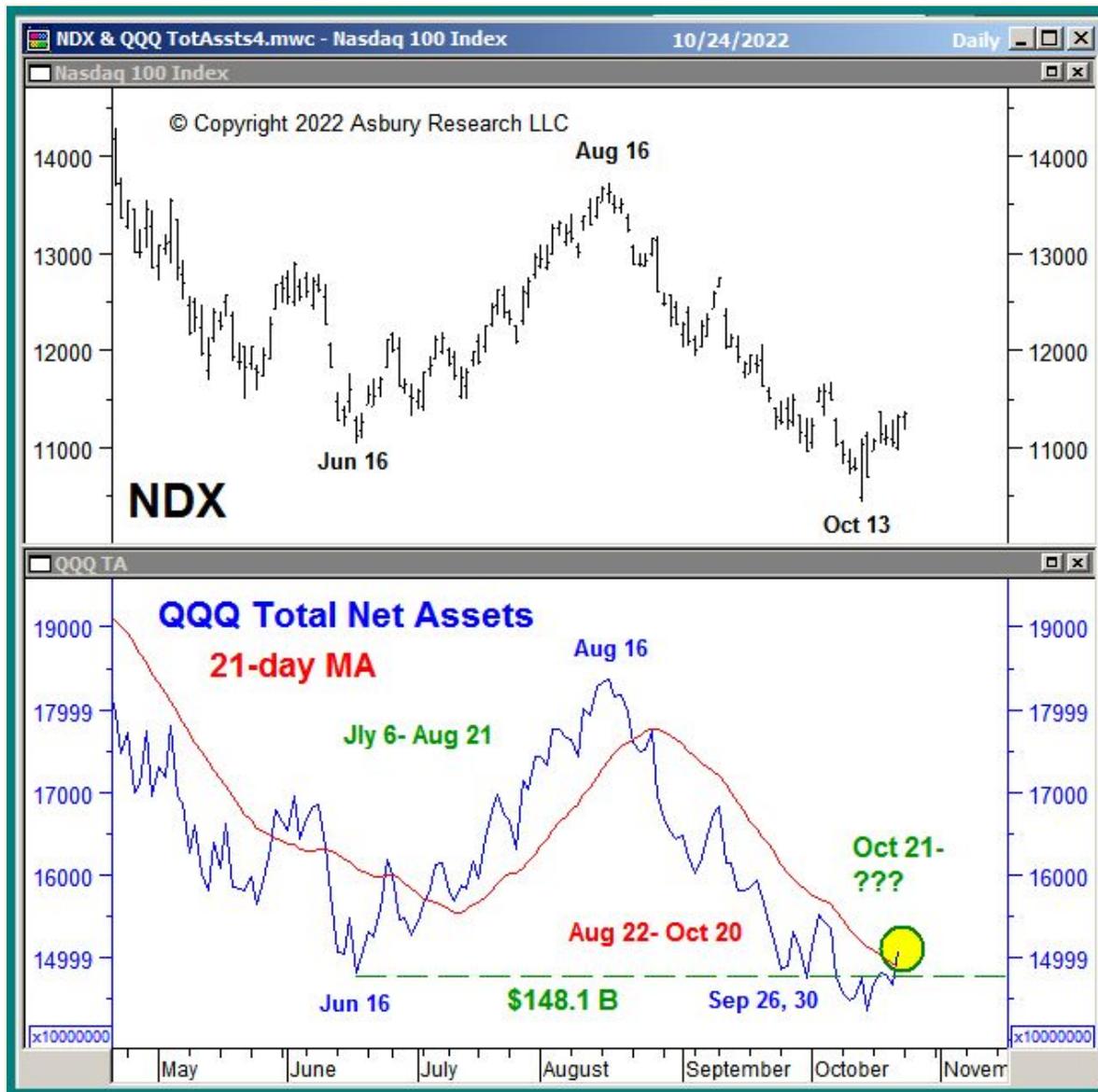


Chart 3

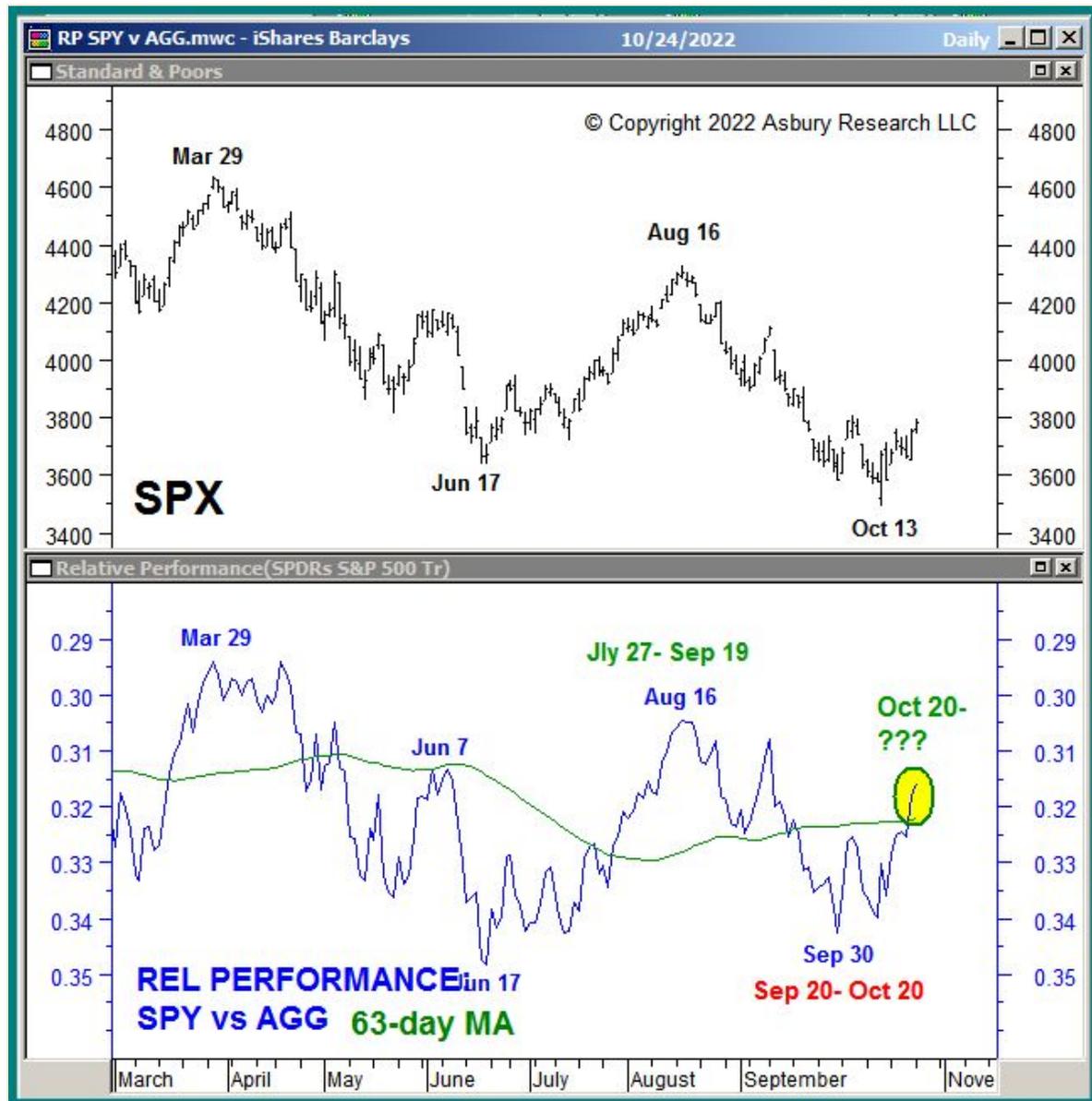


Chart 4

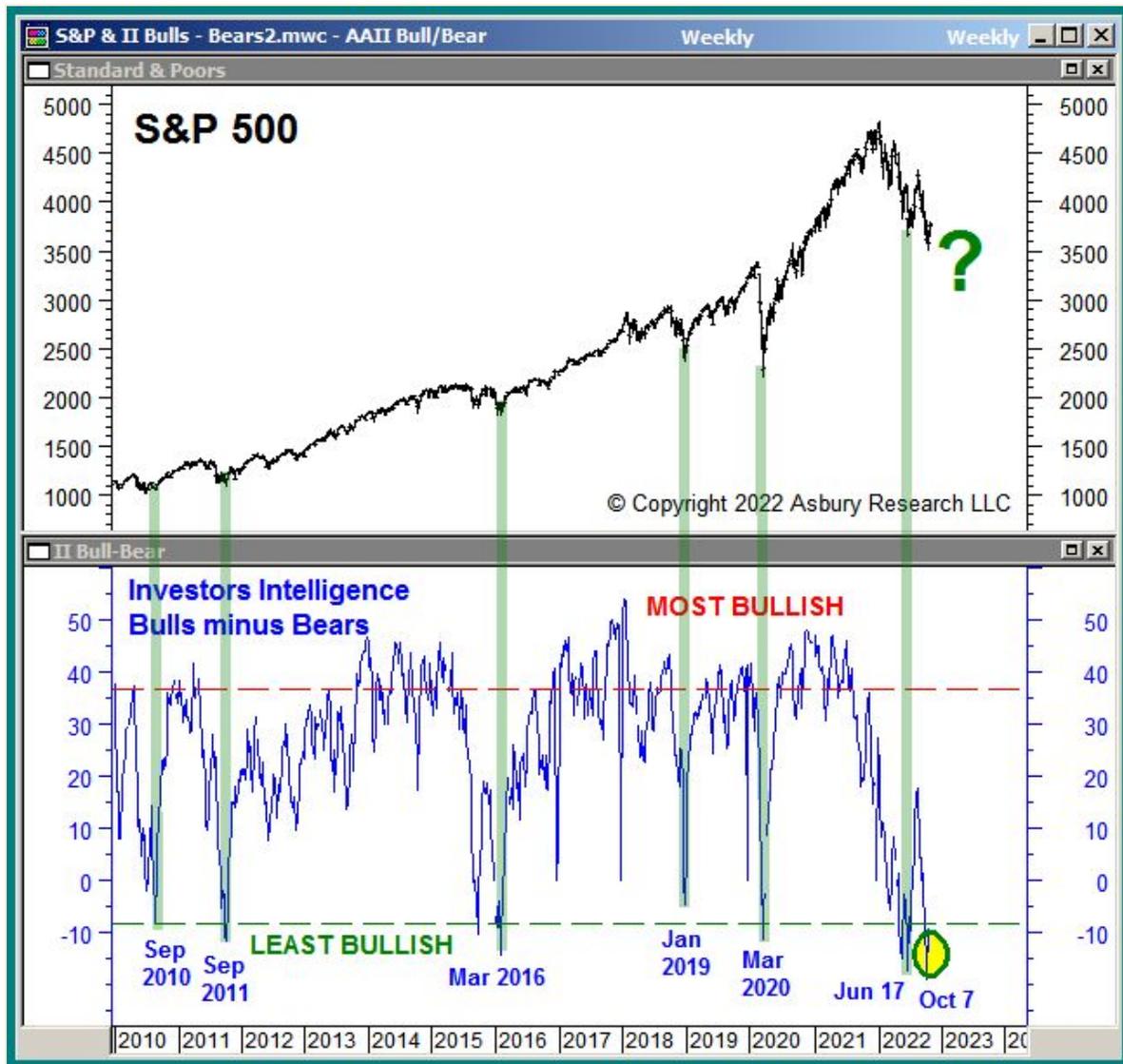


Chart 5



Chart 6

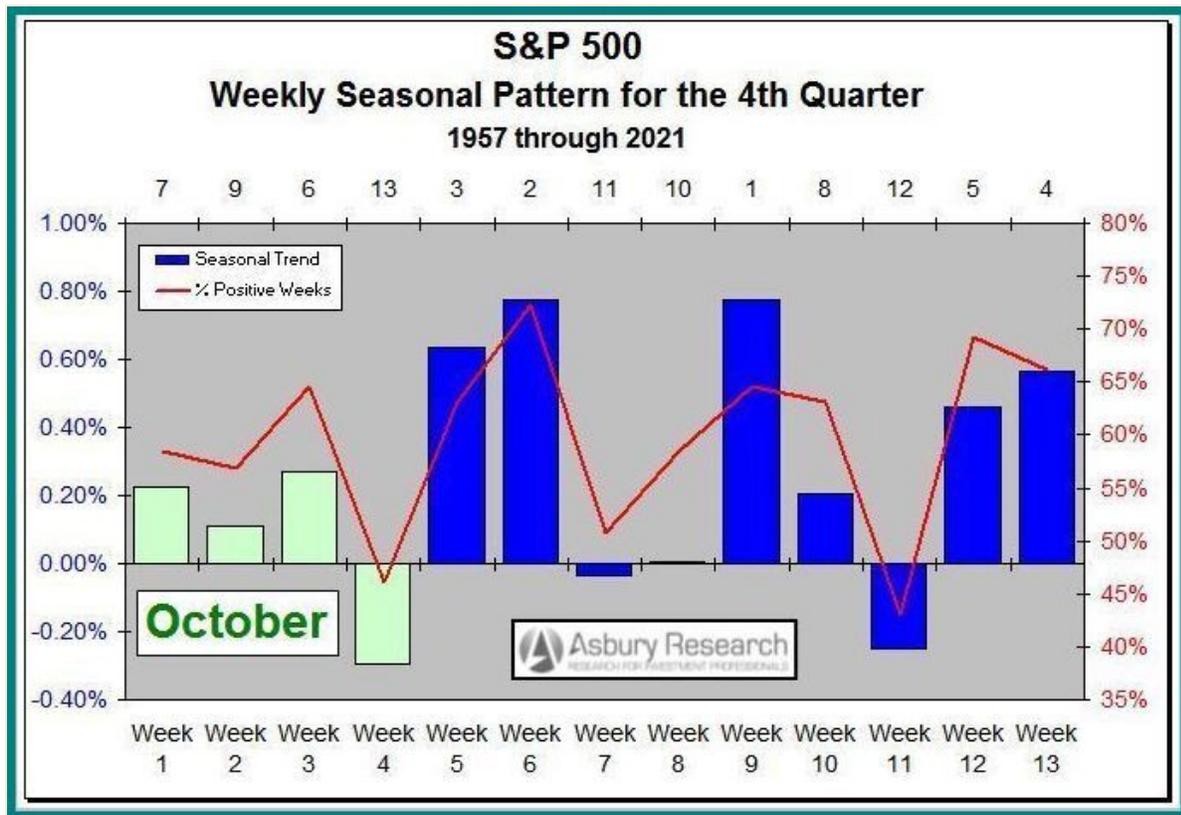


Chart 7

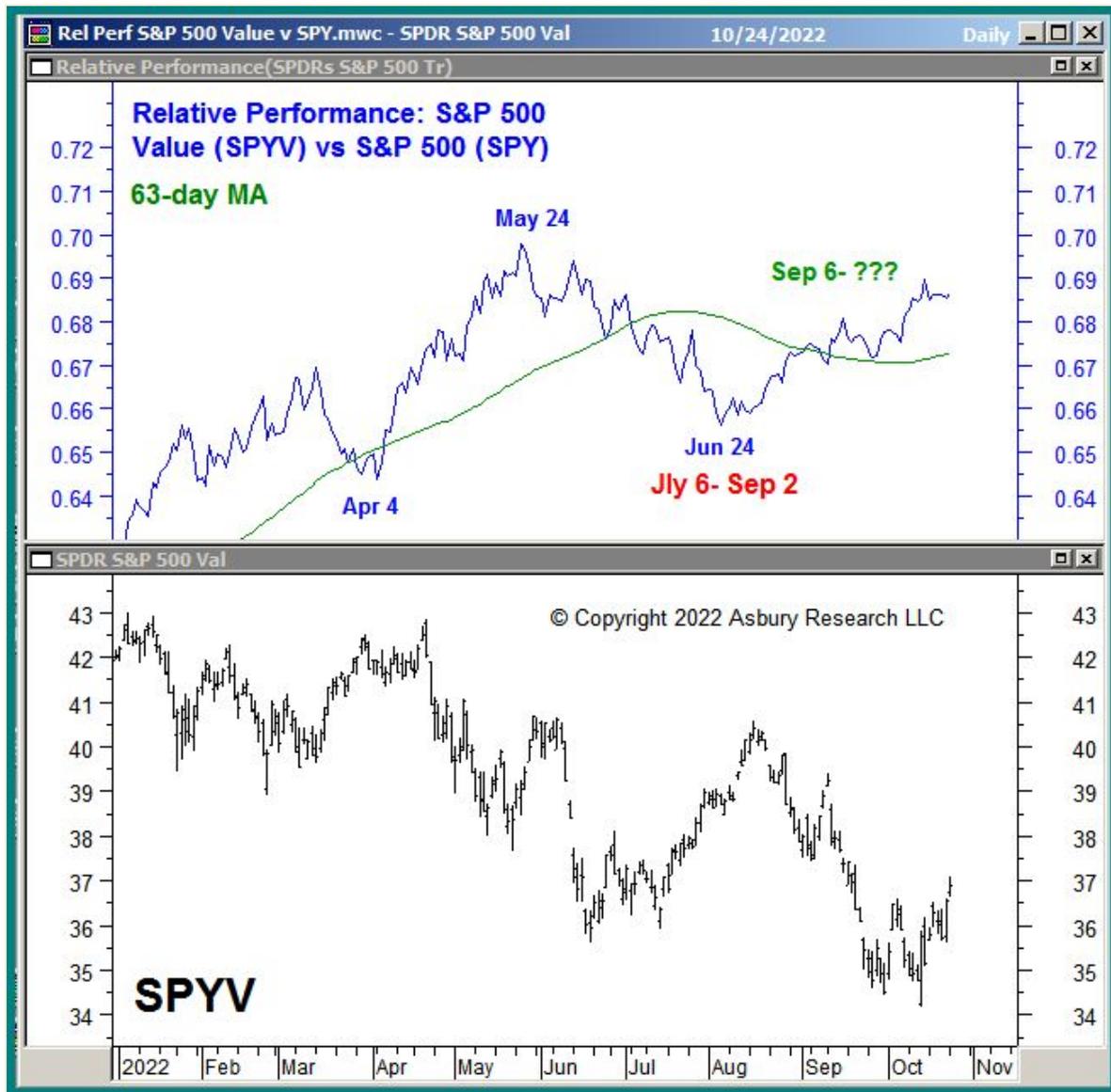


Chart 8



Chart 9

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