

NEXPOINT

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Weekly Market Deep Dive

Mike Hurley, CMT
Chief Market Strategist

775-750-8921

mhurley@nexpoint.com

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Commodities / Dollar

US\$ / FX:

- DXY: Battling resistance & 40-wk in 93 area
- Daily chart starting to look exhausted
- EC: Finding support around 1.18 area
- Both critical areas on the charts
- Weak US\$ had been supporting 'reflation'

Commodities & Sectors:

- BCOM: Testing long-term breakout
- All sectors in long-term up trends
- Most commodities seeing consolidation
- **Crude strong; but 1st 'lower low' in 7 weeks**
- Gold & silver: bending, jury still out
- 'Growth scare' would lead to extended consolidation ranges within uptrend
- So far, it's looking like minor ones

Bottom Line:

- US\$: Holding bottom of critical range
- DXY & EC now at key areas on their charts
- Commodities likely bending not breaking



Oil Market

Brent Crude:

- Spread holding over \$6 – very OPEC driven
- 1-12 mo. spread is healthy (i.e., backward)
- Nearing 2018 highs – potential resistance



WTI:

- Rig count continues to grow
- COT continues to show heavy forward selling

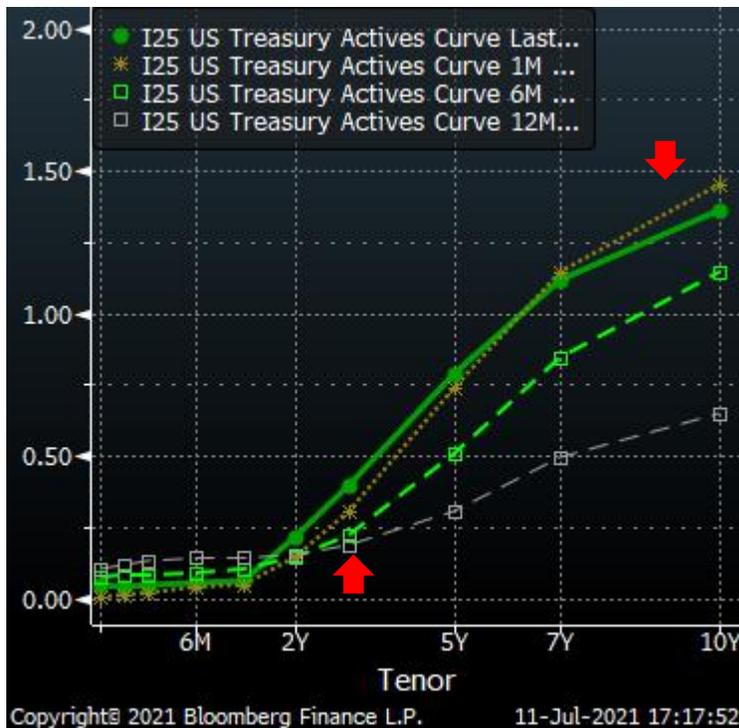


Global Yields

US yield curve healthy in general, but **flatter over the last month**

Global 10-yr rates in strong up trend; **again lower over week**

- US: ▼ 6 bp
- Japan: ▼ 2 bp
- Germany: ▼ 2 bp
- UK: ▼ 1 bp
- 10 US B/E: ▼ 5 bp



Bonds / Rates

Daily Charts:

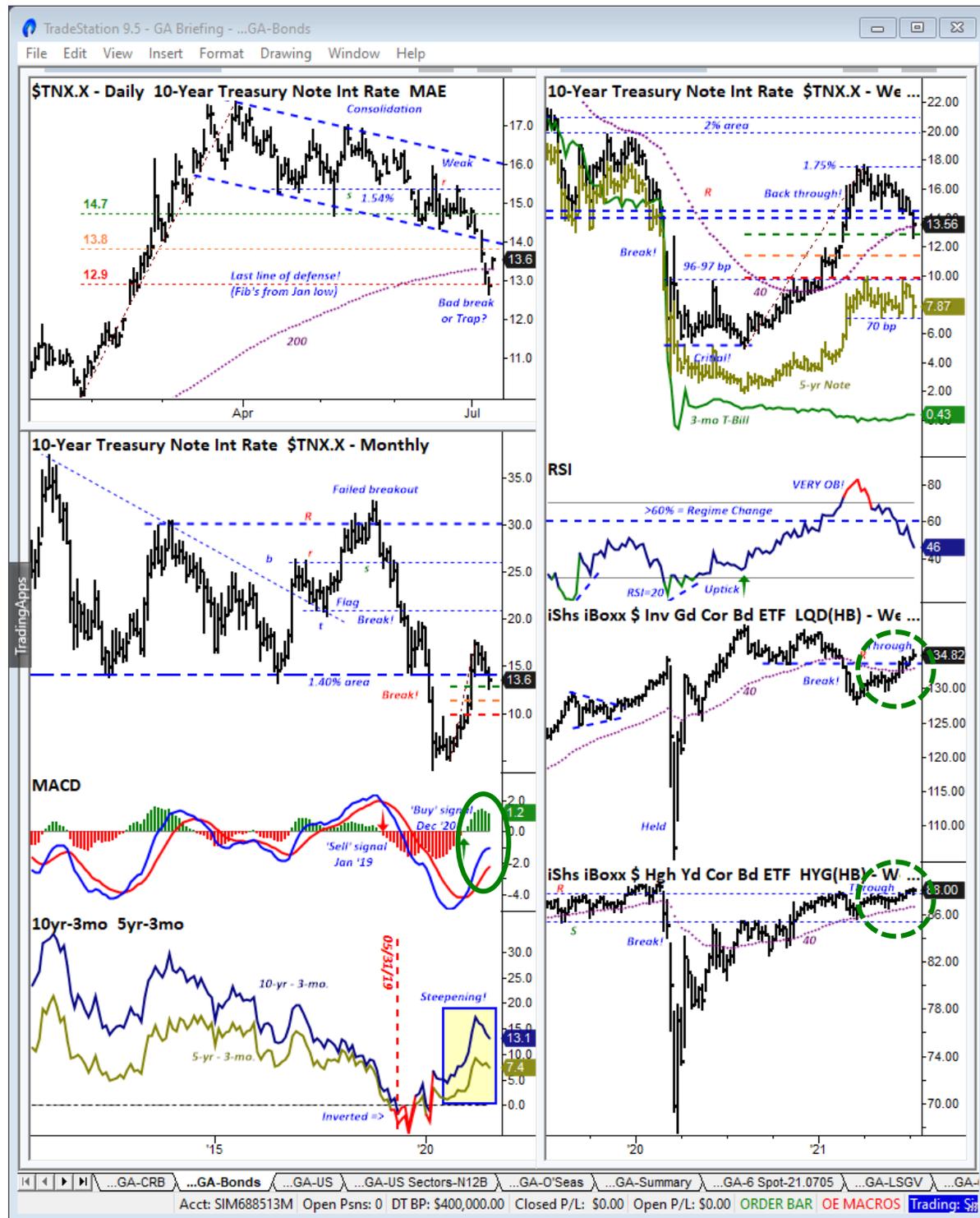
- Either catastrophic break or bull trap
- Did hold 200-day, & 3rd Fib from Jan low
- Also 1st Fib from Aug low (weekly chart)

Weekly Charts:

- Strong move off 50bp
- Found resistance at 'round' number (1¾%)
- Clearly in pullback / consolidation mode
- **Potential breakdown (1.35-1.40% area)**
- **5-yr. stronger; needs to hold 70 bp**
- RSI needs to hold 40 to confirm up trend
- Both LQD & HYG through resistance

Bottom Line:

- Likely new 'bull market' market for rates
- Potential failure & breakdown
- Confirming the reflation trade & growth



Credit Spreads

Spreads:

- Spreads mixed on the week
- In area of cycle / record lows
- Spreads remain a tailwind – LT
- Can argue bad risk/reward – ST
- Not convinced will provide a ‘signal’ this market cycle

CCC Trends:

- ▼ 10 bp; (to 4.52%)
- Last cycle below 5% was '07
- New cycle low

HY Trends:

- ▲ 4 bp; (to 3.16%)
- 3.12% was cycle low (last week)

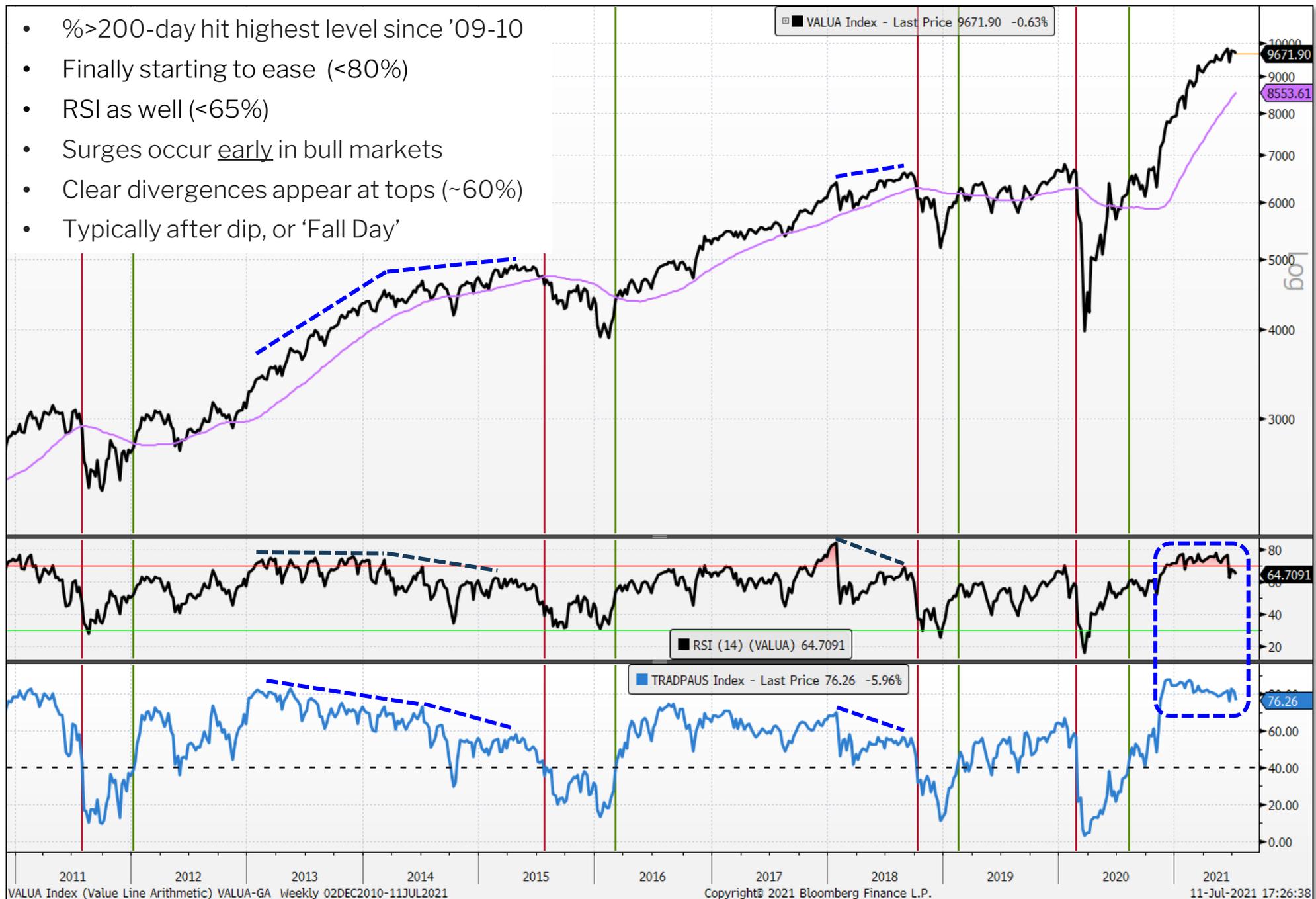
IG Trends:

- ▲ 3 bp; (to 1.07%)
- DMI on a ‘SELL’ (6/5)
- 1.04% was all-time low (1.14 in '07)



VALUA – Cycle Overview

- %>200-day hit highest level since '09-10
- Finally starting to ease (<80%)
- RSI as well (<65%)
- Surges occur early in bull markets
- Clear divergences appear at tops (~60%)
- Typically after dip, or 'Fall Day'



Stocks

Daily Charts:

- S&P and NASDAQ to new highs
- NASDAQ resolved triangle to upside
- Hindenburg on NASDAQ Wed.
- Internals still relatively weak

Weekly Charts:

- Stocks in a 'confirmed' bull market (Spring Day)
- Internals mixed – several divergences
- Fresh MACD 'Buy' signal on NASDAQ
- Broad indices look like pullbacks
- R/S of R2k also struggling to hold (rotation)
- Still seeing rotation as well

Bottom Line:

- Continues to look like cyclical bull market
- Strong internals a huge positive longer term
- Internals over near term less
- Still seeing potential consolidation & rotation

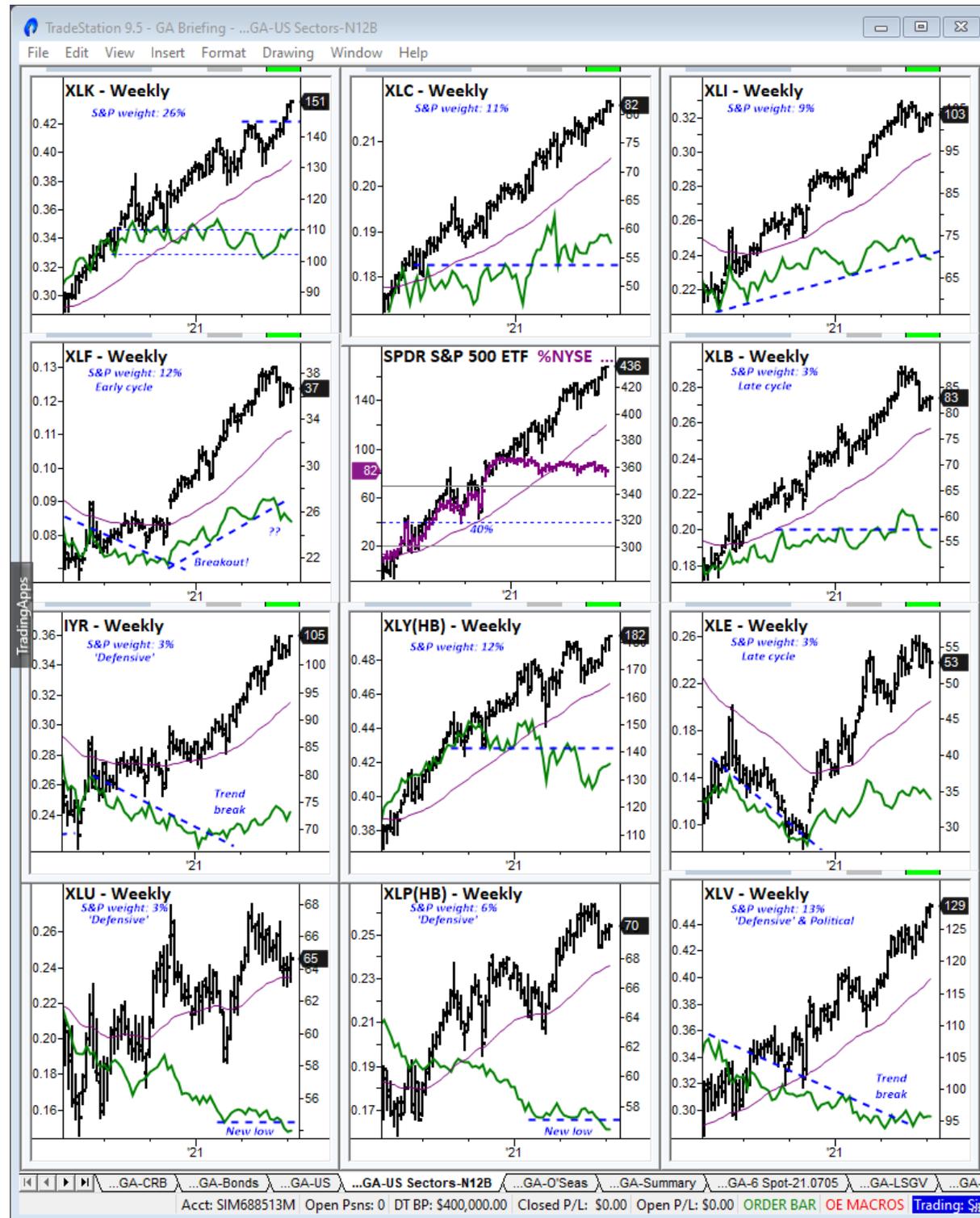


Market Sectors

Symbol	Desc	%Wk	%Wk[1]	%Yr	% Off H
IYR	iShs US R/E ETF	2.6%	-0.5%	25%	0%
XLU	S&P Sel Utilities Spdr	0.9%	0.1%	6%	5%
XLK	S&P Sel Tech Spdr Fd	0.9%	3.2%	17%	0%
XLV	S&P Sel Health Care	0.3%	2.1%	15%	0%
XLB	S&P Sel Materials Spdr	0.1%	0.9%	16%	7%
XLC	Comm Srvcs Sel Sec S	-0.6%	1.8%	23%	1%
XLF	S&P Sel Finl Spdr Fd	-0.6%	0.0%	27%	5%
XLE	S&P Sel Energy Spdr	-3.4%	-1.2%	39%	7%
\$COMPX	Nasdaq Composite In	0.4%	1.9%	15%	0%
\$SPX.X	S&P 500 Index	0.4%	1.7%	18%	0%
\$INDU	Dow Jones Industria	0.2%	1.0%	15%	1%
MDY	S&P Midcap Dep Rec	-0.1%	-0.5%	17%	3%
\$RJUT	Russell 2000 Index	-1.1%	-1.2%	14%	3%
IWF(HB)	iShs Russell 1000 Gw	1.0%	2.3%	16%	0%
IWD	iShs Russell 1000 Val	-0.2%	0.5%	18%	2%
IWO(HB)	iShs Russell 2000 Grv	-0.9%	-0.4%	5%	9%
IWN	iShs Russell 2000 Val	-1.4%	-2.1%	24%	7%
TLT	iShs 20+ Yr Treasury	0.9%	2.1%	-7%	15%
LQD(HB)	iShs iBoxx \$ Inv Gd C	0.3%	0.7%	-2%	3%
HYG(HB)	iShs iBoxx \$ High Yd	-0.1%	0.1%	1%	0%

Key Points:

- Another 'FANG' week
- Rates lower, finally a bounce in IYR & XLU
- Defensive sectors weak in general
- Longer term, sector shift is consistent with a cyclical bottom



Continued Rotation (7/9)

General:

- Fall into 2 basic categories
- Those correcting since Jan/Feb, and those extended and may be starting to

Banks:

- Important breakout, [consolidating](#)

Insurance:

- Important breakout, [consolidating](#)

Internet:

- Moving out of triangle

ARK Innovators:

- Sloppy, but held support

AAPL & AMZN:

- [Driving rally, recent break-outs](#)

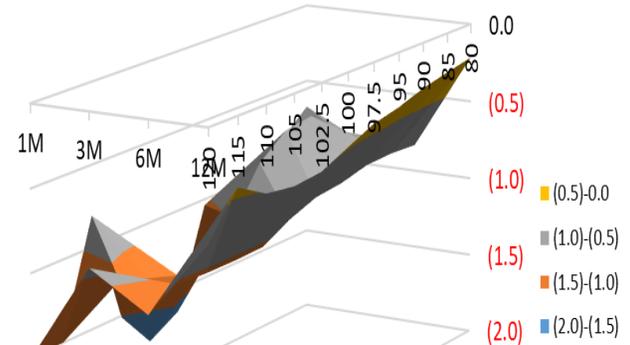
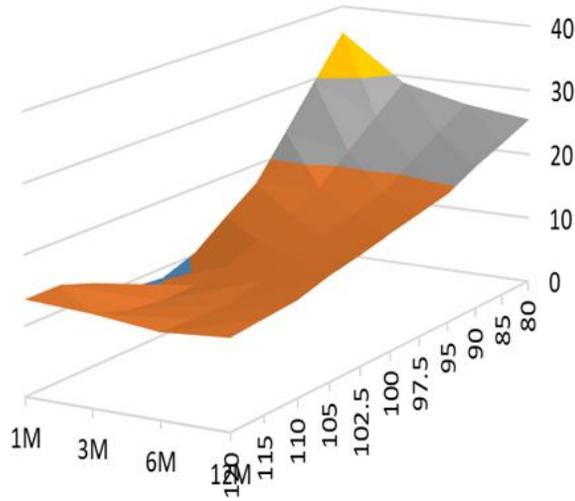
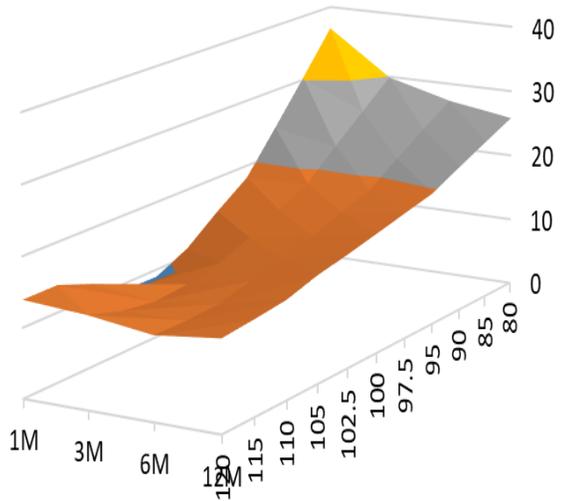


Changes in Volatility Surface

SPY Surface (7/9)

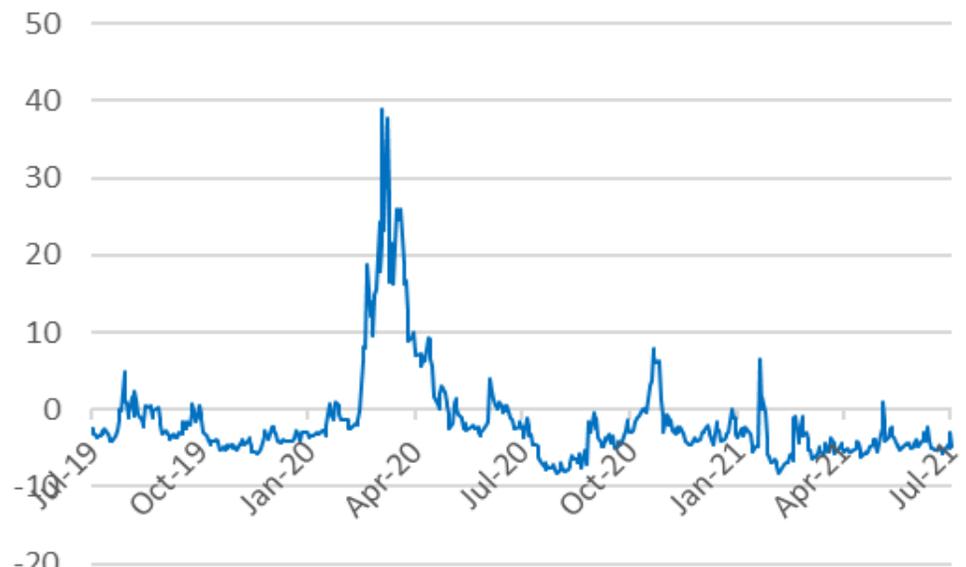
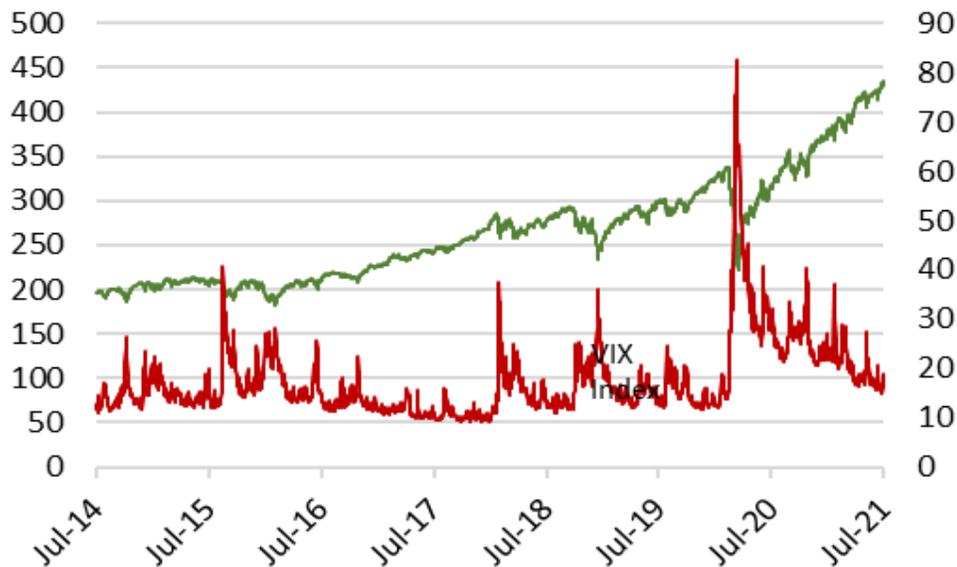
SPY Surface (7/2)

Difference



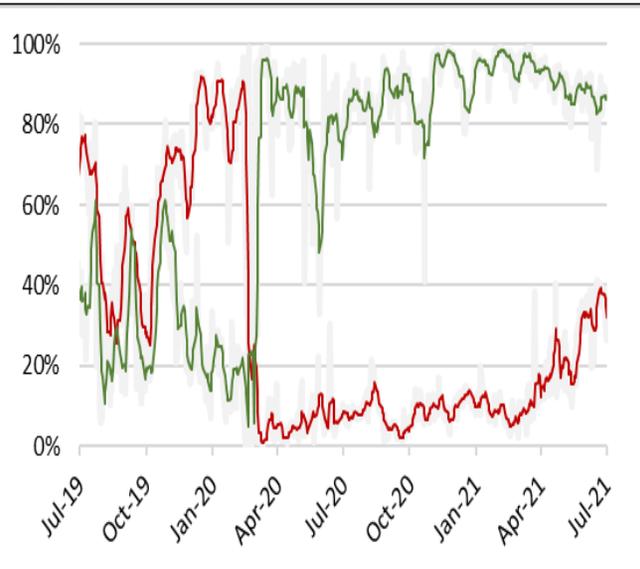
SPY and VIX Index

VIX Index - UX3 Index (Spot - 3 month)

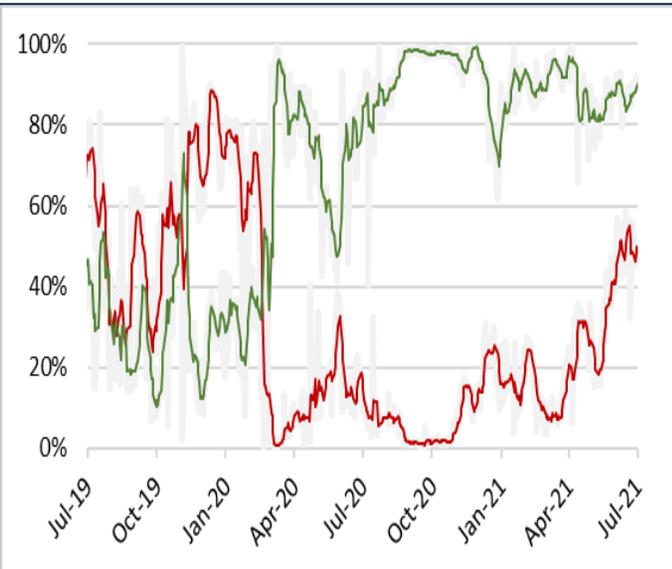


Normalized Skew Charts (3 - Month Tenor)

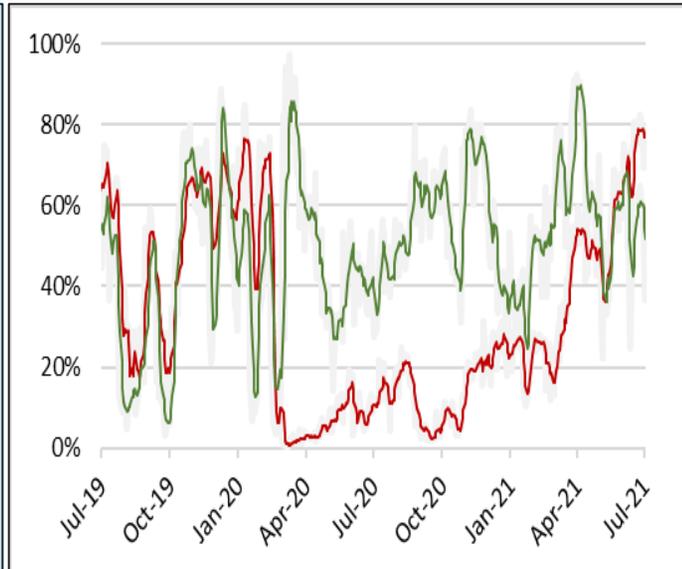
Russell 2000



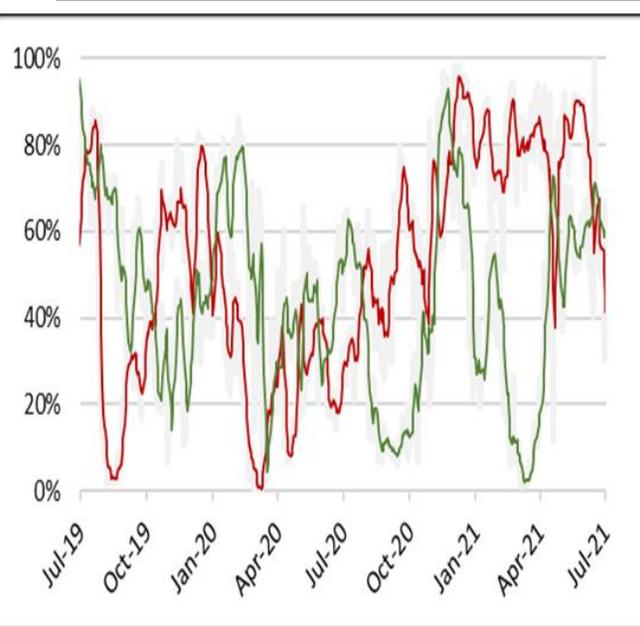
Nasdaq



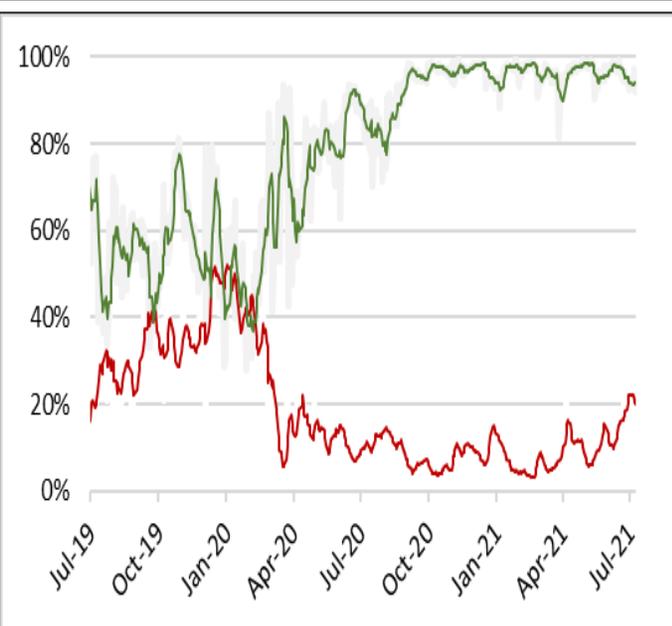
S&P 500



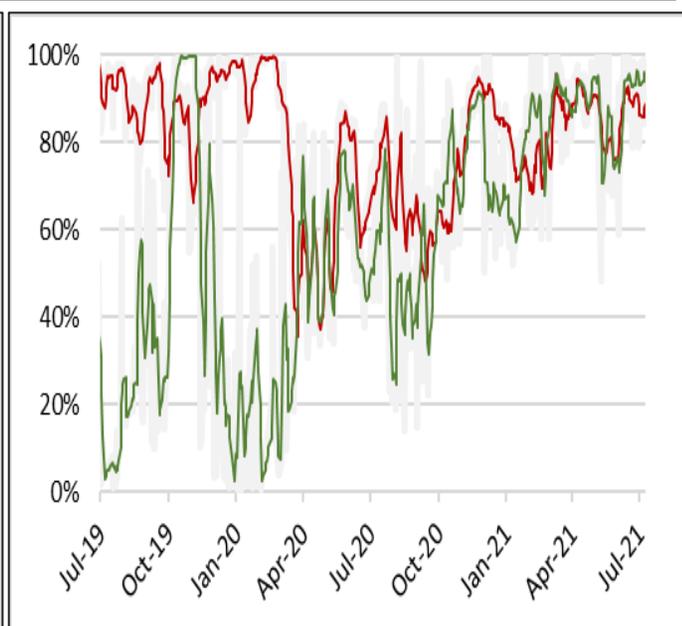
Bonds



Semis



Dollar



Overseas Markets

Indices:

- Monthly charts have clearly 'broken-out'
- Still healthy technically, longer term
- Textbook MACD divergence on ACWI

Country Tour:

- DAX: Extended, poised for a pullback
- France: Extended, starting to pullback
- UK: Extended, starting to pullback
- Japan: Led higher, healthy consolidation
- Korea: Led higher, healthy consolidation
- China: Led higher, testing support
- India: Extended, forming flag
- Russia: Extended, forming flag
- Brazil: Fresh breakout, testing gap

Bottom Line:

- Strong breakouts on monthly charts
- Asian markets leading higher
- Key canary China weak, but still holding



COVID-19 Stats (FINAL)

First Trust

COVID-19 TRACKER

COVID-19 was not a hoax, but it was the world's first Social Media pandemic, where fear was spread in a way we have never seen before. Our goal with the COVID-19 Tracker was to provide a data driven piece to put the pandemic in perspective.

The information we presented was used by the White House, Congress, the press, educational institutions from universities to high schools, and of course, the Financial Advisor community. The reason we think it was so widely used was that we presented factual data in a way that helped minimize fear.

What this data has consistently shown since the beginning of the pandemic was that those most at risk were a small subset of the population. Those 65 years and older make up only 16.3% of the population, but have accounted for nearly 80% of all COVID-19 deaths as of 6/30/21.¹ In our opinion, focusing resources on the most vulnerable individuals, instead of locking down the entire country, would have resulted in better outcomes from both a public health and economic perspective. **As history looks back, we believe locking down the economy will be viewed as one of the most damaging public policy mistakes in world history.**

The shutdowns destroyed supply chains, put millions out of work, hurt the young by eliminating in-person learning, damaged mental health, caused the delay of important screenings for other health problems, and led to a government spending spree of over \$5 trillion. We are now dealing with the costs of those shutdowns and while we can't assess the long-term sociological problems, we do know that the economic data continues to improve. You can follow our weekly Recovery Tracker [here](#).

While some fear that a new variant of COVID may lead to more shutdowns, the data tells us that this is unlikely to happen. Vaccines, which were miraculously developed in less than a year thanks to Operation Warp Speed, have helped many to return to more normal life. We think this trend will continue in the months and quarters ahead.

Yes, there are long-term economic consequences from government spending and money printing, but it seems clear that in the near-term confidence is returning, the pandemic is waning and the economy is booming. As a result, we have decided it's time to end the First Trust COVID-19 Tracker on its one year anniversary. We hope you found our Tracker a port in the COVID-19 storm.

Summary

Commodities / US\$:

- DXY: Held 90, now struggling at 93 & 40-wk
- Commodities strong; now consolidating

Yields / Credit:

- Yields globally rising strongly past year
- [Potential breakdown & failure](#)
- [Credit spreads near / at cycle lows](#)

Stocks:

- Continues to look like strong cyclical bull
- [Several divergences over near term](#)
- [Current rally mostly FANG's](#)
- [Best chance this cycle for consolidation](#)
- Risk measures are healthy

Overseas:

- Also in healthy, longer-term, up trends
- Asia leading higher, also consolidating
- Chinese markets holding support, so far...





About Mike

Mike Hurley, CMT is both a Portfolio Manager and the Chief Market Strategist for Nexpoint. He joined the firm in 2011 as a sub-advisor and prior to that served as a Portfolio Manager of the Fusion Global Long/Short Fund (FGLSX) from its inception in September 2007 to November 2008. That fund posted a positive return in 2008 and won the Lipper Performance Achievement Award in the Long/Short category (ranked #1 of 90). Prior to launching FGLSX he served as Chief Technical Strategist for several boutique research firms, including: M.S. Howells & Co., SoundView Technology Group and E*Offering (The Investment Bank of E*TRADE). From 1986 to 1994 he served as a commissioned officer in the United States Navy, where he flew over 50 combat missions during Operation Desert Storm, earning two Air Medals. Mr. Hurley is a graduate of the University of California, Santa Barbara where he received B.A. degrees in both Business Economics and Chemistry. He is Series 7 & 63 licensed and is a Chartered Market Technician (CMT).

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