

# NEXPOINT

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# NEXPOINT

## Weekly Market Deep Dive

February 21, 2023

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# Commodities / Dollar

## US\$ / FX:

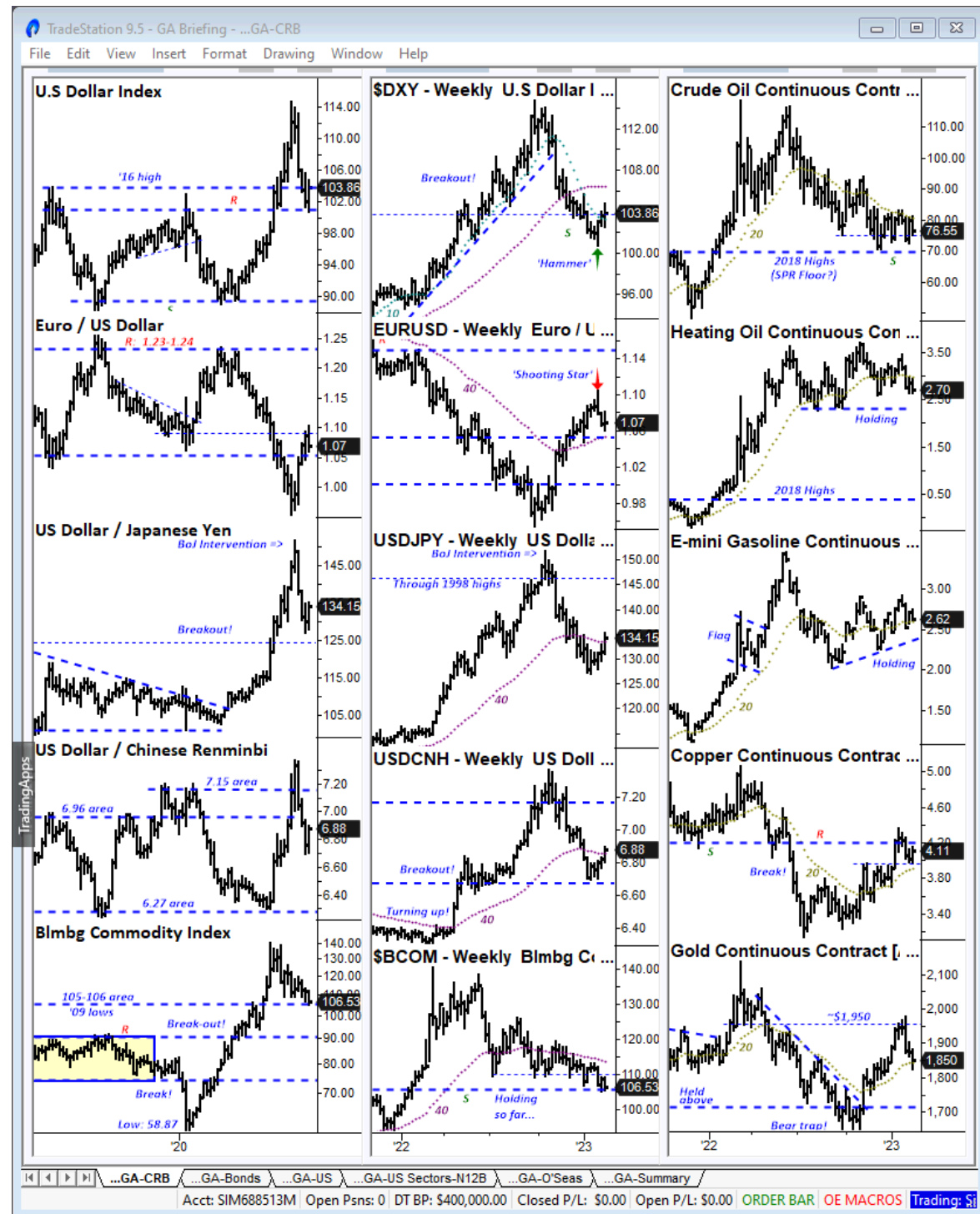
- 'Hammer' in US\$ remains intact
- As does 'shooting star' in Euro
- BoJ intervention at 151.90 worked

## Commodities & Sectors:

- BCOM leaning hard on 105-106 area
- Crude holding SPR bid
- ULSD & unleaded charts relatively stronger
- Copper holding support at 4
- Gold relatively weaker, still holding 20-wk.
- Platinum also weak, testing LT uptrend

## Bottom Line:

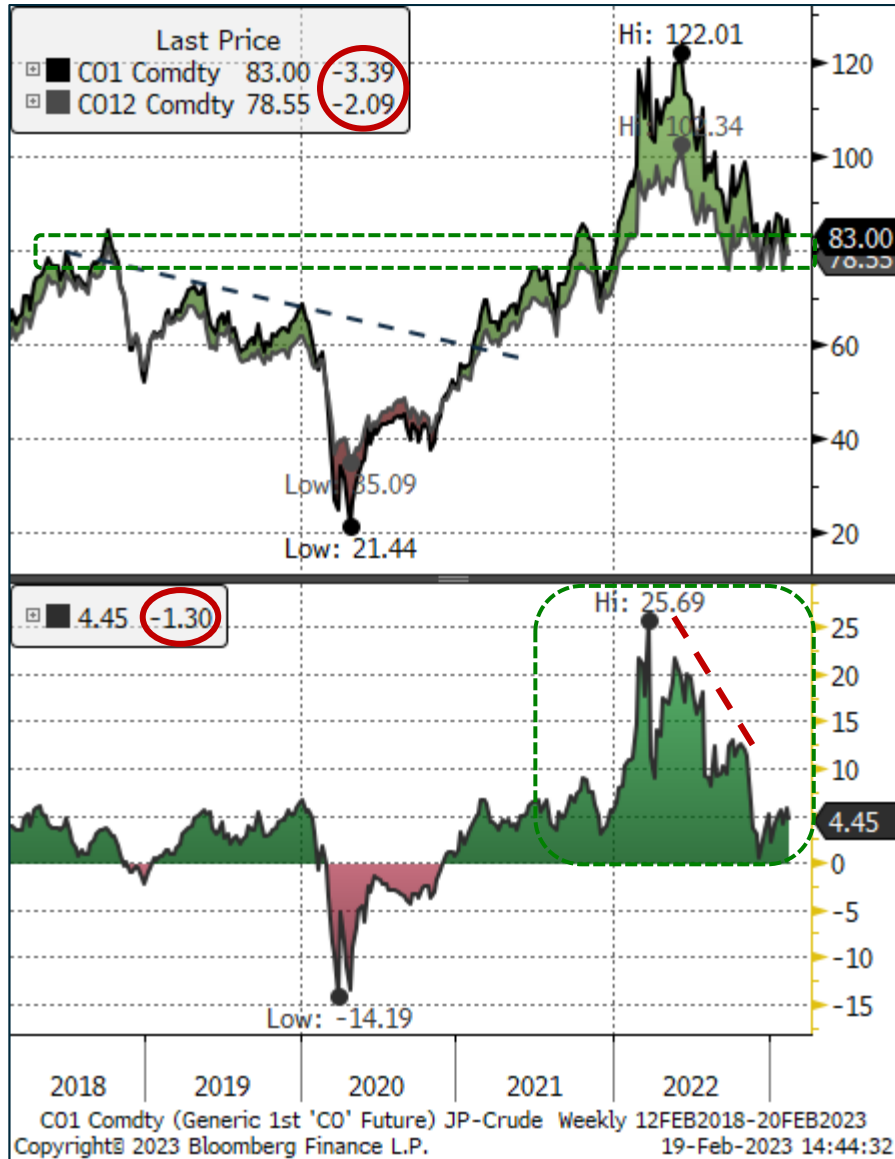
- DXY still bouncing off COVID highs
- BCOM testing critical support
- Several key commodities are as well
- Huge news out of Russia regarding crude



# Oil & Gold

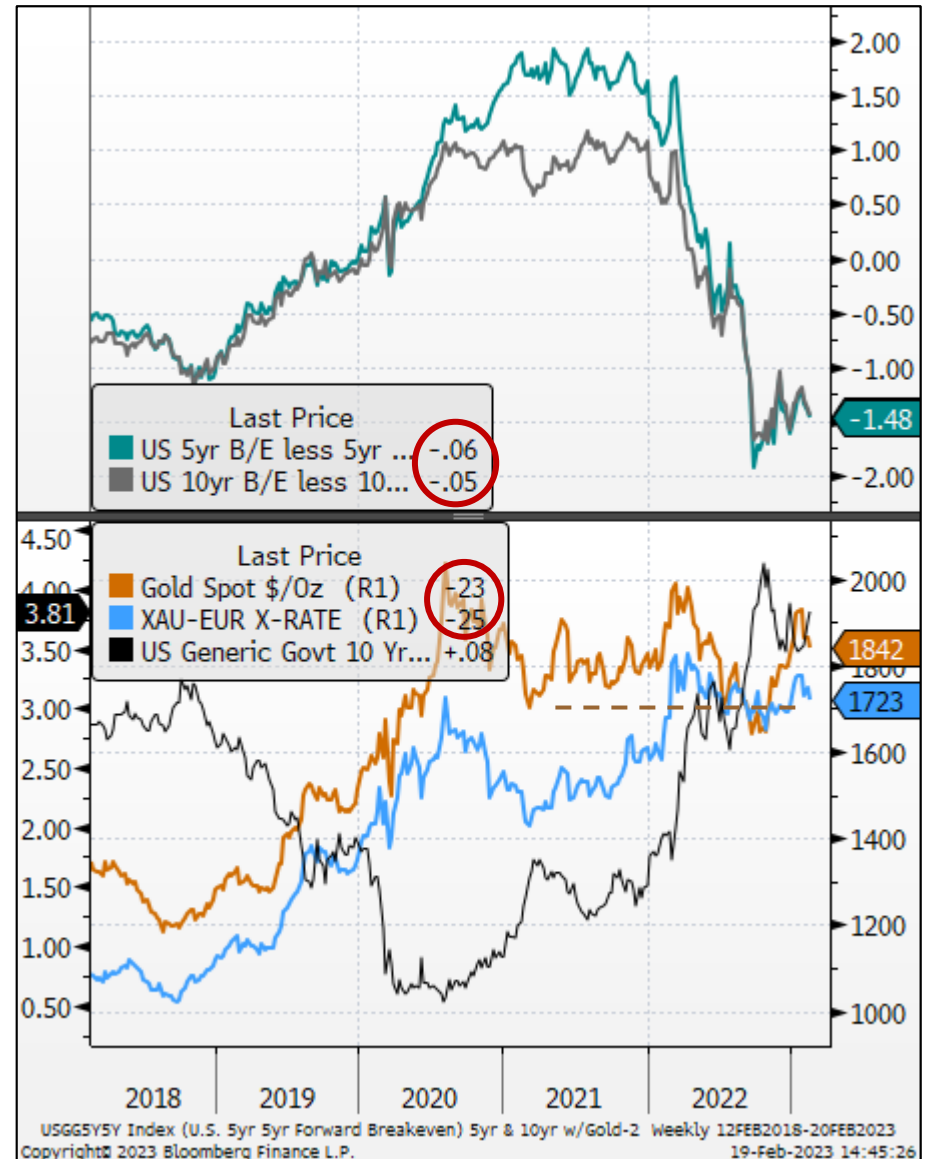
## Oil:

- Brent still holding key \$80 area
- Spread lower, back below \$5
- Russia to cut 500k bbl./day in March



## Gold:

- Both spreads lower last week – 6 & 5 bp
- Gold lower; US 10-yr. yields higher
- Gold in both US\$ & Euros in wide, sloppy, range



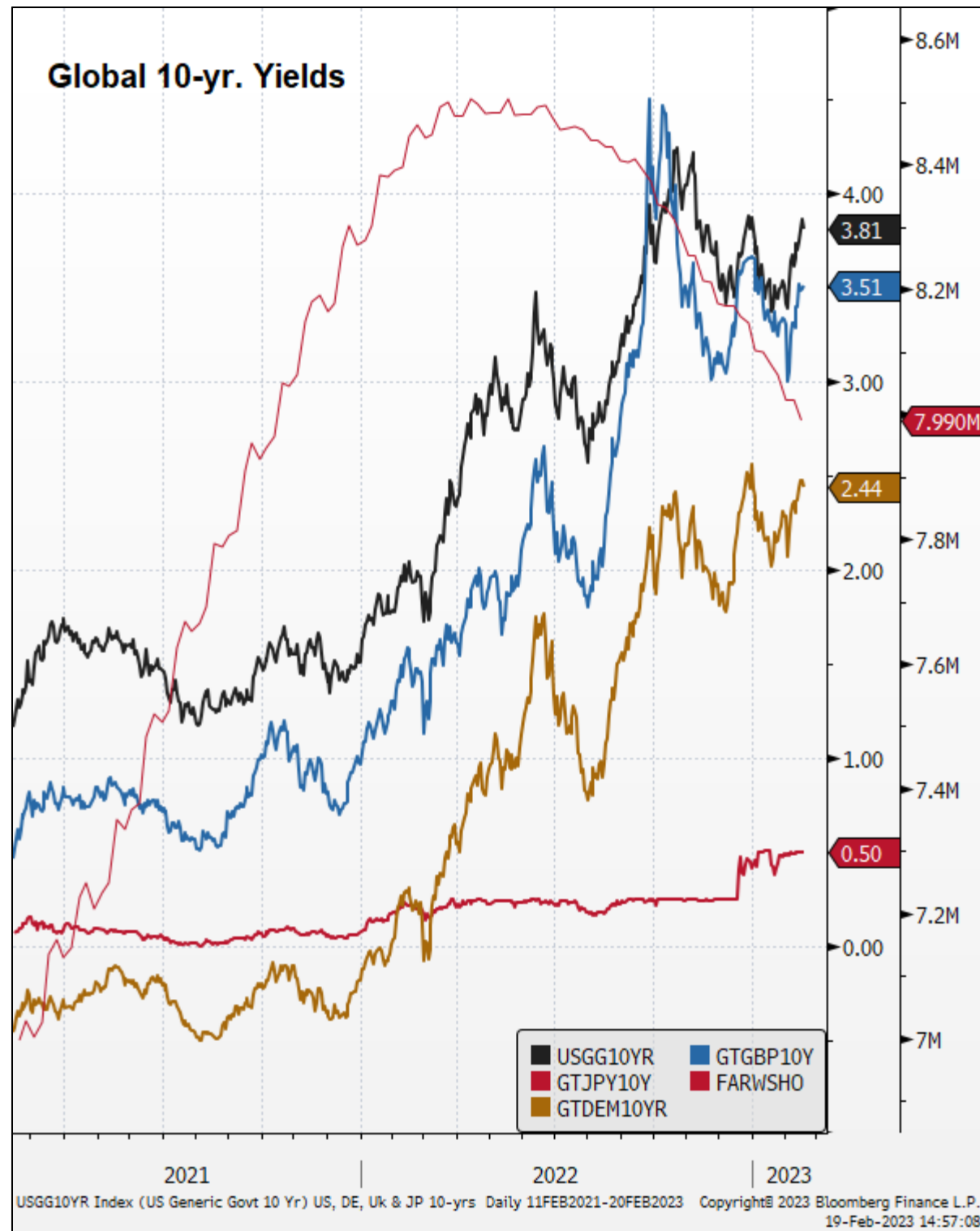
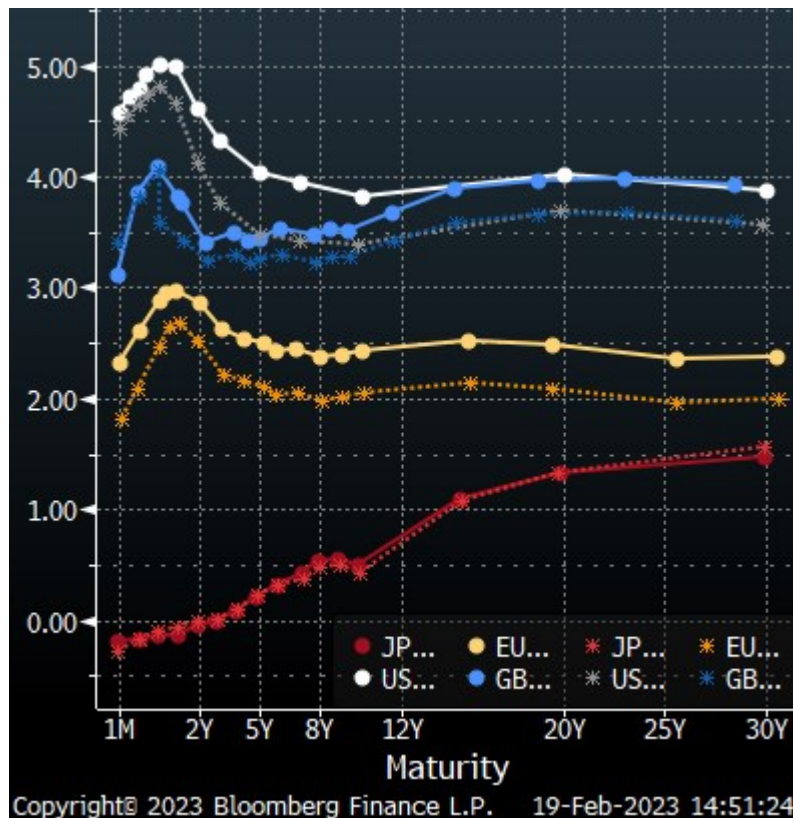
# Global Yields

## Global 10-yr. yields again higher

- Curves broadly higher over 1-mo.
- US: ▲ 8 bp – 10-yr still lowest on curve
- UK: ▲ 12 bp – Inversion since Oct lows
- Germany: ▲ 8 bp – entire curve higher
- Japan: Unch. – holding ½%

## Fed BS: ▼\$34B; ▼\$515B in total

- Planned reduction from Sep: \$95B/mo.
- Peak: \$8.505 on 4/13/22





# Bonds / Rates

## Daily Charts:

- 10-yr. bouncing off support in 3½% area
- RSI held 40 – **now nearing 70**
- **Now testing Dec highs (3¾-4% area)**
- 3-mo. – 10-yr. inversion **holding**

## Weekly Charts:

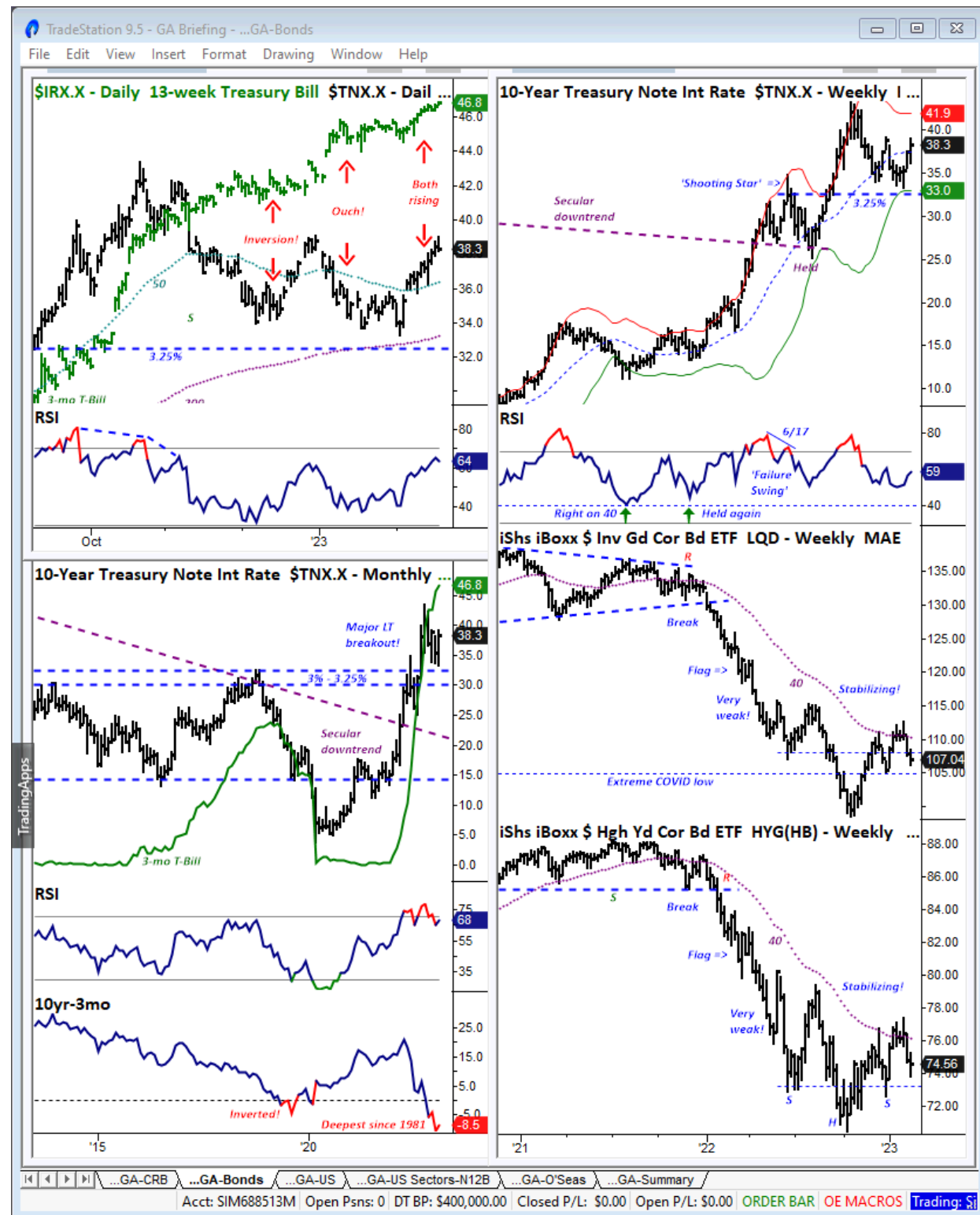
- Rates held lower Bollinger Band
- RSI held 50 level
- LQD & HYG found resistance at 40-wks

## Monthly Charts:

- TNX has broken secular downtrend
- Biggest inversion since '81 (15.1% & 13.5%)
- New high in RSI (a bullish thing, longer term)

## Bottom Line:

- Important LT breakout in US 10-yr.
- 3-mo. / 10-yr. most inverted since 1981
- 10-yr. finding support in 3½% area
- LQD & HYG stabilizing / improving



# Credit Spreads

## Spreads:

- Spreads again wider on week
- Still a small bounce in downtrend

## CCC Trends:

- ▲ 7 bp; (to 8.76%)
- Back below 9%
- Cycle high: 11.24%

## HY Trends:

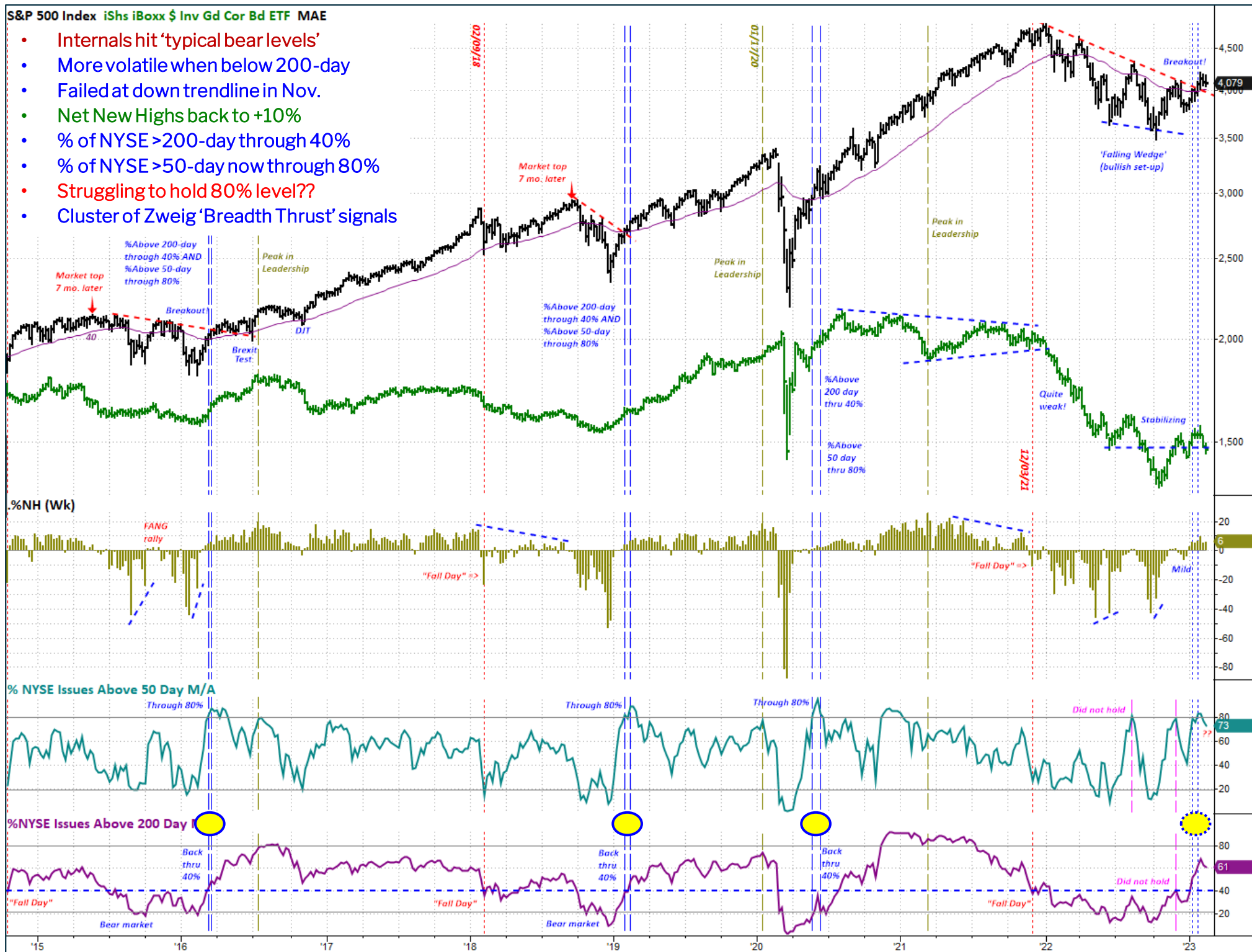
- ▲ 13 bp; (to 4.55%)
- Back below 5%
- Cycle high: 6.03%
- Has broken up trendline

## IG Trends:

- ▲ 3 bp; (to 1.72%)
- Cycle high: 2.27%
- Broke Parabolic – Nov 4<sup>th</sup>
- Flashed DMI ‘Sell’ – Nov 18<sup>th</sup>
- Last ‘Buy’: 10/29/21



- Internals hit 'typical bear levels'
- More volatile when below 200-day
- Failed at down trendline in Nov.
- Net New Highs back to +10%
- % of NYSE >200-day through 40%
- % of NYSE >50-day now through 80%
- Struggling to hold 80% level??
- Cluster of Zweig 'Breadth Thrust' signals





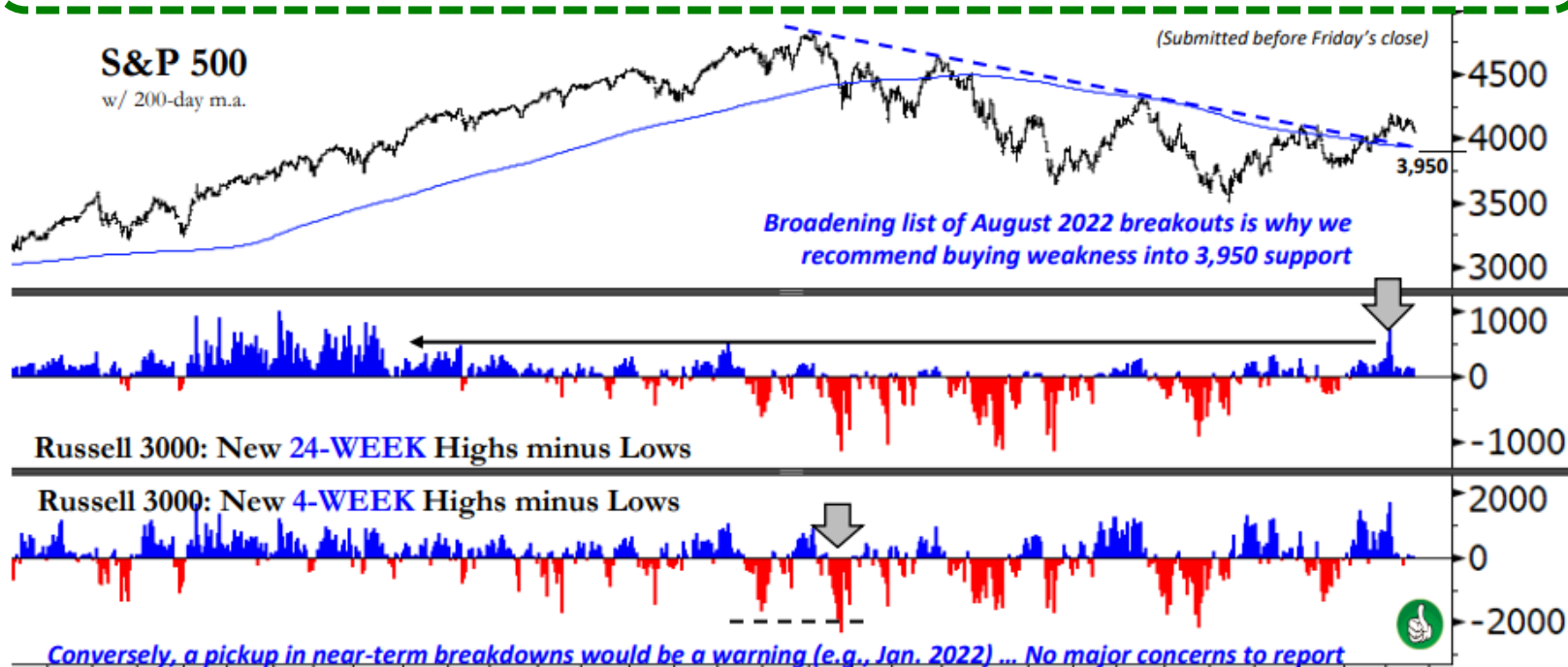
# Ari Wald: Market Internals (2/18)

Technical Analysis

## Digesting the Reversal

Legendary Wall Street veteran Bob Farrell is known for his 10 rules on investing. The first two rules are **1) Markets tend to return to the mean over time**, and **2) Excesses in one direction will lead to an opposite excess in the other direction**. Taken together, the assumption is that markets don't just return to the mean, they return *beyond* the mean. The S&P 500 has, so far, returned to the mean after reaching [downside excesses](#) in Q4'22, and, aside from recent trading consolidation, **we expect positive momentum, positive internal breadth, and positive seasonals to allow the rally to return *beyond* the mean over the coming months.**

In terms of market breadth, **the number of net new highs on the Russell 3000 is coming off its highest count (+730) since March 2021**. This indicates that a broadening list of stocks have completed their bottoming phases with a higher high above their August 2022 peak—**this is one reason we believe pullbacks should be bought**. Conversely, we'd become concerned if participation re-broadens to the downside, and we're watching for a pickup in net new 4-week lows to indicate this potential warning—as it stands, we see no major concerns to report.



2020 | 2021 | 2022 | 2023  
SPX Index (S&P 500 INDEX) Net New Highs Daily 16FEB2018-17FEB2023

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# Stocks

## Daily Charts:

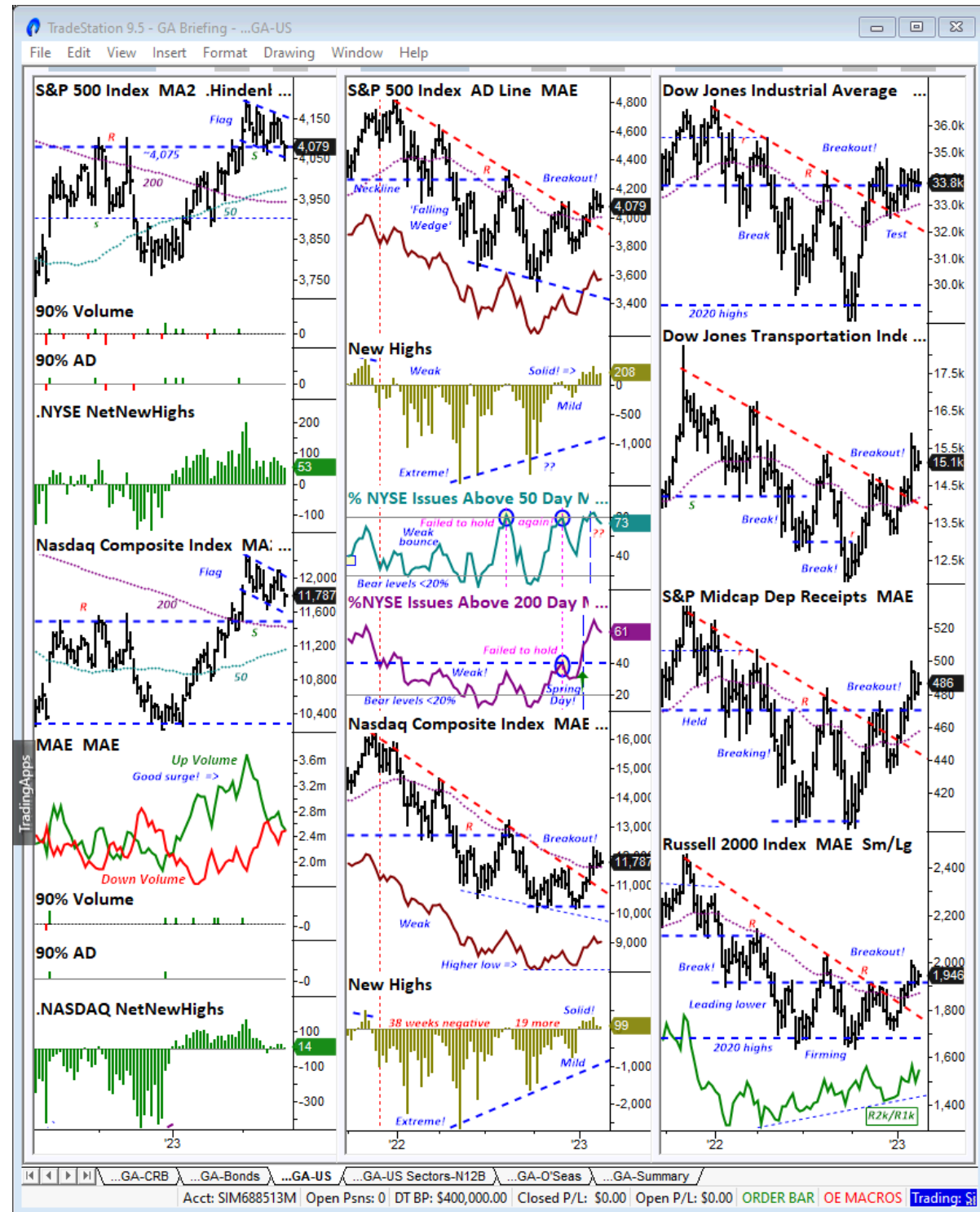
- Quiet week for stocks
- Daily charts look to be forming bullish flags
- Holding support – no damage technically
- IBD: ‘Confirmed Rally’ – 2 & 3 ‘Dist. Days’
- No 80% Down Days
- Bottoming usually a 4-step process
  - ✓ Set initial low
  - ✓ Bounce & test that low
  - ✓ Follow through to the upside
  - ☐ Test the breakout

## Weekly Charts:

- 'Inside' week – suggests uptick in vol. ahead
- Clear breakouts in S&P and NASDAQ
- Internals improving, strong on breakouts
- Leadership strongest levels since 'Fall Day'
- Strong breakouts in DJTA, mid-caps & R2k

## Bottom Line:

- Have now checked 'Step 3' of process
- Internals & indices confirming breakouts



# 2015-16 Bottom

## Daily Charts:

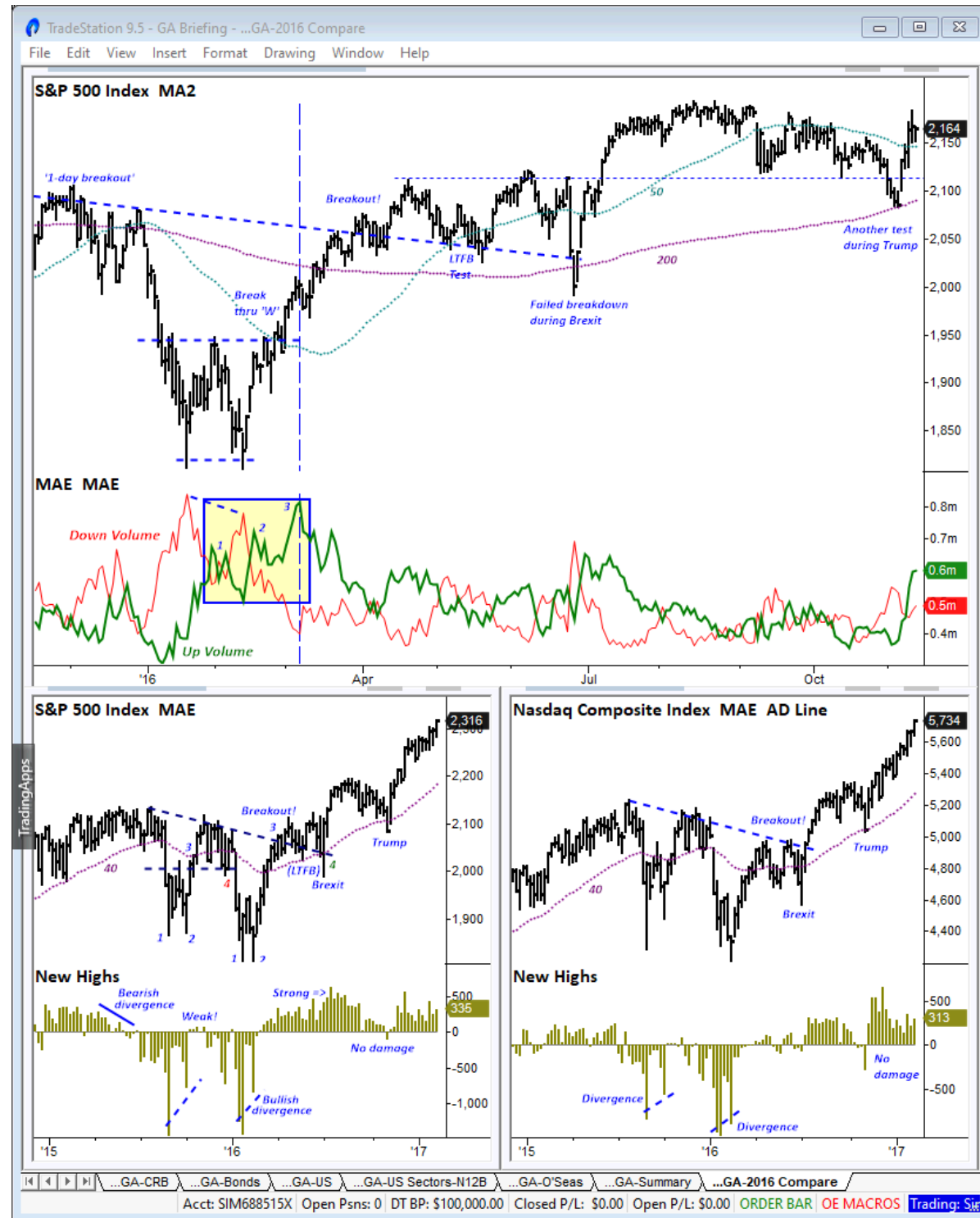
- Bottoming usually a 4-step process
  - Set initial low
  - Bounce & test that low
  - Follow through to the upside
  - Test the breakout
- Can fail and restart – occurred in 2015
- Can also see how sloppy charts can be
- Bullish divergence in Down Volume on test
- Surge in Up Volume off lows (1,2,3)

## Weekly Charts:

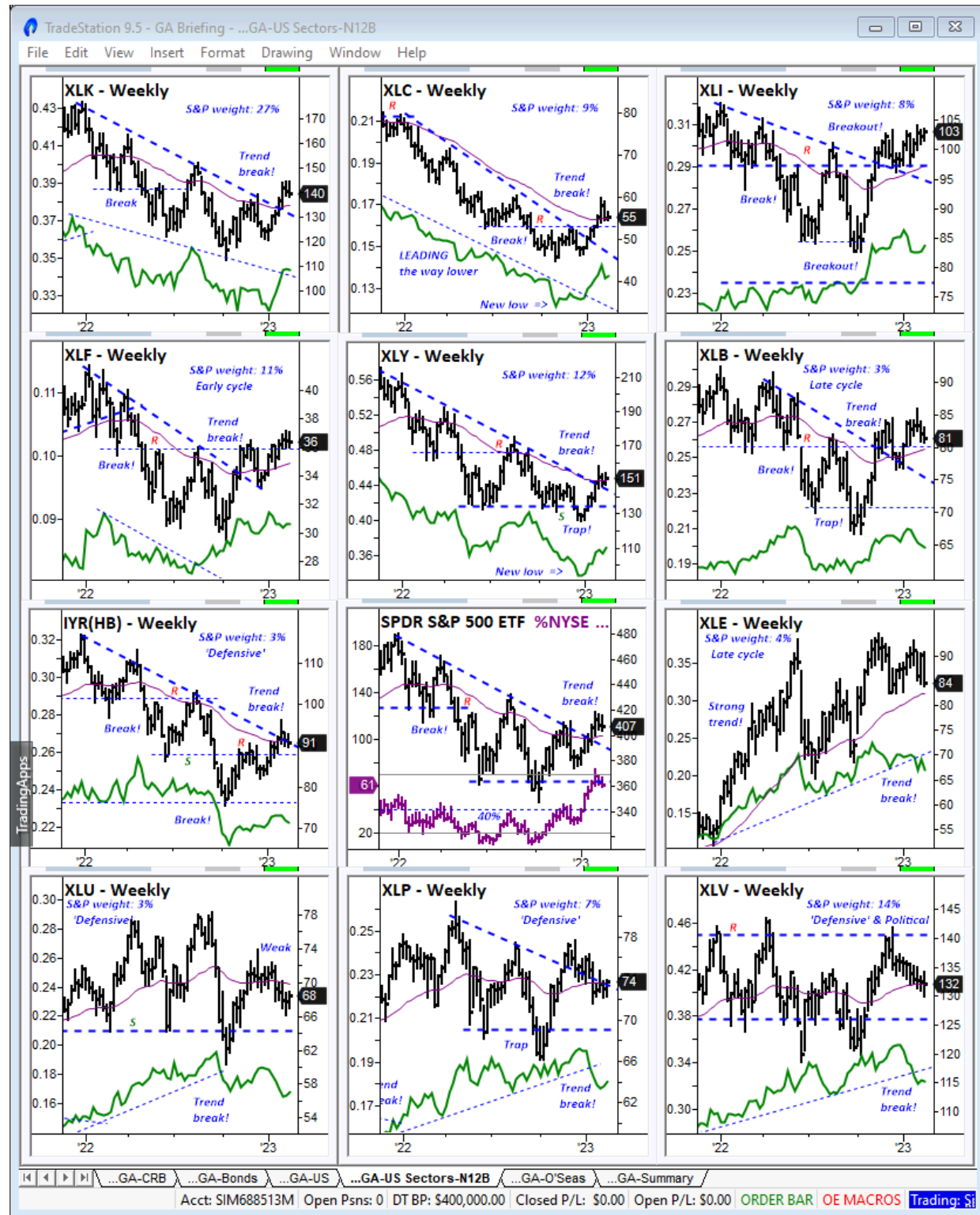
- Important to monitor the ‘big picture’
- Internals provide critical perspective
- Breakouts can be tested more than once

## Bottom Line:

- Can often ‘see what you want’ in charts
- Key to remember ‘where you are in cycle’
- Never the same picture twice
- IS possible to understand process



- Sectors & indices mixed on the week
- Table sorted by % on Year
- Results opposite of % return last year
- XLE again notably weak
- Relative strength in U, P & V weakening



Presented by: Mike Hurley CMT



# Overseas Markets

## Indices:

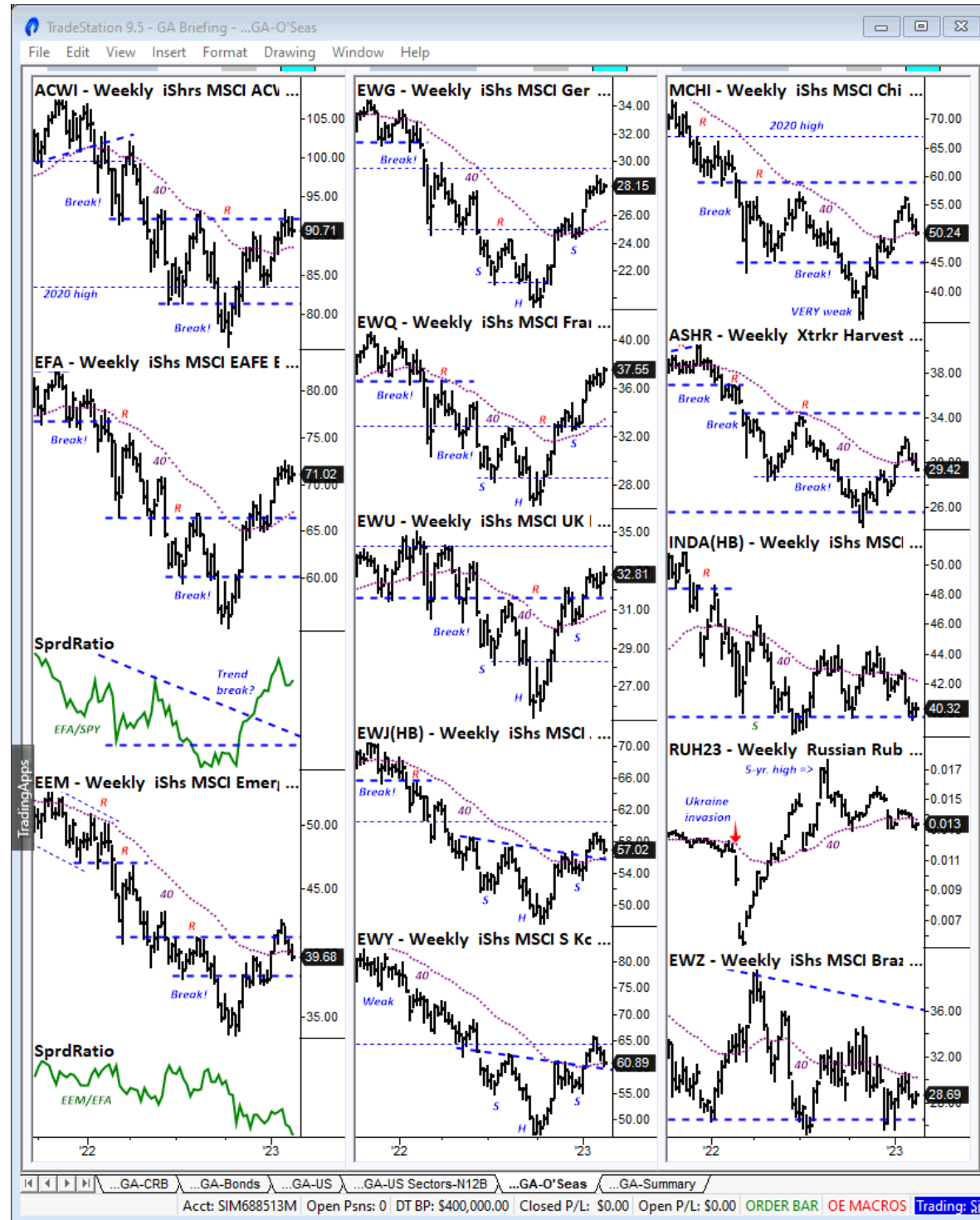
- Quiet week for most overseas ETFs
- Also continue to see consolidation
- RS of EFA breaking very long downtrend

## Country Tour:

- Germany: 'H&S' bottom in place
- France: 'H&S' bottom in place
- UK: 'H&S' bottom in place
- Japan: 'H&S' bottom in place
- Korea: 'H&S' bottom in place
- China: MCHI back through 40-wk.
- India: Testing bottom of LT range
- Russia: Ruble starting to weaken off highs
- Brazil: Holding bottom of LT range

## Bottom Line:

- Continued outperformance in EFA
- RS of EFA breaking very long downtrend
- Numerous 'head & shoulders' on DMs



# Summary

## Commodities / US\$:

- US\$ holding COVID highs
- BCOM leaning hard on key support
- Crude oil holding, copper improving

## Yields / Credit:

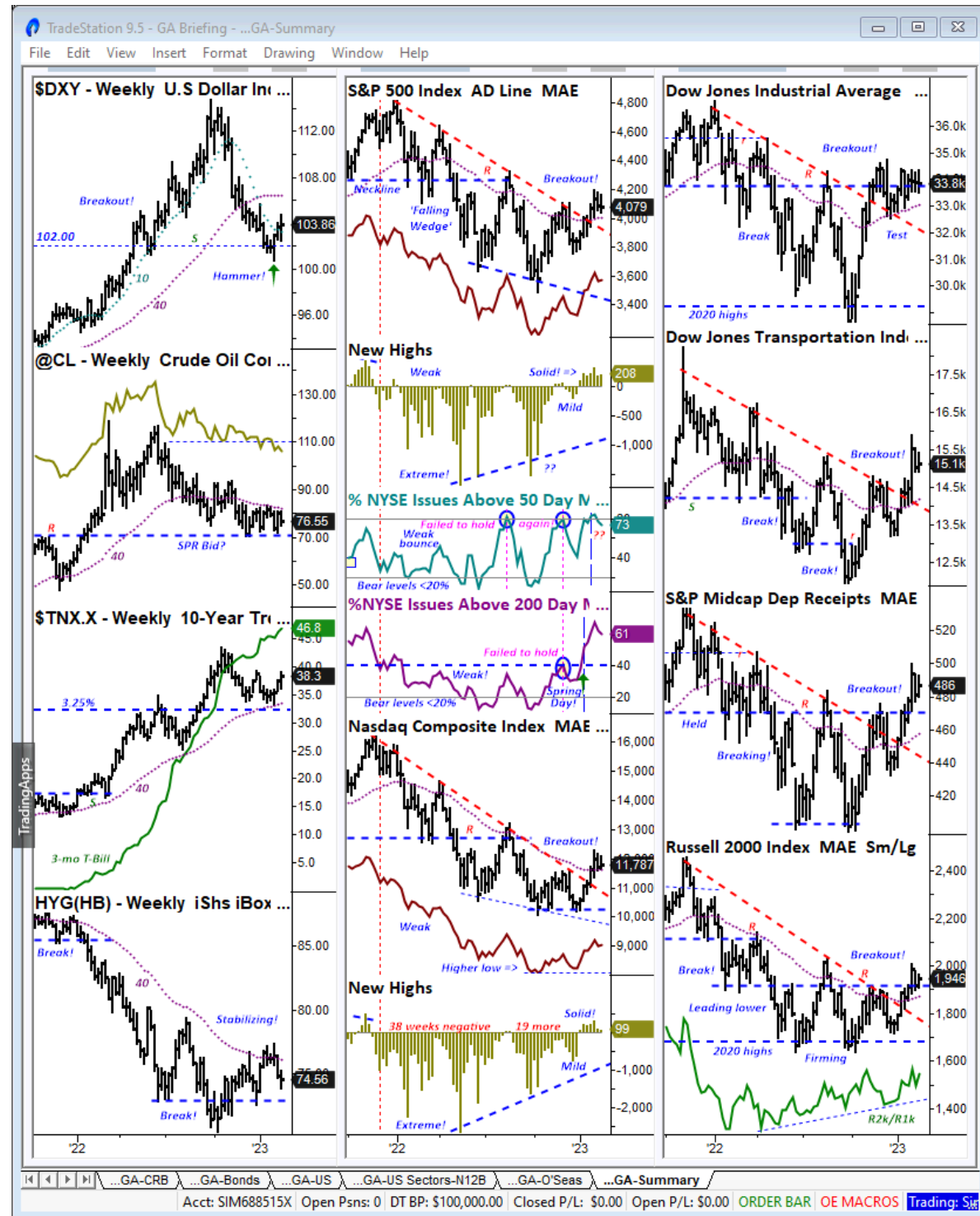
- 10-yr. pressing resistance in at 3¾% area
- Holding historically wide inversion
- Credit ETFs weakening at 40-wk's

## Stocks:

- Quiet, 'inside', week for stocks
- Have checked 'Step 3' of bottoming process
- Seeing trend breaks in numerous indices
- Seeing confirmation in internals & sectors
- Small caps continue to lead the way higher

## Overseas:

- Also a quiet week for overseas markets
- RS of EFA breaking very long downtrend
- FTSE seeing 'Quietest all-time high ever'





## About Mike

Mike Hurley, CMT serves as Chief Market Strategist and Portfolio Manager for NexPoint Advisors, L.P.

Prior to joining NexPoint he launched 2 of the first 100 'alternative mutual funds', including the Fusion Global Long/Short Fund (FGLSX) which posted a positive return in 2008 and won the Lipper Performance Achievement Award in the Long/Short category for the one-year period ending December 31, 2008 (ranked #1 of 90).

Mike also served as Chief Technical Strategist for several boutique research firms, including: SoundView Technology Group and E\*Offering (The Investment Bank of E\*TRADE).

He proudly served in the United States Navy, where he flew over 50 combat missions during Operation Desert Storm, earning two Air Medals.

Mike is a graduate of UC Santa Barbara, where he received BA degrees in both Business Economics and Chemistry. He is Series 7, 63 & 65 licensed and is a Chartered Market Technician (CMT).

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*Charts as of: February 17, 2023, courtesy of TradeStation or Bloomberg, unless otherwise noted.*