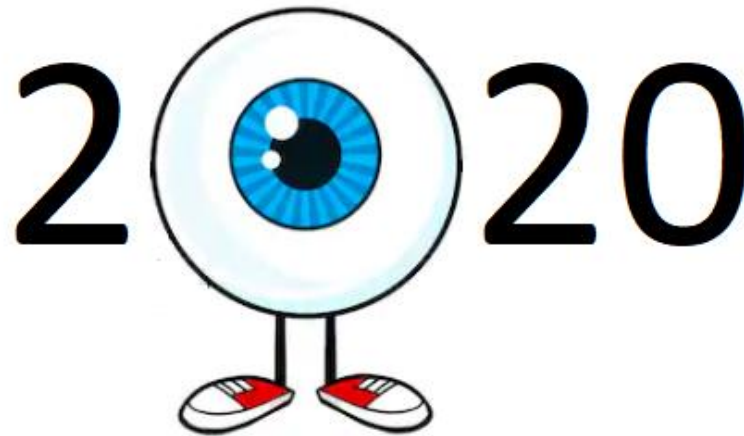


The Year Ahead – 2020

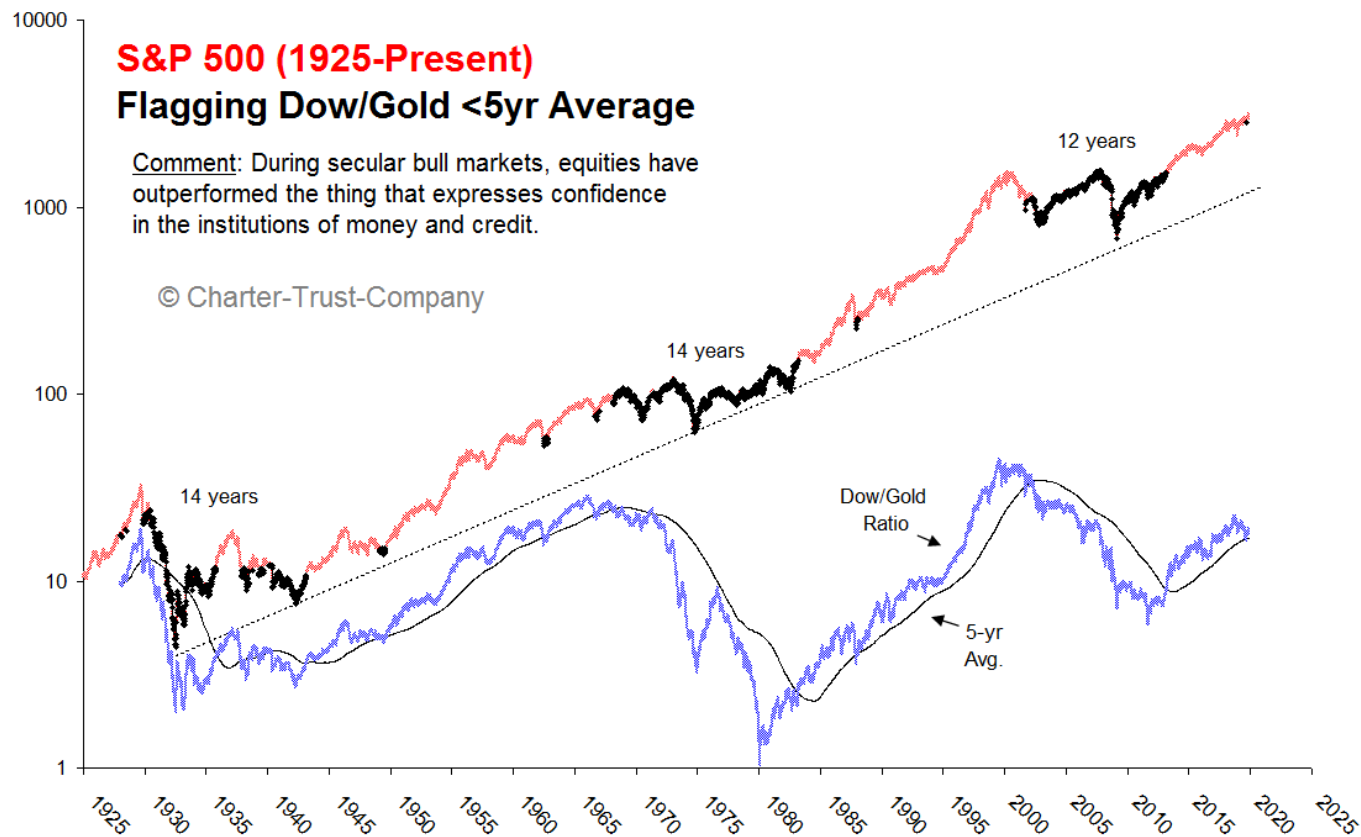
In the spirit of year-end prognostication, here's my annual review of long-term trends and behavioral tendencies likely to influence key markets in 2020...



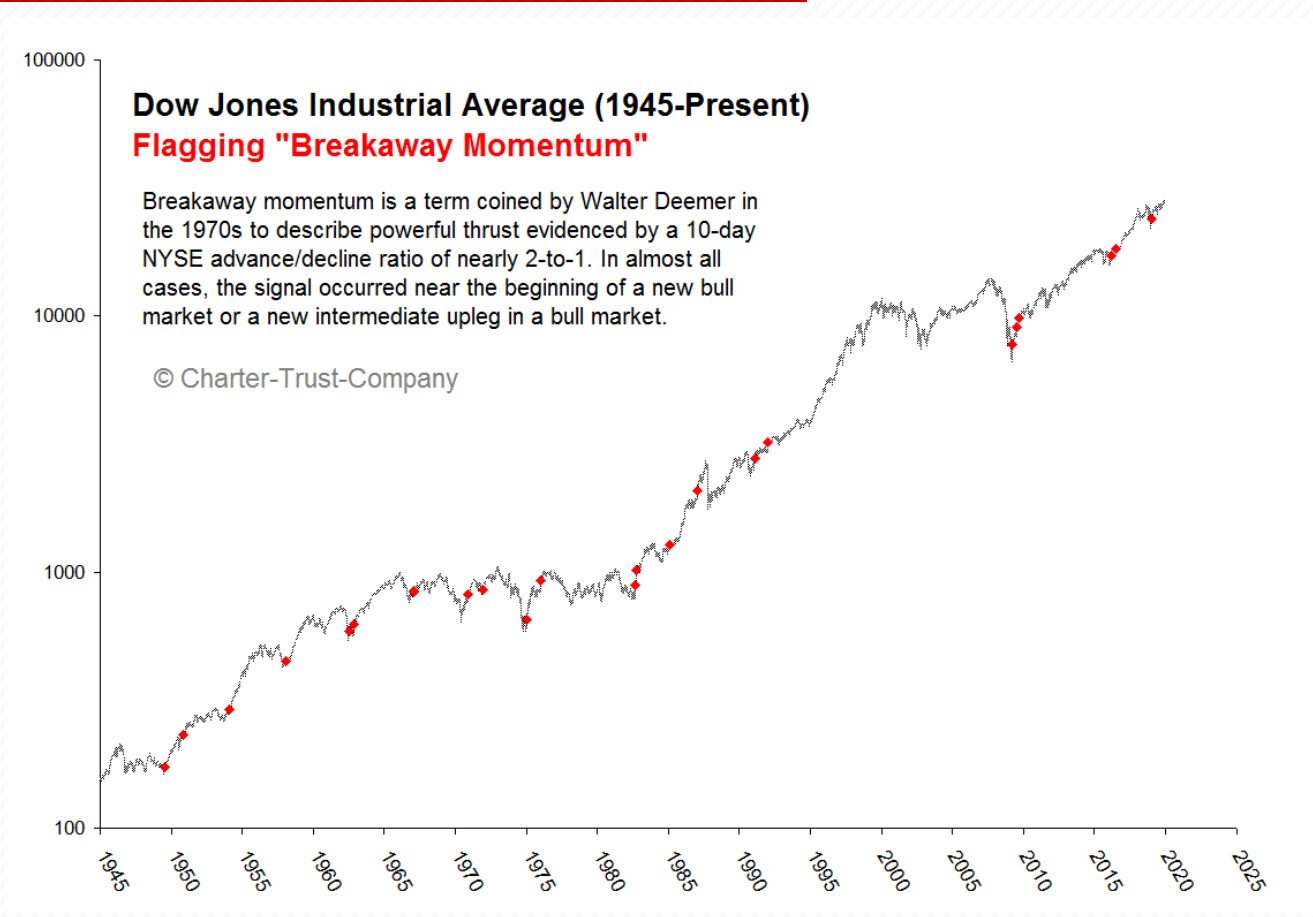
U.S. Equities

- ❑ U.S. equities entered a secular bull market in 2013, evidenced by a price breakout in dollar terms, and a trend reversal in gold terms.
- ❑ A fresh cyclical bull market began in December 2018, evidenced by breadth thrust and price momentum.
- ❑ A cyclical top near SPX 3600 is expected by mid-2021, based on historic averages.
- ❑ The next cyclical bottom is targeted for late-2022... perhaps featuring a severe drawdown, given lofty valuations and late-cycle economy.

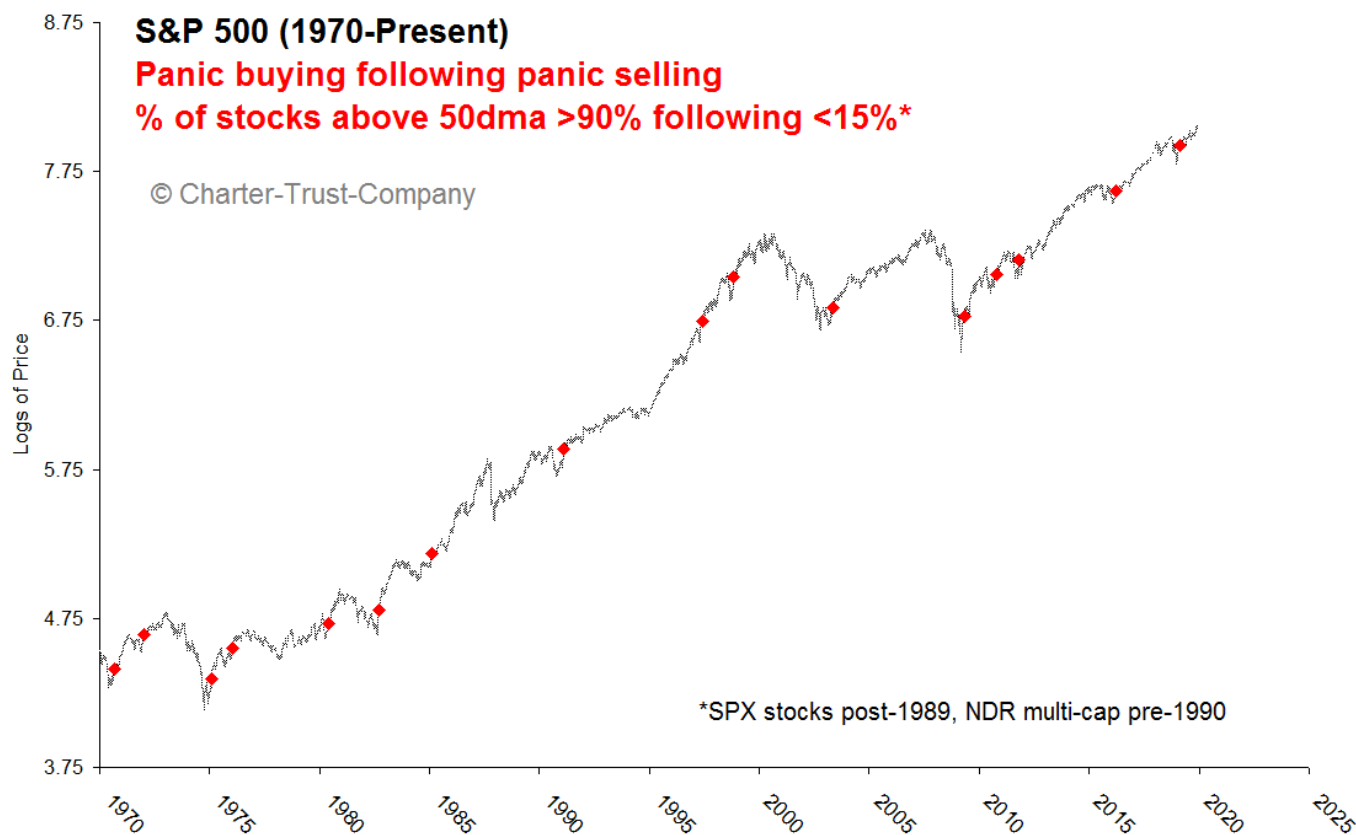
Dow/Gold ratio... Secular bull market



Country	Year	Value
Algeria	2000	0.00
Algeria	2001	0.00
Algeria	2002	0.00
Algeria	2003	0.00
Algeria	2004	0.00
Algeria	2005	0.00
Algeria	2006	0.00
Algeria	2007	0.00
Algeria	2008	0.00
Algeria	2009	0.00
Algeria	2010	0.00
Algeria	2011	0.00
Algeria	2012	0.00
Algeria	2013	0.00
Algeria	2014	0.00
Algeria	2015	0.00
Algeria	2016	0.00
Algeria	2017	0.00
Algeria	2018	0.00
Algeria	2019	0.00
Algeria	2020	0.00
Algeria	2021	0.00
Algeria	2022	0.00
Algeria	2023	0.00
Algeria	2024	0.00
Algeria	2025	0.00
Algeria	2026	0.00
Algeria	2027	0.00
Algeria	2028	0.00
Algeria	2029	0.00
Algeria	2030	0.00
Algeria	2031	0.00
Algeria	2032	0.00
Algeria	2033	0.00
Algeria	2034	0.00
Algeria	2035	0.00
Algeria	2036	0.00
Algeria	2037	0.00
Algeria	2038	0.00
Algeria	2039	0.00
Algeria	2040	0.00
Algeria	2041	0.00
Algeria	2042	0.00
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Algeria	2044	0.00
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Algeria	2047	0.00
Algeria	2048	0.00
Algeria	2049	0.00
Algeria	2050	0.00
Algeria	2051	0.00
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Algeria	2054	0.00
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Algeria	2070	0.00
Algeria	2071	0.00
Algeria	2072	0.00
Algeria	2073	0.00
Algeria	2074	0.00
Algeria	2075	0.00
Algeria	2076	0.00
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Algeria	2079	0.00
Algeria	2080	0.00
Algeria	2081	0.00
Algeria	2082	0.00
Algeria	2083	0.00
Algeria	2084	0.00
Algeria	2085	0.00
Algeria	2086	0.00
Algeria	2087	0.00
Algeria	2088	0.00
Algeria	2089	0.00
Algeria	2090	0.00
Algeria	2091	0.00
Algeria	2092	0.00
Algeria	2093	0.00
Algeria	2094	0.00
Algeria	2095	0.00
Algeria	2096	0.00
Algeria	2097	0.00
Algeria	2098	0.00
Algeria	2099	0.00
Algeria	2100	0.00
Algeria	2101	0.00
Algeria	2102	0.00
Algeria	2103	0.00
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Algeria	2105	0.00
Algeria	2106	0.00
Algeria	2107	0.00
Algeria	2108	0.00
Algeria	2109	0.00
Algeria	2110	0.00
Algeria	2111	0.00
Algeria	2112	

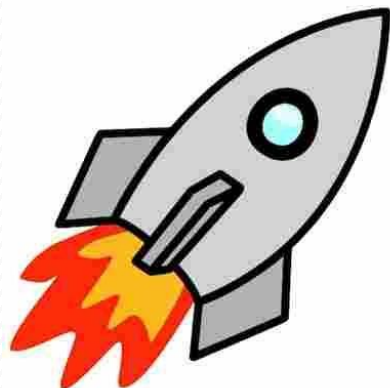


Additional thrust was observed in February 2019



What is breadth thrust?

Breadth thrust evidences a return of liquidity to the far reaches of the market.



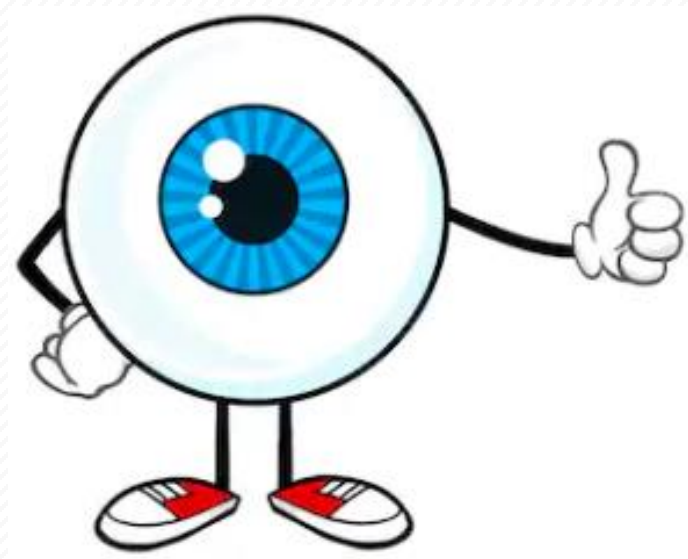
A basic tenet of technical analysis – unfortunately not taught in business school – is that thrust occurs near the *beginning* of cyclical advances, not near the end, as many investors suspect.

Breadth thrust confirms cyclical bottoms

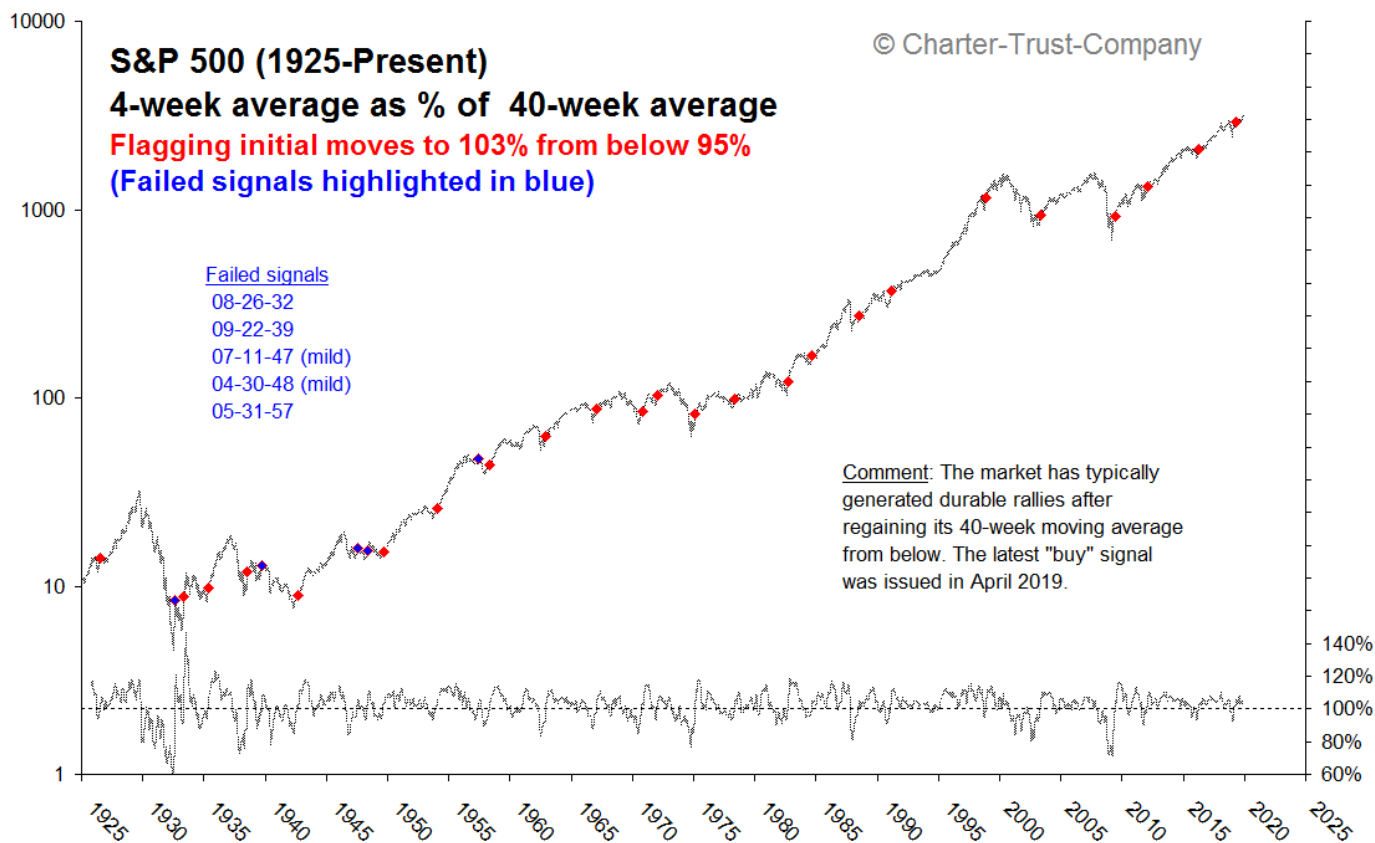
“Bear markets do not end until: 1) sellers have panicked, and 2) buyers are panicked to buy again.” -Paul Desmond



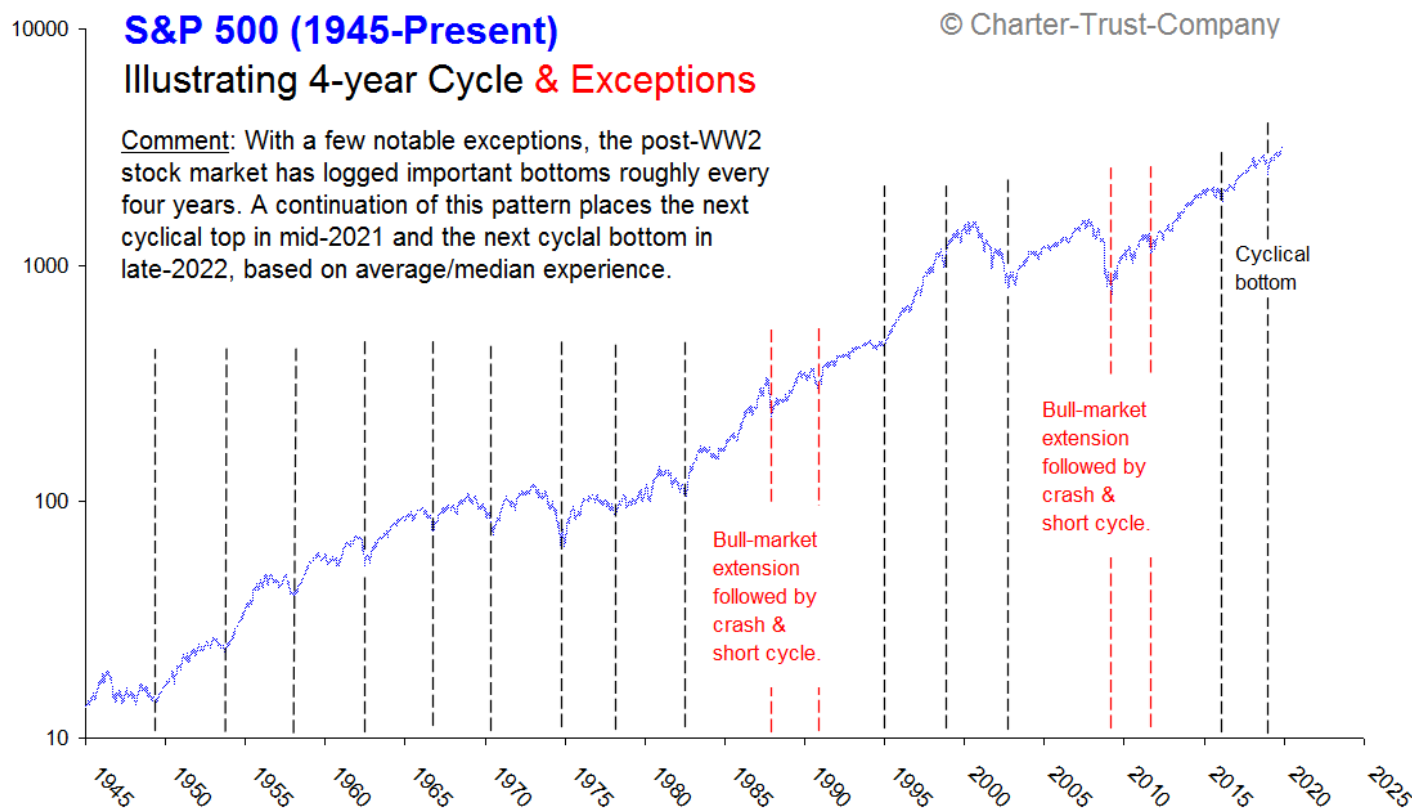
What else?



Price momentum turned bullish in April 2019



December 2018 qualifies as 4-year cycle bottom



What is the 4-year cycle?

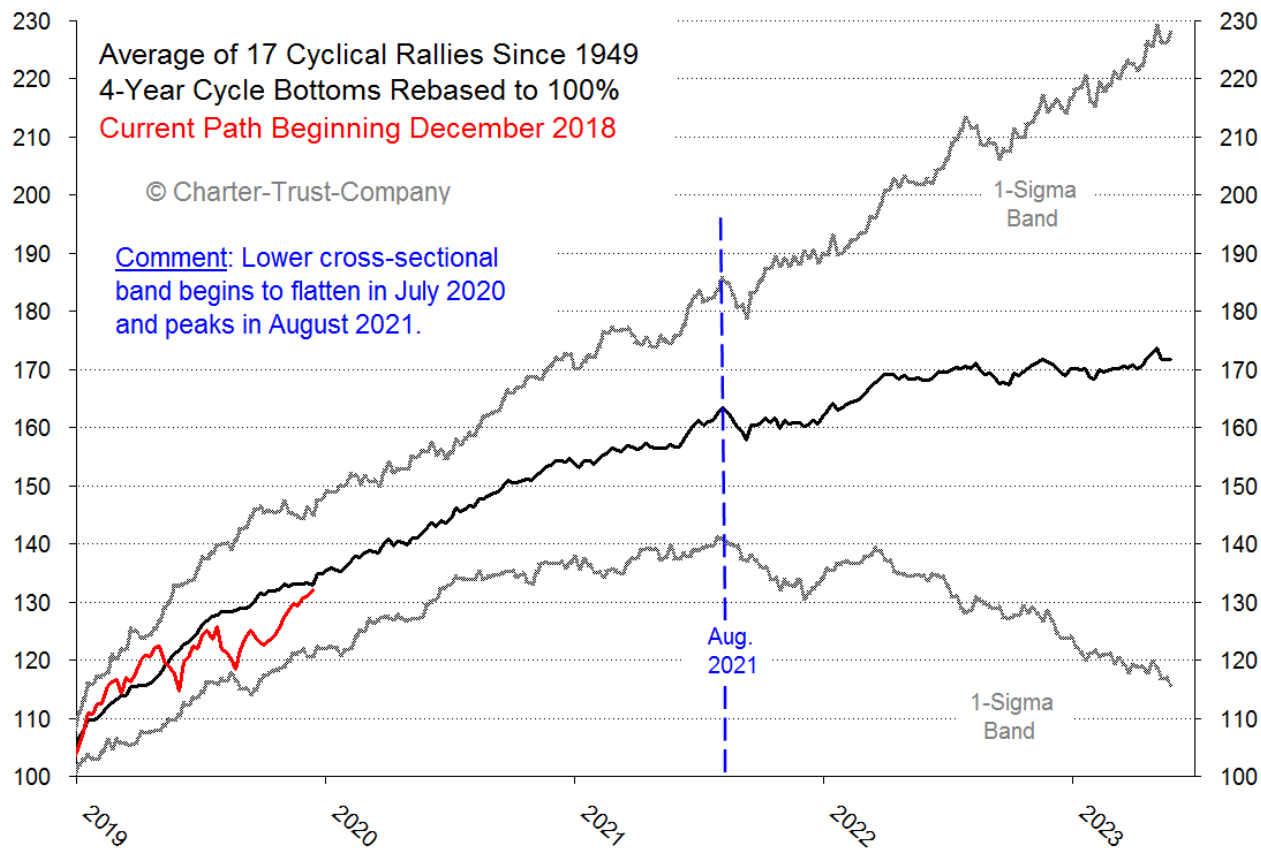
"The four-year cycle can be traced back to work done by Harvard's Joseph Kitchin in 1923. Kitchin analyzed data that predated the establishment of the Federal Reserve in 1913 and also noted the presence of a four-year cycle in the United Kingdom late in the nineteenth century and early in the twentieth century, well before the two economies were linked as closely as they are today. The four-year cycle, in other words, was not based on either Federal Reserve actions or presidential elections. It simply states that the stock market makes a major low every four years or so. (Nobody calls this low the 'Kitchin Sink,' and I can't imagine why not.)" -Walter Deemer

Deemer on Technical Analysis, 2012

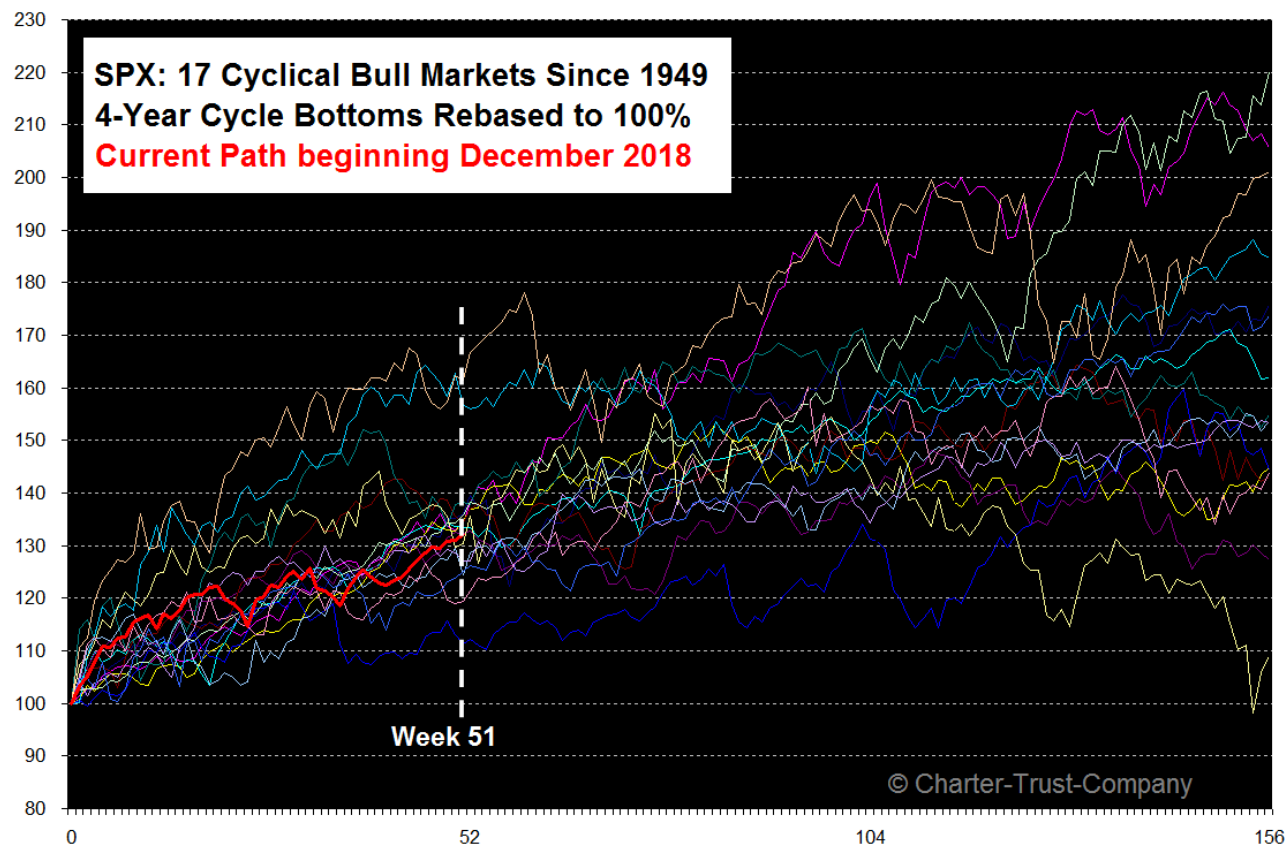
How long do cyclical bull markets last?

- ❑ The 4-year cycle is measured from bottom to bottom.
- ❑ The cycle is typically “skewed right,” meaning that cyclical bull markets last more than two years.
- ❑ Since 1949, only one cyclical bull market lasted less than two years.
- ❑ In our experience, three years up, one year down is the rule of thumb.

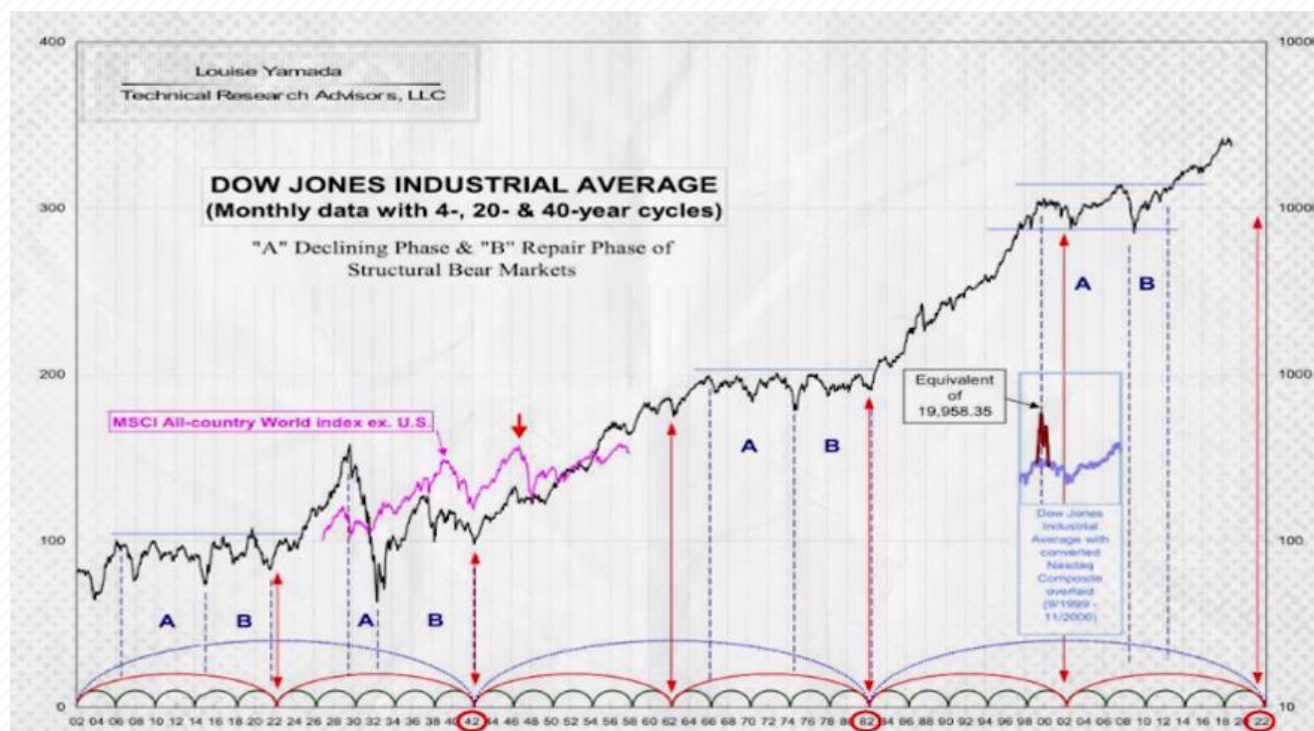
History suggests SPX 3600 or higher by mid-2021



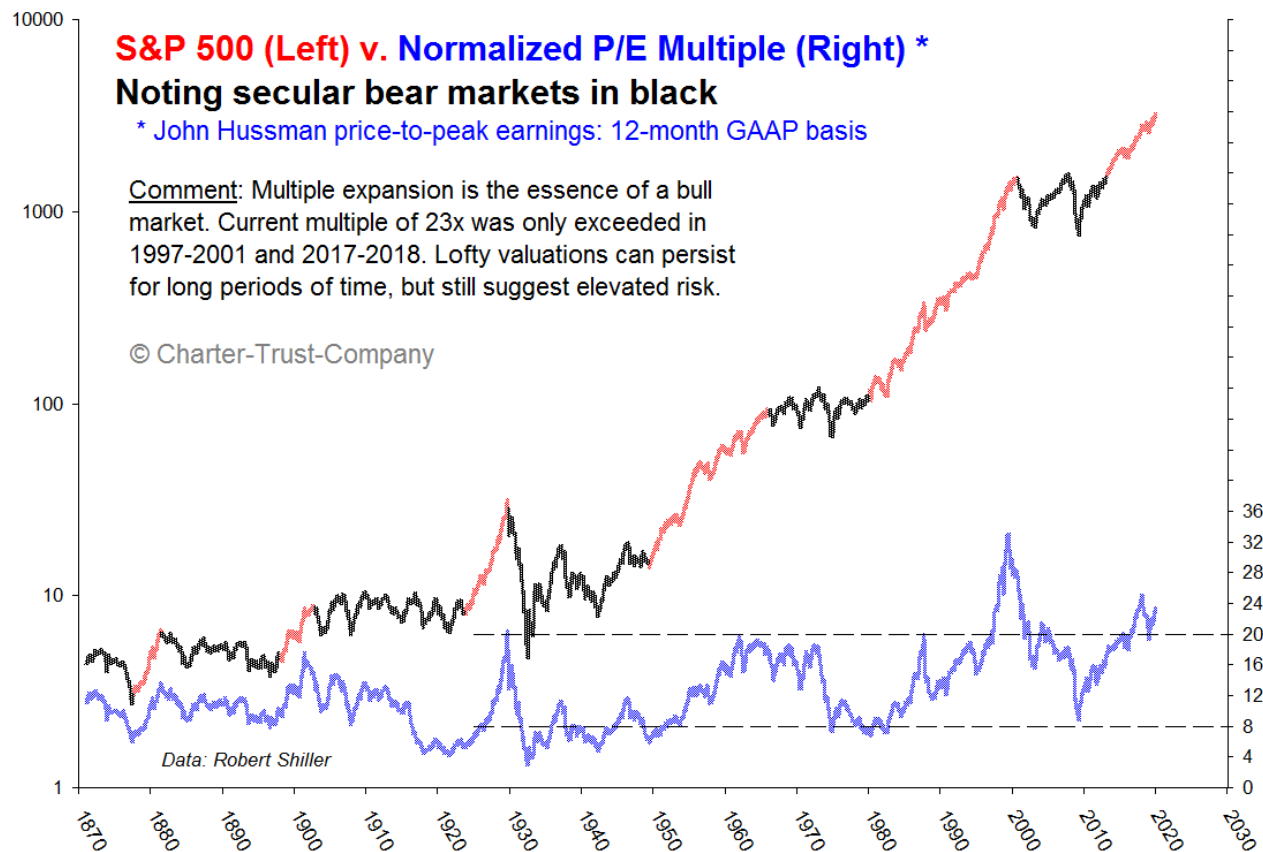
Current path is normal versus bulk of prior cases



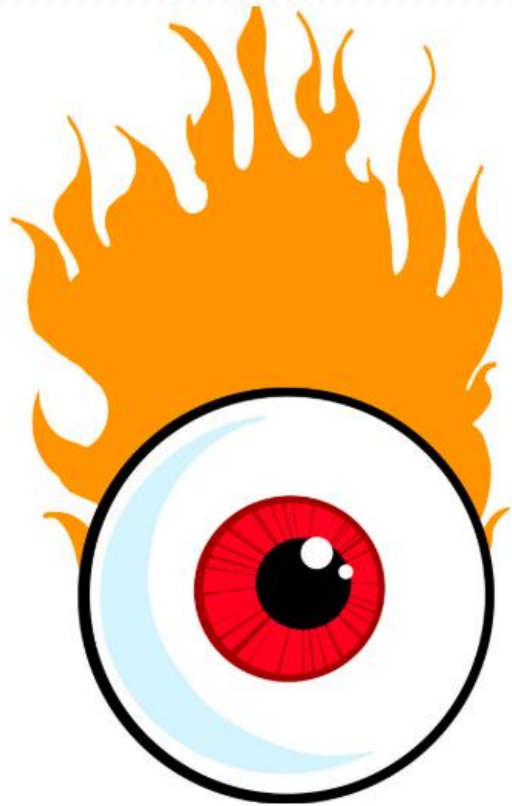
Next cyclical bottom expected in 2022, if classic patterns hold (Source: LYA Advisors)



Lofty valuations suggest elevated risk



It's okay to begin thinking about the next bear market



Equity recap

- ❑ Plenty of upside ahead, if December 2018 was a cyclical bottom.
- ❑ Normal cyclical advance targets SPX 3600 by mid-2021.
- ❑ Maintain bullish outlook, pending contrary evidence.
- ❑ Lofty valuations suggest elevated risk; It's not too early to begin thinking about the next bear market.

Bonus comment: Cyclical bottoms are not precise



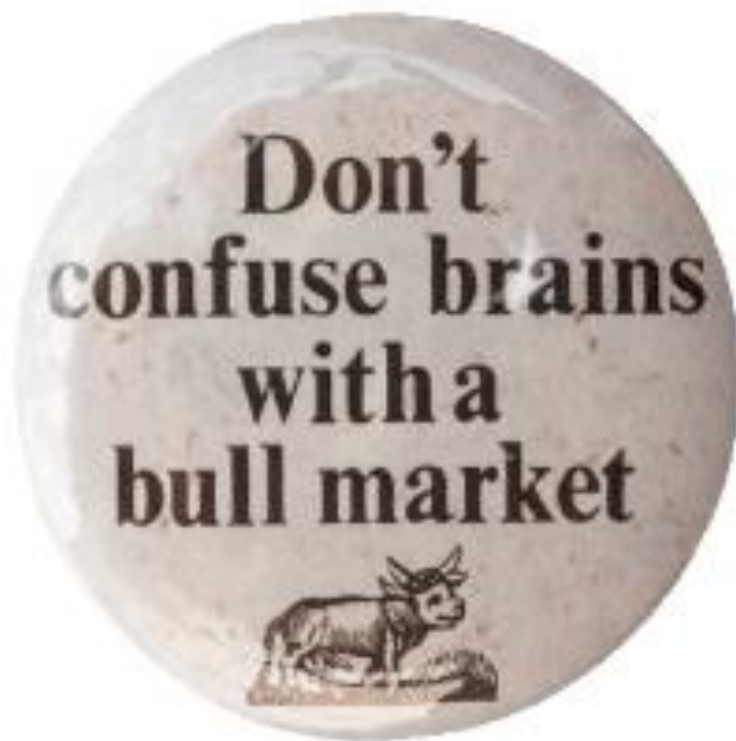
There's nothing magic about the number 4. It's just the average time it has taken for human beings to traverse the path from fear to greed, then back to fear.

Bonus comment: Cyclical tops are not precise



The problem is not that nobody rings a bell at the top.
It's that the bell is always ringing.

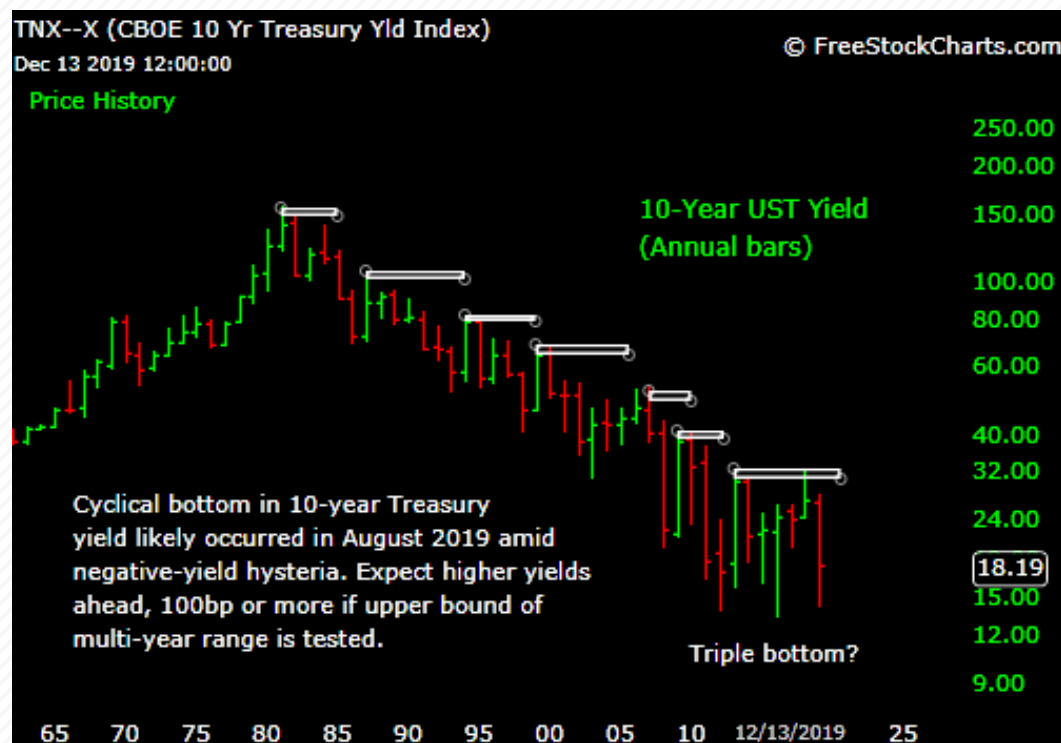
Bonus comment (attributed to Humphey Neill)



U.S. Bonds

- ❑ A cyclical bottom in Treasury yields likely occurred in August 2019 amid negative-yield hysteria.
- ❑ Alan Greenspan, one of our favorite contrary indicators, rang a contrarian bell on August 13th.
- ❑ Nascent reversal in Copper/Gold ratio portends higher yields ahead.
- ❑ In line with our equity outlook, we have tilted temporarily negative toward bonds.

August 2019 looks & feels like a cyclical bottom



A case of Greenspan being Greenspan?



“There is no barrier for U.S. Treasury yields going below zero.”

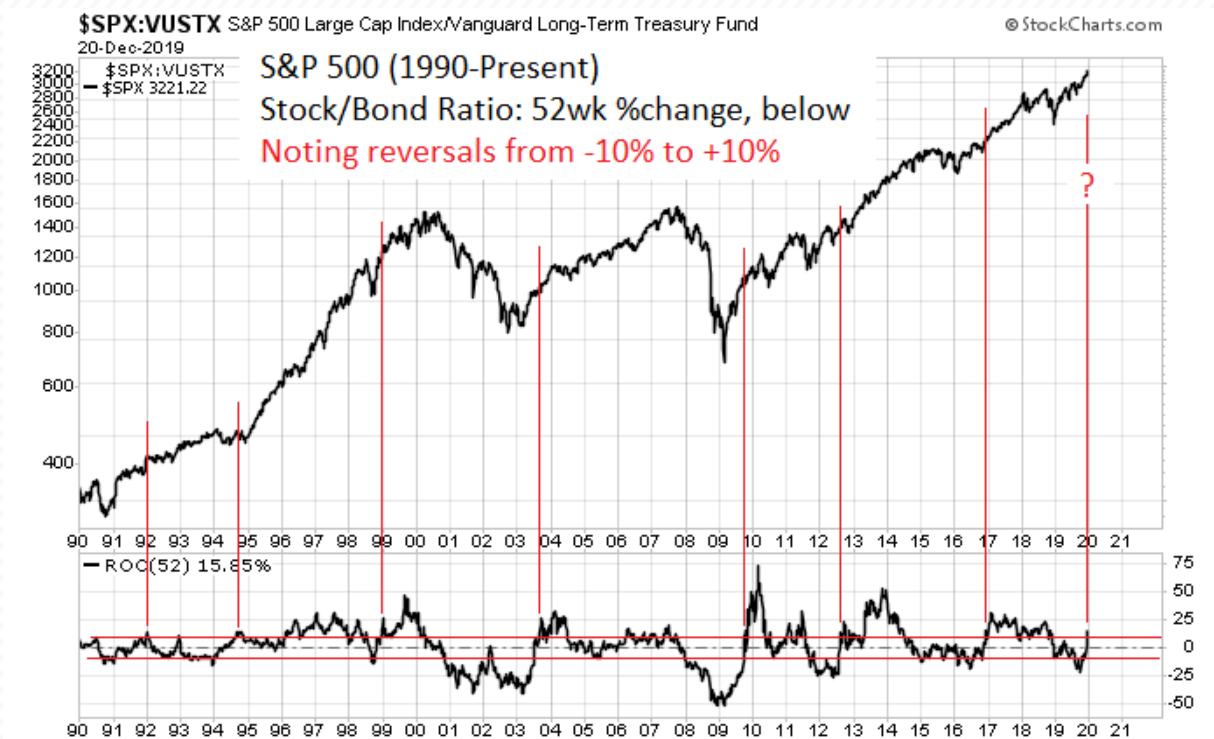
–Alan Greenspan, August 13, 2019

Copper/Gold reversal portends higher yields ahead



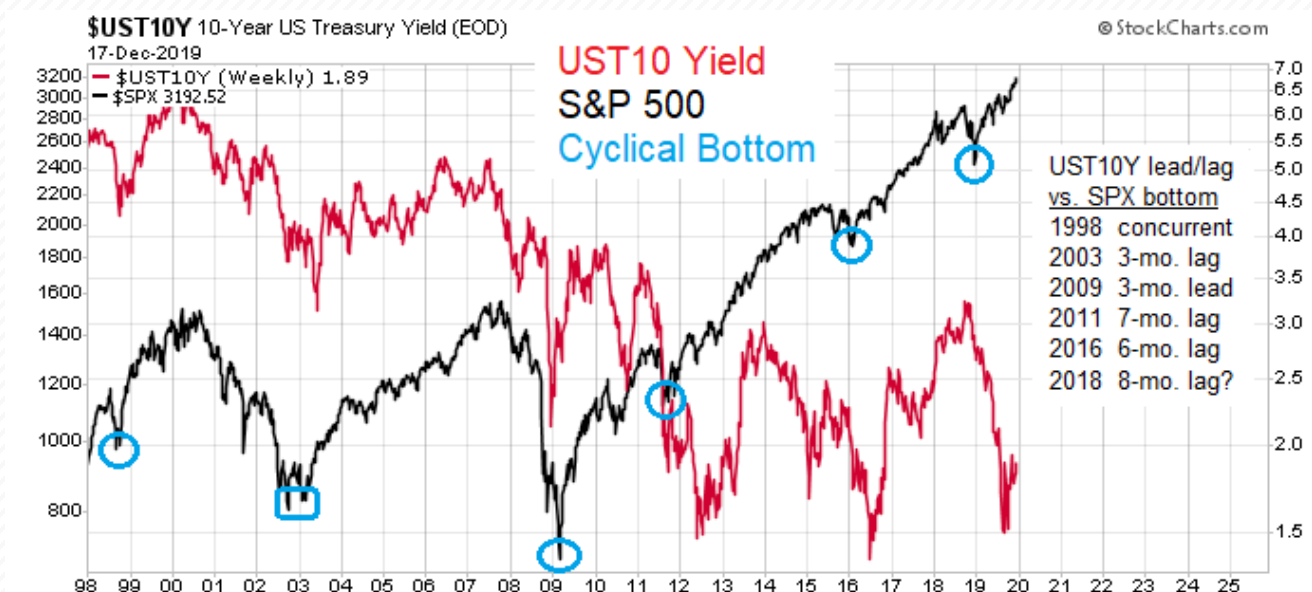
A cyclical bottom in Copper/Gold, if that's what's transpiring, bodes ill for U.S. bonds. Average sell-off in UST10Y was 210bp (min. 155bp), suggesting yield target of 3.60% (min. 3.05%).

Comment... Stocks vs. Bonds



"No recession," says Stock/Bond ratio.

Stocks vs. Bonds (Mind the lags)



In recent decades, cyclical bottoms in long-term Treasury yield have tended to lag the stock market, perhaps due to repressive monetary policy.

Bonus cartoon...



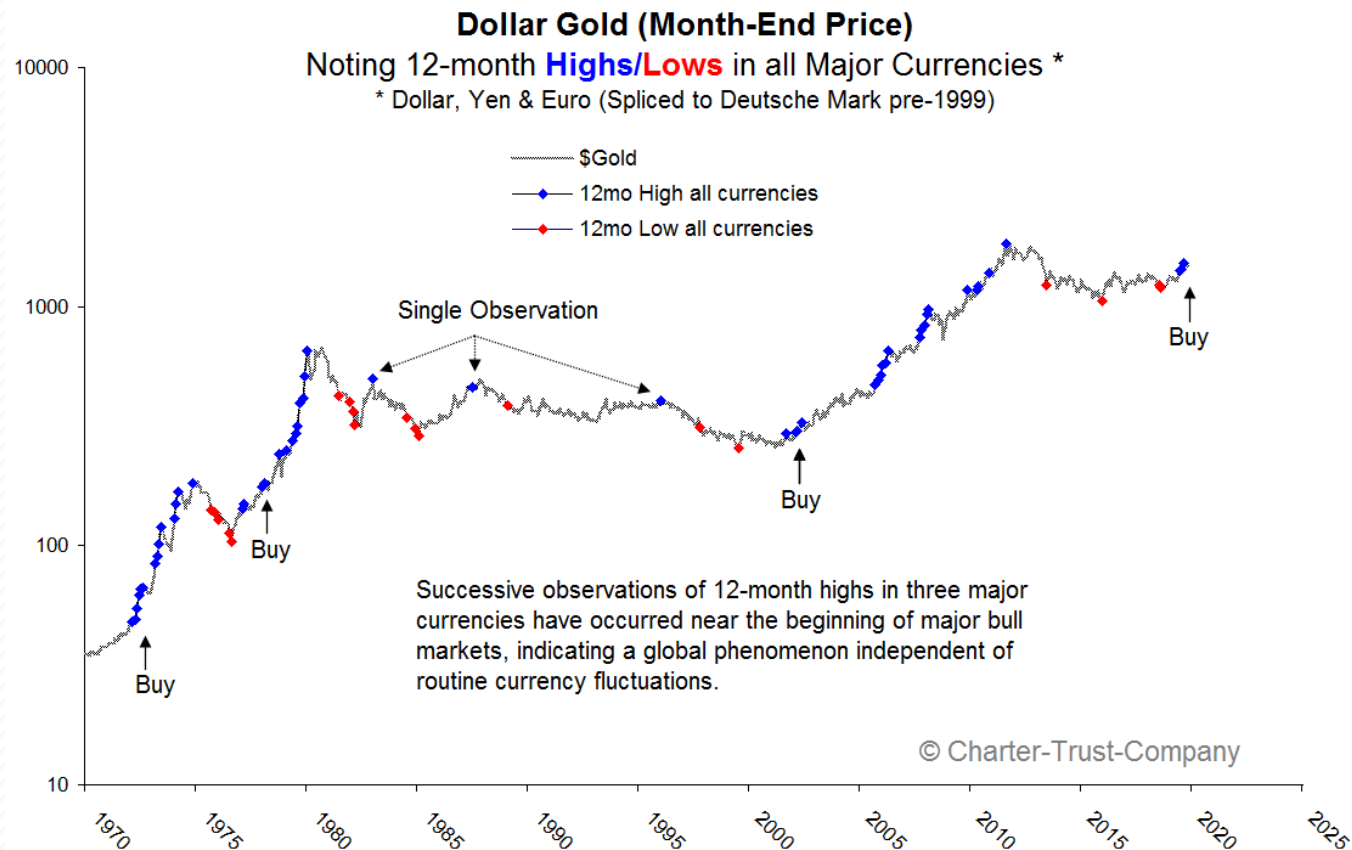
Gold

- ❑ Gold broke out from a multi-year base in mid-2019; the bullish case is constructive for now.
- ❑ Dusting off our long-term charts, three conditions are likely to confirm a major bull market:
 1. Higher highs and higher lows (check)
 2. Fresh highs in multiple currencies (check)
 3. Relative strength versus S&P 500 (not yet)
- ❑ Gold is likely to shine during the next cyclical bear market, targeted for 2022.

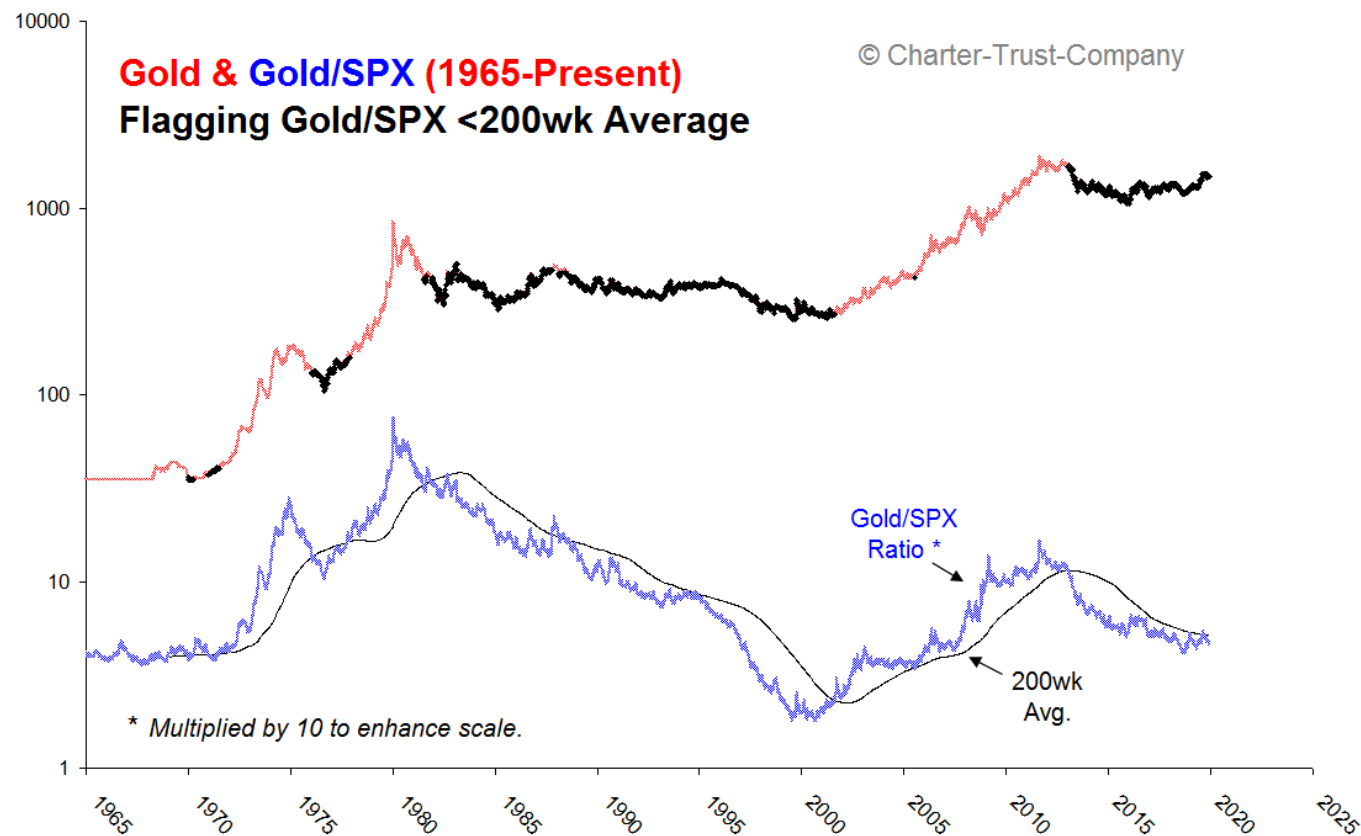
1. Bull markets require higher highs & higher lows (Check)



2. Buy gold after multiple observations of 12-month highs in all major currencies (Check)



3. Buy gold when gold outperforms equities (Not yet)



Bonus quote... Ian McAvity

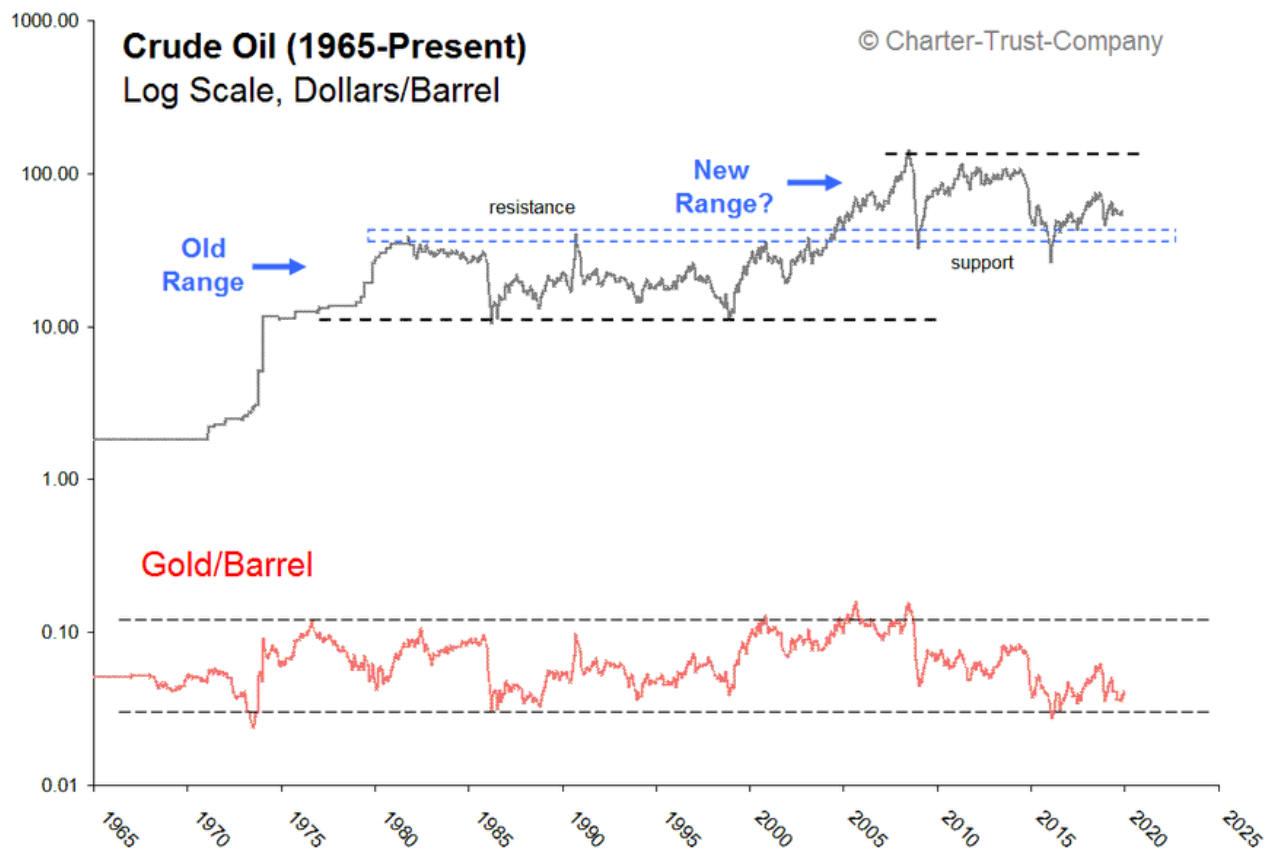
“It’s not what inflation says about gold,
it’s what golds says about inflation.”



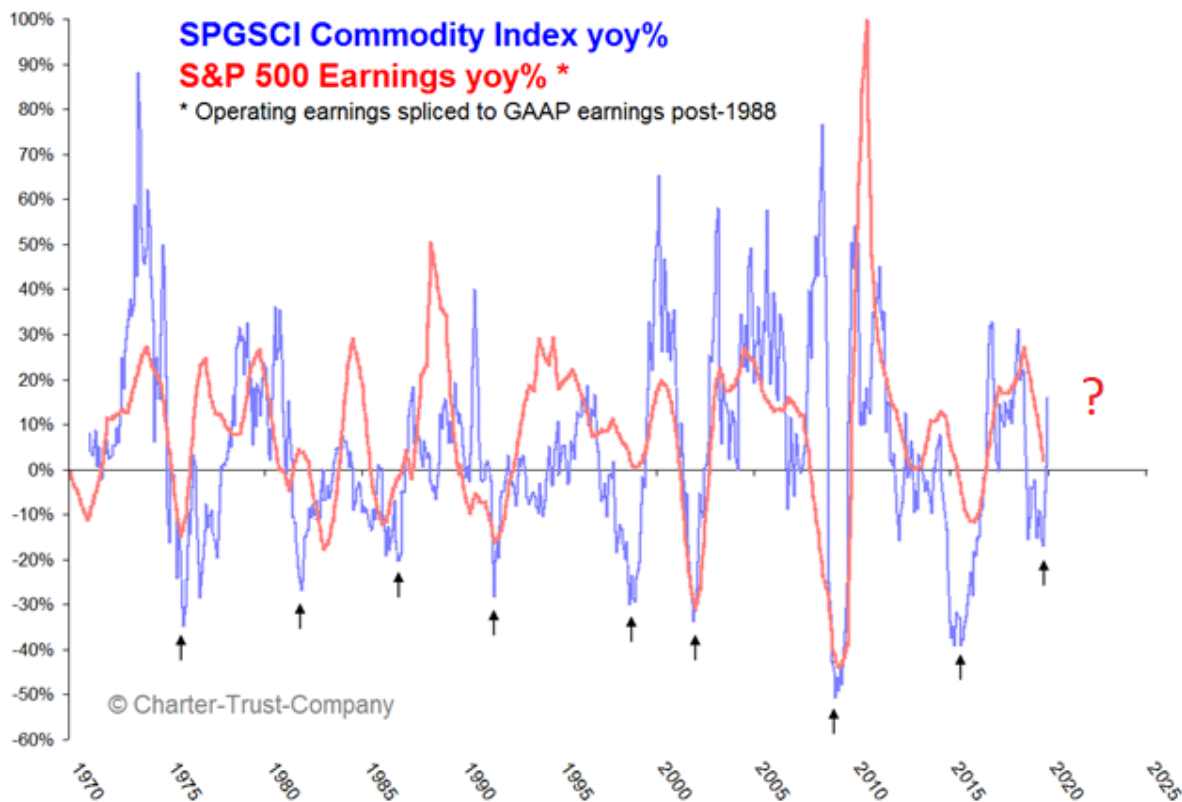
Crude Oil

- ❑ Oil is trading near long-term support in both dollar and gold terms.
- ❑ Rebounding commodity prices suggest renewed earnings growth.
- ❑ Energy stocks are multi-decade cheap versus the broad market. A return to the depths of 1999, however, would require a 10% lag from here.

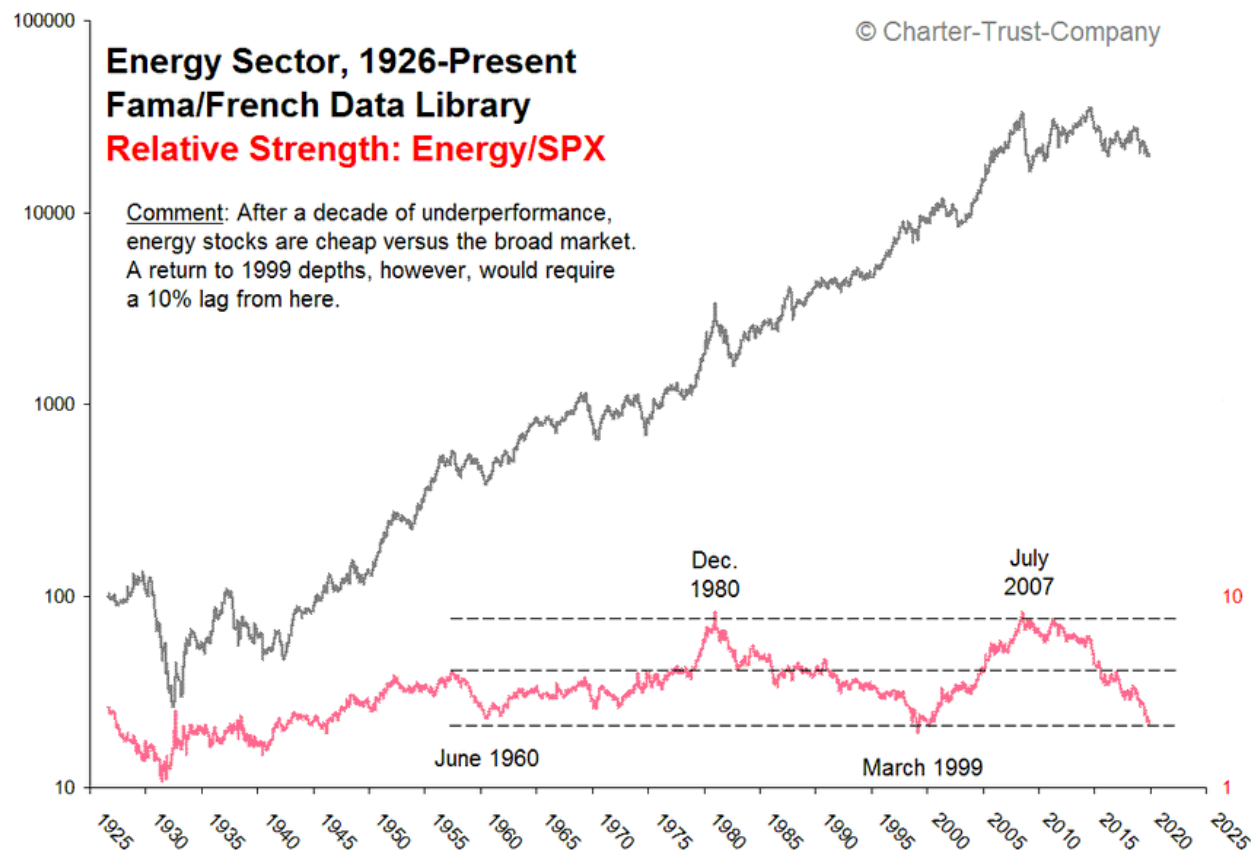
Oil is cheap in dollar & gold terms



Commodity bottom suggests earnings growth



Energy stocks vs. S&P 500: long-term perspective



Focus: Global Equities

- ❑ One of today's most glaring inter-market divergences is the relative performance of U.S. versus non-U.S. equities.
- ❑ For dollar-based investors, non-U.S. stocks have underperformed U.S. stocks by nearly 60% since 2010.
- ❑ Chinese equities appear multi-decade cheap to the S&P 500.
- ❑ Trend-following discipline continues to favor U.S., but extreme valuation and positive breadth suggest the possibility of a sea change.

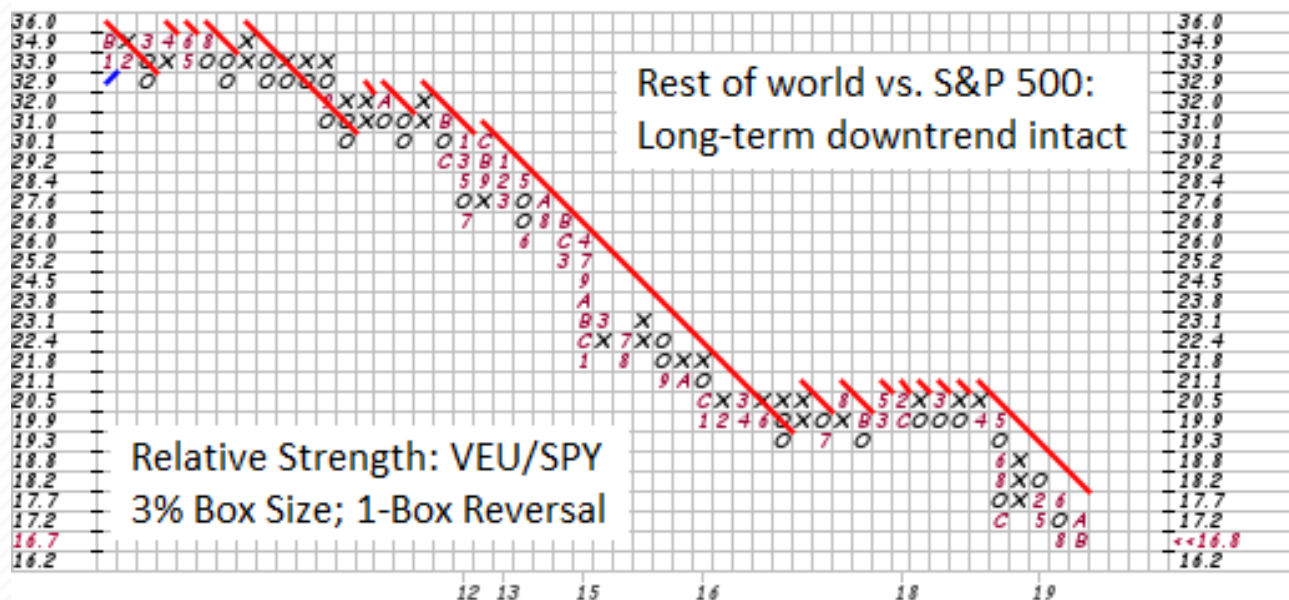
VEU vs. SPY: "The Most Important Chart in the World"

VEU:SPY Vanguard FTSE All-World ex-US ETF/SPDR S&P 500 ETF NYSE

20-Dec-2019, 16:00 ET, daily, O: 16.88, H: 16.886, L: 16.855, C: 16.858, Chg: -0.065 (-0.38%)

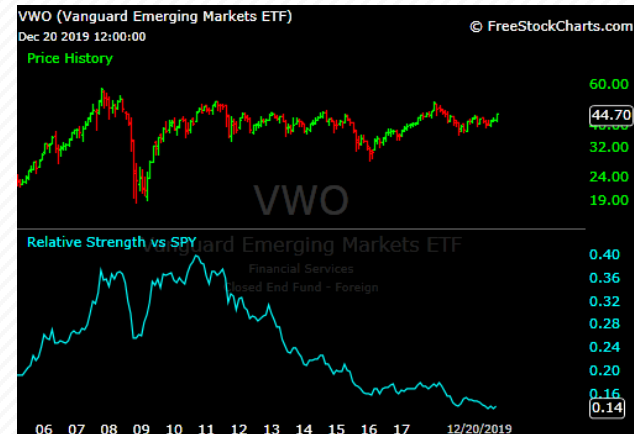
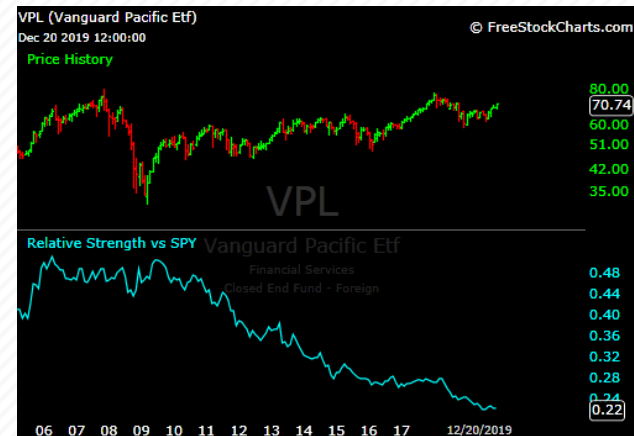
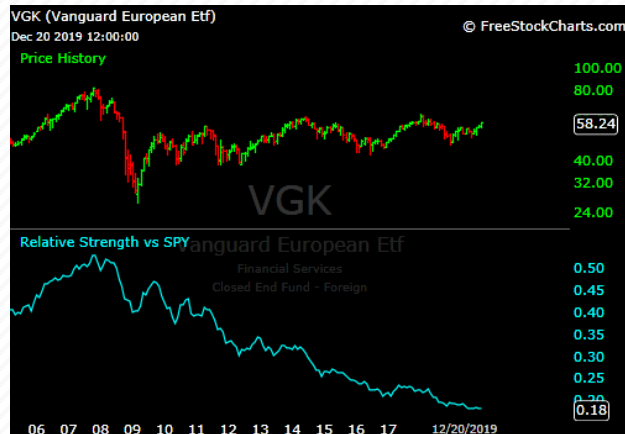
Scaling: Percentage [Reversal: 1, Box Size:3.0%]

(c) StockCharts.com

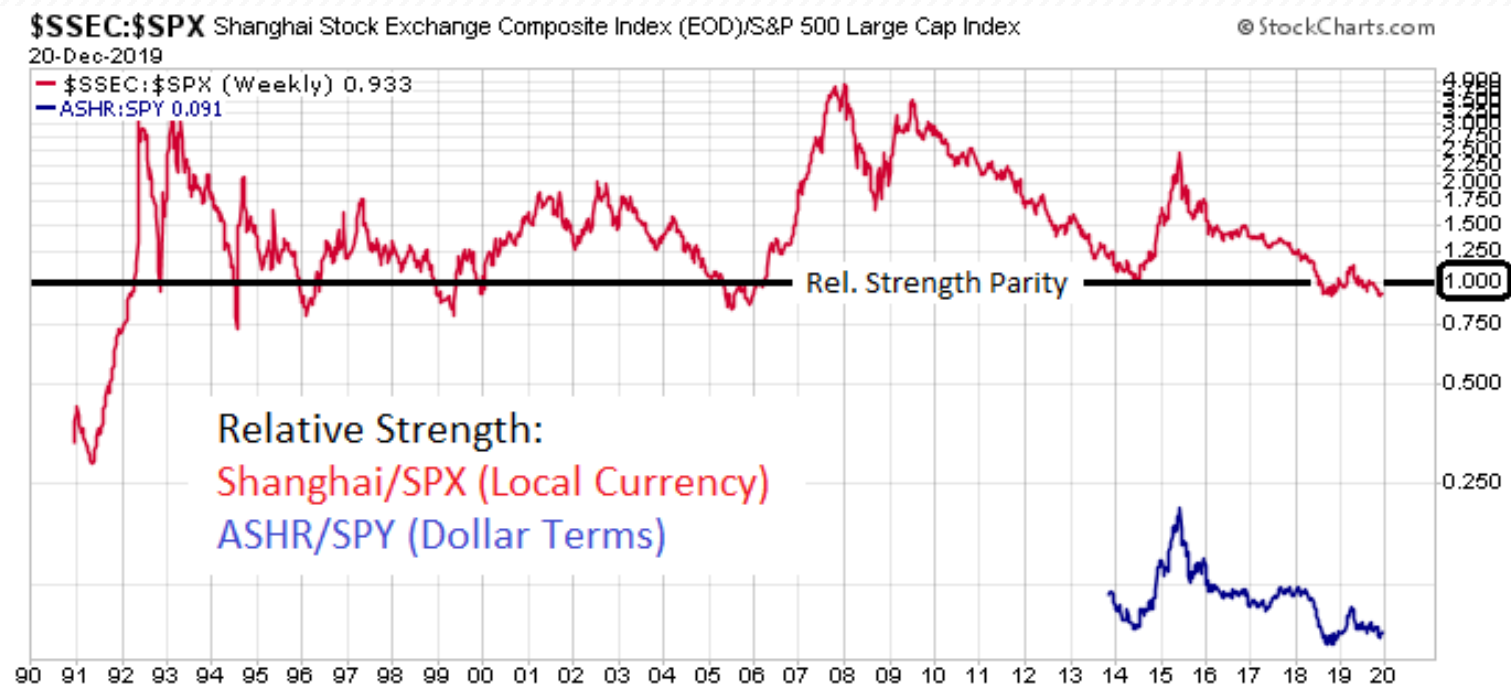


Europe, developed-Pacific, and emerging-market indices are all struggling vs. the S&P 500

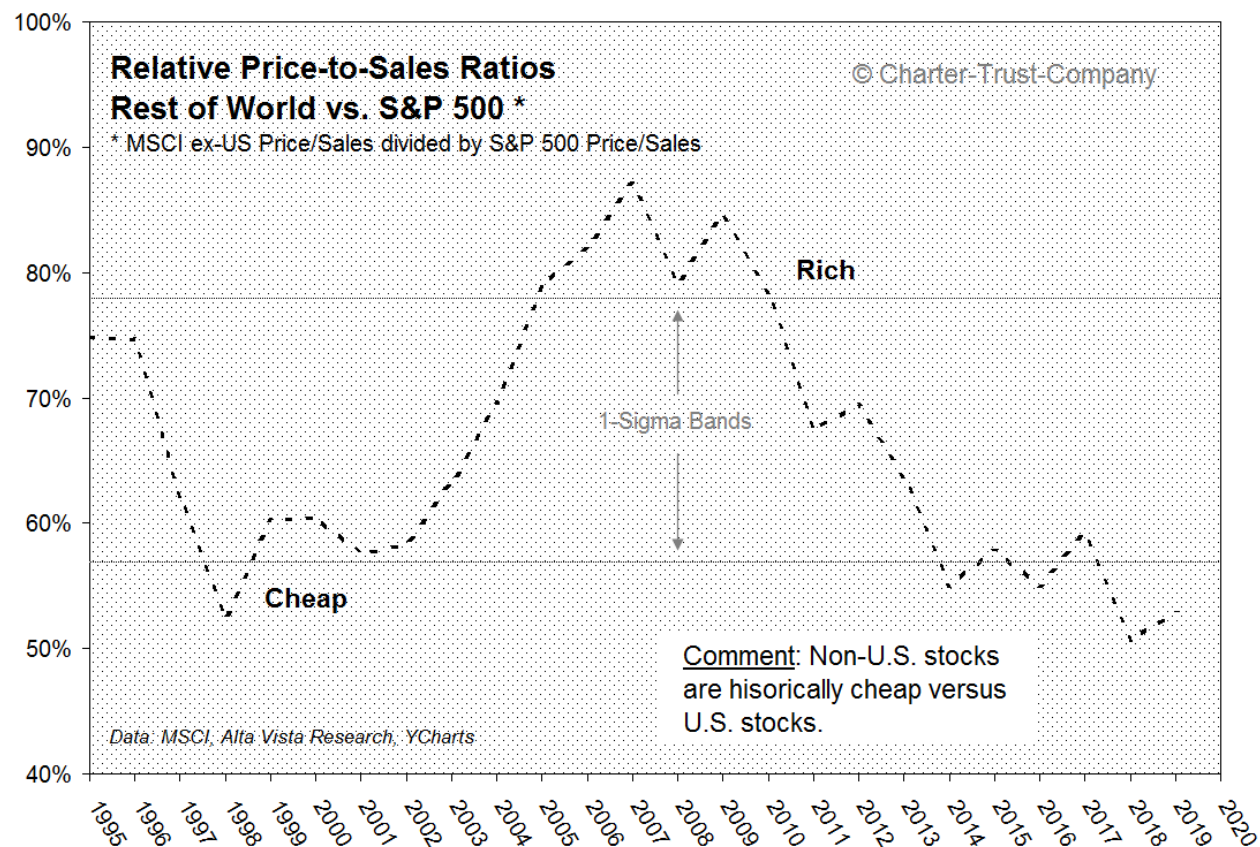
- ❑ Each sector is off approximately 60% versus SPX.
- ❑ Higher highs in relative strength would support the bull market case.
- ❑ Plenty of upside, if long-term reversal is confirmed.



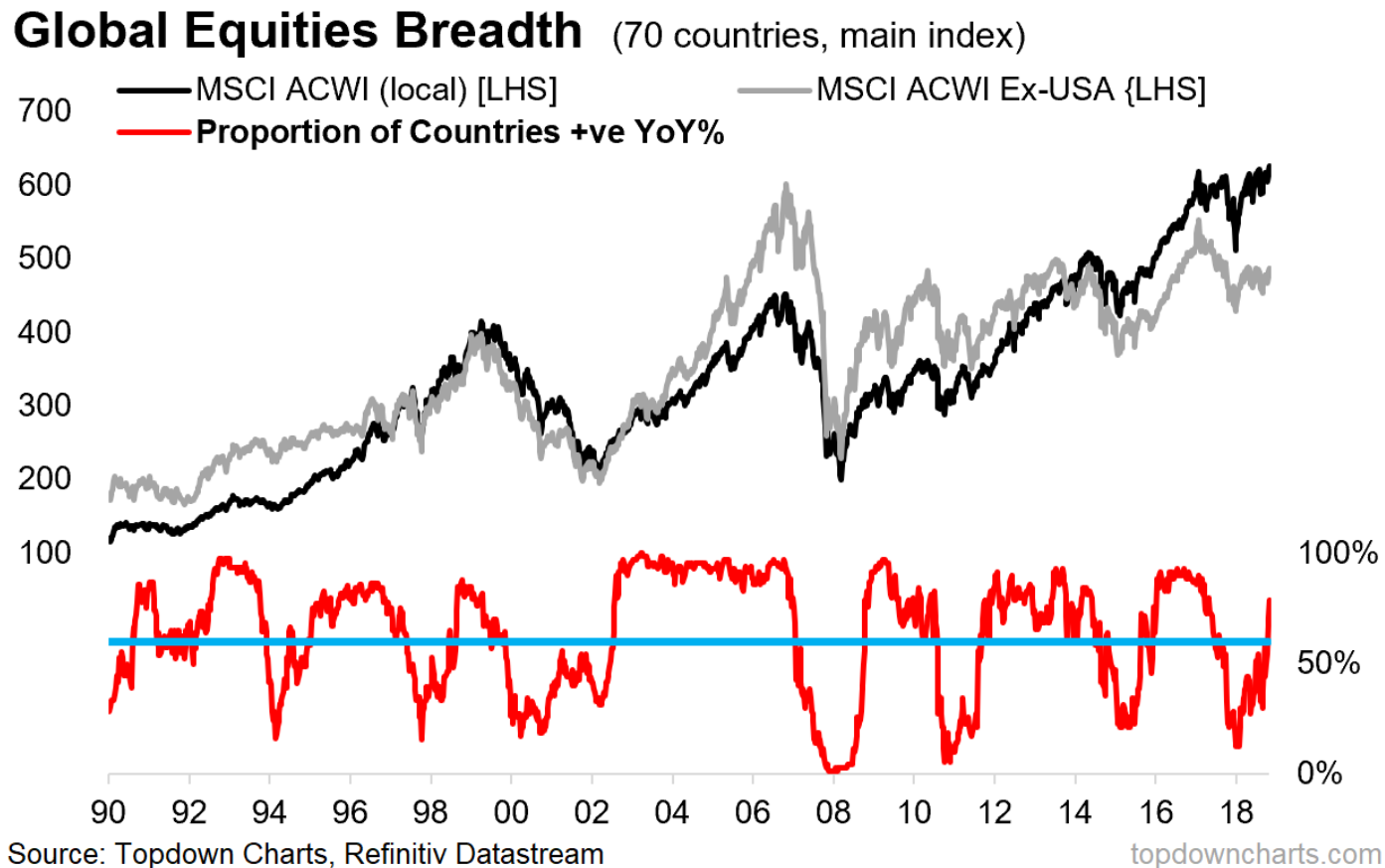
By this reckoning, China is multi-decade cheap



Extreme valuation divergences



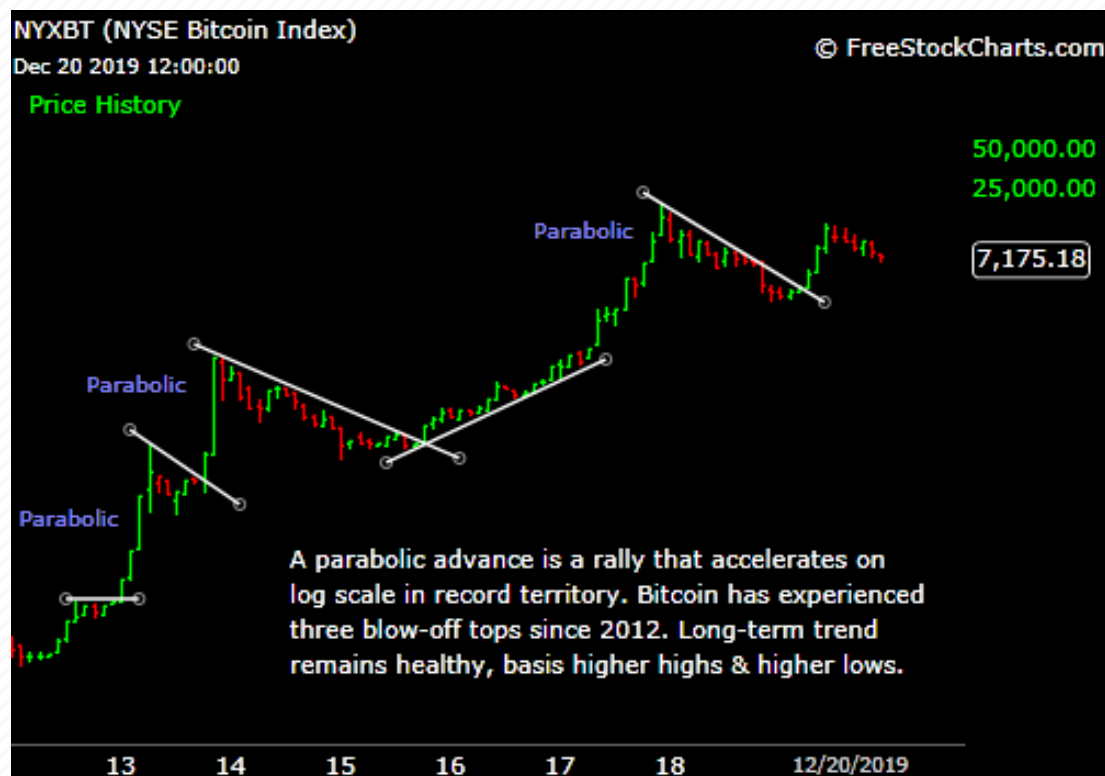
Global participation >50% = Bullish



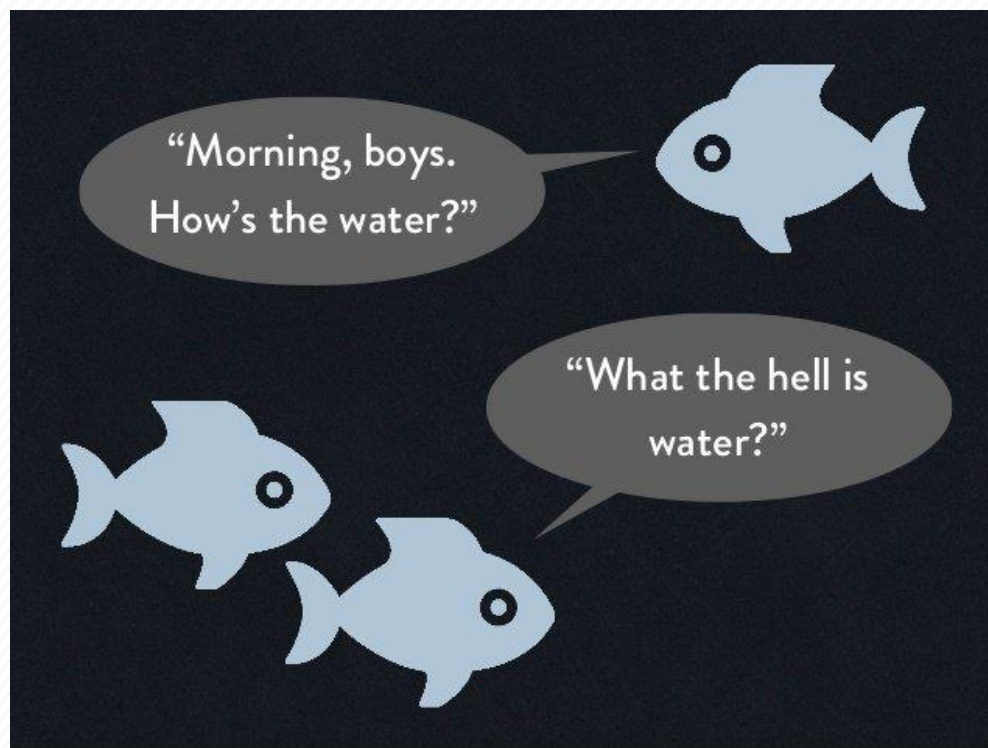
Recap

- ❑ U.S. equities are entering year two of a cyclical bull market, suggesting further upside ahead.
- ❑ We have tilted temporarily negative toward U.S. bonds.
- ❑ Gold is likely to shine during the next cyclical bear market.
- ❑ Commodity rebound suggests strong earnings ahead.
- ❑ Extreme divergences between U.S. and non-U.S. equities are a stand-out feature in today's market landscape.

Bonus page... Bitcoin



Bonus quote... David Foster Wallace



Bonus search... "What would make me wrong?"

No results for "What would make me wrong?"

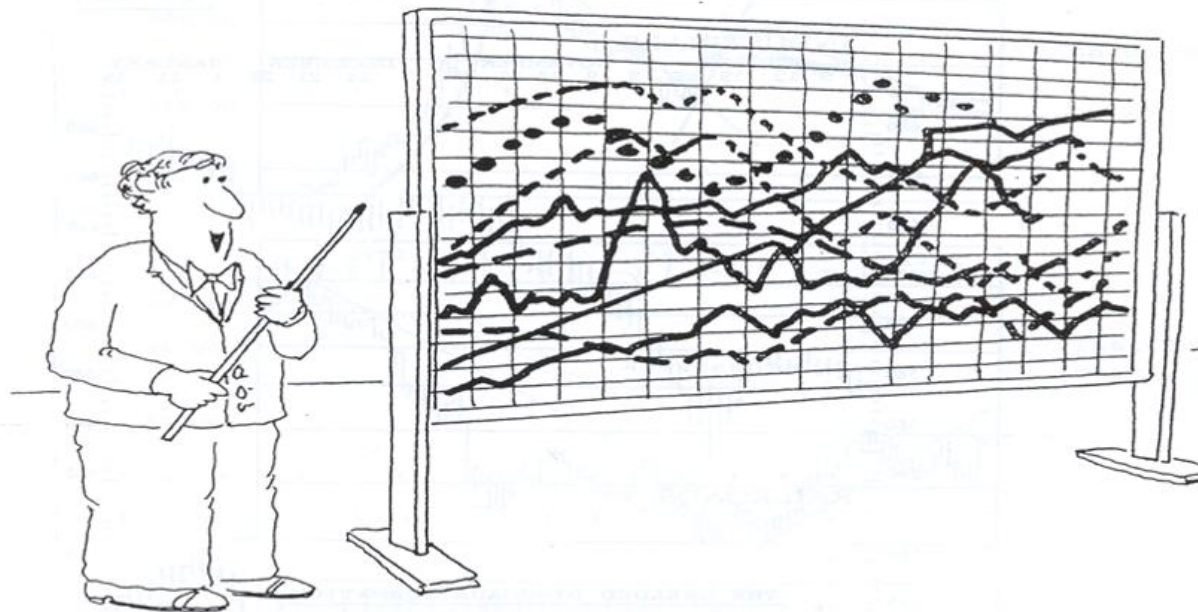
The term you entered did not bring up any results. You may have mistyped your term or your [search setting](#) could be protecting you from some potentially sensitive content.

Bonus cartoon...



"Well, Stoddard, I think I've bounced enough ideas off you for one day."

Bonus cartoon...



CHENEY

“... and that about wraps it up.
Are there any questions?”

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