TriΔngulated
Research, LLC

Listen to the Markets 5.5.2024

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Quote of the Week:

When you are getting beat to death, get your head out of the mixer. – Richard Dennis

Market Observations:

When I look at a lot of different markets, the main thing that stands out is erratic price action. Some highlights…

While the long-term trend continues to be up, stocks took it on the chin following Israel/Iran, then rallied, and then sold off pretty decent on the last day of April.

Gold and silver continue to sell off as WW3 has not materialized.

Bitcoin also continues to fall. I wonder if it is possible to measure aggregate Bitcoin sentiment on X and then test it as a contrarian indicator. I'd want to confirm with data, but my sense is the move would be to sell when they're boasting and buy when they're quiet.

Trend follower darling cocoa has dropped around 30% in a few days while other commodities are whipping around too.

One of the most stable markets is US fixed income but 2s, 5s, 10s, and 30s (aka various durations of "bonds"), all continue to drop.

In a reversal of all the chatter coming into 2024, I see a lot of people now saying that they expect the Fed to focus on higher for longer meaning not only are rates not going to fall, but they might rise more to combat inflation. The Fed meets again later today so we will see what that brings.

In recent LTTM I've been talking about the Japanese yen and how it looks not great (keeps falling) but the concern is that the Bank of Japan might intervene. Some commentary from the BoJ has increased volatility there and now my X (formerly Twitter) feed is full of yen experts.

The yen is interesting as, from a price only perspective, it seems like an obvious short. However, if you pay attention to what is happening, you know that shorting the yen is effectively a slap in the face of the Bank of Japan. As a general rule, and in my opinion, it is probably best not to go against what a central bank says they want as they have the resources to make things happen. It will be interesting to see how things play out there.

As all of this is happening, I notice the US dollar (UUP) keeps slowly rising. Perhaps it is following interest rates, foretelling Fed policy to come, or just acting as a haven in an otherwise strange time. Regardless, I notice it creeping higher and, above everything else, it has my interest.

As I consider the dollar, I also notice that, in the past month, most S&P 500 sectors and industries are down. The strongest are utilities, consumer staples, healthcare, and aerospace/defense. Strength in these sectors sends a message of difficult times and war.

When I add it all up and put on my trader hat, I'm pretty content to just keep waiting and watching. While things usually turn out ok, the stage seems set for more volatility and unpleasant market action which isn't the LTTM bailiwick.

Regarding long-term allocations, I continue to maintain exposure to stocks on the long side in line with related goals/process. But it sure doesn't feel as good as it did 2 months ago and the opening quote is on my mind.

Stock Market Indicators:

Trend: Despite recent action, the long-term trend in stocks is up.

Stock Volatility: Volatility is ticking up and, while it isn't quite to alarming levels yet, it is raising an eyebrow.

Interest Rates: Short-term rates are around 5% which is looking pretty enticing considering everything above.

The Fed: The Fed is on hold pending incoming data on the economy and inflation. There is another FOMC release later today.

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