



Asbury Research

## **Monthly Investment Compass**

*Charting The Course Of The Markets*

January 17<sup>th</sup>, 2020

# Monthly Investment Compass

## 1) Executive Summary: January 17<sup>th</sup>, 2020

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- **U.S. Stock Market:** The stock market begins 2020 in the midst of minor and major uptrends amid low interest rates, an increased appetite for risk by investors, strengthening overseas markets, and unmet near term **targets another 4%-5% above the market**. However, the US market is also **technically overextended** according to a number of metrics and seasonality turns negative between now and the end of February. As long as our tactical models (**Correction Protection Model, Asbury 6**), retain their mid-October Risk On status, investors can continue to “ride the wave” higher. Should our models reverse, however, we would view it as the potential beginning of an overdue – and potentially significant -- corrective decline.
- **Size: Large Cap (S&P 500)** has very recently began outperforming Small Cap (S&P 600) on both a tactical (monthly) and strategic (quarterly) basis.
- **Style:** As of Dec 20<sup>th</sup> the S&P 500 **Growth** ETF (SPYG) shifted back to a trend of quarterly relative outperformance versus the SPDR S&P 500 ETF (SPY). Growth stocks often outperform in healthy market environments as investors seek strong earnings growth.
- **Cross Asset: High Beta** stocks, **Emerging Markets**, and **High Yield Bonds** are currently outperforming, suggesting an increased appetite for risk.

# Monthly Investment Compass

## 2) Executive Summary: January 17<sup>th</sup>, 2020

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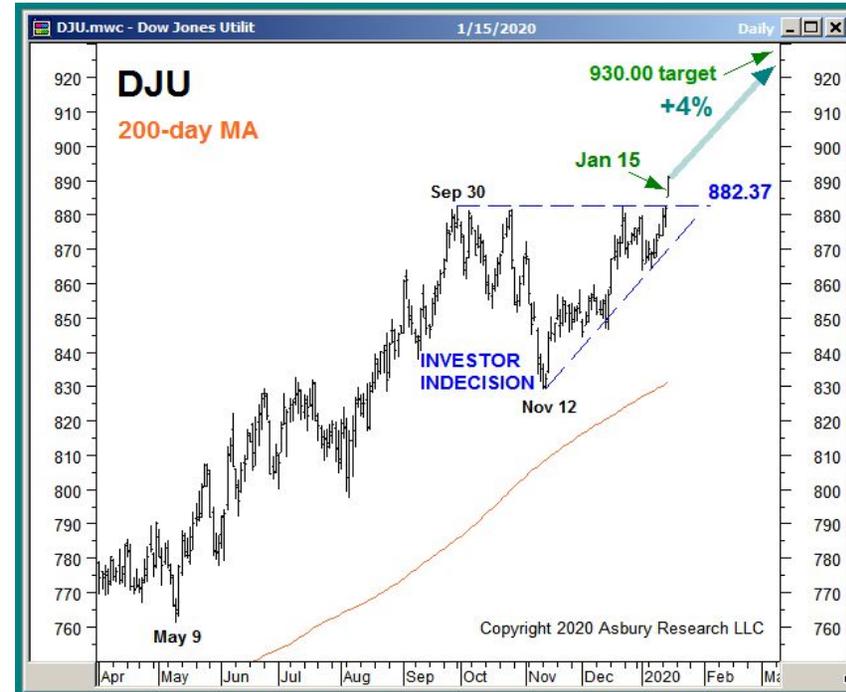
- **Global Relative Performance:** China, Russia, and Emerging Markets are currently outperforming the US.
- **US Market Sectors:** The latest data in multiple time frames show a trend of inflows into **Industrials** and **Technology**, and a trend of outflows from **Consumer Staples**.
- **US Industry Groups:** We currently have unmet upside targets in **Biotech, Metals & Mining, Steel**, and **Insurance**.
- **Individual Stocks & ETFs:** We have existing long ideas in **BFAM, JNK, and EWW**, and a short idea in **UNG**.
- **US Interest Rates:** The benchmark **10-Year Treasury Note** has been hovering at the 1.70% area since late August, but the latest asset flow data, seasonality, and a slightly steepening **yield curve** suggest **modestly rising rates may be coming in early 2020**.

# US Stock Market

## Price & Trend (1): Dow Industrials Meet Upside Target, Utilities Target 4% Rise



The bellwether Dow Industrials has just met our 29,200 upside target based on its Nov 1<sup>st</sup> breakout from months of sideways investor indecision.



Also this week, the Dow Jones Utility Avg has broken out higher from almost 4 months of investor indecision. A sustained rise above 882 targets a 4% rise to 930.

# US Stock Market

## Price & Trend (2): Dow Transports Target 4% Rise, Watch Minor Support In SPX



The Dow Transports are also breaking out from 9 months of sideways indecision. A sustained move above 11,148 targets a 4% rise to retest the Sep 2018 highs.



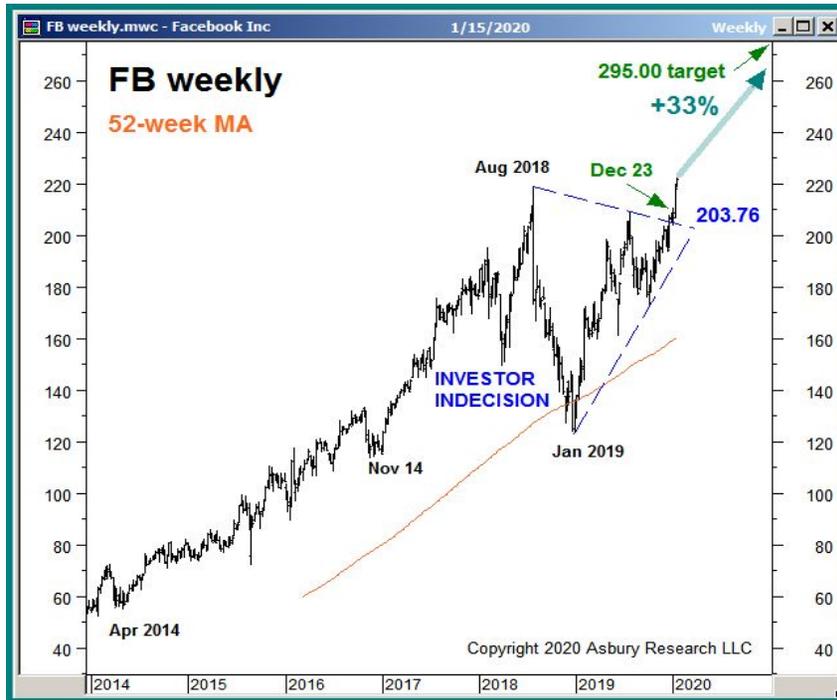
The minor uptrend in the benchmark S&P 500 is valid above 3168-3154, which is 4% below the market. Major support is 10% below the market at 2990.

# US Stock Market

**Influential Stocks: US Market Bellwethers WMT, FB Target 13%, 33% Rise**



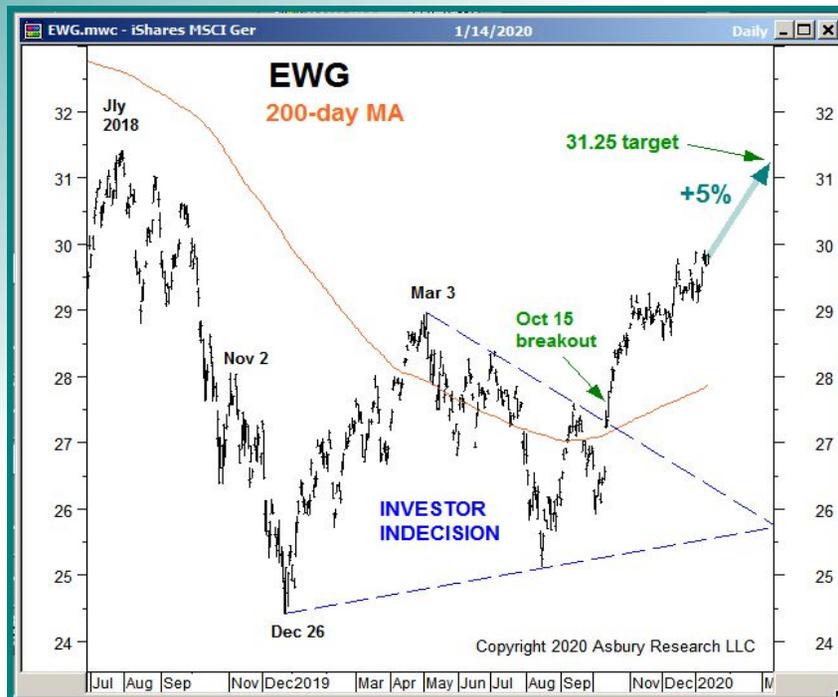
Market bellwether Walmart rose by 11% since resuming its 2015 advance in June 2019, and targets another 7% rise to \$130. *Positively correlated to the S&P 500.*



Tech bellwether Facebook's December breakout from 1 ½ years of investor indecision targets a 33% rise to \$295. *Also positively correlated to the S&P 500.*

# US Stock Market

## Intermarket Analysis (1): Germany ETF Targets Additional 5% Advance



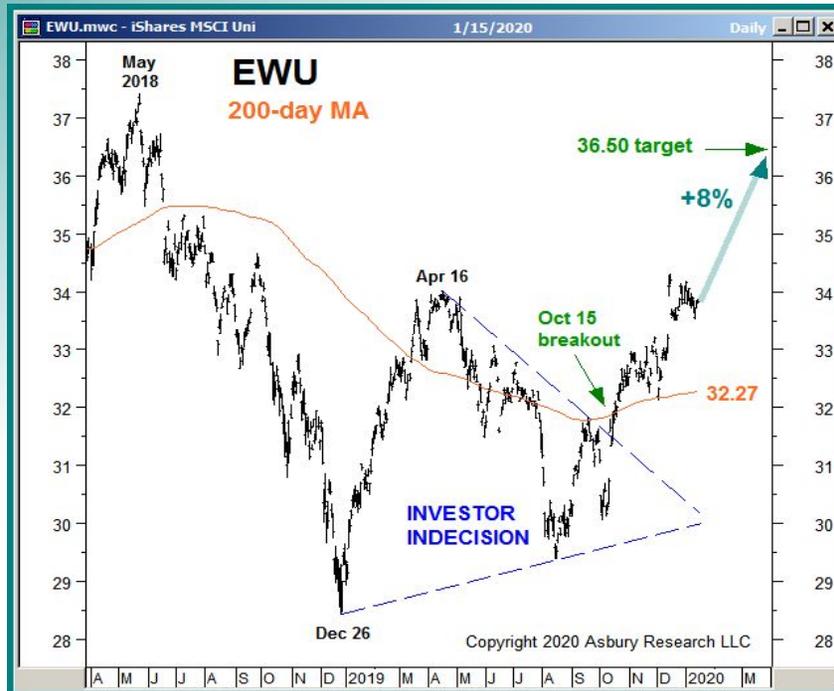
The iShares MSCI Germany ETF has already risen by 7% since its mid October breakout higher, and targets an additional 5% rise to 31.25.



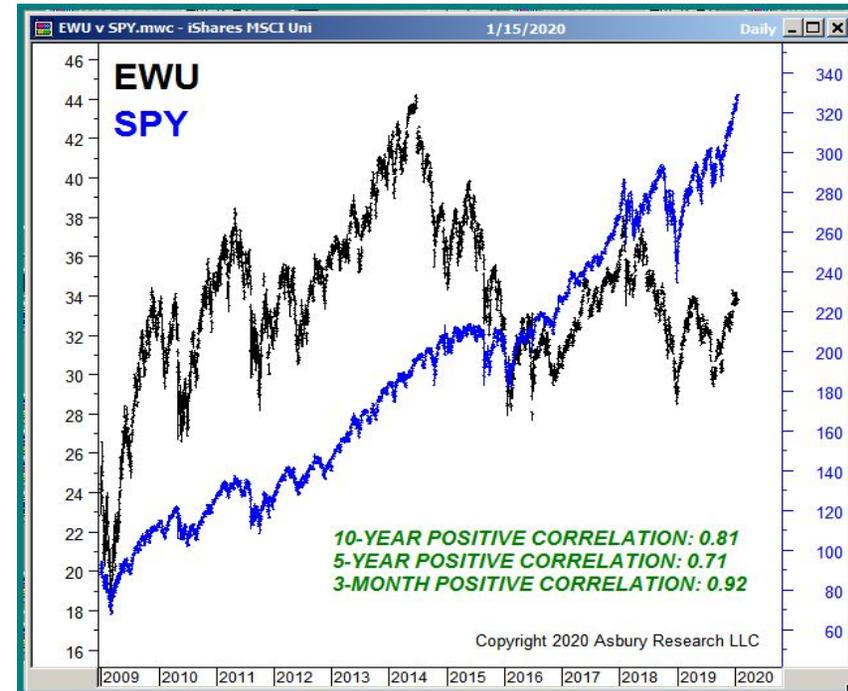
The tight and stable long term positive correlation between EWG and the S&P 500 suggests that *as goes Germany, so is likely to go the US broad market.*

# US Stock Market

## Intermarket Analysis (2): United Kingdom ETF Targets 8% Advance



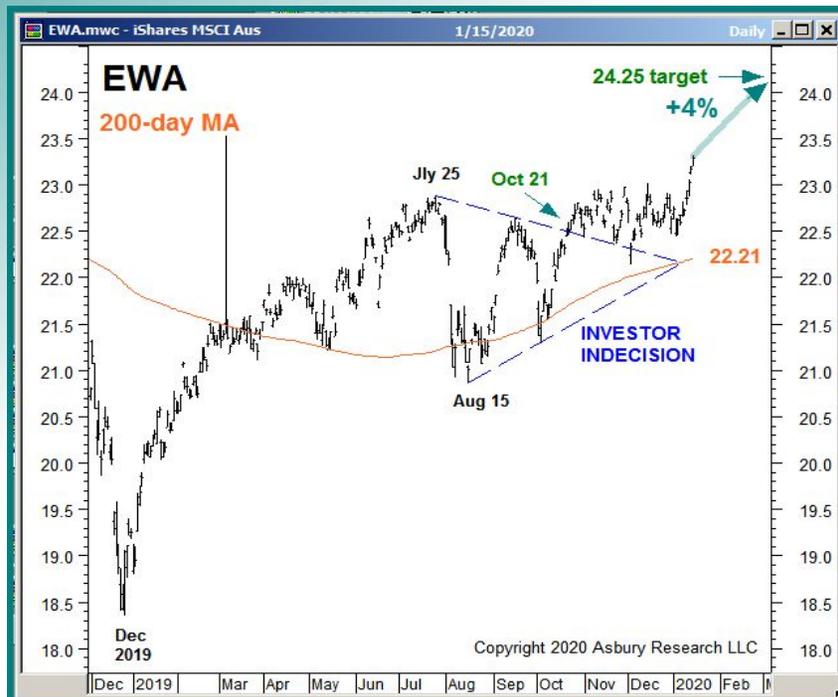
The SPDR iShares MSCI United Kingdom ETF has already risen by 6% since its mid October breakout higher, and targets an additional 8% rise to 36.50.



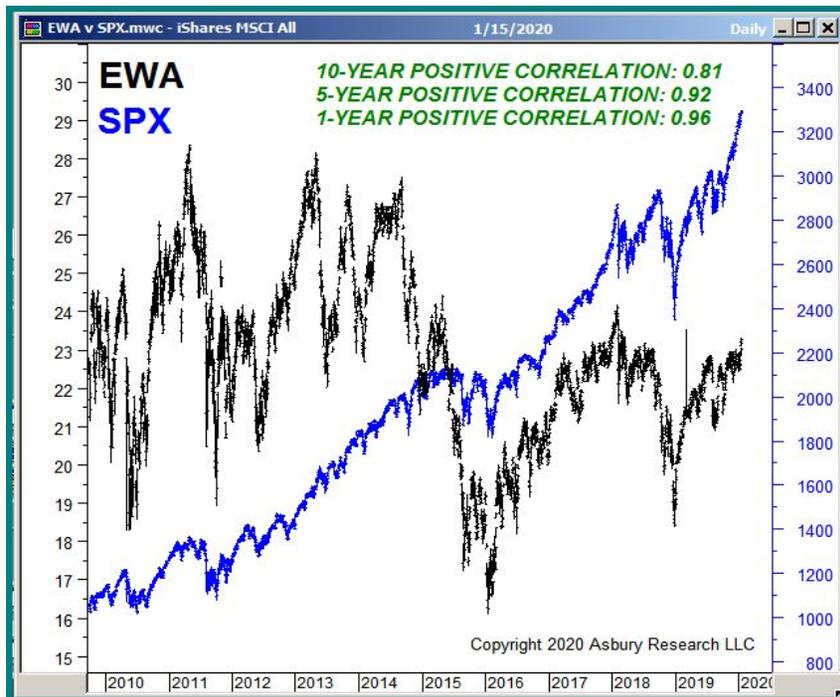
The tight and stable long term positive correlation between EWU and the S&P 500 suggests that *as goes The UK, so is likely to go the US broad market.*

# US Stock Market

## Intermarket Analysis (3): Australia ETF Targets Additional 4% Advance



The iShares MSCI Australia ETF has already risen by 3% since the late October resumption of its 2019 advance, and targets an additional 4% rise to 24.25.



The tight and stable long term positive correlation between EWA and the S&P 500 suggests that *as goes Australia, so is likely to go the US broad market.*

# US Stock Market

## Trade Ideas (1): BFAM Targets Another 4% Rise, UNG Targets 15% Decline



Bright Horizons' mid November resumption of its 2019 advance has triggered a 9% advance and targets another 4% rise to \$168.28. *Asbury Value idea.*



The United States Natural Gas Fund's (UNG) Nov 27<sup>th</sup> breakdown triggered an 11% downturn and targets another 15% decline to 14.25. *Asbury Momentum idea.*

# US Stock Market

**Trade Ideas (2): JNK Targets 1% Advance, Mexico Index Targets 17% Rise**



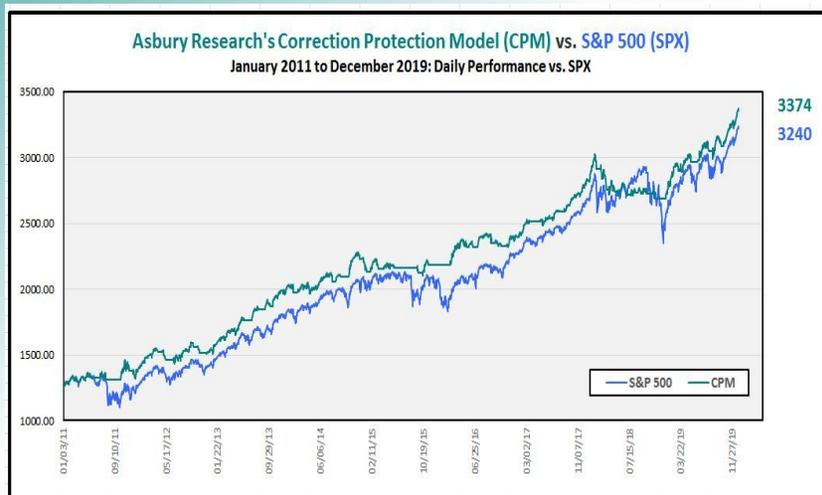
The SPDR Bloomberg Barclays High Yield Bond ETF's Dec 12<sup>th</sup> resumption of its 2019 advance targets another 1% rise to 111.50. *Positively correlated to the S&P 500.*



The iShares MSCI Mexico Capped ETF's Dec 16<sup>th</sup> breakout higher targets an additional 17% rise to \$54.50. *Asbury Momentum idea.*

# Asbury's Correction Protection Model (CPM)

## When To Be Invested



## Purpose & Key Features

- Protects investors against significant market declines
- without sacrificing long term performance under a variety of market conditions,
- while greatly reducing market risk as measured by actual time invested and by volatility of returns (low beta).

### CPM v SPX: Performance Comparison By Year

Year	S&P 500	CPM	CPM Rel Perf
2011	0.00%	9.78%	9.78%
2012	13.41%	12.17%	-1.24%
2013	29.60%	35.31%	5.71%
2014	11.39%	9.07%	-2.32%
2015	-0.73%	-0.86%	-0.13%
2016	9.54%	8.83%	-0.71%
2017	19.42%	20.16%	0.74%
2018	-6.24%	-4.76%	1.48%
2019	29.24%	27.23%	-2.01%

## Performance Highlights Since 2011

- CPM has averaged **5 signals per year**.
- CPM has **only been in the market 65% of the time**, significantly reducing risk.
- The table at left shows that **CPM has outperformed the S&P 500** in 4 of the past 9 years.

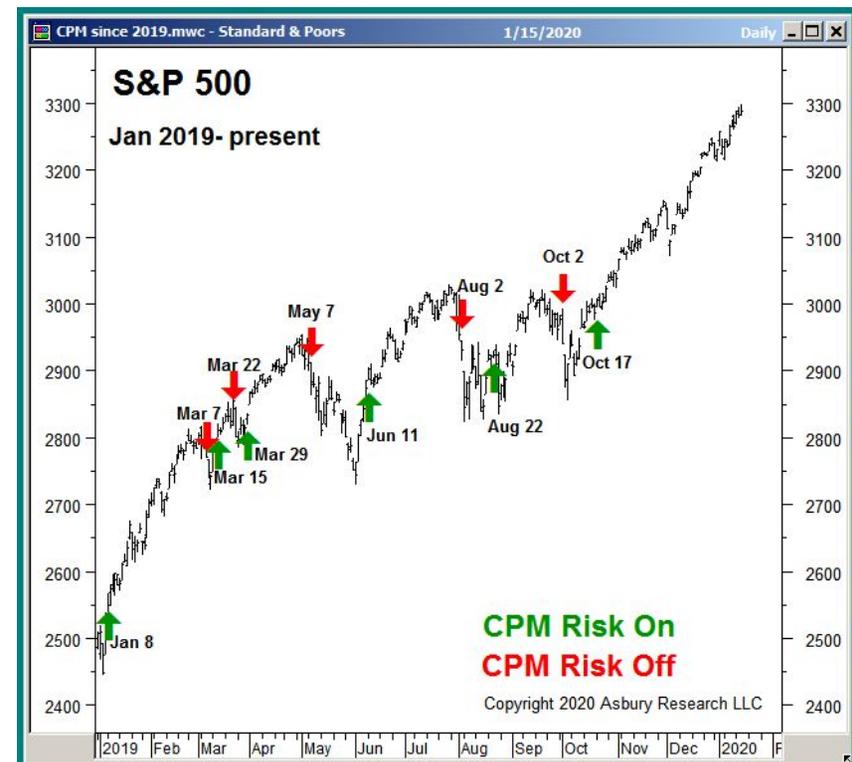
# Asbury's Correction Protection Model (CPM)

**"Risk On" As Of October 17<sup>th</sup> 2019**

## About CPM

- The Correction Protection Model (CPM) is our own **proprietary defensive model** for the S&P 500. It is **quantitative, objective, and data driven**.
- **CPM is binary: it is either Risk On or Risk Off.**
- **CPM is not a returns-driven model, but rather a wealth preservation tool.** It was designed to protect investor assets during potentially dangerous market conditions while also taking advantage of the market's historical upward bias.
- We use CPM as a key indication of **when to increase market exposure (Risk On) and when to be risk-averse (Risk Off).**

## CPM Since 2019



# The Asbury 6 Key Market Internals

## When To Be Invested

### The Asbury 6:

- the monthly rate of change in the S&P 500
- the relative performance of equity prices versus high yield bond prices,
  - investor asset flows
- corporate bond spreads
  - trading volume
  - market breadth

### “A6” Signals Since Late 2018



# The Asbury 6 Key Market Internals

Positive Since October 15<sup>th</sup> 2019

"ASBURY 6" INTERNAL MARKET METRICS		through 1/15/2020
METRIC	POSITIVE AS OF:	NEGATIVE AS OF:
Monthly Rate Of Change: SPX	10-21	
Rel Performance: SPY vs. JNK	10-11	
Total Net Assets: SPY	10-14	
High Yield Corp Bond Spread	12-4	
On Balance Volume: SPX	10-15	
Market Breadth: NYSE	12-5	

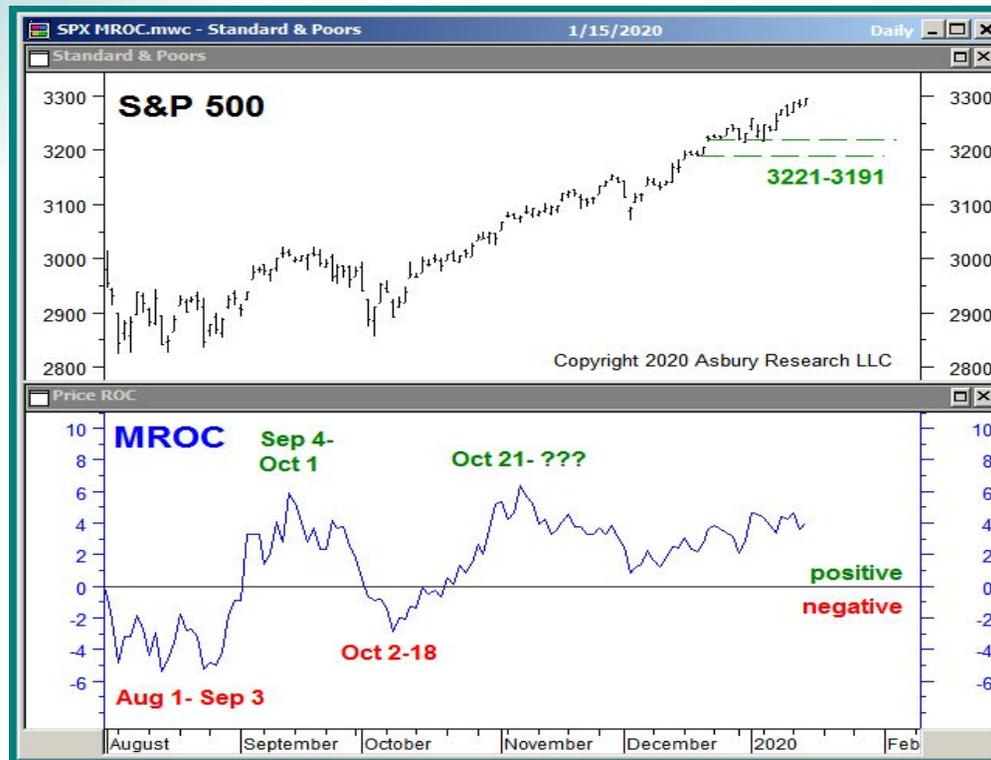
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**When all Asbury 6 are positive, market internals are the most conducive to adding risk to portfolios.**

Each negative reading adds an additional element of risk to participating in existing or new investment ideas.

# The Asbury 6 Key Market Internals

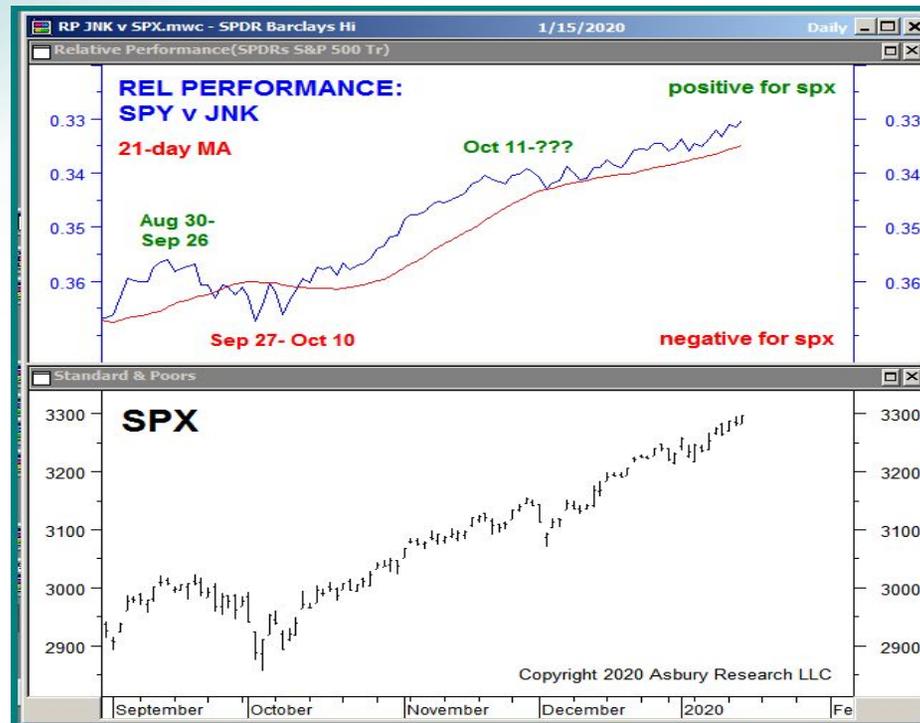
**Momentum: Near Term Positive**



SPX's 1-month rate of change, a *near term* momentum gauge, has been *positive* (*bullish*) since October 21<sup>st</sup> and will remain so above 3221 to 3191.

# The Asbury 6 Key Market Internals

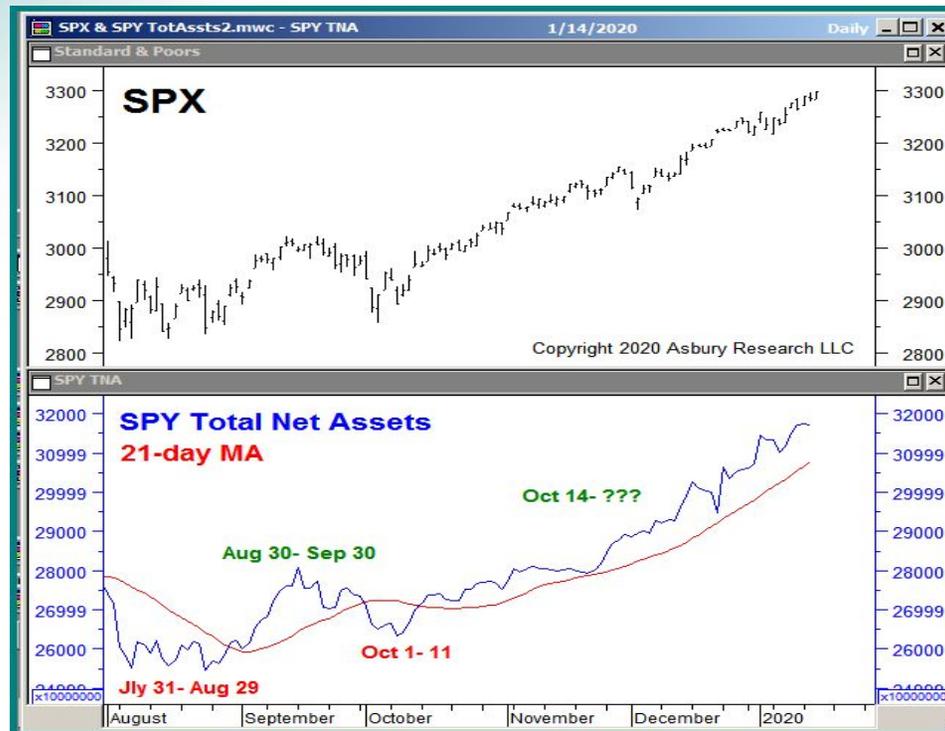
## *Relative Performance: Near Term Positive*



The rightmost green highlights show the S&P 500 (SPY) turned back to a trend of *monthly relative outperformance* versus junk bond prices (JNK) on October 11<sup>th</sup>. This has historically coincided with near term strength in the S&P 500.

# The Asbury 6 Key Market Internals

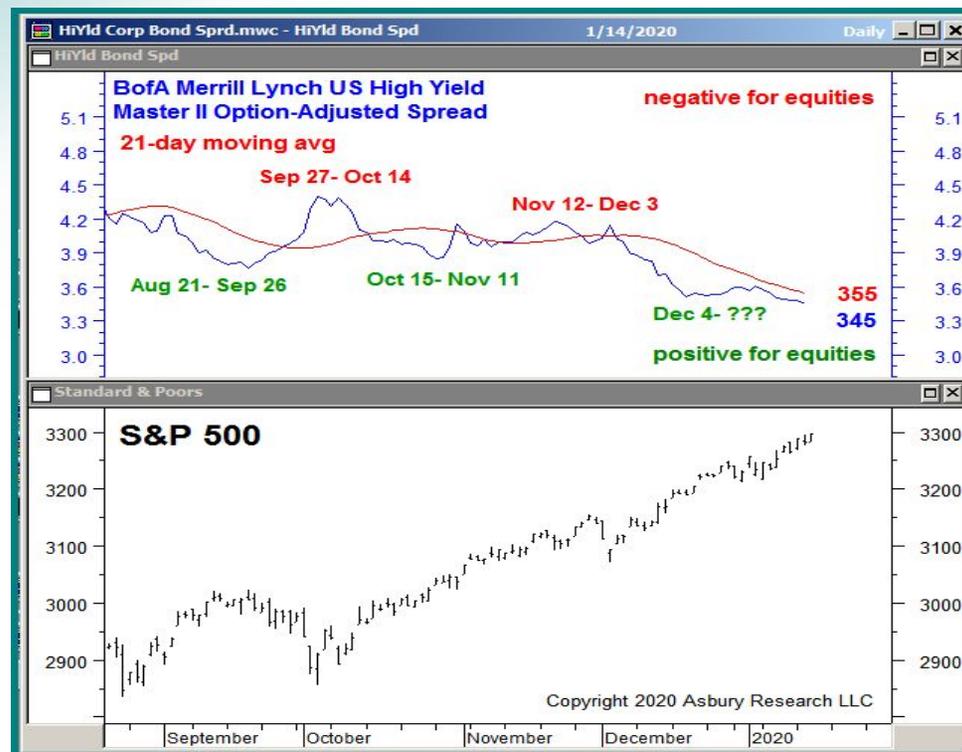
**ETF Asset Flows: Near Term Positive**



The total net assets invested in the SPDR S&P 500 ETF moved back to a trend of *monthly expansion* on October 14<sup>th</sup>, characteristic of market advances.

# The Asbury 6 Key Market Internals

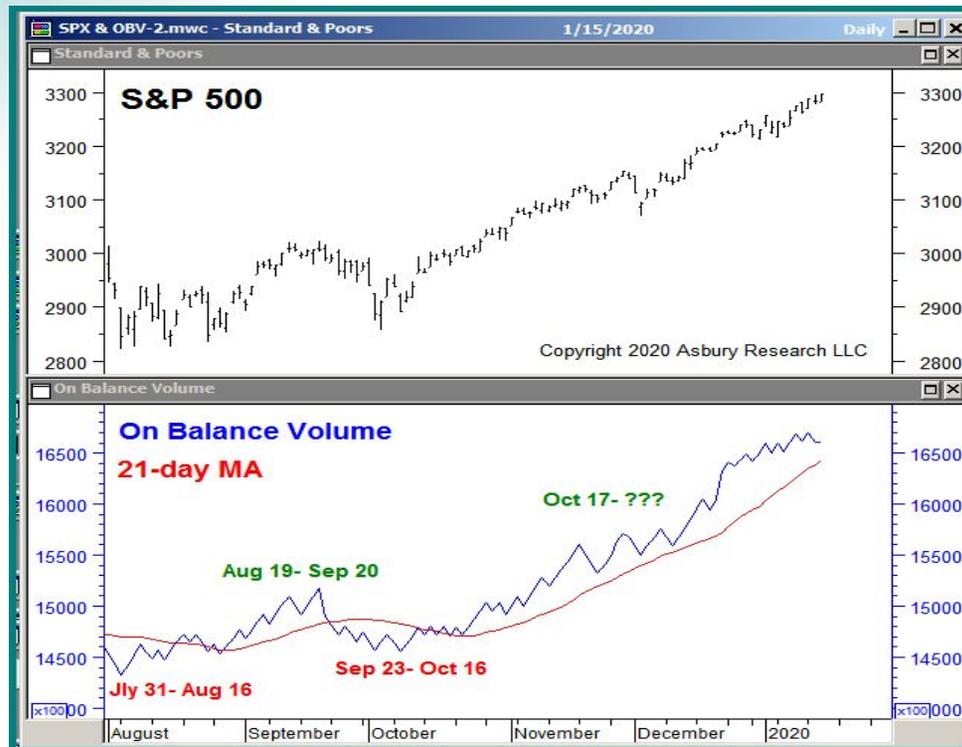
## Corporate Bond Spreads: Near Term Positive



High yield corporate bond spreads shifted back to a trend of *monthly narrowing* on December 4<sup>th</sup>. Narrowing indicates the bond market is becoming more complacent about the economy and has historically been coincident with stock market advances.

# The Asbury 6 Key Market Internals

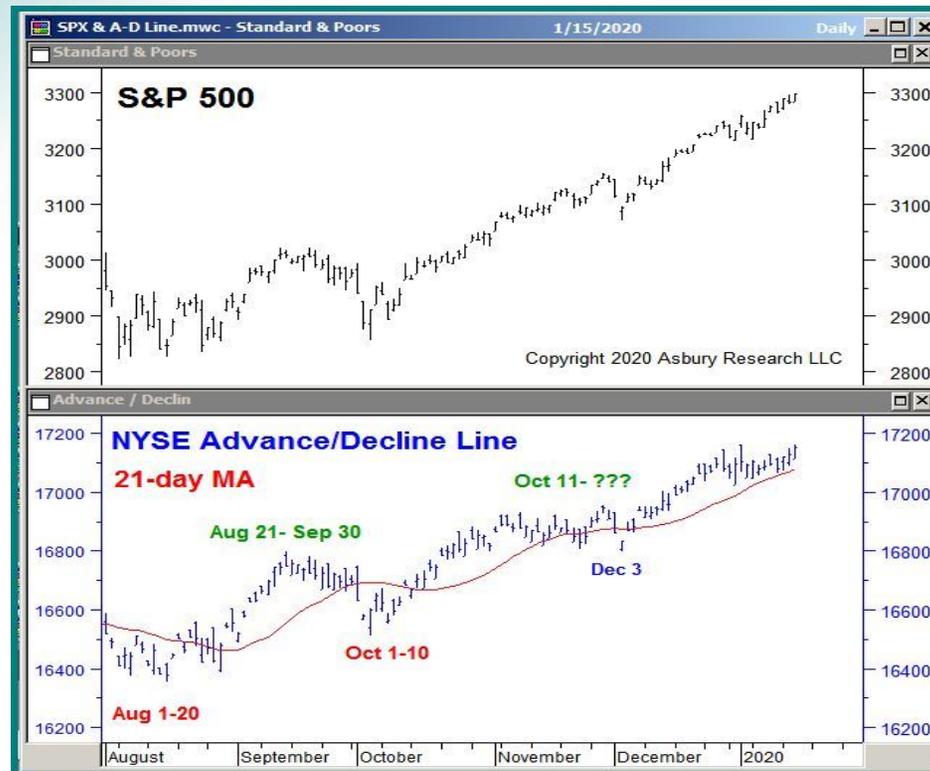
**Volume: Near Term Positive**



On Balance Volume (OBV) has been above its 21-day moving average since October 17<sup>th</sup>, indicating a trend of *monthly expansion* that has historically been characteristic of near term stock market advances.

# The Asbury 6 Key Market Internals

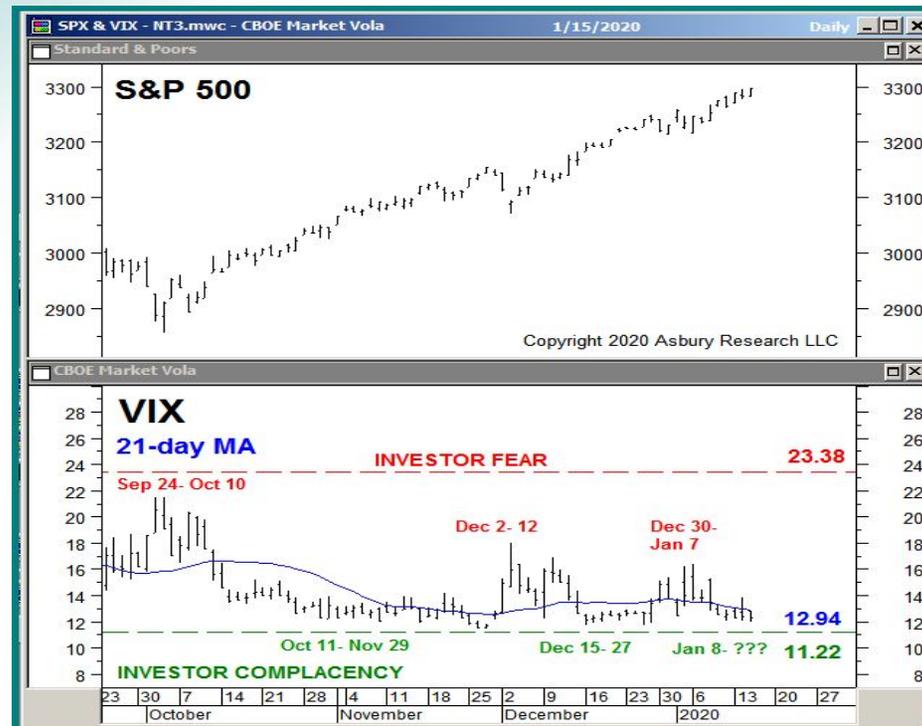
**Market Breadth: Near Term Positive**



The NYSE Composite's A/D line has been above its 21-day MA since October 11<sup>th</sup>, indicating a monthly trend of strengthening market breadth that has historically coincided with near term broad market advances.

# US Stock Market

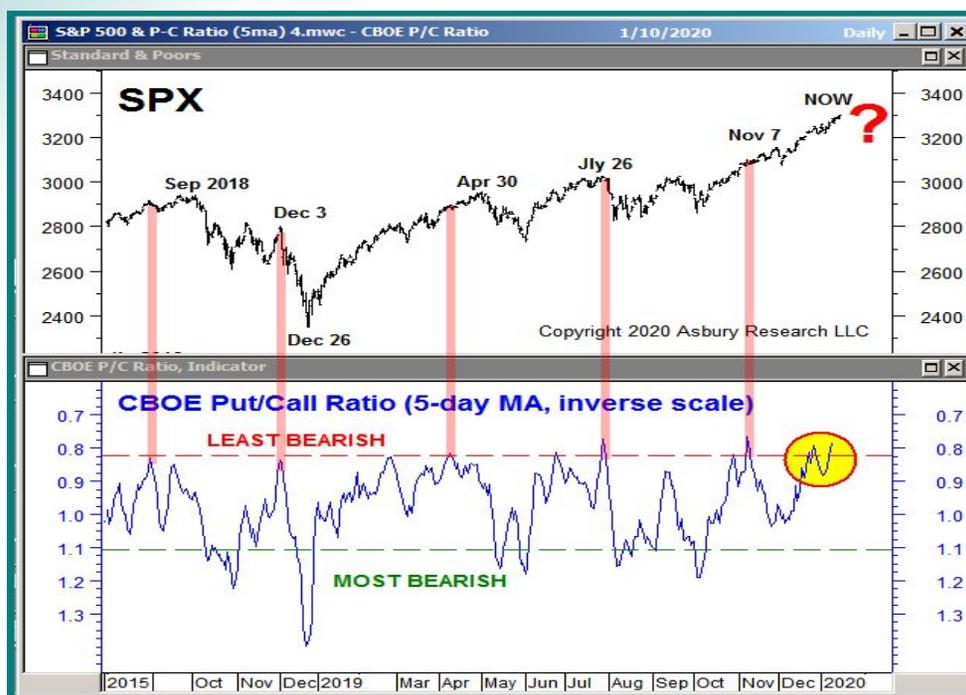
## Volatility: Near Term Positive



The CBOE Volatility Index (VIX) has recently edged back below its 21-day MA, indicating a monthly decline in volatility that has historically coincided with stock market advances. However, the VIX is also hovering just above an historic low of 11.22, which warns of an upcoming US stock market peak.

# US Stock Market

## Options Volume: Near Term Negative



The CBOE Put/Call Ratio is currently hovering at *least bearish* extremes, *indicating an historically low ratio of put volume versus call volume*. Similar extremes have coincided with or closely led most of the near term peaks in the S&P 500 since 2015.

# US Stock Market

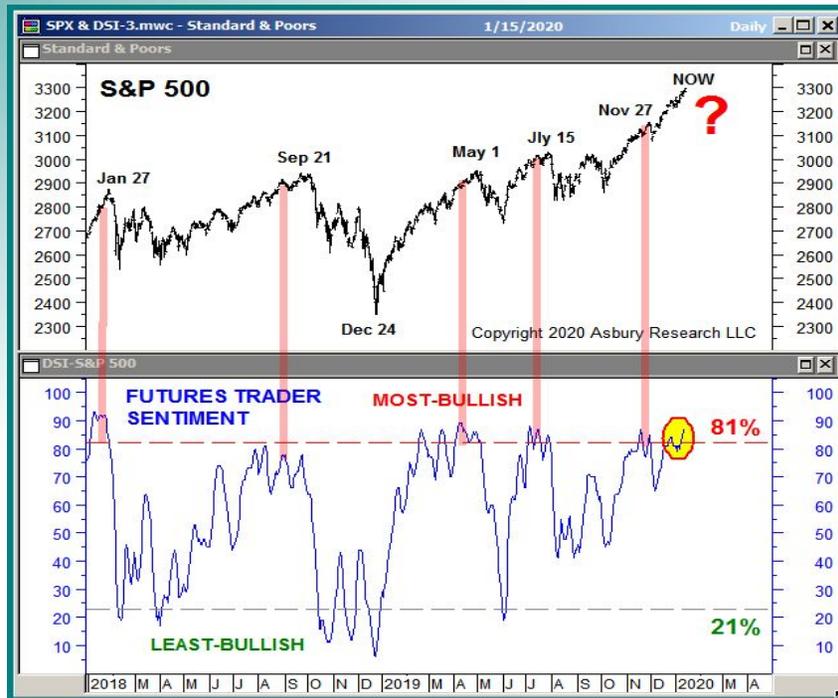
*Strategic Momentum: Intermediate Term Negative*



SPX is currently 10% above its 200-day MA, which puts it at an over-extended extreme that it has previously been reached only a half-dozen or so times since 2012. This is a strategic indication that the 2019 advance is historically over-extended.

# US Stock Market

**Investor Sentiment: Intermediate Term Negative**



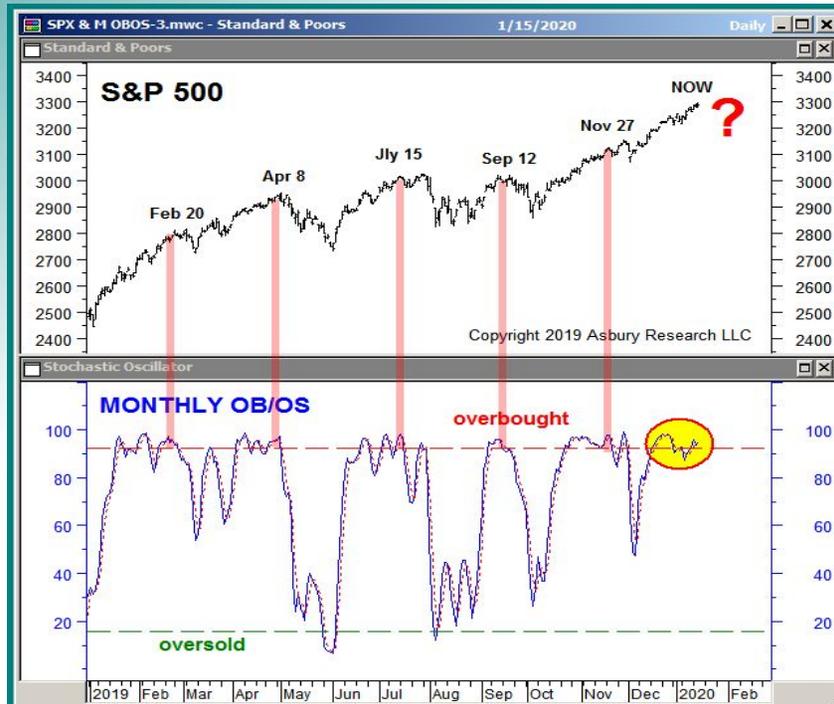
A survey of retail futures traders has reached previous *most bullish* extremes that have historically coincided with or led *intermediate term* market peaks.



A survey of stock market newsletter writers is also hovering at similar *most bullish* extremes that have often led *intermediate to long term* market peaks.

# US Stock Market

**Overbought/Oversold: Near Term, Intermediate Term Negative**



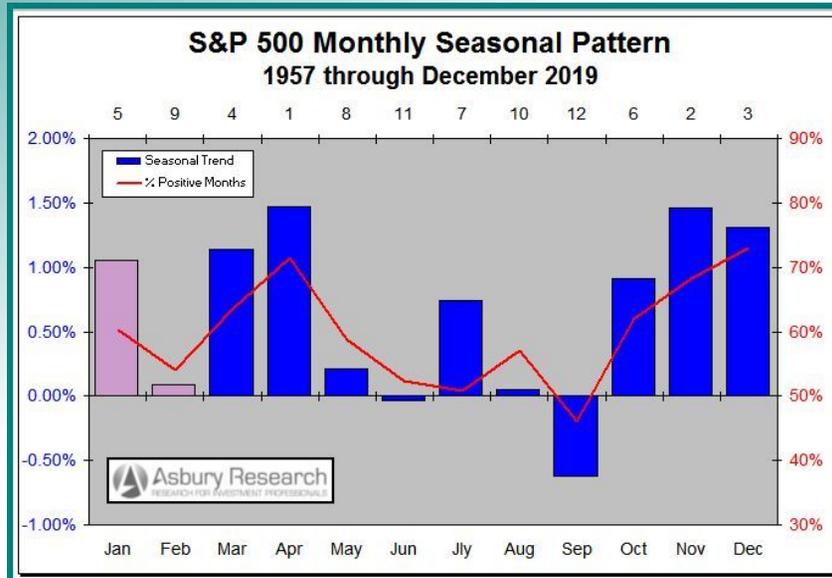
SPX is hovering at *monthly overbought* extremes that have historically coincided with or led *near term* broad market declines.



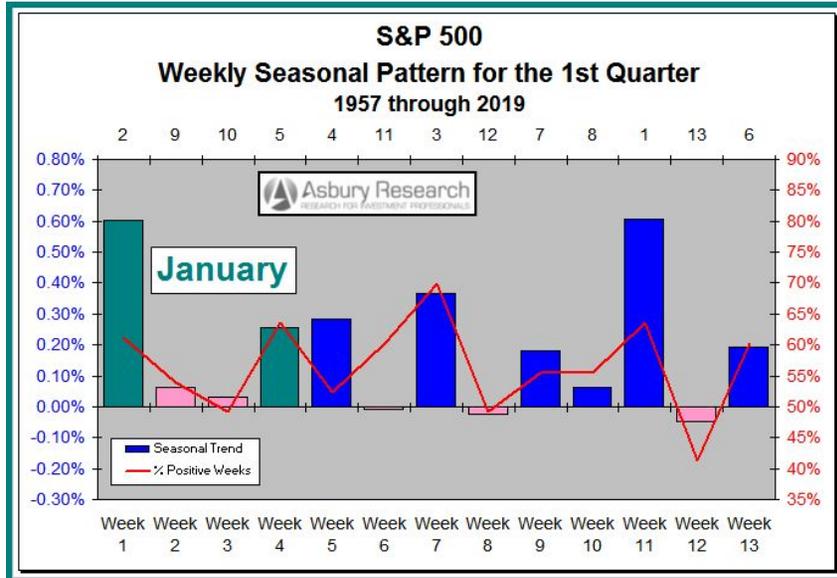
Meanwhile, SPX is also hovering at *quarterly overbought* extremes that have historically coincided with or led *intermediate term* broad market declines.

# US Stock Market

**Seasonality: Near Term Negative, Intermediate Term Positive**



This annual chart shows that January and February represent a 2-month seasonal decline in the S&P 500, based on data since 1957, that leads into March-April strength.



This quarterly chart shows SPX seasonally peaks for the 1<sup>st</sup> Quarter during the first week of January before weakening into late February.

# US Stock Market

**Style: Recent Outperformance By Growth As Risk Appetite Increases**



On Dec 20<sup>th</sup> the S&P 500 Value ETF (SPYV) shifted back to a trend of *quarterly relative outperformance* versus the SPDR S&P 500 ETF (SPY). Growth stocks often outperform in healthy market environments as investors seek strong earnings growth.

# Relative Performance

## Cross Asset Investing: Increasing Appetite For Risk

CROSS ASSET RELATIVE PERFORMANCE: WHAT IS OUTPERFORMING?							thru January 10TH, 2020	
Asset Comparison	Tickers	Trading (weekly)	Since	Tactical (monthly)	Since	Strategic (quarterly)	Since	
US Stocks or Bonds	SPY vs AGG	STOCKS	1/8	STOCKS	12/5	STOCKS	10/11	
High Beta or Low Volatility Stocks	SPHB vs SPLV	LOW VOL	1/10	HIGH BETA	12/6	HIGH BETA	10/24	
Large Cap or Small Cap	SPY vs IWM	LARGE CAP	12/27	LARGE CAP	12/27	LARGE CAP	1/2	
Growth or Value Stocks (Russell 1000)	IWF vs IWD	GROWTH	1/2	GROWTH	12/13	GROWTH	11/14	
US or Developed Markets	SPY vs VEA	US	1/3	US	12/23	US	11/14	
US or Emerging Markets	SPY vs VWO	EMERGING	1/10	EMERGING	1/10	EMERGING	12/12	
Govt or Corporate Bond Prices	GOVT v LQD	CORPORATE	1/9	CORPORATE	1/9	CORPORATE	10/11	
High Yld or Corporate Bond Prices	HYG vs LQD	CORPORATE	1/10	HIGH YIELD	12/10	HIGH YIELD	12/16	

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The table above highlights which segments of the US financial market are outperforming in both equities and fixed income. The green highlights identify changes in trend, and the date they occurred, in 3 different time frames:

- **TRADING (weekly, yellow column)**, which is the most sensitive to changes in relative market direction,
- **TACTICAL (monthly, blue column)**, which we use to enter or exit an investment strategy, and
- **STRATEGIC (quarterly, red column)**, which we use to identify intermediate term opportunity.

# Global Stock Markets

## Global Relative Performance: The US vs. The World

S&P 500 vs THE WORLD: WHICH COUNTRY IS OUTPERFORMING? thru January 10th 2020							
S&P 500 (SPY) vs:	Ticker	Trading (weekly)	Since	Tactical (monthly)	Since	Strategic (quarterly)	Since
<a href="#">Chile</a>	ECH	CHILE	1/10	CHILE	1/10	US	10/21
<a href="#">New Zealand</a>	ENZL	US	12/31	US	1/2	US	1/9
<a href="#">Peru</a>	EPU	US	1/2	US	1/9	US	1/8
<a href="#">Australia</a>	EWA	AUSTRALIA	1/10	US	10/30	US	10/31
<a href="#">Hong Kong</a>	EWK	HONG KONG	12/27	HONG KONG	12/30	US	11/11
<a href="#">Italy</a>	EWI	US	1/3	US	12/24	US	11/27
<a href="#">Japan</a>	EWJ	US	1/8	US	12/12	US	12/12
<a href="#">Switzerland</a>	EWL	US	1/7	US	1/9	US	1/9
<a href="#">Malaysia</a>	EWM	US	1/3	US	1/8	US	6/6
<a href="#">Spain</a>	EWP	US	1/3	US	12/16	US	11/8
<a href="#">France</a>	EWQ	US	1/3	US	1/7	US	11/27
<a href="#">Singapore</a>	EWS	US	1/9	US	11/12	US	11/19
<a href="#">Taiwan</a>	EWT	TAIWAN	1/10	US	12/20	US	1/6
<a href="#">United Kingdom</a>	EWU	US	1/2	US	1/3	US	12/20
<a href="#">Mexico</a>	EWV	MEXICO	1/10	MEXICO	1/10	US	11/12
<a href="#">South Korea</a>	EWY	SOUTH KOREA	1/9	SOUTH KOREA	1/10	US	1/1
<a href="#">Brazil</a>	EWZ	US	1/6	US	1/8	BRAZIL	12/6
<a href="#">MSCI EMU (Eurozone) Index</a>	EZU	US	1/3	US	1/3	US	11/25
<a href="#">India</a>	INDA	INDA	1/9	US	12/16	US	12/6
<a href="#">China</a>	MCHI	<b>CHINA</b>	<b>1/9</b>	<b>CHINA</b>	<b>12/10</b>	<b>CHINA</b>	<b>12/11</b>
<a href="#">Russia</a>	RSX	<b>RUSSIA</b>	<b>12/31</b>	<b>RUSSIA</b>	<b>1/8</b>	<b>RUSSIA</b>	<b>1/8</b>
<a href="#">Thailand</a>	THD	THAILAND	1/10	US	1/6	US	7/23
<a href="#">Vanguard FTSE Pacific ETF</a>	VPL	PACIFIC	1/10	US	12/18	US	11/21
<a href="#">Vanguard Emerging Mkts ETF</a>	VWO	<b>EMERGING</b>	<b>1/10</b>	<b>EMERGING</b>	<b>1/10</b>	<b>EMERGING</b>	<b>12/25</b>

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Just 3 of the 24 global equities markets we track are currently outperforming the S&P 500.

# US Market Sectors: Tactical Asset Flows

**Investor Assets Moving Into Industrials & Technology,  
Out Of Consumer Staples**

ASBURY RESEARCH: ASSET FLOWS in MARKET SECTOR ETFs				January 9th 2020
Sector (Symbol)	As of 1-9-2020	Trading (weekly)	Tactical (monthly)	Strategic (quarterly)
FINANCIALS (XLF)	19.4%	17.7%	since 1/2	17.5%
ENERGY (XLE)	7.8%	8.0%	7.7%	7.7%
TECHNOLOGY (XLK)	18.3%	since 1/9	since 12/19	since 1/2
UTILITIES (XLU)	7.8%	7.7%	8.2%	since 12/12
INDUSTRIAL (XLI)	7.6%	since 1/9	since 1/9	since 1/9
CONSUMER STAPLES (XLP)	9.9%	since 1/2	since 1/9	since 1/2
CONSUMER DISCRETIONARY (XLY)	10.1%	since 1/9	10.1%	10.9%
HEALTH CARE (XLV)	13.9%	14.4%	13.8%	13.1%
MATERIALS (XLB)	2.6%	2.6%	2.6%	2.6%
REAL ESTATE (XLRE)	2.6%	2.5%	2.8%	3.1%

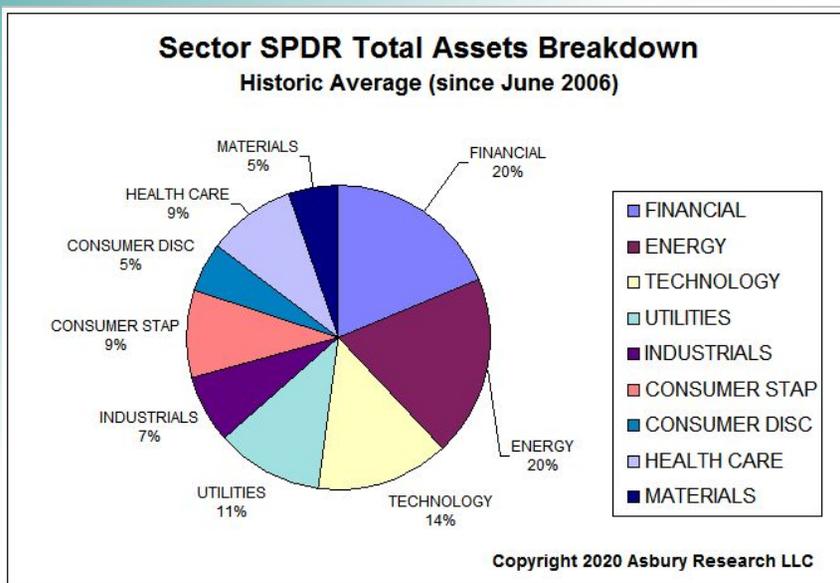
**Biggest inflows during period shown**    **Biggest outflows during period shown**    Copyright 2020 Asbury Research LLC

Trends in investor asset flows across multiple time periods typically coincide with, and often lead, directional moves in outright and relative sector performance.

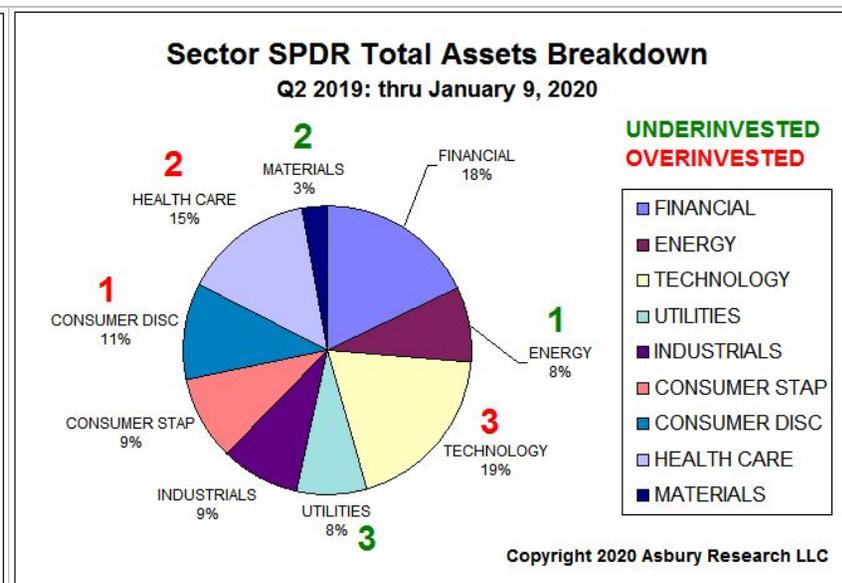
The latest data in multiple time frames show a trend of **inflows into Industrials and Technology**, and a trend of **outflows from Consumer Staples**.

# US Market Sectors: Long Term Asset Flows

**Energy, Materials Under-Invested. Cons Discretionary, Health Care Over-Invested.**



This chart shows the **historic** daily average distribution of assets invested in the original 9 Sector SPDR ETFs since the series began in June 2006.



This chart shows the **current** distribution of these assets through November 14<sup>th</sup>. The most *under-invested* sectors are **1) Energy, 2) Materials, and 3) Utilities**.

The most *over-invested* sectors are **1) Consumer Discretionary, 2) Health Care, and 3) Technology**.

# US Market Sectors & Industry Groups

## Asbury Research's Current Price Targets

SECTOR / INDUSTRY SELECTOR: CURRENT PRICE TARGETS							January 9th, 2020
Asset	Ticker	Date Initiated	Pos (Neg)	Target	Valid Abv (Belw)	Asbury Performance	
SPDR Consumer Discretionary ETF	XLY	1/6/2020	Positive	134.75	124.00	0%	
SPDR S&P Metals & Mining ETF	XME	12/9/2019	Positive	32.00	27.40	-5%	
SPDR S&P Biotech ETF (XBI)	XBI	11/21/2019	Positive	118.50	85.21	+8%	
VanEck Vectors Steel ETF	SLX	11/8/2019	Positive	40.50	36.57	+1%	
SPDR Materials Sector ETF	XLB	11/7/2019	Positive	63.70	58.83	-1%	
SPDR Energy Sector ETF	XLE	8/12/2019	Negative	50.00	61.83	-2%	
SPDR KBW Insurance ETF	KIE	4/29/2019	Positive	37.20	34.00	+7%	

The green highlights indicate ETFs with positive (bullish) price targets.

The red highlights indicate ETFs with negative (bearish) price targets.

# US Market Sectors & Industry Groups

**Materials, Biotech Target 5%, 23% Advances**



The SPDR Materials Sector ETF's Nov 4<sup>th</sup> resumption of its 2019 advance targets an additional 5% rise to 63.70.  
*Positively correlated to the S&P 500.*



The SPDR S&P Biotech ETF's Nov 22<sup>nd</sup> breakout from investor indecision has already resulted in a 10% advance, and targets an additional 23% rise to 118.50.

# US Interest Rates

## 10-Year Treasury Yields Testing Pivotal 1.70%, 2s/10s Curve Steepening?



Since July 2019 the benchmark US 10-Year Note has been situated between 2.06% and 1.50%. *The next significant move in these yields is likely to begin here.*



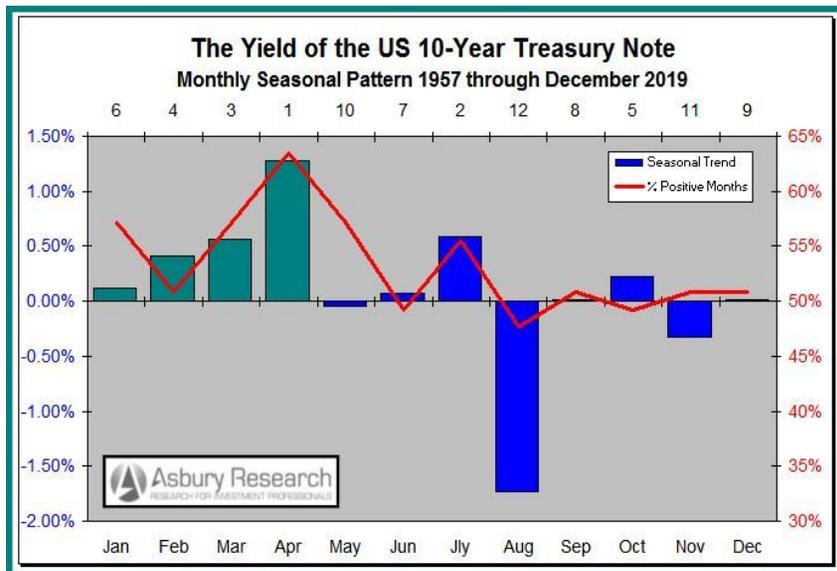
The 2s/10s yield curve has avoided inversion and as of Nov 8<sup>th</sup> has moved back above its 52-week moving average. *Emerging major steepening trend?*

# US Interest Rates

## Trader Positioning, Seasonality Support An Upcoming Rise In Yields



Retail futures traders are hovering at a 10-year most *bullish* extreme on 30-year T-Bonds that has historically coincided with important peaks in price.



January through April represents a period of gradually increasing seasonal strength in the yield of the 10-Year Note that, based on data since 1957, includes 3 of the 4 strongest months of the year.



Asbury Research

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