MAJOR TREND INDEX

By: Doug Ramsey, CFA, CMT

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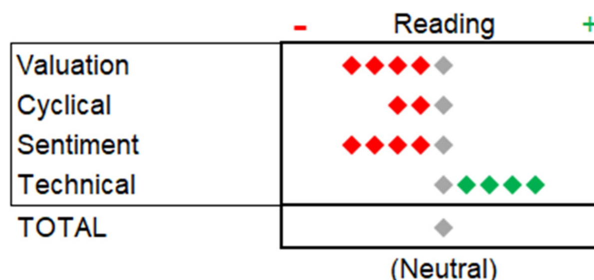
Data for Week Ending: July 26, 2024



The Major Trend Index held at a Neutral reading for the week ended July 26th. A second consecutive weekly decline in the S&P 500 failed to knock down our Technical composite from its bullish perch at +4. In fact, that category saw twice as many upgrades (10) than downgrades (5) as the market continued to broaden. The pull-back in the long-time leadership of mega-cap Tech has nicked a few our Sentiment measures, but that segment overall still scores as a near-term negative. The monetary and liquidity work—the main drivers of the Cyclical subset—remain negative, while the economic data continue to trend in a manner that looks “pre-recessionary.”

Following the 3-4% reduction implemented on July 19th, our tactical portfolios are positioned with net equity exposure of 55%.

If viewed in isolation, the stock market’s recent broadening portends new highs in the coming months. The S&P 500’s July 16th high was accompanied by a new cycle peak in the Daily NYSE Advance/Decline Line. In the last 70 years, there have only been two bull market peaks that were not preceded by at least a brief period of divergently weak action in the A/D Line. (One of those was the February 2020 pre-COVID top, which was an understandable “miss.”) In addition, breadth *momentum* at the July 16th high was exceptionally strong, with our NYSE 10-Day Moving Balance Indicator (MBI) hitting a level of 75. That’s above any reading seen at a major market peak dating back to the mid-1960s when data for Daily Up/Down Volume became available. Again, the normal expectation would be for this momentum to carry forward for *at least* a few more months. However, the extreme rotation that has accompanied this burst of momentum leaves us troubled. In the fall of 2020, a similar rotation (Large to Small, Growth to Value) proved to indeed be a bullish continuation signal. In the spring of 2000, however, a nearly identical rotation was instead a SELL signal for the ages.

Monetary conditions are negative but improving, as our measures sniff out the impending Fed rate cut. Still, a single cut following two-plus years of tightening is meaningless for the economy over the next six-to-nine months. Real-time industrial indicators like copper and the CRB Raw Industrials suggest slowing growth. On the jobs front, two measures from this morning’s July Consumer Confidence survey (“Jobs Plentiful” and “Jobs Hard To Get”) showed a dramatically weaker labor market than suggested by today’s JOLTs report for *June*. (Given its time lag and short history, we don’t understand the obsession with JOLTs.)

Some pundits, citing healthy nominal GDP and continued moderate growth in “headline” nonfarm payrolls, have argued against the need for any near-term rate cut. From an inflation perspective, they’re not wrong. But the Fed’s dual mandate often requires it to pick one over the other, and it’s obvious that—for Powell—rising unemployment now trumps sticky inflation.

Clients who have questions regarding any of the components or indicators should contact Doug Ramsey at 612-332-1567 or dramsey@LWCM.com

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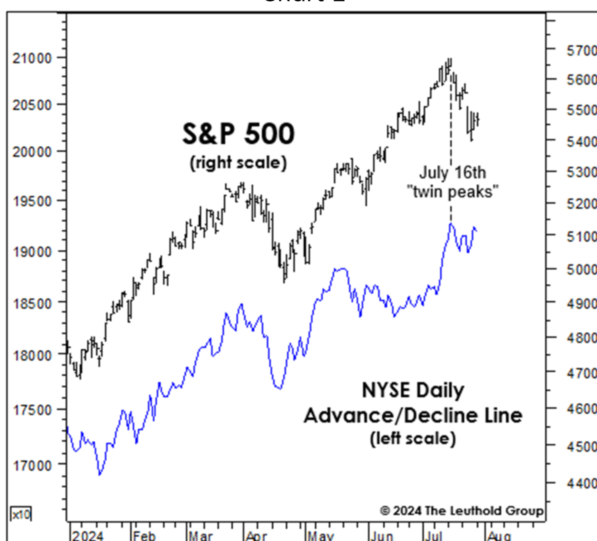
- After lagging the S&P 500 for a couple of months, the NYSE Daily A/D Line confirmed the latest high in the index on July 16th and traded generally firmer than the S&P 500 the subsequent two weeks (Chart 1). With its heavy exposure to Financials, Utilities, preferred stocks, and closed-end bond funds, the A/D Line is more sensitive to changes in interest rates than the S&P 500 or NYSE Composite. That is, in part, why it's tended to peak out in advance of the stock market. Given that traditional measures of monetary policy have been tight throughout the entirety of this 21-month bull market, the A/D Line's new high is, therefore, all the more remarkable.

Chart 1



- Under the conventional interpretation, a new high in NYSE breadth resets the bull market's clock. Since the mid-1950s, the median lead time from a peak in the Daily A/D Line to the S&P 500 bull market high has been about seven months (Table 1), while the market's median gain during this so-called "distribution" phase has been a modest 5.6%.

Table 1

Breadth Lead Times At Bull Market Peaks

Date Of Bull Market Peak In NYSE Breadth (Daily A/D Line)	Date Of Bull Market Peak In S&P 500	Length of Distribution Phase (Weeks)	S&P 500 Perf. During Distribution Phase
March 15, 1956	August 2, 1956	20	3.6
May 17, 1961	December 12, 1961	30	7.8
May 6, 1965	February 9, 1966	40	4.6
August 2, 1967	November 29, 1968	69	13.1
April 28, 1971	January 11, 1973	89	14.8
September 21, 1976	September 21, 1976	0	0.0
September 11, 1978	November 28, 1980	116	31.4
March 23, 1987	August 25, 1987	22	11.8
August 8, 1989	July 16, 1990	49	5.6
April 3, 1998	March 24, 2000	102	36.1
June 4, 2007	October 9, 2007	18	1.7
February 19, 2020	February 19, 2020	0	0.0
November 8, 2021	January 3, 2022	8	2.0
July 16, 2024	*July 16, 2024*	*0*	*0.0*
	Average (ex. 2024):	**43**	**10.2**
	Median (ex. 2024):	**30**	**5.6**

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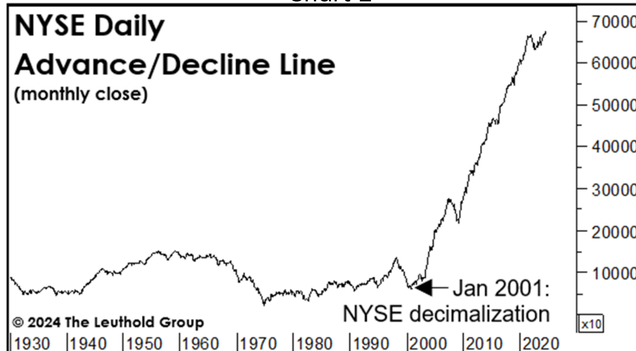
- While we wouldn't dismiss the new high in breadth out of hand, we'd remind the Technical crowd that the Daily Advance/Decline Line has exhibited a persistently bullish bias since the NYSE switched to decimalized stock quotes in 2001 (Chart 2). Note the A/D Line's lead times in advance of the 2007 and 2022 market tops were shorter than usual, at 18 weeks and 8 weeks, respectively. As noted, the absence of any warning from the A/D Line prior to the COVID collapse is understandable.

- Based on evidence supplemental to the Advance/Decline data, like equal-weighted market indexes and 52-Wk. Highs and Lows, we think the A/D Line probably overstates the market's recent internal health.

Chart 2



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- On July 17th, economists celebrated June's jump in the U.S. Industrial Production Index to a new high for this expansion. Right on cue, the best *real-time* proxy for manufacturing activity (industrial commodity prices) encountered a severe air pocket—one that's erased most of their YTD gains (Chart 3).

- From an economic perspective, the message of industrial commodities is more potent when a rally is confirmed by a drop in initial unemployment claims or—as in the current case—a *decline* is accompanied by rising claims. Claims have edged steadily higher since late April (Chart 4), and just a couple of readings north of 250,000 in the weeks ahead would almost certainly upend the current complacency surrounding the economy.

Chart 3

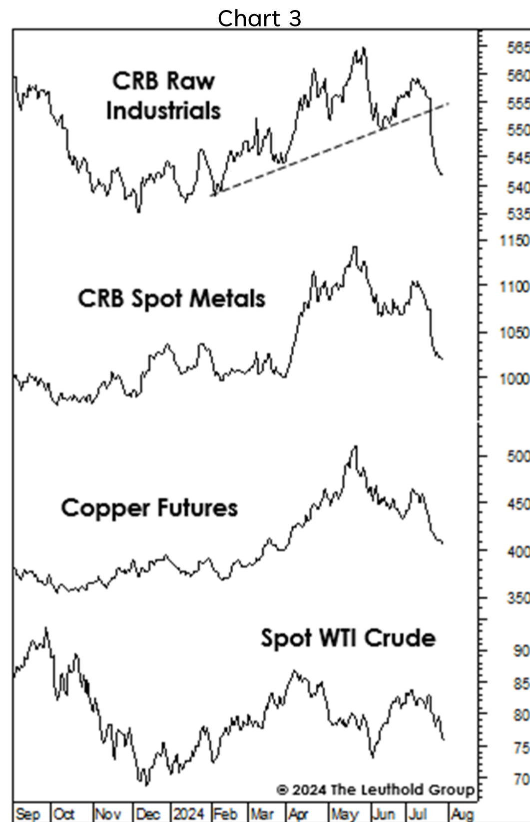
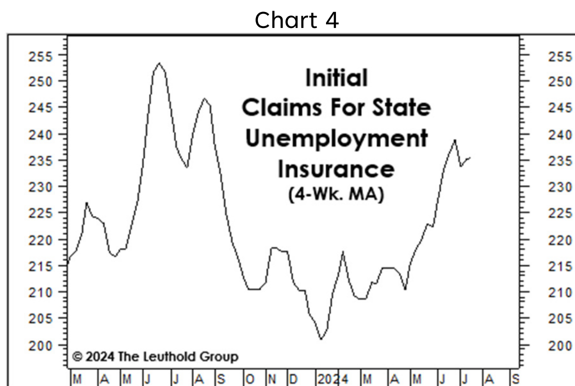


Chart 4



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