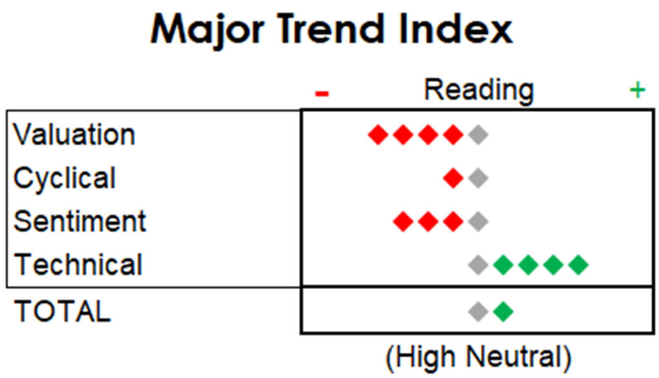
MAJOR TREND INDEX

By: Doug Ramsey, CFA, CMT

Report Date: November 26, 2024
Data for Week Ending: November 22, 2024



The Major Trend Index was unchanged at a High Neutral reading of +1 in the week ended November 22nd, and its four factor categories held steady at their recent levels. After a minor reduction in our tactical portfolios' equity hedge in early November, those accounts are positioned with net equity exposure of 58%.

The song remains the same: The stock market continues to perform better than the monetary and economic evidence would historically suggest. Despite its improvement, the Cyclical category, which tries to identify and measure that evidence, remains mildly negative at -1. Either that work has missed something, or the stock market is in a mania that's disconnected from the fundamentals. More likely, it's a combination of both. What we have probably underestimated is the extent to which massive deficit spending has been a short-term stimulant for economic growth, and financing of those deficits with extremely short-term securities (Treasury bills) has been a short-term intoxicant to market liquidity.

While our Cyclical composite failed to fully capture these short-term fiscal boosts, they've not gone unnoticed by our Technical work: That category now scores at a bullish +4, and has not dipped below +3 since early-December 2023. Furthermore, at least for now, stock market internals look *better* than the "World's Reserve Index"™ (aka the S&P 500). All of our usual bellwethers* closed at bull market highs during the two weeks following the November 11th all-time S&P 500 high. It's pretty rare to see this sort of reverse divergence (in which the "general" lags the movements of the "troops"), but we won't consider it problematic unless the condition lasts for at least a few more weeks.

The S&P 500 trades north of all of the "bubble" valuation thresholds we suggested earlier this year but—based on an average of those measures—it is still 5-6% below levels reached at the Y2K Technology peak. A break above **6,450** in the S&P 500 would earn this stock market distinction as the priciest one of all time. That fact alone suggests even the most nimble of tactical managers should be positioned below their equity exposure maximums.

*The Dow Jones 65 Composite, Dow Jones Transportation Average, Dow Jones Utility Average, Russell 2000, S&P Financials, S&P 500 Cyclical Composite**, Equal Weighted S&P 500, and NYSE Daily Advance/Decline Line.

**The S&P 500 Cyclical Composite is an equal-weighted index of the S&P 500 Consumer Discretionary, Industrials, and Materials sectors.

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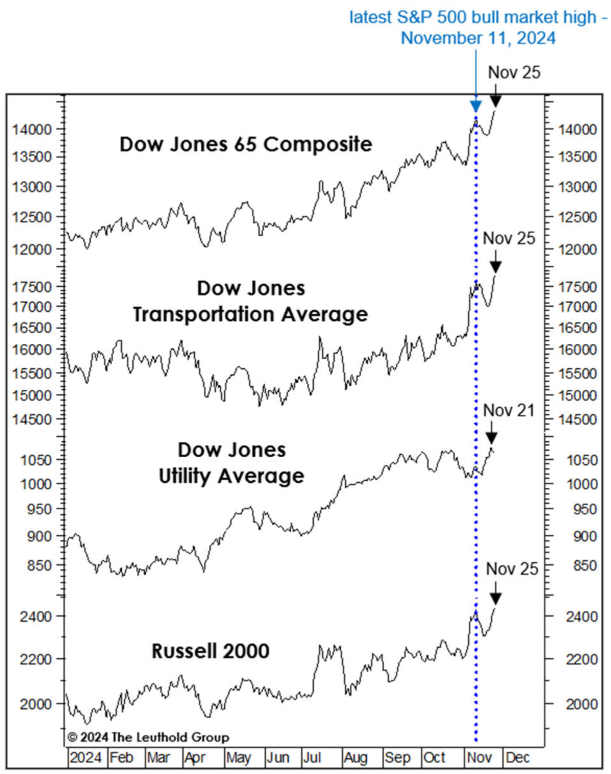
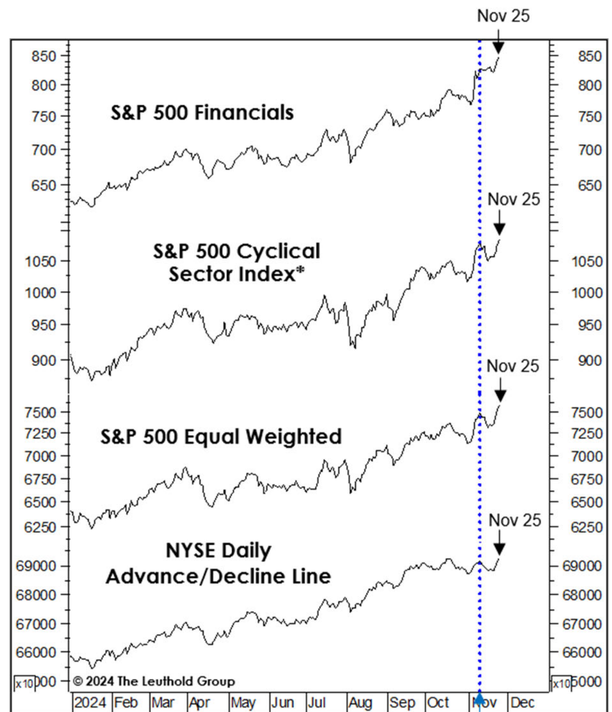
- As noted, the S&P 500 has emerged as a short-term laggard relative to the bellwethers we'd expect to forewarn of a top in that very index. It's an internal condition so rare that we wanted to capture it before it's erased by a new S&P 500 high. But it's also a sign that July's leadership inflections (Growth to Value, Large Cap to Small Cap) are continuing, albeit in fits and starts.



Daily data through November 25, 2024.



*Equal-weighted composite of Consumer Discretionary, Industrials & Materials sectors.

- The most important of the latest highs was the one recorded yesterday in the NYSE Daily Advance/Decline Line (its prior high was October 18th). Historically, this event has "reset the clock" on the eventual bull market peak. Since 1956, there's been a median lag time of 30 weeks between the peak in NYSE Breadth and the final top in the S&P 500. However, during this "distribution" phase, the index gain has usually been fairly muted (median of +5.6%). Outside of the COVID market peak, there's been only one other instance in which the A/D Line failed to turn lower prior to an S&P 500 bull market peak.

Breadth Lead Times At Bull Market Peaks

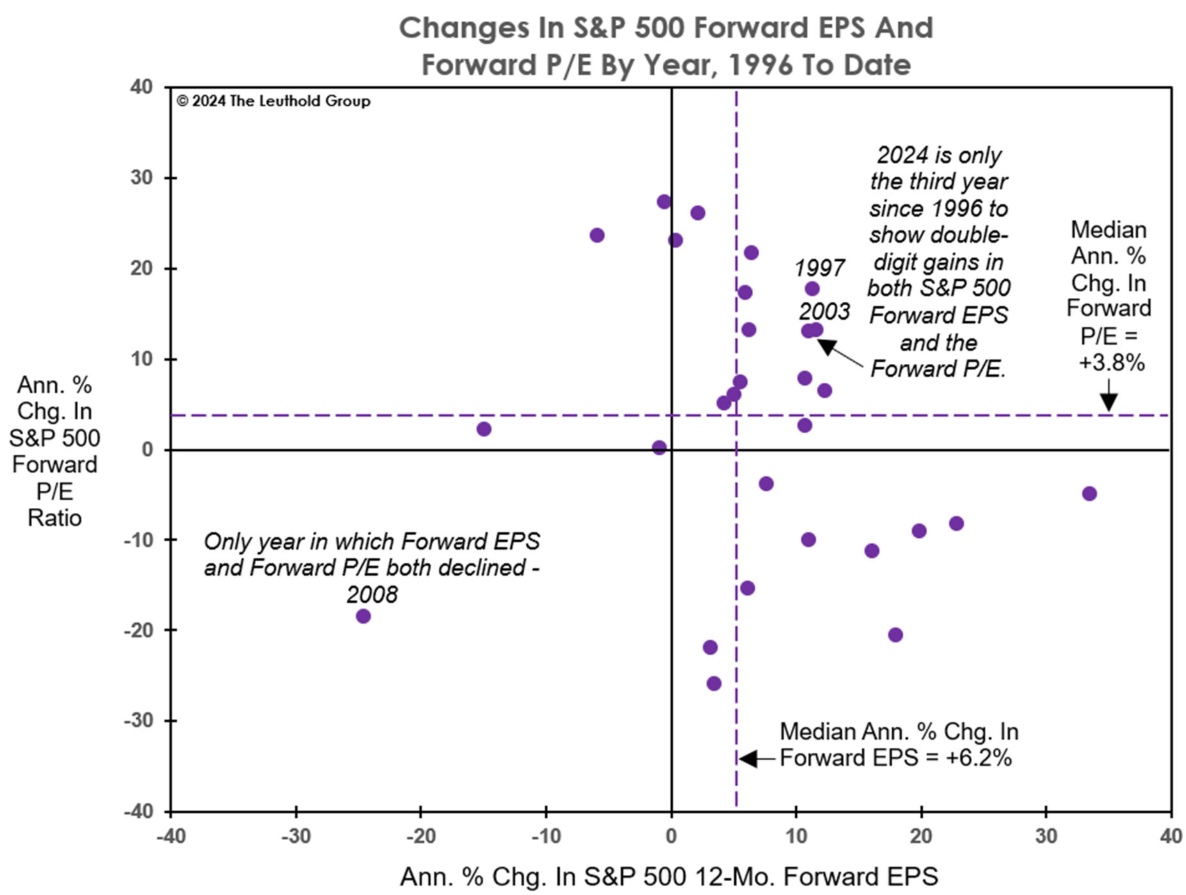
Date Of Bull Market Peak In NYSE Breadth (Daily A/D Line)	Date Of Bull Market Peak In S&P 500	Wks. Between A/D High & S&P High	S&P Perf. From A/D Peak To Price Peak
March 15, 1956	August 2, 1956	20	3.6
May 17, 1961	December 12, 1961	30	7.8
May 6, 1965	February 9, 1966	40	4.6
August 2, 1967	November 29, 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
November 25, 2024			
	Average (ex. 2024):	**43**	**10.2**
	Median (ex. 2024):	**30**	**5.6**

While S&P 500 valuations are closing in on the bubble extremes of early 2000, we'd agree that today's investor psychology is not as euphoric as it was at the pinnacle of that mania. This may be partly because the S&P 500 gain in 2024 has been pretty well balanced from a fundamental perspective:

- Year-to-date, S&P 500 12-Mo. Forward EPS (per FactSet) are up 11.1%. If the rate of increase observed over the last several weeks continues through December, there's a good chance the full-year result will be twice the long-term median of 6.2%.

- Meanwhile, the S&P 500 Forward P/E multiple of 22.1x is up 12.7% from its year-end 2023 reading of 19.6x. (Readings above 21.0x haven't been observed outside of 1998-2001 and 2020-2022.)

- Unless, there's a sharp reversal in these series, 2024 will be just the third time in the last 29 years when Forward EPS and the Forward P/E ratio have both increased by double-digit amounts in a calendar year. We'll let the bulls savor this embarrassment of riches while they can.



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