Volume 2/Issue 13
March 30, 2020

Lee Technical Strategy Newsletter

***Equities** – SPX is challenging key initial resistance at 2,651-2,664.*
***Fixed Income** – Oversold rallies are possible given the recent sharp declines. TYX to 1.80-1.94% and TNX to 1.19-1.29%.*
***Commodities** – CRB is declining to next key support at 125-126. WTI Crude is declining to 16-18. Gold is generating a potential positive outside month.*
***Currencies** – USD, EURUSD and JPYUSD appears to be returning to trading ranges.*

Technical Summary

Equities – SPX has declined 34.51% to 2,191.86 (3/23/20). Although it has briefly violated key support at 2,347-2,352 (Dec 2018 reaction low and 38.2% retracement from 2009-2020 rally) the ensuing 3/24/20 gap up and 3/23/20 positive outside week gap up hints of an oversold rally. The oversold rally will help to decide if the 3/23/20 low (2,191.86) is a real bottom. The 38.2% retracement (2,650.89) is typically the first key resistance on rallies. Above this helps to extend the rally to the 50% retracement (2,792.69). However, SPX also needs to clear above 61.8% retracement (2,934.49) to confirm a sustainable rally toward the Feb 2020 all-time high. Initial support rises to 2,301-2,344 (3/24/20 gap up), and below this to 2,191.86 (3/23/20 low). Violation of 2,192 warns of a test of major support of the 50-61.8% retracement from 2009-2020 rally at 2,030 and 1,709, respectively.

Fixed Income – Global risk aversion has driven the 30-year and 10-year US Treasury Yields to new historical lows (TYX at 0.837% and TNX at 0.398%). The question then becomes will TYX and TNX violate these key supports and decline to negative rates? Given the sharp declines over the past month oversold rallies (higher interest rates) can be expected, at least from a near-term perspective. Key initial resistance for TYX is 1.80-1.94% (50-day ma, 3/18/20 high and Feb 2020 breakdown) and for TNX it is 1.19-1.29% (50% retracement, 3/18/29 high, and 50-day ma).

Commodities – CRB Index neckline breakdown below 166.58-167.38 confirms a complex 4-year head and shoulders top and warns of next support at 125-126, and below this to 112-116 (1972 breakout). WTI Crude Oil has violated its 2016 reaction low (26.05) and the bottom of 2008/2009 downtrend channel (23). This suggests next decline to 16-18 (2001/1991/1990 lows). A Mar 2020 positive outside month in Gold, if confirmed, reaffirms a rally to its 2011 all-time high (1,923.70).

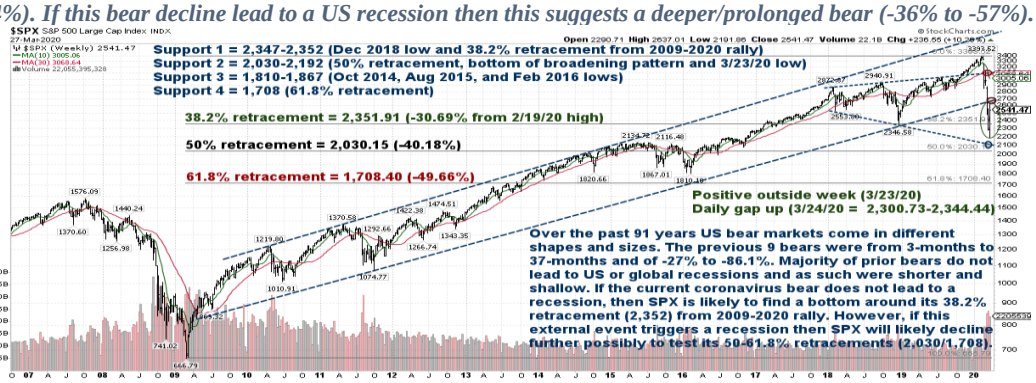
Currencies – Currency markets also experienced major dislocations. US Dollar Index traded to a high of 103.96 (3/23/20) or near its Jan 2017 highs (103.82). It has now returned to a more normalized near-term trading range of 96-97.5 and 100-101.5. EURUSD also rallied to a high of 1.1493 but is now returning to its trading range between 1.0636-1.0778 and 1.115-1.1255. JPYUSD recorded a high of 0.9870 before returning to a trading range of 0.9071-0.9152 and 0.9365-0.9383.

S&P 500 Sectors – Last week was one of the most volatile periods in history. On a relative perspective S&P 500 leaderships are concentrated within Technology (XLK), Telecom Services (XLC), Utilities (XLU), Healthcare (XLV), and now Consumer Staples (XLP). Financial (XLF), Industrials (XLI), and Energy (XLE) continue to move deeper into the lagging quadrant. Consumer Discretionary (XLY) and Real Estate (XLRE) have improved within the improving quadrant. Materials (XLB) appears to be bottoming but Industrials (XLI) and Energy (XLE) continue to lag.

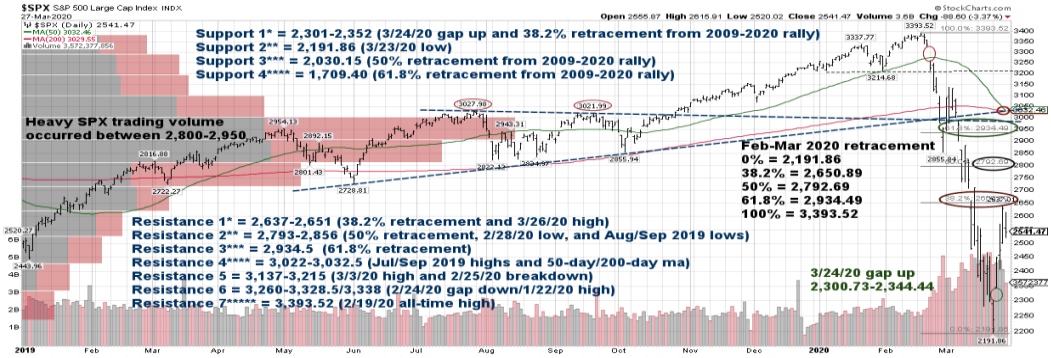
The -35.41% bear decline from Feb-Mar 2020 places this bear within the 3 previous non-recession bear markets (-28% to 34%). A gap up on 3/24/20 followed by a positive outside week (3/23/20) hints of an oversold rally to key initial resistance at 2,637-2,664 (38.2% retracement, 3/26/20 high, and extension of the bottom of 2009 uptrend channel). Initial support rises to 2,301-2,352 (3/24/20 gap up and 38.2% retracement from 2009-2020 rally), and below this to 2,191.86 (3/23/20 low). Violation here warns of much deeper decline to 2,030/1,709.

SPX Index – Long-term, Intermediate, and Near-term

There are 3 different types of bear markets – non-recession, recession, and financial/credit crisis global recessions. The current -35.41% Coronavirus bear decline is an exogenous/external event that can resemble the Oct 1987 4-mo bear decline (a non-recession bear decline of -34%) or the 9/11 external event that led to 2000-2002 Tech/Telecom bear recession decline (-50.5%). If the Coronavirus bear does not lead to a US recession or a global recession then the current decline falls within past non-recession bears (-28% to -34%). If this bear decline lead to a US recession then this suggests a deeper/prolonged bear (-36% to -57%).



SPX briefly violated its key support at 2,347-2,352 (Dec 2018 reaction low and the pivotal 38.2% retracement from 2009-2020 rally). However, a gap up on 3/24/20 and a positive outside week (3/23/20) hints of an oversold rally to 2,651-2,664 (38.2% retracement from Feb-Mar 2020 decline and the extension of the bottom of 2009 uptrend channel). Above this can help to confirm the recent bottom (2,191.86 – 3/23/20). Below 2,191.86 warns of a deeper decline to a retest of the 50% and 61.8% retracements (2,030/1,708).

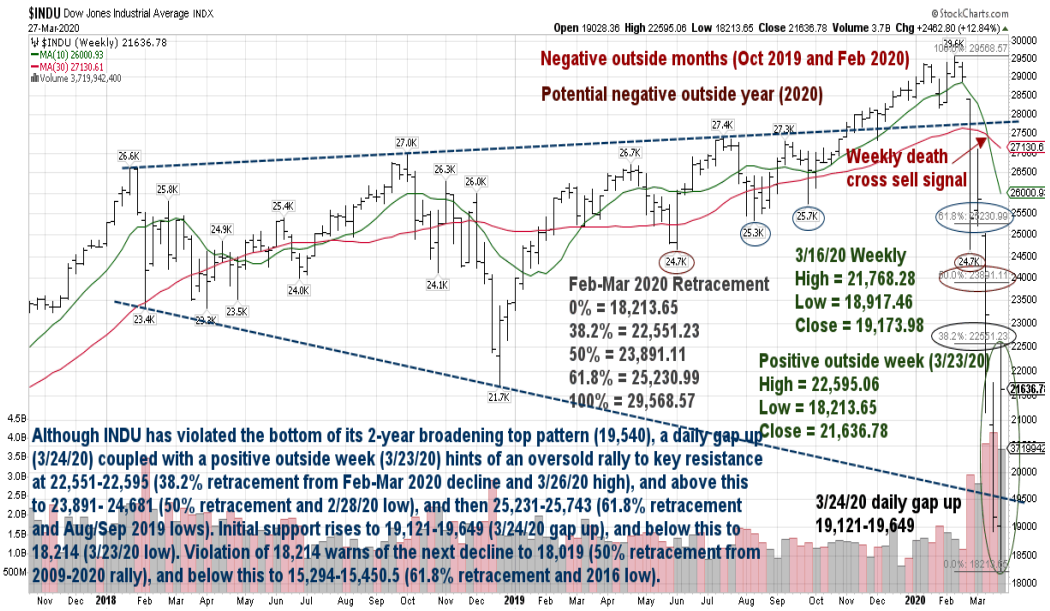


If this is not a V-type recovery then establishing a major bottom depends heavily on the quality of the oversold rally. The 3/24/20 gap up and 3/23/20 positive outside week gap up hints of an oversold rally. The 38.2% retracement (2,650.89) is typically the first key resistance. Above this extend the rally toward the 50% retracement (2,792.69). However, SPX needs to clear above the 61.8% retracement (2,934.49) to confirm a sustainable rally to the Feb 2020 all-time high. Initial support rises to 2,301-2,344 (3/24/20 gap up), and below this to 2,191.86 (3/23/20 low). Major support is 50-61.8% retracement from 2009-2020 (2,030/1,709).

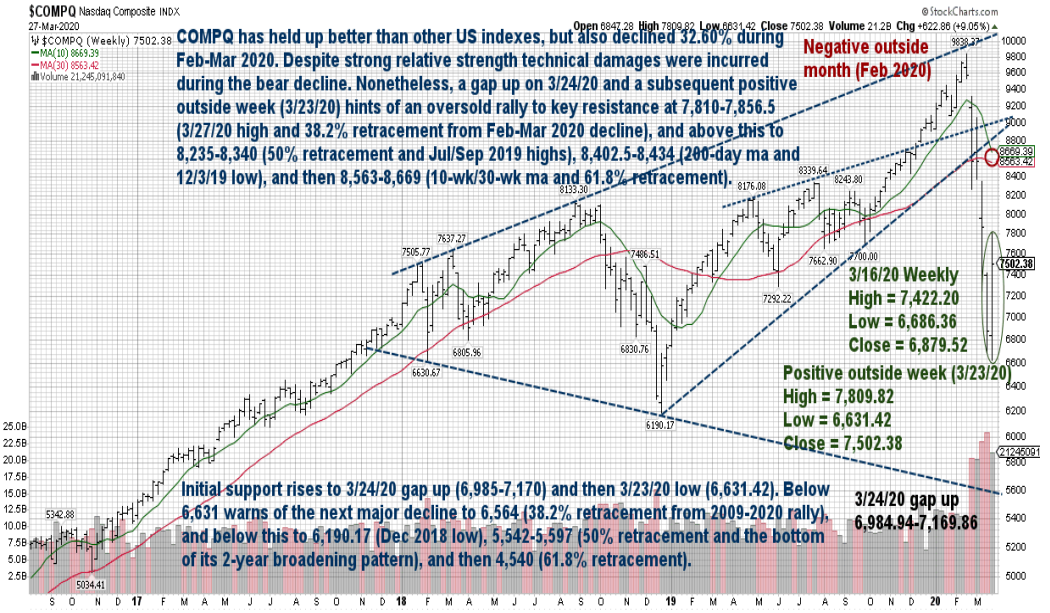
Source: Courtesy of StocksCharts.com

INDU has declined 38.40% during Feb-Mar 2020 into deeply oversold levels. A gap up (3/24/20) coupled with a positive outside week (3/23/20) hints of an oversold rally to key resistance at 22,551-22,595, and above this to 23,891-24,681. Initial support rises to 19,121-19,649 (3/24/20 gap up) and then to 18,214 (3/23/20 low). COMPQ has also declined 32.60%. A gap up (3/24/20) and positive outside week (3/23/20) suggests an oversold rally to 7,819-7,856.5, and above this to 8,235-8,340. Initial support rises to 6,985-7,170, and below this to 6,631.42.

Dow Jones Industrial and NASDAQ Composite



Dow Jones Industrial Average (INDU) has incurred technical damages on the 38.40% Feb-Mar 2020 bear decline as evidenced by a negative outside month (Feb 2020), potential negative outside year (2020), and a weekly death cross sell signal (3/9/20). Although lower INDU prices are possible, a daily gap up on 3/2/4/20 (19,121-19,649) and a positive outside week (3/23/20) hints of an oversold rally to key initial resistance at 22,551-22.595 (38.2% retracement from Feb-Mar 2020 decline and 3/26/20 high), and above this to 23,891-24,681, and then to 25,231-25,743. Initial support rises to 19,121-19,649 and then to 18,214. Below 18,214 warns of the next major decline to 18,019 (50% retracement from 2009-2020 rally) and then 15,294-15,451.

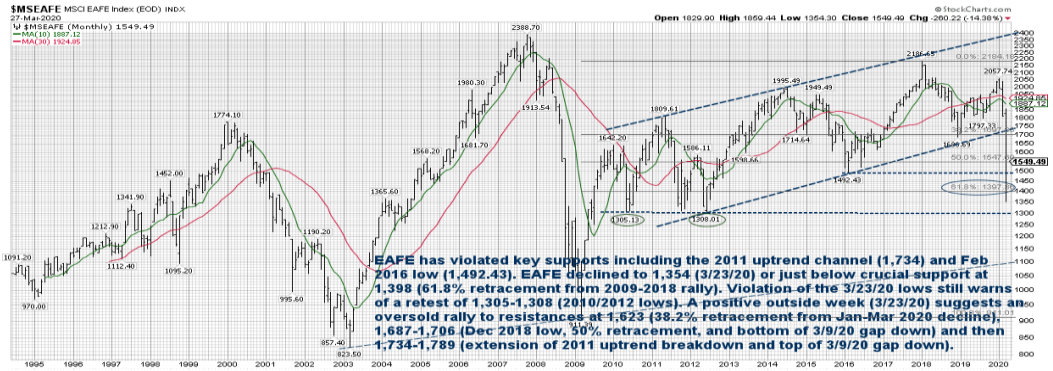


NASDAQ Composite (COMPQ) has declined 32.60% from Feb-Mar 2020s. Although it has incurred technical damages during this decline it retains relative strength leadership among the major US stock indexes. A gap up (3/24/20) and positive outside week (3/23/20) hints of an oversold rally to key resistance at 7,810-7,856.5 (38.2% retracement from Feb-Mar 2020 decline and its recent 3/27/20 high), and above this to 8,235-8,340, and then 8,402.5-8,434. Initial support rises to 6,985-7,170 (3/24/20 gap up) and then 6,631.42 (3/23/20 low). Below 6,631 warns of the next decline to 6,190, 5,542-5,597 and then to 5,540.

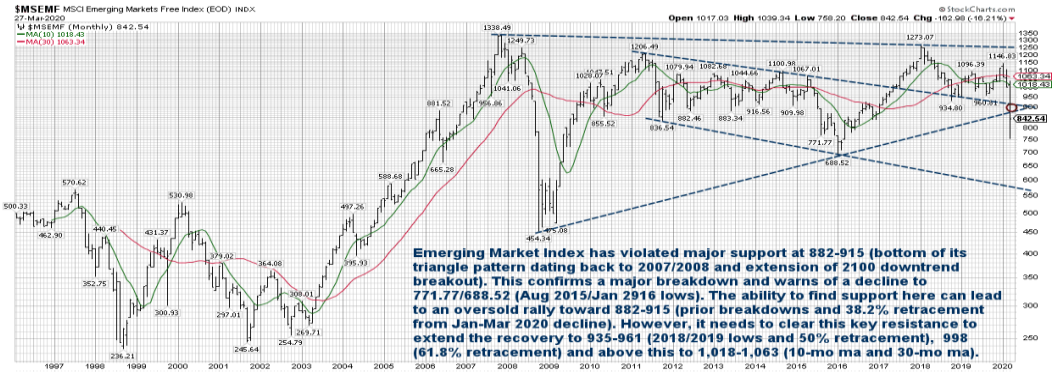
Source: Courtesy of StocksCharts.com

International equities have succumbed to deep declines over the past few weeks. EAFE has briefly violated its 61.8% retracement (1,398) from the 2009-2018 rally. However, a positive outside week (3/23/20) hints of an oversold rally to 1,623 and 1,687-1,706. MSCI Emerging Index is generating an oversold rally to key resistance at 882-915. Nikkei 225 has generated a positive island reversal (3/25/20) prompting an oversold rally to 19,315/20,100-20,300. Shanghai SSE has a potential negative outside month. If confirmed, then this warns of a major top.

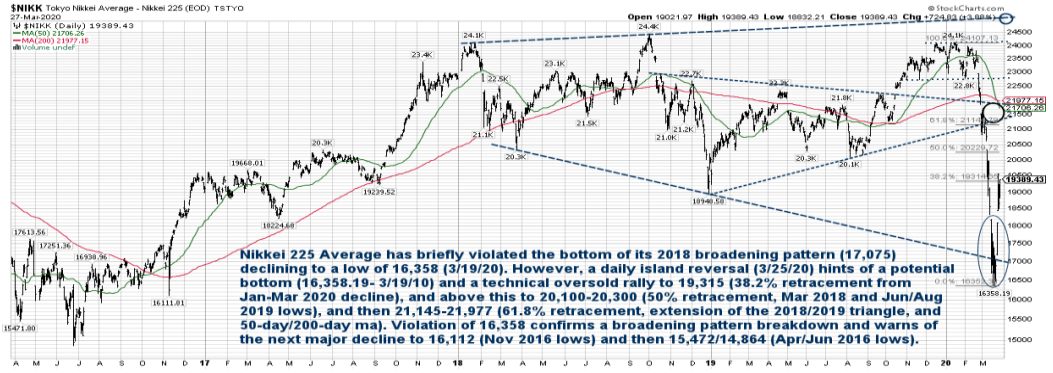
MSCI EAFE, EM, Nikkei 225, and SSE Composite



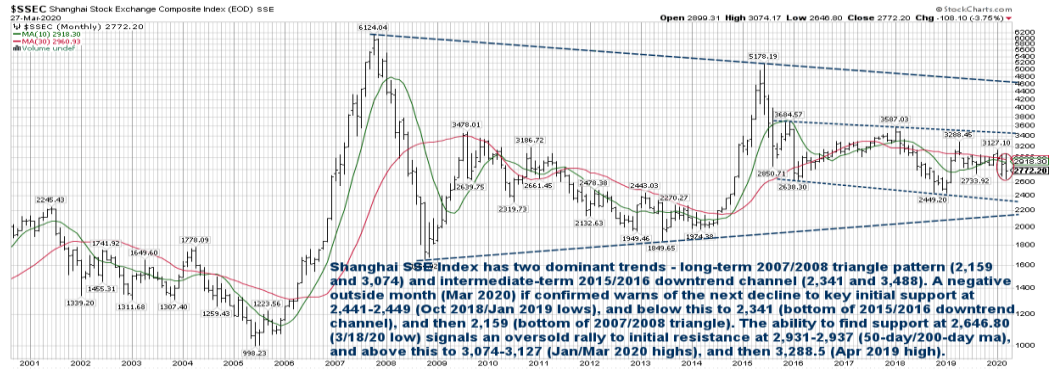
EAFE has generated a positive outside week (3/23/20) prompting an oversold rally to 1,623/1,687-1,706.



EM has broken major support. A positive outside week (3/23/20) suggests an oversold rally to 882-915.



Nikkei 225 is generated an island reversal (3/25/20). This hints of an oversold rally to 19,315/20,100-20,300.



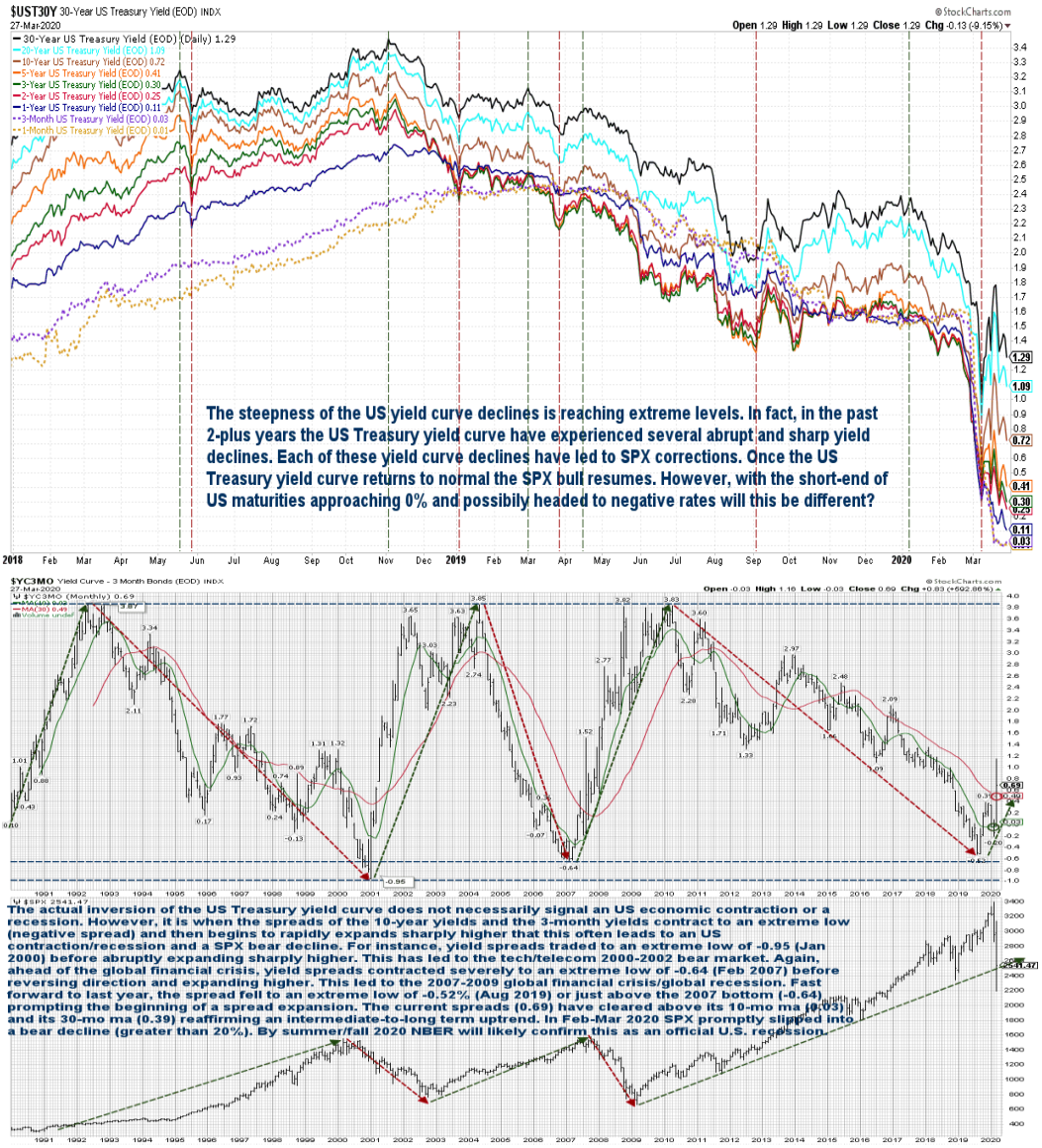
SSE Composite Index is showing a negative outside month pattern. If confirmed this warns of a downturn.

Source: Courtesy of StocksCharts.com

In the past when US yield curve experienced dislocations the ability of rates to return to normal have led to SPX recoveries and bull rallies. The key difference today is short-end of US maturities is nearing 0% and may head to negative rates. US 10-year minus 3-mo yield spreads (0.69) has broken above its 10-mo/30-mo ma thereby reaffirming an intermediate-to-long term uptrend in yield spreads. This has led to a SPX bear market during Mar 2020. NBER will likely call an official US recession by summer/fall 2020. SPX will bottom ahead of recession.

US Treasuries – Yield curve / 10-yr and 3-mo spreads

The US Treasury yield curve have never experienced the type of volatility that we have experienced during Mar 2020. Nonetheless, in the past 2-years each time US Treasury yield curve witnessed these sharp yield declines and dislocations the ability to return to normal curve have led to the resumption of the SPX bull rally. Will this be different as the short-end of US maturities trade to 0% and possibly even negative rates? The actual inversion of the US Treasury yield curve does not necessarily signal an US economic contraction or a recession. It is when the spreads of the 10-year yields and the 3-month yields begin contract to an extreme low (negative spread) and then expands sharply higher in a sustainable uptrend that this leads to an US contraction/recession and a SPX bear decline. The 10-year minus 3-mo yield spread (0.69) has now broken out above its 10-mo ma (0.03) and its 30-mo (0.49). This reaffirms an intermediate-to-long term uptrend. SPX slipped into a bear decline during Mar 2020. By summer/fall 2020 NBER will likely confirm an official US recession. Since the stock market is a leading indicator, SPX will have bottomed before the US recession.



Source: Courtesy of StocksCharts.com

The 10-year relationship between SPX Dividend Yield and 10-year Treasury yield (TNX) has been broken. TNX has violated key support at 1.46-1.51% and SPX Dividend Yield has rebounded from key support at 1.71-1.73% and is now challenging key resistance at 2.14-2.24%. Will SPX Dividend Yield peak at 2.14-2.24% and will this lead to a major bottom in TNX and an end to SPX bear decline? Spreads between SPX Dividend yield and TNX has broken out. In the past (1985, 1991, 2002, and 2008/2009) this have led to SPX recoveries or rallies.

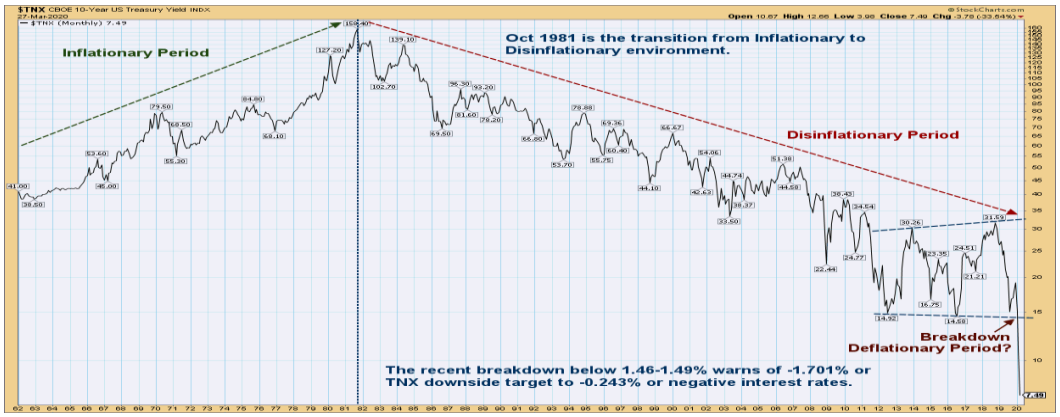
TNX, SPX Dividend Yield, SPX Dividend yield spread

TNX and the SPX Dividend Yield trend has visibly diverged from each other as TNX has broken its 2012-2016 reaction lows and the bottom of its 1980 structural downtrend channel at 1.46-1.51%. On the other hand, SPX Dividend Yield has successfully rebounded from key support along the bottom of its 10-year range at 1.71-1.73% and is now challenging key resistance at 2.14-2.24%. Does a peak in SPX Dividend Yield lead to a major bottom in TNX (yields) and an end to the recent SPX bear decline? The spread between SPX Dividend Yield and TNX has broken out of a 10-year triangle pattern. In the past, these spread breakouts (i.e., 1985, 1991, 2002, and late-2008/2009) have led to either SPX recoveries or major rallies.

Source: Courtesy of StocksCharts.com

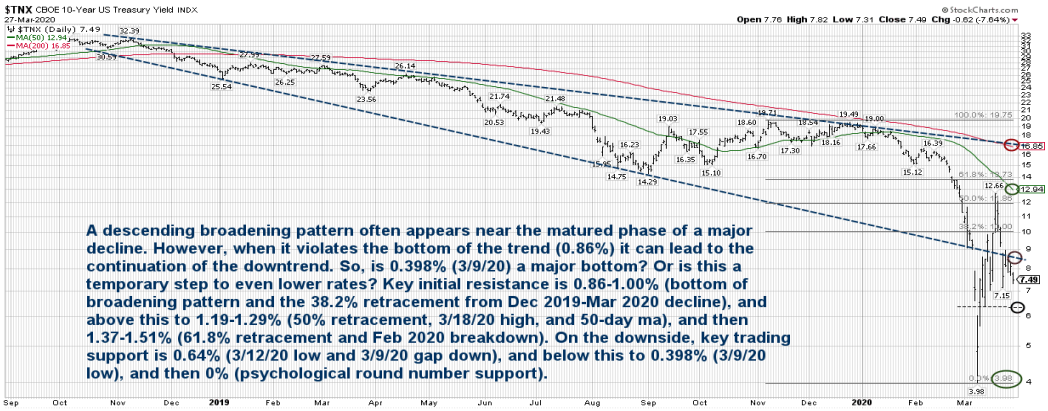
Global risk aversion has driven the 30-year and 10-year US Treasury Yields to new historical lows (TYX at 0.837% and TNX at 0.398%). The pertinent question then becomes – are US interest rates also headed to negative rates? Given the sharp declines in U.S. yields over the past month oversold rallies (higher interest rates) are possible, near-term. Key initial resistance for TYX is 1.80-1.94% (50-day ma, 3/18/20 high and Feb 2020 breakdown) and for TNX it is 1.19-1.29% (50% retracement, 3/18/29 high, and the 50-day ma).

10-year/30-year US Treasury Yields (TNX/TYX)



10-year US Treasury yields (TNX) – violation of the bottom of its 39-year downtrend channel and 2012/2016 lows (1.46-1.49%) suggests -1.70% or targets to -0.24%. Below key initial support at 0.398% (3/9/20 low) warns of a decline to 0% (psychological support). Key resistances are 1.27-1.29% and then 1.69%-1.97%.

10-year US Treasury Yield (TYX) has diverged from 30-year Yield (TNX) as early as last year. Since 1981 the US economy has been in a disinflationary environment (very low rates). Will negative US interest rates signal a structural shift from the current disinflationary period to a new deflationary period?

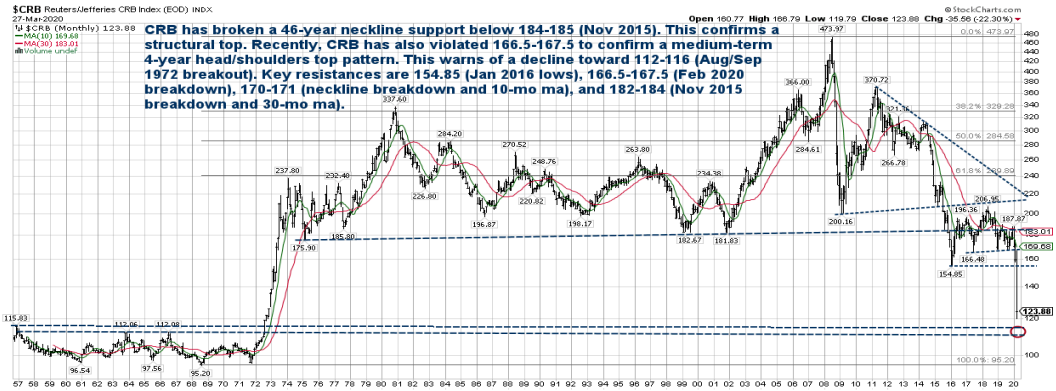


Recent descending broadening pattern (0.86%-1.72%) breakdown below 0.86% confirms the continuation of its downtrend. This suggests -0.81% or TNX to 0.64% (3/12/20 low), 0.398% (3/9/20 low) and then 0.09% breakdown target). However, an oversold rally can lead to a bounce to key resistance at 0.86-1.00% (bottom of broadening pattern and 38.2% retracement from Dec 2019-Mar 2020 decline), 1.19-1.29% (50% retracement, 3/18/20 high, and 50-day ma), and then 1.37-1.51% (61.8% retracement/Feb 2020 breakdown).

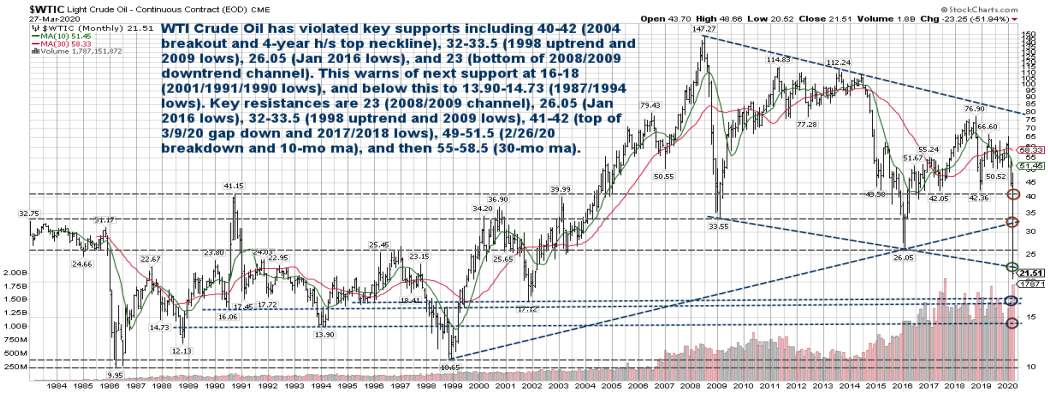
Source: Courtesy of StocksCharts.com

CRB Index neckline breakdown below 166.58-167.38 confirms a complex 4-year head and shoulders top and warns of a downside target to 125-126, and below this to 112-116 (1972 breakout). WTI Crude Oil has violated its 2016 reaction low (26.05) and the bottom of 2008/2009 downtrend channel (23). This warns of a decline to 16-18 (2001/1991/1990 lows). A Mar 2020 positive outside month in Gold if confirmed reaffirms a rally to 2011 all-time high (1,923.70). Key initial support rises to 1,592-1,613, 1,564-1,566, 1,598, and 1,446-1,451.

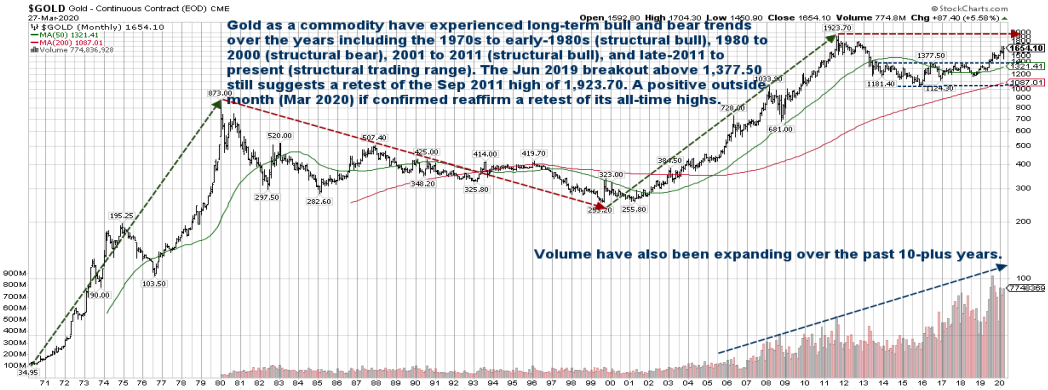
Commodities – CRB Index, WTI Crude Oil, and Gold



CRB Index – A recent 4-year head/shoulders top breakdown below neckline support at 166.5-167.5 (2/28/20) confirms a top and warns of -40.37 points or a downside target to 125-126, and below this to 112-116 (1972 breakout). Key resistances are 154.85 (Jan 2016 lows), 166.5-167.5 (Feb 2020 breakdown), 170-171 (neckline breakdown and 10-mo ma), and 182-184 or (extension of Nov 2015 breakdown and 30-mo ma).



WTI Crude Oil – Violations of key supports at 49.31-50.52 (2019/2020 lows), 40-42 (2004 breakout and 4-year h/s top neckline), 32-33.5 (1998 uptrend and 2009 lows), 26.05 (Jan 2016 lows), and 23 (2008/2009 downtrend channel) warns of next support at 16-18 (2001/1991/1990 lows). Key resistances are 23 (2008/2009 downtrend channel), 26.05 (2016 lows), 32-33.5 (1998 uptrend/2009 lows), 41-42 (top of 3/9/20 gap down and 2017/2018 lows), 49-51.5 (2/26/20 breakdown and 10-mo ma), and 55-58.5 (30-mo ma).



Gold – Gold has broken out of a major technical base on Jun 2019 above 1,370. Next resistances are 1,695-1,709 (Jun 2019 flag breakout target-achieved), 1,793-1,798 (2012 highs), and then to 1,923.70 (2011 record highs). A positive outside month (Mar 2020) if confirmed reaffirms a retest of new highs. Initial support rises to 1,592-1,613 (50-day ma and Jan 2020 highs), 1,564-1,566 (Sep 2019 highs), 1,598 (200-day ma), 1,446-1,451 (Nov 2019/Mar 2020 lows), and 1,359-1,389 (Jun 2019 breakout and Aug 2018 uptrend).

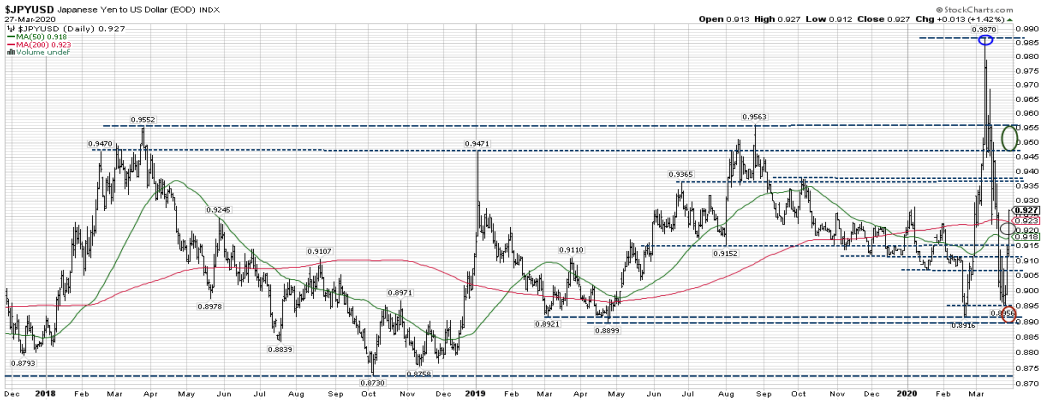
Source: Courtesy of StocksCharts.com

Major financial assets including currency markets also experienced major dislocations. For example, US Dollar Index traded to a high of 103.96 (3/23/20) or to its Jan 2017 highs (103.82). It has now returned to a more normalized near-term trading range of 96-97.5 and 100-101.5. EURUSD also rallied to a high of 1.1493 but is now returning to its trading range between 1.0636-1.0778 and 1.115-1.1255. JPYUSD rallied sharply to a high of 0.9870 before returning to a trading range between 0.9071-0.9152 and 0.9365-0.9383.

US Dollar Index, EURUSD, and JPYUSD

US Dollar Index (USD) continues with long-term recovery (10-year cup and handle pattern). However, it recently achieved its Jan 2017 high (103.82) and is now returning to its normal near-term trading range between 96-97.5 (bottom of its 2-year uptrend channel) and 100-101.5 (top of its uptrend channel).

EURUSD has failed at 1.1493 (3/9/20) or just above its 38.2% retracement (1.14) from its 2018-2020 decline thereby reinforcing a right shoulder to a 5-year head/shoulders top. However, on a near-term basis a trading range is likely between 1.0636-1.0778 (Feb/Mar 2020 lows) and 1.115-1.1255 (Jan/Mar 2020 highs).

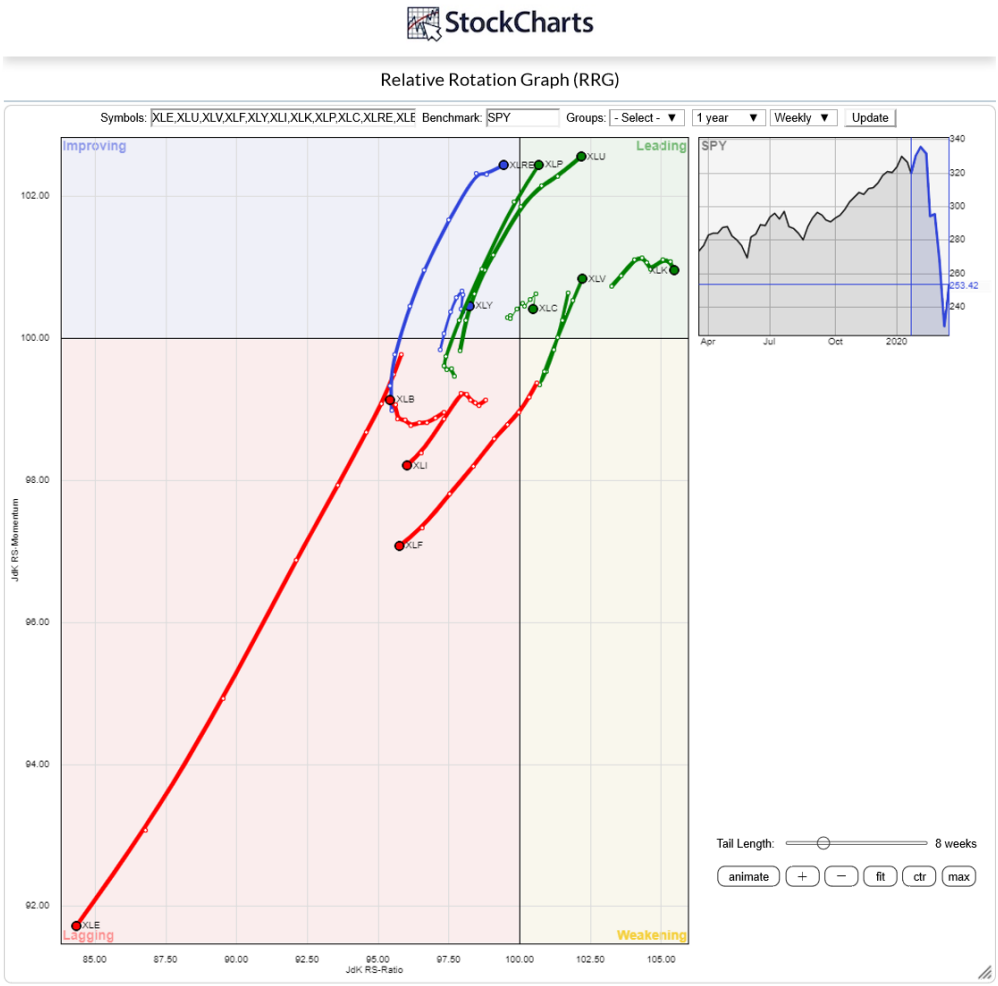


During the recent dislocations of the financial markets, JPYUSD traded briefly to a high of 0.9870 (3/9/20) or close to its 2016 high (1.0092). However, as markets began to return to normal JPYUSD sharply fell back down. It appears that JPUSD is now transitioning into two trading ranges: Intermediate-term trading range is between 0.8899-0.8956 (2019/2020 lows) and 0.9471-0.9563 (2918/2019 highs). Near-term range is between 0.9071-0.9152 (Aug 2019/Jan 2020 lows) and 0.9365-0.9383 (Jun/Oct 2019 highs).

Source: Courtesy of StocksCharts.com

Last week was one of the most volatile periods in history. Nonetheless, Technology (XLK), Telecom Services (XLC), Utilities (XLU), Healthcare (XLV), and now Consumer Staples (XLP) retain their S&P 500 leadership roles. Financial (XLF), Industrials (XLI), and Energy (XLE) continue to move deeper into the lagging quadrant. Consumer Discretionary (XLY) and Real Estate (XLRE) have improved as they move up the improving quadrant. Materials (XLB) may be bottoming but Industrials (XLI) and Energy (XLE) remain laggards.

S&P 500 Sectors – Relative Rotation Graph



8 weeks ending Mar 23, 2020

chart	visible	tail	symbol	name	sector	industry	price	%chg
	✓		XLK	Technology Select Sector SPDR Fund			78.59	-17.1
	✓		XLU	Utilities Select Sector SPDR Fund			55.68	-18.5
	✓		XLP	Consumer Staples Select Sector SPDR Fund			53.51	-14.8
	✓		XLV	Health Care Select Sector SPDR Fund			84.99	-13.9
	✓		XLC	Communication Services Select Sector SPDR Fund			42.76	-20.5
	✓		XLRE	Real Estate Select Sector SPDR Fund			31.21	-19.8
	✓		XLY	Consumer Discretionary Select Sector SPDR Fund			98.05	-21.4
	✓		XLE	Energy Select Sector SPDR Fund			28.33	-45.8
	✓		XLF	Financial Select Sector SPDR Fund			21.01	-29.3
	✓		XLB	Materials Select Sector SPDR Fund			44.26	-22.7
	✓		XLI	Industrial Select Sector SPDR Fund			58.89	-26.8
			SPY	SPDR S&P 500 ETF			253.42	-20.8

For the past 8 weeks ending Mar 23, 2020 S&P Technology (XLK -17.1%), Utilities (XLU -18.5%), Consumer Staples (XLP -13.9%), Healthcare (XLV -13.9%), and Communication Services (XLC – 20.5%) retain relative leadership roles within the leading quadrant. Financial (XLF -29.3%), Industrials (XLI -26.8%), Materials (XLB -22.7%), and Energy (XLE -45.8%) continue to deteriorate further within the lagging quadrant. Consumer Discretionary (XLY -21.4%) and Real Estate (XLRE -19.8%) have both improved within the improving quadrant.

Source: Courtesy of StocksCharts.com

Technology Leaders:

ADBE, CRM, GPN, HPQ, INTU, ***MSFT, NVDA****, PYPL, and V*

Financials:

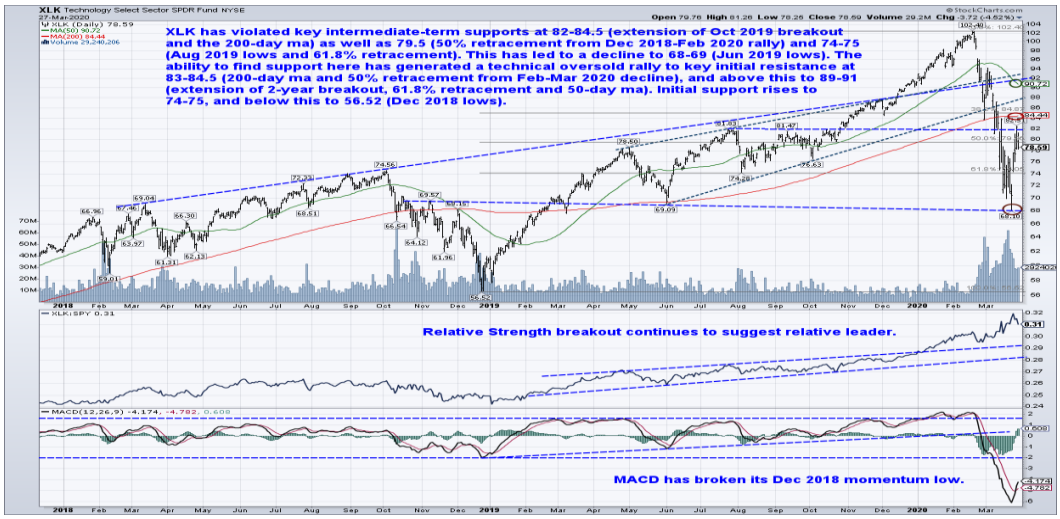
ALL, ***AJG, AON****, BLK,* ***BRKB, CME, ICE, MCO, MKTX, MMC, MSCI, PGR, SPGI****, TROW,* ***WLTW***

Communication Services:

ATVI*, CHTR, EA, GOOG, GOOGL,* ***NFLX****, and* ***TMUS***

Bold *= Relative leaders within the specific sector*

S&P Technology, Financials, Communication Services



Source: Courtesy of StocksCharts.com

Healthcare:

AGN, ***BAX***, ***BIIB***, ***CAH***, *CERN*, *CNC*, *COO*, *DGX*, *DHR*, ***GILD***, *HCA*, *IDXX*, *JNJ*, *LH*, *LLY*, *MCK*, *RMD*, ***REGN***, ***TMO***, ***VRTX***, *and ZTS*

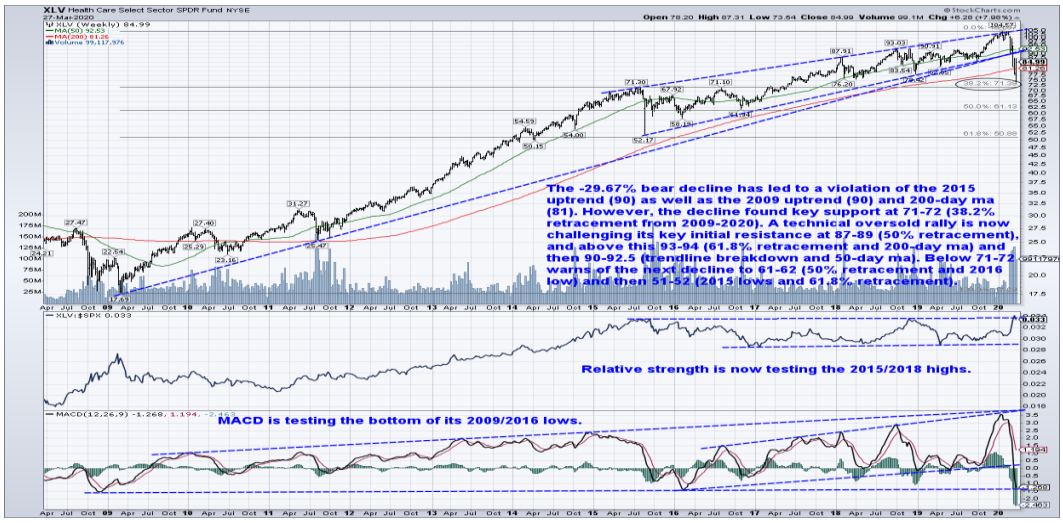
Industrial:

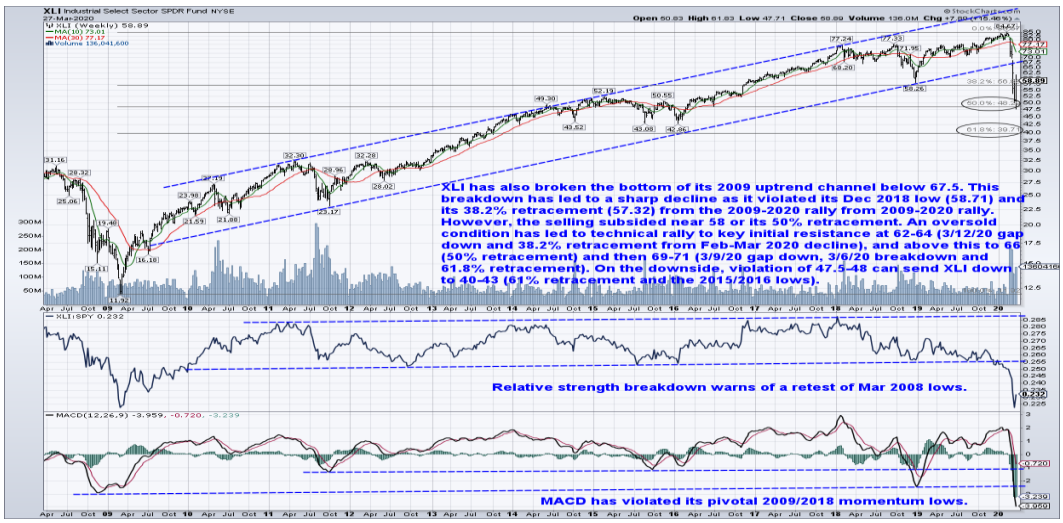
CTAS, *EFX*, ***ETN***, ***FAST***, *HON*, *ITW*, *KSU*, ***LHX***, ***LMT***, ***NOC***, ***ROP***, ***RSG***, *SWK*, *UNP*, ***VRSK***, *and* ***WM***

Consumer Discretionary:

AMZN, ***DG***, *EBAY*, ***HD***, *MCD*, *and SBUX*

S&P Healthcare, Industrial, Consumer Discretionary





Source: Courtesy of StocksCharts.com

Materials:

ALB, ***APD***, ***BLL***, *CTVA*, *ECL*, ***IFF***, *FMC*, *LIN*, ***NEM***, *and* ***SHW***

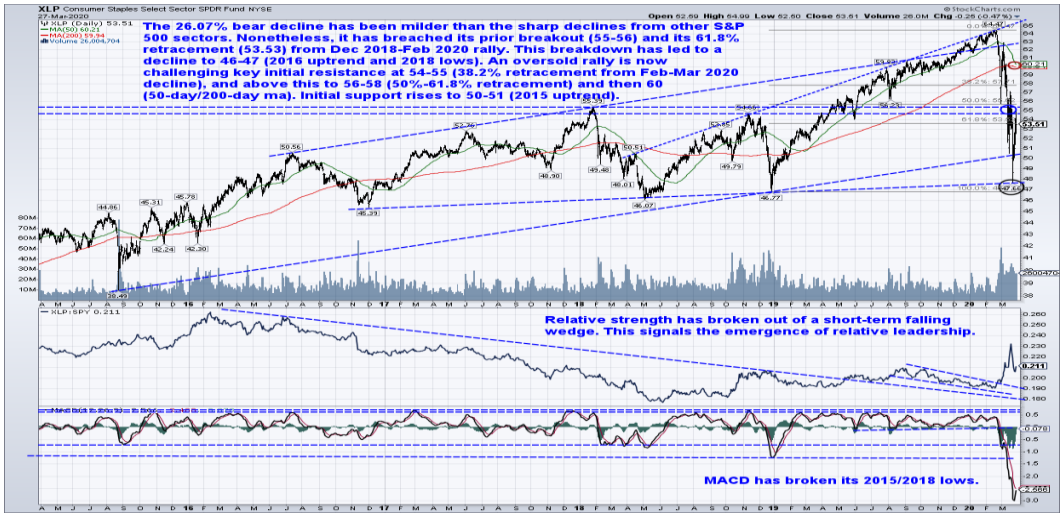
Energy:

COG, ***CVX***, *HES*, ***KMI***, *and* ***WMB***

Consumer Staples:

CHD, *CL*, ***CLX***, ***COST***, ***CPB***, ***GIS***, ***HRL***, *HSY*, ***KR***, *KMB*, *MDLZ*, *MNST*, *PEP*, *PG*, ***SJM***, *and* ***WMT***

S&P Materials, Energy, and Consumer Staples



Source: Courtesy of StocksCharts.com

Utilities:

AEE, *AEP*, ***AWK***, ***CMS***, *D*, *DUK*, ***ES***, *EVRG*, *LNT*, ***NEE***, *NI*, ***XEL***, *and* ***WEC***

Real Estate:

AMT, ***ARE***, ***CCI***, ***DRE***, ***DLR***, ***EQIX***, *and* ***SBAC***

S&P Utilities and Real Estate

Source: Courtesy of StocksCharts.com

SCTR is a relative ranking system which incorporates 6 key technical indicators covering 3 different time frames (long-term, medium, and short-term) including 200-day ma, 125-day rate of change, 50-day ma, 20-day rate of change, 14-day RSI and Percentage Price Oscillator.

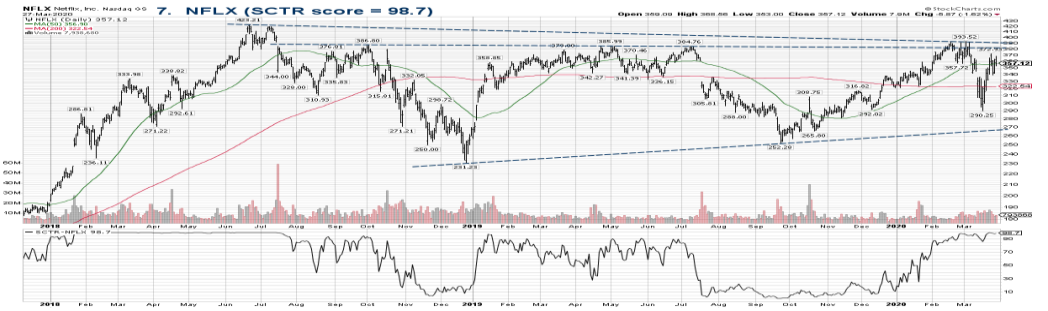
SCTR ranking of top 5 large cap stocks (CTXS, REGN, AMD, NLOK, and NVDA)

Technical Ranking (SCTR) – Top 5 Stocks (Pg. 1)

Source: Courtesy of StocksCharts.com

SCTR ranking of the next top 5 large cap stocks (TIF, NFLX, NEM, MSCI, and LLY)

Technical Ranking (SCTR) – Next 5 Stocks (Pg. 2)



Source: Courtesy of StocksCharts.com

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