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US STOCK MARKET ANALYSIS- TOP DOWN

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Analysis : October 2019

introduction

Who I Am and Why I do what I do

Brief history

My name is Mohamed Abbas Kanji. I hold a Masters degree in Investment and Risk Finance from the University of Westminster. My expertise lies in technical analysis and fundamental analysis. My interest in the financial markets began from an early age through the trading of CFD's. As my knowledge of trading grew so did my curiosity into data analysis and statistical frameworks for forecasting.
I developed risk management strategies that involved diversification of assets through the use of derivatives.

I also have experience in advising and managing family wealth for long term growth by working closely with relationship managers and selecting the right investment products through careful fundamental analysis.

My entrepreneurial background in several industries, from digital marketing to e-commerce allowed my analytical skills to grow by thinking outside the box.

I hope this analysis can demonstrate the skills I have learnt over time and help to provide an insight into where we are headed in terms of the financial markets.

Mohamed Abbas
Kanji

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About this analysis

Top Down

In this analysis we will be exploring first and foremost the economic conditions on a macro level of the United States of America.
An overview of the economic data will be analysed follow by key political issues that may have an impact on the financial markets.

The next stage will be analysing the S&P500 index with a few other economic indicators to establish a sense of where investor mindset is.

We will also take a look at key industries that have an influence on the overall health of the US economy through the use of relative ETF's. Followed by a closer look at individual stock movers.

Finally we will look at a growing interest in ESG funds, and how the ESG sphere can be used to generate wealth as well as create a better future.

Tools used

MONEY.NET

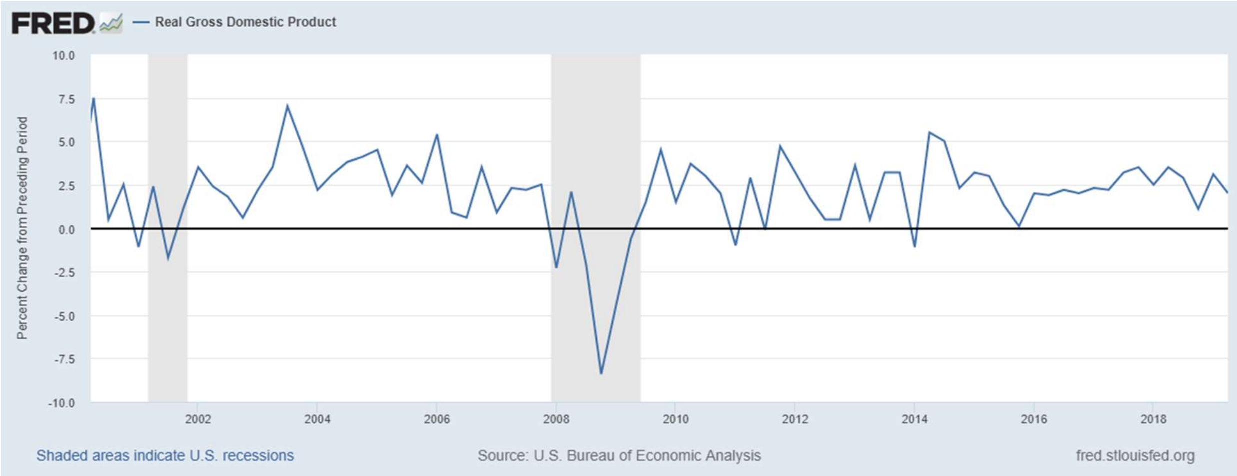
TradingView

FT FINANCIAL TIMES

Interactive Brokers

FRED ECONOMIC DATA | ST. LOUIS FED

AmiBroker



GDP Growth Rate

Q2 GDP results came in at 2% which is a lower value from Q1 results of 3.1%. The negative contributions towards the final value of GDP were from private inventory investment, exports, nonresidential fixed investment and residential fixed investment

Business investment had the steepest decline since the fourth quarter of 2015. At the same time investment in intellectual property products rose. Residential investment declined for sixth straight quarter.

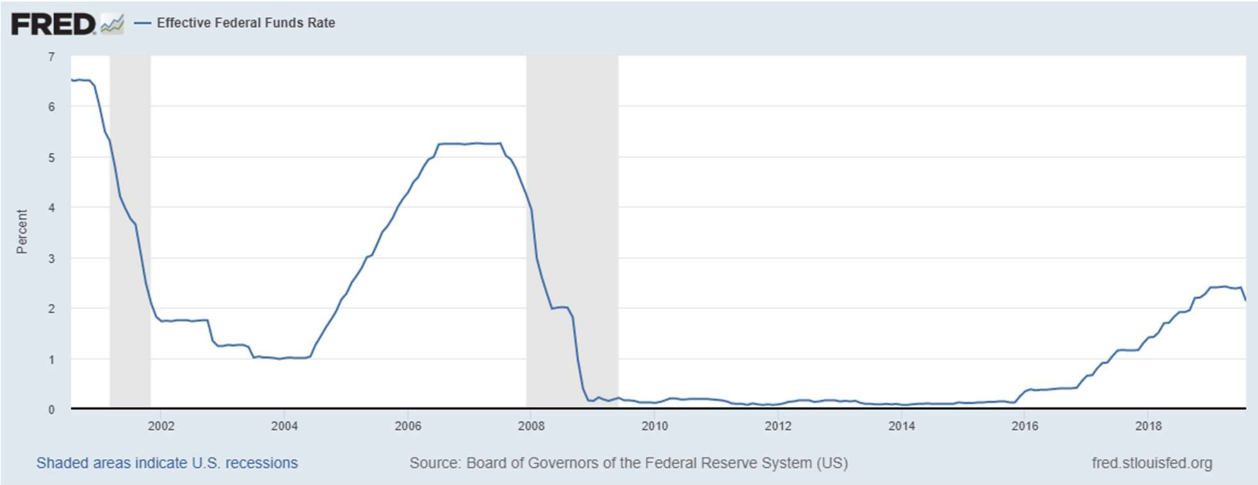
Inflation

Inflation Rates in August fell to 1.7% from 1.8% which is unexpected. However if we were to look deeper into the core inflation rate (this excludes volatile products such as energy and food), we see that the core inflation rate of 2.4% which is the highest it has been in 2019.

2019_

Low GDP
High Inflation

Interest Rate



25 basis point cut

On September 19th the FED cut interest rates by 25 basis points which was the second cut this year. The White House called for more/stronger cuts displayed by a tweet President Trump stating "[Fed chairman] Jay Powell and the Federal Reserve Fail Again. No "guts," no sense, no vision! A terrible communicator!"

A study conducted by Bloomberg indicated that investors expected 2 more cuts by the end of 2020.

The financial markets reacted to this decision with the strengthening of the US Dollar and losses in the stock market which then recovered after FED chairman Powell's dovish remarks on a strengthening economy

US Short term Lending Market Chaos

Recently the repo rate spiked up to a high of 10% (a rate that usually trades alongside the FED's target inerest rate). The chaos was calmed by a FED intervention pumping over $200 biliion into the system.
Alot of analysts thought this was an early indicator of an upcoming recession which is possible. However after further investigation into the sudden surge led to an explanation. A confluence of 2 events that led businesses to suddenly recquire excess cash. A tax deadline on 15th of September and a large auction of US T-bills caused a huge surge in cash demands.

US – China Trade War

The past few months have been littered with tug of war scare and retaliation moves towards the US-China trade war. The most recent advancement being the White House creating a plan to ban Chinese listings in the US stock market. Nasdaq responded to this by saying "One critical quality of our capital markets is that we provide non-discriminatory and fair access to all eligible companies. The statutory obligation of all US equity exchanges to do so creates a vibrant market that provides diverse investment opportunities for US investors." However investors are on edge and sentiment forces on the stock market can not be stopped from causing dents.

Total US tariffs applied exclusively to Chinese Goods:

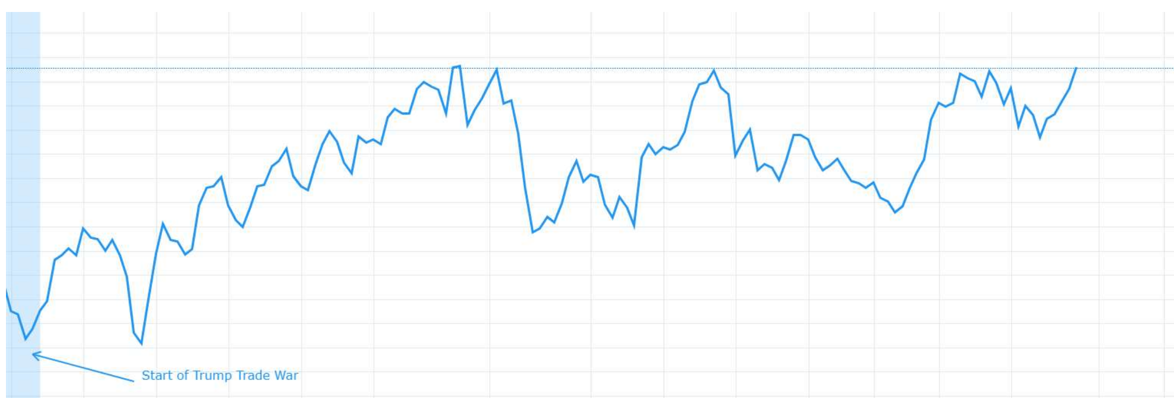
US $ 550 Billion

Total Chinese tariffs applied exclusively to US Goods:

US $ 185 Billion

The Flip Side to the Trade War

As US-China Trade War escalates, other Asian emerging countries are gaining. Exports are climbing from developing Asian countries such as Vietnam and Bangladesh. The Asian Development Bank expects growth in Malaysia, Thailand, Bangladesh, Philipines and Vietnam as the trade wat heightens. The chart below shows the Vietnamese Index.



Bond Market

Stock & Bond Rally

We can see from the chart above the relationship between bond prices and the S&P. Since the start of this year bond prices have been climbing steadily at the same time so has the S&P. The recent bond growth is also due to the recent lowering of interest rates by the FED by 25 basis points. The indication of a potential upcoming recession can be theorised with stocks falling lower and bond prices going up. We currently could be in the ending of a Stage 5 economic expansion, getting ready to slope down towards a contraction.

Yield Curve Panic

Towards the end of August the 2 Year Treasury Note was 5.3 basis points above the 10 T-bill. This was the first yield curve inversion since the March 2007. This is often used as an indicator to an upcoming rescession.

It is important to consider that the warnings towards an upcoming recession does not necessarily mean that it is within the near future. For example the 07/08 recession was detected by an inverted yield curve approximately 1.5 years before the actual recession occurred. During the lead up period to the recession markets tend to push to higher levels before a major correction.

S&P 500 – Technical Analysis

General Trend

The S&P500 has been on an upward trajectory since the start of 2019. The range of $2720 – $2730 proved to be a strong support zone as it was tested twice, once in May and the other in June. The Yearly support sits at $2350.00 It peaked at an all time high first on the 26th of July reaching a value of $3028.00. After correcting to a low of $2822.10 the all time high was tried again on the 12th of September and the 19th of September reaching highs of $3020.70 and $3022.00 respectively.

Monthly Pivot, R1,R2,S1,S2

After testing the all time high, the S1 for the month held well as it was tested twice. The values are outlined below:
P = 2920.733 | R1 = 3019.366 | R2 = 3112.233 | S1 = 2827.866 | S2 = 2729.233

S&P 500 – Technical Analysis

Consolidation

After the growth from the start of the year we can observe from the chart that the S&P is in a long-term time frame consolidation phase. Bouncing from Resistance to Support levels. These phases are in preparation for a breakout in

SPX and Nasdaq moving in tandem – both in consolidation zone

S&P 500 – Technical Analysis

Fib Levels

The retracement to the golden Fibonacci level of 61.8% (confluencing with calculated S1 Monthly levels) was tested and held well. This could be an indicator towards further upside movement once the current All time high is broken.

! Important Consideration : VIX

The CBOE Vix index measures the volatility experienced in the markets. We can see from the chart on the right that trend is lower with peaks on a downward trend line.

US Dollar (DXY) and CRB Index

DXY

The US Dollar has been on an upward trend as shown in the chart aboce through the regression trend. The lows are held by the trend-support line that starts at the low of 2018 depicted in the chart.

CRB

The CRB Commodity Index (chart below) and the DXY (chart above) can be used together to show the risk sentiment of investors in the market. When we have a downward trend on the CRB and an upward trend on the DXY we can ascertain that the market is in a RISK-OFF phase.

Industry Analysis

To get a better picture of investor mindsets and figuring out where the money flow in the financial markets are moving, we will conduct an analysis of 4 major industries.

1

Financial Industry

We will look at a broader ETF to gain an overview of the financial services market and then focus in on the banking companies.

2

Technology

We will look at a broad ETF that tracks technology companies in the US

3

Industrial

We will be looking into a market cap-weighted index of industrial sector stocks picked from the S&P

4

Consumer Retail

We will be looking into a broad based, equal weighted index that tracks stocks in the US retail industry.

Financial Industry Analysis

We can analyse the US equity broad financial market through the use of an ETF. The Financial Select Sector SPDR Fund. (XLF). XLF contains the financial heavy-hitters with an approximate AUM of $22.47 billion. Some of the data on this particular ETF is outlined on the right

Issuer : Global Street Global Advisors

Inception Date : 16/December/1998

AUM ($) : 22.47 Billion

Average Daily Volume ($) : 1.48 Billion

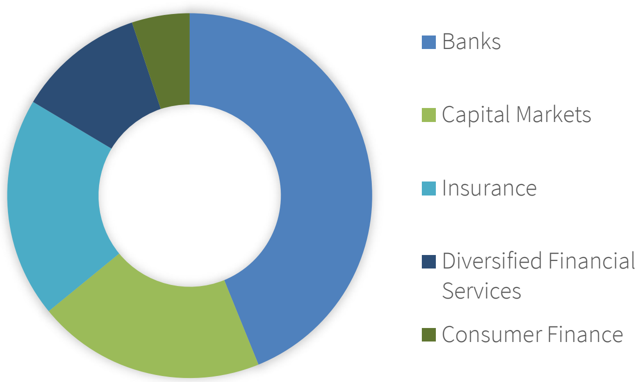
Price / Earnings Ratio : 12.71

Price / Book Ratio : 1.35

Top 10 Holdings

Berkshire Hathaway	BRK/B	12.70%
JP Morgan Chase & Co	JPM	11.71%
Bank of America	BAC	7.64%
Wells Fargo	WFC	6.13%
CitiGroup	C	4.89%
American Express	AXP	2.53%
US Bancorp	USB	2.49%
CME Group Inc	CME	2.42%
Chubb Ltd	CB	2.29%
Goldman Sachs Group Inc	GS	2.11%

Sector Analysis



Dividends

12 Month Dividend Yield : 2.01%

1 Year Dividend Growth : 17.53%

Next Divident Payment : 20th Dec 2019

Financial Industry Analysis

XLF Technical Analysis

On the longer time frame, we can see a general uptrend on the XLF ETF, depicted by the upward red trendline. We also see a support line, marked by a green box, that was tested twice similar to the earlier TA done on the S&P500.

XLF September Analysis – RSI & Fib

On the shorter time frame with a focus on September, we notice that XLF pushed to overbought levels on the RSI twice. The second time it tested September high it formed an RSI divergence which was a clear indication of an upcoming fall.
The fall held the Fib levels of 38.2% retracement following the uptrend from the start of September.

It could be possible that we are in the 5th Wave of an Elliot Wave Cycle after which we would be looking for an ABC correction followed by another possible 1,2,3,4,5 uptrend cycle.

XLF September Analysis – Price Below MA

The price of XLF fell below the 200 Moving Average line on the 20th September following news that the Chinese officials were cutting their US visit short emerged. The ETF plunged with the highest volume traded in September. This put heightened worries on the on-going trade war between US & China. What followed was price rejections twice at the 28.24 – 28.30 range.

XLF Stock Top 3 Returns:

Berkshire Hathaway JP Morgan Bank of America

XLF Smart Play

In the short term range XLF could see lower price levels before making another bull run up

2 Long Term Possibilities

Play the Bear – Protective Call Startegy

- Short XLF at spot
- Buy 1 ATM Call. (Limit losses.)

Play the Bull – Protective Put Strategy

- Long XLF at spot
- Buy 1 ATM Put (Limit losses).

Unsure Strategy – Long Strangle

- Buy 1 OTM Call
- Buy 1 OTM Put