

# Global Portfolio Strategy

## TACTICAL BUY SIGNAL HAS FLASHED, BUT NOT THE M-TERM BOTTOM

### EXECUTIVE SUMMARY

We don't normally spend a tremendous amount of time on making aggressive tactical calls, but we have had lots of questions from clients asking us to comment once our indicators did indeed flash that a trading bottom might be setting up.

Well, we got such a signal today.

### KEY POINTS

- ❖ The charts shown below (see page 3) that were included in my most recent note from earlier this week ([Publication Link](#)) have both posted positive inflections from extreme negative readings...
- ❖ ...Which historically suggests a high likelihood that a tactical trading bottom was in place that would tend to last 1-4 weeks.
- ❖ In our view, if the S&P 500 can hold its lows from 3/18, it would be further confirmation that a countertrend bounce was beginning. Importantly, we are watching 2282, which was the intra-day low on 3/18 (see page 4). If it is breached, clearly this aggressive signal was not good and more immediate downside is the most likely outcome. Traders could take a shot here with a stop out near the lows we stated earlier.
- ❖ Importantly, our medium-term indicators are still pointing to any bounce that does occur will fail (see page 5 and 6). Thus, we are NOT calling for THE sustainable investment bottom at this time. Importantly, our work still keeps us alert for a major trough about 3-6 weeks into the future.

Cons Discretionary	Above Benchmark
Technology	
Comm Services	
Financials	

Industrials	Neutral
Health Care	
Materials	
Energy	

Staples	Below Benchmark
Utilities	
Real Estate	

Please refer to Appendix – Important Disclosures and Analyst Certification

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### Conclusions

- Despite the continued volatility in equity markets and the absence of a medium-term buy signal from our key directional indicators, we are retaining our medium-term bullish view and still see current and ongoing weakness as an opportunity for investors. Our research and view of the macro landscape suggests that investors overly positioning towards defense will ultimately miss a powerful reversal that will prove challenging to forecast in advance. Therefore, we reiterate our offensive positioning with a 6-12month outlook despite these areas' continued likelihood to underperform in the short-term.
- Notably, we continue strongly espouse that investors should keep looking for attractive entry points to nibble on big down days that are providing liquidity events instead of trying to pinpoint THE bottom.
- **From an aggressive tactical perspective, our key short-term indicators have finally flashed a buy signal from some of the worst readings we have in our database, which suggests a tactical bounce is beginning (see page 3) ...**
- ...However, our medium-term work (see page 5 and 6) suggests any rally will be countertrend and likely last only 1-4weeks and fail unless peak positive cases finally occur or a viable vaccine/cure announcement has been made.
- Until that time, we remain on the lookout for important road signs for sustainable and investable bottom.

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### DIVING DEEP INTO THE TACTICAL OUTLOOK \*\*

When deep into the S&P500 by using our highest-frequency and most aggressive tactical tools — V-squared (orange line top chart) and HALO-2 (purple line bottom chart) – they both have positively inflected after reach historical negative extremes, which is a tactical buy signal. Therefore, there is a high likelihood that a short-duration bounce in the index lasting 1-4 weeks could be starting.



Source: Fundstrat Global Advisors and Bloomberg

\*\* NOTES – The proprietary Fundstrat Portfolio Strategy V-squared indicator shown in the top chart (orange line) shows the ratio of VXV (the 3-month CBOE S&P 500 Volatility Index) and the VIX (the 1-month CBOE S&P 500 Volatility Index). This tool is also useful for identifying aggressive tactical trading bottoms for the S&P 500.

The proprietary Fundstrat Portfolio Strategy HALO-2 Model, which is the purple line in the lower chart shown above, is the raw tactical data behind our standard HALO multi-factor model described on the previous page. It is useful for identifying aggressive tactical trading bottoms for the S&P 500.

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### S&P 500 OVERVIEW

With its aggressive tactical indicators showing early signs of trying to roll up, we are now focused on the 3/18/20 intra-day S&P 500 low that occurred at 2282. In our view, if the S&P 500 can hold above this level, it would be strong confirmation that a countertrend bounce was beginning. If it is breached, clearly this aggressive signal was not good and more immediate downside is the most likely outcome. Traders could take a shot here with a stop out near the 2282 low, or 2% downside risk from current levels.

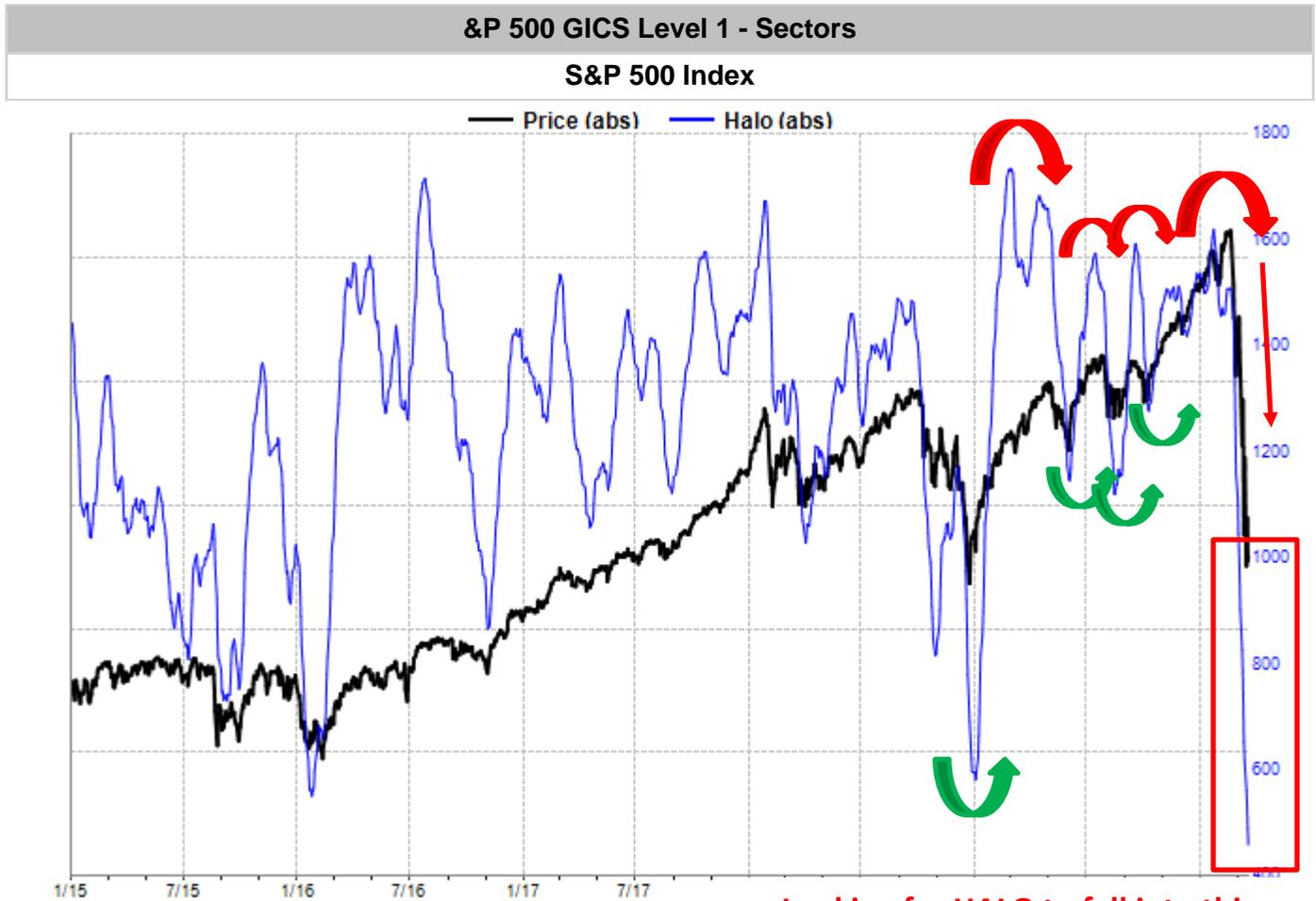


Source: Fundstrat Global Advisors and Bloomberg

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### S&P 500 TACTICAL OVERVIEW — HALO \*

Our preferred tactical model (HALO, blue line below) for the index provided four tactical buy signals since 4Q18 and three short-term cautious/sell signals, which all ended up being quite prescient. Thus, the model continues to be value-added and remains relevant. The model flashed its most recent caution/sell signal on February 20<sup>th</sup> and is still falling, which is suggesting a **sustainable bottom** is not yet in place and that the likelihood of further downside remains high. With that being said, we will be looking for HALO to bottom likely within the red box highlighted in chart below and to have a positive inflection to once again realign our tactical view with our ongoing constructive medium-term outlook for the S&P 500.



**Looking for HALO to fall into this range before next tactical buy signal**

Source: Fundstrat Global Advisors

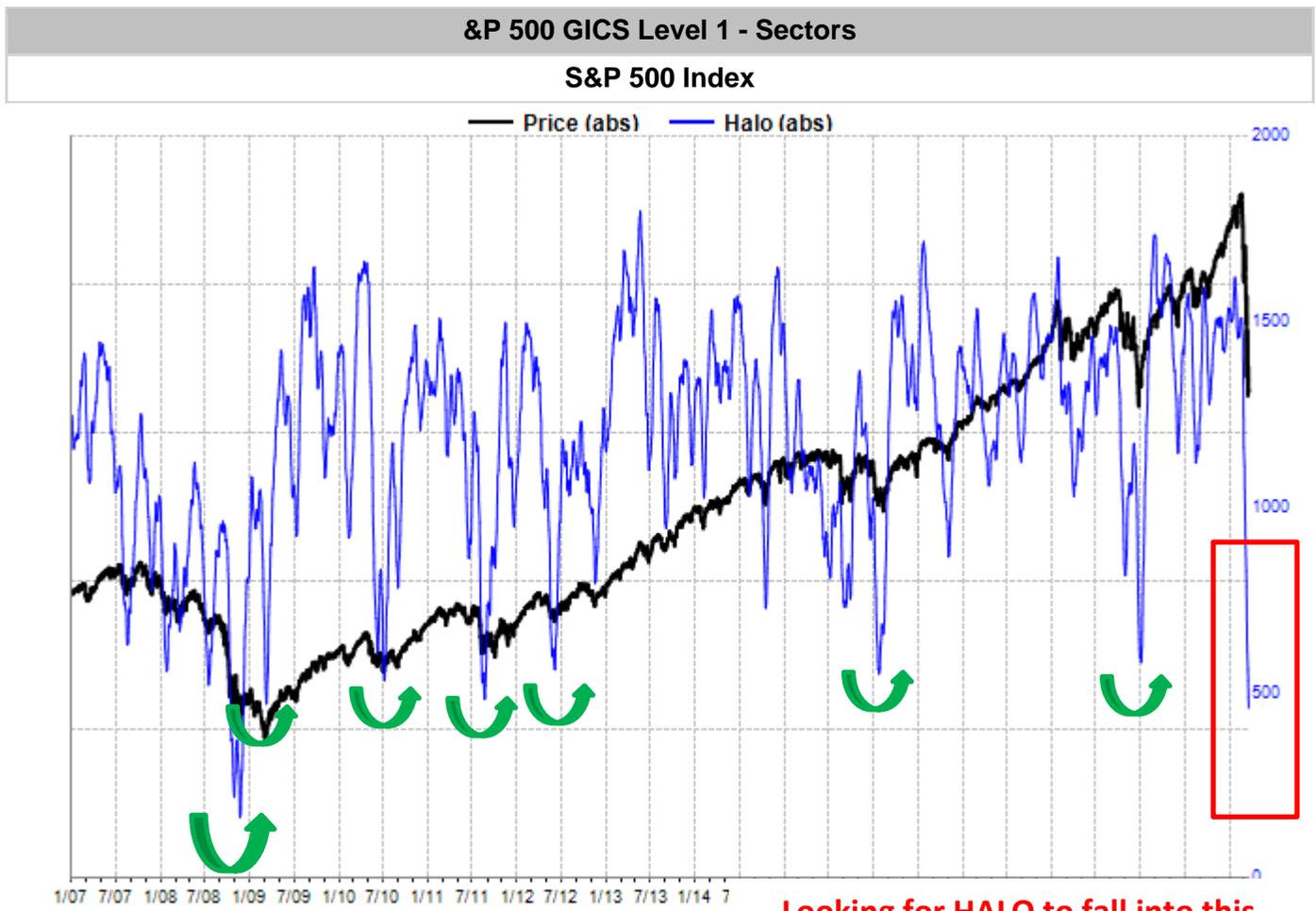
\* NOTE – The proprietary Fundstrat Portfolio Strategy Halo Model is a multi-factor model that attempts to predict the forward 1 – 6 month relative performance of a group. The goal is to help both strategic accounts better time their implementation strategies that would be consistent with our more strategic conclusions derived by our sector/sub-industry 8-panels as well as our stock specific Estimate Revisions Model (ERM), and to generate tactical ideas for aggressive trading accounts.

The model has both momentum and contrarian characteristics. When the blue line, which is the model, is trending, our proprietary tool is in a momentum phase, and our research shows a high probability that relative performance will mirror the slope of the line. Importantly, because the model is built to oscillate, an extreme reading that inflects strongly suggests that a reversal in the most recent performance trend is likely to occur.

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### S&P 500 TACTICAL OVERVIEW — HALO (LONG-TERM PERSPECTIVE)

Because the HALO reading (blue line below) is becoming historically extreme, we thought it would be interesting to show a longer term perspective. Thus, in the chart below, it can clearly be seen that HALO is now quickly approaching the level reached at the bottom of the GFC, which was the worst reading in the history of our database. We would expect to see a positive inflection either before, or at worst coincident, with a **sustainable bottom**. Importantly, contrarian buy signals that occurred below 600 have all provided positive returns for investors when looking forward 6 and 12 months. So, stayed tuned.



Looking for HALO to fall into this range before next tactical buy signal

Source: Fundstrat Global Advisors

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## SECTOR & INTRA-SECTOR IDEAS

Sectors (GICS L-1)		Sub-Industry ( GICS L-4 )	
Name	Recommendation	Favorable	Unfavorable
Cons Discretionary	Above Benchmark	Auto Parts & Equip Casinos/Hotels/Cruise Lines Restaurants Apparel, Access, and Luxury	Footwear Automotive Retail Consumer Electronics
Technology	Above Benchmark	Application Software Tech Hardware & Peripherals Semis	Electronic Equipment EMS Tech Distributors
Communication Services	Above Benchmark	Interactive Home Ent. Movies & Entertainment Interactive Media & Svcs.	Wireless Telecomm Intergrated Telecomm Advertising
Financials	Above Benchmark	Diversified Banks Regional Banks Inv. Bank & Brokerage	Insurance Brokers Life & Health Insurance Prop & Casualty Insurance
Industrials	Neutral	Capital Goods / Machinery Air Freight & Logistics Human Resources	Commercial Printing Office Services Aerospace & Defense
Health Care	Neutral	Pharma Life Sciences & Tools Managed Care	HC Technology HC Equip
Materials	Neutral	Steel Diversified Metals Metal & Glass	Forest Products Aluminum Construction Materials
Energy	Neutral	Exploration & Production Integrated Oil & Gas Equip & Services	Refining & Marketing Storage & Transport
Consumer Staples	Below Benchmark	Distillers Ag Products Tobacco	Drug Retail Food Retail Personal Products
Utilities	Below Benchmark	Gas Electric	Water Independent Power Prod.
Real Estate	Below Benchmark	Hotel & Resort REITs Diversified REITs	Health Care REITs Residential REITs

Source: Fundstrat Global Advisors

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Positive (+): The analyst expects the performance of his industry/sector coverage universe over the next 6-18 months to be attractive vs. the relevant broad market benchmark, being the S&P 500 for North America.

Neutral (N): The analyst expects the performance of his or her industry/sector coverage universe over the next 6-18 months to be in line with the relevant broad market benchmark, being the S&P 500 for North America.

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This investment research uses a Quantitative Indication system, which is designed to provide granularity to institutional investors. If there is no indication listed for a stock, the data was inconclusive and an indication could not be determined.

- ++:** Fully confirmed earnings revision trend = favorable
- P+:** Red line positive inflection, gray line not confirming yet = aggressive or early warning positive = favorable
- N-:** Red line negative inflection, gray line not confirming yet = aggressive or early warning negative = unfavorable
- :** Fully confirmed earnings revision trend = unfavorable

In addition to the Quantitative Research Indications used, this investment research may also identify particular stocks as "contrarian" (i.e., in the early stages of a new analyst sentiment trend, where little-to-no change in the stock price has yet occurred) or "in-motion" (i.e., in the mid-to-maturing stages of a new analyst sentiment trend, experiencing a degree of change in the stock price).

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