THE McCLELLAN MARKET REPORT

INSIDE

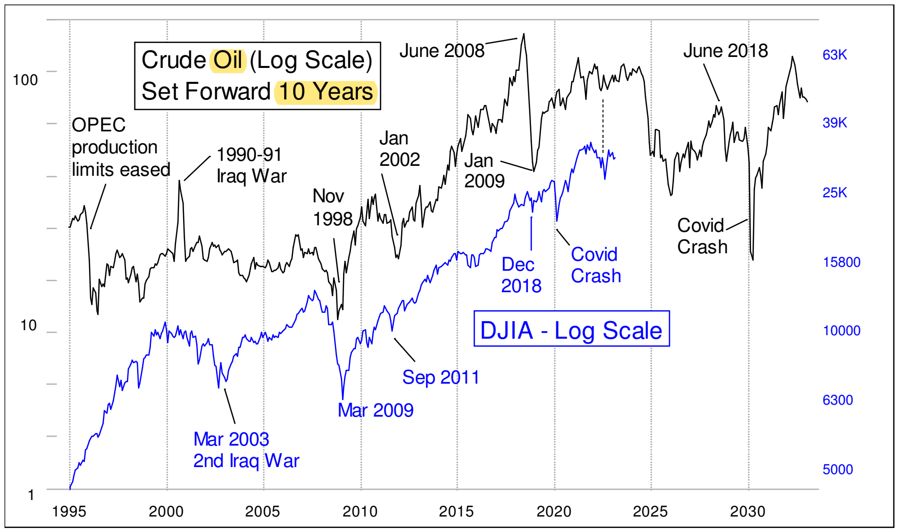
Prepared After the Market Close, March 7, 2023 Report #670, March 8, 2023

2024 Is Going To Be Ugly

We trade in the now, but need to keep one eye to the future to help know what is coming. In that regard, the news is not bullish, especially in the second half of 2024. Hadik: July 2024.....

That is the message of crude oil's 10-year leading indication, shown in the first chart. The movements of crude oil prices tend to get echoed (imperfectly) as similar movements in the stock market ten years later. The plot of crude oil prices is shifted forward in this chart by 10 years to help reveal that relationship. This is a phenomenon which has been working at least since the DJIA was created in 1896.

Sometimes big events come along which disrupt this correlation. Stock prices did not match, for example, the oil price spike in 1990, when Iraq invaded Kuwait. The Covid Crash was also an extracurricular activity, but prices have gotten back on track afterward. In similar fashion, we do not believe stock prices in 2030 are going to echo the big spike 2020 oil price drop.



But we are pretty confident in the message about a sharp drop for stocks in late 2024, which will make it hard for anyone running for reelection then. That bear market should continue through the first year of the next presidential term.

2024 also looks to be an ugly time for corporate profits generally. That is the message of the lower chart, which compares a representation of the yield curve to corporate profits as a percentage of GDP. This is profits on all companies, not just publicly traded ones, as compiled by the BEA. The key is that there is a 15-month lag in how profits respond to the yield curve.

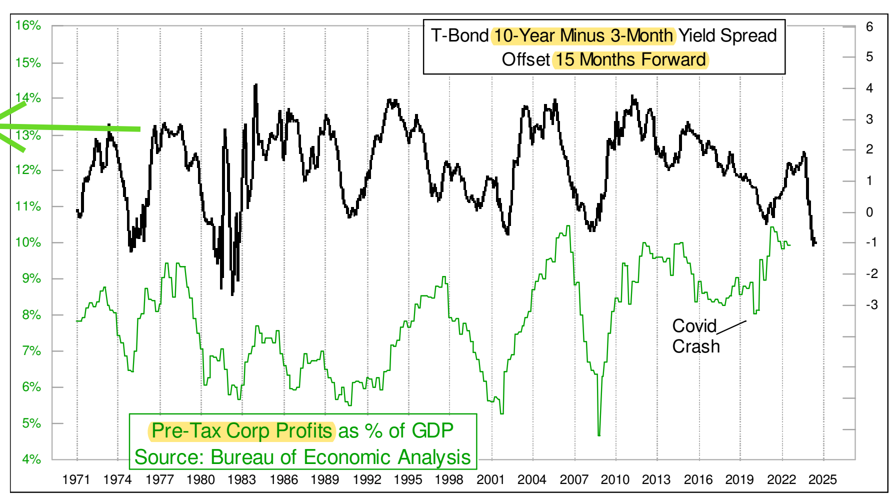
Profits got a big boost after Covid thanks to Congress throwing money at the problem (and with inflation spiking as a side effect). The recent big drop in the 10y-3m spread says that profits are likely to drop in a big way 15 months later, which is late 2023 into 2024.

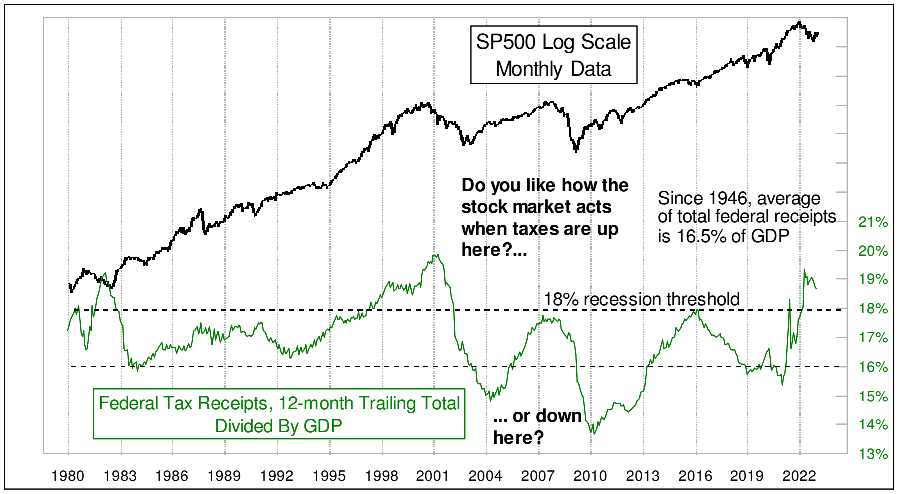
As the Fed is tightening monetary

BOTTOM LINE

2024 is going to be an ugly year for the stock market and for the economy, but we have a lot of miles to travel before then. A large cluster of bottom signals is due March 9-15, but then another bottom is also due the first week of April. That latter bottom should be the one for prices to actually go up out of, and April could be a nice month for the bulls. Just don't start thinking it is a new bull market. High taxes and the Fed are going to keep downward pressure on stock prices. Bond prices and gold prices are still in a downtrend, at least as measured in dollars. The price of gold measured in Japanese yen is in a high level consolidation, but bumping up against the upper boundary of that range and unlikely to push through for a while yet.

COT model...





policy in order to combat the inflation that Congress fed, we are simultaneously experiencing federal taxes at a recession-inducing high level. Since Social Security was introduced in the 1930s, there has been a recession that has occurred every time taxes get up above 18% of GDP. And it is also bad for stock prices, as seen in the top chart on page 2.

For stocks, that effect tends to last until taxes drop down to 16% of GDP or lower, either through tax cuts or through capital gains tax collections falling off (because of a market decline). We have a long way to go before that happens, and in the meantime, high taxes will serve to take away money that could be used to lift stock prices. Falling M2 is doing the same thing.

Bottom Line: Crude oil's 10-year message says that stock prices can chop mostly sideways into early 2024, but then things will turn ugly. The 15-month lag effect from changes in the yield curve confirms that.

Page 3 Charts

Chart 1: The A-D Line has dropped 7209 net declines since making its high on Feb. 2. It has another 2624 net declines to go to get down to the 1% Trend. Getting back below that slow moving average would put this indicator back where it lives during bear or bearish markets. The rally to the April peak was stopped just short of the 1% Trend. The August peak was above the 1% Trend but was not able to get above the April high. The February 2023 peak spent even more time above the 1% Trend, but it was not able to get above the August peak. And now it has made a lower low for the move down since last month.

Chart 2: The Daily Volume Line has been stronger and its high last month took out the April and August highs. It has dropped about 3/4 of the way down to the 1% Trend making a lower low on March 7. Notice that the Friday, March 3 top was right at the level of the low formed between the two February tops.

Chart 3: The McClellan A-D Summation Index topped in February. A few days after the top it made a pause of congested postings followed by a continuation lower. As it continued lower the uptrend line that can be drawn across the lows of October and December on the NYSE Comp was broken. Last week saw another pause of congested postings, with no reversal, before continuing down this week. Expect further price damage as the Summation continues lower.

Chart 4: The Volume Summation shows the same two pauses followed by continuation lower. This matches the price deterioration seen since the first week of February. This decline could continue until the end of March or the first week of April. By turning up, the Summations will confirm that the market is at or very close to the bottom of this consolidative price action.

Chart 5: The McClellan Oscillator is clearly in the bearish camp by forming a complex pattern below the zero line. The peak on Friday March 3 was below zero, while all the Price Oscillators had turned up. This non-confirmation by the Oscillator turned out to have the correct understanding of the subsequent negative price action this week. The bearish market action over the past 14 months has shown a number of instances where the Oscillator popped a little above zero for a day before dropping back down below zero to finish more negative price action. When the Oscillator does get back above zero, it may require just a bit of interpretation to decide whether it is a true reversal or just one of these one-day wonders.

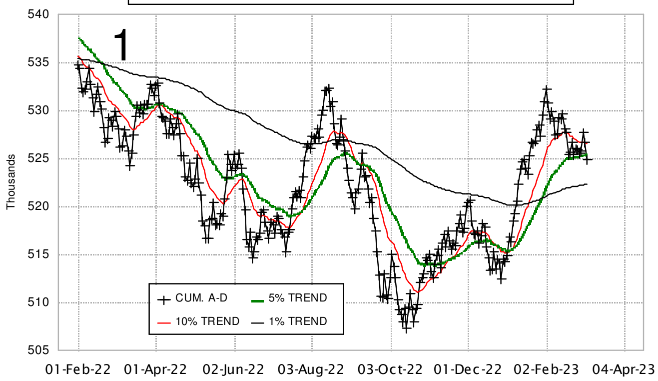
Chart 6: The Volume Oscillator has been below zero since Feb. 8. It too failed to confirm the price pop on Friday March 3. It wasted little time responding to the Fed Chairman's speech to the Senate with a further move down into negative territory. All the Oscillator lowest lows for the last year plus of bearish action have seen postings close too or below the -400 thousand level. It would not be too surprising to see a capitulation selling wave between now and the first week of April that could produce a similar level of negativity. Inability to do that could be a bullish precursor.

Chart 7: The DJIA Price Oscillator, as is typical and was expected, dropped down out of the long sideways pattern from December 2022. It continued down to below zero before turning up very briefly. We call this kind of pattern a fishhook. It looks like a reversal of the negative action, but turns into a failure of that reversal to continue. We saw the same thing on the way down from the August top to the October low. There were a couple of them on the way down from the April high to May low. All resulted in sharp short term price drops. A turn down below the zero line "promises" a lower price low on the move down. On March 6 the DJIA intraday high was 31 points above its 50MA, but closed below it. Look for defenders at the 200MA, which is currently at 32379.51.

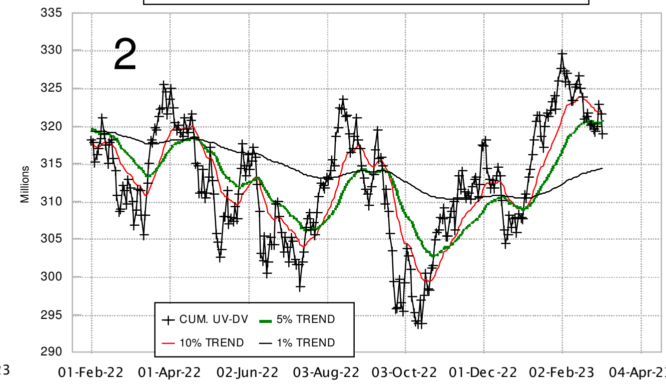
Chart 8: The VIX has been confined to a very narrow range since last November. This has squeezed the upper and lower bands close together. They are separated by only 2.69 points. If the SP500 can break the uptrend line across the October and December lows, that could give the VIX some incentive to hop up above its upper band. The February top on the SP500 formed a "W". The low close of the W was 4080.50. The intra day high was 4078.49 on March 6 before closing at 4048.42. Up until October all the important price lows were made with the VIX above 30. How high will it get between now and the first week of April?

Tom recorded a 2-part interview last week with Adam Taggart of Wealthion. See them on YouTube at these links: https://tinyurl.com/3nf8xvtp. https://tinyurl.com/yc459fh4.

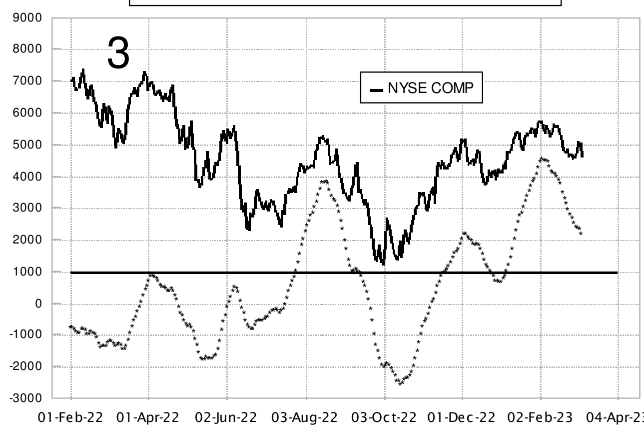
NYSE CUMULATIVE ADVANCE-DECLINE LINE



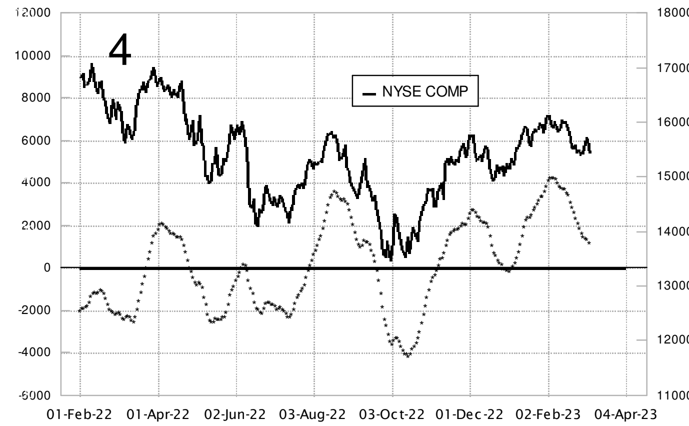
DAILY CUMULATIVE UP-DOWN VOLUME LINE



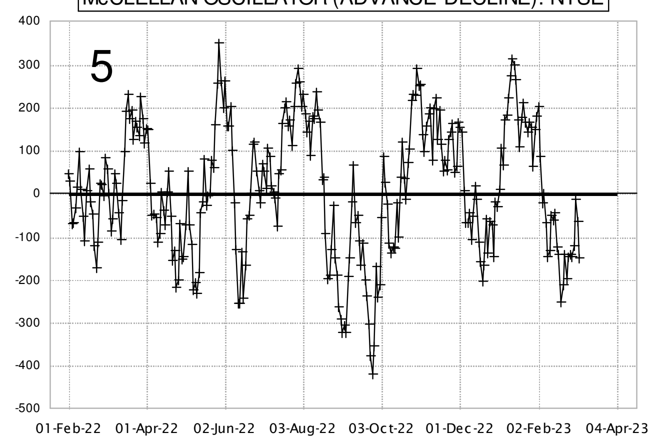
McCLELLAN SUMMATION INDEX: ADV-DECL



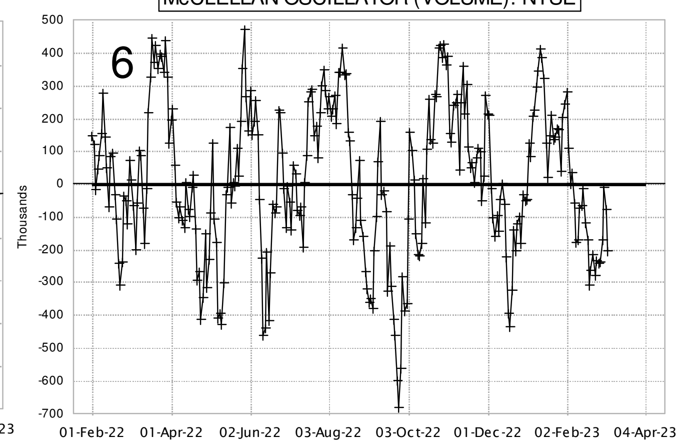
McCLELLAN SUMMATION INDEX: VOLUME



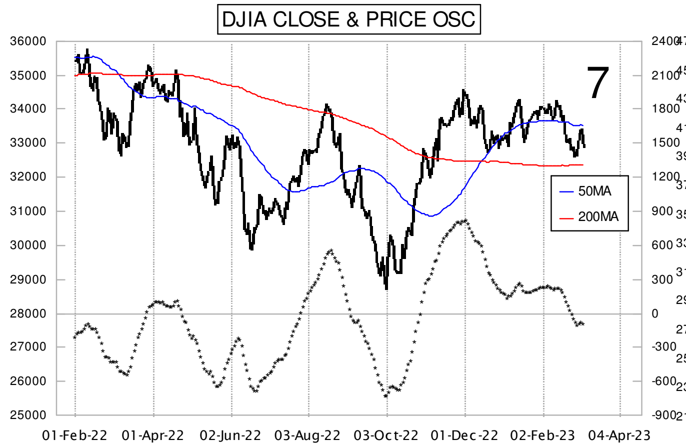
McCLELLAN OSCILLATOR (ADVANCE-DECLINE): NYSE



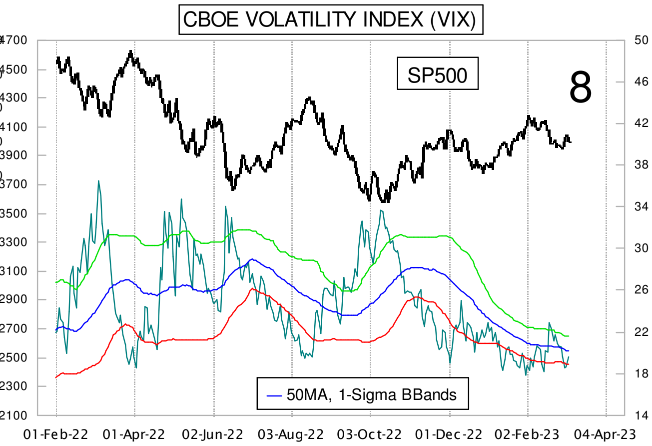
McCLELLAN OSCILLATOR (VOLUME): NYSE



DJIA CLOSE & PRICE OSC



CBOE VOLATILITY INDEX (VIX)



Gold Downtrend Continues

Gold prices had a big down day on March 7, as traders reacted to Fed Chairman Powell's first day of congressional testimony. He promised higher rates than "previously anticipated", which traders viewed as good for the dollar, and thus bad for gold.

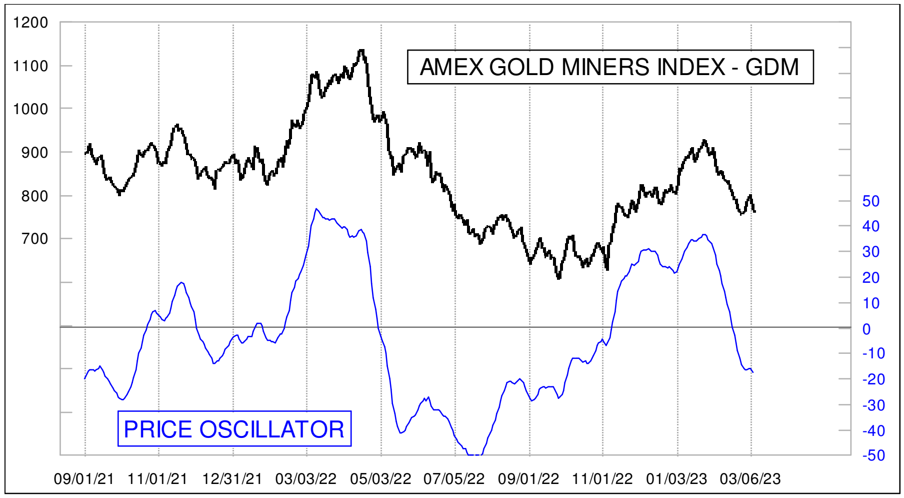
What is bad for gold is necessarily also bad for gold mining stocks. The GDM Index is shown in the top chart on page 4, and its Price Oscillator had turned up just last week from a modestly low level. But after rising for only one day, the Price Oscillator turned down again, leaving behind what we liked to call a "fishhook" structure.

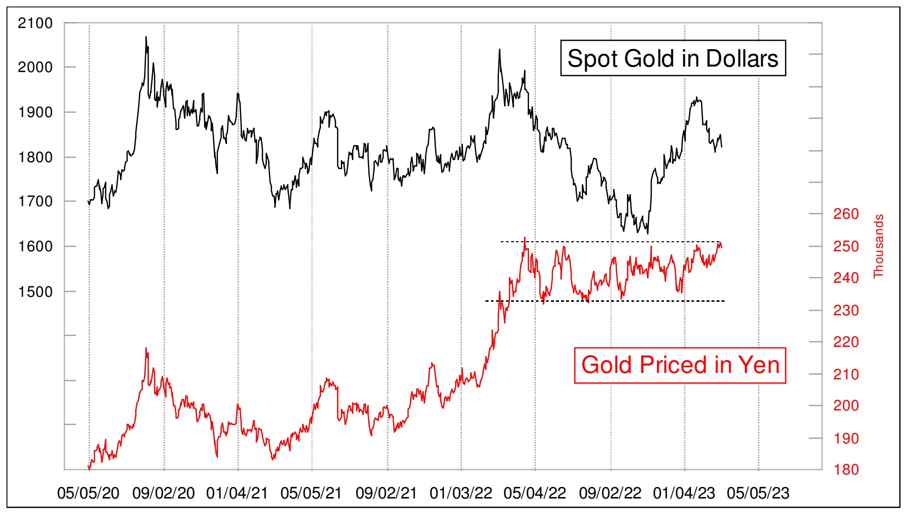
A fishhook can occur as the Price Oscillator is traveling in either direction, and it depicts an attempt by the forces of reversal to change that trend. When that attempt fails, it reveals that those reversal forces did not have much ammunition, and it opens the door for a more vigorous resumption of the trend which was briefly interrupted.

Sometimes fishhooks can be a big deal. The stock market had one on October 5, 1987, two weeks before the big crash. Fishhooks do not always lead to such drama, but the potential is there.

The price of April gold futures on March 7 dropped $34/oz, which is a big one day drop. Gold prices tend to make spike tops and rounded bottoms, and so we almost never see the final bottom of a downtrend come on such a big down day.

But this observation of a big down day for gold is only true when talking about the price of gold as measured in dollars. In other currencies, gold's chart is looking dramatically different right now. The middle chart shows gold prices measured in Japanese yen, and it is a much more bullish picture. The yen price of gold had a nice run up in early 2022, and now has spent the past 10 months in a high level consolidation, and in a fairly narrow trading range. As the dollar price of gold is apparently breaking down, the yen price is once again bumping up against the upper boundary of that trading range, as if to test it yet again to see if the resistance there is still valid.

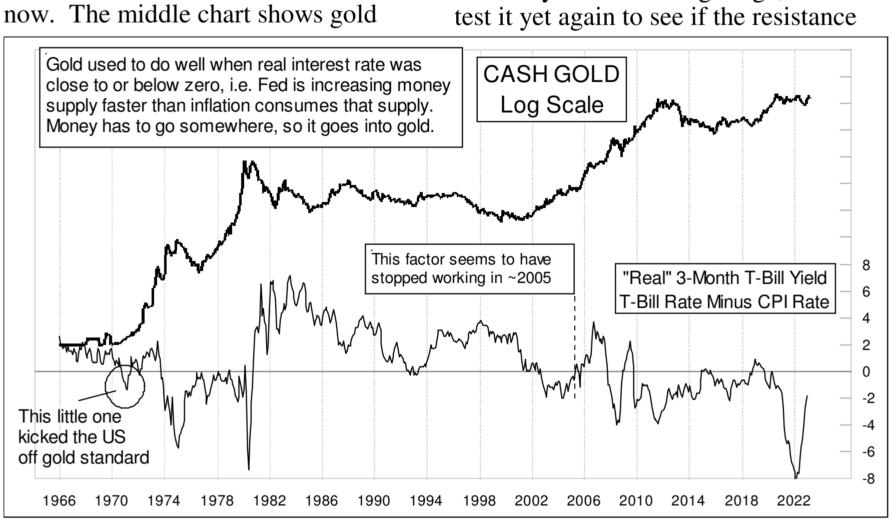




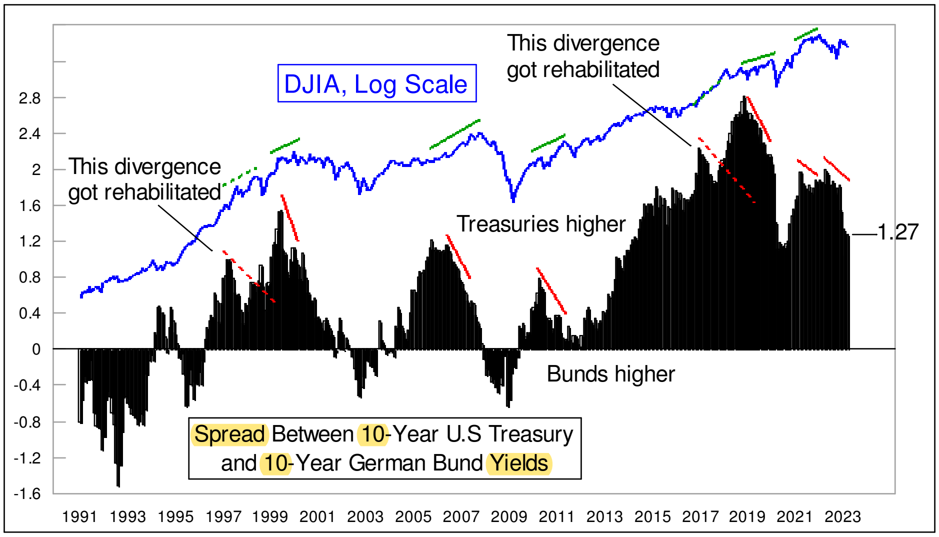
Given that interest rates are rising and inflation is falling (slowly), there is an important point to share about "real" interest rates and the relationship to gold prices. For many years, this was viewed as the primary driver of gold prices. Negative real interest rates were bullish, and positive ones were bearish, and that made a lot of sense. And it worked great up until about 2005, after which it has been an ineffective explainer of the movements of gold prices.

We wish that financial market "rules" worked consistently all the time, but that is not the world we live in. Gold operates under new rules of physics, and so the point is to let go of thinking that real yields matter for gold prices, because the price behavior shows that it is no longer true.

Bottom Line: Gold and the mining stocks are in a downtrend. They tried to bounce, and that bounce failed, opening the door to more downward movement. But how gold looks in other currencies can be dramatically different.



Rising Bund Yields Bearish For US Stocks



The top chart on page 5 shows an interesting co-relationship between the DJIA and the yield spread between 10-year sovereign debt in the U.S. and in Germany. Generally speaking, it is a bullish condition when 10-year Treasury yields are rising faster than 10-year German debt. Those German bonds are known as "bunds", which is short for "bundes" meaning federal in German.

Even more fun is when this spread shows us a bearish divergence ahead of a final price top for stocks. That serves as a nice warning of trouble to come, although as with other types of divergences, these ones can sometimes get rehabilitated.

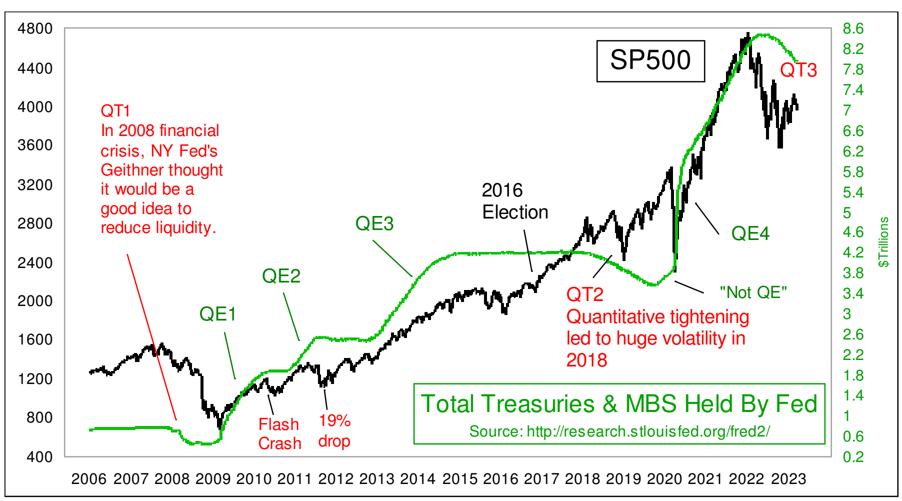
This spread peaked at 2.0 percentage points back in April 2022 and has been falling since then, even though the DJIA has rebounded some off of the October 2022 low. For as long as this spread is falling, that represents a bearish factor for stocks. If this spread ever goes negative, meaning that bund yields are higher than 10-year T-Notes, that is a huge long term bullish indication. We are a long way from seeing that, though.

At the same time this is happening, the Federal Reserve is continuing its third ever round of "quantitative tightening", meaning that the Fed is selling off its holdings of Treasury debt and mortgage backed securities. QT takes reserves out of the banking system, and that is generally bad for stocks, which rely on excess money sloshing around to help boost stock prices.

The Fed is doing this while also shrinking the nominal size of M2, a shrinkage which is even more of a problem when measured as a percentage of GDP. If the economy is expanding, but the supply of money is shrinking, then that more scarce money means there is less of it available to help lift stock prices.

QT1 in 2008 was done into the teeth of the Great Financial Crisis, and with horrible effect. QT2 in 2018-19 was not as bad, since it was offset somewhat by tax cuts passed in 2017. But that QT2 round did cause a whole lot of volatility, including the XIV collapse in January 2018, and the big oil-related drop in November to December 2018. Things got a lot calmer when the Fed started quantitative easing (QE) again in October 2019, although Jerome Powell instructed us that it was "Not QE!"

We are in the 3rd year of a presidential term, which is supposed to be an up year. It has worked every time since 1939, when the Wehrmacht was marching through Poland and stocks had a bad year. With the stock market facing rate pressure from overseas at the same time the Fed is shrinking M2 and shrinking its balance sheet, plus taxes are above 18% of GDP, it is a confluence of a bunch of forces that are going to make it hard for that 3rd year effect to work.



THE McCLELLAN MARKET REPORT

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And early April looks more significant for a bottom, based on the BC Indicator and the SOFR COT model.

TIMING MODELS

Stock Indices (DJIA, SPX, Nasdaq, NYSE Comp., etc.)

	Signal	Source	Predicted	Actual
*	Bottom	DJIA Up-Dn Osc	Feb 23	Feb 24
*	Bottom	DJIA ST Price Osc	Feb 24	Feb 24
*	Bottom	NYSE Volume Osc	Feb 27	Feb 24
	Top	NDX A-D Osc	Mar 1	Mar 6
	Top	DJIA Stochastic	Mar 1	Mar 6
	Bottom	HY Bond A-D Osc	Mar 6	- - -
G	Bottom	Uncommon A-D Osc	Mar 9	
G	Bottom	NDX A-D Osc	Mar 9	
G	Bottom	DJIA Stochastic	Mar 10	
G	**Bottom**	**DJIA Price Osc**	**Mar 10**	
G	Bottom	NYSE A-D Osc	Mar 13	
G	Bottom	Nasdaq A-D Osc	Mar 14	
G	Bottom	Nasdaq ST Price Osc	Mar 15	
	Top	HY Bond A-D Osc	Mar 16	
	Top	Nasdaq Price Osc	Mar 20	
	Top	Nasdaq A-D Osc	Mar 23	
	Top	DJIA ST Price Osc	Apr 14	

Experimental Indicator, "BC"

	Predicted Signal		How It Turned Out
	Implied Top	Jan 24	Top Jan 27
	Implied Bottom	Mar 2	Bottom Feb 28
G	Implied Top	Mar 13	
	Implied Bottom	**Apr 4**	

Treasury Bond Prices

Signal	Source	Predicted	Actual
Bottom	Corp Bond A-D Osc	Feb 28	Mar 2
Bottom	TYX ST Price Osc	Mar 2	Mar 2
Top	Corp Bond A-D Osc	Mar 3	Mar 3
Bottom	TYX Close/Sum	Mar 9	
Bottom	**TYX ST Price Osc**	**Mar 9**	
Top	TYX ST Price Osc	Mar 17	
Top	Corp Bond A-D Osc	Mar 29	
Bottom	T-Bond Stochastic	Apr 4	
Bottom	**T-Bond Price Osc**	**Apr 6**	
Bottom	T-Bond Close/Sum	Apr 11	

Gold and Precious Metals Stocks

Signal	Source	Predicted	Actual
Top	Gold Price Osc	Feb 23	Feb 21
Bottom	GDM ST Price Osc	Mar 2	Mar 2
Bottom	Gold ST Price Osc	May 4	

The Signals

Stocks had their late February bottom (*) roughly on schedule, and popped up to a March 6 top that was a little bit late, but just by a couple of trading days. And that late February bottom served to fulfill the implied bottom that was due March 2 according to our still experimental BC Indicator, which is a collection of multiple cycles and weights that is taken from outside the stock market, and which has shown some merit.

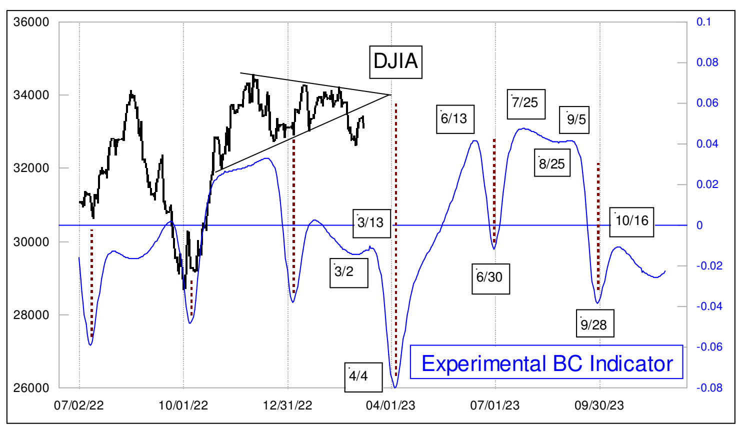
Bottom cluster G grew by yet another signal since our last Report. We get more excited about clusters of similar signals, because they imply that the event has a larger "radar signature" to be detectable by so many of these signals. But we also believe that the first week of April is going to mark an important bottom, in accordance with the message from BC.

What To Expect

Stocks show a cluster of bottom signals is due March 9-15, including one new bold-lettered signal. Certain signals display properties that imply a signal of greater importance, and so they get bold letter designation. The BC Indicator says a top is due March 13, but the regular signals show tops spread out from March 16 to 23. And BC's April implied bottom looks pretty important, even though it is not confirmed by the regular signals. We see that as the bottom to go up out of, as opposed to down into.

T-Bonds show two March 9 bottom signals, matching the cluster for the stock market, which is unusual. And the Apr. 6 bottom agrees with the BC Indicator's April 4 bottom, also unusual.

Gold signals have dried up showing nothing until May 4. That does not mean there won't be texture, though.



HOW THEY WORK

These timing models are based on our proprietary calculation method. This technique involves a computationally complex comparison of two or more carefully selected indicator values. This yields the date and direction of a projected future turning point. Making several such comparisons can help paint a picture, one reversal point at a time, of the future structure.

Once generated, signals remain in effect, though the result can have greater or lesser significance based on what the market is doing when the date arrives. Certain indicators are slightly less accurate in pinpointing the exact date, so we may print a range of dates. Price Oscillators and Summation Index signals are usually more important, though sometimes not as precise in time. Uncommon A-D refers to an oscillator derived from NYSE stocks that are not part of the Common Only list in *Barron's*. Dates in bold denote signals of greater potential strength according to our research.

These models do not catch every market turn, but the signals usually show some effect in the market action. It is important to understand that the market does not have to go up from a bottom; it may just stop going down. It does not have to go down from a top, it may just stop going up. Some bottoms turn out to be just a flat spot before a continuation up.

The BC indicator is an experimental new tool, not related in method to the other signals.

"Actual" dates listed for NYSE Indices are for the NYSE Comp/Dow Jones Industrial Average. Letter groups (A, B, C, etc.) denote clusters of signals. ST Prc Osc means "Short Term Price Oscillator."

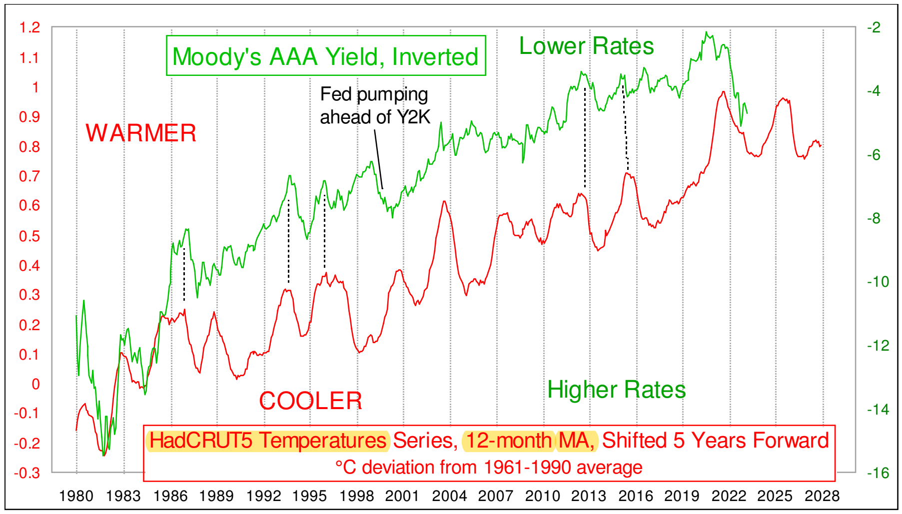
Past performance of these mathematically generated turning point projections in no way guarantees future results. These dates may be useful in planning for the future, or giving greater confidence at turning points. **We would not, however, attempt to trade any of the markets based solely on these models.**

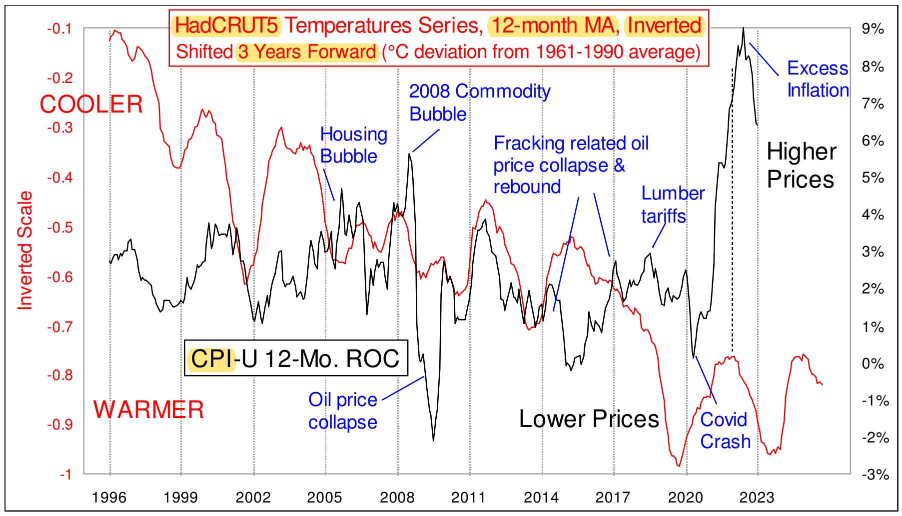
Why Inflation And Higher Rates Came, And What's Next

Bond analysts and economists who came of age in the 1980s and 1990s got used to the entitlement of falling interest rates. So they have had to get a reeducation about inflation and rising interest rates. They are likely to continue the furtherance of that reeducation.

The big reason why inflation and higher rates came when they did is that the earth has been cooling since the peak of the 2015-16 El Niño. Cooling is not good for inflation, because it means lower agricultural production. Yes, that is right, warming trends that so many people have been trained to fear are actually better for agriculture, and thus for lower prices generally.

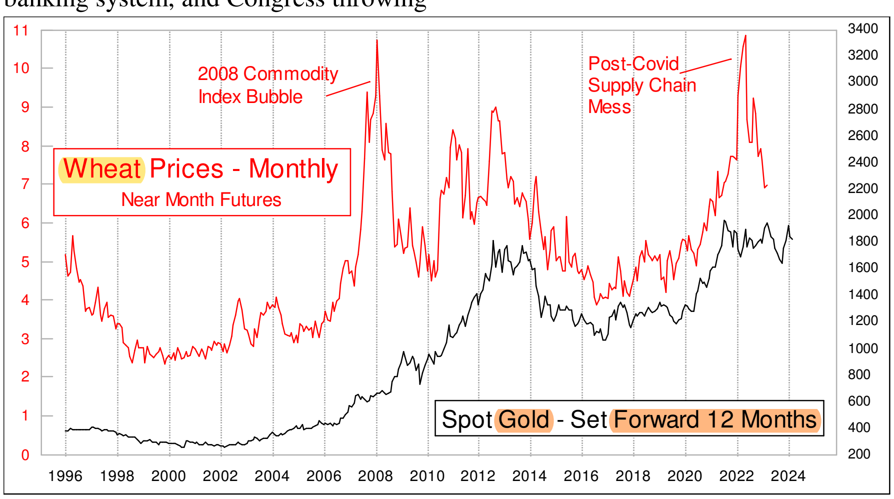
But the effects of temperature changes work with a lag. The top chart compares global average temperatures to an inverted plot of interest rates. There is one additional adjustment, which is that we shifted forward the temperatures plot by 5 years to reveal how the same dance steps show up in interest rates after that lag time. The Aaa yield turned higher (lower in this inverted scaling) about 5 years after the peak in temperatures. Rates are due to continue rising (falling in this inverted chart) until the middle of 2023.





The same principle works for the inflation rate, albeit with a 3-year lag which is what we show in the middle chart. In this case, we have inverted the temperature plot to better see how inflation rates respond. The rise in inflation that we saw after the Covid Crash came on schedule, but it was far bigger than it should have been thanks to the response by the Fed throwing money into the banking system, and Congress throwing money around everywhere they could, all to "save us" from Covid.

That excess inflation hung around a little bit longer than it was supposed to, much like what we saw with the 2008 commodities bubble, but now we are seeing the decline in the inflation rate that the temperate data plot had foretold. That decline in inflation is due to turn upward again in a few months, echoing another cooling wave 3 years earlier.

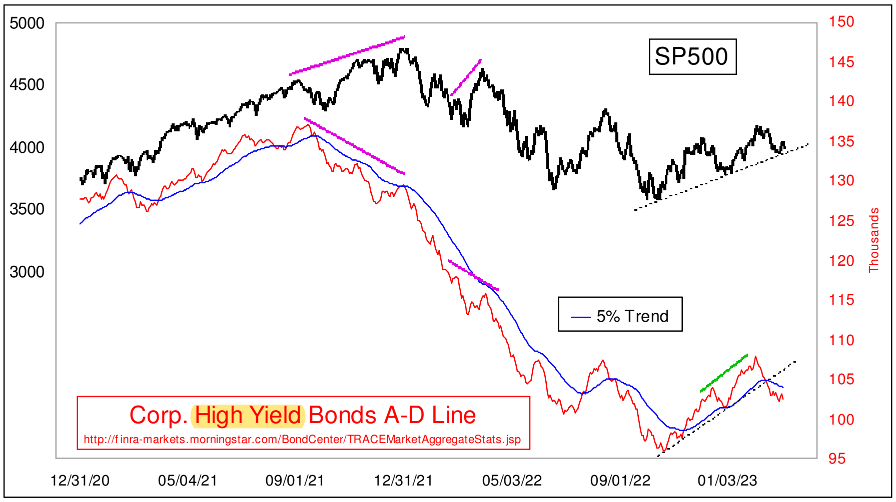


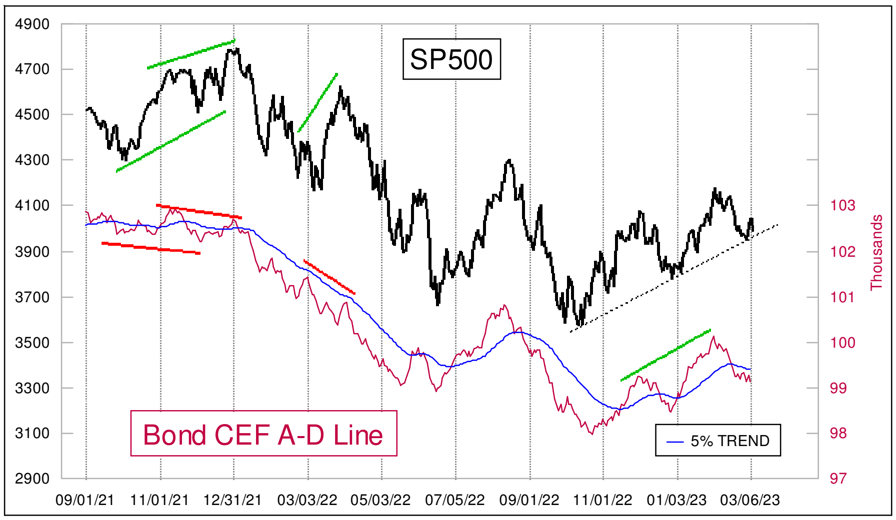
The bottom chart confirms the notion of a continuing drop in prices, followed by an up turn soon. The prices of wheat and other grains tend to lag the movements of gold prices by about 12-15 months. This chart employs a 12-month offset. Wheat prices in 2022 went up far in excess of what gold prices had foretold, which was reminiscent of the 2008 commodities bubble, when hedge funds went crazy over commodities indexing. Wheat prices came back down then and started correlating with gold prices, and they seem to be getting back on track now.

But the gold price bottom in October 2022 means a wheat price bottom and rebound about a year later, which will flow through into inflation just as the temperature data are telling us.

Bottom Line: If the Fed wants to control inflation and have lower prices, they need to start warming the planet. And then wait 3 years.

What The Canaries Are Saying





If one looked only at the SP500, one would say that there is an intact pattern of higher highs and higher lows, with the rising bottoms line holding, so all is well. But if we look elsewhere at the more marginal investment products, which are more sensitive to liquidity either for good or bad, then we see a different message.

In the coal mines of Newcastle two centuries ago, the miners brought small birds down into the mines as a way of detecting the presence of bad gases. If the canaries fell over dead in their cages, it was a sign of trouble, because these birds were more sensitive to the bad gases than the burly coal miners.

This is the principle that has us watching the action in high yield bonds, which trade like stocks because they are sensitive to the same liquidity forces. But when liquidity starts to dry up, these issues show it more than the SP500 does. The top chart shows the daily A-D Line for high yield corporate bonds. Unlike the SP500, this A-D Line has broken its rising bottoms line. It has fallen below its 5% Trend (39-day EMA), and is making lower highs and lower lows. This is a statement that liquidity is running dry.

A similar message about liquidity comes from the Bond CEF A-D Line in the middle chart. The bond closed end funds trade on the NYSE like stocks, and they are often blamed by analysts for supposedly contaminating the composite A-D data. But the analysts who make that claim are ones who have not looked at the data as we have. We put in the work to generate these data ourselves out of the closing prices for all NYSE-listed issues, because the data are just so good.

During the January 2023 rally, these issues were doing well right along with the SP500. But they have fallen hard since then, dropping below the 5% Trend, and signaling problems with liquidity just like the message from the HY Bond A-D Line.

The point here is not about what the investors in the junk bonds or in the bond CEFs are thinking. It is about whether there is enough excess liquidity sloshing around to offer up some to these less-deserving issues. Seeing them suffer carries the message that the same liquidity needed to push up the overall stock market is in trouble.

A similar message comes in the bottom chart from the emerging markets stocks, as represented here by EEM, the big ETF. Most of the time it does what the SP500 does, but when they disagree it is worth paying attention. We have already seen a small divergence in EEM versus the SP500 back in late January 2023. EEM has dropped below its rising bottoms line, and is acting weaker than stocks. The message is the same: there is not enough liquidity for these less-deserving issues to get their share.

Bottom Line: Big cap stock indices are often the last to succumb to the drying up of liquidity, which is evident in the marginal asset types. That should lead to more weakness this month.

Randy's Corner

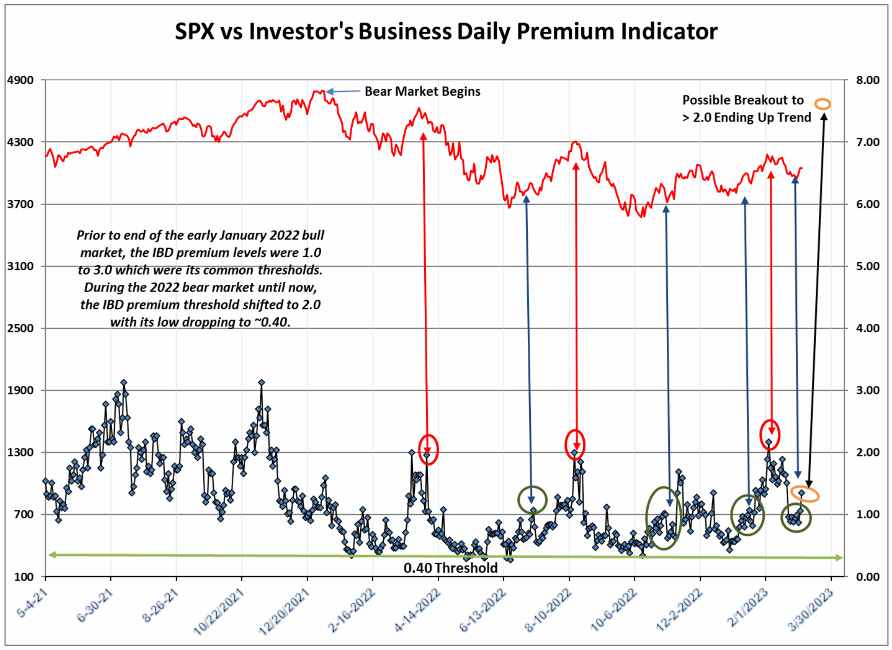
We have been collaborating on stock market data with Randy Nelson for many years. In this issue, Randy looks at the differences between options trading volume and pricing premiums.

Investor's Business Daily Premium Puts versus Calls Update

After a few weeks of lighter "Zero Day to Expiration (0dte)" trading options, the seasoned professionals, typically done by "auto-trading", are back. The problem with the 0dte traders has been the massive skewing of put-call premium ratios, making them almost useless. Most of the 0dte traders are the market makers, brokerage firms, and large trading retailers. We are all for everybody making money, but the Options Clearing Corporation (OCC), who clears all options transactions, really needs to segregate 0dte trades into a separate category.

However, the "Investor's Business Daily (IBD) Ratio of Premiums Puts versus Calls" has not been corrupted by the 0dte, thus providing orderly and normal put-call premium ratios. The three **red** *arrows show where the premiums threshold 2.0 since April 2022. Note when the threshold breaches 2.0, the SP500 tops out within a day or two. However, there are three major tops where the 2.0 threshold was not breached.*

The blue arrows show the thresholds breach above 1.0 which coincide with a bottom. However,



there are a couple of +1.0 breaches that did not catch a short bottom. The **green** *horizontal line is the 0.40 threshold, which typically finds a price bottom if breached. The* **blue** *arrows show the thresholds breach above 1.0 which coincide with a bottom. However, there are a couple of +1.0 breaches that did not catch a short bottom, so as with most market phenomena, there are exceptions. On Monday March 6, a potential breakout toward 2.0 may be coming that would end the current upside trend (***orange*** ovals).*

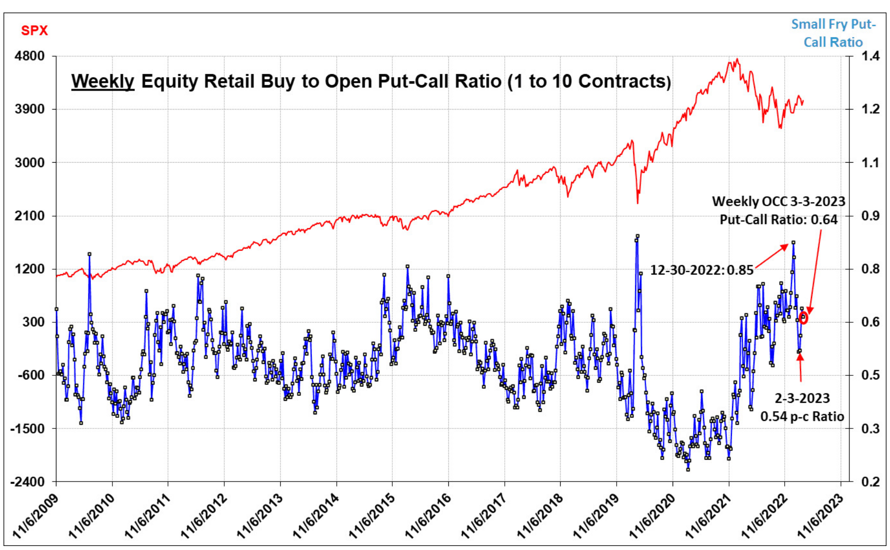
Conclusion: *IBD premiums tend to vary with prices, and we have just seen an upturn from a low level along with prices. But it is not clear yet as to whether this is just a fake out.*

OCC Weekly Buy-to-Open Put-Call Ratios (1 to 10 Contracts)

The weekly Options Clearing Corporation (OCC) retail 1-to-10 contracts Buy-to-Open options traders are typically the least savvy of the retail traders, thus they are unlikely to be trading in the 0dte domain.

In the week ending March 3, 2023, the 1-to-10 contracts traders' put-call ratio was 0.64 while the SP500 started the week at 3970 and ended the week at 4046. With a weekly gain of 76 points, one would think the ratio would be lower…. but maybe they are listening to Powell?

Conclusion: *A large number of options put-call ratios include the "Zero Day to Expiration (0dte)" data, which has skewed those put-call ratios. The OCC needs to segregate the 0dte options from the traditional options trades, so that ratios are normalized.*



Our Take

Since the start of the bear market in January 2022, the 1-10 contract buy to open traders have returned to a more typical range, versus their overly optimistic readings during the 2021 advance. The spike downward in this indicator at the beginning of February 2023 showed the most optimism since the August 2022 price high, giving an indication that another corrective wave was in order. That is what we saw in February, continuing now into March.