Technical Scoop June 29, 2020
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Gloomy forecasts, shutting again, protests continue, polarized election, empire fall, Gini grows, gold glows

Gloomy economic forecasts (IMF), a huge surge in COVID-19 cases, America shutting down – again – all weighed on markets this week. And did we mention the continuing protests on the streets and the most deeply polarized election in U.S. history. Yet markets have been resilient and daring in the face of the challenges. But little noticed and little mentioned the assets of the Federal Reserve have actually pulled back the last couple of weeks. Could the Fed be taking away the punch bowl? Stock markets fell, but gold shone once again.

We take a look at the fall of empires. Empires rise and fall and in the fall they tend to die slowly then suddenly. War, plagues, civil strife all have played a role. As well we look at the growing divide between the rich and poor and the measurement of the "Gini" coefficient. As the technology sector includes some of the richest billionaires, the "Gini" coefficient growth highlights the technology sector's profitability and importance in the rift between rich and poor, and the Canadian Conservative Growth Strategy* holds the dividend-paying technology company Constellation Software Inc. which builds and distributes software solutions for a wide range of global markets. The IMF issued a revised gloomy global economic report for 2020 which is the subject of our "Chart of the Week" (page 8). But they remain optimistic for 2021, at least for now. Since this is the second revision (downward) could they yet come out with another downward revision?

One of the few areas that held together this past week was golds and gold stocks. We also couldn't help but notice the TSX Venture Exchange (CDNX) was the best performing market on the week and it has now turned positive in 2020. Against the grain.

This week is a holiday shortened one (Canada Day, July 4th) so we'll be taking advantage and next week will be a shortened report.

Have a great holiday week!

DC

* Reference to the Canadian Conservative Growth Strategy and its investments is added by Margaret Samuel, President, CEO and Portfolio Manager of Enriched Investing Incorporated who can be reached at 416-203-3028 or msamuel@enrichedinvesting.com

“How much would you pay to avoid a second depression?”
—Ben S. Bernanke, American economist, 14th Chair of the Federal Reserve 2006–2014, Chair of Council of Economic Advisors 2006–2014, Professor Chair of Department of Economics, Princeton University 1996–2002; b. 1953

“I’m the fellow that takes away the punch bowl just when the party is getting good.”
—William McChesney Martin Jr., 9th Chair of the Federal Reserve 1951–1970, President of the New York Stock Exchange 1938–1941; 1906–1998

“The long run is a misleading guide to current affairs. In the long run we are all dead.”
—John Maynard Keynes, Right Honourable Lord Keynes, 1st Baron Keynes, British economist, author of *The General Theory of Employment, Interest and Money* (1936); 1883–1946

“It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness…”—Charles Dickens from *A Tale of Two Cities*

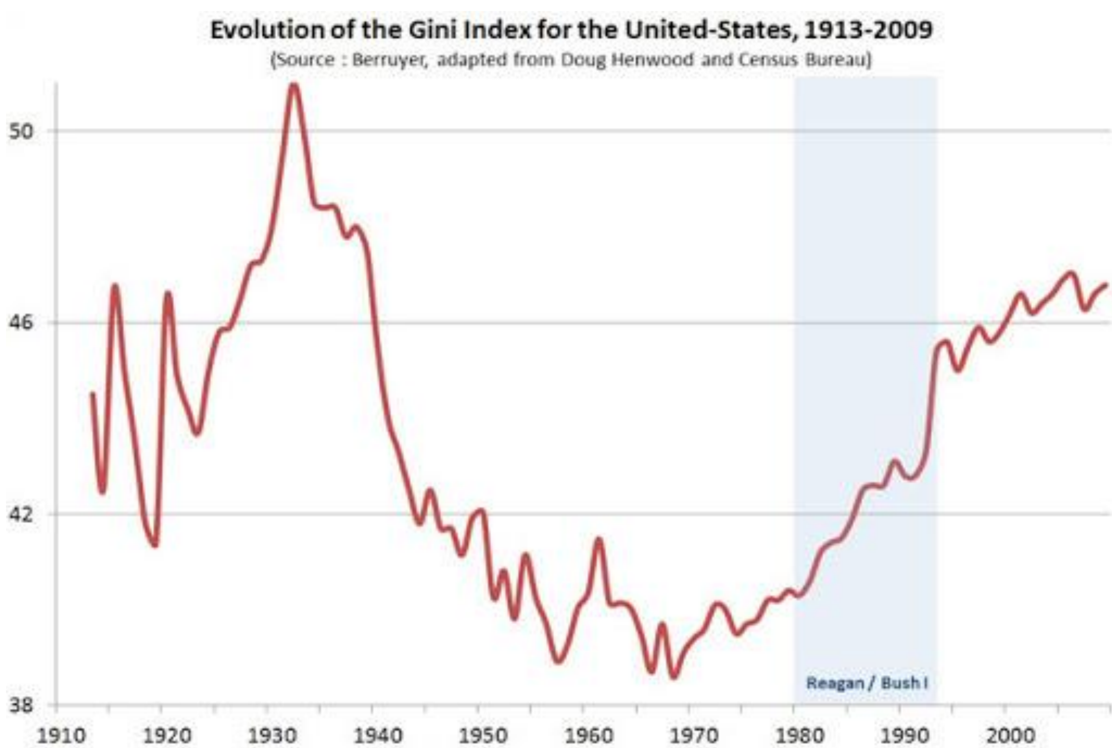
Charles Dickens was writing about the events leading up to the French Revolution (1789–1799) that culminated in the Jacobin Reign of Terror. Dickens could, however, have been writing about any time, in any country. Revolutions, civil wars, depressions, famine, plague, natural disasters, wars, collapsed states, collapsed empires are recurring themes in history. History has shown that empires do not last forever. History specialists estimate that, on average, empires last roughly 250 years. After that, they die slowly, as they overreach themselves in their search for power. Then they die suddenly.

Civilizations, on the other hand, can last an average of 350 years with some lasting more than 1,000 years. Empires are a state or an extensive group of states usually under a supreme authority, formerly an emperor or empress. Today it could easily be a president. Civilization is the stage of human social development and organization that is considered the most advanced. By that definition, the English-speaking civilization of, first, Britain and, currently, the United States have dominated the world since the 18th century with their beginnings in the late 16th century. Both have played the role of hegemon and global policeman covering the past 2–3 centuries. We have had periods known as *Pax Britannica* (1815–1914) and *Pax Americana* (1945–present), not unlike the period of *Pax Romana* (27BCE–180AD) and in East Asia led by China *Pax Sinica* (206BCE–210AD).

So, what has this got to do with today? In all instances, along came events that effectively changed everything. For Britain, it was WW1, followed by the plague of the Spanish Flu. For Rome, it was the dictatorial reign of Commodus (180–192), following the death of his father Marcus Aurelius (161–180) who was known as the last of the good emperors. Ironically a plague, the Plague of Antonine (165–180) also raged at the time, killing some 5–10 million people and playing an important role in the decline and fall of the Roman Empire. Commodus’s reign was followed by civil war and what was known as the year of the five emperors (193 AD). The civil wars and fragmentation of the Roman Empire continued on into the 3rd century and through into the 5th century. By the late 5th century, the Roman Empire was gone. Like Rome, the collapse of the Han Dynasty that had ruled China for four centuries led to civil wars and fragmentation. Also playing a key role in the collapse of empires was the debasement of currency. In ancient times silver coins were slowly debased and eventually replaced by copper. Today we just print money thus lowering the purchasing power of money. But gold as money has stood the test of time despite today being a period where we are no longer on a gold standard. Today our fiat currency is just paper.

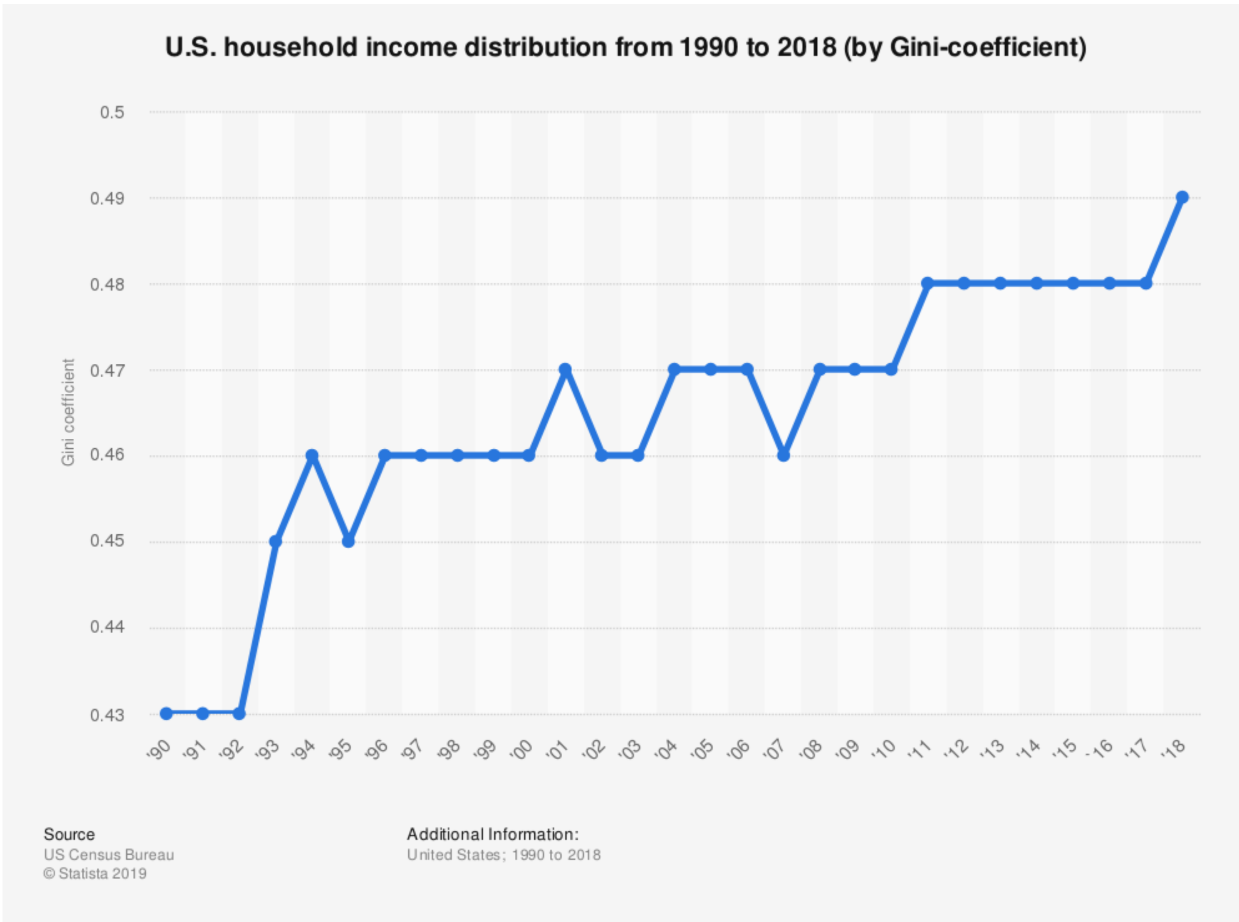
History still needs to be written, but today we are witnessing a plague that has triggered, at minimum, a deep recession and possibly a depression. Along with this is the outbreak of protests and violence in the Western world, principally in the U.S., the EU and Latin America — which some are already referring to as a civil war or a revolution. The sharp disconnect between what one might refer to as the left wing (socialist) and right wing (fascist) has been building for years but could be coming to a head. If one carries these disputes to their potential conclusion, one could witness the breakup of the EU once again into warring states and the breakup of the U.S. through civil war and fragmentation. None of this is to suggest it will happen, but merely to point out the course it could be taking. History is always changing and not necessarily in the preferred direction. Or, as they say, history doesn't necessarily repeat but it does rhyme.

Charles Dickens' book also described the class war between rich and poor. There is some evidence that what is happening today is a class war as the rich have become richer and the poor, well, poorer. One of the measurements of income or wealth distribution is the Gini coefficient or, as it is known, the "Gini." It is used as a measurement of inequality. A "Gini" of 0 would be absolute equality while a "Gini" of 100 is absolute inequality. Statistics are often lagging, but here are a couple of interesting charts on the "Gini" in the U.S.



Source: www.greenplug.nu, www.uscensus.gov

This first chart shows how the "Gini" peaked at the outset of the Great Depression. The Great Depression, followed by WW2, was the great leveler and the "Gini" fell sharply into the 1950s and 1960s. The "Gini" began to grow again under Reagan/Bush 1 and accelerated into the 1990s and the 2000s under Clinton/Bush 2. It continued under Obama and has grown further under Trump.



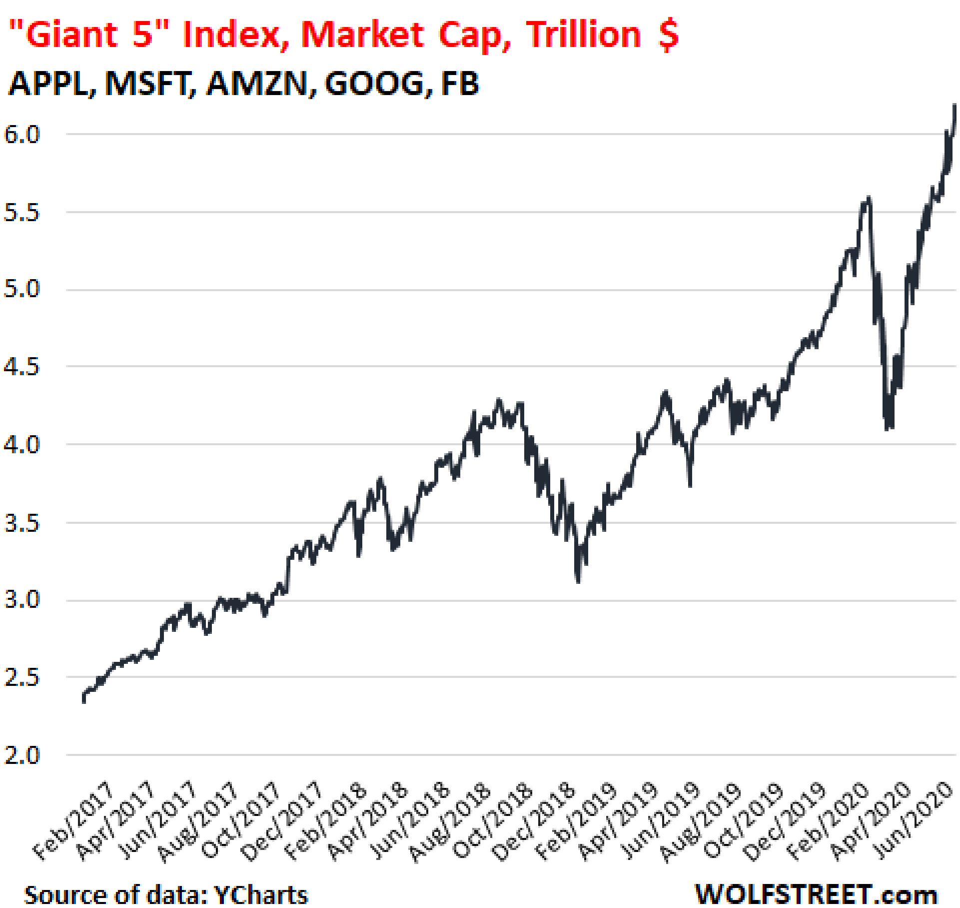
Source: www.statista.com, www.uscensus.gov

This second chart shows the growth of the "Gini" during the 1990s and into the 2000s. Today, the U.S. "Gini" sits north of 0.50 making it the highest of all the G7 and OECD nations. The world's highest "Gini" of a major country is currently South Africa at 0.63. Current levels for the "Gini" put the U.S. in the company of African dictatorships and Latin American countries. Since the stock market bottom in March 2020, the U.S.'s richest billionaires (Jeff Bezos – Amazon; Bill Gates – Microsoft; Mark Zuckerberg – Facebook; Warren Buffet – Berkshire Hathaway; Larry Ellison - Oracle) have seen their wealth grow on average by 26%. And Warren Buffet trails them all as he has sat on a lot of cash since March. It was reported that 12 billionaires have doubled their wealth during the pandemic. There are an estimated 643 billionaires in the U.S. and they have undue political and social power and influence. While their collective wealth was growing by upwards of $600 billion, 45 million Americans filed for unemployment. The billionaires' wealth increased by more than double what was paid out by the U.S. federal government in stimulus cheques.

The U.S., like many other countries, is an oligarchy. Oligarchies have existed throughout history. What it means is that a few businesses, or families, or individuals' rule and influence the country. An oligarchy is not a democracy although it has elements of democracy and can vary from oligarchy to oligarchy. The world's largest oligarchies that we found listed include the U.S., Russia, and China. But they also include Ukraine, South Africa, Saudi Arabia, Iran, Turkey, Japan, and Zimbabwe. Today, the global power struggle for global hegemon is between the major oligarchies: U.S., Russia, and China.

Five companies dominate the stock market. The big five FAANGs or, more correctly, FAAMGs (substitute Microsoft for Netflix) make up roughly 20% of the Wilshire 5000 and more than 20% of the S&P 500. The Wilshire 5000 had gained 31% from the March low to the recent June high. But the big five or, as they are referred to, the "Giant 5" gained on average 50% during the same period. Take out those big five and the Wilshire 5000 was actually down 1–2%.

Two charts below illustrate this nicely (thanks to Darryl and Bob for sending this along). The first chart shows the growth of the market cap of the "big 5" or "Giant 5" while the second chart shows the Wilshire 5000 minus the "Giant 5."



Source: www.ycharts.com, www.wolfstreet.com

As we were noting, the rich get richer. As to the poor, well, they get poorer. All of this illustrates why something is deeply amiss in today's stock market. Yes, it has been going up. But it is going up thanks to massive QE (bond purchases) from the Federal Reserve. Fundamentals such as earnings appear to be an afterthought. Earnings are faltering, but the balance of the world's central banks along with money supply (M2) has exploded to the upside. It goes from the Fed to the major banks and that money finds its way into the stock markets, pushing up asset prices and effectively creating an asset bubble. Add in the presence of Robinhood traders and you help create a frenzy. Eventually all bubbles burst. And then one is left with only the protests and social unrest on the streets and millions of unemployed.

Source: www.ycharts.com, www.wolfstreet.com

MARKETS AND TRENDS

	Close Dec 31/19	Close Jun 26/20	% Gains (Losses) Week	% Gains (Losses) YTD	Trends Daily (Short Term)	Trends Weekly (Intermediate)	Trends Monthly (Long Term)
Stock Market Indices							
S&P 500	3,230.78	3,009.05	(2.9)%	(6.9)%	neutral	neutral	up
Dow Jones Industrials	28,645.26	25,015.55	(3.3)%	(12.3)%	neutral	down (weak)	up (weak)
Dow Jones Transports	10,936.70	8,805.74	(3.0)%	(19.2)%	neutral	down (weak)	down
NASDAQ	9,006.62	9,757.22	(1.9)%	8.7%	up	up	up
S&P/TSX Composite	17,063.53	15,188.98	(1.8)%	(11.0)%	neutral	down (weak)	down (weak)
S&P/TSX Venture (CDNX)	577.54	598.74	5.6%	3.7%	up	up	down
S&P 600	1,021.18	788.69	(3.7)%	(22.8)%	neutral	down (weak)	down
MSCI World Index	2,033.60	1,771.29	(1.5)%	(12.9)%	up (weak)	neutral	down
NYSE Bitcoin Index	7,255.46	9,065.66	(3.2)%	25.0%	down	up	up
Gold Mining Stock Indices							
Gold Bugs Index (HUI)	241.94	280.22	5.0%	15.8%	down	up	up
TSX Gold Index (TGD)	261.30	334.07	5.5%	27.9%	down	up	up
Fixed Income Yields/Spreads							
U.S. 10-Year Treasury yield	1.92	0.64	(8.6)%	(66.7)%			
Cdn. 10-Year Bond yield	1.70	0.51	(5.6)%	(70.0)%			
Recession Watch Spreads							
U.S. 2-year 10-year Treasury spread	0.34	0.47	(7.8)%	38.2%			
Cdn 2-year 10-year CGB spread	0	0.22	flat	2,200.0%			
Currencies							
US$ Index	96.06	97.40	(0.2)%	1.4%	down	down	up (weak)
Canadian $	0.7710	0.7320	(0.4)%	(5.0)%	up (weak)	down (weak)	down
Euro	112.12	112.25	0.4%	0.1%	up	up	down (weak)
Swiss Franc	103.44	105.54	0.5%	2.0%	up	up	up
British Pound	132.59	123.36	(0.2)%	(6.9)%	down (weak)	down	down
Japanese Yen	92.02	93.31	(0.3)%	1.4%	up (weak)	up	up
Precious Metals							
Gold	1,523.10	**1,780.30 (new highs)**	1.6%	16.9%	up	up	up
Silver	17.92	18.03	1.0%	0.6%	up	up	up
Platinum	977.80	819.30	(1.0)%	(16.2)%	down (weak)	down	down
Base Metals							
Palladium	1,909.30	1,894.40	(0.7)%	(0.8)%	down (weak)	neutral	neutral
Copper	2.797	2.68	2.7%	(4.2)%	up	up (weak)	down
Energy							
WTI Oil	61.06	38.49	(3.3)%	(37.0)%	up	down (weak)	down
Natural Gas	2.19	**1.54 (new lows)**	(7.8)%	(29.7)%	down	down	down

Source: www.stockcharts.com, **David Chapman**

Note: For an explanation of the trends, see the glossary at the end of this article.
New highs/lows refer to new 52-week highs/lows.

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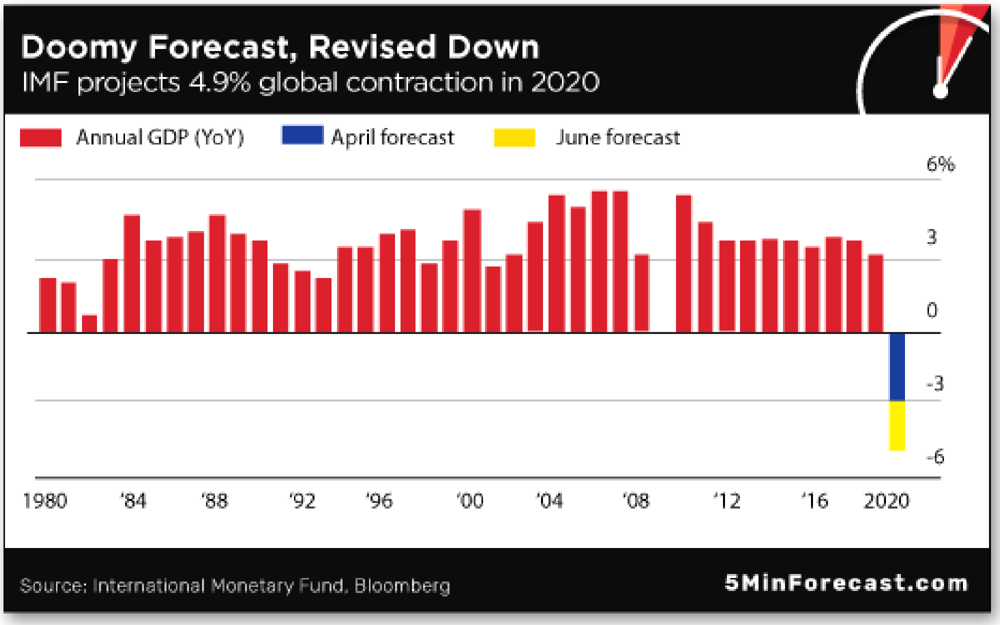
Chart of the Week



Source: www.imf.org, www.bloomberg.com, www.5minforecast.com

It is being described as the worst recession since the Great Depression. That's pretty strong considering that the GDP decline during the Great Depression was 26.7% peak to trough in the U.S. The follow-up recession/depression of 1937–1938 saw GDP decline 18.2% while the recession that followed the end of WW2 saw GDP decline 12.7%. Since then, the worst recessions have come nowhere near those gaudy declines. The 1958 recession, which coincided with a global pandemic known as the Asian flu saw GDP decline 3.7%. The great oil crisis recession of 1973–1975 saw GDP fall 3.2% while the steep recession of the early 1980s (1980–1982) saw GDP down 2.7%. The Great Recession of 2007–2009 that officially lasted 18 months saw GDP fall 5.1%. At least for the moment, that exceeds the IMF's latest projection of a 4.9% contraction for the world but we note they are predicting an 8% decline for the U.S. And the current recession is still only 5 months long. The 2007–2009 Great Recession was the longest official recession since the Great Depression.

If there is one number that is creeping up it is unemployment. The official peak during the Great Depression was 24.9%. The official peak during the Great Recession was 10%. Officially, using the U3 unemployment level, the current recession has hit a peak so far of only 14.7%, although if one uses the Bureau of Labour Statistics (BLS) highest measurement of unemployment (U6), its peak was 22.8%. If one counts the admitted errors of the BLS, the April unemploymment was really 19.5%, not the officially reported 14.7%.

Irrespective of this, while the IMF's latest economic forecast is bad, it could be worse. And they may revise it down again. The current outlook of a decline of 4.9% globally for 2020 was revised down from the previous forecast of 3% in April. For the U.S. they are forecasting a decline of 8% for 2020 and for Canada 8.4%. An 8% decline would make it the worst since the Great Depression and exceed the worst of the Great Recession. So maybe they'll call this one the Greater Recession? Or maybe just the COVID Recession.

Latest World Economic Outlook Growth Projections

(real GDP, annual percent change)	2019	PROJECTIONS 2020	2021
World Output	2.9	-4.9	5.4
Advanced Economies	1.7	-8.0	4.8
United States	2.3	-8.0	4.5
Euro Area	1.3	-10.2	6.0
Germany	0.6	-7.8	5.4
France	1.5	-12.5	7.3
Italy	0.3	-12.8	6.3
Spain	2.0	-12.8	6.3
Japan	0.7	-5.8	2.4
United Kingdom	1.4	-10.2	6.3
Canada	1.7	-8.4	4.9
Other Advanced Economies	1.7	-4.8	4.2
Emerging Markets and Developing Economies	3.7	-3.0	5.9
Emerging and Developing Asia	5.5	-0.8	7.4
China	6.1	1.0	8.2
India	4.2	-4.5	6.0
ASEAN-5	4.9	-2.0	6.2
Emerging and Developing Europe	2.1	-5.8	4.3
Russia	1.3	-6.6	4.1
Latin America and the Caribbean	0.1	-9.4	3.7
Brazil	1.1	-9.1	3.6
Mexico	-0.3	-10.5	3.3
Middle East and Central Asia	1.0	-4.7	3.3
Saudi Arabia	0.3	-6.8	3.1
Sub-Saharan Africa	3.1	-3.2	3.4
Nigeria	2.2	-5.4	2.6
South Africa	0.2	-8.0	3.5
Low-Income Developing Countries	5.2	-1.0	5.2

Source: IMF, *World Economic Outlook Update*, June 2020

Source: www.imf.org, www.cbc.ca

The IMF is predicting that the world, the U.S., and Canada will rebound quite strongly in 2021. Of course, that depends on a number of things. First and foremost might be the availability of a steady supply of a vaccine. A vaccine is still not expected to be available until sometime in 2021. While there have been some drugs that have helped control the COVID they are not a subsitute for a vaccine.

Secondly, it is important that world trade keeps flowing. But that is becoming increasingly difficult as world trade was already faltering before this recession hit. And when you hear President Trump threatening to renew tariffs on Canada's aluminum and steel you quickly realize that the one of the biggest dangers to world trade lies with the whims south of Canada's border. The WTO, an organization already severely damaged by the U.S. and Trump, has warned that the contraction in world trade will be worse than that during the Great Recession.

Add to this the unecertainty sparked by the desire for Trump and the U.S. to bring manufacturing home and one quickly realizes that recovery going forward may be fraught with unknowns. The U.S. is not the only country looking at bringing manufacturing home—onshoring as it is called. But there is a cost to onshoring as one cannot just shut down in one country and pop open in the U.S. And costs will be higher. Between the COVID-19 and trade wars, global supply chains have already been damaged.

The current upsurge in global COVID-19 cases led by the U.S. and Brazil does not make for a warm and fuzzy feeling. Is this the second wave or will we have another wave hit again in the fall? Hospital capacity, particularly in hard-hit states like Florida and Texas, is already at the breaking point in many cases. Burials are already taking place in mass graves in some instances. Canada appears to have the COVID under some control but max control à la Taiwan will only come with invasive contact and tracing, temperature-taking everywhere one goes, and mandatory masks. This works in Taiwan but there are privacy concerns over contact and tracing. Also, precautions like temperature-taking and mandatory masks have been rejected by many and have even been challenged in court.

There is also considerable concern about opening up. Estimates are that upwards of 50% of small businesses, especially in the hospitality sector (restaurants, etc.) will fail. And if they fail, that means thousands of jobs are not coming back. It will take considerable time to recover in the airline and tourism industries. All of these areas are huge job generators and if those jobs aren't coming back there is a risk that unemployment will remain high for an extended period. And that translates into falling demand, impacting retail sales and more—in other words, a downward spiral that feeds on itself.

Then there is the debt. It is estimated that some $11 trillion has been spent on government support, including tax cuts. That has seen the U.S. government debt jump $3 trillion since December 31, 2019. Canada has added $250 billion during the COVID crisis. While the capacity to borrow is there, especially if the Fed and here in Canada the BofC are buying, it does add to the burden down the road. With the central bank balance sheets exploding effectively one is paying back the debt to ourselves. Debt can be rolled over ad infinitum and with interest rates low and projected to remain low the cost of carry remains neglible. The hope, of course, is that economic growth will at some point exceed the amount of debt added to bring the debt/GDP ratio down.

Much of the spending has gone into support programs, but those support programs have an end date unless they are replaced by massive infrastructure spending and job creation programs. When the funds run out and there are no jobs to go back to, what then? Homelessness and the building of shanty towns could rise. People are getting by now, but pull the support and it all falls apart if the jobs haven't returned.

There are signs that the world's poor will bear the brunt of the crisis. It is estimated that, already, over a 100 million people will fall back into absolute poverty. That figure could be as high as 500 million. The middle class will become poor and the poor might well starve if the COVID doesn't get them. Latin America is particularly vulnerable. Governments in Latin America don't have the deep pockets that Canada and the U.S. have. Already, Venezuela and Argentina are on the brink of debt default or are in the process of defaulting. Famine is threatening Venezuela. In Africa, the continent's two largest economies, South Africa and Nigeria, are threatened. Famine could also strike because of the huge plague of locusts this year. And with a deepening economic crisis comes social unrest. Even Canada and the U.S. are not immune to this. The U.S. is already experiencing considerable social unrest and, given its deeply polarized politics, that threatens to get worse as they head into the November 3 election. Many expect the election results to be challenged no matter who wins in November.

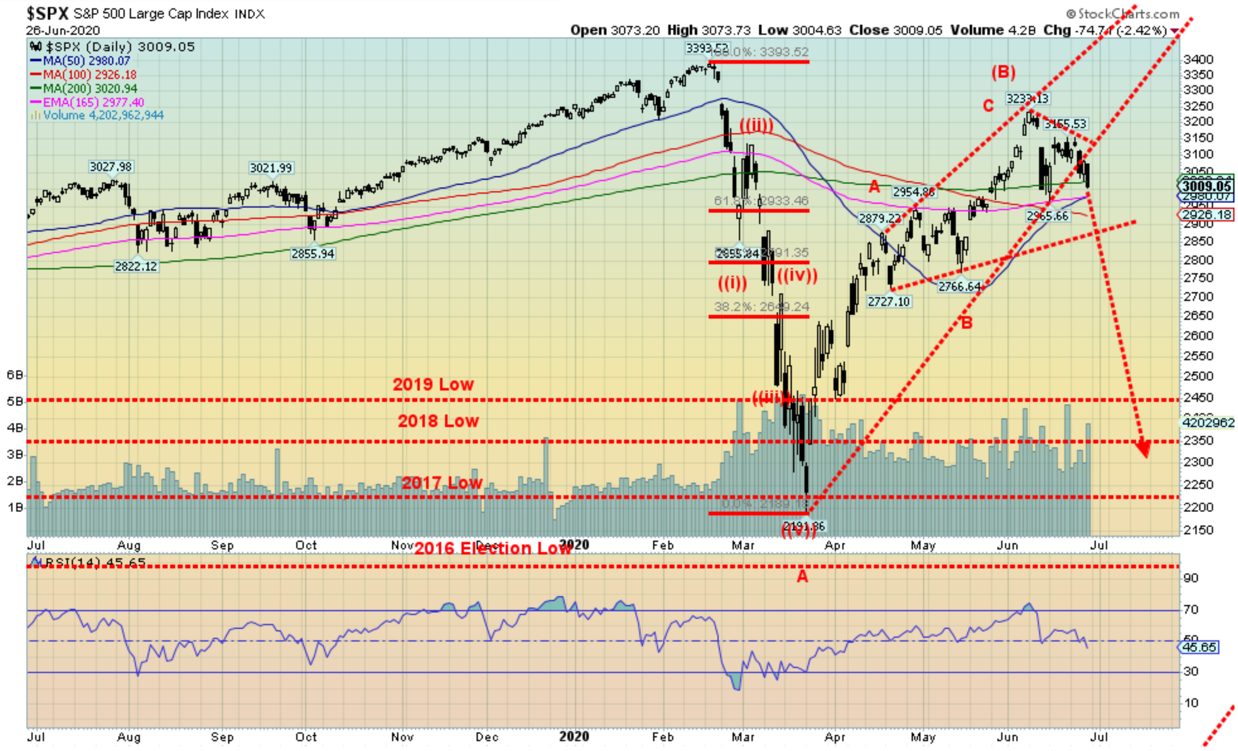
Canada is particularly vulnerable, given its dependency on the U.S. for trade. The border is currently shut except for essential business but there is also a cost to keeping out non-essential business as tourism collapses on both sides of the border. The border is currently closed until at least the end of July. But what if it is still closed in January 2021? Yes, one can technically still fly into the U.S. if you have not recently visited China, Brazil, the U.K., and some parts of Europe, but you may find yourself unable to get back into Canada. And, if the numbers keep staying high in Florida and Mexico, Canadian snowbirds could find it difficult to go their winter getaways. And if they do get down there they may find they can't get back into Canada.

Still airlines are screaming as the job losses mount and the planes sit idle. Even if things opened up with physical distancing on airplanes the airlines won't be able to break even. Bankruptcies could rise, not only for airlines but hotels, restaurants, and anything dependent on tourism. WestJet, a major Canadian airline, has said they do not expect a return to normal for at least three years.

There are numerous forecasts out there that suggest this recession will be very deep, very broad, but very brief. But the caveats are numerous. Many believe it has already bottomed in April. But the recovery could be fitful. And they still don't know whether it will be a V, U, W—or is it an M, or is it a w or m, or an L? The latter is the worst possible case. But the caveats are obvious: that there is a vaccine or at least effective treatments; that the worst is behind us or at least it is in the process of peaking; that people continue to adhere to social distancing and wearing masks; and, possibly the most difficult, that the current political and social environment of extreme polarization and unrest on the streets eases; and, finally, that world trade doesn't retract even deeper than it already has.

The odds are probably high that this won't be any V-shaped recovery. A collision course is being set as many states decided to open up in May, only to discover that the number of coronavirus cases has soared in June. This is forcing many to shut down once again. The government doled out a $2 trillion rescue package that included a cheque for $1,200 (in Canada CERB was $2,000 and government packages totaled up to $250 billion). But these cheques have end dates. CERB ends in August and, in the U.S., the cheques are ending but a new package is being discussed. But how long will these aid packages last? Figures in the U.S. show that 30% of Americans missed rent or mortgage payments in June. In Canada, extensions for mortgages will come to a head in the fall when the deferments end. If the jobs picture hasn't improved by then, both the U.S. and Canada could be faced with a wave of evictions and power of sales. In other words, a housing and rental collapse unless more aid programs are rolled out.

We have said we are currently facing a combination of the Spanish/Asian flu, the Great Depression, and the social unrest of the 1960s all at once. The optimists say the worst is behind us. The pessimists say it will get worse. Sounds to us like we should all pray for a muddle-through, and hope for the best but prepare for the worst.



Source: www.stockcharts.com

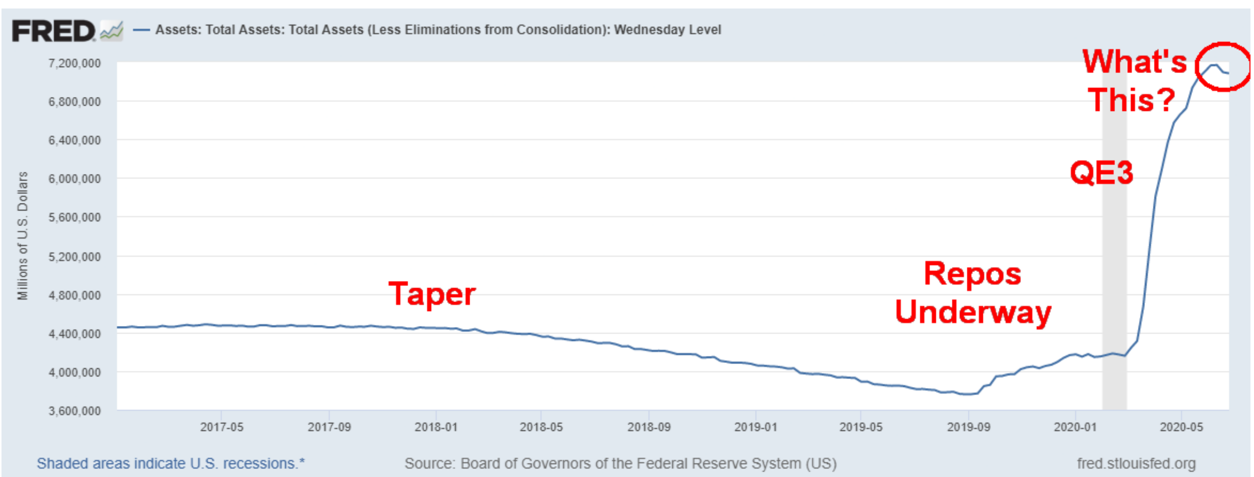
It was a most unpleasant week. A gloomy IMF economic report, coupled with a big spike in COVID-19 cases in the U.S. that prompted officials to shut down what they had just opened. Taken together, it sent stock markets tumbling globally this past week. It is felt that with the closing of what had been opened it will have a negative impact on sales, revenues, and earnings. The S&P 500 fell 2.9%, the Dow Jones Industrials (DJI) lost 3.3%, the Dow Jones Transportations (DJT) dropped 3.0%, while the NASDAQ was off 1.9% as it continues to outperform its peers. The small cap S&P 600 dropped 3.7%. The Wilshire 5000 fell 2.9%. Bitcoin didn't resist the drop, losing 3.2%. Hard hit this past week given the closings were airlines and cruise lines (surprise!). Investors may not treat the closing of what was opened too kindly.

Here in Canada the TSX Composite dropped 1.8% but the TSX Venture Exchange (CDNX) was a star, up 5.6% and has turned positive on the year (more on the CDNX later). In Europe, the London FTSE fell 2.3%, the Paris CAC 40 was off 1.4%, and the German DAX dropped about 2.0%. In Asia, China was on holidays so the Shanghai Index (SSEC) was not open Thursday and Friday but closed the week up a small 0.4%. The Tokyo Nikkei Dow (TKN) gained a small 0.2%. East Asia is faring far better in dealing with the COVID-19 than North America and Europe. However, South Asia—India along with Pakistan and Bangledesh—are seeing sharply rising numbers. The MSCI World Index (ex USA) fell 1.5%.

We have noted the outperformance of the FAANGs + Microsoft. They have led the market up, but could they lead the market down? Well, it was mixed this past week. Facebook floundered, dropping 9.5%, Google (Alphabet) was down 5.0%, while Netflix dropped 2.3% but the others gained with Apple up 1.1%, Amazon up 0.7%, and Microsoft up 0.6%.

This coming week is a shortened one. Wednesday is a holiday in Canada with Canada Day and Friday the U.S. markets are closed for the July 4 weekend. Not sure how much the U.S. or Canada will be celebrating, given the rising COVID-19 numbers. Virtual fireworks? Our expectation is for a mixed week, although we could see some end-of-month selling to lock in profits and given it is the end of the quarter and half year. July is supposed to be the best month of the third quarter and we have seen significant tops in the stock markets in July in the past. Overall, the month ranks as number 4 for the DJI but number 6 for the S&P 500 and number 10 for the NASDAQ. Given this is an election year, we note that in election years the markets don't far as well with the DJI ranked #7, the S&P 500 ranked #7 as well, and the NASDAQ #10. July is the supposedly the last good month before we often see swan songs into August and September followed by a low in October (despite its bear reputation).

Aside from the re-emergence of the coronavirus and the gloomy IMF report, we note something we have not really seen others comment on. If the stock markets rode upwards on a wave of liquidity (QE3) supplied by the Fed (and other central banks), what happens when it appears that the Fed is taking away the punch bowl? In the past two weeks the Fed's balance sheet has actually contracted by $86.6 billion. That's not a lot when one considers they have added $2.9 trillion since the end of February. Yet we have seen little comment about this drop. If the Fed were pulling away the punch bowl it would have negative ramifications for the stock market. We doubt it's the case but still something to keep an eye on. The Fed is expecting the U.S. economy to contract 6.5% in 2020. That's a bit better than the IMF projection of an 8% drop. Universally, everyone is expecting a rebound in 2021.

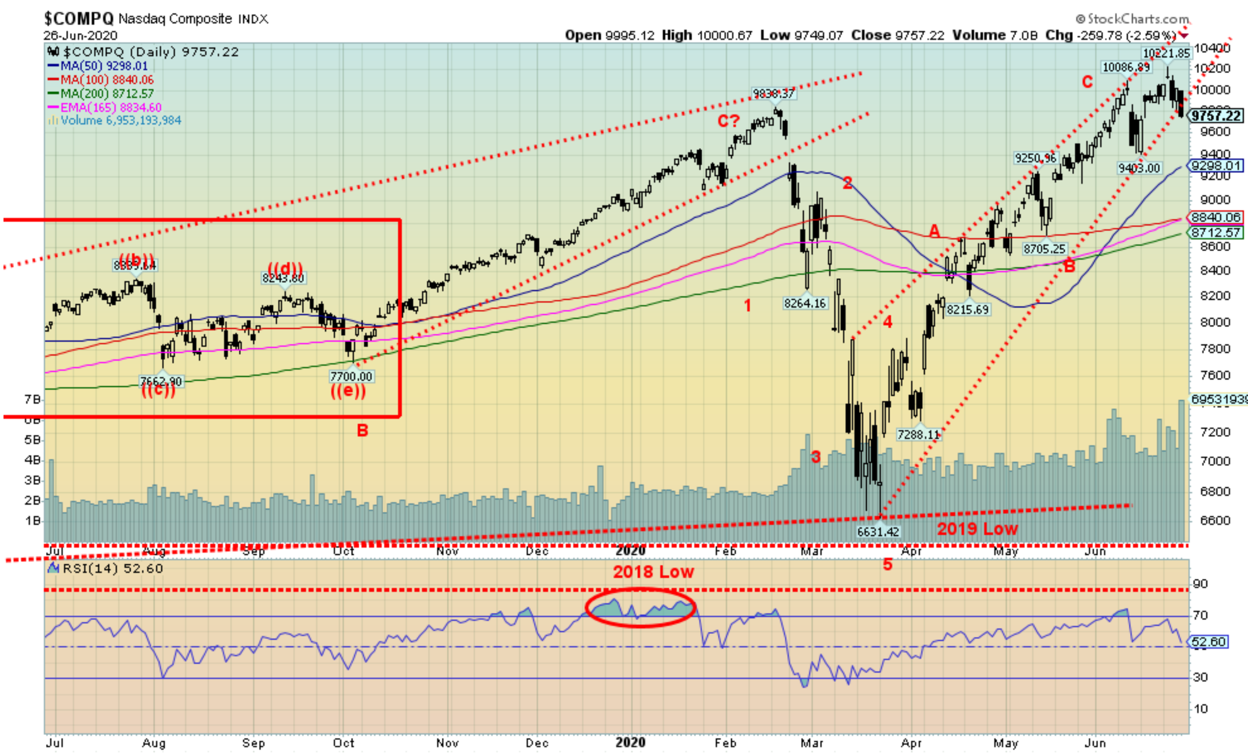


Source: www.stlouisfed.org

But this is the now, and right now the stock markets are showing signs of re-entering the bear market. We have consistently said this is nothing more than a bear market rally. In typical bear market rally fashion it has been led by a few stocks (FAANGs + Microsoft). While most of the indices regained their 200-day MA, most are now rolling over just above that level. The markets gapped down on June 11 leaving what appeared to be an island reversal on the charts for most of the indices. The NASDAQ closed that gap and once again made new all-time highs, but no one joined him. Indeed, all except for NASDAQ were unable to fill that gap left on June

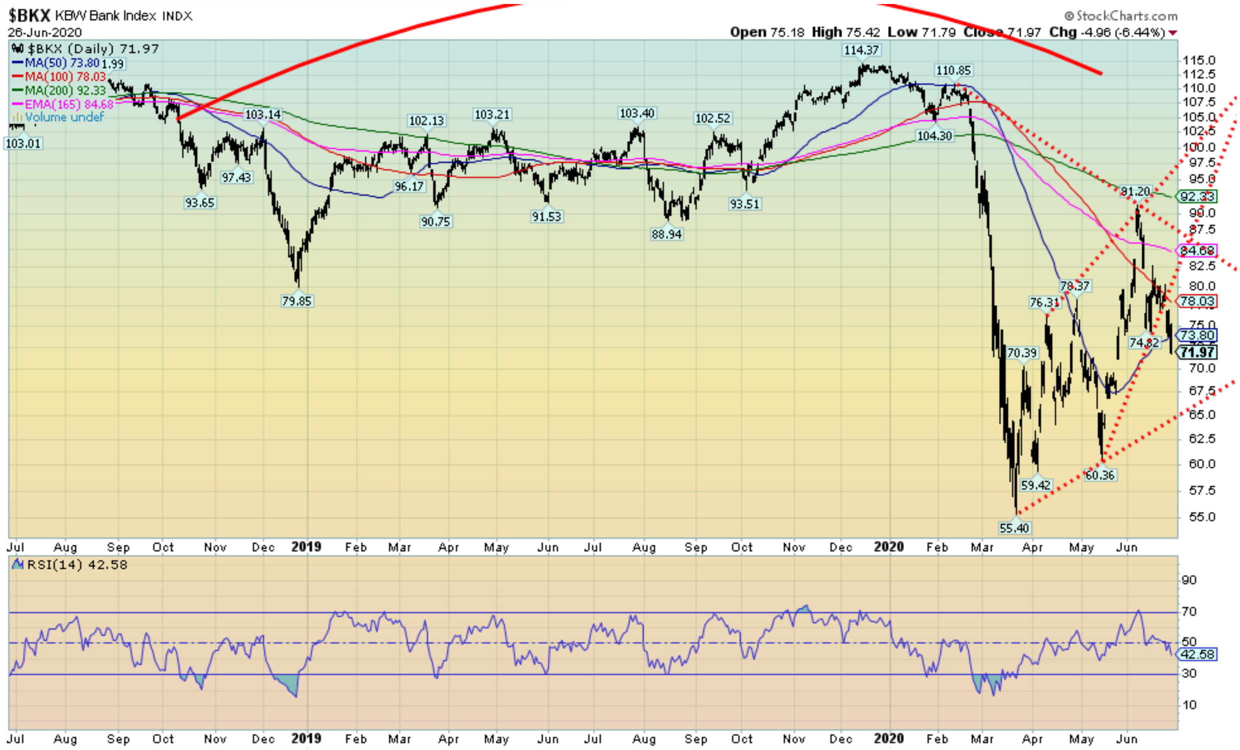
11 and are now turning down once again on negative news. That is bearish. As well, at its best only about 45% of the stocks in the S&P 500 were able to regain their 200-day MA. Now that has fallen to 35%. Despite the big rally, over 50% of the S&P 500 stocks could not regain their 200-day MA even as the index did.

We firmly believe we have entered a secular bear market and the first wave down has not completed. We had an A wave down, followed by what we believe is the B wave up. Now for the C wave down that could take the markets back to the March lows or even lower. If that is correct, it would complete the A wave of a much larger ABC corrective pattern. The S&P 500 has some support down to 2,900, but below that level a sharp break could occur. We appear to now have broken the uptrend from the March low. Volume has picked up, indicating support for the bear move. If the Fed is pulling in the punch bowl, the bank/dealers would lead the way in pulling the plug on the market. After all, they were the ones benefitting the most from QE3 and will want to protect their gains. What happens to everyone else is beside the point for them.



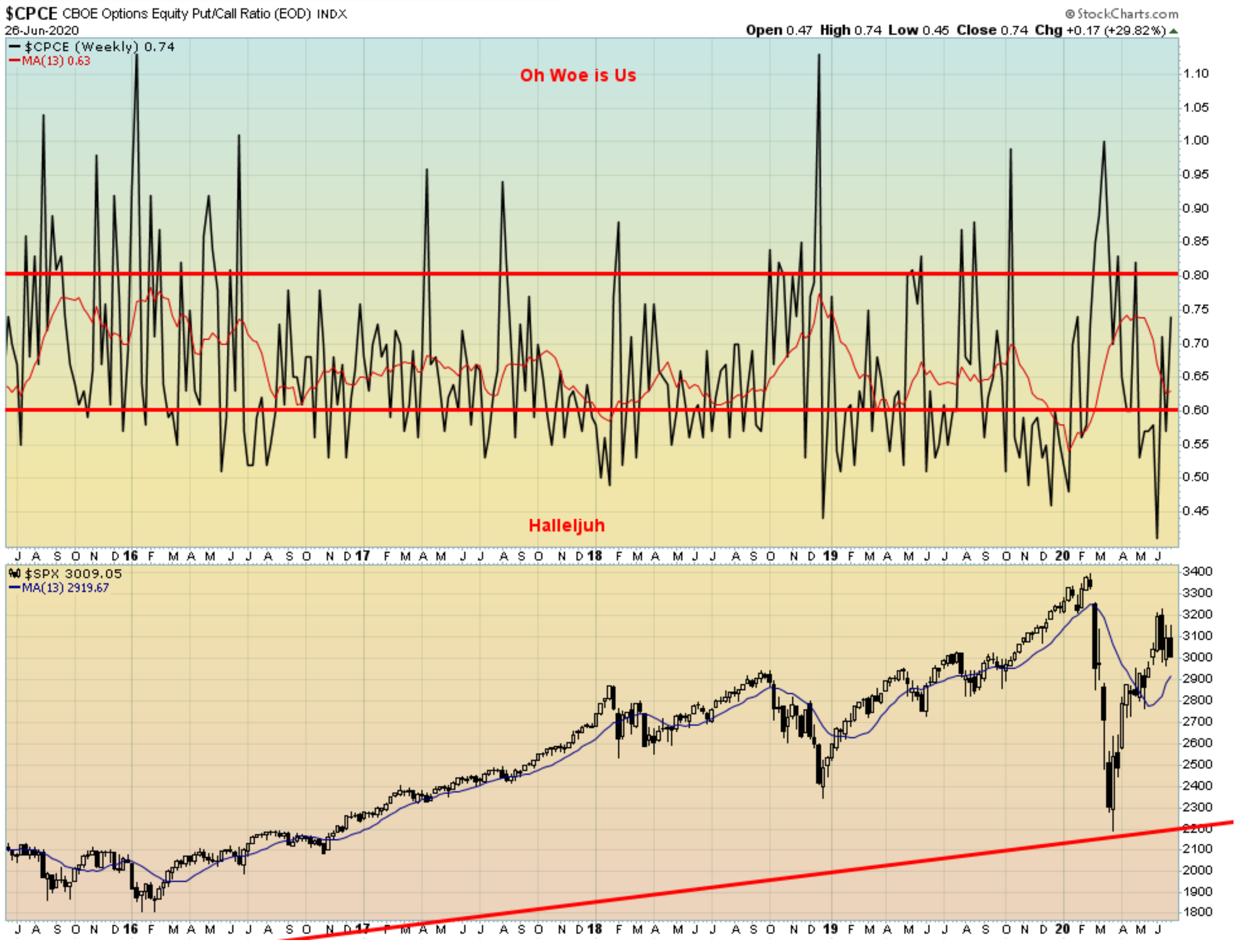
Source: www.stockcharts.com

The NASDAQ has been the star, making new all-time highs but it too now appears poised to fall. The NASDAQ could be breaking down from an ascending wedge triangle pattern. That suggests a return to the March lows. The NASDAQ has a lot of support down to 8,700, but below that level its breakdown could accelerate. First sign of a breakdown comes under 9,400. The NASDAQ made its high on June 23 with numerous negative divergences on the charts. Only new highs could change this negative scenario.



Source: www.stockcharts.com

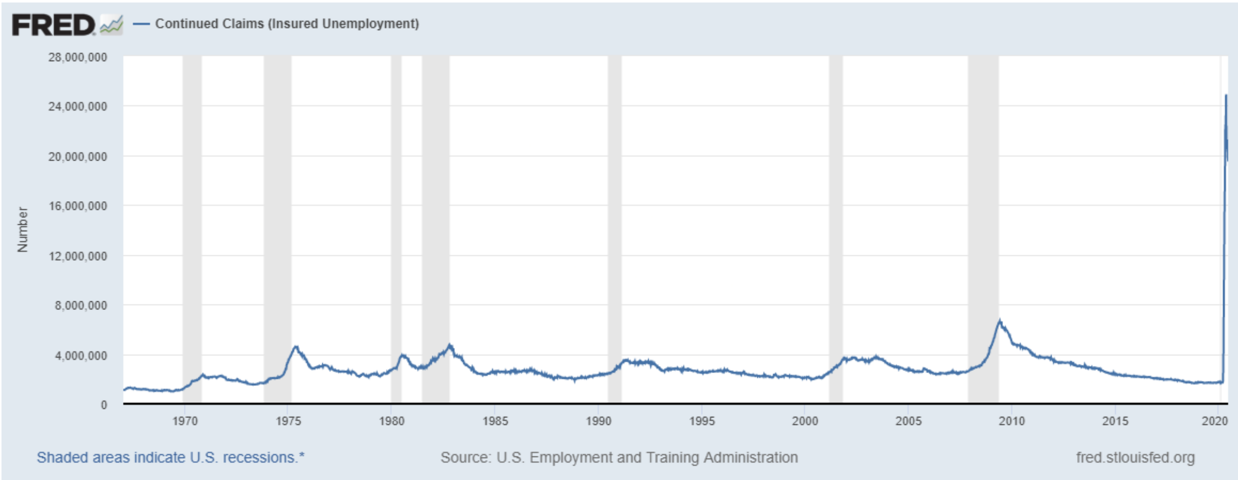
Bank stocks were hit this past week with the KBW Bank Index losing a sharp 6.4% on Friday and dropping 8.4% on the week. Fed stress tests showed that some banks were getting painfully close to their minimum capital levels as the pandemic raged. As a result, the Fed has instructed the banks to suspend their share repuchase programs and cap their dividends for the 3rd quarter. Wells Fargo (WFC) and Capital One (COF) may be forced to cut their dividends. Capital One fell 10.2% this past week while Wells Fargo dropped 8.2%. Both of them are not that far off their March 2020 lows. We expect new lows for them going forward. Few banks were spared on Friday with Bank of America and JP Morgan dropping more than 5% and Goldman Sachs down 8.7%. The sharp rise in coronavirus numbers and the subsequent shutting down again of the economy is not going to bode well for consumer spending going into the summer. Nor for much else.



Source: www.stockcharts.com

With the drop in the stock market this past week it was not surprising to see the put/call ratio rise in favour of puts. Despite the drop, the put/call ratio only moved into neutral territory closing at 0.74. That's a far cry from the 0.40 level seen during week of June 1. Despite the rise, it is still not in oversold territory with the put/call ratio over 0.80. As the market falls, we'll monitor it for reaching levels suggesting a lot more puts than calls. Other indicators this past week moved largely as expected with advance/decline line falling in line with the market and the VIX volatility index also falling in line with the market. No divergences were present.

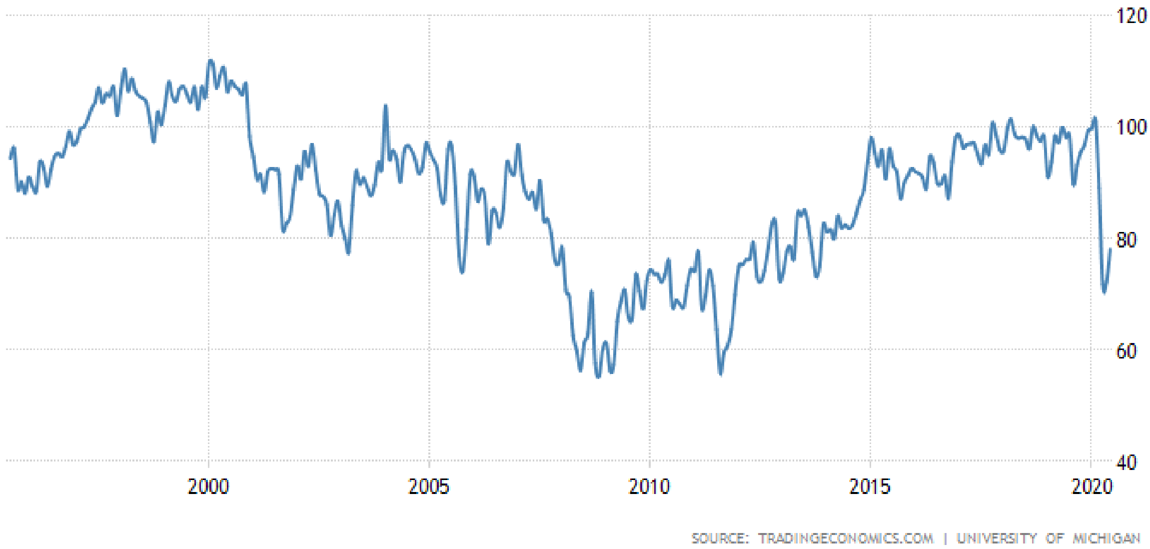
Continued Claims



Source: www.stlouisfed.org, www.dol.gov

Looking at a very long-term chart of continued claims really puts a perspective on the huge jump that has taken place since March 2020. This past week, continued unemployment claims were 19.5 million. That was actually slightly below consensus of 20.0 million. A 0.5 million workers seems to be small in the context of the huge number of unemployed. In February, before this started to spike in March, continued claims were 1.7 million. Remember, this is just reported unemployed. When one adds in unemployed who are no longer counted as a part of the labour force or unemployed and looking but unable to collect unemployment insurance, the number is closer to 40.0 million. Initial claims this past week came in at 1,480,0000 which was more than the expected 1,300,000. We don't get the June job numbers until July 2, 2020. The last report showed that the official unemployment rate was 13.3% (U3) and the number unemployed was 20,985,000. With Texas and Florida shutting down again because of the outbreak of COVID, expect another spike in claims next week. And with it another spike in unemployment.

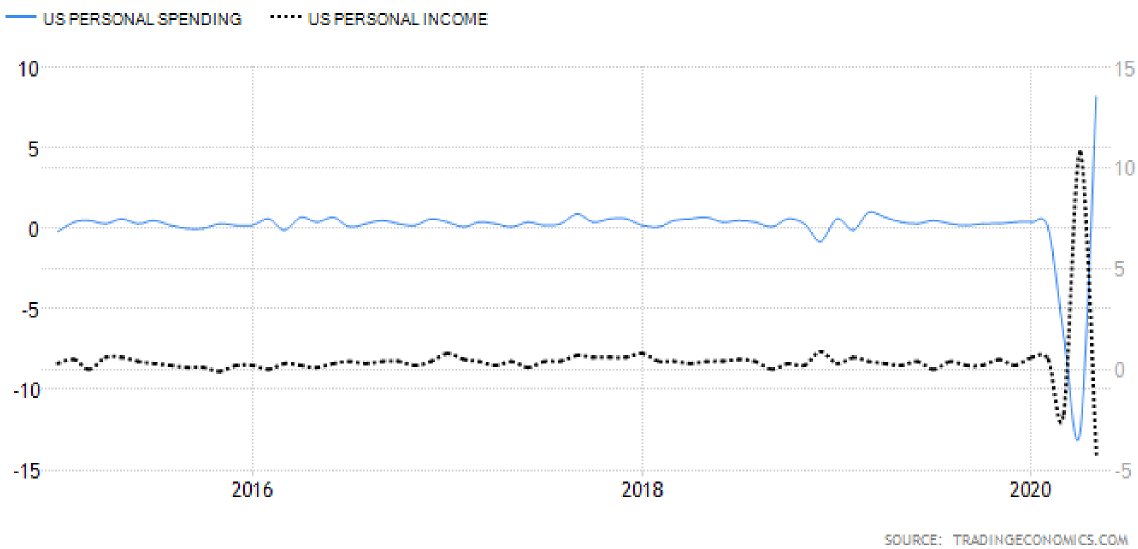
University of Michigan Consumer Sentiment



Source: www.tradingeconomics.com, www.umich.edu

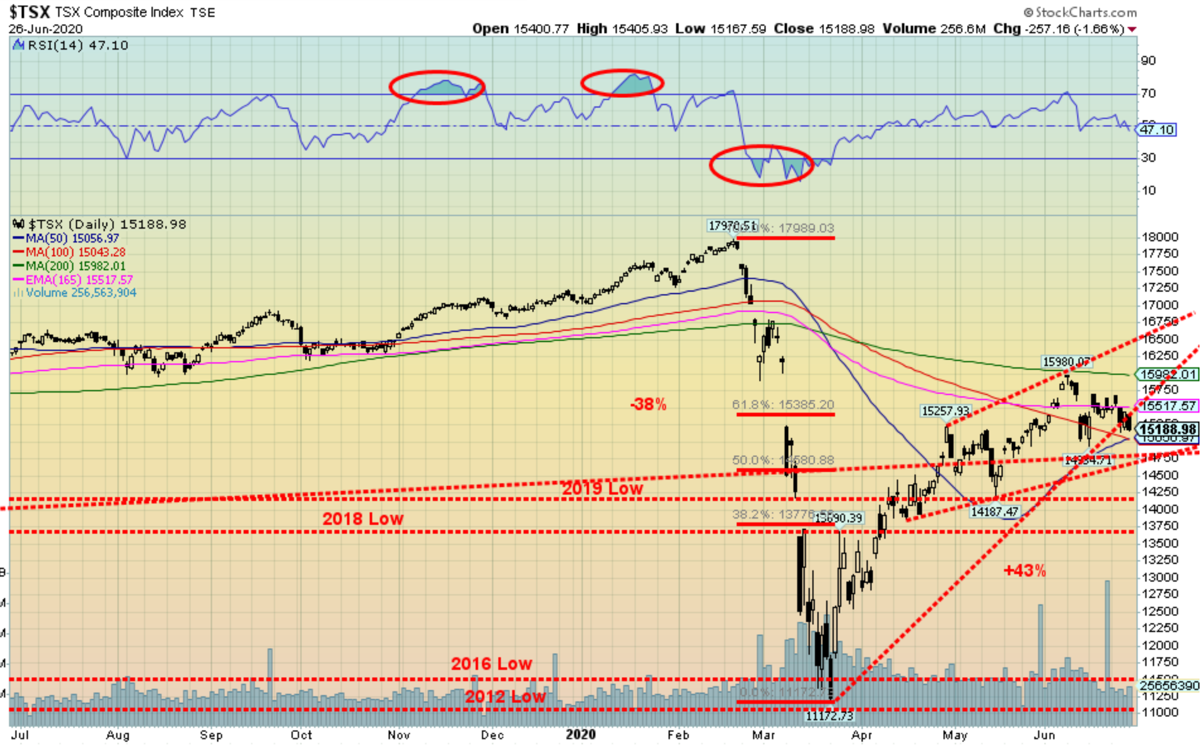
Hard to believe that consumer sentiment improved in June to 78.1 from 72.3 in May. It was probably due to the opening up of a number of states. But what happens when they start shutting down again? This could fall into July. Many believed that economic conditions couldn't get any worse than they already were. But then many also thought that the number of cases of COVID-19 would actually fall. Instead, the number of cases has gone up. Expect this to fall in July. Still, it is not yet as low as it got during the worst of the 2007–2009 Great Recession. Poor sentiment lingered into 2010 and 2011 before improving. If right, this will get a lot worse before it gets better. As well, this report doesn't include the news that Americans are barred from traveling to Europe. In fact, Americans can't travel anywhere except in the U.S. these days for the most part. And even that could have some problems.

Personal Income and Personal Spending (M-O-M)



Source: www.tradingeconomics.com

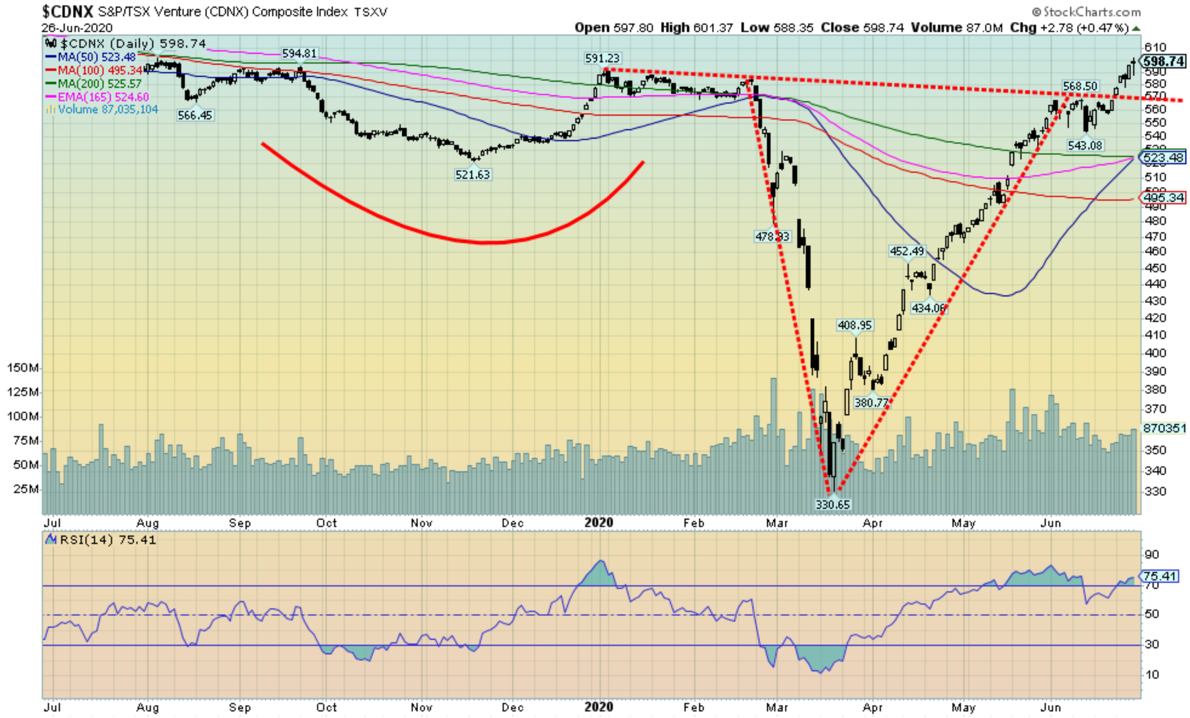
Personal income and personal spending went in two different directions in May. Personal income fell 4.2% vs. an expectation of a 6% decline while personal spending rose a record 8.2% vs. an expectation of a rise of 9%. In April, personal income rose 10.8% while personal spending fell 12.6%. On a cumulative basis, both have fallen in 2020. Personal spending rose as things opened up. But with things shutting down again and income falling, the expectation for June could once again see a sharp drop in personal spending. And that ultimately has ramifications for GDP. We note there was a drop in personal savings in May to 23.2% from 32.2% the previous month. It implies that consumers dug into their savings to spend. Increased spending was seen on motor vehicles and recreational goods**.** The biggest items for spending are food, health care, food services, and accommodations.



Source: www.stockcharts.com

The TSX Composite followed the U.S. markets down this past week. However, buoyed by golds and materials, the TSX didn't fall as far as the U.S. markets. The TSX Composite lost 1.8% this past week. Ten of the fourteen sub-indices were down on the week. First the winners: Golds (TGD) +5.5%, Materials (TMT) +3.4%, Metals & Mining (TGM) +3.8%, and Information Technology (TTK) +1.1%. No surprise as these are the sectors that we believe will outperform in a bear market, although Consumer Staples (TCS) -2.9% should do okay. One of the leading losers was no surprise: Energy (TEN) -3.5%. But it wasn't the worst. The biggest loser was Health Care (THC) -6.5%, followed by Telecommunications (TTS) -4.7%. Financials (TFS) -3.5%, Income Trusts (TCM) -3.6%, and Utilities (TUT) -3.5% were the others to lose more than 3%. The other losers were Consumer Discretionary (TCD) -3.0%, Real Estate (TRE) -2.7%, and Industrials (TIN) -1.5%. A most unpleasant week for the TSX.

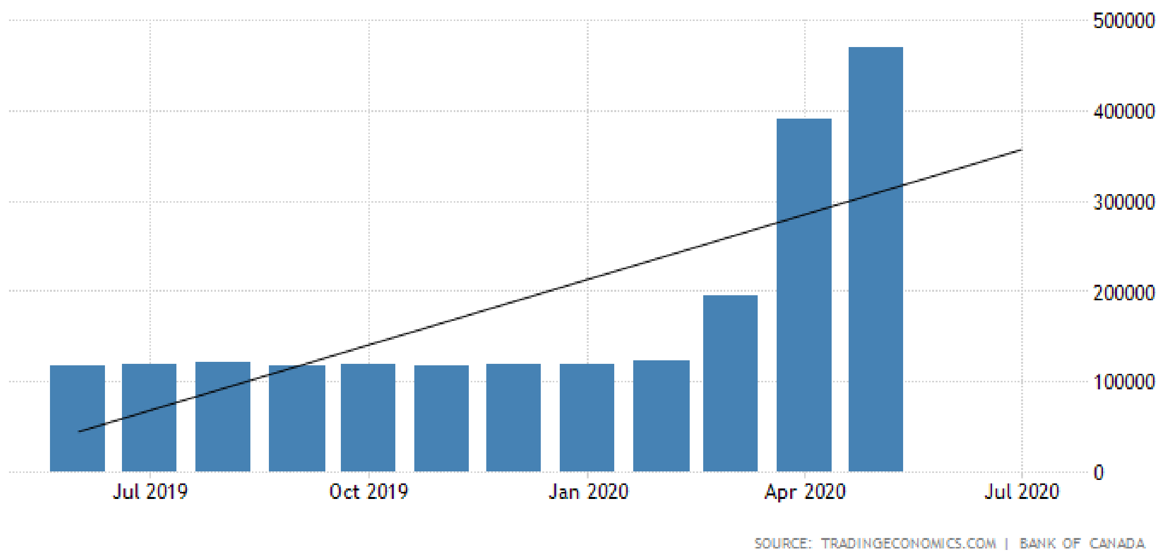
In classic fashion the TSX Composite appears to have failed at the 200-day MA (15,982). We appear to be breaking down from an ascending wedge triangle, suggesting the decline should take us back at minimum to the March 2020 lows. The last vestiges of support fall at 15,000 and 14,700. Below 14,200 we should be on our way to the lows in March seen at 11,172. The final area of support would come in around 13,750. Only new highs above 16,000 could change this negative scenario. The bear market never left us and, as we have suspected, the bull move from March to June has been a bear market rally.



Source: www.stockcharts.com

The emerging star is the TSX Venture Exchange (CDNX). Unlike its big cap cousins, the CDNX actually rose 5.6% this past week. As a result, the CDNX has turned positive on the year, up 3.7% thus far in 2020. The CDNX is made up of at least 50% junior mining stocks predominately junior gold mining exploration companies. The CDNX also includes numerous start-ups and emerging companies in high technology and biotech. Since the multi-year low seen in March 2020 at 330, the CDNX has now gained roughly 80%. It appears to have broken above resistance at 570 and could have targets up to at least 830. Expect some resistance here at the 600 level. With an RSI at 75 we would expect at least a pause/pullback to ease some of the overbought conditions. But in a strong bull market an RSI over 70 can remain in place longer than the shorts can stay solvent. We have already seen a number of junior mining stocks double and the odd one triple. We expect more as the market keeps on rising. The junior gold mining stocks offer great value, given that many of them are undervalued compared to the price of gold and their resources—both proven and probable and measured and indicated. We don't count inferred resources. We have seen that financings have been robust, often oversubscribed. That tells us we have a healthy market. As well, there are numerous juniors that have majors poking around them with possible thoughts of buyouts, takeovers, and mergers. Given the undervalued prices, any buyouts would happen at much higher prices. The CDNX has a long history of boom and bust. Since its inception in 1999 we have seen two booms with gains of 460% and 250% and two major busts of 80%. There was a mini-boom in 2016–2018 that saw the CDNX gain 102%, followed by another collapse where it lost 65% from the 2018 high. On a monthly chart the major breakout and/or major resistance can be seen at 680. That's not that far away and appears achievable in the near term. We've wondered what would happen if the Robinhood traders decided to focus on the junior mining exploration market. Given how small it really is, the moves could be dramatic. We won't get ahead of ourselves. Let's get to 680 first. We've had three consecutive up months now. But during previous boom periods we've seen the CDNX rise for 10 consecutive months.

Bank of Canada Balance Sheet (millions of dollars) 2019-2020



Source: www.tradingeconomics.com, www.bankofcanada.com

This is a snapshot of the growth of assets held by the Bank of Canada. As with the Federal Reserve, the Bank of Canada has been purchasing assets, primarily Government of Canada securities, since the outset of the COVID-19 crisis. Asset growth started in March 2020 and has continued through to the present. (Note: This chart goes to the end of May 2020 as June's numbers won't be available until early July). Since the beginning of the year, the BofC's assets have increased $351.5 billion. Canada, direct and guaranteed securities of the Government of Canada (i.e., Government of Canada treasury bills and bonds) has increased $144.9 billion. Purchased under repo agreements has increased $191.2 billion. Again, these would be primarily Government of Canada securities purchased from banks and dealers. But we note smaller items such as provincial bonds and money market have jumped by $9 billion. Their balance sheet also included at the end of May $3.8 billion in banker's acceptances. The BofC like the Fed has engaged in asset purchases, primarily funding the huge deficit created by the COVID-19 crisis estimated at around $250 billion. As with all the central banks, the BofC has engaged in what one would call "money printing" to stem the negative impacts of the COVID-19.

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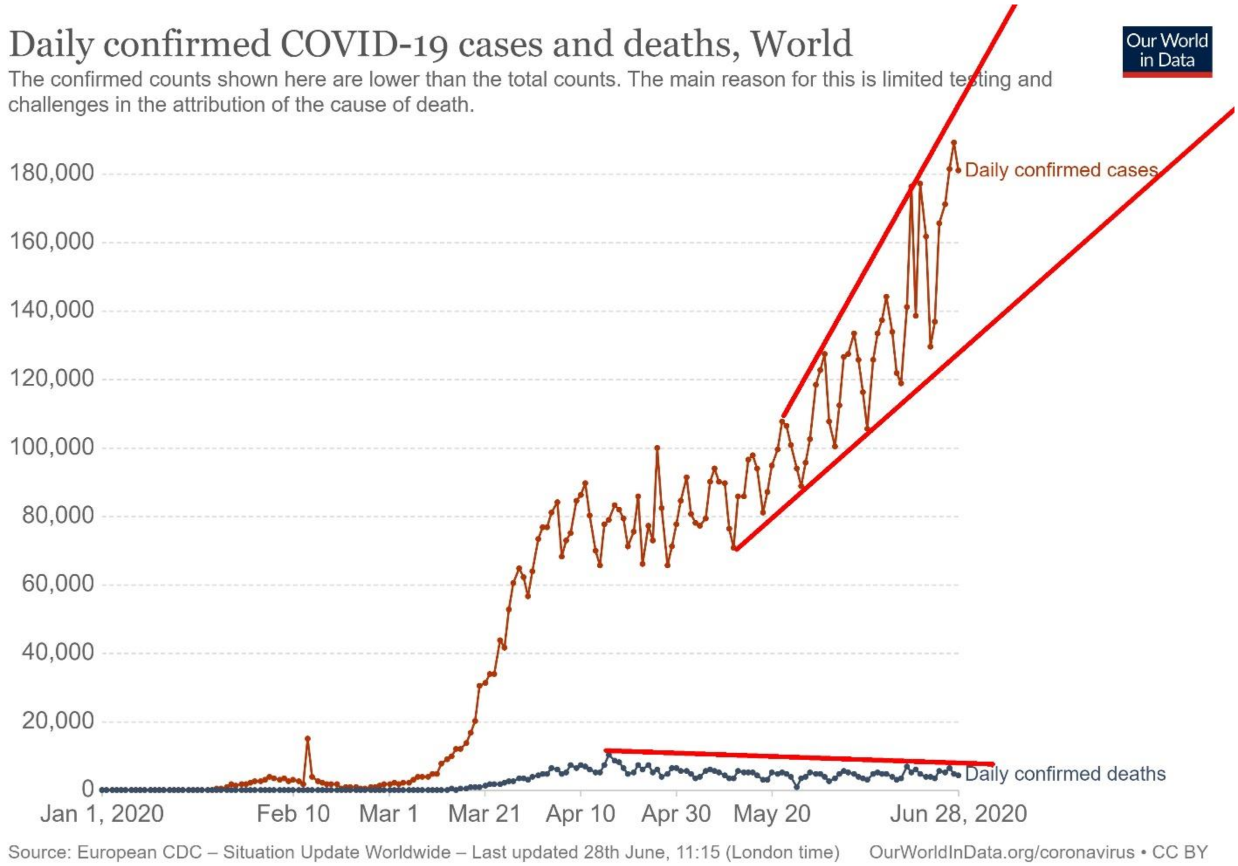
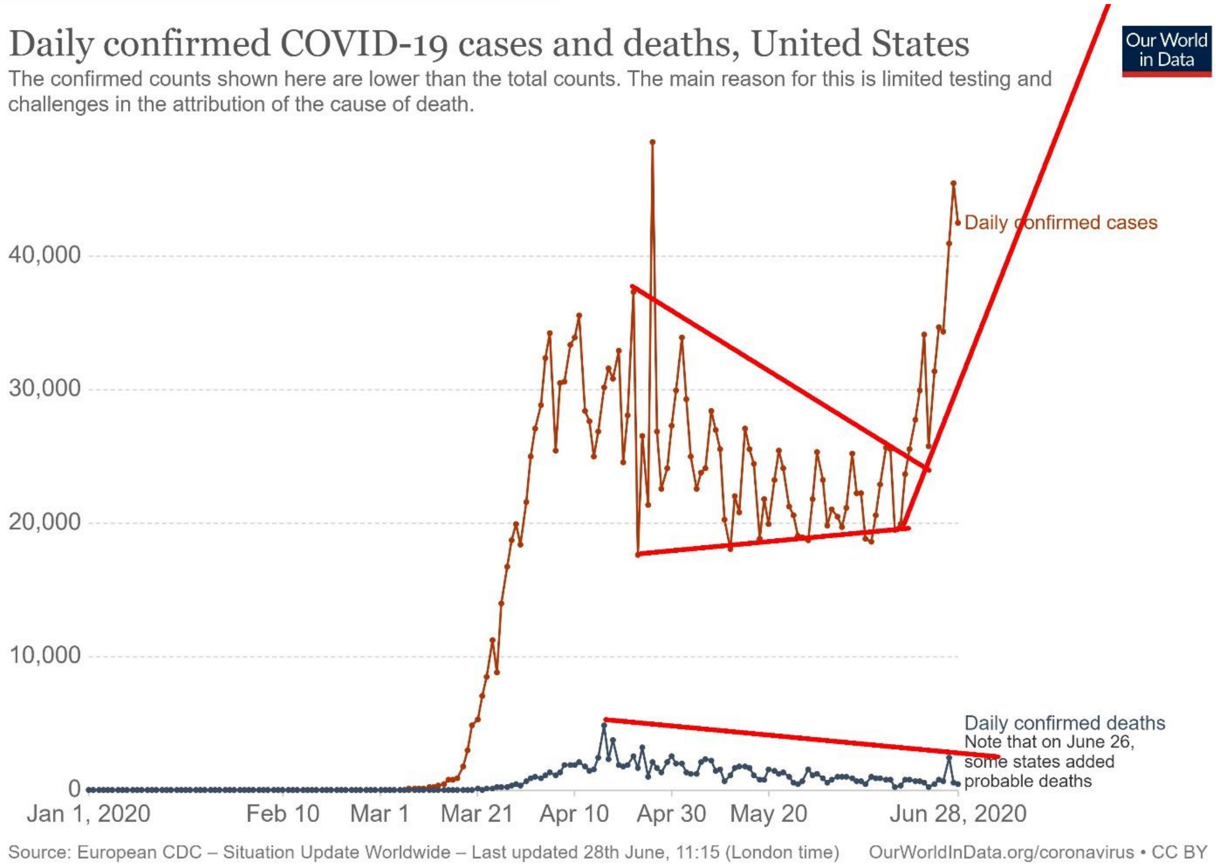


Source: www.ourworldindata.org/coronavirus

Are global COVID-19 cases in a runaway move? Hard to believe that they could be but when one looks at this chart of daily cases, we see a funnel pattern forming and that has connotations of a runaway move. Records are falling and one day we saw over 180,000 new cases. The runaway move is being led by the U.S., Brazil with ample assistance from Russia, and India. As well we are seeing surges in Bangladesh, Pakistan, Peru, Mexico, Chile, South Africa and Saudi Arabia. One can only hope this soon abates But the chart is not encouraging.

Sunday June 28, 2020 16:01 GMT

Cases – 10,156,383
Deaths – 502,545

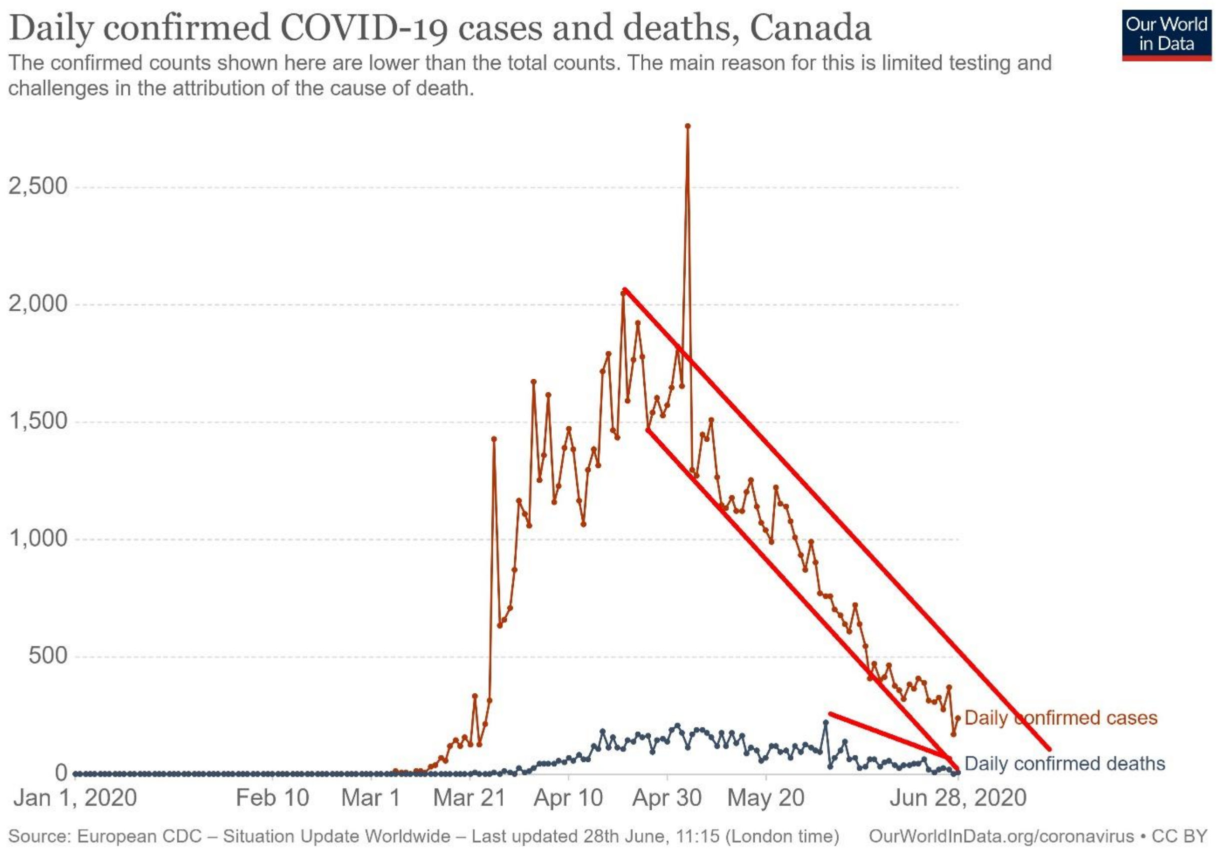


Source: www.ourworldindata.org/coronavirus

After appearing to abate the number of cases in the U.S. is once again soaring threatening to set new records. The number of cases is particularly soaring in U.S. states that decided to open up in May and are now being forced to close down again in June. Cases are surging in Florida, Texas, California, Arizona, Georgia and the Carolina's. Could a new daily record soon be seen? Records have been set in Florida and Texas.

Sunday June 28, 2020 16:01 GMT

Cases – 2,611,697
Deaths – 128,216

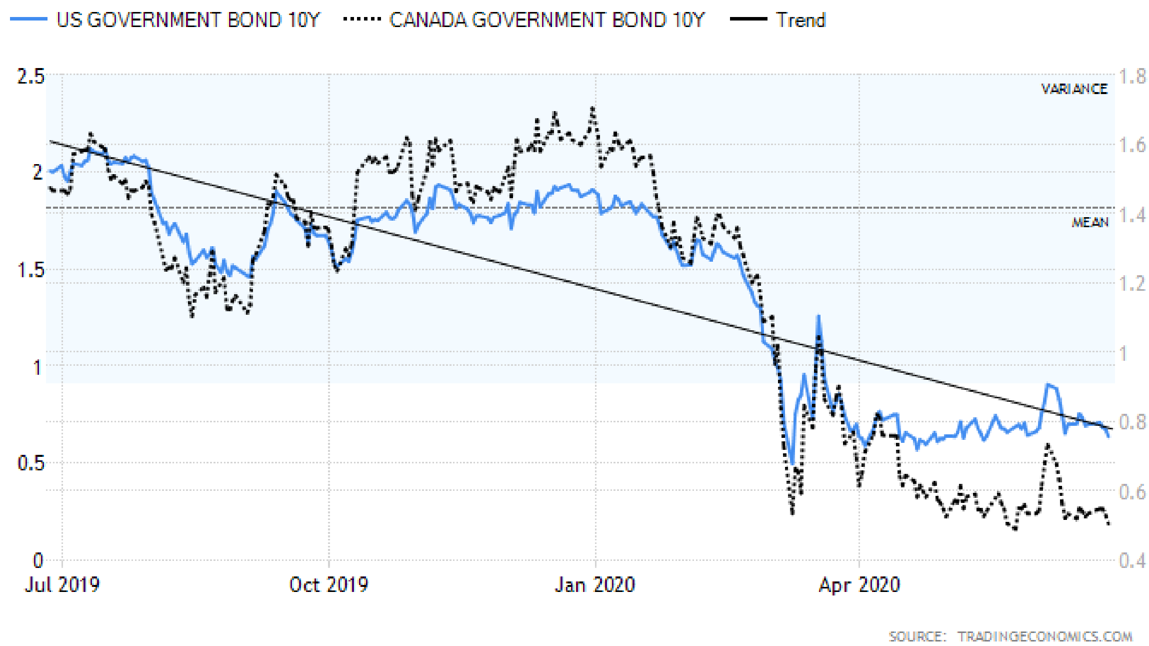


Source: www.ourworldindata.org/coronavirus

Canada continues to do something right as the number of daily cases and deaths continues to fall. To keep it that way we may have to adapt some of the methods of South Korea and Taiwan especially Taiwan. Interesting Taiwan has only ever reported 447 cases and 7 deaths. Over 80% of Canada's deaths have been reported in Long Term Care homes the highest in the world.

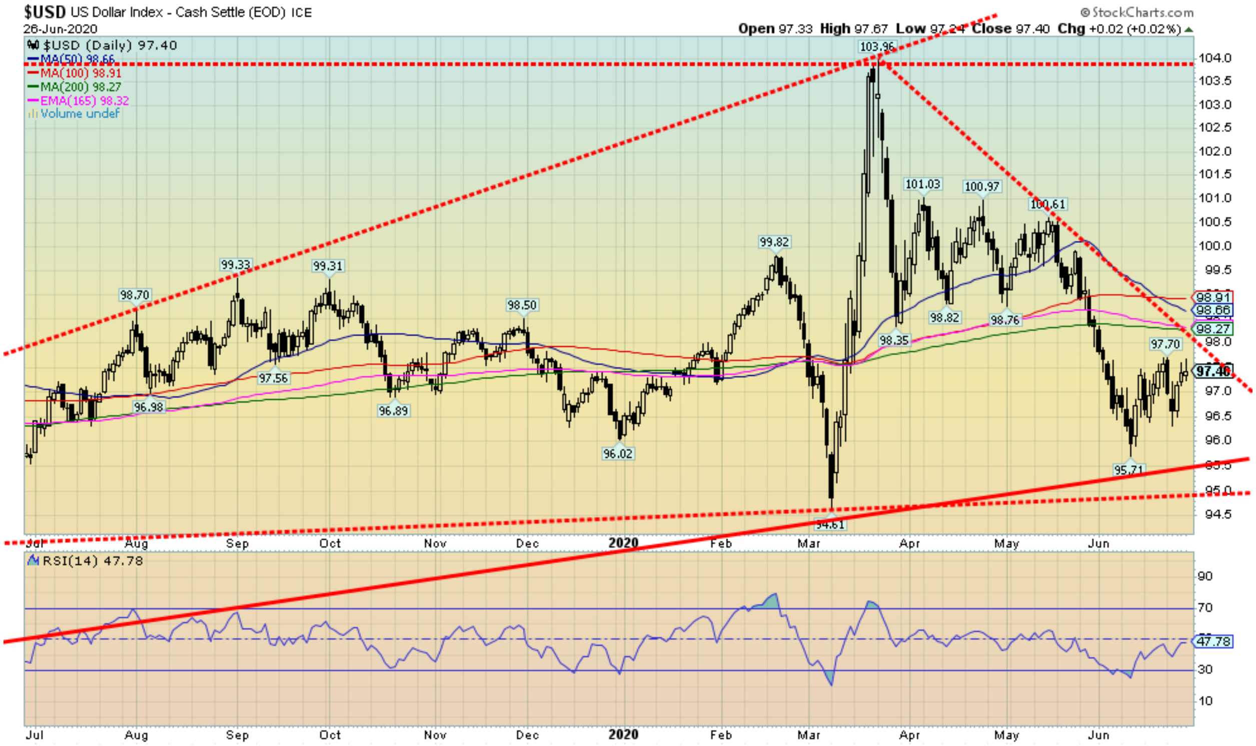
Sunday June 28, 2020 16:01 GMT

Cases – 103,032
Deaths – 8,516



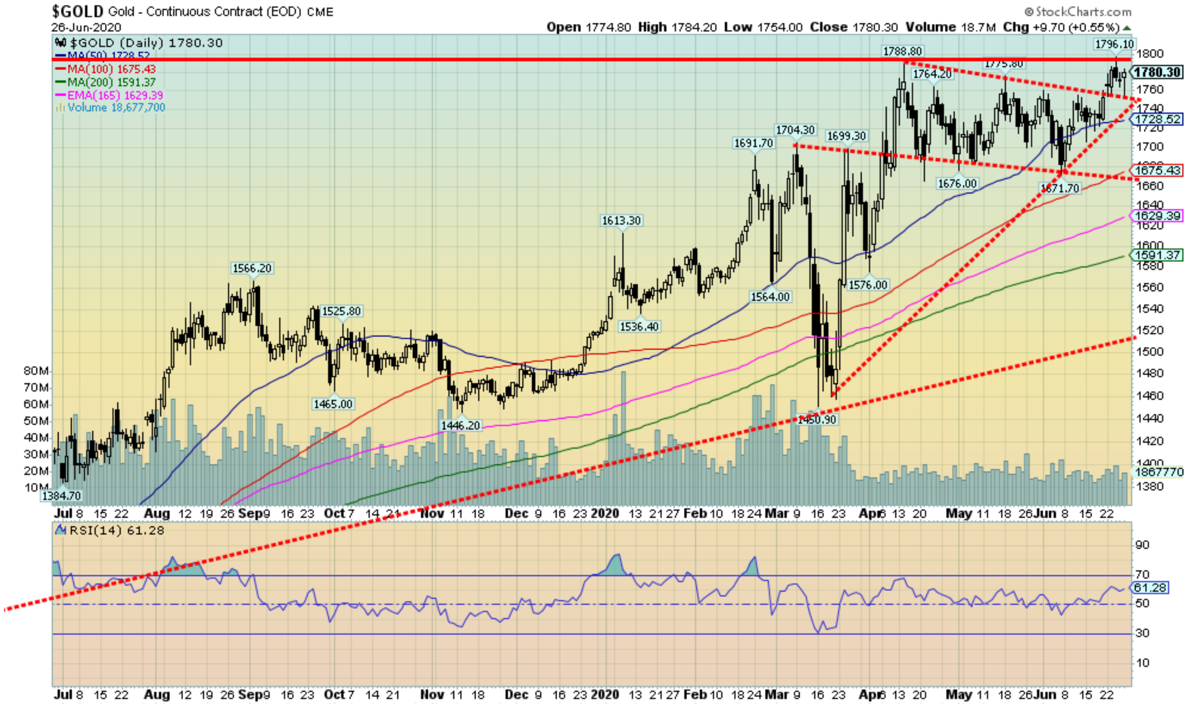
Source: www.tradingeconomics.com

Given the gloomy report from the IMF and the spike in coronavirus cases in the U.S., plus the drop in the stock markets this past week, it is not a surprise to see bond yields fall. However, the fall wasn't by a lot. The U.S. 10-year treasury note fell to 0.64% from 0.70% while the Canadian 10-year Government of Canada bond (CGB) fell to 0.51% from 0.54%. Our expectation going forward is that bond yields are going to remain relatively stable with only incremental moves up or down. The central banks are not planning on any more rate cuts so the Fed will remain at 0%–0.25% and the BofC will remain at 0.25%. Depending on economic numbers we could see upward blips as we did a few weeks ago; otherwise, rates should remain low for a considerable time.



Source: www.stockcharts.com

The U.S. dollar continues to show resilience. While well down from the highs seen in March at the height of the COVID-19 crash, the US$ Index has still not broken down under key support levels despite falling over 6% from the highs. This past week the US$ Index fell a small 0.2%. The euro was the major beneficiary, rising 0.4% while the Swiss franc was up 0.5%. The Brexit-challenged pound sterling fell 0.2% while the Japanese yen was off 0.3%. The Canadian dollar was down 0.4% thanks to weaker oil prices. The weakening global economic outlook, coupled with the spike in coronavirus cases in the U.S., helped push the US$ Index down this past week. Support remains at 96.50, 96, and 95. Resistance is seen at 98. A firm breakout above that level and especially over 99 could suggest another major attempt at the March highs near 104. However, note considerable resistance up to 101 and congestion between 99 and 101. We continue to view the Swiss franc and the Japanese yen as the strongest currencies with the pound sterling the weakest. All currencies continue to be weak vs. gold. Notably, we have seen gold rise even as the U.S. dollar rose.



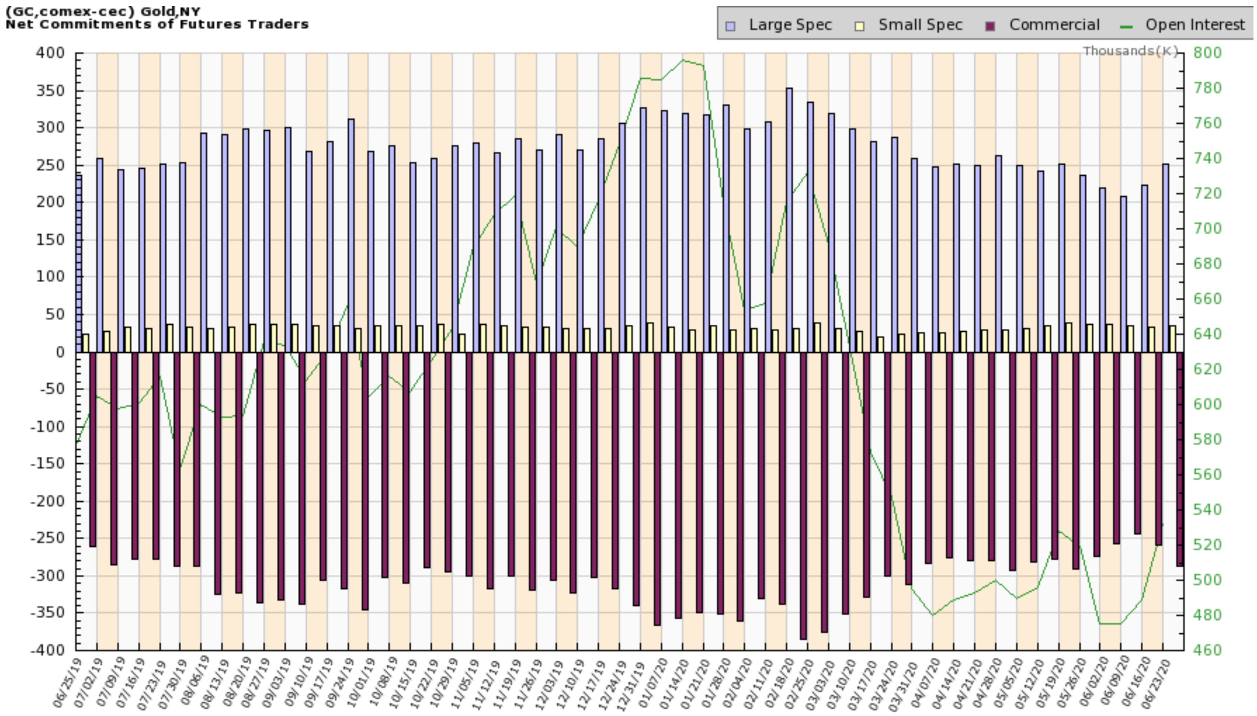
Source: www.stockcharts.com

Gold prices rose 1.6% this past week and closed at their highest level in 2020. We also saw 52-week highs at $1,796 just shy of $1,800. Silver gained 1% but platinum lost 1%. Of the near-precious metals (more industrial than precious), palladium fell 0.7% but copper rose 2.7%.

Maybe it wasn't surprising that, once again, selling came in as gold approached $1,800. The bullion banks, we believe, are defending the level. But when one looks at the action on the week, a sell-off on Friday in sympathy with the broader market saw gold rebound as the day wore on and, in the end, gold closed up 0.6% on the day. Buy the dip mentality is in force, it appears. That gold is rising even as the U.S. dollar attempts to rally is a positive development. Buoying gold prices is the sharp rise in the number of coronavirus cases and the gloomy economic report put out by the IMF. Gold sees it as more stimulus on the way and that is positive for gold prices. As well, recommendations abound of advisors telling clients to up their gold holdings. Remember it is a very small market and it doesn't take much of a shift out of the broader market into gold (or gold stocks) to make it move higher quickly.

$1,800 remains the key level to be broken. Once that happens, we believe we would then be on our way to our long-held targets of $1,935/$1,950. Some say $2,000. We are not ready to suggest even higher prices as some have of $3,000, $5,000, and $10,000.

Support for gold is seen at $1,725. A break under that level could send gold down to next key support at $1,675. Below $1,675, the bull move is at least temporarily on hold. However, major long-term support is seen down to $1,600.

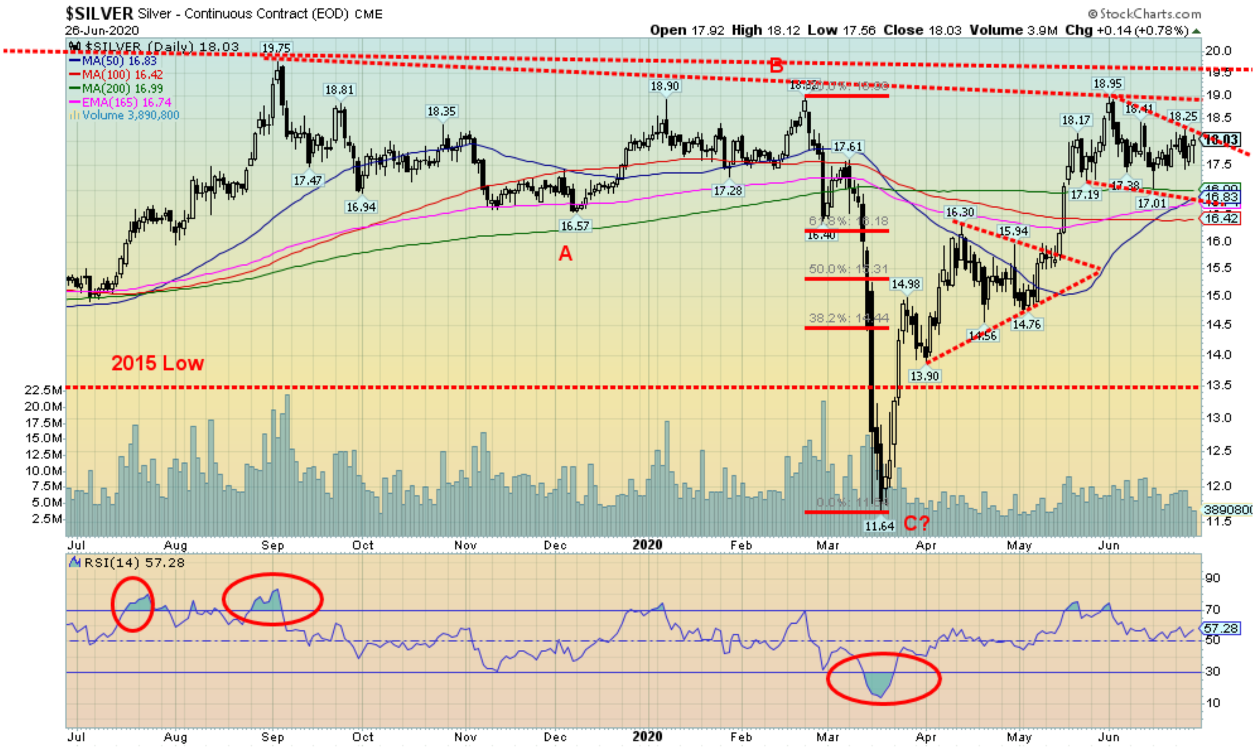


Charts compiled by Software North http://cotpricecharts.com/commitmentscurrent/

	Large Speculators				Commercial				Small Speculators			Open
	#	Long	Short	Bullish	#	Long	Short	Bullish	Long	Short	Bullish	Intrest
05/26/20	349	288,148	50,234	85%	116	131,977	406,299	25%	59298	22,890	72%	519,374
06/02/20	333	272,196	53,162	84%	111	108,654	365,277	23%	57888	20,299	74%	475,745
06/09/20	338	263,972	55,359	83%	107	110,115	353,572	24%	54930	20,086	73%	475,661
06/16/20	338	277,395	53,047	84%	108	110,922	368,942	23%	55159	21,487	72%	489,563
06/23/20	354	308,459	56,502	85%	111	114,410	401,702	22%	61677	26,342	70%	532,101

Source: www.cotpricecharts.com

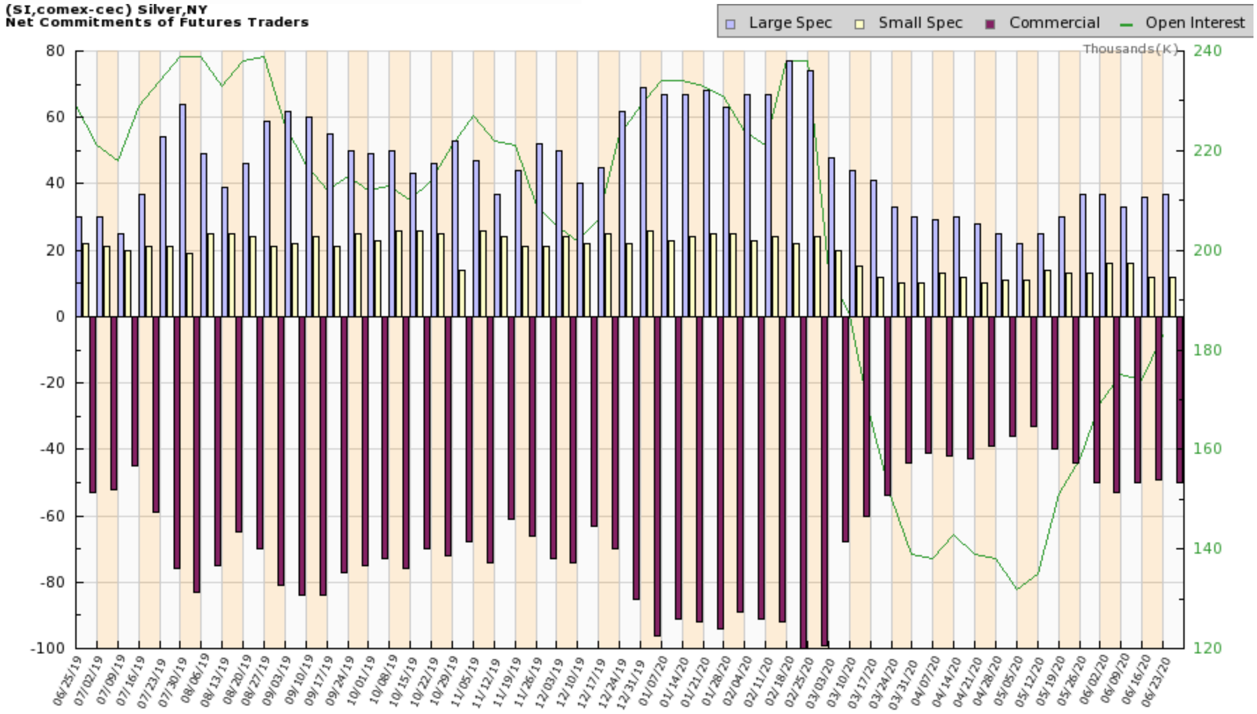
The gold commercial COT deteriorated this week to 22% from 23%. Commercial dealers increased their long open interest by just under 4,000 contracts but they increased their short open interest by even more—almost 33,000 contracts. Not surprisingly, the large speculators (hedge funds, managed futures, etc.) saw their COT rise to 85% from 84%. They increased their long open interest by some 41,000 contracts while their short open interest rose about 3,500 contracts. This report is slightly negative, but we note that open interest rose roughly 43,000 contracts as the price of gold rose so we view that as positive and bullish.



Source: www.stockcharts.com

Silver gained 1.0% this past week. It appeared to have broken out of a triangle, but the breakout was so feeble we just re-drew the upper line. We need to see a firm breakout, not a feeble one. We believe that a move over $18.35 would set aside any notions of an immediate down move but the reality is we don't really break out until we are over $19 and preferably over $19.50. Once that happens, we can easily project up to $21/$22. With gold gaining 1.6% this past week, outperforming silver, the gold/silver ratio rose once again this time to 98.7. Ridiculously high, but definitely down from the 131 we saw earlier. We need to get under 80 to suggest that silver is finally doing the leading that is needed for this market. A continued drag on silver makes us a little wary until we see silver firmly leading. A move over $18.35 could set in motion our move to $19. The breakdown levels for silver are at $17 and $16.40. Under $17.50 would be the first sign of trouble and probably signal that we will fall to $17.

But an interesting side note. We have learned that J.P. Morgan has purchased, quietly over time, upwards of one billion ounces of silver. We wonder what he knows that the rest of us don't know. And could we see a Hunt Brothers short squeeze? In late 1979 the Hunt Brothers famously tried to corner the silver market and silver prices shot from $4 to $50. A comparable move today could see silver prices rise to $200. No, we are not holding out that is going to happen, but we do find it interesting that JP Morgan has acquired such a large position.

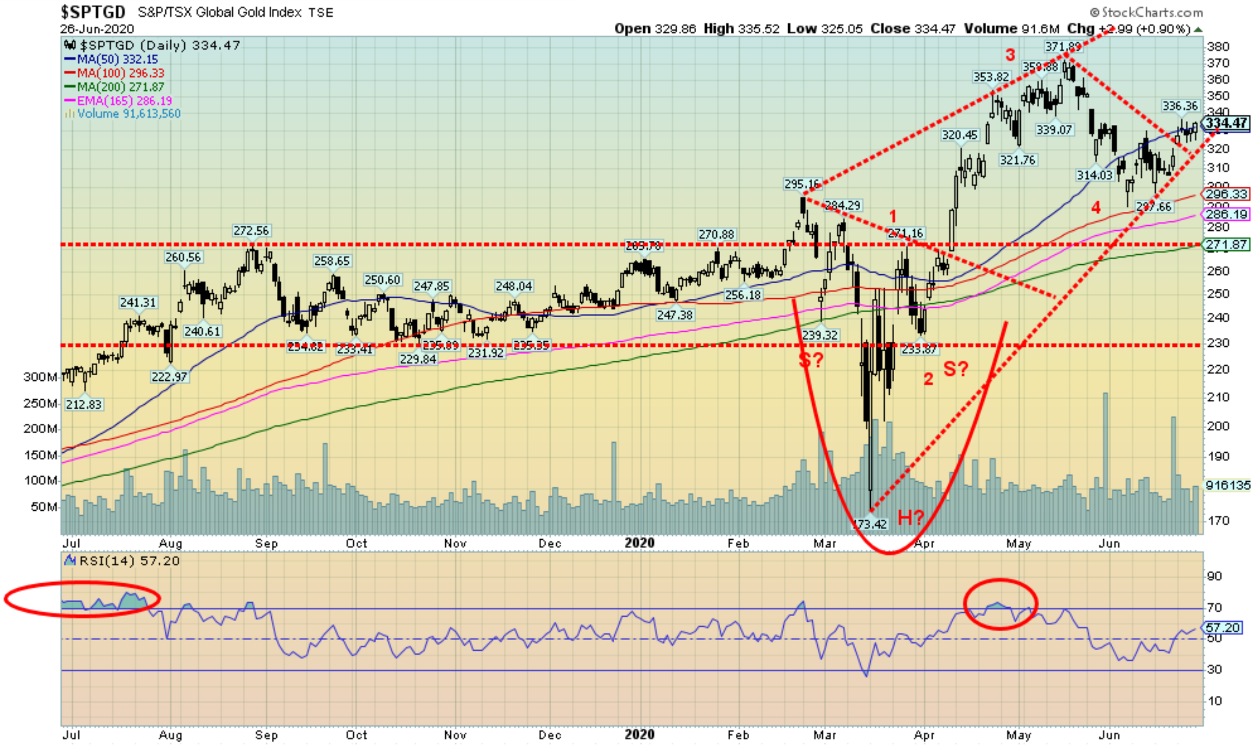


Charts compiled by Software North http://cotpricecharts.com/commitmentscurrent/

	Large Speculators				Commercial				Small Speculators			Open
	#	Long	Short	Bullish	#	Long	Short	Bullish	Long	Short	Bullish	Intrest
05/26/20	177	61,525	24,336	72%	80	63,923	114,515	36%	24929	11,526	68%	158,185
06/02/20	183	64,997	27,773	70%	83	67,850	121,797	36%	27516	10,793	72%	169,670
06/09/20	199	65,660	32,295	67%	81	69,696	119,867	37%	27098	10,292	72%	175,240
06/16/20	175	66,664	30,042	69%	87	70,308	119,338	37%	25479	13,071	66%	174,386
06/23/20	196	71,859	33,936	68%	89	69,758	120,595	37%	25667	12,753	67%	183,444

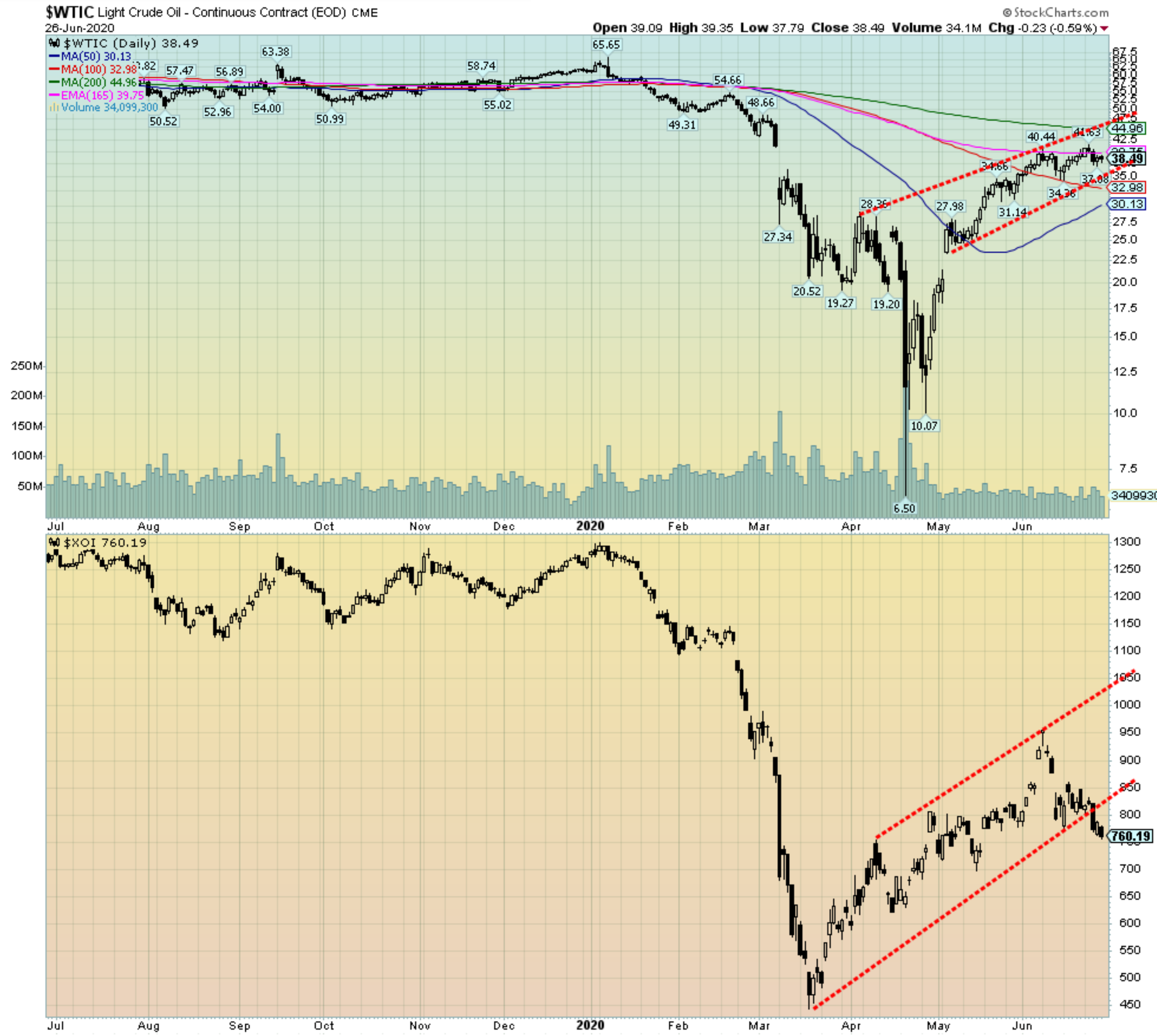
Source: www.cotpricecharts.com

The silver commercial COT was unchanged this past week at 37%. Movement was minimal. Long open interest was down a small roughly 500 contracts while short open interest rose just over 1,000 contracts. No change means our outlook for silver remains positive.



Source: www.stockcharts.com

One of the few bright spots in the stock market this past week was the gold miners. The TSX Gold Index (TGD) was a star up 5.5% while the S&P 500 was falling 2.9%. The Gold Bugs Index (HUI) rose 5.0%. Both are stars on the year with the TGD up 27.9% and the HUI up 15.8%. The TGD appears to be breaking out above resistance; however, it is persisting in staying just below or at the rising 50-day MA (332). The TGD closed just above at 334. Our elusive target of 385 lies well above. To suggest new highs above 372 the TGD needs to rise above 360. Support down to 295/300 appears now to solid. However, a break under that level would be negative and imply further losses ahead. Major long-term support is at 270. Under 233 a test of the March lows would be underway. But our focus is on the upside, given this week's breakout to the upside. We just need confirmation. A move above 345 would confirm the breakout. The RSI is only at 57 so it has plenty of room to move higher to reach 70 and into overbought territory. The gold miner's bullish percent index (BPGDM) is at 86 which is high. So, while we are optimistic that we will continue to see higher prices, we are cautious and would rather see a market that continually backs and fills rather than one that just goes straight up. But the trend is up and this week's up move against the grain of the overall market is positive. First sign of trouble would be a break under 320. As we have previously noted, gold stocks remain cheap vis-à-vis the price of gold.



Source: www.stockcharts.com

As the coronavirus cases grow in the U.S., Brazil, and elsewhere, maybe oil saw the writing on the wall and decided that's it. Oil prices fell back below $40 this past week as WTI oil fell 3.4% and remains down 37% on the year. The fear is demand will once again fall. The energy stocks didn't wait to find how far oil prices will fall; they just "tanked" this past week. The ARCA Oil & Gas Index (XOI) fell 6.5% while the TSX Energy Index (TEN) dropped 3.5%. Both are sharply down on the year with the XOI down 40.2% and TEN down 49%. Collapsing natural gas (NG) prices didn't help either. Demand seems to be disappearing along with NG prices. NG fell to new 52-week lows losing 7.8% and is down almost 30% on the year. NG is at the lowest levels seen since the 1990s. The gloomy economic report from the IMF didn't help as reduced economic activity translates into reduced demand for oil.

The suspicion is now that the two-month-old rally in oil prices is now over. While it seems a way off, the real breakdown for oil prices would begin under $30. The elusive 200-day MA was just above at $45. With huge states like Texas shutting down again, demand is likely to fall. In just one week from June 17 to June 24, gasoline demand in Texas fell almost 18%. And there is also acceleration towards a greener economy as California continues to tighten regulations for emissions, something that would be flying in the face of the president. Congress appears set to pass green tax incentives (which will probably die in the Senate or be vetoed by the president).

Write-downs and bankruptcies continue. Occidental Petroleum is the latest to take a write-down, this time $9 billion which was more than 10% of the companies' assets. Even Texas oil executives are gloomy, predicting that drilling activity won't return to pre-pandemic levels until at least 2022.

And sanctions make for "how do we find a way around this" behaviour. Iran, under sanctions from the U.S., is now shipping via the Gulf of Oman to bypass the Straits of Hormuz where they would be choked in by U.S. ships.

For WTI oil the breakdown begins under $35 while under $30 the breakdown could accelerate. The XOI has already broken down and a test of the March lows is most likely underway.

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GLOSSARY

Trends

Daily – Short-term trend (For swing traders)
Weekly – Intermediate-term trend (For long-term trend followers)
Monthly – Long-term secular trend (For long-term trend followers)
Up – The trend is up.
Down – The trend is down
Neutral – Indicators are mostly neutral. A trend change might be in the offing.
Weak – The trend is still up or down but it is weakening. It is also a sign that the trend might change.
Topping – Indicators are suggesting that while the trend remains up there are considerable signs that suggest that the market is topping.
Bottoming – Indicators are suggesting that while the trend is down there are considerable signs that suggest that the market is bottoming.

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