Technical Scoop December 7, 2020
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Not 536, records set, debt soars, golden life, broken dollar, oil cusp, pandemic rage, faltering jobs, rate creep

It has been annus horribilis. But it hasn't been the year 536. We have a peek at what made 536 the worst year in history. The markets continue to set records. November was a terrific month as the best three months of the year get underway. But the indicators are screaming extremes. In our chart of the week (page 10) we discuss the K recovery, that we are in a recession while stock markets are making new highs, we observe that most of four key valuation indicators are higher than they were at the peak of the dot.com bubble of the late 1990's and we question whether this is a time of greed when we should be afraid. Is there a bear alive? Anywhere?

Debt has soared. But it is not government debt that has us concerned. Gold showed some life rising for the first time in four weeks but it is not out of the woods yet. In eight of the past ten years gold has made important bottoms in November/December. The U.S. dollar has broken support. Oil is sitting on the cusp of a potential breakout and over the past few weeks the energy stocks have been the top performers – yet they are still down on the year. The pandemic rages on and records fall almost daily. The jobs report showed job growth is faltering. We do our take on the jobs report. Even though jobs are being lost, demand for staples such as food and pharmaceuticals persists, and grocery retailers such as Metro Inc. which operates under various grocery and drugstore banners, pays a dividend, and is held in the Canadian Conservative Growth Strategy,* have been able to maintain resilient cash flows.

Interest rates are creeping higher at the long end of the curve. But spreads between the top government credits and high yield and junk bonds are as low as ever.

As the year winds down we can only try to look forward to some optimism for 2021. And for a vaccine that works.

In the interim, the sun is shining, the sky is blue. Get out for a walk. Have a great 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

"What improves the circumstances of the greater part can never be regarded as an inconveniency to the whole. No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable."

—Adam Smith, Scottish economist, philosopher, moral philosopher, pioneer of political economy, known as The Father of Economics or The Father of Capitalism; 1723–1790, from *The Wealth Of Nations*, Book IV, Chapter IX, p. 687, para. 51.

"Religion is the sigh of the oppressed creature, the heart of a heartless world, and the soul of soulless conditions. It is the opium of the people".

—Karl Marx, German philosopher, economist, historian, sociologist, political theorist, journalist and socialist revolutionary; 1818–1883, from the introduction of *A Contribution to the Critique of Hegel's Philosophy of the* Right, 1844

"The long run is a misleading guide to current affairs. In the long run we are all dead."

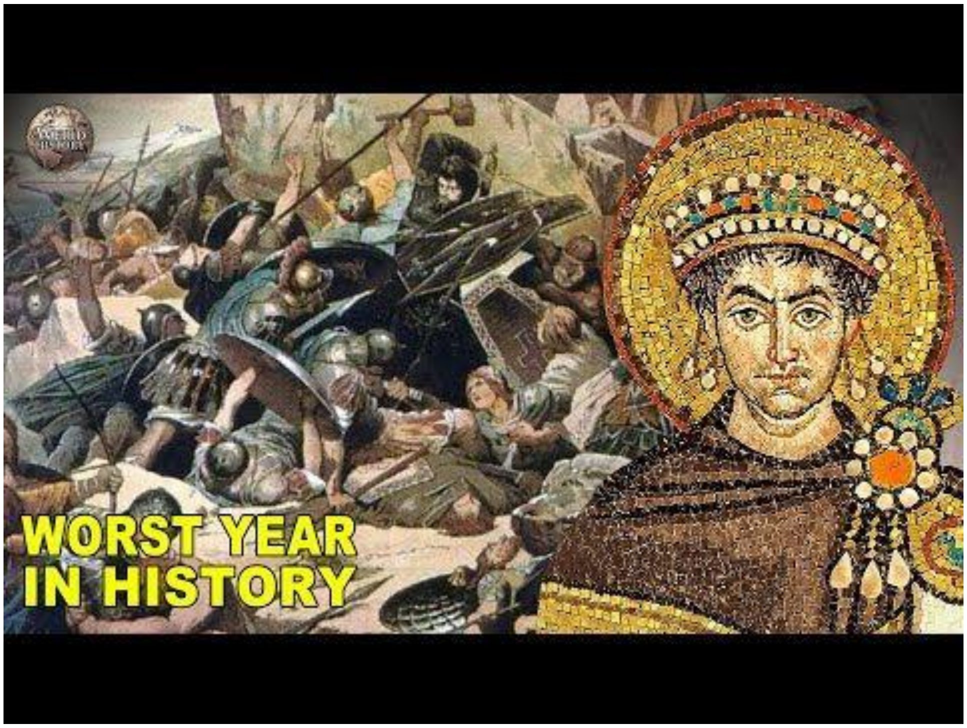
—John Maynard Keynes, 1st Baron Keynes CB FBA, British economist; 1883–1946, from *A Tract on Monetary* Reform, 1923

We should be thankful that 2020 is nearly over. It has truly been an annus horribilis, the year from hell. Naturally, those who lived in the year 536 AD might beg to differ. According to medieval historian Michael McCormick, 536 was not a particularly good year. He said it was worse than 1349 when the Black Death wiped out half of Europe or 1918 when upwards of 50 million died from the Spanish flu. So, what happened in 536?

Apparently, a mysterious fog plunged Europe, the Middle East, and parts of Asia into darkness, day and night for roughly 18 months. And as for North and South America, its inhabitants had their own issues. If they managed to escape at that time, they faced a worse plague, starting with the arrival of the Europeans in the 16th century. By the end of the 19th century, upwards of 90% of the native populations of North and South America had been wiped out by disease, slavery, and war.

The result of the mysterious fog saw temperatures plunge, crops fail, and people starve. Apparently, it was caused by cataclysmic volcanic eruption from Iceland and elsewhere. More eruptions were recorded in 540 and 547. The Plague of Justinian (the Roman Byzantine emperor at the time) struck in 541 and lasted on and off to 549, although plagues were recorded up to 750. There was no known cure. And, no, carrying flowers around all day was not a cure. No wonder the period was known as the Dark Ages.

Emperor Justinian 1 and the Year 536

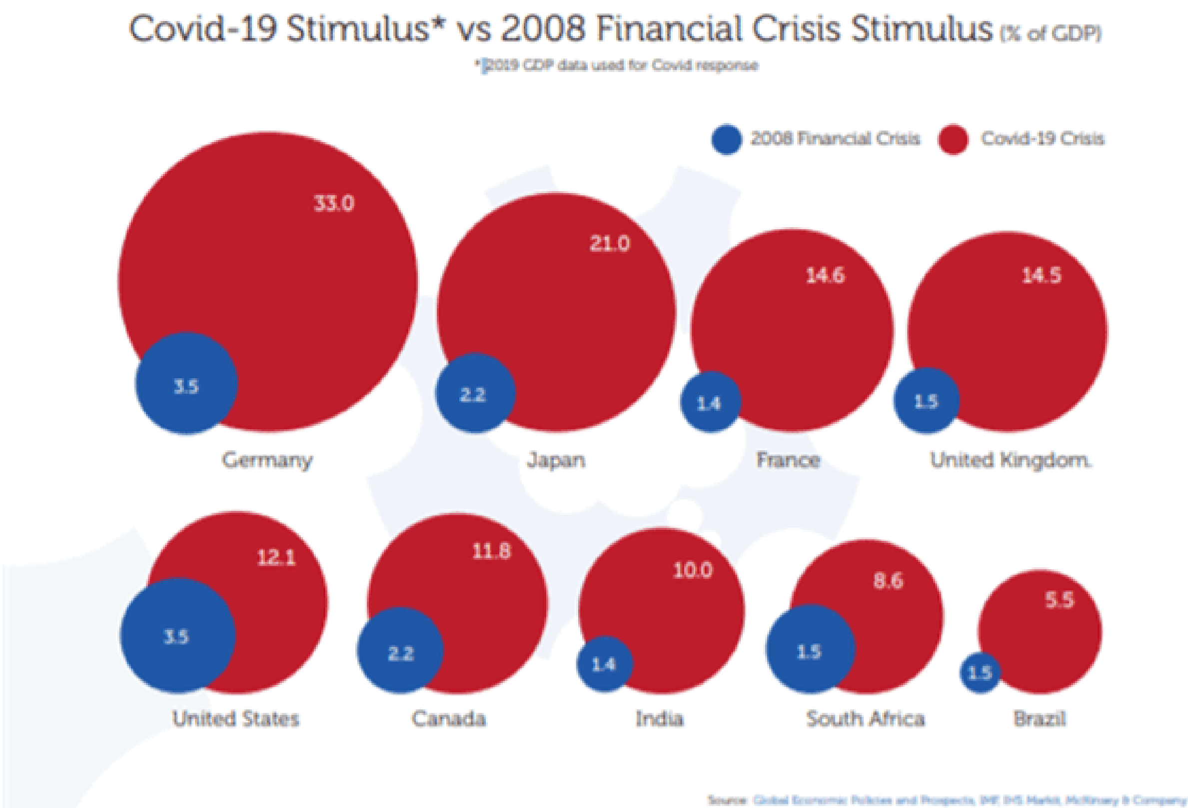


Source: www.pinterest.com

No, we are not suggesting that we are about to suffer a volcanic winter, but there is some history of ebbs and flows of volcanic eruptions that could have severe effects on the population. A series of volcanic eruptions now would only add to the current woes. Nor will this pandemic suddenly disappear. The cure in the form of vaccines is being rolled out, starting next week in the U.K. but just for emergency use. The reality is, vaccines normally take a few years to develop. This one is being brought forward in less than a year. Will it work? Will there be negative side effects that have yet to be determined? We won't know until they start inoculating and even then, it is a monumental task to inoculate the entire population, especially when a core of so-called anti-vaxxers will refuse the vaccine.

The economic fallout from lockdowns has had devastating effect. The expectation is that the majority of countries will experience negative growth in 2020. Will 2021 bring better times? The forecasts are optimistic, dependent on a vaccine. The negative economic effects are not going to go away any time soon. A quick look at *The Economist's* economic and financial indicators shows that only three countries are expecting positive GDP growth in 2020: China (+1.8%), Taiwan (+2.1%), and Egypt (+3.6%). Egypt did surprise us. Unemployment has soared. The official unemployment rates are only a small portion of the total unemployed as structural long-term unemployment threatens to be become endemic. Budget deficits have soared as governments around the world try to stave off the worst effects of the pandemic. The G7 alone has budget deficits that average 12.5% of GDP. The stimulus provided during the pandemic makes what was provided during the financial crisis of 2008 look puny.

Fig. 1



Source: www.ttmygh.com, www.mckinsey.com, www.mauldineconomics.com

Huge swaths of the economy have been hit hard by the pandemic. Hotels are operating at roughly 20–25% capacity if they are lucky. Sports and performing arts are at a standstill. Retail from department stores, small retail stores, to even shopping malls has felt the pain. Some shopping malls have declared bankruptcy and the list of well-known retailers who have gone under continues to grow. Restaurants and bars have been devastated and, in some areas, up to 80% of them will fail. Motion picture theatres are largely empty and production of films has slowed sharply. Luxury and personal services have taken a hit from pet care to, yes, even the oldest profession. Clothing stores are barely alive. Amusement parks and casinos are largely empty. And airline travel, along with any other scenic travel (i.e., cruise lines) is barely alive. Cruise ships are being broken down for scrap. The chart below shows how the airlines have been negatively impacted, with passengers flying down over 50%. Most airlines are operating at about 20-25% capacity. If they are lucky. It will take years for foreign tourism to recover.

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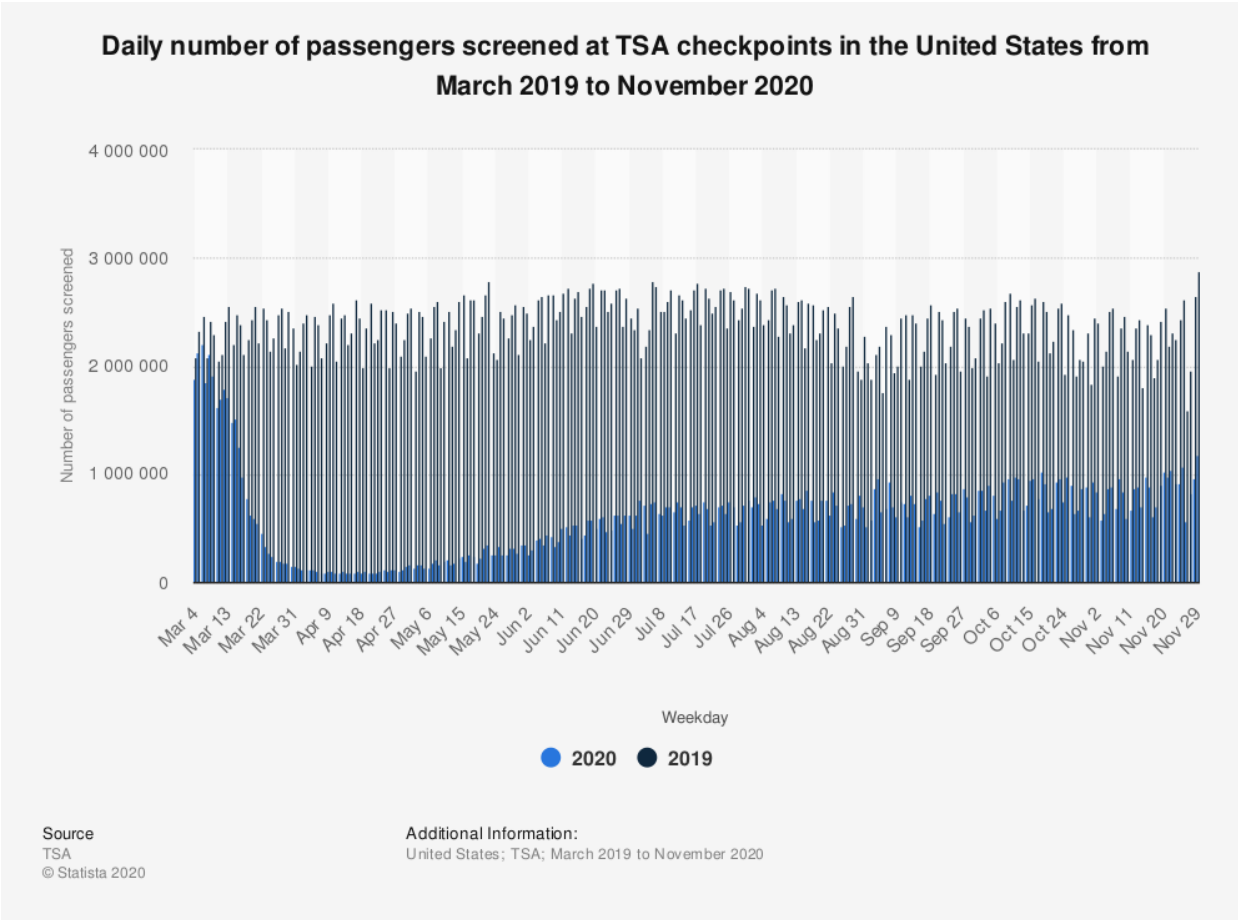

Source: www.statista.com

It is difficult trying to get a handle on how many people that have lost their jobs. Some estimates have upwards of 200 million primarily in Europe and North and South America. Upwards of 200 million have been pushed into poverty. The real number could be higher. Food lines are growing in the U.S. Tent cities have sprung up in public parks as homelessness grows. These are the equivalent of the soup lines and the shanty towns known as Hoovervilles that were seen during the Great Depression. There are more people unemployed than are there are jobs available. Yet support systems for them are falling not rising.

Debt has exploded as governments struggle to deal with the economic fallout. Global debt surged to $258 trillion in Q1 2020 and is expected to be at least $277 trillion by year end and over $300 trillion in 2021. This implies that global debt/GDP would be about 318% by year end 2020. In advanced economies debt is 432% of GDP. That's up 50 points since 2019. This is against a background of global growth that is expected to contract at least 4.9% in 2020. The table below shows the total federal debt and the debt as a percentage of GDP. When one takes into consideration total debt (governments, consumers, corporations, financial & non-financial) the ratios are even higher.

A debt to GDP ratio that exceeds 77% for an extended period of time, is, according to the World Bank, a country that will see an extended period of slow economic growth. The higher the debt/GDP ratio, the less likely it is that country will ever pay back its debt and it is at higher risk of default. We look here only at national debt. Left out of this equation is corporate and consumer debt. But that is important as well. By the definition of the World Bank, countries like Venezuela, Sudan, Greece, Lebanon, and Italy should be basket cases. So should Japan, but its debt is all purchased by the Japanese, including Japanese government agencies. But now the national debt of the U.S. and France has moved firmly over 100% while the U.K. is getting high. Canada and Germany still have room to move higher. Russia and China have considerable borrowing room.

G7 plus China & Russia
Federal Debt (US$ billions), Debt/GDP %, GDP Growth %

Country	Fed Debt $	Fed Debt/GDP %	Projected GDP Growth 2020 %
G7			
USA	$27,319.1	134.3%	-3.8%
Canada	$952.6	63.7%	-5.8%
UK	$2,550.3	90.0%	-11.3%
France	$2,820.6	105.6%	-9.5%
Germany	$2,599.3	65.0%	-5.8%
Japan	$9,887.1	259.1%	-6.4%
Italy	$3,041.0	151.7%	-9.1%
China	$5,573.0	49.3%	+1.8%
Russia	$232.2	23.1%	-4.4%

Source: www.commodity.com, www.usdebtclock.org, www.iif.com

The huge surge in debt growth threatens corporations and households more than it does governments. We don't have an up-to-date chart of global debt levels to GDP but here is one from 2019. Not surprisingly, these numbers would be even higher now. If we apply the same rule of thumb to corporate and consumer debt as we do to national debt, then one should have concerns about the high level of corporate debt in Japan, France, Netherlands, Canada, Switzerland, China, and South Korea. U.S. corporate debt has gone up substantially in 2020. Consumer debt is abnormally high in Netherlands, Canada, Switzerland, and Australia. And this was in 2019. In 2020 these numbers are higher still. Canada's consumer debt to GDP was last at 106%, up from the 101% recorded in 2019.

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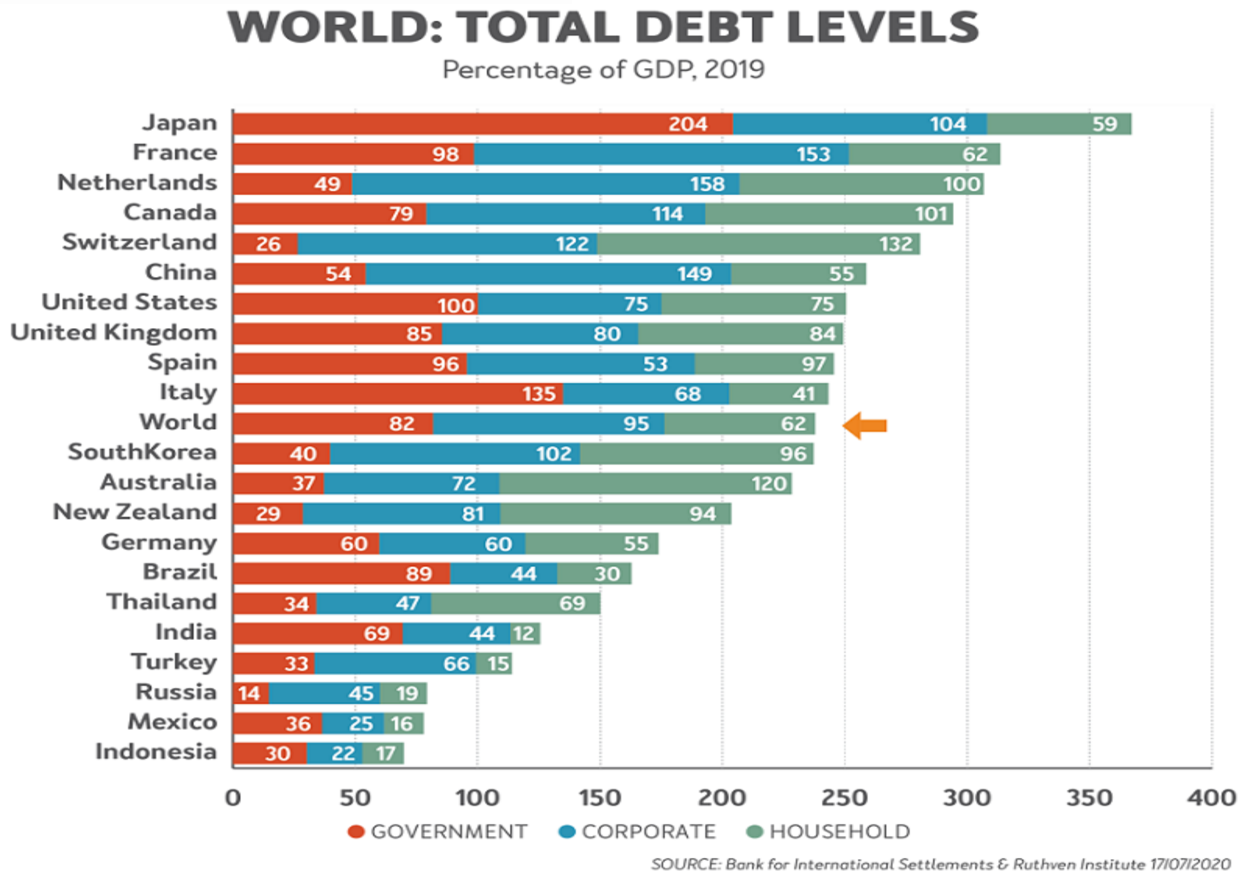

Source: www.bis.org, www.ruthveninstitute.com

As we well know, ultra-low interest rates, coupled with trillions in stimulus and quantitative easing (QE), create asset bubbles. Housing, stock markets, Bitcoin, and, yes, gold. Dramatic rises over a short period of time that is not supported by the value of the product is what creates the bubble. Eventually the bubble reaches a level that cannot be sustained, so it bursts. When you can't obtain a decent return on low-risk assets then you turn to higher-yield, higher-risk assets such as housing and stocks. As the bubble grows there is a fear of missing out so more pile in, especially if they believe there is a shortage of the asset.

Our first chart is what may be a second housing bubble. Housing prices have regained and surpassed the 2006 high. In Canada they just keep going up. Yet trouble is showing up as rentals fall in price and the condo market starts to waver and even see price declines. With so many commercial office spaces sitting largely empty in major downtown cores, is a commercial price crash coming? Given persistently high unemployment, bankruptcies, and growing homelessness, can the housing market retain its rise? Or will it too eventually give way and crash?

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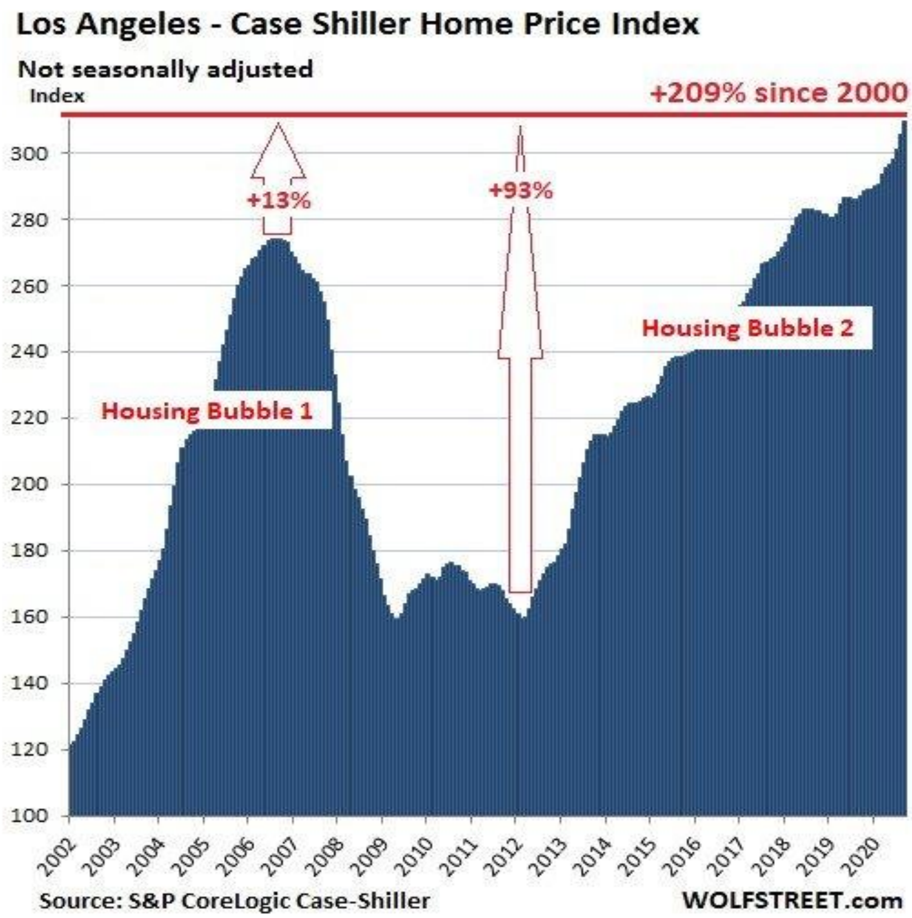
Bubble #1 – House Prices



Source: www.wolfstreet.com, www.spglobal.com

We are seeing the same thing with the stock market and Bitcoin. We have often remarked how Bitcoin and the stock market appear to follow each other. Since the onset of Bitcoin in 2015, the Dow Jones Industrials (DJI) and Bitcoin have tended to track each other. Numbers 1–3 denote tops in both the DJI and Bitcoin. We have labeled the current rise as 4? A, B, and C denote bottoms for both Bitcoin and the DJI. Both Bitcoin and the DJI are at all-time highs.

We cannot say when these bubbles will end. All we can note is they will end—and bubbles do not usually end well. All bubbles end in a crash.

2020 has been bad. But the best thing we can say about it is it was not 536.

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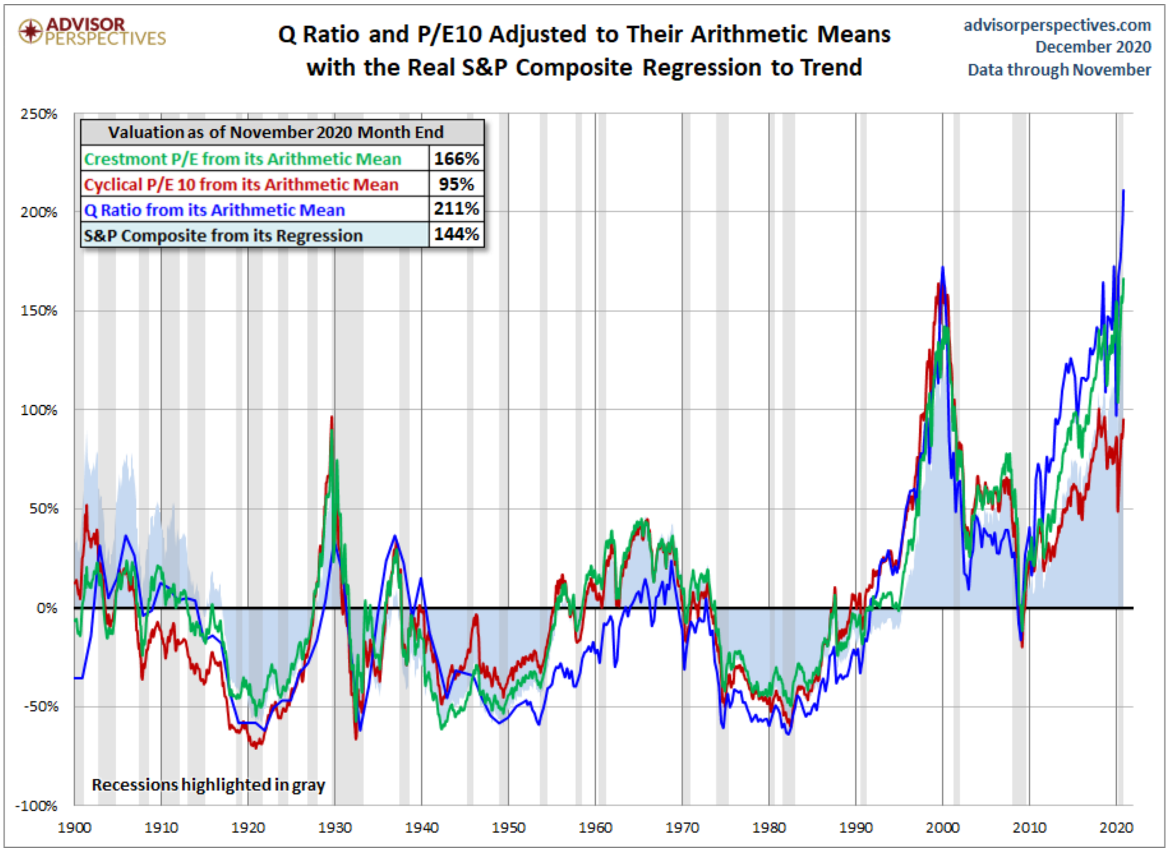
Bubble #2 – Dow Jones Industrials, Bitcoin

Source: www.stockcharts.com

Chart of the Week



Source: www.advisorperspectives.com

On the topic of overvaluation and bubbles, we couldn't help but notice Advisor Perspectives' (www.advisorperspectives.com) summary of the four market valuation indicators they follow. They have now updated their indicators to the end of November 2020. The indicators they follow are:

- the Crestmont Research P/E ratio
- the cyclical P/E ratio using the trailing 10-years earnings as a divisor
- the Q ratio, which is the total price of the market divided by its replacement cost
- the relationship between the S&P Composite to the regression trendline

Without getting into the math involved in these indicators, we'll just focus on the results. What we need to focus on is just how high these indicators have moved in relation to previous peaks. Today we are higher with most of the indicators than we were at the peak of the dot.com bubble of the late 1990s. And this is despite the fact that we have been in a recession since February. How can we have a recession yet see stock markets at all-time high levels at the same time? That is the K recovery, as we have so often noted. We are definitely higher than we were in 2007, 1966, and 1929. And these were all market peaks. Yet the mantra of the bulls is, buy, buy, buy, we are going higher. Is this time really different? Or should we be afraid, be very afraid? "Be fearful when others are greedy"—Warren Buffett.

ENRICHED INVESTING INCORPORATED

MARKETS AND TRENDS

	Close Dec 31/19	Close Dec 4/20	% 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	**3,699.12 (new highs)**	1.7%	14.5%	up	up	up
Dow Jones Industrials	28,645.26	**30,218.26 (new highs)**	1.0%	5.9%	up	up	up
Dow Jones Transports	10,936.70	12,742.08	1.5%	16.9%	up	up	up
NASDAQ	9,006.62	**12,464.23 (new highs)**	2.1%	38.9%	up	up	up
S&P/TSX Composite	17,063.53	17,520.97	0.7%	2.7%	up	up	up
S&P/TSX Venture (CDNX)	577.54	**769.11 (new highs)**	2.7%	33.2%	up	up	up
S&P 600	1,021.18	**1,085.44 (new highs)**	2.4%	6.2%	up	up	up
MSCI World Index	2,033.60	**2,098.69 (new highs)**	1.8%	3.2%	up	up	up
NYSE Bitcoin Index	7,255.46	**18,985.89 (new highs)**	14.6%	161.7%	up	up	up
Gold Mining Stock Indices							
Gold Bugs Index (HUI)	241.94	292.47	4.0%	20.9%	down	neutral	up
TSX Gold Index (TGD)	261.30	312.42	1.4%	19.6%	down	down (weak)	up
Fixed Income Yields/Spreads							
U.S. 10-Year Treasury yield	1.92	0.97	15.5%	(49.5)%			
Cdn. 10-Year Bond yield	1.70	0.79	16.2%	(53.5)%			
Recession Watch Spreads							
U.S. 2-year 10-year Treasury spread	0.34	0.82	18.8%	141.2%			
Cdn 2-year 10-year CGB spread	0	0.52	20.9%	5,200.0%			
Currencies							
US$ Index	96.06	90.69 (new lows)	(1.2)%	(5.6)%	down	down	down
Canadian $	0.7710	**0.7830 (new highs)**	1.7%	1.7%	up	up	neutral
Euro	112.12	**121.19 (new highs)**	1.4%	8.0%	up	up	up
Swiss Franc	103.44	**112.16 (new highs)**	1.5%	8.4%	up	up	up
British Pound	132.59	**134.30 (new highs)**	1.0%	1.4%	up	up	up
Japanese Yen	92.02	95.99	(0.1)%	4.3%	up	up	up
Precious Metals							
Gold	1,523.10	1,840.00	2.9%	20.8%	down	neutral	up
Silver	17.92	24.25	7.1%	35.3%	neutral	up (weak)	up
Platinum	977.80	**1,072.80 (new highs)**	11.2%	9.7%	up	up	up
Base Metals							
Palladium	1,909.30	2,357.80	(3.4)%	23.5%	up	up	up
Copper	2.797	**3.52 (new highs)**	2.9%	25.9%	up	up	up
Energy							
WTI Oil	61.06	46.26	1.6%	(24.2)%	up	up	down
Natural Gas	2.19	2.58	(9.2)%	17.8%	down	up	neutral

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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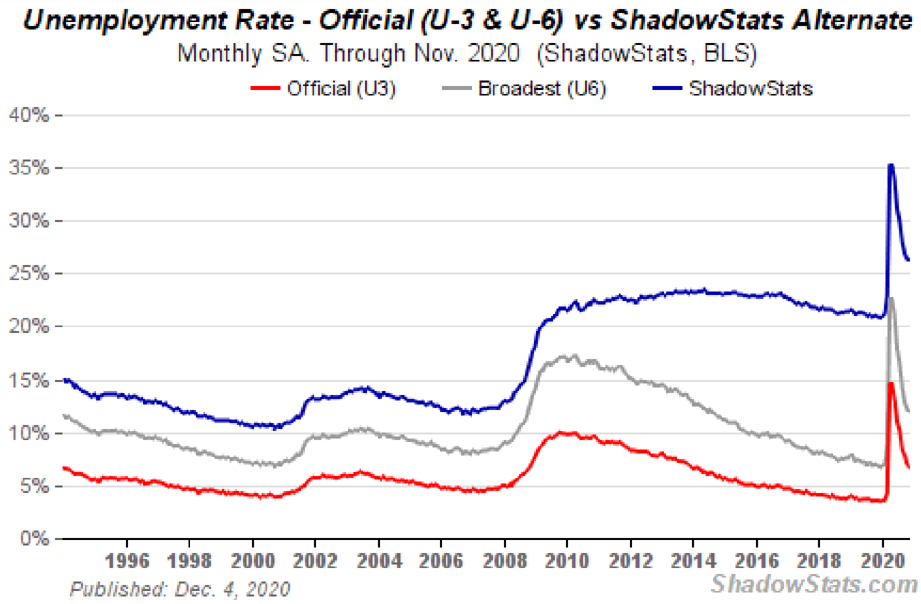


Source: www.shadowstats.com

Yes, it's that time of the month. The jobs report. The U.S. added 245,000 jobs in November, well below forecasts of 469,000 and well below October's gain of 610,000. The previous day's initial jobless claims came in at 712,000, down from the previous week's 787,000 and below expectations of 775,000. That number remains elevated. Continuing jobless claims remained elevated at 5,520 thousand vs. 6,089 thousand. The unemployment rate (U3) was 6.69% vs. 6.88%. That was just below expectations of 6.8%. To highlight that number, the Labour Force Participation Rate fell to 61.5% from 61.7% as the total labour force fell by 400,000. That helps bring down the unemployment rate. The work week stayed the same at 34.8 hours. Meanwhile, average weekly earnings rose 0.3% month over month and 5.9% year over year, but that reflects the fact that it is the lower paying jobs that have been hit the hardest.

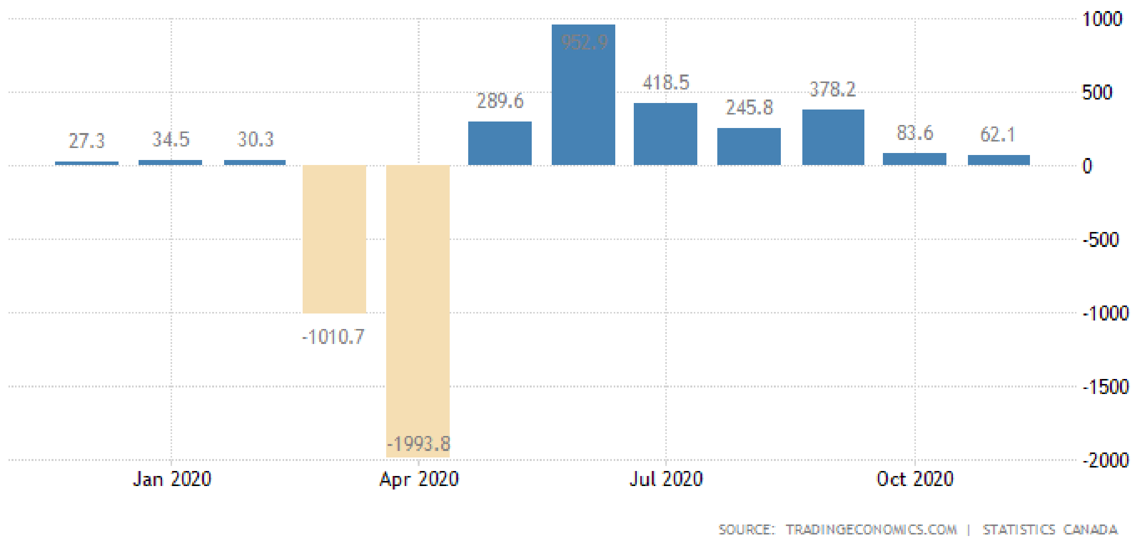
The U6 unemployment rate, which is U3 unemployment plus discouraged workers as defined out of work less than one year, plus marginally attached workers wanting full-time work also slipped down to 11.98% vs. 12.1%. The Shadow Stats (www.shadowstats.com) rate, which is U6 plus long-term discouraged workers as defined out of the work force in 1994 and discouraged for over one year was unchanged at 26.3%. This, we always believe, is a more realistic number. The BLS also continues to acknowledge its misclassification of some "unemployed" persons as "employed" in their household survey. The new upside limit is 629,000 vs. 562,000 in October. If properly counted in the unemployed, the U3 unemployment rate would rise to 7.1%.

The U.S. lost 22,160,000 jobs in March/April and since then they have recovered 12,326,000 which is only about 56% of the jobs lost. It is estimated between official unemployed plus those not counted the number of unemployed is at least 18.4 million and it could be as high as 21 million. Those not counted in the labour force came in at 100,618,000 but that was up 560,000 since October. We note that 55.3 million are listed as retired and 9.7 million as disabled. Some 35.4 million are listed as living in poverty, 45.1 million are on food stamps and 28.4 million are without any medical insurance. No worries; there are 18.3 million millionaires.

The average length of time unemployed rose to 23.2 weeks from 21.2 weeks. That's significant. It is the highest since May 2019. Construction and manufacturing added jobs as did warehousing and transportation (Amazon?), but retail shed jobs and, of course, census workers and election workers lost jobs. The number of employed who work part-time fell to 25,384 thousand from 26,163 thousand. Those that work full-time also rose to 124,345 thousand from 123,593 thousand.

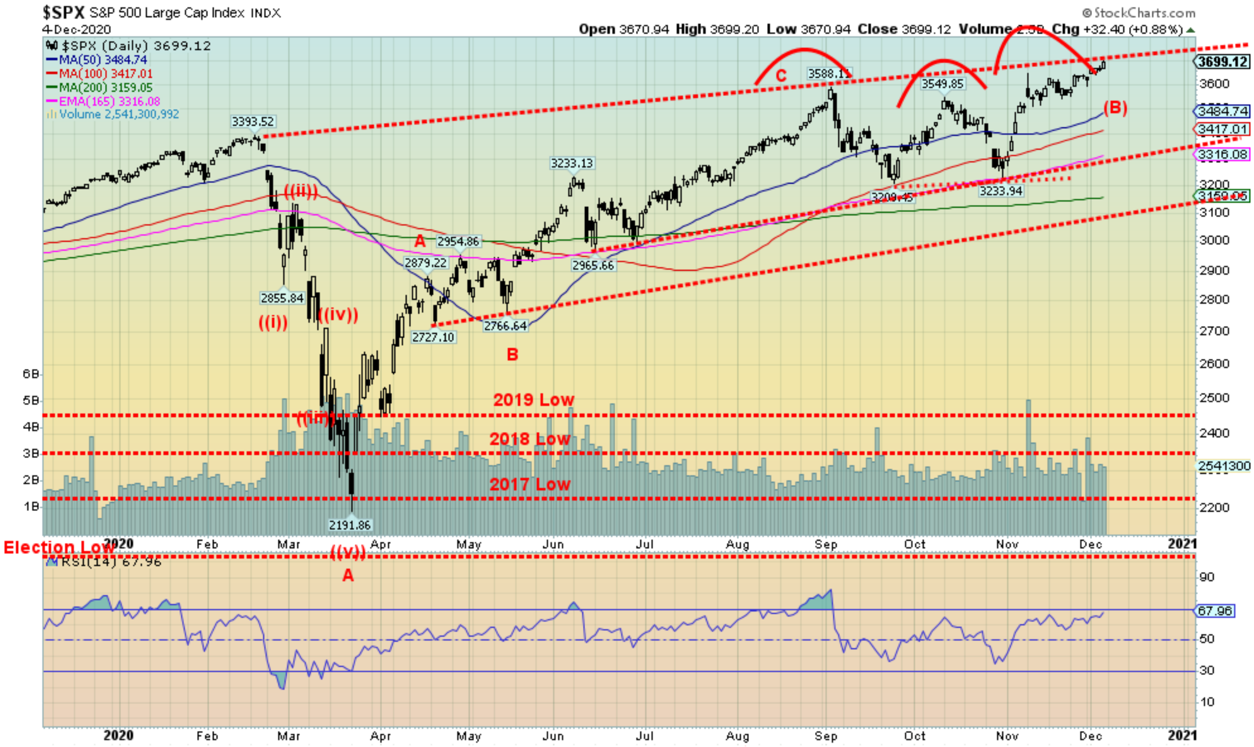
As to the markets, well, they rose on expectations that the weaker numbers will spur them to get a stimulus deal done and hand out more stimulus. That does fill holes and buys time. But overall, the jobs report is consistent with an economy that is L shaped not V shaped. Unless of course you are wealthy to start with and your funds are in the stock market. Then it is V shaped. And that is what makes this the K shaped recovery.

Canada Employment Change (Canada's Nonfarm payrolls)



Source: www.tradingeconomics.com, www.statcan.gc.ca

Canada unexpectedly reported a gain of 62,100 jobs in November, far above the expected 20,000. The October gain was 83,600. Canada lost 3,004,500 jobs in March/April. Since then it has recovered 2,429,800 or almost 81%. A remarkable recovery. The unemployment rate fell to 8.5% from 8.9% but we note that the labour force participation rate fell as well, down to 65.1% from 65.2%. The R8 unemployment rate (similar to the U.S.'s U6) that includes discouraged workers, waiting groups, and involuntary part-timers remained steady at 11%. Full-time employment rose 99,000 while part-time employment slipped 37,000. The number of unemployed persons fell 81,600 to 1,735,200. Overall, the Canada employment report was better than that for the U.S. because of the higher level of participation in the economy. The jobs number was a surprise because many had expected COVID-19 restrictions would bite and jobs losses would mount. That may have been pushed out to the December numbers to be released in early January 2021. We can't help but note that accommodation and food services lost 24,000 jobs and information, culture, and recreation fell 26,000 jobs. But there were gains in finance, real estate, and insurance, and construction added 26,000 jobs. The Maritimes enjoyed job growth but Manitoba suffered losses. Apparently, some 4.6 million work from home, a jump of roughly 250 thousand from October.



Source: www.stockcharts.com

November was a great month. It kicks off what is known as the best 3-month period of the year: November through January. The S&P 500 gained 10.8%. Not bad. But it wouldn't even make the top ten months. The best one ever recorded for the S&P 500 was April 1933 with a 42.2% gain. This past week the S&P 500 soared once again to new all-time highs. A few other indices joined them. The S&P 500 gained 1.7% on the week. The Dow Jones Industrials (DJI) was up 1.0%, the Dow Jones Transportations (DJT) gained 1.5% while the NASDAQ jumped 2.1%. The DJI and the NASDAQ made new all-time highs. In a divergence (for the moment), the DJT did not. The S&P 600 also made new all-time highs, gaining 2.4%. Others making new all-time highs included Value Line, Dow Jones Composite (DJC), S&P 500 equal weight, NASDAQ 100, S&P 100 (OEX), S&P 400 (Mid), Wilshire 5000, Russell 1000, 2000, and 3000. A momentous week.

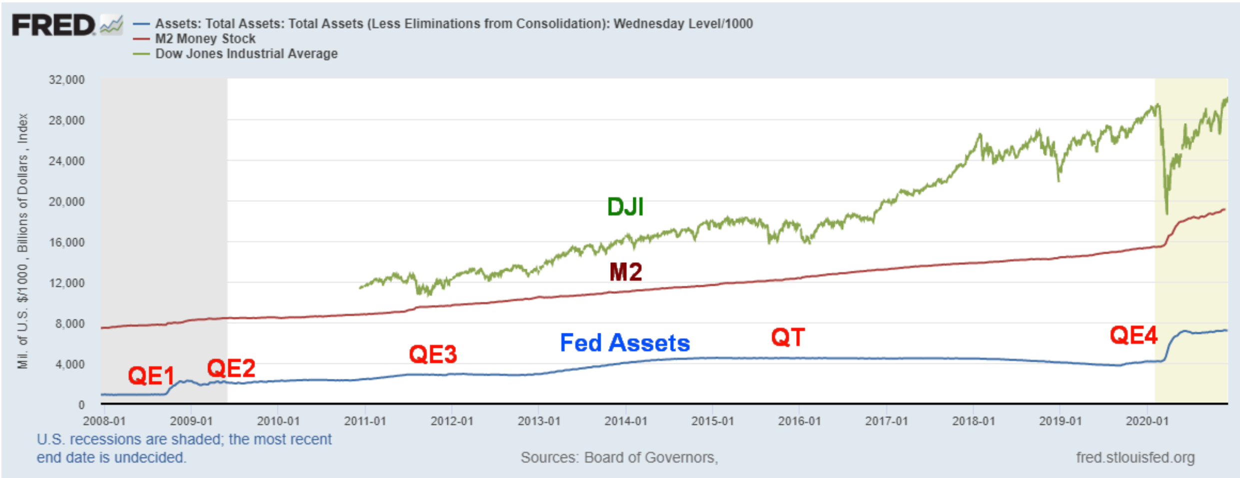
Not to be outdone, the MSCI World Index also made a new all-time high, gaining 1.8% and Bitcoin joined the party, making a new all-time high gaining 14.6%. But Bitcoin is quite overextended and could be making a small double top here. In Canada, the TSX Composite was up 0.7% while the TSX Venture Exchange (CDNX) made a fresh 52-week high, gaining 2.7%. Overseas in the EU the London FTSE was up 2.4%, the Paris CAC 40 gained 0.2%, while the German DAX slipped a small 0.3%. In Asia, China's Shanghai Index (SSEC) made 52-week highs, up 1.1% as did the Tokyo Nikkei Dow (TKN), up 0.4%. Neither of them, however, are near their all-time highs.

So many of the stock market indicators are in nose-bleed territory that it is ridiculous. Sentiment indicators are at or near record levels. Naturally, it doesn't tell us that the market has topped but it does suggest caution should be exercised and buying up here might be a little risky. The first sign of a breakdown comes under 3,600. After that there is considerable support down to 3,500, and 3,400. A breakdown under 3,200 would be a sign of considerable trouble and under 3,000 a panic could set in. A decline to 3,400 would only be an 8% pullback. Pretty normal. There is a lot of resistance up here and we now seem to be crawling along a channel line that connects the February high with the September 2 high. There is also other long-term resistance up here. So, we won't consider it a breakout until we firmly break out over 3,700. None of this suggests, however, that we are about to undergo a sharp correction. We have to await breaking certain points to support that. But the reality is we could just continue to slowly creep higher.

Source: www.stockcharts.com

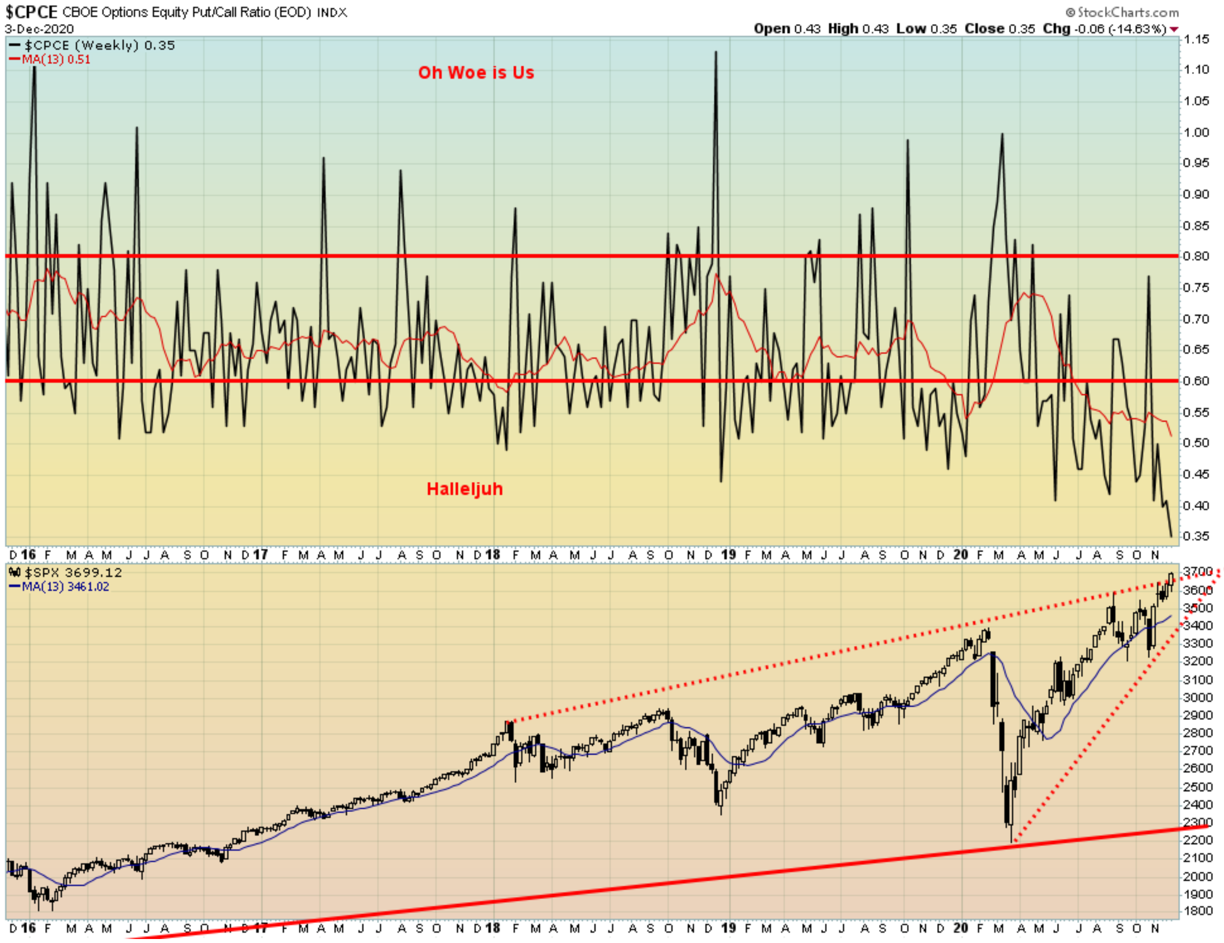
The NASDAQ continues to trade into record territory with its 2.1% gain this past week. But it is not necessarily the FAANGs dragging it higher. For the FAANGs, Facebook gained 0.7% this past week, Apple was up 5.0%, Amazon lost 1.0%, Netflix jumped 1.4%, while Google did make new all-time highs, up 2.3%. Tesla also made new all-time highs again, up 2.6% and 615% on the year, but now that it is going into the S&P 500 it could be buy the rumour sell the news. Microsoft lost 0.5% on the week and the big value stock Berkshire Hathaway was up a small percentage, not quite 0.1%. Of all the indices the NASDAQ has room to move higher. It is creeping, crawling higher and could continue to do that. However, a break back under 11,800 might indicate a top is in. Below 11,300 a top is confirmed and below 10,100 a breakdown could get underway. Not that we are expecting that any time soon. The NASDAQ enjoyed a nice gain of 11.8% in November. But it wasn't the best month ever. That belongs to December 1999 when the NASDAQ gained 22%. That was at the height of the dot.com bubble. Our best prognosis at this time is that the NASDAQ could continue to creep higher, but there is increased risk of a fall to ease at least some of the overt bullishness.

Fed Balance Sheet, M2, DJI



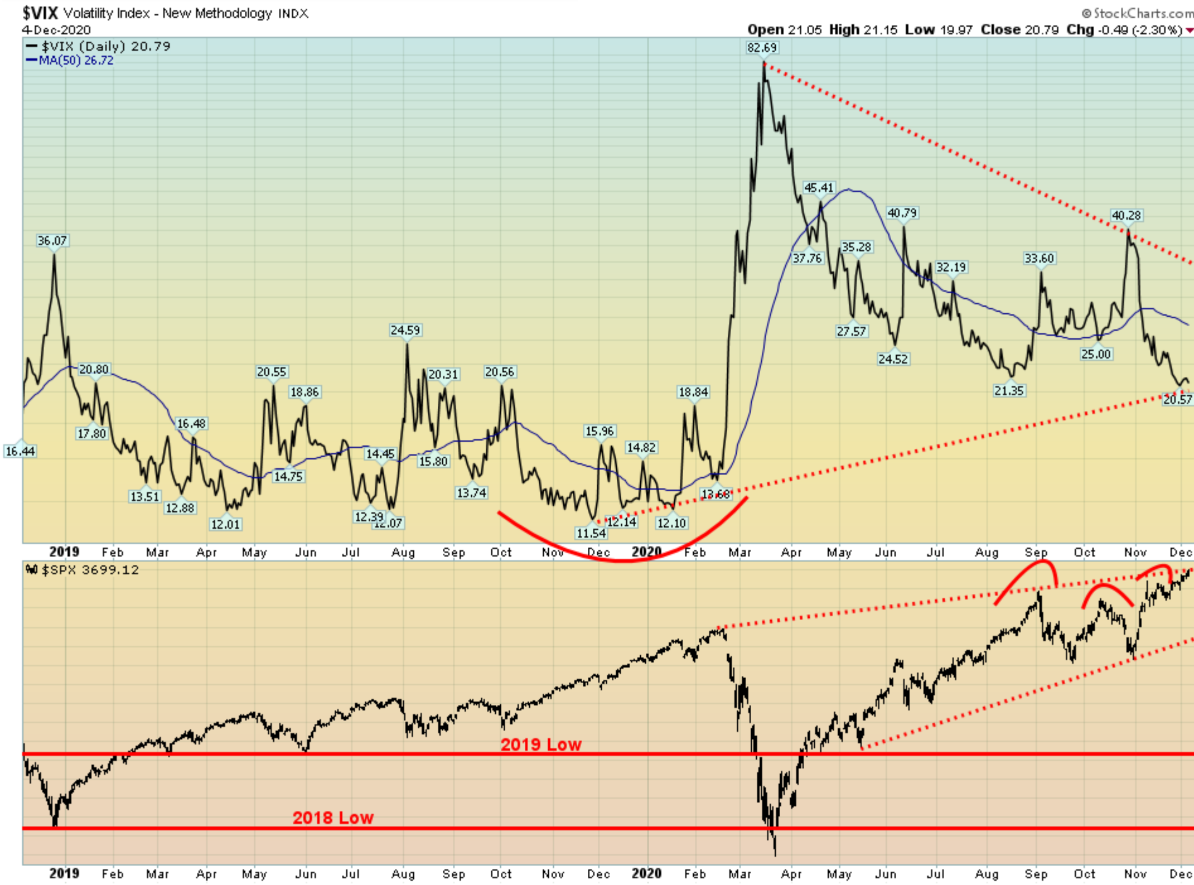
Source: www.stlouisfed.org

Both money supply (M2) and the Fed's balance sheet have started to climb again. This is obviously feeding itself into the stock market. Since peaking initially back in June 2020 at $7,169 billion the Fed's balance sheet has slowly and incrementally been rising again. After the peak, it troughed in July at $6,920 billion. The most recent numbers show it is back to $7,222 billion. M2 never really stopped rising. It did have a very temporary back in July 2020 at $18,349 billion but after a brief pause M2 reached $19,121 billion this past week. The DJI had a small peak back on September 2 at 29,100 and after a two up and down pauses the DJI started rising again at the end of October. The DJI closed this past week at 30,218, hitting over 30,000 for the first time in history. How to make the markets rise? Throw billions of liquidity (money) into the markets by expanding the money supply and through Fed purchases (QE).



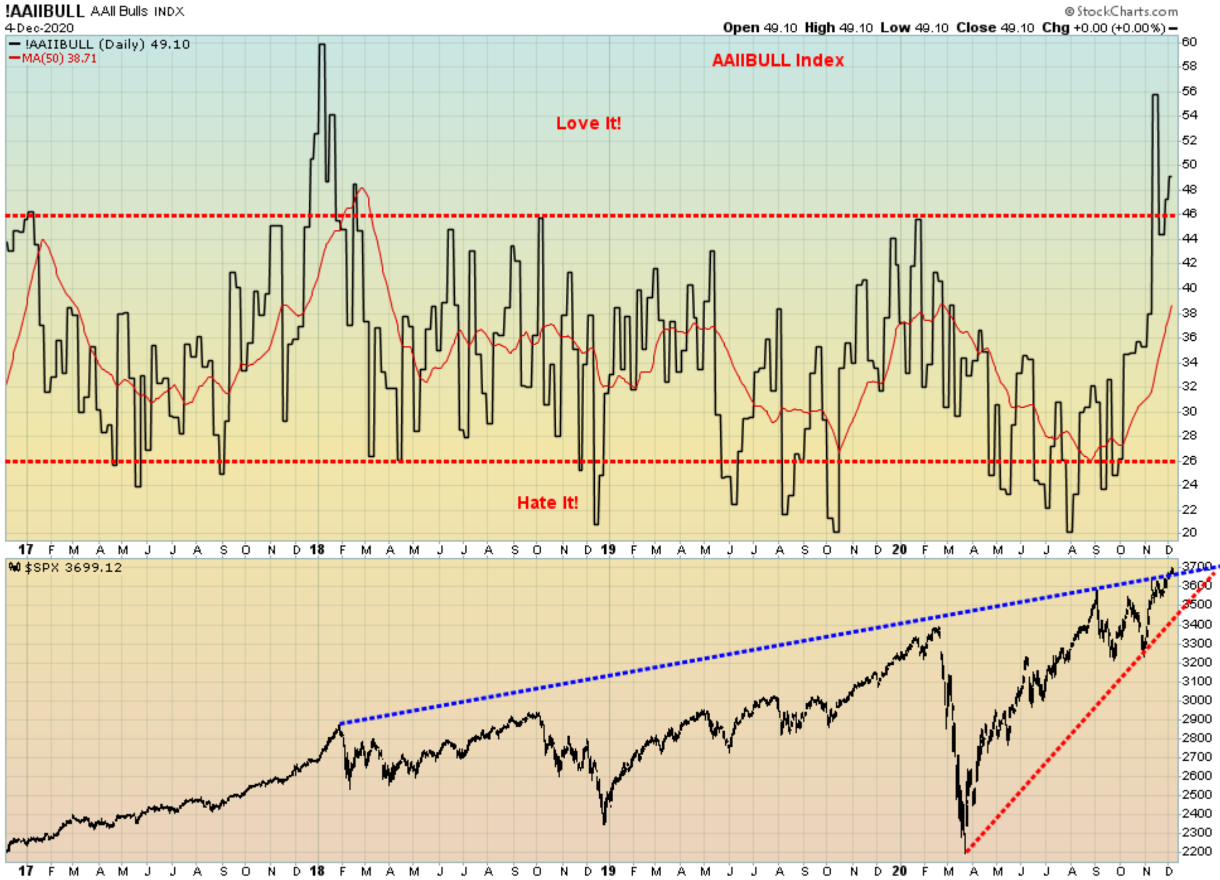
Source: www.stockcharts.com

We admit we were shocked to see the latest CBOE put/call ratio. Never in history has it been this low. This past week the put/call ratio closed at 0.35, suggesting that there are three times as many call options outstanding as there are puts. This is an extreme. We have noted others, also commenting on the huge amount of call option buying. This is excessive bullish sentiment. How will it end?



Source: www.stockcharts.com

The VIX volatility indicator may be at its lowest level since 2019, but it is also nowhere near the lows seen in late 2019 early 2020. So, this has to be considered a divergence, given the stock market is a lot higher today than it was in late 2019/early 2020 before the pandemic crash of March 2020. It is just another warning, not a statement that the market has topped.



Source: www.stockcharts.com

The AAII Bulls Index is also diverging as the stock market makes new highs and the index is making a lower high. Again, it's a warning. At the recent peak the index was at or near the extremes seen in January 2018 before the market embarked on a year-long correction.

Source: www.stockcharts.com

The New Highs less New Lows Index (NH-NL) continues to trace out what appears to be a head and shoulders topping pattern. Given the market is making new highs, one would expect the NH-NL Index to be making new highs in favour of new highs. It's not—that's a divergence.

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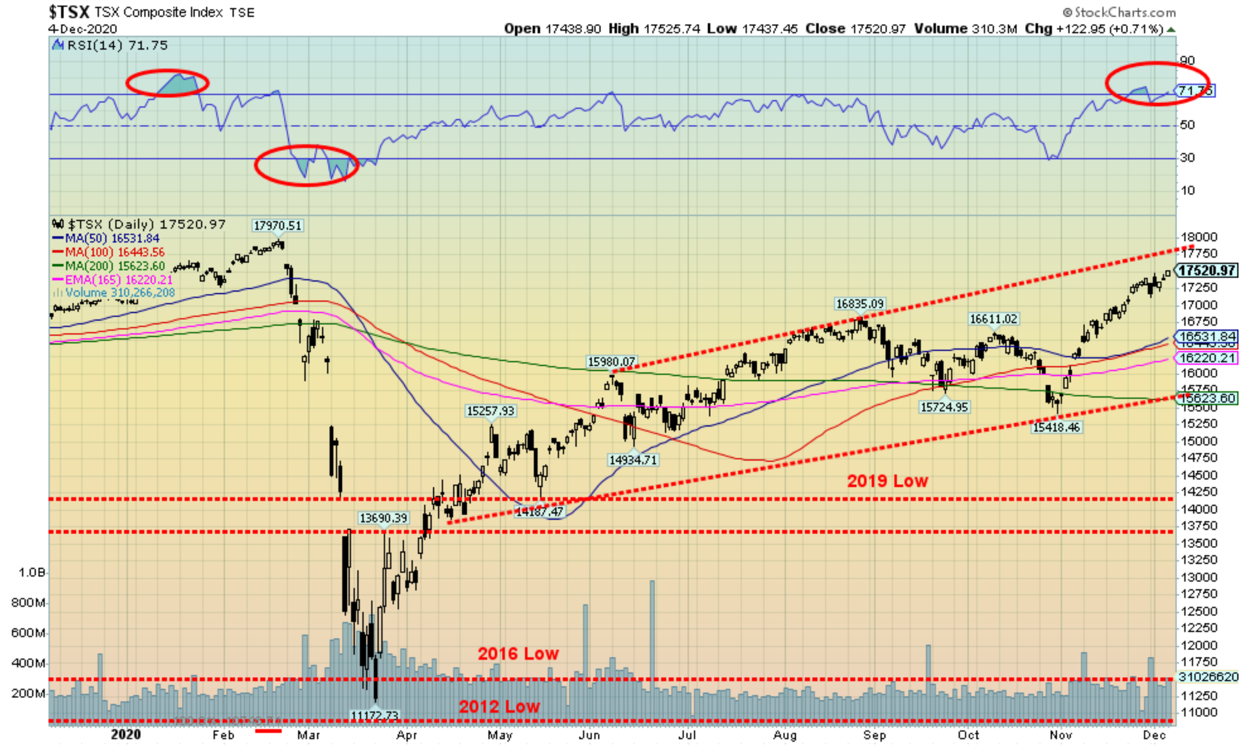
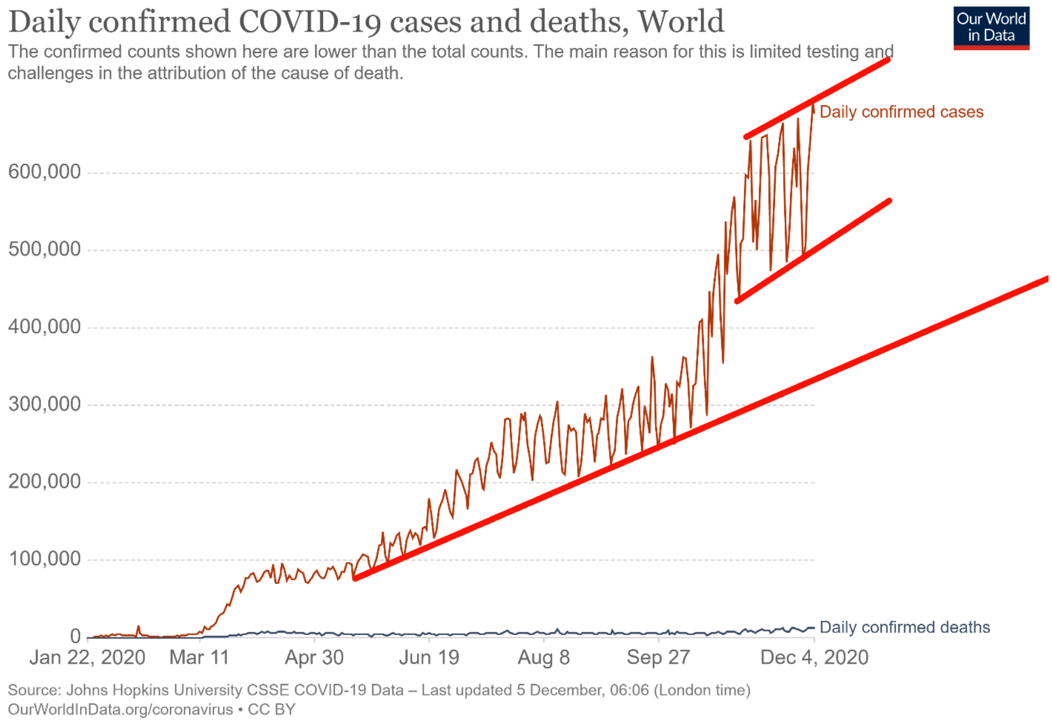


Source: www.stockcharts.com

The TSX Composite continued its upward march, gaining 0.7% this past week. Unlike other indices, the TSX did not make new all-time highs. Ten of the fourteen sub-indices were up on the week led by Metals & Mining (TGM), up 5.2%. Materials (TMT) gained 2.6% but was the only other sub-index with gains over 2%. Leading the way down was Real Estate (TRE), down 1.5%. Income Trusts (TCM) lost 1.4%. Utilities (TUT) were down 1.2% and Health Care (THC) lost 1.0%. The TSX Venture Exchange (CDNX) made new 52-week highs with a gain of 2.7%. The CDNX is up 33.2% in 2020 one of the better performers. On the TSX, Information Technology (TTK) up 0.9% and Consumer Discretionary (TCD) up 1.7%, both making all-time highs. The TSX is rapidly moving towards the top of a channel. Resistance is up near 17,750. Further resistance lies above with the all-time high at 17,970. We are also somewhat overextended with an RSI over 70. That merely suggests caution and not the end of a bull market. There is good support down to 16,500. Only a breakdown under 15,600 would signal the end of the bull move.

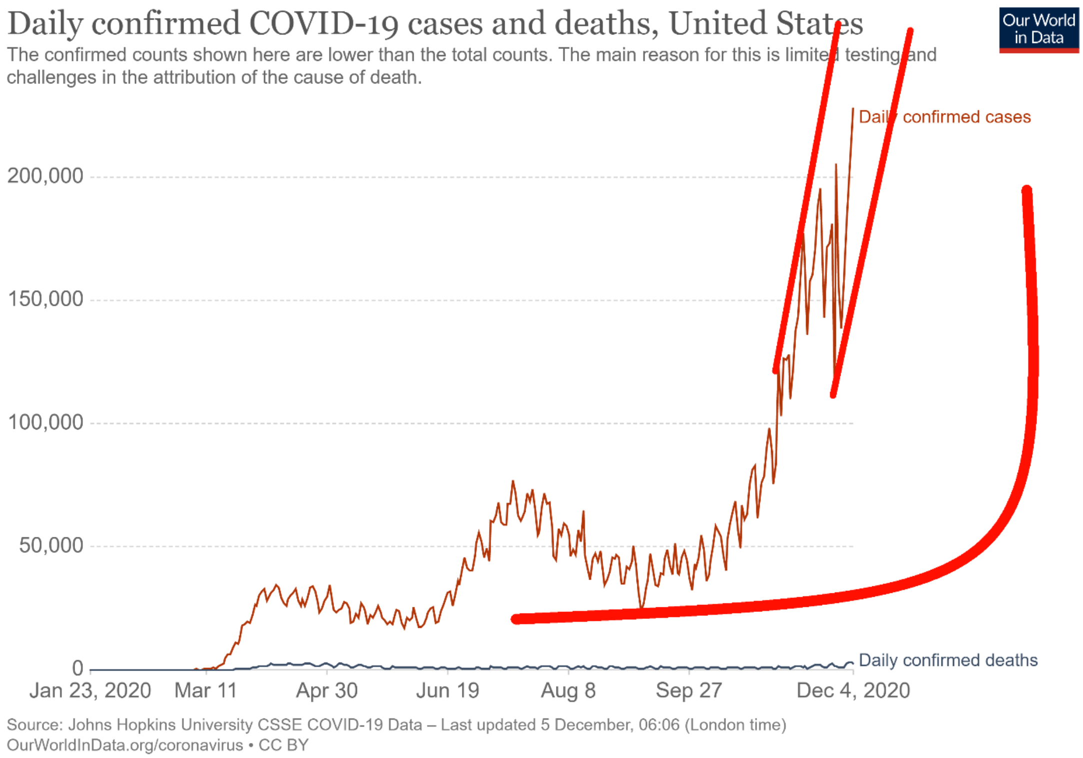


Source: www.ourworldindata.org/coronavirus

Instead of breaking down, the number of COVID-19 cases has now surged over 600,000 daily. The current 7-day average is at 602,000. We came close to hitting 700,000 cases and did record over 12,000 dead on December 4, 2020. The number of daily deaths is also surging with recordings over 10,000 and a 7-day average of 10,500 daily. The death/cases ratio is currently running around 1.8% and since inception it is 2.3%. The U.S. continues to lead the way with India and Brazil still a good 5 million and 8 million behind. The U.S. continues to lead the world in deaths. There are now 14 countries with over one million cases, with Iran the latest one to join the million-case club. Setting aside the horrendous death toll in the U.S., only three others report over 100,000 dead—Brazil, India, and Mexico—and no one is over 200,000 except the U.S. The U.K. at number 5 is just over 60,000 dead. Cases per million population is somewhat skewed against small countries. The worst could be Belgium with over 50,000 cases per/million population. Czechia and Bahrain also have over 50,000 cases/million population. Deaths are not as skewed against small countries. Belgium, San Marino (a really small country), and Peru have all recorded more than 1,000 deaths/million population. The U.S. is at 862 which doesn't seem like a lot. We wouldn't be surprised to see over 700,000 cases soon and over 13,000 dead in a day.

COVID-19 Coronavirus Pandemic – December 6, 2020 15:17 GMT

Number of Cases: 67,029,535
Number of Deaths: 1,537,302

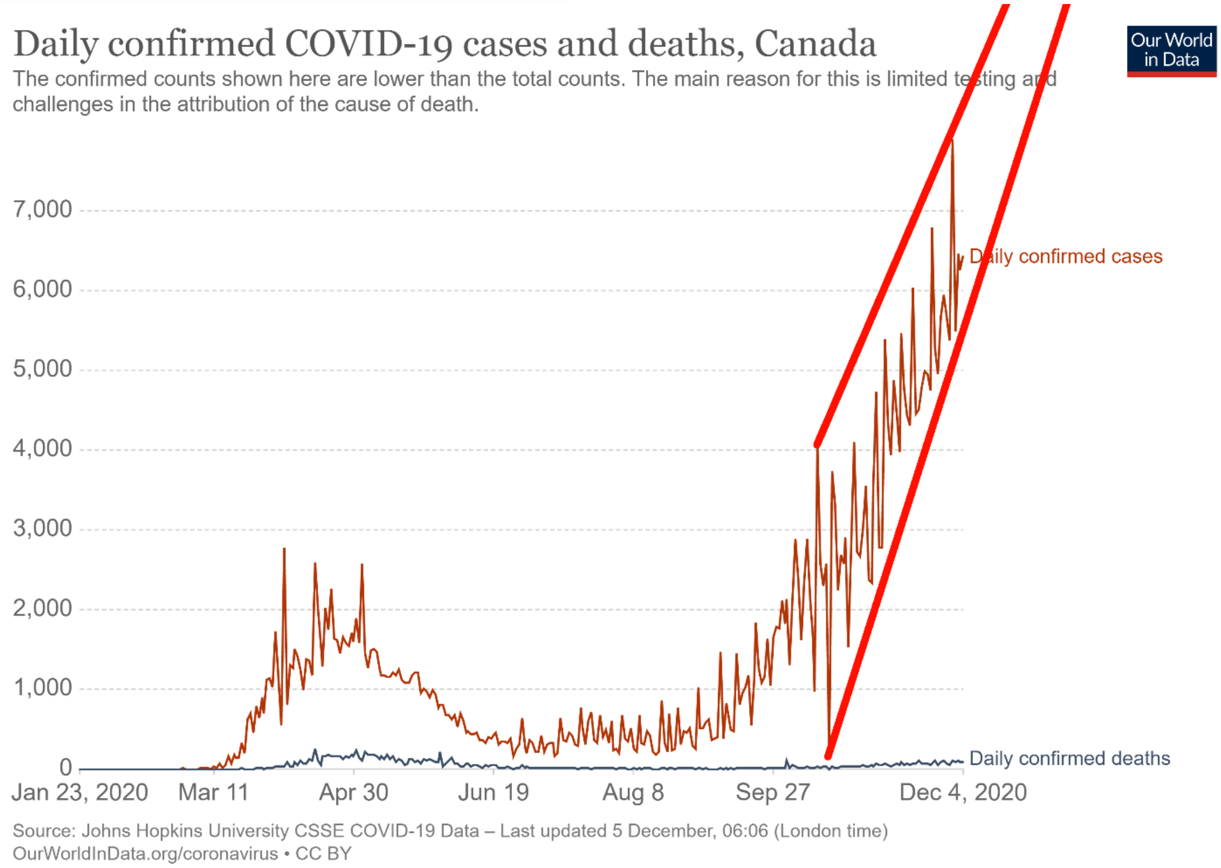


Source: www.ourworldindata.org/coronavirus

Arguably, one could say that the U.S. is out of control. Given their stature as the richest country in the world, their numbers are astounding. The U.S. is rapidly approaching 15 million cases (they will cross that threshold sometime on Sunday) and 300,000 dead. They have added a million cases in just five days. The U.S. has recorded now more dead in a day than they lost during 9/11 and well above the number killed on D-Day June 6, 1944 on the beaches of Normandy. If this were a war, the deaths from COVID would be the third highest death toll, behind only the Civil War and World War II. And it is not even one year. By year end the U.S. could easily hit over 20 million cases and 360,000 dead. Three states have recorded over one million cases: Texas, California, and Florida. In terms of deaths, New York still leads the way but Texas, California, and Florida are gaining. On December 4, the U.S. recorded over 235,000 cases and 2,700 dead. That's only a 1.2% deaths/cases ratio which is down from its highs. Since inception the ratio is 1.9%. Mobile morgues are picking up bodies in Texas. And, remember, these are only the recorded cases and deaths. Many more with no health insurance may be contracting it and just dying at home, with their deaths being recorded as something else. After all, take your pick: contract COVID-19 and die, or go bankrupt but live. All the major economies and even many others, including ones considered second- or third-world, have publicly funded healthcare. The U.S. stands almost alone without universal health care.

COVID-19 Coronavirus Pandemic – December 6, 2020 15:17 GMT

Number of Cases: 14,991,531
Number of Deaths: 287,857



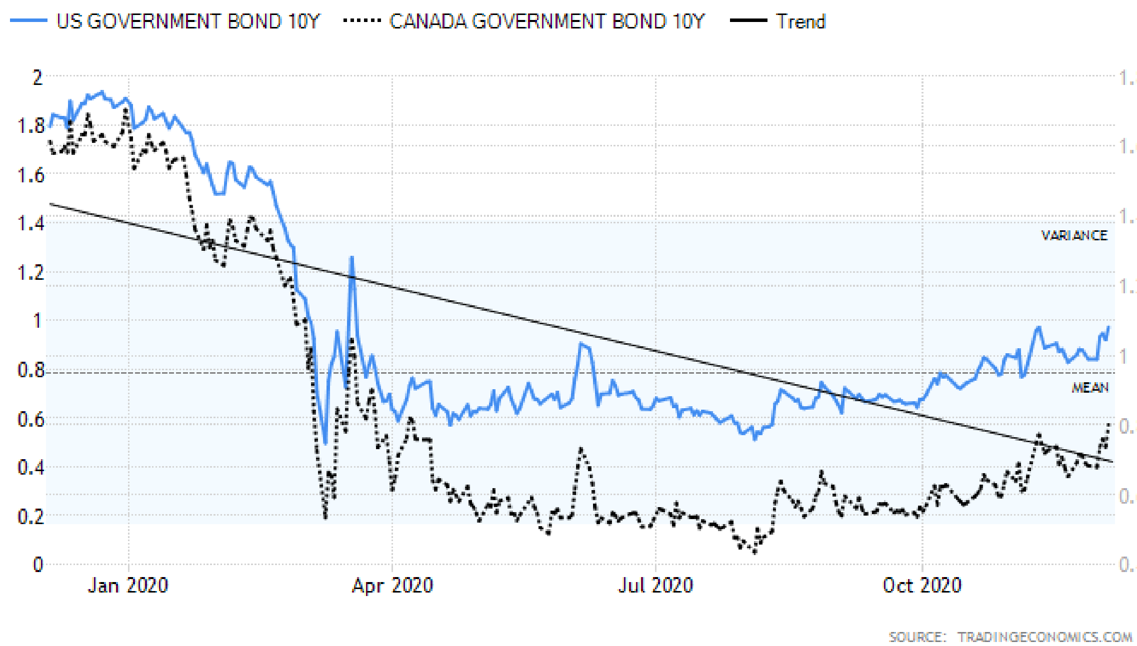
Source: www.ourworldindata.org/coronavirus

Like everywhere else, Canada's COVID-19 cases are soaring. Canada recently hit over 7,000 cases in a day and many are expecting soon over 10,000 in a day. Still, Canada's cases/million population and deaths/million population are lower than many others. Canada stands 29th in cases with over 400,000, but 23rd in deaths with over 12,000. Canada is way down at 89th in terms of cases/million population but 48th in terms of deaths/million population. Canada had a high deaths/cases rate of over 7% but of late that has fallen to around 1.7% and the overall total has fallen to 3.1% a 56% drop and currently a 75% drop. For comparison sakes Canada's cases/million population is 10,626. This compares to a global total of 8,495 and a U.S. total of 44,524. It is similar for deaths/million population. Canada is at 330 vs. a world total of 196 and a U.S. total of 861. Still, hospitals are being pressured and nurses overworked. Death rates in long-term care homes are still high.

COVID-19 Coronavirus Pandemic – December 6, 2020 15:17 GMT

Number of Cases: 402,569
Number of Deaths: 12,496

US 10-Year Treasury Note, Canada 10-Year Government Bond (CGB)



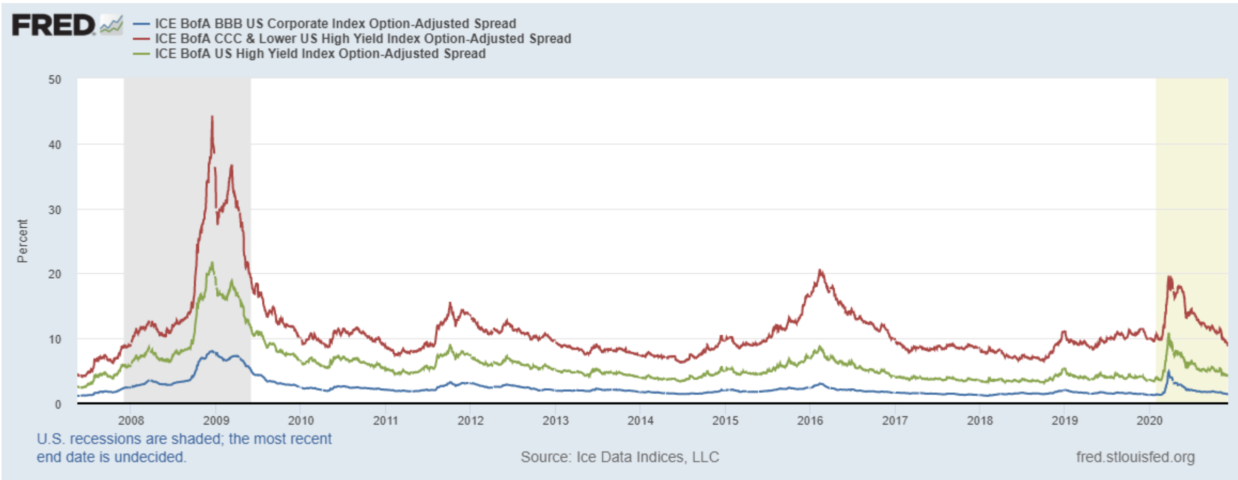
Source: www.tradingeconomics.com

The U.S. 10-year treasury note yield rose this past week to 0.97%, up from 0.84% the previous week. The Canadian Government of Canada 10-year bond (CGB) rose to 0.82% from 0.69%. It was one of the steepest rises in weeks. Seems that, despite the weaker than expected jobs report, it spurred thoughts of even more stimulus and that in turn put upward pressure on bond yields. The spread between the 10-year and 2-year widened as a result with the US 2–10 spread rising to 0.82% from 0.69% and the Canadian 2–10 spread going from 0.43% to 0.52%. The 2-year is more closely aligned with the Fed Funds rate than it is with the 10-year. The result of all of this gives wind to our thoughts of higher interest rates into 2021 as we prepare for an important cycle low next year. Once we get through 1.00% on the U.S. 10-year we could rise further towards 1.2%. It doesn't sound like much, but percentage-wise a move from 0.80% (the current mean) to 1.2% is a 50% move just as a move from 6% to 12% is also a 50% hike. And it can have a negative impact on loans, mortgages, and bond funds.

While the jobs report on Friday was the biggie for the week, there were other economic releases. The Chicago PMI report came in at 58.2 which was down from the 61.1 in October and slightly below consensus of 59 but it showed the manufacturing sector is still doing okay. However, not so much the services sector. Pending home sales rose 20.2% year over year. The Markit Manufacturing PMI confirmed the Chicago PMI as the index was at 55.8 just above expectations. But even non-manufacturing PMIs came in above 50 as the Markit Services PMI was at 58.4. The Manufacturing PMI expanded coming in at 57.5. Anything over 50 suggests expansion. The U.S. trade deficit for October was $63.1 billion, just a bit less than expected.

U.S. interest rates seem destined to rise. And if they do get a vaccine, they will no doubt rise further.

Spread BBB Corporate Bonds, High-Yield and CCC and U.S. Treasuries

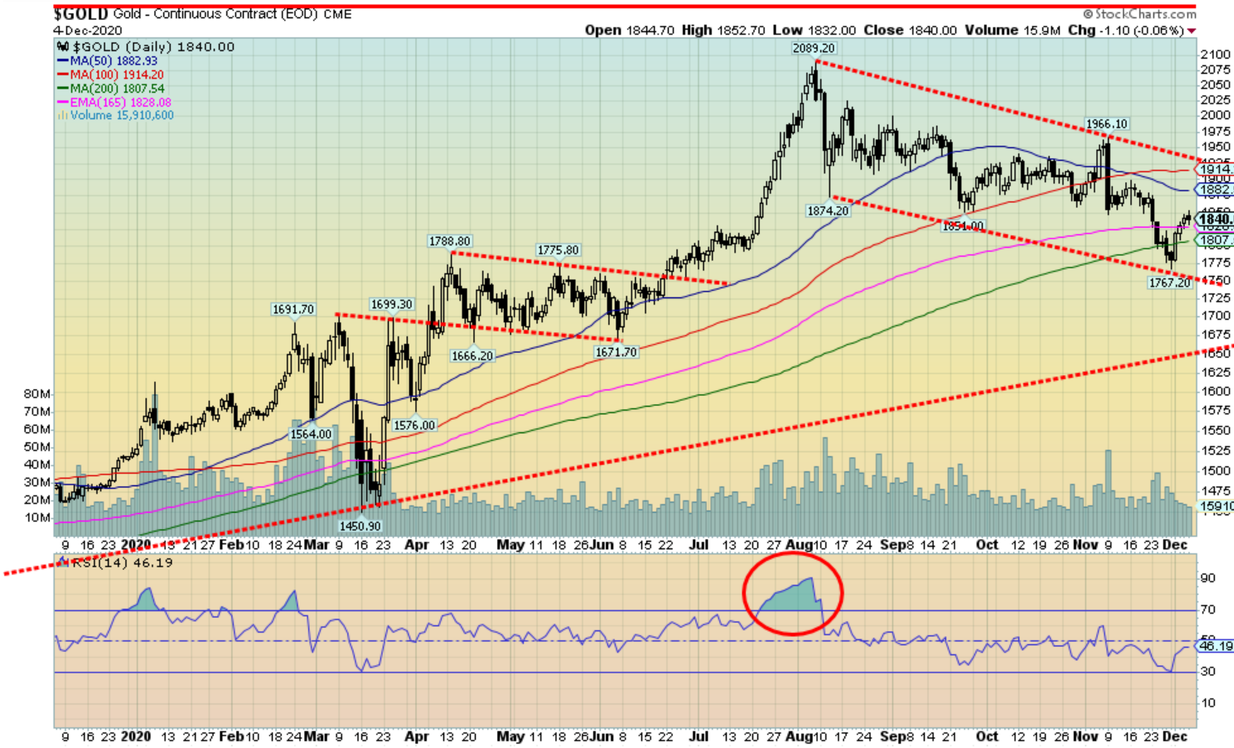


Source: www.stlouisfed.org

Complacency reigns in the corporate bond market as well, it seems. The BBB spread to U.S. treasuries is at 1.36%, as low a level as it has ever been. BBB-rated bonds are the lowest investment grade. The high-yield corporate bond spread is at 4.1% while CCC-rated bonds (total junk) spread was at 8.76%. Before the effects of the pandemic hit in March the BBB-rated bonds fell to 1.31% spread, high-yield bonds were at 3.56%, and CCC-rated were at 9.79%. Now the CCC-rated bonds spread is even lower today than it was in February 2020. Complacent that nothing is going to go wrong, the Fed will bail us out, investors chase high-yield bonds.

Source: www.stockcharts.com

Down, down, down we go. The US$ Index broke down under a trendline that goes all the way back to the 2011 low. The question now is, how low will the U.S. dollar go? The U.S. dollar fell this past week because of the weaker than expected jobs report, the potential for more stimulus, and the still very noisy challenge to the election results, with the Trump team still contesting it as a fraud and his supporters still screaming it was stolen. The US$ Index fell 1.2% this past week to fresh 52-week lows. We now have targets down to around 88.50/88.75. With the US$ Index down, the currencies were up. The Canadian dollar rose 1.7%, the euro was up 1.4%, the Swiss franc gained 1.5% and the pound sterling jumped about 1.0%. All made fresh 52-week highs. Only the Japanese yen faltered, slipping a small 0.1%. With the US$ Index down, we note that it is now somewhat overextended with the RSI down to around 24.50. That suggests that the US$ Index could be due for at least a bounce. A test of the breakdown line currently near 92 would not be out of line or unusual. There is further resistance up to around 93. We have support at current levels, but a firm breakdown under 90 would send us down to 88/89. The 2018 low was at 88.15.



Source: www.stockcharts.com

Gold put in its best week in some time, rising for the first time in four weeks. Gold gained 2.9%, silver was up 7.1%, and platinum broke out over $1,000 for the first time since 2016, gaining 11.2% to fresh 52-week highs. Of the industrial metals with precious metals characteristics, palladium actually fell this past week, down 3.4% while copper jumped to new 52-week highs, gaining 2.9%. Palladium remains a strong performer, up 23.5% on the year. Gold actually fell on Friday following the jobs report. Profit-taking? Gold had a good run earlier in the week. But it was all rather odd as the weak jobs report highlighted the need for stimulus to combat the economic fallout from the COVID-19. There are plans afoot for a stimulus package of roughly $908 billion, but that is sharply below what is needed and what the Democrats originally wanted. The U.S. dollar has also been falling and gold is responding poorly to the U.S dollar, hitting its lowest level since August and since 2018. As we noted, the US$ Index has now broken a long-term uptrend line from a low way back in 2011. Still, we have previously noted that gold may be trying to find its 31.3-month cycle low. The previous one was recorded in August 2018 and before that in December 2015. This would be the second 31.3-month cycle low since what we believe to be the 7.83-year cycle low recorded in December 2015. This cycle low was due April 2021 +/- 5 months so we are right into the cycle. The question is, what kind of rally will come out of this? Since the next 7.83-year cycle low will also coincide with the 23-25-year cycle low, a bearish rally would see gold fail to make new all-time highs above $2,089. A bullish up cycle could see gold rise to $2,500 and some even believe to $3,500. We don't know yet because first we need to see new all-time highs.

Gold has a history of lows in the November/December period with lows during that time 8 of the past 10 years. We are seeing a rally now but resistance is above at $1,880 to $1,915. A breakout over $1,925 would confirm a low. Over $1,950 would suggest a run towards $2,000 and over $2,015 new highs are likely. But a retest of the

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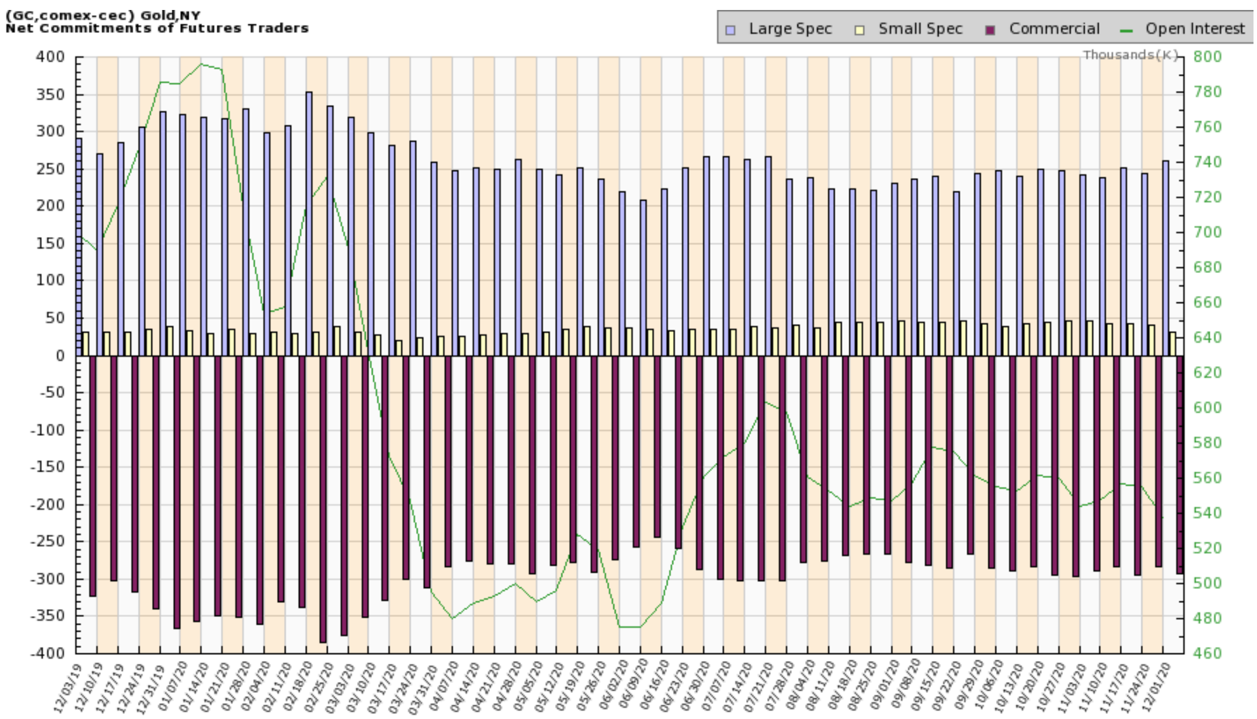
lows could come first. The bottom of the channel is near $1,750 so we would not want to see prices below that. Support is at $1,800/$1,810. We are moving towards gold's positive seasonals seen January to March. The first sign we are on our way is a breakout over $1,915.

In looking at the bigger picture, the rise since July 2018 appears to have gone up in five waves to the peak in August at $2,089. So far, this decline has corrected about a Fibonacci 38.2% of the rise. That suggests to us a normal correction. A steep one could take us down to $1,500. We doubt that. We are also watching the Dow/Gold ratio currently at 16.4. A breakdown under 15 could signal a stronger move in favour of gold over the DJI. However, that is as long as the recent high near 17 holds.



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

	Large Speculators #	Long	Short	Bullish	Commercial #	Long	Short	Bullish	Small Speculators Long	Short	Bullish	Open Interest
11/03/20	341	321,798	78,889	80%	105	108,679	398,017	21%	66826	20,397	77%	544,774
11/10/20	360	318,516	78,780	80%	108	111,142	394,565	22%	64247	20,560	76%	547,449
11/17/20	346	329,698	78,428	81%	109	106,681	401,253	21%	64301	20,999	75%	557,533
11/24/20	330	320,324	76,422	81%	106	108,625	393,454	22%	65390	24,463	73%	555,253
12/01/20	317	324,344	64,030	84%	106	110,108	403,371	21%	55439	22,490	71%	538,042

Source: www.cotpricecharts.com

The gold commercial COT slipped this week to 21% from 22%. While long open interest rose about 1,500 contracts, short open interest was also up by roughly 10,000 contracts. Overall, open interest actually contracted by roughly 17,000 contracts. With gold up on the week, this suggested to us that we mostly saw covering of positions this past week, not the initiation of new positions. The large speculators COT (hedge funds, managed futures, etc.) rose to 84% this past week from 81%. The result is, they have become quite bullish quickly. They are usually ahead of themselves. Their long open interest rose while their short open interest fell, suggesting short covering. Overall, the report remains somewhat bearish towards gold.

Source: www.stockcharts.com

Like gold, silver put in a strong week to the upside, the first in four weeks. This past week silver gained 7.1%. As well, silver did not make new lows below its September low of $21.81 with a low of $21.96. Is that a potential double bottom? If it is, then silver needs to break out above $25 to suggest a potential move to at least $29.50, but it could be as high as $32.50. What's key now is that on any further pullback we hold above that $21.96 low. With a gold/silver ratio just under 76 it is well down from its soaring highs of 130 but still not below 70, a level we consider to be major support. Any breakdown under the double bottom low could see silver prices fall towards $19. Major long-term support is down near $17. Silver, like gold, had a rather muted response to the U.S. job numbers and the fact that the U.S. dollar was falling against major currencies. Still, we like the fact that silver held its recent lows and is diverging with gold. It suggests strength and that should eventually translate into higher prices going forward for both gold and silver. We are encouraged but await a breakout. None of this precludes another test of the lows before any upside breakout.

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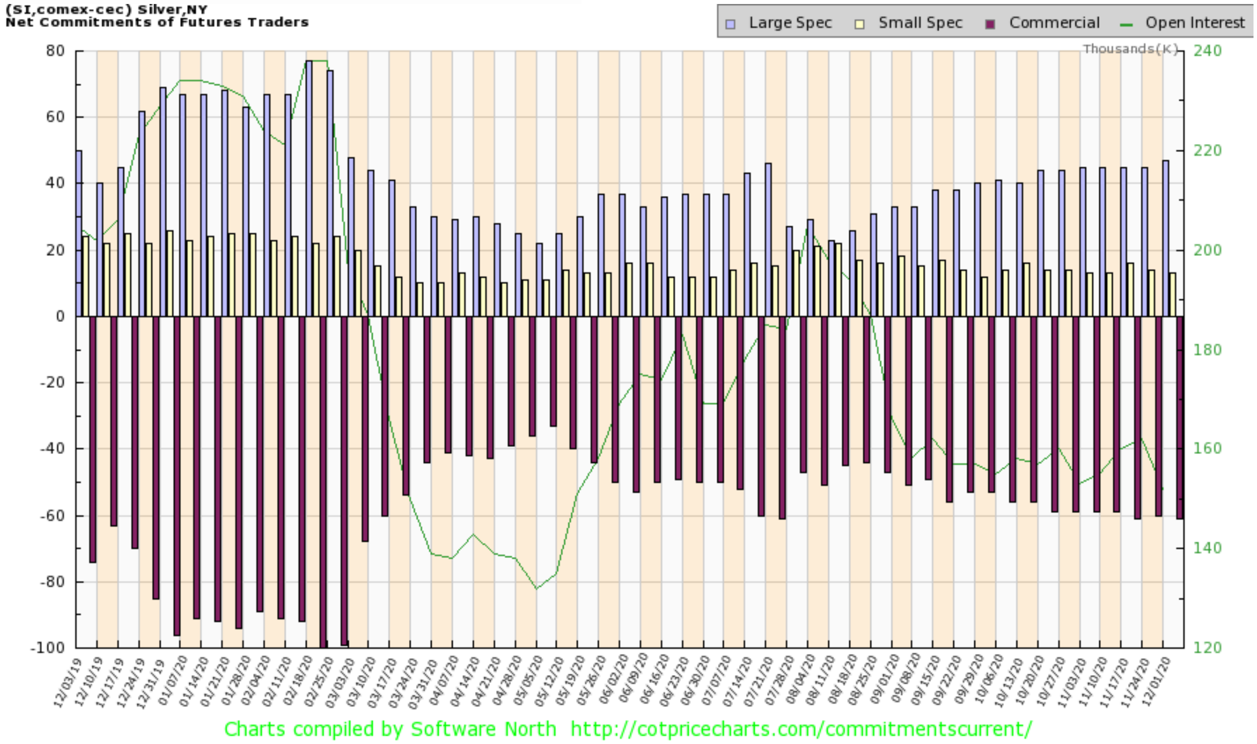
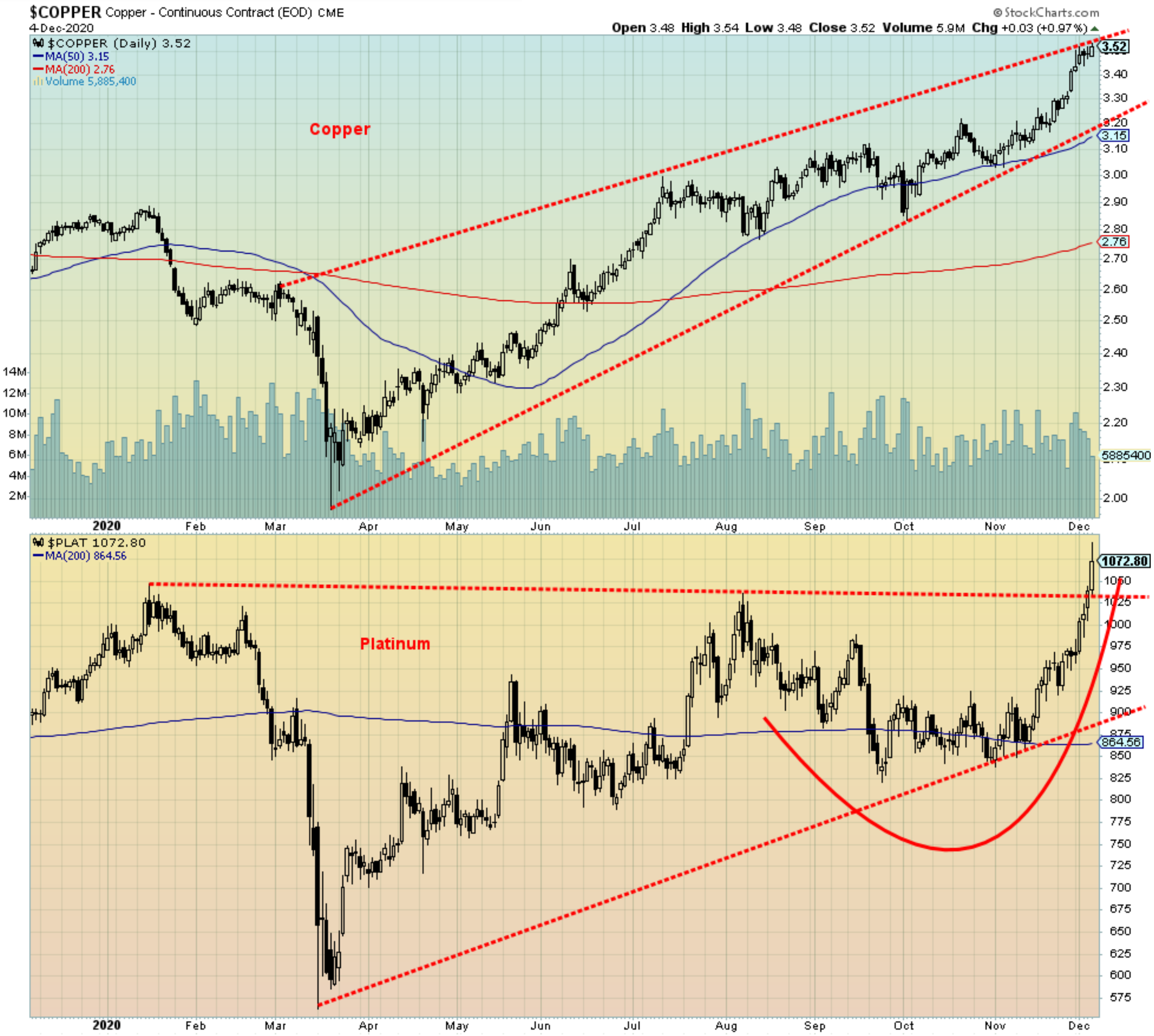


	--- Large Speculators ---				------ Commercial ------				-- Small Speculators --			Open
	#	Long	Short	Bullish	#	Long	Short	Bullish	Long	Short	Bullish	Interest
11/03/20	170	72,516	27,175	73%	93	47,860	107,191	31%	26164	12,174	68%	153,267
11/10/20	166	72,544	26,716	73%	93	49,658	109,200	31%	26319	12,605	68%	155,011
11/17/20	180	75,632	30,018	72%	92	49,095	110,771	31%	26499	10,437	72%	160,972
11/24/20	160	74,771	29,091	72%	89	49,577	109,737	31%	25866	11,386	69%	162,092
12/01/20	159	77,023	29,131	73%	82	45,567	107,452	30%	24131	10,138	70%	152,372

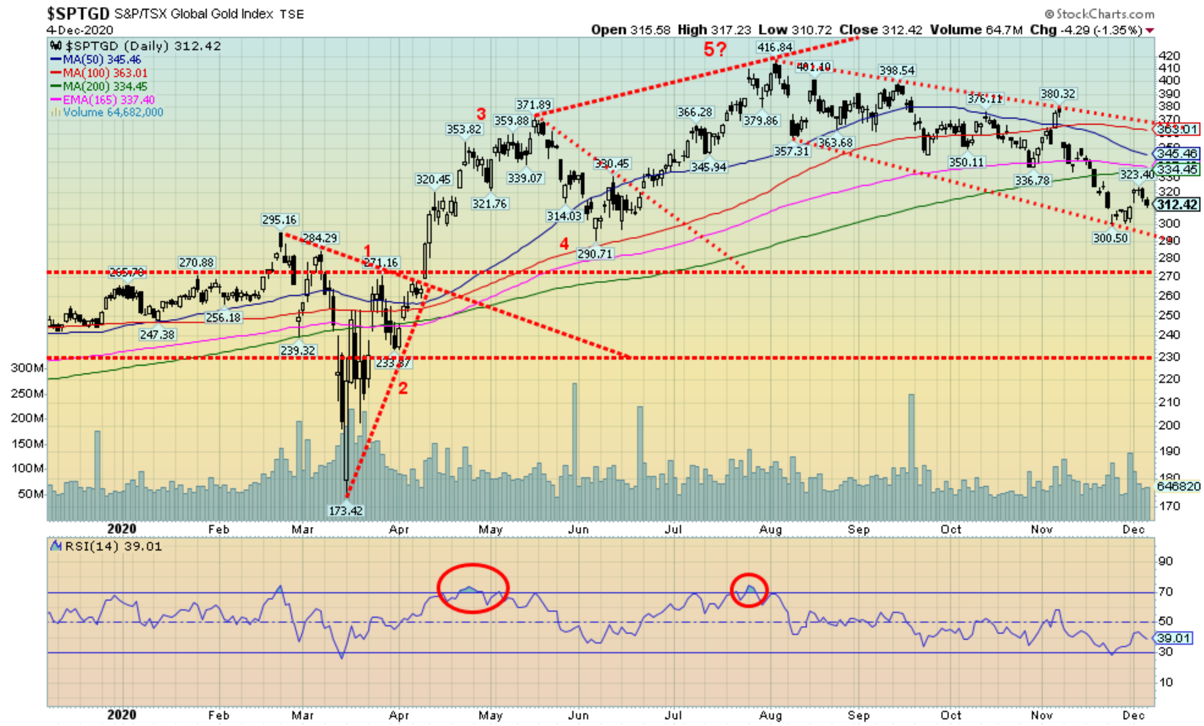
Source: www.cotpricecharts.com

The commercial COT for silver slipped to 30% this past week from 31%. However, it was reduction in open interest as long open interest fell roughly 4,000 contracts and short open interest was off just over 2,000 contracts. Overall, open interest fell almost 10,000 contracts. That suggests to us a combination of short covering and unloading longs into the rally. That is not a formula for higher silver prices, at least at the moment. So, the report is mildly bearish.



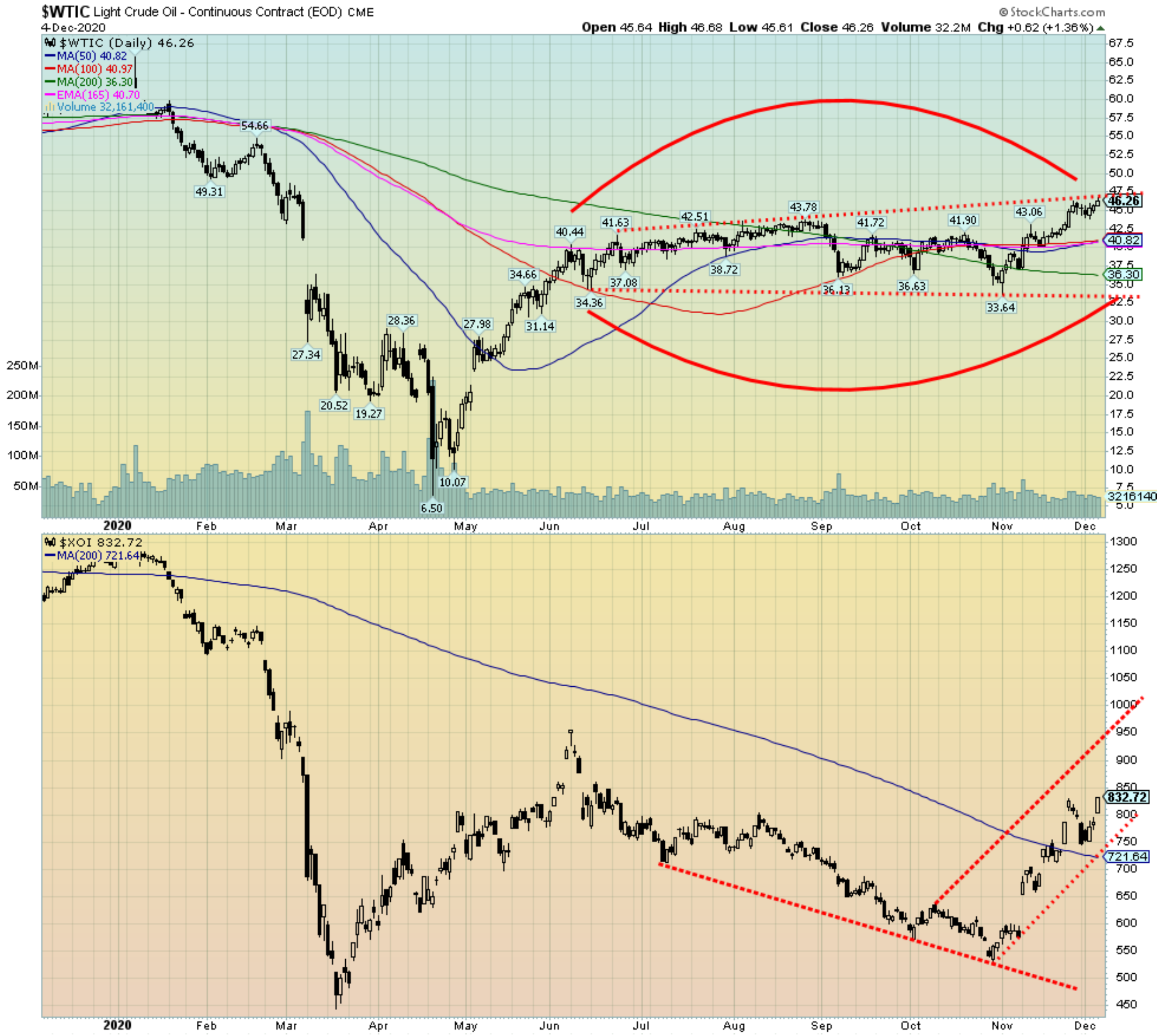
Source: www.stockcharts.com

Both copper and platinum have been on a tear. Both made fresh 52-week highs this past week. Copper at $3.52 is still below its all-time high of $4.65 seen in 2011. Platinum at $1,072 is at its highest level since 2016 but remains well below its record high of $2,286 seen in 2008. The most positive aspect of copper and platinum making fresh 52-week highs is that both are linked to gold prices. Platinum crashed after peaking in 2008 and never recovered those highs. When the gold collapse came in 2013 platinum crashed even more and remained depressed until recently. As gold was moving towards its record highs of $2,089, platinum remained depressed and crashed at one point to new lows even as gold was rising. Gold and copper usually rise and fall in tandem, but of late copper has been rising even as gold has been weak. As we say, one of them is wrong. Either copper and platinum are going to come crashing down or gold is going to take off to catch up. When they diverge like this it is a signal that one of them is out of alignment. The question is, which one? Copper and platinum are somewhat extended as their respective RSIs are firmly over 70. So, a corrective period could be coming. What we would like to know is, how will it impact gold? We can't blithely assume that gold will catch up even as it seems reasonable that gold does exactly that. Platinum does appear to be have broken out of a multi-year symmetrical triangle with potential targets up to over $1,600. Copper could be at the top of a channel with long-term support down to around $3.20. The commercial COTs of both copper and platinum are currently somewhat bearish with copper in particular at the lowest level seen in years. These are notes of caution. But, overall, we are encouraged by the platinum chart in particular as a positive sign that gold could soon follow.



Source: www.stockcharts.com

The gold stocks continue to flounder. Yes, they were up this past week with the TSX Gold Index (TGD) rising 1.4% and the Gold Bugs Index (HUI) jumping 4.0%, but after getting some upward movement in the early part of the week they floundered in the latter part of the week, falling even as gold prices rose. The TGD fell short of crossing back over the 200-day MA, suggesting to us that this corrective move is not yet over. Sentiment has fallen as the Gold Miners Bullish Percent Index (BPGDM) is down to 34.5. But that is still not at levels often suggested of a significant low. Usually we are under 25 and even below 10. Still, it's a far cry from the bullish elation seen in July and August of this year. The TGD appears to be moving within a bear channel with the current bottom down around 280. So, there is room to move lower. Major long-term support can be seen down around 270. We need to regain above 335 to suggest a move higher. The bear channel is not broken to the upside until it is over 370. The TGD is down 25% from its August high. So far, this correction is not unusual as we saw a few 20%-plus corrections from 2008 to 2011. There remains a chance the TGD tests up to 335 this coming week before probing lower once again. We have found this correction orderly and continue to view it as a correction within the context of a bull market. What's key is our lower levels down to 270 hold. We wouldn't want to see the TGD fall under 270.



Source: www.stockcharts.com

Oil prices appear to be on the cusp of breaking out as they rallied on Friday following an OPEC agreement to add 500,000 bpd to January quotas. Prices rallied as the market was relieved; they came to a deal rather than the deal breaking down. While discord reigned at the meeting, they eventually found a compromise. There had been some fear that it could add as much as 2 million bpd. While the deal wasn't really that bullish, market participants were happy the deal was reached. Many market participants now think the worst is behind them, allowing prices to rise into 2021. Besides, we now have positive seasonals that extend in the good times into next June. Winter demand will also rise.

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In company news, Imperial Oil (IMO) wrote down $1.2 billion of its oil sands holdings. IMO now has no plans for its oil sands portfolio in Alberta. The odds of them developing have fallen to low or nil. Venezuela saw its oil exports double in November as Russian interests bought it. BMO has announced they will no longer finance U.S. shale business. The sector has been battered by low prices and many producers have gone under. Japan has announced they are planning on phasing out gasoline cars by the mid-2030s and aim to move to 100% electrification.

With the rally in oil prices (up 1.6% this past week), it is no surprise that the energy stocks continued their recent strong performance. The TSX Energy Index (TEN) rose 1.6% while the ARCA Oil & Gas Index (XOI) jumped a strong 4.5%. They are both at their highest levels since June 2020. The oil stocks have turned bullish with the XOI and the TEN both over their 200-day MA. The only glitch this past week was natural gas (NG) that fell 9.2%. As a result, the short-term trend for NG has turned down.

The question now is, will WTI oil break out? A strong breakout could ultimately take WTI oil to the mid-$50s. The rally becomes questionable only with a breakdown under $40.

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.

Disclaimer

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