



TIM HAYES, CMT CHIEF GLOBAL INVESTMENT STRATEGIST

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[email us](#)

# Now marketweight equities and cash, bearish on U.S. dollar, neutral on gold



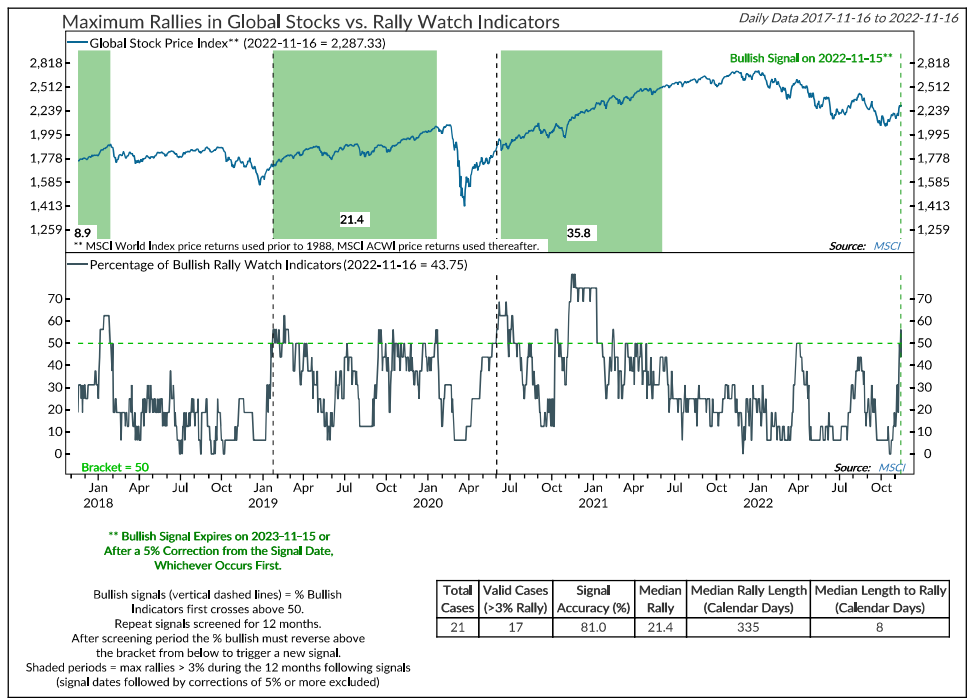
## Position Change

Shifting exposure from cash to equities, downgrading dollar to bearish, upgrading gold to neutral.

## Key Takeaways

- Now marketweight stocks, bonds and cash after moving 5% from cash to equities. Responding to Rally Watch signal and Global Balanced Account Model estimate.
- Dollar downgrade follows sell signal from intermediate-term composite, while gold upgrade is a response to indicator improvement in Gold Watch report.

## Buy signal from Rally Watch aggregate



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With the growing recognition that inflation has peaked, making it more likely that central bank aggression is peaking as well, recent reversals have led to strengthening trends. Those include a broadening rally in global equities, an increasingly decisive U.S. Dollar Index decline, increasing momentum in dollar exchange rates, and a more persistent advance in the gold price, consistent with improving commodity breadth.

As a result, our models and watch reports have gained conviction. And we are responding by **upgrading equities from underweight to marketweight, downgrading**

**cash from overweight to marketweight, downgrading the dollar from neutral to bearish, and upgrading gold from bearish to neutral.**

In upgrading equities, we are shifting **5% from cash to stocks**, bringing the allocations in line with the benchmark at 55% stocks, 35% bonds and 10% cash. Our latest intra-month estimate of the [Global Balanced Account Model](#) shows the recommended allocation moving to 47% stocks, 40% bonds and 13% cash for October to an allocation of 51% stocks, 43% bonds and 6% cash.

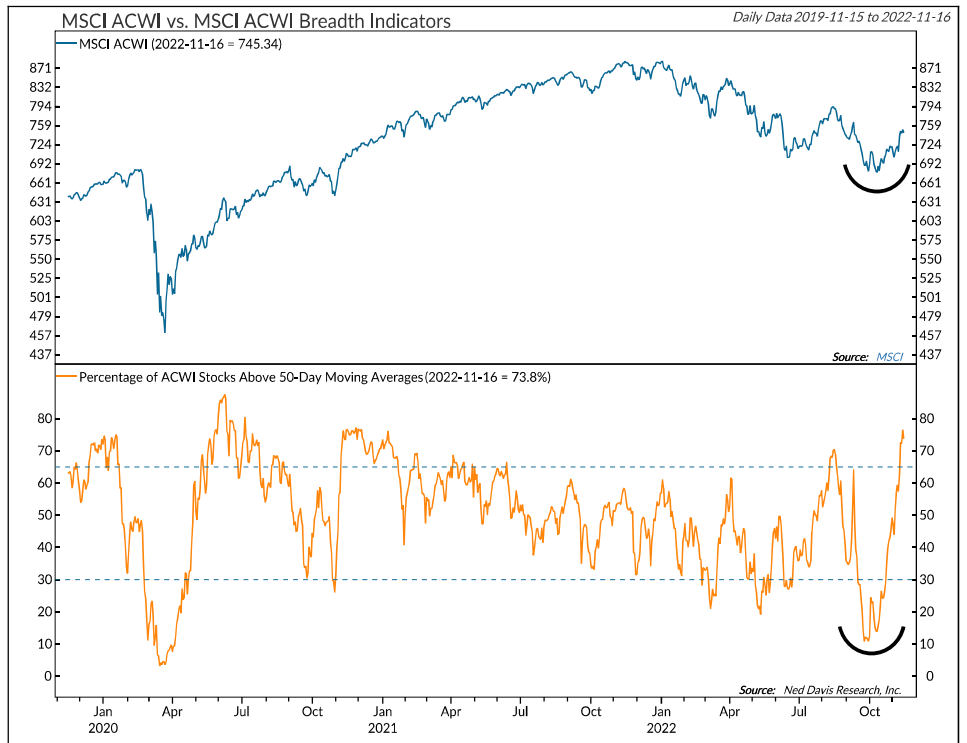
By moving ahead of the model with the equity increase to 55%, we are recognizing the bullish message of our [Rally Watch Report](#). As shown above, the **Rally Watch aggregate generated a buy signal** on November 15, when the majority of its indicators exceeded their key levels for the first time since early 2021.

Rallies have followed 17 of the 21 previous cases when the report's bullish indicators were in the majority for the first time in a year. Those rallies have been followed by a median rally of 21%, with the median rally lasting 335 days. Considering that the ACWI has risen at an 18% per annum rate with the aggregate [exceeding](#)

50% since 1981, it would be encouraging to see the aggregate remaining in the bullish mode. Together with additional equity exposure recommended by the model, we would then be likely to upgrade the equity exposure to overweight.

The bullish Rally Watch indicators include two short-term indicators that have generated thrust signals. At least two of the thrust indicators previously generated signals during the rallies that started in March and June, both failing rallies that were followed by renewed weakness and new lows. What's different about the latest pair of thrust signals is that they've received a degree of **long-term confirmation that was lacking after the year's earlier thrust signals**. That's why the Rally Watch aggregate has generated a buy signal after failing to do so during the previous rallies.

### Global breadth improvement

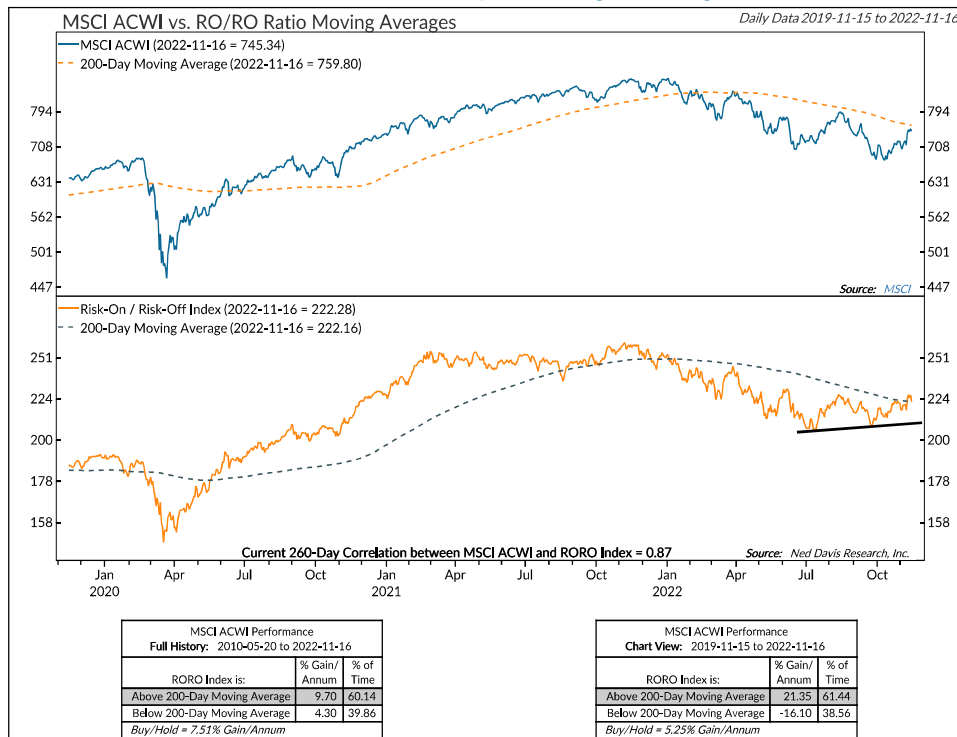


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### RO/RO Ratio now above 200-day moving average



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The longer-term confirmation has been especially decisive from the Rally Watch component above. After starting at much lower levels than it did at the start of the previous two rallies, the percentage of stocks above their 50-day moving averages has exceeded its previous rally extremes in reaching its highest levels since June 2020.

Consistent with the Rally Watch, our Risk-On/Risk-Off report has bullish implications, comparing indices that correlate positively with the ACWI to those that have inverse correlations. The chart at left shows the ratio of the aggregate of the risk-on components to the aggregate of the risk-off components, a ratio that has a strong 260-day correlation of .87 with the ACWI.

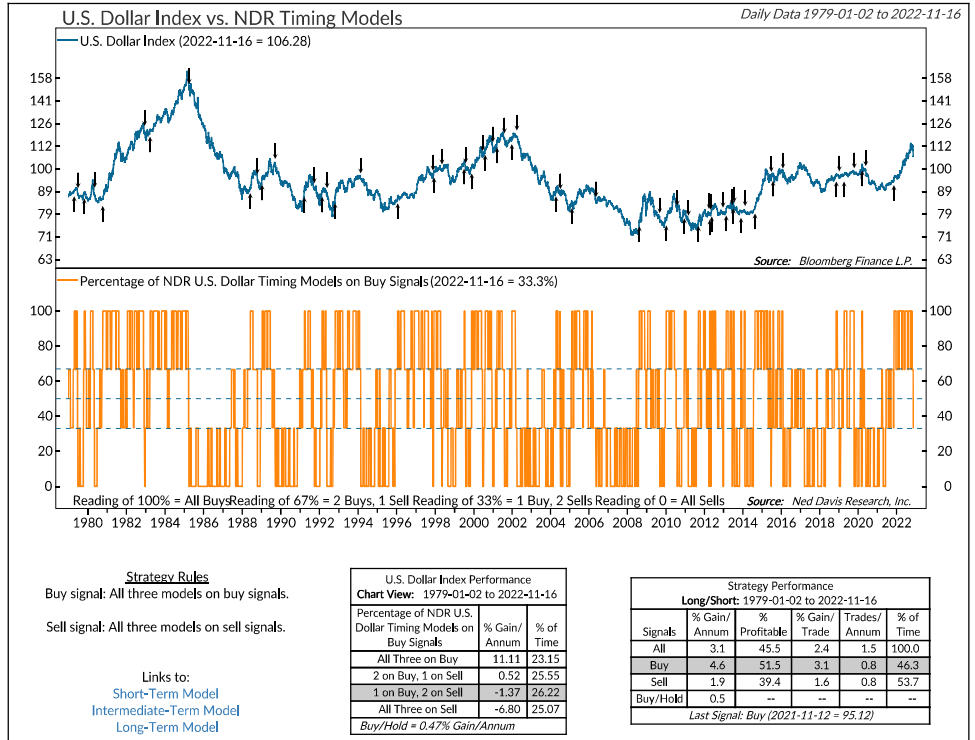
After refusing to confirm the ACWI's October low, instead bottoming at a higher low, the RO/RO Ratio has risen **above its 200-day**

**moving average for the first time since early this year.** The case for another equity upgrade will be supported if the ratio continues to trend higher, with the ACWI following suit in breaking above its 200-day smoothing and its August high.

Following our U.S. dollar downgrade from bullish to neutral [last week](#), today's additional downgrade is a **response to a new sell signal** from our [intermediate-term technical composite](#), now at its lowest level since 2020. With the [short-term composite](#) remaining bearish and the [long-term composite](#) dropping to 50%, the total dollar composite reading is the lowest among the eight [currency composites](#).

The chart at right indicates that when at least two of the composites have been on sell signals, the Dollar Index has tended to decline. And it has dropped at a per annum

### Worsening dollar composites

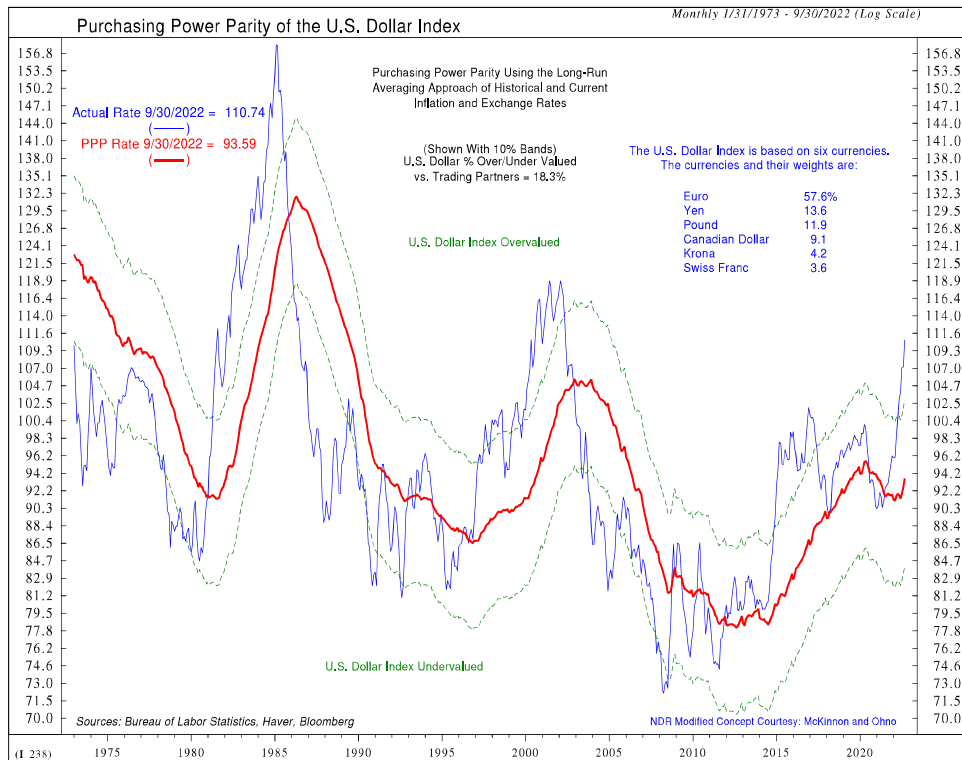


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### Dollar Index overvalued



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rate of -7% when all three composites have been on sell signals, which will be the case if the long-term composite drops below 50%.

As explained when downgrading the dollar from bullish, the dollar has weakened on shifting expectations for interest rate differentials, which had been supporting the dollar as they widened this year. The dollar's breakdown has coincided with a narrowing spread between the U.S. 10-year Treasury yield and the aggregate non-U.S. yield, driven by the increased chances of the Fed ending its tightening cycle in early 2023.

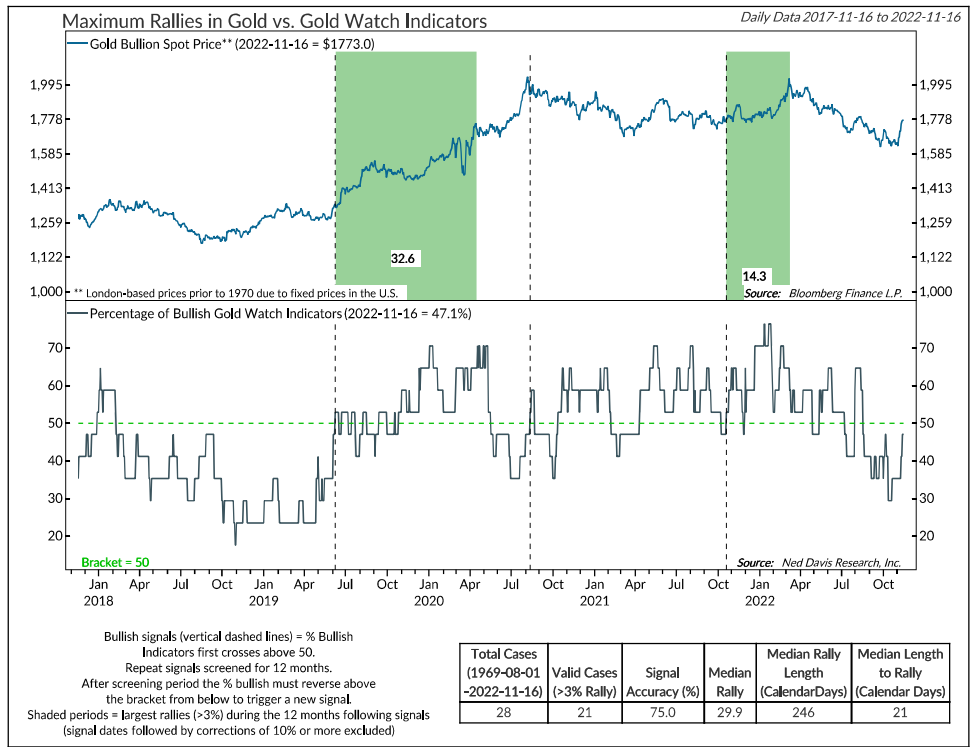
The chart at left indicates that on the basis of Purchasing Power Parity, the Dollar Index is 18% overvalued. That implies substantial future weakness if the dollar is starting a decline back to parity.

Also as explained last week, we wouldn't want to be bearish on both the dollar and gold at the same time, given their strengthening [inverse correlation](#). And considering the technical improvement that has lifted our [Gold Watch](#) aggregate from a low of 20% in October to 47% today, an **upgrade from bearish to neutral is now warranted**.

An additional upgrade to bullish will be supported if the aggregate rises above 50%, with gold breaking above its August high. All else being equal, the aggregate will exceed 50% in December when the report's [seasonality](#) factor will turn bullish. Gold has had its most positive mean monthly gains in December and January.

Contrasting the dollar downtrend in breaking above a [50-day moving average](#) that is rising, the gold price improvement has been **consistent with the trends of most other**

## Rising aggregate of Gold Watch indicators

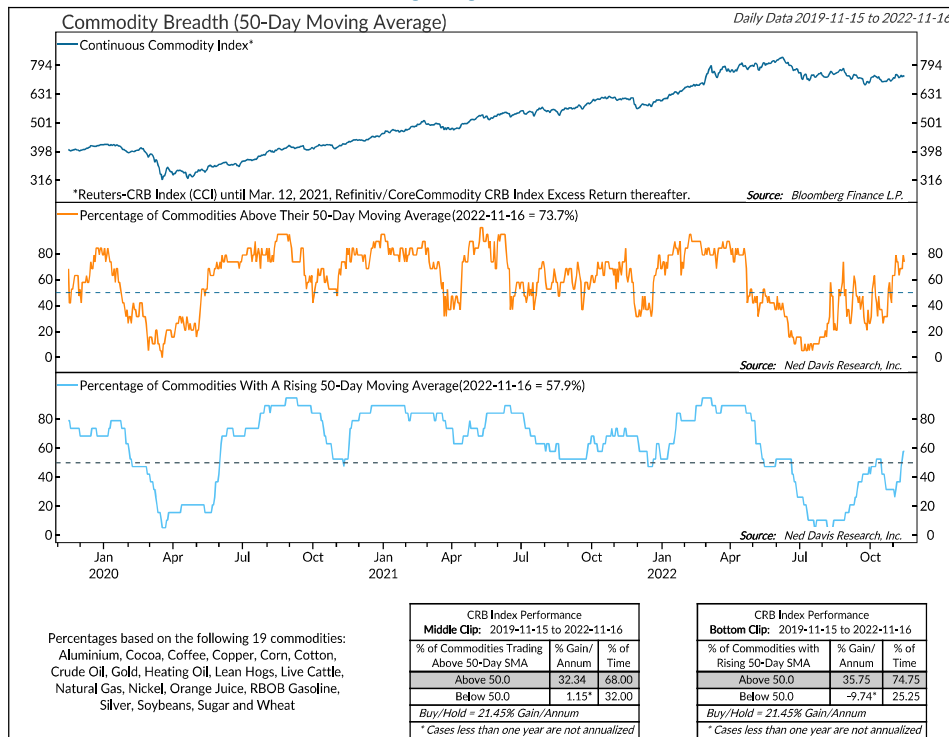


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## Most commodities trending higher



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**commodities.** As shown at left, 74% of the commodity index components are above their 50-day smoothings (middle clip) while 58% of the smoothings are rising (bottom clip).

More a positive economic sign than the inflation warning that it was considered earlier this year, the recent commodity trend improvement is not only consistent with the gold recovery, given the positive [correlation](#) between the CRB Index and gold, but also the rally in stocks, considering the CRB's positive [correlation](#) with the ACWI. What's suggested by the current correlating trends is that in 2023, inflation and interest rates will be less threatening than they've been in 2022, with economic growth and market performance holding up far better than the most negative scenarios would project.

**Anoop Nath, CFA**, has provided research support for this report.



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# NDR HOUSE VIEWS (Updated November 17, 2022)

For global asset allocation, NDR recommends marketweight allocation to stocks, bonds, and cash. We are in line with our Global Balanced Account Model estimate.

## Equity Allocation

**U.S.** | We have a modest underweight to stocks in our asset allocation recommendation but are neutral on an absolute basis. The hawkish Fed has overwhelmed the positive tape development in the summer, but sentiment is extremely pessimistic. We favor small-caps over large-caps and Value over Growth.

**INTERNATIONAL** | We are overweight Europe ex. U.K. and marketweight on all other regions.

## Macro

**ECONOMY** | The global economy is in a sustained slowdown due to waning monetary and fiscal support, stubbornly high inflation, and rising geopolitical risk. While the slowdown remains moderate, the risk of severe recession increases in 2023. Global inflation pressures are easing but will remain historically elevated in the foreseeable future.

**FIXED INCOME** | We raised our bond exposure to 100% of benchmark duration and are neutral on the yield curve. We are overweight Treasuries, MBS, and CMBS and underweight high yield and TIPS. We are marketweight everything else.

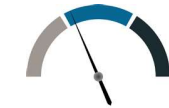
**GOLD** | We are currently neutral but will be watching our Gold Watch Report for a bullish signal for a potential upgrade.

**DOLLAR** | We are bearish due to worsening momentum and model readings.

## Economic Summary

November 14, 2022

Near term activity: ● Accelerating ● Neutral ● Decelerating



Global Economy  
(2.9%)



U.S. Economy  
(1.5%-2.0%)

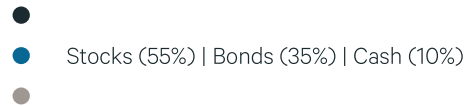


U.S. Inflation  
(4.0%-4.5%)

Economic gauges reflect changes in near-term economic activity. Numbers in parenthesis refer to NDR 2022 forecasts.

## Global Asset Allocation

● Overweight ● Marketweight ● Underweight



Benchmark: Stocks (55%), Bonds (35%), Cash (10%)

### Equities — Regional Relative Allocation



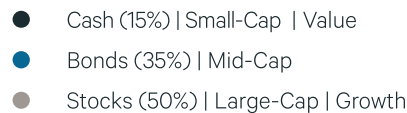
Benchmark – U.S. (61.5%), Europe ex. U.K. (12%), Emerging Markets (11.2%), Japan (5.5%), U.K. (3.8%), Pacific ex. Japan (3%), Canada (3.1%)

### Global Bond Allocation



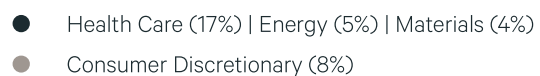
Benchmark: U.S. (57%), Europe (25%), Japan (15%), U.K. (4%)

## U.S. Allocation



Benchmark: Stocks (55%), Bonds (35%), Cash (10%)

### Sectors



Benchmark: Technology (27.4%), Health Care (13.8%), Financials (10.7%), Communication Services (9.3%), Consumer Discretionary (12.1%), Consumer Staples (7.0%), Industrials (7.9%), Energy (4.0%), Utilities (2.7%), Real Estate (2.7%), Materials (2.5%)

### U.S. Bonds — 100% of Benchmark Duration

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NDRsales@ndr.com  
www.ndr.com  
(800) 241-0621

### NOKOMIS

2520 North Tamiami Trail  
Nokomis, FL 34275  
(941) 412-2300

### NEW YORK

1120 Avenue of the Americas  
6<sup>th</sup> Floor  
New York, NY 10036  
(646) 810-7270

### MONTREAL

1001 de Maisonneuve West  
Suite 1510  
Montreal, QC, Canada H3A 1X8  
+1 800 724 2942, +1 514 499 9550

### LONDON

8 Bouverie Street  
Temple, London  
EC4Y 8AX  
+44 (0) 20 7779-8682

### HONG KONG

12/F, V-Point, 18 Tang Lung Street,  
Causeway Bay  
Hong Kong  
+852 3416 6676

### AUSTRALIA

19/1 O'Connell Street  
Sydney, Australia  
+61282491867

### SINGAPORE

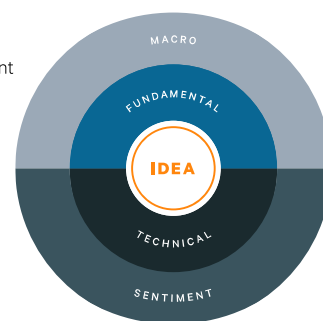
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