



NOVEMBER 30, 2022

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Rally update: more progress but still no bull confirmation

Key Takeaways

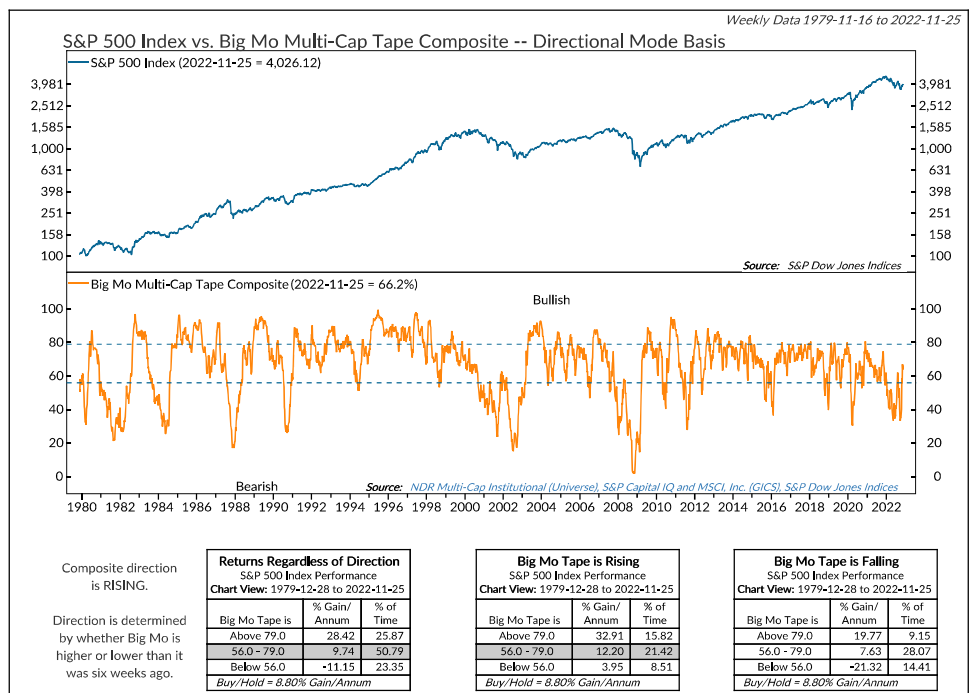
- The recent rally has been broad-based with more stocks, industries, and style boxes above moving averages.
- Technical improvement supports the year-end rally case.
- Intermediate-term and long-term technical indicators have not confirmed the downtrend that has defined 2022 is over.

Good start

The rally off the October lows has been impressive. The S&P 500 has gained as much as 12.6%. The Russell 2000 has outpaced its large-cap counterparts, with a 14.1% jump. The Dow Industrials has done even better, with a 19.6% gain. Even the struggling Nasdaq Composite has logged a double-digit rally at 10.1%.

Breadth has been solid as well, with improvements in the percentage of stocks above their moving averages, stocks making new highs, and Big Mo Tape (chart, above). The broad-based nature of the rally supports the case for the rally to continue through year-end; however, **the improvements in the intermediate-term and long-term technical indicators have not been**

Big Mo Tape near one-year high



[DAVIS250](#)



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enough to conclude that the rally is materially different from the ones seen earlier this year. The rest of the report walks through indicators we are watching.

Quick reminder

Before diving into the details, a brief trip down memory lane should provide useful perspective. Market bottoming processes often, but not always, include retests. Benchmark indices may or may not make new lows. More importantly, a distinguishing characteristic of a successful retest is that breadth measures show less selling pressure than at the initial low.

That is what unfolded in September and October. When the popular averages were making new lows, we [highlighted](#) that the percentage of stocks above their moving averages, the percentage of stocks making new lows, total volume, and declining volume/advancing volume were all less extreme than in the June or even March selloffs.

The positive technical divergences over the past two months leave open the possibility that the market is transitioning to a cyclical bull market instead of another in a series of bear market rallies.

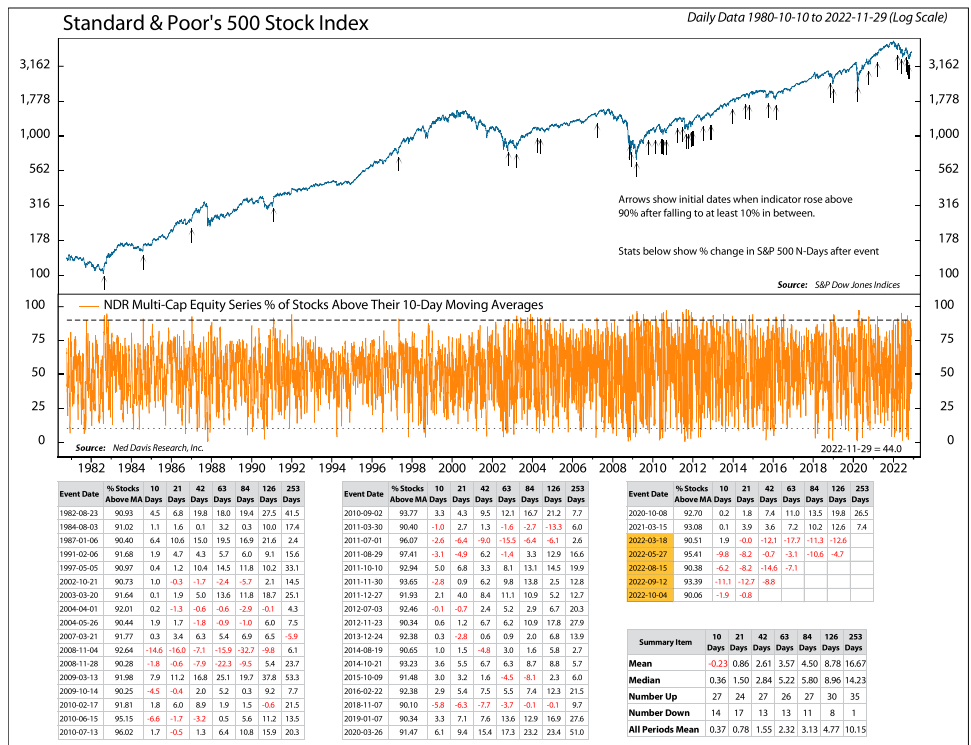
Short-term breadth

The initial rally off the October lows was broad-based. On October 4, the percentage of stocks in the NDR Multi-Cap universe above their 10-day moving averages climbed above 90% (chart, right). Such a high percentage is an example of a breadth thrust. The rationale is that with so many stocks rallying, even if a few run into trouble, enough stocks remain in uptrends that they can support the popular averages.

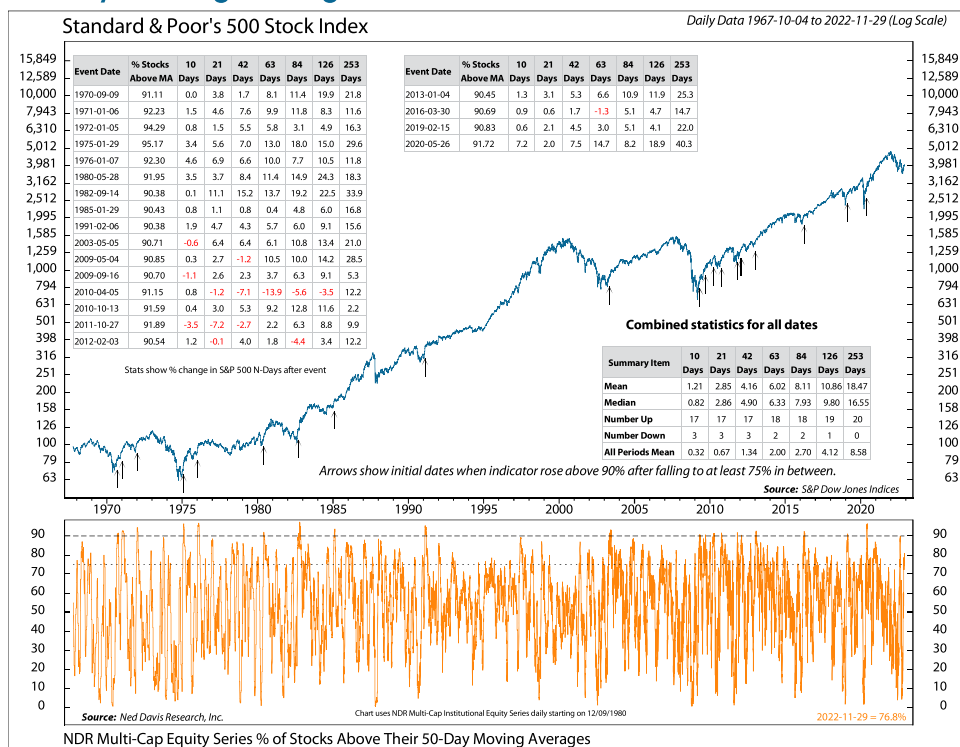
The data supports the rationale. One year after 10-day moving average breadth thrust signals, the S&P 500 has been higher 35 out of 36 times by an average of 16.7%.

The challenge for 2022 is that short-term breadth has been volatile. The October signal was the fifth this year, the most since the six in 2011. During Pre-financial crisis, breadth thrusts fired once every few years.

October 4 was the 5th breadth thrust of 2022



50-day moving average breadth thrust has not confirmed



Intermediate-term breadth

The increased frequency of the signals caused us to shift our mantra from "trust the thrust" to "trust but verify." The verification comes from intermediate-term and long-term breadth indicators.

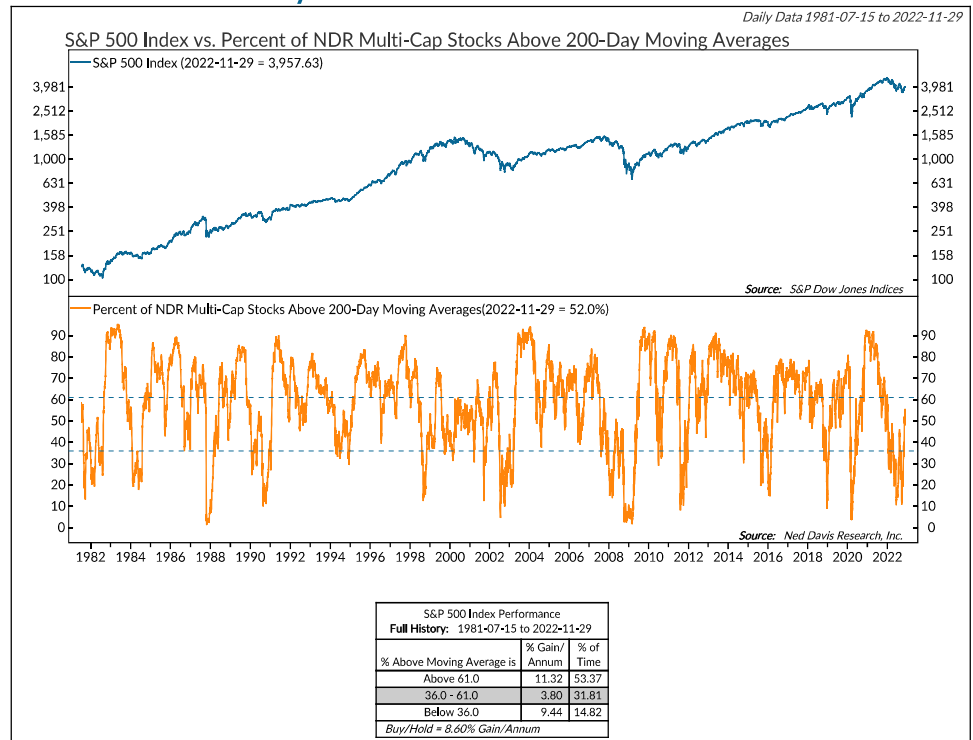
The percentage of stocks above their 50-day moving averages climbed as high as 80.8% on November 25, impressive but short of the 90% threshold (chart, left).

Long-term breadth

Taking breadth a step further, the percentage of stocks above their 200-day moving averages climbed to 55.7% on November 25 (chart, right). While the highest since January, it remains below the key 61.0% level.

Similarly, Big Mo Tape, which measures the percentage of sub-industries in uptrends, hit a one-year high on November 11 (chart, page 1).

% stocks > 200-day MA ↑ but hasn't confirmed

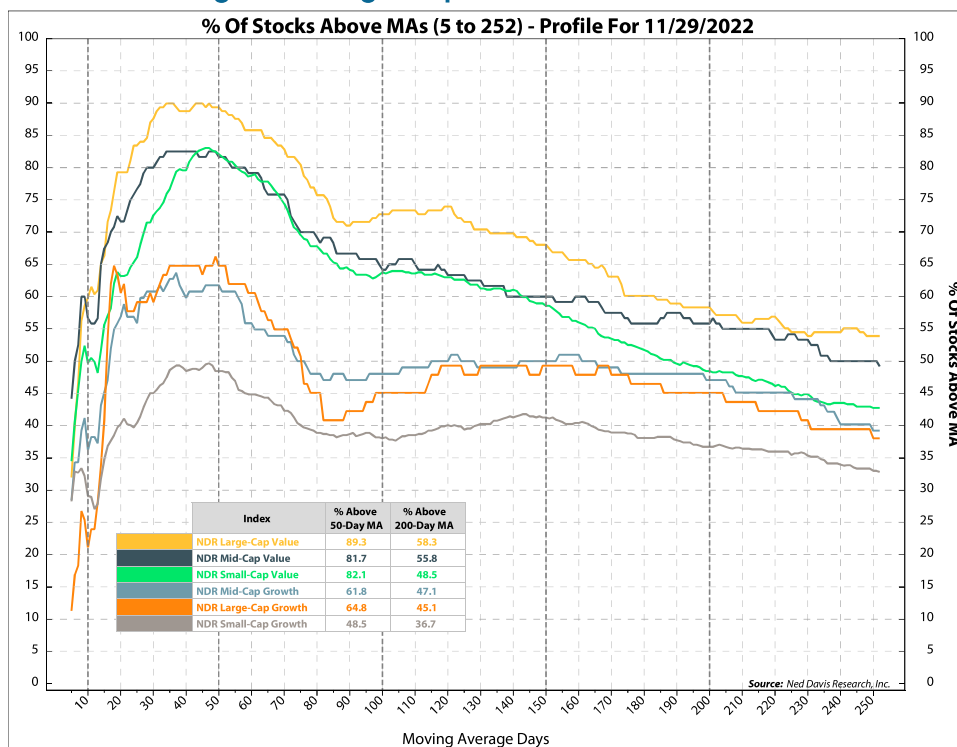


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Breadth strongest in large-cap Value



DAVIS275B



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Value breadth

The chart at left shows the percentage of stocks above their moving averages ranging from five days to 252 days for Value and Growth stocks. The first conclusion from the chart is that the percentage of stocks above their 50-day moving averages is strong across most caps and styles, but weaker for longer time frames like 200 days.

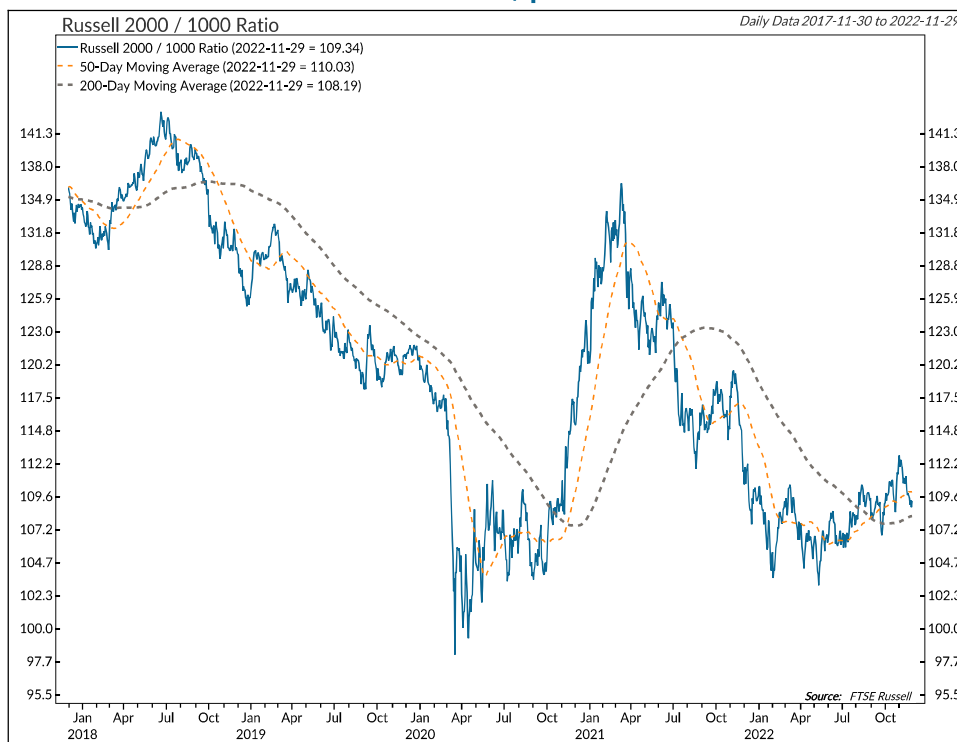
Second, large-cap Value has the best breadth across most time periods. Mid-cap and small-cap Value are solid for about 50 days before dropping off, reflecting their strength since the autumn lows. Growth's breadth, especially small-cap Growth, has been weaker.

Defensive leadership

One of the reasons we were optimistic about a year-end rally was that high-beta areas began to tread water relative to low-beta areas in June and outperformed after the September/October retest. **The inverse has begun to happen, with high-beta areas underperforming as popular averages made new highs.**

For example, the Russell 2000/1000 ratio bottomed on May 11 and hit an 11-month high on November 1. Small/large has pulled back in November (chart, right). The ratio's rising 50-day moving average remains above the rising 200-day moving average, so the primary trend remains up, but the defensive tilt is not something one would expect for a rally gaining strength.

R2/R1 bottomed ahead of market, pulled back in November

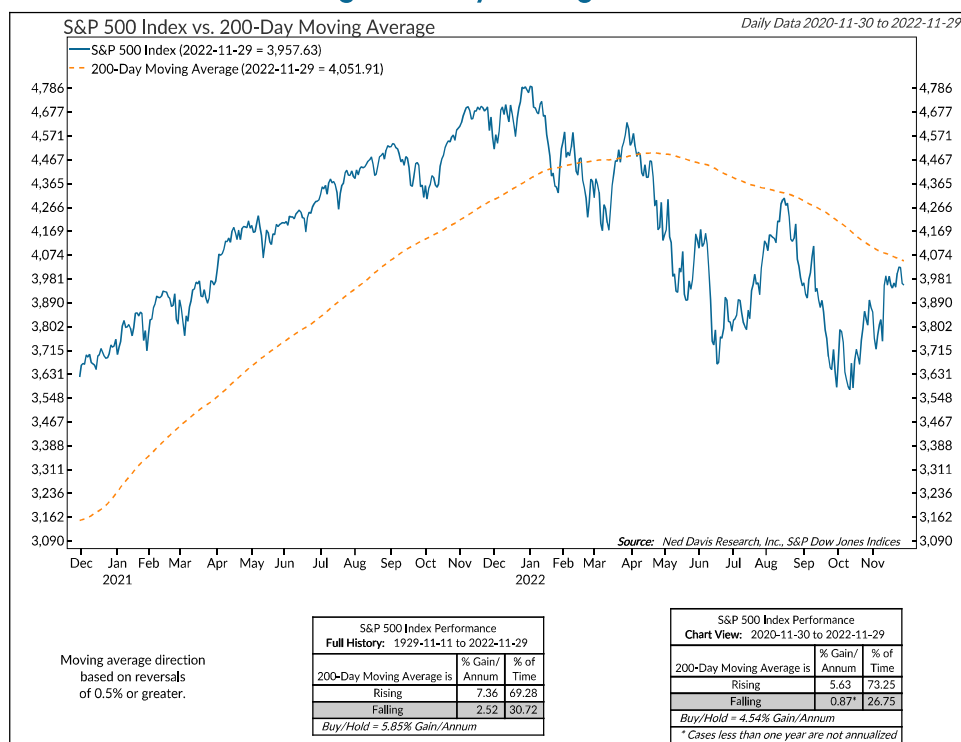


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SPX bounced off falling 200-day MA again



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Primary trend

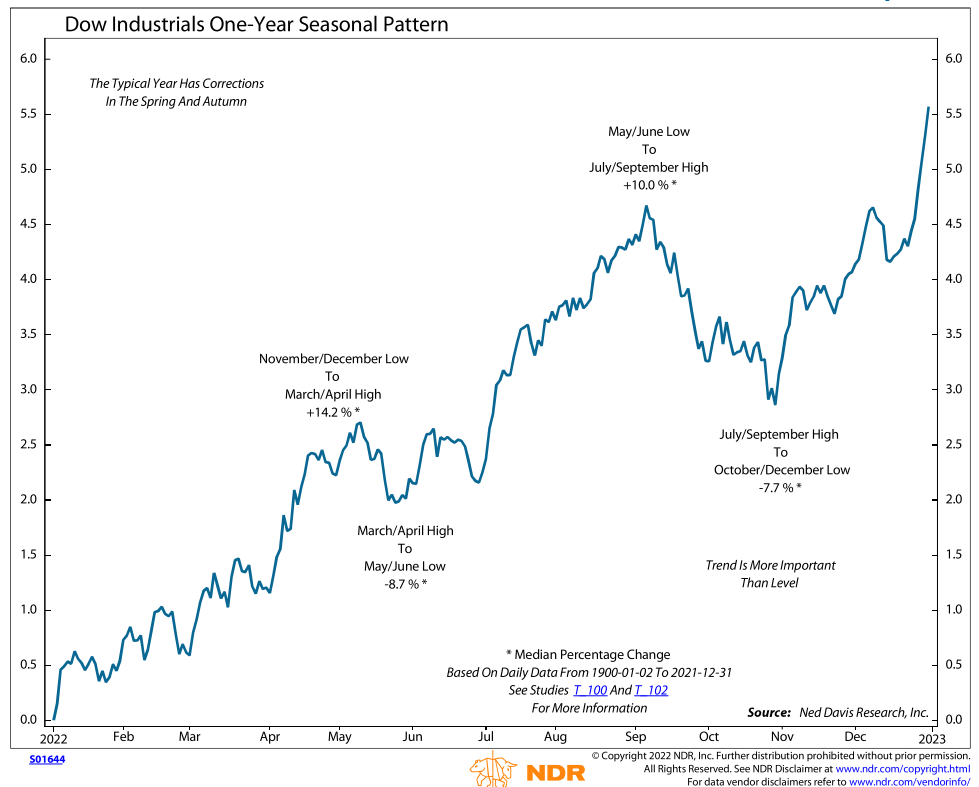
Circling back to large-caps, the S&P 500 has traded back to its 200-day moving average (chart, left). The June-August rally failed at the 200-day MA. Until the S&P 500 can break above its falling 200-day moving average, the primary trend has to be considered to be down.

December seasonality

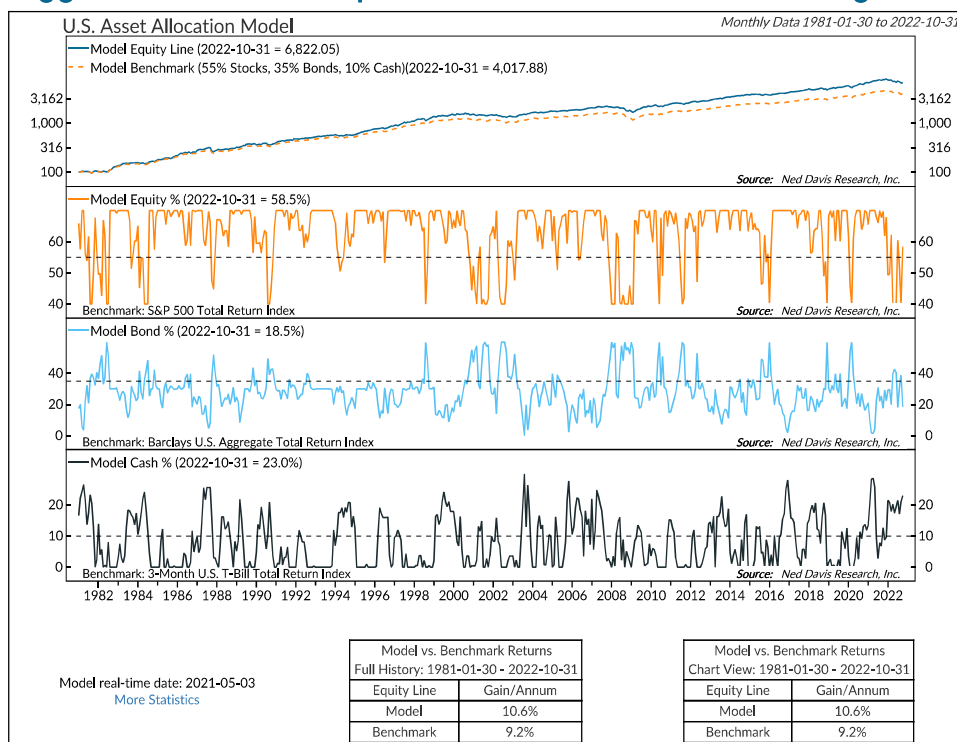
While November and December are two of the [strongest months](#) of the year, the first half of December can include a pullback as investors sell losers for tax purposes (chart, right). As we discussed [last week](#), tax loss harvesting can be especially difficult on less liquid areas like small-caps.

The transition from tax harvesting to the [Santa Claus rally season](#) could present an opportunity for intermediate-term and long-term breadth measures to confirm, high-beta areas like small-caps regain leadership, and the S&P 500 to break above its 200-day moving average. If not, it would signal the rally may not continue deep into 2023.

1H of December tends to be weak before Santa Claus rally



Bigger model shift to equities could force allocation change



Model watch

The message from technical indicators is that the rally has been **a step in the right direction for the bulls but not enough to conclude the downtrend that has consumed 2022 is over.**

The risk of a Fed-induced recession in 2023 puts a high hurdle on technical indicators overriding the macro outlook. Nevertheless, if the NDR U.S. asset allocation model increases its exposure much above 60% with its December update, we will consider tactically increasing our [recommended exposure](#) from the current 50% (5% underweight) to remain aligned with the model. We aim for two-to-three allocation shifts per year, but volatility dictated a nimbler approach in 2022, and will likely in 2023 as well.



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EQUITIES

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.

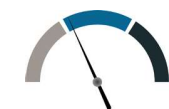
GOLD | We are currently neutral but will be watching our Gold Watch Report for a bullish signal for a potential upgrade.

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

Economic Summary

November 28, 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



Stocks (55%) | Bonds (35%) | Cash (10%)



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

Equities — Regional Relative Allocation



Europe ex. U.K. (14%)



U.S. (61%) | Emerging Markets (11%) | Japan (5%) | U.K. (4%) | Pacific ex. Japan (2%) | Canada (3%)



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



Japan (19%)



U.S. (55%) | Europe (25%)



U.K. (1%)

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

U.S. Allocation



Cash (15%) | Small-Cap | Value



Bonds (35%) | Mid-Cap



Stocks (50%) | Large-Cap | Growth

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

Sectors



Health Care (17%) | Energy (5%) | Materials (4%)



Consumer Discretionary (8%)

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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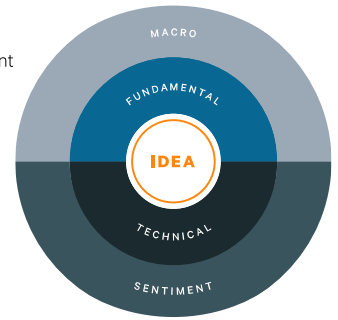
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