THE McCLELLAN MARKET REPORT

INSIDE

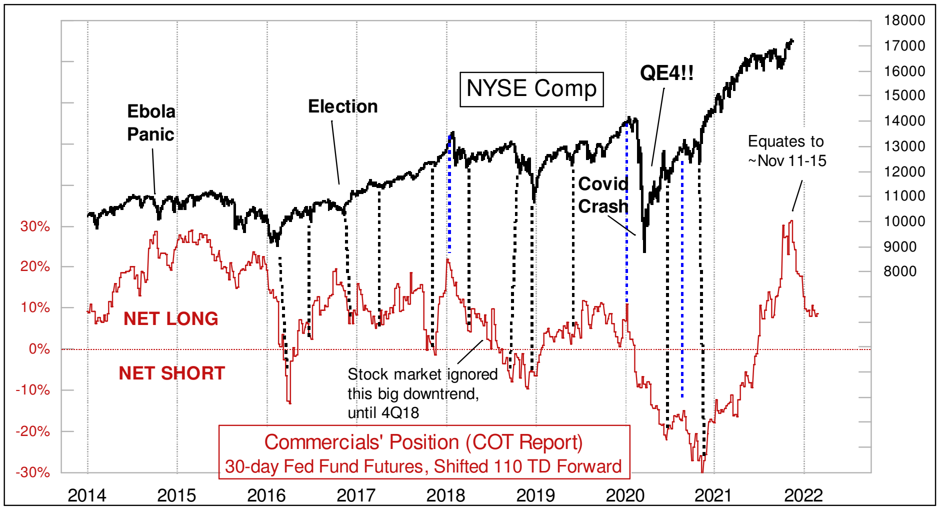
Prepared After the Market Close, November 16, 2021 Report #639, November 17, 2021

Major Top Expectation

We have been looking forward to this moment for almost 5 months now, the moment when our Fed Funds COT model says that a "major" top is due. Now we have to decide whether we can believe in that message.

The first chart takes a really long term look at this model. For new readers, what we are doing here is taking the net position of the commercial (big money) traders of 30-day Fed Funds futures contracts, as reported in the weekly COT Report, and using that as a leading indication for stock prices. The plot of their net position is shifted forward by 110 trading days to reveal how the stock market repeats its dance steps after that approximate lag time.

It is worth noting that the 110TD lag is not always perfect. The January 2016 bottom came early, and so did the November 2016 bottom which was affected by the election outcome. Other periods have seen smaller amounts of deviation fore and aft.



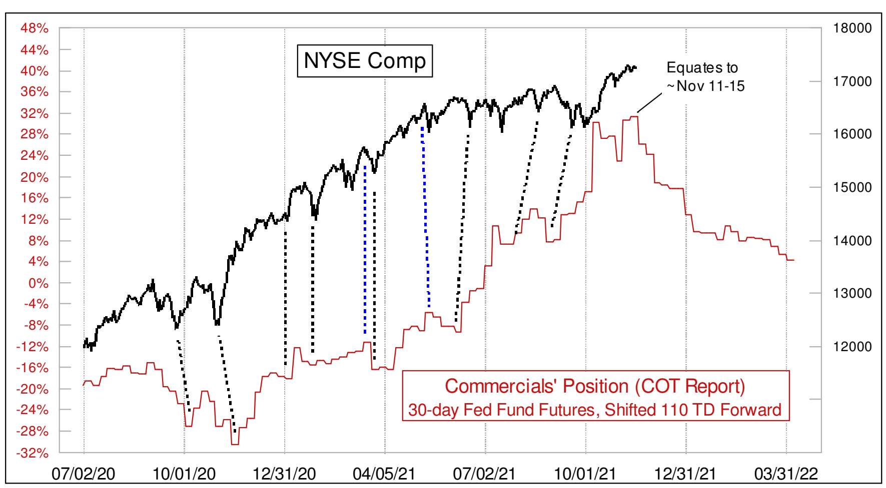
The first part of the Covid Crash was on schedule for a decline shown by this model. But the amount of the damage was far beyond what was suggested, and then the Fed jumped in to rescue us with QE4, which threw off the correlation for a while. By June 2020, though, the two plots were dancing in step again.

The lower chart shows the same relationship zoomed in closer so that we can see the detail. Just ahead is a big decline. Given the fairly strong correlation of the market to this model over the past several years, it is hard to imagine that this model's message of a decline of this size would not have some significant response from the stock market.

The question we cannot answer right now is whether the Fed will allow such a decline. They have pledged to throttle back on QE at a rate of $15 billion per month, meaning that it will go to zero sometime in 2022. But it is not zero yet. It is a legitimate question as to whether the tapering can withdraw enough liquidity to allow such a decline. Another question is whether a decline like this one can buck the bullish sea-

BOTTOM LINE

It is now decision time for the market, to choose between the excellent looking Fed Funds COT model calling for THE TOP right now, or the strong seasonality of the next several months. There are some momentum divergences to favor the bears, but it is far from uniform. And the Fed is still pumping QE, albeit at a 12% slower rate. If we see price strength backed up by gobs of breadth, then the bulls are still in charge. But any appreciable weakness this week or next would kick off a big bear market. Bond yields should continue rising (prices falling) until next April. Gold is moving higher, and the public has not caught on yet, which suggests the up move has more room to run.

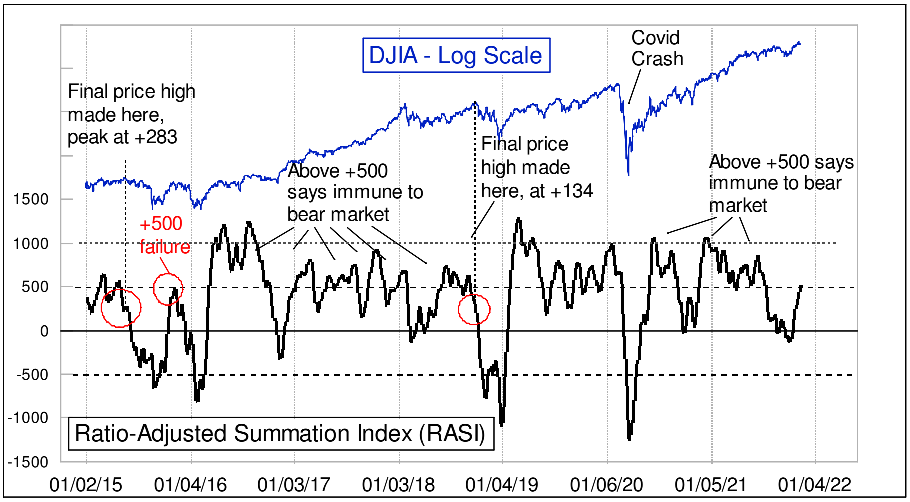


sonality of the current period (see p. 8).

We still have our attention focused on the action of the McClellan Oscillator and the Summation Index as a tie-breaker for this question. A strong market should be able to drive up the Ratio-Adjusted Summation Index (RASI) to well above +500. Last week, it got to +517, and it has turned down from there. At this point, it is looking like a +500 failure, meaning that the uptrend is not strong enough to achieve escape velocity and a drop is likely.

But that message could easily be overruled if there is a sudden surge in positive breadth numbers in the days just ahead. If the market is going to follow the Fed Funds COT model, then we should expect down days for prices and negative daily breadth numbers just ahead.

Bottom Line: The expectation of a major top and a significant decline just needs a little bit more confirmation from actual declining action in the market to help us believe it over the bullish seasonality of the current period.



Page 3 Charts

Chart 1: The A-D Line made a new all time high on November 8, 2021 and has backed off by 1279 net declines. But it is still above its 10% Trend, so there is no significant damage. There is plenty of distance between the current posting and the 1% Trend. If the stock market were in a bearish condition, this indicator should be flirting with its 1% Trend and not floating way above it.

Chart 2: The Daily Volume Line is another matter. It has refused to join the A-D Line in making a new all time high. This divergence is impressive as it has been going on since June. However, the Daily Volume Line has been above its 10% Trend since October 5. This sustained run has not been very energetic, but it has been insistently bullish. Were there to be several up days that boosted this indicator to a new all time high, then that would be more decidedly bullish. Were there to be a decline taking this indicator below its 5% Trend, that would be a bearish signal. We are going to need to see some movement on this indicator to give an idea of what this stock market is going to do.

Chart 3: The McClellan A-D Summation Index has had a bumpy down move over the summer. The bumpiness indicates weakness by the bulls during the Summation move down. But the premise is that at the conclusion of the consolidation the bulls will be able to take control for a significant move up. The move up during October and into November has been a smooth move up indicating bullish strength, as promised by the bumpy down structure. Now the Summation Index has stalled out into a horizontal move. And the level is in the vicinity of the lows made by this indicator in the first half of the year. Until the bulls move this indicator higher, or the bears break it down lower, neither of them will be indicating that they have control.

Chart 4: The Volume Summation has struggled to move higher. It is not yet up to the lows made by this indicator in the first half of the year. It has just been able to make it up a trendline that can be drawn across the tops from the left side of the chart. The bulls are going to want to see this indicator able to breakout to higher levels. Failure to move higher and beginning to move lower would be satisfying for the bears. Until one or the other happens the market will keep us guessing.

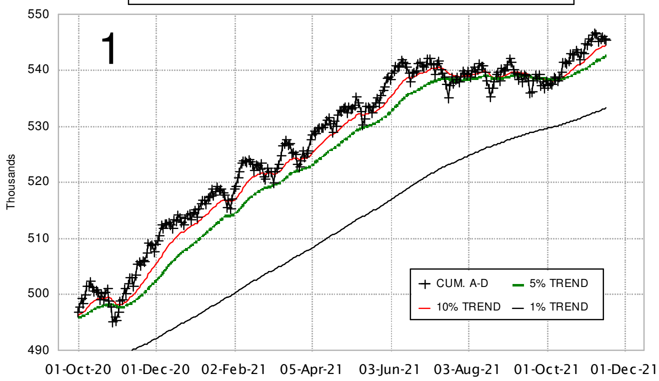
Chart 5: The McClellan Oscillator rallied to +157 on October 14 to confirm the end of the consolidation marked by the bumpy down Summation Index. The complex pattern well above zero provided additional confirmation. A sharp drop to just below zero was a buy spike that was without the power to turn down price oscillators. It was immediately followed by another complex pattern above zero. The slightly lower pattern in that second complex pattern was an indication of a loss of momentum. The drop out of the second complex pattern was able to turn down some Price Oscillators but not all of them. The very wimpy simple move back above zero quickly dropped below zero, which is a sign of waning oomph. It will have to go lower to break the uptrend line that can be drawn across lows from July to put the bears showing some power, or it will need to jump back above zero with some authority to show the bulls really want control.

Chart 6: The Volume Oscillator has a contracting pattern of lower highs and higher lows over the last month and a half. The last 5 days' postings are very close to the zero line. This indicator is going to need to move away from the zero line to indicate whether the bears or bulls will be controlling the market. At the moment it is still a tossup.

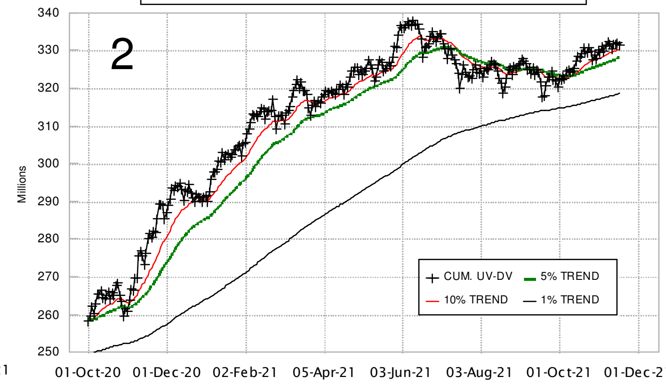
Chart 7: The DJIA Price Oscillator topped out at +368.5 on November 9, one day after the DJIA topped out at 36432.22 on November 8. Since then the intraday price on the DJIA has been high enough to have turned up the Price Oscillator, but was unable to close at that price level. The bulls have not kept control, but the bears haven't shown any power either. If the DJIA can close high enough to turn up the Price Oscillator while it is above zero, then there is the "promise" of a new high close on the DJIA.

Chart 8: The CBOE Volatility Index (VIX) dropped below the lower band a couple of times, an area where it indicates trending moves. Now it is trapped between the 50MA and the lower band, while the SP500 shifts to a sideways consolidation. The short term higher highs and higher lows by the VIX are a divergence from the price action on the SP500. This is a situation that needs to be resolved with a VIX dropping below 15, or spiking above the upper band, to tell us what the market's intentions are.

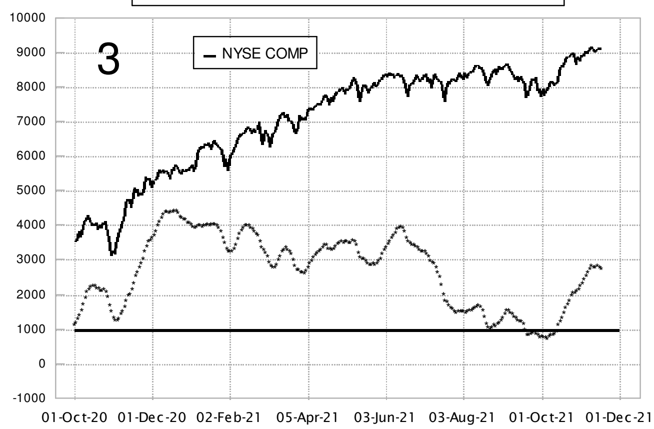
NYSE CUMULATIVE ADVANCE-DECLINE LINE



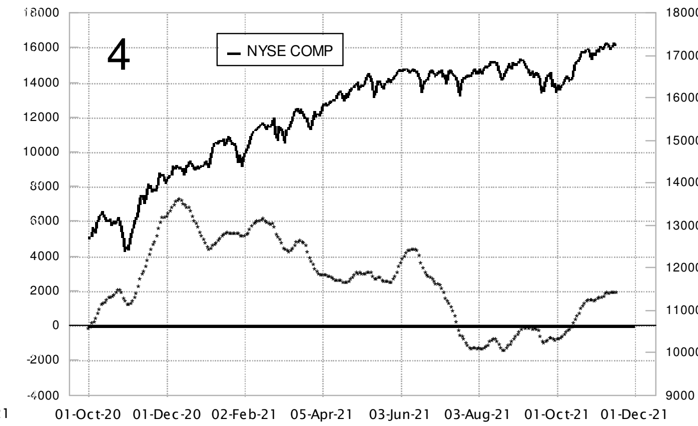
DAILY CUMULATIVE UP-DOWN VOLUME LINE



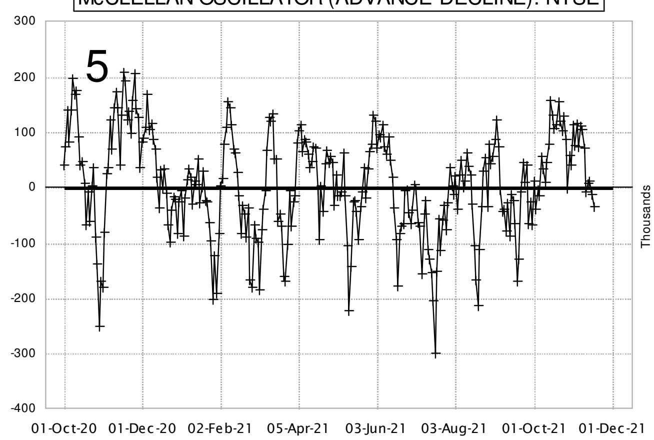
McCLELLAN SUMMATION INDEX: ADV-DECL



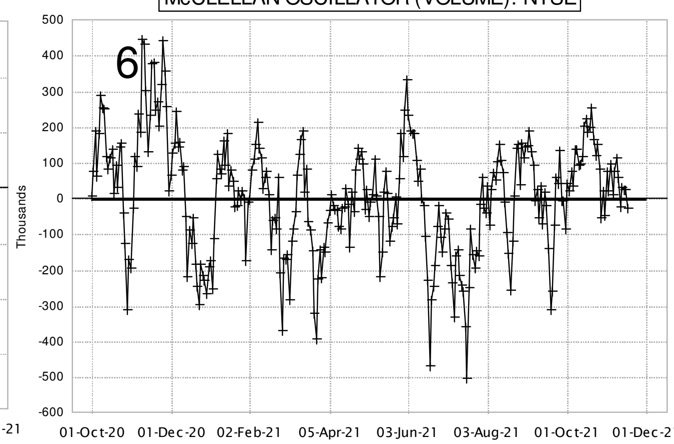
McCLELLAN SUMMATION INDEX: VOLUME



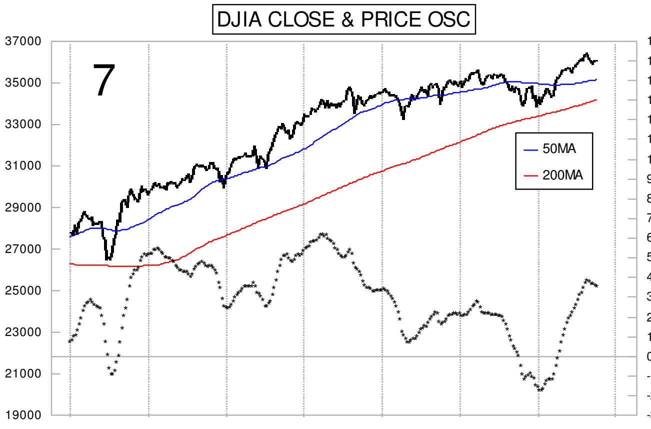
McCLELLAN OSCILLATOR (ADVANCE-DECLINE): NYSE



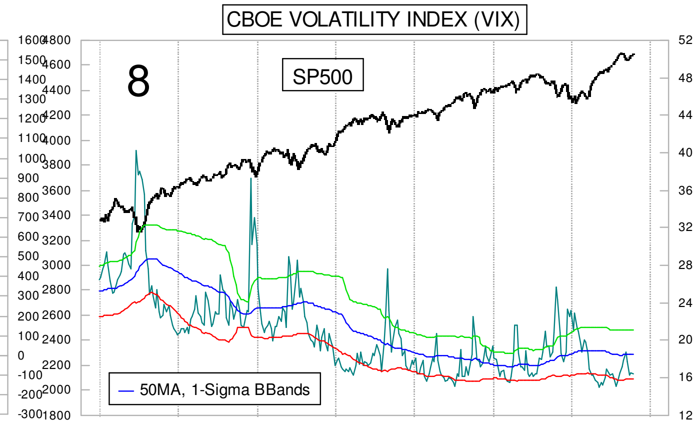
McCLELLAN OSCILLATOR (VOLUME): NYSE



DJIA CLOSE & PRICE OSC



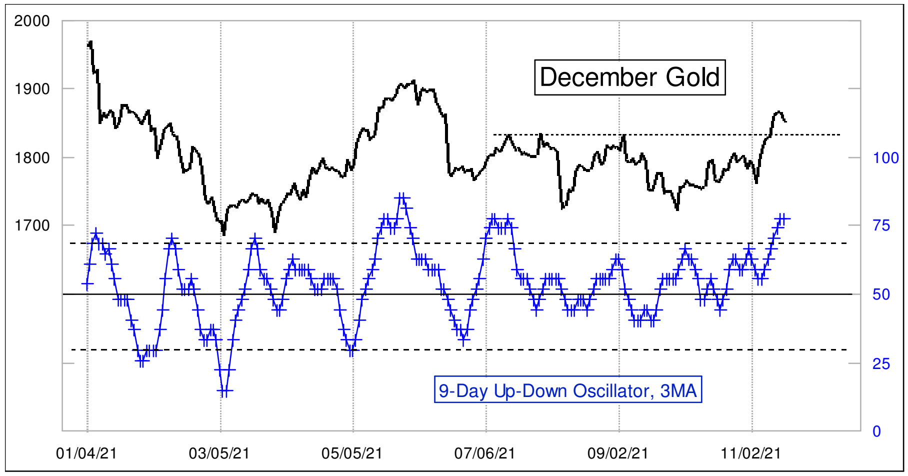
CBOE VOLATILITY INDEX (VIX)

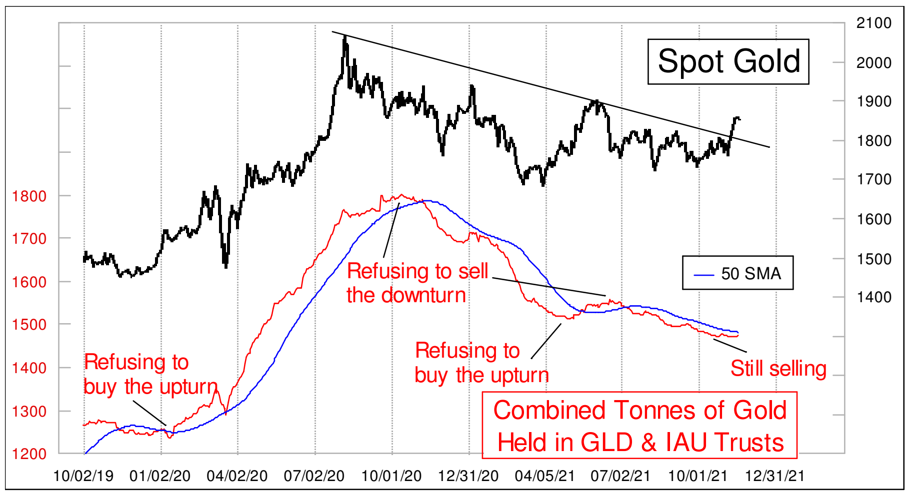


Gold Overbought Within New Uptrend

Gold prices were in a 4-month basing structure since mid-June, and finally climbed up out of it. The 1830 level marked the prior highs in July through September, and that represents an inviting target for a pullback, just to test the former overhead resistance and see if it wants to convert itself to support.

The run higher saw several up days in a row, resulting in an overbought condition for the indicator in the top chart. The 9-day Up-Down Oscillator is a very simple indicator that counts the percentage of up closes over the past 9 trading days, and then smoothes that with a 3-day simple moving average. It shows an extended condition when it goes above 70 or below 30, although an extended condition does not mean that a trending move has to stop.





What it does mean is that the rubber band is stretched, and that a reversion is likely at some point. The 14-point down day on Nov. 16 looks like the start of that reversion. But the ability of gold prices to surge ahead past that prior overhead resistance suggests that there should be more upward movement.

Even though gold prices are up more than 100 points off the Sep. 28 low, investors are still not yet getting excited about it. That says there should be more to come.

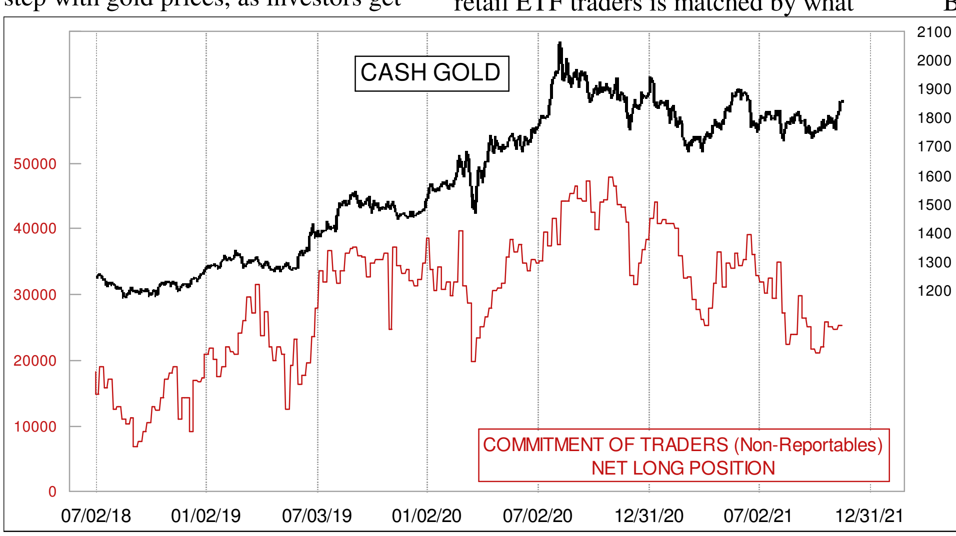
The middle chart shows the total assets held by GLD and IAU, the two largest of the gold bullion ETFs. Normally their assets will rise and fall in step with gold prices, as investors get more or less excited about owning gold. But they are not responding to this latest rally in gold prices. Either they don't care, or don't think it is real, or they are too busy trading fake currencies named for dogs.

When we have seen this type of non-response in the past, it is a sign that there is more of the move yet to come.

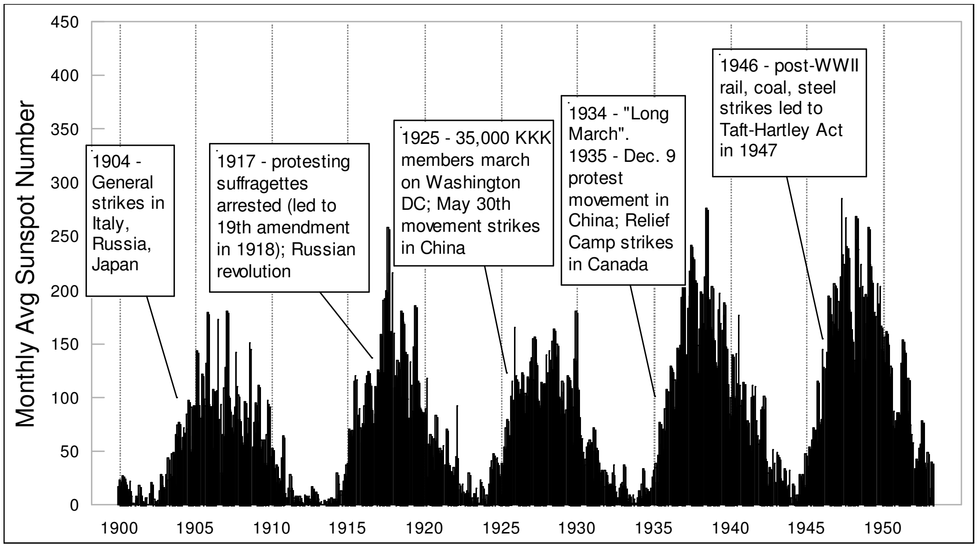
The lack of interest in gold among retail ETF traders is matched by what we see in the bottom chart. This shows data from the weekly COT Report, and depicts the net position of the small "non-reportable" traders of gold futures. That title means that their position size is so small that the CFTC does not want to bother tracking them individually. They are the small money, and the hot money traders who chase every up move and flee from the price drops.

But they are not chasing this up move yet, which says that it still has more room yet to run. Once we see a week when these traders make a big surge to a larger net long position, then we can talk about the new up move maybe running out of gas. And we would plan to have that discussion in our *Daily Edition*, where we cover the relevant COT Report data each Friday.

Bottom Line: Gold prices are moving higher, and no one is noticing yet, which means there is more yet to come.



Sunspots and Protest Movements



More than 100 years ago, a Russian researcher named A. L. Tchijevsky found a linkage between mass protest movements and the ascending phase of the sunspot cycle. He ended up creating an Index of Mass Human Excitability covering events back as far as 500 B.C., and as part of that linked most of the significant events to the 5 years of maximum sunspot activity within each cycle. Unfortunately for Tchijevsky, his writings about why the 1917 Russian Revolution occurred when it did went against the prevailing approved socialist orthodoxy, earning him 30 years in the gulags.

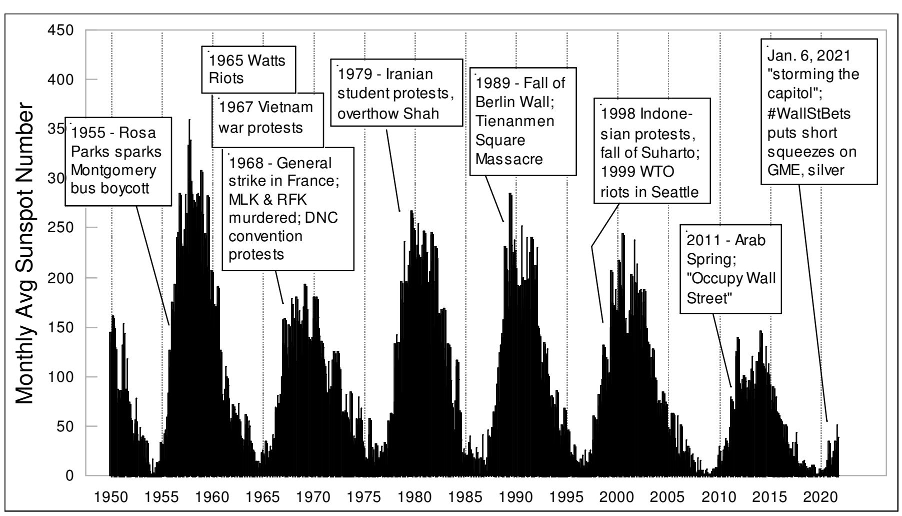
In the time since Tchijevsky's research, this principle has been validated in subsequent sunspot cycles, and it seems to be the ascending phase leading toward the peak that finds the focus of human protest movement. Some have theorized that the effect of increasing amounts charged particles from the sun on human brains spurs more uppitiness, thus explaining this relationship. We do not know how such an hypothesis could ever be tested.

We are now in the ascending phase of sunspot cycle #25, which some forecasters are saying should be even quieter than #24 in terms of the peak number of sunspots. How that might relate to these cycles of human protest movements is not clear. The solar maximum this time is projected for 2025. But already we have been seeing mass protest movements, including the January 6 protest on the grounds of the U.S. Capitol, and the riots in Kenosha and elsewhere back in 2020.

One could even argue that the coordinated buying of "meme stocks" through action on Reddit message boards is itself a form of mass protest, although it would be tough to nail down exactly what the protesters are complaining about, aside from "the system".

The descending phase of the sunspot cycle seems to be when more international agreements and resolutions appear. The conflicts during the ascending phase just don't seem as important after the peak. Does anyone remember "Occupy Wall Street" any more?

With inflation now rearing its head, in part from natural forces, but amplified by the Fed and by fiscal excesses, Americans and others around the world are going to have reason for uppitiness, which will magnify our collective sense of irritation. This will make things unpleasant for those in charge. The sunspot cycle won't tell us which specific issues people will decide are worth protesting about, just when it is that they will feel more like doing it. Buckle up.



THE McCLELLAN MARKET REPORT

Sherman McClellan
Publisher

Tom McClellan
Editor

The McClellan Market Report, ISSN 1094-8163, is published 24 times a year by email & web access.
Annual subscription rate: $195

Visa, Mastercard, and Discover cards accepted, or mail payment to:
McClellan Financial Publications
P.O. Box 39779
Lakewood, WA 98496-3779
Phone (253) 581-4889 fax:584-8194
Subscriptions: (800) 872-3737
or at **www.mcoscillator.com**
email: admin@mcoscillator.com

TIMING MODELS

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

	Top	Nasdaq A-D Osc	Nov 1	Nov 3
	Top	NDX A-D Osc	Nov 2	Nov 3
	Bottom	NDX A-D Summ	Nov 5	- - -
	Bottom	HY Bond A-D Osc	Nov 5	- - -
B	Top	Nasdaq Up-Dn Osc	Nov 8	Nov 8
B	Top	NYSE A-D Osc	Nov 8	Nov 8
B	Top	NYSE Volume Osc	Nov 10	Nov 8
	Bottom	DJIA Price Osc	Nov 15	
	Bottom	NYSE Volume Osc	Nov 17	
	Top	Uncommon A-D Osc	Nov 19	
	Bottom	SP500 ST Price Osc	Nov 23	
	Top	NYSE Vol. Summ	Nov 29	
	Top	NYSE A-D Summ	Dec 3	
	Top	Uncommon A-D Osc	Dec 13	
	Top	NDX Summ Index	Dec 16	
	Bottom	NYSE A-D Osc	Dec 20	
	Bottom	DJIA ST Price Osc	Dec 20	

Experimental Indicator, "BC"

Predicted Signal		**How It Turned Out**
Implied Bottom	Oct 19	Top Oct 20
Implied Top	Nov 5	Top Nov 8
Volatility Event	Dec 12	
Implied Top	Dec 25	

Treasury Bond Prices

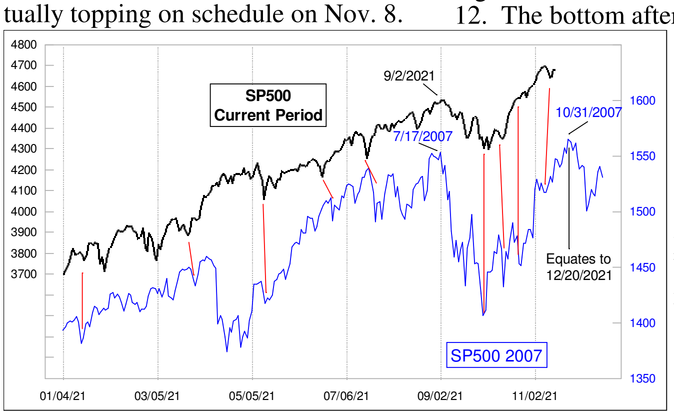
	Signal	Source	Predicted	Actual
	Top	TYX ST Price Osc	Nov 2	Nov 2
	Top	T-Bond Stochastic	Nov 2-3	Nov 2
	Top	T-Bond ST Price Osc	Nov 3	Nov 2
	Bottom	T-Bond Up-Dn Osc	Nov 3-4	Nov 3
B	Bottom	T-Bond ST Price Osc	Nov 10	Nov 8
	Top	TYX Close/Sum	Nov 15	
	Top	Corp Bond A-D Osc	Nov 16	
	Bottom	T-Bond Price Osc	Nov 30	
	Bottom	**TYX Price Osc**	**Dec 21**	
	Top	**TYX Price Osc**	**Jan 18**	

Gold and Precious Metals Stocks

Signal	Source	Predicted	Actual
Top	Gold ST Price Osc	Nov 12	Nov 12
Bottom	Gold Up-Dn Osc	Nov 15	
Top	**Gold Price Osc**	**Nov 26**	
Top	Gold ST Price Osc	Dec 1	
Bottom	GDM Price Osc	Dec 6	
Bottom	Gold Close/Sum	Dec 15	
Top	GDM Up-Dn Osc	Dec 23	
Top	**Gold Price Osc**	**Jan 28**	

The Signals

The strong stock market up move blew through the signals at the beginning of November, with only a tiny top detected in the DJIA on Nov. 3. Other indices just kept rising every day, eventually topping on schedule on Nov. 8.



Bonds also had their own strong move, making only tiny nods to these signals. The up move in bond prices appears to be done, and the downtrend back on, as discussed on page 7.

Gold has had a nice run upward, making what should be a minor top on Nov. 12. The bottom after that top is not yet visible.

The small chart on this page represents one possibility for how things could turn out for stocks. There is pretty strong resemblance of the current market to the 2007 topping pattern, especially since the Sep. 2 top. Before then, the correlation was looser. This analog suggests a final top due Dec. 20, which disagrees with the Fed Funds COT model on page 1 calling for a top right now.

What To Expect

Stocks show a messy set of future signals, and these signals do not answer the question of whether a major top is in. The Dec. 12 BC "volatility event" matches a Dec. 13 top signal.

T-Bond signals show a pair of tops due now, Nov. 15-16, and that is happening within a renewed price downtrend. It is likely just a minor interruption of that downtrend.

Gold shows an important (bold) top signal due Nov. 26, with a minor signal due Dec. 1, just 3 trading days later. Another bold top is due and Jan. 28.

HOW THEY WORK

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

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

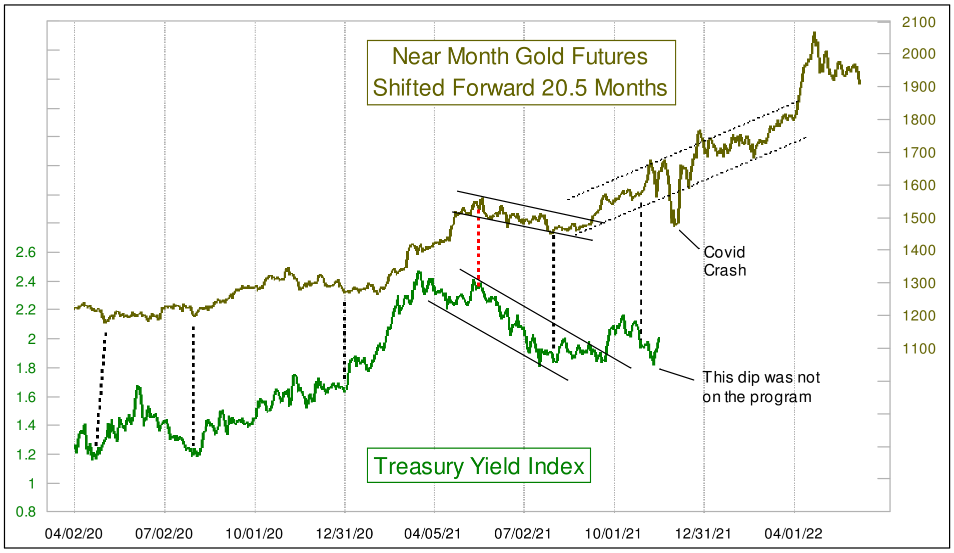
These models do not catch every market turn, but the signals usually show some effect in the market action. It is important to understand that the market does not have to go up from a bottom; it may just stop going down. It does not have to go down from a top, it may just stop going up. Some bottoms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

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

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

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

Bond Yields Getting Back to Uptrend

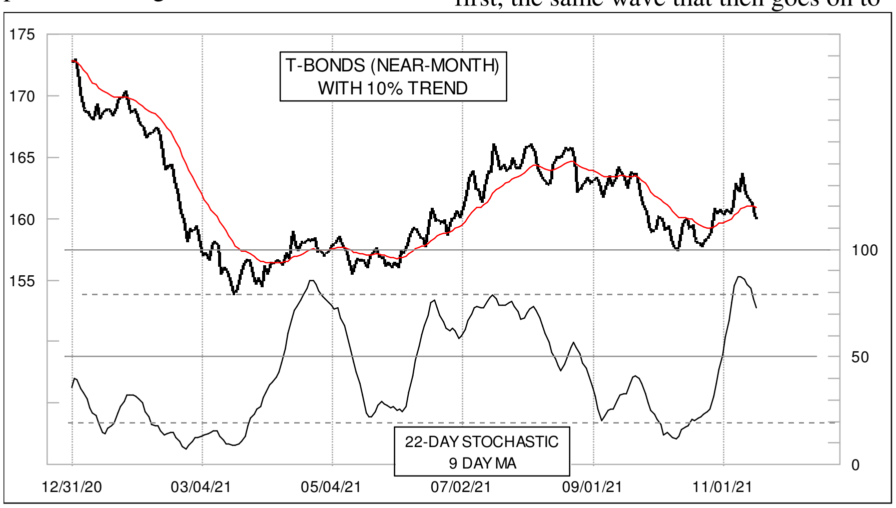


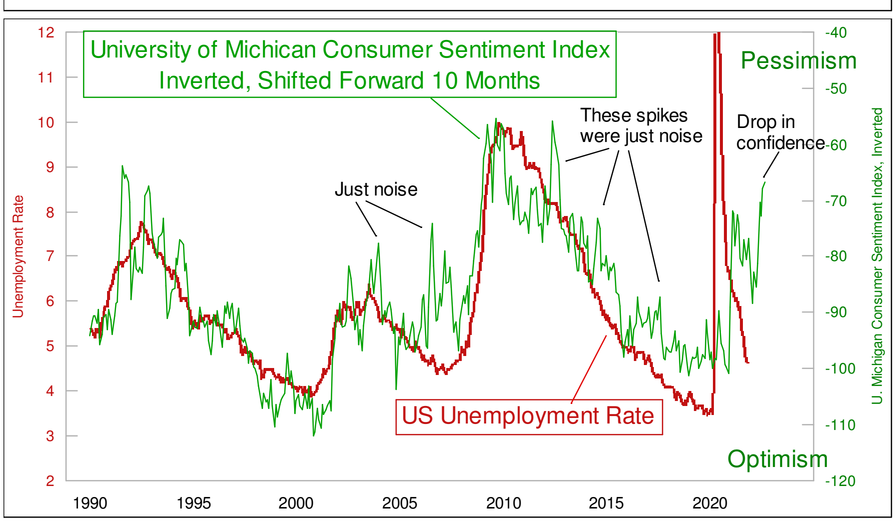
Two weeks ago, we were concerned about bond yields dropping in a way that was not fitting with gold's leading indication. That can happen sometimes, that the following price series wanders away from what the leading price series says should be the program. Usually the response is for the following series to realize the error of its ways, and to then work extra hard to get back on track. That appears to be what is happening right now.

Bond prices have fallen, and the Treasury Yield Index has therefore risen, seemingly working to get itself back on track, as seen in the top chart. If gold is going to continue being right about the future path for interest rates, there is going to be a lot more rising yet to come for interest rates.

The immediate future is a bit of a problem, though, because the Covid Crash had its effect on gold prices 21 months ago. So it is coming up on the player-piano reel, and telling us to expect another interest rate dip.

But that Covid Crash was an exogenous event. Gold's movements do not "cause" the movements of interest rates. Gold just receives the liquidity wave first, the same wave that then goes on to hit the bond market. An exogenous event like the Covid Crash should not be expected to have its echo in interest rates.





So we are left without much of a message about what lies immediately ahead for interest rates, because gold's message cannot be considered reliable. The overall trend for rates should still be up, *a lot*, so that provides some comfort in making the forecast.

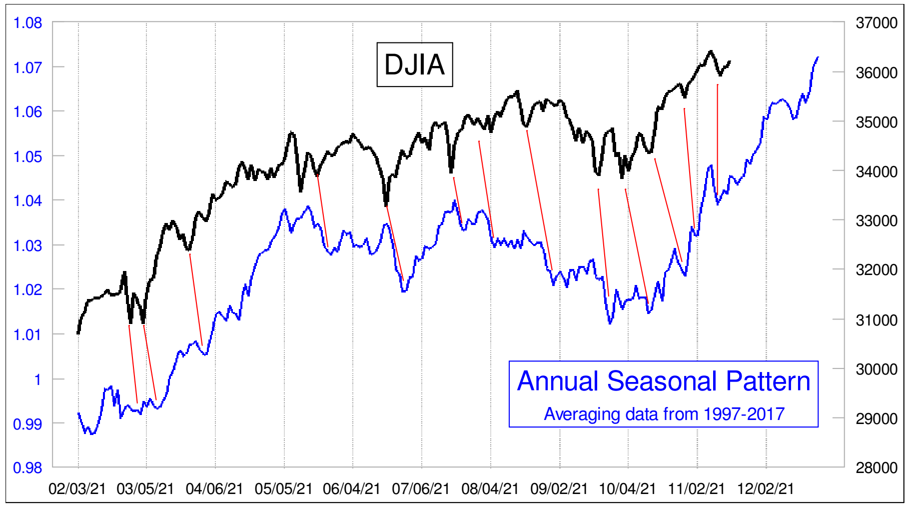
The middle chart shows the 22-9 stochastic oscillator for T-Bond prices. That's some pretty extensive smoothing, and so when it shows an extended condition and reverses itself, that is a more compelling message. How much more price damage in points we are going to see is not promised. But the duration should be until this indicator gets back to a more neutral reading at least, and that will take a while.

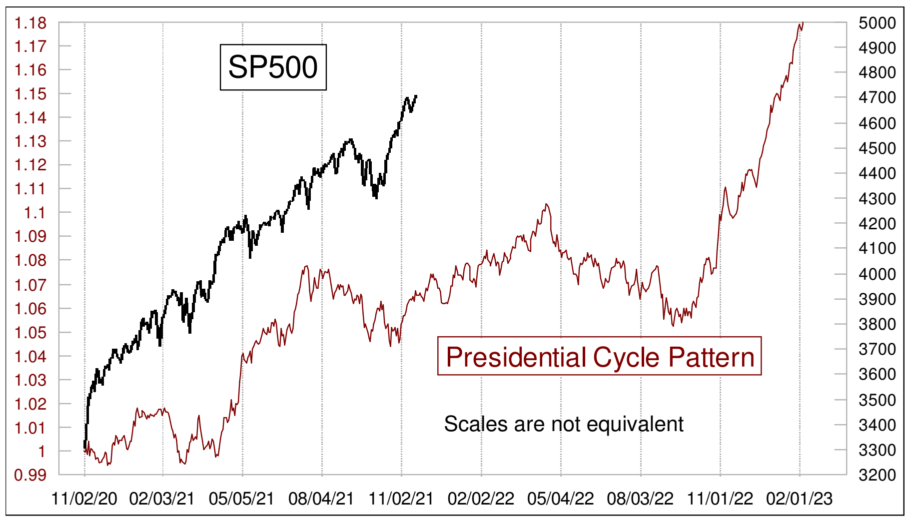
The bottom chart shows a comparison of the U.S. unemployment rate to the Univ. of Michigan's Consumer Sentiment Index, which has been inverted and shifted forward by 10 months. This allows us to see how changes in consumer confidence show up later as changes in the unemployment rate. It takes a while for hiring managers to perceive the change in attitudes, and to manifest that in their hiring/layoff decisions.

Confidence peaked in April 2021, and has been falling since then (rising on the inverted plot). 10 months later means an unemployment rate bottom in Feb. 2022. That is a little bit ahead of when gold says that the peak in bond yields should appear.

Bottom Line: Bond yields should resume their rise (prices to drop), lasting into around April 2022.

Seasonal And Other Patterns





On page 1, we talked about the expectation of a major price top for the stock market according to the Fed Funds COT model. If the market ends up fulfilling that model's expectation, then it will have to go against some other bullish tendencies that have historically been relevant to the stock market. That is part of why we have a few doubts about things turning out exactly as the Fed Funds COT model says.

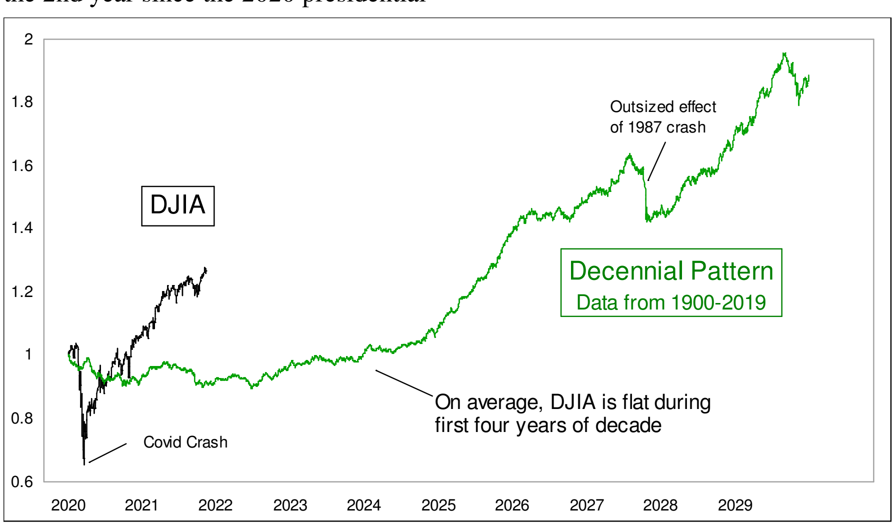
In the top chart on page 8, we show the DJIA's Annual Seasonal Pattern. The DJIA in 2021 has been showing a really good correlation to this Pattern, but with a twist: the turns in the DJIA have been arriving about a week or so early.

That tendency may be reverting back to normal right now, as the Nov. 10-11 bottom was back on the normal schedule. Or that on-time action instead of being early could just be a momentary anomaly.

We are now in the strongest 6 months of the annual cycle, with gains typically lasting until May, and the final top not arriving on average until July. So if we are going to see a major top right now, the market is going to have to fight against that bullish seasonality.

A similar message comes from the Presidential Cycle Pattern (PCP) in the middle chart. Rather than averaging together one-year periods, it combines four-year periods, originating from the moment of the presidential election. The PCP showed a pair of bottoms in September and October, and the stock market really only put in the September one. Now it is saying that as we enter the 2nd year since the 2020 presidential election, there should be a rise into late April 2022. Then the market typically struggles from that springtime high all the way until just before the mid-term elections.

At the right end of that chart is part of the bullish uptrend which typically occurs in the 3rd year of a presidential term. We truncated that for this chart so that we can focus on the more immediate future.



The bottom chart shows another pattern which analysts have found useful over the years. It is calculated the same as the first two, except using a 10-year lookback. Doing this allows us to see that the first four years of the average decade are flat for the market. The market is actually not flat like this, but this is what happens when you average together several periods.

The current market went off track initially with the Covid Crash, and then overcorrected to the upside thanks to QE4. We have arguably pulled forward a lot of the gains typically seen over an entire decade. If those gains have to get paid back, then that would fit the message of a major top that the Fed Funds COT model is telling us about.

Bottom Line: Conflicting predictive models make it hard to fully accept the bearish call of the Fed Funds COT model. In the long term averages of market behavior, bear markets are not seen, but we know that they do occur.