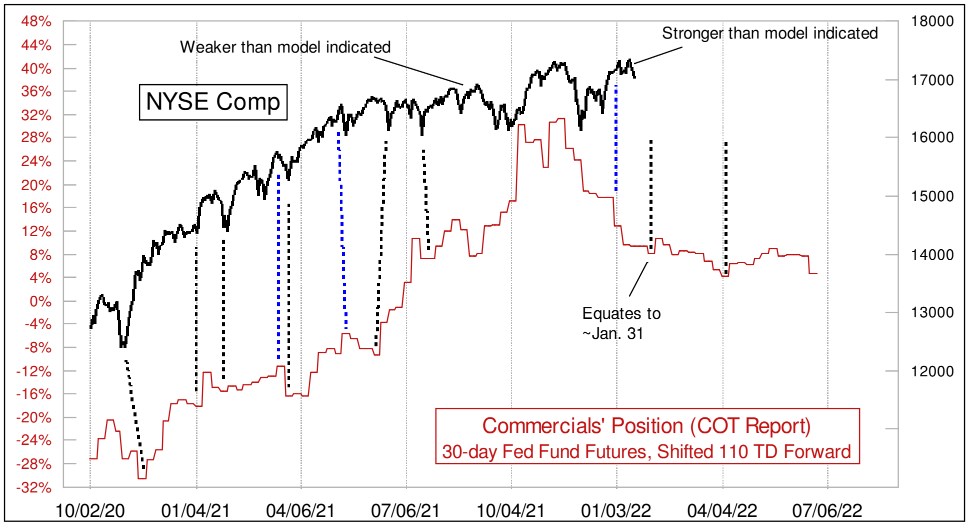
THE McCLELLAN MARKET REPORT

INSIDE

Prepared After the Market Close, January 18, 2022 Report #643, January 19, 2022

Down to a Late January Bottom



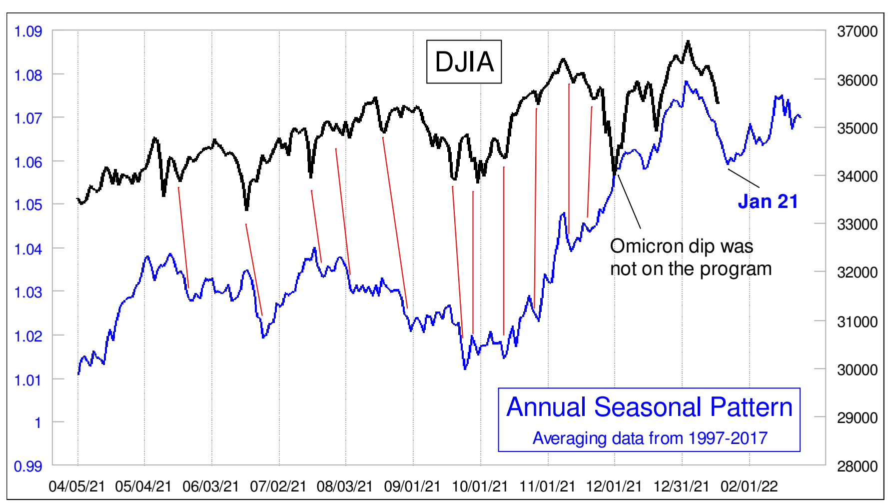
Our Fed Funds COT model had called for a mid-November top, and we got one. But then we got follow-on strength that this model did not foretell. Now that strength appears to be getting unwound, as investors turn their attention to what the Fed might do at the Jan. 25-26 FOMC meeting.

Having the price indices deviate some from this model is not unusual. In the summer of 2021, the NYSE Comp. was a lot flatter than the model suggested, even though it generally matched the timing of the tops and bottoms that the model showed. Now that weakness is being answered symmetrically by having some strength in the wrong place. We believe that over the next few weeks, the market is going to balance this all out.

Just ahead there is a minor bottom shown in the Fed Funds COT pattern, which equates to the week of Jan. 31 for the stock market. That seems like just a minor dimple, but such texture has been enough to mark some excitement for stock prices in the past. A more significant bottom is indicated for the first week in April. And generally speaking the market should be grinding gently lower until that early April bottom, assuming that this model continues to work has it has been doing for the past several years.

Turning back to the late January dip, it fits roughly with a bottom ideally due Jan. 21 according to the Annual Seasonal Pattern (ASP) shown in the lower chart. The DJIA has been correlating to the ASP really well lately, although the December dip on the debut of the Omicron variant was not on the schedule. The DJIA quickly recovered.

This tight correlation confers more confidence about the market continuing to follow the ASP in the days ahead. There is a slight conflict between that Jan. 21 bottom date shown by the ASP and the approximate Jan. 31 date shown

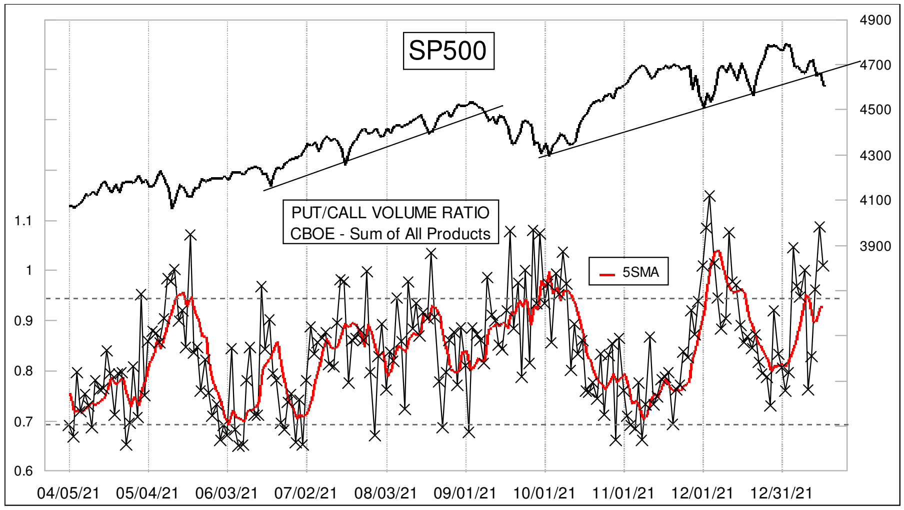


BOTTOM LINE

The typical January seasonal dip is unfolding as expected, and should bring a bottom around Jan. 21-24. The time frame gets additional confirmation from the experimental BC Indicator, from Timing Model signals, and from the Fed Funds COT model. Once that late January bottom is in, stock prices should pause a couple of weeks, and then resume drifting lower until the first week of April. T-Bonds are set to pause their down move until the end of February, and then should see additional lower prices (higher yields) leading to a climax in April. Crude oil should see a similar climax a few weeks earlier, peaking in March. Gold is unloved now, suggesting it should start higher, to everyone's surprise.

by the Fed Funds COT model. But the actual correlation of the market to both of these can bend enough to satisfy both of these dates without a conflict.

Going into this January seasonal dip, we were already seeing some bottom-worthy sentiment indications, including some high readings for the CBOE Put/Call Volume Ratio shown in the chart on page 2. A high single day reading can be enough to mark a nice little short term bottom within an uptrend. But larger price declines can see the market ignore such readings, and that right there is an important lesson. If you see the market ignore a high Put/Call Ratio reading, that can be a tell that you are in a more significant decline. By the time we get to the bottom due later this month, we ought to be able to see several more days of high Put/Call readings, pulling up the 5MA to a really high level.



Bottom Line: As part of a choppy 2022, look for a dip to a normal seasonal low due late in January. Our Timing Model signals on page 6 confirm this bottom with an expected time frame of Jan. 21-24.

Page 3 Charts

Chart 1: The A-D Line made its high back on Nov. 8, 2021. It dropped 11918 net declines to kiss the 1% Trend on Dec. 20. The rally to the Jan. 4, 2022 peak left it 3840 net advances below that November 8 top. This created a bearish divergence as the DJIA, SP500, and NY Comp. all made new highs. The decline on Jan. 18 had 2380 net declines. That only leaves 4017 net declines needed to get down to the Dec. 20 low. It would not be particularly bearish to drop below the 1% Trend for a few days and quickly recover back above. But dropping below and staying there is an entirely different matter.

Chart 2: The Daily Volume Line has created an even longer divergence. The top is now on the left hand side of the chart. The November and January highs have turned in sequentially lower highs, thus reinforcing the negative structure of this indicator. The current level on the Daily Volume Line is about where it was in March of last year. This is a huge divergence from the price indicators on page 3.

Chart 3: The McClellan A-D Summation Index moved rapidly up to its +1000 neutral level and then slowed down very noticeably. The dots began to be posted much closer together rather than having the separation showing after the Dec. 21 low. The RASI only made it up to +65.58 on Jan. 14 before dropping the next trading session down to +30.9. If this turns out to be an important top for the Summation and RASI, then their dropping back below their neutral levels would imply negative consequences for price action to follow.

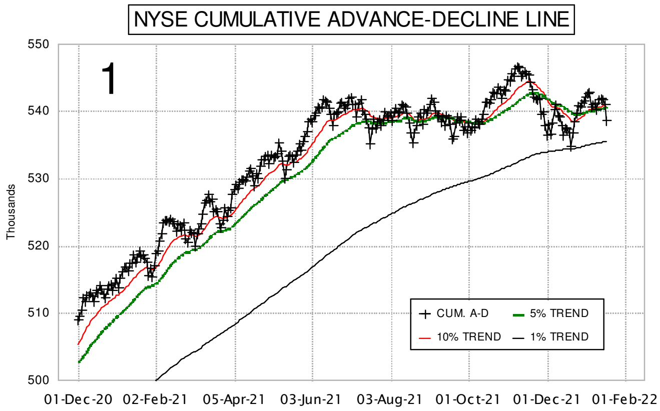
Chart 4: The Volume Summation crawled its way back up to just above zero from the December low and turned down on Jan. 18. More weakness would take this indicator back below zero. This indicator has been making lower highs all the way across the chart. And lower lows are also displayed for the bears to gloat over. This has had only modest implications for the large cap stock indices on page 3, but this behavior correlates better with the low cap Russell 2000 type stocks that are showing relatively weaker price action.

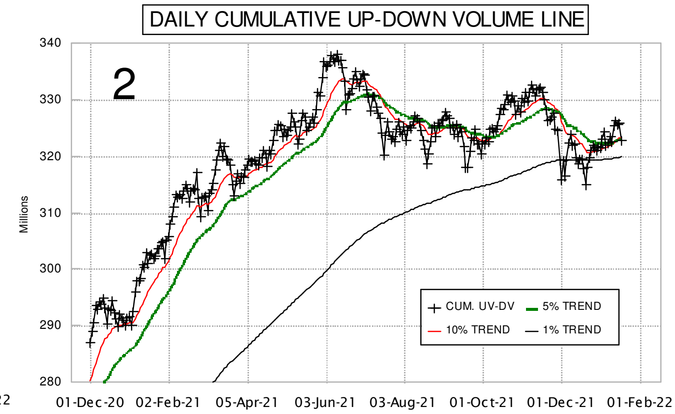
Chart 5: The McClellan Oscillator jumped up to its highest level on the chart from the Dec. 20 low. It was high enough to signal either initiation of a new upward price move, *OR* exhaustion of a short covering rally. With the early January postings only slightly positive compared to the very high December values, it is looking as though the bulls are having quite a struggle to make any waves in 2022. They are going to need to get this Oscillator back above zero if they are to show any power.

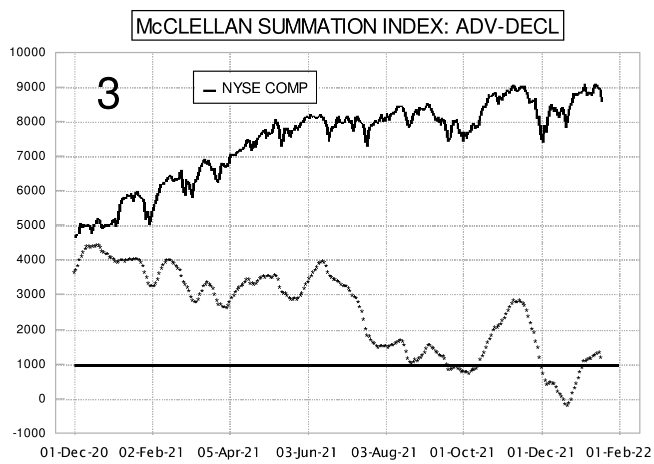
Chart 6: The Volume Oscillator had a much stronger pattern following the December low. The triple top that formed is typical of a mature short term move. The Jan. 18 drop took it all the way down to below zero. Now we will see if the bears can continue to prosecute their case by taking it more negative. If this indicator pops right back above zero, then those buy-the-dip traders could prevail. But if this indicator stays below zero and drives the Volume Summation back below zero to a lower low, those buy-the-dip traders may wish they had refrained.

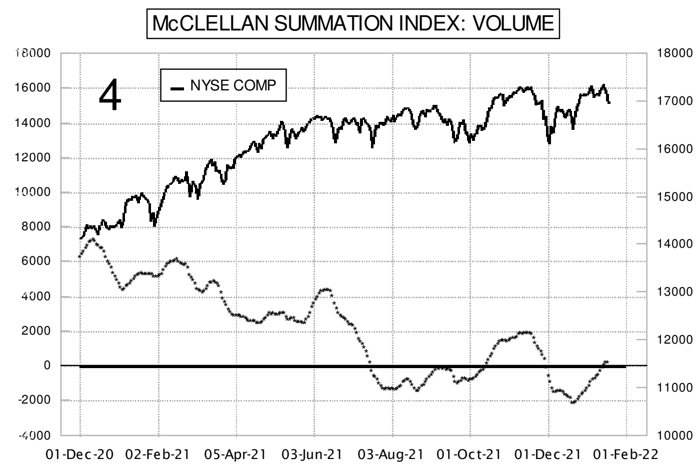
Chart 7: The DJIA Price Oscillator topped on Jan. 5, one day after the Jan. 4 price top. This is very typical next day confirmation of a short term price reversal by this indicator. It is now down to +142.9 and falling. It was lower by 46.7 points on Jan. 18, the largest one-day drop since the Dec. 1 drop of 80.0 points that took the DJIA down to kiss its 200MA. The Jan. 18 drop did take the DJIA back below its 50MA by 450.45 points, and that left it 403.81 points above its 200MA. It will take this indicator turning back up to confirm the end of this short term down trend. If that can happen before it gets down to zero, then there would be the promise of a new higher high on the DJIA. But a continuing move down below zero would revoke that promise.

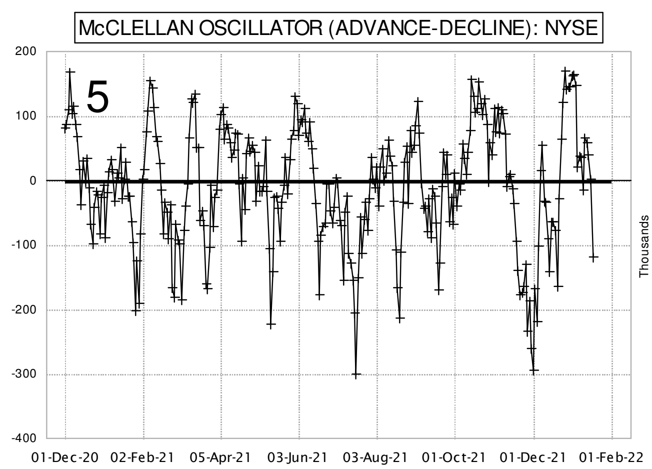
Chart 8: The CBOE Volatility Index (VIX) popped up to 22.79 on Jan. 18, very close to its upper band at 23.80. The SP500 dropped down to test the support that might be found at a lower channel line that can be drawn across the March and October lows. Both the lower and especially the upper bands on the VIX have been rising in recent action, and that is a negative indication for price action. If the uptrend price channel is to continue, then that will be confirmed by the upper and lower bands beginning a descent. A break down below the price channel line would be very likely to put the VIX at a much higher posting.. This would change the price trend from up to sideways.

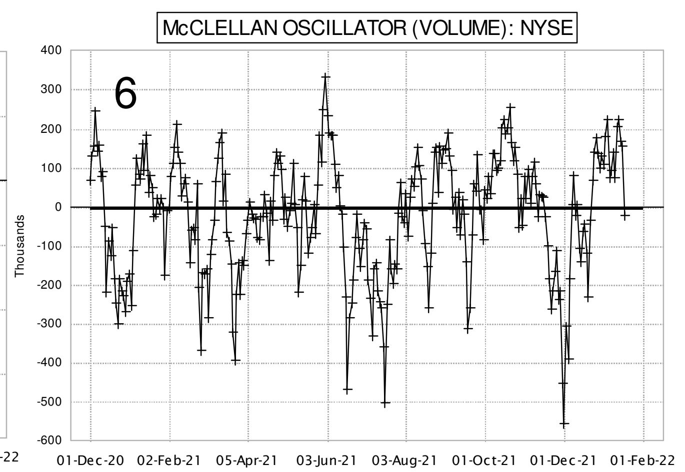

NYSE CUMULATIVE ADVANCE-DECLINE LINE
1
Thousands
CUM. A-D
5% TREND
10% TREND
1% TREND
550
540
530
520
510
500
01-Dec-20 02-Feb-21 05-Apr-21 03-Jun-21 03-Aug-21 01-Oct-21 01-Dec-21 01-Feb-22

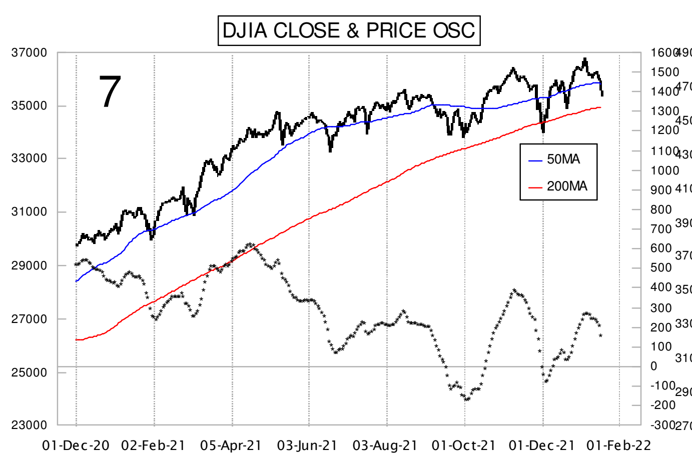

DAILY CUMULATIVE UP-DOWN VOLUME LINE
2
Millions
CUM. UV-DV
5% TREND
10% TREND
1% TREND
340
330
320
310
300
290
280
01-Dec-20 02-Feb-21 05-Apr-21 03-Jun-21 03-Aug-21 01-Oct-21 01-Dec-21 01-Feb-22


McCLELLAN SUMMATION INDEX: ADV-DECL
3
NYSE COMP
10000
9000
8000
7000
6000
5000
4000
3000
2000
1000
0
-1000
01-Dec-20 02-Feb-21 05-Apr-21 03-Jun-21 03-Aug-21 01-Oct-21 01-Dec-21 01-Feb-22


McCLELLAN SUMMATION INDEX: VOLUME
4
NYSE COMP
18000
16000
14000
12000
10000
8000
6000
4000
2000
0
-2000
-4000
18000
17000
16000
15000
14000
13000
12000
11000
10000
01-Dec-20 02-Feb-21 05-Apr-21 03-Jun-21 03-Aug-21 01-Oct-21 01-Dec-21 01-Feb-22


McCLELLAN OSCILLATOR (ADVANCE-DECLINE): NYSE
5
200
100
0
-100
-200
-300
-400
01-Dec-20 02-Feb-21 05-Apr-21 03-Jun-21 03-Aug-21 01-Oct-21 01-Dec-21 01-Feb-22


McCLELLAN OSCILLATOR (VOLUME): NYSE
6
Thousands
400
300
200
100
0
-100
-200
-300
-400
-500
-600
01-Dec-20 02-Feb-21 05-Apr-21 03-Jun-21 03-Aug-21 01-Oct-21 01-Dec-21 01-Feb-22


DJIA CLOSE & PRICE OSC
7
50MA
200MA
37000
35000
33000
31000
29000
27000
25000
23000
1600
1500
1400
1300
1200
1100
1000
900
800
700
600
500
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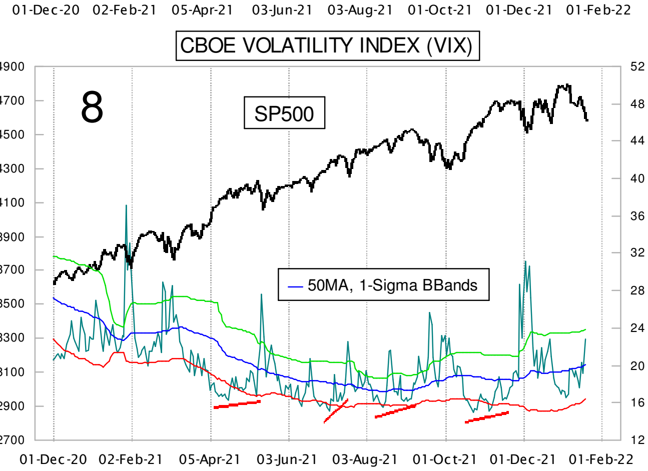
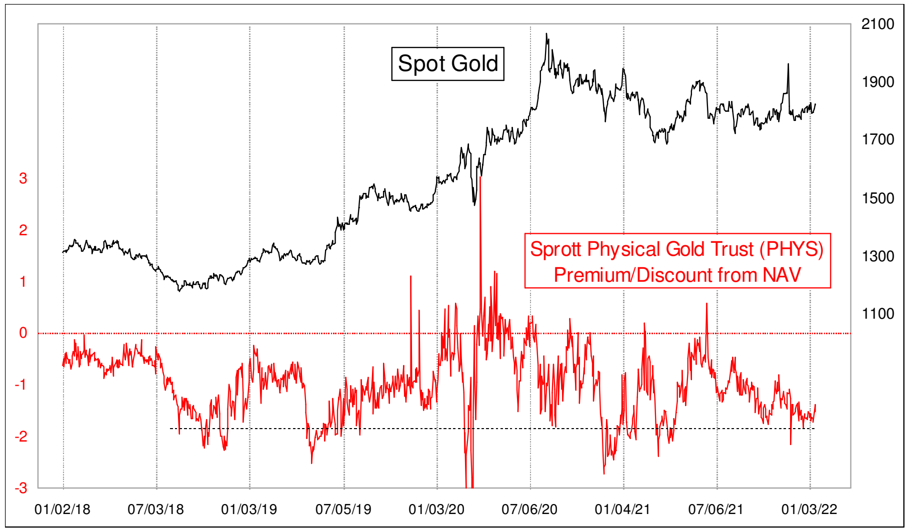
01-Dec-20 02-Feb-21 05-Apr-21 03-Jun-21 03-Aug-21 01-Oct-21 01-Dec-21 01-Feb-22


CBOE VOLATILITY INDEX (VIX)
8
SP500
50MA, 1-Sigma BBands
4900
4700
4500
4300
4100
3900
3700
3500
3300
3100
2900
2700
52
48
44
40
36
32
28
24
20
16
12
01-Dec-20 02-Feb-21 05-Apr-21 03-Jun-21 03-Aug-21 01-Oct-21 01-Dec-21 01-Feb-22

Sentiment Favors Up Move for Gold

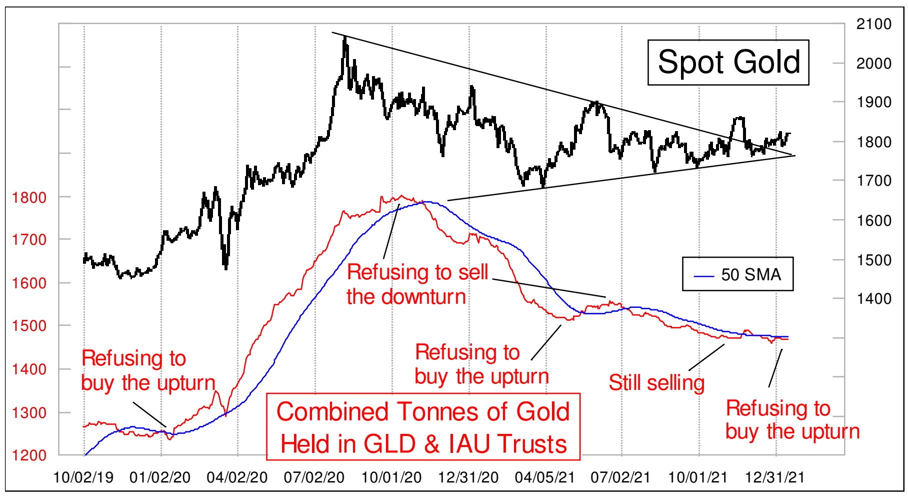
Gold prices have been just chopping sideways for the past 7 months, except for a momentary jump to above 1900 and then back down again in November 2021. It seems like a dead end asset, and who would ever want to put money into a dead end?

That seems to be the attitude taking over now, and as every card-carrying contrarian knows, that is the time when a person should want to pay attention. The crowd jumps in near the top. We don't want to be with the crowd, we want to be ahead of it.



In the top chart we show data related to the Sprott Physical Gold Trust. It is not an ETF, but rather a it holds gold in a relatively fixed amount. It's shares thus trade at a premium or a discount to net asset value (NAV). Right now it is a big discount, because more shareholders are wanting to get out of their shares than the ones trying to get in, and the sellers have to accept a nearly 2% haircut versus NAV for the privilege of exiting.

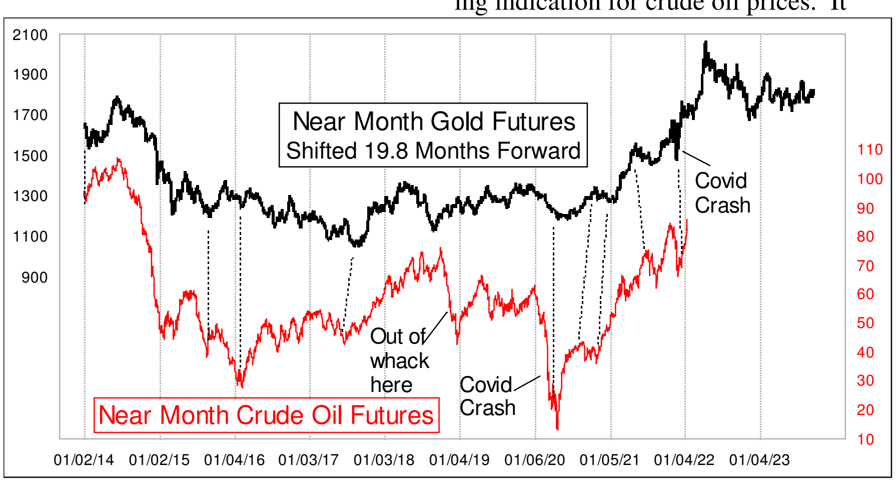
These dips in the spread down to near -2% are pretty good markers of meaningful bottoms for gold prices. We are still waiting for the current dip to carry that meaning.



A similar message comes in the middle chart, showing data on the combined assets in GLD and IAU, the two largest of the gold bullion ETFs. Unlike Sprott, these ETFs can expand and contract their asset holdings based on investor interest. And that usually happens in sympathy with what prices are doing.

What is unusual now is that gold prices are easing upward just slightly, but the total assets in these ETFs continues to decline. Investors, it seems, are just not believing yet in this slight upturn in gold prices. And that is a sign that there is more of the up move yet to come. At the point when everyone starts believing in the bullish case for gold, and starts piling into GLD and IAU, or even buying Sprott at an actual premium, then it will be a time to worry about gold.

The bottom chart shows gold's leading indication for crude oil prices. It has been working quite well in recent months, and appears poised to continue working well all the way to the echo point of gold's Aug. 2020 price top. That echo point for oil prices is due in March 2022.

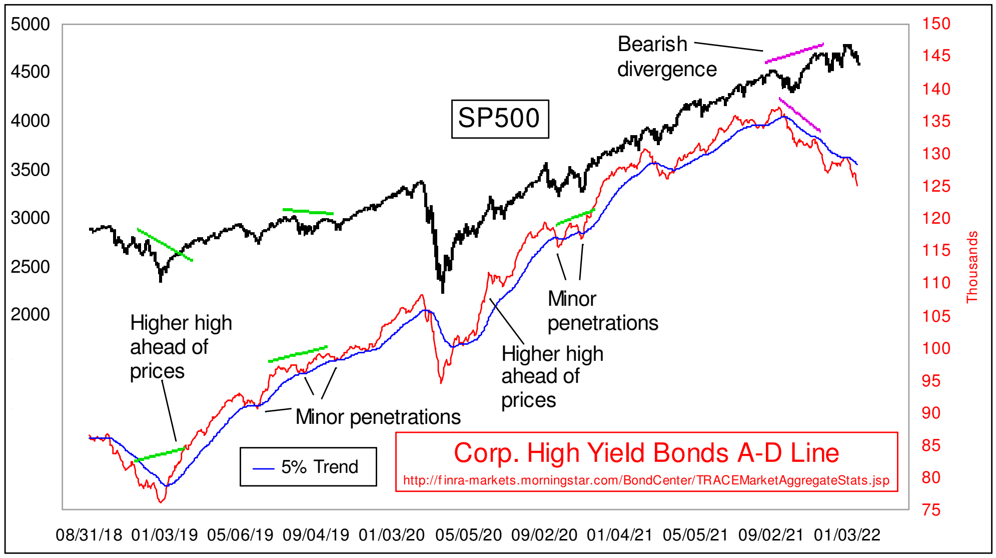


Gold prices had a dip (along with everything else) during the Covid Crash. We had supposed that since it was a momentary anomaly, that gold dip might not get echoed in oil prices, but it did anyway. That was the recent oil price dip to just below $70/barrel.

Just ahead is a pause for a couple of weeks, if oil matches gold's pattern exactly. Then we see the final push up into March. We can only imagine the geopolitical excitement that would unfold from an oil price spike that matches what gold's pattern looks like. After March, the fun should be over for oil traders, although that is not how the news is likely to be on the topic.

Bottom Line: Investors don't care too much for gold now, which is a bottoming indication. Oil should have a blow-off pop into March.

High Yield Bonds Diverging



Coal miners in Newcastle 200 years ago kept canaries in small cages in their coal mines. The small birds were very sensitive to bad gases like methane or carbon monoxide, which were undetectable then. If the canary died, it gave the human miners a warning to get out of there.

For the modern stock market, the metaphorical canaries take many forms. One of the best of these is the high-yield (AKA junk) bonds, which mostly trade like the stock market, and which are terribly sensitive to liquidity, either good or bad. The top chart shows a daily A-D Line for these bonds, and most of the time it does what the SP500 does. For the past 4 years, it has actually acted stronger than the SP500 a lot of the time, telling us not to worry about minor ripples in the price behavior.

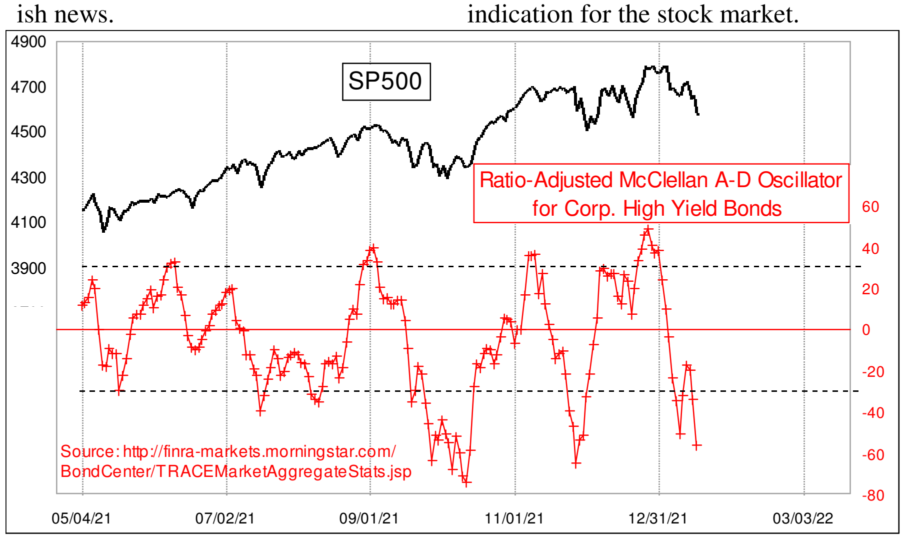
That has changed now. This A-D Line peaked back on Sep. 15, 2021. Since then, it has been making lower highs and lower lows, contrary to the SP500. This is the first big divergence like this in years, and it says that liquidity has gotten bad enough to cause real harm to these least-deserving issues. The last time a divergence this noteworthy appeared was in late 2017, just ahead of the big short VIX squeeze in January 2018. That was an ugly year in a lot of ways. The Fed doing QT did not help things.

There was also a big divergence like this in 2007. You remember what happened after then. This current divergence is in the same category as those events. Whether we see as spectacular of an outcome in 2022 is what remains to be seen, but this is definitely not bullish news.

Sometimes a negative signal can come on a little bit too strong, and all at once, creating an oversold condition. That appears to be the case with these negative A-D data for high yield bonds. The chart below shows a Ratio-Adjusted McClellan A-D Oscillator for these same data, and it has gone to a deeply negative reading. That is a statement about the slope of the A-D Line shown in the chart above.

In an uptrend, a low reading can be a sign of a nice short term bottoming opportunity. But in a downtrend, the market can ignore oversold conditions and keep on trending downward. That appears to be the condition we are seeing right now. It suggests that we will eventually see a decent bottoming opportunity, similar to the one in late September 2021. But this does not cancel the negative indication of the big divergence in the chart above.

Bottom Line: This big divergence by the high yield bonds is a big negative indication for the stock market.



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TIMING MODELS

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

	Bottom	NYSE A-D Osc	Jan 5	Jan 10
	Bottom	DJIA Close/Sum	Jan 5-6	Jan 10
B	Top	Nasdaq Price Osc	Jan 6	Jan 12
B	Top	SP500 ST Price Osc	Jan 7	Jan 12
B	Top	NYSE A-D Osc	Jan 12	Jan 12
B	Top	Uncommon A-D Osc	Jan 12	Jan 12
	Top	NYSE Vol. Summ	Jan 19	
C	Bottom	SP500 Up-Dn Osc	Jan 21	
C	Bottom	NYSE A-D Osc	Jan 21	
C	Bottom	SP500 Close/Sum	Jan 24	
	Bottom	Nasdaq Close/Sum	Jan 28	
	Top	Uncommon A-D Osc	Feb 2	
	Top	DJIA Price Osc	Feb 2	
	Top	Nasdaq ST Price Osc	Feb 9	
	Bottom	SP500 Close/Sum	Feb 14	

Experimental Indicator, "BC"

Predicted Signal		**How It Turned Out**
Implied Top	Dec 25	Top Dec 27
Implied Bottom	Jan 15	
Implied Top	Mar 23	
Implied Bottom	Apr 13	

Treasury Bond Prices

	Signal	Source	Predicted	Actual
B	Bottom	T-Bond Up-Dn Osc	Jan 6-7	Jan 7
B	Bottom	Corp Bond A-D Osc	Jan 11	Jan 7
	Bottom	T-Bond Stochastic	Jan 14	Jan 18?
C	**Top**	**TYX Price Osc**	**Jan 18**	
C	Top	TYX ST Price Osc	Jan 19	
C	**Top**	**T-Bond Price Osc**	**Jan 21**	
	Bottom	Corp Bond A-D Osc	Feb 2	

Gold and Precious Metals Stocks

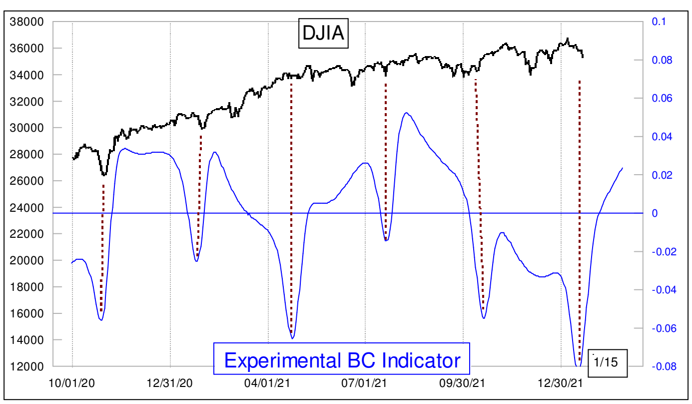
Signal	Source	Predicted	Actual
Top	GDM ST Price Osc	Jan 11	Jan 12
Top	Gold ST Price Osc	Jan 19	
Top	**Gold Price Osc**	**Jan 28**	
Top	GDM ST Price Osc	Jan 31	
Bottom	Gold ST Price Osc	Feb 3-4	
Bottom	GDM Close/Sum	Feb 14	
Bottom	GDM ST Price Osc	Feb 17	
Top	**Gold Price Osc**	**Feb 18-22**	
Top	GDM Price Osc	Mar 1	
Top	Gold Close/Sum	Mar 8	

The Signals

Cluster B congealed into a single top on Jan 12, a reflex rally on what turns out to be the way down. And now we have a new cluster C which looks pretty interesting. More on that below.

Bonds also had signals that we had interpreted to be part of cluster B, but the bottoming effect on bond prices arrived a few days earlier than the top for the stock market. It is important to remember that each of these signals operates independent of anything else, and it is up to us to interpret the messages.

Gold sometimes works in synchrony with bond prices, but not lately. Gold had its top Jan. 12, but has more tops due later in the month of January.



The chart shows our experimental BC Indicator which has an implied bottom due Jan. 15. That was over the 3-day weekend, and sometimes the actual dates can bend a little bit. This bottom is likely part of the cluster C bottom.

What To Expect

The seasonal dip for **stocks** discussed on p. 1 shows a bottom due Jan. 21, and that premise now has support from cluster C, calling for a bottom Jan. 21-24 (a Friday to Monday window). A pair of tops due Feb. 2 also looks interesting.

T-Bond prices should top as the stock market is bottoming later this week. The bond time frame is Jan. 18-21, a little bit ahead of the stock market, but not a large disagreement.

Gold has an important (bold lettered) top due Jan. 28, and another top one day later on Jan. 31. Certain signals have properties implying greater importance, and they get the bold lettered designation. Someday we will get the book written detailing the secret behind these signals.

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.

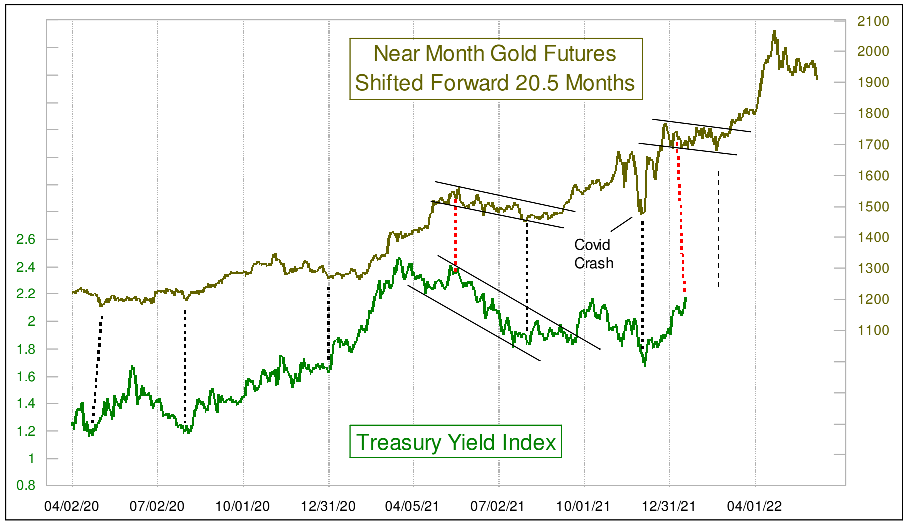
These models do not catch every market turn, but the signals usually show some effect in the market action. It is important to understand that the market does not have to go up from a bottom; it may just stop going down. It does not have to go down from a top, it may just stop going up. Some bottoms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

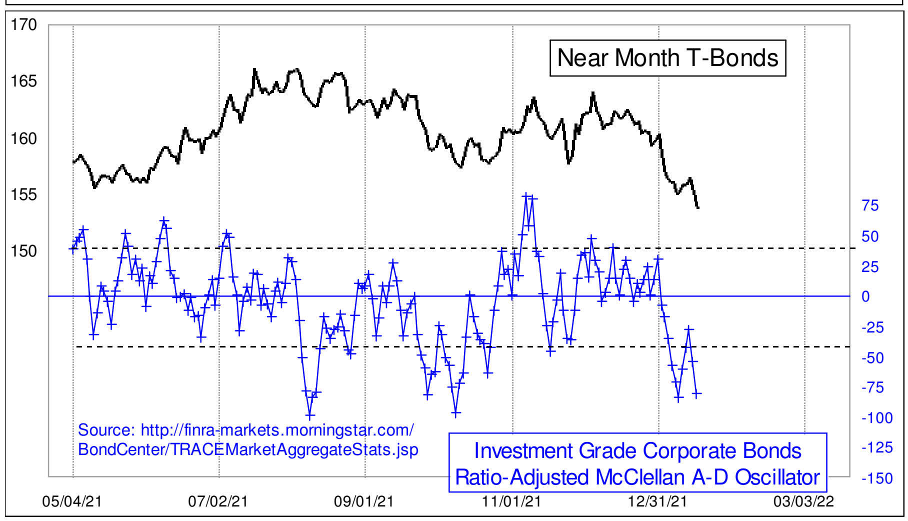
The BC indicator is an experimental new tool, not related in method to the other signals.

"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 Overextended





Gold's leading indication says that bond yields are supposed to be moving sideways for the first two months of 2022, but bond yields are continuing to climb. That is taking the Treasury Yield Index (TYX) a little bit off track, which likely means that it is going to have to make up for that by moving downward more than gold's model shows just to restore some balance.

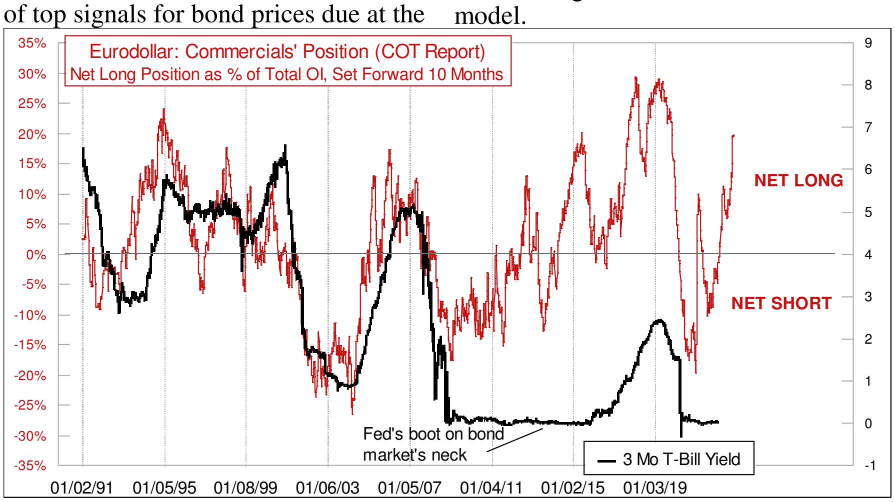
Around the end of February, the TYX should see an important inflection point leading to a big upward blowoff top in April. This is going to be related to the oil price blowoff due to climax in March, as discussed on page 4. Oil also follows gold's footsteps, but does so about 3 weeks ahead of T-Bond yields. It is the same liquidity wave passing through both markets; it just hits the oil market first.

The extended up move for bond yields means there has been a corresponding extension of the down move for T-Bond prices. And that has bled over into the action for investment grade corporate bonds, whose movements tend to match what T-Bonds do.

The middle chart shows a Ratio-Adjusted McClellan A-D Oscillator for these investment grade bonds. The raw A-D data come from FINRA, which is also responsible for determining which of the 9700 bonds that they track fall into which categories.

There have been several days of big negative breadth readings for this category, resulting in this second oversold reading here in the month of January. This should eventually lead to a meaningful bottom for bond prices, although not necessarily right away. Our Timing Model signals on page 6 show a cluster of top signals for bond prices due at the end of this week, so any bounce we see right now may not get very far at first.

At the shorter end of the bond maturity spectrum, there is going to be a lot of pressure to get rates higher. Whether the Fed succumbs to that pressure is the real mystery. We are pretty good at figuring out what entire markets will do, but the decisions of 12 people in a meeting room are much harder to model.



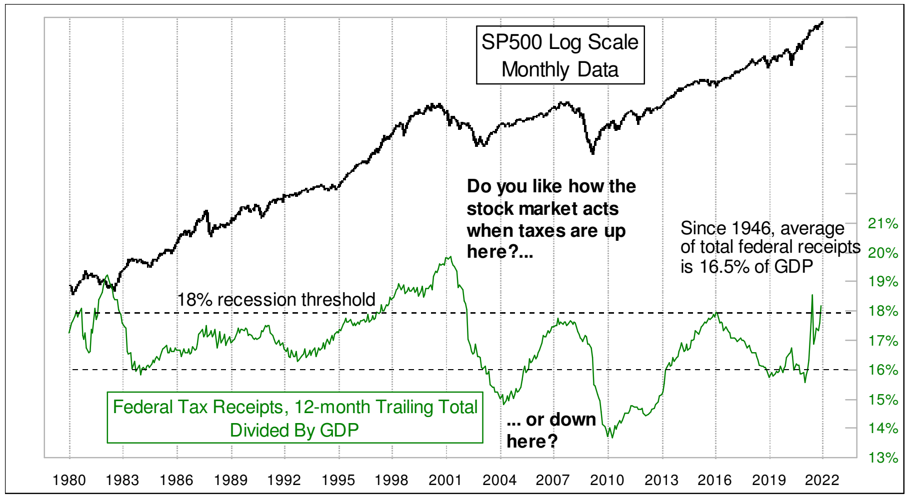
The 2-year T-Note yield is already telling us that short term rates should rise, as discussed in our last Report. A similar message comes from the leading indication relationship in the bottom chart. The net position of commercial traders of eurodollar (interest rate) futures gives about a 10-month leading indication for what 3-month T-Bills should do. It worked really great before the Bernanke and Yellen eras.

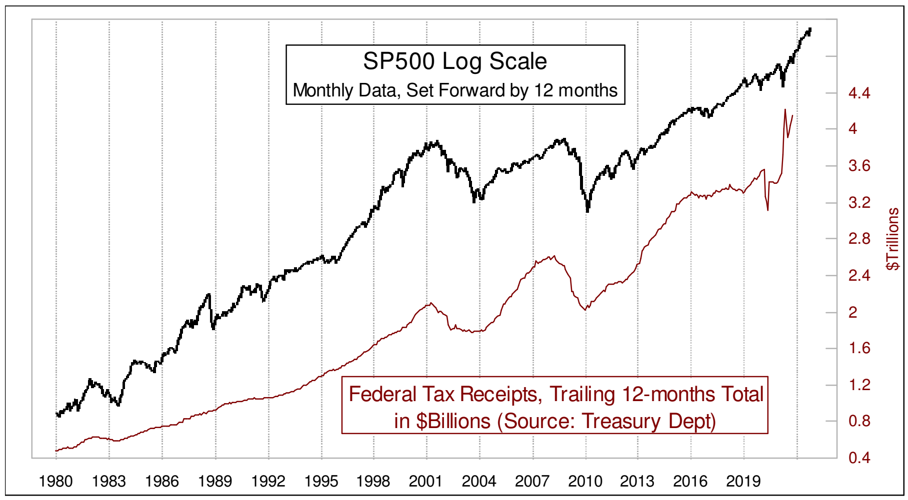
Right now this model is saying that short term rates need to be screaming higher. So is the CPI. But the FOMC members think that they know better. That type of arrogance led to a lot of problems in the mid-2010s, and then the Fed finally got with the program starting in 2016. Now they are behind the messaging once again, but presumably about to get going with rate hikes this year. This model looks 10 months forward, and is just recently at a high, meaning that we are at least 10 months away from the peak in short term rates.

Uncle Sam Taking Too Big of a Bite

The good news is that estimated GDP for Q4 of 2021 is up about 10% from a year earlier. But the bad news for investors is that total federal tax receipts for the 12 months ending December 2021 are up 25.6% from a year before.

That is pushing up the indicator in the top chart to a high level, one which is problematic for the future of the economy and of the stock market. The green line in this chart shows trailing 12-month federal receipts (from all sources) as a percentage of GDP. It is now getting up to the upper end of its normal range, thanks to all of those taxes coming in.



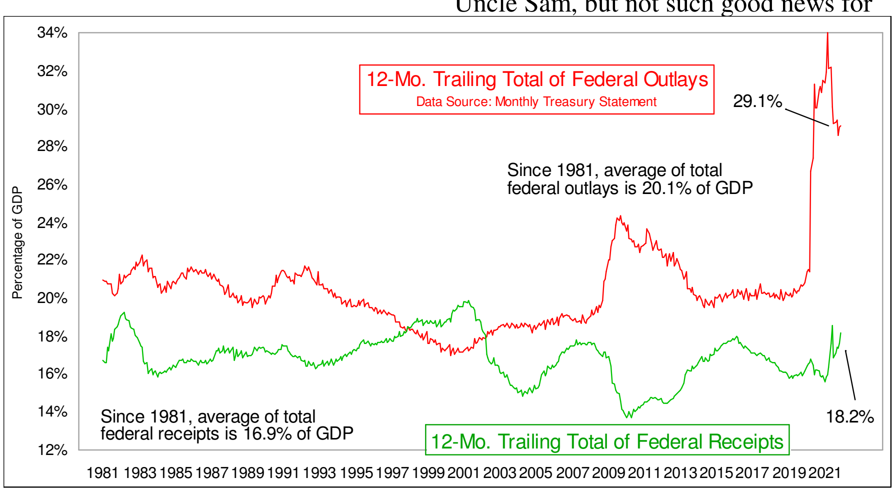


Before the creation of Social Security in the 1930s, federal receipts used to run around 4-6% of GDP. By the end of WWII, it had jumped up into the teens, where it has largely stayed since then. And what we find looking at decades of data is that when taxes get down below around 16% of GDP, it is enormously stimulative to the stock market. Getting up above 18% of GDP historically has ushered in an economic recession ***every time***.

We saw a minor spike up above 18% in June 2021, partly because GDP was depressed by Covid, and partly because the IRS adjusted tax due dates from April to June that year. That was an anomaly. Now we are seeing the taxes/GDP ratio get up to a true 18% reading, which is a big warning of trouble.

The mechanism behind this is that taking in too much money in the form of taxes is like eating too much of the seed corn; it leaves too little money in the economy to do things like push stock prices higher.

Curiously, rising stock prices also relate to tax collections, as we can see in the middle chart. Here the plot of the SP500 is shifted forward by a year to reveal how the plot of tax collections tends to match the footsteps of the stock market, but with a one-year lag. So the fact that the SP500 has risen in 2021 says that tax receipts should continue to rise in 2022. That's good news for Uncle Sam, but not such good news for the stock market as discussed above.



The US Treasury was already running a significant deficit before Covid, but then the extra spending on aid to businesses and individuals took the deficit to a never seen before level, not even during the huge spending of WWII. The outlays number as a percentage of GDP is finally starting to come down, but there is still a 10.9 percentage point difference between the two.

The all-time record for 12-month tax receipts was 19.9% of GDP back in April 2001, and it helped usher in the big economic depression which unfolded as the Internet bubble collapsed. There is no way to reasonably expect we can get taxes up high enough to meet the current spending levels without crushing the stock market and snuffing out the economic fires. The only logical solution is to introduce some pretty severe austerity in terms of government spending, and Congress sadly does not seem to have the appetite for that, given how it tends to lead to members of Congress not getting reelected. It is a rather tough problem to solve.