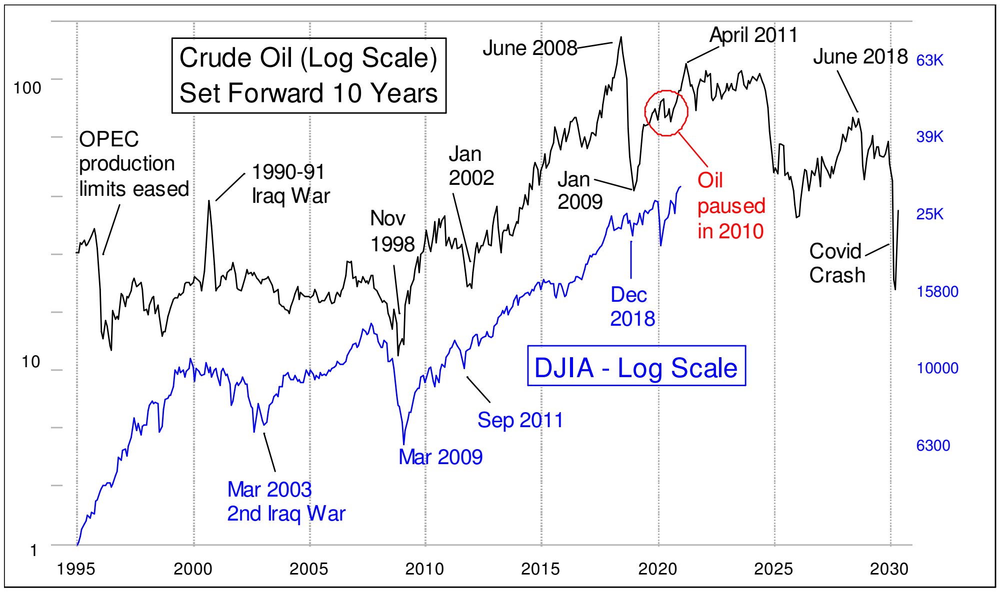
THE McCLELLAN MARKET REPORT

INSIDE

Prepared After the Market Close, January 19, 2021 Report #619, January 20, 2021

Oil's 10-Year Message



For several years now, we have been looking ahead to April 2021 as an important turning point for the stock market, based on the 10-year leading indication which oil prices give for the movements of stock prices. Oil prices peaked in April 2011, and so if the 10-year lag were to work out exactly, then that should mean a stock market top in April 2021.

One problem is that the lag does not always work out perfectly. The stock market's turns can be early or late by up to a few months. They can also differ a lot in magnitude. 2018 was a great example of this, in that the DJIA did have a sharp decline in Q4 of 2018, but it was nowhere near the size of the big rogue wave in oil prices in 2008.

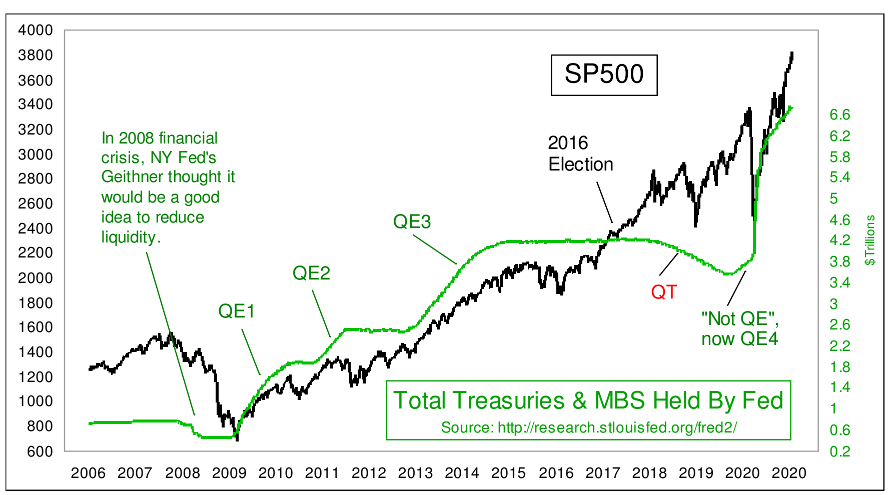
The Covid Crash in 2020 was also not a perfect match for oil's pattern 10-years earlier, but oil did stumble a little bit in 2010 and then recovered. The stock market stumble in 2020 was bigger, but then so was the recovery.

Exactly how it is that oil prices "know" what the stock market is going to do is a mystery. But it has been working for the most part since the DJIA was created 125 years ago, and so at some point we let go of the quest for knowing why it works, and accept it.

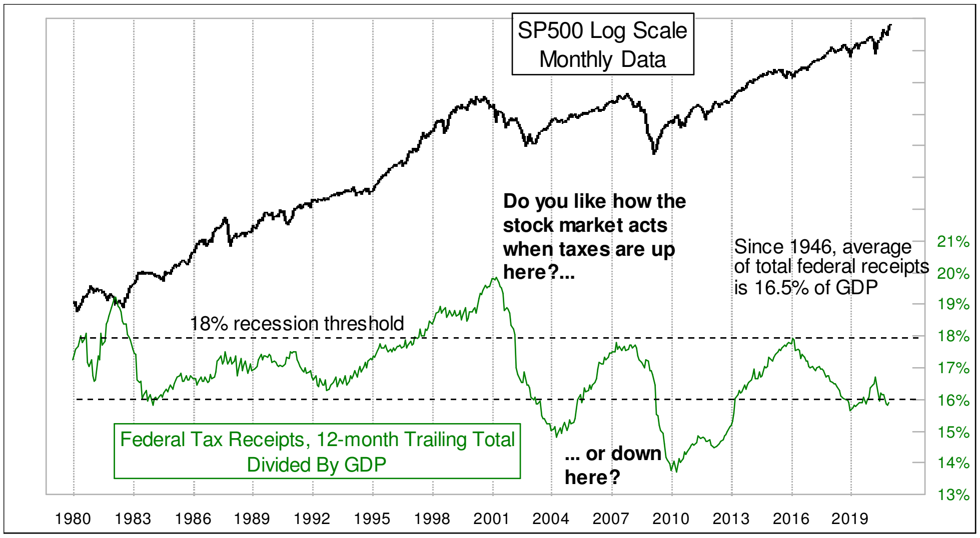
There are some other bullish forces which are going to weigh in and have an effect on how the DJIA replicates oil's pattern. A really big one is the Fed's QE, which Chairman Powell says is going to be continued at least through 2021. All 4 rounds of QE have been unquestionably bullish for stock prices, at least for the time when they are underway. Stopping QE is really problematic, and so if the Fed ever does pull away from QE, or even starts reducing assets in "quantitative tightening" or

BOTTOM LINE

Seasonality says that there is a little bit more weakness yet to come in January, bottoming ideally on Jan. 25. But then prices should start upward into February. The Fed will give the bulls a big tailwind, and the incoming administration does not seem to want to pull back yet on fiscal stimulus. Whether those are *good* ideas is a separate question, but they are *bullish* factors. Stocks should see a minor bottom due Jan. 25 then head higher. Bond prices should see a minor top Jan. 20-22, then resume the long downtrend. Gold is in a downtrend, on schedule, and should see a meaningful bottom due Jan. 29. But its 13-1/2 month major cycle low is not due until April to May 2021.



Report #620 will be published on **February 3, 2021**



QT, then we can expect a big jump in volatility. But not this year, if you believe Powell.

One additional very bullish factor which might bend the way that stocks follow crude oil's message is that federal tax collections remain very low. The chart on page 2 shows federal tax receipts as a percentage of GDP, which as of December 2020 stands at 15.9%. That is based on a conservative estimate of $21.5 trillion for the annual rate in Q4, since the actual data are not out yet. If GDP is higher than that, then this percentage will be lower.

Anytime that this measure of taxes is below 16%, it is incredibly bullish for stock prices. And every time that it has ever gone above 18%, a recession has ensued. What the new Biden administration may do to change taxes will be a risk factor for the future, but for now the federal government is leaving a lot of money in the hands of taxpayers, money that they can use to keep stock prices aloft.

Bottom Line: Crude oil's model says that stock prices should top this year, ideally in April, and then move sideways for 3 years. But the Fed and Congress are still in hyper stimulus mode.

Page 3 Charts

Chart 1: The A-D Line came within 339 net advances following the 3-day holiday weekend of equaling its January 14 high. The A-D Line is now about as far above its 1% Trend as it was in February 2020. The Fed has successfully provided liquidity to the financial markets, according to this indicator. Now we will see how the change in presidential administrations will impact liquidity with its plans to provide billions of dollars of Covid relief and tax changes.

Chart 2: The Daily Volume Line is about twice as far above its 1% Trend as it was a year ago. It is about the same distance that it was at the finish of the November advance, which ended in a sideways consolidation. See page 5 for reasons why a consolidation is warranted.

Chart 3: The McClellan A-D Summation Index topped at +4330.7 on December 17, but it took until January 8 for the DJIA and the SP500 to make their final (for the moment) price tops. The NYSE Composite topped with the A-D Line on January 14. The Summation Index is not confirming the new price highs by virtue of making lower postings in spite of the higher prices. By moving sideways, the Summation Index is saying that the price advances are a result of momentum continuing to carry them higher, rather than as a result of new acceleration pushing a new leg. With the RASI (not shown) at a still high +937.4, there is a lack of weakness showing currently.

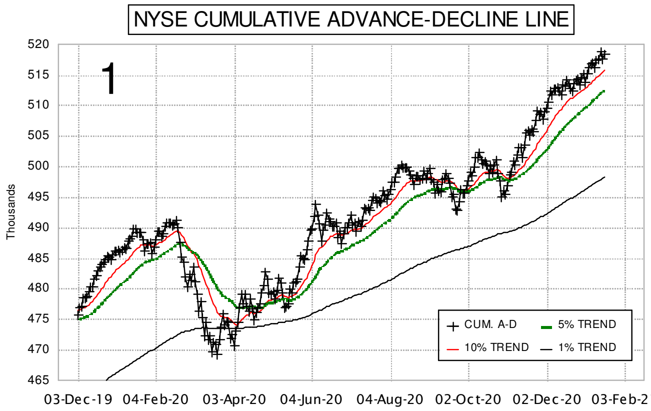
Chart 4: The Volume Summation turned up at a modest rate of advance as prices pushed to new highs. It is just climbing up an uptrend line that can be drawn across the March and October lows. By turning down it will break that uptrend line and perhaps produce a decline that is visible on price charts.

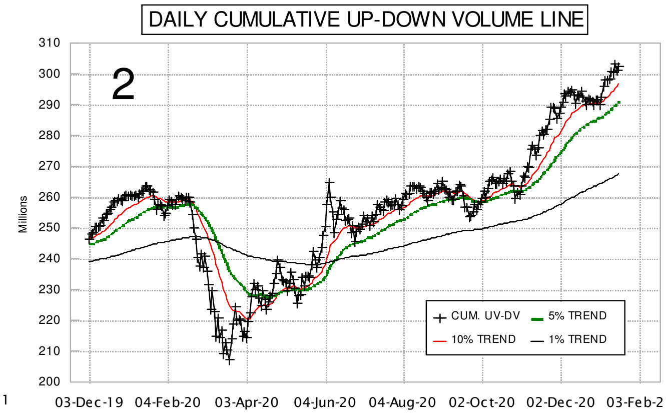
Chart 5: The McClellan Oscillator expanded its oscillations above and below zero from July until December. But ever since the October and December extremes, the structure has been reducing its amplitude. Once we get past the changeover in administrations, and the market gets its mind around what changes that will bring, we should see a new period of swings across zero increasing in amplitude. For the McClellan Oscillator to just chop back and forth tightly around the zero level means that neither side is really in charge. The opportunity is there for either side to grab the ball and run, but neither is doing so. Bringing the Summation Index lower will require having the Oscillator spend some time below zero, since the Summation Index changes each day by the value of the Oscillator. Right now with the Oscillator flipping back and forth above and below zero, it is clear that neither the bulls nor the bears are in control.

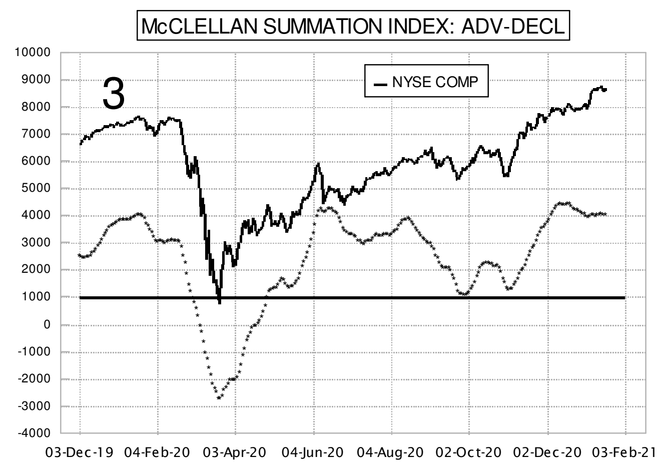
Chart 6: The Volume Oscillator is also dampening the amplitude of its swings. Its low amplitude complex pattern above zero says that the bulls are in charge, but not by much. It will confirm the start of a consolidation by dropping back below zero. It will indicate power for the bulls by breaking the downtrend line from the June 8 high.

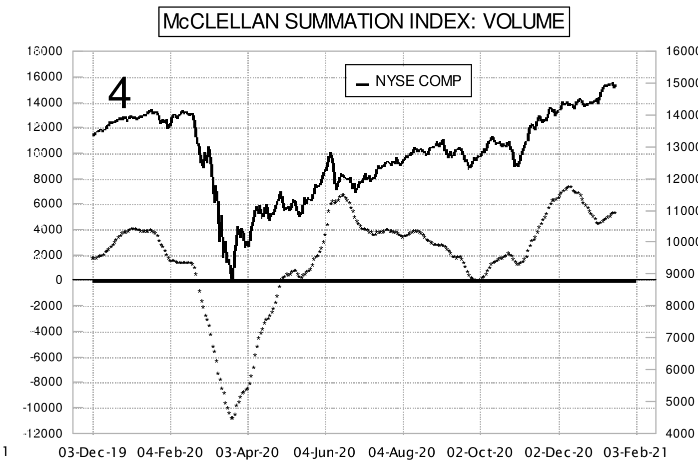
Chart 7: The DJIA Price Oscillator has been staying at a high level, an indication of the price strength resulting from the FED's QE4. The Price Oscillator topped out on January 13 at +461.8. That was one day ahead of the A-D Line high, and an indication of the rotational strength being shown by the Russell 2000 small caps compared to the large cap area of the market. The expected push to higher highs in the second quarter should begin with the Price Oscillator at lower more neutral levels.

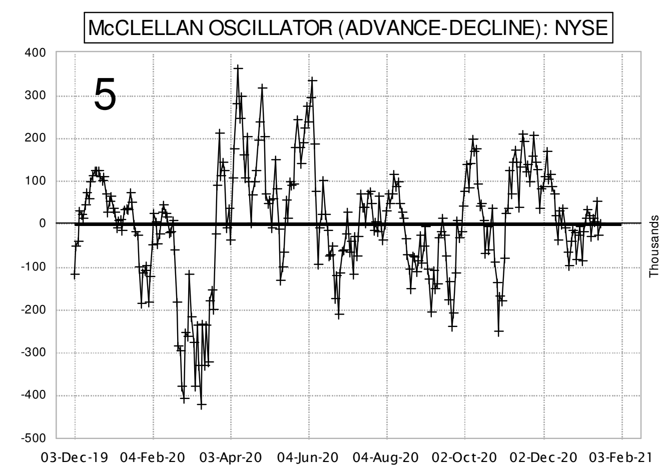
Chart 8: The CBOE Volatility Index (VIX) has a most interesting pattern of higher lows since December, while prices have continued to push higher. This is a bearish divergence. A normal price advance is usually accompanied by a declining VIX, so it is problematic when the contrary condition is taking place. The last two trading days have had the VIX closing above its 50MA. That is a normal position for it during a price consolidation. The upper and lower bands have been getting much closer together. And that amplitude compression can end explosively. A breakout above the downtrend line that can be drawn across the March and October spike highs would be expected to produce quite a spike high on the VIX and price volatility.

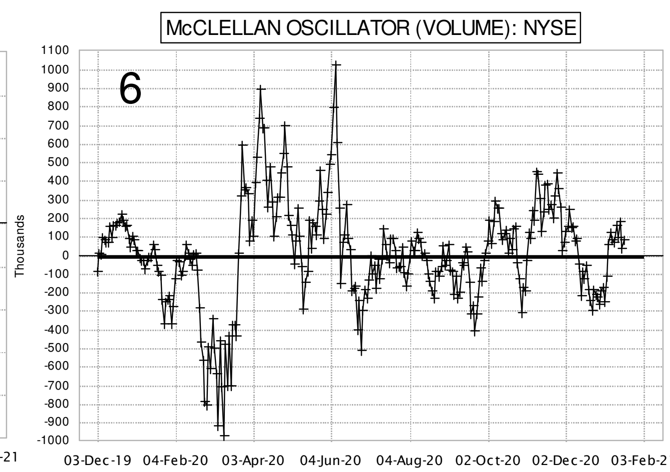

NYSE CUMULATIVE ADVANCE-DECLINE LINE
1
Thousands
CUM. A-D
5% TREND
10% TREND
1% TREND

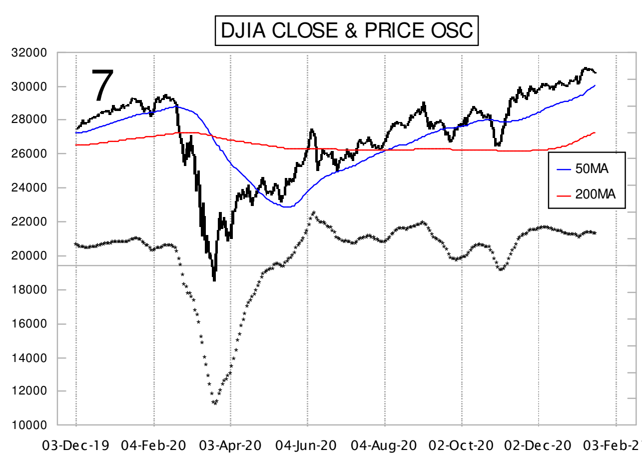

DAILY CUMULATIVE UP-DOWN VOLUME LINE
2
Millions
CUM. UV-DV
5% TREND
10% TREND
1% TREND

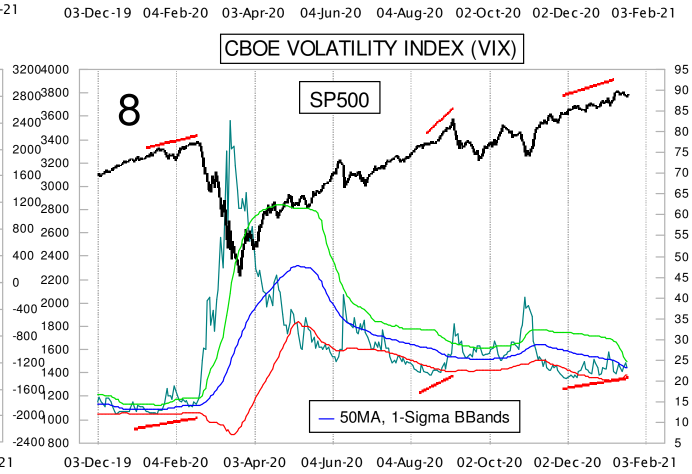

McCLELLAN SUMMATION INDEX: ADV-DECL
3
NYSE COMP


McCLELLAN SUMMATION INDEX: VOLUME
4
NYSE COMP

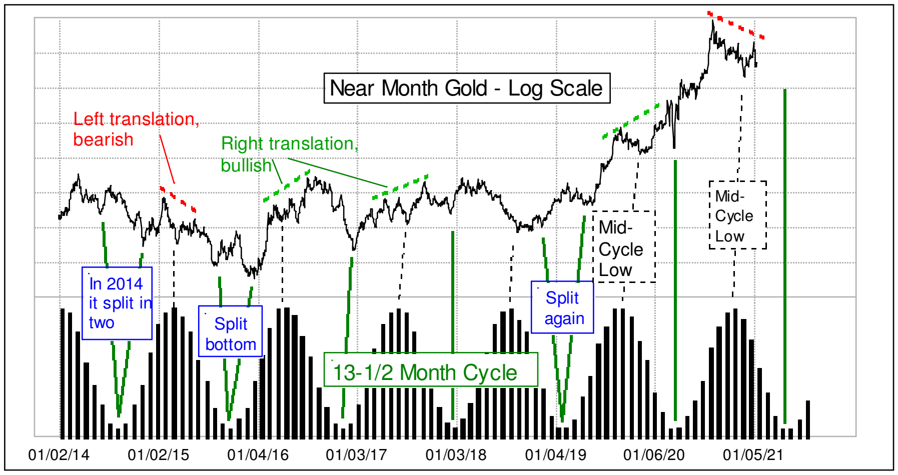

McCLELLAN OSCILLATOR (ADVANCE-DECLINE): NYSE
5


McCLELLAN OSCILLATOR (VOLUME): NYSE
6
Thousands


DJIA CLOSE & PRICE OSC
7
50MA
200MA


CBOE VOLATILITY INDEX (VIX)
8
SP500
50MA, 1-Sigma BBands

Left Translation Carries Bearish Message for Gold



Gold saw its peak back on August 6, 2020 for the current iteration of gold's 13-1/2 month cycle. That peak was before the traditional mid-cycle low, and the peak to the right of that mid-cycle low is lower than the Aug. 2020 peak.

All of that means that this current cycle has seen "left translation", which carries a bearish message for gold going forward. At a minimum, we should expect the price level of the mid-cycle low to get exceeded to the downside as gold prices descend toward the major cycle low due in April-May 2021. That mid-cycle low was at $1781/oz, basis February gold futures. And exceeding that to the downside is the minimum expectation

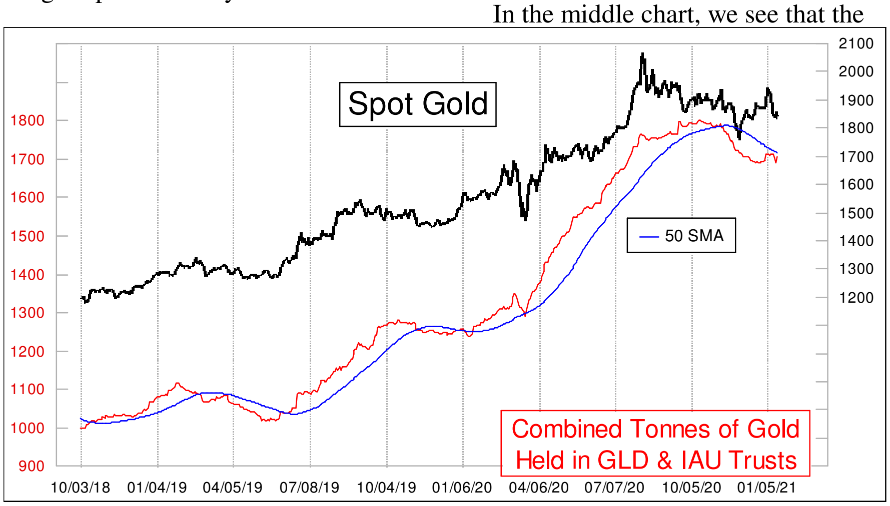
When there is a bullish "right translation" configuration of the highs in a given cycle, then that conveys a much more positive message about the future for gold prices. It says that the mid-cycle low likely will not be taken out, and it says good things about the start of the next cycle. That is not what we are seeing now, unless gold can make a surprise late surge to take out the Aug. 6, 2020 top at $2069 within the remaining time.

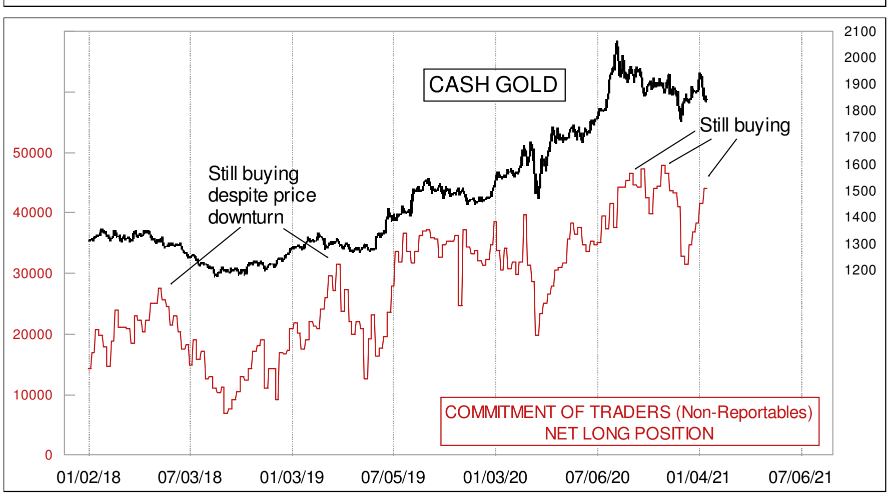
The public is starting to become less enamored of gold. Perhaps the excitement over Bitcoin is stealing away some of the attraction of gold as the preferred alternative to "money".

In the middle chart, we see that the combined assets in GLD and IAU is below its 50-day moving average, a condition which is pretty reliably associated with downtrending phases for gold prices. That could change at any time, and it would likely require an upsurge by gold prices to get traders' attitudes to change. There is nothing like seeing prices going up to make people think that prices will go up.

We are seeing a different sort of behavior among the small speculators in gold futures, as shown in the bottom chart. The weekly Commitment of Traders (COT) Report is published by the CFTC, and it breaks down the numbers of futures contracts held by 3 different groups. The "commercial" traders are ones who use the subject commodity in their trade or business, and for gold that usually means the producers. "Non-commercial" traders are the large speculators (think hedge funds). "Non-reportable" traders are ones whose position sizes are so small that the CFTC does not figure that they are worth tracking their positions individually. They are the small money traders, and usually the hot money.

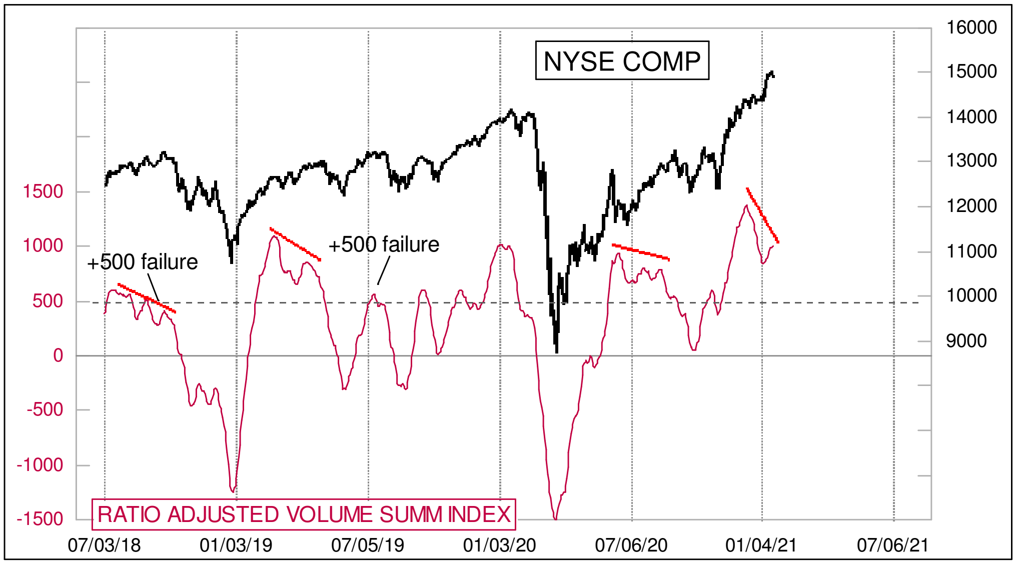
Their positions usually fluctuate in step with gold prices. Occasionally, though, we see instances when they are still buying more long positions even after gold prices have turned down. We see such a condition right now, and it usually means that more of a price decline lies ahead. The gold market likes to punish such misplaced enthusiasm.





Bottom Line: Gold is now in the late phase of its 13-1/2 month cycle, and has already seen a bearish "left translation" configuration within the current cycle. That says a lower price low should be seen by the major cycle low due in April-May 2021.

Divergences Call For At Least a Dip



There have been higher price highs in January, but there are big non-confirmations when we look at certain indicators. The top chart on page 5 shows the Volume Ratio Adjusted Summation Index (RASI) for the NYSE, which is related to the classic Volume Summation Index shown on page 3. That one on page 3 uses the raw Up Volume and Down Volume numbers in its calculations. This RASI version is different in that it looks at the daily difference between UV and DV as a fraction of total volume. This factors out big or small volume days. It also allows for more uniform scaling over time.

By virtue of seeing this indicator up well above the +500 level, we get the message that the liquidity situation is still strong, and more gains should be expected. If this RASI fails to get up above +500 on an upthrust, that says there are liquidity problems to worry about. We do not have that problem right now.

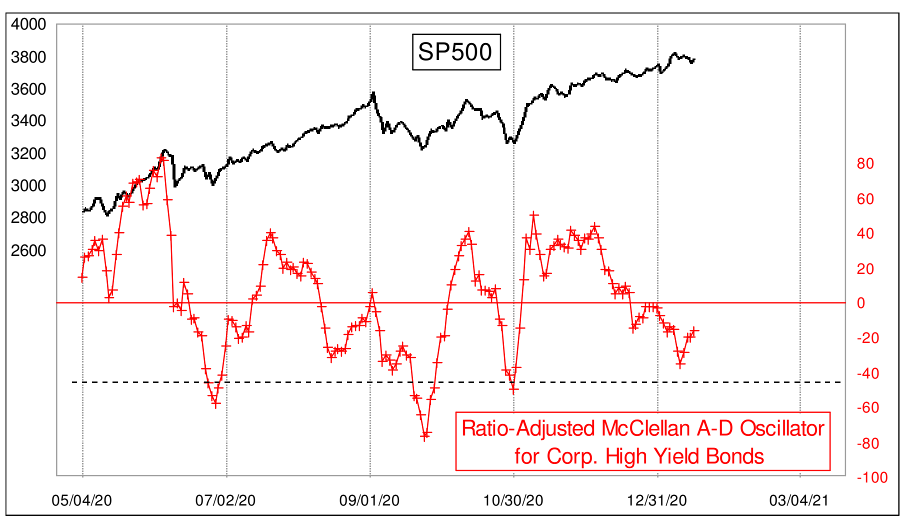
At the same time, it is showing us a divergent lower high compared to the higher price high. That divergence says that at least a dip ought to materialize, which should take this RASI back closer to its neutral level, the better to set up for the next upward phase.

We see a similar negative message in the lower chart. It shows a Ratio-Adjusted McClellan Oscillator (RAMO) for the A-D data on high-yield corporate bonds. Those bonds tend to trade more like stocks than like T-Bonds, and their behavior can give us great indications about the health of the liquidity stream. Because these issues are of lower investment "quality", they are more sensitive to liquidity, either good or bad.

The NYSE's McClellan A-D Oscillator on page 3 has been fluttering around its zero line. But this one in the chart below crossed down through its zero line back on Dec. 21.

This is much more negative behavior than the NYSE's A-D data are showing. At the same time, this NYMO is not yet down far enough to an oversold enough level to suggest that a washout has occurred.

A few more days of selling pressure could remedy that, and in the process also help to fulfill the seasonal expectation. And it could help to pull down the Volume RASI above to a more neutral level, the better to begin a renewed upward phase.



THE McCLELLAN MARKET REPORT

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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**
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TIMING MODELS

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

Signal	Source	Predicted	Actual
Bottom	Nasdaq Up-Dn Osc	Jan 7	Jan 4
Top	Uncommon A-D Osc	Jan 11	Jan 8
Top	HY Bond A-D Osc	Jan 11-12	Jan 8
Bottom	DJIA ST Price Osc	Jan 15	Jan 15
Top	DJIA Up-Dn Osc	Jan 19-20	
Bottom	SP500 ST Price Osc	Jan 21-22	
Bottom	NDX A-D Osc	Jan 27	
Top	NYSE A-D Osc	Jan 28-29	
Bottom	Nasdaq ST Price Osc	Feb 5	
Top	NYSE A-D Osc	Feb 8	
Bottom	SP500 Up-Dn Osc	Feb 10-11	
Top	Nasdaq A-D Osc	Feb 12	
Top	Uncommon A-D Osc	Feb 18	
Bottom	DJIA ST Price Osc	Feb 22	
Bottom	NYSE Volume Osc	Feb 26	
Bottom	SP500 ST Price Osc	Mar 4	

Experimental Indicator, "BC"

Predicted Signal		**How It Turned Out**
Implied Top	Dec 21	Top Dec 17
Implied Bottom	Jan 25	
Implied Top	Feb 11	
Implied Bottom	Apr 24	

Treasury Bond Prices

Signal	Source	Predicted	Actual
Top	TYX Close/Sum	Jan 11	Jan 13
Top	TYX Close/Sum	Jan 12	Jan 13
Top	Corp Bond A-D Osc	Jan 20-21	
Top	T-Bond Close/Sum	Jan 22	
Top	TYX ST Price Osc	Jan 28	
Top	Corp Bond A-D Osc	Feb 2	
Top	T-Bond Price Osc	Feb 8	
Top	T-Bond Stochastic	Feb 22	

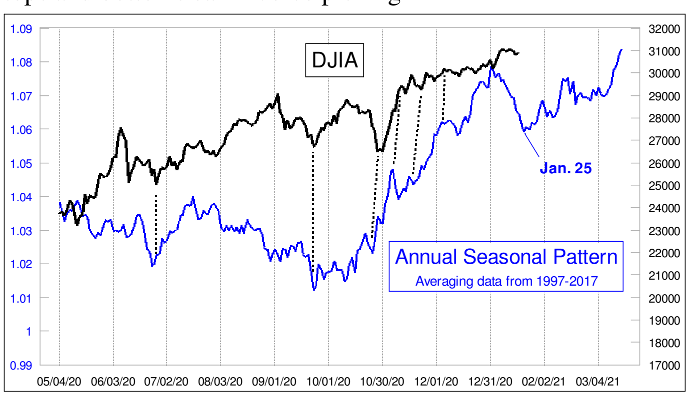
Gold and Precious Metals Stocks

Signal	Source	Predicted	Actual
Top	GDM Up-Dn Osc	Jan 6	Jan 5
Top	GDM ST Price Osc	Jan 11-12	Jan 13
Top	Gold ST Price Osc	Jan 12	Jan 13
Top	GDM Up-Dn Osc	Jan 28	
Bottom	**Gold Price Osc**	**Jan 29**	
Bottom	GDM ST Price Osc	Feb 19	
Bottom	GDM Close/Sum	Feb 22	

The Signals

In the stock market, there has been some trendless chop in January, which fits with the spot of seasonal weakness shown in the Annual Seasonal Pattern. So identifying the actual arrival dates of tops and bottoms can involve picking through the noise. The top that appears on Jan. 8 was a little bit late for the Annual Seasonal Pattern, and one trading day early for the Jan. 11 top signals.

The Jan. 13 top in both bonds and gold was 1-2 days later than their top signals called for. This amount of variation is very normal. We might wish that these tools could tell us to the exact minute when the turns will come, but that is not the degree of accuracy these signals offer.



The Annual Seasonal Pattern says that there should be a bottom due Jan. 25. The Timing Model signals do not agree exactly, but they do show bottoms due Jan. 21-22 and Jan. 27. And the BC Indicator agrees with the Jan. 25 timeframe for a bottom.

What To Expect

The signals for **stocks** are rather disorganized, with no big clusters at the moment. The two late-January bottom signals are bracketing the Jan. 25 bottom date suggested by BC and seasonality, so we expect that to work out approximately then. More chop lies ahead.

T-Bonds show a pair of top signals this week, Jan. 20-21 and Jan. 22, likely describing the same event. There are more tops beyond, but they too should be viewed in the context of bond prices being in a long downtrend.

Gold had a new bold-lettered signal pop up recently, calling for a bottom due Jan. 29. That conflicts with the Jan. 28 top signal, and our view is that the bold bottom will outweigh the lesser signal.

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.

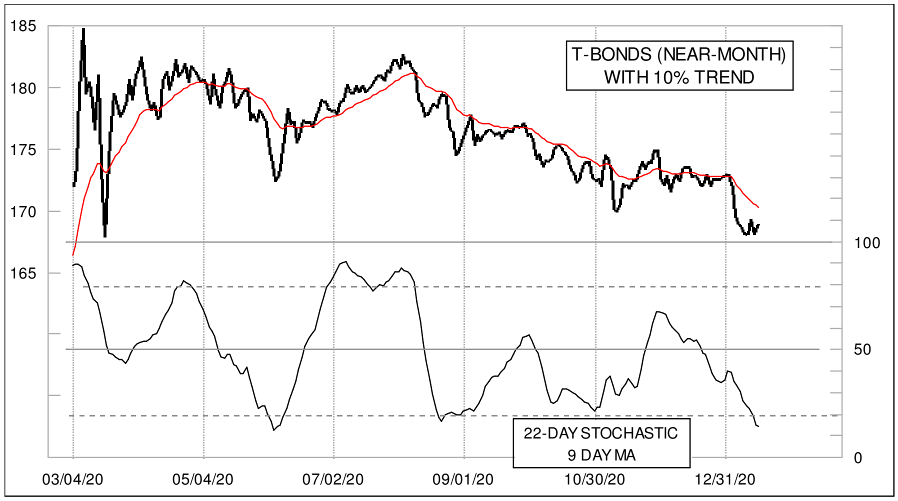
These models do not catch every market turn, but the signals usually show some effect in the market action. It is important to understand that the market does not have to go up from a bottom; it may just stop going down. It does not have to go down from a top, it may just stop going up. Some bottoms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

Bonds Oversold, Just Not Enough



T-Bond prices have been trending downward since early August, and have just recently gotten to what is arguably an oversold condition. But this is not likely to prove enough to stop the downtrend.

In the top chart, we show a 22-9 stochastic oscillator for T-Bond prices. This combination of lookback period and smoothing makes for a really nice indicator for T-Bond prices especially. It shows overbought conditions above 80 and oversold when below 20. Sometimes that is enough to stop a move, and when it is, you can know it was not a very powerful move. If a price move keeps on going after posting such an extended condition, then you know it is a powerful trend.

The oversold condition which appeared in August 2020 is a great example of that principle. It was enough to halt the decline, but not really enough to start a new uptrend. Prices instead just moseyed sideways for a while to catch their breath, and then resumed the powerful downtrend. So how the current oversold reading plays out will convey important information about the future.

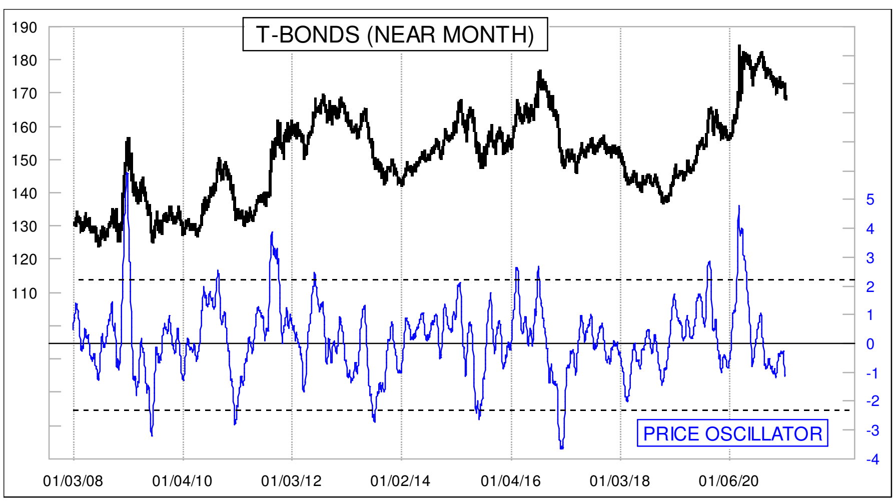
The middle chart shows the McClellan Price Oscillator for T-Bonds, and takes a really long term look back in order to allow us to see what a really oversold condition can look like. That involves a reading well below -2, and right now this indicator is not yet even halfway to that much of a deep negative reading.

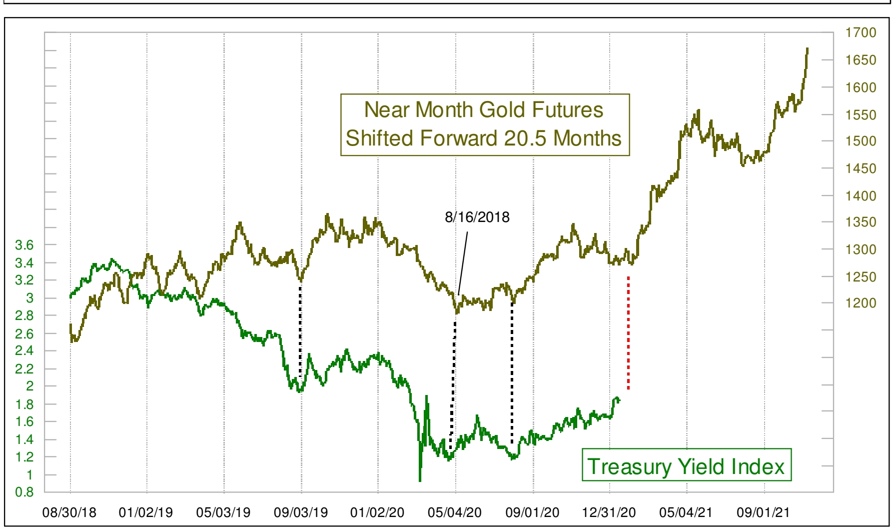
The bottom chart tells us that this new trend in bond prices (and yields) should continue for a long time to come. Gold price movements tend to lead the corresponding movements in long term bond yields by about just over 20 months.

Two years ago, gold prices started a huge run higher. So the echo of that is now on the agenda for T-Bond yields. We have been looking for a January 2021 inflection point for T-Bond yields, but the market seems to be eager to get started

We should remember that the up move so far is just echoing the preliminary part of gold's big up move. The TYX is now at the equivalent point of where gold was just below $1300/oz, and gold would eventually go on to get north of $2000 in August 2020. That whole move upward in gold prices is only now starting to be echoed by T-Bond yields.

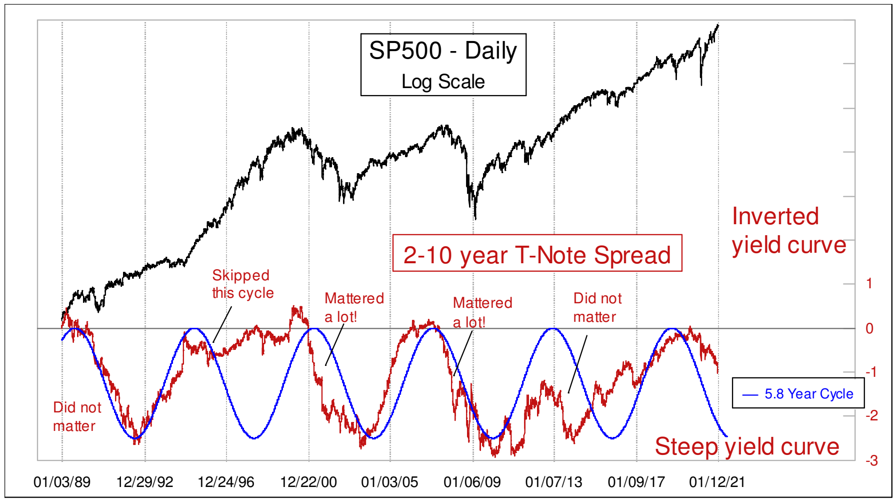
So while we are arguably seeing an oversold condition at the moment, the bond market is getting ready to show us that the oversold condition this time is not really going to matter, and there is a whole lot bigger move coming for long term rates. And this is just as incoming Treasury Secretary Janet Yellen is talking about a "go big" plan for deficit spending to stimulate an economic recovery. Watch for her (and Congress) to rethink that plan when they see what the rising costs of interest payments are going to do to political ambitions.



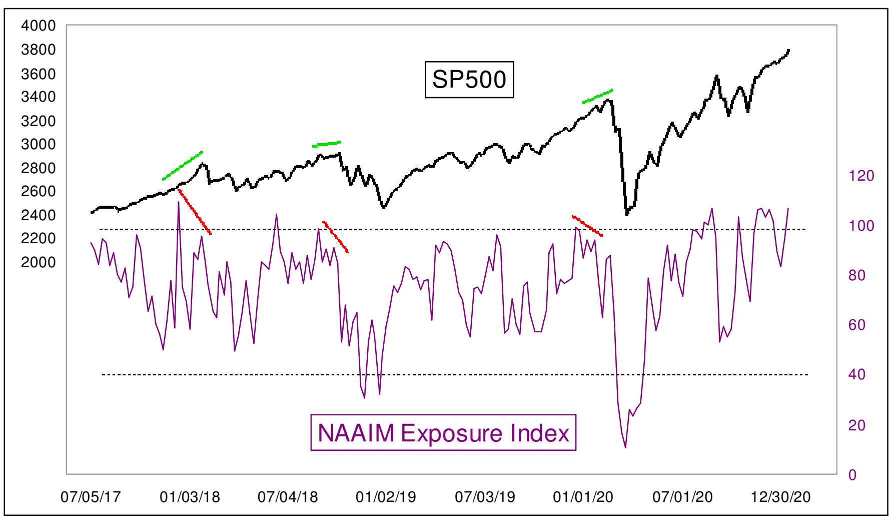


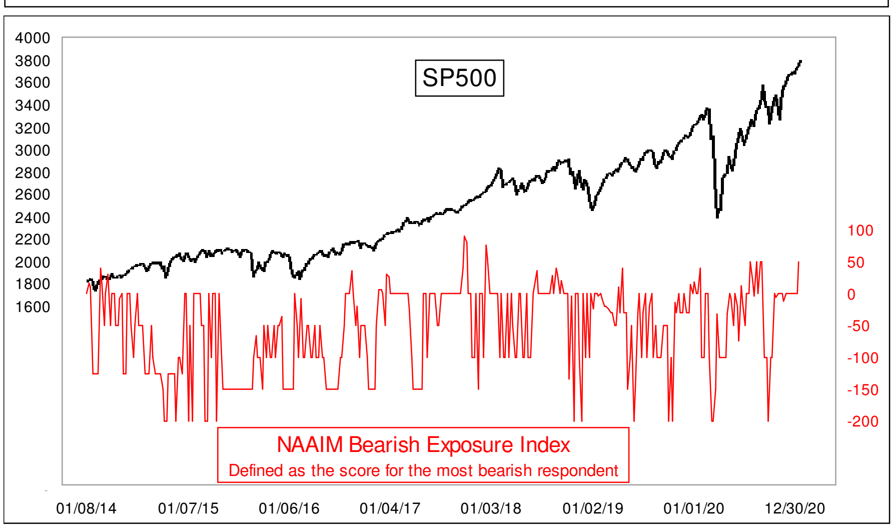
Yield Curve Steepening

The 10-year Treasury Note yield is rising faster than the 2-year yield, and so based on that small sampling of the whole Treasury maturity curve we can fairly say that the yield curve is "steepening". That is important to know about because a really steep yield curve is a bullish condition for stocks in the months and years to follow. But the process of getting to that steep yield curve can be a painful one, and a bearish one for stock prices. Or at least that is the case most of the time. There are exceptions.



The top chart shows that there is a 5.8-year cycle in the movements of the yield curve, and we are now in the steepening phase of that cycle. That phase mattered a whole lot in 2000-03, and in 2007-09. The steepening in those cases came about because of the Fed cutting short term rates as a reaction to slowing economic conditions. It is arguably different this time, as the steepening is happening as short term rates are being kept low, but longer term rates are rising. So we may not necessarily have to see the same type of ugly stock market event out of this steepening cycle.





NAAIM Sentiment

The National Association of Active Investment Managers (NAAIM) publishes a survey of its members investment positioning every week, known as the NAAIM Exposure Index. The members are asked to characterize their firms' overall equity exposure, with score values ranging as follows:

-200%	Leveraged Short
-100%	Fully Short
0%	In Cash, or Hedged
+100%	Fully Invested
+200%	Leveraged Long

The NAAIM Exposure Index is the average of all of the responses each week, and it is a really nice sentiment indicator. The latest data showed a value of 106.76, meaning that they are slightly leveraged as a group. That is a pretty high level, and indicative of a topping condition for stock prices.

Included in NAAIM's weekly data is an often overlooked bit of data, which is shown in the bottom chart. This reflects the number of the most bearish single respondent in the weekly survey. The latest reading for this is +50, meaning that the most bearish member of the whole organization is still at a half of a fully invested position. Not one of them is short, in other words, and that is a pretty remarkable condition that has been associated with meaningful price tops when it has happened in the past.

We only have a few days left before the Annual Seasonal Pattern's Jan. 25 bottom date, as discussed on page 6. The market is going to need to do a lot of work on sentiment pretty quick, if it is going to set up for a proper price bottom then. These NAAIM sentiment measures can swing pretty rapidly if prices give them a reason to.