Decision Moose

Global Financial News & Analysis

2016.12.30 through 2017.01.08

Moosecalls— week closing 12.30.2016

Weekly Close	This Week's Signal	End Date
12.30.2016	***HOLD US Small Cap Stocks (IWM)***	***01.08.2017***

US Small Caps (IWM) became #1 in the model 11/25/2016, but were short-term overbought, defaulting to cash. IWM's overbought condition was relieved a week later (12.02.2016), leading to a "conditional" switch from cash into IWM pending its next short-term buy signal. That condition was met Monday 12.05.2016 @ $132.12. Always familiarize yourself with any investment program and the assets involved before committing to it. Read the FAQs and The Art of the Switch, and get a prospectus online from the fund provider.

Executive Summary— Slouching Into 2017

A stock market that, year-to-date, was dead in the water going into the November elections finishes 2016 with impressive gains. US large-cap stocks (-1.0%) and small caps (-0.9%) were down this week, but still up 10% and 20% respectively in 2016. The US dollar (-0.7%) rally also slowed this week, as the long-anticipated 2016 Fed rate hike faded further into the rear view mirror. That helped US long T-bond prices (+1.2%), which recovered for a second straight week. Offshore equities, meanwhile, were mixed. Japanese equities (-1.8%) were down, while Latin America (+1.8%) led Asia Pacific ex-Japan (+1.0%) and Europe (+0.8%) higher. Commodities (+1.0%) were up overall, with assists from crude oil (+1.4%) and, gold (+1.6%).

Momentum continued to slow this week ahead of the New Year weekend. US small caps (especially value) continue to lead the model, however, followed closely by US large caps. It would appear that the January Effect, when investors traditionally roll into small cap names, came early this season. The 2-1 small cap advantage over large caps was the result of a stronger dollar that reduces profits for large multinational firms with foreign currency exposure. The Dollar eventually backed off enough to foster a traditional Dow Santa rally in which portfolio managers also spruced up their holdings with big, safe, dividend producing large-cap names, alongside the rally in small caps. The Dow pushed 20,000 last week, but fell short.

This week, Dow end-of-year window-dressing ended Wednesday, as the three-day transaction processing rule kicked portfolio sales into 2017. The market went down to close out the week, though on very light volume.

With the long-anticipated 25 basis point 2016 Fed rate hike now in the rear view mirror, Treasury bonds managed a second consecutive bounce this week, after being both oversold and headed south for three weeks running. At 109, EDV is still close to the major low (@103) it put in 18 months ago, but for now, the plunge from 136 last September has been arrested.

IWM and SPY may still have some upside, as we enter 2017. Overbought risks associated with chasing them this week are down. The question is whether you want to trust the giddiness to continue. Usually, large caps back off in January as investors rotate into smaller names, but this year, the smaller names are up over 18%-- just since the election. Meanwhile, Japan remains elevated too, and the best foreign equity market, thanks entirely to financial engineering by the BoJ. Hedging the Yen (DXJ) is a better bet than not (EWJ).

As mentioned before, myriad experts are predicting a pull-back in equities in 2017. The more apocalyptic predictions, of course, usually accompany a new book; the less drastic ones, a pitch for this investment firm or that. The bear probably will return at some point, but without an imminent recession looming, it would take a black swan to take stocks down, and black swans, by definition can't be predicted. They can hit hard and fast and require constant vigilance, making them as good a reason as any to renew your subscription to the Moose in 2017.

Weekly Market Table-- thru 01.08.2017

RANK	CI	ASSET	Technical Trend	TS
1	100%	US small-cap stocks (IWM)	very bullish	86%
2	88%	US large-cap stocks (SPY)	very bullish	88%
3	71%	Japanese stocks (EWJ)	bullish	63%
4	67%	European stocks (IEV)	neutral	-9%
5	42%	Pacific ex-JAPAN stocks (AXJL)	slightly bearish	-41%
6	38%	Latin American stocks (ILF)	neutral	-8%
7	33%	CASH		
8	13%	Gold (GLD)	very bearish	-94%
9	0%	US Long Treasuries (EDV)	very bearish	-94%
		Other Considerations		
		Fed Check (what the Fed ought to do)	hike rates	90%
		Impact of interest rates on US Equities	very bullish	84%
		Impact of Volatility on US Equities	bullish	-58%
		US Dollar Index Price Trend	very bullish	94%
		Commodity Inflation Trend	very bullish	78%
		Crude Oil Price Trend	very bullish	87%

*CI is the "confidence index" measuring the model's overall confidence in the asset. It combines the relative strength (rank), the technical strength (TS), and the Fed Check. For more information, see the FAQs.

Daily Recap— week closing 12.30.2016

Monday, US Markets Closed for Christmas Holiday.

Tuesday, Stocks Edge Higher. US stocks gained ground on light volume following the long Christmas weekend. The advance was supported by a 15-year high in consumer confidence and stronger-than-expected regional manufacturing activity and home prices. European stocks ticked higher as well, while Asia was mixed. Treasury yields, gold, and crude oil prices were higher, and the US dollar was unchanged. The S&P 500 Index added 5 points (+0.2%) to 2,269.

Wednesday, Stocks Close Near Lows. Window-dressing period over, US stocks traded lower, as data, volume and conviction continue to be light. Treasuries, gold, the US dollar, and crude oil prices were all higher. Limited domestic economic data revealed an unexpected decline in pending home sales. Europe and Asia were mixed, as volume remained thin. The S&P 500 Index lost 19 points (-0.8%) to 2,250***.***

Thursday, Stocks Finish Lower. US stocks logged mild losses, as crude oil slipped lower on an unexpected rise in oil inventories. Europe dipped, and Asia was mixed. Treasuries and gold were higher, and the US dollar dipped. In economic news, weekly jobless claims fell in line with expectations, and a preliminary read for the US goods trade deficit unexpectedly widened. The S&P 500 Index lost nearly 1 point to 2,249.

Friday, Stocks Down in Final Session of 2016. US stocks finished the final trading session of the year lower. Complacency lingered and volume and data were light ahead of the New Year holiday weekend. Treasuries were higher, and the US dollar, gold, and crude oil ticked lower. In light economic news, regional manufacturing activity missed expectations. Meanwhile, Europe was modestly higher and Asia was mixed to close out 2016. The S&P 500 Index lost 10 points (-0.5%) to 2,239.

Economy, Fed & Inflation-- thru 01.08.2017

Global Economy, Current Perceptions— Assumptions have been that activity in emerging market and developing economies in 2016 is projected to slow for the fifth year in a row, and current perception does little to contradict that. Despite improving commodity prices, downside risks to the global outlook have risen due to capital outflows from emerging markets, currency pressures, and increasing financial market volatility. The Baltic Dry Index (961), an international shipping measure and proxy for current global growth, was flat this week-- it was down in 2014, and finished 2015 even lower, despite a summer rally (to 771). It is well below its 2010 peak (4640). WTI oil price ($53.72)-- another proxy for world activity— was up again this week after non-OPEC members negotiated production cuts two weeks ago. Oil is well off its 2011 peak ($113), though above its 2008 crisis lows ($37). Copper ($2.51), a proxy for global construction has been surging, but was up 4 cents this week. US bond prices bounced and yields fell after a prolonged plunge in prices. On balance, this week's indications are positive regarding the global economy and stocks.

US Economy, Current Perceptions— Overall: Mixed to poor data week. **The good:** December Consumer Confidence (113.7) stronger than expected. October Case-Shiller 20-city Index (5.1%) up in line. **The bad**: Weekly initial jobless claims (265K) higher than expected. Weekly continuing jobless claims (2102K) also worse than expected. December Chicago PMI (54.6) weaker than anticipated. November pending home sales lower than expected. (-2.5%). November trade deficit ($65.3B) worse than forecast. **The ugly:** November U-6 unemployment at 9.5%. Labor participation rate (62.8) and jobs-population ratio (59.7) were unchanged as well, but still near all time lows.

The Fed, Current Perceptions: The Fed met in mid-December (12/14), and raised rates a quarter percent announcing that it also anticipates 3 more hikes in 2017. It was the first Fed tightening in a year and bumped the overnight rate (FFR) to 0.50% from the 0.25% set in December 2015. That was the first Fed rate hike in more than a decade, and one that ended seven years of zero interest rate policy (ZIRP). The Fed originally contemplated 4 rate hikes in 2016, but tame inflation, anemic GDP, uneven job growth, and the June Brexit vote reduced it to one— a year later. Trump's victory, however, suggests his positive fiscal policy in 2017 will lend cover to future rate hikes. The Fed Check (0.90) suggests a rate hike is warranted for the first time in years, as the yield curve has begun to steepen. 3-month LIBOR (1.00%) held steady this week, as the 3-month T-Bill yield (0.48%) fell, putting the 3-month LIBOR/T-Bill spread at 52 basis points, above the middle of its long-term, 2008-2016 post-crisis 15-62 basis point range. (A rising spread suggests tighter bank-to-bank credit, and a less confident banking system.)

Inflation, Current Perceptions— Consumer inflation warmed in October, but recent core indicators, including the Fed's favorite inflation gauge (core PCE) remain within the 1-2% target range. Commodity prices and oil, meanwhile, are falling on a stronger Dollar, implying less global inflation pressure.

November CPI (+0.2%) okay. November core CPI (+0.2%) okay.
November PPI (+0.4%) warm. November core PPI (+0.4%) warm.
November import prices (-0.1%) cool. November export prices (-0.1%) cool.
November 12-month PCE (+1.4%) okay. November 12-month core PCE (+1.6%) okay.
Q3 unit labor costs (+0.7%) revised considerably higher.
Q3 GDP chain deflator (+1.4%) within target range.
Q3 employment cost index (+0.6%) up in line
Q3 productivity (+3.1%) solid.

Commodities ($CRB) Hold Up As Dollar Rally Slows

Commodities, Perceptions thru 01.08.2017-- The commodity Index (CRB) is currently very bullish. Commodity prices rose 1.0% this week, following last week's -0.5% loss. That leaves them up 3.3% for the quarter (26 weeks), and up 9.2% for the year (52 weeks). At 193, CRB is above its short-term (50-day) average at 188, and above its intermediate-term (200-day) average at 185. A weaker US Dollar this week improved returns for dollar investors in commodities.

After the first Fed rate hike in ten years last December, the CRB completed a double bottom (@155) in early 2016. Prices overcame intermediate term resistance, turning bullish in May and rallying into June, assisted by a weakening Dollar and led by a rebound in oil. Mid-summer, Brexit strengthened the Dollar and weakened crude and commodities into early August. Since then, the CRB has taken a volatile path higher, thanks to resurgent crude and OPEC's on-again-off-again deal to cut supply. Though Trump's win suggests more US oil production and a stronger Dollar in 2016, crude prices have rallied since the election. A Fed rate hike last week (12/14), however, and a Chinese government order shutting down 700 factories to curb smog around the capital and other major cities are weighing on commodities heading into 2017. Meanwhile, oil prices (USO) are currently very bullish. Crude prices rose 1.4% this week, following last week's 0.1% gain. That leaves them up 7.2% for the quarter (26 weeks), and up 6.5% for the year (52 weeks). At 12, USO is above its short-term (50-day) average at 11, and above its intermediate-term (200-day) average at 11. A strengthening US Dollar this week weighed on oil prices.

Commodities, Assumptions: OCT 1— Commodities peaked in July 2014 and ended 2015 down 48%, completing a double bottom in early 2016 after the first Fed rate hike in ten years, The 18-month swoon was led by a collapse in oil prices, which dropped from WTI $113 in mid-2014, to $26 in early 2016, due to falling global demand, a stronger Dollar, and a spike in US energy supply from fracking. In 2016, oil prices began to recover, reaching $48 by mid-year, and the CRB has rallied with them. **Current outlook: neutral.**

The bullish case: With most of the developed world now engaged in quantitative easing, a weakening global economy is only transitory. Emerging markets are still growing at 5-7%. The Fed sees an improving US economy and greater demand long term for commodities, but has gotten cautious about subsequent rate hikes, weakening the Dollar. Europe's debt, refugee and Brexit concerns are being managed, as the ECB will do anything and everything to avoid sovereign default. **The bearish case:** Slow growth and financial concerns in China, a stagnant Europe distracted by millions of refugees, and a weak first half US economy has curbed demand for commodities. In addition, the US has eliminated quantitative easing, raised rates, and appears committed to even higher interest rates in 2016. All of that removes the easy Dollar floor under risk assets, reducing global liquidity, and demand for commodities. It also should strengthen the Dollar, which cheapens commodities.

Gold (GLD) Swoon Slows, But Is It Over?

Gold Bullion, Perceptions thru 01.08.2017-- Gold Bullion (GLD) is currently very bearish and ranks #8 in the model-- less attractive than cash. Gold's price rose 1.6% this week, following last week's -0.1% loss. That leaves bullion down -12.8% for the quarter (26 weeks), but up 8.0% for the year (52 weeks). At 110, GLD is below its short-term (50-day) average at 114, and below its intermediate-term (200-day) average at 121. A weaker US Dollar this week improved returns for dollar investors in gold.

Fed rate hike fears in 2015 cut gold's fall rally off at the knees sending GLD to a six-year low near 100 by the yearend. When global equities tanked to open 2016, however, and the Dollar weakened, gold rallied. Japan announced negative interest rates in early March and gold surged another 10% in two weeks. Fed rate hike talk injected volatility, but the rally continued, peaking mid-summer above 130 with the Brexit vote. After that, more rate hike threats and a positive Dollar caused gold to break down short term, keeping the recent trend of lower lows and lower highs intact. Solid Q3 GDP, and November's stand-pat Fed meeting, however, helped boost gold briefly above its positive intermediate trend, until Donald Trump's election promised a stronger economy, a stronger dollar, brought selling on the "rumor" of more rate hikes. After the Fed did hike rates (12/14) and promised more hikes in 2017, investors have been buying oversold gold on the news. 14-day RSI (42) now makes GLD neither oversold (30) nor overbought (70).

Gold Bullion, Assumptions: OCT 1— Gold peaked above $1900 an ounce in August 2011. It bottomed below $1050 (a six-year low) in December 2015, as the Fed hiked interest rates for the first time in ten years. In 2016, however, gold took off, reaching $1367 by mid-year, as the US economy and the Dollar softened; Japan and Europe initiated negative interest rates; and Brexit threatened the financial stability of Europe. Subsequent worries over additional US rate hikes in 2016 caused gold to break down short term. **Current outlook: bullish**

The bullish case: Negative interest rates could put the cost of holding cash on a par with the costs of storing gold for the first time ever. Massive monetary stimulus and deficit spending in the US, Europe, and Japan over the past seven years have cheapened fiat currencies, increasing global inflation pressures. As the world economy begins to improve inflation will finally kick in. Easy money will not only stoke monetary-demand for gold but induce central banks to diversify their reserves with gold as well. **The bearish case:** Fed quantitative easing is over and rate hikes have begun, removing the easy money floor under all risk assets. The US economy is still the best of a sickly lot and the Dollar can be expected to continue strengthening, even as global deflation fears pick up. Any debt or financial crisis could strengthen the Dollar and US bonds and weaken the demand for gold. India-- once the world's largest gold consumer-- has placed an import tax on the metal curbing demand. Meanwhile, China, now the largest buyer, has cut inflation and slowed economically.

Bullish US Dollar Takes A Breath

US Dollar Index, Perceptions thru 01.08.2017-- The US Dollar index is currently very bullish. The US Dollar fell -0.7% this week, following last week's 0.1% gain. That leaves it up 7.1% for the quarter (26 weeks), and up 3.5% for the year (52 weeks). At 102, USD is above its short-term (50-day) average at 101, and above its intermediate-term (200-day) average at 97.

The Dollar Index has been in a 92-102 range since the end of 2014. Uneven US economic data; uncertainty over Fed timing; and volatile currency markets have all played a role in the range-bound volatility. The Dollar tested the bottom of the range (92) in May on hawkish Fed comments. It then tested the top of the range (100) with the June Brexit vote. It is presently back near the top of its three-year range (102). The buck broke out in October, as the September jobs report and 2.9% Q3 GDP were deemed “good enough” to allow a December rate hike (and a stronger Dollar). Trump’s victory sent it to a new 2016 high, and the overbought Dollar’s upward trend since May only stalled after the expected December Fed rate hike (12/14). 14-day RSI (55) says the US Dollar is neither oversold (30) nor overbought (70).

Carry-trade thru 01.08.2017

Non-Dollar investors who want to maximize their profits using the Moose should incorporate a "carry-trade" currency strategy into the decision, making it a two-step process. First, decide whether it's a good time to switch to US Dollars, and then use the Moose to identify the best place to put those Dollars. (Generally, if one's currency is weakening (Bearish) against the Dollar, non-Dollar investors in the Moose will outperform.) This table is intended to give non-Dollar investors an additional clue as to whether following the Moose might work for them. It may not be right every time-- as the currency markets can be volatile, and government intervention can make them even more so-- but more information is probably better than less.

As for the major currencies, the Euro is very bearish and up 0.7% this week. The Yen is very bearish and up 0.4% The British Pound is very bearish and up 0.4%. The Canadian Dollar is bearish and up 0.8%. The Aussie Dollar is very bearish and up 0.5%.

Currency vs. Dollar	Trend	TS	Medium Term Implications for non-Dollar investors
Euro (FXE)	very bearish	-94%	Euro investors outperform the $ Moose
Yen (FXY)	very bearish	-95%	Yen investors outperform the $ Moose
Australian $ (FXA	very bearish	-81%	Aussie $ investors outperform the $ Moose
GB Pound (FXB)	very bearish	-80%	Sterling investors outperform the $ Moose
Canadian $ (FXC)	bearish	-70%	Canadian $ investors outperform the $ Moose

Bearish T-Bonds Work Higher for Second Week

US Long Treasury Bonds, Perceptions thru 01.08.2017-- US Long-zeros 25y+ (EDV) are currently very bearish and rank #9 in the model-- less attractive than cash. Long zero Treasuries rose 1.2% this week, following last week's 1.3% gain. That leaves them down -19.8% for the quarter (26 weeks), and down -3.3% for the year (52 weeks). At 109, EDV is below its short-term (50-day) average at 115, and below its intermediate-term (200-day) average at 129. A weaker US Dollar this week made the carry trade in US equities less attractive. The 10-year Treasury bond yield fell to 2.45% this week, from 2.54% the week before. Longer term, the yield curve is steepening, a bet on economic strength.

EDV bottomed at $103 in June 2015 and took off as the Fed kept delaying expected rate hikes. It finally, peaked at $146 amid the Brexit flight to quality a year later. It went into a steady decline after July 2016, as the possibility of second half rate hikes began to weigh on EDV. It failed to hold its intermediate trend in October, as Q3 GDP came in better than expected. The FOMC held rates steady in November, yielding a bounce that relieved an oversold condition, but the Trump win a week later made a rate hike in December look inevitable. Exacerbating the situation, China has been selling Treasuries to weaken its currency and boost growth— so many in fact that Japan has replaced it as the top holder of US debt. As a result, EDV has tanked, correcting over 16% in a few short weeks, capped by December's FOMC meeting in which the Fed hiked rates as expected, and predicted more in 2017. Last week, EDV finally bounced, pushing 14-day RSI to 40, neither oversold (30) nor overbought (70).

US Long Treasury Bonds, Assumptions: OCT 1—In 2016, long bonds (EDV) continued the upward move began in June 2015 (@$103). It peaked with negative interest rates abroad and Brexit in July (@$144), and then began to fade on end-of-year rate hike concerns. **Current outlook: Neutral.**

The bullish case for long Treasury bonds primarily rests on four assumptions: (1) US and global growth are anemic and inflation is not a problem. (2) Europe's sovereign debt crisis and weak economy have led to easier money out of the ECB and lower European bond yields. That, and Britain's vote to exit the EU have led to a flight to quality in US Treasuries. (3) Japan's constant effort to weaken the Yen also causes a flight into Dollars and US bonds. (4) Even an extremely accommodative Fed monetary policy has not overcome the fiscal and regulatory drag created by the Obama administration, and may not until 2017. **The bearish case:** also rests on four assumptions. (1) China, the US Treasury's largest customer, continues to sell US bonds in order to depreciate the Yuan (which is tied to the Dollar) and boost its exports. (2) The Fed underestimates the inflation danger created by worldwide central bank easing. (3) Massive US government expenditure in Obama's first seven years-- most of it financed by new debt-- has increased the supply of Treasury paper going to market. The Fed purchased much of it under QE and continues to roll it over. Should they ever "normalize" their balance sheet, yields will move higher, and prices will fall. (4) Brexit will not be a problem. The European Union's debt situation has stabilized, and the ECB's easy money policies will restore growth, lessening demand for US bonds/ threat of a fall Fed rate hike, rallied when it didn't materialize, and fell again after the rate hike finally did come in December.

US Large-Caps (SPY) Hit New High, Back Off After Fed

US Large-Cap Stocks, Perceptions thru 01.08.2017-- US large-cap stocks (SPY) are currently very bullish and rank #2 in the model-- more attractive than cash. US large-caps fell -1.0% this week, following last week's 0.3% gain. That leaves them up 3.3% for the quarter (26 weeks), and up 9.6% for the year (52 weeks). At 224, SPY is above its short-term (50-day) average at 220, and above its intermediate-term (200-day) average at 214. A weaker US Dollar this week made the carry trade in US equities less attractive.

SPY bottomed below 180 in February 2016, but rallied into the end of June before Brexit temporarily stalled it. Post-Brexit, SPY worked higher into August, but then faded going into the election. Poor economic performance in the first half had caused the Fed to delay rate hikes, boosting equities. In August, however, Fed hawks got investors worried about possible 2016 rate hikes in the second half and stocks stalled out. A 2.9% Q3 GDP reading and Trump's victory, and pro-economic plan, gave the Fed cover for a 25 basis point FFR hike in December (12/14). Stocks were flat for the year, before an oversold SPY took off after the election, making new highs this month. A post-Fed pullback the last two weeks relieved its overbought condition yielding a 14-day RSI of 53. Longer term, the jury is still out on whether the latest bull run will continue in 2017.

US Large Cap Stocks, Assumptions: OCT 1— Dividend-producing US large cap stocks led both mid-caps and small-caps in 2014-15, but have given way to small caps in 2016. Large caps opened 2016 with a correction. Despite Fed tightening fears, however, they have managed to rally since February, making new all time-highs in the third quarter, as the Fed stands pat. **Current Outlook: bullish**.

The bullish case: Fundamental and technical analysis don't matter. The Fed is in charge and historically low interest rates put a floor under risk. Japan's massive monetary expansion has been renewed. Europe is also easing its monetary policy in the face of a weak economy and deflation fears. That, and concerns over the UK's exit from the EU is redirecting investment capital out of the euro and into the US Dollar. With cash and bills still yielding a negative real return, large or dividend paying stocks are filling investors' income needs. **The bearish case:** The US economy is limping along below trend, corporate profits are expected to be weak, and valuations are pricey. The Fed has expressed an intention to raise interest rates at some point. European sovereign debt problems still remain, particularly in Greece. Lastly, mismanaged US fiscal and regulatory policies have failed to provide economic stimulus. "Affordable" healthcare became the biggest tax in US history in 2014 and continues to weigh on the consumer, even as the healthcare system collapses.

US Small Caps (IWM) On Pause

US Small-Cap Stocks, Perceptions thru 01.08.2017-- US small-cap stocks (IWM) are currently very bullish and rank #1 in the model-- more attractive than cash. US small-caps fell -0.9% this week, following last week's 0.1% gain. That leaves them up 8.6% for the quarter (26 weeks), and up 19.7% for the year (52 weeks). At 135, IWM is above its short-term (50-day) average at 130, and above its intermediate-term (200-day) average at 121. A weaker US Dollar this week made the carry trade in US equities less attractive.

Despite a 25% two-and-a-half month retreat into February 2016 (to $94), IWM rallied to a new high ($118) in early June before Brexit led to a correction (to $108) in late June. IWM bounced back to make new highs (@$125) in September before Fed hawks rained on the parade. When the FOMC did nothing in September, small caps again hit new highs. IWM then pulled back for five of six weeks before taking off like it was shot from a cannon. Election day not only removed political uncertainty, but offered the prospect of a more small business friendly government in 2017. Despite Fed concerns, investors sent small caps up 20% in 20 days, leaving them at new highs and in an overbought condition prior to the widely expected December Fed rate hike (12/14). A post-Fed pullback the last two weeks relieved its overbought condition yielding a 14-day RSI of 56. Longer term, the jury is still out on whether the latest bull run will continue in 2017.

US Small Cap Stocks, Assumptions: OCT 1— Dividend-producing US large cap stocks led both mid-caps and small-caps in 2014-15. After stocks opened 2016 with a correction, however, small caps have taken over. Despite Fed tightening fears, they have managed to rally since February, making new all time-highs in the third quarter, as the Fed stands pat. **Current Outlook: bullish**.

The bullish case: Fundamental and technical analysis don't matter. The Fed is in charge and historically low interest rates put a floor under risk. Japan's massive monetary expansion has been renewed. Europe is also easing its monetary policy in the face of a weak economy and deflation fears. That, and concerns over the UK's exit from the EU is redirecting investment capital out of the euro and into the US Dollar. With cash and bills still yielding a negative real return, large or dividend paying stocks are filling investors' income needs. **The bearish case:** The US economy is limping along below trend, corporate profits are expected to be weak, and valuations are pricey. The Fed has expressed an intention to raise interest rates at some point. European sovereign debt problems still remain, particularly in Greece. Lastly, mismanaged US fiscal and regulatory policies have failed to provide economic stimulus. "Affordable" healthcare became the biggest tax in US history in 2014 and continues to weigh on the consumer, even as the healthcare system collapses.

Europe (IEV) Holds After Surprise Break Higher

European Large-Cap Stocks, Perceptions thru 01.08.2017-- European equities (IEV) are currently neutral and rank #4 in the model-- more attractive than cash. European stocks rose 0.8% this week, following last week's -0.5% loss. That leaves them down -1.4% for the quarter (26 weeks), and down -3.2% for the year (52 weeks). At 39, IEV is above its short-term (50-day) average at 38, and above its intermediate-term (200-day) average at 39. A strengthening Euro this week helped Dollar investors in European stocks, but hurt Europe's export prospects.

Europe (IEV) headed south after peaking @$48 in mid-2014. Slow global growth, a local refugee crisis and a European Central Bank perceived to be behind the curve pushed IEV into 2016 with its downward trend intact. IEV hit new lows ($35) in January, worked up to $41 mid-year with ECB monetary easing, but plunged back to its $35 floor after Britain voted to leave the EU. The floor held and IEV crawled back to 40, peaking in early September. It then sank toward the floor until the European Central Bank (ECB) extended its asset purchase program by nine months to start December. The ensuing rally took IEV back above its above intermediate trend. With a 14-day RSI of 62, IEV is currently neither oversold (30) nor overbought (70).

European Large Cap Stocks, Assumptions: OCT 1-- European Union GDP grew a lethargic 1.6% in 2015, and is expected to grow 1.5% in 2016. European equities (IEV) have been headed south since peaking in mid-2014. Slow global growth, a local refugee crisis, and a European Central Bank perceived to be behind the curve pushed IEV into 2016 with its downward trend intact. After IEV hit new lows ($35) in January, the ECB promised action, delivered (3/9), and IEV finally broke out to $41 in April, but hasn't broken higher, especially since Britain voted to leave the EU. **Current outlook: Neutral**

The bearish case: EU economic growth is anemic. Flagging household and business confidence, deflation worries, and conflict with Russia now have been complicated by an influx of millions of refugees from Syria, Libya, and Albania. Now, the EU's second strongest economy, Britain, is leaving the union, weakening both parties. Quantitative easing in the US that once quieted sovereign debt fears in Spain, Portugal, and Italy through the carry trade is basically over. US rates are headed up, removing the easy money floor under risk assets. That reduces global liquidity, and weakens banks and financials-- the predominant equity sector in Europe. Europe's financial crisis is not over, then, just awaiting the bell to start the next round. **The bullish case:** European politicians have gotten their act together, and the ECB, the IMF, the Fed, and the EU will flood Europe with more liquidity as necessary. Lower oil prices will help the continent's consumers. A cheaper Euro will help Europe's exporters.

Bullish Japan (EWJ) Tests 2016 High and Fails

Japanese Stocks, Perceptions thru 01.08.2017-- Japan's equities (EWJ) are currently bullish and rank #3 in the model-- more attractive than cash. Japanese equities fell -1.8% this week, following last week's -0.7% loss. That leaves them down -2.6% for the quarter (26 weeks) but up 0.8% for the year (52 weeks). At 49, EWJ is below its short-term (50-day) average at 50, but above its intermediate-term (200-day) average at 48. A strengthening Yen this week helped Dollar investors in Japanese stocks, but hurt Japan's export prospects.

Abenomics put Japanese equities per EWJ into a long-term uptrend, which peaked (@$53) in April 2015. Disappointing Japanese, US, and Chinese data and the resulting currency wars began to weigh on Japan's sentiment, sending equities downhill until mid-February 2016 (@41), when economic weakness prompted the BoJ to announce negative interest rates. Equities then took off, breaking above their 200-day in late April (@48) before retreating in May after the BoJ unexpectedly left monetary policy unchanged. In June, Brexit slammed Japanese stocks, but expansive BOJ meetings in August and September sent EWJ to new highs (@51) in September. A December retest failed and EWJ remains range-bound. EWJ has a 14-day RSI of 40, neither oversold (30) nor overbought (70).

Japanese Stocks, Assumptions: OCT 1—Japan's economy has struggled. Cheaper oil and yen depreciation generated 0.0% and 0.5% GDP growth in 2014 and 2015. The IMF forecasts 0.5% and -0.1% GDP growth for 2016–17 respectively. Private domestic demand has not accelerated as expected, despite increased infrastructure spending. Additional quantitative and qualitative monetary easing, and a delay in the second consumption tax rate increase did not induce a rebound in activity, nor have negative interest rates. Japanese equities, meanwhile, broke out of a long-term downtrend in late 2012 with the advent of "Abenomics"-- a three-part program of (1) regulatory reform, (2) fiscal stimulus, and (3) massive BoJ quantitative easing. The Nikkei posted a 26% gain in 2013, a choppy +2% performance in 2014, and a volatile +8% gain in 2015, even after the BoJ announced Japan's publicly held pension funds would double their equity holdings. Japanese stocks dropped 12% in early 2016, but recovered and are now up 7% YTD. The roller coaster ride continues. **Current outlook: Bullish**

The bearish case: The domestic Japanese economy is moribund due to an aging population, and a weak global economy. Chinese economic weakness and devaluation has set off an Asian currency war threatening Japan's weak Yen policy. Abenomics has not worked. Conceptually, easy money and a weakening Yen is like pushing on a string— more likely to result in a carry trade than investment in Japan. Meanwhile, the prospect of additional Fed rate hikes also reduces global liquidity and weakens the floor under risk assets. Since the Fukishima nuclear crisis, nuclear power generation has been shut down, forcing Japan to import fossil fuels to make electricity. **The bullish case:** The BoJ's massive quantitative easing program-- about 60-70 trillion yen per year in asset purchases-- has doubled the monetary base and will begin to work in time. In addition, the Japanese government has spent $200B in new stimulus spending to get the country going again. Lately, they are doubling the equity holdings in their pension funds. Elsewhere, the Europeans are now easing along with the Chinese, Australians, and Koreans. Falling oil prices help the energy importer, and once global growth returns, the weaker Yen will spur Japanese exports and revive its economy.

Neutral Asia-ex Japan (AXJL) Drops After US Rate Hike

Asia Pacific ex-Japan Stocks, Perceptions thru 01.08.2017-- Asia-Pacific ex-Japan equities (AXJL) are currently slightly bearish and rank #5 in the model--more attractive than cash. Asian stocks ex-Japan rose 1.0% this week, following last week's -2.2% loss. That leaves them down -6.0% for the quarter (26 weeks), but up 4.9% for the year (52 weeks). At 57, AXJL is below its short-term (50-day) average at 58, and below its intermediate-term (200-day) average at 58. A weaker US Dollar this week improved returns for dollar investors in Asia-Pacific.

A multi-year uptrend in AXJL ended in 2015. After setting a new high in late April ($73), AXJL dropped like a stone. Bearish commodity and oil prices kept Asia-Pacific's bear trend intact until January 2016, when economic and market tumult in China propelled AXJL to another new low ($48). It broke out above $58 after Japan announced negative interest rates, pulled back when the BoJ didn't ease in June, but made new highs above $61 after the August BoJ meeting and again after the September meeting. Mixed data out of China took AXJL to a new high in early October, before it gapped below short-term support a week later, and then fell out of bed with Trump's election—a seeming death knell for the Trans-Pacific Partnership. But then AXJL bounced off intermediate support and rallied for three weeks before the December Fed rate hike sparked a jump in the US dollar. The greenback's rise exacerbated currency concerns in China, with stocks trading on the mainland and in Hong Kong finishing lower. China also has been hampered by crackdowns on investments by insurers and festering uncertainty regarding trade relations with the US after President-elect Trump's surprise November election victory. AXJL currently has a 14-day RSI of 44, neither oversold (30) nor overbought (70).

Asia Pacific ex-Japan Stocks, Assumptions: OCT 1—GDP growth in Emerging and Developing Asia grew 6.6% in 2015, but growth is projected to decline to 6.4% in 2016 and to 6.3% in 2017. China and India are expected to lead the Asian Tigers (ASEAN) higher. Asia Pacific ex-Japan, meanwhile, is up about 12% in 2016—but still 12% below the May 2015 high. The region's equities are heavily weighted in financials and materials, and its fortunes are closely tied to those of China, directly, and Japan, indirectly. **Current Outlook: Bullish**.

The bullish case: The Fed may have begun gradual rate hikes, but US monetary policy remains very accommodating. Even looser policies in Japan, China, and Europe should also improve global growth prospects. Europe has gotten the institutions in place to deal with its debt crisis. Japan's beggar-thy-neighbor policies no longer soak up trade demand at the expense of its Asian neighbors, as the Yen has risen in 2016. Asian inflation pressures are under control allowing interest rates to recede in the region—further stimulating growth in 2016. A softening Dollar improves Dollar investors' returns in Asia and raises commodity prices paid to Asian resource producers. **The bearish case:** Asia Pacific is an export region and the global economy is still slow, including the US, China, Europe, and Japan. China's equities may be up 20% in 2016, but its financial system is fragile. India is down slightly. In addition, the US elimination of quantitative easing and removal of ZIRP removed the easy money floor under risk assets, reduced global liquidity, and weakened Asian financials. That also could strengthen the Dollar. A strong Dollar increases Asian exports to the US in the longer term, but short-run, a rising Dollar erodes Dollar investors' returns in Asia and reduces commodity prices paid to Asian resource producers.

Latin America (ILF) Tests Support After Fed Rate Hike

Latin American Stocks, Perceptions thru 01.08.2017-- Latin American equities (ILF) are currently neutral and rank #6 in the model-- more attractive than cash. Latin equities rose 1.8% this week, following last week's 0.2% gain. That leaves them down -1.6% for the quarter (26 weeks), but up 30.2% for the year (52 weeks). At 28, ILF is below its short-term (50-day) average at 28, but above its intermediate-term (200-day) average at 27. A weaker US Dollar this week improved returns for dollar investors in Latin equities.

After peaking (@$42) in August 2014, ILF lost 57% of its value (to $18) by January 2016. Bearish commodity prices led by weak oil, layered on top of a decade of leftist government policies that have caused capital flight from Brazil, Uruguay, Argentina, and Venezuela took their toll. The political tide is turning, but the damage will take time to repair. Meanwhile, China rode to the rescue with massive stimulus in 2016. Commodities rallied, popping ILF to a one-week 17% breakout in March. After peaking in late April (@$27), it stalled out before surging 25% this summer. The rally peaked in mid-August as repeated hawkish Fed hints suggesting a September rate hike tanked ILF. When the Fed didn't hike rates, ILF recovered the loss in five weeks, moving into a tie for first in the model in October, but it was overbought, and the model defaulted to cash. Another "major" overbought signal a week later kept the model in cash ahead of the US election. Good thing, as Trump's election prompted a 13% drop in ILF in three days. The long anticipated Fed rate hike (12/14) dropped its latest rally attempt to test its intermediate trend, leaving it with a nominal RSI of 51, and no longer technically overbought nor oversold.

Latin American Stocks, Assumptions: OCT 1-- Latin American GDP was -0.1% in 2015 and is projected to be -0.5% in 2016. Latin American equities were down 32% in 2015, bottomed in January 2016, and rallied 45% by mid-year. Slow growth in the advanced economies and in China, and falling commodity prices, including oil, kept the Latin 40 mired in a highly volatile downtrend from March 2011 to January 2016. Strengthening commodities and a weaker Dollar turned the region's equities around in the first half, but a hawkish Fed and the possibility of a second half rate hike have since stalled the advance. **Current outlook: Bullish**

The bullish case: Latin American countries are generally rich in natural resources. They also have positive demographics with a younger population and a rising middle class. That tends to attract foreign capital inflows. In that respect, a weaker Dollar improves Dollar investors' returns in Latin America and raises commodity prices paid to the region's resource producers. Low Fed interest rates in the US and China and negative rates in Japan and Europe increase capital inflows, promote growth, and lift commodity prices, improving profitability for Latin exporters. Meanwhile, slower global growth reduces Latin inflation pressures and allows interest rates to recede. Latin America was the most oversold of regions, and now that the bleeding has stopped, it still has a tremendous upside. **The bearish case:** The region has spent years mired in one of its "inept government" phases, which has increased both domestic and foreign capital outflows. Capitalism has been on the fade since 2011 in Latin America, and the equity markets have reflected that. Many nations in the region are too far-gone to save, short of bankruptcy. Below trend growth in China, Europe, and the US adds to the problem by curbing demand for Latin exports. In addition, the end of US quantitative easing and subsequent Fed rate hike removed the easy money floor under risk assets, reduced global liquidity, and weakened Latin financials.

Moosextras—
Outside the Box: —Top 21 thru 01.08.2017

Financials (8), Industrials, Materials Energy (7), Small stocks (3), Tech (1), Transports (1), Consumer (1)
Momentum leaders oversold. Rolling over, or an opportunity? Wait for short-term (10day) buy signal

TICK	NAME	RSI	COMMENTS
KRE	Regional Banks	46	Financials
XES	Oil & Gas Equipment	32	Industrials & Materials rebound
SLX	Steel	23**	Industrials & Materials rebound
UNG	Natural Gas	49	Industrials & Materials rebound
IAI	US Broker-Dealers	32	Financials
IYG	Financial Sector	38	Financials
XLF	US Financial Services	37	Financials
SOXX	Semiconductors	55	Tech hardware
XME	Metals & Mining	23**	Industrials & Materials rebound
RSX	Russia Equities	52	Industrials & Materials rebound
IWN	Small-cap Value	37	Small stocks
IWC	Micro-caps	42	Small stocks
XOP	Oil & Gas Exploration	32	Industrials & Materials rebound
DXJ	Japan Hedged Equity	33	Financials
IYT	Transportation Index	28**	Transports
IAK	US Insurance	40	Financials
IXG	Global Financial Services	32	Financials
IWM	US Small-caps	36	Small stocks
PUW	Progressive Energy	26**	Industrials & Materials rebound
PEJ	Leisure & Entertainment	34	Consumer holiday play
KCE	KBW Capital Markets	27**	Financials

* overbought, **oversold

Outside the Box: —Thrift Savings Plan thru 01.08.2017

The Thrift Savings Plan, or TSP, is the government's 401K-style retirement plan. Millions of federal employees are invested in it, including several life-long friends here in the capital region. The TSP does not provide all of the choices that the Moose does. Gold is notably absent, and foreign equities are all lumped into one choice, not broken out by region. As a result, TSP investors often have questions at switch time—especially when the Moose switches to a choice that TSP doesn't offer. To clarify that situation, the following ranking table applying a Moose-like momentum model to the TSP has been added to the site.

This week the 100% model holds the S Fund (small cap). (1st November switch).

Note: TSP choices can be highly correlated. That means the model can jump around a lot, giving false signals. Since TSP limits account holders to two switches per calendar month, diversifying the portfolio to give it more stability is an option.

This week the diversified model stays out of US bonds, holds US stock positions, cash and foreign equity positions.

RANK	FUND	ASSET TYPE	COMMENTS	DIV%
1	G Fund	Short-term income	Safe, but negative real return	25
2	F Fund	Fixed Income	US Bonds bearish	0
3	C Fund	Large-cap US Equities	US Large-caps improving	25
4	I Fund	International Equities	Central Bank funded	25
5	S Fund	Small-cap US Equities	US Small-caps on fire	25

Editorial— week closing 12.30.2016

First, let me take this opportunity to wish you, dear reader, health, happiness, and prosperity in the coming year. May 2017 bring you, your family, and your loved ones all the best.

We do seem to be looking at a year of major change, especially in the United States, so I hope you'll re-up with the Moose and hang around with us for the rest of 2017. The first year of a new Presidential administration is always a time of renewed hope and great promise for the winners, as well as a time of considerable despair and dashed expectations for the losers. Either way, it should be interesting.

In my brief sixty-seven years on this planet, I find reality invariably ends up falling somewhere between my highest hopes and my worst-case scenario. One never knows exactly what to expect. The best we can do is pay attention-- look at what is generally on the outs, and what generally appears to be coming 'round the bend, and then make a guess.

That's always been the philosophy of this newsletter, and the following is presented in that spirit.

What's "OUT" in 2016 and "IN" for 2017?

OUT: Insiders. **IN: Outsiders.**

OUT: "Scientific" Polling. **IN: Reading Goat Entrails.**

OUT: A President, a Pen, and a Phone. **IN: A President, a House, and a Senate.**

OUT: Robbing Peter to Buy Paul's Vote. **IN: Peter.**

OUT: Blind Certainty About How Things Ought To Work. **IN: Acknowledging How Things Do Work.**

OUT: A POTUS Who's Played Lots of Golf Courses. **IN: A POTUS Who Owns Lots of Golf Courses.**

OUT: A Community Organizer Labeled A Messiah. **IN: A Self-made Success Labeled A Mess.**

OUT: Moving Home to "Murder City", Chicago. **IN: Elite DC Quaker Private Schools for Girls.**

OUT: Martha's Vineyard. **IN: Mar-a-Lago.**

OUT: Bo and Sunny (Black Portuguese Water Dogs). I**N: Spinee (White Lab).**

OUT: Pols Who Wouldn't Know Transparency Until It Bit Them. **IN: Russian Hackers Biting Them.**

OUT: Record Gun Sales As Right Fears the End. **IN: Record Gun Sales as Left Fears the Beginning.**

OUT: Sanctuary Cities Protecting Criminals. **IN: Federal Law Ejecting Criminals.**

OUT: The Clinton and Bush Political Dynasties. **IN: Duck Dynasty.**

OUT: The First Woman US President. **IN: Afternoon Walks in the Woods.**

OUT: The First US "First Laddie". **IN: Afternoon Romps with "Energizer".**

OUT: Leaving the Country Should Trump Win. **IN: Ticking Everyone Off By Staying.**

OUT: Free Celebrity Blowjobs for Hillary Voters. **IN: Getting Past the Tiresome Clinton-BJ Thing.**

OUT: Drag Queens in Charlotte, NC Girls' Bathrooms. **IN: Drag Queens in NC Boys' Bathrooms.**

OUT: Effete Bi-Coastal "Intelligentsia". **IN: Rust-Belt Working Class "Deplorables".**

OUT: "Fake" News on Facebook. **IN: Fake "Fact Checking" on Facebook.**

OUT: Cable TV. **IN: Streaming Video**

OUT: Home Electronics for the With-It Couch Potato. **IN: Wearable Electronics for the Mobile Hipster.**

OUT: Future Job Interviews for 20 & 30-Somethings. **IN: Instagram, Snap-Chat, & Youthful Indiscretion.**

OUT: Rule by Unelected, Unaccountable Bureaucrats. **IN: Brexit and Dodd-Franxit.**

OUT: Government contractors that overcharge. **IN: The Art of the Deal.**

OUT: The Fed Open Market Committee Meeting Cycle. **IN: The Business Cycle.**

OUT: George Soros Selling America Short. **IN: Warren Buffett Long, Very Long… and Very Rich.**

OUT: Shivering "Global Warming Deniers". **IN: Shivering "Solar Minimum Deniers".**

OUT: Imported Terrorists and Open Borders. **IN: Vetting "Refugees" at the Wall.**

OUT: US Support for Israel. **IN: US Support for Israel.**

OUT: Political Correctness. **IN: A Glorious Foot-in-Mouth Pandemic.**

OUT: Mainstream Media. **IN: Trump's Twitter Feed.**

OUT: Make America Hate Again. **IN: Make America Great Again.**

Finally, in my tradition of always ending on a "high" note—

OUT: Our Cares, Our Worries, and Our Productivity. **IN: Legalized Pot**

And of course,

ALWAYS IN: Health, happiness, and prosperity in the coming year.