
BEGINNING OF A CYCLICAL BULL MARKET: ONE TECHNICIAN'S VIEW

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Last week we had the opportunity to speak with Dan Russo, CMT, Chief Market Strategist at Chaikin Analytics about his economic outlook. It was an interesting look at the most important indicators some market technicians are watching around the world as we head into 2021.

Russo believes we are closer to a new cyclical [bull market](#), and he sees room for another 500-point gain in the [S&P 500](#) during this next phase of the bull rally.

Even before the pandemic, broad indicators of the markets and [small caps](#) were practically in a [bear market](#) for two years, with the markets going nowhere outside the [large-cap](#) technology stocks. The [Russell 2000](#) is just now getting back to its 2018 highs.

1. Breadth is broadening out. Right now, more than 90% of stocks in the S&P 500 are trading above their 200-day [moving averages](#) and the [advance-decline](#) line is near an all-time high. Whereas before, leadership was concentrated in big tech, now we are getting broader participation.
2. Haven assets such as [Treasuries](#), gold and the dollar are under pressure, indicating that investors are willing to take on more risk.
3. The copper-to-gold ratio, a market proxy for how investors are viewing global growth prospects, is moving higher. Additionally, the yield curve is steepening.

We talked about how semiconductors can be used as a critical new gauge for the market, given their importance for advancements in technology and [artificial intelligence](#). Russo believes that when semis are leading, that is usually a bullish sign for the technology sector and the market in general—and Semiconductors are currently accelerating. Additionally, markets such as Taiwan that are semiconductor and technology centric are trading at all-time highs.

Financials: The steepening [yield curve](#) is a tailwind for the banks. They also took big reserves for loan losses at the start of the pandemic, so numbers are likely going to look a lot better going forward, especially as economic activity picks up.

Energy: Russo doesn't think he's ever seen a sector more hated than energy was three or four months ago, but we are seeing early signs of a turnaround. Better economic prospects could help the demand side of the picture, while the supply side has been a mess. Chaikin's model just turned bullish on the services space for the first time in more than a year.

Finally, Russo is a long-term bull on [bitcoin](#), based on the supply-and-demand dynamics at play. New supply hits the market at a declining rate, and we are beginning to see demand move from retail investors and early adopters to more institutional owners and even corporate balance sheets. In a world in need of [inflation](#) hedges, Russo thinks bitcoin is the best inflation hedge there is.

This was an interesting view of assets around the world. You can listen to the full conversation below.

Behind the Markets on Wharton Business Radio - Behind The Markets Podcast: Dan Russo

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DEFINITIONS

Bullish : a position that benefits when asset prices rise.

Small caps : new or relatively young companies that typically have a market capitalization between \$200 million to \$2 billion.

Bear market : A sustained downturn in market prices, increasing the chances of negative portfolio returns.

Large-Capitalization (Large-Cap) : A term used by the investment community to refer to companies with a market capitalization value of more than \$10 billion. Large cap is an abbreviation of the term "large market capitalization". Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.

Russell 2000 Index : Measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

Moving Average : is a calculation to analyze data points by creating a series of averages of different subsets of the full data set.

Advance-Decline Ratio : a technical analysis indicator which relates the number of stocks that closed higher to the number of stocks that closed lower, compared to the previous day's closing prices.

Treasury : Debt obligation issued by the U.S. government with payments of principal and interest backed by the full faith and credit of the U.S. government.

Artificial intelligence : machine analysis and decision-making.

Yield curve : Graphical Depiction of interest rates on government bonds, with the current yield on the vertical axis and the years to maturity on the horizontal axis.

Bitcoin (the currency) : A digital currency (also called a cryptocurrency) created in 2009, which is operated by a decentralized authority as opposed to a traditional central bank or monetary authority.

Inflation : Characterized by rising price levels.