

## **Top 10 Charts of The Week (08-21-2019)**

### **Table of Contents:**

- [1. Potential Catalyst For New Highs](#)
- [2. Small-Cap Underperformance A Global Theme](#)
- [3. Software Leadership Beginning To Wane?](#)
- [4. Airlines Fall To New Relative Lows](#)
- [5. US Stocks Test Critical Levels Versus Bonds & Gold](#)
- [6. Junk/Investment Grade Bond Ratio Potentially Misleading](#)
- [7. Many European Country ETFs Hit New Lows Versus US](#)
- [8. Peru-sing Our Way Through Short Ideas](#)
- [9. Israel Exhibiting Great Relative Strength](#)
- [10. Several US Dollar Pairs Reach New Highs](#)

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### **This week's actionable setups from our Top 10 Charts:**

[Short Poland/US \(EPOL/SPY\) ratio if below 0.078 | Price target 0.055 | 6-12 months](#)

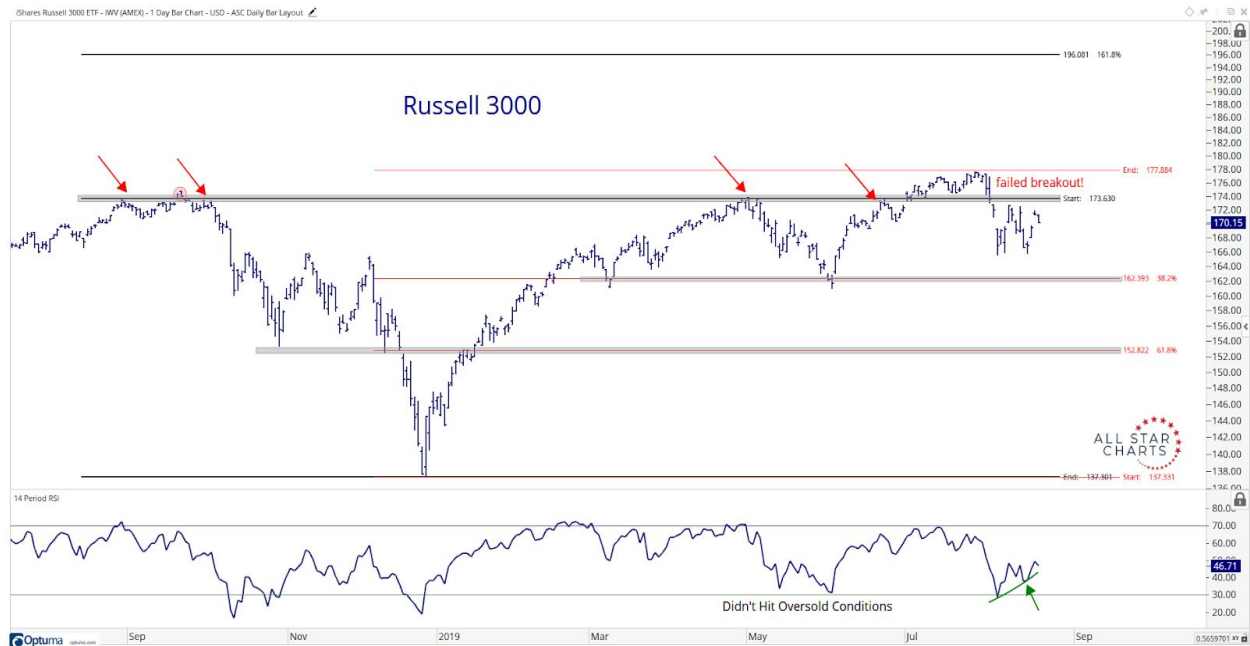
[Short Peru \(EPU\) if below 35.00 | Price target 28 | 6-12 months](#)

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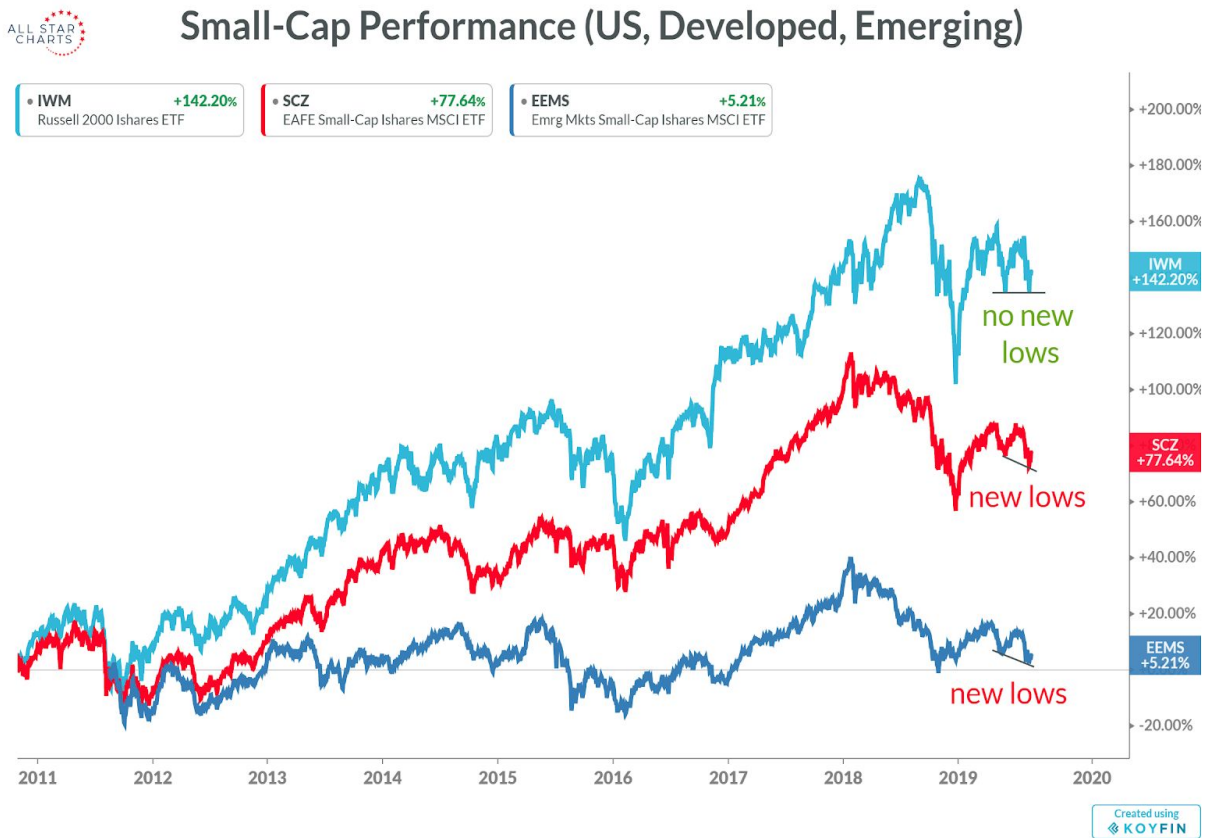
## 1. Potential Catalyst For New Highs

A potential catalyst for a breakout to new all-time highs in US stocks is the bullish momentum divergence that prices confirmed last week by closing back above their August lows. While prices still need to clear their 2018 highs, this may give the bulls the fuel required to set up another breakout attempt above that level. We're seeing this type of divergence across many of the major indices and sectors/subsectors, so it's definitely worth watching.



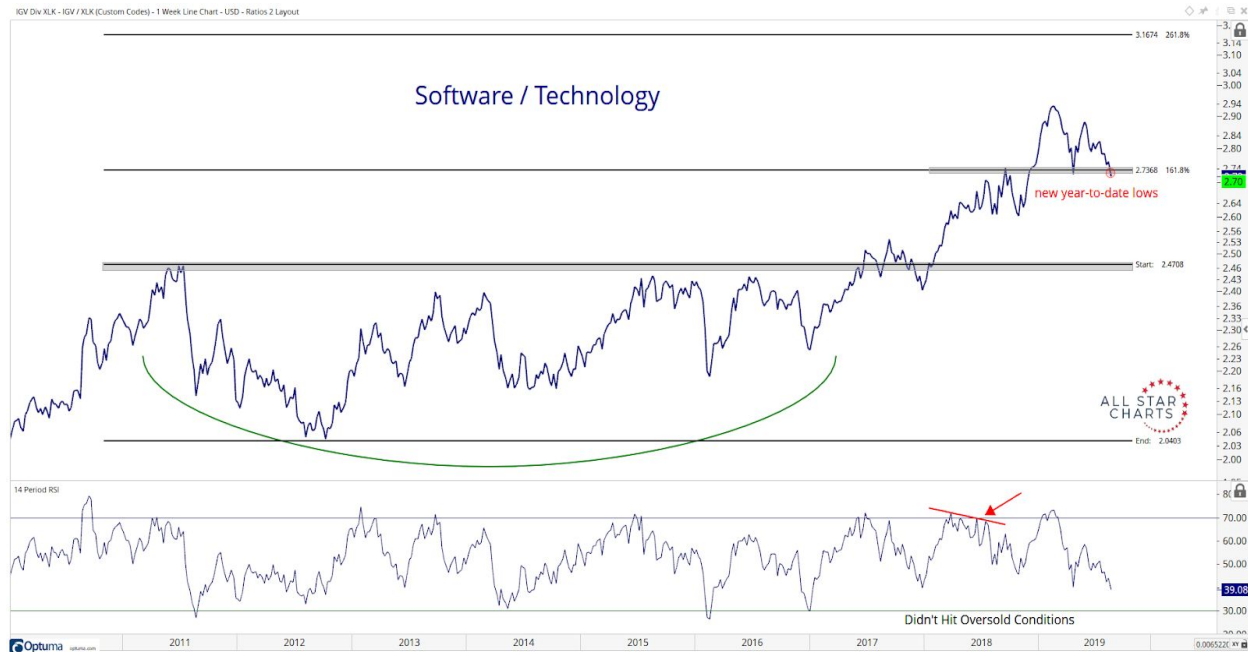
## 2. Small-Cap Underperformance A Global Theme

Many of the risk appetite measures we look at, including small-caps vs large-cap performance, remain weak. In terms of small-cap performance, the Russell 2000 has yet to break through its May lows, however, two ETFs that track Developed Market Ex-North America and Emerging Market small-cap performance are already below their May lows...and in the case of Emerging Markets, already approaching their 2018 lows. This remains on our radar because if international small-caps are struggling, it's hard to think that US small-caps will be able to catch a bid and head higher. The risk remains that US small-caps succumb to this overseas weakness and break down as well, which would weigh on US stocks and equities as an asset class.



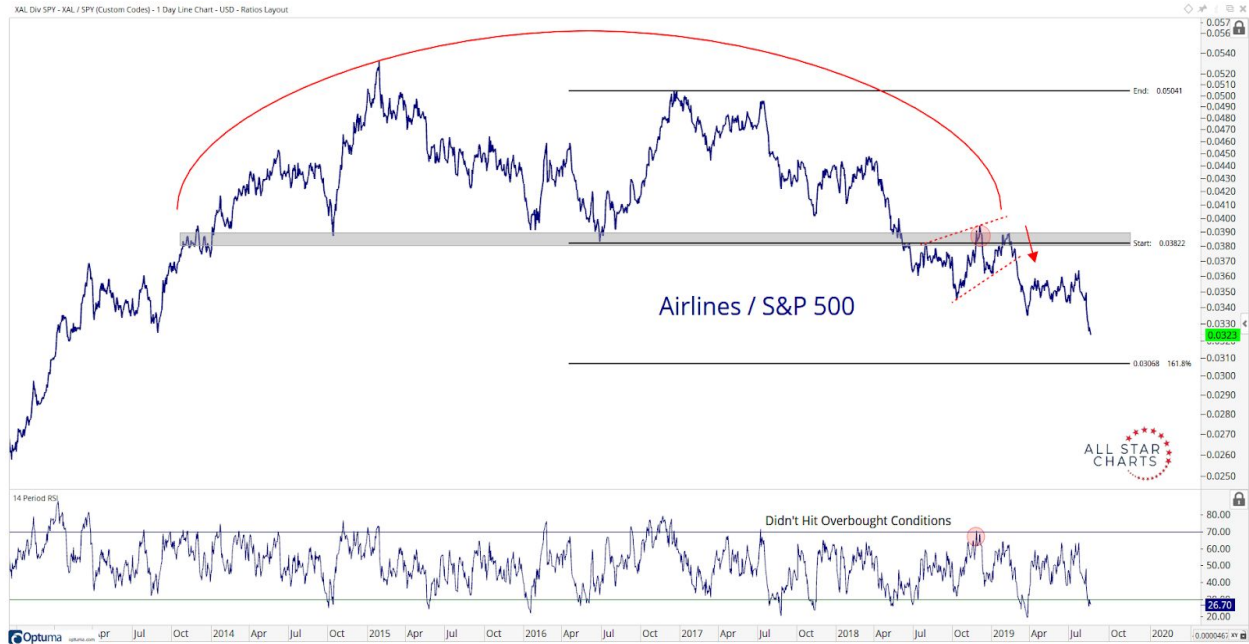
### 3. Software Leadership Beginning To Wane?

Software has been the clear leader within Technology, however, upside momentum in its relative performance has waned and is now making new year-to-date lows as it breaks support. Buyers are not stepping in where they need to and as long as prices are below 2.74 then there's further risk to the downside in this ratio. If Software begins to cool, we're going to need to see rotation into other areas that have struggled, like Cloud Computing and Cyber, to support the sector.



#### 4. Airlines Fall To New Relative Lows

Airlines had begun to improve on both an absolute and relative basis, but were shot down out of the sky once again, crashing to its lowest levels in 6 years relative to the S&P 500. This subsector is also back below support relative to the S&P 500 Transports ETF (XTN) and XAL has put in a lower low on an absolute basis. This has erased a lot of the technical improvements we've seen over the last few months and suggests a neutral approach remains best in Airlines themselves and relative to XTN. Relative to the S&P 500 however, we can continue to fade strength as it approaches our near-term downside target of 0.0307.



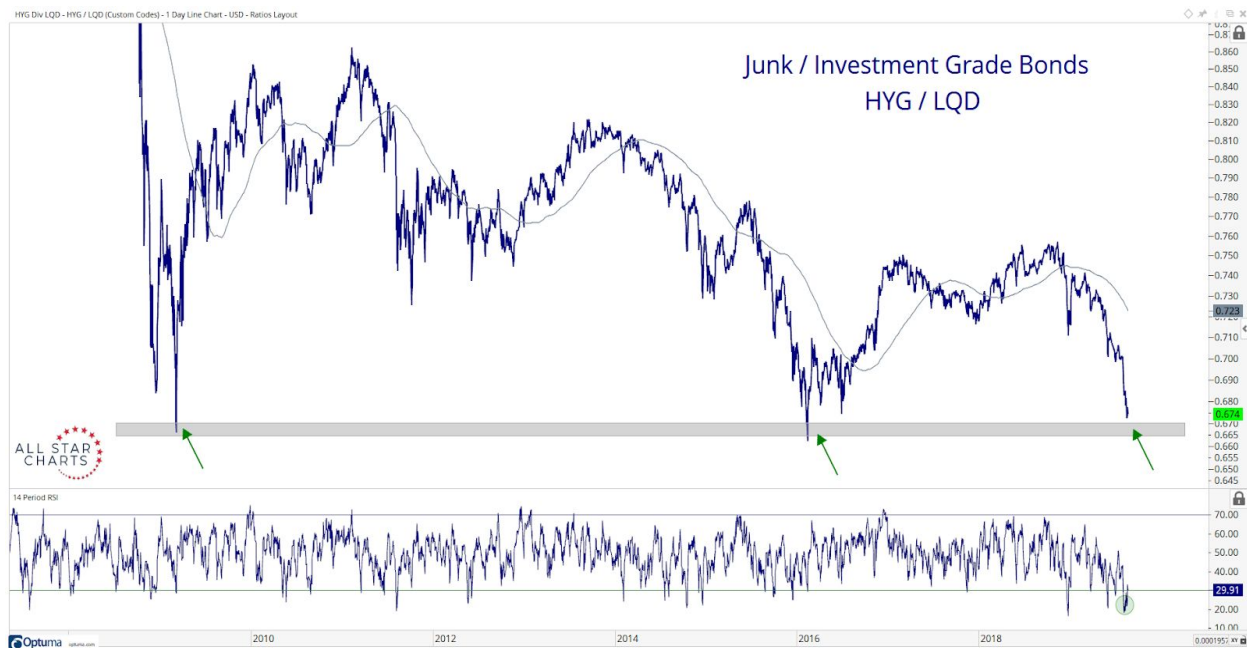
## 5. US Stocks Test Critical Levels Versus Bonds and Gold

The S&P 500 has more or less gone nowhere for the last 20 months on an absolute basis, however, on a relative basis it's been falling relative to treasury bonds and gold which have both been trending higher. Today, these two relative performance charts are back at their December lows and have begun to bounce. The trend has been turning bearish here for most of the last year and a break below the December lows would signal an acceleration of this trend and suggest remaining long bonds and gold relative to US stocks. With that said, given how quickly this move has happened we'd expect some consolidation before new lows occur. Given the strong absolute trends in treasuries and gold, US stocks are going to need to break out above their 2018 highs and begin trending higher if there's any hope of these ratios holding their 2018 lows.



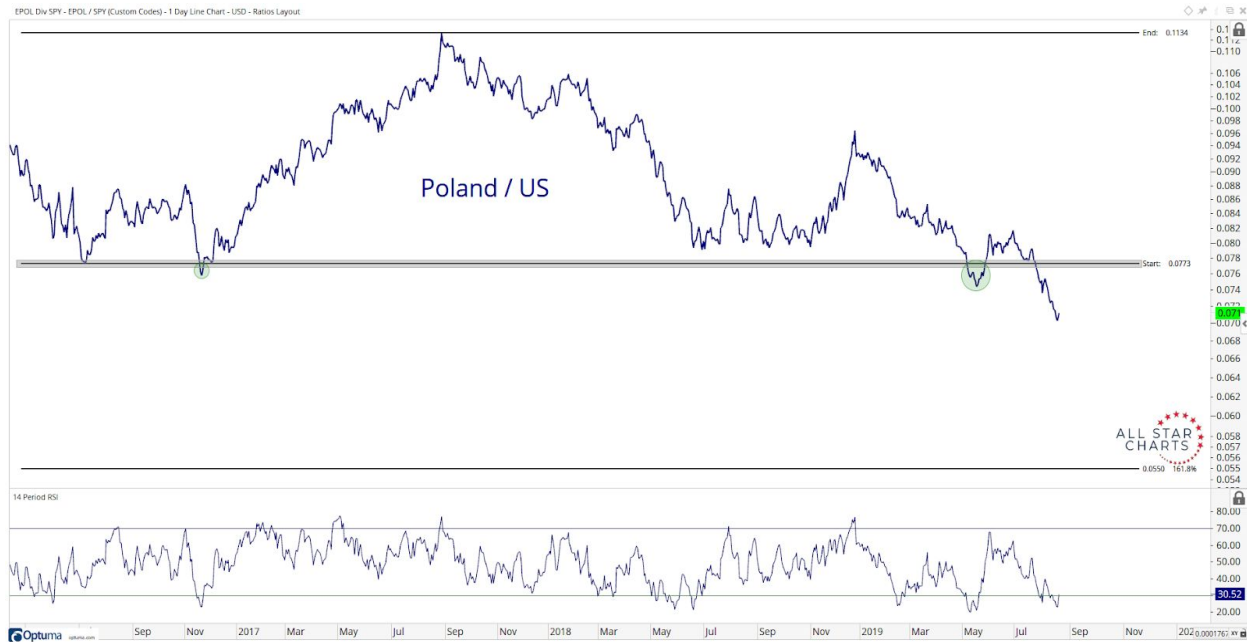
## 6. Junk/Investment Grade Bond Ratio Potentially Misleading

A chart that's been floating around a lot this week is the Junk/Investment Grade Bonds (HYG/LQD) ratio approaching its 2009 and 2016 lows. While a decent arbiter of risk appetite in the bond market, it's skewed a bit by the mis-match in duration of these ETFs. The effective maturity of HYG holdings is 4.26 years while the effective maturity of LQD is three times as long at 12.74. So while they are comparing the performance of Junk Bonds relative to Investment Grade, it's not an apples to apples comparison and the recent underperformance has been exacerbated by the rally in the long end of the curve. With that said, prices are certainly extended to the downside and should find some support at current levels and suggest some near-term relief for lower credit quality bonds and the shorter end of the curve.



## 7. Many European Country ETFs Hit New Lows Versus US

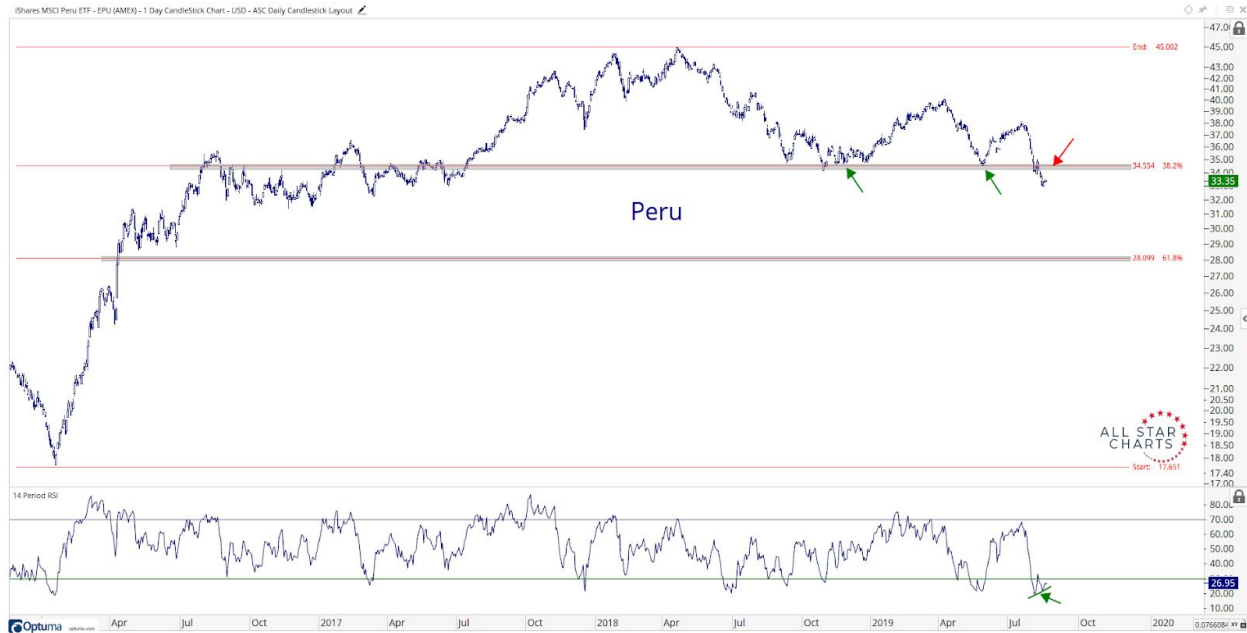
A theme we're constantly beating the drum on is the underperformance of almost every international equity vehicle, either a diversified basket like EFA or EEM, or individual countries, relative to US stocks. With that said, it remains one of the most actionable themes on the short side and in our August International ETF Report released yesterday we discussed several trade ideas that fit this theme. One that we highlighted was Poland breaking down from a 3-year consolidation period relative to the S&P 500 to new all-time lows. As long as prices are below 0.078, we can be fading strength in EPOL/SPY with a 6-12 month target near 0.055.





## 8. Peru-sing Our Way Through Short Ideas

We've outlined some absolute shorts in Chile and Norway, which are now meeting their downside price target and have us looking for new opportunities. While the pickings remain somewhat slim from a clean setup perspective, areas like Peru which are breaking below long-term support to multi-year lows offer attractive entries on the short side. As long as prices of EPU are below 35, then we can be short with a 6-12 month target near 28.



## 9. Israel Exhibiting Great Relative Strength

There are not many global stock indices hitting new all-time highs, but the Tel Aviv Stock Exchange 125 Index is looking to join that exclusive group in the weeks/months ahead. After more than 5 years of consolidating above its 2007 and 2011 highs, prices look ready to finally break out above their former highs of 1,510 and begin a new cyclical uptrend. We've highlighted the strength of Israel relative to other developed markets on a US ETF basis, but wanted to touch on how clean of a setup it is on an absolute basis in local currency terms.



## 10. Several US Dollar Pairs Reach New Highs

Despite the lack of movement in the US Dollar Index, the Trade-Weighted US Dollar Index is hitting a new all-time high, led by some of the pairs we've highlighted in the past. Some of those included USD/SEK, USD/TWD, USD/COP, USD/ZAR, and others that have broken out of nice bases. We continue to focus on those pairs that are trending and offer a clear reward/risk opportunity on the long side rather than the choppy setup in the euro-centric USD Index.



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