The Longo Group
Independent Financial Firm

August 6, 2024

The World Is Yenning For A Bottom In The Markets

The Yen carry-trade has been a position in markets for many decades. Money was cheap in Japan, which essentially had a zero-interest rate policy.

The carry-trade is borrowing money in Yen and buying other assets. The Bank of Japan's (BOJ) benchmark rate moved from -0.1 to 0.1 on March 18, 2024, and last Wednesday, the BOJ raised this rate to 0.25. Now that the BOJ has begun raising rates, the carry trade has started to unwind (*to undo the trade, you need to sell the asset that is long and buy yen to cover the debt), causing the Yen to Dollar to start appreciating sharply (it's up 14% since late July!*). But Monday morning in Japan (Sunday night in the U.S.), the Yen appreciated 5%, resulting in the Japanese equity market to crash -12.5%. This cascaded into a worldwide sell-off in equities. U.S. Treasuries were a safe haven with interest rates falling sharply.

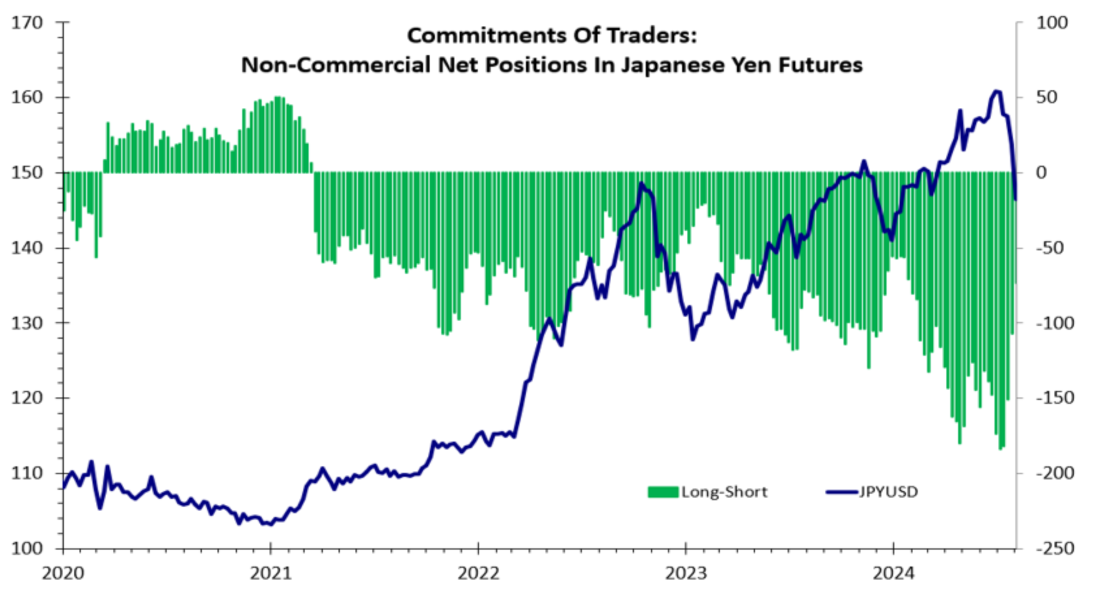
The U.S. equity market was already in a correction, and this carry-trade unwind has just exacerbated the downward move in equities. Historically, sharp declines have generated fear that leads to capitulation, meaning an exhaustion in selling. To measure the degree of market selling, we watch for the VIX volatility index to rise sharply as a signal of capitulation. But this is only one factor. Another factor that can signal capitulation is a sharp sell-off in the morning that recovers during the trading day so that markets close on the high for the day. And a third factor is that, once we achieve capitulation, that level in the market must be tested, and that test can take several months to occur. *So, what does this mean?* It means the Bull can continue to Buck from now and into the fall months. The sell-off we were expecting just came early.

Fast Money Had The Largest Yen Short Position In History...

Source: Commodity Futures Trading Commission, Bloomberg, Sanctuary Wealth, August 2, 2024

Market Insights

...And This Position Is Quickly Being Covered



Source: Commodity Futures Trading Commission, Bloomberg, Sanctuary Wealth, August 2, 2024

Yen Closing In On Support Levels

Japanese Yen Fibonacci Support Levels: Should Hold 139-132

Market Insights

Nikkei 225 Closing In On Support Levels Too

Nikkei 225 With Fibonacci Support Levels and 50-Month Moving Average

Fear Enters The Market

The worst thing an investor can do is panic and sell. Corrections always have bad news, and the worst market moves and worst news hit near the market low. We are getting close to a capitulation low but we're not there yet. So, investors need to be patient. Moves like what we're seeing in the market are normally a gift – a *buying gift.* We do not believe this is the end of the secular bull market. Remember these years: 1987, 1990, 1997, 1998 – they were all bad markets in a secular uptrend. 1987 was a crash based on the fear of the U.S. no longer backing the U.S. Dollar. 1990 was an oil price shock from Iraq's invasion of Kuwait. 1997 saw a crisis with the Thai Baht. 1998 was the crisis with Long-Term Capital Management hedge fund. Despite the headlines, each of these market moves created great buying opportunities.

It's also worth noting that the market breadth just hit a record all-time high, confirming the high in the markets and that the secular trend is still up!

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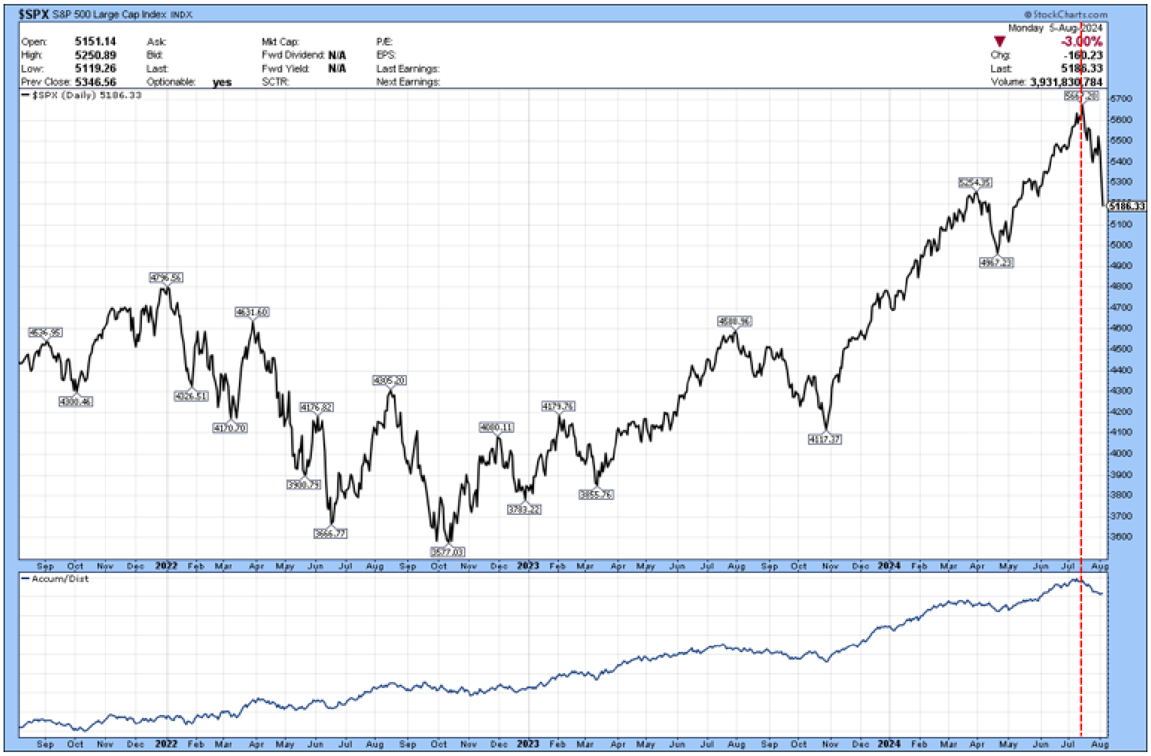
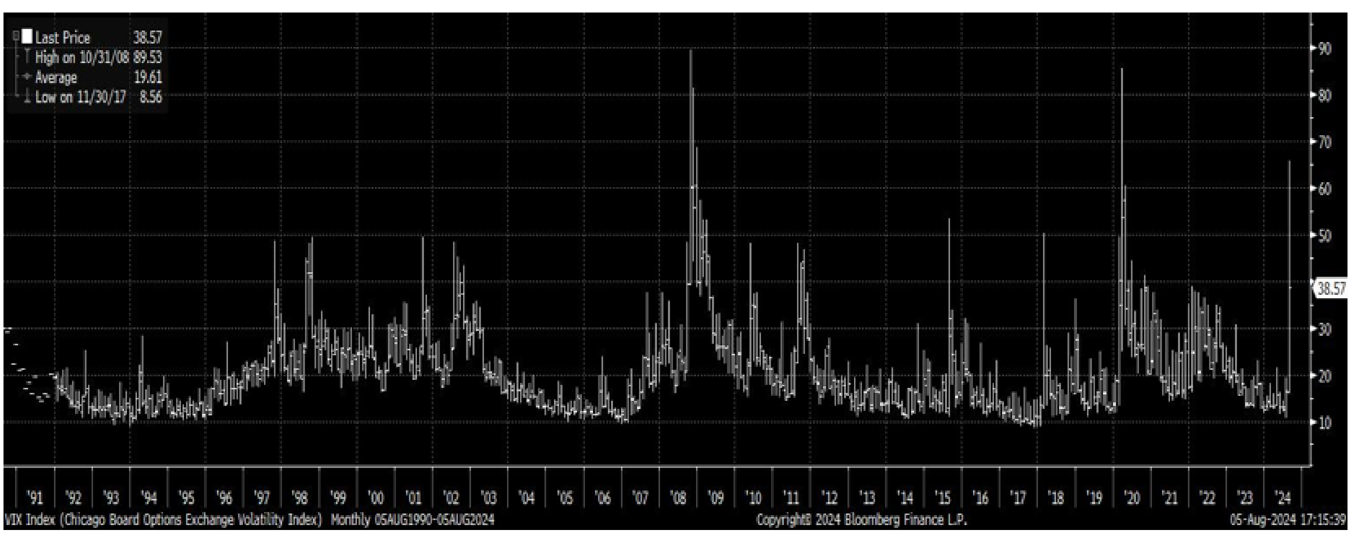
Market Insights

S&P 500 Recent Record High Confirmed By Record High In Market Breadth
S&P 500 (Top) With Market Breadth (Bottom)



VIX Volatility Index: Third Highest Spike In Fear Since 2008



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Market Insights

The Bull Has Bucked Early - Fall Correction Is Here

The S&P 500 is on target for a correction of 10% plus. Remember that it is normal to have one 10% correction a year. We originally thought this would happen in the fall months, beginning in September. But the correction came early. The market still needs to establish a low and test it. This process often takes 2 to 4 months. So, volatility and our Bucking Bull are likely to be with us for a few more months.

S&P 500 Fibonacci Support Levels From October '23 Low: 5074-4889 or 10%-13% Correction

Nasdaq 100 To Fall Harder As It Rallied More

Nasdaq 100 Fibonacci Support Levels From October Low: 17385-16600 or 15%-19% Correction

Market Insights

Interest Rates Fall Sharply – A Flight To Safety

We believe a major top is forming in the 2-Year Treasury. Yields have fallen sharply to support near 3.5%. The market is very oversold, and rates could rise a bit. But we believe that at some point this level will break and yields will fall into the 2%-1% range.

2-Year Treasury Yield Falls Sharply To Support Near 3.5%

High Yield Market Shows No Sign Of Panic Or Dislocation

Looking at the high yield bond market is often an excellent gauge of panic or major dislocation in markets. iShares iBoxx $ High Yield Corporate Bond ETF (HYG) has not had a significant downside move, signaling no major dislocations and no major panic within the markets.

iShares iBoxx $ High Yield Corporate Bond ETF (HYG)

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The Best Trait For An Investor Is Patience

It is very normal to experience strong emotions during a falling market, especially when the news sounds bad. But history has shown that a patient investor is rewarded over time. We think it is too late to be an aggressive seller at these levels. We would be buyers, but patient buyers.

We maintain this is still a secular bull market experiencing a correction – leadership remains with Growth stocks within Technology and Semiconductors. We also continue to favor Industrials and Energy for their value. For areas that benefit from lower interest rates, we prefer Utilities. Gold would be an asset we favor as a hedge in portfolios, along with Treasuries.

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