

What Are Material Stocks Telling Us?

Material stocks have been one of the worst-performing sectors this year, lagging the S&P 500 by nearly 20%. Since the election, its relative performance versus the market has continued to worsen. Therefore, given the historical correlation between the economy and the materials sector, we must assess what the sector's underlying stocks are trying to tell us.

We think the message is twofold. The easy takeaway is that Donald Trump will invoke tariffs on goods imported from China and other countries. Many of these goods that are likely to be tarified are produced and mined abroad by companies in the materials sector.

However, the problem with blaming Trump tariffs is that the materials sector was weak well before the election. The materials sector has a strong relationship with the economy, primarily due to construction. In past Commentary, we have noted that residential and multifamily new construction projects are ebbing. Furthermore, commercial building construction has been weak. Thus far, the economy has held up well despite the slowdown in the real estate sector. Might material stocks be an early warning that the economy is weaker than the current statistics portray? Or might the economy be less reliant on construction than it has been?

Sector		Relative Performance to S&P 500 Index					Moving Averages					Month End & Beta		Risk Range				
Symbol	Name	Last Price	1 Week	4 Week	12 Week	24 Week	52 Week	Short MA	Short MA Px Dev	Long MA	Long MA Px Dev	MA Signal	Month End Price	Beta 5Y Monthly	Low	High	Range Width	Risk Level
BNDX	Total International Bond Index	50.61	-0.83%	-0.17%	-2.45%	-8.23%	-30.12%	50.12	0.98%	49.46	2.33%	Bullish	50.55	0.73	48.92	52.18	3.27	normal
BOND	PIMCO Active Bond	92.91	-0.79%	-0.49%	-10.35%	-10.23%	-29.34%	93.01	-0.1%	92.10	0.88%	Bullish	92.76	1.01	89.50	96.02	6.51	normal
EMM	Emerging Markets	43.85	0.41%	-3.41%	-5.72%	-8.90%	-19.71%	44.41	-1.26%	43.25	1.38%	Bullish	43.26	0.98	41.75	44.77	3.01	normal
EFA	EAFE	80.08	0.45%	-0.45%	-9.88%	-8.93%	-22.63%	80.46	-0.47%	79.91	0.19%	Bullish	78.97	1.07	76.15	81.79	5.64	normal
GDX	Gold Miners	36.82	-3.18%	-2.25%	-16.26%	-3.34%	-8.06%	39.20	-6.06%	37.12	-0.81%	Bullish	37.66	0.95	36.36	38.96	2.60	low
HYG	High Yield Corporate Bond	79.90	-1.13%	-1.49%	-7.76%	-8.42%	-26.79%	79.63	0.34%	78.36	1.96%	Bullish	80.04	0.94	77.29	82.79	5.51	normal
IAU	Gold Trust	49.68	-2.09%	-1.63%	-6.30%	-1.53%	-10.3%	50.05	-0.74%	47.05	5.59%	Bullish	50.25	0.16	48.91	51.59	2.67	normal
IVV	ISHARES-SP500	610.83	0.95%	1.61%	8.10%	11.67%	32.11%	582.91	4.79%	556.28	9.81%	Bullish	605.07	1.00	589.94	620.20	30.25	normal
MDY	S&P MidCap 400	608.80	-2.10%	-0.54%	1.51%	2.05%	-5.69%	579.76	5.01%	557.25	9.25%	Bullish	615.86	1.05	594.00	637.72	43.73	normal
RSP	S&P 500 Eql Wght	185.19	-2.25%	-1.02%	-2.29%	0.17%	-9.12%	180.00	2.88%	171.88	7.74%	Bullish	187.62	0.98	181.09	194.15	13.06	normal
SDY	S&P Dividend	140.24	-1.56%	-2.54%	-8.14%	-2.51%	-16.45%	140.81	-0.41%	134.85	3.99%	Bullish	144.00	0.78	139.28	148.72	9.45	low
SPSM	S&P 600 Small Cap	48.44	-2.46%	-1.41%	0.83%	6.02%	-8.64%	46.06	5.17%	43.98	10.15%	Bullish	49.18	1.04	47.44	50.92	3.48	normal
TLT	20+ Year Treasury Bond	94.39	-0.51%	0.44%	-14.10%	-11.21%	-32.27%	94.63	-0.26%	93.63	0.82%	Bullish	93.97	2.12	89.63	98.31	8.68	normal
VUUP	US Dollar Index Bullish	29.93	-0.68%	-0.22%	-1.89%	-8.81%	-30.52%	29.10	2.85%	28.87	3.69%	Bullish	29.85	-15.20	33.64	26.06	-7.58	normal
XLI	Materials	91.91	-3.98%	-4.32%	-8.94%	-9.13%	-19.93%	93.59	-2.21%	91.81	0.11%	Bullish	94.78	1.17	91.30	98.26	6.96	low
XLC	Communication Services	100.93	1.62%	3.33%	8.08%	7.16%	11.09%	92.35	9.29%	87.36	15.53%	Bullish	98.40	1.10	94.86	101.94	7.08	normal
XLE	Energy	91.02	-5.67%	-4.53%	-1.76%	-10.25%	-21.42%	91.00	0.02%	91.45	-0.47%	Bearish	95.53	0.72	92.45	98.61	6.15	low
XLF	Financial	50.40	-2.78%	0.85%	5.13%	10.28%	7.38%	47.44	6.23%	44.19	14.05%	Bullish	51.34	1.02	49.53	53.15	3.61	normal
XLI	Industrials	140.56	-1.33%	-2.69%	-0.45%	2.64%	-3.11%	136.82	2.73%	129.22	8.77%	Bullish	143.99	1.09	138.82	149.16	10.34	low
XLK	Technology	240.84	2.09%	0.06%	1.15%	-6.21%	-3.09%	227.66	5.79%	220.23	9.36%	Bullish	233.73	1.22	225.04	242.42	17.39	normal
XLP	Consumer Staples	82.38	-1.96%	0.32%	-9.95%	-5.60%	-14.61%	81.98	0.48%	79.45	3.68%	Bullish	83.22	0.58	80.66	85.78	5.13	normal
XLRE	Real Estate	43.77	-1.69%	-1.93%	-1.29%	2.08%	-16.63%	44.00	-0.53%	41.14	6.39%	Bullish	45.00	1.19	43.34	46.66	3.32	low
XLU	Utilities	79.69	-4.86%	-0.97%	-6.64%	3.18%	-6.44%	79.89	-0.25%	74.37	7.15%	Bullish	82.93	0.74	80.24	85.62	5.37	low
XLV	Health Care	144.28	-3.08%	-5.54%	-15.71%	-13.39%	-22.87%	150.09	-3.87%	147.99	-2.51%	Bullish	147.41	0.67	142.74	152.08	9.35	low
XLV	Consumer Discretionary	232.80	1.77%	6.61%	12.85%	15.82%	2.30%	204.95	13.59%	190.26	22.36%	Bullish	222.30	1.29	213.87	230.73	16.85	High
XTN	Transportation	92.19	-1.90%	-0.97%	9.37%	8.00%	-15.48%	85.44	7.90%	80.84	14.04%	Bullish	94.99	1.48	91.21	98.77	7.56	low

What To Watch Today

Earnings

Tuesday Dec 10	EPS	Consensus	Previous	Revenue	Consensus	Previous	MarketCap	Fiscal	Time
 AutoZone AZO:US		33.60	32.55		4.3B	4.2B	\$56.48B	Q1	PM  
 Ferguson FERG:LN		2.88			8.07B		\$43.77B	Q1	PM  
 GameStop GME:US		-0.04	0.0		919.9M	1.08B	\$8.61B	Q3	PM  

Economy

Tuesday December 10 2024			Actual	Previous	Consensus	Forecast		
05:00 AM	 US	NFIB Business Optimism Index NOV		93.7	94.2	94.1		
07:30 AM	 US	Nonfarm Productivity QoQ Final Q3		2.5%	2.2%	2.2%		
07:30 AM	 US	Unit Labour Costs QoQ Final Q3		2.4%	1.9%	1.9%		
07:55 AM	 US	Redbook YoY DEC/07		7.4%				
10:30 AM	 US	42-Day Bill Auction		4.400%				
11:00 AM	 US	WASDE Report						

Market Trading Update

[Yesterday, we discussed](#) the need for portfolio rebalancing as we head into year-end, which could lead to some short-term volatility in the markets. We expect any correction process to be relatively mild and present an opportunity for traders to add exposure heading into year-end. However, over the next two weeks, the ride could get a little bumpy, and the volatility index suggests the same.

As shown, traders have become extremely complacent in the market lately, with little concern about a correction. Historically, high *complacency* is often a good time to become more *risk-conscious* from a contrarian point of view. The MACD is oversold and close to triggering a short-term *buy* signal for volatility, likely translating into lower stock and risk asset prices. Furthermore, the relative strength index (RSI) is also oversold and turning higher, also warning of a potential rise in volatility.



While such a turn in volatility does not mean the market is about to crash, it suggests that investors may see weaker asset prices over the next two weeks. Stocks, bitcoin, and more speculative trading vehicles like zero-day stock options and leveraged ETFs would likely face the most pressure. As is always the case, taking profits, hedging risk, and raising cash levels can reduce any corrective action risk.

However, as noted, whatever corrective action is taken before Christmas should be used to prepare portfolios for a year-end rally as managers *window dress* for their annual reporting.

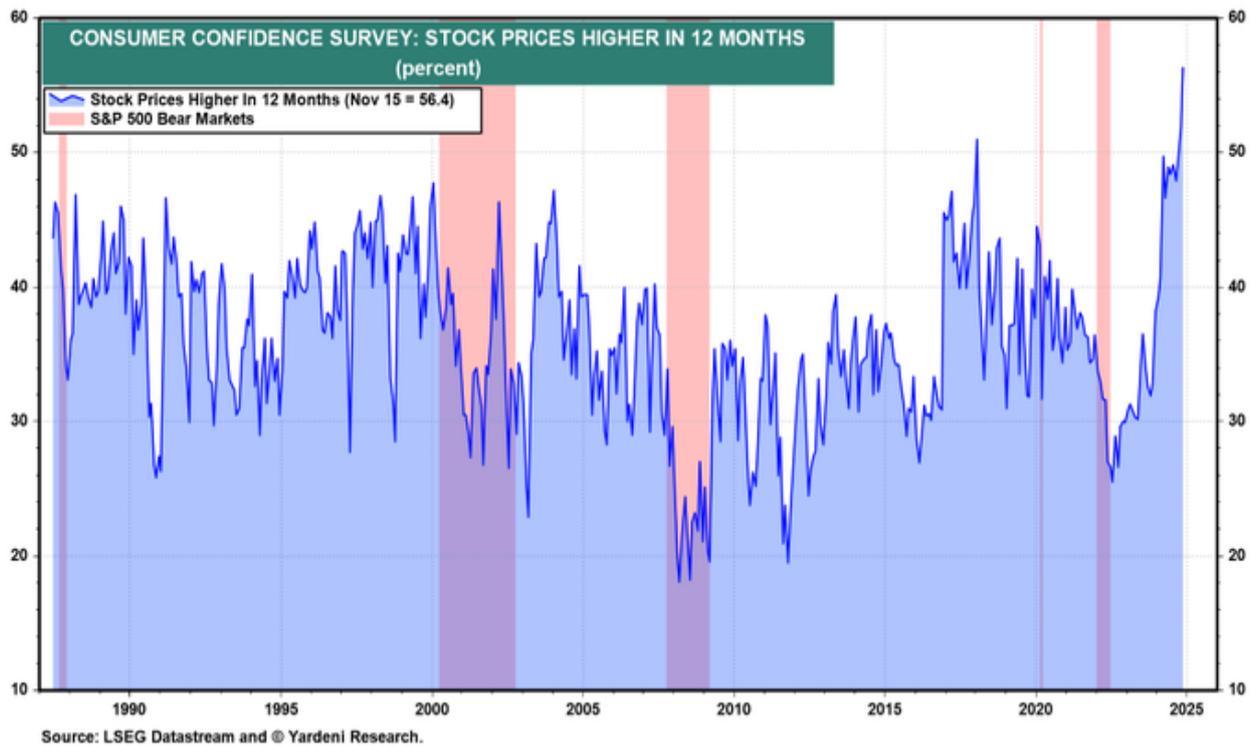
Trade accordingly.

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Confidence In Stocks Soars

The Conference Board's November Consumer Confidence Index survey shows that 56.4% of consumers expect stocks to be higher in the next 12 months, as shown below. Investors' optimism over future returns is not shocking because the stock market has logged two +20% annual performances in a row. However, it's noteworthy that optimism for 2025 returns is now higher than in 1999 and all prior periods going back at least 35 years.



Tesla Fuels Discretionary Stocks

The first [SimpleVisor](#) table below shows that discretionary stocks are very overbought, both absolute and relative to the market. The culprits are Tesla and Amazon. The second table highlights the top ten holdings of the discretionary ETF XLY. Those two stocks account for nearly 40% of the ETF.

One can interpret the data in many ways. Here is our take:

We believe Tesla is riding Trump's coattails. Given that Elon Musk is cozying up with the future president, investors must believe that the regulatory and political environment will be friendly to Tesla. Over the last month, Tesla's shares have been up 11%, while competitors Ford and GM are each down about 7%.

Amazon, the internet retailer, is also very overbought. However, as shown in the second graphic, other retailers like Nike, McDonalds, and Lowes are trading poorly. This is likely linked to prospects for growing digital holiday sales versus less foot traffic at traditional brick-and-mortar establishments. Furthermore, Trump's regulatory policies focus less on monopolistic enforcement than those of the Biden administration.



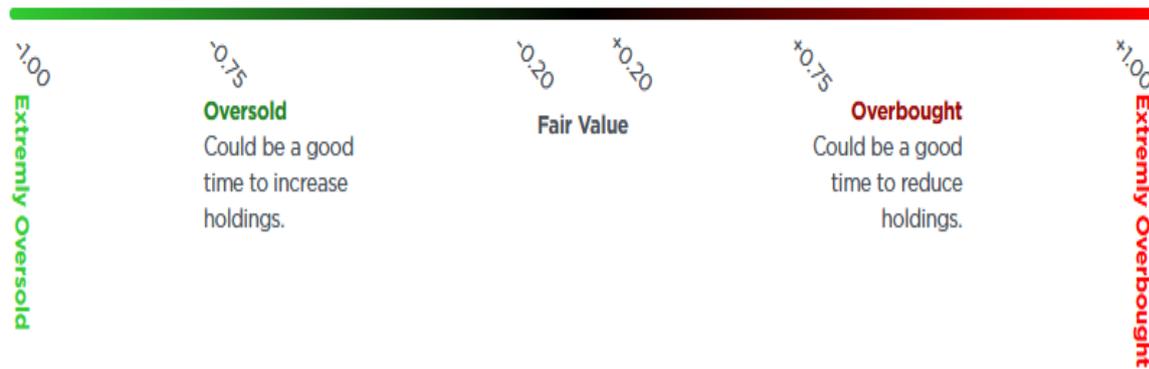
Sectors

Factors

Sectors Analysis - Absolute and Relative Score (vs SPY)

Symbol	Name	Top 10 Holdings	Absolute Score \updownarrow	Relative Score (vs SPY) $\downarrow\uparrow$	Chart <input checked="" type="checkbox"/>
XLY	Consumer Discretionary		0.85 \uparrow	0.85 \uparrow	<input type="checkbox"/>
XLC	Communication Services		0.84 \uparrow	0.58 \uparrow	<input type="checkbox"/>
XTN	Transportation		0.34 \uparrow	0.07 \uparrow	<input type="checkbox"/>
XLF	Financial		0.41 \uparrow	0.05 \uparrow	<input type="checkbox"/>
XLK	Technology		0.75 \uparrow	0.05 \uparrow	<input type="checkbox"/>
SPY			0.63 \uparrow	0.00 \uparrow	<input checked="" type="checkbox"/>
XLI	Industrials		0.25 \uparrow	-0.24 \uparrow	<input type="checkbox"/>
XLP	Consumer Staples		0.34 \uparrow	-0.26 \uparrow	<input type="checkbox"/>
XLRE	Real Estate		0.12 \uparrow	-0.31 \uparrow	<input type="checkbox"/>
XLU	Utilities		0.07 \uparrow	-0.47 \uparrow	<input type="checkbox"/>
XLE	Energy		-0.10 \uparrow	-0.55 \uparrow	<input type="checkbox"/>
XLV	Health Care		-0.09 \uparrow	-0.58 \uparrow	<input type="checkbox"/>
XLB	Materials		-0.34 \uparrow	-0.79 \uparrow	<input checked="" type="checkbox"/>

How it works

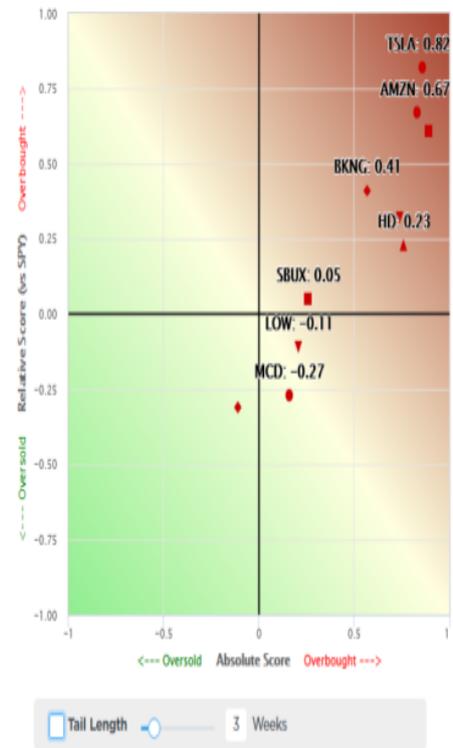


Consumer Discretionary X

Consumer Discretionary Analysis - Absolute and Relative Score (vs SPY)

Symbol Name	Holding	Absolute Score ↑↓	Relative Score (vs SPY) ↑↓	Chart ✓
NKE	Nike Inc Class B	-0.11	-0.31	✓
MCD	McDonald's Corp	0.16	-0.27	✓
LOW	Lowe's Companies Inc	0.21	-0.11	✓
SBUX	Starbucks Corp	0.26	0.05	✓
HD	The Home Depot Inc	0.76	0.23	✓
TJX	TJX Companies Inc	0.74	0.32	✓
BKNG	Booking Holdings Inc	0.57	0.41	✓
CMG	Chipotle Mexican Grill Inc	0.89	0.61	✓
AMZN	Amazon.com Inc	0.83	0.67	✓
TSLA	Tesla Inc	0.86	0.82	✓

How it works



Tweet of the Day

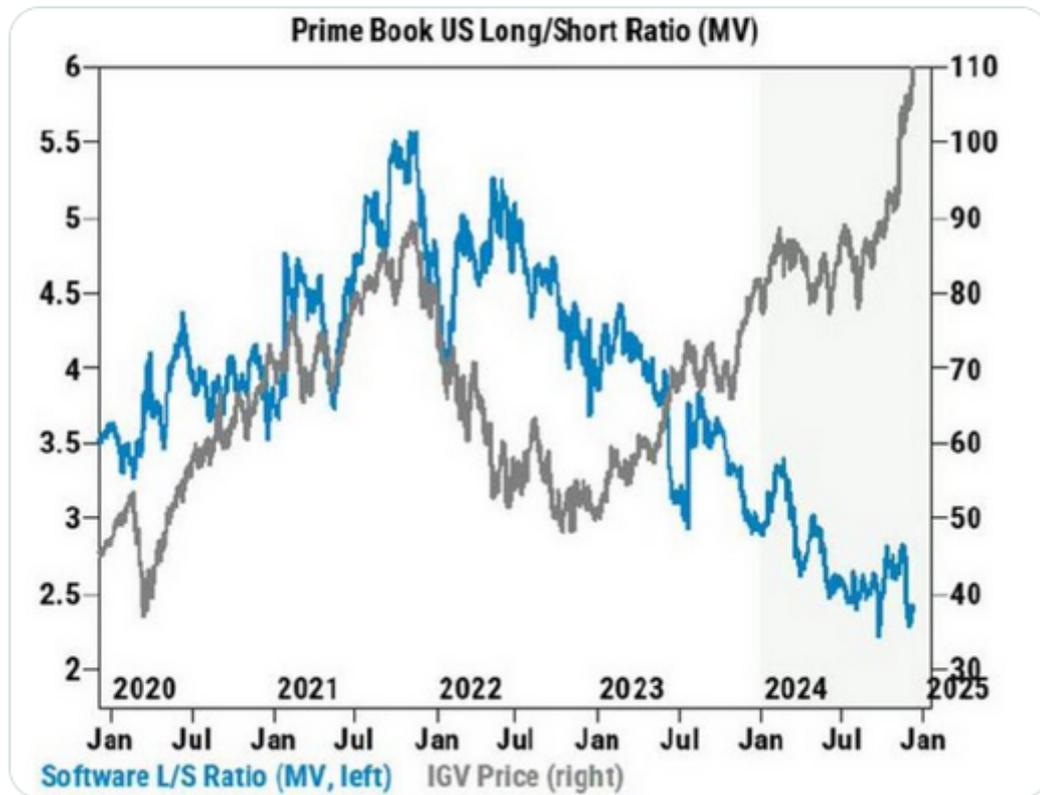


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Hedge funds remain underallocated to tech

Despite strong performance, hedge funds continue to have a very low allocation into tech, despite strong market outperformance trends for much of the last two+ years.

The long/short ratio is nearing 5-year lows, per Goldman Sachs.



Traderade

?Want to achieve better long-term success in managing your portfolio? Here are our [15-trading rules for managing market risks.](#)

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