Oil Prices Surge on OPEC Cut

In a surprise announcement Sunday morning, OPEC cut oil production by 1.15 million barrels per day (bpd). Per OPEC, the cuts aim to support stability in the oil market. Since December, crude oil prices have oscillated between $70 and $82 a barrel. In mid-March, it broke the range falling to $64 a barrel. A break above $82 may propel oil back to the mid-$90 peaks from last fall. Crude oil surged over $5 to $81 a barrel on the news.

Two reasons are being floated by the media explaining the surprise production cuts. Per the Financial Times- *?Riyadh was irritated last week the Biden administration publically ruled out new crude purchases to replenish a strategic stockpile (SPR) that had been drained last year as the White House battled to tame inflation.?* Further, ?*The White House had previously offered reassurance to Saudi Arabia that it would step in to make purchases for its strategic reserve if prices fell.?* The other explanation is that OPEC may anticipate a recession and reduced demand for oil. The graph below, courtesy of @forklift5909, shows the three most significant cuts in the last 25 years were done during the previous three recessions. On average, the price of oil drops for one, three, and six months after OPEC production cuts. While we think a recession is likely, we believe the move was predominately motivated by politics.

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What To Watch Today

Economy

Time	Event	Impact	Actual	Dev	Consensus	Previous
	TUESDAY, APRIL 4					
12:55	USD Redbook Index (YoY)(Mar 31)		-	-	-	2.8%
14:00	USD Factory Orders (MoM)(Feb)		-	-	-0.5%	-1.6%
14:00	USD IBD/TIPP Economic Optimism (MoM)(Apr)		-	-	-	46.9
14:00	USD JOLTS Job Openings(Feb)		-	-	10.4M	10.824M
17:30	USD Fed's Cook speech				SPEECH	
20:30	USD API Weekly Crude Oil Stock(Mar 31)		-	-	-	-6.076M

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Earnings

- *No notable earnings releases today*

Market Trading Update

While trading was sloppy yesterday, with markets moving into positive and negative territory, it finished in the green and moved above the downtrend line from the April highs. This is a potentially bullish breakout if it holds. However, in the short term, the market is extremely overbought and needs a bit of a price correction to reset if a move higher is coming.

For now, maintain increased equity exposure and look for a pullback to the 50-DMA that holds to add exposure accordingly. With the 50-DMA trading decently above the 200-DMA, the market?s bullish trend persists. However, some important data could derail the bullishness from Friday?s employment report to the next FOMC meeting and the upcoming earnings season is coming up.

With that said, watch the major market buy/sell signals and be prepared to reduce equity exposure when they turn.

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Battling Behavioral Biases Make for Better Investment Results- Conformation Bias

Market pundits often share technical and fundamental analyses on stocks or markets. While both tools are critical for investment success, said pundits often fail to remind investors of the behavioral traits that play a big role in investor perception and, ultimately, their success. Given the importance of behavioral finance, we will spend some time discussing a series of behavioral biases in future commentaries.

We lead off with confirmation bias. This trait has strengthened with the growth of social media.

Confirmation bias is a condition when we search for or interpret information in a manner that tends to confirm our existing views and opinions. Those exhibiting this bias pay little attention to data and research that offer alternative possibilities.

Our Twitter feed is constantly inundated with opinions often aligned with our views. Such is the nature of the algorithms that drive social media. While confirmation of one?s views may build confidence, we argue it can be false confidence. We think the best way to gain a conviction for a market view is to assess what those with differing views think. For instance, we think a recession is highly likely. Therefore we spend more time reading commentary and research from those with optimistic economic outlooks. Refuting such analysis builds conviction or better appreciating a different view can motivate one to alter their view.

TPA Relative Rotation Analysis

In SimpleVisor, we offer an add-on service by Turning Point Analytics (TPA). TPA?s RRG report captures the movement in and out of stocks and sectors by quantifying momentum and relative performance.

TPA?s most recent RRG report notes interesting behavior in the sector ETF XRT and, especially importantly, explains what it might mean from an economic perspective. Per TPA:

> *Retail, defined by XRT ? an even-weighted ETF has dropped to 5th worst in the ETF rank. At the beginning of December 2022, Retail (XRT) was the highest-ranked sector, but in 1-week XRT declined from #6 to #23. As the table below shows, this is the lowest rank for XRT going back to last summer. Unlike XLY, which is dominated by AMZN, XRT is a better measure of Retail stocks performance. This is definitely a development to watch as it may indicate consumer stress. Which could affect the economy and the stock market.*

TPA-RRG U.S. SECTOR & SUBSECTOR ETFS - HISTORY

	12/9/22	12/16/22	12/23/22	12/30/22	1/6/23	1/13/23	1/20/23	1/27/23	2/3/23	2/10/23	2/17/23	2/24/23	3/3/23	3/10/23	3/17/23	3/24/23	3/31/23			
Rank	Code	Code	Code	Code	Code	Code	Code	Code	Code	Code	Code	Code	Code	Code	Code	Code	Code	Code	Code	Code
1	MOO	PPH	PPH	IYT	IYT	SMH	SOCL	SOCL	SOCL	FDN	CLOU	XLK	XLK	XLK	IGV	IGV	HACK			
2	XRT	XLB	XLB	PPH	SMH	IYT	XLU	CLOU	CLOU	XLK	IGV	IGV	IGV	IGV	FDN	XLK	XLY			
3	XLB	IYT	SMH	XLU	XLU	SOCL	XLC	XLC	FDN	XLC	FDN	XLC	FDN	FDN	XLK	HACK	XLK			
4	IYT	SMH	MOO	SMH	SOCL	CLOU	CLOU	FDN	XLC	IGV	XLK	FDN	CLOU	XLY	HACK	FDN	FDN			
5	SMH	MOO	SOCL	SOCL	IYR	XLC	SMH	IGV	IGV	SOCL	XLC	XLY	XLY	XLC	XLY	SMH	IGV			
6	PPH	SOCL	IYR	IYR	PPH	XLK	IYT	IYR	XLK	HACK	XLY	CLOU	XLC	CLOU	XLC	XRT	CLOU			
7	SOCL	XRT	IYT	XRT	XLB	IYR	IYR	IYT	IYR	ITB	HACK	SMH	HACK	HACK	SMH	IYT	XLC			
8	ITA	XLI	XRT	MOO	XME	XRT	IGV	SMH	ITB	IYT	IYT	XRT	SMH	SMH	CLOU	CLOU	SOCL			
9	XLI	ITB	ITA	XLI	ITB	ITB	PPH	ITB	XRT	CLOU	XRT	HACK	XRT	XRT	SOCL	XLF	SMH			
10	ITB	XLP	XLI	XLP	XLP	MOO	XLK	XLK	IYT	SMH	SOCL	PPH	IYT	IYT	XRT	XLY	XLP			
11	XLP	XME	ITB	ITB	XRT	XLP	MOO	MOO	SMH	XME	PPH	SOCL	SOCL	SOCL	IYT	SOCL	IYR			
12	XME	OIH	XME	XLB	MOO	ITA	XRT	XLP	XLB	IYR	SMH	IYT	ITB	ITB	ITB	ITB	ITA			
13	XOP	XLE	XLV	XME	OIH	OIH	XLB	XRT	PPH	PPH	IYR	IYR	IYR	IYR	IYR	IYR	XOP			
14	OIH	XLF	OIH	OIH	ITA	PPH	OIH	XLB	XME	XRT	ITB	ITB	TAN	TAN	XLU	TAN	MOO			
15	XLF	ITA	XLE	ITA	XLV	XLB	XLI	XLI	XLU	XLU	XLU	XLU	XME	XME	MOO	XLU	TAN			
16	XLV	XLV	XLF	XLF	XLF	XLI	ITA	PPH	HACK	XLY	OIH	XLF	XLU	XLU	TAN	ITA	ITB			
17	XLE	IYR	XLP	XLV	XLI	XLF	ITB	XME	XLY	XLF	XLF	OIH	XLB	XLI	XOP	MOO	XLI			
18	XLK	XLK	XLU	TAN	XLC	XLU	XLP	XLU	OIH	OIH	ITA	XME	XLF	XLB	XME	XOP	XLU			
19	IYR	HACK	XLK	HACK	TAN	XME	XME	TAN	ITA	ITA	XME	ITA	OIH	ITA	ITA	XME	XME			
20	HACK	FDN	CLOU	FDN	HACK	FDN	TAN	XLY	XLI	XLE	XLI	XLI	XLI	MOO	XLI	XLI	IYT			
21	CLOU	CLOU	TAN	CLOU	XLK	IGV	FDN	HACK	XLF	XLI	XLE	XLE	ITA	OIH	OIH	PPH	XLB			
22	FDN	IGV	FDN	XLC	IGV	TAN	HACK	ITA	XLV	XLB	XLB	XLB	XLE	XOP	XLB	OIH	OIH			
23	IGV	XLC	XLC	XLK	CLOU	HACK	XLV	OIH	XLE	XLV	XLV	XLV	PPH	XLF	PPH	XLB	XRT			
24	XLC	XLU	HACK	IGV	XLE	XLY	XLY	XLV	XLP	XLP	XLP	TAN	MOO	PPH	XLF	XLP	XLV			
25	XLY	XOP	IGV	XLE	FDN	XLV	XLF	XLF	TAN	TAN	TAN	MOO	XOP	XLP	XLP	XLV	XLE			
26	XLU	TAN	XLY	XLY	XLY	XLE	XLE	XLE	XOP	XOP	XOP	XOP	XLP	XLV	XLV	XLE	PPH			
27	TAN	XLY	XOP	XOP	XOP	XOP	XOP	XOP	MOO	MOO	MOO	XLP	XLV	XLE	XLE	XLF	XLF			

TPA-RRG U.S. SECTOR & SUBSECTOR ETFS - HISTORY

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Rank	Code	Code	Code	Code	Code	Code	Code	Code	Code	Code	Code	Code	Code	Code	Code	Code	Code	Code	Code	Code
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2	XRT	XLB	XLB	PPH	SMH	IYT	XLU	CLOU	CLOU	XLK	IGV	IGV	IGV	IGV	FDN	XLK	XLY			
3	XLB	IYT	SMH	XLU	XLU	SOCL	XLC	XLC	FDN	XLC	FDN	XLC	FDN	FDN	XLK	HACK	XLK			
4	IYT	SMH	MOO	SMH	SOCL	CLOU	CLOU	FDN	XLC	IGV	XLK	FDN	CLOU	XLY	HACK	FDN	FDN			
5	SMH	MOO	SOCL	SOCL	IYR	XLC	SMH	IGV	IGV	SOCL	XLC	XLY	XLY	XLC	XLY	SMH	IGV			
6	PPH	SOCL	IYR	IYR	PPH	XLK	IYT	IYR	XLK	HACK	XLY	CLOU	XLC	CLOU	XLC	XRT	CLOU			
7	SOCL	XRT	IYT	XRT	XLB	IYR	IYR	IYT	IYR	ITB	HACK	SMH	HACK	HACK	SMH	IYT	XLC			
8	ITA	XLI	XRT	MOO	XME	XRT	IGV	SMH	ITB	IYT	IYT	XRT	SMH	SMH	CLOU	CLOU	SOCL			
9	XLI	ITB	ITA	XLI	ITB	ITB	PPH	ITB	XRT	CLOU	XRT	HACK	XRT	XRT	SOCL	XLF	SMH			
10	ITB	XLP	XLI	XLP	XLP	MOO	XLK	XLK	IYT	SMH	SOCL	PPH	IYT	IYT	XRT	XLY	XLP			
11	XLP	XME	ITB	ITB	XRT	XLP	MOO	MOO	SMH	XME	PPH	SOCL	SOCL	SOCL	IYT	SOCL	IYR			
12	XME	OIH	XME	XLB	MOO	ITA	XRT	XLP	XLB	IYR	SMH	IYT	ITB	ITB	ITB	ITB	ITA			
13	XOP	XLE	XLV	XME	OIH	OIH	XLB	XRT	PPH	PPH	IYR	IYR	IYR	IYR	IYR	IYR	XOP			
14	OIH	XLF	OIH	OIH	ITA	PPH	OIH	XLB	XME	XRT	ITB	ITB	TAN	TAN	XLU	TAN	MOO			
15	XLF	ITA	XLE	ITA	XLV	XLB	XLI	XLI	XLU	XLU	XLU	XLU	XME	XME	MOO	XLU	TAN			
16	XLV	XLV	XLF	XLF	XLF	XLI	ITA	PPH	HACK	XLY	OIH	XLF	XLU	XLU	TAN	ITA	ITB			
17	XLE	IYR	XLP	XLV	XLI	XLF	ITB	XME	XLY	XLF	XLF	OIH	XLB	XLI	XOP	MOO	XLI			
18	XLK	XLK	XLU	TAN	XLC	XLU	XLP	XLU	OIH	OIH	ITA	XME	XLF	XLB	XME	XOP	XLU			
19	IYR	HACK	XLK	HACK	TAN	XME	XME	TAN	ITA	ITA	XME	ITA	OIH	ITA	ITA	XME	XME			
20	HACK	FDN	CLOU	FDN	HACK	FDN	TAN	XLY	XLI	XLE	XLI	XLI	XLI	MOO	XLI	XLI	IYT			
21	CLOU	CLOU	TAN	CLOU	XLK	IGV	FDN	HACK	XLF	XLI	XLE	XLE	ITA	OIH	OIH	PPH	XLB			
22	FDN	IGV	FDN	XLC	IGV	TAN	HACK	ITA	XLV	XLB	XLB	XLB	XLE	XOP	XLB	OIH	OIH			
23	IGV	XLC	XLC	XLK	CLOU	HACK	XLV	OIH	XLE	XLV	XLV	XLV	PPH	XLF	PPH	XLB	XRT			
24	XLC	XLU	HACK	IGV	XLE	XLY	XLY	XLV	XLP	XLP	XLP	TAN	MOO	PPH	XLF	XLP	XLV			
25	XLY	XOP	IGV	XLE	FDN	XLV	XLF	XLF	TAN	TAN	TAN	MOO	XOP	XLP	XLP	XLV	XLE			
26	XLU	TAN	XLY	XLY	XLY	XLE	XLE	XLE	XOP	XOP	XOP	XOP	XLP	XLV	XLV	XLE	PPH			
27	TAN	XLY	XOP	XOP	XOP	XOP	XOP	XOP	MOO	MOO	MOO	XLP	XLV	XLE	XLE	XLF	XLF			

Zombies are Underperforming

Zombie companies have been underperforming the S&P 500 since 2022. As shown below, courtesy of Arbor Data Science, the one-year return differential between zombie companies and the S&P 500 is negative 20%. Zombie companies are those that do not earn enough to make interest payments. Therefore, they consistently require debt or asset sales to avoid bankruptcy. Consequently, higher interest rates and tightening lending standards are costly for zombies. The markets clearly understand the situation. While interest rates may be close to peaking, tightening lending standards, amplified by the fallout of the recent crisis, will keep pressure on zombie stocks.

1-Year Returns of Zombies Relative to the S&P 500

Zombie Companies = Three-year average EBIT/int exp ratio less than 1 and market cap greater than $300 million

Data Source: Bloomberg LP

datascience.arborresearch.com

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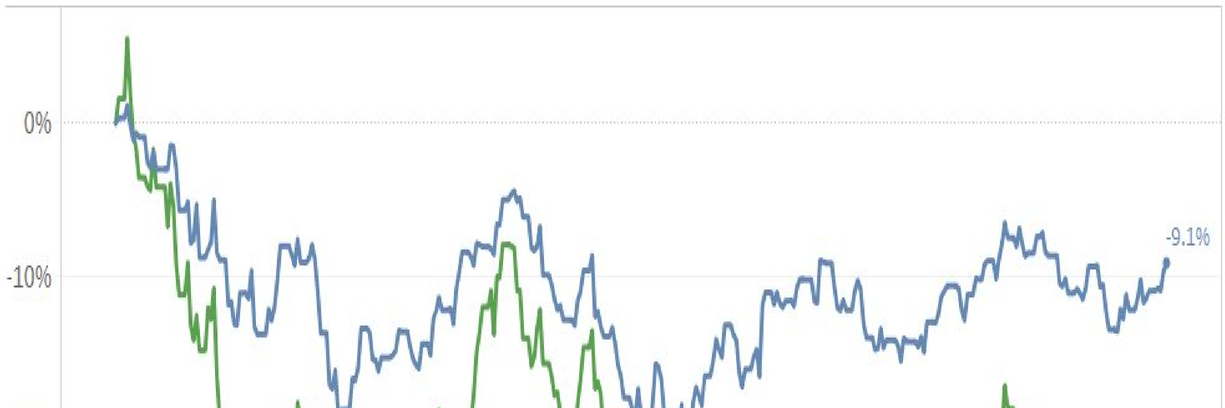

Tweet of the Day

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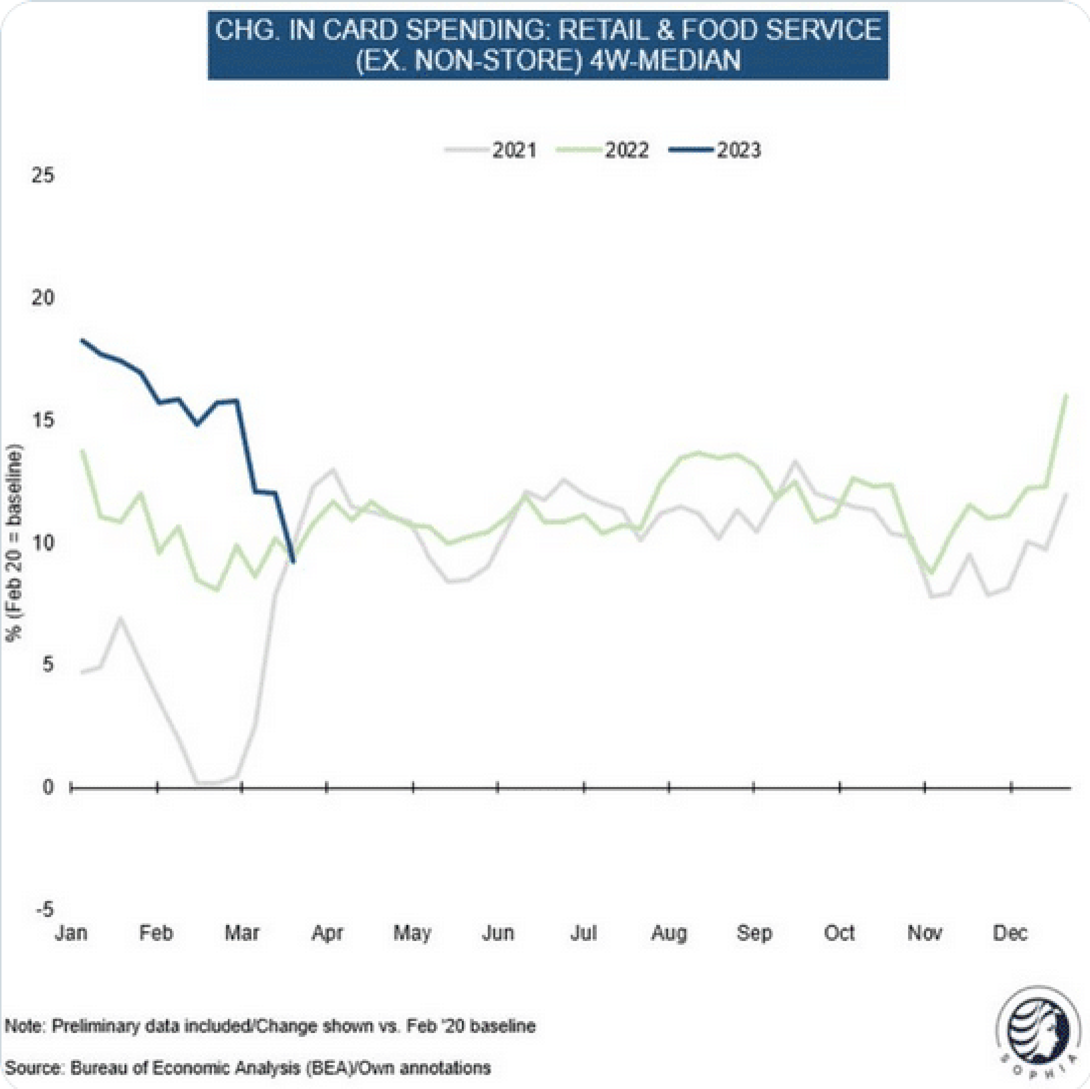
🇺🇸 What's happening with the US consumer?

Most recent BEA credit card data shows substantial deceleration through late March



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Please ***subscribe to the daily commentary*** **to receive these updates every morning before the opening bell.**

> *If you found this blog useful, please send it to someone else, share it on social media, or contact us to set up a meeting.*