OnTrack Report

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Market Overview

	Short Term	Intermediate Term	Long Term
Large Cap Stocks	Downtrend	Downtrend	Uncertain
Mid-Cap Stocks	Downtrend	Downtrend	Uncertain
Small Cap Stocks	Downtrend	Downtrend	Uncertain
Junk Bonds	Downtrend	Downtrend	Uncertain
Treasury Bonds	Downtrend	Downtrend	Uncertain
Commodities	Uncertain	Uptrend	Uptrend

This table summarizes my subjective assessment of the major trends that shape the market environment. The trends are based on current closing prices and are not meant to be predictive. Trends tend to continue until something changes, so recognizing current trends helps us recognize changes in the market environment.

The technical picture has shifted dramatically this month. The Goldilocks scenario of a strong economy and declining interest rates has been upset by sticky inflation that has forced the Fed to reconsider rate cuts in the near future. Some economists are even discussing the possibility that another rate hike may be necessary to bring inflation down to the 2% target. While I consider another rate hike as unlikely in an election year, it would certainly trigger an earthquake in the stock and bond market. Just keeping rates at the current elevated level for the rest of the year may be enough to bring inflation under control eventually.

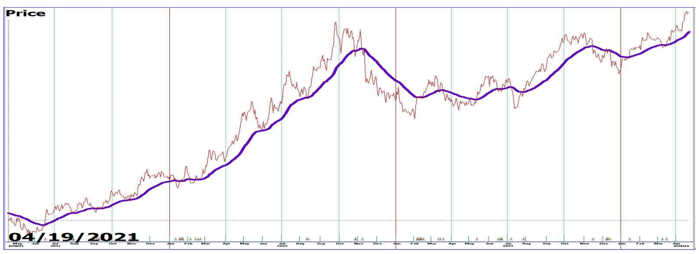
The Fed has not wavered in their commitment to bring inflation down to their 2% target. I see no reason to think that the Fed will blink in this war on inflation, even if it means triggering a recession. While that would be bad for the market in the short run, it would set up a typical business cycle recession and recovery cycle. We have benefited greatly from such cycles in the past.

I have no way to know if the recent broad decline is simply a steep correction in an ongoing bull market uptrend or the first stage of a bear market downtrend. I think it depends on inflation. The next major read of inflation comes on Friday when the Personal Consumption Expenditures (PCE) index, the Fed's preferred inflation gauge, is released. That will likely be a market mover and may determine the trend of both bonds and stocks, at least until the next employment report is released the following Friday. At this point, the market is very inflation data driven, and that means volatility.

I suggest a cautious approach until there is greater clarity on the Fed’s inflation battle. Use stops to limit risk and don’t be discouraged by some short-term volatility.

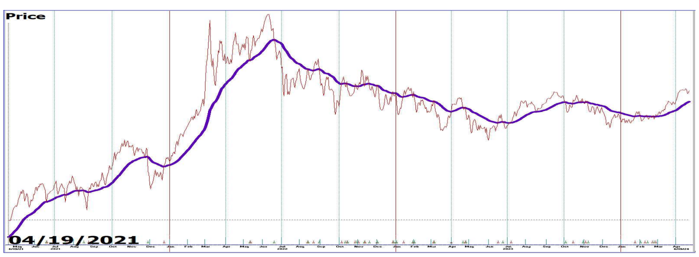
Business Cycle Indicators (3-Year Charts)

An analysis of the business cycle is useful as a guide to the macroeconomic environment. To emphasize that role and to avoid a focus on short-term trends that usually have no business cycle relevance, the 50-day moving average is emphasized as a bold line in the charts below to shift focus to the longer-term trend.



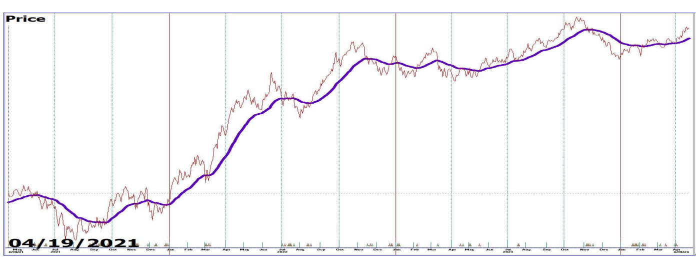
US Dollar ETF (UUP)

The dollar is trending up. An uptrend in the dollar normally provides a downward bias for commodity prices.



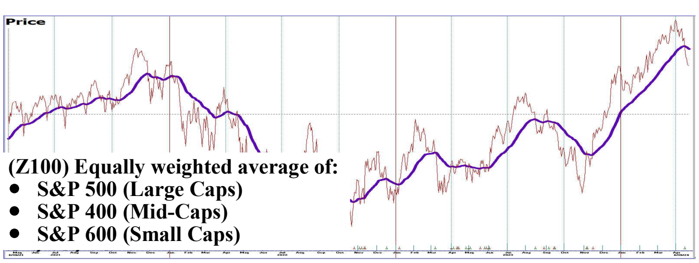
OTR Commodity ETF Index (Z04)

Commodity prices, however, have turned up. This suggests that inflation pressures have started to increase again, increasing the odds that the Fed will maintain short-term interest rates at an elevated level for longer than was expected earlier this year.



10 Year Treasury Bond Yield (US10-)

The 10-year Treasury bond yield has also turned up, supporting the case for a continuation of the higher-for-longer Fed policy.

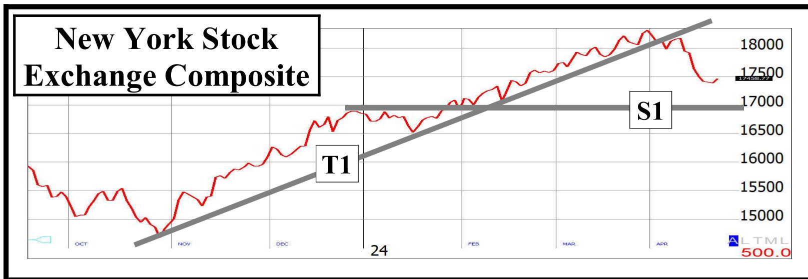


OTR Stock Market Composite

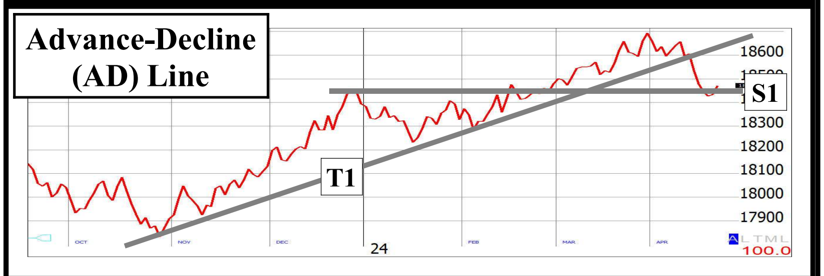
Stocks have been very resilient since last fall's low, however, the recent decline has been broad and steep enough to warrant consideration of a possible top. A bear market decline in stocks, however, is unlikely without a recession. So that brings up the question, is the Fed willing to keep rates high enough to trigger a recession in order to bring inflation down to its 2% target?

Business Cycle Summary -- If stocks have entered a bear market decline, the business cycle environment will have shifted dramatically to Stage V (bearish for bonds and stocks, bullish for commodities). The logical follow on would be a top in commodities as the economy weakens. While that would be negative for the market in the short term, it would set up a typical recovery bull market once the Fed reverses course and actually starts to lower rates to stimulate growth.

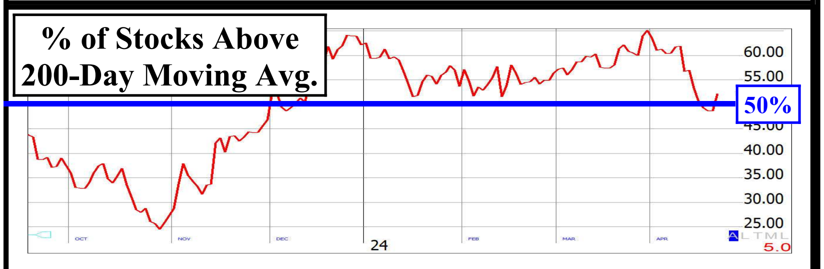
Market Environment (7-Month Charts)



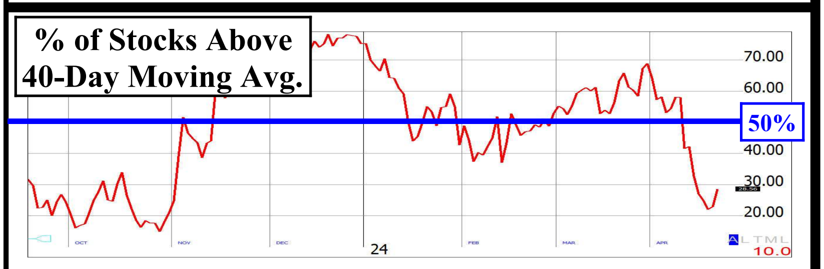
The New York Stock Exchange (NYSE) Composite has turned down. It has dropped decisively below the long-term uptrend line T1, but is still above major support S1, the late 2023 highs.



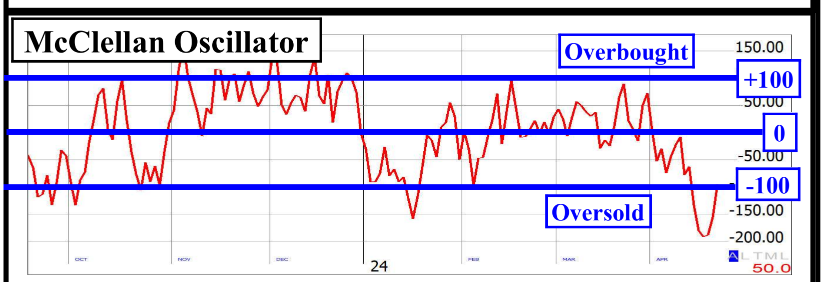
The NYSE AD Line has followed a very similar pattern, but is already testing support S1. This is a potential negative divergence of some significance. If the AD Line drops decisively through S1, it is likely that the NYSE Composite will follow suit.



The percentage of stocks above their 200-day moving average (in a long-term uptrend) bounced off the neutral 50% level. A decisive drops below this level would suggest that the NYSE Composite has entered a long-term downtrend, especially if the minor rally in the AD Line also fails.



The percentage of stocks above their 40-day moving average (in a short-term uptrend) has dropped to a level that suggests an intermediate-term oversold condition. The recent bounce could indicate the start of an oversold rally, but the bounce is not very convincing at this point.



The McClellan Oscillator dropped to a value of about negative 200. Such low values often signal a short-term oversold market condition sufficient to trigger short covering.

The charts above are from the Worden TeleChart Charting Program (www.worden.com).

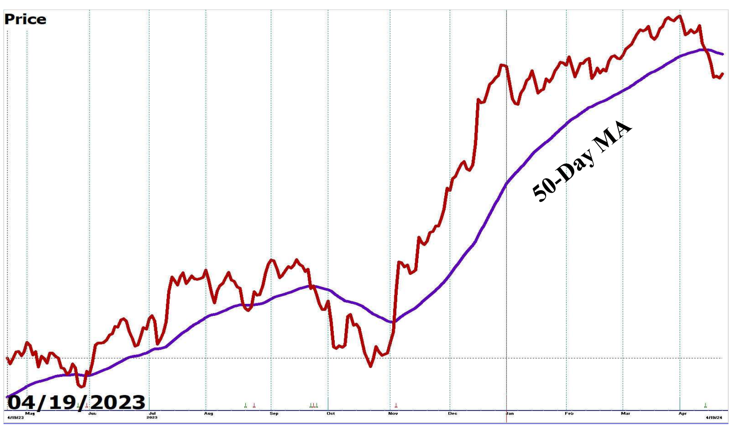
The short-term market environment has turned negative, but there are some indications of a short-term oversold condition that could fuel an oversold rally. If that happens, what follows will provide some insight about the long-term market environment, which is weak and concerning at this point.

Junk Bond Market Indicator (1-Year Charts)

Guidelines for using the junk bond trend as an aid to making investment decisions:

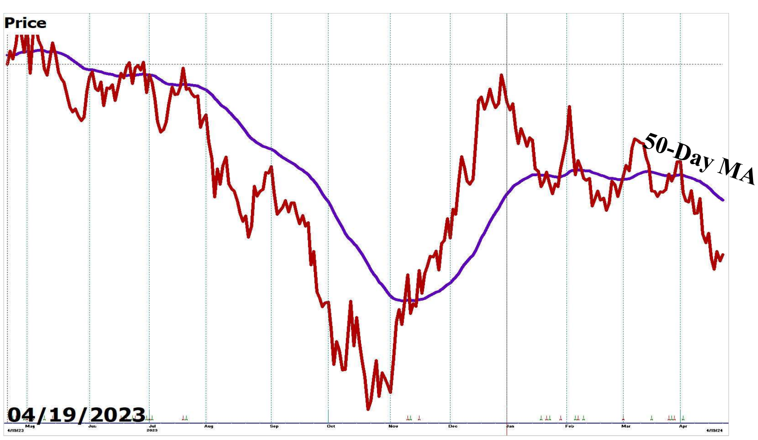
- When the Merrill Lynch Bank of America High Yield Master II Index (symbol MLHY– in FastTrack, referenced as the Junk Bond Index in the OnTrack Report) is trending up, the market environment is favorable for junk bonds.
- When the Junk Bond Index is trending down, the market environment is unfavorable for junk bonds.
- When the trend of the Junk Bond Index is uncertain, the market environment is uncertain.
- When the market environment is favorable for junk bonds, consider long positions in aggressive stock funds and junk bond mutual funds. In this environment, the use of leverage may be appropriate for some investors.

When the market environment is unfavorable for junk bonds, consider cash (money market funds), defensive stock funds, Treasury bond funds and other bond funds that tend to move in sync with Treasury bonds.



ML US High Yield Master II (Junk) Bond Index (MLHY-)

The Junk Bond Index has turned down. It is now below its 50-day moving average and the moving average has started to roll over. Any rally that fails at or below the 50-day moving average and then drops below the most recent low should be considered as a verified trend reversal.



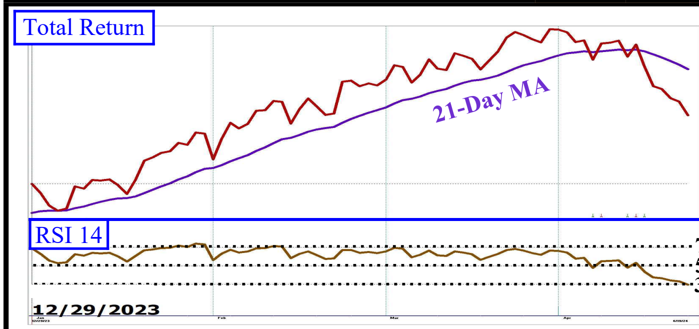
ML 20-Year Treasury Bond Index (ML-LT)

The Long-Term Treasury Bond Index is trending down. There is no flight to the safety of Treasury bonds — yet.

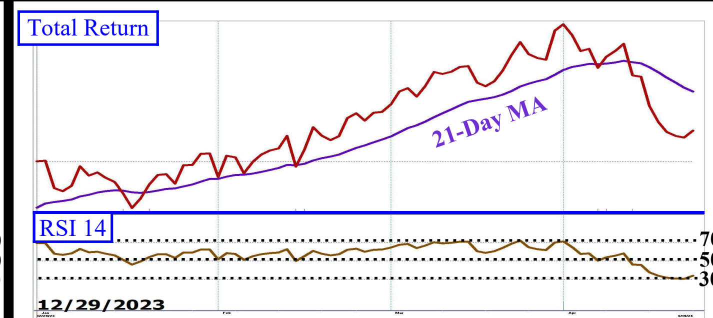
I consider the Junk Bond Market Indicator to be neutral at this point. A definitive top in the Junk Bond Index as defined above would turn the indicator negative, a worrisome signal for stocks and economically sensitive bond funds.

Stock Market Indices (Year-to-Date Charts)

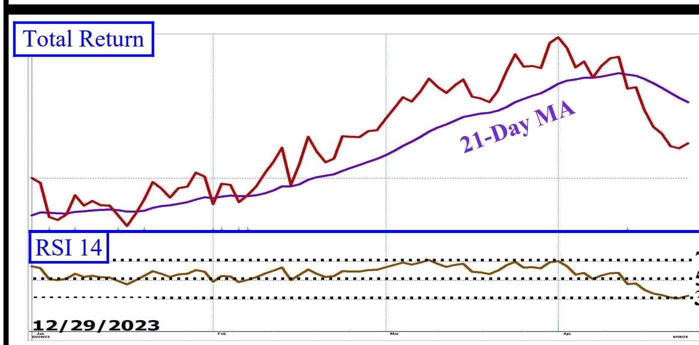
Symbol	Name	UI	MDD	TR	Ann	UPI	Trend	Comments
SPY	SPDR S&P 500 ETF	1.32	-5.35	4.5	16	11.7	▼	Short-term downtrend.
MDY	SPDR S&P Mid-Cap 400 ETF	2.25	-7.16	2.3	8	3.4	▼	Short-term downtrend.
RSP	Invesco S&P 500 Equal Weight ETF	1.83	-6.00	1.7	6	3.0	▼	Short-term downtrend.
QQQ	Invesco QQQ ETF	1.75	-7.11	1.4	5	2.5	▼	Short-term downtrend.
DIA	SPDR Dow Jones Industrials ETF	1.68	-5.14	1.3	4	2.4	▼	Short-term downtrend.
IWM	iShares Russell 2000 ETF	3.23	-8.30	(3.5)	(11)	0.0	▼	Short-term downtrend.



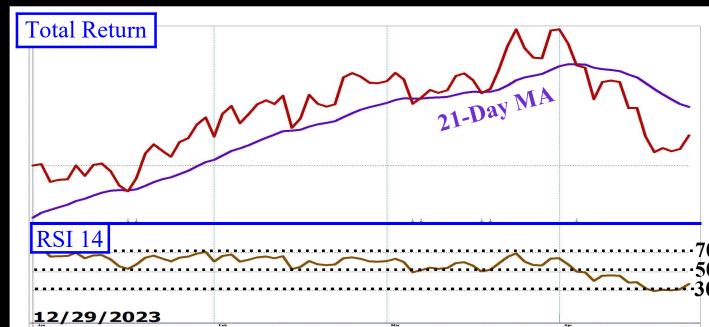
S&P 500 ETF (SPY)



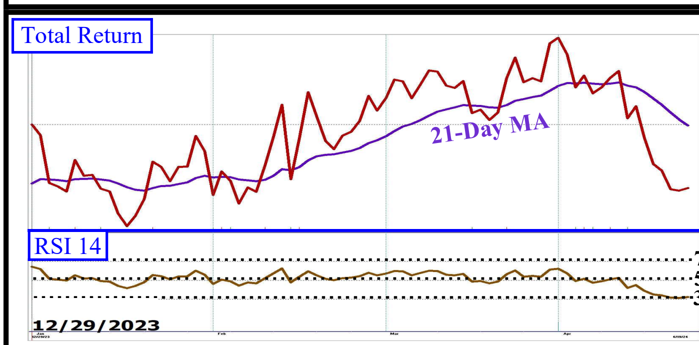
Invesco S&P 500 Equal Weight ETF (RSP)



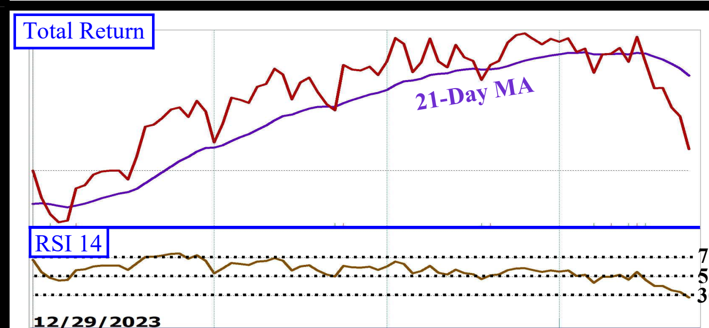
S&P 400 Mid-Cap ETF (MDY)



Dow 30 ETF (DIA)



Russell 2000 Small Cap ETF (IWM)



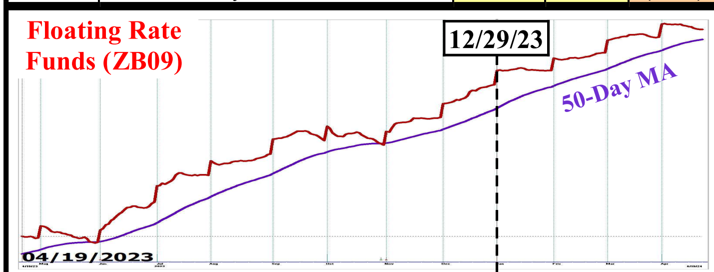
Nasdaq 100 ETF (QQQ)

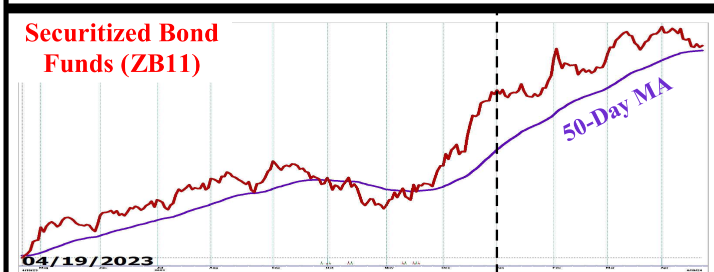
The stock index ETF charts above cover the year-to-date. The calculations for the table are for the same period. Negative UPI values are set to zero and the table is sorted by UPI with a secondary sort by MDD.

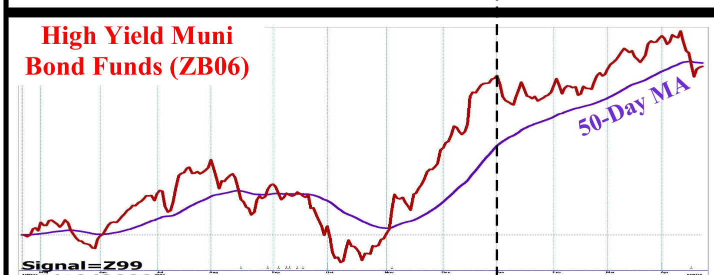
All the major stock indices are in short-term downtrends and have given up most or all of their gains for the year. If this is just a steep bull market correction, it should end soon. With the market oversold on a short-term basis, a rally of some type is likely to develop soon. The nature of the next rally and what follows should provide hints about the market's longer-term trend.

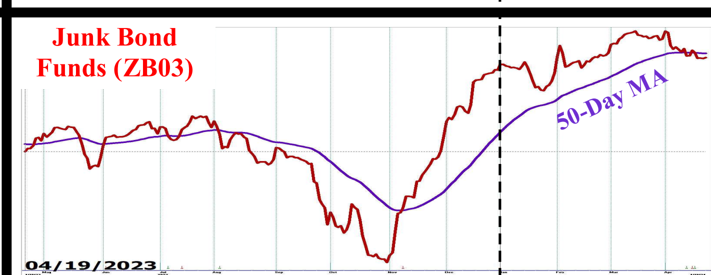
Bond/Income Fund Charts (1-Year Charts)

Symbol	Group Name	UI	MDD	TR	Ann	UPI	Trend	Comments
ZB09	Floating Rate Loans	0.09	-0.28	2.00	6.80	72.7	▲	Uptrend.
ZB10	Preferred	0.50	-1.78	2.06	7.0	13.4	▼	Short-term downtrend.
ZB11	Securitized Bond	0.34	-0.73	1.25	4.2	11.3	▼	Short-term downtrend.
ZB12	Income Funds	0.45	-1.17	1.12	3.8	7.7	▼	Short-term downtrend.
ZB04	Emerging Markets Bond	1.04	-2.90	0.59	2.0	1.6	▼	Short-term downtrend.
ZB06	High Yield Muni Bond	0.82	-1.59	0.38	1.3	1.2	▼	Short-term downtrend.
ZB05	Muni Bond	0.65	-1.24	(0.76)	(2.5)	0.0	▼	Short-term downtrend.
ZC01	Core Funds	0.64	-1.63	(0.48)	(1.6)	0.0	▼	Short-term downtrend.
ZB03	Junk Bond	0.62	-1.68	(0.17)	(0.6)	0.0	▼	Short-term downtrend.
ZB07	Inflation Adjusted Bond	1.07	-2.08	(1.48)	(4.8)	0.0	▼	Short-term downtrend.
ZB02	Corporate Bond	1.62	-3.34	(2.58)	(8.3)	0.0	▼	Downtrend.
ZB08	Mortgage Backed Bond	1.87	-3.84	(3.46)	(11.0)	0.0	▼	Downtrend.
ZB01	US Treasury Bond	1.98	-3.86	(3.28)	(10.5)	0.0	▼	Downtrend.









The bond/income fund group charts above cover the past year. The calculations for the table are for the year-to-date to allow for direct comparison to the stock index ETF calculations on page 5. Negative UPI values are set to zero and the table is sorted by UPI with a secondary sort by MDD.

With the Fed sending mixed signals about the likelihood of any rate cuts this year, Treasury bonds are trending down, along with the bond groups that typically trend in sync with Treasury bonds. This month, however, the economically sensitive bond groups have also turned down, reflecting concerns that the Fed may weaken the economy by keeping rates high for too long.

Model Portfolios

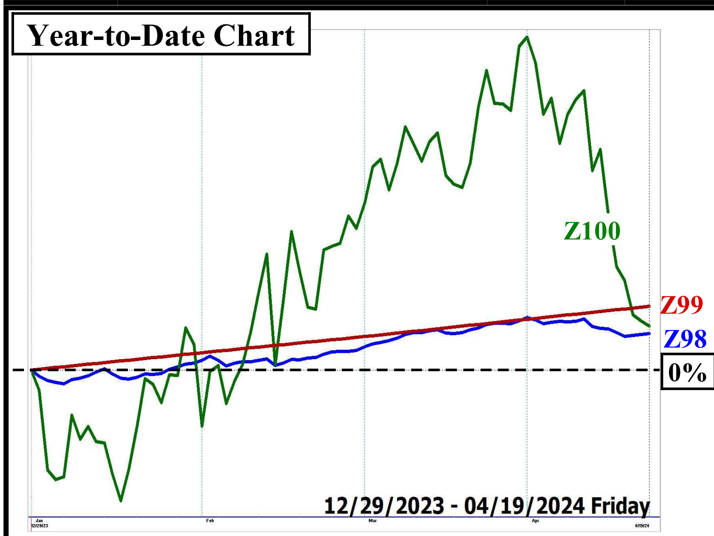
Symbol	Group/Fund	Conservative Allocation (Z98)	Aggressive Allocation (Z99)	Date Added	FastTrack Family
Z26	Large Cap Stocks	0	0	11/13/23	CAP-BIG
ZB03	Junk Bonds	0	0	11/06/23	BD-JUNK
ZB04	Emerging Markets Bond Funds	0	0	03/18/24	BD-EMERGE
ZB09	Floating Rate Funds	10	0	01/22/24	BD-FLOAT
ZB10	Preferred Funds	0	0	11/06/23	BD-PREFFERED
ZC01	Core Funds	35	0	08/31/20	N/A
	Money Market (SPAXX)	55	100		

Positions added or increased this week are highlighted with a green background. Positions deleted or reduced this week are highlighted with a blue background. Positions on my sell watch are highlighted with a tan background.

Always check fees, expenses and restrictions before buying any mutual fund!

Symbol	Name	UI	UPI	MDD	TR	ANN	COR	SD
Z98	Conservative Model	0.16	16.62	-0.45%	0.89%	2.98%	55.60%	0.31%
Z99	Aggressive Model	0	N/A	0.00%	1.56%	5.28%	4.04%	0.00%
Z100	IOT Stock Market Composite	2.14	1.56	-6.79%	1.08%	3.63%	N/A	4.21%

Year-to-Date Chart

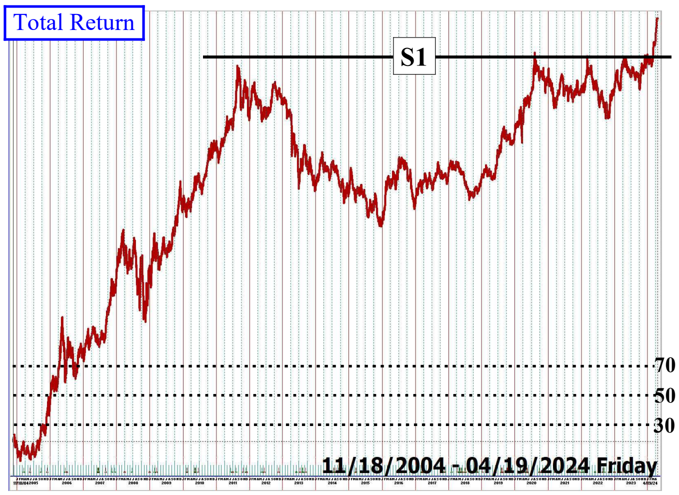


Z100 is the IOT Stock Market Composite used in the chart on page 2. The chart and the calculations for the table above cover the year-to-date.

I took a very defensive approach and dropped most positions from both models. I am not suggesting that individual investors necessarily take this extreme approach, but money markets are providing consistently positive returns and almost all sectors have turned down. We may soon have significantly greater insight into the weakness that has developed this month, but this monthly report only provides a snapshot of current market conditions.

The plots of Z98 and Z99 are not historical records. They are simply plots of current positions, including cash, calculated as if those positions had been held for the entire period of the chart at today's allocations. Any change in positions or allocations will change the entire charts. The primary purpose of the Z98 and Z99 charts is to show the approximate level of risk built into the models.

My Point (20-Year Chart)



Gold ETF (GLD)

Gold has received a lot of attention in the financial press recently. This very long-term (almost 20 years) chart shows why that attention is justified. GLD has broken out from a multi-year basing pattern and moved decisively above its 2011 peak. With no overhead resistance and a strong short-term uptrend, there could be substantial upside potential, especially during a period of high inflation.

One caveat, and a big one, is that gold can be very volatile. While the long-term chart is very positive, this is an appropriate investment primarily for aggressive, risk tolerant investors — or a very small allocation for conservative investors.

The Bottom Line

General - The broad stock market has turned down. It may not be time to sell all positions, but it is time to dance near the door.

Conservative Investors - Reduce or sell positions that hit your stops. Keep the proceeds in a money market or short-term bond fund until the market environment improves.

Aggressive Investors - Reduce risk by reducing market exposure. About the only thing that is trending up in the short term is commodities, especially gold. Do not concentrate too much in any one sector. It is better to raise cash and wait for market conditions to improve.

Recommendations are given for two broad categories of investors based on investing style and tolerance for risk—conservative and aggressive. Most investors fall somewhere in between these two categories, and sometimes shift their investing style as their financial situation and perception of market conditions change. The recommendations above are not given for any specific investor. It is your responsibility to determine what investing style best fits your individual needs, and to blend and tailor the recommendations above to fit your specific needs.