Trade of The Week - MacroVoices #536

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SUMMARY

Larry McDonald discusses a potential market regime shift favoring value and hard assets, particularly healthcare, as crowded growth stocks face a sell-off. The trade of the week involves a strategic position in the XLV healthcare ETF, utilizing an option collar to manage risk while participating in a healthcare rotation.

- *Market leadership may be shifting from growth stocks to value sectors like healthcare.*
- *The XLV ETF is recommended for exposure to healthcare, which is currently under-owned.*
- *A low-cost option collar strategy is proposed to limit downside risk while allowing for upside potential.*
- *Broader market volatility remains a concern, especially with upcoming major IPOs that could impact capital allocation.*
- *The S&P 500 is at a critical support level around 7300, with potential for systematic selling if breached.*
- *The US dollar is showing bullish signs, potentially reaching higher resistance levels.*
- *Oil prices remain flat despite geopolitical tensions, with speculation affecting market behavior.*
- *Gold is experiencing a downward trend, with potential targets around 3000 if current conditions persist.*
- *Uranium stocks are facing volatility, but fundamentals remain strong for long-term investors.*

[music] >> Now, back to your hosts, Eric Townsend and Patrick Ceresna. >> Eric, it's great to have Larry back on the show. Now, listeners, you're going to find the download link for this week's trade of the week in your research roundup email. If you don't have a research roundup email, it means you have not yet registered at macrovoices.com. Just go to our homepage and click on the red button over Larry's picture saying looking for the downloads.

>> Patrick, what's on deck for your trade of the week this week? >> Larry McDonald's argument was that we may be entering a very different market regime where the leadership shifts away from crowded growth and momentum stocks and back toward value, hard assets, and under-owned sectors that have been left behind. One of the clearest examples he highlighted was healthcare. Despite the long-term demographic support from aging baby boomers, healthcare has been aggressively sold down as investors crowded into AI, semiconductors, and mega-cap technology. So, rather than chasing the sectors that have already absorbed the majority of the speculative capital, this week's trade of the week is about positioning for a rotation back into healthcare, one of the most under-owned and unloved parts of the market. From a trade construction standpoint, I want to express the view through the XLV, the healthcare sector ETF. With XLV closing around $152.85, the primary position is simply to own the shares and participate in what appears to be an emerging rotation back into healthcare. Now, because broader equity market volatility remains a risk, I want to overlay a low-cost option collar structure to define the near-term downside while still leaving room for upside participation. Specifically, I'm looking at buying the August 145 put for roughly a dollar 90, which sits near the March and April lows and creates a logical downside protection level. To help finance that hedge, I'm selling the August 165 covered call

for around a dollar 24. That reduces the net hedge cost to approximately 66 cents, creating a carry efficient collar around the long stock position. The idea is to maintain strategic equity exposure to the healthcare rotation while using the options market to define a short-term risk budget around the position. From a payoff perspective, the protective put defines the downside floor to $145, limiting risk through expiration to approximately $8.51 per share, while on the upside, the covered call caps gains to about $165, leaving approximately $11.49 of upside potential over the next few months. The result is a stock-first investment in a potential healthcare rotation with a defined risk option overlay designed to protect against short-term market turbulence while still allowing meaningful upside if the XLV continues to break out.

>> Patrick, every Monday at Big Picture Trading, your webinar explains how retail investors can put on our most recent trade of the week. For those listeners that want to explore how to put on these trades in greater detail, don't miss out on a 14-day free trial at bigpicturetrading.com. Now, let's dive into the post-game Chart Deck. >> All right, Eric, let's dive into the equity markets. What's on your mind? >> Well, the stock market rally finally broke, but I don't think the Hormuz crisis had anything to do with it. Oil hasn't seen any meaningful upside response despite a complete failure of the peace deal negotiations and a major kinetic escalation.

As a long-term investor, I think we need to step back and look at the big picture of what 2027 could bring. We've got the three biggest IPOs ever ever I mean by a lot. The biggest one ever was 25 billion Saudi Aramco. Now we're talking about trillion dollar capitalizations, 80 billion dollar raise on a single IPO and there's three of them on that scale between SpaceX, Open AI and Anthropic all on deck in the next probably 6 months. So, where is the 200 to 250 billion of immediate capital raises?

Where's that money going to come from? Well, of course it's going to compete with other equities, the rest of the stock market for capital allocation. I think the biggest tell here though is all the smartest money in the world, the billionaires that run these the founders, the Elon Musks, the the Sam Altmans. These guys are all at the same moment deciding their next move should be to sell their private equity to public market bag holders or at least that's the way I'm seeing this. But I don't think the real story is the IPOs Patrick. I think it's the overhang in those stocks. For anyone not familiar with that term, overhang refers to the number of restricted shares, the founders, the venture capitalist that funded the early stage development of these companies. Their shares are all restricted at the time of the IPO, but they all come out of lockup in the case of SpaceX on a pretty aggressive schedule. It's before the end of 2026 I think around December or so. So, don't worry about the paltry little 200 to 250 billion of IPO direct raises. Think about the three trillion dollars of restricted shares that are going to be unlocked by the end of 2027. A trillion here, a trillion there, and now we're talking about real money, folks. The Iran conflict, meanwhile, is not going well. So, just think about what 2027 is going to look like. There's going to be three trillion dollars of equity that's being unlocked that people will be tempted, especially if markets are selling off, to get the heck out of and cash in, you know, collect their winnings from from the last however many years they've been in those private equities as a illiquid investment. If the Iran conflict continues to not go well, well, what's the US political picture going to look like in 2027 if the Democrats take both houses of Congress in the November election? We'd probably be looking at more impeachments, partisan gridlock, and three trillion dollars of insider shares coming out of lockup all at the same time. Sounds like a recipe for maybe a lot of people panicking and just getting the heck out of the stock market. So, I think as we really consider what the outlook for 2027 is, there's a bear case that's pretty darn strong that I don't think a lot of people are thinking about.

>> Well, Eric, I will completely agree with you that the IPOs are going to be the story for the entire summer going into the third quarter and whether they'll be able to raise that capital. But, I want to specifically speak to the charts here for a moment because we had this correction from 7,600 down to testing 7,300 on the S&P along its 50-day moving average. To me, this is a a very key pullback because the bulls had a pretty good cushion and they could absorb this type of a sell-off without triggering systematic selling. And we're still at that moment where if the bulls can get past a SpaceX IPO and keep the market pinned to the 7300 area, then we could still see a rally in the markets back to its previous highs and and generally keep the market elevated. I say that because if 7300 on the other end is given out, there this is where we're going to see some systematic selling kick in. Obviously there's no clarity exactly where CTAs kick in and on their selling, but many estimate that that selling kicks in around 7300 on the S&P. And so if we see any further deterioration, we may see as much [snorts] as a hundred to a hundred fifty billion dollars to sell that would be feedback mechanism of selling as CTAs would be forced to liquidate. Are we going to see that systematic selling kick in or will the bulls be able to keep it above the trigger points? This is the puzzle to solve here technically.

At this moment, I'm going to give the bulls the benefit of the doubt because we here we are right before the SpaceX IPO and we many people that are funding this would have already done their structural selling. So it might very well be a key support line, but we're definitely going to watch. Now the one thing I will say if 7300 does give out and systematic selling does dominate, a trip to retest 7000 on the S&P could be in the cards.

That would be that 10% pullback from peak to trough. At this moment, that's not my favorite scenario, but we are at the edge of that cliff and if that systematic selling kicks in, that would be a logical first target. All right Eric, let's talk about this US dollar. >> Well, the dollar rally finally pushed through 99 and a half on the Dixie up to resistance again at 100 this week. I anticipated that that would be the case and that's exactly what happened. I think the Iran conflict is likely to escalate from here. If it does, I think there's more upside at least to 101 and a half on the Dixie. The dollar's eventually going to top out and roll over and probably roll over hard, but not yet. I [clears throat] think it's when the Iran conflict is really and truly winding down that we see the dollar top out and then I think it probably has a long way to go to the downside, but I don't think we're there yet. Well, this is certainly the the puzzle to solve here, Eric, on the dollar because it has been behaving very bullishly and we are now approaching the 52-week highs. And if the dollar here bullishly breaks to fresh new highs here on a bull impulse, it could send shockwaves through the intermarkets as a dollar bull can certainly has all sorts implications on other asset pricing. It's been a very stable, boring currency market and there's been very little to nothing happening here, which means that if we did suddenly get a breakout, that would certainly catch a lot of traders off guard. We are right now trading right up along those highs that euro's been weakening below 116.

This is certainly a moment to see whether resistance actually holds or whether or not the US dollar has that journey to 102 or 103 ahead of it. All right, Eric, we got to talk crude oil here. Well, President Trump deserves an Oscar for his ability to jawbone the oil market down in the face of all the facts and evidence suggesting the conflict is far from over and with considerable kinetic escalation in the last week alone resulting in exactly zero increase, at least as of recording time, in oil prices whatsoever since last Friday's close. We're not up one penny over last Friday's close. We've been down quite a bit. We've recovered some of that downside. But, you know, the story last Friday was supposedly a deal was close at hand. We expected that Monday, Tuesday, Wednesday of this week is when the final signing was going to happen. Peace was close at hand. That was the story Friday.

Since then, we've had a major escalation. Straits completely closed again. Kinetic escalation. And oil prices are flat. On Tuesday of this week, CNN cataloged the number of times President Trump has said a peace deal with Iran is now imminent. It's just around the corner. All we have is just a few little details to work out and we've got the peace deal. He said that a total of 38 times since February 28th. I think it's actually 39 now cuz there's been one since Tuesday. So, my hypothesis here is speculators have been scared out of the market. Why all of this jawboning by the president is so effective, I'm not sure.

But, it seems to be working. It's scaring the speculators out of the market. We're seeing clearly in the price action that every time he does this and says there's another peace deal at hand, it pushes oil prices back down lower. Uh it's amazing to me that that works, but it works. So, the physical market is not forward-looking. We don't need to see the physical market reprice anything until we actually exhaust those buffers in storage tanks and so forth. Once that's exhausted, the physical market does need to rebalance in order to close the monthly futures contract. There has to be a rebalancing of supply and demand. Normally, what happens is that outcome would be anticipated by speculators who would front-run it, resulting in a gradual ramp-up to a final crescendo when the physical market finally rebalances supply and demand. My expectation is speculators are going to continue to stay scared out of the market by all these Truth Social posts, which, you know, hey, they they take $10 bite out of the market in an instant. If you're a speculator, you don't want to be long in an environment when you don't know when the next Truth Social post is, and you have at least a gut feeling that maybe some people do have that inside information, and you're trading against them. Meanwhile, sentiment surveys say that over 75% of market participants now expect lower prices and soon. Now, if they're all wrong, and I think they probably will be proven wrong, the repositioning will be extremely violent once they're proven wrong. So, when it suddenly becomes game on time, in other words, when the physical market really does have to resolve an imbalance that can only be resolved through the price mechanism.

The specs, I think, will pile in all at once. They've been afraid to get in this market. The that fear, I think, will shift from fear of getting trapped by the next Truth Social post into fear of missing out on the biggest price spike of all time. So, that means that when the physical market forces a price spike, when it comes, you're going to see the speculators that would normally would have front-run it by several weeks all diving in at once.

It's everybody piles on at the same time. And I think the result could be that it makes that price spike, when it happens, both much more sudden and much more violent than it would have been without all the jawboning scaring specs out of the market. All of this is predicated on my personal analysis that we're nowhere close to a peace deal, and that we can't realistically come to one because the disagreement on the nuclear file is frankly irreconcilable.

Now, if I'm wrong about that and the other 70% of the market are right, then the big peace deal wins next week. It's all peace. Everything's over. You know, it's a completely different outlook. I see that is profoundly unlikely, but hey, I could be wrong. I've been wrong before. >> Well, Eric, when we're talking about oil's chart, uh it is fascinating how this is coiled up into one big horizontal triangle pattern as we've seen it become coiled into a tighter and tighter range, even though it's hard to to measure that when you're seeing five, six, seven dollars swings this often.

But really, uh the question is is going to be what will be the catalyst for a potential breakout out of this triangle formation? Where would it likely go? Now, obviously, some people speculate that if suddenly there was a peace deal, that we could see, you know, $80 or less on crude. But there has structurally been uh a huge inventory depletion. And there is a higher level of oil that is likely to be with us. And so, be very interesting to see whether uh uh there will be this one moment where everyone realizes that a peace deal is much farther than everyone expects and it causes oil to break back above the 100 handle, which I think is psychologically going to be uh a breaking point that could create uh a rush back into oil and drive a potential advance. Now, I'm not looking for that just yet, but listen, we can get that kind of a trigger at any point if uh if we see missiles flying in the Middle East and everyone recognizes that this problem is going to be last longer uh than everyone expects.

>> All right, Eric. Let's uh let's touch on gold here. >> Well, I warned last week that we were teetering on the 200-day moving average support level at 44.15, which I said I did not expect to hold and I further cautioned that taking out that critical 200-day moving average would likely result in an acceleration of downside price action toward the prior low at 4100 from about 3 months ago. Well, that's exactly what happened. We've already taken out 4100 to the downside with the low print so far as of recording time at 4047 4047.

That 4100 support line ought to be good for at least a little pause here, maybe a bounce, but if Hormuz remains unresolved, I think there's plenty of room for lower prices still. And frankly, if we were to see the Hormuz crisis extend all the way to the end of the calendar year, I don't think 3000 is out of the question for the gold market to test that 3000 round number support might be by the end of the year. Now, that would only happen if we were to see a prolonged extension of the Hormuz crisis, but I don't think that's out of the question.

>> Well, Eric, on this show for over a month, we've been talking about how distributive the price action has been on gold. And so this last one week was a definitive acceleration of that selling. What's clear to me is that we went through a 2-year bull market that was an extraordinary impulse higher that ended with a beautiful parabolic rise at the tail end. And we're now 6 months into a correction. And at this stage, there is a lot of headwinds. You have higher interest rates, a rising dollar, things that typically are headwinds for gold and then probably no imminent turn in those trends. And so at this stage, expecting gold to continue to remain in this consolidation phase is the path of least resistance. The bigger question is how low can it go? I know you're suggesting 3,000. I think for now the most logical short-term target is looking back at the October lows, which were around 3,900. And if that doesn't hold, there's key consolidation levels that happened earlier in 2025 around that 3,400 level. Those would be all kind of logical downside targets for for short-term moves. Now, overall, there's going to be an extraordinary buying opportunity in gold, but it really does look like the summer is going to be rather challenging for it and we'll really be looking for where is that turning point once we get into the second half of the year. So, Eric, what are your thoughts here on uranium?

>> Well, as our regular listeners know, I remain and I will always remain super bullish long-term. But, I've been warning for several weeks now that this market felt toppy and that a broad market risk event could easily drive uranium miners much lower. Well, that's exactly what played out this week. It's the exact scenario that I've been expressing concern about here on MacroVoices for the last few weeks. We saw the S&P 500 down hard on Friday and uranium down even harder on a percentage basis and again on Tuesday. Now, I still love the

fundamentals, but hey, a popping of the AI bubble and a broad bear market in in stocks could easily mean a washout for uranium on the scale of the 2024 into April of 2025 period.

Frankly, the fundamentals were terrific then at the end of 2024, but it just wasn't registering. This is a very volatile sector with famously high retail participation. If we see people getting margin called out of the stock market, I think it could be a real disaster scenario for the uranium miners. Doesn't change my fundamental outlook one iota, but as a long-term investor, I still believe uranium is the the opportunity of the decade, but I'm bracing myself for more downside before this is over, and I'm not in any rush to start adding to my long-term buy and hold positions in uranium because frankly, I don't think it's time yet. I think that there's could be considerable more turbulence before we're out of this storm.

>> What's interesting to me is that uranium has been a little bit weak as a commodity, but certainly we have seen the distribution cycle in uranium stocks really accelerate here, and it really does look like it happened the same time as the gold miner started to sell. And so we really at this stage are in the midst of some sort of distribution cycle. When we look back at uranium stocks back in 2024 and 25, the bull story was also super strong. But in that period, the URA managed to have two consolidations in the 35 to 40% variety. And so the idea here that we are in the midst of this style of a market correction is very likely, and so now it's just a matter of seeing where and how low it goes, and then we'll be looking for the technical bottoming formations for the potential next key buying opportunities. And that's the thing that overall, things are very bullish fundamentally for uranium. So the question becomes when do the stock start to behave like there's another bull impulse coming on the upside, and that's going to be the thing to watch.

>> Patrick, before we wrap up this week's podcast, let's hit that 10-year Treasury note chart. >> We've basically been trading in a consolidation for the last month, pinned between like 445 to 465. Overall, there's been a very clear and distinct correlation between rates and inflation expectations driven by oil. And so, the puzzle to solve here is that if oil, for whatever reason, did have another bull impulse on the upside and broke out on there, would we see it impact the rates markets again and that correlation stay true? That is the thing to watch. Overall, I at some stage bonds are going to be a no-brainer buy, but at this moment, uh the with the current geopolitical and macro backdrop, I think it's a very premature to be looking for a peak in these yields and lows in bonds just yet.

And so, at this stage I'm staying very neutral and observing and respecting that this prevailing uptrend in yields is still intact. >> Folks, if you enjoy Patrick's Chart Decks, you can get them every single day of the week with a free trial of Big Picture Trading. The details are on the last pages of the slide deck, or just go to bigpicturetrading.com. Patrick, tell them what they can expect to find in this week's research roundup. >> Well, in this week's research roundup, you're going to find the transcript for today's interview, as well as the trade of the week chart book that we just discussed here in the postgame, including a number of links to articles that we found interesting. You're going to find this link and so much more in this week's research roundup. That does it for this week's episode. We appreciate all the feedback and support we get from our listeners, and we're always looking for suggestions on how we can make the program even better. Now, for those of our listeners that write or blog about the markets and would like to share that content with our listeners, send us an email at researchroundup@macrovoices.com, and we will consider it for our weekly distributions.

If you have not already, follow our main account on X @macrovoices for all the most recent updates and releases. You can also follow Eric on X @erikstownsend. That's Eric spelled with a K. And you can also follow me @patrickceresna. On behalf of Erik Townsend and myself, thank you for listening, and we'll see you all next week. >> That concludes this edition of MacroVoices. Be sure to tune in each week to hear feature interviews with the brightest [music] minds in finance and macroeconomics.

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