

Weekly Market Notes

February 11, 2019

Dow Industrials 25106
S&P 500 2707



Please refer to Appendix – Important Disclosures

Stock Market Outlook – Where do we go from here?

The stock market in 2019 has been bolstered by mostly positive earnings results, signs of strength in the labor market and the Federal Reserve Open Market Committee’s reaffirming their commitment to be “patient” about further rate hikes in light of recent global economic and financial developments and muted inflation pressures. While January was a blockbuster month for the stock market, the first week in February saw U.S. equity markets finish basically unchanged from the previous week and may reflect concerns over slowing global economies, trade concerns and an earnings slowdown. As the U.S. economic expansion continues into its tenth year, we are seeing a mixed picture of the U. S. economy. The job market is healthy and business investment is strong. Yet we have seen manufacturing and services Institute for Supply Management surveys decline. Confidence among CEOs and small businesses that greatly influence spending and hiring, has dropped to the lowest levels in more than a year. Consumer confidence has also declined, which implies slower consumer spending ahead. There has been a slowdown in interest rate sensitive sectors like housing and autos. Although our outlook for 2019 includes positive year over year returns, there remains sufficient intermediate uncertainty to recommend focusing on the strongest areas of the market. The top five sectors in our work include REITs, utilities, communication services, industrials and consumer discretionary.

Summary

Mixed picture of U.S. economy, trade and global growth concerns suggests a defensive approach to the stock market. Top sectors in terms of relative strength offer the most attractive buying opportunities including real estate investment trusts, health care, communication services, utilities and industrials. Technical indicators point to increased optimism in the markets which from a contrarian’s viewpoint, suggest a less aggressive approach.

The technical overbought/oversold indicators have rotated in dramatic fashion from deeply oversold in early January with investor psychology very pessimistic. The January rally has encouraged increased optimism allowing investor sentiment to come full circle from late-December readings. This is seen in the Ned Davis Daily Trading Sentiment Composite that is now in the excessive optimism zone from deep pessimism in late last year. Additionally, the National Association of Active Investment Managers (NAAIM) Exposure Index is all the way back to where it was as stocks were peaking in September, indicating a return to excessive optimism. The CBOE Volatility Index (VIX) has fallen to early October levels suggesting that the mood of investors has shifted from being fearful to optimistic. We view investor sentiment from a contrarian’s lens and by definition the return of optimism argues for a less aggressive approach over the near term.



Bruce Bittles
Chief Investment Strategist
bbittles@rwbaird.com
941-906-2830

William Delwiche, CMT, CFA
Investment Strategist
wdelwiche@rwbaird.com
414-298-7802

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	Current		Previous		Indication
CBOE 10-Day Put/Call Ratio <i>Below 85% is bearish; Above 95% is bullish</i>	93%		93%		Neutral
CBOE 3-Day Equity Put/Call Ratio <i>Below 58% is bearish; Above 71% is bullish</i>	65%		59%		Neutral
VIX Volatility Index <i>Below 16 is bearish; Above 30 is bullish</i>	15.7		16.1		Optimism
American Association of Individual Investors <i>Twice as many bulls as bears is bearish; 2X more bears than bulls is bullish</i>	Bulls: Bears:	40% 37%	Bulls: Bears:	32% 32%	Neutral
Investors Intelligence (Advisory Services) <i>55% bulls considered bearish/more than 35% bears is bullish</i>	Bulls: Bears:	49% 21%	Bulls: Bears:	46% 21%	Neutral
National Assoc. of Active Investment Mgrs. (NAAIM) <i>Below 25% is bullish; Above 73% is bearish</i>	83%		76%		Bearish
Ned Davis Research Crowd Sentiment Poll	Rising Optimism		Rising Optimism		Neutral
Ned Davis Research Daily Trading Sentiment Composite	Optimism Excessive		Rising Optimism		Excessive optimism

	RS Ranking			RS Trend	Sub-Industry Detail
	Current	Previous	Previous		
Real Estate	1	**	1		<i>Leaders:</i> Industrial REITs; Office REITs; Health Care REITs; Residential REITs; Retail REITs; Real Estate Services <i>Laggards:</i> Hotel & Resort REITs
Industrials	2	**	4	+	<i>Leaders:</i> Aerospace & Defense; Agricultural & Farm Machinery; Railroads <i>Laggards:</i> Air Freight & Logistics
Utilities	3	**	5	-	<i>Leaders:</i> Independent Power Producers <i>Laggards:</i>
Consumer Discretionary	4	**	2		<i>Leaders:</i> Consumer Electronics; Footwear <i>Laggards:</i> Tires & Rubber; Motorcycle Manufacturers; Specialized Consumer Services; Department Stores; Computer & Electronics Retail
Communication Services	5	**	3		<i>Leaders:</i> Movies & Entertainment <i>Laggards:</i> Alternative Carriers; Publishing; Home Entertainment Software
Health Care	6		6	-	<i>Leaders:</i> Health Care Facilities <i>Laggards:</i> Health Care Technology
Information Technology	7		9		<i>Leaders:</i> Application Software; Electronic Equipment & Instruments <i>Laggards:</i>
Financials	8		7		<i>Leaders:</i> Insurance Brokers <i>Laggards:</i>
Consumer Staples	9		8		<i>Leaders:</i> Personal Products <i>Laggards:</i> Distillers & Vintners; Agricultural Products; Tobacco
Energy	10		11		<i>Leaders:</i> Oil & Gas Storage & Transportation <i>Laggards:</i> Oil & Gas Drilling; Oil & Gas Equipment & Services; Oil & Gas Exploration & Production
Materials	11		10		<i>Leaders:</i> Metal & Glass Containers <i>Laggards:</i> Commodity Chemicals; Diversified Chemicals; Construction Materials

** Denotes Current Relative Strength-Based Overweight Sectors

Appendix – Important Disclosures and Analyst Certification

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