

Weekly Market Notes

April 9, 2018

Dow Industrials 23932
S&P 500 2604



Please refer to Appendix – Important Disclosures

Stock Market

Stocks dropped again on Friday as investors fear tariff and trade conflicts between U.S. and China. Over the weekend White House officials attempted to calm investor concerns by pointing out that tariffs have yet to be enacted and that this will be a two- to three-month period of negotiation with China and other countries. The U.S. may end up changing its stance on tariffs in exchange for an agreement from China to back down on its theft of our intellectual property rights and better access for U.S. companies in China. The market is also reacting to concerns about inflation and rising interest rates and regulatory crackdowns on big technology companies. Additionally, a mixed March jobs report showed weaker-than-expected payroll growth, an unchanged unemployment rate, and slightly higher wage growth. Bear markets break out due to warning signs of a recession. Most economists view recession risks as low. Analysts are looking for a strong earnings season in response to the recent corporate tax cuts. Stocks enter the new week oversold and underbelieved which, using contrary opinion, is favorable.

Summary

Oversold condition and rising investor pessimism offer the potential for a near-term stock market rally

Economy: March jobs data showed weak growth but improving wages not expected to delay Fed actions

Fed Policy: June rate hike remains in the forecast but odds of four interest rate increases declines

The technical indicators support the prospects for improving stock market conditions near term. Last week's performance was marked by reduced selling pressure as fewer issues made new 52-week lows. Despite the S&P 500 Index falling below 2600 intraday last week, the percentage of issues trading above their 50-day moving averages made a higher low from what was seen at the February 8 bottom. Investor sentiment moved closer to extreme pessimism last week, which is seen as a positive development as it suggests that liquidity is building on the sidelines. The latest survey from the American Association of Individual Investors (AAII) shows the percentage of investors who are pessimistic about the short-term direction of stock prices is at its highest level in nearly seven months. The latest report from Investors Intelligence (II), which tracks the opinion of Wall Street letter writers, shows the fewest bulls since the cycle low in September 2017. Additionally, the demand for put options continues to soar indicating that too many are looking down. The important missing element remains the inability of the equity markets to break the downside momentum which has caused all rallies to abort. In order to argue that the current decline has run its course, we need to see at least one session where upside volume overwhelms downside momentum by a ratio of 9-to-1.

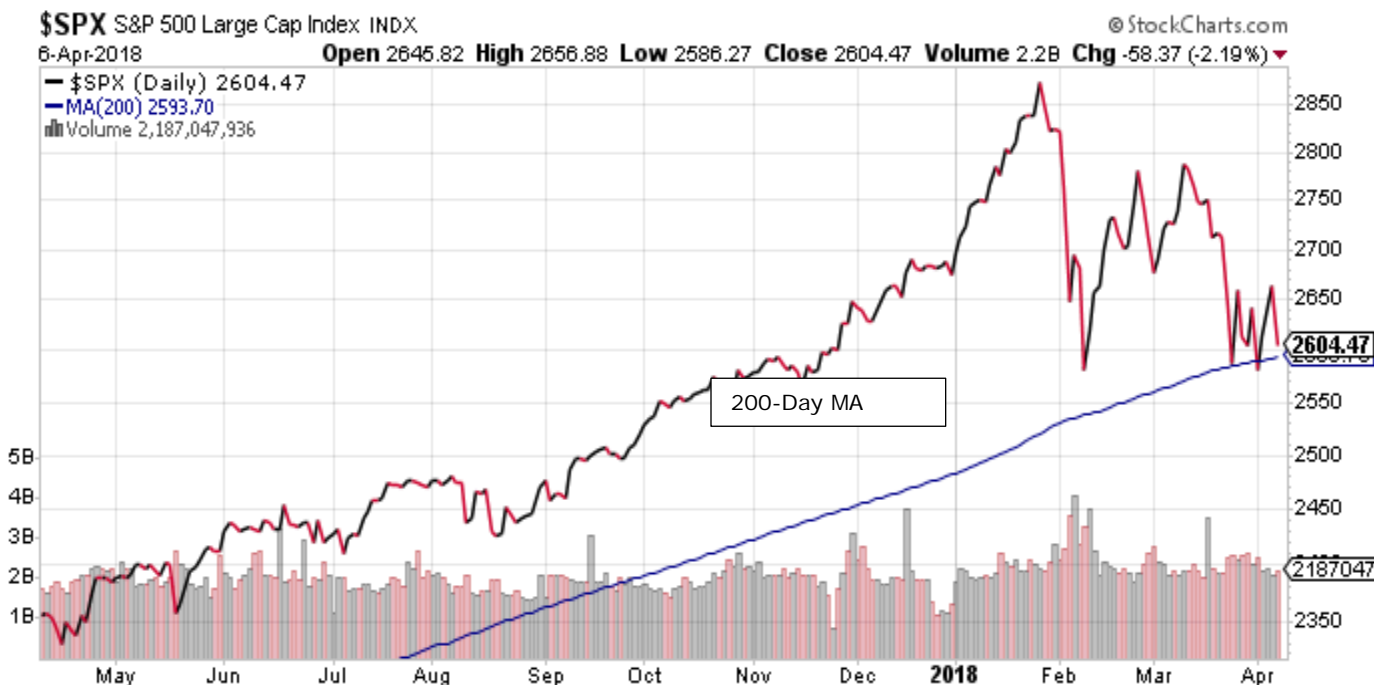


Chart Source – StockCharts

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Sentiment

	Current Week		Previous Week		Indication
CBOE 10-Day Put/Call Ratio <i>Below 83% is bearish; Above 95% is bullish</i>	113%		116%		Bullish
CBOE 3-Day Equity Put/Call Ratio <i>Below 55% is bearish; Above 65% is bullish</i>	67%		67%		Bullish
VIX Volatility Index <i>Below 11 is bearish; Above 20 is bullish</i>	21.5		20.0		Bullish
American Association of Individual Investors <i>Twice as many bulls as bears is bearish; 2X more bears than bulls is bullish</i>	Bulls: Bears:	31.9% 36.6%	Bulls: Bears:	31.9% 35.3%	Neutral
Investors Intelligence (Advisory Services) <i>55% bulls considered bearish/more than 35% bears is bullish</i>	Bulls: Bears:	47.6% 18.1%	Bulls: Bears:	49.5% 17.5%	Neutral
National Assoc. of Active Investment Mgrs. (NAAIM) <i>Below 30% is bullish; Above 80% is bearish</i>	56%		49%		Neutral
Ned Davis Research Crowd Sentiment Poll	Optimism Fading		Optimism Fading		Neutral
Ned Davis Research Daily Trading Sentiment Composite	Extreme Pessimism		Extreme Pessimism		Bullish

	RS Ranking		RS Trend	Sub-Industry Detail
	Current	Previous		
Information Technology	1	** 1		<i>Leaders:</i> Data Processing & Outsourced Services; Application Software; Systems Software; Communications Equipment; Electronic Equipment & Instruments <i>Laggards:</i>
Consumer Discretionary	2	** 2		<i>Leaders:</i> Apparel, Accessories & Luxury Goods; Footwear; Casinos & Gaming; Internet Retail; Department Stores; Computers & Electronic Retail <i>Laggards:</i> Tires & Rubber; Motorcycle Manufacturers; Home Furnishings; Household Appliances; Housewares & Specialties; Leisure Products; Cable & Satellite; Specialty Stores
Financials	3	** 5	-	<i>Leaders:</i> Real Estate Services <i>Laggards:</i> Multi-Line Insurance
Utilities	4	** 6	+	<i>Leaders:</i> Independent Power Producers <i>Laggards:</i>
Energy	5	8		<i>Leaders:</i> Oil & Gas Refining & Marketing <i>Laggards:</i> Oil & Gas Storage & Transportation
Industrials	6	** 3		<i>Leaders:</i> Aerospace & Defense; Trading Companies & Distributors; Diversified Support Services; Human Resources & Employment Services <i>Laggards:</i> Building Products; Industrial Conglomerates
Health Care	7	4		<i>Leaders:</i> <i>Laggards:</i> Health Care Distributors; Health Care Technology; Biotechnology
Materials	8	7		<i>Leaders:</i> <i>Laggards:</i> Diversified Chemicals
Telecom Services	9	10		<i>Leaders:</i> <i>Laggards:</i>
Consumer Staples	10	9		<i>Leaders:</i> Distillers & Vintners; Personal Products <i>Laggards:</i> Drug Retail; Brewers; Packaged Foods & Meats; Household Products

** Denotes Current Relative Strength-Based Overweight Sectors

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