

Weekly Market Notes

July 24, 2017

Dow Industrials 21580
S&P 500 2472



Please refer to Appendix – Important Disclosures

Rising Profits and Low Inflation Boosting Stocks Higher

The popular averages continued to pursue a slow and persistent track to new record highs last week. Stocks were supported by improving second quarter earnings and by CFO reports of stronger top-line growth. The decline in the U.S. dollar this year is an unexpected benefit to large-cap multinationals. The combination of stronger economic growth, weak dollar and low and stable interest rates have caused upward revisions in S&P 500 second quarter earnings growth from 8% to 10%. GDP growth for the second quarter to be reported this week is anticipated to be in the vicinity of 2.50% to 2.70%. That's a significant improvement over the 1.4% economic growth reported in the first quarter. The fact that inflation remains anchored is another unexpected bullish factor for stocks this year. The Fed's Open Policy Committee meets this week against a near perfect backdrop of improving economic growth and little pricing pressure. The Consumer Price Index rose only 1.6% year-over-year, which is far short of the Fed's 2.0% goal. As a result, the fed funds futures market now suggests little chance of a September rate hike and less than a 40% probability the Fed will raise rates in December. Given the likelihood that the Fed will continue to pursue a strategy of a measured approach to monetary policy it is not surprising that the CBOE Volatility Index (VIX) hit a 23-year low on Friday. Low VIX readings suggest widespread complacency but the super-low VIX reading is a mirror image of the measured pace of the advance in stock prices in 2017. In the late stages of a bull market investors typically barge in with the last of the sidelined cash causing volatility to jump and prices to rise rapidly for a period of time. The slow steady grind higher in July argues that a final capitulation stage is somewhere in the distant future.

Summary

Economy: Housing rebounds –starts increase for first time in four months – Building permits climb the most since fourth quarter 2015; Conference Board's Leading Economic Index climbs most since December

Fed Policy: Policy committee meets July 25-26 – no change expected in interest rates

Sentiment: Indicators of investor psychology show optimism ticking up last week

Strongest Sectors: Financials, tech, materials, industrials and health care

The technical indicators, on balance, suggest the intermediate-term trend of the stock market will continue higher. More than 400 issues hit new weekly highs versus 300 the previous week and 200 early in July. New highs by the large cap averages were joined by new record highs of small- and mid-cap indices and the NY Stock Exchange Composite. Over the very near term, however, the market could be vulnerable to a pullback given that stocks enter the new week in an overbought condition. New highs by the S&P 500 last week and higher prices in eight of the last nine trading sessions by the NASDAQ caused investor confidence to uptick for the first time in many weeks. The latest report from Investors Intelligence (II) showed 57.8% bulls up from 50.0% the previous week and a drop in bears to just 16.7%, one of the lowest readings of the year. The latest survey from the American Association of Individual Investors (AAII) showed more bulls than bears for only the second time this year. Additionally, the Chicago Board of Options Exchange (CBOE) reported a significant decline in the demand for put options (puts are bought by investors expecting a market decline). This resulted in the overall CBOE 10-day put/call ratio to drop to 85%. Below 83% would trigger a caution signal. The CBOE equity only put/call ratio remained in the caution zone for the second week in a row. The increase in bullish sentiment is not seen as a threat to the intermediate-term trend of the stock market. Near term, rising bullish sentiment increases the odds of a short-term pullback in the traditionally weak seasonal period of August and September.

Sentiment

	Current Week		Previous Week		Indication
CBOE 10-Day Put/Call Ratio <i>Below 83% is bearish; Above 95% is bullish</i>	85%		94%		Neutral
CBOE 3-Day Equity Put/Call Ratio <i>Below 58% is bearish; Above 68% is bullish</i>	56%		58%		Bearish
VIX Volatility Index <i>Below 12 is bearish; Above 20 is bullish</i>	9.36		9.51		Bearish
American Association of Individual Investors <i>Twice as many bulls as bears is bearish; 2X more bears than bulls is bullish</i>	Bulls:	35.5%	Bulls:	28.2%	Neutral
	Bears:	25.8%	Bears:	29.6%	
Investors Intelligence (Advisory Services) <i>55% bulls considered bearish/more than 35% bears is bullish</i>	Bulls:	57.8%	Bulls:	50.0%	Bearish
	Bears:	16.7%	Bears:	18.6%	
National Assoc. of Active Investment Mgrs. (NAAIM) <i>Below 30% is bullish; Above 80% is bearish</i>	89%		90%		Bearish
Ned Davis Research Crowd Sentiment Poll	Optimism Excessive		Optimism Excessive		Bearish
Ned Davis Research Daily Trading Sentiment Composite	Optimism Excessive		Optimism		Bearish

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	RS Ranking			RS Trend	Sub-Industry Detail
	Current	Previous	Previous		
Financials	1	**	1		<i>Leaders:</i> Diversified Banks; Regional Banks; Asset Management & Custody Banks; Investment Banking & Brokerage; Life & Health Insurance; Real Estate Services <i>Laggards:</i> Retail REIT's
Information Technology	2	**	5		<i>Leaders:</i> Systems Software; Home Entertainment Software; Electronics Components; Electronic Manufacturing Services <i>Laggards:</i>
Materials	3	**	3		<i>Leaders:</i> Paper Packaging <i>Laggards:</i> Gold
Industrials	4	**	2		<i>Leaders:</i> Aerospace & Defense; Construction Machinery & Heavy Trucks; Airlines <i>Laggards:</i>
Health Care	5	**	4		<i>Leaders:</i> Managed Health Care <i>Laggards:</i>
Consumer Discretionary	6		6		<i>Leaders:</i> Auto Parts & Equipment; Tires & Rubber; Casinos & Gaming; Specialized Consumer Services <i>Laggards:</i> Motorcycle Manufacturers; Advertising; Distributors; Department Stores; General Merchandise Stores; Apparel Retail; Specialty Stores; Automotive Retail; Homefurnishing Retail
Utilities	7		8		<i>Leaders:</i> Independent Power Producers <i>Laggards:</i>
Energy	8		9		<i>Leaders:</i> <i>Laggards:</i> Oil & Gas Drilling; Oil & Gas Equipment & Services; Oil & Gas Exploration & Production
Consumer Staples	9		7		<i>Leaders:</i> <i>Laggards:</i> Drug Retail; Food Distributors; Food Retail; Brewers; Packaged Foods & Meats
Telecom Services	10		10		<i>Leaders:</i> <i>Laggards:</i> Integrated Telecom Services

** Denotes Current Relative Strength-Based Overweight Sectors



Source: StockCharts

Appendix – Important Disclosures and Analyst Certification

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