

Weekly Market Notes

April 16, 2018

Dow Industrials 24360
S&P 500 2656

Please refer to Appendix – Important Disclosures

Macro View

While stocks may benefit in the near term from the perceived alleviation of geo-political uncertainties, this may yield to a more pronounced focus on the ability of companies to deliver on elevated earnings expectations. Consensus expectations have earnings rising 18% on reported basis in the first quarter (23% on an operating basis). This represents a high bar for stocks to get over and pattern of the past 20 years is that stocks have tended to struggle when upside earnings surprises have slowed. Elevated earnings expectations are coming with stock market valuations stretched and Central Bank provided liquidity poised to ebb.

Market Thoughts

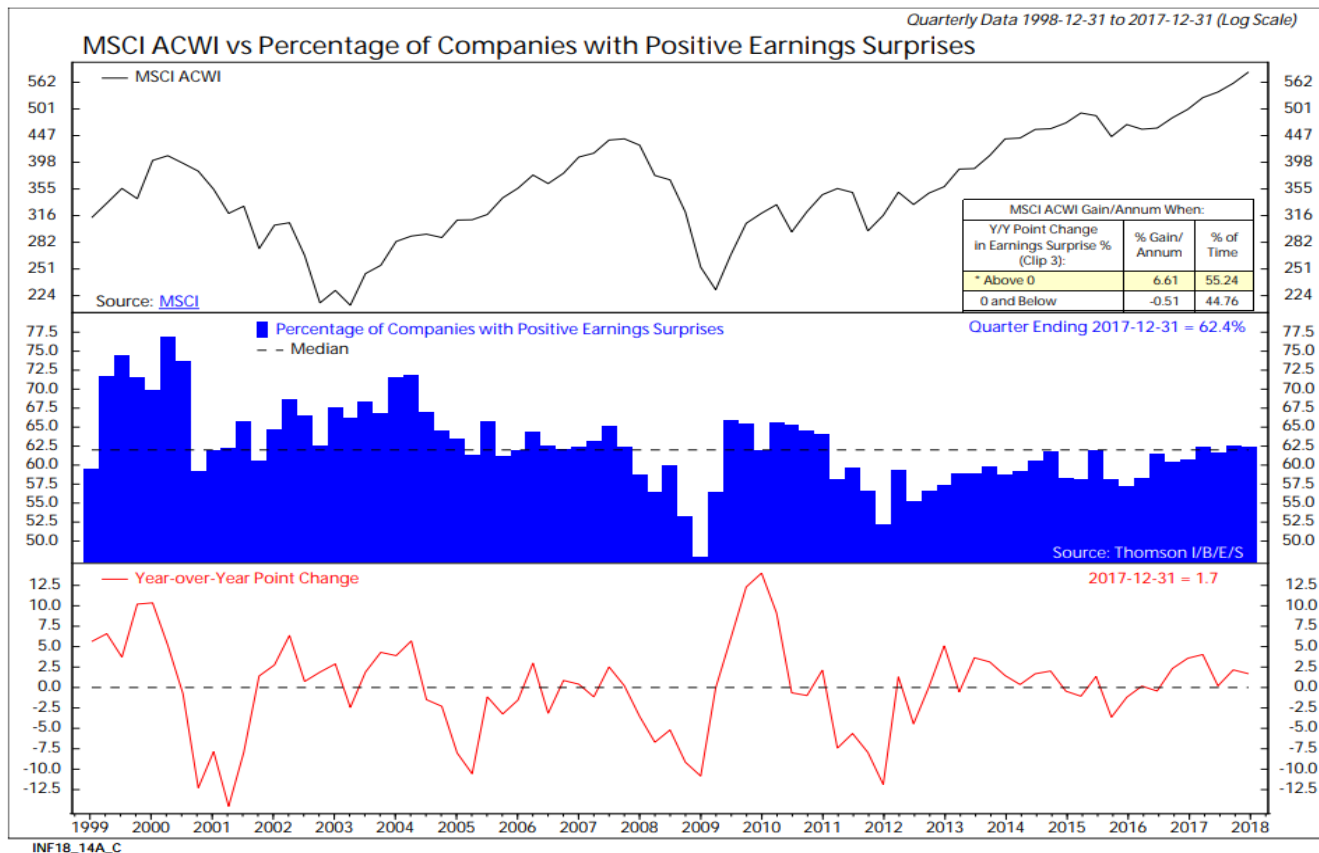
Stock market volatility (the S&P 500 has experienced 28 1% daily moves already in 2018) has helped lead to a pronounced reduction in investor optimism since the extreme readings seen early this year. As discussed in our most recent Weight of the Evidence update ([Indicators Have Shifted But Overall Evidence Still Neutral](#)), this shift toward a more favorable sentiment backdrop has been offset by a more challenging seasonal backdrop (brought in focus this past week by the Speaker Ryan's announcement that he would not be running for re-election. The emergence of excessive pessimism could help stocks attempt to continue to bounce off of their recent lows. To gain conviction that any such moves will have meaningful staying power, we continue to look for evidence of upside momentum reemerging in the broad market (specifically two or more days with upside volume outpacing downside volume by better than 9-to-1). Absent the emergence of a breadth thrust, near-term swings and news-related rallies and sell-offs may mean a continuation of the ongoing consolidation phase.

Summary

Stocks remain stuck in a broad consolidation as rallies have been unable to generate upside momentum

Economy: Trend in growth is improving, even if not matching early-quarter expectations

Fed Policy: There is little indication of a more aggressive rate tightening path, but the Fed does seem to be focused more on upside inflation surprises



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Chart Source – Ned Davis Research

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

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

Sentiment

	Current Week		Previous Week		Indication
CBOE 10-Day Put/Call Ratio <i>Below 83% is bearish; Above 95% is bullish</i>	100%		113%		Bullish
CBOE 3-Day Equity Put/Call Ratio <i>Below 55% is bearish; Above 65% is bullish</i>	66%		67%		Bullish
VIX Volatility Index <i>Below 11 is bearish; Above 20 is bullish</i>	17.4		21.5		Neutral
American Association of Individual Investors <i>Twice as many bulls as bears is bearish; 2X more bears than bulls is bullish</i>	Bulls:	26.1%	Bulls:	31.9%	Neutral
	Bears:	42.8%	Bears:	36.6%	
Investors Intelligence (Advisory Services) <i>55% bulls considered bearish/more than 35% bears is bullish</i>	Bulls:	42.2%	Bulls:	47.6%	Neutral
	Bears:	18.6%	Bears:	18.1%	
National Assoc. of Active Investment Mgrs. (NAAIM) <i>Below 30% is bullish; Above 80% is bearish</i>	65%		56%		Neutral
Ned Davis Research Crowd Sentiment Poll	Extreme Pessimism		Optimism Fading		Bullish
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> Application Software; Systems Software; Communications Equipment; Electronic Equipment & Instruments; Semiconductor Equipment; Semiconductors <i>Laggards:</i>
Consumer Discretionary	2	** 2		<i>Leaders:</i> Apparel, Accessories & Luxury Goods; Footwear; Casinos & Gaming; Internet Retail <i>Laggards:</i> Tires & Rubber; Motorcycle Manufacturers; Household Appliances; Housewares & Specialties; Leisure Products; Broadcasting; Cable & Satellite
Energy	3	5		<i>Leaders:</i> Oil & Gas Drilling; Oil & Gas Refining & Marketing <i>Laggards:</i> Oil & Gas Storage & Transportation
Financials	4	** 3	-	<i>Leaders:</i> Real Estate Services <i>Laggards:</i> Multi-Line Insurance; Retail REITs
Industrials	5	** 6		<i>Leaders:</i> Trading Companies & Distributors; Diversified Support Services; Human Resources & Employment Services <i>Laggards:</i> Industrial Conglomerates; Airlines
Utilities	6	4	+	<i>Leaders:</i> Independent Power Producers <i>Laggards:</i>
Health Care	7	7		<i>Leaders:</i> <i>Laggards:</i> Health Care Distributors; Health Care Technology; Biotechnology
Materials	8	8		<i>Leaders:</i> Gold <i>Laggards:</i> Construction Materials
Telecom Services	9	9		<i>Leaders:</i> <i>Laggards:</i>
Consumer Staples	10	10		<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

Appendix – Important Disclosures and Analyst Certification

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