

Weekly Market Notes

September 18, 2017

Dow Industrials 22268
S&P 500 2500



Please refer to Appendix – Important Disclosures

Strongest Sectors = Health Care, Industrials and Materials

The equity markets enter the new week with the S&P 500 and Dow Industrials sitting at record highs. Stocks are being supported by improving global economic conditions and by a growing consensus that tax relief could become a reality in 2017. As a result, the prospects for further near-term gains have improved. Looking further out, we would anticipate that if a new leg in the bull market is developing it would likely be preceded by a breath thrust that would include at least one session where upside volume exceeds downside volume by a ratio of 10-to-1 or more. Further confirmation that stocks are breaking out of an intermediate-term trading pattern would include new highs by the small- and mid-cap averages that have lagged the S&P 500 in the second half of the year. The focus of attention this week will be on the Federal Reserve Board which meets on September 19 and 20. The Fed is widely anticipated to announce its balance sheet normalization process and commence its securities runoff in October. More importantly, Janet Yellen faces no great urgency to raise the level of fed funds in 2017 considering inflation remains below Fed targets and given the uncertainty surrounding the economic effects of hurricanes Harvey and Irma. Investors should focus on the strongest performing sectors that include the industrials, materials and health care sectors.

Summary

Economy: Retail sales fell in August, its second decline in three months; industrial production dropped in August for the first time in seven months; CPI inflation jumps 0.4% in August, the most in seven months

Fed Policy: Fed meets September 20 and is anticipated to announce beginning of balance sheet reduction

Sentiment: Short-term sentiment indicators shows too much pessimism –supports further rally

Strongest Sectors: Health Care, Industrials, & Materials make up relative strength leadership group

The technical indicators for the stock market are mixed. **Sentiment** indicators show that investor optimism found early in the third quarter is reversing. This can be seen in the latest report from Investors Intelligence (II) and data provided by the Chicago Board of Options Exchange (CBOE) that shows the demand for put options expanding. Using contrary opinion, the shift in sentiment is a favorable near-term development. Longer-term measures of investor sentiment, however, remain a concern. Margin debt is at or near an all-time record high (\$550 billion), double what was seen at previous stock market peaks. Cash levels as represented by investor accounts in money market funds, stock mutual funds and ETFs are at an all-time record low suggesting long-term optimism is elevated. Measures of stock market **breadth** offer a similar message. Short-term improvement is seen in the expansion of issues hitting new 52-week highs the past two weeks and the contraction in the number of stocks reaching new lows. Longer-term breadth issues, however, remain unresolved. Despite the rally to new highs by the S&P 500 Index only 68% of S&P 500 stocks are trading above their 200-day moving average, down from 83% in February and 77% in July. Additionally, less than 60% of the industry groups within the S&P 500 are in defined uptrends, down from 80% in the first quarter of the year. To gain confidence that the recent rally is the start of a new bull leg we would expect to see an expansion in the percentage of industry groups in the S&P 500 climb above 75%.

Sentiment

	Current Week		Previous Week		Indication
CBOE 10-Day Put/Call Ratio <i>Below 83% is bearish; Above 95% is bullish</i>	96%		98%		Bullish
CBOE 3-Day Equity Put/Call Ratio <i>Below 59% is bearish; Above 68% is bullish</i>	58%		61%		Bearish
VIX Volatility Index <i>Below 11 is bearish; Above 20 is bullish</i>	10.1		12.1		Bearish
American Association of Individual Investors <i>Twice as many bulls as bears is bearish; 2X more bears than bulls is bullish</i>	Bulls:	41.3%	Bulls:	29.3%	Neutral
	Bears:	22.0%	Bears:	35.7%	
Investors Intelligence (Advisory Services) <i>55% bulls considered bearish/more than 35% bears is bullish</i>	Bulls:	47.1%	Bulls:	49.5%	Neutral
	Bears:	20.2%	Bears:	19.1%	
National Assoc. of Active Investment Mgrs. (NAAIM) <i>Below 30% is bullish; Above 80% is bearish</i>	71%		82%		Neutral
Ned Davis Research Crowd Sentiment Poll	Optimism Excessive		Optimism Excessive		Bearish
Ned Davis Research Daily Trading Sentiment Composite	Optimism Rising		Optimism Entering		Neutral

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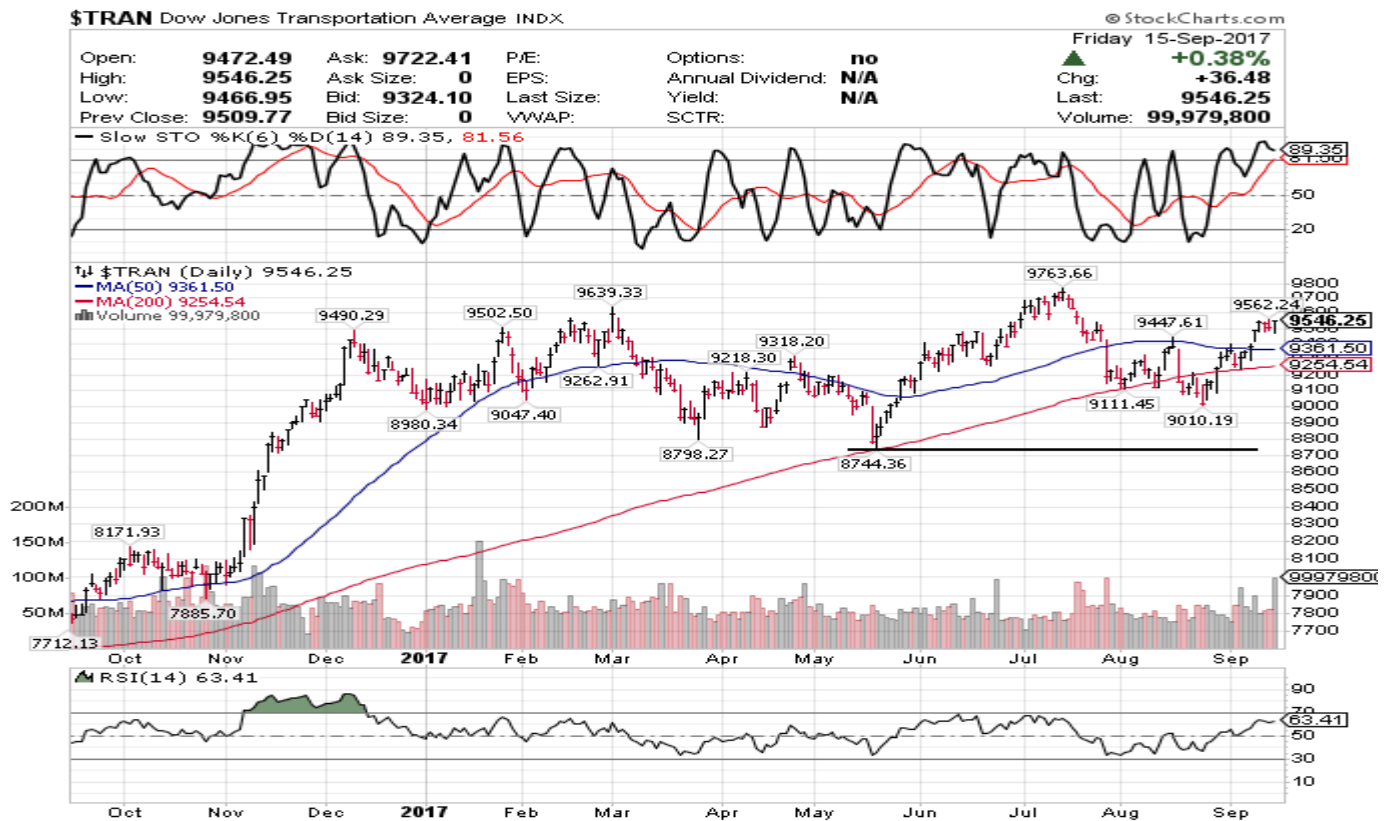
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	RS Ranking		RS Trend	Sub-Industry Detail
	Current	Previous		
Health Care	1	** 2		<i>Leaders:</i> Managed Health Care; Health Care Technology; Biotechnology; Life Science Tools & Services <i>Laggards:</i> Health Care Distributors; Health Care Facilities
Information Technology	2	** 1		<i>Leaders:</i> Internet Software & Services; Data Processing & Outsourced Services; Application Software; Systems Software; Home Entertainment Software <i>Laggards:</i>
Utilities	3	** 3		<i>Leaders:</i> Electric Utilities; Independent Power Producers <i>Laggards:</i>
Materials	4	** 4		<i>Leaders:</i> Gold <i>Laggards:</i> Steel
Industrials	5	6	-	<i>Leaders:</i> Aerospace & Defense; Construction Machinery & Heavy Trucks <i>Laggards:</i> Construction & Engineering; Industrial Conglomerates; Airlines
Consumer Staples	6	9		<i>Leaders:</i> Distillers & Vintners; Personal Products <i>Laggards:</i> Packaged Foods & Meats
Energy	7	10		<i>Leaders:</i> <i>Laggards:</i> Oil & Gas Drilling; Oil & Gas Equipment & Services; Oil & Gas Exploration Production
Consumer Discretionary	8	8		<i>Leaders:</i> Auto Parts & Equipment; Casinos & Gaming <i>Laggards:</i> Tires & Rubber; Motorcycle Manufacturers; Household Appliances; Housewares & Specialties; Leisure Products; Footwear; Advertising; Movies & Entertainment
Financials	9	5	-	<i>Leaders:</i> Industrials REITs; Specialized REITs <i>Laggards:</i> Multi-line Insurance
Telecom Services	10	7		<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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