

Weekly Market Notes

June 18, 2018

Dow Industrials 25091
S&P 500 2780



Please refer to Appendix – Important Disclosures

Stock Market

The S&P 500 was little changed last week, but both the NASDAQ Composite and the small-cap Russell 2000 continued to rally and closed higher on the week (in both cases closing at new highs on a weekly basis). While stocks seemed to shake off any potential concerns from an interest rate hike from the Fed (with expectations of two more in 2018), a timetable for ending quantitative easing from the ECB, and hints of tit-for-tat tariffs with China, both the bond market and commodities market showed less than sanguine reactions. The yield on the 10-year T-Note moved lower in the wake of the central bank actions and the CRB commodity index fell nearly 2% on the week. These pullbacks in bond yields and commodity prices come within the context of emerging up-trends and there is little evidence at this point that economic fundamentals in the U.S. are beginning to deteriorate (conditions overseas could be getting more challenging).

Summary

Economy: Monthly retail sales surprised to the upside, while The Atlanta Fed's GDPNow estimate for current quarter GDP is approaching 5.0%

Fed Policy: The Fed raised rates by 25 basis points, and its summary of economic projections points to two more rate hikes this year. The ECB provided a time table for the ending of QE, but tried to limit expectations of rate hikes.

At the same time, broad market improvements have struggled to keep pace with the index-level gains and investor optimism is at or near the levels seen in January. We have yet to witness a breadth thrust which would suggest this period of consolidation has come to a close. Moreover, despite the string of new highs being recorded on the NASDAQ Composite, less than 70% of NASDAQ stocks even trade above their 50-day averages and the net number of stocks making new highs is contracting not expanding. From a sentiment perspective, the NAAIM data this week showed further capitulation by the bearish contingent and both the AAI and Investors Intelligence surveys show more than twice as many bulls as bears. The NDR Trading sentiment composite has moved further into the excessive optimism zone and has now surpassed the peak seen in January.

For a more complete look at both the macro and market factors as we move to the second half of 2018, please review our recently published second half outlook ([Weight of Evidence Argues for Near-Term Caution](#)).

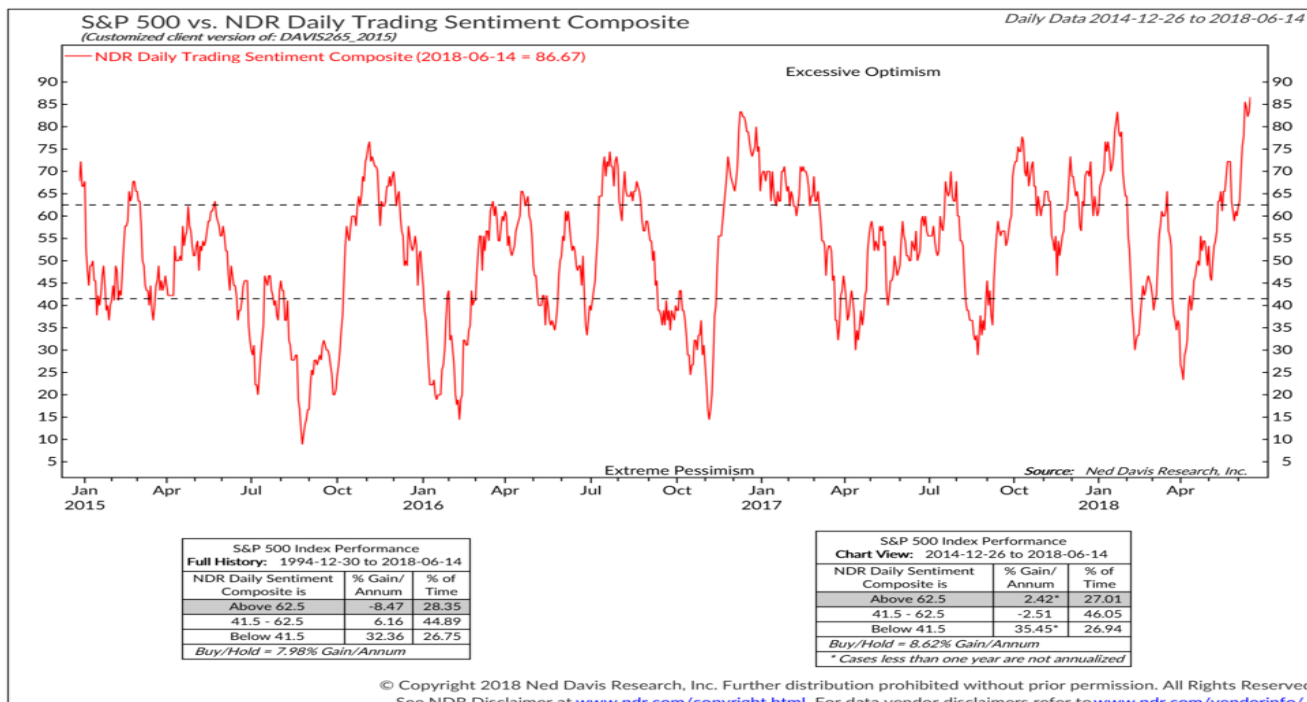


Chart Source – Ned Davis Research

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>	83%		94%		Neutral
CBOE 3-Day Equity Put/Call Ratio <i>Below 55% is bearish; Above 65% is bullish</i>	55%		56%		Neutral
VIX Volatility Index <i>Below 11 is bearish; Above 20 is bullish</i>	12.0		12.1		Neutral
American Association of Individual Investors <i>Twice as many bulls as bears is bearish; 2X more bears than bulls is bullish</i>	Bulls: Bears:	44.8% 21.7%	Bulls: Bears:	38.9% 26.7%	Bearish
Investors Intelligence (Advisory Services) <i>55% bulls considered bearish/more than 35% bears is bullish</i>	Bulls: Bears:	55.5% 17.8%	Bulls: Bears:	52.9% 17.7%	Bearish
National Assoc. of Active Investment Mgrs. (NAAIM) <i>Below 30% is bullish; Above 80% is bearish</i>	104%		92%		Bearish
Ned Davis Research Crowd Sentiment Poll	Optimism Excessive		Neutral Zone		Bearish
Ned Davis Research Daily Trading Sentiment Composite	Optimism Excessive		Optimism Fading		Bearish

	RS Ranking			RS Trend	Sub-Industry Detail
	Current	Previous	Previous		
Information Technology	1	**	1		<i>Leaders:</i> Data Processing & Outsourced Services; Application Software; Home Entertainment Software; Semiconductors <i>Laggards:</i>
Consumer Discretionary	2	**	2		<i>Leaders:</i> Auto Parts & Equipment; Apparel, Accessories & Luxury Goods; Footwear; Internet Retail; Department Stores; Apparel Retail; Home Improvement Retail; Specialty Stores; Automotive Retail <i>Laggards:</i> Tires & Rubber; Home Furnishings; Housewares & Specialties; Casinos & Gaming; Specialized Consumer Services; Cable & Satellite
Energy	3	**	3		<i>Leaders:</i> Oil & Gas Refining & Marketing <i>Laggards:</i>
Health Care	4		7		<i>Leaders:</i> <i>Laggards:</i> Health Care Distributors
Materials	5		4		<i>Leaders:</i> Steel <i>Laggards:</i> Metal & Glass Containers
Financials	6		6	-	<i>Leaders:</i> <i>Laggards:</i> Multi-Sector Holdings; Life & Health Insurance; Property & Casualty Insurance
Industrials	7		5		<i>Leaders:</i> Diversified Support Services; Human Resources & Employment Services; Railroads; Trucking <i>Laggards:</i> Building Products; Industrial Conglomerates; Airlines
Consumer Staples	8		9		<i>Leaders:</i> <i>Laggards:</i> Brewers; Tobacco; Household Products
Utilities	9		10		<i>Leaders:</i> Independent Power Producers <i>Laggards:</i> Electric Utilities; Multi-Utilities & Unregulated Power
Telecom Services	10		8		<i>Leaders:</i> <i>Laggards:</i> Integrated Telecom

** Denotes Current Relative Strength-Based Overweight Sectors

Appendix – Important Disclosures and Analyst Certification

This is not a complete analysis of every material fact regarding any company, industry or security. The opinions expressed here reflect our judgment at this date and are subject to change. The information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy.

ADDITIONAL INFORMATION ON COMPANIES MENTIONED HEREIN IS AVAILABLE UPON REQUEST

The Dow Jones Industrial Average, S&P 500, S&P 400 and Russell 2000 and any other indices mentioned are unmanaged common stock indices used to measure and report performance of various sectors of the stock market; direct investment in indices is not available. Baird is exempt from the requirement to hold an Australian financial services license. Baird is regulated by the United States Securities and Exchange Commission, FINRA, and various other self-regulatory organizations and those laws and regulations may differ from Australian laws. This report has been prepared in accordance with the laws and regulations governing United States broker-dealers and not Australian laws.

United Kingdom (“UK”) disclosure requirements for the purpose of distributing this research into the UK and other countries for which Robert W. Baird Limited holds a MiFID passport.

The contents of this report may contain an "investment recommendation", as defined by the Market Abuse Regulation EU No 596/2014 ("MAR"). This report does not contain a "personal recommendation" or "investment advice", as defined by the Market in Financial Instruments Directive 2014/65/EU ("MiFID"). Please therefore be aware of the important disclosures outlined below. Unless otherwise stated, this report was completed and first disseminated at the date and time provided on the timestamp of the report. If you would like further information on dissemination times, please contact us. The views contained in this report: (i) do not necessarily correspond to, and may differ from, the views of Robert W. Baird Limited or any other entity within the Baird Group, in particular Robert W. Baird & Co. Incorporated; and (ii) may differ from the views of another individual of Robert W. Baird Limited.

This material is distributed in the UK and the European Economic Area ("EEA") by Robert W. Baird Limited, which has an office at Finsbury Circus House, 15 Finsbury Circus, London EC2M 7EB and is authorized and regulated by the Financial Conduct Authority ("FCA") in the UK.

For the purposes of the FCA requirements, this investment research report is classified as investment research and is objective. This material is only directed at and is only made available to persons in the EEA who would satisfy the criteria of being "Professional" investors under MiFID and to persons in the UK falling within Articles 19, 38, 47, and 49 of the Financial Services and Markets Act of 2000 (Financial Promotion) Order 2005 (all such persons being referred to as "relevant persons"). Accordingly, this document is intended only for persons regarded as investment professionals (or equivalent) and is not to be distributed to or passed onto any other person (such as persons who would be classified as Retail clients under MiFID).

All substantially material sources of the information contained in this report are disclosed. All sources of information in this report are reliable, but where there is any doubt as to reliability of a particular source, this is clearly indicated. There is no intention to update this report in future. Where, for any reason, an update is made, this will be made clear in writing on the research report. Such instances will be occasional only.

Investment involves risk. The price of securities may fluctuate and past performance is not indicative of future results. Any recommendation contained in the research report does not have regard to the specific investment objectives, financial situation and the particular needs of any individuals. You are advised to exercise caution in relation to the research report. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

Robert W. Baird Limited and Robert W. Baird & Co. Incorporated have in place organisational and administrative arrangements for the prevention, avoidance, and disclosure of conflicts of interest with respect to research recommendations. Robert W. Baird Limited's Conflicts of Interest Policy, available [here](#), outlines the approach Robert W. Baird Limited takes in relation to conflicts of interest and includes detail as to its procedures in place to identify, manage and control conflicts of interest. Robert W. Baird Limited and or one of its affiliates may be party to an agreement with the issuer that is the subject of this report relating to the provision of services of investment firms. Robert W. Baird & Co. Incorporated's policies and procedures are designed to identify and effectively manage conflicts of interest related to the preparation and content of research reports and to promote objective and reliable research that reflects the truly held opinions of research analysts. Robert W. Baird & Co. Incorporated's research analysts certify on a quarterly basis that such research reports accurately reflect their personal views.

This material is strictly confidential to the recipient and not intended for persons in jurisdictions where the distribution or publication of this research report is not permitted under the applicable laws or regulations of such jurisdiction.

Robert W. Baird Limited is exempt from the requirement to hold an Australian financial services license and is regulated by the FCA under UK laws, which may differ from Australian laws. As such, this document has not been prepared in accordance with Australian laws.

Copyright 2018 Robert W. Baird & Co. Incorporated