

Weekly Market Notes

July 17, 2017

Dow Industrials 21637
S&P 500 2459



Please refer to Appendix – Important Disclosures

Measured Pace of Rally Suggests Higher

The technical indicators point to further gains in the stock market. The Dow Transports hit a new high last week confirming the record high by the Dow Industrials. In addition to the S&P 500 reaching new high ground the NYSE Composite Index also recorded a new high. The fact that 2200 issues comprise the NYSE Composite provides a good argument that the rally is broadening out. The improvement in market breadth is also seen in a jump in the weekly new high list from 229 issues last week to 323 this week. Disappointing in the breadth analysis is the failure of the percentage of S&P 500 industry groups in defined uptrends to expand. Last week 72% of the groups within the S&P were in uptrends as opposed to 76% three weeks ago. We would need to see, however, the groups in uptrends drop below 60% before this valuable indicator would turn negative. Most encouraging that the rally has legs is the absence of investor enthusiasm despite the record close on Friday. The weekly survey from the American Association of Individual Investors (AAII), the data from Investors Intelligence (II) and the report from the National Association of Active Investment Managers (NAAIM) all show a drop in bullish sentiment last week. Historically, prior to an important peak optimism is widespread, deeply seated and excessive. Since there is an inverse relationship between sentiment and liquidity, the recent surveys would argue there is sufficient cash to push stocks higher. Many point to the low readings for the CBOE Volatility Index (VIX) that a top is near. But the VIX can stay low for very long periods of time and is not as reliable for signaling market tops as it is at forecasting a market bottom.

At the beginning of the year it was widely believed that the U.S. economy would break out of the 2.00% GDP growth pattern that persisted over the past eight years. Many economists believed that inflation would rise causing the yield on the benchmark 10-year Treasury to climb to 3.00% or more triggering a sharp rise in the dollar. It was broadly felt that this sequence of events would serve as a headwind for stocks in the second half of the year. As we enter the third quarter, evidence is mounting that contradicts earlier forecasts as inflation remains dormant, the yield on the benchmark 10-year Treasury is unchanged from January and the U.S. dollar is in a slow but persistent slide south. Although the U.S. economy continues to move slowly ahead, the fact that wages have not advanced helps keep corporate profit margins high and a weak dollar allows U.S. multinationals to enjoy the benefits of the global economic expansion. This resulted in a surge to record highs by the Dow Industrials, Dow Transports and S&P 500 Index. While high valuation levels remain a concern as well as the longevity of the bull market, this is offset by the fact that corporate earnings have recovered from the slump two years ago and the rally to new highs this year has been slow and measured absent of a blow-off phase that typically accompanies a market peak. The path of least resistance is expected to remain to the upside until either central bank policy becomes more aggressive and/or investor optimism becomes extreme.

Sentiment

	Current		Previous		Indication
CBOE 10-Day Put/Call Ratio <i>Below 83% is bearish; Above 95% is bullish</i>	94%		95%		Neutral
CBOE 3-Day Equity Put/Call Ratio <i>Below 58% is bearish; Above 68% is bullish</i>	58%		64%		Bearish
VIX Volatility Index <i>Below 12 is bearish; Above 20 is bullish</i>	9.51		11.2		Bearish
American Association of Individual Investors <i>Twice as many bulls as bears is bearish; 2X more bears than bulls is bullish</i>	Bulls:	28.2%	Bulls:	29.6%	Neutral
	Bears:	29.6%	Bears:	29.9%	
Investors Intelligence (Advisory Services) <i>55% bulls considered bearish/more than 35% bears is bullish</i>	Bulls:	50.0%	Bulls:	52.5%	Bearish
	Bears:	18.6%	Bears:	18.8%	
National Assoc. of Active Investment Mgrs. (NAAIM) <i>Below 30% is bullish; Above 80% is bearish</i>	90%		92%		Bearish
Ned Davis Research Crowd Sentiment Poll	Optimism Excessive		Optimism Excessive		Bearish
Ned Davis Research Daily Trading Sentiment Composite	Optimism Fading		Optimism Fading		Neutral

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Summary

Economy: Industrial Production rises for 5th straight month; consumer spending drops for second month in a row; CPI inflation 1.6% year-over-year; consumer sentiment softens

Fed Policy: Soft economic data reduces odds of September rate increase

Sentiment: Indicators of investor psychology show optimism but short of levels considered excessive

Strongest Sectors: Financials, tech, materials and industrials strongest S&P sectors

	RS Ranking			RS Trend	Sub-Industry Detail
	Current	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

\$USD US Dollar Index - Cash Settle (EOD) ICE

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Source: StockCharts

Appendix – Important Disclosures and Analyst Certification

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