

Technical Review & Outlook

August 31, 2017

Please refer to Appendix – Important Disclosures.

Market Messages:

- **Relative Leadership Coming from Overseas** – The price and momentum trend for the S&P 500 has stalled in August, opening the door for relative leadership from international indexes. Emerging Markets continue to gain strength and have broken out on a relative basis.
- **Broad Market Break Down Approaching Important Juncture** – The broad market has seen significant deterioration over the past month. Further deterioration and/or a lack of confirmation of index-level improvement could prompt a downgrade of our view of breadth and increase the risk a near-term pullback.
- **Investor Optimism Easing but Still Elevated**– Weekly sentiment surveys show that optimism among investors has retreated from its recent peaks but generally remains elevated. Short-term sentiment indicators which had shown some measure of pessimism are starting to show more complacency.
- **Dollar Touches Multi-Year Low** – The dollar traded this week at its lowest level since 2014 before reversing off those lows. While the dollar is oversold and could bounce off of long-term support, price and momentum trends remain lower.

Technical Summary

Trend: U.S. trends have stalled but Emerging Markets have broken out

Momentum: Lack of momentum leaves stocks vulnerable to September swoon

Breadth: Less than half of S&P 500 trading above 50-day average

Sentiment: Optimism has retreated from highs, but still elevated

Macro: Industrial metals making new multi-year highs

Key Near-Term Levels:

S&P 500 – S: 2425, 2375; R: 2475

Russell 2000 – S: 1350, 1300; R: 1400

10-Yr T-Note Yld – S: 2.10%; R: 2.40%

	Last	50-Day Average Level Direction	200-Day Average Level Direction	Close to 50-day	Close to 200-day	50-day to 200-day	High/Low 13-Wk 52-Wk	OB/OS Daily Weekly
S&P 500	2457.59	2451.08 Up *	2359.39 Up	Pos	Pos	Pos		
Dow Industrials	21892.43	21694.29 Up	20717.07 Up	Pos	Pos	Pos		
Dow Transports	9309.79	9374.57 Up *	9225.24 Up	Neg	Pos	Pos		
NASDAQ Composite	6368.31	6285.52 Up	5910.09 Up	Pos	Pos	Pos		
Russell 2000	1391.32	1407.37 Down	1382.13 Up	Neg	Pos	Pos		OS
Energy	467.56	483.61 Down	523.77 Down	Neg	Neg	Neg		OS
Materials	369.14	368.60 Up *	357.76 Up	Pos	Pos	Pos		OB
Industrials	615.59	620.34 Down	601.50 Up	Neg	Pos	Pos		
Consumer Discretionary	656.16	664.56 Down	645.64 Up	Neg	Pos	Pos		OS OS
Consumer Staples	591.75	597.74 Down	587.92 Up	Neg	Pos	Pos		OS
Health Care	964.20	962.26 Up	901.98 Up	Pos	Pos	Pos		OB
Financials	449.40	454.10 Up *	439.40 Up	Neg	Pos	Pos		OS
Information Technology	1033.04	1007.19 Up	934.56 Up	Pos	Pos	Pos	H H	OB
Telecommunications Services	157.13	155.21 Down	163.23 Up	Pos	Neg	Neg		
Utilities	318.66	310.70 Up	297.98 Up	Pos	Pos	Pos		OB OB
VIX	11.22	11.10 Up	11.67 Down	Pos	Neg	Neg		OS
10-Year T-Note Yield	2.14	2.25 Down	2.34 Up	Neg	Neg	Neg		OS OS
Gold	1314.10	1261.10 Up	1233.63 Up	Pos	Pos	Pos		OB OB
Copper	3.09	2.81 Up	2.66 Up	Pos	Pos	Pos	H H	OB OB
US Dollar	92.82	94.25 Down	98.67 Down	Neg	Neg	Neg		OS
Crude Oil	45.96	46.87 Up	49.49 Up	Neg	Neg	Neg		OS

Note: data as of August 30 close. Source: FactSet

William Delwiche, CMT, CFA

Investment Strategist

wdelwiche@rwbaird.com

414-298-7802

Twitter: [@WillieDelwiche](https://twitter.com/WillieDelwiche)

The S&P 500 appears set to finish in positive territory for the 10th month in a row. While it has recovered its 50-day average, the price and momentum up-trends that supported gains since the end of 2016 have been broken. Moving above 2475 would be the first step toward getting back in gear. If this fails, 2425 could be an initial support level on the way to a possible test of the 200-day average (which was last tested in November).



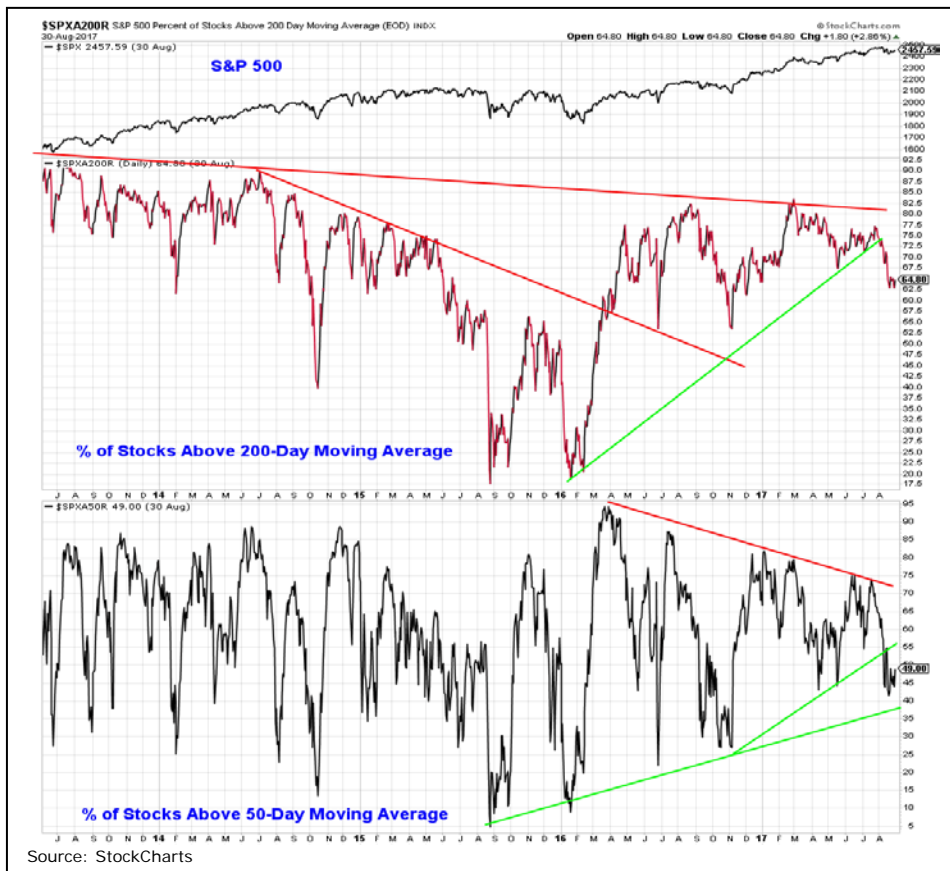
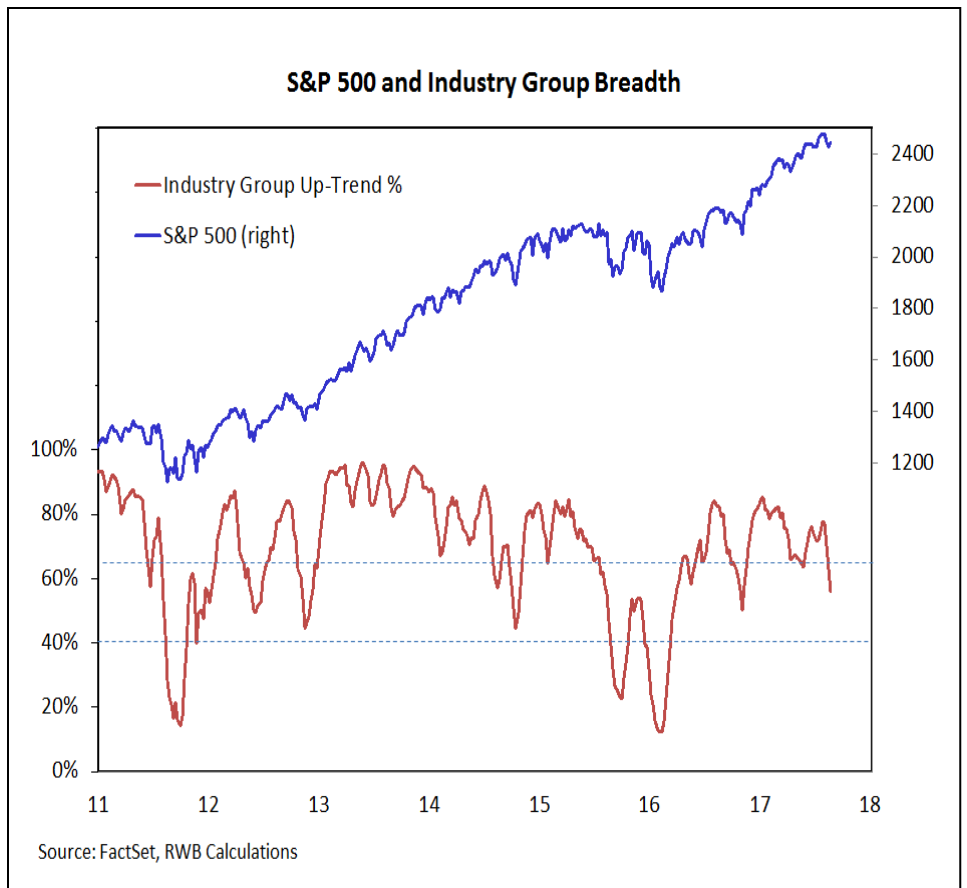
Source: StockCharts



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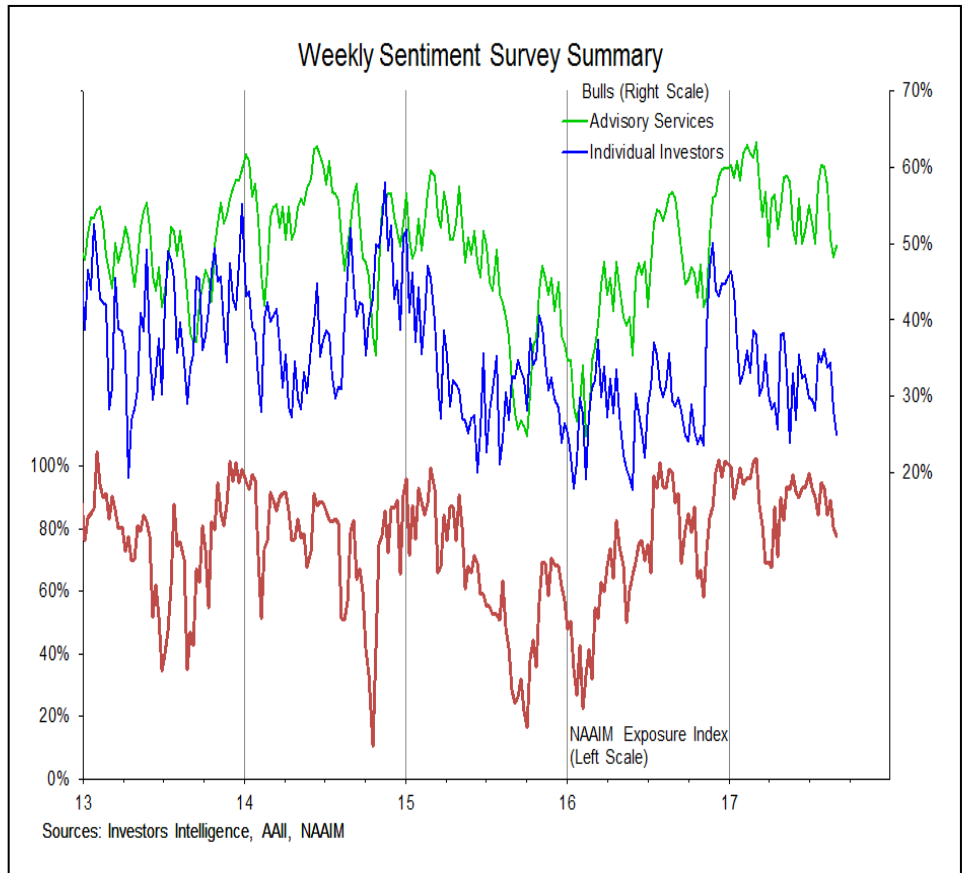
While conditions at home have stalled, relative strength continues to be seen overseas. Both Emerging Markets and Developed Markets have broken downtrends relative to the S&P 500 (seen in the top and bottom panels of this chart). Emerging markets also continue to gain strength relative versus Developed Markets (as shown in the middle panel). The relative uptrend that emerged in early 2016 has helped Emerging markets breakout relative to Developed Markets.

The S&P 500 has bounced off its mid-month lows, but we have yet to see a meaningful improvement in our breadth indicators. The percentage of industry groups in up-trends continues to contract. Currently it stands at 56% - a break below the November 2016 low of 50% could represent a meaningful deterioration in breadth that could increase the risk of a September index-level swoon.



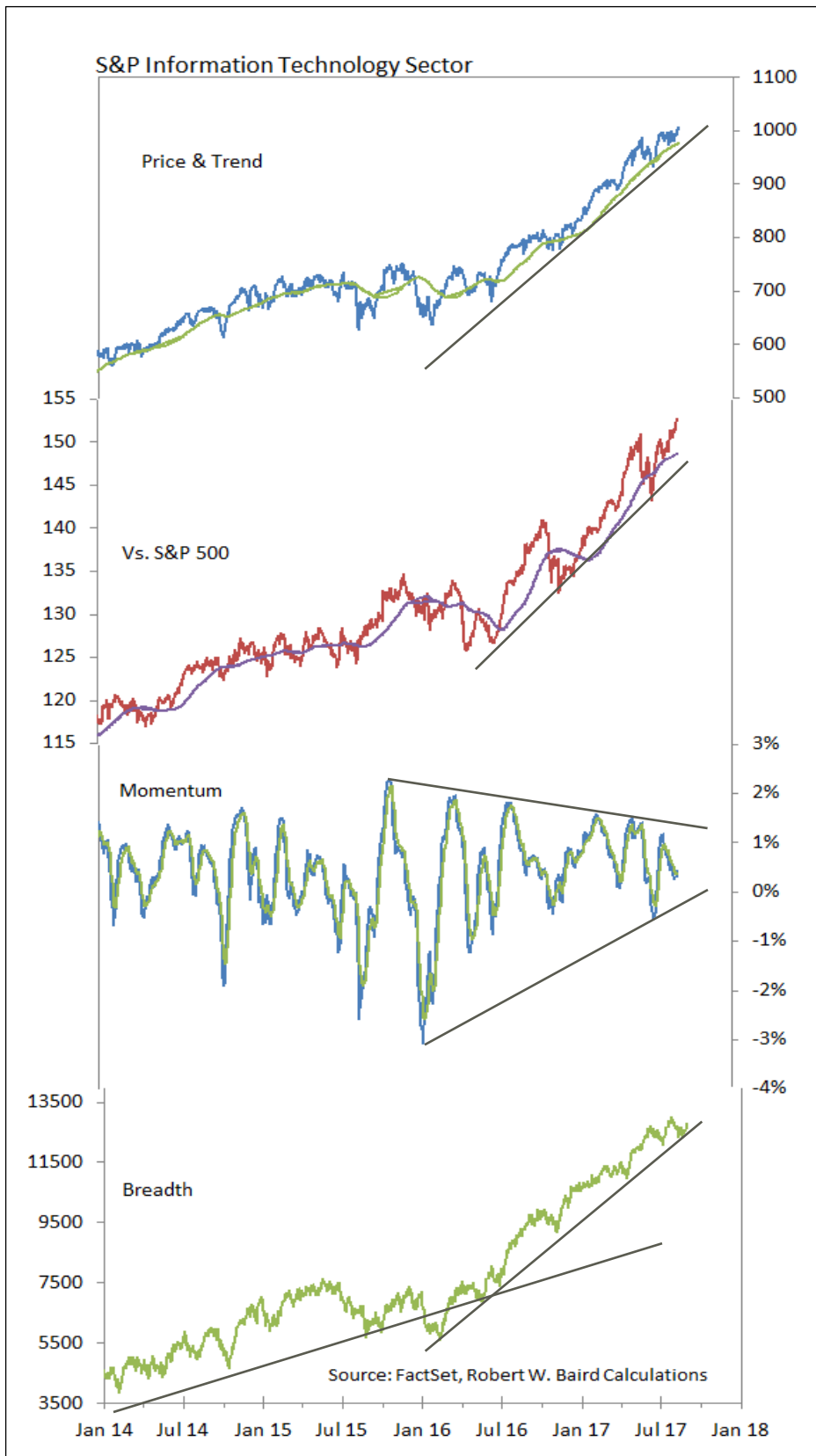
We are also watching the trends at the issue level. Less than half of stocks on the S&P 500 are trading above their 50-day averages and more than one third are below their 200-day averages. If the trends at the index level improve but we fail to see a marked improvement in issue level trends, this too could leave the S&P 500 vulnerable to weakness.

Both Advisory Service Bulls and the NAAIM Exposure index have retreated from recent highs, but from a historical perspective optimism remains elevated. Optimism among individual investors, as reported by the AAIL, has seen a more significant pullback, but more than half of survey respondents there acknowledge that their outlook is dominated by political views, not strictly opinions about the stock market. A move back toward the November sentiment lows could suggest optimism has been sufficiently unwound. This would mean a drop from 77% to 58% on the NAAIM Exposure Index and a decline in Advisory Services Bulls from 49% to 42%.



The breakdown in the dollar this week (and the improvement in Gold) has generated interest. While the initial reaction on the dollar may be that it was a false breakdown that will lead to a sharp reversal, there is not yet evidence of that. Rather, while the dollar is oversold and could bounce in the near term, both the price and momentum trends remain lower.

Information Technology has been one of only three sectors in the S&P 500 to make new highs in August (the other two are Financials and Utilities – good luck constructing a narrative around that trio). While the Technology sector remains strong from a price perspective (on both an absolute and relative basis), momentum remains suspect and breadth is not confirming the price highs.



Appendix – Important Disclosures and Analyst Certification

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