

# Weekly Market Notes

December 10, 2018

Dow Industrials 24388  
S&P 500 2633

Please refer to Appendix – Important Disclosures

## Stock Market

The equity markets tumbled nearly 5% last week, pushing the S&P 500 into the red for the year. The turmoil in the markets in the fourth quarter is likely due to concerns over U.S./China relations and worries about a flattening yield curve. The U.S. has decided not to be oblivious to our long-standing issues with China of intellectual property theft, among other abuses. Early last week the stock market rallied on news of a productive G-20 meeting of U.S. officials with Chinese President Xi. However, the large selloff in the market that occurred mid-week may in part be due to investors' realization that the trade talks with China will be a long-term process in order to achieve free and fair trade. The good news is that the Chinese need access to U.S. markets. According to author Gordon Chang, last year Chinese merchandise trade surplus against the U.S. was 88.9% of its overall merchandise trade surplus.

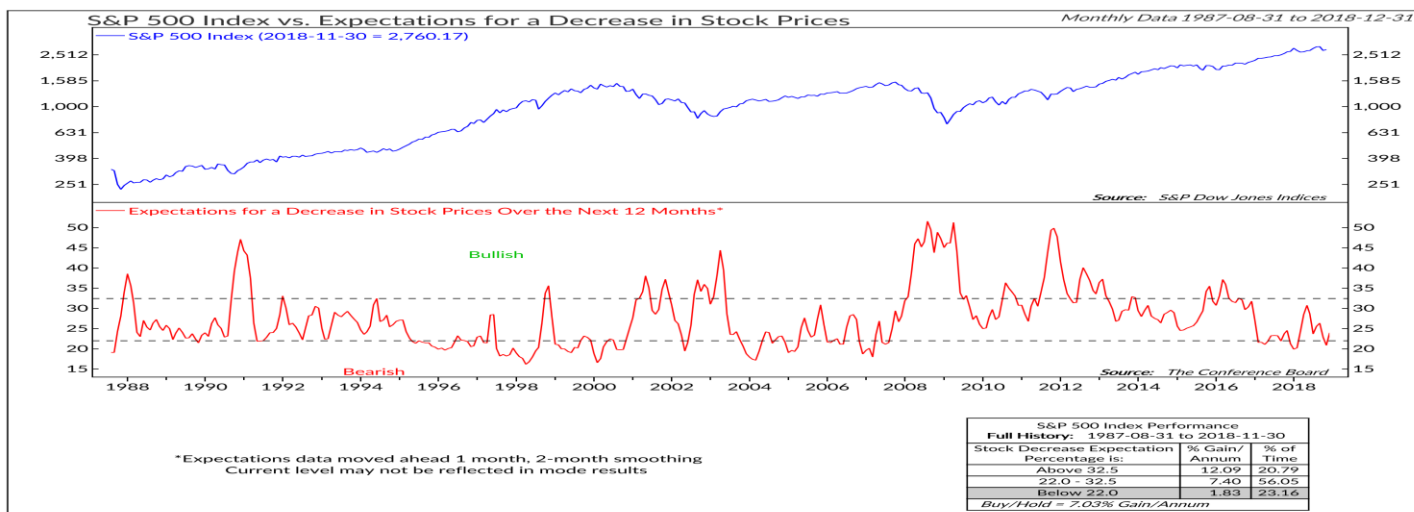
A potential yield curve inversion where 3-year rates exceeded 5-year rates caused concerns of an economic downturn. An inverted yield curve can be a predictor of a recession; however, we do not foresee an economic downturn with continuing (but slower) economic expansion, business optimism, wages and productivity up, unemployment at record lows, and increased spending by businesses and government. Stocks enter the new week oversold which could lead to a rally. Looking further out, we see the market continuing to struggle with themes of slower economic growth, and trade and monetary policy. We encourage our clients to refer to our sector analysis and to stay with the strongest groups which continue to be utilities, consumer staples and health care.

The technical indicators argue on the side of caution. At the start of the year volatility increased over what was seen in 2017 and gradually moved higher in the fourth quarter as witnessed by last week's 1000 point move by the Dow Industrials and the 8.0% drop by the Dow Transports. We anticipate volatility to grow even stronger as measured by the CBOE Volatility Index (VIX) climbing to 35 or higher (VIX closed at 23 on Friday). The stock market is plagued by the strong and persistent downside momentum. Last week witnessed another session where downside volume overwhelmed upside volume by a ratio of 13 to 1. Before we can identify a low in the market that could lead to a sustainable rally, we need to see the downside momentum broken. This would require two sessions where upside volume exceeds downside volume by a ratio of 10 to 1 or more. Investors' sentiment also remains problematic with most measures of investor psychology showing widespread complacency. At an important bottom we are likely to see complacency turn to excessive pessimism that historically has accompanied a new buying opportunity.

## Summary

**Economy:** Economic data supports continuing growth entering 2019. Manufacturing and service sectors strong, labor markets below estimates for November but remain tight with consumer confidence holding at a multidecade high

**Defensive sectors dominate the top of the relative strength leaderboard.** Utility sector ranked #1, up 7.00% for the year; Consumer staples, real estate and health care included in the top four S&P 500 sectors



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	Current		Previous		Indication
<b>CBOE 10-Day Put/Call Ratio</b> <i>Below 85% is bearish; Above 95% is bullish</i>	94%		103%		Neutral
<b>CBOE 3-Day Equity Put/Call Ratio</b> <i>Below 58% is bearish; Above 67% is bullish</i>	77%		57%		Bullish
<b>VIX Volatility Index</b> <i>Below 12 is bearish; Above 30 is bullish</i>	23.4		18.1		Neutral
<b>American Association of Individual Investors</b> <i>Twice as many bulls as bears is bearish; 2X more bears than bulls is bullish</i>	Bulls: Bears:	34.0% 39.0%	Bulls: Bears:	25.0% 47.0%	Neutral
<b>Investors Intelligence (Advisory Services)</b> <i>55% bulls considered bearish/more than 35% bears is bullish</i>	Bulls: Bears:	46.7% 21.5%	Bulls: Bears:	38.3% 20.6%	Neutral
<b>National Assoc. of Active Investment Mgrs. (NAAIM)</b> <i>Below 30% is bullish; Above 80% is bearish</i>	62%		53%		Neutral
<b>Ned Davis Research Crowd Sentiment Poll</b>	Pessimism Fading		Pessimism		Neutral
<b>Ned Davis Research Daily Trading Sentiment Composite</b>	Pessimism Fading		Pessimism Fading		Neutral

	RS Ranking		RS Trend	Sub-Industry Detail
	Current	Previous		
<b>Utilities</b>	1	** 4		<i>Leaders:</i> Independent Power Producers <i>Laggards:</i>
<b>Real Estate</b>	2	** 1	+	<i>Leaders:</i> Health Care REITs; Residential REITs; Retail REITs <i>Laggards:</i>
<b>Health Care</b>	3	** 3	-	<i>Leaders:</i> Health Care Equipment; Health Care Facilities; Managed Health Care; Pharmaceuticals; Life Sciences Tools & Services <i>Laggards:</i> Health Care Supplies; Health Care Technology
<b>Consumer Staples</b>	4	** 2		<i>Leaders:</i> Drug Retail; Food Retail; Soft Drinks; Household Products <i>Laggards:</i> Distillers & Vintners
<b>Consumer Discretionary</b>	5	5		<i>Leaders:</i> Restaurants; Automotive Retail <i>Laggards:</i> Auto Parts & Equipment; Home Furnishings; Computer & Electronics Retail
<b>Communication Services</b>	6	7		<i>Leaders:</i> Cable & Satellite <i>Laggards:</i> Home Entertainment Software
<b>Information Technology</b>	7	8		<i>Leaders:</i> Systems Software; Communications Equipment <i>Laggards:</i> Electronic Manufacturing Services
<b>Materials</b>	8	10		<i>Leaders:</i> Metal & Glass Containers <i>Laggards:</i> Commodity Chemicals; Diversified Chemicals
<b>Industrials</b>	9	9		<i>Leaders:</i> <i>Laggards:</i> Construction & Engineering; Industrial Conglomerates; Trucking
<b>Financials</b>	10	6		<i>Leaders:</i> Insurance Brokers <i>Laggards:</i> Regional Banks; Asset Management & Custody Banks; Investment Banking & Brokerage; Life & Health Insurance; Multi-line Insurance
<b>Energy</b>	11	11	-	<i>Leaders:</i> <i>Laggards:</i> Oil & Gas Equipment & Services; Oil & Gas Refining & Marketing

\*\* Denotes Current Relative Strength-Based Overweight Sectors

## Appendix – Important Disclosures and Analyst Certification

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