

Mid-Week Market News

December 4, 2018

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Headline Noise Fuels Market Volatility

Stocks continue to gyrate within a broad trading range, with the S&P 500 falling more than 3% today (the fifth such decline in 2018). Since mid-October the S&P 500 has fallen from 2800 to 2650 (a move of more than 5%), only to rally back to 2800, fall back to 2650 and, with yesterday's move, rally back to 2800 for a third time. The proximate causes of today's selling were growing concern that an agreement with China on tariffs was less substantive than it first appeared and that declining bond yields in the U.S. and overseas may be sending a warning signal on growth. Continued headline-induced volatility is consistent with a market that has been going through a cyclical correction without strong evidence emerging that a sustainable low is in place.

Absent that evidence, rally attempts that produce no follow through allow near-optimism to re-emerge. This helps reinforce the cycle the market now finds itself in. Recent options data shows a dramatic shift from fear to complacency since mid-November. December's well-earned reputation for stock market strength may have contributed to this, though the best gains have historically come later in the month. To gain confidence that any rally attempts that do emerge have the potential to produce meaningful follow through we would expect to see a surge in upside volume (where upside volume out paces downside volume by better than 9-to-1, preferably for at least two days) and leadership from small-caps and cyclical sectors. Absent that, a cautious approach continues to be warranted.

Bottom line: The post-Thanksgiving bounce in stocks has faded with the S&P 500 still range bound and lacking evidence that a meaningful low is in place. Volatility has been a recurring theme for the past six weeks (and for 2018 overall) and it does not show any sign of ebbing.

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