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Charts of the Week

Investment Strategy: "Charts of the Week"

Writing these daily commentaries takes up a good chunk of our time, but if we're not busy writing there's a decent chance we're either presenting to our clients and salesforces or answering their questions via call/email. Yesterday was spent doing several such presentations and calls, which did not leave much time to write, hence the shortened text this week. One big advantage, though, of speaking with so many different investors is that we tend to get a good gauge for how everyone is feeling about the markets at any given time. We can look at all the sentiment surveys and indicators in existence, but sometimes the best measure of investor optimism is how hard we have to sell them on our view this secular bull market can last a further few years. Back in January, that outlook was still met with some skepticism, yet most people could at least see a path where the good times kept rolling. Now, however, most admit that the economy and earnings are doing well, but there appears to be little confidence in that strength continuing for much longer. Inevitably, the question we are being asked is some variant of "how is the market not falling with all the existing uncertainty surrounding trade and what's going on in Washington?" In short, we think the answer comes down to two main reasons: 1) at this point the uncertainty is not materially impacting the economy or earnings and 2) secular bull markets are very good at shrugging off bad news. Until either of those changes, the market can continue to grind it out indefinitely and we are content to watch it do so.

And with that, here are the Charts of the Week…

Please read domestic and foreign disclosure/risk information beginning on page 17 and Analyst Certification on page 18.

S&P 500 – Last 5 Sessions (5-minute chart)

Source: Stockcharts.com

The Market Matrix

Not much change from last week – the major indices remain in neutral territory overall compared to how far they usually become extended from their moving averages.

THE MARKET MATRIX	S&P 500	NASDAQ Composite	Russell 2000
Price % Above/Below 10-Day Moving Average	0.21%	0.35%	-0.19%
Price % Above/Below 50-Day Moving Average	1.87%	1.36%	0.50%
Price % Above/Below 200-Day Moving Average	5.90%	7.55%	6.01%
Relative Strength Index (RSI) (Overbought = ~70; Neutral = ~50; Oversold = ~30)	60.74	55.21	49.00
Overall Near-Term Opinion	Neutral	Neutral	Neutral

- White = Neutral; Yellow = Slightly Overbought; Red = Very Overbought; Dark Green = Slightly Oversold; Bright Green = Very Oversold
- Note: Overbought/Oversold levels may vary for each index based on historical volatility

Source: TC2000; Raymond James research; as of 9/25/18

The Breadth Box

Market breadth has been mixed over the last week, but all of our indicators remain on the stronger side of their five-year ranges. We really want to see these reading improve, though. It hasn't been a good month for breadth, and that is despite many major indices hitting new all-time highs.

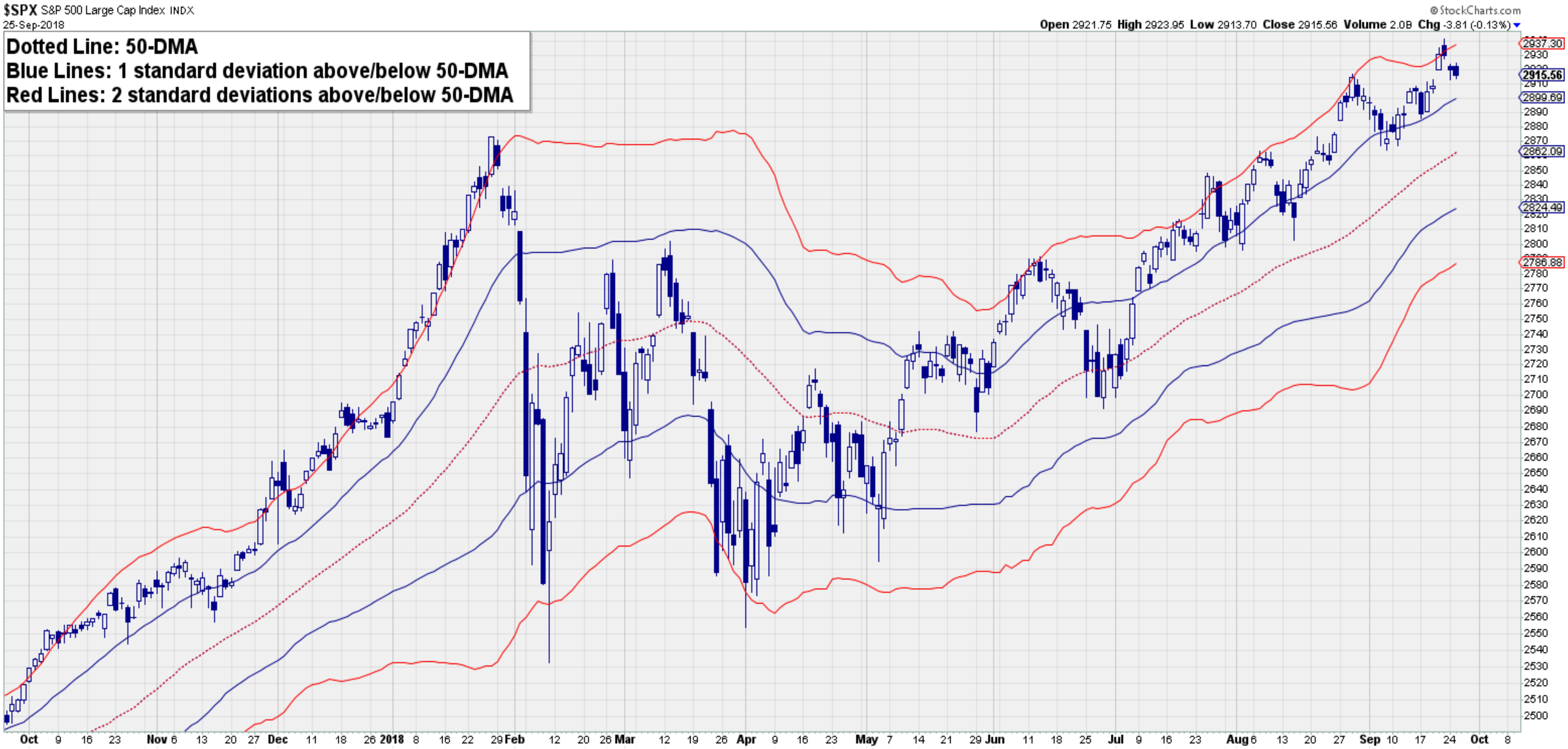
THE BREADTH BOX	This Week (9/25)	Last Week (9/18)	4 Weeks Ago (8/28)	Current Percent of 5-Year Range*
NYSE % of Stocks Above 50-DMA	50.80%	54.18%	65.54%	52%
NASDAQ % of Stocks Above 50-DMA	48.77%	47.33%	56.96%	55%
NYSE % of Stocks Above 200-DMA	57.99%	58.72%	62.43%	65%
NASDAQ % of Stocks Above 200-DMA	51.11%	51.67%	57.82%	65%
U.S. Stocks New Highs – New Lows (5-Day Total)	56	270	1111	70%
NYSE Bullish Percent Index	60.05%	58.67%	60.12%	70%
NASDAQ Bullish Percent Index	56.63%	56.65%	58.83%	67%
S&P 500 Average % Below 52-Week High	11.3%	11.2%	10.8%	
Russell 3000 Average % Below 52-Week High	17.4%	17.3%	15.7%	

* 100% would be the highest point of the last 5 years, 0% would be the lowest point in the last 5 years, and 50% is the mid-point of the 5-year range

Source: Stockcharts.com; Bloomberg; Raymond James research

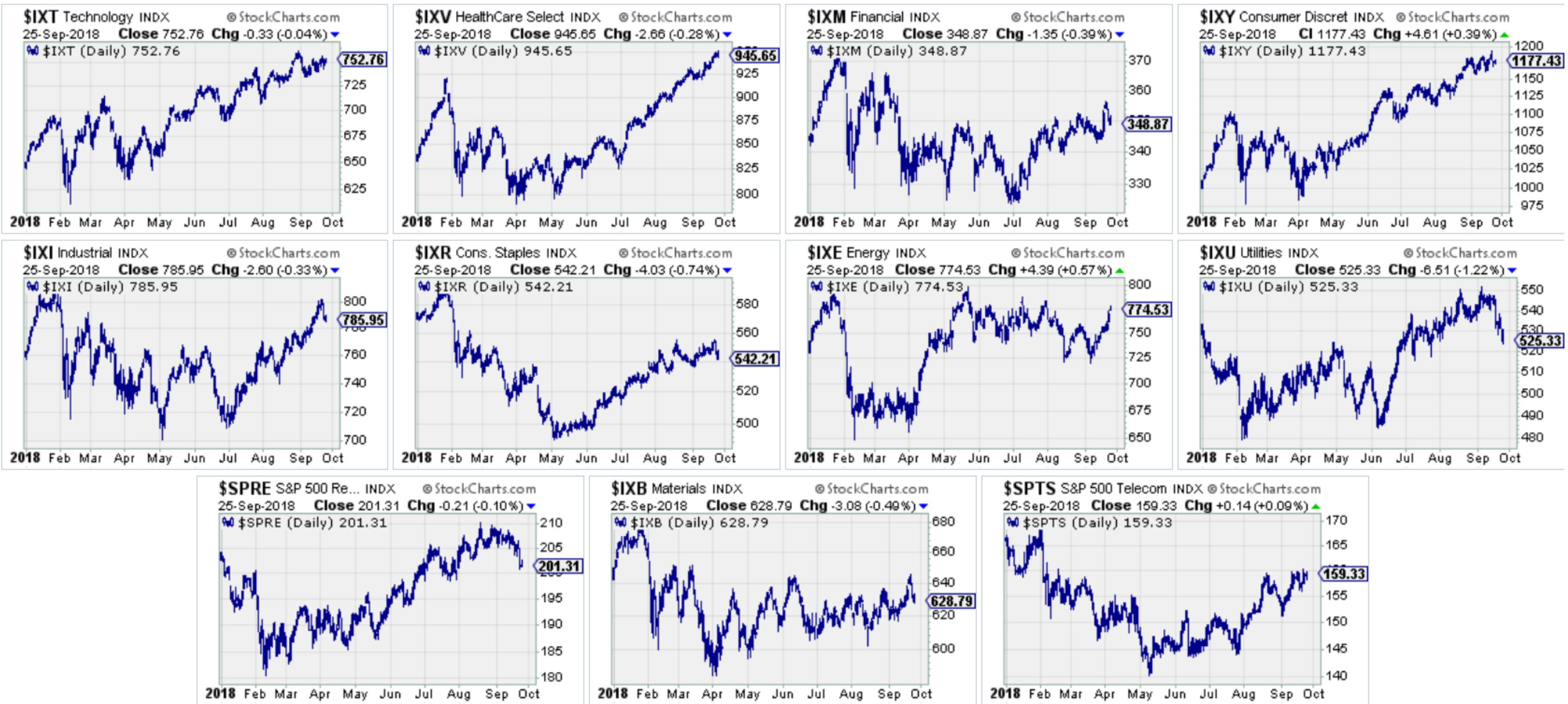
S&P 500 Timing Chart

This S&P 500 timing chart continues to provide reliable near-term signals. Once again, the index did not get very far after hitting the band two standard deviations above its 50-day moving average, and this has resulted in weakness over the last three sessions. As we have mentioned in recent weeks, the S&P 500 continues to mostly trade between the upper one and two standard bands in this chart, and we must assume this will continue until it stops working.



Source: Stockcharts.com

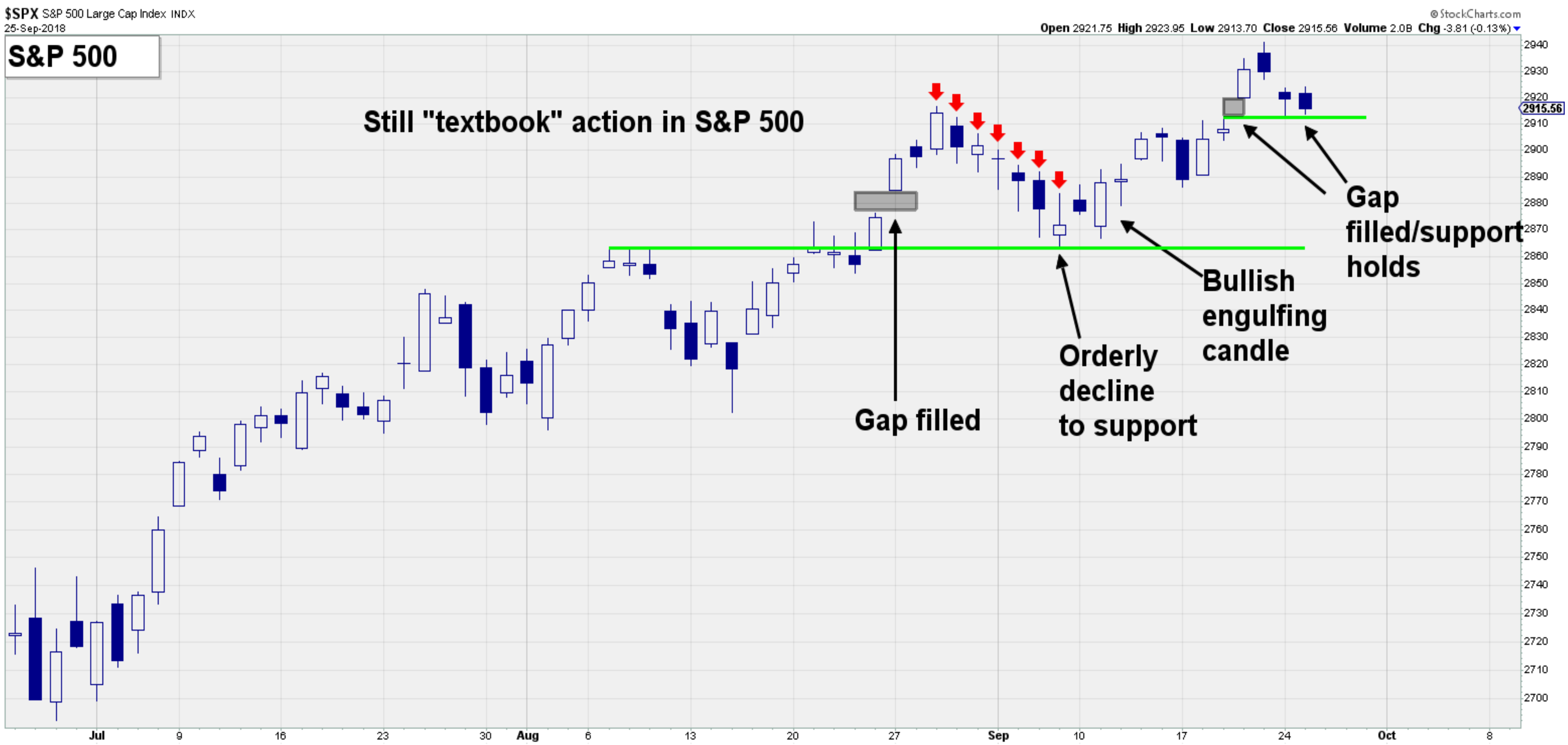
S&P 500 – Sector View



Source: Stockcharts.com

S&P 500 Still Behaving

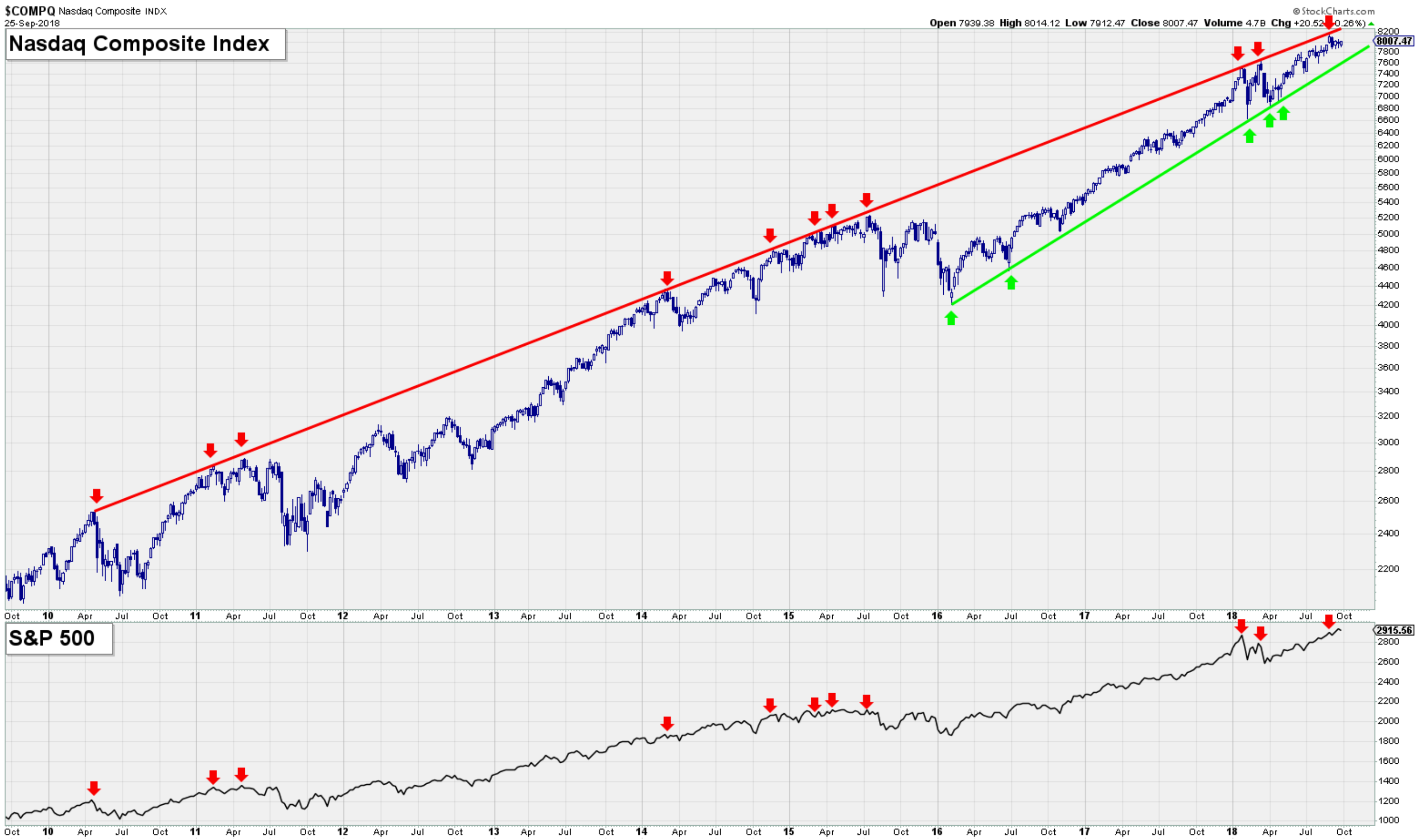
As mentioned in a previous report, the S&P 500 has been trading in a very "textbook" manner recently. The action over the last week has continued that pattern, as the index filled the gap created by the jump last Thursday and then found some support at the bottom of that gap around 2910. If that near-term support were to fall, however, it would increase the odds of seeing the index pull down to the next closest area of likely support – just above 2860.



Source: Stockcharts.com

NASDAQ Resistance Remains Just Above

We continue to believe it may be difficult for the market to rise significantly in the near term due to the major resistance just above the NASDAQ Composite Index (red line). This resistance line has stopped the index in its tracks over the last several years and the S&P 500, which is dominated by the same large tech companies, doesn't typically get very far if the NASDAQ isn't rising (lower panel). As we have said, there is no rule that says the NASDAQ can't break up above this resistance line or continue to ride it higher gradually, but we do have to assume it will continue to provide pressure until it does not.



Source: Stockcharts.com

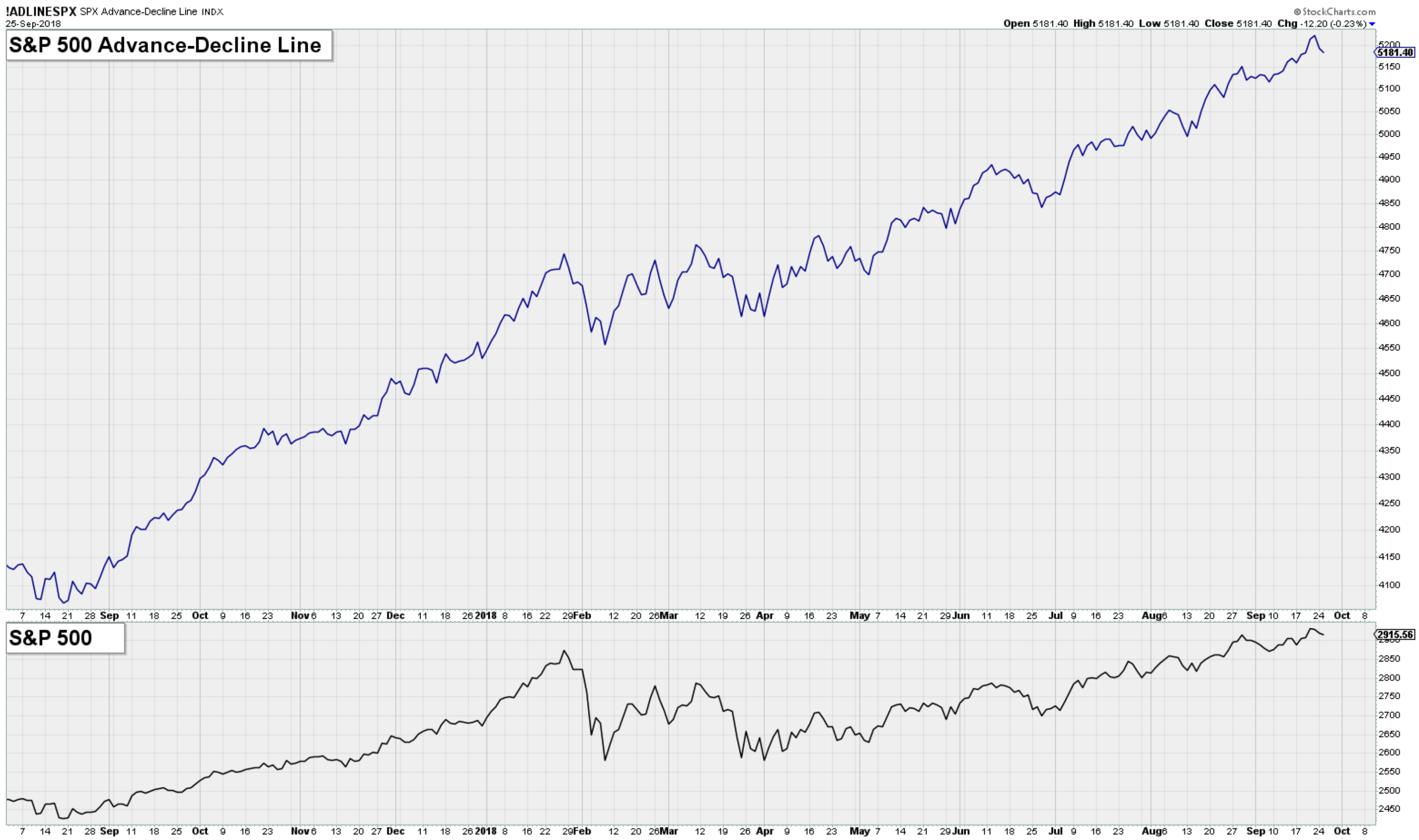
Technology Still Leading the Way

From 2010 to late last year, the Technology Select Sector Index dealt with a very similar resistance line to the one the NASDAQ is currently up against. Each time tech rallied up against it, the line would force the sector back down, but then in October 2017 a breakout occurred and that kicked off a strong leg upward that continues even now. That line will be expected to act as support going forward, which it did earlier this year, and it's helping to keep tech outperforming the broader S&P 500 (lower panel).

Source: Stockcharts.com

S&P 500 Advance-Decline Line

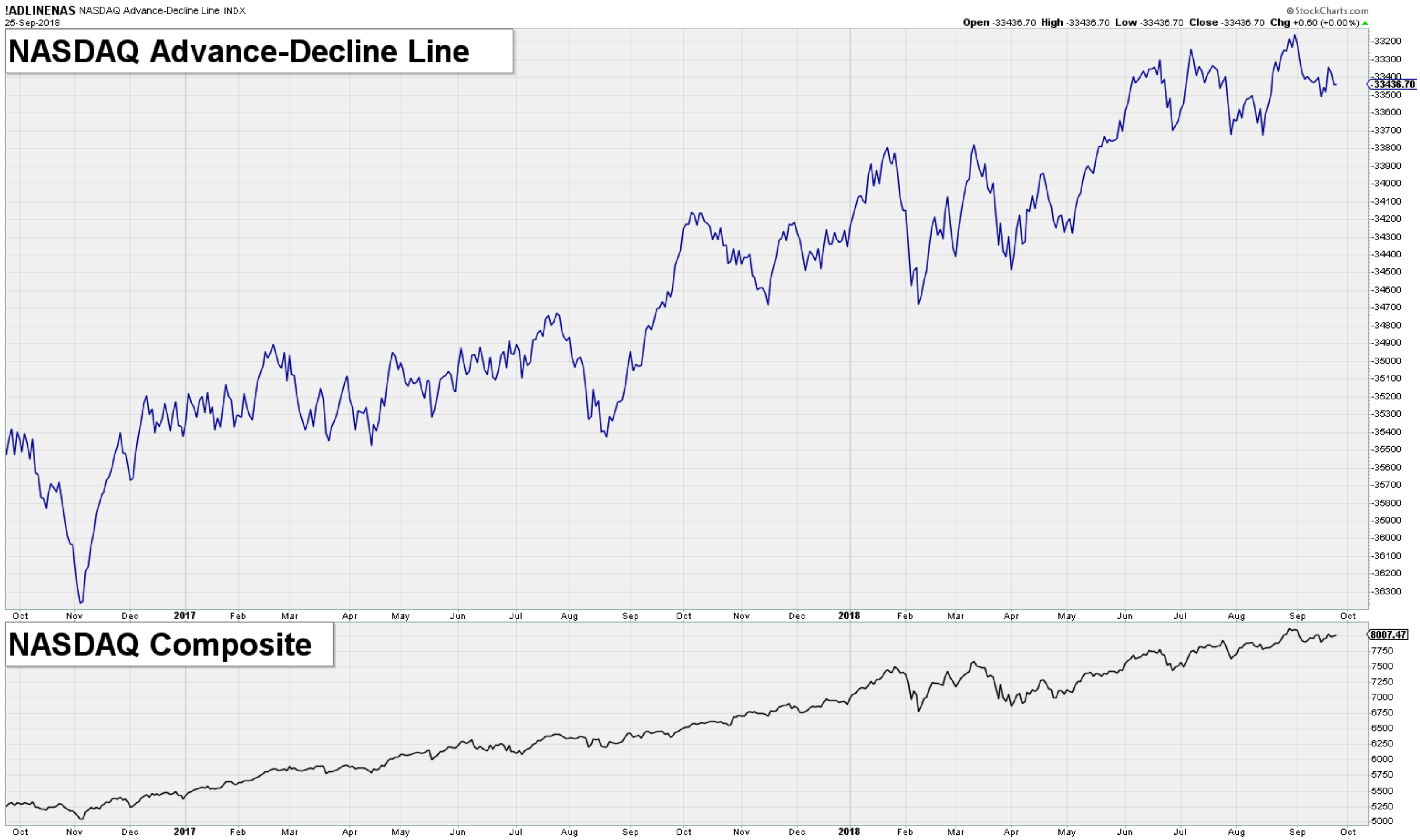
As mentioned, we're starting to get a little more concerned about market breadth since many indicators are not rising despite the major indices hitting new highs within the last month. The Advance-Decline Lines for the major exchanges and indices are perhaps the most important of the technical breadth indicators, and so what follows is an update of where the more critical A-D lines currently stand. To clarify, a rising A-D line signals that more stocks are rising than falling over time, and we want to see new highs in the indices confirmed by new highs in the A-D lines. The S&P 500's most recent high was confirmed by a new high in the S&P 500 A-D Line, so that is a positive.



Source: Stockcharts.com

NASDAQ Advance-Decline Line

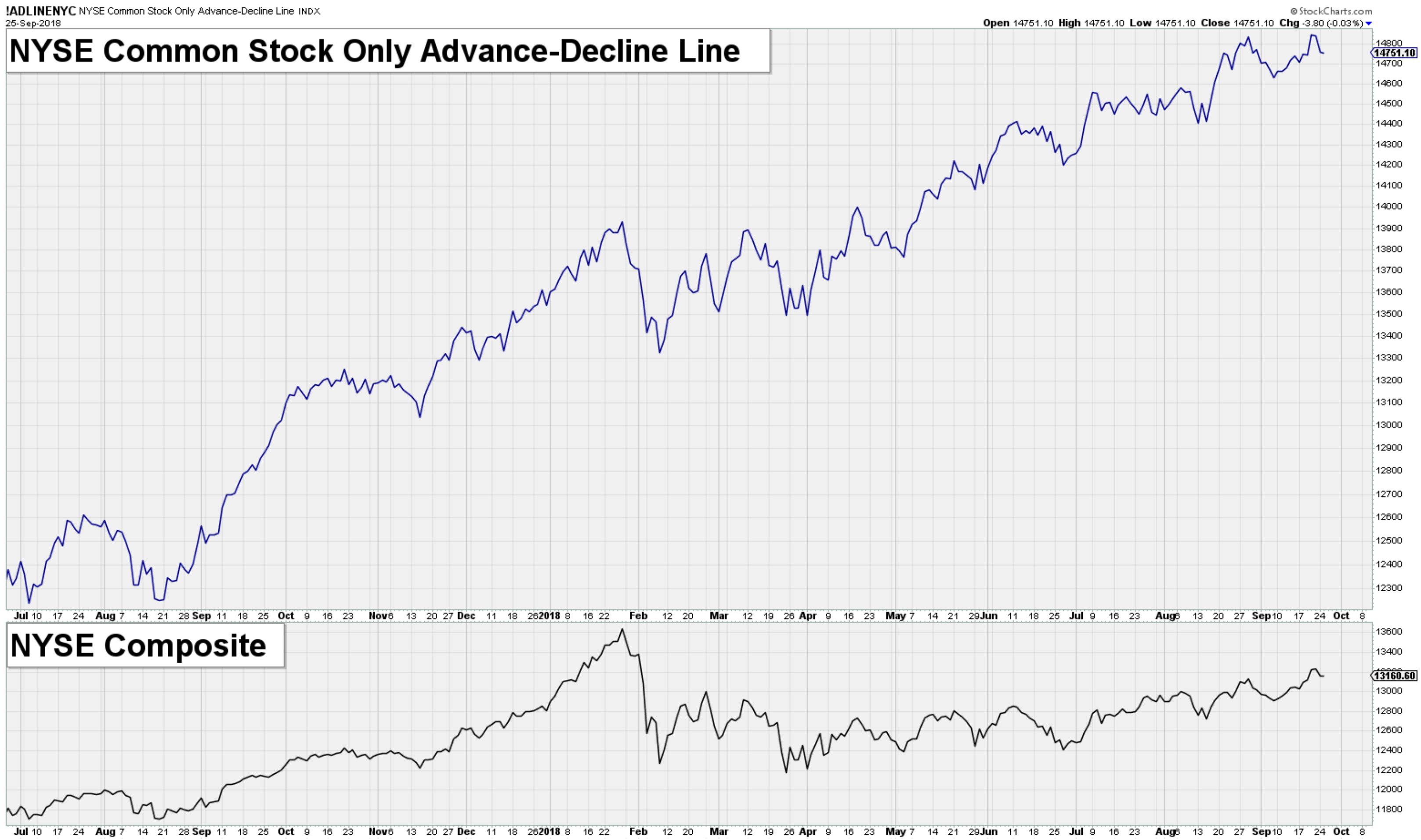
The NASDAQ Advance-Decline Line did confirm the last new all-time high in the NASDAQ itself, but that was back in late August and neither the index nor the A-D Line has hit a new high since.



Source: Stockcharts.com

NYSE Common Stock Only Advance-Decline Line

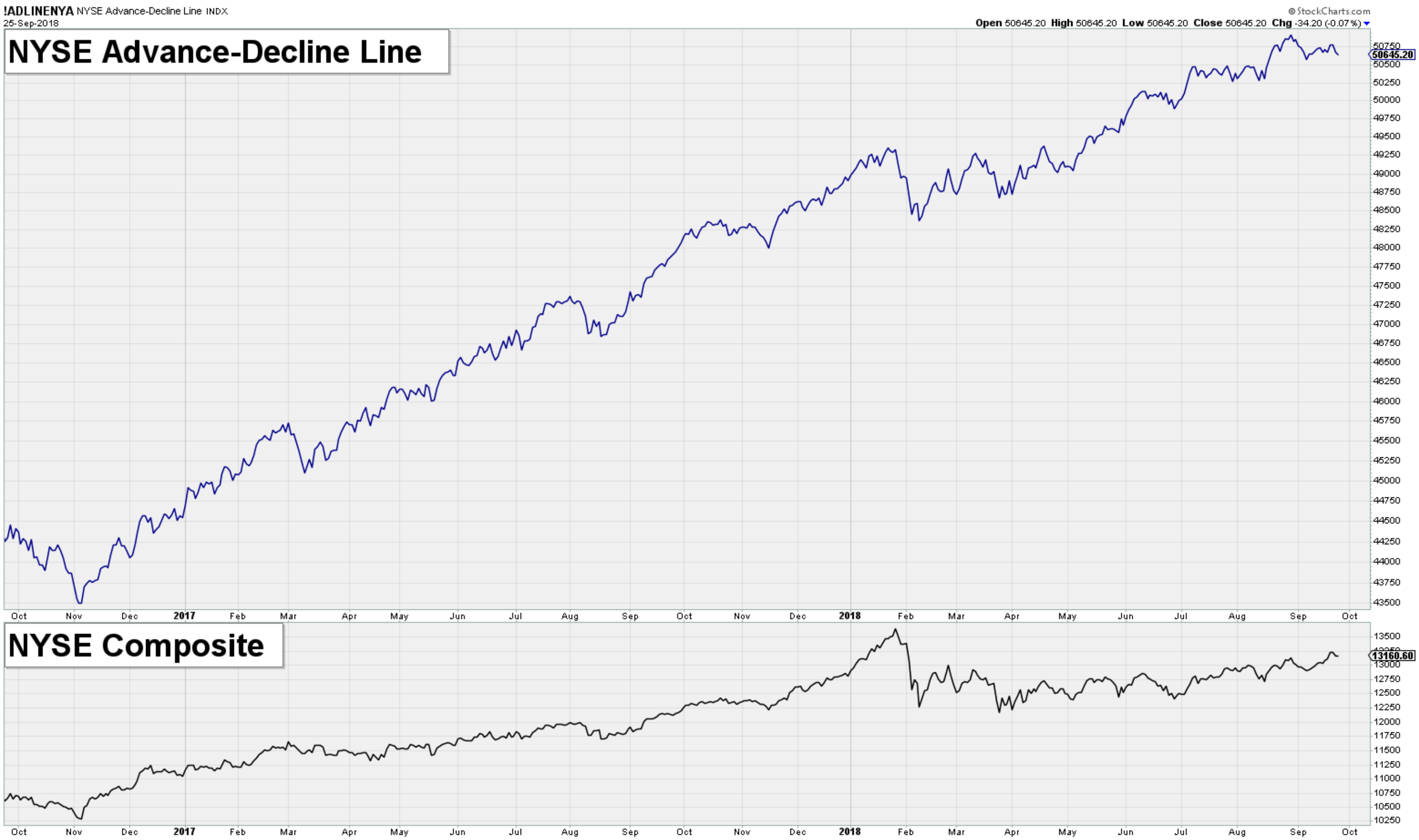
The NYSE Composite Index actually has not yet bettered its late January peak in "price" (largely because about 20% of the stocks on the NYSE are non-U.S.), but the NYSE Common Stock Only Advance-Decline Line has continued to trend higher to hit new all-time highs on several occasions over the last few months. The most recent high in the A-D line was hit just last Thursday when the NYSE Composite at least made a new reaction high by jumping to its highest level since early February. Overall, this relationship remains positive and signals that the NYSE should eventually take a shot at its January all-time high as long as breadth remains positive.



Source: Stockcharts.com

NYSE Advance-Decline Line

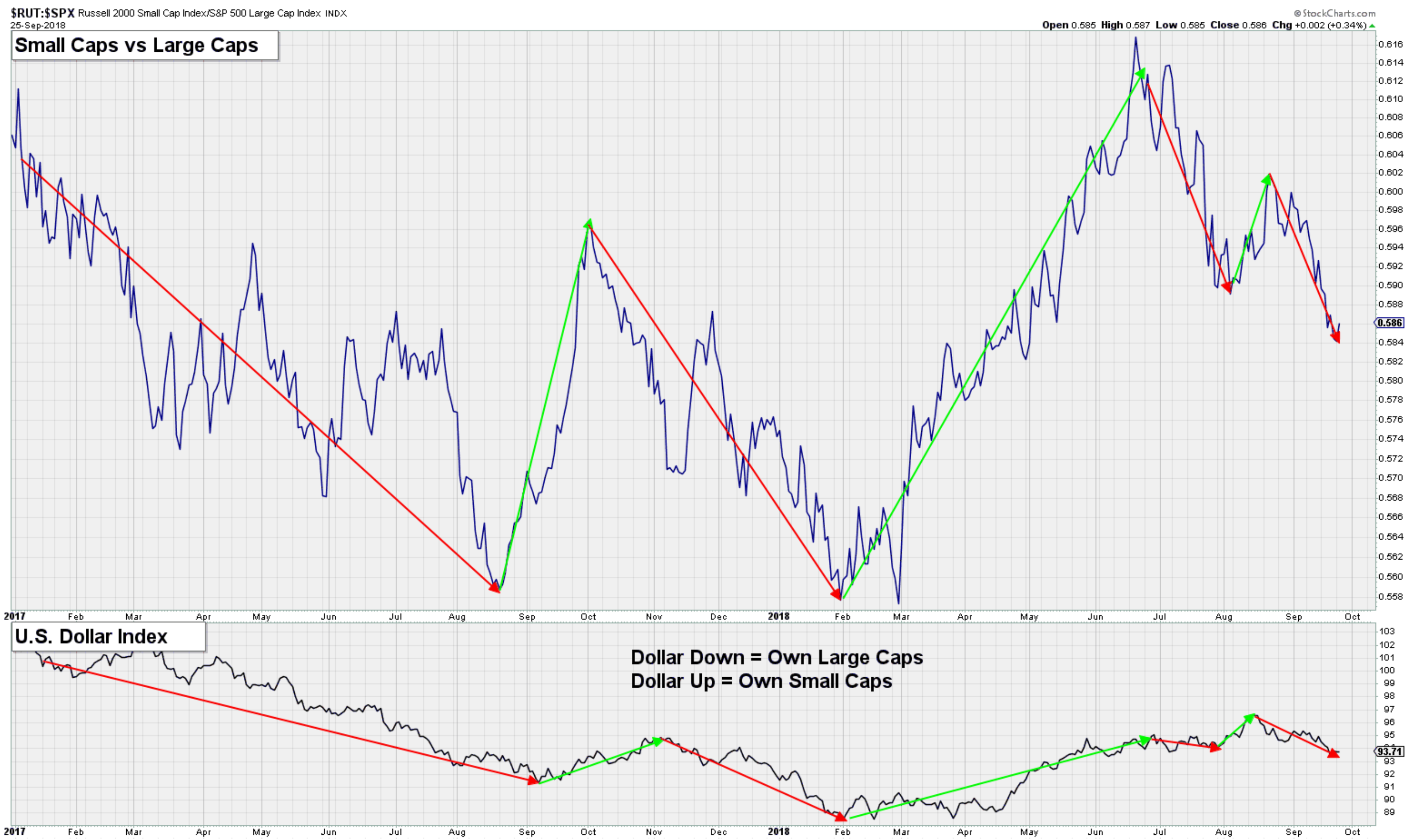
The traditional NYSE Advance-Decline Line also includes some preferred stocks and closed-end funds, so it is impacted by more than just “common stocks” (which is why the “common stock only” version of the A-D line was created). Yet, it is still worth monitoring since it can be a reliable red flag whenever the NYSE A-D Line does not confirm new highs in the NYSE itself. This is important to note since the NYSE hit a new reaction high last Thursday, yet the NYSE A-D Line did not. To be clear, it’s not something to panic over at this point, especially with other A-D lines confirming new highs, but it may increase the concern if stocks do start falling from here.



Source: Stockcharts.com

U.S. Dollar Continues to Help Large Caps

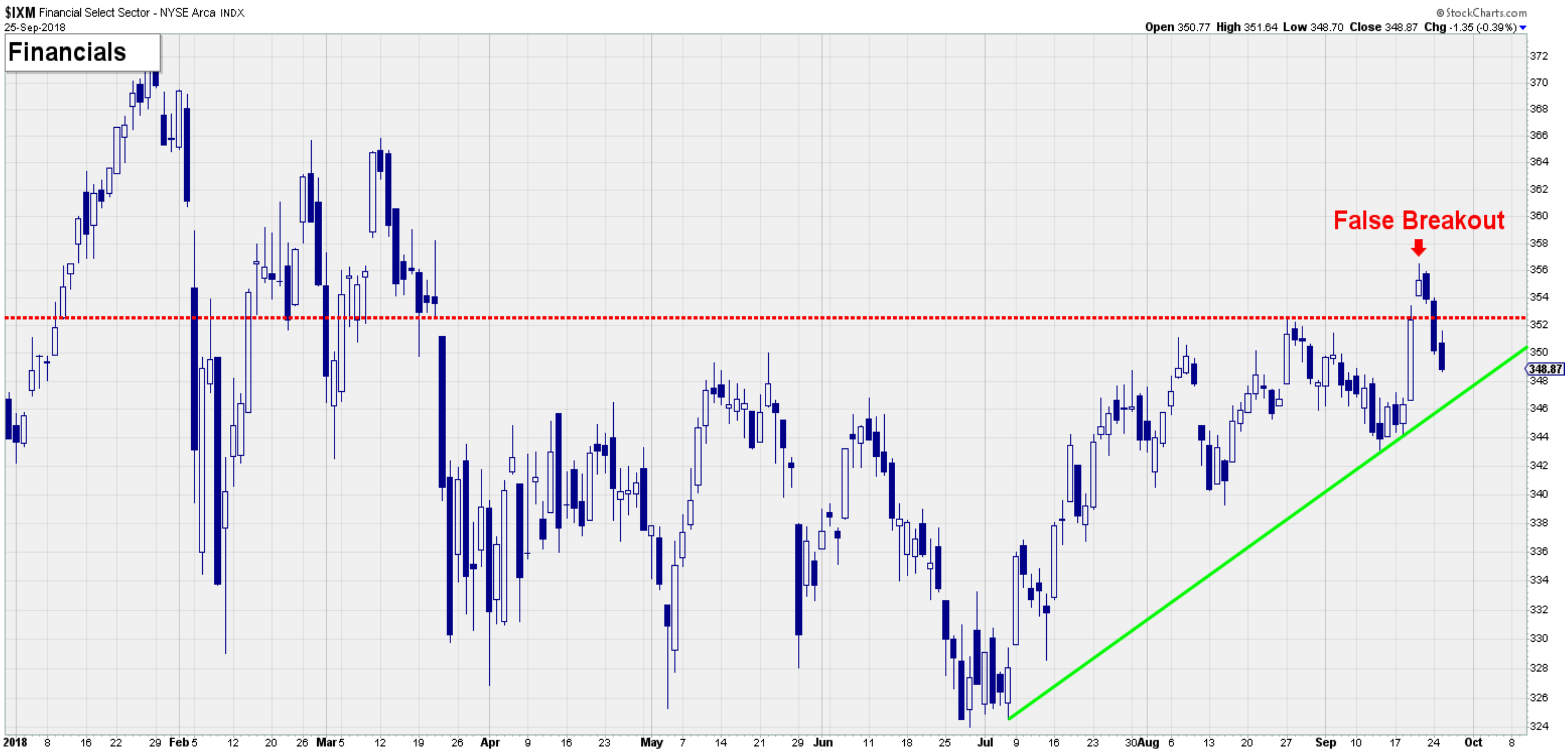
One clear pattern that has developed over the last few years is that when the U.S. Dollar Index is strengthening, small caps tend to do better than large caps and vice versa when the dollar is weakening. Lately, this relationship has continued as the weaker dollar has helped the S&P 500 outperform the Russell 2000 since about mid-August. We, therefore, think large caps should be favored as long as this downtrend in the dollar endures.



Source: Stockcharts.com

Financials Disappoint

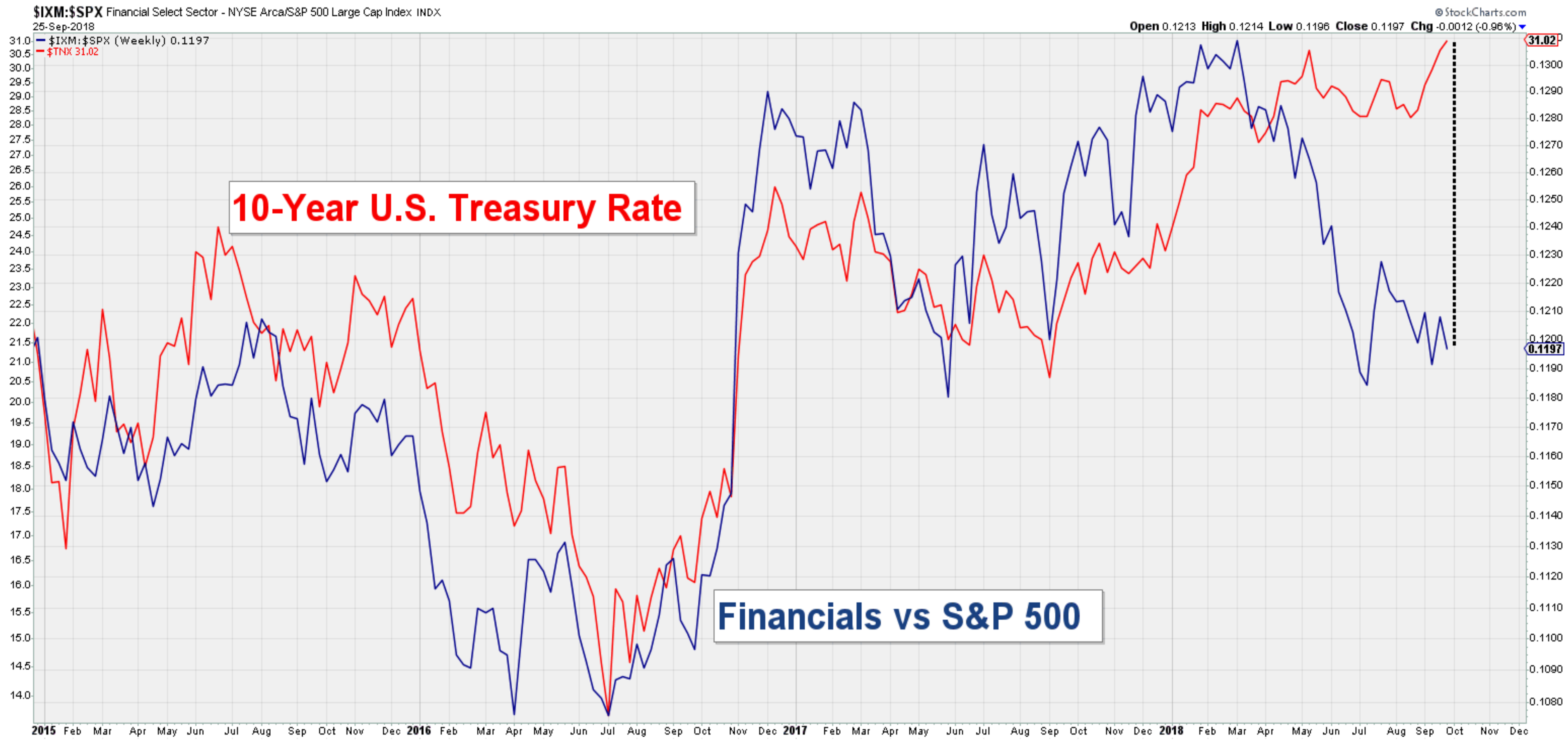
One disappointing occurrence over the last week has been the failure of the Financial Select Sector Index to hold its gains after breaking out to a new reaction high last Thursday. We thought this could finally be the technical catalyst to push the underperforming Financials materially higher, but now that the sector has fallen back down into its previous trading range, it's looking rather neutral once again.



Source: Stockcharts.com

Breakdown in 10-Year/Financials Relationship

It is also worth mentioning that there has been a clear breakdown in the relationship between the 10-Year U.S. Treasury yield and the relative strength of the Financial Sector Index vs. the S&P 500. For most of 2015-2017, when the 10-Year rate was heading upward the financials would outperform the S&P 500, but over the last few months the financials have clearly underperformed the market even as the 10-Year has risen back up to its reaction highs. We still think the financials will eventually offer a good opportunity, but we need to see better technical action first.



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