EQUITIES PERSPECTIVE

May 1, 2015
DJIA: 17,841

When good news isn't good news … that's bad news. We're thinking here, of course, of Apple (125) – good news but the stock goes down. Contrast that with just last week when Amazon (422) soared while Google (549) and Microsoft (49) rallied on their good news. In the case of Apple, the market got what it expected but therein lies the problem – it was expected. With Amazon especially, you never know what to expect so good news there prompted an oversized response. While this surprise factor seems a big part of the market's differing reaction to good news, this likely isn't the whole story. We believe the market always helps make the news, more than news making the market. So we expect that a stalled, tired, stumbling, call it what you will market, has had a lot to do with Apple's poor response. The Advance-Decline Index is at new highs and markets don't get into big trouble against that background. However, markets do have their setbacks against that background, and we seem in one now.

While the NASDAQ has reached a 15-year high, for all the market averages it's still little more than a trading range, where we've been virtually all year. Within these ranges, the market has come from a little extended on the upside, overbought as they say, to a little extended on the downside or oversold. The chart of stocks above their 10-day moving average depicts this pretty clearly. Different this time, however, is that after hitting 20% in the last weakness, we never quite got back to 80% or overbought. There has been no real upside momentum in this particular rally phase, and that sort of thing often leaves the market vulnerable. Adding to the problem is the background in investor sentiment. Granted there's no "NAZ 5000" euphoria this time around, we suspect because no one owns Amazon and Netflix (557). However, there's also no fear which serves as a springboard of sorts for good rallies. Levels around 22+ in the VIX usually provide starting points for good rallies. Complacency is such that January VIX futures sold at a 50% premium to the VIX itself as the week began.

Everyone worries about when the Fed will raise rates. Meanwhile, the market already has raised rates. Looking at the 30-year Treasury, the last rally was a weak one after the seeming blowoff move in January. And the overall uptrend now seems threatened. Commensurate with the recent poor action in Bonds is the break in the Real Estate ETF, which is in the process of taking out the March low. Weakness here is reminiscent of that around the Bernanke 2013 taper-tantrum when the overall market went through a rough spot of its own, but rate-sensitive shares were particularly hard hit. Just why this should be happening now is a bit of a mystery, though German bonds finally have been talked down by the likes of Gundlach and Gross. Another possible consequence of the rise in rates could be the recent poor action among the Homebuilders where fewer than 25% of the components of the XHB ETF are above their 50-day average. In the past, however, this backdrop led to higher prices one month later virtually every time.

It's easy to find reason not to like Oil. Contrast that with Apple where it's easy to find reason to like it. Still, it should come as little surprise that Oil finds reason to ignore its bad news – it's down already, while Apple this week has done its imitation of what you might expect of an oil stock. That first leg down in the oil stocks was the one everyone wanted to buy. They seemed cheap and we told ourselves oil wasn't going away. The next leg down there was a glut in oil that might never be worked off, and the Saudis had in mind to teach the frackers a lesson, that is, put them out of business. Most don't trust this rally mainly because there seems no reason for the stocks to go up. This, however, pretty much is the textbook story of markets – stocks go down, then the bad news, then still more selling and, finally, the turn. Oil the commodity has had a decent run-up from the low 40s in March, but you have to remember most of the stocks bottomed in January. That positive divergence seems important.

So the market has its problems, and seems at risk. One day always is just that, but Thursday likely sealed the deal on more weakness. Mind you, there have been worse days, April 17 for one when the Dow lost 279 and the A-D numbers were 4-to-1 down. Yet the market then rallied five days in a row. However, that was then, this is now and the background now is different. To get out of this we likely need to see a 22 in the VIX and a 90% down-day or two – Thursday was a 70% down-day. Market breadth, the Advance-Decline Index, peaks four-to-six months before the averages so the bull market isn't over, at least not yet. Weakness such as this does not kill uptrends, weak rallies kill uptrends – divergences and all that good stuff. In terms of the 6+ year old bull market, the worry should be about the next rally.

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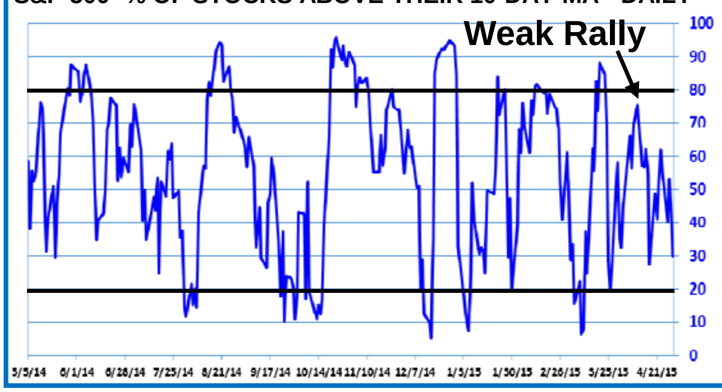
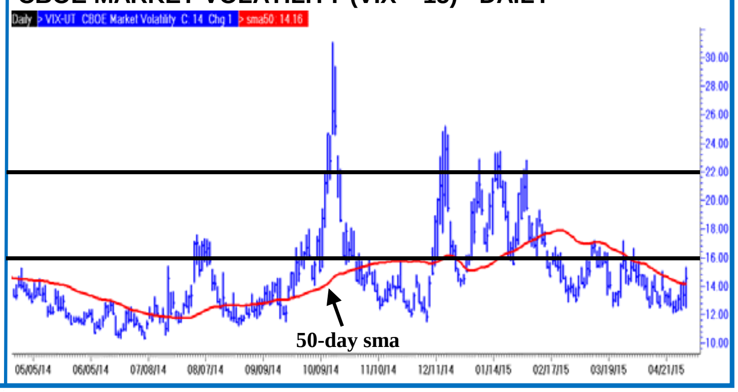
S&P 500 (SPX – 2086) – DAILY

NASDAQ 100 (NDX – 4414) – DAILY

S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY

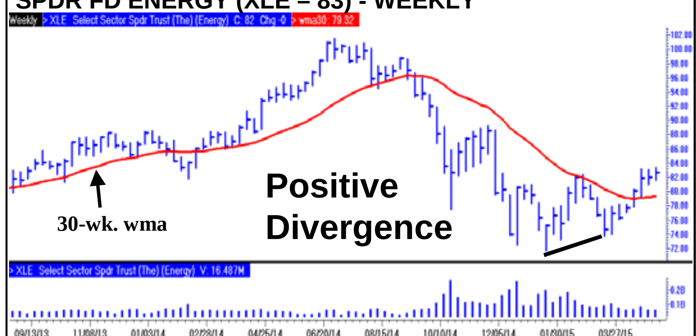


CBOE MARKET VOLATILITY (VIX – 15) - DAILY

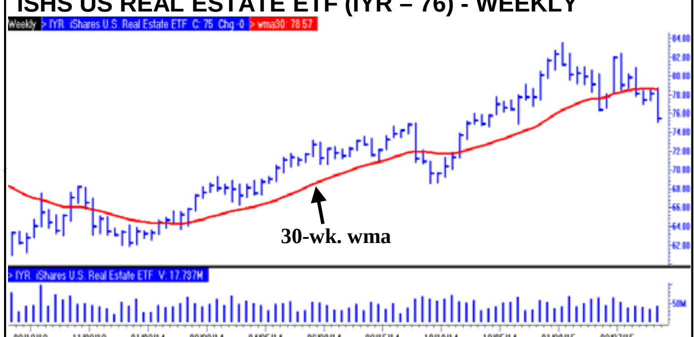


ISHS 20+ YEAR TREASURY BD ETF (TLT – 126) - WEEKLY

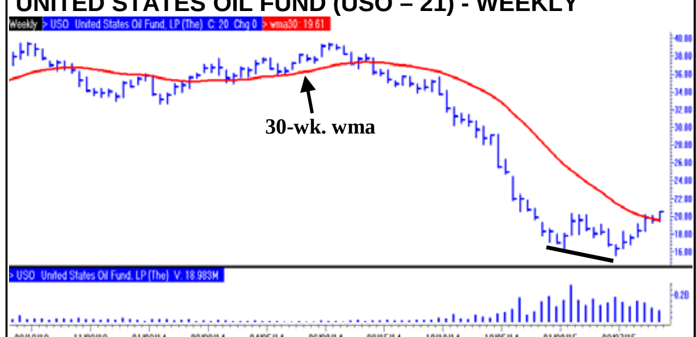
SPDR FD ENERGY (XLE – 83) - WEEKLY



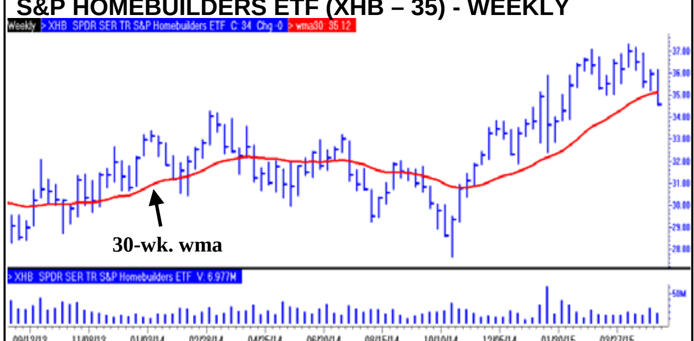
ISHS US REAL ESTATE ETF (IYR – 76) - WEEKLY



UNITED STATES OIL FUND (USO – 21) - WEEKLY



S&P HOMEBUILDERS ETF (XHB – 35) - WEEKLY



ISHS NASDAQ BIOTECH ETF (IBB – 342) - WEEKLY