

EQUITIES PERSPECTIVE

February 17, 2017

DJIA: 20,620

It's alive ... the monster of a March rate hike. Given those CPI numbers this week, and a Fed already chomping at the bit, it almost seems likely. To this we could sigh, so what? After all, we know they're coming, and rate hikes mean a better economy. And, we know it's about Trump and not Janet. Of course to suggest this, reflects a lack of history, including the history of Reagan's early going. There are few Fed tightening cycles that don't cause problems. There is, however, at least one glaring difference this time though, mind you, we didn't say this time is different. Historically Financials have been the canary for rate problems. This time they are being seen as the beneficiaries. We wonder if they will find a way to mess this up, Banks being banks, but the charts say not so far. Indeed, they all are in the process of breaking above two-month trading ranges. However, not all rate-sensitive shares are rate insensitive – REITs and Utilities are languishing.

The pattern in the Financials, a big run in November-early December, followed by a two-month hiatus, is typical of many strong groups and stocks. Excluding the last few days, the Financial stocks are where they were in December's first week. At the start of this week, JPMorgan (91) was in the upper-80s, where it was in early-December, Bank of America (25) the same, and even Goldman (249), the same. Similarly, Aerospace-Defense names like Raytheon (152) are only back to early-December levels. There are even plenty of Dow stocks only back to early-December levels – 3M (183), United Health (164), United Technologies (112) and Johnson & Johnson (118). Then there is Apple (135) and Cisco (34), the retro-FANG, but many stocks simply have been in consolidation patterns, like the S&P and Dow. Conversely, these many consolidation patterns are why they call it a trading range.

As per the chart on the back, it's hard to call the NASDAQ, especially the NASDAQ 100, a trading range. The Tech-dominated 100 has reached multi-year highs over the nine days through Wednesday, with no gain less than 0.1%. It won't take much more before you will start hearing the terms "blowoff" and "bubble." Then, too, you usually hear it, so to speak, before it actually happens. There's no bubble in Biotech, though the IBB ETF is very much improved. Biotech could be the part of the NAZ to push the Index even higher. Then, of course, there are the FANG stocks, which have had their own ups and downs since early-December. Of that ilk, only Apple has outperformed, and that is to put it mildly. Netflix (142) has performed well while the others have struggled a bit. Meanwhile, Cisco finally had a good quarter and IBM (181) and Microsoft (65) are just fine thanks.

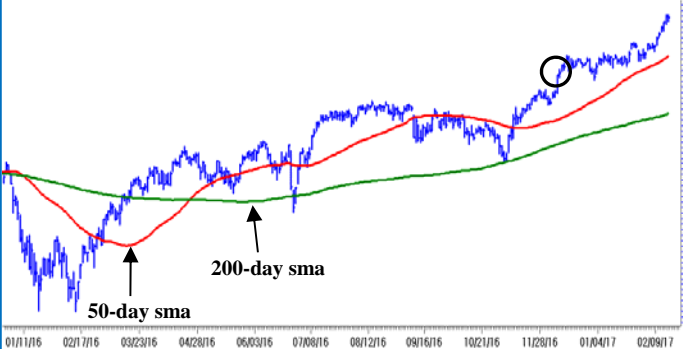
We are now in day 20,000, or whatever it was last time plus five, without a move of +/-1% in the S&P. However, this is, in a way, just more of the same. Assuming this uptrend began about one-year ago, the rally now has carried better than 25% and it has done so with a standard deviation of less than 1% in the S&P's daily price change. This gives new meaning to "stay calm and carry on." The last such period was 1991, according to SentimenTrader.com. By this period in that advance, stocks carried higher short term, then gave back those gains over the next couple of months, before moving higher once again. So the calm then wasn't before a storm, at least not a big one. The market is so busy going higher every day, it's easy to lose sight of what remains an overall healthy background. It's more than a little surprising that the Advance-Decline Index has kept up with the averages.

Thursday was the first day in a week that the S&P failed to close above its prior day's high. It's a telling commentary when this is the worst thing you can say about this market, though in the past the end of such streaks often led to some backing and filling. The correlation between the S&P and individual stocks has dropped sharply. Even within the S&P, the highs this week have been accompanied by fewer than 80 of the 505 components. This seems a negative divergence – declining participation – but it's likely more about the rotation. Importantly, the overall advance-decline numbers have kept pace with the averages, Thursday being the rare exception. The rotation also helps explain why stocks above their 10-day average only this week reached 80%, despite what seems such a strong market. By this measure, we are finally overbought and, when last at this level in mid-December, the S&P and Dow went into their trading ranges.

Frank D. Gretz

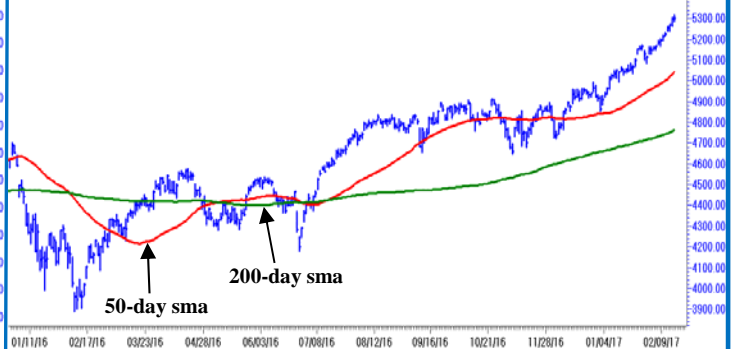
S&P 500 (SPX - 2347) - DAILY

Daily > SPX-01 S&P 500 Index C: 2347 Chg: 2 > sma50 2278.4 > sma200 2171.8

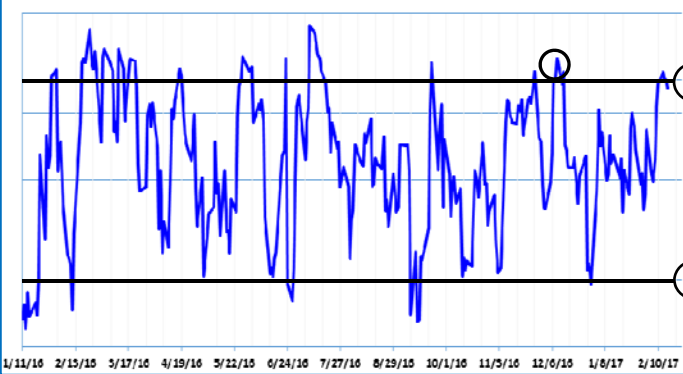


NASDAQ 100 (NDX - 5301) - DAILY

Daily > NDX-01 Nasdaq 100 Index New Calculation C: 5300 Chg: 1 > sma50 5041.8 > sma200 4761.8

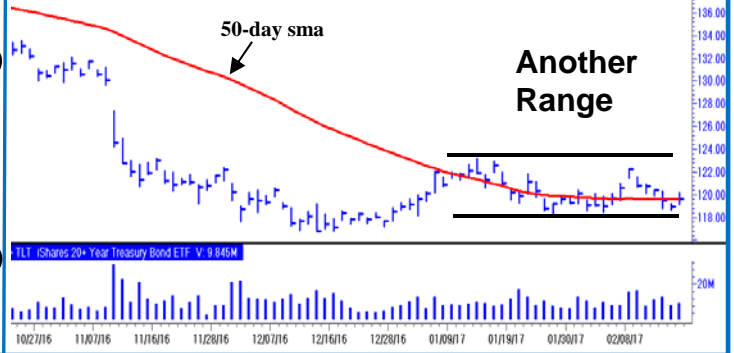


S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



ISHS 20+ YEAR TREASURY BOND ETF (TLT - 120) - DAILY

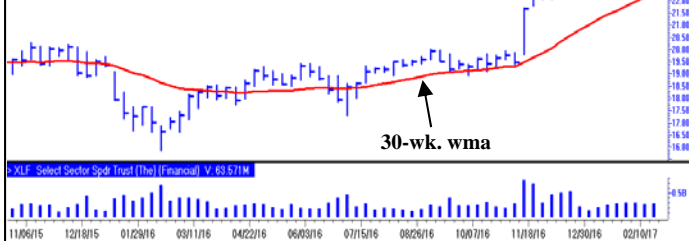
Daily > TLT (Shares 20+ Year Treasury Bond ETF) C: 119.6 Chg: 0.6 > sma50 119.63



SPDR FD FINANCIAL (XLF - 24) - WEEKLY

Weekly > XLF Select Sector Spdr Trust (Fin) (Financial) C: 24 Chg: 0 > wma30 22.37

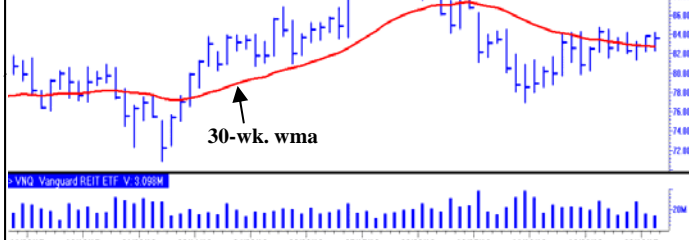
Rate Sensitive Good



VANGUARD REIT ETF (VNQ - 84) - WEEKLY

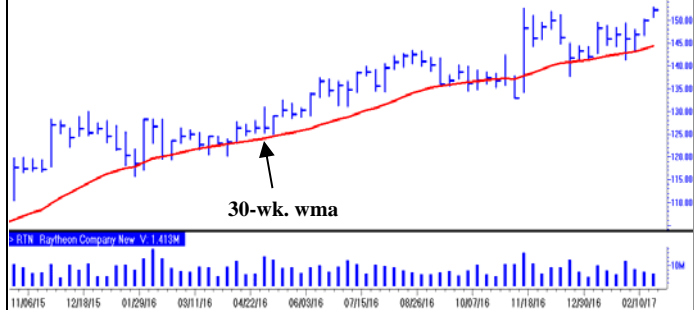
Weekly > VNQ Vanguard REIT ETF C: 83 Chg: 0 > wma30 82.76

Rate Sensitive Bad



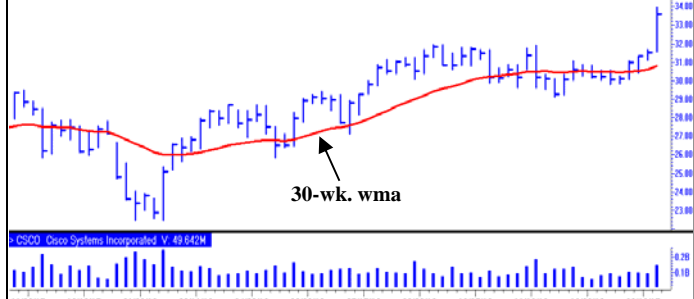
RAYTHEON COMPANY (RTN - 152) - WEEKLY

Weekly > RTN Raytheon Company New C: 152 Chg: 0 > wma30 144.44



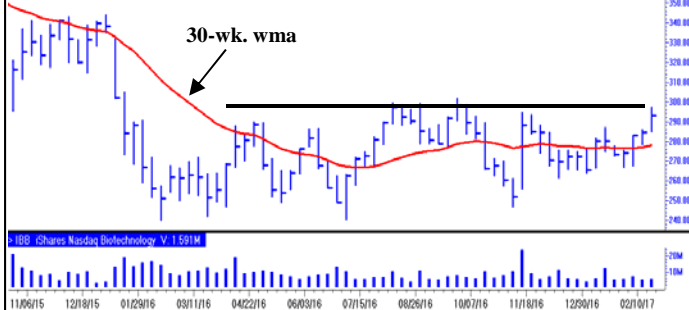
CISCO SYSTEMS INC. (CSCO - 34) - WEEKLY

Weekly > CSCO Cisco Systems Incorporated C: 33 Chg: 0 > wma30 30.19



ISHS NASDAQ BIOTECH ETF (IBB - 293) - WEEKLY

Weekly > IBB (Shares Nasdaq Biotechnology) C: 293 Chg: 1 > wma30 277.91



HONEYWELL INTERNATIONAL (HON - 124) - WEEKLY

Weekly > HON Honeywell International Incorporated C: 124 Chg: 0 > wma30 116.01

