

EQUITIES PERSPECTIVE

November 18, 2016
DJIA: 18,904

What can we interest you in today ... something in a nice bear market, or do you prefer to stick with the bull market? Rarely have we seen the market so bifurcated, whatever that means. If you're technically-oriented, it's downright disconcerting. Just this past Monday, 10% of NYSE stocks made 12-month New Highs and 10% made 12-month New Lows. The market is supposed to move up as one big happy family. Mixed markets like this simply aren't good. One of the few technically-positive days was the Monday before the election when the Dow rose 370 points and the advance-decline numbers were better than 4.5-to-1 up. Since then, the Dow has risen more than 650 points to a new high. During this time, there have been only about 2,000 net advancing issues, or a day's worth – roughly what we saw the day before the election. These very strange numbers are easy to explain. The Hillary stocks have been sold and the Trump stocks have been bought. Easy to explain but, technically speaking, not easy to like.

The Trump stocks can be summed up in one word – spend. Aerospace/Defense, Steel and Infrastructure stocks have been among the market's best performing areas. Naturally this spending will mean higher rates, something good for Bank shares, together with the possibility of less regulation. Those higher rates, in turn, mean competition for those staid dividend-paying stocks which had done well, and presumably would have continued to do well under the status quo. Utilities have been particularly hard hit as have most Food stocks. Of course, Trump himself has caused some damage in the form of trade worries, which could even be behind some of the weakness in Tech. In any event, those FANG stocks have been surprisingly weak as has much of Tech, the exception being most of the Semiconductors. So this mixed market has a very logical explanation, though it has left things “technically” a bit ugly. The bad news is the good stocks look overdone on the upside for now, though the weak stocks very well may be overdone on the downside.

Fortunately, not all is quite so dichotomous. Unencumbered by so many negatively affected rate-sensitive stocks, the NASDAQ pattern of 12-month New Highs versus New Lows is quite positive. Monday saw 500 issues at a new high versus only 60 at a new low. The net number is about 15% of issues trading on the NASDAQ, the most since October 2013 and among the highest since the 1980s, according to SentimenTrader.com. Back in mid-May, New Lows on the NASDAQ had outnumbered New Highs for 10 straight days, so it's easy to see this as a seminal change of sorts. Similarly, the Russell 2000 has reached a new high, its first since mid-2015. Indeed, the 9-day rally to this high is double its previous longest. The Russell 2000 is a measure of secondary stocks. The Advance-Decline Index also is thought of as a measure of secondary stocks, or the “average stock,” as we sometimes say. Clearly it's not secondary stocks that are the issue, the dichotomy is about the Trump winners versus the Trump losers.

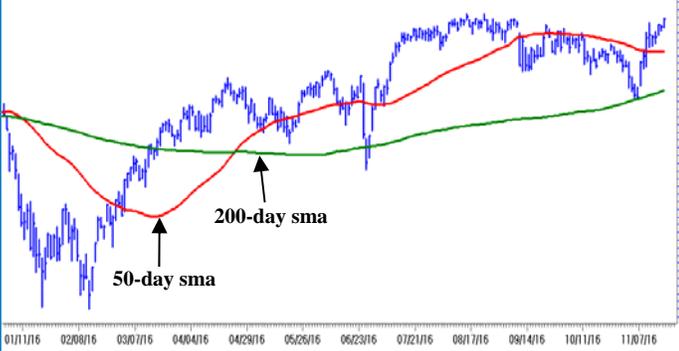
Between the likelihood the Fed will raise rates and the likelihood of less regulation, Financials have surged. Nearly 60% of Financial stocks have reached a 12-month new high, the most since 1990. Of course, there have been a few losers, most notably the REITs, and Homebuilders have lagged as well. However, many Financials now are extended and seem in need of a period of consolidation, aka, rest. The historical pattern following similar surges also favors a few weeks of pull back and then a continuation of the uptrends. The problem is the same for most of the Trump stocks – too much of a good thing. In terms of their charts, Lockheed (263) and Vulcan Materials (130) could be twins, and both are what you have to call, extended. This doesn't mean they have to turn weak but again, it does mean consolidations are likely. This also seems true of Steel. Copper, however, still may have some room.

We have spent most of this past year referring to the Biotechs as last year's stocks. For the most part, in fact, they have tended to underperform, however, some guy named Keynes used to point out that when things change, it's good to change your mind. Since the election many things have changed, including the price action in Biotech. You don't have to take our word for it, look at the upside price gap in the Biotech ETF (IBB-288). And that's not just one stock, it's an average. Unlike last summer when the goodness was all-encompassing, for now the patterns are more mixed. As you would expect, bigger, for now, is better. That said, the Russell 2000 has made it 10 up days in a row, among this small-cap measure's best performances ever. Its overall gain of 13% is its best win-streak ever. These streaks have tended to continue – strength begets strength, and all that good stuff. At around 75%, stocks above their 10-day moving average aren't even pushing it, thanks to the mixed market. Here, too, however, overbought doesn't mean over.

Frank D. Gretz

S&P 500 (SPX – 2187) – DAILY

Daily > SPX:01 S&P 500 Index C: 2187 Chg 10 > sma50 2145.4 > sma200 2094.7

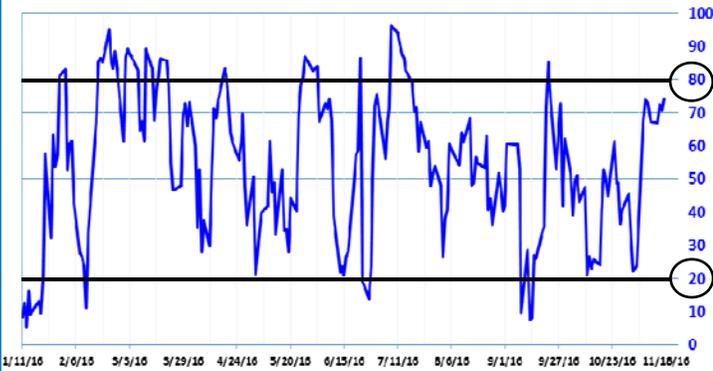


NASDAQ 100 (NDX – 4827) – DAILY

Daily > NDX:01 Nasdaq 100 Index New Calculation C: 4826 Chg 34 > sma50 4812.1 > sma200 4661.7



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



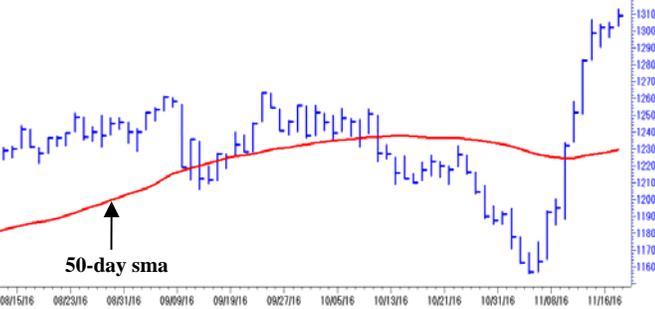
ADVANCE-DECLINE INDEX - DAILY



The "Mixed" Market

RUSSELL 2000 INDEX (RUT – 1309) - DAILY

Daily > RUT:F Russell 2000 Index C: 1309 Chg 0 > sma50 1293.4



VANECK VTRS SEMICONDUCTOR ETF (SMH – 70) - DAILY

Daily > SMH VanEck Vectors Semiconductor ETF C: 69.9 Chg 0.4 > sma50 67.93



NORTHROP GRUMMAN CORP. (NOC – 245) - DAILY

Daily > NOC Northrop Grumman Corporation C: 244.6 Chg 0.1 > sma50 221.93



VULCAN MATERIALS CO. (VMC – 130) - DAILY

Daily > VMC Vulcan Materials Company (HOLDING COMPANY) C: 129.8 Chg 0.4 > sma50 114.50



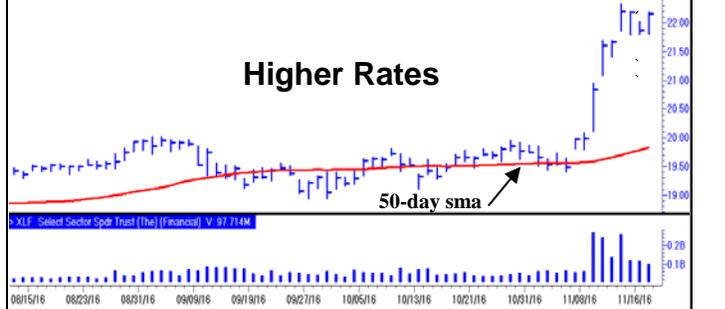
ISHS NASDAQ BIOTECH ETF (IBB – 288.5) - DAILY

Daily > IBB iShares Nasdaq Biotechnology C: 288.5 Chg 2.0 > sma50 278.95



SPDR FD FINANCIAL (XLF – 22) - DAILY

Daily > XLF Select Sector Spdr Trust (The) (Financial) C: 22.1 Chg 0.3 > sma50 19.83



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