EQUITIES PERSPECTIVE

September 30, 2016
DJIA: 18,143

Debating the debate … who won? With the exception of one, the polls say Clinton. The one exception was that poll of one called Trump. Investors don't need a poll except for the one that counts for them – the stock market. That on Tuesday Mexico rallied and Gold fell, pretty much says it all – Hillary. That two fairly significant markets could be so influenced means the election's impact is becoming a real factor. You might argue Trump's poll gains were responsible for Monday's weakness, and Hillary's debate win was responsible for Tuesday's market gain. While almost anything is better than listening to the "I think I can, I think I can" Fed, hanging on poll numbers for another five weeks is a very close second. Last week's low on the "never-mind" rate hike seems a decent one, after a background similar to that of last June. So far, however, the rally from last week's low has been subpar. Could be the election, could be a seven-year old bull market, could be memories of 2008.

Age per se doesn't kill bull markets. As they fade, there is a natural unwind wherein more and more stocks begin to lag while the market averages move higher. Typically the lag, such as it is, is reflected in the Advance-Decline Index, there's a divergence. There are plenty of divergences without big declines, but a big decline without a divergence between the market averages and the Advance-Decline Index is rare. The A-D Index made a new high as recently as a week ago. On average, this Index peaks 4-to-6 months ahead of the averages. Typically, markets don't suddenly start to diverge – averages up and A-Ds down. More often what happens is that both the averages and the Advance-Decline Index decline, and only the averages make it all the way back – our often referred to "weak rally." The market has avoided this pattern but we're told things sometimes change. Again, it's not weakness, it's the weak rally that should be of concern.

Tech in almost any form seems the leadership. Proof of this, perversely, can be seen in the Transportation Average. The Dow Jones Transports, to put it kindly, have struggled. The Index itself peaked back in November 2014, and put in what seems a respectable low this January. Still some 15% off the high, there is a base there, no thanks to the Airlines, the Rails or the Truckers. The better performance owes a good deal to its Tech component. The Tech component we speak of is Amazon (829), doing business under the guise of the Transport component, FedEx (175). On the back of some stellar earnings, FedEx is not only the best of the Transports, it is simply one of the best charts around. Tech leading the Transports, there are we suppose stranger things. To be fair, the Rails and Airlines at least are holding their own.

If misery makes for strange bedfellows, OPEC must be pretty miserable. In the event, OPEC's announced possible production cuts sent Energy almost literally soaring. Given OPEC's suspect reliability, the move seems surprising but, as they say, we'll take it. Energy may only be 7% of the S&P these days, but the group encompasses a lot of stocks. Something good for those advance-decline numbers. The Qualcomm (67)-NXP (96) news should also help keep the Semis in their leadership position. Tech generally still seems the go-to area. Amazon (829) won't stop and the Google (803) chart seems only a week or so behind. Less in focus are what you might call retro-Tech – stocks like Cisco (31), eBay (32), and Microsoft (57). In the case of Cisco and Microsoft, an added appeal is a yield around 3%.

Thursday was a bit of a Lehman moment, a telling commentary that 2008 may be gone, but not forgotten. Anything can happen we suppose, but a look at the Deutsche Bank (11) chart makes clear that this isn't a complete surprise. And after the Lehman experience, it's unlikely that DB would be allowed to wreak too much havoc on financial markets. Some official statement to that effect likely would quickly clear the air. All this should be apparent, however, making the market's outsized reaction surprising. If markets make the news, the reaction then is both surprising and worrisome. However, it's important to keep in mind that Lehman didn't start a bear market, the bear market was in place when Lehman came along. Indeed, bear markets never begin with bad news, rather, just the opposite. Houses were still selling and subprime wasn't a problem back in 2007, but those divergences were in place.

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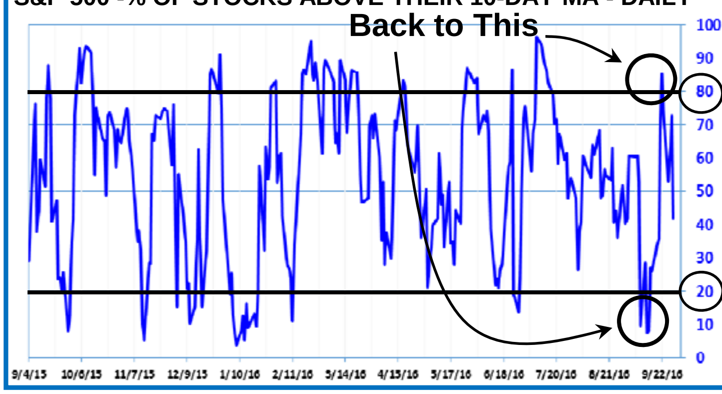
S&P 500 (SPX – 2151) – DAILY

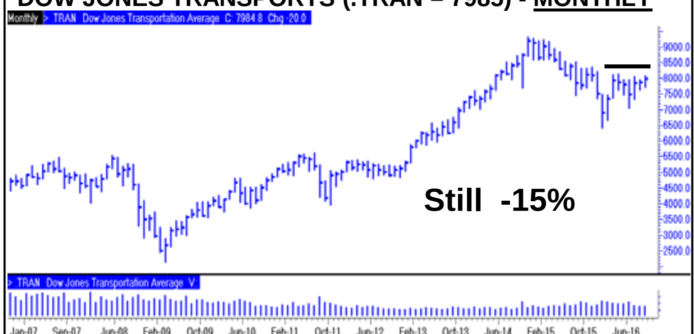
NASDAQ 100 (NDX – 4838) – DAILY

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



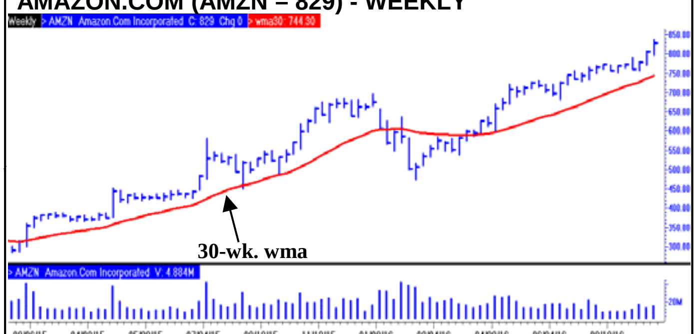
ADVANCE-DECLINE INDEX - DAILY

DOW JONES TRANSPORTS (.TRAN – 7985) - MONTHLY



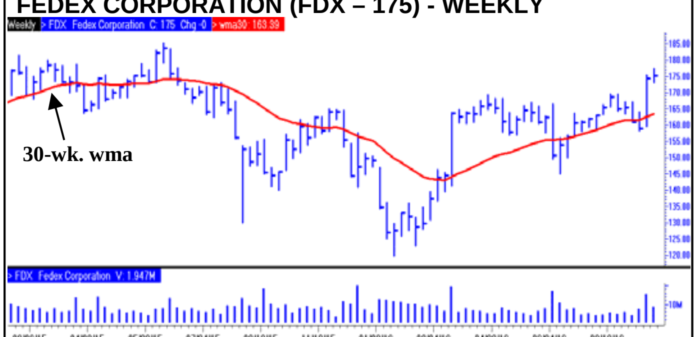
DEUTSCHE BANK AG (DB – 11) - WEEKLY

AMAZON.COM (AMZN – 829) - WEEKLY



CISCO SYSTEMS INC. (CSCO – 31) - WEEKLY

FEDEX CORPORATION (FDX – 175) - WEEKLY



MICROSOFT CORPORATION (MSFT – 57) - WEEKLY