



SCHAEFFER'S WEEKLY MARKET RUN-DOWN

May 13, 2017

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Low VIX, Spiraling Retail Stocks Highlight Muted Trading Week

5-Minute Market Run-Down for the Week Ending: May 12, 2017

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Stocks spent the week range-bound -- with the SPY repeatedly butting up against a massive call wall -- but it was not for lack of excitement. On the global front, Emmanuel Macron won the French presidential election in a landslide, while Moon Jae-in emerged victorious in South Korea's presidential election. Closer to home, President Donald Trump unexpectedly fired FBI Director James Comey on Tuesday night -- the man in charge of investigating Russia's possible interference with the U.S. presidential election. Amid these headlines, the Nasdaq Composite (COMP) and the S&P 500 Index (SPX) notched new record highs, and the Dow came within a chip-shot of a new all-time peak of its own, although the SPX and DJIA set weekly losses.

What a Low VIX Means

As stocks failed to make any major moves, the CBOE Volatility Index (VIX) plunged to fresh 10-year lows -- and not only logged its first single-digit close since the financial crisis, but did so in back-to-back sessions -- a move that coincided with the flashing of this rare options signal. This prompted Schaeffer's Senior Quantitative Analyst Rocky White to run the numbers and see if a low VIX could be used as a contrarian indicator, with the data suggesting the period of muted volatility could continue.

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SNAP Stock Spirals After Inaugural Earnings Report

Despite the historically low VIX, several individual stocks made big intraday moves. Wayfair, for instance, surged 24%, as earnings overshadowed harsh words from noted short seller Citron Research. Elsewhere, news of a notable stake by hedge fund Elliott Management sent Gigamon jumping on Monday. Plus, a post-earnings rally for Electronic Arts Inc. helped options traders triple their money. Snap Inc. (NYSE:SNAP), meanwhile, unveiled its first quarterly earnings report since going public -- and the results were not pretty. SNAP stock fell more than 21% in the session after reporting, though several last-minute Snap options traders were playing defense.

AAPL Shares Hit New High, While Chip Stocks Soar

Analysts continued to wax optimistic toward "under-appreciated" Apple Inc. (NASDAQ:AAPL). In fact -- unlike fellow Dow component IBM, which seems to be headed lower -- AAPL stock hit a new record peak after a Goldman Sachs price-target hike, and Apple options traders have been betting on even higher highs, too. Meanwhile, a post-earnings bull gap for NVIDIA Corporation (NASDAQ:NVDA) sent the VanEck Vectors Semiconductors ETF (SMH) to new highs, and had one NVDA options trader likely regretting their pre-earning put buy. Amid these sector tailwinds, Micron stock brushed off an early week downgrade from Goldman Sachs, and is on track to settle the week comfortably higher. With tech stocks soaring, one options trader initiated a \$2.3 million hedge on the PowerShares QQQ Trust (QQQ) to guard against any near-term sector headwinds.

Valeant Bounces Back as Retail Stocks Slump

Earnings also fueled Valeant stock's recent fire, with the shares set to end the week up 38%. Abercrombie & Fitch and Coach are also set to end the week with impressive gains, although the same cannot be said for a number of other retail stocks. In fact, the sector got clobbered as a stream of earnings reports fell short of estimates. Among some of the notable retailers taking a post-earnings hit were Macy's, Dillard's, Nordstrom, and J C Penney -- the latter of which hit its lowest mark on record in its 36-year history as a publicly traded company. Retail earnings will continue to be in focus next week, with results from several key names including Wal-Mart and Target due.

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