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## SCHAEFFER'S WEEKLY MARKET RUN-DOWN

May 20, 2017

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### D.C. Drama, Retail Earnings Dominate Volatile Week

[5-Minute Market Run-Down for the Week Ending: May 19, 2017](#)

#### D.C. Drama, Retail Earnings Dominate Volatile Week

All eyes were on D.C. this week, as the controversy surrounding President [Donald Trump](#) intensified. Following last week's firing of FBI Director [James Comey](#), speculation swirled the president may have revealed classified information to Russian officials during a recent meeting. While this did little to move the major U.S. benchmarks on Tuesday, [stocks](#) sold off sharply on Wednesday after reports surfaced Trump may have asked Comey to withdraw his investigation of former National Security Adviser Michael Flynn -- stoking concern the political drama could put the [White House's legislative agenda](#) on the back burner.

While the Dow and S&P 500 Index (SPX) suffered their biggest one-day losses since November 9, the Nasdaq Composite (COMP) had its worst session since Brexit. Stocks eventually stabilized -- with the [Dow](#) on track to notch back-to-back triple-digit gains - - but it is not enough to save the indexes from weekly losses.

#### VIX Options Volume Soared After Expiration

As fear rose, so did the CBOE Volatility Index (VIX) -- which spiked more than 46% on Wednesday, its biggest single-day percentage gain since the post-Brexit backlash last June. However, the risk of a volatility pop was only exacerbated by May [VIX options expiration](#). What this means, according to Schaeffer's Senior V.P. of Research Todd Salamone, is that "those using calls to hedge a volatility short position will soon

be unhedged ... [and] more apt to cover short volatility positions on negative news, or ... forced to replace volatility hedges." Not surprisingly, [VIX options](#) volume popped on Wednesday, with June 30 calls being bought to open as a possible [Fed hedge](#).

### **S&P, Nasdaq Hit New Highs Before Wednesday's Stock Market Sell-Off**

Ahead of Wednesday's broad-market bloodbath, stocks were having quite a week -- with the SPX and COMP notching new [record highs](#) on Tuesday. Tech stocks got a boost early on after a global [ransomware attack](#) served as a boon to cybersecurity stocks, including [FireEye](#) and [Palo Alto Networks](#). [Microsoft](#), on the other hand, took a hit after the "WannaCry" hack affected unprotected Windows XP users, but a sharp bounce off its historically bullish 40-day moving average suggests the [Dow stock](#) could be headed to new highs.

The Nasdaq's early week gains also came courtesy of another record-setting session for [Apple](#) Inc. (NASDAQ:AAPL), as well as big surges for AAPL supplier [Qorvo](#) and [Advanced Micro Devices](#), Inc. (NASDAQ:AMD) -- although the chipmaker quickly reversed course after [AMD stock](#) was downgraded in the wake of its analyst day. Those looking to wager on additional gains for the tech sector may want to consider these two stocks that recently flashed "[buy](#)" signals.

### **FL Stock Capped Another Round of Dismal Retail Earnings**

Retail stocks were also in the spotlight, as quarterly earnings sparked big moves throughout the sector. While [J C Penney stock](#) continued to reel in the wake of last week's quarterly results, [Foot Locker](#), [TJX Companies](#), [Urban Outfitters](#), and [Ascena Retail](#) joined the long list of retail stocks plunging after earnings.

### **WMT, TGT Stocks Bucked the Bearish Retail Trend**

Nevertheless, not all of the price action was negative. [Etsy stock](#) managed to buck the bearish retail bias, though, gapping higher in the wake of well-received hedge fund news. Other retail winners included [Ross Stores](#), [Target](#), and [Wal-Mart Stores](#) Inc. (NYSE:WMT) -- the latter of which helped the Dow swing higher on Thursday, to the dismay of [WMT options traders](#). Those wanting to bet on next week's batch of retail earnings can do so at a bargain with options on this [retail ETF](#).

### **Options Traders Blasted Gold, Bank Stocks**

Other big movers this week included this pair of Brazil stocks, which tumbled after President [Michel Temer](#) became embroiled in his own controversy. Cancer testing

name EXACT Sciences backed off its record high after Citron Research said the stock would be "cut in half" -- sending [options volume](#) soaring to a new annual peak. Gold stocks caught a safe-haven bid during Wednesday's stock sell-off, a move that sparked aggressive [options trading](#) on a number of notable names. Options volume was also accelerated on [bank stocks](#) -- one of the biggest beneficiaries of the Trump trade -- which took a dive on uncertainty surrounding the president's fiscal policies.

### **History Suggests Stocks, Dollar Will Bounce**

The lack of [1% daily moves for the SPX](#) could bode well for its rest-of-year return. Plus, not only does history show that the major U.S. benchmarks tend to recover in the wake of a massive stock sell-off, but so does the [U.S. dollar](#) -- with the PowerShares DB US Dollar Index Bullish Fund (UUP) taking a rare trip south of its lower Bollinger Band on Wednesday.

### **Fed Speeches, FOMC Meeting Headline Next Week's Action**

Looking ahead, retail names will dominate the earnings calendar. However, focus will be turned to [the Fed](#) for hints of a June rate hike, with a number of central bank officials set to speak and the minutes from the latest Federal Open Market Committee (FOMC) meeting due.

Saturday, May 20, 2017

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