

MARKET COMMENT

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Market's Weekly Bill of Health

November 14, 2018

When considering the market's overall health, two topics central to the discussion are trends and momentum. Changes in the market's vitality and direction are felt in both areas, providing early warning and guidance to investors who are aware of these two factors. When we focus on trends and momentum, we can clearly see a connection to future returns or losses in the stock market.

Market Trend Review

As shown below, the **long-term outlook** for the S&P 1500 (small, mid and large cap stocks comprising 90 percent of the total equity U.S. market) is **neutral-bearish** with only 47 percent, or 705 of the 1500 stocks in the index, boasting bullish long-term trends. This is measured by a rising 200-day moving average.

The market's **intermediate outlook** is in **bearish territory** as 28 percent of the market has a rising 50-day moving average.

The market's **short-term outlook** is in the **neutral-bullish** area with 54 percent of the index members showing rising 20-day moving averages. (Note: numbers below reflect the percentage of members with rising moving averages: 200-day moving average (or 200-day MA) is used for long-term outlook, 50-day MA is used for intermediate outlook and 20-day MA is used for short-term outlook. Numbers as of 11/12/18.)

S&P 1500 Trend Strength				
Long Term Outlook	Intermediate Outlook	Short Term Outlook	Trend Strength	Reading
			Bullish	> 60%
		54%	Neutral-Bullish	50-60%
47%			Neutral-Bearish	40-50%
	28%		Bearish	< 40%

Source: Bloomberg. All indexes are unmanaged and cannot be invested into directly. Forecasts set forth may not develop as predicted.



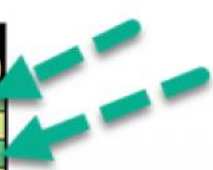
Long-Term Outlook

The 200-day SMA (simple moving average) column demonstrates the market's long-term health (shown below). As seen in the far-right columns, roughly 47 percent of stocks in the S&P 1500 have rising 200-day SMAs and just 40 percent of members are above their 200-day SMA. Only three out of the 10 sectors have at least 50 percent of members with long-term bullish trends. This data highlights how poor the market's long-term trend is looking at the moment.

For the past few weeks, the fragility in the S&P 1500 came primarily from cyclical sectors where financials, consumer discretionary, technology and industrials showed losses while the largest gains in uptrends came from the more defensive sectors such as utilities and healthcare.

S&P 1500 Sector Trend Evaluation

Sector	20d SMA		50d SMA		200d SMA		S&P 1500 Weight (%)
	% Above	% Rising	% Above	% Rising	% Above	% Rising	
Financials	70.5%	52.4%	27.8%	16.3%	26.9%	29.1%	16.7%
Con. Descr.	58.9%	58.9%	36.5%	26.9%	40.6%	45.7%	12.5%
Tech	43.5%	60.3%	21.5%	15.3%	32.1%	46.4%	18.7%
Industrials	59.0%	53.3%	21.8%	17.5%	29.7%	35.8%	11.4%
Materials	56.5%	50.6%	24.7%	20.0%	25.9%	22.4%	3.9%
Energy	14.0%	11.8%	7.5%	10.8%	10.8%	24.7%	9.5%
Con. Staples	58.8%	70.6%	52.9%	47.1%	55.9%	44.1%	8.8%
Health Care	47.6%	57.8%	33.1%	38.6%	50.0%	56.0%	13.3%
Telecommunication	52.8%	64.2%	54.7%	58.5%	56.6%	54.7%	2.0%
Utilities	88.5%	86.5%	88.5%	82.7%	92.3%	82.7%	3.2%
S&P 1500	56.4%	57.6%	34.6%	27.2%	40.0%	46.4%	N/A



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Intermediate Outlook

The 50-day SMA column gives an indication of intermediate health. As seen in the columns below, about 27 percent of stocks in the S&P 1500 have rising 50-day SMAs. Nearly 35 percent of its members are above their 50-day SMA. Only four of 10 sectors have more than half their members with intermediate bullish trends, highlighting a somewhat poor intermediary market.

Again, the cyclical sectors all showed losses including financials, consumer discretionary, technology and industrials while the largest gains in uptrends came from the more defensive sectors such as utilities and healthcare.

Sector	50d SMA		S&P 1500 Weight (%)
	% Above	% Rising	
Financials	27.8%	16.3%	16.7%
Con. Descr.	36.5%	26.9%	12.5%
Tech	21.5%	15.3%	18.7%
Industrials	21.8%	17.5%	11.4%
Materials	24.7%	20.0%	3.9%
Energy	7.5%	10.8%	9.5%
Con. Staples	52.9%	47.1%	8.8%
Health Care	33.1%	38.6%	13.3%
Telecommunication	54.7%	58.5%	2.0%
Utilities	88.5%	82.7%	3.2%
S&P 1500	34.6%	27.2%	N/A

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Short-Term Outlook

The 20-day SMA column displays short-term health. As seen in the columns below, about 57 percent of stocks in the S&P 1500 have rising 20-day SMAs and about 56 percent of its members are above their 20-day SMA. Eight of ten sectors have more than half their members with short-term bullish trends, showing a stronger short-term market.

Energy is the biggest short-term concern, while the largest gains in uptrends came again from the more defensive sectors such as utilities.

Sector	20d SMA		S&P 1500 Weight (%)
	% Above	% Rising	
Financials	70.5%	52.4%	16.7%
Con. Descr.	58.9%	58.9%	12.5%
Tech	43.5%	60.3%	18.7%
Industrials	59.0%	53.3%	11.4%
Materials	56.5%	50.6%	3.9%
Energy	14.0%	11.8%	9.5%
Con. Staples	58.8%	70.6%	8.8%
Health Care	47.6%	57.8%	13.3%
Telecommunication	52.8%	64.2%	2.0%
Utilities	88.5%	86.5%	3.2%
S&P 1500	56.4%	57.6%	N/A

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S&P 1500 Market Momentum

The Moving Average Convergence/Divergence (MACD) technical indicator is used to gauge the S&P 1500's momentum on a daily, weekly and monthly basis. Overall, the market is facing weaker momentum, meaning it should be looking for a relief rally. As seen in the table below, the momentum for the S&P 1500 is bearish in forward looking outlook with two out of three signals calling to sell.

S&P 1500 MACD Signals		
Daily	Weekly	Monthly
BUY	SELL	SELL

Digging into the details for the stocks within the S&P 1500, we can see daily momentum is clearly bullish for the market with an impressive 88 percent of members on daily buy signals. On a weekly basis, momentum is in bearish territory at 26 percent; and on a monthly basis the market is neutral-bearish at 46 percent.

With only 46 percent of stocks within the S&P 1500 on daily buy signals, this clearly implies there is reason for concern. Once we see the market above 50 percent in long-term momentum, we will hopefully get an all clear signal.

% of S&P 1500 Members w/ MACD Buy Signals				
Monthly	Weekly	Daily	Momentum Rating	Reading
		88.0%	Bullish	> 60%
			Neutral-Bullish	50-60%
46.0%			Neutral-Bearish	40-50%
	26.0%		Bearish	< 40%



What has me weary are the underlining details, and what makes me lean more towards a bigger correction is the weakness in the weekly and monthly numbers. As we can see in the table below, the financial sector is pulling the numbers down. The weighted average of financials alone at 14 percent is a problem. In technology we see the same details.

What is perhaps the most concerning is the weakness in the financial sectors' weekly numbers, standing at a low 17 percent reading. While the financial sector has clearly weakened over the intermediate and long term, it still has very strong daily numbers (89 percent).

% of S&P 1500 Members w/ MACD Buy Signals

Sector	# Member	Daily	Weekly	Monthly	S&P 1500 Weight
Financials	227	89%	17%	24%	14.1%
Con. Descr.	219	84%	29%	56%	10.3%
Tech	209	79%	18%	39%	19.5%
Industrials	229	94%	13%	37%	10.0%
Materials	85	95%	20%	28%	3.0%
Energy	93	53%	8%	55%	5.4%
Con. Staples	68	78%	53%	54%	6.7%
Health Care	166	81%	29%	60%	14.8%
Telecommunications	53	77%	57%	64%	8.9%
Utilities	52	90%	67%	65%	3.1%
Real Estate	101	98%	30%	48%	3.8%
S&P 1500 Average	1508	85%	25%	45%	N/A
S&P 1500	N/A	BUY	SELL	SELL	N/A

Bottom Line

We often look for signals when reviewing the market's overall health. In the past week, the signals we see point toward a healthy cyclical short-term market but show indication of rolling over into a secular bear market. At this point, proceed with caution. The sun is shining now, but cloudy skies might be on the horizon.

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