

# Weekly Market Notes

October 28, 2019

Dow Industrials 26958  
S&P 500 3022

Please refer to Appendix – Important Disclosures

## Stock Market Outlook – Where do we go from here?

Last week the equity markets rallied for the third week in a row carrying the S&P 500 Index just fractionally underneath the record high set in September. Support for the rally was better-than-expected third-quarter earnings and late week revelations that the U.S. and China are getting closer to completing the initial phase of trade negotiations. There is also growing evidence that the global economy is stabilizing, which is being reflected in many foreign stock markets hitting new 52-week highs in October.

## Could we have a repeat of the stock market debacle that occurred in the fourth quarter of 2018?

Although there are lingering concerns that stocks could see a repeat of the fourth quarter decline in 2018, this appears unlikely. This time last year the Federal Reserve and foreign central banks were raising interest rates and foreign equity markets were hitting new cycle lows. In the present example, 85% of central banks, including the Federal Reserve, are in an easing mode and foreign equity markets are in close proximity to new highs.

## If a resolution is made regarding trade between the U.S. and China, how will it impact the markets?

It is likely that some form of a resolution will occur next month in Santiago, Chile at the Asia Pacific Summit when the two leaders of the world's largest economies will meet. The Administration has stated that the two sides have come to an agreement on intellectual property, financial services and a deal for American farmers and, although a lot of ill will has been bred and there is more work to do, Trump has referred to Phase 1 of this deal as a "love fest." Should some form of agreement transpire, it would likely lessen business uncertainty, restore capital spending and be a positive for the stock market.

## Are recession risks increasing?

The U.S. economy is clearly slowing with indicators such as the September ISM Manufacturing and Non-Manufacturing surveys weaker than expected and CEO confidence falling all likely due to the U.S. China trade war and geopolitical concerns surrounding Brexit, Hong Kong, and the Middle East. On the positive side, home sales building permits and the unemployment rate have beaten estimates. I do not believe we currently have enough indicators to point to a recession. History has shown that the economy can slow and not fall into a recession. The Federal Reserve's commitment to "act as appropriate" to sustain growth, as well as solid consumer spending backed by a strong labor market and rising wages, should continue to promote slower but moderate growth in the year ahead.

## Where to invest?

The latest S&P 500 sector rankings continue to show defensive sectors at the top of the relative strength leaderboard. Under the surface, however, there has been a movement toward technology and cyclical areas of the market. We anticipate that this could continue. There is growing evidence that world economies, that had been dependent on monetary policy (many in negative interest rate territory) are considering fiscal measures to rejuvenate growth. This is showing up in the potential bottoming of global interest rates and the recent outperformance of global stocks relative to U.S. equities. While we continue to recommend the strongest sectors, including utilities and real estate, we suggest investors consider the strengthening areas such as financials, industrials, and information technology. We also suggest U.S. Treasury notes and short and medium-term corporate bonds to help buffer portfolios against volatility.



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	RS Ranking			RS Trend	Sub-Industry Detail
	Current	Previous	Previous		
<b>Utilities</b>	1	**	1		<i>Leaders:</i> Electric Utilities <i>Laggards:</i>
<b>Real Estate</b>	2	**	4		<i>Leaders:</i> Industrial REITs; Health Care REITs; Residential REITs <i>Laggards:</i> Hotel & Resort REITs
<b>Information Technology</b>	3	**	3	-	<i>Leaders:</i> Technology Hardware, Storage & Peripherals; Electronic Equipment & Instruments; Semiconductor Equipment <i>Laggards:</i> IT Consulting & Other Services; Communications Equipment
<b>Financials</b>	4	**	5	+	<i>Leaders:</i> <i>Laggards:</i>
<b>Consumer Staples</b>	5		8	-	<i>Leaders:</i> Food Distributors <i>Laggards:</i>
<b>Industrials</b>	6		6	+	<i>Leaders:</i> Building Products; Construction & Engineering; Trading Companies & Distributors; Diversified Support Services <i>Laggards:</i> Industrial Conglomerates; Air Freight & Logistics
<b>Health Care</b>	7		9		<i>Leaders:</i> <i>Laggards:</i> Health Care Facilities
<b>Materials</b>	8		7		<i>Leaders:</i> Construction Materials <i>Laggards:</i> Fertilizers & Agricultural Chemicals; Steel
<b>Communication Services</b>	9		2	-	<i>Leaders:</i> <i>Laggards:</i> Advertising; Broadcasting; Movies & Entertainment
<b>Consumer Discretionary</b>	10		10		<i>Leaders:</i> Consumer Electronics; Homebuilding; Household Appliances; Housewares & Specialties; General Merchandise Stores; Automotive Retail <i>Laggards:</i> Automobile Manufacturers; Leisure Products; Internet Retail; Department Stores; Specialty Stores
<b>Energy</b>	11		11		<i>Leaders:</i> Oil & Gas Refining & Marketing <i>Laggards:</i> Oil & Gas Drilling; Oil & Gas Equipment & Services; Integrated Oil & Gas; Oil & Gas Exploration & Production

\*\* Denotes Current Relative Strength-Based Overweight Sectors

	Current		Previous		Indication (from contrarian perspective)
<b>CBOE 10-Day Put/Call Ratio</b> <i>Below 85% is bearish; Above 95% is bullish</i>	93%		100%		Neutral
<b>CBOE 3-Day Equity Put/Call Ratio</b> <i>Below 59% is bearish; Above 69% is bullish</i>	64%		76%		Neutral
<b>VIX Volatility Index</b> <i>Below 16 is bearish; Above 30 is bullish</i>	12		14		Bearish
<b>American Association of Individual Investors</b> <i>Twice as many bulls as bears is bearish; 2X more bears than bulls is bullish</i>	Bulls: Bears:	36% 28%	Bulls: Bears:	34% 31%	Neutral
<b>Investors Intelligence (Advisory Services)</b> <i>55% bulls considered bearish/more than 35% bears is bullish</i>	Bulls: Bears:	53% 18%	Bulls: Bears:	49% 17%	Neutral
<b>National Assoc. of Active Investment Mgrs. (NAAIM)</b> <i>Below 25% is bullish; Above 80% is bearish</i>	66%		57%		Neutral
<b>Ned Davis Research Crowd Sentiment Poll</b>	Pessimism Fading		Pessimism Fading		Neutral
<b>Ned Davis Research Daily Trading Sentiment Composite</b>	Optimism Rising		Pessimism Fading		Neutral

## Appendix – Important Disclosures and Analyst Certification

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