

Weekly Market Notes

February 18, 2020

Dow Industrials 29398
S&P 500 3380

BAIRD

Please refer to Appendix – Important Disclosures

Stock prices rose for the second week in a row with the Dow Industrials, S&P 500 and NASDAQ hitting a series of new highs last week. The stock market remains resilient as investors continue to view the coronavirus as a temporary situation. While the uncertainties of the virus remain very much in the headlines, the likely economic setback is offset to a certain degree by better-than-expected corporate earnings announcements, new trade deals with China, Canada, Mexico and Japan and solid economic data.

Unemployment remains low, wages are rising, the labor force participation rate is the highest since 2013 and existing home sales are rising. The Reuters/University of Michigan Consumer Sentiment Index increased in early February to its highest level in nearly two years. The consumer continues on a positive track and this argues that consumption and services (70% of GDP) will remain solid in spite of a virus setback.

We rely heavily on investor psychology and liquidity measures to provide advance warning of major market turning points. Investor sentiment indicators typically show excessive optimism prior to an important market peak. Excessive optimism suggests that most are fully invested signaling market liquidity has been diminished. Our indicators are currently mixed but don't show excessive optimism.

Some key sentiment indicators that we follow: Investors Intelligence (survey of Wall Street letter writers) shows 53% bulls up from 48% the previous week. As a contrarian indicator, we would need to see 60% bulls to signal concern.

The American Association of Individual Investors currently shows 41% bulls and 26% bears. We would need to see two times as many bulls than bears for a sell signal. Ned Davis Research Trading Composite has a neutral rating on the stock market.

CBOE put/call ratios, however, are at the lowest level since January 2018 triggering a short-term sell signal.

Breadth Indicators: Market breadth remains healthy with eight of eleven sectors within the S&P 500 making new highs last week. Nearly 80% of S&P 500 stocks are trading above their 200-day moving average. We would need to see deterioration in the breadth numbers to signal a pullback in the market.

Should optimism turn more aggressive we would expect to see a short-term pullback. Should excessive optimism be accompanied by deterioration in market breadth, we would be looking for a more meaningful reversal.

Prior to the coronavirus, we were beginning to see a rebound in global manufacturing. It is almost assured that the global economy will suffer a setback and likely spill-over into the U.S. economy. Consequently, we may see first- and second-quarter economic numbers revised downward but we don't think this will have a sustained impact on the U.S. economy as our economic fundamentals are strong, rates are low, the Federal Reserve is accommodative, and the consumer continues to spend, all suggesting a continuation of the bull market.

Bruce Bittles

Chief Investment Strategist

bbittles@rwbaird.com

941-906-2830

Weekly Market Notes

	RS Ranking		RS Trend	Sub-Industry Detail
	Current	Previous		
Information Technology	1	** 1		<i>Leaders:</i> Data Processing & Outsourced Services; Application Software; Systems Software; Technology Hardware, Storage & Peripherals; Semiconductor Equipment; Semiconductors <i>Laggards:</i>
Utilities	2	** 2		<i>Leaders:</i> Electric Utilities <i>Laggards:</i>
Communication Services	3	** 3		<i>Leaders:</i> <i>Laggards:</i> Broadcasting
Consumer Discretionary	4	5	+	<i>Leaders:</i> Homebuilding; Internet Retail; Computer & Electronics Retail <i>Laggards:</i> Automobile Manufacturers; Motorcycle Manufacturers; Leisure Products; Apparel, Accessories & Luxury Goods; Specialized Consumer Services; Department Stores; Automotive Retail
Real Estate	5	7	+	<i>Leaders:</i> Industrial REITs; Specialized REITs; Real Estate Services <i>Laggards:</i> Hotel & Resort REITs; Retail REITs
Health Care	6	4	-	<i>Leaders:</i> Health Care Distributors <i>Laggards:</i>
Financials	7	8	-	<i>Leaders:</i> Insurance Brokers <i>Laggards:</i>
Consumer Staples	8	6		<i>Leaders:</i> Personal Products <i>Laggards:</i> Drug Retail; Food Distributors
Industrials	9	9		<i>Leaders:</i> Diversified Support Services; Research & Consulting Services; Trucking <i>Laggards:</i> Air Freight & Logistics
Materials	10	10		<i>Leaders:</i> Gold <i>Laggards:</i> Commodity Chemicals; Paper Packaging; Steel
Energy	11	11		<i>Leaders:</i> <i>Laggards:</i> Oil & Gas Equipment & Services; Integrated Oil & Gas; Oil & Gas Exploration & Production; Oil & Gas Refining & Marketing

** Denotes Current Relative Strength-Based Overweight Sectors

Sentiment Indicators

	Current		Previous		Indication (from contrarian perspective)
CBOE 10-Day Put/Call Ratio <i>Below 85% is bearish; Above 95% is bullish</i>	80%		88%		Bearish
CBOE 3-Day Equity Put/Call Ratio <i>Below 52% is bearish; Above 65% is bullish</i>	53%		51%		Neutral
VIX Volatility Index <i>Below 13 is bearish; Above 28 is bullish</i>	14		15		Neutral
American Association of Individual Investors <i>Twice as many bulls as bears is bearish; 2X more bears than bulls is bullish</i>	Bulls:	41%	Bulls:	34%	Neutral
	Bears:	26%	Bears:	35%	
Investors Intelligence (Advisory Services) <i>55% bulls considered bearish/more than 35% bears is bullish</i>	Bulls:	53%	Bulls:	48%	Neutral
	Bears:	19%	Bears:	19%	
National Assoc. of Active Investment Mgrs. (NAAIM) <i>Below 25% is bullish; Above 80% is bearish</i>	86%		63%		Neutral
Ned Davis Research Crowd Sentiment Poll	Excessive Optimism		Optimism Fading		Bearish
Ned Davis Research Daily Trading Sentiment Composite	Optimism Increasing		Optimism Fading		Neutral

Appendix – Important Disclosures and Analyst Certification

Analyst Certification

The senior research analyst(s) certifies that the views expressed in this research report and/or financial model accurately reflect such senior analyst's personal views about the subject securities or issuers and that no part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report.

Disclaimers

This is not a complete analysis of every material fact regarding any company, industry or security. The opinions expressed here reflect our judgment at this date and are subject to change. The information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy.

ADDITIONAL INFORMATION ON COMPANIES MENTIONED HEREIN IS AVAILABLE UPON REQUEST

The Dow Jones Industrial Average, S&P 500, S&P 400 and Russell 2000 and any other indices mentioned are unmanaged common stock indices used to measure and report performance of various sectors of the stock market; direct investment in indices is not available. Baird is exempt from the requirement to hold an Australian financial services license. Baird is regulated by the United States Securities and Exchange Commission, FINRA, and various other self-regulatory organizations and those laws and regulations may differ from Australian laws. This report has been prepared in accordance with the laws and regulations governing United States broker-dealers and not Australian laws.

United Kingdom (“UK”) disclosure requirements for the purpose of distributing this research into the UK and other countries for which Robert W. Baird Limited holds a MiFID passport.

The contents of this report may contain an "investment recommendation", as defined by the Market Abuse Regulation EU No 596/2014 ("MAR"). This report does not contain a "personal recommendation" or "investment advice", as defined by the Market in Financial Instruments Directive 2014/65/EU ("MiFID"). Please therefore be aware of the important disclosures outlined below. Unless otherwise stated, this report was completed and first disseminated at the date and time provided on the timestamp of the report. If you would like further information on dissemination times, please contact us. The views contained in this report: (i) do not necessarily correspond to, and may differ from, the views of Robert W. Baird Limited or any other entity within the Baird Group, in particular Robert W. Baird & Co. Incorporated; and (ii) may differ from the views of another individual of Robert W. Baird Limited.

This material is distributed in the UK and the European Economic Area (“EEA”) by Robert W. Baird Limited, which has an office at Finsbury Circus House, 15 Finsbury Circus, London EC2M 7EB and is authorized and regulated by the Financial Conduct Authority (“FCA”) in the UK.

For the purposes of the FCA requirements, this investment research report is classified as investment research and is objective. This material is only directed at and is only made available to persons in the EEA who would satisfy the criteria of being "Professional" investors under MiFID and to persons in the UK falling within Articles 19, 38, 47, and 49 of the Financial Services and Markets Act of 2000 (Financial Promotion) Order 2005 (all such persons being referred to as “relevant persons”). Accordingly, this document is intended only for persons regarded as investment professionals (or equivalent) and is not to be distributed to or passed onto any other person (such as persons who would be classified as Retail clients under MiFID).

All substantially material sources of the information contained in this report are disclosed. All sources of information in this report are reliable, but where there is any doubt as to reliability of a particular source, this is clearly indicated. There is no intention to update this report in future. Where, for any reason, an update is made, this will be made clear in writing on the research report. Such instances will be occasional only.

Investment involves risk. The price of securities may fluctuate and past performance is not indicative of future results. Any recommendation contained in the research report does not have regard to the specific investment objectives, financial situation and the particular needs of any individuals. You are advised to exercise caution in relation to the research report. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

Robert W. Baird Limited and Robert W. Baird & Co. Incorporated have in place organizational and administrative arrangements for the prevention, avoidance, and disclosure of conflicts of interest with respect to research recommendations. Robert W. Baird Limited's Conflicts of Interest Policy, available [here](#), outlines the approach Robert W. Baird Limited takes in relation to conflicts of interest and includes detail as to its procedures in place to identify, manage and control conflicts of interest. Robert W. Baird Limited and or one of its affiliates may be party to an agreement with the issuer that is the subject of this report relating to the provision of services of investment firms. Robert W. Baird & Co. Incorporated's policies and procedures are designed to identify and effectively manage conflicts of interest related to the preparation and content of research reports and to promote objective and reliable research that reflects the truly held opinions of research analysts. Robert W. Baird & Co. Incorporated's research analysts certify on a quarterly basis that such research reports accurately reflect their personal views.

This material is strictly confidential to the recipient and not intended for persons in jurisdictions where the distribution or publication of this research report is not permitted under the applicable laws or regulations of such jurisdiction.

Robert W. Baird Limited is exempt from the requirement to hold an Australian financial services license and is regulated by the FCA under UK laws, which may differ from Australian laws. As such, this document has not been prepared in accordance with Australian laws.

Copyright 2020 Robert W. Baird & Co. Incorporated