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Focus on the Longer Term; AMAT Looks Good Here

The binary nature of those worrisome trade headlines are rattling markets, but investors shouldn't lose sight of the positive longer-term technical backdrop.

The most recent sell-off in the equity market is understandably anxiety-provoking. After all, who would want to own economically sensitive stocks when the risk of stray Presidential tweet or headline could send stocks careening lower at any point. These are valid concerns exactly why it makes sense to review the technical backdrop.

Technically speaking, I'd encourage investors to stay focused on the likelihood that the S&P 500 Index is simply digesting the Q1 surge that pushed weekly indicators into overbought territory. My view remains unchanged, that is, the S&P 500 should trade in relatively narrow range above support near the S&P's 200-day moving average (2775) and Q4 2018 highs (2800), very similar to what developed through Q2 2018.

Applied Materials (AMAT)

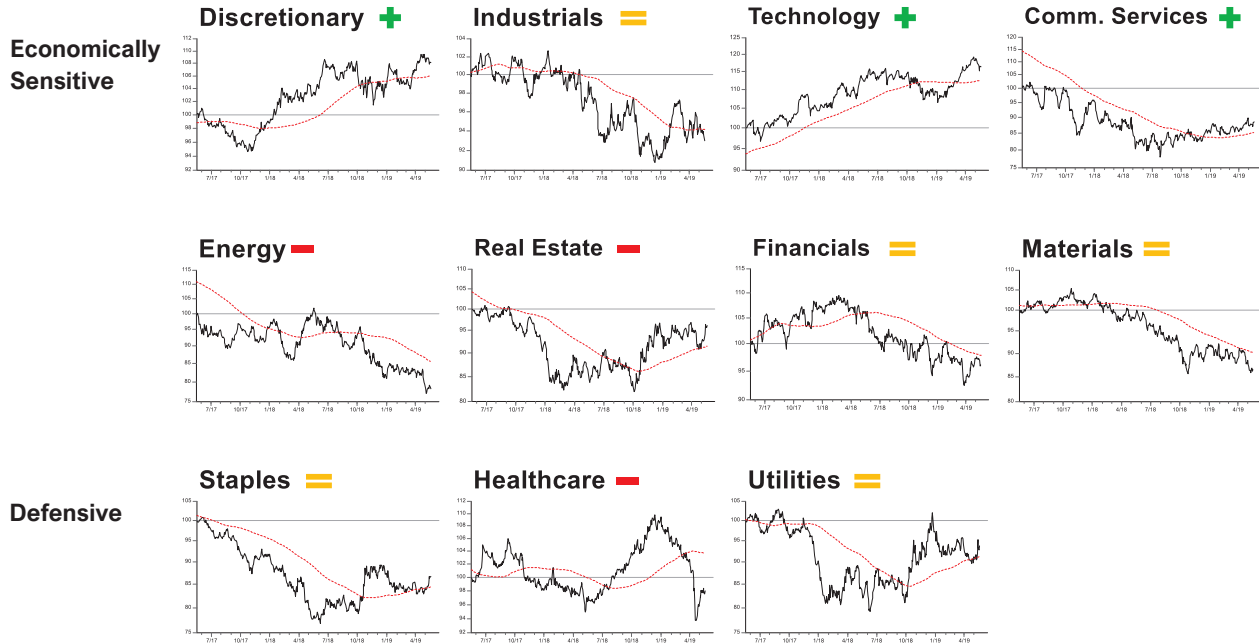


Source: FS Insight, Bloomberg, Optuma

More specifically, a stock like Applied Materials (**AMAT**), a maker of semi-conductor equipment, remains in a bullish trend, with this week's positive reaction to first quarter earnings report giving rise to positive technical action.

Uptrends almost always develop in a stair-step way to create higher highs and higher lows. As one proxy for the broadly improving cyclical backdrop, AMAT has the look of a stock that is in a new bull market. The rebound from its 200-day moving average is another step in an ongoing uptrend that is likely to continue through the second half of 2019. Continue to accumulate on near-term pullbacks.

Figure: Rob's Weekly Sector Review

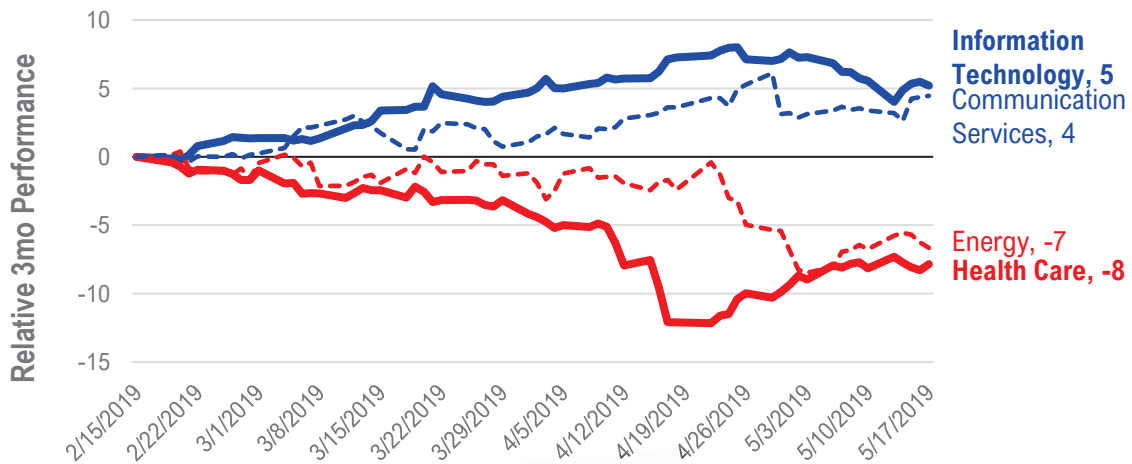


Here are noteworthy leaders and laggards for the week.

Leader: Technology – The past week’s pullback in technology has not damaged the sector’s underlying uptrend. In fact, at the group level, secular growth groups such as software and notably cloud-related stocks, continue to rally to new highs. **Consumer Discretionary** – Similar to tech, the consumer discretionary sector’s relative performance remains in an uptrend with little evidence of deteriorating.

Laggard: Materials remain in a downtrend, probing its next key technical level at the December 2018 lows. What would improve the technical backdrop? A move above the Q1 2019 trading range would be needed to signal a positive trend reversal.

Figure: Best and worst performance sectors over past 3 months



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