Technicals: Robert Sluymer

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Long Term Backdrop Bullish for Stocks, For Bonds Not So Much

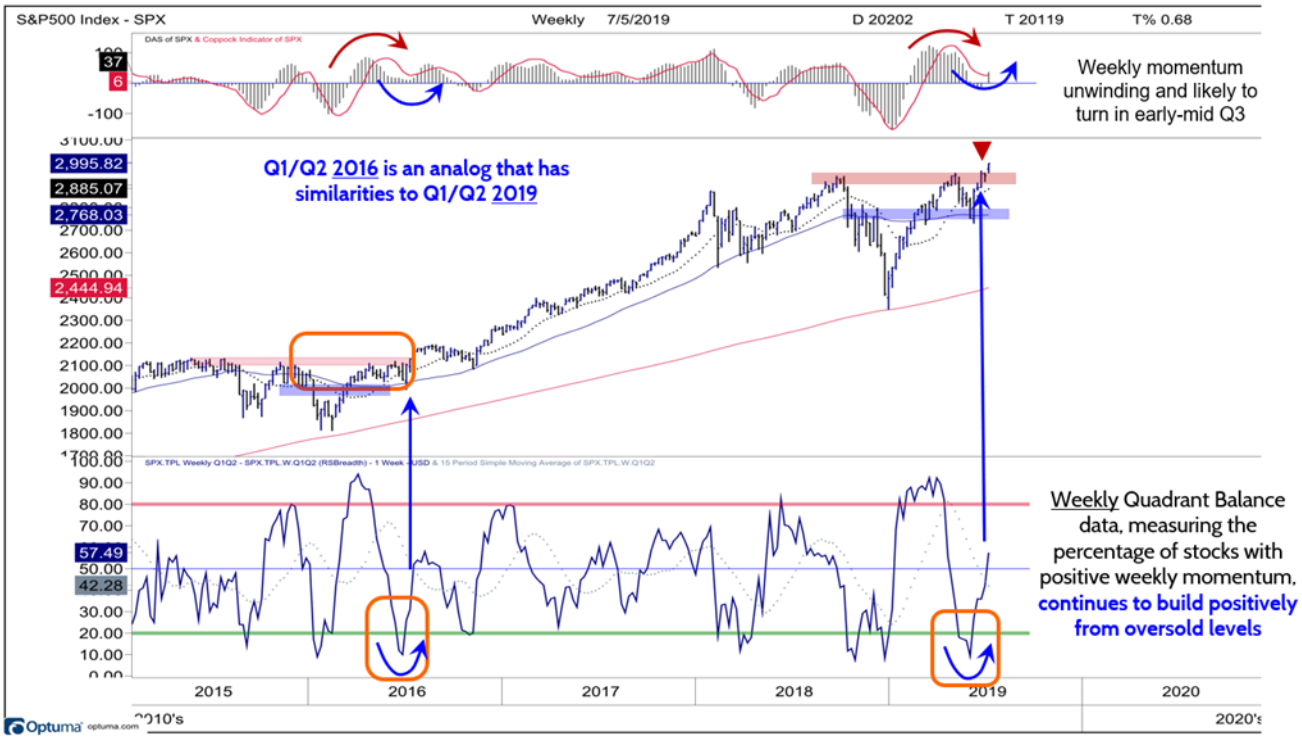
You have to admire the Standard & Poor's 500 index's ability to scale the proverbial "Wall of Worry" in the face of major trade, economic and earnings worries throughout Q2 heading into Q3. I've been around for a few bull and bear markets, and if there were ever a market climbing that time-honored cliché, it's this one.

That said, in the short-term a market pullback would not be surprising given the recent surge has pushed daily trading indicators back into overbought levels. However, and as I've said previously in these pages, the intermediate- and longer-term technical backdrop remains bullish for equities.

Given the market's new highs and this holiday shortened trading week, I want to revisit the weekly S&P charts I focus on regularly for perspective on the coming one to two quarters as we head through upcoming earnings season.

As a reminder, I use the weekly momentum indicator in the top panel to track the 1-2 quarter swings in the S&P 500 and cross reference it against the weekly momentum indicator in the bottom panel, which tracks the direction of the S&P 500 index on an equally-weighted basis. At the beginning of Q2, both indicators were overbought and suggested a pullback/pause was likely in Q2 but one that was temporary and would pass by late Q2/early Q3. Despite endless bearish headlines, these indicators began to bottom right on track in late Q2, and continue to build positively and remain bullish.

S&P 500 – Weekly – Making the turn…up and out

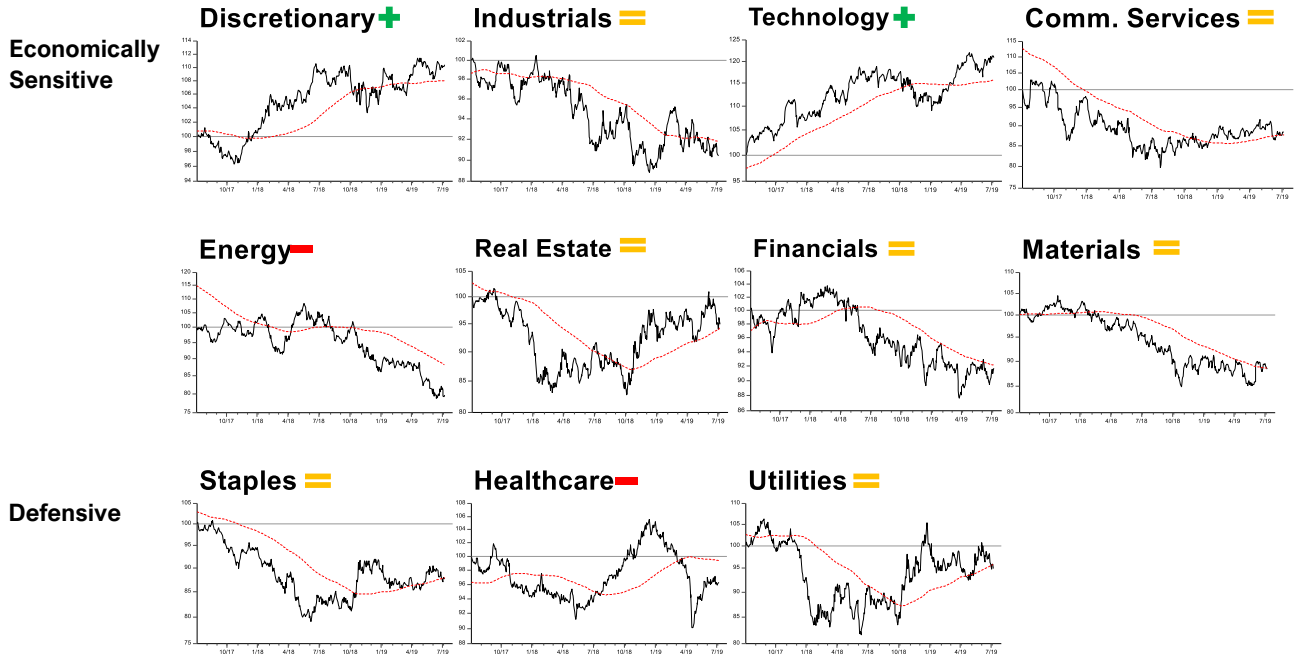


Source: Fundstrat, Bloomberg, Optuma

Bottom Line: My expectation is that, while the upcoming earnings seasons are likely to be very volatile and give analysts an excuse to lower earnings expectations, the technical backdrop remains bullish based on the S&P's price trend, momentum backdrop and breadth, as measured by the advance-decline line. In contrast, bonds continue to look risky to me. Weekly momentum indicators for U.S. Treasury 10-year

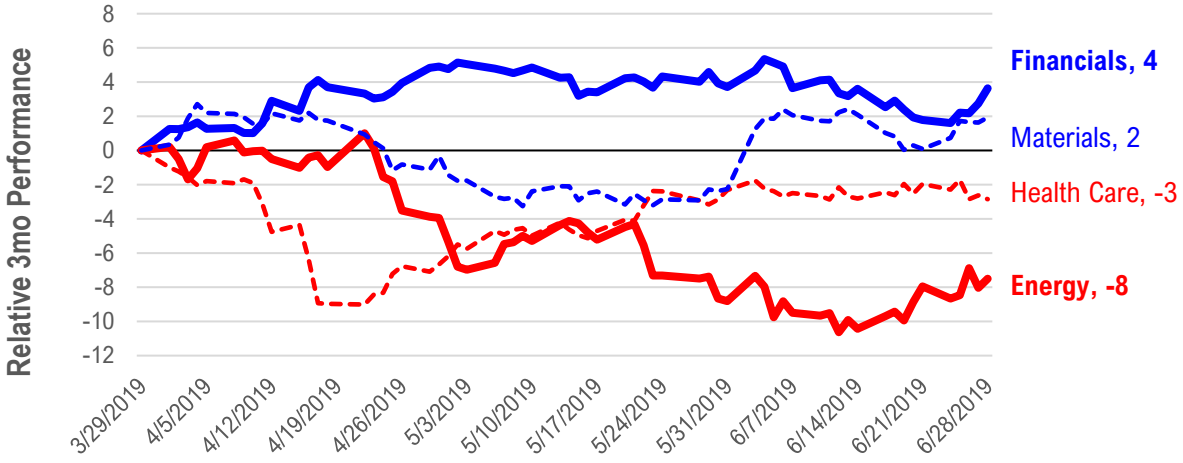
bond yields are deeply oversold and at risk of turning up. Today's employment report could very well have marked an important turning point for bond yields (See page 1). Favor stocks over bonds through year-end well into 2020.

Figure: Rob's Weekly Sector Review
Source: FS Insight, Factset

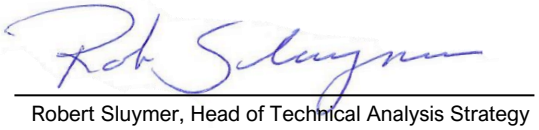


My sector view remains unchanged, with technology and consumer discretionary established leadership, and bond proxies such as utilities and staples at risk of weakening further through H2. In contrast, cyclicals, such as industrials and financials, have yet to make a decisive technical upturn. But they remain near levels that would signal upside trend reversals and are likely to do so in Q3.

Figure: Best and worst performance sectors over past 3 months



Source: FS Insight, Bloomberg



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