

### Charts of the Week

### Investment Strategy: "Charts of the Week"

Investors received a reminder yesterday that this is still a market at the mercy of the headlines. While the S&P 500 had not exactly been lighting the world on fire recently, yesterday's action kicking off the holiday-shortened week was clearly the worst we've seen in more than a month. The political turmoil in Italy set an early negative tone, but we thought the U.S. stock market at least absorbed that news relatively well, all things considered. It certainly wasn't the "meltdown" implied by some of the headlines we saw, and the increased uncertainty in Europe may make U.S. markets even more attractive by comparison in the near term. To be sure, an actual "Quitaly" event, in which Italy leaves the euro, likely would not be viewed favorably by world markets and would increase the risk of seeing the entire euro experiment crumble; it is one of the more obvious potentialities that could create significant downside risk for global stock markets should it happen – and the U.S. likely would not be spared from that fallout. Yet, as is often the case, many people may be jumping the gun a bit and assuming the worst case scenario is going to occur when, in fact, there are several steps before we are forced to cross that bridge. It is obviously a situation that bears watching in the weeks to come and Italy (and Europe) certainly have risks, but we caution against getting too panicked at the moment.

Nevertheless, we did see somewhat of a flock to safety in U.S. Treasuries (and German bunds) yesterday, as rates are now well off of their highs of a couple of weeks ago (pages 11 and 12). It was the latest example of a fact we have pointed out to anyone coming to us over the last few years who was worried about the level of U.S. debt and the position of the U.S. dollar: when global uncertainty rises, the United States is still the place where investors seek shelter, implying the market isn't exactly concerned about the fiscal health of the country. The flows into U.S. assets are only accelerating the strength of the dollar, too, which hit a 10-month high against the euro on the Italy news. That strength, in turn, has helped further cool what had been a red-hot oil market, and also likely makes smaller, more domestic-focused companies even more attractive than they already were. Not surprisingly, then, the U.S. small cap indices continued to outperform the larger benchmarks yesterday during the minor market sell-off.

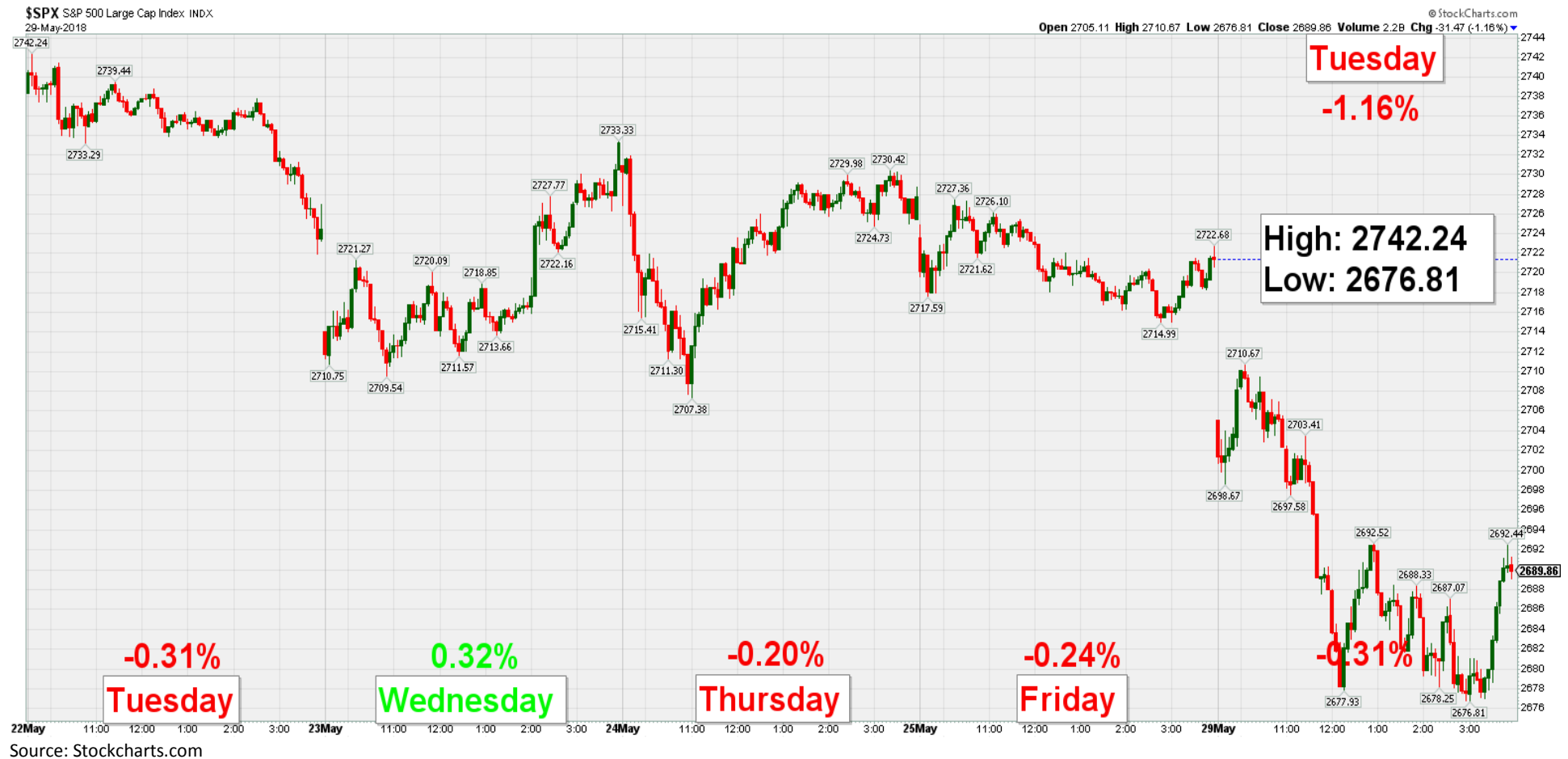
The Italy news wasn't the only event to put pressure on markets, though; a new round of selling began around 11:30 a.m. after the White House unexpectedly announced the U.S. will move forward with tariffs and investment restrictions against China only a few days after it looked as if tensions had eased. It was the latest development in the ongoing "trade skirmish," yet investors may be getting a little numb to back-and-forth announcements like these, as the reaction was not as violent as it might have been a month ago. As our "man in Washington," Ed Mills wrote in a note yesterday, "We view this memo as keeping the pressure on China during the ongoing trade negotiations, but also as a diversion of the criticism of the Trump Administration related to ZTE. The June 30 date would place the announcement of these restrictions past the potential on-again/off-again summit with North Korea - giving the Trump Administration breathing room around that potential event." Indeed, investors are being forced to learn that trade negotiations are long, drawn-out processes with many starts and stops.

Overall, there remains plenty to talk about but much of it is firmly in the realm of speculation and "what ifs." The S&P 500 did hold yesterday above the 2670 support zone referenced in past reports, and ideally that helps boost stocks back up here. We continue to believe the market is relatively healthy given the outperformance of the small caps, the strength in the A-D lines, and the resiliency of the major averages, yet it is still a market more suited to traders and stock pickers until the broader range is resolved.

And with that, here are the Charts of the Week...

Please read domestic and foreign disclosure/risk information beginning on page 14 and Analyst Certification on page 15.

## S&P 500 – Last five sessions (five-minute chart)



### The Breadth Box

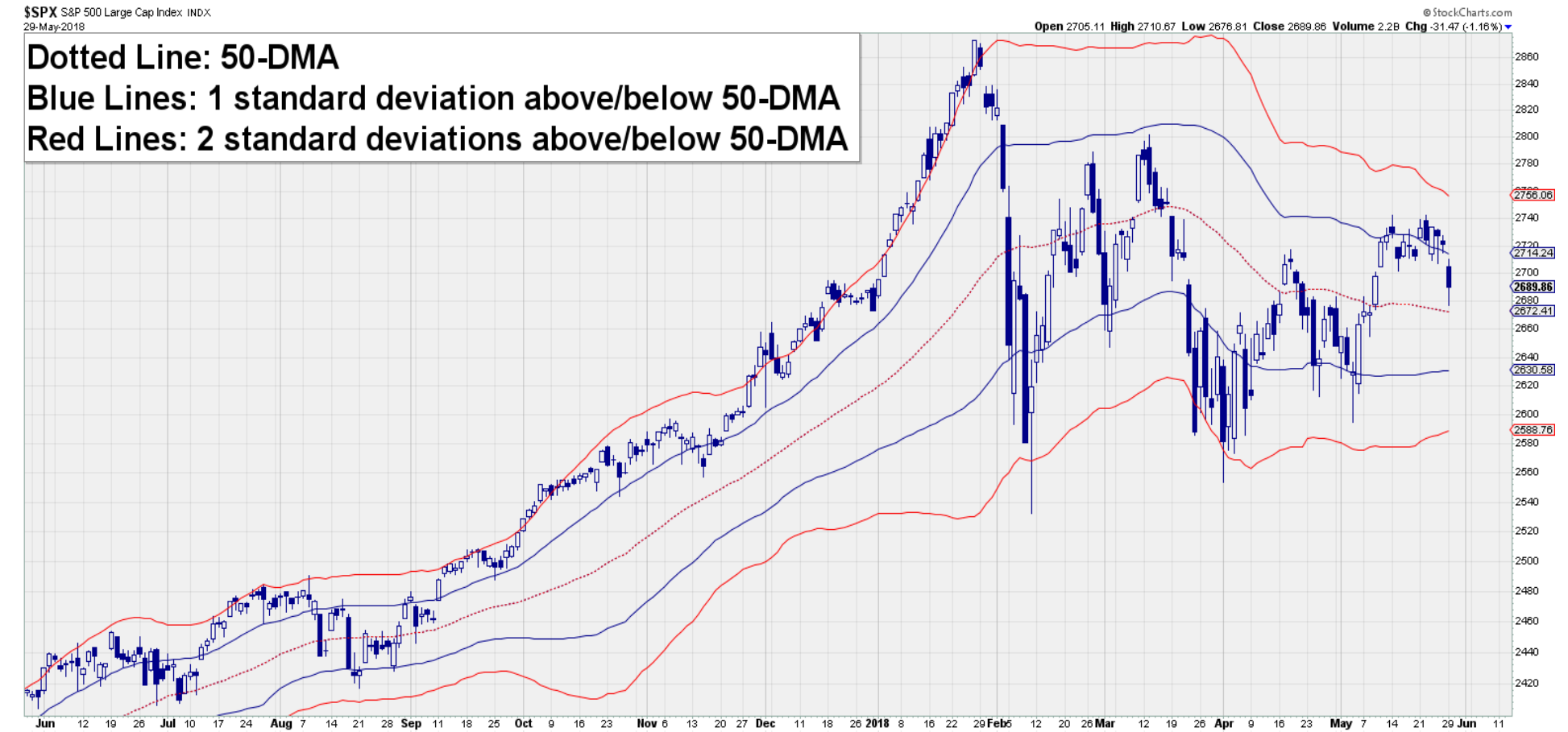
Breadth has fallen over the last week, but it hasn't been a significant decline. All the indicators remain above their levels from four weeks ago and in the upper end of their five-year ranges.

THE BREADTH BOX	This Week (5/29)	Last Week (5/22)	4 Weeks Ago (5/1)	Current Percent of 5-Year Range*
NYSE % of Stocks Above 50-DMA	58.23%	65.48%	50.73%	61%
NASDAQ % of Stocks Above 50-DMA	61.49%	63.26%	44.54%	72%
NYSE % of Stocks Above 200-DMA	53.54%	58.46%	52.42%	59%
NASDAQ % of Stocks Above 200-DMA	56.34%	57.21%	49.68%	71%
U.S. Stocks New Highs – New Lows (5-Day Total)	509	1079	-272	74%
NYSE Bullish Percent Index	58.23%	59.43%	52.07%	66%
NASDAQ Bullish Percent Index	60.79%	60.45%	54.97%	75%
S&P 500 Average % Below 52-Week High	14.2%	12.4%	**	
Russell 3000 Average % Below 52-Week High	17.6%	16.4%	**	
* 100% would be the highest point of the last 5 years, 0% would be the lowest point in the last 5 years, and 50% is the mid-point of the 5-year range				

Source: Stockcharts.com; Bloomberg; Raymond James research

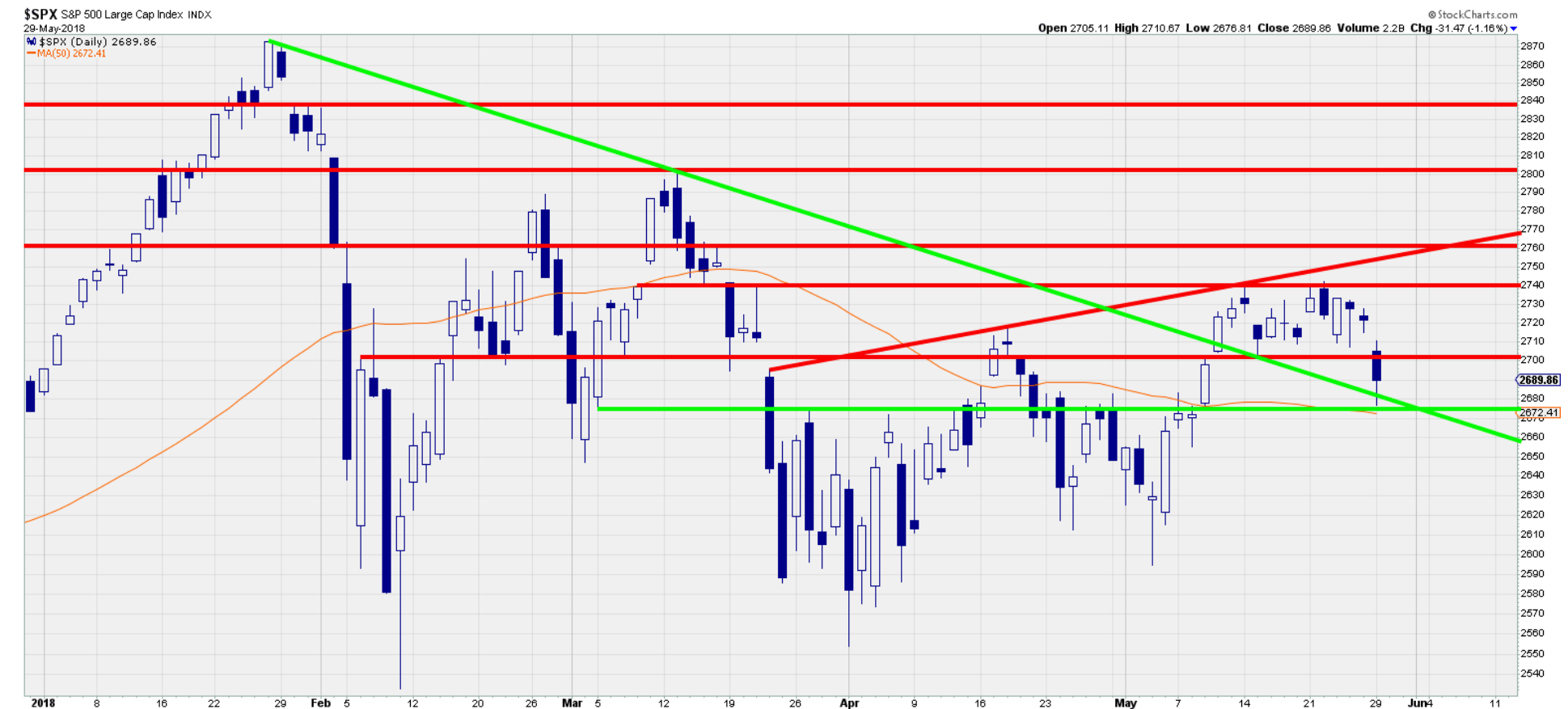
## S&P 500 Timing Chart

Relatively neutral vs. the 50-day moving average.



## Near-Term Action Not Great, but Support is Holding

Investors have mostly been given a reprieve from the crazy volatility over the last couple of weeks, but the trading action hasn't exactly been stellar. The S&P 500 was unable to climb above 2740 resistance on three separate occasions, and now this tentativeness has been followed by a pick-up in selling pressure during yesterday's headline-filled session. So far, though, the bottom of the 2670-2685 support range we have written about lately has held and we even got a little bit of a bounce into the close, which importantly took the S&P 500 back above the line connecting the January and March highs. Ideally, this support zone continues to hold and pushes the index back up to take another shot at getting above 2740.



Source: Stockcharts.com

## Russell 2000 Continues to Lead

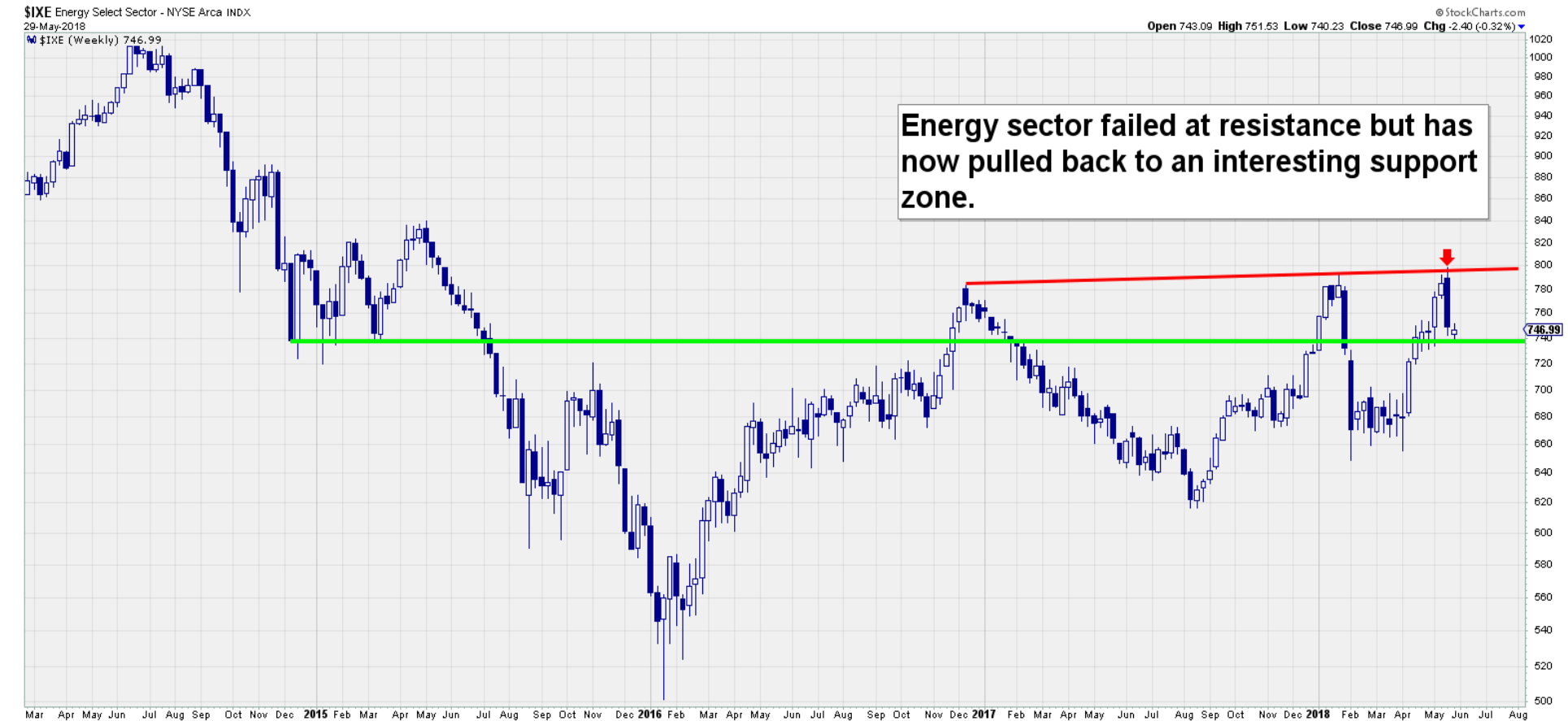
The small caps also had a good finish to yesterday's session, as the Russell 2000 bounced off the support range formed by the previous all-time high. It's now four straight sessions in which the index closed near the upper end of its daily range and small caps continue to outperform large caps.



Source: Stockcharts.com

## Energy Back to Buy Point?

Last week we pointed to some possible resistance in the Energy sector and, sure enough, that level knocked the sector down rather quickly. Now, though, the Energy Select Sector Index has retreated to the area around 740 that has a history of importance going back to late 2014/early 2015 during the oil collapse, and this could be a good place to enter or reenter Energy positions. Interestingly, despite a poor day for both oil prices and the stock market yesterday, Energy held in there relatively well and outperformed the broad market. We expect Energy to help lead the way higher should the near-term headlines blow over.



Source: Stockcharts.com

## Oil Bouncing at Support

Moreover, crude oil itself looks to be bouncing off support in the \$65.50-\$66.50 zone. That area has been important so far this year and is also where a support line drawn from the 2018 lows currently sits.



Source: Stockcharts.com



## Critical Moment for the Financials

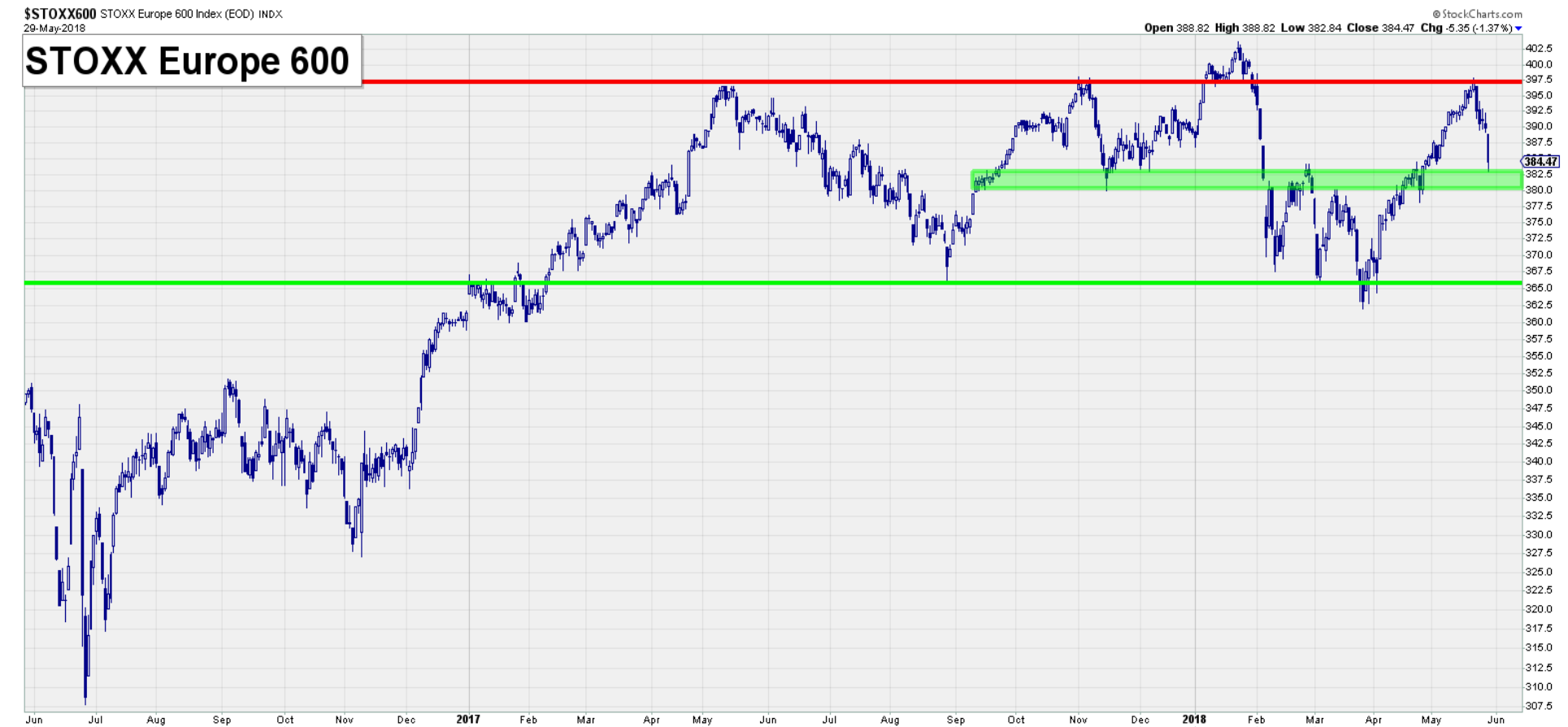
Not surprisingly, the Financial sector took a big hit yesterday with interest rates tanking, fear about global growth escalating, and a JP Morgan exec saying that the company's second quarter markets revenues look to be flat compared to last year. The sector has been one of the more disappointing areas of the market this year and now it's getting dangerously close to doing some real technical damage on its chart. The Financial Select Sector Index is back within a clear support area between 325-330, but it's still underperforming the S&P 500, as it has mostly done since late February. The sector was probably due for some underperformance after such a great end to last year, but we really want this support zone to hold and boost the group back up.



Source: Stockcharts.com

## Europe in the Spotlight

Italy was the talk of the investment world yesterday, but the story extends across the broader continent. The STOXX Europe 600 index represents about 90% of the free-float capitalization of Europe and remains range-bound going back over the last year. Naturally, it had a poor day yesterday, but the damage wasn't quite as bad as it might have been and the index is now sitting right above an important support zone between 380 and 382.50. We want this area to hold, of course, but even more so because there's not much obvious support again until it gets down closer the lower end of its range.



Source: Stockcharts.com

## Well That Escalated Quickly

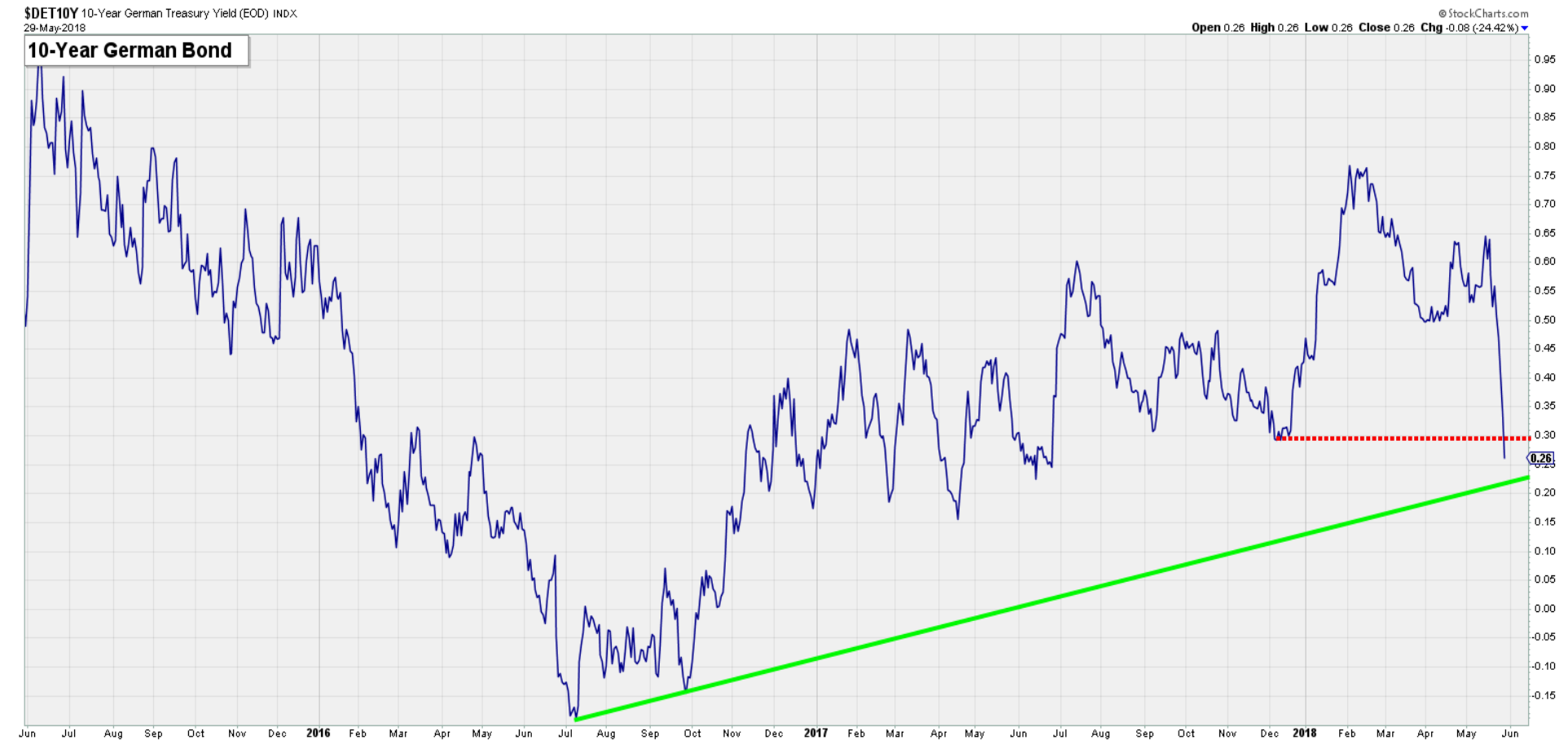
Despite all the attention on the 10-Year U.S. Treasury rate breaking above 3.0% recently, it sure didn't take long to see it retreat back under that psychological threshold. The benchmark yield fell all the way under 2.80% yesterday, and in the process broke the clear uptrend it was in from the start of September. We expect the 2.72-2.75 zone to offer support, but the technicals could take a backseat if fears about Europe and global growth continue to weigh on investors.



Source: Stockcharts.com

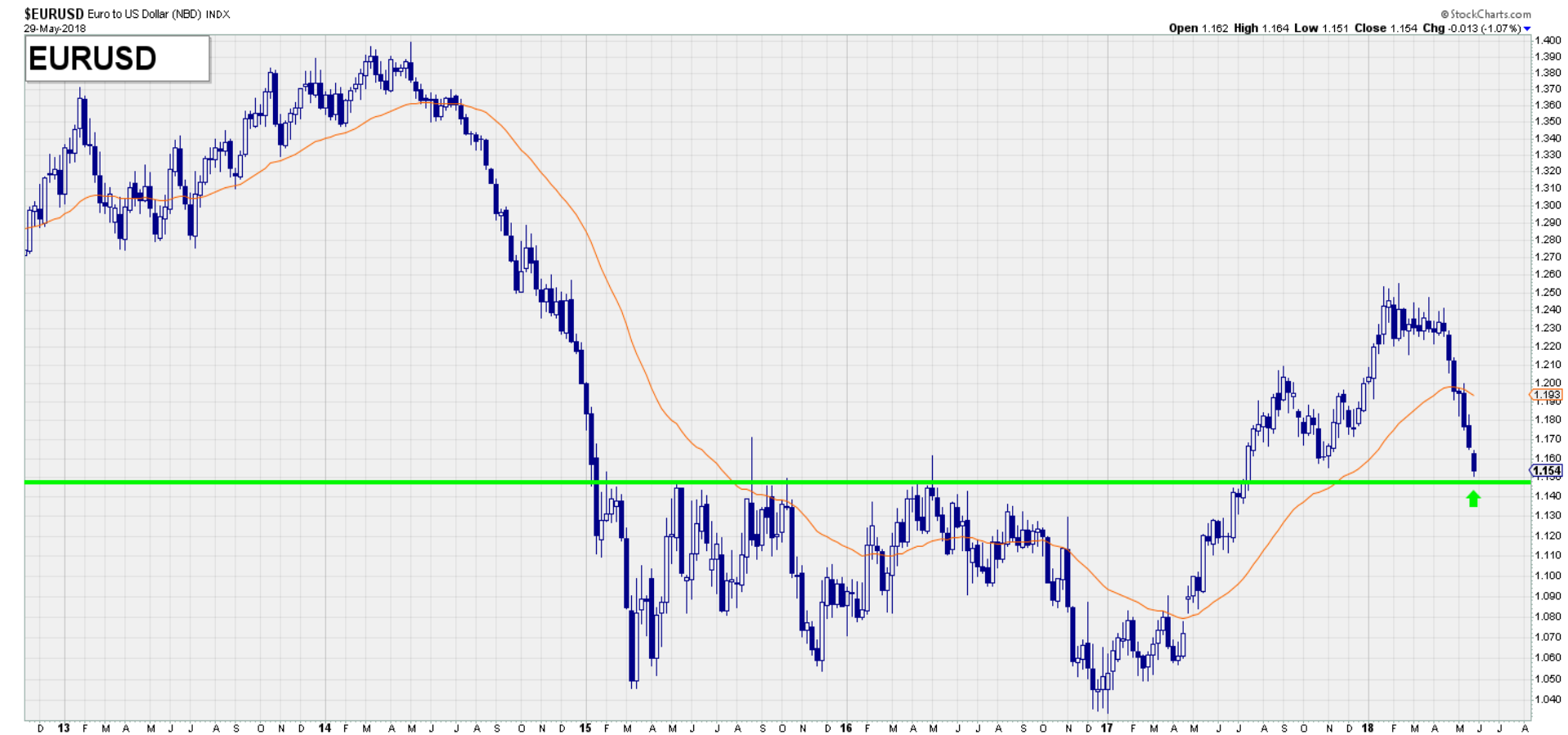
## Now That is What a Flight to Safety Looks Like

The U.S. Treasury market was not the only beneficiary of the European contagion fears. The chart of the 10-Year German bond yield shows a clear drop in the rate as investors piled into German debt. After the drops, the U.S. 10-Year is still yielding about 2.50% more than the German 10-Year.



## U.S. Dollar Gaining vs. Euro

With U.S. assets once again looking like the best house on the global street (or at least the safest), it's no wonder the U.S. dollar has been strengthening lately. When compared to the euro, the dollar is now at its strongest point since last July and is threatening the 1.15 level that has a clear history of importance over the last several years. We shall see if this produces some support for the beleaguered euro.



Source: Stockcharts.com

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