

This Week in the Market

3-11-19

Fresh Breakout

After a quick washout last week, the S&P 500 is back on the move. Today, we closed above a level of resistance from previous highs put in back in October, November, December, and early March. This marks a fresh breakout and gives the market room to roam to the upside. In a data light week domestically, momentum from the tech sector translated to broad market gains. The market's action was particularly impressive given that Boeing's troubles weighed heavily on one of the S&P's larger weights. Overseas, a Brexit deal failed and the deadline to withdrawal from the EU has been pushed back with a focus on achieving a soft exit still in play. Not much in the narrative really changed this week, but perhaps the global slowdown has been oversold. Improvement out of tech and oil show that global demand may still be intact for the most part.

Below the surface, the breadth of this week's advance was not as strong as January's push off the lows. The % of Stocks above the 50-day moving average has retreated from its peak of around 90%. Also, high beta has begun to underperform low beta in recent days. So while, the cap weighted index is breaking out on the strength of tech, it will be important for breadth to expand again and some sector rotation to occur for the advance to be sustained.

Economic data was light this week, but the narrative continues to be a mixed bag that keeps the fed on hold. The strength of the consumer may be fading a bit on the margin just as CapEx shows signs of turning up. We need CapEx to take more of the load from the consumer and clarity on trade is the catalyst that can put this in motion. We are still waiting on details of a trade deal with China to emerge. The market has mostly shrugged off its worst fears about trade at this point and Strategas points out that more upside is possible if existing tariffs are removed. This is not their base case as existing tariffs will be vital to enforcement, but it is a possibility nonetheless. The risk is that a trade deal falls through completely. This remains unlikely given that both sides are looking for a win.