

# Technical Conference Call Slides

## Q2 Headwinds and Opportunities

March 30, 2017

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# fundstrat

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Secular backdrop: Bullish - 1954, 1985 Deja-vu?

Cycle indicators still positive but maturing

Q2 tactical headwind and opportunities.

Risk: Weekly momentum peaking for S&P

Opportunity: Many stocks well into corrections. Q2 low?

Noteworthy: Laggard Energy showing signs of bottoming

Despite market concerns, many tactical opportunities:

Growth/Momentum

- PCLN, EXPE, SBUX, TSLA, REGN, MMS

GARP/Emerging

- CMG, WYNN, FOXA, JBLU

Value/Contrarian

- COG, NFX, APA, PXD, CNX

Reduce/Trim Candidates

- MO, TAP, TSCO, DG

# Outlook Overview

## MARKETS

- Long-term perspective – Reason to stay bullish
- Current cycle – Bottomed in Q1 2016, too early to peak (normally) but cycle is no longer ‘early’.
- Intermediate-term & short-term – Risk window is open BUT many groups are already well into corrections
- Smid-cap relative trends – Long-term thoughts on ‘size’ leadership
- Style & Sentiment – Growth rebounds, sentiment no longer overly bullish
- EAFE and EM – Relative performance trends in USD have yet to turn...but getting close
- Rates (TLT, HYG, TLT), FX & Commodities (Oil, Gold, Copper) - ‘Risk’ peaked in December

## US SECTORS

- Sector momentum summaries – Bottom up visual perspective of incremental sector participation
- Relative sector performance charts

**IDEAS** - A list of ideas that illustrate the point that many names actionable and don't 'look' like the broader market'

- Growth/momentum
- GARP/Emerging
- Value/Contrarian
- Reduce/Avoid

## APPENDIX - RELATIVE PERFORMANCE ROTATION DATA/TABLES

- ETF Asset Class & Global Markets
- Global & US Sector and Industry ETFs
- S&P 500 & 400 stock trends by industry group

# Executive Summary

## Secular & Cycle Implications

- **Bullish** - 1954, 1985 Deja-vu all over again
- Cycle low in Q1 '16 supported case for a new bull cycle. It is early to be → H2 '17 peak? Mid-term '18 low?

## Intermediate-term Headwinds and Silver Linings

- **Market risk window is open** - After the strong Q4-Q1 equity market surge, most intermediate-term indicators, tracking 1-2 quarter swings are overbought and peaking. A technical risk window is now open that could last into/through Q2.
- However, as we noted last week, there is equally important, technical story developing within the equity market. **Many/most stocks made their highs in mid-December**, along with the Yield curve, Oil and small-cap relative performance. In fact, our indicators measuring the percentage of stocks with rising weekly momentum **are already working their way toward oversold territory and could bottom as soon as early-mid Q2**.

## What should investors do with these conflicting top down vs bottom up technical readings?

- We believe tactical group rotation is likely to be more important to YoY portfolio performance than the broader market call over the coming quarters. For example, while Technology leadership remains bullish longer-term, groups such as **Semis**, have already had impressive surges that could be vulnerable to profit taking heading into the new quarter and earnings season. In contrast, **Cyclicals/Reflation stocks**, along with **Banks**, are also bullish longer-term but are currently in multi-week/month corrections that should provide better entry points in Q2. Lastly, **Energy is particularly noteworthy** at current levels given the sector led the internal correction lower since December, but is now **showing very early technical evidence of turning up**. **Energy is now positioned technically to be the ideal mean reversion candidate for the new quarter**.
- In summary, while a pullback/consolidation in the market would not be surprising, there are also a variety of actionable long side ideas that have already experienced multi-month corrections and do not 'look' like the broader market. As examples, we would encourage active managers with flexibility to capitalize on tactical opportunities to consider the following stocks:

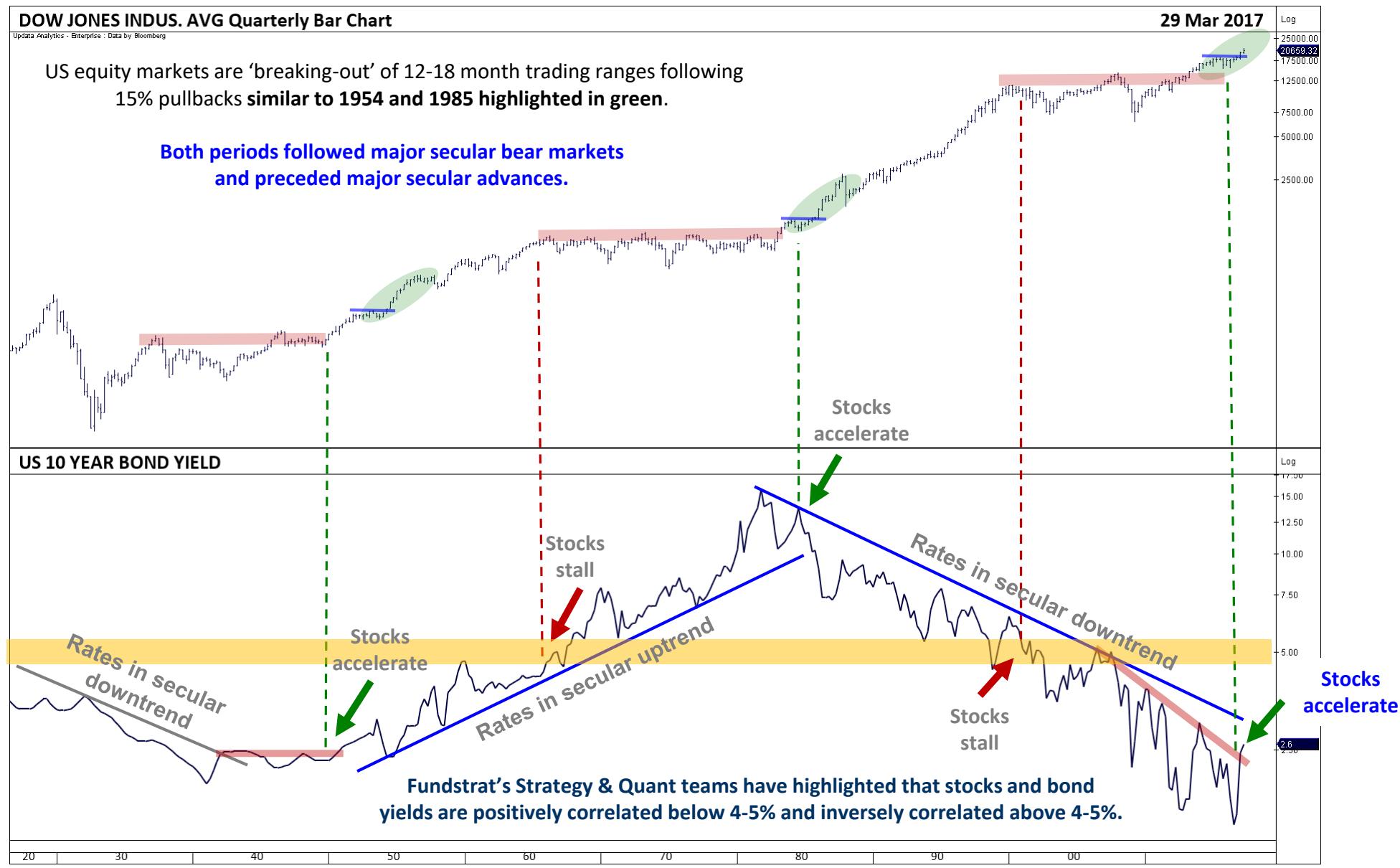
**Growth/Momentum:** PCLN, EXPE, SBUX, TSLA, REGN, MMS

**GARP/Emerging:** CMG, WYNN, FOXA, JBLU

**Value/Contrarian:** COG, NFX, APA, PXD, CNX

**Reduce/Trim Candidates:** MO, TAP, TSCO, DG

## U.S. Stocks and Bond Yields 1920-2016 – Joined at the hip – 1954, 1985 deja-vu all over again?

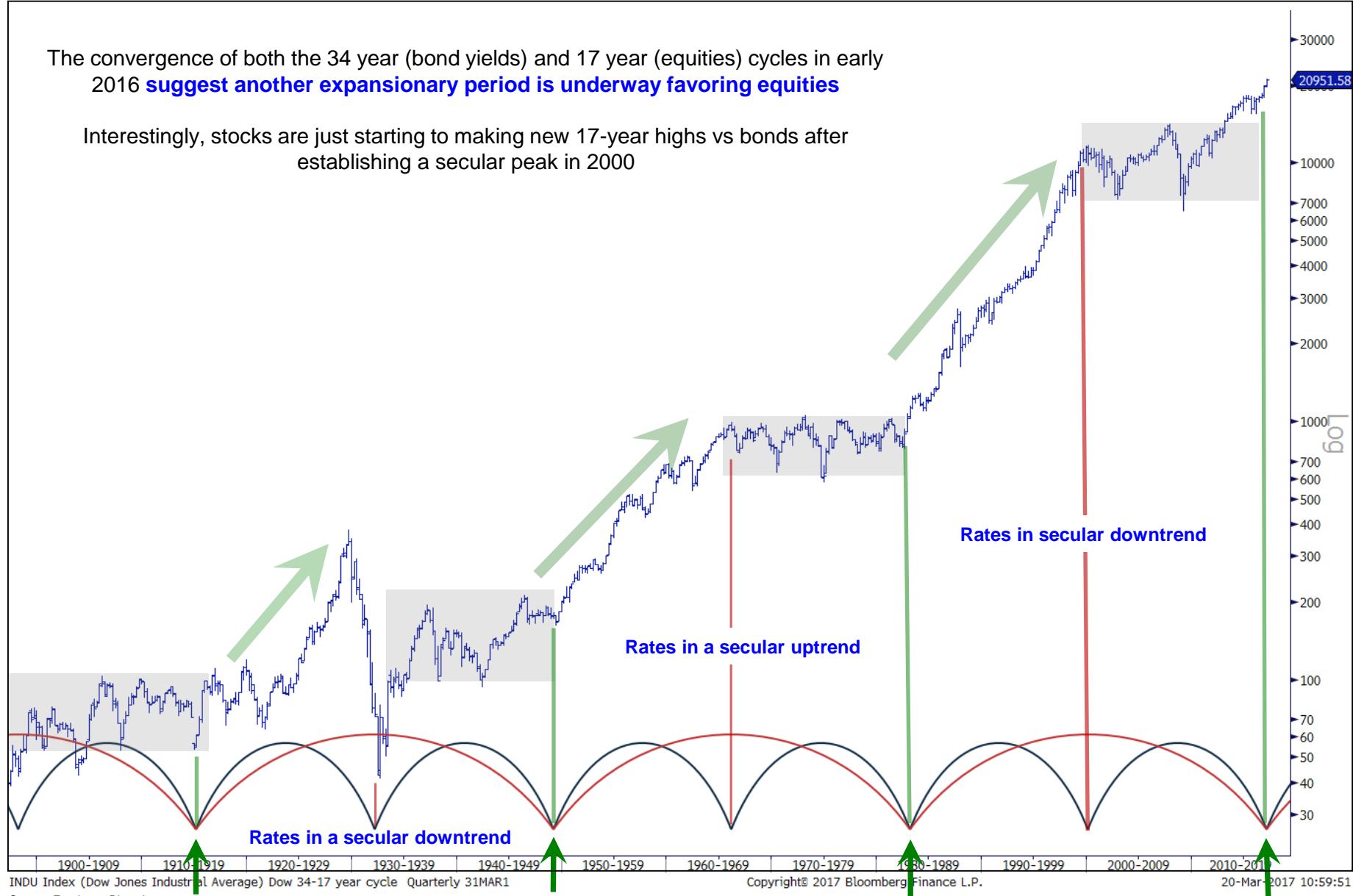


Source: Fundstrat, Bloomberg, Updata

## 34-year & 17-year cycles continue to track reflationary and deflationary regimes

The convergence of both the 34 year (bond yields) and 17 year (equities) cycles in early 2016 **suggest another expansionary period is underway favoring equities**

Interestingly, stocks are just starting to making new 17-year highs vs bonds after establishing a secular peak in 2000

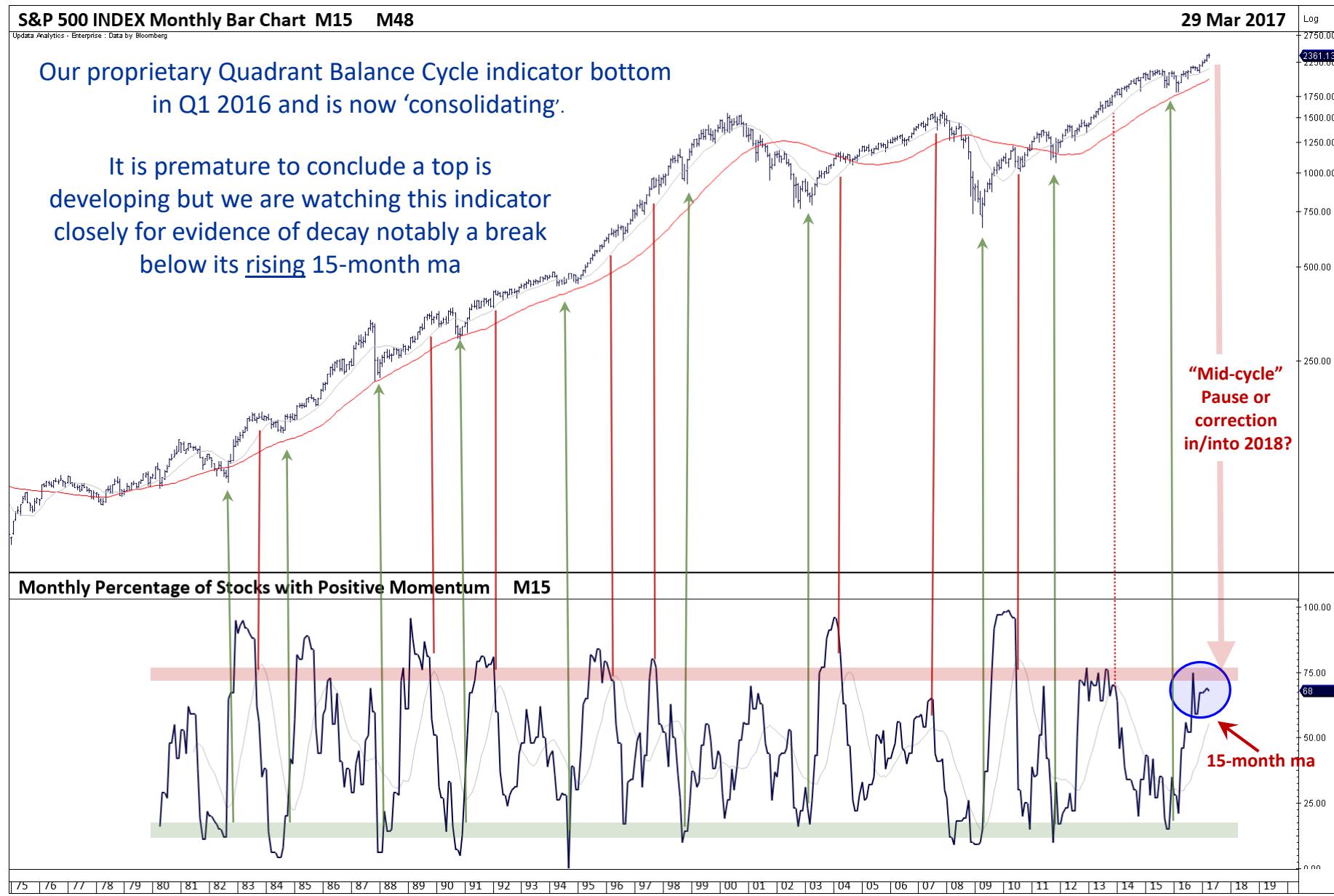


Source: Fundstrat, Bloomberg

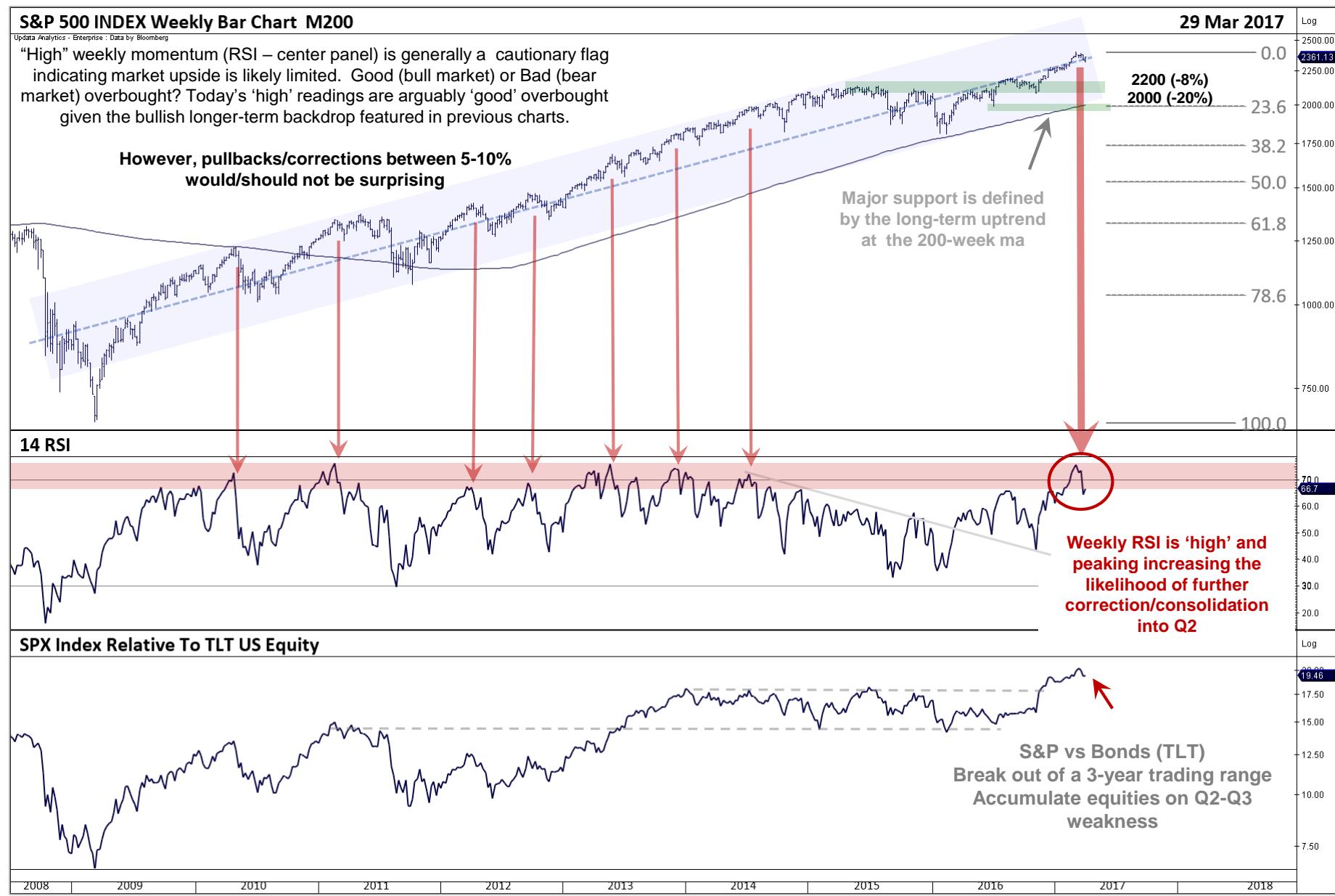
## Cycle accelerations often develop from the 4-year/200-week sma in secular uptrends



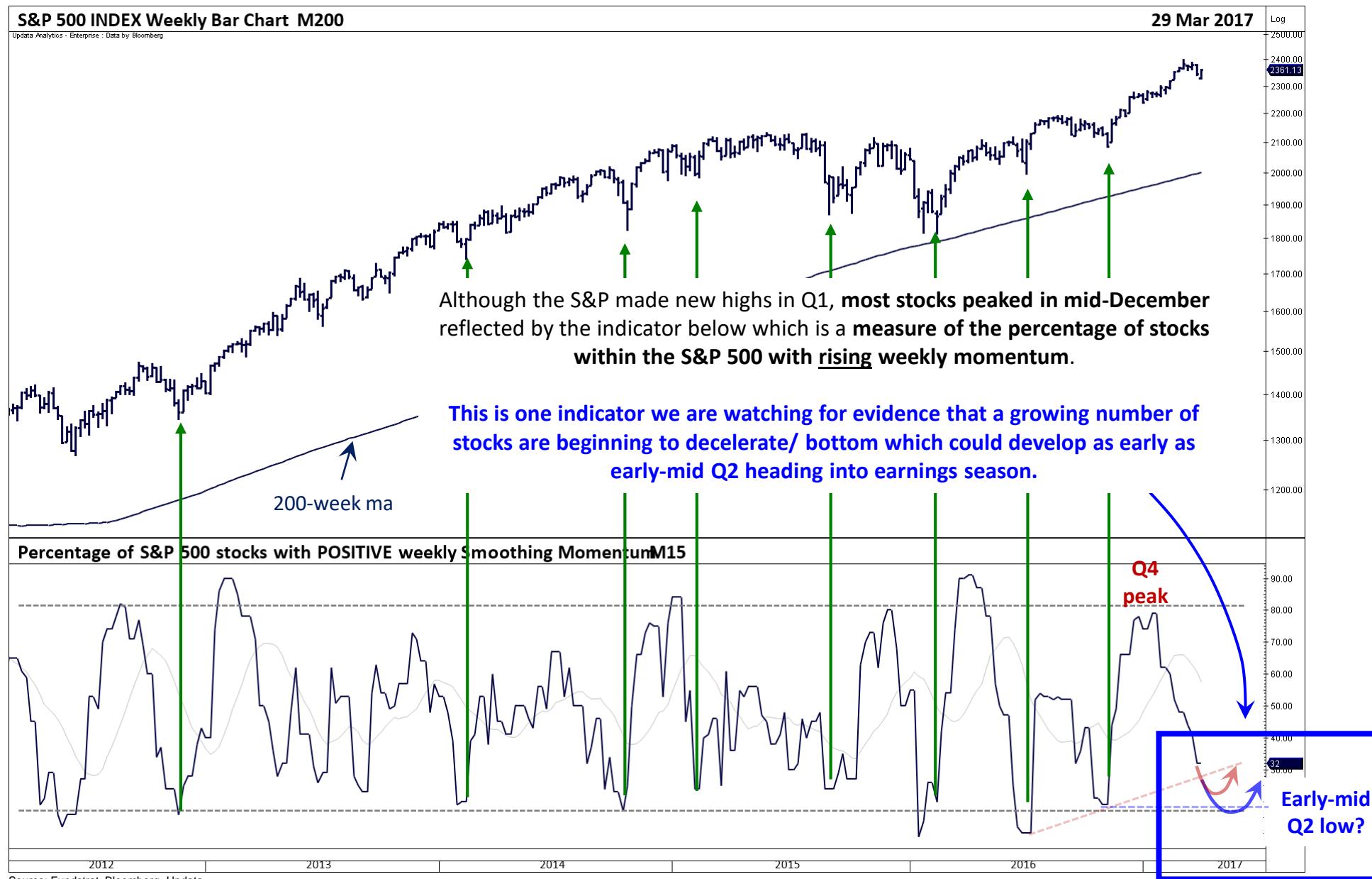
## S&P 500 – Long-term ‘Quadrant Balance’ indicator helped ‘signal’ cycle lows in early 2016



## S&P 500 – Intermediate-term trend intact but advanced with weekly momentum peaking!



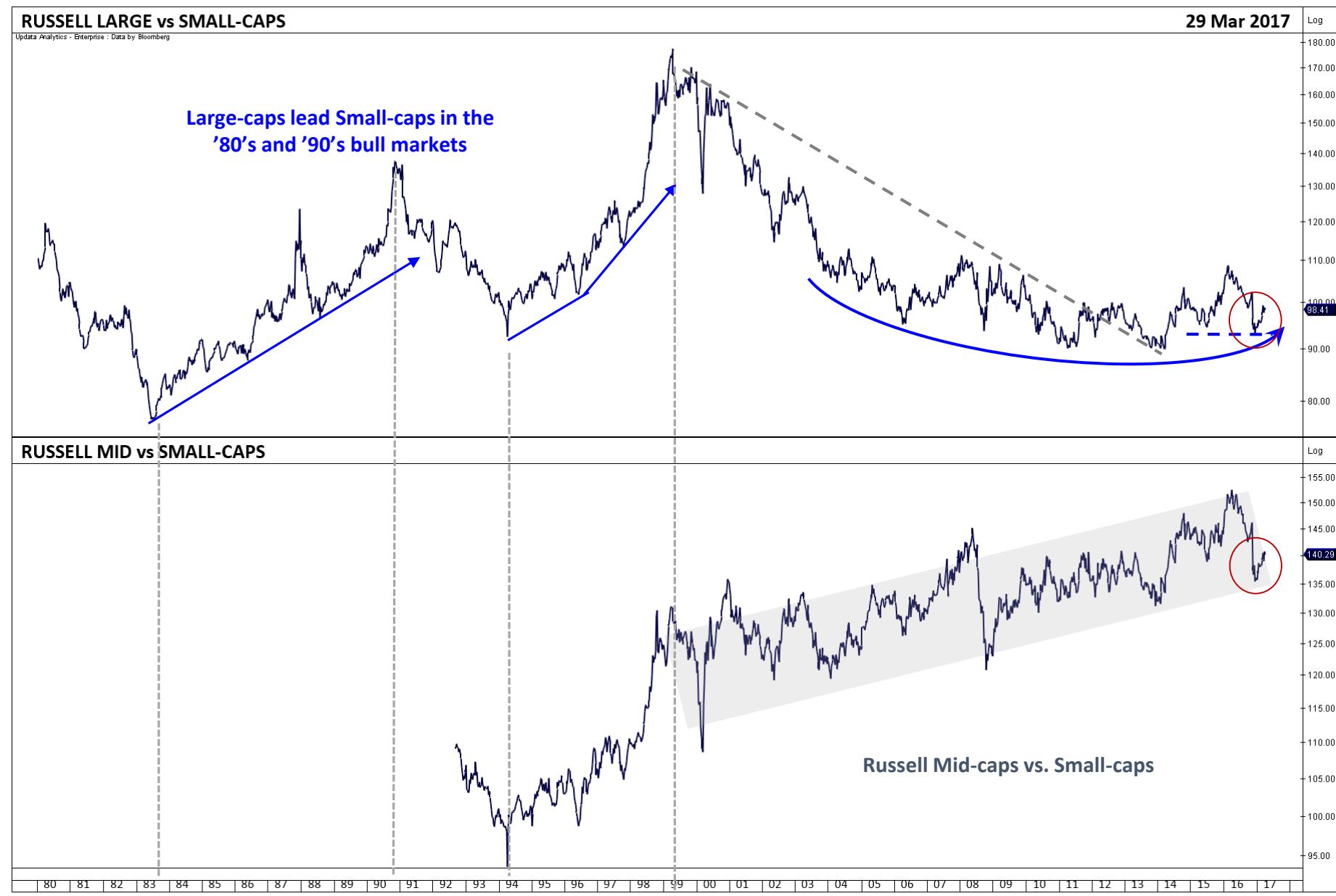
## S&P 500 – Internal (bottom up) momentum is unwinding and likely to be oversold by early-mid Q2



## S&P 500 – 5-month trend break in place - 2250/75 first support then 2200 near the 200-dma



## Large and Mid-caps vs Small-caps – Potentially a longer-term shift favoring large-caps taking hold



## Growth vs. Value

Weekly data from 2013

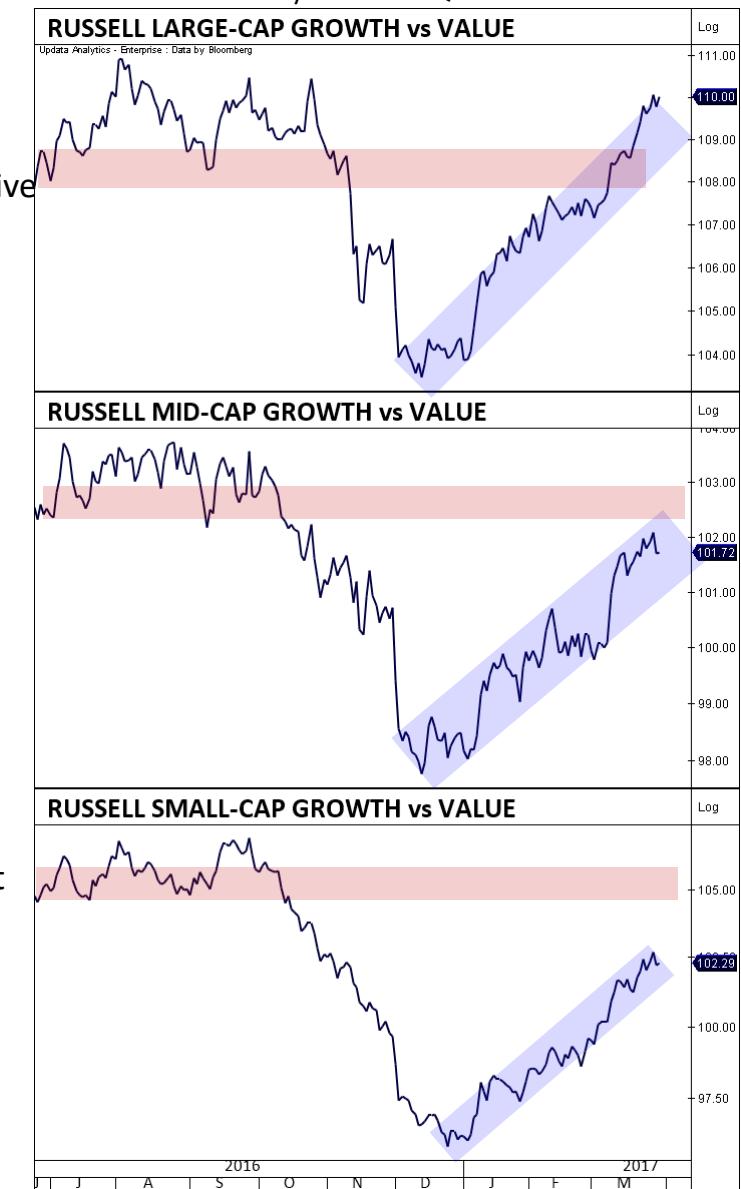


**LARGE-CAP  
GROWTH vs. VALUE**  
Rallying back to key relative  
trend 'resistance'

**MID-CAP  
GROWTH vs. VALUE**  
Rebound nearing next  
relative resistance

**SMALL-CAP  
GROWTH vs. VALUE**  
Rebound continues but  
within an established  
downtrend

Daily data from Q4-2015

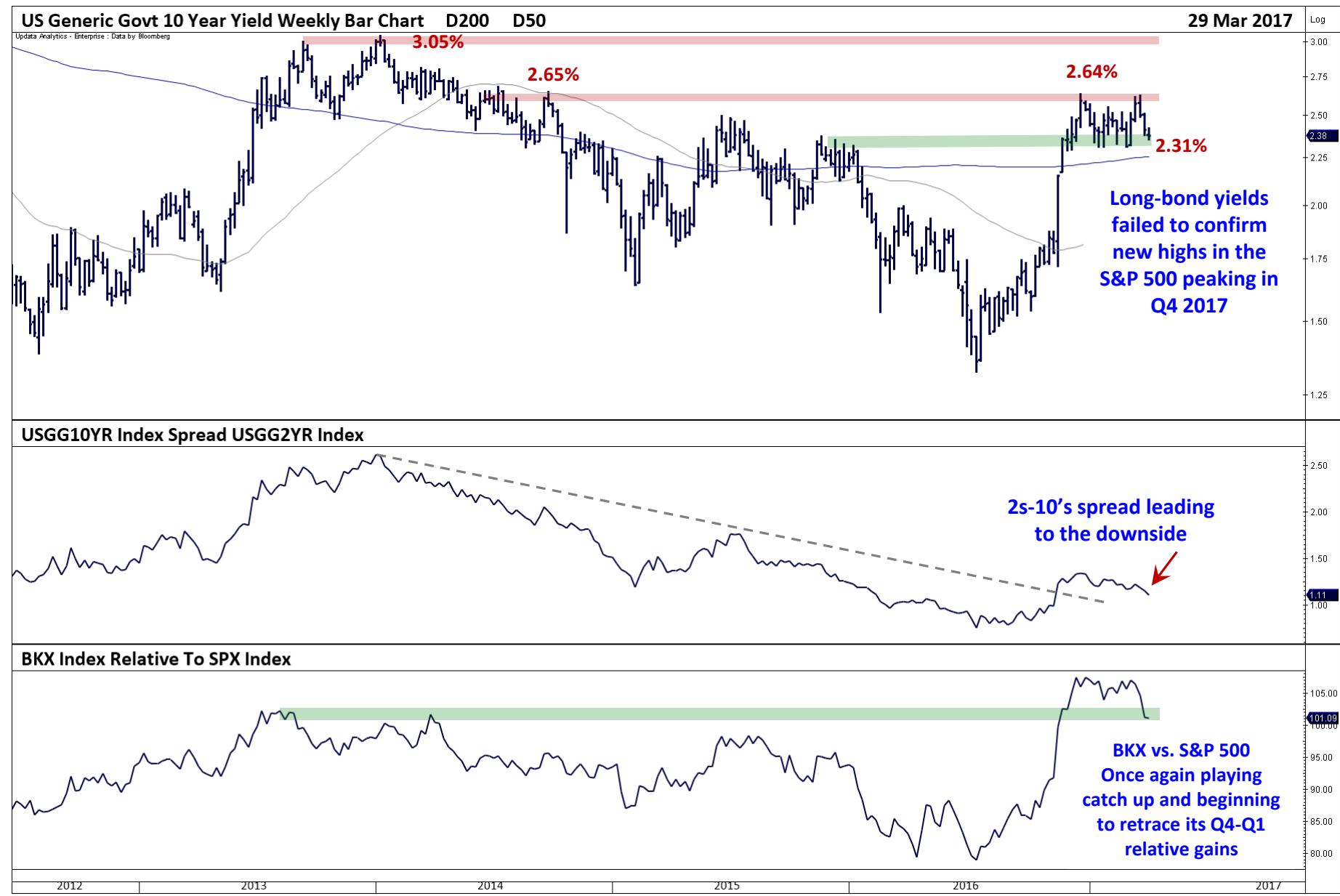


Source: Fundstrat, Bloomberg, Updata

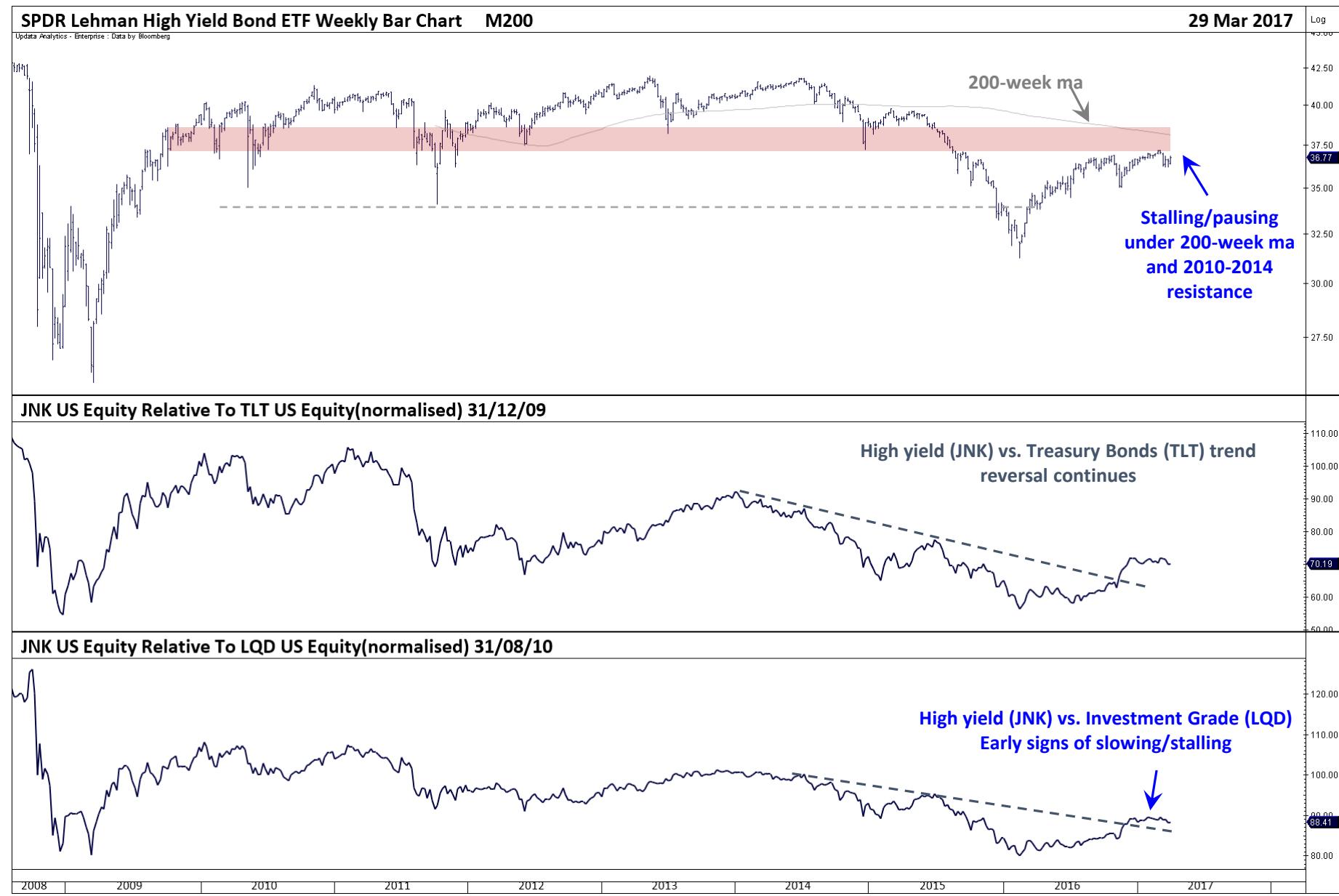
## TLT Bond ETF – Near-term rebound within longer-term correction



## US 10-year yield – Stalled under 2.64 with 2s-10's spread continuing to diverge (leading lower)



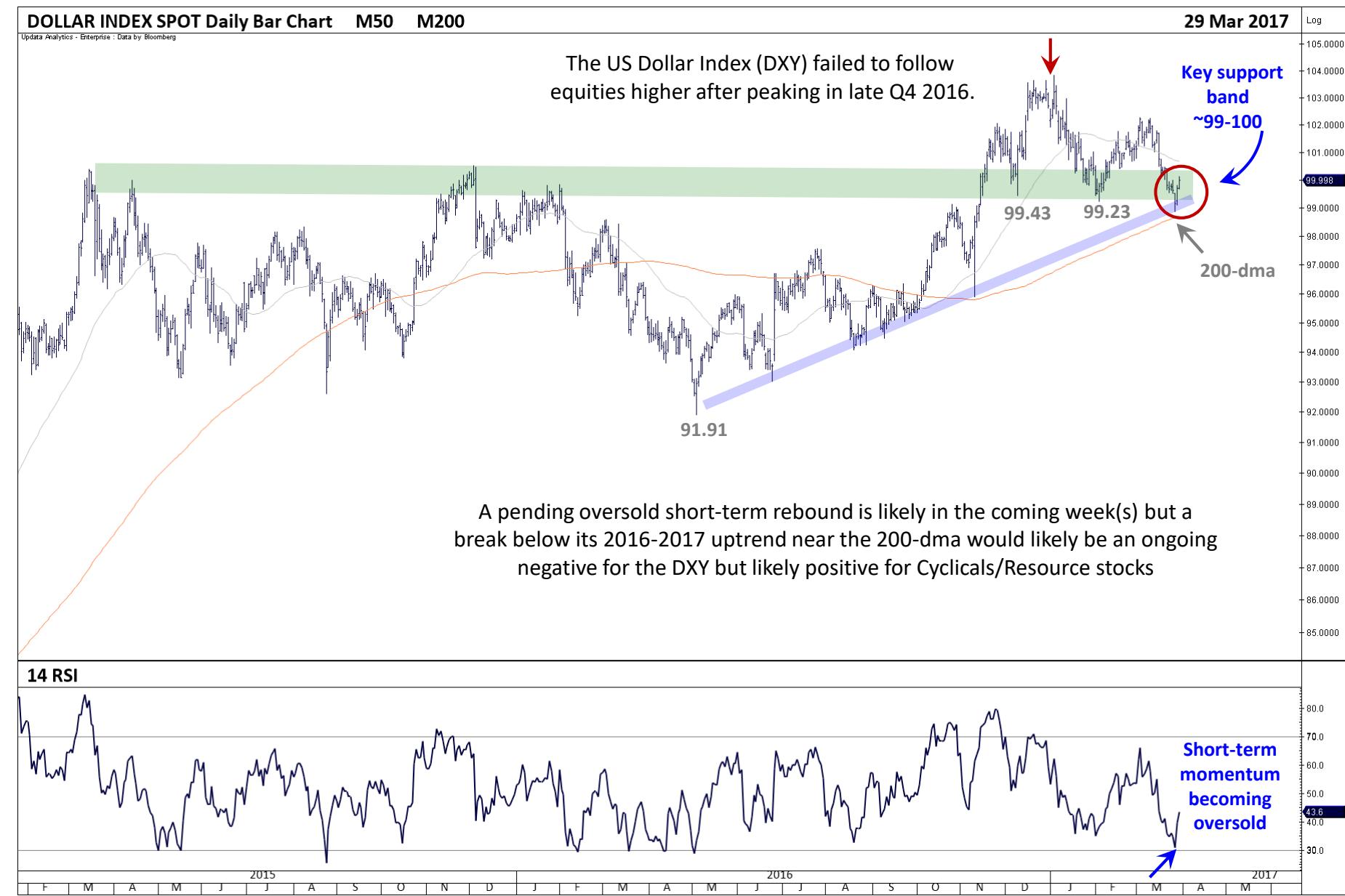
## High Yield (JNK) – Stalling under key resistance



## US Dollar Index – Long-term momentum diverging suggesting a break below ~99-100 support



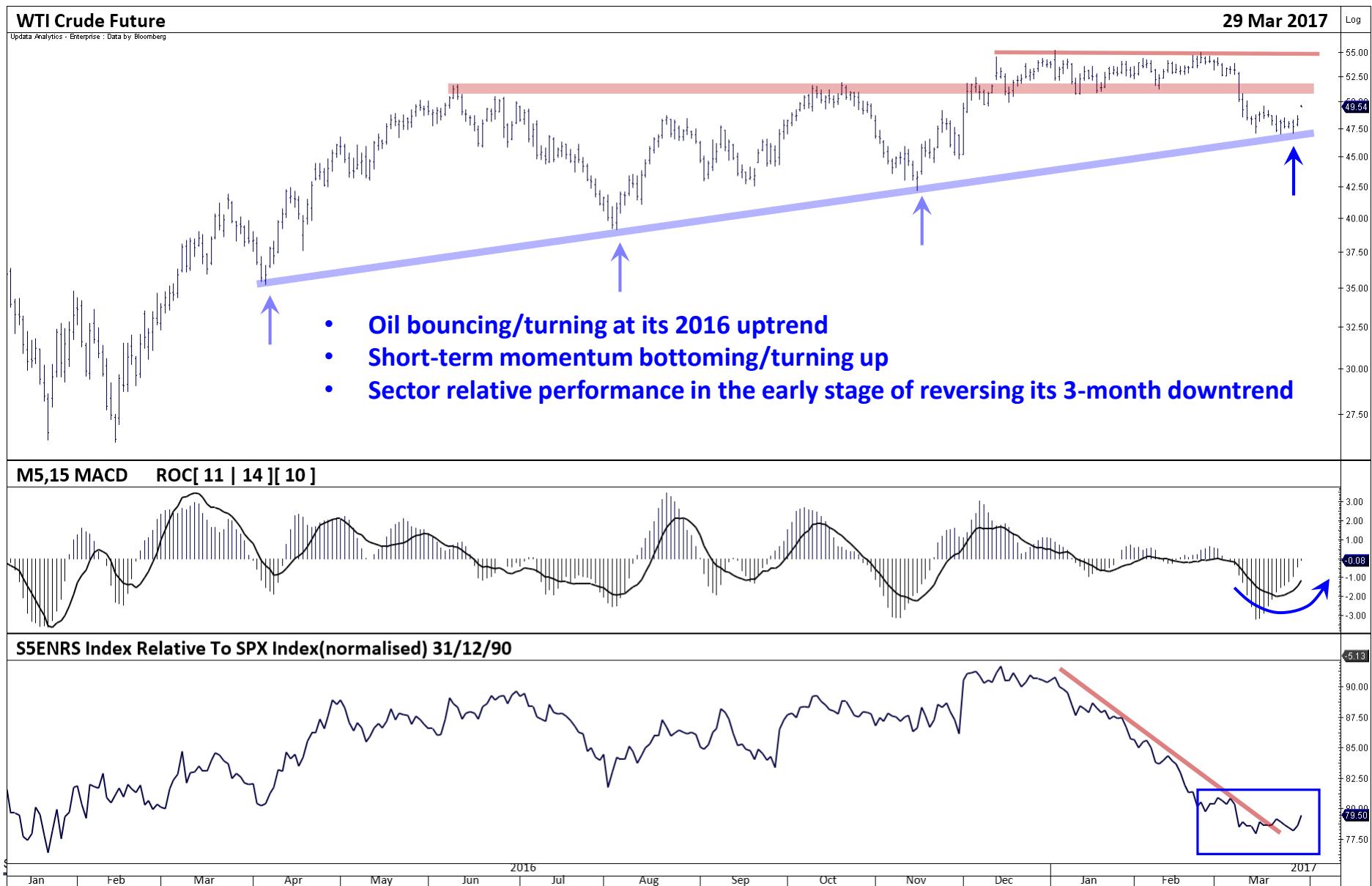
## USD Short-term – DXY challenging next key/critical support level ~99-100 – Note RSI becoming oversold



## WTI Oil Long-term – Range bound in low \$40's low 50's trading band – Monthly RSI now neutral



## Energy – 3 noteworthy short-term technical events developing



## Intermediate-term/Weekly Relative Sector Rotation – Part I

Percentage of S&amp;P 500 &amp; 400 stocks with

Rising Weekly Relative Performance Trends vs the S&amp;P 500 within each sector

	DISCRETIONARY	STAPLES	ENERGY	FINANCIALS	HEALTH CARE	INDUSTRIALS	TECHNOLOGY	MATERIALS	TEL COS	UTILITIES
3/24/2017	41%	38%	0%	30%	75%	41%	58%	31%	0%	67%
3/17/2017	39%	38%	0%	37%	73%	42%	63%	35%	0%	57%
3/10/2017	39%	40%	0%	41%	69%	43%	63%	35%	0%	50%
3/3/2017	40%	44%	2%	47%	64%	42%	60%	47%	0%	50%
2/24/2017	41%	38%	6%	47%	61%	45%	59%	56%	17%	37%
2/17/2017	42%	42%	20%	48%	62%	46%	61%	62%	50%	46%
2/10/2017	42%	35%	33%	49%	65%	47%	64%	65%	67%	33%
2/3/2017	34%	24%	50%	58%	54%	53%	67%	62%	50%	33%
1/27/2017	34%	25%	59%	66%	45%	59%	60%	60%	67%	35%
1/20/2017	37%	31%	63%	68%	39%	60%	61%	51%	67%	37%
1/13/2017	38%	31%	63%	67%	35%	66%	55%	51%	67%	41%
1/6/2017	48%	33%	74%	66%	28%	70%	53%	56%	67%	37%
12/30/2016	54%	31%	80%	63%	22%	78%	53%	60%	67%	35%
12/23/2016	59%	33%	76%	62%	20%	81%	58%	64%	50%	26%
12/16/2016	63%	31%	74%	61%	19%	82%	61%	65%	33%	20%
12/9/2016	65%	29%	67%	59%	20%	82%	59%	67%	17%	13%
12/2/2016	60%	29%	56%	58%	20%	77%	58%	60%	17%	15%
11/25/2016	48%	31%	44%	55%	18%	72%	60%	56%	17%	17%
11/18/2016	38%	31%	43%	54%	16%	66%	61%	55%	17%	15%
11/11/2016	37%	31%	54%	52%	13%	59%	65%	53%	17%	20%
11/4/2016	34%	29%	67%	47%	22%	48%	67%	45%	17%	13%
10/28/2016	37%	25%	69%	47%	26%	52%	65%	49%	0%	4%
10/21/2016	41%	16%	67%	47%	44%	53%	66%	45%	0%	7%
10/14/2016	41%	15%	50%	48%	47%	50%	67%	42%	0%	9%
10/7/2016	41%	18%	54%	52%	45%	53%	68%	40%	0%	9%
9/30/2016	41%	22%	48%	60%	38%	52%	69%	45%	0%	9%
9/23/2016	43%	20%	46%	63%	45%	54%	70%	42%	0%	4%
9/16/2016	46%	22%	48%	61%	47%	56%	67%	42%	0%	0%
9/9/2016	49%	24%	44%	60%	49%	59%	68%	47%	0%	0%
9/2/2016	50%	38%	43%	53%	49%	58%	64%	51%	0%	0%
8/26/2016	55%	38%	39%	53%	53%	55%	61%	51%	17%	0%
8/19/2016	56%	36%	35%	52%	58%	55%	62%	47%	50%	2%
8/12/2016	55%	44%	31%	46%	63%	55%	63%	51%	50%	17%
8/5/2016	51%	56%	31%	44%	69%	53%	61%	49%	67%	63%
7/29/2016	46%	75%	41%	46%	66%	49%	57%	51%	67%	85%
7/22/2016	40%	78%	54%	44%	60%	45%	55%	53%	67%	87%

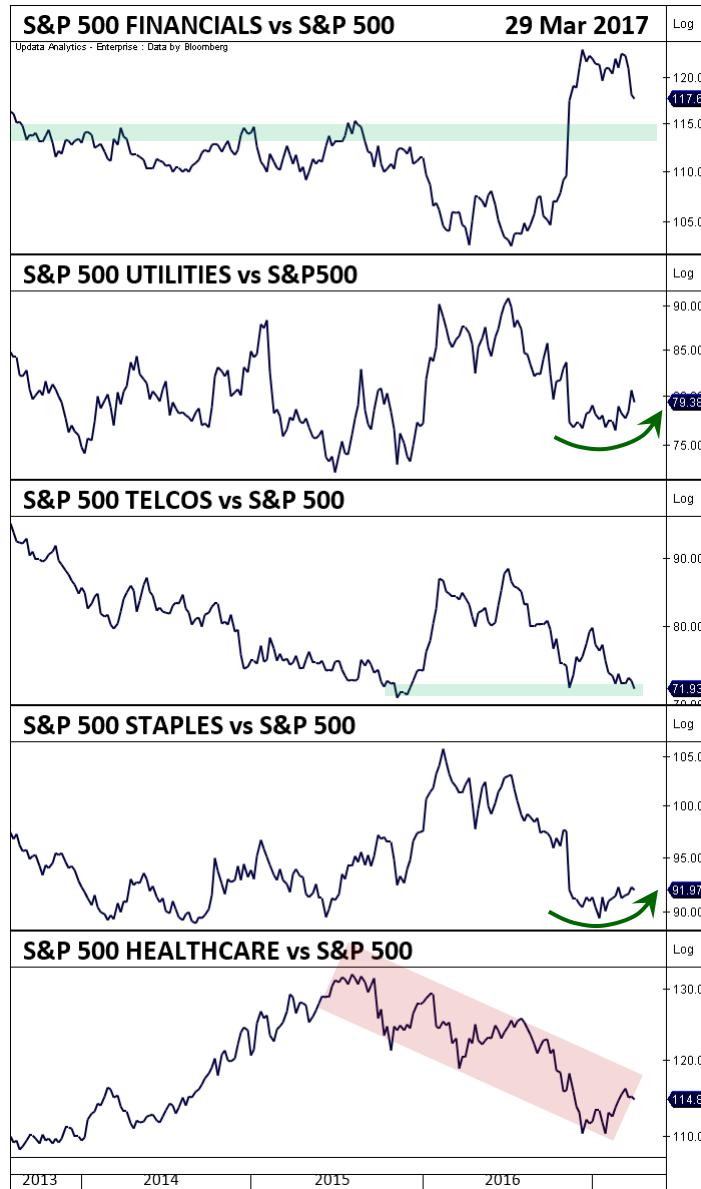
Source: Fundstrat, Bloomberg

## Noteworthy – July 2016 - Present

1. **Energy** – Oversold – Rebound pending
2. **Financials** – Correcting and likely to be oversold by mid-Q2/earnings season
3. **Healthcare** – Breadth building but becoming less timely – Noteworthy as Energy becomes oversold
4. **Industrials** – Correction continues after peaking in December but not at an extreme yet.
5. **Utilities** – Defensive leadership building but no longer ‘early’ in its recovery

## S&P 500 Sector Relative Performance vs. S&P 500

Weekly data from 2013



### FINANCIALS

Correction underway  
after 2-year break-out  
Accumulate pullback in  
Q2-Q3

### UTILITIES

Defensive rotation  
taking hold

### TELCOS

Oversold with early  
signs of stabilizing within  
a longer-term downtrend

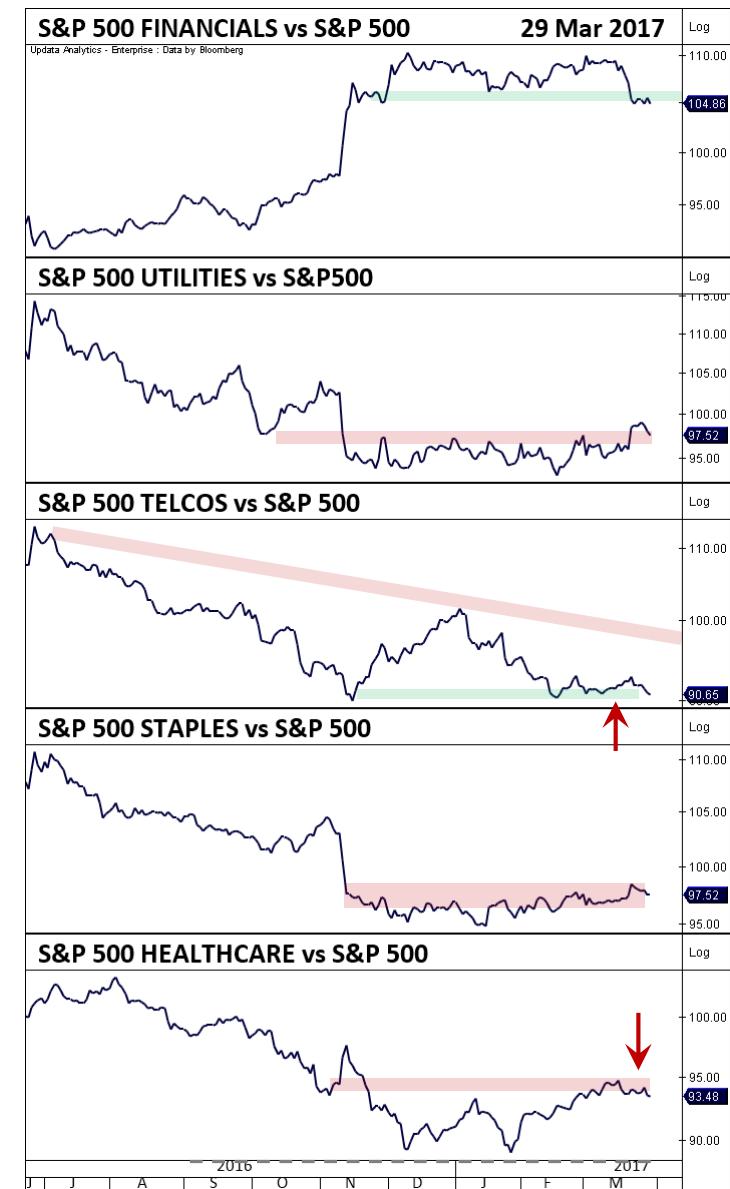
### STAPLES

Oversold relative  
performance lows  
developing

### HEALTHCARE

Oversold recovery  
nearing first  
resistance

Daily data from Q4-2015



Source: Fundstrat, Bloomberg, Updata

## S&P 500 Sector Relative Performance vs. S&P 500

Weekly data from 2013



### DISCRETIONARY

Weak but nearing key support with potential rebound developing

### TECHNOLOGY

Established leaders but less timely at current levels

### INDUSTRIALS

Testing lower end of 2-year trading range

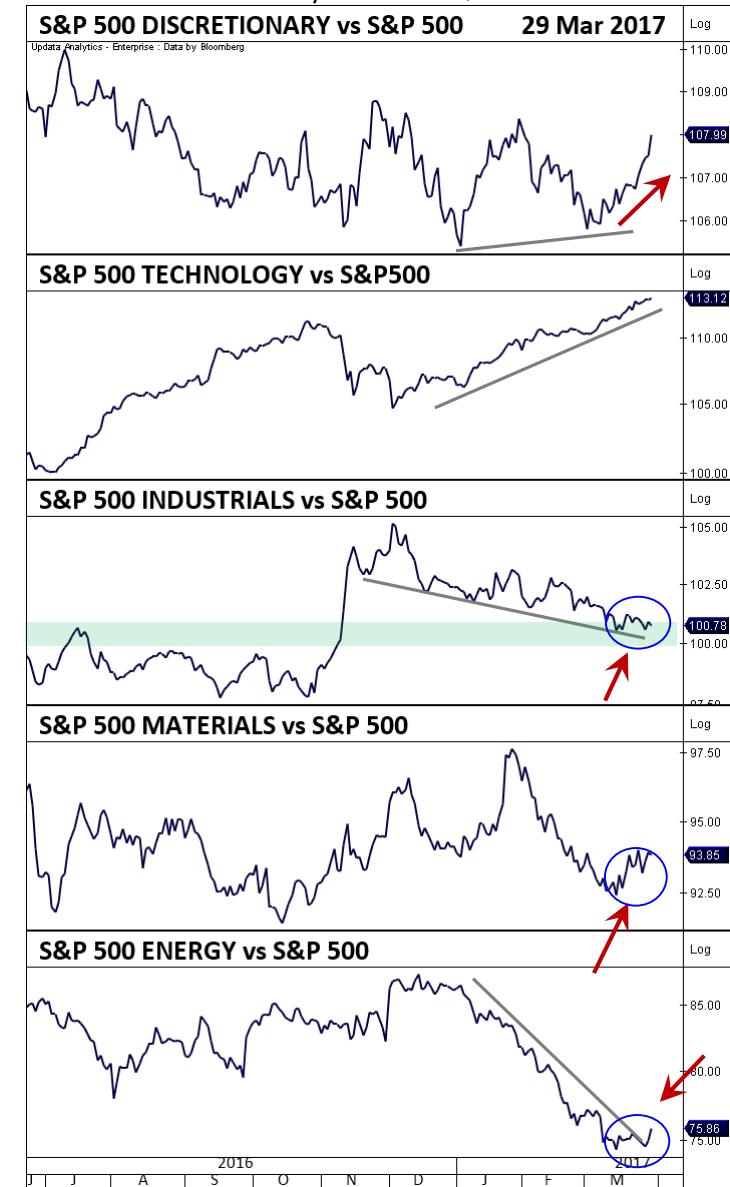
### MATERIALS

Pullback nearing key technical support with early signs of firming

### ENERGY

Oversold but with very early signs of stabilizing

Daily data from Q4-2015



Source: Fundstrat, Bloomberg, Updata

# Stock Ideas

Identifying long candidates that do not 'look'  
like the market for 3 main types of investors

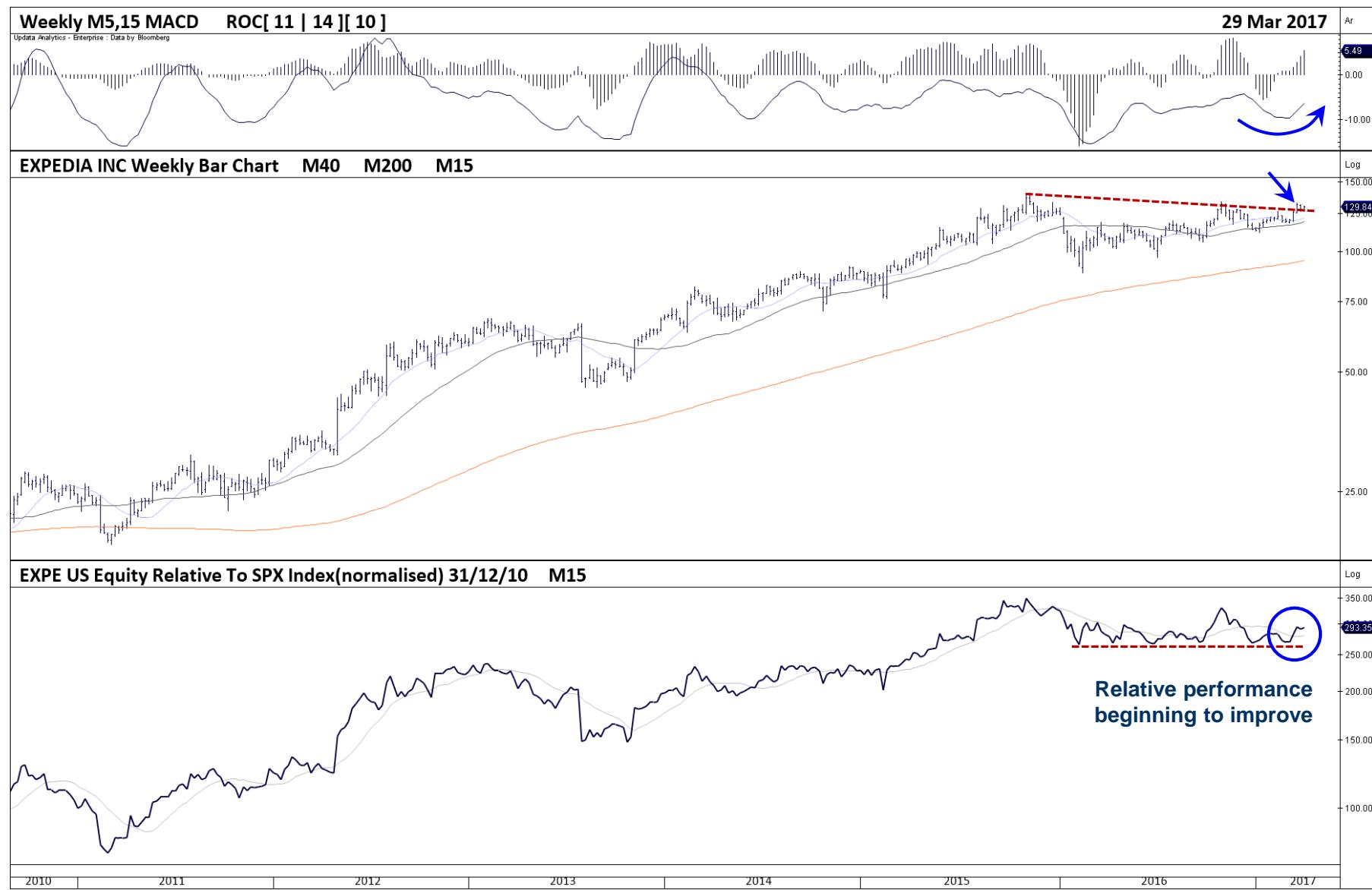
Growth/Momentum

Garp/Emerging

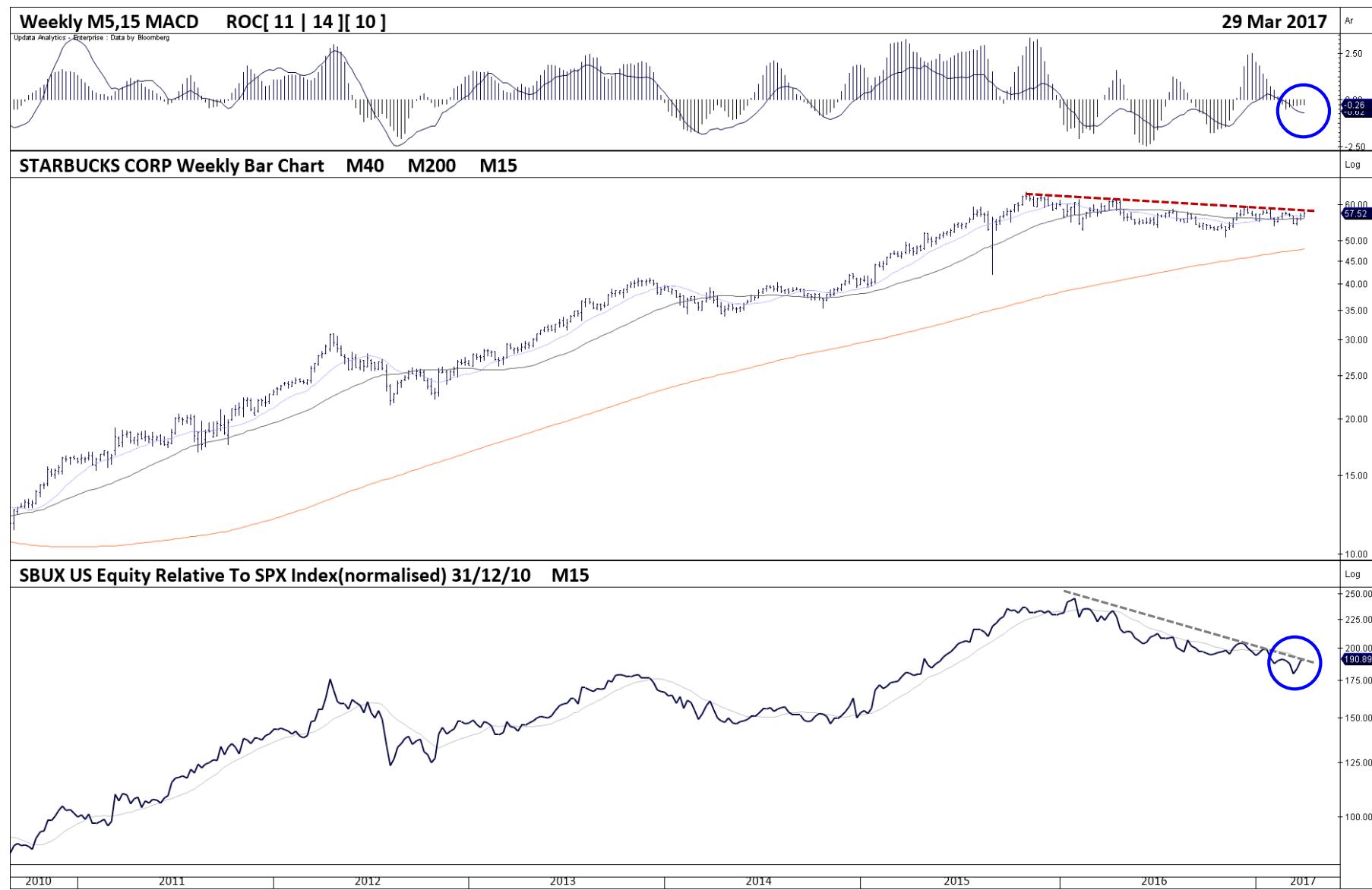
Value/Contrarian

Sell/Reduce Candidates

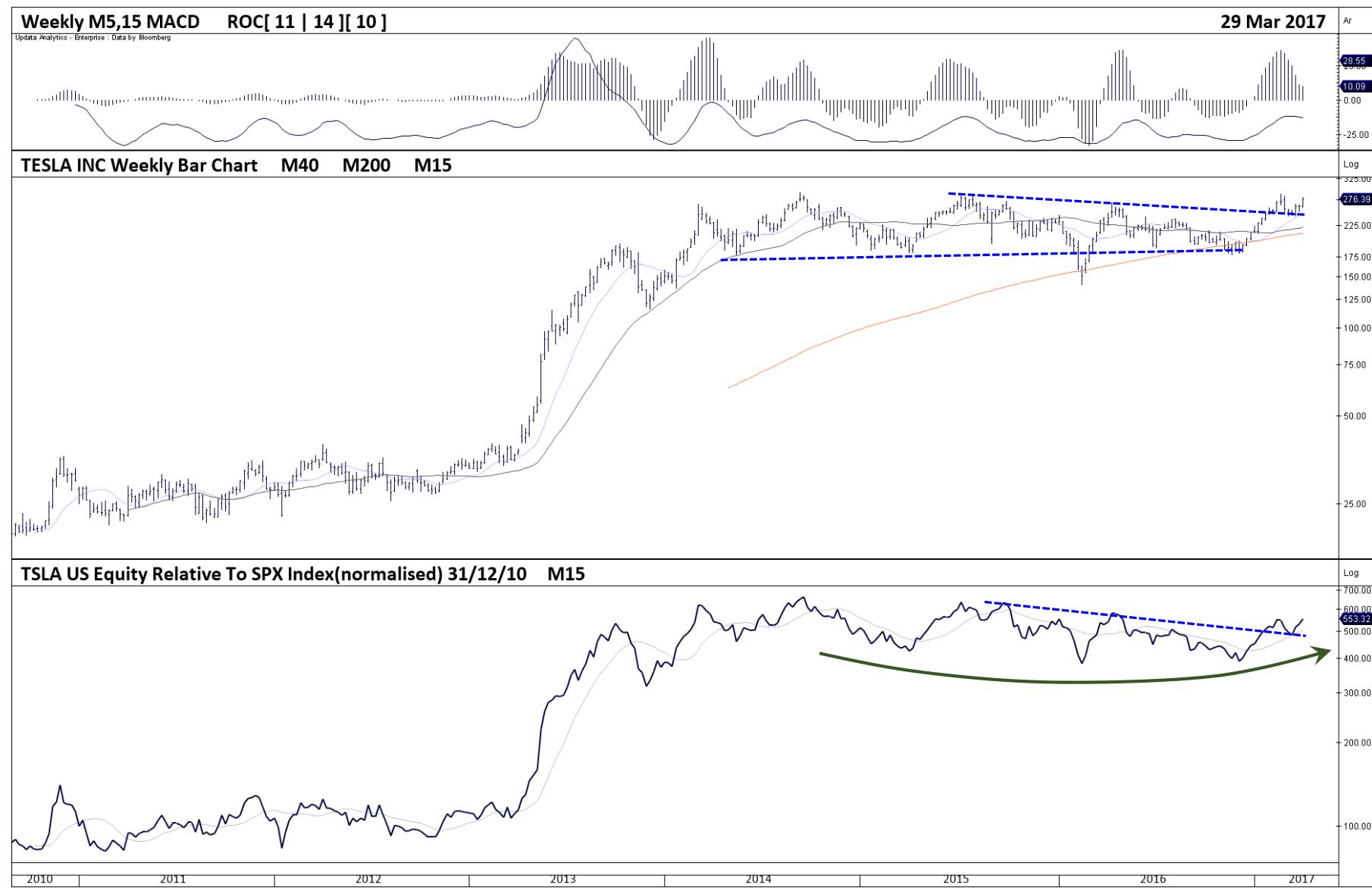
## EXPE – Less extended than many Net stocks and early in an new intermediate-term upturn



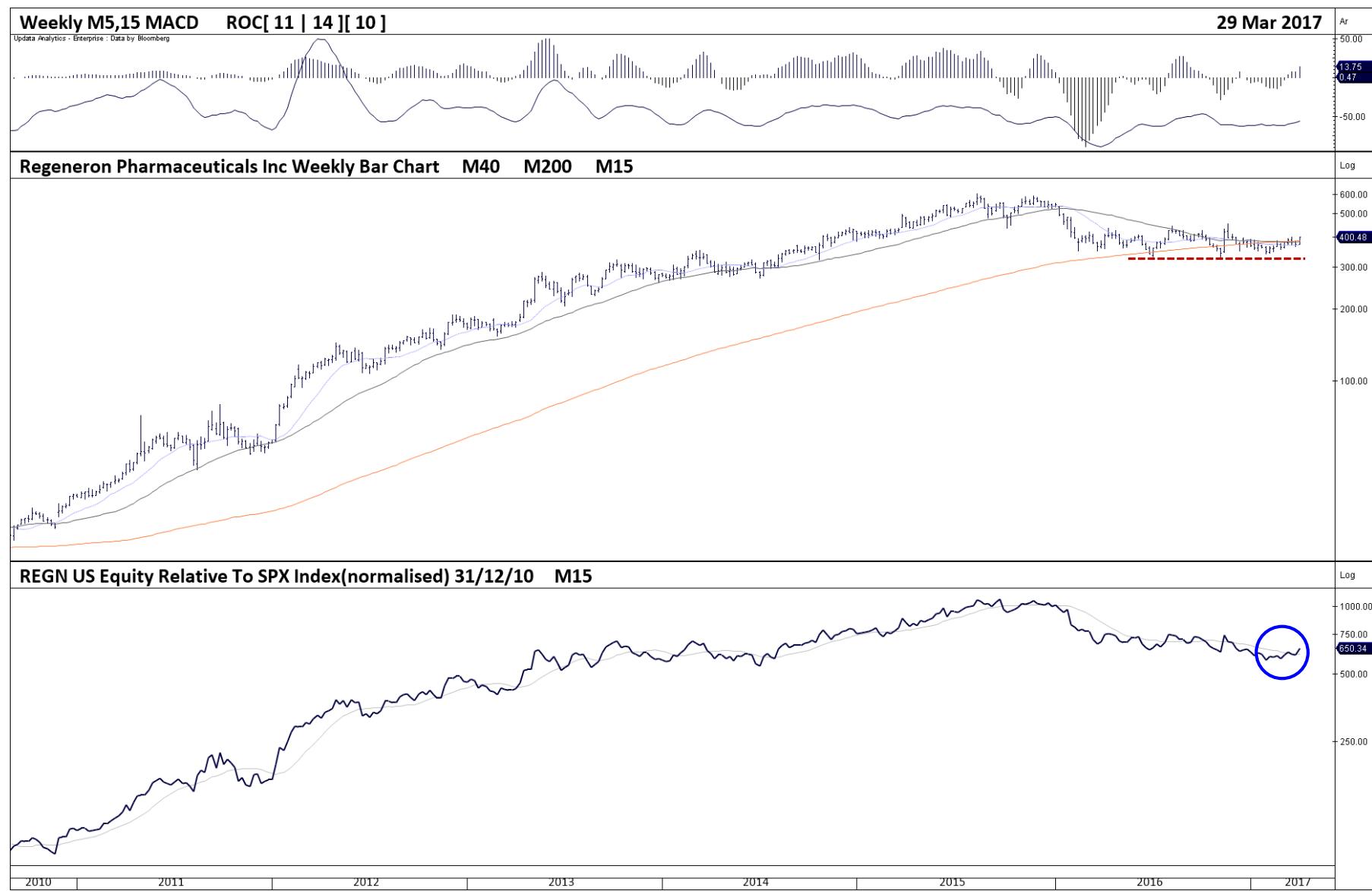
## Growth: SBUX – After a 15-month pullback/pause, early technical signs of a reversal developing



## TSLA – Multi-year consolidation in the early stages of improving with positive relative performance

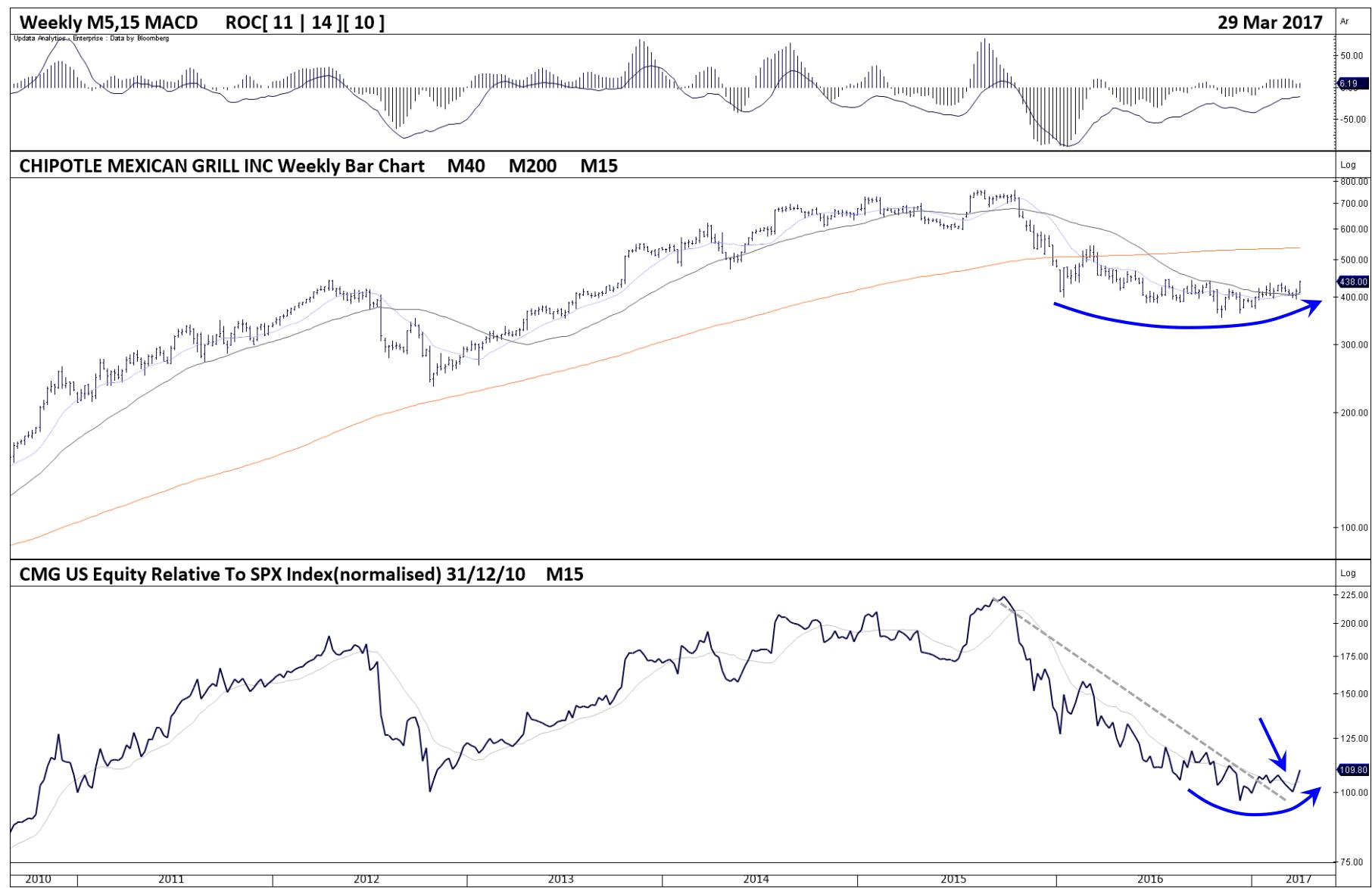


## REGN – Another former growth leaders showing early technical evidence of bottoming

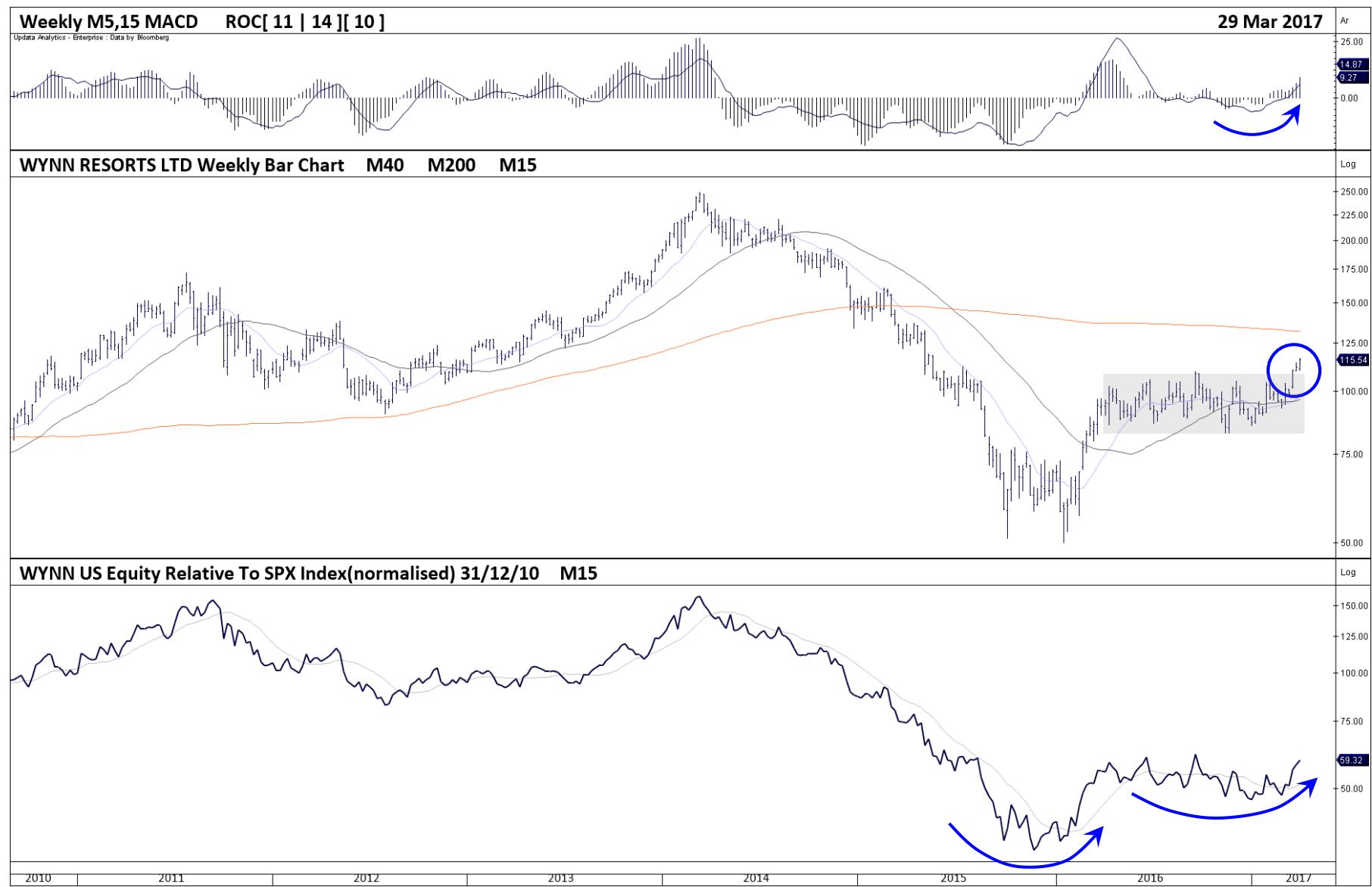


# GARP/Emerging Ideas

## CMG – Former growth leader bottoming with relative performance reversing downtrends

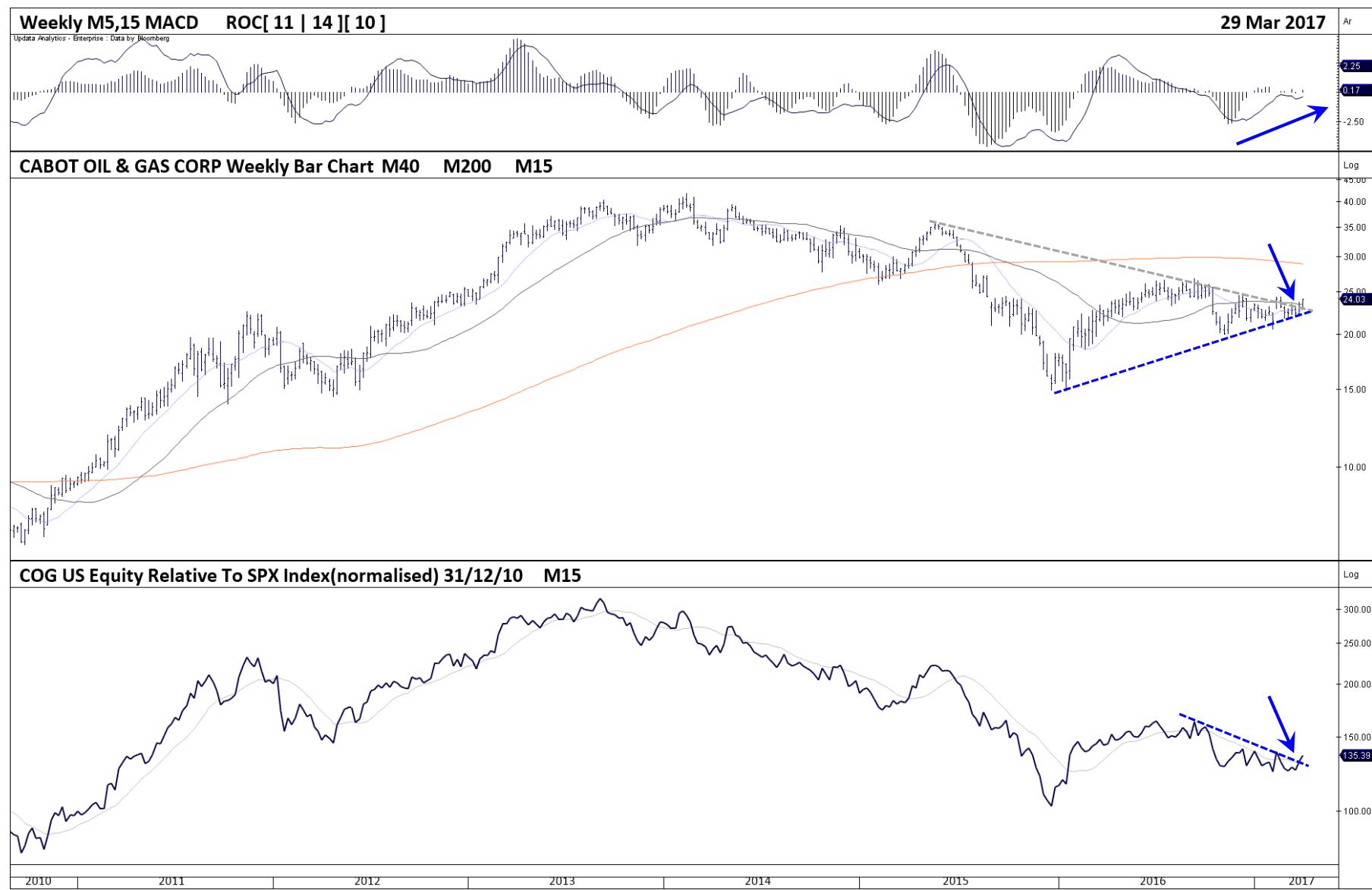


## WYNN – Emerging laggard in its second leg up from long-term cycle lows

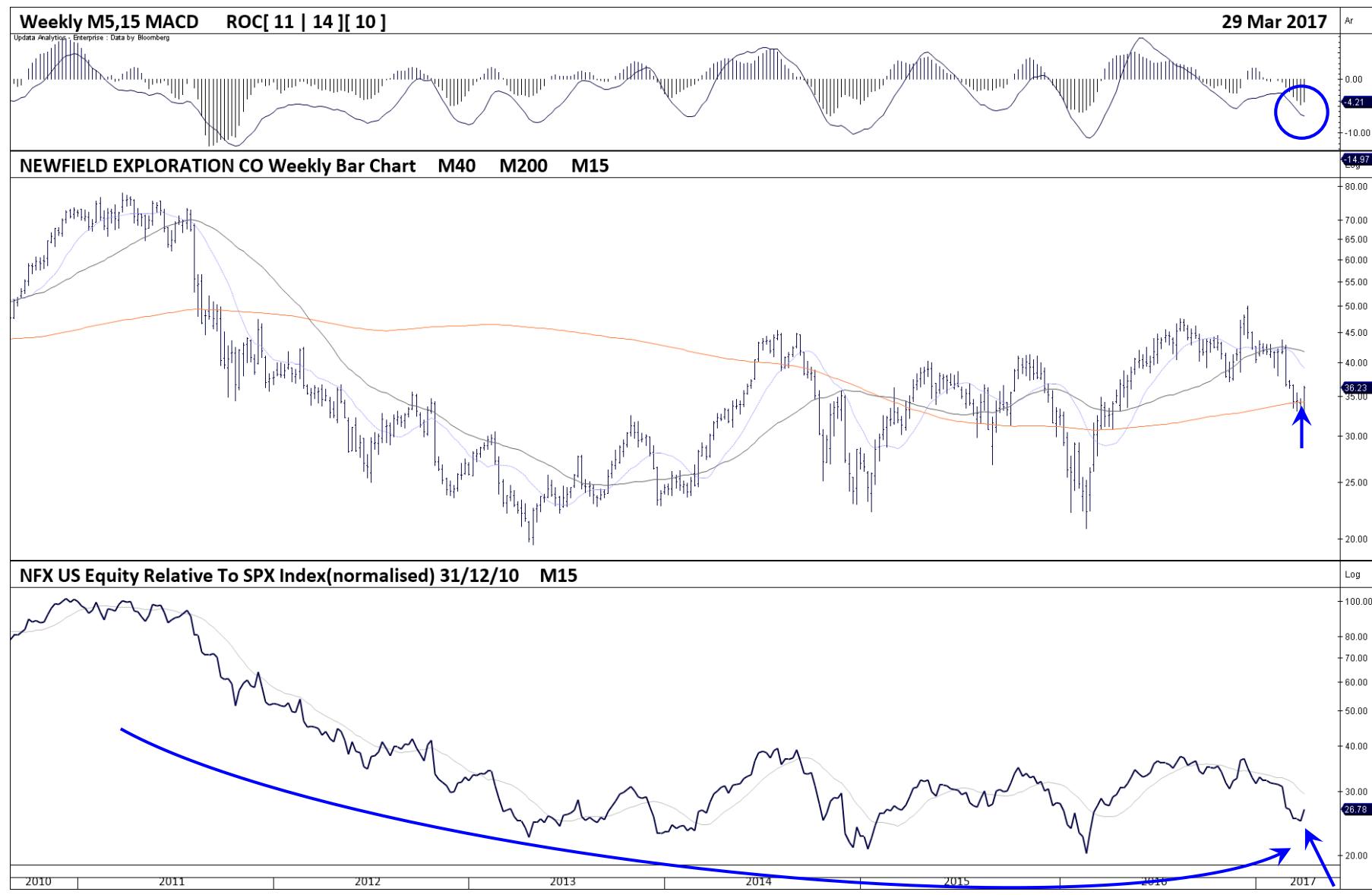


# Value/Contrarian Ideas

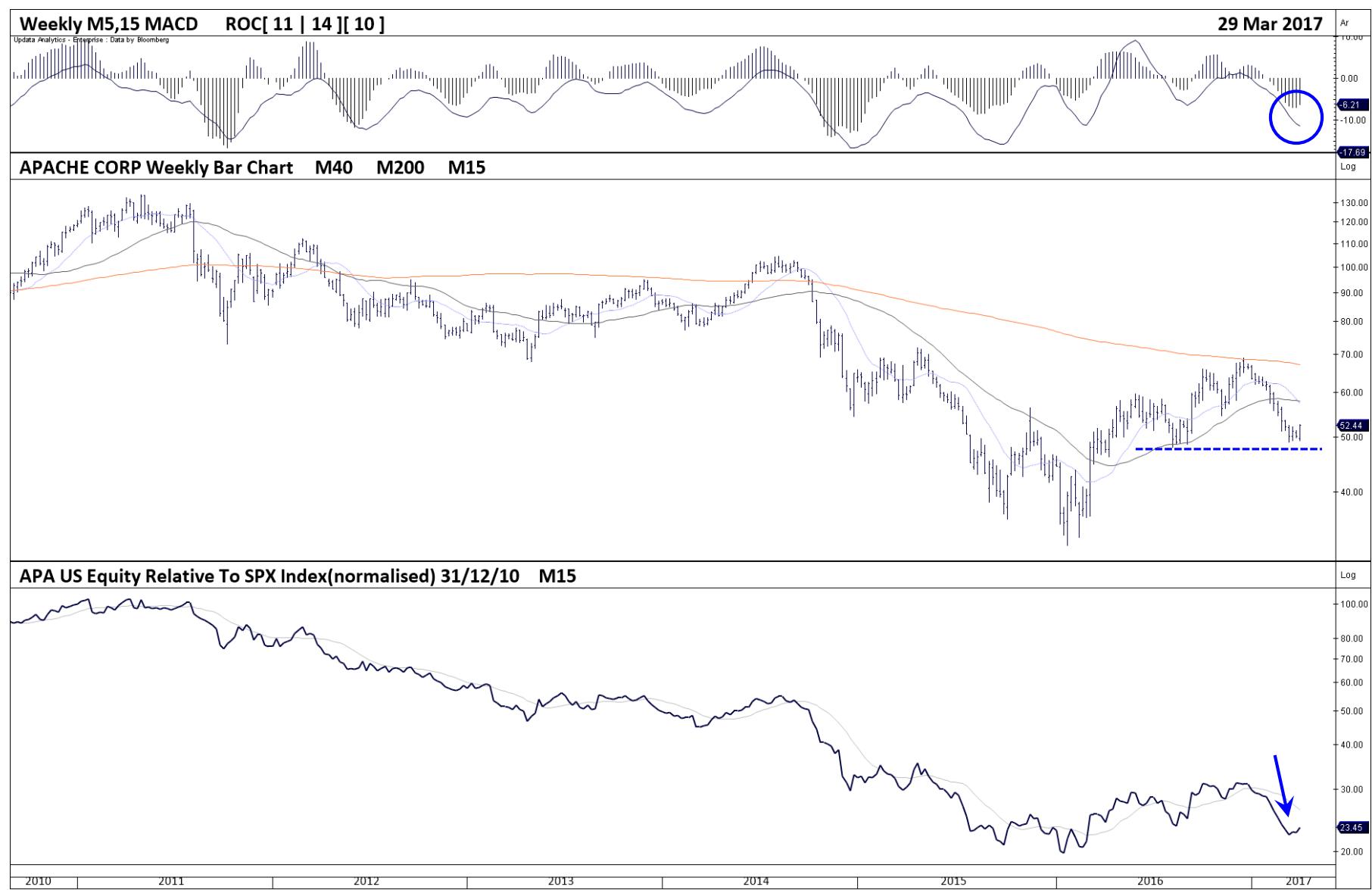
## COG – Recent consolidation maturing to the upside with relative performance reversing its downtrend



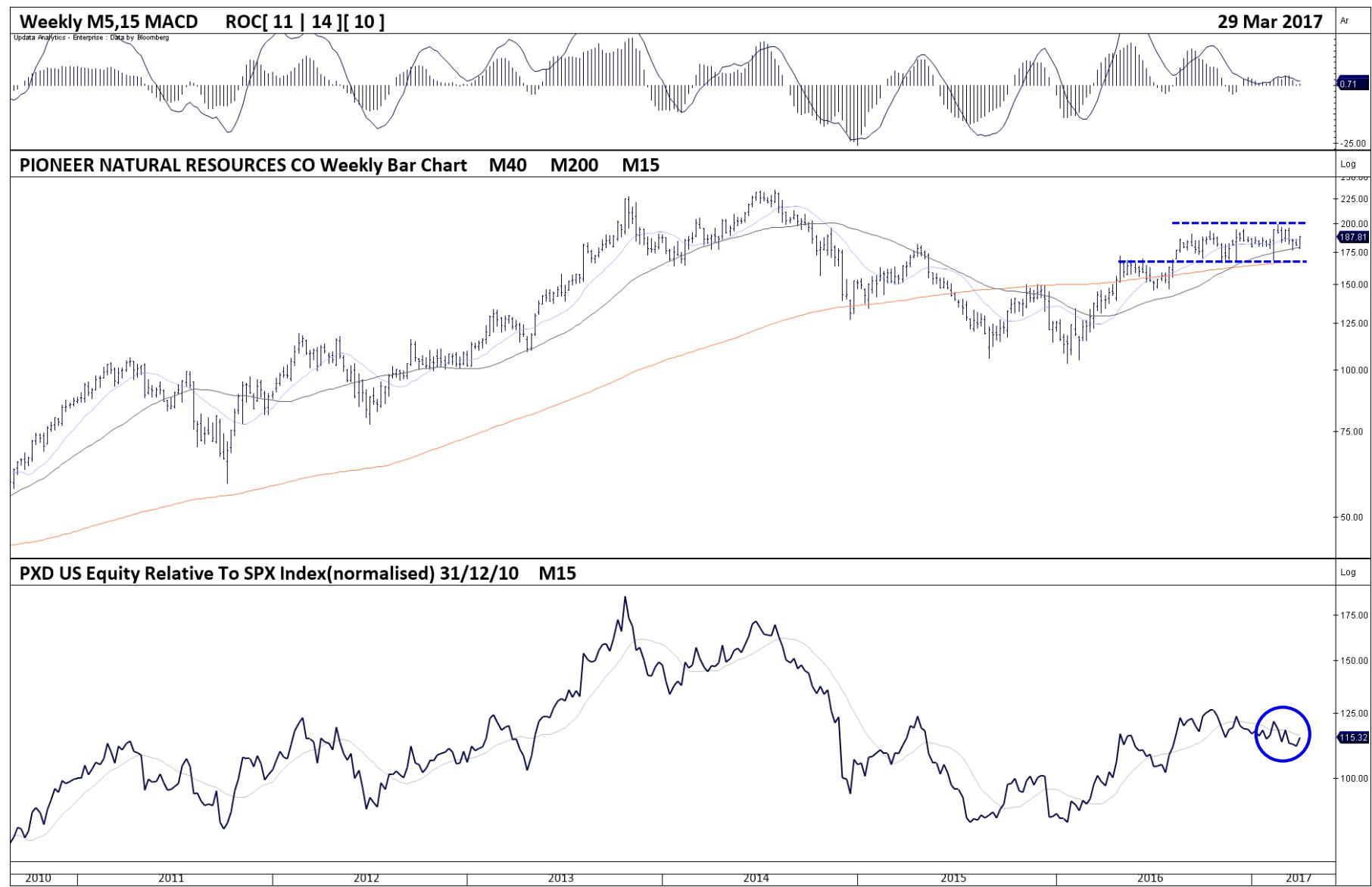
## NFX – Intermediate-term lows developing for NFX within a broader bottoming process



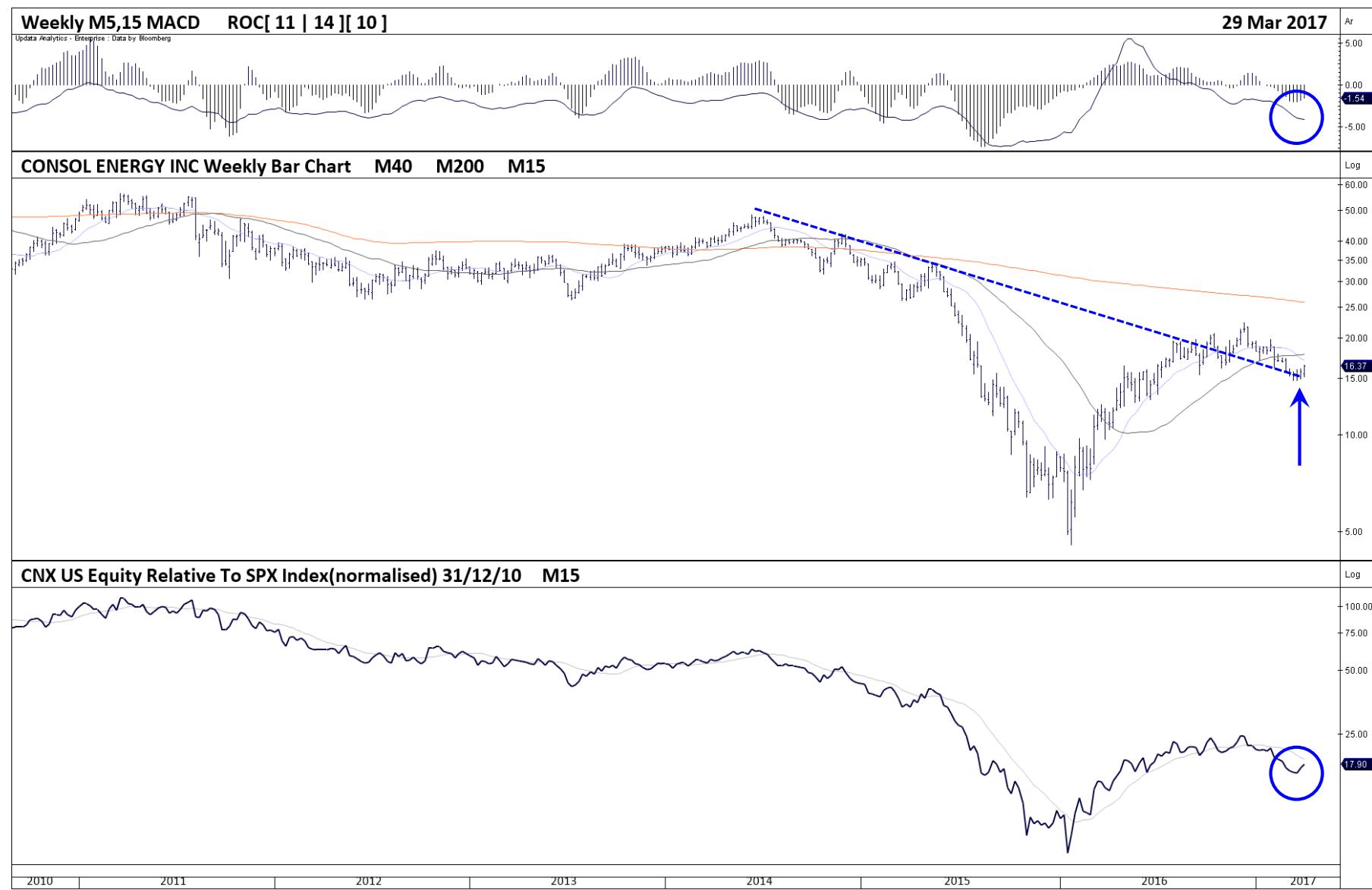
## APA – Weekly momentum oversold, price firming at support, early improvement in relative performance



## PXD – Very early signs of improving after underperforming since December 2016



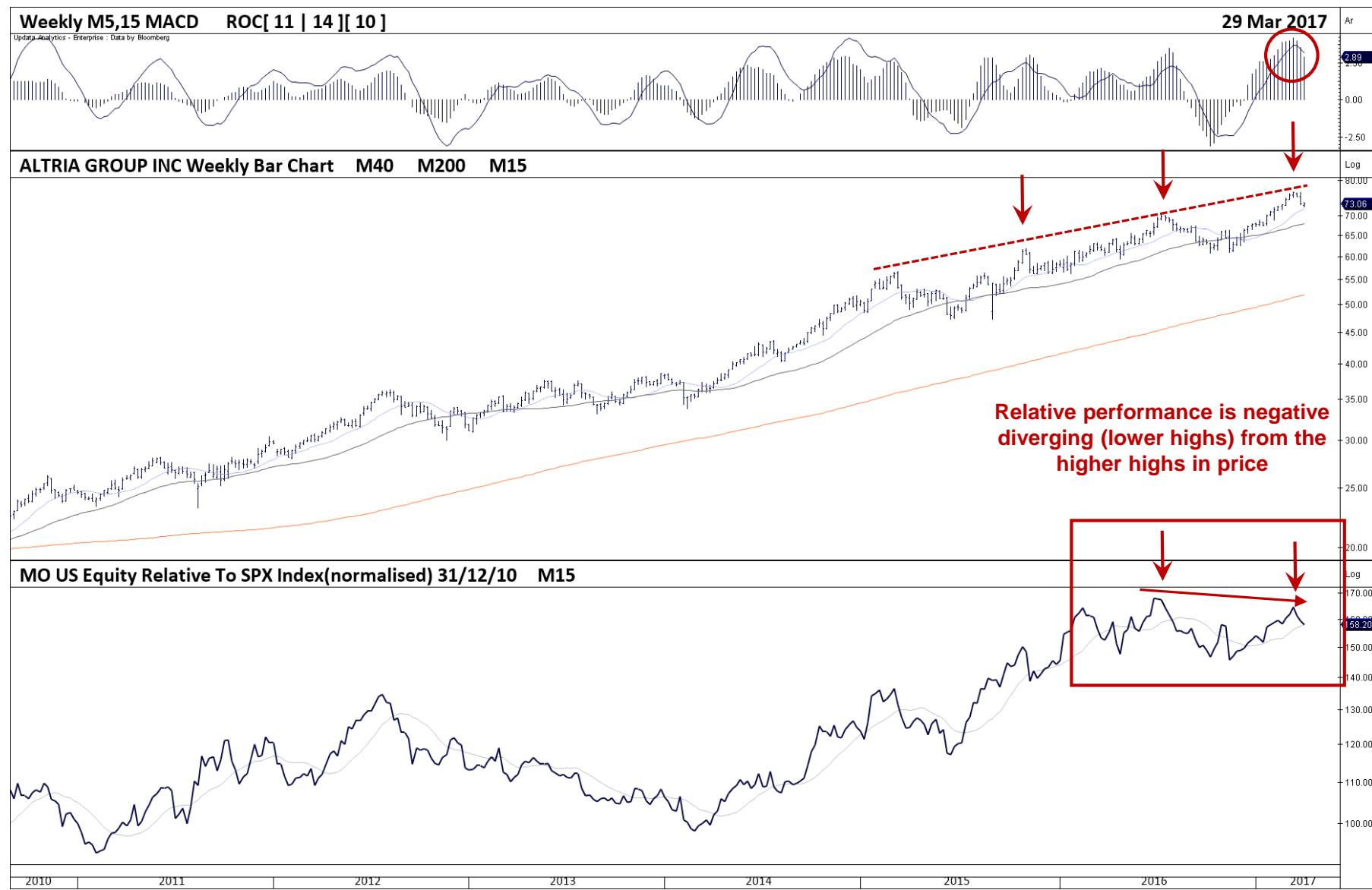
## CNX – Weekly momentum oversold with CNX firming at next support



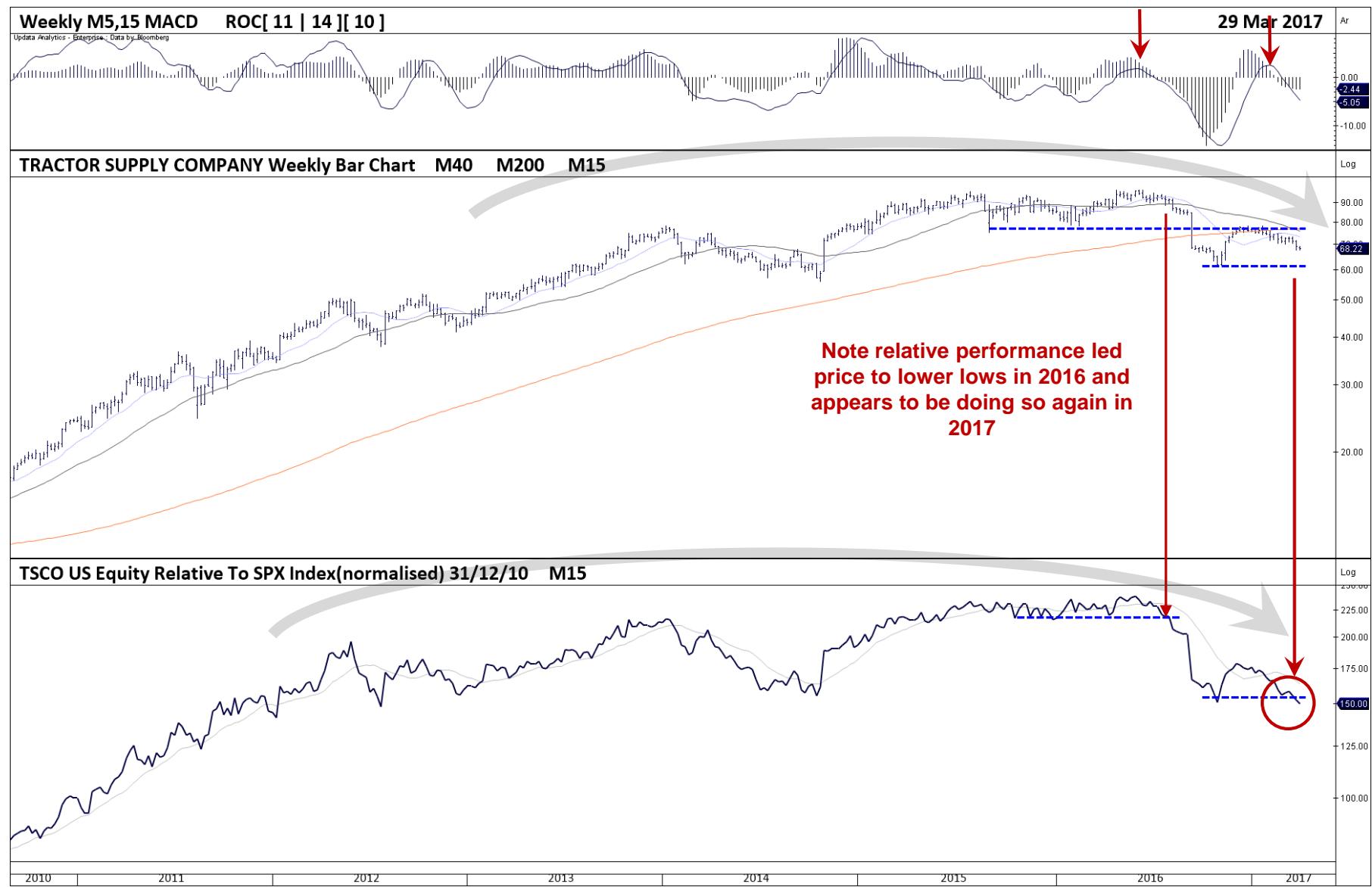
# Sell/Reduce Candidates

Source: Fundstrat, Bloomberg, Updata

## MO – Weekly momentum peak AND non confirming relative performance highs suggest caution



## TSCO – Momentum is again negative and relative performance is leading to the downside



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