

## Technical – Are Cyclical bottoming after a 3+ month correction?

Cyclicals are showing technical evidence of bottoming after peaking in late Q4

- **Overbought market vs. oversold groups** - In recent reports, we have contrasted concerns of the S&P 500 index being 'overbought' intermediate-term, with the internal correction underway for most stocks since mid-December. ([Slides 2-5](#))
- **Energy bottoming, Cyclical showing signs of improving** - By the end of Q1, Energy was technically oversold and poised for a rebound ([Slide 6](#)). There is now incremental technical evidence that indicates Cyclical are bottoming after 3+ months of consolidation/correction.
- **Tactical, multi-month, ebb and flow is 'normal' for Cyclical** – The 1-2 quarter ebb and flow of Cyclical does not appear unusual from a technical perspective, particularly within the context of theme establishing a cycle low just over 12-months prior. The surge since November and subsequent pullback appears orderly and not indicative of bigger problem at this point.
- **3 supporting technical points – Momentum, Support and Relative Performance**
  - ✓ Weekly momentum indicators, tracking 1-2 quarter shifts, are becoming oversold and/or bottoming.
  - ✓ 3-month price corrections/consolidations have returned to support, many near rising 200-dma's.
  - ✓ Relative performance vs. the S&P is beginning to turn positive after underperforming since late Q4.
  - ✓ Growth showing early signs of slowing/stalling to Value ([Slide 7](#))
- **Cyclical ideas** rallying from support: **IR, CAT, CR, TEX, TRN, KSU, MLM, FCX.** ([Slide 11-20](#))
- **Risks** – The equity market, led by reflation/cyclical stocks, bottomed in Q1 2016, just over 12 months ago. It would be unusual for a market 'cycle' to abort in just over one year. However, there are a number of divergences that have developed since December, notably the flattening yield curve. In light of these divergences, the Q1/early Q2 lows now define important stop loss levels given a break below those levels would likely signal the broader cyclical recovery that began in early 2016 is failing.

For the Growth Manager with no appetite for cyclical ([Slides 22-23](#))

- (-) **NVDA** remains advanced and at risk with the broader Technology sectors showing signs of slowing/stalling.
- (+) **EXPE** remains in a long-term uptrend and is timely after consolidating for 2 years.

### Technical Strategy

#### Technical Strategy

**Robert Sluymmer, CFA<sup>AC</sup>**

+1 212 293 7135

robert.sluymmer@fundstrat.com | @rsluymmer



#### U.S. Portfolio Strategy

**Thomas J. Lee, CFA**

+1 212 293 7131

thomas@fundstrat.com | @fundstrat



#### Data Science Research

**Sam Doctor**

+1 212 293 7132

sam.doctor@fundstrat.com | @fundstratSMID



#### Washington Policy Strategy

**L. Thomas Block**

+1 212 293 7130

tom.block@fundstrat.com | @TomBlock\_FS



#### Sales

**John Bai**

Head of Sales

john@fundstrat.com

**Bill Vasilakos**

bill.vasilakos@fundstrat.com

**Tzu-Wen Chen**

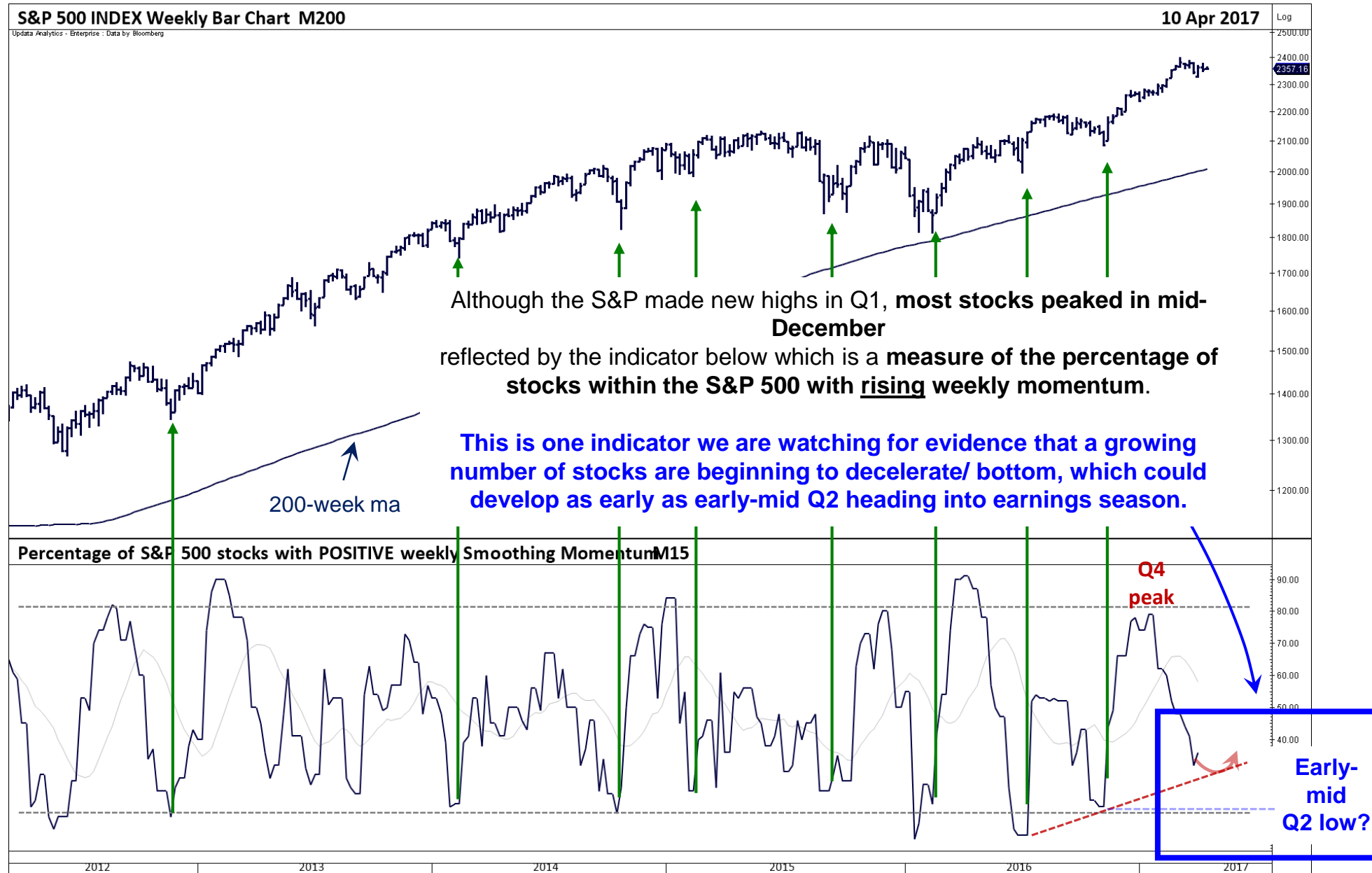
tzuwen.chen@fundstrat.com

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



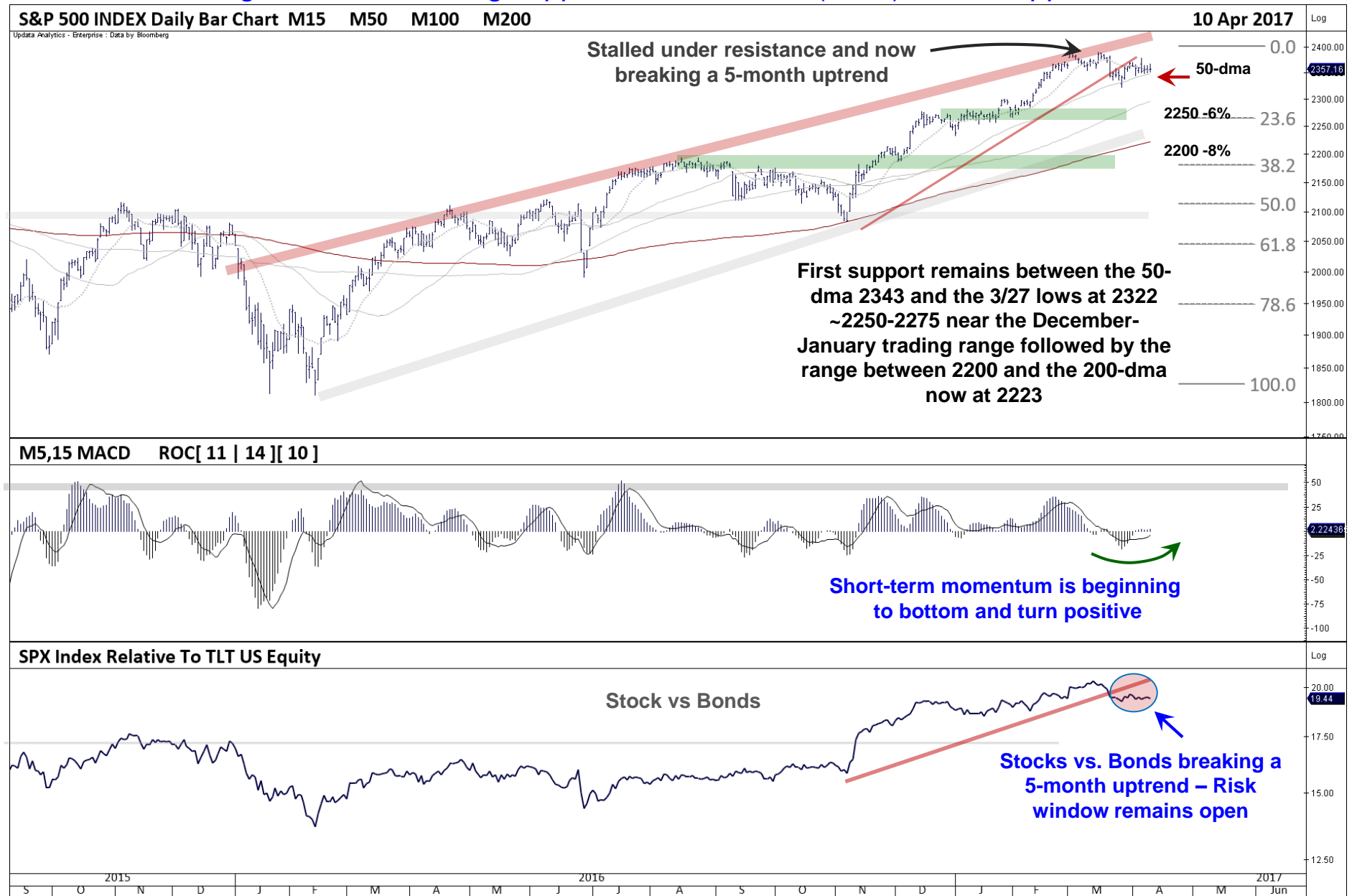
Source: Fundstrat, Bloomberg, Udata

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



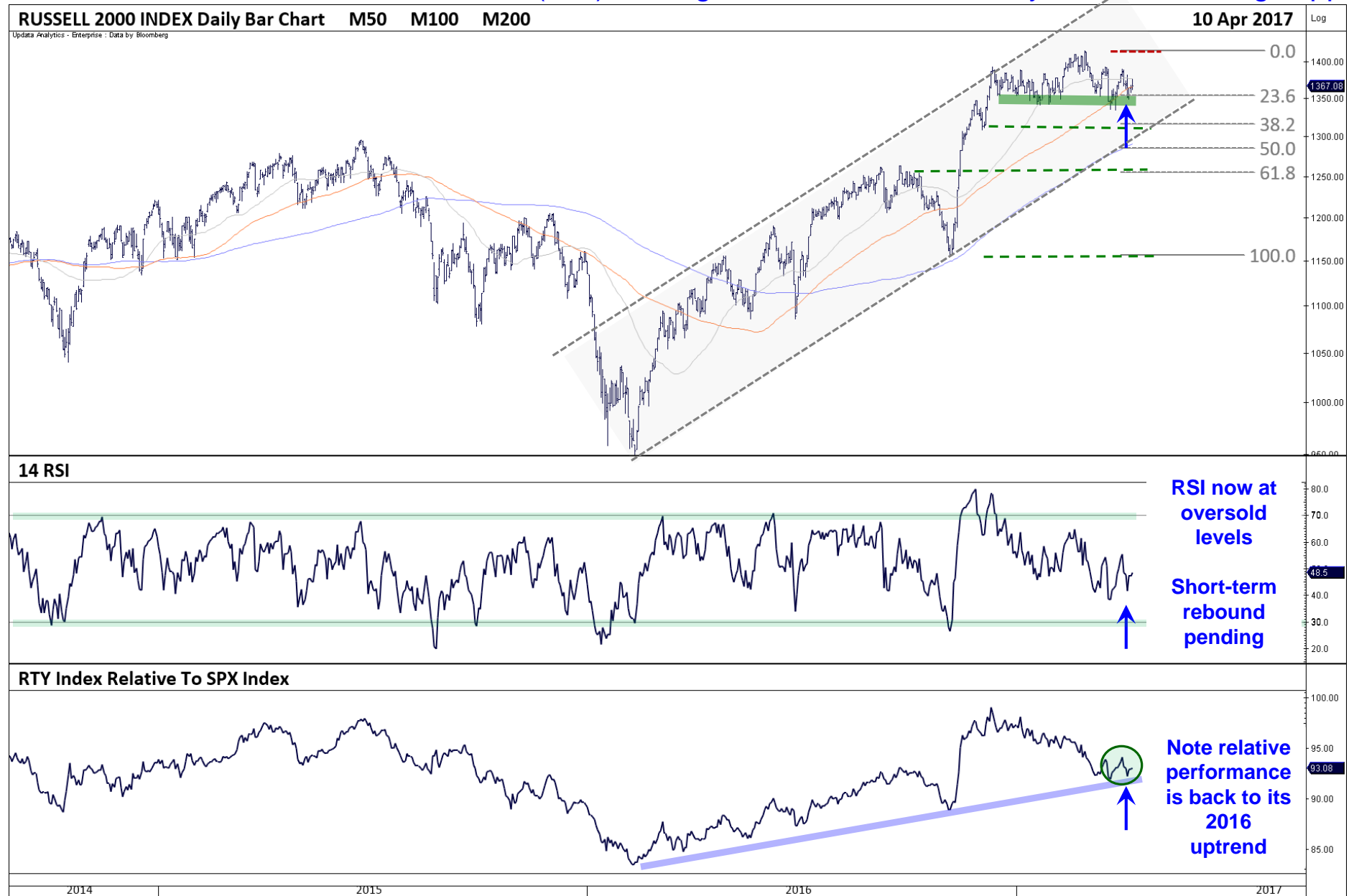
Source: Fundstrat, Bloomberg, Update

## S&P 500 – Holding above first trading support at the 50-dma (2348). Next support is at 2250/75



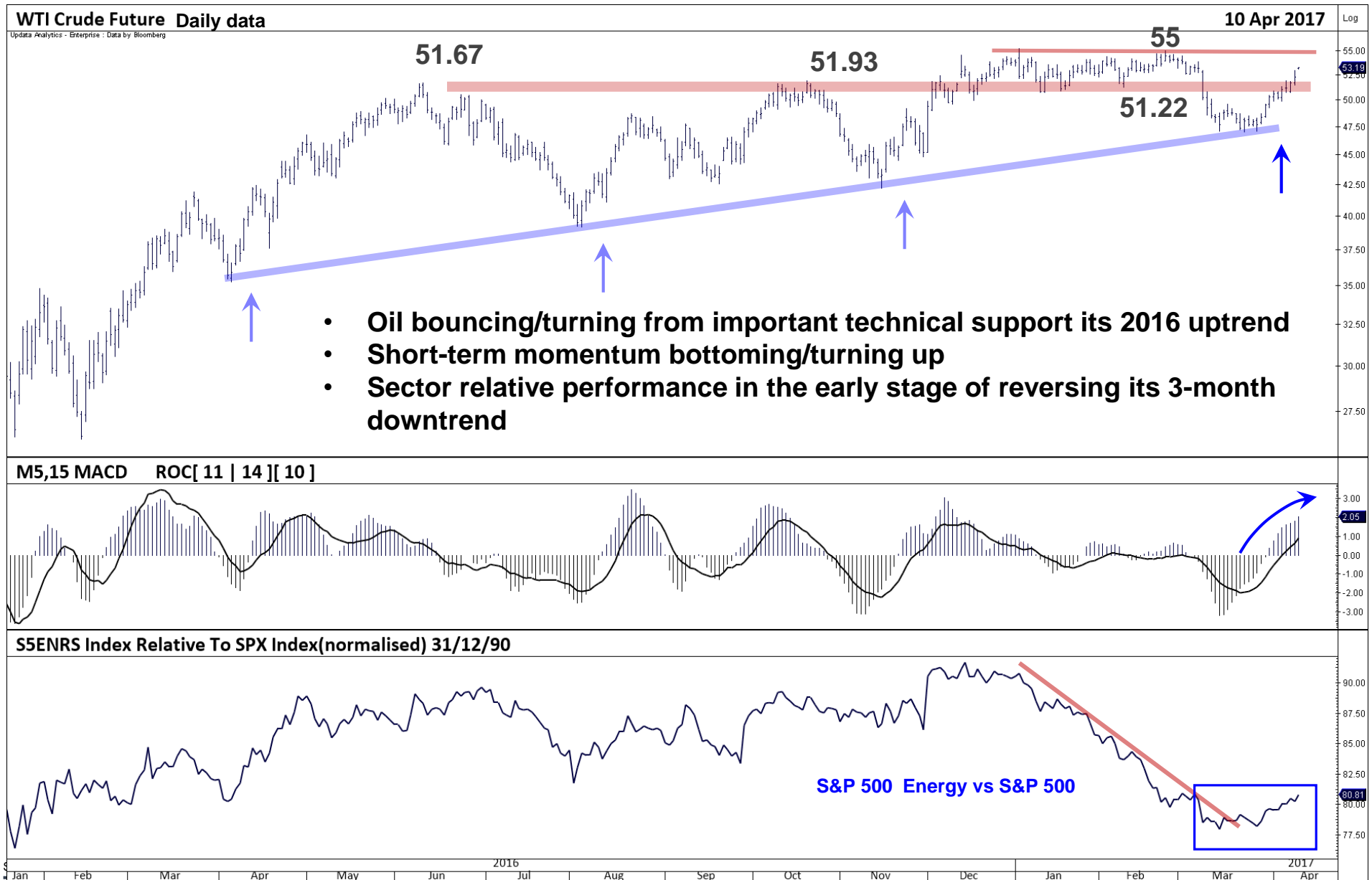
Source: Fundstrat, Bloomberg, Update

## Russell 2000 – Short-term momentum (RSI) moving toward oversold territory – RTY at trading support



Source: Fundstrat, Bloomberg, Udata

## Energy – WTI testing next resistance band \$52-55- Expect pullbacks to be shallow



## Growth vs. Value

Weekly data from 2013



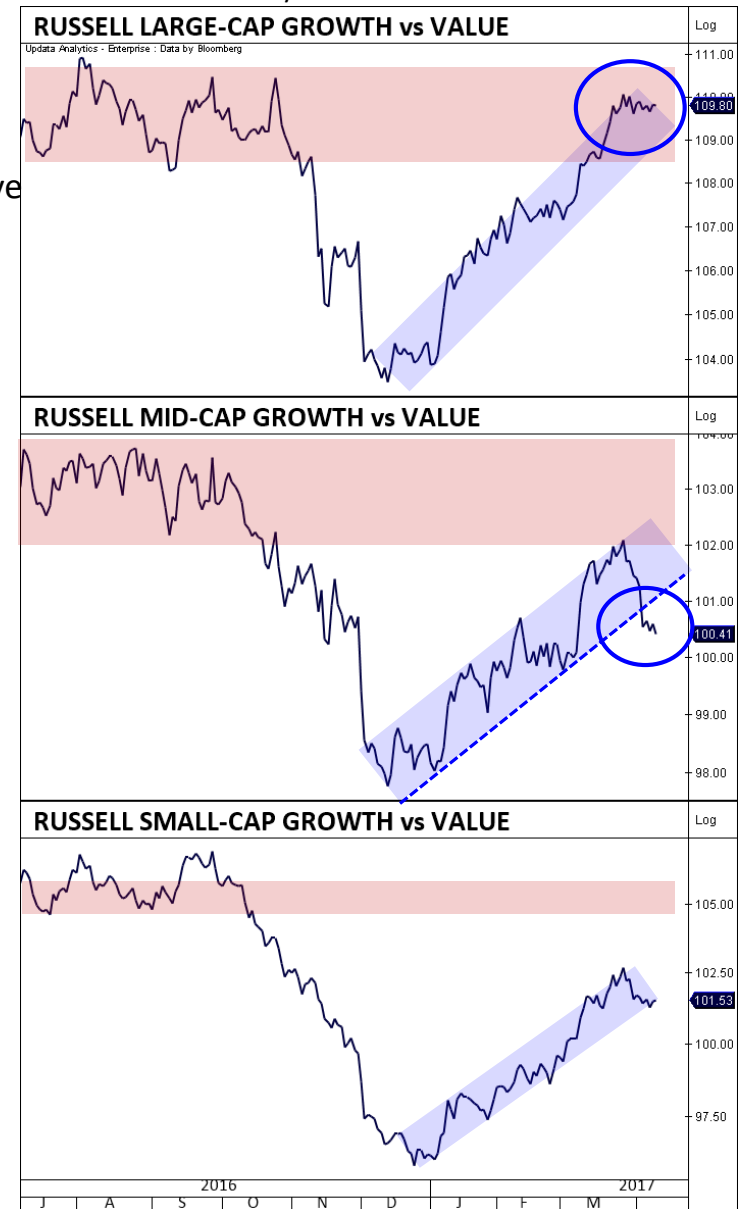
Source: Fundstrat, Bloomberg, Update

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

**MID-CAP  
GROWTH vs. VALUE**  
Rebound stalling

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

Daily data from Q4-2015





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

Percentage of S&P 500 & 400 stocks with  
Rising **Weekly** Relative Performance Trends vs the S&P 500 within each sector

	DISCRETIONARY	STAPLES	ENERGY <b>1</b>	FINANCIALS <b>4</b>	HEALTH CARE <b>3</b>	INDUSTRIALS <b>5</b>	TECHNOLOGY <b>2</b>	MATERIALS	TELCOS	UTILITIES <b>6</b>
4/7/2017	50%	45%	2%	24%	72%	38%	58%	36%	0%	78%
3/31/2017	48%	40%	0%	26%	76%	41%	58%	33%	0%	70%
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%	59%	54%	53%	66%	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%	60%	51%	67%	37%
1/13/2017	38%	31%	63%	67%	35%	66%	54%	51%	67%	41%
1/6/2017	48%	33%	74%	66%	28%	71%	52%	56%	67%	37%
12/30/2016	54%	31%	80%	63%	22%	78%	52%	60%	67%	35%
12/23/2016	59%	33%	76%	62%	20%	81%	57%	64%	50%	26%
12/16/2016	63%	31%	74%	61%	19%	83%	60%	65%	33%	20%
12/9/2016	65%	29%	67%	59%	20%	83%	58%	67%	17%	13%
12/2/2016	60%	29%	56%	57%	20%	77%	57%	60%	17%	15%
11/25/2016	48%	31%	44%	55%	18%	72%	59%	56%	17%	17%
11/18/2016	38%	31%	43%	54%	16%	67%	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%	66%	45%	17%	13%
10/28/2016	37%	25%	69%	46%	26%	52%	65%	49%	0%	4%
10/21/2016	41%	16%	67%	47%	44%	53%	65%	45%	0%	7%
10/14/2016	41%	15%	50%	48%	47%	50%	66%	42%	0%	9%
10/7/2016	41%	18%	54%	52%	45%	53%	68%	40%	0%	9%
9/30/2016	41%	22%	48%	61%	38%	52%	68%	45%	0%	9%
9/23/2016	43%	20%	46%	63%	45%	54%	71%	42%	0%	4%
9/16/2016	46%	22%	48%	61%	47%	56%	68%	42%	0%	0%
9/9/2016	49%	24%	44%	60%	49%	59%	68%	47%	0%	0%
9/2/2016	50%	38%	43%	53%	49%	59%	65%	51%	0%	0%
8/26/2016	55%	38%	39%	54%	53%	55%	62%	51%	17%	0%
8/19/2016	56%	36%	35%	52%	58%	55%	63%	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%

Trend shifts continue from last week

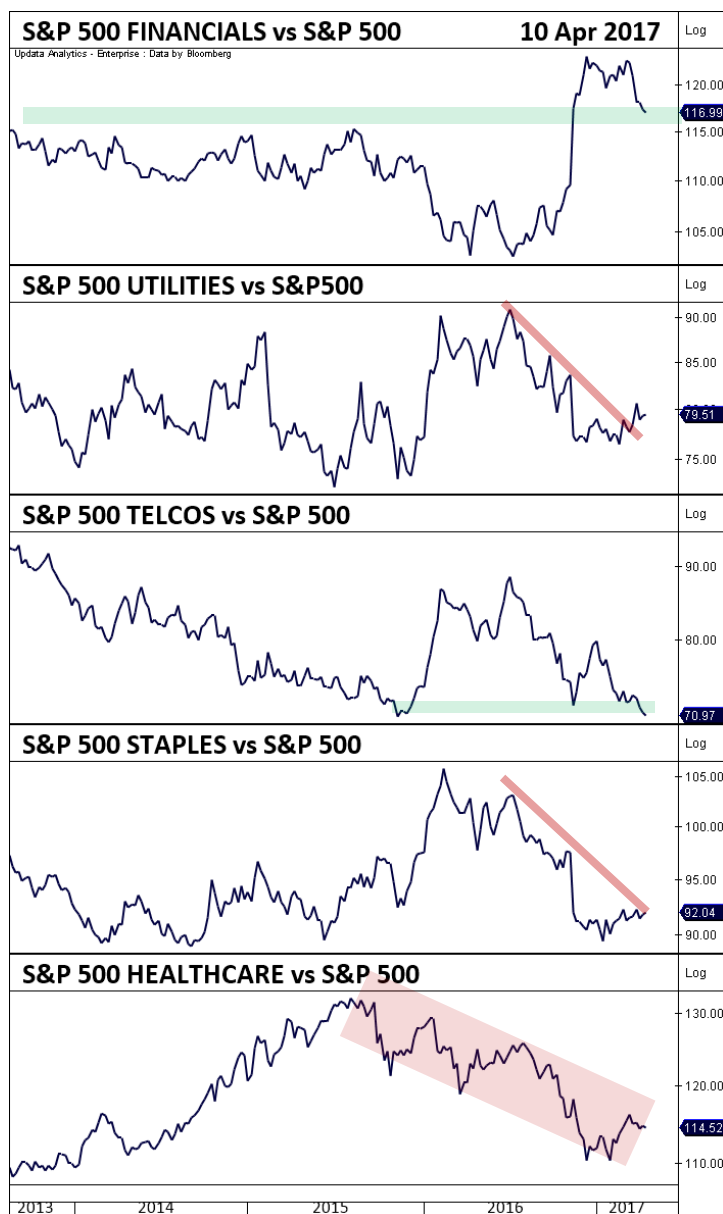
- Energy** – Early signs of bottoming
- Technology** – Participation beginning to stall
- Healthcare** – First signs breadth peaking just as Energy shows signs of bottoming
- Financials** - Correcting and likely to be oversold by mid-Q2/earnings season but too early to buy.
- Industrials** – Correction continues after peaking in December but internally select groups improving. See this week's chart examples
- Utilities** – Defensive leadership building but no longer 'early' in its recovery

Source: Fundstrat, Bloomberg



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

Weekly data from 2013



Source: Fundstrat, Bloomberg, Update

### FINANCIALS

Correction/consolidation continues after 2-year break-out Accumulate pullback

### UTILITIES

Defensive rotation struggling to build upside momentum

### TELCOS

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

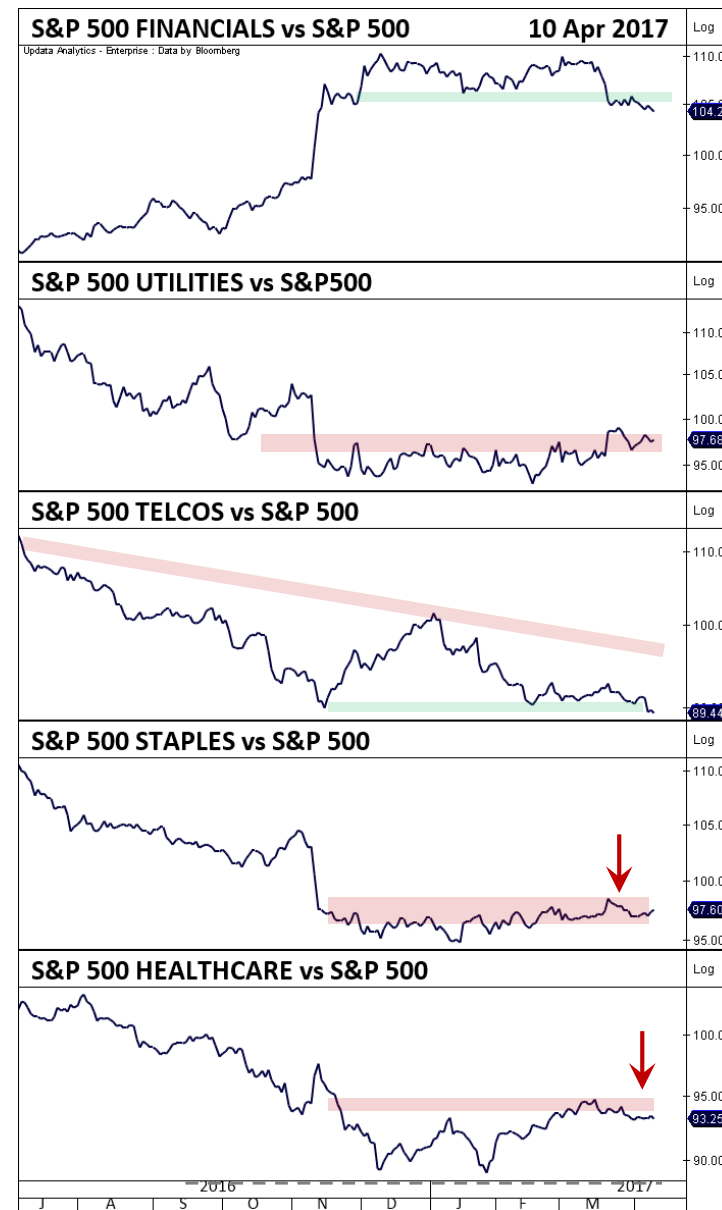
### STAPLES

Relative performance range bound

### HEALTHCARE

Oversold recovery showing evidence of stalling at first resistance

Daily data from Q4-2015



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



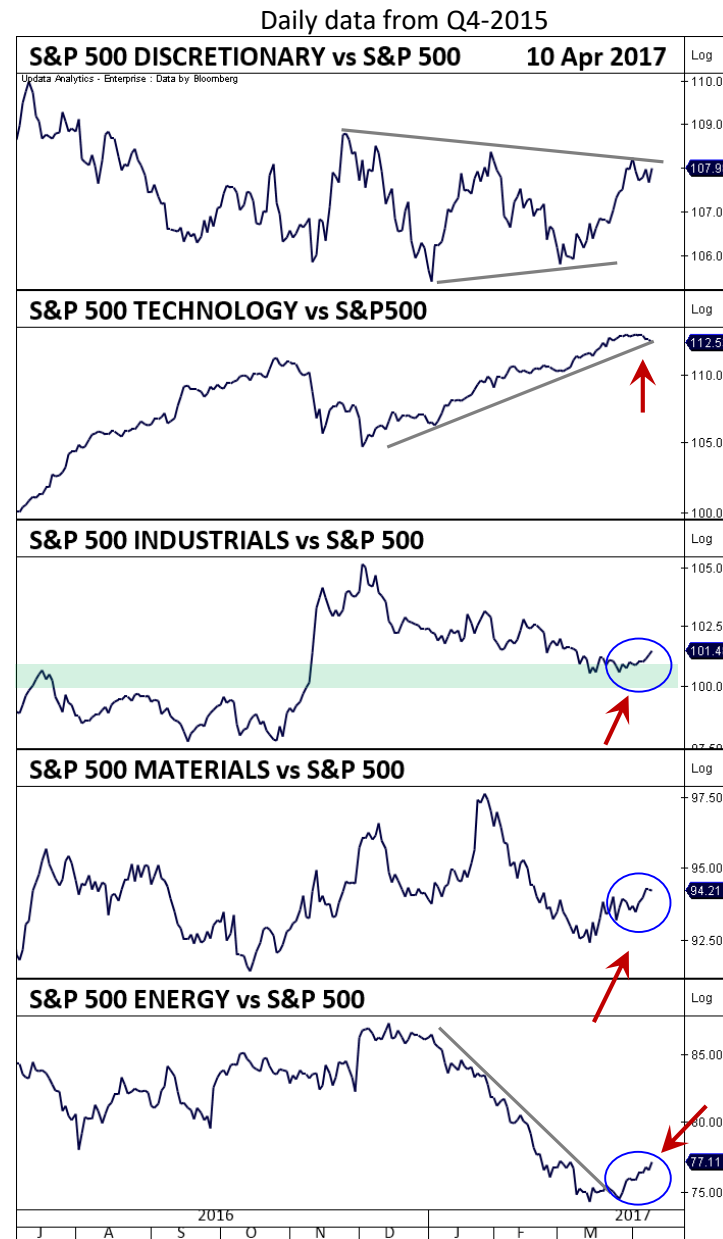
**DISCRETIONARY**  
Rebound challenging  
next key resistance

**TECHNOLOGY**  
Established leaders but  
less timely at current  
levels  
Watch for trend reversal

**INDUSTRIALS**  
Testing lower end of 2-  
year trading range

**MATERIALS**  
Pullback nearing key  
technical support with  
early signs of firming

**ENERGY**  
Oversold with very early  
signs of reversing its 3-  
month downtrend

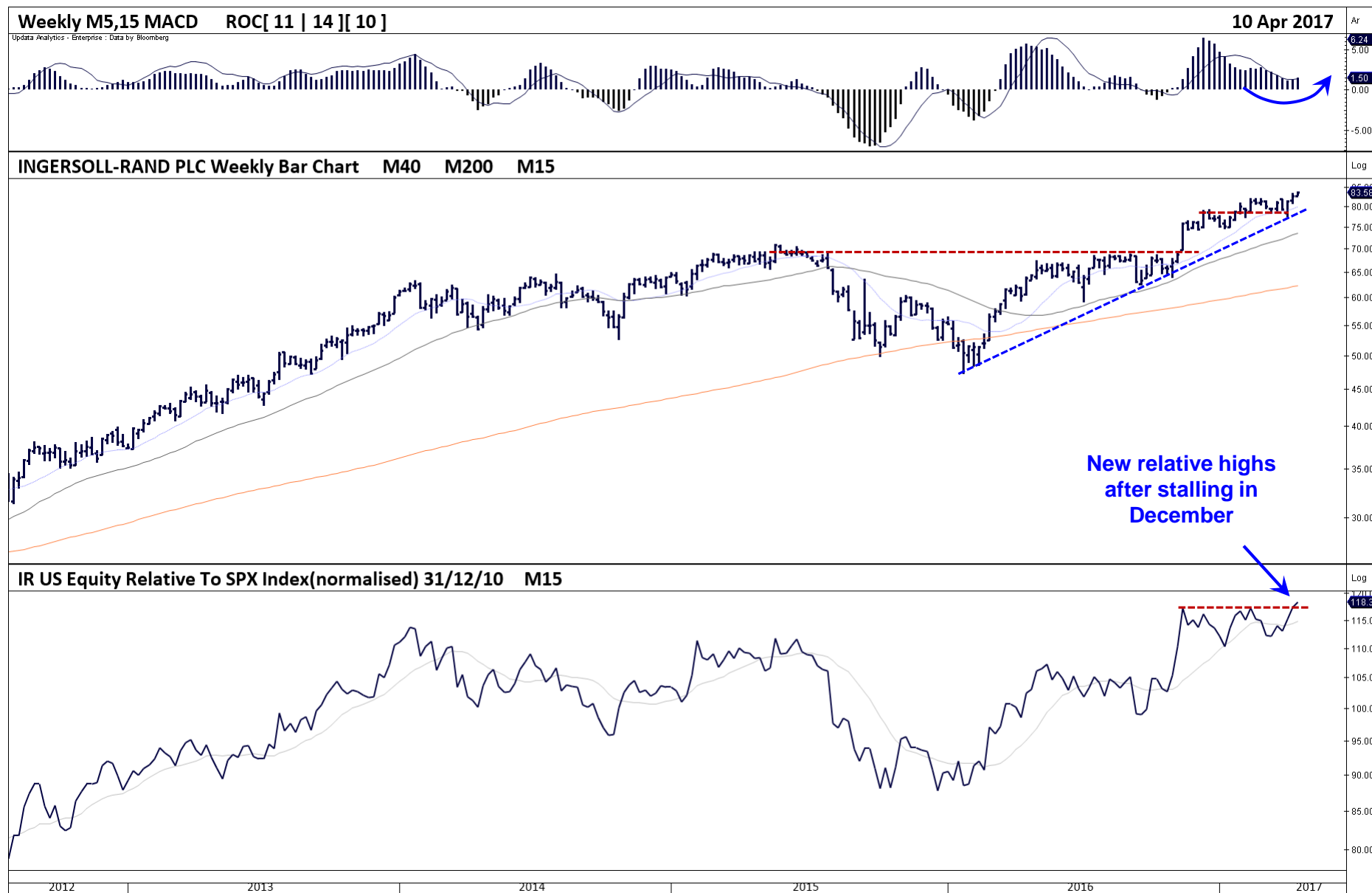


Source: Fundstrat, Bloomberg, Udata

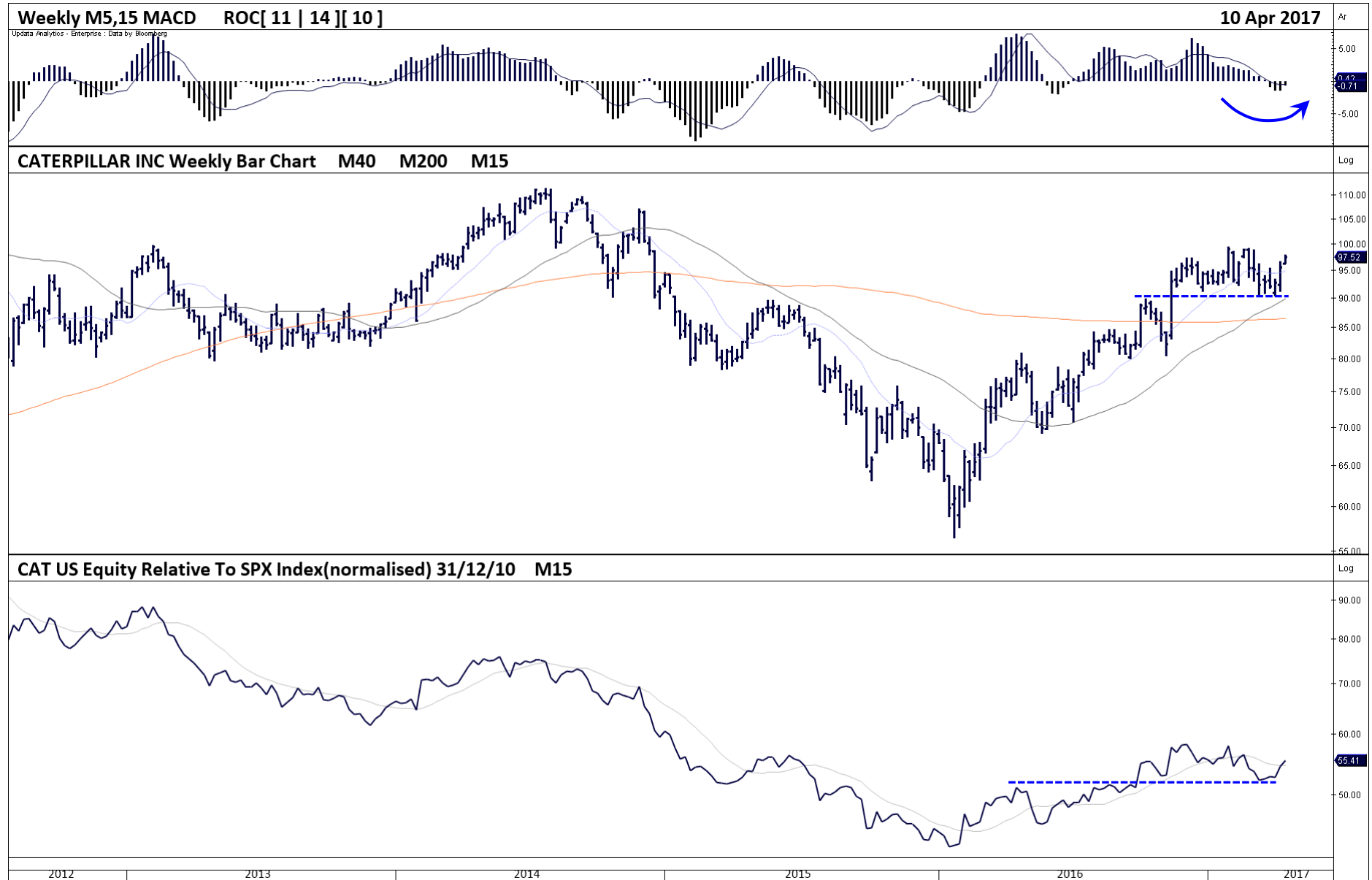
**Cyclical ideas rallying from support with weekly momentum indicators bottoming and relative performance improving**

**ITW, CAT, CR, TEX, TRN, KSU, MLM, FCX**

## IR's relative performance is again making new 3-month relative highs after peaking in December

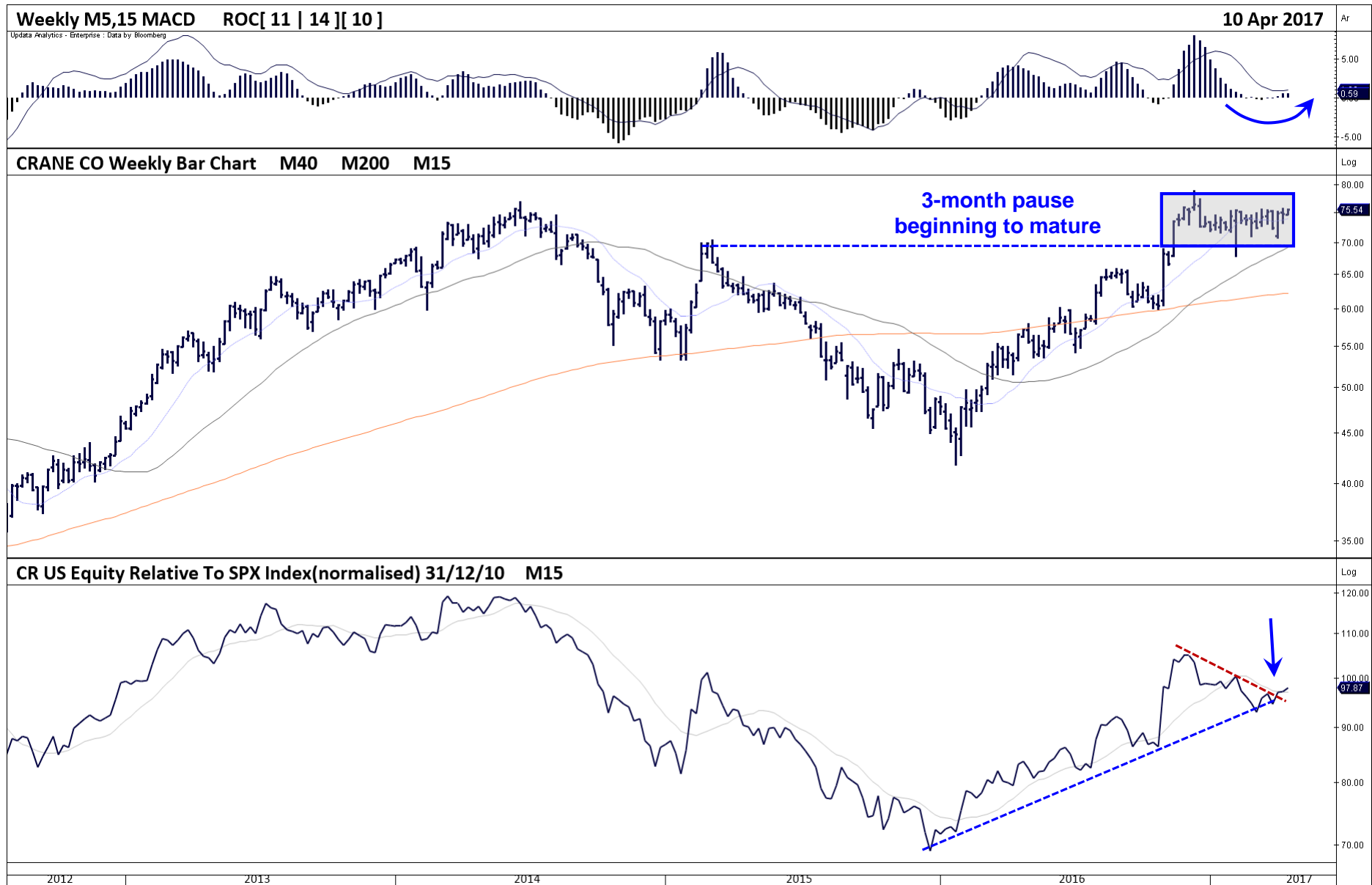


## CAT – Another cyclical consolidating toward trend at its 200-dma and accelerating

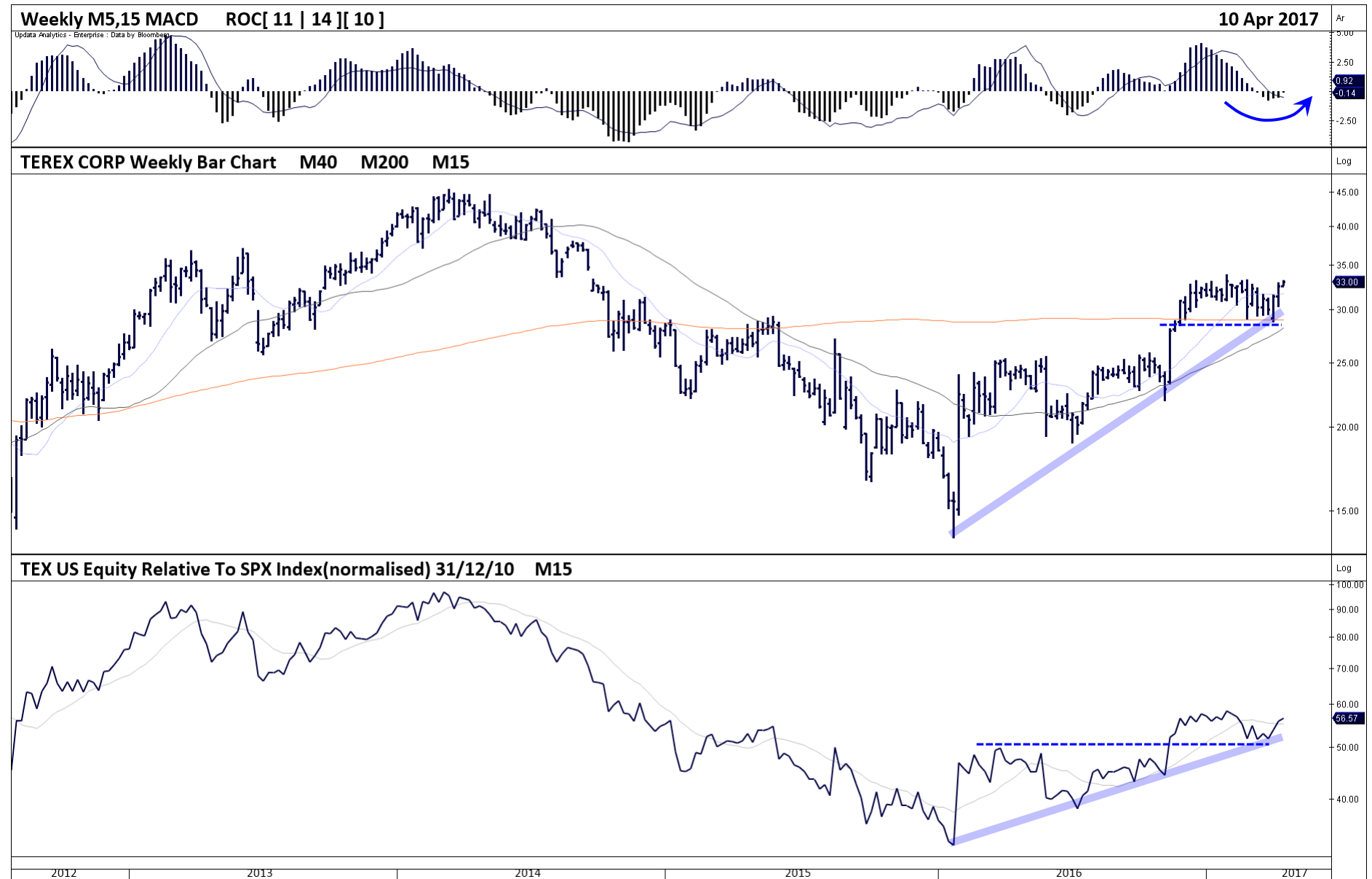


Source: Fundstrat, Bloomberg, Udata

## CR – Bottoming intermediate-term with weekly momentum turning and relative performance reversing a 4-month uptrend

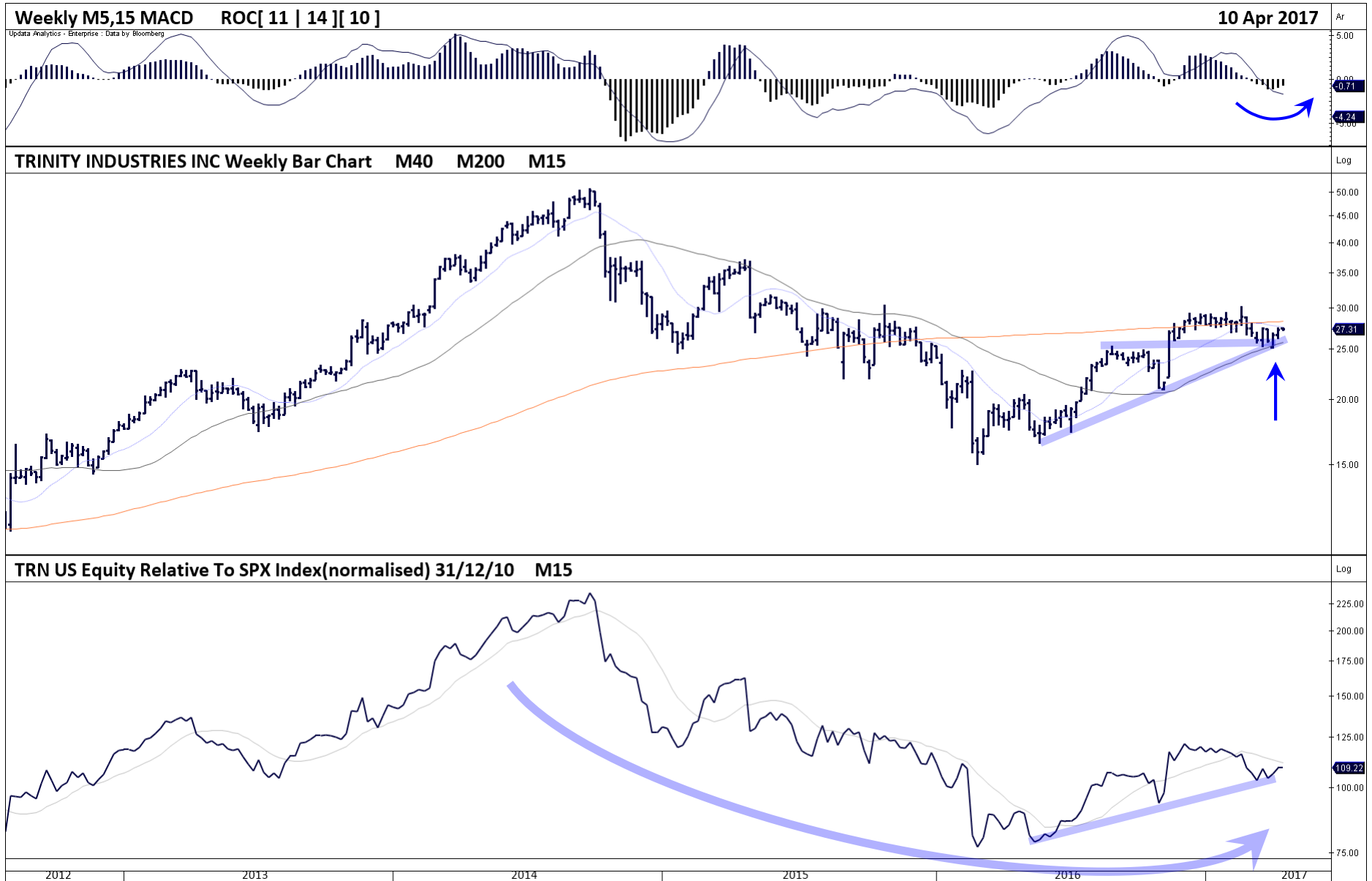


## TEX – Intermediate-term momentum and relative performance turning up after a 3-month pause

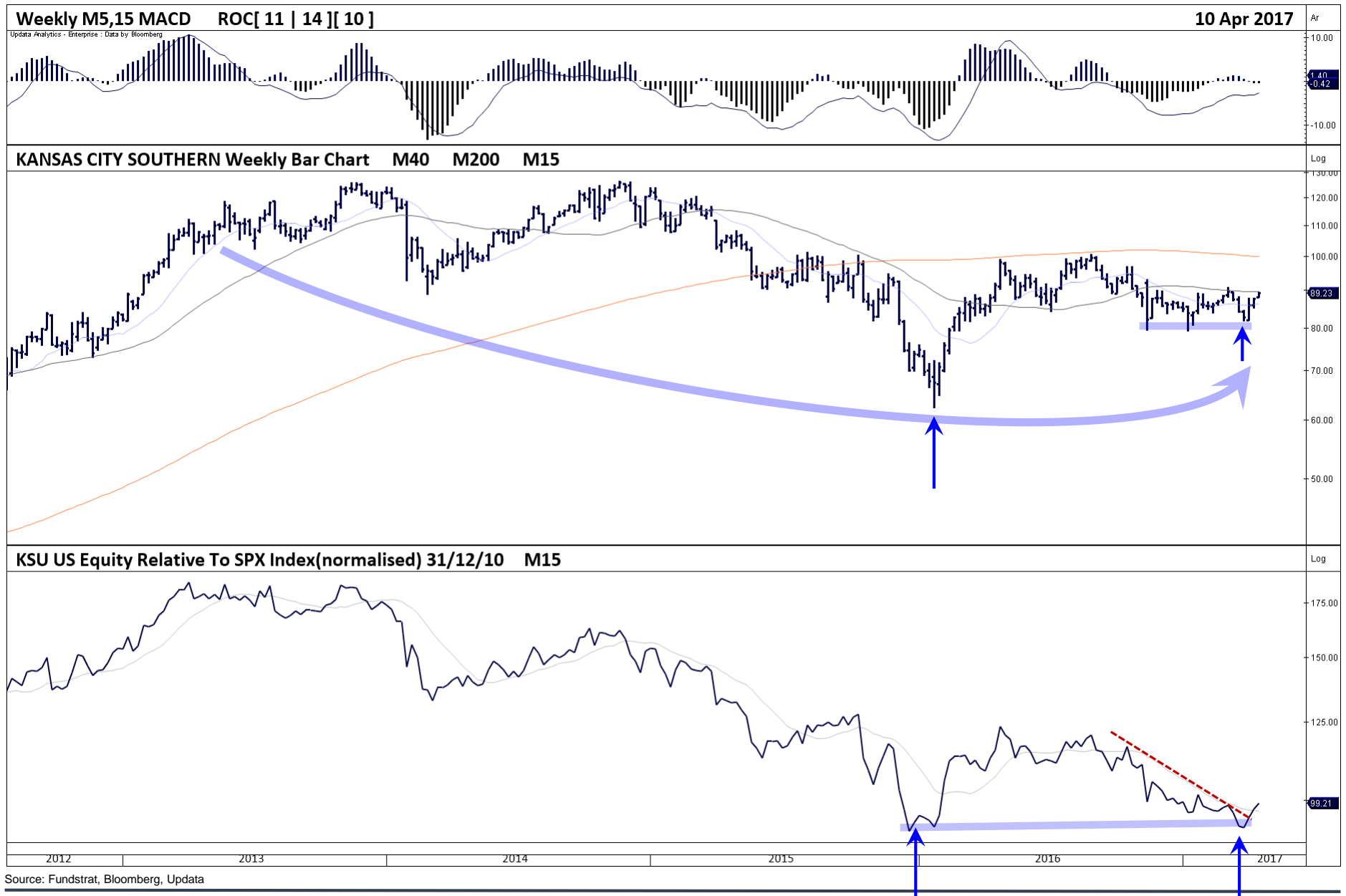




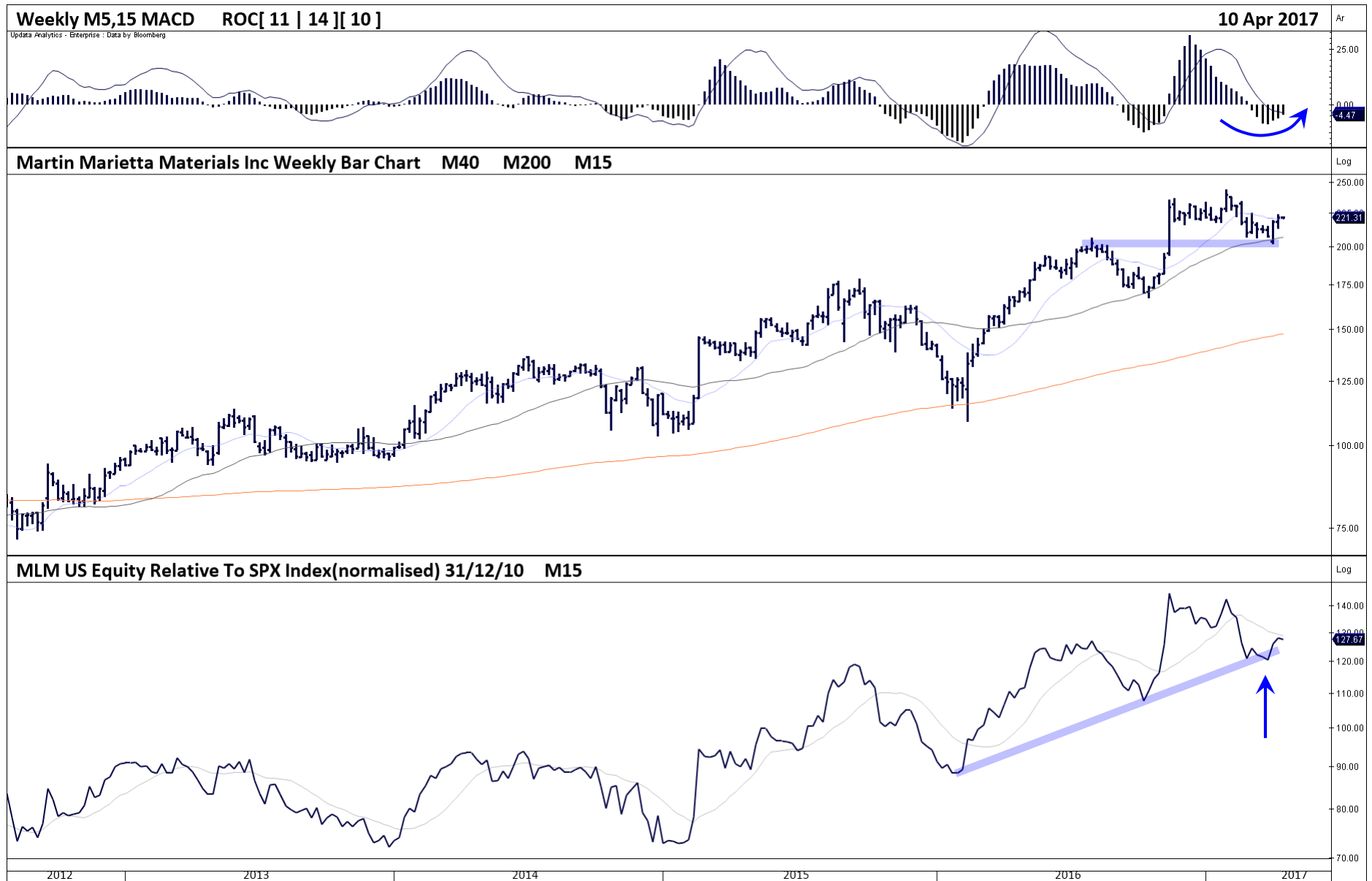
## TRN – Another name beginning to rally from its 2016 uptrend as weekly momentum becomes oversold and turn up



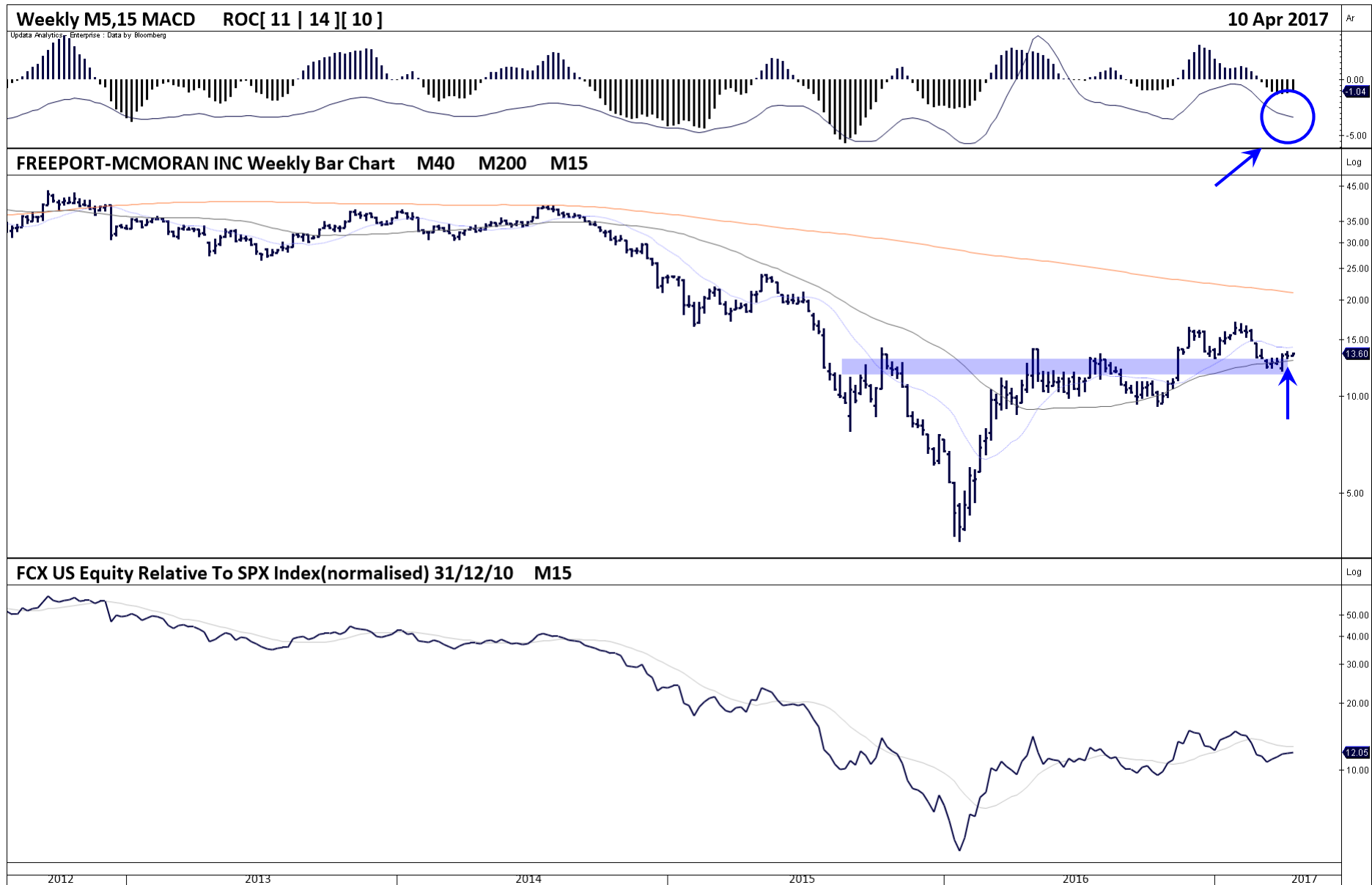
KSU – Laggard Rail beginning to establish secondary lows  
Note relative performance is reversing its Q4-Q1 downtrend



MLM – Another cyclical showing signs of bottoming following a 3+ month pause/correction back to support. Weekly momentum is bottoming and relative performance is beginning to inflect up

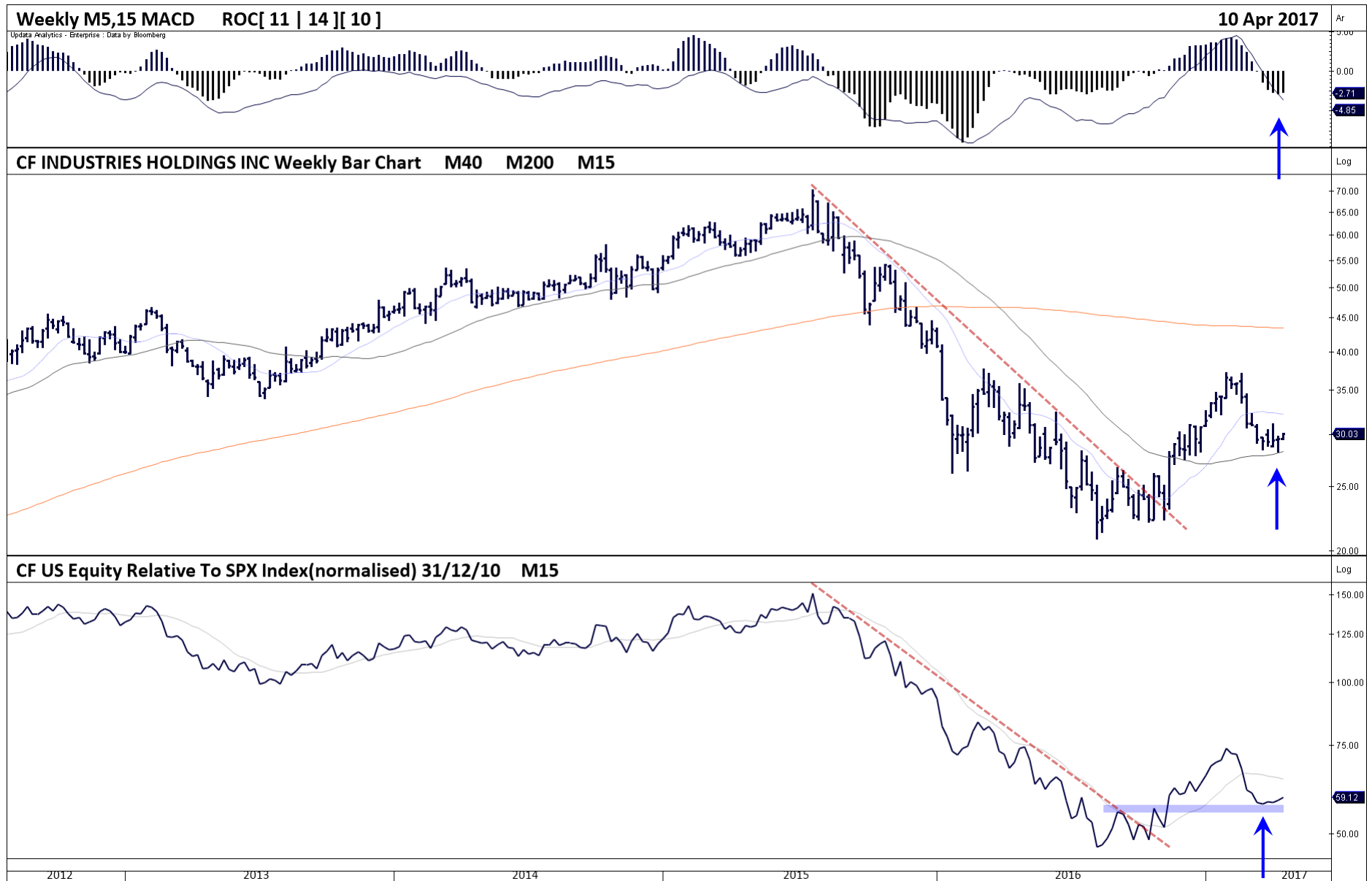


FCX is showing early evidence of bottoming at support  
as weekly momentum moves toward oversold levels



Source: Fundstrat, Bloomberg, Udata

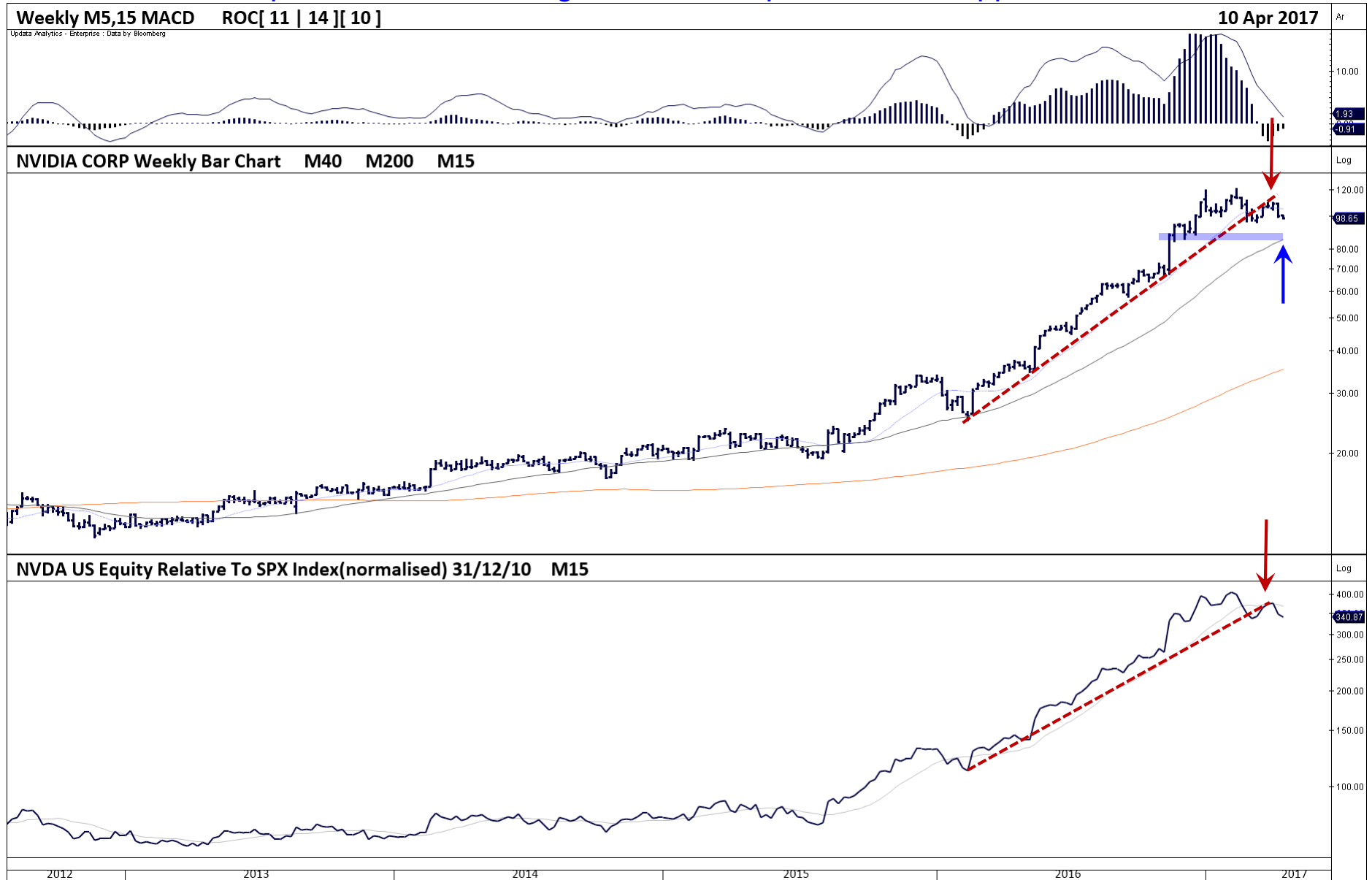
CF has pulled back to support and is showing early signs of bottoming.



# Growth Managers

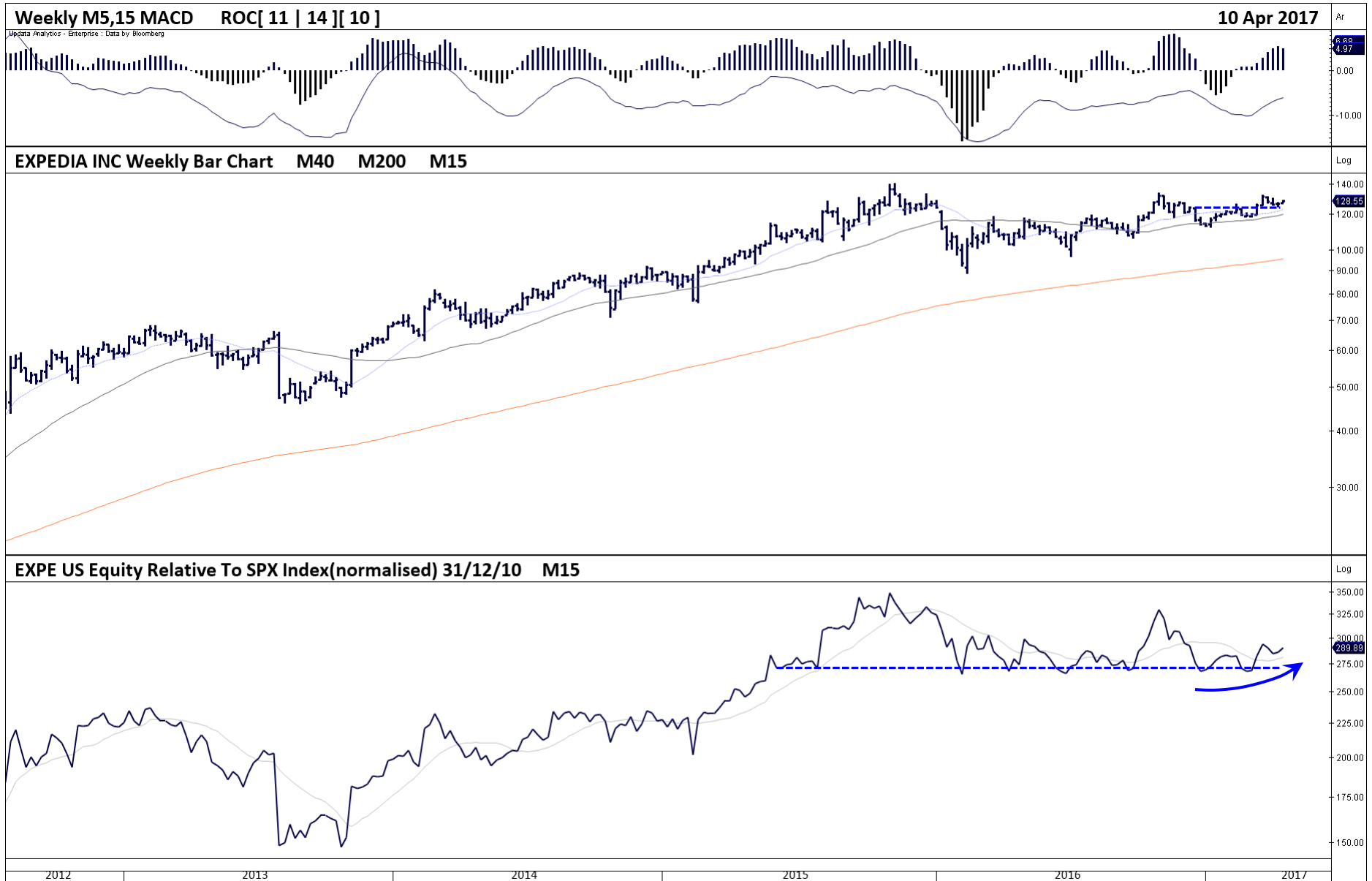
## Trim/Reduce NVDA Add to EXPE

## NVDA - Tech 'darling' continues to show evidence of stalling under its 2016 uptrend with relative performance breaking its 15-week uptrend. Next support is near \$82





## EXPE remains a timely long for growth PM's looking for stocks that are less advanced than Semiconductors



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