

A Bottom and Chop

Summary:

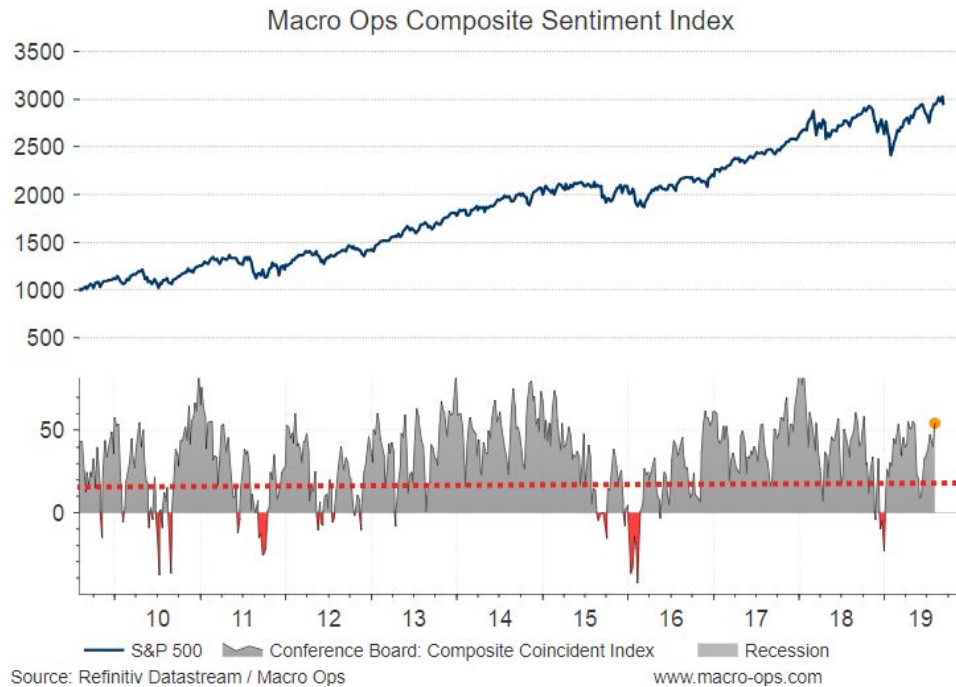
- An update on our market “sell signal”
- Sentiment and positioning reset
- Valuations have come down but are still elevated
 - Though estimates for Q3 and Q4 have fallen considerably, which is good
- Chop and volatility is likely to continue
- More intermediate/longer-term picture is shaping up to be quite bullish

In our August 5th Brief titled “[tHE ArT of thE DeAl](#)” we wrote that we’d be looking for the following conditions to indicate a short-term bottom is in.



Starting from top left and moving clockwise (1) We should see the percent of stocks above their 50dma fall to below the 20% level, in the green zone (2) Semis (SMH) are already at their lower Bollinger Band but they’ll likely trade lower from here. We want to see them bottom and turn higher, as they should lead on the way up (3) Our take on the Zweig Breadth Thrust indicator should trade down to the lower green horizontal line (4) The Total Put/Call ratio should trend higher, near the top green line.

We also want to see sentiment reset. That means our Composite Sentiment Index needs to fall below 12 (red line) to signal a significant bottom is in place. Until a majority of these conditions are met, expect greater downside and sideways chop to continue.



Let's check-in and see where things are now.

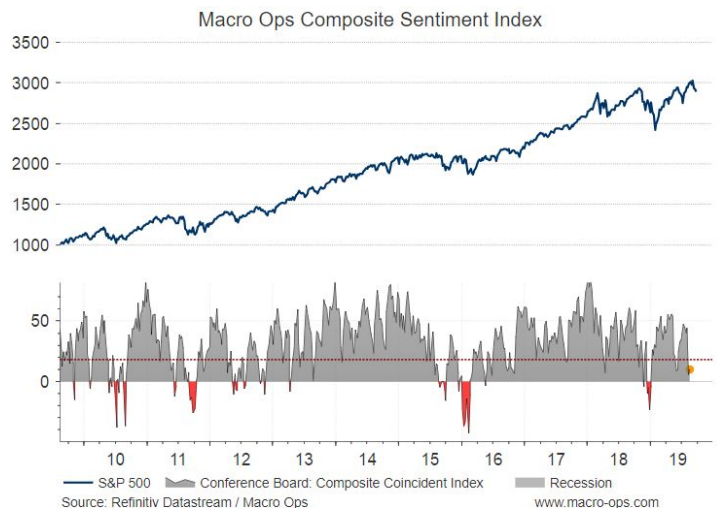
Starting from the top left and moving clockwise:

- (1) The percent of stocks trading above their 50dma came down some more, near the June 3rd market bottom of the previous 5%+ selloff, but it's still above the 20% level that would indicate extreme oversold conditions
- (2) Semis (SMH) bounced off their lower daily BB and have turned higher indicating risk on may be coming back into the market
- (3) Our Zweig Breadth Thrust indicator fell to the lower horizontal green line and has turned higher, which is generally bullish
- (4) And our Total Put/Call 10dma indicator climbed to the top green line giving a buy signal last week.

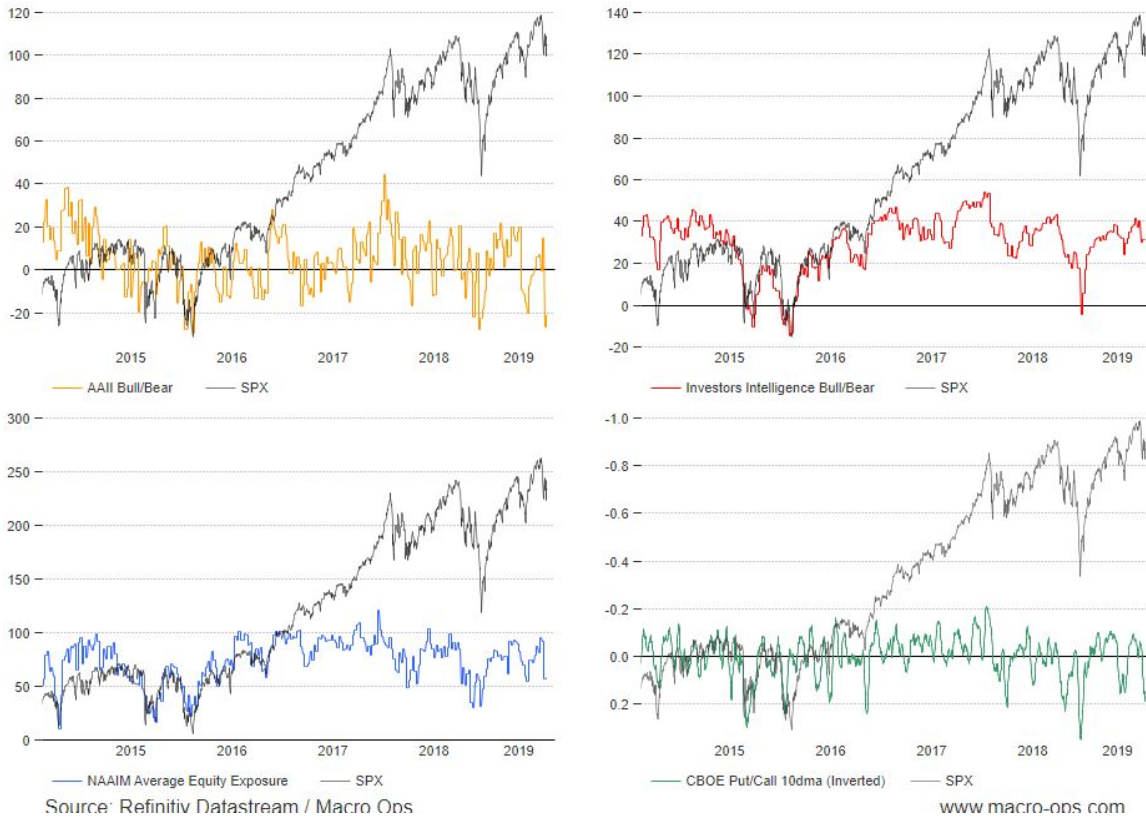


Our Composite Sentiment and Positioning index fell below the red line and is now at lower levels than those reached in the June 3rd bottom.

AAll Bull/Bears are at the same levels that marked the bottom of the December market rout, II Bull/Bear has come down a bit but is still somewhat elevated, NAAIM Average Equity Exposure has fallen to near the June 3rd lows, and Put/Call levels are showing extreme fear.



Sentiment: AAI, II, NAAIM, Put/Call



Valuations have come down but are still somewhat elevated at 16.8x next year's earnings considering where we are in the capex cycle.

A recent positive is that this market volatility has driven Q3 and Q4 expectations considerably lower, which will make for an easier hurdle going into the second half of the year.

S&P 500 Forwad PE

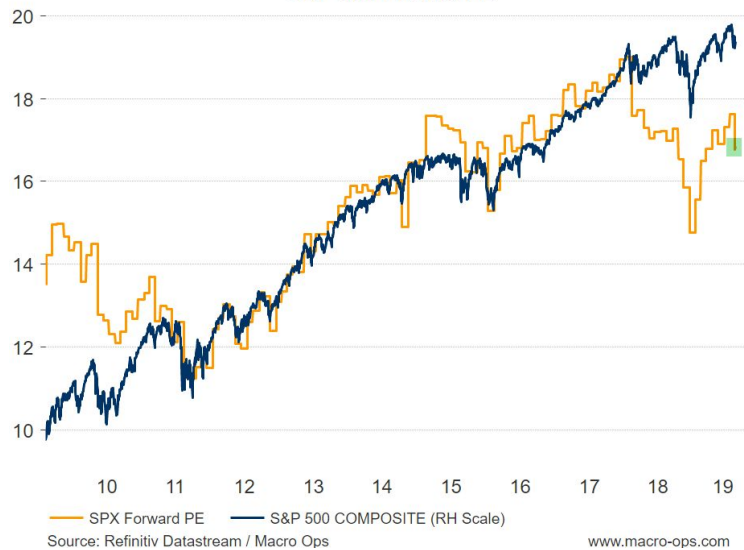
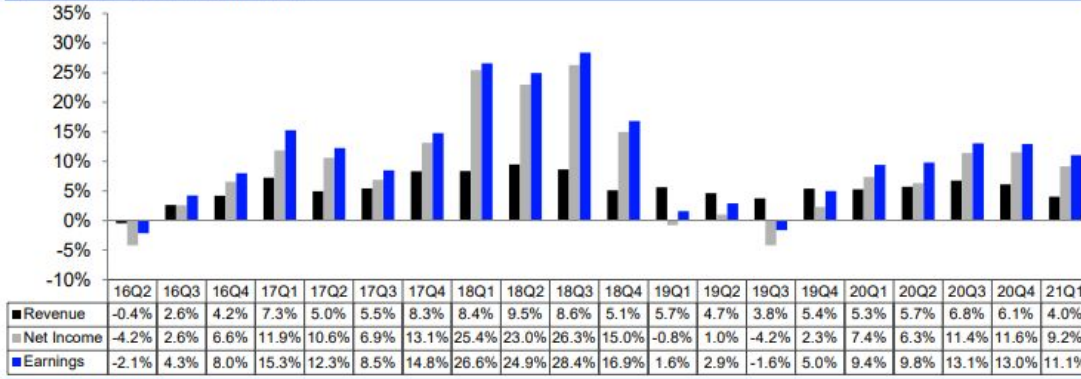


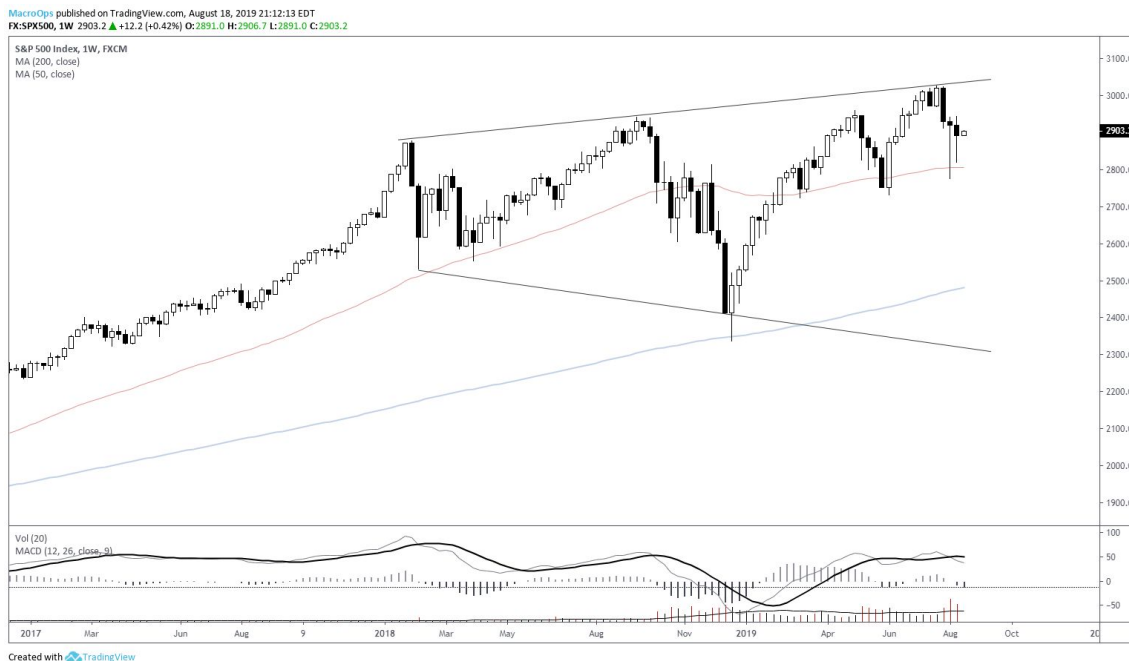
Exhibit 5. S&P 500 YoY Growth Rates



Source: I/B/E/S data from Refinitiv

All in all the evidence suggests we're at or near a short-term bottom, though it may not hold for long and we could very well soon see another leg lower — I know, wishy-washy but such is trading.

My base case is that the SPX bounces from here, up to around the 2,700 level before possibly another down leg followed by some sideways action. From a more intermediate to long-term perspective, I think the conditions are setting up for another major rally in risk assets, though. Sentiment, positioning, and liquidity have made the environment ripe for another large uptrend. We just need a catalyst now (ie, European fiscal stimulus, Chinese credit pump, real progress in trade war talks, or an uber dovish Fed). We'll probably chop around until we get one.

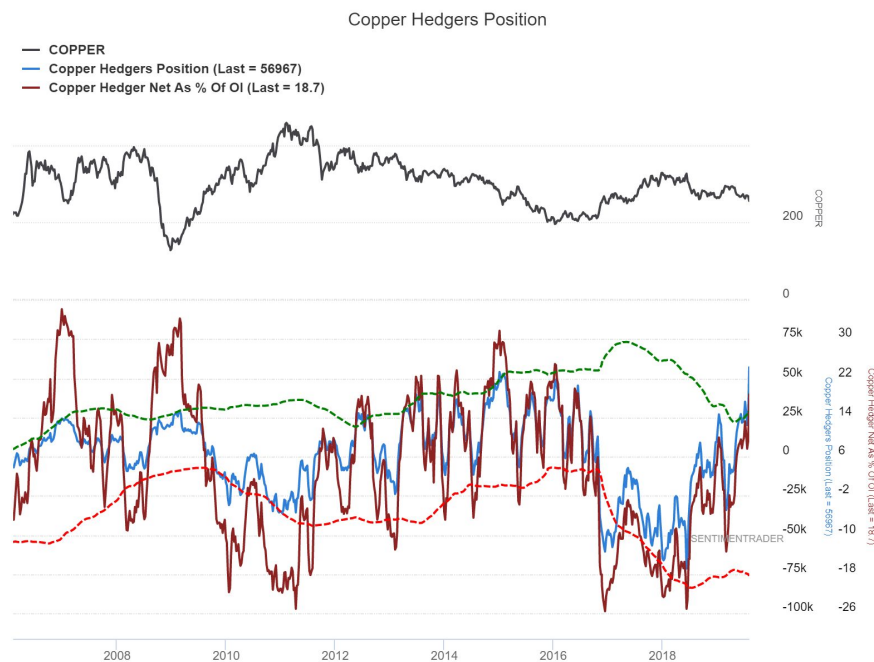


Lastly, keep an eye on the NASI. It's still giving a sell signal, if it crosses above its 5dma then we may get a tradeable bounce this week.



We're going to continue to add to some of our more beaten down names such as Grafftech (EAF) and Scorpio Tankers (STNG) this week and we're considering putting on a swing long trade in GBPUSD.

Oh, and also... keep an eye on copper. Positioning is now extreme and the chances of a material bottom being put in place are rising.



That's all I've got for now. If you've got any questions for us in the meantime, let us know in the Comm Center. Have a great week!

Your Macro Operator,

Alex