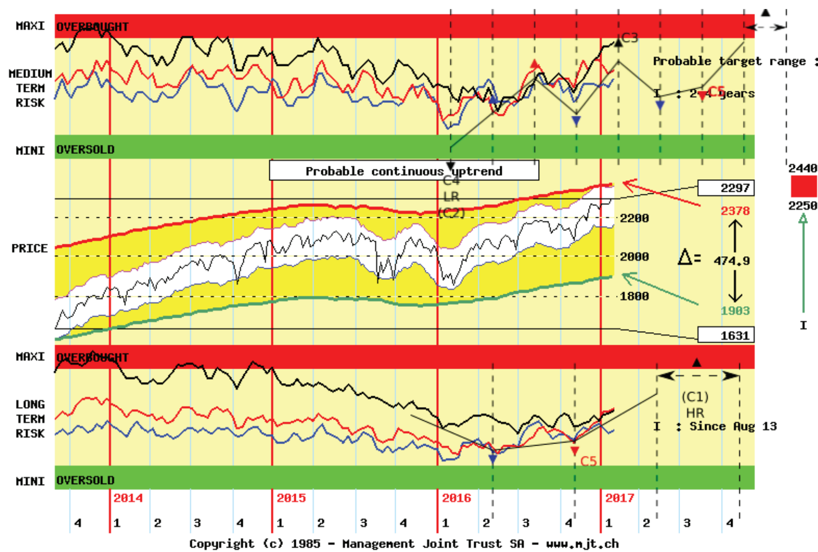
7 / MJT TIMING INSIGHT

While equity markets consolidate, Big Growth should outperform

US market indexes are making new all time highs. Yet a consolidation down is expected from February as mentioned in our January news letter. Indeed, we see it materializing from mid/end February into April and possibly May. In this section, we look at US sectors rotation and their relative outlook as we approach this consolidation period.

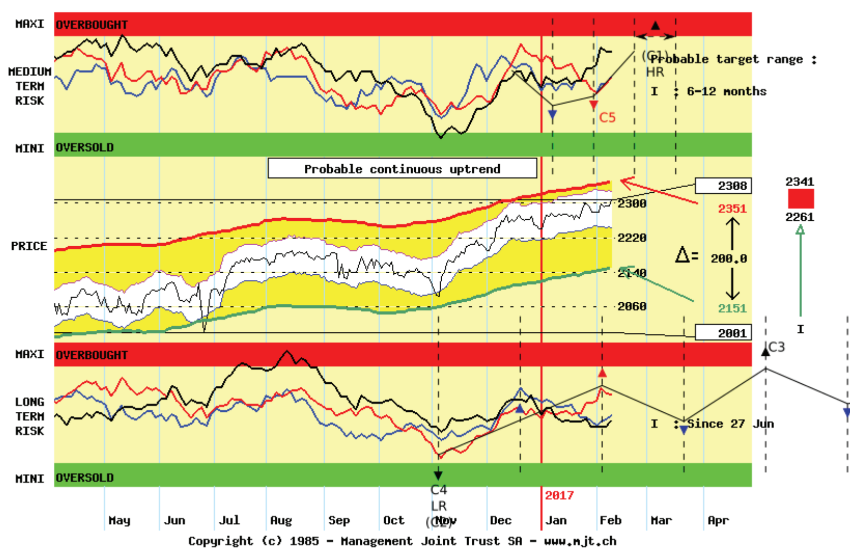
S&P500 Index
(Weekly graph or the perspective over the next 2 to 4 quarters)



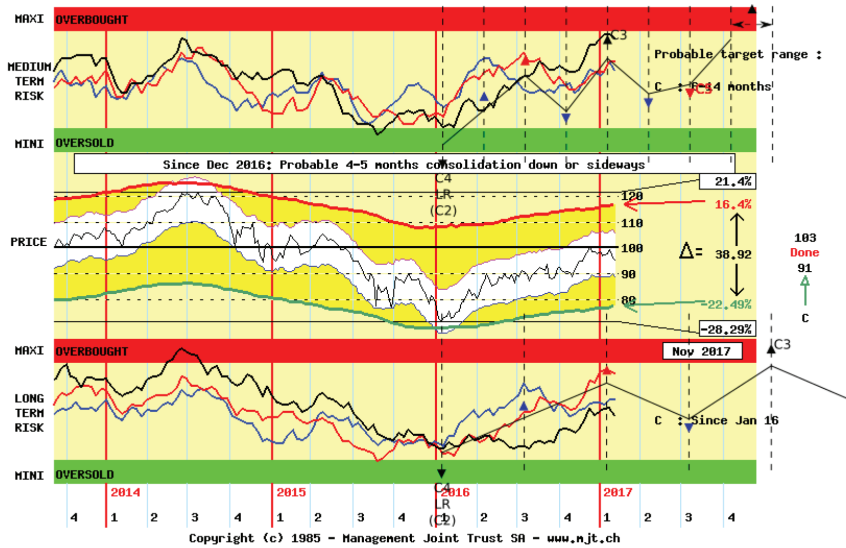
Since its lows early last year, the S&P500 has followed a typical uptrend sequence on our medium term oscillators (upper rectangle). An intermediate top is expected over the next few weeks, which could trigger 2 to 3 months of consolidation down. This configuration is especially visible on the following sectors: Energy, Materials, Industrials. On our long term oscillators (bottom rectangle), we project a stronger continuation trade into the second half of the year (Case 5) . It seems predominant on Financials and to a lesser extent Technology. The resultant of these two scenario is probably one of a mild consolidation into Q2 2017 before the market re-accelerates into H2 2017.

S&P500 Index
(Daily chart or the perspective over the next 2 to 3 months)

Following the intermediate top made in August 2016, the S&P500 Index has re-accelerated into a High Risk zone early this year (between January and February as mentioned in previous letters). As shown by the model on our long term oscillators (lower rectangle), a correction down is expected from mid February to early April. The model on our medium term oscillators (upper rectangle) also shows a top towards the end of this month. The potential up left is very limited (targets shown on the right-hand scale). To the downside, if we calculate corrective targets down, i.e. 0.5 to 0.8 times our delta (here at 201.3 points) , on the magnitude of this correction could be between 4% and 7%.



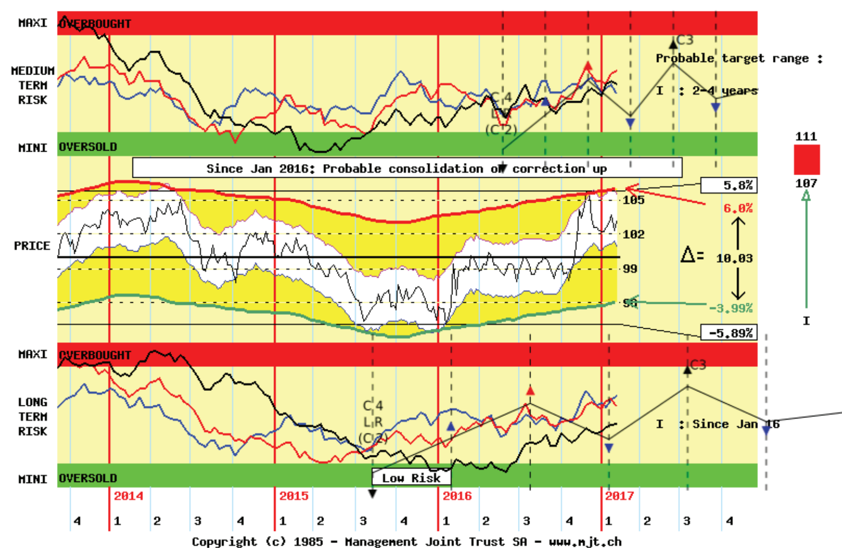
Commodity sectors, cap. weighted:
XLE (SPDR Energy ETF), XLB (SPDR Materials ETF)
(Weekly graph or the perspective over the next 2 to 4 quarters)



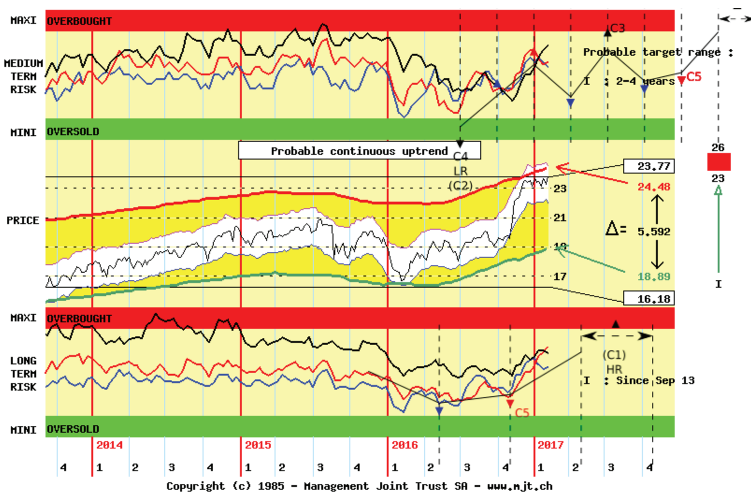
These cyclical commodity sectors show an intermediate top, which is very clear on both our oscillator series (upper and lower rectangles). Following a correction that could last between 3 to 6 months, prices should move up again towards year end and possibly early 2018. The relative graph of the Energy Sector vs the S&P500 Index (see page 21 in the Oil section of this document) is quite weak, suggesting that the underperformance of commodity sectors could last well into Q2 2017.

XLI (SPDR Industrials ETF) vs S&P500 Index
(Weekly graph or the perspective over the next 2 to 4 quarters)

Industrials are another cyclical sector. Their graph on a absolute basis (not shown) is quite similar to the one of the Commodity sectors above. However, on the relative basis vs the S&P500 Index, Industrials seem much stronger. On both our oscillators series (lower and upper rectangles), Industrials may start to outperform again soon, possibly from march into mid year.



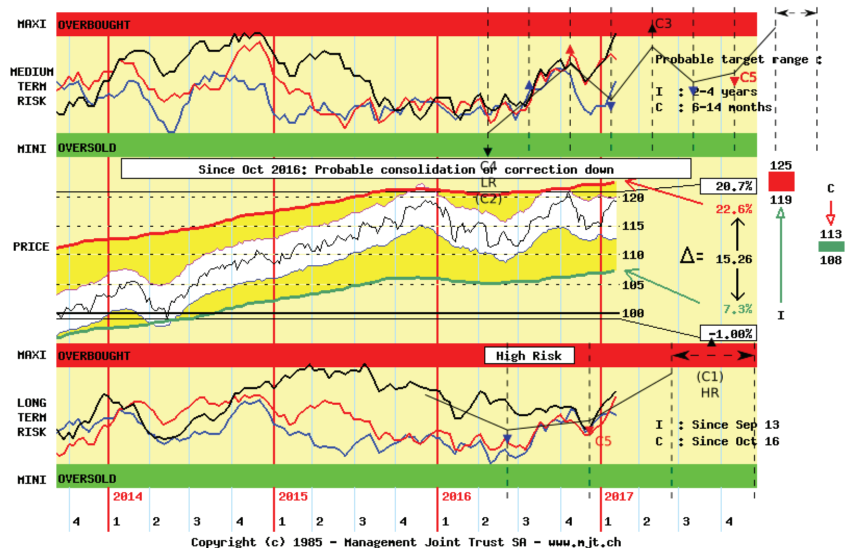
XLF (SPDR Financials ETF)
(Weekly chart or the perspective over the next 2 to 4 quarters)



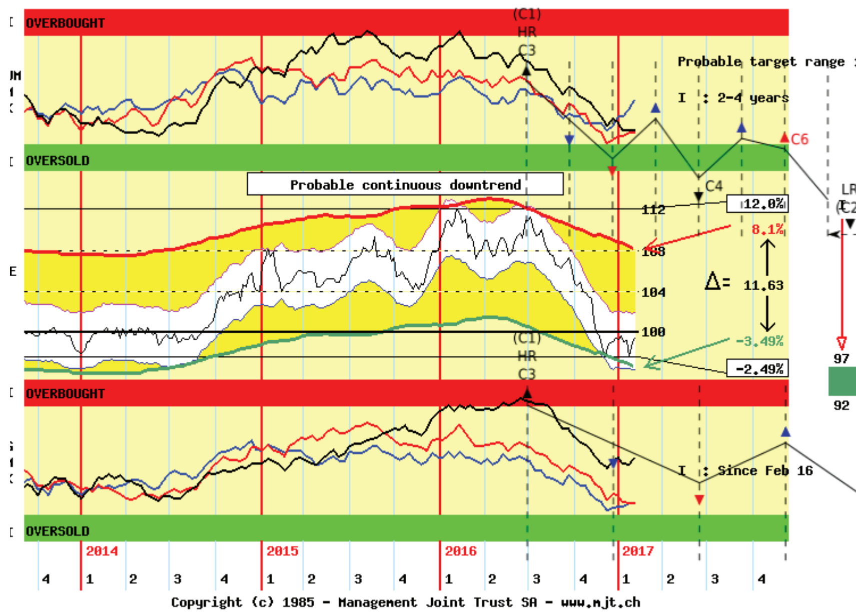
With rising interest rates, Financials have been very strong. Their absolute graph shows a strong Case 5 ('acceleration up') mid Q4 2016 on our long term oscillators (lower rectangle). On our medium term oscillators (upper rectangle), an intermediate top was made in December. The consolidation could last into March before Financials accelerate up again towards mid year at least. The relative graph vs the S&P500 Index (not shown) is quite similar, so that Financials should remain strong outperformers towards mid 2017.

Nasdaq 100 vs the S&P500 Index
(Weekly chart or the perspective over the next 2 to 4 quarters)

Focusing on growth stocks, and Technology in particular, we look at the Nasdaq 100 index. It is used as a proxy for the sector and especially its larger stocks ('Big Growth'). On our longer term oscillators (lower rectangle), this relative graph has shrugged off a High Risk situation last October and now seems to be accelerating in a Case 5 configuration. The medium term oscillators (upper rectangle) are also following an uptrend sequence, possibly into mid Q2 2017 for a start.



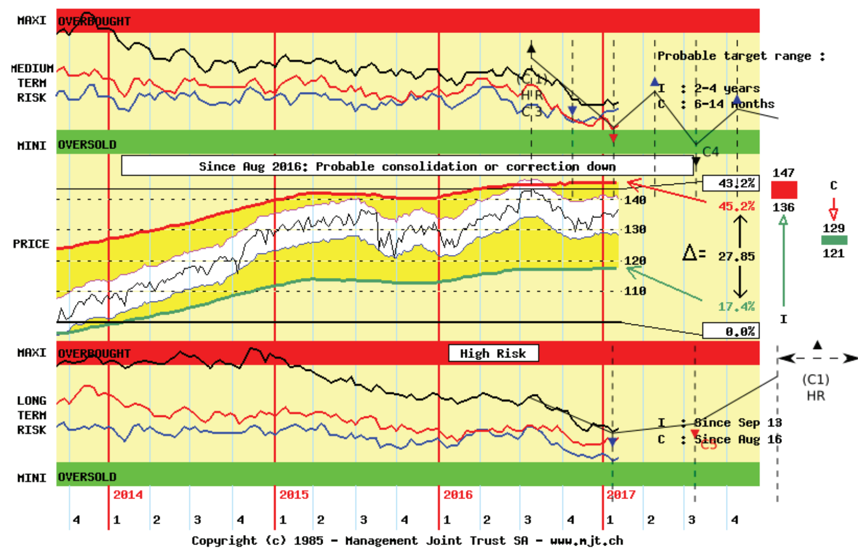
Defensive Sectors, cap. weighted, vs the S&P500 Index
XLP (SPDR Staples ETF), XLV (SPDR Healthcare ETF), XLU (SPDR Utilities ETF)
(Weekly graph or the perspective over the next 2 to 4 quarters)



Typically, as the business cycle matures, Defensive stocks should begin to perform better on a relative basis. Given the state of our current bull market, this could start happening during H2 2017. On a relative basis, the rebound of Defensive sectors already started in December. This corrective move up , which has bee quite weak, could last into late Q1 2017 before resuming until mid year.

Defensive Sectors, Cap. weighted XLP (SPDR Staples ETF), XLV (SPDR Healthcare ETF), XLU (SPDR Utilities ETF)
(Weekly chart or the perspective over the next 2 to 4 quarters)

On an absolute basis, however, we may have already seen the lows for these sectors. This is what the model we show on our long term oscillators would suggest (lower rectangle). Given our bullish view for equities into late 2017 / early 2018, we believe this positive scenario is probably more likely than the one we show on our medium term oscillators i.e. new lows in Q3 2017 (upper rectangle). Hence, if your time horizon is quite long and your prerogatives favor absolute over relative performance, it might be time to start accumulating defensive stocks again on any dip.



Concluding remarks:

The S&P500 Index and more generally equity markets, should start to consolidate from end this month towards April/May. While it could affect all sectors, Commodity sectors should be impacted the most. On a relative basis, during this consolidation, Financials and Big Technology (e.g. the FANGs) may prove particularly strong.