Creative Global Investments

Morning market commentary & charts

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Objectivity

Integrity

Creativity

US equities indices tremendously oversold

Barack Obama's last State of the Union Address of his presidency. While the session following the speech is generally positive for the market, with the S&P 500 Index averaging a gain of 0.09% over the past 50 years, election years have shown a different result. The large-cap benchmark has declined by 0.18%, on average, in the session following the speech during election years, with only 5 of the past 12 events showing a positive outcome. The losses aren't long-lived, however, with gains averaging 0.62% within one week of the event.

S&P 500 returns following the State of the Union Speech in Election Years

	1-Day Following	7-Days Following	30-Days Following
2012	0.87%	-0.17%	3.71%
2008	0.62%	1.98%	1.92%
2004	0.78%	0.46%	0.73%
2000	-2.75%	1.89%	-4.66%
1996	1.17%	2.83%	7.52%
1992	-1.11%	-0.27%	-0.27%
1988	-1.03%	1.14%	4.86%
1984	-0.36%	-1.27%	-4.45%
1980	-0.53%	2.45%	3.90%
1976	0.55%	1.38%	1.56%
1972	-0.22%	-0.37%	1.35%
1968	-0.08%	-2.58%	-5.94%
Average	-0.18%	0.62%	0.85%

Percent of S&P 500 stocks trading above their 50 day moving average. Following are updated charts for the close yesterday showing early signs of start of a possible intermediate uptrend by the S&P 500 Index.

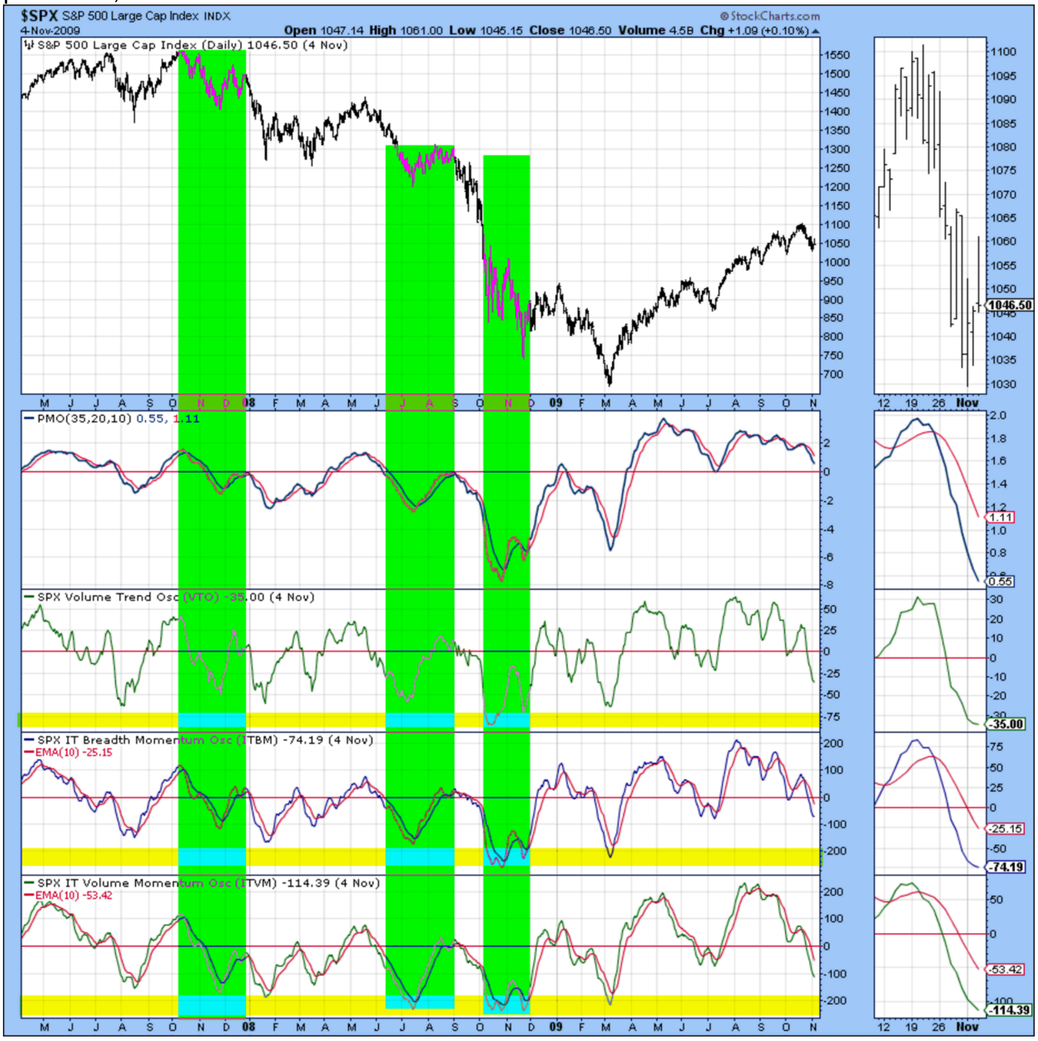
The S&P 500 last Friday broke into a long-term sell. This occurred when the 50-EMA crossed below the 200-EMA. Whilst short term and intermediate-term indicators are very oversold, the State of the Union speech delivered by the President and other economic data for the week may not be enough to lift markets in a sustainable manner. As we were writing yesterday, the S&P 500 and other markets, like the Dow Industrials are in official bear markets (50-EMA below the 200-EMA). Bear market rules imply that we shouldn't expect positive bullish outcomes when we normally would. Oversold indicators could fall into that category, but deeply oversold intermediate-term indicators will usually precede good rallies. Three of these indicators are

- the Volume Trend Oscillator (VTO)
- the Intermediate term Breadth Momentum Oscillator (ITBM)
- the Intermediate Term Volume Momentum Oscillator (ITVM)

All are in currently in deeply oversold territory.

These indicators were giving us a pretty reliable “Buy signal” in the past, first after the October 2014 correction and it produced a good signal to an intermediate-term price bottom, and lastly after the August/September correction. It also produced a good signal, though the results weren't quite as lucrative as the previous signal bottom.

Similarly deeply oversold intermediate-term indicators in the past two instances did produce price bottoms. In a bear market environment it doesn't take much to decompress the indicators. The prior price bottoms did materialize as the indicators predicted, but the results were not as bullish as in a bull market.

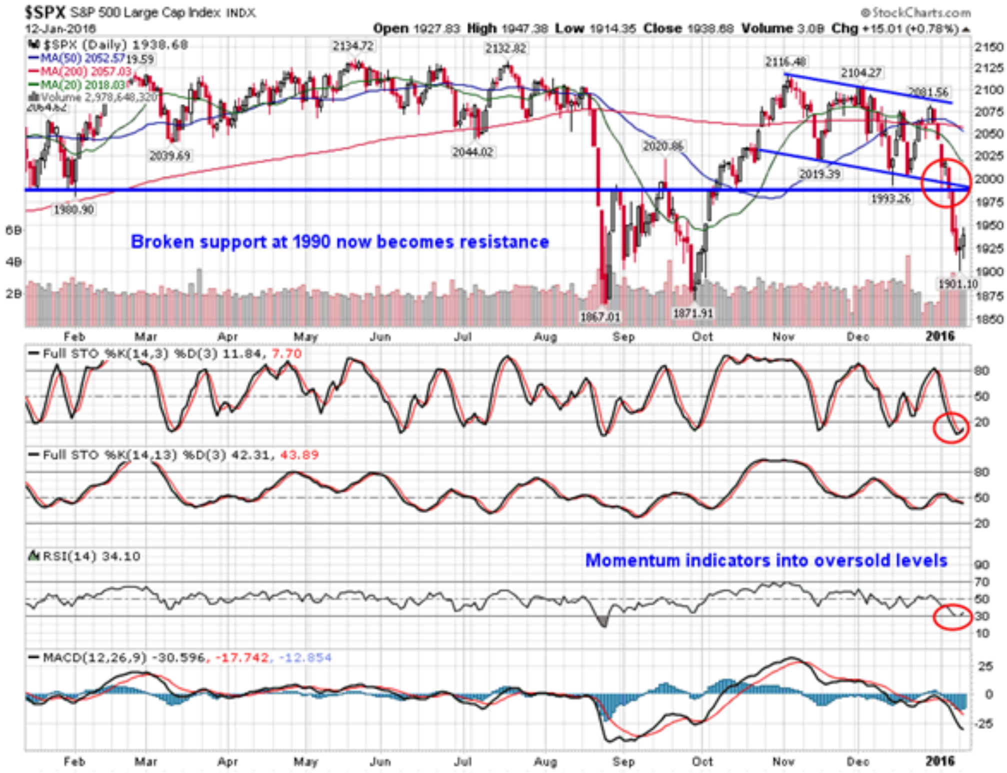


The S&P 500 Index maintained support at 1900 and rose by 0.78% by the closing bell, and showing signs of rebounding from significantly oversold levels. This rebound warrants very close monitoring, as it is not the initial slide that characterizes a weak market, but rather the strength of the rebound.

The slide in the first week of the year was driven by panic selling as investors sell now and ask questions later. Irrationality is unsustainable, but if investors still cannot find value after seeing stocks fall as much as they have in such a short time, then buying momentum on a rebound will stall, sending shares lower once again.

The critical level of resistance to watch is 1990, which represents the breakdown point from the shorter-term declining trend channel. Given the span of time that investors traded within the range above 1990, they will likely seek to get out as close to their buy point as possible, unless they become optimistic of future prospects.

Clearly, a catalyst is required in order to shift away from the negative sentiment. As long as the S&P 500 Index remains below 1990, the market can be categorized as being weak, warranting intermediate-term caution.



And anther dip in the price of Oil materialized yesterday, and the equity markets and Oil continue to show an abnormally tight correlation. The first inventory of the year reflecting the activity of the past week will be released on today at 10:30am, reaction to which could be critical.

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