Leavitt Brothers

Weekly

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Coming off the biggest up week in three months, the market was very quiet last week. The range was small, volume was light, and the general activity level was low. The S&P didn't post a 20-point range in any single day.

Monday, the market was closed. Tuesday was weak most of the day, but then a rally the last hour salvaged some of the loss. Wednesday saw an opening gap down followed by a steady, all-day rally. Thursday saw similar action - gap down open, steady rally all day. Friday, employment numbers day, saw the market gap down and sell off the opening hour, but then once again the bulls stepped up and pushed prices up the rest of the day. Three weak opens followed by three steady rallies, and all four days were strong late in the day.

The weakish volume could be attributed to it being a holiday week. But the low activity level and the smallest range in at least six months can only partially blamed on the one less day of trading.

The reality is the market is once again obsessed with the Fed, and there's no clear picture as to what they'll do in two weeks. The S&P is within 35 points of its all-time high - it's already at its high if you include dividends - so if the stock market was one of their metrics (I think it is, though they won't admit it), raising makes sense. They have a big buffer to work with. The S&P could fall 75 points and still be within its range. And Fed officials themselves have said there's a legit possibility rates will be raised at the June meeting.

But earnings season has not been great, and some believe raising into a little earnings recession would be a 1-2 punch the market could not handle. If earnings are dropping and the cost of borrowing goes up at the same time, a full-blown recession would follow.

And now that the latest employment data was much weaker than desired (despite the top-line unemployment rate dropping to 4.7%), those who strong believe the Fed should maintain their accommodative stance regardless will simply say one of the Fed's mandates (low employment) is questionable and therefore should be used as a reason to delay increasing rates.

Why am I talking so much about the Fed? Because everyone else is, so I don't have a choice. We just went through a quiet period where once the Fed didn't raise in January, the Fed was taken out of the conversation because it was widely believed they wouldn't raise for several months. Now they're not just back in the conversation, they are pretty much the only thing that matters right - especially considering earnings season is all but over and the latest jobs report has already been released.

The S&P is very close to breaking out and running, but the Fed doesn't meet until June 15. Unless a growing consensus gets built into the market - and yes I do believe the Fed listens to what people are talking about (it's all part of being accommodative and not rocking the boat) - it's entirely possible the market trades quietly for the next eight trading days. Ugh.

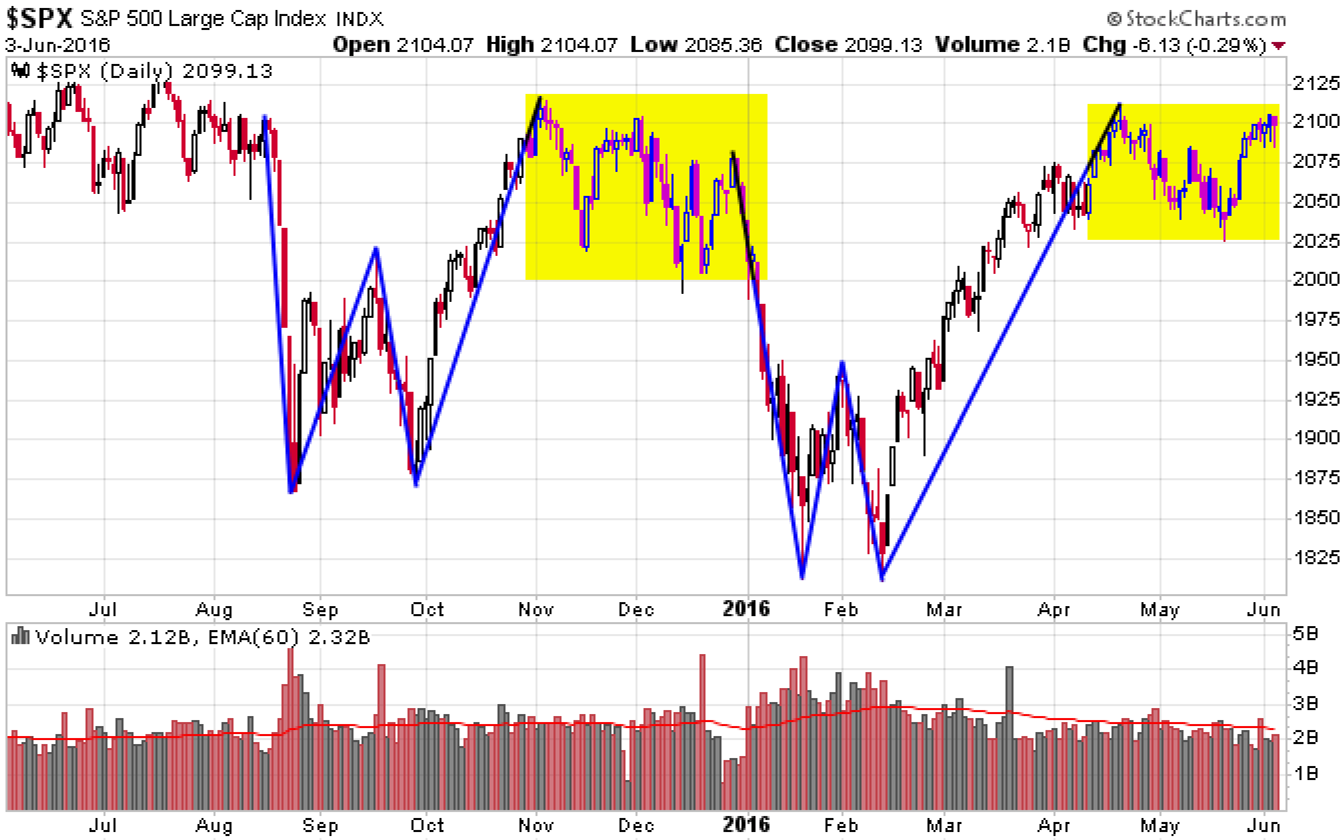
The default setting is to the upside, and given there's been more bad news than good, the market's ability to hold up makes the bias a little stronger. I've seen many bearish headlines, and the AAII bulls recently dropped to their lowest level in years. I'm not sure what kind of nudge is needed, but the odds the S&P breaks out and runs 200-300 points are high enough to have plan in place to profit from such an event.

Let's get to the charts. With the indexes trading quietly in a tight range last week, let's see if internally they strengthened or weakened.

Indexes

The S&P 500 Weekly: The S&P formed a little Doji candle near its high. Supposedly this is a sign of doubt and indecision. I'll buy that considering the three gap downs that were followed by steady rallies. There are reasons to be bullish and reasons to be bearish. We're back to a time where very smart people are disagreeing (Warren Buffett bullish, George Soros bearish). From a technical standpoint I lean to the upside because the indicators are acting well. From a sentiment standpoint I also lean to the upside because the market has done a very good job absorbing some bad news lately and percentage of bulls out there is low.

The S&P 500 Daily: It doesn't matter whether the market is resting and restoring its energy for the next leg up or forming a top. Consolidation patterns take time to form. There is nothing out-of-the-ordinary about the action of the last couple months. But given there's been much more bad news than good, I'd say holding up here is a job well done.



Indicators

S&P 500 vs. 10-day MA of NYSE AD Line: This most recent bounce has moved the 10-day MA of the AD line to the exact same place it hit during the last bounce within this range. There are no warnings here of internal deterioration. The indicator supports the market's strength.

S&P 500 vs. NYSE Cumulative AD Line: The consistently high AD line prints have put the cumulative AD line well into new high territory. Compare this to last summer when the indicator trended down while the market consolidated. There is no suggestion of internal deterioration here.

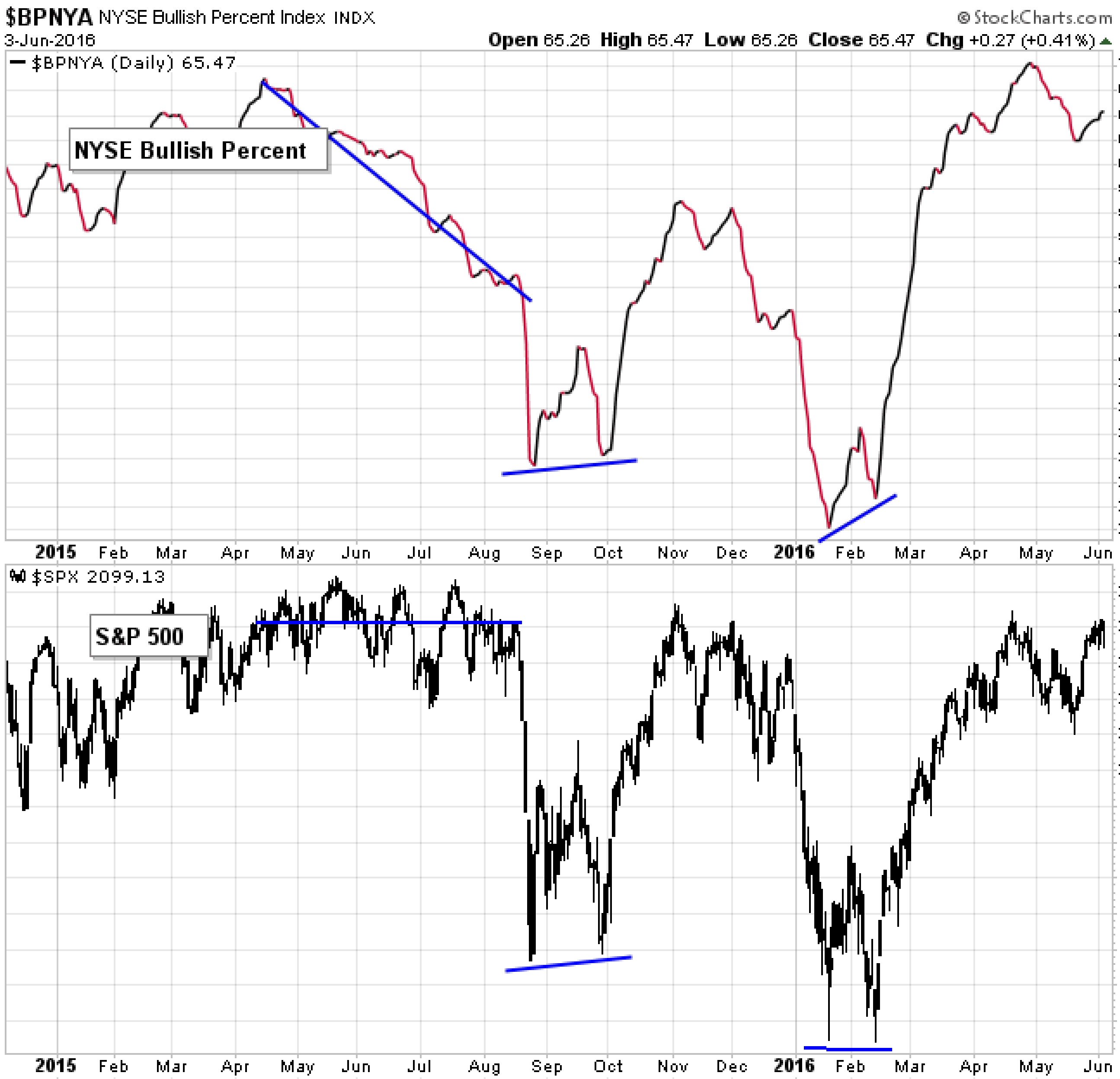
S&P 500 vs. 10-day MA of NYSE AD Volume Line: The AD volume line, which allows the higher-volume stocks to have more influence, has bounced nicely off its low, but hasn't yet matched its April high.

S&P 500 vs. NYSE Cumulative AD Volume Line: The cumulative AD volume line served as a big warning last year when it trended down while the market moved sideways. Not so right now. At worst it's just moving in a sideways range with the market.

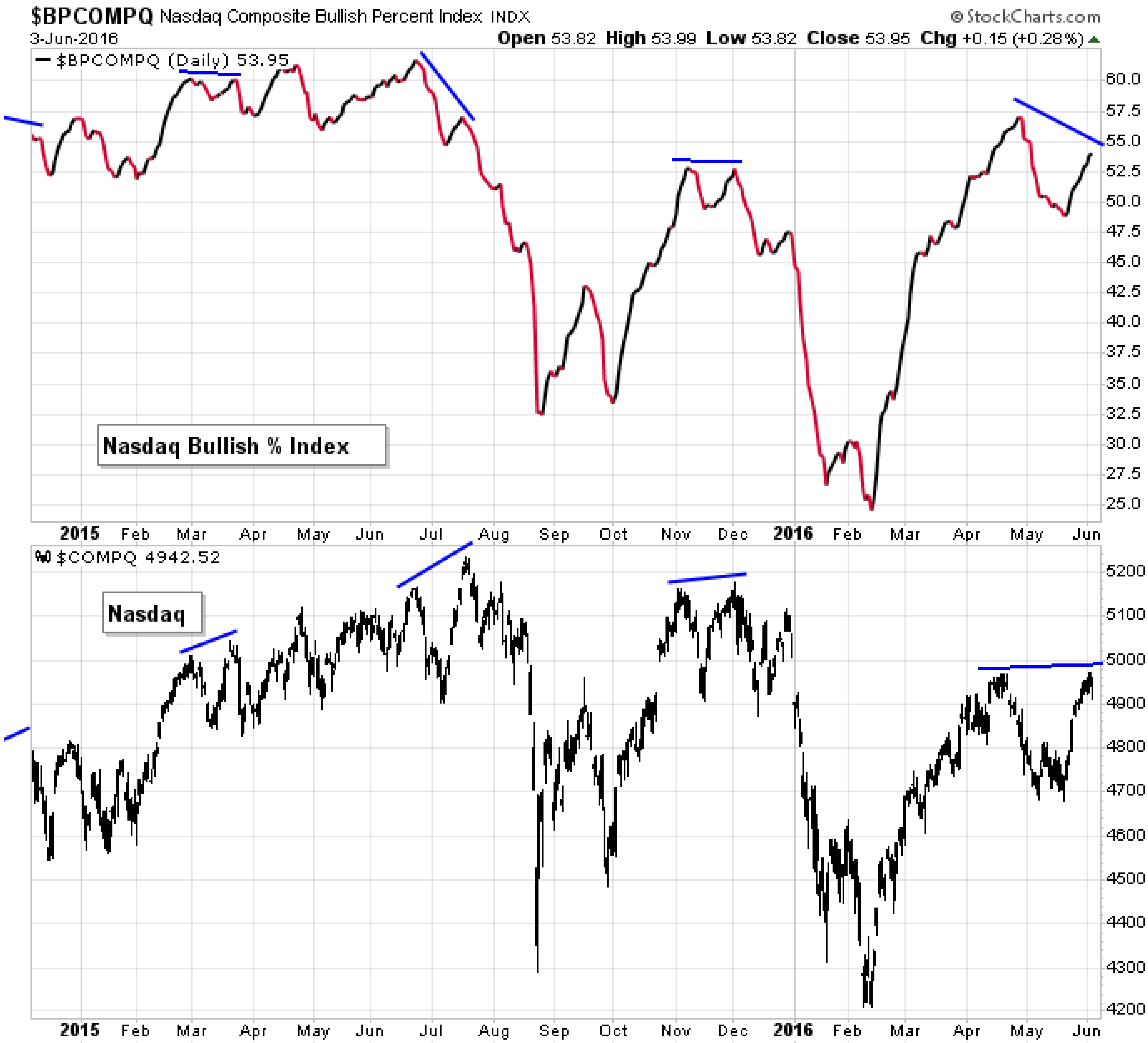
S&P 500 vs. NYSE New Highs: Boom! New highs at the NYSE exploded at the end of last week even though the market traded quietly in a range. This is the highest single-day print in about 16 months.

NASDAQ vs. NASDAQ New Highs But new highs at the Nas are still lacking.

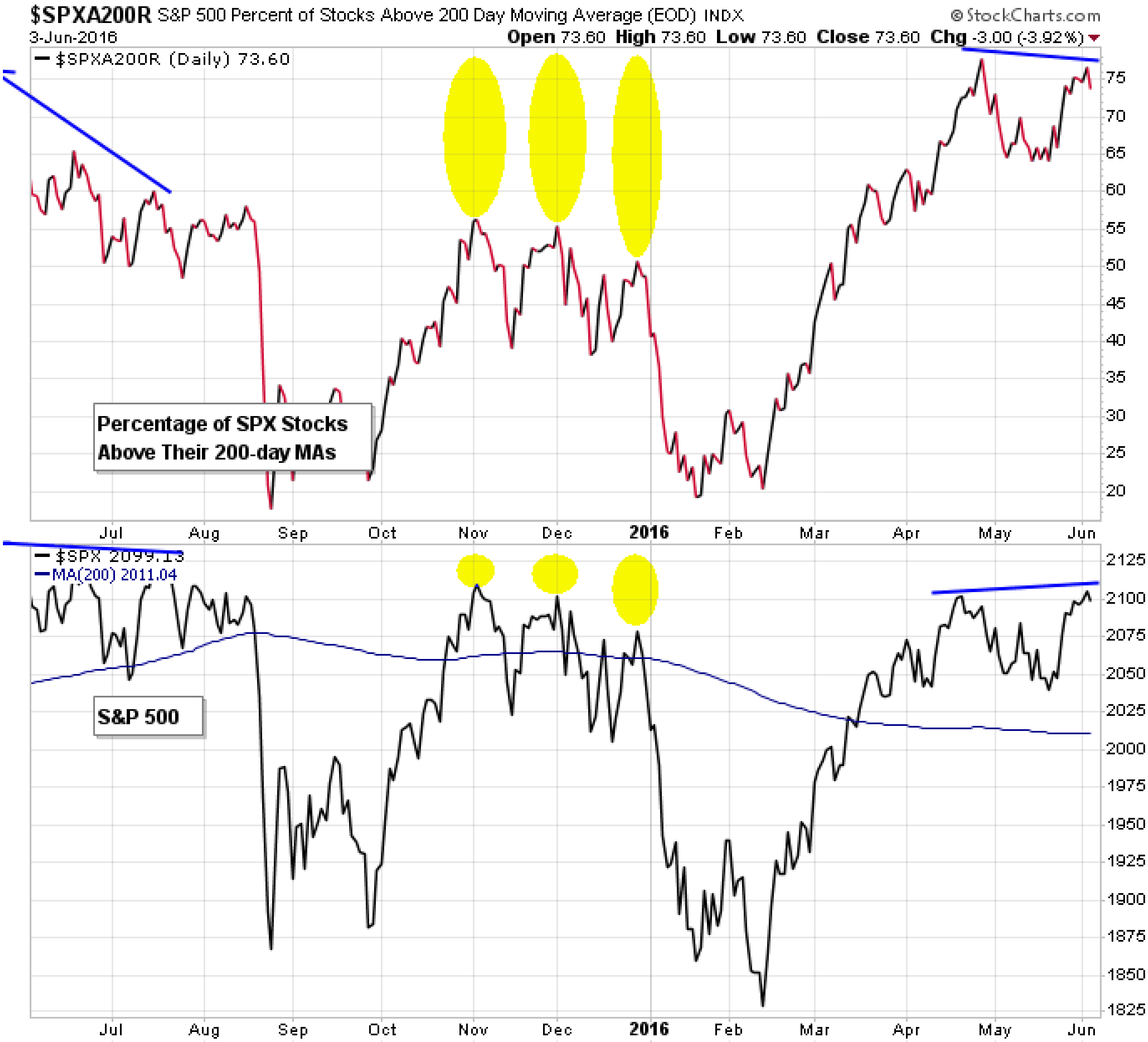
S&P 500 vs. NYSE Bullish Percent: The NYSE bullish percent did not bounce very robustly on this most recent leg up. I'm not sure if a negative divergence carries a lot of meaning when the indicator is at such a high level to begin with.



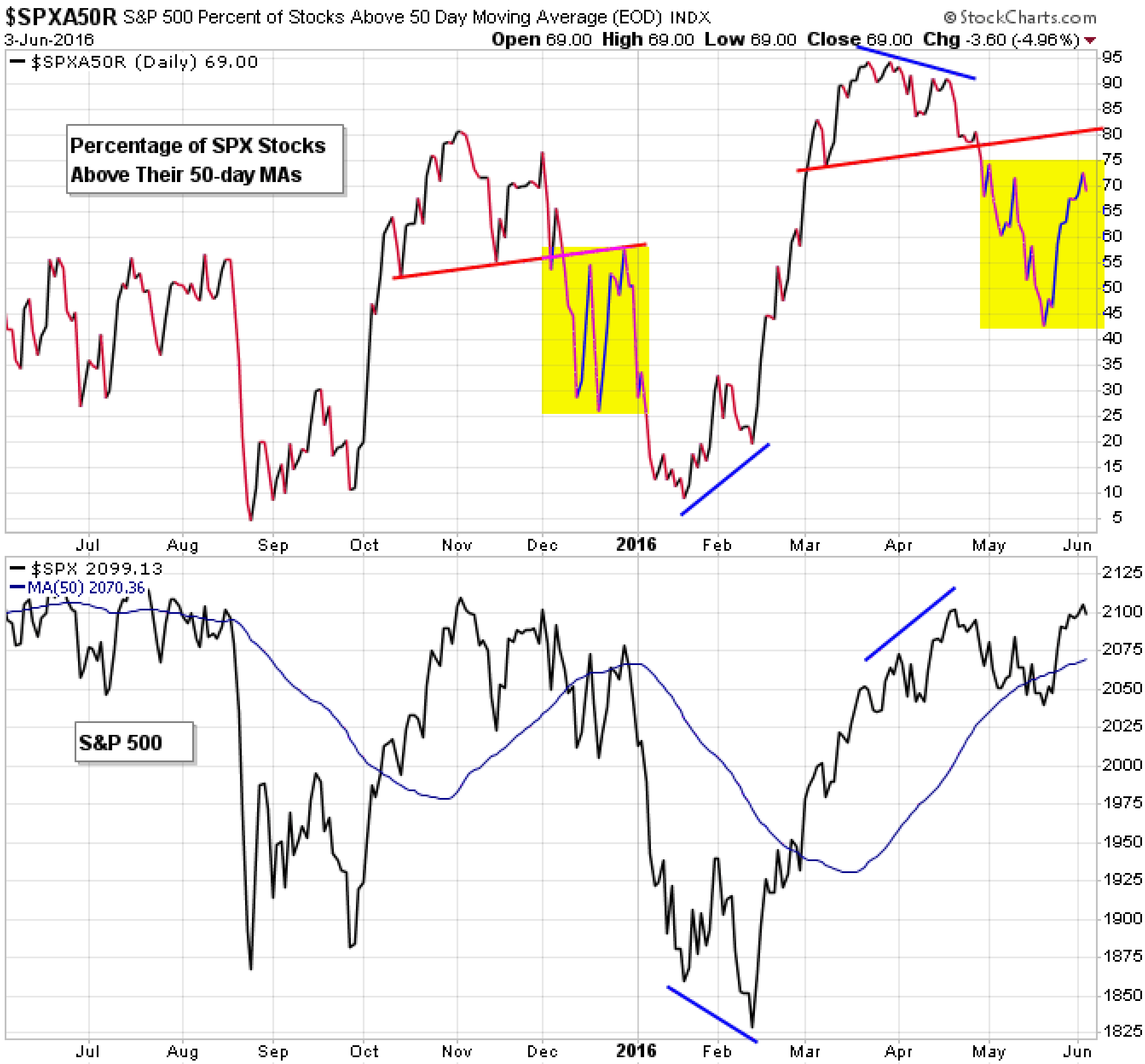
NASDAQ vs. NASDAQ Bullish Percent: The Nas bullish percent has bounced with the market, but we may get a negative divergence if the indicator doesn't pick up its pace soon.



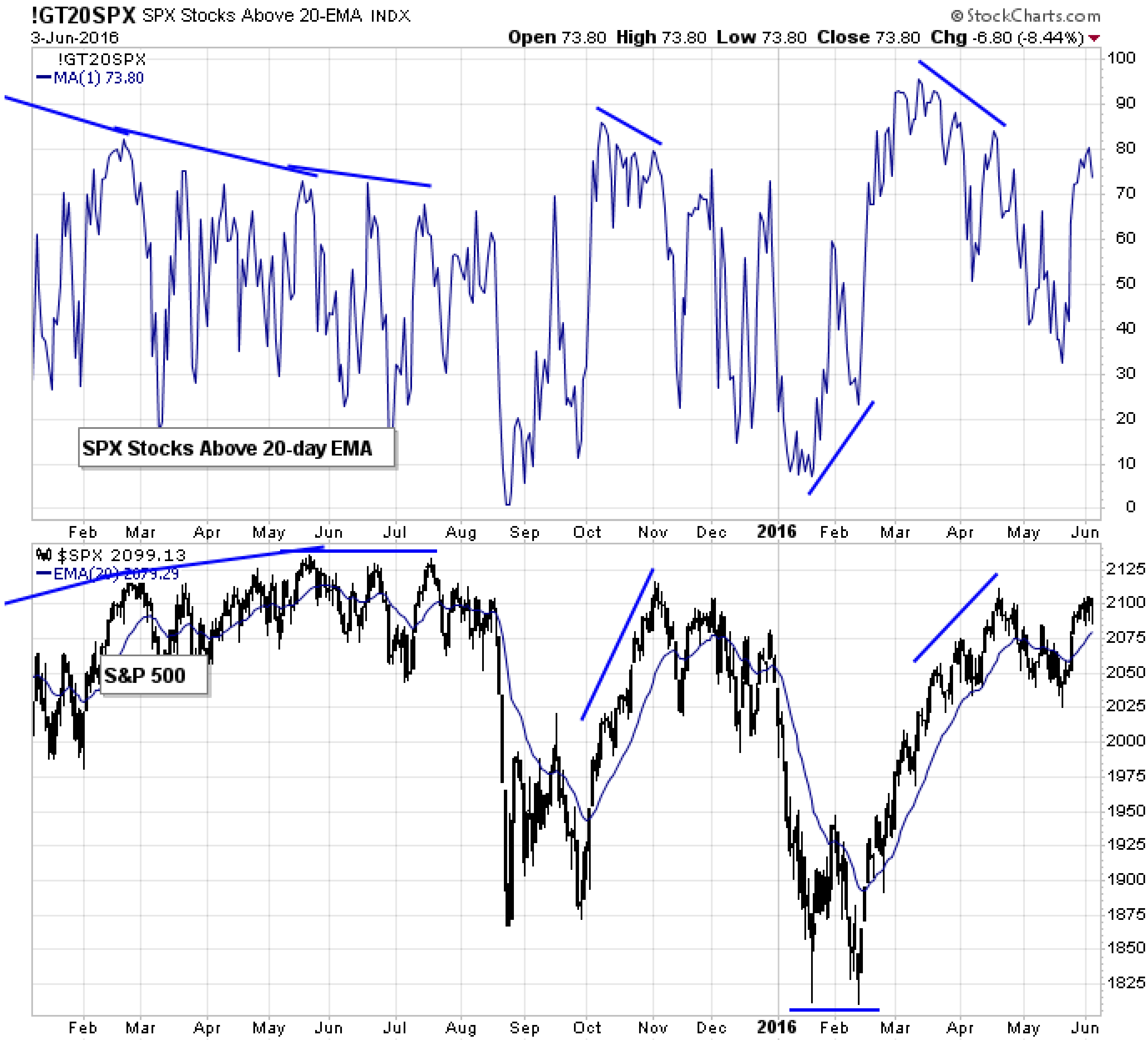
S&P 500 vs. Percentage of SPX Stocks Above 200-day MA: The percentage of SPX stocks above their 200-day moving averages has pretty much matched its previous high. Given how high the indicator it, I'm not sure the tiny divergence has too much meaning.



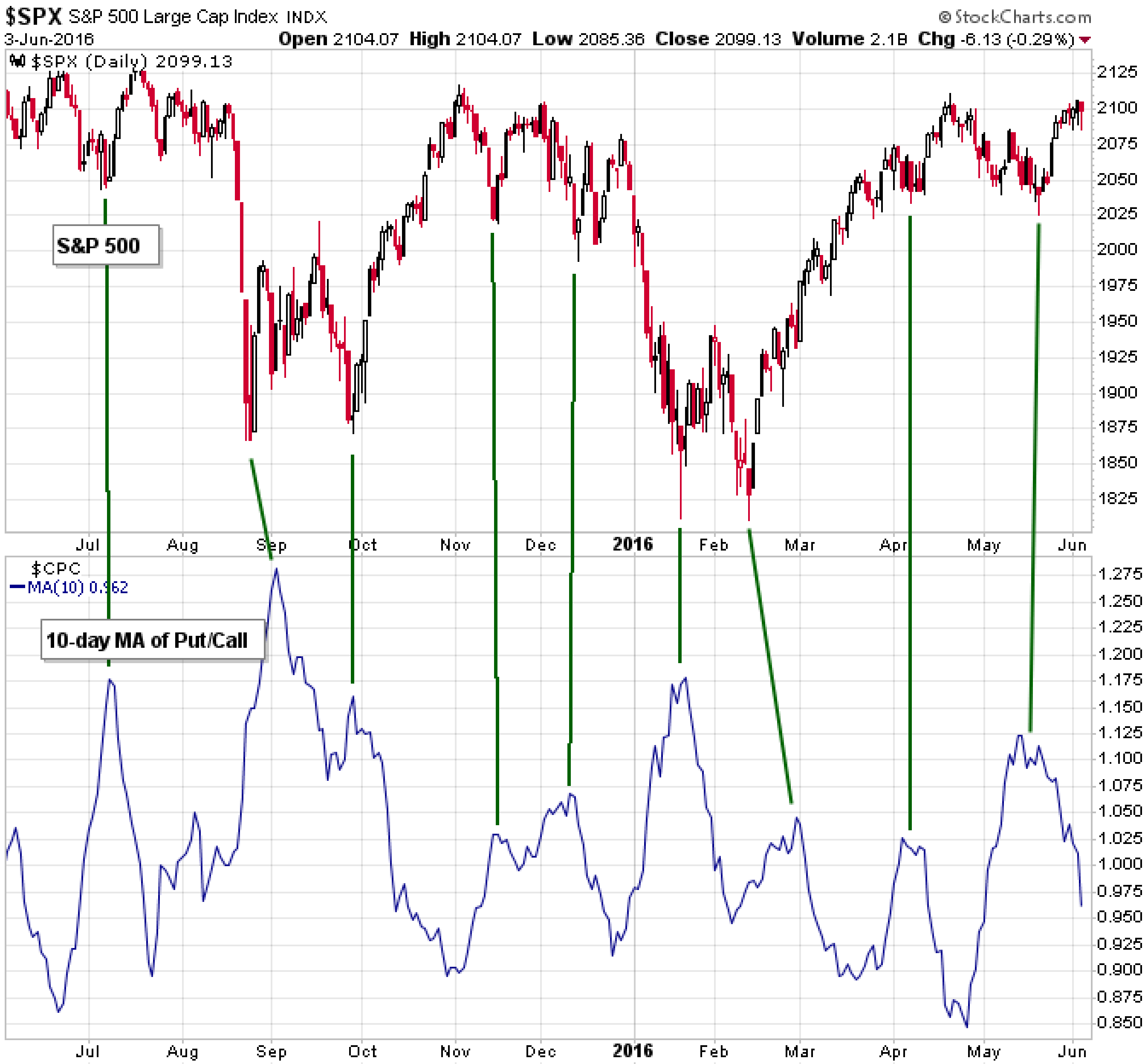
S&P 500 vs. Percentage of SPX Stocks Above 50-day MA: The percentage of SPX stocks above their 50-day MAs not come close to matching its April level. It seems like less stocks have come along for the ride on this most recent move up. It's a subtle warning not to be ignored.



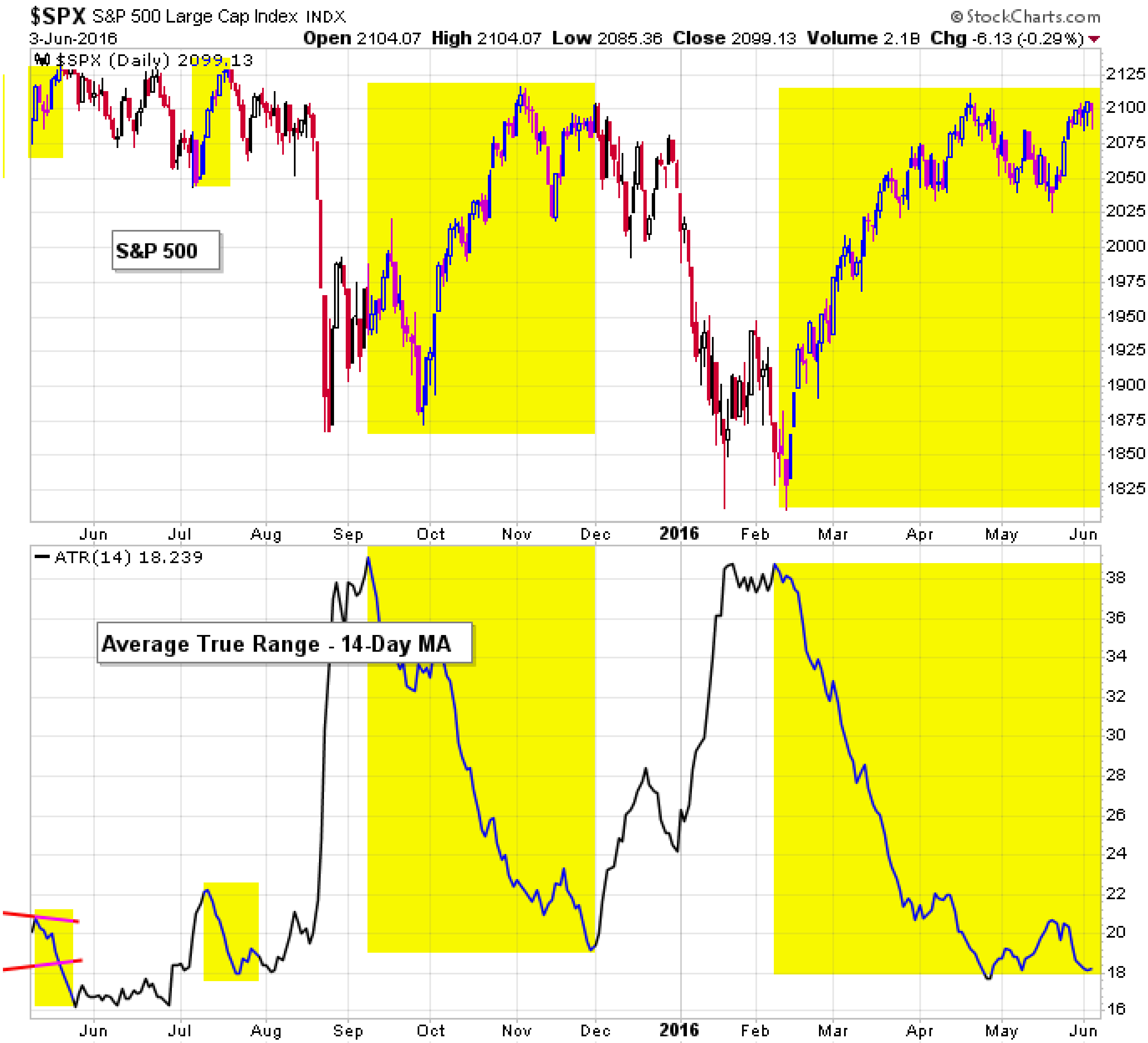
S&P 500 vs. Percentage of SPX Stocks Above 20-day MA: Over the last 20 days, the S&P has moved from about 2050 to 2100, and the percent of SPX stocks above their 20-day EMAs has almost doubled from the low 40's to almost 80, but this is still below the March and April highs. Less stocks have participated in the recent market strength.



S&P 500 vs. 10-day MA of Put/Call Ratio: The put/call continues down. This supports market's recent strength, and there's room to move before a low level is hit.



S&P 500 vs. 14-day Average True Range: The ATR, my measure for volatility, is back at its low. This is exactly what is needed to support the upside because markets move up on low vol.



Bonus Chart

US Dollar: If the Fed raises rates, the dollar will get stronger; the opposite is of course true too. With Friday's disappointing jobs report, Wall St. feels the odds the Fed raises in two weeks dropped, so the dollar took a beating. This should help the metals and oil, although oil has so many other headwinds to deal with.

The Bottom Line

Last week was one of the quietest weeks of the year. Volume was light, the range was small and the activity level was low.

Most indicators support the market's recent strength. The AD line, AD volume line, NYSE new highs, the percentage of stocks above their 200-day moving averages and others tell us everything is A-Okay. But a couple are starting to pull back. Per the percentage of stocks above their 50- and 20-day MAs, less stocks have participated on this most recent leg up.

The S&P is near the high of its range. With the Fed looming in two weeks, can it breakout and run prior to the meeting? I don't t know the answer to this, but I do know from a sentiment standpoint there are more bears than bulls out there. A little nudge to the upside may get the ball rolling, and once the momentum builds, you never know.

There is a legit possibility the S&P breaks out and runs to 2300-2400. I'm not sure it'll happen in the next two weeks, but the odds it eventually happens are high enough to have a plan in place to profit from it.

Have a great week.

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