Weekly

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Two weeks ago the S&P moved up 7 cents; this past week it dropped $3.06. If you only look at a weekly line chart, the chart has flat-lined since the middle of May. And if you look at the intraday movement, you'd see not much is missed by the line chart. The ranges have been small; the activity level has been low; and the volume has fallen three straight weeks. Very little has happened.

The Fed is on deck and is being closely watched. For several meetings it was pretty much a foregone conclusion they would sit tight with rates at their current level. But a combination of a strong stock market along with some hawkish comments from Fed officials got Wall St believing a rate hike at the June meeting was a legit possibility.

It was okay. The world wasn't coming to an end. Wall St was embracing the idea and seemed to be perfectly fine with it.

Then we got the latest employment figures, which were much worse than expected. Since unemployment is one of the Fed's dual mandates, Wall St. has started thinking maybe the Fed won't raise rates. Earnings season wasn't very good, so if the Fed raises rates, it may be a 1-2-3 punch (lower earnings, weakening employment, higher rates) the market couldn't handle.

Anyways, that's what traders are thinking. Two weeks ago Wall St. had come to grips with rates being moved up; now I'm not so sure. If anything, it's no longer clear what the Fed will do. Maybe they raise; maybe they won't. In either case many traders will be caught off guard. The market doesn't like uncertainty, and that's exactly what we have.

I use the word "traders" above because I want to imply a shorter time frame than investors look at. The reason is because the Fed almost never changes the overall market structure and psychology. They may induce hiccups or offer little disruptive road bumps, but they rarely change the trends.

Regardless of what the Fed does and how the market reacts in the near term, the market remains in decent shape overall. I wouldn't say it's in great shape, but the bulls do still deserve the benefit of the doubt.

On the positive side, the S&P got within 15 points of its all-time high, and the small caps have caught up a bunch. A lot of "stuff" has been thrown at the market recently - stuff that should have caused a lot of selling pressure but hasn't - so the market's ability thus far to brush them off and push higher is a good sign - perhaps it's the most positive sign.

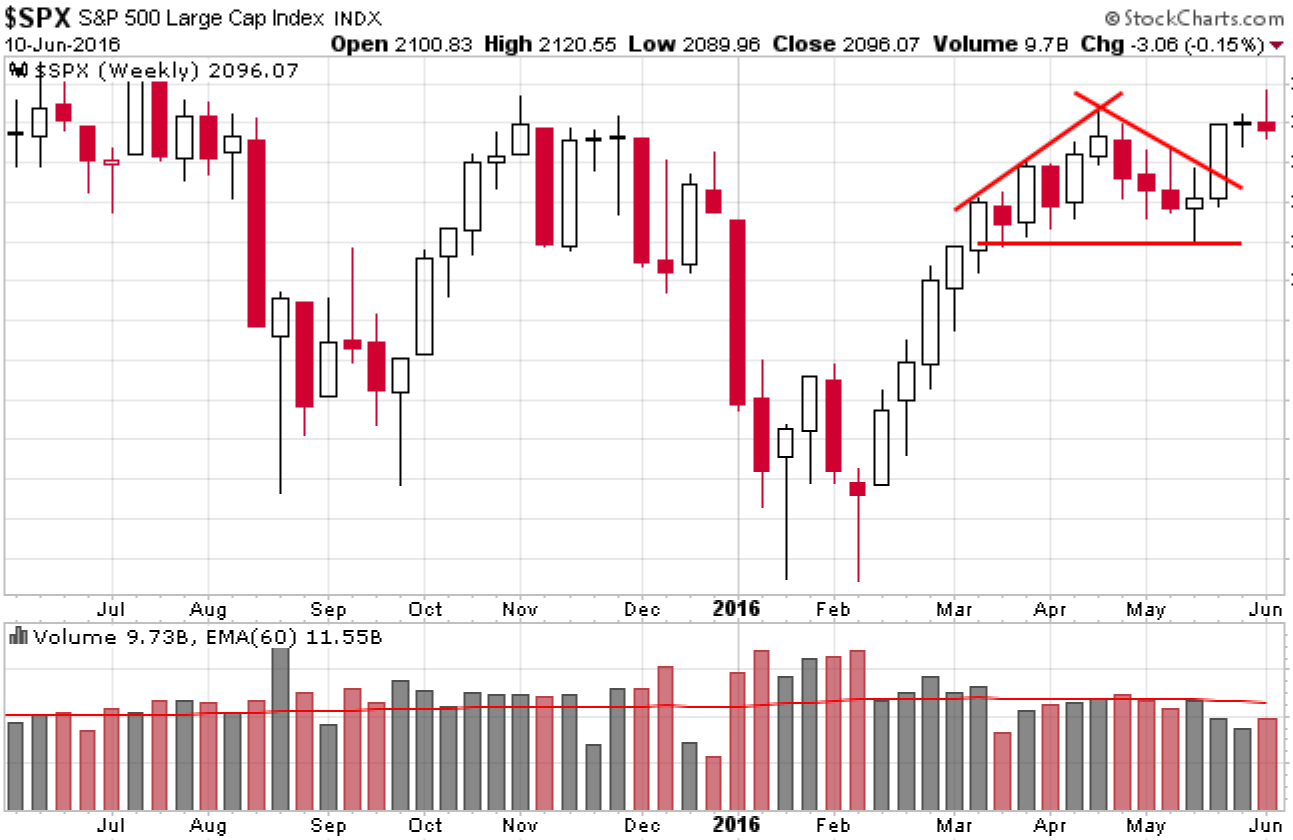
On the negative side, there are lots of headwinds and warnings. A few breadth indicators have diverged from the price action...some notable money managers (George Soros) have become more vocal bears...there's been some rotation into safe-haven stocks. All of these are notable and should not be ignored. It is entirely possible the headwinds chip away at the market's legs and eventually lead to a correction. A plan must be in place to deal with such an event.

But I'm still going to favor the upside until the market tells me that isn't wise. The bulls continue to deserve the benefit of the doubt. I'll probably catch some flack for having this stance, but the ones who give me the most flack are the ones who just missed a 100-point SPX rally.

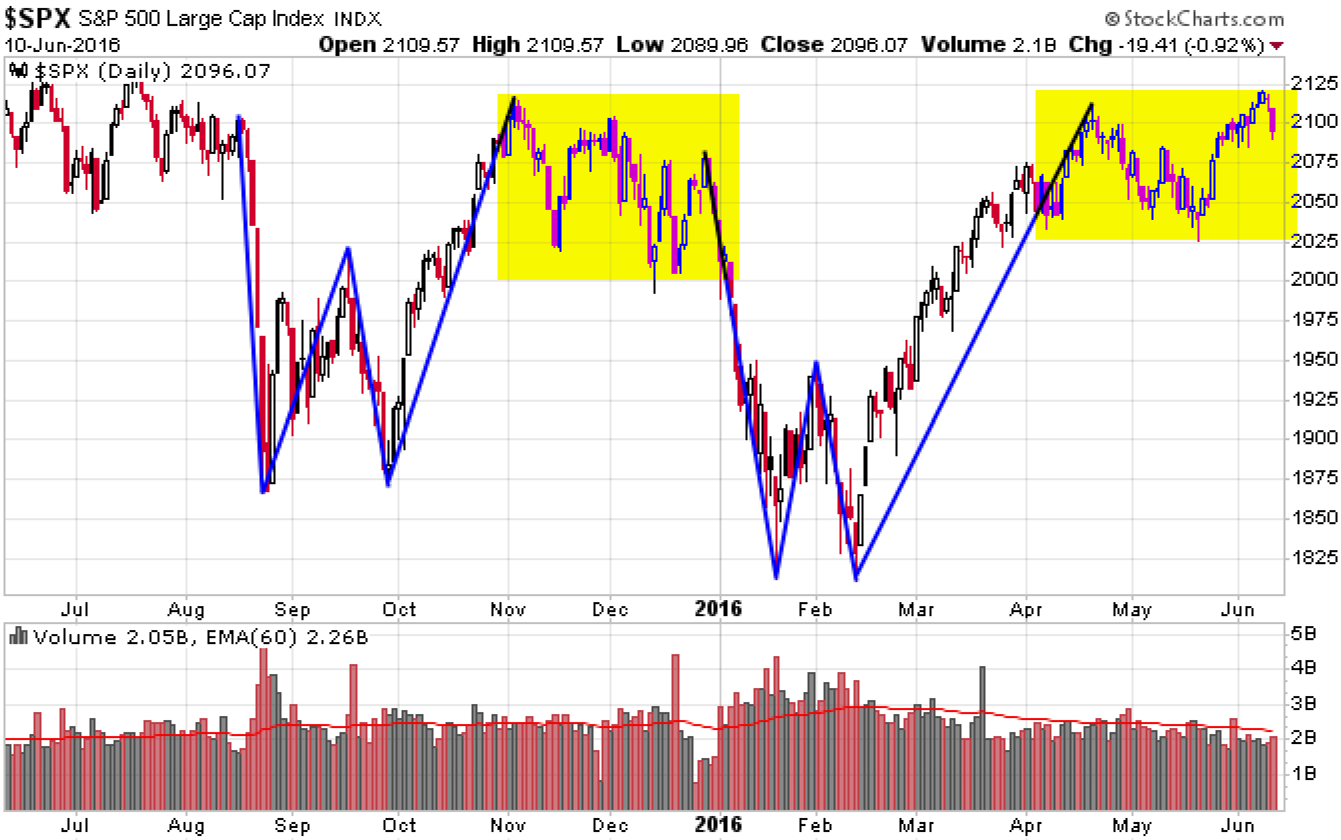
Let's get to the charts and see what they say. Given the S&P has been virtually unchanged for two weeks, I'm most interested in gauging the beneath-the-surface strength/deterioration offered by the breadth indicators.

Indexes

The S&P 500 Weekly: A flat week with a bottom tail has been followed by a small down week with an upper tail. The S&P is down a whopping 3 points over the last two weeks - a rounding error. There's lots of resistance between 2100 and 2135, and other than the brief peek above the April and May highs, we should still consider the market to be in consolidation mode.

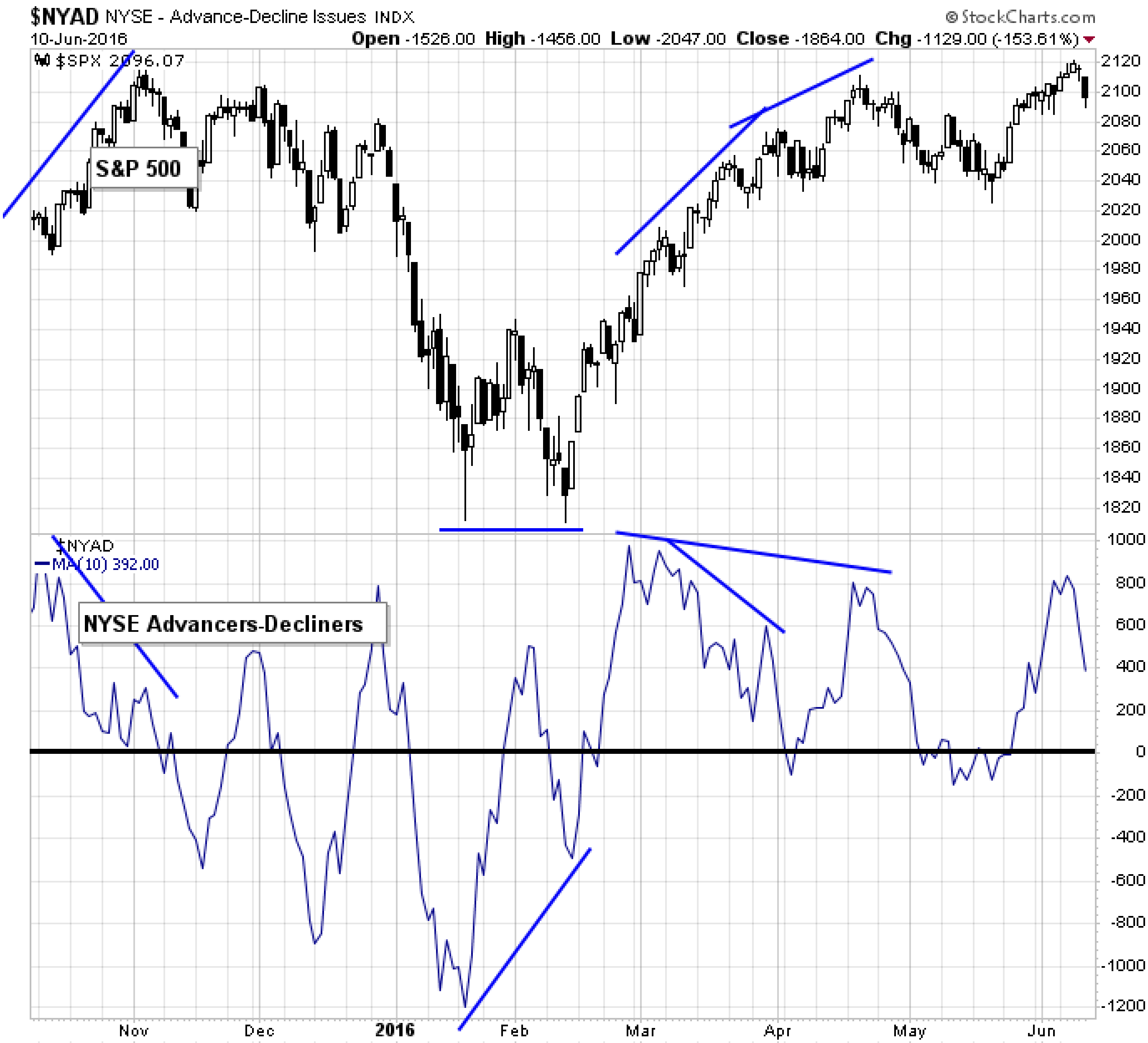


The S&P 500 Daily: Any breakout or higher high needs follow through and separation to be validated. It didn't happen. Taking out a high by a tiny amount and then falling back into the range simply continues the range. And with the Fed looming and lots of options expiring this coming week, we're not likely to get a forceful move in the next couple days...although volatility is certainly in the cards.



Indicators

S&P 500 vs. 10-day MA of NYSE AD Line: The 10-day of the AD line moved up to its previous high and is now rotating back down. It's perfectly normal for the indicator to swing up and down while the market trades constructively. As long as the line doesn't penetrate 0 by much, I'll consider the uptrend to be intact.

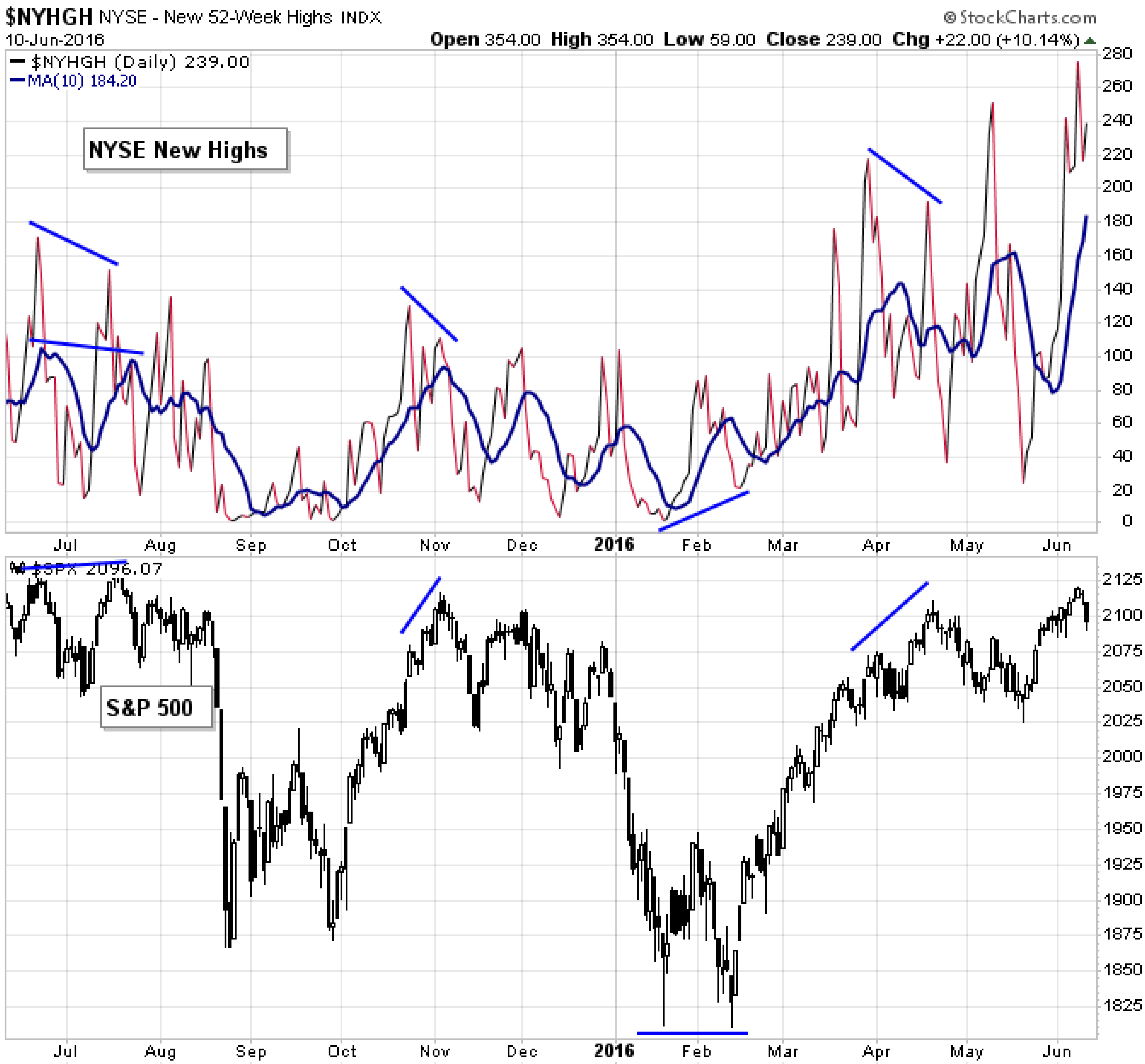


S&P 500 vs. NYSE Cumulative AD Line: Friday was the first time in a while decliners beat advancers, so the cumulative AD line finally moved down after almost three straight weeks of an uninterrupted climb. There are no warnings here. Per this chart the market is in great shape, and since deterioration takes time, even if the market was destined to fall, time is need for it to weaken first.

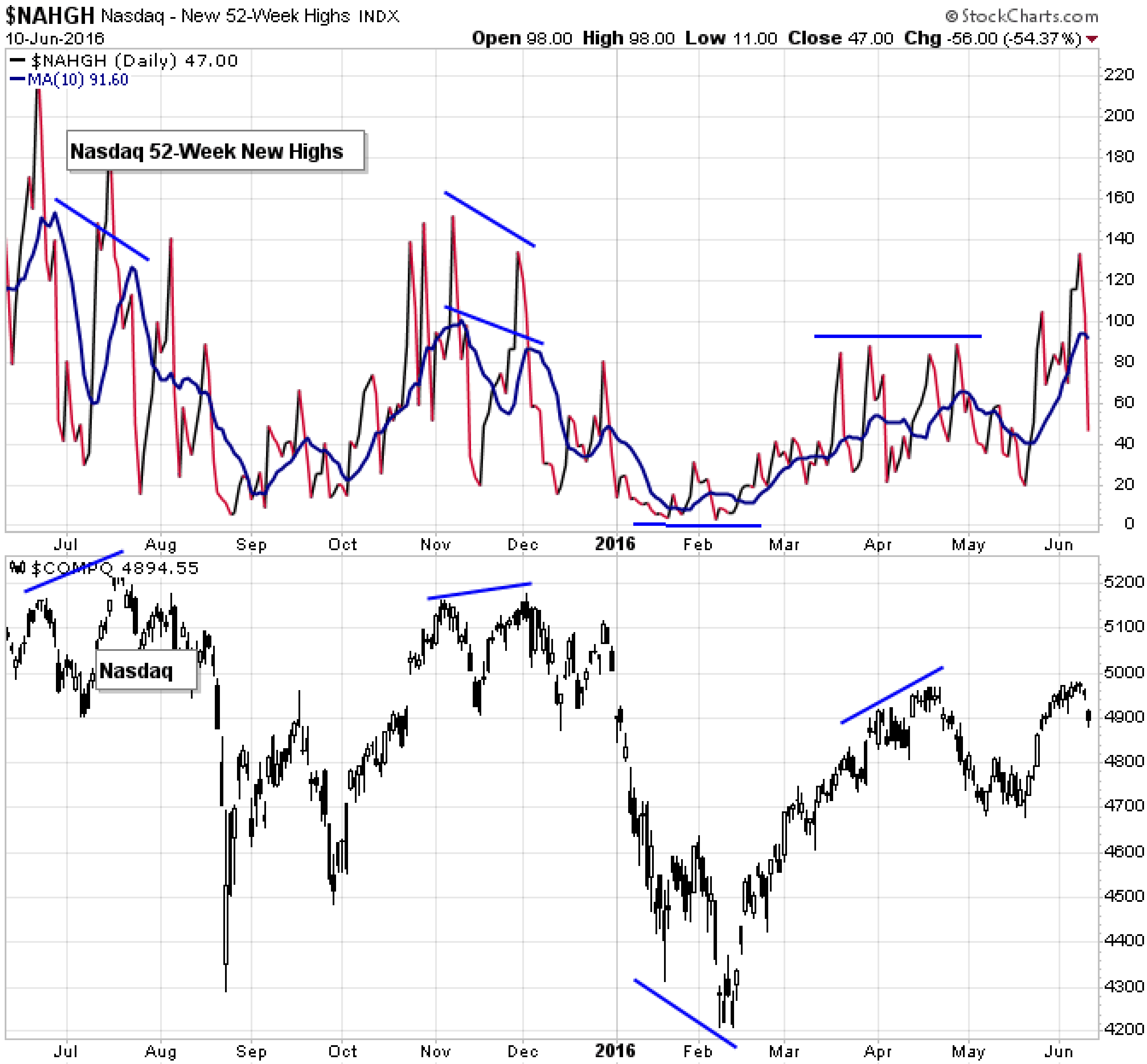
S&P 500 vs. 10-day MA of NYSE AD Volume Line: The AD volume line, which lets the high-volume stocks have more influence, put in a lower low and now a second lower high. There are a lot more prints above 0 than below, but I do consider this to be a subtle warning. Below the surface, the participation rate has been slowly declining.

S&P 500 vs. NYSE Cumulative AD Volume Line: The cumulative AD volume continues to do great. It certainly doesn't look like it did last summer or early winter when it declined in the face of a flat market.

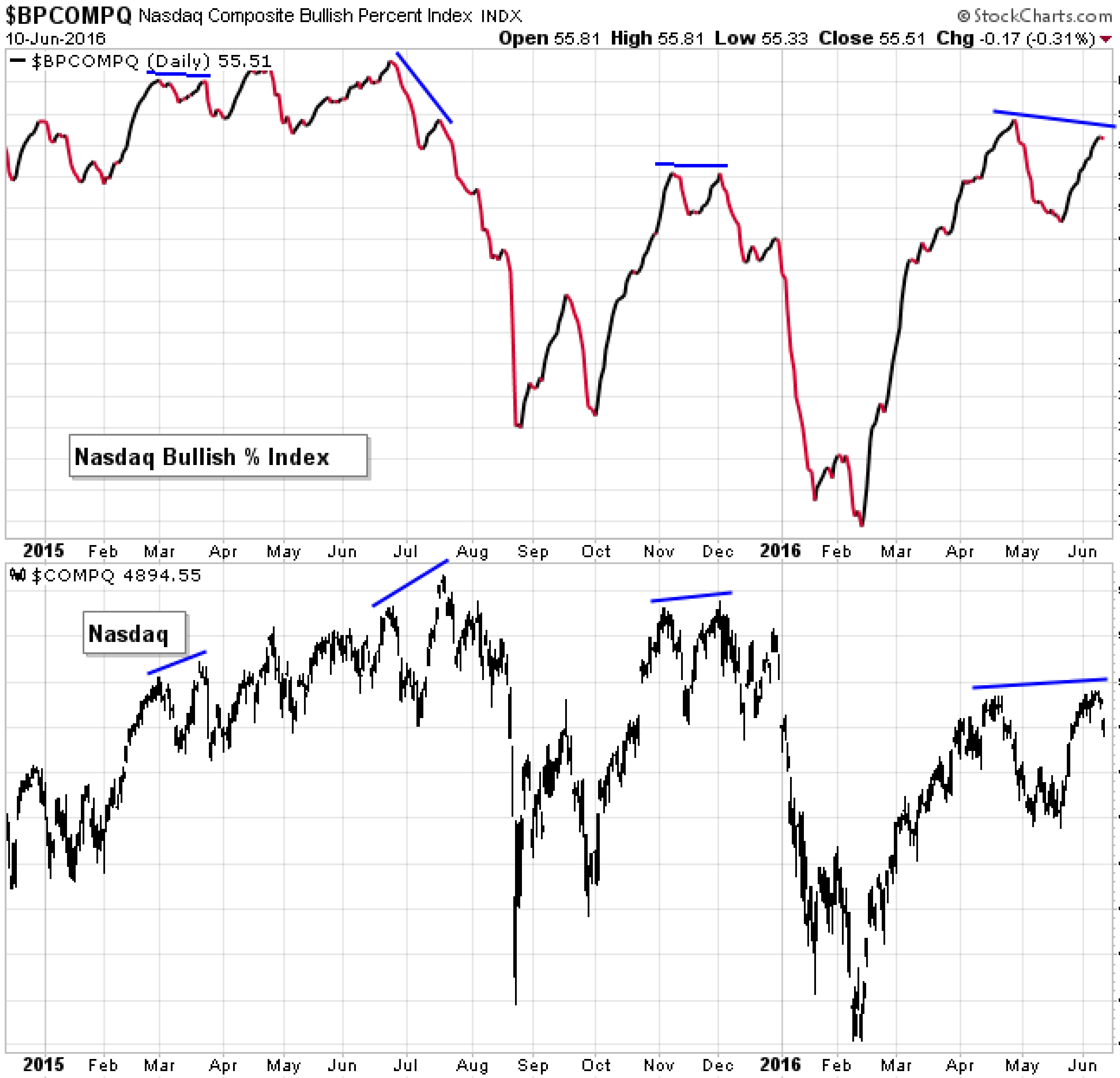
S&P 500 vs. NYSE New Highs: New highs continue to register at a healthy level, and the 10-day is at its highest level since early 2015. Considering the S&P got within 15 points of its all-time high, this is exactly what the situation *should* be.



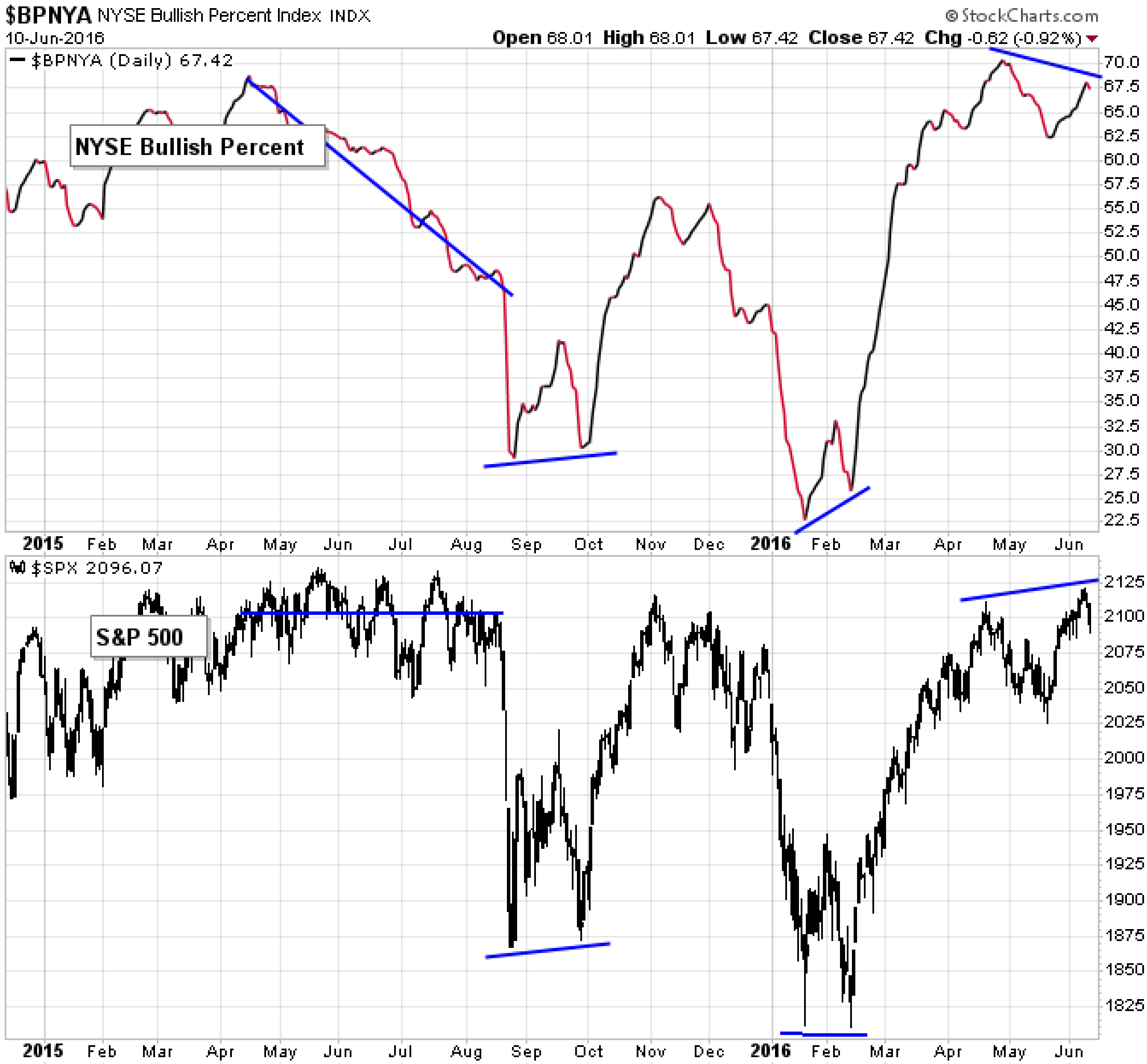
NASDAQ vs. NASDAQ New Highs New highs at the Nas finally popped to their highest level since November - that's a decent print considering the Nas itself was still 200 points below its level from that time. Friday aside, new highs here need to continue improving if the market is going to leg up beyond just testing the highs.



NASDAQ vs. NASDAQ Bullish Percent: Last week I noted a negative divergence was likely to form, and now it's official. It's subtle; it's taking place at a high level (higher than the November-December high), but it's still worth noting - just like the divergence that took place late last year.



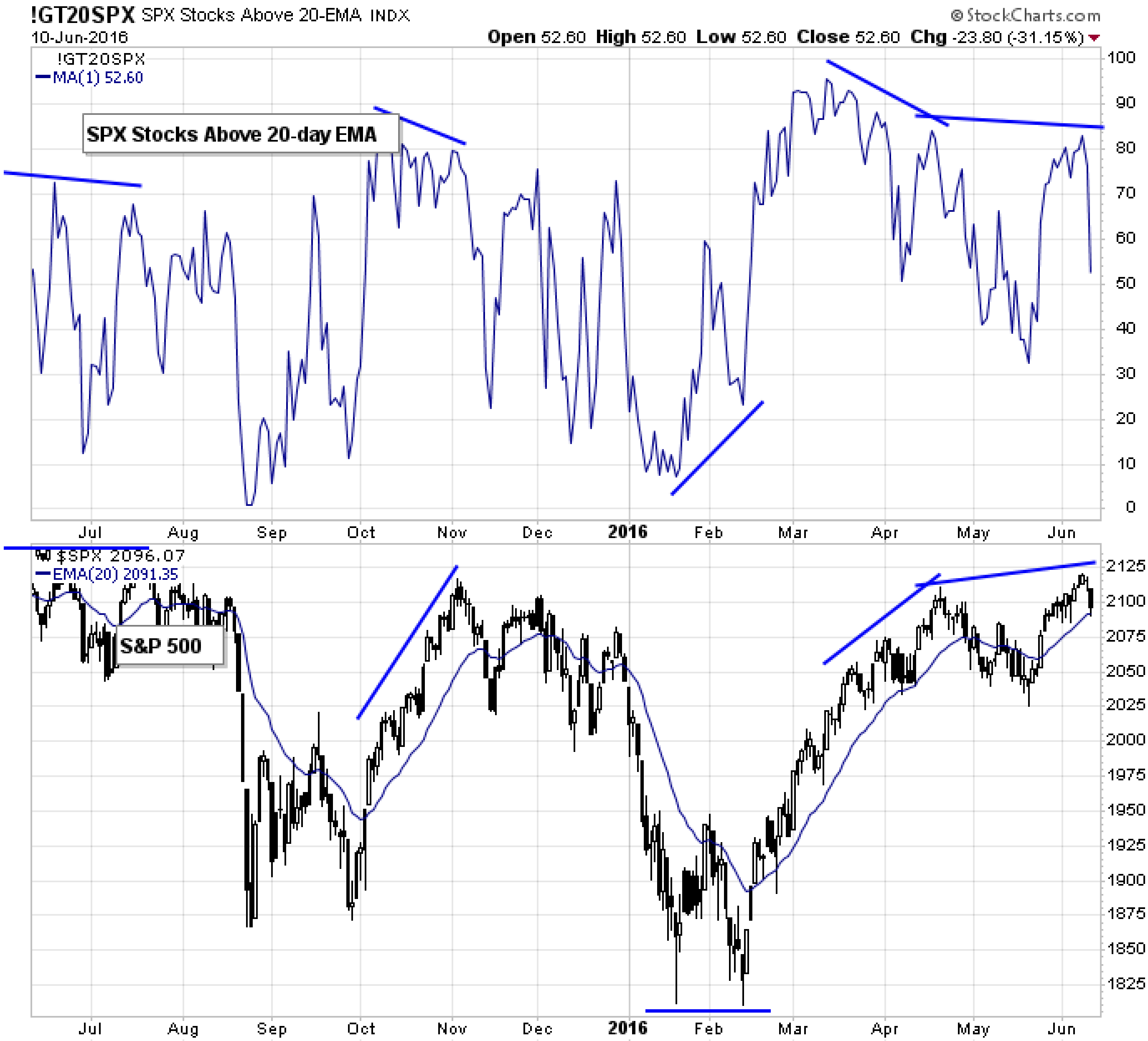
S&P 500 vs. NYSE Bullish Percent: The NYSE bullish percent has formed a much more obvious negative divergence with the S&P 500. This should not be ignored in the near term, and if the indicator takes out the May low, we definitely need to be much more open to a correction.



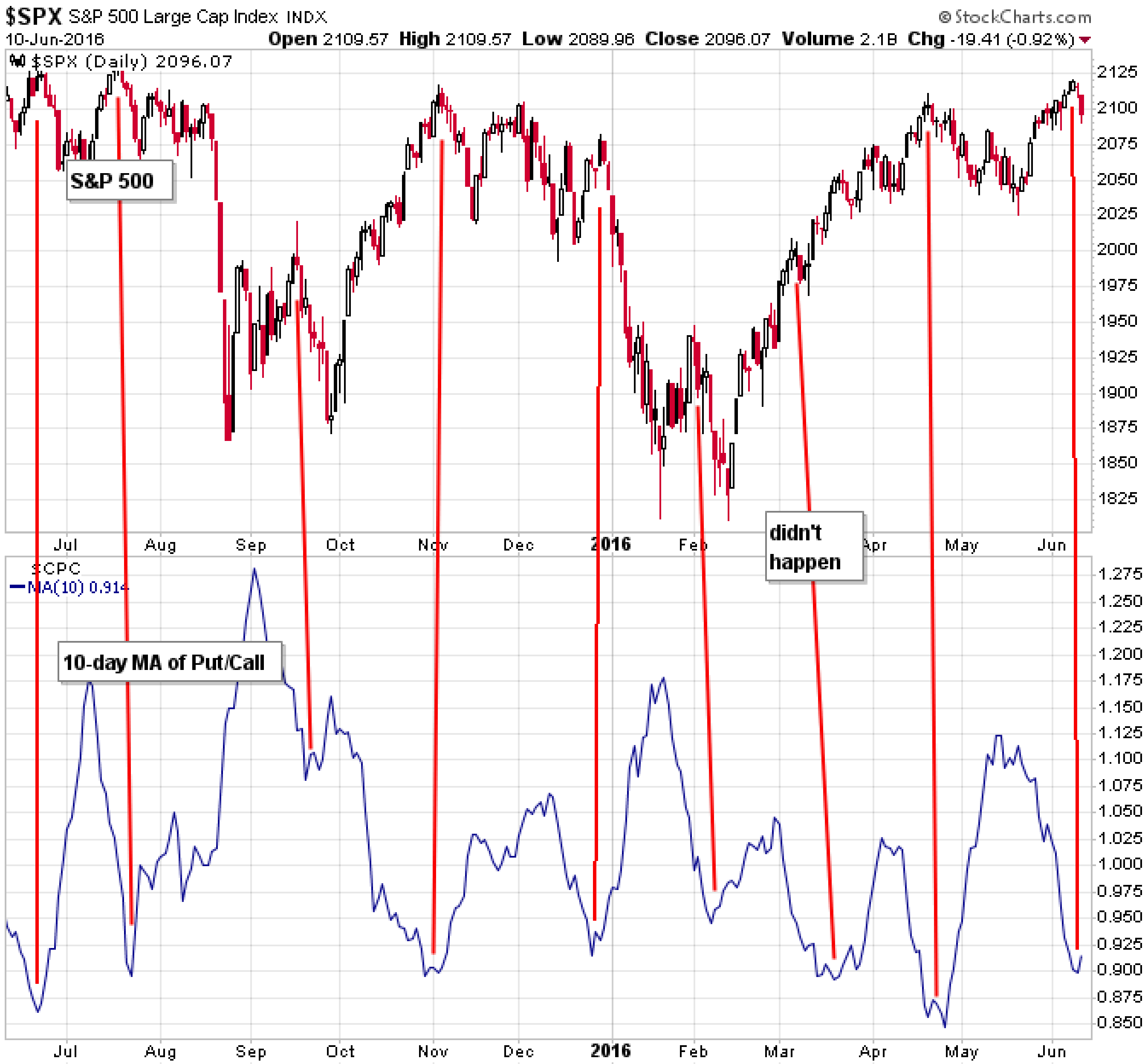
S&P 500 vs. Percentage of SPX Stocks Above 200-day MA: The percentage of SPX stocks above their 200-day moving averages failed to push to a higher high with the underlying index but still sits at a high level. And if you're wondering if it's realistic for this indicator to move up much more - some mathematically can't move beyond certain levels - during 2013 and 2014, this indicator spent most of its time in the 80's and there were moves into the 90's. At the very least this is notable. The S&P got within 15 points of its all-time high, yet the percentage of SPX stocks above their 200-day MAs didn't climb to level typically associated with a super strong market.

S&P 500 vs. Percentage of SPX Stocks Above 50-day MA: A negative divergence has been forming between the S&P and the percentage of SPX stocks above their 50-day MAs. Now that divergence is kicking into high gear. Many less stocks participated on this most recent rally off the May bottom.

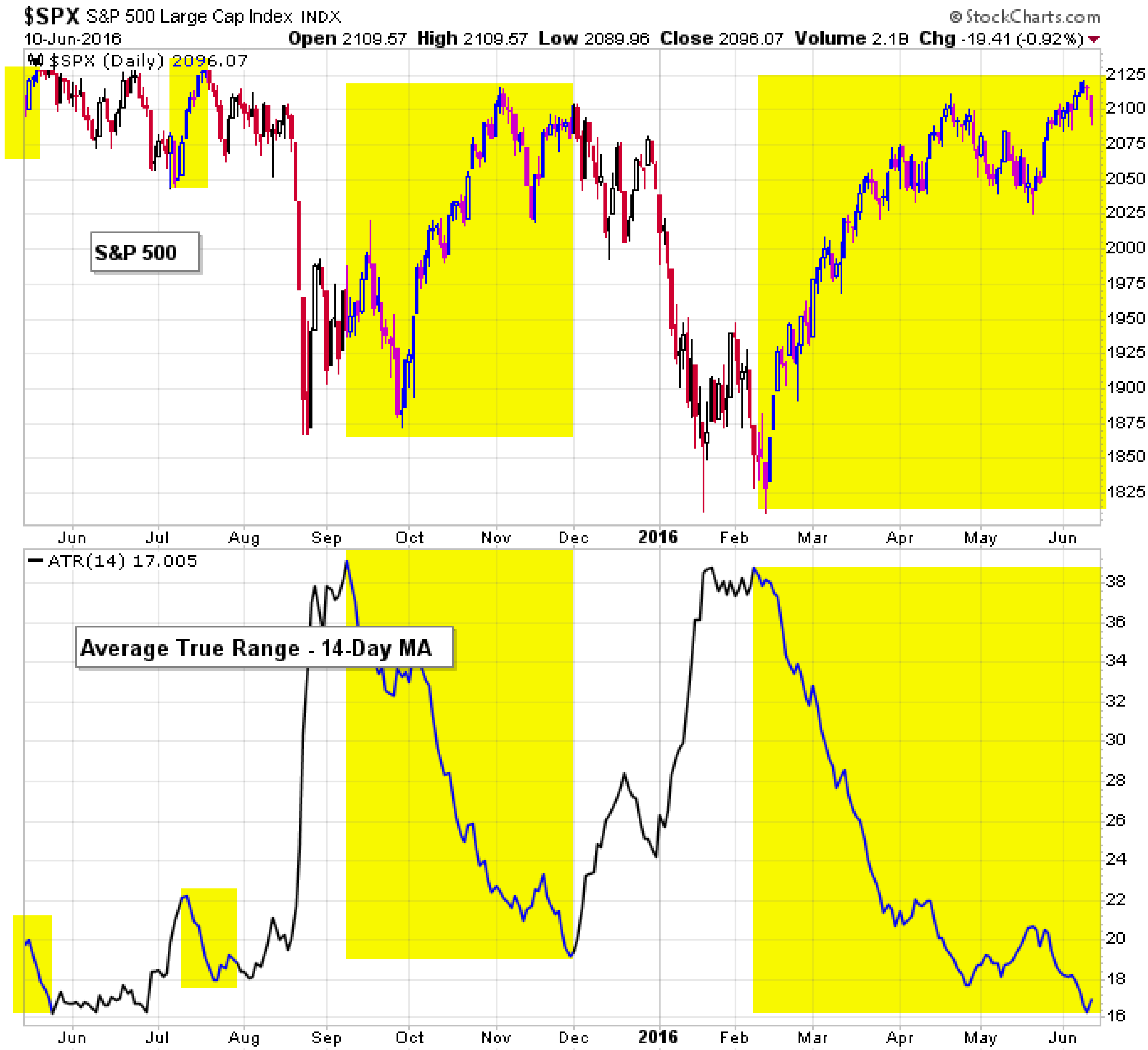
S&P 500 vs. Percentage of SPX Stocks Above 20-day MA: The percentage of S&P stocks above their 20-day EMAs diverged into the April high and has diverged again. Even though the absolute number is pretty good, it's still notable less stocks have participated lately.



S&P 500 vs. 10-day MA of Put/Call Ratio: Market tops tend to coincide with bottoms in the 10-day MA of the put/call ratio. The PC has started to curl up. It's another reason to be careful with longs in the near term.



S&P 500 vs. 14-day Average True Range: The ATR has dropped to a 1-year low. Volatility has been non-existent. This is bullish overall, but perhaps we're due for a little more activity in the near term.



S&P 500 vs. VIX: The VIX moved up four consecutive days last week despite the market only falling hard on Friday. In the past, a VIX jump while the market traded range bound served as a warning that selling pressure was coming (see the yellow circles - market flat, VIX jump). It's something to watch for if the VIX moves through resistance shown.

US Dollar: Commodities have been big providers for us this year (most of my profits have come from gold, silver and oil), so it's notable the dollar may be turning the corner and in the beginning stages of an uptrend. If so, commodities will have a harder time continuing their trends.

The Bottom Line

The market has a lot to deal with right now.

The Fed meeting is the big event next week. I'm starting to think "no hike" is being priced in, which means if they keep rates the same, there could be a "sell the news situation," and if they do hike, it would be a shock. Or maybe Wall St. breathes a sigh of relief and rallies after the news. I don't know. I've lightened up and am not willing to take a big risk heading into the announcement.

Next week is options expiration for many product categories, and given the Fed meeting is mid week, there will be a lot of nervous option traders.

Several breadth indicators have formed negative divergences or are heading south. The AD line, AD volume line, bullish percent charts, percentage of stocks above certain moving averages...and more. Most indicators tell us the up cycle is over and a rest is needed.

I pride myself on calling it as I see it. No agenda. No axe to grind. Just objective, independent analysis. Right now I see nothing worth trading. I see nothing that jumps off my screen. Nothing gets me excited. Trading is made much easier when you restrict yourself to only trading the good ones, the easy and obvious ones. I don't see any right now.

With everything going on next week, it would not be a bad idea to sit tight and wait until things clear up.

Have a great week.

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