Walter Murphy's Insights

Monthly Review

Strategic Analysis for the Serious Investor

Walter G. Murphy, Jr., CFA WMinsights.com February 3, 2017

Weekly Coppock Curve

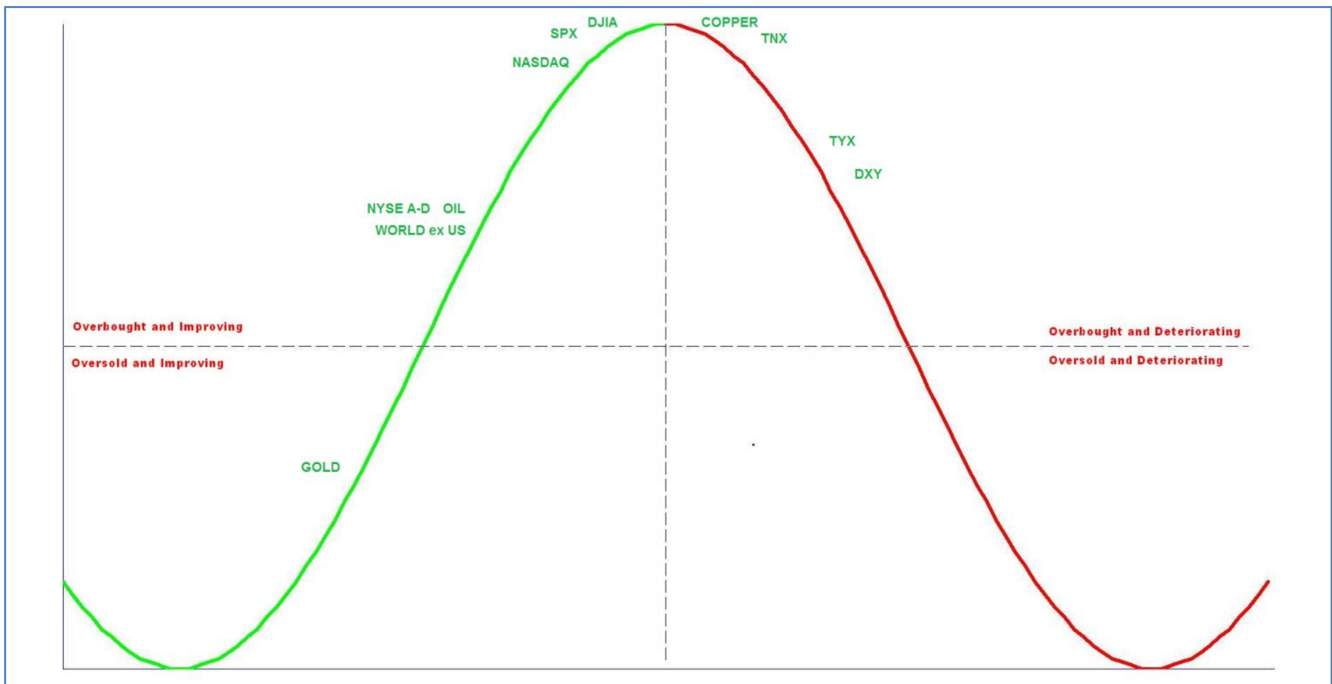


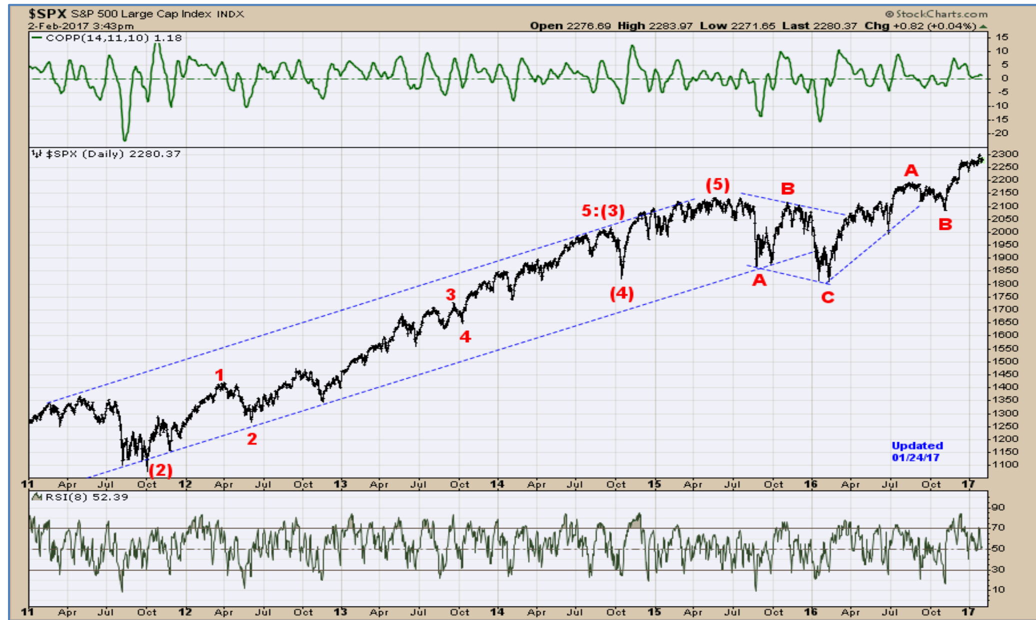
Chart List: http://bit.ly/RLnAdq

Insights US Equities:

Price: The DJIA rose 0.47% in January, the S&P 500 advanced 1.74%, the NASDAQ Composite rallied 4.27%, and the equal-weight Value Line Geometric Index gained 1.35%. All of these indexes are on three-month winning streaks. By contrast, the S&P 600 Smallcap was the only index we reviewed that fell.

During the month, both the NYSE all-issue and common-stock cumulative advance-decline lines recorded an all-time high, as did a number of other a-d lines for individual indexes. As noted many times, a breadth confirmation of a breakout to new highs by the major averages often indicates that a significant peak is months away.

Despite all this good news on the surface, almost 47% of the stocks in the broad S&P 1500 ended January at least 10% below their 2015-2017 high and 28% of the 1500 components were at least 20% below their bull market high. This suggests that a relatively small number of stocks are doing most of the work.



Momentum: In previous comments we have indicated that the S&P's monthly Coppock Curve was positioned to remain constructive into late 2016 or the early part 2017. Recent market strength has helped a bit, but the oscillator is still on pace to peak within 3-5 months for both the index and most of its 11 economic sectors. For the next three months we will regard 2150-2185 as momentum support. The monthly indicators for both the DJIA and NASDAQ are similarly positioned.

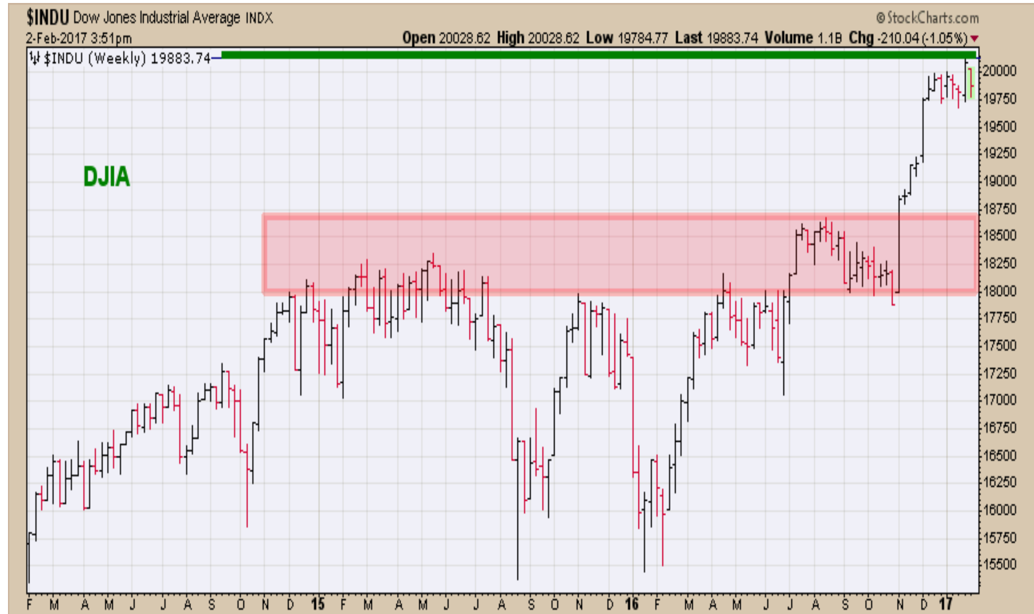
Meanwhile, the *weekly* Coppock Curves for the S&P, DJIA, and NASDAQ are all positioned to peak this month. This suggests that the next intermediate top later this year will have bearish implications for the larger primary trend.

Sentiment: Our proprietary weekly sentiment index (which is based on a scale of 0-100) ended this past week at an overbought 77.4. Most sentiment indicators, including ours, were recently at multi-year highs. We tend to treat sentiment much like momentum so, while these good/confirming overbought readings are a short term concern, they suggest higher market highs after a sentiment/market pullback.

Time: As the market made the transition from January to February, the 20-week cycle was in the 13th week from its early November low. The cycle often reverses at or near inflection points in the weekly Coppock Curve. Thus, the fact that both the cycle and the oscillator are currently showing signs of fatigue is not particularly surprising. Following its peak, the cycle will be ideally positioned for a late-March low, but it could stretch well into April.

Meanwhile, the 35-day cycle tried to throw us a curve ball. In a recent comment we noted that, in January, the DJIA violated its December low, which indicated that the cycle had peaked. The S&P did not confirm this breach and both indexes immediately followed this divergence with a rally to new highs. This suggests one of two possibilities – either January's low was a cycle low and the breakout signaled a brand new cycle, or the move to new highs was an extension of the earlier cycle. We are inclined to prefer the former but, in either case, the December-January lows are key cycle support levels.

Seasonally, in the 34 years since 1982's secular low, February's 0.91% median gain for the S&P 500 has been in the middle of the pack (the fifth-weakest among the 12 months). Similarly, it has posted month-to month gains for 22 of those years – six month have had fewer and five have had at least as many. These numbers suggest that February is something of a "pick-em" month but the momentum, sentiment, and cycle considerations discussed above indicate that this February could be subject to more than its usual downside pressures.



Outlook: Close, but no cigar. In previous comments we have highlighted a key Fibonacci relationship that could help add clarity to the count of the past two years. We have made the case – and continue to believe – that the declines by both the DJIA and S&P 500 from mid-2015 to early-2016 were sufficiently deep to lock in the 2009-2015 rally as a complete pattern within a larger uptrend. Thus, the question arose as to whether that 2015-2016 decline was a complete correction or only the intermediate **(A)**-wave of a larger corrective pattern. In that regard, we noted that, if the rally from the early 2016 low is to be counted as the subsequent **(B)**-wave, then it cannot exceed 138%-162% of the previous **(A)**-wave. In S&P terms, that relationship indicates that the index cannot exceed 2335. For the DJIA, it is a maximum 20194. Anything meaningfully higher than these levels will indicate that a more powerful rally of the same degree as the 2009-2015 uptrend is under way. So far, the recovery highs for the S&P and DJIA are 2301 and 20126, respectively. So it seems reasonable to suggest that even a relatively modest rally will put these levels under severe pressure.

Meanwhile, the S&P has support near 2255-2233. A break would allow for further weakness to 2200-2190 and possibly to 2140-2130. Similarly first support for the DJIA exists at 19719-19676 with second support at 18670-17970.

Stay tuned.

Insights on Sectors:

Three-Month Return (as of 01/31/17):

Financials (+18.08)
Materials (+11.34%)
Industrials (+10.31%)
Consumer Discretionary (+8.77%)
Telecom (+8.01%)
S&P 500 (+7.18%)
Energy (+5.83%)
Technology (+5.29%)
Health Care (+4.53%)
Real Estate (+0.21%)
Consumer Staples (-0.33%)
Utilities (-0.40%)

S&P 500 Sector Weightings (as of 01/31/17)

Technology (21.3%)
Financials (14.6%)
Health Care (13.7%)
Consumer Discretionary (12.3%)
Industrials (10.2%)
Consumer Staples (9.3%)
Energy (7.2%)
Utilities (3.2%)
Materials (2.9%)
Real Estate (2.8%)
Telecom (2.5%)

Over the past seven months, the Technology sector has represented no less than 20.6% of the S&P 500's capitalization. We had to go back to 2000-2001 to find even one reading higher than any of these seven months. Not surprisingly, Technology has been among the strongest relative strength sectors. Only Financials shows better relative strength and this has benefited the index, as these are the two-largest sectors by weighting. By contrast, the new Real Estate sector has been showing the weakest relative strength – and, as seen above, it is among the smallest sectors. Size has mattered.

Technology Relative to the S&P 500

Real Estate Relative to the S&P 500

Insights on the Rest of the World:

Price: Global returns were mostly higher in January. Twenty-five of the 37 non-US markets that we most regularly monitor rallied and 12 fell. Most of the strength came from developing markets as 15 of the 16 bourses in our universe were higher. By contrast, a majority (11) of the 21 developed markets in our survey were *lower*.

The dollar-based MSCI World (ex US) Index rallied 2.93% to 1641. While the local currency index only managed a 0.12% gain to 1068, this was enough to extend the current winning streak to seven months. Meanwhile, the MSCI Emerging Markets Index posted solid gains in both dollar terms (5.44%) and local currency (3.95%).

The 150-stock equal-weighted Global Dow rallied 2.53%.

Our 35-country non-US global daily cumulative advance-decline line reached another all-time high last month. Similarly, each of our regional a-d lines – for Europe, the Pac Rim, and Latin America – all made new highs in January.

Momentum: The monthly Coppock Curve finished January with a bullish bias for 35 of the 37 markets. Not surprisingly, both developed and developing markets have a majority bullish bias. These constructive conditions are still expected to persist into the second quarter and could be an indication of relative strength versus the US.

But, as is the case with the US, the weekly oscillator is positioned for a February peak for most markets. This, combined with the monthly configuration, suggests that the primary uptrend will be able to withstand an intermediate correction. As such, we likely have to wait for a subsequent weekly Coppock top later this year before becoming more concerned about a potential primary peak.

Time: Seasonally, over the past 22 years (1995-2016), the MSCI World (ex US) Index has been up 14 times in February with a median gain of 1.45%. Only three months have a better win rate while five months have a higher median return.

Outlook: The US dollar-based MSCI World (ex US) Index has essentially been in an uptrend since last February's 1481 low. Nonetheless, it has been unable to break out through a 50% retracement of its previous 18-month decline and has yet to challenge the downtrend line connecting the 2014 and 2015 recovery highs. As a result, the area around 1747-1765 remains important chart and Fibonacci resistance. Similarly, chart and Fibonacci support is apparent near 1648-1614.

From an Elliott Wave perspective, it is important to note that October's low overlapped April's high. Overlaps are not allowed in traditional five-wave rallies. As such, the rally from last February's low is viewed as a counter-trend event.

The dollar-based MSCI Emerging Markets Index is in similar straights. The corrective rally since last February's low has retraced 50%-61.8% of its 2014-2016 decline, but less than 50% of the larger 2011-2016 bear market. As a result, substantial resistance begins at 925-950. Important support is apparent in the 864-838 range.

Finally, our regular review of 34 country and regional ETFs shows that Russia continues to show the best relative strength, closely followed by Austria, Brazil, and Sweden. Malaysia and Mexico continue to bring up the rear.

MSCI World (ex US) Index (Daily)

MSCI Emerging Markets Index (Daily)

Russian Trading System Index (Daily)

Mexico's Bolsa Index (Daily)

Insights on Yields:

Price: Ten-year yields were virtually unchanged in January as they eked out a one-half basis point (bp) gain to 2.45%. Nonetheless, this was enough to extend its current win streak to six months. During the month, however, they signaled some weakness with a lower high and lower low than those seen in December.

Meanwhile, 30-year yields not only recorded a month-to-month lower high and lower low but also a one bp loss to 3.05%. This broke its own five-month winning streak.

Yields were higher in five of the six countries in our index of non-US global 10-year yields; Australia was the exception. Overall, the index rallied 17 bp and finished at 1.259%.

Momentum: As many readers are likely aware, we put a fair amount of importance on whether a Coppock Curve of any degree decisively crosses its neutral zero line. At the end of January, the monthly oscillator remained below the zero line for both 10- and 30-year yields. Nonetheless, both oscillators have bottomed and are likely to remain in an uptrend until well into the second half. If so, this should carry the indicators through zero and have bullish implications for at least the primary (months to years) trend and even the cycle degree (years to decades) trend.

In the meantime, the weekly oscillators are in a downtrend and should remain so well into the second quarter.

Globally, the monthly Coppock indicator is in an uptrend for five of the six of the countries in our global index. As with the US, we see the potential for a majority bullish bias into the second half of 2017. That said, very early indications are that the oscillators for Germany and Japan – arguably the two most important countries – could peak earlier than most.

Sentiment: In early January our proprietary 0-100 weekly sentiment index peaked at overbought readings not seen in an uptrend since 2013. Although the index has pulled back in subsequent weeks, it remains at a near-overbought 65.3. This is more indicative of intermediate pressures (i.e., as indicated by the weekly Coppock) than longer term trend erosion.

Time: Since 1999, yields have responded to an approximate 40-week cycle. December's peak (to date) in yields occurred during week 23 of the cycle. This, coupled with the other intermediate technical conditions discussed above, suggests that yields have effectively recorded an interim top. The cycle is ideally scheduled for an April low.

Outlook: As noted, we anticipate that the monthly oscillators for 10- and 30- year yields will breach their respective zero lines in coming months. This, together with 2016's failure to do so, indicates that yields are in the process of reversing the 2013-2016 decline. If successful, this would be a sign that yields are breaking the back of the post-2010 **((C))**-wave and, in turn, the post-1981 secular downtrend.

However, further yield strength is required to confirm a bullish secular reversal. As we have noted a number of times, the 30+-year downtrend lines are still intact. In addition, 10-year yields – which remain below their 120-month exponential moving average – have never recorded a higher high since their 1981 secular peak. These failures have resulted in a 36-year series of lower highs and lower lows and suggest that secular resistance exists at 2.76%-3.036%. Nearby support is apparent near 2.29% then a gap at 2.189%-2.126%.

Meanwhile, 30-year yields have been testing a 70-month downtrend line and remain just below chart and Fibonacci resistance near 3.26%. Thus, virtually any reasonable further strength could clear the way for a challenge of 2013's 3.97% benchmark. Support exists near 2.90%, then an unfilled 2.75%-2.64% gap.

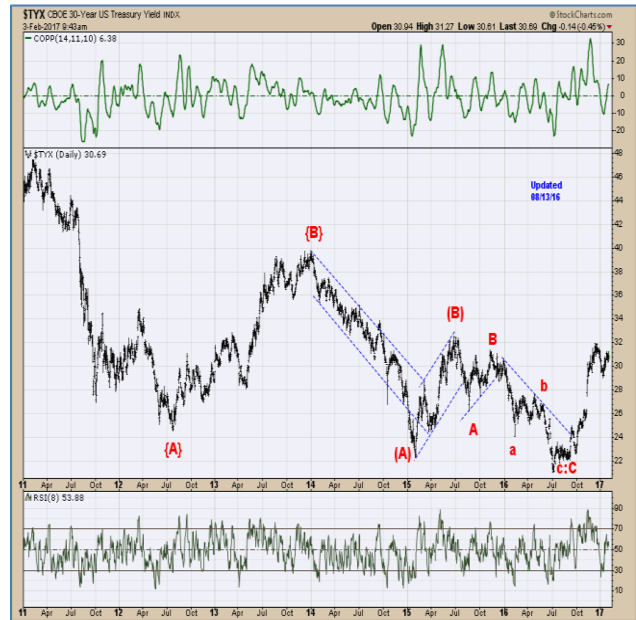
As noted, in previous comments (most recently in our *Year Ahead*), the weekly Coppock Curve for our global 10-year yield index recently recorded a decisive all-time high. This weekly breakout confirmed and aided the recent bullish reversal in the monthly indicator. Moreover, the downtrend line from late 2013 has been breached. Thus, higher highs are anticipated, intervening pullbacks along the way notwithstanding. With that in mind, resistance is apparent at 1.34%-1.35% then near 1.42%. Support exists at 1.085%-1.077% then near 0.94%-0.93%.

Finally, it appears that even investment grade corporate yields are increasingly in position for a potentially significant move. As the nearby chart shows, Moody's AAA yields have formed a triple-bottom in the 3.18%-3.29% range over the past five years and are testing a multi-year resistance trend line. A rally through 4.08% will likely represent a decisive price and trend breakout.

Moody's AAA Yields (Daily)

US 10-year Yields (Daily)

US 30-year Yields (Daily)



Insights on the US Dollar:

Price: The US dollar index fell 2.60% to 99.55 in January and broke a three-month winning streak. The weakness was broad-based as the greenback retreated against all six currency components within the index.

The greenback was also mostly lower versus emerging currencies for the month. It fell against 11 of the 15 currencies in the Wisdom Tree Emerging Currency Strategy Fund (CEW), which gained 2.17% for the month to 17.87.

Momentum: In past comments we noted that the dollar's monthly Coppock Curve has had a majority bearish bias for most of the index's six currency components (including the euro and yen) since August 2015. The post-election rally temporarily changed that and the oscillator posted a majority bullish bias in both November and December. However, it finished January in a downtrend against four of the six currencies. While this weakens the potential for a bullish bias through the first half of this year, the ability of the index to hold the 99-96 area in the months ahead will keep this constructive possibility alive.

Sentiment*:* At the end of last week, our 0-100 currency-weighted sentiment index for the dollar was overbought at 74.7. That said, it is down from an earlier peak of 85.6 and has been in overbought territory for 12 weeks.

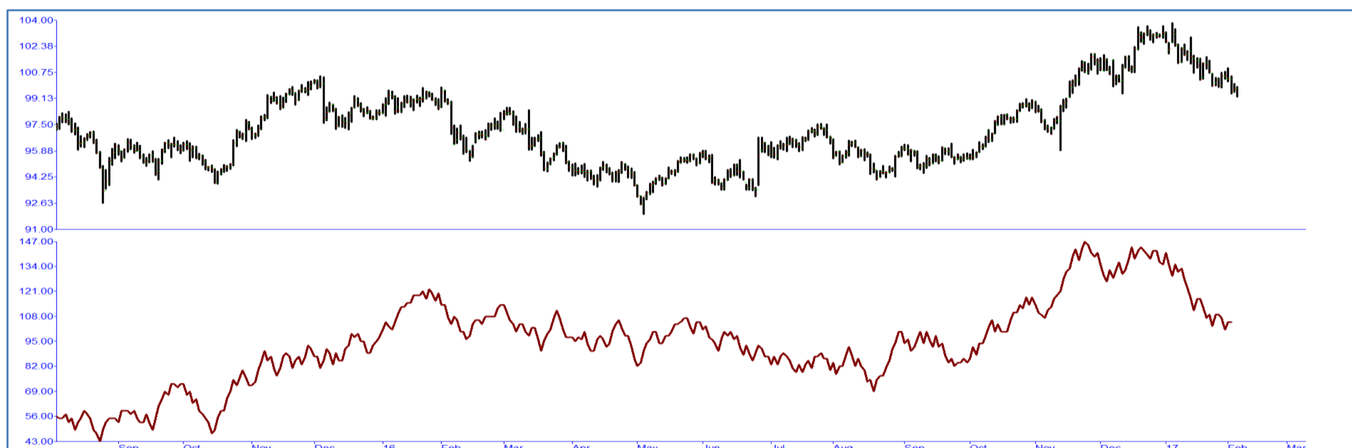
Time: As is the case with yields, the dollar index responds to a 40-week cycle. The last low occurred this past May, so the next low is ideally scheduled to occur this month although the bottoming process could extend into March.

Outlook: Even as yields are attempting to confirm a reversal of their secular downtrend, the dollar index decisively did so some time ago. With that in mind, the index's November breakout through its 2015-2016 trading range between 100.51 and 91.92 indicates that the range is now important support. As for post-breakout resistance we have been focused on Fibonacci resistance near 105 for some time. So far, the rally has been unable to meaningfully challenge this benchmark.

During the last three weeks of 2016, the euro appeared to attempting to decisively break down through its 2015-2016 trading range. Since then, however, it has moved back into the range. Thus, we will require a move back through last month's €1.134 low before entertaining the notion that the euro is attempting a more significant breakdown. Such a breakdown will open the door for a challenge of parity and possibly lower. Resistance exits at €1.085-€1.087 then €1.091 and above.

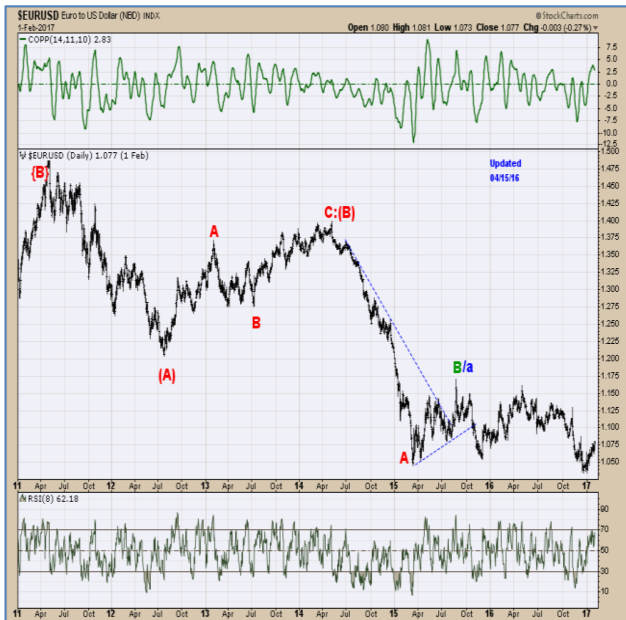
In our recent *Year Ahead* piece we highlighted our view that the dollar's 2015-2016 decline against the Japanese yen was a primary degree **{B}**-wave, which retraced more than 50% of the 2011-2015 **{A}**-wave rally. In turn, the dollar's post-June 2016 rally carried through a 61.8% retracement of the prior **{B}**-wave, which does much to confirm that the post-June rally is a final **{C}**-wave. As such, this will nominally position the greenback for a new high above 2015's ¥/$125.85 benchmark. That said, this January's weakness was enough to lock in the November-December rally as a complete pattern. In that regard, the recent weakness will qualify as a fourth wave as long as it remains above ¥/$109.91-¥/$109.33. A breakdown through this level will signal a more serious decline relative to the entire post-June rally pattern.

US Dollar Index with Daily Cumulative A-D Line



US Dollar Index (Daily)

Euro (Daily)



US$ to Japanese Yen (Daily)

Insights on Commodities:

Price: For the first time in four months – and only the second time in eight months – commodities were mostly higher in January as 11 of the 17 commodities that we most regularly follow posted a month-to-month gain. Among the three headliners, gold and copper rallied but WTI oil fell.

Five of the seven agricultural commodities that we monitor were higher for the month, and the PowerShares DB Agriculture Fund (DBA) gained 2.15% to 20.40.

Overall, the 17-commodity equal-weighted Continuous Commodity Index (CCI) rallied 2.05% to 429.26.

Momentum: We have been anticipating that, despite intermediate pressures in the latter part of last year, the primary trend monthly Coppock oscillator could maintain its majority bullish bias into this year's second quarter. That still appears to be the case as the indicator is nominally positioned to take on a bearish bias for a small majority beginning in May; that majority will likely increase in subsequent months. That said, the risk is that a primary peak may come sooner than currently anticipated reflecting the fact that the weekly oscillator is at risk of a March peak. If so, that would increase/accelerate the pressures on the monthly indicator.

Sentiment: Our proprietary bullish sentiment index for a group of 19-commodities remains neutral at 51.5. The sentiment index for a smaller subset of six agricultural commodities is near-oversold at 32.6.

Time: We have been using CCI's January low as a 30-week cycle benchmark. As such, this suggests that September's double-bottom was a new cycle low. While November's test is a candidate, it is outside the normal window for a post-January low and is reviewed as a weak alternate scenario. Using September, the next low is ideally scheduled for late-March.

Outlook: The CCI rally since January 2016 decisively reversed its previous decline from 2014's 570 high and arguably from 2011's 691 peak. It has done so with an Elliott Wave five-wave structure. Moreover, the index could be forming a post-2015 head-and-shoulders bottom formation. Nonetheless, the index has been trapped between 437 and 410 since early July. A breakout will reinvigorate the upside potential suggest by the developments earlier in the year. Conversely, a breakdown will do much to erase that potential, turn 410-415 into potentially significant resistance, and indicate a resumption of the larger downtrend from the 2011 highs.

For all practical purposes, the PowerShares DB Agriculture Fund (DBA) has been in a downtrend since 2011 and most certainly since 2014. As indicated in last month's *Year Ahead*, our sense is that this overall malaise of recent years will continue for the foreseeable future. Nonetheless, the rally of recent weeks temporarily broke through first resistance at 20.22-20.37 (but not decisively through second resistance) before settling back. Thus, a breakout back through 21.00 will signal possible further strength toward 21.30. Meanwhile, key support is last year's 19.50 low. That was a multi-year low and there is no chart support below this benchmark.

WTIC oil's breakout through – and ability to hold above – the 51-52 area suggests that our initial bull market objective of 59.01-61.17 remains in focus. Further strength through intervening resistance at 54.50 will be another important step in bolstering this objective. In the meantime, we will use 52-48 as first support and 44-43 as second support.

Our primary focus for gold is that its rally from December 2015 to August 2016 satisfied the minimum requirements for a complete **{B}**-wave relative to the earlier 2011-2015 **{A}**-wave decline. In that regard, it is important to note that monthly momentum is overbought and deteriorating, which suggests that there is a very real risk that the December 2015 low at 1051 will be more severely tested (and possibly penetrated) in coming weeks and months. Interim support exists at December's 1130 low. In the meantime, the weekly oscillator is oversold and improving. In addition, January's rally reversed the previous August-December decline. This combination allows for further strength toward 1223 and arguably 1250-1260.

Economically sensitive copper has been in an uptrend for a year and is now encountering chart resistance in the 2.65-2.97 range. The upper end of this range is also a 38.2% retracement of the entire 2011-2016 downtrend. . Nearby support exist at 2.64-2.63 then December's 2.45 low.

CCI (Daily)

WTI Crude (Daily)

Gold (Daily)

Copper (Daily)

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