MARKETFIELD
ASSET MANAGEMENT

The Weekly Speculator

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Although the SPX remains stuck in its multi-month range we have travelled from testing support at 2600 to testing resistance at 2700 over the course of the last week with Wednesday's session closing with the SPX at 2697.79. Progress in both the NDX and RTY indexes has been a little more impressive, with the NDX closing price at 6893.2 its highest since March 16th and the RTY index now only 20 points below an all-time high at 1596.05. In other words this is the most favorable set up for an upside resolution that we have seen for a number of weeks.

Interestingly there has been no clear catalyst for the recent improvement. The energy sector was obviously helped by the decision to withdraw from the Iranian treaty, but its market cap is no longer sufficient to drive the overall market higher. Economic data has been in the sweet spot, indicating steady growth without accelerating inflation but no individual piece of data really changed to mood of the market. Instead what seems to be taking place is a re-appreciation of the recent earnings season, of the manner that we had suggested might occur.

Whether this is enough to see the overall index break higher remains to be seen. The SPX remains range-bound, and even if 2700 can be overcome more resistance resides at 2800 where the March recovery failed. It should also be noted defensive sectors remain under pressure, with Utilities giving up recent gains and Consumer Staples and Healthcare close to their 2018 nadir. Although the Industrial sector has rallied, only a portion of the earnings related damage has been repaired, and the progress of this sector might be a reasonable indication of whether a broad market advance can take place or instead a narrower breakout that leaves many sectors behind.

As far as global markets are concerned both Europe and Japan have made decent progress in recent weeks. Europe had been the whipping boy of the March decline but has recovered to the point that most local benchmarks are back in positive territory from 2018. Japan has also recovered nicely from its sharp March decline, but the NKY really needs to close above 23000 (about 3% above Wednesday's close at 22408) in order to suggest that its correction has been resolved, and 24129 to reach a new high.

Emerging markets by contrast remain under pressure, although the bulk of the weakness comes from much weaker currencies in a number of countries

associated with FX carry trades. These had generally held up well during the first few weeks of the global correction, but recent weeks have seen sharp declines. The Bloomberg FX Carry index (based on returns for 3 month sovereigns in an 8 country basket BRL, MXN, INR, TRY, HUF, IDR, ZAR and PLN) has declined from 271 on April 19th to 257 today, wiping out all its November-January gains in the process.

Although the USD has been well bid over this period this does not entirely explain the weakness of EM FX, which seems to have become the chosen hedge in the current environment. The market's mood has not been helped by a series of bitter electoral contests and although investors appear to have made their peace with populist leaders in the developed world the long history of poor leadership in many emerging markets has not been forgotten. Even so the underlying local equity prices have in most cases remained intact and selling pressure remains concentrated in FX markets and to some extent fixed income.

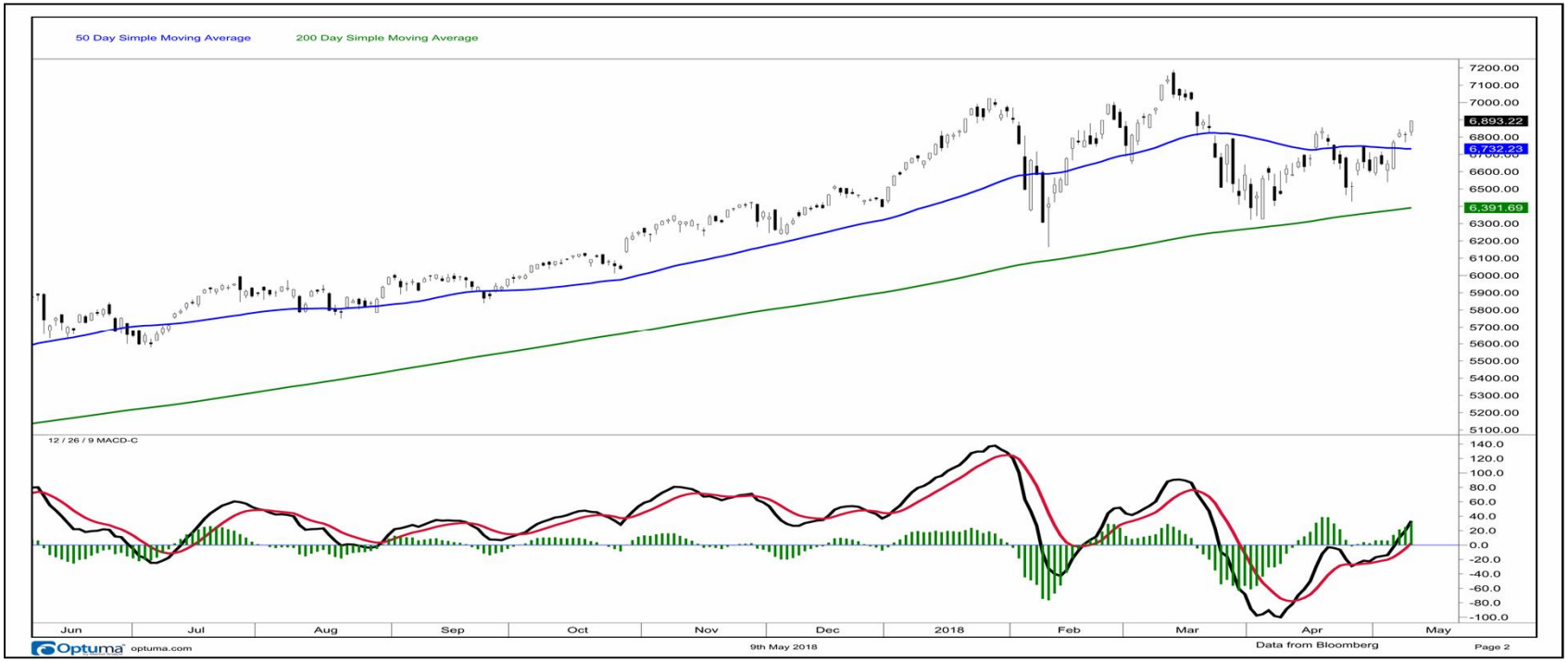
This therefore looks somewhat different to the weakness seen in years like 2011 and 2014, when FX liquidation followed sharp declines in local asset prices and collapses in the closely linked commodity complex. The reason for the divergence is not hard to fathom, since this remains a much more favorable environment for emerging markets than the state of affairs 4 or 7 years ago. Most economies remain much better positioned, with better fiscal positions, greatly improved current accounts and substantial currency reserves. We understand the theoretical sensitivity of emerging markets to higher interest rates in the US but this is not the only factor to consider.

Our view is that this period of hurried liquidation will pass and be followed by a general recovery, particularly in countries that are heavy commodity exporters, but for the time-being markets are likely to remain driven by FX flows which can generate substantial moves over the short term regardless of underlying asset prices.

S&P 500

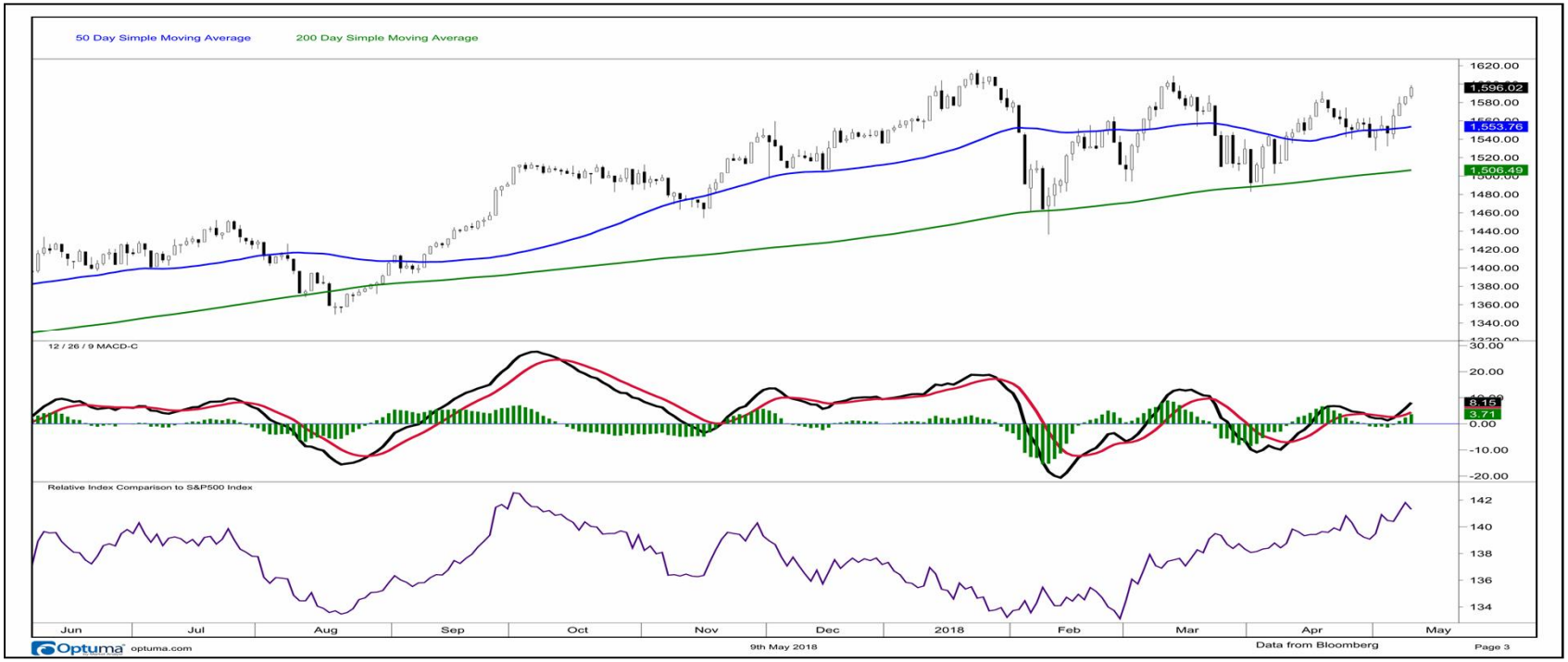
On the day of our last published note the SPX broke short term support at the 200-day ma on an intra-day basis but managed to close above the 200 day moving average. The large cap index rallied +33.69 points or +1.28% on Friday leaving the 200-day ma behind and after two days of being pinned under the 50-day ma the SPX rallied +25.87 points yesterday closing at the 2,697.79 level. MACD reflects the turn in price momentum but has only just returned to dead neutral. We now are watching to see if the SPX can register a short term higher high by surpassing April 18th intra-day high at 2,717.49 but key resistance remains at 2,800. We now mark first support at last week's intra-day low at 2,594.62 and second at the February 9th low at 2,532.69.

NASDAQ 100



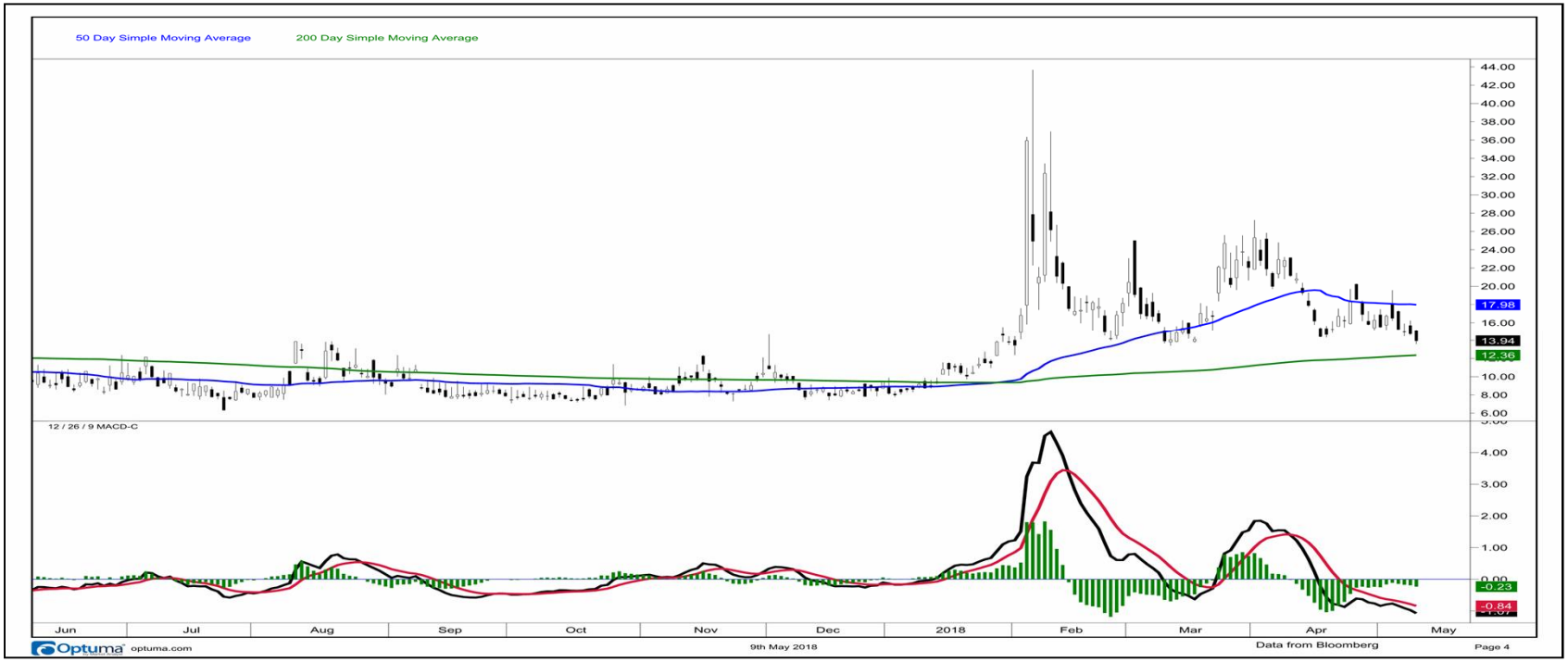
The NDX is up 3.74% over the past five trading sessions versus a 2.36% gain in the SPX but that is only one of a few positive technical features that have emerged in the high tech index since last Wednesday. On Friday the index rallied +125.64 points or 1.89% and retook the ground above its 50-day ma. The NDX followed through on those gains this week and closed above our previous first resistance at the February 18th high at 6,856.96 yesterday establishing a short term higher high. MACD has moved back into positive territory and is tracking higher above its signal line. We now mark fist support at last Thursday's intra-day low at 6,585.37 an second at the rising 200-day ma at 6,391.69 at yesterday's close. We now mark first resistance at 7,000 and second at the all-time high at 7,186.0

Russell 2000



Unlike the SPX the RTY never came close to a third retest of support at its 200-day ma and over the past five trading sessions is up +2.65% points, distancing itself from first support at last Tuesday's low at 1,527.71 and second support at the April 2nd low at 1,482.90. We have once again added an additional panel to the chart of the RTY. The index has made another new high on a relative basis versus the SPX this week. MACD has rolled up above its signal line avoiding a move into negative territory and is starting to track higher. The index close yesterday at 1,596.02 and is only one good day from challenging first resistance at 1,600 and second the all-time high at 1,615.52.

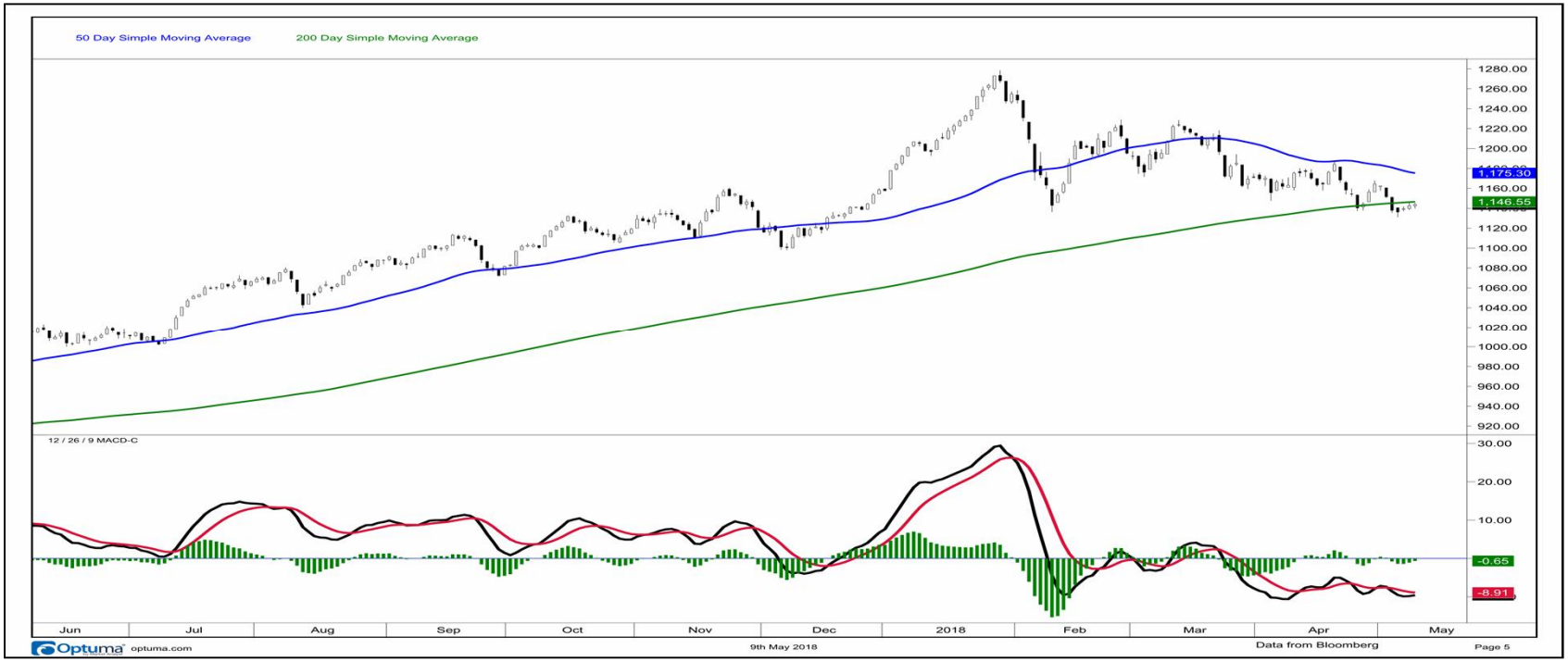
VXO



For the second time since February 1st the VXO index has closed below 14, the level that we use as the boundary between a consolidation and correction mindset. The prior occasion was March 9th, a frenetic Friday session that followed weak wage data in the BLS Employment report and took the SPX up to 2786, its highest close since February 1st. By contrast Wednesday's session was a little more orderly and with the exception of the energy sector was not driven by any obvious catalyst. Instead Wednesday's close at 13.8 reflects lower realized volatility in the trading sessions, and a growing belief that at worst the market is range-bound rather than doomed to further declines.

It is too early to be sure that the mood-shift will hold, but it would now probably require a decline below 2600 in the SPX to send investors rushing to hedge positions. Any further advance above 2700 would probably be combined with a further compression of the VXO, with 12 and 10 obvious support levels to follow.

Morgan Stanley Emerging Markets



The MXEF fell through its 200-day ma last Thursday and the longer term moving average has capped any rally attempt since then. Despite an uninspiring performance over the past five trading days compared to the rallies in the Developed Markets the index has held up reasonably well despite the fact that EM currencies have continued to get pummeled and we expect that until there is a turnaround in the underlying country currencies EM and in turn the MXEF will continue to struggle. MACD continues track sideways to lower in negative territory. We now mark key support 1,100 and resistance at 1,200.

10 Year Treasury Note

The 10 year note is starting to look comfortable above the 3.0% level with Wednesday's well attended auction setting this as the clearing level for the primary market. Progress continues to be orderly and there is a decent chance that the note will surpass its April high at 3.03% by the time we write next week. The move higher in yields remains forced by shorter term yields, with the 2 year note reaching new 10 year highs at 2.53% and the 5 year just missing this milestone at 2.84%.

At the long end of the curve the 30 year bond yield remains range-bound at 3.16%, and remains below key resistance at 3.25%. This still looks to be the key level to monitor, since a breach would open the way to a move higher in all yields with a steady yield curve shape rather than the compression which has dominated since early September.

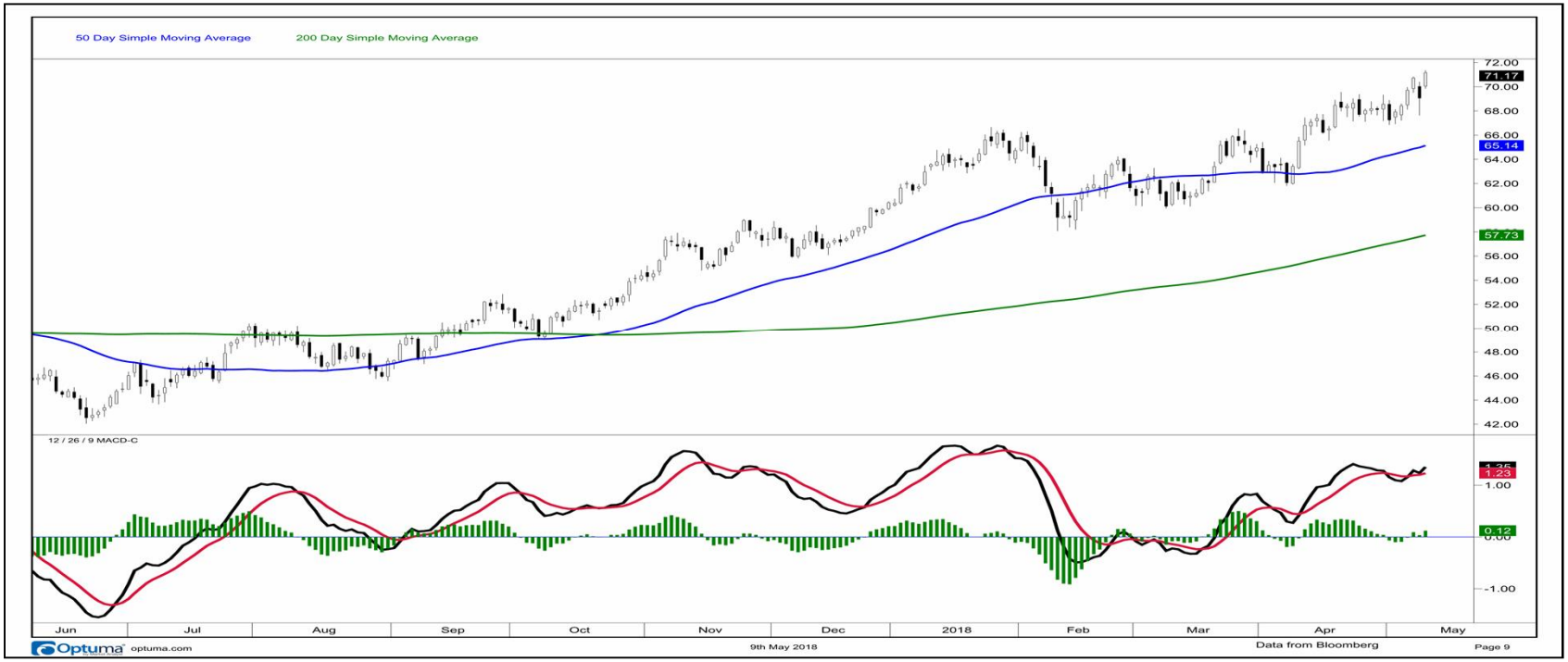
US Dollar

After only a brief pause at the end of last week the DXY has pushed higher but not with the same velocity that we witnessed when it first lifted off in the later part of April. That said, it remains firmly in the short term uptrend with the wind at its back despite being overbought as witnessed by MACD which is at its highest level since December 2016. This leads us to believe a pullback or a consolidation (at the very least) is in order. We now mark first resistance at 94.00 and second at 95.00 and we are establishing first support at 91.00.

Gold

Given the continued strength in the USD we are reasonably happy with gold's performance, with the metal rising slightly to $1312.60 over the last 5 sessions and trading in a very tight range between $1304.25 to $1319.55. The metal remains significantly higher than it was in mid-December when the USD was at an equivalent level and we suspect that even a side-ways move by the USD would allow gold to resume its upward path. In the meantime $1300 remains an important support level to watch, with the December low at $1240 a "worst case" target that we would hope remains theoretical.

Crude Oil



In last week's Speculator we suggested that crude oil price as measured by the front month WTI futures contract were simply consolidating prior to a continuation of the rally. This technical thesis proved to be correct and despite a pullback into the consolidation pattern on Tuesday, crude reached the highest level since November 2014 yesterday closing just off the highs of the day at $71.17. After pulling back during the aforementioned price consolidation, MACD established a higher low and has hooked up through its signal line. We now mark first resistance at $75 and second at $80.

Copper

Copper remains on the sidelines in a commodity complex dominated by energy but the metal has not been used as a source of capital and has held steady in the face of a strong USD. We view both as positive aspects in an otherwise dull trading environment with support and resistance remaining unchanged for another week.

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Charts are courtesy of Optuma, data feed courtesy of Bloomberg Finance L.P.