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Top 10 Charts of The Week (05-08-2019)

Table of Contents:

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1. Holes Emerging In The Swiss Market's Trend?

Looking at the major indices around the globe, we're seeing a handful of failed breakouts and prices stalling at key levels (such as the Dow, below). One of the strongest foreign markets has been Switzerland with the Swiss Market Index recently breaking out of a decade-long consolidation to fresh all-time highs. Soon after registering record highs, price gapped lower and is now trapped below its 2018 highs. We think this chart is a good barometer for European Equities and bulls should want to see it reclaim these prior highs near 9,600. If we're above that level, the bias is to the upside with a long-term price target of 12,830.

2. The Dow's "Triple Top"

For several weeks now we've been highlighting the importance of the "former highs" from either January 2018 or September 2018 in many of the major indexes. In some cases prices were able to marginally exceed those former highs, but others like the Dow were stuck below those levels as momentum diverged. It remains our view that as long as prices remain below those former highs, near-term risk is elevated. With that said, "Triple Tops" are not something we tend to see very often, so following this correction, we expect an upside resolution in Equities.

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3. Sector Leaders Tech and Discretionary At Key Level

Technology and Discretionary have been the strongest sectors again in 2019. Not only have they led all sectors off the December lows, but they also eclipsed their all-time highs from 2018. Now that both Large Cap Sector SPDRs are back at their prior highs, we want to be watching these charts closely to see if buyers step in at these former resistance levels. The market tends to follow the leaders, so weakness in these areas, which we can measure with a break below these highs, can be a powerful signal for Equities more broadly. Similar to the setup in Bonds a few weeks ago, there is a tactical trade opportunity here as risk is very well-defined at these critical levels, allowing us to know quickly if we are wrong.

4. Potential Inflection Point In S&P 500 Growth/Value

Depending on which Growth/Value factor ratio you look at, you'll see a slightly different picture, but what they all have in common is a move to new marginal highs as momentum diverges. In the S&P 500 Growth/Value ratio this development is occurring right at its 2000 highs, which also acted as resistance in 2018. The structural trend is clearly higher so we're not taking this pause as a signal to get short, it's just tough to make the long case at current levels. We'd rather be patient and wait to see how prices handle this area before acting either way.

5. The Micro-Cap Signal We're Monitoring

We've highlighted the rotation into the Small and Micro-Cap space in recent weeks. While the smaller end of the market cap spectrum is still in a structural downtrend vs Large-Caps, this ratio just undercut a major level of multi-decade support and looks poised to reclaim it with momentum diverging positively. We want to watch this closely as which way it resolves can be a big tell for the direction of the broader Equity market. Outperformance from Micro-Caps is evidence of risk appetite and rarely occurs during downtrends. In fact, the last three times this ratio tested its current lows marked significant market bottoms (Mar 2009, Feb 2016, Dec 2018).

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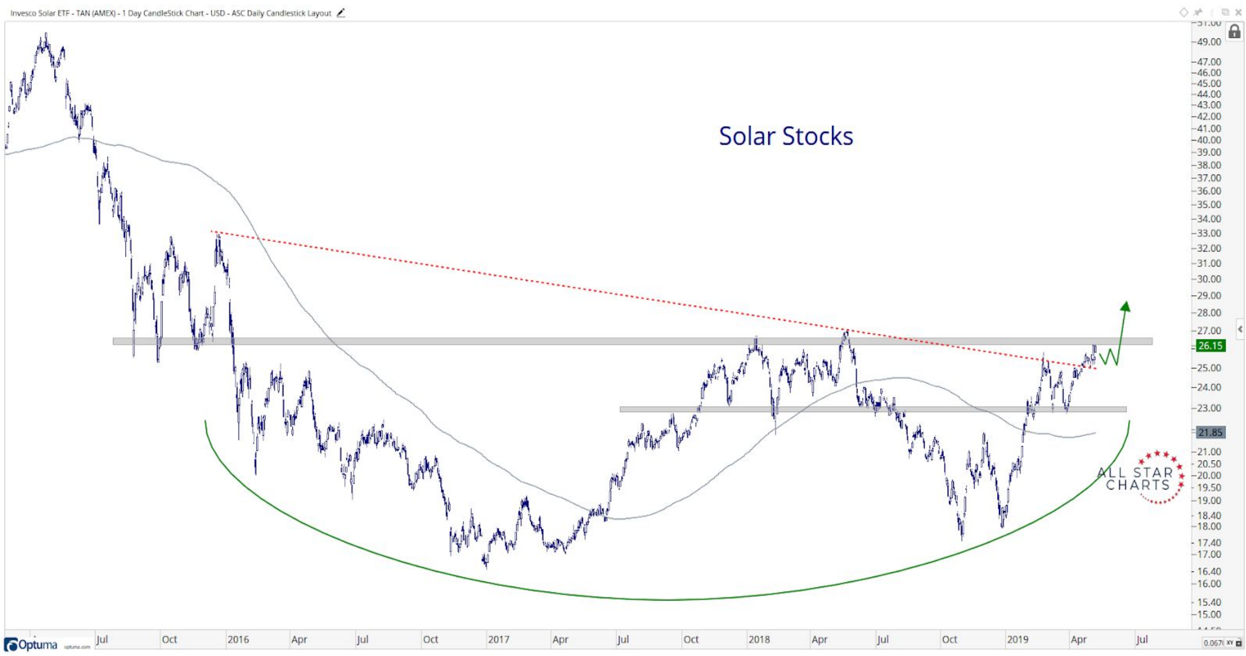
6. Solar Stocks Setting Up To Shine

This is a market of stocks and we're always looking for pockets of strength, especially during periods like these where stocks are correcting within the context of a structural uptrend. Despite the selling pressure in recent sessions, Solar Energy has continued to grind higher. Since bottoming ahead of the major indices in November of last year, Solar ETF TAN has been steadily outperforming the S&P 500 for 6-months now. From an absolute perspective, price looks ready to resolve higher from a 3.5-year base. When Equities are done correcting, we want to look into the strongest subsectors such as Solar for opportunities on the long side.



7. Emerging Markets Resume Downtrend vs S&P 500

Emerging Markets are joining their Developed Market peers (EAFA Index) in breaking down relative to the S&P 500. We've been skeptical of the recent relative strength here given that the rest of the world was already testing its relative lows versus the S&P 500 while Emerging Markets clung to their own support level. If there is going to be a shift in this structural trend of US outperformance, it's going to develop over months and years with both Developed and Emerging Markets participating. While there were some moments, particularly late last year, where we saw that, the market is clearly telling us the current trend has further downside.

8. Treasuries Remain Well Bid

Two weeks ago we noted that Bonds and bond-proxies like Utilities and REITs were at a key level and that the reward/risk was once again favorable on the long side. Prices have since rallied from those levels, indicating that this intermediate-term uptrend remains intact. Whether or not TLT can get back to its 2019 highs will be very telling about the appetite for Bonds and if this rally has legs. For now though, as long as TLT is above April lows, the bias is to the upside.

9. Another US Dollar Pair Is Breaking Out

While evidence regarding the Dollar Index's overall trend remains mixed, we're seeing several US Dollar Pairs breaking out of long-term bases, creating an attractive reward/risk opportunity on the long side. In last week's note we highlighted a breakout in the US Dollar vs Korean Won, and this week we're looking at the US Dollar vs Swedish Krona which is breaking out of a 2.5-year base to levels not seen since 2002. While some backing and filling in the near-term to work off this bearish momentum divergence would be healthy, as long as prices are above 9.44, we want to be long with an upside objective near 10.45 over the next year. Given this is a big base within a structural uptrend, we can't expect this price objective to be met overnight, but for a longer-term play the bias is clearly higher and risk is extremely well-defined at current levels.

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10. Bitcoin Reclaims Key Long-Term Level

In February we discussed the strength in Litecoin marking a long-term bottom in the space and followed up with additional posts as the price and momentum characteristics of Bitcoin and Ethereum saw similar structural improvements in the weeks following. Today we're highlighting Bitcoin breaking back above key support/resistance near 6,000, which supports the thesis that the entire space is transitioning back into a structural uptrend. Prices may need some time to digest recent gains, but over the long-term bias is now clearly to the upside for the entire group. If you want to trade Bitcoin tactically then our risk is well-defined at the 5,650 level, but from a structural perspective our bullish thesis remains intact as long as we're above 4,600.

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