

Jeffrey D. Saut, Chief Investment Strategist, (727) 567-2644, [Jeffrey.Saut@RaymondJames.com](mailto:Jeffrey.Saut@RaymondJames.com)

## Investment Strategy

February 22, 2018

U.S. Markets	Close	Net	1 Day %	YTD %
Dow Jones	24797.78	-166.97	-0.67%	0.32
Dow Jones Transports	10372.06	31.46	0.30%	-2.26
Dow Jones Utilities	664.82	-8.39	-1.25%	-8.09
S&P 500	2701.33	-14.93	-0.55%	1.04
S&P 400 Midcap	1884.04	-4.23	-0.22%	-0.87
S&P 600 Smallcap	934.93	1.99	0.21%	-0.14
NASDAQ	7218.23	-16.08	-0.22%	4.56
Russell 2000 (Smallcaps)	1531.84	1.84	0.12%	-0.24
BKX (Banking)	113.92	0.49	0.43%	6.76
BTK (Biotech)	4623.56	-26.04	-0.56%	9.51
XOI (Oil Index)	1279.21	-15.86	-1.22%	-4.22
SOXX (Semiconductor)	1325.35	-16.18	-1.21%	5.77
XAU (Gold/Silver)	80.51	-0.32	-0.39%	-5.59

## "Rabbit Ears?!"

Yesterday, the stock market put on "rabbit ears" awaiting the release of the FOMC minutes from the January 30-31 Fed meeting. Yet, as written in the Wall Street Journal, "In some sense, the market is doing the Fed's work," said Bob Baur, chief global economist at Principal Global Investors. "Rates are rising, markets are volatile, the dollar has quit falling – that's all tightening financial conditions," he said, which means the Fed may not need to move so aggressively to raise interest rates.

Like Mr. Baur, we did not expect any surprises out of said minutes, and neither did our economist Scott Brown, Ph.D. While we thought the media might try and spin the Fed's minutes towards a more hawkish tone, we would have been surprised if they were indeed much more hawkish. As we waited for the release, the S&P 500 (SPX/2701.33) was trying to claw its way back towards the 2750 level that we warned last Friday would be tough to surmount on the first try. Also as stated, the 20-day moving average (DMA) has become a key moving average for the near-term direction of the stock market. The 20-DMA "stopped" the SPX rally last Friday at ~2754, but given the subsequent weakness, it now resides at ~2739. If the SPX can trade above the 20-DMA, it will be a step in the right direction. Moreover, if it can vault above the 2750-2760 level and stay there, more and more participants will join our ranks in believing the pullback is over.

Well the FOMC minutes eventually came, and as Scott Brown wrote:

Nothing surprising here. Some Fed officials raised their growth outlooks since the mid-December meeting, but overall, near-term risks were seen as "roughly balanced" and there didn't appear to be a heightened sense that more significant action was needed. Future policy moves will remain data dependent. It's a slow news week, and the financial press had elevated the importance of these minutes. Hence, some relief (higher share prices) that they are behind us. Bond yields little changed. Fed Chair Powell will deliver his semiannual monetary policy testimony to the House Financial Services Committee on February 28 and to the Senate Banking Committee on March 1. (Continued on page 2)

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... Wall Street Journal

Index	Cur Future	Change	
Dow Jones	24,775	-7.00	
S&P 500	2,703	4.30	
NASDAQ	6,762	1.50	
Volume	ADV/DEC		
	1 Day Volume	Volume	
NYSE	888,128,304	0.39	
NASDAQ	1,908,227,966	0.80	
Foreign Markets	Intraday	Net	
		% Chg	
U.K.	FTSE 100	0.00	
Germany	Germany DAX (TR)	-93.68	
Brazil	Brazil Bovespa In	0.00	
Japan	Japan Nikkei 225	-234.37	
Hong Kong	Hang Seng Index	-	
S&P Sectors	Close	% Chg	
S&P 500 / Consumer Discretive	830.20	-0.13%	
S&P 500 / Consumer Staples :-	551.84	-1.24%	
S&P 500 / Health Care -SEC	972.27	-0.45%	
S&P 500 / Information Techno	1163.35	-0.60%	
S&P 500 / Telecommunicatior	153.78	-1.65%	
S&P 500 / Energy -SEC	489.44	-1.66%	
S&P 500 / Financials -SEC	479.20	-0.06%	
S&P 500 / Industrials -SEC	642.70	-0.01%	
S&P 500 / Materials -SEC	375.60	-0.38%	
S&P 500 / Utilities -SEC	246.68	-1.32%	
S&P 500 / Real Estate - SEC	184.12	-1.81%	
Key Commodity Prices	Last	Net	
Crude Oil WTI (NYM \$/bbl) Con	61.420	-0.27	
Natural Gas (NYM \$/mmbtu) C	2.632	-0.02	
eMini Gasoline (NYM \$/gal) Cc	1.757	0.00	
Gold (NYM \$)	1324.700	-7.20	
Silver (NYM \$/ozt) Continuous	16.415	-0.20	
United States Dollar Index	90.117	0.12	
eMini Copper (NYM \$/lbs) Con	3.180	-0.04	
Cotton #2 (IFUS \$/lbs) Continu	0.801	0.00	
Market Valuation	2017E	2018E	2019E
Consensus S&P 500 EPS	\$125	\$156	\$172
P/E	21.6	17.3	15.7
Earnings Yield		5.8%	6.4%
Equity Risk Premium (10 yr)		2.8%	3.4%
Treasury Yields	90D	10 Yr	30 Yr
	1.64	2.94	3.23

Source: FactSet Data as of: 2/22/2018

S&P 500 (Source: Stockcharts.com)

Stocks soared on the initial release of the minutes. However, on the read through, the equity markets seemed surprised as shares began to slide. By the closing bell, the triple-digit gain turned into a triple-digit loss for the senior index. Once again, the 2750 level repelled the SPX with an intraday “print high” of 2747.25. The result left the SPX resting slightly above the 2680-2700 level that we stated on CNBC might act as a support level. As our friend Bob Pisani writes, “Well, that was confusing. There were no news items that dropped the markets in the last 45 minutes of trading. Instead, traders seemed to talk themselves into a belief that the Fed was going to be more hawkish than their own statement seemed to indicate.”

And that is why we stated last Friday, “We would be somewhat cautious on a short-term trading basis.” So we guess we will find out today if the 2680-2700 level on the SPX contains this pullback. Overnight, the S&P 500 futures did tag 2682 and have rebounded, leaving them up some two points as we write at 5:17 a.m. If the 2680-2700 fails to hold, the stair step support levels look like 2660, 2632-2638, 2615-2585.

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