Asbury Research

KEYS TO THIS WEEK

Keys To This Week, October 5th 2015: The US Stock Market

Posted on: **Monday, October 5th, 2015**

Analysis & Commentary:

This week our table retains the previous week's (slightly) positive distribution of key Near Term factors for the US stock market, and the past two week's Positive Intermediate Term alignment of key factors. **For the past month we have been pointing out favorable conditions for an intermediate term bottom to emerge in the US stock market** due to a number of metrics that indicate capitulation. These metrics include extremes in volatility, put/call ratios, investor sentiment, and in market breadth. In addition, the US stock market seasonally bottoms in September and then gradually strengthens into year end. All of these factors retain their bullish implications heading into this week.

However, of the list of near tern negative market factors in our table, **the most important reason to remain cautious is widening corporate bond spreads**. Specifically, history shows that stock market rallies cannot sustain themselves amid widening corporate bond spreads, which indicate tightening credit conditions due to increasing credit/repayment risk. Most recently, widening corporate bond spreads were one reason that the US stock market could not make and sustain new highs during the first half of this year, and helped to trigger the August market collapse. So, **although the market may rise from here on a near term basis, until these spreads start to meaningfully narrow, a sustainable US market rally is unlikely**.

THE US STOCK MARKET

	POSITIVE FACTORS	NEGATIVE FACTORS
NEAR TERM (one to several weeks)	DAX, NIKKEI HOLD MAJOR SUPPORT	NDX TESTING MAJOR RESISTANCE
	MARKET BREADTH: NYSE COMPOSITE	ASSET FLOWS: SPY
	CBOE PUT/CALL RATIO	CORPORATE BOND SPREADS
	INVESTOR SENTIMENT	VOLAITLITY: THE VIX
	SEASONALITY	
INTERMEDIATE TERM (one to several months)	DAX, NIKKEI HOLD MAJOR SUPPORT	NDX TESTING MAJOR RESISTANCE
	VOLATILITY: THE VIX	
	INVESTOR SENTIMENT	
	SEASONALITY	

FOR THE WEEK OF OCTOBER 5, 2015

ASBURY RESEARCH KEYS TO THIS WEEK

Table 1

Listed in the order of their importance and expected impact on market direction.

1. **Intermarket Relationships: German DAX, Japanese Nikkei 225 Indexes. MAJOR DECISION POINT, INTERMEDIATE TERM BULLISH.** Charts 4 and 5 of last week's report showed that both the DAX and Nikkei 225 have recently tested, and are now rebounding from, their respective 3-4 year uptrend lines at 9407 in the former and 17,488 in the latter. Considering their tight and stable positive correlation to the S&P 500, as long as they remain above their respective trend lines it will be construed as being indirectly bullish for the US broad market.
2. **Overhead Resistance: NASDAQ 100 (NDX) Index. NEAR TO INTERMEDIATE TERM BEARISH, MAJOR DECISION POINT.** Chart 3 of last week's report showed that NDX was, and still is, testing a band of major overhead resistance at 4281 to 4385 as the index closed at 4267 on

Friday. As long as this resistance area is not broken, the major trend in this market leading index will remain bearish.

3. **Asset Flows: Outstanding Shares, S&P 500 SPDR (SPY). NEAR TERM BEARISH. Chart 1** below shows that the 4.8% rise in the S&P 500 SPDR (SPY) between September 29th and October 2nd was accompanied by a 3.3% contraction in the ETF's outstanding shares. This means that investors were using last week's rally to liquidate longs rather than to accumulate them, which is bearish. Outstanding shares must begin to expand on rising prices this week if last week's rally is to be sustainable.
4. **Market Breadth: NYSE Composite 26-week New High/New Low Ratio. NEAR TERM BULLISH. Chart 2** below shows that this indicator aggressively rose from historic low extremes last week, indicating improving market breadth that has not been seen since mid September. The chart also shows that previous, similar spikes in market breadth fueled a number of US broad market bottoms since January.
5. **Credit Spreads: High Yield Corporate Bond Spread. NEAR TERM BEARISH. Chart 3** below shows that the BofA Merrill Lynch US High Yield Master II Option-Adjusted Spread steepened to 667 bps by the end of last week, its widest level since June 2012. A steepening spread indicates worsening credit conditions that historically coincide with or lead stock market declines. Therefore, unless/until the spread moves back below its 21-day moving average to indicate a monthly trend of narrowing, last week's US market rebound is probably unsustainable.
6. **Volatility: CBOE Volatility Index (VIX). NEAR TERM BEARISH, INTERMEDIATE TERM BULLISH.** Chart 4 of the August 31st Keys To This Week showed that the VIX spiked above 44.00 on August 24th, a level that had previously coincided with or led S&P 500 bottoms in 2010 and 2011. What the chart doesn't show, however, is that the bottoms in the S&P 500 that these extreme readings preceded came 5 weeks later and 7% lower in 2010, and 8 weeks later and 4% lower in 2011, than the initial index lows while the VIX was breaching 44.00. Moreover, it would take a sustained decline in the VIX, back below its 50-day moving average at 20.86 as shown in the lower panel of **Chart 4** below, to indicate that investors have become complacent enough to facilitate the stock market advance that the recent spike up to 44.00 suggests is coming.
7. **Options Volume: CBOE Put/Call Ratio. NEAR TERM BULLISH. Chart 5** below shows that that the CBOE Put/Call Ratio has been hovering at historic most bearish extremes since late August, indicating an extreme in put versus call volume that has previously coincided with or led some of the most significant bottoms in the S&P 500 since 2013.
8. **Investor Sentiment: US Stock Market. NEAR TO INTERMEDIATE TERM BULLISH.** As has been the case for the past month, most of our comprehensive list of investor sentiment metrics suggest favorable conditions for an upcoming near to intermediate term US market advance. **Chart 6** below displays one of these metrics, the NAAIM Exposure Index, which is a weekly survey of stock market bullishness according to the membership of the National Association of Active Investment Managers. These managers, typically Registered Investment Advisors (RIAs), are currently at a least bullish extreme of 14% or less that has previously coincided with or led every major bottom in the S&P 500 since 2008.
9. **Seasonality: S&P 500. NEAR TO INTERMEDIATE TERM BULLISH.** Chart 5 of the September 8th Keys To THis Week displayed the weekly seasonal pattern in SPX for the 3rd Quarter and showed that the final week of September, which was last week, is the weakest of the entire quarter, after which prices historically rise into year end. More annual, quarterly, and monthly charts and analysis of seasonal trends for 17 global asset prices are available in our October Global Seasonal Analysis report**.**

Chart 1

Chart 2

Chart 3

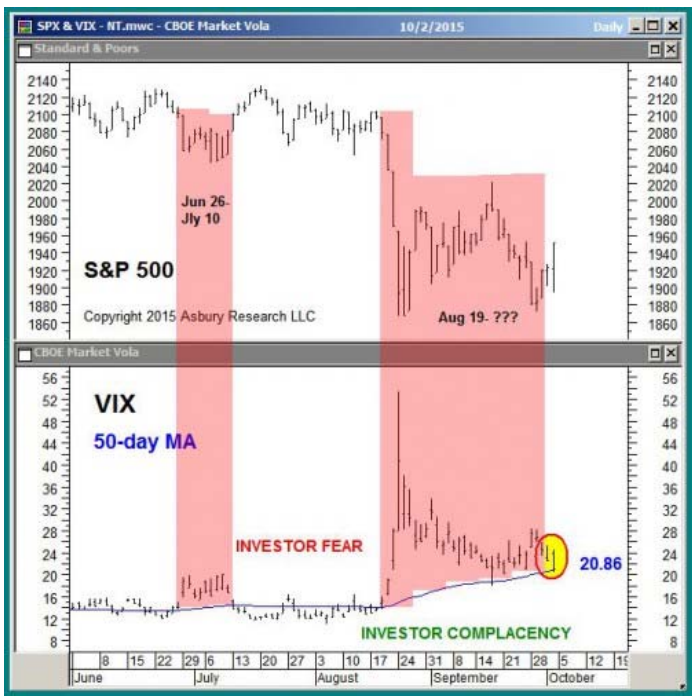

Chart 4

Chart 5

Chart 6