Hamilton-Bates

Market Update

July 15, 2015

July 15, 1971 - During a live television and radio broadcast, President Richard Nixon stuns the nation by announcing that he will visit communist China the following year. The statement marked a dramatic turning point in U.S.-China relations, as well as a major shift in American foreign policy.

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An 11th Hour Greek Deal and Chinese Government Intervention Spur Global Rally

Greece Prime Minister Tsipras agreed to a last minute deal that now needs to be passed in the Parliament. It will be a tough battle but based on how Greece stocks are trading on the NYSE, the deal is expected to pass. The Chinese Government also took extreme measures to halt a 35% decline in their stock market; using short-sale bans, pledges of support from state owned companies and banks, trading halts, and even threats of visits from the police to 'unwarranted, aggressive sellers'. They did the trick and a market that was due for a rebound saw a 15% two day pop. We have seen some selling return to China this week, but the Government is probably not done.

The developed markets liked what it saw out of Greece and China last week, and European Indexes have rallied 3-5% since, as our S&P 500 has gained nearly 3%.

Earnings, Economics, and Interest Rates

Earnings are just starting to come out, but so far the message has been fairly good. We are not seeing blowout numbers, but neither have we seen any real disasters yet. The banks did moderately well, giving the financial sector a boost. Intl came out with ok numbers, but its not clear whether PC-heavy Intel can move the chip stocks at a time when its handsets and tablets that rule. As long as there aren't renewed concerns from Greece and or China, we could get a boost from a good batch of earnings over the next few weeks.

Greece & China

In the end Greece' Prime Minister accepted a worse deal than he might have gotten a few weeks ago, falsely trying to bluff the Eurogroup that Greece was prepared to Grexit the euro. But polls in Greece showed little stomach to leave the euro by the population, so in the end the gambit failed. Realistically unless Greece is given some forbearance in the form of interest rate reductions or longer repayment terms this is just another kick the can deal.

The Chinese Market Bounces

The size and speed of the drop in the Chinese market had global effects, and markets from the US to Europe to Asia declined in sympathy. We have since seen a decent rebound that has helped most markets rebound, but we are not in love with China's 'Roach Motel' strategy to their market. Preventing short-sales, and even plain sales, along with halting most stocks during the decline gives investors the very real feeling that <u>you can get into China stocks but you might not be able to get out</u>—thus the reference to the anti-pest device.

The drop in stocks has been somewhat dented, but to us the larger risk in China would be *economic*, should the market decline dampen an already slowing Chinese economy. As we noted last week China has become very important for many sectors' growth prospects, and as a whole China represented 38% of global growth last year. We will be watching the spillover effects of the Chinese market into the Chinese economy, and we will get some insight in the next two weeks as companies release earnings and forward guidance.

Market and Investment Outlook

The market bottomed last week and pushed higher, rebounding 3% over the past few trading days as concerns over Greece and China waned. Our market bounced from very critical levels, opening the door for a rally up into August. We could see another 3-5% over the next 4-6 weeks if Greece and China don't fall apart and earnings season is solid.

We remain invested with a focus on stocks over bonds, with some cash that has built up from sales. We have cut back on any holdings that were sharply affected by the Chinese market decline, directly or indirectly; this week's bounce provided that opportunity. As long as the S&P holds above 2080 (see chart section on next page for key technical levels), we'll look to put cash to work as the market moves toward an anticipated peak some time in August. At that time we could be dealing with market concerns over a potential Fed rate hike in September.

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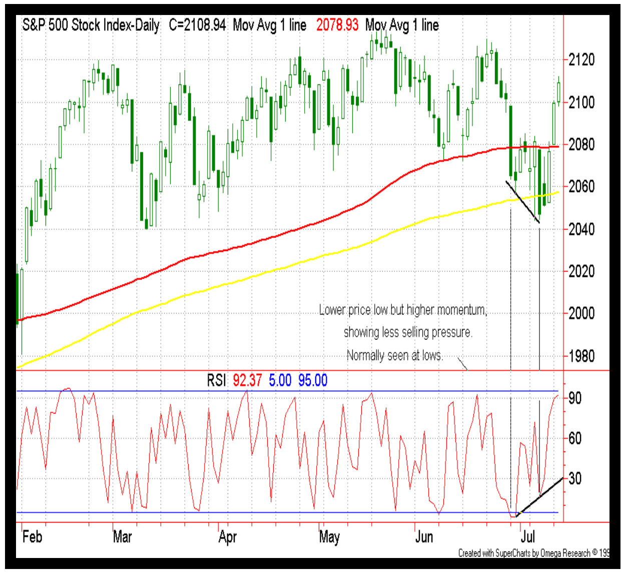
S&P 500 Charts—Market Rallies When Its Needed; Bulls Need to Maintain the Advance

Near-Term S&P 500 Outlook (Top Chart @ Right)
The lower price low into July 8th which saw the S&P 500 close at 2046, was accompanied by decreasing downside momentum (shown in the bottom panel of the chart as a lower S&P price low but a higher low in the momentum indicator), giving hope for a rapid rebound. The S&P did recover as expected in the last Update, taking out 2060 and 2080 on the S&P 500 in rapid succession. This tells us the move up into a 'summer rally' should be underway.

The market should generally move higher from here, with 2150 to 2250 a general upside target. Pullbacks notwithstanding, support at 2080 should contain any selling. A drop below 2080 and especially 2060 would be concerning.



S&P 500 Long-Term (Lower Chart @ Right)
The bull market seems to have once again come back from the ledge, falling below the key 10-month average (red line) during the first week of July, threatening to turn the long-term trend down. But hopes for a Greek deal and Chinese government intervention gelled hopes for a rebound.

Another move below the 2060-2070 range after breaking it once already and recovering would likely turn the larger trend negative. A month-end close below 2067 would be a technical 'sell' signal, although our models would likely already be defensive by that time.

The next 'bear market' is likely to see the S&P 500 drop to the 1550-1600 area, the level of the prior 2000 and 2007 highs.