Hamilton-Bates

Market Update

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Trade Wars and Turnover

During the last two weeks since the last Update little has been resolved as far as the DJIA and S&P 500 are concerned. Both continue to chop around near their 50-day averages. The DJIA and S&P 500 are about at the mid-point between their January high and February low. The NASDAQ hit a new high last week, suggesting tech is still the dominant market sector. Unless and until the blue-chips join the NASDAQ, daily market action is just noise. A confirmed breakout by all the averages would suggest the worst is past. The choppy market action isn't unusual after the type of price shock seen in February, especially since there have been talk of trade wars, and the much loved (by the market) Larry Cohen left the president's staff. All in all market action has to be described as positive given all that is occurring.

Economy and Earnings

The ISM Services report came in a little lower than the expected 59.9, but still plenty respectable at 59.5. The follows the ISM Manufacturing Index from two weeks which hit a multi-year high of 60.8. Together, the two ISM readings paint a pretty positive picture.

The big data number, of course, was February's job growth. Economists were looking for payroll growth of only 210,000, but we actually saw 313,000 new jobs added for the month. That's the most additions since mid-2016. There were also upward revisions to prior months. It wasn't enough to push the unemployment rate any lower than 4.1%, but that's not unusual in that the nation is pretty much at its lowest plausible unemployment rate. Overall economic growth seems to be slower than the 4% of last quarter, but high enough to keep the Fed on track for two or three more rate hikes before the end of the year.

Market Outlook

The market started last week with a strong start, creating some hope that the market will begin the rally started from the second February low. Unfortunately the buyers offered very little follow-through and the market stalled once again after last week's gain. Maybe it was all the political noise that kept traders on the sidelines. The NASDAQ Composite reached a record high, and in our view when the NASDAQ leads its bullish for the overall market. Can it last? It's certainly not the ideal launch of a new breakout, as we thought the market would churn a bit more, but this is a market that's made a habit of doing the illogical.

Corporate buy-backs returned with authority last week, perhaps that was the juice that moved the market higher. It is increasingly unclear what will propel stocks higher from here. It is interesting that although the initial sell off was triggered by a move higher in treasury yields, in recent sessions yields and equity prices have generally moved in the same direction. It seems that what concerned the market in February was the speed of the rise in yields, and the potential for that move to pick up steam if 3.0% was breeched in the 10-year (it was not).

It is not that unusual for the market's attention to shift from news, to earnings, to interest rates during a messy period such as this, but it does indicate that if a full retest of the March or February low (2532) is required it may be accompanied by a very different set of headlines (such as tariff wars) than those that took us lower a few weeks ago. It seems like bond yields have peaked for now.

Last week the market put in a bullish reversal of the previous week's bearish reversal. That pretty much leaves the market in limbo. Unable to push the

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market higher on the back of a strong week it seems the market needs to build further strength.

The daily action since the February low looks very choppy indeed, reflecting the lack of bullish follow through on any move. There are gaps from last week's rally, and the market usually fills gaps, meaning we may need to move a bit lower. Last week's move also occurred despite a lack of any 'new' news. This left buyers wanting as we started this week. The blue-chips look 'blah'. The NASDAQ and Russell 2000 look much better price-wise, and in terms of volume the NASDAQ looks very good. Buyers still seem supportive of the tech sector.

Beneath the surface though, it seems that FANG continues to dominate, led by tech giants Netflix and Amazon. A closer look reveals not much else has been all that hot. Its really been a big-tech rebound. On some level that is a problem, because rallies should have broad participation. Well known media guru Jim Cramer made a similar complaint last week, noting that this would eventually prompt investors to throw in the towel in a broad sense.

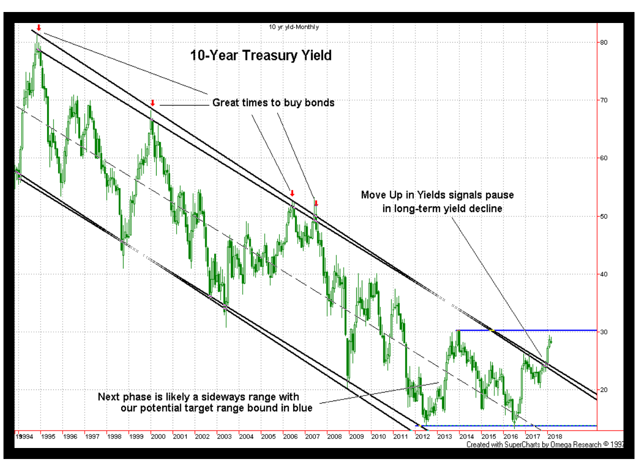
Still, even though there are still plenty of warts left on the market after the February decline, it's tough to deny that bullish momentum remains, and this is an environment where momentum has been able to remain in motion thanks to corporate buy-backs, and this in turn has kept the buyers excited.

Until we see a true 'breakout', we will caution that the bears are apt to push back here, if only to close last week's gap. It's what happens when this rally is tested that will really interest us. As long as the major indexes hold their key long-term average lines as support levels, investors should remain bullish. Until that breakout, it doesn't seem like its going to be straight-line bullishness.

Market Game Plan

The bull market still hasn't done anything wrong, but neither has it confirmed to us that the correction that started at the end of January has run its course. Absent a confirmed 'breakout' or 'breakdown', the strategy for stocks will be to buy weakness. The bond market looks like it is trying to find a bottom, meaning that yields should move lower at least for the short-term. That takes away one concern for now at least (rising bond yields). All in all the market has held up well to recent negative news. We still believe the bull market has further to go, whether that is on the heels of the current NASDAQ strength or if the market needs to work a bit lower first.

Market Charts : Yields May Have Peaked—This Could Help Stocks



Bond Market & Interest Rates—long-term US interest rates broke out of the multi-decade down trend in February, making it the proximate cause of the sharp stock decline seen during that period. After threatening to move above the 3% level, yields have actually declined in recent sessions, with the 10 year yield falling back 10 basis points from the recent peak. As long as yields remain below 3% it gives the stock market some breathing room. **A push above 3% on the 10-year note would likely coincide with another round of falling stock prices. This is a KEY level.**