

Market Perspective

Intense Buying Is a Longer-Term Positive

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Historically Intense Buying Is a Positive

What Happened?

After one of the worst quarters in market history, stocks reversed their course and rallied about 18% since December 24th.

Although stocks appear due for a breather near term as they approach the October highs, the historical evidence suggests the strong buying witnessed recently has positive implications from a longer-term perspective. Intense buying pressure has often occurred following important market bottoms.

Indeed, in our late January note, we discussed how over a 10-day period the number of S&P 500 stocks that were positive outpaced those that declined by more than a 2-to-1 margin. This has only occurred 25 other times since 1990. Following past occurrences, the S&P 500 was higher one year later in 24 of 25 instances with an average gain of 12.9%.

Last Friday, another price-based measure of buying pressure breached an important threshold. That is, the percentage of stocks in the S&P 500 trading above their 50-day moving average rose above 90% for only the 15th time since 1990*. Following past signals, the S&P 500 was higher one year later in 13 of 14 instances, with an average gain of 16%.

What is unusual about the current signal is the market went from extreme selling (less

than 10% of stocks above their 50-day moving average) to extreme buying (90% or more of stocks above their 50-day moving average) in only a few months.

This has occurred only five other times since 1990 (listed below by the date when the 90% threshold was first met). Each of the prior instances followed important market bottoms. Each time, stocks were higher a year later with above-average gains.

- 1) **November 1998:** initial leg higher after stocks bottomed following the Russian ruble crisis, the collapse of Long-Term Capital Management hedge fund, and a 19% stock market correction.
- 2) **May 2003:** initial leg higher after stocks bottomed in March 2003 following the bursting of the technology bubble, leading to the 2003-2007 bull market.
- 3) **May 2009:** initial leg higher after stocks bottomed in March 2009 following the financial crisis, leading to the current bull market.
- 4) **October 2011:** initial leg higher after US debt downgraded, European debt crisis, and 19% stock market correction.
- 5) **March 2016:** initial leg higher after stocks rebounded from worst start of the year in history on global growth and China concerns.

Bottom Line

Markets have come a long way in a short period of time, and it would be normal for stocks to start to encounter some resistance as they approach the October highs. A digestion of recent gains is to be expected. Still, the weight of the evidence indicates that the powerful buying seen this year is ultimately a good sign, one that is associated with a high probability of higher stocks over the next year. Accordingly, we recommend investors stick with the positive trend and view pullbacks as opportunities.

The 50 day-moving average is simply a security's average closing price over the past 50 trading days. This is a popular technical indicator and a measure of trend. In general, a stock price trading above its 50-day moving average is viewed as a positive sign and denotes a security that is trending higher.

*Only first signal used in each instance (clusters removed)

Past performance does not guarantee future results.

Market Gains Have Been Broad Based

The percentage of stocks in the S&P 500 trading above their 50-day moving average price breached 90% for only the 15th time since 1990*.



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*Only first signal used in each instance (clusters removed)
Data Source: FactSet, SunTrust IAG

Broad-Based Buying Pressure Historically Has Been a Positive for Stocks

The percentage of stocks in the S&P 500 trading above their 50-day moving average price breached 90% for only the 15th time since 1990*. Following past signals, the S&P 500 was higher one year later in 13 of 14 instances, with an average gain of 16%.

S&P 500 Performance After 90% of Stocks Trade Above Their 50-Day Moving Average

	3-Months Later	6-Months Later	12-Months Later
02/06/91	5.7%	9.1%	15.6%
06/09/97	7.9%	14.0%	29.6%
03/24/98	1.3%	-6.9%	14.7%
11/05/98	9.7%	18.2%	20.8%
05/05/03	6.1%	13.4%	20.8%
11/12/04	1.9%	-1.6%	4.3%
05/04/09	8.8%	17.5%	32.5%
08/03/09	3.3%	10.0%	12.3%
04/01/10	-12.8%	-2.8%	12.0%
10/05/10	9.6%	14.8%	-5.3%
10/24/11	5.7%	10.9%	12.7%
01/18/13	5.1%	14.1%	24.1%
05/15/13	1.6%	6.6%	12.8%
03/16/16	2.2%	4.9%	17.7%
02/15/19	?	?	?
Average	4.0%	8.7%	16.0%
Median	5.4%	10.5%	15.2%
% Positive	93%	79%	93%
Max Gain	9.7%	18.2%	32.5%
Max Loss	-12.8%	-6.9%	-5.3%

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Data Source: FactSet, SunTrust IAG

Periods Where Market Went from Broad-Based Selling to Broad-Based Buying

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Each of the prior instances occurred following important market bottoms. Each time, stocks were higher a year later with above-average gains.

S&P 500 Performance After 90% of Stocks Trade Above Their 50-Day Moving Average

Date	3-Months Later	6-Months Later	12-Months Later
11/05/98	9.7%	18.2%	20.8%
05/05/03	6.1%	13.4%	20.8%
05/04/09	8.8%	17.5%	32.5%
10/24/11	5.7%	10.9%	12.7%
03/16/16	2.2%	4.9%	17.7%
02/15/19	?	?	?
Average	6.5%	13.0%	20.9%
Median	6.1%	13.4%	20.8%
% Positive	100.0%	100.0%	100.0%
Max Gain	9.7%	18.2%	32.5%
Max Loss	2.2%	4.9%	12.7%

Past performance does not guarantee future results

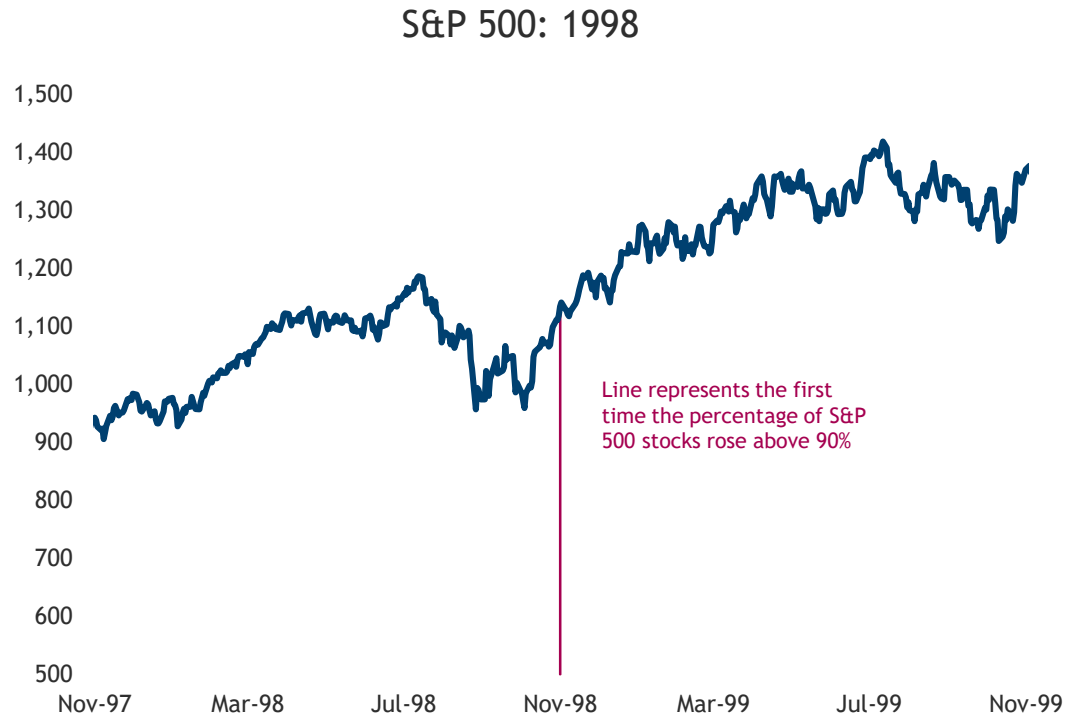
Study looked at periods where stocks went from below 10% above the 50-day moving average to 90% above this threshold over a three-month period.

Only first signal used in each instance (clusters removed)

Data Source: FactSet, SunTrust IAG

1998: S&P 500 Price Action Following 90% of Stocks Rising Above Their 50-Day Moving Average

After the 90% signal in 1998, stocks continued to climb over the next several months.



Past performance does not guarantee future results
Data Source: FactSet, SunTrust IAG

2003: S&P 500 Price Action Following 90% of Stocks Rising Above Their 50-Day Moving Average

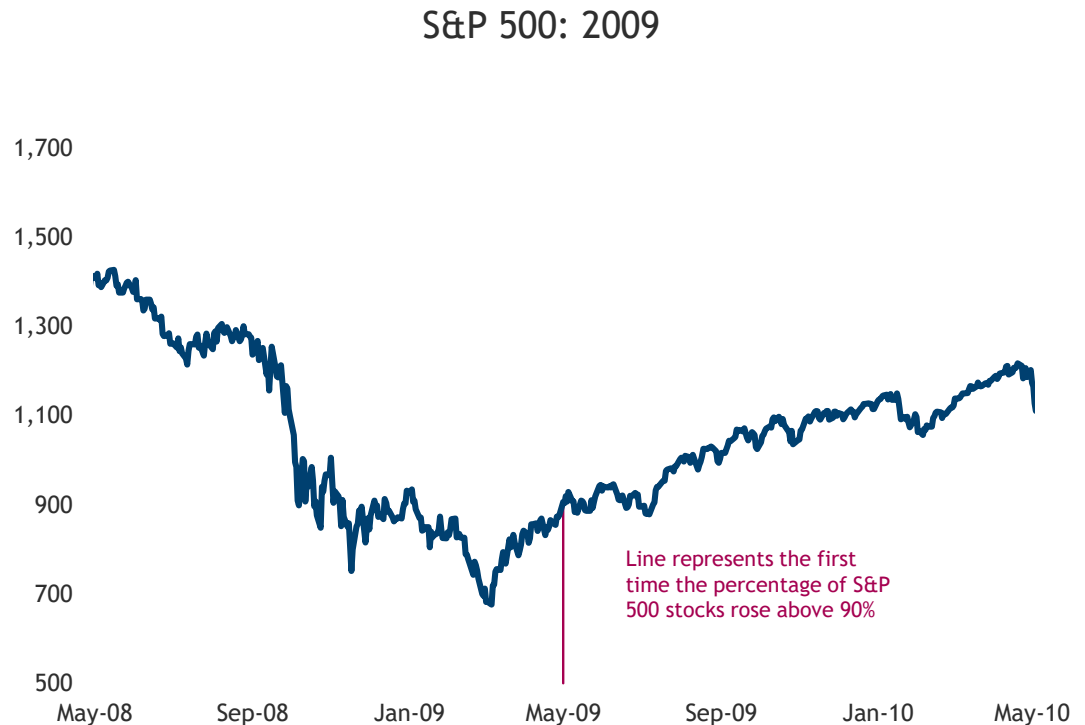
After the 90% signal in 2003, stocks continued to climb over the next several months.



Past performance does not guarantee future results
Data Source: FactSet, SunTrust IAG

2009: S&P 500 Price Action Following 90% of Stocks Rising Above Their 50-Day Moving Average

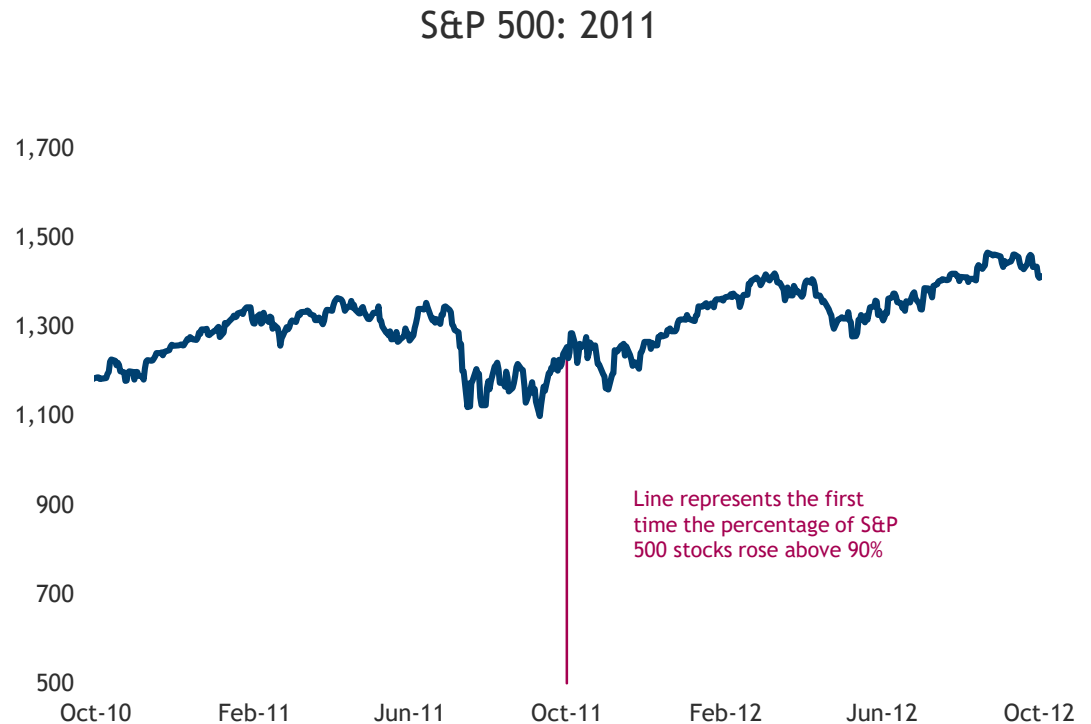
After the 90% signal in 2009, stocks moved sideways over next several months before resuming their climb higher.



Past performance does not guarantee future results
Data Source: FactSet, SunTrust IAG

2011: S&P 500 Price Action Following 90% of Stocks Rising Above Their 50-Day Moving Average

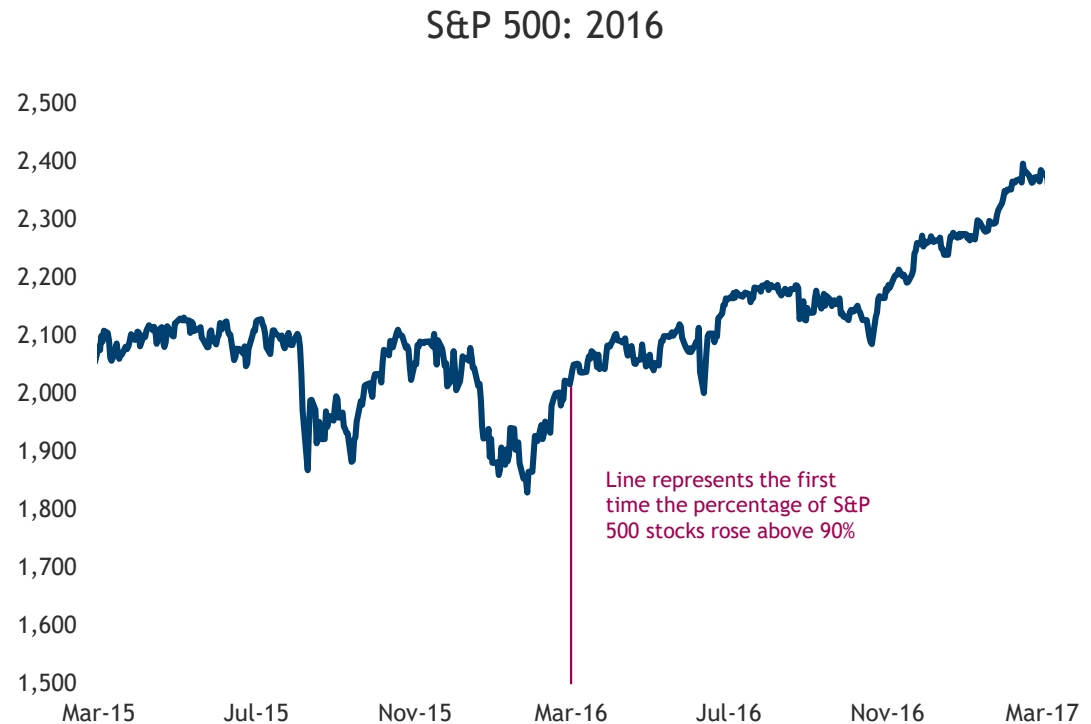
After the 90% signal in 2011, stocks moved higher for a couple of days, then suffered a 7% setback, before eventually moving significantly higher.



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Data Source: FactSet, SunTrust IAG

2016: S&P 500 Price Action Following 90% of Stocks Rising Above Their 50-Day Moving Average

After the 90% signal in 2016, stocks moved a few percentage points higher over the next month, then traded in a choppy fashion until the November elections.



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Data Source: FactSet, SunTrust IAG

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S&P 500 Index is comprised of 500 widely-held securities considered to be representative of the stock market in general.

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