



Bad Market Breadth Warrants Caution

The equity markets surged last Thursday and continued upward on Friday on poor economic news and bad breadth. GDP was 1.1%, well below the 2% expectation. The miss was due to higher-than-expected inflation and a drop in personal consumption. Consequently, Fed Funds imply investors are confident of a rate hike this week and a good chance of another in June. The market's breadth behind the rally was not healthy. Despite jumping nearly 2%, there were a net 85 more new lows than new highs in the S&P 500.

The Tweet of the Day at the bottom shows that only 32% of the stocks in the S&P 500 are beating the index year to date. You must go to the dot com bubble to find similar bad market breadth. This is unhealthy market behavior. We suspect that either more stocks will join the rally, causing breadth to normalize, or last week's rally may be short-lived. A section below, entitled More Bad Breadth, argues the latter.



TradingView



What To Watch Today

Economy

Time	Event	Impact	Actual	Dev	Consensus	Previous	
MONDAY, MAY 1							
13:45	USD S&P Global Manufacturing PMI(Apr)		-	-	50.4	50.4	
14:00	USD Construction Spending (MoM)(Mar)		-	-	-0.1%	-0.1%	
14:00	USD ISM Manufacturing Employment Index(Apr)		-	-	47.9	46.9	
14:00	USD ISM Manufacturing New Orders Index(Apr)		-	-	45.5	44.3	
14:00	USD ISM Manufacturing PMI(Apr)		-	-	46.6	46.3	
14:00	USD ISM Manufacturing Prices Paid(Apr)		-	-	50.4	49.2	
15:30	USD 3-Month Bill Auction		-	-	- 5.06%		
15:30	USD 6-Month Bill Auction		-	-	- 4.84%		
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Earnings

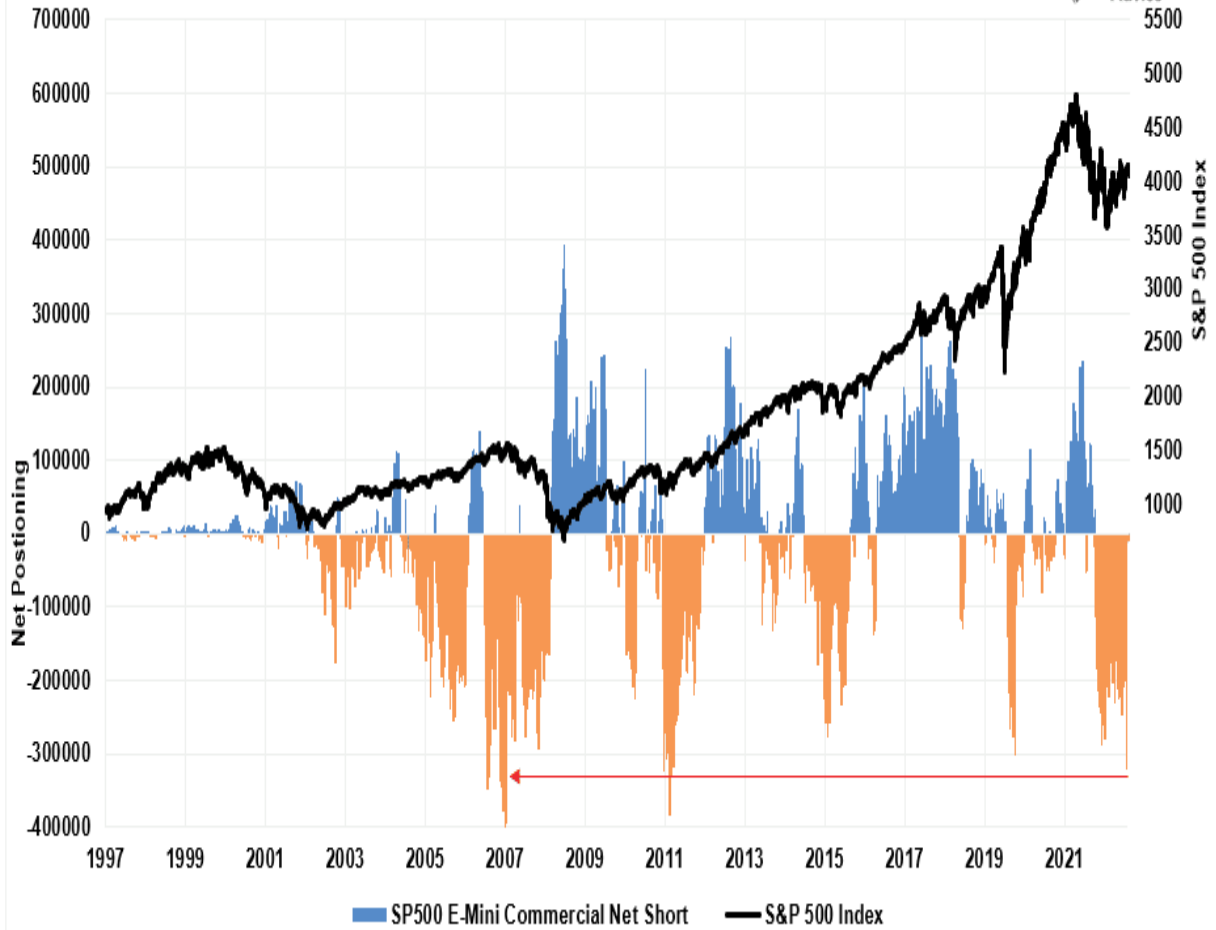
	Company	Time	Estimate	Growth	Surprise			
				<input checked="" type="checkbox"/> Show only confirmed?				
✓	SOFI	SoFi	7:00 AM ET	(\$0.08)	\$441.64 M	33.7%	+ = -	+
✓	NCLH	Norwegian Cruise Lin...	7:30 AM ET	(\$0.51)	\$1.75 B	235.3%	+ = -	+
✓	ON	onsemi	8:00 AM ET	\$1.09	\$1.92 B	-1.3%	+ = -	+
✓	CHKP	Check Point Software...	5:00 AM ET	\$1.57	\$519.39 M	-4.3%	+ = -	+
✓	ALX	Alexanders Inc.	8:55 AM ET	\$3.87	\$53.00 M	7.7%	+ = -	+
✓	CNA	CNA Financial Corp.	6:00 AM ET	\$1.20	\$3.17 B	9.9%	+ = -	+
✓	BEN	Franklin Resources Inc.	8:30 AM ET	\$0.57	\$1.90 B	-8.7%	+ = -	+
✓	AMG	Affiliated Managers G...	7:00 AM ET	\$4.15	\$540.91 M	-10.9%	+ = -	+
✓	GPN	Global Payments, Inc.	6:55 AM ET	\$2.30	\$2.00 B	-7.2%	+ = -	+
✓	SBT	Sterling Bancorp, Inc.	7:25 AM ET	-	\$19.00 M	-27.8%	+ = -	+
✓	TGTX	TG Therapeutics, Inc.	7:30 AM ET	(\$0.36)	\$4.36 M	116.3%	+ = -	+
✓	WEC	WEC Energy Group I...	7:00 AM ET	\$1.59	\$2.82 B	-3.0%	+ = -	+
✓	KBR	KBR Inc	5:50 AM ET	\$0.58	\$1.61 B	-6.1%	+ = -	+
✓	PK	Park Hotels & Resort...	BMO	\$0.32	\$616.98 M	28.8%	+ = -	+
✓	SJW	SJW Group	BMO	\$0.23	\$134.00 M	7.8%	+ = -	+
✓	LOGI	Logitech International...	9:00 PM ET	\$0.34	\$949.58 M	-22.8%	+ = -	+
✓	NXPI	NXP Semiconductors...	4:00 PM ET	\$3.02	\$3.00 B	-4.3%	+ = -	+
✓	CAR	Avis Budget Group, Inc.	4:00 PM ET	\$3.34	\$2.54 B	4.4%	+ = -	+
✓	ANET	Arista Networks, Inc.	4:05 PM ET	\$1.35	\$1.31 B	49.4%	+ = -	+
✓	FANG	Diamondback Energy...	4:00 PM ET	\$4.36	\$2.01 B	-16.5%	+ = -	+
✓	RIG	Transocean Ltd.	5:15 PM ET	(\$0.20)	\$641.65 M	9.5%	+ = -	+
✓	MSTR	MicroStrategy, Inc.	4:00 PM ET	\$0.49	\$119.04 M	-0.2%	+ = -	+
✓	CHGG	Chegg Inc.	4:05 PM ET	\$0.26	\$185.18 M	-8.4%	+ = -	+
✓	SYK	Stryker Corp.	4:05 PM ET	\$2.00	\$4.56 B	6.7%	+ = -	+
✓	MGM	MGM Resorts Interna...	4:15 PM ET	\$0.04	\$3.59 B	25.8%	+ = -	+
✓	ZI	ZoomInfo Technologi...	4:05 PM ET	\$0.22	\$300.33 M	24.3%	+ = -	+
✓	LSCC	Lattice Semiconducto...	4:00 PM ET	\$0.50	\$180.01 M	19.6%	+ = -	+
✓	VRTX	Vertex Pharmaceutic...	4:00 PM ET	\$3.01	\$2.33 B	11.1%	+ = -	+
✓	CF	CF Industries Holding...	4:30 PM ET	\$2.63	\$1.85 B	-35.5%	+ = -	+
✓	AMKR	Amkor Technology, Inc.	4:05 PM ET	\$0.18	\$1.45 B	-9.2%	+ = -	+
✓	VICI	VICI Properties Inc.	4:15 PM ET	\$0.52	\$829.75 M	99.2%	+ = -	+
✓	RMBS	Rambus, Inc.	4:05 PM ET	\$0.42	\$145.99 M	47.4%	+ = -	+
✓	CVI	CVR Energy, Inc.	5:50 PM ET	\$0.95	\$2.17 B	-8.6%	+ = -	+
✓	HOLX	Hologic, Inc.	4:00 PM ET	\$0.88	\$958.79 M	-33.2%	+ = -	+
✓	ETWO	E2open Parent Holdi...	4:15 PM ET	\$0.07	\$171.25 M	18.8%	+ = -	+
✓	SFM	Sprouts Farmers Mar...	4:00 PM ET	\$0.85	\$1.72 B	4.8%	+ = -	+
✓	BSM	Black Stone Minerals ...	5:15 PM ET	\$0.46	\$140.47 M	285.7%	+ = -	+
✓	VNOM	Viper Energy Partner...	4:00 PM ET	\$0.26	\$164.39 M	-18.6%	+ = -	+
✓	AXNX	Axonics, Inc.	4:00 PM ET	(\$0.34)	\$65.26 M	34.8%	+ = -	+
✓	SOI	Solaris Oilfield Infrast...	5:00 PM ET	\$0.20	\$86.85 M	52.6%	+ = -	+
✓	JJSF	J & J Snack Foods C...	6:10 PM ET	\$0.49	\$333.04 M	18.3%	+ = -	+
✓	FLXS	Flexsteel Industries Inc.	4:10 PM ET	\$0.22	\$105.17 M	-25.1%	+ = -	+
✓	VRNS	Varonis Systems, Inc.	4:05 PM ET	(\$0.05)	\$106.88 M	11.0%	+ = -	+
✓	TEX	Terex Corp.	4:10 PM ET	\$1.05	\$1.13 B	12.7%	+ = -	+
✓	SON	Sonoco	4:10 PM ET	\$1.33	\$1.84 B	3.9%	+ = -	+
✓	STRL	Sterling Construction ...	4:05 PM ET	\$0.56	\$375.63 M	-8.5%	+ = -	+
✓	WWD	Woodward, Inc.	4:05 PM ET	\$0.77	\$649.53 M	10.7%	+ = -	+
✓	SBAC	SBA Communications...	4:00 PM ET	\$2.88	\$675.41 M	9.0%	+ = -	+
✓	BKCC	BlackRock Capital In...	4:00 PM ET	\$0.11	\$18.17 M	49.2%	+ = -	+
✓	TMDX	TransMedics Group, I...	4:05 PM ET	(\$0.25)	\$32.55 M	105.0%	+ = -	+
✓	LEG	Leggett & Platt, Inc.	4:10 PM ET	\$0.27	\$1.19 B	-10.0%	+ = -	+
✓	TTI	Tetra Technologies Inc.	5:00 PM ET	\$0.04	\$151.27 M	16.3%	+ = -	+
✓	VNO	Vornado Realty Trust	4:25 PM ET	\$0.62	\$451.57 M	2.1%	+ = -	+
✓	OTTR	Otter Tail Corp.	6:00 PM ET	\$0.97	\$312.05 M	-16.8%	+ = -	+
✓	SYM	Symbotic Inc.	4:15 PM ET	(\$0.06)	\$224.81 M	-	+ = -	+
✓	FMC	FMC Corporation	4:30 PM ET	\$1.73	\$1.43 B	5.9%	+ = -	+

	Company	Time	Estimate	Growth	Surprise			
				<input checked="" type="checkbox"/> Show only confirmed?				
✓	SOFI	SoFi	7:00 AM ET	(\$0.08)	\$441.64 M	33.7%	+ = -	+

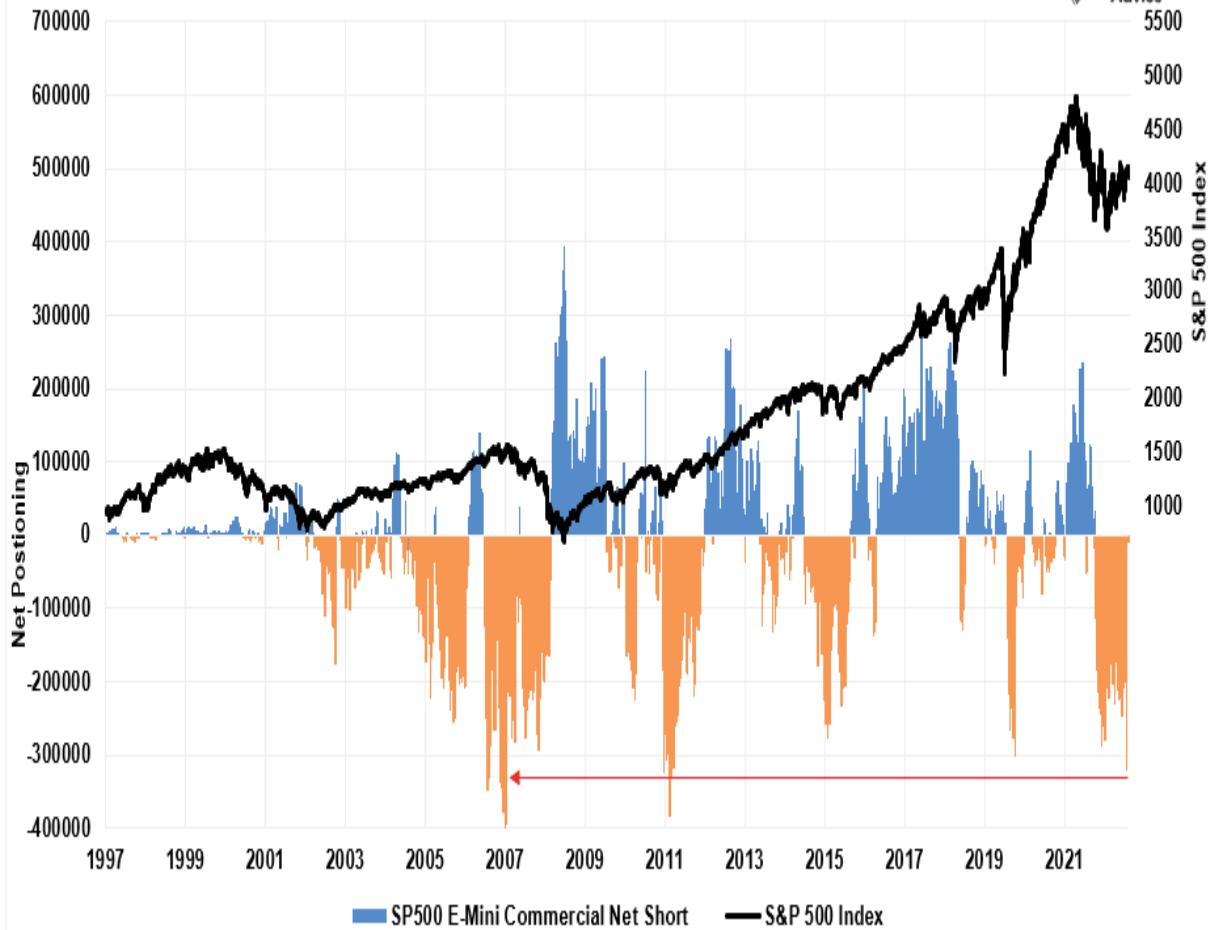
Market Trading Update

Last week, the market mustered a rally as corporate earnings were not as *terrible as expected*. Part of that rally came from short-term oversold conditions and a massive short position in the S&P 500 index.

S&P 500 E-Mini - Non-Commercial Net Positioning



S&P 500 E-Mini - Non-Commercial Net Positioning



However, selling early in the week triggered our [sell](#) signals as expected.

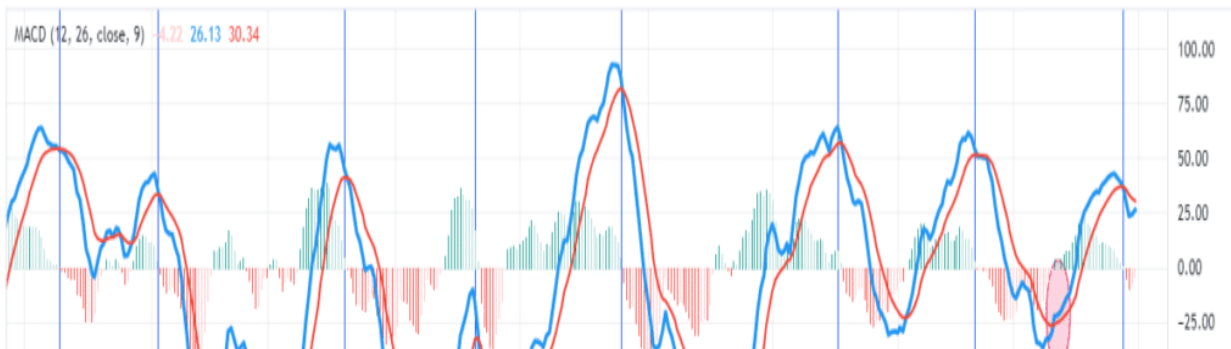
[As noted last week:](#)

The MACD buy signal remains intact but is very close to triggering a sell signal which could occur next week.

With such a significant short position on the index, rallies can be sharp as investors are forced to cover their positions. Furthermore, it is not uncommon for the market to rally during a consolidation or correction when sell signals are intact. As shown below, we have seen several such rallies during corrective periods since November 2021.



TradingView



Given that the MACD turned from a lower level than the three previous peaks, we could see a short-term reversal to a buy signal. However, should such occur, there is likely limited upside. Therefore, we suggest using the current rally to reduce risk, rebalance portfolios and raise cash levels moderately is still advisable.

While the markets are rallying on earnings not being as terrible as expected, that still isn't saying much considering the massive reduction in estimates from June last year. The risk to earnings remains with the consumer under pressure and economic growth slowing. Since consumption is where revenues come from, the recent economic data does not wholly support expectations of an earnings resurgence.



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The Week Ahead

We have a busy week ahead between economic data, the Fed, and more corporate earnings.

The week starts with the ISM Manufacturing Survey. Analysts expect a slight uptick despite most of the regional surveys coming in moderately below expectations. The ISM Services survey will follow on Wednesday. Of utmost importance will be employment data. JOLTs on Tuesday, ADP on Wednesday, and the BLS employment report on Friday will help assess whether the jobs market is weakening. Given the uptick in jobless claims, expectations are for the BLS to report 190k new jobs, down from 236k last month.

On Wednesday, the Fed is widely expected to hike Fed Funds by .25% to 5%. Given inflation appears sticky and economic activity remains relatively healthy, we so no reason they will not continue with the "higher for longer" narrative. Compared to prior meetings, this one could be a sleeper.

Earnings will continue this week, with Apple, the last of the mega-cap stocks, on Thursday. While Exxon reported on Friday, the week will see most other energy companies report earnings. Regarding earnings thus far, Michael Kramer notes:

Based on data from Bloomberg, 262 companies in the S&P have reported, sales growth in 1Q is 4% and earnings growth is -2.69%

Monday		Tuesday		Wednesday		Thursday		Friday
Before Open	After Close	Before Open	After Close	Before Open	After Close	Before Open	After Close	Before Open

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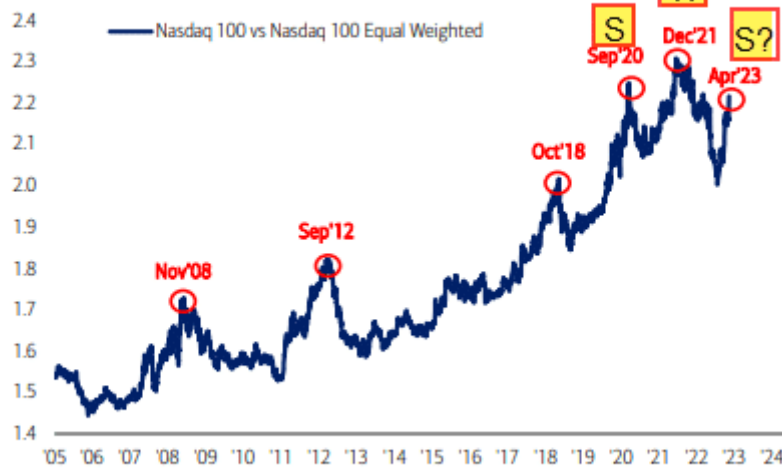
Bad Nasdaq Market Breadth

The BofA graph below, as annotated by Samantha LaDuc, shows the price ratio of the weighted Nasdaq 100 to the equal-weighted Nasdaq 100. Microsoft and Apple comprise 25% of the Nasdaq. Further, the top ten stocks account for over 50% of the index. Therefore the index is heavily skewed toward the prices of a handful of stocks. The price gains of the top holdings have significantly been outperforming the majority of the Nasdaq stocks. As we led this Commentary, the market has bad breadth.

The one and three-month returns following the circled peaks are shown in the table below to put context to what we might expect from the current surge.

Chart 5: The Narrow Nasdaq

Nasdaq 100 (NDX) vs Nasdaq 100 Equal-Weighted (NDXE)

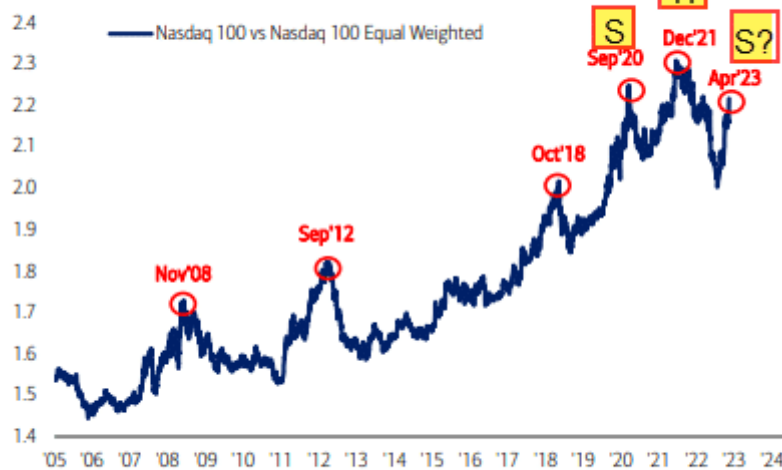


Source: BofA Global Investment Strategy, Bloomberg

BofA GLOBAL RESEARCH


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Nasdaq 100 (NDX) vs Nasdaq 100 Equal-Weighted (NDXE)



Source: BofA Global Investment Strategy, Bloomberg

BofA GLOBAL RESEARCH

		
	1mon Max	3mon Max
Start Date	Drawdown	Drawdown
November-08	-12.13%	-12.13%
September-12	-4.76%	-11.59%
October-18	-5.02%	-16.54%
September-20	-5.29%	-5.29%
December-21	-4.87%	-19.91%
Average	-6.42%	-13.09%

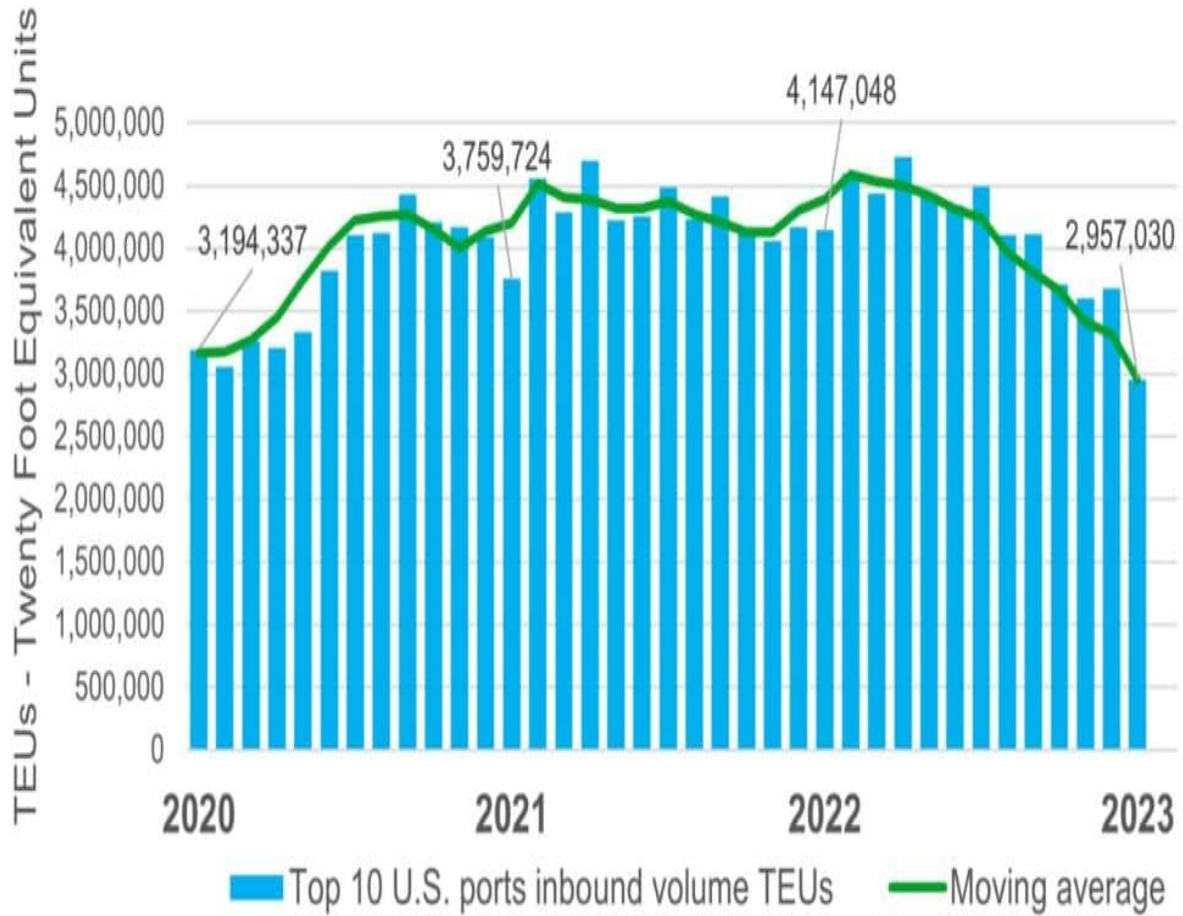
		
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Freight Recession

One of the themes from last week's Commentaries was the sharp slowdown in freight traffic and packaging. The graph adds to the evidence. It shows that inbound container volume at the top ten U.S. ports has fallen steadily since early 2022. Such is not surprising, but what is concerning is that volume is now at the lowest level since the pandemic started. Like data we shared from UPS, JB

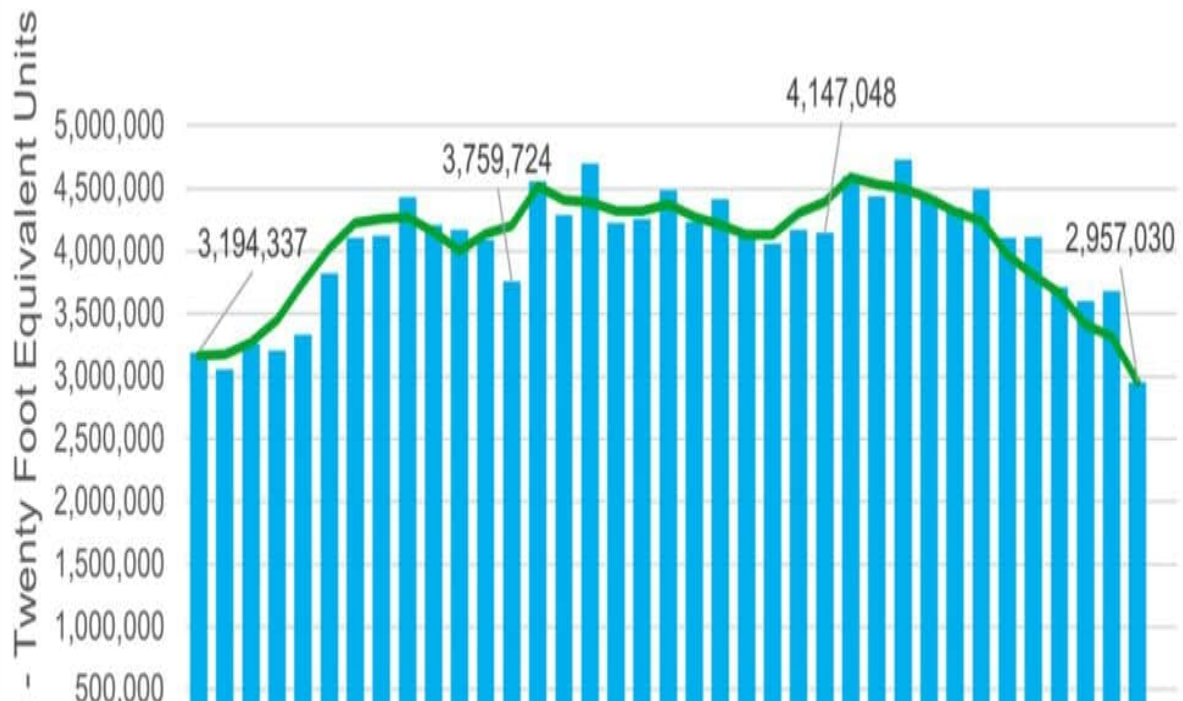
Hunt, and the Packaging Corporation of America, the chart below further confirms a freight recession.

Inbound container volume at top 10 U.S. ports is below pre-pandemic average



Source: Bloomberg, RSM US LLP

Inbound container volume at top 10 U.S. ports is below pre-pandemic average



Tweet of the Day

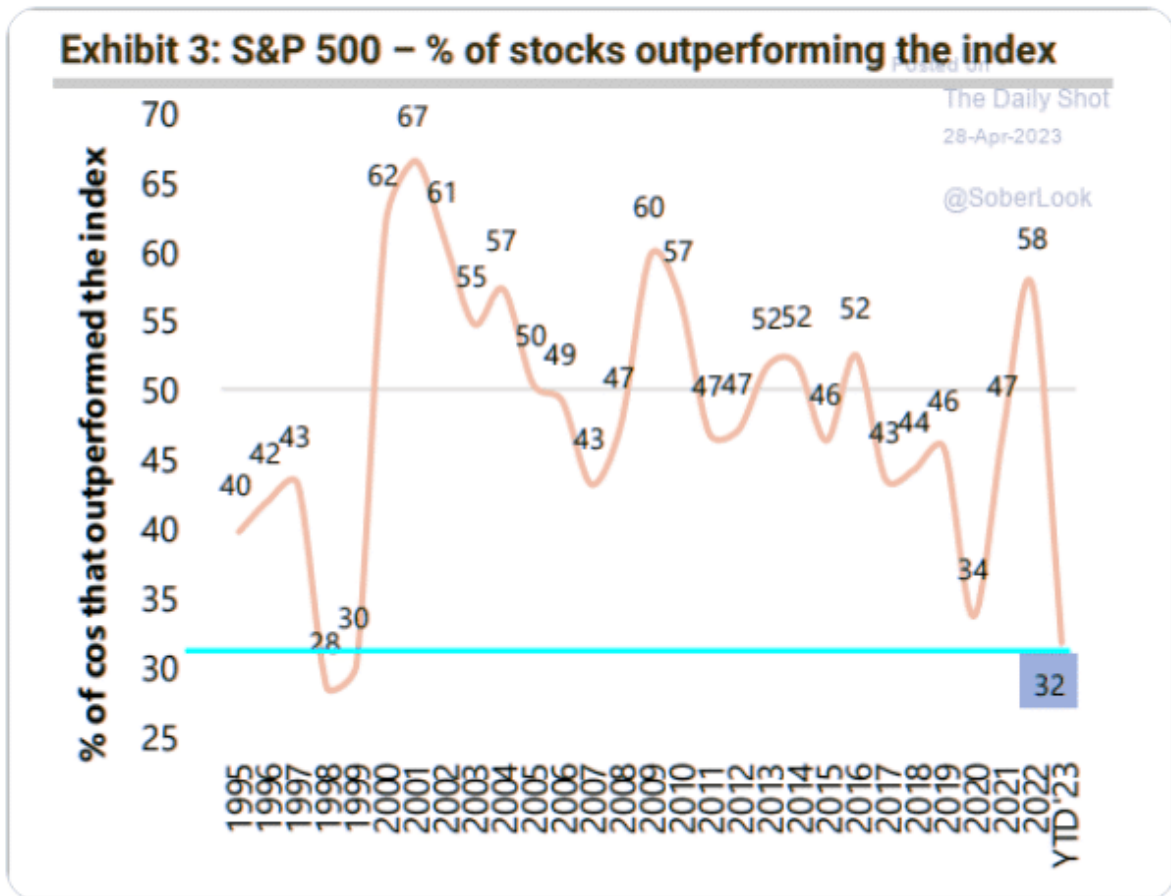


Lance Roberts ✓

@LanceRoberts

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Another version shows weak #market breadth. Last time the market was rallying on breadth this weak was in 1999 and 2019.

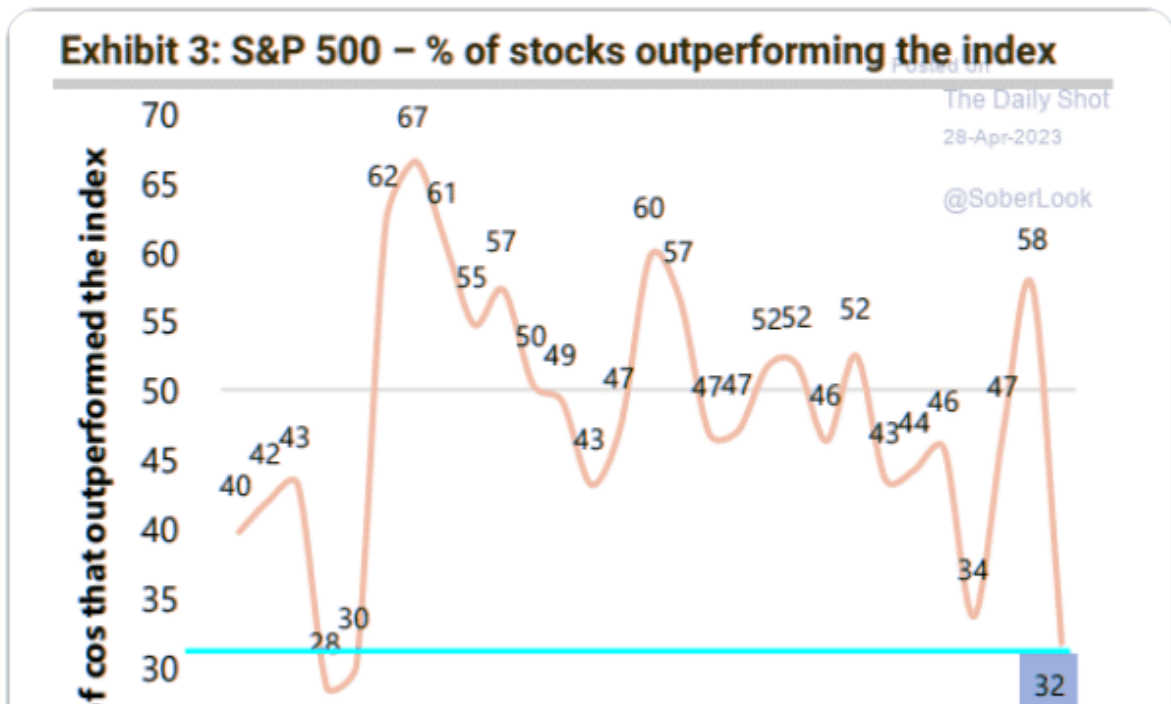


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Post Views: 3

2023/05/01

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