



Relative Value Sector Report 6/05/2020

The Sector Relative Value Report provides guidance on which industries or sectors are likely to outperform or underperform the S&P 500.

Click on the [Users Guide](#) for details on the model's relative value calculations as well as guidance on how to read the model's graphs.

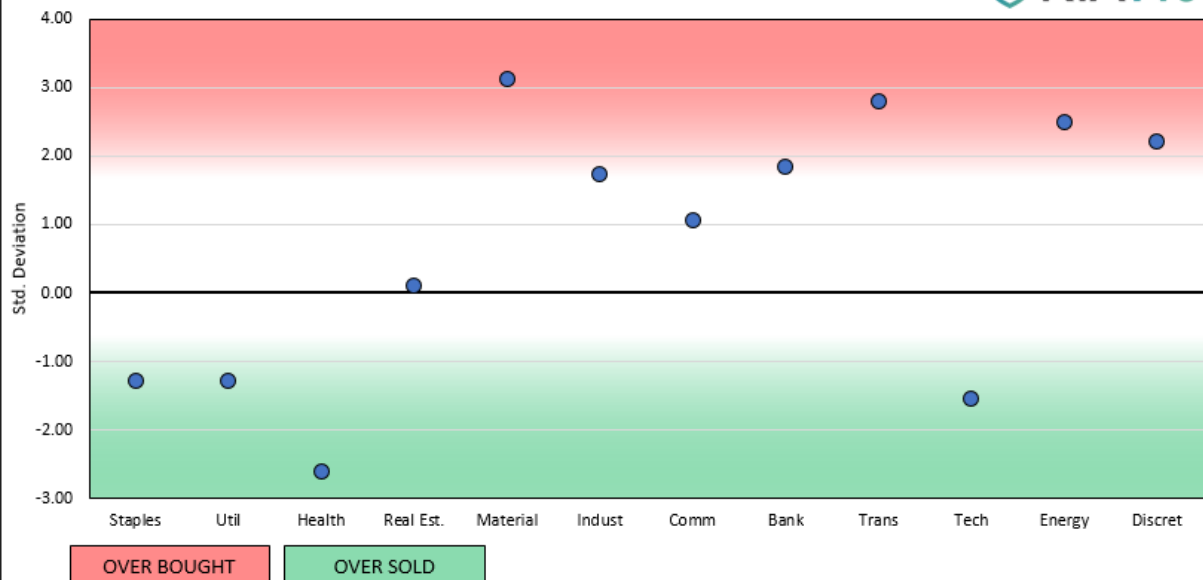
This report is just one of many tools that we use to assess our holdings and decide on potential trades. Just because this report may send a strong buy or sell signal, we may not take any action if it is not affirmed in the other research and models we use.

Commentary

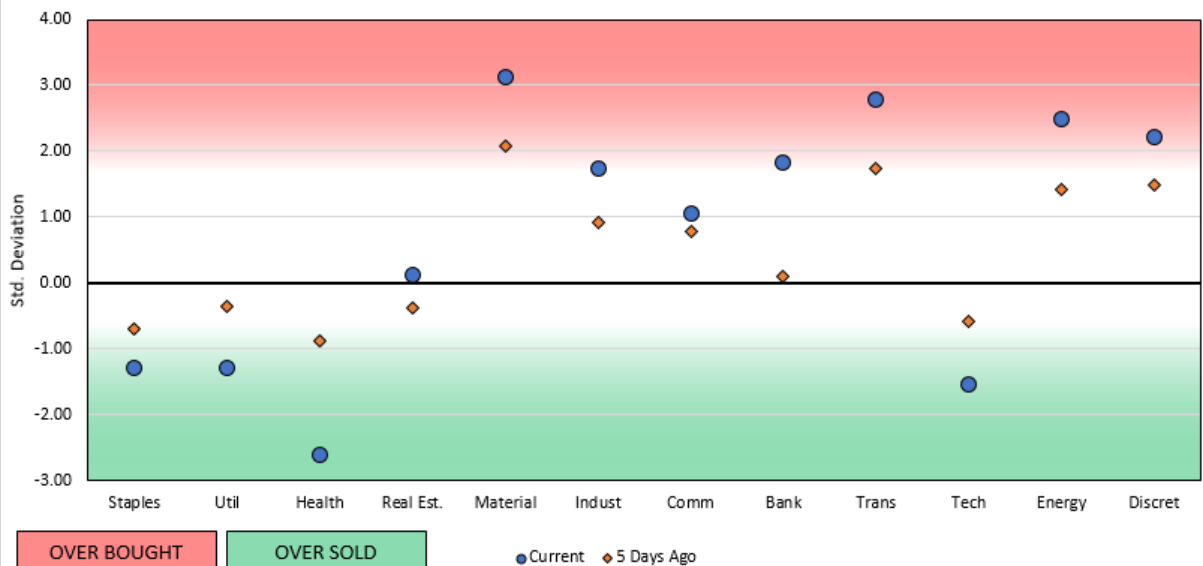
- The Materials, Transportation, Energy, and Discretionary sectors continue to move deeper into overbought territory versus the broader market. As such, the driving force for this leg of the market rally is exhausting. That doesn't necessarily mean the market will sell off, but any continuation will likely be led by different sectors.
- Healthcare is deeply oversold and XLK, the market leader through most of the recovery, is moving further into oversold territory.
- This week's analysis makes it clear that the underperforming sectors with greater earnings risks are now leading the charge higher.
- In the same thought process, Small-Cap (SLY) and Mid-Cap (MDY) are both trading at or above +3 standard deviations from the S&P 500.
- The 35 day chart shows the large swings that occurred over the last seven weeks. Most notable is the fall from grace of Healthcare and the significant outperformance of Materials. We believe this is a trade (Buy XLV ? Sell XLB) that investors can leg into.
- On the bond front, TLT is now deeply oversold using both traditional technical analysis and our relative value framework versus shorter maturity Treasury's (IEI).
- The R-squared on the sigma/20 day excess return scatter plot is .6055 as there is a growing divergence between their technical scores and expected performance.

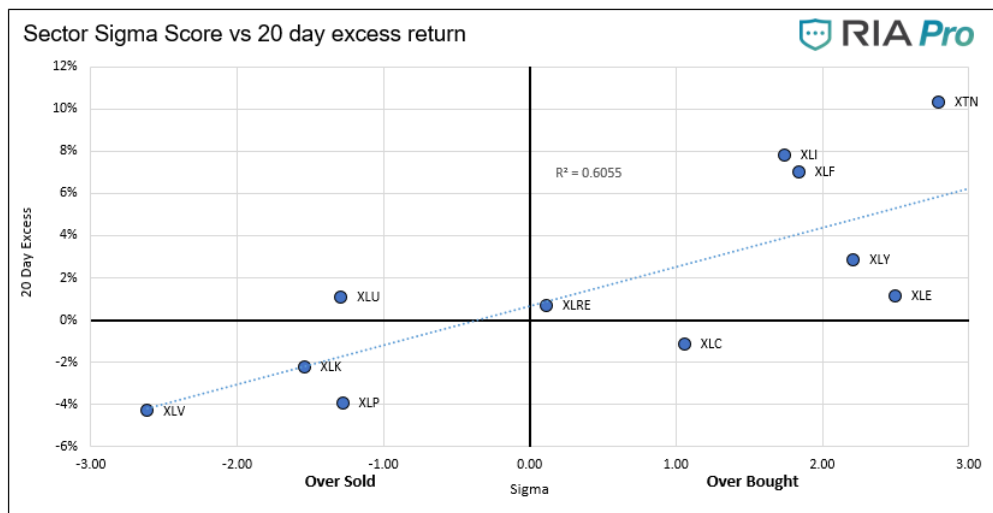
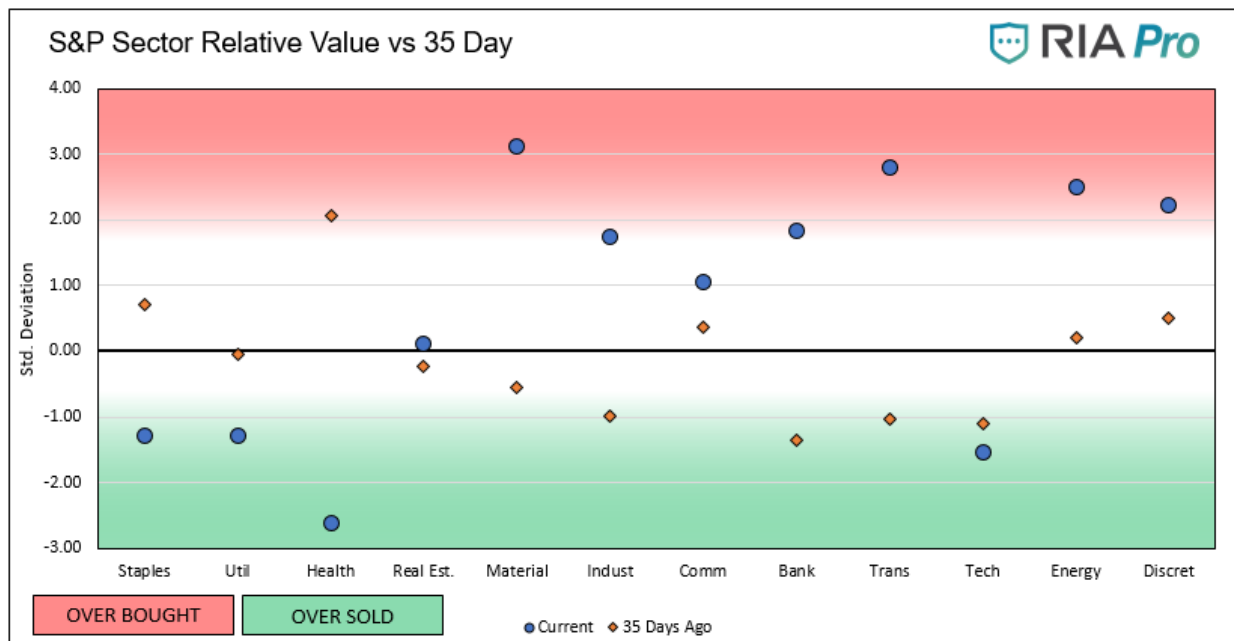
Graphs

S&P Sector Relative Value



S&P Sector Relative Value vs 5 Day





The ETFs used in the model are as follows:

- Staples XLP
- Utilities XLU
- Health Care XLV
- Real Estate XLRE
- Materials XLB
- Industrials XLI
- Communications XLC
- Banking XLF
- Transportation XTN
- Energy XLE
- Discretionary XLY
- S&P 500 SPY