

US ETF Index performance (5d): SPY +1.5%, DIA +1.6%, IWM +0.9%, QQQ +1.9%, TLT -0.4%, GLD +0.1%

TTG Market View

US Equities continued their upward trajectory last week. Equities had 3 days of steady gains in the beginning of the week, then digested returns on Thursday and managed to eke out a gain on Friday. I believe most traders are waiting for a pull back to add to or establish longs but the question is becoming when will we get that pull back? Last Thursday it appeared that equities were going to get at least a breather with the VIX shooting up +11.5% on Wednesday and starting higher on Thursday, but a significant pull back never materialized and the S&P finished down a measly -0.1%. Another surprising point on Friday, there was a good deal of aggressive call buying that took place in front of a 3 day week end. Typically, traders like to reduce risk ahead of a 3 day weekend rather than add risk. So, to finish out the week, the SPY, QQQ, and DIA all remain in overbought territory with the RSI (Relative Strength Index) all above a 70.

Conclusion: Last week my view was “Stay the Course”. This week I still have a **Bullish** stance and I like that we remain in a **stock pickers market** with **S&P Implied Correlations** at a **2 year low** (see below chart), **but the major indices are overbought and in need of a pull back before they really get overheated**. I am not going to speculate when or what will cause a pullback but I would rather exercise patience until the RSI’s in the indices drop below 70. Just as I have been saying in the trading room, this does not mean I will not participate in aggressive call buying I just may reduce a portion of the order by the end of the day or sell out of the money call spreads in the indices to capitalize on such pull back by collecting a little premium.

S&P Implied Correlations daily chart



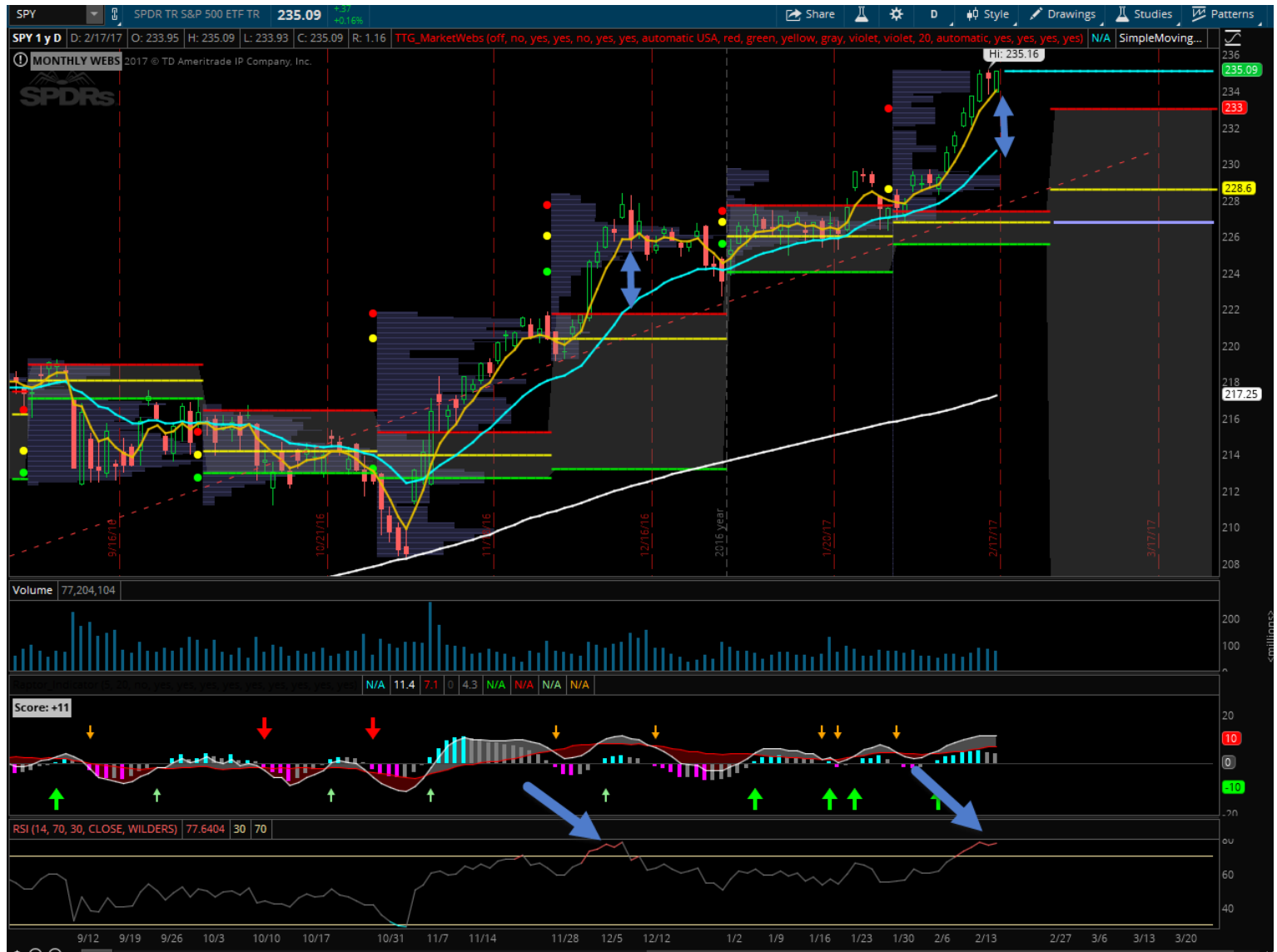
Lastly, Janet Yellen spoke twice last week about the economy and made mention that the economy is doing well. The question remains, **how many interest rate increases will we get in 2017?** Just prior to her speeches the probability of a March hike was just 32%. **After her speeches coupled with positive economic reports, that % rose to a 42% chance, but by the end of the week it dropped back down to a 34%. So, the market does not believe that a rate hike is coming in March.** This is a bit surprising to me considering the economics reports have been pretty darn good lately including both the PPI and CPI reports showing an uptick in inflation. **THE GOOD NEWS:** we have a whole month to the next Fed meeting on 3/15. **THE BAD NEWS:** the low expectations are particularly troubling (because the market is not pricing it in) if Yellen decides to pull the trigger in Mar, which I personally believe there is a good shot that she will raise.

Index Review

SPY / SPX

SPY has been rallying for the last 2 weeks after breaking out of 2 month sideways pattern. Current observations, the RSI is in overbought territory of a 77.6. Meaning the SPY usually will spend some time digesting the mover like it did late December. Another similarity is take a look at the width of the separation between the 5 EMA (yellow moving average) and 20 EMA (blue moving average). To me, the yellow line is at a fairly extreme level above the blue. Notice what happened back in the beginning of Dec when this also occurred.

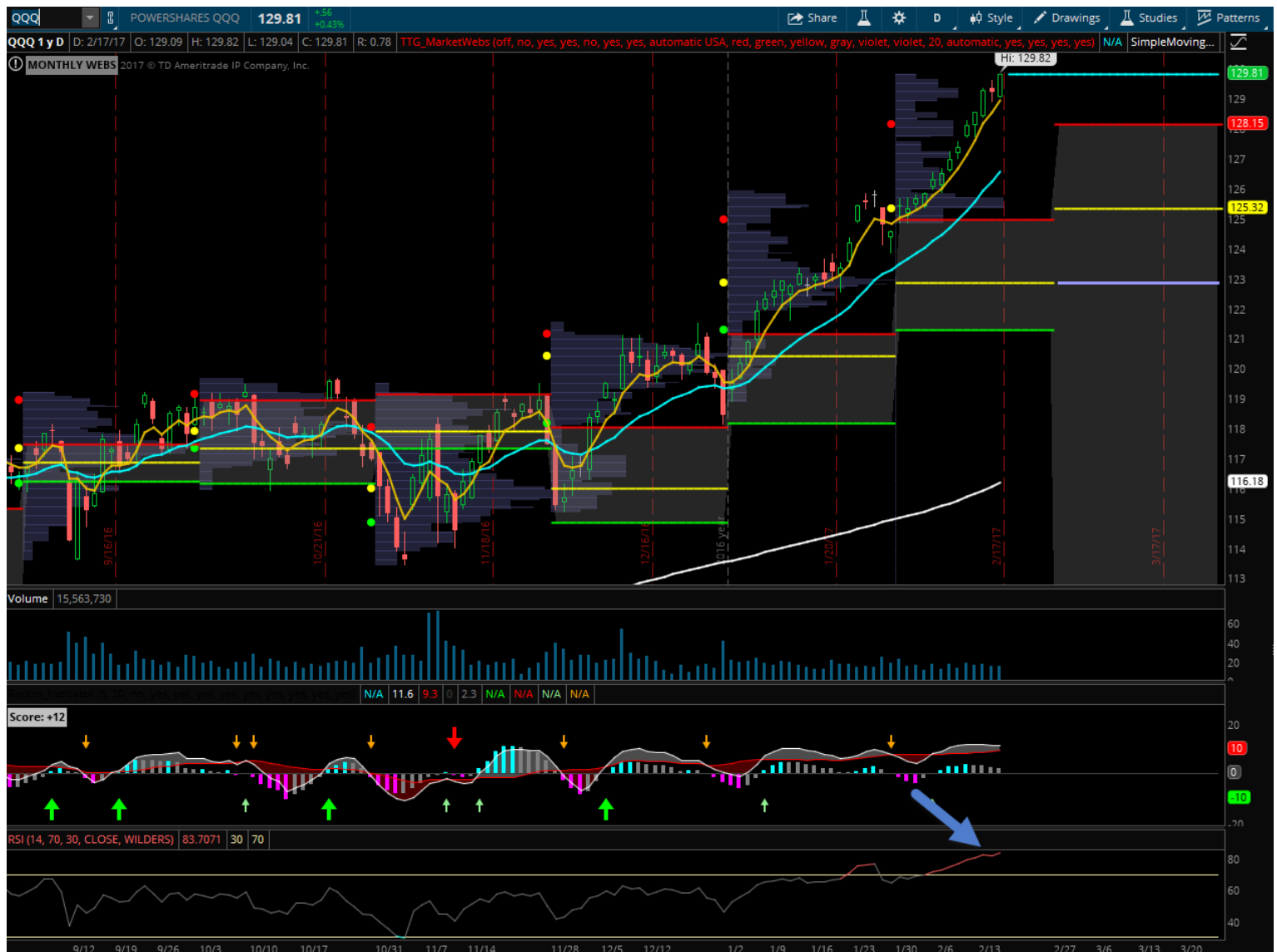
SPY daily chart



QQQ / NDX

The QQQs once again outperformed last week, +1.9%. From a technical standpoint, not much has changed from last week, they are very overbought here with an RSI 83.7. To me, this is a very extreme level. Like last week (which did not work) I sold a call spread on the NDX to collect premium if there is a pullback.

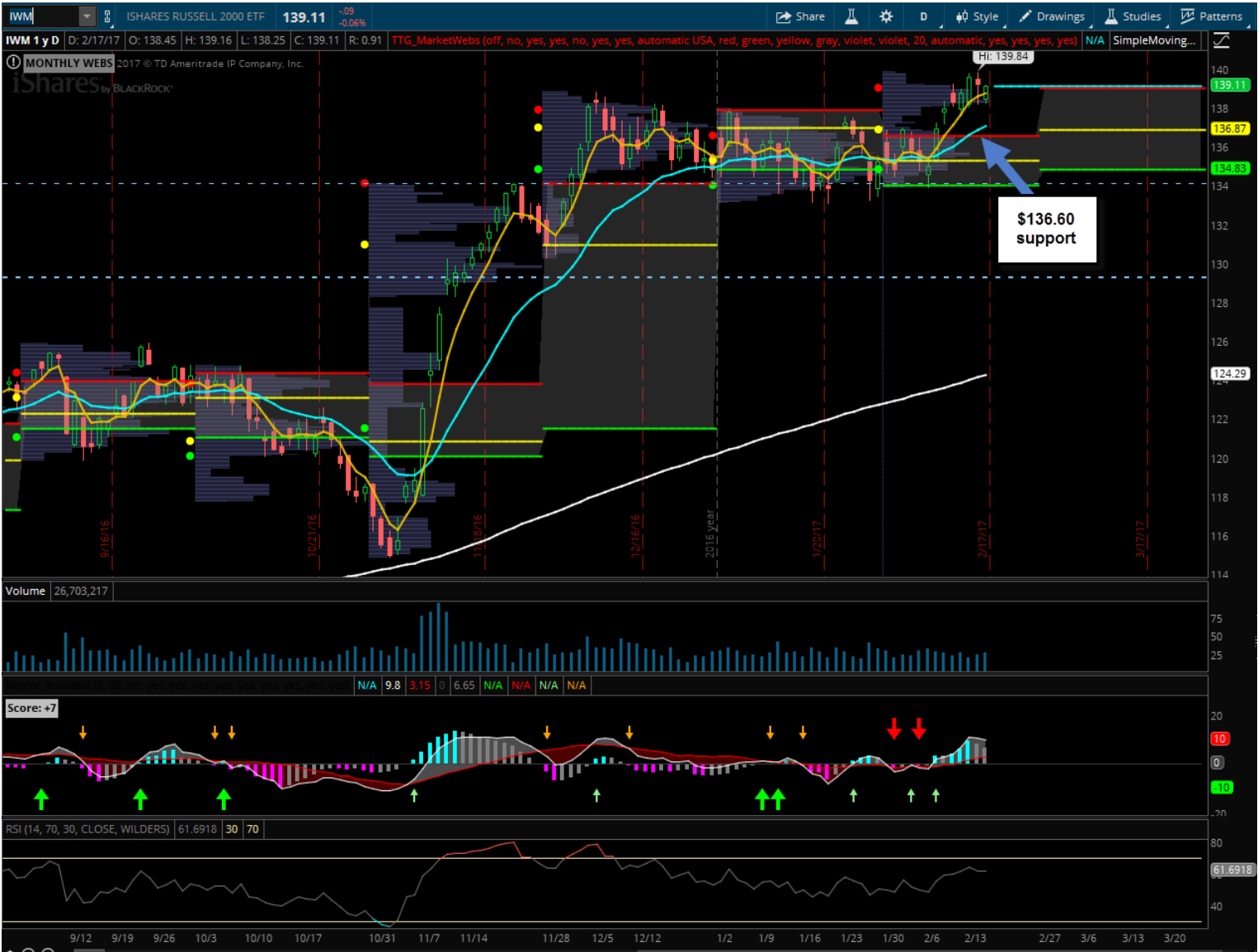
QQQ daily chart



IWM / RUT

Small Caps finally gained for the week, +0.9% but trailed SPY and QQQ. They are not overbought here like the SPY & QQQ. If IWM retests support \$136.60, I think it is a good place to add or establish a long.

IWM daily chart



US Sector Review

No major changes in the “Strong” Trend sectors but they did lose a couple of the “RISING” momentum ratings. Materials (XLB) now have a lower rating of +1 vs +5 previous week and Energy (XLE) is now a -8 rating vs a +2 the previous week. XLE slipped below the 200d MA (Moving Average) last week (but is still > 200d MA). Keep an eye on REITs (IYR) to see if they can reclaim the 200d MA next week.

This week’s sectors

Symbol	Description	Moving Avg Summary	Trend	*Momentum +12 / -12	Weight in SPX
XLF	Financials	>50d	Strong	+10	19
XLK	Tech	>50d	Strong	+12	14
XLY	Cons Discretion	>50d	Strong	+11	13
XLI	Industrials	>50d	Strong	+11	12
XLB	Materials	>50d	Strong	+1	7
XLV	Health Care	>50d	Strong	+8	8
XLU	Utilities	>50d	Strong	+11	3
XLP	Consumer Staples	>50d	Strong	+12 RISING	9
IYZ	Telecom	<50d > 100d >200d	Neutral	+1	4
XLE	Energy	<50d <100d >200d	Neutral	-8	7
IYR	REITs	>50d >100d <200d	Neutral toWeak	+11	4

Sectors from last week’s newsletter

Symbol	Description	Moving Avg Summary	Trend	*Momentum +12 / -12	Weight in SPX
XLF	Financials	>50d	Strong	+11	19
XLK	Tech	>50d	Strong	+12 RISING	14
XLY	Cons Discretion	>50d	Strong	+10	13
XLI	Industrials	>50d	Strong	+11 RISING	12
XLB	Materials	>50d	Strong	+5	7
XLV	Health Care	>50d	Strong	+10	8
XLU	Utilities	>50d	Strong	+11	3
XLP	Consumer Staples	>50d	Strong	+11	9
IYZ	Telecom	<50d > 100d >200d	Neutral	-3	4
XLE	Energy	<50d > 100d >200d	Neutral	+2	7
IYR	REITs	>50d >100d <200d	Neutral toWeak	+11 RISING	4

*Momentum – a TTG proprietary indicator (Raptor Indicator)

Last week's sector performers:

Best 5d:

Symbol	Description	5d % chng
IBB	Biotech	3.51%
XLF	Financials	2.90%
KRE	Regional Banks	2.72%
KBE	Banks	2.67%
XLV	Health Care	2.50%
SLX	Steel	2.48%
SMH	Semis	2.32%
XLI	Industrials	1.79%
XLK	Tech	1.70%
XLP	Staples	1.57%
FDN	Internet- FANG	1.08%

Worst 5d:

Symbol	Description	5d % chng
XOP	Oil & Gas Expl Prod	-2.55%
OIH	Oil Services	-2.21%
GDX	Gold Miners	-1.98%
XLE	Energy	-1.79%
XRT	Retail	-0.50%
XME	Metals & Mining	-0.35%
ITB	Home Builders	-0.34%
IYZ	Telecom	-0.09%
IYR	REITs	0.32%
XLB	Materials	0.38%
XLU	Utilities	0.57%

Last week's International performers:

Best 5d:

Symbol	Description	5d % chng
TUR	Turkey	3.12%
EWN	Netherlands	2.92%
EWZ	Brazil	2.56%
HEDJ	Europe (FX'd)	1.99%
EWA	Australia	1.78%
VNM	Vietnam	1.31%
FXI	China	1.18%
GREK	Greece	1.18%
EWP	Spain	1.14%
HEWG	Germany (FX'd)	1.14%
EWT	Taiwan	1.05%

Worst 5d:

Symbol	Description	5d % chng
RSX	Russia	-2.35%
EPU	Peru	-2.03%
EWZ	Mexico	-1.93%
IDX	Indonesia	-1.75%
EPHE	Philippeanes	-1.49%
FM	Frontier Mkts	-0.95%
PLND	Poland	-0.80%
ECH	Chile	-0.76%
EPI	India	-0.67%
THD	Thailand	-0.52%
EWJ	Japan	-0.37%

ETF Flows (week ending 2/17/16)

Overall: Equity ETFs post second week of heavy inflows totaling +\$10.7B (previous week +\$9.0B) last week. Fixed Income ETFs added +\$2.5B and Commodity ETFs posted +\$200M.

In US Sectors last week, **Financials stole the show posting +\$1.8B inflows, more than 2x any other sector**. **XLF** (Financials) was responsible for half the inflows +\$946M. Other ETFs in the sector posting inflows were **KRE** (Regional Banks) +\$263M, **KBE** (Banks) +\$116M, **IYF** (US Financials) +\$112M, **KBWB** (BKX Index – Banks) +\$97M, and **VFH** (Financials) +\$81M.

Materials saw the 2nd highest sector inflows +\$882M which was mostly composed of Gold Mining ETFs. **GDXJ** (Junior Gold Miners) +\$369M, **GDX** (Gold Miners) +\$343M, and **NUGT** (3x Gold Miners) +\$83M. **Other sectors that saw strong inflows were Industrials +\$500M, Tech +\$366M, Energy +\$283M, and Consumer Staples +\$208M**. On the outflow side, **Utilities -\$580M and Health Care, which broke its streak of 2 weeks of strong inflows, saw -\$370M outflows last week**.

In International ETFs, it was all about Emerging Markets. EM ETFs saw the 3rd consecutive week of strong inflows, posting **+\$1.5B** (previous week +\$1.4B). The breakdown: **IEMG +\$1.1B, VWO +\$157M, and EMB +\$136M**. Also in the EM space, **Brazil (EWZ) posted +\$216M which is the 2nd week of good inflows for Brazil**. Developed Market ETFs were quiet, posting **+\$177M as a group**.

Lastly, GLD (Gold) saw inflows slowed to +\$177M. If you remember from last week's report GLD saw the largest inflow of an ETF. However, the Gold Mining ETFs continue to add assets.

US Sectors (5d):

- **Largest Inflows:**
 - Financials +\$1.8B
 - Materials +\$882M
 - Industrials +\$500M
 - Technology +\$366M
 - Energy +\$283M
 - Consumer Staples +\$208M
- **Largest Outflows:**
 - Utilities -\$580M
 - Health Care -\$370M

International (5d):

- **International ETFs +\$3.2B**
- **Country/ Region specific ETFs:**
 - Largest Inflows:**
 - Emerging Markets +\$1.5B
 - Brazil +\$214M
 - Largest Outflows:** None > \$100M

Largest Flows by ETF

Inflows				
Ticker	Description	5d Mkt Value	Chng	Fund Size 5d % Chng
SPY	SPX	\$	3,372,831,051	1.5
IEMG	CORE EMERGING MKTS	\$	1,089,504,000	4.9
XLF	FINANCIALS	\$	945,766,479	3.9
IVV	SPX	\$	603,049,500	0.6
LQD	INVESTMENT GRADE BONDS	\$	459,186,000	1.6
SPLV	LOW VOLATILITY EQUITIES	\$	383,865,500	6.1

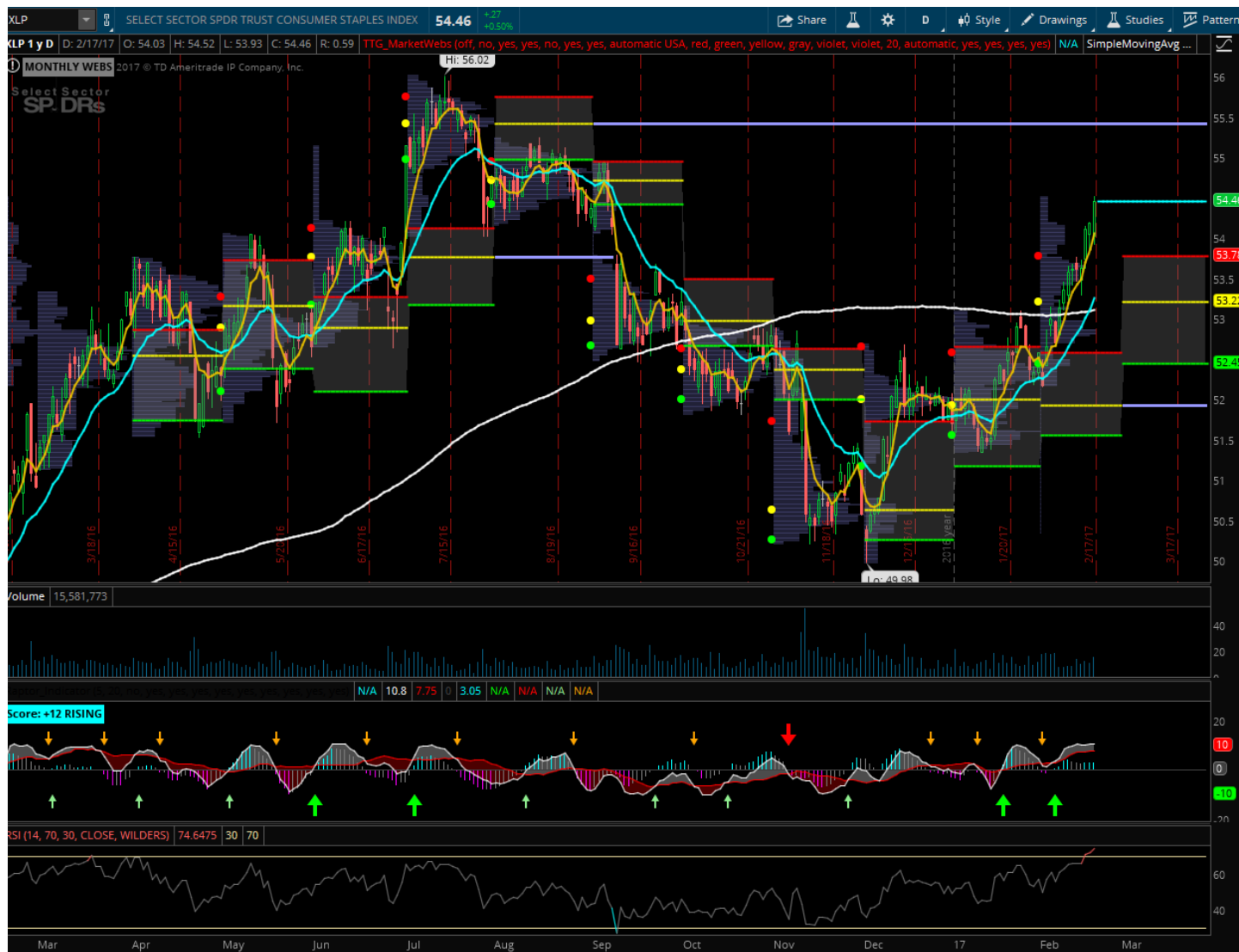
Outflows				
Ticker	Description	5d Mkt Value	Chng	Fund Size 5d % Chng
DIA	DJIA	\$	(2,007,330,000)	-11.2
IWM	SMALL CAPS	\$	(834,720,000)	-2.2
XLU	UTILITIES	\$	(532,879,483)	-7.9
ACWV	MIN VOL GLOBAL EQ	\$	(286,976,000)	-9.0
TLT	20+ YR TREASURIES	\$	(192,512,000)	-3.4
QQQ	NDX	\$	(188,224,500)	-0.4

ETFs / Stocks of the Week:

XLP (Consumer Staples Select Sector SPDR Fund)

Last week it was announced that UN (Unilever N.V.) turned down an offer from KHC (The Kraft Heinz Company) for \$143B. In addition the UN news on Friday, Trian Management announced a large stake in PG (Procter & Gamble), and we have been seeing call buying in other staples names including CL, K, and GIS. Will we be seeing more consolidation in this group? From a technical stand point since XLP crossed the 200d MA (Moving Average) it has been rallied. Watch \$55.50 resistance.

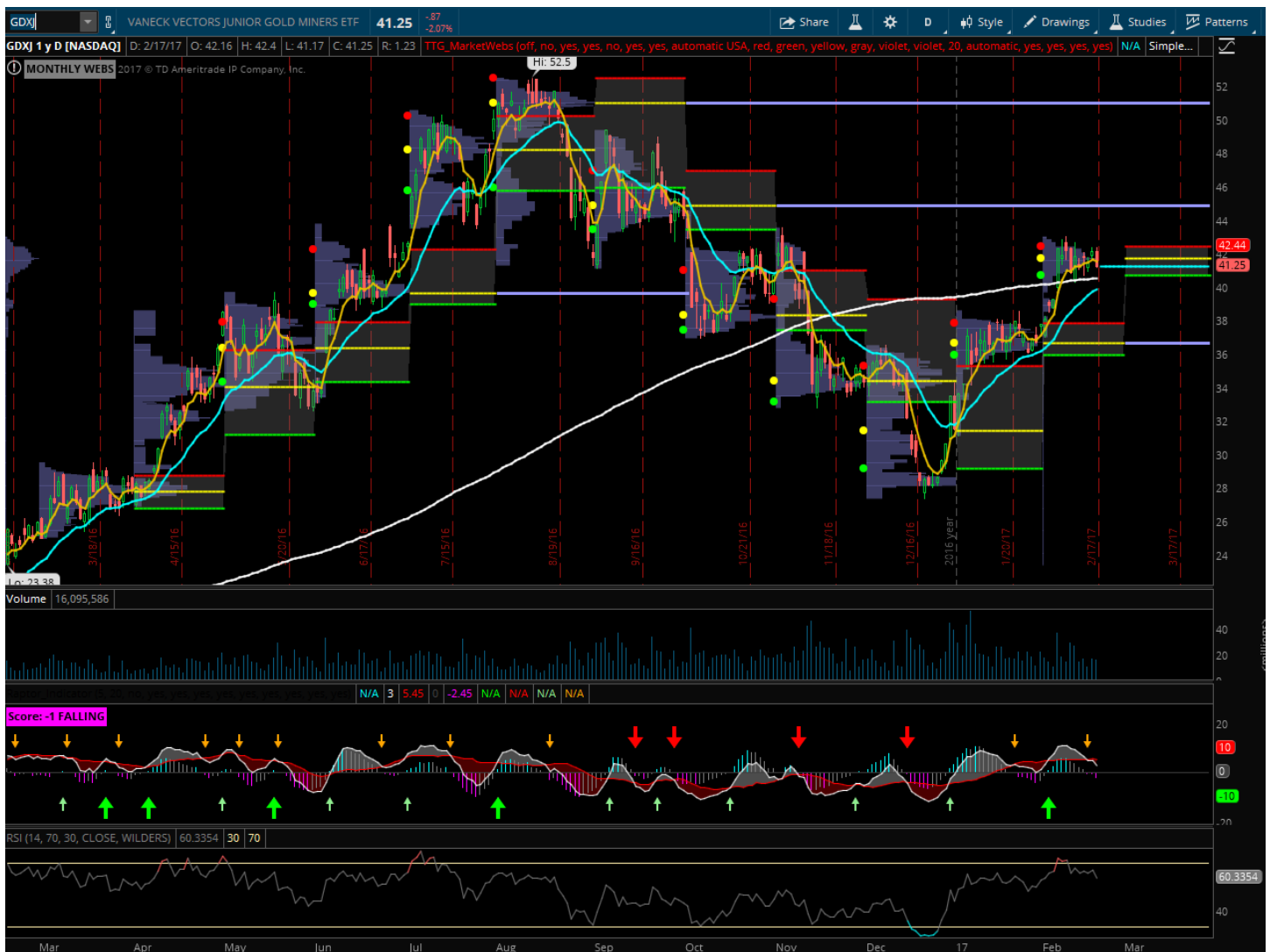
XLP Daily Chart



GDXJ (VanEck Vectors Junior Gold Miners ETF)

Last week I also featured GDXJ. The ETF continues to see inflows, last week totaling +\$369M. I like this ETF as long as > 200MA.

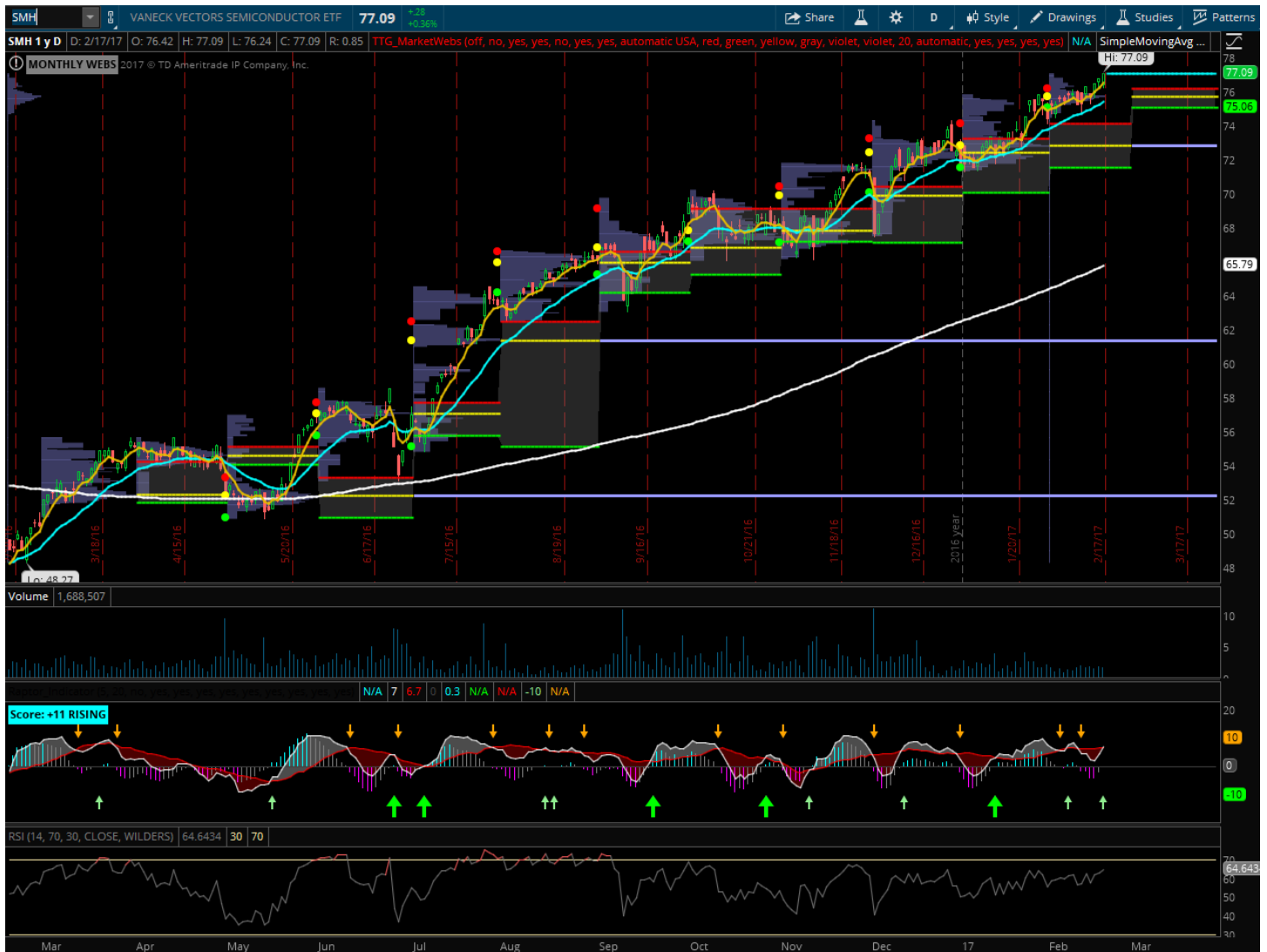
GDXJ Daily Chart



SMH (VanEck Vectors Semiconductor)

I am including SMH in the week's newsletter because we continue to see strong earnings from this group. Last week ADI (Analog Devices, Inc.), AMAT (Applied Materials, Inc.), and ON (ON Semiconductor Corporation) all had strong earnings reports. In the chart below, the SMH performance has been impressive and consistent. In my opinion, any dips would be welcomed here to add to longs. I am also watching AMD and NVDA. I added a stock position in AMD last week and NVDA I sold put spreads "bull put spreads".

SMH Daily Chart



Names that saw aggressive / repeat Option Activity last week (going out at least 1.5mos)

DE (Deere & Company)



MAR (Marriott International Inc.)



KMX (CarMax, Inc.)



SWKS (Skyworks Solutions, Inc.)



UN (Unilever N.V.)



CL (Colgate-Palmolive Company)



ARNC (Arconic Inc.)



ABX (Barrick Gold Corporation)



KKR (KKR & Co. L.P.)



WY (Weyerhaeuser Company)



ADSK (Autodesk, Inc.)



OCLR (Oclaro Inc.)



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