

US ETF Index performance (5d): SPY +0.1%, DIA -0.4%, IWM -0.7%, QQQ +0.4%, TLT -1.6%, GLD +1.0%

Market Recap

US Equities continue to trade in a +1mo consolidation zone. For the third week, the QQQs outperformed, but by a small margin of +0.3% over the SPX. Small Caps (IWM) underperformed -0.7% last week. Bonds resumed their fall, TLT -1.6%. After the inauguration, the VIX tanked and ended -9.7% to 11.54. Earnings were in focus last week and will be even more so this upcoming week with **105 of the companies in the S&P 500 reporting**. A calendar of top securities reporting this week has been uploading into Slack.

TTG Market View A tale of different indices.

The good: the NDX / QQQs. The QQQs made a new intraday high on Friday and have broken out from the Jan value area.

The neutral: the SPX / SPY. The SPY is stuck in the Jan value area and has been consolidating now for +1month.

The Bad: Small Caps / IWM. Small Caps broke below value last week. IWM needs to reclaim \$134.82 to get back to neutral. More details / levels to watch on the major indices are in the next session.

A couple other observations.

1. **There is very little buying right now.** This is evidenced by ETF Fund Flows – last week was the first week of equity outflows since the week prior to the election (more in the ETF fund flow section). Also a similar trend last week in option flow.

2. We talked about **Option Skew** quite a bit last week because the reading is above average – now at a 146. So, **what is Skew and is it worth paying attention to?** Skew tries to measure the **tail risk** of the SPX returns on a 30d period and looks at the implied volatility of OTM (out of the money options). A high reading can be interpreted that there is a higher percentage chance of a big move in the SPX. For example, a 145 (~ the current level) translates into a 14.45% chance of a 2 Standard Deviation move in the SPX in the next 30 days vs an average reading of 100 translating to only a 2.3% chance.

Translation: **The option market believes there is a higher than normal risk coming to the marketplace.** What are the chances of a big move? Right now there is a 14.45% of a chance of a big move vs normally a ~ 3%. **My intention of listing this is not to scare anyone, just for you to know that the option market believes something out of the ordinary is brewing.** Again, it's not a 50% chance, it's a 14.45% chance. Personally, my view is insurance (puts) are inexpensive right now and I bought IWM puts last week because of this high skew reading. The objective is not to make money on the puts but to have some insurance in place in case the market dips. The old saying is buy home owners insurance when things are calm not when your house is on fire (when it's too late). I will be monitoring skew closely in the coming days to see if the reading falls back below 135.



Next, as I mentioned above, earnings pick up this week with 105 companies in the SPX reporting. In my opinion, this is a tough time to swing trade as option flows are a bit more difficult to read (see my “few points on earnings season” below).

Conclusion: *I am waiting for the SPX to show its next direction, IWM to climb back into value, Skew to drop below 135, option activity to increase, and clues from earnings season. For now, I resume my short term neutral stance on US Equities.*

A few points regarding earnings season:

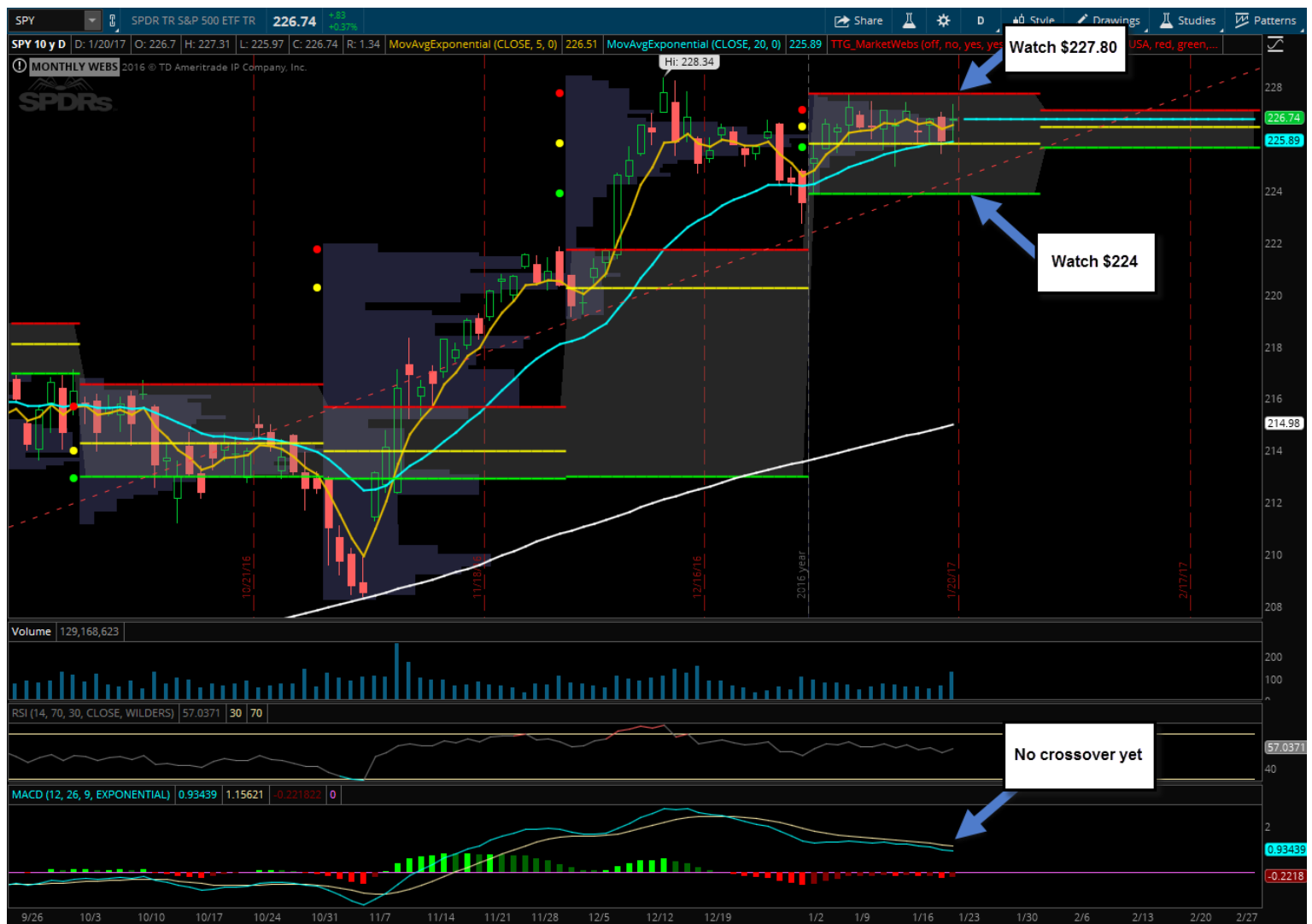
1. Company earnings are going to have to be good for stocks / sectors that have taken off to justify the higher prices
2. Option flow will get harder to interpret in the next few weeks as trades will involve more hedging than usual
3. Company buy back plans are turned off due to quiet periods around earnings, so there will be a little less support for many names
4. Do not take unnecessary risks around earnings season – a company can have outsized moves around this time, so be aware of when a company reports earnings and what the implied move is around the event.

Index Review

SPY / SPX

Not much to report here... we are inside value for the month (as we have been all month). Watch for a MACD crossover, these are great for momentum changes. Also watch the top of value \$227.80 and bottom of value \$227.00 for a change in direction.

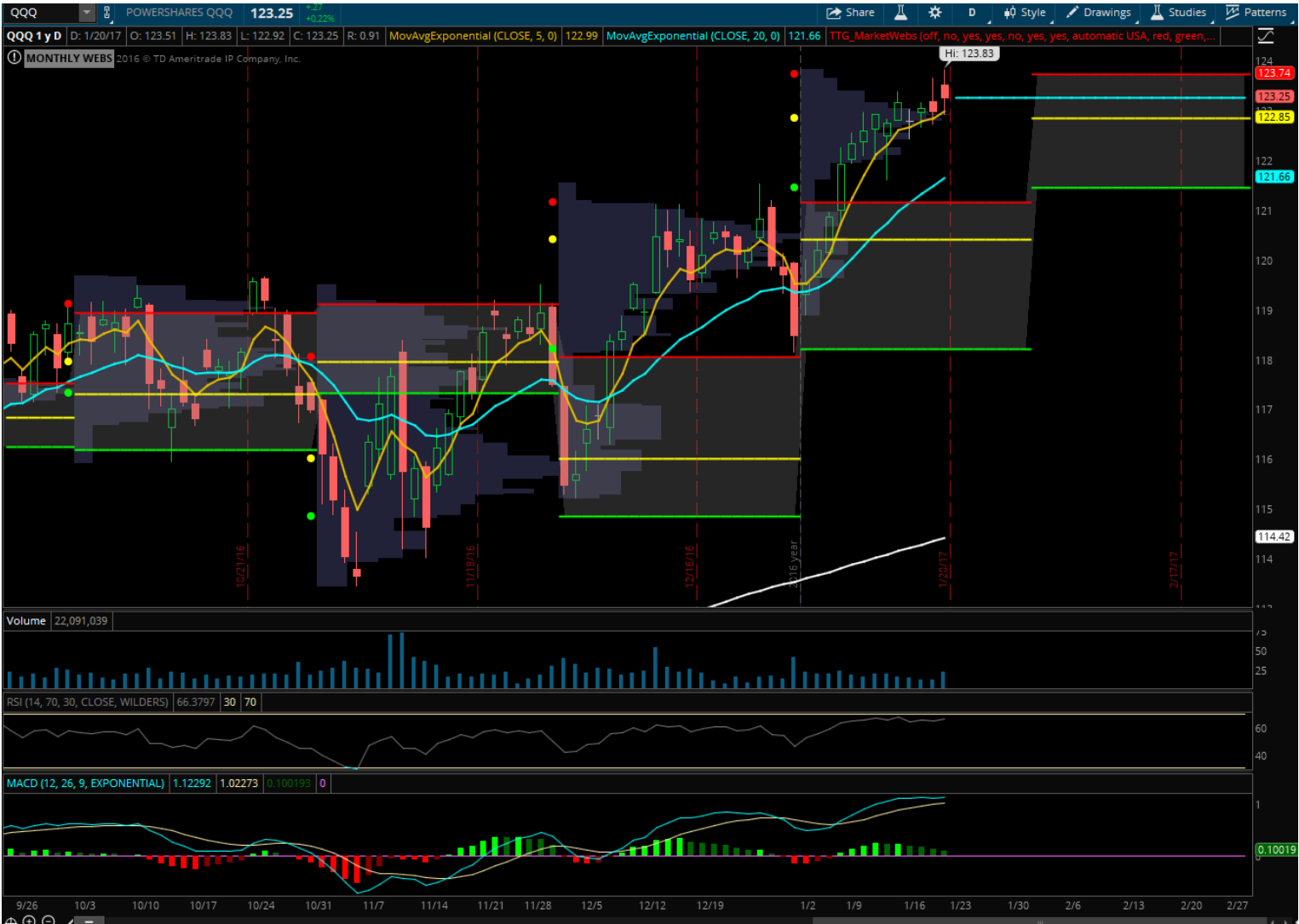
SPY daily chart



QQQ / NDX

I mentioned a few weeks that the QQQs had a break of the value area coupled with a MACD crossover. Since then the QQQs have broken out and made a new high on Friday. Not much else to say here... A crunch of the moving averages on my chart (the 5 EMA – yellow line & 20 EMA- blue line) would be a place to add exposure.

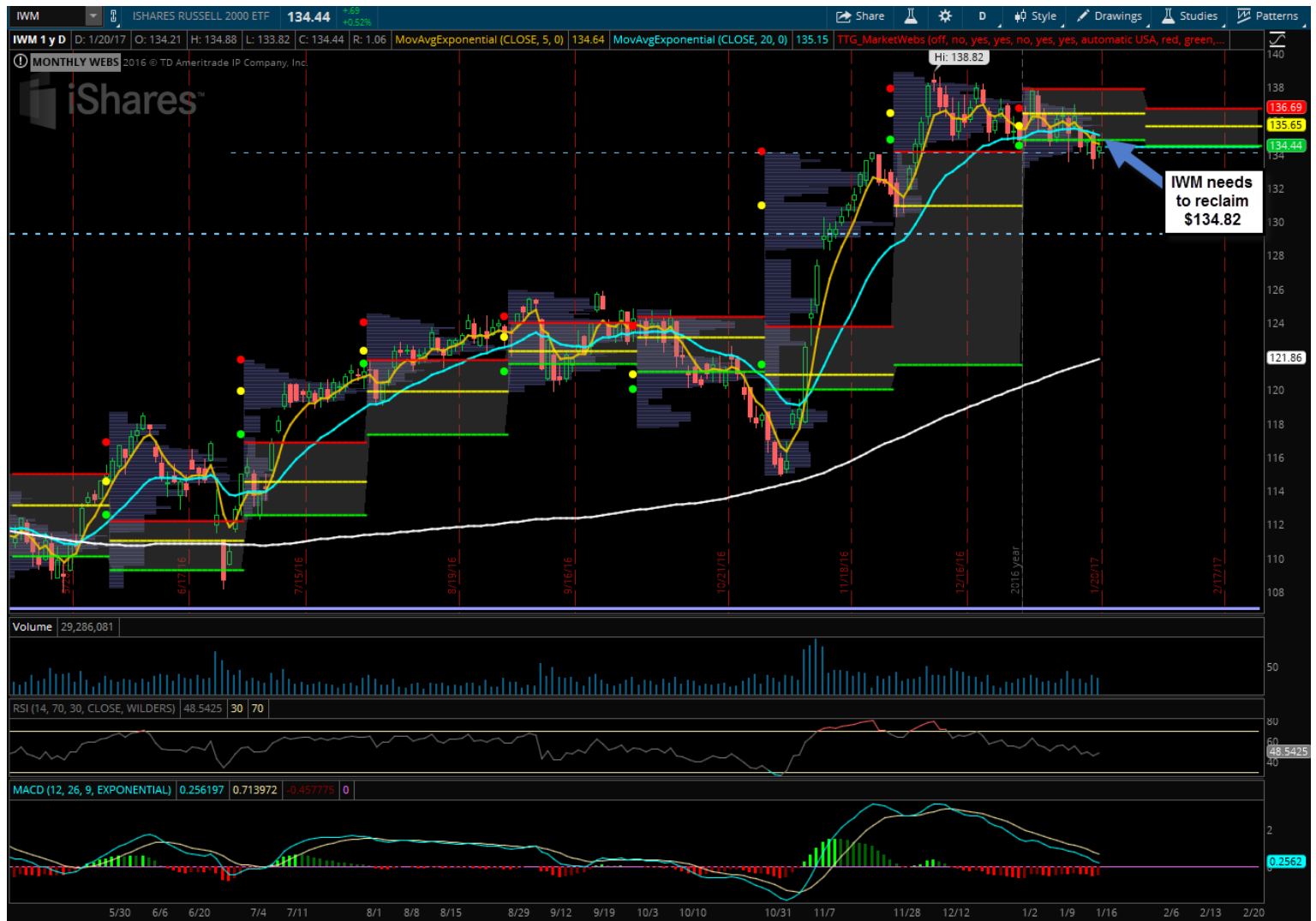
QQQ daily chart



IWM / RUT

Small Caps underperformed last week and fell (slightly) below the value area (green line). So, this is not a good sign, but it will be easy for the IWM to reclaim the value area. However, if it doesn't do this in the beginning of next week, take it for what it's worth and a possible break of the uptrend. Next stop would be the second dotted line on the chart below. Of the 3 indices in this section, I view IWM as a must watch next week.

IWM daily chart



US Sector Review

Another “mixed” table. 7 out of 11 sectors remain strong and remain above the 50d MA (Moving Average). However, of the 7 strong sectors only **XLI and XLK have RISING Momentum**. XLK (Tech) I detailed in last week’s newsletter as a sector to be long. Last week it broke out. **XLI** (Industrials) looks like it may be next, I like being long against \$63.40 support. Also watch for a MACD crossover (more in chart section). Also, keep an eye on **XLP** (Cons Staples) **to see if it can reclaim the 200d MA**. The sector looks like it may be building momentum. There was a block of 11,000 XLP Feb 50 calls that traded on Friday.

This week’s sectors

Symbol	Description	Moving Avg Summary	Trend	*Momentum +12 / -12	Weight in SPX
XLF	Financials	>50d	Strong	-4 FALLING	14
XLE	Energy	>50d	Strong	-5	7
XLI	Industrials	>50d	Strong	+7 RISING	10
XLB	Materials	>50d	Strong	+6	3
XLK	Tech	>50d	Strong	+8 RISING	21
XLY	Cons Discretion	>50d	Strong	+5	12
IYZ	Telecom	>50d	Strong	-2	2
XLU	Utilities	>50d > 100d <200d	Neutral toWeak	+3	3
XLP	Consumer Staples	>50d > 100d <200d	Neutral toWeak	+8 RISING	10
XLV	Health Care	>50d <100d <200d	Neutral toWeak	-6 FALLING	15
IYR	REITs	>50d <100d <200d	Neutral toWeak	+3	3

Sectors from last week’s newsletter

Symbol	Description	Moving Avg Summary	Trend	*Momentum +12 / -12	Weight in SPX
XLF	Financials	>50d	Strong	+7	14
XLE	Energy	>50d	Strong	-8 FALLING	7
XLI	Industrials	>50d	Strong	+8	10
XLB	Materials	>50d	Strong	+8	3
XLK	Tech	>50d	Strong	+11 RISING	21
XLY	Cons Discretion	>50d	Strong	+11 RISING	12
IYZ	Telecom	>50d	Strong	+3 FALLING	2
XLU	Utilities	>50d > 100d <200d	Neutral toWeak	+4 FALLING	3
XLV	Health Care	>50d > 100d <200d	Neutral toWeak	+6	15
IYR	REITs	>50d <100d <200d	Neutral toWeak	-4 FALLING	3
XLP	Consumer Staples	<50d < 100d <200d	Weak	-7 FALLING	10

***Momentum** – a TTG proprietary indicator (Raptor Indicator)

This week's sector performers:

Best 5d:

Symbol	Description	5d % chng
SMH	Semis	2.26%
GDX	Gold Miners	2.21%
XLP	Staples	2.12%
XME	Metals & Mining	2.02%
XOP	Oil & Gas Expl Prod	1.01%
XLI	Industrials	0.73%
XLK	Tech	0.59%
XLY	Cons Discretion	0.33%
IYR	REITs	0.32%
XLB	Materials	0.27%
SLX	Steel	0.27%

Worst 5d:

Symbol	Description	5d % chng
IBB	Biotech	-1.98%
XLV	Health Care	-1.43%
XRT	Retail	-1.23%
KRE	Regional Banks	-1.21%
KBE	Banks	-1.18%
XLF	Financials	-0.98%
ITB	Home Builders	-0.64%
IYZ	Telecom	-0.23%
XLE	Energy	-0.08%
XLU	Utilities	0.12%
OIH	Oil Services	0.15%

This week's International performers:

Best 5d:

Symbol	Description	5d % chng
TUR	Turkey	2.24%
ASHR	China A	2.11%
ECH	Chile	1.51%
EWV	Mexico	1.45%
EWN	Netherlands	1.23%
EWG	Germany	1.19%
EWH	Hong Kong	1.17%
FM	Frontier Mkts	1.05%
EWI	Italy	1.02%
EUFN	EURO FINS	0.83%
EWZ	Brazil	0.71%

Worst 5d:

Symbol	Description	5d % chng
GREK	Greece	-3.54%
RSX	Russia	-2.90%
IDX	Indonesia	-1.94%
EPHE	Philippeanes	-1.76%
VNM	Vietnam	-1.63%
EPI	India	-1.48%
EWM	Malaysia	-1.34%
EWA	Australia	-1.07%
EWY	South Korea	-0.99%
THD	Thailand	-0.90%
EEM	Emerging Mkts	-0.79%

ETF Flows (week ending 1/20/16)

Overall: Equity ETFs post -\$624M outflows (previous week +\$2.2B). This is the first week of outflows since the election, and second week of flows < \$5B (in either direction). To me, this just means there is a lack of conviction in the market place right now. You can draw your own conclusions, it may be that we have started earnings season and investors are waiting to see what the quarter's results are / guidance for next quarter. It could also be that investors were waiting for a smooth presidential transition.

In terms of US Sectors last week, Energy led with +\$325M and XLE captured the bulk of those inflows gaining +\$246M in assets. Materials were the only other US sector that saw significant inflows, which totaled +\$284M. IYM and GDXJ were the ETFs that saw inflows in the Materials sector. Financials led outflows, totaling -\$727M. Here the XLF ETF covered all the outflows. Consumer Discretionary, REITs, Health Care, Tech, and Utilities also saw outflows.

Flows also slowed down in International ETFs which gained +\$1.2B in assets last week. That's the second week that International ETFs saw more inflows than Domestic. Developed International Market ETFs gained +\$835M in assets (previous week +\$953M). Emerging Market ETFs as a group were flat (-\$54M). Country /Region specific ETFs were quiet with no area seeing > \$100M inflows. European topped the outflow side, -\$197M.

Commodity funds were also quiet. GLD (Gold) posted a \$161M inflow, which is small in terms of the size of the fund.

US Sectors (5d):

- **Largest Inflows:**
 - Energy +\$325M
 - Materials +\$284M
- **Largest Outflows:**
 - Financials -\$727M
 - Consumer Discretionary -\$375M
 - REITs -\$230M
 - Health Care -\$217M
 - Tech -\$194M
 - Utilities -\$108M

International (5d):

- **International ETFs +\$1.2B**
- **Country/ Region specific ETFs:**
 - Largest Inflows:**
 - Developed Markets +\$835M
 - Largest Outflows:**
 - Europe -\$197M
 - Asia Pac ex Japan -\$116M

Largest Flows by ETF

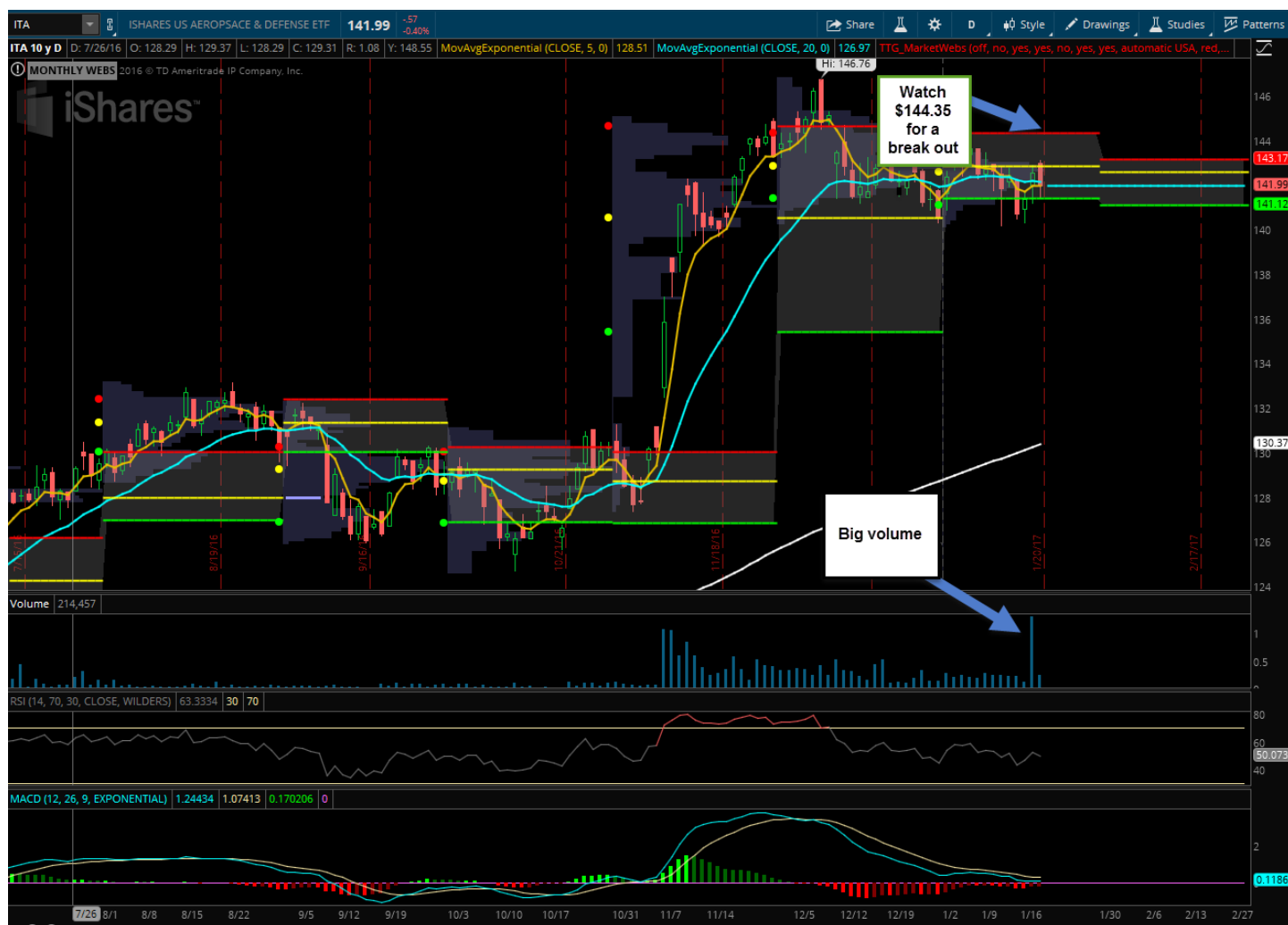
Inflows				Outflows			
Ticker	Description	5d Mkt Value Chng	Fund Size 5d % Chng	Ticker	Description	5d Mkt Value Chng	Fund Size 5d % Chng
DIA	DJIA	\$ 871,024,000	5.7	SPY	SPX	\$ (1,881,935,198)	-0.8
VOO	SPX	\$ 663,372,749	1.1	IWM	SMALL CAPS	\$ (1,545,485,000)	-4.1
IJR	SMALL CAPS	\$ 509,700,000	1.9	XLF	FINANCIALS	\$ (746,577,314)	-3.2
GOVT	US TREASURY BONDS	\$ 499,400,000	18.5	HYG	HIGH YIELD BONDS	\$ (654,000,000)	-3.5
IVV	SPX	\$ 479,010,000	0.5	IWF	LARGE CAP GROWTH	\$ (570,174,000)	-1.8
LQD	INVESTMENT GRADE BONDS	\$ 457,548,000	1.7	QQQ	NDX	\$ (493,000,000)	-1.1

ETFs / Stocks of the Week:

ITA (iShares U.S. Aerospace & Defense ETF)

Last week ITA saw +\$142M in ETF inflows, this increased the ITA fund size by 7.6%. The Defense & Aerospace group was on fire after the election and saw massive inflows. After a few weeks the inflows stopped, but last week money started to come back in. Top weights in the ETF: BA, UTX, LMT, GD, RTN, NOC, TXT, and TDG

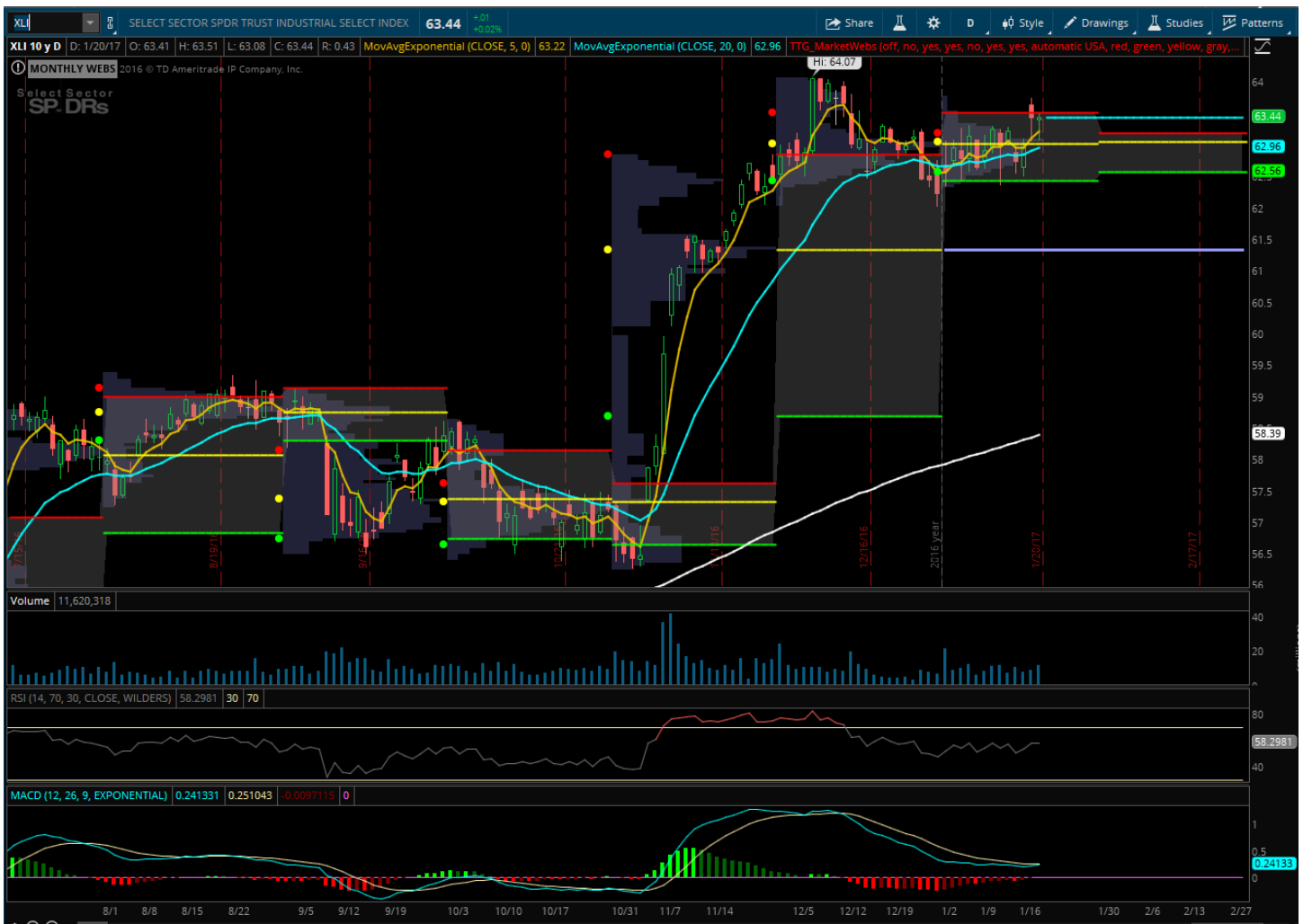
ITA Daily Chart



XLI (Industrial Select Sector SPDR Fund)

I am also listing XLI here as Aero & Defense are technically Industrial names. This is close to breaking back out – as I mentioned in the Sector Section, watch for a MACD crossover as a bug signal.

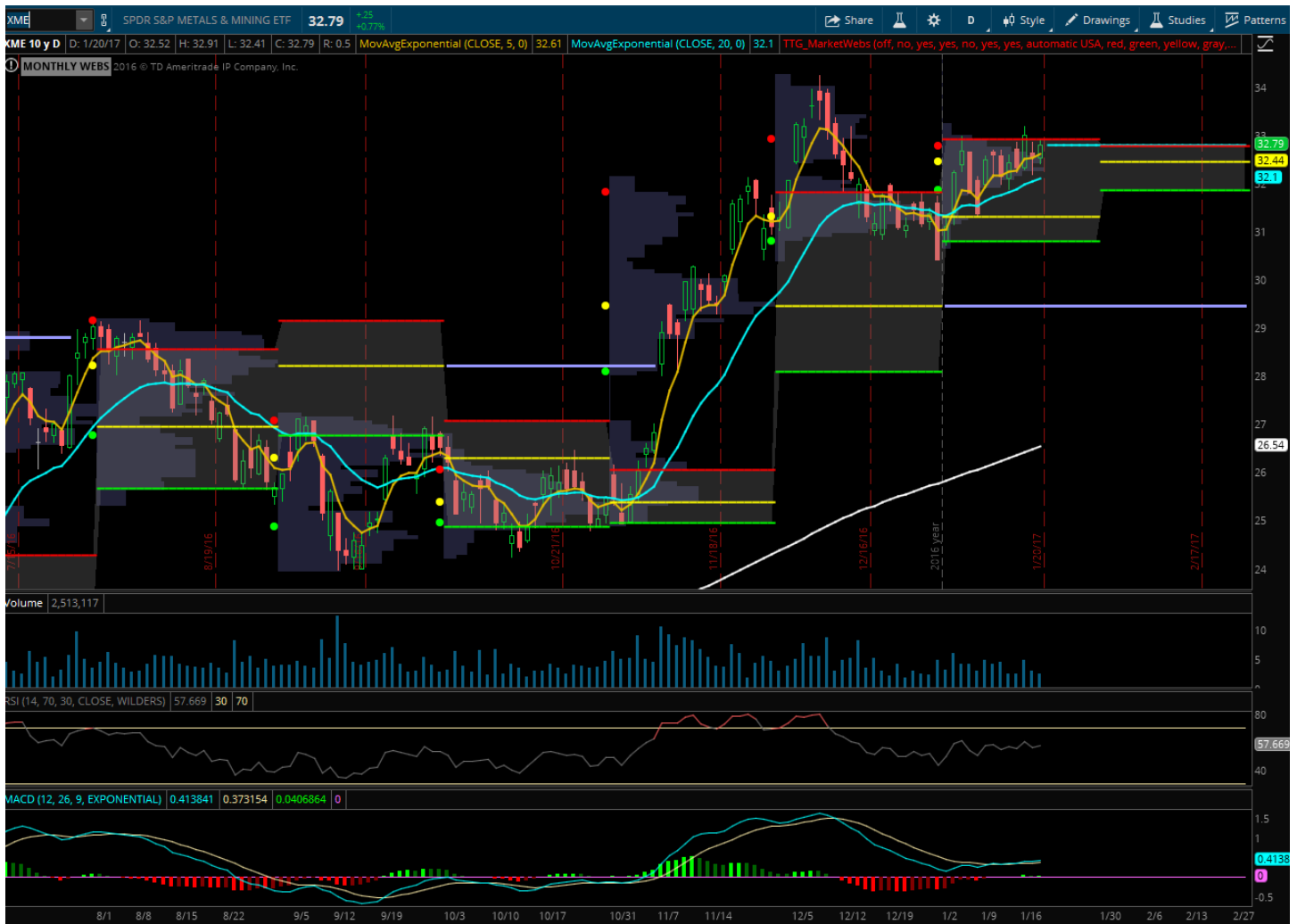
XLI Daily Chart



XME (SPDR Metals & Mining ETF)

XME is another group that has been consolidating and looks like it wants to take that next leg higher. Watch \$32.92 for the breakout level. Top weights in the ETF: CDE, AA, NEM, MUX, HL, RGLD, CMP, SWC, FCX, and STLD.

XME Daily chart



IHI (iShares U.S. Medical Devices ETF)

The Medical Device group was a very strong group in 2016 until Nov. The group sold off hard and did not participate in the Trump rally. This ETF caught my eye because it saw \$111M in inflows last week. See the jump in volume last week – this was a buyer, evidenced by the inflow.

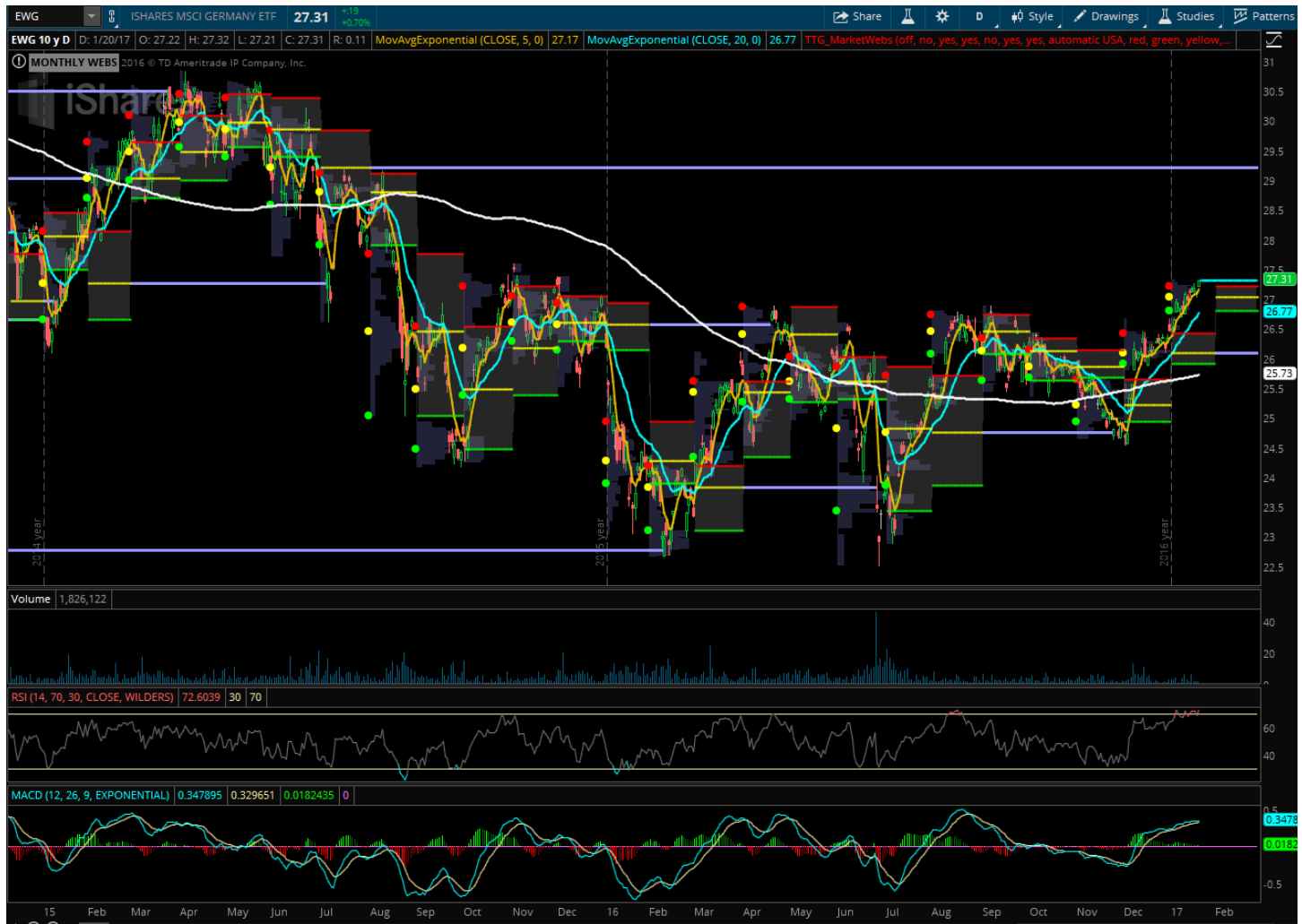
IHI Daily Chart



EWG (iShares MSCI Germany ETF)

Looking across the pond to see if any European ETFs are showing momentum... take a look at EWG, the Germany ETF. A few weeks back EWG re-claimed the 200d MA and since then it hasn't turned back. A small dip or pullback is worthy of a buy, in my opinion.

EWG Daily Chart



Thank you for reading the TTG newsletter, please respond back to me with any comments or questions.

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