Market Update

May 4, 2016

Is this market rebound getting tired or just pausing before it continues toward a new bull market?

Since last month's Market update the S&P 500 hit a new year to date high of 2,111.05 on April 20th and then pulled back from that high. This has led to many questions regarding whether or not the markets are poised to roll over and go back down or is it just a meaningful pause before we continue to move on toward a new bull market.

Let's examine some of the main catalysts affecting the markets for a moment. We know that International worries, especially China, have subsided a bit since the beginning of the year. Oil has continued its price stabilization in the low to mid-$40 range reducing fearful sentiment and offering lower input costs for businesses and consumers. The Federal Reserve has re-committed to a very measured approach on interest rates. These factors have not changed much from last month. What has changed and had an effect on the markets is that earnings season got underway and there were some misses by bellwether technology companies, such as Apple, which have weighed on the tech sector. The presidential race has become a little bit clearer as Trump is now the presumed Republican candidate and Clinton certainly appears to be on her way to the Democratic nomination. However, maybe even more important has been the recent weakness in the U.S. dollar which has helped fuel a mini-rally in commodities and U.S. stocks. This trend in the past couple of days has shown signs it has run its course and the markets have given back some of its gains.

Information in this chart above was taken from sources we believe to be reliable; however we do not guarantee its accuracy or completeness.

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Last month I mentioned that the next technical sign I was looking to for further indication of a sustainable upward trend was the “Golden Cross.” The “Golden Cross” is when the 50 day moving average passes the 200 day moving average on the S&P 500. (For a copy of April’s Market Update please contact me.) This positive technical indication has recently occurred.

The question is was this just another market topping out where we will now go lower or a meaningful pause before we resume a further upward trend? While there are certainly many negative things in the market place that could lead the way for further declines, it is always good to remember that from the recent S&P 500 low of 1810.1 on February 11 the S&P 500 hit a high of 2,111.05 up 16% from the low in less than 3 months. As we see in the chart provided, the market is coming back down to its 50 day moving average (blue line on chart). This is a natural resistance level the market is making efforts to test. If the market can come down to this level without meaningfully breaking through and then reverse, this would be a good indicator for a resumption of the upward trend. It would also potentially provide the momentum needed to break through recent market highs and resume the longer-term bull market trend.

Currently, there is a mix of economic data and earnings reports that are both positive and negative for market conditions. My personal feeling is that we will test this 50-day moving average and not break through it meaningfully before we resume a more measured upward trend. Ultimately, economic conditions domestically are still improving, interest rates are low, the political environment is becoming less unknown and energy costs are very cheap. I believe this will continue to benefit the consumer and positively set up the second half of the year, especially holiday season.

Lastly, I mentioned in my February Market Update that the current short term bear market we were in since June of 2015 was potentially half over or more based on the average length of bull markets, roughly 403 days. We are now over 315 days into this bearish trend and have made significant progress toward breaking out of that trend.

If you have questions or would like to discuss this further with regard to your personal portfolio please contact me at 310-433-5378.

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James M. Liotta
President
Prominence Capital GP, LLC.
jliotta@prominencecapital.com
www.prominencecapital.com

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