LPL RESEARCH

WEEKLY MARKET COMMENTARY

June 26 2017

A TECHNICAL CHECK-IN

THE GLOBAL BULL LOOKS STRONG

Burt White *Chief Investment Officer, LPL Financial*
Ryan Detrick, CMT *Senior Market Strategist, LPL Financial*
Dave Tonaszuck, CMT *Technical Strategist, LPL Financial*

KEY TAKEAWAYS

Longer-term technical indicators on equities continue to look strong.

Global equity strength is yet another clue that the current bull market is still alive and well.

The global equity bull market is alive and well, with very broad participation. Longer-term technicals continue to look very healthy and strong, even as the bull market and economic recovery in the U.S. turns eight years old. A closer look at key indexes suggests the path of least resistance remains higher for stocks, although it likely won't be an easy ride, as volatility could creep higher during the second half of 2017.

IT IS A GLOBAL BULL MARKET

Our methodology at LPL Research focuses on three key tenets of investing: fundamentals, valuations, and technicals. Out of the three, technicals have been the most bullish over the past year, and fortunately remain bullish today. One such example of our technical evaluation was on October 17, 2016 when many were worried about the coming U.S. election. We noted why technicals remained very strong and that has since played out well. This week we will take a closer look at some of the reasons that technicals continue to suggest equity strength.

As of June 23, the S&P 500 Index has made 24 new all-time highs so far in 2017 and is up 8.9% for the year, which is already at the average yearly gain since 1950* of 8.9%. But many do not realize that developed and emerging markets have been even better this year. After lagging the FTSE USA Index for six of the past seven years, the FTSE All-World Ex-US Index has started to outperform this year. This is a great sign that the global bull market still has legs left, and is one big reason to expect that the equity bull market in the U.S. has the potential to continue as well.

The easiest way to show how global markets are doing is via the FTSE All World Ex-US Index. This index includes 46 different countries, but as the name suggests, it excludes the U.S. components. Technically, this index recently had a major breakout in April to new highs, above past resistance from the 2014 and 2015 peak. All in all, it further confirms this bull market is global, not just a U.S. event [Figure 1].

What does it mean? With more areas for investors to find alpha, this could potentially usher in a very good period for active management. Simply investing in the S&P 500 has been an oft-used strategy the past few years, and it has made passive investing

*Please note: The modern design of the S&P 500 stock index was first launched in 1957. Performance back to 1950 incorporates the performance of predecessor index, the S&P 90.

Alpha measures the difference between a portfolio's actual returns and its expected performance, given its level of risk as measured by Beta. A positive (negative) Alpha indicates the portfolio has performed better (worse) than its Beta would predict.

The *Weekly Market Commentary* will not be published on July 3, 2017. Look for our next publication on July 10, 2017. We wish you all a happy and healthy Independence Day!

very popular. With global markets starting to outperform, we continue to believe that investing in a well-diversified portfolio is the way to go and active management may be one way to potentially benefit.

DIGGING DEEPER INTO THE TECHNICAL INDICATORS

We can also look at market breadth for additional insights on how global equity markets are doing. Market breadth is one of our favorite ways to measure the underlying health of the stock market and confirm bullish trends. We think reviewing market breadth is helpful, as it highlights the portion of the overall market that is participating in up or down moves.

One important measure of market breadth is the percentage of companies in an index that are above their 200-day moving average. In general, if 50% or more companies in an index are above their 200-day moving average, the index is considered healthy; if that number falls below 50%, the index is considered unhealthy and potentially problematic.

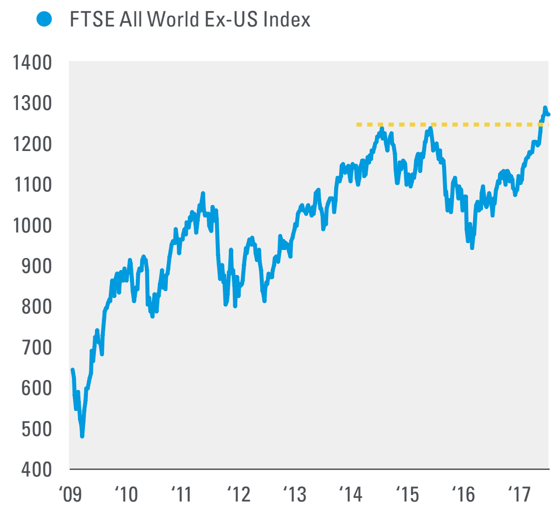
Global Market Breadth Data

So far in 2017, the equity markets have experienced strong market breadth globally across major equity indexes which increases our confidence that stocks may move higher over the long-term time horizon.

The market breadth across six global equity indexes is illustrated in Figure 2, and we are encouraged that more than 50% of the companies within these indexes are above their 200-day moving average. More importantly, if an index has high magnitude and/or direction values, it represents healthy market breadth; however, it is important to note that this may not always translate into outperformance for the equity group.

As shown in Figure 2, global market breadth as measured by the magnitude and direction of the six major equity indexes studied is considered strong; each index shows broad internal participation

1 THE GLOBAL BULL MARKET CONTINUES TO IMPROVE



Source: LPL Research, Bloomberg 06/23/17

Indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results.

The FTSE All-World ex US Index is comprised of Large and Mid cap stocks providing coverage of Developed and Emerging Markets excluding the US. The index includes 46 countries and is designed to help investors benchmark their international investments.

2 MARKET BREADTH OF SIX GLOBAL EQUITY INDEXES

Percent of Companies Above Their 200-Day Moving Average

Global Equity Indexes*	Magnitude (Value)	Direction (YTD Slope of Moving Average**)
MSCI EAFE Index	84.3	Higher
Nasdaq Composite	59.3	Higher
Russell 2000 Index	61.7	Higher
MSCI Emerging Markets Index	67.9	Higher
Standard & Poor's 500 Index	72.5	Higher
Dow Jones Industrial Average	73.3	Higher

Source: Bloomberg, 06/21/17

* Indexes represented: S&P 500 Index, Dow Jones Industrial Average, Nasdaq Composite, Russell 2000 Index, MSCI Emerging Markets Index, and MSCI EAFE Index. The data are comprised of two variables: magnitude or percent of companies in the index above their long-term moving average, a more static snapshot in time; and, direction or more dynamic measure of either improving or diminishing conditions. A magnitude value above 50% is considered to be improving market breadth and a positive direction value can be interpreted as conditions improving.

** A 200-day moving average of the (percent of the companies above their 200- day moving average) time series is used in the calculation of the slope.

Indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results.

and improving intermediate-term conditions. It is worth noting that even the NASDAQ has broad participation. Much of the media attention is that only the FANG stocks (Facebook, Amazon, Netflix, and Google) are going higher, and that simply isn't true.*

S&P 500 Returns After Global Market Breadth Confirmation

When looking back at historical data, since 2000 when the six major equity indexes listed in Figure 2 had a market breadth magnitude greater than 50%, average and median subsequent returns for the S&P 500 tended to move higher [Figure 3]. All six global indexes confirmed the market breadth magnitude metric on December 28, 2016, suggesting there is potentially more room to run for U.S. equities over the long-term time period, e.g., greater than one year. We note that the S&P 500 has been up 9.4% since this signal, further confirming that this indicator looks solid to us.

* All company names noted herein are for educational purposes only and not an indication of trading intent or a solicitation of their products or services. LPL Financial doesn't provide research on individual equities.

Incorporating a global market breadth approach to investing could potentially help investors achieve better outcomes than one focused solely on domestic market breadth. For example, the one-year average and median returns of the S&P 500 since 2000 were 6.1% and 10.7%, respectively, which were lower than the returns displayed in Figure 3 generated after global market breadth was confirmed.

CONCLUSION

As explained in our recently released *Midyear Outlook 2017: A Shift in Market Control*, we expect volatility to potentially pick up in the second half of this year, but believe the bull market should continue. One of the healthiest things we can see for a bull market is broad participation and with so many global markets and indexes performing well, this is a clue that the bull market is alive and well. We are encouraged by these technical trends that demonstrate continued strength in the global bull market, and we will continue to monitor these indicators. ■

3 GLOBAL MARKET BREADTH CONFIRMATION TENDS TO BE BULLISH FOR U.S. EQUITIES

Subsequent Returns for the S&P 500 Index After Global Market Breadth Confirmation

	3 Months	6 Months	9 Months	1 Year	1.5 Years	2 Years
Count	24	24	23	23	21	21
Average	1.9%	5.1%	9.4%	10.3%	17.5%	22.5%
Median	3.6%	6.0%	9.5%	13.3%	18.2%	22.0%
Max	9.7%	17.4%	21.8%	24.8%	36.1%	44.3%
Min	-14.3%	-22.6%	-20.5%	-28.8%	-10.9%	-18.8%
% Positive	70.8%	87.5%	91.3%	95.7%	95.2%	95.2%

Source: Bloomberg 06/20/17

Data 2000–2017.

Global Market Breadth is a technique used in technical analysis that attempts to gauge the direction of the overall market by analyzing the number of companies advancing relative to the number declining.

Indexes representing Global Market breadth: S&P 500 Index, Dow Jones Industrial Average, Nasdaq Composite, Russell 2000 Index, MSCI Emerging Markets Index, and MSCI EAFE Index.

Indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results.

IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results.

The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal, and potential liquidity of the investment in a falling market.

Investing in foreign and emerging markets securities involves special additional risks. These risks include, but are not limited to, currency risk, political risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

Active Management Investment managers attempt to outperform the market by predicting market activity, and can add value to portfolios by anticipating market cycles and continuously changing asset allocation over time. This involves more frequent buying and selling of assets and will tend to generate higher transaction cost. Investors should consider the tax consequences of moving positions more frequently.

All investing involves risk including loss of principal.

INDEX DESCRIPTIONS

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The FTSE All-World ex US Index is comprised of Large and Mid cap stocks providing coverage of Developed and Emerging Markets excluding the US. The index includes 46 countries and is designed to help investors benchmark their international investments.

Dow Jones Industrial Average is the most widely used indicator of the overall condition of the stock market, a price-weighted average of 30 actively traded blue chip stocks, primarily industrials. The 30 stocks are chosen by the editors of the Wall Street Journal. The Dow is computed using a price-weighted indexing system, rather than the more common market cap-weighted indexing system.

The NYSE Composite (NYA) is a stock market index covering all common stock listed on the New York Stock Exchange, including American depositary receipts, real estate investment trusts, tracking stocks, and foreign listings.

MSCI EAFE Index is recognized as the pre-eminent benchmark in the United States to measure international equity performance. It comprises the MSCI country indexes that represent developed markets outside of North America: Europe, Australasia, and the Far East.

MSCI Emerging Markets Index captures large and mid cap representation across 23 emerging markets (EM) countries. With 822 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S.-based common stocks listed on the NASDAQ stock market. The index is market-value weighted. This means that each company's security affects the index in proportion to its market value. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index. It is not possible to invest directly in an index.

The Russell 2000 Index measures the performance of the small cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index.

RES 5963 0617 | Tracking #1-620617 (Exp. 06/18)