



Bendio

Not a broad base rally

Small cap sector telling a story

ASSET MANAGEMENT
UNIT

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The Trump party is over
Eyes on small –cap Russell

Since Donald Trump took the oval office stock markets have been in a non-ending party, showing incredible numbers in every field. That environment showed a rally up to 16% from lows. Nonetheless, since 2017 the game has changed. The SP500 reaching new highs while only few names are in that trend.

The SP500 trading above 2,410 points while transportation, financials, telecom and small cap are not in new highs.

When investors embraced risk appetite there are looking for a strong trend, meaning increasing demand in strong sectors and companies, considered safe haven from sectors and companies with highly volatile cash flows (small companies). But the reality has shown different

Figure 1: SPX versus Russell/SPX.



Last remarks:

Russell diverges from SPX

The chart above shows SPX versus the ratio Russell/SPX. Showing that a downtrend in the ratio means small cap is deteriorating compared to the SP500, the whole market. If we look close, we can actually take this as a leading indicator of major reversals in stock markets.

In November 2016 notice after trump get elected the ratio Russell/SPX climbed to a rally with evident strength in a vertical move, meaning that the direction borne from down to top, from small cap to large cap, from risky to save heaven. That is what we call a strong broad base rally lead by small cap. The common denominator of the market´ corrections in October 2014, august, December 205 and November 2016 was a previous deteriorating

relative performance of the Russell against the SP500. That being said, the possibility of a correction in stock markets is higher if this breadth condition is present. We maintain our projection for SPX is around 2180 points.

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