



Scott Wren
Senior Global Market Strategist

Last week's S&P 500 Index: +2.7%

Market breadth update

Key takeaways

- An examination of market breadth reveals a narrowing of stocks carrying the major indexes to record highs over the last three months.
- Given our economic and market outlook, we do not see this as a sign the equity rally is at risk as we look out over the next six to 18 months.

Earlier this year we took a look at just how broad the advance in the market, really since the middle of last year, had been. We examined market breadth. In other words, we wanted to find out if lots of stocks were participating as the equity market marched to new record highs or if the advance was being led by only a small number of large-capitalization companies. Wide participation in a rising market is a good sign and typically occurs in the early stages of a new cycle. The criterion used was one comparing the relative performance of the Russell 2000 small-capitalization index versus the large-cap S&P 500 (SPX) Index and the mega-cap S&P 100 (OEX) Index, which is made up of the 100 largest companies in the SPX. We also looked at the 63 subindustry groups making up the SPX to see how many were advancing and, of those, how many were outperforming the index. Now, a few months later, after a new series of record highs in the major indexes, we wanted to reexamine market breadth to see if the dynamics have changed.

From a technical perspective, the number of individual stocks trading above their 50-day moving average has fallen from just over 93% in mid-April of this year to just under 50%. This short-term indicator means fewer stocks are making new highs than earlier in the year. However, when examining how many stocks are still above their 200-day moving average, the percentage is 90%. While that is down from nearly 98% a few months ago, it is still a strong number.

At the index level, the performance over the last three months is very similar between the Russell 2000, SPX, and OEX while earlier in the year small caps were leading the charge higher by a wide margin in a very broad market. Of the 63 industry groups (each group made up of individual stocks) represented in the SPX, 54 have posted positive returns over the last three months. Of those groups with positive returns, 23 have beat the return of the SPX over that time frame according to Bloomberg data. Both of these readings are modestly weaker than earlier in the year. And finally, over the same three-month time frame, the SPX pure growth index has beat the performance of the SPX pure value index as big growth stocks gained some ground on smaller-capitalization issues.

The bottom line, over the last three months market breadth has narrowed a bit. Not the end of the world, but something to be aware of. Based on our outlook and favorable view of cyclical sectors within a strong economic recovery, we look at this as a speedbump as the market digests its gains before continuing to lift to new record highs over the next six to 18 months.

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Technical analysis is based on the study of historical price movements and past trend patterns. There is no assurance that these movements or trends can or will be duplicated in the future.

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Definitions

An index is unmanaged and not available for direct investment.

Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index. The Russell 3000® Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

Russell 3000® Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

S&P 100 Index measures large cap company performance and consists of up of 100 major, blue chip companies across diverse industry groups. The primary criterion for index inclusion is the availability of individual stock options for each constituent.

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market.

S&P 500 Pure Growth Index is a style-concentrated index designed to track the performance of stocks that exhibit the strongest growth characteristics by using a style-attractiveness-weighting scheme.

S&P 500 Pure Value Index is a style-concentrated index designed to track the performance of stocks that exhibit the strongest value characteristics by using a style-attractiveness-weighting scheme.

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