

Expanding Market Breadth:

I am a big believer that there are many different attributes that make stock prices move. Fundamentals are the most important thing, but much can be gleaned by looking at other factors like market breadth; in other words, how is the market set up and is it conducive to further gains? The internals of the market can reveal much about investor positioning and the how much support might lie behind a market move.

Two striking things happened recently in this regard. 95% of the S&P 500 index constituents traded above their 50-day moving average. This is notable because it is a very rare event, and when it has happened in the past it has been just after major market lows. This breadth expansion occurred in mid-2003 and again in 2009 and was a sign of broad-based buying post a big decline. This thrust of buying can sometimes result in consolidation in the short term, but it does correlate with very strong returns over 6 and 12 months. This was also observed in the Russell 2000 index, showing buying was not just centred on the large caps, but smaller companies too.

The other factor was even rarer. 100% of the S&P 500 Consumer Discretionary sector traded above its 50-day moving average. This has happened only once before in history, just after the 1991 low. What is causing this widespread optimism? There are likely many factors at play here, the trillions of dollars of Federal Reserve stimulus being chief among them, as well as the reopening of the economy.

Whatever the reason it is a sign that we should respect, in my opinion in part, because of its historical track record, but also because it shows an expanding list of stocks that are performing well. This bullish action may also appease those investors concerned about narrow market leadership in the mega cap tech stocks. This development is further supported by the performance of the equal weighted S&P 500 index which has broken out recently against the market cap-weighted S&P 500 index, as seen below.

Equal Weight S&P 500/ S&P 500 ytd to 4 June



Felix Wintle, Fund Manager, VT Tyndall North American Fund, 5th June 2020

Source: Strategas Research Partners, Bloomberg

Contact Details:

Fund Manager – fwintle@tyndallim.co.uk

Sales Director - hnolan@tyndallim.co.uk