July 18, 2018

Six Stocks Are King of the Hill

As of July 10, just three stocks account for over 70% of the 2018 returns on the S&P 500 and NASDAQ 100. And 105% of the NASDAQ's return, and 98% of the S&P 500's return, were due to the top six tech stocks.

	% of S&P 500's YTD Returns	% of Nasdaq 100's YTD Returns	YTD Change
Amazon	35%	41%	49%
Netflix	21%	21%	117%
Microsoft	15%	15%	19%
Apple	12%	12%	13%
Alphabet	8%	8%	11%
Facebook	8%	8%	16%
Top 3	**71%**	**78%**	
Top 4	**83%**	**90%**	
Top 6	**98%**	**105%**	

Source: @carlquinanilla

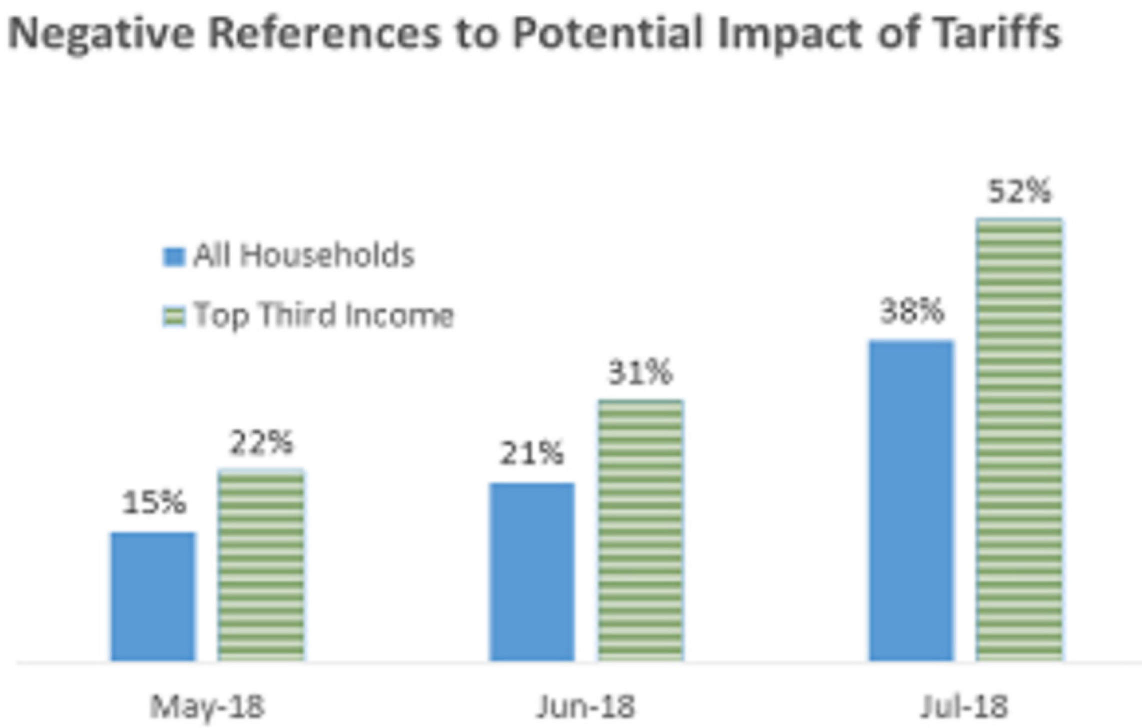
The FAANG (plus Microsoft) market leadership story is not a new one. However, the impact from a handful of stocks seems to be getting more prominent. This usually doesn't end well.

- Jake Weber, analyst, Mauldin Economics

Tariffs Dampen Sentiment

Consumer sentiment hit a six-month low of 97.1 in July, according to the University of Michigan's monthly survey.

Over 50% of those in the top third of income distribution—which accounts for half of consumer spending—said that rising trade tensions were a concern.



Source: CNBC.com

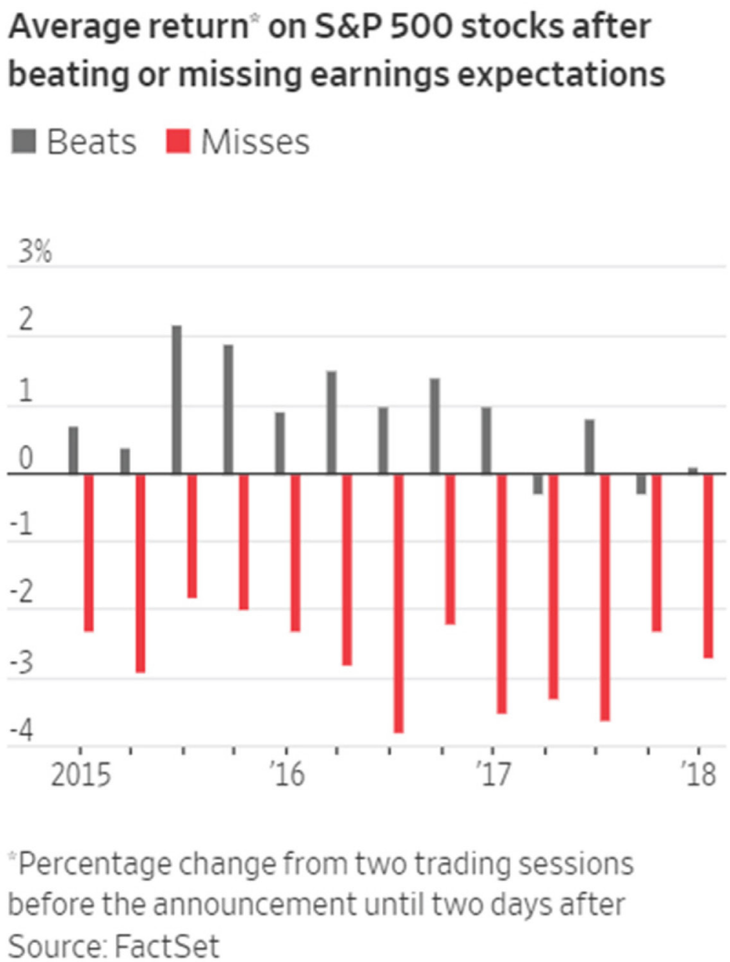
Richard Curtin, the Surveys of Consumers chief economist, had this to say on the latest reading: "The darkening cloud on the horizon, however, is due to rising concerns about the potential negative impact of tariffs on the domestic economy."

- Jake Weber, analyst, Mauldin Economics

Earnings Draw Investors' Yawns

It's no secret that Wall Street analysts tend to low-ball earnings estimates. Doing so makes it easy for companies to beat expectations and helps boost stock prices over the long run.

According to FactSet Research, 78% of companies beat analyst earnings expectations in Q1. On average, 69% of S&P 500 companies have beat quarterly earnings forecasts since 2009.



Source: [The Wall Street Journal]

However, investors have become less impressed with earnings beats. Last quarter was the fourth straight quarter that stocks of companies that beat forecasts gained less than 1% on average, claims FactSet.

We're in the midst of the Q2 earnings season, and this is worth keeping an eye on.

\- Jake Weber, analyst, Mauldin Economics

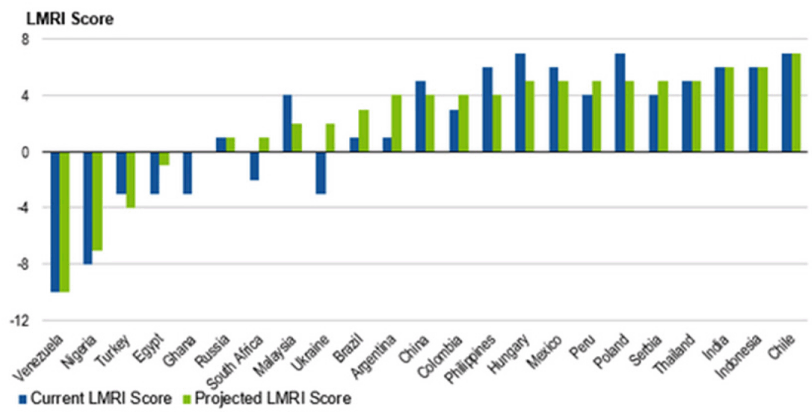
Global Markets Resilience

This is an informative chart on the resilience of emerging markets. The countries are scored based on a proprietary system developed by Franklin Templeton Global Macro. The result is a Local Markets Resilience Index (LMRI), shown below.

Local Markets Resilience by Country (LMRI Scores)

FRANKLIN TEMPLETON INVESTMENTS

Exhibit 1: LMRI Scores by Country
As of April 2018



Source: Templeton Global Macro. The Local Markets Resilience Index (LMRI) is a proprietary scoring mechanism that allows us to rank/assess emerging market countries along five different factors. There is no assurance that any projection, forecast or estimate will be realized.

Source: Franklin Templeton Investments

The scores are derived from five factors:

- The quality of macroeconomic policy
- Lessons learned from past crises
- Structural reforms that improve productivity and economic growth
- Ability to grow domestically
- Level of vulnerability to external shocks

The index reinforces the vast variance among emerging markets and the need to understand them.

\- Kevin Brekke, editor of *Rational Bear*

Update on Silver Market

Not to toot our own horn, but we did warn about the silver market.

In the May 9 issue of *Charts That Matter*, we showed that silver had traced out a textbook example of a symmetrical triangle pattern. We warned that these are continuation patterns, and the likely direction for the shiny metal was down.

Source: StockCharts.com

Then in the June 20 issue, we showed that silver had a failed bullish breakout, and the next support level was at $16.20 (blue line on chart). Well, that level failed to hold, and silver has since sunk to the $15.80 area.

The next area of support is around $15 (red line on chart), and it looks like weak support at that. If that level fails, there is nothing but air until $14.

Silver looks to be flapping its wings like Icarus on a hot summer afternoon. Be careful out there!

- Kevin Brekke, editor of *Rational Bear*