

Are US defensive sectors ready to outperform?

As we have already said, there was no strong damage to index trends last week. Yet, risk appetite in the US is very moderate. Defensive sectors performance is in line with the market, in a position to improve. We review today the levels that would signal clear danger for the S&P 500 and the Eurostoxx 50.

■ **RUSSELL DEFENSIVE vs. S&P 500.** **Weekly**



The ratio of the Russell Defensive sector to the S&P 500 tends to rise when the market falls, and to fall when the market rises. It is a classic proxy for risk appetite.

The previous bearish periods of the S&P 500 were announced with a little advance by that ratio (we drew vertical lines to point at the lows of the ratio).

That ratio is almost back at its major support, but it is not completely there.

This illustrates the question we face on US indices : have we started the distribution phase (area where the market builds its topping formation), or can we reach a little higher?

■ **RUSSELL DEFENSIVE vs. S&P 500,**
Daily



This same ratio on a daily chart has actually reached the same level as in February 2017, and June 2015. One could consider this level as legitimate, even if it is not the same level as on the longer term chart.

Analysis cannot say which level is most important.

But we can adapt to uncertainty:

1- **a medium term investor had rather slowly start shifting its asset allocation to more defensive sectors.** The bearish potential of the ratio is much more limited than the bullish potential for the 6 to 12 months to come.

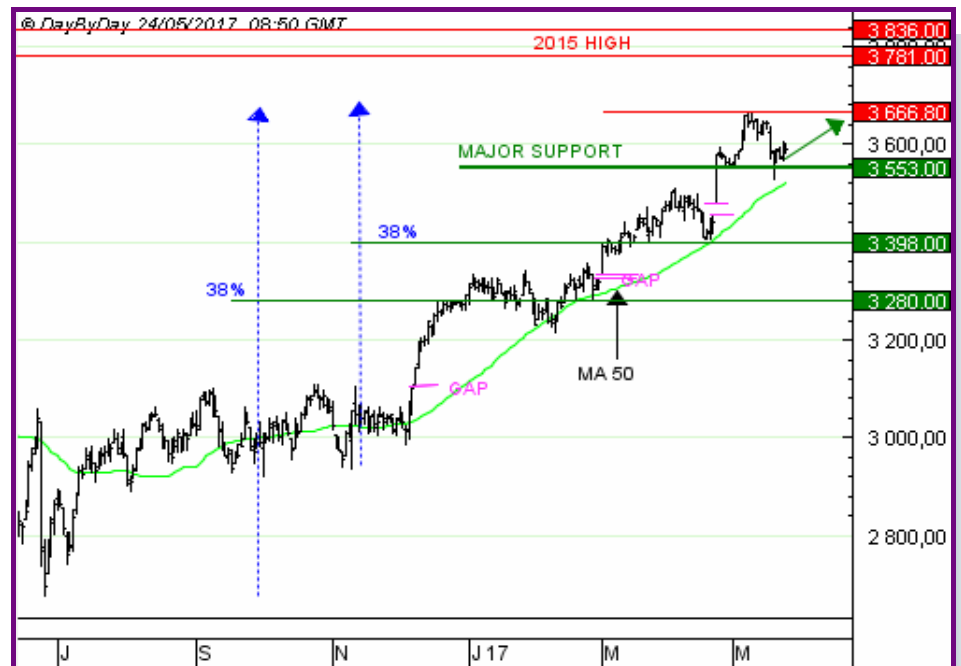
2- a short term investor may wait a little more. Yet, **should the ratio bounce above 80.3, the first resistance, it would become urgent to reduce exposure.**

■ **S&P 500, Weekly**



As we have already said, for the time being, that uncertainty translates into a potential 45 extra points to gain on the S&P 500, and the clear sell signal that would be triggered below 2322.

■ EUROSTOXX 50, Daily



In Europe, some indices interrupted their bullish trend already, others escaped by the skin of the teeth.

The Eurostoxx 50 bounces from the invalidation level. It opened below that level, but closed above, thus avoiding the signal.

Yet, the bullish reaction is extremely weak. Short-term indicators are not oversold, medium-term indicators are extremely overbought. **The danger, should we break below 3553, would be to join around 3398 fast.** Indeed, the most recent market action (since May 22nd) would have to be analysed as a bearish flag.

But for the time being, we are above the major support. **Even hesitant, the trend remains bullish.**

■ This research was conducted by :



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