

Last week the S&P 500 tested the 2800 resistance level, but ultimately a stronger USD, on the back of the European Central Bank announcing they would only consider hiking rates mid-2019, pressured commodities and large-cap equities (international exposure), seeing the S&P 500 failing below 2800.

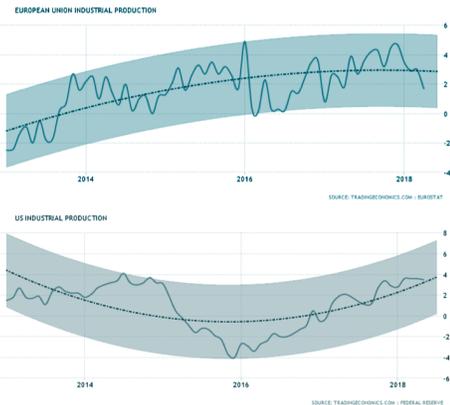
The first part of this week sees a host of Fed officials giving speeches, but given the FOMC meeting last week, and the new guidance of four hikes this year, we do not expect to see any significant market reaction. However, on Thursday the Fed Bank Stress Test results are released, which could see volatility pick up in the financial sector.

Fedex (FDX) reports earnings on Tuesday, which may provide a read into the health of the underlying economy, but otherwise we see a fairly quiet week (barring any negative headlines around the ongoing trade dispute with the US and China), with direction driven by the currency and bond markets.

Our tactical model remains neutral (60/40).

MONDAY JUNE 18, 2018
Fed Dudley Speech
Fed Duke Speech
Fed Bostic Speech
Fed Williams Speech
TUESDAY JUNE 19, 2018
Fed Bullard Speech
Building Permits
Housing Starts
Redbook
WEDNESDAY JUNE 20, 2018
MBA Mortgage Applications
Fed Chair Powell Speech
Existing Home Sales
THURSDAY JUNE 21, 2018
Initial Jobless Claims
Philadelphia Fed Manufacturing Index
CB Leading Index
Fed Stress Test Results For Big Banks
FRIDAY JUNE 22, 2018
Markit Composite PMI Flash

GAUGE OF THE GRADE



The adjacent two charts show European Industrial Production (top chart), versus US Industrial Production. Despite many analysts calling for a preference of European equities over US equities, the two graphs show that the trend is weaker in Europe than the US. Despite a valuation gap between US (forward PE of 16x) and European equities (forward PE of 14x), when stripping out higher the PE Tech sector in the US, as well as accounting for higher ROE's of US companies, the valuation gap narrows considerably.

SECTOR RETURNS					
	5 DAYS	1 MONTH	3 MONTHS	6 MONTHS	12 MONTHS
Basic Materials	-1.4	1.8	1.6	2.5	13.9
Communication Services	2.3	4.4	0.1	-3.3	-5.7
Consumer Cyclical	1.7	7.5	6.5	13.4	24.3
Consumer Defensive	2.1	5.3	-1.4	-6.7	-5.1
Energy	-3.1	-3.6	12.2	10.1	18.6
Financial Services	-1.8	-1.5	-3.3	0.7	14.9
Healthcare	1.1	4.6	1.8	5.6	15.0
Industrials	-1.1	2.8	0.6	2.7	12.5
Real Estate	-0.6	4.4	5.8	-4.0	-2.1
Technology	0.6	4.3	3.6	13.8	34.2
Utilities	2.4	0.5	1.6	-7.1	-3.3



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SOWELL'S WEEK AHEAD

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