CARY STREET PARTNERS
A LUXON FINANCIAL COMPANY

MONTHLY COMMENTARY

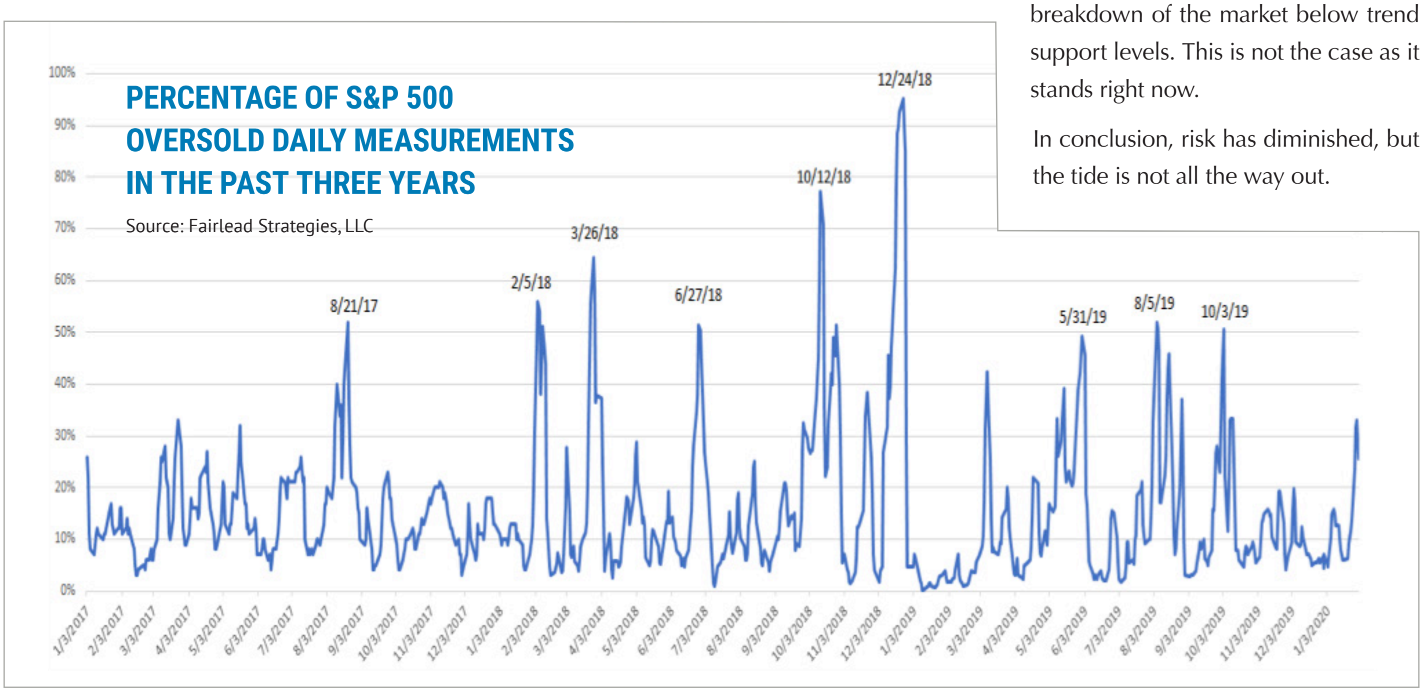
FEBRUARY 1, 2020

Fear has returned to the global equity markets. As we repeatedly comment, there are many and varied inputs to equity prices, particularly in the near term. Predicting which of these inputs will impact equity markets to the extent prices broadly rise or decline is an educated guess at best. Instead, we utilize measurements of indicators such as sentiment and market breadth to measure market risks and opportunities. As 2020 began in earnest these readings became increasingly frothy. In that type of environment prices can continue to move higher to some extent, but become vulnerable to whatever negative catalyst might appear. After peaking during the third week of January, markets globally have sold off on news of the widening coronavirus that originated in China. This was the trigger for a turn in price, as unpredictable an event as you can define. But the backdrop for a pull-back was in place, as sentiment and market breadth were sitting solidly at over-bought extremes.

As equity prices have pulled back, the indicators we follow have moved out of extremely over-bought territory. Our current readings are neutral and traveling back towards over-sold indications, but they are some distance away from extreme numbers. Risk diminishes as markets pull back, but we are not in an all clear zone, in which indicators would tell us just about everybody that can sell, has sold.

Below is a chart of one of the daily market breadth measurements we follow. We determine short-term oversold conditions by looking at every individual stock in the S&P 500 for oversold measurements, then determine a percentage oversold. As a percentage of the S&P 500, short-term oversold conditions tend to peak around 50% at market lows, as in the months of June, August, and October of last year. The current reading as of this writing is about 30%, not an extreme. In addition, oversold conditions can become even more widespread, which typically takes place with an associated breakdown of the market below trend support levels. This is not the case as it stands right now.

In conclusion, risk has diminished, but the tide is not all the way out.



PERCENTAGE OF S&P 500 OVERSOLD DAILY MEASUREMENTS IN THE PAST THREE YEARS

Source: Fairlead Strategies, LLC