The StockCharts.com Market Message

Featuring our commentators, John Murphy and Arthur Hill

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FRIDAY'S RALLY PREVENTS CHART BREAKDOWN -- OIL RALLY GIVES STOCKS A STRONG BOOST -- ENERGY SHARES ARE IN POTENTIAL SUPPORT ZONE -- BANK SHARES TEST LONG-TERM SUPPORT LINES -- FRIDAY'S JUMP IN BOND YIELDS ALSO HELPS STOCKS -- RISING BOND/STOCK RATIO IS OVERBOUGHT -- DEAN FOODS AND KELLOGG HIT NEW HIGHS

By John Murphy

MARKET BENDS BUT DOESN'T BREAK... It looked on Thurday like the major U.S. stock indexes were on the verge of closing below their January lows. A Thursday afternoon rebound, however, followed by a 2% gain on Friday kept those support levels intact. Chart 1 shows the **Dow Industrials** gaining more than 300 points on Friday. That kept it above its January intra-day low. Chart 2 shows the **S&P 500** also ending the week on an upnote after holding support at its January low as well. Their may be some good news there. The 14-day RSI line (top of chart 2) is showing a "positive divergence" around the 30 oversold line. That suggests that Friday's bounce may be the start of a much needed rebound. That doesn't mean the market is out of danger. But it may be putting in at least a short-term bottom. Stocks were helped by a big rebound in the price of oil. In addition, energy stocks have reached a potential support zone which may stabilize that important sector.

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Chart 1

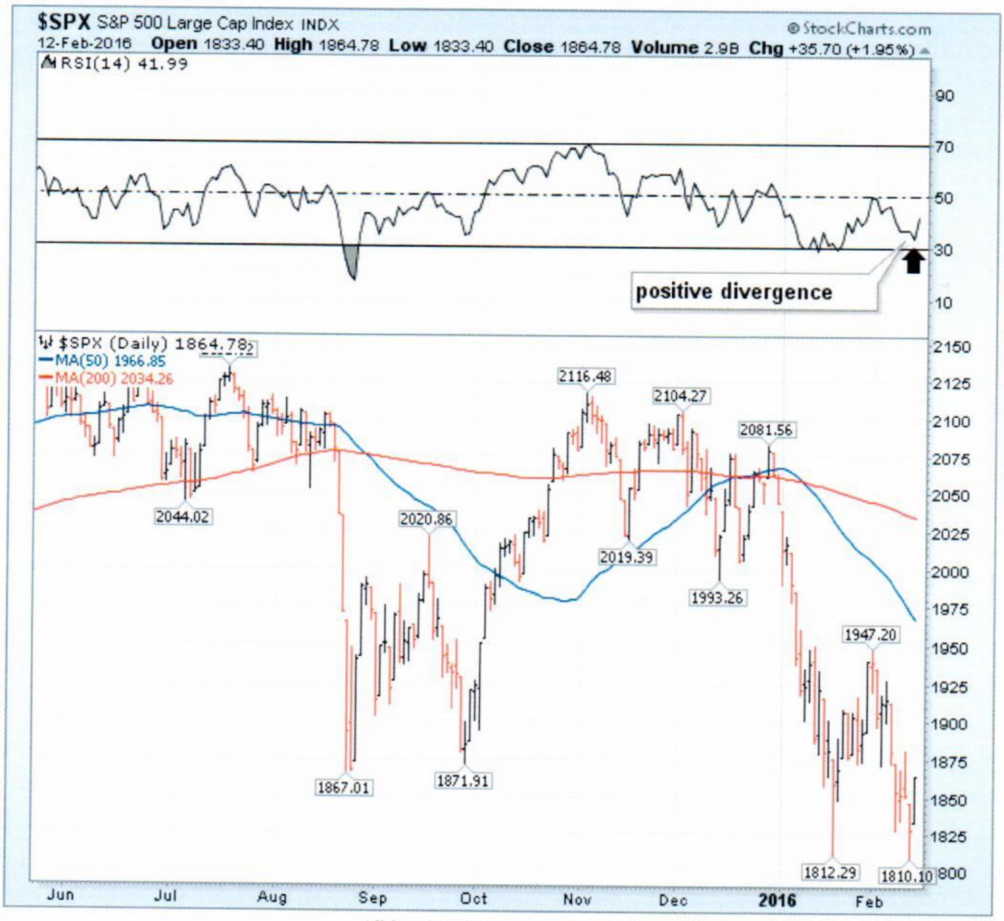

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Chart 2

OIL IS VERY OVERSOLD ... Crude oil experienced its biggest one-day gain in several years on Friday. That was due to talk about the possibility of OPEC production cuts. From a technical standpoint, crude is also in a very oversold condition. The monthly bars in Chart 3 show **WTIC Light Crude Oil** sliding to within one dollar of a potential support zone at $25 which was formed by its early 2003 reaction low (see black arrow). In addition, the 14-month RSI line has dipped into major oversold territory below 30 for the second time in the last year (see circle). The second dip into oversold territory is often the one that sets the stage for rally attempt. Energy stocks have also reached a potential support level and may start to stabilize.

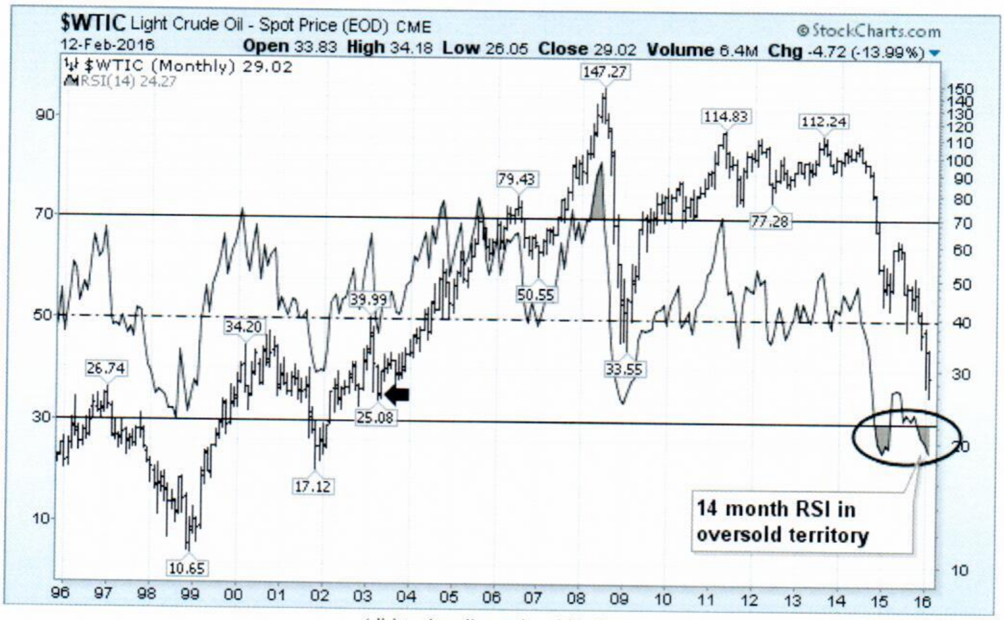

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Chart 3

ENERGY SPDR REACHES 2011 LOW... The falling energy sector has been one of the biggest drags on the U.S. stock market. But there may be some good news there as well. The weekly bars in Chart 4 shows that the **Energy Sector SPDR (XLE)** has reached a potential support level formed by its 2011 low. The actual value of the XLE since 2014 basically been cut in half. In addition, its 14-week RSI line (top of chart) is stabilizing around oversold territory at 30. [Although not shown here, its 14-month RSI value of 32 is the lowest since 2009]. That at least suggests that selling in the oil patch has been overdone. Any sign of a rebound in energy shares would be supportive to stocks in general not only here, but in global markets as well.

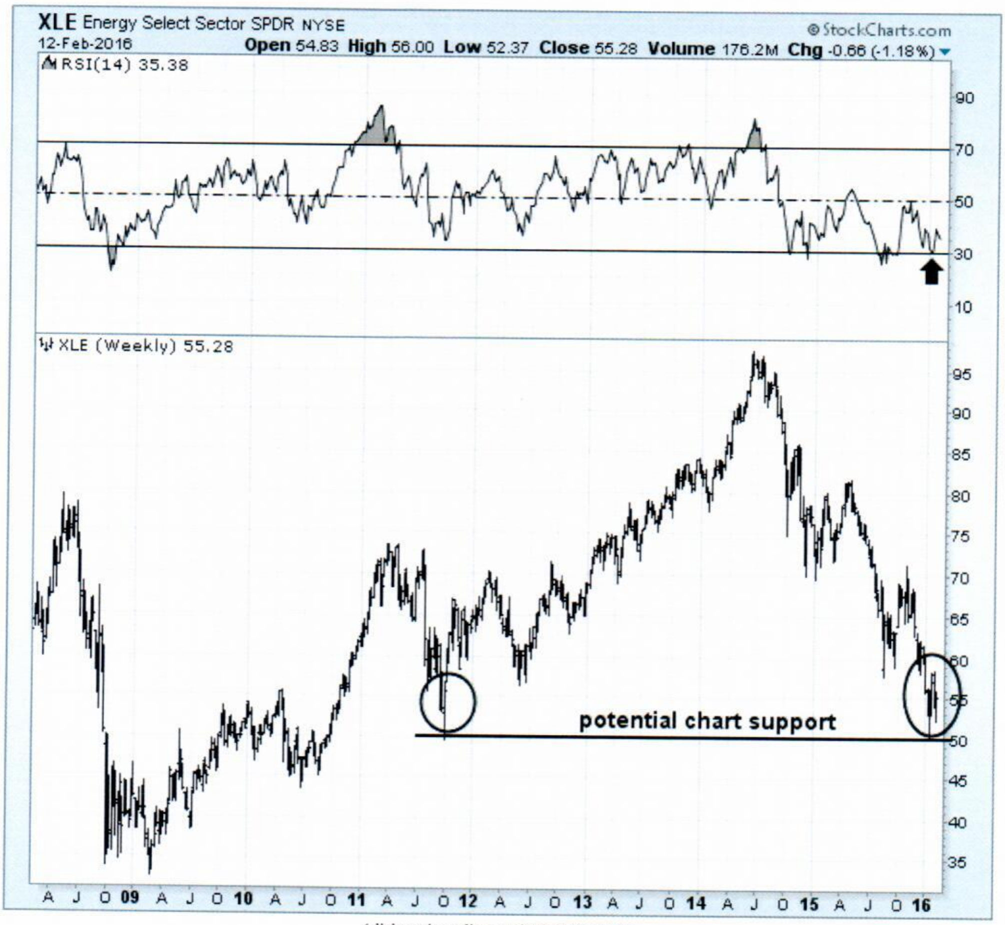

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Chart 4

BANK INDEX TESTS POTENTIAL SUPPORT LINES... The market's weakest sector this year has been financial stocks -- and banks in particular. That's due partially to the plunge in global bond yields, including the U.S. There again, there may be some relief in sight. The weekly bars in Chart 5 show the **KBW Bank Index ($BKX)** having reached a potential support shelf formed along its 2010 peak. Market corrections often find support at important previous peaks. That's why the horizontal line turns from red to green once that previous peak has been exceeded. In addition, the $BKX is testing a major support line drawn under its 2009/2011 lows. That's two important support lines being tested at the same time. And that's occurring while its 14-week RSI line (top of chart) has slipped into oversold territory below 30 for the first time since 2011. The daily RSI line (not shown) is also deeply oversold. Friday's 5% bank gain led the financial sector and the rest of the market higher.

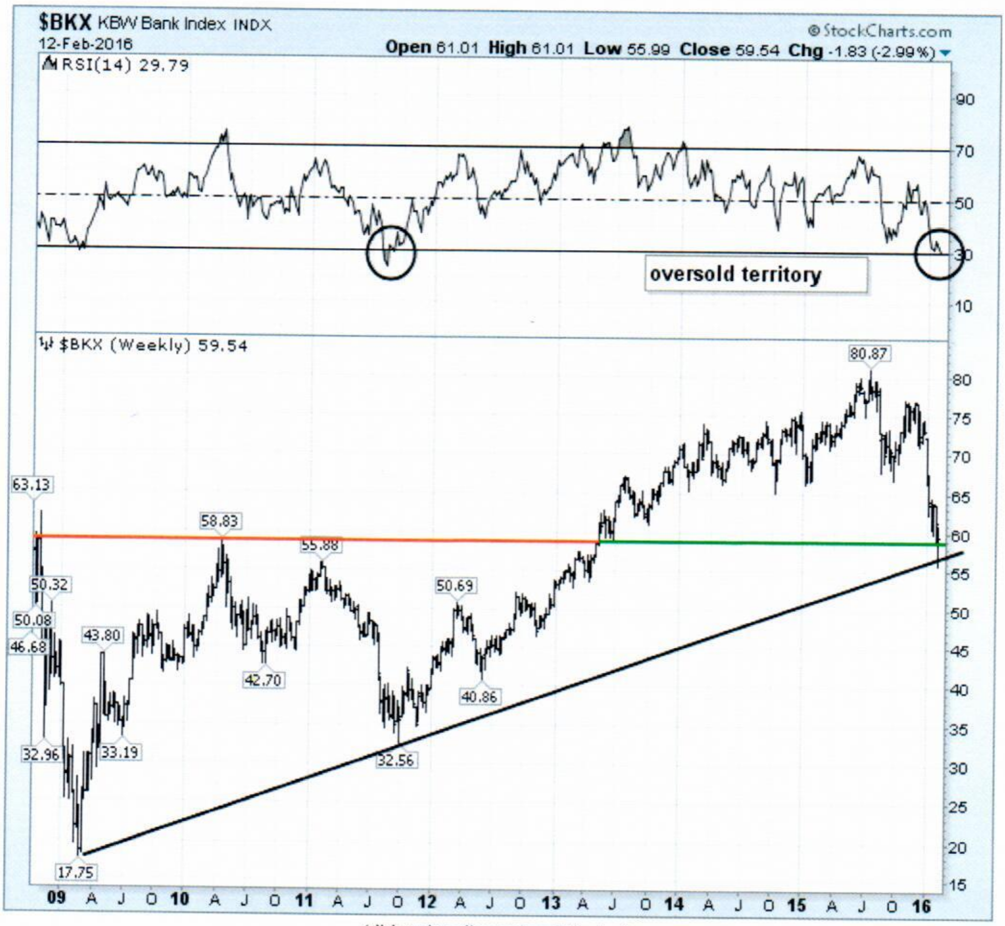

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Chart 5

10-YEAR BOND YIELD SURGES ON FRIDAY... I recently suggested that bank stocks needed an upturn in bond yields. That would be good for the stock market as well. And we got one on Friday. The daily bars in Chart 6 show the **10-Year Treasury Yield ($TNX)** gapping higher on Friday after gapping down on Thursday. Chart readers will recognize that as an "island reversal" bottom. [An island reversal is named because Thursday's price bar is surrounded by empty space left by two price gaps on either side]. That usually signals at least a short-term change in direction. In addition, its 14-day RSI line is rebounding from a very oversold condition. Chart 7 shows that Friday's jump in the TNX put it back above the low formed at the start of last February (after hitting a three-year low on Thursday). Chart 7 also shows its 14-day RSI line at the most oversold level since last January. The bounce in bond yields was influenced by a rebound in oil and a strong retail report. That may provide support to the stock market if the bounce in yields siphons some money out of Treasury bonds .

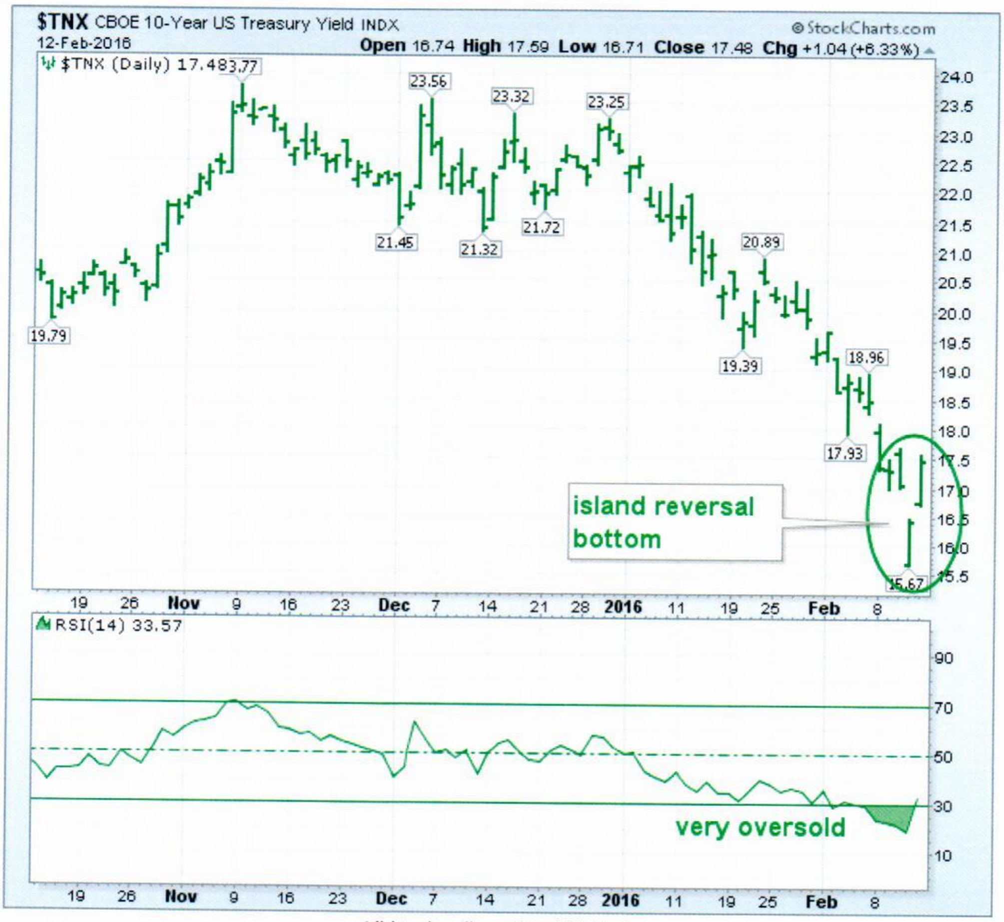

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Chart 6

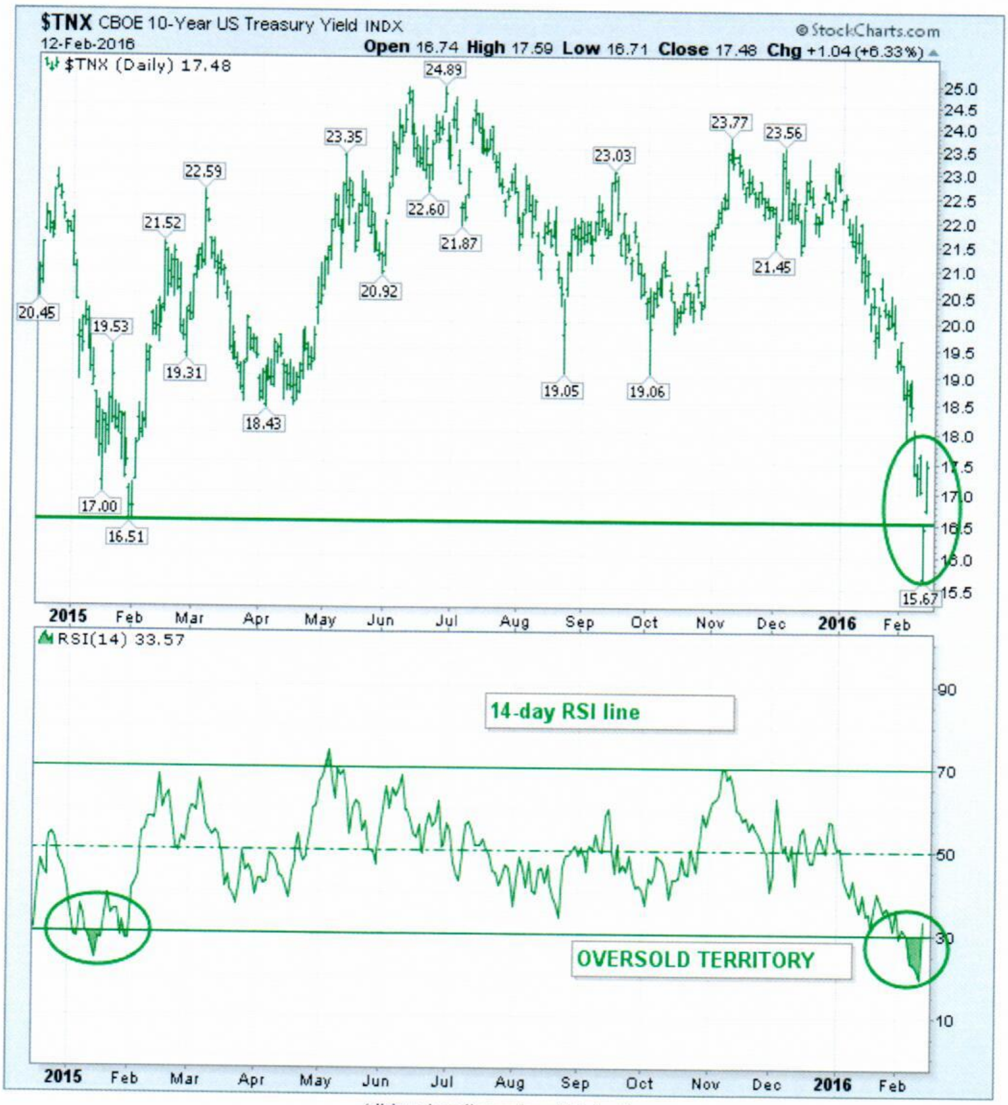

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Chart 7

BOND/STOCK RATIO IS OVERBOUGHT... Chart 8 plots a relative strength ratio of the **20+year T-Bond iShares (TLT)** divided by the **S&P 500**. The rising ratio this year reflects a dramatic rotation out of stocks and into Treasury bonds. The 14-day RSI line, however, shows that the ratio has reached overbought territory. In other words, it's been stretched too far. Although the ratio is still in an uptrend, any retracement of 2016 gains might lend some much needed support to stocks.

(click to view a live version of this chart)

Chart 8

DEAN FOODS AND KELLOGG HAVE STRONG WEEKS... Whether for defense or just because they're hungry, Investors keep buying food stocks. Chart 9 shows **Dean Foods (DF)** breaking out this week to the highest level in nearly three years. Its relative strength line (top of chart) is doing the same. Another big food winner was **Kellogg (K)**. Chart 10 shows the big cereal maker scoring a new record. Other foods stock hitting new highs include **Campbell Soup (CPB)**, **Hormel Foods (HRL)** and **Tyson Foods (TSN)** all of which have been shown in previous messages.

(click to view a live version of this chart)

Chart 9

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Chart 10

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