



The StockCharts.com Market Message

Featuring our commentators, John Murphy and Arthur Hill

Wed, Oct 5 2016 11:49 AM ET

FINANCIAL SPDR CLEARS 50-DAY AVERAGE -- S&P BANK SPDR HITS NEW 2016 HIGH -- BANK BREAKOUTS ARE ACHIEVED BY COMERICA, SUNTRUST BANKS, AND REGIONS FINANCIAL -- FINANCIALS/ UTILITIES RATIO SCORES BULLISH BREAKOUT -- CENTRAL BANKS ARE BEGINNING TO REALIZE THAT QE IS BAD FOR BANKS

By John Murphy

FINANCIAL SPDR CLEARS 50-DAY AVERAGE... With bond yields on the rise, financial stocks are starting to show market leadership. Chart 1 shows the **Financial Sector SPDR (XLF)** rising above its 50-day average in today's trading. It's only the fourth sector SPDR to do that (after technology, energy, and industrials). Its relative strength ratio (top of chart) is continuing to rise as well. Financials and energy are today's strongest sectors. There may be some logic in that. Another jump in crude oil is one of the factors starting to pull bond yields higher. Financials benefit from higher yields. And, as usual, rate-sensitive banks and life insurers are leading the financials higher. [The financial sector is also benefiting from the removal of REITs into a separate sector. Over the last two months, banks and life insurers have both gained 8%, while REITs have lost nearly -10%. Dividend paying REITs are hurt by rising rates, while banks and insurers benefit. In a rising rate environment, the XLF should do much better without REITs].



(click to view a live version of this chart)

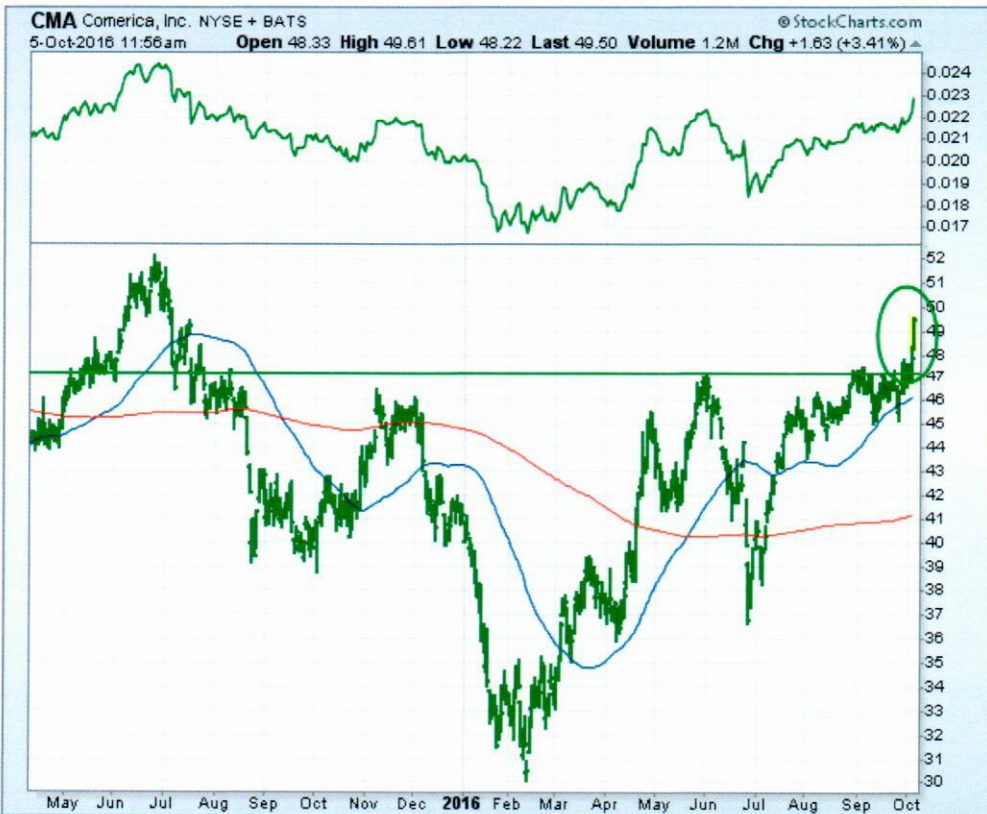
Chart 1

BANK SPDR REACHES TEN-MONTH HIGH... Banks are leading the financial sector and the market higher today. Chart 2 shows the **S&P Bank SPDR (KBE)** touching the highest level since last December. That continues its uptrend that began a month ago when it cleared its late May peak. Its relative strength ratio (top of chart) is on the verge of an upside breakout as well. Chart 3 shows **Comerica (CMA)** trading at the highest level in more than a year with a rising relative strength ratio. Chart 4 shows **Suntrust Banks (STI)** trading at a new eight-year high. Its relative strength ratio is doing the same. Chart 5 shows **Regions Financials (RF)** rising above a resistance line extending back to early 2014. So is its relative strength ratio (top of chart). **Comerica** and **Suntrust Banks** are the two biggest holdings in the KBE. **Keycorp** is in the top ten.



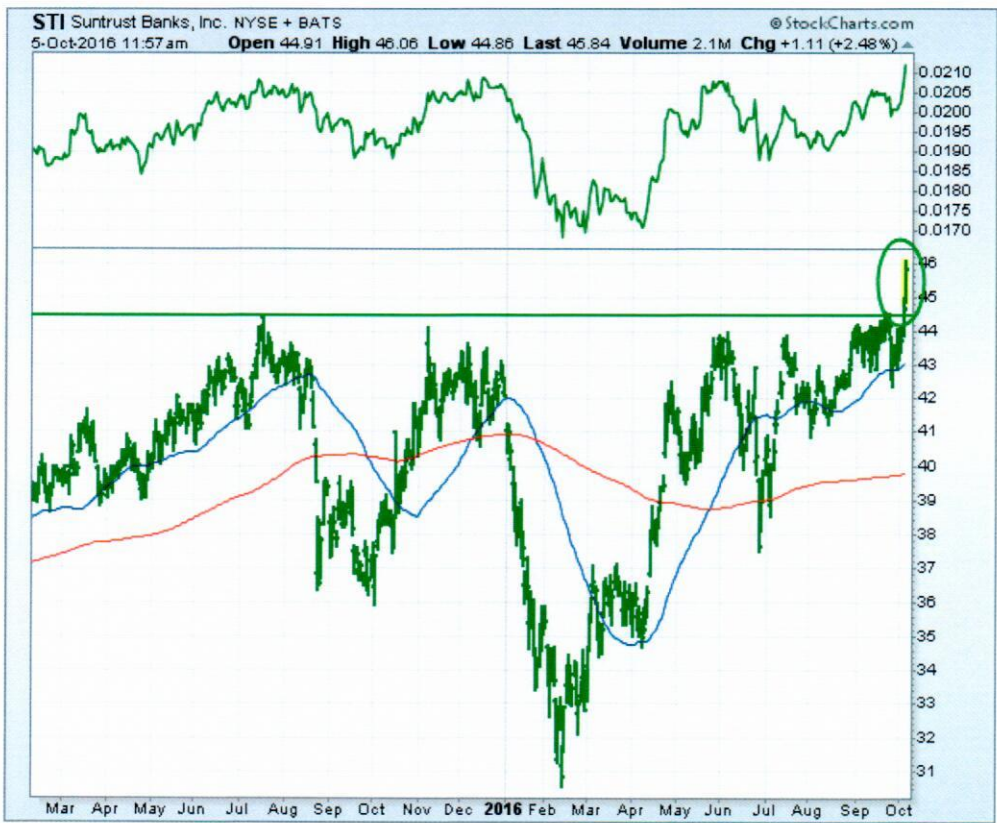
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Chart 2



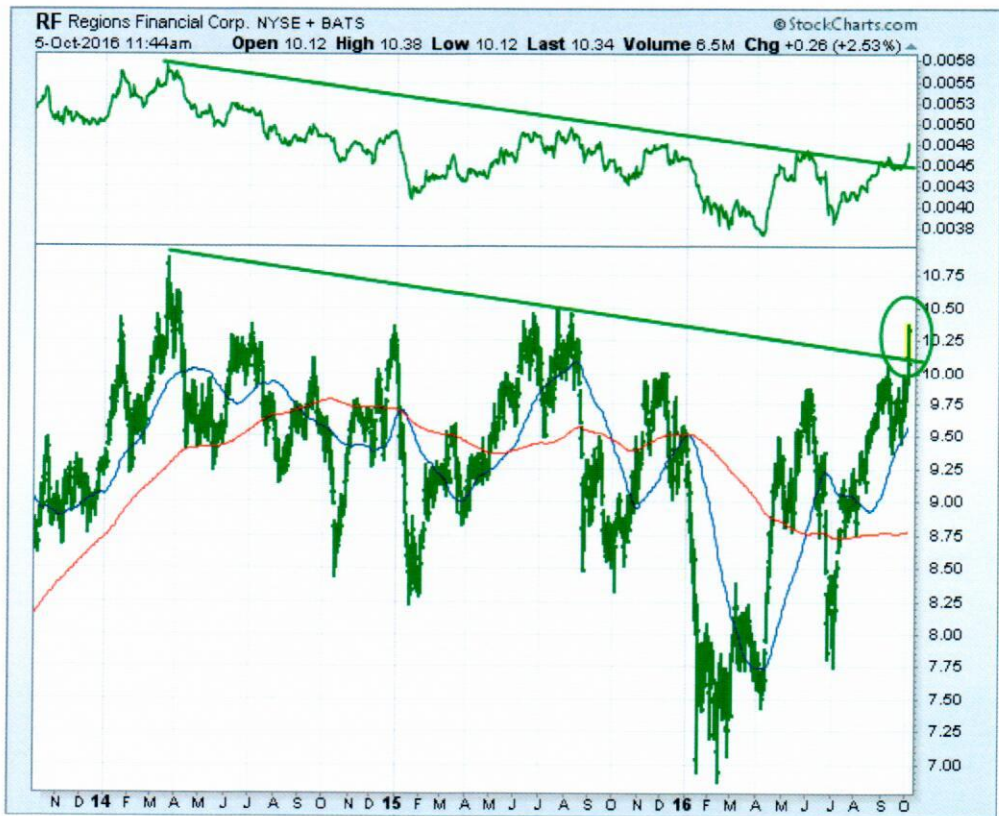
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Chart 3



(click to view a live version of this chart)

Chart 4



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Chart 5

FINANCIAL/ UTILITY RATIO TURNS UP ... My September 15 message showed a "ratio" of the **Financial SPDR (XLF)** divided by the **Utilities SPDR (XLY)** at an important chart juncture as it tested its April high. An upside breakout would signal that financial stocks (that benefit from higher rates) have taken over leadership from utilities (which are hurt by higher rates). Chart 6 shows the **XLF/XLU ratio** having broken through its spring high to reach the highest level in more than eight months. That ratio has been highly correlated with the trend of bond yields. I take this week's upside ratio breakout as another way that the markets are telling us that bond yields have bottomed and that higher rates are more likely than lower rates. One reason for that is central bankers are starting to back away from quantitative easing policies that have kept global bond yields artificially low.



Chart 6

CENTRAL BANKERS ARE GETTING WORRIED ABOUT BANKS ... Part of the improvement in bank prospects (and expectations for higher bond yields) comes from central bankers around the world starting to worry that quantitative easing and negative interest rates are actually bad for banks. The Bank of Japan a couple of weeks ago decided to focus on a steeper yield curve to help Japanese banks and insurers. The media is now reporting that some ECB governors are starting to rethink their negative rate policy because it's hurting European banks. With European banks down -20% this year, economists are beginning to think that negative rates have hurt bank profits. Imagine that. Here's the thing. Central banks have been buying bonds and pushing rates into negative territory in order to put more money into the economy. That money flows through the banks. Low interest rates, however, hurt bank profits which makes them reluctant to lend. That in turn hurts the economy. What took them so long to figure that out?

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