



# The StockCharts.com Market Message

Featuring our commentators, John Murphy and Arthur Hill

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## BOND YIELDS ARE STARTING TO WEAKEN FROM OVERBOUGHT CONDITION -- THAT'S GIVING A BOOST TO BOND PROXIES LIKE UTILITIES, REITS, AND TELECOM -- HIGH YIELD BONDS ARE BOUNCING BACK WHICH IS GOOD FOR STOCKS -- THE S&P 500 MAY CLOSE OVER ITS 50-AVERAGE AS QQQ CONTINUES TO LEAD IT HIGHER -- OVERSOLD ENERGY SPDR IS BOUNCING OFF ITS 200-DAY AVERAGE -- VIX FALLS FURTHER BELOW 20

By John Murphy

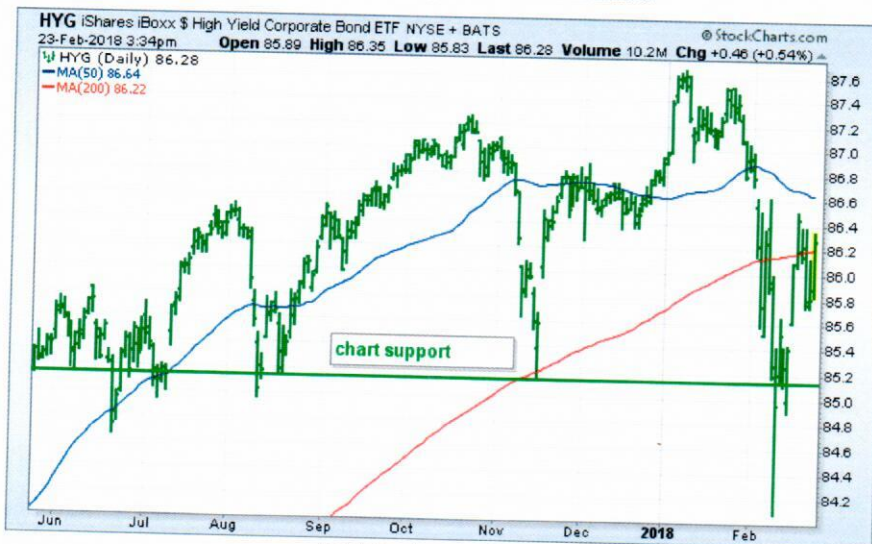
**TEN-YEAR BOND YIELD IS WEAKENING ...** The uptrend in bond yields is starting to weaken. The daily bar in Chart 1 show the **10-Year Treasury yield** falling 5 basis points to 2.87%. More importantly, its **14-day RSI line** overlaid over the price bars is falling to the lowest level since early January after reaching overbought territory over 70 at the start of the month. That has created a "negative divergence" between it and the February rise in yields (falling line). At the very least, that suggests that the uptrend in bond yields that has caused so many concerns is due for a pullback of some sort. [Its 14-week RSI has also reached overbought territory over 70 for the first time in more than a year]. Today's drop in yields is giving a boost to bond prices which have reached an oversold condition (more on that shortly). The drop in yields is also giving a big boost today to bond proxies like **utilities, REITS, and telecom** which are having an especially strong day. It may also be lending support to the overall stock market which has been rattled during February by the recent spike in bond yields. One part of the bond world that's holding up especially well is the high yield category. That may also carry some good news for stocks since the two are closely linked.



(click to view a live version of this chart)

Chart 1

**HIGH YIELD BOND ISHARES ARE BOUNCING BACK ...** High yield bonds are experiencing a strong comeback from their early February loss. The daily bars in Chart 2 show the **High Yield Corporate Bond iShares (HYG)** trying hard to close back over its 200-day average as the week draws to a close. The HYG plunged with stocks in early February but managed to stay above chart support along its August/November lows on a closing basis (flat trendline). It has since recovered nearly two-thirds of its February drop. That may also be a good sign for stocks since the HYG is more closely tied to stocks than bonds. Their tight linkage strengthened even more this month with the 20-day Correlation Correlation between the HYG and S&P 500 jumping to .94. The pullback in Treasury bond yields may also take some pressure off stocks themselves.



(click to view a live version of this chart)

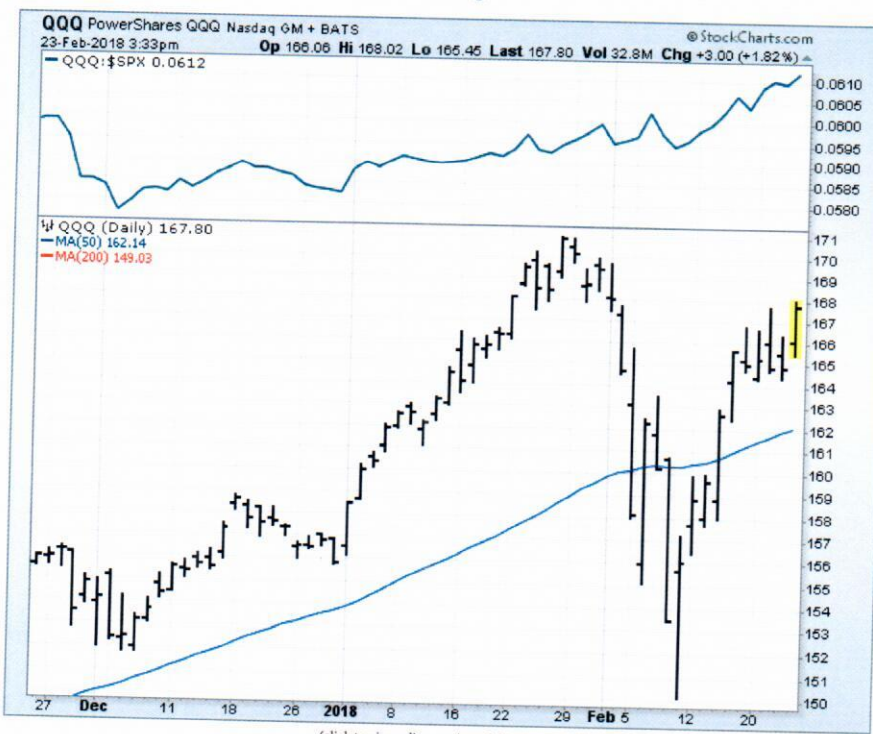
Chart 2

**S&P 500 MAY CLOSE OVER 50-DAY AVERAGE ...** The stock market is having another strong day. The daily bars in Chart 3 show the **S&P 500** trading over its 50-day average in the last hour of trading. Its 14-day RSI line (top of chart) may also be moving above its midpoint at the 50 line. That would support more gains. And its daily MACD line (bottom of chart) may be turning positive. Technology stocks continue to lead the market higher. Chart 4 shows the **PowerShares QQQ** reaching a three week high today after being the first major stock index to clear its 50-day line. Its relative strength line (top of chart) has risen to new record. The technology sector is one of the day's strongest sectors, as it's been all week. All sectors are in the green today with bond proxies like utilities in the lead. Energy is also having a strong day. And it's coming at a good time.



(click to view a live version of this chart)

Chart 3

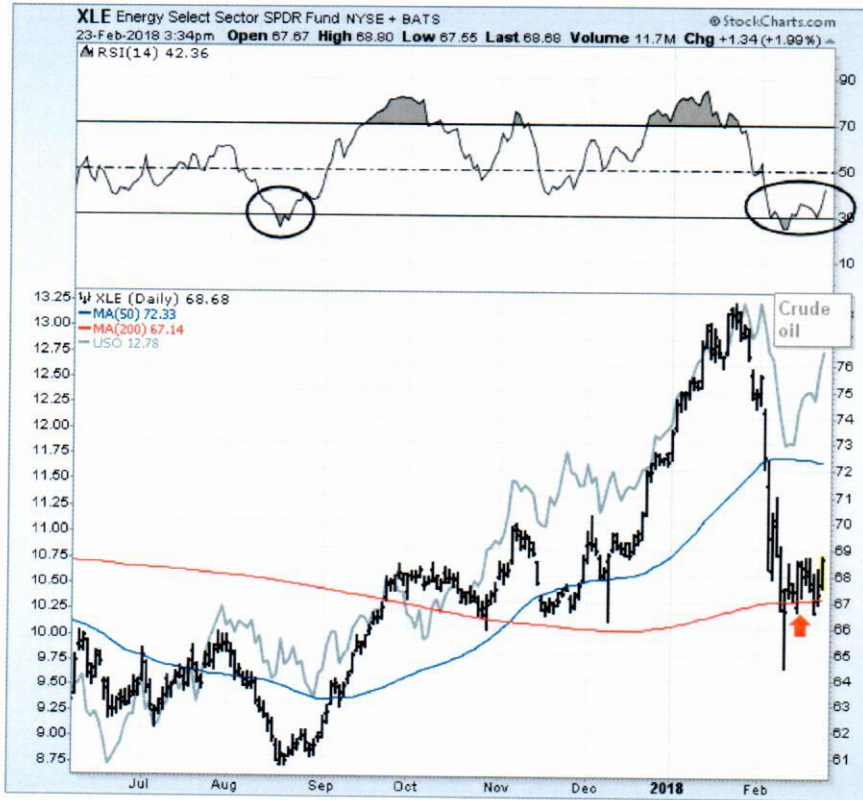


(click to view a live version of this chart)

Chart 4

**OVERSOLD XLE IS BOUNCING OFF ITS 200-DAY LINE...** The daily price bars in Chart 5 show the **Energy Sector SPDR (XLE)** trying to bounce off its 200-day moving average. Needless to say, that's a very important test. The 14-day RSI (top of chart) also shows the XLE to be in the most oversold territory below 70 since last August. That was when the XLE last staged an upturn. Rising crude oil is also helping pull energy shares higher.

The gray line shows the price of crude climbing again today. The gap between the rising commodity price and lagging energy shares is unusual and not likely to last. Energy has been one of the year's weakest sectors. New buying in the energy patch could lend support to a stock market trying to recover from its February correction. Another positive for stocks is that the VIX Index is down another -10% today and even further below 20.



(click to view a live version of this chart)

Chart 5

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