The StockCharts.com Market Message

Featuring our commentators, John Murphy and Arthur Hill

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COMMODITY PRICES ARE RISING -- CRUDE OIL BREAKOUT IS GIVING A BIG BOOST TO ENERGY SHARES -- SMALL CAPS CONTINUE TO SHOW RELATIVE STRENGTH -- S&P 500 STILL NEEDS TO CLEAR RESISTANCE -- STRENGTH IN HIGH YIELD BONDS IS ANOTHER POSITIVE SIGN

By John Murphy

CRUDE OIL LEADS BLOOMBERG COMMODITY INDEX HIGHER... The daily bars in Chart 1 show the **Bloomberg Commodity Index** rising to the highest level in a month. The index recently bounced off its 200-day moving average (red line) and a rising trendline drawn under its June/December lows. The commodity rally is being by energy and metals (like copper and gold). And that's giving a boost to stocks tied to those commodities. A pullback in the dollar is also boosting commodities. Energy shares are having an especially strong chart week. That's largely due to another upside breakout in the price of crude oil. The daily bars in Chart 2 show the **United States Oil Fund (USO)** breaking out today to the highest level in two years.

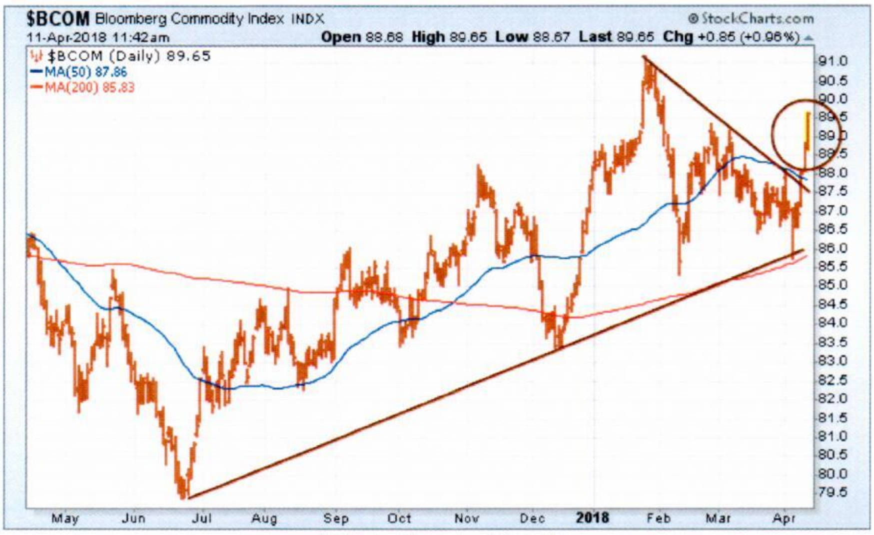

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Chart 1

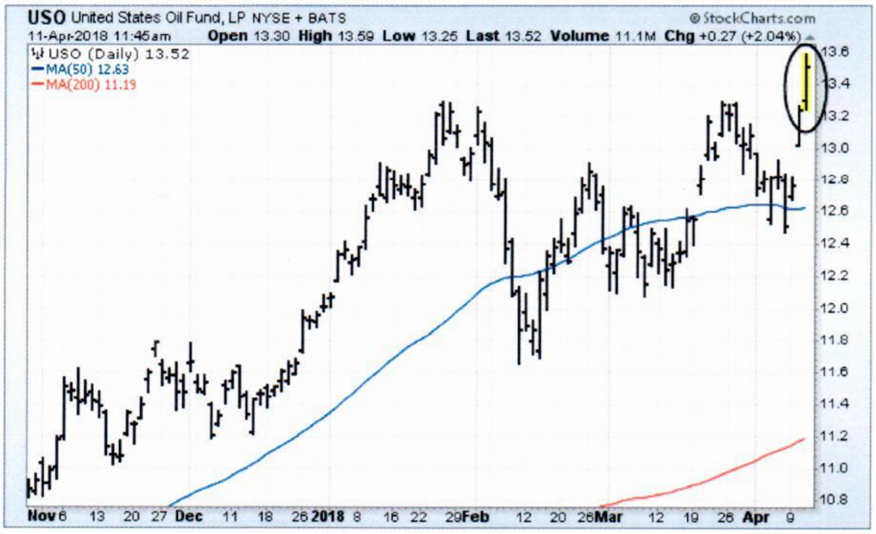

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Chart 2

ENERGY ETFS ARE RISING ... Chart 3 shows the **Energy SPDR (XLE)** rising to the highest level in two months. It's clearly benefiting from rising energy prices. That's also helping its relative performance. The solid line in the top box in Chart 3 shows the XLE/SPX ratio rising to a two-month high. That means that energy shares have gone from one of the market's weakest sectors to one of its strongest. Chart 4 shows the **VanEck Vectors Oil Services ETF (OIH)** doing the same. Its relative strength ratio (top box) is rising as well. It's also noteworthy that both energy ETFs just recently climbed back above their 200-day averages.

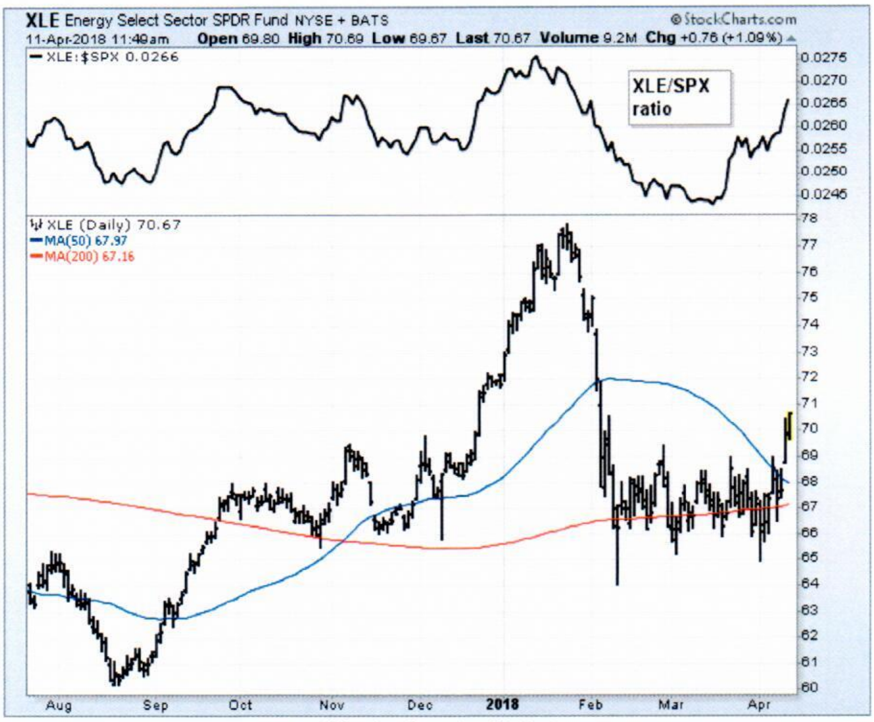

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Chart 3

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Chart 4

RUSSELL 2000 STILL SHOWS RELATIVE STRENGTH ... My message from last Wednesday wrote about small caps doing better than large caps. That's still the case. Chart 5 shows the **Russell 2000 Small Cap Index** trying to clear its 50-day moving average (blue circle). A close above that resistance line would be a positive sign. The **S&P Small Cap Index ($SML)** closed above that line yesterday. The top box also shows the **RUT/SPX ratio** rising over the past month to the highest level since the start of the year. Upside leadership by smaller stocks is usually a positive sign for them and larger stocks. The converging trendlines on Chart 5 also look like a triangular formation which would be a bullish continuation pattern. Its daily MACD lines (below chart) may also be on the verge of turning positive (see circle). That would be another good sign.

(click to view a live version of this chart)

Chart 5

S&P 500 CONTINUES TO TEST RESISTANCE ... The hourly bars in Chart 6 show the **S&P 500 Large Cap Index** still trying to build a base. The two short-term price barriers it needs to clear are 2672 and 2674. I've drawn a "neckine" over those two peaks. A decisive close above that resistance line would also be a positive sign. The circles drawn on Chart 6 show three recent setbacks following announcements of new tariff threats from either the U.S. or China. I mentioned on Saturday that the third drop (or test) is usually the most important. That's the one that took place last Friday. The ability of the market to recover from that third dip is a positive sign. But the SPX still needs to clear the twin peaks shown in Chart 6 to turn its short-term trend back up again. The boxed area on Chart 7 shows the SPX trying to form a base from just above its 200-day moving average. It still needs to clear its 50-day average (blue arrow) and the falling trendline drawn over its January/March peaks to complete a bottom. But a close above the top of the red box would be a good start. [Caveat: the market is still vulnerable to headline news regarding tariffs or an imminent missile attack in Syria which could upset these positive looking charts -- at least temporarily].

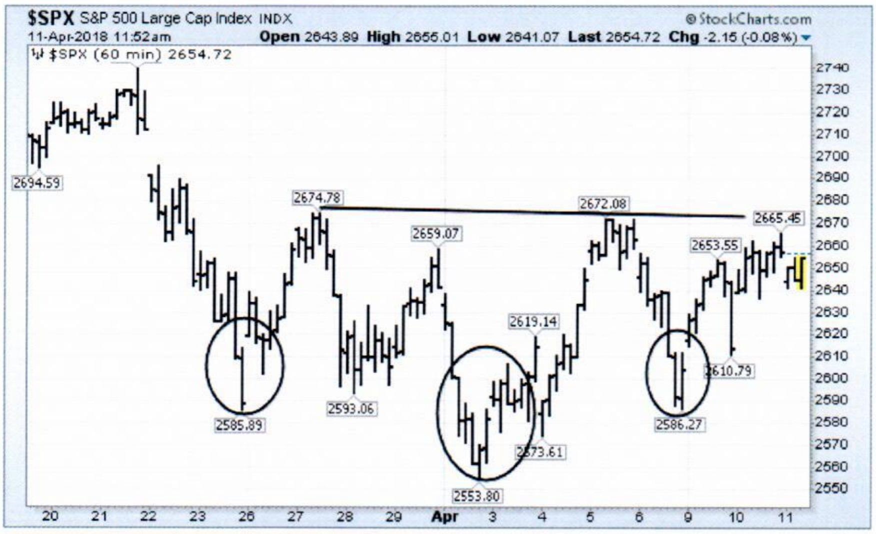

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Chart 6

(click to view a live version of this chart)

Chart 7

HIGH YIELD BOND ISHARES LOOK POSITIVE ... Here's another potentially positive sign for stocks. Chart 8 shows the **iBoxx High Yield Corporate Bond iShares (HYG)** trading at the highest level in two months. It's also back above both moving average lines. Rising energy shares may have something to do with that. High yield bonds, however, are usually closely correlated to stocks. That being the case, the shape of Chart 8 may also be carrying a positive message for the stock market.

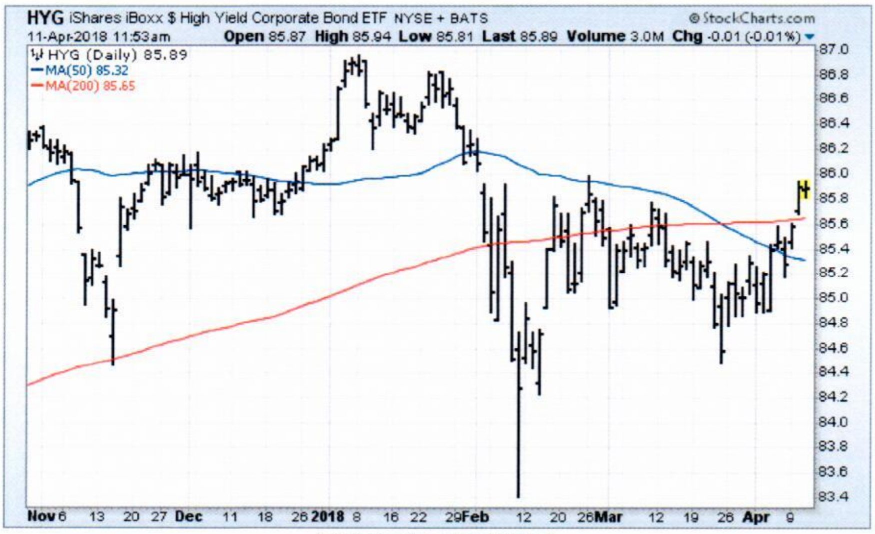

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Chart 8

Books and Instructional Videos by John Murphy

Data provided by: Interactive Data Corp.

Unless otherwise indicated, all data is delayed by 15 minutes