

[Featured Insights]

Market Faces Breadth Issues Amid Nvidia's Surge

The stock market is experiencing another issue with breadth. Previously, the problem seemed linked to the exceptional performance of the Magnificent-7. Many other stocks performed well but not as well as the Mag-7. Recently, this trend appeared to be even more concentrated, primarily around Nvidia.

Technical analysts are alerting investors that this narrowing performance increases the likelihood of a market selloff, particularly in tech and semiconductor stocks, with Nvidia being the most at risk. Despite the S&P 500 reaching new highs recently, the percentage of its companies trading above their 200-day moving averages has been dropping. This could suggest a forthcoming correction, though similar signals have proven false in the past.

Meanwhile, investment strategists are hastily adjusting their year-end S&P 500 targets. We remain neutral about the market's short-term prospects but are optimistic about the long-term outlook.

We anticipate that rising concerns about global and domestic political issues could start affecting markets this summer. The intensifying conflict between Israel and Hezbollah could escalate into a broader regional conflict in the Middle East. Additionally, the partisan divide in the U.S. is expected to deepen as the presidential election draws closer.

Our Bull/Bear indicators still lean bullish. However, from a contrarian point of view, this often predicts bearish trends.

All eyes will be on Friday's release of the PCE inflation rate for May. We predict that the data will show ongoing moderation in inflation. This should be positive for stocks unless crude oil prices continue to increase due to heightened geopolitical risks.

Insider activity shows that insiders were most cautious in March, right before the stock market's decline in April, which was a prescient move. Since then, they have become more bullish as the market has climbed. Currently, they remain cautious, based on overall buy/sell ratios, but significantly less so than in March. Last week, notable bullish buys were concentrated in cyclical sectors such as retail, technology, energy, and transport.

From a trading perspective, while the surge in AI-related stocks persists, there are cautionary signs for the broader market. Breadth statistics are lackluster, the put/call ratio is low, and

interest rate-sensitive stocks are struggling. The current AI frenzy is somewhat reminiscent of the late 1990s Internet stock boom, which was followed by a painful correction and market consolidation.