

The Fourth Quarter Rally We've Been Hoping For

The S&P 500 and Nasdaq both closed last week at all-time highs. For the past several weeks we have noted improving conditions, which resulted in market participants reallocating to risk assets. Higher beta stocks like technology, small caps and emerging markets are outperforming defensive sectors like utilities, consumer staples and real estate. Financials are getting a boost from rising bond yields. Finally, energy and transportation stocks exploded upward today on news that a U.S.-China trade deal is imminent.

I have been hopeful that the technical indicators we've seen and mentioned over the past few weeks would translate to investors buying risk assets as we close out the year. Strong corporate earnings coupled with strength in employment has caused the stars to align. The fourth quarter rally we were looking for appears to have officially begun.

Look for continued strength in emerging markets, small caps and industrials as an indicator of how much momentum this rally has. The major indexes have no overhead resistance, so there is technical room to run. I will point out that we are approaching short-term overbought conditions and a pullback, or at least a pause, may be in order before we go higher.

Last week's commentary can be found [here](#).



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