

MONTHLY COMMENTARY

FEBRUARY 1, 2020

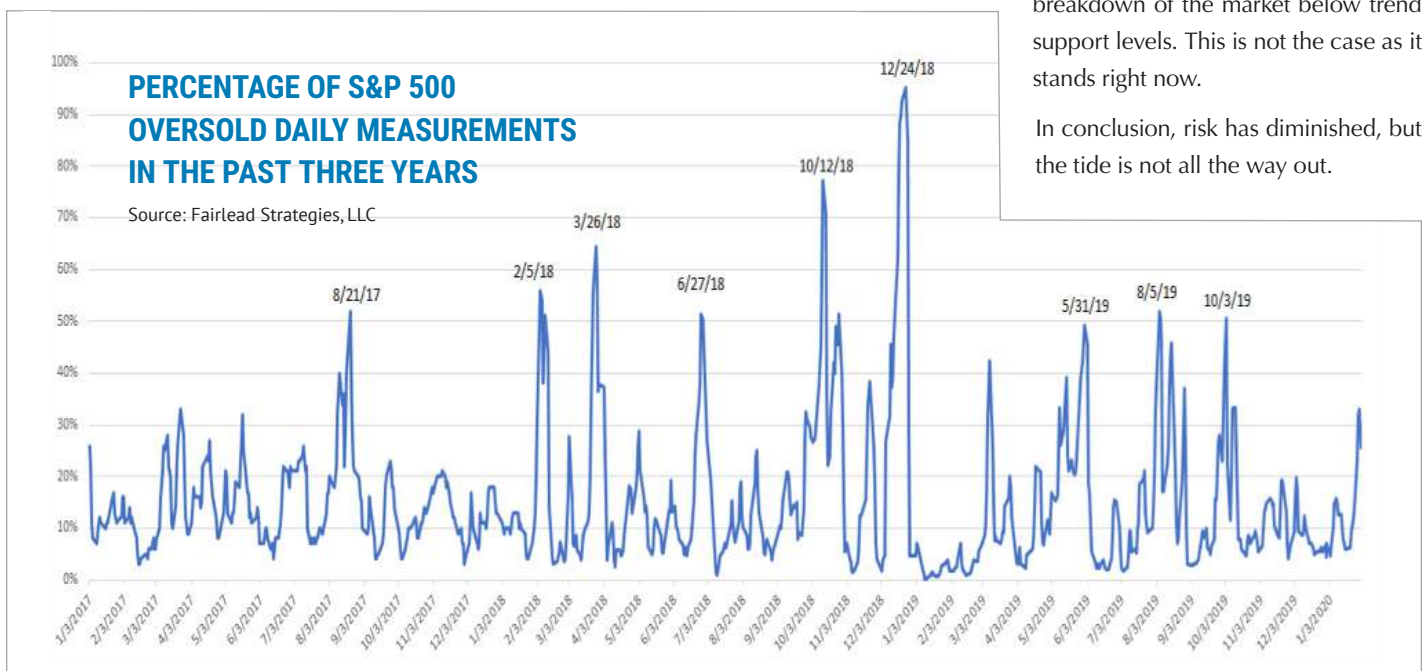
Fear has returned to the global equity markets. As we repeatedly comment, there are many and varied inputs to equity prices, particularly in the near term. Predicting which of these inputs will impact equity markets to the extent prices broadly rise or decline is an educated guess at best. Instead, we utilize measurements of indicators such as sentiment and market breadth to measure market risks and opportunities. As 2020 began in earnest these readings became increasingly frothy. In that type of environment prices can continue to move higher to some extent, but become vulnerable to whatever negative catalyst might appear. After peaking during the third week of January, markets globally have sold off on news of the widening coronavirus that originated in China. This was the trigger for a turn in price, as unpredictable an event as you can define. But the backdrop for a pull-back was in place, as sentiment and market breadth were sitting solidly at over-bought extremes.

As equity prices have pulled back, the indicators we follow have moved out of extremely over-bought territory. Our current readings are neutral and traveling back towards over-sold indications, but they are some distance away from extreme numbers. Risk diminishes as markets pull back, but we are not in an all clear zone, in which indicators would tell us just about everybody that can sell, has sold.

Below is a chart of one of the daily market breadth measurements we follow. We determine short-term oversold conditions by looking at every individual stock in the S&P 500 for oversold measurements, then determine a percentage oversold. As a percentage of the S&P 500, short-term oversold conditions tend to peak around 50% at market lows, as in the months of June, August, and October of last year. The current reading as of this writing is about 30%, not an extreme. In addition, oversold conditions can become even more widespread, which typically takes place with an associated

breakdown of the market below trend support levels. This is not the case as it stands right now.

In conclusion, risk has diminished, but the tide is not all the way out.



Cary Street Partners is the trade name used by two separate limited liability companies, Cary Street Partners Investment Advisory LLC, a registered investment advisor; and Cary Street Partners LLC, a registered broker-dealer and a member of FINRA and SIPC. Luxon Financial LLC is the sole owner of Cary Street Partners LLC and Cary Street Partners Investment Advisory LLC.

This information was prepared by or obtained from sources believed to be reliable, but Cary Street Partners does not guarantee its accuracy or completeness. Any opinions expressed or implied herein are subject to change without notice. The material has been prepared or is distributed solely for information purposes and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. An investor cannot invest directly in an index. **Past performance is no guarantee of future results. CSP2020379**