
World Bear Market
GS Bull/Bear Market Indicator
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
53%
55
60
65
70
75
80
85
90
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05
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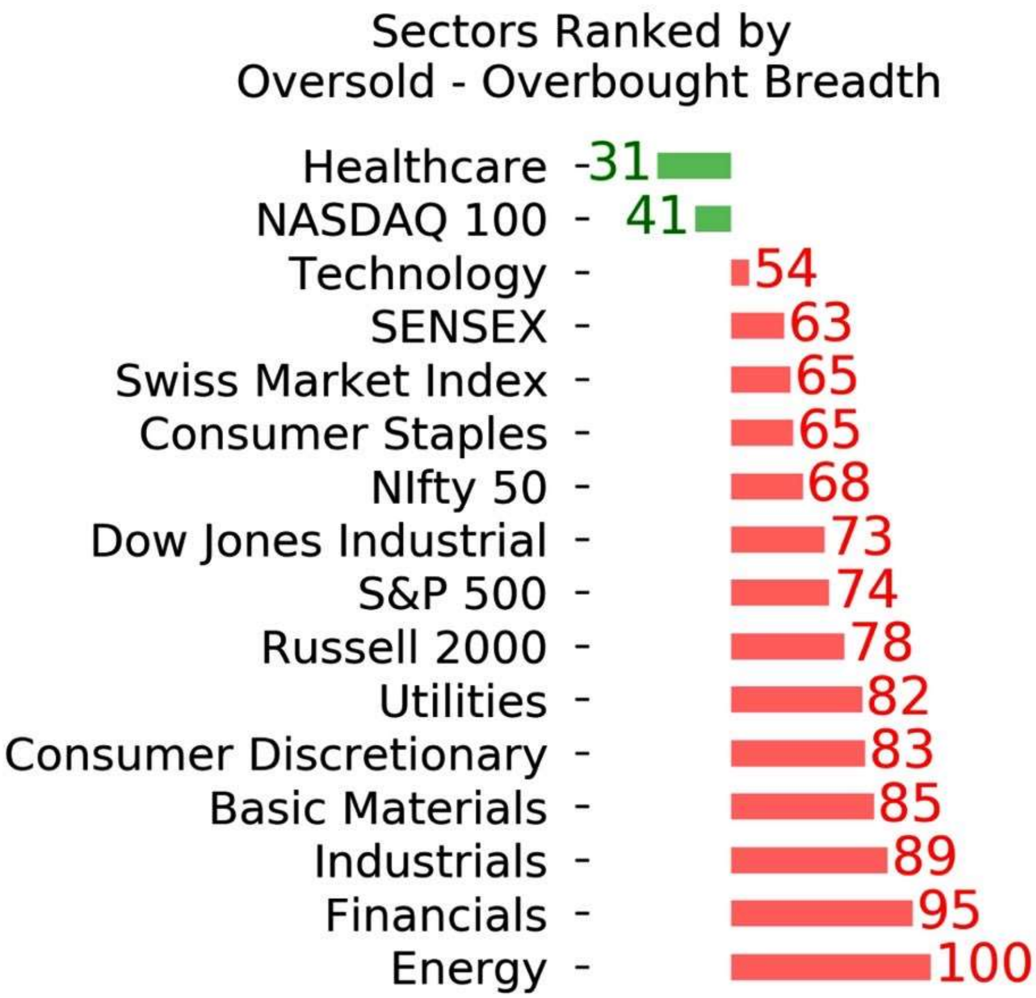
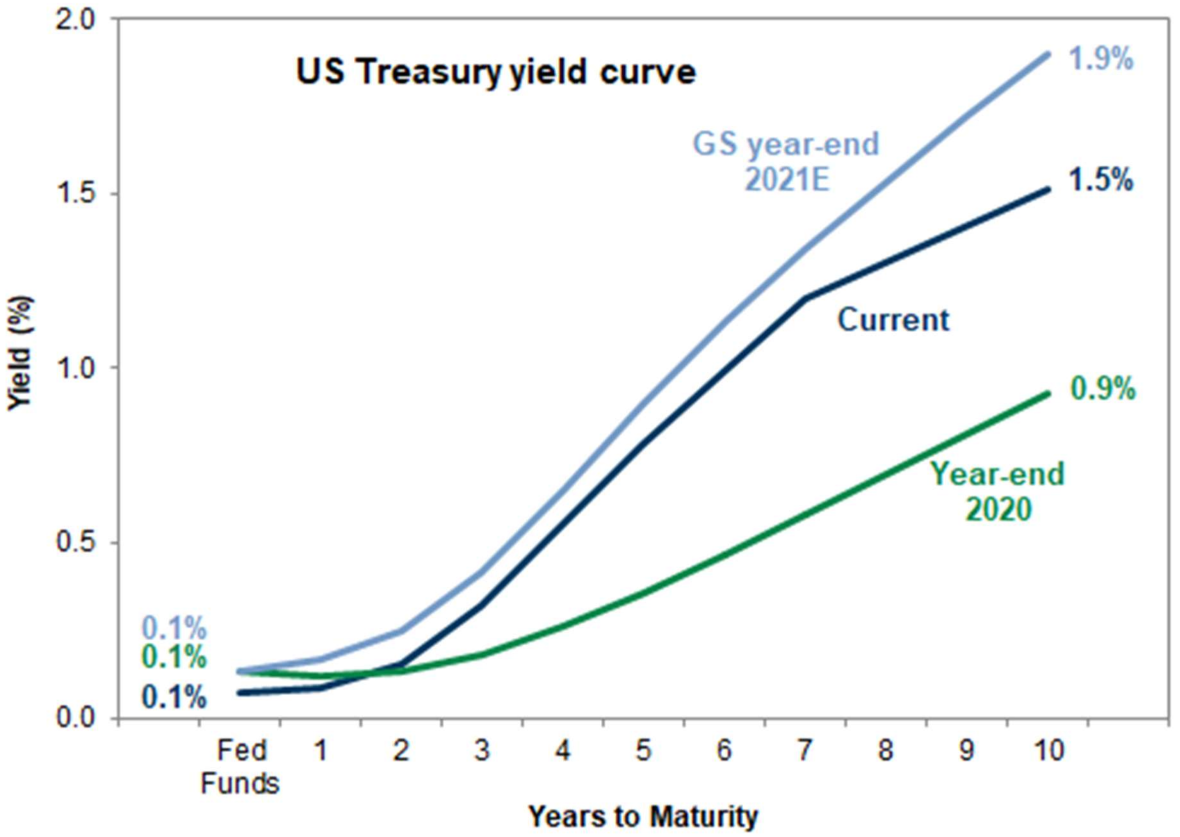
15
20


Sectors Ranked by
Oversold - Overbought Breadth
Healthcare 31
NASDAQ 100 41
Technology 54
SENSEX 63
Swiss Market Index 65
Consumer Staples 65
NIfty 50 68
Dow Jones Industrial 73
S&P 500 74
Russell 2000 78
Utilities 82
Consumer Discretionary 83
Basic Materials 85
Industrials 89
Financials 95
Energy 100

FOMC preview: the Fed meets Tuesday, Wednesday

15:25

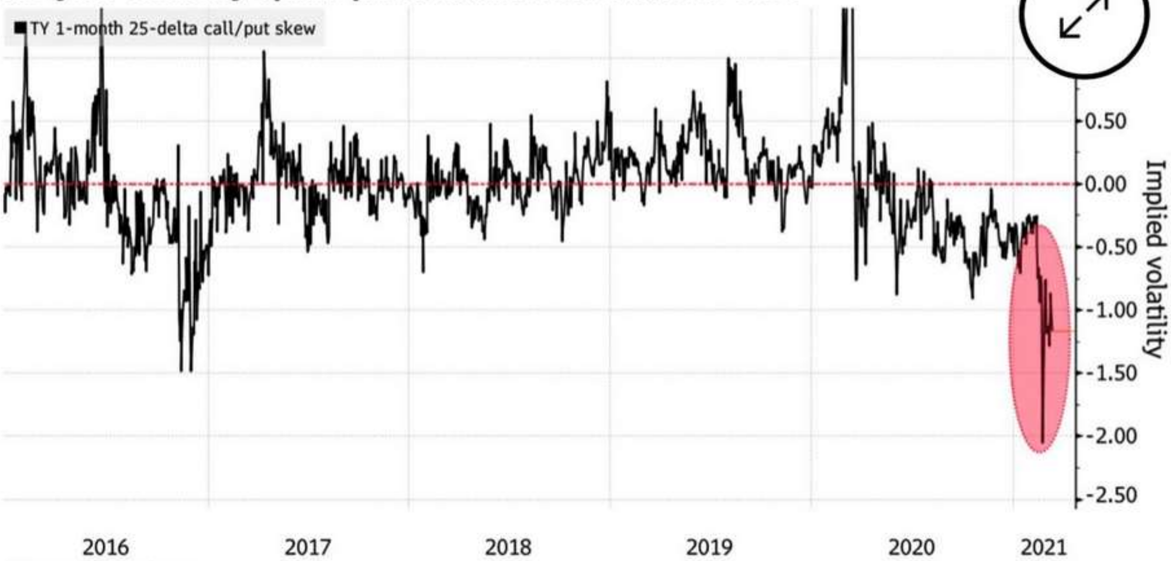
FOMC preview: the Fed meets Tuesday, Wednesday. There will be a lot of interest in this meeting, not due to any expectations for a policy change, but in the FOMC's new outlooks on unemployment, growth, and inflation, along with the dot plot. As per the statement, the Fed can note a better outlook on the recovery, but that will also come with the usual caveat of ongoing downside risks from the virus and with a long way to go to restore the labor market to pre-pandemic levels. While there will be no indication that the Fed is even thinking about thinking about removing accommodation, the markets will look to the new estimates for hints. There should be another round of massive boosts in the GDP projections as the economy has rebounded much faster than assumed. And, now there will be another boost from the stimulus. Expect downward bumps in the jobless rate estimates across the horizon, along with big increases in the PCE chain price central tendencies. The Fed is likely to largely repeat their funds rate forecasts, the dots, though with bump up to high-end estimates. Analysts also expect a hike in the 2023 median to 0.4% from 0.1%.



In options on 10-year futures, the most significant new position that emerged Friday was a wager that could reap over $4 million if the yield rises to between 1.70% and 1.85% before the contract expires in May. And the skew of puts -- contracts that benefit if yields rise -- to calls shows traders are favoring the former.

Skew Squeeze

10-year Treasury option puts remain rich relative to calls



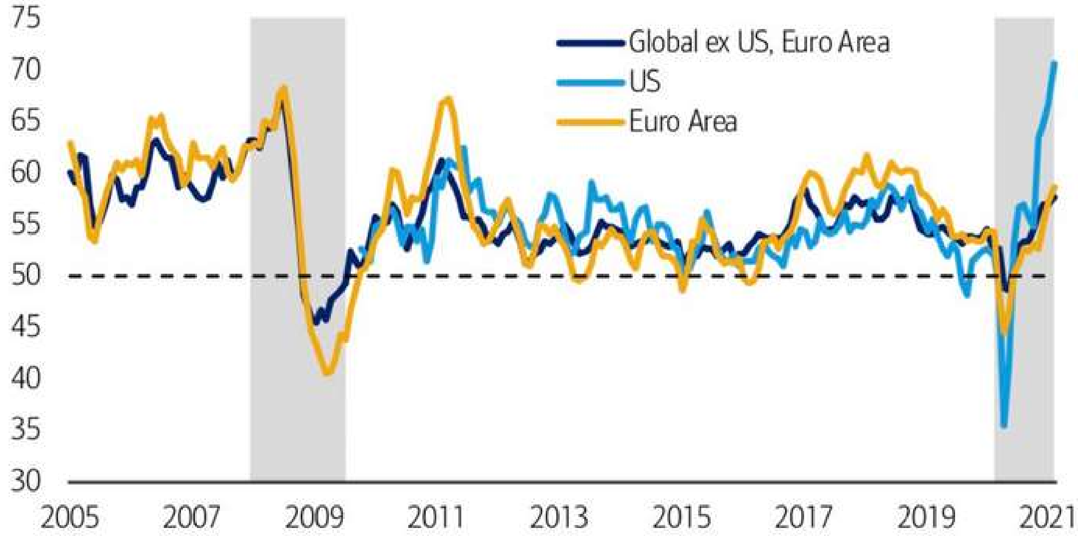
Source: Bloomberg

In focus

It goes without saying that concerns about inflation are taking center stage in the markets. Indeed, concerns about a rapid US recovery, with inflation to follow, has pushed up US bond yields, spilling over into global markets and is even creating some anxiety in the equity market. How concerned should we be? We surveyed our global analysts about what they see in the companies they cover and then tied those findings to the results of other business surveys. We found:

- There are more signs of both cost and price pressure than is normal in the early stages of a recovery.
- The US stands out like a sore thumb in both our own survey and outside surveys. The Euro Area is at the other end of the spectrum.
- The sources of inflation pressure will shift a bit as economies reopen, but we expect the US to retain its sore thumb status.

Exhibit 1: Markit PMI input cost indices (50+=expansion)
The US stands out in terms of input price pressures



Source: IHS Markit

Market Analysis Comment

Bullish setup: Late March a risk but seasonality shines in April

Market Analysis

New highs for A-D line favor new highs for the S&P 500

Our last Market Comment highlighted that solid breadth suggests a rotational correction and not a big top. The S&P 500 (SPX) advance-decline (A-D) line provides an important measure of market breadth with continued new highs last week that are a potential leading indicator of new highs on the SPX. More key indicators inside this report.

SPX: A push above 3950-3960 would target 4065 next

New highs for the A-D line support the case for a breakout above the recent 3950-3960 highs on the SPX. The next upside count is 4065, which is ahead of the 2020 cup and handle count at 4270 from our 2021 Equity Technical Year Ahead. Holding supports in the 3880 and 3805-3789 areas on dips would maintain a bullish chart setup for the SPX.

Tactical risk: SPX can struggle in late March

March 2021 is off to a solid start with a 3.5% gain for the first ten sessions of the month, but weaker seasonality for the last ten sessions of March is a tactical risk for the SPX. The last ten sessions of March will begin on 3/18. This period is up 53% of the time with an average return of -0.29% (0.14% median). This is much weaker than the seasonality for the first ten days of the month.

But SPX seasonality shines in April

As we highlighted in Market Analysis Comment: Elevated anxiety as seasonality shifts bullish in November 02 November 2020, November-April is the best 6-month period of the year for the SPX going back to 1928. February and March are the weakest two months of this period, but seasonality shines in April, which is the strongest month of the November-April period and is up 66% of the time with an average return of 1.37%.

Cranky credit ETFs below resistance and a tactical risk

Both HYG and LQD have challenging tactical chart patterns. LQD has continued to new tactical lows with risk to 126.12 (38.2% of the March-August 2020 rally) and 125.55 (May 2020 higher low) next. The immediate trend remains bearish below tactical resistances at 130.54, 132.27 and 133.73 (breakdown point). There is downside risk on HYG to the 85 area if 86.62-87.10 resistance holds on rallies.

But hard to get too bearish on credit if HY leads IG

The weekly chart for iBoxx High Yield relative to iBoxx Investment Grade continues to rally after hitting its low in April 2020 and breaking out from a 2020 bottom in December. Although the credit ETFs of HYG and LQD have struggled, the weekly High Yield vs Investment Grade ratio chart continues to trend higher with leadership from High Yield. In addition, past cycles suggest that the current High Yield leadership vs Investment Grade cycle is a bullish risk-on signal should persist.

SPX levels and key indicators

New highs for A-D line favor new highs for the S&P 500

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New highs for the A-D line support the case for a breakout above the recent 3950-3960 highs on the SPX. The next upside count is 4065, which is ahead of the 2020 cup and handle count at 4270 from our 2021 Equity Technical Year Ahead. Holding supports in the 3880 and 3805-3789 areas on dips would maintain a bullish chart setup for the SPX.

Chart 1: New highs for the S&P 500 advance-decline (A-D) line (bottom) favor new highs for the S&P 500 (top).

A bullish A-D line sets up the SPX for a breakout above 3950-3960 that would favor upside to 4065 next with the 2020 cup and handle target at 4270.

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

2020 cup and handle supports the case for SPX 4270

Our 2021 Equity Technical Year Ahead highlighted a bullish breakout and retest from a 2020 cup and handle with upside potential to 4270, which is supported by our secular bull market roadmap. Big picture supports are SPX 3700, SPX 3550 and SPX 3200.

Chart 2: A 2020 cup and handle pattern is bullish for the S&P 500 and confirmed by the secular bull market roadmap charts.
Big picture levels on the S&P 500 include: The 2020 cup and handle count to 4270 and big supports at SPX 3700, SPX 3550 and SPX 3200.

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Watch for a persistent overbought on 28-day Williams %R

The difference between an upside breakout now vs later is a persistent overbought on the 28-day Williams %R. When this tactical price momentum indicator spends more time overbought (a persistent overbought), the SPX tends to grind higher, which would mean a break above 3950-3960 sooner rather than later. A failure to stay overbought would suggest interim risk to supports at 3880 and 3805-3789, which need to hold on dips to maintain a bullish technical setup. Williams %R was overbought on 3/11 and 3/12.

Chart 3: The immediate key for the S&P 500 (top) is for the 28-day Williams %R (bottom) to stay overbought.

We are on alert for a persistent overbought on daily Williams %R (price momentum). A persistent overbought = SPX grinds higher through resistance. A failure to hold overbought = SPX pause with risk to tactical supports.

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Risk: SPX can struggle in late March

Last ten days of March weaker than the first ten days

March 2021 is off to a solid start with a 3.5% gain for the first ten sessions of the month, but weaker seasonality for the last ten sessions of March is a tactical risk for the SPX. The last ten sessions of March will begin on 3/18. This period is up 53% of the time with an average return of -0.29% (0.14% median). This is much weaker than the seasonality for the first ten days of the month, which is up 65% of the time with an average return 0.36% (0.86% median).

February also shows weaker seasonality for the last ten sessions of the month vs the first ten sessions of the month (Market Analysis Comment: Bullish trend intact, but 2H February tends to be weaker than 1H February 15 February 2021).

Table 1: S&P 500 March seasonality back to 1928.

March is not a particularly strong month in terms of S&P 500 seasonality, but the first ten sessions of March tend to be stronger than the last ten sessions of March.

Period	Average return	Median return	% up	Standard Deviation	Min	Max	Observations
First 10 days of March	0.36%	0.86%	64.52%	3.07%	-8.23%	10.42%	93
Last 10 days of March	-0.29%	0.14%	52.69%	3.71%	-19.28%	8.96%	93
March returns	0.46%	0.94%	60.22%	5.15%	-25.04%	11.70%	93

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

But S&P 500 seasonality shines in April

April = strongest month of best 6-month period of year

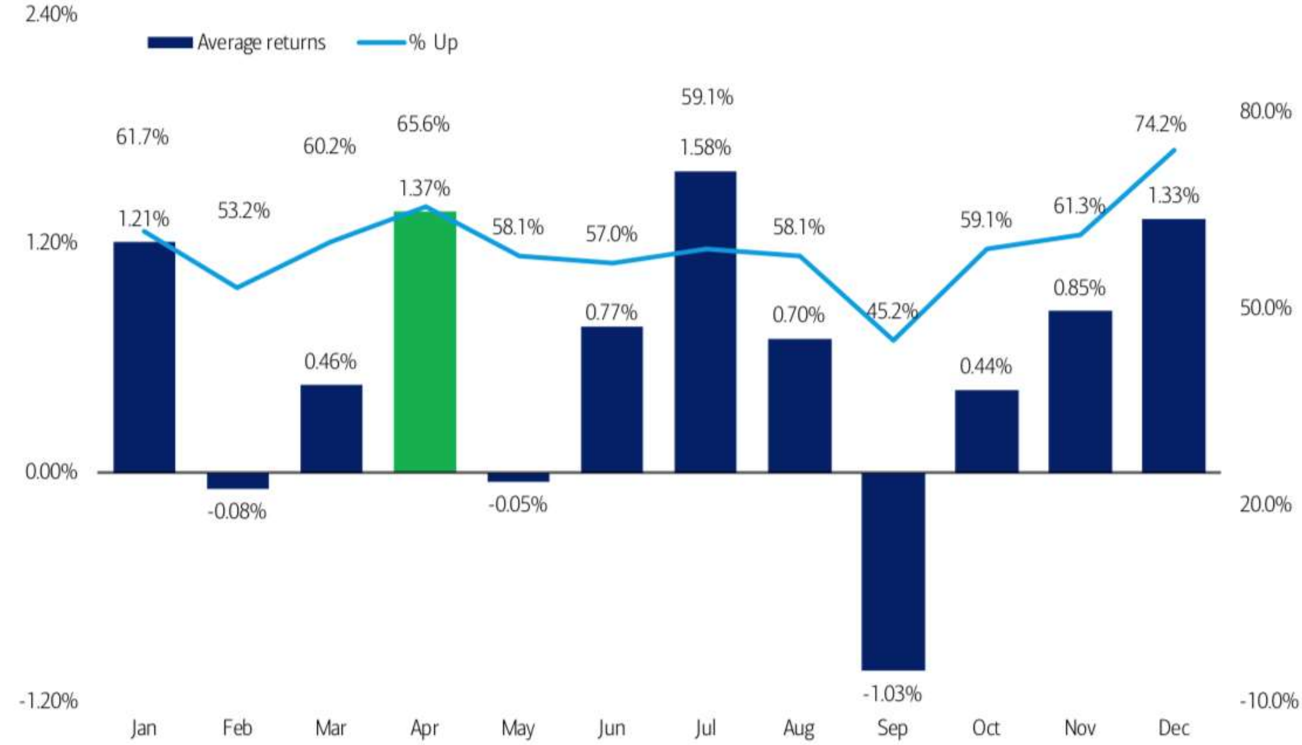
As we highlighted in Market Analysis Comment: Elevated anxiety as seasonality shifts bullish in November 02 November 2020, November-April is the best 6-month period of the year for the SPX going back to 1928. February and March are the weakest two months of this period, but seasonality shines in April, which is the strongest month of the November-April period and is up 66% of the time with an average return of 1.37%.

Springtime for S&P 500 seasonality in April

Within the context of all 12 months of the year, April is the second best month behind July in terms of average return and the second best month behind December in terms of the percentage of time up, however, April ranks eighth in terms of its median return of 0.91%.

Chart 4: S&P 500 seasonality shows that April is a strong month going back to 1928.

April is the second best month behind July in terms of average return and the second best month behind December in terms of the percentage of time up.



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Dow Theory bullish and confirms primary uptrend

Continued new highs for the Dow Jones Industrial Average and Dow Jones Transportation Average confirm a bullish signal for Dow Theory. According to Dow Theory, US equities are in a confirmed primary uptrend or bull market. This is unlike early 2020, just prior to the COVID-19 correction, which saw a lack of confirmation (aka negative divergence) with lower highs on the Transports vs higher highs on the Industrials.

Chart 6: Dow Theory is bullish and confirms a primary uptrend for US equities.

Continued new highs for the Dow Jones Industrial Average (top) and Dow Jones Transportation Average (bottom) confirm a bullish signal for Dow Theory.

Source: BofA Global Research, Bloomberg

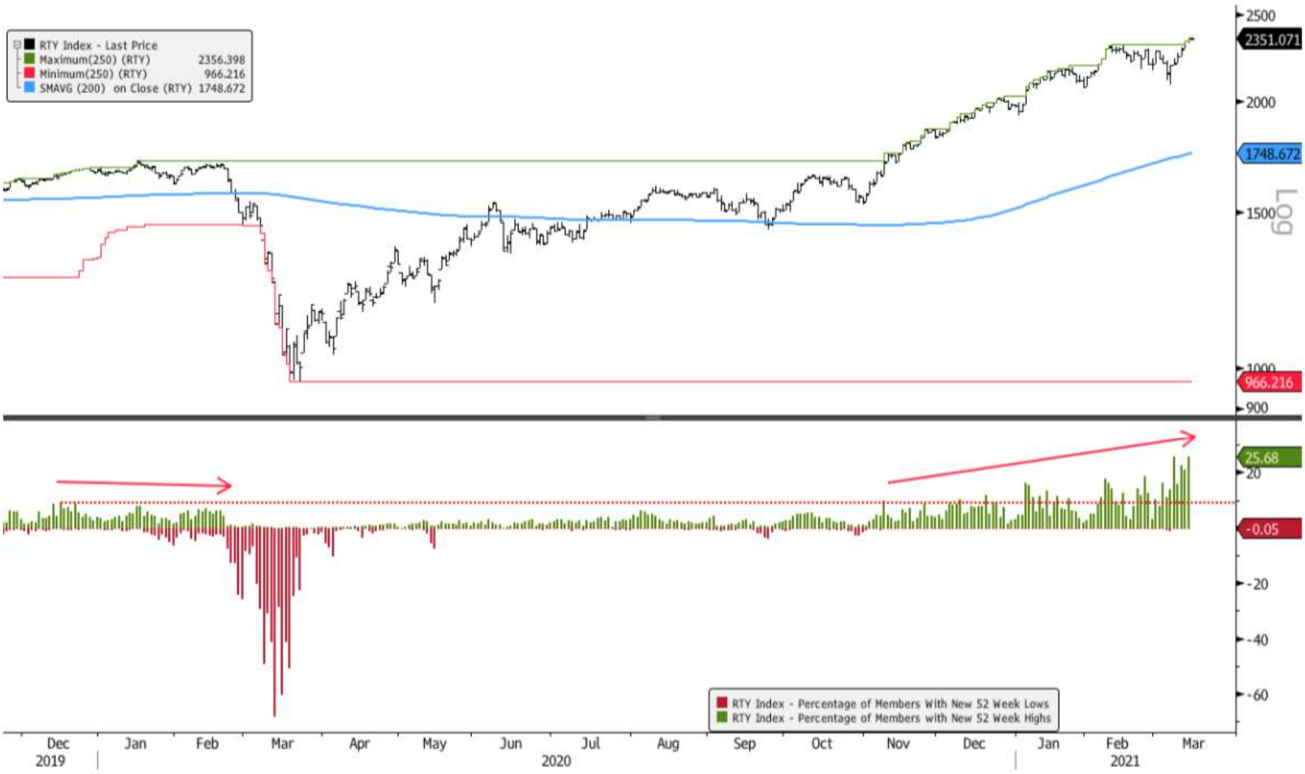
BofA GLOBAL RESEARCH

New 52-week highs expand on the RTY, which is positive

25% of stocks on the Russell 2000 (RTY) have achieved new 52-week highs, which is the strongest reading for the rally from March 2020. This strength is similar to that seen on the NYSE and confirms the rally for small caps.

Chart 8: The percentage of Russell 2000 stocks at new 52-week highs has expanded, which is bullish for market breadth.

25% of stocks on the Russell 2000 (RTY) achieved new 52-week highs last week, which is the strongest reading for the rally from March 2020.



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

New 52-week highs expand on the NYSE, which is positive

The percentage of NYSE stocks at new 52-week highs hit 22% on Friday (3/12), which is the strongest reading for the rally from March 2020. A toppy market would show a deterioration in new 52-week highs with the percentage of new 52-week lows beginning to increase. This is not the case moving into late March 2021, which is unlike just prior to the COVID-19 correction in early 2020. An expansion of stocks hitting new 52-week highs is rotational and not toppy in our view ([Market Analysis Comment: Solid breadth suggests rotational correction, not a big top 09 March 2021]).

Chart 7: The percentage of NYSE stocks at new 52-week highs has expanded, which is bullish for market breadth.

The percentage of NYSE stocks at new 52-week highs hit 22% on Friday (3/12), which is the strongest reading for the rally from March 2020. We view an expansion of new 52-week highs along with minimal expansion of new 52-week lows as rotational and not toppy.

Source: BofA Global Research, Bloomberg

Key indicator confirmation

New high for NYSE cumulative net up volume is bullish

Our Sectors and stocks on the move: Raiders of the lost ARKK 12 March 2021 highlighted a tactically bullish breakout for cumulative net up volume on the SPX. The NYSE cumulative net up volume line is even stronger with a breakout to new all-time highs that confirms the breakout to new all-time highs on the NYSE from late 2020. Strength for cumulative net up volume on the broad-based NYSE relative to cumulative net up volume on the SPX confirms the bullish rotation that we continue to highlight (Sectors and stocks on the move: Revisiting the rotation 03 March 2021).

For those not familiar with the cumulative net up volume line, it is volume's version of the advance-decline line. A rising trend means that volume in advancing stocks is outpacing volume in declining stocks, which is bullish. A declining trend means that volume in advancing stocks is lagging volume in declining stocks, which is bearish.

Chart 5: NYSE cumulative net up volume (bottom) breaks out to new highs to confirm the late 2020 breakout to new highs on the NYSE Comp (top).

Better late than never: New all-time highs on NYSE cumulative net up volume last week finally confirm the new all-time highs on the NYSE Comp from late 2020.

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Cranky credit ETFs a tactical risk

LQD: If 130.54 to 133.73 resistance holds risk to 126-125

After showing a late 2020 into early 2021 bearish divergence (lower highs vs higher highs on the SPX), the iShares iBoxx $ Investment Grade Corporate Bond ETF (LQD) broke key support at its late October 2020 low of 133.73 (Market Analysis Comment: Three signals suggest corrective risk within a bullish backdrop 23 February 2021). We have viewed this as a potential bearish leading indicator for the SPX.

LQD has continued to new tactical lows with risk to 126.12 (38.2% of the March-August 2020 rally) and 125.55 (May 2020 higher low) next. The immediate trend remains bearish below tactical resistances at 130.54, 132.27 and 133.73 (breakdown point).

Chart 9: iShares iBoxx $ Investment Grade Corporate Bond ETF (LQD) (bottom) is weakening, which is a bearish leading indicator for the SPX (top)

LQD broke key support at its late October 2020 low of 133.73 and continues to trend lower. We view this as a potential bearish leading indicator for the SPX.

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

HYG: If 86.62-87.10 resistance holds, risk to 85 area

We pointed out that the iShares iBoxx High Yield Corporate Bond ETF (HYG) broke tactical support at 86.90 (Market Analysis Comment: Tracking the corrective phase 01 March 2021), which we viewed as a bearish leading indicator and tactical risk for US equities.

Last week, we highlighted that HYG broke an even bigger support at 86.37 to suggest a 3-month top and downside risk on HYG to the November breakout point in the 85.30s and to a bearish pattern count at 85.00-84.95 (Market Analysis Comment: Solid breadth suggests rotational correction, not a big top 09 March 2021). If 86.62-87.10 resistance holds on rallies, there is downside risk to the 85 area on HYG.

Chart 10: The iShares iBoxx High Yield Corporate Bond ETF (HYG) (bottom) continues to break support. This is a risk for the S&P 500 (top).
HYG: If 86.62-87.10 resistance holds on rallies, there is downside risk to the 85 area.

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

But hard to get too bearish on credit if HY leads IG

The weekly chart for iBoxx High Yield relative to iBoxx Investment Grade continues to rally after hitting its low in April 2020 and breaking out from a 2020 bottom in December (2021 Equity Technical Year Ahead: The only thing we have to fear is the lack of fear itself 13 December 2020). Although the credit ETFs of HYG and LQD have struggled, the weekly High Yield vs Investment Grade ratio chart continues to trend higher with leadership from High Yield relative to Investment Grade.

HY leadership vs IG should persist based on past cycles

Past cycles suggest that the current bullish High Yield vs Investment Grade cycle is a risk-on signal that should persist. The current cycle is 46 weeks long and counting. Past cycles have lasted 138 (early 2016-late 2018), 114 (late 2011-late 2013), 120 (late 2008-early 2011) and 243 weeks (late 2002-mid 2007). This means that High Yield leadership has more room to run relative Investment Grade if history is any guide.

> Note that the bullish cycle for the weekly High Yield relative to Investment Grade ratio is aligned with the bullish cycle or positive rotation for High Beta vs Low Volatility – both are bullish signals that are associated with past recessions or growth scares and have the potential to persist for another year if history is any guide.

Chart 11: High Yield remains leadership: A bullish cycle for the weekly iBoxx High Yield relative to iBoxx Investment Grade ratio chart.
Past cycles for the weekly High Yield relative to Investment Grade chart suggest that the current leadership trend for High Yield vs Investment Grade should persist.

Source: BofA Global Research, Bloomberg

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Stocks with below-average valuations, growing EPS, and above-average correlations to rates

Exhibit 5: Russell 1000 firms with P/Es no more than 5% above 10-year medians, EV no more than 5% above pre-pandemic levels, cons. 2022 EPS ≥ 20% above 2019 EPS, and above-average correlations with 10-year UST yields during past nine months; as of Mar. 11, 2021; market cap used instead of EV for Financials

					Consensus forward P/E			Current EV	Consensus	Price corr.
Ticker	Company	Industry	Market cap (bn)	YTD return	Current	10-year median	Curr. vs. median	vs. pre-pandemic	2022 EPS vs. 2019	with 10y UST yield
AMGN	Amgen Inc.	Biotechnology	$134	1 %	13.7x	14.0x	(2)%	2 %	23 %	0.14
CI	Cigna Corporation	Health Care Providers & Services	84	15	11.8	11.8	(0)	(5)	35	0.27
VRTX	Vertex Pharmaceuticals Incorporated	Biotechnology	56	(9)	19.2	42.0	(54)	(16)	139	0.14
BAX	Baxter International Inc.	Health Care Equipment & Supplies	39	(3)	22.9	22.4	2	(14)	20	0.28
MCK	McKesson Corporation	Health Care Providers & Services	29	6	9.8	12.4	(21)	(13)	37	0.21
ABC	AmerisourceBergen Corporation	Health Care Providers & Services	22	13	12.7	14.1	(10)	3	29	0.42
INCY	Incyte Corporation	Biotechnology	17	(9)	34.1	73.1	(53)	2	87	0.32
DVN	Devon Energy Corporation	Oil Gas & Consumable Fuels	17	56	14.9	15.6	(4)	(1)	41	0.49
MKL	Markel Corporation	Insurance	16	10	19.4	29.4	(34)	(15)	79	0.16
LSXMA	Liberty Media Corp. Series A Liberty SiriusXM	Media	15	6	16.5	19.1	(14)	(23)	34	0.20
ACGL	Arch Capital Group Ltd.	Insurance	15	3	12.2	15.7	(22)	(23)	30	0.33
FMC	FMC Corporation	Chemicals	14	(5)	15.4	15.0	2	(0)	32	0.22
CNA	CNA Financial Corporation	Insurance	12	20	11.2	11.2	(0)	(8)	20	0.28
LNC	Lincoln National Corporation	Insurance	12	24	6.9	7.3	(5)	0	60	0.48
UHS	Universal Health Services, Inc. Class B	Health Care Providers & Services	11	(3)	12.5	13.7	(9)	(14)	21	0.26
RE	Everest Re Group, Ltd.	Insurance	10	7	10.2	9.9	3	(16)	35	0.21
Y	Alleghany Corporation	Insurance	9	6	12.9	18.0	(28)	(26)	149	0.46
NBIX	Neurocrine Biosciences, Inc.	Biotechnology	9	(1)	29.5	42.3	(30)	(10)	1059	0.36
SEIC	SEI Investments Company	Capital Markets	9	4	16.3	19.1	(15)	(17)	22	0.27
UGI	UGI Corporation	Gas Utilities	8	16	13.9	16.7	(17)	(5)	38	0.22
RNR	RenaissanceRe Holdings Ltd.	Insurance	8	(2)	11.3	12.0	(6)	(6)	92	0.17
KRC	Kilroy Realty Corporation	Equity Real Estate Investment Trusts (REITs)	8	19	41.9	63.7	(34)	(14)	22	0.16
NXST	Nexstar Media Group, Inc. Class A	Media	7	42	9.9	13.2	(24)	3	380	0.37
LITE	Lumentum Holdings, Inc.	Communications Equipment	7	(9)	13.4	15.1	(11)	(2)	64	0.23
MDU	MDU Resources Group Inc	Multi-Utilities	6	18	15.0	17.8	(16)	(1)	30	0.31
ASH	Ashland Global Holdings, Inc.	Chemicals	5	12	17.1	16.5	4	4	130	0.22
AXS	Axis Capital Holdings Limited	Insurance	4	3	12.1	11.7	4	(17)	102	0.31
BHF	Brighthouse Financial, Inc.	Insurance	4	22	4.0	4.3	(9)	(22)	152	0.47
USM	United States Cellular Corp	Wireless Telecommunication Services	3	16	19.0	34.0	(44)	(1)	26	0.21
List median			**$11**	**6 %**	**13.7x**	**15.6x**	**(11)%**	**(8)%**	**37 %**	**0.27**
Russell 1000 median			**14**	**8**	**21.7**	**18.2**	**15**	**10**	**24**	**0.13**

S&P 500 Internals

Indicator	Change	Current	One Week Ago
50-Day Moving Avg Spread	↑	2.7 %	0.5 %
10-Day A/D Line	↑	1115	106
# of Overbought Stocks	↑	282	226
# of Oversold Stocks	↓	47	106
P/E Ratio			
Trailing	↑	31.99	31.15
Forward	↑	22.82	22.31
Dividend Yield	↓	1.47 %	1.50 %
Net Earnings Revisions		21.5 %	21.5 %
Credit Spreads (bps)			
High Yield	↓	352	360
Corporate Bonds	↑	102	100

Trading Ranges: Sectors

Index/Sector	Current	1 Wk Ago
S&P 500	OB	N
Cons Discret.	N	OS
Cons Staples	N	OS
Energy	OB	OB
Financials	OB	OB
Health Care	N	OS
Industrials	OB	OB
Materials	OB	N
Technology	N	OS
Comm. Svcs	OB	OB
Utilities	N	OS