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VERMILION RESEARCH

ETF Pathfinder

ETF Technical Strategy

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Neutral Outlook Is Appropriate

Market dynamics have deteriorated and we are cautious yet neutral overall.

- **Deteriorating Market Dynamics.** Small-caps continue to underperform, growth is outperforming vs. value, cyclical value (Energy, Materials, Industrials, Financials) is underperforming defensives (Utilities, Staples, REITs, Health Care), U.S. (**IWV**) is outperforming foreign equities (**ACWX**) as the US dollar strengthens, high yield spreads are widening, the 10-year Treasury yield is below 1.40-1.45%, and breadth is weak. These are all reasons for a more cautious and neutral outlook. We recommend large-caps over small-caps, growth over value, defensives over cyclical value, and U.S. over foreign... *see pages 2-3*.

- **Sector Weighting Changes.** We are upgrading Technology, Health Care, Staples, and Utilities to market weight, and we are downgrading Energy, Financials, Materials, and Industrials to market weight... *see Sector comments on pages 4-9*.

Sector Weighting Recommendations

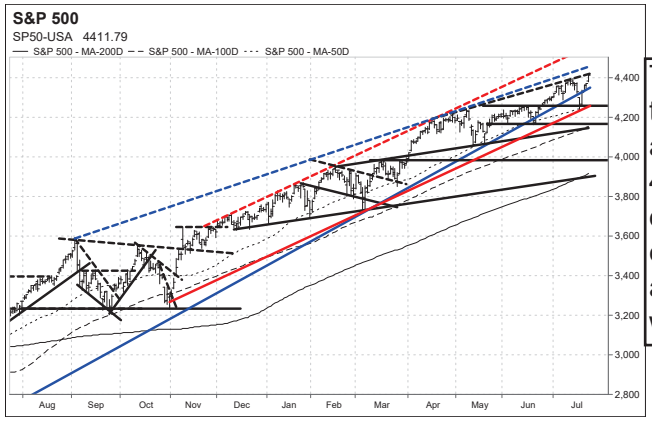
Sector	Under-Weight	Market-Weight	Over-Weight
Comm. Services (XLC)			X
Cons. Discretionary (XLY)		X	
Cons. Staples (XLP)	X	X	
Energy (RYE, XLE)		X	X
Financials (RYF, XLF)		X	X
Health Care (RYH, XLV)	X	X	
Industrials (RGI, XLI)		X	X
Materials (XLB)		X	X
Real Estate (XLRE)		X	
Technology (XLK)	X	X	
Utilities (XLU)	X	X	

- **S&P 500.** The S&P 500 remains bullish, recently hitting our 4400-4406 target as large-caps remain attractive. As long as support at the 50-day MA and 4257 holds, we expect to see 4460 followed by 4560. Should 4257 fail to hold we expect more sideways to downward price action, and our next support levels to watch would be 4233, 4164, and 4140; we are constructive as long as 4140 holds... *see chart below*.

- **Actionable Industry ETFs: IHI, IGV, FDN,** and **SOCL**... *see page 10.*

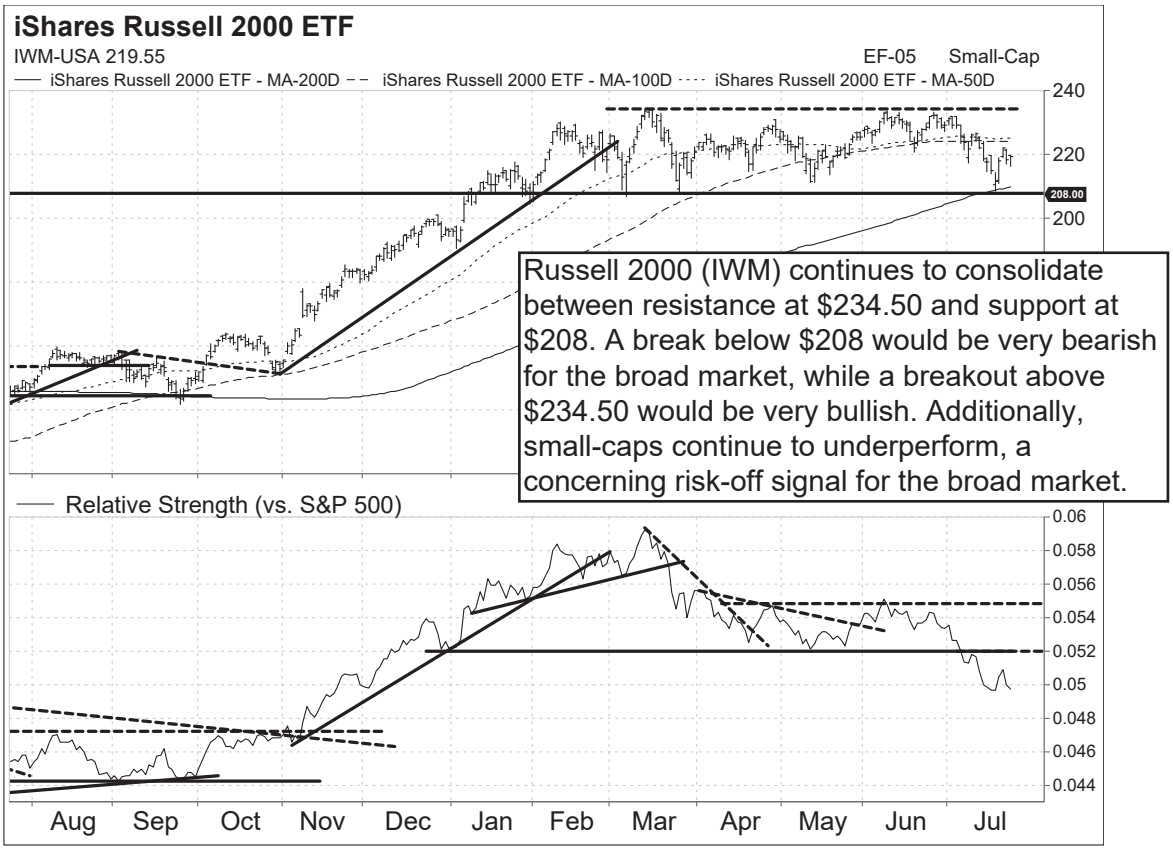
- **EM and International Markets.** Developed int'l (**EFA**) and emerging markets (**EEM**) are still above important long-term price supports, however RS is breaking to new lows and we are downgrading both to underweight... *see page 11.*

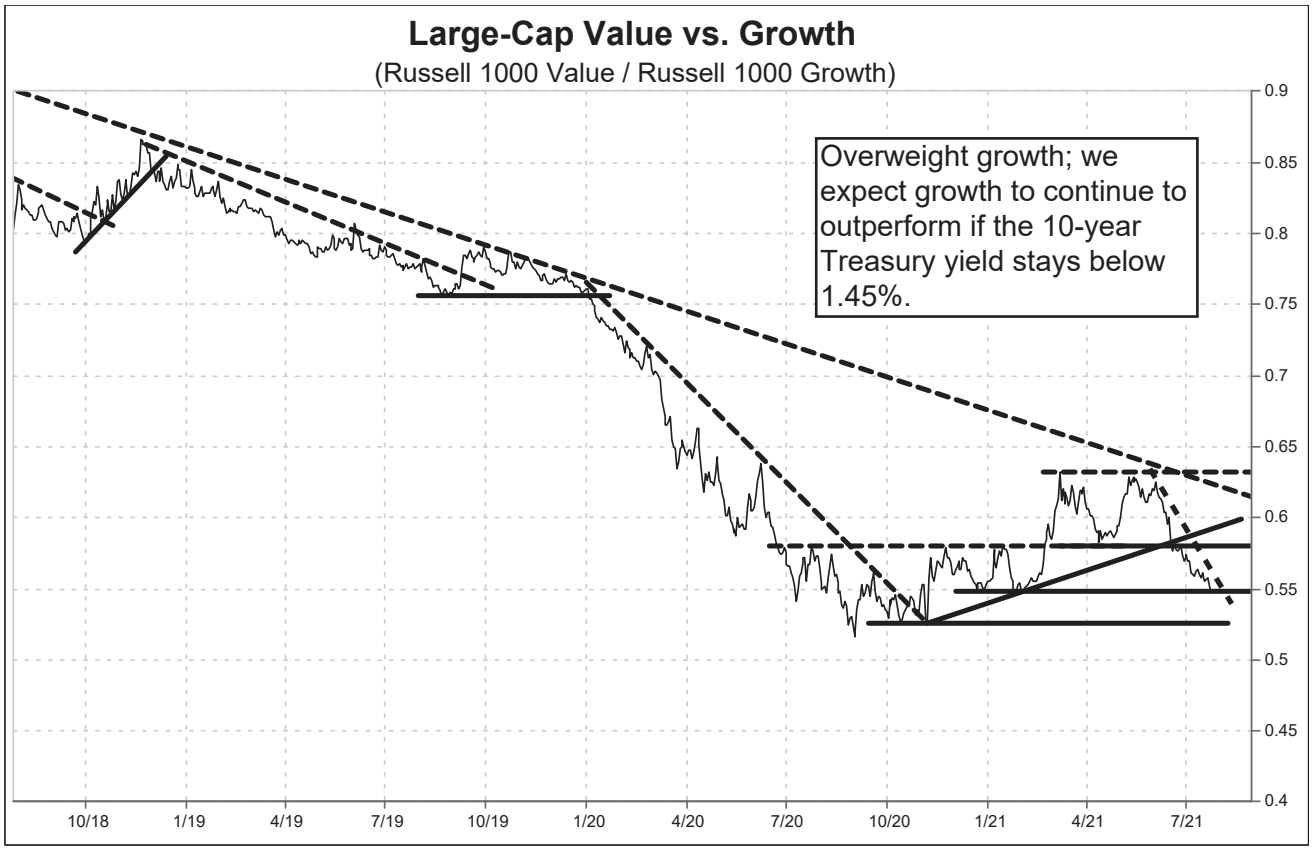
- **Actionable International ETFs: HEDJ, EWL, EWD, EDEN, EFNL, EWT, EWW,** and **EPOL**... *see pages 12-13.*



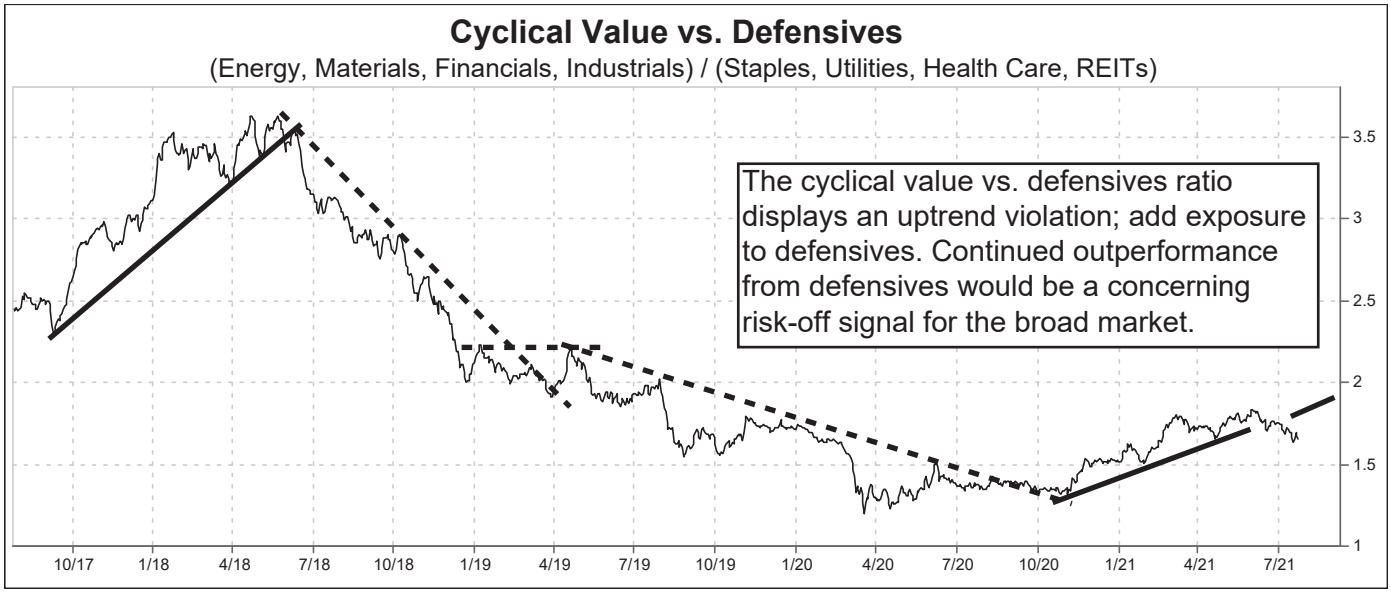
The S&P 500 recently hit our 4400-4406 target. As long as support at the 50-day MA and 4257 holds, our next target remains 4460 (blue dashed line), then 4560 (red dashed line). Should 4257 fail to hold we expect more sideways to downward price action, and our next support levels to watch would be 4233,4164, and 4140.

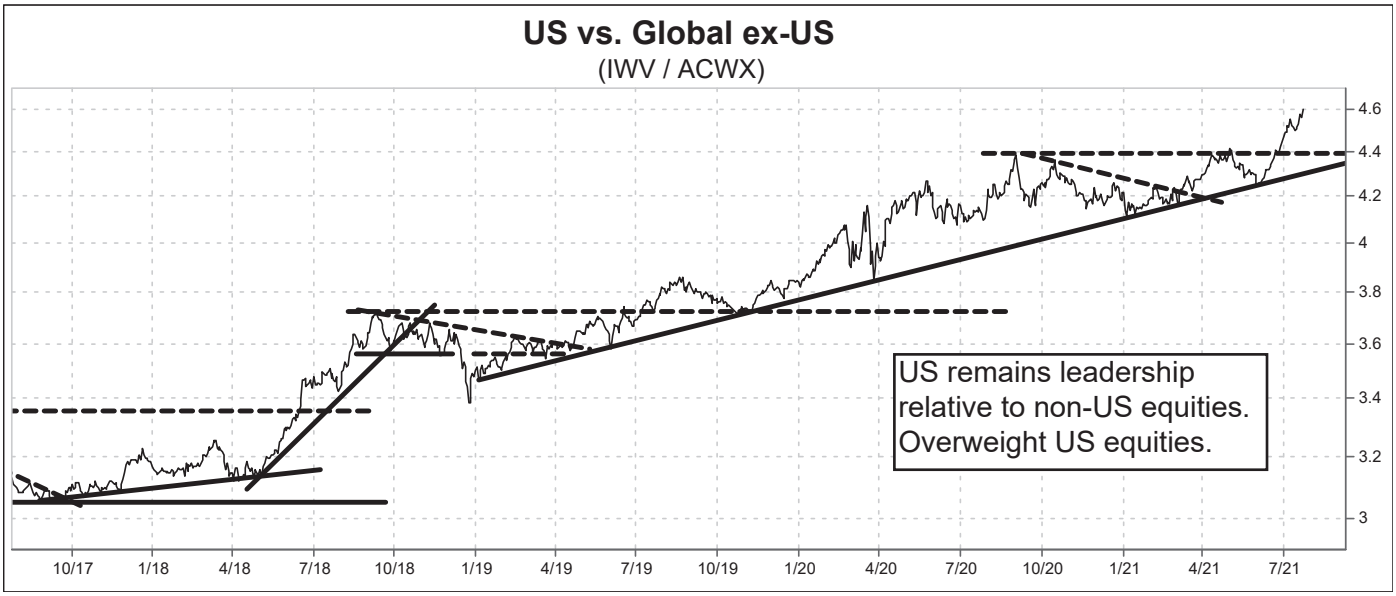
Overweight Large-Caps; Overweight Growth

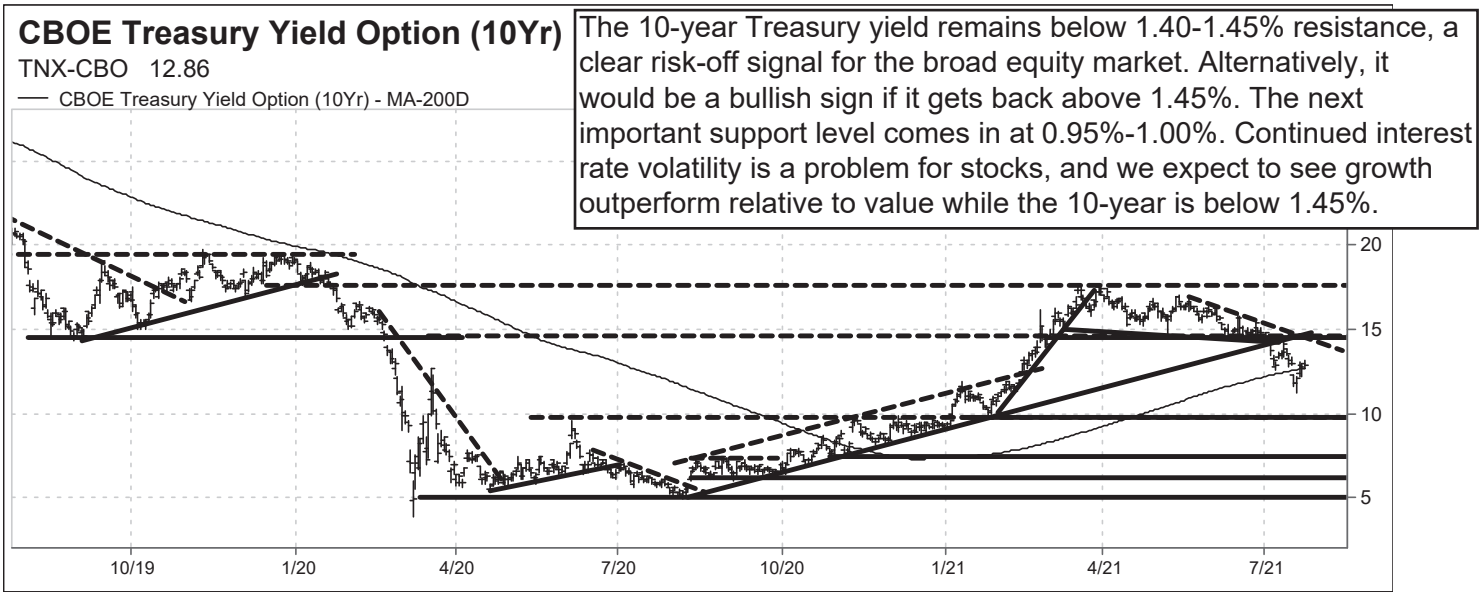




Cyclical Value vs. Defensives; U.S. vs. Foreign; 10-Year Treasury Yield



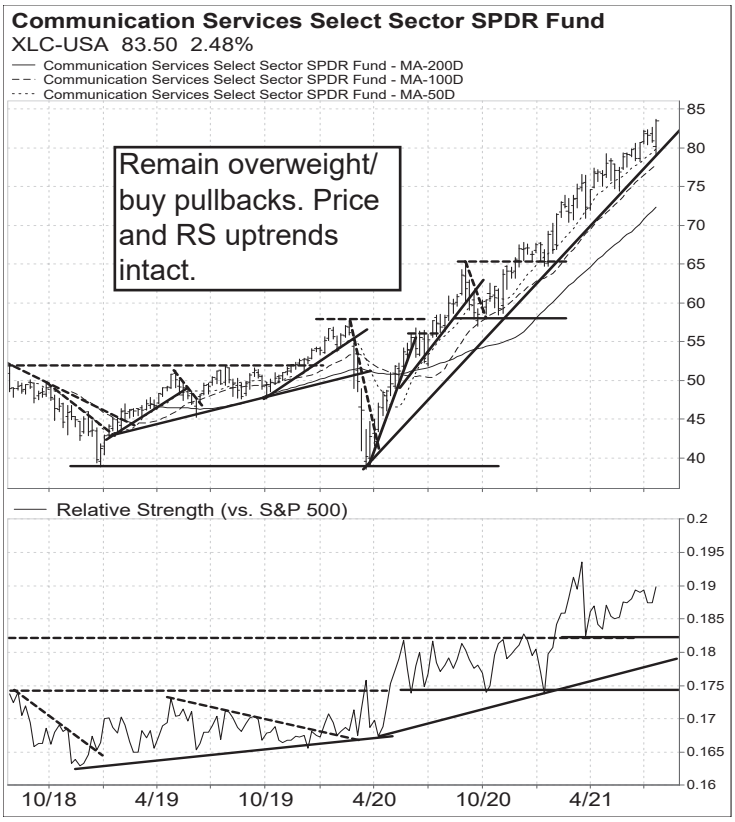




Communication Services (XLC): Overweight

- The XLC remains in an uptrend and is trading at new all-time highs. Important support continues to be at the uptrend and 100-day MA. RS has held above key support and remains in a long-term uptrend -- remain oveweight.
- Social media (**SOCL**) and internet (**ARKW, XWEB, FDN**) remain leadership -- remain overweight/add exposure. Actionable names include: **FB** (buy pullbacks)**, GOOGL** (buy pullbacks)**, and TWTR.**
- Additional attractive names include: **CHTR and IPG**.

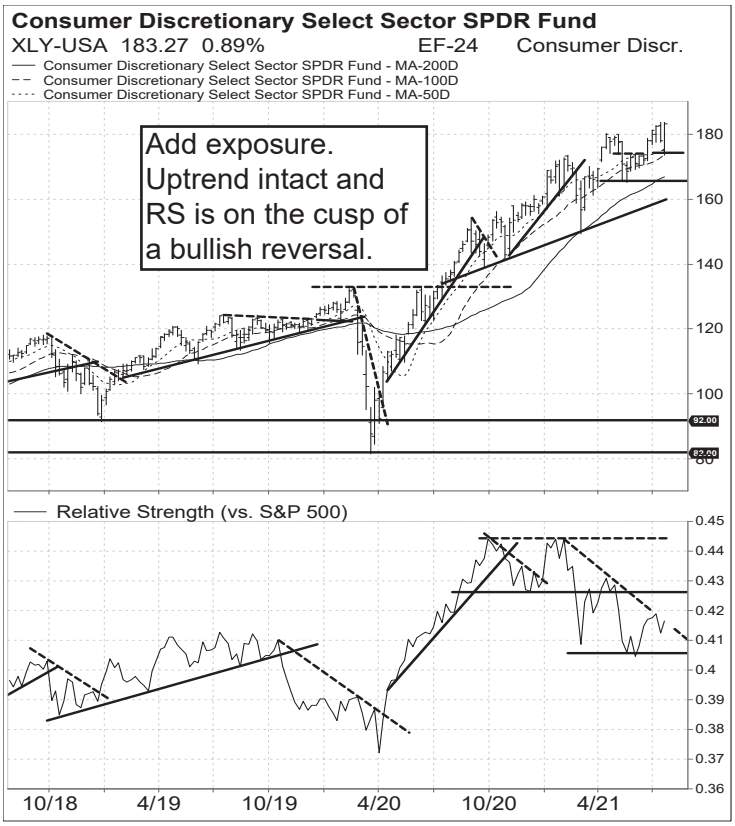
Top 10 Holdings (XLC)			
Ticker	**Weight (%)**	**Ticker**	**Weight (%)**
FB	24.5	CMCSA	4.4
GOOGL	12.2	DIS	4.3
GOOG	11.9	TMUS	4.3
CHTR	4.6	VZ	4.2
NFLX	4.5	T	4.1



Cons. Discretionary (XLY): Market Weight

- RS on the XLY is on the cusp of a bullish reversal, while RS on the equal-weighted Sector (RCD) appears to be rolling over. We now favor the cap-weighted Sector (XLY) which lines up with our general preference for large-caps and growth. From a price perspective, the XLY remains bullish as it holds above $174 support.
- Large-cap fast food restaurants are bullish. Buy pullbacks: **CMG, DPZ, MCD, SBUX, and YUM**.
- Additional attractive names include: **LKQ, AAP, AZO, ORLY, POOL, GRMN, DHI, AMZN, EBAY, ETSY, DG, TGT, HD, LOW, LB, and NKE.**

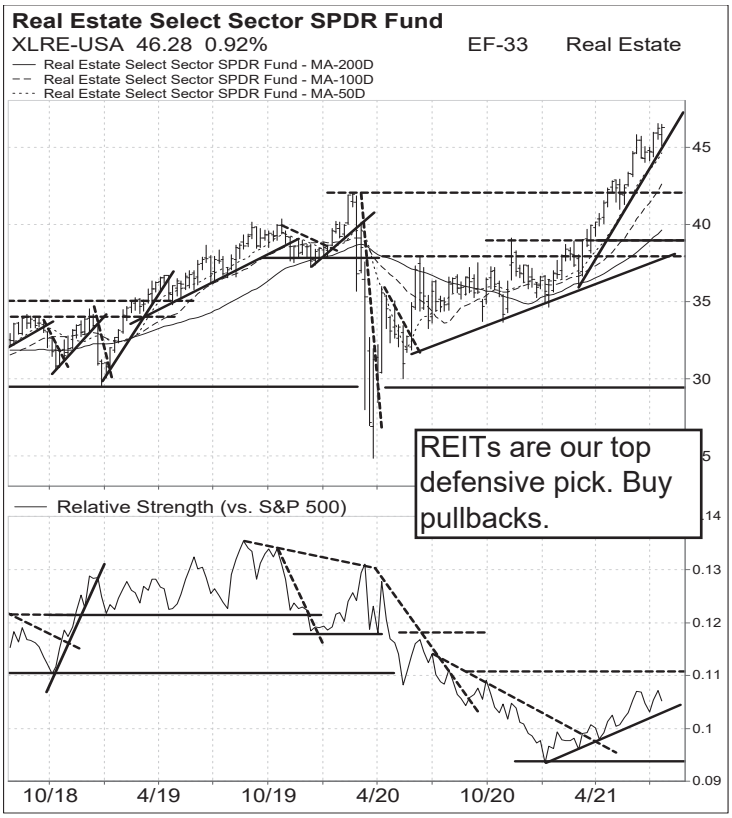
Top 10 Holdings (XLY)			
Ticker	**Weight (%)**	**Ticker**	**Weight (%)**
AMZN	23.7	SBUX	3.7
TSLA	12.5	LOW	3.6
HD	8.9	TGT	3.3
NKE	5.3	BKNG	2.3
MCD	4.6	TJX	2.1



Real Estate (XLRE): Market Weight

- RS on the XLRE remains in a 6.5-month uptrend, but also remains below long-term RS resistance at the 0.11 level (see bottom clip at right). Stay at market weight while RS consolidates. The steep uptrend remains intact on the XLRE, and continues to represent short-term support. Additional supports are at $44 followed by $43.
- Cell Towers (**AMT, CCI, SBAC**) and Storage REITs (**EXR and PSA**) remain leadership -- buy pullbacks/ stay long.
- Additional attractive names include: **ARE, AVB, DRE, EQIX, EQR, ESS, MAA, PEAK, PLD, UDR, WELL, and CBRE.**

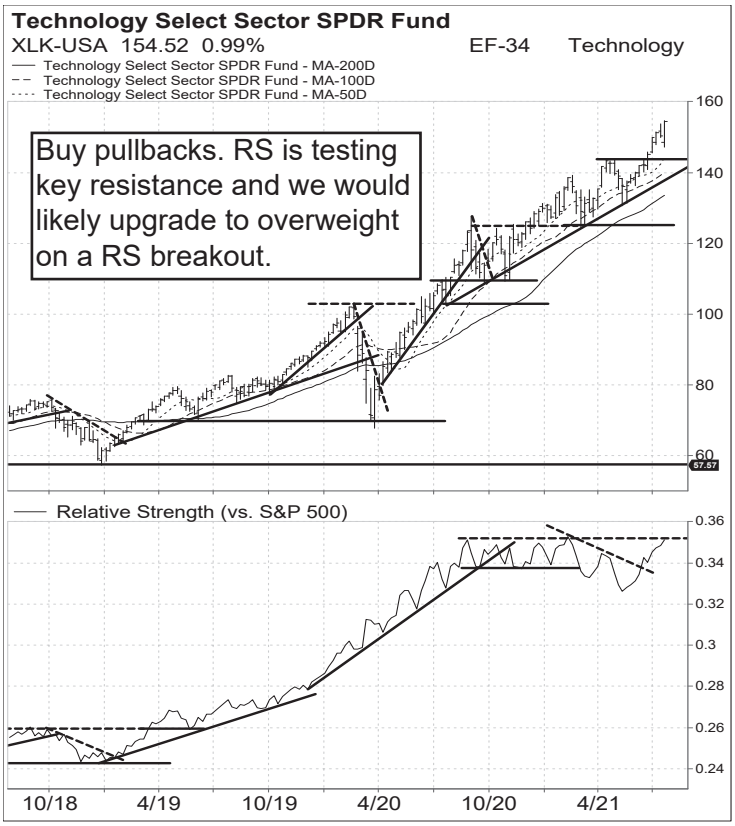
Top 10 Holdings (XLRE)			
Ticker	**Weight (%)**	**Ticker**	**Weight (%)**
AMT	13.3	DLR	4.5
PLD	9.7	SPG	4.2
CCI	8.6	SBAC	3.8
EQIX	7.7	WELL	3.8
PSA	4.9	AVB	3.2



Technology (XLK): Market Weight (upgraded today from Underweight)

- **UPGRADE.** We are upgrading Technology to market weight; RS on the cap-weighted XLK has continued to advance following the bullish reversal, and the 10-year Treasury yield is now below the key 1.40-1.45% level. We would likely upgrade to overweight if RS is able to break to new highs. Additionally, price remains bullish with the uptrend intact -- buy pullbacks.
- Software (**IGV**) & IT Services are internal leadership -- overweight/add exposure. Attractive names include: **ADBE, ADSK, ANSS, CDNS, CRM, FTNT, INTU, MSFT, NOW, PAYC, PTC, SNPS, TYL, ACN, ADP, AKAM, BR, DXC, IT, JKHY, PAYX, PYPL, and V**.
- Additional actionable names include: **ANET, ZBRA, AMD, ENPH, MPWR, NVDA, QCOM, and AAPL.**

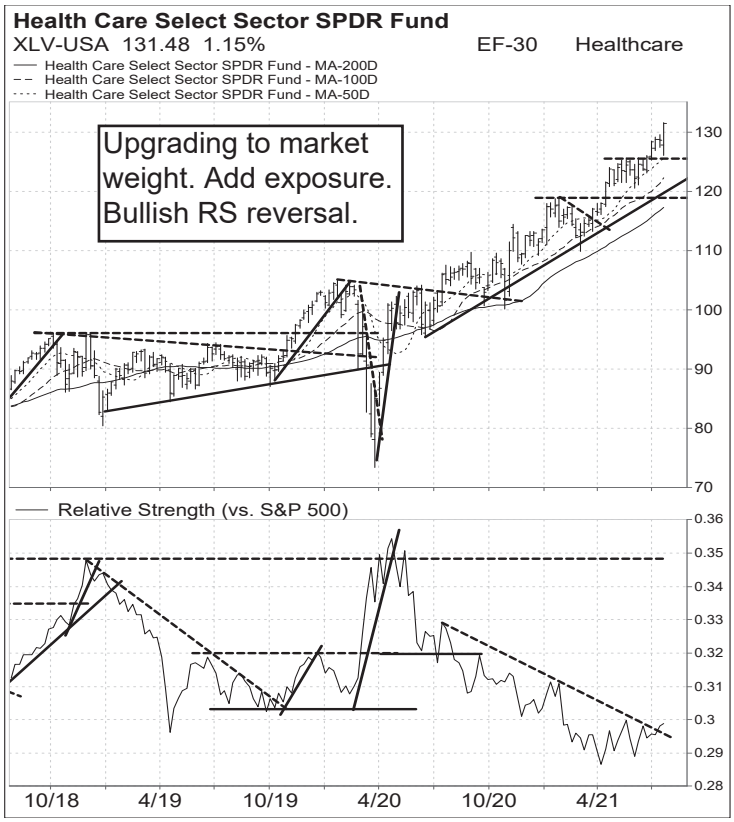
Top 10 Holdings (XLK)			
Ticker	**Weight (%)**	**Ticker**	**Weight (%)**
AAPL	22.3	MA	3.3
MSFT	20.9	ADBE	2.9
NVDA	4.7	CSCO	2.2
V	4.0	CRM	2.2
PYPL	3.5	INTC	2.1



Health Care (XLV & RYH): Market Weight (upgraded today from Underweight)

- **UPGRADE.** We are upgrading Health Care to market weight; RS on the XLV displays a bullish reversal -- buy pullbacks. Price remains bullish; key support levels on the XLV include $129 followed by $126 and $121.
- Health Care Devices/Equipment (**IHI**) is internal leadership and RS is bullishly inflecting -- add exposure. Attractive names include: **ABT, ALGN, BSX, DHR, DXCM, EW, HOLX, IDXX, ISRG, RMD, WST, A, BIO, ILMN, IQV, MTD, PKI, TMO, and WAT**.
- Additional actionable names include: **REGN, HCA, HUM, LH, CTLT, LLY, and ZTS.**

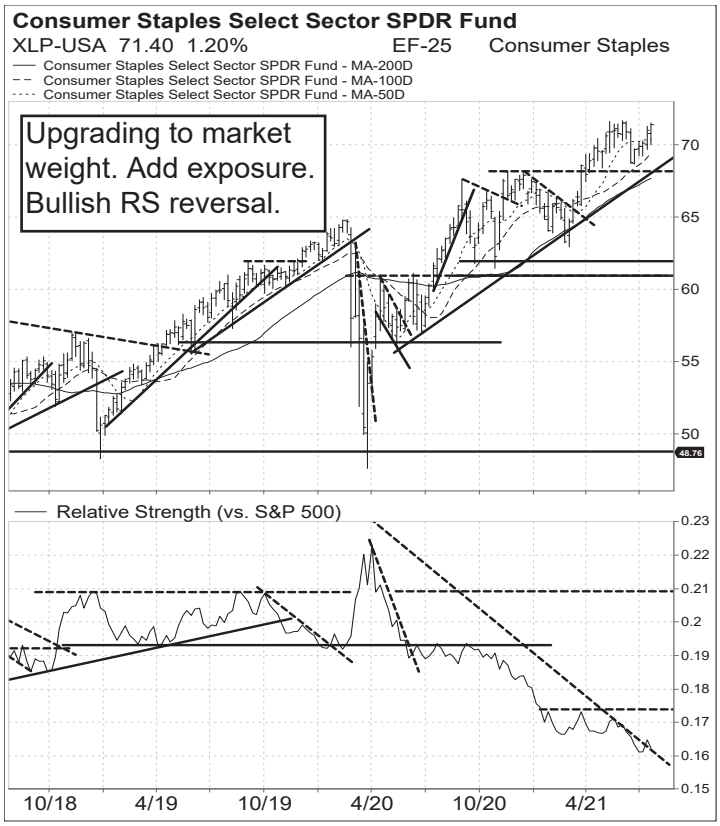
Top 10 Holdings (XLV)			
Ticker	**Weight (%)**	**Ticker**	**Weight (%)**
JNJ	9.2	ABBV	4.3
UNH	8.0	MRK	4.0
PFE	4.8	LLY	4.0
ABT	4.4	DHR	3.8
TMO	4.3	MDT	3.5



Consumer Staples (XLP): Market Weight (upgraded today from Underweight)

- **UPGRADE.** We are upgrading Consumer Staples to market weight; RS on the XLP is breaking above the 16-month downtrend. Price remains bullish on the XLP as it holds above $68 base support -- add exposure.
- Attractive and actionable names include: **MNST, PEP, COST, KR, HSY, MDLZ, PG, and EL.**

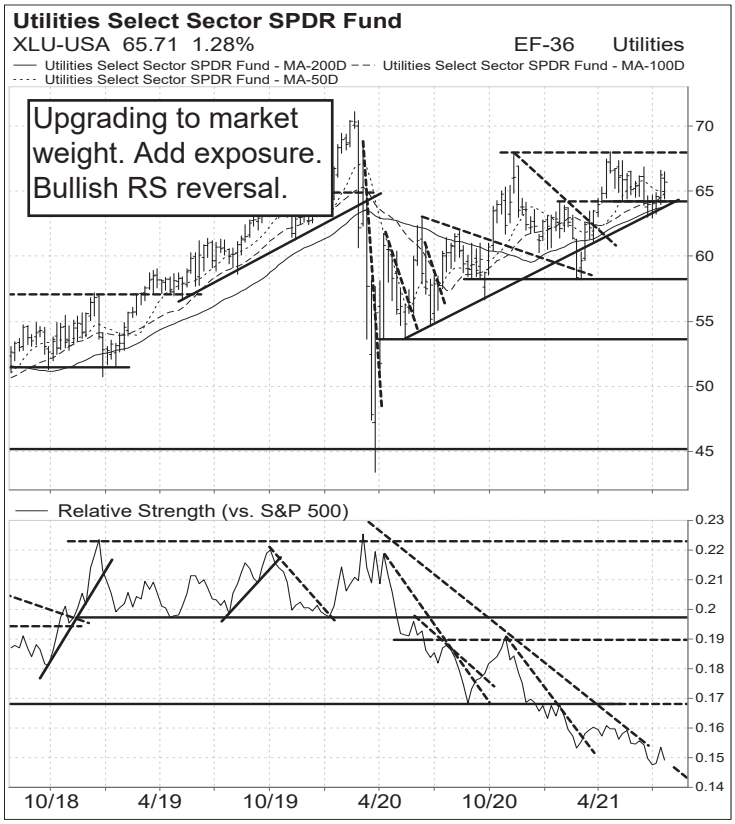
Top 10 Holdings (XLP)			
Ticker	**Weight (%)**	**Ticker**	**Weight (%)**
PG	15.8	MDLZ	4.5
KO	10.2	PM	4.4
PEP	10.0	MO	4.3
WMT	9.0	EL	4.2
COST	4.9	CL	3.8



Utilities (XLU): Market Weight (upgraded today from Underweight)

- **UPGRADE.** We are upgrading Utilities to market weight; RS on the XLU is breaking above the 16-month downtrend. Price remains in an uptrend and continues to hold above the 200-day MA -- add exposure.
- Attractive and actionable names include: **AWK, DUK, EVRG, FE, and NEE**.

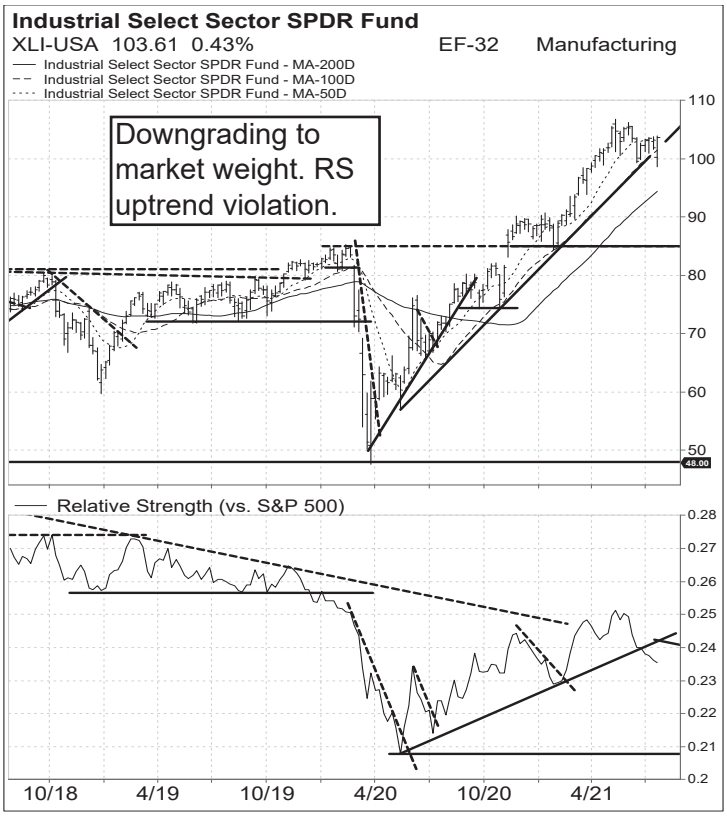
Top 10 Holdings (XLU)			
Ticker	**Weight (%)**	**Ticker**	**Weight (%)**
NEE	16.4	AEP	4.7
DUK	8.7	SRE	4.5
SO	7.3	XEL	4.0
D	6.6	PEG	3.4
EXC	4.9	AWK	3.3



Industrials (RGI & XLI): Market Weight (downgraded today from Overweight)

- **DOWNGRADE.** We are downgrading Industrials to market weight due to the RS uptrend violation on the XLI -- reduce exposure. Key price support on the XLI remains at $99.50 which coincides with the uptrend and 100-day MA.
- The Professional Services and Commercial Services & Supplies industries have several attractive names. Buy: **CPRT, CTAS, ROL, RSG, WM, EFX, and INFO**.
- Additional attractive names include: **EXPD, CARR, JCI, TT, ETN, GNRC, ROK, ROP, DOV, OTIS, XYL, and ODFL.**

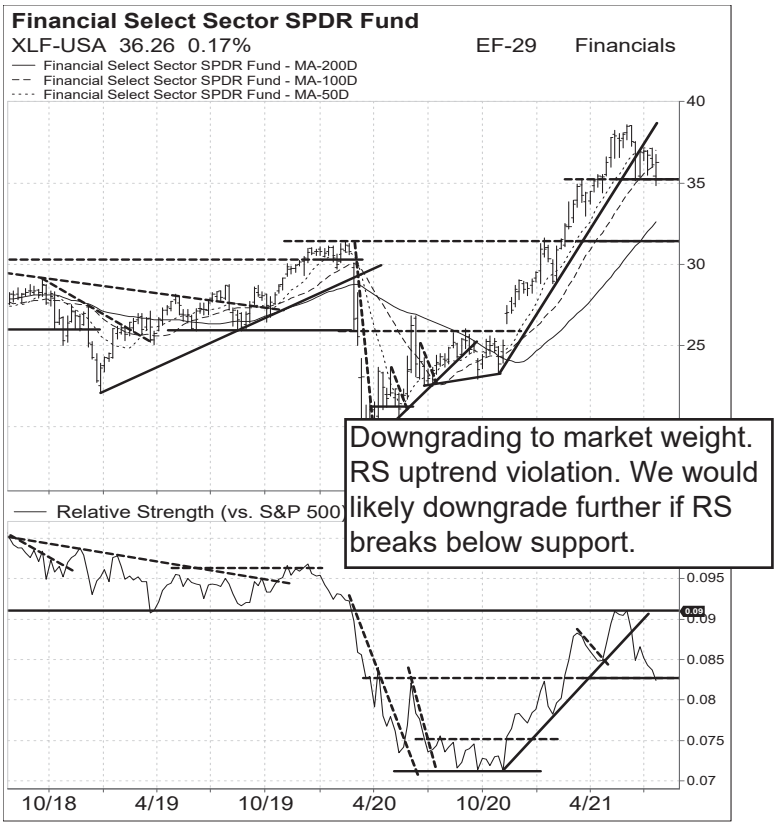
Top 10 Holdings (XLI)			
Ticker	**Weight (%)**	**Ticker**	**Weight (%)**
HON	5.1	MMM	3.7
UPS	4.9	CAT	3.7
UNP	4.7	GE	3.6
RTX	4.1	DE	3.5
BA	3.9	LMT	3.0



Financials (XLF): Market Weight (downgraded today from Overweight)

- **DOWNGRADE.** We are downgrading Financials to market weight; RS on the XLF is rolling over and the 10-year Treasury yield is now below the key 1.40-1.45% level. We would likely downgrade further to underweight if RS breaks below horizontal support. $35 remains criti-cal support to watch on the XLF.
- Capital markets (**KCE, IAI**) remain internal leadership, and we want to avoid banks (**KRE, KBE**). Actionable capital markets names include: **MCO, SPGI, BLK, CBOE, ICE, MS, MSCI, NDAQ, and TROW**.
- Additional actionable names: **AXP, COF, DFS, AJG, and MMC**.

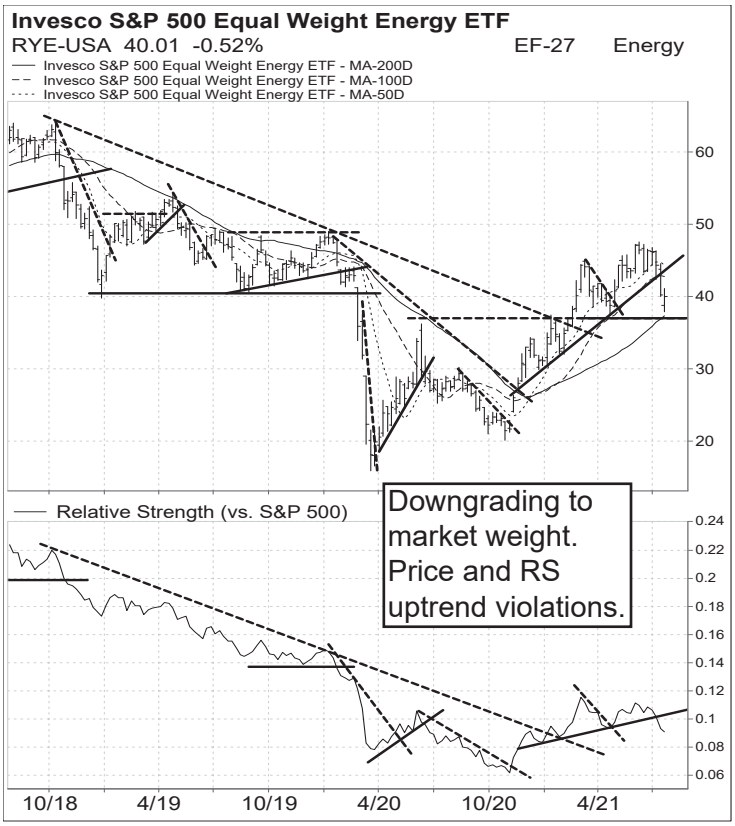
Top 10 Holdings (XLF)			
Ticker	**Weight (%)**	**Ticker**	**Weight (%)**
BRK.B	13.0	C	3.4
JPM	11.3	GS	3.1
BAC	7.0	BLK	3.0
WFC	4.6	AXP	2.8
MS	3.5	SCHW	2.5



Energy (RYE & XLE): Market Weight (downgraded today from Overweight)

- **DOWNGRADE.** We are downgrading Energy to market weight; the equal-weighted Sector (RYE) displays price and RS uptrend violations -- reduce exposure. Key price support is at $37 on the RYE and $45-46 on the XLE; we would likely downgrade further to underweight on breakdowns below these support levels.
- Considering recent weakness we are concerned the aforementioned support levels may not hold. We would like to see some stabilization before recommending any individual names.

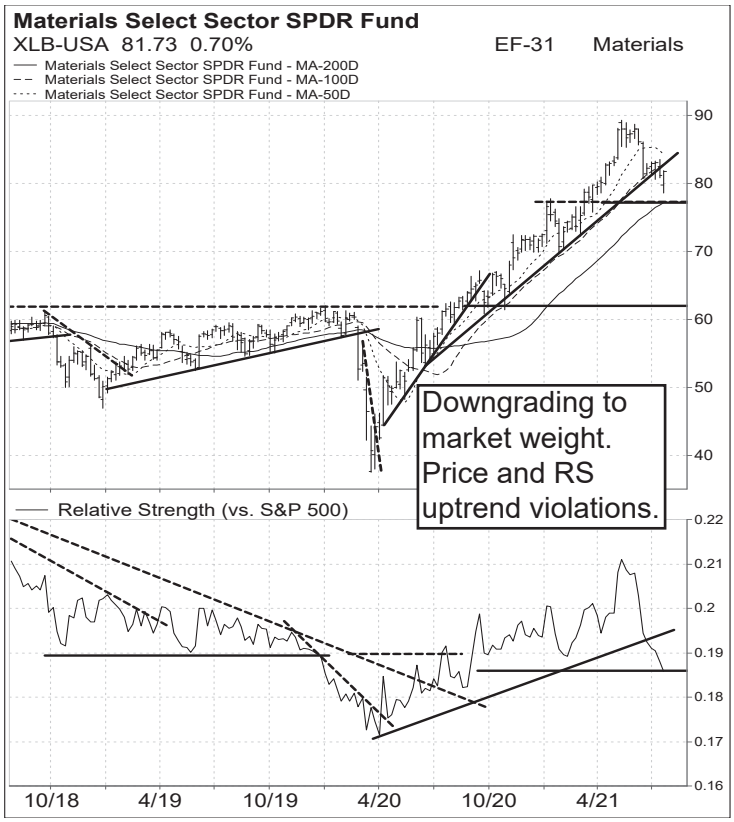
Top 10 Holdings (XLE)			
Ticker	**Weight (%)**	**Ticker**	**Weight (%)**
XOM	23.9	MPC	4.1
CVX	21.0	KMI	4.1
COP	4.7	PXD	4.0
SLB	4.4	PSX	3.8
EOG	4.3	WMB	3.7



Materials (XLB): Market Weight (downgraded today from Overweight)

- **DOWNGRADE.** We are downgrading Materials to market weight due to price and RS uptrend violations on the XLB -- reduce exposure. Critical support on the XLB is at $77-78. RS is testing key horizontal support and we would likely downgrade further to underweight on a decisive breakdown.
- Lithium stocks (ETF: **LIT**) remain leadership. Buy/stay long **ALB**.
- Additional attractive names include: **LIN and SHW.**

Top 10 Holdings (XLB)			
Ticker	**Weight (%)**	**Ticker**	**Weight (%)**
LIN	16.5	NEM	5.1
SHW	7.3	DD	4.3
APD	6.8	DOW	4.2
ECL	5.8	PPG	4.2
FCX	5.5	IFF	4.0



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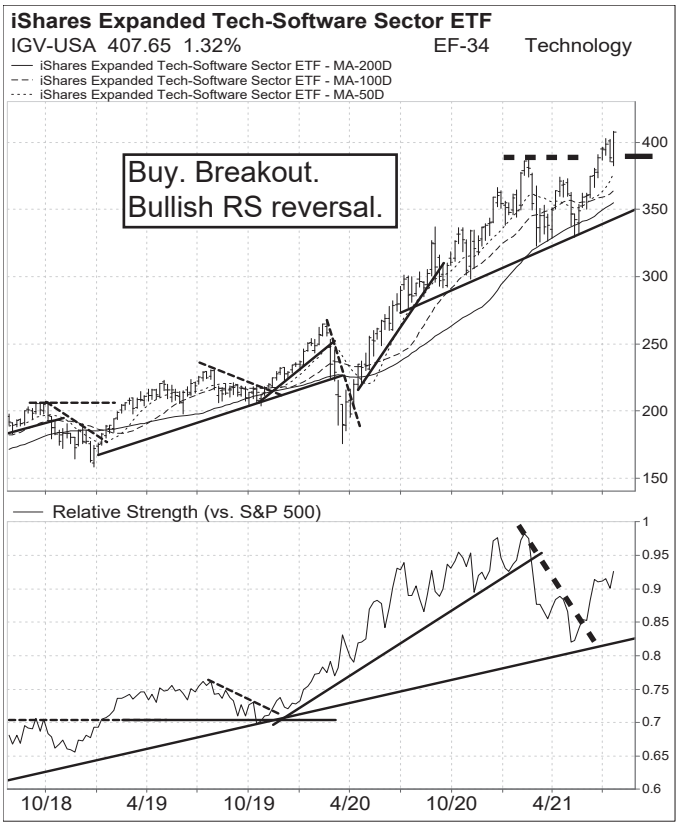
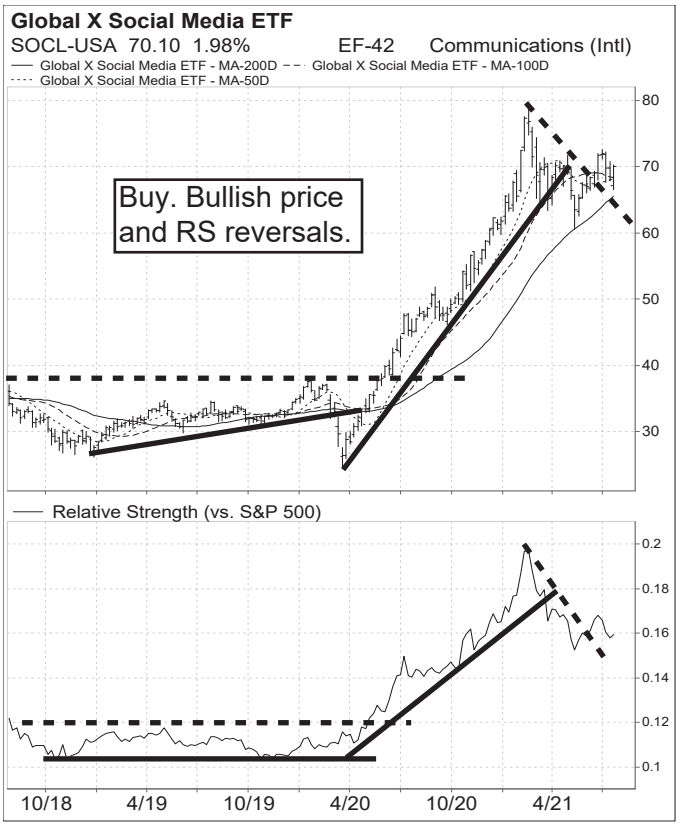
Actionable Industry ETFs

- Below we highlight industry-specific ETFs with timely technical patterns.
- Highlighted charts: IHI, IGV, FDN, and SOCL

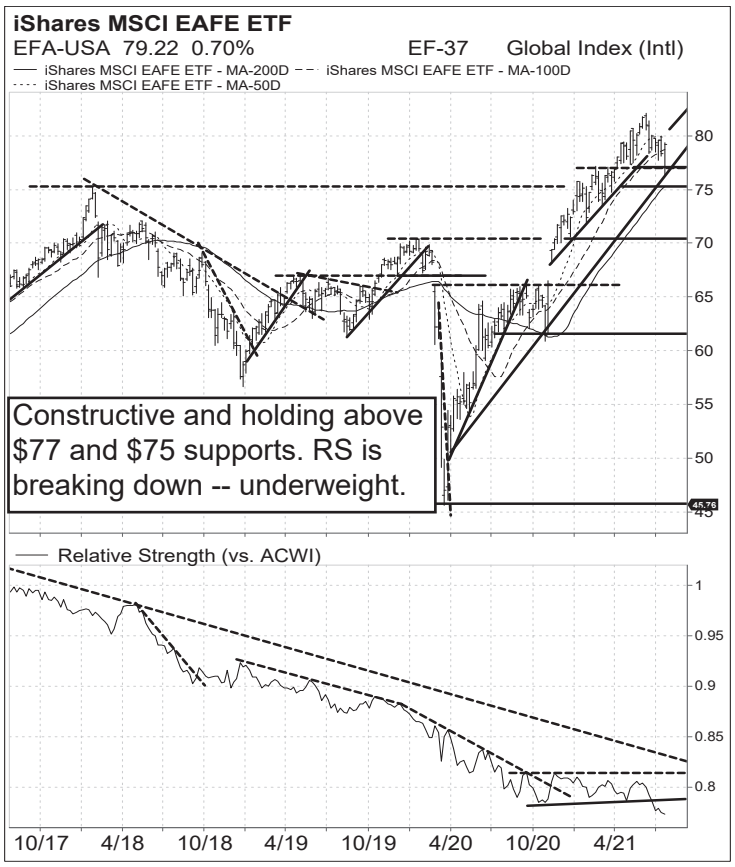




Developed Int'l Markets

Price on the MSCI EAFE (**EFA**) remains constructive as it holds above 3-year base support at $75. With that said, the short-term uptrend has been violated and this price deterioration raises concerns. Important support to watch is at $77 followed by $75; a break of $75 would be a major concern for global equities. RS is breaking to new lows and we are downgrading EAFE to underweight (vs. MSCI ACWI). Still, we do prefer EAFE over EM.

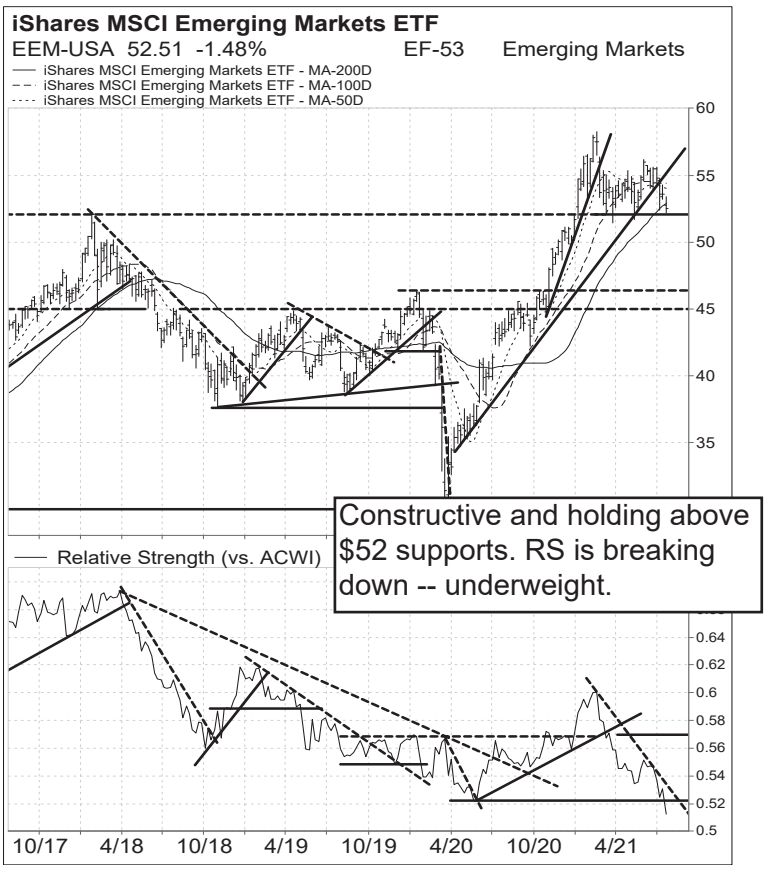
Actionable country/region-specific developed int'l charts highlighted include: Europe-hedged (**HEDJ**), Switzerland (**EWL**), Sweden (**EWD**), Denmark (**EDEN**), and Finland (**EFNL**)... *see charts on the following pages*.



Emerging Markets

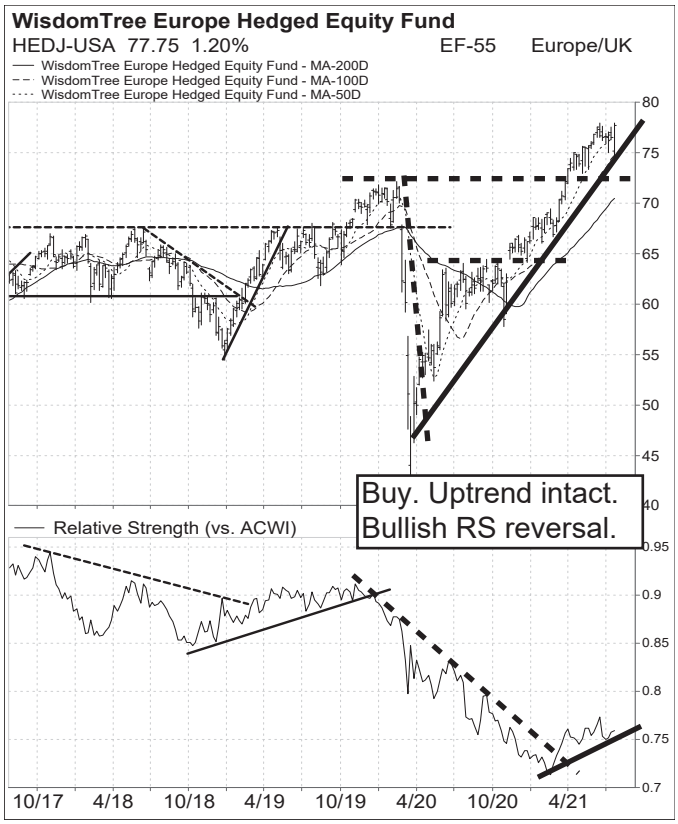
Emerging market equities (EEM) continue to hold above the critical $52 base support level, though the uptrend has been violated. As long as $52 support holds we are constructive from a price perspective. RS is breaking to new lows and we are downgrading to underweight (vs. MSCI ACWI).

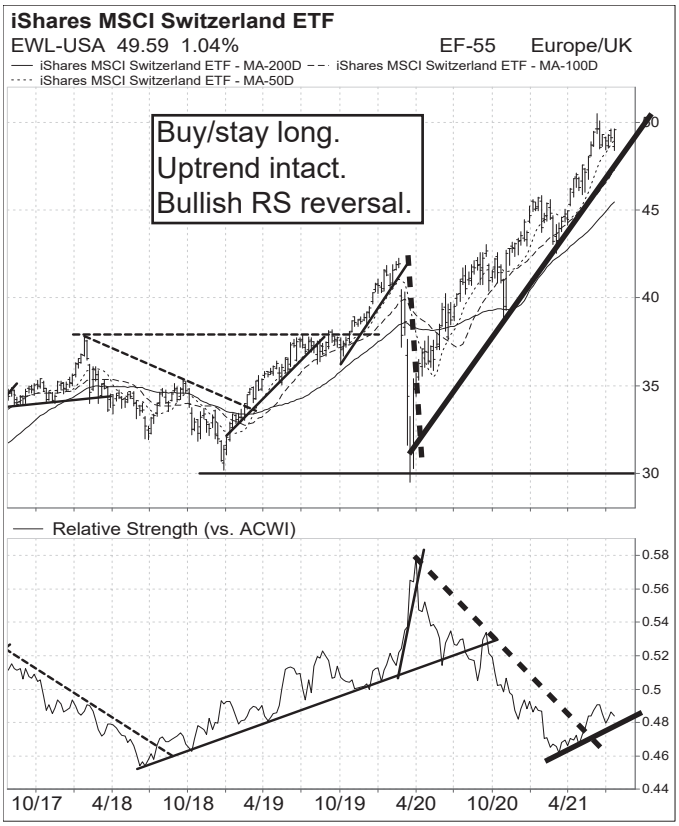
Actionable country/region-specific EM charts highlighted include: Taiwan (**EWT**), Mexico (**EWW**), and Poland (**EPOL**)... *see charts on the following pages*.

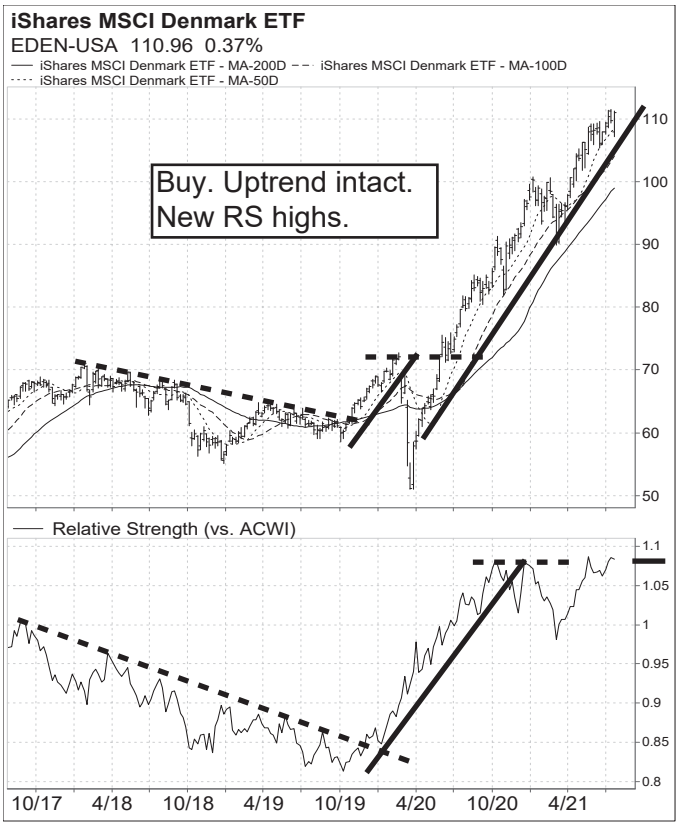


Actionable International ETFs

- Below we highlight international-focused ETFs with timely technical patterns.
- Highlighted charts: HEDJ, EWL, EWD, EDEN, EFNL, EWT, EWW, and EPOL







Actionable International ETFs

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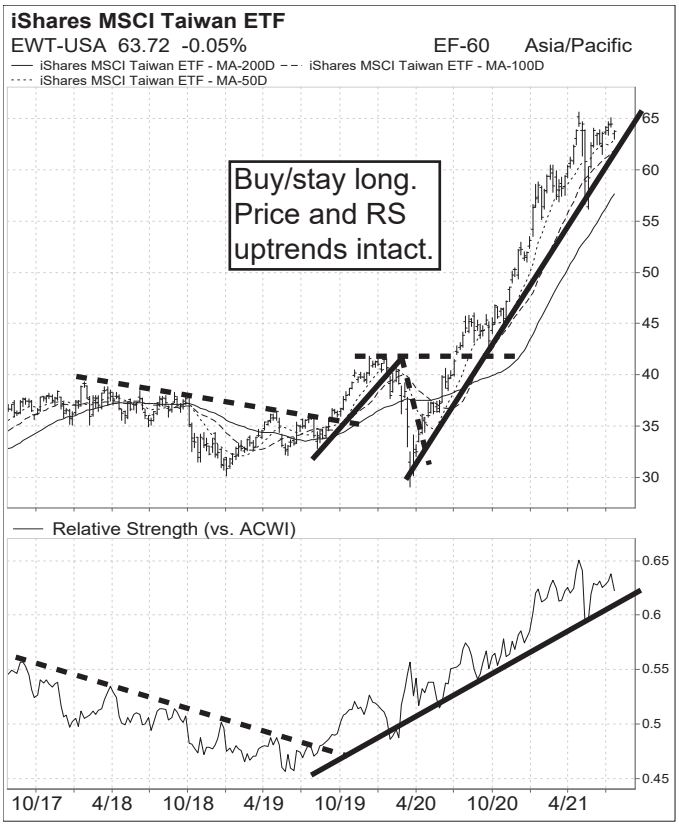

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