

## Market Notes: 11/30/13

Significant media attention focuses on the S&P 500 and Dow Jones Industrial Average. The question about whether a bubble exists is prevalent. I want to highlight a couple of observations I've been monitoring lately.

### China:

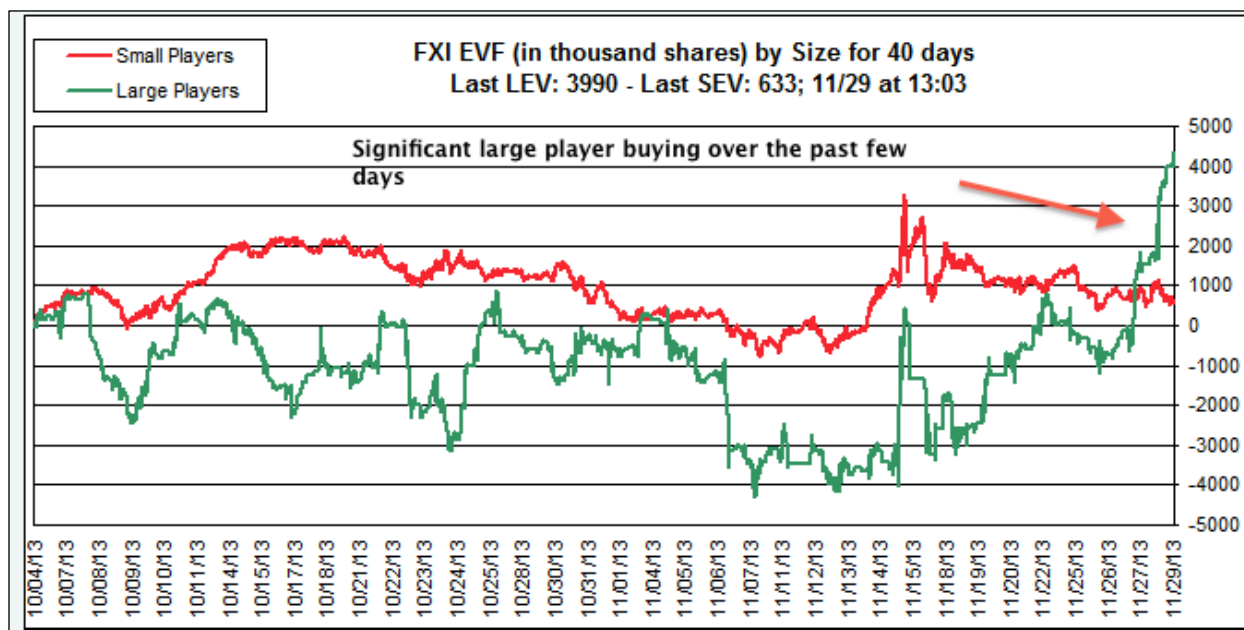
FXI peaked in late 2007 with a P/E ratio around 50<sup>1</sup>. Today, FXI trades with a P/E ratio of about 13<sup>2</sup>. Developed markets displayed relative strength to China over the past few years, but as valuations increase in domestic/developed markets, the possibility of higher-growth emerging markets competing for capital seems plausible. Late 2007 exhibited bubble-like euphoria as FXI nearly doubled in two months. The situation is markedly different today.



On November 15<sup>th</sup>, FXI powerfully moved out of a 2-month consolidation on the highest volume in the past few years. The next day witnessed further follow-through.



This strength coincided with news of various reforms coming out of the Chinese leadership<sup>34</sup> Effective volume shows the presence of large players.

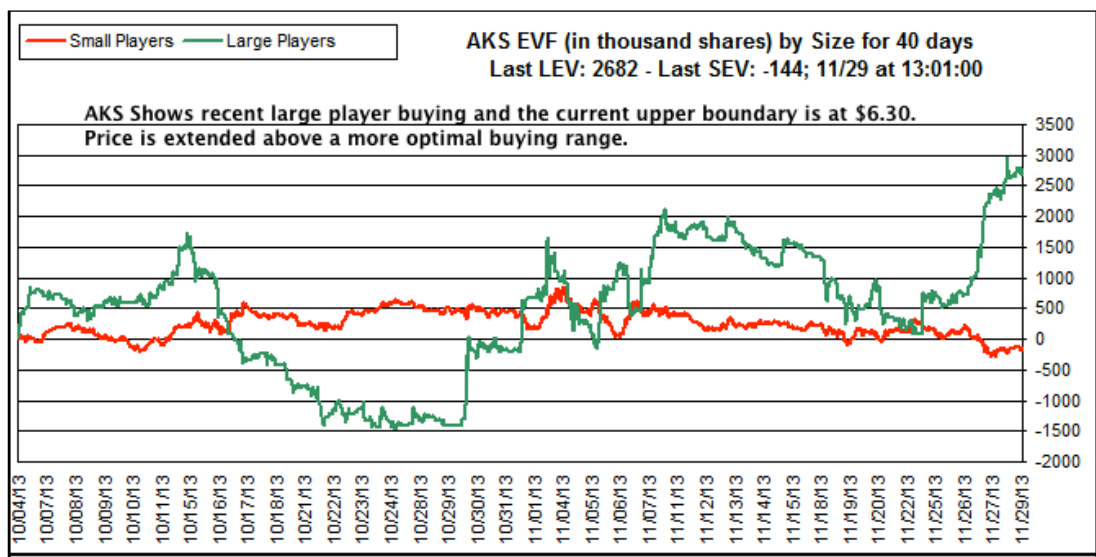


## Steel:

Courtesy of MA Delaney's weekly industry group ranking, one sees that steel producers moved from a rank of 161 to 30 since the week of September 6<sup>th</sup>. This is considerable improvement. On November 7<sup>th</sup>, AK Steel announced an increase of \$30 per ton for their flat-rolled steel products. I speculate that this is a bullish sign for the company and possibly the industry. The steel ETF SLX peaked in 2011 and endured a near 50% decline into June of 2013. SLX is now approaching a 52-week high after a bottom in June.

Over the past couple years, out-of-favor sectors such as the homebuilders in late 2011 and solar stocks in late 2012/early 2013 emerged after years of neglect. Given then strength of the market this year, any uptick in demand for large-ticket items could be a catalyst for this sector. At the very least, this group is not showing any signs of euphoria.





## Summary:

US markets have had a strong run over the past year. When looking for sectors and countries that may be beneficiaries of rotation and/or increased allocation, China and steel piqued my interest. Both are showing signs of technical and sector improvement, and fundamental catalysts exist for both to experience outperformance going forward. These catalysts include low valuation and economic reforms coming from China, and increased steel demand due to a strong market that creates an uptick in demand for end products. These are not recommendations but merely avenues for further research.

Disclosure: Long AKS

<sup>1</sup> <http://seekingalpha.com/article/85303-chinas-p-e-down-to-20>

<sup>2</sup> [http://us.ishares.com/product\\_info/fund/overview/FXI.htm?fundSearch=true&qt=FXI](http://us.ishares.com/product_info/fund/overview/FXI.htm?fundSearch=true&qt=FXI)

<sup>3</sup> <http://www.marketwatch.com/story/china-reforms-get-market-cheers-though-doubts-remain-2013-11-18>

<sup>4</sup> <http://seekingalpha.com/instablog/411663-pompano-frog/1985272-china-ready-for-a-50-move>