

Bullish strategist says don't buy yet – a 'nasty' market drop 'may be imminent'

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Rebecca Ungarino | @ungarino
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U.S. markets appear historically overbought at these levels and investors should anticipate a pullback of 4 to 7 percent in the near term, according to one top Wall Street strategist who is generally bullish on U.S. equities.

Heightened levels of investors' optimism, record low levels of implied volatility and the relatively high percentage of **S&P 500** components above their 10-, 50- and 200-day moving averages at market highs gives pause to Tony Dwyer, Canaccord Genuity's senior managing director and chief market strategist.

"So it's kind of a combination of all these things that creates an environment that's ripe for just kind of a nasty little pullback," Dwyer said Wednesday on CNBC's **"Trading Nation."**

The CBOE Volatility Index (**VIX**) fell Wednesday to its lowest level in 2 ½ years as the **Dow Jones industrial average** broke through the 20,000 milestone upon the opening bell. Meanwhile, according to a recent Investor Intelligence poll, 61 percent of newsletter writers are optimistic about stocks, which suggests "overly bullish" sentiment, the strategist wrote.

"It's just a market's that's ripe for an out of-nowhere kind of news item that talking heads like me can't predict," given the markets' overbought conditions and anticipation of a more hawkish Federal Reserve this year.

He noted that as of the Wednesday trading session, the market had not seen a correction of more than 5 percent in 146 days. That's the second-

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longest streak this cycle without that sort of correction, surpassed only by a period between February and September of 2014 (158 days).

A 5 percent drop "may be imminent," and it's upon seeing such a pullback that investors should buy, Dwyer said.

Still, once the market does bounce off of its consequent lows, that rise should be "significant," he said.

Dwyer believes the market's fundamental backdrop remains positive, and maintains his 2,340 year-end price target on the S&P 500. On a fundamental basis, he notes that earnings season looks to bring a lot of good news, and he says the economic backdrop continues to strengthen.

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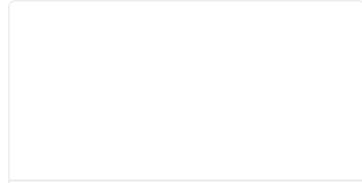
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