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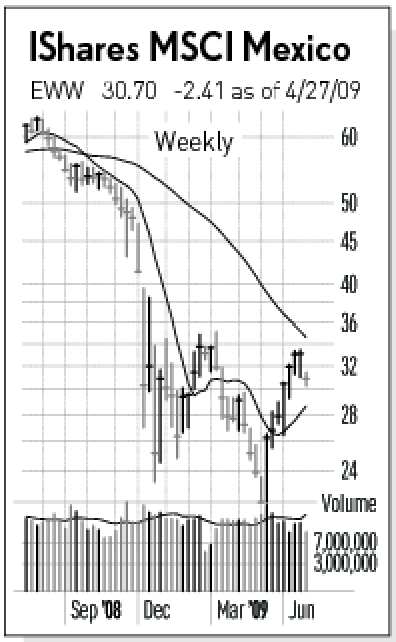
ETFs Most Sickened By Swine Flu Fears

By TRANG HO, INVESTOR'S BUSINESS DAILY
Posted 04/27/2009 06:32 PM ET



Mexico and airlines led ETFs south Monday on fears the swine flu crisis could deepen the global recession.

The worst-hit industry, as tracked by Claymore/NYSE Arca Airline (FAA), plunged 11% as the U.S. declared a public health emergency and discouraged nonessential travel to Mexico. The ETF experienced its steepest one-day dive since it started trading in late January. Volume swelled more than five times usual.

Two of the ETF's largest holdings: Delta Air Lines (DAL) and Continental Airlines (CAL) nose-dived 14% and 16%, respectively, upon hitting overhead resistance at their 40-week moving averages.

FAA rallied 68% off its low over the past seven weeks vs. 31% for the S&P 500 and was due for some profit-taking. It reversed last week after failing to break prior resistance above 22. It may be forming a handle in a V-shaped base.

The pullback offers a buying opportunity in airlines, which should continue rising through May, according to Yiorgo Aretos, founder of the TMPProject.com.

He recommended buying airlines at the end of 2008. He also expected the market overall to pull back after rising for seven weeks.

"The market is generally overbought. We have had a too-much, too-quick rise without a reasonable profit-taking," Aretos wrote in a client note. "Swine flu is a distraction — nothing more," he said.

IShares Dow Jones Transportation Index (IYT) gapped down at the open Monday and continued lower the rest of the day. It closed down 4.7% at 53.32 in above-average turnover. It was approaching resistance at its February high of 58 after climbing for seven weeks straight off of an all-time low.

"Transportation in general is under threat" because of fears of the heightened risk in transmitting the virus through shipments coming by sea or rail, said David Waddell, an investment strategist for Waddell & Associates.

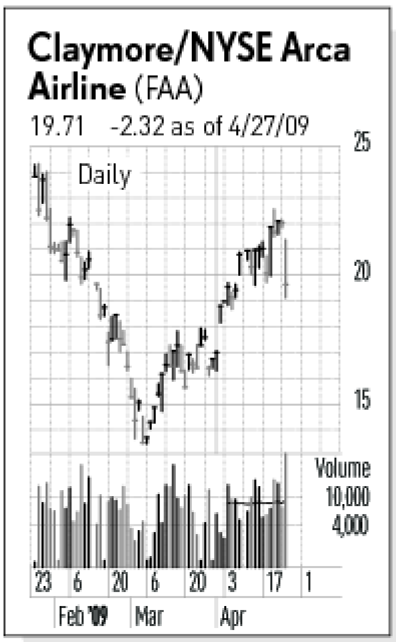
IShares MSCI Mexico Investable Market Index (EWW), which holds 49 Mexican blue chips, gapped down 7.2% to 30.70 in 2 1/2 times usual volume.

Since March 9, EWW rocketed 41% off of a five-year low of 21.52. It outperformed iShares S&P Latin America 40 Index (ILF), which rose 28%, and its benchmark, iShares MSCI Emerging Markets Index, up 31% since March 9.

Overhead Resistance

But it faced overhead resistance at its January high and 40-week moving average. It's trading 51% below its 52-week high.

UBS Investment Research downgraded Mexico from "top pick" to underweight because of its rapid climb the past seven weeks. Although swine flu is a concern, it's not the primary reason for reducing exposure, according to UBS.



"With the economy still weak and inflation stubbornly high (at 6.2%), and valuations no longer so favorable, we do not see further catalysts for upside in the market," UBS analysts wrote in an equity report.

The disruption in economic activity in Mexico City and the State of Mexico — the two most affected areas — could significantly impact second-quarter GDP growth because they account for 30% of the country's economy, according to Alfredo Coutino, senior economist for Moody's Economy.com.

The Mexican peso tumbled the most among the most commonly traded currencies and ranks as the worst performer among the 16 most-traded currencies against the dollar over the past six months.

CurrencyShares Mexican Peso Trust (FXM) tumbled 3.7% — its biggest one-day drop in five months. The ETF has rebounded 13% since hitting an all-time low March 9. But it has fallen 24% the past 12 months. Mexico's central bank sold a total of $400 million in dollars to shore up the peso.

IPath Dow Jones-AIG Livestock Total Return Sub-Index (COW), an exchange traded note tracking lean hogs and live cattle, gapped down 2.8%. It had been oscillating along its 10-week moving average for a month and trading deep below its 40-week line.