

LE COIN TECHNIQUE

Divergence NASDAQ versus S&P500: Is it a warning?

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Over the last 4 months, the daily chart of the Nasdaq versus S&P500, the Relative Strength line (green dashed line on upper panel) has been declining sharply in the last five days as shown on the chart. This is not the first time that the Relative Strength is declining, displaying the underperformance of technology stocks versus the S&P500 index. But it could well be the most pronounced divergence seen during the last 4 months, so far. As the S&P500 has clearly accelerated its rise above 2600 in a very steep rise to 2667, it will be considered a blow-off move, if the S&P500 is reversing sharply below 2600. On Friday, December 1, the S&P500 corrected 35 points within minutes and rebounded to open with a gap up 2646-2657 the next day. However, the Nasdaq100, representing the 100 largest caps, had already started a correction from 6426 toward 6300 and it managed to close at a lower low the next day.

The recent bullish acceleration of the Nasdaq100 and the S&P500 since the August's low has been fueled by the steady rise of the FAANG stocks and by the technology sector in particular. The technology sector has been one the main leading sectors in this bull market. The recent correction seen in the Nasdaq100 could be the result of a sector rotation toward the laggard sectors. But we should realize that if Nasdaq was leading on the way up, it could also be the first sector to start a well-deserved pause. Thus

Graph:
*Nasdaq and S&P500:
Daily Candles with Relative strength of NDX/SPX in green dashed line.
On lower panel daily STO & MACD display some bearish divergence.*

Source: Stockcharts.com



the outperformance of the lagging sectors, reflected in the further recent blow-off rise of the S&P500 may not last very long.

This divergence of price behaviour may lead to a pause, while not breaking the medium-term uptrend, which is fueled by the improving economy. But on the day that the news is out about a well-discounted US tax plan, I wonder if that day will mark the beginning of a great period for the stock market, even if it has been tweeted as such on that day!

My best greetings of the season and see you next year.

