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LE COIN TECHNIQUE

NASDAQ100 holds the key of the US Equity Rebound

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In January we focused on the risk of a decline in the S&P500, after a parabolic rise, stressing that one should not forget to look for a bottom leading then to higher highs. As the S&P500 had rebounded above 2742 *(Fibonacci retracement of 62% off the February decline)*, it opens a retest of the old high near 2872. The question is, of course, to find out if it will be able to make higher high. To try answering this question, we would like to focus our analysis on the NASDAQ100 Index ($NDX), which represents mostly the large caps of Technology sector.

On the upper panel, the Relative Strength of the NASDAQ100 Index ($NDX) versus the S&P500 had only a small pullback during the correction in February and is already at higher highs. Therefore, the NASDAQ100 Index ($NDX) had already risen above the 50% Fibo by mid-February and is now rising toward 7022, the former high. However, it may not break it right away as the upper Bollinger Band is flat *(7113)* and slightly descending and should cap the rise as usual after the first rebound following a sharp correction. In that case, the NASDAQ100 Index ($NDX) may pull back toward a classic support area defined during the first half of March by the daily Ichimoku Cloud near 6800, then in the second half at a much lower level near 6600. Also on the lower panel, the daily STO, already in overbought area, may display a bearish divergence confirming the risk of a pullback. Finally, the descending volatility of the CBOE NASDAQ100 Volatility Index ($VXN), currently at 18%, will probably enter into a bottoming phase near 15% as the NASDAQ100 Index ($NDX) is stalling below 7100.

So we have quite a few instruments to monitor during this current strong rebound after the February correction. In particular, the Ichimoku Cloud is a smart technique to guess where supports and resistances will be located in the near future. But we should not lose sight of the fact that the end of January was a strong parabolic move, which corrected nearly 10%. Such an event made enough technical damages to suggest that the corrective phase of the market is likely to develop either in a worst case in an A-B-C pattern, meaning a risk to revisit the spike low or in the more benign case in the likely formation of an ascending triangle, which will later in the first or second quarter lead to a resumption of the medium-term uptrend in US equities. Next month, we probably will look into the breadth of the market, looking at small- and mid-caps price behaviour to confirm *(or not)* the comeback of the bull market.

Graph:

NASDAQ100, Daily, Candles with Ichimoku cloud and VXN represented in orange dotted line behind the Nasdaq price candle.

On the upper panel is displayed the rising Relative Strength of NASDAQ100 versus SP500 in green dash line, and the daily close of the SOX – Semiconductor index.

On lower panel MACD rebounds in positive area, while the daily STO is also crossing back up, but in overbought.

Source: Stockcharts.com