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LE COIN TECHNIQUE

A Preferred Bull Path for S&P500 with an Alternate Case!

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Last month the Nasdaq100, representing the technology sector, was under review and considered critical for a possible development of the price correction into an A-B-C pattern. We planned to review the strength of the Small Caps to look at the breath of the market, sustaining a possible resumption of the bull rise.

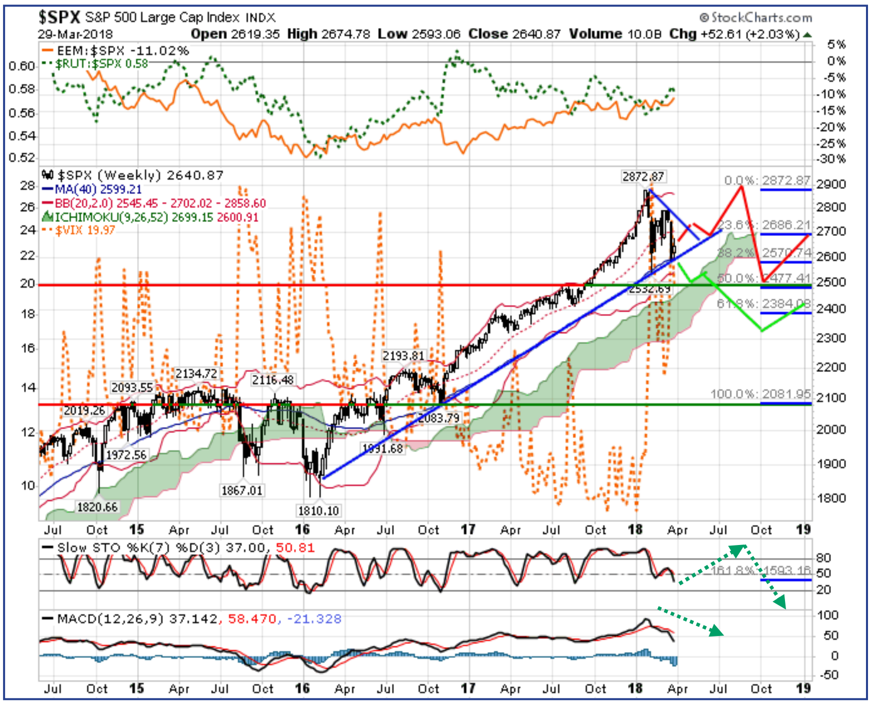
Right now we are very close to the end of the C leg of the A-B-C pattern with a low last week near 2570 *(fibo 38% of the rise 2083-2872)*, which seems to rebound on the rising trend line drawn on the log chart from the weekly second closing low near 1850 in 1Q 2016 and the low 2083 in November 2016 *(U.S. president election)*, which started the parabolic rise ending at 2872 in January 2018.

Also, on a weekly-close basis the first February low was retested in March, with a lower peak of the VIX at 25% instead of 40% for the first low. This divergence could signal the bottoming process is over. However, weekly momentums on the lower panel remained bearish while MACD is making lower highs and lows and Stochastics (sto) declining below 50%, but far from being oversold. Sometimes corrections forming an A-B-C pattern may find a bottom with weekly STO reversing up near the 50% area as a "classic wave four", opening the door for a "wave five" able at least to reach the all-time high or extending even higher.

This bullish reversal would need to happen in the first 10 days of April. What supports the bullish case, displayed in red on the chart for the rest of 2018, is the behaviour of the Small Caps' relative strength versus S&P500, which since the February low is rising nicely. Small Caps are more risky than Large Caps, hence an outperformance of the Small Caps, in green dotted line on the upper panel, is theoretically taken as a bullish sign of a widening Market Breadth. In addition, the relative strength of emerging markets ETF EEM versus the S&P500 is also rising to a higher high, which is rarely a bearish sign!

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 to higher high. The question last month was if the Nasdaq100, which represents mostly the large caps of the technology sector, was going to lead. So far, it has not made a lower close in March versus February, but its relative strength has been declining. So, the Nasdaq is not leading for a rebound yet. However risky, Small Caps and emerging markets are outperforming the S&P500, and thus this is a bullish sign not to miss. Along our preferred bullish path, which should at least retest 2872 as displayed by the red path, it will not be an easy ride as the path should also be quite surprising by breaking the weekly cloud, but only in the late summer or fall. And if our preferred case does not work as expected, follow the green path for bearish potential alternate directions.

Have a nice second quarter of fruitful investments: the question of 2018 will be "when to hedge or not to hedge".



Graph:

S&P500 in weekly candles with Ichimoku cloud and VIX represented in orange dotted line behind the S&P500 price candle.
On the upper panel is displayed the rising Relative Strength(RS) of Small Caps Russell 2000 versus S&P500 in green dash line, and the RS of emerging markets versus S&P500 in orange.
On the lower panel MACD is declining in lower highs and lows as well as the weekly STO moving below 50%, but not yet oversold.
Two potential paths for 2018: a bull in red and a bear in green.
Source: Stockcharts.com