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LE COIN TECHNIQUE

Paths for the S&P500 Fourth Quarter 2019

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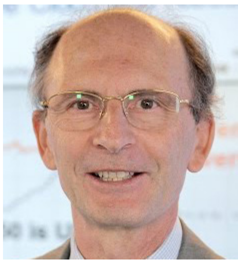

We share the view that, at the end of August, the US Equity market gave a signal confirming an important US Equity low, followed in early September by a sizeable rebound of the US 10-year yield. Intermarket analysis highlighted the possibility of starting a new "risk-on" period, characterized with a weaker yen, weaker CHF and a pullback in gold. The signal in the US Equity market was linked to a new all-time high of the advance-decline line on August 29, which represents a widening breadth in the US equity markets. Further heavy equity selling seen during the months of August was followed by strong buying in the last days of August. This suggests that the sellers were done and the buyers were coming back.

Therefore, given that breadth signal at the end of August, our former bearish Red Path outlook of July 30 became obsolete. We revised our **two paths for the coming quarter**: I favour a **Green Path**, which looks to "buy dips near 2950 in the S&P500" in the coming four weeks before a rise resumes toward the target area of 3100-3200 by year-end. Ideally, the Green Path may develop without breaking the rising support trendline joining the lows from May and August shown in dashed blue line on the S&P500 chart. Even in case of a break below 2950, "buying the dips" would also be a valid strategy along the **Red Path**, which should have limited downside risk, as we expect that path to develop as a symmetrical-triangle pattern into the first quarter of 2020. We believe this triangle should hold well above the August low near 2822 because we got that strong breadth signal.

In the charts we start to read that these "buy the dip opportunities" in US equities, just before the S&P500 is extending its uptrend with higher lows and higher highs, may come along a "risk-on" attitude based on a sector rotation linked to a further rebound of the US 10-year yield from 1.60% to 2.14% in the coming months. Indeed we envision a sector rotation out of "overbought" defensive sectors (utilities & staples) into "under-owned" value sectors like financials & industrials, joined possibly sooner than later by lagging sectors like the materials and energy sectors. During that rotation, the former "momentum or growth" sectors like technology, discretionary and communication sectors would maintain a flat or slightly declining relative strength versus the S&P500. Again, it is essential to follow the chart evolutions of all the US sectors to confirm the further development of such a rotation in the coming weeks.

__Graph:__ Chart of S&P500 in weekly candles with Ichimoku cloud and VIX represented in orange dotted line (left scale) behind the S&P500 candles. On the upper panel is displayed the US 10 year yield (black solid line), whose right scale displays the rise from 2.25% to 3.25% in November 2018 and the decline to 1.50% (weekly close) in August 2019 followed by sharp rebound to 1.90%. Also Relative Strength of Nasdaq100 versus S&P500 is shown in red dotted line, which made an all-time high in May, followed by slightly lower highs during the summer. On lower panel MACD remains about flat in positive area, but with Histo still negative, while weekly STO crossed up in late August to rise into overbought area (83%). Along the Green path Buying the dips near 2950+-10 should allow to retest 3050 to reach the upper rising trend line of the expanding triangle and to extend later toward 3100-3200 area, while remaining above the rising dashed blue support trend line drawn on the May and August lows. It is in line with minor seasonal dips in October along the expected Four year cycle in the third presidential year (2019). We prefer the Green path with a guessed 60% probability over only a 30% probability for the Red path. Along the August Breadth bullish signal, the RED path has limited downside potential and would rather follow a symmetrical triangle pattern holding above the August low near 2822. A rise toward 3050 and above would take place much later in Q1 2020. The remaining 10% is for the unforeseen case of a meltdown below 2600. Source: Stockcharts.com / Red and Green Paths are proposed by...