

LE COIN TECHNIQUE

S&P500: two paths for H1—2020

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The last four weeks, since the low at 3070 on December 3rd, have displayed a strong momentum. That momentum has not yet reached the extreme of the final four weeks preceding the January 26, 2018 top, which was a parabolic move, ending with some tears for a few weeks. The VIX is not at such a low level as in 2017 and maybe “comparaison n'est pas raison”. We believe that a S&P500 closing at 3240 on December 27 after opening at 3247 is a warning, leading to a pause in the uptrend, which may be immediately confirmed by a black candle on the following week ending January 3! Interesting were the last two down days in a row of the biotechnology index, which created a weekly bearish engulfing pattern. A third down day on December 30 (three black crows) may nail down the warning sign. “Biotech” has been a canary in the coal mine since March 2000, and since that time, any reversal of this index is watched carefully, especially after strong advances! Further sentiment measures provided

by a few good analysts are showing extreme optimism level, sometimes not seen in the last 15 years! Of course, being contrarian is much safer when pessimism is high in the equity asset class, and price momentum begets more momentum due to FOMO and the rotation from growth into value and even an expected reflation trade may go on for at least another six months and rising US rates will force investors into equity and so on...

Well, let's recall one thing after a Santa Claus rally: 2020 is the fourth year of the four-year presidential cycle that has a historic positive bias, but much less than the year in zero of the decennial statistics! Thus, we invite you to look at the chart and notice that we prefer the Green path with a guessed 60% probability over only a 30% probability for the Red path. Recall, along with the August 2019 breadth bullish signal, the bearish Red path should not be our favored case. The remaining 10% is for an unforeseen case of a melt-up ‘à la 2017’ in the next four weeks toward 3434, which is by definition a parabolic move quasi impossible to forecast in advance! Best wishes for 2020.

Graph: Chart of S&P500 since July 2017 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 decline from 3.25% in November 2018 to 1.50% a potential major low (weekly close) in August 2019 followed by a sharp rebound to 1.90% and a five month ascending triangle range with resistance around 1.90%. Recent failure to break 1.90 for the third time may allow a minor pullback toward 1.75 previous low again. **Relative Strength (RS) of Nasdaq100 versus S&P500** is shown in red rising dotted line within a wide rising red channel. Note a blue line, joining the highs of the RS in August 2018 and April 2019, may cap further progression of the RS of Nasdaq100, assuming the RS line stops rising in coming weeks, possibly along a recently weakening Biotechnology sector. **On lower panel, MACD** is rising strongly, reaching 80, a similar level as about 3 weeks before the 2018's parabolic top (MACD reached even 92 on January 26 top). Weekly STO remains overbought and flat at 94 (much less than the 99.71 at the same top on January 26). The S&P500 closed weekly on December 27 at 3240, just below its rising upper Bollinger Band (3255 + 30/wk). In mid-December 2017, the S&P500 also closed below its rising B-band four weeks before accelerating from 2700 to the top 2872 in a parabolic rise, closing four weeks in a row above its rising B-band. Will the S&P500 replay a similar 6% from 3240 to 3434 in the next four week? Rising VIX in the last two week of December while S&P500 rose to higher highs suggests otherwise. Along our Green path, a top near 3240 could be imminent leading to a correction toward 3100. Only later, in early Q2 2020, may the blue target of the blue triangle of 2019 be reached toward 3355. Meanwhile, a period of horizontal trading range may develop between 3250 and 3100. Key will be the price action near 3100, as a break of it would allow a Red Path to generate an even more volatile scenario reaching the rising dashed blue support trend line drawn through the December 2018 low.

Source: Stockcharts.com / Red and Green Paths are proposed by...



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