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Paths for the S&P500… after an earthquake

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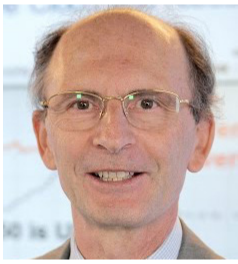

Last month we wrote, *"We should remember that a US$ Index nearing the top of its trading range has the potential to decline and help the S&P500 to rebound in case of a severe correction as the devaluation of a currency has often been, in the past, a last resort policy tool, when 'Risk Off' sentiment has become too widespread."* Well, we recommend reviewing this chart of the US$ Index and monitor the beginning of a decline from near 99!

If we do not have a declining US$ Index, then we may have to envision bearish developments for the S&P500 in the coming months, despite the very high level reached by VIX (above 40%), which has come along very extreme selling volume on the downside at the end of February.

Last week's down candle is a monster reversal week breaking in a week the MA 40-wk (3061) with a huge open gap 3324-3260, which may take a long time to be filled as the saying goes *"The bigger the drop, the longer the time to repair"*. The weekly momentum measures, either STO or MACD, are not in an oversold area yet and rebounds in the coming days may not be so strong. This would contribute to increasing the bearishness at the beginning of March and could produce a red path as displayed on the chart.

It is unclear to me that all medium-term asset managers have already decided to change their allocation and dump equities. I feel that only the hedge fund and trader communities have acted so far, including some algorithmic, systematic, automatic hedging programs reacting at each additional 5% decline. But, now the decisions are due from all the investment committees who claim to master the long term and to act accordingly ... and here something may hit the Fan!

Let's hope a declining US$ Index may help mitigate this bearish outlook.

Graph:

Chart of S&P500 since July 2017 in weekly candles with an 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 a new all-time low at 1.12%* ***as a flight to bond safety. Relative Strength (RS) of Nasdaq100 versus S&P500*** *is shown in the red rising dotted line still rising.* ***On the lower panel****, MACD has just crossed down below 85, its signal line, while weekly STO re-crossed down below 71% ... very far from Oversold! The S&P500 closed at 2954 just above the upper weekly cloud and just above the lower B band (2944), which is no guarantee for a serious rebound at this stage of the decline! Note* ***the blue horizontal former resistance line of the blue triangle, which by the way, had reached its target in February near 3350. Indeed, this line may act as a delimiting line in the sand for the green and red path in the coming weeks. But note that I am not optimistic and consider the green path may develop only after the end of April.*** *Meanwhile, in the short term for the next 3 weeks, I have little ideas on how the volatility and the price pattern will develop. I just show what I think could match the current sentiment degradation.*

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