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New Paths for a Rebound of the S&P500 in Q2

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For the coming quarter, many would like to know how the initial rebound from March 23 is going to take shape. Tom McClellan, a seasoned technical analyst, uses the concept of a rogue sea wave to forecast a strong initial rebound after a large decline, followed by waves of smaller amplitude (not far for 62% of adjacent waves). This approach tends to exclude a full retest of the March 23 low on the next decline, once this initial rebound is over. It also argues for more oscillations around a middle zone located between 2900 and 3000 for the S&P500.

Currently, the rebound of the S&P500 has come along classic bullish signs due to strong Breadth of the market and despite the lagging contribution of small caps, whose Relative Strength line versus S&P500 (green dotted line on upper panel) is taking time to build a base after a strong downtrend. Most of the rebound in the past month result from the outperformance of Nasdaq100 versus S&P500, whose line (red dotted line) is now pausing after reaching a higher high last month. The former leaders of technology and the FAANG are still the leaders during this rebound and have been joined by the healthcare sector. The downtrend of the Relative Strength of emerging markets (EEM ETF) versus S&P500 makes clear that there is little hope outside of the US equity market. To make things worse, we all know that the period from May to October is the tough seasonal period for US Equity with usually some turbulence in late summer. Therefore, expecting a wide sideways price action for the coming months should be a good bet.

Right now the weekly STO (lower panel) is only entering an overbought area, thus a minor top could take a few weeks to take place in the bullish case (Green Path) or could occur right now along with a more pessimistic view (Red Path). The weekly cloud is also of interest in forecasting potential paths as the cloud represents a moving equilibrium area between the top of the S&P500 at 3393 and its bottom at 2191 on March 23. Therefore, our paths use the upper and lower lines of the cloud to envision potential resistances and support areas for the coming quarters. These paths diverge from the previous Green Path targeting 3100 in May, because the volatility may decline more strongly than expected and lead to smaller amplitudes of coming swings during the second and third quarter.

Graph:

__Chart of S&P500__ since April 2019 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 in green dotted line the RS of Small caps versus S&P500, which are trying to bottom out, the RS of Emerging market ETF (EEM) versus S&P500 (in orange solid), which is still in a downtrend and the Relative Strength (RS) of Nasdaq100 versus S&P500 (red dotted) whose uptrend is pausing. __On lower panel__, MACD is still negative, but will have its histogram turn positive in a few weeks. Meanwhile, the weekly STO rose back above 80%, entering overbought area. The S&P500 is closing near the upper part of the cloud near 2920-2940, which is at the same time the 62% Fibo of the whole decline. The MA-40wk is just above 3010, a pivotal level, a strong resistance, that once broken becomes a strong support. The cloud line (2700-2750) is also a potential support line.

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

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