THE IFA's Wealth Gram

LA TRIBUNE MENSUELLE DES MEMBRES DU GSCGI
wealthgram@gscgi.ch • www.gscgi.ch
Vol. IX - N° 100 - Octobre 2020

LE COIN TECHNIQUE

Seasonal Strength from October to April for S&P500

...article by Bruno Estier Strategic Technicals – http://bruno.estier.net/ – bruno.estier@bluewin.ch

Last month we warned about seasonal weakness during September for the Nasdaq100. Now we would like to remind you that the October–April period is historically bullish for US equities.

The pullback of the S&P500 from 3588 toward 3200 resulted from profit-taking in some key stocks of the technology sector, which was much overbought at the end of August. The pullback counted four down weeks and may have ended near the former resistance area of June as the weekly STO entered the oversold area. The rebound above 3300 is possibly following the green path and should display higher lows above 3200 and sometimes a higher high above 3430. However, the upside is going to be limited until year end by the flat weekly Bollinger Band near 3535 and by the crossing down of the MACD in mid-September, calling for a much slower momentum than the one seen since April. Indeed, on the upper panel, the Relative Strength of the Nasdaq100 versus S&P500 is going sideways, and perhaps technology may not outperform as much as it did earlier in 2020. Further, the Relative Strength of small caps versus the S&P500 is still in a downtrend and will need to establish an uptrend for a while to confirm a broadening breadth, which is needed to confirm a sustainable bull market. On a global basis, as can be seen by the slightly declining Relative Strength line of emerging markets versus S&P500, there is not a lot of support to count on.

Therefore, our best guess is to project a green path with a potential higher low in mid-October and subsequent higher highs remaining below the flat weekly upper Bollinger Band until year-end. Such a scenario is indeed very much in line with the seasonal bullish tendency for US equities between October and April, but it also takes into account longer-term cycles (decennial cycle), which still suggest lower returns for years ending in zero or one. Finally, the level of volatility as measured by the VIX is going to drift down as soon as the VIX can break below 25% again, but it is still unclear if VIX will be able to decline on a sustained basis below 20%. With such an outlook, it is clear that Sector Rotation will be a key factor to benefit from this subdued coming bull market. However, in the coming weeks, we need more data to identify if technology will regain its leadership or if cyclicals and industrials, which performed well during the September correction, will maintain their outperformance. This time: SELLERS BEWARE.

Graph:

Chart of the S&P500 is represented on an arithmetic scale since June 2019 in weekly candles with an Ichimoku cloud. ***On the upper panel the Relative Strength (RS) (green dotted line) of small caps versus S&P500, which made a lower low in September****, the RS of Nasdaq100 versus S&P500 (****in red dotted line****), which is rebounding, and the RS of emerging equities versus S&P500 (in orange solid line), which is ranging almost flat for 4 months.*
On the lower panel*, MACD has crossed down in mid-September, reflecting the seasonal correction and the weekly STO has reached an oversold area, where it is soon crossing up, indicating that the phase of the correction will be soon over, if not already.*
The S&P500 has rebounded on the 20-wk moving average (near 3200) while the weekly STO was in an oversold area. Note the 3200 area, as a former resistance, and thus should be acting as support. The flat weekly Bollinger Bands suggest some sideways range with a small bull bias along the green path. The red path is an alternate scenario with a much lower likelihood, which may be confirmed once it breaks the about flat 40-wk MA near 3105. Note that the weekly cloud is not helpful short term as it is much lower near 2800. Also, the VIX (orange dotted line) is expected to follow a downdrift once below 25%.

Source: *Stockcharts.com*
Supports line & parameters are provided by...

This information is being provided to you solely for your information, as an example of theoretical technical analysis and coaching. It does not constitute a recommendation to purchase or sell any security. Neither this document and its contents, nor any copy of it, may be altered in any way. This document is not directed to, or intended for distribution to, or use by any person or entity of any jurisdiction where such distribution, publication or use would be unlawful.