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Not a Major Top for the Nasdaq100

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As the US equity market has been undergoing a correction for the last three weeks. And as last month, we mentioned that October to April is the seasonally bullish period, a review of the leading sector of the US markets – the Nasdaq100 – is necessary to evaluate the strength of its uptrend.

The Relative Strength (RS) of the Nasdaq100 versus the S&P500 (dotted green line on the upper panel) has been stalled below its July top taking the form of a rising triangle and currently, its level is well above the low made in early September though having flattened recently. But, it is still in an uptrend as the chart does not display a lower low. Therefore, it is likely that the technology sector mainly represented within the Nasdaq100 – is still a leading sector for the US equity markets.

The bullishness is not limited to a few large technology stocks as we note that the Relative Strength of Small Caps versus S&P500 (black line on upper panel) has been bottoming and has been rising since mid-September, which is a classic bullish sign of a widening breadth. Thus the last 3-week pullback of the Nasdaq100 is more likely a pause in the Bull market rather than the beginning of a Bear market. This pullback relieves an overbought situation, which was highlighted by its rise since May between the first & second Bollinger Bands, and by a spike in late August and a retest in October of the second upper Band.

The Nasdaq100 is pulling back for the second time, and its weekly close on the last day of October toward the 20-wk moving average (the center dotted line) is rising fear that a 10% selloff would extend toward the 40-wk moving average (9931). The fear can be noted on the VXN (orange dotted line on the upper panel) reaching the previous spike high of September near 41.30%.

However, it is key to remember that volatility above 40% for VXN is rare and often signals a nearby low on the underlying equity index! So it may well be time to be contrarian and not to panic along with the classic price momentum indicators, like STOCHASTICS or MACD on the lower panel which is crossing down. Of course, the Nasdaq100 needs to display a reversal up in the coming weeks to avoid breaking below the previous low (10677), ideally holding above 10900 – the rising former resistance trend line dating of October 2018. Such a rebound in price will validate the ranging pattern between 12430 and 10700, which will open the door later for higher prices toward 14000. So trend-followers beware!

__Graph:__

Chart of the NDX100 is represented on a log scale since September 2018, in weekly candles with Ichimoku cloud.

***On the upper panel is displayed in green dotted line the Relative Strength (RS) of Nasdaq100 versus S&P500** (displayed in green dotted line) **is ranging flat.** The RS of small caps versus S&P500 (black solid line) has been rebounding since mid-September. The volatility of Nasdaq100 VXN (orange dotted line) just closed in October near its previous high, expressing extreme bearishness short term.*

***On lower panel**, MACD crossed down in mid-September and keeps declining, though still positive, means the medium-term uptrend is still intact but just pausing. Recent crossing down of STO near 50% line is a classic occurrence during a range and is not systematically a sell signal.*

For the second time, the Nasdaq100 is testing the 20-wk MA but may rebound on the former rising resistance trend line (dotted blue line) from October 2018. Only a weekly close below 10677 would call the risk for a further decline toward the rising 40-week MA (9931).

Source: Stockcharts.com