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Possible Outlooks from February to July for S&P500

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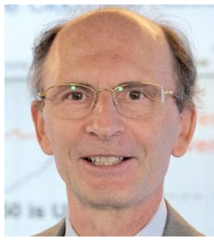
While the first week in January was up, the S&P500 ended the month down. Together with the decennial cycle suggesting that a year ending in 1 often displays weaker return than average; it would seem that the market is facing a bearish omen. However, because the bottom of the October breadth of the market, and the outperformance of small versus large caps, maintains a bullish outlook and does not yet warn of an imminent major top in US Equities.

While the correction in the last week of January was rather sharp, the elements to call a major top are not present. However, as displayed on the upper panel of the chart, it is likely the current uptrend of the relative strength of small caps may extend in the coming months. The rotation style from "Growth to Value" may show up with a relative strength of the NASDAQ versus S&P500 becoming toppy and finally starting to underperform the S&P500. Indeed, the major typical "Growth" stocks are within the NASDAQ and the technology sector in particular.

Therefore, our Green path envisions a range of 3690-3870 developing along a triangle pattern during February and March, followed by a resumption of the uptrend toward 4000-4100 to be reached between April and May. Thereafter, a sideways consolidation between 4100-3800 would follow. On the chart, our Red path would be a scenario in case the S&P500 breaks below 3600 in early February. However, we view this Red path as very unlikely, as it would make the January top a major top against the current evolution of the breadth of the US market.



Therefore, it is likely that the VIX (orange dotted line) is already at a very high level near 33%, and it should pull back within the wide range of 40-20% as the market would develop a triangle pattern in February-March.

With such an outlook, it is clear that sector rotation will be a key factor to benefit from this coming bull market. The timing of the relative strength analysis of the new leading sectors will remain a key factor to assure any great performance during 2021.

Graph:

Chart of the S&P500 is represented on a logarithmic scale since September 2019 in weekly candles with Ichimoku cloud going forward into July 2021. ***On the upper panel is displayed*** *in green dotted line* ***the rising Relative Strength (RS) of small caps versus S&P500, which is expected to extend its upward rise into Q2 of 2021****, the RS of Nasdaq100 versus S&P500 (in red dotted line), which is soon going to switch from uptrend to downtrend and the RS of Emerging Equity versus S&P500 (in orange solid line), which was rising slowly, but is flattening in 2021.*
On the lower panel*, MACD could be crossing down soon, reflecting the seasonal correction during the month of February and the weekly STO, leaving the overbought area after crossing down clearly at the end of January.*
The S&P500 displays a weekly reversal at the end of January but has to break 3600 to suggest a break of its rising weekly 20-wk Moving Average (near 3580). Failing to break 3700 would suggest a raging triangular pattern until mid-March.
The rising weekly Bollinger Bands could flatten in coming weeks, suggesting some sideways range with a small bull bias along the Green path. The Red path is an alternate scenario in case of a break of 3600 but does not fit with the rising Relative Strength of small caps versus S&P500. Note that the weekly cloud is not helpful in February as it rises from 3000 to 3100. Also, the orange dotted line VIX is expected to remain in a wide range of 35-20% with a bearish bias for the green path and with a bull bias for the Red path.
Source: Stockcharts.com