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Seasonal Weakness in the Coming Months for the S&P500

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In October 2020, our analysis focused on the seasonal strength for the S&P500 from October-May. This strength is extending into July, though at a slightly lower rate of ascent. The question is if this rise might extend without a 5% correction into late August, like last year. Since mid-May, the relative strength of the NASDAQ versus the S&P500 (shown on the upper panel - red dotted line) is rebounding. Indeed, currently, a small number of Large Caps, especially in the Technology sector, are contributing to this outperformance. However, Small Caps have a tough time on a relative strength basis (declining green dotted line on upper panel) versus the S&P500, and this divergence has lasted for the last four months. This lack of breadth of the market could become a warning sign for the future. Also, on an international basis, despite good news on the economic front, in particular thanks to higher inflation, the relative strength of Emerging markets versus the S&P500 (orange line) has been declining since March, even recently accelerating down. Thus, we expect both the relative strength of Emerging markets and Small Caps to extend their decline into mid-October and the relative strength of the NASDAQ versus the S&P500 to reach a top near its former high of March 2021 and start a slow decline lasting into September, along the direction of the arrows displayed on the upper panel. The momentum of the S&P500 (represented on the lower panel by the MACD) has been positive for the past 12 months and thus reflects the recent uptrend. However, since May, the MACD has been slowing down and making a lower high in a very slow and subtle way. This recent re-crossing down signals a slower momentum and would help to initiate a correction when a weekly close might occur below 4200. In that case, the VIX (orange dotted line), also represented behind the S&P500 candle should initiate a progression of higher lows and higher highs. A rise above 20% would signal a break in the descending trendline, joining its highs and confirming the correction phase. We envision two future outlooks: the Green Path allows a rebound near 4150 and a retest of the previous highs near the end of August, then a decline to 3800 near the weekly Cloud. The Red Path would be rather unusual as the decline would extend below 4150 in the summer and reach a final low in October near 3600 - the 38% Fibonacci level of the rise 2190-4393. In both cases, we expect the S&P500 to rebound later along with the October-May seasonality. Meanwhile, Buyers Beware.

Chart of the S&P500 is represented on an arithmetic scale since December 2019 in weekly candles with Ichimoku Cloud. ***On the upper panel is displayed*** *in the green dotted line* ***of the Relative Strength (RS) of Small Caps versus S&P500, which has been declining since mid-March.*** *The RS of the 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 has been declining since February 2021.* ***On the lower panel,*** *positive MACD has crossed down again in July, displaying a bearish divergence since May, reflecting a less steep ascent, while the weekly STO remains in an overbought area, where it has recently crossed down signaling a potential correction phase to come.*
The S&P500 has spent 9 months above its 20-week Moving Average (now near 4182) while the weekly Bollinger Bands are narrowing and its upper Band (4443) is flattening and should represent a strong resistance. The sharp sell-off on Monday, July 19 may mark the start of a correction phase lasting until October.
Source of data: Stockcharts.com.