

SEASONAL STRENGTH WITH AN OVERBOUGHT S&P500

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In August, we discussed the possible weakness in the September-October period. Indeed, September saw a pullback, but in early October, a rebound took place along normal seasonality.

The pullback was rather modest, and the rebound is so strong that it leaves the S&P500 in an overbought status. Despite being driven again by the outperformance of Growth over Value and by an emerging widening of Breadth as Relative Strength of small caps (green dashed line on upper panel), is starting to rebound. Further, since mid-October, the Relative Strength of the Nasdaq100 versus the S&P500 (red dashed line on upper panel) is starting to rise - again signalling an outperformance of Growth over Value. This is usually a bullish sign for equities and happens right at the start of the strong bullish seasonal period from mid-October to May.

The momentum of the S&P500 is represented on the lower panel by the MACD, which has been positive for 12 months and is crossing up again in November, confirming an uptrend. On the other side, the weekly STO declined in September but did not reach the oversold area below 20%, as it was able to turn up again near the 50% area. It is now at 97% - well into the overbought area - without displaying any bearish divergence. This suggests that the rise of the S&P500 could extend further. However, it will have to make a pullback some time as the behaviour of the momentum oscillators suggest that September was only a possible Wave Four, preceding a Wave Five which may extend toward 4810, based on the width of the previous correction from 4545 to 4278! Thus the Bears have to beware at least until year-end.

Chart of the S&P500 is represented on a log scale since May 2020 in weekly candles with an Ichimoku Cloud and Bollinger Bands.

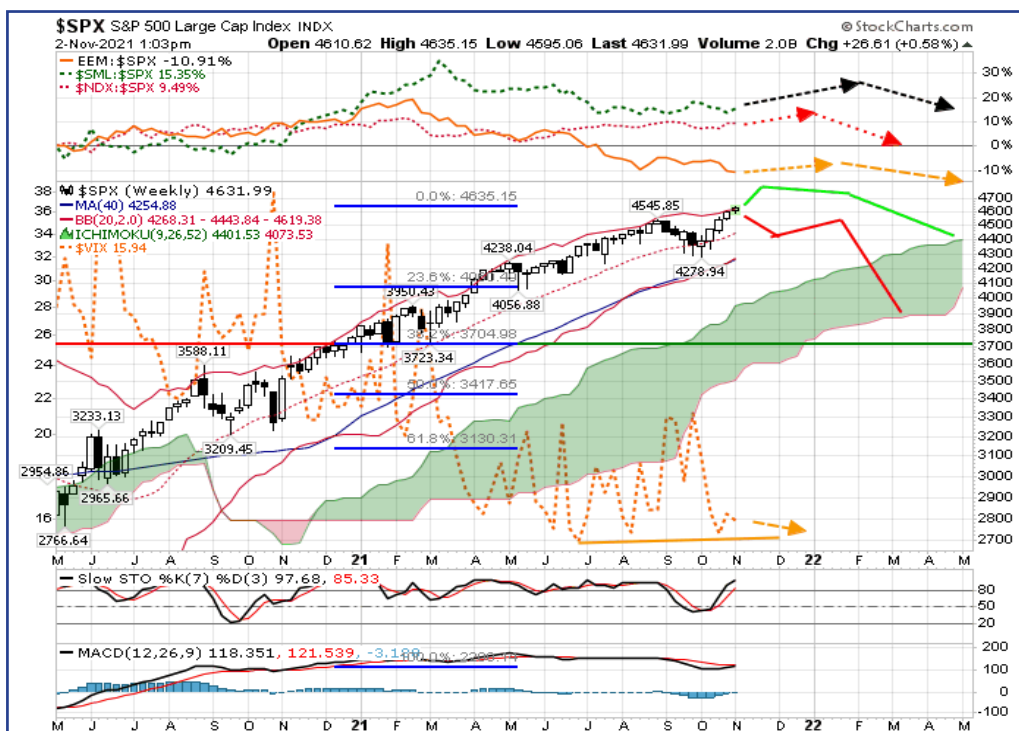
On the upper panel is the Relative Strength (RS) of small caps versus the S&P500 (green dashed line), which is just rebounding in November. Since mid-October, the RS of the Nasdaq100 versus the S&P500 (red dashed line) has been rebounding. Since February 2021, the RS of the Emerging Equities versus the S&P500 (solid orange line) is still in a downtrend.

On the lower panel, a positive MACD has crossed up again in the first week of November while the weekly STO is rising into an overbought area, having turned up near the 50% area in September. So far, no bearish divergence is yet displayed.

The S&P500 is again challenging its upper rising B-Band (4619), leaving unclear how long and how far it can extend. Seasonally, there is clearly a strong tailwind until the end of 2021.

Source of data:
Stockcharts.com.

Supports line & parameters are provided by BEST.



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