

S&P500: A LOW OF THE FOUR-YEAR CYCLE IS EXPECTED IN 2022

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At the end of the first quarter of 2022, there are many signs that the correction, starting in January and followed by a rebound in March, is not over. Currently, the breadth of the market is not expanding along with the still-declining relative strength of small caps versus S&P500. The rotation from Growth toward Value is just displaying a minor rebound of Growth and the Financial sector is not responding positively to the rising US 10-year yield, which recently reached 2.5%. There is even talk of the risk of a recession in the USA, along with the inversion of the US yield curve. Finally, the market analysts remind us that the mid-term election year in 2022 is often characterized by the low of the US equity 4-year cycle, which has often been a correction of more than 10% in the past.

Indeed, it can be seen on our chart that neither the Red path nor the Green path is seen at a new all-time high during the next two quarters. The Green path is even seen as having reached a serious resistance near 4650

which, in the most favorable case, could be seen again during the summer, after a pullback takes place soon and later in May. Then a final low is expected toward 4100 during the late summer from mid-August to mid-October, which would qualify as the four-year cycle low. The Red path is rather more dramatic as it envisions a decline below 4100 in the second quarter, followed by some rebounds in the summer and a final low toward 3600 in the fall. We are not giving much weight to the weekly momentum indicators: the weekly STO is reaching 80% and will soon be fully overbought. The MACD is just crossing up near the zero level and could easily turn back below zero if the recent weekly spike near 4650 is confirmed in the coming weeks as a strong resistance. Clearly, the VIX (orange dotted line behind the S&P500) is displaying rising lows and rising highs since October 2021, which means that 2022 should continue to be characterized by relatively strong volatility. Once again we have to end by saying: Buyers Beware, as 2022 is not going to be a year to BUY and HOLD.

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

On the upper panel is displayed in green dotted line the Relative Strength (RS) of Small Caps versus S&P500, which declined a tad in March 2022, the RS of the Nasdaq100 versus S&P500 (red dotted line), which is rebounding slightly after a long decline and the RS of Emerging Equities versus S&P500 (orange solid line), which has also recently bottomed.

On the lower panel, positive MACD is close to zero, about to cross up, and STO is rising since March 2022, soon becoming overbought above 80%. The S&P500 rebound may be close to a resistance level and could pull back in April if it keeps stalling below 4625. The S&P500 has rebounded above its flat 40-wk MA (4497) but has left a spike high near 4637, possibly signalling the start of a pullback toward the Cloud (4350).

Source of data: Stockcharts.com.



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