S&P500: 2022 Should Still Display the Low of the Four-Year Cycle Later

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At the end of May 2022, the rotation from Growth toward Value and the rising 10-year US Treasury yield (up to 3.17%), has evolved into a Bear market as the S&P500 has declined well below 4100 toward 3810, but has not yet reached the 3600 target envisioned for the autumn of 2022. Indeed, as seen on the upper panel, the Relative Strength of the Nasdaq versus the S&P500 (red dotted line) has kept declining during April and May as large-cap technology stocks broke major supports. However, small caps declined less as shown by the bottoming Relative Strength line (green dotted line). The flat Relative Strength line of emerging markets (orange solid line) versus the S&P500 during April, and slightly rebounding during May, suggests that the correction has been global and that US large caps were probably the last ones to decline. The steep decline of the S&P500 and the rise of the VIX (orange dotted line) to higher highs near 33% in April versus February have moved the weekly momentum indicators (lower panel) to oversold levels. The MACD is reaching negative levels as low as during the Covid crisis of March 2020. The STO reached an oversold area but has also recently crossed up as it displays some bullish divergences. This should mean that, after the spike at 3810, a rebound is likely underway during the last days of May. The duration of the rebound will depend on the ability of the markets to rise in a sustainable fashion above the pivotal area of 4100. This is why we have drawn the diverging Green and Red paths from that level, either toward 4300-4400 for the Green path or back to marginally break the recent low near 3700 for the Red path. Therefore, a rebound of the S&P500 in the coming days should not mark the end of the Bear market. As the market analysts remind us, a mid-term election year is often characterized by the low of the US equity four-year cycle during the late summer or the early autumn. The Green path suggests a retest of the 3800 low after a rise toward 4300-4400, while the Red path envisions strong resistance near 4100 and then in the fall a decline toward the 3600 area. We repeat what we wrote on April 1: 2022 is not going to be a year to BUY and HOLD.

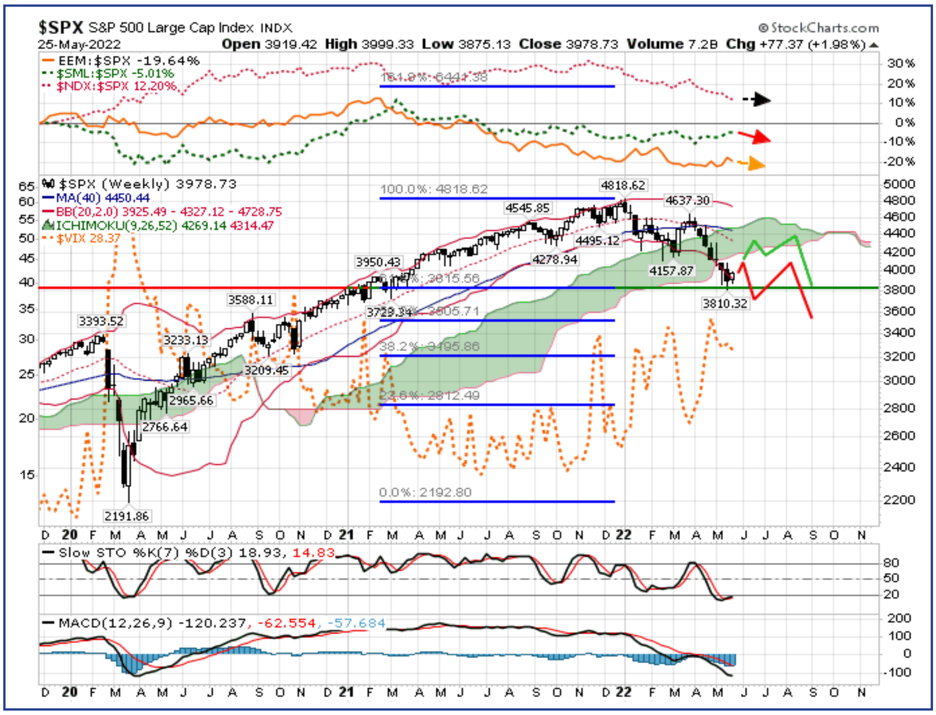

*Chart of the S&P500 is represented on a log scale from December 2019 in weekly candles with an Ichimoku cloud. **On the upper panel in the green dotted line is the Relative Strength (RS) of small caps versus the S&P500, which is rebounding slightly in May 2022**; the RS of the Nasdaq100 versus the S&P500 (**red dotted line**), which is still in a downtrend; and the RS of Emerging Equities versus the S&P500 (**orange solid line**), which is trying to bottom, though weaker recently.*
On the lower panel, a negative MACD is reaching an oversold area without divergences, but in May 2022, the STO has crossed up displaying a bullish divergence. The S&P500 may launch a rebound toward 4100 and may follow either the Green path toward 4300 or the Red path below 3800. But note that both cases envision weakness in the autumn along the US mid-term election four-year cycle low.

Source of data: Stockcharts.com. Supports line & parameters are provided by BEST.