THE IFA's WEALTH GRAM
LA TRIBUNE MENSUELLE DES MEMBRES DU GSCGI
Vol.XI — N°120 — Octobre 2022

The Parabolic Rise of the US$ Index is Bad News for US Equities!

Bruno Estier Strategic Technicals—http://bruno.estier.net/—bruno.estier@bluewin.ch

Quarterly charts are useful as the parabolic move of the US$ Index seems on its way to reaching the long-term Fibo extension of 123.90, just above the previous high of 2001 at 121.21. The momentum on a quarterly chart is lagging so much that they are not so useful, except to confirm that the momentum has been accelerating upward during the last 18 months.

The quarterly STO is entering the overbought zone in a pattern similar to 2015 when the US$ Index paused for a few quarters. The recent spike at 114.75, followed by a minor pullback to 112, cannot be seen as a major event leading to a reversal. For such a characterization, a decline below 110 would be needed as it would open a pullback toward 105, the Fibo 38% recent rise from 89 in 2020.

We have to consider that the current rise will extend in correlation with the rise of the US 10 -Year Treasury yield (black dotted line). Further, we note that the rising US$ Index is now inversely correlating with the declining $GNX commodity index, again becoming a normal situation. The declining Relative Strength of Emerging Markets vs. the S&P500 since 2008 is logical as the US$ Index has been in an uptrend with higher highs & lows. The recent parabolic rise appears to have a similar pattern as in 2000-02, rising to 121.21—suggesting that the S&P500 may continue to decline as long as the US$ Index has not made a major pullback to reverse the current ongoing parabolic rise, in a big way.

Not very good news for the US equities market so far!

Chart of US$ Index in quarterly candles with Ichimoku cloud and Bollinger Bands and a rising 40-quarter moving average (thick green line). The yield spread of the 10-year US Treasury yield minus 10-year German Bunds (flat orange line), is not correlated with the parabolic rising US$ Index candles.

Upper panel: the declining Relative Strength of Emerging Markets (EEM) v. S&500 (gold solid line) now pulling back after a strong rise in the $GNX commodity index (red dash line in % change on left scale). The S&P500 (SPX) - right scale (green solid line).

Lower panel: the positive MACD has crossed up again, suggesting increasing upside momentum for the US$ Index, while the rising quarterly "Slow STO" is entering an overbought area as in 2015. The US$ Index made a spike at 114.75 last quarter, which may be a case for a major reversal, leading to a pullback toward Fibo 38% (105). Above 115, the rise would extend toward its Fibo target of 123.90, which is just above the previous 2021 high of 121.21 along with the still-widening and rising upper B-band. Only a decline below 104 would call an end to the bullish case.

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

This information is being provided to you solely for your information, as an example of theoretical technical analysis and coaching. It does not constitute a recommendation to purchase or sell any security. Neither this document and its contents, nor any copy of it, may be altered in any way. This document is not directed to, or intended for distribution to, or use by any person or entity of any jurisdiction where such distribution, publication or use would be unlawful.