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How Far Could the S&P500 Rise?

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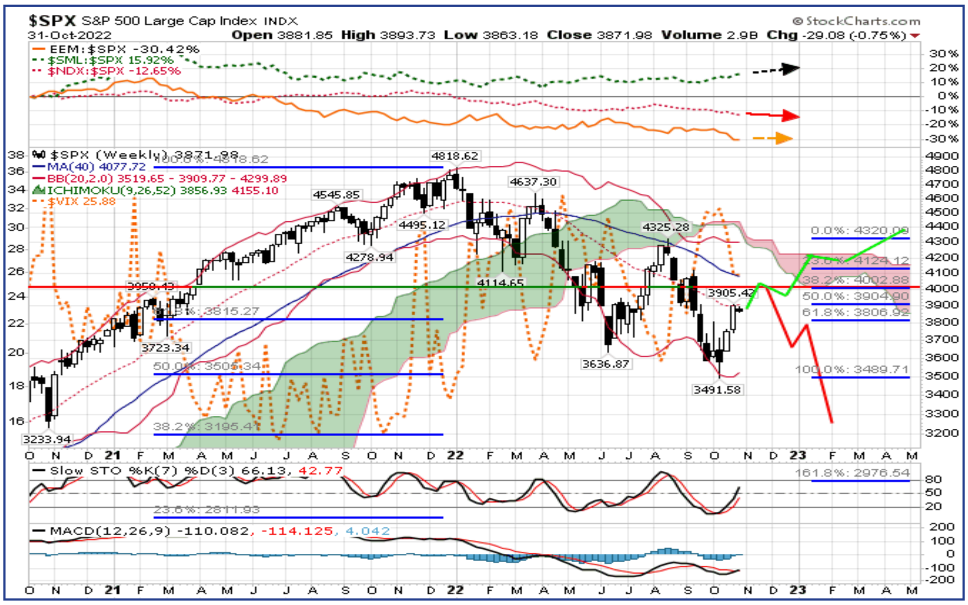
After a warning that turbulent times were ahead until mid-October, it is now time to envision how far up the rebound from 3500 could take the S&P500. The bullish view is based on a rebound, which took place in October along the annual seasonality, the 4-year cycle low, and the year ending in 2. Further, the momentum measures are supporting a strong rise. The MACD crossed up by displaying a bullish divergence between July and October calling for a rise lasting about 6 months until April 2023. The weekly STO has moved from its oversold area to above the 50% line as of October 2020 and could remain between 50 & 100 for the next 6 months. In the short term, the rise of the S&P500 (currently 3871) toward 4000 is very likely in early November.

It is important to note on the chart the declining 40-wk MA (currently 4077), which should be near 4000 during November. Many marketers use the direction of such a long-term average as an indication of the long-term trend. This is why we displayed 2 diverging paths. On one hand, the 40-wk MA would cap the S&P500 in August and the Red Path suggests a decline of the S&P500 toward 3700-3600 by year-end, making only a minor pause at year-end before resuming a sharp decline toward 3200 in early 2023. This is clearly the view of the "Bears". On the other hand, along the Green Path, the Bulls believe that the 40-wk MA will only lead to a minor pause below 4000. It will then be followed by a gradual rise toward 4100 around year-end, extending toward 4400 by Spring 2023. Since September, this bullish view is supported by the rising Relative Strength (RS) of Small Caps v. S&P500, and by the fact that Large Caps of the technology sector have already declined in the selloff to 3500. As the generals have left the battlefield, the bear market should be over, suggests market wisdom.

Of course, the bullish view needs to see the declining RS of Nasdaq100 v. S&P500 end and start to rebound soon. Further, the VIX (orange dotted line behind the S&P500 candles), which has declined from 33%, near previous highs toward 26%, should extend its decline toward 20% as the Green Path extends toward 4100. Failure to have these confirmations would become serious warnings for the Bulls. So far, given the surrounding pessimistic mood based on fear of recession and given the record amount of cash held by portfolio managers, it seems a good bet to lean on the side of the Green Path.



Weekly candle chart of S&P500 with Ichimoku cloud, log scale from October 2020.
Upper panel: the Relative Strength (RS) of Small Caps v. S&P500 (green dotted line), rising since September, the RS of Nasdaq100 v. S&P500 (red dotted line), which is in a downtrend since August, and the RS of Emerging Equities v. S&P500 (orange solid line), which remains in a downtrend.
Lower panel: MACD has crossed up into a negative area and weekly STO is rising above 50%, both momentum measures favouring a rise of the S&P500 toward 4000 along the US mid-term election 4-year cycle low, and the decennial cycle with a year-ending in 2.
A crossroad is likely in mid-November, where the S&P500 would stall below 4000, capped by the declining 40-wk MA. The Red Path would suggest that the downtrend from 4818 would resume and accelerate downward.
Source of data: Stockcharts.com. Supports line & parameters are provided by BEST.