

S&P500: ENTERING THE ANNUAL WEAKER PERIOD FROM MAY-OCTOBER

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As the period of the May-October headwinds is beginning, the S&P500 is again close to the top of its last 6-month range (3765-4195), along with overbought momentum, and is about ready to send sell signals. One should consider not only the rebound from the October low of 3491, followed by a range of 4195-3765, but also the decline from 4818-3491 should be included in the analysis. This is the role of the weekly Ichimoku Cloud, which we charted forward by 26 weeks and should help define the current situation: Bearish below the Cloud, Neutral within, and Bullish above. The top of the Cloud will be flat at 4150 until the end of June. Near this level is the former resistance of the February low at 4195 and the upper flat weekly Bollinger Band at 4221. This builds a formidable ceiling and, not surprisingly, the last week of April showed an intra-week decline, following a weekly Doji candle (open/close 4135). It is well known that the S&P500 has risen thanks to

a few large caps, while the market breadth has been weaker as demonstrated by the weakening Relative Strength (RS) of Small Caps v. S&P500 on the upper panel. In the past 4 weeks, the RS of the Nasdaq v. S&P500, mostly represented by Technology/Communication sector large caps, has been stalling and has declined a tad. The VIX near the S&P500 candles has reached 16.75% – a low level not seen for a year. A rebound of the VIX above 20% is probable.

A chart is worth 1,000 words. So, we created both the Green and Red Paths on the downside for the May-October period. If the **Green Path** remains within the pink Cloud until September, the fundamental explanations will alternate between bullish and bearish. But, if the S&P500 follows the **Red Path** by declining rapidly toward the lower level of the Cloud (3850), expect more dramatic bearish explanations. Both cases will be tough for a Buy and Hold.

*Chart of the S&P500 (log scale)
July 2020-Present in weekly
candles with Ichimoku Cloud.*

Upper Panel: Relative Strength (RS) of Small Caps v. S&P500 (green dotted line) has been declining since March. RS of Nasdaq100 v. S&P500 (red dotted line), has been stalling, now declining a tad. RS of Emerging Equity v. S&P500 (orange solid line) has been declining in 2023. VIX (orange dotted line) has reached 16.75%.

Lower panel: MACD has turned positive. Weekly STO is in an overbought area and about to give a sell signal within the wide range of 4195-3765. Both **Green** and **Red Paths** are likely to decline in the May-October period.

Source of data:

Stockcharts.com.

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