

## S&P500: SAFE SUMMER?

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On July 27, the S&P500 gapped higher to 4598, extending to a high of 4607, but reversed down to a low of 4528, a previous support area, and finally closed at 4537, engulfing several previous trading days. While it is not visible on our weekly chart, this daily pullback may call the end of the linear rise of the S&P500 since the 4100 area.

A Green Path scenario displays a pullback in August toward 4500, followed by a retest in mid-October before the S&P500 could resume its stronger seasonal rise until year-end. This Bullish path is comforted by the widening of market breadth, as shown by the rising Relative Strength (RS) of small caps versus the S&P500 since June, while the RS of the Nasdaq versus the S&P500 remains flat. A rise into the year-end is helped by the current strong

momentum, displayed by the rising MACD and the overbought Stochastics since mid-May – a sign of a strong trending move.

A Red Path scenario is Bearish, with a dramatic decline toward Fibi 38% (4185) and a rising trend support. It is then calling for a lower low toward 4000 by mid-October, finding support near the Ichimoku Cloud. Both momentums would need to cross down suddenly in the coming weeks from an overbought status. The VIX, now at 13.33% (orange dotted line), would explode above 20%.

Given the wave pattern displayed from the top at 4818 up to now, the Red Path would certainly be a big surprise for many Bulls. Enjoy your summer...

*Chart of S&P500, log scale since December 2020 in weekly candles with the Ichimoku Cloud.*

*Upper Panel: (green dotted line) is the Relative Strength (RS) of small caps versus the S&P500, which has been rebounding since June. The RS of Nasdaq100 versus S&P500 (red dotted line), which is stalling flat, but in an uptrend since October 2022, and the RS of Emerging Equity versus S&P500 (orange solid line), which is bottoming after a long decline in 2023.*

*Lower Panel: the MACD is positive, rising steadily, but now in an overbought area. The weekly STO is in an overbought area since May, displaying only minor bearish divergences, which so far have not led to a pullback: either a minor pullback toward 4500 in August or a retest in October, before rising into year-end. OR, along the Red Path, a brutal decline toward Fibi 38% at 4185, a rebound, and then a lower low in October near the Cloud.*

Source of data:  
Stockcharts.com.



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