S&P500—A Summer Rally after a shake-up or a fall into the Fall?

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On July 27, I made a few changes to my June 2024 analysis (WealthGram)—mostly in the timing of the inflection points. The Green and Red Paths are slightly modified to include the top at 5669 and to envision the impact of the rotation within the US market between Large Caps (Growth) on the one hand and Mid-Small Caps (Value) on the other. We also suggest a path for the Relative Strength (RS) of emerging markets vs. the S&P500, as a proxy of the international situation.

What is not on the following chart is the US yield curve, starting its dis-inversion as lower short-rates benefit Small Caps more than cash-rich Growth Caps, and the US$ Index chart, in particular the famous carry trade of $/Yen impacting the fate of the 10-year US Treasury yield. Currently, there are many seductive narratives reminiscent of 1997-1998 or the 2000 speculative bubble among analysts of my generation. At the same time, analysts of the previous generations seem to focus more on the Nifty Fifties of the 1962-1974 period. For sure, many market participants in their 40s may not have taken the time to study those periods, thus enforcing the fact that *"history does not repeat itself, but it often rhymes."*

Right now with the S&P500 closing at 5459 (July 26), more price action in the coming weeks, and a return of the VIX below 16-17% are needed to convince us that the bottom was at 5390 on July 25 and that a rebound should reach about 5600, probably in late August. Possibly, a further rotation toward Small and Mid Caps may avoid a meltdown along our Red Path as major tops rarely happen in July. However, a first down phase (5% correction) followed by a sizable rebound may often lead to a second deeper down phase (10% minimum correction), which is expected in the Fall.

Caveat Emptor: an S&P500 drifting lower in the coming days and breaking below 5300, may leave the Green Path for the Red Path.

To quote the second rule of market analyst Bob Farrell: *"Excesses in one direction will lead to an excess in the opposite direction."* I will let you judge if we have had any excesses so far.

Chart: S&P500*, log scale since July 2022 in weekly candles with Ichimoku Cloud. Orange dotted line represents VIX, which spiked recently to 19%, closed on July 26 at 16.40, just short of a declining orange dashed resistance trendline.*

Upper panel: *Relative Strength (RS) of Small Caps vs S&P500 (green dotted line), which rebounded in the last 2 weeks of July. RS line of Nasdaq 100 vs S&P500 (red dotted line) taking a dive in the same period, while the RS of ETF EEM -(Emerging Markets) vs. S&P500 (gold solid line) is down a tad. All the lines drawn by BEST on the right of the actual date are for educational purposes assuming some ebb and flow of further sector rotation out of the "Magnificent 7 stocks" into Small-Mid Cap and possibly at the expense of Emerging Markets at least until Oct., suggesting our Green Path for the capitalised weighted S&P500. Probably a presumptuous exercise to explain a correction phase in 3-leg A-B-C between mid-July and mid-Oct. 2024 along an envisioned short-term wave count starting in Oct. 2022 and labelled on the chart until the top at 5669.*

Lower panel: *Late July 2024, the momentum is toppy based on the weekly MACD and already turned down out of an overbought area on the weekly STO. The Red Path illustrates an S&P500 decline as envisioned by some market analysts, who are already very bearish for 2024 (see vertical orange line), notwithstanding for 2025 and 2026.*

The 2 vertical lines in blue are in Oct. 2022 and Oct. 2026 for the theoretical lows of the US Presidential Cycle (near mid-term elections).

Source of data: Stockcharts.com