PHASES & CYCLES®

THE TRADING RANGE IS WEAKENING.
THE MARKETS WANT TO RESUME THE MAJOR UP TREND.

Finally, after several months of sideways trading, the stalemate between bulls and bears appears to be progressing towards its "resolution" phase. The S&P 500 nudged the 2,400 level for several weeks, had a one-day selloff taking the Index below its 50-day Moving Average, but held above the previous significant low in mid-April. From that point it was a steady but unspectacular rise through the top of the trading range to a new all-time high (although on declining volume) as the holiday weekend approached.

With this latest probe into the low 2,400s, the S&P 500 seems to be indicating that it wants to break out to the upside. Ideally, coming out of a lengthy trading range, we would like to see the S&P 500 "leap like a gazelle" on expanding volume. So far it's been a more sedate "shuffle like a tortoise." The key phrase we have used in previous Market Comments: "a strong and sustained move above 2,400" remains the requirement and confirmation that the major uptrend is resuming. A vigorous continuation of the recent rally with expanding participation is needed. Encouragingly, the NYSE daily advance/ decline line and the NASDAQ continue to reach new all-time highs, and the Dow Industrials and the NYSE Composite are also ready to move.

The most important first step is for the S&P 500 to secure the area above 2,400 and not fall below this level. That will be the crucial evidence that the recent trading range is now acting as a floor and support for further advance, and that the breakout is not "false" and not a trap for buyers. If the 2,400 level is successfully defended, then the minimum target projection arising from the trading range is the high 2,400s.

The 2009-2017 bull market is a prolonged lesson in the old market adage "the major trend is your friend." The S&P 500's weekly chart (see next page) illustrates the point better than anything else. The Index is well above both its rising 200-day Moving Average and its major trend line. The recent horizontal action is a small wriggle on the chart. *It would take more than a 15% (or 400 point plus) correction to damage the major uptrend*.

Toronto continues to tread water but the S&P/TSX Composite Index made an important move recently. The Index dropped just below its trading range and quickly found support at its 200-day Moving Average. Toronto has returned within the trading range but the recent support could be tested again. The big Banks are in the midst of reporting season and are trying to stabilize after recent corrections.

Do not underestimate the underlying strength of the bull market in its recent horizontal phase. The S&P 500 has taken the first steps to exceed its recent trading range. The next requirements are to stay above 2,400 and make a strong follow-through. The bull market continues to be probed for fatal flaws by bearish forces, but it continues to pass these examinations with ease. A further test of the bull's credentials will occur when the S&P 500 approaches 2,500.

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David Tippin, Ron Meisels

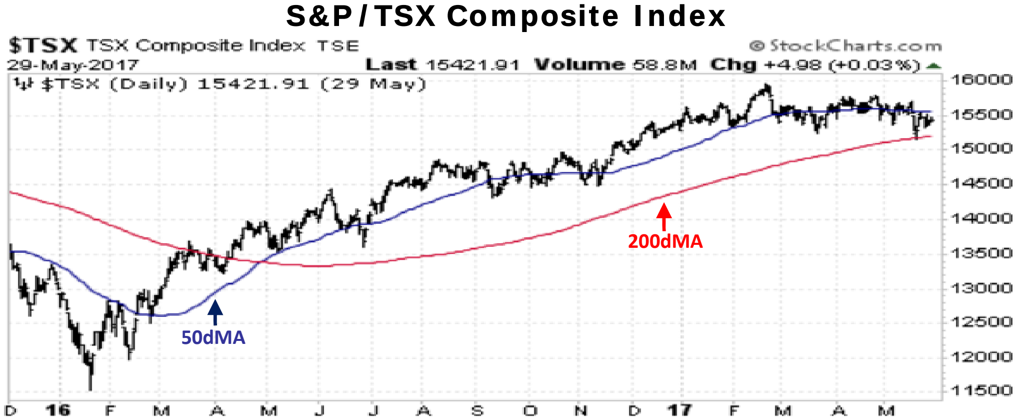
S&P 500

The S&P 500 was able to move into the low 2,400s late last week and above the recent trading range. The Index is also roughly in the middle of the upward sloping trend channel that has defined the S&P 500's trading since early 2016 (see green lines). The current boundaries of this channel are 2,500 and 2,300.

The three lows made in the trading range – in March, April and May – are slightly higher than their predecessor. This means that the trading range period can be viewed as an "ascending triangle", which is typically a consolidation formation that is resolved in favour of the major trend, in this case up. Should the S&P 500 be successful in staying above 2,400 this is a further indication that a new advance is underway.

The key challenge is to remain above 2,400. If so, then a move towards the upper boundary of the trend channel near 2,500 is possible.

S&P/TSX Composite Index



The S&P/TSX Composite Index remains in a sluggish holding pattern. Downside pressure pushed Toronto briefly below its trading range, finding support at the 200-day Moving Average.

The S&P/TSX Composite Index needs to make a significant move on either side of the 15,250 to 15,800 zone in order to eliminate uncertainty. A strong move up or down in New York will probably be the catalyst for a breakout or breakdown in Toronto.

The S&P/TSX Composite Index has successfully tested its 200-day Moving Average support and is currently moderately oversold. Some more backing and filling in the low 15,000s may be needed. If the recent low at 15,165 holds, there is room to move to the top of the trading range at 15,800.

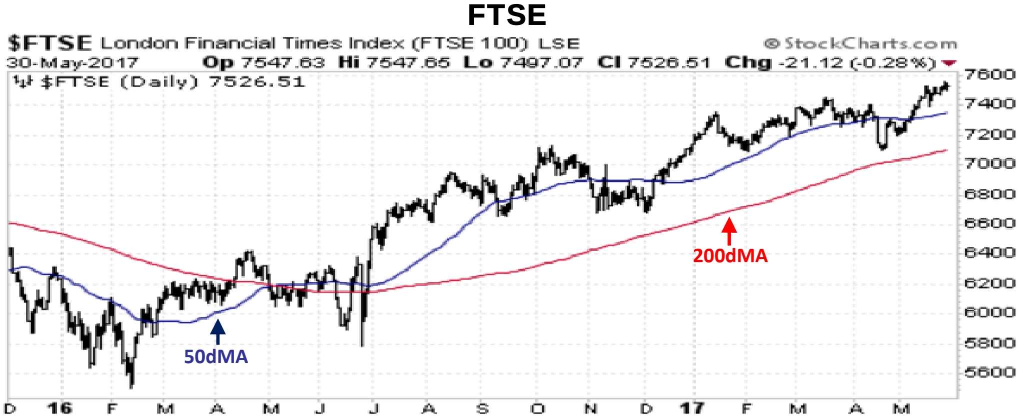
Dow Industrials

The Dow Industrials is in the midst of one of its "steps" in its ongoing advance, this time in the form of a three-month trading range between 20,400 and 21,169. In late-May the Dow Industrials moved towards the top of the trading range. Internal momentum is declining. The 50-day Moving Average provides initial support at 20,785, with further support at 20,380. Below this, the next support level is 20,000.

While the Industrials have been moving sideways, the Dow Transports declined. Importantly, the Transports recently bounced off its 200-day Moving Average. If the Dow Industrials break out to new all-time highs, the Transports will have to play catch-up and move nearly 5% from current levels to attain its own new high. This would keep Dow Theory bullish.

The Dow Industrials needs to break out above the previous all-time high of 21,169 to resume the major up trend and the Dow Transports needs to confirm this breakout with a strong rally of their own.

FTSE



We observed a month ago that the FTSE had engaged in classic corrective behaviour when it pulled back from its mid-March high to well-defined support at the 7,100 level. We expected one further re-test of that level before the bull resumed control.

No re-test was necessary. May was a resounding "up" month for the London market with the FTSE moving out of its 7,100 to 7,400 trading range to new all-time highs. There is now good initial support at 7,400 and further support is offered by the 50-day Moving Average in the low 7,300s. Upside resistance is posed by the upper trend line near 7,700.

After a strong May the FTSE is overbought and could pull back towards 7,400. If that level is defended then the next target for the FTSE is 7,700.

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