PHASES & CYCLES®

THE BULLS ARE GRADUALLY RE-ASSUMING CONTROL.
THE MARKETS WILL HAVE A "SPRING" IN THEIR STEPS SOON.

The conclusion of our last Market Comment two weeks ago was "we expect the corrective period will end in April. The final chapter may have some volatile episodes but an upside resolution should be anticipated." As expected, the S&P 500 has been volatile in April. The recent action is choppy and without direction, with the S&P 500 trading in a narrow 5% range between its declining 50-day Moving Average and the rising 200-day Moving Average.

The S&P 500 increasingly resembles a coiled spring, preparing itself for release. Encouragingly, the evidence for a bullish outcome to the current trading range is growing. (1) The S&P 500's price pattern since the January all-time high has been an A-B-C down-up-down pattern, with the "Wave C down" possibly ending on April 2nd. The early February low was tested successfully. (2) The rising 200-day Moving Average and the two-year trend line continue to offer strong support. (3) Positive divergences have developed in indicators as diverse as internal momentum, the percentage of NYSE stocks trading above their respective 50-day Moving Averages, the NYSE daily advance/decline line and the VIX. (4) The 70-day and 39-week cycles recently matured and should be starting their next "up" phases. (5) Sentiment, *a contrary indicator*, is getting noticeably more negative. The Investors Intelligence survey of adviser sentiment has fallen back to 42.2% bulls and the AAII survey of individual investors shows only 26.1% bulls – both figures are well below the readings at the February low.

Have the bears run out of strength and time? They tried, without success, to drive New York significantly lower for the last month. As we said two weeks ago, any move below the February lows would likely be a brief and last-gasp effort by the bears, probably in the form of a selling climax followed by a quick upside reversal. It would take a major sustained decline to cause the 200-day Moving Averages of the S&P 500 and other major market indices to turn downwards, to shift the bull/bear balance. On current evidence we judge this to be unlikely.

To summarize: The S&P 500's February 9 low at 2,532 may have been the extreme low of the correction. Any penetration below 2,532 should be treated as a brief final chapter of the correction. A potentially bullish "W" pattern is developing on the S&P 500's daily chart. This pattern will get considerably more bullish if and when the S&P 500 exceeds 2,700 and "Leg 5 up" will be confirmed if the 2,802 level is exceeded. We expect that the uncertainty will be resolved by the end of April or early May.

Toronto appears to be treading water in the low 15,000s but its underpinnings are strengthening. The percentage of S&P/TSX Composite Index stocks trading above their respective 50-day Moving Averages has moved up from 13% at the early February low to nearly 52%, even though the Index has made little net progress. The 15,000 level was successfully tested in early April. The S&P/TSX Composite Index is at the lower end of a gently up-sloping trend channel that begins at the February low. If the 15,500 level is exceeded then the picture becomes more positive and a move to the top of the trend channel near 15,900 is possible.

The markets have been under pressure for nearly three months. This "volatility storm" has been remarkably well weathered by the bulls, and signs continue to grow that this negative phase is coming to an end.

If our outlook and timing are correct, May 2018 will not be a month to "sell and go away." Instead, it will see a re-assertion of the bullish primary trend, climbing the wall of worry. Springtime is coming, and so is "Leg 5 up."

PAC-18-59; MKT-437; April 17, 2018

David Tippin, Ron Meisels

S&P 500

The S&P 500's choppy activity of the last few weeks has seen the Index stabilize itself just above (a) the early February low, (b) the rising 200-day Moving Average and (c) the lower boundary of its two-year trend line. These are important supports and a small base is being built between 2,550 and 2,680.

If the S&P 500 is to rise above this basing zone it will have to overcome nearby overhead resistance all the way up to 2,800. Getting above the declining 50-day Moving Average near 2,700 would be a good first step. If the S&P 500 stays above 2,700 then shorter-term Moving Averages will start to turn up and Point and Figure targets of 2,950 to 3,000 – a potential 12% increase – comes into play.

The S&P 500 is moderately overbought. It may require some further base-building near current levels before a new up leg gets underway.

S&P/TSX Composite Index

For the last eighteen months the 15,000 level has been significant for the S&P/TSX Composite Index. Toronto broke above this level in November 2016 and found support there on six occasions, most recently in early April. Toronto's overall picture would only change if the S&P/TSX Composite Index goes below and stays below 15,000 for an extended period of time.

By staying above 15,000, the S&P/TSX Composite Index is gradually improving. More individual stocks are strengthening and the Index's recent re-test of 15,000 was accompanied by a positive divergence in internal momentum. A rally from current levels is very possible but there is overhead resistance to overcome. The declining 50-day Moving Average is at 15,430 and the 200-day Moving Average is just over 15,600. The upper boundary of the two-month trend channel is near 15,900. A rise above 15,500 will suggest Point & Figure targets of 16,500-17,000, a potential 10% gain.

The S&P/TSX Composite Index is doing what the bulls want it to do – building strength in the low 15,000s as preparation for a more extended advance. A move above 15,500 would signal that Toronto wants to go higher.

Phases & Cycles Inc., 4000 Boul. De Maisonneuve West, Suite 2010, Montreal, QC H3Z 1J9
Tel.: (514) 393-3653 E-mail: RonMeisels@phases-cycles.com www.phases-cycles.com