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THE CORRECTION HAS BECOME A TRADING RANGE. A BASE FOR HIGHER PRICES IS BEING BUILT.

Beginning with the panic sell-off at the end of January, the S&P 500 has traced out a large "W" pattern on its daily chart over the last three months. Our expectation is that this pattern will ultimately be resolved with a bullish "Leg 5 up" move, leading to new all-time highs. But the end-game of this corrective period is proving to be less than straightforward. First, it is persistent – this is now the longest corrective period since late-2015. Second, it is very choppy and volatile, with lots of stop-starts and churning actions; the S&P 500 has not been able to put together four or more consecutive advancing days in over two months.

Our Market Comments frequently highlight the importance of the 200-day Moving Average as one way of judging the status of major market indices. The S&P 500's 200-day Moving Average continues to slope upwards, indicating that the longer-term trend remains up. Just about all of the S&P 500's action over the corrective period has occurred above the 200-day Moving Average, and the Index has found support at the 200-day Moving Average three times since early February. This support is reinforced by a two-year rising trend line (see page 2). The rising 200-day Moving Average and the rising trend line give a clear message: the S&P 500, despite three months of selling pressure, remains bullish.

Other major market indices in New York such as the Dow Industrials, NASDAQ and NYSE Composite Index are holding up well, either above or near their respective 200-day Moving Averages. "Triangle" price patterns are appearing on their daily charts, with upside breakout points requiring only a 2-3% move from current levels.

Of course, the triangle price patterns could break down and give false signals. The recent correction in London's FTSE Index, which often leads New York, is enlightening in this respect. The FTSE broke below important support in mid-March but then quickly recovered to the upside, trapping the bears and short-sellers, and is now moving strongly upward (see page 3 for details).

Toronto's S&P/TSX Composite Index had a strong April, rising back to its 200-day Moving Average. We noted two weeks ago the growing percentage of Toronto stocks in intermediate-term uptrends and suggested that a rise above 15,500 would pave the way for the S&P/TSX Composite Index to move towards the top of its trend channel. That appears to be underway. An upside breakout from the corrective "triangle" pattern occurred last week. Our recent "Canadian Banks Update" suggests the big Banks have only a minor rally potential, so leadership must come from such areas as Energy and Materials, and later possibly Golds – classic late-stage bull market behaviour in Toronto.

After a huge two-year advance in the S&P 500 it is not surprising that the subsequent correction has been an extended one. The bull/bear conflict of the past three months has been volatile with neither side being able to establish a conclusive up-trend or down-trend. The ability of the S&P 500 and other major market indices to stay above their respective 200-day Moving Averages suggests that the bulls will win the battle.

We continue to expect that a resumption of the underlying bullish advance in the form of "Leg 5 up" will appear shortly.

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S&P 500

The S&P 500 continues to build a base just above its rising 200-day Moving Average. The Index is being squeezed between the overhead resistance from a declining trend line drawn from the January high and support offered by the 200-day Moving Average and two-year rising trend line (just above 2,600).

The S&P 500's overbought/oversold status is currently neutral. The 50-day Moving Average has begun to flatten out but any sustained advance above 2,700 will turn it up. This will be a key short-term signal that the S&P 500 is capable of moving higher. If the S&P 500 moves below its 200-day Moving Average the critical levels to watch become the April 2nd low at 2,553 and then the February 9th low at 2,532.

The last month has mostly been spent in the 2,600s. The S&P 500's internal momentum is improving during this base-building period, which gives us optimism that this base will be the springboard to start "Leg 5 up."

S&P/TSX Composite Index

The S&P/TSX Composite Index had a very good April. A substantial positive divergence in internal momentum at the beginning of the month was the springboard for a sustained rally. The downtrend line from the January peak was broken and the 50-day Moving Average was exceeded and has turned up.

We wanted to see the S&P/TSX Composite Index build strength in the low 15,000s. Now the going gets more challenging. There is near-term overhead resistance from 15,800 to 16,200 that must be overcome before the Index is able to challenge its all-time high at 16,421. Support should be provided by the 50-day Moving Average currently at 15,450, the up-trend line at 15,130 and then by major support at 15,000.

The S&P/TSX Composite Index is only modestly overbought after its recent 4.5% rise. The Index can afford to spend further time base-building in the 15,000s. If this occurs, the stage is set for a move back towards the January all-time high.

Dow Industrials

Our last analysis of the Dow Industrials at the start of April concluded “a healthy outcome for the Dow Industrials would be to stay above its 200-day Moving Average and build a base between 23,500 and 25,000.” The Index did just that, rising in the first half of April and pulling back in the second half, and using the 200-day Moving Average and the ascending trend-line as support.

The 50-day Moving Average, currently near 24,600, has acted as overhead resistance recently. The declining trend line from the late-January high is also in this zone. A sustained move above 25,000 would be very positive. The major support area remains near 23,500 – 24,000 where the 200-day Moving Average and the two-year rising trend- line intersects.

The Dow Industrials price pattern for the past three months is a descending triangle. A breakout – likely to the upside – from this pattern should occur soon. From there, exceeding and staying above 25,000 is the initial challenge.

FTSE

What a difference a month makes. In late-March the FTSE broke below its important 7,100 support level and was at risk of an extended decline. We noted an encouraging positive internal momentum divergence at the late-March low and declared that “for any chance of a bullish outlook to be retained, the FTSE must climb – and do so quickly – above the 7,100 level.”

The FTSE exceeded our expectations. In one month it has climbed over 600 points from its low, broken its down trend line, powered through the 7,100 to 7,400 overhead resistance zone, turned the 50-day Moving Average upwards, and reached above the 200-day Moving Average for the first time in nearly three months.

The first task for the FTSE now is to hold onto the gains it has made in April and consolidate its position near the 200-day Moving Average. Support should appear at 7,400 and in the vicinity of the 50-day Moving Average near 7,200.

Even after a strong advance the FTSE is only moderately overbought. If it can hang on to the bulk of its recent gains then a bullish outlook can be re-established.

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