# PHASES & CYCLES®

**THE MARKETS ARE BUILDING NEW UPTRENDS. THERE WILL BE PULLBACKS ALONG THE WAY, BUT NEW ALL-TIME HIGHS ARE IN SIGHT.**

The S&P 500's waterfall decline of late January/early February is fast receding in the rear view mirror. It has been nearly four months since the bears were licking their chops in anticipation that the 2009-18 bull market had hit the wall and was ready to collapse. But that volatile episode earlier this year was not the first step in an extended bear market. Instead, it was a normal, if somewhat sharp, correction in an ongoing bull market. Everything that has happened since the February 9th low supports this interpretation.

The S&P 500 established a new floor for the bull market in the low 2,500s with its February and early April lows. That second low completed an "A-B-C down-up-down" correction with a successful test of support in the low 2,500s. The eleven weeks since that successful test have been very bullish. The S&P 500 has made a series of higher highs and higher lows, gaining nearly 200 points or 7.5%, all the while supported by a rising 200-day Moving Average. The advance has had little drama, more of a steady grind upwards with sellers unable to inflict any telling blows. Participation is growing: the NYSE daily advance/decline line continues to make new highs, the percentage of NYSE stocks trading above their respective 50-day Moving Averages is close to 70%, and the number of stocks making new 52-week highs is expanding. The NASDAQ and Russell 2000 are at all-time highs. An important new up leg is underway in New York.

We expected the S&P 500 to tread water and perhaps even pull back a little in early June but instead the Index decided to push immediately on to break out above short-term overhead resistance at 2,750. This also turned the 50-day Moving Average decisively up for the first time in nearly three months. The S&P 500 and other major market indices in New York are over-extended in the short-term, as are some internal momentum indicators. Sentiment is also gradually getting more bullish: the Investors Intelligence bullish advisor percentage (a contrary indicator) reached a three month high last week. However since cyclical pressures are likely to persist until the end of the month, New York might experience a minor (2-3%) pullback – which might have started late last week. This could cause the S&P 500 to revisit the 2,740 to 2,750 zone. This should be followed by a new upside excursion into the 2,800s.

**Toronto** might, in the short-term, be a victim of its own recent success. The S&P/TSX Composite Index rose over 1,350 points, or 9%, since early April and is at the top of a four-month trend channel. Internal momentum is stretched and also shows a negative divergence compared to its late-May peak. The percentage of S&P/TSX Composite Index stocks trading above their respective 50-day Moving Averages has stalled near 70% in recent weeks and new leadership is unlikely to emerge in the short-term. The leading Energy sector is already taking a well-deserved break. This is a set-up for the S&P/TSX Composite Index to re-trace a portion of the April to June advance, possibly as much as a one-third pull back – a healthy and refreshing pause. This could take Toronto back towards its 200-day Moving Average. The S&P/TSX Composite Index still remains very bullish and we expect a new all-time high to be achieved before the summer ends as Toronto continues its pattern of late bull market outperformance.

**The outlook for the markets remains very bullish. Following a strong two and one-half month period, they have become overbought and somewhat overextended. Minor pullbacks to consolidate recent gains and renew leadership are likely. Leg 5 up is still in its early stages and upside acceleration is likely to occur during the summer. We continue to expect that New York, Toronto and London will reach new all-time highs this year.**

**Any pauses or minor pullbacks remain buying opportunities.**

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## S&P 500


At the end of May we concluded that "any further advance above short-term resistance at 2,750 will bring the mid-March recovery peak at 2,802 into sight." The S&P 500 quickly moved early in June above 2,750 and came within ten points of the mid-March peak last week.

The area around 2,800 appears to be a new zone of upside resistance. The small correction that we expected earlier in June now appears to be underway, towards the 2740-50 area. The rising 50-day Moving Average sits just above 2,700. The pattern of higher highs and higher lows that started in early April will remain intact as long as the S&P 500 stays above 2,675.

**The S&P 500 has been exceptionally strong during the last six weeks. It is modestly overextended and needs a minor pullback. We expect that the rest of June will be corrective in nature but with limited (2-3%) price damage.**

## S&P/TSX Composite Index


In mid-May we correctly identified the low 16,000s on the S&P/TSX Composite Index as a potential area for pause and consolidation. We also forecast that a pullback would be followed by a move back to the May high, and then a move to challenge the all-time high at 16,421. Toronto followed this blueprint, first correcting back to the high 15,000s and then quickly moving higher to a level just 70 points from the all-time high.

This surging action has left the S&P/TSX Composite Index well-extended. Another healthy pullback is due but this one might be more consequential than the late-May decline, possibly retracing one-third of the entire April to June advance. This would target the 15,750 to 15,900 area. This area contains the rising 200-day and 50-day Moving Averages, and would bring the Index back towards the middle of its four-month rising trend channel.

**The S&P/TSX Composite Index remains in a very bullish uptrend from its February and April lows. A minor 2-4% correction from current levels is possible and would enable the Toronto market to digest its gains and refresh leadership.**

**The S&P/TSX Composite Index continues to prepare the groundwork for what we expect will be a successful assault on its all-time high at 16,421.**

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