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THE S&P 500 MAKES ANOTHER GREAT LEAP FORWARD. SOME MINOR BUT HEALTHY PULLBACKS COULD OCCUR IN THE SUMMER.

The headline of our most recent Market Comment at the start of July was "The S&P 500 is knocking on the ceiling. A major upside breakthrough is inevitable." The "ceiling" was the 2,940 to 2,960 resistance zone and we concluded that when the S&P 500 establishes itself above this zone then it will form a floor and a platform for further advances above 3,000.

The first half of July saw the S&P 500 get to and stay above the 2,960 level, move through 3,000 and make several more new all-time highs. <u>The platform for further advance that we spoke of is under construction</u>. The NASDAQ and Dow Industrials also caught up and made their own new all-time highs. The advance/decline line and upside/downside volume indicators remain very positive. Sentiment is getting slightly more positive (the latest AAII and Investors Intelligence figures are showing modest increases in bullish outlooks, and put/call ratios are declining) but the bullish "wall of worry" is still well in place. As the summer proceeds, the evidence that the bears use to make a case that New York is nearing a major top is getting thinner and thinner. <u>This remains a powerful bull market that wants to go higher</u>.

The last two weeks also reinforces our interpretation of the bigger picture view of the rally that began at the late-December lows. Since those lows the S&P 500 has tracked higher within a distinct upward sloping trend channel, completing a Wave 1 at the end of April and a brief Wave 2 correction in May. Wave 3 up is underway (see trend lines on page 2). The last two times the S&P 500 made a cluster of new all-time highs (in September 2018 and April 2019) the Index was quickly pushed back and corrected. The current Wave 3 should be able to avoid the same result.

Our <u>minimum target</u> for the S&P 500 remains 3,300, or about 9.5% above current levels. While it is possible that Wave 3's upside momentum could propel the S&P 500 towards this minimum target in reasonably short order, it is more likely that the route to the target will be a more meandering one. More new all-time highs are very likely in the short-term but as the summer wears on we expect the influence of the last phase of the 39-week cycle (scheduled to mature in late-September) to become more pronounced. This may cause the S&P 500 to lose some steam and move sideways/modestly down in a series of small pullbacks. This would narrow the sizeable (±200 points) gap between the S&P 500 and its 200-day Moving Average, a healthy development.

Toronto's S&P/TSX Composite Index continues to lag New York in its recovery efforts. The Index last made a new all-time high at 16,672 in late-April and it is encountering some resistance as it moves back towards that previous high point. The choppy advance of the last few weeks is fuelled by strength in Golds and Materials stocks, but Toronto is being held back by the continued under-performance of the Big Banks. At this stage in the market cycle they do not need to be market leaders, but the Banks must do better in order to support other sectors of the S&P/TSX Composite Index. Toronto needs to get above the 16,672 high and stay there for a few weeks to keep the bullish momentum going.

In sum, <u>the S&P 500's breakout above 3,000 is a significant event</u>. But the 3,000 mark is just one point on the <u>journey to much higher levels</u>. The S&P 500's brilliant performance of the past six weeks probably will not be able to be sustained all through the summer. A lessening of upside momentum at some point should be expected, but is entirely normal in such a vigorous bull market.

Minor pullbacks during the next two months should be viewed as buying opportunities. Our List of Investment Ideas is updated with new ideas regularly.

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S&P 500

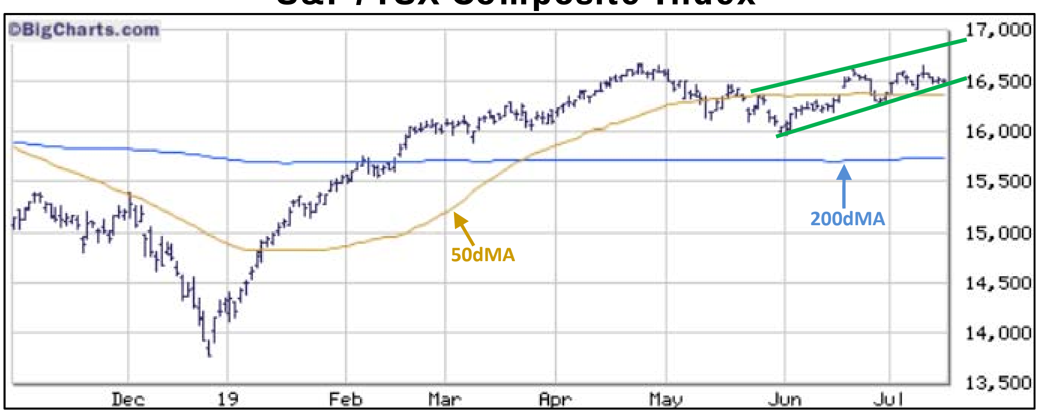
The S&P 500's Wave 3 advance from the June 3 low at 2,728 continues to impress. It has broken new high ground and has succeeded for the moment in defending this new territory. Nearly 85% of S&P 500 stocks are now trading above their respective 50-day Moving Averages indicating the broad-based nature of the rally. Six weeks ago the comparable figure was just under 30%.

The S&P 500 is sitting comfortably in the middle of its recent upward sloping trend channel. Having cleared resistance and being only modestly overbought, there is considerable upside potential. Keeping above the 2,940 to 2,960 area (the previous "ceiling" now turned "platform") is important for the near-term outlook. The 50-day Moving Average has turned upwards and offers further support near 2,900.

The pattern of the last six weeks has been for small selling waves to occur, immediately met by renewed buying. The result on the daily chart is a staircase of higher highs and higher lows. If, as we expect, the S&P 500 takes on a more "meandering" character as the summer proceeds at some point we should then see a small sell-off, a rally, and then a second pullback to a lower low. This would be entirely normal in the larger bullish uptrend.

The S&P 500 is approaching a 300-point gain (over 10%) in the last six weeks. While we expect more new all-time highs in the immediate future, this rate of change is unlikely to be sustainable for the entire summer. The advance could moderate and become choppy, but the minimum destination, well into the 3,000s, remains in force.

S&P/TSX Composite Index



We suggested two weeks ago that "a move above the June 20th recovery high [16,604] would signal the start of a new up-leg while a weak rally from current levels would then likely see a return to below 16,000." Last week the S&P/TSX Composite Index broke briefly above this recovery high but was quickly pushed back. Encouragingly there has been no breakdown, with the Index remaining above its 50-day Moving Average.

The S&P/TSX Composite Index currently is tracking along the lower boundary line of its upward sloping trend channel. The Index has unsuccessfully probed overhead resistance near the all-time high on three occasions in the last few weeks, but internal momentum has declined and the number of stocks making new 52-week highs is not keeping up. While 61% of S&P/TSX Composite Index stocks are trading above their respective 50-day Moving Averages, Toronto needs to broaden its upside participation to push its recovery higher. There is good nearby support in the 16,300 to 16,400 area. The late-June low at 16,268 is now an important short-term level – a move below this level would suggest a return to below 16,000 and a re-test of the support zone at 15,700 to 15,900.

The S&P/TSX Composite Index remains bullish but it has a short-term battleground between the recent 16,268 low and the all-time high at 16,672, a narrow 2-3% range. This neutral position will be resolved by either a sustained move above the all-time high (an immediately bullish outcome) or a pullback towards lower support levels (a corrective move within the larger bull market).