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THE EXPECTED INITIAL BREAKOUT HAS OCCURRED. THE S&P 500'S CHALLENGE IS TO SUSTAIN THE UPSIDE MOMENTUM.

Our Market Comment headline at the beginning of this month was "September should see a transition to a more attacking mode, and the start of a new up leg." September so far has been a positive month with the S&P 500 breaking the upper boundary of the trading range at 2,950 and moving last week strongly up towards its all-time high. Other major market indices in New York such as the Dow Industrials and NASDAQ also approached previous highs. And late last week Toronto's S&P/TSX Composite Index – an historically strong late bull market performer – reached a new all-time high, with little fanfare.

Have the bears been completely vanquished and is the bull market off to the races once again? We listed a number of encouraging signs two weeks ago and there are more. Last week's rally was accompanied by new all-time highs in the NYSE daily advance/decline line. The percentage of NYSE stocks trading above their respective 200-day Moving Averages has increased from 46% to 66% in the last few weeks, indicating that substantially more stocks are moving into positive longer-term price patterns. New leadership is emerging and sector-rotation is underway with financial and small-cap stocks now catching up (the Russell 2000 is showing renewed strength).

While a continuation of the current advance and a quick move to new all-time highs is possible, there are good reasons to think that the upside path will not be completely straightforward. The S&P 500 rose over 7% in just thirteen trading days and is now well above its 200-day Moving Average – the Index is well-stretched in the short term. The 39-week cycle still has two weeks before its next maturity and may still exert some downward pressure as the month ends. Put/call ratios are low. Options expiry looms at the end of this week and October usually has a period of market stress. The number of NYSE stocks making new 52-week highs has been unable to keep pace with the recent rally. These are the ingredients for a minor pullback.

We cautioned in previous Market Comments about the possibility of a "feint move" when the trading range was initially broken. We have had the initial upside breakout and the question now is its sustainability. With New York short-term overbought – and the weekend Saudi oil attack – we expect some pushback by sellers, so a minor retreat is likely. Whether this pushes all the way back to the 50-day Moving Average (currently at 2,950) and then into the recent trading range – which would increase investors' confusion about the major direction – needs to be watched closely. But regardless of how winding the short-term pattern is, the S&P 500 remains above its 200-day Moving Average and continues to track a "higher high, higher low" price pattern – this suggests a bullish resolution and new all-time highs in New York's future.

Toronto. We characterized the S&P/TSX Composite's recent behaviour as a prolonged, low price damage "corrective trading range" likely to end in an upside breakout. The lagging big Banks finally rallied strongly and this provided the catalyst for Toronto to move to a new all-time high. A three- week advance leaves Toronto overbought and extended and a minor pullback is likely. If the S&P/TSX Composite eventually moves higher and holds above 16,700 (which we fully expect), then the price pattern would be extremely bullish.

The first blow in the trading range battle was struck by the bulls after Labour Day. Some short-term selling pressure is likely to drive the S&P 500 back towards its recent breakout point. But the action of the past two weeks is a harbinger of what is to come: New York and Toronto are gearing up for major new up legs in their respective ongoing bull markets. Our minimum targets remain 3,300 for the S&P 500, and 17,500 for Toronto.

PAC-19-152; MKT-472; September 16, 2019

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S&P 500

The break above the trading range on September 5th had several consequences. (1) The S&P 500 moved above its 50-day Moving Average for the first time in a month. (2) A "breakaway gap" developed between 2,938 and 2,960. (3) The breakout from the trading range projects an advance to a minimum of 3,075, well above the all-time high at 3,028.

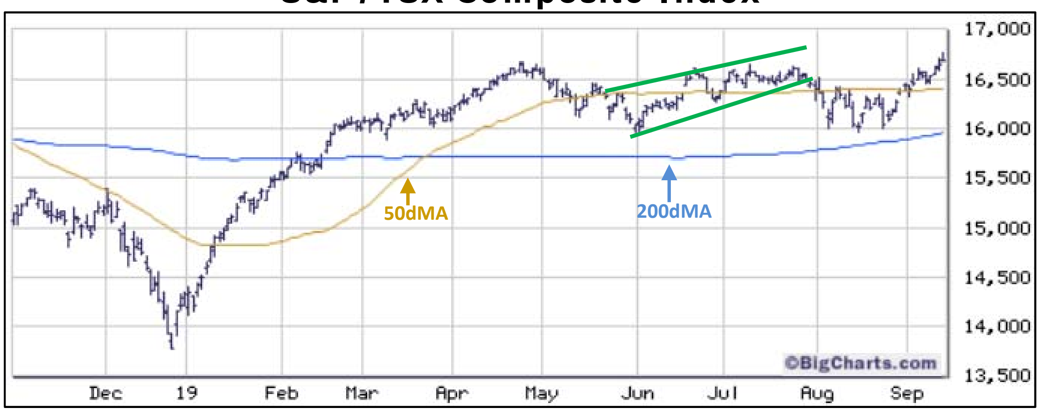
Overhead resistance may appear if the S&P 500 approaches 3,028 and above that at 3,050 where a trend line joins previous highs dating back to early 2018. Initial support is the zone between 2,950 and 2,965 and below that the uptrend line from the December 2018 low is at 2,905. The 200-day Moving Average near 2,820 is beginning to rise more rapidly as the October to December values from last year are deleted from its calculation.

We have said repeatedly that once a breakout occurred, the issue would be its sustainability. As noted on page 1, the S&P 500 is stretched and overbought in the short term. The "breakaway gap" may need to be filled at some point in a pullback. This suggests that the 50-day Moving Average, currently near the top of the recent trading range, will be tested as support. A move back into the trading range is also possible but if this occurs in the weeks ahead we expect the S&P 500 will quickly recover.

The S&P 500 appears to be resolving its recent horizontal action by breaking out to the upside. The battle is not yet over and further resistance and pushback is to be expected in the short-term.

<u>A sustained move above the all-time high at 3,028 and then through 3,050 will confirm that a new up leg is well underway.</u>

S&P/TSX Composite Index



The S&P/TSX Composite Index's powerful rise from the December 2018 low at 13,776 was followed in mid-February by a breakout above resistance at 15,800 and a new all-time high at 16,672 in late-April. The Index has moved in a wide sideways pattern since then, but last week rose to the top of the trading range to make a new all-time high at 16,756.

This bigger picture now holds an exciting opportunity for bullish forces. The S&P/TSX Composite Index is overbought and vulnerable in the short-term to a decline back into the trading range. However, should the Index establish itself above the trading range then the entire horizontal pattern will be considered as a consolidation period from the December low. A sustained breakout then projects to a minimum of 17,400 to 17,500.

If a pullback occurs in the short-term, support should appear at the 50-day Moving Average at 16,400. The rising uptrend line from the December low is at 16,300 and the now-rising 200-day Moving Average is just under 16,000.

A move into the high 16,000s will create a "clear upside air" situation for the S&P/TSX Composite Index. Getting to that point may require some further back and forth action over the next few weeks. But the growing strength of the S&P/TSX Composite Index suggests that an important upside advance should occur over the next few months.