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THE S&P 500'S BREAKOUT SUGGESTS A MINIMUM POINT & FIGURE TARGET OF 3,200 AND A POSSIBLE 3,500, BUT FIRST A MINOR CORRECTION.

October, the most hopeful month of the year for bull market sceptics and naysayers, is over. Our mid-October Market Comment headline was "The bears have only two more weeks of seasonal help to hold back an upside breakout." And so it happened. By the end of last week the S&P 500 and the NASDAQ made a new all-time high, and the DJI did it today.

The S&P 500's recent performance and broader market behaviour augur well for the coming months. From the late-May low the Index has moved gradually higher within a gently rising trend channel. The NYSE daily advance/decline line continues to make new all-time highs. A rising tide of NYSE stocks (just over 70%) are trading above their respective 50-day Moving Averages. The number of NYSE stocks making new 52-week highs, while still subdued, is tracking higher. Internal momentum improved throughout October. Negative cyclical pressure over the last few weeks seems to be now out of the way. And the last two months of a pre-election year tend historically to be positive. The S&P 500 is making higher highs and higher lows above its rising 200-day Moving Average, with no signs of prolonged deterioration – is there any better definition of a bull market?

And then there's the "wall of worry." Last week's major addition to the brickwork was the latest Barron's "Big Money Poll", revealing that only 27% of money managers have a bullish outlook over the next year. The financial media continues to emphasize all the reasons why the markets can't or shouldn't go higher, or why the upside is limited. And the bears are still clinging – perhaps their last hope – to the lack of confirmation from other major market indices in New York.

While encouraged, we don't want to get overly-enthusiastic just yet. The S&P 500 has given us a number of false moves (September 2018, May and August of 2019) and then retreated sharply under selling pressure. Last week the S&P 500 made five closes above the old high of 3,028, but the S&P 500 is stretched and overbought after rising 7.4% in the last four weeks. While last week might look like "the breakout" in the S&P 500, the trend line that joins multiple tops from early 2018 rests at 3,060 and the area up to 3,080 remains a potential obstacle that requires further upside to eliminate it conclusively. We are prepared to be patient, waiting for another modest pullback in November.

Toronto's S&P/TSX Composite Index traded in a tight horizontal range for most of October but maintained its foothold above its 200-day Moving Average. Weakness in Energy and a pullback in Gold stocks contributed to an underperformance relative to the S&P 500 but bearish forces have failed to overwhelm the Index. With buying support continuing to appear, and the big Banks showing signs of strengthening, the Toronto market has been able to consolidate in the middle of its recent trading range. If New York continues to rally Toronto will surely follow, and we continue to expect a new all-time high into the 17,000s to be achievable before year-end.

In sum, the S&P 500's action for the past few weeks has been very positive. The lift-off we have been expecting is underway, but the S&P 500 may need to pull back and digest its recent gains before it moves significantly higher.

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S&P 500

Two weeks ago, with the S&P 500 just below 3,000, our assessment concluded that "there is room for further advance in the short term." We then declared that "The best outcome for the S&P 500 would be for the index to protect its trend channel and gradually move towards the upper boundary. This would send the S&P 500 into new all-time high territory and closer to our minimum target of 3,300."

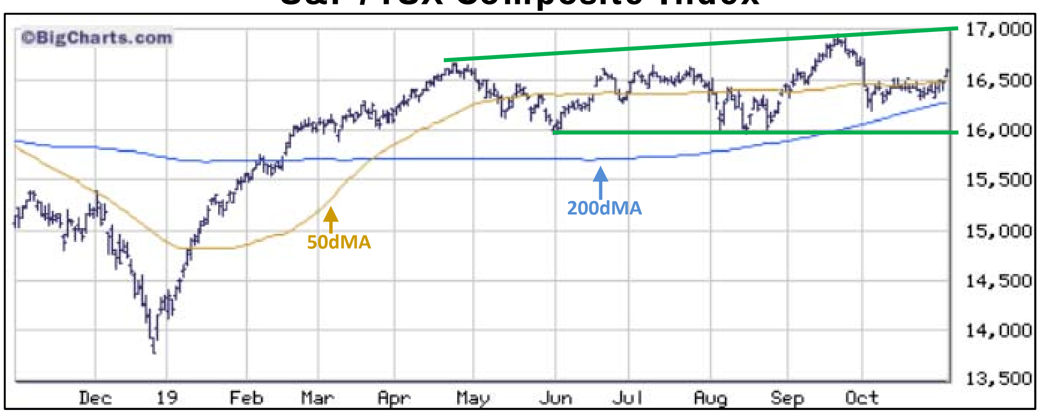
The S&P 500 responded by tracking higher for the rest of the month, first breaking through the mid-September high at 3,022 and then the all-time high at 3,028, and then advancing to more new all-time highs last week, closing at 3,067.

The S&P 500 is still tracking within its upward sloping trend channel of the past six months. The upper boundary of that channel is just above 3,100 and the lower boundary is 2,900, close to the rising 200-day Moving Average. Within the trend channel there is overhead resistance posed by the 6-months long trend line that rests near 3,060. The recent rally has turned the 50-day Moving Average upwards, to provide support at 2,970.

The latest rally carried 211 points from October 3rd to November 1st. A one-third pullback to digest recent gains suggests targets just under 3,000.

After an excellent and bullish October, the S&P 500 can easily take a small pause. Some consolidation in the low 3,000/high 2,900 area could set the stage for a push higher as November proceeds.

S&P/TSX Composite Index



The S&P/TSX Composite Index spent the spring, summer and early autumn in a sideways pattern, with a brief breakout to a new all-time high in September that was quickly pushed back into the trading range. Throughout this action the overall price pattern of higher highs and higher lows from last December has remained intact, and the bull/bear battle since February has been entirely above the 200-day Moving Average.

We said two weeks ago that further strength building in the low 16,000s would be helpful. October trading in the S&P/TSX Composite Index was mostly sandwiched in a tight range between the 200-day and 50-day Moving Averages. Above this range lies some overhead resistance in the 16,660 to 16,700 area and from there it is a short distance to a final resistance zone between 16,950 and 17,050. Short term support lies between 16,270 and 16,350. The bullish outlook remains intact as long as the S&P/TSX Composite Index remains above 16,000.

Toronto now needs the emergence of some sustained leadership to lead it upwards. Autumnal selling pressure has been absorbed well, the market is not overbought and the ingredients are in place for a new up leg. The S&P/TSX Composite Index is poised to start a sustained rally that will turn its 50-day Moving Average upwards.

Dow Industrials

A month ago our assessment of the Dow Industrials concluded "We expect the Dow Industrials will absorb any remaining selling pressure in the weeks ahead while trading between the 200-day Moving Average and the all-time high. Once this is done a strong advance above 27,398 should appear."

The Dow Industrials continued to trade in October between the two levels cited above, with the 200-day Moving Average stopping a sharp decline early in the month. The Dow Industrials closed the end of last week near the top of its trading range. The Dow Transports, while still lagging, are near the top of a five month range.

The longer-term and intermediate-term pictures remain very positive. For nearly two years the Dow Industrials have traded in a broad sideways pattern, and since mid-February almost all of the action has been above the gently-rising 200-day Moving Average. Since early June the price pattern has been an "ascending triangle" which usually resolves itself to the upside. There is overhead resistance at the all-time high of 27,398 and further resistance at about 27,600 where a trend line joining several intermediate peaks rests. A sustained move above these resistance points would be very bullish. A breakout above the ascending triangle generates a minimum target of 29,000. The 26,000 to 26,200 area offers good support.

The Dow Industrials is not overbought, but can easily tolerate some further volatile trading for the short-term on either side of 27,000. We expect to see an eventual upside breakout and a push into the 28,000s.

FTSE

At the beginning of October we noted that the FTSE was rallying toward an important zone of overhead resistance between 7,500 and 7,550. The FTSE petered out just before reaching that resistance zone, then declined sharply, and spent the rest of October in a gradual recovery. Even though the London market is well-off its all-time high, the FTSE's daily advance/decline line continues to make new all-time highs.

From its late-July high at 7,727 the FTSE has now spent the last three months in a trading range between 7,000 and 7,450. Just over 50% of the November 2018 to July 2019 advance has been re-traced, so this period looks increasingly like a corrective one. With the mid-December U.K. election looming we would expect that this trading range will continue for some time. Any sustained move above or below this trading range prior to voting day would be significant.

The FTSE's pattern in 2019 is for frequent re-tests of support in the low 7,000s, and each time this area has held fast. This is encouraging, but the positive picture will change if the FTSE should ever break down below 7,000 for a sustained period of time.

The FTSE is currently near its still-rising 200-day Moving Average. To the upside there is overhead resistance at 7,350, then at 7,450 and finally in the 7,500 to 7,550 area. These are significant obstacles for any future rally to overcome.

We expect that the FTSE's recent horizontal pattern will continue into December, with some volatility. If the advance/decline line continues in its positive vein, an upside resolution to the trading range is possible before the end of the year.