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THE S&P 500 ACCELERATES TO NEW ALL-TIME HIGHS, BUT A MORE VOLATILE AUTUMN IS EXPECTED.

In the last two weeks the S&P 500 broke above its previous all-time high that it reached in February. The Index has joined the NASDAQ in the bull market nirvana, where visible upside resistance seems to have disappeared. The Dow Industrials is rapidly closing in on its old high, and the NYSE Composite, Russell 200 and S&P/TSX Composite Index continue to make new recovery highs.

What is most impressive is the sustained "higher high and higher low" price pattern in the S&P 500's daily chart. The major uptrend line from March remains intact. Each selling phase continues to be met by renewed buying – bearish forces have been unable to obtain any "follow through" when prices give a hint of weakening. Until the overall price pattern changes, investors must continue to assume that the path of least resistance remains up.

The story of these bullish summer months is twofold. First, the S&P 500 has put distance between itself and its 200-day Moving Average. From the 3,000 level the Index has moved steadily higher, gaining nearly 17% in the last two months – and over 150 points in the last seven trading sessions. And this recent performance followed a huge leap off the March lows. Currently the S&P 500 is 12% above its 200-day Moving Average, exceeding the 9% gap that existed at the old high in February 2020 and just shy of the large gap of early 2018. The 2018 gap was resolved by a pullback to the 200-day Moving Average; the 2020 gap disappeared with the COVID-19 sell off. Second, any potential internal weakness, such as emerging negative divergences in internal momentum, has been easily cast aside by the bullish charge higher.

New York has also spent the summer gradually building up an overbought status. The NYSE daily advance/decline line, including its common stock-only version, is starting to lag as the markets move higher. The number of new 52-week highs is not expanding. Not as many NYSE stocks are trading above their respective 50-day Moving Averages as earlier in the rally. Sentiment, a contrary indicator, continues to become more positive – 60% of investment advisers polled by Investors Intelligence are now bullish, the highest figure for 2020. The Volatility Index's (VIX) recent behaviour has not confirmed the new highs in the S&P 500. And, as we have said before, the often uncertain and volatile September/October period is about to unfold.

The major trend remains up. But the S&P 500 has come a long way in a short period of time and looks increasingly extended. The immediate challenge for the Index is to stay above 3,400 and extend its gains. We doubt that it can accomplish both objectives during September and October without having a healthy pullback somewhere along the way. In sum, the summertime gap between the S&P 500 and its 200-day Moving Average is going to narrow in the autumn.

Toronto's S&P/TSX Composite Index has consolidated its position above its 200-day Moving Average, supported by some renewed strength from the big Banks. But the Index is still trapped within a "rising wedge" price pattern (see chart, next page) and is near considerable overhead resistance. The number of Index stocks making new 52-week highs has tailed off in August and the daily advance/decline line is yet to confirm recent strength. Toronto seems increasingly poised to enter a period of greater volatility, and a move down to the 200-day Moving Average is very possible.

The S&P 500's new all-time high confirms the underlying long-term strength of this bull market. But now in month six of an astonishing rally, the S&P 500 is getting into rarified heights as it moves into the post-Labour Day period. With prices rising and some oscillators falling, cracks are beginning to appear in this rally. While we see some further limited upside, the risk is growing that a healthy pullback is just around the corner. The sky is not the limit.

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S&P 500

After a slight hesitation the S&P 500 broke through its previous high at 3,393, and then accelerated higher, moving easily through trend-line related resistance near 3,430 and then quickly exceeding 3,500. The RSI (relative strength) measure of internal momentum matched this move, reaching its highest point since early 2018. By this measure the S&P 500 is increasingly overbought.

With considerable price momentum behind it, the S&P 500 could still move higher, even above 3,600 – this is <u>not</u> a target, merely an indication of a possibility. Much more likely, given the extended nature of the current advance, is that the S&P 500 will stall out well short of this target.

When the S&P 500 eventually pulls back, initial support should appear near 3,400. Below that the lower boundary of the trend channel is near 3,350 and the sharply rising 50-day Moving Average is near 3,250. The area from 3,200 to 3,250 is a solid area of support.

The S&P 500 continues to resolve any doubts by moving bullishly higher. The recent acceleration in price gains may be a sign that upside price exhaustion is soon to appear. It is very unlikely that September will be immune from a visible pullback.

S&P/TSX Composite Index

The S&P/TSX Composite Index's upside progress has slowed considerably in August. The Index did make a new recovery high later last week but the nagging problems of slowing internal momentum, a lagging daily advance/decline line and fewer stocks making new 52-weeks highs remain. Toronto's daily price pattern continues to move within a narrowing "rising wedge" – the historical odds favour a break down from this type of pattern.

The S&P/TSX Composite Index is now trapped within a range bounded by 17,000 to the upside and 16,500 to the downside, just above the 200-day and 50-day Moving Averages. Any move above last week's high of 16,835 enters the late-February "gap" area (another resistance zone). A sustained move below 16,500 would pull the Index below the "rising wedge" and immediately put downside pressure on the Index down to at least the 200-day Moving Average.

The S&P/TSX Composite Index's upside momentum is waning. This could be a problem if it wants to reach its all-time high at 17,970. But internal weakness suggests that the next significant move will be to the downside, testing the support of the 200-day Moving Average. The August doldrums should give way to a period of greater volatility post-Labour Day.

Dow Industrials

A month ago we concluded that the Dow Industrials were consolidating and that "if the recent trading range can be defended then it is possible that the next important move . . . will be a breakout above the June 8th peak at 27,580."

The Dow Industrials are now catching up with other major market indices. The Index broke through 27,580 and then last week moved through further overhead resistance offered by a two-year+ trend line that joined some major peaks going back to early 2018 (not shown). The next upside obstacle is the "gap" in the daily price chart that formed in late-February and beyond that it is a short trip to a new all-time high. The Dow Transports continue to move strongly higher, confirming the behaviour of the Industrials.

Nearby support can be seen from 27,500 to 28,000 and staying above this zone would be very bullish. The 50-day Moving Average, which has supported the Dow Industrials since mid-May, rests near 26,850. While the Index is not overbought the daily advance/decline line and its volume-weighted version are both slightly lagging and need to catch up.

The Dow Industrials have come alive in recent weeks. The immediate challenge is to consolidate the recent upside breakout and maintain a foothold above 28,000. If that is achieved then a move to 29,000 is possible.

FTSE

Our overall assessment of the FTSE for the past few months is an attempt at base-building as part of the recovery from the February and March decline. That process continued in August with the FTSE trading in a tight range between 5,900 and 6,300, and mostly just below its 50-day Moving Average.

A month ago we concluded that a one-half retracement of the initial recovery from the March low was possible, with a pullback target of about 5,700. That possibility is still in play. The FTSE is seeing recent support around 5,900 but that level could come under renewed pressure in September.

To the upside the 6,500 level is looming as key. It is the location of the 200-day Moving Average. It is also the area that provided key support in halting a decline in late 2018 and acted as overhead resistance in June 2020. All trading action below 6,500 can be considered part of the base-building process. A move above 6,300 would be encouraging, but it is the 6,500 level that is more crucial in the bull/bear battle.

The FTSE is still building a platform below 6,500. A re-test of support at 5,700 in the coming weeks would be a normal part of that process.