

November 28, 2023

Continued Rally or Potential Pullbacks?

Summary

Resistance in the SPX may produce some profit-taking, but the quality of any pullback period that may occur will be an important guidepost in determining if a long-term topping process is developing. Considering favorable seasonals, the Bulls have the ball.

A Question of Quality

- The rally off the October 2023 low has been sharp, significant, and basically straight up, predominantly in the Large Cap/Growth complex on a year-to-date basis.
- Domestic equity market proxies have approached previous price peaks, or areas of overhead selling pressure (resistance). Figures 1 and 2.
- If the current rally is going to record a new reactionary high and extend into 2024, breadth indicators need to surpass their July/September peaks. Figures 3 and 4.
- If, instead, equity market proxies make new reactionary highs and all-time highs (ATH) and breadth indicators record lower peaks, as occurred in late 2021 and early 2022, a long-term topping process may be developing.
 - In either case, the quality, in terms of depth, breadth, and sentiment, of any pullback/consolidation period going forward will be an important guidepost.

Figure 1: S&P 500 with momentum (MACD). | With momentum waning (top frame), the SPX has approached an area of resistance, as shown by the downtrend line connecting the January 2022 all-time high and the July 2023 price peak. Ideally, this produces some profit-taking. The quality of any pullback/consolidation period in terms of depth, breadth, and sentiment will be an important guidepost. Considering favorable seasonals, the Bulls have the ball.



Figure 2: Small Cap proxy. | The “January Effect” happens when small caps outperform during the last half of December, after tax-loss selling. Before we can expect this, IWM needs to decisively close above its most immediate reaction price peak (resistance).



Figure 3: Year-to-Date Performance and Internal Equity Market Measuring Tools. | These indicators will need to exceed their prior peaks (blue vertical lines) if and when equity market proxies do.

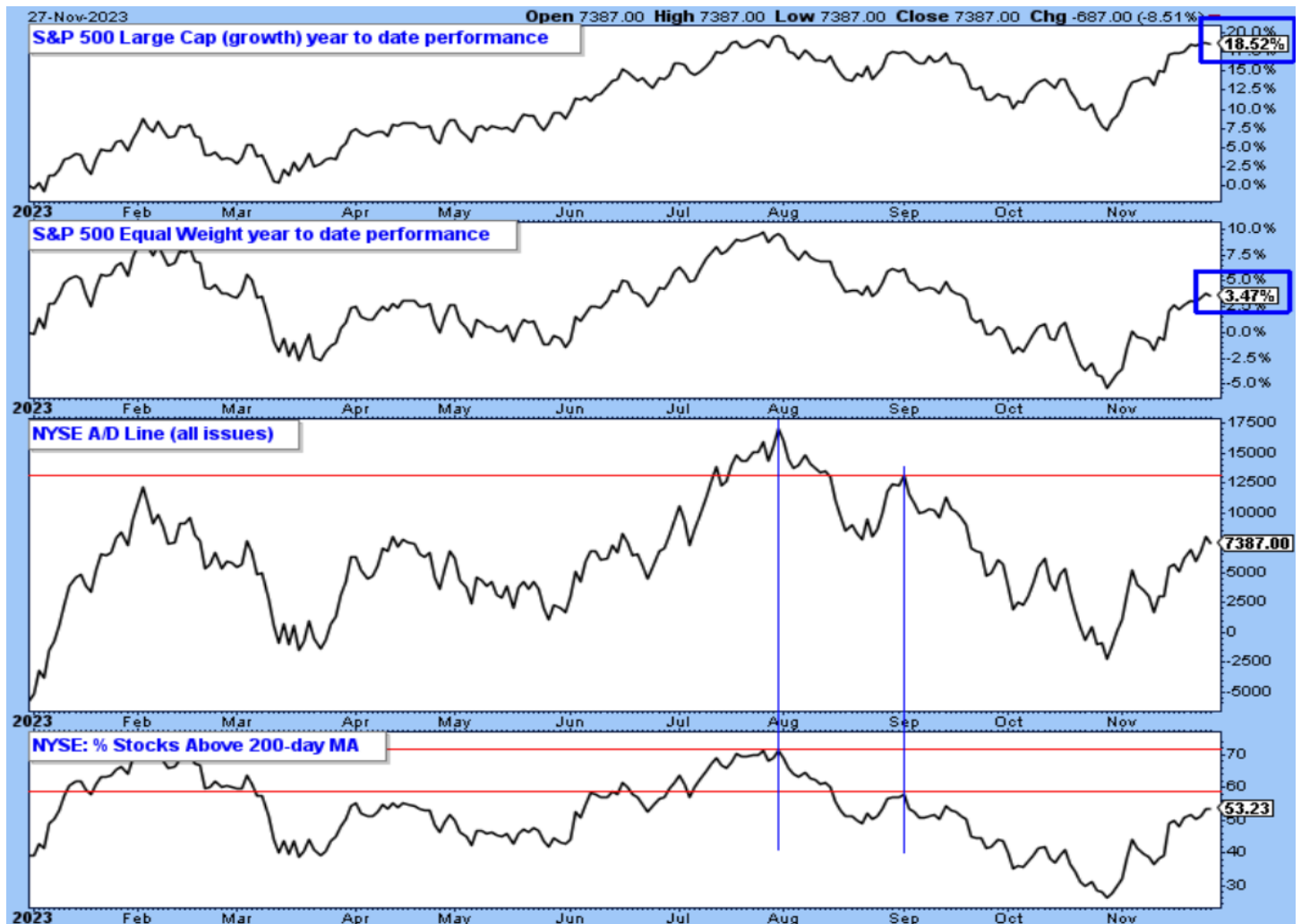


Figure 4: Various Internal Equity Market Measuring Tools. | These indicators will need to exceed their respective prior peaks if and when equity market proxies do.

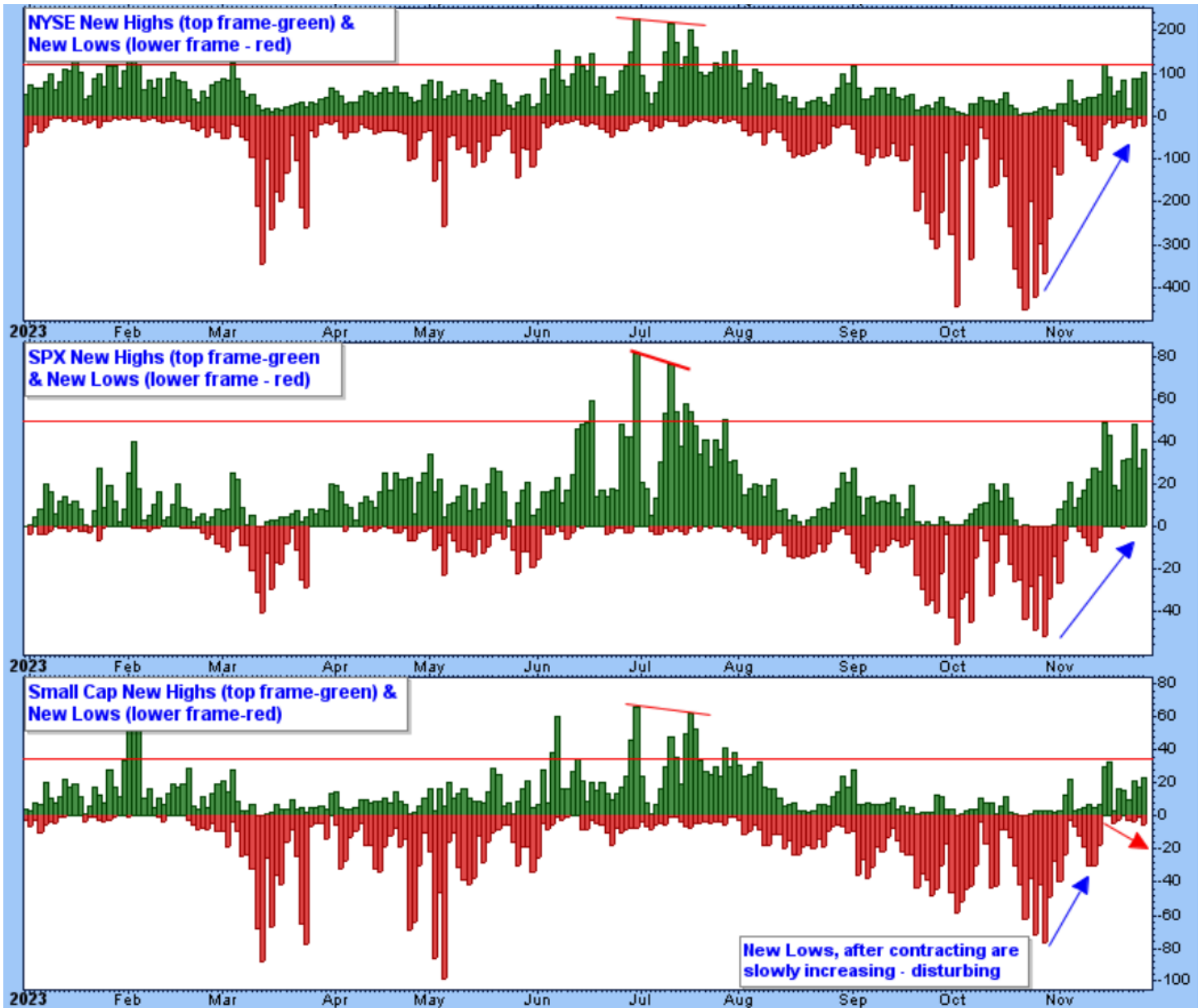
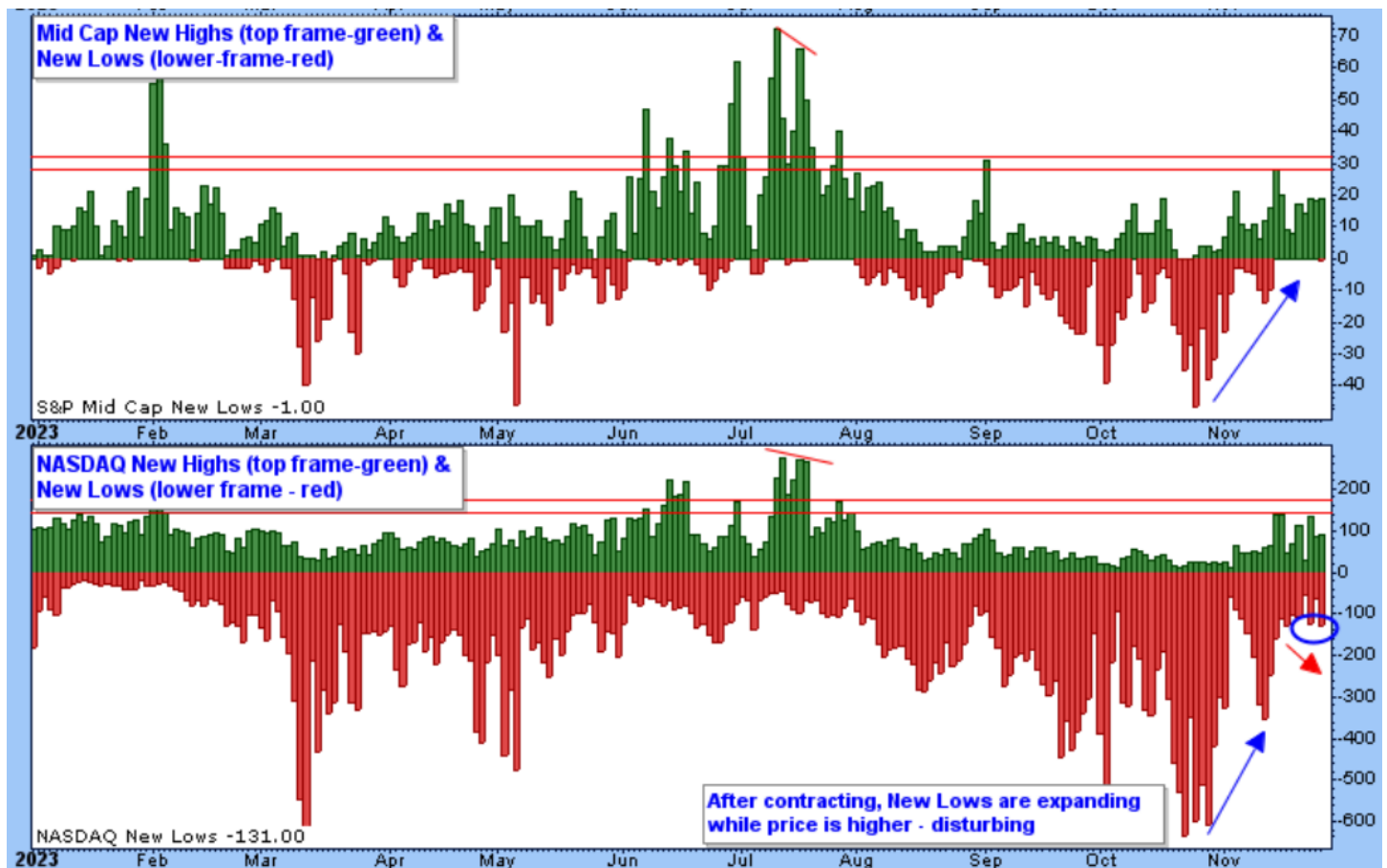


Figure 5: Mid Cap and NASDAQ New Highs



Note: Other internal equity market measuring tools include Advancing volume vs. Declining volume, Small Cap (and micro) performance vs. Large Cap, U.S. Dollar weakness vs. strength, and percentage of stocks/markets above certain moving averages

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