

March 12, 2024

Sugar High to Gut Check

Summary

Sir John Templeton once said, "Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria." While I am not saying that the S&P 500's uptrend has run its course, **following last Friday's tape action** (more below) I believe Wall Street's sugar high (a state of hyperactivity caused by excessive consumption) towards a certain segment(s) of the equity market has produced a *gut check*—a test or assessment of courage, character, or determination.

Key Reversal

A **key reversal day** is defined as the following: in a strong uptrend, prices open to new highs (gap open), reverse sharply, and then close lower (below the previous day's closing price). The wider the price range on the key reversal day and the heavier the volume, the greater the odds that a reversal is taking place.

Considering our summary statement and last Friday's key reversal, from up to down, is it too soon to apply this observation to a certain segment of the equity market? E.g., semis, NVDA and/or technology vs. SPX (please reach out for the key reversal charts of these), NYSE FANG+ Index vs. NYSE Composite [Figure 1]. Interestingly, on a YTD basis through last Friday (3/8/24), NVDA, AMD, and a semiconductor proxy were up almost 77%, 41%, and 29% respectively (sugar high and now gut check time). The S&P 500 (SPX—Figure 3) was up less than 7.5% during the same period.

Figure 1: NYSE Fang Plus Index vs. NYSE Composite. | Following a pattern of lower peaks, a breakdown (move below previous low) & violation of a rising 50-day MA, please focus on next support—green lines.



Bottom Line: The key guidepost, for the ratio shown in Figure 1, and the key reversals of the examples mentioned above, is whether there is downside follow-through or not. Downside follow-through would lock in tops of an unknown time period, while an immediate reversal higher (new highs) would imply my concern over last week's key reversal was overblown.

What Else Are We following?

Given the Technology vs. SPX ratio chart highlighted a few times recently, I find Figure 2 interesting.

Figure 2: NASDAQ Cycle Composite for 2024. | While seasonal tendencies can be overshadowed by Fed speak, algo trading, and macroeconomic trends (employment, inflation, economic activity), and we consider this a second-tier indicator and not part of the Smart Sector strategy models, this chart is worth being aware of. It suggests **seasonal headwinds**. Tactically, I would review risk parameters relative to "anything Technology," especially if it experienced a key reversal as described above.

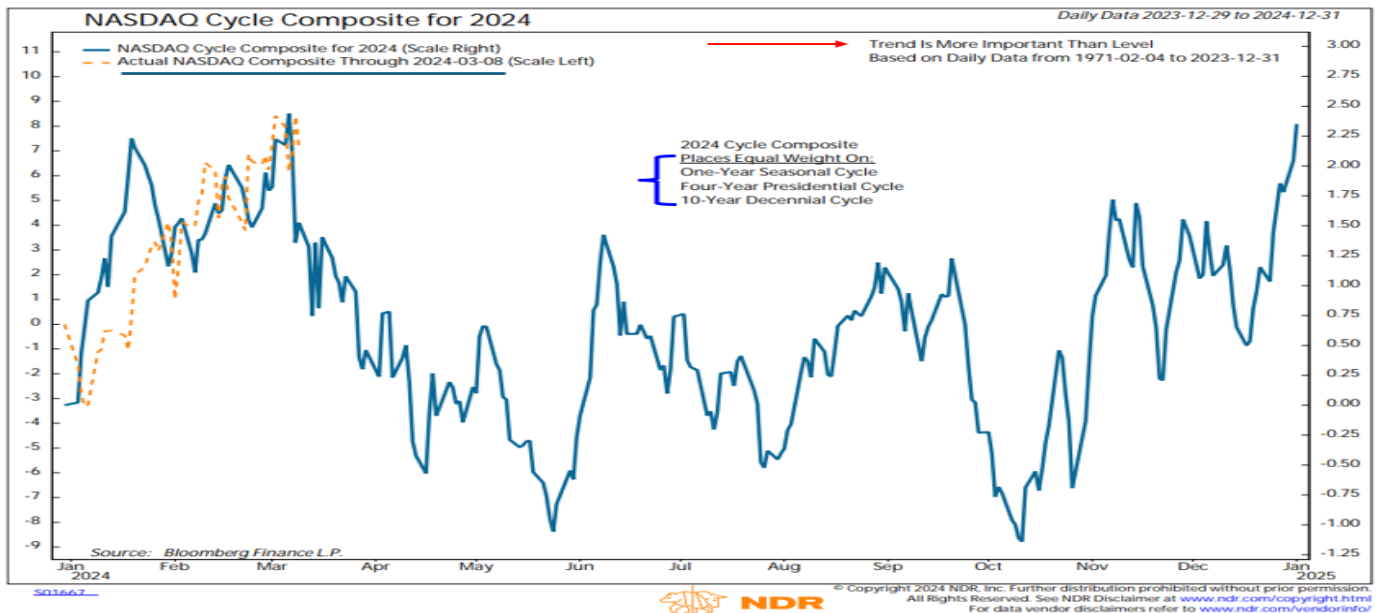


Figure 3: S&P 500. | Support between 5060 to 5050 held—green lines. If this area is violated it would represent a change and imply a move down towards 4950/4920 (blue arrows), for starters.



Please let me know if you would like to schedule a call to go over the process and discipline underpinning our **Smart Sector with Catastrophic Stop**, **Smart Sector International**, and/or **Smart Sector Fixed Income** strategies. Disclosures and Fact Sheet information can be found here: <https://dhfunds.com/literature>.

Day Hagan Asset Management appreciates being part of your business, either through our research efforts or investment strategies. Please let us know how we can further support you.

Art Huprich, CMT®
Chief Market Technician
Day Hagan Asset Management

—Written 3.10-11.2024. Chart source: Stockcharts.com unless otherwise noted.

Upcoming Events

[Day Hagan/Ned Davis Research Smart Sector® with Catastrophic Stop, hosted by Art Day, on March 20, 2024, at 1:15 p.m. EDT](#)

[Day Hagan/Ned Davis Research Smart Sector® with Catastrophic Stop, hosted by Art Day, on March 20, 2024, at 4:15 p.m. EDT](#)

[Day Hagan Technical Analysis, hosted by Art Huprich, CMT, on March 26, 2024, at 4:15 p.m. EDT](#)

Disclosure

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For more information, please contact:

Art Huprich, CMT

Art.Huprich@DayHagan.com

For more information, please contact us at:

Day Hagan Asset Management

1000 S. Tamiami Trail

Sarasota, FL 34236

Toll Free: (800) 594-7930

Office Phone: (941) 330-1702

Website: <https://dayhagan.com> or <https://dhfunds.com>