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THE BULL'S RECOVERY RALLY REACHES AN IMPORTANT INFLECTION POINT. IT'S "LAST CHANCE" TIME FOR THE BEARS.

The S&P 500 has been in what we have called a "recovery rally" since its spike bottom on February 9th at 2,533. This rally is now in its fifth week and has enabled the S&P 500 to regain over three-quarters of the late January/early February loss. Other major market indices in New York have also recovered recent losses to varying degrees, with the NASDAQ actually making a new all-time high and the Russell 2000 nearing its old highs. The S&P 500's recent advance looks quite good. The Index rose strongly off the early February low, pulled back briefly and then made a new recovery high. We said two weeks ago that if the S&P 500 could sustain a decisive move above 2,750 then the recovery could get as far as the low 2,800s – this point was touched on Monday.

With so many deeply oversold readings on momentum and sentiment oscillators in early February, with the S&P 500 having recovered so much of its previous losses and with the NYSE daily advance/decline line still in very good shape, *an argument can be made* that "the correction was severe, brief and is already behind us." From the January 26th all-time high to the February 9th low at the 200-day Moving Average, the S&P 500 daily chart shows a quick down-up-down pattern. This could qualify as the "A-B-C" correction that we have been looking for. To clinch this argument the S&P 500 and most other major market indices in New York will need to exceed and stay above their late-January highs. The ability of the NASDAQ to hold onto its recent breakout to new all-time high is particularly impressive.

We readily concede that the correction could be over, and we would be delighted to see new bull market all-time highs very quickly. However, the jury on this correction is still out and the case is not yet closed. The A-B-C corrective pattern could be a multi-month process, rather than being confined to the ten trading days of late January/early February. The key area to watch to the upside is now the space between 2,800 and the all-time high at 2,873. Getting through this zone is a necessity for "bulls in a hurry." For "bulls that are more patient" the February 9th low is still a potential candidate to be re-tested. The prospects for this re-test will increase if the S&P 500 moves below the recent minor low at 2,647. If that occurs, then the ball is in the bears' court to try and drive the Index much lower. Our overall continued bullish outlook means that we expect the bears will ultimately fail. Regardless of whether this is a "flash correction" or something more prolonged, the S&P 500 is destined to make a new all-time high above 2,873.

Toronto continues to underperform the S&P 500. The S&P/TSX Composite Index has recovered about 60% of its decline from early January, but is still struggling to stay above its 200-day Moving Average. On the positive side the Index is meeting our short-term requirement to stay in the low to mid-15,000s as a way of building up strength. But the S&P/TSX Composite Index is still awaiting the emergence of strong sectoral and individual stock leadership to move it much higher. The fact that less than 40% of S&P/TSX Composite Index stocks are currently trading above their respective 50-day Moving Averages illustrates Toronto's sluggishness – this percentage needs to increase significantly.

In sum, the February 9th low was clearly an important low, but whether it was the final low in this corrective phase remains to be seen. New York's general condition has improved in the last month, suggesting that it will be able to resist any renewed selling pressure that may appear in the next few weeks.

We expect that the uncertainty about the length and extent of the corrective period will be resolved by early spring. The prospects remain strong that the S&P 500 will see new all-time highs.

PAC-18-38; MKT-435; March 14, 2018

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S&P 500

From the February 9th low at 2,533 the S&P 500 made an initial recovery high (2,789) followed by a higher low (2,647) and then a marginally higher high (2,802). This is a positive pattern that has taken the S&P 500 back above its 50-day Moving Average. The Index is currently moderately overbought but has room to move higher in the short-term.

The S&P 500 now faces two issues. First, if it continues to rally how will it react if and when it reaches the all-time high at 2,873? Second, if the S&P 500 breaks below its recent low at 2,647 will this act as the trigger for a move back down to test the low at 2,533? Short-term overhead resistance lies at 2,800 and support at 2,650. Should the S&P 500 decide to rest and consolidate its recovery, the 2,650 to 2,800 zone is the likely place to do so. The rising 200-day Moving Average and the two-year up trend line are at about 2,575.

We expect that there will be some renewed selling pressure to push the S&P 500 back below 2,700 before any new all-time high is made. But this would be the last gasp of the bears. The odds are increasing that the February 9th low is the extreme low point of this correction.

S&P/TSX Composite Index

The S&P/TSX Composite Index is now approaching the 15,800 to 16,000 zone of overhead resistance. Its first encounter with this area in late February was quickly pushed back. The declining 50-day Moving Average is also in this area, providing a further potential obstacle to upside progress. The S&P/TSX Composite Index has moved slightly above its flattening 200-day Moving Average (currently at 15,600) but this is also a source of potential upside resistance.

Major support remains at the 15,000 level, which is critical for the bulls to defend. Above this the early March low at 15,287 may provide some minor support.

Having shown some recent strength in the 15,000 to 15,500 area, Toronto's challenge now is to demonstrate its staying power in the 15,500 to 16,000 area. If successful, this would secure the position of the S&P/TSX Composite Index above its important 200-day Moving Average and provide a platform for a further advance.

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