

PHASES & CYCLES®

THE BULLS ARE STILL RUNNING STRONG BUT COULD PAUSE TOWARD LATE-NOVEMBER BEFORE RESUMING THE UPTREND

In our previous Market Comment, we suggested that the bulls had been running strong but that a brief pause could provide some relief. Markets climbed the proverbial “wall of worry” over fears about inflation, interest rates, wars in Ukraine & the Middle East, and the U.S. Presidential election, to new all-time highs during the first half of October. However, over the second half of the month the major indices declined back toward their respective 50dMAs. Markets concluded the month relatively flat: the SPX down 1.0%, TSX up 0.7%, DJI down 1.3% and NYA down -1.4%.

The market’s reaction to the reelection of Donald Trump prompted a rally to new all-time highs for the DJI and SPX as of the time of writing. And to satisfy the Dow Theory experts, the DJT also had a breakout to a new three-year high.

Investor sentiment remains bullish with the number of bulls at 56.7% this week as per Investor’s Intelligence. Bull readings exceeding 60% are a signal of very high risk of a correction. For example, in July bull readings were at

64% and the indices pulled back toward their respective 200dMAs soon afterward. We caution that a further rally would likely turn more investors bullish, which could push the bulls into the 60%-zone.

The decline in markets at the end of October coincided with the maturation of the 39-week cycle. The next cycle maturation is expected in late-November, meaning that there could be some market weakness in late November followed by more bullish activity in December.

Bull markets are characterized by “upside surprises”; evidence of this was seen as the indices continued to experience higher highs throughout September and October, the time of the year which is historically weak. Pullbacks in sound stocks should be treated as buying opportunities. The longer-term outlook remains very positive and any further potential downside that may occur near month-end should find good support near their respective 50dMAs and 200dMAs.

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The major indices rallied to new all-time highs mid-October, near the top of their respective rising channels (dotted lines) before pulling back toward their 50dMAs near the middle of the channels in late-October (shaded areas). At the time of writing indices appear to be heading toward the top of the channels once more. Although the markets could rally

higher over the days to come, the maturation of the 39-week cycle should be considered. If the cycle maturation in late-November brings some weakness, the indices have considerable support first near their respective 50dMAs and again near the 200dMAs, which are currently resting 5-7% below the 50dMAs.

Dow Jones Industrial Average (DJI) DAILY CHART – ONE YEAR



S&P 500 Index (SPX) DAILY CHART – ONE YEAR



NYSE Composite Index (NYA) DAILY CHART – ONE YEAR



S&P/TSX Composite Index (GSPTSE) DAILY CHART – ONE YEAR

