If It Looks Broken, It Probably Is

When trends change, it's "sell the rip" that makes more sense than the bull market mantra of "buying the dip". The main question therefore for US equities is whether the trend has really changed - because if it has, then strength in earnings is not enough, positioning needs to change. In our view, not only is the uptrend broken, it's too soon to look for buying opportunities - fade the likely "dead cat bounces”.

<u>What Will Change The View</u>

Assessing future market direction requires, at the minimum, considerable humility. While the base case is bearish, it's important to note what will negate this bearish view

(a) change in trend - restoration of uptrend - higher highs and higher lows on daily charts initially and eventually on weekly charts

(b) positive positioning on indicators - RSI above 50 initially and eventually above 60 and trending upwards; positive MACD cross-over

(c) Rotation of leadership back to growth stocks/ sectors, especially those delivering strong earnings momentum

How to Position

Equities - Rallies, highly likely, are opportunities to lower risk and hedge positions. Unless we see a clear breakout above 5500 initially and 5670 eventually, the trend remains down.

Support and Resistance - 5000 is near-term support with considerable support in the 4800 area. Resistance, initially at 5500 and eventually at 5670.

Bonds - Similar to relief rallies for equities, bonds are likely to see near-term reversals too - these are buying opportunities, especially to extend duration. While not a given, FED Funds Futures are pricing in more aggressive rate cuts with Sep being a 50bp cut (as noted in our report "The FED Really Did Miss a Trick".

Gold - Has broken out of a 4-month long congestion zone. While it is currently witnessing a pullback, Gold should find support in the 2400 area. Outperformance for gold, a classic flight to safety trade, is a highly likely event.

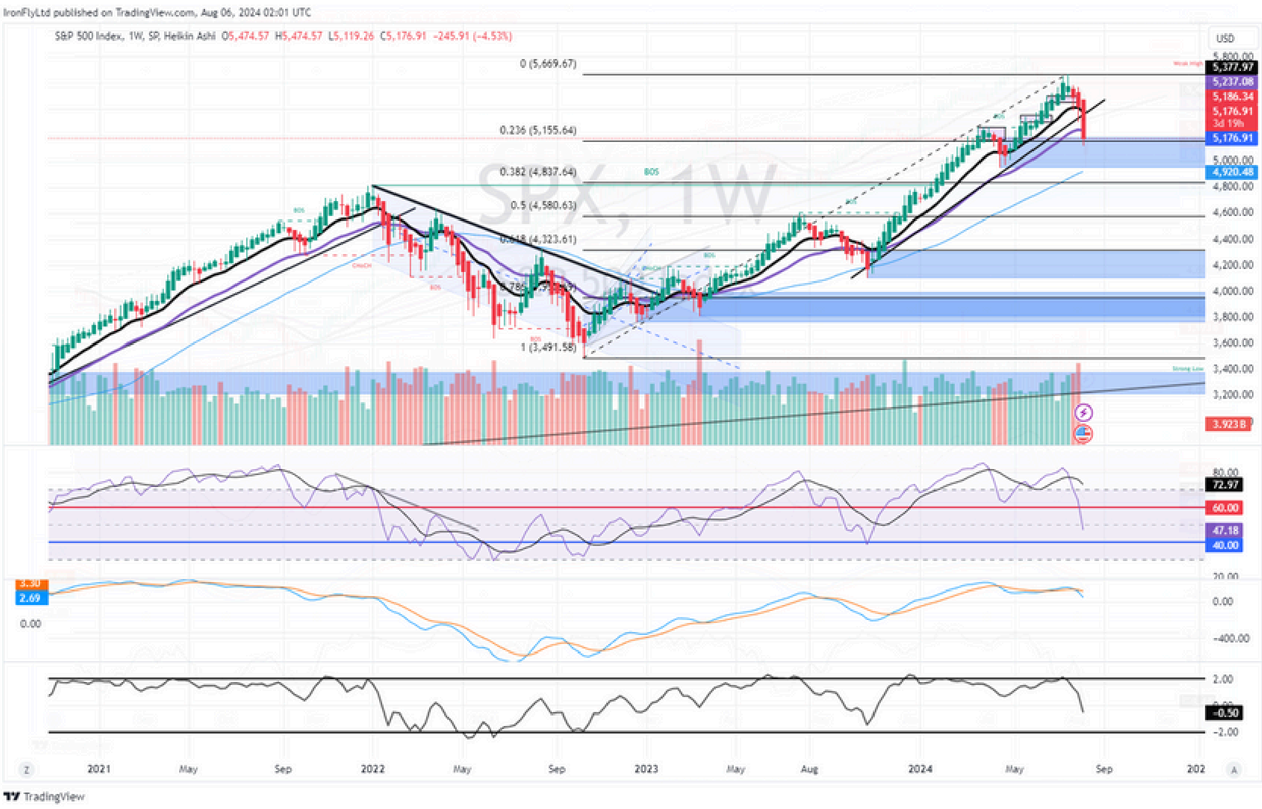
The Medium-Term Picture

- Uptrend from Nov'23 lows broken
- SPX closed below 12week EMA and also 26week EMA
- Early stages of a bearish MACD cross-over
- RSI at 47 suggests a downtrend and not quite at extreme levels
- Z-score at -0.5 suggests a far from oversold market

Notwithstanding short-term gyrations, it's the deterioration in the weekly charts that is of concern. Aside from breaking below key moving averages and the uptrend-line, momentum has turned bearish, even as the index remains trending (downwards).

While it's highly likely that the index bounces off support (5000-5200; current 5186), breakout above the mid-July high of 5670 is needed to restore the bullish view.

SPX - Weekly Chart - a Bearish Hue



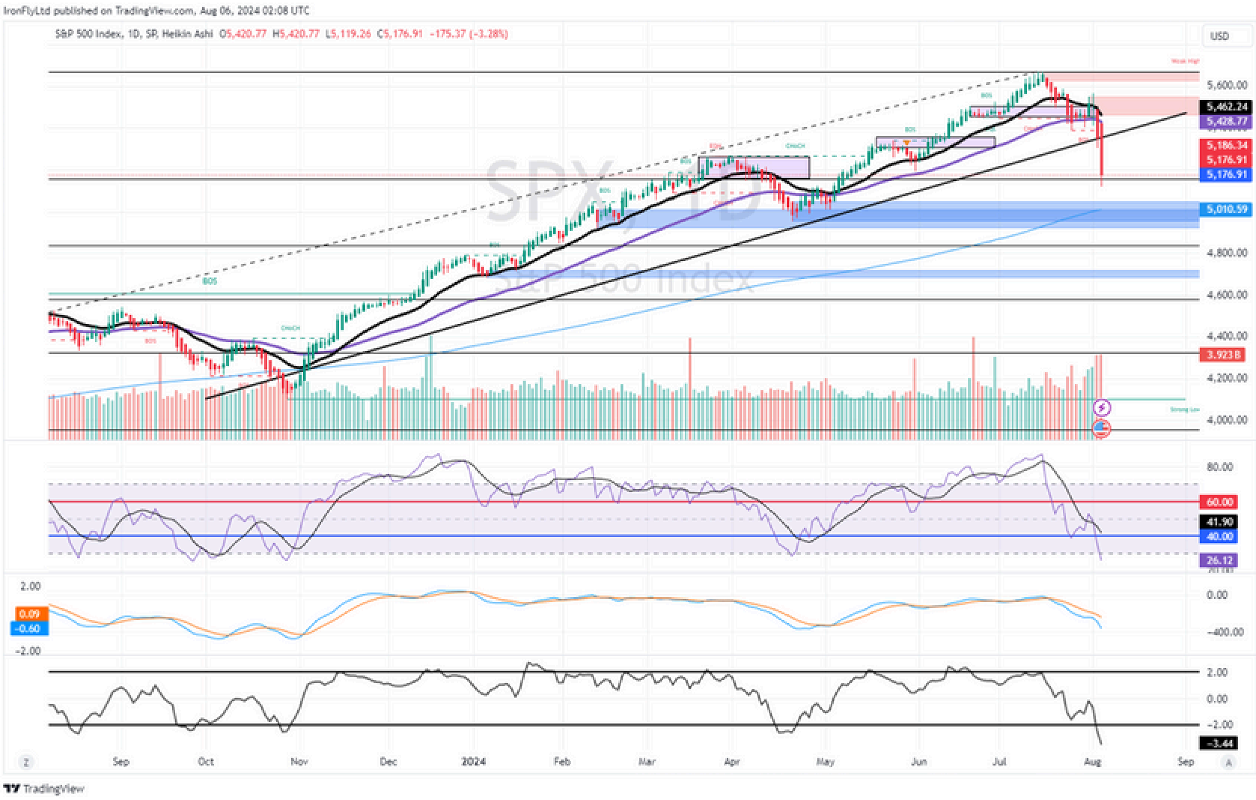
source: TradingView

<u>The Short-Term View</u>

- Index below 20 and 50 day EMA (and of course the trend break)
- Short-term trend shows lower highs and lower lows
- Z-score at -3.44 represents an extreme suggesting a high likelihood of a bounce (a bounce to faded in our view)
- RSI at 26 is oversold - but the momentum is clearly weak
- ADX at 41 (and pointing upwards) suggests that the index is in a trend (a downward one)
- MACD is bearishly poised.

Daily charts, more volatile by definition, are pointing to an extreme positioning which should typically support a short-term bounce. However, given the trend change (and the fact that the index is still trending, but down), **a considerable reversal (above the end Jul 5500 levels) is needed as a first step to restore any bullishness.**

SPX - Daily Chart - Oversold - Dead Cat Bounce Likely



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