Capital Market Commentary: October 28, 2024

Updated SPX Support and Resistance Chart for whatever lies ahead.

Over the course of the past two weeks, the S&P 500(SPX) has not only broken through resistance but has maintained above this level long enough for me to update my central SPX support and resistance chart.

The chart below reflects the conversion from what formerly was resistance to now representing Upper Support. As of this writing, the bullish primary trend remains in place.

(Source: Tradingview)

The reason why I use multiple levels of support is that they represent levels where buyers and/or sellers previously made a stand that either held a trend in place (by defending support) or potentially ended a trend (by breaking support):

- A break of Upper Support provides an early warning/signal that the current uptrend might be in jeopardy.
- A break of Lower Support is a more actionable signal that would trigger defensive positioning.
- ***Signals*** typically trigger a change in portfolio positioning.
- ***Conditions***, like the ones currently represented by the negative divergences shown in a number of technical indicators, only serve as warnings that the trend is not being validated internally.

Conditions can be easily cleared, where signals imply more important changes in trend might be underway.

Please note that I use the same support/resistance analysis on each position owned:

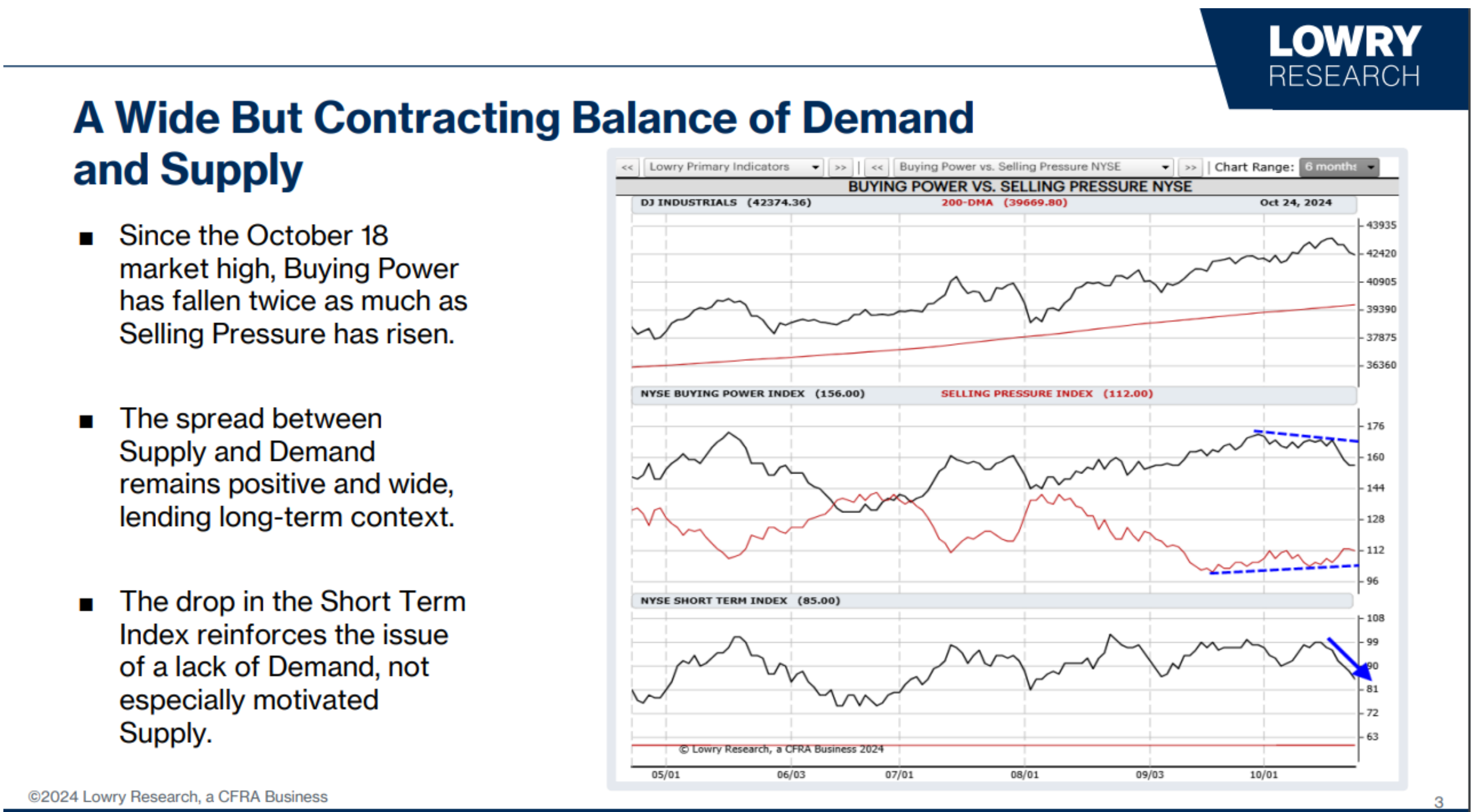
- If a position breaks support and the internal technicals have weakened enough to trigger a sell signal, action is taken.
- Conversely, if there is an investment candidate that holds support and there are positive divergences in place, this setup typically makes for a good entry point for initiating a position.
- I also monitor the relative strength between all asset classes and sectors, so when there is a sector or asset class that is strengthening, this represents an opportunity to “trade-up” into strength.

Point and Figure charting is the most commonly used technical tool for evaluating relative strength and something I use every day.

Ok… back to the chart above.

I have also adjusted the annotation on the chart identifying important levels that, if broken, would signal that a more important top might have been struck and to be prepared for a more significant market decline. And in case the “VERY BEARISH BELOW HERE” level or the “BELOW HERE SECULAR BEAR MARKET” level is breached, whatever level SPX topped at would possibly have signaled the start of the next secular bear market. Capital markets have been in a secular bull market since the end of the Great Financial Crisis (GFC). That’s 15 years and counting and can still go on for years. However, at some point, this trend will end, and a new secular bear market will begin. What is shown on the chart represents levels that, if broken, would indicate such a market change having occurred.

Moving on to breadth and demand, breadth remains supportive while demand, best shown in Lowry Research’s Buying Power (BP)/Selling Pressure (SP) indicator shows a greater decline in BP than a rise in SP. This represents at present more of a “buyers strike” than anything more ominous.



(Source: Tradingview)

Of greater concern would be the return of more intense selling, which currently is not occurring, but something to watch for in the weeks ahead as the setup is there for a more volatile period to come. I am also seeing the potential for volatility across other asset classes that would impact our positions in precious metals and commodities. Fixed income is at a crossroads as rates, represented by the 10 Year Treasury, have risen into resistance, so either rates are going to turn back down (which the Fed would like), or rates break out and continue to rise, putting pressure on fixed income and other rate sensitive assets and also affecting the overall financial system. This might be a good time to introduce a phrase that we might be hearing more in the future: “too big to fail vs. too small to care”.

It's nice to be back home in the mountains of western North Carolina. The recovery in the region continues and rebuilding has begun. Thank you to all that have checked in with me regarding the hurricane and my rotator cuff surgery. All is good.

Thanks, and have a great week.

-Dan

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