Market Bottom is a Process

Market pundits and talking heads are claiming the bottom is in and the worst is over. They based the market bottom primarily on the historic stimulus programs including the record breaking $2-plus trillion fiscal package and the FED's unlimited QE monetary program.

However, yesterday SPX suffered one of the worst quarters since the fourth quarter of 1987. Today, SPX just logged one of the worst starts in its long history. Although they may all be right this is an auspicious start to a sustainable market recovery.

From a technical perspective an internal low may have occurred during 3/23/20 (SPX – 2,191.86). However, it is too early to define a major market bottom. Why? In many bear markets in the past an internal low often occurs before the market in question achieves its final bottom. Key technical indicators trade to extreme readings and begin to stabilize. This often hints of the potential for a price bottom. However, it is a process that needs to occur to confirm the price bottom. It typically takes time and efforts to exhaust the sellers. A series of strong selling finally leads to a capitulation bottom.

Bear market declines that does not lead to V-type bottoms and hence V-type recoveries often is a process to confirming the bottom. The steps to establishing a major market bottom or the "process" is infinitely more valuable and far more important than the goal or the result ("the market bottom"). For instance, many unhealthy individuals would prefer to have an instant 6-pack rather than entering a program to become a healthy person via a disciplined exercise program and a balanced diet. Not only is this a lazy approach, but this is not sustainable and destructive.

So, is the SPX bear decline transitioning toward the "process" phase?

This process may have begun as evidenced by the violent 1-month bear decline and the subsequent abrupt and sharp oversold technical rally last week (3/23/20). These are classic signs of a process that needs to develop further before a major market bottom is confirmed.

The -35.41% bear decline from 2/19/20 to 3/23/20 have led to a potential internal low on 3/23/20 (SPX – 2,191.96) as numerous internal and sentiment technical indicators such a VIX, market breadth, overbought/oversold, momentum and others recorded extreme readings. In bear declines it does not often decline in a straight line. Rather it is reasonable to expect a sharp oversold rally to confuse investors and traders. This sharp and explosive technical bounce occurred as SPX rallied to 2,641.39 from 3/23/20 to 3/31/20. In the process it recorded gains of +20.51% rally. However, as with many technical oversold rallies trading within a primary bear trend the technical bounces will often fail at pivotal technical resistances.

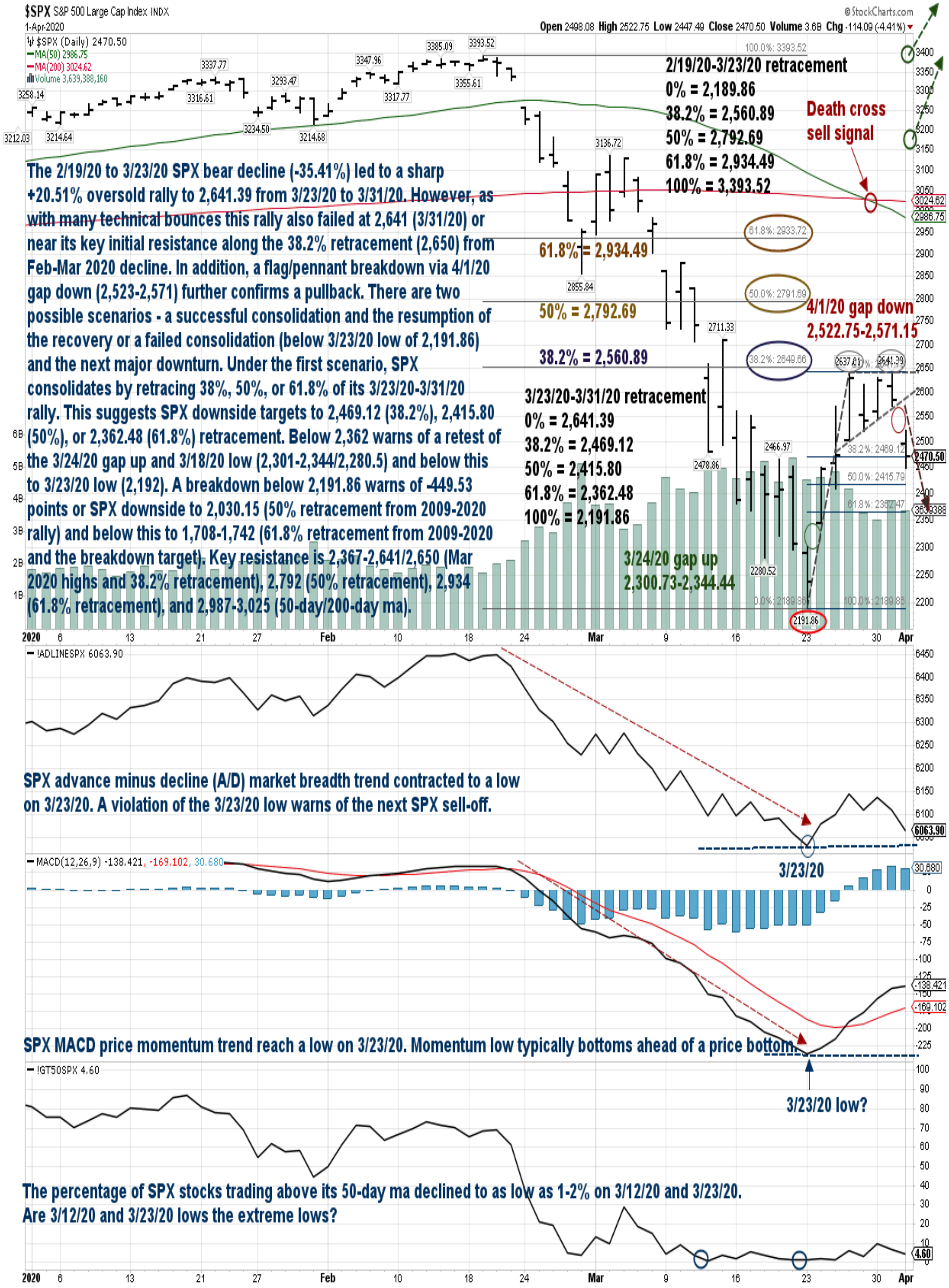
The recent SPX rally failed at 2,641 (3/31/20) corresponding to key resistance just below the 38.2% retracement (2,650) from Feb-Mar 2020 decline. As is the case with technical bounces it will entice buyers to return via a potentially bullish flag/pennant pattern. The large gap down today (on 4/1/23 between 2,523 and 2,571) basically negates the bullish pattern and warns of the next SPX pullback.

The ensuing SPX pullback will likely take on two separate paths or scenarios. In scenario 1 the SPX undergoes a successful consolidation. The constructive technical basing efforts is enough to allow for the resumption of its recent recovery. In scenario 2 the consolidation is not as successful. SPX proceeds to violate its 3/23/20 low of 2,191.86 thereby triggering the next major downturn. This major sell-off can set into motion the final market bottom.

Let's review the process to the first path. SPX finds key support typically along its 38%, 50%, or 61.8% retracements of its 3/23/20 to 3/31/20 rally as well as other technical convergences. The 3/23 to 3/31/20 retracements are as follows: 38.2% retracement is 2,469.12, 50% is 2,415.80, and 61.8% is 2,362.48. Many deep declines often find key support at the 61.8% retracements. Violation of 2,362 can also trigger a retest of the pivotal 3/24/20 gap up and 3/18/20 low (2,301-2,344/2,280.5), and below this to the 3/23/20 low (2,192).

In the second scenario, a breakdown below 2,191.86 warns of -449.53 points or SPX downside targets to 2,030.15 (50% retracement from 2009-2020 rally), and below this to 1,708-1,742 (61.8% retracement from 2009-2020 and the breakdown target).

Key SPX resistance is now visible at 2,367-2,641/2,650 (Mar 2020 highs and 38.2% retracement from Feb-Mar 2020 decline), 2,792 (50% retracement), 2,934 (61.8% retracement), and then2,987-3,025 (50-day/200-day ma).


$SPX S&P 500 Large Cap Index INDX
1-Apr-2020
Open 2498.08 High 2522.75 Low 2447.49 Close 2470.50 Volume 3.6B Chg -114.09 (-4.41%)
$SPX (Daily) 2470.50
MA(50) 2986.75
MA(200) 3024.62
Volume 3,639,388,160
2/19/20-3/23/20 retracement
0% = 2,189.86
38.2% = 2,560.89
50% = 2,792.69
61.8% = 2,934.49
100% = 3,393.52
Death cross sell signal
The 2/19/20 to 3/23/20 SPX bear decline (-35.41%) led to a sharp +20.51% oversold rally to 2,641.39 from 3/23/20 to 3/31/20. However, as with many technical bounces this rally also failed at 2,641 (3/31/20) or near its key initial resistance along the 38.2% retracement (2,650) from Feb-Mar 2020 decline. In addition, a flag/pennant breakdown via 4/1/20 gap down (2,523-2,571) further confirms a pullback. There are two possible scenarios - a successful consolidation and the resumption of the recovery or a failed consolidation (below 3/23/20 low of 2,191.86) and the next major downturn. Under the first scenario, SPX consolidates by retracing 38%, 50%, or 61.8% of its 3/23/20-3/31/20 rally. This suggests SPX downside targets to 2,469.12 (38.2%), 2,415.80 (50%), or 2,362.48 (61.8%) retracement. Below 2,362 warns of a retest of the 3/24/20 gap up and 3/18/20 low (2,301-2,344/2,280.5) and below this to 3/23/20 low (2,192). A breakdown below 2,191.86 warns of -449.53 points or SPX downside to 2,030.15 (50% retracement from 2009-2020 rally) and below this to 1,708-1,742 (61.8% retracement from 2009-2020 and the breakdown target). Key resistance is 2,367-2,641/2,650 (Mar 2020 highs and 38.2% retracement), 2,792 (50% retracement), 2,934 (61.8% retracement), and 2,987-3,025 (50-day/200-day ma).
61.8% = 2,934.49
50% = 2,792.69
38.2% = 2,560.89
4/1/20 gap down
2,522.75-2,571.15
3/23/20-3/31/20 retracement
0% = 2,641.39
38.2% = 2,469.12
50% = 2,415.80
61.8% = 2,362.48
100% = 2,191.86
3/24/20 gap up
2,300.73-2,344.44
!ADLINESPX 6063.90
SPX advance minus decline (A/D) market breadth trend contracted to a low on 3/23/20. A violation of the 3/23/20 low warns of the next SPX sell-off.
3/23/20
MACD(12,26,9) -138.421, -169.102, 30.680
SPX MACD price momentum trend reach a low on 3/23/20. Momentum low typically bottoms ahead of a price bottom.
3/23/20 low?
!GT50SPX 4.60
The percentage of SPX stocks trading above its 50-day ma declined to as low as 1-2% on 3/12/20 and 3/23/20.
Are 3/12/20 and 3/23/20 lows the extreme lows?