THE TECHNICAL ANALYST AWARDS 2011 FINALIST

28th June 2013

Market Update:

The S&P will shake off the FED

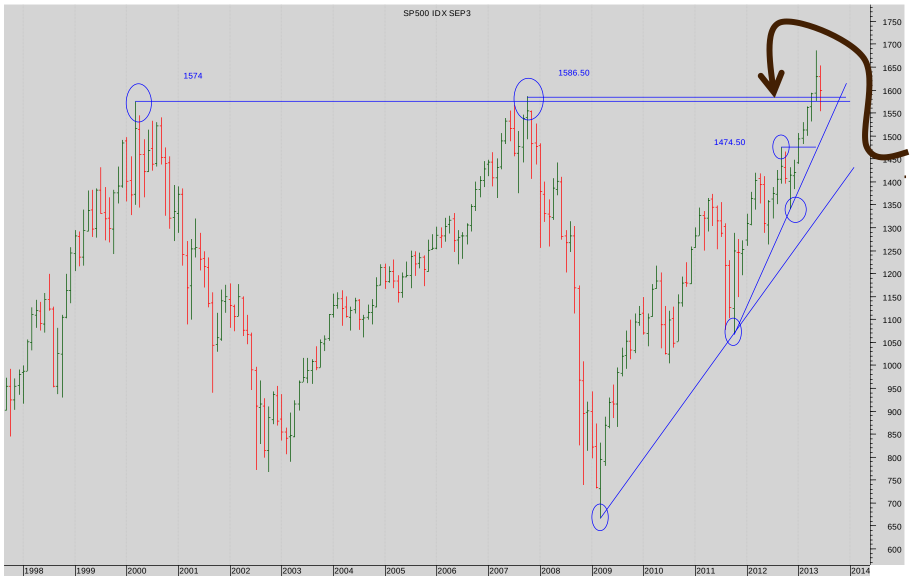
UPDATE
Technical
Fundamental

Disclaimer

Authorised and regulated by the FSA

The S&P will shake off the Fed

UPDATE
Technical
Fundamental



S&P MONTHLY CONTINUATION CHART

The market has punched up through the Highs of 1999 and 2007, but finds them to be powerful support on the pull-back of last week.

Since the market is still close to that band of support, the risk reward ratio is clear.

S&P DAILY SEP13 CHART

The pull-back of the last month is clear, and the good support from the band of Prior High horizontals is clear too.

Note too the push up through the Prior Low at 1591.

Stops should be beneath the recent low.

Disclaimer

More

The S&P will shake off the Fed

FUNDAMENTALS: The S&P's long Bull run came to an abrupt halt towards the end of May following the release of FOMC minutes which revealed Fed policy makers discussed the possibility of winding down their QE3 monthly bond purchases. Indeed, some FOMC members were more strident and called for action to begin as early as June.

This discussion was such a shock to equity traders that it sent a shock wave around global equity markets which had begun to either revisit previous all time highs or post new ones.

One could therefore be forgiven for concluding that the rally had been a mere product of Central Bank stimulus and that traders had largely ignored the state of the economy, <u>but that would be a mistake.</u>

Traders were bullish because the economy was showing clear signs of recovery which included the housing market and Labour market, two areas of the economy that had been slow to respond. The economy was recovery because the Fed had injected unprecedented amounts of monetary stimulus. <u>Had the economy failed to respond to the monetary policy actions, then equities would not have rallied.</u>

The sell off that took place was driven by fear. Fear that if the Fed wound down or withdrew its stimulus prematurely the still fledgling recovery would abort. But how else could the Fed play it?

If the Fed waited for the economy to start showing growth rates of say 3, 4 or even 5% before acting, the rate of policy normalisation would have been of an order that would have sent a powerful negative shock wave through the economy..

UPDATE
Technical
Fundamental

FUNDAMENTALS

And inflation would probably have accelerated to a level that required the Fed to do more than just set policy at neutral. A tightening would have been necessary which would have likely stopped the economy in its tracks.

<u>The Fed has therefore adopted the only rational course open to it.</u> It has observed that the feared fiscal cliff has had a limited impact on the economy, rather than the catastrophe forecast at the end of 2012 before the spending cuts and tax hikes hit.

The problem the Fed faces is rather like sailing a super tanker; action needs to be taken well in advance, and so large is the QE/bond buying deployed by the Fed, policy makers have had to take a view on the economy's prospects, both, near and medium term.

We judge as data releases due over the coming weeks and months confirms the economic recovery remains on track, <u>traders will care less about the Fed's moves and more about the data.</u> This change of focus is likely to be on something of a sliding scale, but <u>economic data will reassert its influence before too long</u> and next week offers an early opportunity to gauge this with the release of the two ISM surveys and non-farm payroll.

Clearly <u>if these reports extend the recent trend, we think traders will want to go long of equities once more,</u> and in any case, the Fed's intention to taper off its QE3 bond purchases is not a tightening, they are simply not adding any more stimulus. The bonds they hold will not be reduced and maturities will be replaced with interest rates left at current levels until well into 2015.

So the recent sell off in the S&P is a correction which we judge is all but played out. Fresh buying opportunities will soon present.

UPDATE
Technical
Fundamental

SEVEN DAYS AHEAD
Authorised and Regulated by the FSA
124 REGENTS PARK ROAD LONDON NW18XL
TEL +44 (0) 7849 922573 E-MAIL msturdy@sevendaysahead.com,
jlewis@sevendaysahead.com pallwright@sevendaysahead.com
WEB SITE SEVENDAYSAHEAD.COM