

12nd November 2018



Market Update:

UPDATE
Technical
Fundamental

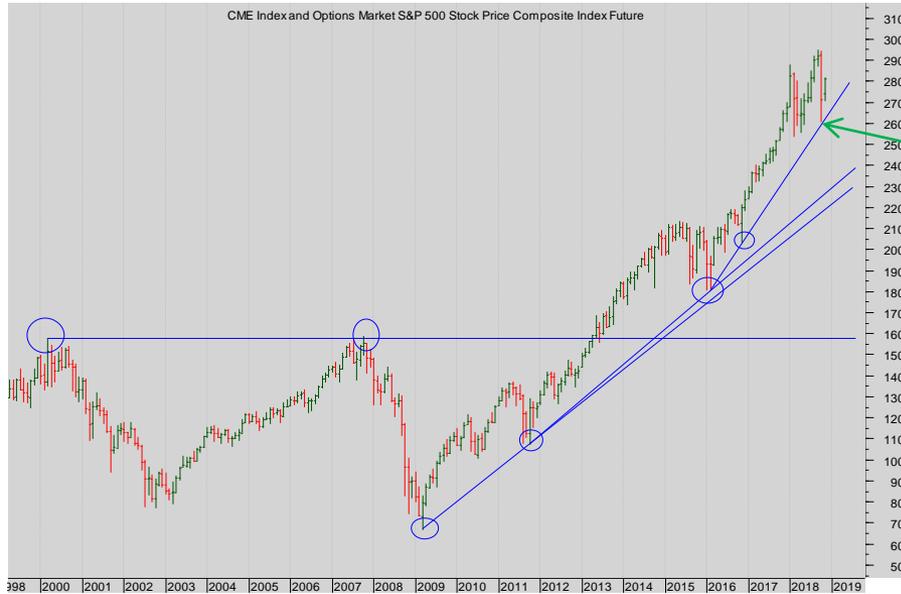
Has the S&P retracement finished? And so is the bull market intact?





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MONTHLY CHART

The market has simply retraced back to the steep uptrend from the moment in 2015 when the market accelerated away.



WEEKLY CHART

This is a line chart of closing prices.

The support and bounce from that diagonal support is clear.

Certainly the bull market still looks intact.

Two required conditions for the failure of the bull market:

1. A break of the bull trend diagonal
2. A break of the Prior low horizontal at 2600 or so

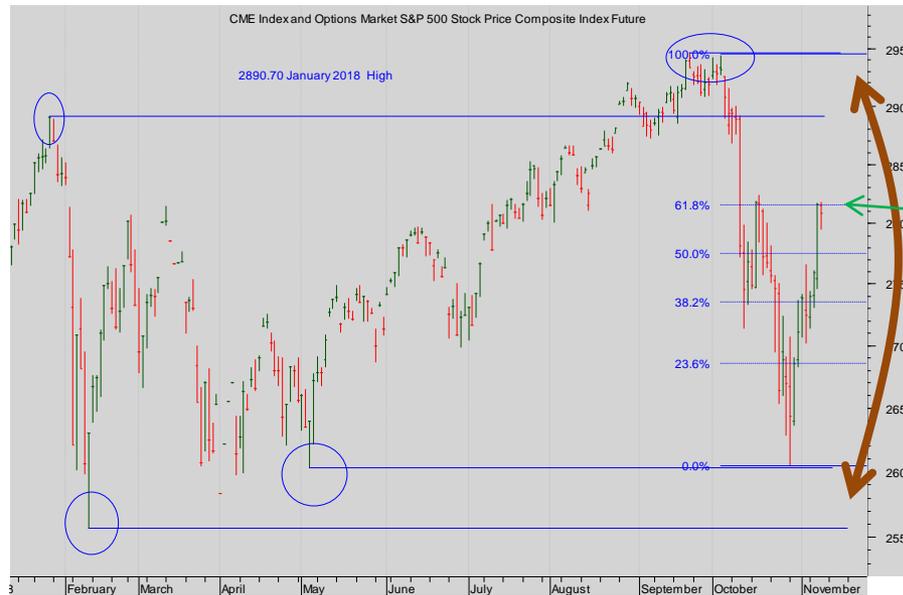
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More



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DAILY Dec S&P futures CHART

This chart describes a wide trading range.

The market has bounced hard from the lower boundary of the range.

Note the pause at the 61.8% Fibonacci retracement resistance.

(Note too, that a drift and then a rally again up through that Fibonacci level would complete a bull H&S pattern.)

Stand back while the market is within the range.



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FUNDAMENTALS:

Has the sell-off in the S&P been resolved and if so, why?

The retracement was originally driven by the twin fears of:

1. An escalating trade war between the US and China initiated by US President Donald Trump, based on the view that the trade relationship worked against US interests and that China was 'stealing' US intellectual property, and
2. An incrementally Hawkish Fed, as policy makers backed up their frequently voiced concerns about how the tight labour market, fuelled by strong economic growth, would eventually feed into higher inflation, leading to a projection of policy tightening extending into 2020.

But, just as the market looked set to move beyond correction and flirt with bear market territory, the S&P bounced. The catalyst for the rejection of the lows was Trump's comment about ten days ago that a trade deal with China was possible and it was reported that he had instructed officials to begin work on a deal.

Clearly, if trade tensions between the world's two biggest economies could be reduced and eliminated, the outlook for both global trade and growth would be materially improved.

But what of the Fed?

Apart from the reality of policy moving into restrictive territory, even if only temporarily, the Fed's independence had been questioned by Trump describing the Federal Reserve as "out of control", a criticism never previously voiced by US Presidents.



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FUNDAMENTALS: CONTINUED

However, the US mid-term elections have brought a degree of relief to that anxiety.

The Democrats have taken control of the House of Representatives, meaning that at best Trump will have a tougher job getting his policies through Congress and at worst he may be unable to progress any of his policies and face a deeper investigation of the 2016 election result and possibly his own personal financial affairs.

Moreover, if he had plans to interfere with the Fed's independence and mandate, the mid-term results will make that path a blind alley.

So although the mid-term election results point to grid lock in Washington, for many who saw Trump's policies as not only working against US national interests and worse still, alienating traditional US allies, grid lock looks like a good result.

For the S&P, traders will eventually get used to the Fed's policy stance. A period of rising rates against a backdrop of strong economic growth, with inflation largely contained, is no reason to sell equities.

And if Trump actually manages to start trade negotiations with China, that look like ending the nascent trade war, then the S&P could resume its earlier bull trend. For now, traders will be relieved that Trump appears willing to talk about a trade deal rather than building up trade barriers with yet more tariffs on Chinese imports.

In summary, the environment for stocks still looks fragile; trade deals take years to negotiate. But if Bully Trump has given way to Negotiating Trump then this market has probably seen the lows for now.



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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 SEVENDAYS Ahead.COM

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