StockCharts

- Art's Charts - 01 - Market Regime

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$NDX Nasdaq 100 Index INDX
29-Jan-2025
@StockCharts.com
Open 21473.01 High 21477.88 Low 21251.80 Close 21411.46 Volume 1.3B Chg -51.58 (-0.24%)

Art`s Charts - Market Regime

(trend, breadth, yield spreads, interest rates)

Thursday - 30 January 2025

The long-term trends are up for the major index ETFs and their respective breadth indicators are net bullish. Long-term breadth indicators deteriorated in December, but rebounded in January. Over 60% of S&P 500, Nasdaq 100 and S&P 1500 stocks above their 200-day SMAs. New highs also rebounded as the High-Low Percent indicators turned positive. Junk bond spreads turned lower in January and there are no signs of stress in the credit markets. I am watching the 10-yr Treasury Yield closely because it formed a bullish wedge and a breakout could argue for higher yields, which would hurt small-caps.

- The weight of the evidence remains bullish for stocks.

- SPY, QQQ and RSP are in long-term uptrends (Bollinger Band signals)

- S&P 500 Breadth: Net Bullish since December 1, 2023.

- Nasdaq 100 Breadth: Net Bullish since February 1, 2023.

- S&P 1500 Breadth: Net Bullish since December 5, 2023.

- The Junk bond spread fell in January (no stress in credit markets).

- The Fed is in easing mode since the first rate cut in mid September.

- The 10-yr Yield formed a bullish wedge and a breakout would target a move to 5%.

The charts in this PDF report are linked to a SharpChart.
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8000 Market Regime Charts

About the Market Regime Charts and Indicators

The charts and indicators on this page define the market regime and answer the most important question for stock market traders. Are we in a bull or bear market? Traders want to take on risk and look for bullish trades in a bull market. Conversely, traders want to reduce risk and raise cash during bear markets. These charts cover the long-term trends for the major indexes, breadth, yield spreads, Fed policy and the 10-yr Treasury Yield.

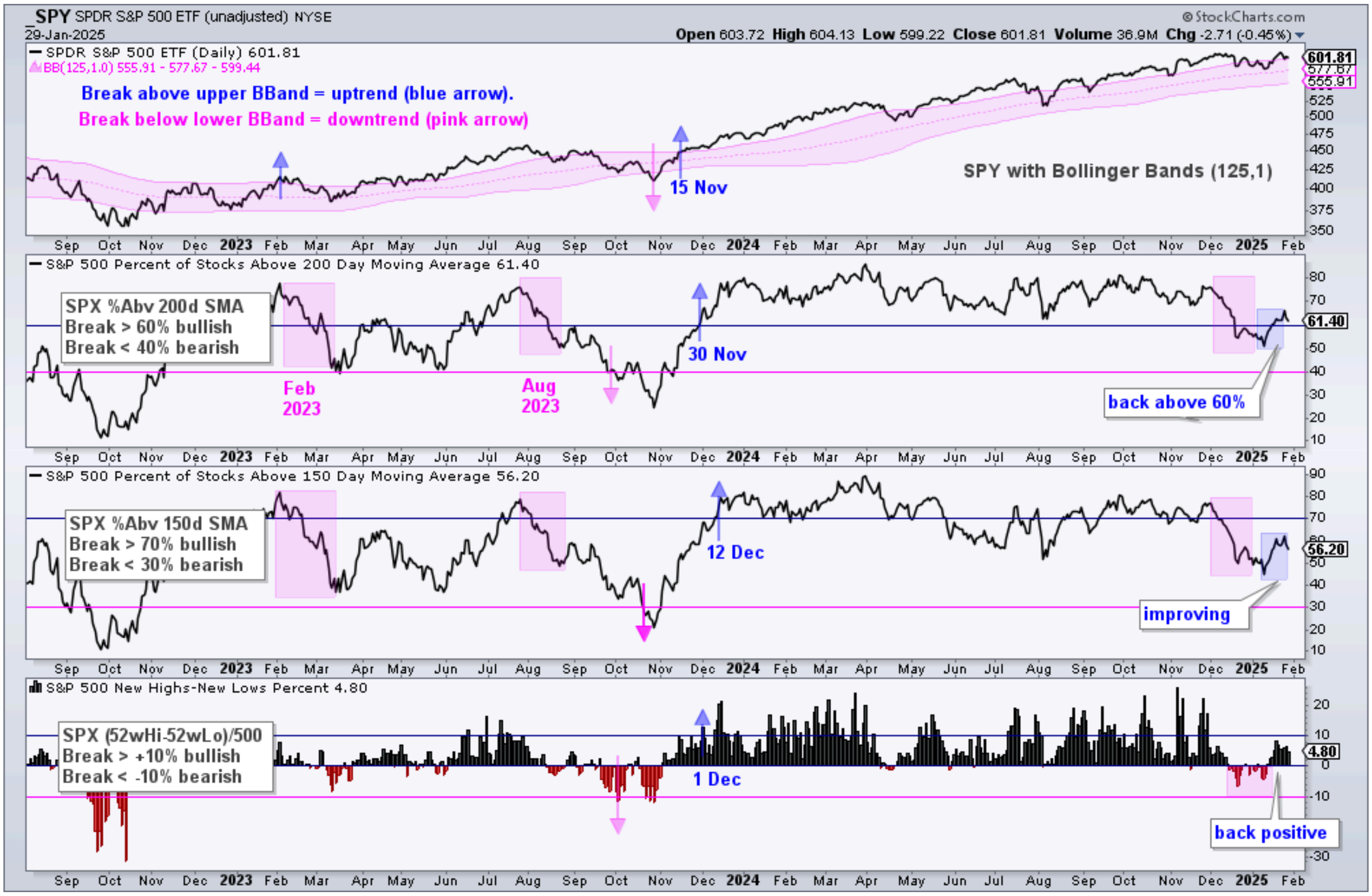
The first three charts cover the long-term trends and breadth indicators for the S&P 500, Nasdaq 100 and S&P 1500. Bollinger Bands (125,1) define the long-term trends and three breadth indicators measure internal performance. An uptrend signals when price breaks the upper Bollinger Band and remains in place until a break below the lower band. Blue up arrows mark bullish signals, while pink down arrows mark bearish signals.

Each breadth indicator comes with signal thresholds to identify significant shifts and reduce whipsaws. The %Above 200-day SMA indicators turn bullish with a move above 60% and remain bullish until a move below 40%, which triggers a bearish signal. Signal thresholds are at 70% and 30% for the %Above 150-day SMA indicators. Thresholds are at +10% and -10% for the High-Low Percent indicators (percentage of 52-week highs less the percentage of 52-week lows). Blue up arrows mark bullish signals, while pink down arrows mark bearish signals.

The Junk Bond yield spread (ICE BofA High Yield Index Option-Adjusted Spread) measures the difference between junk bond yields and comparable yields for US Treasury bonds. This spread captures the mood of the credit markets. Spreads widen (rise) when there is stress, and this is bearish for stocks. Spreads narrow (fall) when there is confidence, and this is bullish for stocks.

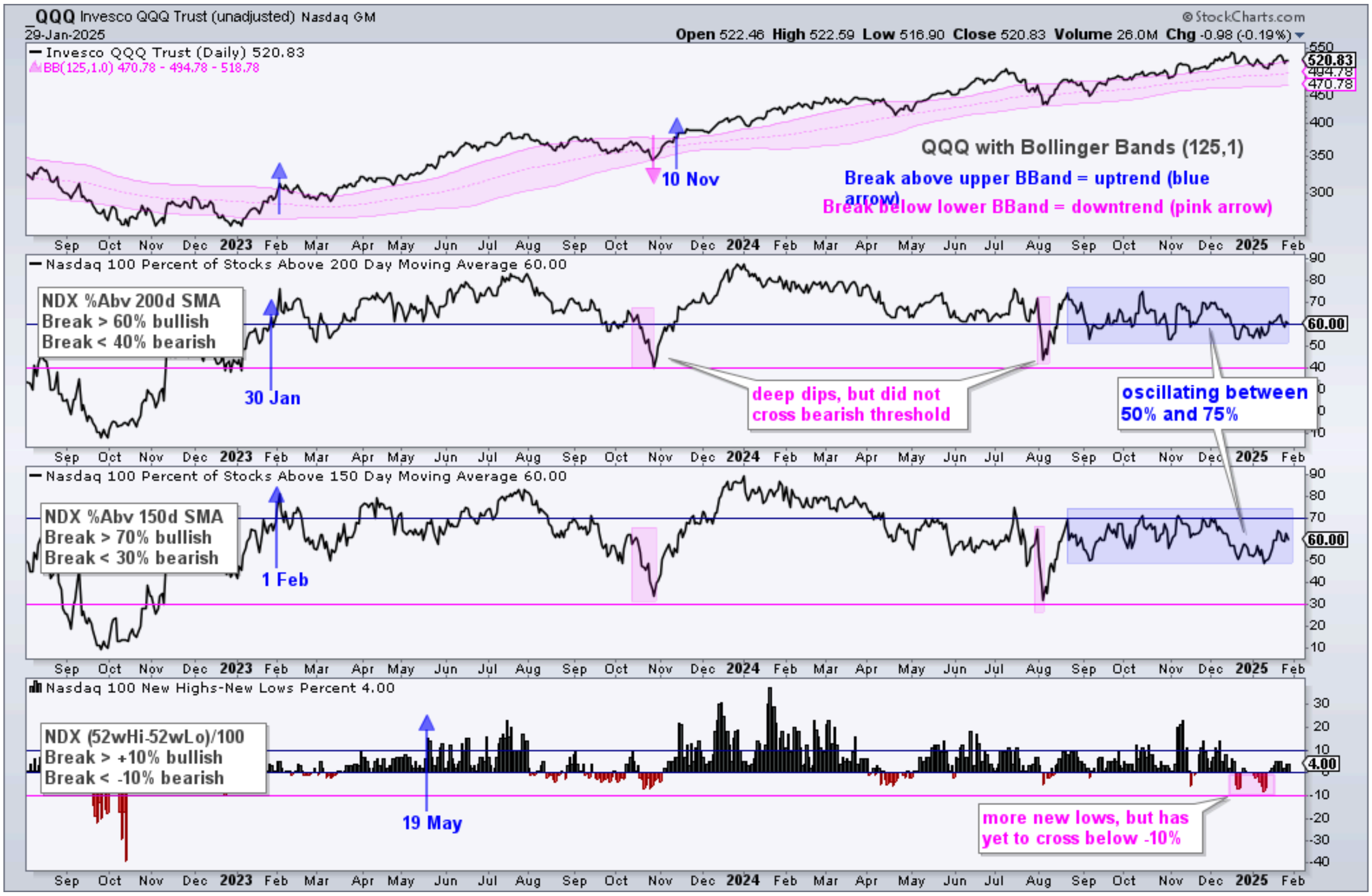
The Fed Funds target rate ($$FEDTGT) tells us the latest moves at the Fed (easing or tightening). We also show the 3-month Treasury Yield, which sometimes leads the Fed by rising ahead of a tightening cycle or falling ahead of a loosening cycle. The 10-yr Treasury Yield reflects the outlook for economic growth, the prospects for inflation and/or supply/demand dynamics in the Treasury bond market.

8110 Long-term Trend & Breadth SPX



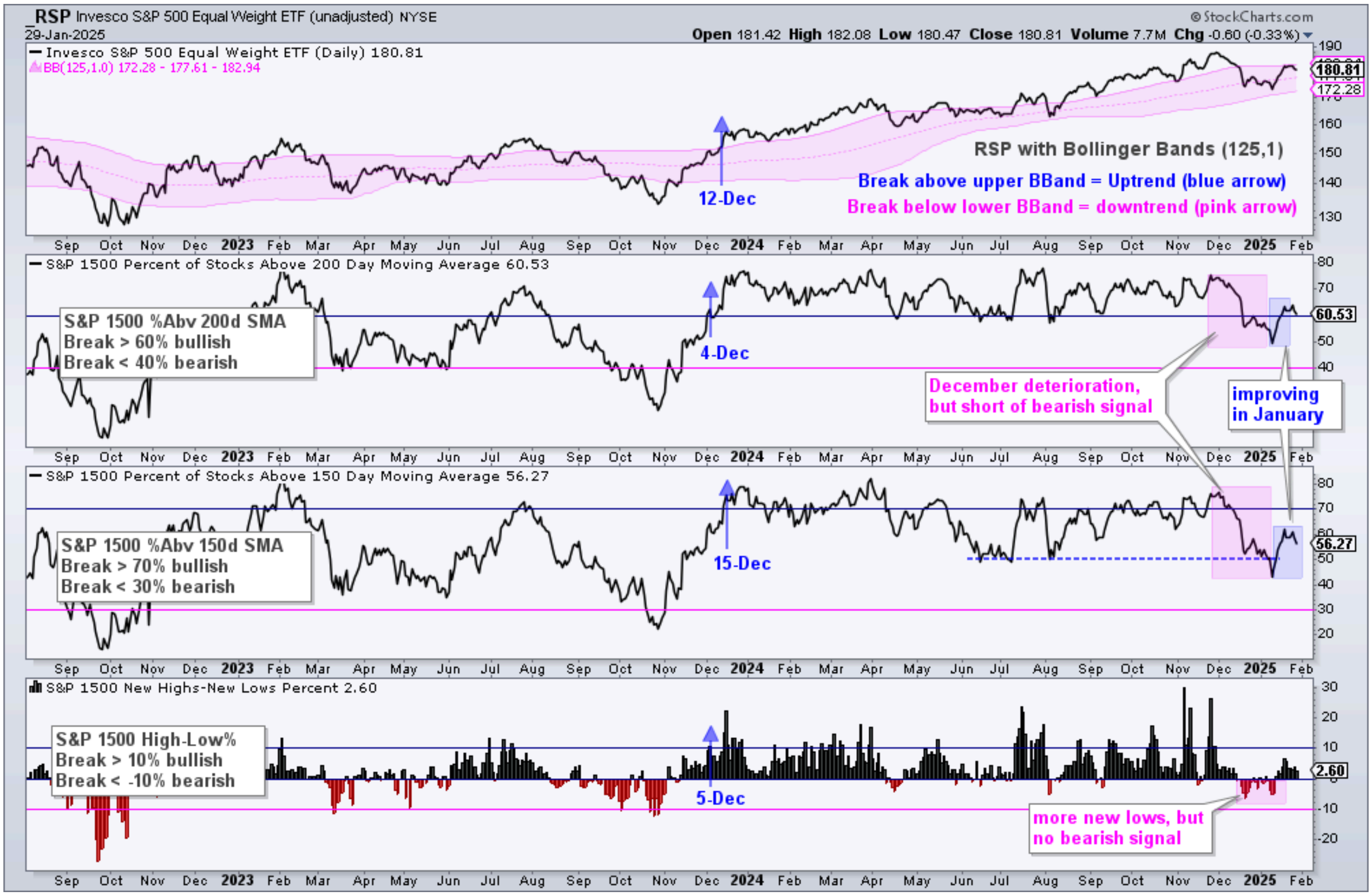
SPY Trend and S&P 500 Breadth // SPY remains in an uptrend since it broke the upper Bollinger Band (125,1) on 15-November-2023 and all three breadth indicators are on bullish signals (blue arrows in November-December 2023). The pink shadings on the right side show breadth deteriorating from December to early January, but not triggering a bearish signal. For example, SPX %Above 200-day SMA does not trigger bearish until a cross below 40% (pink line). All three breadth indicators improved in the second half of January as SPX Percent Above 200-day moved back above 60 Percent (blue shading) and SPX High-Low Percent turned positive.

8111 Long-term Trend & Breadth NDX



QQQ Trend and Nasdaq 100 Breadth // QQQ remains in an uptrend since it broke the upper Bollinger Band (125,1) on 10-November-2023 and all three breadth indicators are on bullish signals (blue arrows in Jan, Feb and May 2023). The blue shadings on the right side show NDX %Above 200-day SMA and NDX %Above 150-day SMA oscillating between 50% and 75%. They continue to hold above 50% and keep the cup half full when it comes to the percentage of stocks in long-term uptrends. Moves below 50% would show deterioration within the Nasdaq 100.

8112 Long-term Trend & Breadth RSP

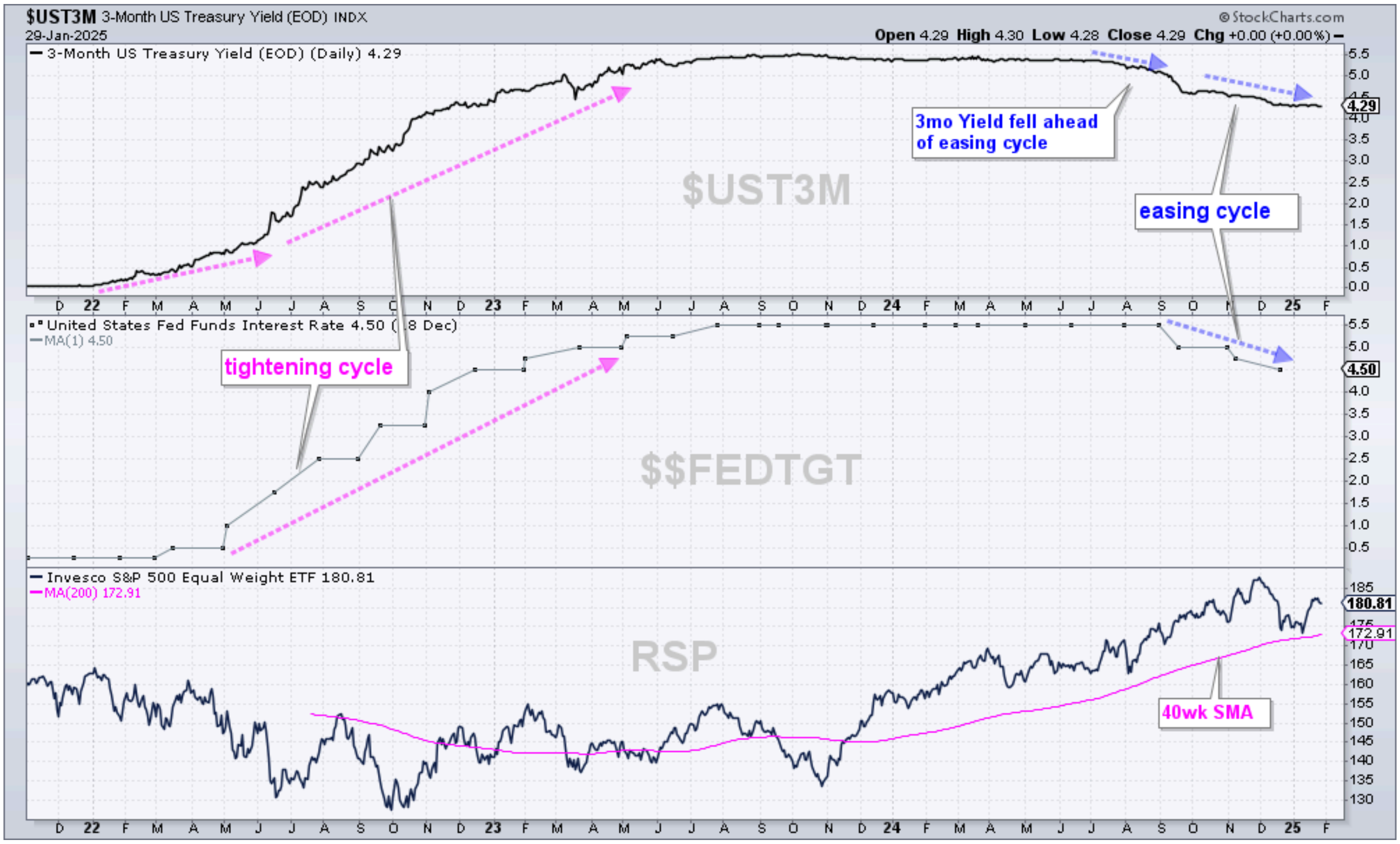


RSP Trend and S&P 1500 Breadth // The S&P 500 EW ETF (RSP) remains in an uptrend since it broke the upper Bollinger Band (125,1) on 12-December-2023 and all three breadth indicators are on bullish signals (blue arrows in December 2023). The December deterioration (pink shading) was the most pronounced here as S&P 1500 %Above 200-day and %Above 150-day dipped below 50% for a few days. This is because the S&P 1500 includes mid-caps and small-caps, which bore the brunt of selling pressure. These stocks also rebounded in January with Percent Above 200-day getting back above 60 Percent and High-Low Percent turning positive again.

8900 Yield Spreads

Junk Bond Yield Spread // The middle window on the chart above shows the Junk Bond Yield Spread ($$HYIOAS) falling (narrowing) in January 2025 and near a new low. There are clearly no signs of stress in the credit markets. Overall, this spread fell (narrowed) since March 2023 with a couple blips along the way. These were the Silicon Valley Bank scare in March 2023 and Yen carry-trend fiasco in August 2024.

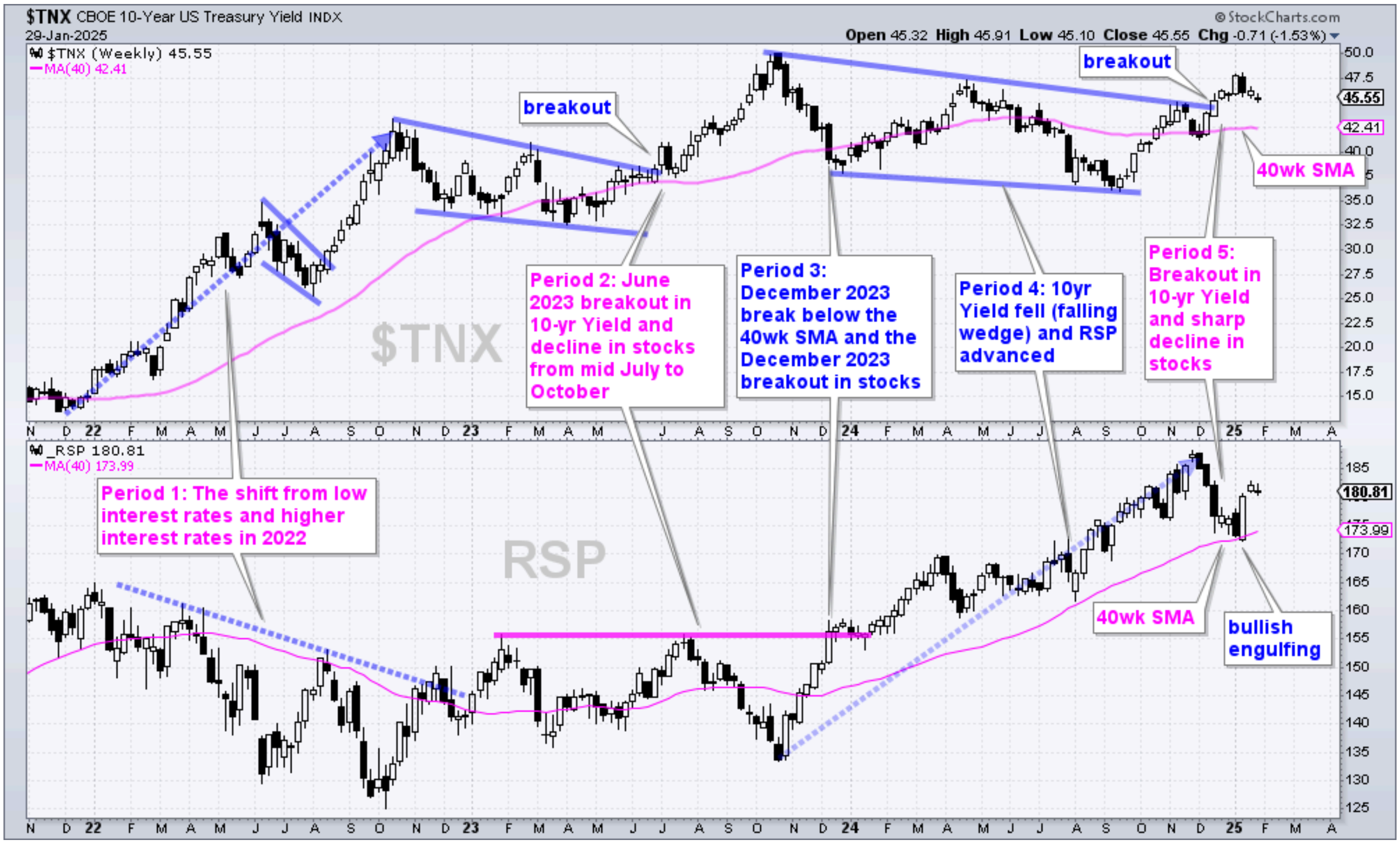
8910 Fed Funds Rate (Fed Policy)



Fed Policy // The chart above shows the Fed Funds Target Rate ($$FEDTGT) falling since September as the Fed embarked on an easing cycle. A dovish Fed is net positive for stocks. Notice that the 3-month Treasury Yield ($UST3M) peaked in July and fell before the Fed made its first rate cut, which was on September 16th.

There are many drivers when it comes to the US Treasury market. These include the economic outlook, inflation expectations, government policies and supply/demand dynamics. Short-term Treasury yields are also influenced by these factors, but they are more closely aligned with Fed policy and the Fed funds rate.

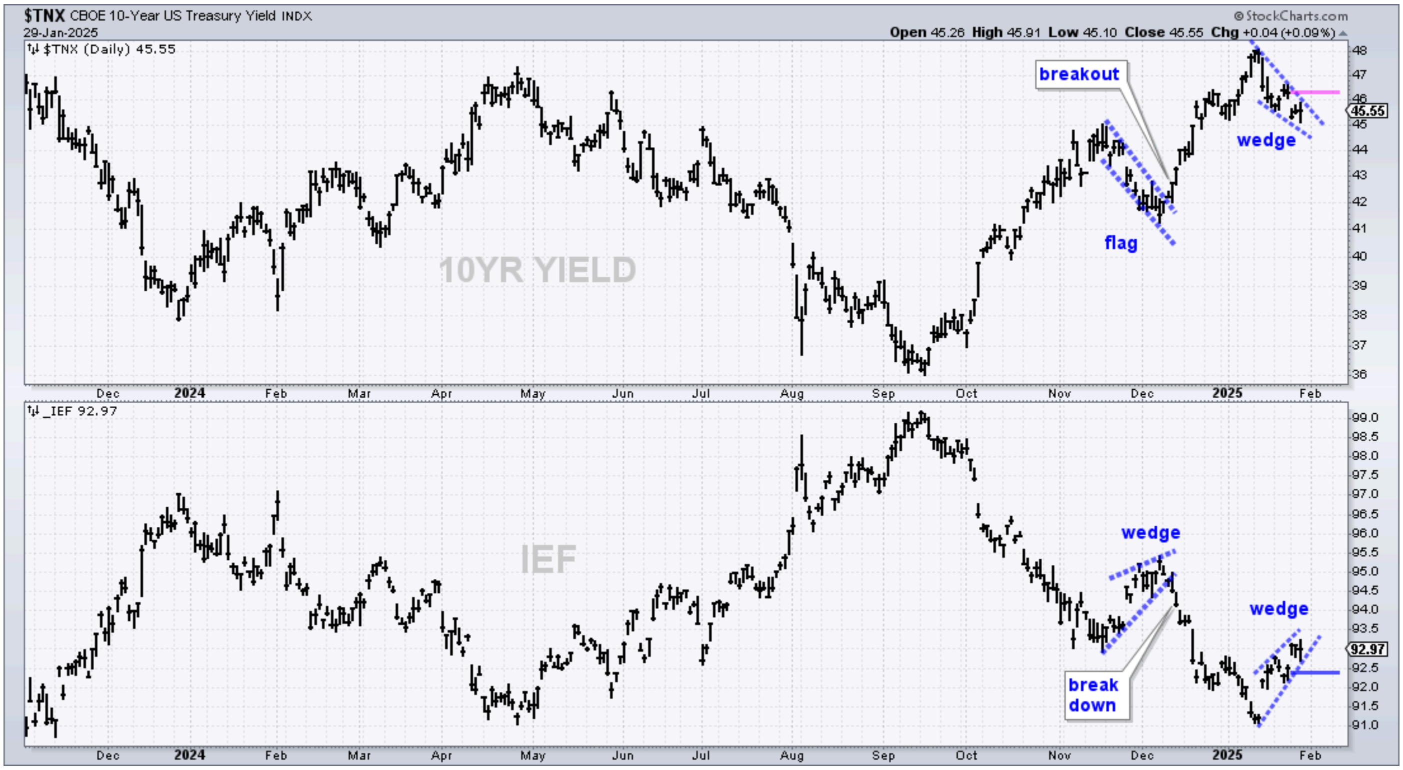
8930 10-yr Treasury Yield W



10-yr Treasury Yield // Even though the Fed is in easing mode, the chart above shows the 10-yr Treasury Yield breaking out of a large falling channel in mid December. This breakout argues for a move towards the 5% area and a similar move weighed on stocks in summer 2023 (Period 2). After a five week advance to 48 (4.8%), the yield fell back to the 45.3 area (4.53%). This is a small pullback after a big advance so I am not going to read too much into it just yet. Further weakness below 45 (4.5%) would provide the first sign that the breakout is failing.

There are four distinct periods on this chart. Period 1 shows the shift from low interest rates to higher interest rates in 2022, and the 2022 bear market. Period 2 shows the wedge breakout in June 2023 and the move to 5% (50 on the chart). Stocks peaked in mid July 2023 and fell sharply into October. We then have the dramatic decline in the 10-yr Treasury Yield in November-December (Period 3) and the continued decline into September 2024 (Period 4). Stocks advanced into November 2023 and then moved sharply lower in December as the 10-yr Treasury Yield broke out near 4.5% (45).

8931 10-yr Treasury Yield D



Bull Wedge for 10-yr Treasury Yield and Bear Wedge for TLT // The 10-yr Treasury Yield surged from early December to early January and briefly exceeded its 2024 high. It then fell back with a falling wedge the last two weeks and this could be a bullish continuation pattern. A breakout at 46.3 (pink line) would be bullish and signal a continuation of the December surge.

The 20+ Yr Treasury Bond ETF (TLT) fell to its April 2024 lows with a sharp decline into early January and bounced with a rising wedge. This could be a bearish continuation pattern. A break below 92.40 (blue line) would reverse this upswing a signal a continuation lower.

Note that an upside breakout in the 10-yr Treasury Yield and a downside break in TLT would be negative for small-caps (IWM, IJR).

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