StockCharts

- Art's Charts - Breadth & Bull/Bear Market Evidence

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$NDX Nasdaq 100 Index INDX
12-Feb-2025 9:59am
@StockCharts.com
Open 21475.41 High 21610.40 Low 21454.19 Last 21586.26 Chg -107.27 (-0.49%)

$NDX

Chart Trader Market Regime Report

(trend, breadth, yield spreads, interest rates)

Wednesday - 12 February 2025

The long-term trends are up for the major index ETFs and their respective breadth indicators are net bullish. The junk bond yield spread remains narrow and shows now signs of stress in the credit markets. Thus, we are still in a bull market.

Medium-term, we are starting to see some signs of weakness in breadth and the 10-yr Treasury Yield renewed its push towards 5%. The long-term breadth indicators were hit hard in December and rebounded in January. This rebound, however, was not very strong as the High-Low Percent indicators for the S&P 1500 and S&P 500 did not get back above 10% (fewer new highs). In addition, the percentage of stocks above their 200-day and 150-day SMAs barely made it back above 60%. I am marking the 50% levels on these indicators. Breaks below 50% would indicate that downside participation is broadening and this would increase the chances for a correction in the stock market. Perhaps a 5-8 percent decline in SPY.

- The long-term evidence remains bullish for stocks (bull market).

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

- RSP did not exceed its upper BBand in January-February (relative weakness).

- Nasdaq 100 Breadth is Net Bullish (since February 2023).

- S&P 1500 and S&P 500 Breadth are Net Bullish (since December 2023)

- Watch 50% on the %Above 200-day and %Above 150-day indicators.

- The Junk bond spread remains near its lows (no stress in credit markets).

- The Fed went on hold, but has yet to turn hawkish.

- The 10-yr Yield broke out of a falling wedge and this targets a move to 5%.

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.

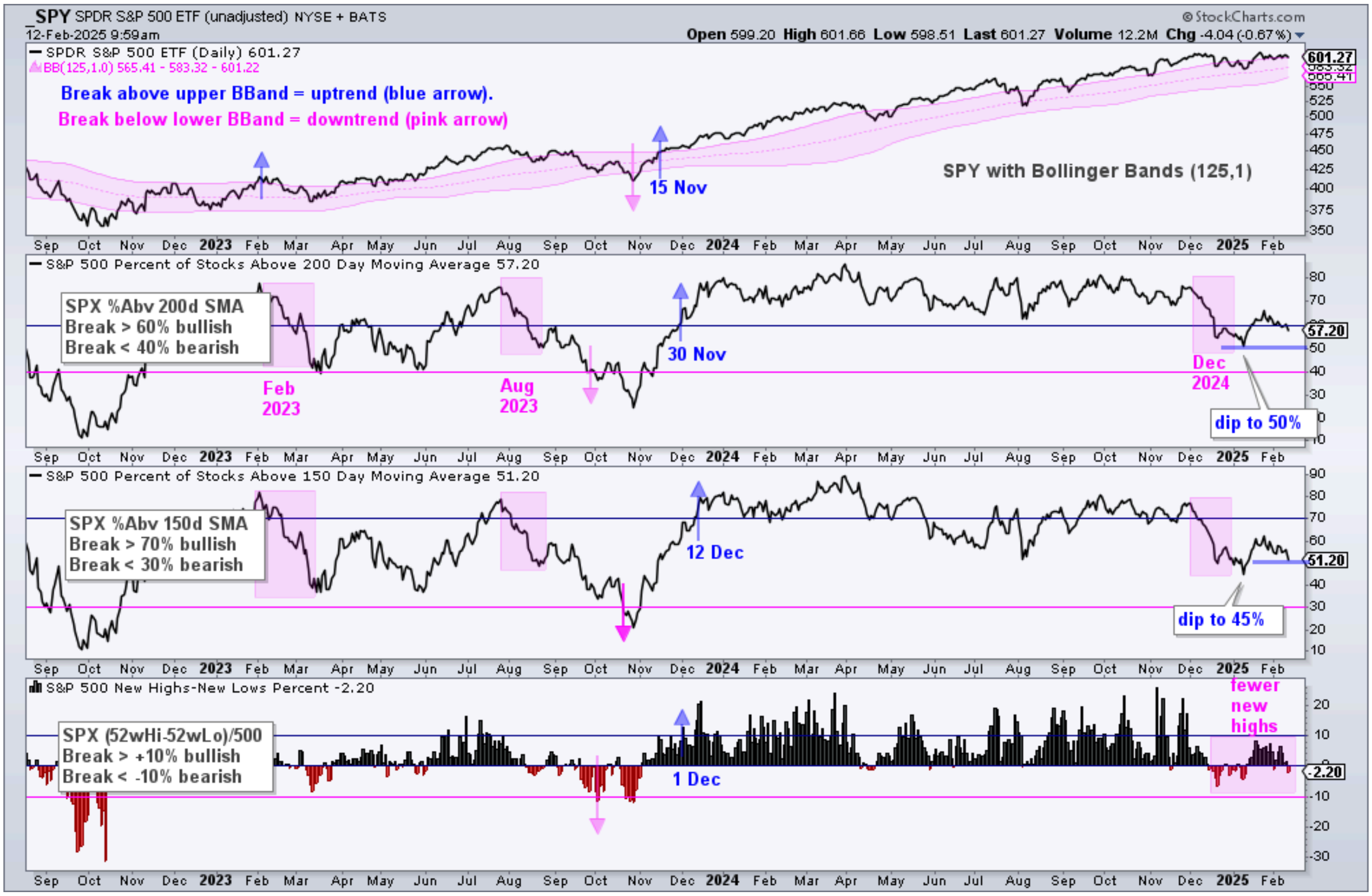
The first three charts cover the long-term trends and breadth indicators for the S&P 500, Nasdaq 100 and S&P 1500. Bollinger Bands (125,1) define the long-term trends and three breadth indicators measure internal performance. An uptrend signals when price breaks the upper Bollinger Band and remains in 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

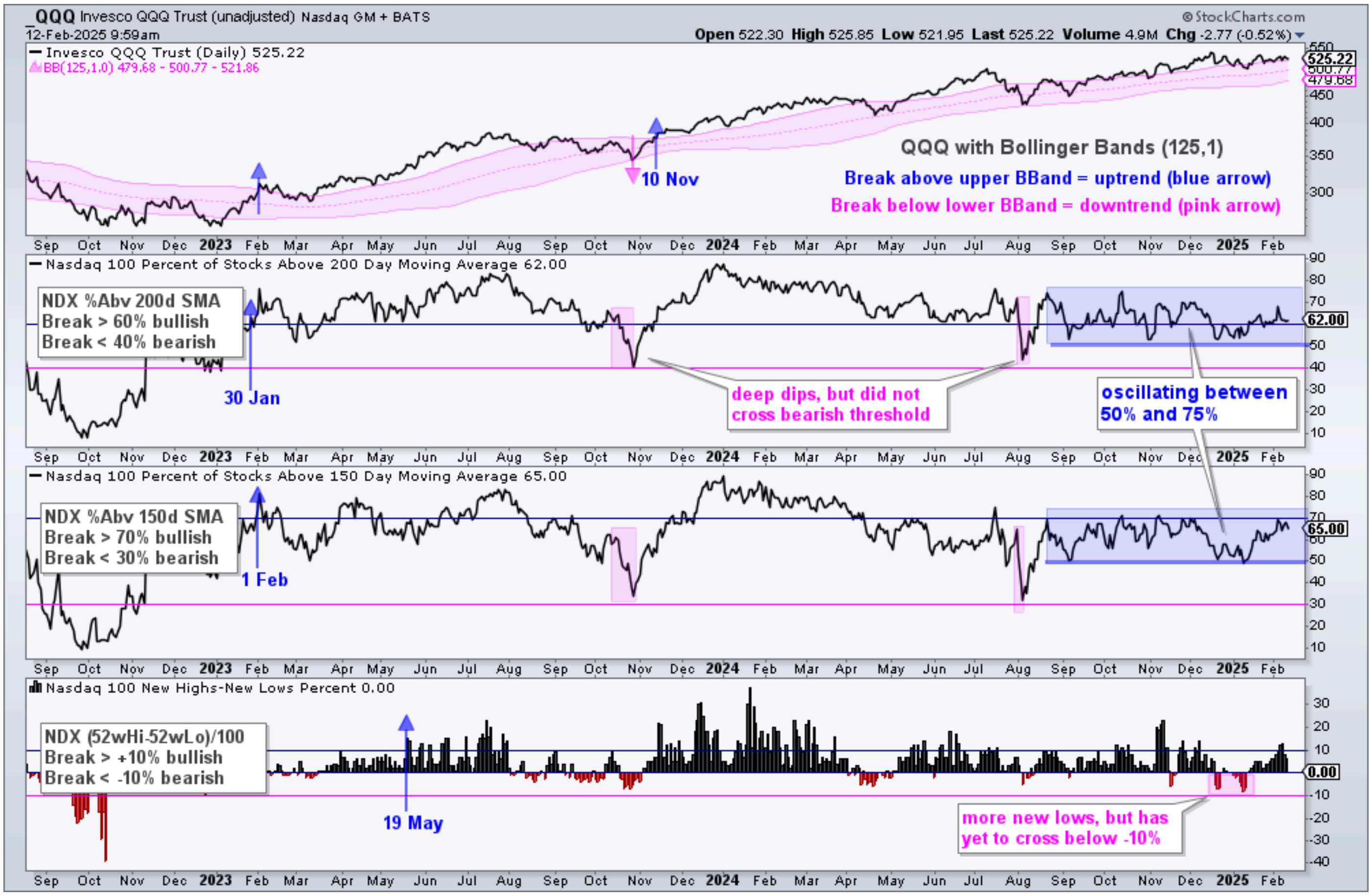


SPY Trend and S&P 500 Breadth // SPY remains in an uptrend and all three breadth indicators are bullish. SPY started its uptrend with the Bollinger Band breakout on 15-November-2023 and the three breadth indicators turned bullish in November-December 2023 (blue arrows).

The breadth indicators were hit hard in December 2024 (pink shading) as SPX %Above 200-day fell to 50% and SPX %Above 150-day fell to 45%. These indicators recovered in January, but did not come close to their prior highs and did not exceed 65%. Currently, fewer than 60% of S&P 500 stocks are above their 200-day SMAs and around 51% are above their 150-day SMAs. This means more than 40% are below their 200-day SMAs and almost half are below their 150-day SMAs. This shows some sizable pockets of weakness within the S&P 500, even though SPY is trading near a 52-week high.

If has yet to happen, but a downturn from here could lead to significant deterioration under the surface. The blue horizontal lines are at 50% and a break below these levels would show a significant increase in downside participation. This, in turn, could lead to a correction. As far as a bear market signal, I will cross that bridge when and if it gets here.

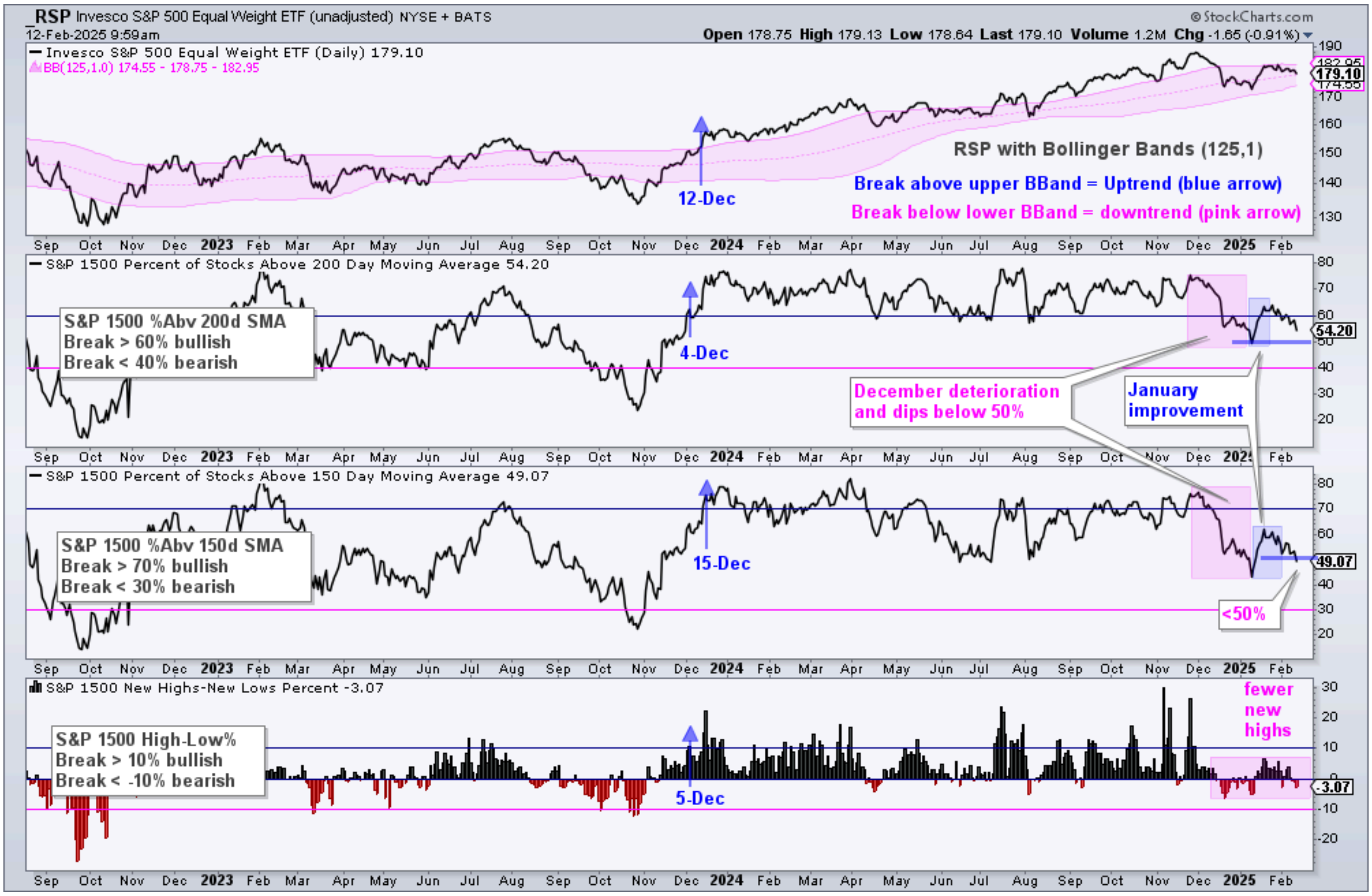
8111 Long-term Trend & Breadth NDX



QQQ Trend and Nasdaq 100 Breadth // QQQ remains in an uptrend and all three breadth indicators are bullish. QQQ signaled an uptrend when it broke the upper Bollinger Band in November 2023 and the breadth indicators triggered bullish in January, February and May 2023 (blue arrows).

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 and this could lead to a broad correction. As far as a bear market signal, I will cross that bridge when and if it gets here.

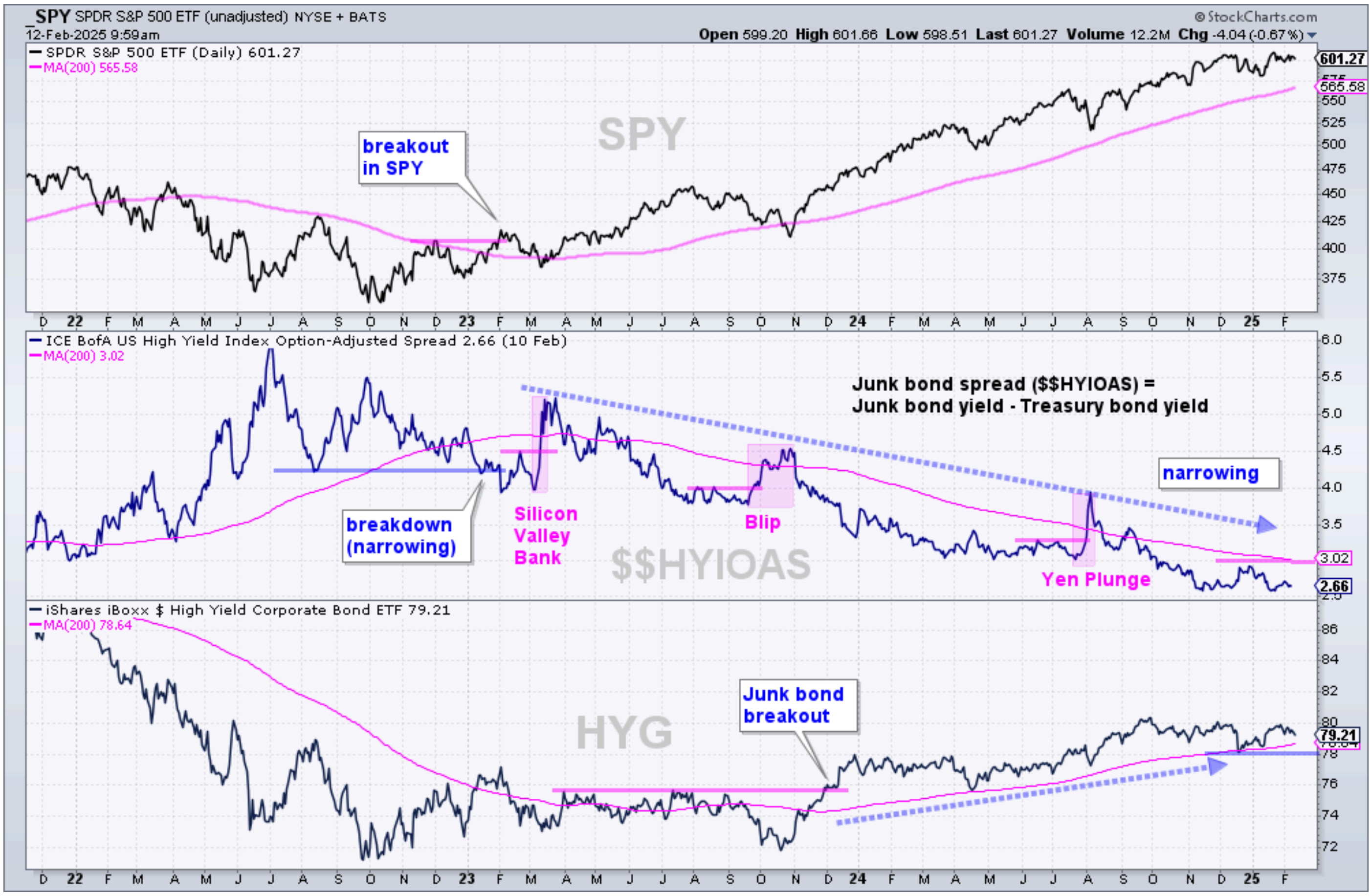
8112 Long-term Trend & Breadth RSP



RSP Trend and S&P 1500 Breadth // The S&P 500 EW ETF (RSP) remains in an uptrend and all three breadth indicators are bullish. RSP started its uptrend with a Bollinger Band breakout in December 2023 and the breadth indicators also triggered bullish in December 2023 (blue arrows).

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. Both recovered in January, but did not make it back above 65% as a sizable pocket of the market remained below these long-term moving averages. I am marking the 50% level with blue lines and a break below 50% would show further deterioration in long-term breadth. This would be negative and argue for a broad market correction. As far as a bear market signal, I will cross that bridge when and if it gets here.

8900 Yield Spreads

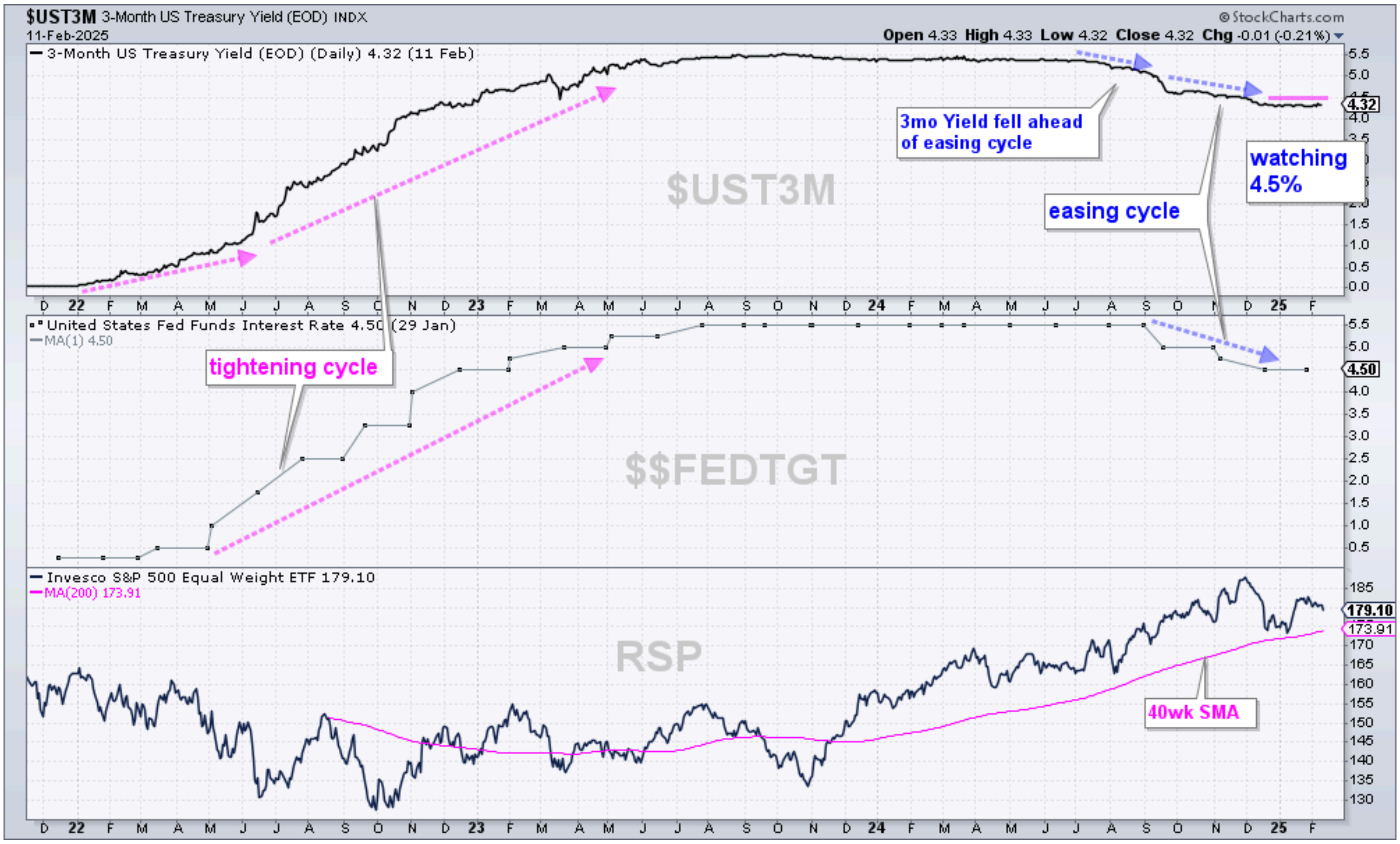


Junk Bond Yield Spread // The middle window on the chart above shows the Junk Bond Yield Spread ($$HYIOAS) narrowing since 2023 (blue arrow-line) and hovering near its low here in February 2025. There are no signs of stress in the credit markets and this is net positive for stocks.

It is almost impossible to predict a credit scare, but I will set a line in the sand. A surge above the December high and 200-day SMA would show an increase in stress levels (>3.02). This would be negative for stocks and likely coincide with some sort of pullback or correction. For now, the long-term trend is down (narrowing) and we have yet to see a move that threatens this downtrend.

The pink shadings show three sharp widening periods when the Junk bond yield spread broke out and exceeded its 200-day SMA. The Silicon Valley Bank collapse triggered a panic in March 2023 and the Yen carry-trade fiasco created a scare in August 2024. The blip in September-October 2023 coincided with a deep decline in stocks and a break below the 200-day SMA in SPY.

8910 Fed Funds Rate (Fed Policy)

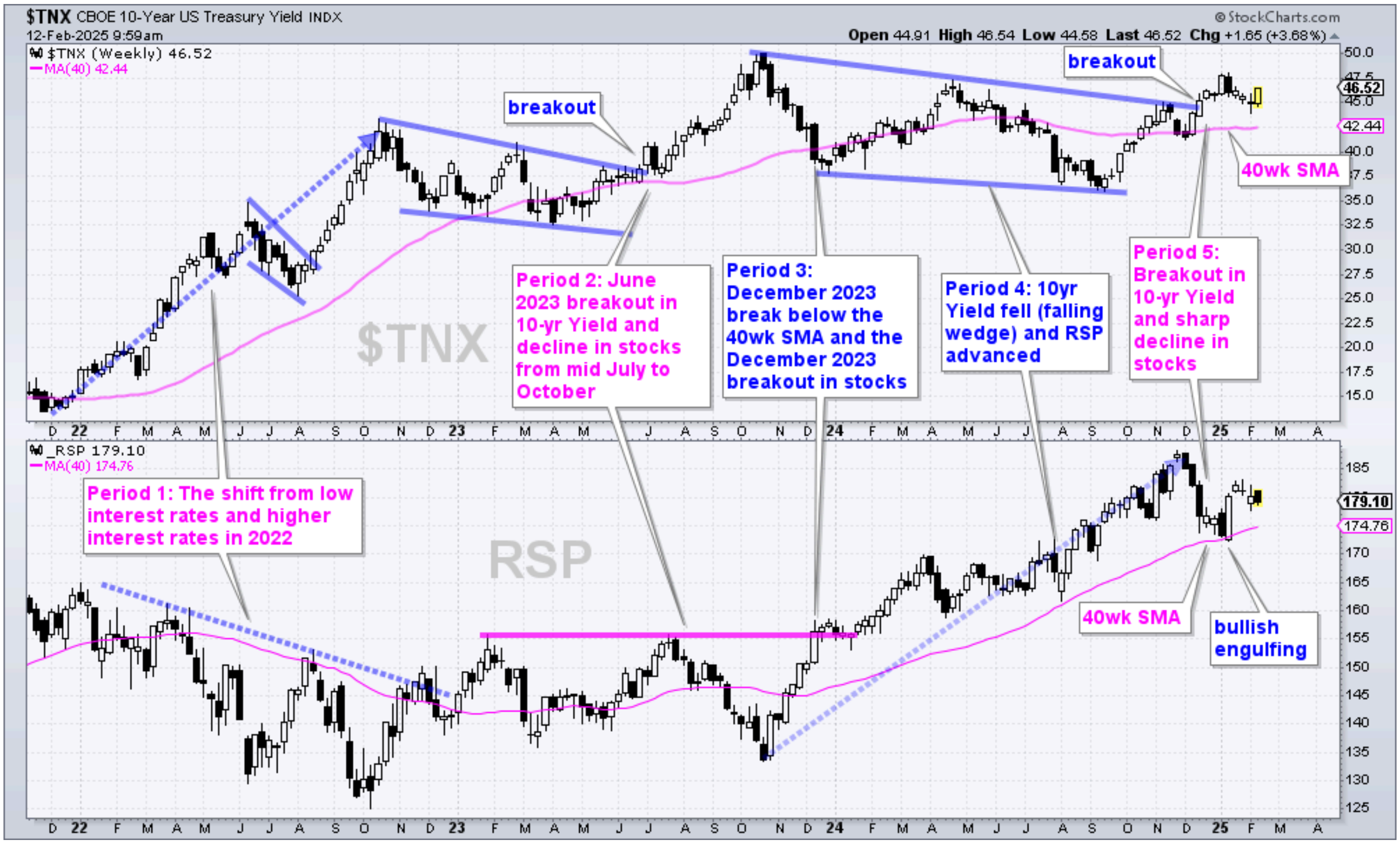


Fed Policy // The chart above shows the Fed Funds Target Rate ($$FEDTGT) falling since September as the Fed embarked on an easing cycle. A dovish Fed is net positive for stocks. Notice that the 3-month Treasury Yield ($UST3M) peaked in July and fell before the Fed made its first rate cut, which was on September 16th. I am watching the 4.5 percent level going forward. A break above this level would show an upturn in short-term rates and this could foreshadow a shift in Fed policy.

Powell to the Senate Banking committee February 11th: With our policy stance now significantly less restrictive than it had been and the economy remaining strong, we do not need to be in a hurry to adjust our policy stance. This puts the Fed on hold. The next FOMC meeting is March 18-19.

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.

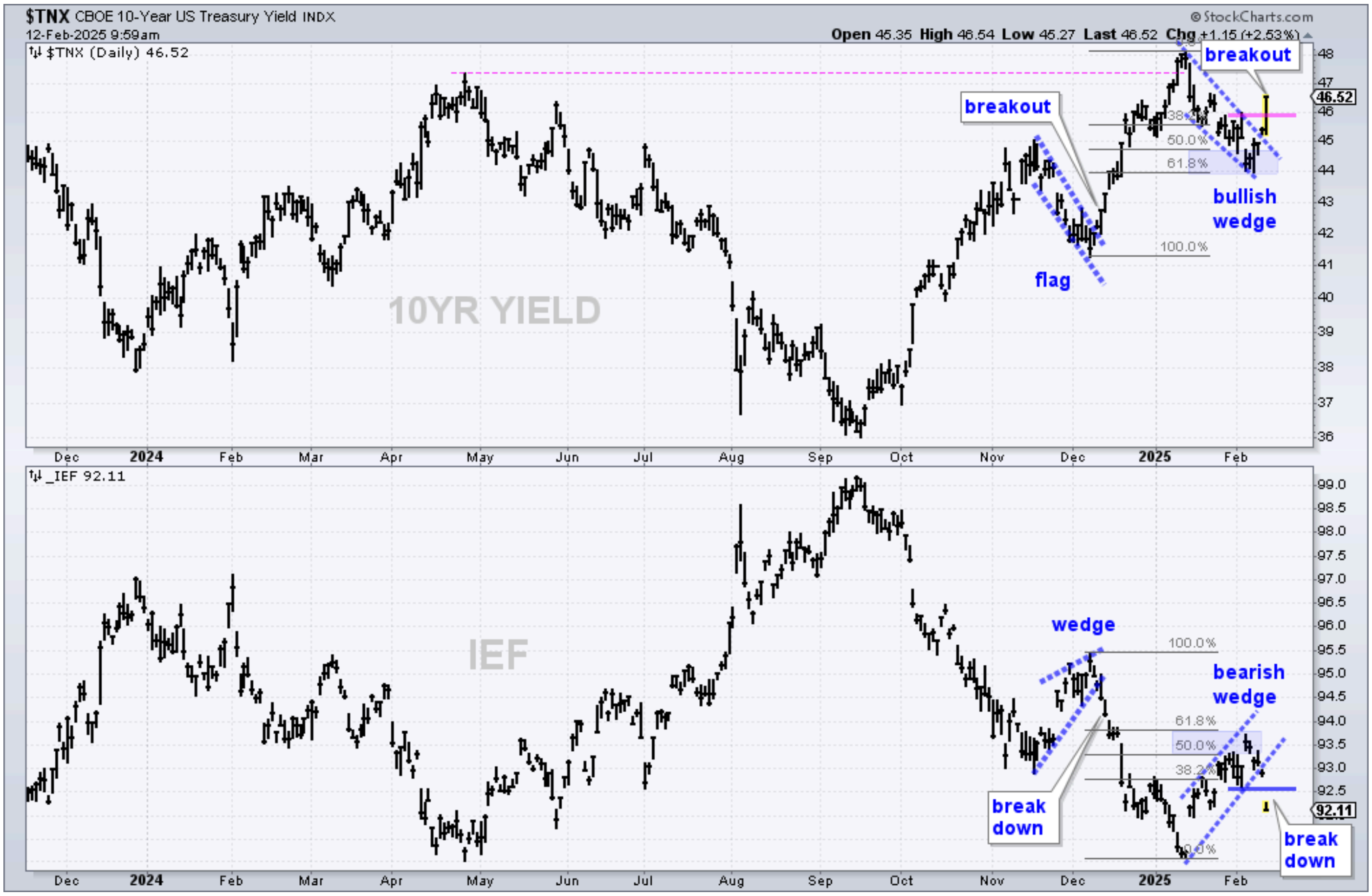
8930 10-yr Treasury Yield W



10-yr Treasury Yield // Even though the Fed is on hold, the chart above shows the 10-yr Treasury Yield breaking out of a large falling channel in mid December. The yield pulled back into early February and then surged after a hot CPI report on February 12th. Overall, the December breakout argues for a move towards the 5% area. This is a concern because a similar move weighed on stocks in summer 2023 (Period 2).

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 41 (4.1%) in early December to 48 (4.8%) in early January and briefly exceeded its 2024 high. It then fell back with a falling wedge that retraced 61.8% of this surge. I see this falling wedge as a correction within a bigger uptrend, which makes it a bullish continuation pattern. $TNX surged above 46 (pink line) on February 12th and reversed the this short-term downswing. This breakout signals a continuation of the prior advance and targets a move to 50 (5%). $TNX is updated during the day, which is why I sometimes use it. $UST10Y is the symbol for the actual 10-yr Yield, but it is updated after the close.

The bottom window shows the 7-10 Yr Treasury Bond ETF (IEF) falling sharply from mid December to mid January and bouncing with a rising wedge. This is a corrective bounce within a bigger downtrend. This bearish wedge retraced 50-61.8 percent of the prior decline, which is a normal amount for a counter-trend bounce. The decline into mid January is two steps down and the bounce into mid February is one step up. IEF broke the wedge line and last week's low with a sharp decline on February 12th. This signals a continuation lower and argues for new lows in the 7-10 Yr Treasury Bond ETF. Ditto for TLT.

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