

■ Daily Technical Strategy

September 17, 2024

## Minor Stallout possible, but still likely SPX can break out into October



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HEAD OF TECHNICAL STRATEGY

### Key Takeaways

- Short-term bullish trend likely faces short-term resistance before upside breakout.
- Post-Expiration performance in September tends to be sub-par but not always in Election years.
- Cycle composite makes the case for an SPX rally into mid-October ahead of a slide.



**Short-term trends are bullish but prices are up against near-term resistance, which might result in some minor consolidation lower post FOMC. This would gel with bearish end of –September seasonality trends following a test of an important resistance area. However, momentum and breadth remain quite positive, and technically it’s right to expect that weakness proves short-lived and SPX carries back higher into mid-October without much deterioration. Treasuries also appear stretched, and positioning could allow for some minor “Backing and filling” which might happen coincidentally. Overall, without evidence of any serious technical damage, it’s difficult turning too negative on US equity markets. Most of the Triangle patterns for SPX, QQQ, IWM should all be resolved by a pushback to the upside to join the DJIA’s breakout this week.**

It’s thought that Wednesday’s FOMC meeting results might provide some volatility to US Equity markets given that swaps market pricing remains largely in between 25 and 50 basis points(b.p.). At present, both Equity and Bond markets seem to be following the traditional “Fed-drift” phenomenon which typically has produced an average of +0.38 b.p. of gains on a two-day basis for \$SPX since 1994. (Day before and day of the announcement)



**As seen below, the reading of 41.5 b.p. of rate cuts for the September FOMC meeting is closer to 50b.p., but the question remains whether market participants might view a 50 b.p. cut as alarming in an Election year.** I'll leave this narrative to the Economists to discuss whether a 50 b.p. cut would send a mixed message on the soft landing that the Fed is hoping for.

However, it's noteworthy that the Swaps market on Fed Fund futures is right in the middle, which very well might produce a surprise to market given either a 25, or 50-b.p. cut tomorrow.

### **September FOMC Rate Cuts**



Enable Overrides

Region: United States »

Instrument: Fed Funds Futures »

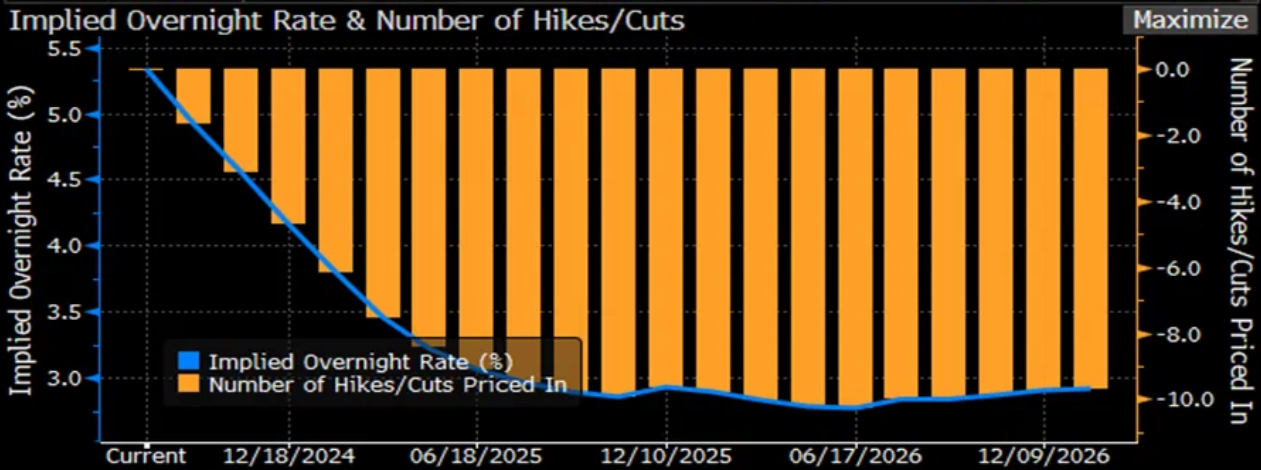
Target Rate 5.50

Pricing Date 09/17/2024

Effective Rate 5.33

Cur. Imp. O/N Rate 5.337

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
09/18/2024	-1.658	-165.8%	-0.415	4.923	0.250
11/07/2024	-3.145	-148.7%	-0.786	4.551	0.250
12/18/2024	-4.679	-153.4%	-1.170	4.167	0.250
01/29/2025	-6.178	-149.9%	-1.545	3.793	0.250
03/19/2025	-7.520	-134.2%	-1.880	3.457	0.250
05/07/2025	-8.435	-91.5%	-2.109	3.228	0.250
06/18/2025	-9.110	-67.4%	-2.277	3.060	0.250
07/30/2025	-9.498	-38.9%	-2.375	2.963	0.250
09/17/2025	-9.777	-27.9%	-2.444	2.893	0.250
10/29/2025	-9.928	-15.1%	-2.482	2.855	0.250
12/10/2025	-9.637	+29.1%	-2.409	2.928	0.250
01/28/2026	-9.788	-15.1%	-2.447	2.890	0.250
03/18/2026	-10.044	-25.6%	-2.511	2.826	0.250
04/29/2026	-10.228	-18.4%	-2.557	2.780	0.250
06/17/2026	-10.269	-4.1%	-2.567	2.770	0.250



While my Equity index charts have focused on the triangle formations which are quite apparent on many indices over the last few months, not many are discussing the shape of the push higher off the early September lows.

As seen below, this pattern clearly appears like a 5-wave advance. If my labeling is correct, then a period of “backing and filling” could be necessary post-FOMC decision tomorrow.



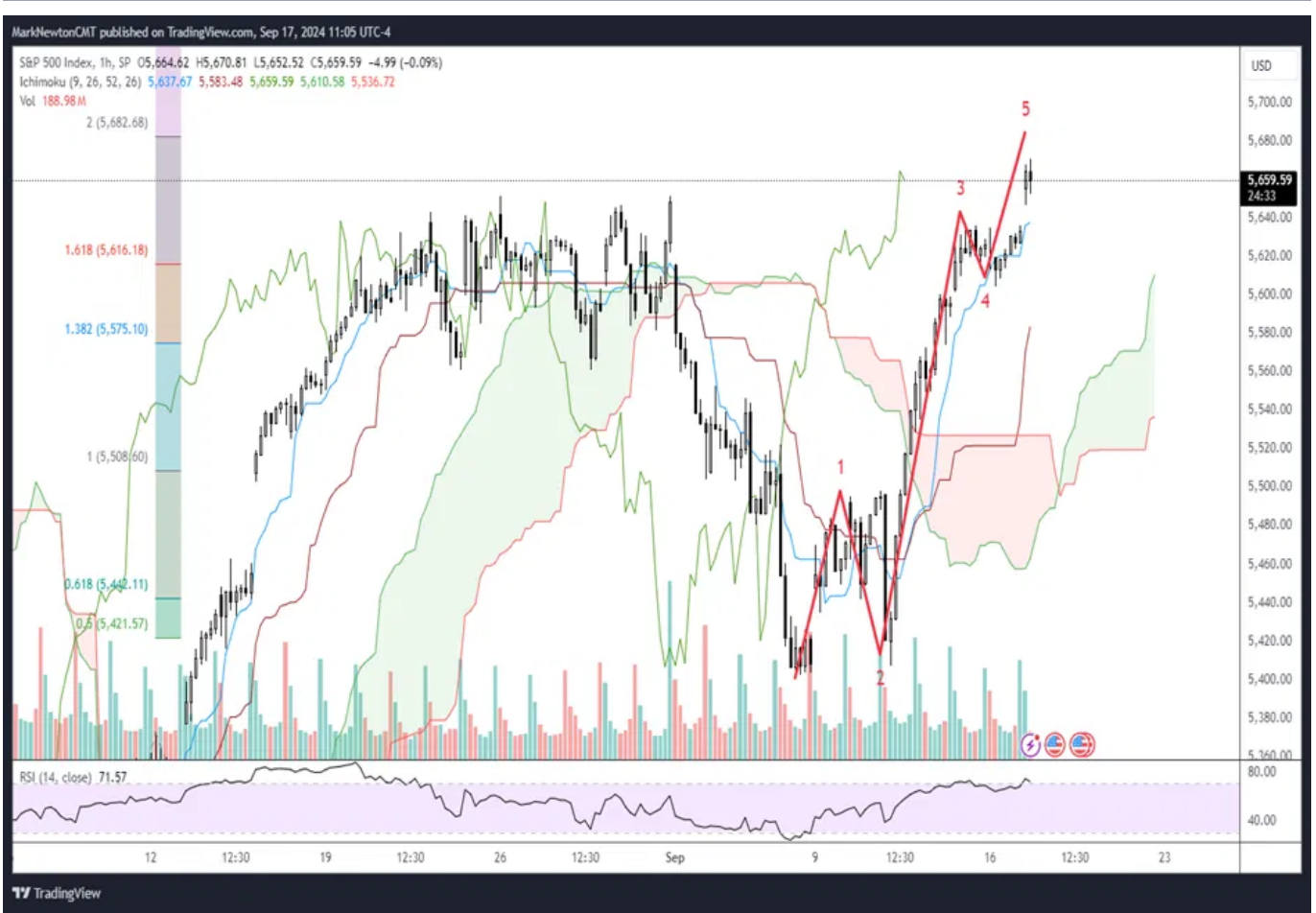
While I suspect any selloff might prove short-lived, and not erase more than 50% of the progress since early September, this area near SPX-5650 certainly looks important as resistance given the indecision on the Fed's decision tomorrow.

Ideally, the three areas of importance lie at SPX-5672, 5689, and 5706. It's thought that any of these might result in a stalling out if touched following Wednesday's decision.

However, if this does indeed occur, and there is a steeper reversal than what occurred in Tuesday's session, it's thought that SPX would only retrace 38.2% -50% of the recent 11-day rally before pushing back to new highs into mid-October.

Thus, I do not expect a meaningful drawdown in late September. However, I can make the technical case for a minor pullback which might start tomorrow and prove short-lived.

## **S&P 500 Index**



Source: Trading View

**Stock performance post-September expiration tends to be sub-par; However, Election year seasonality is better in September than in October**

The table below helps to show the longer-term performance of SPX following September expiration, which normally brings about sub-par performance out of US stock indices.

However, as I detailed last month, the median SPX performance in Election years tends to be better in September than October, with +0.40% gains being far superior than October’s +0.10% going back since 1929.

Thus, while the performance over the last five years has proven largely sub-par in the back half of September, I’m skeptical that SPX is in the same cycle as it was during these prior years.



## S&P 500 September Quarterly Option Expiration Performance Since 1982





S&P 500 September Quarterly Option Expiration Performance Since 1982						
Year	Option Expiration Day		Option Expiration Week		Week After	
	PNT Change	% Change	PNT Change	% Change	PNT Change	% Change
1982	-1.22	-0.99	1.58	1.31	0.77	0.63
1983	1.86	1.13	-0.68	-0.41	3.27	1.97
1984	-1.80	-1.07	-3.11	-1.84	0.43	0.26
1985	-1.34	-0.73	-0.86	-0.47	-0.76	-0.42
1986	-0.10	-0.04	1.54	0.67	0.02	0.01
1987	-0.07	-0.02	-7.12	-2.21	5.30	1.68
1988	2.52	0.94	3.81	1.43	-0.89	-0.33
1989	1.90	0.55	-3.70	-1.06	1.99	0.58
1990	-0.16	-0.05	-5.51	-1.74	-5.27	-1.69
1991	0.36	0.09	4.33	1.13	-2.02	-0.52
1992	3.00	0.71	3.35	0.80	-8.58	-2.03
1993	-0.60	-0.13	-2.89	-0.63	-1.20	-0.26
1994	-3.62	-0.76	3.01	0.64	-11.52	-2.44
1995	-0.26	-0.04	10.67	1.86	-1.62	-0.28
1996	4.02	0.59	6.48	0.95	-0.83	-0.12
1997	3.22	0.34	26.60	2.88	-5.29	-0.56
1998	1.22	0.12	11.03	1.09	24.66	2.42
1999	16.94	1.28	-16.24	-1.20	-58.06	-4.35
2000	-15.06	-1.02	-28.69	-1.92	-17.09	-1.17
2001	-18.74	-1.90	-126.74	-11.60	75.14	7.78
2002	2.07	0.25	-44.42	-4.99	-18.02	-2.13
2003	-3.28	-0.32	17.67	1.73	-39.45	-3.81
2004	5.05	0.45	4.63	0.41	-18.44	-1.63
2005	10.18	0.83	-3.57	-0.29	-22.62	-1.83
2006	3.59	0.27	20.95	1.61	-5.09	-0.39
2007	7.00	0.46	41.50	2.80	1.00	0.07
2008	48.57	4.03	3.38	0.27	-42.07	-3.35
2009	2.81	0.26	25.57	2.45	-23.92	-2.24
2010	0.93	0.08	16.04	1.45	23.08	2.05
2011	6.90	0.57	61.78	5.35	-79.58	-6.54
2012	-0.11	-0.01	-5.62	-0.38	-19.48	-1.33
2013	-12.43	-0.72	21.92	1.30	-18.16	-1.06
2014	-0.96	-0.05	24.86	1.25	-27.55	-1.37
2015	-32.17	-1.62	-3.02	-0.15	-26.69	-1.36
2016	-8.10	-0.38	11.35	0.53	25.53	1.19
2017	4.61	0.18	38.80	1.58	1.99	0.08
2018	-1.08	-0.04	24.69	0.85	-15.69	-0.54
2019	-14.72	-0.49	-15.32	-0.51	-30.28	-1.01
2020	-37.54	-1.12	-21.50	-0.64	-21.01	-0.63
2021	-40.76	-0.91	-25.59	-0.57	22.49	0.51
2022	-28.02	-0.72	-194.03	-4.77	-180.10	-4.65
2023	-54.78	-1.22	-7.17	-0.16	-130.26	-2.93
<b>Average</b>		<b>-0.03</b>		<b>-0.03</b>		<b>-0.76</b>
<b>Median</b>		<b>-0.03</b>		<b>0.47</b>		<b>-0.55</b>
<b>Up</b>		<b>19</b>		<b>23</b>		<b>13</b>
<b>Down</b>		<b>23</b>		<b>19</b>		<b>29</b>
<b>% Higher</b>		<b>45.2</b>		<b>54.8</b>		<b>31.0</b>
<b>Since 1990</b>						
<b>Average</b>		<b>-0.03</b>		<b>0.04</b>		<b>-1.06</b>
<b>Median</b>		<b>-0.03</b>		<b>0.59</b>		<b>-1.12</b>
<b>Up</b>		<b>16</b>		<b>20</b>		<b>7</b>
<b>Down</b>		<b>18</b>		<b>14</b>		<b>27</b>
<b>% Higher</b>		<b>47.1</b>		<b>58.8</b>		<b>20.6</b>

Source: Stock Traders Almanac



## **SPX Short-term cycle composite seems to favor strength into mid-October**

Given the resilience of the SPX's advance during August, the phasing of the cycles looks to have shifted on the SPX cycle composite chart from Foundation for the Study of Cycles.

As seen below, the cycle seems to have bottomed on time according to this composite last year, peaked nearly on time in Spring. Thereafter, it looks to have bottomed about a month late in May, but then peaked on time in July.

Then a bottom happened in September after a choppy period which looks to have occurred according to this composite back in early September.

If this composite shows success in following through on this projection, it would currently peak in mid-October, with not much weakness being seen now.

**Increasingly, given the triangle patterns happening in many of the benchmark indices, I'm expecting that any weakness into late September likely proves minimal and SPX pushes higher into mid-October ahead of a pre-Election peak.**

Then, given that the last two lows in this composite prior to early September occurred about 3 weeks too late, it's thought that a bottom in late November might also materialize at/near Election time before a rally into next year.

**The weekly cycle composite shows that any weakness that materializes between October and November likely should prove to be a buying opportunity for strength into next Spring.** I'll cover the 2025 cycles in my December report which discusses the 2025 Annual Outlook.

## **SPX Short-term Cycle**



Source: Foundation for the Study of Cycles



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