

Market Sense – Break of Support Increases Chances of a Tough Spring for Stocks

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The S&P 500 has broken through key support at its 100-day and 20-week moving average for the first time in about a year, increasing the probability of a full correction in the index in coming weeks. There have been just 8 other instances when the market has broken down as much through the key level after a bullish advance in the last ten years. The market carried on to deeper lows in 6 of the 8 instances. The range of declines from pre-breakdown peak to ultimate low was 0% (in 2016/late 2020) to 22.5% (in 2022). On average, the declines lasted 19 weeks from pre-breakdown peak to ultimate trough, though the range is wide. The market managed to shrug off the break of the 20-week moving average in 2016 and late 2020.



A resolution of war with Iran and/or cooldown in the price surge for oil is the primary, but not the only indicator to watch for stocks. VIX has spiked but is not yet at 40 - the level that normally suggests a sentiment low is likely to emerge. Momentum (14-day RSI) may also need to drop to near 30 to suggest a low is near. Valuations are still above levels supported by macro data and will likely need to fall closer to our model's indication of 19X before a buying opportunity emerges. Policy shifts also often create sentiment shifts. The FOMC is scheduled to meet again next week. Higher oil prices complicate matters, but if the Fed telegraphs greater chances of an ease coming due to jobs weakness, it could also help stocks find their footing.

Authored by:



[Gina Martin Adams, CFA, CMT](#)

Chief Market Strategist



[Matthew Sanders](#)

Senior Investment Research Analyst



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