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LE COIN TECHNIQUE

What kind of downside retracement/retest may we expect in May?

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Last month, we wrote that the worse may be behind us for equity markets. We did expect some downside retesting early April (which was rather tamed) and then a bounce towards 2870 into late April/early May, which has now been reached. What's next? In this article, we review the main factors, which together compose US equity markets (Growth, Cyclicals and Defensives) in order to gauge their relative strength. We expect that these comparisons will help us assess the scope and timing of a potential equity market set-back during May.

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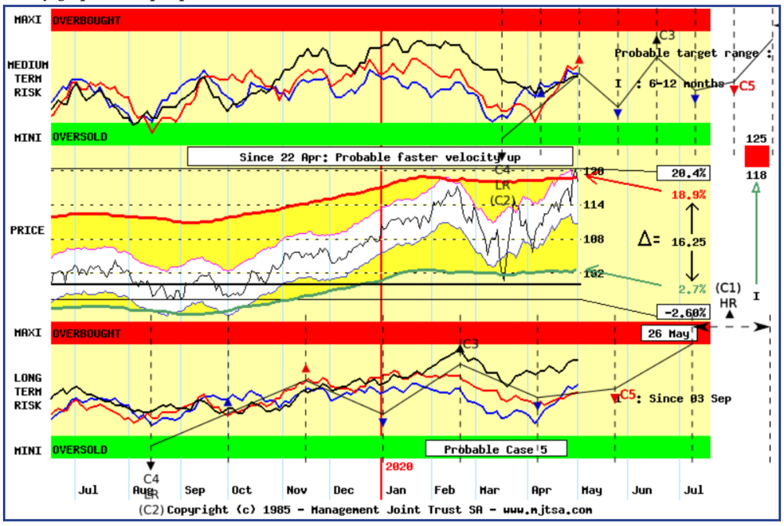
Growth vs Defensives (Nasdaq100 index vs US Staples sector)

(Daily graph or the perspective over the next 2 to 3 months)



*This graph compares the Nasdaq100 Index, the main proxy for Growth profiles on US markets, with the US Staples sector, a typical Defensive sector. The ratio initially topped out towards the 3rd week of February along with Equity markets, sold off into mid-March, and then rebounded aggressively. It recently made new highs. Hence, despite the strong sell-off late February/March, **its long-term uptrend has now been reinstated**. Going forward, the ratio is probably making a new intermediate top on our medium-term oscillators (upper rectangle). As suggested by both oscillator series (lower and upper rectangles), **it should now retrace down into the 2nd half of May. The retracement potential (short term Nasdaq100 underperformance vs US Staples) may be between 8 and 13%** (or 0.5 to 0.8 times our historical volatility measure "Delta", here at 16.25 - middle rectangle, right-hand side). **Hence, the ratio should not make new lows, yet potentially retrace between 45 and 70% of the recent rally. Following that, the Nasdaq100 should outperform into the Summer and the ratio could reach new highs** according to our I Impulsive targets to the upside (right-hand scale).*

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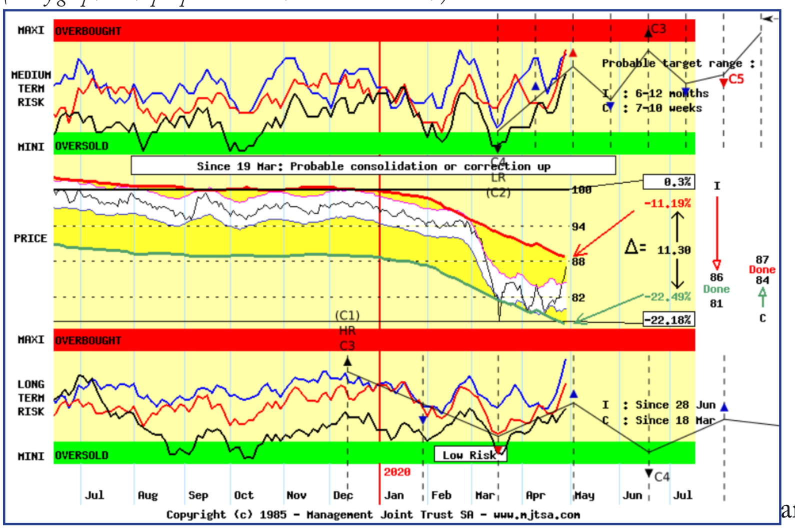
Cyclicals vs Defensives (Russell 2000 index vs US Staples sector)

(Daily graph or the perspective over the next 2 to 3 months)



*Cyclical profiles were weaker than both Growth and Defensive profiles during the March sell-off. When considering the ratio of these US Cyclical themes (e.g. US Small Caps) vs the defensive US Staples sector, **the downtrend is still well in place**, this despite the rebound that has taken place over the last 6 weeks. For now, indeed, we are still below the resistance of our C Corrective targets to the upside. Furthermore, while our medium-term oscillators (upper rectangle) suggest at least 3 weeks of correction to the downside, our long-term ones (lower rectangle) are pointing to a **deeper and longer retest down into mid-June** (lower rectangle). This is our preferred scenario given the still prevalent downtrend. On the targets front, our I Impulsive targets to the downside had been fulfilled on the lows in March, yet we cannot exclude a deeper downside retest into June potentially with marginal new lows. **We, hence, expect cyclical weakness into late May at least, and then probably a last downside retest into mid-June**.*

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Concluding Remarks: Considering both ratios above, we expect US Defensive sectors to outperform both Growth and Cyclical sectors into late May. Such relative strength would typically signal a period of retracement on the main US Equity Indexes and we would probably expect a 50 to 60% retracement of the recent rally on them. From late May, our relative ratios are signaling more differentiation, with Growth starting to outperform Defensives, probably indicating that the main US equity index could then start to resume their uptrend, while US Cyclical remain the weakest link into mid June, thereby suggesting a period of base building/downside retesting on the more cyclical themes until then. From late Q2, all equity themes should then rally into the Summer.