



Harry's Take

May 18, 2021

Rising Wedge in Question: Normal Elliott Wave Pattern Projects One More New High

This article is really an update to the May *HS Dent Forecast*. In that, I showed a 100-year channel with a hardcore, high-end limit of 4,740 on the S&P 500. The rising wedge pattern on the S&P 500 suggested that a peak was nearing, but Bitcoin, which has been a good leading indicator for the stock market, was breaking downward badly. I showed how the V-shaped recovery in China had stalled after being so strong, which was likely to be the case for the U.S. ahead.

Bitcoin has since broken down to the lower levels of support I projected, around 42,000–43,000. We'll see if it holds there, but that downward break is yet another sign that stocks may be topping just ahead on a lag of about 5.5 weeks or so, as occurred in the January 2018 bubble top in stocks.

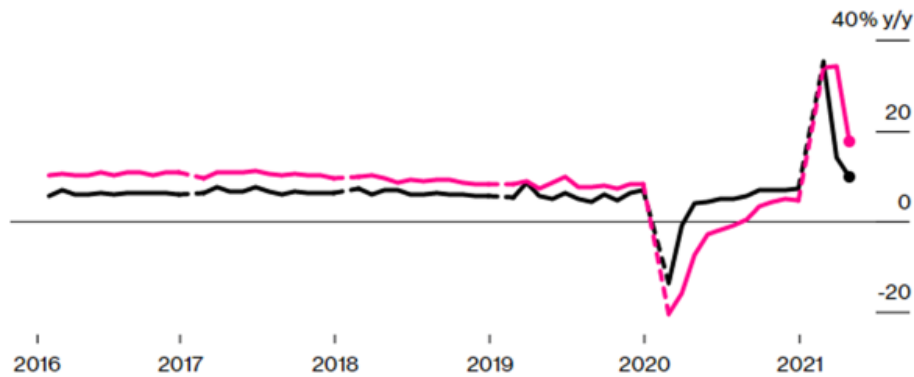
Also, here is that important update I promised on the Chinese recovery. The new numbers just came out: retail sales followed industrial production straight down. Yes, the V-shaped recovery in China now looks... dead!

China's V-Shaped Recovery Continues To Stall: Is Same Ahead for US?

Retail Sales Slow

Rebound in consumption isn't sustained in China

Industrial output Retail sales



Source: National Bureau of Statistics

Note: Jan.-Feb. data is combined each year

Source: <https://www.bloomberg.com/news/articles/2021-05-17/china-s-economic-recovery-comes-off-boil-as-retail-spending-lags>

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The U.S. is in a V-shaped recovery, and it is not dead yet. I went out to eat at a Cheesecake Factory on Monday night, thinking that it certainly wouldn't be hard to get in. But I had the longest wait ever, both to get in and for food to arrive. All of us have cabin fever and are eating out and leisure traveling again. But will it last? I think this phenomenon is just us playing catch-up until the weakness of our underlying demographic and debt trends brings reality back... as China's economy has already demonstrated. It may take a month or so for this to become apparent.

My biggest update is that the rising wedge pattern on the S&P 500 no longer seems to be the appropriate pattern to track.

S&P 500 Is in Normal Elliot Wave, Not a Rising Wedge: 5th Wave Ahead



Source: Yahoo! Finance

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The S&P 500 did break back down into that wedge after the normal throw-over, but then it never tested the bottom trend line nor did it break below the minor wave just before it. That tells me that the rally off of the wave-4 bottom here has one more wave up and that the top trend line of this pattern is not valid. In other words, this is looking more like a standard Elliott Wave with one more wave to complete.

This could be a slight new high or, more likely, could indicate a run to around 4,450—or it could have a real blow-off and hit that very top target of around 4,740. We'll have to see. But it looks likely stocks will continue up for now, unless we break below around 4,050 just ahead. I expect this likely final wave to peak by around June 10 at the latest.

The bottom trend line here is still very valid. And as I have been saying recently, if we don't break that trend line, which is now around 4,050, just ahead, the trend is your friend. If we do break it, stocks are likely to implode rapidly.

Harry

Got a question or comment? You can reach us at info@hsdent.com.