PHASES & CYCLES®

HAVE WE SEEN THE BOTTOM?

The volatility observed across North American markets over the past three to four months succumbed to abrupt declines triggered by the U.S. president's trade tariffs and rising concerns about a potential recession. A recession is generally characterized by two consecutive quarters of declining GDP (Gross Domestic Product), which quantifies the total value of all goods and services produced within an economy as defined by The National Bureau of Economic Research (NBER). However, both the dating of recessions by NBER and U.S. GDP data are quite delayed and typically the information isn't available until a recession has likely progressed and possibly concluded.

Historically equity markets have been considered a leading indicator of recessions as investors anticipate slowing growth, declining earnings, and tighter monetary policy with the S&P 500 typically peaking 6 to 9 months before a recession. Likewise, equity markets generally bottom 3 to 6 months before a recession is over. However, equity markets are not always reliable predictors, as they can produce false signals. To get a better understanding of where markets stand currently, we look at other market indicators below.

Momentum:

During the recent decline in North American indices the S&P 500 and Dow Jones Industrials indices have fallen below their respective December-January lows and 40wMAs, suggesting a shift in momentum for the first time since late-2023. In contrast, the S&P/TSX and New York Stock Exchange have not experienced significant declines below these levels. This disparity in performance can be largely attributed to the substantial weighting of the first two indices in technology stocks, which have suffered substantial losses over the past few weeks.

Breadth:

From February 21st to March 13th, the NYSE had a greater number of 52-week lows versus 52-week highs every single day, with greater than 5 to 6 times more lows than highs on March 4, 12, and 13. Declining volume has also been outnumbering advancing volume on the NYSE throughout most of this period, with declining volume exceeding the advancing volume on some days by more than three times.

Put/Call Ratio:

Rising put-call ratios indicate growing investor anxiety. A ratio above one is considered bearish. The recent surge from 0.62 on February 20th to 0.83 on March 13 and 14 confirmed investors' growing apprehension. Conversely, the positive market performance in the past few days appears to have halted the increase of this ratio.

Charts courtesy of LSEG

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Monica Rizk

Capitalight Research · 130 King Street West, Exchange Tower Suite 1940, Toronto, Ontario M5X 2A2
subscriptions@capitalightresearch.com · Capitalightresearch.com

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Volatility:

The VIX, widely regarded as Wall Street's most popular measure of volatility, serves as a barometer of market sentiment – and generally rises sharply during periods of equity market declines. Its "resting position" fluctuates between 10 and 25. Notably, it reached a peak of 29.57 on March 11 but gradually declined, even as the indices experienced lower lows. This suggests that markets might have already bottomed out. Consistent with this notion, daily readings have been declining, and recent readings have returned to the neutral range of ±20.

Bearish vs Bullish Sentiment:

The American Association of Individual Investors Survey shows that the number of bearish advisors has increased to 57.1%, while the number of bullish advisors has decreased to 19.3%, the lowest since October 2022. Moreover, the bears now outnumber the bulls, which often happens at market bottoms.

What does this mean:

The long-term outlook for North American indices remains positive despite the recent panic over trade tariffs and the possibility of a recession. The long-term upward trend continues. Currently, North American equity markets appear to have undergone a healthy and much-needed correction. If the VIX continues to decline towards normal readings, it will be a positive sign that markets have bottomed for the current down-leg.

However, with policies changing rapidly, even hourly, and ongoing negotiations among politicians, market volatility could persist, especially if recessionary conditions persist. Dampened investor optimism has led many to seek safety in traditionally safer assets like gold and bonds. It remains uncertain whether the North American indices have completed this pullback or if they require further downside movement.

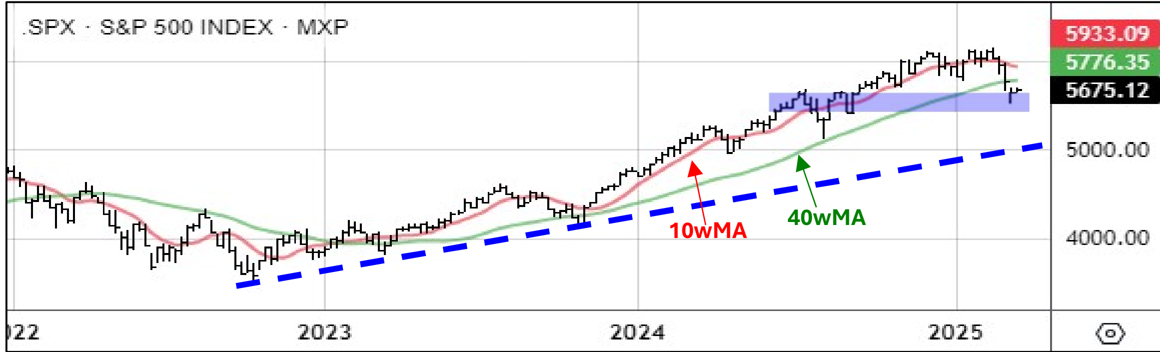
It is too early to definitively tell whether equity markets have indeed already bottomed out for this down-leg. The coming days and weeks will provide valuable insights.

Below we examine weekly charts of the indices

Dow Jones Industrial Average (DJI)   Weekly chart – from January 2022

DJI (41,650.00) experienced a decline below the 40-week moving average (40wMA) earlier this month. However, it found support near resistance levels that were established in mid-2024, approximately between 39,500 and 40,000 (shaded area). Since then, the index has been rallying back toward the 40wMA. While a decline below the 40wMA is always a cause for concern, there are other factors to consider. The 10-week moving average (10wMA) continues to be above the 40wMA, and the latter is still rising. A swift and sustained recovery move above the 40wMA would suggest that the March lows were merely a selling climax. Nevertheless, a return toward recent lows or possibly even lower levels should find support near the long-term rising trendline (dashed line).

S&P 500 Index (SPX) **Weekly chart – from January 2022**



SPX (5,665.81) also fell below the 40-week moving average (40wMA) and found support near resistance levels set in 2024, approximately 5,450 to 5,550 (shaded area). Similar to the DJI, the SPX also has a rising 40wMA, and the e 10-week moving average (10wMA) continues to be above the former. While we are pleased with the index's support this month and the improving sentiment indicators, we anticipate that any potential further declines will be met with support near the rising trendline (currently near 5,000).

NYSE Composite Index (NYA) **Weekly chart – from January 2022**

NYA (19,394.58) didn't experience a significant decline below the 40wMA. Instead, it merely returned to the December-January lows, where it has found strong support to date, near 18,800-18,900 (dotted line). This level also coincides with the rising trendline (dashed line). As previously mentioned, the reduced weightage of tech stocks in this index explains why it performed better compared to the DJI and SPX. If the markets experience another decline and fall below recent levels, there is substantial support at the 2024 resistance levels near 18,000-18,300 (shaded area).

S&P/TSX Composite Index (GSPTSE) **Weekly chart – from January 2022**

TSX (24,671.68) also found support near its December-January lows (dotted line), which conveniently intersects with the 40-week moving average (40wMA). The 10-week moving average (10wMA) is significantly higher than the 40wMA and is currently rising. Any potential weakness in this index should find strong support near the rising trendline (dashed line) and the 2024 resistance levels at 22,600-23,000 (shaded area).