

Market Commentary

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The pendulum keeps swinging

After a selloff during Thanksgiving week, the S&P 500 has bounced back almost 9%. This rally has been due to liquidity injections from central banks around the world and positive developments out of Europe. However, we caution traders that expectations are starting to become too optimistic and the meeting of European leaders on December 9th is being viewed as the endgame. Our International Strategy team believes that volatility should continue for the foreseeable future. We advise traders to take profits and start moving toward the sidelines.

When a pendulum is displaced from its resting equilibrium position, it is subject to a restoring force due to gravity that accelerates it back toward the equilibrium position. When released, the restoring force combined with the pendulum's mass causes it to oscillate about the equilibrium position, swinging back and forth. The time for one complete cycle, a left swing and a right swing, is called the period. A pendulum swings with a specific period which depends (mainly) on its length.

Much like a pendulum, markets tend to swing freely, and this year they have swung in a wide range. As developments have trickled out of Europe, the S&P 500 has gone from a high in early May of around 1,370 to a low of 1,075 in early October and now sits at approximately 1,260. We believe these gyrations have been caused by expectations swinging, much like a pendulum,

from too much hope to no hope at all. We think the most recent rally has been based on a shift from hopelessness (or too much turkey and shopping) during Thanksgiving week to too much optimism currently regarding the December 9th meeting. We anticipate at least some disappointment when the meeting's final details are released. This is why we recommend traders begin to take profits and trim or eliminate positions that don't fit their trading criteria.

Support on the S&P 500 is at the August and September highs between 1,220 and 1,230. Also, the 50-day moving average will provide some support at 1,215. Resistance begins with the 200-day moving average at 1,264 and extends to the recent highs at 1,293. We believe the S&P 500 is trying to reassert its uptrend; however, it is overbought, and traders should get a better entry point in the near future.



Source: Bloomberg, LLP

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