Twin Horn LLC

Market Forecast for US Equities – September 2018 through Year-End 2018

By Andrew Grossman on September 3, 2018

US equity markets have rallied strongly since Donald Trump was elected president. From the low of 2083.79 on 11/4/2016 to a high of 2916.5 on 9/29/2018, the S&P 500 has rallied an impressive 39.9%.

While consumer confidence, reduced regulations, and a generally more business friendly White House has helped fuel this rally, we believe some of the larger fundamental issues – both domestic and global – will result in lower US equity prices through May 2020. There will be market action that will be volatile at times, and which will provide some excellent trading opportunities through the end of 2018 and to begin 2019.

With Trump under attack domestically, whether one believes fairly or unfairly, his position on the global stage is weakened. Further, even if Republicans can maintain the House, margins will be thin for the ruling party. If the Democrats take control and open multiple investigations about Trump, including the possibility of impeachment, it will further weaken the country's global position.

Furthermore, the US's unilateral policies are bristling. US sanctions, the threat of losing access to the US controlled SWIFT payments and other global market mechanisms, and the renegotiating and/or pulling out of negotiated agreements (Iran is the best example, but also renegotiating NAFTA and other trade deals) are resented by both US allies and its enemies.

Interestingly, while the US purports to lead the world's economy, the US balance sheet shows weakening fundamentals in its debt position. In spite of its weak and further weakening balance sheet (the US continues to significantly add to the deficit even with a "strong" economy and record tax revenues), the world has been providing the US with cheap credit and low interest rates. If the dollar's influence in global finance is weakened, or the world begins demanding higher risk premiums in association with the growing US debt burden, it will have a negative impact on US markets. With entitlement spending and US debt levels heading higher, US debt service will also become more expensive.

I believe the months to follow will show an escalation in economic and military posturing and maneuvering, and that trouble spots in the world may heat up through the end of the year, increasing the risk for hostilities – again both economically, diplomatically, and possibly militarily. A record number of Soviet troops will be taking part in military exercises, China continues to assert its naval strength in the South China Sea, and there are multiple other potential hot spots, including Turkey, Iran, Syria, Ukraine, Venezuela, Argentina, North Korea, and South Africa. Iran may become a provocateur in conjunction with Russia and China, and China and Russia may decide to no longer be beholden to US dictates required to remain in the US dollar trading system, possibly finally having success in creating their own new mechanisms (Russia has sold most of its treasuries, and has increased their gold holdings). Further, China and Europe would likely prefer to have access to Iranian oil on the market, and an alternative mechanism would significantly blunt US global influence.

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While these fundamental issues have been building for some time, our work on cycles and price action indicates lower US equity prices through May 2020. The initial trading window through the end of 2018 and into 2019 follows.

I anticipate a high in US equities late this week or early next week. I would look at Thursday, September 6th as a good day to place positions, with prices to begin moving lower in the early to middle part of the week. Our target prices for the S&P 500 are 2,919 or possibly stretching to 2,937.

I anticipate lower prices through October 4th, and generally until around the middle of November. In the middle of November we will see steadying to higher prices, with a strong rally into the year end. This year-end rally may end earlier, around December 17th, but as of this writing I believe prices will remain strong through the year end.

The first wave down is envisioned as a three part move – down to 9/24, up for a few days, then down through 10/6. After this, we see prices stabilizing and moving higher to October 30th before finishing lower through November 15th, then consolidating and moving higher for a year-end rally to 12/17 or through the end of the calendar year.

Current analysis indicates another opportunity to short US equities with a target date of January 5, 2019. If correct, the market would likely trade lower through February 4th, followed by consolidation and higher prices to February 14th.

$SPX: S&P 500 Index @ OPRA (Daily bars)

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