Three Ways to Tell What's Next for the Stock Market

2024 sure is off to a rocky start.

In fact, stocks have been under pressure ever since the New Year's bowl games ended. The market fell four straight days to finish last week's holiday-shortened trading on a sour note.

Stocks bounced back a bit early this week…

But still, it's quite a contrast with the sizeable gains we just enjoyed in 2023, when the S&P 500 Index was up 24% and the Nasdaq 100 soared over 40%.

So, what's next for stocks? Is the party over for now? For important clues, let's apply some *TradeSmith Trends* data plus seasonal patterns that reveal when we can expect stock rallies to come this year.

What Happens When Santa Claus Skips Town

The last five trading days of the year surrounding the holidays plus the first two trading days in January are supposed to be when we can expect a "Santa Claus Rally."

According to "The Stock Trader's Almanac," stocks have posted positive returns during this period 24 of the past 30 years. And whether or not the Santa Rally happens can be used as an indicator for the stock market's full year performance… most of the time.

So, if last week's market weakness made you feel a bit *Scrooged*, you're not wrong, because Santa Claus did not call on Wall Street this year.

And according to legend (or perhaps superstition), if stocks do not rally during this period, watch out:

Prior to 2023, the last six times Santa failed to call on Wall Street with a holiday rally, the S&P 500 ended down for the full year four times.

However, two of those Santa Claus Rally failure years produced a buyable dip as stocks rallied back from the early pullback – but another two years led to nasty market selloffs in 2000 and 2008.

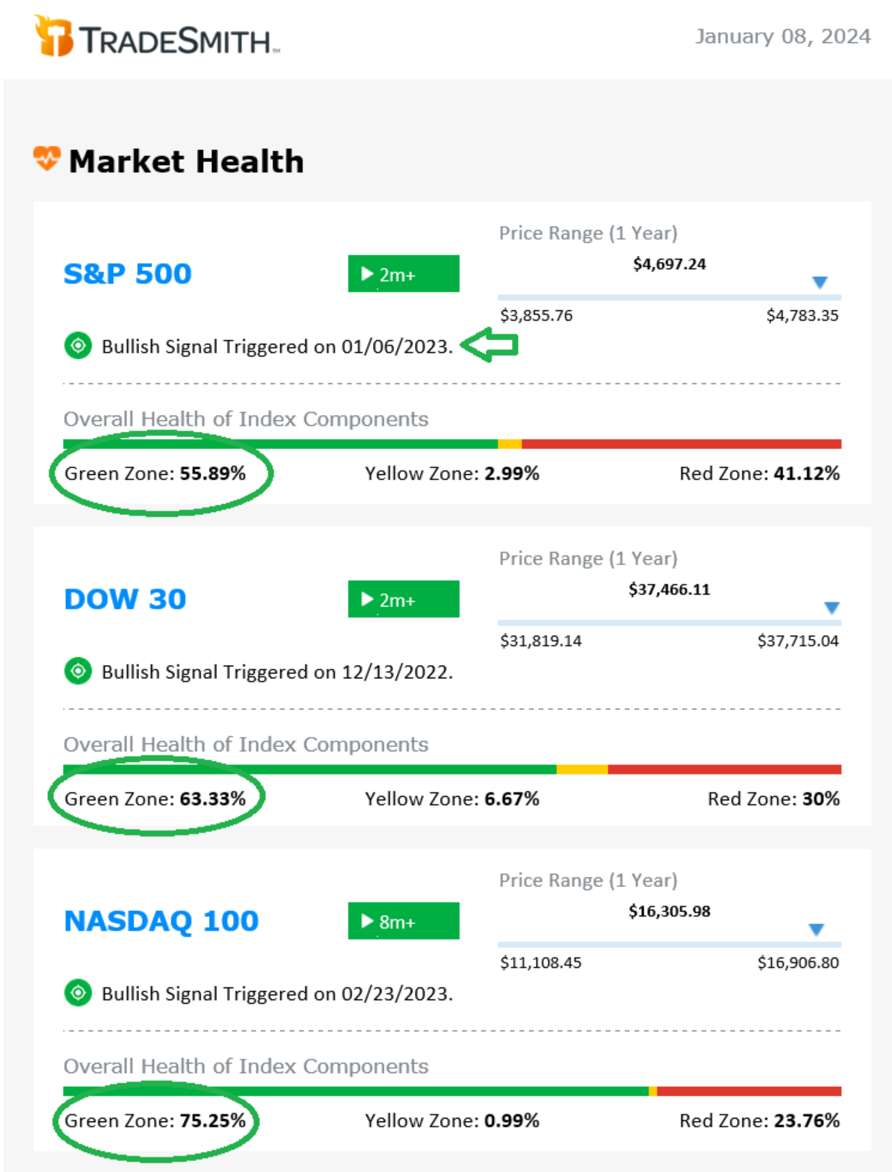
Well, this time Santa's sleigh got highjacked with the S&P 500 falling 1.05% during what's usually a cheerful time for stocks.

But even though the Grinch stole our Santa Claus Rally, that's not an automatic reason to pout and dump your stocks. Let's apply our *TradeSmith* health and trend indicators, then our *Trade Cycles* seasonal forecast, for a clearer picture of how much turbulence to expect.

Our *TradeSmith Trends* Report on Market Health

TradeSmith Trends has good news for us this week.

As you can see below, all three major stock indexes are firmly in the Health Indicator Green Zone and confirmed uptrends:



The Dow was first to trigger a Bullseye signal on Dec. 13, 2022. The S&P 500 and Nasdaq 100 soon followed on Jan. 6, 2023, and Feb. 23, 2023, respectively.

Since then, the percentage of Green Zone stocks in each index has risen steadily, with the Nasdaq showing a strong 75% of its component stocks in the Green Zone currently.

So, if stocks do get into deeper trouble this year, look for these trends to turn sideways first as an early warning indicator. Also, the share of Green Zone stocks should fall, as the percentage of Yellow and Red Zone stocks starts to rise.

But for now, the three big stock indexes look A-OK according to our indicators.

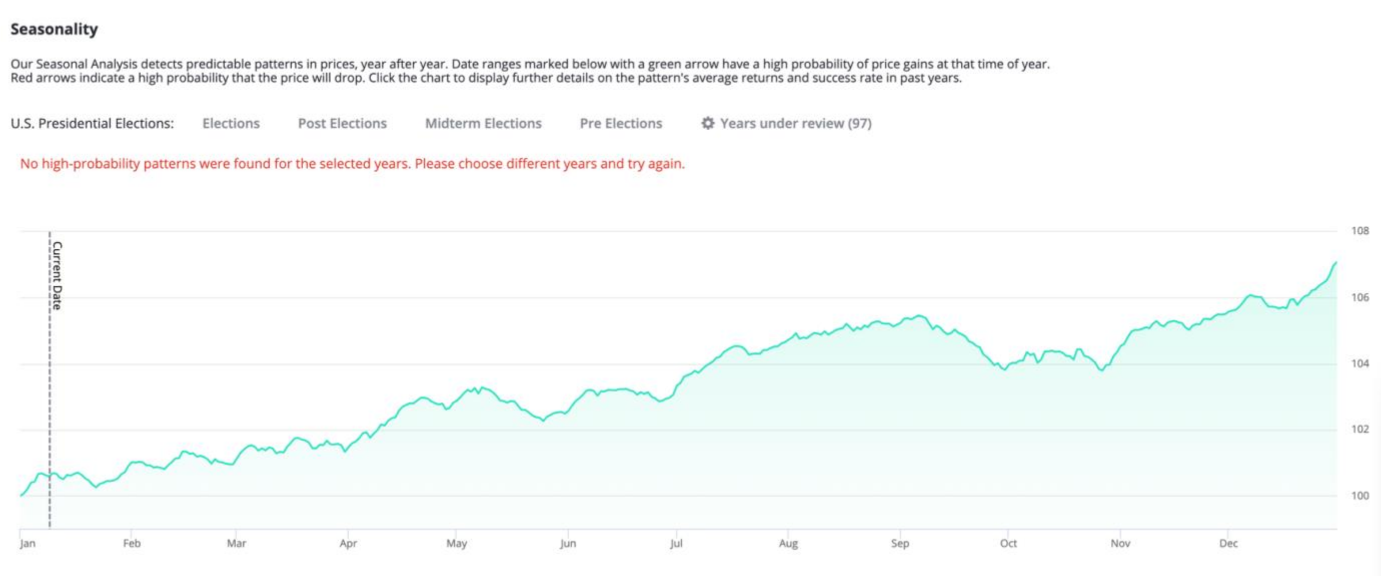
Now let's turn to our seasonal market-timing indicators.

This is where the outlook for stocks in 2024 gets *really* interesting..

Seasonal Patterns for the Year Ahead

Here are our seasonality charts for the Dow going back to 1928.(Readers with access to *Trade Cycles by TradeSmith*, including Platinum and *TradeSmith Essentials*, can check the seasonality for markets, sectors, and individual stocks.)

Below you'll see how, in an average year, you would expect strong upside from now through early May, then a dip before a strong year-end rally starting in October:



But this year is a presidential election year – and those tend to differ.

During the 25 election years we've had since 1928, the Dow kicks off an election year with sideways-to-down price action, just like we're seeing right now. An early March dip is followed by an April rally (green shading), but then more downside comes in May:

Finally, the election year pattern shows a stronger second half of the year. A summer rally is followed by a September-to-October dip, as Election Day draws near.

But then the Dow historically experiences a strong year-end rally following the election... even stronger than the late rally in any random year.

While seasonal market patterns don't always repeat exactly, they do often rhyme. And based on decades of seasonal market data, this tells me to expect more market turbulence that's front-end loaded in 2024, followed by a stronger second half and a robust year-end move to the upside.

Mike Burnick's Bottom Line: There you have it, folks: Our fearless stock-market forecast based on many years of actual seasonal price action. It indicates choppy market conditions in the first half with no real direction for stocks early on. But the second half of 2024 looks more bullish – including a summer rally, fall dip, and strong year-end move. For added confirmation, keep close tabs on our *TradeSmith* trend indicators for any signs of deteriorating market health.

Good investing,

Mike Burnick

Senior Analyst, *TradeSmith*