Stocks Need to Consolidate Now, And Gold Will Anyway

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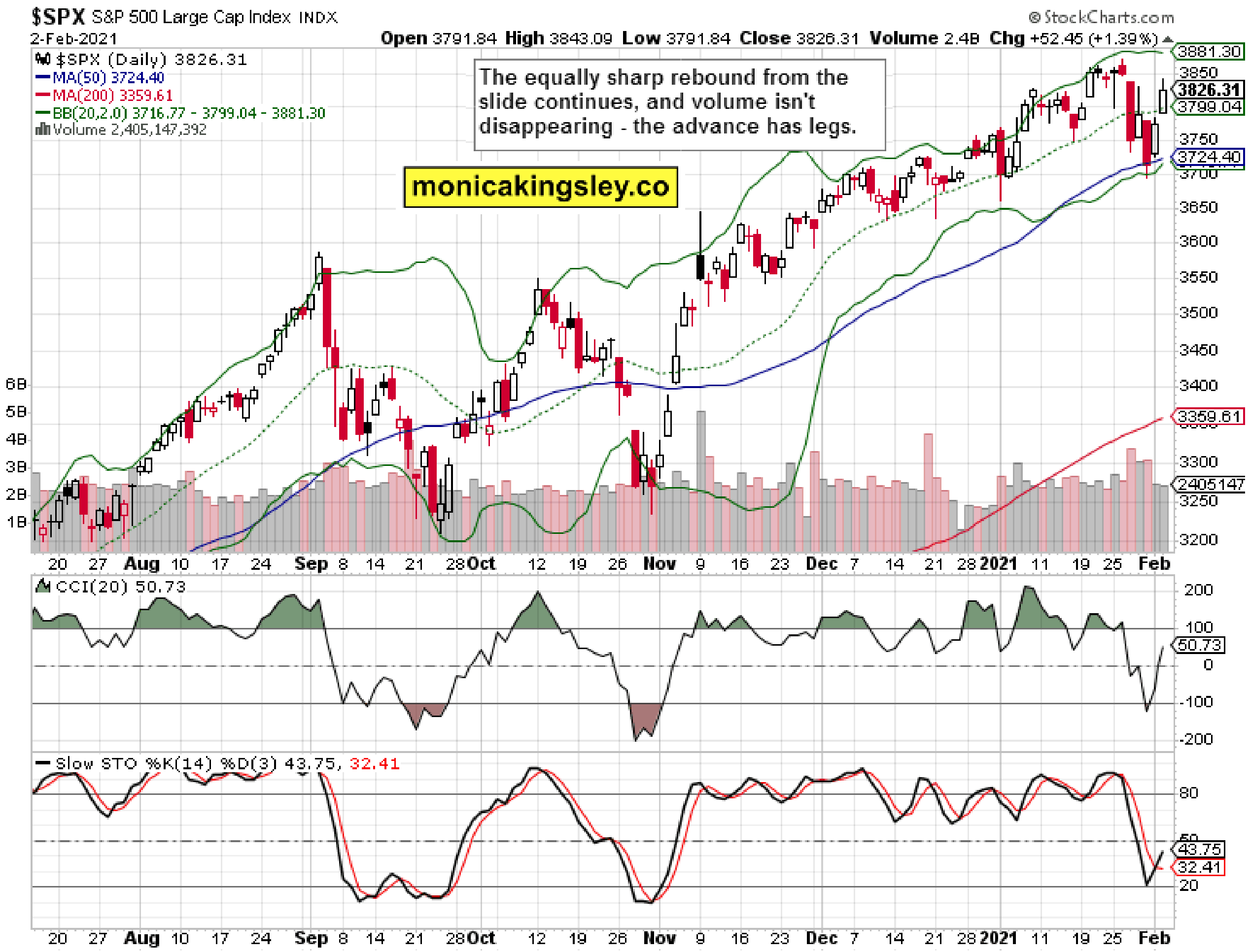
After Monday‘s great rise, stocks continued without much of a pause yesterday too. Did they get ahead of themselves, or not really? And what about those correction calls, is the alarm over now? As said yesterday, the bulk of the correction in stocks, is over.

Is it clear skies ahead now? In my very first 2021 analysis 10 days ago, I‘ve called for a not so rosy February ahead. Last Friday, options expired with stocks taking a plunge, so the current month will get an optical boost. I am looking for higher prices, and no correction around the corner.

Gold is in a different situation, still basing and unable to keep intraday gains. Having predictably given up the silver short squeeze boost, the search for the local bottom in largely sideways price action continues. That‘s likely to be the case given that the dollar has stabilized and is peeking higher (before eventually moving to new lows, is still my call).

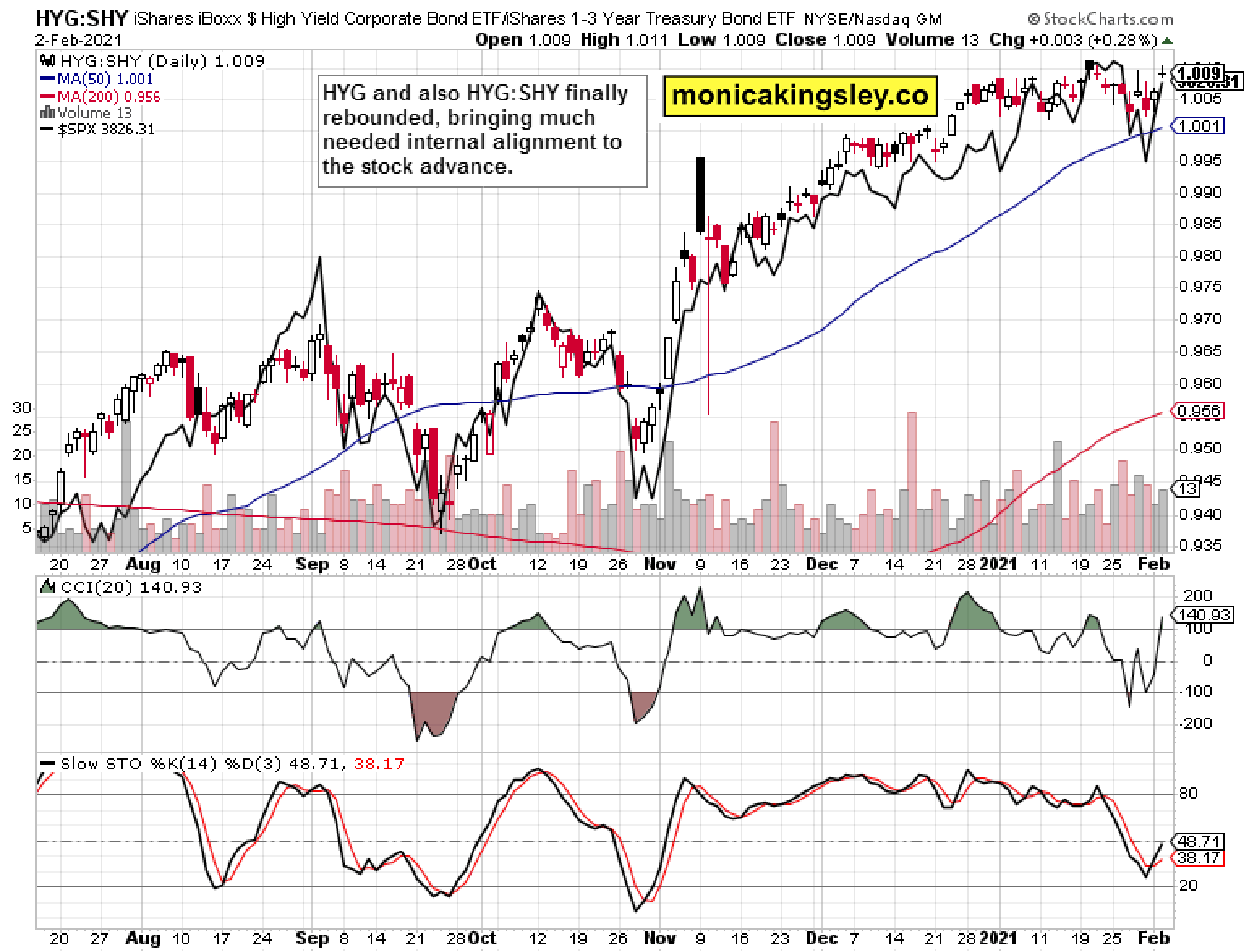
Let‘s dive into the charts (all courtesy of www.stockcharts.com).

S&P 500 Outlook

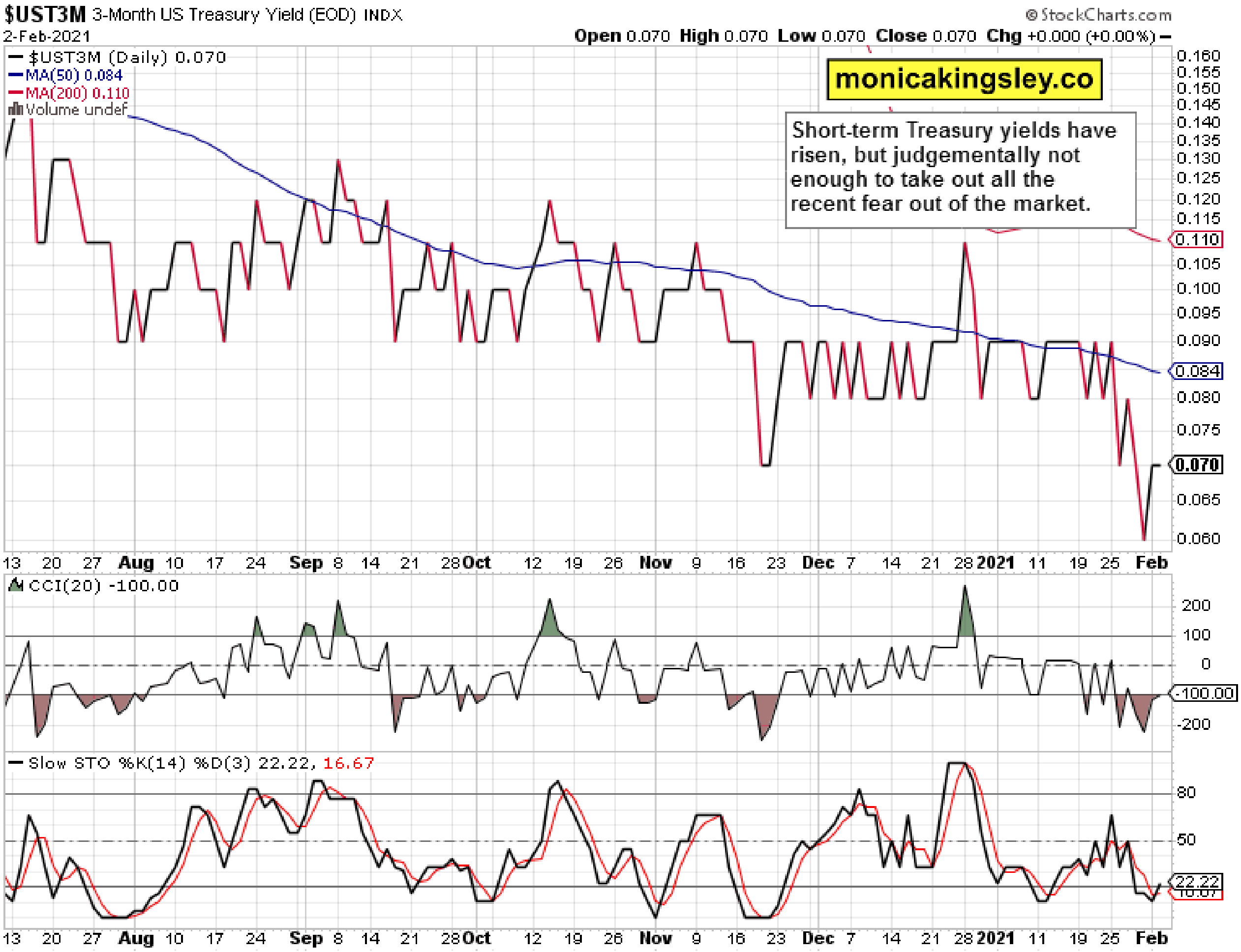


The daily S&P 500 chart looks bullish at first glance – that's the V-shape rebound effect. The volume though isn't the greatest really. But what about yesterday's upper knot though? It looks to me we're in for a period of gains digestion. Right now, stocks look vulnerable to retracing part of the advance.

Credit Markets

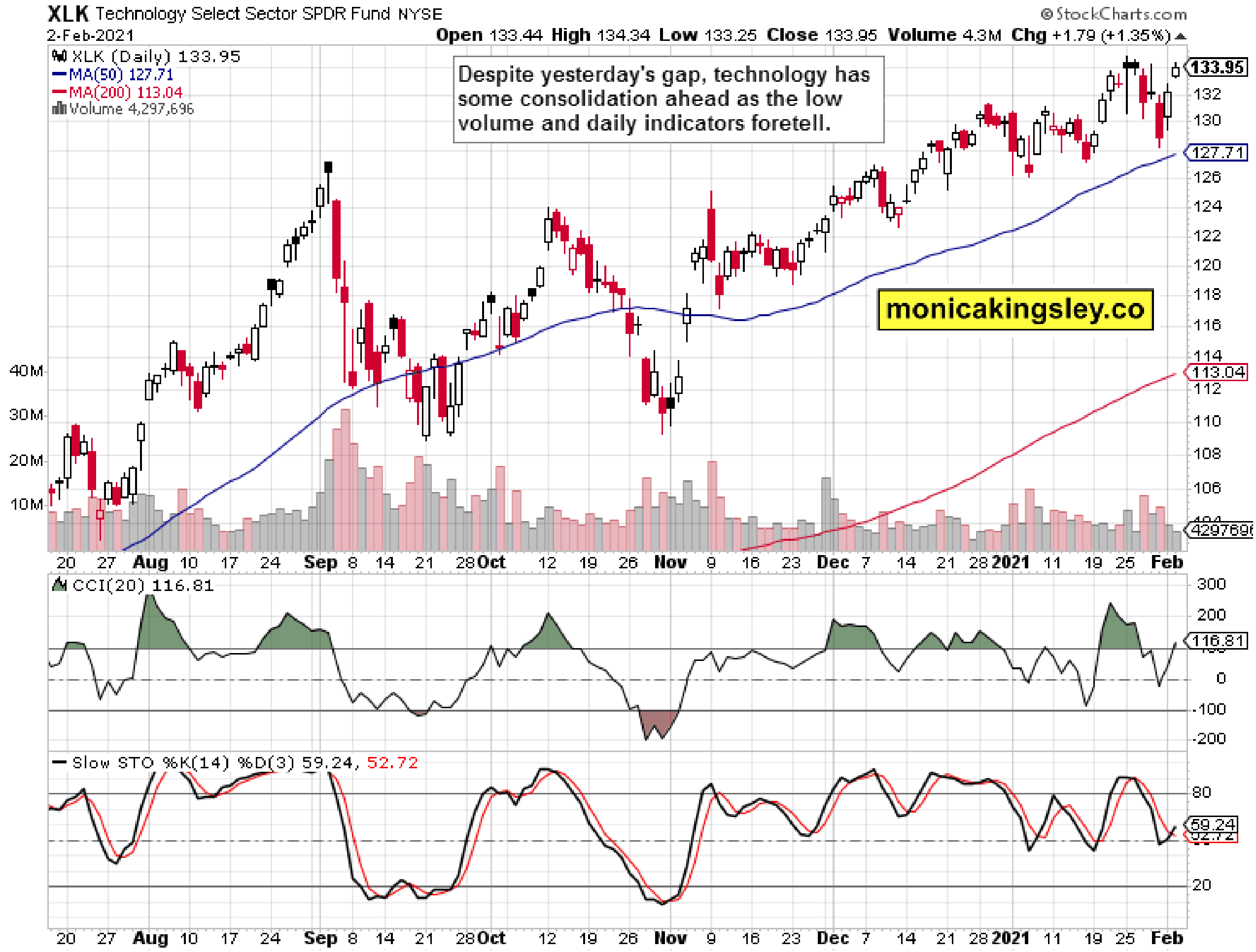


High yield corporate bonds to short-term Treasuries (HYG:SHY) relative to the S&P 500 (black line) posture improved, and no dissonance to speak of remains.

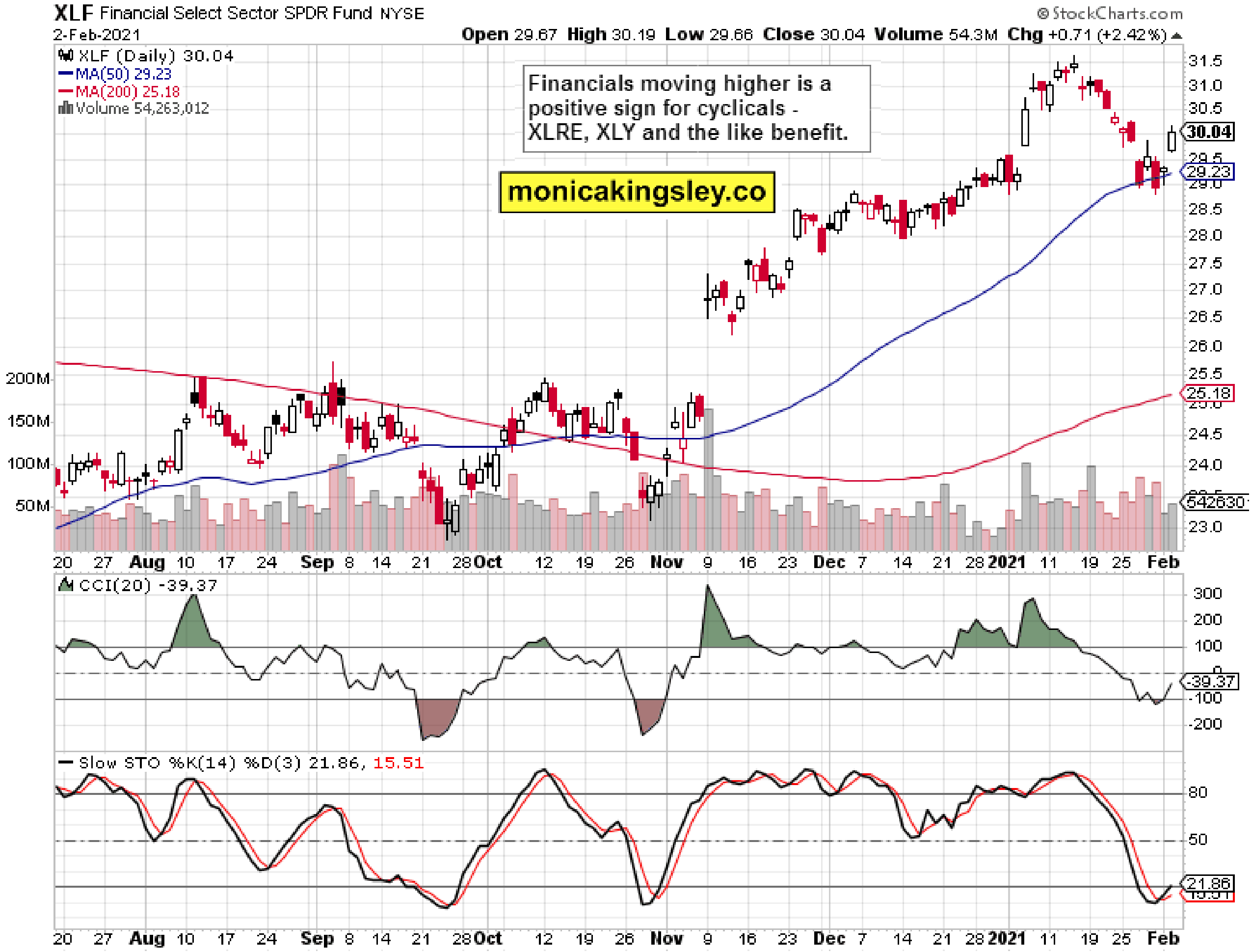


The 3-month Treasuries though haven‛t relented much, and remain well bid. There is not much willingness in the market place to push short-term yields higher, and that‛s a short-term sign of caution.

S&P 500 Sectoral Peek



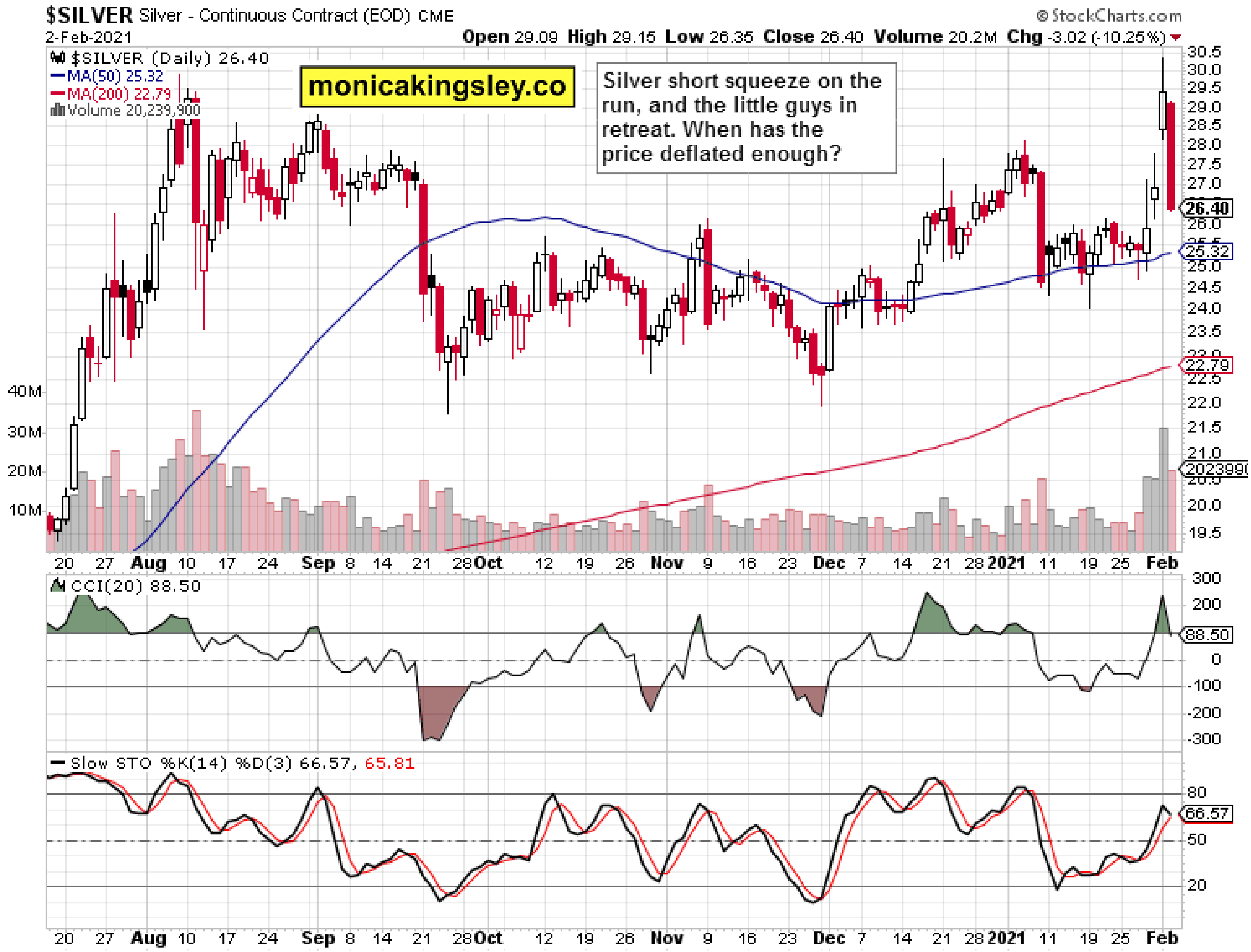
Technology (XLK ETF) has recovered, and gapped higher on quite low volume. Approaching its Jan highs, it's not though optically in the strongest position, and would do best if it were able to maintain gained ground.



Financials (XLF ETF) have rebounded in a sign of cyclicals�much strength. It‘s very good for the health of the stock bull market to see them perform this well, spreading strength across other sectors. Broad based advance is the hallmark of health.

Gold, Silver and Miners

Gold has declined, yet Stochastics hasn't turned lower just yet, and the volume of the yesterday's trading doesn't tip the scales either way. In short, gold remains rangebound for now still, and its range isn't really a wide one.



Silver did slide, as the margin adjustments also thake their toll. The post-December trend of higher highs and higher lows is intact though, and given my yesterday-presented views about the gold-silver ratio, the white metal has a great future ahead of it still. The economy is recovering, this is an industrial metal, and the mining surplus/deficit optics is favorable to silver outperforming gold in the next upleg of this precious metals bull market.

The miners, seniors represented by GDX ETF, are still bobbing near the Dec and Jan lows, yet the pattern is thus far still a basing one. Would it bring another push lower as in late January? Looking at the subsequent demand, I don‘t think such an attempt would have an overly long shelf life.

Let‛s overlay the GDX chart with GDXJ, which are the junior miners. The riskier, and generally thinly traded ones. Seeing their attempts to outperform since the late November low, is an tipping sign of the sector not really wanting to keep declining much longer. That‛s another reason why I;m calling for much higher precious metals price before spring is over. Just in time for inflation...

From the Readers‛ Mailbag

Q: Hey Monica…I had wondered where you'd disappeared to for a while there. Welcome back

Regarding silver, the gap from monday's breakout filled nicely there, negating an island reversal. Yet, having been out since july, every time I look at the chart, the upside breakout gap of 21 july stares at me like a gaping crevasse on the everest of uptrend beginnings. I know we are going to the moon and back at some point in the next two or three years, but what do you think is the probability of a short term deflationary spike coming up? Maybe another black swan, which would fulfil the dual function of shakeout the nouveau buying masses, and put my mind at rest by filling the gap before takeoff?

A: I am back, fully independent thankfully, and won‛t disappear. Well, as you‛ve seen this week, nothing goes to the moon for there are always willing parties to trim the wings… when it starts to hurt. I am also very bullish about precious metals prices as the conditions facilitating them are in place.

But I have publicly called the March 2020 crash as the only deflationary spike we‛re going to see. That year, and this year won‛t bring a new crash either. See how well the financial system recovered from GameStop and silver? Margin debt is still rising, and the Fed won't contract any time soon. Inflation – not just food, but all commodities (copper, oil, lumber, base metals, agriculture) are broadly advancing, and a great measure of inflation to come and be felt more broadly. I am not really looking for a giant shakeout in precious metals this year really – and by the shape of things, neither in 2022 pr 2023.

But remembering how the $1,050 gap in gold got filled in late 2015, I understand your concern, and say that we would get advance signs of such a potential outcome, which aren't present currently though.

Summary

The stock market recovered, and looks set to be digesting prior gains today. The correction indeed remains largely over in terms of prices. Gold is still bidding its time, which is both expected and desirable for the upcoming bull leg. Patience is the name of the game in precious metals currently still.

Thank you for having read today's free analysis, which is available in full at my homesite. There, you can subscribe to the free Monica's Insider Club, which features real-time trade calls and intraday updates for both Stock Trading Signals and Gold Trading Signals.

Thank you,

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