

More Than a Snapback Rally in Gold As Stocks Keep Marching

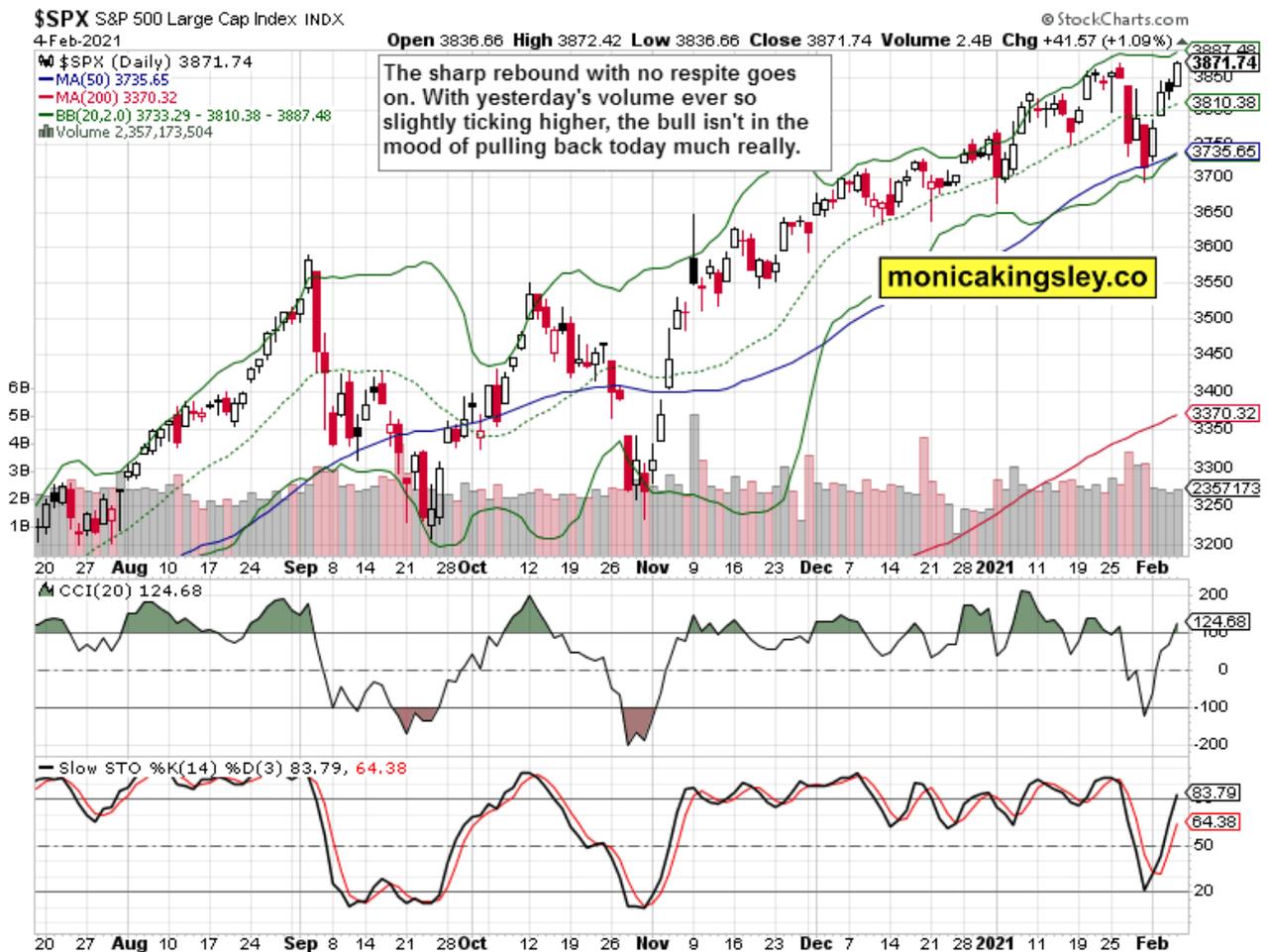
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Stock bulls aren't wavering, and the upswing continues without a pause. Is the move (still) in balance with the relevant markets as one catches up to the other, or is a digestion of prior sharp gains nearby? It didn't come earlier this week, and in today's article, I'll lay down the rising probabilities of seeing at least a short-term pause in the stellar pace of gains since Monday.

Gold pause gave way to selling pressure yesterday, spurred to a degree by the post-Monday's trading action. As both metals declined by around 2.5%, this move probably appears overdone to more than a few. Me included, as I called it a kneejerk reaction before yesterday's close. In today's analysis, I'll demonstrate why precious metals investors shouldn't be afraid of a trend change – none is happening.

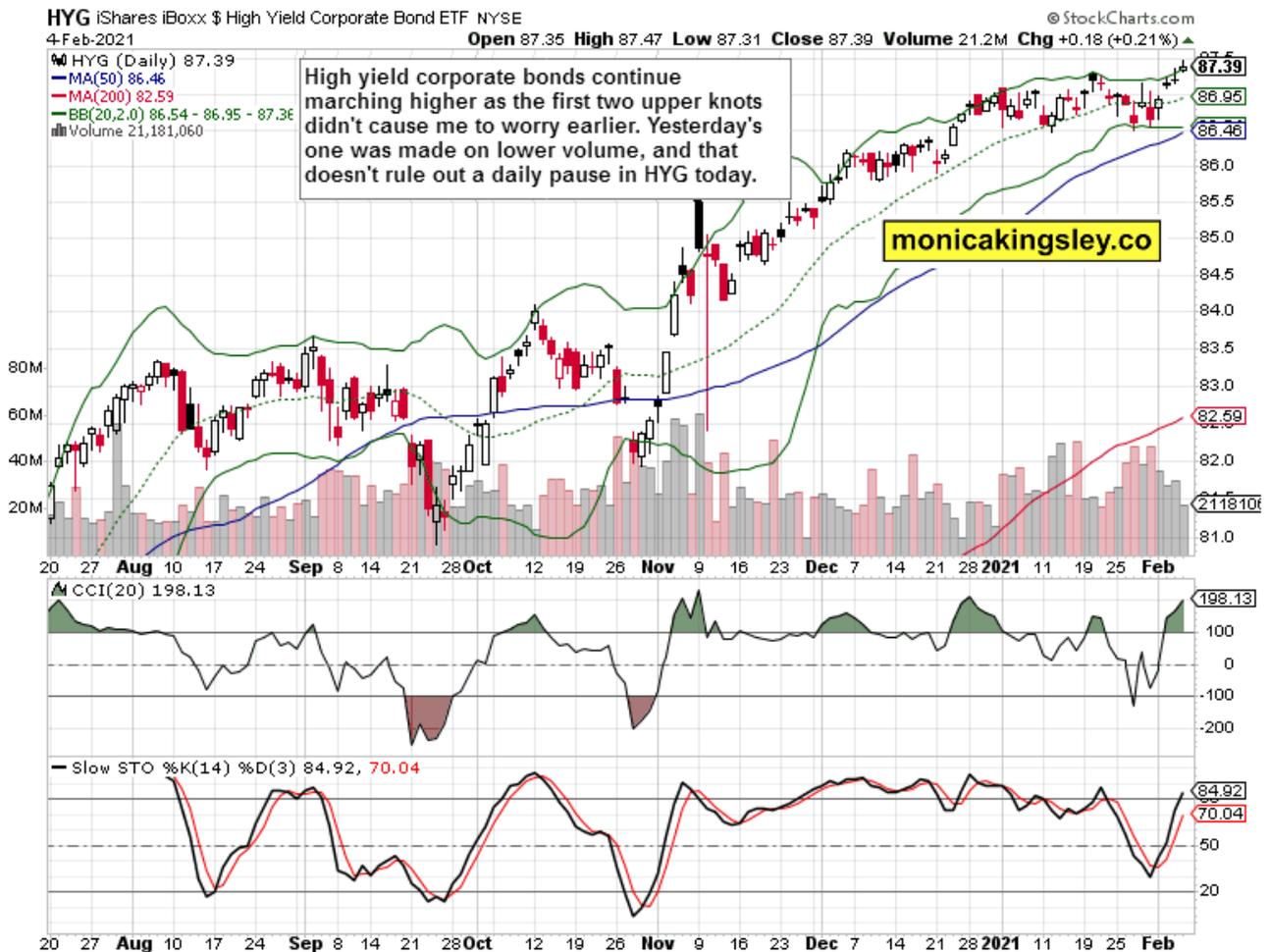
Let's dive into the charts (all courtesy of www.stockcharts.com).

S&P 500 Outlook

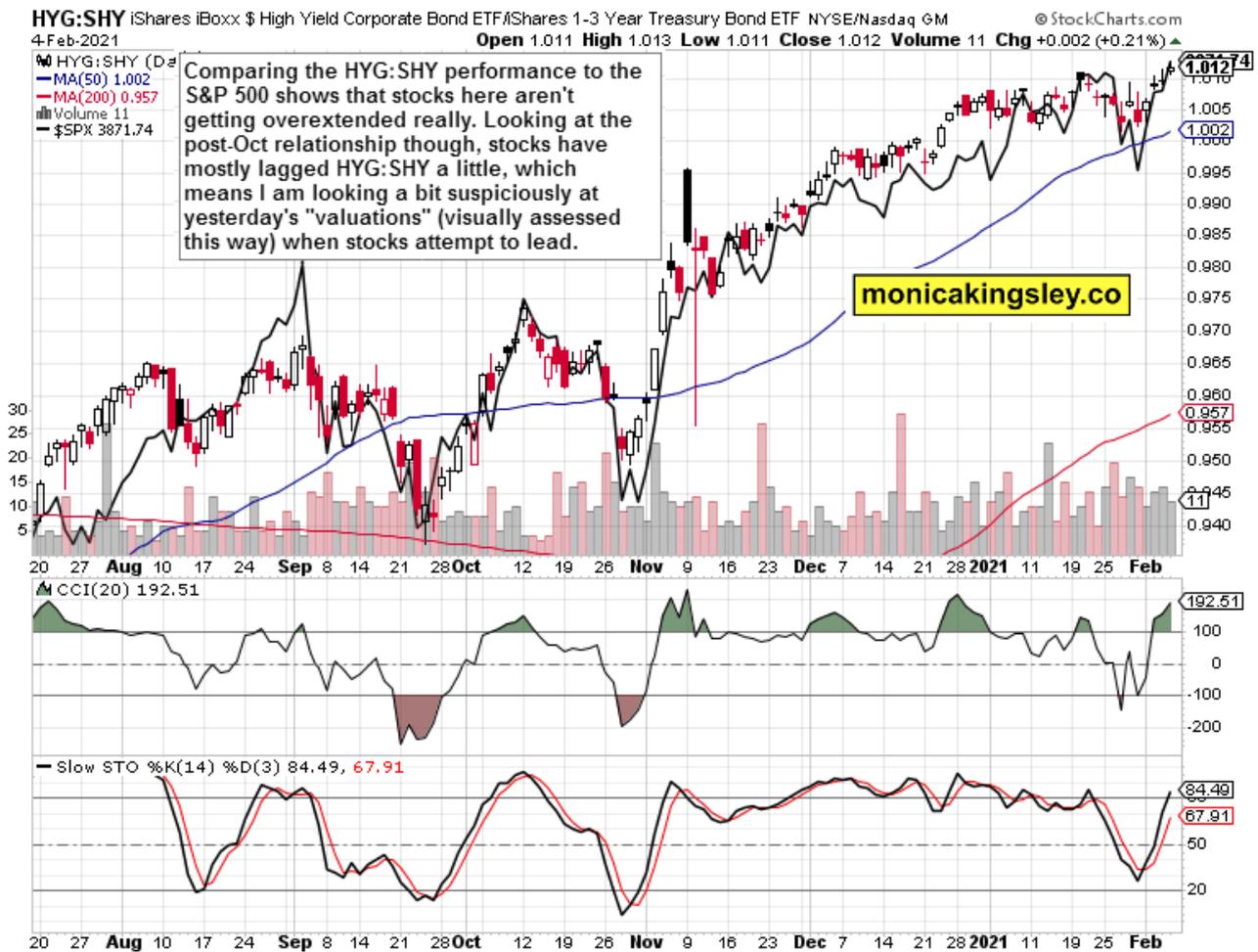


Stocks continue higher without stopping, and the daily volume rose a little. The bulls are strong, and took prices almost to the upper [Bollinger Bands](#) border amid positive moves in CCI and Stochastics. The daily of daily increases looks set to slow down as minimum though – starting today.

Credit Markets



High yield corporate bonds (HYG ETF) are still pushing higher. While I ignored Tuesday's and Wednesday's upper knot, yesterday's one is arguably a more respectable one, and that's because of the drying volume. It wouldn't be unimaginable to experience HYG to pause shortly, which would support my prior assessment about SPX.



High yield corporate bonds to short-term Treasuries (HYG:SHY) ratio with S&P 500 overlaid (black line) shows that the two are tracking each other tightly in recent days. Actually, stocks are reaching for the leadership position, which given their performance since the start of November is very short-term suspect (stocks have lagged a little relative to the credit markets, and now they're trying to lead). That's yet another reason why to be cautious about (at least today's) trading – and for all the coming days, you know now where to find my daily analyses.

Russell 2000 and S&P 500

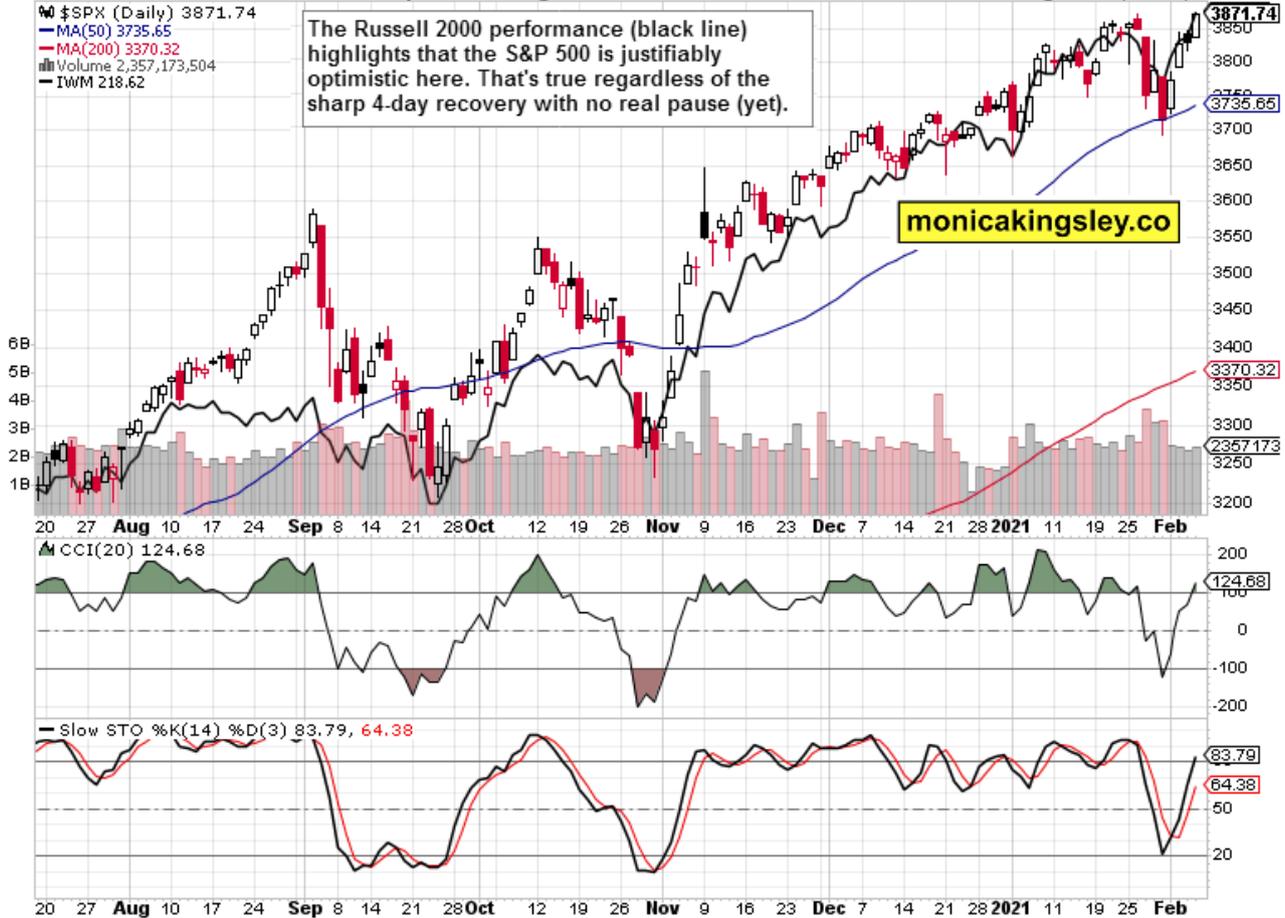
4-Feb-2021

Open 3836.66 High 3872.42 Low 3836.66 Close 3871.74 Volume 2.4B Chg +41.57 (+1.09%)▲

\$SPX (Daily) 3871.74
MA(50) 3735.65
MA(200) 3370.32
Volume 2,357,173,504
IWM 218.62

The Russell 2000 performance (black line) highlights that the S&P 500 is justifiably optimistic here. That's true regardless of the sharp 4-day recovery with no real pause (yet).

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Smallcaps aren't weakening vs. the 500-strong index in the least, which means that the stock bull market continues unabated. It also disproves the recent significant correction ahead calls on the internet that aren't hard to come by. Here we are after Friday's bloodbath that I called as out of whack with the internals, here we are at new index highs, this soon.



In yesterday's analysis, I presented the [value to growth ratio's message](#) of the rotation from tech into value as value having to try once again. Technology (XLK ETF) had a strong week, so let's inspect its performance vs. the smallcaps – see the above chart. It shows that the Russell 2000 (IWM ETF) has carved a nice, almost rounded bottom, and is primed for higher values ahead, which also supports the notion of no stock market top ahead.

Gold in the Spotlight

The yellow metal is attempting to stage a recovery – a modest one thus far as it has been rejected at \$1810 earlier. How disappointing is that? We'll see at the closing bell (my assumption is that the bulls will prevail today comfortably), but the implications of the moves thus far doesn't change my thesis of a break higher from the 5-month long consolidation in the least. It's that the technical (not to mention fundamental) factors propelling it higher, are still in place.



The caption says it all – we're in the closing stages of the prolonged consolidation, and prices will rebound next, as so many preceding sizable red candles had trouble attracting follow through selling, and yesterday's candle is in a technically even more difficult position to achieve that. The moving averages aren't seriously declining, and I look for the death cross (50-day moving average puncturing the 200-day one) to fail relatively shortly.

4-Feb-2021

Open 1834.50 High 1835.70 Low 1784.60 Close 1791.20 Volume 27.1M Chg -43.90 (-2.39%)

% \$GOLD (Daily) 1791.20

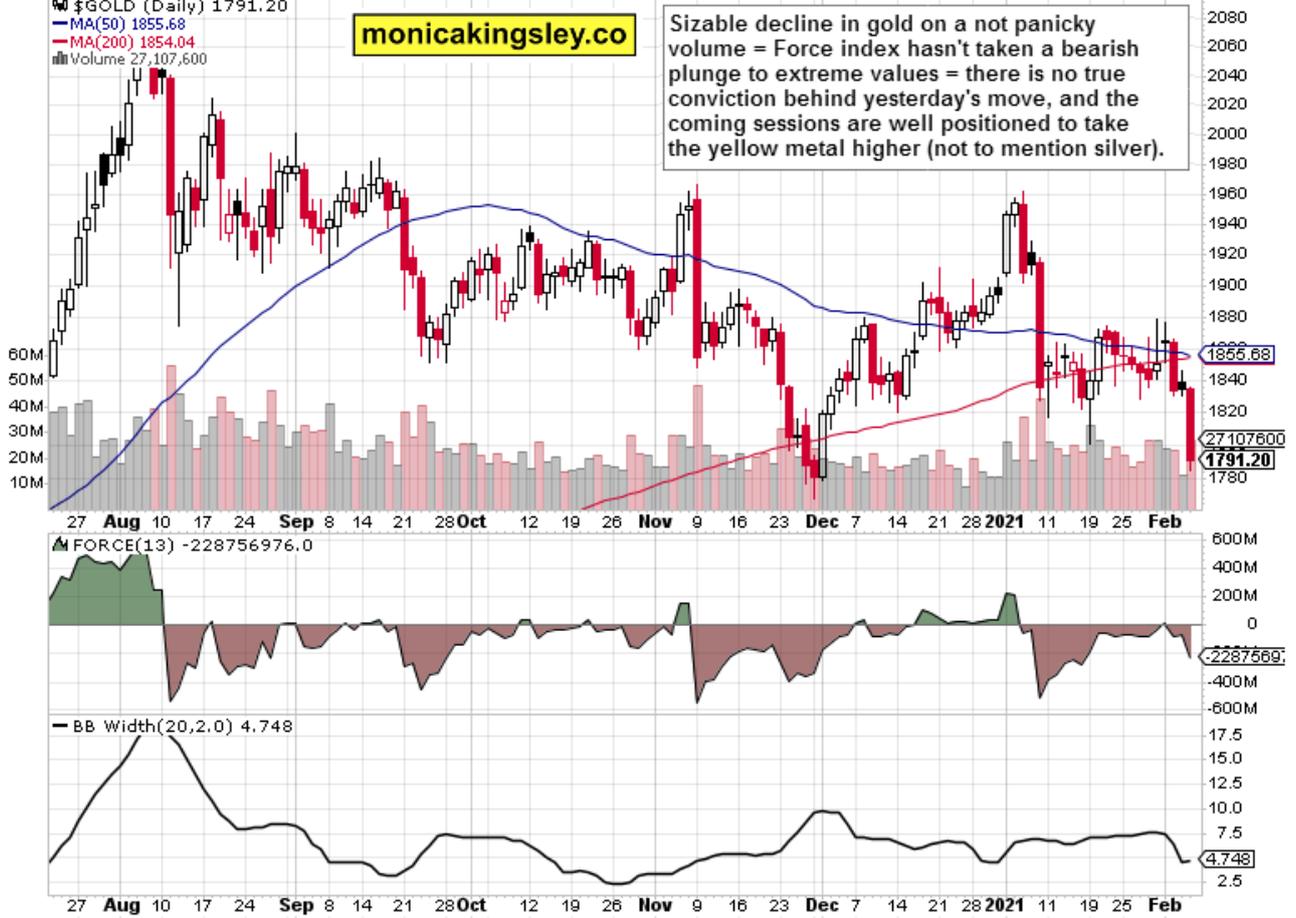
MA(50) 1855.68

MA(200) 1854.04

Volume 27,107,600

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Sizable decline in gold on a not panicky volume = Force index hasn't taken a bearish plunge to extreme values = there is no true conviction behind yesterday's move, and the coming sessions are well positioned to take the yellow metal higher (not to mention silver).



The Force index in gold agrees that we aren't seeing a really serious push to the downside here. Look at the start of 2021, how deep it went back then – we'll carve out a nice bullish divergence as I look for gold to get serious about turning up. Yes, the Force index won't decline as low as in early January.



Silver didn't yield all that much ground as the short squeeze got squeezed. The chart is still bullish, and I stand by the calls mentioned in the caption here – a great future ahead for the white metal in 1H 2021 and beyond.

Ratios and Miners



The gold to silver ratio also continues favoring the white metal, whose this week's retreat (post-Monday) didn't affect the downward trending values in the least.

4-Feb-2021

Open 0.1589 High 0.1589 Low 0.1525 Close 0.1559 Chg +0.0008 (+0.53%) ▲

\$HUI:\$GOLD (Daily) 0.1559

MA(50) 0.1588

MA(200) 0.1659

BB(20,2.0) 0.1494 - 0.1570 - 0.1647

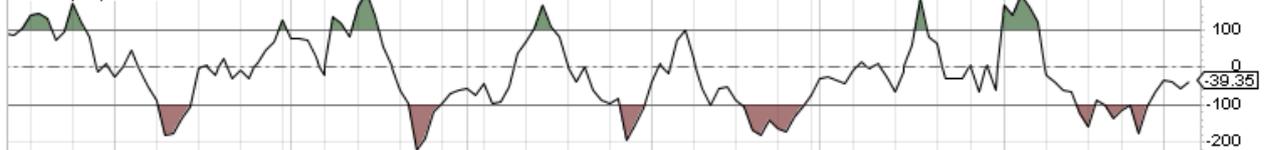
Volume undef

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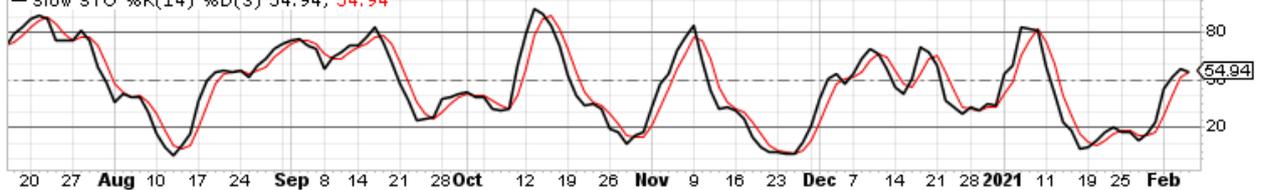
On Monday, I called the late Jan breakdown attempt in \$HUI:\$GOLD as one likely to be invalidated as the next leg higher in precious metals get underway. False breakdowns are to be expected from the miners as the prior trend exhausts itself.



CCI(20) -39.35



Slow STO %K(14) %D(3) 54.94, 54.94



The miners to gold ratio continues supporting my call of breakdown invalidation leading to a new precious metals upleg. I made the calls along these lines both on [Tuesday](#) and prior Monday, when I featured my [2021 prognostications](#) on stocks, gold, dollar and Bitcoin – please do check them if you hadn't done so already.

4-Feb-2021

Open 33.69 High 33.97 Low 33.23 Close 33.84 Volume 26.1M Chg -0.77 (-2.22%)



Senior gold miners (GDX ETF) are taking a back seat to juniors (GDXJ ETF), and that's a hallmark of bullish spirits returning – first below the surface, then very apparently. While we have to wait for the latter, its preconditions are here.

Summary

The stock market keeps powering higher, and despite the rather clear skies ahead, a bit of short-term caution given the speed of the recovery and its internals presented, is in place even as the stock bull run shows zero signs of having topped.

It's time for the gold and silver bulls to reappear after yesterday's outsized setback. Crucially, it hasn't flipped the short- and medium-term outlook bearish as the factors powering the precious metals bull run, are in place.

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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