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August 19, 2022

Macro Alert

Stocks Are in Trouble if S&P Fails to Break Above its 200-day Moving Average

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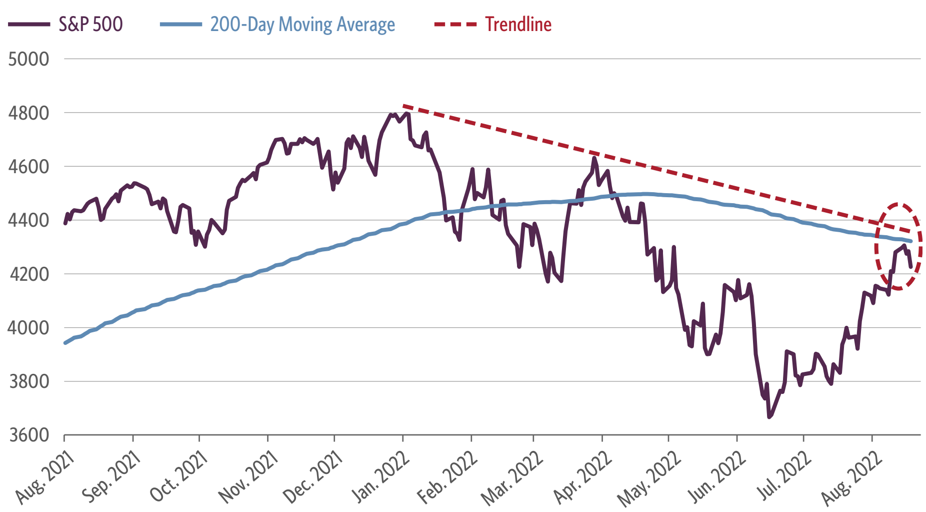
Stocks have seen a strong rally since the Federal Open Market Committee meeting in mid-June, but the S&P 500 has struggled to close above its 200-day moving average in the past week. Based on the history of previous bear markets, this level (currently 4,320) is an important one to watch. A failure to break the 200-day moving average could portend much deeper losses for equities in the months ahead. Additionally, it is noteworthy that the current rally has failed to break the downtrend that has been in place since the beginning of the year.

The Current Stock Rally Has Failed to Break the Downtrend Set in Place at the Beginning of the Year

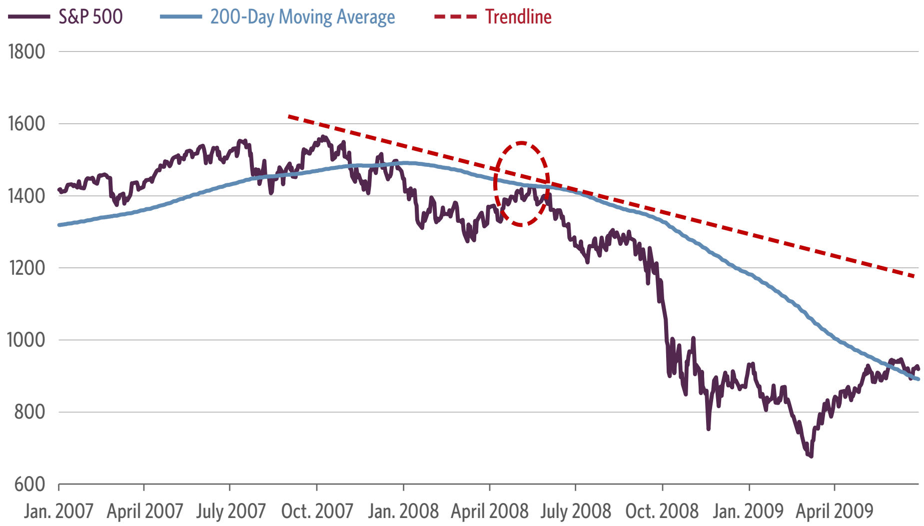


Source: Guggenheim Investments, Bloomberg. Data from 8.1.2021 to 8.19.2022.

In May 2008, the market recovery stalled just shy of its 200-day moving average. The S&P 500 went on to fall another 53 percent before bottoming in March 2009, bringing the peak-to-trough decline to 57 percent. Similarly, the bear market of

2000–2002 saw several failed breakout attempts that ultimately resolved in a peak-to-trough decline of 49 percent. Also worth noting is that the downtrend was not broken in either of these episodes.

Failed Breakout in May 2008 Presaged a Further 53 Percent Decline



Source: Guggenheim Investments, Bloomberg. Data from 1.1.2007 to 6.30.2009.

Right now the only sectors that have been able to maintain gains over their respective 200-day moving averages are energy and defensive stocks (utilities, consumer staples, etc.). More growth-oriented sectors have led the rebound since June but remain below that key technical threshold, indicating that more problems could lie ahead for growth stocks if the rally is not sustained.

On a fundamental level, Federal Reserve officials appear determined to bring inflation down by causing a recession. While equity analysts' earnings per share expectations have been marked down slightly since June, we expect a looming recession to result in much bigger markdowns to earnings estimates. This, and a cyclical decline in price/earnings ratios, will likely combine to take stocks to new lows before this bear market is over.