

# The Market Finds Itself at a Moment of Truth

After rallying over 120% from the lows of March 2020 to the highs of December 2021, the S&P500 broke down below its major long-term uptrends in January. Stocks have established a distinct pattern of lower highs, a downtrend, in 2022. Chart 2 shows that the recent 16% rally from the lows of October, which culminated in yesterday's 3% rally, puts the market right at its 2022 downtrend line. What will happen now? While a breakout above the 2022 downtrend line would be significantly positive, as a decline from here would confirm this year's overwhelmingly negative pattern.

TPA leans toward a positive outcome at this juncture. Not only does the FED seems poised to be less draconian in their inflation-dampening efforts, but underperforming parts of the market are showing outperformance. Chart 3 shows that the ratio of Small Caps versus Large Caps broke out of a steep 17-month downtrend in August and appears to have established a series of higher lows. Small Caps are the most vulnerable to an economic downturn and their outperformance is a reason for optimism.

**S&P500 3-year**



## S&P500 15-month



## Ratio of Small Cap to Large Cap 15-month

