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Financial rally signals further S&P 500 gain

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Last week's gains in financial companies indicate the rally in the Standard & Poor's 500 Index has further to run in the medium term, according to a technical analyst at Day by Day in Paris.

"The sector rotation shows that financials can continue to gain," Valerie Gastaldy, who is also general manager of the research firm, said Monday. "The fact that these stocks are outperforming defensive shares indicates that we are in a rising trend. The market isn't yet worn out, but gains won't be rapid."

Gastaldy said she became bullish on the S&P 500 and the Dow Jones Industrial Average on a two- to three-month time frame after a gauge of financials in the S&P 500 jumped 5.9 percent last week, outperforming health care stocks, which rose 1.4 percent. The health care index last year climbed 10 percent, while financials plunged 18 percent, according to data compiled by Bloomberg.



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Gastaldy's next resistance levels, or ceilings limiting further gains, for the Dow average in the two- to three-month horizon are 13,600 and 14,200. Those levels are 2.8 percent and 7.3 percent above the gauge's close of 13,232.62 on Friday.

Declines in volatility suggest that near-term moves in the S&P 500 are likely to be muted, according to the analyst. The Chicago Board Options Exchange Volatility Index fell 15 percent last week to 14.47, a level last seen in June 2007.

— Bloomberg News

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