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Daily Technical Strategy

June 10, 2026

DEFENSIVE ROTATION ACCELERATES AS TECHNOLOGY WEAKNESS DRIVES QQQ LOWER

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Key Takeaways

- Wednesday's roughly 2% drop in QQQ accelerated the rotation out of Growth into Value and is still suggestive of lower prices into next week.
- Consumer Staples' breakout from a narrow range marked the first meaningful defensive positioning of this pullback, and I list some of the more attractive names to consider technically speaking.
- Health Care Services (XHS) furthered its recent breakout above five-year highs, and remains a favored long into Healthcare's bullish summer seasonality.

Near-term US Equity trends remain bearish and choppy, but the broader uptrend is not yet in jeopardy, as Wednesday's weakness was concentrated in Technology and has not produced any breakdown in the Equal-weighted $SPX. Long-term Treasury yields and WTI Crude continuing to roll over remain a tailwind for risk assets and for the rate-sensitive Value groups now gaining leadership. The day's defensive positioning — with Consumer Staples breaking out of its range and Telecomm outperforming substantially — looks temporary rather than the start of a true risk-off rotation, and Discretionary still screens better than Staples on a relative basis. That said, Technology's decline continued to weigh on both $SPX and $QQQ, and with $QQQ having broken its uptrend from the April lows, I expect both to pull back further into next week, with $SPX likely to test 7,145, the enthusiasm surrounding the SpaceX IPO notwithstanding. Overall, it continues to pay to favor the equal-weighted market and rate-sensitive Value, favoring Healthcare and Consumer Staples leaders to help diversify Tech-heavy portfolios.

$QQQ followed through in weakening after last week's trendline break; pullbacks likely down to 675 into next week

$QQQ fell 2.00% Wednesday to close at 693.69, undercutting last week's lows and making a more bearish near-term breakdown on negative market breadth of around 2:1 bearish. The downtrend from the early-June highs near 745 remains very much intact and likely could push lower to form an equivalent wave down equal to the initial decline from early June.

My expectation is for additional weakness into next week, down toward 675, which lines up with the cluster of Fibonacci retracement support at 681, then 664. Despite the excitement surrounding the coming SpaceX IPO pricing tomorrow, it would take a move back above this declining downtrend to cancel out the negatives of today's session.

Invesco QQQ Trust ($QQQ, daily) — Today's downside follow-through points to further weakness toward the 664–681 Fibonacci support zone

Source: TradingView

Health Care Services ($XHS) breaks out to new all-time highs and remains a favored long into summer seasonality

$XHS (State Street SPDR S&P Health Care Services ETF) has pushed out to new all-time high territory near $120.18 as of Wednesday, clearing the prior resistance from the 2021 peaks near $116 that had capped the ETF for nearly five years.

This is a direct follow-through on the breakout I discussed in my 5/28 note, *"Broadening Accelerates as Health Care Services and Aerospace & Defense Break Out,"* and it comes just as Healthcare enters a seasonally strong two-month stretch. The ability to strengthen materially this week, following the breakout of a five-year bullish base, adds to the technical appeal of $XHS. I expect a push up to $132 over time, and it's right to use any dips back to $116–$118 as an opportunity to add exposure.

State Street SPDR S&P Health Care Services ETF ($XHS, weekly) - Breakout above the 2021 highs near $116 opens the door to an eventual move to $132

Source: TradingView

Consumer Staples' breakout from a narrow range marks the first meaningful defensive positioning, but it looks temporary

Equal-weighted Consumer Staples ($RSPS) jumped 1.83% Wednesday to $30.70, breaking out of the narrow range that had contained it since March above the $30.20 area. Together with notable outperformance out of Telecomm, this represented the first real example of defensive positioning during this pullback in US Equities since early June.

I would treat it as temporary, however, rather than the start of a genuine risk-off rotation, given that the broader indices remain in good technical shape and there has been no breakdown in the Equal-weighted $SPX. Furthermore, as the other chart in this report shows, Consumer Discretionary remains trending higher vs. Staples on a relative basis going back over the last few years.

However, given that many investors might be too top-heavy in Technology, **I would draw your attention to these names technically, which are my favorite Consumer Staples stocks at present:**

$CASY, $MNST, $KO, $PM, and $WMT. While Consumer Staples leadership can sometimes prove short-lived when the larger trend for Equities is intact, these names stand out as being some of my favorite technical names within the Consumer Staples sector.

Near-term resistance lies near $31, but today's breakout is impressive, technically speaking, for $RSPS.

Invesco S&P 500 Equal-Weight Consumer Staples ETF ($RSPS, daily) - Breakout above the multi-month range near $30.20 signals temporary defensive positioning

Source: TradingView

Discretionary vs. Staples uptrend remains intact, keeping Discretionary the preferred sector for now

While Wednesday's strength in Staples is worth noting, the breakout has not yet resulted in any break of the intermediate-term uptrend in the Equal-weight Consumer Discretionary versus Equal-weight Consumer Staples ratio ($RSPD/$RSPS).

As shown below, the ratio continues to hold above its rising trendline drawn off the prior lows, so the short-term strength in Staples is not yet sufficient to make it preferable to Discretionary. For now it remains right to favor Discretionary over Staples, and only a break of this uptrend would argue for shifting that preference. This will be something to watch closely in the days and weeks ahead.

One can make the case for 1–3 weeks of outperformance in Staples on a short-term tactical basis. However, until this larger uptrend gives way, it's right to use underperformance in Consumer Discretionary to position in this sector relative to Consumer Staples.

Equal-Weight Consumer Discretionary vs. Equal-Weight Consumer Staples ($RSPD/$RSPS) - Intermediate-term uptrend intact, keeping Discretionary preferred over Staples

Source: Symbolik

South Korea ($EWY) looks vulnerable into next week and should weigh on Emerging Markets near-term

$EWY dropped 3.04% Wednesday to close at $178.45, and this uber-concentrated South Korea ETF looks quite vulnerable to further weakness into next week. Given the fund's heavy concentration in Samsung and SK Hynix, this is very much a read on Semiconductor and Technology weakness, and it dovetails with the pressure weighing on $QQQ.

I expect $EWY to fall toward $167, the May lows, in the short run, with a maximum area of support at $151–$154 on more meaningful weakness. Initially, investors might look to buy dips as $EWY approaches that $167 level, though the broader read is that further weakening out of South Korea should prove to be a drag on Emerging Markets near-term.

iShares MSCI South Korea ETF ($EWY, daily) - Vulnerable into next week with initial support at the May lows near $167, then a maximum support zone at $151–$154

Source: TradingView

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