

A KOREAN SHAKEOUT AND SILVER, COPPER WASHOUTS DON'T WARRANT FADING THE US STOCK RALLY



Mark L. Newton, CMT^{AC}

HEAD OF TECHNICAL STRATEGY

Key Takeaways

- Korea's sharp one-day drop and China's ongoing deterioration deserve close scrutiny, but neither gives sufficient technical reason to fade the broader US rally heading into \$MU earnings.
- US trends remain intact, with the recent \$SPX pullback looking like a corrective ABC move that should resolve higher and Insurance (\$KIE) achieving a minor breakout from a lengthy base.
- Silver's sharp drop looks like the final leg of a five-wave decline, so precious metals should be nearing a tradeable low over the next couple of weeks, even if it's not imminent today.



Near-term US Equity trends remain bullish despite a noisy overseas session, and nothing in today's tape gives proper reason to abandon that stance just yet. US stocks saw a sharper pullback than expected today but are reaching notable weekly support, while interest rates and the US Dollar should begin showing more downside participation, a backdrop that should keep supporting risk assets as the summer wears on. The bigger story revolved around South Korea's concentrated Equity selloff: South Korea's KOSPI fell roughly 10% in its largest one-day drop since early March, China's equity market broke down, and both Copper and Silver were hit hard right alongside it. None of that has yet done enough technical damage to fade the US rally, but the momentum divergences building in Korea and the Semis continue to warrant a close eye into tomorrow's \$MU earnings and the US PCE data. In the bigger scheme of things, most of the market remains quite healthy, technically speaking. The broadening continues, and Insurance is the latest group to start accelerating higher while precious metals look to be nearing a tradeable low. Bottom line, it's arguably right to lean bullish in US Stocks on this week's minor weakness, as I do not suspect June lows are broken.

\$SPX trends remain constructive, with the recent decline looking corrective and likely to resolve higher

\$SPX and \$QQQ both closed near the lows of today's session, and the setback was more extreme than I'd expected heading into the day. **If there's a silver lining, it's that the \$SPX weekly chart now sits right near Ichimoku "Conversion Line" support, and the Mag 7 weekly lies right near its own Ichimoku "Base Line and Cloud" support as well, so this is happening at a spot that carries technical significance rather than in open air.**

Moreover, the near-term wave structure for both \$SPX and \$QQQ shows a possible three-wave ABC pattern (which I discussed mid-day in Flash Insights on Tuesday) that likely bottoms Wednesday before pushing higher into and after \$MU earnings. \$SPX has pulled back to near 7,365.51 from the 7,580 area, and I expect a low to form Wednesday into Thursday of this week that should not undercut the June lows near the 7,230 shelf. I don't view today as overly bearish, nor as a time to get that defensive, and I'd use this weakness to add exposure rather than reduce it. Only if June lows are violated would this signal the start of some corrective activity, which I view as premature.

S&P 500 Index (\$SPX, hourly) - Corrective ABC pullback holding above the early-June support shelf



Source: TradingView

KOSPI's ~10% drop is worth close scrutiny, but one day hasn't yet given a technical reason to fade the rally

A huge ~10% decline in South Korea's KOSPI marked the biggest one-day drop since March 4 and is thought to have been exacerbated by rebalancing flows out of leveraged ETFs. SK Hynix fell ~13%, directly following an eight-day winning streak in which the stock rose over 46%. There hasn't been sufficient technical selling to expect more weakness at this time, but a 10% decline can often wreak havoc with momentum, and it's important to regain this loss ahead of \$MU earnings tomorrow and the US PCE data, as volatility in the Chip and Memory stocks can prove a "two-edged sword" as today showed. South Korean retail traders have been piling into ETFs nearly as aggressively as US traders, so a rebound here into tomorrow's \$MU earnings is thought to be somewhat important, and the more \$EWY and many US Semiconductor stocks can rally into \$MU's earnings on Wednesday, the better.

As this chart shows, the three consecutive higher peaks in KOSPI were marked by three consecutive lower peaks in the Relative Strength Index, which is not always a great sign technically, as it warns of fading momentum. The weekly

and monthly momentum are also showing some mild divergence, though not as pronounced as the daily.

Overall, price action as of now has not given us proper reason to fade the rally on just a one-day basis, but further divergences will build even on a rally over the next few weeks. Traders and investors will want to give close scrutiny to KOSPI, along with the \$SOX, given such stretched momentum readings. I am not enthusiastic about the prospects for KOSPI and/or the iShares MSCI South Korea ETF between July and October. However, at present, there's insufficient technical evidence to turn that bearish based on waning momentum and/or overbought conditions alone. Thus, until trends start to show some damage, recent weakness looks buyable.

KOSPI Index (Korea Stock Exchange, daily) - Three higher price peaks against three lower RSI peaks warns of fading momentum



Source: Bloomberg

China (\$FXI) broke its uptrend along with Ichimoku cloud support, which means this selloff likely could persist a bit longer

\$FXI has dropped sharply of late, falling beneath its intermediate-term uptrend from 2024 along with violating March lows as of three weeks ago. Given that China is one

of the largest importers of Silver ore, this weakness is feeding directly into the precious metals selloff discussed below.

In the short run, it's hard buying dips given that momentum has turned a bit more negative in recent weeks and DeMark-related exhaustion signals are premature on both a daily and weekly basis.

While normally traders/investors might look to consider a retracement to the 38.2% Fibonacci level important, it's necessary to show some evidence of stabilization, which unfortunately \$FXI has not achieved thus far.

Both March 2026 former lows along with the broken trendline now become resistance on any bounce, with more meaningful support now found near the 50% retracement zone, which lies down near \$30.50.

While it's tempting to buy dips in Chinese Equities, I think it's necessary to show at least minor signs of strength before attempting to do so.

iShares China Large-Cap ETF (\$FXI, daily) - Rising trendline off the 2024 lows broken to the downside



Source: TradingView

Silver's sharp drop looks like the final leg of a five-wave decline, with a tradeable low approaching over the next couple of weeks

Silver has fallen 5% today and, while this appears to be trying to hold the two former important swing lows from June and March, it's set to make the lowest daily close of the year. As China's equity market has tumbled, both Copper and (as shown below) Silver have followed suit.

Technically speaking, I can make the case that this could be the final leg down of the decline, based on the most recent selloff from mid-May, a move that should complete a five-wave decline and warrants attempting to look for a low approaching over the next couple of weeks.

I suspect that a brief undercut of the June lows could be likely, which would result in Silver undercutting \$60 in front-month Silver futures, with a decent rally getting underway thereafter.

The larger question, and one which is difficult to answer properly yet, concerns the possibility that this five-wave decline has only a brief bounce before showing another five-wave selloff that might last one to two months at most before starting to turn higher. Silver has been hit quite hard since January and has retraced 61.8% of the prior runup from April of 2025 into January of this year. My expectation is that precious metals should be nearing a trading low; however, this doesn't look imminent just yet, but should be in place by the beginning of July.

In the bigger picture, I expect a rally in precious metals like Gold along with industrial/base metals like Silver and Copper in the months to come. However, it's likely that a larger breakdown in long-term interest rates might need to happen to jump-start this rally. For now, it's worth noting that this pullback seems to be in its advanced stages.

Silver Futures (front month, daily) - Final fifth wave of the decline off the mid-May highs, and growing closer to a tradeable low



Source: TradingView

Insurance (\$KIE) has achieved a minor breakout and looks quite attractive, and it's right to expect further strength

\$KIE rose +2.46% to 59.43 and has achieved a minor technical breakout, and it looks quite attractive near-term as it begins to rally back to the highs of its lengthy bullish base. With three trading days left this week, \$KIE's rally at current levels would represent the highest weekly close of the year, and a move above 60.72 would argue for a larger rally up to the upper \$60s.

While I've discussed Utilities and REITs in recent weeks, the Insurance stocks within Financials look quite attractive here, and it's right to expect further strength in Insurance. This is the kind of non-Tech, value-oriented leadership that keeps the broader advance healthy while the headlines focus on Korea and the Semis, and given the recent strength, I like owning Insurance stocks, expecting \$KIE to test the highs of its 18-month base.

SPDR S&P Insurance ETF (\$KIE, weekly) - Minor breakout should lead to a test of \$KIE's large base since 2024 and eventual breakout



TradingView

Source: TradingView

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