Daily Technical Strategy

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SEMICONDUCTOR WEAKNESS IS A HEADWIND, BUT THE BROADENING KEEPS MARKETS RESILIENT

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Key Takeaways

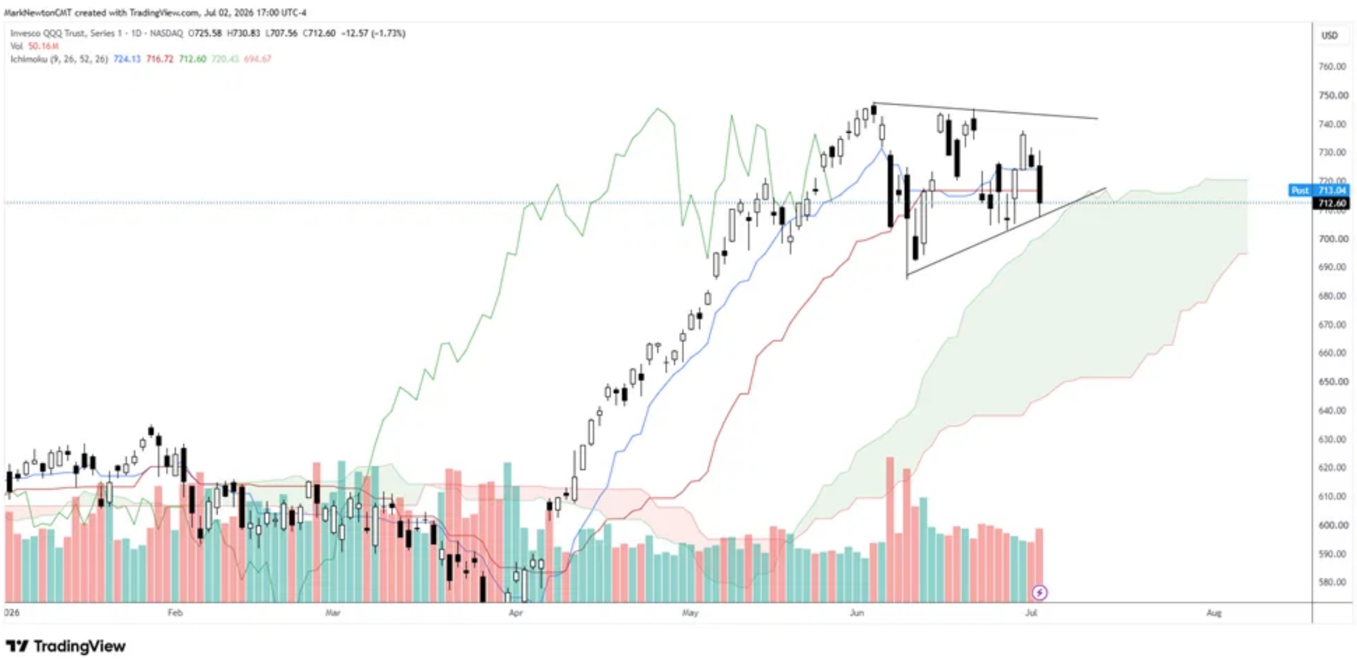
- This week's minor pullback in Semiconductors has not caused the major indices to give way: both $SPX and $QQQ remain within their triangle patterns and the Semis-to-$SPX ratio has not turned lower, so this is a short-term Technology headwind rather than a broader threat.
- The broadening in sector rotation is a big positive, with Financials, Healthcare, and Industrials all closing at new weekly all-time highs this week and more than offsetting the consolidation in Semis.
- With AAII sentiment still showing far more bears than bulls (42.3% vs. 31.4%), crude undercutting $70 en route to $60, and the yield curve steepening on weaker data, I expect this churning consolidation to bottom and $SPX to push back toward 8,000 into mid-August.

I want to wish everyone a very happy July 4th holiday!

Heading into the Independence Day holiday, the key point is that this week's minor pullback in Semiconductors has not caused the major indices to give way — both $SPX and $QQQ remain within their triangle patterns, and the Semiconductor-to-$SPX ratio has not turned lower, so this looks like a short-term Technology headwind rather than anything more serious. Within Technology the bifurcation is actually healthy, as Mag-7 and Software have turned higher this week to help offset the Semiconductor weakness. The broadening in sector rotation is an even bigger positive: Financials, Healthcare, and Industrials all closed at new weekly all-time highs this week, more than picking up the slack as Semis consolidate. Sentiment remains a tailwind from a contrarian standpoint, as the latest AAII survey still shows far more bears than bulls at 42.3% versus 31.4%, and it is difficult for a meaningful selloff to get underway with pessimism that stretched. Cross-asset signals line up as well: WTI crude has undercut $70 this week and looks headed toward $60, a source of confidence for the risk-on trade, while weaker economic data has lessened the odds of an October hike and steepened the yield curve over

the last couple of days. Just as important, there is still no evidence of genuine defensive positioning, as both Consumer Staples and Telecom remain in sharp downtrends versus equal-weight $SPX and have not turned up despite mild stabilization in Staples. Bottom line, while the Semi decline is a short-term headwind that favors owning other sectors while it settles, it has not dented the broader indices, and I expect this churning consolidation to bottom and push back toward 8,000 into mid-August.

Invesco QQQ Trust ($QQQ, daily) — Still coiled within the triangle near the 712 apex; holding late June lows at 702.81 key next week



Source: TradingView

QQQ stays coiled within its triangle near the apex — the range remains unresolved

$QQQ fell -1.73% Wednesday to close near 712.60, dropping back toward the apex of the symmetrical triangle that has defined the tape since the early-June highs near 750. Upper triangle resistance now sits near 744, while rising trendline support off the June 9 lows comes in just beneath the market near 708–712, so price is sitting right at the decision point of the pattern.

The Ichimoku cloud remains just below current levels and continues to slope higher, so the intermediate-term trend is not remotely threatened by this coil; this is consolidation, not deterioration. A daily close above 744, with $SPX recapturing 7,550, is what's needed to expect upside follow-through toward new highs, while a break of late June lows at 702.81 would postpone any rally and result in a test of early June lows.

For now, until/unless this week's Semiconductor decline leads $QQQ to break late June lows, one should treat Thursday's weakness as having brought price down to support, vs. having done any technical damage. **I expect this two-sided action to persist near-term before the pattern resolves, most likely higher, once the Semiconductor consolidation runs its course**.

PHLX Semiconductor Index ($SOX, daily) — Break of the uptrend from the April lows; retracement support at 11,753 then 10,865

Source: TradingView

Semiconductors have broken their uptrend from the April lows, and near-term downside targets lie lower

The $SOX fell -5.57% Wednesday to 12,610, decisively violating the rising trendline that had defined the advance off the April lows, with daily MACD having rolled over into a bearish crossover. This week's breakdown was precipitated by momentum indicators like MACD and RSI showing extreme negative divergence and sloping lower in the last month.

While the trend was violated this week, there is a remote possibility that weekly Ichimoku Conversion line support at 12,542 might attempt to hold early next week. However, if this is broken, the 38.2% and 50% retracements of the April–June advance, at 11,753 and 10,865 respectively, mark the zone where I'd first look for Semis to try to stabilize.

Importantly, this is a needed consolidation of an overbought, parabolic group, not evidence of a broader top; I'd let Semiconductors correct and work off their excesses early next week rather than rush to buy dips and would revisit the group once price and momentum stabilize and price begins to turn back higher.

$SMH / $RSPT (Semiconductors vs. equal-weight Technology, weekly) — Despite this week's absolute trend break in $SOX and $SMH, the uptrend vs. $RSPT remains intact

Source: Symbolik

Semiconductors' relative dominance over equal-weight Technology is

The relative picture of $SMH vs. $RSPT is a bit more encouraging than what was shown in the $SOX chart above on an absolute basis.

Despite this week's absolute breakdown in $SOX (based on it having violated the uptrend from March), this has not happened on a relative chart of $SMH vs. equal-weighted Technology ($RSPT).

Weekly MACD remains positive, and the trend from 2025 remains intact. So the key message here is that if $SOX and/or $SMH can avoid much further weakness next week, so that the larger relative uptrend is not broken outright, then it's right to think that the Semiconductor consolidation could be happening without causing it to lose dominance vs. Technology as a whole.

It's right to monitor this next week. However, the key message here is that $SMH is holding up relative to equal-weighted Technology.

Invesco S&P 500 Equal Weight Financial ETF ($RSPF, weekly) — Breakout to new all-time highs

Source: TradingView

Equal-weight Financials have broken out to new all-time highs, which is healthy for the broader US stock market

Equal-weight Financials rallied +3.93% this week to 80.71 and pushed to new all-time highs, a clean absolute breakout that confirms Financials as one of the primary groups picking up the slack from Semiconductors. Because this is the equal-weight measure, the move reflects broad participation across the sector rather than a handful of money-center banks doing the heavy lifting.

This dovetails with the Insurance ($KIE) breakout I highlighted earlier this week, and it keeps Financials firmly on the list of sectors that are showing near-term technical strength on an absolute basis.

Nor are Financials alone: Industrials also closed at new weekly all-time highs this week, so alongside Healthcare the leadership is genuinely broad rather than dependent on any one group. Former resistance near the prior mid-June highs near

$79 should now act as support on any near-term consolidation, and I'd treat pullbacks toward that level as buyable.

Invesco S&P 500 Equal Weight Health Care ETF ($RSPH, weekly) — Breakout above multi-year resistance to new highs

Source: TradingView

Equal-weight Healthcare has broken out above multi-year resistance to new highs — the leadership is broadening

Equal-weight Healthcare rose +2.59% this week to 34.36 and extended last week's breakout above the multi-year resistance line connecting its 2021 and 2024 highs, pushing to new highs on notably heavy volume. Breakouts of this sort, from lengthy multi-year bases, tend to be important and often run further than expected as fundamentally oriented investors are slow to chase new-high territory.

This confirms on the absolute equal-weight chart the recovery I've been discussing through the $XHS, $IBB, $XBI breakouts and the recent acceleration higher in $PPH.

Moreover, it was important and positive that equal-weighted Healthcare achieved a short-term breakout vs. both $RSP (equal-weighted $SPX) and Technology in the last week.

Bottom line, this sector remains appealing on both an absolute and a relative basis. Along with Financials and Industrials, Healthcare is where I'd concentrate exposure while Semiconductors consolidate, and I continue to view it as a technical Overweight into late summer.

Pulling it together: the pullback in Semiconductors is a short-term headwind for Technology that favors owning other groups while it settles, but it has not turned the Semis-to-$SPX ratio lower nor dented the broader indices, which remain within their triangles. The broadening is doing the heavy lifting, with Financials, Healthcare, and Industrials all at new weekly all-time highs, AAII sentiment still bearish enough to limit downside, crude falling toward $60, and no evidence yet of true defensive rotation out of Staples or Telecom. My expectation is for this churning consolidation to bottom and for $SPX to push back up toward 8,000 into mid-August, so I'd use this settling period to favor Financials, Healthcare, and Industrials over Semiconductors rather than turn cautious.

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