Daily Technical Strategy

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THE US STOCK MARKET LOOKS CAPABLE OF ABSORBING THE ROTATION IN TECHNOLOGY

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Key Takeaways

- The US stock market looks capable of absorbing the rotation in Technology, as eight of the eleven major equal-weighted sector ETFs finished positive Tuesday despite the sharp pullback in Semiconductor and Memory names.
- $MU's recent breakdown follows the decline which has been seen in South Korea's KOSPI index, which remains hugely dominated by a few select Memory names. While intermediate-term trends remain technically attractive, patience looks warranted in the short run.
- Similar to "Mag-7," Software looks to be an area which might offer a better near-term risk/reward than many Memory and/or Semiconductor names which have fallen out of favor.

Near-term US equity trends remain bullish, despite the recent underperformance in Technology which has kept both $SPX and $QQQ within range-bound triangle formations since early June. While the rotation out of Memory and Semiconductor names has provided some near-term headwinds to the rally, it's been constructive to see areas like Financials, Healthcare, and Industrials pick up the slack. In the short run, all eyes will likely continue to be focused on Semiconductor stocks given Samsung's recent earnings and the coming SK Hynix US listing by end of week. However, the rotation out of Technology, a sector I recently lowered to Neutral, has unfolded gradually enough that other sectors keep picking up the slack, and "Tech" weakening in one-by-one fashion is not arguably a bearish factor for the broader market. Overall, technically it's right to stay bullish, expecting a push back to new all-time highs to get underway by mid-month. One area to keep a close eye on is long-term interest rates, which have slowly begun to creep higher in recent days.

Tuesday's minor $SPX pullback did no damage to Monday's triangle breakout

$SPX closed Tuesday at 7,503.86, down -0.45%, a minor give-back but one which doesn't detract from $SPX's chances in pushing higher back to new all-time highs into late July to mid-August. Despite the Samsung-led weakness in Semiconductor and Memory stocks, most sectors advanced on the day, and this kind of rotation has kept $SPX within reach of all-time highs while large-cap Technology consolidates. As shown below, popular momentum gauges like MACD have turned back positive following a recent bullish crossover of the signal line. My expectation is that a push back to new highs gets underway by mid-month, allowing $SPX to challenge and exceed 7,620.90 en route to 7,800 or higher to 8,000 into this fall. However, at present, the equal-weighted $SPX remains even stronger, and it's right to favor a balanced view until Technology's consolidation has run its course.

S&P 500 Index ($SPX, daily) — Tuesday's minor churn holds above the triangle breakout; a push to challenge and exceed 7,620.90 should get underway by mid-month

Source: TradingView

$MU's pullback represents minor trend deterioration following negative momentum divergence, not the start of an intermediate-term selloff

$MU fell -4.65% Tuesday to 938.91, at the epicenter of the South Korea-led crack in Memory and Semiconductor names. Following $MU's 300%+ gains in less than three months' time, some consolidation was thought to be likely heading into the summer months, and momentum had already begun to slow meaningfully, with RSI making lower and lower peaks on $MU's ascent into June. While $MU continues to show bullish weekly and monthly momentum along with a strong intermediate-term price trend, I don't find the short-term risk/reward compelling, and dips down to $783 would represent a better risk/reward, and/or a selloff into late Q3 which reaches the 61.8% Fibonacci retracement area near $671. Resistance lies at 1,019, then 1,055, then 1,124, with a close above 1,124 likely leading to near-term rallies back to test all-time highs. Overall, the next 1–3 months are likely to bring additional consolidation for $MU and many of its Semiconductor peers, and it's right to let this group stabilize rather than look to buy dips too aggressively right away.

As shown below, if/when $MU can begin to exceed its downtrend from early June and regain the uptrend in a way that allows momentum to begin to return to this name, then it would be given more consideration. At present, the bearish momentum warrants patience, not dip buying, as many other sectors like Healthcare, Financials, and/or Industrials are all more attractive than Technology in the short run.

Micron Technology ($MU, daily) — Near-term pullback underway following the South Korea-led crack in Memory and Semiconductor names

Source: TradingView

Software looks to have already made its decline — $IGV should outperform Memory in the short run

The rotation now hitting Memory is the same one that began with Software months ago before spreading to the "Magnificent 7," and the daily $IGV/DRAM ratio suggests it has come full circle: a DeMark 9-13-9 pattern formed into the late-June low, not dissimilar from what was shown last week on the ratio of MAGS (Roundhill's Magnificent 7 ETF) vs. DRAM and also vs. $RSP.

This ratio has since rallied sharply in the last week, exceeding the descending trendline in place since April. Momentum and technical structure both support $IGV outperforming Memory stocks in the short run, and it's right to let Semiconductors and many Memory names stabilize and/or strengthen a bit before growing too aggressive.

Generally, Software looks to have already made its decline and is now stabilizing relatively, and Tuesday's Memory weakness only strengthens the case for favoring Software vs. Memory along with favoring "Mag-7" within Technology.

$IGV / DRAM (Software vs. Memory, daily) — 9-13-9 pattern into the late-June lows; the ratio has exceeded its April downtrend as Software stabilizes relatively

Source: Symbolik

$NVDA's weekly cycle composite projects consolidation into the fall before turning back up into 2027

$NVDA continues to trend lower from its mid-May peaks, and the threat of China developing its own AI chip resulted in early weakness for the name today. While I'm a big fan of $NVDA's intermediate-term prospects from late Q3 into spring of 2027, I can't yet make the compelling case for dip-buying given $NVDA's continued short-term downtrend coupled with the bearishness of the daily and weekly cycle composites for $NVDA.

I discussed the $NVDA selloff possibility back on 5/14/26, in my Daily Technical Strategy note: "NVDA earnings could prove to be the inflection point for Semiconductor stocks, given price & time-based resistance," and have shown a few cycle composites this past spring on $NVDA and its possible trajectory.

While I feel that $NVDA should be nearing its first possible area of near-term lows, which might occur near $182–$184 on weakness, **this larger weekly cycle lines up**

with the daily cycle to show a weakening in the stock price in the August–October timeframe.

As with all of this cycle work, the projection measures amplitude, not magnitude, so the timing of the turns matters far more than the price levels implied by the composite itself. This fits neatly with the broader rotation, and my expectation is that weakness into the fall in $NVDA and the Semiconductor group ultimately provides a much better entry for those with patience.

Overall, while the trajectory shown by the pink line below might seem linear in its projections, I expect that a possible coming low, followed by a bounce, then an additional selloff into fall, might be more realistic. **However, until there is evidence of daily and weekly MACD turning back to bullish (which are currently both negative), or evidence of the two-month downtrend starting to be broken in a bullish breakout, or DeMark exhaustion starting to appear on weakness to pinpoint possible turning points for $NVDA, I feel like better alternatives lie elsewhere than $NVDA between now and the midterm elections.**

NVIDIA ($NVDA, weekly) — Cycle composite projects consolidation into fall 2026 before a turn back higher into 2027

Source: Foundation for the Study of Cycles

Broad-based rotation keeps equal-weight $SPX trending up vs. $SPY

Finally, it's important to continue highlighting the progress being made by the ratio of $RSP (Invesco's equal-weighted S&P 500 ETF) vs. $SPY, which has trended higher since mid-May.

Today's strength in many non-Technology sectors reinforced this idea of the broad-based rotation which is allowing equal-weighted $SPX to keep trending up vs. $SPY.

As discussed in Monday's note, this ratio remains below the multi-year descending trendline from its late-2023 peak, and further broad-based participation should help $RSP/$SPY challenge that trendline in the weeks/month(s) ahead. Weekly MACD has turned positive, which helps to add credence to the idea of owning a broad-based market ETF of equal-weighted names like $RSP vs. owning $SPY in the short run, until this Technology consolidation has properly run its course.

Bottom line, I feel it's impressive that broader markets are holding up with $SPX and $QQQ consolidating in triangle patterns within striking distance of all-time highs while $RSP and $DJIA both hit intraday all-time high territory today despite many Technology stocks having fallen out of favor. This serves as the clearest evidence that the US stock market can absorb this rotation in Technology without meaningful technical damage.

$RSP / $SPY (Equal-weight vs. cap-weighted S&P 500, weekly) — Uptrend from mid-May remains intact as the rotation broadens

Source: Symbolik

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