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Daily Technical Strategy

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EQUITIES HOLD SUPPORT WHILE BOND MARKET SELLOFF LOOKS TO BE GETTING UNDERWAY

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HEAD OF TECHNICAL STRATEGY

Key Takeaways

- $SPX and $QQQ both held support Wednesday almost exactly where they needed to, and both look to be bottoming out over the next 3–5 trading days ahead of a turn back higher.
- WTI crude's minor bounce on Wednesday's ceasefire headlines likely proves short-lived, and a technical decline to test $58–$62 looks likely over the next month.
- ^TNX's push above its two-month downtrend from the May peaks suggests a bond market selloff could be getting underway.

Near-term US equity trends remain bullish, and Wednesday's session brought about no change of thesis, as the US equity market has shown very little evidence of any real deterioration despite ongoing weakness in parts of Technology. The rotation out of Semiconductor and Memory names has continued to unfold one-by-one, not all at once, and sectors like Industrials, Financials, and Healthcare have been able to rally and keep the broader market propped up, which remains quite constructive. Encouragingly, Technology's decline looks to be nearing its initial low, as Semiconductor and Memory stocks have begun to press down against the lower edge of their respective 2-standard-deviation Bollinger bands, while Software and many "Magnificent 7" names have already begun to bounce. What's new concerns the interest rate picture, as long-term yields have begun to turn up sharply in the last week, as markets sniff out some potential bottoming in WTI crude oil on further war negotiations dragging out more slowly than expected. The speed of any further advance in long-term bond yields will matter greatly for equities in the months ahead. Overall, the recent broad-based push higher in equities could start to

show Technology joining the herd in the near term, and it's arguably right to stay bullish, expecting $SPX to push up to 7,800 by the middle part of August.

$QQQ's undercut and recovery of key support bodes well for a low in place by end of week

$QQQ closed Wednesday at 711.44, +0.28%, after an intraday undercut of the late June lows, which stopped out trading shorts before ripping back higher. This successful holding of late June lows on a closing basis is encouraging, but $QQQ now requires some actual strength to help momentum start to turn back higher.

Given that $SPX also achieved a meaningful reversal today, my expectation is for a bottoming out in this minor churning of late which should lead back to new all-time highs.

While $RSP and $DJIA remain more bullish, a $QQQ rally depends on Technology beginning to stabilize a bit after recent turbulence. While Semiconductor and Memory names have been hit very hard in recent days, this group now looks to be nearing initial support as many names press down against the lower edge of their 2-standard-deviation Bollinger bands. Meanwhile, the recent bounce in Software along with many "Magnificent 7" stocks is quite encouraging of late, and ideally Technology starts to move up in unison with the broader market throughout late July into August rather than remaining bifurcated as has been the case in recent months.

Initial resistance of importance within this giant triangle lies near $721, which I feel needs to be recouped to have more confidence of a low at hand. Thereafter, exceeding 737.62 from 6/30's intraday peak would confirm a breakout of the $QQQ triangle from early June. Such a move looks likely in the weeks ahead, but for now, some evidence of strength will be necessary in the short run. While not expected, any move under 696 would result in June lows being tested at 685.62. I don't feel this is likely in the short run, but it always pays to know where key areas of support lie.

Invesco QQQ Trust ($QQQ, daily) — Wednesday's undercut of the 78.6% retracement at 705.18 was recouped by the close, keeping a late-week bottom on track

Source: TradingView

Crude's bounce on ceasefire headlines likely proves short-lived ahead of a decline to test $58–$62

The big news Wednesday concerned the administration's announcement that the ceasefire could be off, which helped WTI crude extend the minor bounce that got underway in recent days. However, the decision to revoke the waiver that had allowed Iranian oil exports and access to the US dollar seemed like more important news.

Overall, I view this as more of a negotiation tactic than a true change of policy designed to force the hand of the Iranians. Technically, this bounce fits as a wave four within the five-wave decline from early June, and the near-term structure still shows a very good likelihood of crude pulling back to test $58–$62 over the next month, which lines up with the 1.382 Fibonacci extension of the initial decline at $58.17. Crude working its way lower should prove to be a source of good news for risk assets, which look able to rally through the remainder of this decline.

While many foresaw a possible bounce on high crack spreads or the endgame of further escalation ahead of the US midterm elections, **I feel like the supply glut should be a larger bearish factor which, when combined with negative**

momentum, bearish Elliott-wave patterns, and bearish crude cycles, seems to suggest this recent bounce should be short-lived before turning back lower.

While I eventually expect some kind of a larger bounce in WTI crude might get underway this fall, it should happen from lower levels, near the low $60s, and for now looks quite premature.

WTI Crude Oil Futures (daily) — Wave four bounce underway within the five-wave decline from June; wave five should follow, targeting $58–$62 over the next month

Source: TradingView

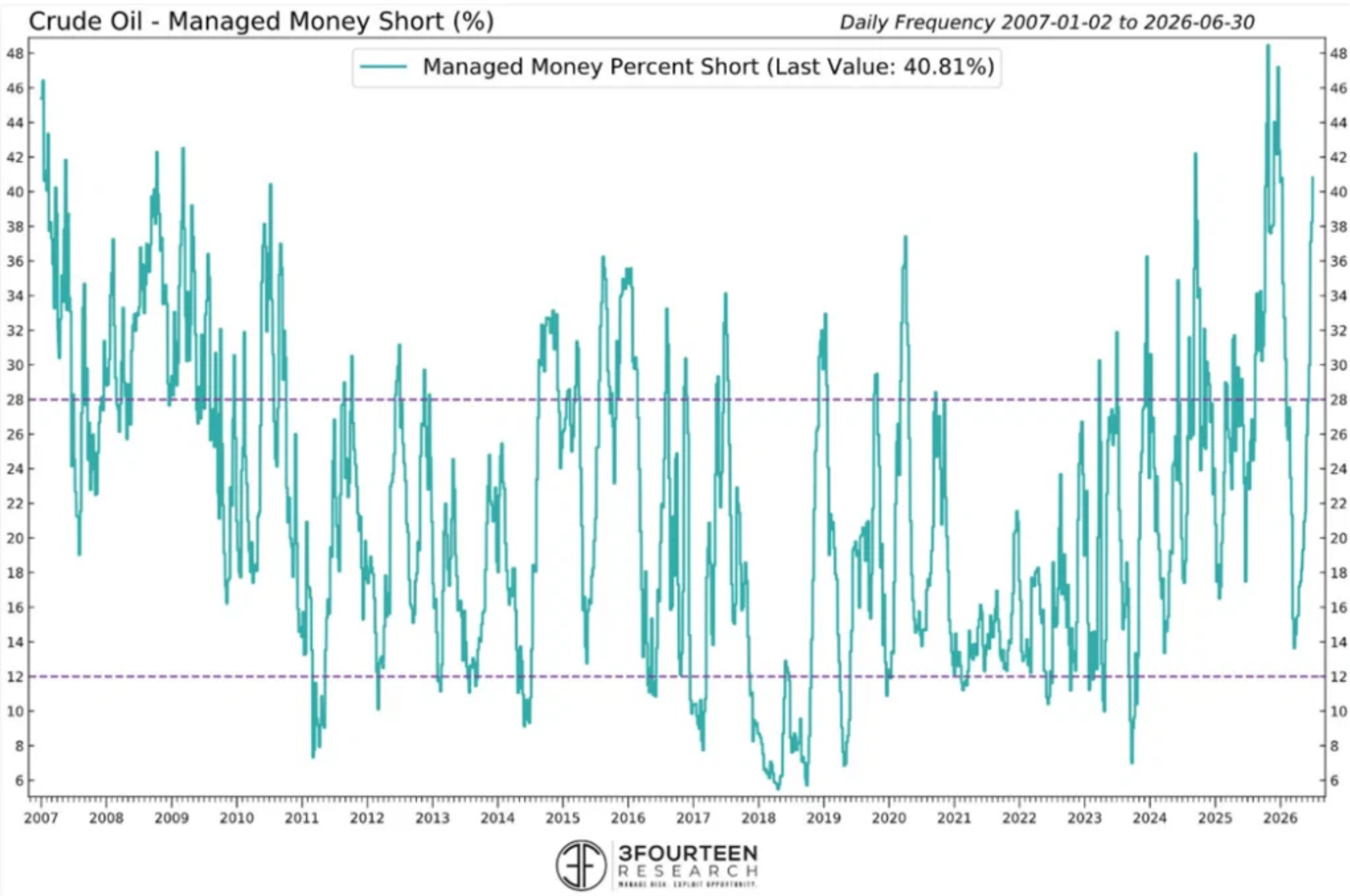
Crude short positioning has grown about as negative as we've seen all year — the decline is in its latter stages

Managed Money percent short in crude oil stood at 40.81% as of the end of June, positioning which has begun to grow about as negative as we've seen all year long and which ranks among the more extreme readings in nearly 20 years of data.

This argues that crude's decline should be in its latter stages over the next month, akin to the 7th-inning stretch of a 9-inning game. However, given crude's bearish back-half seasonality, I'm not expecting too much of a meaningful rally even into the end of Q3, and as discussed above, any such rally should happen from lower levels ($58–$62).

My sense is that the bond market has already begun to sniff out the possible conclusion of a crude decline along with the near-term hawkishness of the FOMC, as long-term Treasury yields turned up sharply this past week.

Crude Oil – Managed Money Short Positioning (%) — Shorts have grown about as negative as we've seen all year, arguing crude's decline is in its latter stages



Source: 3Fourteen Research

^TNX exceeding its two-month downtrend suggests the bond market selloff could be getting underway

^TNX pushed up +0.030 Wednesday to close at 4.581%, exceeding the two-month downtrend from the May peaks, and this looks to be the start of long-term interest rates turning higher as the market's focus shifts toward inflationary pressure, given that even if a ceasefire is reached, having it stick could prove tricky.

There's no guarantee that rising rates cause equities to decline, and equities certainly could rally at the same time Treasuries are falling; my view is that the velocity of a Treasury decline matters far more than the absolute level of rates.

A slow grind higher in yields likely leaves equities unaffected, while a rapid move, which I suspect unfolds if yields push back up above mid-May peaks at 4.687%, could carry ^TNX up quickly toward and above 5.00%.

In the next couple of weeks, there could be some backing and filling to this initial pop in yields, so I'm not sure it's right to grow overly concerned just yet. However, this "rally" in yields looks to have begun, technically, and the key level will be when ^TNX surpasses mid-May highs.

Such a move would break out of the lengthier three-year triangle pattern for ^TNX, which might coincide with a quicker bond selloff than many are forecasting. Stay tuned.

US 10-Year Treasury Yield (^TNX, daily) — Wednesday's push to 4.581% exceeds the two-month downtrend from the May peaks; 4.70% is the key level above

Source: TradingView

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