Daily Technical Strategy

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# SPX BREAKOUT LOOKS IMMINENT AS TECHNOLOGY SNAPS BACK TO LIFE

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## Key Takeaways

- $SPX is pressing right up against the top of its five-week triangle and a breakout looks imminent, which should kickstart a move up to 7,800 into the middle part of August.
- Thursday's Semiconductor snapback looks likely to extend, though buying and holding this group could still prove tricky given the recent deterioration in daily momentum.
- Participation continues to broaden, as Transports are beginning to strengthen and China has rebounded sharply in recent days.


**Near-term US equity trends remain bullish, and Thursday's session further strengthened the technical picture, showing good follow-through after Wednesday's successful tests of intraday support and reversal higher in $SPX and $QQQ. I expect that a breakout in $SPX is imminent, though $QQQ will take more time. The interest rate picture remains worth watching following ^TNX's push above its two-month downtrend this week, though some backing and filling in yields looks likely near term, and the velocity of any Treasury selloff matters far more for equities than the absolute level of rates. Meanwhile, WTI crude's bounce looks to have potentially run its course, and crude should now be en route to $58–$62 and pull back to new monthly lows. Given recent negative correlation to $SPX, more sustained weakness in WTI crude should prove to be a tailwind for risk assets. Sector rotation continued Thursday with above-average strength in Financials, Healthcare, and Industrials, with a much-needed 1% gain in Consumer Discretionary. Overall, it's right to stay bullish but diversified, as I expect a broad-based portfolio makes more technical sense than one overweighted in Technology.**

### Markets are on the verge of breaking out despite Technology being down over the past month, a testament to this rally's broadening

What stands out from this week's performance data is that $SPX sits on the verge of breaking out despite equal-weight Technology having been down -1.93% over the past month, a testament to the powerful performance out of Healthcare ($RSPH +6.90%), Financials ($RSPF +6.77%), and Industrials, along with a comeback in Consumer Discretionary, which has turned back positive on the month after languishing for much of this year.

Over the last month it's been the outperformance in many of the non-Technology sectors which have helped to buoy the market during Tech's consolidation, which is seen as quite helpful and necessary.

Despite its one-month underperformance, $RSPT remains higher by +35.29% YTD, more than 7 percentage points clear of Energy for the top spot among all equal-weight groups. This constant rotation remains a very good sign for the durability of this rally.

### S&P 500 Equal-Weight Sector Performance — Healthcare, Financials, and Industrials have shouldered the burden over the past month with Technology down

| Code | Name | Change (%) | 1W% | 1Mo % | 3Mo % | YTD% | Weekly RSI(14) | 12Mo % |
|---|---|---|---|---|---|---|---|---|
| RSPH | Invesco S&P 500 Equal Weight Health Care ETF | -1.71% | 0.77% | 6.90% | 9.35% | 6.53% | 63.0 | 16.58% |
| RSPF | Invesco S&P 500 Equal Weight Financials ETF | -1.89% | 1.05% | 6.77% | 8.92% | 2.52% | 62.5 | 5.30% |
| RSPU | Invesco S&P 500 Equal Weight Utilities ETF | -0.78% | 1.15% | 4.44% | -2.04% | 8.52% | 54.1 | 15.14% |
| RSPN | Invesco S&P 500 Equal Weight Industrials ETF | -1.31% | -1.60% | 2.59% | 4.35% | 10.61% | 59.7 | 15.10% |
| RSPS | Invesco S&P 500 Equal Weight Consumer Staples ETF | -0.75% | 0.33% | 2.46% | 2.70% | 4.67% | 51.2 | 0.16% |
| RSP | Invesco S&P 500 Equal Weight ETF | -1.18% | -0.57% | 2.21% | 7.19% | 10.77% | 64.0 | 15.23% |
| RSPD | Invesco S&P 500 Equal Weight Consumer Discretionary ETF | -2.04% | -2.21% | 0.74% | -0.81% | -3.91% | 47.2 | -0.29% |
| RSPR | Invesco S&P 500 Equal Weight Real Estate ETF | -1.49% | -1.06% | -0.08% | 5.48% | 8.24% | 54.1 | 3.77% |
| RSPM | Invesco S&P 500 Equal Weight Materials ETF | -2.64% | -1.89% | -0.18% | -4.67% | 11.54% | 49.2 | 11.53% |
| RSPT | Invesco S&P 500 Equal Weight Technology ETF | 0.56% | -2.84% | -1.93% | 27.29% | 35.29% | 69.2 | 48.43% |
| RSPC | Invesco S&P 500 Equal Weight Communication Services ETF | -1.33% | -0.30% | -2.12% | -5.72% | -10.09% | 39.0 | -5.54% |
| RSPG | Invesco S&P 500 Equal Weight Energy ETF | 2.17% | 5.22% | -3.23% | -2.61% | 27.96% | 54.2 | 31.25% |

Type Code or Name to add an item to the watchlist

Source: Optuma

**$SPX pressing up against triangle resistance; a breakout looks imminent**

$SPX pushed up Thursday to test the declining trendline from the early-June peaks, the top of the five-week triangle pattern which has contained prices since June, with Thursday's morning high at 7,531.24 sitting nearly exactly on this line.

While I had suspected this breakout was happening this past Monday, today's push higher helps to give a bit more confidence. **My expectation is that this triangle resolves higher in the days ahead, with a daily close above 7,551 helping to confirm the breakout and allowing for a quick test and breakout to new all-time high territory, above 7,620.90.** Note, if this happens in the next week, my view is it would pave the way for a push up to 7,800 without much trouble into late July to mid-August before some stalling out.

Seeing Technology start to participate and join other sectors is particularly thought to be important for helping this rally accelerate. The last couple of months have proven volatile and rife with sector rotation. However, despite the Tech underperformance, $SPX is now on the verge of its breakout, which shows how important the movement in sectors like Financials, Healthcare, and Industrials has been.

**S&P 500 Index ($SPX, daily) — Thursday's rally carried $SPX right up to the declining trendline from June's peaks; a daily close above 7,551 would confirm the triangle breakout**


Source: TradingView

**Semiconductor snapback rally underway, but still a work in progress; smaller position sizes make sense near term**

$SMH rallied sharply Thursday ahead of the much-anticipated SK Hynix ADR listing tomorrow, which has been seven times oversubscribed.

This bounce is helpful given that "Mag 7" recently also began to stabilize and turn higher along with parts of Software.

As discussed in yesterday's note, $MU had pulled back to just above its lower Bollinger band support Wednesday, making many of these names appear to be a good tactical risk/reward.

**However, it's not wrong to say this rally remains a work in progress, and $SMH still appears a bit "dicey" given how sharply momentum turned down on daily MACD during the recent weakness** (while trends remain bullish on an intermediate-term and long-term basis).

Overall, a snapback rally looks likely in Semiconductors, but buying and holding this sector right now through the midterm election could still prove tricky until short-term momentum starts to improve. Bottom line, it's necessary to utilize smaller position sizes or stops (if applicable) in many Semiconductor names at this week's lows given the near-term deterioration in momentum over the last few weeks, looking to add to positions as technical momentum starts to grow stronger.

**VanEck Semiconductor ETF ($SMH, daily) — Thursday's sharp bounce follows the early-July break of the April uptrend; both technical structure and momentum need some improvement**


Source: TradingView

**$DJT's breakout above its downtrend from April peaks adds to the broadening evidence**

$DJT rallied more than +2% Thursday, breaking out above the downtrend connecting its April peak with June's lower highs, a bullish development for a group which had languished since April.

This breakout follows several weeks of tightening consolidation above the late-June lows and should allow for an initial push back to test the mid-June peaks (~22,749), with strength above that level letting $DJT start to make up ground toward April's highs.

Transports joining the advance is exactly the kind of broadening participation which argues this rally remains on solid footing, and dips in $DJT should now find support near the breakout area, as former resistance becomes support on any weakness.

Airlines should be the main group to overweight within Transports, along with Rails, Trucking, and Air Freight, as all should strengthen over the next month as WTI crude pulls back to support in the low $60s.

**As discussed previously, Airlines are one of the biggest beneficiaries of a falling crude price**, and some pickup in Transportation should be particularly bullish for the Industrials sector as this recovery starts to gain steam.

**Dow Jones Transportation Average ($DJT, daily) — Thursday's rally exceeds the downtrend from April's peak following several weeks of consolidation**


Source: TradingView

**China Technology's breakout above its downtrend from last October looks important and should extend**

$CQQQ closed Thursday at 57.17, +4.38%, pushing decisively back above the downtrend connecting last October's peak with the lower highs from February and May, and confirming the breakout attempt which initially got underway earlier this month.

While Chinese equities have engineered a much-needed bounce, both $FXI and $KWEB remain in technical downtrends and will require more proof before it's right to get too bullish technically.

**Meanwhile, the AI- and Tech-heavy $CQQQ (Invesco China Technology ETF) looks like a much better vehicle for those looking to participate in a snapback in Chinese equities.**

This nine-month downtrend giving way opens the door for a push back to test last October's intraday highs near $61, and movement above that level would represent a meaningful longer-term base breakout for Chinese Technology.

**Invesco China Technology ETF ($CQQQ, daily) — Thursday's +4.38% surge confirms the breakout above the downtrend from last October's peak; a push to test $61 looks likely**


Source: TradingView

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