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Daily Technical Strategy

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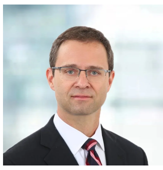
MONDAY'S WEAKNESS DOESN'T THREATEN SPX'S BREAKOUT, BUT BOTH CPI AND BANK EARNINGS COULD PROVE IMPORTANT ON TUESDAY



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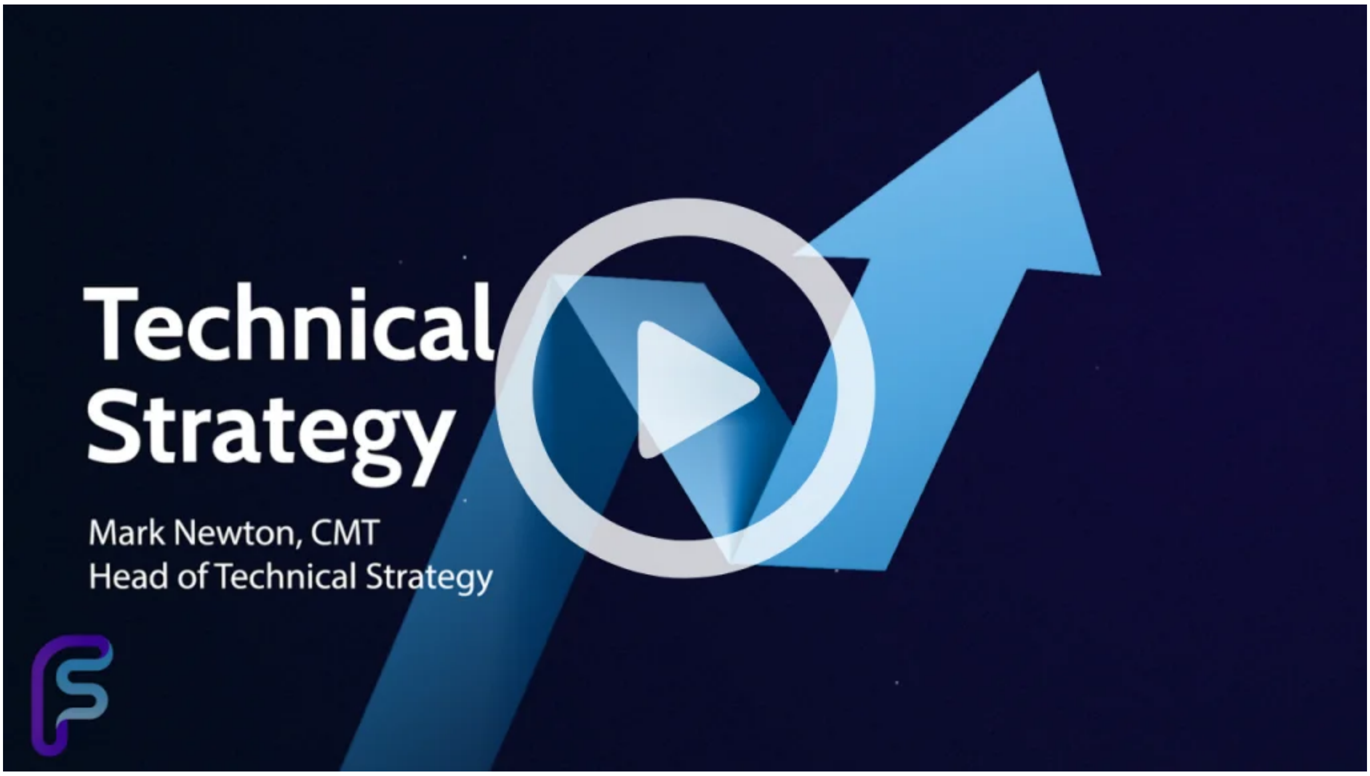
HEAD OF TECHNICAL STRATEGY

Key Takeaways

- Monday's pullback in US equities wasn't bearish and did little to damage last week's breakout attempt, though rising crude, climbing long-term interest rates, and continued weakness in parts of Technology all warrant a close eye in the days ahead.
- Financials are the most important sector this week with the majority of banks beginning to report earnings, and it's thought that this sector's relative strength should continue.
- Korea's KOSPI has suffered one of the sharpest corrections of any global equity market since mid-June, but this decline is quickly approaching strong support and looks to be entering its final stages.



US equity trends remain bullish, and Monday's minor pullback did little damage to last week's push to the cusp of an $SPX breakout. A daily close under 7,421 would be needed before thinking even a minor pullback is getting underway, but it continues to be the case that equal-weighted $SPX and $DJIA are in better near-term technical shape than $SPX or $QQQ, which have proven more range-bound in triangle consolidation. Tuesday's CPI report very well could prove quite important for markets; a light number could be good news for US stocks, while a hot print would put additional pressure on long-term interest rates, which I expect to work higher in the weeks and months to come regardless. Markets are also still coming to grips with the timing of the Fed's first rate hike, which doesn't look to be a July event despite Governor Waller's comments; September remains more likely. Bank earnings kick off this week and could very well carry the market back higher, though some stabilization in Technology is needed, with recent weakness concentrated in the hard-hit Memory stocks while Mag 7 and Software have acted far better. Overall, it's right to stay bullish but diversified, using any near-term weakness as an opportunity to add exposure.

KOSPI's swift correction is nearing a zone of initial support

KOSPI's advance from last year's lows was among the most powerful of any global equity market, nearly tripling before peaking in mid-June at 9,379. The decline since has been swift, breaking the steep uptrend from last December and erasing roughly -27% in under a month, and Monday's steep drop to 6,806.93 closed at/near the lows of the session.

KOSPI is now approaching several areas of possible support which should help to cause some near-term stabilization by end of week, and this might happen within the next 2–3 trading days.

The 38.2% Fibonacci retracement of the entire advance from 2025 lows near 2,284 looks key for the days ahead, while the former February peaks near 6,347 (coinciding with the "Lookback line" in Ichimoku) could also prove important.

Weekly RSI has pulled back to 51 from readings in the mid-80s from late May, and it's thought that this first selloff from mid-June is growing closer to a trading low.

Korea KOSPI Index (KOSPI, daily) — The decline from June's peak at 9,379 is approaching the 38.2% retracement of the advance from 2025 lows

Source: Bloomberg

Bank earnings are expected to show strong results, which might help the recent relative strength in Financials continue

The majority of the big banks begin reporting Tuesday, and it's been widely reported that this quarter's fundamental setup looks quite favorable, with capital markets revenues expected to drive some of the best US bank profits in years. Bloomberg notes that trading revenues and investment banking fees both look strong, IPO issuance has more than tripled over the past year, and global deal volume could surpass 2021 peaks.

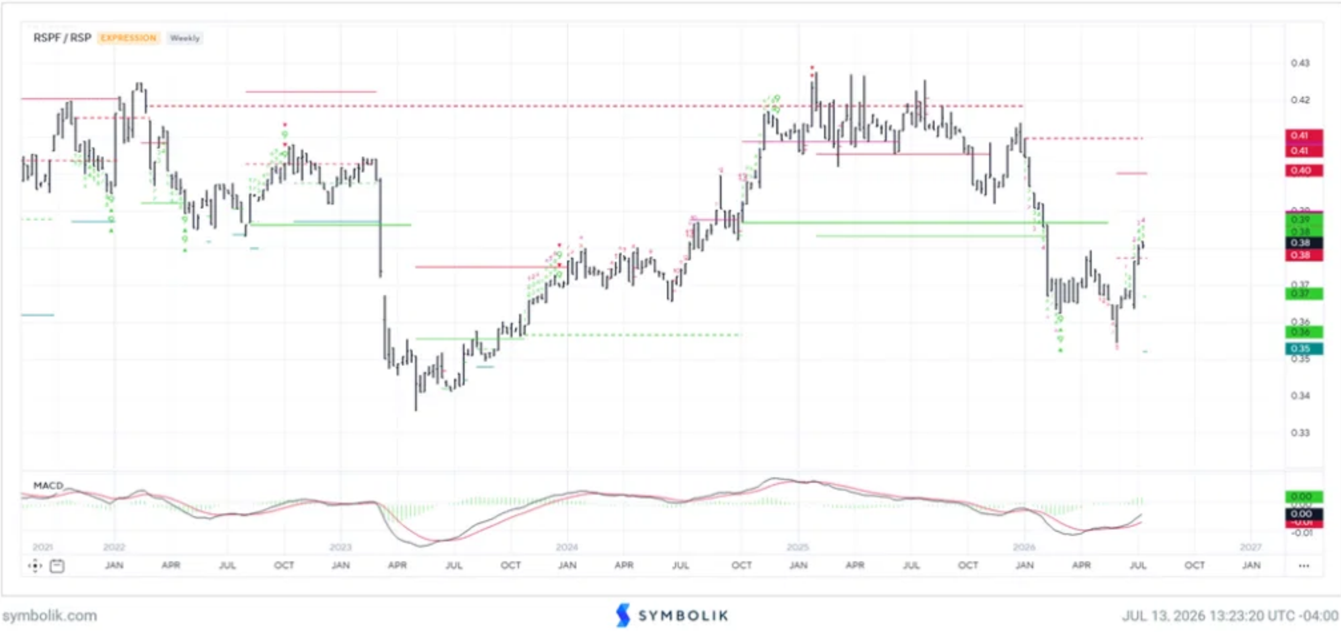
Given that Financials have outperformed 10 of 11 sectors in performance over the past month (when examining equal-weighted ETF performance), my view is that strong results would likely help this recent relative strength continue.

The technical picture is turning at just the right time. The weekly ratio of equal-weight Financials ($RSPF) vs. equal-weight S&P 500 ($RSP) just exceeded the June recovery peaks while weekly MACD has turned positive on this relative ratio.

Technically this sector remains a tactical Overweight, and it's encouraging that Regional Banks have joined Insurance and Commercial banks in showing strong performance, which is normally more pronounced in Investment bank strength by the likes of $GS and $MS. The cap-weighted State Street Financials Select Sector SPDR ETF ($XLF) just pushed back to new highs above early January 2026 peaks as of three weeks ago.

As shown below, the relative ratio ($RSPF to $RSP) has pushed back to monthly highs following its successful bottoming out last month, and momentum has turned sharply higher.

$RSPF / $RSP (weekly) — Financials' relative ratio vs. equal-weight $SPX is turning up from a four-month base ahead of bank earnings



Source: Symbolik

Monday's spike in WTI crude should prove short-lived as overhead supply looms near $80–$81.50

WTI crude front-month futures closed Monday at $78.14, higher by +9.42%, as Middle East tension escalated, resulting in front-month WTI futures accelerating higher after having surpassed last week's highs.

Despite the size of the move, the downtrend remains very much intact and the rally is now nearing prior lows from April along with some Ichimoku resistance near the "Base line" (Kijun-sen) at $81.47.

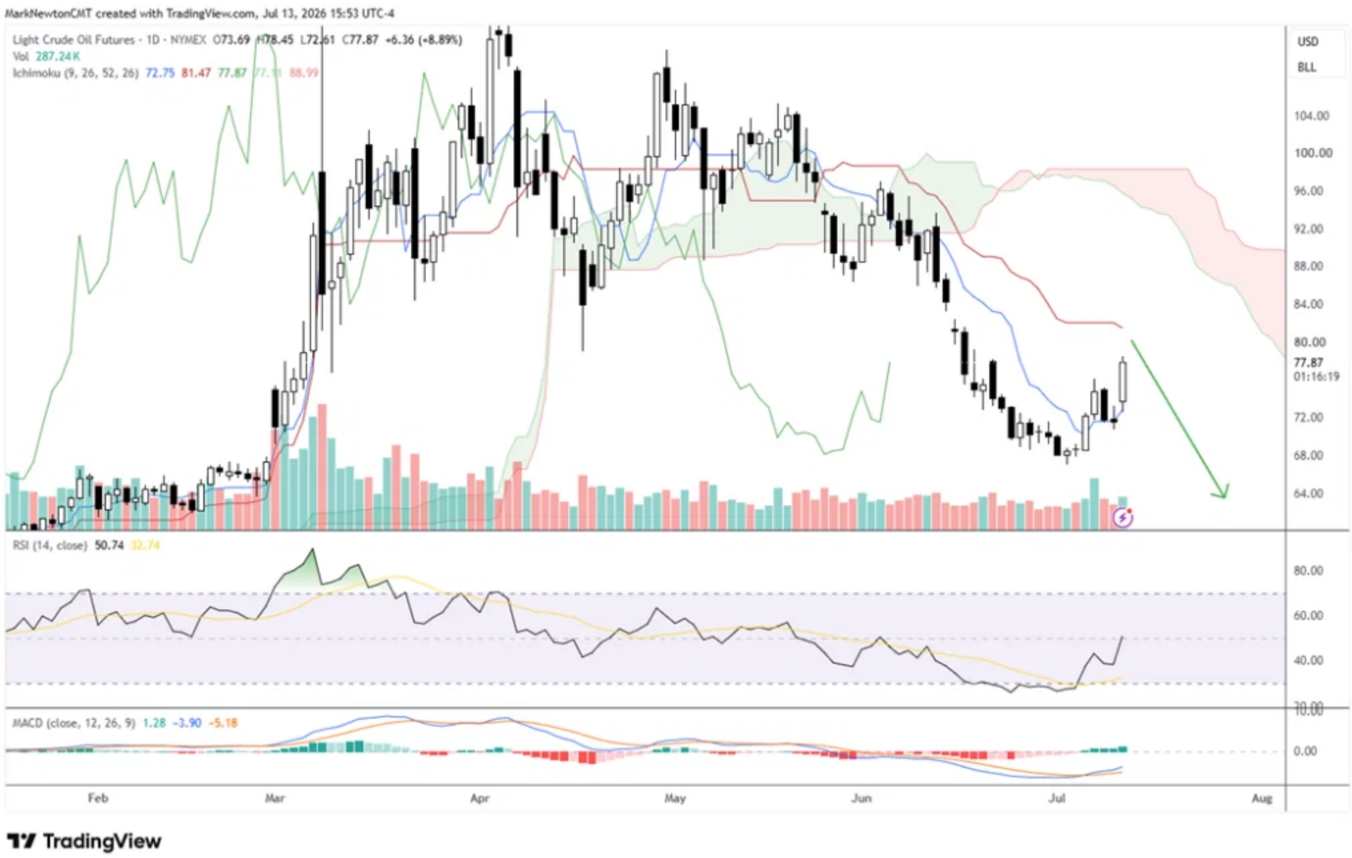
I do not suspect this bounce proves long-lasting, and rallies into $80–$81.50 represent selling opportunities ahead of a resumption back to the downside toward $64 and potentially the $58–$62 zone discussed last week, which would also revive the tailwind for Airlines and the broader Transports trade.

Those who wish to play Energy as a sector despite the ongoing sector downtrend are encouraged to look at Refining, as surging crack spreads have helped this sub-sector show meaningful relative strength.

At present, a sharply rising WTI crude oil price has combined with long-term interest rates rising and Memory stocks falling to cause some minor market turbulence, which

I feel should prove only short-lived.

Light Crude Oil Futures (WTI, daily) — Monday's +9.42% spike carries crude back to near short-term resistance



Source: TradingView

^TNX's push higher is extending, and a test of May's highs near 4.70% looks likely

While tomorrow's CPI print could prove to be important to the timing of the first FOMC rate hike, my view is that ^TNX has already begun its rise back to challenge and exceed May peaks at 4.687%.

To help this risk-on rally in US equities continue into mid-August like I expect, it might be important to see a lighter CPI result tomorrow, which could cause any threat of a July rate hike to be completely "taken off the table." As discussed last week, the velocity of any Treasury selloff matters far more for equities than the absolute level, and thus far this rise has been gradual enough for stocks to tolerate.

Thus, while bank earnings are certainly important tomorrow, it's equally important to see CPI not come in "too hot," which could force the FOMC's hand too early.

US 10-Year Treasury Yield (^TNX, daily) — Follow-through above the two-month downtrend from May's peak argues for a test of 4.68–4.70%

Source: TradingView

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