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Daily Technical Strategy

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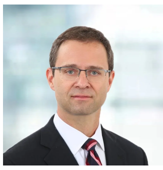
SPX AND QQQ INCH CLOSER TO TRIANGLE BREAKOUTS AS DEFENSIVE GROUPS FALTER



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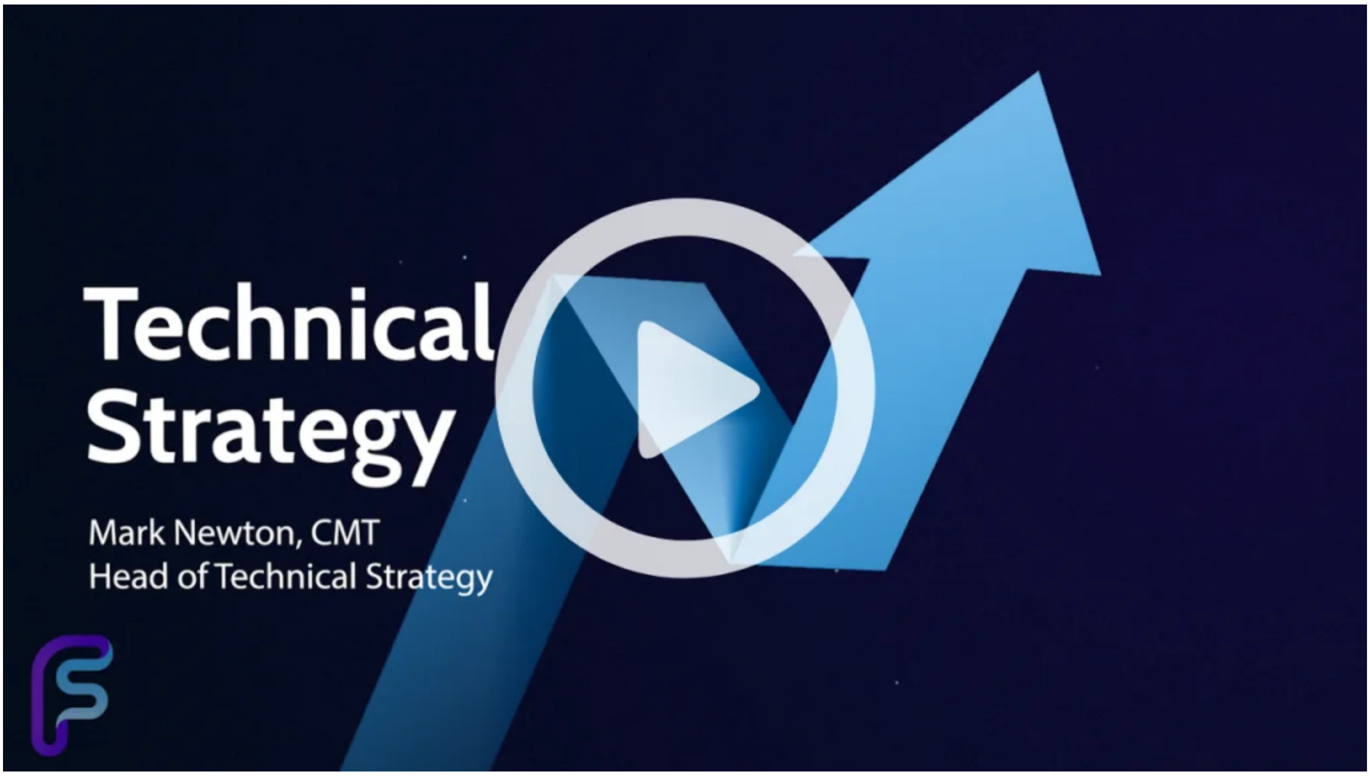
HEAD OF TECHNICAL STRATEGY

Key Takeaways

- $SPX and $QQQ made further headway toward breaking out of their respective triangle patterns Tuesday, aided by Technology's +1.3% gain as this group continues to snap back to life.
- Refiners arguably remain the most attractive way to play Energy, with $CRAK having gained +2.84% Monday to close within striking distance of its early May peaks as crack spreads continue to surge.
- Consumer Discretionary has been showing some abnormal weakness lately and looks to underperform into late July, while Tuesday's Medical Device rout sent $IHI down more than -4% and argues for a coming breakdown back to new lows for this sub-sector.

For important disclosures, see Page 8

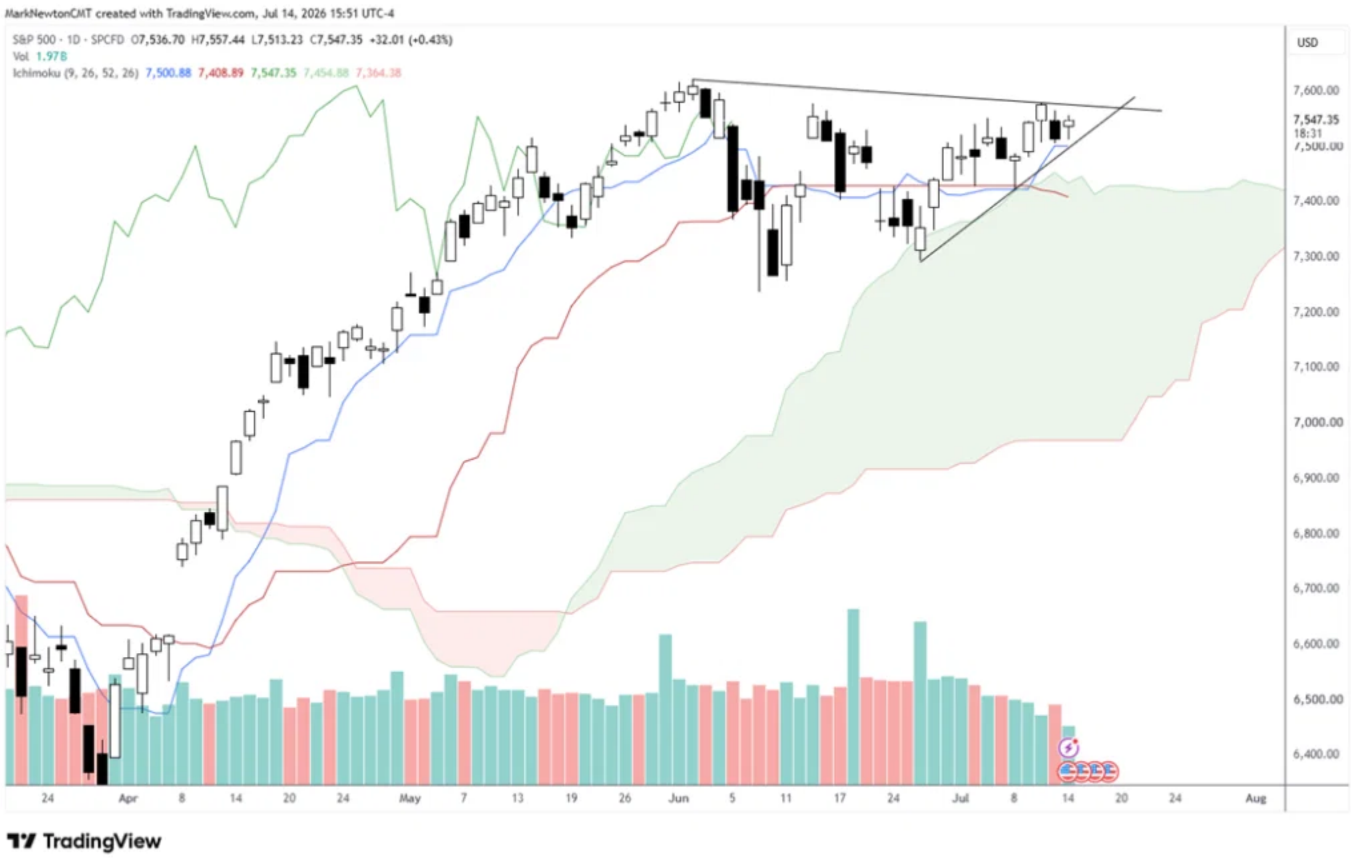


US equity trends remain bullish, and Tuesday's advance carried $SPX and $QQQ a bit closer to breaking out of the triangle consolidation that both have been confined to since June's peak. Markets navigated CPI along with the first round of big bank earnings without any damage to the bullish structure, and lighter-than-expected CPI along with stellar bank earnings resulted in stock indices growing ever closer to a much-anticipated breakout. Technology's rebound is a welcome development, with $NVDA pushing back to new weekly highs, and the Magnificent 7 beginning to work a lot better of late, which should be the necessary ingredient to help the cap-weighted indices exceed their June highs. Meanwhile, the defensive part of the market continues to weaken, with Consumer Staples down -1.4% Tuesday, and parts of the Consumer Discretionary space have joined this underperformance as well. This lag in the defensives is thought to be constructive, as it shows none of the risk-off rotation that typically precedes market peaks. Overall, it's right to lean bullish, and any near-term weakness should prove short-lived and buyable ahead of a push back to new all-time highs.

$SPX is pressing up against its two-month triangle pattern and a breakout looks to be close at hand

$SPX pushed up to multi-week highs Tuesday, closing in on the apex of the triangle pattern that has confined price since June's all-time highs, and Technology's bounce helps the case that the eventual resolution should be up and out of this range. Movement above 7,580, last Friday's intraday highs, would allow $SPX's recent technical breakout to accelerate. Meanwhile, a decline back under 7,500 is necessary to postpone any push to new highs, and minor weakness which fails to undercut these levels is thought to be buyable in the coming days.

S&P 500 Index ($SPX, daily) — Tuesday's push carries $SPX to within striking distance of a breakout of the triangle pattern from June's peak



Source: TradingView

Refiners remain the best way to play Energy as $CRAK presses up against its May peaks

Today's advance carried the VanEck Oil Refiners ETF ($CRAK) up to $52.68, which represents new all-time highs. Refining remains the standout within an Energy sector that's still trending lower on an absolute basis, as surging crack spreads continue to drive meaningful relative strength in this sub-group.

While Energy remains lower over the last month on an equal-weighted basis, it's been one of the strongest performers of the past week given the minor bounce in WTI crude. **Technically speaking, this bounce doesn't look likely to continue given bearish cycles and negative intermediate-term technical structure for WTI crude and Energy, along with relative weakness in Energy vs. S&P 500 in ratio form over the last couple of months.**

Thus, for those looking to play Energy, it's right to focus on the Refiners as this sub-group continues to show exceptional absolute and relative strength vs. the broader Energy sector. (It's been widely reported that Russia doesn't plan on exporting diesel with its refiners under attack.)

While momentum has gotten short-term overbought on daily charts and is showing negative divergence on weekly charts, this recent push into Refiners looks likely to continue for the Energy sector, and this looks to be the preferred vehicle for those with a need to invest in Energy despite the ongoing sector downtrend.

Large-cap liquid names like $VLO, $DINO, and $PSX look like preferred, technically attractive names within $CRAK, and one should also give stocks like $PARR, $DK, and $PBF some consideration.

VanEck Oil Refiners ETF ($CRAK, daily) — Monday's rally carries $CRAK back to all-time high territory; Refiners remain attractive within Energy

Source: TradingView

Discretionary's relative weakness looks to continue into late July before this group can start to work better

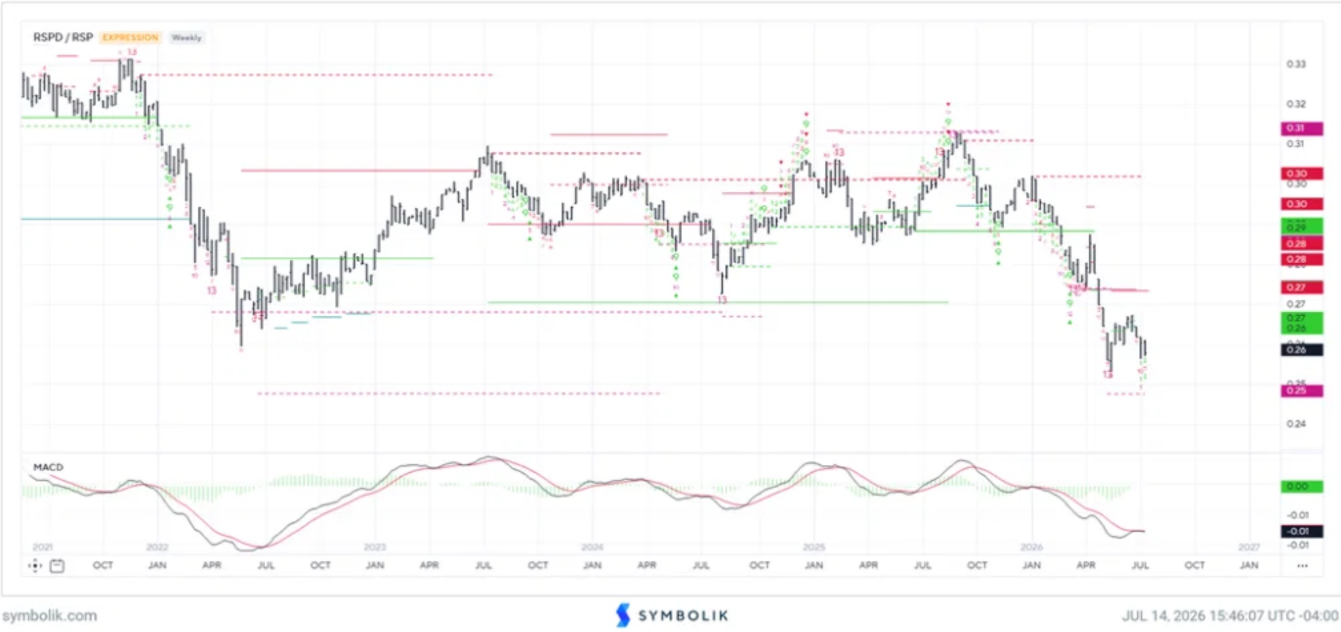
Consumer Discretionary has been showing some abnormal weakness lately along with Staples, and Tuesday's session saw retail names like $LULU, $NKE, $AZO, $RL, $HAS, and $EBAY all decline by more than -1.4%.

The weekly ratio of equal-weight Consumer Discretionary ($RSPD) vs. equal-weight S&P 500 ($RSP) has slipped to its lowest levels since 2020, and despite bounce attempts, it still could push lower on a relative basis into late July.

I remain Neutral on Consumer Discretionary technically and expect some possible near-term underperformance into late July before this group can start to work a bit better.

Stocks like $WSM, $EBAY, $YUM, $MAR, $RL, $TJX, and $TSLA are Consumer Discretionary names I find attractive despite the near-term underperformance of this sector.

$RSPD / $RSP (weekly) — Equal-weight Discretionary's relative ratio vs. equal-weight $SPX has undercut 2022 lows to the lowest since 2020



Source: Symbolik

Medical Devices look vulnerable to a breakdown back to new lows, and it pays to be selective within Healthcare

Tuesday's heavy selloff casts real doubt on the Medical Device sub-sector, with $HCA, $ISRG, $SYK, $UHS, $GEHC, and $MDT all falling more than -5% in trading, which sent the Invesco Equal-weight Healthcare ETF ($RSPH) down -1.7%, the worst showing of any of the eleven major sectors.

The fallout from the ACA subsidies expiring looks to be ongoing, and $HCA cut its full-year EPS forecast today.

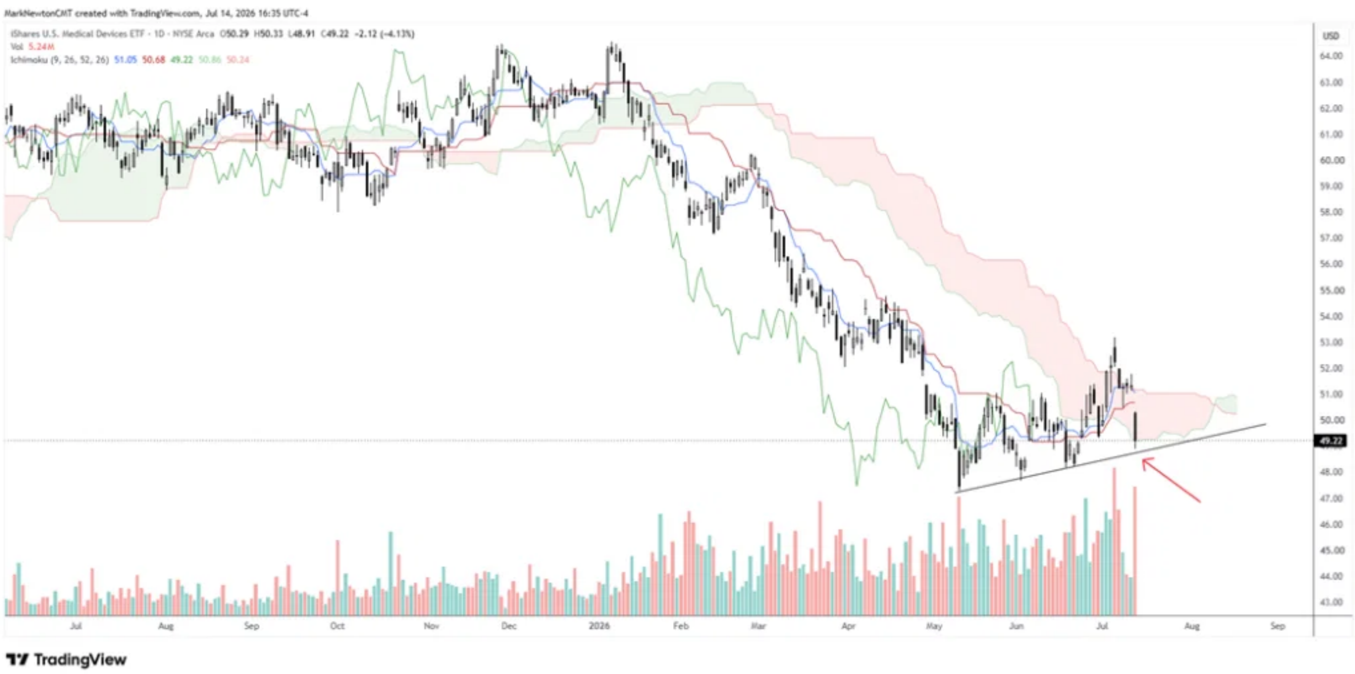
Technically speaking, while Healthcare was raised to an Overweight rating, stocks within Medical Devices remain very much a weak link in this sector.

The iShares U.S. Medical Devices ETF ($IHI) closed at $49.22, right down on the rising trendline from May's lows, and this group continues to trend lower on a relative basis, proving a real drag on an otherwise stellar Healthcare sector lately.

My expectation is for a coming breakdown back to new lows, and a move under $48.70 would result in a selloff down to $45 in all likelihood before Medical Devices can bottom. As shown below, this stabilization attempt in $IHI is quite suspect from a wave structure perspective, and today's decline happened on very heavy volume in the group. Thus, a coming pullback to new 2026 lows cannot be ruled out and would likely be underway on a weekly close under $48.70.

While Healthcare remains attractive as a sector, it pays to be selective here, favoring HMOs, Biotechnology, and Pharma while avoiding Medical Devices until this group can stabilize and start to trade better.

iShares U.S. Medical Devices ETF ($IHI, daily) — Tuesday's -4.13% decline brings $IHI right down to the rising trendline from May lows



Source: TradingView

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