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150 East 52nd St, 3rd Floor New York, NY 10022

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SEMICONDUCTOR WEAKNESS POSTPONES SPX, QQQ BREAKOUTS, BUT JULY'S ROTATION FROM GROWTH TO VALUE LOOKS NORMAL

Mark L. Newton, CMT AC

HEAD OF TECHNICAL STRATEGY

Key Takeaways

- $SPX and $QQQ pulled back Wednesday as Technology fell about -2%, but the triangle consolidations that have ruled both indices over the last month remain fully intact.
- Yet again it was Semiconductor and Memory weakness that hurt Technology, though rotation kept the majority of sectors positive Wednesday, with Communication Services and Financials leading.
- Breadth has retreated ever so slightly over the last two to three weeks, but only because of Technology waning, and the underlying trend in participation remains healthy.

US equity trends remain bullish, and Wednesday's weakness did nothing to change the triangle consolidations that have ruled $SPX and $QQQ over the last month. Deterioration in Semiconductor and Memory stocks continues to hurt Technology and remains the main reason broader markets have not yet broken out. Three factors govern how to view this market: the tape is still broadening out, it's just not Technology, so conditions feel awful to those overweight Tech even as the market stays incredibly healthy; sentiment hasn't gotten nearly as optimistic as what normally precedes market peaks; and defensive strength is hardly visible anywhere outside minor strength in Insurance and the power-center parts of Utilities, which in my view does not represent real defensive rotation. WTI crude is pressing up against serious resistance, and I don't expect this advance to continue; in the bigger scheme of things I expect this triangle gets broken to the upside, which could coincide with crude turning back down on good news regarding the war. For now, rotation remains the key theme, and Technology needs some stabilization before this market can start working in unison; it's right to stay bullish, with investments within Healthcare, Financials, and Industrials and a bit more

selectivity in Technology. (Key levels in this regard remain $SPX 7,580, over which the rally should accelerate, and $SPX 7,500, under which the breakout gets postponed.)

$QQQ's morning breakout attempt was rejected, but Wednesday's reversal did little technical damage

$QQQ made its first real push at the triangle's upper trendline Wednesday morning, tagging 724.36 in early trading before sellers emerged and drove price down to 710.23 by midday, with a recovery back over 717 late in the session.

Thus, the roller-coaster type trading that might be expected in triangle patterns remains very much intact. Furthermore, it's tough to trust a move in the short run in either direction until this triangle is broken.

The early-July highs near 727 remain the level to exceed for a legitimate breakout, while 700.94, the 7/8 intraday low, is what needs to hold to keep this consolidation constructive. Two or three days of "backing and filling" here would not constitute any change of trend, and only a break of the low-to-high range of the last week would make the move more credible.

Invesco QQQ Trust ($QQQ, daily) — Wednesday's morning breakout attempt was rejected at triangle resistance before a recovery into the close

Source: TradingView

Semis' pullback remains a consolidation within an uptrend, not a top

Semis bore the brunt of Wednesday's selling once again, with $SNDK, $WDC, and $MU's routs the main drag on Technology.

Interestingly enough, despite having been under pressure since 6/22 peaks, the pullback has completely occurred within the low-to-high range from 6/9 up to 6/22's top.

Given that the KOSPI index has shown some brief evidence of stabilization after having fallen 30% since mid-June, $SMH has actually held up in much better fashion and looks more technically appealing.

Overall, it's hard to make a compelling case for a low in the short run. However, I sense that most of this weakness should be over within a week and allow for the start of a push higher into mid-August.

VanEck Semiconductor ETF ($SMH, 2-hour) — A month of consolidation beneath mid-June peaks continues, but prices remain above June lows

Source: TradingView

Growth vs. Value is stalling, not breaking down, and this consolidation resembles 2020–2023

The weekly ratio of large-cap Growth vs. Value ($IWF/$IWD) has been falling out of favor for most of the last year, with pretty persistent underperformance in Growth since the October 2025 peak.

As shown below, the broader trend remains in very good shape but began to waver back in mid-2024 and has grown more negative since last fall. Momentum has consistently shown some weaker tendencies in July going back since 2020, making the recent underperformance something to chalk up simply as a recent seasonal phenomenon.

While this remains important to keep an eye on, I see the stallout in Growth vs. Value as proving temporary in nature only, and anticipate an eventual comeback for Growth which has already started to happen in Small- and Mid-caps. For now, the rotation into sectors like Financials and Industrials remains very much ongoing. Technology could still face choppiness and volatility until Q4 even if a rally from late July into mid-to-late August happens. Bottom line, dips in Growth into the midterm election should lead to Growth bottoming out and snapping back unless 2025 lows of this $IWF/$IWD ratio are violated. While the pattern below would seem to resemble a large head-and-shoulders pattern, it's normally ill-advised to make decisions on patterns of this sort until the so-called "neckline" is broken. In the case of the ratio below, one should hold off on growing too negative unless 2025 lows are undercut.

$IWF / $IWD (weekly) — Large-cap Growth vs. Value has been showing signs of stalling for the last two years, but the deterioration doesn't represent serious damage

Source: Symbolik

It's right to be long Software for those needing investments within Technology

Software has been making better and better progress against equal-weight Technology, and the weekly $IGV/$RSPT ratio has now broken out above the downtrend stretching back to last fall.

This push higher for three of the last four weeks is encouraging, despite some above-average weakness in stocks like $ORCL, $ACN, $CTSH, $IBM, $AKAM, and others.

The good news is that Software has started to show some bifurcation and many stocks like $PANW, $CRWD, $DDOG, and $FTNT remain in very good shape technically speaking.

That's encouraging, and the trend breakout in $IGV vs. $RSPT (Invesco equal-weighted Technology ETF) shows it's right to favor Software as an area within Technology that can finally start to outperform, even if this proves a tactical move driven by Semiconductors underperforming.

While the larger intermediate-term downtrend in $IGV to $RSPT remains in place and very well could reassert itself if/when Semiconductor stocks begin to stabilize and strengthen a bit in the months to come, for now, Software looks like an attractive place to position within Technology for those growing impatient with the weakness in Semis/Memory.

$IGV / $RSPT (weekly) — Software's relative breakout above the downtrend from last fall argues for favoring Software within Technology

Source: Symbolik

Breadth's short-term stall is purely a function of Technology waning, and the broader picture remains healthy

Breadth has pulled back ever so slightly over the last two to three weeks, but this is only because of Technology waning, not any broad-based deterioration. The percentage of Russell 3000 stocks above their 50-day and 200-day moving averages remains above 60% apiece, while only the short-term 20-day gauge has eased, mirroring the sideways range in the indices.

Measured from mid-May, or even late March, breadth has in fact pressed up, and the Russell 3000 advance/decline line recently pushed to its highest level since 2021.

Historically, breadth deteriorates for months before cap-weighted indices peak, and nothing of the sort is underway; I see this as healthy, despite some minor stalling.

Russell 3000 Breadth (% above 20-, 50-, and 200-day m.a.) — Only the short-term gauge has eased, while the 50- and 200-day readings remain elevated

Source: Optuma

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