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Daily Technical Strategy

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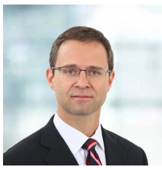
EQUAL-WEIGHTED S&P 500 REGISTERS ITS FIRST TREND BREAK SINCE MID-MAY AS RATES PUSH HIGHER



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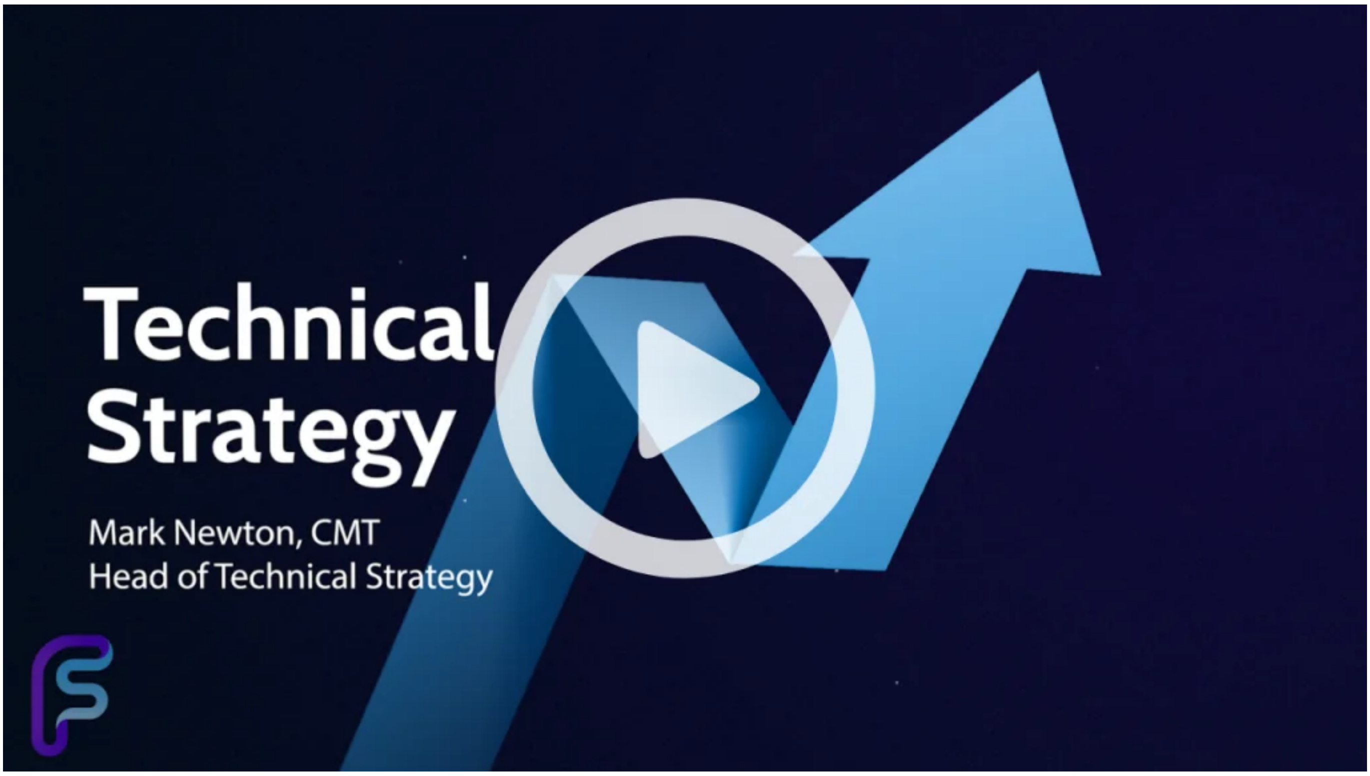
HEAD OF TECHNICAL STRATEGY

Key Takeaways

- The equal-weighted S&P 500 ETF's close under last Friday's 213.37 marked the first break of its uptrend from mid-May, and a test and minor break under early July lows looks possible.
- $QQQ remains bearish following Monday's two failed rally attempts until 705.78 can be recovered, and a mild undercut of last week's lows down to 675 cannot be ruled out before Technology stabilizes and turns back higher on earnings.
- ^TNX's breakout of its one-week pullback could start to lift yields on the long end toward 4.636% and then 4.69%, while WTI crude's push into the $83.50–$85.50 target zone looks to be the final stages of its bounce from early July.

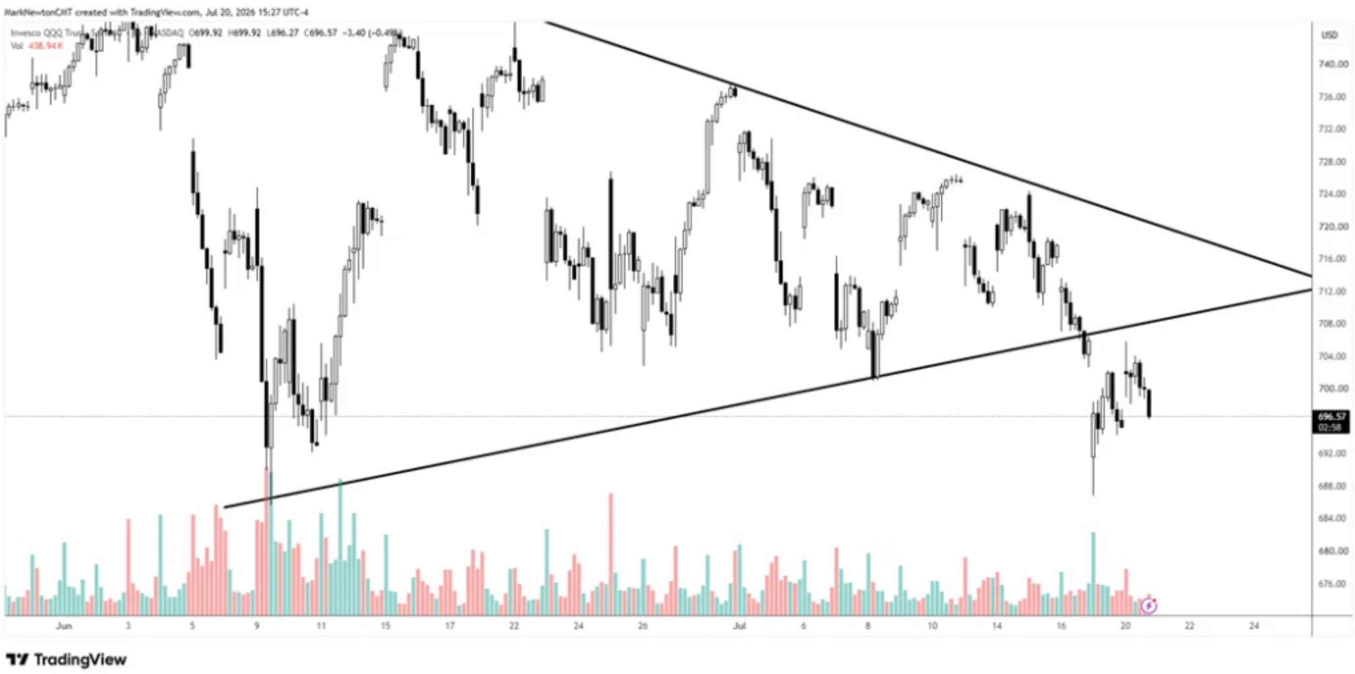


US equity trends have begun to turn more mixed following Monday's session, as the broader market showed its first real evidence of joining Technology's correction rather than simply absorbing it. $SPX finished Monday down -0.19% at 7,443.28 after two separate intraday rally attempts failed, and Monday's early morning surge in Treasury yields directly coincided with equities backing off. Moreover, WTI crude's rally is also something that appears to be a near-term headwind. Both rising crude and long-term interest rates will be important to monitor closely in the days to come. The positives concern upcoming earnings for Technology which have been consistently better than expected of late but now face a potentially high bar. Overall, I still see trends in US equities being more choppy than bearish in the short run and feel that good news on both Hormuz Strait negotiations and Tech earnings could serve as a bullish catalyst for gains in August. (More successful negotiations and/or a lengthier, more permanent ceasefire is seen as being near given crude oil's technicals.) For now, it's important to watch $SPX for evidence of any sort of break of 7,431.26, the intraday low from last Friday, and 694.22 for $QQQ.

$QQQ remains bearish until Monday's intraday high at 705.78 can be recovered

$QQQ fell -0.56% Monday to close at 696.06, and while markets attempted to bounce twice during the session, once from the open to fill the gap from last Thursday and again in a secondary afternoon attempt, both failed, and neither managed to recoup the lower end of the multi-month triangle $QQQ broke down under last week. I cannot rule out a test of last week's lows, and if this happens, I suspect we'll see a mild undercut down to 675 before $QQQ stabilizes and turns back higher on Technology earnings. A daily close above Monday's early peak of 705.78 would be decisively positive.

Invesco QQQ Trust ($QQQ, daily) — Two failed rally attempts Monday leave $QQQ beneath the lower end of its multi-month triangle



Source: TradingView

Equal-weighted S&P 500's first trend break since mid-May argues for a test of early July lows before any bottom

$RSP closed Monday at 212.42, and the close under last Friday's 213.37 represented the first break of the uptrend for the equal-weighted S&P 500 ETF since mid-May. While there hasn't been much weakness thus far from $RSP and I don't suspect there will be too much right away, my expectation is that unless recouped right away this week, this near-term deterioration very well could lead to an eventual test and minor break of early July lows.

The first real support lies at 211–211.33, which might be tested in the days ahead. Of particular near-term concern was the weakness out of Industrials and Healthcare, which both underperformed on Monday and will need to stabilize a bit and turn higher to help the broad-based recovery continue.

Overall, neither sector is expected to weaken dramatically at this time, but Industrials and Healthcare joined Materials and Consumer Discretionary in weakening to multi-day lows. Thus, Technology looks to be the one sector which many expect might "carry" the market on earnings strength, and we'll see those results later this week.

Invesco S&P 500 Equal Weight ETF ($RSP, daily) — Monday's close under 213.37 marks the first break of the uptrend from mid-May

Source: TradingView

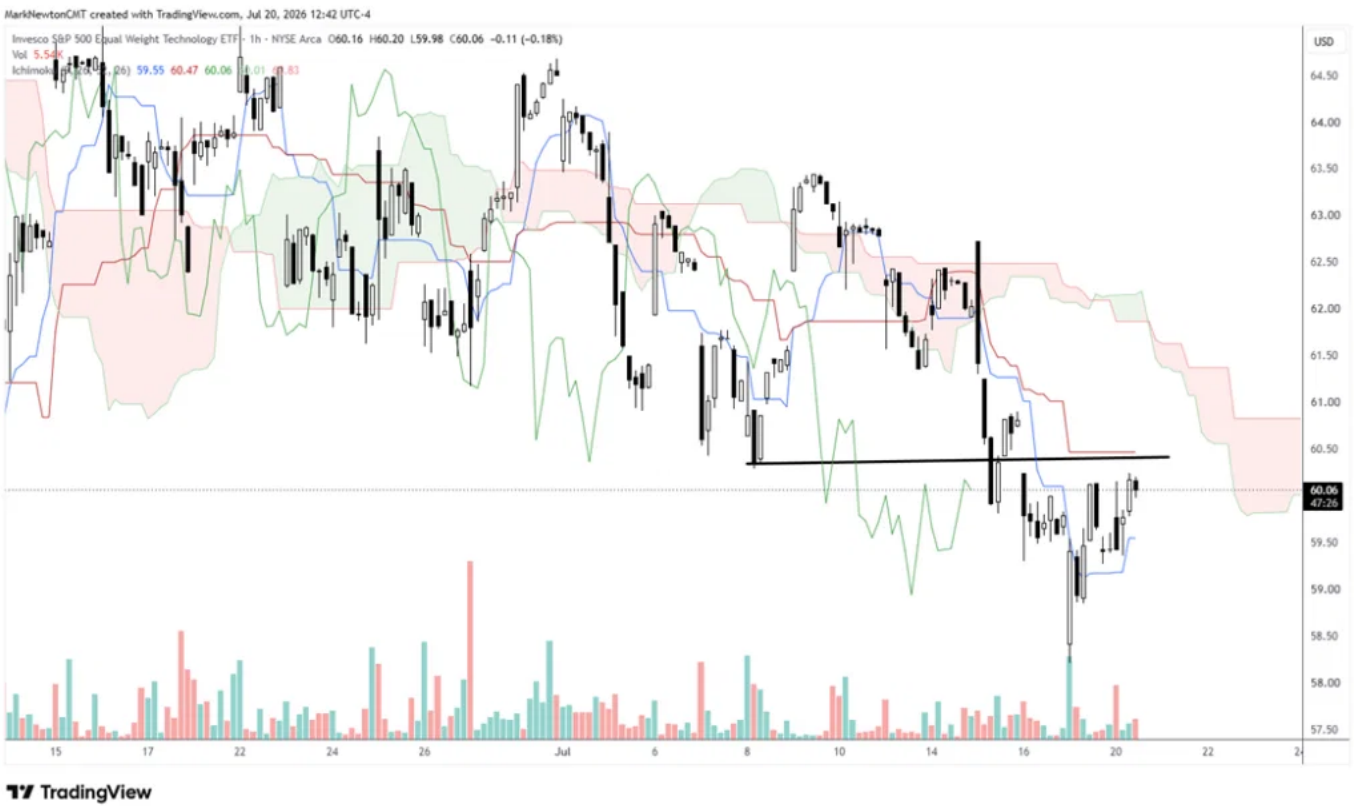
Equal-weight Technology faded near prior intraday lows, and Tech earnings beats will be important for stabilization

Monday's early-morning Tech-led bounce showed signs of fading right near three prior intraday lows from 7/10, 7/13, and 7/16 on hourly charts of the S&P 500, and the equal-weight Technology ETF ($RSPT) also failed to turn back up above the prior lows from early July.

Given the current downtrend in Technology since early June on a short-term basis, it's going to be important for Tech earnings to surprise and beat expectations to help this sector start to stabilize in bigger fashion and begin to turn back higher.

While I'm confident that "Tech" seems to be in the final stages of its initial weakness from early June, it's still hard to say with any kind of conviction that lows are in place, and a push back above the prior support lows from early July along with a breakout of the downtrend in place for Tech from June will be minimum expectations before being able to have more confidence in this sector. As discussed last week, it's not necessary to "catch the low," which is quite difficult when momentum and trends are weakening.

Invesco S&P 500 Equal Weight Technology ETF ($RSPT, hourly) — Monday's bounce faded near the prior intraday lows from 7/10, 7/13, and 7/16



Source: TradingView

^TNX's breakout of its one-week pullback could lift yields toward 4.636% and then 4.69%

As shown below, Monday's move looks to be an important breakout of the minor six-week consolidation in US 10-Year Treasury yields into late June, and Monday's surge could start to lift yields back up to test 4.636% and then 4.69%.

Any weekly close over 4.69% would result in a very sharp, quick push higher for ^TNX, which could get near 5%.

The uptick in yields seemed to be particularly important as a negative catalyst for equities today, so it's worth keeping a close eye on 4.636% initially for ^TNX (US Treasury Note yield index).

As discussed last week in Flash Insights, real yields have been pressing up fairly aggressively, and the breakout in 30-year real yields is thought to be a particularly negative near-term catalyst for the precious metals complex.

Parts of Consumer Discretionary such as Homebuilders have also experienced short-term weakness given this turn higher in yields, and for now, the short-term bearish trend for Homebuilders remains a headwind for "Discretionary."

US 10-Year Treasury Yield (^TNX, hourly) — Breakout of the one-week downtrend from mid-July highs puts 4.636% initially in focus

Source: TradingView

WTI crude has reached its target zone, and a break of $79.50 would signal a meaningful breakdown

WTI crude is in the final stages of its bounce from early July and has officially retraced a Fibonacci-based 38.2% of the decline from late April. As discussed late last week, a number of different targets lie between $83.50 and $85.50, and front-month WTI crude futures pushed into this zone Monday before backing off fractionally.

My thinking is that some good news is possible in the near future regarding the Strait of Hormuz following nearly a week of unsettling news, and anything that results in WTI backing down to break $79.50 in front-month futures would be thought of as a meaningful technical breakdown which should lead to the start of some pronounced weakness.

Given the correlation between crude and $SPX discussed last week, a peak in crude this week would remove one short-term headwind for US equities.

WTI Crude Oil front-month futures (hourly) — Push into the $83.50–$85.50 target zone looks to be the final stages of the bounce from early July

Source: TradingView

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