Daily Technical Strategy

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TECHNOLOGY NEARS THE END OF ITS CYCLICAL DECLINE HEADING INTO EARNINGS

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HEAD OF TECHNICAL STRATEGY

Key Takeaways

- Technology's cycle composite shows this consolidation nearing a low which should occur by the middle of August, and Tuesday's Tech-led rally ahead of earnings suggests the sector's difficult seven weeks might be nearing conclusion.
- $SPX stalled at 7,513 resistance and closed at 7,509.20, and I feel a bullish directional lean makes sense despite $SPX not having officially closed above 7,513.33 and $QQQ above 710, which could happen this week and lead $SPX and $QQQ back to highs.
- Both stocks and Treasury yields have been able to push higher in unison, and this likely can continue until/unless ^TNX exceeds 4.70%, which would likely result in a much faster ascent for yields and might eventually prove problematic for equities.

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US equity trends have begun to improve following Tuesday's Tech-led rally, and while it might seem ironic for equities to be showing this kind of strength with Treasury yields pushing higher, Dollar/Yen breaking out to the highest levels in 40 years, and crude oil up another 2.5% (factors which recently have coincided with markets weakening), Tuesday's session showed the market being carried by Technology, with Tech higher by +2.10% (cap-weighted Technology up even more at +2.89%) and Advance/Decline positive despite five sectors finishing down. The exodus out of Consumer Staples (-0.78%) is actually seen as encouraging for sector rotation. We have exactly the opposite happening now of what occurred since May, as Tech rebounds while the broader market stalls a bit, and Tech's 30%+ weighting within indices makes it possible to carry the broader market higher and break out of the triangles which have confined $SPX and $QQQ since June. Lots of earnings are on deck, with both $GOOGL and $TSLA reporting after Wednesday's close, while $META, $AMZN, $MSFT, and $AAPL all report next week. Overall, the message is more positive despite no official breakout yet. Movement above 7,513 on $SPX and 710 on $QQQ should carry these indices back to new highs, technically speaking.

$SPX stalled at 7,504–7,513 resistance, and exceeding 7,513.33 would tilt the odds toward a push back to new highs

$SPX rallied +0.89% Tuesday to close at 7,509.20, treading water for the final three hours of the session near the first key area of resistance discussed in recent days, which marked lows from 7/10 and 7/13 and a high from 7/20. It was thought that 7,504–7,513 could be important, and this zone has held for now, while $QQQ closed at 708.97, just below the key 710 level which lines up with $SPX's resistance ($QQQ did recoup Monday's 705.78 intraday peak, a step in the right direction).

There is no strong directional bias until $SPX and $QQQ can get above these levels, but my expectation is that Tech earnings should help to create a breakout, and I feel it's right to be bullish, and more so on a push above these levels.

At this time, it's right to say that both $SPX and $QQQ remain within their triangle patterns, and some sector bifurcation is ongoing despite Technology's improvement.

S&P 500 Index ($SPX, hourly) — Tuesday's rally stalled at 7,513, marking the lows from 7/10 and 7/13 and the high from 7/20

Source: TradingView

Semiconductors never broke their uptrend vs. equal-weight Technology, but alleviating huge overbought conditions should create a better risk/reward

It was a technical positive for $SMH to have reclaimed the prior lows broken from its head-and-shoulders pattern (not shown), but the most important step now is to climb back above the downtrend, which hasn't yet happened and would require a move above 591. What seems more important is what the relative charts of Semiconductors vs. the Information Technology space show. The ratio chart of $SMH vs. $RSPT, the equal-weighted Technology ETF, illustrates that Semis never broke the uptrend from last spring on a relative basis despite a huge selloff from early June. While momentum needs some work to improve, I think the risk/reward is much better than it was a couple of months ago, and RSI levels have come down substantially both for $SMH and the Technology sector overall as we head into Tech earnings. Owning in small size makes sense, looking to increase size on continued strengthening of momentum along with price pattern improvement.

$SMH / $RSPT (VanEck Semiconductor ETF vs. Invesco S&P 500 Equal Weight Technology ETF, weekly) — The uptrend from last spring was never broken despite June's selloff

Source: Symbolik

Technology's cycle composite is nearing a low which should occur by the middle of August

A very good sign concerns this cycle composite chart for Technology nearing a low, which should occur by the middle of August. Note, this composite has pinpointed quite a few highs and lows for Technology over the last couple of years, and while success in the past is never indicative of future results, this cycle pattern looks to bottom out for Technology within the next couple of weeks.

Bottom line, I suspect this recent Technology consolidation should now be running its course and nearing conclusion, and the recent strength out of "Magnificent-7" stocks is certainly a positive heading into earnings.

Tuesday's move has helped Technology's momentum start to slowly lift, and this is seen as a good thing after a difficult seven weeks of consolidation.

It might be slightly premature to lift Technology back to an official bullish rating, technically speaking, until proper triangle breakouts of $QQQ happen and $SMH regains its downtrend. However, the key takeaway seems to be that even if this choppiness in Tech continues a while longer, it seems to be nearing conclusion based on the daily cycle composite for the Technology sector.

S&P 500 Technology Index — Cycle composite points to a low by the middle of August, suggesting that the risk/reward for Tech is improving

Source: Foundation for the Study of Cycles

^TNX closed at the highest level since May, but only a move exceeding 4.70% would prove problematic

^TNX did in fact push further to the upside Tuesday, and yields now sit at the highest levels since May on a daily close, while the 5-Year yield (the "belly of the curve") managed to reach the highest levels since early 2025.

As shown below, this push has brought ^TNX up near the downtrend line from January 2025 highs, an area worth watching carefully as this extends back to an even higher peak from 2022 (not shown).

We'll see if equities respond negatively to a breakout of 4.70%, but I expect a slow grind higher wouldn't be problematic; rather, only if 4.70% is exceeded for ^TNX and yields begin to push up more quickly would this become a larger concern.

US 10-Year Treasury Yield (^TNX, daily) — Highest daily close since May brings yields up near the downtrend from January 2022 and, as shown below, 2025 highs

Source: TradingView

$SPX's correlation with Treasury yields is starting to improve from the very negative regime in place since 2022

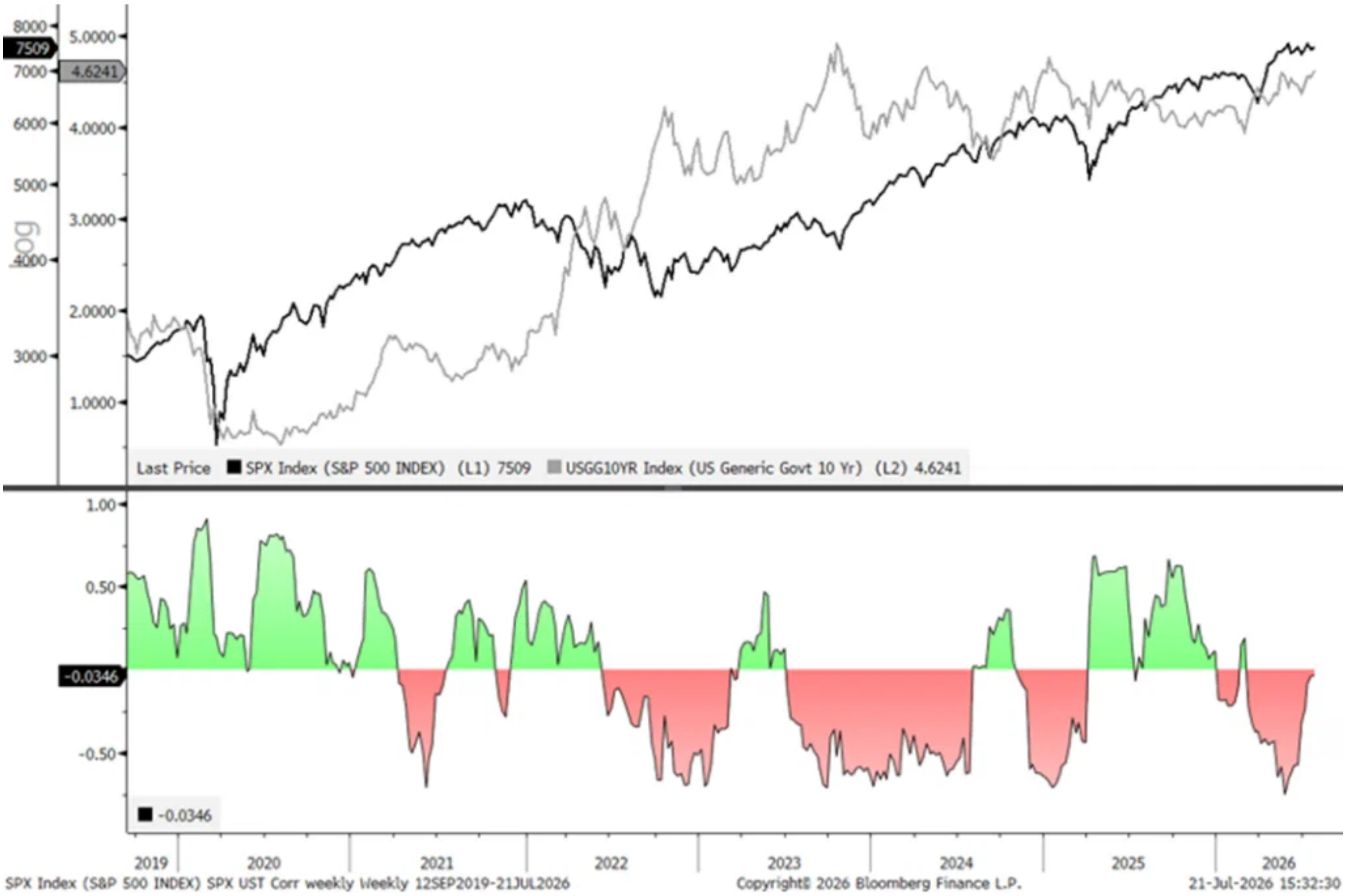
The correlation between $SPX and Treasury yields is starting to improve from a very negative state which largely has marked the last couple of years since 2022, but hasn't always been the case.

Over the last month, $SPX has been able to push higher despite yields also moving up, but my thinking is this might not continue to trend back up to sharply positive territory if the move up in yields is due to a delay in the Strait of Hormuz reopening and/or evidence of inflation or much faster growth.

For now, the key takeaway is that both stocks and Treasury yields have been able to push higher in unison, which likely could continue a bit longer until/unless ^TNX exceeds the key threshold discussed above at 4.70%, which would likely result in a much faster ascent for yields and could prove problematic. This will be something to watch in the months ahead.

For the next couple of weeks, it's thought that Technology earnings are a more important short-term catalyst for the stock market than Treasury yields.

$SPX vs. US 10-Year Treasury Yield — Weekly correlation is improving from the negative regime that has marked the period since 2022



Source: Bloomberg

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