Daily Technical Strategy

July 23, 2026

CROSS-ASSET VOLATILITY STILL HASN'T RESULTED IN MEANINGFUL TREND BREAKS FOR US INDICES

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Key Takeaways

- Thursday's break of last Friday's lows at 7,431 was a minor short-term negative that puts $SPX within striking distance of the lower edge of its triangle pattern from early June; however, two-month triangle patterns for both $SPX and $QQQ remain intact, and support has not been violated.
- ^TNX has broken out of its three-year consolidation, with the 30-year yield also threatening its own breakout. My view is that this should lead rates higher in the weeks and months ahead.
- $GOOGL's weakness is a technical short-term negative only, and the $301–$305 area, which lines up with Ichimoku cloud support on weekly charts, should present an opportunity for dip-buyers.

US equity indices continue to weather a meaningful pickup in cross-asset volatility, and despite Thursday's -1.21% $SPX decline to 7,408.30, this still hasn't resulted in meaningful trend breaks for either $SPX or $QQQ. The concerns at present revolve around WTI crude's ongoing rally, a short-term breakout in the US Dollar Index, and most importantly Treasury yields, with ^TNX having broken out of a three-year consolidation this week in what constitutes the first sign of the US bond market starting to follow suit to the weakness seen in many European and Asian bond markets. Importantly, the patterns for $SPX and $QQQ are more neutral than bearish over the last couple of months, and weakness is merely short-term, not intermediate-term in nature. My expectation is for a bottoming out of this consolidation next week, coinciding with earnings from Tech heavyweights $META, $MSFT, $AMZN, and $AAPL.

Thursday's weakness in Technology was understandable given the poor reaction to earnings: $GOOGL's stellar results and big bump in capex might seem to validate the already high expectations of chipmakers, but they certainly also raise a concern about an increase in costs at a time when interest rates and crude are rising sharply, while $TSLA's sub-par numbers didn't help matters. Yet sectors like Industrials and Healthcare were broadly positive with gains of nearly 1%, and that degree of ongoing sector bifurcation continues to argue that rotation, not deterioration, remains the dominant theme. Bottom line, despite quite a bit of cross-asset volatility, this weakness remains short-term only and still doesn't look overly serious. Both $GOOGL and $TSLA look to have support just below current levels, and I don't see their weakness as proving long-lived or causing intermediate-term trend deterioration.

$SPX's break of last Friday's lows is a minor short-term negative, but patterns remain more neutral than bearish

Thursday's break of last Friday's lows at 7,431 was a minor short-term negative, but it also puts $SPX within striking distance of the lower edge of this entire triangle pattern from early June. While Technology proved weak, led down by $GOOGL and $TSLA earnings, sectors like Industrials and Healthcare were broadly positive with gains of nearly 1%. Market breadth finished lower by about a 3:1 margin, and the concerns at present revolve around WTI crude oil and Treasury yields' continued rise, along with a short-term breakout in the US Dollar Index.

There continues to be meaningful sector bifurcation, as the weakness in consumer stocks is not really being seen in Healthcare, Financials, or Industrials, all of which hit new all-time highs just three weeks ago. Overall, despite the near-term weakness, the patterns for $SPX and $QQQ are more neutral than bearish over the last couple of months, and support has not been violated. My expectation is for a bottoming out of this consolidation next week, coinciding with additional earnings from some of the remaining Tech heavyweights.

S&P 500 Index ($SPX, daily) — Break of last Friday's lows puts price within striking distance of the triangle's lower edge

Source: TradingView

^TNX has broken out of its three-year consolidation, and above 4.70% could lead up to 5%

^TNX has broken out of its three-year consolidation, and if this breakout holds through Friday (for purposes of confirming a weekly breakout, not just one day), I suspect this could lead to rates pushing up more quickly on the long end, with a move above 4.70% potentially leading up to 5% for ^TNX.

This will have to be monitored closely; however, this might not be a negative for stocks, as both yields and equities have moved up in unison over the last month. All in all, it is important to see WTI crude oil start to pull back in the near future, as it's desirable to see rates rising on the long end because of economic growth, not inflation.

US Government Bonds 10-Yr Yield (^TNX, weekly) — Breakout of the three-year consolidation warns of a possible acceleration toward 5%

Source: TradingView

$GOOGL's post-earnings gap down is a short-term negative only, and $301–$305 is where this grows quite attractive

$GOOGL's stellar results failed to stem a decline in the shares, and its gap down, which violated the June lows of $330, likely can lead to weakness down to $301–$305, which should be an attractive area of intermediate-term support.

As shown below, weekly charts maintain a fairly bullish technical picture. This recent decline has merely served to alleviate overbought conditions, not cause meaningful technical deterioration.

The selloff has merely retreated in a corrective three-wave Elliott-wave style pullback, not a five-wave decline which could portend additional intermediate-term weakness. Furthermore, this latest drop represents the possible final leg of this decline.

Weekly charts show the area near $301 to represent Ichimoku cloud support, along with intermediate-term trendline support, which is important. However, it also provides an alternative wave projection from the first pullback from early May.

Bottom line, I don't view this as anything more than a short-term selloff. Within three to five days, one should consider $GOOGL to be quite attractive technically, and I would allow for a range of $301–$305 which, if $GOOGL gets near early next week, would be an ideal area for dip buyers to consider.

Alphabet Inc ($GOOGL, weekly) — Gap down through June's $330 lows targets Ichimoku cloud support near $301

Source: TradingView

$MAGS' post-earnings weakness is understandable, but the broader trend remains positive since last spring's bottom

$MAGS was understandably weak Thursday given the poor reaction to what was a solid earnings beat and huge bump in capex estimates from $GOOGL, along with sub-par numbers out of $TSLA. While this week has proven negative for Technology following a bounce earlier in the week, the broader trend for $MAGS remains positive since bottoming last spring.

Key to watch will be how this pullback acts as it nears June lows, which represent an important area of support along with the intermediate-term uptrend. My view is that it's right to buy into dips in $MAGS into early next week, as earnings from $AMZN, $AAPL, $MSFT, and $META are on deck and the overall earnings picture has been impressive thus far, with 93% of all companies beating earnings. Until that support area gives way, this weakness doesn't change the group's larger structure.

Roundhill Magnificent Seven ETF ($MAGS, daily) — Pullback nears June lows, an important area of support along with the intermediate-term uptrend

Source: TradingView

Overall, cross-asset volatility has picked up meaningfully this week between crude's rally, the US dollar's short-term breakout, and Treasury yields' escalation, but US equity indices still haven't suffered meaningful trend breaks, and the ongoing sector bifurcation argues this remains rotation rather than deterioration. Until the lower bounds of $SPX's triangle give way, it's right to view this weakness as short-term only, and my expectation remains for this consolidation to bottom out next week as the remaining Tech heavyweights report and crude's uptrend likely starts to turn back lower. Stay tuned.

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