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Daily Technical Strategy

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DESPITE TODAY’S BREAKDOWN, A QQQ TRADING LOW LOOKS CLOSE AT HAND AHEAD OF NEXT WEEK'S HYPERSCALER EARNINGS

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Key Takeaways

- $QQQ broke both June and July lows Friday, but with price just above TD Prop levels at 680 and DeMark-based exhaustion likely to be generated on Monday, a trading low very well might materialize Monday/Tuesday just when many are convinced $QQQ is breaking down.
- $XLI officially surpassed its downtrend from early July, joining similar moves in Healthcare, Utilities, and Financials, and this broad-based push in non-Tech sectors argues that recent volatility proves short-lived and shouldn't lead down into August.
- WTI crude's hourly five-wave decline marks the first step in a short-term peaking process, and I'm expecting a coming decline to the $70s in front-month futures.

For important disclosures, see Page 8

Note: I will be out of the office on Monday, July 27, and Tuesday, July 28. There will be no notes or videos published on those days. Regular coverage will resume on Wednesday, July 29.

US equity markets showed a welcome broadening out Friday, and outside of Technology, risk assets behaved well today given the decline in WTI crude along with some relief in interest rates, both of which had raised some uncertainty and consternation in the market in their gains over the past few weeks. Seeing many different equity sectors showing strong gains (5 equal-weighted ETFs rose more than 1% today) is a definite relief after a tough two weeks for the market averages, but it remains a testament to this broadening that markets have held up despite the 30%+ rise in crude in July, a push back to new yearly highs for long-term Treasury yields, and a 20–30% decline in Semi/Memory stocks from early June. It goes without saying that the US stock market has certainly felt a lot worse than what $RSP (the equal-weighted $SPX ETF by Invesco) would seem to indicate, and that is a reason to have some optimism and expect higher prices into August.

Friday's rebound in Discretionary and Communication Services broadens participation — rotation, not deterioration, remains the theme

A much-needed rebound materialized Friday in sectors like Consumer Discretionary and Communication Services, both of which had been hard hit lately, and while Technology lagged, five sectors finished higher by more than 1% in Friday's trading. This caused market breadth to register 2:1 bullish at one point (finished the session at 3:2 positive), and equal-weighted $SPX pushed back above resistance to the highest closing levels of the week.

The past month's dispersion remains striking, with Energy, Healthcare, and Financials having led while equal-weight Technology dropped nearly -7%, and this breadth of participation outside Technology is precisely what one wants to see while the "Mag-7" consolidates. Until this bifurcation gives way to broad-based selling, it's difficult to view this month's churning as the start of anything more serious.

Equal-Weight Sector ETF Performance — Energy, Healthcare, and Financials lead over the past month while Technology consolidates

Code	Name	Change (%)	1W%	1Mo %	3Mo %	YTD%	Weekly RSI(14)	12Mo %
RSPG	Invesco S&P 500 Equal Weight Energy ETF	1.41%	4.23%	8.77%	4.30%	34.55%	59.6	43.14%
RSPH	Invesco S&P 500 Equal Weight Health Care ETF	-1.07%	-0.89%	6.28%	7.21%	4.62%	58.4	16.75%
RSPF	Invesco S&P 500 Equal Weight Financials ETF	-0.46%	-0.74%	5.75%	6.37%	4.06%	64.1	5.64%
RSPS	Invesco S&P 500 Equal Weight Consumer Staples ETF	0.33%	1.55%	4.71%	4.60%	5.81%	53.4	-0.11%
RSPU	Invesco S&P 500 Equal Weight Utilities ETF	2.28%	1.51%	2.84%	2.97%	9.45%	55.8	10.13%
RSPR	Invesco S&P 500 Equal Weight Real Estate ETF	-0.51%	0.38%	2.05%	4.84%	9.57%	55.6	1.96%
RSP	Invesco S&P 500 Equal Weight ETF	-0.03%	-0.13%	1.47%	5.05%	11.03%	64.5	14.42%
RSPC	Invesco S&P 500 Equal Weight Communication Services ETF	-0.43%	-2.17%	1.08%	-9.12%	-10.78%	37.3	-6.75%
RSPN	Invesco S&P 500 Equal Weight Industrials ETF	0.40%	0.08%	0.03%	3.44%	10.58%	59.3	13.41%
RSPD	Invesco S&P 500 Equal Weight Consumer Discretionary ETF	-0.41%	-1.07%	-0.44%	-3.84%	-3.74%	47.1	-2.44%
RSPM	Invesco S&P 500 Equal Weight Materials ETF	1.50%	1.07%	-0.76%	-2.27%	13.98%	53.7	12.75%
RSPT	Invesco S&P 500 Equal Weight Technology ETF	-0.72%	-0.90%	-6.68%	14.39%	32.39%	61.9	45.32%

Source: Optuma

$QQQ's break of June/July lows comes with DeMark exhaustion nearing, and a trading low looks close at hand

$QQQ finished lower by -1.11% Friday and did in fact break both the July and June lows, but price lies just above TD Prop levels at 680, and DeMark-based exhaustion likely will be generated on Monday. (TD Buy Setup count finished at an 8 count out of a possible 9, and this could get generated on Monday if $QQQ remains beneath 708.92, which seems likely.)

Furthermore, the Elliott-wave count also looks to be near fruition following its rhythmic fall from early June. Finally, daily $QQQ charts show $QQQ down to near the bottom of its Ichimoku cloud while the "lookback line" is also nearing the top of the cloud.

In plain English, while many might view today's break of support as bearish, there are a few reasons why $QQQ very well could bottom early next week ahead of a Tech-led earnings recovery.

The key to early next week will be the ability of $QQQ to hold 680 (closed Friday at 684.23).

Overall, a possible low for trading purposes very well might materialize next Monday/Tuesday, just when many are convinced $QQQ is breaking down. While it's a bit early to swing for the fences, I find some comfort that markets tried to stabilize ahead of a very big week of Tech earnings from the hyperscalers, with $META, $MSFT, $AMZN, and $AAPL all on deck, and I expect that Technology could bottom and start to turn higher.

The Symbolik chart with the DeMark counts is shown below, which looks to be nearing trading support. To have faith in a rebound, price needs to climb back above 686.76 at a minimum, and ideally close back above 703.42. This would be the first step in the process of bottoming out early next week while 680 remains important short-term support.

Invesco QQQ Trust ($QQQ, daily) — Break of June/July lows leaves price just above TD Prop levels at 680 as DeMark exhaustion nears

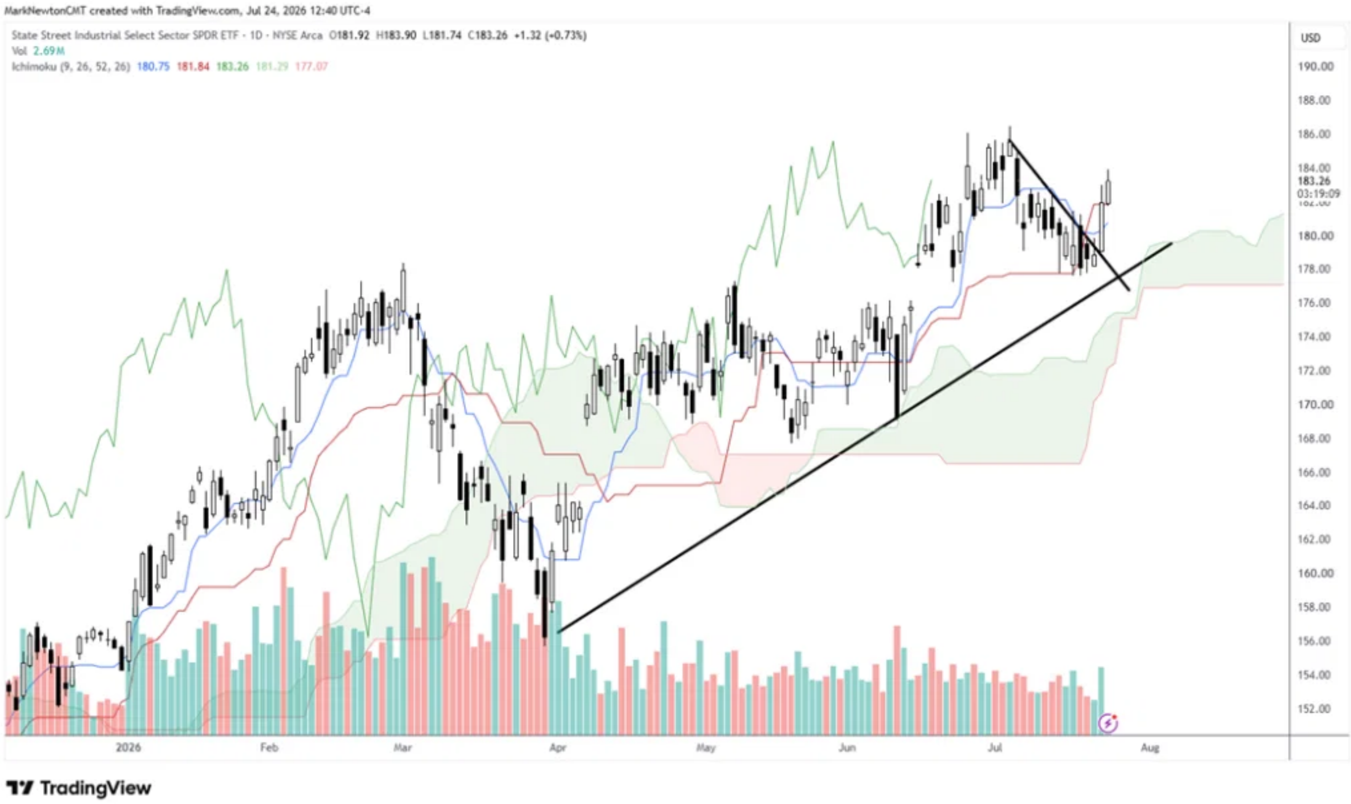
Source: Symbolik

Industrials' official break of its early July downtrend should lead back to test and exceed former highs

$XLI officially broke the downtrend from early July, not dissimilar from what also occurred in Healthcare, Utilities, and Financials this week, with $XLU having pushed to its highest level since May. This broad-based push in non-Tech sectors is truly helping markets hold up much better than what otherwise might be expected, and it remains largely overlooked by many investors who are "uber-focused" on Technology trying to bottom. This is one of the more powerful pieces of the puzzle to suggest that recent market volatility likely will prove short-lived and should not lead down into August like many might suspect given Tech's woes lately. My expectation is that Industrials likely rallies back to test and exceed former highs.

Some of this move is being driven by the Aerospace and Defense stocks, as $LMT, $RTX, $HII, and $LHX are all higher by more than 6% over the last five trading sessions. Meanwhile, the DJ Transportation Average moved up in mid-July to the highest levels since April, which has been encouraging for this part of Industrials. Overall, Industrials remains an Overweight and is an area to favor in the short term until Tech can properly regain its footing.

Industrial Select Sector SPDR ETF ($XLI, daily) — Official break of the downtrend from early July highs



Source: TradingView

Crude's five-wave hourly decline is the first step in a short-term peaking process that could lead initially to the $70s

Following a 35% rise in WTI crude oil over the last 15 days, it seems traders have recognized it might not be smart to go into the weekend long when steps likely could be taken to help open the Strait further and tamp down on Houthis' attacks on Saudi Arabian tankers, which resulted in the worst week of traffic for the Hormuz Strait since the MOU was signed in mid-June.

The hourly five-wave decline for crude oil since Thursday likely will be cheered by the bears, as this represents the first step toward causing technicals to begin to roll over as crude starts to pull back.

My view is that a peaking process likely has occurred in the short run, but it's difficult to make a technical call for a revisiting of July lows anytime soon given that momentum has improved with this recent bounce. Overall, I'm expecting a coming decline to the $70s from the high $80s in front-month WTI crude oil futures, and Energy as a sector (outside of the Refiners) appears to be a poor risk/reward in the short run.

Light Crude Oil Futures (WTI, hourly) — Five-wave decline from Thursday's peak marks the first step in a short-term peaking process

Source: TradingView

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