

HERE'S WHAT THE BEARS ARE MISSING



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Key Takeaways

- Equal-weighted Technology (\$RSPT) closed above its June highs on Thursday to break out of a four-month triangle to new all-time highs, and Technology has the power to lead \$SPX and \$QQQ higher in Q4 even with most other sectors lagging.
- \$QQQ should follow equal-weighted Technology's breakout on Friday or early next week, and a daily close above 745 allows for a quick move to 771, with only a close under 731.63 postponing a rally.
- Russell 3000 breadth is nearing three-year trendline support that should hold and set up a bounce in the lagging sectors, while CCC spreads at three-year highs remain a credit concern that equities have largely shrugged off.



US equities rebounded on the first day of the fourth quarter following comments from Fed Vice Chair Philip Jefferson that it may take more time before policymakers can judge whether further rate increases are needed to slow inflation, and the leadership looked very familiar: Technology outperformed, most defensive sectors continued to lag, and the broader market remained far weaker than the cap-weighted indices suggest. Market breadth is literally the worst we've seen since spring, and credit issues from the Fed's hawkish pivot are now showing up in widening CDS and junk spreads, so the stealth correction in the broader market is certainly real. Market weakness continues to be camouflaged by strength in Technology, which in my view has both the weight and now the momentum to carry \$SPX and \$QQQ higher. My view is that the next 5–6 weeks very well could remain choppy as the index-level triangles resolve and the laggards search for a low, but Technology is outperforming, and this should continue technically for Q4, which is actually more important as a positive for the fourth quarter than the sector weakness is as a negative. Bottom line, it's right to stay bullish on \$SPX and \$QQQ, to use any October weakness as a buying opportunity, and to

continue favoring Technology and Healthcare over the laggards until Treasury yields show evidence of peaking.

Equal-weighted Technology has broken out of a four-month triangle — this is what the bears are missing

"This is what the bears are missing." Equal-weighted Technology (\$RSPT) had been on the verge of a massive four-month breakout, and it happened today, as markets rebounded following some dovish comments from Fed Vice Chair Jefferson. **The Invesco S&P 500 Equal Weight Technology ETF rose 2.37% to close at 67.42, exceeding its June highs of 67.41 by a penny on the close, which technically represents a breakout to new all-time highs**, after having held the rising trendline from the early-August lows just days earlier.

Thus, while Tech has kicked into gear again in the last month, my view is that it should grow even stronger in Q4 given this technical breakout this week.

Recent strength in stocks like \$MSFT, \$META, \$AAPL, and \$NVDA looks like a bigger technical positive than the rising-yield message is a negative for risk assets. While the Tech outperformance has camouflaged the stealth correction in the broader market, the weighting of Technology within \$SPX and \$QQQ looks like a positive which can hold indices afloat despite the lagging sectors outside of Tech.

Invesco S&P 500 Equal Weight Technology ETF (\$RSPT, daily) — Close above the June high of 67.41 completes a four-month triangle breakout to new all-time highs



Source: TradingView

\$QQQ should follow \$RSPT's breakout to new highs on Friday or early next week — getting above 745 allows for a quick move to 771

\$QQQ has traded in a smaller, more positive seven-day trading range following its breakout on 9/21, and while this hasn't yet followed \$RSPT's breakout back to new highs, I suspect this could be imminent on Friday and/or early next week. The hourly chart below shows \$QQQ coiled within a symmetrical triangle from the 9/22 peak, with the apex just days away.

Getting above 745 (and holding above on a daily close) should be quite positive, which allows for a quick move to 771 before some backing and filling gets underway. I like playing for upside here in the short run given the breakout in Technology today. Only under 731.63 on a close would a rally be postponed.

The \$SPX pattern is not as bullish as \$QQQ's, but it closed today with mild gains in a hammer pattern following three straight down sessions. The reversal in many sectors

and positive reversal in market breadth also look to be a positive heading into this first Friday of October.

Invesco QQQ Trust (\$QQQ, hourly) — Narrowing seven-day range following the 9/21 breakout, with a daily close above 745 allowing for a quick move to 771



Source: TradingView

Russell 3000 A/D line is nearing key three-year trendline support, which should hold and set up a big bounce in the lagging sectors

The Russell 3000 Advance/Decline line looks appealing to possibly find support here following its steep decline in the last couple of months. Unlike in late 2021, when it broke down more materially, the weakness from all-time highs in Advance/Decline is now nearing key three-year trendline support, which I suspect should hold weakness in breadth heading into next week.

As shown below, the A/D line has fallen sharply from its July peak and already broke the steeper uptrend from the April 2026 lows during August and September, but it

now sits right on the longer-term uptrend connecting the spring 2025 lows, which looks to be important support.

This is the weakest breadth reading since this spring, and a stark contrast to \$QQQ sitting just beneath all-time highs and equal-weighted Technology breaking out, but as I like to say, when breadth falls sharply and investors are quick to point this out, it's normally the bearish investors that are wrong, not the market.

Given that several major sectors — Financials, Industrials, Energy, and Discretionary — all showed meaningful reversals off prior lows today, the Russell 3000 index and many sectors which have been lagging recently should be setting up for a big bounce. Given that Technology is breaking out and sentiment remains poor, the odds favor support holding and the start of an October rally for the broader market.

Russell 3000 Advance/Decline Line (daily) — Steep two-month decline is nearing key three-year trendline support, which should hold and set up a bounce in the laggards



Source: Optuma

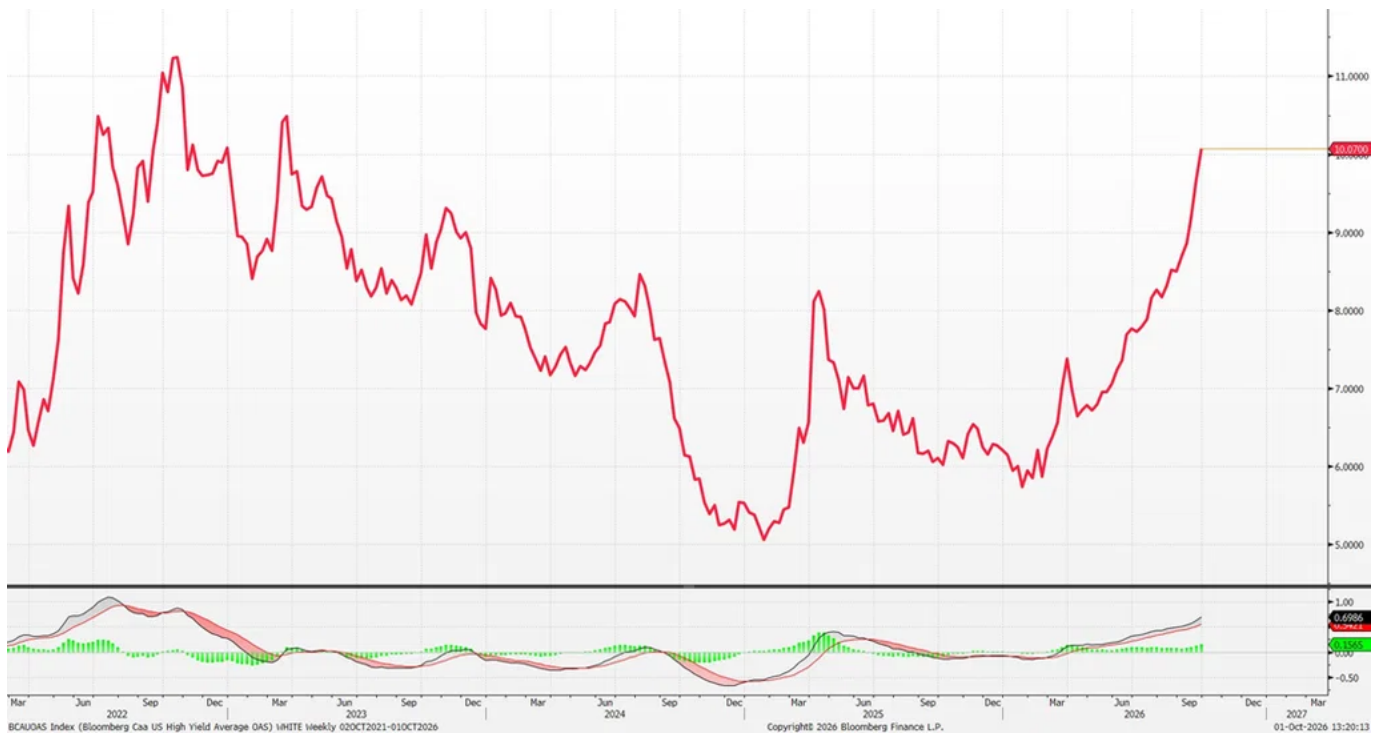
Credit issues from the Fed's hawkish pivot are now starting to show up, with CCC spreads at the highest levels in three years, yet equities, Technology included, have largely shrugged this off

While many factors support a rally in US stocks this month, it is right to point out that credit issues are starting to be visible given the Fed's recent hawkish pivot. Five-year credit default swap (CDS) spreads have now widened out pretty meaningfully for both investment grade and, to a lesser extent, high yield, but as seen below, the CCC option-adjusted spread has now hit the highest levels in three years, with the Bloomberg CCC US High Yield Average OAS at 10.07% this week after having nearly doubled from under 6% at the start of the year. Thus, credit conditions on junk debt are starting to deteriorate.

Note that these spreads also escalated during prior market drawdowns into spring of 2025 and 2026, yet Technology was far weaker during those times than at present. I suspect this might have Scott Bessent's eye and could lead to some urgency in taking steps to stabilize the bond market.

For now, the key message remains that stock indices (when Technology is included) have largely shrugged off these concerns, and with equal-weighted Technology having broken back out to new highs today, they could continue to ignore them a bit longer. **Should the broader high-yield market begin to weaken in a manner that coincides with \$SPX breaking 7,600, this would become a much larger concern,** but for now, it's a divergence to respect and monitor, not one to use to become defensive.

Bloomberg CCC US High Yield Average OAS (weekly) — CCC spreads have widened to 10.07%, the highest in three years, as junk credit begins to deteriorate



Source: Bloomberg

Overall, Thursday's breakout in equal-weighted Technology is the most important technical development of the week, and it reinforces the view that Tech has the power to lead \$SPX and \$QQQ higher in Q4 even as breadth sits at its worst levels since spring and credit spreads on junk debt widen to three-year highs. \$QQQ should follow suit above 745 on Friday or early next week for a quick move to 771, and while the next 5–6 weeks might remain choppy as the broader market searches for a low, it's right to use weakness to buy dips, favoring Technology. With the Russell 3000 A/D line nearing three-year trendline support and several lagging sectors reversing off their lows today, the broader market looks to be setting up for a bounce rather than something more serious. Stay tuned.

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