

PATIENCE IS REQUIRED INTO THE MIDTERMS; QQQ LOOKS TO HAVE WEAKNESS TO SUPPORT NEAR 733 BEFORE A SNAPBACK



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Key Takeaways

- \$QQQ could see 1–2 more days of weakness down to 733, but I expect a snapback into end of month.
- KOSPI's sharp decline has weighed on Memory, and it still looks early to buy \$DRAM.
- \$RSP's relative bounce vs. \$SPY likely lasts only another 2–3 days, and \$QQQ and \$SPY should be favored over \$RSP.



Near-term US equity trends have turned more cautious as Semiconductor and Memory weakness, driven partly by South Korea's sharp decline, weighs on Technology, though I view this as consolidation following the push to new all-time highs in both \$SPX and \$QQQ rather than the start of a larger top. As discussed in Friday's report, broader participation has been the missing ingredient for this rally, and while last week brought some improvement, Tech's leadership is now being tested by a sharp reversal in Memory stocks. Q3 bank earnings have largely been better than expected, while midterm seasonality turns more challenging after Friday's October options expiration. The bigger picture is that momentum and breadth weakened considerably across the board over the past month, and the weakness in many sectors could linger into November, even after a bounce. Thus, choppy trading looks likely into early November, even though a push back to new highs for \$SPX remains possible in October. It's right to be patient with US equity indices, continuing to favor Technology and cap-weighted indices over equal-weight, and to view near-term weakness as an opportunity ahead of a rebound into end of month.

This week's index weakness runs counter to midterm October seasonality, but looks like short-term backing and filling

This week's index weakness actually runs counter to some of the seasonal tendencies for midterm Octobers, which normally show strength this week into October expiration before weakening the subsequent week (normally 10/18–10/24 tends to be the weakest week of October). Overall, while bank earnings largely have come in better than expected, as per Goldman Sachs' strong quarter of equity trading, Technology's pullback this week is continuing to weigh on the broader indices.

Technically, this looks to be a short-term phenomenon and some simple backing and filling only after the push to new highs, and \$QQQ is still thought to be where to position vs. the broader market. Yet, the Memory weakness has proven extreme in the short run, and so some stability both in Semis and Memory is likely necessary before some strength back to highs will be possible.

The broader market had been camouflaged by Technology's strength over the last month (when equities as a whole were far weaker). Thus, any sudden disruption to Tech has a greater chance of causing some ripples in the market between now and mid-November, simply given that equal-weighted \$SPX has gotten weaker in the last month. In the bigger scheme of things, the fact that breadth became as weak as it did over the past month means that any signs of stalling out in Technology could result in some near-term weakness for \$SPX and \$QQQ, as many sectors haven't shown the kind of breadth acceleration off low levels that would help drive back a strong broad-based rally. However, I do suspect that the stealth correction which happened in the equal-weighted S&P 500, \$DJIA, and Russell 2000 could still play out further into November, even after a bounce unfolds, simply given how weak momentum has gotten across the board. Overall, I think this means that markets likely will continue to prove choppy into the midterms, and even on a push back to new highs for \$SPX (which looks quite possible in October), I'm not certain this happens right away for \$DJIA, equal-weighted \$SPX, and DJ Transports until after the midterm elections.

It looks right to be patient with US equity indices, but the price action is frankly far better with regard to actual index movement than some of the individual sector movement might lead one to think.

\$QQQ has turned short-term bearish, but a 1–2 day pullback to 733 should give way to a snapback into month-end

\$QQQ has retreated four of the last five trading sessions, and Memory and Semiconductor weakness has caused some minor selloff in the Technology sector. While I don't make much of this as being a true selloff for Tech, patience is required.

\$QQQ dropped under last Thursday's lows today before a rebound attempt, but momentum remains negative and this has not recovered sufficiently to think a push to new highs happens right away (easier to say this for \$SPX). For now, near-term trends have turned more short-term bearish for \$QQQ given Semi/Memory weakness, which could lead to a 1–2 day further selloff down to 733 before some stabilization and rally later this week. Overall, I don't suspect this week's drop extends much more before a snapback into end of month.

\$QQQ resistance lies at 745, then 749, while support lies near today's earlier lows at 738.83, then 733. Given that price failed to close back above the area that had been broken for \$QQQ (Monday's intraday lows happened to occur near 744.85, while today's lows barely closed above last Thursday's intraday lows at 743.23), I don't think we can rule out weakness Wednesday and/or Thursday, but I do feel that this weakness shouldn't last much longer.

Invesco QQQ Trust (\$QQQ, daily) — Near-term trend has turned short-term bearish; 733 should hold ahead of a snapback into end of month



Source: TradingView

KOSPI's sharp decline has weighed on US Memory and Semis, and more than an early bounce is needed to suggest it has run its course

The deterioration in South Korea's KOSPI has again served to weaken Memory stocks and many Semiconductor stocks in the US, and we've seen a fairly big break of the mild trend from August, which largely went sideways before breaking down on heavy volume last Thursday. This has coincided with/led to some near-term deterioration in Technology in the US, largely led by Memory and Semiconductors, which has caused underperformance in Technology this week, while the broader market has largely remained unscathed and in some cases has been strengthening, as has been seen in Healthcare in recent days.

KOSPI is now down roughly 15% in six trading days, and despite the rally attempt off this morning's lows, it's tough to say yet that this decline has run its course. While the earnings outlook has not meaningfully deteriorated, the forward P/E has fallen below 5, the lowest (based on Bloomberg data) going back more than 20 years.

As shown on the daily chart below, one can make the case for minor trend support going back since the beginning of the year. However, momentum has turned down sharply as a result of the weakness in the last week. To expect a material bounce in the absence of exhaustion signals, there needs to be a strong recovery to get back up above 169.83. (There does look to be an area of DeMark-based support at 154.)

Overall, this does look to be short-term weakness only. However, given the multiple "open gaps" and ongoing momentum deterioration, some meaningful strength will need to happen to put this index back on track for new highs.

iShares MSCI South Korea ETF (\$EWY, daily) — Breakdown of the trend from August; now testing the uptrend from late-2025 lows



Source: TradingView

Memory has broken down below its uptrend from late July, and it still looks early to buy

The Roundhill Memory ETF (\$DRAM) gapped lower today and closed at 52.85, down roughly 15% from its early-October peak near 62.50. This decline has now violated both the uptrend from late-July lows and the flatter trendline connecting lows from August and September.

The Roundhill Memory ETF often acts quite similar to the KOSPI and \$EWY given the memory concentration in \$EWY, and it still looks early to buy Memory stocks, given this breakdown.

Recovery back over this horizontal trend above 56 will be required to have confidence this has run its course. For now, I expect that Software, "Mag-7," and Semiconductor stocks could all act relatively better than Memory this week.

As for key levels, the next meaningful support lies near 49.50–50, the area of early-August lows, followed by late-July lows near 44.50. Any bounce back to 56 should run into resistance at the pivot area of the recent breakdown. This needs to be recouped to put the Memory rally back on track.

Roundhill Memory ETF (\$DRAM, daily) — Breakdown below the uptrend from late-July lows; still early to buy Memory



Source: TradingView

Semiconductors have sharply outperformed Memory since early September, and this relative trend still favors \$SOXX

The ratio of the iShares Semiconductor ETF (\$SOXX) to \$DRAM has risen more than 20% since its early-September lows, and has now exceeded the late-September and early-October highs near 10.07, reaching the highest levels since mid-August.

This shows that the recent selling within Technology has been concentrated in Memory, as broader Semiconductors have held up far better on a relative basis. Within Semiconductors, I continue to prefer non-Memory names in the near term.

The ratio likely nears August peaks before showing much resistance, so it's right to favor \$SOXX over \$DRAM in the near term.

\$SOXX / \$DRAM (daily) — Semiconductors' outperformance vs. Memory has lifted the ratio to the highest levels since mid-August



Source: Symbolik

Equal-weight's relative bounce vs. \$SPY looks short-lived, and \$SPY should be favored over \$RSP

Equal-weighted S&P 500 vs. the cap-weighted \$SPX (\$RSP/\$SPY) has stabilized and begun to turn higher after testing two very important prior levels on a relative basis, which held in May 2026 as well as last November. (While sometimes absolute charts won't give clues that relative strength and/or mean reversion can start to develop, the use of relative ratio charts can often be helpful in this regard.) As shown below, the ability to have held this prior area and now to have snapped back to make multi-day highs following a month-long downtrend was important in suggesting \$RSP might make some relative headway vs. \$SPY.

The problem with expecting that this can continue has to do with the weekly momentum still being quite negative, and the "Magnificent 7's" push to new highs gives preference to \$SPY given the large-cap Tech stocks' weightings in the bigger indices.

Thus, while this relative chart gave some reasons to support \$RSP vs. \$SPY this week, I don't see this lasting more than another 2–3 days. The act of Technology finding support as a sector after five of the last six "down" days after \$QQQ pushed back to new high territory makes \$QQQ a relative

overweight vs. \$SPY, and makes \$SPY something to favor over \$RSP, given that sectors like Industrials and Consumer Discretionary, as well as Financials (despite good earnings thus far), remain huge underperformers. Thus, the key takeaway is that this recent bounce likely could prove short-lived.

\$RSP / \$SPY (daily) — Bounce from relative support that held in May 2026 and last November, but this likely lasts only another 2–3 days



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Source: Symbolik

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