

A TRADING LOW LOOKS TO BE IN PLACE; HEALTHCARE HITS NEW ALL-TIME HIGHS



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Key Takeaways

- \$SPX and \$QQQ reversed to close above trendline support on strong breadth, and a trading low likely is in place.
- The strength in equal-weighted \$SPX in having rallied for most of the last couple of weeks helped breadth to stabilize and diverge higher from Technology's recent consolidation.
- Healthcare (\$XLV) hit new all-time highs and remains the #1 sector to favor into mid-November.



US equity indices staged an impressive reversal on Thursday, rebounding off trendline support to finish well off their lows, which fits with yesterday's view that a bottom was likely to happen this week. Declines in Treasury yields and the US dollar served as an important catalyst for risk assets, even in the face of a hot PPI report. While the momentum damage of the last month makes it difficult to expect a broad-based push to new highs right away for many equal-weighted indices, the cap-weighted \$SPX is quite close to its highs and should get there first, given that it lies less than 1% off all-time highs which were last achieved just seven trading days ago. Breadth remains the key area to monitor, as both the bond rally and the equal-weighted rally will need to continue for a broader advance to take hold into mid-November. Thus, while Thursday's reversal does look important in the short run, I suspect there's a lot of work to be done before taking the proverbial "victory lap," and it continues to be my view that a broad-based rally including Technology will likely take time as rotation continues to play out into mid-November. Overall, I suspect a trading low is in place, and now the hard part begins: watching the degree of

participation, what can move sharply higher, and how quickly in the weeks to come.

\$SPX reversed to close above trendline support on strong breadth, suggesting a trading low likely is in place

Indices all reversed to close above trendline support despite the early weakness, and \$SPX's ability to have finished well off early lows on strong market breadth to recoup former swing lows from 10/8 (7,731.26) gives some minor confidence that a trading low is likely in place. Today's breadth finished at nearly 3:1 bullish, as eight sectors out of 11 finished with more than 1% gains, and the Healthcare ETF \$XLV hit new all-time highs. As shown below, \$SPX's intraday low at 7,669.66 tested the uptrend from late-July lows before rebounding to close at 7,744.

Overall, as discussed earlier, while it's quite difficult given the momentum damage to claim that the broader equity complex should move back to new all-time highs right away, I suspect that the cap-weighted \$SPX very well could accomplish this feat into late October, being less than 100 points (less than 1%) from all-time highs.

The key will be to concentrate on the degree to which this bond rally continues, along with the equal-weighted rally in stocks. I don't sense that either will have an easy road between now and mid-November. However, there seemed to be too much pessimism regarding the AI trade in the US stock market, and this doom narrative likely won't play out as quickly as the bears would like given today's bullish reversal to hold trendline support.

Technically, Thursday's rapid about-face should lead to upside follow-through into next week, and Technology should be at/close to a meaningful low given the reversal across much of the space. Resistance above Ichimoku levels at 7,757.09 for \$SPX lies near 7,844.52, which could be tested and exceeded within the next two weeks. To keep the rally on track, it's necessary that today's lows of 7,669.66 hold. Any close under 7,669.66 would be unexpected and would postpone the bullish case.

S&P 500 Index (\$SPX, daily) — Thursday's reversal off the uptrend from late-July lows suggests a trading low likely is in place



Source: TradingView

Equal-weighted \$SPX has reached 215 and looks to be pushing up to near resistance, so its road back to new highs likely will take time

The Invesco S&P 500 Equal Weight ETF (\$RSP) rallied 1.37% on Thursday to close at 215, reaching the upside target I'd discussed last week and closing at its highest level in over a month.

This also marked a close right near the bottom of the Ichimoku cloud on daily charts, which might result in resistance as \$RSP slows while \$SPX plays "catch-up" given a possible snapback bounce in Technology.

Importantly, the degree to which \$RSP has been rising nearly all month has helped market breadth stabilize at a time when many investors grew fearful regarding the AI trade and felt that stock indices were much lower than they actually were. This turn higher in \$RSP looked to be specifically helpful toward making the case that \$SPX likely would hold trendline support, which happened on today's reversal. In the days ahead, \$RSP now faces resistance near 216.50–217, and the momentum damage from September likely takes some time to repair.

Thus, while I expect \$RSP to make further progress into late October, cap-weighted \$SPX remains the better bet to reach new highs first. Support lies at 211–211.50.

Invesco S&P 500 Equal Weight ETF (\$RSP, daily) — Thursday's rally reached 215



Source: TradingView

The McClellan Oscillator has broken its downtrend from April, and the push back over 0 following the oversold readings looks constructive

The McClellan Oscillator, one breadth gauge which I utilize for the NYSE and \$SPX that measures the momentum of advancing vs. declining issues, broke above its downtrend from April peaks in early October, following a stretch of deeply negative readings near -150 to -175 in September.

While this oscillator has pulled back in recent days alongside the Tech selloff, it remains well above September lows, and Thursday's strong breadth should help it

resume its advance.

As shown below, utilizing the 5-day moving average of the McClellan Oscillator can often flag divergences (in this case positive), which happened in September, followed by a strong push higher despite Technology's recent setback.

Overall, my view is that this turn back higher in the McClellan Oscillator is an early sign that breadth momentum has begun to improve, and while the next month might prove choppy, I feel that most of the decline for the broader market very well could be in place, even if some "backing and filling" happens in November.

McClellan Oscillator (daily) — Breakout above the downtrend from April peaks



Source: Bloomberg

The Russell 3000 Advance/Decline line is testing its uptrend from April 2025, a key area to hold

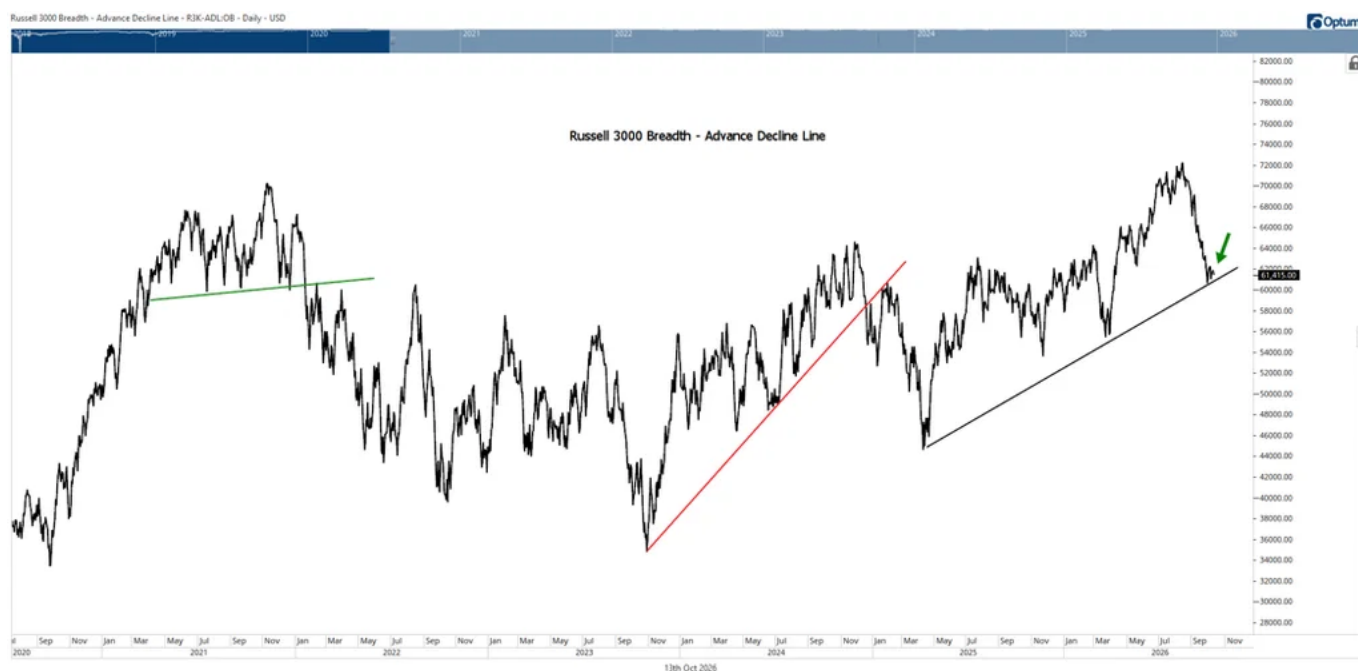
The Russell 3000 Advance/Decline line has pulled back sharply since peaking in August, but has now reached its uptrend from April 2025 lows, which I view as an important area of support. Given today's sharp reversal and recent push higher in the McClellan Oscillator and equal-weighted S&P 500, I expect that market breadth as

per the Russell 3000 Advance/Decline should begin to trend back higher, having held exactly where it needed to.

While not shown, the percentage of Russell 3000 stocks above their 20-, 50-, and 200-day m.a. stands at roughly 41%, 29%, and 45%, respectively, down from readings near 65–70% in early August. These have begun to turn up from late-September lows but remain well below levels that would signal a healthy broad-based advance.

Thus, the A/D line holding support is a positive, but a more meaningful improvement in these metrics will be needed before equal-weighted \$SPX can push back to new highs, which may take until after the midterms.

Russell 3000 Advance/Decline Line (daily) — Pullback since August has reached the uptrend from April 2025 lows



Source: Optuma

Healthcare has broken out to new all-time highs and remains the #1 sector to favor into mid-November

The Health Care Select Sector SPDR ETF (\$XLV) rose 1.86% on Thursday to new all-time highs, exceeding its August peaks near 176 after breaking out of the

downtrend from mid-August earlier this week.

This breakout follows a two-month consolidation that held above the Ichimoku cloud, and it confirms the relative strength discussed in yesterday's report, as equal-weighted Healthcare's relative breakout vs. equal-weighted \$SPX had begun to accelerate earlier this week.

I expect \$XLV to push higher toward 182–185 before some backing and filling, while pullbacks should find support near 172–173. Healthcare remains the #1 sector to favor technically, and as discussed yesterday, Medical Devices and Healthcare Services are worth considering alongside Biotech and Pharma. Once the midterms have passed, I'm expecting that Technology should start to strengthen meaningfully in a way that will allow this sector to surpass Healthcare and reclaim the #1 spot, technically.

Health Care Select Sector SPDR ETF (\$XLV, daily) — Breakout to new all-time highs



Source: TradingView

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