

RALLY LOOKS STRONGER UNDER THE SURFACE THAN SPX AND QQQ SUGGEST, WITH BREADTH IMPROVING AND CRUDE SHOWING EXHAUSTION



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Key Takeaways

- The equal-weighted S&P 500 and \$DJIA rose more than 1% on breadth better than 2:1 positive, so Large-cap Technology's weakness has not caused broader trends to give way.
- Crude's fifth wave from July looks nearly complete, and this week's exhaustion suggests a pullback into December that holds above July lows before turning higher early next year.
- \$SPY vs. \$RSP remains within a triangle likely resolved higher into year-end, while Energy nears a relative breakdown and Small-caps look ready to bounce into November.



US equities rallied on Tuesday in a manner that proved far healthier beneath the surface than the modest gains in \$SPX and \$QQQ would imply, as the average stock, Small-caps, and cryptocurrencies all participated while Large-cap Technology remained the lone soft spot. Importantly, three weeks of Technology weakness have not caused the uptrends in the broader market to give way, and breadth has stabilized and begun to expand again, which argues that the retest of last week's lows I had anticipated might no longer be required. The cross-asset picture is also turning more supportive, with WTI crude showing exhaustion after a three-month advance that could very well be complete, Treasury yields backing away from their highs, and the US dollar softening, all of which should relieve the pressure that has weighed on Small-caps throughout October. Overall, I expect that a strong bounce in \$SPX should be right around the corner and might get underway this week.

Tuesday's rally was stronger under the surface than \$SPX and \$QQQ suggest, and the retest of last Friday's lows might not be necessary

Despite a lack of real follow-through higher in either \$SPX or \$QQQ, the equal-weighted S&P 500 and \$DJIA pushed up more than 1% today, and there was some constructive price action in Small-caps along with cryptocurrencies, which made the stock rally appear stronger under the surface than what the end-of-day close might have suggested for both \$SPX and \$QQQ. While Large-cap Technology weakened today, the broader Technology space was positive, and breadth was higher by more than 2:1 bullish.

Thus, while Technology has proven weak in recent weeks, the broader market has held up quite well, breadth has stabilized and is pushing higher in the short run, while Technology's selloff has not resulted in technical trends giving way.

Sector-wise, Energy looks to be nearing a relative peak as crude grows vulnerable, Small-caps appear poised for a bounce into November, and the cap-weighted vs. equal-weighted relationship should still resolve in favor of Large-caps into year-end once Technology stabilizes.

With regard to \$QQQ and \$SPX, I had suggested last night that a pullback to test last Friday's lows might be necessary, but despite early weakness today, prices rebounded to hold, and that scenario of weakness might not come to fruition.

AI Infrastructure has pulled back to important trendline support from 2025, where stabilization looks likely

The Tortoise AI Infrastructure ETF (\$TCAI) looks to have pulled back to an important area of trendline support extending back since 2025.

Stocks within this ETF like \$PWR, \$BE, \$VRT, and \$GEV have all been hard hit lately, but this very well could represent a spot where these start to stabilize and now strengthen at a time when many have given up on this part of Technology.

Both relative and absolute charts show DeMark-based exhaustion this week, which, coupled with the recent weakening to trendline support, helps to add some conviction about a possible trading low. The key now will be the ability to rally back above the recent areas which were breached, found at \$41.49 initially, then near \$44. While technical trends remain quite weak, this area looks important.

Tortoise AI Infrastructure ETF (\$TCAI, daily) — Pullback to trendline support

Source: TradingView

\$SPY vs. \$RSP weakness remains part of a larger triangle that should still resolve higher into year-end

\$SPY in cap-weighted form has weakened over the last two weeks vs. equal-weighted, but as seen on this weekly chart, this remains part of a larger triangle pattern which I suspect still is resolved by an upside breakout into year-end.

As shown on the right-hand side of this ratio chart, this year's relationship between \$SPY and \$RSP has proven to be a real roller-coaster, far more volatile, with the three prior peaks and two prior troughs forming an ascending triangle pattern for 2026.

Despite the thinking that the broad-based rally might persist, my expectation is for some stabilization following the last few weeks of weakness, followed by a push back to new highs. Such a development would favor Technology strength being far more formidable, and since Technology represents most of \$SPY, this likely will start to lead in a way that can allow for a coming breakout back higher. While this might take

some time over the next 4–6 weeks, I'm anticipating a stronger-than-average rally in Technology starting in November which could persist through next winter.

\$SPY / \$RSP (weekly) — Two-week pullback remains within a larger triangle pattern likely resolved by an upside breakout into year-end



Source: Symbolik

Crude's five-wave rally from July looks complete, favoring a pullback into December before prices turn back higher early next year

Crude oil's earlier plunge this morning happened to be on unconfirmed reports that Qatar and Pakistan had issued a fresh proposal to revive negotiations to bring an end to the Iran war. Generally, **I suspect that it's right to await a break of the uptrend from earlier this year on a confirmed peace deal vs. expecting that another brokered ceasefire attempt would be sufficient to turn crude lower.**

However, it is important to note that the recent escalation in front-month futures (November 2026) has exceeded prior highs to create what appears to be a fifth wave higher from July. This has both positive and negative implications, depending on one's timeframe. **In the near term, the appearance of a five-wave rally over the last three months is highly suggestive of a coming break in prices, and this**

week's exhaustion (even if based on false pretenses) has signaled some vulnerability.

However, any selloff which happens during this seasonally vulnerable time also likely won't undercut 50–61.8% of the prior rally before turning back higher early next year. Thus, it's my technical thinking at this point that the degree of strength this week will likely prevent and/or postpone any move under July 2026 lows. However, I still expect that the last three months of rally likely could experience a big pullback in the next couple of months into December before prices turn back up early next year.

WTI Crude Oil Futures (CLX6, daily) — Push above prior highs in September looks to be nearing a peak following five waves higher; this week's exhaustion signals near-term vulnerability



Source: Bloomberg

Energy should be nearing a relative breakdown as DeMark counter-trend sells accumulate and crude grows vulnerable

Some Energy ETFs have certainly begun to broadcast that crude might be close to weakening, as seen in Refining ETF weakness (\$CRAK) lately, along with the ongoing severe underperformance in \$OIH.

The relative chart between equal-weighted Energy and the equal-weighted S&P 500 has generated three separate counter-trend DeMark-related sell signals (13 Countdown exhaustion) over the past three weeks, and the relative performance in Energy has certainly proven a bit choppy of late, despite geopolitical posturing intensifying into the midterm elections.

While a break of the uptrend in relative performance should result in Energy starting to weaken, the combination of an extended crude price showing some volatility along with the Energy sector beginning to signal counter-trend exhaustion signals adds to the likelihood regarding a coming relative breakdown in the sector. Energy should remain a technical Underweight until December–January on weakness.

\$RSPG / \$RSP (daily) — Three counter-trend TD Sequential 13 Countdown sell signals with relative performance turning choppy



Source: Symbolik

Small-caps vs. equal-weight S&P 500 made their first multi-day relative high in over a month, readying for a bounce into November

The ratio of Small-caps to the equal-weighted S&P 500 (\$IWM/\$RSP) actually showed a move up to multi-day highs today, the first move of the sort on a relative basis in more than one month.

The month of October has proven cruel to Small-caps given interest rates and the US dollar having pushed higher. Small-caps have underperformed sharply. However, this stabilization in the relative ratio, combined with a TD Buy Setup (per DeMark's indicators, not shown) and the push to multi-day highs, makes me encouraged that the Small-cap sector is readying for a bounce into November.

I don't suspect any snapback will have intermediate-term bullish implications, and it remains right to overweight Large-cap Growth until/unless more credible evidence of a breakdown in interest rates gets underway. For now, Small-caps likely can bounce in the coming weeks, and it pays to watch the degree of any strengthening in this ratio.

\$IWM / \$RSP (daily) — First push to multi-day relative highs in over a month following October's sharp decline



Source: Symbolik

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