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A SHORT-TERM BOUNCE IS UNDERWAY ON STRONG BREADTH, THOUGH TECH STILL NEEDS TO JOIN THE PARTY



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Key Takeaways

- A short-term bounce looks underway on 3:1 positive breadth, with equal-weighted $SPX at new all-time highs. However, more is needed from $SPX and $QQQ given Technology's underperformance.
- Crude has fallen 16% in two days, breaking its uptrend from July, with a 62–78% retracement of the rally from July possible.
- $MAGS looks more appealing technically than Semiconductors, Software, or AI infrastructure in the short run, and is the area to favor within Technology.



US equities rallied sharply on Wednesday on more than 3:1 positive breadth, with equal-weighted $SPX pushing to new all-time highs, adding to evidence that a short-term low is in place. A breakdown in WTI crude oil below its four-month uptrend proved to be an important catalyst, easing one of the main cross-asset pressures on equities. Within Technology, large-cap leadership looks to be returning, with $MSFT and $AAPL back at all-time highs and the Magnificent 7 looking more appealing technically than Semiconductors. However, more needs to happen regarding "Semis and Memory," along with more answers regarding "Data Center" stocks, which have proven painful to the AI trade and Industrials lately. Overall, this week's progress is constructive, though parts of Technology remain weak, and rising rates and the US dollar could keep indices choppy into Thanksgiving. Thus, only a short-term rally looks possible at this time into mid-November for $SPX and $QQQ, and much will depend on how rapidly Technology can begin to show better participation.

A short-term bounce looks underway on 3:1 positive breadth, though Technology still needs to join the party

US equity markets look to have begun a short-term bounce today, which I suspect lasts into next week for $SPX and $QQQ and appears healthy given the confirmation of more than 3:1 bullish market breadth in Advance/Decline activity. Additionally, equal-weighted $SPX pushed up to new all-time high territory today while $DJIA rose 1,500 points. Much of this relief in the broader market has arrived given a notable relief in cross-asset volatility, which is ongoing and was aided today by a very sharp decline in crude oil, which has now lost roughly 16% in two days' time.

However, I think it's still arguable whether today was truly the "market-clearing" event that many expected, given that various parts of Technology, notably Semiconductors, AI infrastructure, and Memory stocks, remain quite weak and look to require more time before Technology can truly begin to "join the party." Furthermore, long-term interest rates and the US dollar still could face some strength into mid-to-late November, and this is also thought to be a risk factor for why stock indices likely might remain choppy and volatile until near Thanksgiving.

Overall, the sense of bipartisan cooperation would seem to be a big positive to markets, but I sense that more information is needed before getting too enthusiastic that many Data Center stocks have bottomed. In general, today's price action was good news but doesn't "check all the boxes." I sense that keeping a close eye on rates, the US dollar, and crude will be important for the weeks ahead.

For now, a rally looks to be underway, and my technical thinking is that breadth should continue to expand into mid-November, even if Technology doesn't do all of the heavy lifting.

S&P 500 Index ($SPX, daily) — Short-term bounce underway, nearing the downtrend from early October



Source: TradingView

Equal-weighted S&P 500 has pushed to new all-time highs, confirming the broadening of this week's rally

The Invesco S&P 500 Equal Weight ETF ($RSP) rose 1.86% on Wednesday to close at $223.33, exceeding its August peaks to reach new all-time highs. Incredibly enough, $RSP has now risen over +7.4% in the month of October. This is an extraordinary short-term move for the equal-weighted $SPX.

Thus, while Technology certainly has its work cut out for it, it's likely right to favor $RSP over $SPY on a 3–5 week basis, before reversing this into the end of November and favoring $SPY to outperform into next February.

As shown below, this breakout is a very positive technical sign, directly coinciding with improved market breadth, and the next area of upside resistance lies near $230–$231, coinciding with the trendline connecting the uptrend channel from last year.

Invesco S&P 500 Equal Weight ETF ($RSP, daily) — Push to new all-time highs above August peaks



Source: TradingView

Crude's 16% two-day decline has broken its uptrend from July, with further weakness likely in November

It's important to note the degree of selling pressure being seen in crude oil in recent days, which now has broken the uptrend from July and, after a 16% decline in two days, has closed at the lowest levels since early October. Energy, per my note last night, remains a technical Neutral rating, but this weakness is certainly welcome to risk assets, with big gains in Crypto, a snapback in equities to new highs in the equal-weighted S&P 500, while ^TNX has fallen to 4.896%. Many parts of Energy had begun to signal a possible coming period of weakness in mid-October, and some of the weakness in Oil Services and Refining names served as the "tell" within the Energy sector.

As shown below, WTI crude has violated the uptrend from July, which I suspect leads to further weakness in November before any real stabilization can happen. While some backing and filling for WTI and Brent crude looks possible in mid-November (meaning a possible bounce), my expectations are that crude

might retrace at least 62% of the bounce from July, with a chance of giving back 76–78%. This equates to a further decline down to the low $80s or even low $70s by the end of November.

Such a decline in WTI crude would make many Energy stocks far more appealing following this above-average "shellacking" which has happened this week in the Energy sector. As discussed recently, Energy is considered to be a Neutral rating technically but likely will have intermediate-term appeal upon weakening over the next 3–5 weeks.

WTI Crude Oil Futures (CL, daily) — Break of the uptrend from July lows; a 62–78% retracement of the rally looks possible



Source: TradingView

The Magnificent 7 look more appealing technically than Semiconductors and are the area to favor within Technology

$MAGS has begun a very visible bounce which nearly managed to exceed the downtrend from October given **notable strength out of $MSFT and $AAPL, both of which managed to push back to new all-time high territory.** While many find the Semiconductor stocks appealing from a valuation perspective, I expect that the

"Magnificent 7" (shown here based on the ETF $MAGS) is far more appealing technically at the moment, along with Software ($IGV).

$MAGS, as shown here, nearly surpassed the downtrend necessary to jump-start this ETF back to the highs but has already made notable progress when comparing it relative to $SOXX, $DRAM, $TCAI, and $RSPT, in terms of understanding this group's capability to lead again.

As shown below, $MAGS held its intermediate-term uptrend line and pulled back in October to retrace 50% of the rally from late June. This looked to be an important level, and in retrospect, it was.

However, now it's incumbent on stocks like $NVDA and $GOOGL (which have been under pressure lately) to start to follow suit higher.

I'm anticipating that $MAGS is the area to favor within Technology, and I like owning this in the short term and intermediate term.

Roundhill Magnificent Seven ETF ($MAGS, daily) — Bounce from the uptrend from April should push higher to break the downtrend from October



Source: TradingView

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