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Daily Technical Strategy

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TECHNOLOGY'S DECLINE IS IN THE 9TH INNING, BUT A BIT MORE PATIENCE LOOKS NECESSARY



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HEAD OF TECHNICAL STRATEGY

Key Takeaways

- $SPX faces strong resistance into early next week and remains under downtrend line resistance, though Technology looks to be in the 9th inning of its decline, with a bottom due by Thanksgiving.
- The $SPY/$RSP ratio suggests Technology's tradable bottom remains roughly two weeks away, while $NVDA's breakdown vs. the sector from a multi-year head-and-shoulders pattern marks a technical blow requiring substantial repair.
- AAII Bears now exceed Bulls by more than 20 percentage points — unusually high bearishness for mid-November, which should give the bulls an opportunity to make a stand between late November and year-end.



Overall, while $SPX and $QQQ both managed to record gains for the week, it was still relatively disappointing to see crude oil push higher for four straight days alongside the US dollar and interest rates — factors which leave US equity markets vulnerable for a bit longer, particularly with momentum and trends still negatively sloped from early October. Fear has started to creep back into markets, which is a positive for the bulls, yet there remains no evidence of exhaustion with regard to Technology, and that is very important. Until that arrives, this remains a choppy, volatile stretch which could take a bit longer to resolve. Hopefully, $NVDA's earnings combined with the upcoming Anthropic IPO can serve as positive catalysts for a sharp rally in Technology; however, given Friday's action in Semiconductors and many Memory stocks, it's still very difficult to make that call just yet. For the time being, it remains right to be patient, but I do suspect that markets will begin to rally sharply, likely by the Thanksgiving holiday period, into end of year.

$SPX: 7,675 is strong resistance into early next week, while a move under 7,500 would open 7,350

$QQQ and $SPX both made minor pullbacks on Friday to fill the gap from earlier this week before rallying into the close, with Technology trimming earlier losses. Market breadth finished about 3:2 negative, yet eight sectors were higher, led by Consumer Staples (+1.32%), Energy, and Communication Services. Despite the announcement of flights being grounded on Friday, it still looks possible that indices attempt to push higher on Monday; however, with both $SPX and $QQQ still under downtrend line resistance, that alone wouldn't really change the existing structure.

My best guess is that $SPX finds strong resistance into early next week at 7,675 and might have a difficult time exceeding 7,715 unless $NVDA can help Technology move meaningfully higher right away. Most of my sector charts within Tech still suggest that might be a bit premature, but I feel Technology is in the 9th inning of its decline, and a bottom should be due by Thanksgiving.

On the downside, movement under 7,500, regardless of the reason, would be negative and might not face much support until 7,350, which is very important for next week. As shown below, price remains wedged between the downtrend from the October peaks overhead and the Fibonacci extension zones beneath, and until one side gives way, this chop is likely to persist.

S&P 500 Index ($SPX, daily) — Wedged between downtrend resistance near 7,675–7,715 and support at 7,500, with 7,350 the key level on any break



Source: TradingView

$SPY/$RSP still argues Technology's tradable bottom is roughly three weeks away

This ratio chart is displayed again to show that, while many feel Technology is at a tradable bottom, the $SPY/$RSP relationship suggests that moment remains about two weeks away. While I'm bullish on the prospects for $NVDA to push higher between now and year-end, the movement in Semiconductor and Memory stocks as a whole still leaves much to be desired and hasn't convincingly shown evidence of Technology having bottomed.

As this ratio chart shows below, each of the swing highs and lows in recent months has coincided with TD Buy and Sell Setups, and this current count is roughly three weeks away from triggering.

If Technology underperforms for roughly two to three more weeks, that would likely set off the exhaustion signals which would then favor $SPY vs. $RSP — meaning a higher bias for Technology, given its weighting, between late November and year-end. At present, this chart counsels a bit more patience, and we'll track how Technology responds following $NVDA's earnings next week.

$SPY / $RSP (cap-weighted vs. equal-weighted $SPX, weekly) — Ratio testing its multi-year uptrend, with the exhaustion signals that would favor Technology still roughly two weeks away



Source: Symbolik

$NVDA's relative breakdown from a multi-year head-and-shoulders pattern is a technical blow

While I believe $NVDA should officially bottom out by earnings, it's important to show that the relationship between $NVDA and all of Technology (the ratio of $NVDA to equal-weighted Technology, $RSPT) worsened significantly this week, breaking down out of a multi-year head-and-shoulders pattern.

A sharp bounce can certainly happen in $NVDA, and I suspect it does between late November and into January. However, a substantial amount of strength is needed to regain the pattern broken this week. The key takeaway: while a large near-term bounce is likely, how $NVDA reacts versus the entire space will determine whether it can regain its intermediate-term technical attractiveness, and in relative terms, $NVDA suffered a real technical blow this past week given the extent of its weakness.

$NVDA / $RSPT ($NVDA vs. equal-weight Technology, weekly) — This week's breakdown from a multi-year head-and-shoulders pattern requires substantial strength to repair



Source: Symbolik

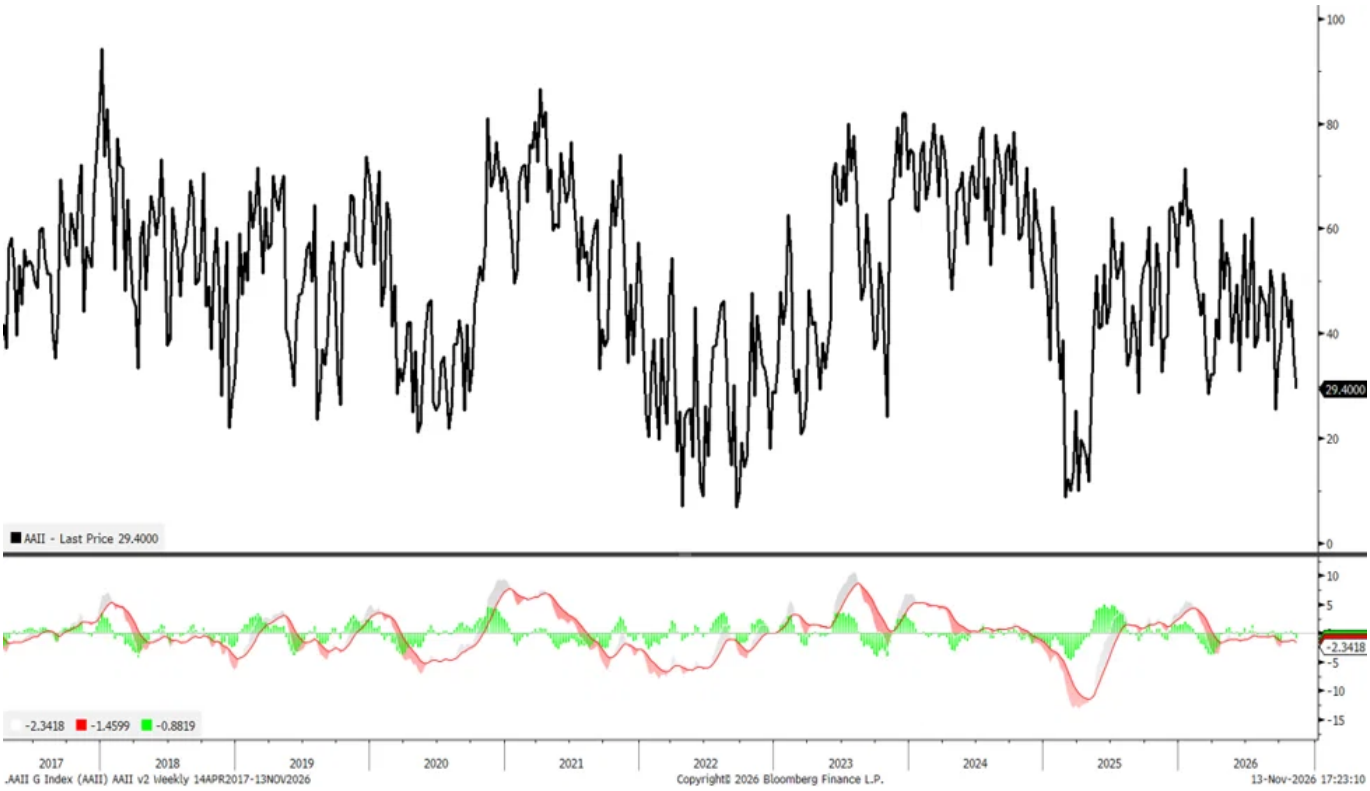
Bearish sentiment has reached unusual extremes for mid-November — fuel for a year-end stand by the bulls

Bulls/Bears sentiment continues to worsen and has steadily decreased over the last month — as might have been expected given $SPX's four weekly declines in the last

five. The percentage of Bears as of the 11/12 reading was 51.40%, while Bulls stood at just 30.80%, an unusually high level of bearishness heading into mid-November.

While this pessimism might persist a bit longer, my thinking is that a spread of more than 20 percentage points of Bears over Bulls indicates the bulls will have an opportunity to make a stand and push markets higher between late November and the end of the year. Sentiment of this sort rarely marks tops; it builds the wall of worry that year-end rallies climb.

AAII Investor Sentiment (weekly) — Bears at 51.4% vs. Bulls at 30.8% marks unusually high pessimism for mid-November, a contrarian positive into year-end



Source: Bloomberg

Overall, the discipline from here is straightforward: respect the trend while it remains negatively sloped, and wait for evidence of exhaustion, capitulation, and/or sufficient strength to have better confidence that trends are turning back positive. Furthermore, watch Technology's behavior relative to the broader market (not the index-level bounces) for the signal that the durable turn has arrived. The reward for that patience

should be a sharply higher tape into year-end once the relative signals finally fire. Have a nice weekend!

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