



Market Observations - as of May 20, 2022

By Carl Jorgensen - For Objective Traders - For educational purposes only. Not Financial Advice.

Last week we saw the market decline continue Monday, pause for a day and a half, then continue lower Wednesday and Thursday to new 2022 lows and a mild late day bounce. Friday saw a small rally that stalled and failed to continue higher the latter half of the day.

This week we saw a pause Monday followed by a mild rally Tuesday that failed to take out prior highs. Wednesday saw strong selling dominate all day. Thursday saw a pause followed by stronger selling the first half of Friday to new 2022 lows. We saw a pause for about 90 min. then a last hour violent rally to end the day near the prior day's close and down for the week.

Oil continued to rise Monday and Tuesday, and then fell back on Wednesday and consolidated the rest of this week. Gold saw some consolidation for three days then a mild rally the last two days of this week.

The 10 year Treasury saw strong buying volume on Wednesday and Thursday this week as the markets sold off and the Yields declined as a result.

We have now seen 7 to 8 weeks in a row of a steady decline in most major market indexes. Each week we have seen 'Failed Rallies' making Lower Highs followed by new Lower Lows. When the markets are in a Bearish Trend, Bearish trading opportunities are often found by Entering a Bearish Positions right as the rally fails, and Exiting as or right after new Lows or Lower Lows are established. This Bearish style of swing trading requires speed and agility since most bear moves have been quick and volatile. This strategy is commonly called 'Sell the Rip' and is the opposite of 'Buy the Dip' when in a Bullish trend. One of the major differences between trading Bullish and Bearish markets, is that Bearish moves often occur much faster and can be larger violent moves down whereas Bullish moves tend to be slower and not nearly as violent. The Markets have given us many Bearish opportunities so far this year, and if you are not skilled as a Bearish Trading, this is a good time to study the market's behaviors carefully to see the nature of Bear markets.

Reminder, this weekly publication is in no way to be considered a recommendation for any trades, trading strategies or methods. This publication is simply a way to share what I see in the charts so that readers can continue to develop their chart reading skills and observations. Being able to recognize market behaviors in the charts can help all styles of traders find their own opportunities that fit their style, trading instrument, time frame and objectives.

Now let's look at the charts to see what they are telling us. Each week we start with the major indexes, and then look at market Breadth, key commodities, currency and Treasuries. We follow with some Sector analysis and then look at the 7 biggest stocks followed by 5 to 7 stocks from key Sectors that we have been following.



S&P 500 weekly chart as of May 20, 2022 - Here we can see seven weeks in a row of decline to new 2022 lows this week as most of the 2021 gains have now been given back.



S&P 500 daily chart as of May 20, 2022 - Here we see the 'failed rally' late last week that peaked on Tuesday of this week and reversed strongly on Wednesday. Friday saw a drop to new 2022 lows and reversed to end the week down -3.05%.



S&P 500 15 min. chart as of May 20, 2022 - Here we see the failed rally that began the last hour of last Thursday, continued higher last Friday, paused on Monday of this week and rallied higher on Tuesday. Wednesday saw a gap down and strong selling all day that took back all of the gains from the prior 3 days in just one day. Bear moves can be 3x faster than the same Bull moves and this is an example of that trait. Thursday saw a pause with Strong selling resuming the first half of Friday to new 2022 lows. We saw a 90 min. pause mid-day Friday near these new lows before a sharp rally the last hour to end the day near where the S&P closed the prior day.

Here again we see a common pattern this week, with a Rally that 'fails' to reach or exceed prior highs and then reverses sharply and drops to Lower Lows. The pattern of Lower Highs and Lower Lows is the very definition of a Bear Trend and the above chart illustrates this Trend.

Going forward into next week, we know the odds currently favor the Bears and thus it is likely to see more 'Failed Rallies' until the Bear Trend Ends.



DJIA weekly chart as of May 20, 2022 - Here we see 8 declining weeks in a row. The Dow Industrials have not seen such a consecutive series of 8 weeks of decline for many decades.



DJIA daily chart as of May 20, 2022 - Again we see a failed rally this week that stalled out on Tuesday. Note that the next day saw VERY strong selling with one of the largest range days this year. Both Thursday and Friday saw new 2022 lows, ending the week down -2.90%.



Nasdaq weekly chart as of May 20, 2022 - Here we see 7 weeks in a row of Declines and new 2022 lows this week. Note that the Nasdaq composite has now given back all of the 2021 gains and nearly half of its 2020 gains. We also see the classic pattern of testing Resistance at its 50 week and 20 week SMAs 7 weeks ago as the current decline began. Kissing these major SMAs good-bye a while after they were broken below is a common pattern we see in Bear Markets.



Nasdaq daily chart as of May 20, 2022 - Here we see the failed rally peak on Tuesday and is followed by 3 days of lower lows and lower highs to end the week down -3.82%.



Russell 2000 weekly chart as of May 20, 2022 - Here we see 7 weeks of decline with one week of a pause in mid April. Last week we saw new 2022 lows and a dip below the 200 week SMA (Purple). This week we saw another dip below the 200 week SMA and a lower close nearly right on the 200 week SMA.



Russell 2000 daily chart as of May 20, 2022 - Here we see the failed rally that peaked Tuesday and was followed by 3 days of lower lows to end this week down -1.08%. The Russell did not exceed the lows from last week this week.

Next we will look at a few key 'Market Internals' to better understand overall market Breadth.



McClellan Summation Index weekly chart as of May 20, 2022 - Last week we saw the decline accelerate to end the week at -856.49 and delivered new 2-year lows. This week we saw a pause with little change to end this week at -846.84 and more new 2-year lows.



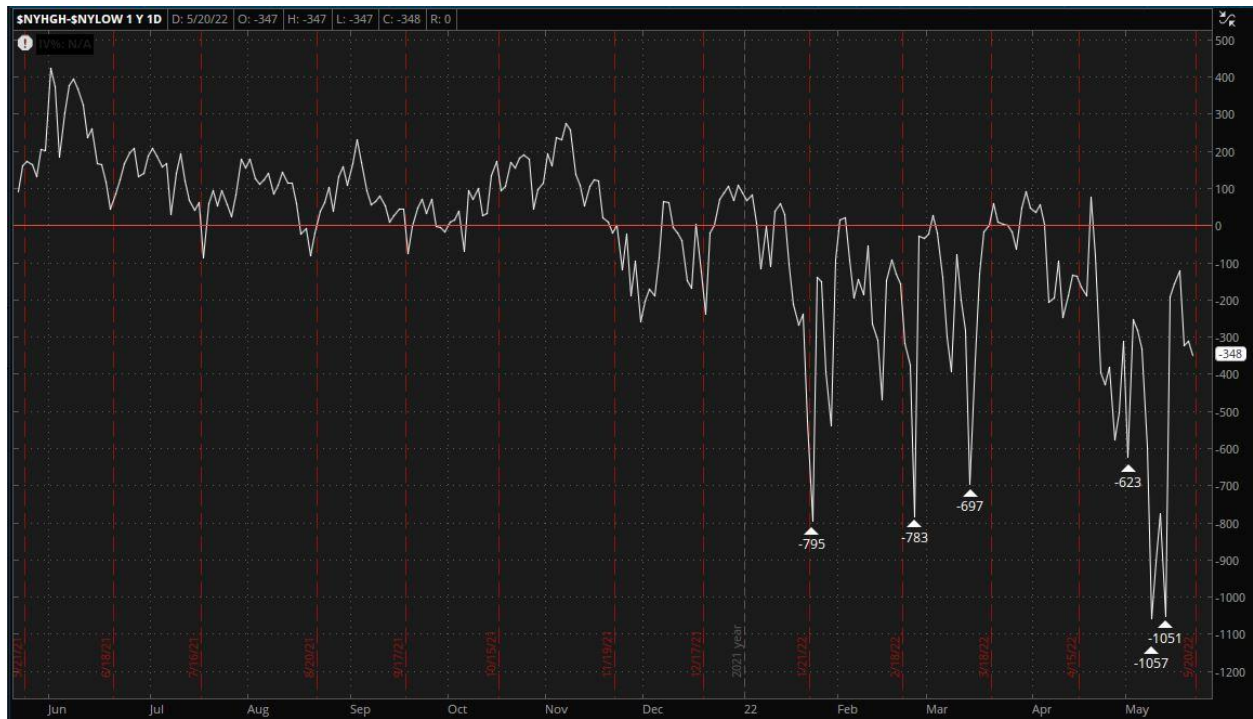
McClellan Summation Index daily chart as of May 20, 2022 - Here we see this week as mostly horizontal as breadth saw little changes during the week. The McClellan Summation Index is a running total of the McClellan Oscillator values from each day.



NYSE Percent above 200 day SMA daily chart as of May 20, 2022 - Last week we saw a drop down to 21.77% on Thursday with a small bounce up Friday to end the week at 24.85%. This week we saw a quick bounce up to 28% and a quick fall back down to the 24% area with small changes the latter half of this week, ending this week with a small decline to 24.12%.



NYSE Percent above 50 day SMA daily chart as of May 20, 2022 - Last week we saw a strong decline continued to a new 2-year low on Wednesday of 11.84% then a small bounce Thursday and Friday to end the week at 17.84%. This week we saw a quick bounce up to 26% followed by a quick decline back to the 18% area. The latter half of this week saw little change to end this week at 17.81%.



NYSE New Highs minus New Lows daily chart as of May 20, 2022 - Last week we saw two extreme lows in this Indicator of -1057 and -1051. This week saw negative numbers each day but in the range of -121 to -347 without any 'extreme' lows. However, we did see new 2022 lows in the major indexes this week.



VIX daily chart as of May 20, 2022 - We saw a mild decline in the VIX on Monday and Tuesday this week which is expected as the markets rallied a bit. However, the VIX only increased from 26 to 31 on Wednesday while the markets saw very strong selling. This seems wrong to me, as I would have expected to see the VIX pop up to at least 34-36 area if not higher on Wednesday. We then saw a mild decline in the VIX on Thursday and Friday as most Major markets made new 2022 lows on Friday. This is NOT what I would expect to see.

Something smells wrong to me. This suggests to me that either the Options markets are way underpricing actual risk, or they have become complacent after spending nearly a month above 26-28. Usually when markets hit new 52-week lows we see a much more extreme reaction in the VIX.

This sluggish VIX suggests to me that we have yet to see a full capitulation selling event in the markets (as usually happens as markets 'bottom') and there can be more down-side Bearish Trend yet to go.



SKEW daily chart as of May 20, 2022 - We saw Options SKEW dip last week to new lows (119.91) and the drop continued this week to lower lows on Monday (117.53) and Tuesday (117.68). We provided a deeper description of what Options SKEW measures in last week's 'Market Observations' dated May 13 2022.



VVIX daily chart as of May 20, 2022 - The Volatility of the VIX remained below its 50 day SMA this week and oscillated above and below its 112 level. This seems odd to me as well, since the VVIX often remains above 112 (historically) when market Uncertainty is elevated. We do NOT see that this week. (hint?)

Next we will look at a few key Commodities, Currency and Treasuries.



Oil daily chart as of May 20, 2022 - Oil continued its rally Monday and paused Tuesday as Oil Futures expiration approached. Wednesday saw a drop to nearly its 20 day SMA. Thursday saw a brief dip below the 20 day and 50 day SMAs than closed back up above those SMAs and up from the prior day. Friday saw a small rally to end the week at \$110.35.



Gold daily chart as of May 20, 2022 - Gold paused for 3 days near the close of the prior week before a rally on Thursday saw prices rise above its 200 day SMA. Friday saw a pause near the prior day's highs.



US Dollar Index daily chart as of May 20, 2022 - The US Dollar became weaker this week with decline Monday, Tuesday and Thursday below its 20 day SMA. Friday saw a pause near the lows of the prior day.



US 10 year Treasury daily chart as of May 20, 2022 - The 10 year paused Monday, sold a little on Tuesday, and then saw a strong wave of buying the last 3 days of this week. Note the volume the last 3 days. As money came out of equities these 3 days, it appears some of that money went into Treasuries.



US 10 year Yield daily chart as of May 20, 2022 - The 10 year Yield rose a little on Tuesday, then dropped back below its 20 day SMA on Wednesday and continued lower the rest of this week.

Date	1 Mo	2 Mo	3 Mo	6 Mo	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr	20 Yr	30 Yr
05/02/2022	0.41	0.71	0.90	1.49	2.10	2.73	2.93	3.01	3.04	2.99	3.26	3.07
05/03/2022	0.48	0.77	0.91	1.45	2.16	2.78	2.95	3.01	3.03	2.97	3.21	3.03
05/04/2022	0.49	0.74	0.89	1.44	2.07	2.66	2.85	2.93	2.97	2.93	3.21	3.01
05/05/2022	0.49	0.71	0.85	1.37	2.08	2.71	2.91	3.01	3.07	3.05	3.35	3.15
05/06/2022	0.48	0.72	0.85	1.41	2.08	2.72	2.94	3.06	3.13	3.12	3.43	3.23
05/09/2022	0.51	0.73	0.92	1.43	1.99	2.61	2.81	2.95	3.04	3.05	3.38	3.19
05/10/2022	0.57	0.75	0.89	1.44	2.01	2.62	2.81	2.91	2.99	2.99	3.31	3.12
05/11/2022	0.59	0.77	0.91	1.43	1.99	2.66	2.81	2.89	2.94	2.91	3.25	3.05
05/12/2022	0.61	0.77	0.96	1.44	1.96	2.56	2.73	2.81	2.86	2.84	3.22	3.00
05/13/2022	0.67	0.79	1.03	1.47	2.04	2.61	2.79	2.89	2.95	2.93	3.32	3.10
05/16/2022	0.64	0.85	1.07	1.54	2.07	2.58	2.75	2.83	2.89	2.88	3.30	3.09
05/17/2022	0.61	0.85	1.06	1.57	2.16	2.71	2.89	2.96	3.00	2.98	3.36	3.17
05/18/2022	0.56	0.85	1.03	1.56	2.16	2.68	2.84	2.89	2.91	2.89	3.24	3.07
05/19/2022	0.65	0.91	1.05	1.52	2.11	2.63	2.78	2.84	2.87	2.84	3.24	3.05
05/20/2022	0.63	0.87	1.03	1.51	2.07	2.60	2.73	2.80	2.82	2.78	3.17	2.99

US Treasury Yields daily table as of May 20, 2022 - We saw a little flattening of the Yield Curve this week as longer terms declined and shorter terms increased the last 3 days of this week.



FOMC Balance Sheet weekly chart as of May 18, 2022 - The Fed 'Increased' their Balance Sheet this week by adding \$3.89 Billion to raise the Total Assets from \$8.942008 Trillion to \$8.945898 Trillion. We still have yet to see signs of the Fed 'Reducing' its Balance Sheet as they have stated several times.

Next we will look at a few key Sectors.



Dow Transportation Index daily chart as of May 20, 2022 - The Transports saw a pause Monday, a rally Tuesday that failed to reach its 20 day SMA followed by a HUGE decline Wednesday to new 52-week lows. Wednesday saw the largest range day for the Transports in 2022. The decline continued Thursday and briefly Friday with a lower low before the late Friday rally to end the week down -6.68%.



XLE daily chart as of May 20, 2022 - The Energy sector often moves with the price of Oil and we saw that this week with the rally Monday, pause Tuesday and Decline Wednesday that continued Thursday. Note that Wed. Thur. and Friday all closed near the highs from Apr 18th (Yellow line) near \$81.50. The XLE ended the week up +1.23% as the strongest sector on my list this week.



XLF daily chart as of May 20, 2022 - The Financial Sector saw a failed rally Tuesday and lower lows the following three days, delivering a new 2022 low on Friday and closing the week down -1.82%.



QQQ daily chart as of May 20, 2022 - The Nasdaq-100 saw a failed rally Tuesday followed by sharp selling Wednesday that continued with lower lows on Thursday and Friday before a last hour bounce to end the week down -4.39%.



SOXX daily chart as of May 20, 2022 - The Semiconductor sector saw a pause Monday then gapped up above its 20 day SMA with a rally Tuesday that tested and respected the descending Resistance Trend Line (Green line). Wednesday saw strong selling that continued with lower lows on Thursday. Friday saw a gap up to the 20 day SMA that failed and sold off to retest the lows from the prior week without exceeding them. A last hour bounce on Friday helped the SOXX to end the week down -2.59%.



XLC daily chart as of May 20, 2022 - The Communication Services sector saw a failed rally Tuesday that tested its 20 day SMA as Resistance. Wednesday saw strong selling with lower lows Thursday and Friday, ending the week down -1.68%.



XME daily chart as of May 20, 2022 - The Metals and Mining sector saw a pause Monday, a gap up and rally Tuesday that failed and was followed with strong selling Wednesday. Thursday and Friday mostly remained inside Wednesday's range to end the week up +0.58%. Remember that we have often seen the XLE and XME sectors as the strongest sectors so far in 2022. For that reason, we continue to keep a close eye on them.

INDEXes	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending
SECTORS	4/8/2022	4/14/2022	4/22/2022	4/29/2022	5/6/2022	5/13/2022	5/20/2022
\$SPX	-1.27%	-2.13%	-2.75%	-3.27%	-0.21%	-2.41%	-3.05%
\$INDU	-0.28%	-0.78%	-1.86%	-2.47%	-0.24%	-2.14%	-2.90%
\$COMPQ	-3.86%	-2.63%	-3.83%	-3.93%	-1.54%	-2.80%	-3.82%
\$RUT	-4.62%	0.52%	-3.21%	-3.95%	-1.32%	-2.55%	-1.08%
QQQ	-3.51%	-3.07%	-3.85%	-3.73%	-1.28%	-2.36%	-4.39%
\$TRAN	-6.71%	2.58%	1.50%	-1.34%	0.24%	-2.98%	-6.68%
XLE	3.21%	0.40%	-4.57%	-1.38%	10.34%	-2.58%	1.23%
XLF	-0.86%	-2.64%	-1.95%	-4.59%	0.67%	-3.48%	-1.82%
XLK	-3.82%	-3.79%	-2.43%	-1.16%	-0.60%	-3.35%	-3.53%
SOXX	-7.61%	-3.01%	-1.28%	-2.38%	2.08%	-0.39%	-2.59%
XLV	3.45%	-2.93%	-3.58%	-2.53%	-0.39%	-0.91%	0.92%
XLY	-3.10%	-0.60%	-1.45%	-7.36%	-2.90%	-3.69%	-7.82%
XRT	0.70%	0.79%	-4.50%	-3.79%	-1.17%	-2.49%	-9.44%
XLI	-2.52%	0.34%	-1.51%	-3.34%	0.40%	-2.53%	-3.61%
XLU	1.93%	-1.13%	-2.42%	-4.03%	1.33%	-1.08%	0.43%
XME	-1.68%	7.30%	-11.28%	-3.78%	-3.65%	-7.18%	0.58%
XLP	2.70%	0.15%	0.51%	-2.02%	-1.18%	0.30%	-8.12%
XLB	-0.66%	0.66%	-3.73%	-0.83%	-0.59%	-2.41%	-0.08%
XLC	-1.75%	-2.35%	-7.76%	-3.69%	0.52%	-0.61%	-1.68%
XHB	-3.52%	-0.03%	-0.18%	-0.08%	0.11%	-0.10%	-3.56%

Weekly Percent Change US Indexes and Sectors table as of May 20, 2022 - Note that this week saw larger declines than last week for many of the major indexes except the Russell 2000.

The strongest sector this week was the XLE. In addition to the XLE we saw the XLV, XME and XLU as the only positive sectors this week.

The weakest sector this week was the XRT as several retail stocks saw a large drop this week. In addition to the XRT, weak sectors this week included: XLP, XLY, Transports, QQQ and XLI.

Out of the 18 Sectors I track, you can see how they reflect the market's daily changes in overall Breadth by counting the number of sectors at the end of each day that are closing the day 'Up' or 'Down'.

	<u>UP</u>	<u>DOWN</u>
Monday:	6	12
Tuesday:	17	1
Wednesday:	0	18
Thursday:	6	12
Friday:	8	10

Note the strength of Wednesday's decline this week by including all sectors.

INDEXes SECTORs	Mon	Tue	Wed	Thur	Fri	Mon	Tue	Wed	Thur	Fri
	End of Day 05/09/22	End of Day 05/10/22	End of Day 05/11/22	End of Day 05/12/22	End of Day 05/13/22	End of Day 05/16/22	End of Day 05/17/22	End of Day 05/18/22	End of Day 05/19/22	End of Day 05/20/22
\$SPX	-3.20%	0.25%	-1.65%	-0.13%	2.39%	-0.39%	2.02%	-4.04%	-0.58%	0.02%
\$INDU	-1.99%	-0.26%	-1.02%	-0.33%	1.47%	0.08%	1.34%	-3.57%	-0.75%	0.03%
\$COMPQ	-4.29%	0.98%	-3.18%	0.06%	3.82%	-1.20%	2.76%	-4.73%	-0.26%	-0.30%
\$RUT	-4.21%	-0.02%	-2.48%	1.24%	3.06%	-0.52%	3.19%	-3.56%	0.08%	-0.17%
QQQ	-3.91%	1.21%	-2.99%	-0.24%	3.71%	-1.16%	2.59%	-4.91%	-0.54%	-0.31%
\$TRAN	-2.89%	-0.06%	-1.18%	0.20%	0.95%	-0.84%	3.16%	-7.41%	-1.84%	0.38%

Daily Percent Change US Indexes table as of May 20, 2022 - We saw some consistent relative strength with the Russell three days this week and significant weakness in the Transports on Wed. and Thur. this week.

Next we will look at a few key Stocks.

We typically look at the biggest 7 companies each week since they carry such a significant weight in the major Indexes and many ETFs due to their size. We next look at charts that we have been following closely over the prior weeks to see how their trends may develop over time. We will rotate these other 5 to 7 stocks as different sectors show changes in leadership over time.



AAPL daily chart as of May 20, 2022 - Apple showed a second week of a similar decline from the failed rally Tuesday that was followed with strong selling Wed. Thur. and Friday. Note the increasing volume this week with new 2022 lows on Thursday and Friday, ending the week down -6.47%.



MSFT daily chart as of May 20, 2022 - Microsoft saw a failed rally Tuesday followed by strong selling to new 2022 lows on Friday, ending the week down -3.05%.



GOOGL daily chart as of May 20, 2022 - Alphabet saw a failed rally Tuesday near its 20 day SMA that was followed by strong selling the next 3 days. Friday saw new 2022 lows and ended the week down -6.15%.



AMZN daily chart as of May 20, 2022 - Amazon saw a failed rally Tuesday with strong selling the next day but without much follow through lower on Thursday or Friday, failing to break below last week's lows. Amazon ended the week down -4.83%.



TSLA daily chart as of May 20, 2022 - Tesla saw a failed rally last Friday (May 13th) that was followed with lower lows every day this week except for Tuesday and lower highs every day this week. Friday saw the largest range day this week and the largest volume day as it made new 2022 lows. Tesla ended this week down -13.73%.



FB daily chart as of May 20, 2022 - Meta continues to consolidate near its 20 day SMA and remained mostly 'Inside' of last week's range. FB ended the week down -2.56%.



NVDA daily chart as of May 20, 2022 - Nvidia saw a failed rally Tuesday followed by selling Wednesday, a pause Thursday and resumed selling Friday to end the week down -5.72% but without exceeding last week's lows.

Out of the 7 biggest names this week, only 2 lost less than did the NDX this week, those two were MSFT and FB. The other 5 all lost more than the NDX did this week.



JPM daily chart as of May 20, 2022 - JP Morgan saw a gap up and failed rally Tuesday that tested its 20 day SMA as Resistance. The next 3 days all saw lower lows to end the week down -1.47%. Note how the 20 day SMA (Yellow) continues to provide Resistance since breaking below on April 1st.



HD daily chart as of May 20, 2022 - HomeDepot saw a pause Monday and a gap up and rally to its 50 day SMA that failed and pulled back to its 20 day SMA. Wednesday saw a gap down and selling to nearly its lows from the prior week. Thursday saw an 'Inside' day followed by another dip to deliver a new 2022 low on Friday to end the week down -2.99%. Note how the 50 day SMA continues to provide Resistance since breaking below on Jan. 7th.



COST daily chart as of May 20, 2022 - Costco saw a pause Monday with a lower range day on Tuesday. Wednesday saw a large gap down and sell off on huge volume likely in sympathy to the negative reporting of Earnings by TGT before the open that day. COST saw lower lows and lower highs on Thursday and Friday to end the week down -16.26%. Note the sequence of COST breaking below its 20 day SMA Apr. 22nd, then below its 50 day SMA Apr. 29th and then below its 200 day SMA May 6th.

FYI, TGT ended this week down -29.00%.



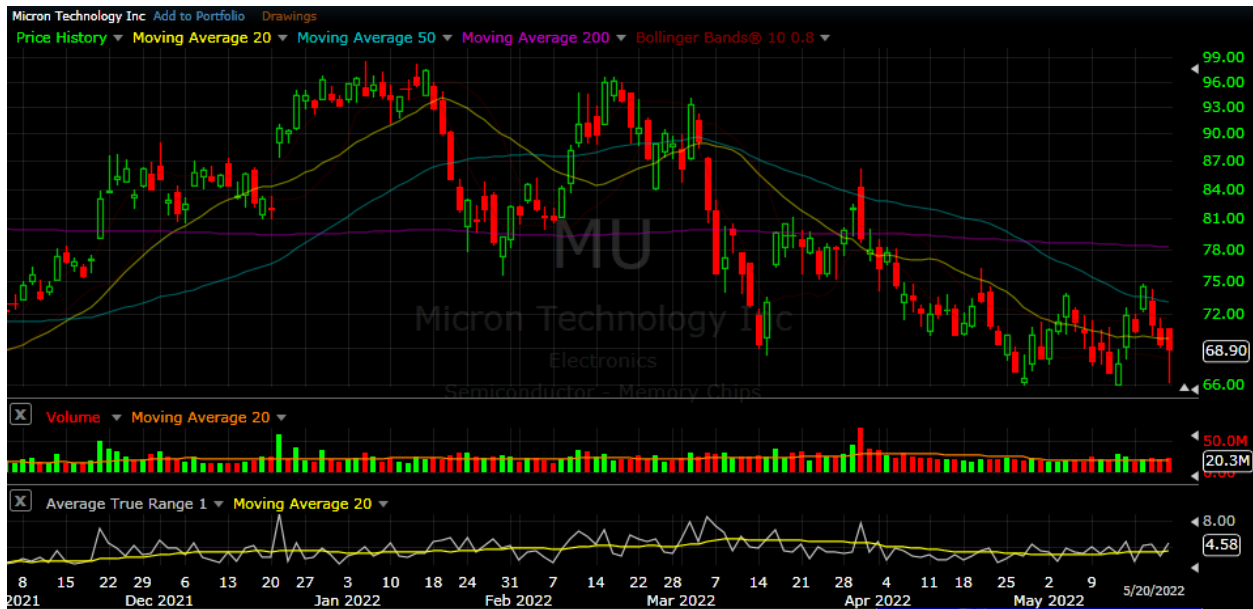
WMT daily chart as of May 20, 2022 -Walmart reported Earnings on Tuesday before the open, and saw a huge gap down and sell-off as a reaction. Note the gap down and continued selling Wednesday and Thursday on strong volume. Friday saw a swing up and down to new 2022 lows without much change that day, ending the week down -19.49%.



JNJ daily chart as of May 20, 2022 - Johnson and Johnson continued to consolidate around its 50 day SMA on Monday and Tuesday this week with the 20 day SMA providing Resistance. Wednesday saw stronger selling that continued lower on Thursday. Friday saw a small gap up and rally that failed to return to its 50 day or 20 day SMAs, ending the week up +0.07%.



AMD daily chart as of May 20, 2022 - AMD saw a pause Monday followed by a gap up and rally above its 50 day SMA Tuesday. Wednesday, Thursday and Friday all saw lower lows with a brief dip below its 20 day SMA on Friday before ending the week down -1.70%.



MU daily chart as of May 20, 2022 - Micron saw a pause Monday followed by a gap up and rally above its 50 day SMA on Tuesday. Wednesday saw strong selling back below its 50 day SMA and testing support near its 20 day SMA. Thursday crossed below its 20 day SMA and Friday dipped lower to retest support near \$66 before bouncing the last hour to end the week down -4.20%.

We have no idea what will happen next week in the markets. What we do know is that we continue to be currently in a 'Bear Trend', and that Bear Trends can typically see violent moves both up and down. We choose to 'assume' that the Bear Trend is likely to continue next week as we have seen in the charts that Trends tend to 'Continue' more often that they 'Reverse'.

Also, our observations so far this year have NOT seen any clear 'capitulation' selling as is often seen at market bottoms, so we will continue to monitor Breadth and various charts for signs of this type of action.

We also have a few sectors identified (above) as the strongest and the weakest that we will watch along with key stocks within those sectors to see if we find a high-odds trading opportunity (Bullish or Bearish) that meets our criteria and may justify a trade.

We stick to our plan, and while in a confirmed Bear Trend, we mostly focus on Failed Rallies to short and ride 'with' the Trend.

Hope this helps.

Trade Smart,

CJ