



## Market Observations - as of June 3, 2022

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

Last week we saw a mild rally Monday, a pullback Tuesday, then a rally after the FOMC meeting minutes Wednesday afternoon that showed strength Thursday and Friday.

This week was a short week with the US markets closed for the Holiday on Monday. This four-day week saw a pause in the rally as the markets oscillated within a narrow range all week. Thursday saw the strongest attempt with a gap down at the open to test support of this week's range, followed by a rally most of the day to new highs for the week. However this one day rally failed as Friday saw a gap down and selling to retest support again for this week. Overall most of the major indexes saw a small loss for the week.

With the end of May occurring on Tuesday this week, we took the opportunity to capture some Monthly charts after Tuesday's close to help give us a big picture view and context to the markets over the past 15 years or so. We have included a few monthly charts below.

Oil prices dipped then rallied this week to end the week on higher highs. Gold dipped Tuesday, rallied Wednesday and Thursday then pulled back on Friday to spend another week mostly within a range.

The US Dollar briefly strengthened Wednesday then gave those gains all back the next day to end the week remaining inside a range. The US 10 year Treasuries saw a brief surge of selling on Wednesday and early on Friday this week, with the Yields responding positively during those surges.

We continue to be within a bearish market with elevated volatility. The brief rally last week did not continue this week. This week we saw a pause. There remain at least three possibilities for next week: [1] We see the rally that began last week, after a pause this week, resume higher next week. [2] We continue to see a range bound market like what we saw this week. Or [3] we see last week's rally fail after this week's pause, and return lower to possibly retest the May lows.

By imagining each scenario, we can be prepared by identifying in advance what evidence we need to see in the charts to confirm any one of these three scenarios, and what trading action (if any) would be appropriate for us to take when that scenario is confirmed.

By paying attention to the strongest (and weakest) sectors and stocks we can be prepared with higher odds opportunities for bullish (or bearish) trades.

Let's look at the charts to see what they are telling us this week.



S&P 500 monthly chart as of May 31, 2022 - May shows a tall Doji candle with very little change from April. The S&P closed May only \$0.22 higher than where it closed April. The S&P closed below the 20 month SMA (Yellow) in April and again in May.



S&P 500 weekly chart as of Jun 3, 2022 - We saw a 7-week decline followed by a bounce last week and a small decline this week.



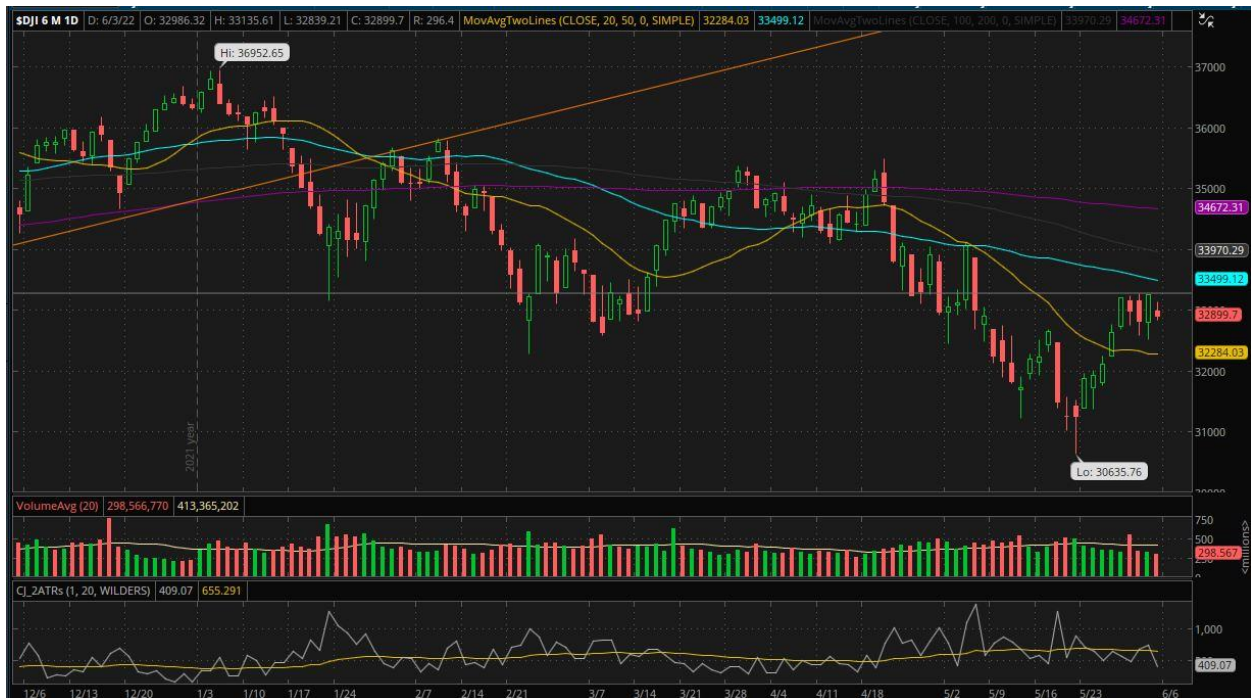
S&P 500 daily chart as of Jun 3, 2022 - The range defined last Friday (May 27<sup>th</sup>) nearly defined the range that was respected all of this week. Thursday saw a failed rally that briefly delivered a higher high for this week but was followed by an 'Inside day' on Friday, ending the week down -1.20%.



DJIA monthly chart as of May 31, 2022 - Here we see a tall Doji candle for May that closed the month below its 20 month SMA, and up only +\$12.91 from where the Industrials closed in April.



DJIA weekly chart as of Jun 3, 2022 - Here we see an eight week decline followed by a bounce last week. This week saw a very narrow range and small decline where last week's rally did not show any 'continuation' this week.



DJIA daily chart as of Jun 3, 2022 - The range defined last Friday (May 27<sup>th</sup>) nearly defined the range that was respected most of this week with only a mild expansion. Thursday saw a failed rally that nearly retested the high for this week but was followed by a narrow 'inside day' on Friday, ending the week down -0.94%.



Nasdaq monthly chart as of May 31, 2022 - Both April and May closed below the 20 month SMA with lower lows and lower highs seen in May along with a lower close. May closed down -\$253.25 from its April close.



Nasdaq weekly chart as of Jun 3, 2022 - We see a 7 week decline followed by a bounce last week. This week the bounce did not continued, we see a narrow range week that closed lower.



Nasdaq daily chart as of Jun 3, 2022 - The rally last week did not continue this week. We see a horizontal range this week that expanded a little on Thursday then contracted with a narrow 'Inside day' on Friday to end the week down -0.98%.



Russell 2000 monthly chart as of May 31, 2022 - The Russell spent most of 2021 inside a narrow horizontal range, then dropped in Jan. 2022, paused Feb. and March then dropped again in April. May saw a lower low and lower high and formed a 'Doji' candle with only a \$0.06 decline from the end of April to the end of May.



Russell 2000 weekly chart as of Jun 3, 2022 - Here we see the Jan. decline, pause and April-May decline with a bounce last week off of the 200 week SMA support. This week was a pause and Doji candle.



Russell 2000 daily chart as of Jun 3, 2022 - Here we see the rally last week that pulled back a little on Tuesday and Wednesday this week. Thursday saw a failed rally and pull back on Friday with a narrow range 'Inside day' to end the week down -0.26%.

Next we will look at a few key 'Market Internals'.



McClellan Summation Index weekly chart as of Jun 3, 2022 - Last week we saw a rally up to -573.16. This week we see the rally continue up to -308.16.



McClellan Summation Index daily chart as of Jun 3, 2022 - Last week ended at -573.16. This week continued higher to -308.16. Unlike the charts we looked at for the major indexes that show a pause in the trend this week, the McClellan Summation index shows the rally from last week continuing this week. What is behind this 'divergence' of indicators? Since the McClellan Oscillator weighs all listed stocks equally, it could be that many small cap stocks continued to show some positive momentum this week while large cap stocks paused this week. The Russell 2000 did show us a smaller decline this week than the other major indexes did. I don't know for sure, but this is one possibility. Digging deeper into how the McClellan Oscillator is calculated, what data it uses and how most stocks acted this week may give a clue to this divergence between Breadth indicators.





NYSE Percent above 200 day SMA daily chart as of Jun 3, 2022 - Last week ended with 32.95% of stocks above their 200 day SMA. This week we see an oscillation between 30% and 33% most all week, ending this week at 31.15%.



NYSE Percent above 50 day SMA daily chart as of Jun 3, 2022 - Last week ended with 44.44% of stocks above their 50 day SMA. This week we see some oscillations between 40% and 49% that ended this week at 43.56%.



VIX daily chart as of Jun 3, 2022 - The VIX drifted lower this week, crossing below its 50 day SMA on Wednesday, finding the low this week at 24.33 on Thursday, and ending the week at 24.79. When the markets bottomed this year on May 20<sup>th</sup>, we did NOT see a significant high in the VIX. This suggests that the selling surge that day was NOT any big surprise, and may not have been an exhaustion of the bears. Time will tell.



VVIX daily chart as of Jun 3, 2022 - The VVIX continued to make new 2-year lows each day this week except on Friday. Such a low VVIX gives us concern that Volatility could be under-pricing Risks in this market.

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



Oil daily chart as of Jun 3, 2022 - Oil prices spiked Tuesday, pulled back some on Wednesday then rallied on Thursday and Friday to new 12 week highs.



Gold daily chart as of Jun 3, 2022 - Gold prices dipped Tuesday, rallied Wednesday and Thursday then sold off on Friday to end the week with little overall change.



US Dollar Index daily chart as of Jun 3, 2022 - The US dollar paused Tuesday, strengthened Wednesday just to give back those gains the next day. Friday saw a small bounce to end the week a little stronger.



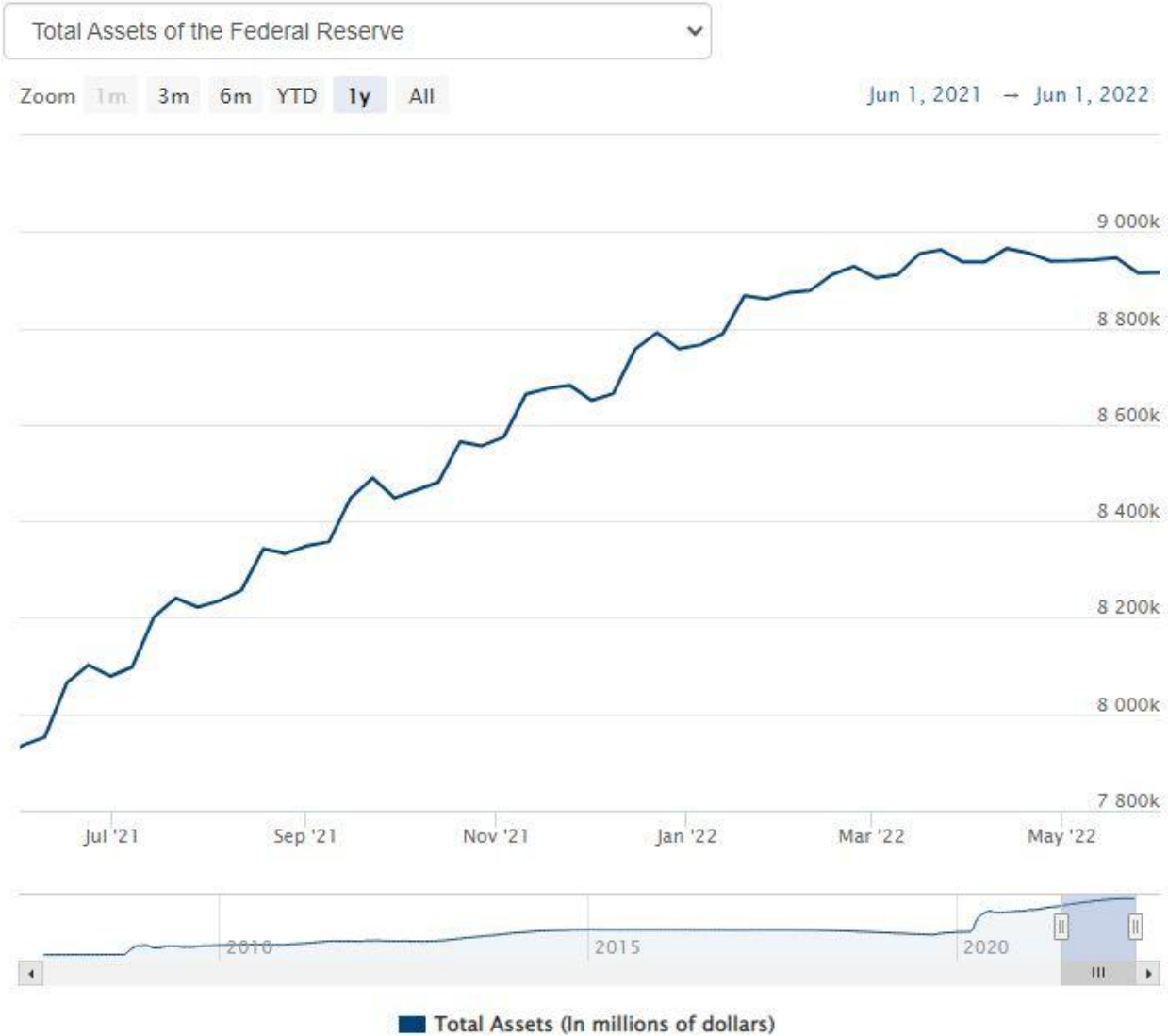
US 10 year Treasury daily chart as of Jun 3, 2022 - Tuesday and Wednesday we saw strong selling of the 10 year, note the volume these days. Thursday and Friday saw quiet days with little change and light volume.



US 10 year Yield daily chart as of Jun 3, 2022 - We saw a gap up on the 10yr Yield on Tuesday that continued higher Wednesday. Thursday saw a pause then the increasing yield continued higher on Friday as it neared 3.0%.

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
06/01/2022	0.77	0.90	1.15	1.63	2.16	2.66	2.84	2.94	2.98	2.94	3.31	3.09
06/02/2022	0.85	1.05	1.17	1.64	2.15	2.65	2.83	2.92	2.95	2.92	3.30	3.09
06/03/2022	0.87	1.05	1.21	1.68	2.18	2.66	2.87	2.95	2.99	2.96	3.33	3.11

US Yield Rates Table as of Jun 3, 2022 - Most terms increased a little this week, both short term and longer term Yields.



FOMC Balance Sheet weekly chart as of Jun 1, 2022 - The Fed increased its balance sheet this week by a 'small' amount +\$769 Million, from the May 25<sup>th</sup> Total Assets of \$8.914281 Trillion to a new Total Assets of \$8.915050 Trillion. The Fed's latest statement said that they would 'begin' to reduce their balance sheet starting on June 1<sup>st</sup> 2022.

Next we will look at a few key Sectors.



Dow Transportation Index weekly chart as of Jun 3, 2022 - The Transports had been above \$14,000 support for over a year, and broke below that support in mid May then bounced back up above that level the next week (last week). This week we see a pause near the prior week's highs.



Dow Transportation Index daily chart as of Jun 3, 2022 - Here we can see the break and closed below the 14,000 support on May 18<sup>th</sup> then rallied above that level last Thursday. The range defined last Friday was mostly respected this week as the Transports paused mostly inside this range ending the week 'flat even' at +0.00% from last Friday's close.



XLE daily chart as of Jun 3, 2022 - The Energy sector delivered a new high Tuesday before pulling back 'Inside' the prior day's range. The next two days were 'Inside days' with a tiny rally Friday to end the week up 1.11% to make this sector the strongest on my list this week.



XLF daily chart as of Jun 3, 2022 - The Financial sector rallied last week but did not continue this week, pausing Tuesday, pulling back Wednesday, bouncing Thursday and pulling back Friday to end the week down -1.97%.





QQQ daily chart as of Jun 3, 2022 - The Nasdaq-100 ETF paused this week with a failed rally on Thursday followed by a pull back and 'Inside day' Friday to end the week down -0.94%. Note the well below average daily volume over the prior 2 weeks since the May 20<sup>th</sup> lows and the week prior to May 20<sup>th</sup>.



SOXX daily chart as of Jun 3, 2022 - The Semiconductor sector rallied up to its 50 day SMA last week, then paused this week with a failed rally on Thursday and pull back on Friday to end the week down -1.71%.



XLC daily chart as of Jun 3, 2022 - The Communications Services sector rallied above its 20 day SMA last week then paused this week with narrow days Tue. and Fri. and wider oscillating days on Wed. and Thursday. The XLC ended the week down -1.00%.

INDEXes	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending
SECTORS	4/22/2022	4/29/2022	5/6/2022	5/13/2022	5/20/2022	5/27/2022	6/3/2022
\$SPX	-2.75%	-3.27%	-0.21%	-2.41%	-3.05%	6.58%	-1.20%
\$INDU	-1.86%	-2.47%	-0.24%	-2.14%	-2.90%	6.24%	-0.94%
\$COMPQ	-3.83%	-3.93%	-1.54%	-2.80%	-3.82%	6.84%	-0.98%
\$RUT	-3.21%	-3.95%	-1.32%	-2.55%	-1.08%	6.46%	-0.26%
QQQ	-3.85%	-3.73%	-1.28%	-2.36%	-4.39%	7.07%	-0.94%
\$TRAN	1.50%	-1.34%	0.24%	-2.98%	-6.68%	7.07%	0.00%
XLE	-4.57%	-1.38%	10.34%	-2.58%	1.23%	8.27%	1.11%
XLF	-1.95%	-4.59%	0.67%	-3.48%	-1.82%	8.05%	-1.97%
XLK	-2.43%	-1.16%	-0.60%	-3.35%	-3.53%	7.94%	-1.04%
SOXX	-1.28%	-2.38%	2.08%	-0.39%	-2.59%	7.91%	-1.71%
XLV	-3.58%	-2.53%	-0.39%	-0.91%	0.92%	3.27%	-3.13%
XLY	-1.45%	-7.36%	-2.90%	-3.69%	-7.82%	9.51%	-0.49%
XRT	-4.50%	-3.79%	-1.17%	-2.49%	-9.44%	10.08%	-2.49%
XLI	-1.51%	-3.34%	0.40%	-2.53%	-3.61%	6.39%	0.08%
XLU	-2.42%	-4.03%	1.33%	-1.08%	0.43%	5.06%	-1.35%
XME	-11.28%	-3.78%	-3.65%	-7.18%	0.58%	9.95%	-2.23%
XLP	0.51%	-2.02%	-1.18%	0.30%	-8.12%	6.08%	-1.57%
XLB	-3.73%	-0.83%	-0.59%	-2.41%	-0.08%	5.99%	-0.79%
XLC	-7.76%	-3.69%	0.52%	-0.61%	-1.68%	3.79%	-1.00%
XHB	-0.18%	-0.08%	0.11%	-0.10%	-3.56%	6.94%	-1.00%

Weekly percent change US Indexes and Sectors table as of Jun 3, 2022 - Here we see all four major indexes were down this week with the S&P seeing the strongest decline and the Russell the weakest decline.

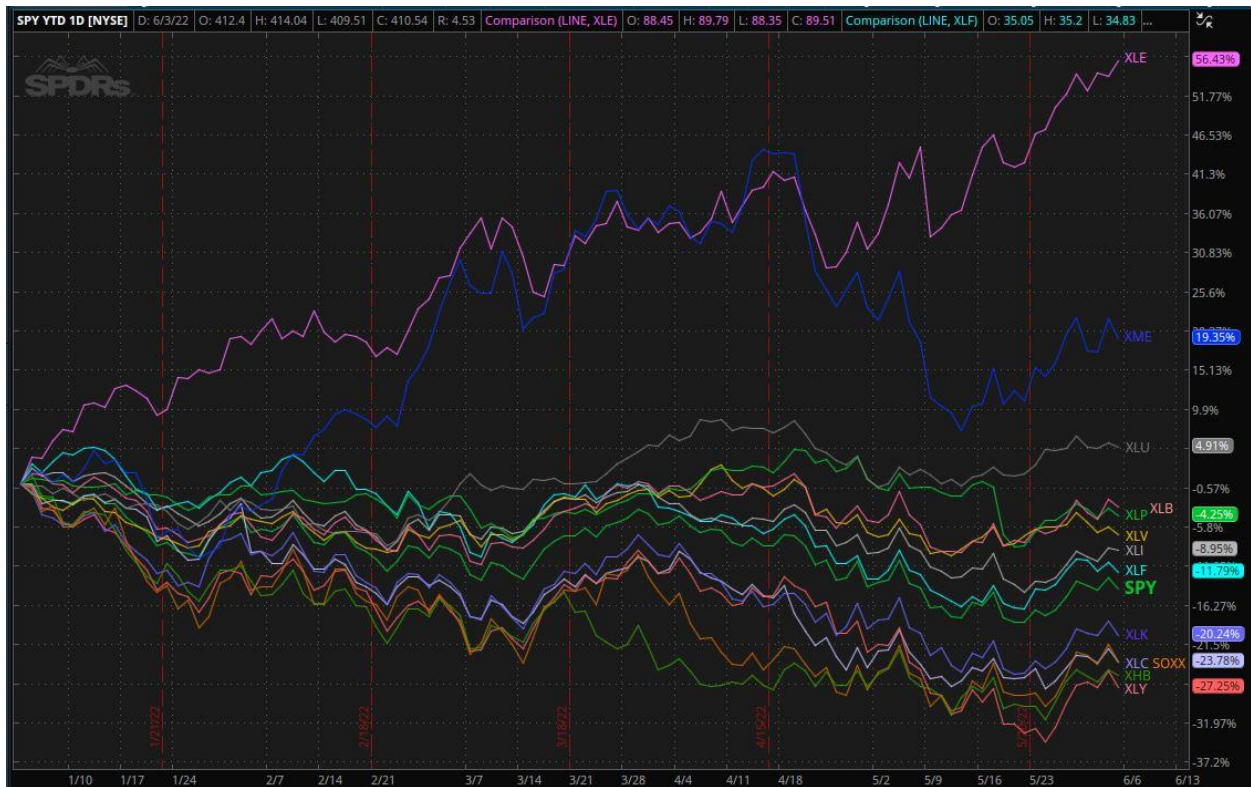
The strongest sectors this week, and the only 'positive' weekly changes were seen in: XLE, XLI and the Dow Transportation Index that ended the week flat.

The weakest sectors this week included: XLV, XRT, XME, XLF and SOXX.

INDEXes	Mon	Tue	Wed	Thur	Fri	Mon	Tue	Wed	Thur	Fri
	End of Day	End of Day	End of Day	End of Day	End of Day		Holiday	End of Day	End of Day	End of Day
SECTORS	05/23/22	05/24/22	05/25/22	05/26/22	05/27/22	05/30/22	05/31/22	06/01/22	06/02/22	06/03/22
\$SPX	1.86%	-0.81%	0.95%	1.99%	2.47%	n/a	-0.63%	-0.75%	1.84%	-1.64%
\$INDU	1.98%	0.15%	0.60%	1.61%	1.76%	n/a	-0.67%	-0.54%	1.33%	-1.05%
\$COMPQ	1.59%	-2.35%	1.51%	2.68%	3.33%	n/a	-0.41%	-0.72%	2.69%	-2.47%
\$RUT	1.10%	-1.56%	1.49%	2.17%	2.70%	n/a	-1.26%	-0.49%	2.31%	-0.77%
QQQ	1.66%	-2.13%	1.40%	2.77%	3.26%	n/a	-0.27%	-0.74%	2.74%	-2.60%
\$TRAN	1.97%	-1.30%	1.21%	2.90%	2.14%	n/a	-0.98%	-0.75%	2.08%	-0.32%

Daily percent change US Indexes table as of Jun 3, 2022 - Each day this week saw different leaders and laggards, with the Russell and the QQQ wearing both positions on various days this week.

Let's look at some comparisons so far this year, using a percentage change scale to expose both the leaders and laggards.



Year to Date Percentage SPY vs. Sectors as of Jun 3, 2022 - Only the XLE, XME and XLU are positive so far for 2022 while the SPY and other listed sectors are negative for the year.



Year to Date Percentage NDX vs. Large Cap Stocks as of Jun 3, 2022 - Here we are comparing the Nasdaq-100 to 8 of the biggest names in the market. Note that ALL are negative so far this year. Note that the BIGGEST of the Biggs (MSFT, AAPL and GOOGL) are doing better than the NDX so far this year while the others are weaker than the NDX so far this year.

You may want to create comparison charts like the example above for your own use to help identify relative strength. Instead of starting your comparisons at Jan. 1 2022, maybe you start from Jan. 1 2021, or how about from the May 20<sup>th</sup> 2022 lows? Learn to use your charting tools features creatively in order to help answer questions like these.

Next we will look at a few key Stocks.



AAPL daily chart as of Jun 3, 2022 - Apple saw a strong 2 day rally last week above its 20 day SMA. This week saw no continuation of that rally but a pause near the highs from last week and mostly above its 20 day SMA until Friday when selling broke below the 20 day SMA to end the week down -2.85% and below its 20 day SMA.



MSFT daily chart as of Jun 3, 2022 - Microsoft saw a slow and steady rally last week that paused Tuesday and Wednesday this week. Thursday saw a gap down to its 20 day SMA and a rally back up to the range of the prior days. Friday saw an 'Inside day' to end the week down -1.18% while remaining mostly above its 20 day SMA this week.



GOOGL daily chart as of Jun 3, 2022 - Alphabet saw a rally last week that continued Tuesday above its 20 day SMA. Wednesday saw higher highs and higher lows with a weak close. Thursday saw a rally to new highs for this week. Friday saw an 'Inside day' to end the week up +1.98% and still above its 20 day SMA.



AMZN daily chart as of Jun 3, 2022 - Amazon saw a rally above its 20 day SMA late last week that continued this week with strong gains Tuesday, higher highs Wed. and Thursday with an 'Inside day' on Friday to end the week up +6.26%. Amazon will do a 20:1 stock split by the open on Monday which will not affect the overall value since the share price will be 1/20<sup>th</sup> of this week's close with 20 times more shares for those holding the stock before the split. Even though there is NO net value change, it seems that stocks often rally in front of the split due to the extra attention it is getting. Could this be possible proof that the markets often react 'emotionally' and not fundamentally to news events.

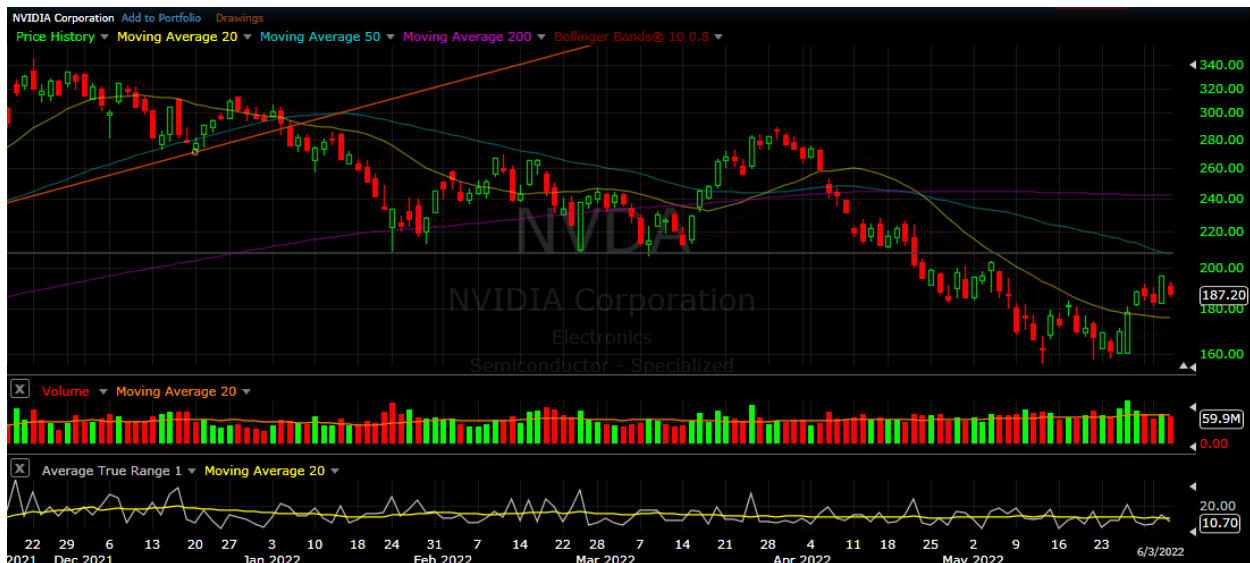


TSLA daily chart as of Jun 3, 2022 - Tesla saw a strong rally last week that did not continue this week. We saw a pause and minor pull back Tue. and Wed, a failed rally Thursday followed by some strong selling Friday back below its 20 day SMA, down -7.38% for the week. The news seems to focus on what Elon is tweeting nearly every day and the stock may react at times.



FB daily chart as of Jun 3, 2022 - Meta continues to oscillate in a horizontal range near its 2022 lows again this week, ending this week down -2.23% and below all 3 of its key SMAs.





NVDA daily chart as of Jun 3, 2022 - Nvidia saw a brief rally late last week that paused Tue. and Wed. this week. Thursday saw a failed rally with an 'Inside day' on Friday to end the week down -0.48%.

Again last week and this week we saw the Semiconductor Sector lead some days higher as well as lead some days lower. Elevated volatility can provide trading opportunities for the very agile, since most moves may last only 1 to 2 days.



JPM daily chart as of Jun 3, 2022 - JP Morgan saw a strong rally last week that continued a little higher on Tuesday of this week before pulling back on Wednesday. Thursday saw a small rally that was followed with a pull back and 'Inside day' on Friday, ending the week down -0.85%.



HD daily chart as of Jun 3, 2022 - Home Depot saw a rally last week to break above its 50 day SMA last Friday. Tuesday and Wednesday of this week saw a pull back below its 50 day SMA. Thursday saw a rally back above its 50 day SMA that continued a little higher on Friday to end the week down -0.47% while above its 20 day and 50 day SMAs.



COST daily chart as of Jun 3, 2022 - Costco saw a strong rally last week that paused Tue. and Wed. of this week. Thursday saw a strong rally above its 20 day SMA with only a small pull back on Friday to end the week up +1.17% and above its 20 day SMA.



WMT daily chart as of Jun 3, 2022 - Wal-Mart saw a rally last week that briefly continued higher on Tuesday of this week before pulling back Wednesday to give back the prior 2 days of gains. Thursday saw a failed rally that could not reach the prior day's highs. Friday saw a pull back and 'Inside day' to end the week down -2.46%.



SLB daily chart as of Jun 3, 2022 - Schlumberger saw a strong rally last week the broke above April Highs (Orange line) at \$44.51 last Wednesday (May 25<sup>th</sup>). Tuesday gave back the prior day's gains and was followed by two narrow 'Inside days' on Wed. and Thursday this week. Friday saw a small rally to end this week down -1.18% and still above all 3 of its key SMAs.

With the Energy sector (XLE) often leading the markets more often than any other sector this year, we have kept key stocks in this sector on our watch list for obvious reasons. We 'believe' that prior leaders are a bit more likely to again become leaders. We will use any statistical edge we can to improve our trading probabilities. We do not try to catch the strongest stock in the markets each day, but we do favor the strongest stocks within the strongest sectors.



HAL daily chart as of Jun 3, 2022 - Halliburton broke above its Resistance Trend Line (Orange line) and above its 50 day SMA on Monday of last week and continued higher every day last week. This week HAL saw a pull back on Tuesday with 'Inside days' the next two days. Friday saw a small rally to end the week up +1.72%.



AMD daily chart as of Jun 3, 2022 - AMD saw a strong rally last Thursday that continued above its 50 day SMA last Friday. Tuesday and Wednesday of this week saw a pause near last week's highs. Thursday saw a strong rally followed by a small pull back on Friday to end the week up +3.95%.

Over the prior weeks we've often seen the Semiconductor sector lead upwards and downwards, and within that sector and more often NVDA and AMD were leading those days up or down. This behavior gave us reason to keep these names on our daily watch list to look at their charts each day for a possible trade opportunity.



MU daily chart as of Jun 3, 2022 - Micron saw a strong rally late last week, crossing above its 50 day SMA and its Resistance Trend Line (Orange line) last Friday. That rally ‘continued’ this week with higher highs seen Tue. Wed. and Thursday. Friday saw a large gap down below its 50 day SMA and selling below its 20 day SMA on large volume to end the week down -4.61%.

Last week’s rally was on thin volume and did not continue this week. This week we saw a ‘pause’ that could be followed with a [1] Rally, [2] more horizontal pause, or [3] a sell off. We covered the value of preparing for multiple scenarios on page one of this report.

We have no idea what will happen next in the markets. So we focus on what we DO know. We have seen a mostly a bearish context so far in 2022. We continue to see elevated Volatility (both in the VIX above 24 and in ATR) which is common for bear markets. We have seen a series of failed rallies this year which are also common for bearish markets. We saw new 2022 lows on May 20<sup>th</sup> that have not yet been re-tested.

As the late Mark Douglas often reminded us, ‘Anything can happen’. So we do not have any expectations or bias and work at keeping an open and neutral mind to clearly observe what clues the markets may give us going forward.

Trade Smart,

CJ