



Market Observations - as of July 8, 2022

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

Last week we saw both lower highs and higher lows form in late June which spells 'Consolidation'. June ended on a three day negative swing followed by a mild rally the last half of the first day on July.

This week the markets were closed Monday for the Independence Day Holiday. Tuesday saw a gap down followed by a rally that began mid day and continued all day Tuesday, Wednesday and Thursday with a pause and consolidation on Friday. The Highs of this week for the S&P failed to exceed the prior highs from June 28th. The Nasdaq however, did break above its prior highs from June 27th on Friday this week by only 12 points as well as briefly broke above its 50 day SMA. As a result, the Nasdaq composite has delivered both higher highs and higher lows since the bottom on June 16th while the S&P and DJIA have delivered a higher low but not yet a higher high. This conflict could resolve either way next week, in the favor of the bulls as the Nasdaq often leads, or could resolve with the Bears where the Nasdaq rally becomes another 'failed' rally.

Volume was rather weak this week as the return from the Holiday tends to often see. The rally that was lead by big tech this week could have some doubts as to the depth of participation when volume was rather low.

With Earnings season about to begin in the next week or so, it is likely we could see some positive Q2 results along with greater reductions in Q3 outlook expectations. Anything can happen as see how the markets react to key Earnings over the next few weeks.

We saw Oil prices dip and bounce this week while the US Dollar Index hit new 19-year highs. Gold declined sharply this week with the stronger dollar.

US 10 year Treasury Yields dipped and bounced this week as we saw the 10-2 Yields Invert.

Options Volatility SKEW dipped to new 52 week lows this week as Hedging activity seems to fade into the noise.

Sector rotation showed money flowing into the prior popular big tech names this week as last week's weakness became this week's strength, and last week's strength became this week's weakness.

Let's look at the charts to see how significant this week was and what has changed.



S&P 500 weekly chart as of Jul 8, 2022 - This week we see nearly a full reversal of the prior week's decline. The S&P remains well below its 20 week and 50 week SMAs with no obvious change in trend seen so far.



S&P 500 daily chart as of Jul 8, 2022 - Here we see consolidation this week with a higher low last week and a lower high this week. The S&P crossed above its 20 day SMA on Wednesday and ended the week up +1.94%.



S&P 500 15 min. chart as of Jul 8, 2022 - Here we see the past 3-4 weeks in the S&P with weekly 'Expected Move' levels each week drawn in light blue. The Violet lines show 2x Expected Move levels from 3-4 weeks ago. Note how price seems to test these levels often, and they may act like either support or resistance when tested. Last week the S&P broke below its lower Expected Move on Thursday and Friday for most of the day but then closed back inside its Expected Move by the end of Friday. This week we saw the upper weekly Expected Move tested on Friday within ½ a point in the morning. Friday saw a close 'Inside' the Expected Move for this week. Even if you do not trade Options, this chart shows you how knowing where the Expected Move is located for the week can give you a good area to watch - when tested - to observe Support or Resistance behaviors, or not. A break through the Expected Move shows us relative 'strength' of that trending move.



DJIA weekly chart as of Jul 8, 2022 - Here we see the Industrials recovered most of last week's losses this week but have yet to clearly break its bearish trend this year.



DJIA daily chart as of Jul 8, 2022 - The Industrials rallied Wednesday to its 20 day SMA, then continued higher Thursday and paused Friday to end the week up +0.77%.



Nasdaq weekly chart as of Jul 8, 2022 - Here we see the Nasdaq recovering all of last week's losses this week while it remains below its 20 week (Yellow) and 50 week (Blue) SMAs as its 200 week (Purple) SMA continues to provide support.



Nasdaq daily chart as of Jul 8, 2022 - Here we see a strong rally on Tuesday above its 20 day SMA, a pause Wednesday and another rally Thursday up to its 50 day SMA. Friday saw a pause mostly just below its 50 day SMA, ending the week up +4.56%.



Russell 2000 weekly chart as of Jul 8, 2022 - We see the Russell recover most of last week's decline this week, while remaining below its 200 week SMA.



Russell 2000 daily chart as of Jul 8, 2022 - We see a rally Tuesday, pause Wednesday and a rally Thursday above its 20 day SMA. Friday saw a pause to end the week up +2.41%.

Next we will look at a few key 'Market Internals' to understand the breadth of this week's action.



McClellan Summation Index weekly chart as of Jul 8, 2022 - Last week ended with this Index at -466.50. We see a small positive increase this week to -388.92.



McClellan Summation Index daily chart as of Jul 8, 2022 - This Index crossed above its 50 day SMA last week. This week we see a mild increase continue.



NYSE Percent above 200 day SMA daily chart as of Jul 8, 2022 - Last week ended with 20.98% of NYSE Listed stocks above their 200 day SMA. This week we saw a dip and bounce to end this week with 19.58% above their 200 day SMA for a small decline.



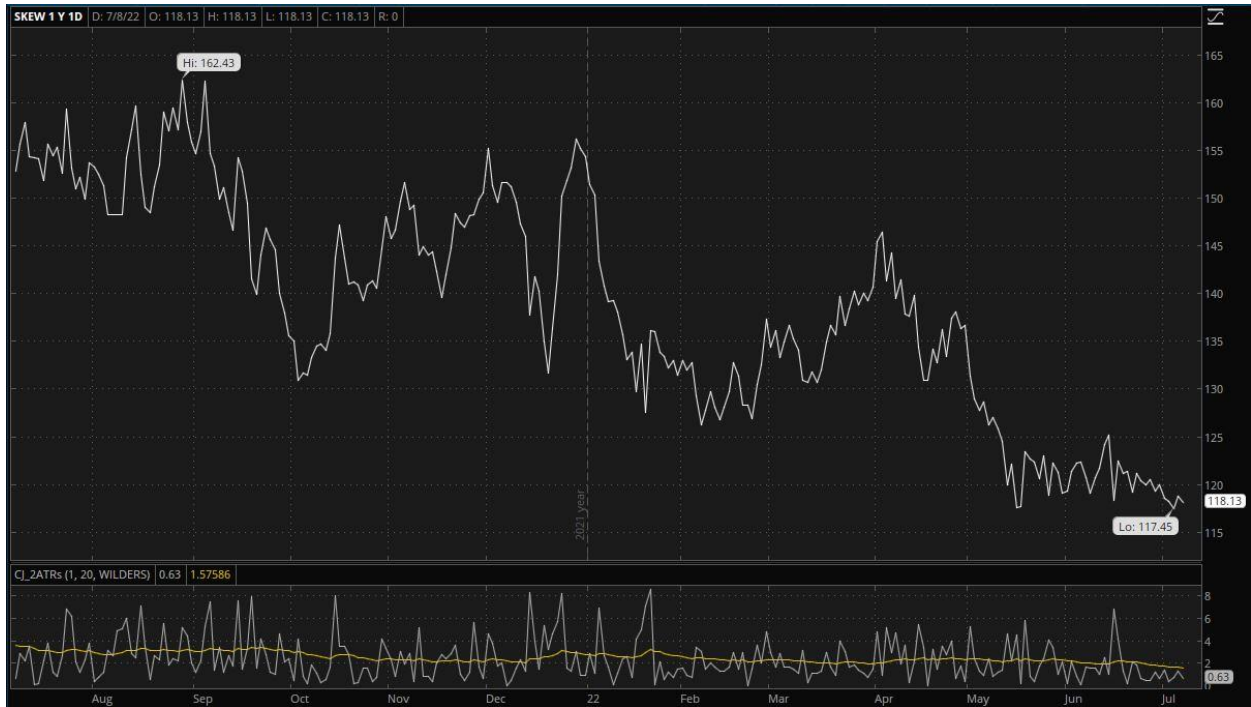
NYSE Percent above 50 day SMA daily chart as of Jul 8, 2022 - Last week we saw this index end the week just breaking above its 50 day SMA with 27.15% of listed stocks above their 50 day SMA. This week we saw a small increase to 30.28%.



VIX daily chart as of Jul 8, 2022 - We saw the VIX slowly decline each day this week to end this week at 24.64.



VIXX daily chart as of Jul 8, 2022 - The Volatility of the VIX declined to new 2.5 year lows this week, levels not seen since Oct. 2019.



SKEW daily chart as of Jul 8, 2022 - Options SKEW is a measure Out-of-the-money Calls vs. Puts Implied Volatility to help see when aggressive Put buying (hedging) can drive up Put Implied Volatility. What we see here is the extreme lack of hedging activity.

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



Oil daily chart as of Jul 8, 2022 - Oil dropped hard on Tuesday and continued lower Wednesday then bounced Thursday and Friday to end the week down from last week.



Gold daily chart as of Jul 8, 2022 - Gold prices saw a sharp decline Tuesday and Wednesday then a pause Thursday and Friday. Note how the Gold chart is nearly an inverted mirror of the US Dollar chart below. With US Dollar priced commodities on the world market, this is a common relationship to see.



US Dollar Index daily chart as of Jul 8, 2022 - The US Dollar saw a sharp strengthening Tuesday and Wednesday then a pause Thursday and a brief spike higher on Friday. We saw new 19 year highs in the US Dollar Index this week as the Euro weakened.



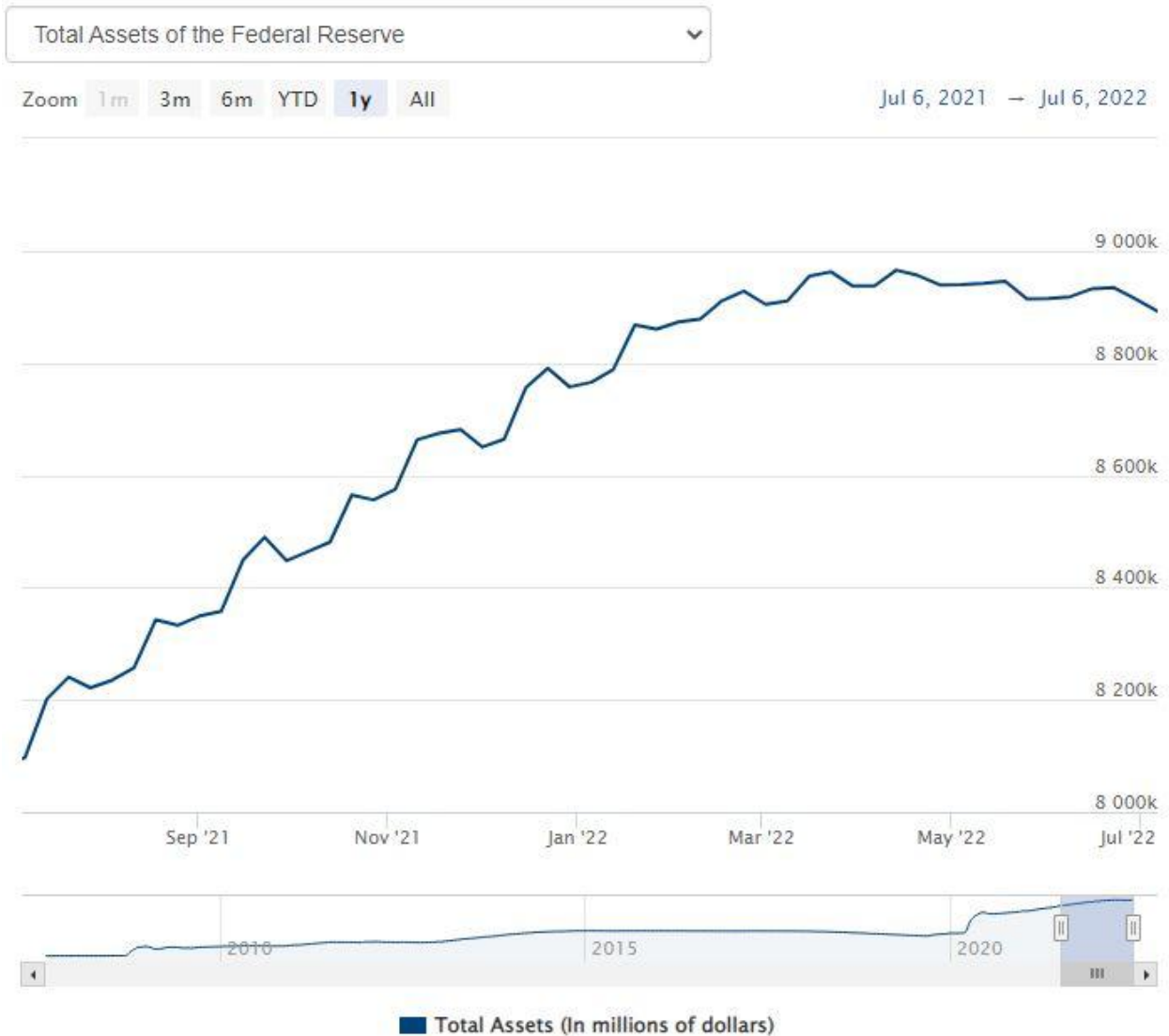
US 10 year Treasury daily chart as of Jul 8, 2022 - The 10 year Treasury paused Tuesday then sold off the next three days, crossing below its 50 day SMA on Thursday. Volume was on the light side this week.



US 10 year Yield daily chart as of Jul 8, 2022 - As the Treasuries sold off the last 3 days this week, the Yields rose higher to end the week at 3.10%.

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
07/01/2022	1.27	1.68	1.73	2.52	2.79	2.84	2.85	2.88	2.92	2.88	3.35	3.11
07/05/2022	1.33	1.71	1.90	2.59	2.77	2.82	2.82	2.82	2.87	2.82	3.31	3.05
07/06/2022	1.36	1.70	1.90	2.62	2.82	2.97	2.99	2.96	2.99	2.93	3.42	3.14
07/07/2022	1.55	1.90	1.95	2.64	2.87	3.03	3.05	3.05	3.07	3.01	3.45	3.20
07/08/2022	1.57	1.92	1.98	2.68	2.96	3.12	3.14	3.13	3.16	3.09	3.53	3.27

US Yield rates daily table as of Jul 8, 2022 - Note the same Yields for both the 2 year and 10 year on Tuesday this week. Also note the 'Inverted' Yields between the 2 year and 10 year the last 3 days of this week, where the 2 year yield is HIGHER than the 10 year yield. This Inversion is rare and is often associated with 'Recessions' in the past. It appears that the markets are 'expecting' the Fed will do another ¾ point rate hike later this month.



FOMC Balance Sheet weekly chart as of Jul 6, 2022 - Last week we saw the Fed decrease their Balance Sheet by \$20.793 Billion that reversed the prior 4 weeks on Increases in June. This week we saw the fed again reduce their Balance Sheet by \$21.702 Billion, from Total Assets of \$8.913553 Trillion as of June 29th to \$8.891851 Trillion as of July 6th. Not much of a reduction as seen in the context of the 1-year chart above.

Next we will look at a few key Sectors.



Dow Transportation Index daily chart as of Jul 8, 2022 - The Transports paused Tuesday and Wednesday then gapped up above its 20 day SMA on Thursday. Friday saw another pause to end the week up +0.81%.



XLE daily chart as of Jul 8, 2022 - The Energy sector dropped along with Oil prices on Tuesday and Wednesday then bounced Thursday and paused Friday to end the week down -2.25%.



XLF daily chart as of Jul 8, 2022 - The Financial sector paused Tuesday and Wednesday then gapped up above its 20 day SMA on Thursday and paused on Friday to end the week up +0.63%.



QQQ daily chart as of Jul 8, 2022 - The Nasdaq-100 ETF rallied up to its 20 day SMA on Tuesday, crossed above on Wednesday and continued higher Thursday and Friday to test its 50 day SMA on Friday, ending the week up +4.69%.



SOXX daily chart as of Jul 8, 2022 - The Semiconductor sector delivered a new 2022 low at the gap down open on Tuesday before the strong rally that day, a pause Wednesday and a large gap up on Thursday. Friday saw a mild rally that nearly tested its 20 day SMA, ending the week up +6.32%.



XLC daily chart as of Jul 8, 2022 - The Communications Services sector saw a strong rally Tuesday crossing above its 20 day SMA followed by a pause on Wednesday. Thursday saw a rally that was followed by an 'Inside' day on Friday, ending the week up +3.45%.

One way to compare the relative strength of various sectors is to note what sectors are now above their 20 day SMA.

<i>INDEXes</i>	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending
<i>SECTORs</i>	5/27/2022	6/3/2022	6/10/2022	6/17/2022	6/24/2022	7/1/2022	7/8/2022
\$SPX	6.58%	-1.20%	-5.05%	-5.79%	6.45%	-2.21%	1.94%
\$INDU	6.24%	-0.94%	-4.58%	-4.79%	5.39%	-1.28%	0.77%
\$COMPQ	6.84%	-0.98%	-5.60%	-4.78%	7.49%	-4.13%	4.56%
\$RUT	6.46%	-0.26%	-4.40%	-7.48%	6.01%	-2.15%	2.41%
QQQ	7.07%	-0.94%	-5.67%	-4.90%	7.46%	-4.24%	4.69%
\$TRAN	7.07%	0.00%	-7.45%	-3.74%	5.28%	-1.91%	0.81%
XLE	8.27%	1.11%	-0.89%	-17.16%	-1.49%	1.38%	-2.25%
XLF	8.05%	-1.97%	-6.71%	-4.92%	5.12%	-1.42%	0.63%
XLK	7.94%	-1.04%	-6.36%	-4.94%	7.36%	-4.53%	4.29%
SOXX	7.91%	-1.71%	-7.39%	-9.06%	5.33%	-9.56%	6.32%
XLV	3.27%	-3.13%	-3.34%	-4.46%	8.22%	0.37%	0.82%
XLY	9.51%	-0.49%	-5.58%	-5.79%	8.25%	-4.75%	4.54%
XRT	10.08%	-2.49%	-3.43%	-4.85%	7.31%	-9.04%	4.26%
XLI	6.39%	0.08%	-4.93%	-5.81%	4.27%	-0.81%	-0.22%
XLU	5.06%	-1.35%	-4.05%	-9.07%	7.23%	4.12%	-2.83%
XME	9.95%	-2.23%	-4.45%	-10.38%	-0.52%	-5.38%	-1.49%
XLP	6.08%	-1.57%	-2.57%	-4.30%	6.64%	0.51%	-0.44%
XLB	5.99%	-0.79%	-5.77%	-8.26%	2.76%	-3.06%	-1.48%
XLC	3.79%	-1.00%	-4.88%	-5.06%	6.01%	-3.72%	3.45%
XHB	6.94%	-1.00%	-5.77%	-11.38%	7.92%	0.53%	3.22%

Weekly Percent Change US Indexes and Sectors table as of Jul 8, 2022 - Note the leadership of the Nasdaq (high tech) on the decline last week AND on the rally this week as it was the strongest index this week. As we dig deeper we will see what stocks within the Nasdaq did most of the heavy lifting this week.

The Strongest sector this week was the SOXX, which was also the weakest sector last week. It is not uncommon to see leadership work in both directions. This also shows how this sector is popular with short term traders since it sees strong volume and elevated volatility as short term swings are often traded in this sector. Also note how the Weakest sector this week XLU (Utilities) was the strongest sector last week, as last week saw some classic 'flight to safety' defensive flow.

The Strongest sectors this week included: SOXX, QQQ, XLY, XLK, XRT and XLC. The weakest sectors this week included: XLU, XLE, XME, XLB and XLP. Remember how the XLE and XME sectors were often the strongest sectors the first 4 to 5 months this year, then XME became the weakest in late April and XLE a month ago in June. 'Leadership' can often work both ways.

INDEXes SECTORS	Mon	Tue	Wed	Thur	Fri	Mon	Tue	Wed	Thur	Fri
	End of Day 06/27/22	End of Day 06/28/22	End of Day 06/29/22	End of Day 06/30/22	End of Day 07/01/22	Holiday 07/04/22	End of Day 07/05/22	End of Day 07/06/22	End of Day 07/07/22	End of Day 07/08/22
\$SPX	-0.30%	-2.01%	-0.07%	-0.87%	1.06%	n/a	0.16%	0.36%	1.50%	-0.08%
\$INDU	-0.20%	-1.56%	0.26%	-0.82%	1.05%	n/a	-0.42%	0.22%	1.12%	-0.15%
\$COMPQ	-0.83%	-2.98%	-0.03%	-1.33%	0.90%	n/a	1.75%	0.35%	2.28%	0.12%
\$RUT	0.34%	-1.86%	-1.12%	-0.66%	1.16%	n/a	0.79%	-0.79%	2.43%	-0.01%
QQQ	-0.73%	-3.05%	0.09%	-1.24%	0.66%	n/a	1.71%	0.64%	2.14%	0.13%
\$TRAN	-0.26%	-1.73%	-0.44%	-0.48%	1.01%	n/a	-0.54%	-0.05%	1.95%	-0.52%

Daily Percent Change US Indexes table as of Jul 8, 2022 - Here we can clearly see the Nasdaq composite leadership Tuesday and the Nasdaq-100 (QQQ) leadership this week on Wed. and Friday. Also note the Transports lagging on Tuesday and Friday this week.

As Inflation fears transform into Recession confirmations, we can see the outlook for 'Energy' Demand and 'Transportation' Demand reflecting the expected reduction in demand as the Economy contracts. As more data confirms we are very likely in a recession, the expectations of the markets progress through the cycles commonly seen in a contraction phase of an Economic Cycle. We will watch for data that confirms the next phases typical of contraction: Jobs, Consumer Spending, Savings, Consumer Debt, Foreclosures, etc. The more confirmation seen, the more likely it becomes that we may have a deeper, broader or longer duration 'contraction' period.

Next we will look at a few key Stocks.



AAPL daily chart as of Jul 8, 2022 - Here we have a Resistance Trend Line (Orange line) drawn between the highs in May and June. Tuesday of this week we saw Apple rally above its 20 day SMA and above this Trend Line. Apple continued higher each day this week, crossing above its 50 day SMA on Thursday and ending the week on Friday up +5.84%. This is a greater positive increase than was seen by the Nasdaq-100 (+4.66%) this week. Apple is now above its 20 day and 50 day SMAs.



MSFT daily chart as of Jul 8, 2022 - Microsoft saw a strong rally above its 20 day SMA on Tuesday, a gap up and rally above its 50 day SMA on Wednesday and higher highs on Thursday. Friday saw lower highs as MSFT remained mostly above its 50 day SMA, ending the week up +3.11%.



GOOGL daily chart as of Jul 8, 2022 - Alphabet saw a large rally Tuesday above its 20 day SMA up to its 50 day SMA. Wednesday saw a rally above its 50 day SMA. Thursday saw another strong rally with volume that continued a little higher on Friday to end the week up +9.76%.



AMZN daily chart as of Jul 8, 2022 - Amazon saw a strong rally Tuesday above its 20 day SMA. Wednesday saw a small rally that tested its 50 day SMA as Resistance. Thursday saw a rally continue above its 50 day SMA. Friday saw an 'Inside' day that mostly remains above its 50 day SMA, ending the week up +5.46%.



TSLA daily chart as of Jul 8, 2022 - Tesla saw a rally Tuesday above its 20 day SMA. Wednesday saw a pause near its 20 day SMA. Thursday saw a strong rally that broke above its Resistance Trend Line (Orange line). Friday saw the rally continue and crossed above its 50 day SMA to end the week up +10.34%.



META daily chart as of Jul 8, 2022 - Meta saw a strong rally Tuesday that continued higher Wednesday as it crossed above its 20 day SMA. Thursday saw higher highs followed by an 'Inside' day on Friday to end the week up +6.78%.



NVDA daily chart as of Jul 8, 2022 - Nvidia opened lower Tuesday to deliver new 2022 lows before it quickly reversed and rallied most all of Tuesday and continued higher each day this week, reaching its 20 day SMA on Friday to end the week up +9.05%.

Out of the above seven biggest big tech names, how many delivered greater gains this week than did the Nasdaq-100's +4.66%? What name delivered the greatest gains this week? What names are now above both their 20 day and 50 day SMAs? These observations can help one to identify the relative strength amongst these big companies, and who may be 'leading' the pack. Did those same names lead in prior rallies? Do you see other stocks (not in the above seven) with even stronger gains this week?



GS daily chart as of Jul 8, 2022 - Goldman Sachs straddled its descending 20 day SMA the past several days and then broke above this SMA on Thursday this week on a tiny rally. Friday saw a higher high but a lower close to end the week down -0.92%.



HD daily chart as of Jul 8, 2022 - Home Depot saw a strong rally Tuesday above its 20 day SMA. Wednesday saw a pause followed by a small rally on Thursday. Friday saw a pause near the prior day's highs to end this week up +2.65%.



COST daily chart as of Jul 8, 2022 - We noted in previous 'Market Observations' how COST delivered a significantly higher low in June than what was seen in May as that was different in most other charts that showed a lower low in June than in May. This was a subtle clue of relative strength. Last week we saw COST confirm support at its 20 day SMA and quickly rallied up to its 50 day SMA. This week that rally continued above its 50 day SMA with higher closes each day this week, ending the week up +3.25%. This was a high odds (buy the dip) rally off of the 20 day SMA support (higher low) last week that continued this week. Who knows, maybe it continues next week?

Lesson: Comparisons between charts and relative moves can help identify relative strength of certain stocks even within a bearish context buy showing the least decline. That same chart is a bit more likely to show strength when the market context changes back to bullish, as we saw this week. Comparisons like this are not a guarantee, but they do expose relative strength that can expose a 'higher odds' bullish opportunity.



SLB daily chart as of Jul 8, 2022 - Schlumberger moved with Oil and the XLE sector again this week as it continued its decline Tuesday and Wednesday this week. Thursday saw a gap up and a narrow range day. Friday saw a small decline to end the week down -3.73%.



HAL daily chart as of Jul 8, 2022 - Halliburton also saw continued decline Tuesday below its 200 day SMA and lower on Wednesday as HAL found support. Thursday saw a gap up that failed to reach the 200 day SMA. Friday saw a small pull back to end the week down -5.06%.

Both SLB and HAL charts above look very similar to the XLE chart for this week.



AMD daily chart as of Jul 8, 2022 - AMD opened to new 2022 lows on Tuesday before it rallied each day this week, breaking above its Resistance Trend Line (Purple line) on Thursday. Most of this week's gains came in on Tue. and Thur. with Wed. and Fri. seeing mostly a pause. AMD ended the week up +7.71%.



MU daily chart as of Jul 8, 2022 - Micron saw new 2022 lows last Friday. Thursday saw a large rally nearly to its Resistance Trend Line (Purple line). Wednesday broke above the Trend Line and Thursday gapped above its 20 day SMA. Friday remained above its 20 day SMA and saw a brief higher high before ending the week up +10.45%.

What other Semiconductor names did better than the Nasdaq-100 (+4.66%) this week? QCOM, TSM, KLAC, TXN, AMAT, or INTC ?

With Earnings season beginning this next week as several key Financial names report we will watch to see how the markets react. Will all news be received as if it is bad news or as if it is good news? Have market Expectations already priced in the news, or are there 'surprises'?

We heard late on Friday evening that Elon Musk was withdrawing his offer to buy Twitter, and that will likely have reactions on Monday as well as keeping plenty of lawyers employed for a while.

Maybe the markets bottomed in June as we may see some volatile rallies going forward. Or, maybe we have yet to see the markets bottom and may have more declines to follow. We have no idea what may happen next and do not even try to predict. However, we observe the markets to gain clues, and those clues may help us determine if and when the odds may favor one outcome over another.

We prepare for MULTIPLE scenarios, with a plan for a bullish next week, a bearish next week, or a continuation of consolidation for a while longer. With each scenario, we image what evidence would confirm each scenario, and what action, if any, is appropriate for us to take based upon that evidence.

We are happy to sit on cash when there is NO Statistical edge. When we do see our edge, we act upon it per our plan, only risking what we have pre-determined appropriate, and never let losses get larger than our pre-determined limit. When we are lucky, we let that position run until the chart tells us the trend is done, per our time frame and our plan.

Trading well is simple, but not easy, since we must keep emotions and subjective distractions in check. Sticking to a well tested and documented plan gives us a way to track our actual performance against those defined goals and rules.

Trade Smart.

CJ