



## Market Observations - as of July 15, 2022

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

Last week we again saw a rally that failed to break above prior key highs.

This week we primarily saw selling for four days in a row with several opening gaps down. The opening gap down on Wednesday saw a rally after the first hour that filled that day's gap but did not continue higher after doing so. Similar on Thursday's opening gap that saw a rally that failed to exceed the prior day's highs. Friday saw a gap up and brief rally the first 90 min. before stalling and turning into horizontal chop the rest of the day, as is common on monthly Options Expiration days.

With higher than expected CPI numbers released on Wednesday and PPI numbers on Thursday before the markets opened each day, we saw significant pre-market gaps form in the futures markets. These opening gaps were eventually filled (or nearly filled) by the S&P and Nasdaq during each session.

Using one of our 'Breadth' indicators, we saw the broadest volume this week on Thursday with strong selling in many sectors, and most of that was in the opening 90 min.

We saw a mix of Earnings Reactions this week as Q2 Earnings season kicked off with key Financial sector components. JPM and MS saw negative reactions to Earnings at the open on Thursday, while WFC and C saw positive reactions at the open on Friday. Reactions seem to be 'as if' the data being reported was ignored as the markets had their own intentions. Possibly PPI data put a negative lean on Thursday's open more so than Earnings?

Market Reactions this week seem to be more focused on Fed Rate Hike expectations for July 27<sup>th</sup> than on actual Earnings data. We saw huge daily swings in the probabilities this week between the expectation of a +0.75% rate hike or a +1.00% rate hike on July 27<sup>th</sup>. These 'expectations' come from the probabilities that are published at the CME group's web site 'countdown to FOMC' page.

The US Dollar Index again delivered new 20-year highs this week as the other currencies in this index fell weaker. The US Dollar Index has not seen these levels since mid 2002. One of the major currencies referenced within the USD Index is the Euro, which continued to drop this week and actually hit 'parity' (1:1) with the US Dollar on Thursday, which had not been seen since late 2002. I find it interesting to see two different currency references that have not been seen since 2002.

The Fed actually increased its Balance Sheet this week by over \$4 billion. I thought they had published a plan to 'reduce' the Balance Sheet starting in June 2022 by \$30 to \$47 billion each month? We've yet to see that kind of reduction. Money Supply is one of the most significant 'fuels' that can drive inflation, and we've yet to see any significant reductions to the nearly \$8.9 Trillion Balance Sheet.

The strong dollar continues to put pressure on Commodity prices, as we saw Gold and Silver prices continue to decline this week. Oil dropped Monday and then saw a rather strong drop on Tuesday this week. A strong US dollar also makes US Exports look more expensive which is likely to reduce worldwide demand.

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



S&P 500 weekly chart as of Jul 15, 2022 - This week we saw both lower lows and lower highs than the prior week. We now see three weeks in a row with lower highs.



S&P 500 daily chart as of Jul 15, 2022 - We see lower highs and lower lows each day this week except on Friday. Wednesday saw a break below its 20 day SMA and Friday saw a gap back above its 20 day SMA to end the week down -0.93%. Note the consolidation pattern formed for nearly one month without any clear break above the descending trend. The S&P spent part of Wed. and all of Thur. below its lower weekly 'Expected Move' before gapping back above on Friday.



DJIA weekly chart as of Jul 15, 2022 - We now see three weeks in a row with both lower highs and lower lows within the 5 weeks of 'consolidation'.



DJIA daily chart as of Jul 15, 2022 - The Industrials delivered 4 days of lower highs and lower lows then tapped up back above its 20 day SMA on Friday to end the week down -0.16%.



Nasdaq weekly chart as of Jul 15, 2022 - This week we see an 'Inside' week as the 5<sup>th</sup> week of a mostly non-trending 'consolidation' pattern just above its 200 day SMA.



Nasdaq daily chart as of Jul 15, 2022 - We saw 4 days in a row of lower highs and lower lows before the gap up back above the 20 day SMA on Friday to end the week down -1.57% and still below its 50 day SMA.



Russell 2000 weekly chart as of Jul 15, 2022 - This week we see an 'Inside' week as the 5<sup>th</sup> week of a mostly non-trending 'consolidation' pattern just below its 200 day SMA.



Russell 2000 daily chart as of Jul 15, 2022 - We saw 4 days in a row of lower highs and lower lows before the gap up back above the 20 day SMA on Friday to end the week down -1.41%.

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



McClellan Summation Index weekly chart as of Jul 15, 2022 - Last week ended at -388.92 and this week we see a small decline to -398.35.



McClellan Summation Index daily chart as of Jul 15, 2022 - Here we see the small decline the first 4 days of this week followed by a small increase on Friday to end this week at -398.35.



NYSE Percent above 200 day SMA daily chart as of Jul 15, 2022 - Last week ended with 19.58% of listed stocks above their 200 day SMA. This week we saw a decline to about 16.25% then a bounce Friday to end this week at 18.31%.



NYSE Percent above 50 day SMA daily chart as of Jul 15, 2022 - Last week we saw a bounce up to 30.28%. This week we saw a decline to about 25% then a bounce Friday up to 30.85%.



VIX daily chart as of Jul 15, 2022 - The VIX was quiet and stayed within a narrow range on Monday. Tuesday saw a pop up higher. Wednesday saw a wider range day that briefly crossed above its 20 day and 50 day SMAs. On Thursday we saw the markets gap down stronger but the VIX only saw a lower high that barely tested its 50 day SMA with a lower close. Friday saw a large range lower to nearly test support at its 200 day SMA (Purple). Options Volatility continues to appear 'complacent' where we saw the lows of the week early on Thursday, but the VIX did NOT reflect this with higher highs, as would be common for that event.





VVIX daily chart as of Jul 15, 2022 - The VVIX rose a little on Mon. Tue. and Wed. but not on Thursday. Friday saw a narrow range near the lows of the week.

Options saw large volume on Friday as July expiration occurred, with SPX Options trading over 2 million contracts and the SPY trading over 7 million contracts. Each contract controls 100 shares (or the cash equivalent as with the SPX). These two series alone represent control of over \$1 Trillion of market value and about 25% of overall daily Options contract volume. Option volume has grown over the years to become a very significant market derivative.

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



Oil daily chart as of Jul 15, 2022 - Oil declined a little on Monday then saw a significant drop Tuesday. Wednesday saw a lower low, lower high and a narrow range. Thursday briefly dipped below its 200 day SMA then closed nearly unchanged for the day. Friday saw a very small rally to end the week at \$97.57.



Gold daily chart as of Jul 15, 2022 - Gold continued to slide lower each day this week, finding support Thursday at \$1695 before seeing only a tiny bounce Friday to end the week at \$1706.5. Note how Gold prices appears to be an inverse relationship with the US Dollar (below).



US Dollar Index daily chart as of Jul 15, 2022 - The US Dollar Index rose higher to deliver new 20 year highs each day this week except on Friday. The US Dollar Index is a measure of the value of the US Dollar relative to a basket of six other currencies including: the Euro, Japanese Yen, Canadian Dollar, British pound, Swedish krona and the Swiss franc. The Euro is the largest % component in this index.



EUR/USD Spot daily chart as of Jul 15, 2022 - Note how this chart seems to also mirror the US Dollar chart above. US Dollar / Euro reached parity (1:1) this week, a ratio that has not been seen since late 2002.



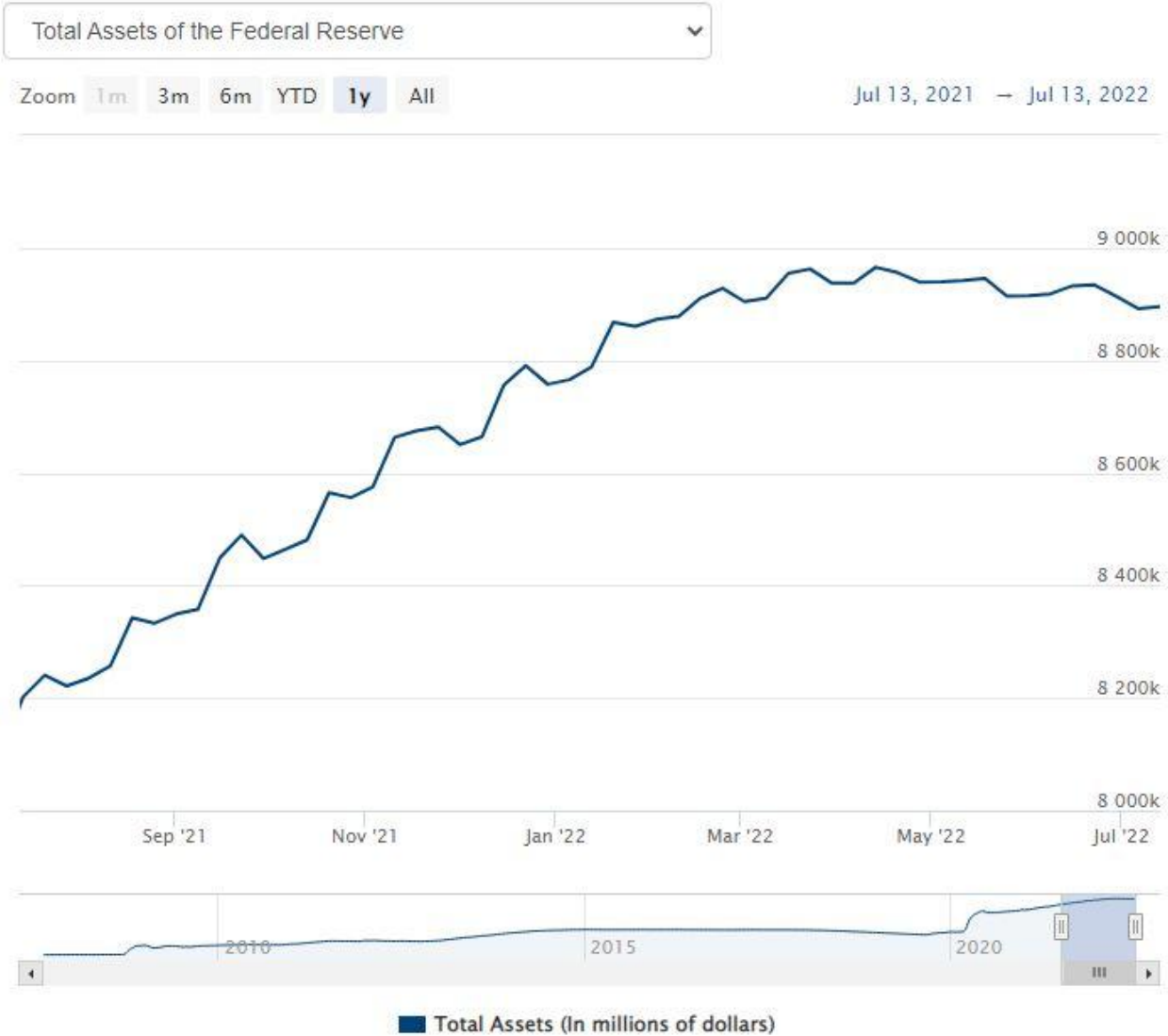
US 10 year Treasury daily chart as of Jul 15, 2022 - The 10 year rose above its 50 day SMA on Tuesday and remained in a narrow range the rest of this week.



US 10 year Yield daily chart as of Jul 15, 2022 - The 10 year Yield dipped below its 50 day SMA on Tuesday and remained within a narrow range 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
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
07/11/2022	1.58	1.95	2.18	2.79	2.97	3.07	3.09	3.05	3.06	2.99	3.43	3.18
07/12/2022	1.63	2.01	2.22	2.78	3.07	3.03	3.07	3.01	3.01	2.96	3.37	3.13
07/13/2022	1.78	2.20	2.39	2.96	3.21	3.13	3.14	3.02	3.00	2.91	3.35	3.08
07/14/2022	1.99	2.32	2.40	2.93	3.16	3.15	3.16	3.06	3.05	2.96	3.36	3.11
07/15/2022	1.98	2.26	2.37	2.94	3.12	3.13	3.14	3.05	3.03	2.93	3.34	3.10

US Yield rates daily table as of Jul 15, 2022 - Note how the longer term yields declined this week while at the same time the short terms increased. This is a 'flattening' of the Yield curve. Late last week we saw the Yields between the 10 year and 2 year 'Invert'. That Inversion continued every day this week to give us 8 days in a row with a 10yr/2yr Inversion. This is one form of a common 'Recession' indicator. Eyes are watching for a 10yr / 3 month Yield Inversion next as yet another form of confirmation.



FOMC Balance Sheet weekly chart as of Jul 13, 2022 - Last week we saw a Balance Sheet with Total Assets of \$8.891851 Trillion. This week we see an increase of \$4.016 Billion to a new Total of \$8.895867 Trillion. It seems the Fed is going the wrong way with their Balance Sheet 'decreasing' plan this week.

Next we will look at a few key Sectors.



Dow Transportation Index daily chart as of Jul 15, 2022 - The Dow Transports delivered lower highs and lower lows 4 days in a row, crossing below its 20 day SMA on Tuesday and Delivering new 52 week lows on Thursday. Friday saw a gap up and rally back above its 20 day SMA to end the week down -1.38%. Note the above average volume on Tuesday and Wednesday this week.



XLE daily chart as of Jul 15, 2022 - The Energy sector declined Mon. and Tue. and saw a small bounce straddling its 200 day SMA on Wednesday. Thursday saw new 4-month lows below its 200 day SMA. Friday saw a gap up to end the week 15 cents above its 200 day SMA, down -3.33% for the week. This was the weakest sector on my list this week.



XLF daily chart as of Jul 15, 2022 - The Financial sector saw 4 days of decline this week, crossing below its 20 day SMA on Tuesday and delivering new 52 week lows on Thursday. Friday saw a gap up and rally back above its 20 day SMA to end the week down -0.94%. Earnings began this week with key names in this sector.



QQQ daily chart as of Jul 15, 2022 - The Nasdaq-100 ETF saw 3 days of decline this week crossing below but not closing below its 20 day SMA on Wednesday. Thursday saw a slightly higher close followed by a gap up and rally on Friday to end the week down -1.18% and still below its 50 day SMA.





SOXX daily chart as of Jul 15, 2022 - The Semiconductor sector remained horizontal and just below its 20 day SMA for 3 days this week before a rally above its 20 day SMA on Thursday that continued higher on Friday to end the week up +3.01%. This was the strongest sector on my list this week.



XLC daily chart as of Jul 15, 2022 - The Communications Services sector saw declines four days this week, crossing below its 20 day SMA on both Monday and Tuesday. Wednesday and Thursday saw lower lows before the gap up on Friday and rally back above its 20 day SMA to end the week down -2.29%.

<i>INDEXes</i>	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending
<i>SECTORS</i>	6/3/2022	6/10/2022	6/17/2022	6/24/2022	7/1/2022	7/8/2022	7/15/2022
\$SPX	-1.20%	-5.05%	-5.79%	6.45%	-2.21%	1.94%	-0.93%
\$INDU	-0.94%	-4.58%	-4.79%	5.39%	-1.28%	0.77%	-0.16%
\$COMPQ	-0.98%	-5.60%	-4.78%	7.49%	-4.13%	4.56%	-1.57%
\$RUT	-0.26%	-4.40%	-7.48%	6.01%	-2.15%	2.41%	-1.41%
QQQ	-0.94%	-5.67%	-4.90%	7.46%	-4.24%	4.69%	-1.18%
\$TRAN	0.00%	-7.45%	-3.74%	5.28%	-1.91%	0.81%	-1.38%
XLE	1.11%	-0.89%	-17.16%	-1.49%	1.38%	-2.25%	-3.33%
XLF	-1.97%	-6.71%	-4.92%	5.12%	-1.42%	0.63%	-0.94%
XLK	-1.04%	-6.36%	-4.94%	7.36%	-4.53%	4.29%	-0.37%
SOXX	-1.71%	-7.39%	-9.06%	5.33%	-9.56%	6.32%	3.01%
XLV	-3.13%	-3.34%	-4.46%	8.22%	0.37%	0.82%	-0.41%
XLY	-0.49%	-5.58%	-5.79%	8.25%	-4.75%	4.54%	-1.05%
XRT	-2.49%	-3.43%	-4.85%	7.31%	-9.04%	4.26%	-1.21%
XLI	0.08%	-4.93%	-5.81%	4.27%	-0.81%	-0.22%	-1.22%
XLU	-1.35%	-4.05%	-9.07%	7.23%	4.12%	-2.83%	-0.09%
XME	-2.23%	-4.45%	-10.38%	-0.52%	-5.38%	-1.49%	-0.12%
XLP	-1.57%	-2.57%	-4.30%	6.64%	0.51%	-0.44%	0.05%
XLB	-0.79%	-5.77%	-8.26%	2.76%	-3.06%	-1.48%	-1.34%
XLC	-1.00%	-4.88%	-5.06%	6.01%	-3.72%	3.45%	-2.29%
XHB	-1.00%	-5.77%	-11.38%	7.92%	0.53%	3.22%	0.48%

Weekly Percent Change US Indexes and Sectors table as of Jul 15, 2022 - Note that the Nasdaq composite again led this week with the largest loss between the major indexes.

The only positive sectors this week were: SOXX, XHB and XLP with the SOXX leading for a second week in a row. Most sectors were negative this week with the weakest being: XLE, XLC, Dow Transports, and XLB.

Note how often a prior Strongest sector becomes the Weakest sector, and vice versa. This shows us that often a sector may continue to lead in either or both Bullish and Bearish market moves. With this behavior in mind, it could be useful to follow both the weakest and strongest stocks in the weakest and strongest sectors for a few weeks since they just might 'Change' Trend and continue to lead in the new direction. If you only trade bullish positions, then watching for a change in a bearish leader might be one way to find bullish opportunities. If you trade both bullish and bearish positions, then you may watch these key leaders for potential trade opportunities in either or both directions.

INDEXes SECTORS	Mon	Tue	Wed	Thur	Fri	Mon	Tue	Wed	Thur	Fri
	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	End of Day 07/11/22	End of Day 07/12/22	End of Day 07/13/22	End of Day 07/14/22	End of Day 07/15/22
\$SPX	n/a	0.16%	0.36%	1.50%	-0.08%	-1.15%	-0.92%	-0.45%	-0.30%	1.92%
\$INDU	n/a	-0.42%	0.22%	1.12%	-0.15%	-0.52%	-0.62%	-0.67%	-0.46%	2.15%
\$COMPQ	n/a	1.75%	0.35%	2.28%	0.12%	-2.26%	-0.95%	-0.15%	0.03%	1.79%
\$RUT	n/a	0.79%	-0.79%	2.43%	-0.01%	-2.11%	-0.22%	-0.12%	-1.07%	2.16%
QQQ	n/a	1.71%	0.64%	2.14%	0.13%	-2.14%	-0.97%	-0.21%	0.36%	1.81%
\$STRAN	n/a	-0.54%	-0.05%	1.95%	-0.52%	-1.13%	-0.56%	-1.30%	-0.27%	1.90%

Daily Percent Change US Indexes table as of Jul 15, 2022 - Note that the Nasdaq composite was weakest on both Monday and Friday this week while the Nasdaq-100 (QQQ) changed from weakest Tuesday to strongest on Thursday. The Russell alternated twice this week between strongest, weakest and again strongest on Friday. You may find tracking these daily changes between Indexes may not be as useful as are the daily Sector leadership changes, depending upon what you are trading or opportunities you are watching for.

Next we will look at a few key Stocks.



AAPL daily chart as of Jul 15, 2022 - Apple paused just above its 50 day SMA on Monday and Tuesday then gapped below its 50 day and rallied back above on Wednesday to close near where it closed the prior day. Thursday saw a stronger rally from its 50 day SMA support that continued a little higher on Friday to end the week up +2.13%. Apple is nearing a retest of its June 1<sup>st</sup> prior highs.



MSFT daily chart as of Jul 15, 2022 - Microsoft paused Monday then sold lower Tuesday below its 50 day and 20 day SMAs. Wednesday saw lower lows with a small rally. Thursday saw even lower lows with a rally to exceed its prior day's close. Friday saw a gap up and rally that failed to close above its 20 day SMA to end the week down -4.09% and below all 3 of its key SMAs. We now see about two months of Consolidation as the 20 day and 50 day SMAs become flat.



GOOGL daily chart as of Jul 15, 2022 - Alphabet saw four days of decline this week, breaking below its 50 day and 20 day SMAs on Wednesday to find support early on Thursday. Friday saw a gap up that failed to cross back above its 20 day or 50 day SMAs, ending the week down -6.35% and below all 3 of its key SMAs. Here too we see about 2 months of 'Consolidation'.



AMZN daily chart as of Jul 15, 2022 - Amazon saw 3 days of lower lows, closing below its 20 day SMA on Tuesday and finding support this week early on Wednesday. Thursday saw an 'Inside' day near its 20 day SMA. Friday saw a gap up above its 20 day and 50 day SMAs that failed to reach its prior week's highs, ending this week down -1.72%. Here too we see just over 2 months of 'Consolidation' that is confirmed with higher lows and lower highs.



TSLA daily chart as of Jul 15, 2022 - Tesla dropped Monday and Tuesday to test support at its 20 day SMA. Wednesday gapped lower then rallied back above its 20 day SMA. Thursday saw an 'Inside' day mostly above its 20 day SMA. Friday saw a small gap up but could not close above its 50 day SMA. TSLA ended the week down -4.27%. Here too we see about 2 months of 'Consolidation' as the 20 day SMA flattens out.



META daily chart as of Jul 15, 2022 - Meta crossed and closed below its 20 day SMA on Monday and delivered lower lows on Wed. and Thursday. Friday saw a gap up and rally to cross and close back above its 20 day SMA, ending the week down -3.62%. Here we see about a month of Consolidation near the lows of the year.



NVDA daily chart as of Jul 15, 2022 - Nvidia saw a decline Monday and Tuesday, then a gap down and rally on Wednesday. Thursday saw a small continuation higher followed by a gap up and rally Friday to end the week 54 cents above its 20 day SMA and down -0.48% for the week.

Out of the above 7 biggest stocks, what names show you the greatest strength this week and why?



JPM daily chart as of Jul 15, 2022 - JP Morgan slowly declined 3 days this week then reported Earnings Thursday before the open. Thursday opened with a gap down on high volume. Friday, however, saw a very strong rally to recover ALL of the prior day's losses plus continue even higher to test its 20 day SMA as Resistance and closed the week down only -1.23%. Was Friday in sympathy with C, or was Thursday a reaction to PPI?



C daily chart as of Jul 15, 2022 - Citi saw a decline 4 days in a row from its 20 day SMA Resistance to deliver new 52 week lows on both Wednesday and Thursday with over a -3% drop for the week on Thursday. Citi reported Earnings Friday before the open and gapped up to above its 20 day SMA and rallied at least another \$3 to above its 50 day SMA to end the week up +6.75% on huge volume.



COST daily chart as of Jul 15, 2022 - We have noted how Costco was holding up much better than most stocks in June. We also saw a cup-n-handle-n-handle form with the declining dips in May and June, with a 'neck line' resistance (\$487.24) at the June 27<sup>th</sup> and 28<sup>th</sup> highs that Broke Out on July 1<sup>st</sup> and 5<sup>th</sup> as well as breaking above its 50 day SMA on those same 2 days. COST rallied for a few days (July 6-8) then pulled back this week on Monday and Tuesday before testing its prior Resistance (the 'neck line') as new Support on Wednesday this week. Wednesday's close confirmed that Support was respected. Thursday saw a strong rally up to its 200 day SMA that continued with a gap up and rally on Friday above its 200 day SMA, on strong volume, to end the week up +4.27%. The 'neck line' is not drawn in the above chart but you can still likely see that area of Resistance that became Support this week. COST is now above all 3 of its key SMAs.

Lesson: Recognizing the relative strength in the COST chart last month as well as the Cup-n-handle-n-handle pattern paid off this month with the break out. I have found that about half of the Successful break outs of this pattern DO include the dip retest of prior Resistance as new Support usually about a week or two after the initial break out, and about half do not do this retest but simply continue higher from their break out.





BA daily chart as of Jul 15, 2022 - Boeing had been consolidating in a narrow range between \$135 and \$140 for several weeks and continued to do so on Monday this week. Tuesday saw a large rally from its 20 day SMA support on strong volume. I believe it was news related due to some announcement from Boeing. Wednesday saw a pause and narrow 'Inside' day. Thursday saw a bullish engulfing day without exceeding this week's highs. Friday saw a gap up and brief rally to higher highs for the week before pulling back some to end the week up +6.23% and now above its 20 day and 50 day SMAs.



SLB daily chart as of Jul 15, 2022 - Schlumberger continued its trend lower Monday and Tuesday, paused Wednesday then gapped down Thursday to test for support. Friday saw a gap up that failed to reach Wednesday's highs or test the descending (Yellow line) Trend line. SLB ended the week down - 5.89% and remains well below all 3 of its key SMAs.



HAL daily chart as of Jul 15, 2022 - Halliburton looks similar to Schlumberger as it continued its trend lower Monday and Tuesday, paused Wednesday then gapped down Thursday to test for support. Friday saw a gap up without any follow through to end the week down -6.64%.

Both HAL and SLB remain as good Bear Trending Trades so far this month.



AMD daily chart as of Jul 15, 2022 - AMD declined Monday and Tuesday then bounced off of Support on Wednesday to cross and close above the declining Resistance Trend Line (Yellow line). Thursday saw a narrow range day that was mostly above Trend Line Resistance. Friday saw a gap up and rally above its 20 day SMA to end the week up +2.22%.



MU daily chart as of Jul 15, 2022 - Micron saw a pause above its 20 day SMA continue 4 days this week that was followed by a gap up on Friday to end the week up +4.04%.

Remember, the Semiconductor sector was the strongest sector on my list both last week and again this week. It should not be a surprise to see that sector do well this week.

From the various charts above, we have seen Bearish examples this week mostly in the Energy sector, and Bullish examples this week, mostly in the Semiconductor sector. This is not only common to see, but is also why we invest the time to follow the key sectors, and the key stocks in each sector... since we believe that this effort can often pay off with finding higher odds opportunities, efficiently.

Anything can happen next week, as Earnings season ramps up and the Fed has hinted at another rate hike the following week. We again prepare for Bullish, Bearish and Neutral scenarios going forward, that way we will know what to do 'If' regardless of what happens next.

Trade Smart,

CJ