



Market Observations - as of July 29, 2022

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

Last **week** we saw a rally that started with a failed gap up on Monday, then rallied for 3 days before peaking at the open Friday and pulling back a little.

This week began with a narrow range horizontal pause on Monday followed by a day of mild selling on Tuesday. Wednesday saw a gap up and rally to return to Monday's highs and pause until the FOMC meeting notice came out that afternoon. Initial reaction to the FOMC rate hike was mild then a strong rally kicked into gear a half hour later as J. Powell began his press conference and Q&A. The strong rally delivered new highs for July with a higher close. There was a dip the first hour on Thursday that took back a portion of the prior day's rally, and then the bulls returned with a strong rally the rest of the day. The rally continued Friday to end the week with new highs for July in the S&P and the Nasdaq composite delivered higher highs than seen in both June and July.

We saw lots of Economic news this week as well as Earnings reports. It seemed as if this market wanted to rally regardless of what the news or Earnings reports said. Home sales are down and average prices decreased, Q2 GDP was -0.9% (negative GDP 2 quarters in a row), the Fed Funds rate was increased by 0.75%, June PCE was higher and Walmart warned of weakening consumer demand and inventory issues.

When we see markets move, even if it appears to be irrational, that tells us something very valuable. The market often does not act as expected, but has its own emotional swings, often they may seem unreasonable. That is ok. Explaining the 'Why' is not what is important as a trader, but respecting the tape (the charts) if VERY important. "Don't fight the Fed, and don't fight the tape" continues to be valuable sage advice. The CHARTS show us what really matters, and clearly the Bulls showed us their convictions as they were clearly in control this week.

Next week has yet to happen. Maybe we see the bulls continue their rally, or we see the bears wake up from their hibernation with a bad attitude. Anything can happen.

With the month of July now coming to an end, this is a good time to look at the longer term charts to remain aware of the big picture context. This is also a good time to do your monthly processes: July Trade Reviews and post trade analysis, key data backups and other key monthly tasks you may have identified in your Trading Plan.

Now, let's look at the charts to see what they are telling us.



S&P 500 monthly chart as of Jul 29, 2022 - Here we see a bounce and an 'Inside' month (July) as compared to the prior month (June). The S&P remains below its 20 month SMA and has yet to confirm a change in trend with higher highs. Remember, the longer the time frame of the chart, the more lag there is in observing confirmation of a change in trend.



S&P 500 weekly chart as of Jul 29, 2022 - Here we see two positive weeks in a row that broke out of the prior 5 week lower range and closed above the 20 week SMA this week.



S&P 500 daily chart as of Jul 29, 2022 - Here we see a narrow range Monday, then a pull back to the 50 day SMA (Blue) support on Tuesday. Wednesday gapped up and rallied strong as it continued higher on Thursday and Friday, ending this week up +4.26%.

Note the same behavior the prior week with a break above the 20 day SMA then a return to the 20 day SMA to test it as support before the rally took off with strength last week. The same pattern we saw this week, but with the 50 day SMA as new support. Also, the break above the Trend Line (Green line) and the cross above the 50 day SMA back on July 19th last week clearly identified the change in trend and that bullish trend continued higher this week.



S&P 500 15 min. chart as of Jul 29, 2022 - Monday began with a narrow range pause in the same 'zone' as we saw last week on July 20th (grey box). Tuesday saw a drift lower below this box. Both Monday and Tuesday this week saw very light volume. Wednesday we saw a gap up and small rally back to the top of this zone (box) where the markets paused until the FOMC announcement. About 30 min after the announcement J. Powell began his press conference and we saw the markets rally strong that hour, breaking above the prior week's highs. Thursday saw some selling the first hour then reversed and the buyers again showed their strength with a rally the rest of the day, breaking above the weekly Expected Move mid day (E.M.) and remaining above the rest of the day. Friday saw a strong open as the rally continued strong the first hour, then saw a small pull back the second hour before the rally resumed for the rest of the day.

Note the slopes of Trend Line Support (Yellow line) from last week versus this week and how this week that slope is steeper. Note how the Trend Line Resistance (Green line) helped us see the minor pull back from last Friday through Tuesday this week and then the resumption of the bullish trend at the open on Wednesday.

We saw the S&P close last week and again this week 'Above' its upper weekly 'Expected Move'. We will cover more details about the Expected Move and what it is telling us in the pages below.



DJIA monthly chart as of Jul 29, 2022 - Here we see an 'Inside' month with July as compared to June as the Industrials remain below their 20 month SMA.



DJIA weekly chart as of Jul 29, 2022 - Here we see 2 weeks of rally after the 5 week pause near the lows of 2022. The Industrials crossed and closed above their 20 week SMA this week but have not yet exceeded the prior highs from late May and early June (Grey line).



DJIA daily chart as of Jul 29, 2022 - The Industrials crossed above its 20 day SMA on July 15th and above its 50 day SMA on July 19th and has remained above both SMAs since. After the narrow range day on Monday and a minor pull back Tuesday, the Industrials resumed their rally on Wednesday and continued higher the rest of this week, ending the week up +2.97%.



Nasdaq monthly chart as of Jul 29, 2022 - Last month (June) we saw the Nasdaq composite test support at its 50 month SMA (Blue). This month we see a higher low, a higher high and a higher close as a potential change of trend. Note that the 50 month SMA also provided support back in March of 2020 and October of 2011.



Nasdaq weekly chart as of Jul 29, 2022 - Here we see a 2 week rally after the 5 week pause near the lows of 2022 and a break of the Trend Line Resistance (Green line). This week ended above the 20 week SMA (Yellow).



Nasdaq daily chart as of Jul 29, 2022 - Here we see the rally begin last week as the Nasdaq broke and closed above its Trend Line and its 50 day SMA on July 19th. We see a mild pull back last Friday, Monday and Tuesday of this week that nearly tested its 50 day SMA as support. Wednesday saw a gap up as the rally resumed for the rest of this week, breaking above its June highs Friday and ending the week up +4.70%.



Russell 2000 monthly chart as of Jul 29, 2022 - Here we see July formed an 'Inside' month as compared to June. The Russell also crossed back above its 50 month SMA this month. No confirmation of a change in trend seen in this chart so far.



Russell 2000 weekly chart as of Jul 29, 2022 - Here we see 2 weeks of rally after the 5 week pause just below its 200 week SMA (Purple). This week the Russell crossed and closed above its 20 week SMA (Yellow).



Russell 2000 daily chart as of Jul 29, 2022 - The Russell crossed above its 50 day SMA last week on July 19th and has continued its rally after a brief pause last Friday, Monday and Tuesday of this week. Wednesday saw the greatest range rally that continued higher and a little slower on Thursday and Friday, ending the week up +4.34%.

If you were to draw a Trend Line between the March highs and the June highs, you will likely see price breaking above this Trend Line on the same day that it crossed above its 50 day SMA (July 19th). When we see multiple confirmation events occur on the same day that usually indicates a more significant confirmation has occurred.

Next we will look at a few key 'Market Internals' to better understand what the overall breadth of the market did this week.



McClellan Summation Index weekly chart as of Jul 29, 2022 - Last week we saw a strong positive move to -158.78 and a cross above its 50 week SMA. This week we see the rally continue with another strong increase to +156.48.



McClellan Summation Index daily chart as of Jul 29, 2022 - Last week we saw this Index move above its 200 day SMA and it continued advancing this week to end this week at +156.48. Remember, this Index is calculated by adding the McClellan Oscillator values for each day. This index is like an accelerometer that shows us changes in momentum of market breadth, both positive and negative changes.



NYSE Percent above 200 day SMA daily chart as of Jul 29, 2022 - Last week we saw a cross above the 50 day SMA and then a cross back below the 50 day SMA last Friday to end last week at 22.63%. This week we saw a mild increase nearly to 25% on Monday, a pause on Tuesday followed by a strong increase the rest of this week to end this week at 33.84%.



NYSE Percent above 50 day SMA daily chart as of Jul 29, 2022 - Last week we saw a rally to nearly 54% and a small pull back last Friday to end last week at 50.21%. This week we saw a second oscillation to 54% Monday, a pull back to 50% Tuesday followed by a rally Wednesday through the rest of this week to end this week at 69.21%.



VIX daily chart as of Jul 29, 2022 - We saw a minor bounce Monday above its 200 day SMA then back below its 200 day SMA. Tuesday saw a small pop and a close above the 200 day SMA. Wednesday saw a decline back below the 200 day SMA that continued lower on Thursday and Friday. The lows on Friday tested the Support Trend Line (Green line) as the VIX made new 3-month lows. The VIX is now below all 3 of its key SMAs.



VVIX Weekly chart as of Jul 29, 2022 - Here we can see that the Volatility of the VIX made new 3-year Lows this week.



VVIX daily chart as of Jul 29, 2022 - Here we see a pattern of lower lows and lower highs for most of 2022. This chart tells me that the VIX is experiencing extreme 'complacency' currently, the lowest in 3 years with no signs of 'fear' and no signs of strong hedging activity. (We saw the same picture in the SKEW last week too).

Options are a useful way to price ‘risk’ in the markets. It is similar to being an Insurance Actuary who’s job is to estimate the odds of something happening (a move in a stock price) based on statistics as they must put a price on that Risk (the Premium). If the Insurance Company has accurately estimated the odds and has priced the premiums properly, then they will remain profitable in the long term, bringing in more total Premiums than total Claims paid. If the premiums paid were not sufficient to cover the actual claims, then the Insurance Company loses money (unless they have bought re-insurance to cover such occurrences).

So too the Options market is pricing Risks by the participants agreeing to the Price they are willing to buy or sell a specific Options contract. Sometimes they may under estimated the risks and ‘Under price’ the options premiums, and other times they may have overestimated the risks and ‘Over priced’ the premiums. Knowing when Options are ‘cheap’ (under priced) or when they are ‘expensive’ (over priced) is an advantage that experienced Options Traders who can use these conditions to their advantage.

Let’s look at some examples of how we can identify when Options might be under or over pricing risks.

Expiration	Days	Implied Volatility	Expected Move
29 JUL 22	(0)	9.24%	(±2.3)
1 AUG 22	(3)	12.46%	(±36.055)
2 AUG 22	(4)	14.84%	(±49.995)
3 AUG 22	(5)	16.21%	(±61.355)
4 AUG 22	(6)	17.39%	(±72.339)
5 AUG 22	(7)	17.94%	(±80.794)
8 AUG 22	(10)	16.99%	(±91.833)
9 AUG 22	(11)	17.67%	(±100.261)
10 AUG 22	(12)	19.07%	(±113.107)
11 AUG 22	(13)	19.56%	(±120.83)
12 AUG 22	(14)	19.62%	(±125.846)
15 AUG 22	(17)	19.00%	(±134.462)
17 AUG 22	(19)	19.80%	(±148.241)

SPX Options chain as of Jul 29, 2022 (after the markets closed) - Note the Implied Volatility for the Options that expire on Aug. 3rd (in 5 days) at 16.21% (Purple underline). Also note the Implied Volatility and ‘Expected Move’ for next Friday’s expiration on Aug. 5th (7 days) at 17.94% IV with a +/- \$80.794 ‘Expected Move’ (Yellow underline).



S&P 500 daily chart as of Jul 29, 2022 - Here we have added a 'Historical Volatility' study to the SPX chart that shows us (in the lower panel) an annualized 1-standard deviation volatility that is based upon the actual price swings for the prior 5 days. This week ended with a 22.45% HV.

Compare this 22.45% Historical Volatility to the Options chain above for 5 days until expiration (Aug 3 Expiration) with currently a 16.21% Implied Volatility. Remember, 'Historical Volatility' is backward looking and is based upon actual past price movement (facts). 'Implied Volatility' is computed with an Options Pricing Model and is based upon actual Option prices (supply and demand) for contracts which show us how Options Traders are pricing forward looking Risk (opinions).

Over the past several months we have very often seen actual HV exceed IV. This can be seen in the HV plot on the SPX chart above and can be seen in how often this year the S&P moves have exceeded the weekly 'Expected Move'. When HV is greater than IV, it tells us that the Options markets are 'under pricing' actual risk.

When HV is greater than IV (cheap options), this can be a significant disadvantage for Options Traders that focus on 'Premium Selling' (Options Selling) strategies, since they are not being paid enough for the actual market risks they are taking. It can be an advantage for Options Buyers when they are buying under-priced (cheap Options) that may move their way.

When IV is greater than HV (e.g. expensive options) this can be an advantage for 'Premium Selling' (Options Selling) strategies and a disadvantage for Options Buyers.

Since IV is forward looking, we never know if it is under pricing or over pricing risks until the Expiration day arrives. However, if we keep records of the IV on a regular interval, we can see trends of how well the options market has been doing at pricing risks. This is what I do on a weekly basis with the S&P and tracking the 1-standard deviation 'Expected Move' each week. This way I can see how often Options are under or over pricing actual risk. Below is a sample of the data collected this year with this process.

Weekly SPX 'Expected Move'										
2022					Below	Above	At Expiration		Outside	wks
As of the Close on:			Expct'd Move	+/- \$			7	5	12	30
VIX	Date	\$ SPX	Expiration Date	Expct'd Move	Lower EM	Upper EM	Below	Above	40.00%	
31.98%	3/4/2022	\$4,328.87	3/11/2022	\$145.13	\$4,183.74	\$4,474.00	0	0	0	1
30.75%	3/11/2022	\$4,204.31	3/18/2022	\$143.62	\$4,060.69	\$4,347.93	0	1	1	1
23.87%	3/18/2022	\$4,463.12	3/25/2022	\$105.92	\$4,357.20	\$4,569.04	0	0	0	1
20.81%	3/25/2022	\$4,543.06	4/1/2022	\$88.20	\$4,454.86	\$4,631.26	0	0	0	1
19.63%	4/1/2022	\$4,545.86	4/8/2022	\$74.66	\$4,471.20	\$4,620.52	0	0	0	1
21.16%	4/8/2022	\$4,488.28	4/14/2022	\$76.24	\$4,412.04	\$4,564.52	1	0	1	1
22.70%	4/14/2022	\$4,392.59	4/22/2022	\$97.66	\$4,294.93	\$4,490.25	1	0	1	1
28.21%	4/22/2022	\$4,271.78	4/29/2022	\$133.55	\$4,138.23	\$4,405.33	1	0	1	1
33.40%	4/29/2022	\$4,131.93	5/6/2022	\$167.31	\$3,964.62	\$4,299.24	0	0	0	1
30.19%	5/6/2022	\$4,123.34	5/13/2022	\$134.32	\$3,989.02	\$4,257.66	0	0	0	1
28.87%	5/13/2022	\$4,023.89	5/20/2022	\$132.75	\$3,891.14	\$4,156.64	0	0	0	1
29.43%	5/20/2022	\$3,901.36	5/27/2022	\$124.25	\$3,777.11	\$4,025.61	0	1	1	1
25.72%	5/27/2022	\$4,158.24	6/3/2022	\$100.19	\$4,058.05	\$4,258.43	0	0	0	1
24.79%	6/3/2022	\$4,108.54	6/10/2022	\$101.07	\$4,007.47	\$4,209.61	1	0	1	1
27.75%	6/10/2022	\$3,900.86	6/17/2022	\$131.85	\$3,769.01	\$4,032.71	1	0	1	1
31.13%	6/17/2022	\$3,674.84	6/24/2022	\$119.86	\$3,554.98	\$3,794.70	0	1	1	1
27.23%	6/24/2022	\$3,911.74	7/1/2022	\$112.64	\$3,799.10	\$4,024.38	0	0	0	1
26.70%	7/1/2022	\$3,825.33	7/8/2022	\$93.81	\$3,731.52	\$3,919.14	0	0	0	1
24.64%	7/8/2022	\$3,899.38	7/15/2022	\$94.68	\$3,804.70	\$3,994.06	0	0	0	1
24.23%	7/15/2022	\$3,863.16	7/22/2022	\$87.98	\$3,775.18	\$3,951.14	0	1	1	1
23.03%	7/22/2022	\$3,961.63	7/29/2022	\$96.63	\$3,865.00	\$4,058.26	0	1	1	1
21.33%	7/29/2022	\$4,130.29	8/5/2022	\$80.78	\$4,049.51	\$4,211.07			0	1

SPX Weekly Expected Move data as of Jul 29, 2022 - Each week I note the closing SPX value and the spread sheet calculates if that close was Inside or Outside the Expected Move for that week. I also enter next week's 'Expected Move' based upon the Options market the Friday one week before expiration.

So far in 2022 we have seen 12 out of 30 weeks close with the S&P 'Outside' its 1 standard deviation 'Expected Move' or 40% of the time. A 1 standard deviation would suggest 31.7% of weeks would close outside. This is one way that we have observed actual market moves that are bigger than what the Options market had expected.

Regardless if the S&P closes the week outside of its Expected Move or not, it may actually break outside of its Expected Move during the week, showing us elevated actual volatility even if the S&P returns back inside its Expected Move by the time Friday's market closes. Over the past 12 weeks we have seen 10 weeks when the S&P ventured outside of its weekly Expected Move for some period of time. Another way to observe elevated Historical Volatility.

The weekly Expected Move is also a key area, since market makers and large fund managers that employ 'Dynamic Hedging' may need to adjust their hedges when the markets move to or beyond the 1-standard deviation limits. This re-hedging activity is how these folks remain delta neutral, and must do so actively as expiration approaches due to Gamma squeeze affects. Their re-hedging puts pressure on markets to continue even farther outside of the Expected Move and could even reach 2-standard deviation levels in some cases (as we saw happen twice in May this year).

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



Oil daily chart as of Jul 29, 2022 - Oil slowly drifted higher this week as the 20 day SMA descended to meet price.



Gold daily chart as of Jul 29, 2022 - Gold drifted lower Mon. and Tue. then rallied above its 20 day SMA on Wednesday and continued higher Thursday and Friday.



US Dollar Index daily chart as of Jul 29, 2022 - The US Dollar was quiet Monday, rose a little Tuesday then gave it back on Wednesday. Thursday and Friday saw a decline in the Dollar. (This chart is similar to the inverse of Gold this week.)



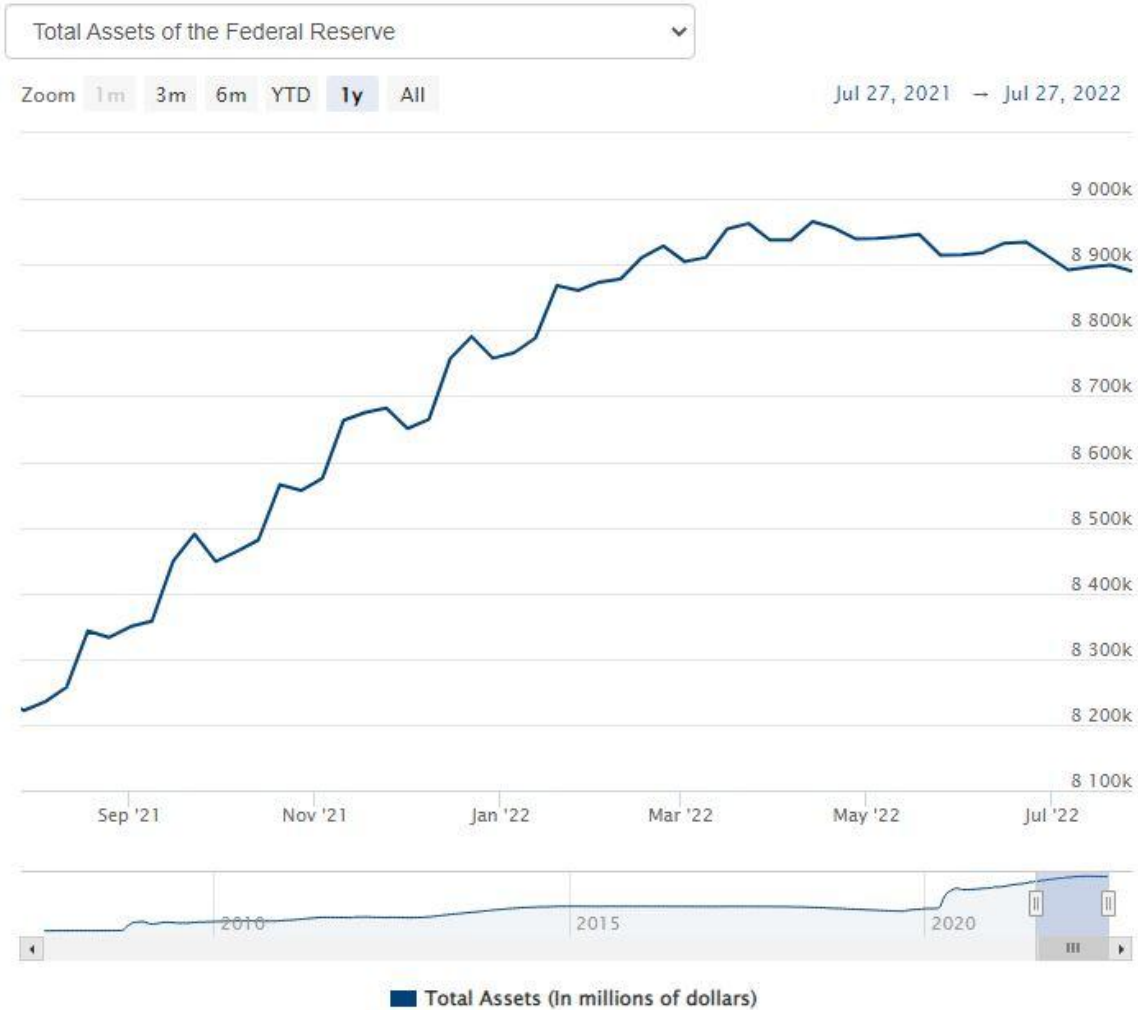
US 10 year Treasury daily chart as of Jul 29, 2022 - The 10 year Treasury was quiet Monday and Tuesday, then rose higher with increasing volume Wed. Thur. and Friday.



US 10 year Yield daily chart as of Jul 29, 2022 - Yields decline nearly each day this week, more so on Thursday and Friday as bond buying volume increased.

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
07/18/2022	1.96	2.28	2.50	3.02	3.13	3.15	3.15	3.06	3.05	2.96	3.39	3.14
07/19/2022	1.93	2.29	2.52	3.06	3.18	3.23	3.22	3.14	3.11	3.01	3.42	3.17
07/20/2022	1.92	2.29	2.51	3.04	3.18	3.25	3.25	3.18	3.15	3.04	3.43	3.17
07/21/2022	2.15	2.30	2.48	3.00	3.11	3.10	3.07	3.00	2.99	2.91	3.33	3.08
07/22/2022	2.15	2.29	2.49	2.97	3.01	2.98	2.93	2.87	2.85	2.77	3.23	3.00
07/25/2022	2.14	2.31	2.62	3.06	3.07	3.00	2.98	2.89	2.89	2.81	3.28	3.04
07/26/2022	2.17	2.35	2.55	3.01	3.06	3.02	3.01	2.89	2.88	2.81	3.27	3.03
07/27/2022	2.14	2.30	2.44	2.93	3.00	2.96	2.93	2.82	2.83	2.78	3.26	3.03
07/28/2022	2.20	2.30	2.42	2.90	2.93	2.85	2.81	2.69	2.69	2.68	3.23	3.02
07/29/2022	2.22	2.28	2.41	2.91	2.98	2.89	2.83	2.70	2.70	2.67	3.20	3.00

US Treasury Yields daily table as of Jul 29, 2022 - The longer terms declined this week and the short terms increased, flattening the Yield curve further. The 10y/2yr Yield Inversion continued every day in July except on the 1st and 5th. This Yield inversion is one sign that is associated with Recessions.



FOMC Balance Sheet weekly chart as of Jul 27, 2022 - We saw the Fed 'decrease' their balance sheet this week after two weeks of increases. Last week (July 20th) there was \$8.899213 Trillion on the Balance Sheet and this week (July 27th) it dropped by \$9.209 Billion to \$8.890004 Trillion.

Remember, the Fed announce over a month ago their plan to reduce their Balance Sheet by \$30 billion to \$47.5 billion per month starting June 1st. Well it looks like we have not seen that happen over the past 2 months. The Fed's Balance Sheet was at \$8.915050 Trillion on June 1st and had reduced to \$8.890004 Trillion as of July 27th for a reduction of \$25.046 Billion over two months (about a \$12.5 B reduction per month), far short of the Fed's stated 'Plan'.

Let's put this in perspective: Over the prior year, from Aug 5, 2020 to Aug 4, 2021 we saw the Fed's Balance sheet climb from \$6.945237 T to \$8.235073 T for an increase of \$1.289836 T over that 12 month period. That averages to adding \$107.486 Billion of stimulus each month for a year. A monthly reduction of \$30 B to \$47 B is not too significant as compared to these \$107 B average monthly additions.

The Fed may have raised its Fed Funds rate this week by +0.75%, but they have not done much of a reduction to its huge Balance Sheet so far. We will continue to monitor.

Next we will look at a few key Sectors.



Dow Jones Transportation Index daily chart as of Jul 29, 2022 - The Transports crossed above their 50 day SMA back on July 19th and then paused for a few days including Monday this week. Tuesday saw a dip to test the 50 day SMA as Support. Wednesday saw a rally back to Monday's highs. Thursday and Friday saw a very strong rally up to new highs for June and July, ending the week up +5.78%.



XLE daily chart as of Jul 29, 2022 - The Energy sector saw higher highs and higher lows every day this week, crossing above its 50 day SMA on Friday to end the week up +10.22%. The XLE is now above all 3 of its key SMAs.



XLF daily chart as of Jul 29, 2022 - The Financial sector continued to straddle the 50 day SMA this week before closing higher Thursday and Friday, ending the week up +2.93%.



QQQ daily chart as of Jul 29, 2022 - The Nasdaq-100 ETF saw a narrow range day Monday then gapped down and sold off to nearly its 50 day SMA on Tuesday. Wednesday saw a strong rally that continued higher Thursday and Friday to end the week up +4.46%. Note the series of higher lows and higher highs since the June 2022 lows. The QQQ ended this week above its June and July prior highs.



SOXX daily chart as of Jul 29, 2022 - The decline last Friday in the Semiconductor sector continued Monday and Tuesday this week, closing below its 50 day SMA on Tuesday. Wednesday saw a gap up and rally back to the prior week's highs and continued higher on Thursday and Friday, ending the week up +4.24%. The SOXX did not retest its June highs this week.



XLC daily chart as of Jul 29, 2022 - The Communication Services sector continues to struggle to get back above its 50 day SMA as it continues to consolidate this week, with higher lows and lower highs, ending the week up +0.68%.



XME daily chart as of Jul 29, 2022 - The Metals and Mining sector paused for 7 days just above its horizontal sloped 20 day SMA (Yellow) then broke out strong on Wednesday this week, testing its 50 day SMA Resistance on Thursday and crossing above its 50 day SMA on Friday to end the week up +10.29% making it the strongest sector on my list this week.

<i>INDEXes</i>	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending
<i>SECTORS</i>	6/17/2022	6/24/2022	7/1/2022	7/8/2022	7/15/2022	7/22/2022	7/29/2022
\$SPX	-5.79%	6.45%	-2.21%	1.94%	-0.93%	2.55%	4.26%
\$INDU	-4.79%	5.39%	-1.28%	0.77%	-0.16%	1.95%	2.97%
\$COMPQ	-4.78%	7.49%	-4.13%	4.56%	-1.57%	3.33%	4.70%
\$RUT	-7.48%	6.01%	-2.15%	2.41%	-1.41%	3.58%	4.34%
QQQ	-4.90%	7.46%	-4.24%	4.69%	-1.18%	3.47%	4.46%
\$TRAN	-3.74%	5.28%	-1.91%	0.81%	-1.38%	4.53%	5.78%
XLE	-17.16%	-1.49%	1.38%	-2.25%	-3.33%	3.73%	10.22%
XLF	-4.92%	5.12%	-1.42%	0.63%	-0.94%	3.05%	2.93%
XLK	-4.94%	7.36%	-4.53%	4.29%	-0.37%	3.66%	5.10%
SOXX	-9.06%	5.33%	-9.56%	6.32%	3.01%	5.80%	4.24%
XLV	-4.46%	8.22%	0.37%	0.82%	-0.41%	-0.28%	1.98%
XLY	-5.79%	8.25%	-4.75%	4.54%	-1.05%	6.84%	5.22%
XRT	-4.85%	7.31%	-9.04%	4.26%	-1.21%	5.41%	-0.24%
XLI	-5.81%	4.27%	-0.81%	-0.22%	-1.22%	4.16%	5.74%
XLU	-9.07%	7.23%	4.12%	-2.83%	-0.09%	-0.47%	6.51%
XME	-10.38%	-0.52%	-5.38%	-1.49%	-0.12%	1.93%	10.29%
XLP	-4.30%	6.64%	0.51%	-0.44%	0.05%	0.36%	1.76%
XLB	-8.26%	2.76%	-3.06%	-1.48%	-1.34%	4.19%	4.09%
XLC	-5.06%	6.01%	-3.72%	3.45%	-2.29%	1.05%	0.68%
XHB	-11.38%	7.92%	0.53%	3.22%	0.48%	6.00%	2.93%

Weekly Percent Change US Indexes and Sectors table as of Jul 29, 2022 - Here we can see that the Nasdaq lead the way down two weeks ago and lead the markets up this week just as it lead higher the week ending July 8th.

The Strongest Sectors this week included: XME, XLE, XLU, Dow Transportation Index and XLI. You may remember that the XLE and XME have very often been leading sectors this year.

There was only one negative sector this week, the XRT. Other weak sectors this week included: XLC, XLP and XLV.



SPY vs. Sectors percent change since June 16 as of July 29 2022 - Here I have done something a little different this week. I set my chart to show the percent change since the market lows we saw in June this year, to see how each Sector has performed since those June lows. You can see the strongest sectors since June 16th have been XHB, XLY, XLK and SOXX.

If you learn to use the features of your charting program creatively you can answer unique questions you may have about the relative performance of stocks, sectors, etc. for any time period you wish to analyze. Asking yourself key questions, and then using your tools to find the answers, is a powerful way to analyze and expose key observations about the markets.



NDX vs. Biggs percent since June 16th as of July 29 2022 - Here we have done a similar comparison study between the NDX and the 8 biggest names in the Nasdaq-100. Since June 16th we see the strongest names have been TSLA, AMZN, NFLX and AAPL. This is one way to help identify leadership names that you may want to consider since they have recently proving their relative strength.

INDEXes SECTORS	Mon	Tue	Wed	Thur	Fri	Mon	Tue	Wed	Thur	Fri
	End of Day 07/18/22	End of Day 07/19/22	End of Day 07/20/22	End of Day 07/21/22	End of Day 07/22/22	End of Day 07/25/22	End of Day 07/26/22	End of Day 07/27/22	End of Day 07/28/22	End of Day 07/29/22
\$SPX	-0.84%	2.76%	0.59%	0.99%	-0.93%	0.13%	-1.16%	2.62%	1.21%	1.42%
\$INDU	-0.69%	2.43%	0.15%	0.51%	-0.43%	0.28%	-0.71%	1.37%	1.03%	0.97%
\$COMPQ	-0.81%	3.11%	1.58%	1.36%	-1.87%	-0.43%	-1.87%	4.06%	1.08%	1.88%
\$RUT	-0.34%	3.50%	1.59%	0.48%	-1.62%	0.60%	-0.69%	2.39%	1.34%	0.65%
QQQ	-0.85%	3.08%	1.57%	1.44%	-1.75%	-0.57%	-1.96%	4.23%	0.98%	1.82%
\$STRAN	0.52%	3.88%	0.89%	-0.39%	-0.39%	0.39%	-1.82%	1.71%	3.09%	2.34%

Daily Percent Change US Indexes table as of Jul 29, 2022 - On a daily basis we saw the QQQ both lead down days as well as lead the up day on Wednesday. Even if the Nasdaq composite did not lead on any one day, it did lead for the week. This is why we look at BOTH daily and weekly percentage change numbers.

Next we will look at a few key Stocks.



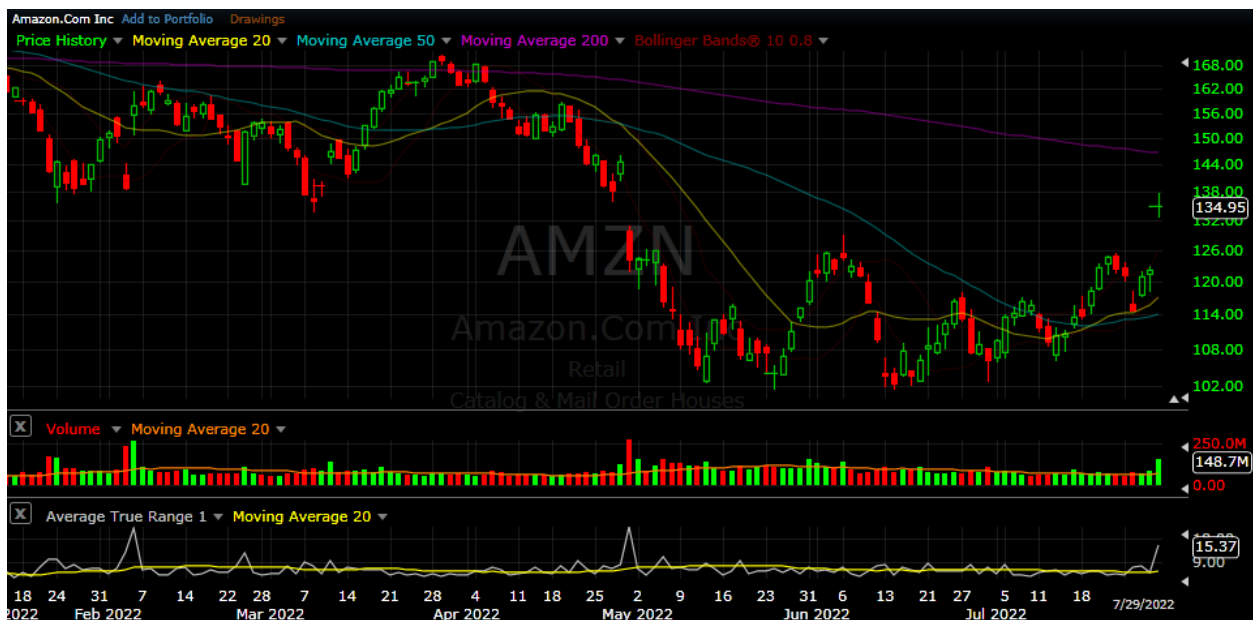
AAPL daily chart as of Jul 29, 2022 - Apple saw a mild pull back on Monday and Tuesday, then rallied strong on Wednesday. Thursday saw a pause as AAPL retested its prior day's highs waiting for Earnings after the close. Friday saw a gap up above its 200 day SMA (Purple) to end the week up +5.46% and now above all 3 of its key SMAs.



MSFT daily chart as of Jul 29, 2022 - Microsoft continued to decline on Monday and Tuesday before Earnings came out after the close on Tuesday. MSFT gapped up to its 20 day and 50 day SMAs and rallied strong Wednesday and continued higher Thursday and Friday to end the week up +7.83%.



GOOGL daily chart as of Jul 29, 2022 - Alphabet continued its decline on Monday and Tuesday before reporting Earnings on Tuesday after the close. Wednesday saw a gap up and rally above its 20 day and 50 day SMAs that continued higher Thursday and Friday to end the week up +7.80%. Alphabet continues to oscillate within a consolidation zone for nearly 3 months, long enough for its 20 day and 50 day SMAs to become horizontal and entangled with each other.



AMZN daily chart as of Jul 29, 2022 - Amazon drifted lower Monday, then gapped down Tuesday to test support at its 20 day SMA, likely in sympathy with the Wal-Mart news. We saw a mild rally to fill the prior day's gap on Wednesday that drifted a little higher on Thursday before Earnings came out after the close that day. Friday saw a large gap up and a narrow range oscillation near its new highs to end the week up +10.24%.



TESLA daily chart as of Jul 29, 2022 - Tesla reported Earnings last week. Tesla drifted lower on Monday and Tuesday this week, then gapped up and rallied on Wednesday and continued higher Thursday and Friday, ending the week up +9.15% as it is nearing its 200 day SMA.



META daily chart as of Jul 29, 2022 - Meta continued lower last Friday, Monday and Tuesday this week. Wednesday saw a small gap up and rally to about Monday's highs before Earnings came out after the close that day. Thursday saw a gap down and sell off to retest the lows of 2022 early in the day and remained range bound just above the 2022 lows on Thursday and all of Friday. META ended the week down -6.01% and is now below all 3 of its key SMAs.



NVDA daily chart as of Jul 29, 2022 - Nvidia drifted lower Monday and Tuesday, crossing below its 50 day SMA on Tuesday. Wednesday saw a gap up and rally to nearly retest last week's highs. Thursday and Friday saw higher lows and higher highs to end the week up +4.87%.



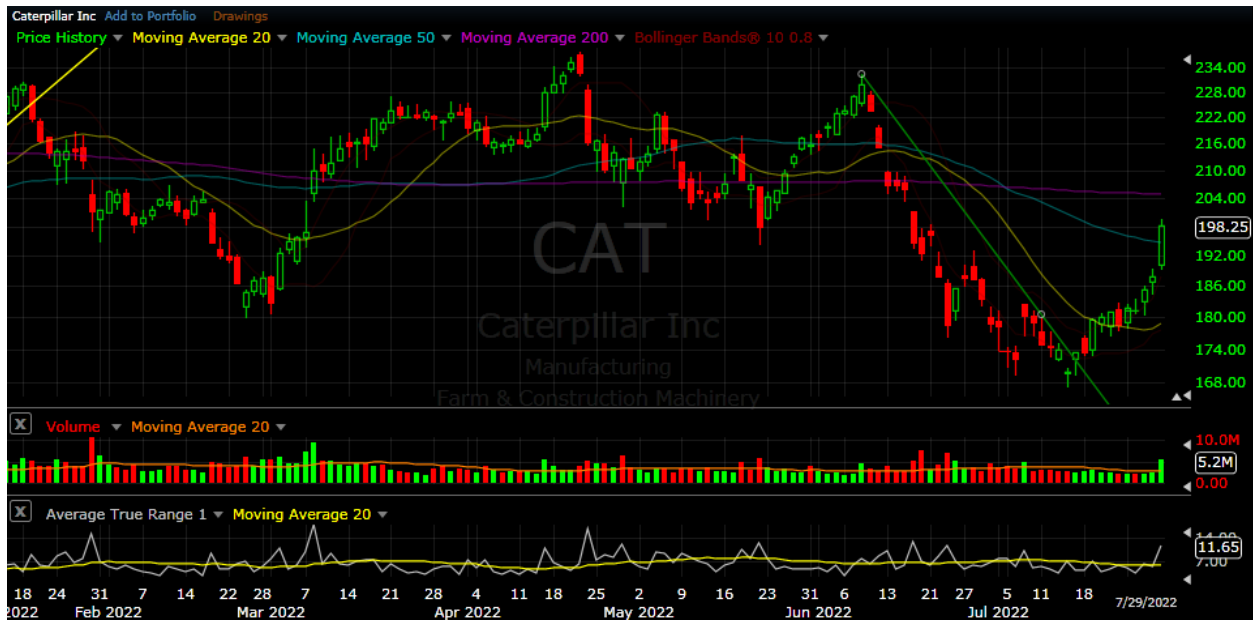
GS daily chart as of Jul 29, 2022 - Goldman Sachs drifted lower Monday and Tuesday, then rallied the next 3 days to deliver new 3-month highs on Friday, ending the week up +2.92%.



COST daily chart as of Jul 29, 2022 - Costco paused Monday inside its prior day's range. Tuesday saw a gap down below its 200 day SMA (maybe in sympathy with the Wal-Mart news?). Wednesday saw a rally back above its 200 day SMA that continued stronger Thursday to new 11 week highs. Friday saw higher highs to end the week up +2.36% and above all 3 of its key SMAs.



BA daily chart as of Jul 29, 2022 - Boeing mostly remained within a narrow range Monday and Tuesday before reporting Earnings on Wednesday before the open. Wednesday opened with a gap up but quickly gave back all of those gains in the first 100 min. of trading then resumed the narrow range consolidation we saw most of this week. Boeing ended the week up 0.73%.



CAT daily chart as of Jul 29, 2022 - Caterpillar crossed above its 20 day SMA (Yellow) on July 19th and remained within a narrow range just above its 20 day SMA for the next 5 days. Wednesday saw CAT break above this zone and rally higher. The rally continued and even became MUCH Stronger on Friday as CAT broke above its 50 day SMA with a +5.5% day on Friday, ending the week up +10.99%. CAT reports Earnings next week on Tuesday before the open.



X daily chart as of Jul 29, 2022 - US Steel rallied strong last week (+11.45%) and pulled back a little last Friday. This week began with an Inside day on Monday and Tuesday, then the rally resumed Wednesday as X crossed above its 50 day SMA. X continued higher Thursday and was followed with an even stronger day on Friday to end the week up +19.69%.



WMT daily chart as of Jul 29, 2022 - Wal-Mart began the week with an 'Inside day' pause on Monday. Then WMT issued a warning about declining consumer demands and inventory issues that cause a large gap down at the open on Tuesday with huge volume. We saw several other consumer sensitive retailers decline on Tuesday likely as sympathetic reactions to the Wal-Mart news. Wednesday saw a strong rally back above its 50 day SMA and closing at its 20 day SMA. The rally continued Thursday above its 20 day SMA and by Friday the huge gap from Tuesday was about filled. Wal-Mart ended the week down only - 0.12%.

We saw lots of reactions to Earnings this week, and most of those reactions were positive regardless if the company beat EPS or not. We also saw reactions (or lack of reactions) to various Economic news events this week and a Fed that raised rates again. With very few exceptions, most reactions were positive as if this market wanted to go higher, regardless of the news or data. And THAT is in itself a very big clue that we do not argue with since the market is always right, regardless if it makes sense or is logical or not.

The key lesson here is to NOT have any 'expectations', but be flexible to flow with the markets and whatever they are doing. Do not listen to 'experts', but follow the charts and the evidence the charts provide, regardless of the 'why'.

We showed several ways to see how the markets are very 'complacent' now, with the VIX and with the VVIX making 3 year lows. We also saw several examples that show us how the Options Market is often 'Under Pricing' actual risk, and how that can be useful clue going forward. We saw how often this year the S&P moved more than the Options Implied Volatility suggested, and how actual Historical Volatility has exceeded Options Implied Volatility.

We also saw how the Fed has not been doing much 'Reduction' to their Balance Sheet since June 1st, and how minor the few tiny reductions we have seen are when compared to the significant Stimulus the Fed has injected into the markets over the past year.

On the monthly charts we don't see much evidence of a change in trend so far, but the weekly and daily charts suggest we have seen 2 weeks of the Bulls exercising their convictions. This 2 week rally may or may not continue next week, so we prepare as we always do, for multiple scenarios, Bullish, Bearish and Neutral.

We also did some custom comparison charts between Sectors and the SPY, and between the NDX and Big stocks to see how each has done since the lows in mid June to help expose leaders.

Hope you have found something educational in my weekly 'Observations'.

Trade Smart,

CJ