



Market Observations - as of Aug. 5, 2022

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

Last **week** we saw a mild pull back early in the week before the market rally resumed after the Fed announcement on Wednesday, taking most indexes to new highs for the month of July.

This week we saw most markets pause on Monday and Tuesday, rally on Wednesday then again pause on Thursday and Friday. We saw a divergence this week where the Dow Industrials and the S&P-500 saw very little change while the Nasdaq and Russell 2000 saw a mild rally for the week. I used the word 'mild' to describe the rally this week since we saw less than half of the gains this week as the Nasdaq and Russell saw in the prior week.

It is not uncommon to see markets pause as they near a key area that was previous Resistance. We see this now with the S&P, DJIA and Russell 2000 where they are now near this area of prior Resistance from early June. The Nadsaq, however, has shown relative strength by breaking above its early June Resistance this week, with most of that rally higher occurring on Wednesday.

Oil continued to drop nearly every day this week while the US Dollar strengthened a little bit as Gold prices also rose a little.

The US 10 year Treasuries saw strong selling Tuesday followed by strong buying Wednesday once support was found near its 20 day SMA. Friday saw more sellers return. The 10 year Yields moved inversely to this selling and buying action of the 10 year Treasuries.

The VIX rose a little on Monday and Tuesday then declined each day for the rest of this week, testing its support on Thursday and breaking below that support on Friday.

Lots of Earnings reports came out this week with mixed reactions. Most of the biggest names reported last week and a lot of Retail names will report in the next week or so.

Not only did we see some 'divergence' between the major indexes this week, we also saw some divergences between some of the various Breadth indicators we follow. We will look at some examples of this below.

Divergences have a way of eventually resolving their differences as markets again return to highly correlated trends. There are several ways these divergences can be resolved. [A] The pause seen this week in the DJIA and S&P could suggest a slowing rally that is about to reverse to become bearish and we would see the Nasdaq lag in making its change but also change to bearish along with the other Indexes in the following days or weeks. [B] The Nasdaq may continue its bullish rally and the DJIA and S&P join back in with the rally. [C] The Nasdaq pauses and joins the DJIA and S&P in a Neutral 'pause' in trends for a while.

All 3 scenarios are very possible, so we will wait for evidence to show us what scenario reveals itself in time.

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



S&P 500 weekly chart as of Aug 5, 2022 - We see a small candle this week with a slightly higher high than last week, just above its 20 week SMA.



S&P 500 daily chart as of Aug 5, 2022 - Here we see very narrow days on Monday and Tuesday with a small rally on Wednesday followed by a pause Thursday and gap down and small rally Friday to end the week up +0.36%.



DJIA weekly chart as of Aug 5, 2022 - Here we see a very small candle this week that also straddles its 20 week SMA with very little to no gain this week.



DJIA daily chart as of Aug 5, 2022 - Here we see a week of consolidation with alternating narrow range days, ending the week down -0.13%.



Nasdaq weekly chart as of Aug 5, 2022 - Last week broke above its 20 week SMA and retested the early June prior highs. This week we see a small rally to higher highs.



Nasdaq daily chart as of Aug 5, 2022 - Here we see a pause on Monday and Tuesday, then a rally on Wednesday with a little follow through higher on Thursday. Friday saw a gap down and rally to lower highs, ending the week up +2.15%.



Russell 2000 weekly chart as of Aug 5, 2022 - Last week broke above its 20 week SMA and retested the early June prior highs. This week we see a small rally to higher highs.



Russell 2000 daily chart as of Aug 5, 2022 - We saw higher highs every day this week except on Thursday when we saw a small 'Inside' day. The gap down and rally Friday delivered new highs for the week with a bullish engulfing candle and broke above the early June prior highs, ending the week up +1.94%.

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



McClellan Summation Index weekly chart as of Aug 5, 2022 - Last week we saw a strong rally up to +156.48. This week we see another strong rally up to +468.70.



McClellan Summation Index daily chart as of Aug 5, 2022 - We saw the strong acceleration continue this week to end this week at +468.70.



NYSE Percent above 200 day SMA daily chart as of Aug 5, 2022 - Last week we saw a strong increase up to 33.84%. This week we see oscillations with very little overall change to end this week at 34.43%.



NYSE Percent above 50 day SMA daily chart as of Aug 5, 2022 - Last week we saw a strong increase from the 50% area to 69.21%. This week we see several oscillations with very little change to end this week at 68.20%.

Here we see a divergence between these 'Breadth' indicators, with McClellan Summation Indexes showing continued positive momentum this week while the NYSE Percent above key SMAs shows very little change this week. This suggests that the gains this week are likely only in certain sectors and not inclusive of the overall markets. Let's keep looking for clues.



VIX daily chart as of Aug 5, 2022 - Last week we saw the VIX find support near its 1-year Support Trend Line (Green line). This week we saw a bounce up Monday and Tuesday, and then a daily decline back to the Support Trend Line on Thursday and Friday broke below this Trend Line. This shows us that the Options Market participants are rather complacent currently, and not driven by fear.



VVIX daily chart as of Aug 5, 2022 - The VVIX make a multi-year new lows late last week. This week we see a small bounce higher that remained in a narrow range, mostly below its 20 day SMA.

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



Oil daily chart as of Aug 5, 2022 - Oil declined nearly each day this week, dropping from its 20 day SMA (near \$98) and crossing below its 200 day SMA on Monday to eventually find support on Friday at \$87.01 and ending the week at \$88.53.



Gold daily chart as of Aug 5, 2022 - Gold oscillated the first 3 days of this week just below its 50 day SMA. Thursday saw a rally above its 50 day SMA and Friday saw a decline to end the week about a dollar below its 50 day SMA.



US Dollar Index daily chart as of Aug 5, 2022 - The US Dollar declined Monday and saw a lower low Tuesday before its rally and bullish engulfing day. Wednesday saw a higher high that was given back on Thursday followed by a rally Friday that tested its 20 day SMA as Resistance.



US 10 year Treasury daily chart as of Aug 5, 2022 - The 10yr Treasury saw strong selling Tuesday and a rally off of its 20 day SMA Support Wednesday. Both days saw strong volume. Thursday saw a pause before selling returned on Friday to end the week near its 20 day SMA.



US 10 year Yield daily chart as of Aug 5, 2022 - The 10yr Yield saw inverse swings this week, with strong Increases on Tuesday and Friday when the Treasuries saw strong selling. The week ended near the 20 day SMA.

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
08/01/2022	2.22	2.33	2.56	2.96	2.98	2.90	2.82	2.66	2.64	2.60	3.12	2.92
08/02/2022	2.22	2.33	2.56	3.00	3.09	3.06	3.02	2.85	2.82	2.75	3.22	3.00
08/03/2022	2.20	2.29	2.52	3.00	3.14	3.10	3.04	2.86	2.81	2.73	3.17	2.96
08/04/2022	2.19	2.36	2.50	2.98	3.11	3.03	2.95	2.76	2.73	2.68	3.15	2.97
08/05/2022	2.21	2.39	2.58	3.10	3.29	3.24	3.18	2.97	2.91	2.83	3.27	3.06

US Yield rates table as of Aug 5, 2022 - The 10yr/2yr Inversion we saw begin in early July, continued each day in Aug. this week. The 10yr/3mo rates are approaching a potential inversion soon.



FOMC Balance Sheet weekly chart as of Aug 3, 2022 - Last week (July 27) we saw Total Assets of \$8.890004 Trillion. This week the Fed reduced their Balance Sheet by \$15.384 Billion to a revised Total Assets of \$8.874620 Trillion (Aug. 3). As you can see in the above chart, this reduction remains relatively small compared to the typical monthly growth rate we saw in 2020 and 2021.

Next we will look at a few key Sectors.



Dow Transportation Index daily chart as of Aug 5, 2022 - The Transports saw a huge rally last week that paused on Monday of this week before dropping hard on Tuesday. The next three days saw a mild rally that did not recover Tuesday's entire drop, ending the week down -0.05%.



XLE daily chart as of Aug 5, 2022 - The Energy sector briefly popped above its 50 day SMA late last week then pulled back and paused Monday and Tuesday this week below its 50 day SMA. Wednesday and Thursday saw strong declines to below its 20 day SMA. Friday saw a gap down to find support and rally back above its 20 day SMA to end the week down -6.81%.



XLF daily chart as of Aug 5, 2022 - The Financial sector saw a rally late last week but failed to continue any higher this week as we see a week of 'consolidation'. The XLF ended the week down -0.06%.



QQQ daily chart as of Aug 5, 2022 - The Nasdaq-100 broke above its early June highs last Friday and consolidated in that same area Monday and Tuesday of this week. Wednesday saw a strong rally to higher highs that continued a little on Thursday. Friday saw a gap down and rally that failed to exceed the prior day's highs, ending the week up +1.99%.



SOXX daily chart as of Aug 5, 2022 - The Semiconductor sector saw higher highs and higher lows every day this week except on Friday. The highs of the week on Thursday did not reach the prior highs from early June, but did reach the range from early June (Grey horizontal lines). The SOXX ended the week up +2.91%.



XLC daily chart as of Aug 5, 2022 - The Communication Services sector remains in a consolidation pattern this week with a brief rally seen on Wednesday and Thursday that was partially given back on Friday, ending the week up +1.28%.

<i>INDEXes</i>	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending
<i>SECTORS</i>	6/24/2022	7/1/2022	7/8/2022	7/15/2022	7/22/2022	7/29/2022	8/5/2022
\$SPX	6.45%	-2.21%	1.94%	-0.93%	2.55%	4.26%	0.36%
\$INDU	5.39%	-1.28%	0.77%	-0.16%	1.95%	2.97%	-0.13%
\$COMPQ	7.49%	-4.13%	4.56%	-1.57%	3.33%	4.70%	2.15%
\$RUT	6.01%	-2.15%	2.41%	-1.41%	3.58%	4.34%	1.94%
QQQ	7.46%	-4.24%	4.69%	-1.18%	3.47%	4.46%	1.99%
\$TRAN	5.28%	-1.91%	0.81%	-1.38%	4.53%	5.78%	-0.05%
XLE	-1.49%	1.38%	-2.25%	-3.33%	3.73%	10.22%	-6.81%
XLF	5.12%	-1.42%	0.63%	-0.94%	3.05%	2.93%	-0.06%
XLK	7.36%	-4.53%	4.29%	-0.37%	3.66%	5.10%	1.94%
SOXX	5.33%	-9.56%	6.32%	3.01%	5.80%	4.24%	2.91%
XLV	8.22%	0.37%	0.82%	-0.41%	-0.28%	1.98%	-0.72%
XLY	8.25%	-4.75%	4.54%	-1.05%	6.84%	5.22%	0.91%
XRT	7.31%	-9.04%	4.26%	-1.21%	5.41%	-0.24%	5.19%
XLI	4.27%	-0.81%	-0.22%	-1.22%	4.16%	5.74%	0.50%
XLU	7.23%	4.12%	-2.83%	-0.09%	-0.47%	6.51%	0.38%
XME	-0.52%	-5.38%	-1.49%	-0.12%	1.93%	10.29%	0.48%
XLP	6.64%	0.51%	-0.44%	0.05%	0.36%	1.76%	0.20%
XLB	2.76%	-3.06%	-1.48%	-1.34%	4.19%	4.09%	-1.31%
XLC	6.01%	-3.72%	3.45%	-2.29%	1.05%	0.68%	1.28%
XHB	7.92%	0.53%	3.22%	0.48%	6.00%	2.93%	0.19%

Weekly Percent Change US Indexes and Sectors table as of Aug 5, 2022 - We can see that the S&P and DJIA saw very little change this week while the Nasdaq composite and the Russell 2000 saw gains. Their gains this week were less than half of the gains each saw in the prior week. This is the divergence we spoke about on the first page of this report.

The Sectors on this table help us identify any trends over time as well as changes in sector rotation week to week.

The strongest sectors this week were: XRT, SOXX, QQQ, XLK and XLC. The weakest sectors this week were: XLE, XLB and XLV. There were several sectors that saw very little change this week, like: DJ Transports, XLF, XHB and XLP. Nine sectors saw gains of +0.25% or greater this week.

Note that the SOXX sector has not been the strongest, but has been one of the stronger sectors the past 5 weeks. Do you see any other sectors showing some 'consistency' over the past several weeks?

	Mon	Tue	Wed	Thur	Fri	Mon	Tue	Wed	Thur	Fri
INDEXes	End of Day	End of Day	End of Day	End of Day	End of Day	End of Day	End of Day	End of Day	End of Day	End of Day
SECTORS	07/25/22	07/26/22	07/27/22	07/28/22	07/29/22	08/01/22	08/02/22	08/03/22	08/04/22	08/05/22
\$SPX	0.13%	-1.16%	2.62%	1.21%	1.42%	-0.28%	-0.67%	1.56%	-0.08%	-0.16%
\$INDU	0.28%	-0.71%	1.37%	1.03%	0.97%	-0.14%	-1.23%	1.29%	-0.26%	0.23%
\$COMPQ	-0.43%	-1.87%	4.06%	1.08%	1.88%	-0.18%	-0.16%	2.59%	0.41%	-0.50%
\$RUT	0.60%	-0.69%	2.39%	1.34%	0.65%	-0.10%	-0.05%	1.41%	-0.13%	0.81%
QQQ	-0.57%	-1.96%	4.23%	0.98%	1.82%	-0.06%	-0.30%	2.72%	0.47%	-0.82%
\$TRAN	0.39%	-1.82%	1.71%	3.09%	2.34%	0.17%	-2.39%	0.99%	0.36%	0.84%

Daily Percent Change US Indexes table as of Aug 5, 2022 - We see daily changes in leadership with the Transports showing both strength and weakness often this week. The QQQ lead on Wed. and Thur. this week but also was weakest on Friday. Note that every index (above) was down on Tuesday and all but one was down on Monday this week. Also, every index was up on Wed. but half were down on Friday. The split markets on Friday are another confirmation of 'Divergent' markets we see going into next week.

Next we will look at a few key Stocks.



AAPL daily chart as of Aug 5, 2022 - Apples saw a positive reaction to Earnings late last week. This week we saw a pause with an 'Inside' day on Monday and slightly lower narrow range day on Tuesday. Wednesday saw a strong rally that was followed by a narrow range pause on Thursday. Friday saw a gap down and rally that failed to retest this week's highs, ending the week up +1.89%. Note that Apple broke above its early June highs back on July 20th and has continued higher since.



MSFT daily chart as of Aug 5, 2022 - Microsoft rallied strong last week and closed last week near prior Support (Oct. 2021 lows = Grey line) as possible new Resistance. This week we did not see follow through on Monday or Tuesday this week but a mild pull back. Wednesday saw a strong rally above the \$285.5 area Resistance (Grey line). Thursday saw a pause at the new highs for the week. Friday saw a gap down and rally but up near the highs of the prior day, up +0.77% for the week. Note that MSFT is now above its prior highs from early June.



GOOGL daily chart as of Aug 5, 2022 - Alphabet continues to oscillate in a range between \$104 and \$119.5 for the past 3 months. This week began with an 'Inside' day on Monday, narrow range lower day Tuesday, followed by a rally on Wednesday. Thursday saw a quiet pause before delivering lower lows and a lower high on Friday, ending the week up +0.99%. Note how both the 20 day and 50 day SMAs are horizontal and intertwined as there has been little to no trend for about 3 months.



AMZN daily chart as of Aug 5, 2022 - Amazon was also stuck in a range between \$101 and \$125 for several weeks before breaking out higher after Earnings last Friday. Amazon paused near Friday's range the first two days of this week before seeing a rally Wednesday and Thursday. Friday saw a small pull back to end the week up +4.33%. Note that AMZN remained below its early June highs up until Earnings last week, and broke above that Resistance area last Friday 'after' Earnings.



TSLA daily chart as of Aug 5, 2022 - Tesla broke above its early June highs on July 21st, pulled back for 3 days then resumed its rally last week on July 27th. Monday saw brief new highs above its 200 day SMA but closed lower on the day. Tuesday saw a lower low and lower high but a higher close. Wednesday saw a small rally above its 200 day SMA. Thursday saw a higher high and higher low still above its 200 day SMA. Friday saw a gap down and strong selling (with volume) to give back all of this week's gains plus more, ending the week down -3.02%. Note the break of the Support Trend Line (Orange line) on Friday.



META daily chart as of Aug 5, 2022 - Meta has oscillated near its 2022 lows for the past 8 weeks. This week saw narrow range days on Monday and Tuesday near the 2022 lows followed by a small rally Wednesday above its 20 day SMA that continued higher Thursday to test its 50 day SMA as Resistance. Friday saw a pull back and close near the 20 day SMA, ending the week up +5.03%. Note that META remains well below its early June highs.



NVDA daily chart as of Aug 5, 2022 - Nvidia resumed its rally last Wednesday and continued to deliver both higher highs and higher lows every day this week except on Friday, ending the week up +4.55%. Nvidia is nearing but has not yet reached its early June prior highs.

** Note that we have used the early June prior highs as a measuring tool for stocks, sectors and indexes to help us identify their relative strength. This is one way to find clues in the markets that can show relative strength. Out of the above 7 biggest stocks, what ones have already exceeded their prior early June highs? Now about the next 7 stocks we show below? If they are now above their early June highs, when did they break higher?



GS daily chart as of Aug 5, 2022 - Goldman Sachs saw a 3 day rally last week that ‘paused’ this week as GS consolidated near last week’s highs, ending the week up +0.38%.



COST daily chart as of Aug 5, 2022 - Costco saw a strong 3 day rally last week and continued higher Monday this week. The next 3 days saw a pause and ‘Inside’ days. Friday saw a gap down and rally that failed to recover this week’s gains, ending the week down -0.12%.



BA daily chart as of Aug 5, 2022 - Boeing reported Earnings last week with only a brief reaction seen in the markets and was followed with two 'Inside' days. This week we saw a gap up on Monday that held up and was followed by horizontal days the rest of this week, ending the week up +3.60%.



LMT daily chart as of Aug 5, 2022 - Lockheed Martin saw a strong rally the last two days of last week, and continued higher this week with a gap up on Monday. Tuesday saw higher highs and a close above its 50 day SMA. Wednesday saw an 'Inside' day. Thursday saw higher highs early in the day then slowly sold lower during the day. Friday saw a gap down and test of its 50 day SMA as Support and bouncing to close up on the day, ending the week up +3.04% and above all 3 of its key SMAs.



CAT daily chart as of Aug 5, 2022 - Caterpillar saw a strong rally last week that climaxed last Friday. Monday saw a quiet 'Inside' day waiting for Earnings the next day before the open. Tuesday (after Earnings) saw a large gap down and selling lower on high volume. Wednesday dipped a little lower on lighter volume. Thursday saw a brief test of its 20 day SMA as Support. Friday saw a small rally to end the week down -6.49%.



X daily chart as of Aug 5, 2022 - US Steel saw a 3-day rally late last week that accelerated Friday after Earnings. The rally peaked on Monday this week before pulling back the next two days. Thursday saw a wider range day with little change at the close. Friday saw higher highs and higher lows than the prior day to end the week down -1.18%.



WMT daily chart as of Aug 5, 2022 - Walmart announced inventory issues and reduced customer demands last Monday after the close to see a large gap down last Tuesday that was fully recovered by the end of last week. This week we saw higher highs Monday that was followed with an 'Inside' day on Tuesday. Wednesday selling kicked into gear and strengthened Thursday (with volume) to test Support at its 50 day SMA. Friday saw a small bounce to end this week down -4.14%. Walmart reports Earnings on Aug. 16th before the open.

Stepping back to put the markets in context, we saw a sharp swing down from early June to mid June, with most markets delivering their 2022 lows in mid June. The rally since these lows may have recovered part or that entire decline, with the stronger markets now above their early June highs.

Was mid-June the Market Bottom this year? That is impossible to know. We now have mixed signals both with the divergences in the markets, market breadth, and with the strong Jobs data on Friday (Aug. 5th). We have seen the 10yr/2yr Yield Inversion since early July that persists. We have seen negative GDP for Q1 and Q2. The Economic reports also provide us with some 'divergence' between bullish and bearish signals. We know from past Economic cycles that the Jobs data tends to often be the Economic report with the most Lag in exposing Economic cycles.

Divergences are not rare, and often provide us with clues for a pending trade opportunity as the divergence will eventually be resolved. We simply remain patient and watch for evidence that shows us what way the divergence gets resolved.

Let me know if you have any questions or requested topics for future 'Market Observations'. E-mail me at citrader@yahoo.com with your questions or suggestions. Hope this helps.

Trade Smart,

CJ