



Market Observations - as of Aug. 12, 2022

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

Last week we saw most markets pause on Monday and Tuesday, rally on Wednesday then again pause on Thursday and Friday. We saw divergences form between the Dow Industrials and the S&P-500 that saw very little change while the Nasdaq and Russell 2000 saw a mild rally last week.

This week began with a small gap up and rally the first hour Monday that reversed and completely filled the gap by mid-day, ending the day nearly flat. Tuesday saw a small gap down and mild selling lower for the day.

On Wednesday the CPI numbers were released an hour before the open that were a little lower than expected (8.5% vs. 8.7% est.) moving the futures higher and generating a strong gap up at the open with a mild rally that followed through the day.

On Thursday the PPI numbers were released an hour before the open that were a little lower than expected (+9.8% vs. +10.4% est.) moving the futures higher and again generating a strong gap up at the open. This time the rally only lasted the first hour before markets reversed and sold off most of the day ending the day lower than the prior day's close for the S&P and Nasdaq.

Friday saw a smaller gap up at the open with a rally that slowly drifted higher all day, ending the day and week with new highs. This week delivered the 4th week in a row of the current rally and ended above the prior highs from early June.

Again we saw the Nasdaq and big tech often lead the markets up on rally days and down on selling days. The Energy and Metals and Mining sectors again had a strong week while the Semiconductor and Consumer Staples sectors showed relative weakness. The Russell 2000 showed significant strength this week as money flowed into small cap stocks.

As we look at the major indexes (below) this week, we will compare them with each other by measuring the recent 2022 decline (from the all time Highs to the Lows in June this year) and how much of that decline has now been 'recovered'.

Next week we will see several large Retail companies reporting their Earnings, so keep an eye on how the markets react to this news. We have seen mixed signals lately that have created concerns about changes in consumer spending patterns due to inflation as well as persistent supply chain issues. These concerns are both on the 'Supply' and 'Demand' sides of the economy. The Consumer is the biggest fuel that drives the economy, so changes in their behaviors can impact: Savings, use of Credit, Staples and Discretionary items.

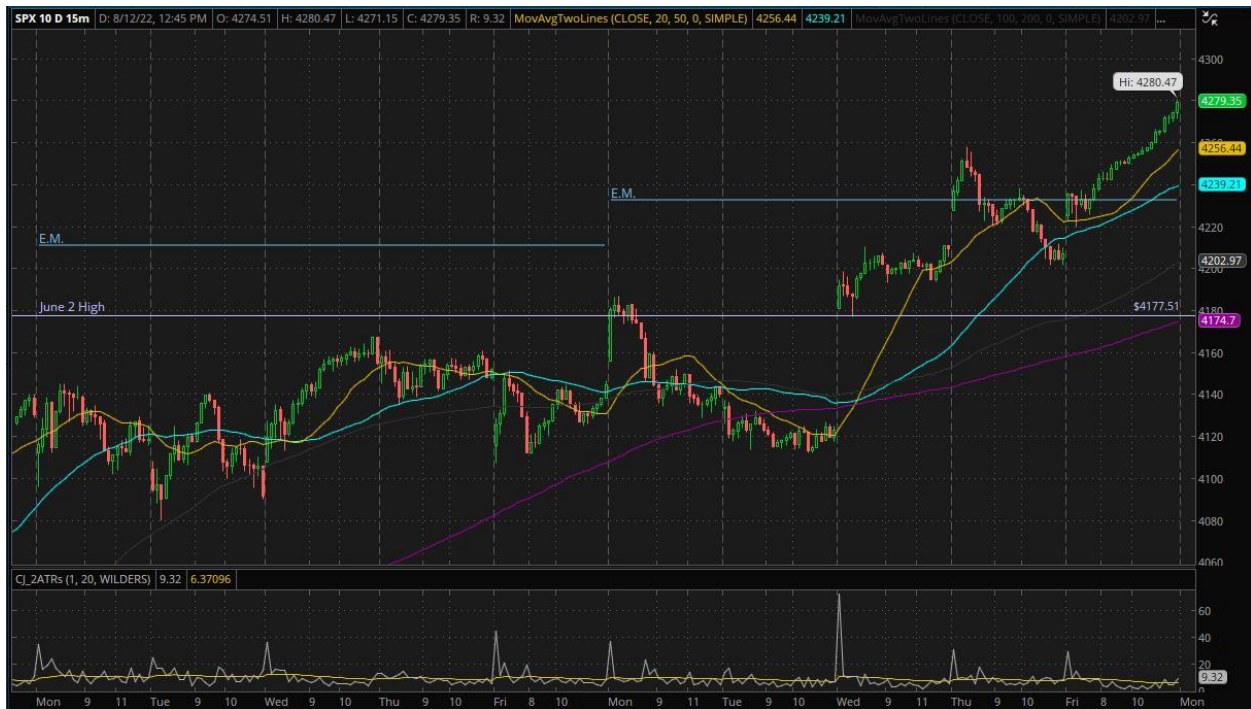
Let's look at the chart to see what they are telling us this week.



SPX 500 weekly chart as of Aug 12, 2022 - We now see 4 weeks in a row of advances, with a small advance last week and a stronger advance this week as the S&P nears its 50 week SMA (Blue).



SPX 500 daily chart as of Aug 12, 2022 - The S&P dropped from 4818.62 on Jan. 4th to 3636.87 on June 17th this year for a -1181.75 pts decline (-24.52%). The bounce since the June lows has recovered 643.28 pts or 54.43% of the decline as of the close this week. We see the pull back on Monday and Tuesday followed by gaps up and a rally to end this week up by +3.26% as the S&P nears its 200d SMA.



S&P 500 15 min. chart as of Aug 12, 2022 - Here we can see the gap up Monday that found Resistance near the prior June 2nd highs and reversed after an hour and continued selling lower through the rest of Monday and most of Tuesday. Wednesday saw a gap up and mild rally higher that was followed by another gap up Thursday that stalled after 1 hour and reversed to fill the gap that day. Friday saw a small gap up followed by a mild rally that continued most all day, ending the week with new highs for the week, above the weekly upper 'Expected Move' (E.M. Blue line) and above the prior June highs.



DJIA weekly chart as of Aug 12, 2022 - Here we can see the four week rally that paused last week and continued this week as it nears its 50 week SMA.



DJIA daily chart as of Aug 12, 2022 - The DJIA dropped from 36,952 on Jan. 5th to 29,653 on June 17th this year for a -7,299 pts decline (-19.75%). The bounce since the June lows has recovered 4,107 pts or 56.27% of the decline as of the close this week. This week we saw a pull back on Mon. and Tue. followed by gaps up and a rally to end the week up +2.92% as the Industrials near its 200 day SMA.



Nasdaq weekly chart as of Aug 12, 2022 - Here we see a 4th week in a row of the current rally.



Nasdaq daily chart as of Aug 12, 2022 - The Nasdaq composite dropped from 16,212 on Nov. 22nd 2021 to 10,565 on June 16th this year for a -5,647 pts decline (-34.83%). The bounce since the June lows has recovered 2,482 pts or 43.95% of the decline as of the close this week. This week we saw a pull back on Mon. and Tue. followed by gaps up and a rally to end the week up +3.08%.



Russell 2000 weekly chart as of Aug 12, 2022 - We see a 4th week in a row of advances as the Russell approaches its 50 week SMA.



Russell 2000 daily chart as of Aug 12, 2022 - The Russell dropped from 2,458.86 on Nov. 8th 2021 to 1,641.47 on June 16th this year for a -817.39 pts decline (-33.24%). The bounce since the June lows has recovered 375.15 pts or 45.89% of the decline as of the close this week. We saw higher highs and higher lows every day this week except on Tuesday. The Russell crossed above its 200 day SMA on Friday and ended this week up +4.93%.

Above we have seen that the amount of the 2022 decline that has been recovered so far is: 56.27% by the DJIA, 54.43% by the S&P-500, 45.89% by the Russell 2000 and 43.95% by the Nasdaq Composite. This is one way to put into perspective the current markets from a yearly view and as a comparison.

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



McClellan Summation Index weekly chart as of Aug 12, 2022 - Last week we saw a strong increase up to +468.70. This week we see a 4th strong weekly increase up to 728.66.



McClellan Summation Index daily chart as of Aug 12, 2022 - Here we can clearly see the four weeks of strong advances in breadth momentum.



NYSE Percent above 200 day SMA daily chart as of Aug 12, 2022 - Last week we saw some oscillations near 35% that ended last week at 34.43%. This week we see a strong advance above the 200 day SMA to end this week at 44.61%.



NYSE Percent above 50 day SMA daily chart as of Aug 12, 2022 - Last week we saw some oscillations near 70% with last week ending at 68.20%. This week we see a strong advance up to 83.41%.



VIX daily chart as of Aug 12, 2022 - Here we see the Support Trend Line (Green line) drawn between the VIX lows last Nov. and the lows in April and extended to the right. We saw the VIX test this TL Support July 29th and Aug. 4th. The VIX broke below this TL Support Aug. 5th and straddled it the first two days of this week. Wednesday saw a large drop below this Support, a tiny bounce Thursday then another drop to lower lows on Friday, ending this week at 19.53 and well below this Trend Line. This provides us with one clue that shows a market that is complacently bullish with fewer concerns and less fear.

We pay more attention to the Trends in the VIX more so than any specific value, since that helps us reveal the mood of the markets relative to where they've been. Note the steady decline in the VIX since the mid June highs, and how that trend 'continues'.

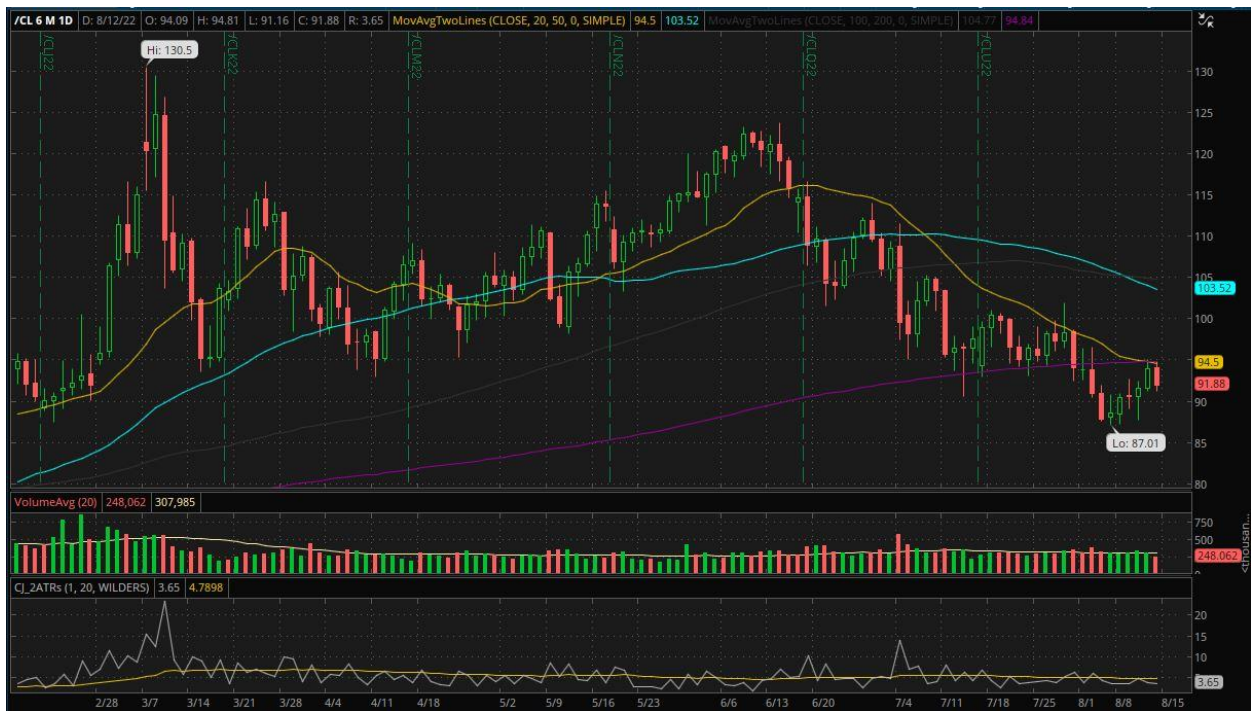


VVIX daily chart as of Aug 12, 2022 - The Volatility of the VIX bottomed on July 29th with new 3-year lows. Since Aug. 1st we have seen a very mild increase in the VVIX up to its 50 day SMA.



SPY vs. SKEW daily chart as of Aug 12, 2022 - We pointed out in our July 22nd 'Market Observations' the extreme low in Options SKEW seen on July 20th. Since that low we have seen the SKEW increase up to 129.34 this week, showing us that Market Hedging and Options Speculators have become much more active over the past 3 weeks. We also saw total Options Volume of over 28 million contracts traded on Thursday of this week.

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



Oil daily chart as of Aug 12, 2022 - Oil has seen a mild decline since mid June and found support late last week. This week we see a mild rally up to test Resistance at its 20 day and 200 day SMAs. Friday respected that Resistance and pulled back a little.



Gold daily chart as of Aug 12, 2022 - Gold saw a very mild rally this week as it mostly remained above its 50 day SMA on light volume.



US Dollar Index daily chart as of Aug 12, 2022 - The US Dollar Index respected its 20 day SMA Resistance last Friday and again on Monday this week before drifting lower on Tuesday. Wednesday saw a strong decline below its 50 day SMA. Thursday saw a narrow range day with little change followed by Friday with a mild rally back above its 50 day SMA.



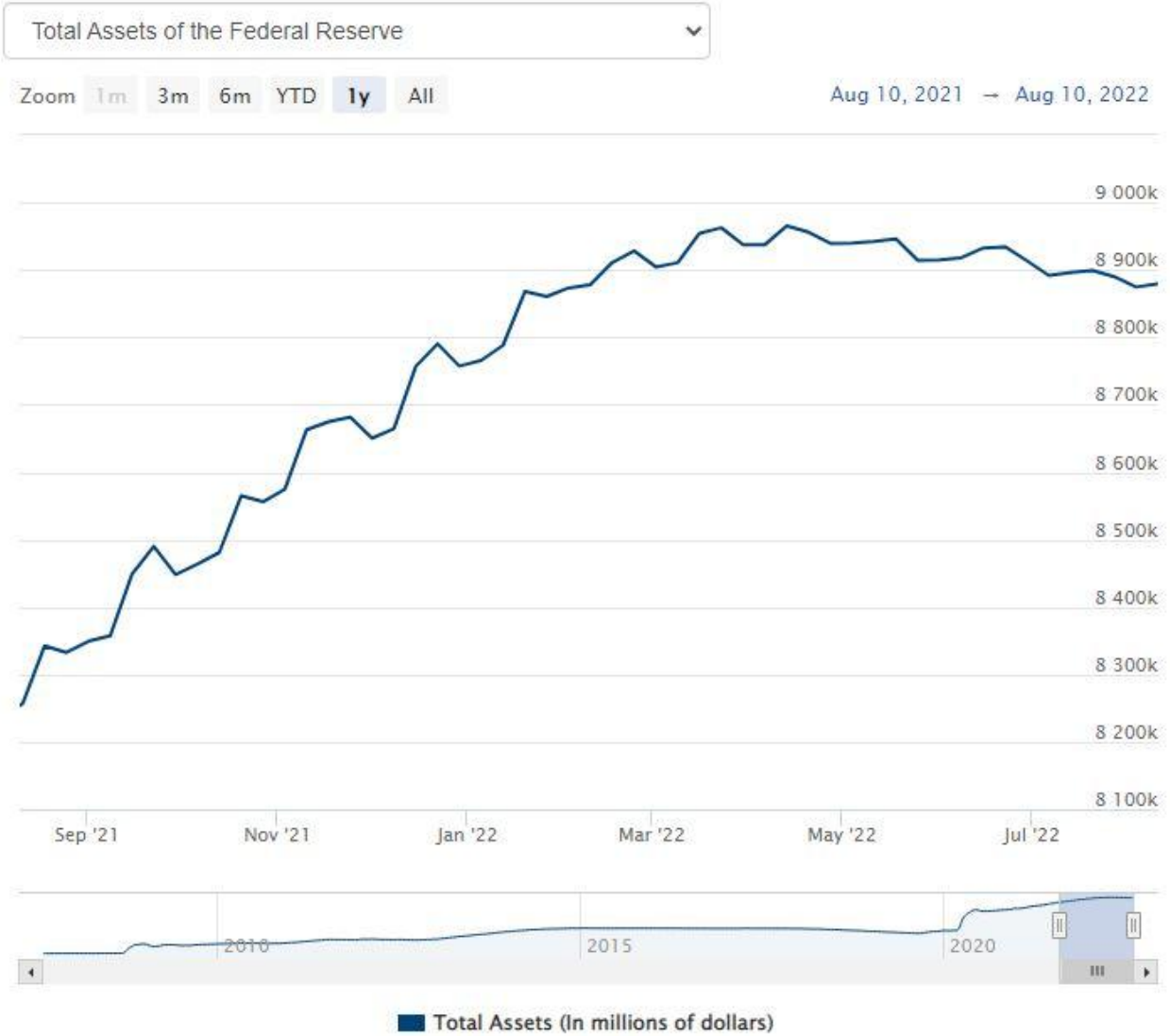
US 10 year Treasury daily chart as of Aug 12, 2022 - The US 10 year drifted lower this week, straddling and then crossing below its 20 day SMA.



US 10 year Yield daily chart as of Aug 12, 2022 - The 10 year Yield was mostly horizontal and remained just below its 20 day SMA the first 3 days of this week then rallied above its 20 day SMA on Thursday and saw a narrow range lower day on Friday.

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
08/08/2022	2.23	2.43	2.65	3.15	3.30	3.21	3.14	2.91	2.85	2.77	3.22	3.00
08/09/2022	2.23	2.43	2.67	3.16	3.33	3.28	3.20	2.97	2.89	2.80	3.24	3.01
08/10/2022	2.24	2.43	2.65	3.13	3.26	3.23	3.13	2.93	2.86	2.78	3.27	3.04
08/11/2022	2.24	2.51	2.62	3.08	3.25	3.23	3.16	2.98	2.94	2.87	3.38	3.15
08/12/2022	2.23	2.50	2.63	3.13	3.26	3.25	3.18	2.97	2.92	2.84	3.34	3.12

US Yields daily table as of Aug 12, 2022 - The 10yr/2yr remains 'Inverted' for most of July and all of August so far. The overall yield curve continues to 'flatten'.



FOMC Balance Sheet weekly chart as of Aug 10, 2022 - The Fed actually 'Increased' its Balance Sheet this week by \$4.518 Billion, increasing its Balance Sheet from \$8.874620 Trillion to \$8.879138 Trillion in Total Assets. That does not seem to fit their stated plan for 'Tightening'.

Next we will look at a few key Sectors.



Dow Transportation Index daily chart as of Aug 12, 2022 - The Transports saw a failed rally on Monday, a pull back on Tuesday, then a gap up and strong rally on Wednesday nearly to its 200 day SMA. Thursday saw a brief break above its 200 day SMA followed by Friday's close above its 200 day SMA, up +3.74% for the week.

Note that only the Russell 2000 and the Dow Transports have closed this week above their 200 day SMAs which also means that each is now above all 3 of their key SMAs.



XLE daily chart as of Aug 12, 2022 - The Energy sector rallied with Oil this week, from its 20 day SMA Support on Monday and a gap above its 50 day SMA on Thursday. Friday saw a higher close to end the week up +7.38% and now above all 3 of its key SMAs.



XLF daily chart as of Aug 12, 2022 - The Financial sector paused Monday and Tuesday near the prior week's highs, then gapped higher Wednesday and continued with higher highs each day that followed, ending the week up +5.55%.



QQQ daily chart as of Aug 12, 2022 - The Nasdaq-100 ETF pulled back on Monday and Tuesday then gapped higher Wednesday and delivered higher highs each day that followed, ending the week up +2.69%.



SOXX daily chart as of Aug 12, 2022 - The Semiconductor sector pulled back Monday, then gapped down and sold off below its 20 day SMA, bounced a little and closed the day just a few cents below its 20 day SMA. Wednesday saw a gap up and rally that continued higher the rest of the week to recover its losses early this week, and ending the week up only +0.61%.



XLC daily chart as of Aug 12, 2022 - The Communications Services sector saw a failed rally Monday, selling that continued Tuesday down to its 50 day SMA. Wednesday saw a gap up and rally to new highs for the week. Thursday saw higher highs but a low close. Friday saw a gap up and rally that failed to exceed the prior day's highs, ending the week up +4.33%.



XME daily chart as of Aug 12, 2022 - The Metals and Mining sector saw a gap up and test of its 200 day SMA on Monday, followed by a pause on Tuesday also just below its 200 day SMA. Wednesday saw a gap up and rally above its 200 day SMA that continued higher Thursday and Friday to end the week up +8.29% and joining the XLE, Dow Transp. & the Russell that are all now above all 3 of their key SMAs.

<i>INDEXes</i>	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending
<i>SECTORS</i>	7/1/2022	7/8/2022	7/15/2022	7/22/2022	7/29/2022	8/5/2022	8/12/2022
\$SPX	-2.21%	1.94%	-0.93%	2.55%	4.26%	0.36%	3.26%
\$INDU	-1.28%	0.77%	-0.16%	1.95%	2.97%	-0.13%	2.92%
\$COMPQ	-4.13%	4.56%	-1.57%	3.33%	4.70%	2.15%	3.08%
\$RUT	-2.15%	2.41%	-1.41%	3.58%	4.34%	1.94%	4.93%
QQQ	-4.24%	4.69%	-1.18%	3.47%	4.46%	1.99%	2.69%
\$TRAN	-1.91%	0.81%	-1.38%	4.53%	5.78%	-0.05%	3.74%
XLE	1.38%	-2.25%	-3.33%	3.73%	10.22%	-6.81%	7.38%
XLF	-1.42%	0.63%	-0.94%	3.05%	2.93%	-0.06%	5.55%
XLK	-4.53%	4.29%	-0.37%	3.66%	5.10%	1.94%	2.44%
SOXX	-9.56%	6.32%	3.01%	5.80%	4.24%	2.91%	0.61%
XLV	0.37%	0.82%	-0.41%	-0.28%	1.98%	-0.72%	1.65%
XLY	-4.75%	4.54%	-1.05%	6.84%	5.22%	0.91%	3.41%
XRT	-9.04%	4.26%	-1.21%	5.41%	-0.24%	5.19%	6.74%
XLI	-0.81%	-0.22%	-1.22%	4.16%	5.74%	0.50%	3.87%
XLU	4.12%	-2.83%	-0.09%	-0.47%	6.51%	0.38%	3.35%
XME	-5.38%	-1.49%	-0.12%	1.93%	10.29%	0.48%	8.29%
XLP	0.51%	-0.44%	0.05%	0.36%	1.76%	0.20%	1.17%
XLB	-3.06%	-1.48%	-1.34%	4.19%	4.09%	-1.31%	5.20%
XLC	-3.72%	3.45%	-2.29%	1.05%	0.68%	1.28%	4.33%
XHB	0.53%	3.22%	0.48%	6.00%	2.93%	0.19%	4.02%

Weekly Percent Change US Indexes and Sectors table as of Aug 12, 2022 - Note the strong Russell 2000 and the Dow Transportation Index performance this week compared to the other indexes.

The strongest sectors this week included: XME, XLE, XRT, XLF and XLB that were all over +5% this week. Note that several major Retail companies in the XRT report Earnings next week.

The weakest sectors this week all had positive advances for the week including: SOXX, XLP and XLV that were each below +2%.

INDEXes SECTORS	Mon	Tue	Wed	Thur	Fri	Mon	Tue	Wed	Thur	Fri
	End of Day 08/01/22	End of Day 08/02/22	End of Day 08/03/22	End of Day 08/04/22	End of Day 08/05/22	End of Day 08/08/22	End of Day 08/09/22	End of Day 08/10/22	End of Day 08/11/22	End of Day 08/12/22
\$SPX	-0.28%	-0.67%	1.56%	-0.08%	-0.16%	-0.12%	-0.42%	2.13%	-0.07%	1.73%
\$INDU	-0.14%	-1.23%	1.29%	-0.26%	0.23%	0.09%	-0.18%	1.63%	0.08%	1.27%
\$COMPQ	-0.18%	-0.16%	2.59%	0.41%	-0.50%	-0.10%	-1.19%	2.89%	-0.58%	2.09%
\$RUT	-0.10%	-0.05%	1.41%	-0.13%	0.81%	1.01%	-1.46%	2.95%	0.31%	2.09%
QQQ	-0.06%	-0.30%	2.72%	0.47%	-0.82%	-0.32%	-1.13%	2.79%	-0.57%	1.95%
\$TRAN	0.17%	-2.39%	0.99%	0.36%	0.84%	0.35%	-0.87%	3.09%	0.66%	0.49%

Daily Percent Change US Indexes table as of Aug 12, 2022 - We saw daily leadership changes again this week with the Transports and the Russell each showing 2 strong days and one weak day this week. The Nasdaq-100 showed weakness on Monday and the Nasdaq Composite showed weakness on Thursday.

Next we will look at a few key Stocks. We will look at all the same names as we looked at last week except for one change (DE in place of BA) to help see longer term context and continuity.

To identify relative strength, you can compare each name to their prior June highs, or compare them to see how much of their 2022 decline has now been recovered, just like what we did with the major indexes at the beginning of this week's 'Market Observations'.



AAPL daily chart as of Aug 12, 2022 - Apple continues its rally from its June lows, crossing above its 20 day, 50 day and 200 day SMAs in the past 6 weeks. This week we see a failed rally on Monday, and narrow consolidation day Tuesday, then a gap up and rally Wednesday to new 15-week highs. Thursday and Friday saw higher highs and higher lows to end the week up +4.08%. Apple has been above all 3 of its key SMAs for about 2 weeks now and is approaching its all time highs from Jan. this year.



MSFT daily chart as of Aug 12, 2022 - Microsoft continued to consolidate Monday and Tuesday this week before the large gap up on Wednesday. Thursday and Friday saw higher highs to end the week up +3.18% as it nears its 200 day SMA.



GOOGL daily chart as of Aug 12, 2022 - Alphabet continued to consolidate on Monday and Tuesday this week before a gap up on Wednesday to new 3-month highs. Thursday and Friday saw higher highs to end the week up +3.58%.



AMZN daily chart as of Aug 12, 2022 - Amazon continued higher last week and pulled back a little on Friday. Monday of this week saw a bearish engulfing day followed by lower lows on Tuesday. Wednesday saw a gap up with much of any follow through to recover most of this week's losses. Thursday saw another bearish engulfing day followed by Friday's small rally that failed to deliver higher highs, ending the week up +1.95%. Amazon seems to struggle to reach its 200 day SMA here.



TSLA daily chart as of Aug 12, 2022 - Tesla saw a rally last week that was mostly given back last Friday. On Monday of this week we saw a higher high and a higher low but another close near the lows of the day. Tuesday saw lower lows and lower highs as support near \$840 was tested. Wednesday saw higher highs and higher lows and a close near the upper 1/3 of its daily range. Thursday saw higher highs and higher lows but a close near the lows of the day. Friday saw a bullish engulfing day to end the week up +4.12%.



META daily chart as of Aug 12, 2022 - Meta consolidated late last week and the first 2 days of this week mostly between its 20 day and 50 day SMAs. Wednesday saw a gap up above the 50 day SMA that mostly consolidated the next two days to end the week up +8.01%.



NVDA daily chart as of Aug 12, 2022 - Nvidia gapped down Monday to test support near its 20 day SMA. Tuesday saw another gap down lower to test support near its 50 day SMA. Wednesday saw a gap up back above its 20 day SMA. Thursday saw a failed rally followed by a rally on Friday to end the week down -1.47%.



GS daily chart as of Aug 12, 2022 - Goldman Sachs paused most of last week and continued the pause on Monday and Tuesday this week with slightly higher range days. Wednesday saw a strong gap up and rally above its 200 day SMA. The rally continued Thursday to new 5-month highs and a higher close. Friday saw an 'inside' day with a higher close to end the week up +5.72% and now above all 3 of its key SMAs.



COST daily chart as of Aug 12, 2022 - Costco mostly consolidated this week near its 20 day SMA and its Feb. 9th highs (Yellow line), ending the week down -0.64%. COST continues to be above all 3 of its key SMAs.



DE daily chart as of Aug 12, 2022 - John Deere formed a cup-n-handle pattern last week with Resistance (Orange line) near its June 9th lows and July 29th highs. We saw several 'fake outs' on Monday and Tuesday this week as DE broke above \$345 Resistance just to fall back below the same day. However, the 'Lows' on these two days never fell below \$342.75. On Wednesday we saw a gap up and rally above Resistance that was persistent and closed higher on the day. Thursday saw another gap up to test new Resistance at its 200 day SMA. Friday saw a break above the 200 day SMA with higher highs to end the week up +7.24% as DE is now above all 3 of its key SMAs.



LMT daily chart as of Aug 12, 2022 - Lockheed continued to consolidate this week about where it was consolidating last week. Friday saw a small rally to end the week with higher highs, up +1.84% and still above all 3 of its key SMAs.



CAT daily chart as of Aug 12, 2022 - Last week CAT dipped and found support at its 20 day SMA (Yellow) and bounced a little last Friday. This week CAT saw a failed rally Monday, a pause Tuesday followed by a gap up and rally to its 50 day SMA on Wednesday. Thursday gapped above its 50 day SMA to deliver higher highs. Friday again saw higher highs to end the week up +6.18%. CAT may also form a Cup-n-handle with a possible retest of Resistance from its July 29th prior highs soon.



X daily chart as of Aug 12, 2022 - US Steel has rallied above its 20 day SMA and above its 50 day SMA in the prior weeks. Last week saw a mild pull back to find support near \$22.28 then bounced last Friday. This week we see higher highs every day but on Friday as the rally resumed. Thursday saw a test of the 200 day SMA as Resistance. Friday saw a higher close as US Steel ended this week up +8.28%.



MU daily chart as of Aug 12, 2022 - Micron pulled back to its 50 day SMA late last week. This week began with a decline below its 20 day and 50 day SMAs on Monday. Tuesday saw a gap down to find support at \$57.74 before bouncing. Wednesday saw a rally back up to its 50 day SMA. Thursday saw a gap up to its 20 day SMA and failed rally higher. Friday saw a rally from its 20 day SMA support to nearly retest its prior Support (Yellow horizontal line) at \$65.86 from prior lows seen on Apr 27th, May 12th, May 25th and June 9th. MU ended the week up +4.13%.

We have seen a 4 week rally on mostly light volume. This week that rally seemed to be fueled by slightly lower inflation data that may show that the ‘rate’ of increasing prices has slowed a little bit. Last week seemed too reactive positively to Jobs data that was much better than expected. However, most of those new jobs are ‘part time’ jobs that could be taken by folks that need a second income to help pay the higher prices. The markets reacted mostly positively to news events this week, showing that there are still buyers but few sellers. Options volume has picked up as the speculating and hedging activities increased this week. Oil prices increased a bit this week as supply constraints continue.

As always, we have no idea what may happen next week so we prepare with multiple scenarios, bullish, bearish and neutral. We observe and follow what the charts are telling us, regardless if they seem rational or not.

Trade Smart,

CJ