



## Market Observations - as of Oct. 7, 2022

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

Last week we saw a series of small failed rallies as markets continued their decline with the major indexes ending last week down from -1% to -3%.

This week began with a strong rally Monday and Tuesday that pulled back only a little early Wednesday before seeing the rally resume to higher highs for the week late on Wednesday. Thursday saw a decline begin that accelerated with a gap down and strong selling on Friday to give back nearly all of this week's gains, ending the week up only a small amount. Friday's lows did not exceed the prior week's lows, so we did not get a confirmation of a failed rally this week, but we sure came close.

The one week decline in the US Dollar found support late Tuesday and reversed Wednesday with a rally as the US Dollar strengthened the last 3 days of this week. We saw a similar reversal in the US 10 year Yields that declined for a week and reversed on Wednesday this week to increase each of the last 3 days this week.

Oil prices dipped, recovered and pause last week then saw a rally each day this week. The Energy sector reflected this strong rally this week while most other sectors saw the beginning of a failed rally this week.

The VIX drifted a little lower the first 2 days of this week, paused on Wednesday then rallied Thursday and Friday as most markets dropped. The VIX remained within a narrow range this week between 28.6 and 32, not showing any signs of a market 'panic' late this week.

The S&P spent all of Tuesday, Wednesday and Thursday this week above its upper weekly Expected Move, then gapped down Friday to end the week 'Inside' it's Expected Move for this week.

As we look at the charts below, most will look bearish since that has been the overall market Trend for most of this year. Take Note of what charts may look the 'least' bearish compared to others since those could suggest sectors and stocks that could be more prone to a rally when markets eventually change trend. Also, even within this bearish market, we can find a few stocks that have rallied this week, and those are usually stocks within the strongest sectors.

Another way to compare stocks this week is to measure how much of this week's rally was kept at the end of this week. Measure the range from Last Friday's close to this week's highs and compare that to the range from Last Friday's close to this week's close. How much of this week's rally was kept at the close of this week? We will show this measure (as a percentage) in some of the charts below. The stocks that kept most (or all) of this week's rally are likely the strongest and those that gave most (or all) of this week's rally back at the end of this week are likely the weakest.

Now, let's look at the charts.



S&P 500 weekly chart as of Oct 7, 2022 - Last week we saw a close just below the 200 week SMA. This week we see a higher low just above the 200 week SMA with a tall upper wick on the candle indicating the rally this week that was mostly given back by the end of this week.



S&P 500 daily chart as of Oct 7, 2022 - Here we see the rally this week up to nearly the 20 day SMA (Yellow) that failed to test that SMA on both Wed. and Thursday. The selling began on Thursday then accelerated with a gap down and sell off on Friday to give back most of this week's gains, ending the week up +1.51%. Last week's lows were not tested this week, but odds look strong that those lows could be tested soon.



S&P 500 15 min. chart as of Oct 7, 2022 - Here we see the rally on Monday and gap up and rally early on Tuesday. Wednesday saw a brief dip the first hour then a slow rally most of the day to briefly deliver new highs for this week. Thursday saw some selling that was followed by a gap down and steady selling most of the day on Friday. The S&P gave back just over 75% of this week's gains by the end of this week. Note how all of Tuesday, Wednesday and Thursday this week was spent above the upper weekly Expected Move.



DJIA weekly chart as of Oct 7, 2022 - The Dow Industrials broke below its 200 week SMA two weeks ago. This week we see a tall upper wick on the weekly candle that closed back down inside last week's range.



DJIA daily chart as of Oct 7, 2022 - Here we see the rally Monday and Tuesday with a test of the 20 day SMA on Wednesday and Thursday as Resistance. Thursday and Friday saw lower closes to end the week up +1.99% after giving back over 2/3rds of this week's gains.



NASDAQ weekly chart as of Oct 7, 2022 - The Nasdaq Composite also broke below its 200 week SMA two weeks ago and saw a stronger rally this week that reversed and gave back most of this week's gains, as indicated by the tall upper wick on this week's candle.



NASDAQ daily chart as of Oct 7, 2022 - Here we see the rally Monday and Tuesday, pause Wednesday and test Thursday that failed to reach its 20 day SMA and closed lower for the day. The large gap down Friday also saw selling most of the day to end the week up +0.73% after giving back about 90% of this week's gains.



Russell 2000 weekly chart as of Oct 7, 2022 - The Russell also saw a rally this week that was mostly given back, but with a slightly higher close above last week.



Russell 2000 daily chart as of Oct 7, 2022 - Here we see the rally on Monday and gap up and rally on Tuesday the closed above its 20 day SMA (Yellow). Wednesday and Thursday saw a pause with narrow range days near the 20 day SMA. Friday saw a gap down and selling to end the week up +2.25%, giving back about 2/3rds of this week's gains.

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



McClellan Summation Index weekly chart as of Oct 7, 2022 - Last week saw a decline to -942.64. This week we see a smaller decline lower to -974.25.



McClellan Summation Index daily chart as of Oct 7, 2022 - We see the small rally on Monday and Tuesday this week followed by a pause on Wednesday. Thursday and Friday saw a decline to end the week a little lower than the prior week at -974.25.



NYSE Percent above 200 day SMA daily chart as of Oct 7, 2022 - Last week we saw a small bounce and decline to end the week at 14.35%. This week we saw a larger bounce up to about 22.5% followed by a decline to end this week at 18.87%.



NYSE Percent above 50 day SMA daily chart as of Oct 7, 2022 - Last week we saw a small bounce and decline to end the week at 9.04%. This week we saw a larger bounce up to about 24% followed by a decline to end this week at 16.67%.





VIX daily chart as of Oct 7, 2022 - The VIX dipped on Monday, and continued a little lower on Tuesday and Wednesday before nearly testing its 20 day SMA Support Thursday as the VIX started to rise Thursday and Friday. Note the slope of the 20 day SMA over the past month as it has provided support several times.



VVIX daily chart as of Oct 7, 2022 - The VVIX declined Monday, gapped lower Tuesday and crossed below its 20 day SMA on Wednesday. Thursday saw a rally back above its 20 day SMA that continued higher on Friday.

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



Oil daily chart as of Oct 7, 2022 - Oil dipped and bounced last week to end the week below all 3 of its key SMAs. This week we saw a rally with higher highs and higher lows every day. Oil crossed above its 20 day SMA on Monday and Tuesday and crossed above its 50 day SMA on Thursday to end this week above 2 of its 3 key SMAs.



Gold daily chart as of Oct 7, 2022 - Gold saw a strong rally on Monday and Tuesday, crossing above its 20 day SMA on Monday and testing its 50 day SMA on Tuesday. Wednesday and Thursday saw 'Inside' days before the mild drop on Friday to keep about half of this week's gains.



US Dollar Index daily chart as of Oct 7, 2022 - The US Dollar Index continued its decline Monday and Tuesday this week, crossing below its 20 day SMA on Tuesday. Wednesday saw a reversal as the US Dollar strengthened, crossing above its 20 day SMA on Wednesday and continued higher Thursday and Friday this week.



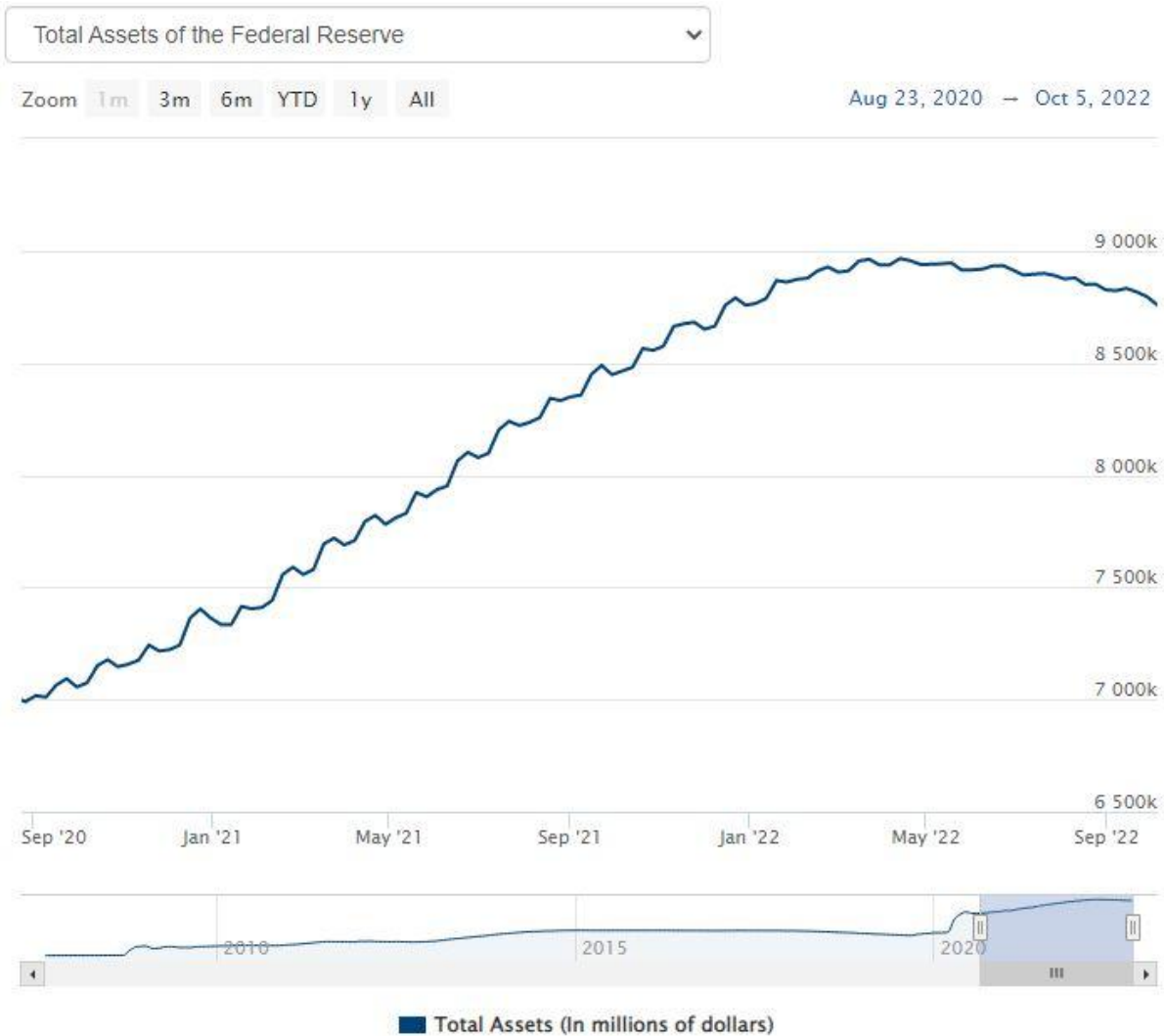
US 10 Year Treasury daily chart as of Oct 7, 2022 - The 10 Year Treasury rallied strong on Monday and continued a little higher on Tuesday to find Resistance at its 20 day SMA. Wednesday saw selling kick in with lower lows and lower highs for 3 days to end this week below last week's close.



US 10 year Yield daily chart as of Oct 7, 2022 - We saw 5 days of declines in the 10 year Yields that found support Tuesday of this week at its 20 day SMA. Wednesday saw a gap up and higher highs each day for the rest of this week as Yields Rose to end this week at 3.883%.

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
10/03/2022	2.87	3.26	3.46	3.97	4.01	4.12	4.12	3.90	3.79	3.67	4.00	3.73
10/04/2022	2.91	3.23	3.45	3.98	4.15	4.10	4.08	3.84	3.73	3.62	3.95	3.70
10/05/2022	2.89	3.22	3.46	4.00	4.14	4.15	4.17	3.96	3.87	3.76	4.05	3.78
10/06/2022	3.05	3.34	3.46	4.04	4.19	4.23	4.24	4.05	3.95	3.83	4.08	3.81
10/07/2022	3.03	3.34	3.45	4.09	4.24	4.30	4.33	4.14	4.03	3.89	4.13	3.86

US Yield Rates daily table as of Oct 7, 2022 - The Yield 'Inversion' continues each day between the 10yr / 2yr, but also extends to the 10yr / 6 month as well. Note how the peak in Yield Rates seems to appear near the 1yr, 2yr and 3yr terms. This could drive some investors to park their cash with these Treasuries as a safe haven while the markets continue to decline.



FOMC Balance Sheet weekly chart as of Oct 5, 2022 - Note the rising slope on the left  $\frac{3}{4}$  of the above chart to the declining slope on the right  $\frac{1}{6}$  of this chart. The Fed increased Stimulus by adding over \$110 Billion (on average) each month to its Balance Sheet in 2020 and 2021. The declines we have actually seen since publishing their 'Tightening' plans in May have averaged \$29.8 Billion per month over the past 4 months (June, July, Aug. and Sept.). This is about  $\frac{1}{4}$ <sup>th</sup> the rate of monthly Increasing seen over the prior 18 months. At this rate, it will take a very long time to reduce Liquidity from the markets.

The Fed reduced its Balance Sheet by \$36.514 Billion this week, from a total of \$8.795567 Trillion last week to a total of \$8.759053 Trillion as of Oct. 5, 2022. Maybe they are increasing the size of their weekly reductions this month? Time will tell.

Next we will look at a few key Sectors.



Dow Transportation Index daily chart as of Oct 7, 2022 - Monday and Tuesday saw a rally in the Dow Transports up to its 20 day SMA. Wednesday and Thursday saw a pause with 'Inside' days. Friday saw selling return that gave back some of this week's gains, returning to nearly Monday's close, ending the week up +3.48%.



XLE daily chart as of Oct 7, 2022 - The Energy sector gapped up Monday and delivered higher highs and higher lows every day this week, breaking above its 3-week Resistance Trend Line (Grey line) Monday, above its 20 day and 50 day SMAs Tuesday and breaking above its Sept. highs on Friday, ending the week up +13.58%.



XLF daily chart as of Oct 7, 2022 - The Financial sector rallied Monday and Tuesday to find Resistance at its 20 day SMA on Tuesday. The 20 day SMA Resistance was retested Wednesday and Thursday before selling kicked in Thursday and Friday to end the week up +1.75%. The XLF gave back about 73% of this week's gains on Thursday and Friday.



QQQ daily chart as of Oct 7, 2022 - The Nasdaq-100 ETF rallied Monday and Tuesday, then paused Wednesday and Thursday just shy of reaching its 20 day SMA. Friday saw a gap down and selling most of the day to give back over 88% of this week's gains, ending the week up +0.69%.



SOXX daily chart as of Oct 7, 2022 - The Semiconductor sector rallied Monday and Tuesday to nearly its 20 day SMA. Wednesday saw a wider range day that closed above its 20 day SMA. Thursday saw a narrow range day near the prior day's close and above the 20 day SMA. Friday saw a large gap down and selling most of the day to give back about 80% of this week's gains, ending the week up +2.23%.



XLC daily chart as of Oct 7, 2022 - The Communication Services sector saw a rally Monday and Tuesday that failed to reach its 20 day SMA. Wednesday and Thursday saw a pause followed by a gap down and selling most of Friday. The XLC ended the week up +1.75%.



<i>INDEXes</i>	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending
<i>SECTORs</i>	8/26/2022	9/2/2022	9/9/2022	9/16/2022	9/23/2022	9/30/2022	10/7/2022
\$SPX	-4.04%	-3.29%	3.65%	-4.77%	-4.65%	-2.91%	1.51%
\$INDU	-4.22%	-2.99%	2.66%	-4.13%	-4.00%	-2.92%	1.99%
\$COMPQ	-4.44%	-4.21%	4.14%	-5.48%	-5.07%	-2.69%	0.73%
\$RUT	-2.94%	-4.74%	4.04%	-4.50%	-6.60%	-0.89%	2.25%
QQQ	-4.78%	-3.99%	4.04%	-5.79%	-4.60%	-2.99%	0.69%
\$TRAN	-2.65%	-4.47%	2.35%	-8.79%	-5.43%	-0.59%	3.48%
XLE	4.25%	-3.48%	0.80%	-2.68%	-9.17%	2.19%	13.58%
XLF	-3.55%	-2.46%	4.47%	-3.78%	-5.59%	-2.22%	1.75%
XLK	-5.56%	-5.03%	3.27%	-6.19%	-3.62%	-4.01%	1.68%
SOXX	-5.19%	-6.98%	4.66%	-5.70%	-5.76%	-3.98%	2.23%
XLV	-4.24%	-1.81%	4.41%	-2.34%	-3.32%	-1.32%	1.25%
XLY	-4.69%	-2.62%	5.78%	-3.98%	-7.10%	-2.71%	-1.26%
XRT	-5.57%	-4.35%	5.28%	-5.33%	-6.06%	-3.32%	3.22%
XLI	-3.36%	-3.52%	3.40%	-6.38%	-4.54%	-2.25%	2.80%
XLU	-2.56%	-1.47%	3.73%	-3.76%	-2.99%	-8.71%	-2.67%
XME	3.54%	-8.43%	6.13%	-10.32%	-7.91%	2.16%	7.30%
XLP	-3.20%	-2.54%	1.96%	-3.58%	-2.10%	-3.82%	-0.34%
XLB	-1.26%	-4.89%	5.00%	-6.62%	-5.60%	-0.61%	2.13%
XLC	-4.39%	-2.39%	3.31%	-6.26%	-5.61%	-2.48%	1.75%
XHB	-5.07%	-3.27%	4.51%	-6.88%	-3.96%	-1.21%	4.53%

Weekly Percent Change US Indexes and Sectors table as of Oct 7, 2022 - After the markets declined for 3 weeks we saw a small bounce this week, ending this week with small gains.

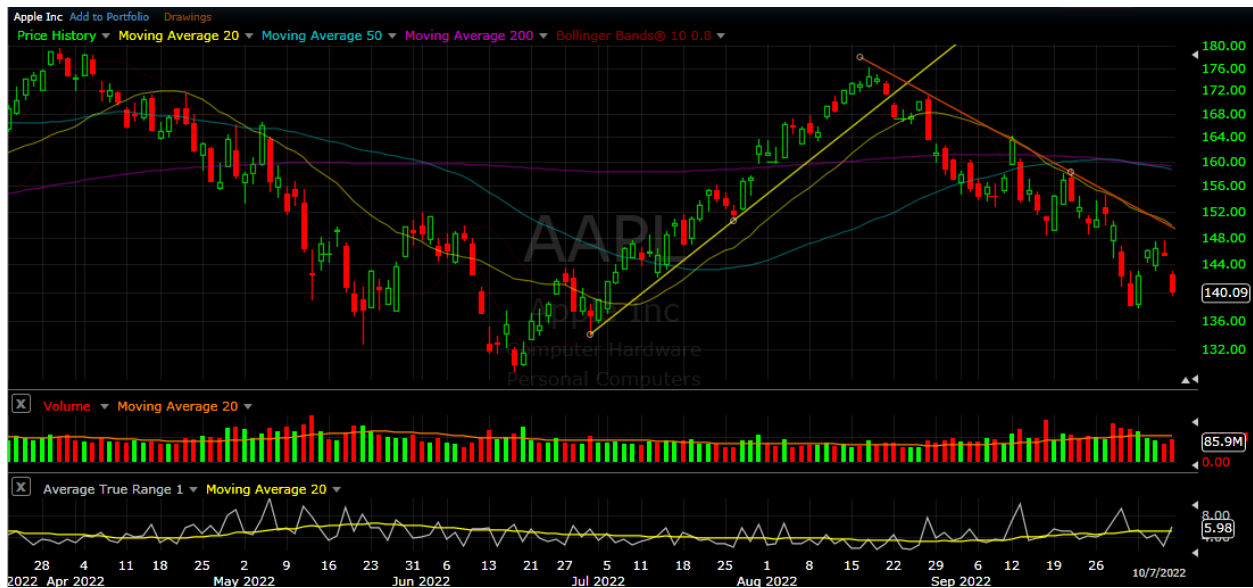
The Strongest sector this week was again XLE as well as the Weakest sector was again XLU.

The Strongest sectors this week included: XLE, XME, XHB, Dow Transports and XRT that all delivered over a +3% gains. The Weakest sectors this week included: XLU, XLY and XLP that all were down this week. So much for the classic 'flight to safety' sectors.

INDEXes SECTORs	Mon	Tue	Wed	Thur	Fri	Mon	Tue	Wed	Thur	Fri
	End of Day 09/26/22	End of Day 09/27/22	End of Day 09/28/22	End of Day 09/29/22	End of Day 09/30/22	End of Day 10/03/22	End of Day 10/04/22	End of Day 10/05/22	End of Day 10/06/22	End of Day 10/07/22
\$SPX	-1.03%	-0.20%	1.96%	-2.11%	-1.51%	2.59%	3.06%	-0.20%	-1.03%	-2.80%
\$INDU	-1.11%	-0.42%	1.88%	-1.54%	-1.71%	2.66%	2.80%	-0.14%	-1.15%	-2.11%
\$COMPQ	-0.60%	0.25%	2.05%	-2.84%	-1.51%	2.27%	3.34%	-0.25%	-0.68%	-3.80%
\$RUT	-1.41%	0.40%	3.17%	-2.35%	-0.61%	2.65%	3.91%	-0.74%	-0.58%	-2.87%
QQQ	-0.41%	0.04%	1.99%	-2.88%	-1.70%	2.35%	3.14%	-0.05%	-0.79%	-3.81%
\$TRAN	-1.07%	1.29%	2.50%	-1.58%	-1.63%	3.37%	3.64%	-0.50%	-0.12%	-2.82%

Daily Percent Change US Indexes table as of Oct 7, 2022 - We saw daily changes in leadership between the Indexes this week, with the Transports twice being the leader up, and the Dow Industrials were twice the weakest and once the strongest daily index.

Next we will look at a few key Stocks.



AAPL daily chart as of Oct 7, 2022 - Apple saw a rally Monday and Tuesday followed by a bullish engulfing day Wednesday. Thursday saw a higher high and a lower close. Friday saw a gap down and strong selling most of the day to give back about 77% of this week's gains, ending the week up +1.37%.



MSFT daily chart as of Oct 7, 2022 - Microsoft saw a rally Monday with a gap up and rally Tuesday above its 20 day SMA. Wednesday and Thursday mostly remained horizontal above its 20 day SMA. Friday saw a gap below the 20 day SMA and strong selling most of the day to end the week up +0.58%, giving back about 91% of this week's gains.



GOOGL daily chart as of Oct 7, 2022 - Alphabet saw a rally Monday and Tuesday. Wednesday saw a wider range day with a test of the 20 day SMA Resistance. Thursday saw higher highs and higher lows with a close just below its 20 day SMA. Friday saw a gap down and selling to end the week up +3.17%.



AMZN daily chart as of Oct 7, 2022 - Amazon saw a Rally Monday and a gap up and rally to test its 20 day SMA. Wednesday and Thursday saw testes of the 20 day SMA Resistance. Friday saw a gap down and selling to give back about 84% of this week's gains, ending the week up +1.38%.



TSLA daily chart as of Oct 7, 2022 - Tesla continued its decline from its 20 day SMA Resistance last week, gapping down and selling off Monday, seeing a brief pause Tuesday then continued selling Wednesday. Thursday saw an 'Inside' day pause then continued strong selling Friday to end the week down -15.90%.



META daily chart as of Oct 7, 2022 - Meta saw strong selling the prior weeks and seemed to pause this week inside of last week's range until Friday when strong selling delivered new 52 week lows. Meta ended this week down -1.64%.



NVDA daily chart as of Oct 7, 2022 - Nvidia saw new 52 week lows last week. This week began with a rally Monday followed by a gap up and rally above its 20 day SMA on Tuesday. Wednesday saw a bullish engulfing day and Thursday saw higher highs but a lower close while remaining above its 20 day SMA. Friday saw a large gap down and selling to nearly retest last week's lows, ending this week down - 0.52% and back below all 3 of its key SMAs.



JPM daily chart as of Oct 7, 2022 - JP Morgan saw a rally Monday and a gap up and rally Tuesday up to its 20 day SMA Resistance. The next 3 days saw lower lows and lower highs to end the week up +2.32%.



COST daily chart as of Oct 7, 2022 - Costco saw a rally Monday and Tuesday with a small pull back on Wednesday. Thursday saw a brief rally up to its 20 day SMA before pulling back. Friday saw a gap down and strong selling to end the week down -0.87%.



DE daily chart as of Oct 7, 2022 - John Deere rallied Monday then gapped up and saw a strong rally Tuesday crossing above its 20 day and 50 day SMAs. Wednesday saw an 'Inside' day that closed just below its 50 day SMA. Thursday and Friday saw slightly lower highs and lower lows yet a higher close on Friday as DE remained above its 20 day SMA. DE ended the week up +6.67% and kept most (82%) of its gains for the week.



SLB daily chart as of Oct 7, 2022 - Monday Schlumberger gapped above its 50 day SMA and its Resistance Trend Line (Orange line) and rallied above its 20 day SMA to find Resistance at its 200 day SMA. Tuesday SLB opened above its 200 day SMA and delivered higher highs and higher lows every day this week. SLB ended the week up +18.64% as it exceeded the highs from the prior 15 weeks and is now above all 3 of its key SMAs.



HAL daily chart as of Oct 7, 2022 - Halliburton gapped open Monday above its Resistance Trend Line (Orange line) and delivered higher highs and higher lows every day this week. HAL crossed above its 20 day SMA on Tuesday and above its 50 day SMA on Wednesday. HAL ended the week up +23.52%. With charts like HAL and SLB you can see the impact Oil prices had on the Energy sector stocks this week.



X daily chart as of Oct 7, 2022 - US Steele saw a rally Monday and Tuesday up to its 20 day SMA Resistance. The 20 day SMA provided Resistance again on Wednesday and Thursday before the selling kicked in on Friday to end the week up +3.81%, giving back nearly 72% of this week's gains.





HD daily chart as of Oct 7, 2022 - Home Depot gapped open Monday at its 20 day SMA and crossing above its Resistance Trend Line (Orange line) and rallied higher both Monday and Tuesday. Wednesday saw a bullish engulfing day that was followed Thursday with a higher high and higher low. Friday saw selling kick in to give back about 52% of this week's gains, ending the week up +3.04%. The XHB sector was the 3<sup>rd</sup> strongest sector this week and we can see that reflected in the above HD chart and other XHB component stocks this week.

We saw the major indexes deliver a rally this week but it was NOT confirmed as a 'failure' since we did not see 'Lower Lows' at the end of this week as compared to prior week's lows. There were a few stocks that did deliver new 52 week lows this week (like META).

Odds are still high that we could see Lower Lows next week that confirm this week's 'Failed Rally'. It is also possible that we do not see lower lows next week as markets could pause or rally. All scenarios remain possible for next week.

We say that the odds may favor more Bearish market moves ahead based upon our observations of market context: [1] The larger time frame Trend (= Bearish) based on the last of bullish confirmation on weekly or monthly charts. [2] Breadth Indicators are showing us a bearish market context. [3] A stronger US Dollar and higher Yield rates suggest an economy that continues to weaken. [4] We have not yet seen a 'capitulation' event this year to signal a potential bottom. [5] Higher Energy prices have 'multiple' impacts on Inflation. (Fuel costs for the consumer for transportation and heating, Fuel costs for transportation of raw materials to factories, Fuel costs for transportation of finished goods to consumers and Energy costs to run factories.)

As we have seen so far this year, there can still be volatile rallies within a Bearish Market, but most all of those rallies eventually fail and are followed by Lower Lows. Until we see this behavior change, we will assume more of the same.

Trade Smart,

CJ