



## Market Observations - as of Oct. 28, 2022

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

Last week we saw two gaps up without follow through then a pause. Last Thursday we saw a small failed rally in the morning that was entirely sold off the rest of the day. Last Friday saw a rally that did continue higher nearly all day.

This week began with the rally from last Friday continuing higher Monday and Tuesday this week. Wednesday saw a higher high in the morning that was sold off the rest of the day. Thursday saw a quiet drift lower. Friday saw another strong rally day to deliver new highs for this week in most indexes except for the Nasdaq.

Volume Breadth was stronger on Tuesday and early Wednesday this week while breadth was rather mild the other days of this week.

The US Dollar weakened in each of the first 3 days this week then bounced only a little on Thursday and Friday. Oil was flat the first 2 days of this week then rallied on Wednesday and Thursday followed by a pause on Friday. The US 10 year Treasuries saw stronger buying volume on Tuesday and Thursday as 10 year yields mostly declined this week.

The Russell 2000 and Dow Industrials showed greater strength this week as compared to the prior week as these indexes often lead the rally.

We saw both positive and negative reactions to Earnings as several of the largest companies reported their Earnings this week. We will see examples of these reactions in the charts below.

The Options market seemed to 'Under price' actual Risk this week, as seen with the S&P ending this week above its upper weekly Expected Move just as it did last week. We also saw several Earnings Reactions that exceeded the one day Move that the Options market had priced just before Earnings were announced. The one day 'Measured Market Move' priced by Options was often less than the actual move seen in that underlying stock after their Earnings were announced. This shows us that even though these Options were at a higher price (as seen with the pumped up Implied Volatility before Earnings) that they were not priced high enough.

We saw mixed reactions to the Initial Read 3<sup>rd</sup> Quarter GDP at +2.6% (and other data) that came out Thursday morning before the open.

Some of the stronger sectors that we have seen over the past few weeks have continued to perform well this week, as we will see below with the Energy, Defense and Industrial sectors.

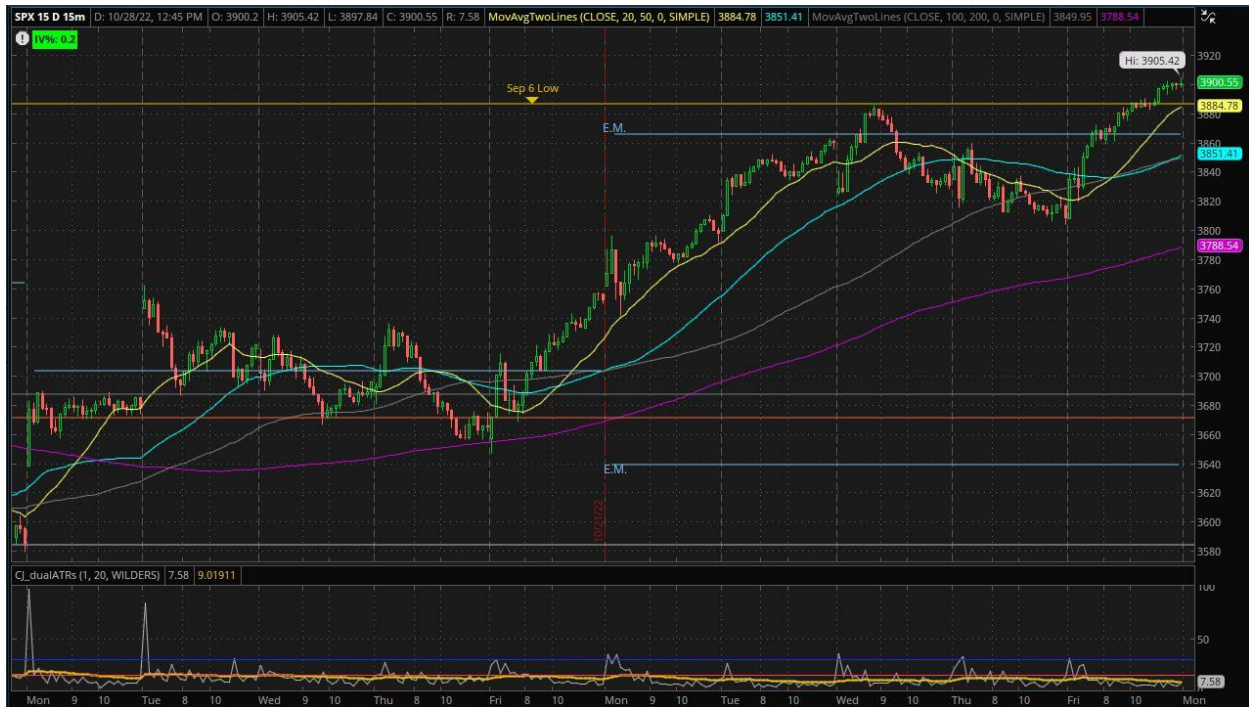
Now, let's look at the charts to see what they are telling us about this market.



S&P 500 weekly chart as of Oct 28, 2022 - Here we see a second week rally off of the 200 week SMA (Purple) Support that reached the 20 week SMA (Yellow) this week. We do not see any key prior highs exceeded as of yet.



S&P 500 daily chart as of Oct 28, 2022 - Here we see the S&P breaking above its Trend Line Resistance (Green line) on Monday this week and continued higher Tuesday to its 50 day SMA (Blue). Wednesday saw a brief break above the 50 day SMA that pulled back before the lower close. Thursday saw lower lows and a lower high. Friday saw a rally above the 50 day SMA to new highs for the week and month, ending the week up +3.95%.



S&P 500 15 min. chart as of Oct 28, 2022 - Here we see the rally from last Friday (Oct. 21) that continued on Monday and Tuesday of this week. Wednesday saw a gap down and rally to test its prior Support (Sept. 6<sup>th</sup> lows) as new Resistance in the morning before selling off the rest of the day to end the day lower. Thursday saw a mild drift lower. Friday saw a strong rally most all day to deliver new highs for the day, week and month, breaking above Wednesday's Resistance. The S&P broke above its upper weekly Expected Move for about 2 hrs on Wednesday then broke above again Friday to end the week above this level. The S&P ended two weeks in a row above its upper weekly Expected Move, indicating that the Options market again is 'Under pricing' actual Risk.





DJIA weekly chart as of Oct 28, 2022 - The Industrials continued the 4<sup>th</sup> week of their rally this week from its 20 week SMA to nearly reach its 50 week SMA. We do not yet see a higher high, with this week's high still below the prior high from mid August.



DJIA daily chart as of Oct 28, 2022 - The Dow Industrials delivered higher highs and higher lows every day this week as it continues its rally, crossing above its 50 day SMA at the open on Monday and crossing above its 200 day SMA on Friday, ending the week up +5.72%.



Nasdaq weekly chart as of Oct 28, 2022 - The Nasdaq composite continued its 2<sup>nd</sup> week of its rally and nearly reached its 200 week SMA this week.



Nasdaq daily chart as of Oct 28, 2022 - Here we see last Friday's rally continued higher on Monday and Tuesday this week, crossing above its Trend Line Resistance (Green line) early on Monday. Wednesday saw a wider range swing with a close near the lows that day. Thursday saw a pull back down to its 20 day SMA (Yellow). Friday saw a rally from its 20 day SMA support that failed to deliver new highs for this week, ending this week up +2.24%.





Russell 2000 weekly chart as of Oct 28, 2022 - Here we see a 2<sup>nd</sup> week of the rally continued crossing above its 200 week, 20 week SMAs and its Trend Line Resistance this week.



Russell 2000 daily chart as of Oct 28, 2022 - The Russell saw a small gain Monday followed by a large gain on Tuesday up to its 50 day SMA. Wednesday saw a gap above the 50 day SMA to higher highs but with a close near the lows of the day. On Thursday we saw an 'Inside day'. Friday saw another strong rally to deliver new highs for the day, week and month. The Russell saw higher highs and higher lows each day except for Thursday this week, ending the week up +6.01%.

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



McClellan Summation Index weekly chart as of Oct 28, 2022 - Last week saw a small bounce an 'Inside' week that ended at -1062.81. This week we see a larger rally up to -732.25.



McClellan Summation Index daily chart as of Oct 28, 2022 - The rally that began late last week continued a bit stronger (steeper curve) this week to end this week at -732.25.



NYSE Percent above 200 day SMA daily chart as of Oct 28, 2022 - Last week ended at 23.12%. The rally continued higher to end this week at 30.76%.



NYSE Percent above 50 day SMA daily chart as of Oct 28, 2022 - Last week ended at 29.04%. The rally continued higher to end this week at 54.17%.





VIX daily chart as of Oct 28, 2022 - The VIX shifted a little higher on Monday then declined each day this week, crossing below its 50 day SMA on Wednesday and then a pause on Thursday. Friday saw a sharp decline below its 200 day SMA to end the day, week and month with lower lows. The VIX is now below all 3 of its key SMAs.



VVIX daily chart as of Oct 28, 2022 - The VVIX continued lower this week, delivering new Lows on Friday, lows that have not been seen since July 24 2019.



SKEW daily chart as of Oct 28, 2022 - Options SKEW continued to decline this week, ending this week with new 3-year lows. A lower SKEW has not been seen since Oct. 2<sup>nd</sup> 2019. Options SKEW is calculated once a day by the CBOE and is posted a few hours after the close. Visit the CBOE web site to see how the SKEW is calculated.

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



Oil daily chart as of Oct 28, 2022 - Oil prices paused Monday and Tuesday then rallied Wednesday above its 20 day and 50 day SMAs. Thursday saw slightly higher prices followed by a pause Friday.



Gold daily chart as of Oct 28, 2022 - Gold prices drifted a little higher this week before seeing a decline Friday with stronger volume.





US Dollar Index daily chart as of Oct 28, 2022 - The US Dollar declined this week, crossing below its 50 day SMA on Wednesday. Thursday saw a small bounce that continued a little higher Friday to touch but not close above its 50 day SMA.



US 10 year Treasury daily chart as of Oct 28, 2022 - The 10 year saw strong buying each day this week, crossing above its 20 day SMA on Thursday. Friday saw selling back below its 20 day SMA.

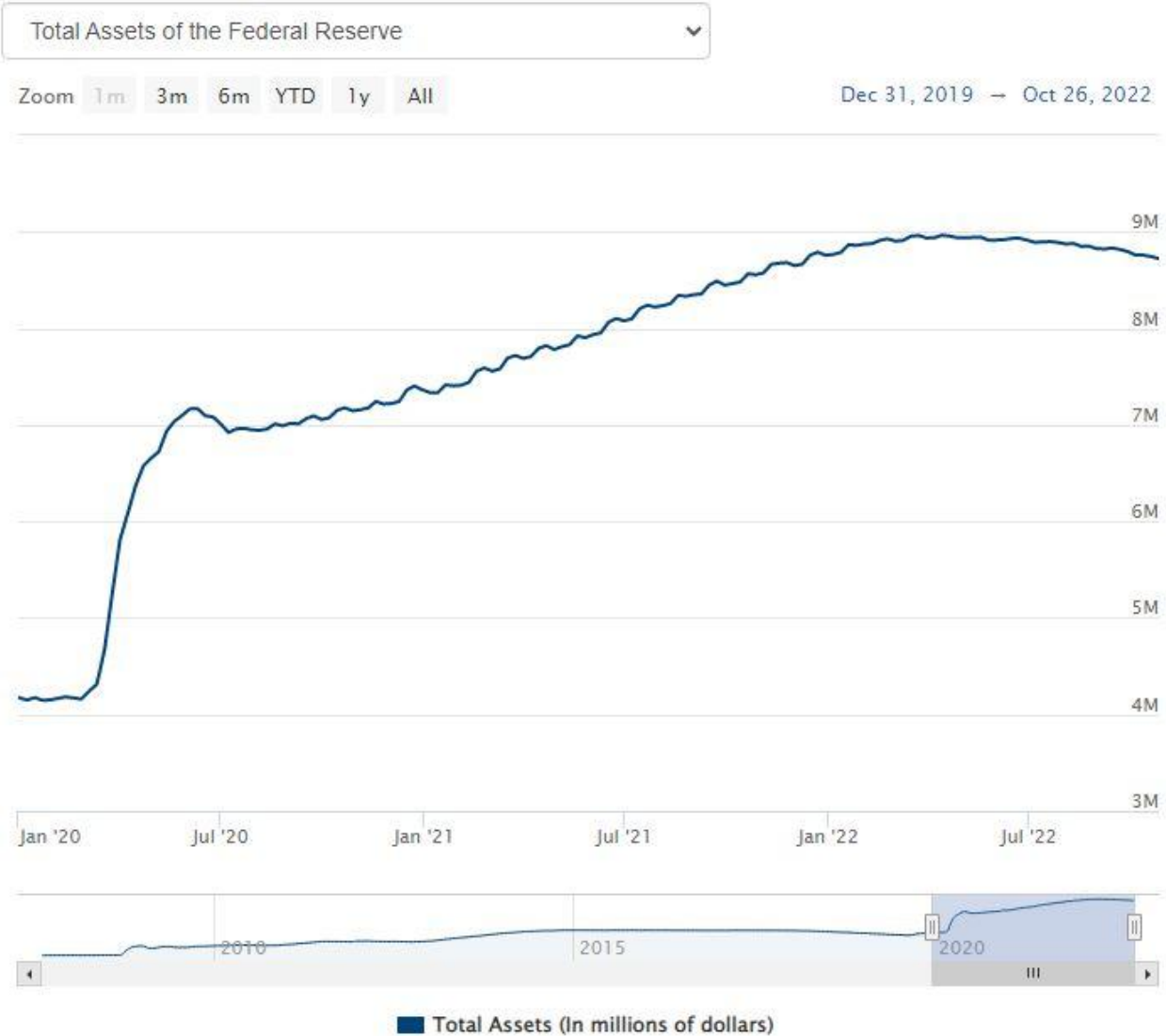


US 10 year Yield daily chart as of Oct 28, 2022 - The 10 year Yield rate declined each day this week to close Thursday below its 20 day SMA. Friday saw a small bounce to end the week near 4.01%.

Date	1 Mo	2 Mo	3 Mo	4 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	N/A	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	N/A	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	N/A	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	N/A	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	N/A	4.09	4.24	4.30	4.33	4.14	4.03	3.89	4.13	3.86
10/11/2022	3.07	3.43	3.67	N/A	4.17	4.28	4.30	4.31	4.14	4.06	3.93	4.19	3.92
10/12/2022	3.07	3.45	3.70	N/A	4.16	4.28	4.28	4.29	4.12	4.03	3.91	4.18	3.90
10/13/2022	3.35	3.60	3.79	N/A	4.30	4.46	4.47	4.44	4.21	4.11	3.97	4.25	3.97
10/14/2022	3.30	3.61	3.81	N/A	4.31	4.50	4.48	4.47	4.25	4.15	4.00	4.26	3.99
10/17/2022	3.30	3.66	3.97	N/A	4.38	4.50	4.45	4.45	4.24	4.15	4.02	4.29	4.04
10/18/2022	3.25	3.70	4.04	N/A	4.39	4.50	4.43	4.43	4.21	4.12	4.01	4.27	4.04
10/19/2022	3.31	3.72	4.07	4.32	4.45	4.60	4.55	4.56	4.35	4.26	4.14	4.38	4.15
10/20/2022	3.58	3.83	4.09	4.33	4.48	4.66	4.62	4.66	4.45	4.36	4.24	4.47	4.24
10/21/2022	3.55	3.78	4.09	4.31	4.43	4.58	4.49	4.52	4.34	4.28	4.21	4.54	4.33
10/24/2022	3.57	3.83	4.16	4.33	4.52	4.61	4.50	4.52	4.36	4.31	4.25	4.59	4.40
10/25/2022	3.56	3.81	4.14	4.32	4.50	4.60	4.42	4.45	4.25	4.17	4.10	4.45	4.26
10/26/2022	3.54	3.85	4.11	4.27	4.47	4.54	4.39	4.41	4.20	4.12	4.04	4.38	4.19
10/27/2022	3.76	3.95	4.13	4.27	4.44	4.50	4.30	4.29	4.09	4.01	3.96	4.32	4.12
10/28/2022	3.75	3.95	4.18	4.30	4.51	4.55	4.41	4.38	4.19	4.10	4.02	4.38	4.15

US Yield Rates daily table as of Oct 28, 2022 - We saw the longer terms decline a bit this week while the shorter terms saw a bounce Thursday and Friday this week.





FOMC Balance Sheet weekly chart as of Oct 26, 2022 - The Fed decreased its Balance Sheet this week by \$20.832 Billion, taking the Total Assets down from \$8.743922 Trillion last week to \$8.723090 Trillion this week. At the rate of declines we have seen over the past 5 months, it will take a very long time to return to Jan. 2020 levels.

Next we will look at a few key Sectors.



Dow Transportation Index daily chart as of Oct 28, 2022 - The Transports continued last Friday's rally the first 3 days this week, crossing above its 50 day SMA on Wednesday. Thursday saw a pause and an 'Inside day'. Friday saw a test of its support at its 50 day SMA and a rally up to the highest close this week, up +6.95% for the week.



XLE daily chart as of Oct 28, 2022 - The Energy sector continued its rally this week with a higher close every day this week and with higher highs every day but on Tuesday. The Energy sector ended the week up +2.67%.



XLF daily chart as of Oct 28, 2022 - The Financial sector continued its rally from last Friday, up Monday to its 50 day SMA, up Tuesday crossing above its 50 day SMA and continued with higher highs and higher close each day this week, ending the week up +6.21%.



QQQ daily chart as of Oct 28, 2022 - The Nasdaq-100 ETF continued last Friday's rally on Monday and Tuesday this week then closed lower on Wednesday and Thursday at its 20 day SMA support. Friday saw a rally from its 20 day SMA to end the week up +2.11% but failed to reach its highs from earlier this week.





SOXX daily chart as of Oct 28, 2022 - The Semiconductor sector saw higher highs the first 3 days of this week but closed lower on Wednesday on its Trend Line Resistance. Thursday saw a pull back to the 20 day SMA. Friday saw a rally from the 20 day SMA to nearly reach Wednesday's highs, but failed. The SOXX ended the week up +3.83%.



XLC daily chart as of Oct 28, 2022 - The Communication Services sector saw last Friday's rally continue on Monday and Tuesday and nearly reached its 50 day SMA. Thursday saw lower highs and lower lows and closed below the prior two days' closes. Thursday saw a gap below its 20 day SMA and sold down to find support near \$47.79. Friday saw a rally that failed to reach its 20 day SMA, ending the week down -2.23% and back below all 3 of its key SMAs.

INDEXes	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending
SECTORS	9/16/2022	9/23/2022	9/30/2022	10/7/2022	10/14/2022	10/21/2022	10/28/2022
\$SPX	-4.77%	-4.65%	-2.91%	1.51%	-1.55%	4.74%	3.95%
\$INDU	-4.13%	-4.00%	-2.92%	1.99%	1.15%	4.89%	5.72%
\$COMPQ	-5.48%	-5.07%	-2.69%	0.73%	-3.11%	5.22%	2.24%
\$RUT	-4.50%	-6.60%	-0.89%	2.25%	-1.16%	3.56%	6.01%
QQQ	-5.79%	-4.60%	-2.99%	0.69%	-3.11%	5.63%	2.11%
\$TRAN	-8.79%	-5.43%	-0.59%	3.48%	0.21%	1.51%	6.95%
XLE	-2.68%	-9.17%	2.19%	13.58%	-1.86%	8.28%	2.67%
XLF	-3.78%	-5.59%	-2.22%	1.75%	0.39%	3.81%	6.21%
XLK	-6.19%	-3.62%	-4.01%	1.68%	-3.29%	6.46%	4.21%
SOXX	-5.70%	-5.76%	-3.98%	2.23%	-8.34%	7.62%	3.83%
XLV	-2.34%	-3.32%	-1.32%	1.25%	1.04%	2.13%	4.99%
XLY	-3.98%	-7.10%	-2.71%	-1.26%	-3.83%	5.27%	1.80%
XRT	-5.33%	-6.06%	-3.32%	3.22%	-1.60%	2.63%	7.36%
XLI	-6.38%	-4.54%	-2.25%	2.80%	-0.49%	4.66%	6.69%
XLU	-3.76%	-2.99%	-8.71%	-2.67%	-2.53%	1.87%	6.48%
XME	-10.32%	-7.91%	2.16%	7.30%	-3.11%	9.03%	0.69%
XLP	-3.58%	-2.10%	-3.82%	-0.34%	1.55%	2.04%	6.18%
XLB	-6.62%	-5.60%	-0.61%	2.13%	-1.84%	6.07%	3.36%
XLC	-6.26%	-5.61%	-2.48%	1.75%	-1.54%	4.52%	-2.23%
XHB	-6.88%	-3.96%	-1.21%	4.53%	-4.16%	0.49%	7.12%

Weekly Percent Change US Indexes and Sectors table as of Oct 28, 2022 - The Russell and Dow Industrials lead the markets this week with the Nasdaq lagging.

The strongest sectors this week were: XRT, XHB, Transports, XLI, XLU, XLF and XLP that all delivered over a +6% gains this week. The weakest sector this week was XLC that delivered the only Negative decline for this week. The other weak sectors included: XME, and XLY, both delivered less than a +2% gains this week.

INDEXes	Mon	Tue	Wed	Thur	Fri	Mon	Tue	Wed	Thur	Fri
	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	10/17/22	10/18/22	10/19/22	10/20/22	10/21/22	10/24/22	10/25/22	10/26/22	10/27/22	10/28/22
\$SPX	2.65%	1.15%	-0.67%	-0.80%	2.37%	1.19%	1.63%	-0.74%	-0.59%	2.46%
\$INDU	1.86%	1.12%	-0.33%	-0.30%	2.47%	1.34%	1.07%	0.01%	0.62%	2.59%
\$COMPQ	3.43%	0.90%	-0.85%	-0.61%	2.31%	0.86%	2.25%	-2.04%	-1.63%	2.87%
\$RUT	3.17%	1.16%	-1.72%	-1.24%	2.22%	0.35%	2.73%	0.46%	0.11%	2.25%
QQQ	3.30%	0.79%	-0.36%	-0.51%	2.35%	1.10%	2.07%	-2.21%	-1.82%	3.06%
\$TRAN	2.38%	1.35%	-1.69%	-2.55%	2.12%	2.94%	1.40%	1.37%	-0.42%	1.54%

Daily Percent Change US Indexes table as of Oct 28, 2022 - We saw daily changes in leadership this week with the Transports showing leadership on Monday and Wednesday. The Nasdaq-100 ETF ('QQQ') was showing weakness on both Wednesday and Thursday this week with a strong attempt at a recovery on Friday.

Next we will look at a few key Stocks.



AAPL daily chart as of Oct 28, 2022 - Apple continued its rally on Monday and Tuesday then gave back most of the 3 day gains on Wednesday and Thursday as prices dropped to nearly its 20 day SMA. Friday saw a gap up (after Earnings) and a strong rally (with volume) above its 50 day SMA and touched its 200 day SMA to end the week up +5.75%.

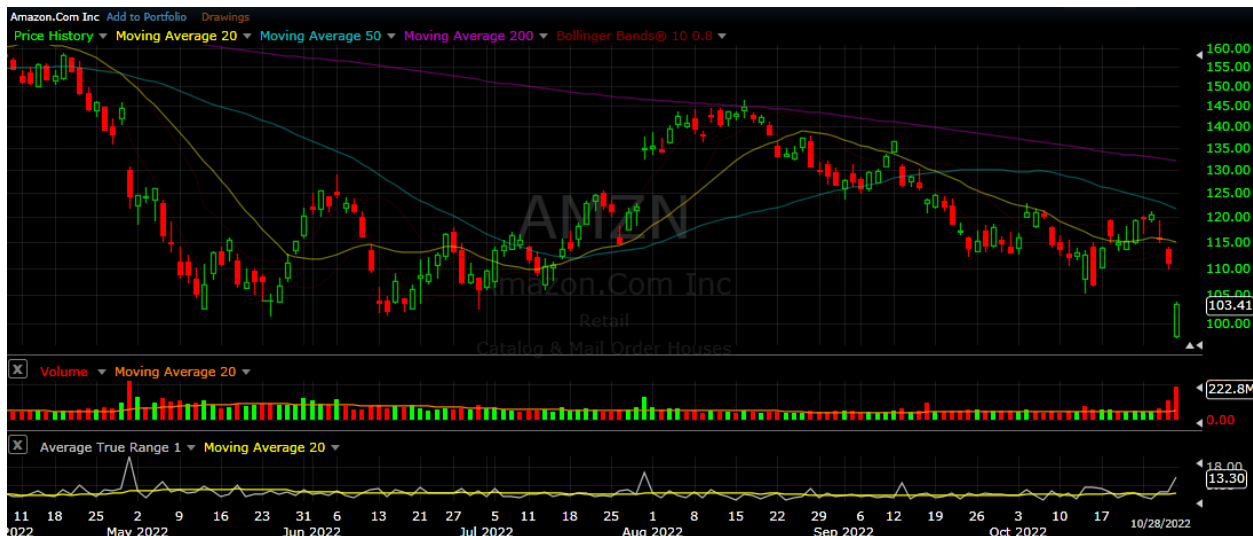


MSFT daily chart as of Oct 28, 2022 - Microsoft continued its rally Monday and Tuesday then reported Earnings after the close. Wednesday saw a large gap down below its 20 day SMA. Thursday saw lower lows and lower highs. Friday saw a rally that failed to reach its 20 day SMA, ending the week down - 2.58% and back below all 3 of its key SMAs.





GOOGL daily chart as of Oct 28, 2022 - Alphabet continued its rally on Monday and Tuesday up to its 50 day SMA before reporting Earnings after the close. Wednesday saw a large gap down below its 20 day SMA and selling lower during the day. Thursday saw new 52 week lows. Selling on both Wed. and Thursday saw strong volume. Friday saw a rally that only recovered a portion of the prior 2 days of losses, ending the week down -4.79% and now below all 3 of its key SMAs.



AMZN daily chart as of Oct 28, 2022 - Amazon saw a mild continuation of its rally on Monday and Tuesday with higher highs and higher closes. Wednesday dropped back to its 20 day SMA. Thursday gapped down and sold off lower before the close and Earnings. Friday saw a gap down to new 52 week lows and a mild rally to only recover a small portion of that day's gap, ending the week down -13.33%.



TSLA daily chart as of Oct 28, 2022 - Tesla saw a lower low and lower highs Monday then rallied Tuesday and Wednesday up to test its 20 day SMA but close that day below. Thursday saw a failed rally and a close near its 20 day SMA. Friday saw a dip and rally to end the day above its 20 day SMA, ending the week up +6.57%.



META daily chart as of Oct 28, 2022 - Meta has been below all 3 of its key SMAs most of the time over the past few months. Monday and Tuesday saw a small rally above its 20 day SMA that was mostly given back on Wednesday before META reported Earnings that evening. Thursday saw a large gap down to new 6-year lows. Friday saw narrow consolidation near the middle of the prior day's range, ending the week down -23.70%.



NVDA daily chart as of Oct 28, 2022 - Nvidia continued last Friday's rally with higher highs every day this week, reaching its 50 day SMA on Thursday and crossing above on Friday to end the week up +10.97% and now above 2 of its 3 key SMAs.

Note those few Big Tech names above that actually saw a positive advance this week.



JPM daily chart as of Oct 28, 2022 - JP Morgan saw a huge rally last Friday that continued this week with higher highs every day. JPM reached its 200 day SMA on Thursday and crossed above that SMA on Friday to end the week up +3.15% and is now above all 3 of its key SMAs.





COST daily chart as of Oct 28, 2022 - Costco continued last Friday's rally on Monday Tuesday and Wednesday this week, crossing but not closing above its 50 day SMA on Wednesday. Thursday saw a small pull back that was followed with a strong rally day on Friday crossing above its 50 day SMA and touching its 200 day SMA, ending the week up +7.03%.



DE daily chart as of Oct 28, 2022 - John Deere continued last Friday's rally this week with higher highs every day except on Friday. DE ended the week up +3.60%. DE is now above all 3 of its key SMAs.

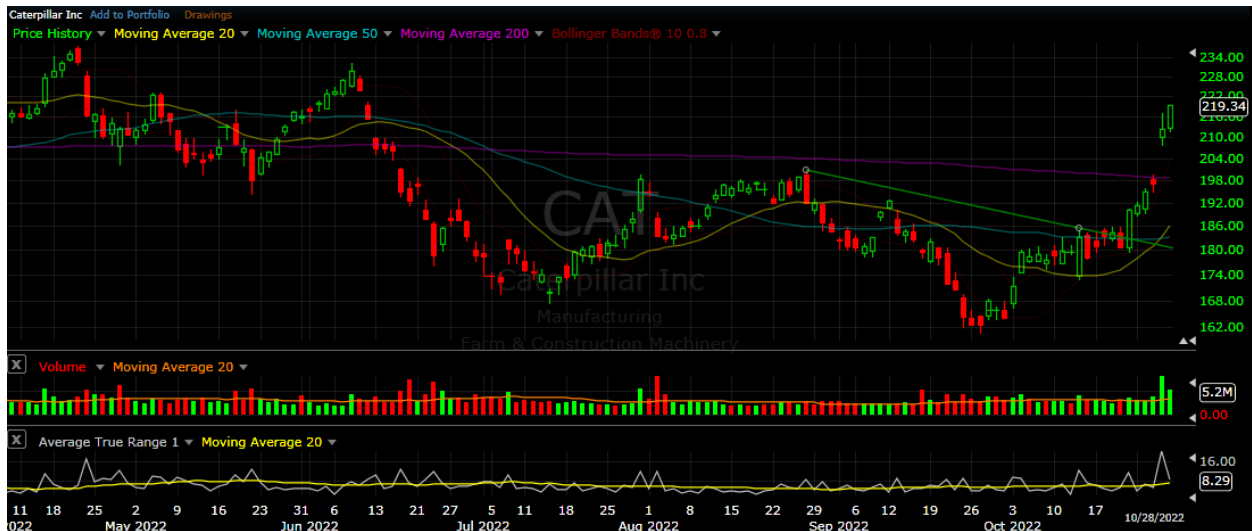


SLB daily chart as of Oct 28, 2022 - SLB continued last Friday's (after Earnings) rally with higher highs the first 3 days of this week then pulled back Thursday and Friday to end the week up +0.08%.

HAL also continued its rally this week, reporting Earnings Tuesday before the open to deliver higher highs each day this week except on Friday. A lower close on Thursday and Friday ended the week up +6.11%.



X daily chart as of Oct 28, 2022 - US Steel saw slightly lower closes on Monday and Tuesday then gapped up a little on Wednesday above its 50 day SMA. Thursday pulled back to its 50 day SMA. Friday saw a gap down and selling to test its 20 day SMA support to end the week down -5.27%.



CAT daily chart as of Oct 28, 2022 - CAT continued its rally Monday, Tuesday and Wednesday up to its 200 day SMA then reported Earnings before the Open on Thursday. Thursday saw a gap up above its 200 day SMA that continued higher Friday and ended the week up +15.31%. CAT is now above all 3 of its key SMAs.



LMT daily chart as of Oct 28, 2022 - Lockheed saw a strong reaction to Earnings last week (Oct. 18<sup>th</sup>) that crossed above all 3 of its key SMAs and its Resistance Trend Line (Green line) that same day. The rally has continued last week (+16.74%) and this week, ending this week up +6.66% with new all time highs.



It can be useful to note what names delivered over a +6% gain this week. Those stronger names are more likely to remain strong until we clearly see their Trend End.

We have the end of October occurring on Monday this next week and the Fed meeting with a rate announcement on Wednesday afternoon. Expectations remain high to see another +0.75% increase by the Fed this next week.

As you can see by the multiple examples above, the 'stronger' sectors and 'stronger' names within those sectors have higher odds on continuing higher when the over market trend is also bullish. Those same names are also more likely to see smaller declines when the market context changes to Bearish.

On the weekly charts we can clearly see that the two week rally has not yet exceeded key prior highs. So it is still possible the rally could 'fail' at any time. We are not predicting a failure, but we are reminding ourselves that the odds can still favor failed rallies in an overall Bearish market context. The current rally could continue for a little while longer, or it could stall and reverse at any time. Knowing this, we prepare for multiple scenarios going forward into next week. [A] a continued rally, [B] a pause and horizontal rest for a while, or [C] a reversal and strong selling.

Options continue to show us that they have 'Under priced' actual market Risks, so knowing this we favor strategies that buy options over strategies that focus on selling option premiums.

Hope this helps.

Trade Smart,

CJ