



Market Observations - as of Dec. 16, 2022

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

Over the prior 5 weeks we have seen most of the major indexes (and leading stocks) stuck within a horizontal range. We have also seen several over-reactions to Economic news over the past weeks that failed to break out of this horizontal range, or may have only briefly broken out before returning to the same range or prior levels.

This week we saw a failed rally early Tuesday on better than expected CPI data that returned to prior levels about half way through the day on Tuesday. We also saw a negative reaction Wednesday afternoon to the Fed's rate hike and Jay Powell's comments that followed. The markets showed follow through lower on Thursday and Friday that broke below the 50 day SMA in the Nasdaq and S&P.

This week we saw a failed rally Tuesday that was followed by 3 days of lower lows and lower highs in most all of the major indexes that broke below the prior 5-week Support either on Thursday or Friday.

On Tuesday this week we also saw strong bond buying volume as well as strong Options Hedging activity.

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



S&P 500 weekly chart as of Dec 16, 2022 - Here we see the 50 week SMA (Blue) and the Trend Line Resistance (Dark Blue line) act as Resistance again this week after a 5 week 'pause' just above the 20 week SMA (Yellow).



S&P 500 daily chart as of Dec 16, 2022 - Note the Trend Line (Dark Blue) drawn between the Jan. 4th highs and the Mar. 29th highs and extended to the right. Note how this Trend Line acted like Resistance in mid August (along with the 200 day SMA). This Trend Line also acted like Resistance Dec. 1st and Dec. 13th this month. The S&P could not remain above its 200 day SMA in either test. Note the grey box over the 3900 to 4050 range the prior 5 weeks that visually highlights the horizontal 'range' that the S&P had mostly respected until the break down on Thursday and Friday of this week. The S&P closed this week down -2.08% and is now below all 3 of its key SMAs (200d, 50d and 20d).



S&P 500 15 min. chart as of Dec 16, 2022 - Here we see the positive reaction to Jay Powell's comments on Nov. 30th that nearly touched the Trend Line the following morning (Dec. 1st) before pulling back the next 3 days. Last week the S&P closed below its -2x Expected Move. This week we see the CPI Reaction Tuesday that only briefly broke above the Trend Line and upper Expected Move before pulling back to nearly fill the gap by mid-day. Wednesday afternoon we see the negative reaction to the FOMC and Jay Powell's comments that gapped lower Thursday to break below the 5-week range (grey box). Friday saw the S&P continue lower to come within 20 points of its lower weekly Expected Move before a small bounce the last hour.

By drawing Trend Lines, or a 'range' box, we give our self a visual reference that we choose to use as a confirmation of a change in behavior. A 'change' from non-trending to trending lower in this week's example. This is NOT a prediction of what is to come next, but is a useful tool to help us make decisions based upon the market's behavior. You can draw trend lines wherever you wish on your charts. However, I like to have a clear purpose of what that line's message is for me if and when it is penetrated.



DJIA weekly chart as of Dec 16, 2022 - The Dow Industrials broke above its 50 week SMA about 5 weeks ago and rolled over last week and this week to close this week nearly on its 50 week SMA.



DJIA daily chart as of Dec 16, 2022 - Here we see a failed rally Tuesday that was followed by lower highs and lower lows the next 3 days, crossing below its 20 day SMA (Yellow) Thursday and nearly reaching its 50 day SMA (Blue) on Friday, ending the week down -1.66%.



Nasdaq weekly chart as of Dec 16, 2022 - The Nasdaq composite paused the past 5 weeks just below its 20 week SMA (Yellow) and straddling its 200 day SMA (Purple). This week broke down below this range at the end of this week.



Nasdaq daily chart as of Dec 16, 2022 - Here we see the 5-week pause in the Nasdaq (grey box) and the failed rally Tuesday followed by 3 days of lower lows and lower highs, crossing below its 20 day SMA Wednesday and below its 50 day SMA on Thursday. The Nasdaq ended this week down -2.72% and is now below its 5-week range and below all 3 of its key SMAs. A failed rally that is followed by lower lows is a clearly 'bearish' indication.



Russell 2000 weekly chart as of Dec 16, 2022 - Here we see the Russell spend about 5 weeks above its 200 day SMA (Purple) and below its 50 day SMA (Blue).



Russell 2000 daily chart as of Dec 16, 2022 - Monday saw a bounce off of its 50 day SMA support. Tuesday saw a failed rally above its 200 day and 20 day SMAs that closed the day back below both SMAs. The next 3 days saw lower lows and lower highs, crossing below its 50 day SMA on Thursday, ending the week down -1.85% and now below all 3 of its key SMAs.

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



McClellan Summation Index weekly chart as of Dec 16, 2022 - This Index peaked two weeks ago then began its decline last week and this week, ending this week at 142.34.



McClellan Summation Index daily chart as of Dec 16, 2022 - Here we see the positive slope end early in December and change to a negative slope last week and this week to end this week at 142.34.



NYSE Percent above 200 day SMA daily chart as of Dec 16, 2022 - On Dec. 2nd we saw a peak near 51.24%, on Dec. 9th we saw a drop down to 41.79% and this week we saw the drop continue lower to 37.92%.



NYSE Percent above 50 day SMA daily chart as of Dec 16, 2022 - On Dec. 2nd we saw a peak near 80.91%, on Dec. 9th we saw a drop down to 64.42% and this week we saw the drop continue lower to 52.95%.

A simple way to look at these two charts are when more than half of the listed stocks are above their 50 day (or 200 day) SMA, it is likely a bullish market, and when more than half are blow it is likely a bearish market.



VIX daily chart as of Dec 16, 2022 - Here we can see 1 year of the VIX. Note how the VIX popped up to the 25 area on Monday and Tuesday of this week, then fell below 22 Wednesday and Thursday when the markets saw strong selling. Usually the VIX moves higher when markets see strong selling. This unusual behavior seems to indicate that the market action this week was 'expected' by the Options market that did not 'react' to unexpected news.



VVIX daily chart as of Dec 16, 2022 - The Volatility of the VIX shows a narrow range most of this week without any 'extreme' value. Again reinforcing the message of no surprises.

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



Oil daily chart as of Dec 16, 2022 - Oil prices rallied for 3 days this week up to its 20 day SMA and paused Thursday. Friday saw a small pull back.



Gold daily chart as of Dec 16, 2022 - Gold prices oscillated above and below its 200 day SMA this week with little overall change.



US Dollar Index daily chart as of Dec 16, 2022 - The US Dollar Index paused Monday, dropped Tuesday and Wednesday then bounced Thursday and Friday to end the week nearly unchanged.



US 10 year Treasury daily chart as of Dec 16, 2022 - The US 10 year Treasury saw strong buying volume on Tuesday that tapered off the next 3 days.



US 10 year Yield daily chart as of Dec 16, 2022 - The 10 year Yields saw a dip Tuesday on the strong buying day then oscillated inside a narrow range the rest of this week.

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
12/01/2022	4.04	4.24	4.33	4.52	4.65	4.66	4.25	3.98	3.68	3.62	3.53	3.85	3.64
12/02/2022	3.91	4.25	4.34	4.52	4.65	4.69	4.28	3.99	3.67	3.61	3.51	3.79	3.56
12/05/2022	3.93	4.25	4.36	4.56	4.73	4.77	4.41	4.13	3.80	3.72	3.60	3.84	3.62
12/06/2022	3.87	4.19	4.37	4.54	4.74	4.73	4.34	4.07	3.73	3.64	3.51	3.77	3.52
12/07/2022	3.79	4.10	4.29	4.53	4.72	4.67	4.26	3.97	3.62	3.54	3.42	3.66	3.42
12/08/2022	3.75	4.11	4.28	4.53	4.71	4.71	4.31	4.04	3.71	3.63	3.48	3.71	3.44
12/09/2022	3.81	4.13	4.31	4.54	4.72	4.72	4.33	4.07	3.75	3.69	3.57	3.82	3.56
12/12/2022	3.86	4.18	4.38	4.60	4.78	4.75	4.39	4.10	3.80	3.73	3.61	3.84	3.57
12/13/2022	3.89	4.16	4.35	4.58	4.70	4.64	4.22	3.96	3.66	3.60	3.51	3.74	3.53
12/14/2022	3.91	4.14	4.33	4.58	4.68	4.64	4.23	3.94	3.64	3.59	3.49	3.74	3.52
12/15/2022	3.95	4.24	4.34	4.56	4.70	4.65	4.23	3.96	3.62	3.56	3.44	3.69	3.48
12/16/2022	3.94	4.22	4.31	4.54	4.68	4.61	4.17	3.91	3.61	3.58	3.48	3.73	3.53

US Yield Rates daily table as of Dec 16, 2022 - The longer terms declined a little on Tuesday, Wednesday and Thursday this week while the short terms increased.

We have seen a Yield curve 'Inversion' every day since July 6th this year where the 2 year Yield rate is higher than the 10 year rate. The largest 'inversion' between these two rates so far this year was seen on Dec. 7th when the Difference in these two yield rates was 0.84%. This is important since many Economists believe that the bigger the Inversion the deeper or longer duration of the coming 'Recession'. Historical examples are limited, however, what we do see seems to confirm this relationship.

I do not know what is coming next. However, I will look at history as a 'guide' to what is possible.



FOMC Balance Sheet weekly chart as of Dec 14, 2022 - From Nov. 30th to Dec. 7th the Fed decreased its Balance Sheet by \$1.841 Billion to Total Assets of \$8.582735 Trillion. This past week the Fed 'increased' its balance sheet by \$678 Million to Total Assets of \$8.583413 Trillion.

Next we will look at a few key Sectors.



Dow Transportation Index daily chart as of Dec 16, 2022 - The Transports saw a strong rally Monday the continued higher Tuesday before failing and turning back. Wednesday briefly found support at its 20 day SMA. Thursday broke below its 20 day and 200 day SMA and Friday found support near its 50 day SMA. The Transports ended the week down -0.18%.



XLE daily chart as of Dec 16, 2022 - The Energy sector rallied Monday and Tuesday to find Resistance at its 50 day SMA. The last 3 days of this week saw lower lows to end the week up +2.03%.



XLF daily chart as of Dec 16, 2022 - The Financial sector saw a mild rally Monday followed by a failed breakout Tuesday (CPI) with lower lows and lower highs the next 3 days to end the week down -2.40% and now below all 3 of its key SMAs.



QQQ daily chart as of Dec 16, 2022 - The Nasdaq-100 ETF was range bound for 5 weeks, saw a failed Rally Tuesday with lower lows and lower highs the next 3 days, ending the week down -2.76% and now below all 3 of its key SMAs.



SOXX daily chart as of Dec 16, 2022 - The Semiconductor sector was also range bounce for about 5 week then saw a failed break out rally Tuesday above its 200 day SMA that could not close the day above that SMA. The next 3 days all saw lower lows and lower highs to end the week down -3.09% and testing support from the prior 5 weeks. The Grey Trend Line Support drawn from the Nov. 4th lows to the Dec. 7th lows was broken with the gap down at the open on Thursday, providing another form of a Bearish confirmation.



XLC daily chart as of Dec 16, 2022 - The Communication Services sector also was range bounce the prior 5 weeks, saw a failed rally Tuesday with lower lows each of the following days, breaking below its 50 day SMA support Thursday, ending the week Friday down -2.81% and is now below all 3 of its key SMAs.

<i>INDEXes</i>	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending
<i>SECTORs</i>	11/4/2022	11/11/2022	11/18/2022	11/25/2022	12/2/2022	12/9/2022	12/16/2022
\$SPX	-3.35%	5.90%	-0.69%	1.53%	1.13%	-3.37%	-2.08%
\$INDU	-1.40%	4.15%	-0.01%	1.78%	0.24%	-2.77%	-1.66%
\$COMPQ	-5.65%	8.10%	-1.57%	0.72%	2.09%	-3.99%	-2.72%
\$RUT	-2.55%	4.60%	-1.75%	1.05%	1.27%	-5.08%	-1.85%
QQQ	-5.88%	8.80%	-1.09%	0.74%	1.96%	-3.59%	-2.76%
\$TRAN	-0.74%	8.02%	-2.06%	1.32%	0.54%	-5.22%	-0.18%
XLE	2.43%	1.87%	-1.61%	0.26%	-1.70%	-8.45%	2.03%
XLF	-0.82%	5.78%	-1.39%	2.09%	-0.50%	-3.90%	-2.40%
XLK	-6.63%	10.04%	-0.79%	1.14%	1.32%	-3.29%	-2.62%
SOXX	-1.42%	14.95%	-1.45%	1.13%	1.06%	-1.68%	-3.09%
XLV	-1.54%	1.77%	1.08%	1.92%	1.92%	-1.29%	-1.78%
XLY	-5.15%	5.52%	-2.83%	1.16%	2.33%	-4.47%	-3.96%
XRT	-3.72%	7.79%	-0.93%	2.54%	0.63%	-4.19%	-4.14%
XLI	0.48%	4.69%	-0.09%	1.87%	1.02%	-3.19%	-0.98%
XLU	-0.47%	1.48%	1.13%	3.04%	0.13%	-0.28%	-0.49%
XME	1.98%	3.92%	-1.87%	4.03%	4.44%	-6.39%	-2.57%
XLP	-1.80%	2.32%	1.58%	2.10%	1.23%	-1.68%	-1.36%
XLB	0.90%	7.73%	-1.55%	2.98%	1.69%	-3.32%	-2.35%
XLC	-6.75%	9.41%	-0.98%	1.35%	3.47%	-4.81%	-2.81%
XHB	-4.97%	12.10%	-2.99%	1.84%	0.90%	-2.00%	0.36%

Weekly Percent Change US Indexes and Sectors table as of Dec 16, 2022 - In the weekly Index changes above we see a mild rally the weeks ending Nov. 25th and Dec. 2nd followed by much strong declines last week and this week. This offers a bearish clue.

Also note that last week (Dec. 9th) every sector was Negative for that week and this week only two sectors were positive. (Another bearish clue).

The Energy sector was the weakest sector the prior 3 weeks in a row and then became the strongest sector this week. The other positive sector this week was XHB.

The weakest sectors last week included: XLE, XME, the Transports and XLC. The weakest sectors this week included: XRT, XLY, SOXX and XLC. The weak Retail reports this week suggest that consumers may be cutting back their spending levels from last month and last year.

INDEXes SECTORs	Mon	Tue	Wed	Thur	Fri	Mon	Tue	Wed	Thur	Fri
	End of Day 12/05/22	End of Day 12/06/22	End of Day 12/07/22	End of Day 12/08/22	End of Day 12/09/22	End of Day 12/12/22	End of Day 12/13/22	End of Day 12/14/22	End of Day 12/15/22	End of Day 12/16/22
\$SPX	-1.79%	-1.44%	-0.19%	0.75%	-0.73%	1.43%	0.74%	-0.61%	-2.49%	-1.12%
\$INDU	-1.40%	-1.03%	0.00%	0.54%	-0.90%	1.58%	0.31%	-0.42%	-2.25%	-0.85%
\$COMPQ	-1.93%	-2.00%	-0.51%	1.13%	-0.70%	1.26%	1.01%	-0.76%	-3.23%	-0.97%
\$RUT	-2.78%	-1.50%	-0.31%	0.63%	-1.19%	1.22%	0.76%	-0.65%	-2.52%	-0.63%
QQQ	-1.68%	-2.07%	-0.41%	1.18%	-0.64%	1.26%	1.08%	-0.74%	-3.36%	-0.95%
\$STRAN	-3.25%	-1.07%	-0.94%	0.31%	-0.34%	3.03%	0.09%	0.60%	-2.71%	-1.10%

Daily Percent Change US Indexes table as of Dec 16, 2022 - We see daily changes in leadership with the Transports more often showing both weakness and strength followed by the QQQ leading up or down. The Industrials only showed strength once this week vs. 3 days last week.

Next we will look at a few key Stocks.



AAPL daily chart as of Dec 16, 2022 - Apple saw a failed rally Tuesday followed by consistent down days the rest of this week, breaking below \$140 Support on Thursday and ending the week down -5.38%. Apple remains below all 3 of its key SMAs.



MSFT daily chart as of Dec 16, 2022 - Microsoft rallied Monday and Tuesday to find Resistance at its 200 day SMA on Tuesday. Wednesday saw a pause before selling kicked in Thursday and Friday below its 20 day SMA to end the week down -0.30%.



GOOGL daily chart as of Dec 16, 2022 - Alphabet saw steady selling last week then paused on Monday of this week. Tuesday saw a failed gap up and rally the closed lower back below its 20 day and 50 day SMAs. The next 3 days saw lower lows and lower highs to end the week down -2.77%. Alphabet is back below all 3 of its key SMAs.



AMZN daily chart as of Dec 16, 2022 - Amazon sold off last week and paused near its support. Monday saw this pause continued. Tuesday saw a failed rally above its 20 day SMA that closed the day back below this SMA. The next 3 days saw lower lows and lower highs to end the week down -1.38% and still below all 3 of its key SMAs.



TSLA daily chart as of Dec 16, 2022 - Tesla saw strong selling last week (down -8.11%) that continued this week, ending this week down -16.10% with new 2-year lows. Note the strong volume each day this week.



NVDA daily chart as of Dec 16, 2022 - Nvidia saw a rally last week that continued Monday of this week up to its 200 day SMA. Tuesday saw a gap up that failed and delivered a lower close followed by 3 days of lower lows and lower highs to end the week down -2.53% and closing Friday a few cents below its 20 day SMA.



META daily chart as of Dec 16, 2022 - Meta continues to be range bounce this week as its 20 day SMA and 50 day SMA 'Converge' as an indication of a horizontal trend. Meta ended the week up +3.05%.



JPM daily chart as of Dec 16, 2022 - JP Morgan declined -2.22% last week and paused below its 20 day SMA. This week began with a rally Monday above its 20 day SMA with a failed rally Tuesday that closed back below its 20 day SMA. The next 3 days saw lower lows and lower highs to end the week down - 2.17%.



COST daily chart as of Dec 16, 2022 - Costco saw a sharp decline the prior 2 weeks that paused after reporting Earnings on Dec. 8th. The next day saw a small bounce (Dec. 9th). This week saw a small rally Monday and a failed gap up Tuesday above and back below its 50 day SMA. The next 3 days saw lower lows and lower highs to end the week down -4.47%.



DE daily chart as of Dec 16, 2022 - John Deere saw a gap up and pause after reporting Earnings Nov. 23rd that has remained mostly horizontal for about 3 weeks. Thursday this week saw a break down below its 20 day SMA and \$430 support area that was followed by a lower low, lower high and higher close on Friday to end the week down -0.86% and with price back above \$430 support.



SLB daily chart as of Dec 16, 2022 - SLB saw a sharp decline last week of -10.72% breaking below its 50 day SMA last Friday. This week saw a rally Monday up to its 50 day SMA and gap up Tuesday and rally up to its 20 day SMA. Wednesday saw a pause and small pull back followed by lower lows and lower highs on Thursday and Friday back below its 50 day SMA and ending the week up +5.13%.



WMT daily chart as of Dec 16, 2022 - Walmart saw a sharp decline last week of -4.81%. This week saw a rally Monday followed by a failed rally Tuesday up to its 20 day SMA with a lower close. The next 3 days all saw lower lows and lower highs, crossing below its 50 day SMA on Friday to end the week down - 1.76%.



BA daily chart as of Dec 16, 2022 - Boeing mostly saw a pause the past 5 weeks before receiving some big orders this week. Monday saw a strong rally that continued higher Tuesday. Wednesday and Thursday saw a small pull back with a bounce on Friday to end the week up +2.87% and still above all 3 of its key SMAs.

After nearly 5 weeks of a mostly non-trending market, we saw reactions to Economic news this week. Tuesday's CPI report caused a failed rally that was followed by selling, strengthened by the FOMC rate increase on Wednesday and weaker Retail data. We saw support broken on many charts on either Thursday or Friday this week. The breaking support this week does not 'predict' more selling next week but it does expose stronger Bear sentiment late this week. This gives us a mild bias going into next week where we 'assume' the Bears will remain encouraged until we see signs in the charts that they have failed to follow through with lower prices. As a Technical Trader, we try to gain a small statistical advantage by trading 'With' the Trend, and remain agile to change as the markets indicate it is time to do so.

We do not need to be first in line for a new trend and we do not desire to be first since the odds do not favor that position. Our objectives are to be prompt to move WITH the crowd as we clearly see the direction of the crowd soon after it changes. We continue to trade WITH the trend until the charts show us that that momentum has or is ending. We do NOT even try to pick market tops or bottoms because the odds of doing so are very small. We 'follow' the trends (crowds) and ride along with the momentum until it tells us the ride is over.

You never know how big a move will be until it is all over. Therefore, we target our entry a little bit 'after' the beginning of the move while the odds may still be in our favor, and exit a little bit after the move ends. The move may last a few hours or a few days. We identify our entry and exit criteria and stick to that plan, knowing that anything can happen. Only after the trade is over can we do our important post analysis to see if we followed our rules without flaw, and how much of the move did we end up capturing. I am satisfied with capturing 50% of the overall move that was available, and consider that a successful trade. Riding the middle 50% is a 'high odds' piece to capture while avoiding the temptations that come from trying to capture 'more' of the move. I will only know how much I captured well AFTER the trade is over. Monitoring your performance will tell you what you need to work on to improve. Discipline at following your system? Patience at waiting for your confirmation signals? Proper position sizing to stay within your pre-defined risk parameters? Etc.

Hope this helps. Anything can happen. (- Mark Douglas)

Trade Smart,

CJ