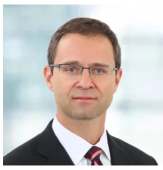
Daily Technical Strategy

August 7, 2024

"Two steps forward, One step back"



Mark L. Newton, CMT AC

HEAD OF TECHNICAL STRATEGY

Key Takeaways

- Wednesday's consolidation doesn't take away from the early week bullish bounce
- Healthcare has begun to kick into gear and remains a technical Overweight
- AXON ▲18.39% broke out of its bullish consolidation range today, which is constructive

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The early week stabilization looks to be a work in progress, but following two early superb breadth days, US markets finished back lower on Wednesday after having pushed nearly 200 SPX points higher off the lows. Overall, I feel that lows are likely in place for now, given the abnormally high VIX, huge negative imbalance of volume into Declining vs. Advancing stocks, and increasing evidence of pervasive negative sentiment. It remains important to realize that despite the harsh 10%+ decline off the peaks from mid-July, the Equal-weighted SPX and QQQ both suffered barely any damage and remain lower by less than 3% off all-time highs. US Dollar and US Treasury yields have both bounced early this week, but should be ready to turn back lower, and it's expected that SPX has either bottomed this week or will bottom by next week before turning back higher in short order to rally into September. Bottom line, the risk/reward favors a return to growth and Technology bounce after the recent pullback to support. However, make no mistake, some technical work is needed to surpass the current downtrend from mid-July, and I expect this to give way as US Indices work back higher into the back half of August into September.

SPX made it to 5330 but not 5343, effectively filling the gap of last Friday but not quite making it up to the 50% retracement from 8/1 before dropping around 100 points off this morning's highs. This level at 5330 actually represented the 38.2% Fibonacci retracement of the decline from mid-July into earlier this week.

Overall, I am not inclined to think today means that this bounce attempt has played out and SPX should revisit 5119. On the contrary, SPX managed to carve out 5 waves off the bottom so I'm less apt to view today's weakness as being a failed rally. Rather, I see this as simply as a consolidation after this initial move off the lows. However, Monday's lows at SPX-5119 will be important to hold on any drawdown.

It's still right to mention that the downtrend from mid-July remains intact, and eventually will need to be surpassed to have more conviction that a rally higher is getting underway.

At present, given that seven Sectors still show positive gains in the rolling one-month period (7/7/24 -8/7/24), it's certainly right not to view this recent falling out as being too serious just yet.

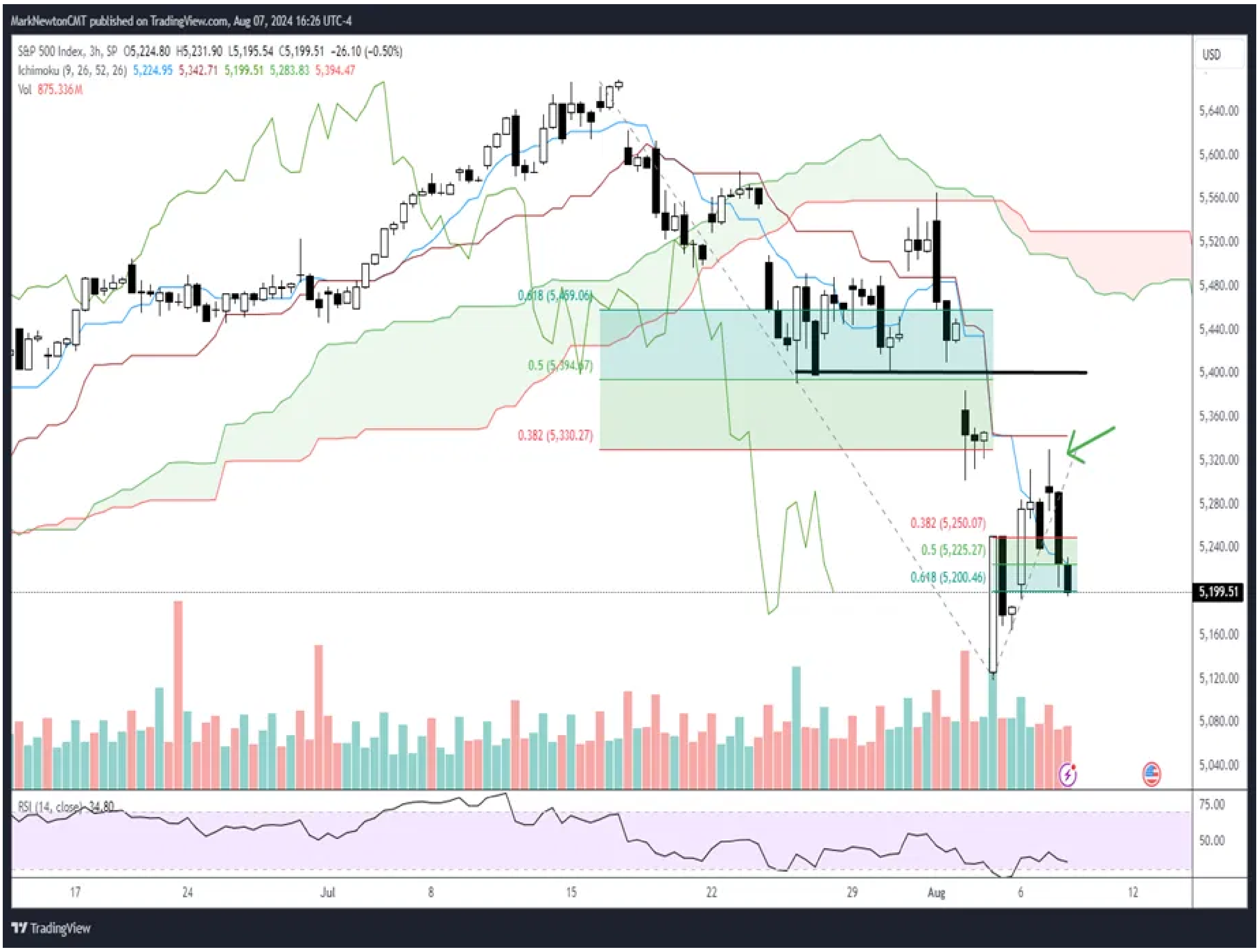
Four of the major 11 sectors that represent S&P 500 on Equal-weighted basis are higher by more than +2.5% in the last month. These are: REITS, Utilities, Healthcare and Staples.

In the days ahead, ideally, SPX should hold this week's lows and turn higher to test and exceed Wednesday's highs at 5330.64. This should carry SPX up to 5394, near the 50% retracement of the decline from July.

For now, after 200 SPX points higher off the lows, Wednesday brought about some necessary backing and filling. However, one can't say with a lot of certainty that this is a bearish development given how constructive the market breadth proved to be since Monday's lows. In general it's right to keep a close eye on both 5200 and below on 5119, but I expect that a reversal back higher should be close to follow suit on the earlier week progress.

As today's report title indicates, we're seeing "Two steps forward, and one-step back". I put greater weight on the two steps forward given the breadth improvements and stabilization in Technology and expect an upcoming shift back to Growth.

S&P 500



Source: Trading View

SPX hourly chart helps to illustrate the constructive bounce

Overall, SPX retreated down to its 61.8% Fibonacci retracement of the bounce from Monday's lows. This looks important, while movement under this could lead to a possible retest of the early week 5119.

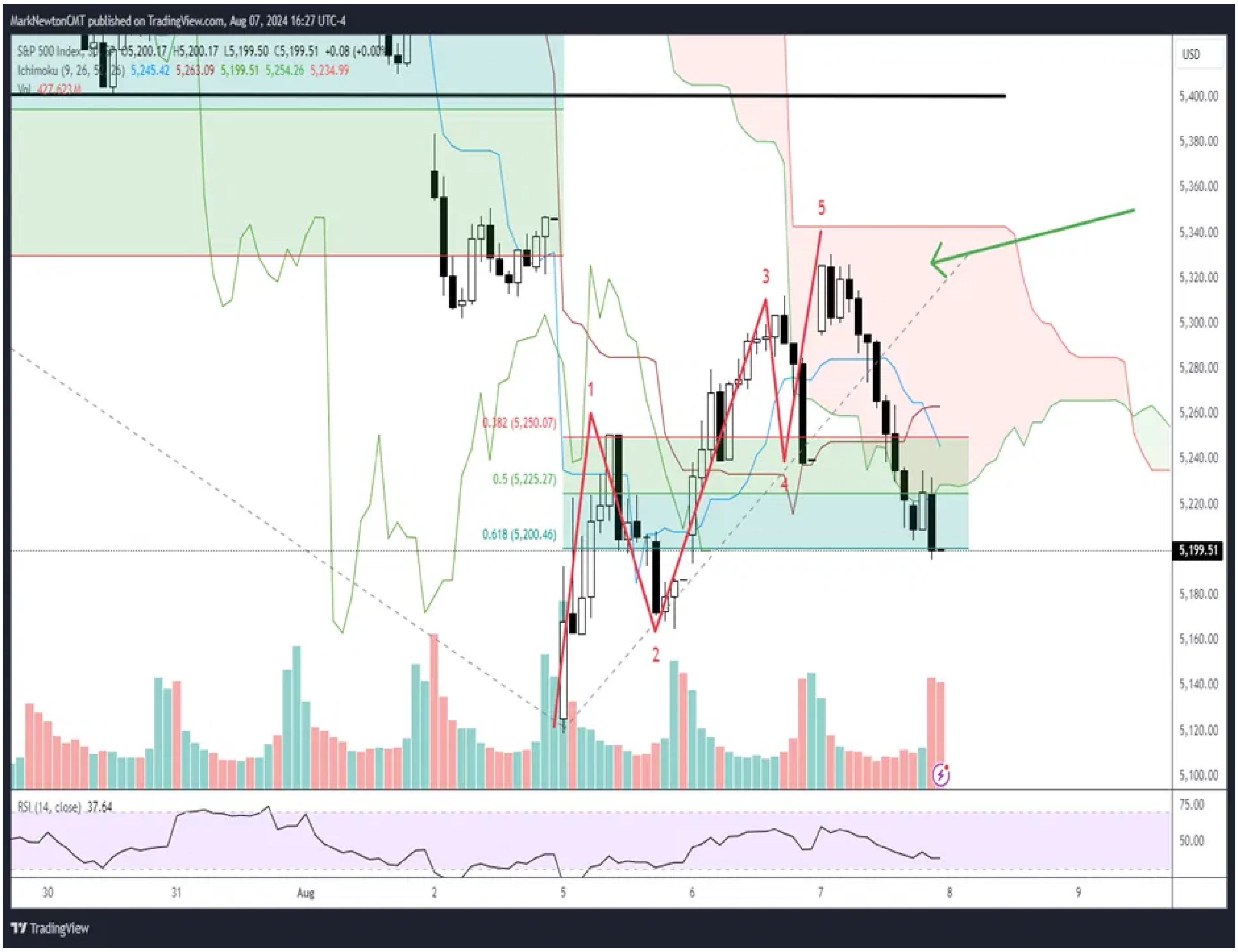
As shown on hourly charts, this progression off the lows looks to have taken the form of a five-wave advance, which should pave the way for much higher prices into next month. However, in the short run, Wednesday's pullback will need to stabilize sooner than later before price can turn up again.

For those who are short-term in nature, rallies up to 5260-80 could be possible Thursday, and any move back over 5330 would be very positive, leading up to 5390-5.

For the bulls, the positives involve Technology holding where it needs to, along with fear having elevated in the past week despite the broader market having held up much better than many investors might expect.

I'm expecting that September into November should prove to be a more difficult timeframe than the weakness which has occurred thus far in August, but certainly it's right to say that some immediate stabilization and rally into September does look likely technically and it's right to concentrate on a rotation back into large-cap Growth.

S&P 500 Hourly



Source: Trading View

10's-2's curve is very close to dis-inverting

Following the breakout of last October's peaks in the yield curve, which proved important and gave way to an eight-month period of consolidation, this peak in the 10-2's curve for US Treasury yields has been exceeded.

This brought about a rapid steepening back to the "0 level" for the first time in two years.

Thus, following a lengthy period of inversion in the yield curve, this is now set to steepen back to positive territory. This might be normally expected as the Fed's interest rate cuts grow closer while Fiscal worries keep the back end of the curve higher.

While many have discussed the negative effects of a formerly inverted yield curve steepening back to positive territory, I'll forgo any recession analysis and just make the point that this steepening looks to have further to go.

Technically, the act of having recouped prior lows from 2019 along with the recent breakout of October 2023 highs is combining to produce some very bullish momentum in this steepening.

US Sell 2 YR & Buy 10 YR Bond Yield Spread

Source: Bloomberg

Healthcare has shown some much-needed progress

Don't look now, but Healthcare has shown some of the best performance of any of the major 11 sectors over the last month, returning +3.84% in the rolling one-month period through 8/77/24, vs. an SPX return of -5.88%. (Equal-weighted S&P 500 ($RSP is up +0.50% during this same stretch.)

This outperformance happened directly as Healthcare entered its normal bullish seasonal back-to-back period of June into July, and is expected to continue strengthening in the month of August.

As shown below, Healthcare in Equal-weighted terms ($RSPH) vs. the Equal-weighted S&P 500 ($RSP) broke back above prior support lows in this ratio chart going back since 2021. That looks to be the first positive.

Second, this ratio chart just produced a trend breakout above the downtrend from early 2023 more than one year ago.

Thus, this combination of strength bodes well for further outperformance in the month of August at a time when many defensive sectors like REITS and Utilities have come back to life.

While the one-week performance of Healthcare has been negative, its negative performance has also proven to be better than both the Equal, and cap-weighted SPX during the same period.

Overall, I'll monitor this sector for any evidence of it turning back lower in a way that would merit lowering its technical ranking from Overweight. At present, the recent strength is seen as a technical positive that can allow for additional strength this month into the month of September.

Equal-weighted S&P 500 Healthcare vs Equal-weighted S&P 500

Source: Symbolik

Axon Enterprises breaks out of its lengthy range

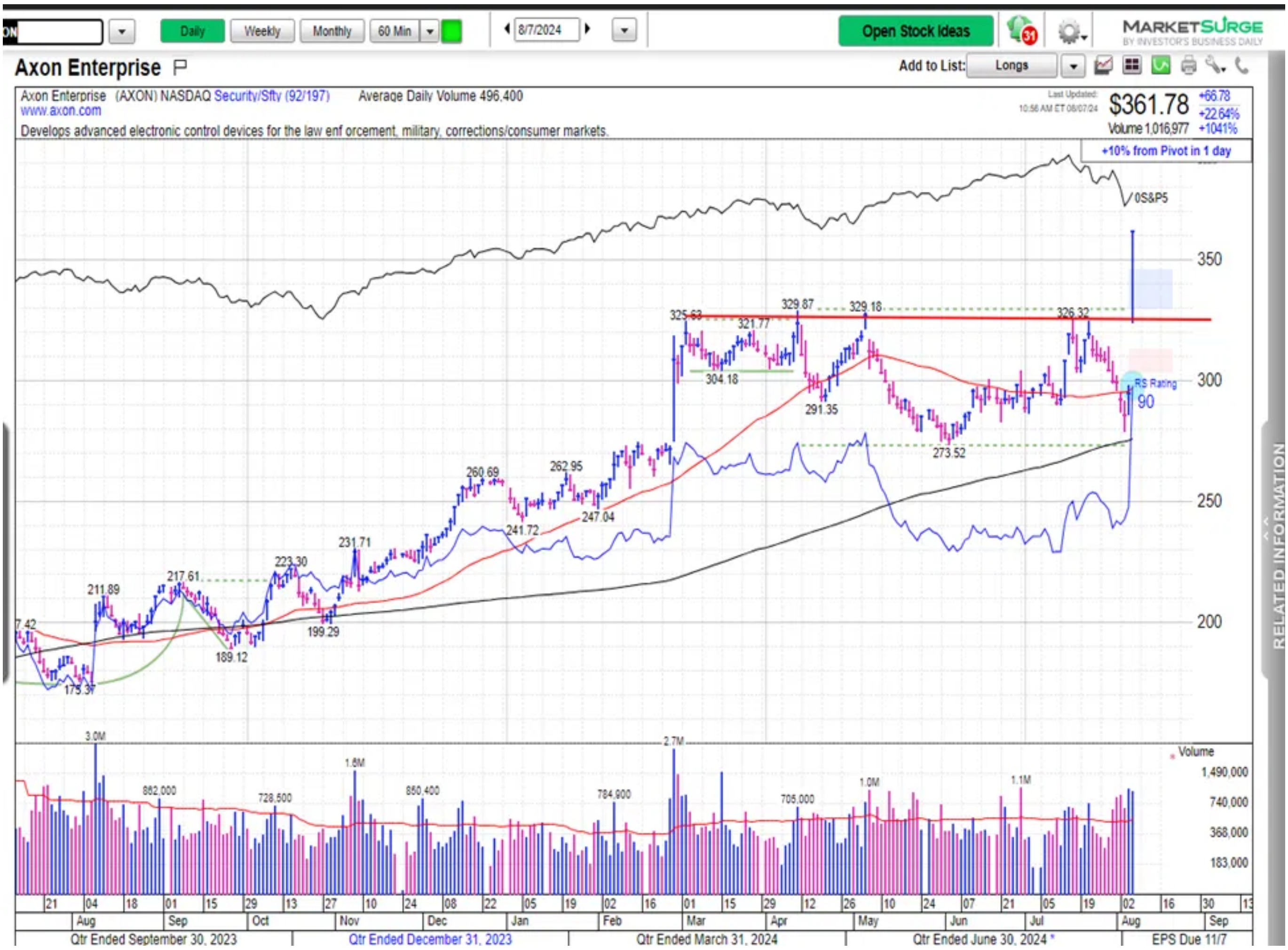
Following a lengthy period of consolidation within a pattern that resembled a reverse Head and Shoulders pattern, $AXON finally broke out of this formation today, rising over 18% to close at $349.24.

This stock was added to my Upticks list back in November of 2023, with resistance levels given of $330, then $345. Today's close has surpassed these levels, warranting raising these targets to $367, with intermediate-term targets found at $424.

Despite today's breakout having carried AXON to near-term overbought levels, a high-volume breakout which has a large low to high daily range is normally viewed as being bullish, technically speaking.

Thus, any minor consolidation would make AXON even more attractive near-term, and it looks right to favor a move in this higher in the months to come.   Support will be raised from $273 up to $326, coinciding with the level of the pivot area of its bullish breakout.

Axon Enterprise



Source: MarketSurge

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