

## Breakouts in Materials, Discretionary are bullish; Healthcare is being lowered to Neutral, technically



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HEAD OF TECHNICAL STRATEGY

### Key Takeaways

- Short-term bullish trend looks to be reasserting itself after Thursday's gains.
- Consumer Discretionary and Materials have both begun to gain strength.
- Healthcare is being lowered to Neutral, technically given this week's breakdown.



Short-term US Equity trends are bullish and likely begin to accelerate higher into mid-October before finding much resistance. Despite the bearish seasonality trends, it's hard to be too negative on recent price action, which combined with rising momentum and above-average bullish breadth, necessitates a bullish stance into October. (While Banks, Biotech, and Small, Mid-caps have been under pressure, Chinese Equities, Industrials, Materials and most importantly, Technology have rallied back sharply.) Moreover, triangle patterns have been exceeded to the upside for SPX and DJIA, and NASDAQ has begun to claw back quickly given Semiconductor stock strength, and now lies within striking distance of its own all-time highs. Overall, without evidence of any serious technical damage, it's difficult turning too negative on US equity markets.

#### What more could the Bulls ask for?

- FOMC 50 b.p. cut.
- China stimulus has proven impressive.
- Technology has roared back, thanks to Semiconductor stocks.



- Crude oil has fallen \$20 within the last four months.
- GDP and Jobless claims continue to show economic resilience.
- Strong rebound has happened in lagging sectors like Materials, Discretionary.

Overall, despite the lack of meaningful breakouts yet out of Dow Jones Transportation Avg., or Russell 2000 Index, many parts of the market remain in very good shape and are improving.

The SPX breakout from last Thursday seemed to gain further traction today, despite some minor intra-day weakness following this Thursday's opening gap. Yet this move is important in SPX and more so in QQQ and SOX given the performance in Technology.

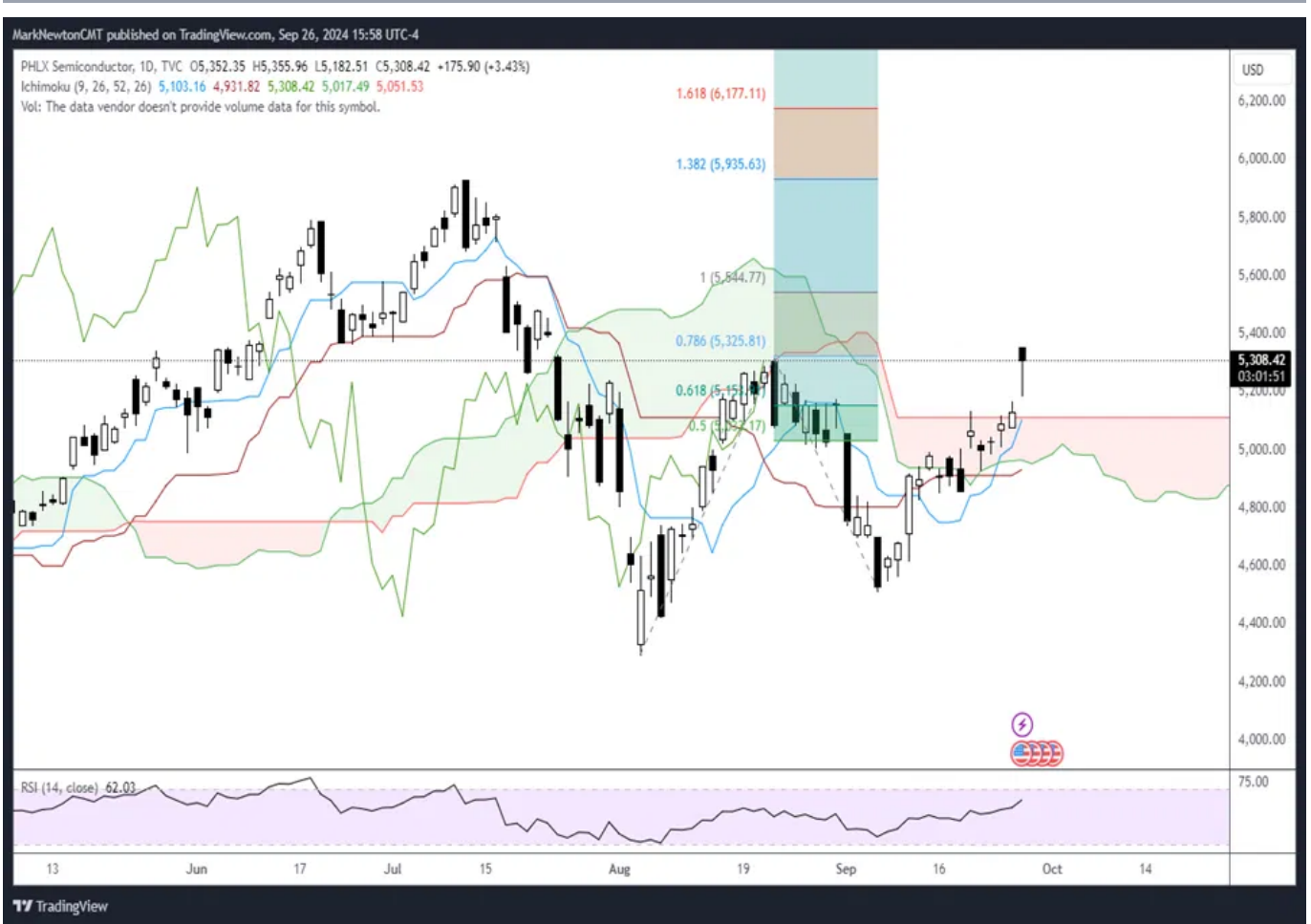
Thus, as we head towards the end of the final full week in September, my thinking remains the same: To repeat what was in yesterday's report: "The combination of bullish technical structure, less than ebullient market sentiment coupled with constructive market breadth, and a healthy rebound in Technology likely should help US Equities push higher despite the bearish seasonality trends."

Below is a chart of the PHLX Semiconductor index, or \$SOX, which has more relevance in its comeback this week, than either SPX or QQQ.

**As seen below, this breakout above August 2024 highs last month is quite constructive technically speaking and is a bullish technical achievement.**

**I expect that this structural improvement should allow for a push up to \$5545 initially and then \$5935 near all-time highs.** Stocks like MU enjoyed very sharp gains on Thursday, but former laggards like Advanced Micro Devices (\$AMD) managed to achieve a successful breakout on Thursday, while NVIDIA (\$NVDA) looks quite close. (NVDA would only require a move back over Thursday's intra-day highs at \$127.67 to argue for a bullish breakout.)

### PHLX Semiconductor



Source: TradingView

## Materials has also pushed back to new all-time highs this week

The breakout back to new all-time highs is also an important development for the Materials sector when viewing the Sector SPDR Materials ETF (\$XLB).

This happened directly as Chinese equities began to rally sharply this week given stimulus efforts by the PBOC.

As shown below, XLB has broken out of what appears to be a three-year Cup and Handle pattern.

This is quite bullish and should allow for near-term outperformance out of Materials stocks. While Materials counts for just 2.2% of S&P 500, it's an important development that should allow Metals and Mining stocks, Chemicals, Paper stocks to start to show decent relative strength in the short run.

## Materials Select Sector SPDR



Source: TradingView

### Consumer Discretionary has also achieved a breakout to ~3-year highs when looking at Equal-weighted sector ETF

This move in Discretionary also managed to slip under the radar for many investors but the Equal-weighted Consumer Discretionary ETF (\$RSPD) has also achieved a meaningful breakout this week.

As shown below, the act of having surpassed early 2024 highs within the last three weeks has carried this back to the highest levels since late 2021.

While I chose RSPD instead of XLY given the latter's concentration of \$AMZN and \$TSLA, both Discretionary ETF's have made impressive moves over the past month that warrant mentioning as this group has shown short-term outperformance following a dismal year, relatively speaking.

I expect Consumer Discretionary to outperform likely into mid-October before stalling out. My technical ranking on Discretionary is Neutral, and that will not change despite my belief that this sector could outperform in the short run.

### Invesco S&P 500 Equal Weight Consumer Discretionary



Source: TradingView

### Healthcare – Moving to a Neutral ranking technically given recent breakdown

The minor strength in Healthcare in June and July looked to prove to be a bounce only, and this sector has begun to turn down sharply following FOMC's recent 50 b.p. rate cut.



Healthcare has been one of just three sectors that have shown negative performance in the last month (the others being Staples and Energy on an Equal-weighted basis).

When eyeing Sector SPDR ETF's, only two of 11 ETF's have been negative, and Healthcare is one of these as well, with \$XLV lower by -1.84% in the rolling one-month period (Energy is the other- \$XLE.)

As seen below, Healthcare's breakdown of the lengthy five-year uptrend in this ratio chart of \$RSPH vs \$RSP last year looked serious at the time. This looked to have a chance of reversing course this past Summer.

Unfortunately, this bounce in Healthcare looked constructive in June and July, it's begun to turn down quite sharply in the last couple weeks.

As of Wednesday's (9/25/24) close, Healthcare proved to be the worst of any of the 11 major Sectors when looking at Equal-weighted ETF performance (\$RSPH.)

Overall, this chart suggests that additional relative weakness might be likely in the next few months. However, at present, I'll lower my technical ranking to a Neutral only, in the event that this begins to turn back higher on any evidence of defensive positioning in the months ahead.

However, this looks to be a very negative breakdown, and it's important to be selective in the short run when selecting stocks from Healthcare. (I had addressed the Biotech reversal in Wednesday's report, but other sub-sectors like Medical Devices and Healthcare Services have also not been acting well of late) .

**NYSEMKT:RSPH / NYSEMKT:RSP**



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Source: Symbolik

In summary, Materials and Consumer Discretionary have been improving in recent weeks, while Healthcare is deteriorating along with other Defensive sectors. Overall, I view this as a net-positive for the SPX, despite Healthcare's large weighting, as we're seeing increasingly more sectors start to rally to join technology's recent outperformance.



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