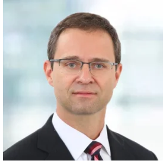
Daily Technical Strategy October 17, 2024

AAPL and Tech earnings might hold the key for this market



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HEAD OF TECHNICAL STRATEGY

Key Takeaways

- SPX, QQQ look vulnerable through November and 5900-5950 looks important.
- AAPL triangle has not yet been resolved, and its cycle looks to go lower into late Nov.
- Technology's underperformance has not broken trends vs SPX but worth monitoring.

Equity trends remain bullish, yet SPX is close to several projected targets near 5900 which should slow this rally down as it nears the end of October. This might happen during/directly after Friday's expiration, or could be postponed briefly until end of month. However, the drying up in breadth and volume seems to be a warning sign to pay attention to following an extended run. Technology has underperformed this week and it's thought that the path for Equities between now and mid-to-late November could be lower given the combination of cyclical and sentiment-based issues. While intermediate-term bullish thesis remains very much intact, it's doubtful that US Equities continue to push up into and post-election without any consolidation. Moreover, November's weakness should represent a short-term correction only, not the start of a larger decline. Risk/reward seems poor in the short run, and SPX seems unlikely to exceed 6000 right away but could find resistance near 5900-5935. Meanwhile, QQQ should find resistance at 503-505.

Thursday showed some evidence of slowing in this trend, and despite fractional gains having occurred for SPX and QQQ given Technology's strength, the broader market finished lower with eight sectors down on the day. Advance/Decline finished negative by around a 3/2 margin, and the drying up in breadth and momentum seems to be important following this runup in recent months. Overall, I'm expecting a 5-7% decline between now and mid-November. This might take the form of an initial peak this week, followed by a selloff next week. Thereafter, a bounce attempt happens into Oct 31-November 1 which could mark a Double-top for stock indices.

Bottom line, the preponderance of the evidence still shows the broader US Stock market to be in good shape, with not many intermediate-term warnings. The fact that Transports are now joining Small and mid-caps in lifting is certainly positive to the intermediate-term breadth readings for US risk assets.

However, as discussed, many of the warnings I cited yesterday were not price-based, but simply concerns given lofty sentiment readings and cyclical peaks approaching that have little to do with near-term price action. Breadth has started to wane in the short run, and the lack of strong Technology participation could be an issue in the weeks to come unless resolved right away.

Overall, this market has seemingly "dodged a bullet" thus far during one of the historically worst periods during most election years. However, investors should not take this to mean that the coast is clear for an interrupted rally higher all year. **The issues with near-term complacency (as judged by low Equity put/call levels), waning breadth, poor seasonal trends and cyclical projections for November as well as SPX's largest sector, Technology, not performing well of late, are all reasons to be alert for possible trend change in the weeks to come**.

Specifically, one key reason from a time perspective why this rally might "run out of steam" is that it's approaching the same duration as the initial run-up from April into July of this year.

4/19-7/16/24 = 88 calendar days

8/5/24-11/1/24= 88 calendar days

S&P 500 Index

Source: TradingView

Furthermore, from an alternative price projection standpoint, there are three separate projections of prior rallies when added to 8/5/24, 9/6/24 and to 10/2/24 which land in the 5900-5935 zone. That gives me some confidence that SPX might peak in this area.

As many who study market symmetry in price and time understand, our past three market bottoms all happened during the first week of the month, with lows in price having been made in August, September and October, while peaks happened late in the month. I anticipate a similar late-month peak for US stocks. Yet, expect that this pattern might be broken, with a longer than normal selloff next month.

Below is the list I included in last night's report which is being shown again for emphasis.

Technical Strategy

Reasons for Short-term concern into November

- Weekly negative momentum divergence- RSI and MACD have not followed SPX to new high territory
- Intermarket divergence- NASDAQ, along with Russell 2000 and DJ Transportation Average have lagged the SPX and DJIA in their moves back to new all-time highs
- Elliott-wave pattern looks near completion from early August, showing a possible five-wave advance which should be ending within two weeks
- Lack of Bears- Sentiment has turned more bullish in the last couple weeks, with last week's AAII data showing just 20% bearish percentage, the lowest of 2024, while Equity Put/call ratio hit the mid-40's this week
- Cycles show peak in mid-to-late October and selloff through November
- Seasonality shows similar picture for late Oct- Post Election week is typically the most negative in October
- Short-term breadth erosion- Percentage of SPX members above 20-day m.a. has dropped from 91% in late August to 60% in the last week
- DeMark exhaustion- QQQ along with SPX and RSP all show daily evidence of TD Sequential and/or TD Combo "13 Countdown" signals

Source: Fundstrat

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Source: Fundstrat

AAPL breakout or lack thereof will have important implications for US Equities

Given that AAPL remains the top weight within SPX and QQQ (7%, and 9% respectively), it's always important to keep a close eye on AAPL technicals.

The good news for market bulls is that this large three-month triangle consolidation should eventually be exceeded to the upside given that it resembles an ascending triangle formation.

Normally following runups, patterns of this sort tend to be resolved by upside breakouts.

At present, however, this has not happened yet, and AAPL remains largely range-bound since this past Summer.

While a weekly close over $237.50 should have bullish implications for AAPL, and by extension, Technology, SPX and QQQ, at present, it's been other stocks that have carried the weight recently, not AAPL.

My thinking is that AAPL very well could continue to trade range-bound and that any market selloff next month might initially cause a downside breakout of the lower edge of this triangle before AAPL recovers and breaks back out above $237.50.

Source: MarketSurge

AAPL cycle does show potential weakness into late November

While just a small piece of the technical analysis puzzle, it's always worthwhile to scan cycle composite charts for the main stocks to gain an idea of what their past highs and lows might suggest about their possible future course.

This remains an inexact science, but certainly has proven important and successful in years past.

Many might recall that AAPL's cycle was discussed in early July as the stock was pushing to new highs, and I feel it's time to revisit this discussion.

As one can see from the cycle composite below from late 2021, this particular composite I created has been exemplary in catching a few of the prior peaks and troughs of AAPL in recent years.

While the past is no indication of future results, if this cycle composite were to continue to work, it suggests a downward bias for AAPL over the next 4-6 weeks.

The cycle composite goes against the bullishness of the current Triangle formation, which many have come to understand normally can lead to pattern resolution to the upside.

Even if this triangle were to briefly break out in the next 1-2 weeks, this composite suggests a downward bias in the month of November. Given AAPL's weight, this is an additional factor that gives me pause when attempting to project higher for the indices over the final 10.5 weeks of 2024.

AAPL Cycle

Source: Foundation for the Study of Cycles

Technology's underperformance is not a problem just yet

Technology managed to turn in the 2nd worst (behind Energy) performance of any of the 11 major Equal-weighted sectors that make up the SPX over the past week, returning -0.71%.

The three-month returns are positive, yet not dominant in a way that many have come to expect out of Technology: RSPT showed gains of +4.20%, underperforming Industrials, Discretionary, and Financials.

As seen below, Technology in relative terms to the SPX has been rather choppy to say the least since it peaked out in relative performance in July.

The two-month period of sideways performance vs. the Equal-weighted SPX is not bullish, nor bearish, but neutral.

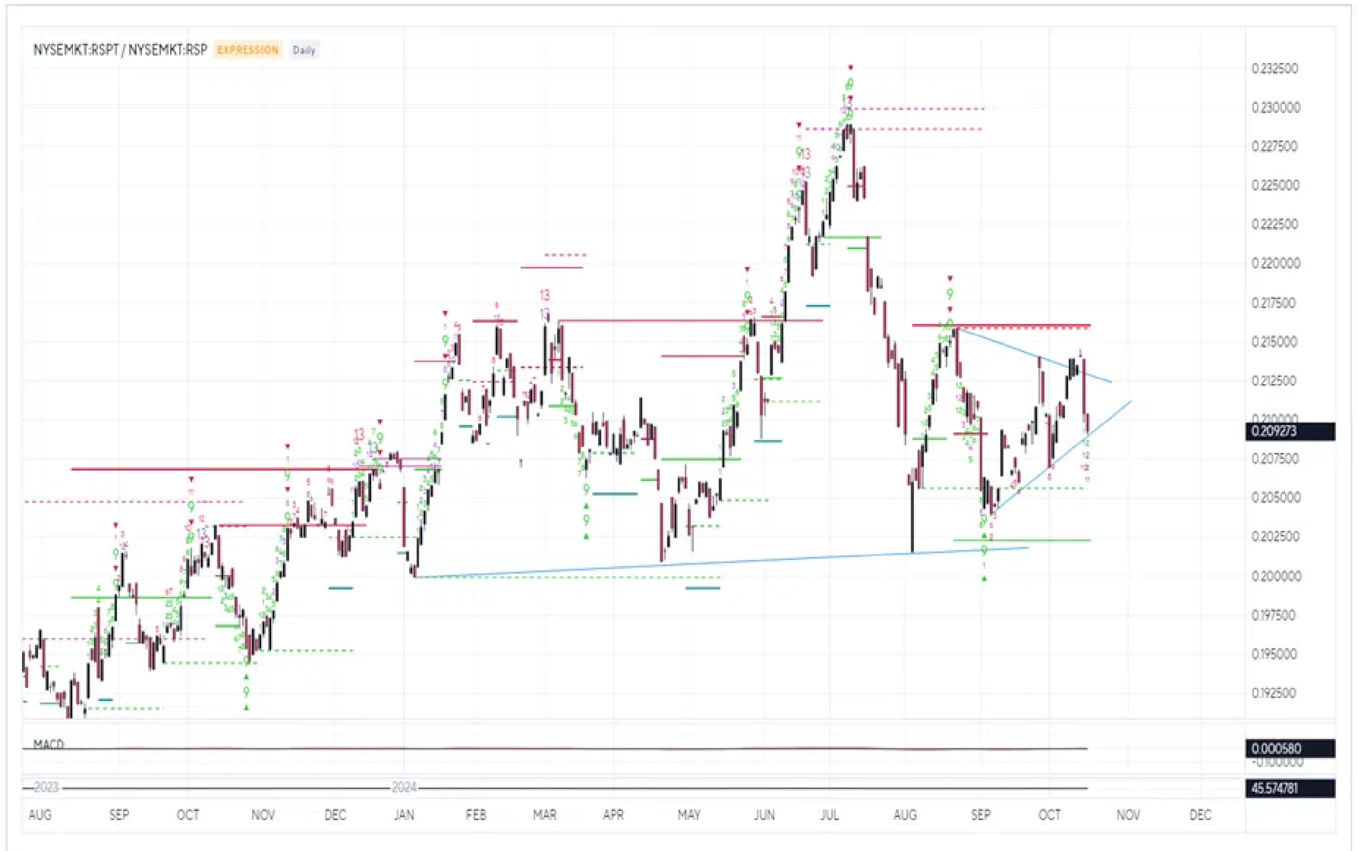
What's technically important is that Technology does not lose further strength in a way that would cause this relative chart to show weakness that undercuts the prior lows from April and August of this year (in ratio chart shown below of RSPT vs RSP).

This area is clearly delineated by the support trendline undercutting prior lows in this ratio going back to early 2024.

Note, this pattern is not necessarily a Head and Shoulders pattern for Technology, relatively speaking. However, weakness sufficient to break this trend would confirm it as such.

Overall, it's important that Technology hold up and not weaken much more. If SPX and QQQ start to weaken in November, it's thought that Tech will need to hold up and not undercut this important area.

RSPT/RSP



Source: Symbolik

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