Daily Technical Strategy

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Breadth starts to tail off while many just concentrate on NVDA

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HEAD OF TECHNICAL STRATEGY

Key Takeaways

- SPX, QQQ look vulnerable through November and 5900-5950 looks important.
- GE has fallen to important near-term support. NVDA resistance hits near $147-155.
- Homebuilders decline should lead to opportunity on pullbacks into mid-November.

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 looks to be happening this week, though there is still no real evidence of a meaningful downturn in SPX just yet. Overall, the drying up in breadth and volume seems to be a warning sign to pay attention to following an extended run. Technology has underperformed lately 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, arguably 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.

SPX finished less than eight points away from the daily close from 10/14/24, the close from last Monday, and this stalling out has kept a lid on both meaningful rallies and declines. While this isn't necessarily bearish, per se, it is starting to have a detrimental effect on market breadth which has begun to turn down in the near term.

Pullbacks in sectors like Industrials or Financials in recent days to multi-day lows really aren't being discussed, but rather many investors, focus remains on tech bellwethers like $NVDA and/or $AAPL.

Similar to Monday's trading, a relatively "unchanged" day really doesn't do it justice when nine sectors out of 11 are down on the day, and breadth data shows more Declining issues than Advancing. This has been ongoing for the last week, while parts of Technology have rallied to help the market close near unchanged levels.

Given that nearly half the sectors are down on a rolling 1-week basis when looking at Equal-weighted returns, it's proper to pay attention, watching carefully for evidence of further deterioration, or sudden recovery. As discussed in recent days, a drying up in breadth when sentiment measures have turned more speculative is normally an important time to focus.

As shown below, Energy, Technology, Healthcare, Materials, and Industrials have all fallen in the past week. (Performance through 10/21/24 on Equal-weighted ETFs within SPX)

Invesco S&P 500 Equal Weight ETF

Code	Name	Change (%)	1W%	1Mo %	3Mo %
RSPG	Invesco S&P 500 Equal Weight Energy ETF	-0.36%	-3.14%	0.95%	-4.24%
RSPT	Invesco S&P 500 Equal Weight Technology ETF	-0.50%	-2.42%	1.99%	3.70%
RSPH	Invesco S&P 500 Equal Weight Health Care ETF	-1.14%	-1.79%	-3.14%	1.96%
RSP	Invesco S&P 500 Equal Weight ETF	-0.85%	-0.50%	1.62%	7.08%
RSPM	Invesco S&P 500 Equal Weight Materials ETF	-0.93%	-0.29%	2.48%	5.64%
RSPN	Invesco S&P 500 Equal Weight Industrials ETF	-0.48%	-0.19%	4.27%	11.52%
RSPD	Invesco S&P 500 Equal Weight Consumer Discretionary ETF	-1.02%	0.04%	3.72%	7.87%
RSPS	Invesco S&P 500 Equal Weight Consumer Staples ETF	-1.05%	0.10%	-1.45%	2.31%
RSPR	Invesco S&P 500 Equal Weight Real Estate ETF	-1.91%	0.41%	-1.13%	9.06%
RSPC	Invesco S&P 500 Equal Weight Communication Services ETF	-0.88%	0.51%	2.22%	8.05%
RSPF	Invesco S&P 500 Equal Weight Financials ETF	-1.09%	0.59%	3.37%	11.55%
RSPU	Invesco S&P 500 Equal Weight Utilities ETF	-0.38%	1.32%	1.55%	15.23%

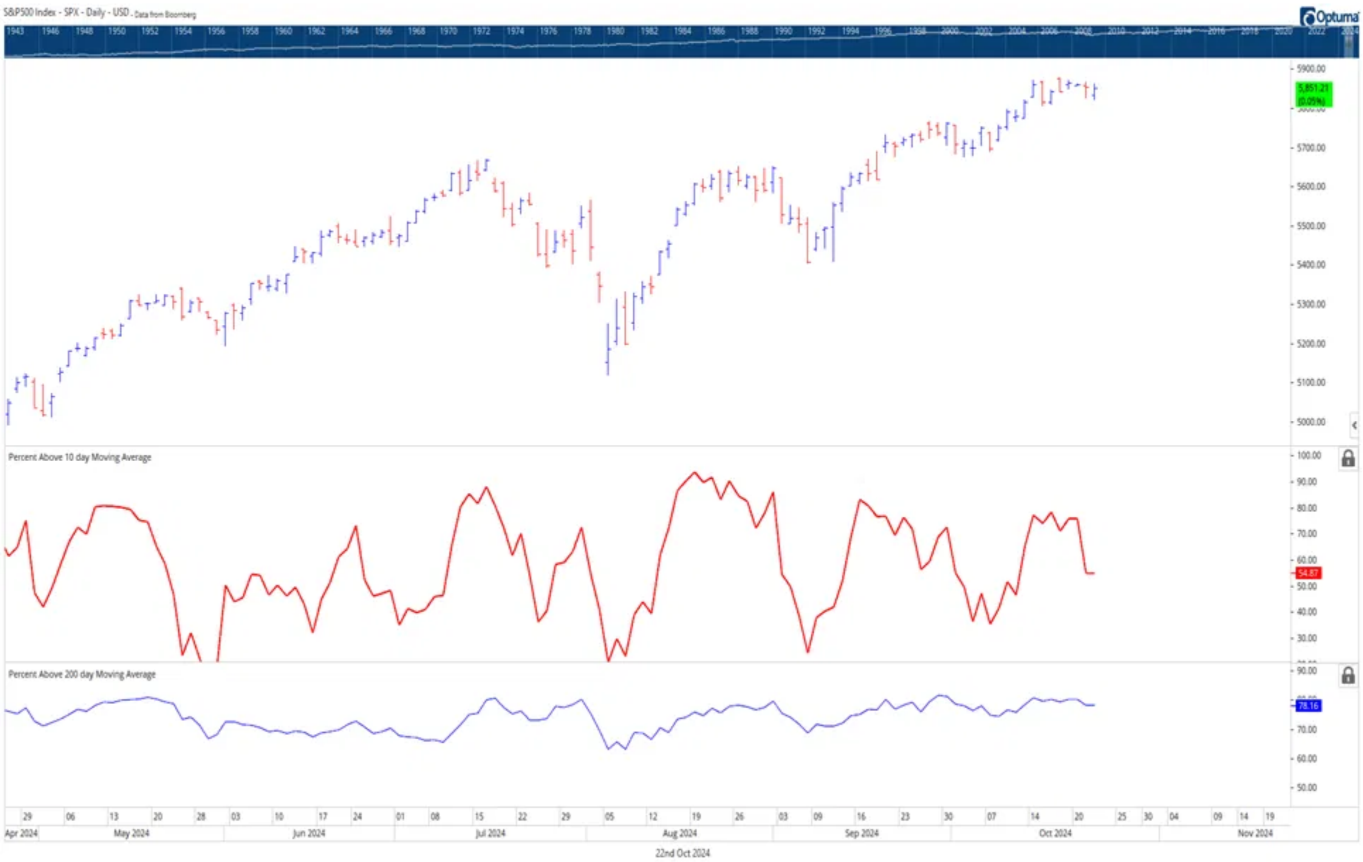
Source: Optuma

This has had the effect of "Percentage of SPX names above their 10-day moving average" falling to the low 50s from over 80 earlier this month.

While a stalling out certainly doesn't have to lead to a decline, it was important and did lead to pullbacks this past July as well as August into early September.

It's worth watching this given that Equal-weighted S&P 500 ETF ($RSP) has fallen for three of the last four days and is challenging its current uptrend from August lows.

S&P 500 Index – SPX



Source: Optuma

NVDA breaks out above 140; What are the short-term and intermediate-term implications

(From an earlier post on Flash Insights, sent mid-day 10/22/24)

$NVDA breakout is certainly an intermediate-term bullish development, but could easily show some consolidation into late November before a further runup to 180-190 into next Spring/Summer.

Technically, I expect upside to be limited to $147-155 in the short run, and it could consolidate LOWER over the next month into and past the US Election and provide better buying opportunities for investors in about 4-6 weeks. My work suggests the key level of support is 131, lining up with the peak from late August. I expect a trading range to develop for NVDA between now and December between 131 and 155 and while the stock has been rising sharply lately, this likely will stall out by the end of October and begin to weaken, technically speaking, to alleviate some of its overbought conditions.

Whether one utilizes any further strength to take actions to hedge for a possible consolidation is up to the risk tolerance and timeframe of the investor. However, I foresee this stalling out within a week. Thus, while the intermediate-term view is quite optimistic technically, the short-term strength should be nearing resistance within the next week.

NVIDIA Corporation

Source: TradingView

GE could set the tone for Industrials; Thus far no true damage

I'm always wary when an Industry heavyweight shows a decline in abnormally heavy volume. In this case, $GE fell over 9% on Tuesday, the 2nd worst-performing stock in the S&P 500. Volume eclipsed 15 million shares, representing the highest volume since July.

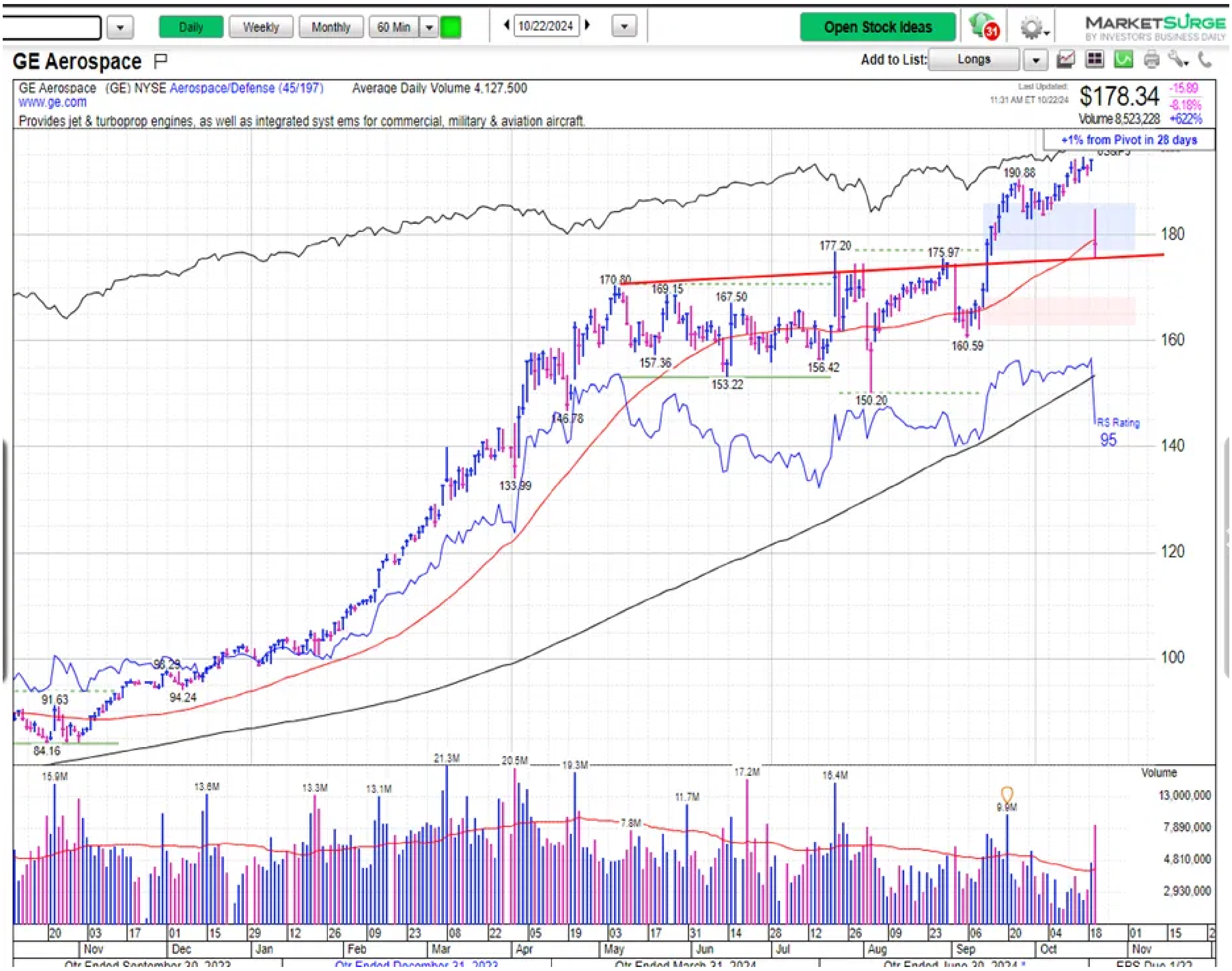
As can be seen, GE Aerospace fell to test its pivot area of the former breakout from last month, between $175-$178, a very important area of support. (*Normally in technical analysis, when a serious area of resistance is exceeded, subsequent downdrafts can often find support near the prior area of the breakout, labeled the "Pivot".)*

Important technical thoughts based on GE's underperformance today:

1. It's important for this stock to stop here and not undercut $175. Such a move would likely cast a further damper on the Industrials space in the short run, leading GE to fall to test the lows of its former consolidation which began this past Spring. (That level lies near $153).
2. This former high from late August at $175.97 represents an important area based on wave structure. For now, if GE stops here and turns back higher, it could possibly still make a higher high to form five waves up from August. Given Tuesday's volume, recouping this past week's weakness likely would take some time.
3. If GE does undercut $175, this would give rise to the thinking that a larger topping pattern could be in the process of forming for GE, structurally. Such a topping pattern would likely take multiple months to form and likely wouldn't be complete until mid-2025.
4. Any violation of $175 likely would not present an attractive technical opportunity until it reached $153-$160 in the months ahead.
5. Industrials Sector SPDR ETF $XLI broke its one-month uptrend Tuesday which does look to lead to further near-term weakness. $135 looks like the first target, then $131.50.

6. Relative charts of Industrials to S&P 500 have not yet been violated but would be something to watch following $RSPN's +11% gains in the last three months (3rd best performance of the 11 main S&P Sectors in Equal-weighted terms).

GE Aerospace



Source: MarketSurge

Homebuilders' technicals remain solid on an intermediate-term basis and arguably will present short-term opportunity on weakness in November

I'll follow up Tom Lee's recent discussion on Homebuilder seasonality with my own technical thoughts on this sector, given that the SPDR Series trust Homebuilders ETF has shown some abnormally large downside volatility in the last couple of days.

As seen below, on a weekly basis, the act of undercutting late September lows makes this sector vulnerable to a bit more weakness in the short run after a stellar run-up.

While I agree about the bullish seasonal bias for Homebuilders, additional selling pressure looks possible over the next 4-6 weeks if this week's selling pressure cannot be recouped by the end of the week.

Technical targets lie near $112 which aligns with an intermediate-term uptrend, along with Ichimoku support. Thus, I'm more inclined to support a bullish view between mid-November and next Spring vs. expecting the early week decline is ripe to reverse back higher right away.

The "Trump trade" kicking in seems to have correlated with long-term interest rates spiking lately, which might be a short-term negative for the "Builders". However, as most know the ratcheting up in long rates post-2016 election largely coincided with FOMC kicking off a time of hiking rates, not cutting.

However, between November and next Spring, I expect TNX to possibly decline to 3-3.25% as FOMC begins further rate cuts. Thus, one should look at Homebuilders as an appealing group technically on further weakness. At present, the early damage from the first couple of days of this week might allow for additional weakness into mid-to-late November before XHB stabilizes.

SPDR Series Trust SPDR Homebuilders ETF

Source: TradingView

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