Market Data Insight for Actionable Strategy

Daily Technical Strategy

September 4, 2025

Treasuries breaking out but Equities nearing resistance

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HEAD OF TECHNICAL STRATEGY

Key Takeaways

- SPX and QQQ up to near resistance while Treasuries breaking out.
- US 10-Year Treasury yields broke down today to multi-month lows.
- McClellan's Summation index shows market breadth steadily weakening since July.

Near-term and intermediate-term technical trends remain bullish for U.S. equities, and Treasuries have also begun to trend higher on the long end of the curve following a recent breakout on the short end. However, the dropoff in Technology strength could pose a short-term problem for U.S. equity markets just as indices near a time window where weakness could be possible starting next week through the FOMC meeting. Market breadth has proved a bit skittish in recent days, and momentum has rolled over a bit, which warrants some close scrutiny in the days ahead. Moreover, cryptocurrencies have begun to show some near-term weakness, which should be watched carefully given their recent leading tendency for Equities. Overall, despite the lack of price weakness at present, I suspect the next 2-3 weeks might prove difficult before a rally materializes to carry SPX back to new highs into early October. Bottom line, I suspect that 6500-6550 might serve as strong near-term resistance for SPX, while 6250-6300 could mark support on pullbacks in the weeks to come. Following a minor drop in September, my expectation is for SPX to rally back to new highs. It will be imperative to keep a close eye on breadth and any evidence of trend reversal over the next 2-5 trading days, which would fall into this key window for a potential reversal.

SPX price has pushed up to areas just below the highs of the recent range as of Thursday's close. While any sort of cautionary stance might seem puzzling given the lack of a break of the current uptrend (this remains the most important piece of the technical puzzle), it is worthwhile to note the dropoff in short-term breadth measures this week, along with momentum since July. Furthermore, Technology's underperformance hasn't shown evidence of starting to turn back higher, despite excellent movement this week out of $GOOGL, $WDC, $STX, and $ANET. ($GOOGL is largely considered to be part of Communication Services.)

I think any reversal on Friday into next Monday should be respected as something which might kick off a short-term trend reversal for Equities. While Thursday showed no signs of this happening, I expect this could be possible into early next week.

As this daily $SPX chart shows below, the horizontal support and resistance lines are shown for SPX. I suspect that SPX might face some strong resistance within the next 2-3 trading days at marginally higher levels.

Any daily close under $SPX 6416 could likely coincide with short-term weakness, which might break the lows from mid-to-late August before stabilizing and pushing higher into October.

Thus, I think it's wise to be on the lookout for a technical reversal and weakness down to challenge 6300 or slightly under, which could materialize into next week. However, even in this scenario, I'm highly skeptical that the August lows from 8/1/25 of 6212.25 are broken.

See this SPX daily chart below, which is now pressing up near the highs. While highs could briefly be exceeded on Friday, <u>I am also expecting a possible fake breakout given the historical pattern of numerous moves above former highs which then gave way to weakness.</u>

S&P 500 Index

Source: TradingView

Breakdown of the long end of the Treasury curve ahead of Friday's payrolls report

While some of the weaker Economic data in late August resulted in a sharp retreat in 2 and 5-year yields, the long end remained fairly range-bound.

Thus, a steepening in the yield curve happened in the US, which was also very pronounced globally.

Now, yields are starting to break down lower on both 10-year and 30-year Treasuries, which suggests lower yields in the weeks and months to come.

My cycles for Treasuries show a fairly pronounced downward trend for Yields (upward for price) which likely could persist until next Spring, where the majority of the downward acceleration occurs from October into next April.

For now, Thursday's breakdown of 4.18% in $TNX looks important and should lead rates down to near 4.00%

US Government Bonds 10 YR Yield

Source: TradingView

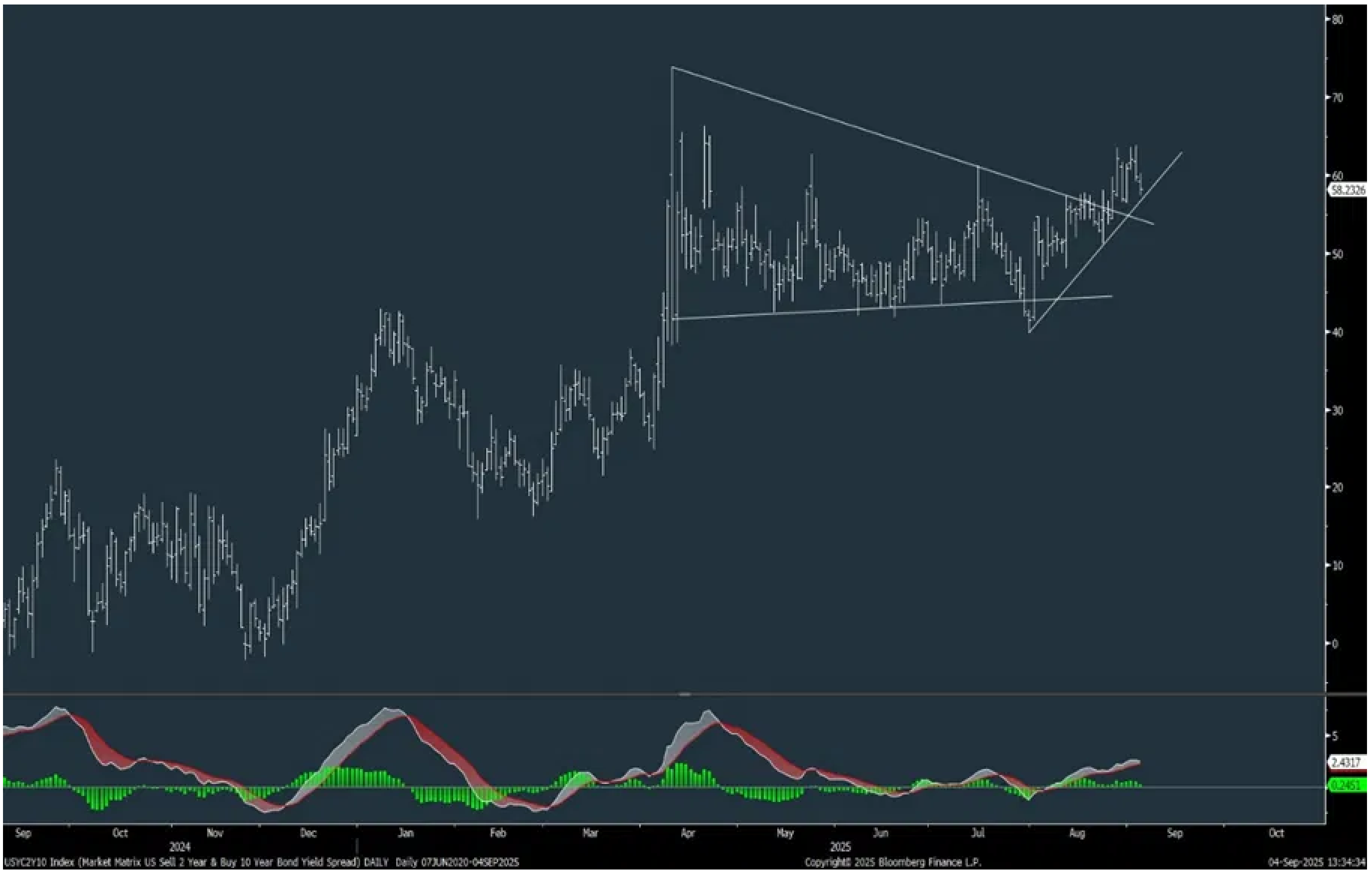
10's-2's curve has steepened since July, and this also lines up with many other Domestic and Emerging markets globally

Given the weakening ISM data along with JOLTS data of late, 2-year yields have been pulling back sharply, and the percentage chance for a September Rate cut has now approached 99%.

The yield curve has steepened in the last month, and given the trend of a larger breakout globally in yield curve steepening, I suspect that this trend might continue.

While I feel the pullback in the 10-year and 30-year yields could briefly start to show more downward acceleration in the weeks to come, it's the 2-year yield that will likely pull back the quickest.

USYC2Y10 Index



Source: Bloomberg

Ongoing decline in McClellan's Summation index warns of breadth deterioration since July

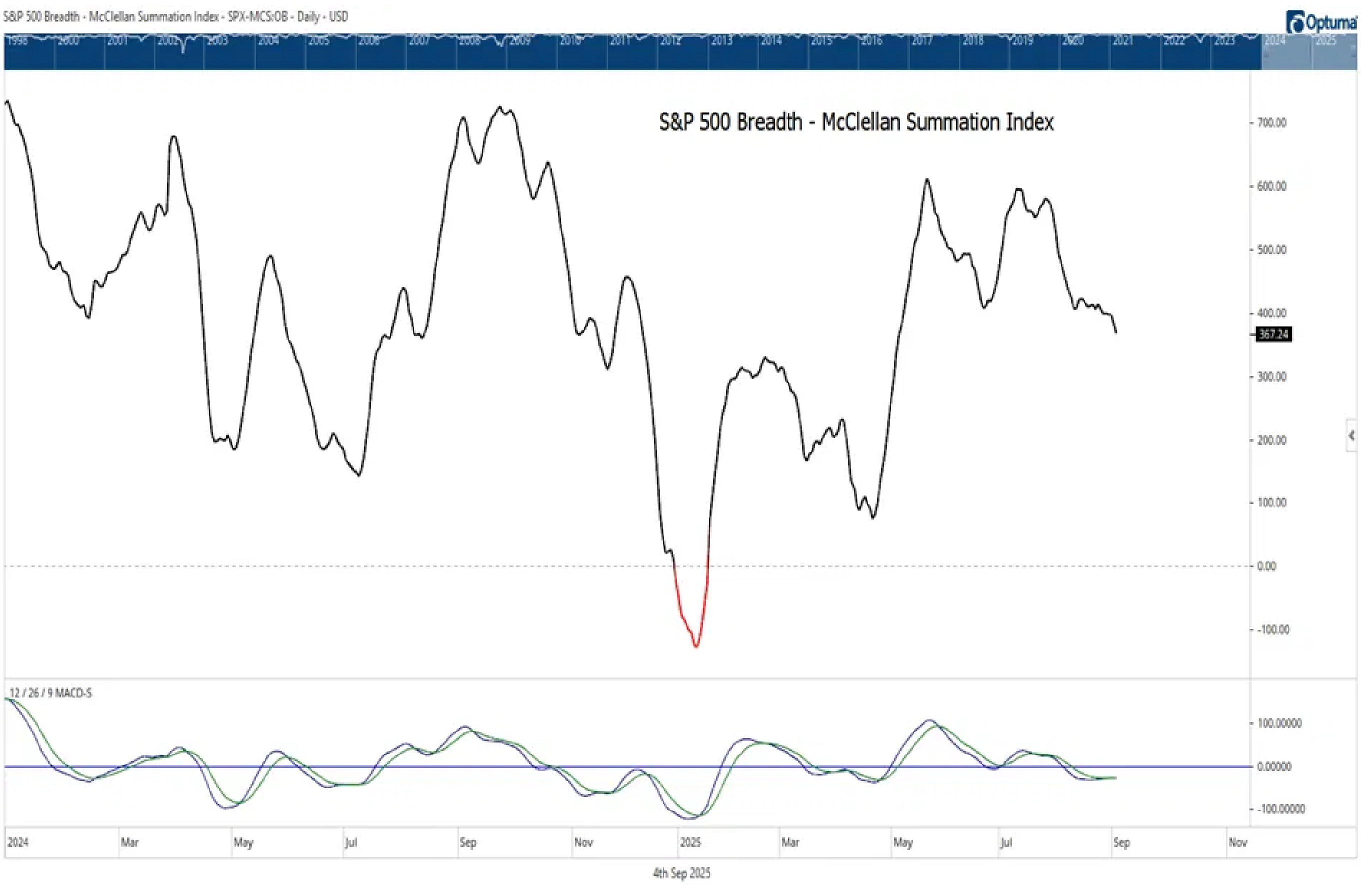
Overall, while some breadth numbers did rise in August, given the broad-based nature of the rally (i.e., percentage of stocks above 20, 50, and 200-day moving averages), the overall trend in market breadth has been down since July.

McClellan's Summation index is a smoothed version of the popular McClellan Oscillator which takes some of the momentum out of the regular Oscillator readings. It tends to show fewer divergences, and produces fewer signals, but is mostly used for intermediate-term and long-term timing.

When this Summation index crosses the 0 line, it tends to favor the Bulls, while when below 0, it favors the Bears. However, in this case, it's been falling now for the last three months, which is a minor concern. Some choose to use this for divergences for trading purposes, but in this case, I just find it to be something to watch carefully, given the rapid decline in this Index since July.

Much of the decline could likely be due to Technology's underperformance, which, given Software's woes, does not yet seem complete.

S&P 500 Breadth – McClellan Summation Index



Source: Optuma

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