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Weekend Report for Monday, July 21

Bottom Line:

In the stock indices, bull markets and bear markets have very distinct personalities. Bull markets seem to go up forever and grind and grind higher and higher with few and shallow retracements. Bear markets typically have bursts of panic declines followed by deep and relentless rallies.

I have always found bear markets MUCH easier to trade. So, while my current thesis is that we are in a strong bull market, from a trading perspective I will be very happy to be wrong.

IF we are in a bull market I think the current decline is likely to soon end. While the indices may form wide range balance areas with their upper extremes near recent highs, I don't think we are going to go much lower than we have already traded. The 5445 area in the SPX is a level to watch. Strong conviction below this level will necessitate reassessment of this view.

What if we have suddenly transitioned into a bear market? How would we know? For starters, the indices would ALL begin making lower highs and lows. Examples from previous bear markets are in the video.

SPX

Upper KRA: 5623; 5669
Lower KRAs: 5446

The SPX is down about 3% virtually in a straight line since the print high last Tuesday. Friday marked the third consecutive lower close; it is fairly rare to have more than four consecutive closes without a rally attempt. I think we'll see at least a short-term low by Tuesday's close.

The path from there at this point is a complete guess. The SPX could V bottom and ramp right back to new highs. It could retrace some substantial percentage of its decline (50% is typical as you can see in the video). It could also form a Balance Area for a few weeks between whatever low we likely see next week and the inevitable rally high that forms in the direction of the recent all-time high.


Chart
$SPX, S&P 500 INDEX, D, 09:30-16:00 (Dynamic)
SPX
5669.65
5622.80
-3.04%
5446.23
5505.00
5166.69
01/04/2024
Feb
Mar
Apr
May
Jun
Jul

NDX

Upper KRA: 20080; 20690
Lower KRA: 19473

It's interesting how the macro/fundamental view of a stock, index or market can flip on a dime. Less than a week ago almost every single analyst being trotted out by CNBC went to great lengths to explain why AI is just getting started and multiple expansion and earnings and so on and so on were justified and JUST BUY.

This is simply example #234,097,126 of why you have to be your own analyst. I'll reserve any dramatic calls until I see the rally following this decline. But for sure I will be analyzing the NDX (and all other markets and assets) based on its PRICE ACTION.

My general thoughts about the NDX mirror those above for the SPX.


Chart
$NDX
D
$NDX, NASDAQ 100, D, 09:30-16:00 (Dynamic) (delayed 15)
NDX
20690.97
20080.27
19473.35
-5.84%
19522.62
16756.53
21000.00
20800.00
20600.00
20400.00
20200.00
20000.00
19800.00
19600.00
19400.00
19200.00
19000.00
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© eSignal, 2024
Dyn
10/05/2023
Dec
2024
Feb
Mar
Apr
May
Jun
Jul

DOW

Upper KRA: 41376
Lower KRA: 40000

RUT

Upper KRA: 2278
Lower KRAs: 2128

New York Composite

This is an index of every stock listed on the NYSE, so it is a broad composite view.

Upper KRA: 18798
Lower KRAs: 18389

Internals - VIX

VIX spiked to its highest level since the period of last April's decline. It traded at or above current levels for 6 trade days before beginning to drop sharply. We will be following this closely next week.

US 10-yr. Notes

Notes are making higher highs and lows intermediate-term.

US Dollar

Between significant levels. Recent conviction is strong, down.

Gold

The sharp drop in Gold should be watched closely. Price action suggests the real potential of a false breakout trade. If that is the case, Gold is likely to continue to accelerate lower below 2283 very quickly.

Crude

Whippy but generally trendless.