Major Market Technical Review - May 23, 2022

The major market technical review is something we will regularly produce on alternating weeks, along with a sector review and portfolio stock review. Each report will contain a chartbook of major financial markets, market sectors, or individual equities to review the underlying technical conditions for potential opportunities and risk management. Such helps refine decision-making about what to own and when. Also, what to overweight or underweight to achieve better performance.

HOW TO READ THE CHARTS

Each chart has five primary components if you want to recreate them yourself in the CHARTING application under the RESEARCH tab.

- *The top chart is the Williams %R set at 14-days.*
- *The candlestick price chart gets bounded by two Bollinger Band studies set at a 50-dma with 2- and 3-standard deviations.*
- *Below the price chart is a Stochastic indicator set at 14 %K periods, 3 %K smoothing, and 3 %D periods.*
- *The MACD chart at the bottom is the primary buy/sell signal set at 12/26/9 days.*
- *Some charts will also compare to the S&P 500 index itself to measure over/underperformance.*

When the indicators are at the TOP of their respective charts, there is typically more risk and less reward. In other words, the best time to BUY is when the majority of the indicators are at the BOTTOM of their respective channels.

With this basic tutorial, let's get to the sector analysis.

NOTE: This week, I am using a WEEKLY instead of DAILY chart to look at longer-term conditions of the market to help determine if we are near a market bottom or not.
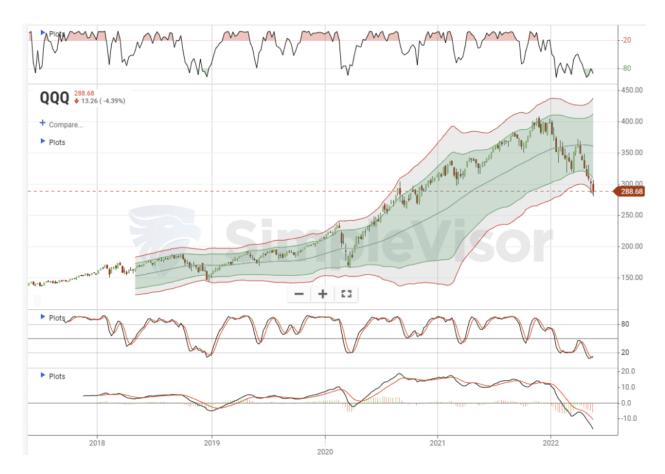
S&P 500 Index

- *In the last 5-years, the only time the market was 3-standard deviations below the 1-year moving average was at the bottom of the market in 2018 and 2020.*
- *Currently, the market is on an intense sell signal (bottom panel) equal to March 2020*
- *The market is as oversold (top panel) as any previous market low.*
- *Short-Term Positioning: **Sellable Rally To Reduce Risk***
    - *Buy with a target of $430*
    - *Stop-loss is currently $380*
- *Long-Term Positioning: Neutral / Bearish*

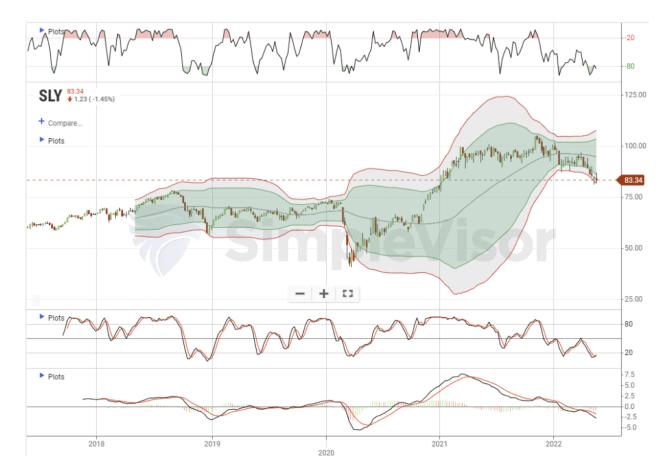# Dow Jones Industrial Average

- *Like the S&P, the Dow is pushing well into 3-standard deviations oversold, last seen in 2018 and 2020.*
- *The Dow is also profoundly oversold on a weekly basis (top panel).*
- *MACD sell signal has more work to do but is approaching the March 2020 lows.*
- *Short-Term Positioning: Sellable Rally To Reduce Risk*
  - *Buy with a target of $333*
  - *Stop-loss is currently $300*
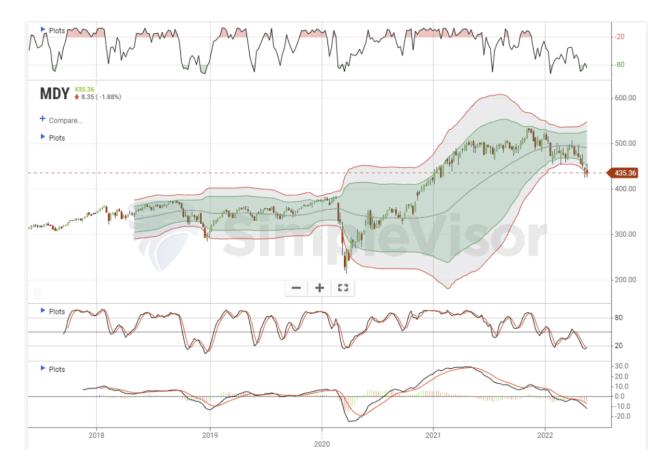- *Long-Term Positioning: Neutral / Bearish*

Nasdaq

- *This year, Nasdaq has continued to underperform the S&P 500 and is similarly 3-standard deviations below the 1-year moving average.*
- *The MACD is now much more oversold than either the 2018 or 2020 lows (bottom panel)*
- *And the Nasdaq is deeply oversold and close to a short-term buy signal (top panel).*
- *Short-Term Positioning: Sellable Rally To Reduce Risk*
  - *Buy with a target of $340*
  - *Stop-loss is currently $280*
- *Long-Term Positioning: Bearish*

Small Caps

- *Small caps have been a consistent long-term underperformer relative to large caps. However, like its larger-cap brethren, the index is 3-standard deviations below its moving average, as seen last in 2018 and 2020.*
- *Previous support lows broke, but the deeply oversold condition may limit the downside.*
- *While the MACD (lower panel) has more work to do, the index is due for a rally from current levels.*
- *Short-Term Positioning: Bearish / Reflex Rally To Reduce Risk*
  - *Buy with a target of $92*
  - *Stop-loss is currently $80*
- *Long-Term Positioning: Bearish*

Mid-Caps

- *Mid-caps have performed equally as poorly relative to the S&P 500 index as small-cap stocks. The index is also trading well below their 1-year moving average as in 2018 and 2020.*
- *The index remains very oversold short-term and due for a rally.*
- *The MACD (lower panel) has more work to do to get to a deep oversold.*
- *A weak economy will continue to limit the performance of both small and mid-caps.*
- *Short-Term Positioning: Bearish*
  - *Buy with a target of $475*
  - *Stop-loss is currently $430*
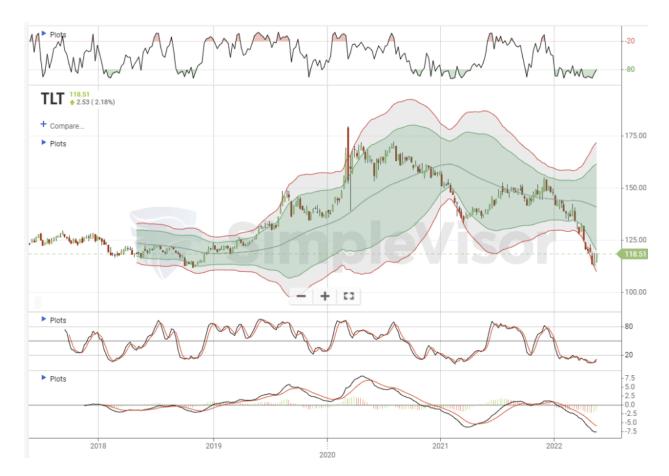- *Long-Term Positioning: Bearish*

Emerging Markets

- *Emerging markets have consistently underperformed large-cap stocks to a large degree. Given the global economic weakness, there is no reason to currently add these holdings to portfolios.*
- *MACD (lower panel) is now as profoundly oversold as the bottom of the market in 2020.*
- *Notably, all of the post-pandemic gains have reversed.*
- *Longer-term economic trends will continue to weigh on emerging market stocks.*
- *Use the rallies to reduce positions.*
- *Short-Term Positioning: Bearish / Sellable Rally*
    - *Buy with a target of $45*
    - *Stop-loss is currently $40*
- *Long-Term Positioning: Bearish*

International

- *International markets, like emerging, have consistently underperformed large-cap stocks to a large degree. Given the global economic weakness, there is no reason to currently add these holdings to portfolios.*
- *MACD (lower panel) is approaching levels last seen in 2020.*
- *While international stocks could bounce here short-term, investors should use any reflexive rallies to reduce holdings.*
- *The selloff has reversed all post-pandemic gains, but the market remains deeply oversold, so a sellable bounce is likely.*
- *Short-Term Positioning: Bearish / Sellable Rally*
    - *Buy with a target of $70*
    - *Stop-loss is currently $66*
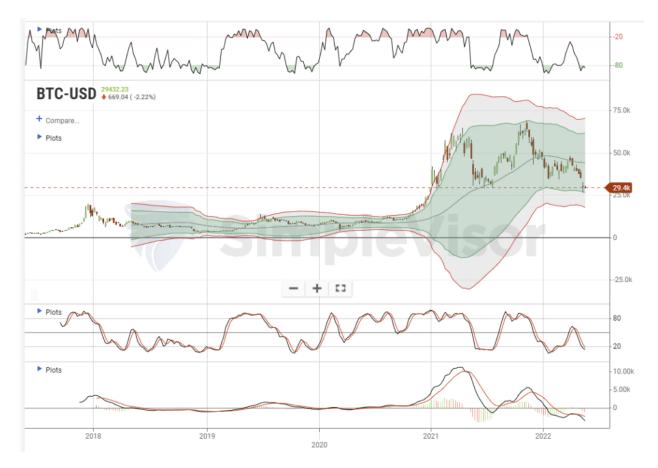- *Long-Term Positioning: Bearish*

U.S. Treasuries

- *As opposed to stocks, bonds are already in a deep bear market.*
- *Bonds are deeply oversold and at levels that elicited a powerful rally in 2021.*
- *The MACD buy signal (bottom panel) has started to turn up, and if bonds continue, their recent rally could signal a reversal in rates.*
- *The current setup is still negative, but the longer-term dynamics are becoming more bullish.*
- *Short-Term Positioning: Bearish*
    - *Buy with a target of $130*
    - *Stop-loss is currently $115 for trading positions.*
- *Long-Term Positioning: Neutral To Bullish*

Gold

- *Gold has not been the inflation hedge everyone expected this year. Instead, Gold remains in a broad trading range over the last 2-years despite nearly 9% inflation.*
- *The MACD sell signal has triggered, suggesting lower gold prices in the intermediate-term.*
- *However, in the short-term, Gold is oversold enough to elicit a decent rally from current levels back toward its recent peak.*
- *Short-Term Positioning: Bullish*
    - *Buy with a target of $185*
    - *Stop-loss is currently $170*
- *Long-Term Positioning: Neutral To Bullish*

Bitcoin

- *Bitcoin has also not been the inflation hedge everyone expected this year. Instead, it has plunged from its previous peak of nearly $70k to hovering just below $30k as of late.*
- *Bitcoin is not significantly deviated from its long-term mean. However, it has been trying to base at current levels over the last couple of weeks. If the market musters a reflexive rally, Bitcoin should rally with it, given its present correlation to risk assets.*
- *Bitcoin's MACD is now more oversold than at any previous point since 2018. However, it remains on a sell signal currently. If Bitcoin can rally, there is a decent amount of upside from current levels.*
- *Short-Term Positioning: Bullish*
- *Buy with a target of $40K*
- *Stop-loss is currently $27.5K*
- *Long-Term Positioning: Neutral To Bullish*

West Texas Intermediate Crude

- *Unlike every other market covered this week, Oil prices are pushing more extreme overbought levels and are pushing will above long-term moving averages.*
- *Notably, the bullish trend line remains intact and is not overbought short-term suggesting oil prices could push higher near-term.*
- *However, oil is susceptible to economic downturns, so profit-taking is likely a good idea as we move into the latter part of this year.*
- *Hold current positions with a stop at $90 but don't institute new positions currently.*
- *Short-Term Positioning: Bullish*
    - *Hold at current levels*
    - *Stop-loss is currently $90*
- *Long-Term Positioning:&#2013266080;Neutral to Bullish*