Market Sector Buy/Sell Review - 06-13-2022

Each week we produce a chart book of the S&P 500 sectors to review where money is flowing within the market as a whole. This helps refine not only decision making about what to own and when, but what sectors to overweight or underweight to achieve better performance.

HOW TO READ THE CHARTS

There are five primary components to each chart if you want to recreate them yourself in the CHARTING application under the RESEARCH tab.

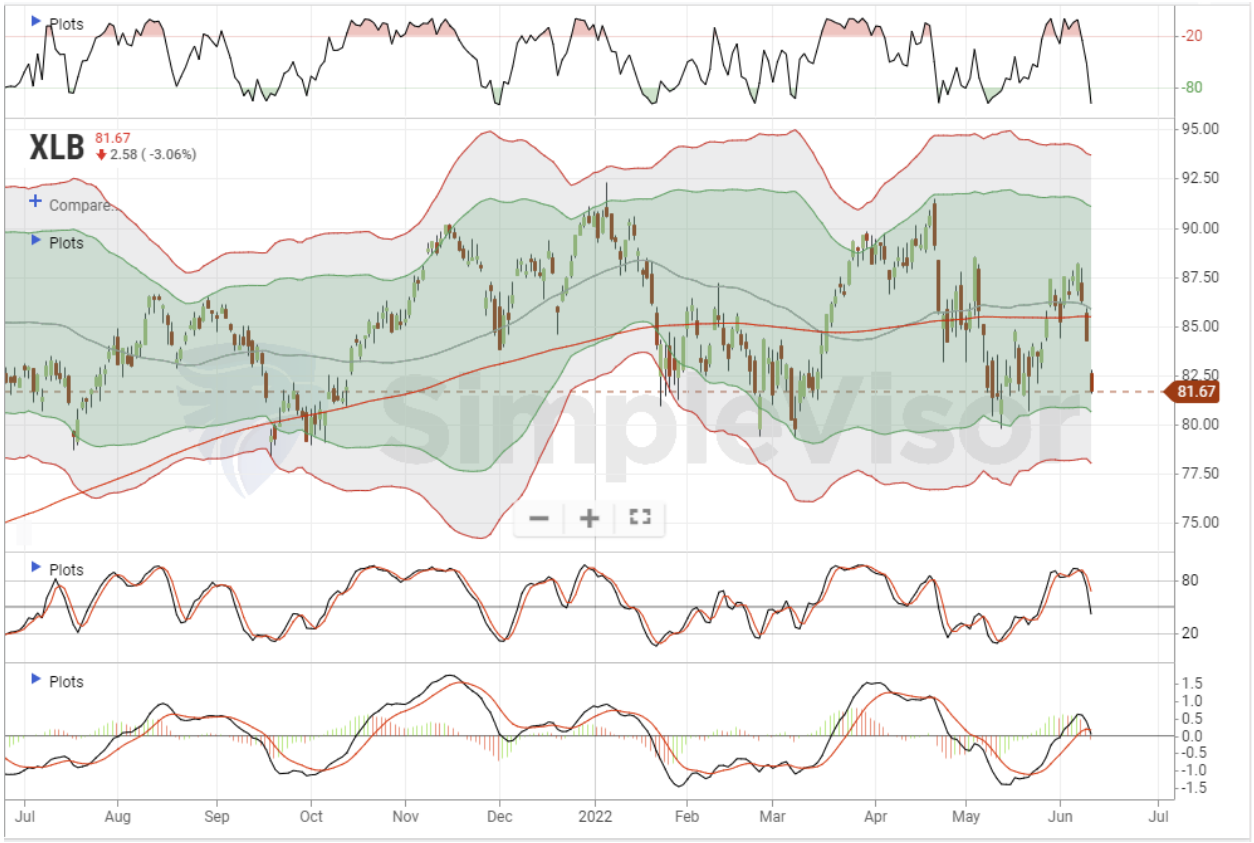
- *The top chart is the Williams %R set at 14-days*
- *The candlestick price chart is bounded by two Bollinger Band studies set at a 50-dma with 2- and 3-standard deviations.*
- *Below the price chart is a Stochastic indicator set at 14 %K periods, 3 %K smoothing, and 3 %D periods.*
- *The MACD chart 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 as a measure of over/underperformance.*

When the indicators are at the TOP of their respective charts, there is typically more risk and less reward available. 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.

Basic&#2013266080;Materials



- *While inflation is high, it erodes the profit margins of companies that can't pass those costs along in full. As such we are seeing materials getting impacted.*
- *After a brief rally in May that took Materials above their respective moving averages, that failed quickly last week as fears of a recession grow.*
- *Materials have broken both the 50- and 200-dma and triggered a short-term sell signal.*
- *With Materials sitting on a lot of support at previous bottoms, it is critical that the sector holds it ground.*
- *Short-Term Positioning: Bearish*
    - *Hold current positions with a target to reduce at $85*
    - *Stop-loss is currently $79*
- *Long-Term Positioning: Neutral*

Communications



- *The long-term trend line is currently broken*
- *After a very minimal bounce, Communications are testing support at previous lows.*
- *The previous deep oversold has been mostly reversed and a break of current lows next week will see a continuation of the downtrend in the sector.*
- *As noted last update, "the downtrend in Communications from last September will present headwinds to reflexive rallies." Such continues to be the case.*
- *Short-Term Positioning: Bearish*
    - *Hold current positions with a target to reduce at $60*
    - *Stop-loss is currently $55*
- *Long-Term Positioning: Neutral*

Energy



- *In November of 2020, no one wanted to own Energy stocks. Now, everyone is aggressively long the sector. Such is a warning sign in and of itself from a contrarian perspective.*
- *Energy is extremely overbought on multiple levels and is pushing more extreme deviations from its 50-dma.*
- *Currently, Energy is on a buy signal, but that buy signal is very extended and close to turning suggesting a decent correction back towards $80*
- *Short-Term Positioning: Bullish*
    - *Take profits in current position, nibble on new positions during a pullback from $80-70.*
    - *Stop-loss is currently $65 which doesn't make a good risk/reward ratio at the current time.*
- *Long-Term Positioning: Bullish*

Financials



- *Financials broke below both the 50- and 200-dma with the 50-dma now crossing below the 200-dma. The 50-dma is acting as a formidable resistance to any advance currently.*
- *The sector is retesting recent lows at the $32.50 level and is close to 2-standard deviations below the 50-dma. Such previously denoted short-term bottoms and tradeable rallies.*
- *The problem this time is that financials are just triggering "sell" signals, rather than being oversold which suggests any bounce will be short-lived.*
- *Short-Term Positioning: Bearish*
    - *Hold current positions with a target to sell at $34-35*
    - *Stop-loss is currently $32*
- *Long-Term Positioning: Neutral*

Industrials



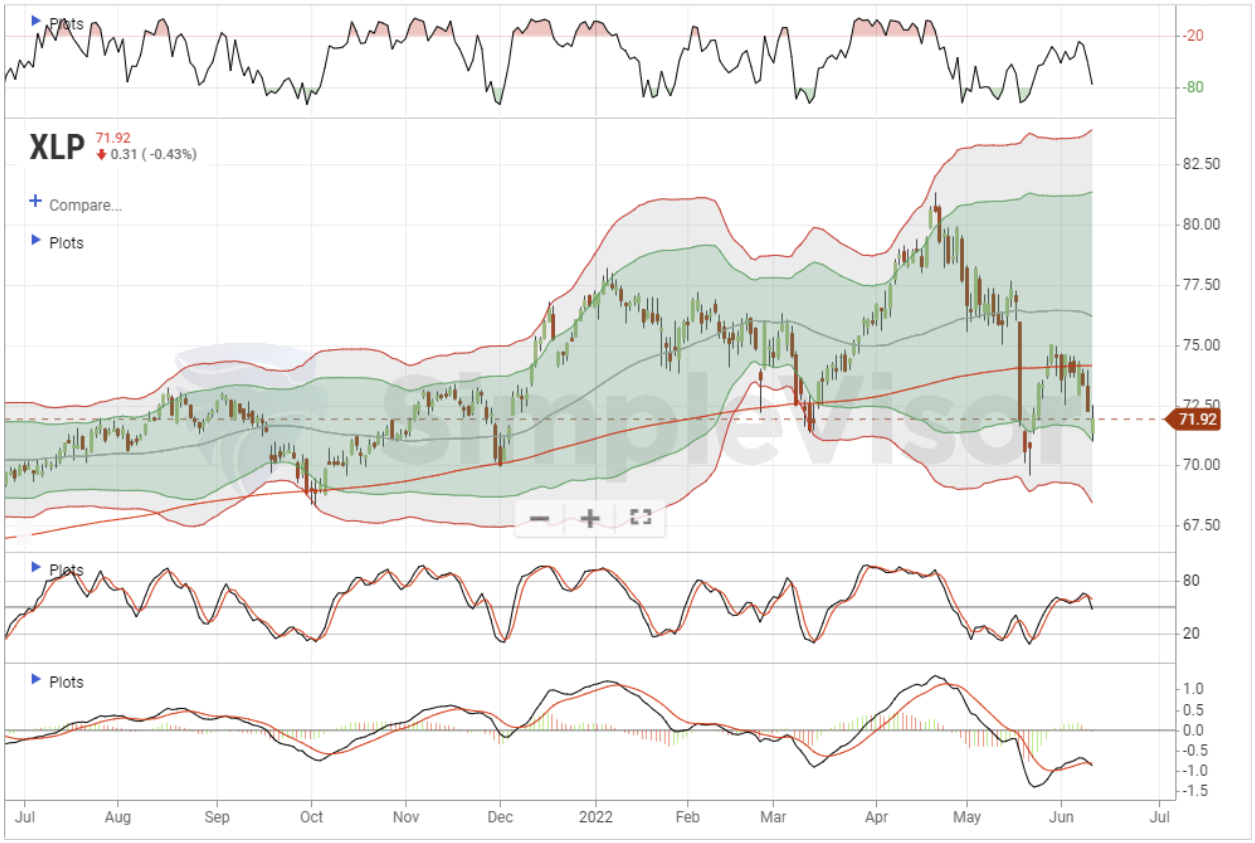
- *As with Materials, Industrials are also being impacted by inflation eating into their profit margins.*
- *Also like Materials, Industrials are not oversold and is close to triggering a sell signal. While industrials are currently sitting on decent support, a break of those levels will suggest further downside.*
- *The 500-dma is not acting as important overhead resistance. The 50-dma is trading below the 200-dma providing downward pressure on the sector.*
- *Short-Term Positioning: Bearish*
    - *Hold current positions with a target to sell at $95*
    - *Stop-loss is currently $89*
- *Long-Term Positioning: Neutral*

Technology



- *Technology remains under pressure with the recent rally failing at overhead resistance.*
- *Previous minor support from May is holding for now, but with the 50-dma trading below the 200-dma, rallies will likely remain limited to the 50-dma for now.*
- *The failed rally over the last couple of weeks is close to triggering a MACD sell signal.*
- *Continue to use any rally to reduce risk and rebalance for now.*
- *Short-Term Positioning: Bearish*
    - *Hold current positions with a target of $140*
    - *Stop-loss is currently $129*
- *Long-Term Positioning: Neutral*

Staples



- *Staples have come under pressure as rising inflation is starting to weigh on revenue and margin outlooks.*
- *Stapes broke, retested, and failed at the 200-dma which had been solid support and good buying opportunities for Staples. That level is now resistance.*
- *Currently on an early sell-signal (bottom panel)*
- *Short-Term Positioning: Bearish*
    - *Hold current positions and look to reduce at the 200-dma*
    - *Stop-loss is currently $70*
- *Long-Term Positioning: Neutral*

Real&#2013266080;Estate



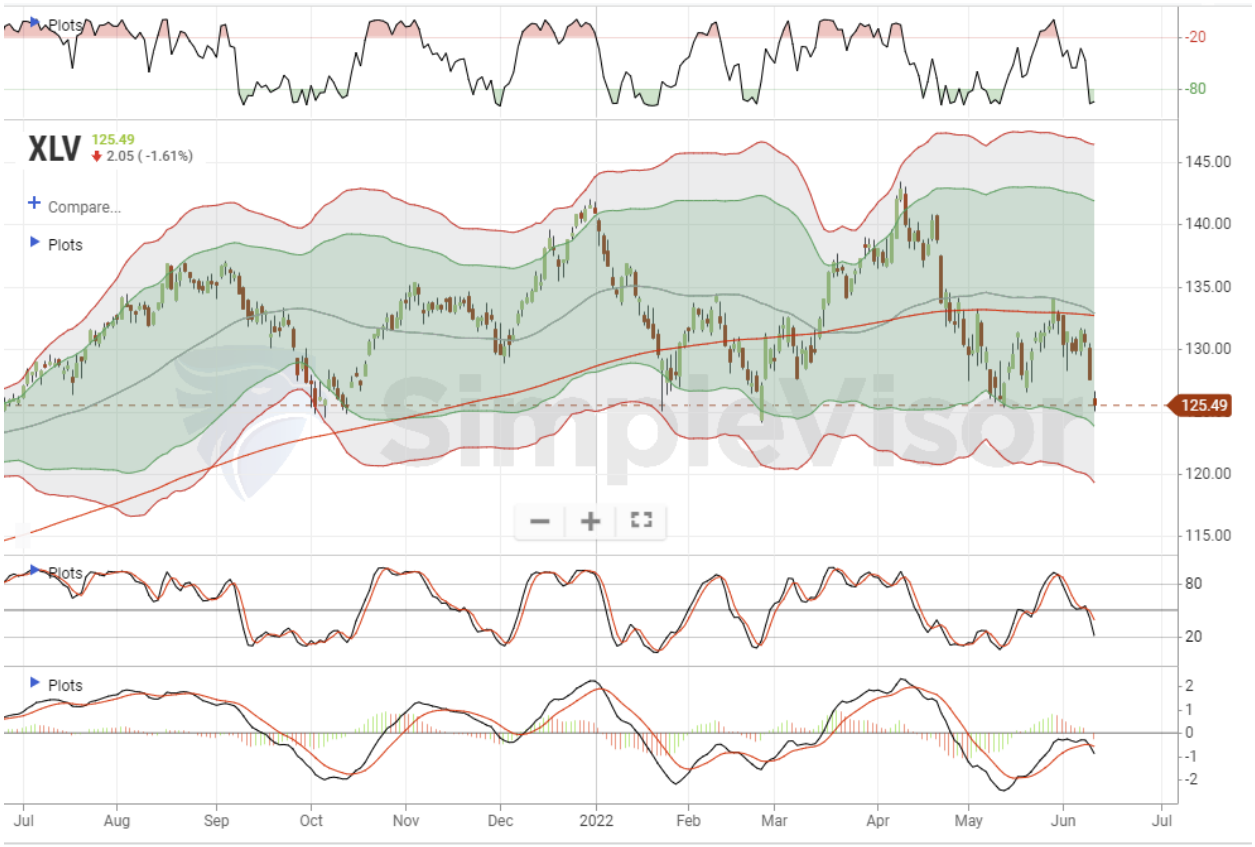
- *Real estate took a fairly sharp hit over the last couple of weeks as rates continued to increase and weakness appeared in the housing market.*
- *Unfortunately, the brief rally in Real Estate failed and broke support at the May lows.*
- *Currently on an early sell-signal (bottom panel)*
- *Currently oversold (top panel)*
- *Short-Term Positioning: B*earish
    - *Hold with a target of $42-44 to exit positions.*
    - *Stop-loss is broken*
- *Long-Term Positioning: Neutral*

Utilities



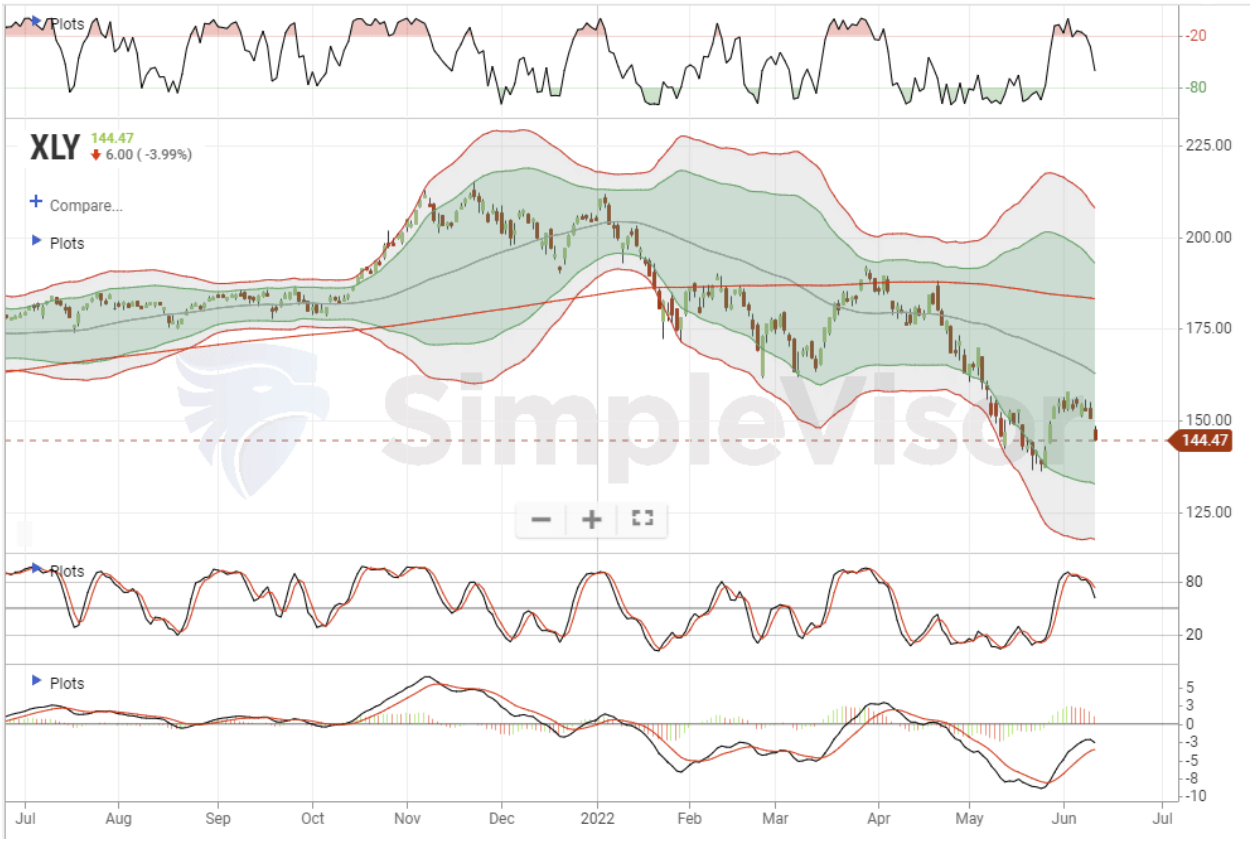
- *Like the Energy sector, Utilities continue to perform well with the sector holding the 200-dma.*
- *Support at the 200-dma has consistently been a good entry point to add holdings and selling when the sector pushes 2-standard deviations above the 50-dma.*
- *Currently, Utilities are on an early sell signal. (bottom panel)*
- *Short-Term Positioning: Bullish*
    - *Buy at&#2013266080;the 200-dma*
    - *Stop-loss is currently $68*
- *Long-Term Positioning:&#2013266080;Bullish*

Health&#2013266080;Care



- *Health care has performed better this year than other sectors but has certainly seen its share of volatility.*
- *Unfortunately, the sector broke the 200-dma, rallied to it, and failed, confirming that resistance level. The 50-dma is set to break below the 200-dma adding further downward pressure.*
- *Currently on an early sell-signal (bottom panel)*
- *Healthcare is also oversold short-term (top panel)*
- *Support continues to hold at multiperiod lows back to October, but that is now the stop level.*
- *Short-Term Positioning: Neutral*
    - *Hold current positions and look to reduce on a rally to $130.*
    - *Stop-loss is currently $124*
- *Long-Term Positioning:&#2013266080;Neutral*

Discretionary



- *Like Technology, because of its exposure to Amazon (AMZN), the sector continues to perform poorly.*
- *The rally over the last couple of weeks fell short of the 50-dma. While not on a sell signal just yet, that will likely happen next week with any further weakness.*
- *With the sector not oversold yet, we will likely see a retest of recent lows which must hold.*
- *Short-Term Positioning: Bearish*
    - *Reduce or exit current positions. If you want to hold for bounce, honor current stop levels.*
    - *Stop-loss is currently $139*
- *Long-Term Positioning:&#2013266080;Bearish*

Transportation



- *So goes the economy, and so goes transportation. As the economy is showing signs of slowing Transportation has come under pressure.*
- *Previous support failed, adding to the downward pressure from a declining 50-dma.*
- *Currently, the sell signal has triggered and is adding to the downward pressure. (bottom panel)*
- *Transportation is approaching oversold&#2013266080;on&#2013266080;a&#2013266080;short-term&#2013266080;basis. (top panel)*
- *Short-Term Positioning: Bearish*
    - *Sell current positions on any rally to $75-78*
    - *Stop-loss is currently broke*n.
- *Long-Term Positioning:&#2013266080;Bearish*