SaferTrader

July 20, 2024

Here are the informational and educational contents of your Screening Reports, including all attachments and links to files, if any.

Market Recap and Outlook:

Last week's newsletter highlighted concerns about profit-taking activities on July 12th. This week proved volatile, with markets sliding over the last three days.

Although a market crash seems unlikely, major indexes have reached critical support levels. Ideally, we anticipate a rebound in the coming week. However, if these supports are breached, we may see a bearish trend or a prolonged sideways movement.

Increased volatility has led to higher option prices. In this environment, spread traders should consider adjusting their strategies by one or more of the following:

- Asking for higher premiums.
- Focusing on shorter time frames towards expiration.
- Seeking spreads with greater distance from the underlying asset.
- Narrowing the spread width between short and long legs.

Dow

The Dow officially surpassed its previous record high (around 40,100) this week, briefly transforming that level into support. After a two-day surge, an A-shaped reversal erased those gains, driving the index back to 40,100.

As this level has established itself as support, we anticipate a rebound in the coming week(s). However, if the Dow falls further and breaks down the 40,100 support, the pattern above it will be considered a false breakout.

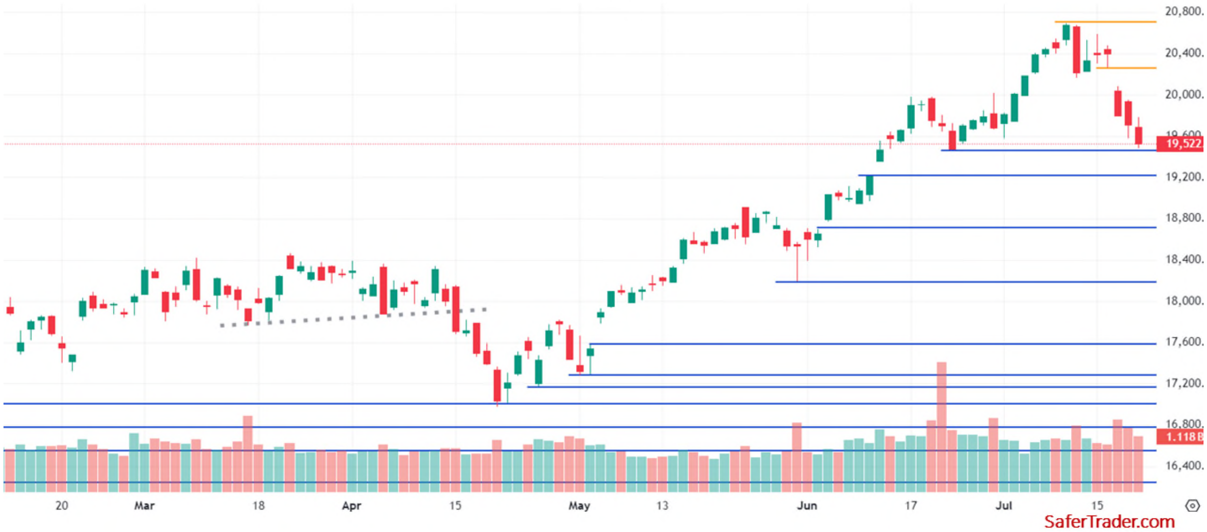
Please recall from previous newsletters. A false breakout typically leads to one of two scenarios: either another breakdown below the next support level or a prolonged period of sideways movement. Traders should watch the critical support level(s).

S&P 500

The S&P 500 set a new record high to start the week. However, Wednesday's gap down suggests the end of the uptrend that began in mid-April. The upper edge of this gap now acts as a resistance level, alongside the recently created record high. With two new resistance levels in play, the index is signaling caution. A prolonged sideways movement or a downtrend is now more likely.

The prior swing high of 5,500, broken out on July 3rd, has become a key support level. Currently, the index is retracing and hovering at this level. It's crucial to observe whether the index bounces up from this support or breaks down below it. If it bounces, a longer sideways period is expected. However, a breakdown would confirm a false breakout, with a more pessimistic outlook.

Nasdaq



Unlike the S&P 500 and the Dow, the Nasdaq failed to reach a new record high, but sliding downward each day. Wednesday's gap down signals an end to the exuberant price chasing.

Furthermore, the support level previously established at the former swing high of 20,000 has been breached, confirming a false breakout pattern. As false breakouts typically lead to either another breakdown or a prolonged sideways movement, it's crucial to monitor whether the next support level at 19,450 holds.

Russell 2000

Despite reaching a new yearly high, the Russell 2000 reversed course on Wednesday after nearing the long-term resistance level of 2,280.

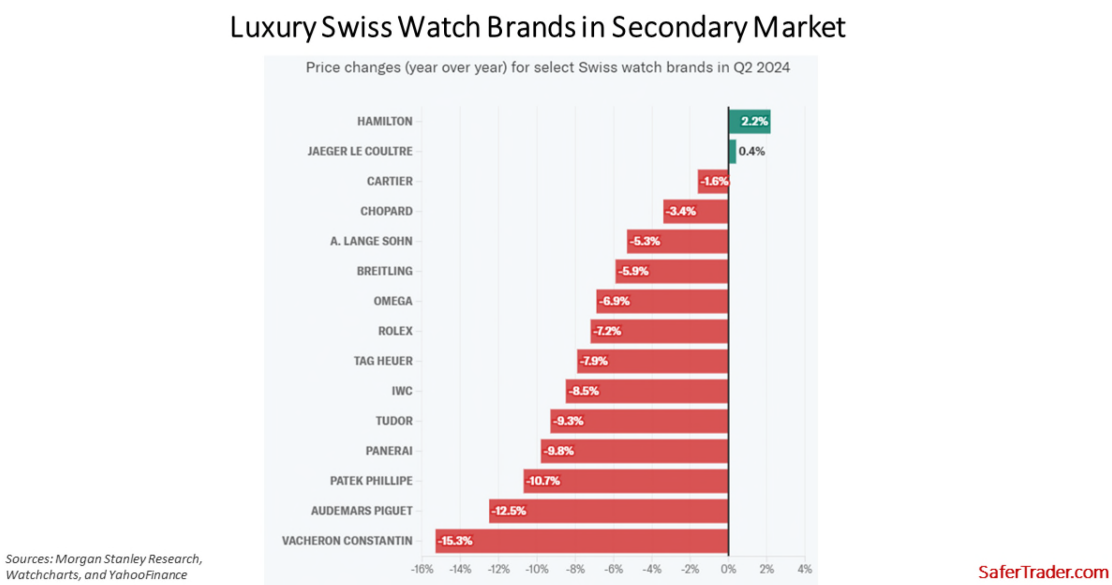
The focus now shifts to the support level at 2,140, which was previously a long-term resistance but converted into a strong support after being broken out. In case the 2,140 support is breached, sentiment for small-cap stocks will turn neutral to negative. If the support can hold well, another challenge towards 2,280 may follow.

<u>Macroeconomic Takes:</u>

The Federal Reserve's Beige Book, a comprehensive summary of economic conditions published eight times annually, indicates a slowing economy, bolstering expectations of a September interest rate cut. Recent data reveal a slight to modest expansion in U.S. economic activity from late May through early July, with firms anticipating further slowdown and a softening job market. This signals the Federal Reserve's shift towards closely monitoring labor demand to avoid delaying interest rate cuts.

Despite this, U.S. retail sales reached a three-month high, increasing by 0.4% last month. This unexpected growth, despite a decline in auto sales, suggests consumer spending remains resilient despite rising interest rates and a cooling labor market. This could be attributed to receding inflation and the anticipation of rate cuts by the Federal Reserve.

Conversely, the luxury goods market provides insights into the behavior of affluent individuals. Recent data reveals a continuous decline in secondhand prices for Swiss watches, a proxy for high-end timepieces. This trend could influence prices in the primary market, where new watches are sold by authorized dealers. Falling prices in the luxury sector suggest that many wealthy individuals are liquidating assets, a trend that could eventually spill over into other asset classes.



<u>Conforming Credit Spread Screening:</u>

High Volatility settings. **Volatility measures surged to 1% this week, prompting us to configure our screener to the high volatility mode**.

The screening report is displayed in PDF and Excel, with identical contents. To further analyze the data in the Excel report, subscribers can select and copy the data entries of interest into a spreadsheet application for their own personalized studies. Subscribers must double-check the earnings announcement dates on their own.

Stay safe and Trade cautiously,

Shane
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