SaferTrader

July 27, 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:

Market volatility surged this week due to mixed corporate earnings reports, which investors interpreted pessimistically.

While the S&P 500 and Nasdaq displayed bearish trends, the Dow and small-cap index remained resilient. This divergence suggests that the overall market sentiment may not be as extremely negative as initially perceived.

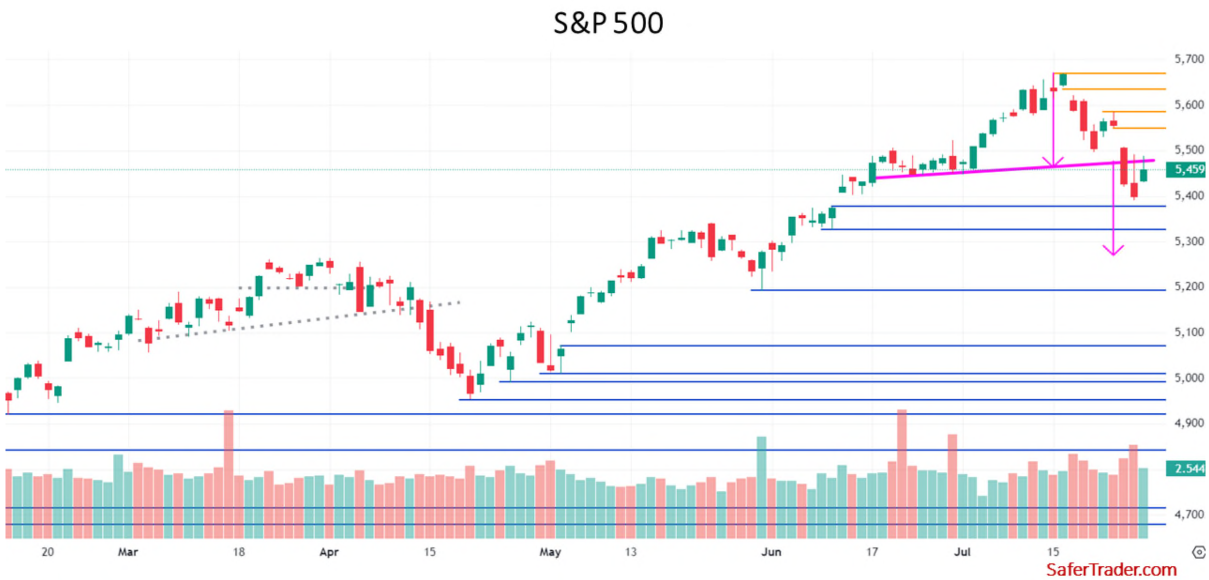
Historically, stock markets tend to perform well during US presidential election years. Incumbent presidents typically strive for a rising market to highlight economic achievements, while challengers often prefer a weaker market to criticize during campaigns. With president Biden dropped out of the race, it remains to be seen which candidate Wall Street favors in the current election cycle. Investors should closely monitor upcoming news and events in the following weeks for further insights into market trends.

Dow

The Dow experienced a volatile week. On Wednesday, it opened with a downward gap and broke below the key support level of 40,100, initially signaling a bearish breakout.

However, the index quickly rebounded the following day and further closed the week well above the 40,100 level, negating the earlier breakdown.

This price action demonstrates a balanced struggle between bullish and bearish forces. The market's direction remains uncertain. Investors should closely monitor the record high of 41,376 and the support level of 39,800 for further clue.



The S&P 500 experienced a downward gap on Wednesday, confirming a bearish **head-and-shoulders top**. This second gap in the series suggests a continuation of the downward trend.

However, the index subsequently attempted to break back above the **neckline** of the pattern. Although these attempts were unsuccessful, they indicate that bullish sentiment persists. In particular, an upward gap around 5,380 offers support for the bulls. If this gap is filled or breached, the index is likely to reach the first downside target of the **head-and-shoulders** pattern.

Nasdaq

The Nasdaq, like the S&P 500, experienced a downward gap on Wednesday, forming a bearish **head-and-shoulders top**. However, unlike the S&P 500, the Nasdaq did not rebound to challenge the **neckline** of the pattern. Instead, it continued its decline to fill an upward gap around 18,750.

While there are 20 points remaining in the gap, the index appears weak, and a complete fill is anticipated soon. This suggests that the first downside target of the **head-and-shoulders top** is likely to be reached.

Russell 2000

Unlike the large-cap indexes, the Russell 2000 is demonstrating bullish behavior. The small-cap index has avoided downward gaps in recent weeks and is forming a continuation flag pattern within its ongoing uptrend.

If the index breaks above the long-term resistance level of 2,280, it could potentially reach the second target of its **head-and-shoulders bottom**. However, investors should also monitor the first support level around 2,180. A breakdown below this level may invalidate the continuation flag and signal a potential reversal, forming a **double top** that could lead to a retracement back to the **neckline of the inverse head-and-shoulders**.

Closely watching the price action around these key levels (2,280 and 2,180) will be crucial in determining the Russell 2000's future direction.

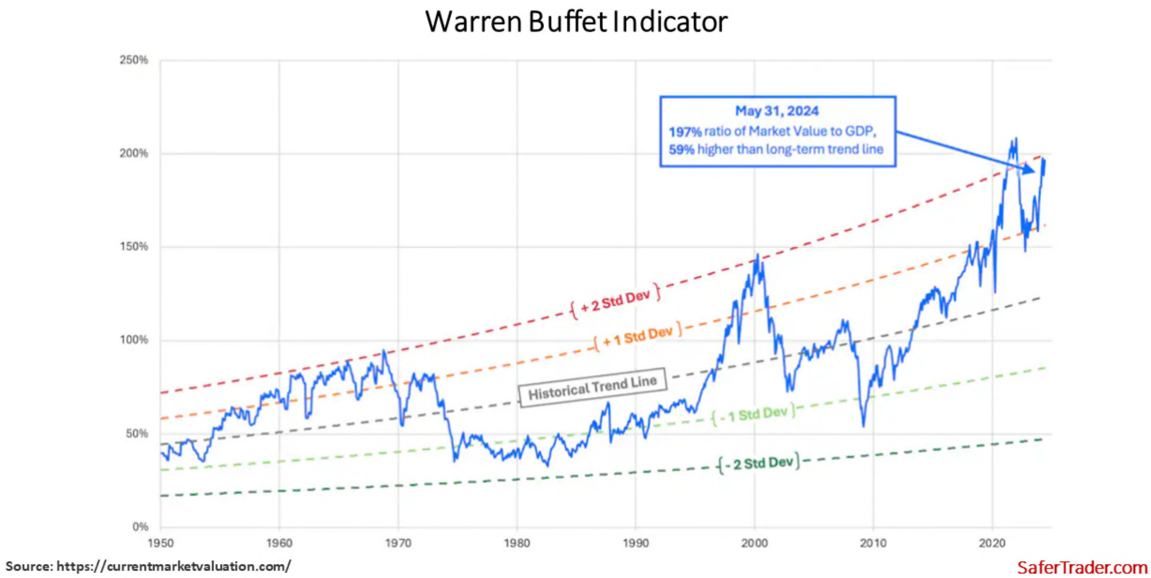
Macroeconomic Takes:

Personal Consumption Expenditure (PCE), a key inflation indicator, rose 0.1% in June and 2.5% year-over-year (YOY), aligning with expectations. Core PCE, excluding food and energy, increased 0.2% monthly and 2.6% YOY, also meeting forecasts. This data prompted a decline in Treasury yields, suggesting growing investor anticipation of monetary easing.

US Q2 GDP exceeded expectations, expanding by 2.8% compared to the projected 2.1%, underscoring the strength of the US economy. Consumer spending, private inventory investment, and nonresidential fixed investment significantly contributed to this growth.

Home sales experienced a 5.4% decline in June. Inventory, while up 23.4% from the previous year to 1.32 million units, remains at a 4.1-month supply, reflecting the tight housing market. The median price of existing homes rose 4.1% year over year, reaching $426,900.

Berkshire Hathaway, led by Warren Buffett, has repurchased 10% of its shares, amounting to $75 billion, over the past five and a half years. This buyback strategy, initiated in 2011, has intensified in recent years due to an overvalued stock market, as indicated by the Buffett Indicator, which measures the total US stock market value relative to GDP. With the indicator surpassing the +1 Standard Deviation and approaching the +2 Standard Deviation, Buffett's preference for holding cash and repurchasing Berkshire Hathaway stock is understandable.



Conforming Credit Spread Screening:

High Volatility settings. **Volatility measures surged to 1.3% this week, prompting our screener to operate in the high volatility mode. More high-tech firms will announce their earnings next week. Please avoid trading their spreads before the report dates**.

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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