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Technical Take: We may be oversold, but larger degree trend still lower in days/weeks ahead

Last week we noted our increased conviction in our outlook for a multi-month top and the existence of a new downtrend. While we suspected the S&P 500 was oversold enough on a daily bar view to see a relief rally, the market only allowed for a single surge higher last Thursday afternoon — enough to reset “sentiment” indicators back up towards neutral in preparation for another decline.

In our view, this decline’s *slope* should mirror the advance off the March low and that it should provide a useful map in the event of a normal correction into support. The only caveat is that the steep *rate* of descent (and the volume behind it) makes us concerned that our anticipated correction measuring a 61.8% retracement of the March multi-month rally (while quite bearish a number of weeks ago) could prove to be optimistic. In order for us to flash the “all clear” on this decline (on a purely *technical* basis), we’d like to see breadth improve, volume dry up, and some choppy base-building behavior in price; Additionally, we would like to see various momentum indicators (such as the Relative Strength Index [RSI]) begin to build positive divergences against price (at least at the hourly bar level). At this point, none of these conditions are present. Our best guess is that – while we may see sharp rallies in the days ahead – the market likely has additional downside risk in the intermediate term.



A number of industry groups have broken down from contracting triangles, wedges and bases over the last month, including homebuilders and regional banks. We wanted to call attention to another subsector -- the Retailers -- which has recently joined the ranks of groups in which to exercise risk management. We currently maintain a 400-500 basis point (“bp” = 1/100th of 1%) underweight allocation to the Consumer Discretionary sector (versus the S&P 500) in the Foundation Large Cap Core Portfolio, and we see no reason at this point to alter this position.

See below for updated charts.



Retail joins the industry groups breaking down...



Last week's rally took retail stock back up into triangle resistance before selling off once again...

- We reprinted the histogram view to show how the lack of a positive divergence implies we have more downside...

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