

The SPX Sector Report

May 3, 2024

I. Have. No. Idea.

Disclaimer

For informational purposes only.

Table of Contents

About

Page 4

Discussion

Page 8

SPX Sector Analysis

Page 11

Macro Pairs Analysis

Page 28

About

WOTE

Weight of the Evidence

The WOTE

A cross-asset market research platform.

The SPX Sector Report

Relative strength analysis of S&P 500 cap- and equal-weight sectors and industries, as well as key macro pairs, that underpins the [WOTE US Core Equity](#) strategy.

Discussion

Macro Madness

- The day of this report, May 3, NFP came in well below expectations and the Fed confirmed through [Nick Timiraos](#) that this “Goldilocks” report keeps rate cuts on the table for later this summer, assuming inflation data cooperate.
- Stocks, bonds, and individual SPX sectors have responded in force to this dovish turn in the macro landscape, not even 48 hours after FED Chair Powell [hawkishly shifted](#) policy expectations at his post-FOMC meeting press conference.
- Some call this landscape “endlessly interesting” – I call it maddening. “Buy energy” – it’s a great macro/rates hedge. Then it breaks down. “Follow the trends and buy Industrials – forget the Fed.” Then it breaks down. “Don’t fight the Tech tape.” Then it breaks down. “The economy is reaccelerating, buy Discretionary.” Then it breaks down.
- Madness.

I. Have. No. Idea.

- This week I moved the [WOTE US Core Equity](#) strategy to neutral because...I have no idea.
- I have no idea whether this Tech breakdown is about to suddenly reverse higher for good (beyond just today's move in response to NFP), or if it's going to continue lower as suggested by the breakdown in equal weight Tech below its 200dma. I have no idea.
- I have no idea if Industrials are simply correcting in the context of an uptrend, or about to break down as the Fed seeks to squeeze the economy to below-trend growth. I have no idea.
- I have no idea if Banks will continue their choppy uptrend higher. I have no idea if Utilities are setting up to break out in a sustained risk-off uptrend.

So, I'm neutral, until I start to gain some idea as to what is going on.

SPX Sector Analysis

NDX Group

Tech: Confirmed Breakdown

Cap weight Tech's relative strength breakdown below the 200dma is bearishly confirmed by the concurrent breakdown in the EW sector's relative strength. Not a BTFD opportunity here.



Semis: 200dma Cometh

It's rare for Semis to break below the 100dma without a trip ultimately down to the 200dma. This oversold rally is a STFR opportunity before a move down to the 200dma.



Software: Broken

Software's failure to reach 2020/2021 relative strength highs, let alone break above them, is a key sign that this breakdown is durable.



Communication: Buy Cap Weight

Cap weight continues to be buyable in this range above the 200dma. EW is to be avoided, as it remains mired in a decisive downtrend.



Cyclical Group

Financials: A Choppy Mess

CW Fins are hanging in, but the EW is likely pointing the way lower. Macro continues to generate chop as the Fed manages the economy and markets on a string.



Banks: Hopefully Not Early 2022

Macro strategists continue to be amazed at Banks' resilience in this period of broad market consolidation/correction. I'm concerned that with FED re-hawking this is akin to early 2022.



Industrials: Probably a Buy

What's good for Industrials – good growth – makes for hawkish policy, which is bad for Industrials. Macro blinders on, probably a buy here on this relative strength pullback.



Discretionary: Straight Ugly

Rallies on the hint of rate cuts, but fails once macro reality hits. Hard to say where this ugly relative strength downtrend currently stands.



Energy: Lower Highs

Not worth buying until lower lows are made and shorts pile into oil futures. Not there yet.



Defensive Group

Utilities: Winds of Change

Utilities are showing signs of risk-off life, moving sharply higher toward the 200dma. In 2018 the trend change took months to develop. In 2022 it was quick. Eyes wide open here.



Staples: Still Weak

Not nearly as strong as Utilities in this SPX pullback. Probably a good tell that Utilities aren't ready to really take off yet.



Health Care: Putrid

Zero relative strength attempt during this pullback.



Real Estate: So Bad it's Maybe Good

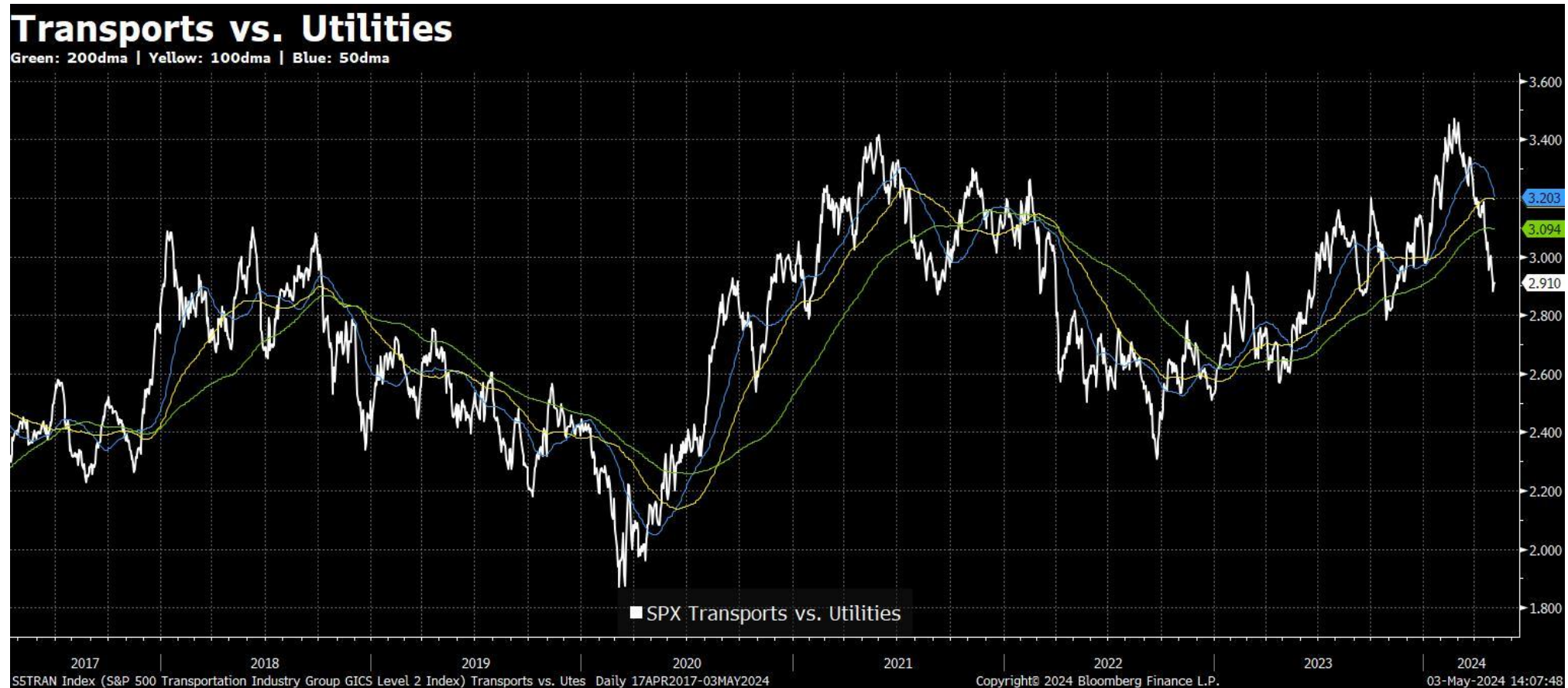
Very bombed out. And if rates start moving lower alongside weaker economic data, Real Estate could catch a bid. Watching.



Macro Pairs Analysis

Transports vs. Utilities

Very sharp downdraft here. This relationship tends to triple-top ahead of an economic slowdown, so this pullback is only the first one; but it's sharp and worth watching closely.



Discretionary vs. Staples

This relationship is at a critical juncture. A sharp break below the 200dma confirms economic weakness is coming. Not there yet, but watching closely.



Banks vs. Utilities

The most bullish out of the three pairs. This needs to break below the 200dma to confirm economic weakness, and it's quite a ways from there right now.

