Each week we produce a chart book of the S&P 500 sectors to review where money is flowing within the market as 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 three primary components to each chart:

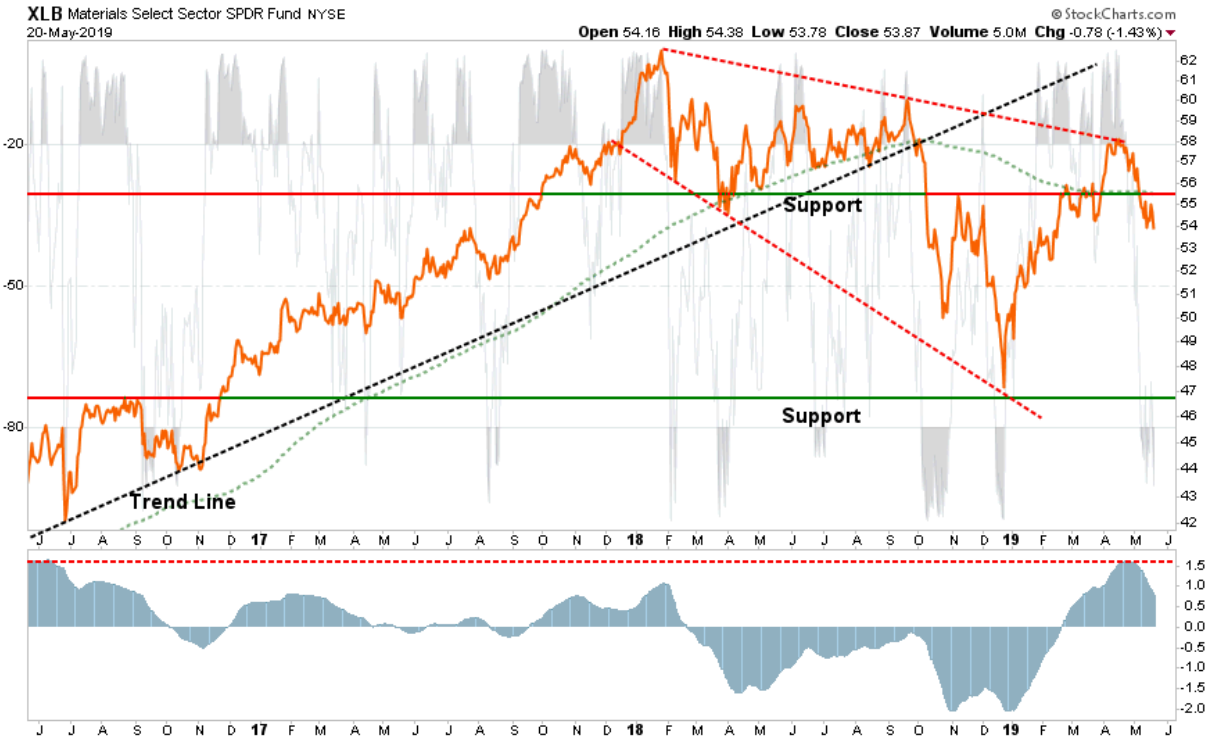
- *The price chart is in orange*
- *The Over Bought/Over Sold indicator is in gray*
- *The Buy / Sell indicator is in blue.*

When the gray indicator is at the TOP of the chart, there is typically more risk and less reward available at the current time. In other words, the best time to BUY is when the short-term condition is over-sold. Likewise when the buy/sell indicator is above the ZERO line investments have a tendency of working better than when below the zero line.



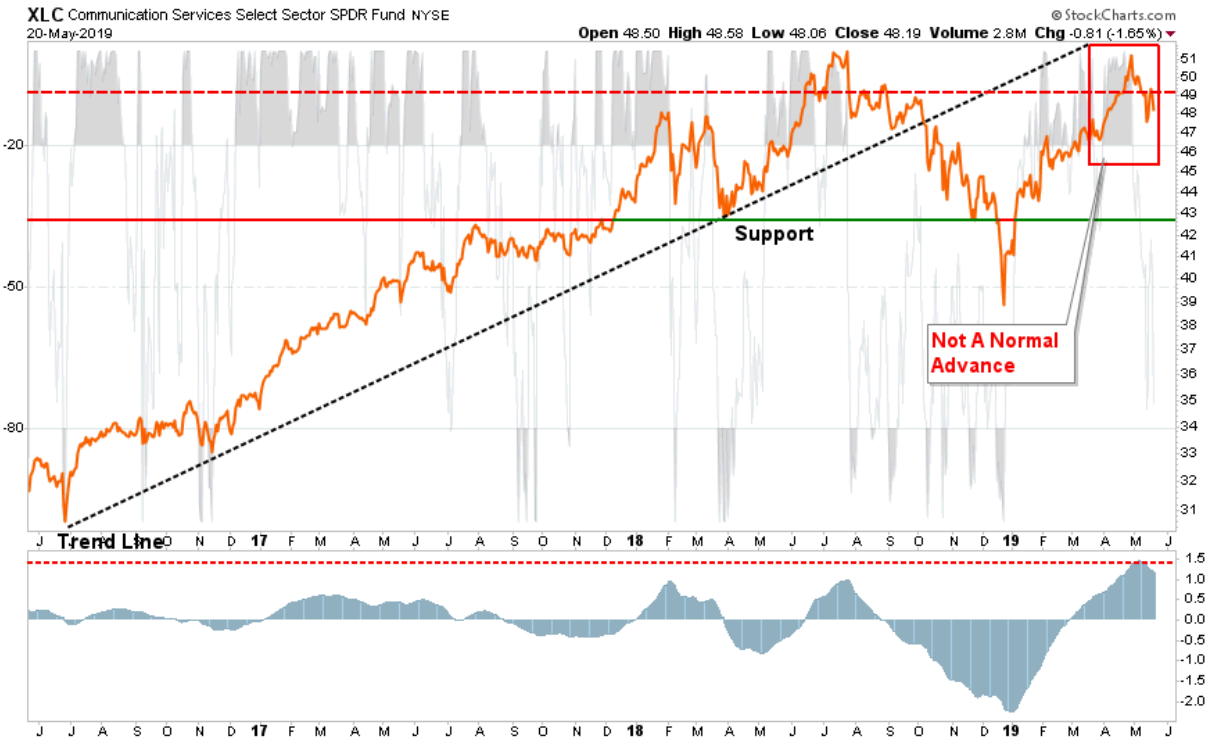
With this basic tutorial let's get to the sector analysis.

Basic Materials



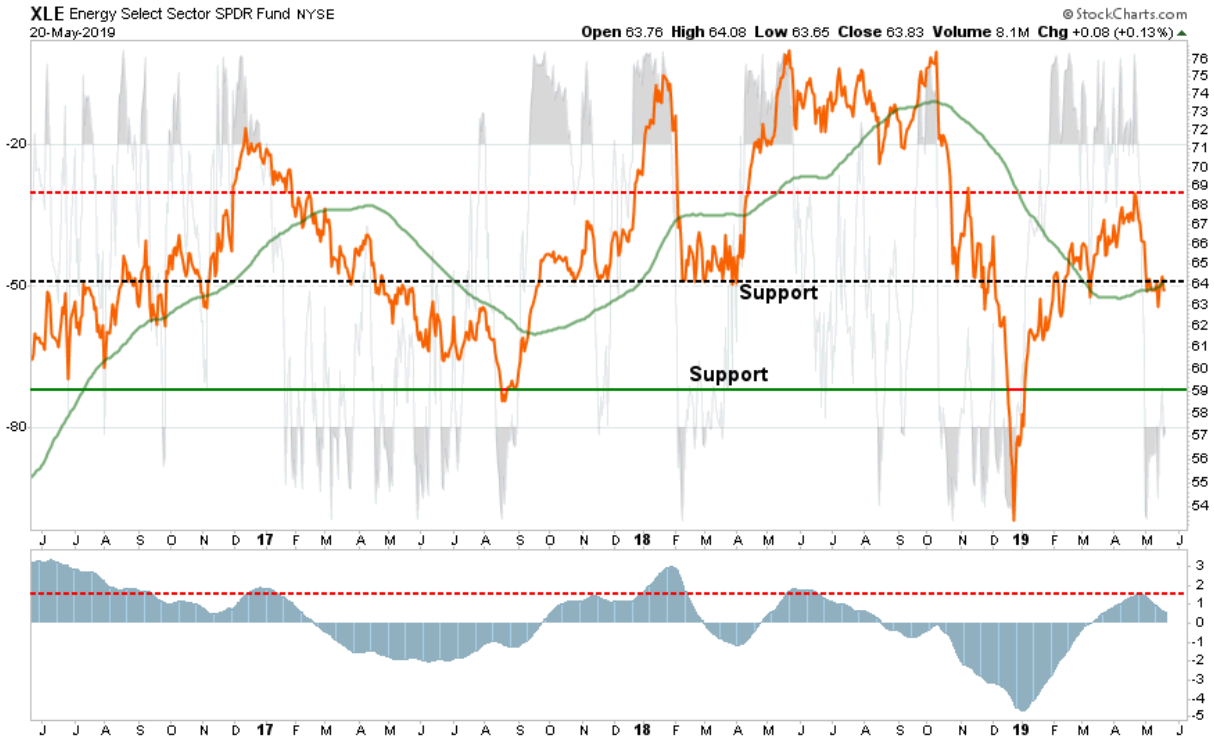
- *As noted previously, XLB failed at the 2018 peak. The "buy" signal, which was extremely extended as noted by the horizontal dashed red line, set up the inevitable correction.*
- *The trade war with China will likely continue to weigh on materials and we previously sold 1/2 of our position.*
- *Short-Term Positioning: Neutral*
  - *Last Week: Sold 1/2 position.*
  - *This Week: Hold balance for rally to $55 to $55 1/2*
  - *Stop-loss moved up to $53, sell remaining half on rally..*
- *Long-Term Positioning: Bearish*

Communications



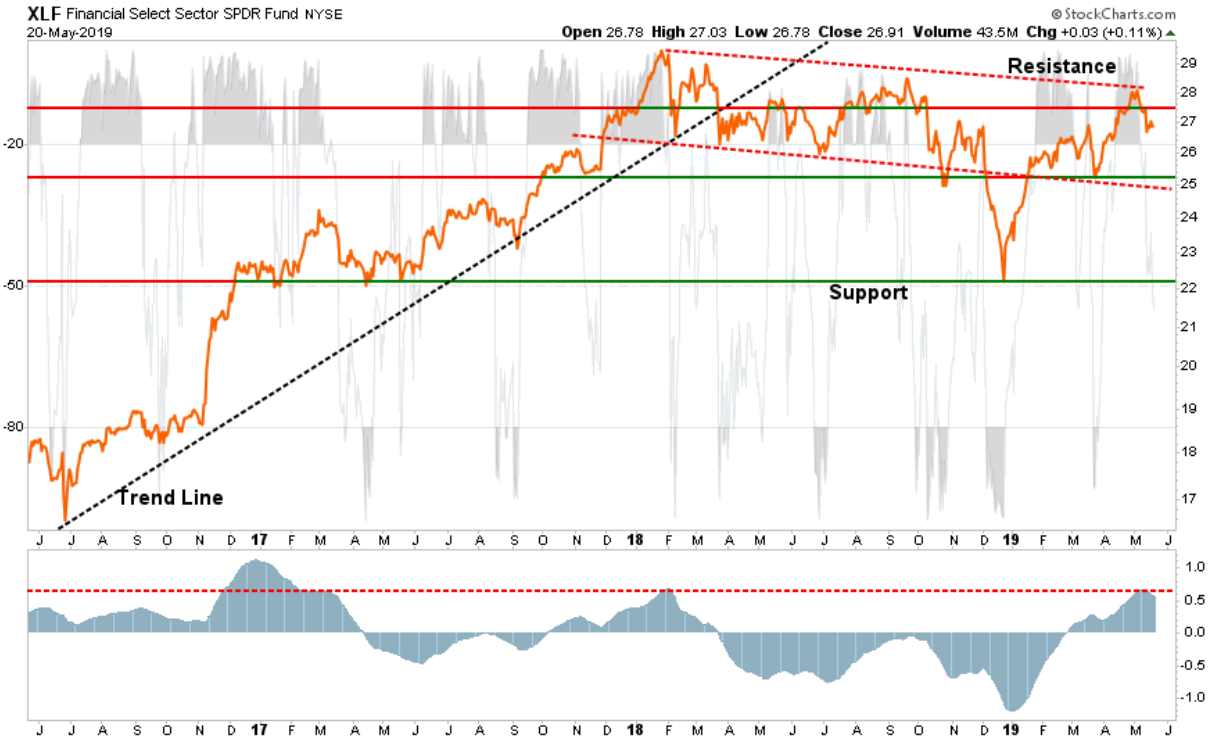
- *XLC broke support previously and failed at a rally turning support into resistance.*
- *XLC is not oversold yet so remain patient.*
- *Short-Term Positioning: Neutral*
    - *Last Week: Hold 1/2 position*
    - *This Week: Hold 1/2 position*
    - *Stop-loss moved up to $47*
- *Long-Term Positioning: Bearish*

Energy



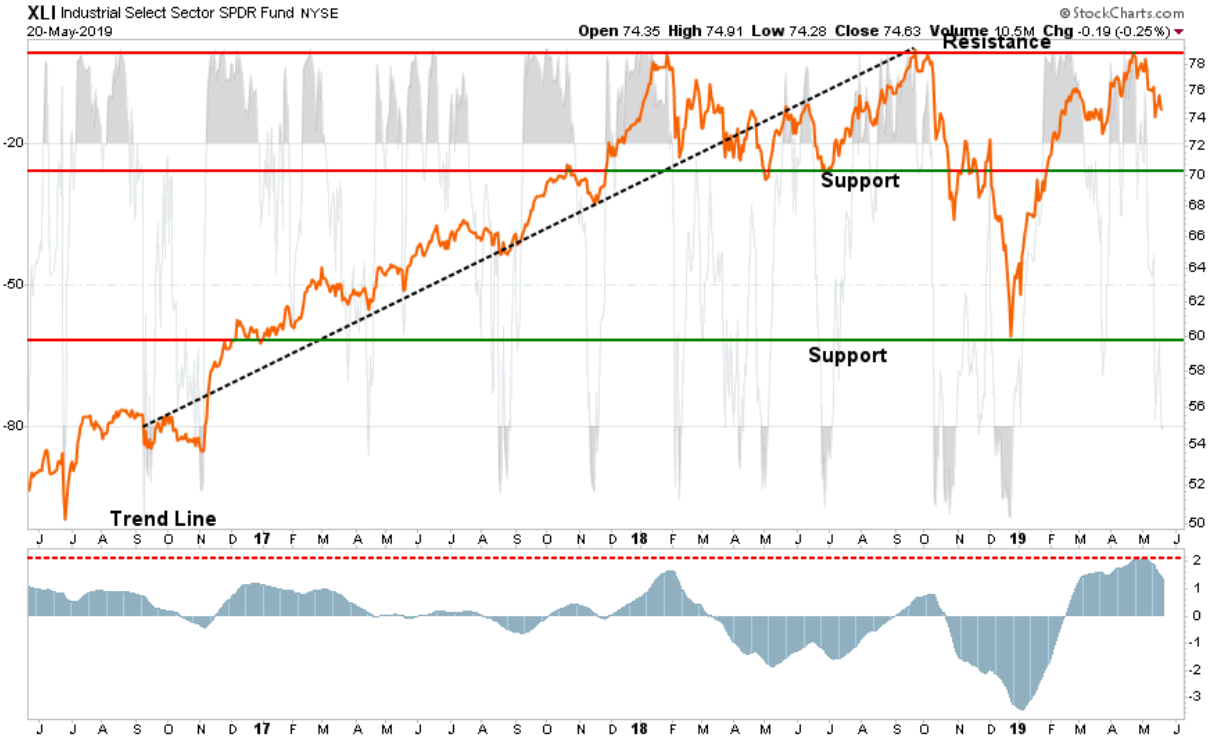
- *As noted last week, the rally in oil prices pushed XLE into resistance at the March lows. That resistance is currently holding.*
- *XLE is currently at a critical juncture. A failure below the 200-dma is going to bring the low-$50's into focus.*
- *The current "buy signal" remains intact and the sector is oversold short-term. Use any rally to reduce exposure to the sector for now.*
- *Short-Term Positioning: Neutral*
    - *Last week: Hold and wait for a pullback to support to add.*
    - *This week: Stop violated, sell on rally that fails to get above $64 this week.*
    - *Stop-loss adjusted to $63*
- *Long-Term Positioning: Bearish*

Financials



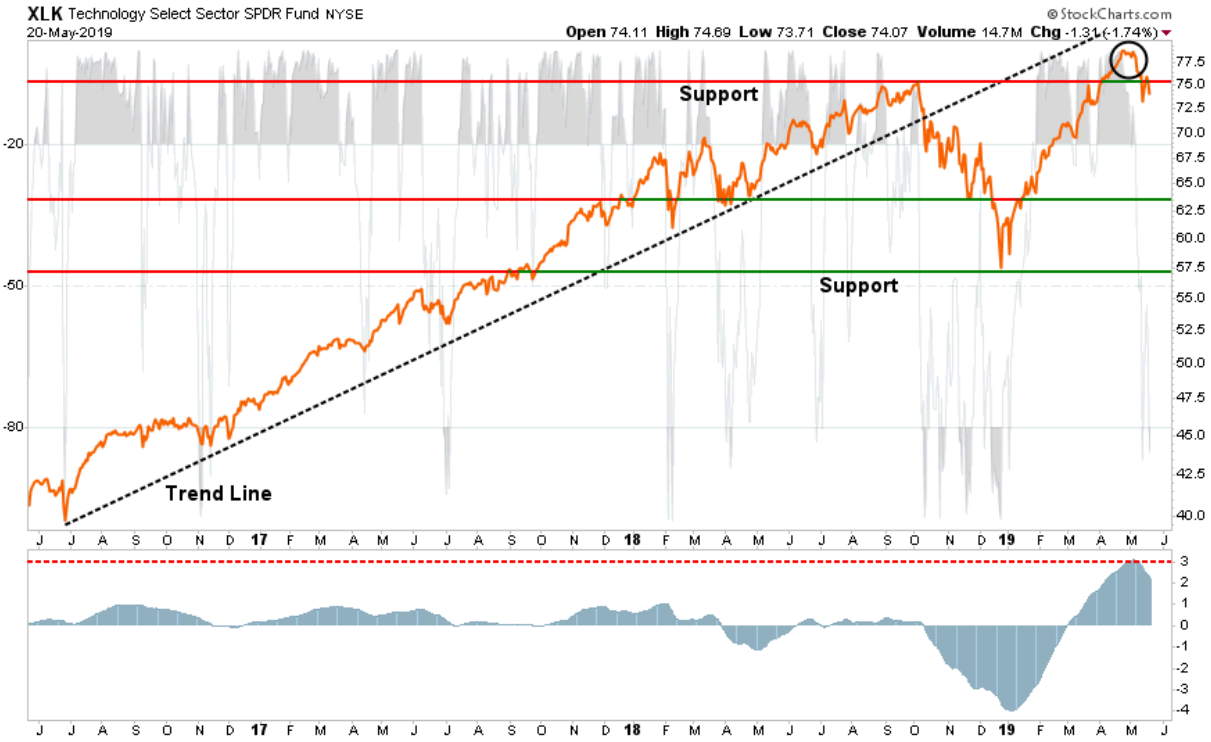
- *We noted last week that XLF broke out above initial resistance but was running into a cluster of previous tops from last year. That rally failed last week with the decline in the yields weighing on earnings outlook.*
- *XLF remains on a "buy" signal currently and the overbought condition is being reduced.*
- *Short-Term Positioning: Neutral*
    - *Last week: Recommended "hold" 1/2 position*
    - *This week: Hold 1/2 position, add on a pullback to $25 that holds.*
    - *Stop-loss moved up to $25.00*
- *Long-Term Positioning: Bearish*

Industrials



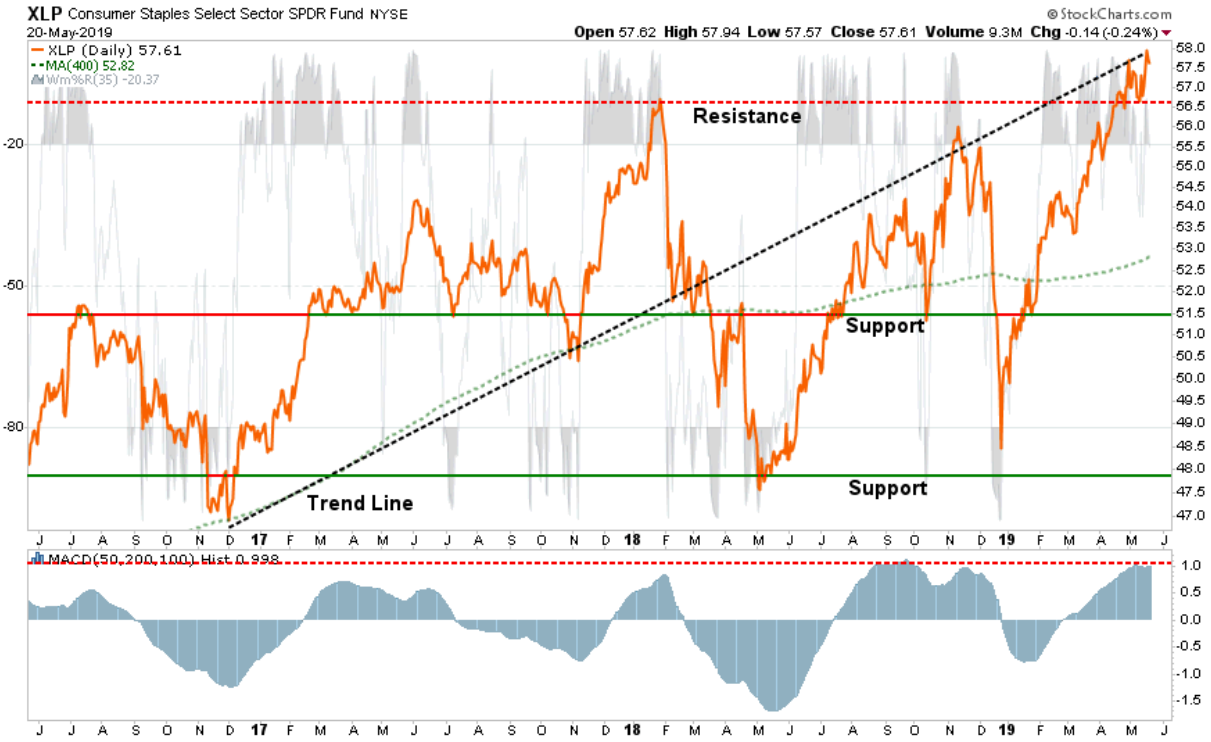
- *XLI has put in a "triple top" at recent highs which makes that resistance level critically important.*
- *For now, the buy signal in lower panel is very extended but is being reduced. XLI is not completely oversold yet, use a rally to reduce positioning in the sector for now.*
- *Short-Term Positioning: Neutral*
    - *Last week: Sold 1/2 position*
    - *This week: Hold remaining position, look to sell on failed rally to $77*
    - *Stop-loss moved up to $72*
- *Long-Term Positioning: Neutral*

Technology



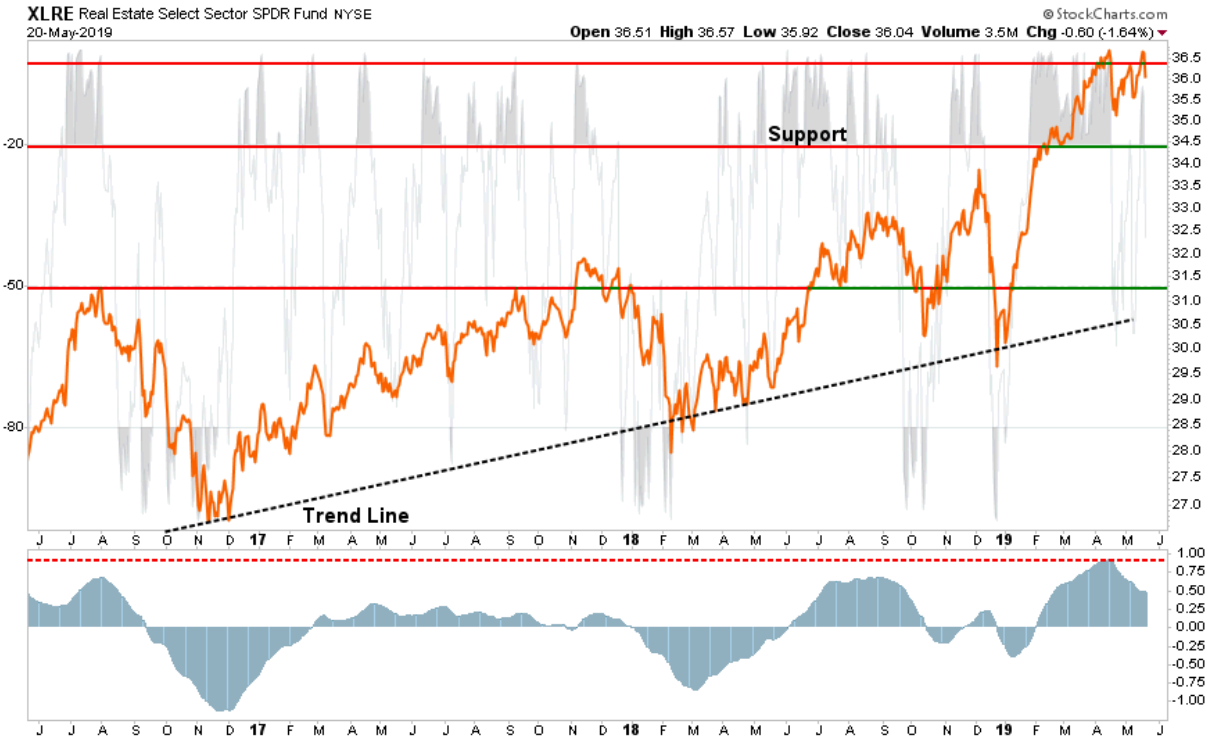
- *XLK is on a "Buy" signal (bottom panel) but, as stated three weeks ago, had reached a "crazy" extension like many other sectors of the market. A correction was inevitable and we previously recommended taking profits.*
- *The market is becoming very confined to a smaller number of stocks leading the charge higher. Technology has become the poster child for momentum.*
- *The correction failed to hold support at $75 and the rally failed turning that previous support into resistance. With the sector not grossly oversold look for more selling pressure this week.*
- *Short-Term Positioning: Bullish*
    - *Last week: Hold 1/2 position*
    - *This week: Hold 1/2 position*
    - *Stop-loss moved up to $70*
- *Long-Term Positioning: Neutral*

Staples



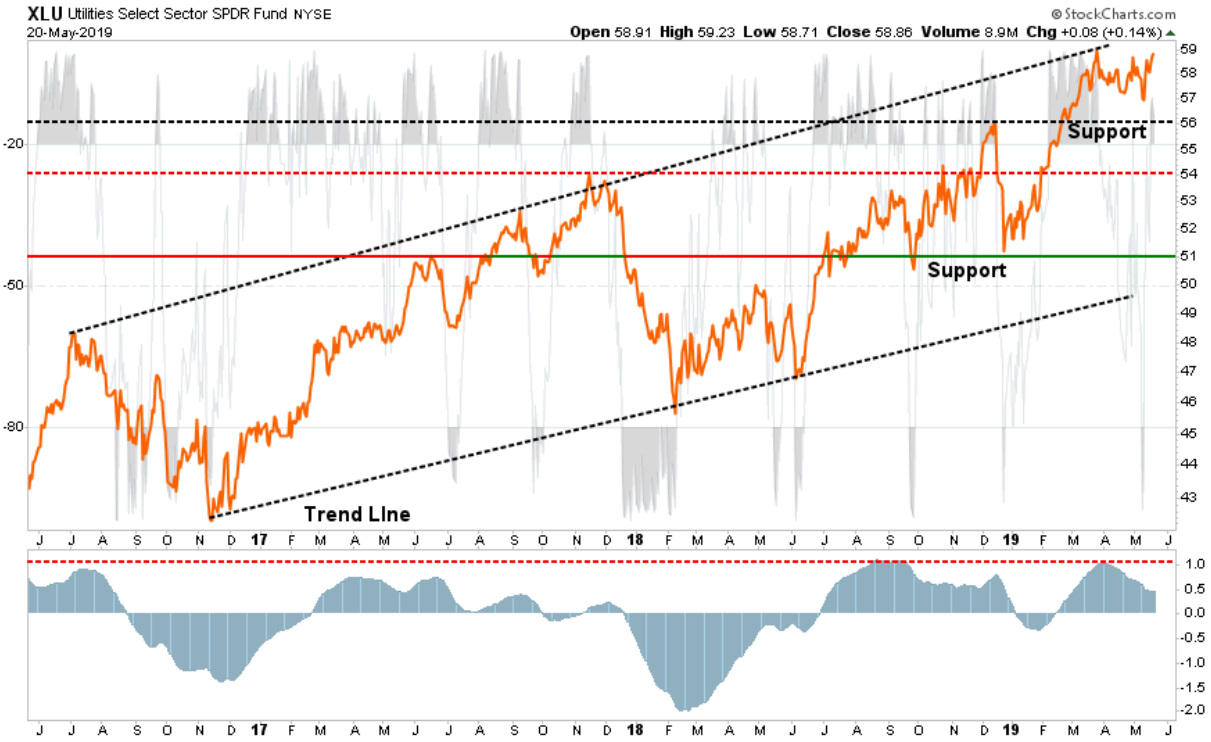
- *XLP held up much better than the broad market recently and we continue to hold positions in this sector. As money seeks defense, XLP and XLU have been the "go to."*
- *XLP's "buy" signal (lower panel) is back to extreme levels. So, taking profits remains advised. XLP is also flirting with the trendline from the 2016 lows.*
- *Currently overbought, however a pullback to $53-55 can be used to add exposure.*
- *Short-Term Positioning: Bullish*
    - *Last week: Holding full position, take profits and rebalance.*
    - *This week: Take profits if you haven't done so.*
    - *Profit stop-loss moved up to $55.50*
- *Long-Term Positioning: Bullish*

Real Estate



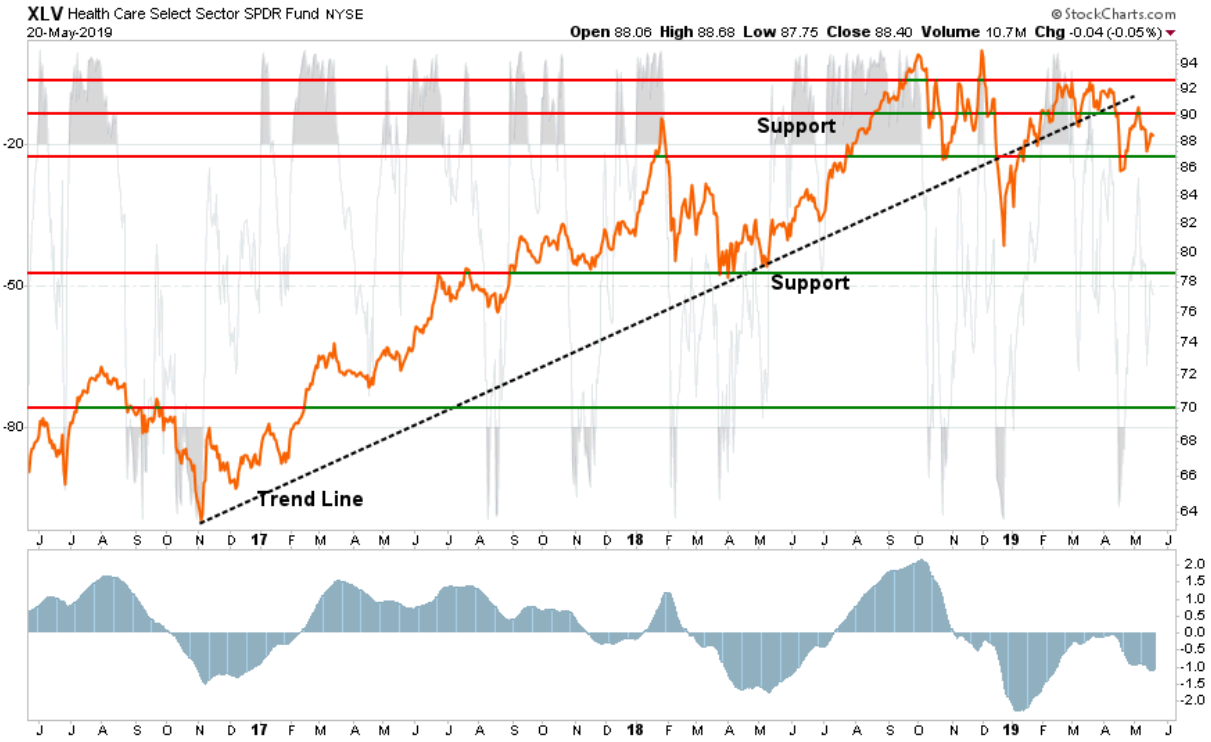
- *XLRE, along with XLU, has continued to attract money flows for defensive positioning amidst falling interest rates.*
- *We previously recommended taking profits and rebalancing risk. That is still advisable.*
- *Buy signal is being reduced, but XLRE remains overbought short-term.*
- *We recently added 1/2 position of XLRE and will add the second 1/2 on a pullback to support at $34.50.*
- *Short-Term Positioning: Bullish*
    - *Last week: "Hold" 1/2 position*
    - *This week: Hold 1/2 position.*
    - *Stop-loss adjusted to $33.50*
- *Long-Term Positioning: Bullish*

Utilities



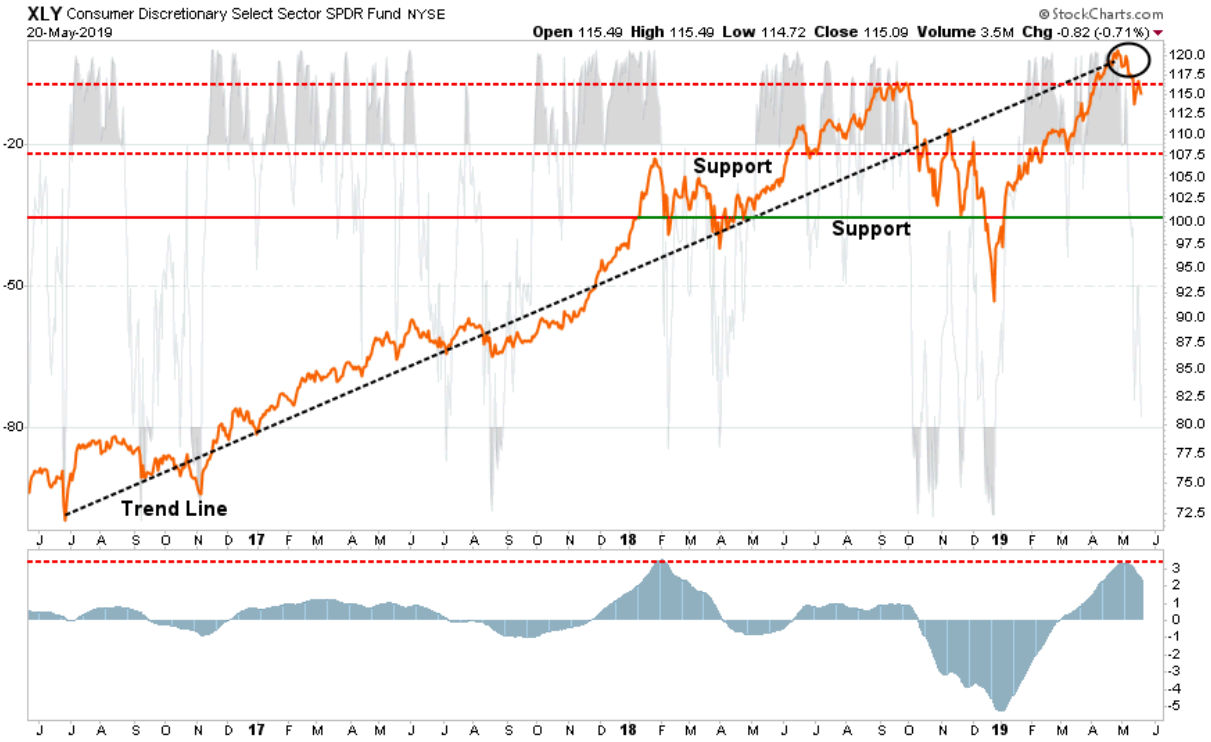
- *Like Real Estate above, XLU has finally taken a breather from its recent advance but not much of one.*
- *Long-term trend line remains intact, and money is chasing XLU in defense from the trade war.*
- *Previous support continues to hold.*
- *Buy signal is beginning to work off some of the excess. (bottom panel) and the sector is currently back to overbought.*
- *Short-Term Positioning: Bullish*
    - *Last week: Rebalance holdings and continue to hold.*
    - *This week: Hold position, look to add 1/2 position to portfolios on a pullback to $56.*
    - *Stop-loss moved up to $54.*
- *Long-Term Positioning: Bullish*

Health Care



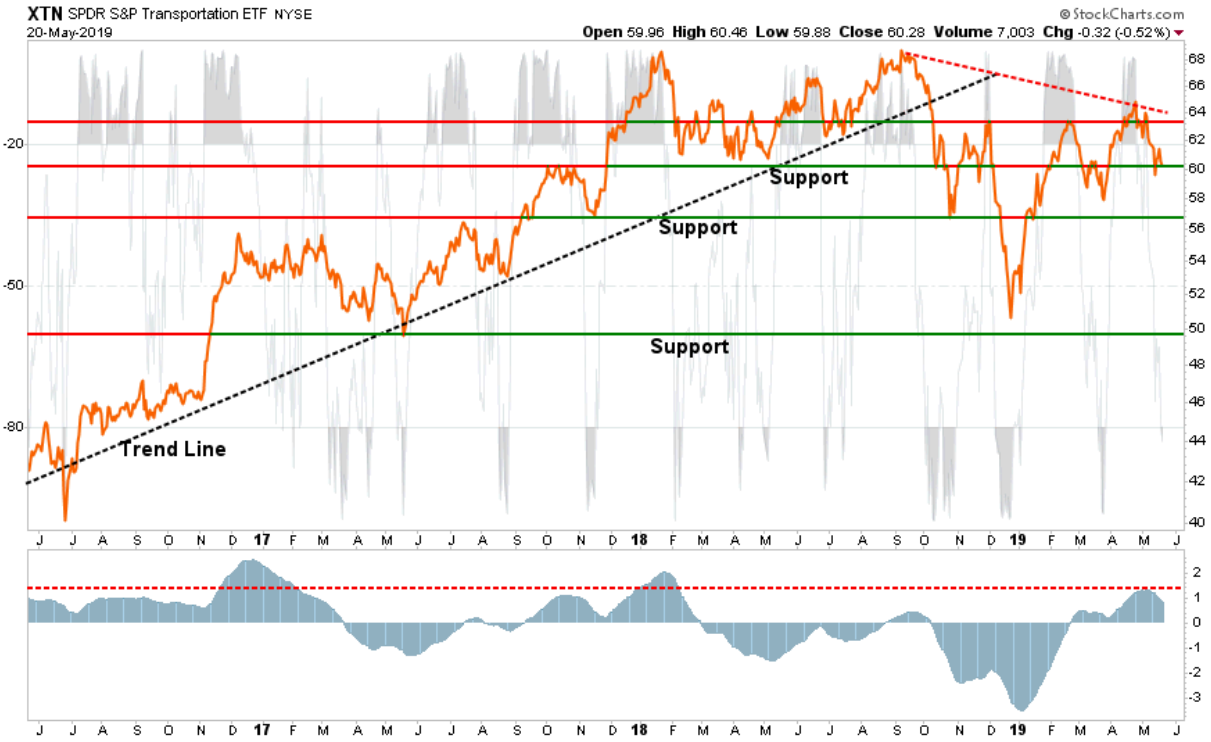
- *Sell-signal (bottom panel) remains intact currently but previous support is holding.*
- *While Healthcare is holding up for now, there is a downtrend forming in the sector. Keeps stops in place.*
- *XLV has been in a consolidation for the last 18-months. So whichever direction healthcare breaks out to will be a big move.*
- *XLV is reversing the oversold condition but still has upside from current levels.*
- *Short-Term Positioning: Neutral*
    - *Last week: Hold current position.*
    - *This week: Hold current position.*
    - *Stop-loss set $86*
- *Long-Term Positioning: Neutral*

Discretionary



- *XLY, like XLK above, broke back below its previous high turning that support back into resistance for now.*
- *The "buy" signal remains extremely elevated but is being reduced currently. XLY is not oversold as of yet so caution is advised. A break below last week's lows will likely suggest much lower levels.*
- *Short-Term Positioning: Neutral*
    - *Last week: Sold 1/2 of position.*
    - *This week: Hold 1/2 position with stops in place.*
    - *Stop-loss moved up to $112.50*
- *Long-Term Positioning: Neutral*

Transportation



- *XTN has continued to lag the overall market and continues to suggest there is "something wrong" economically.*
- *While XTN is on a buy signal. (bottom panel) the short-term overbought condition is being reversed.*
- *As we have been saying for several weeks, our "sell stop" was triggered previously. No real need to rush back into adding a new position. We will watch and see what happens.*
- *Short-Term Positioning: Neutral*
    - *Last week: No position*
    - *This week: Looking to add a position that holds support at $56-57 if support at $60 gives way.*
- *Long-Term Positioning: Bearish*