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:

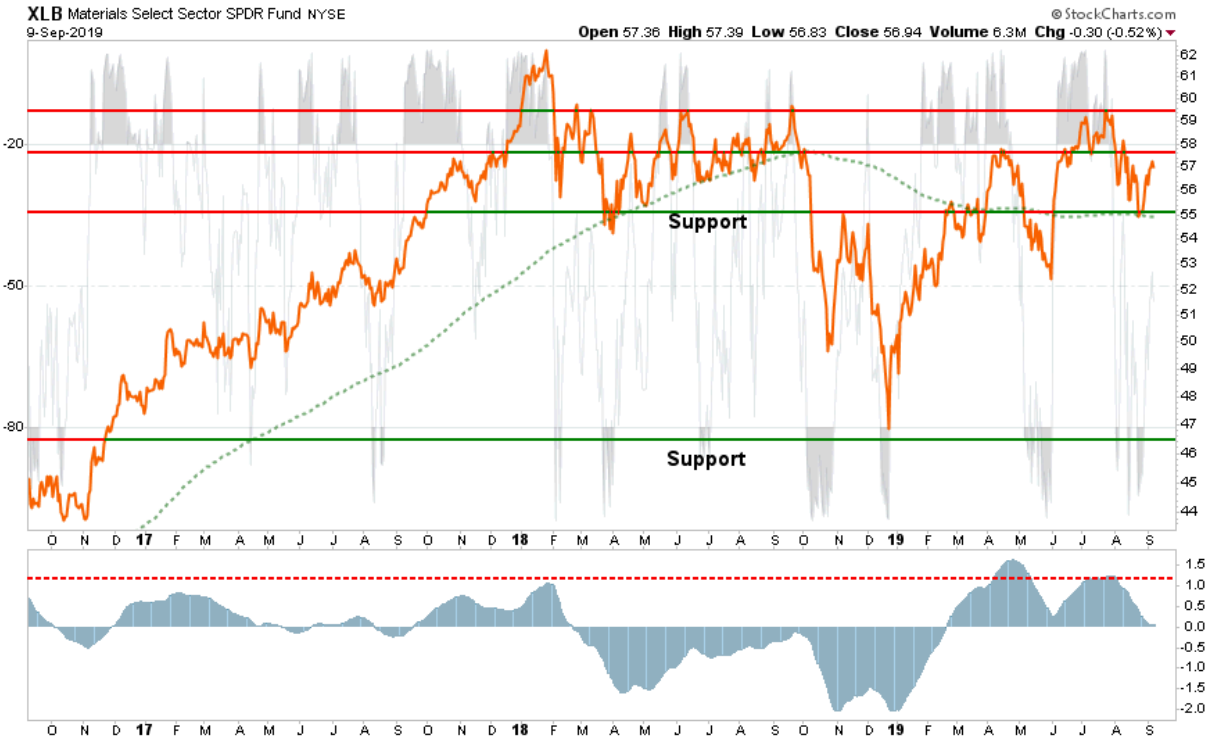
- *The price chart is in orange*
- *The Over Bought/Over Sold indicator is in gray*
- *The Buy / Sell indicator is in blue.*

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



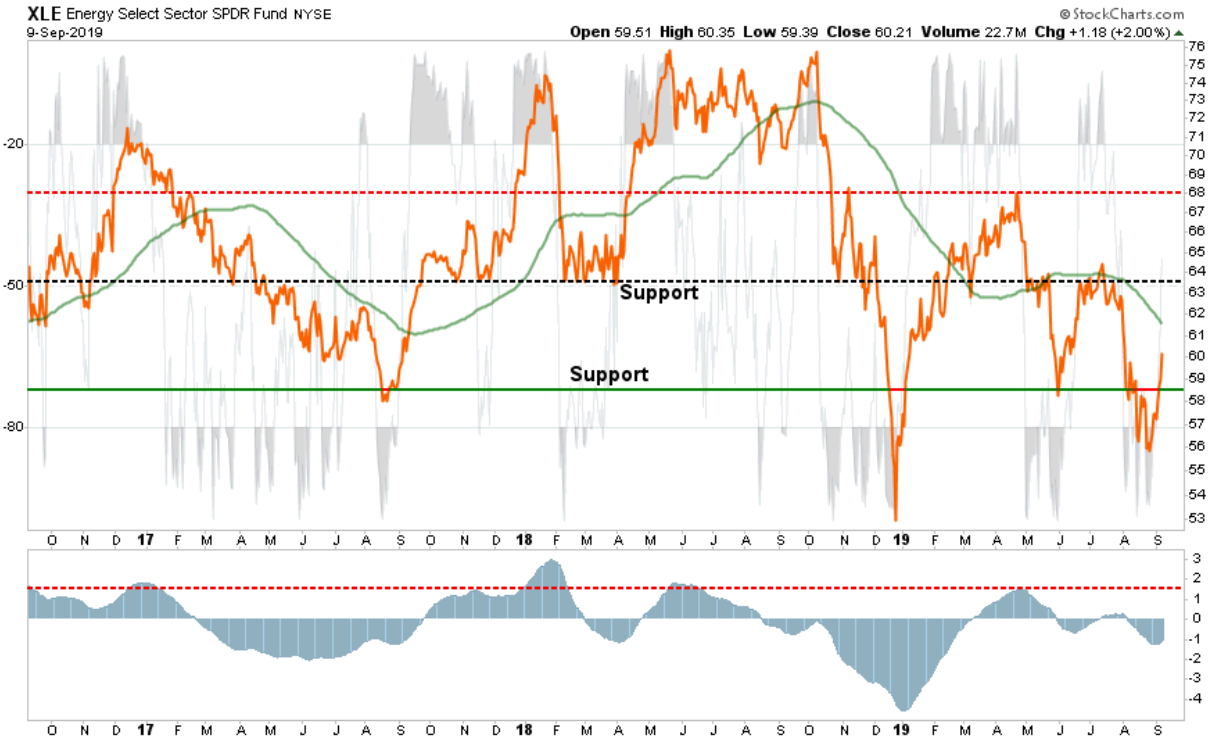
- *XLB remains confined to a very broad topping pattern currently BUT it continues to hold onto support at the 200-dma as rumors of a "trade deal" seem to always come just in the "nick of time."*
- *With the buy signal fading the risk remains to the downside for now particularly as trade wars continue to linger on and tariffs were hiked over the weekend.*
- *XLB rallied last over the last three sessions on hopes of upcoming trade talks and is reversing the oversold condition.*
- *There are multiple tops just overhead which will provide significant resistance.*
- *We are remaining underweight the sector for now.*
- *Short-Term Positioning: Neutral*
    - *Last Week: Hold current positions with a tighter stop-loss.*
    - *This Week: Hold current positions with tighter stop-loss*
    - *Stop-loss adjusted to $55*
- *Long-Term Positioning: Bearish*

Communications



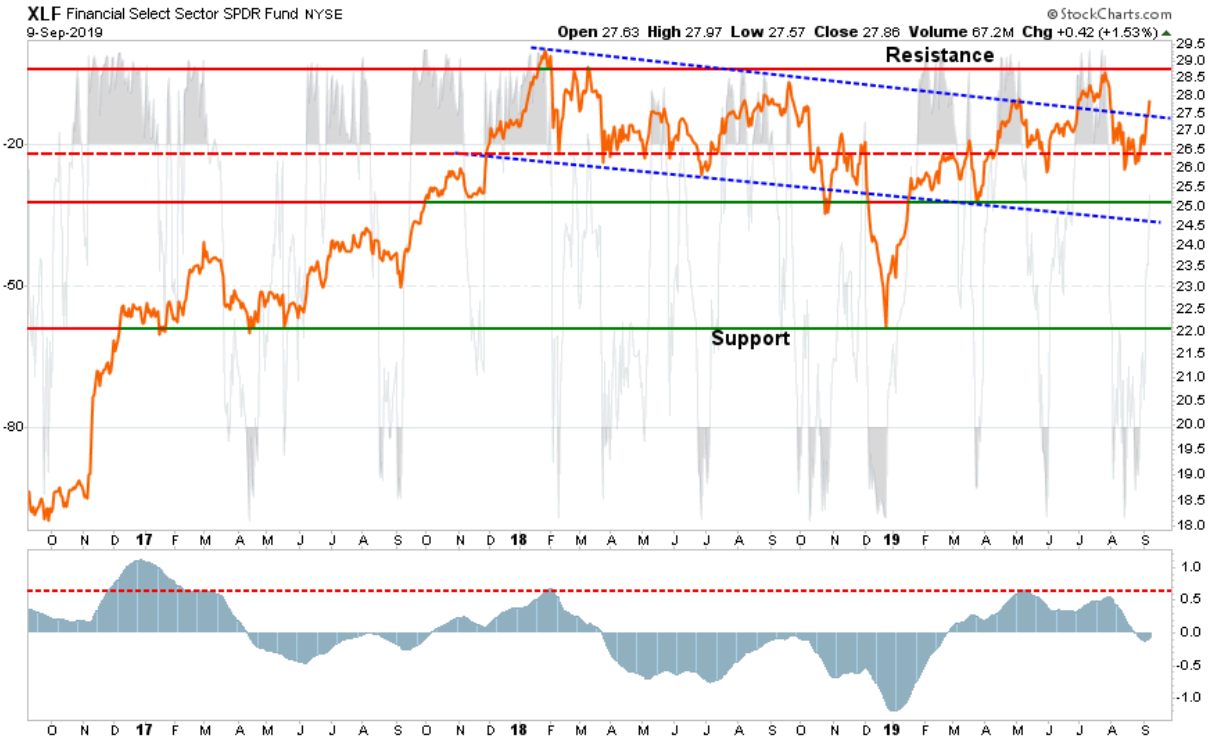
- *As noted last week, XLC held support and bounced back towards highs.*
- *With XLC not overbought yet, a further rally is possible if the market trades higher.*
- *Support is held at $48.*
- *XLC has a touch of defensive positioning from "trade wars" and given the recent pullback to oversold, a trading position was placed in portfolios.*
- *Short-Term Positioning: Neutral*
    - *Last Week: Hold trading positions*
    - *This Week: Hold trading positions.*
    - *Stop adjusted to $46*
- *Long-Term Positioning: Bearish*

Energy



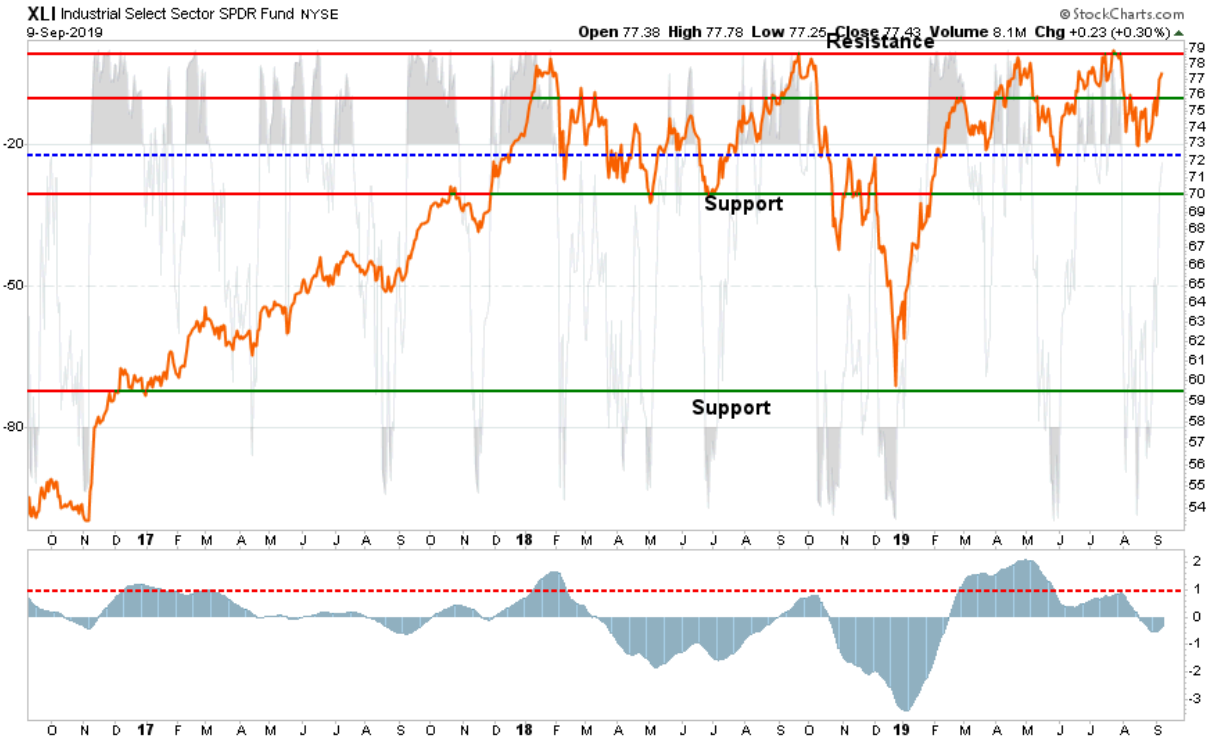
- *XLE continues to struggle with supply builds and a weakening economy.*
- *As noted last week, with the sector oversold and the "sell signal" is getting extended, there is a decent probability for a retracement.*
- *That rally occurred over the last couple of sessions. However, as noted, any rallies should be used as clearing rallies for now to reduce weightings to the sector until the technical backdrop improves.*
- *We were stopped out of our position previously.*
- *Short-Term Positioning: Bearish*
    - *Last week: Stopped out.*
    - *This week: Stopped out.*
    - *No position currently*
- *Long-Term Positioning: Bearish*

Financials



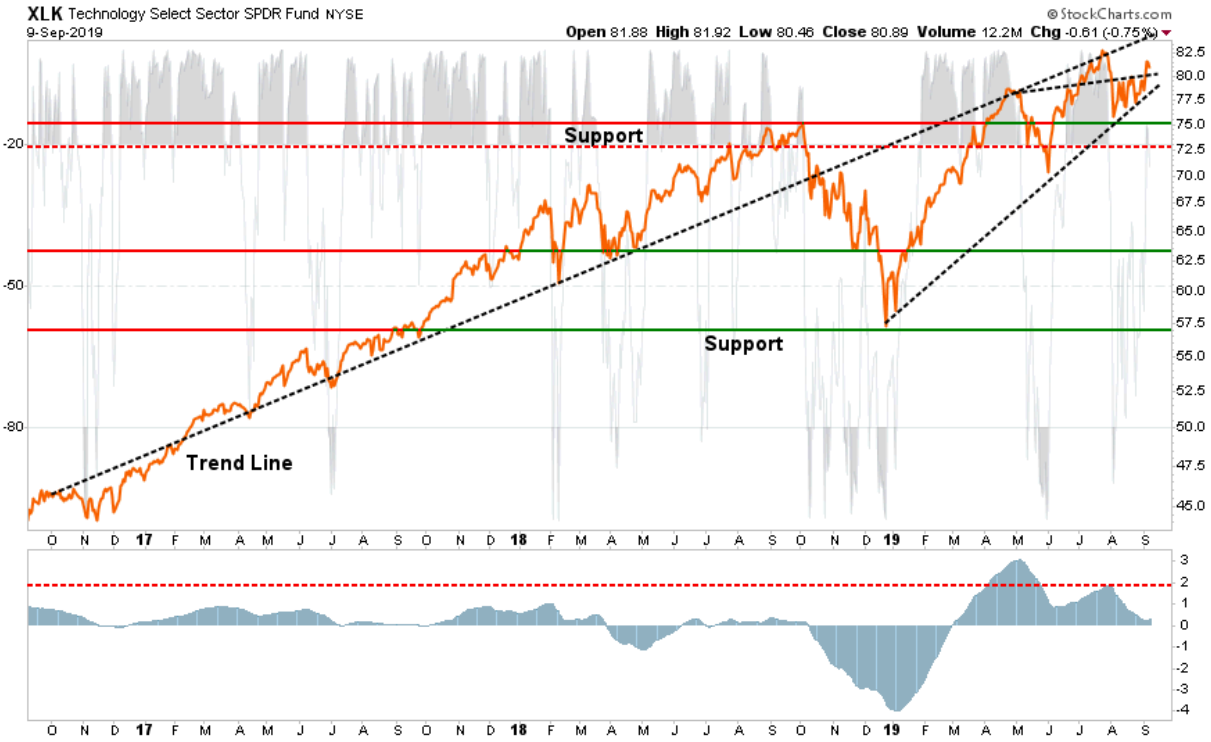
- *XLF has been in a long consolidation rage since the beginning of 2018.*
- *XLF has triggered a "sell" signal and has gotten oversold. That oversold condition led to the reflexive bounce over the past few sessions on hopes of more Central Bank stimulus.*
- *We closed out of positioning previously as inverted yield curves and Fed rate cuts are not good for bank profitability. Use this rally to reduce holdings accordingly.*
- *Short-Term Positioning: Neutral*
    - *Last week: Closed Out/No Position.*
    - *This week: Closed Out/No Position.*
    - *Stop-loss adjusted to $26.00*
- *Long-Term Positioning: Bearish*

Industrials



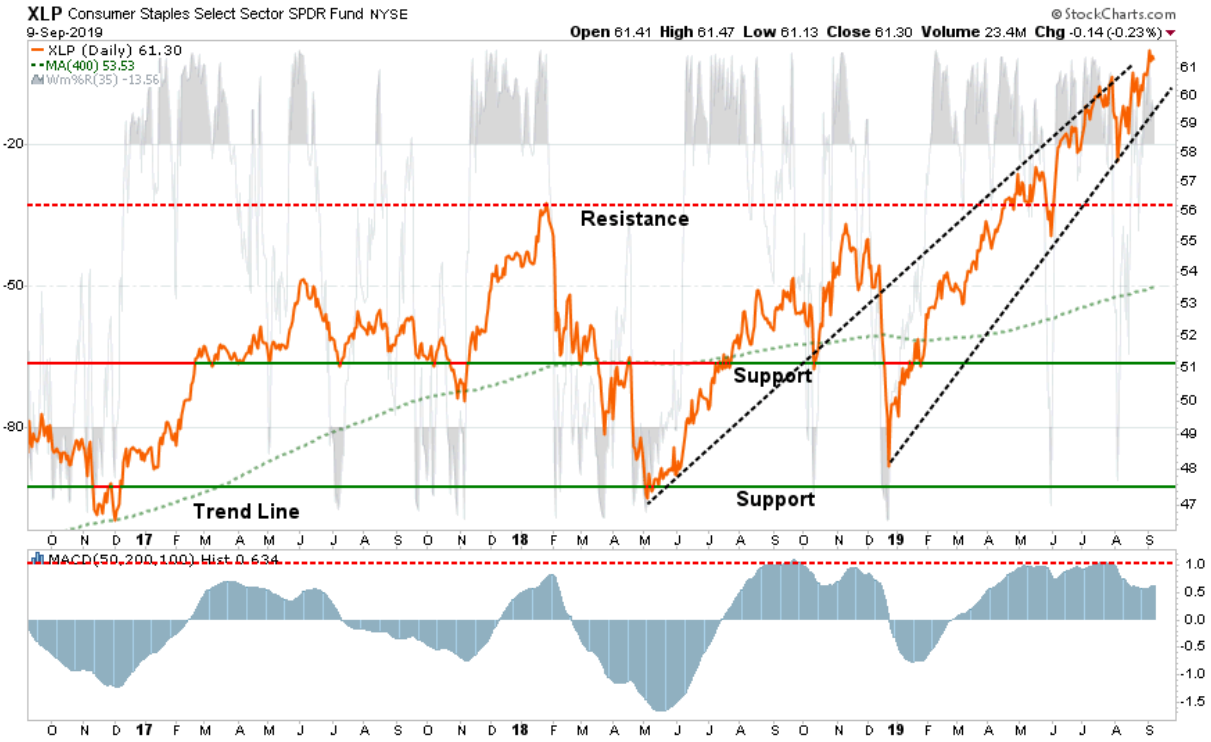
- *XLI bounced back last week on hopes of a trade war "cease fire" but is about to run into major overhead resistance.*
- *XLI is almost back to overbought and the sell signal remains intact.*
- *We reduced our risk to the sector after reaching our investment target. We are now adjusting our stop-loss for the remaining position.*
- *Short-Term Positioning: Neutral*
    - *Last week: Hold 1/2 position*
    - *This week: Hold 1/2 position.*
    - *Stop-loss adjusted to $72*
- *Long-Term Positioning: Neutral*

Technology



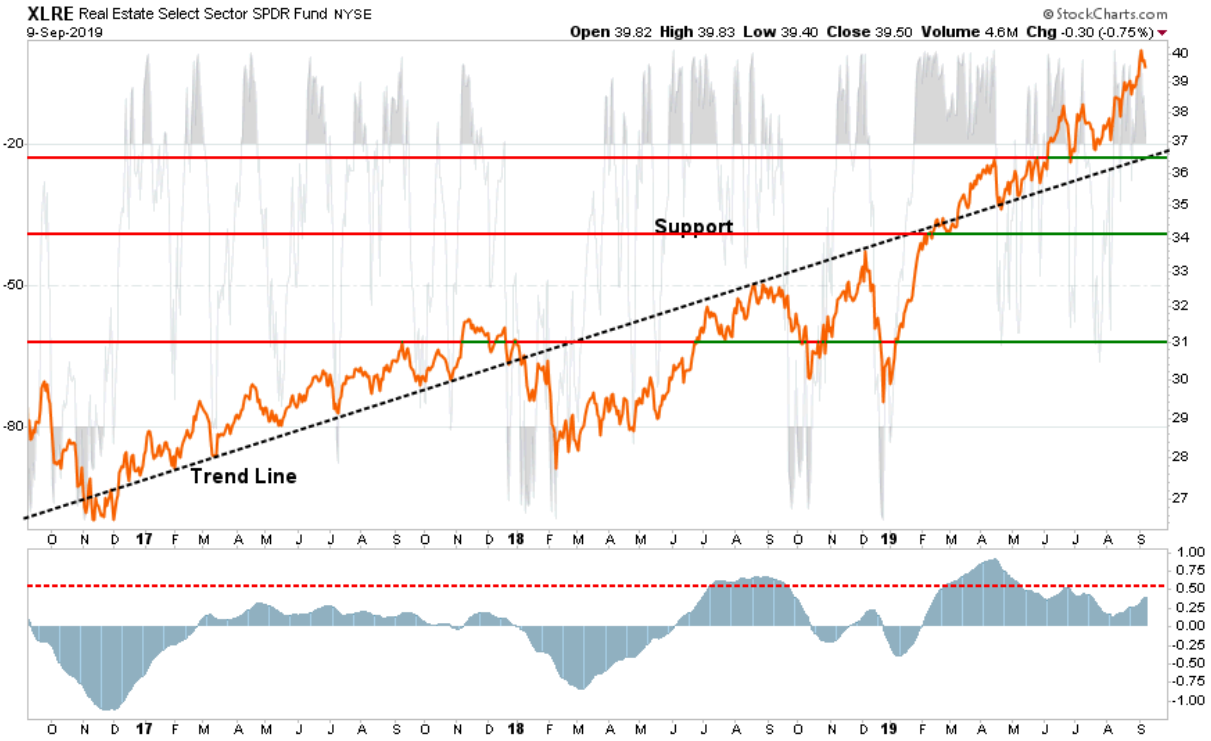
- *XLK remains one of the "safety" trades against the "trade war."*
- *XLK has moved back to short-term overbought, and remains a fairly extended and crowded trade.*
- *XLK held support at $75 and is breaking its short-term consolidation. Next target are old highs and the top of the uptrend line.*
- *The buy signal is close to reversing to a "sell."*
- *Short-Term Positioning: Bullish*
    - *Last week: Hold 1/2 position*
    - *This week: Hold 1/2 position*
    - *Stop-loss adjusted to $75.00*
- *Long-Term Positioning: Neutral*

Staples



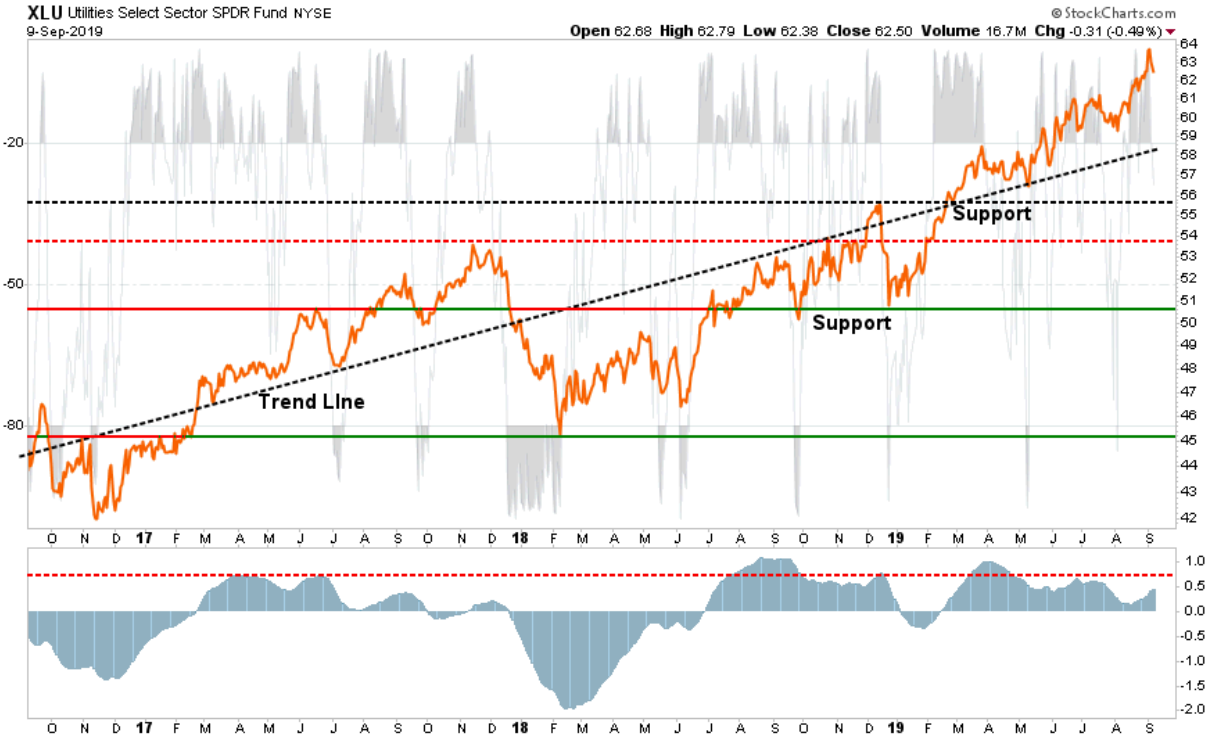
- *As noted previously, defensive positioning is now a VERY crowded trade.*
- *The "buy" signal (lower panel) is still in place and is very extended. We continue to recommend taking some profits if you have not done so.*
- *Short-Term Positioning: Bullish*
  - *Last week: Hold positions, take profits if needed.*
  - *This week: Hold positions, take profits if needed.*
  - *Stop-loss adjusted to $57*
- *Long-Term Positioning: Bullish*

Real Estate



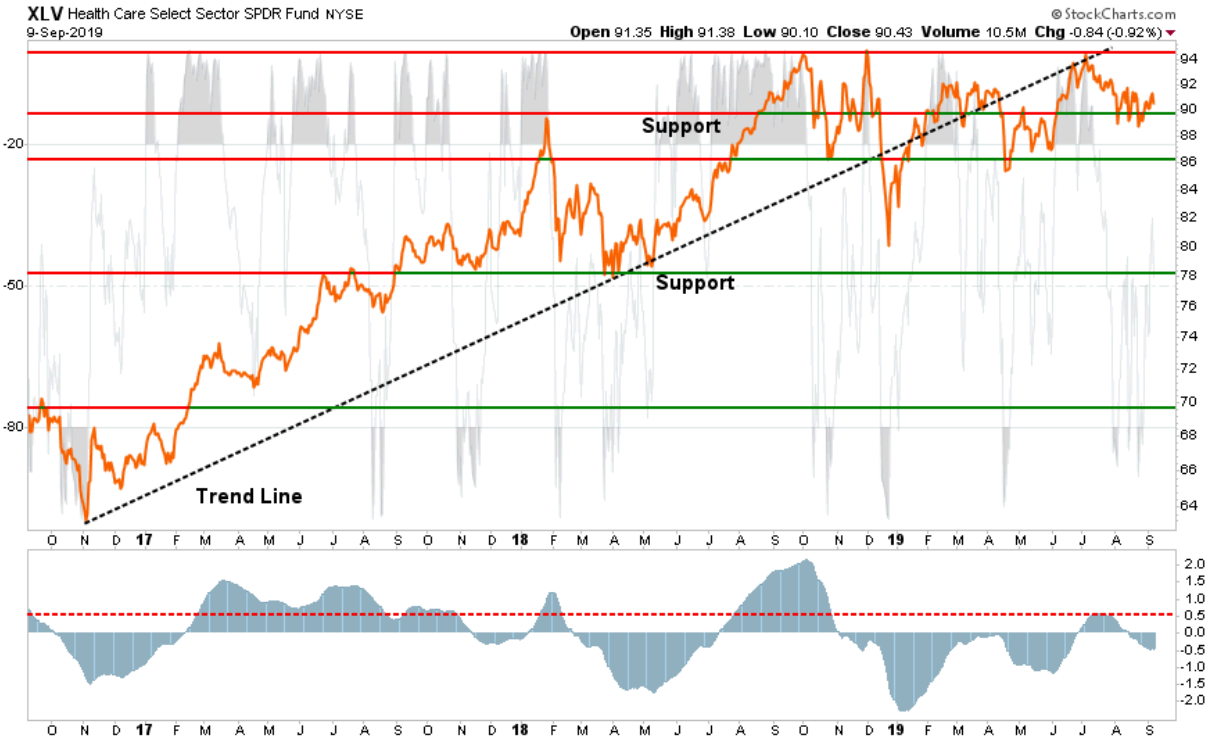
- *As with XLP above, XLRE was consolidating its advance and has now pushed to new highs and is extremely extended.*
- *XLRE is also a VERY CROWDED defensive trade.*
- *XLRE is back to very overbought so be careful adding new positions and keep a tight stop for now.*
- *We previously recommended taking profits and rebalancing risk as the overbought condition needed to be corrected. That occurred.*
- *Buy signal has been reduced and has turned positive which is bullish for now.*
- *Short-Term Positioning: Bullish*
    - *Last week: Hold position.*
    - *This week: Hold position.*
    - *Stop-loss adjusted to $36.00 for profits.*
- *Long-Term Positioning: Bullish*

Utilities



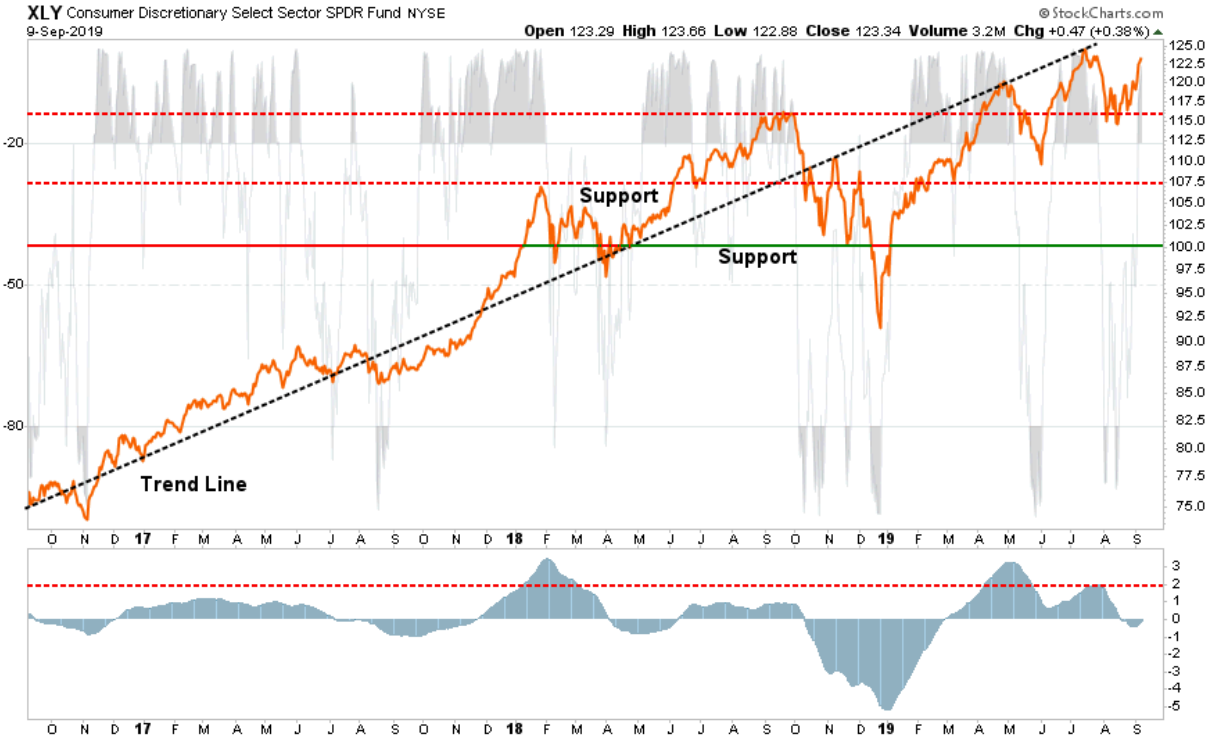
- *XLRE and XLU are virtually the same commentary.*
- *After taking profits, we have time to be patient and wait for the right setup.*
- *Long-term trend line remains intact and the recent test of that trend line with a break to new highs confirms the continuation of the bullish trend.*
- *Buy signal reversed and held and has now turned higher.*
- *Short-Term Positioning: Bullish*
    - *Last week: Hold position.*
    - *This week: Hold position*
    - *Stop-loss adjusted to support at $58.00*
- *Long-Term Positioning: Bullish*

Health Care



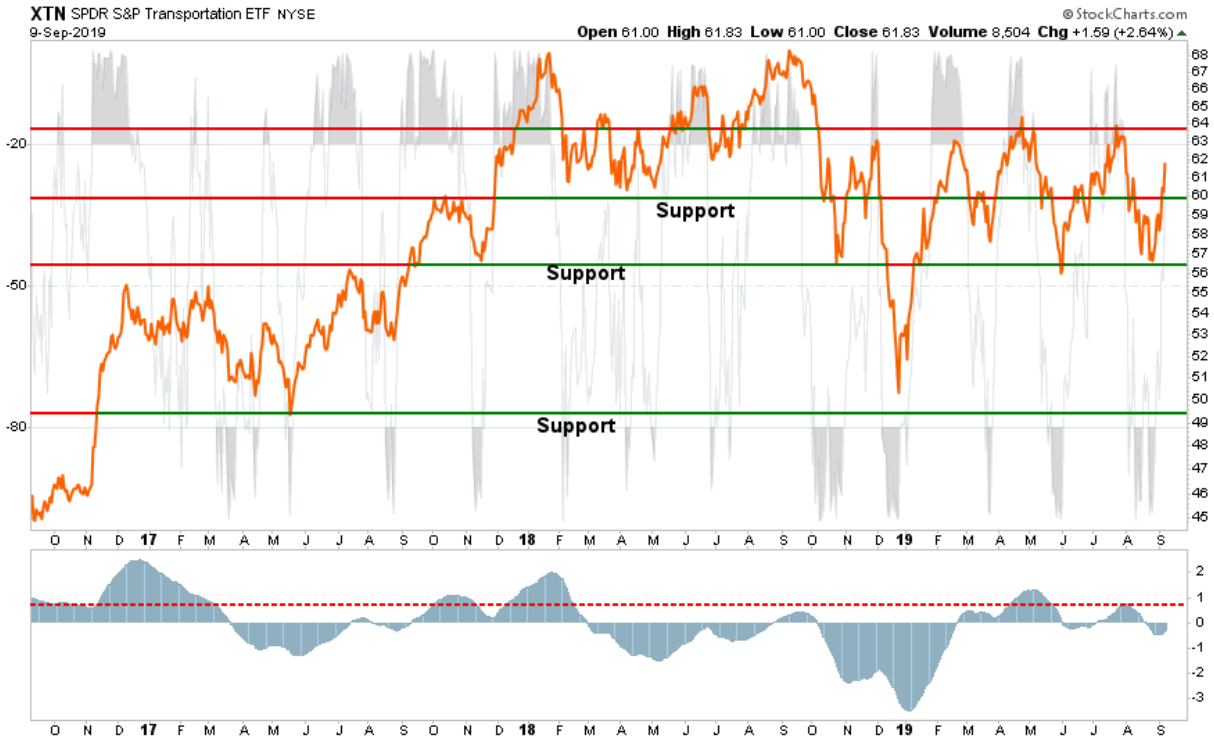
- *XLV has triggered a sell signal and will likely threaten our stop-loss.*
- *However, in the meantime, XLV continues to flirt with support levels. The current correction was expected, A breakout of the current downtrend will be bullish.*
- *We continue to maintain a fairly tight stop for now.*
- *Short-Term Positioning: Neutral*
    - *Last week: Hold position.*
    - *This week: Hold position*
    - *Stop-loss adjusted to $88*
- *Long-Term Positioning:•Neutral*

Discretionary



- *Despite the fact the latest round of tariffs directly target discretionary items, XLY rallied anyway on hopes to a resolution of the "trade war" before the holiday shopping season.*
- *We added to our holdings last week to participate with the current rally, but are carrying a tight stop on the whole position.*
- *XLY has now triggered a "sell signal."*
- *Short-Term Positioning: Neutral*
    - *Last week: Added 1/2 position.*
    - *This week: Hold position*
    - *Stop-loss adjusted to $115.*
- *Long-Term Positioning: Neutral*

Transportation



- *XTN spiked higher over the last couple of trading sessions on an "oversold" bounce.*
- *XTN remains is a very broad trading range, and this rally is most likely going to fail at the previous highs for the range.*
- *XTN has triggered a "sell" signal but remains confined to a consolidation which has lasted all year. The continued topping process continues to apply downward pressure on the sector.*
- *There is still no compelling reason at this juncture to add XTN to portfolios. We will watch and see what happens.*
- *Short-Term Positioning: Neutral*
    - *Last week: No position*
    - *This week: No position*
- *Long-Term Positioning: Bearish*