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.*

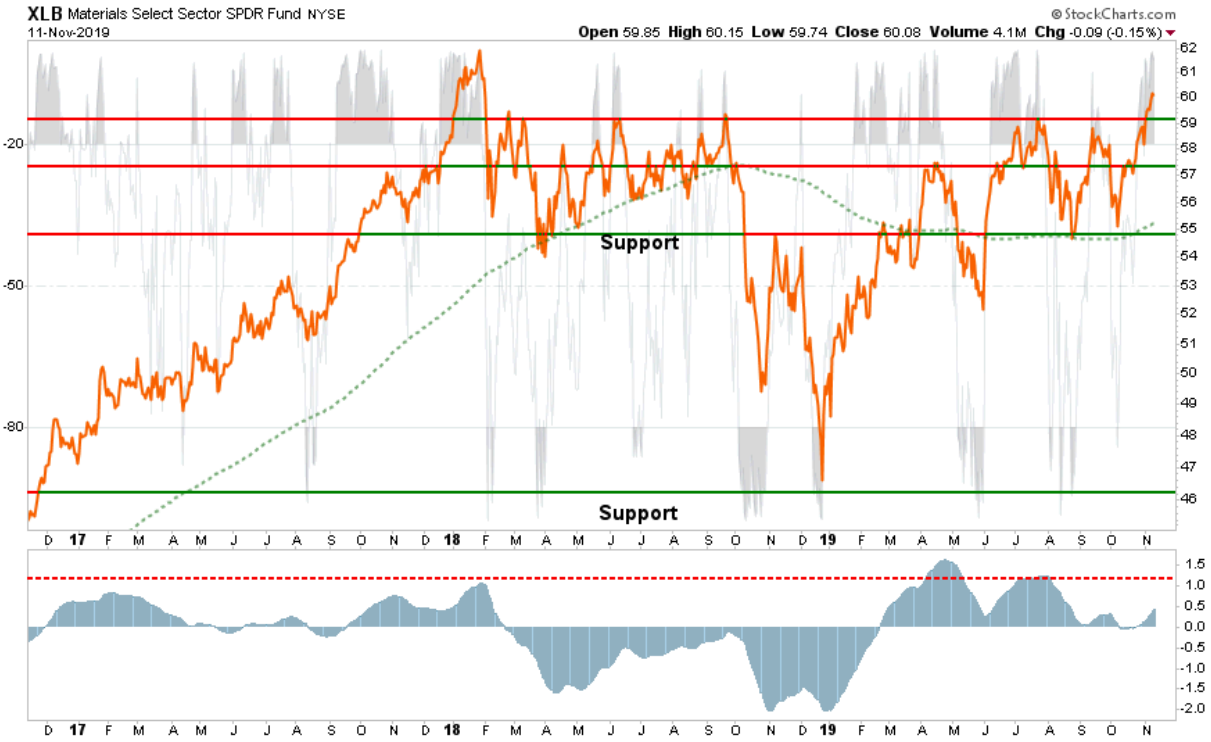
When the gray indicator is at the TOP of the chart, there is typically more risk and less reward available at the current time. In other words, the best time to BUY is when the short-term condition is over-sold. Likewise when the buy/sell indicator is above the ZERO line investments have a tendency of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



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

NOTE - Not much changed in the charts from last week. So recommendations remain primarily the same. With markets and sectors EXTREMELY overbought, it is likely best to wait for some corrective action before adding exposure. Hence the "short position" we added into portfolios yesterday to hedge risk. See portfolio commentary on home page.

Basic Materials



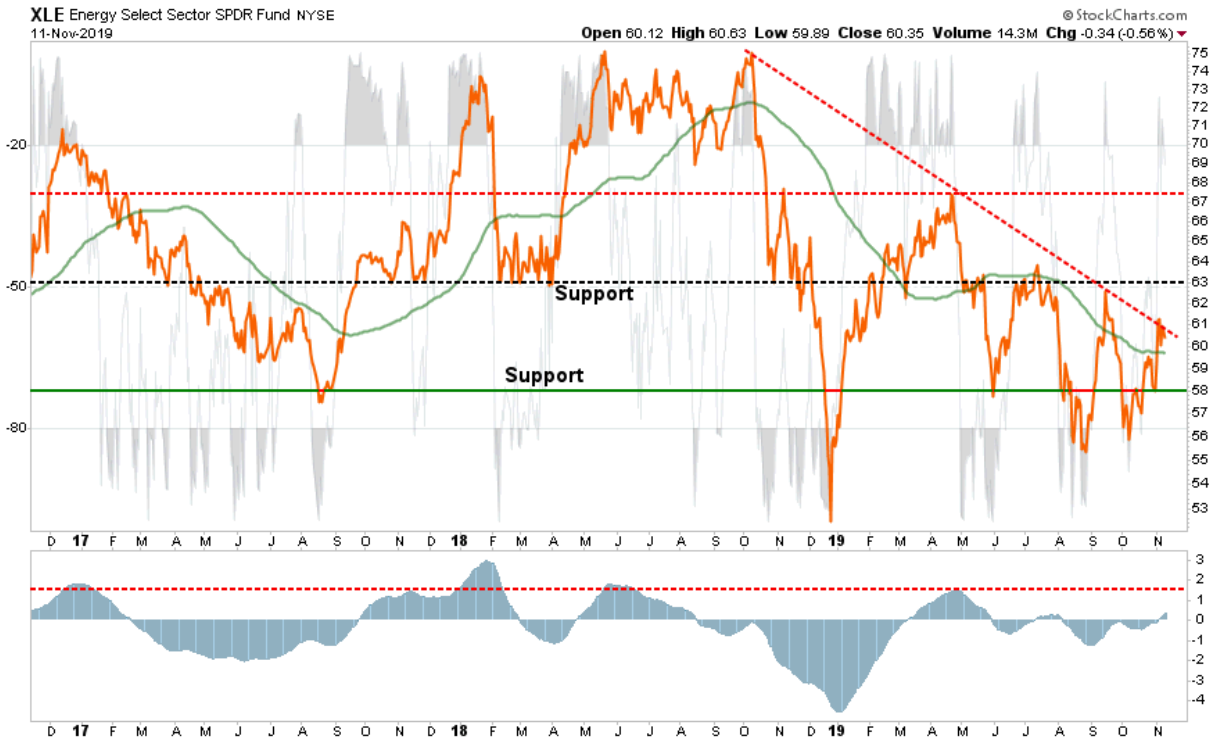
- *We are continuing to look to increase weighting slightly to Materials particularly since the current "sell signal" has been reversed.*
- *XLB is extremely overbought short-term so look for a bit of consolidation or pullback, which does not reverse the "buy signal" to add to positions.*
- *Short-Term 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



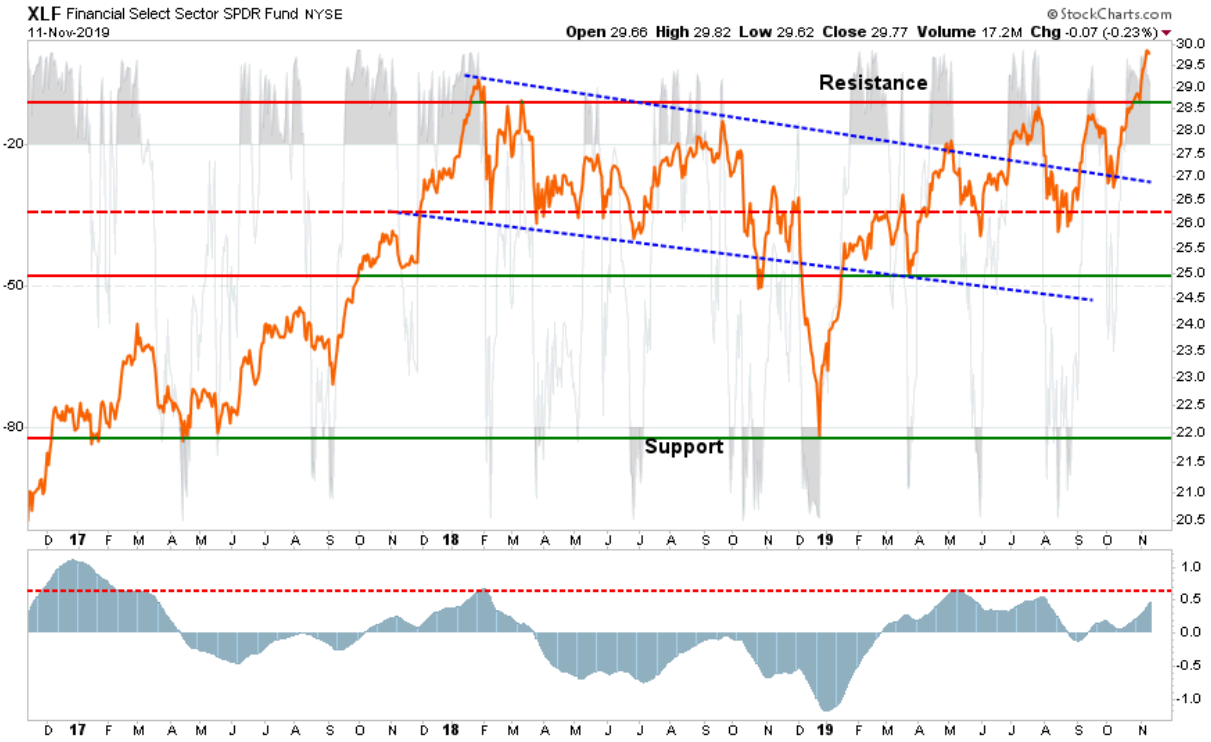
- *XLC held important support and has now rallied back to previous resistance at the highs but has been unable to establish new highs as of yet.*
- *A reversal of the "sell signal" has finally occurred and should help lift the sector higher, but in the short-term XLC is extremely overbought.*
- *XLC is currently a full-weight in portfolios but should perform better if a year-end advance ensues.*
- *Short-Term Positioning: Neutral*
    - *Last Week: Hold trading positions*
    - *This Week: Hold trading positions.*
    - *Stop adjusted to $47.50*
- *Long-Term Positioning: Bearish*

Energy



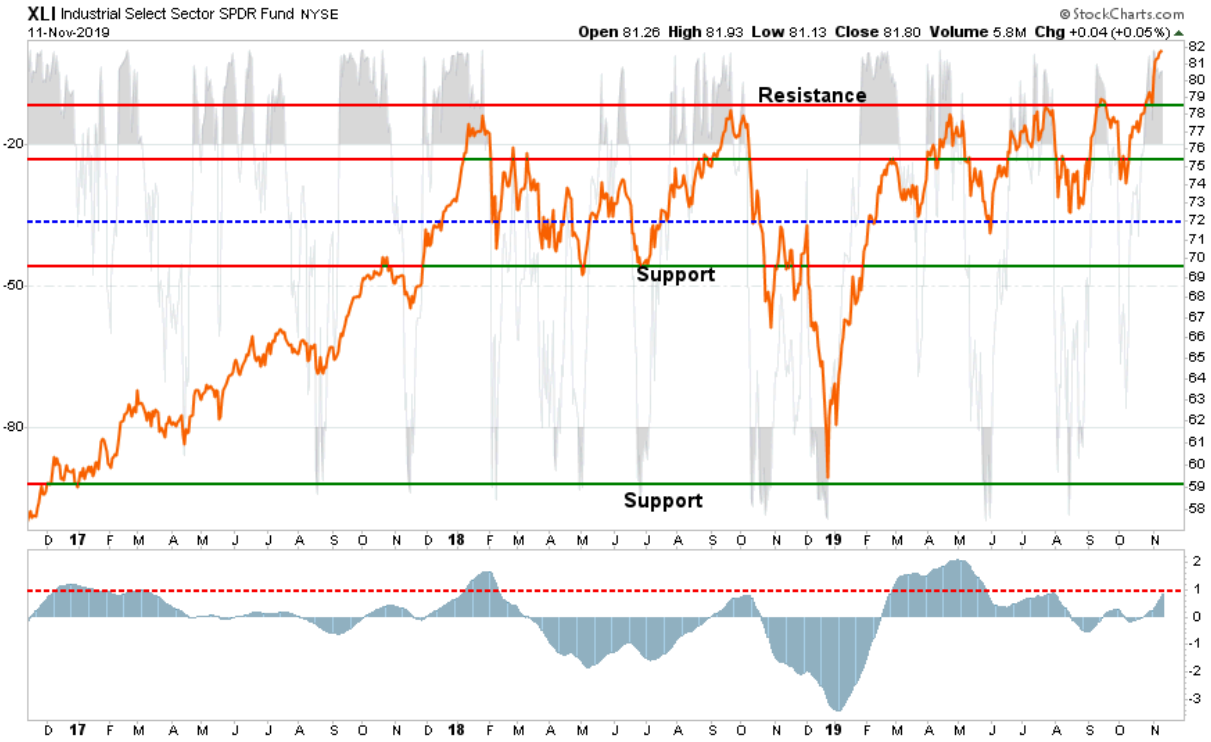
- *We have noted previously, that XLE needs to move higher which it has done as of late.*
- *The "sell signal" has been reversed. With relative performance improving, we may see more gains. However, a break of the current downtrend is a must before adding exposure.*
- *While there is "value" in the sector, there is no need to rush into a position just yet. The right opportunity and timing will come, it just isn't right now.*
- *Short-Term Positioning: Bearish*
    - *Last week: No Position - looking to add*
    - *This week: No Position - looking to add*
    - *No position currently*
- *Long-Term Positioning: Bearish*

Financials



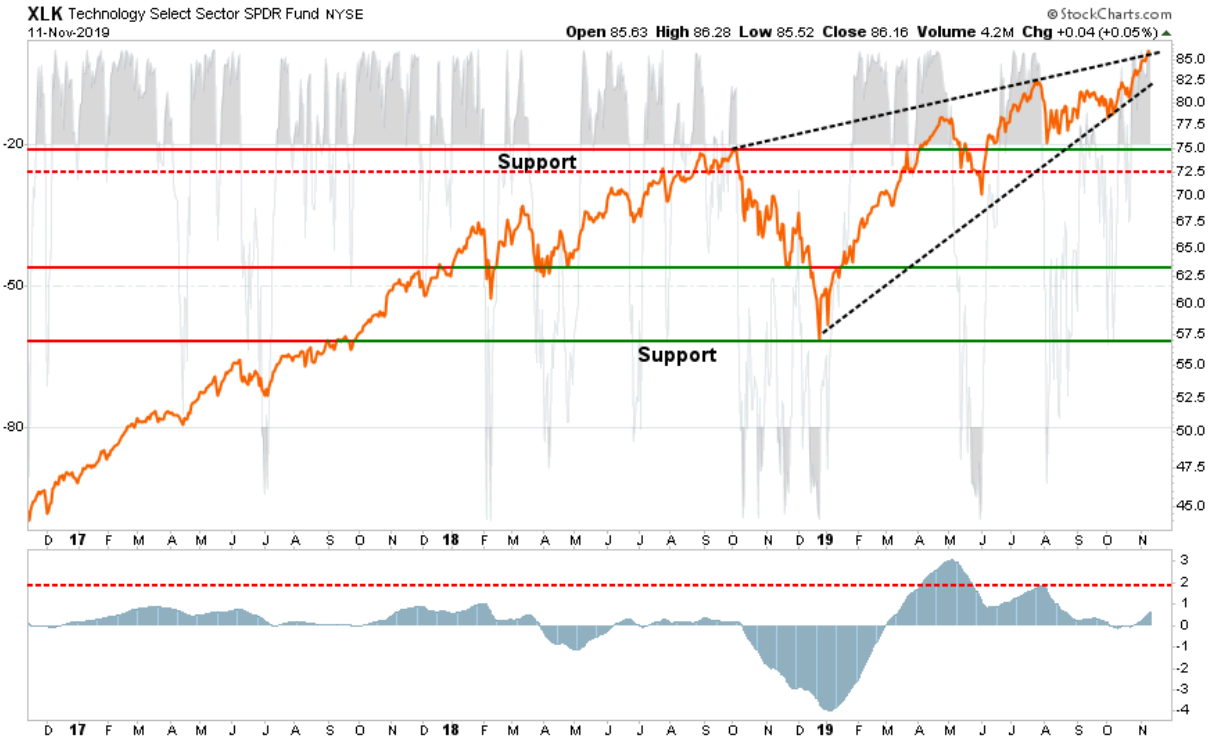
- *XLF finally broke out to new highs which makes it much more interesting to add to the portfolio.*
- *The sector is extremely overbought, but on a buy signal, so a pull back or consolidation is required to add holdings into the portfolio.*
- *We previously closed out of positioning as inverted yield curves and Fed rate cuts are not good for bank profitability. That is still the case, however, the sector is performing technically which we can not ignore.*
- We will see if a break above resistance can hold before adding exposure back into portfolios for a *"trading basis"* only.
- *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



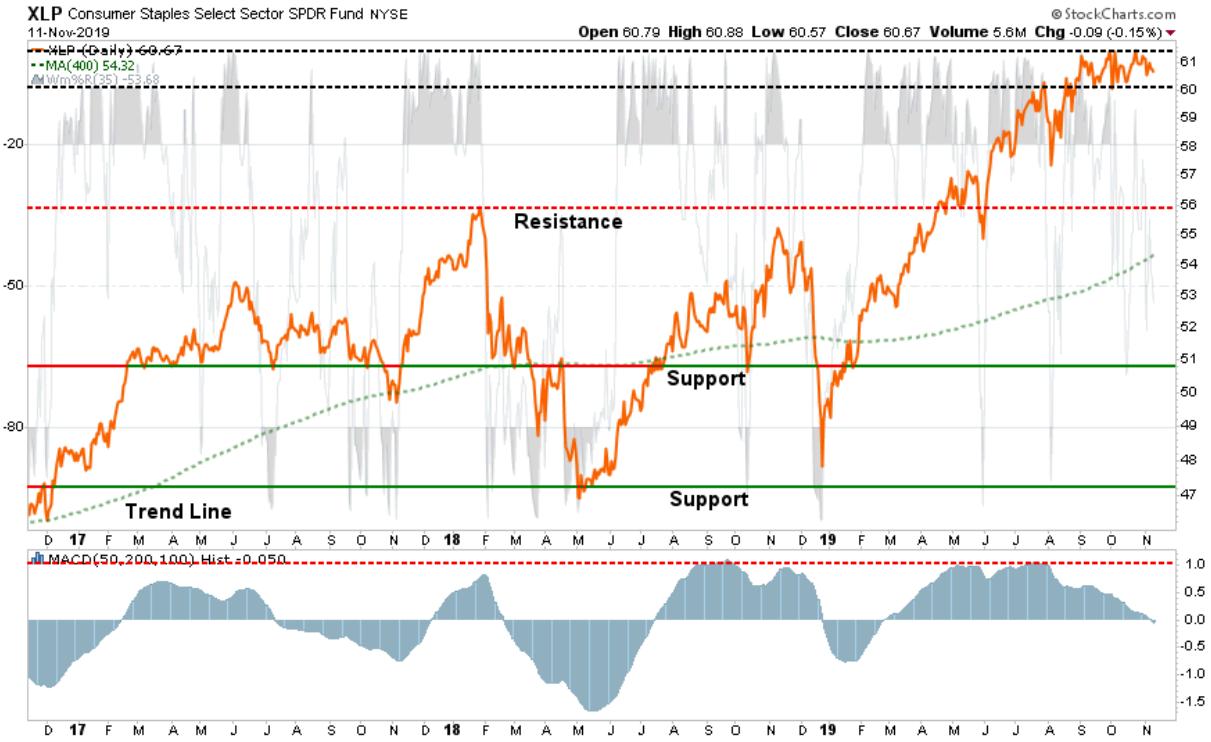
- *Like XLF, XLI broke out to new highs. After a long-consolidation, this is an important development.*
- *As with Materials above, a rotation into cyclical exposures is likely heading into year end, so we are looking for a bit of consolidation and/or pullback to work off some of the extreme overbought condition before increasing our weighting.*
- *We have adjusted our stop-loss for the remaining position. We are looking to add back to our holdings on a reversal to a buy signal.*
- *Short-Term Positioning: Neutral*
    - *Last week: Hold 1/2 position*
    - *This week: Hold 1/2 position.*
    - *Stop-loss adjusted to $75*
- *Long-Term Positioning: Neutral*

Technology



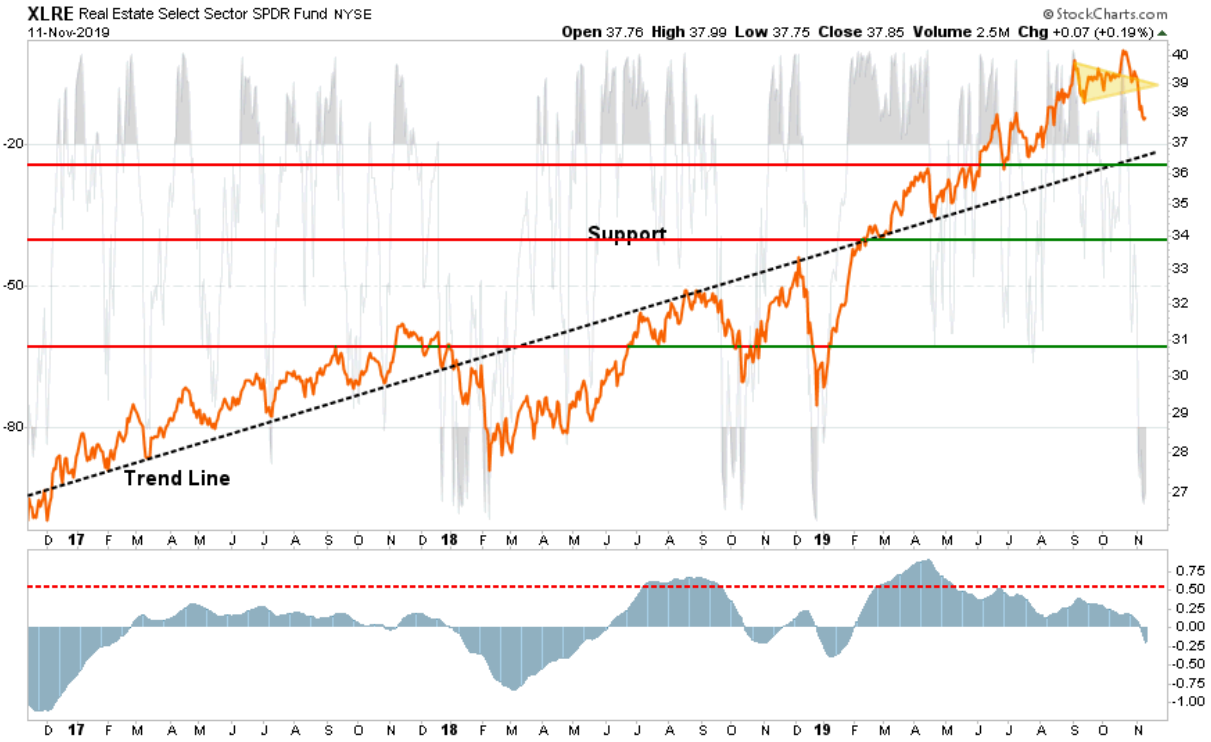
- *XLK is back to a more extreme overbought condition, but has now broken out of the consolidation. Given technology makes up about 1/5th of the S&P 500 weighting, this sector is dragging the whole market higher.*
- *We are currently target weight on Technology, but may increase to overweight on a confirmed breakout. (A retest of the breakout that holds) The upper rising trendline is also providing resistance so look to add on a pullback that holds the lower trendline support.*
- *Short-Term Positioning: Bullish*
    - *Last week: Hold position*
    - *This week: Hold position*
    - *Stop-loss adjusted to $77.50*
    - *Long-Term Positioning: Neutral*

Staples



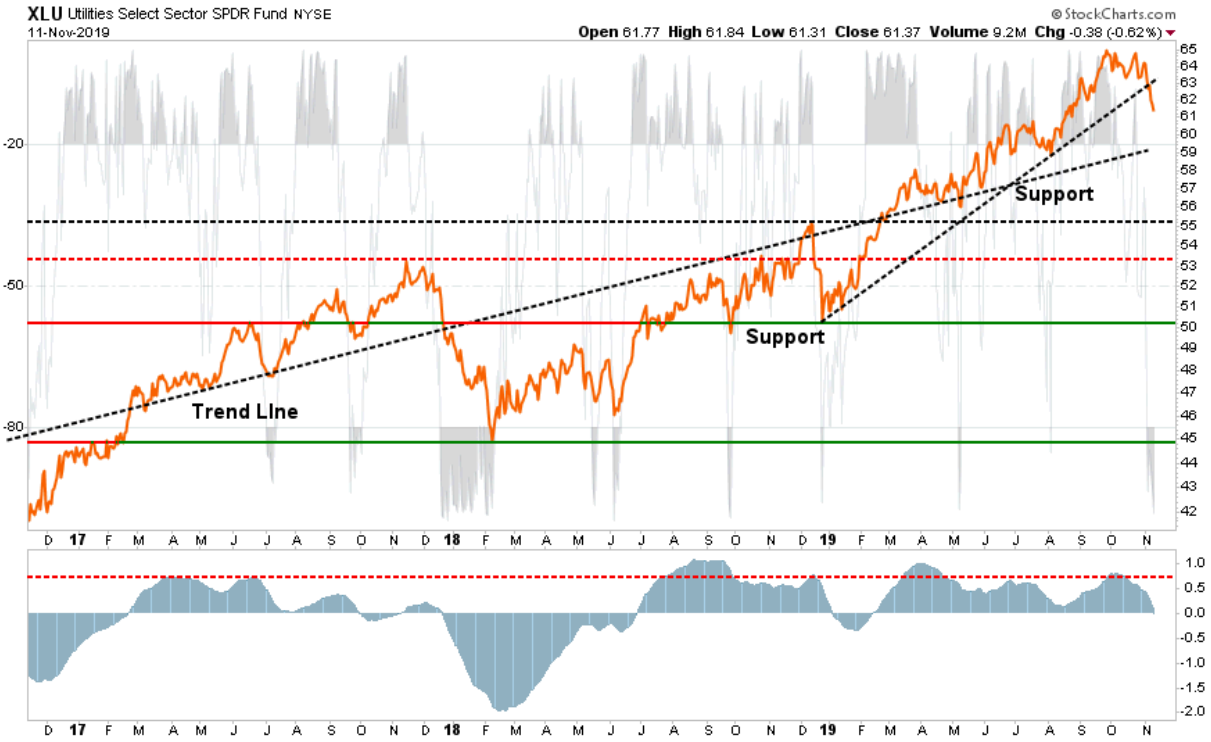
- *Defensive sectors have started to perform a little "less well" as of late as money is rotating from some defensive areas.*
- *XLP continues to hold its very strong uptrend but is threatening to break that support. If it does, it could lead to a rather abrupt sell off.*
- *The "buy" signal (lower panel) is still in place but is threatening to turn into a sell if performance doesn't pick up soon.*
- *We previously took profits in XLP and reduced our weighting from overweight. We will likely look to reduce further when opportunity presents itself.*
- *Short-Term Positioning: Bullish*
    - *Last week: Hold positions, take profits if needed.*
    - *This week: Hold positions, take profits if needed.*
    - *Stop-loss adjusted to $58*
    - *Long-Term Positioning: Bullish*

Real Estate



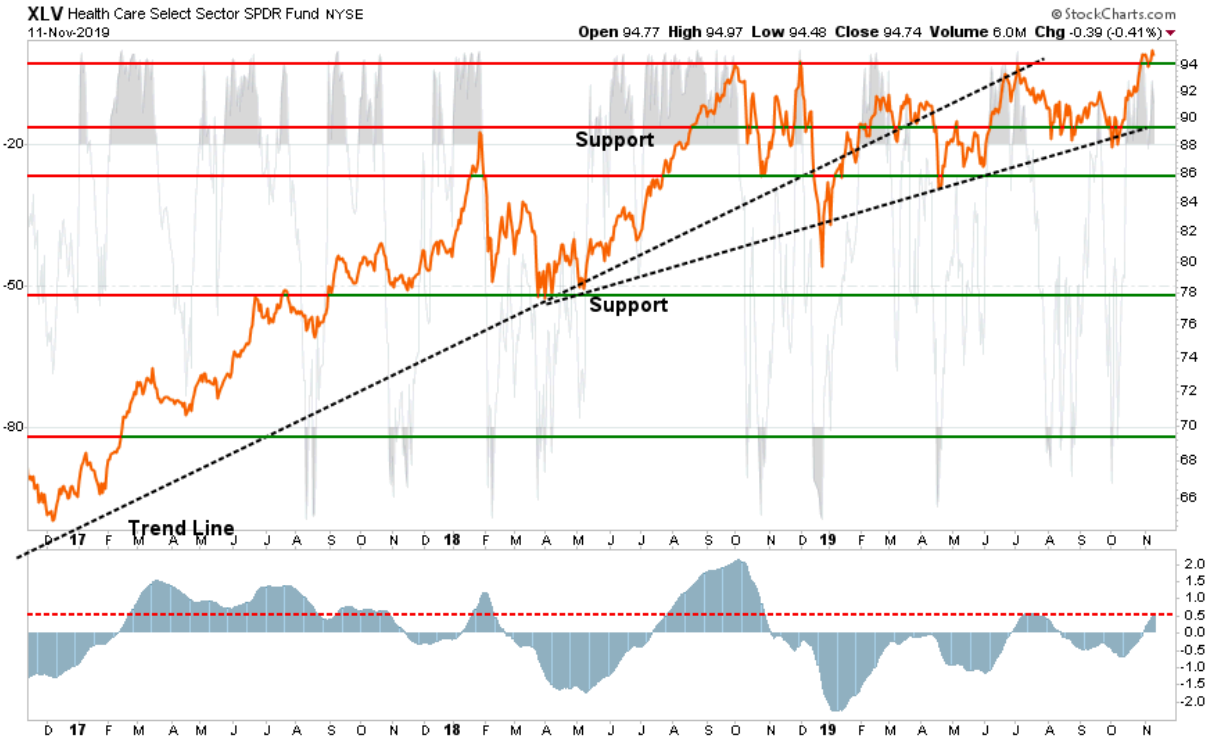
- *As noted last week, XLRE was consolidating its advance within a very tight pattern.*
- *We had previously recommended taking profits and rebalancing risk as the overbought condition needed to be corrected. XLRE reversed the breakout this past week, and is now testing support again.*
- *XLRE Registered a "sell signal" in the last week which is the first such signal since 2018. With interest rates getting VERY oversold we may be getting a very good setup for adding to our holdings.*
- *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



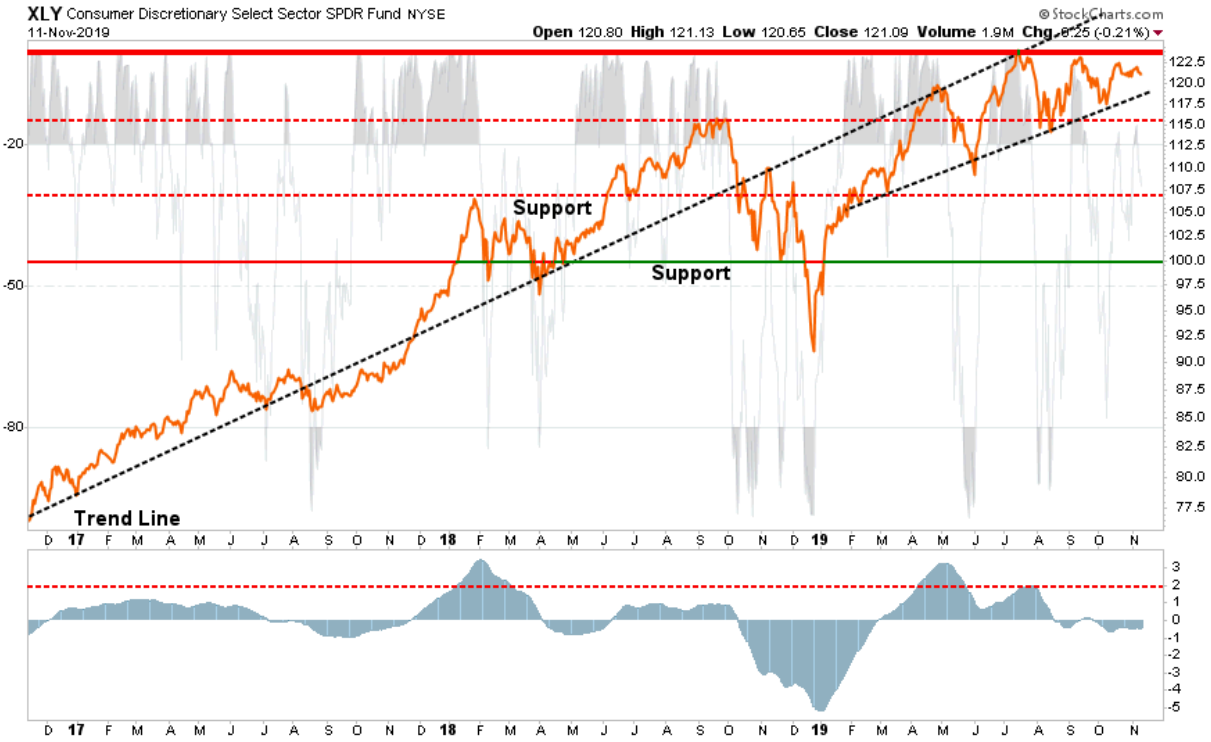
- *XLRE and XLU are virtually the same commentary.*
- *After taking profits, we have time to be patient and wait for the right setup. We may be getting an opportunity here soon if support can hold as the overbought condition is reversed. Watch the $63 level.*
- *Long-term trend line remains intact but XLU is grossly deviated from longer-term means. A correction back to the uptrend is underway and needs to hold without breaking lower.*
- *Interest rates will be key here.*
- *We took profits recently but will likely do more if performance continues to struggle.*
- *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



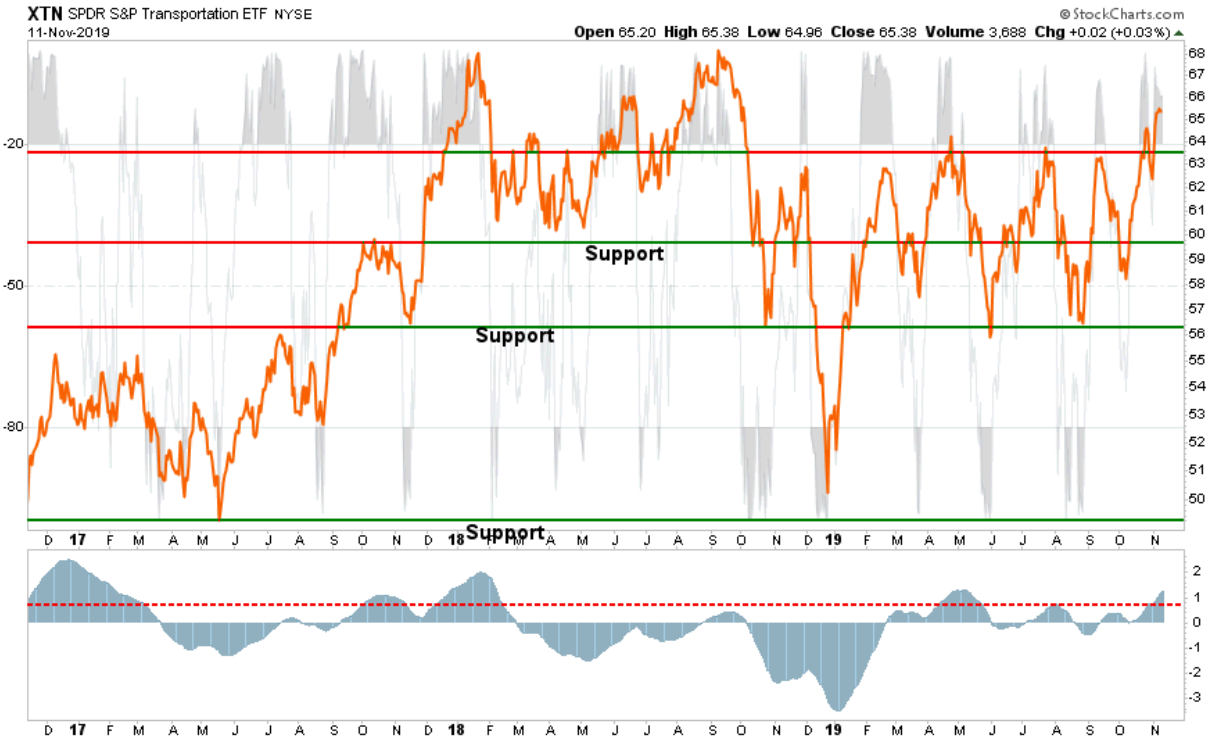
- *XLV has remained intact and has broken out to new highs. With the "buy signal" now triggered, healthcare is much more interesting.*
- *As noted previously, healthcare will likely begin to perform better soon if money begins to look for "value" in the market. We are looking for entry points to add to current holdings and we added a new holding in the Equity portfolio.*
- *We continue to maintain a fairly tight stop for now, but look for a reduction of the overbought condition to add weight to the sector.*
- *Short-Term Positioning: Neutral*
    - *Last week: Hold position.*
    - *This week: Hold position*
    - *Stop-loss adjusted to $88*
- *Long-Term Positioning: Neutral*

Discretionary



- *The rally in XLY has not participated as much as other sectors like Financials, Industrials and Materials, and has failed to break above resistance.*
- *We added to our holdings previously to participate with the current rally, but are carrying a tight stop on the whole position.*
- *XLY is struggling to reverse back to a buy signal, and overhead resistance is going to problematic short-term.*
- *Hold current positions for now, as the Christmas Shopping Season is approaching, which should help push the sector higher. However, the dismal performance relative to other sectors of the markets suggests not adding new/additional exposure currently.*
- *Short-Term Positioning: Neutral*
    - *Last week: Hold position*
    - *This week: Hold position*
    - *Stop-loss adjusted to $115.*
- *Long-Term Positioning: Neutral*

Transportation



- *XTN has broken out of consolidation but will quickly run into previous highs. The chase into previously "out of favor" sectors is likely going to end as quickly as it began.*
- *With a "buy" signal in place, combined with the fact XTN is not overbought, a better setup is forming to add holdings. Take profits if long, and wait for a pullback to add to holdings.*
- *Short-Term Positioning: Neutral*
    - *Last week: No position*
    - *This week: No position*
- *Long-Term Positioning: Bearish*