Each week we produce a chart book of the S&P 500 sectors to review where money is flowing within the market as a 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 five primary components to each chart if you want to recreate them yourself in the CHARTING application under the RESEARCH tab.

- *The top chart is the Williams %R set at 14-days*
- *The candlestick price chart is bounded by two Bollinger Band studies set at a 50-dma with 2- and 3-standard deviations.*
- *Below the price chart is a Stochastic indicator set at 14 %K periods, 3 %K smoothing, and 3 %D periods.*
- *The MACD chart at the bottom is the primary buy/sell signal set at 12/26/9 days.*
- *Some charts will also compare to the S&P 500 index itself as a measure of over/underperformance.*

When the indicators are at the TOP of their respective charts, there is typically more risk and less reward available. In other words, the best time to BUY is when the majority of the indicators are at the BOTTOM of their respective channels.

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

Basic Materials

- *While inflation is high, it erodes the profit margins of companies that can't pass those costs along in full. As such we are seeing materials getting impacted.*
- *Materials have broken both the 50- and 200-dma and remain on a short-term sell signal that is only about 50% through its reversion process.*
- *There is a reasonable expectation that Materials will retrace to the bottom of their 2-standard deviation range over the next couple of weeks.*
- *Short-Term Positioning: Bearish*
    - *Buy target is $80*
    - *Stop-loss is currently $84*
- *Long-Term Positioning: Neutral*

Communications

- *Long-term trend line is currently broken*
- *Communications are extremely oversold and trying to base on recent lows.*
- *Currently on a very deep sell signal (bottom panel) which is close to triggering a "buy signal."*
- *The downtrend in Communications from last September will present headwinds to reflexive rallies.*
- *Short-Term Positioning: Bearish*
    - *Buy with a target of $65-66*
    - *Stop-loss is currently $58*
- *Long-Term Positioning: Neutral*

Energy

- *In November of 2020, no one wanted to own Energy stocks. Now, everyone is aggressively long the sector. Such is a warning sign in and of itself from a contrarian perspective.*
- *Energy is extremely overbought on multiple levels and is pushing more extreme deviations from its 50-dma.*
- *Currently, Energy is on a buy signal, but rallies from current levels should be sold into to take profits and reduce overweight positions.*
- *Short-Term Positioning: Bullish*
  - *Hold current positions, look to add new positions on a pullback to $70*
  - *Stop-loss is currently $60 which doesn't make a good risk/reward ratio at the current time.*
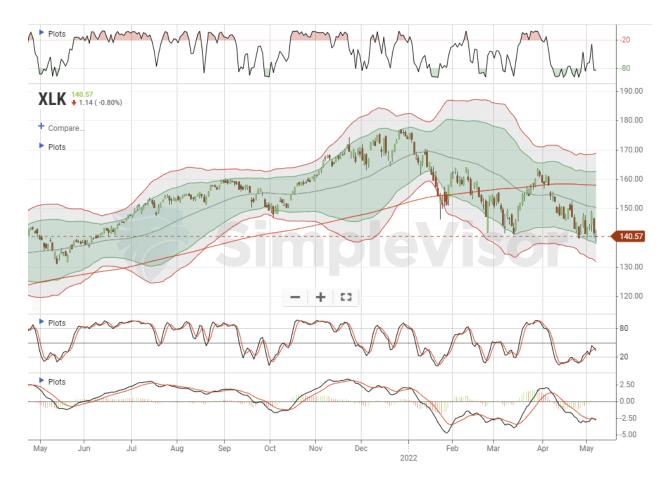- *Long-Term Positioning: Bullish*

Financials

- *Financials have broken below both the 50- and 200-dma with the 50-dma now crossing below the 200-dma. Such does add additional downside pressure on Financials currently.*
- *Support is currently holding along the $34.70 level and is currently pushing 3-standard deviations below the 50-dma. Such previously denoted short-term bottoms and tradeable rallies.*
- *Currently on very deep sell-signal (bottom panel)*
- *Short-Term Positioning: Bearish*
  - *Buy with a target of $37*
  - *Stop-loss is currently $34*
- *Long-Term Positioning: Neutral*

Industrials

- *As with Materials, Industrials are also being impacted by inflation eating into their profit margins.*
- *Unlike Materials, Industrials are deeply oversold currently and sitting on decent support at the March lows.*
- *Currently on very deep sell-signal (bottom panel)*
- *Industrials are trading at more extreme 2-standard deviation levels below the 50-dma.*
- *The 200-dma previously provided important overhead resistance and a failed test. The 50-dma is trading below the 200-dma providing downward pressure on the sector.*
- *Short-Term Positioning: Neutral*
  - *Buy with a target of $100*
  - *Stop-loss is currently $94*
- *Long-Term Positioning: Neutral*

Technology

- *Technology has been under a lot of pressure this year with the sector now trading well into 2-standard deviation territory below the 50-dma.*
- *Previous minor support from March is holding for now, but with the 50-dma trading below the 200-dma, rallies are likely limited for now.*
- *Currently, Technology is on a very deep sell-signal (bottom panel)*
- *While a rotational rally from overbought sectors like Energy to Technology is likely, the rally will likely be short-lived so use rallies to reduce risk and rebalance.*
- *Short-Term Positioning: Bearish*
  - *Buy with a target of $150*
  - *Stop-loss is currently $139*
- *Long-Term Positioning: Neutral*

Staples

- *Staples remains one of the better-performing sectors this year but after getting extremely overbought has been correcting back to support at the 50-dma.*
- *The 200-dma has been solid support and good buying opportunities for Staples.*
- *Currently on an early sell-signal (bottom panel)*
- *Short-term the sector is oversold and the 50-dma should hold.*
- *Short-Term Positioning: Bullish*
  - *Hold current positions.*
  - *Look to add to positions at the 200-dma.*
  - *Stop-loss is currently $73*
- *Long-Term Positioning: Bullish*

Real Estate

- *Real estate took a fairly sharp hit over the last couple of weeks as rates continued to increase and weakness appeared in the housing market.*
- *Support is holding at multi-month lows going back to June and July of last year.*
- *Currently on an early sell-signal (bottom panel)*
- *Currently oversold (top panel)*
- *Short-Term Positioning: Bullish*
    - *Buy with a target of $50*
    - *Stop-loss is currently $43*
- *Long-Term Positioning: Bullish*

Utilities

- *Like the Energy sector, Utilities continue to perform well with the sector holding the 200-dma.*
- *Support at the 200-dma has consistently been a good entry point to add holdings and selling when the sector pushes 2-standard deviations above the 50-dma.*
- *Currently, Utilities are on a late sell signal. (bottom panel)*
- *Oversold on a short-term basis.*
- *Short-Term Positioning: Bullish*
  - *Buy at the 200-dma*
  - *Stop-loss is currently $65*
- *Long-Term Positioning: Bullish*

Health Care

- *Health care has performed better this year than other sectors but has certainly seen its share of volatility.*
- *Currently on a very deep sell-signal (bottom panel)*
- *Healthcare is also oversold short-term (top panel)*
- *Support continues to hold at multiperiod lows back to October.*
- *Short-Term Positioning: Bullish*
  - *Buy 1/2 of a position at current levels and 1/2 more at $128*
  - *Stop-loss is currently $123*
- *Long-Term Positioning: Bullish*

Discretionary

- *Like Technology, because of its exposure to Amazon (AMZN), the sector continues to perform poorly.*
- *Support failed at the 200-dma which has now become notable resistance on failed rallies.*
- *The sector is deeply oversold pushing into 3-standard deviation territory below the 50-dma. However, the negative cross of the 50-dma below the 200-dma provides formidable resistance.*
- *Currently on a deep sell signal. (bottom panel)*
- *Oversold on a short-term basis (top panel)*
- *Short-Term Positioning: Bearish*
  - *Buy at current levels with a target of $175*
  - *Stop-loss is currently $157*
- *Long-Term Positioning: Bearish*

Transportation

- *So goes the economy, and so goes transportation. As the economy is showing signs of slowing Transportation has come under pressure.*
- *Previous support is holding for now.*
- *Currently, the sell-signal is in neutral territory which offers less reliable guidance. (bottom panel)*
- *Transportation is approaching oversold on a short-term basis. (top panel)*
- *Short-Term Positioning: Bearish*
  - *Buy at current levels with a target of $84*
  - *Stop-loss is currently $79*
- *Long-Term Positioning: Bearish*