

January 16, 2024

Top Heavy Again

Summary

Large Cap Growth/Technology stocks that dramatically influence the price direction of certain capitalization-weighted domestic equity market indices are starting to outperform again. This is at the expense of the broader market and has produced some **negative breadth divergences**. Unless remedied, *it is set up to produce either a time or a price correction*.

Under the Surface

At the index level, the **DJIA** has already recorded all-time closing highs. The **S&P 500** (SPX) and NASDAQ 100 (NDX) are also trying to record a new daily all-time high. On a weekly basis, the SPX and NDX have closed at a new all-time high.

Simultaneously, the negative divergences listed below are setting up and/or have occurred. These divergences represent a “condition” (splintered/weakening internal backdrop from which risk must be more diligently identified and managed), not a sell signal in and of themselves:

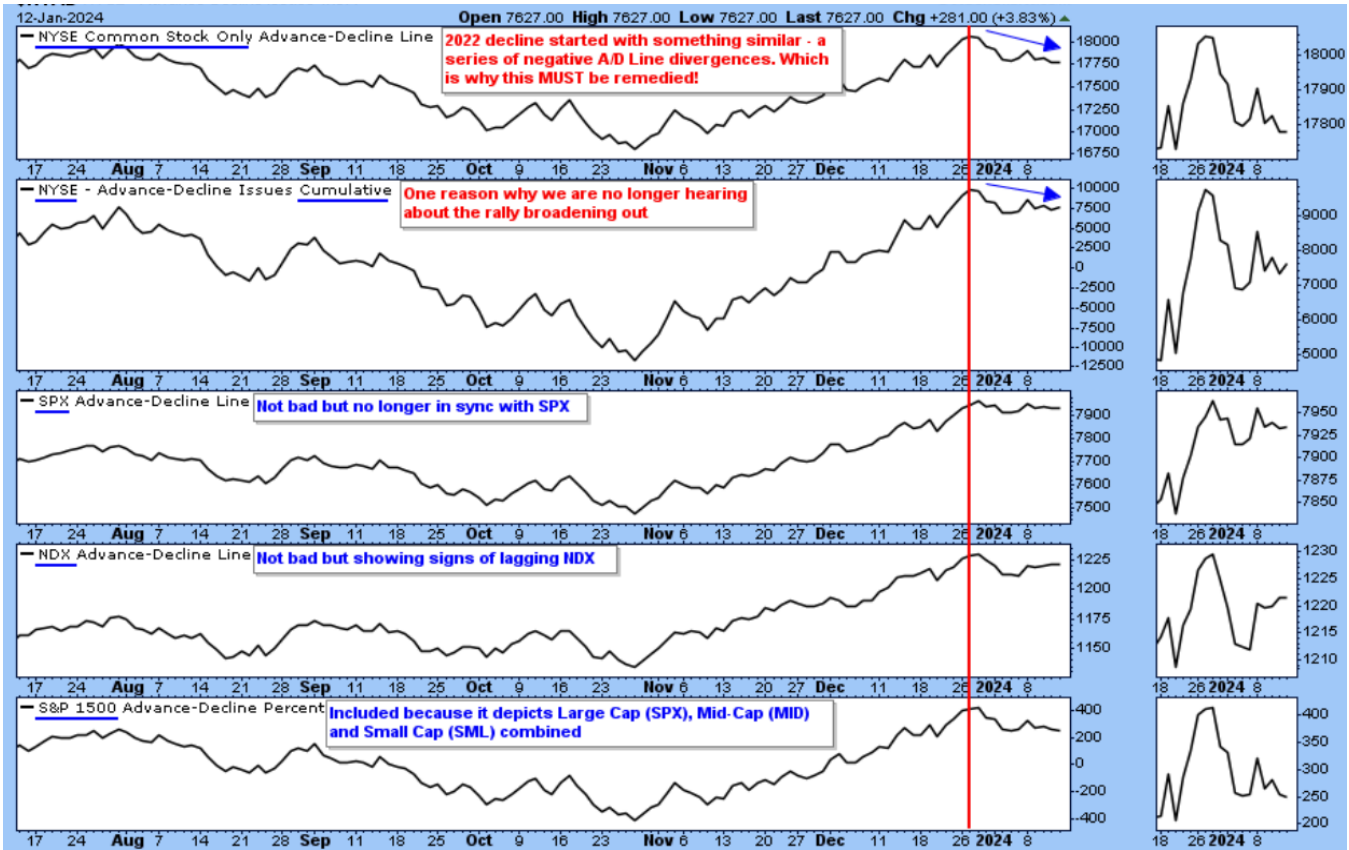
- % of NYSE and SPX stocks above 200-day MA are not close to late December 2023 levels.
- % of NYSE and SPX stocks above 50-day MA are not close to late December 2023 levels.
- New 52-Week Highs (NYSE, SPX, NDX, NASDAQ, etc.) are not close to December 2023 levels.
- SPX Equal Weight Index (SPXEW) outperformed SPX over the last three months, but over the last month and last week, SPX is outperforming SPXEW.
- Last week, the two growth/technology-heavy sector ETFs (technology and communication services) far outperformed SPX and many non-growth/cyclical sector ETFs.

Note: The above are not good timing tools but reflect a splintering/weakening internal domestic equity market backdrop. **This is a change** since the October 2023 low from which a broad topside move occurred. Please reach out for a chart of any of the points listed above.

Bottom Line: The Large Cap indices have held up, but many stocks have been flat to down since late December 2023 and the beginning of 2024. The “Magnificent 7,” “Elite 8,” or “Big 9” (however you want to refer to them) have been protecting their respective indices as the broad market has started to lag/underperform. Unless this is remedied (see Figure 1), it is set up to produce either a **time correction** or a **price correction**.

I will reiterate that the **Smart Sector strategy** utilizes measures of price, valuation, economic trends, monetary liquidity, and market sentiment to make objective, unemotional, rational decisions about how much capital to place at risk and where to place that capital. If 2024 does indeed turn out to be more volatile (negative) than many forecast, then we will rely on our models and indicators to keep us on track.

Figure 1: Advance Decline Lines for Select Large Cap (mostly) Equity Indices. | While the SPX, NDX, and DJIA flirt with new highs (charts not shown here, see further below), various A/D lines are not moving in sync and are recording lower peaks/moving lower.



Respect Support, Please

Figure 2: S&P 500. | We hope a time correction occurs, but a violation of 4700 to 4682 will increase the odds of a price correction and open a stair-step move down towards 4600+/-.



Figure 3: NASDAQ. | The area in and around 14,500 should have, and has, provided the means for a bounce. A break under the recent low in and around 14,477 (green horizontal line) would open a move towards the next area of support in and around 14,000 (narrow blue shape—December low).



Figure 4: Small Cap Proxy. | To say the inability to follow through after a big upside breakout is a disappointment is an understatement. Please use resistance (price labels and red lines) and support (price labels and green line) accordingly.

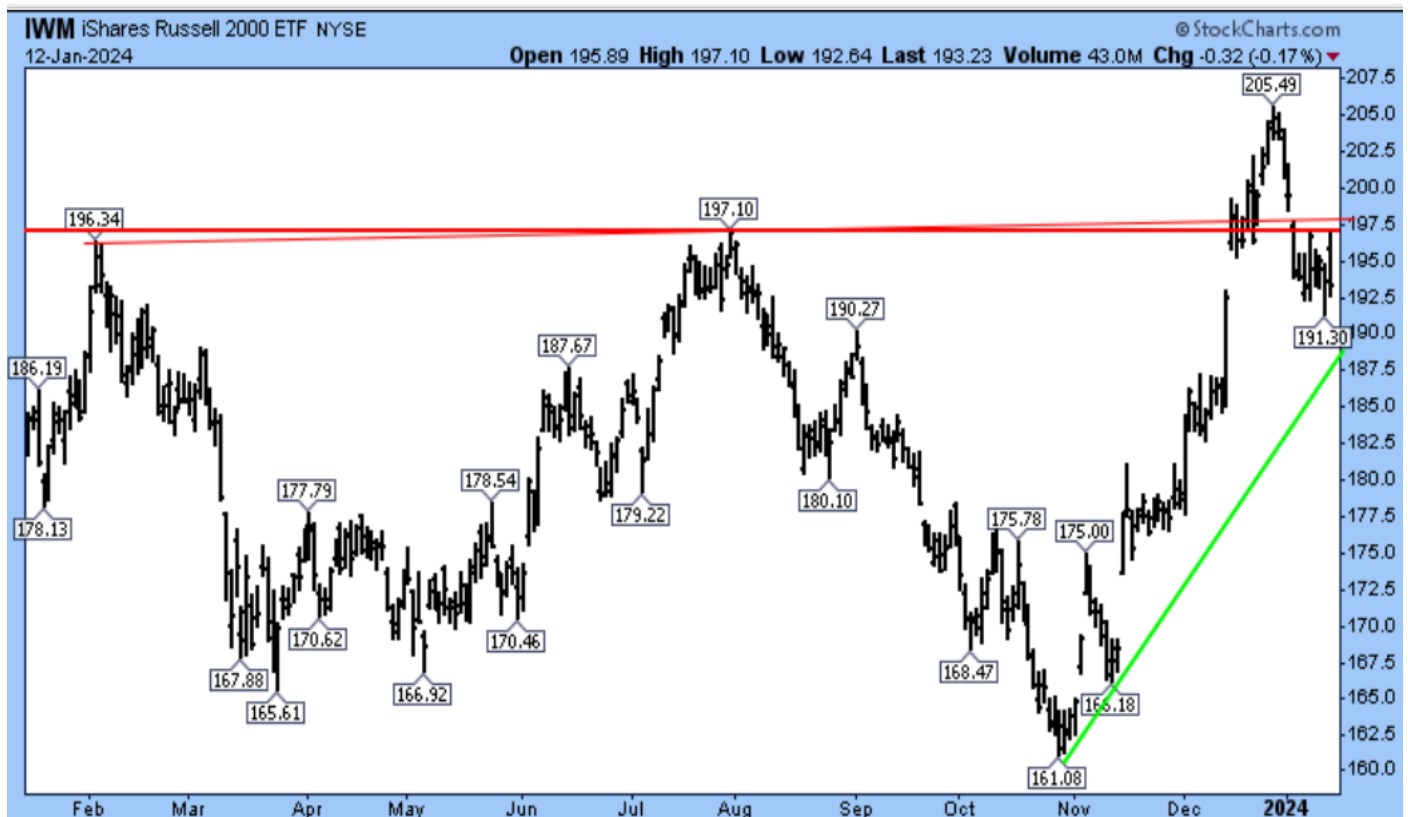


Figure 5: Dow Jones Industrial Average. | Please use the thumbnail chart on the right in order to better discern initial support levels (green lines).



Please let me know if you would like to schedule a call to go over the process and discipline underpinning our **Smart Sector with Catastrophic Stop**, **Smart Sector International**, and/or **Smart Sector Fixed Income** strategies. The disclosures and Fact Sheet information can be found here: <https://dhfunds.com/literature>.

Day Hagan Asset Management appreciates being part of your business, either through our research efforts or investment strategies. Please let us know how we can further support you.

Art Huprich, CMT®
Chief Market Technician
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—Written 01.14-15.2024. Chart source: Stockcharts.com unless otherwise noted.

Upcoming Events

[Day Hagan/Ned Davis Research Smart Sector® with Catastrophic Stop, hosted by Art Day, on January 18, 2023, at 1:15 p.m. EDT](#)

[Day Hagan/Ned Davis Research Smart Sector® with Catastrophic Stop, hosted by Art Day, on January 18, 2023, at 4:15 p.m. EDT](#)

[Day Hagan Technical Analysis, hosted by Art Huprich, CMT, on January 23, 2023, at 4:15 p.m. EDT](#)

Disclosure

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