[What's New]

Bearish Correction? Tech Troubles, Fed Meeting Insights, and ETF Movements

Stock Market Rotation Ends in Retreat

The previous week saw a divergence in the stock market rally, with small caps showing gains while the Nasdaq dipped below its 50-day moving average. Despite this, the S&P 500 managed to regain that level by Friday.

Tesla (TSLA) and Alphabet (GOOGL), the parent company of Google, faced significant declines following their earnings reports. Additionally, concerns raised by the CEOs of Google and Meta Platforms about excessive spending on artificial intelligence negatively impacted Nvidia (NVDA).

As we look ahead, signals from Apple, Microsoft, Meta Platforms, and Amazon regarding AI capital expenditure and monetization will be crucial in the coming week.

Federal Reserve Meeting

The Federal Reserve's meeting on July 30-31 is highly anticipated, with markets predicting that policymakers will keep rates steady. However, the Fed's statement at 2 p.m. ET and the subsequent discussion by Fed Chief Jerome Powell at 2:30 p.m. ET could indicate a readiness to cut rates.

Investors have already factored in at least a quarter-point rate cut for late September and foresee at least two, possibly three, cuts within the year. If Powell does not clearly signal forthcoming rate cuts on Wednesday, it could lead to negative reactions in the financial markets.

Stock Market Rally Overview

The stock market rally showed mixed results last week, though a broad bounce was observed on Friday.

The Dow Jones Industrial Average rose by 0.6%, rebounding from a drop to the 21-day line with a 1.5% surge on Friday. The S&P 500 index fell by 0.8%, but it managed to reclaim its 50-day moving average on Friday. The Nasdaq composite decreased by 2.1% over the week, staying below its 50-day line even after Friday's rebound. Meanwhile, the small-cap Russell

2000 saw a significant rise of 3.5%, nearing recent multiyear highs.

The Invesco S&P 500 Equal Weight ETF (RSP) gained 0.8%, remaining just below record highs. Conversely, the First Trust Nasdaq 100 Equal Weighted Index ETF (QQEW) dropped 1.65%, falling below its 50-day line as tech sector weakness extended beyond the largest companies.

The upcoming earnings reports from Apple, Microsoft, and other major tech companies this week, along with the Fed's rate outlook, will play a crucial role in determining whether the Nasdaq can stabilize or fall into a more significant correction.

The 10-year Treasury yield decreased by four basis points to 4.2%, while the two-year yield dropped by 12 basis points to 4.39%, continuing to show a less inverted yield curve.

U.S. crude oil futures fell 1.89% to $77.16 per barrel last week, marking a 7.2% decline over three weeks.

ETFs Performance

Growth ETFs had varied performances: the iShares Expanded Tech-Software Sector ETF (IGV) lost a fraction, with Microsoft being a significant holding. The VanEck Vectors Semiconductor ETF (SMH) dropped 3.2%, with Nvidia and AMD being key components.

SPDR S&P Metals & Mining ETF (XME) increased by 1% last week, while the Global X U.S. Infrastructure Development ETF (PAVE) rose by 2.4%. The U.S. Global Jets ETF (JETS) edged up by 0.1%, and the SPDR S&P Homebuilders ETF (XHB) jumped by 4.3%. The Energy Select SPDR ETF (XLE) dipped by 0.2%, whereas the Health Care Select Sector SPDR Fund (XLV) increased by 1.4%. The Industrial Select Sector SPDR Fund (XLI) rose by 1.2%.

The Financial Select SPDR ETF (XLF) advanced by 1.3%, and the SPDR S&P Regional Banking ETF (KRE) surged by 5.75%.

In more speculative stocks, the ARK Innovation ETF (ARKK) fell by 1.8% last week, while the ARK Genomics ETF (ARKG) rose by 7.4%.

Tesla stock is a significant holding across Ark Invest's ETFs. TSLA shares dropped by 8.1% last week due to an earnings miss and the lack of new ambitious projects from Elon Musk during the earnings call.

Big Tech AI Signals

Apple, Microsoft, Meta, and Amazon faced a challenging week, with only Apple managing to stay above its 50-day line. These companies are not in a crisis but require some recovery.

Investors will closely watch for indications of how tech companies are monetizing generative

AI, including any hints from Apple regarding production orders for the upcoming AI-enabled iPhone 16 and Microsoft's efforts with Copilot. Growth in Microsoft Azure and Amazon Web Services will also be key.

The crucial question is whether these tech giants will continue to spend heavily on AI.

Meta CEO Mark Zuckerberg and Alphabet CEO Sundar Pichai recently expressed concerns about the potential overinvestment in AI by tech firms. However, both emphasized that underinvesting in AI poses a greater risk than overinvesting.

Tech companies feel compelled to invest heavily to maintain their current market positions and revenue streams. For instance, Microsoft-backed OpenAI recently launched SearchGPT, a new AI-powered search engine challenging Google.

Apple's stock is currently below its 21-day line but above its 50-day. Microsoft, Meta, and Amazon stocks all fell below their 50-day lines last week.

Strong AI capital expenditure could boost Nvidia's stock, along with results and guidance from AMD and Arm Holdings. Nvidia shares fell by 4.1% last week, recovering from Thursday's lows but remaining below the 50-day line.

Technical Analysis

After reaching new all-time highs in early July, the S&P 500 has pulled back to support near 5500. This initial pullback was normal, but the subsequent market behavior has been more bearish. The rebound to 5585 failed, and the S&P 500 has now dropped below 5500, violating the support at 5440. This creates a bearish pattern of lower highs and lower lows, suggesting a shift from a bullish to a bearish outlook. If the S&P 500 can climb back above 5585, it could reverse the current bearish trend, but achieving this may be challenging.

Potential support levels below the current prices include closing a gap at 5370 and a support area between 5200-5270. A close below 5200 would be very bearish, indicating the market has returned to levels seen in early 2022, more than two years ago.