



## The StockCharts.com Market Message

Featuring our commentators, John Murphy and Arthur Hill

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### INVESTORS ARE SELLING TECHNOLOGY AND BUYING FINANCIALS -- THAT SUGGESTS A ROTATION OUT OF GROWTH AND INTO VALUE STOCKS

By John Murphy

**HEAVY PROFIT-TAKING IN TECHNOLOGY...** An overbought technology sector is being sold heavily today. Chart 1 shows the **PowerShares Nasdaq 100 (QQQ)** tumbling in heavy trading. That's mainly big technology stocks. Chart 2 shows the **Technology SPDR (XLK)** looking just as bad. The FANG stocks are a big part of the day's selling. Semiconductors are being sold heavily as well. Chart 3 shows the **VanEck Vectors Semiconductor ETF (SMH)** being punished even more.



Chart 1



Chart 2



(click to view a live version of this chart)

Chart 3

**FINANCIALS AND HEALTHCARE ARE GAINING...** That technology money, however, appears to be moving into cheaper sections of the market that include financials, healthcare, materials, and oversold energy stocks. It's interesting to see the tech selling taking place just as financial stocks are breaking out to the upside, as shown in Chart 4. Chart 5 shows the **Health Care SPDR (XLV)** hitting a new record high today. On a bigger scale, what appears to be happening is an overdue rotation out of expensive growth stocks into cheaper value stocks.



(click to view a live version of this chart)

Chart 4





Chart 5

**ROTATION OUT OF GROWTH AND INTO VALUE IS LONG OVERDUE...** Chart 6 shows the **S&P 500 Growth IShares (IVW)** losing ground today. The IVW has outperformed the S&P 500 by 6% this year, but its relative strength ratio (top of chart) is falling today. Chart 7 shows the **S&P 500 Value IShares (IVE)** surging to the highest level in nearly three months. The IVE has underperformed the SPX by -5%, but its relative strength ratio (above chart) is jumping today. The growth ETF is dominated by a 36% technology weight, while financials are the biggest value sector (26%). Healthcare is second with a 12% value weighting. The big question for the broader market is whether the new buying in value stocks is enough to counteract the heavy technology selling.



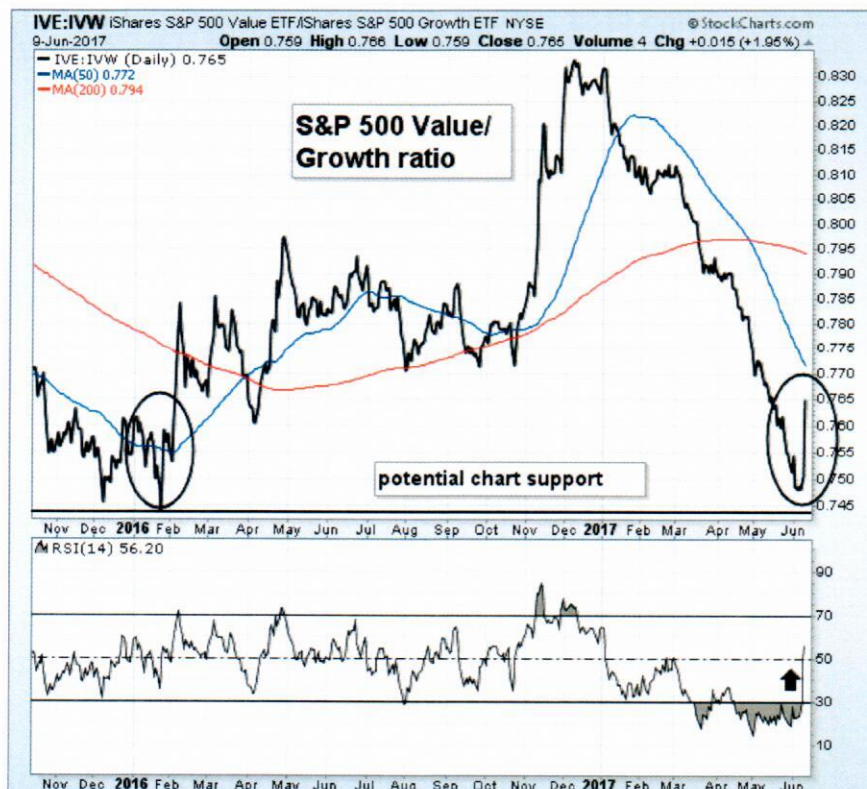
Chart 6



(click to view a live version of this chart)

Chart 7

**OVERSOLD VALUE/GROWTH RATIO JUMPS...** Chart 8 plots the **S&P 500 Value/Growth ratio** to show how extreme the current situation has become. Following a strong November (when value trumped growth), the ratio tumbled during the first half of the year (as growth beat value). But Chart 8 also shows the value/growth ratio reaching a potential support level formed at the beginning of 2016 (first circle) before jumping sharply today. Its 14 day RSI line (below chart) has climbed from an oversold condition (below 30) to a six-month high. Sudden rotations often cause a jump in short-term market volatility. Over the longer-term, however, today's rotation is probably a positive development.



(click to view a live version of this chart)

Chart 8

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