

The Market Is Cracking. But Look Who's Cracking.

Thoughts on the Market

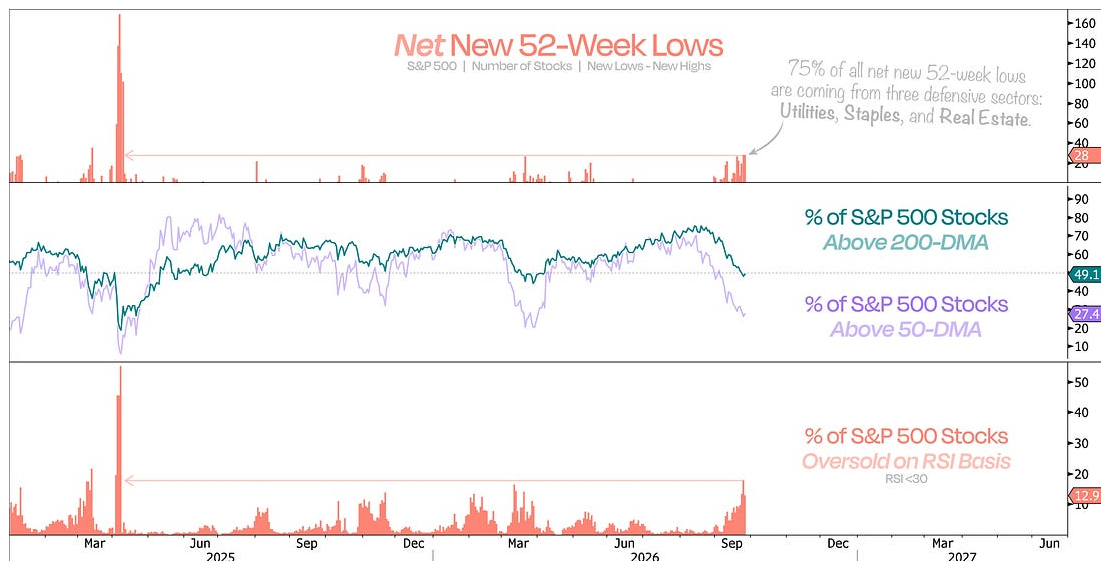


DUALITY RESEARCH
SEP 28, 2026  PAID

If you asked investors what happened last week, there's a good chance many would point to some pretty ugly developments underneath the surface of the S&P 500:

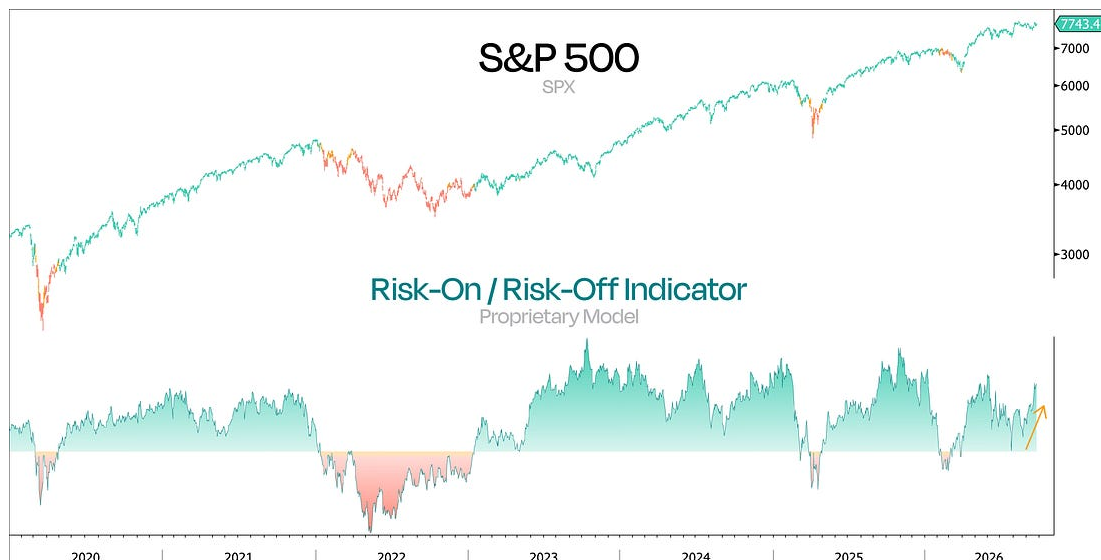
- The highest *net new lows* reading since April 2025
- The most stocks reaching *oversold* conditions since April 2025
- The percentage of stocks trading above their *50-DMA* and *200-DMA* continuing to decline

And, as a matter of fact, all of that did indeed happen last week.



Now, if you asked *us* what happened last week, we'd probably point to something very different.

Our **Proprietary Risk Model** simply continued to steadily improve, pushing even further into *risk-on* territory.



So why didn't our Risk Model deteriorate alongside all that ugly breadth?

The simple answer is that once you look underneath the hood, things weren't nearly as bad as the headline numbers suggested.

- 21 of the 28 *net new lows* came from Utilities, Staples, and Real Estate
- *Credit spreads* remain tight
- Several of our preferred *risk-appetite ratios*, including *High-Beta vs Low-Volatility*, pushed to new all-time highs

So yes, breadth stinks. But *where* it stinks matters. Or, as our friend Larry Thompson recently put it best: ***If breadth is bad, don't own breadth!***

And that’s basically exactly what we did last week. By entering our newest **tactical trade**, we effectively moved even further *underweight breadth* and *overweight concentration*. And so far, we’re pretty comfortable being on that side of the trade.

New highs	% of stocks at highs:					% of stocks at lows:					New lows
	4-week	8-week	12-week	24-week	52-week	4-week	8-week	12-week	24-week	52-week	
Technology	29.7%	12.2%	9.5%	4.1%	2.7%	9.5%	6.8%	2.7%	1.4%	1.4%	Technology
Comm. Services	0.0%	0.0%	0.0%	0.0%	0.0%	26.1%	17.4%	8.7%	0.0%	0.0%	Comm. Services
Industrials	9.6%	1.2%	0.0%	0.0%	0.0%	21.7%	16.9%	15.7%	9.6%	7.2%	Industrials
Energy	0.0%	0.0%	0.0%	0.0%	0.0%	23.8%	4.8%	4.8%	4.8%	0.0%	Energy
Discretionary	4.3%	2.1%	0.0%	0.0%	0.0%	17.0%	14.9%	12.8%	6.4%	4.3%	Discretionary
Financials	0.0%	0.0%	0.0%	0.0%	0.0%	21.1%	19.7%	14.5%	1.3%	0.0%	Financials
Materials	0.0%	0.0%	0.0%	0.0%	0.0%	28.0%	12.0%	4.0%	0.0%	0.0%	Materials
Real Estate	0.0%	0.0%	0.0%	0.0%	0.0%	50.0%	46.7%	43.3%	30.0%	10.0%	Real Estate
Health Care	5.0%	3.3%	1.7%	1.7%	1.7%	11.7%	6.7%	5.0%	3.3%	1.7%	Health Care
Staples	0.0%	0.0%	0.0%	0.0%	0.0%	45.5%	42.4%	39.4%	21.2%	12.1%	Staples
Utilities	3.2%	3.2%	3.2%	3.2%	0.0%	77.4%	74.2%	74.2%	74.2%	45.2%	Utilities

So today, we want to quickly leave you with two important things as we head into the new week: one that’s particularly relevant to our Bitcoin long, and another *extremely bullish* development that, interestingly enough, triggered on the very same day last week that we went overweight Semiconductors.

First off, our tactical Bitcoin (IBIT) trade is already up more than 15% since we went long back on August 20. Even better, nearly all of that performance has translated into *alpha*, given that the S&P 500 has basically stayed flat over that same stretch.

Now, whenever something moves this quickly, we naturally start looking over our shoulder. After all, a *normal* pullback in crypto is certainly built a little differently than what most investors are used to in the equity market.

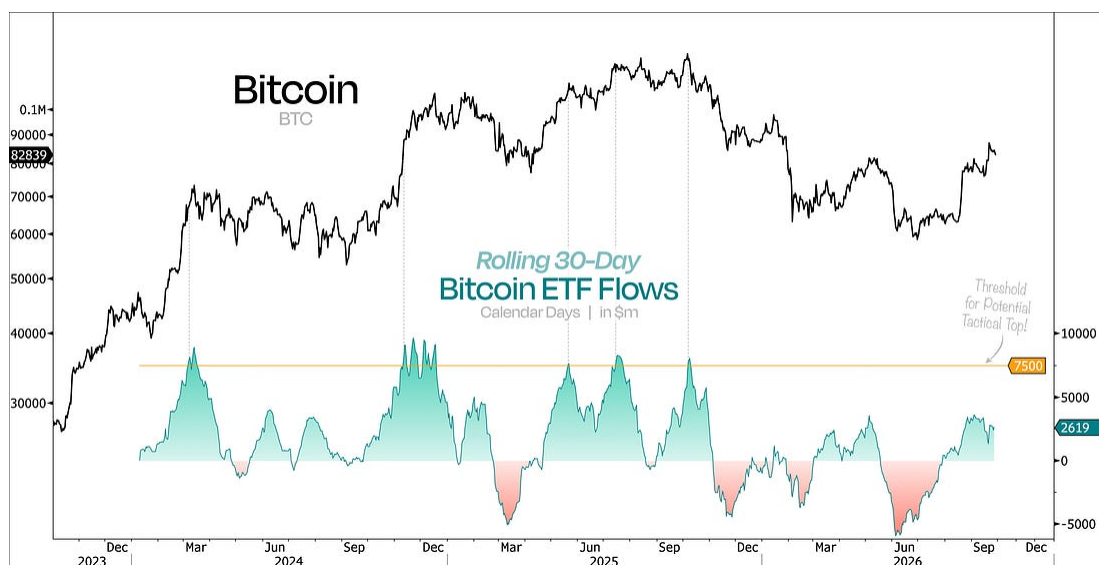
One indicator that has historically given us a pretty solid *heads-up* when things were getting stretched has been *rolling 30-day flows* into Bitcoin

ETFs, which we've found to be a useful gauge of short-term sentiment exhaustion. And to our *positive* surprise, those flows are still nowhere near the stretched levels that have typically preceded pullbacks or periods of sideways consolidation.

Our next chart shows this pretty clearly. Despite Bitcoin rallying nearly 50% over the past three months, we simply haven't seen the kind of euphoric inflows you might expect after a move like that. And that's obviously a good thing.

Price has gone euphoric. Flows haven't.

In other words, there still appear to be plenty of traders out there doubting this rally — and, at least from a positioning standpoint, that suggests to us that this move may still have some room to run.



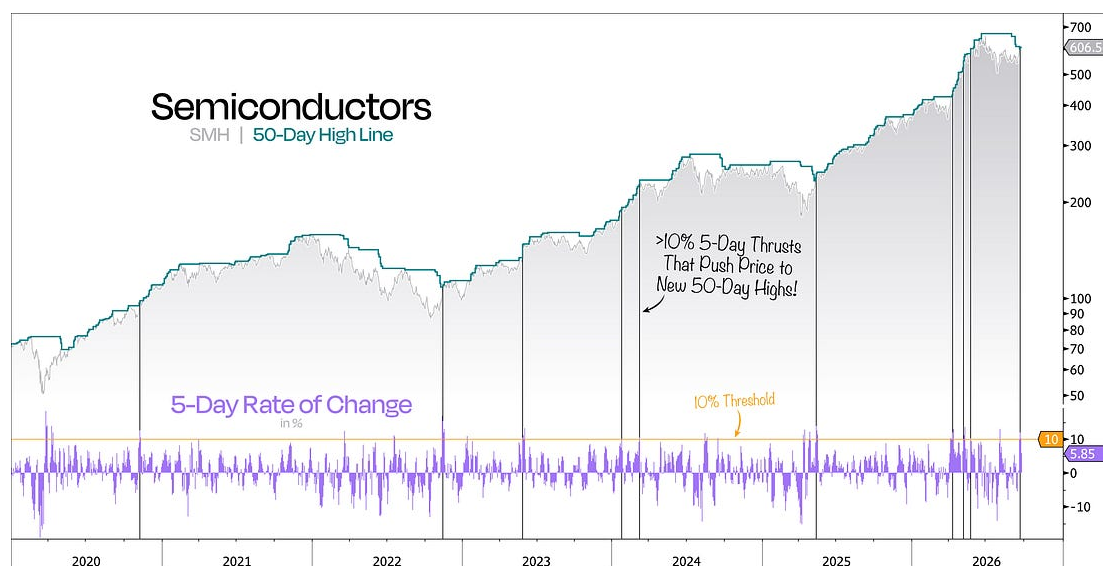
Moving on to the second thing we want to highlight today, something pretty interesting happened on the very same day we entered our tactical trade in the **SMH ETF** last week.

That day, Semis didn't just move higher. They *thrust* higher, straight to new 50-day highs. More specifically, the SMH ETF had rallied more than 10% in just five trading days, with that surge simultaneously pushing the ETF to a new 50-day closing high — its highest level in roughly 2.5 months.

Of course, that caught our attention. After all, a move that powerful, especially when it's strong enough to break price out to fresh *intermediate-term* highs, tends to scream *conviction* rather than exhaustion.

Naturally, we went back and looked at every other time this combination had occurred. So, our next chart maps out every instance where the **5-day rate of change exceeded 10% while simultaneously printing a new 50-day closing high**.

We apply a cluster filter, keeping only the first signal whenever multiple signals occur within a 10-calendar-day window. Also worth noting: no signals were triggered between 2012 and 2019, consistent with the lower-volatility environment that characterized much of that cycle.



While the chart already gives us a pretty good visual sense that these momentum surges to new highs tend to be followed by continued strength, we of course also have the actual forward return data from the nine previous times this dual condition was triggered. And as our table below shows, those forward returns have historically been pretty promising — particularly over the first 20 trading days.

Over that window, the SMH ETF has produced an **average forward return of 8.2%** and a **median return of 6.7%**, coupled with a remarkably strong **88.9% hit rate (8/9)**.

The primary exception is the March 2024 signal, which occurred near a local peak ahead of a sector rotation.

Perhaps just as interesting, the average maximum drawdown along the way was only **-3.1%**. *Why does that number stand out?* Because that's *exactly* the drawdown the SMH ETF already experienced last week following the trigger of this signal.

So yes, these types of moves tend to scream *conviction* rather than exhaustion — and that's obviously reinforcing our *own* conviction in the trade.

Semiconductors Forward Returns

After 5-Day Surges of >10% That Push Price to New 50-Day Highs

Signal Date	SMH Forward Returns		
	20 Days Later	2 Months Later	3 Months Later
Nov 6, 2020	+12.0%	+16.9%	+23.0%
Nov 11, 2022	+1.4%	+2.3%	+14.6%
May 26, 2023	+2.8%	+8.9%	+2.4%
Jan 24, 2024	+9.1%	+18.0%	+8.2%
Mar 7, 2024	-4.9%	-5.7%	+7.8%
May 13, 2025	+6.7%	+18.4%	+22.7%
Apr 10, 2026	+29.7%	+30.7%	+34.1%
May 6, 2026	+14.2%	+7.9%	+4.0%
May 26, 2026	+2.8%	-8.9%	-7.7%
Sep 22, 2026	?	?	?
Average	+8.2%	+9.8%	+12.1%
Median	+6.7%	+8.9%	+8.2%
% Positive	88.9% (8/9)	77.8% (7/9)	88.9% (8/9)
Avg Drawdown	-3.1%	-5.3%	-6.8%

Source: Duality Research, Bloomberg

So, where does that leave us?

For now, we think the evidence presented today continues to argue that there's more room to run in both of our tactical trades. Bitcoin has rallied sharply without anything resembling euphoric ETF flows, while Semiconductors just triggered a momentum signal that has historically been followed by further strength.

So far, so good.

But we also don't want to brush aside what we showed you at the beginning of today's note. Breadth *is* deteriorating. New lows *are* expanding. And fewer stocks *are* participating underneath the surface.

The key distinction, however, is **where** that deterioration is happening. Right now, much of the damage remains concentrated in defensive areas, while several of our preferred *risk-appetite ratios* are simultaneously breaking out to new all-time highs.

There's a big difference between breadth deteriorating because defensive sectors are being left behind and breadth deteriorating because investors are running away from risk.

Right now, we're seeing the former. Not the latter.

Of course, we'll keep watching closely. If that weakness begins spreading into the areas that actually tell us something meaningful about risk appetite, and those same *risk-appetite ratios* start rolling over, the message changes.

And if the message changes, so will we.

But we're simply not there today.

For now, that's the duality: **headline breadth is deteriorating, while underlying risk appetite continues to strengthen.**

That's all for today. Thanks for reading! 🙌🧐
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