Chart-in-Focus

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Is Healthcare Emerging as the Market's Next Leader?

Milan Vaishnav, CMT, MSTA

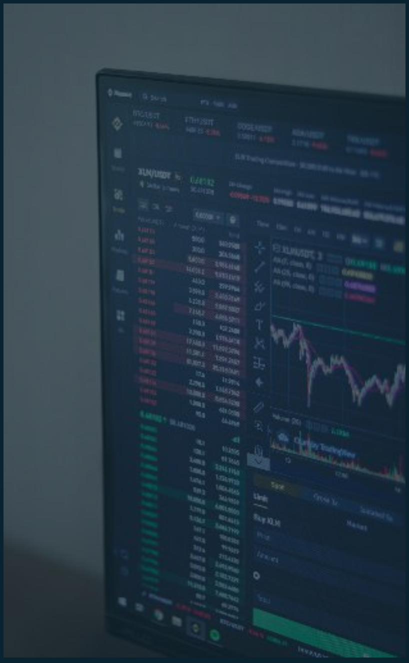

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Chart-in-Focus: Is Healthcare Emerging as the Market's Next Leader?

Leadership in equity markets rarely changes overnight. It evolves gradually as institutional money begins shifting from one sector to another, often well before the headlines acknowledge the change. This is one reason why technicians pay close attention to price structure and relative strength. Both can provide valuable clues about where fresh leadership may be developing. After almost two years of Technology dominating market performance, Healthcare is beginning to display characteristics that deserve closer attention.

The chart of the Health Care Select Sector SPDR Fund, or XLV, is particularly interesting. Since the latter half of 2024, the ETF has repeatedly struggled to move above the 160 region. At first glance, multiple failures at the same level may appear disappointing. Viewed differently, they also indicate that buyers have continued returning despite every rejection. Instead of retreating into a prolonged decline, the sector has spent nearly two years building a broad base while recording progressively higher lows. Every correction has found support at higher levels, suggesting that demand has steadily strengthened over time.

The recent Cup and Handle formation visible within this larger consolidation adds another positive feature to the chart. Whether one describes it as a cup, a rounded base, or an extended accumulation phase is secondary. The more important observation is that the overall price structure has improved considerably.

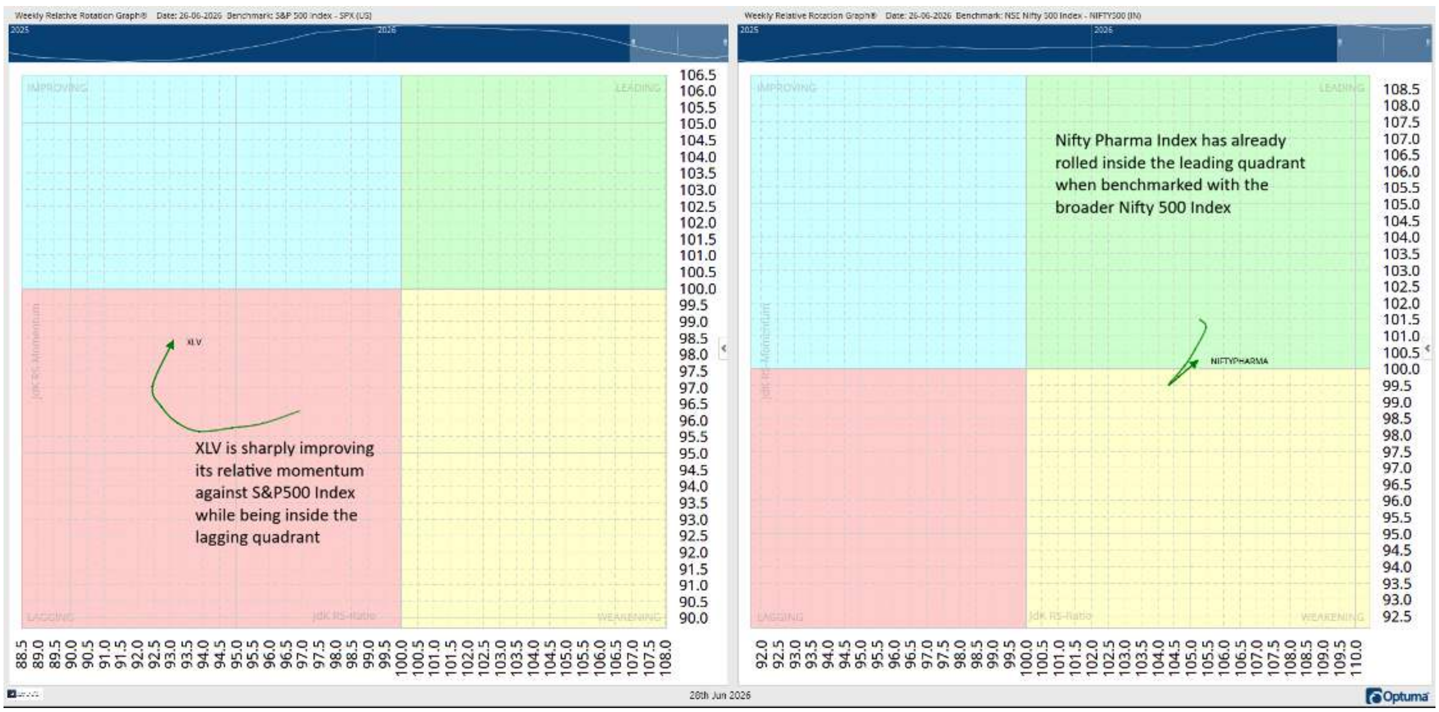
A breakout above the 160 resistance area would therefore represent more than just another new high. It would complete a consolidation that has absorbed supply over an extended period, providing the foundation for a potentially stronger advance.

Price alone, however, never tells the complete story. Relative strength often provides the earliest indication that institutional money is beginning to favor one sector over another. This is where the XLV versus SPY ratio becomes particularly important. While XLV itself is still approaching a decisive breakout, its relative performance against the broader S&P 500 has already started improving. This sequence is worth monitoring because relative strength frequently turns higher before price confirms a breakout. Institutions typically adjust allocations long before the broader investing community recognizes the shift, making relative performance an important confirmation tool.

The message becomes more convincing because a similar picture is emerging in India. The Nifty Pharma Index has also spent an extended period consolidating before finally pushing above a well-defined resistance zone. More importantly, the breakout has been followed by continued buying interest instead of an immediate reversal back into the previous range. The index has established a sequence of higher highs and higher lows, suggesting that demand has remained intact even after clearing resistance.

Although the drivers behind US Healthcare and Indian pharmaceutical companies are different, the technical characteristics of both charts have become remarkably similar. Long periods of consolidation are giving way to improving trends, supported by strengthening momentum and healthier price behavior.

None of this suggests that Technology has lost its leadership or that investors should suddenly rotate away from existing winners. Strong bull markets often broaden their leadership as fresh sectors begin contributing alongside established leaders. Healthcare could be entering that phase. Whether this develops into a sustained trend will depend on its ability to maintain improving relative strength while successfully holding above important breakout levels. For now, the evidence is encouraging. Both XLV and the Nifty Pharma Index are displaying characteristics that technicians associate with emerging leadership, making Healthcare one of the more interesting sectors to follow over the coming months.



The similarities between the two charts become even more meaningful when viewed in the context of sector rotation. Leadership changes are rarely announced by the market. They develop gradually as capital starts moving into areas that have spent considerable time consolidating while other sectors continue attracting most of the attention. Investors often assume that a new leadership group can emerge only after an existing one weakens. Market history suggests otherwise. Some of the strongest advances have occurred when leadership broadened across multiple sectors, allowing indices to sustain their primary uptrends with support from a wider set of stocks.

Healthcare has the potential to fit that description. Unlike cyclical sectors whose fortunes can change quickly with the economic cycle, Healthcare generally benefits from relatively stable earnings visibility and consistent demand. This does not make it immune to corrections, but it often allows the sector to perform well during periods when investors begin seeking businesses with greater earnings stability. If that preference starts combining with improving technical strength, the result can be a sustained period of outperformance.

This is where Relative Rotation Graphs can add another dimension to the analysis. A sector moving from the Improving quadrant towards the Leading quadrant often reflects strengthening relative momentum before the move becomes widely recognised. While RRG analysis should never be used in isolation, it becomes particularly useful when it confirms what price and relative strength are already suggesting. If Healthcare continues improving on all three measures, the probability of a durable leadership role increases meaningfully.

At the same time, it is important not to draw conclusions too early. A breakout is only the first step in establishing a new trend. What follows after the breakout often matters more than the breakout itself. Successful trends usually display three characteristics. Prices remain above the breakout zone, corrections become shallower, and relative strength continues making higher highs and higher lows. If these conditions begin appearing over the coming weeks, confidence in the emerging trend naturally increases.

For investors, the checklist is fairly straightforward. The first question is whether XLV can establish itself convincingly above the 160 resistance area after spending almost two years building a base. The second is whether the XLV versus SPY ratio continues improving, confirming that Healthcare is outperforming the broader market. The third is whether the Nifty Pharma Index can hold above its breakout level while maintaining its sequence of higher highs and higher lows. Finally, investors should watch whether participation broadens across the sector. Sustainable leadership is rarely driven by one or two large constituents. It usually develops when a larger universe of stocks begins moving in the same direction.

Markets constantly search for the next source of leadership. Sometimes those transitions are obvious. More often they develop quietly while investors remain focused on the previous winners. At this stage, Healthcare has not yet established itself as the market's dominant leadership group, and it would be premature to make that claim. What the charts do suggest is that the sector has earned a place on the watchlist.

Long periods of consolidation have improved the technical structure, relative performance has started turning in its favour, and similar developments are visible in both the US and Indian markets. Whether this evolves into the next major leadership theme will be determined over the coming months, but the evidence available today suggests Healthcare deserves considerably more attention than it has received over the past two years.

Milan Vaishnav, CMT, MSTA,

Technical Analyst,

Member: (CMT Association, USA | Society of Technical Analysts, (STA), UK | (Research Analyst, SEBI Reg. No. INH000003341)

Milan Vaishnav, CMT MSTA

Digitally signed by Milan Vaishnav, CMT MSTA
Date: 2026.06.28 12:41:52 +05'30'

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