



THE MEM EDGE

Midweek Report

Thursday, July 20, 2023

- Nasdaq Falls 2% Led By Heavyweight FAANMG Names
- Weekly Jobless Claims Fall Unexpectedly - Pushing Yields Higher
- Defensive Areas Of Market Outperform
- Earnings Season Is Revealing Negative Investor Bias
- No Economic Data Due Tomorrow

Daily Chart Of The Nasdaq



The S&P 500 pulled back modestly today with a 0.7% decline as sharp losses in both Tesla (TSLA) and Netflix (NFLX) as well as other companies that reported mixed quarterly results, were offset by a broad based rally elsewhere.



THE MEM EDGE

Midweek Report

The S&P 500 remains above its 10-day moving average which is the closest area of possible support and is 1% away.

The Nasdaq experienced a steeper 2.1% decline as selling spread beyond most of the FAANMG names and into Semiconductor and Software stocks. The Nasdaq is finding support at its 10-day moving average with its RSI and Stochastics still in positive territory.

Should we experience further selling, the 21-day moving average is the next area of possible support and that is 1.8% away.

Today, we have several factors driving select areas of the market down:

1. Lower than expected weekly jobless claims which pushed Treasury yields higher. Higher interest rates are a negative for Growth stocks.
2. Warnings of reduced chip demand from both ASML (ASML) and Taiwan Semiconductor (TSM) who reported quarterly results today.
3. Nasdaq 100 rebalancing activity where heavyweight FAANMG stocks will have a reduced weighting beginning Monday July 24th.

Most notable is that higher valuation stocks are under the most pressure as even companies that are reporting results in line or better than expected, are selling off. This would include Intuitive Surgical (ISRG) which is down over 5% after hours today despite reporting results that were above estimates.



THE MEM EDGE

Midweek Report

On the other hand, beaten down names that are reporting above estimates are experiencing sharp rallies in response. This would include Bank names such as Zions Bancorp (ZION) and Pharmaceutical stocks such as Johnson & Johnson (JNJ) and Abbott Labs (ABT).

Near term, this points to a valuation sensitivity within the markets and as such, new positions in recently strong Technology and Internet related stocks should be kept to a minimum.

Tomorrow the economic and earnings calendar is light and we'll be watching price action closely to determine if today's pullback is shaping up into something longer term.

At this time, we would use the weekly chart as guidance. While Tesla's (TSLA) drop below its 10 and 21-day moving average occurred on heavy volume, the longer term weekly chart remains constructive. Should the RSI drop below 50 on the daily chart, near term investors will want to take some profits.

As noted earlier, most areas of the market remain in an uptrend however, next week will be a true test as Microsoft (MSFT), Meta Platforms (META), Alphabet (GOOGL) and Amazon (AMZN) are due to report results.

Warmly,
Mary Ellen McGonagle
Editor, MEM Edge Report