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Midweek Report

Wednesday, December 13, 2023

- Federal Reserve Signals Likely End To Rate Hike Campaign
- S&P 500 Is Approaches New High In Price As Nasdaq Hits YTD High and Dow Hits All Time High In Price
- Consumer Price Index Shows Slight Increase For November
- November Producer Price Index Is Flat
- Potential Rate Cuts On Horizon For Next Year As U.S. Economy Slows Amid Decelerating Inflation
- Retail Sales Tomorrow With Industrial Production Due Friday

DAILY CHART OF S&P INDEX



The S&P 500 has gained 2.1% for the week in a move that puts this Index well above possible resistance at 4608 and on its way toward a new high in price at the 4818 level.



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Today's advance occurred on particularly high volume, following comments from Fed Chair Powell that point to an end to the Fed's rate hike campaign with rate cuts expected next year.

This is great news for the markets and given the broadening out that's continuing to take place, we anticipate a continuation rally into next year. We may see a pause at some point however, as today's rally puts this Index well above its 10 and 21-day moving averages with the RSI in an overbought position.

The move is very similar to the mid-June period of this year when the markets experienced an exuberant rally day amid a drop in interest rates. As noted in the chart above, the S&P 500 then reached an overbought position from which it pulled back to just above its 21-day simple moving average before resuming its uptrend.

We would use any pullback as a buying opportunity.

The Equal Weighted S&P 500 gained 3.1% week-to-date which was highlighted by outperformance among this year's weakest sectors such as Real Estate, Utilities, Staples and Financials which gained an average of 3.4% so far this week.

The NASDAQ rallied 2% as well despite underperformance in most of the Magnificent Seven names except Netflix (NFLX) from our List. Instead, it was a sharp rally in Semiconductors, Biotech and select Software stocks that provided a boost. Outperformance of the Equal-Weighted NASDAQ 100 was even more positive, as it gained 4.3% as growth stocks without a heavy weighting were favored.

As cited, today's advance occurred amid a drop in interest rates following news that the Federal Reserve may be ending their rate hike cycle. Tame inflation data both yesterday and today gave credence to this possibility, as did Powell's comments.



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In response today's biggest movers were those that will benefit the most from a declining interest rate environment. This would include Banks, Home Builders, and REITs. Housing related names also shone with Home Improvement and Furnishing stocks outperforming.

Among stocks on our suggested Holdings list both Broadcom (**AVGO**) and Advanced Micro (AMD) are among the top 10 performers in the Nasdaq week to date. AVGO's daily and weekly chart both point to further upside with heavy volume buying indicating institutional support as fund managers accumulate positions going into year end. The stock can be bought here however, we're on the lookout for a pause similar to early June which may present a more attractive opportunity.

AMD is similarly overbought however, the stock's price is more closely aligned with its 5-day moving average and we'd be a buyer on any pullback to this mav at \$133.5.

Nvidia (**NVDA**) had a much more muted advance with a 1.2% gain that puts this stock above each of its moving averages. Year-to-date, Nvidia has far outpaced the markets which may be one reason for its underperformance. Even more impactful however, is news last week that the U.S. may crack down on loopholes that would allow the company to provide Semi chips to China.

Software stocks traded in line with the markets ahead of Adobe's (**ADBE**) earnings after the markets close today. (using ETF IGV). ADBE is trading down after hours after citing that AI growth may take longer than anticipated with management providing weaker than expected guidance.

This negative outlook from management is in line with Oracle (ORCL) who reported similar results earlier this week. The news from both companies may put a dent in demand for AI related software stocks.



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Software security stocks are continuing to advance amid strong demand for protection from potential cyber attacks. CrowdStrike (CRWD) continues to advance as it finds support at its 5-day moving average. The confirmed uptrend points to further upside potential.

Salesforce (CRM) has awakened with a 2.5% advance that puts the stock back into an uptrend as it forms the right side of a base. CRM can be bought. ServiceNOW (NOW) can be bought on a pullback to its 5-day moving average at the \$705 range.

As cited, Home Builders rallied today in response to a lower interest rate outlook. Toll Brothers (TOL) is extended after gaining 3.5% for the week and the stock can be bought on any move closer to its 5-day mav at \$93. This is similar to the early June period for this stock. MI Homes (MHO) is in a buy zone.

Amazon (AMZN) is in a buy zone as it moves closer toward a 2-week base breakout at \$149. A close above this level on heavy volume would put the stock into a strong buy zone.

Airbnb (ABNB) is in a strong buy zone as it approaches a \$151 base breakout while Wingstop (WING) remains in a confirmed uptrend with pullbacks to its 5-day mav being a buy point.

Bank stocks rallied today as well due to the declining interest rate environment. East West Bancorp (EWBC) and Popular Bank (BPOP) both broke out of flat, one week bases today on heavy volume. We're using the late July period as precedent and both stocks can be bought on a pullback to the 5-day moving average. This would be \$70 and \$78 respectively.

State Street (STT) is in a buy zone after this week's gains have pushed the stock to within a point of a 5-month base breakout at the \$77.5 level.



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Netflix (**NFLX**) outperformed its peers and is in a buy zone as it approaches a base breakout at the \$483 level with ETF Ark Innovation (**ARKK**) also in a buy zone after posting a bullish engulfing pattern today.

Today's news that the Federal Reserve's rate hike campaign has likely ended is great news for the markets with this week's broadening out of participation providing a stage from which the markets can spring higher. Near term however, we're on the lookout for a pause given the currently overbought conditions and as stated, we'd be a buyer on any pullback.

Warmly,
Mary Ellen McGonagle
Editor, MEM Edge Report