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Midweek Report

Wednesday December 20, 2023

- Broader Markets Sell Off Sharply Into Today's Close
- November Housing Starts Above Estimates
- December Consumer Confidence Is Strong
- Interest Rates Continue To Decline
- Q3 GDP Revision Tomorrow, Core PCE Data Friday

DAILY CHART OF S&P 500 INDEX



The S&P 500 is down 0.4% this week after a late day sell off today erased earlier gains. As noted in earlier reports, the RSI on the daily chart had been in an overbought position from which a pause or possible pullback was likely.

In the chart above, I've highlighted the characteristics of a pullback - in late June - where the S&P 500 found support at its 21-day moving average and the RSI remained above 50.



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From there, the markets were able to regain their footing after 6 days of mild selling.

The early August and mid-September pullbacks proved to be more damaging and as you can see, an RSI trending below 50 into negative territory signaled a lengthier sell-off.

Each of the pullbacks initially experienced a negative MACD crossover - black line down through the red. At this time, we have not experienced this first signal yet.

Should we see further selling, the 10-day moving average is the first area of possible support and at this time, it's 0.4% away. The next area of support is the 21-day moving average which is 1.8% away.

The Nasdaq's experienced a similar intraday reversal and in the chart below, the late June period will serve as precedence as the RSI pulled back from an overbought position during a 1-week pullback where this Index found support at its 21-day moving average.

The more pronounced pullback in early August was signaled by a negative RSI. The first area of possible support for the Nasdaq is the 10-day moving average which is 0.7% away and should further selling develop, the 21-day moving average is the next area of possible support and it's 2.3% away.



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Of note is that the more prolonged selling that took place in both Indexes earlier this year, occurred amid a rising interest rate environment. At this time, interest rates remain below 4% and are trending lower.

At this time, the uptrend in the broader markets remains intact and we will continue to monitor for signs of possible further deterioration with particular focus on the RSI on the daily chart. We would not be a buyer just yet however

Hardest hit in today's late day selling were Semiconductor stocks which were poised to end this week down 0.3% but closed down 2.9% on selling that was on above average volume. (using ETF SOXX)

The selling in Semis took place ahead of earnings from bellwether name Micron (MU)'s release of earnings after today's close. The stock is up almost 5% after hours after reporting results that were ahead of estimates. Most impactful is that the company guided estimates higher going forward.

If we do not see a positive response in Semiconductor stocks tomorrow, we anticipate further weakness in this group.

Among stocks on our Suggested Holdings List, Advanced Micro (**AMD**) pulled back the most with a 2.5% decline that has this stock finding support at its 10-day moving average. The stock can be held.



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Nvidia (**NVDA**) is down 1.5% for the week with the stock in a technically more vulnerable position to trade lower as the RSI is close to turning negative. That said, NVDA has a history of trading below its 50-day and recovering after a relatively brief period. The weekly chart of Nvidia remains positive and the stock can be held.

Broadcom (**AVGO**) is down 1.7% for the week and the stock is due a pullback after this month's sharp advance. The good news is however, that today's pullback occurred on very light volume which signals that sellers are not coming in en masse. We'll continue to monitor and if this time, the stock can be held.

Bank stocks were another area that pulled back sharply with a 3% decline today. (using ETF KRE). The group is one of the top performing for the month.

Among the bank names on our suggested Holdings list, each name pulled back on below average volume and found support at or close to their 10-day moving average. Comerica (**CMA**), State Street (**STT**), East West Bancorp (**EWBC**), and Popular (**BPOP**) can each be held.

Software stocks reversed 2.3% intraday With a pullback that was in line with two other. this month. (using ETF IGV)

Among names on our suggested Holdings list, CrowdStrike (**CRWD**) is the most vulnerable with the MACD poised to post a negative crossover from a very high position. At this time, the stock is above its 10-day moving average and today's selling occurred on below average volume.



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Well the signals are mixed at least some profit taking at this juncture would make sense for short-term investors. Longer term and using the weekly chart, **CRWD** has further upside potential.

Adobe is another stock posting mixed signals as it is up 2% for the week however, today's pullback pushed the stock back below it's shorter term moving averages with the MACD continuing to trend lower.

A bullish MACD crossover coupled with the RSI moving back into positive territory and the stock closing above its 21-day moving average, would put Adobe into a buy zone. For now, the stock can be held.

Among the other Software names, both Salesforce (**CRM**) and ServiceNow (**NOW**) appear to be the most vulnerable as their MACD is poised for a negative crossover on the daily chart. (black line down through the red). Should we experience this over the next day or two, short-term traders will want to take profits.

Longer term on the weekly chart, both **CRM** and **NOW** are poised for further upside.

Microsoft (**MSFT**) held in relatively well during today's selling and the stock can be held.

Among other mega cap names both Meta (**META**) and Netflix (**NFLX**) held in remarkably well with a 4% gain week to date. Both stocks have constructive daily and weekly charts which points to further upside.



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Ark Innovation ETF (**ARKK**) also remains in a confirmed uptrend however, today's above average volume on its 4% pullback has us watching closely to make sure it finds support at its 10-day simple moving average which is 1.4% away. At this time, it can be held.

As you can see today's sharp sell-off has presented us with mixed signals regarding select stocks on our suggested Holdings list. That said, the general uptrend in the broader Market indexes remains in place.

At this time we will be closely watching price action over the next several days particularly as we have core PCE data due on Friday. As you may know this is the Federal Reserve's preferred metric for gauging inflation. Should we see an increase for November above the anticipated 0.1%, we may see further selling.

We will continue to update you should we see a pronounced shift in the broader markets with further selling that moves the RSI into negative territory on the daily chart of broader market Indices.

Warmly,
Mary Ellen McGonagle
Editor, MEM Edge Report



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DAILY CHART OF NASDAQ COMPOSITE

