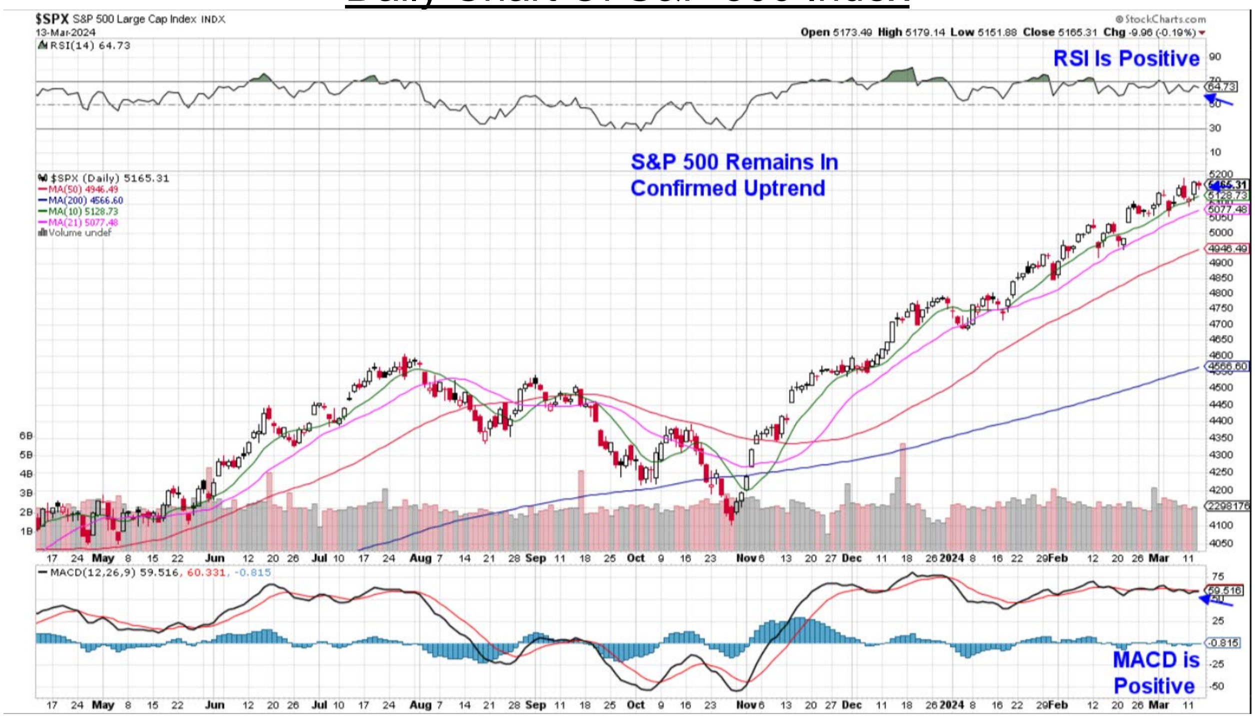
THE MEM EDGE

Midweek Report

Wednesday March 13, 2024

- Consumer Price Index Data Shows Inflation Is Rising
- Interest Rates Trend Higher
- Oracle’s Earnings On Tuesday Boosts AI Stocks
- Retail Sales And Core PPI Data Tomorrow

<u>Daily Chart Of S&P 500 Index</u>



The S&P 500 has gained 0.8%, so far this week in a move that keeps this index above it's 10-day simple moving average. With the RSI and MACD in positive territory, the near-term uptrend in this Index remains in place.

The NASDAQ has gained 0.6% amid a mixed performance among The Magnificent Seven names while a rally in Software stocks has been partially offset by a pullback in Semiconductors.

The markets had a tough start, with last Friday's reversal day among select heavyweight growth names carrying into Monday where we saw a pullback in these names. Monday's pullback pushed the NASDAQ down to its 21 day simple moving average where this Index found support.

On Tuesday, a strong earnings report from Oracle brought new life to AI related stocks after the company signed a new cloud computing infrastructure deal with Nvidia. (NVDA). The rally pushed the NASDAQ back above its 10-day simple moving average which keeps its near-term uptrend in place.

Recent volatility in AI related stocks highlights the uncertainty that remains, as investors sort out who the primary beneficiaries will be as AI adoption continues to take hold. With earnings reports being the primary indicator that companies are earning revenues from AI, the end of earnings season may increase the volatility among these stocks as this validation will no longer be a backdrop until next quarter.

Of note is that Tuesday’s rally took place despite the release of Consumer Price Index (CPI) data that showed that inflation rose more than expected in February. Interest rates have ticked up in response however with the yield on the 10-year Treasury now back at the 4.2% level.

Tomorrow, Producer Price Index data will be released and if we see a similar uptick in inflation, we can anticipate interest rates rising even further as this news would push out the timing of any rate cut by the Federal Reserve.

A rising interest rate environment is a negative for the stock market, particularly growth stocks as it reduces the value of future earnings.

This week, the energy sector is the top performing amid news of reduced oil inventories as well as Ukraine’s Attack on Russia's oil refineries. We will continue to monitor the sector as we've added names from this area to our Watch List.

Despite this week's uptick in interest rates, home builders continue to outperform with the group posting a 2% gain so far this week. Toll Brothers (**TOL**) from our list Is trading in line with the group and the stock remains in a buy zone. TOL can be bought on a pullback to its 5-day simple moving average at $121

Peer company Lennar Corp (LEN) reported their earnings after the close today and at this time, the stock is trading down despite reporting earnings above estimates.

Crocs (**CROX**) has rallied to a new near-term high with a 3% rally so far this week. The stock remains in an uptrend and can be bought on a pullback to the $127 range at its 5-day moving average.

Deckers (**DECK**) is also in a buy zone as a rally over the past two days has pushed the stock back above it's 5 day simple moving average with today's gain taking place on above average volume.

Heavyweight retailer Amazon (**AMZN**) also regained its 5-day simple moving average which puts the stock back in a buy zone.

Recently added retailer Target (**TGT**) is in a strong buy Zone after hitting our entry point target. As mentioned in our Sunday report: *TGT can be bought in the $167 range at its 5-day simple moving average. We are using the late November into December period as precedence.*

Shake Shack (**SHAK**) is down less than a point, in choppy price action that has allowed the RSI to decline from an overbought position. The stock is finding support at the $100 level and currently remains in a bullish position from which to trade higher.

However, should we see a pullback we would use the early January period as precedent as a close below the 21 Day simple moving average on volume preceded a pullback. Longer term investors would use the weekly chart as the RSI remained positive during January's pullback and we stayed with SHAK.

Yesterday's Oracle induced rally in software stocks pushed the group back into an uptrend after ETF **IGV** closed above its shorter term moving averages with a now positive RSI.

Among leading software stocks Crowdstrike (**CRWD**) is in a position to trade higher after its close above its 10-day simple moving average with the MACD poised to post a bullish crossover on the daily chart.

Microsoft (**MSFT**) is also in a buy zone after a rally yesterday pushed the stock above its shorter term moving averages. MSFT is poised for a $420 base breakout with the MACD on the cusp of a bullish crossover on the daily chart.

Synopsis (**SNPS**) and Salesforce (**CRM**) both continue to struggle. As you may recall both stocks derive revenue from China and news today that a troubled Chinese Trust Company may go under, has highlighted the turbulence in the economy there.

Both stocks continue to have a positive RSI on their daily chart so we are keeping them on our List. However, we would not be adding to positions at this time.

Well known software stock Adobe (ADBE) is due to report their earnings tomorrow and their results as well as the market's response, will impact stocks in this group. As you may recall, Adobe sold off last month due to fears of competition for their AI related illustration product.

Semiconductor stocks are pulling back this week with a 2% decline amid continued deterioration in Companies such as Marvel Technologies (MRVL) which is down over 10% after reporting weaker than expected quarterly results last week.

Advanced Micro (**AMD**) from our list is also pulling back more than the Semiconductor group with a 6% decline that has the stock now below it's 10 day simple moving average. As cited in our Sunday report, we are not concerned about the near-term prospects for AMD unless we see a negative MACD crossover on the daily chart coupled with a negative RSI.

Broadcom (**AVGO**) is also pulling back and this week's 4% decline has pushed the stock below it's 21 day simple moving average with the RSI now in negative territory. As mentioned over the weekend, **AVGO** has a history of trending below its 21-day simple moving average before recovering however, the heavy volume on selling over the past 4 days is a bit concerning. Shorter term investors may want to lighten up on any positions with an eye toward getting back into the stock on a close back above it's 21 day simple moving average with the RSI back in positive territory.

Nvidia (NVDA) has outpaced its peers and more recently, a pullback to the 10-day simple moving average has been a good buy point. NVDA remains in a confirmed uptrend with the current buy point being at $870 level.

Intuitive Surgical (**ISRG**), another China facing company, is also pulling back this week with a 2.5% decline that has pushed the RSI into negative territory. This price action has us removing the stock from our suggested Holdings list.

Boston Scientific (**BSX**) was able to hold in well despite being immersed in China after opening a new factory there last fall. At that time, BSX was estimating $1B in sales from China.

This week, the stock has pulled back 2% and is now trading below its 21-day simple moving average with its RSI on the cusp of turning negative as well. Further deterioration would have us removing BSX from our suggested Holdings list.

Heavyweight stock Meta Platform (**META**) remains in an uptrend after a pullback to its 21-day simple moving average. A bullish MACD crossover on the daily chart would give us conviction that the stock has entered a near-term uptrend. until then, META can be held.

While the broader markets remain in a confirmed uptrend, as you can see there are pockets of weakness beneath the surface. Tomorrow's PPI report may provide more insight into investors' sentiment regarding interest rates and hence select areas of Growth stocks.

At this time, we would continue to keep any new buying light as the market digests gains in many winners following the strong earning season.

Warmly,
Mary Ellen McGonagle