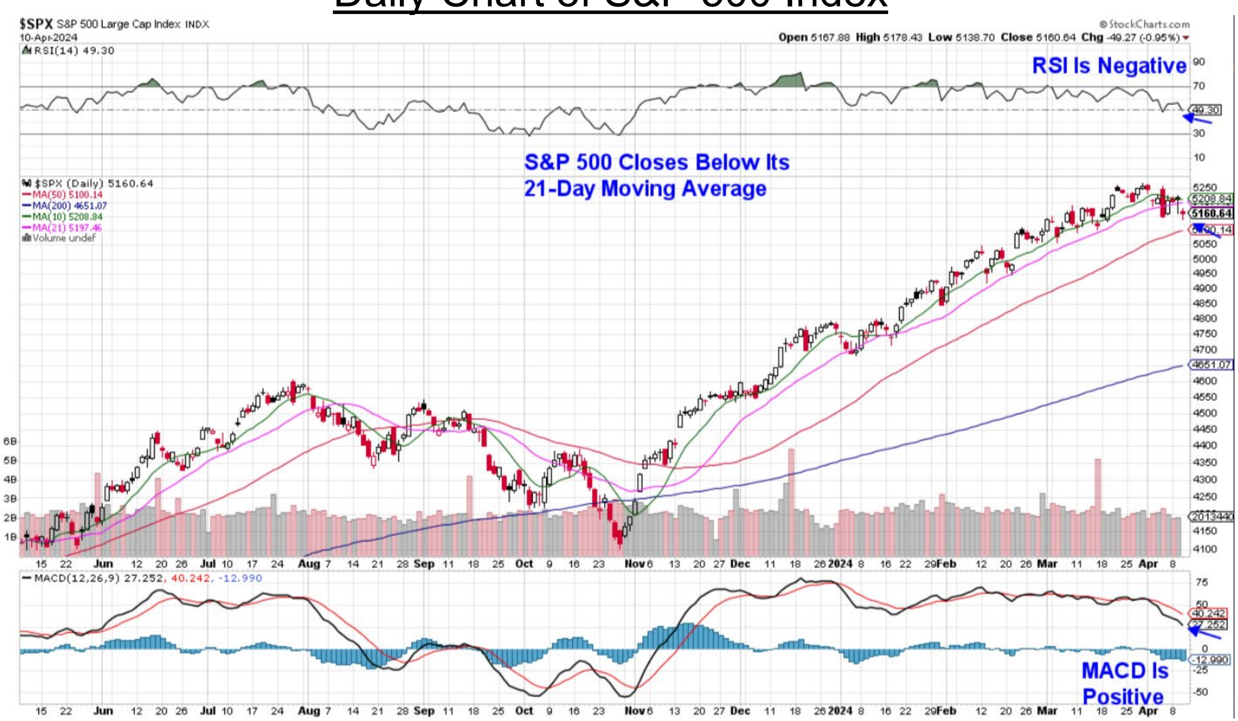
THE MEM EDGE

Midweek Report

Wednesday, April 10, 2024

- CPI Comes In Higher Than Expected Due To Increased Costs Of Consumer Goods And Services
- FOMC Meeting Notes Shows Fed Wants More Confidence That Inflation Is Moving Toward 2% Target Rate
- Producer Price Index Data Due Tomorrow Before Markets Open
- Several Fed Officials Due To Speak Over Next Two Days And Consumer Sentiment Due Friday
- AI Related Stocks Exhibit Relative Strength
- Removing XRT, TOL, LECO, CMA and EWBC From Suggested Holdings List
- Adding Dell (DELL) and Alphabet (GOOGL) To Suggested Holdings List

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



The S&P 500 has lost 0.8% so far this week in a move that has this Index closing below its 21-day simple moving average with the RSI now in negative territory while the MACD remains in positive territory.

Should we experience further selling, the 50 days simple moving average is the next area of possible support and it's 1.2% away.

The markets were mostly flat going into today's trading session, as investors were on alert for the release of inflation data today As a guide to whether the Federal Reserve will cut interest rates soon.

The Consumer Price Index (CPI) data showed that the cost of consumer goods and services rose sharply in March for the third straight month of elevated inflation readings.

In response, interest rate sensitive areas of the market fell the most with Regional Banks (KRE) and Home Builders (XHB) seeing the sharpest decline. Small Cap stocks also suffered (IWM) as the cost of loans for these companies is expected to increase

The NASDAQ held in a bit better with a 0.5% decline for the week due to outperformance among select Magnificent Seven stocks such as Tesla (TSLA) and Alphabet (GOOGL). This index also closed the day below its 21 day simple moving average, with the next area of possible support being its 50-day simple moving average which is 0.9% away.

Today's elevated inflation report cited an increased cost in consumer goods which in turn, pushed the Consumer Discretionary sector down with many retailers underperforming. The pullback pushed the S&P retail ETF (**XRT**) below it's key 50-day simple moving average and we are removing it from our Suggested Holdings List.

Among retailers on our suggested Holdings list, Crocs (**CROX**) pulled back the most in response to a Wall Street downgrade in peer tock Deckers (DECK) which we removed over the weekend. CROX Remains above its key 50-day simple moving average however, the RSI is now in negative territory on the daily chart.

While the longer term weekly chart remains constructive, we are removing the stock from our suggested Holdings list as Crocs is susceptible to further near-term weakness. longer term investors can stay with the stock while short-term investors will want to lighten up on any positions.

Shake Shack (**SHAK**) regained its 50-day simple moving average in bullish price action however, we would not be a buyer of the stock at this time. instead we would need to see SHAK close above it's 10-day simple moving average at $102 and the RSI to turn positive on the daily chart.

Target (**TGT**) and Amazon (**AMZN**) both have constructive daily charts after outperforming the markets this week. While Amazon appears to be in a position to trade higher, cautiousness regarding the broader markets has us less inclined to add to any positions at this time.

Housing stocks also pulled back in response to the rise and rates with Toll Brothers (**TOL**) from our list declining a more than the broader group. The RSI on the daily chart is now below 50 which points to the strong possibility of further near-term weakness, and we are removing the stock from our Suggested Holdings list.

The weekly chart of Toll Brothers (TOL) remains constructive and longer term investors can remain with the stock. A close below it's 10 week simple moving average which is 1.2% away, would have us reconsidering.

Regional Banks pulled back 5% today .mid the sharp uptick in yields. As mentioned in our Sunday report, a rise in rates may curtail new lending activity and in turn, reduce these bank's profit margins.

Both East West Bancorp (EWBC) and Comerica (CMA) pulled back much less than the group however, these stocks look susceptible to further near-term weakness due to a negative RSI and for EWBC, it closed below its key 50 day simple moving average.

The longer term, weekly charts are constructive for both stocks and longer term investors can remain with these names. Shorter term, **EWBC** and **CMA** may experience further weakness, and we are removing them from our Suggested Holdings List.

This Friday, several major Bank stocks will be reporting their first quarter results and the numbers which will provide further guidance regarding these stocks.

The Technology sector remains in a downtrend, with a negative RSI and MACD that's coupled with the sector closing below it's 50-day simple moving average. (using XLK).

The Semiconductor group is down 0.5% for the week following positive catalysts such as Taiwan Semi's (TSM) release of strong chip orders for March. The company cited AI fueled demand for the growth and it's positive news for company's they supply to such as Nvidia (NVDA).

NVDA rallied 2% today after pulling back close to its key 50-day simple moving average. The stock's recent pullback had it approaching correction territory after losing almost 10% over the last 3 weeks. As mentioned in several reports, Nvidia was due a period of consolidation after it's shart year to date gains.

At this time, we are on the lookout for a new uptrend similar to January and in order for that to take shape, we would need to see Nvidia close above its 10-day simple moving average at $883. A MACD crossover would provide further conviction that a new uptrend was in place. (see chart below)

While a rising interest rate environment can historically hinder the upside potential for technology stocks, AI related names have been able to withstand the weakness that we've been experiencing elsewhere in Tech.

This would include names such as Alphabet (GOOGL) which has rallied 2.5% this week amid the release of new AI offerings for cloud computing customers.

Data storage related stocks are also holding up well as is AI leader Dell (DELL) which we highlighted over the weekend as being at the top of our watch list.

We are adding DELL and GOOGL to our Suggested Holdings List however, we'd begin any new position lightly given the broader market backdrop.

The industrial sector has pulled back more than the markets amid a drop in home construction related stocks. This would include Lincoln Electric (**LECO**) from our suggested Holdings list which has closed below its key 50-day simple moving average with both the RSI and macd now in negative territory.

This price action points to a strong possibility of further near-term weakness and we are removing the stock from our suggested Holdings list.

Elsewhere in this sector Eaton Corp (**ETN**) pulled back however, it closed back above it's 21 day simple moving average which keeps the near-term uptrend firmly in place. FTAI Aviation (**FTAI**) also remains in a confirmed uptrend as it's above each of its shorter terms simple moving averages.

Earnings season started this week, with Delta Airlines (DAL) coming in with strong earnings today and management guided estimates higher into the year. DAL initially rallied before closing the day down. This may be due to the fact that d a l was trading at near-term highs going into their report.

We’ll be on the lookout for a potential continuation of this pattern as Investors response to strong earnings, will be a critical component as we head into earnings season.

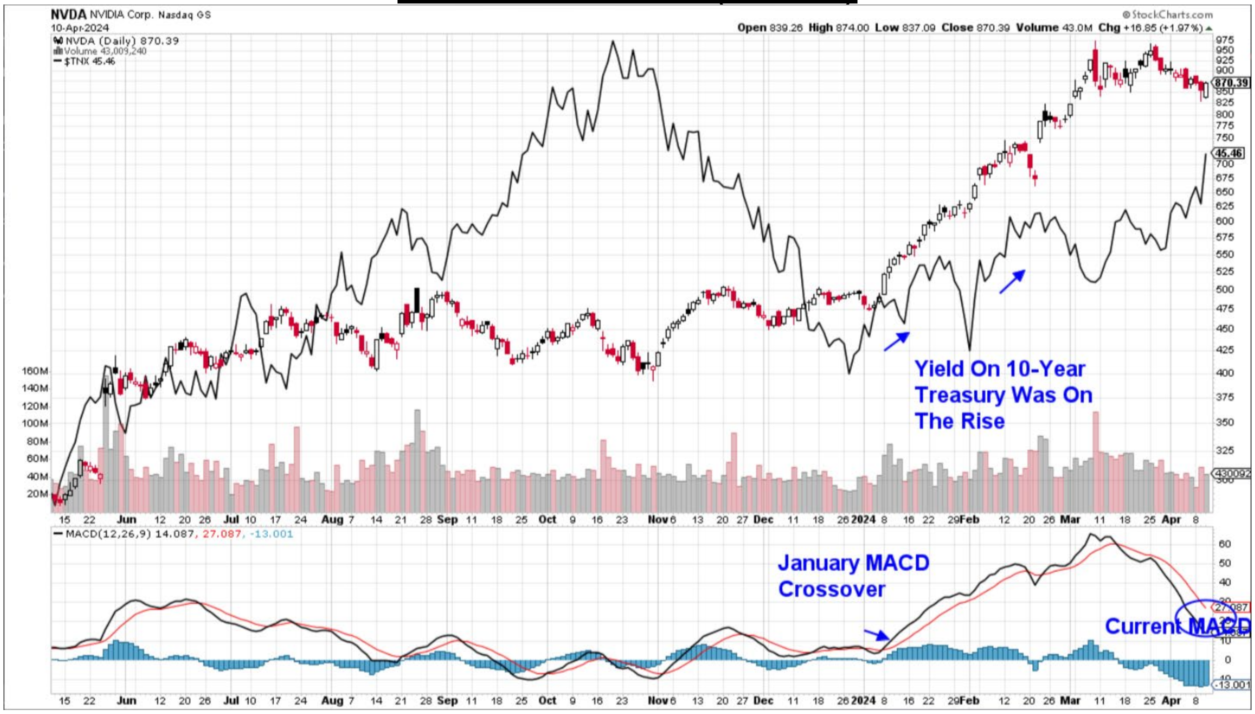
Coming up on Friday will be another inflation report with Producer Price Index (PPI) data due before the markets open. Today's hotter than expected CPI data has reduced trader’s outlooks for a chance that we will see the Fed to cut rates in June.

According to the CME Fed Watch Tool, only 16.5% feel that we will see a rate cut in June which is down from 65% a month ago. As noted in our report, a rising interest rate environment will negatively impact select areas of the markets.

Warmly,
Mary Ellen McGonagle
Editor, MEM Edge Report

Charts We're Watching:

$TNX Vs Nvidia (NVDA)



Yield Of 10-Year Treasury Bond (TNX)