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Midweek Report

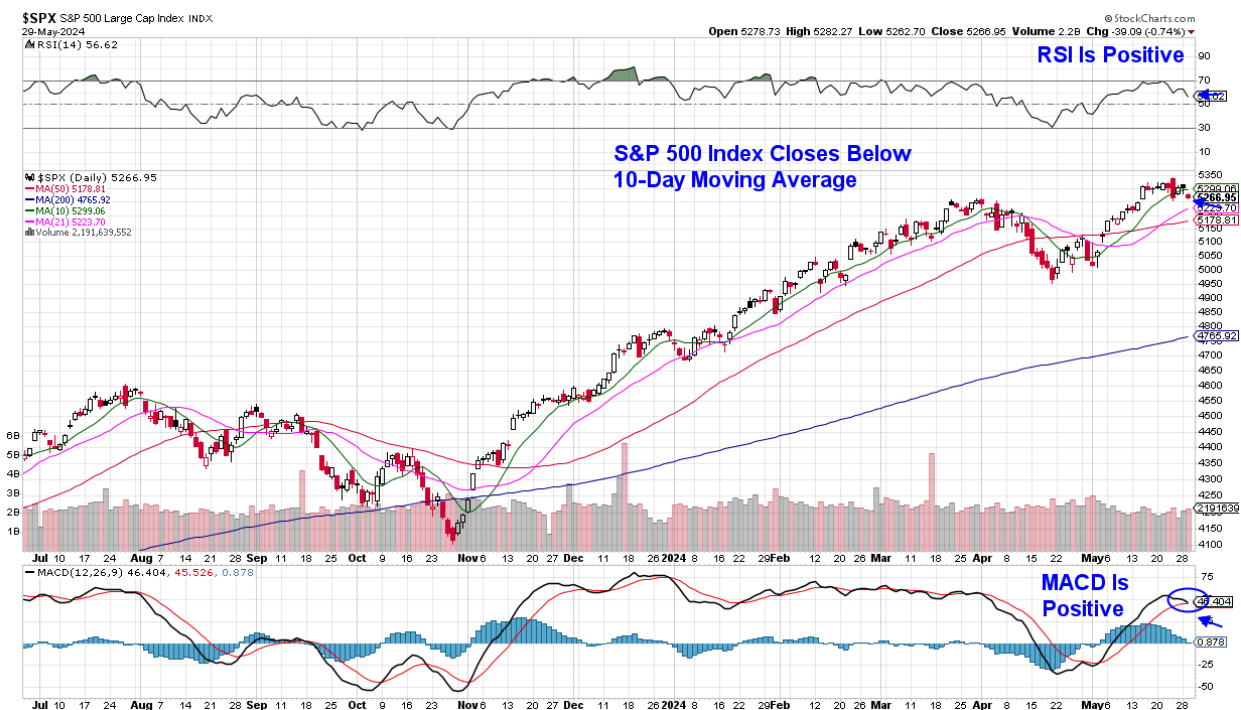
Wednesday May 29, 2024

- Minn. Fed President States Many Months Of Lower Inflation Data Needed Before Rate Cut
- Treasury Auctions Show Weak Demand
- Q1 GDP Data Due Tomorrow
- Personal Consumption Expenditures (PCE) For April Due Friday
- Removing Merck (**MRK**) From Suggested Holdings List

Notable Developments

- Yield On 10-Year Treasury Jumps To 4.6%
- Interest Rate Sensitive Areas Decline Further
- Equal Weighted Indexes Decline Far More Than Key Indexes
- Majority Of Sectors Are Now In A Downtrend

DAILY CHART OF S&P 500 INDEX





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The S&P 500 has pulled back 0.7% over the past 2 days in a move that puts this index below its 10-day simple moving average. With the RSI and MACD in positive territory, this index remains in an uptrend.

Of note on the daily chart of the S&P 500, the MACD is poised to post a negative crossover. (black line down through the red). While this is not a sell signal, it would point to a shift in the upside momentum that's been in place throughout the month of May.

Using the early April period as a guide, a negative RSI coupled with a negative MACD crossover signaled the beginning of 2-week pullback.

Should the markets pull back any further this week, the 21-day moving average is the next area of possible support and at this time, it is 1% away.

The NASDAQ is faring better as it is flat for the week led by outperformance in most of the Magnificent Seven names with Nvidia (**NVDA**), gaining 7.9%.

Weakness beyond these heavyweight Tech names continues, as the equal-weighted S&P 500 and NASDAQ are both down over 1.8%. Again, the driver of this weakness is an increase in interest rates with the yield on the 10-year treasury now at 4.6%.

Hardest hit have been interest rate sensitive areas such as Home Construction stocks (XHB) and Banks (KRE). Small caps (IWM) and Biotech (IBB) stocks are also underperforming amid a rise in rates.

Among stocks on our Suggested Holdings list, both Nvidia (**NVDA**) and Dell (**DELL**) continue to far outpace the broader markets. While both stocks remain in a strong uptrend, the MACD and RSI on their daily charts are in an overbought position and the stocks are due a pullback.



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Both stocks are advancing on heavy volume however, which points to strong accumulation should propel the stocks higher over the near term. DELL is due to report their quarterly results tomorrow after the markets close.

As cited in Sunday's report, a negative MACD crossover would signal a shift in the near-term upside momentum.

Elsewhere in Tech, the Software group has entered a downtrend with a close below each of its shorter-term moving averages and the RSI now in negative territory. (using IGV)

After the markets closed today, heavyweight software stock Salesforce (**CRM**) is down over 15% after providing week growth guidance going forward which has investors worried about a slowdown in earnings. This will clearly hurt the already downward-trending Software group.

Both Oracle (**ORCL**) and CrowdStrike (**CRWD**) are outperforming with a close above their 10-day moving averages. We would not be a buyer due to weakness in the group however, and the stocks can be held. CRWD is due to report their earnings next week.

Semiconductor stock Qualcomm (**QCOM**) has pulled back to its 5-day simple moving average in a move that puts the stock in a strong buy zone. That said, overall weakness in the market going into Friday's PCE data would have us adding lightly to any positions.

Retailers got a boost today from strong earnings reports at Abercrombie (**ANF**) and Dicks (**DKS**). Both stocks gapped up in price in response.

Deckers (**DECK**) has advanced further from its gap up after strong earnings last week and the stock is poised to trend sideways as it digests its large 2-day gains. DECK can be held.



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Amazon (**AMZN**) is poised to regain its uptrend as this week's 1.5% gain puts the stock closer to closing above its 50 and 21-day moving averages. We would also need to see the RSI entering positive territory. The stock is rallying on news of price reductions on thousands of goods in their Amazon Fresh stores.

Industrials (XLI) are the worst performing this week with a 2.3% loss that's put this sector into a downtrend after a close below its 50-day simple moving average and the RSI now is in a negative territory.

Among stocks on our list, FTAI Aviation (**FTAI**) has been the hardest hit with a 6.5% decline that took place today after the company announced a secondary offering of shares. Buyers have come in on the dip and the stock has closed above its 21-day simple moving average which is constructive. FTAI can be held.

Both Eaton (**ETN**) and Quanta Services (**PWR**) are pulling back less than the sector in a move that keeps their uptrend in place with the RSI and MACD in positive territory with both stocks closing above shorter-term moving averages. ETN and PWR can be held.

Utility stocks (XLU) have pulled back further this week however, buyers have stepped in on the dip so that the sector is poised to close back above its 21-day simple moving average. This is constructive price action.

Both Southern (**SO**) and Duke (**DUK**) experienced similarly positive price action today. We would need to see both Duke and SO close back above their 21-day simple moving averages before considering adding to any position. This is \$102 for DUK and \$77.5 for SO.

Healthcare stocks have entered a downtrend after this week's 2% loss amid weakness in large-cap Pharmaceutical stocks such as Merck (**MRK**) from our suggested Holdings list.



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MRK has closed below its 50-day moving average on above-average volume. In addition, the RSI is now in negative territory. We're removing the stock from our Suggested Holdings List.

Biotech stock Vertex (**VRTX**) is pulling back amid weakness in its group. The stock has closed below its 10-day simple moving average with today's selling taking place on below-average volume. We would not be a buyer on the dip given the weakness in Biotechs and are on the lookout for a possible negative MACD crossover on the daily chart that would signal further possible weakness.

Alphabet (**GOOGL**) remains in a confirmed uptrend as it finds support above its upward-trending 10-day simple moving average. The stock can be held.

While the broader markets are sitting up close to all-time highs, there is clear weakness taking place beneath the surface with a majority of the 11 sectors now in a downtrend.

As noted, PCE data for April will be released before the markets open on Friday and given the markets general weakness as well as the real possibility that inflation may come in higher than expected, we would not add to positions at this time.

Below is a daily chart of Nasdaq stocks that are currently above their 50-day moving average and as you can see, it resembles the early April period of this year when the Nasdaq pulled back.

We will provide further guidance and insights into the reduced breadth as well as additional components in our weekly report on Sunday.

Warmly,
Mary Ellen McGonagle
Editor, MEM Edge Report



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NASDAQ STOCKS ABOVE 50-DAY MOVING AVERAGE

