



# THE MEM EDGE

July 14, 2024 | Weekly Report

## Economic Data Last Week

- Powell Comments In DC Spur Rate Cut Talk
- CPI Inflation Falls For First Time Since Covid (May 2020)

- Core PPI Comes In Below Estimates

## Key Data Due Next Week

- Equal Weighted S&P 500 Hits New High After Sharp Outperformance
- Value Stocks Outpace Growth Amid Rate Cut Anticipation
- Yields Fall With 10-Year At 4.18%

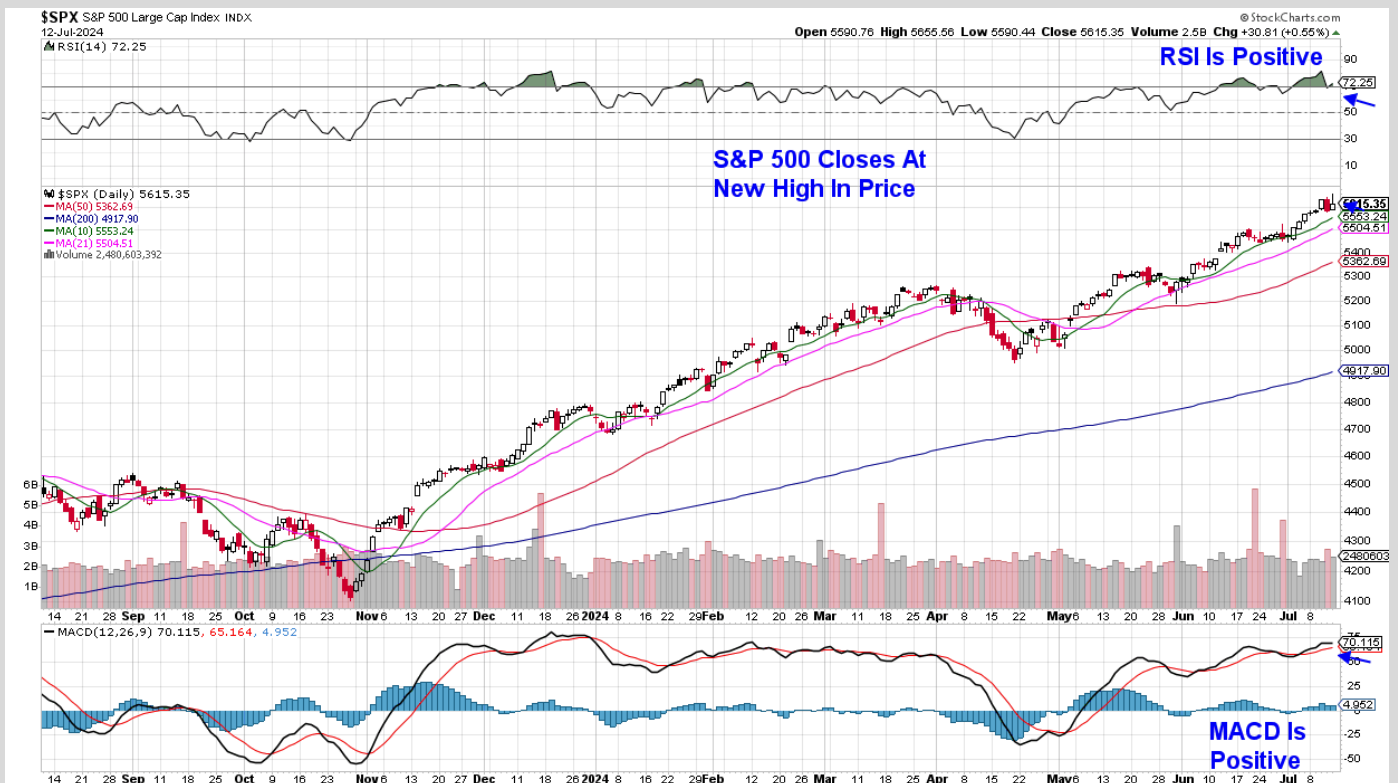
- REITs, Banks, Housing And Other Interest Rate Sensitive Groups Rally
- Assassination Attempt On Trump May Cause Volatility Tomorrow

## Market Developments Ahead of Next Week

- Fed Chair Powell Speaks Monday
- June Retail Sales Tuesday

- Housing Data All Week
- Republican National Convention

### Daily Chart of S&P 500



The S&P 500 ended the week up 0.9% to close at another new high in price. With the RSI and MACD in positive territory, the near-term uptrend for this Index remains in place.

A sharp pullback on Thursday pushed the RSI below 80 and while still overbought (above 70), a near-term pullback is not as imminent as it was last Sunday.

The Equal Weighted S&P 500 gained 2.9% which puts this Index close to a new high in price. The outperformance underscores a broadening out in the markets beyond the Magnificent 7 stocks, as areas that fare well in a declining rate environment rallied while most of the M7 names struggled.

The sharp rotation into Financials, REITs, Home Construction, and Industrials took place amid a drop in yields after both inflation reports last week came in below estimates. Small Cap stocks also advanced sharply with the Russell 2000 up 6% for the week.

The backdrop of moderating inflation has investors calling for a 90% chance that interest rates will be lowered at the September FOMC meeting. We expect interest rate-sensitive areas to continue to outperform as rates drop further.

The Nasdaq posted a 0.3% gain for the week amid selling in most of the Magnificent 7 stocks. A pullback in Software also hurt this Index, with the Technology sector among the worst-performing.

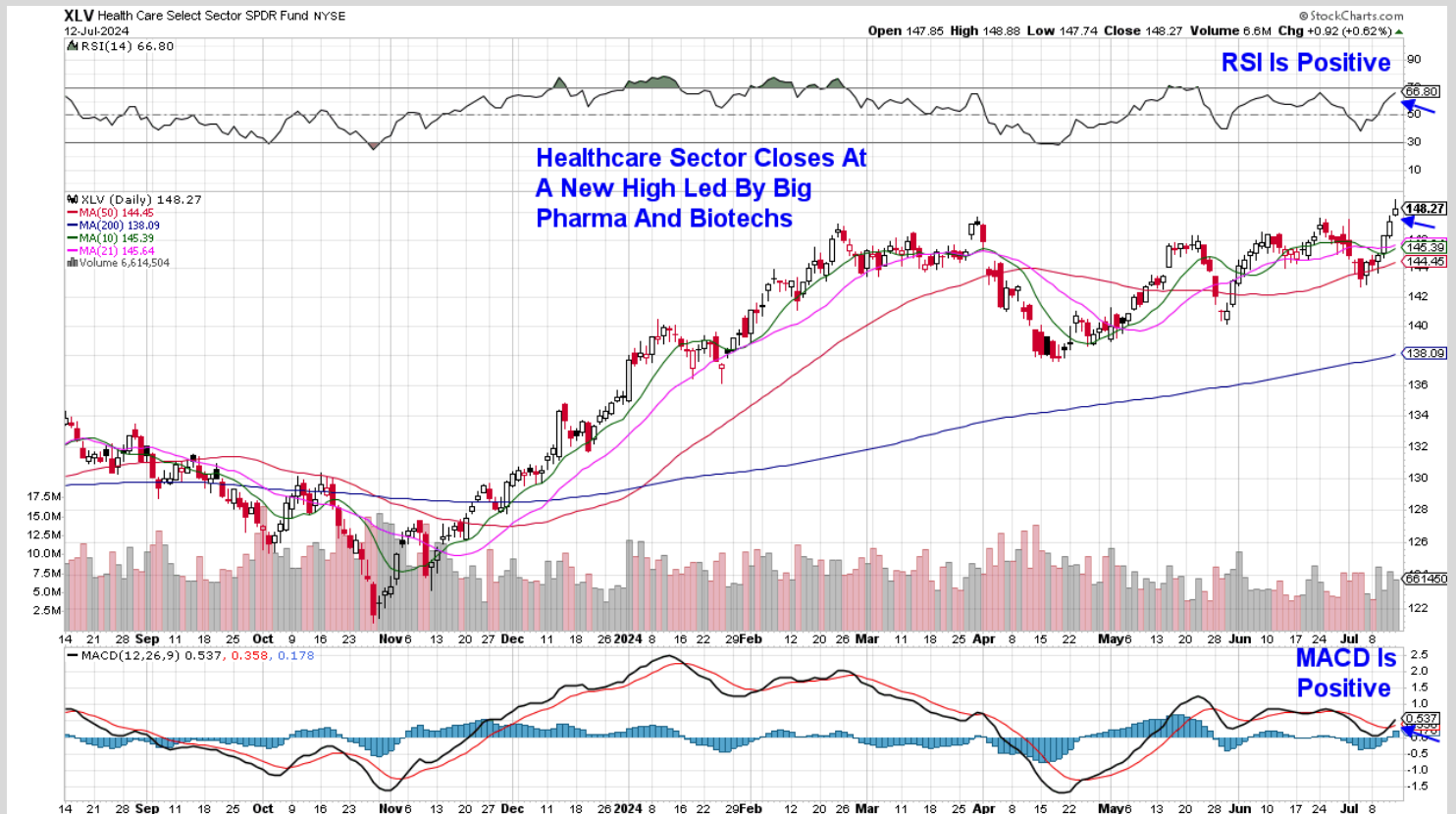
While Growth stocks fare well in a declining rate environment, we may see further weakness in M7 stocks as investors pivot toward interest rate-sensitive areas that are much less expensive.

The real test for M7 and other Growth stocks will be earnings season, with Netflix (**NFLX**) due to report earnings next Thursday followed by Alphabet (**GOOGL**), Microsoft (**MSFT**), and Amazon (**AMZN**) the following week.

Given the outperformance in most of these stocks year to date, any hint of weak earnings and sales growth will undoubtedly spur further selling. We will continue to monitor the price action in these M7 stocks and for now, they can be held.

Last week, 2nd quarter earnings reports began with mixed results, as large Money Center banks such as Citigroup, and Wells Fargo pulled back after cautious outlooks. Several other large banks are due to release results next week as are Semiconductor companies **TSM** and **ASML** and Asset Management firm Blackrock (**BLK**) to name a few of the more impactful reports.

## Daily Chart of the Health Care Sector (XLV)



### Healthcare Sector Closes At New High

Healthcare stocks outperformed last week led by a robust rally in Biotech stocks. A move into this area signals investor confidence in the markets, as a majority of companies are not yet posting earnings and are therefore viewed as risky.

The Biotech group broke out of an 18-week base on above-average volume last week (using ETF IBB), with the weekly chart posting a positive MACD crossover. (black line up through the red).

The price action has put this ETF at the top of our Watch List and we are on the lookout for a pullback to its 5-day simple moving average as a possible entry point. At this time, it is 2.8% above this moving average.

Vertex (**VRTX**) broke out of a 5-week base last week; however, the volume was relatively light. In addition, we did not get a confirming RSI signal on the daily chart - where the RSI hits a new high in line with the stock's price. Early January and early May would be examples of a confirming RSI with upward price movement. The stock can be held.

Select Pharmaceutical stocks also outperformed such as Eli Lilly (**LLY**) which rallied 3.7% for the week following a published report citing their weight loss drug - Mounjaro - is more effective than rival Novo Nordisk's Ozempic.

**LLY** is in a buy zone as the stock continues to find support above its upward-trending 5-day simple moving average.

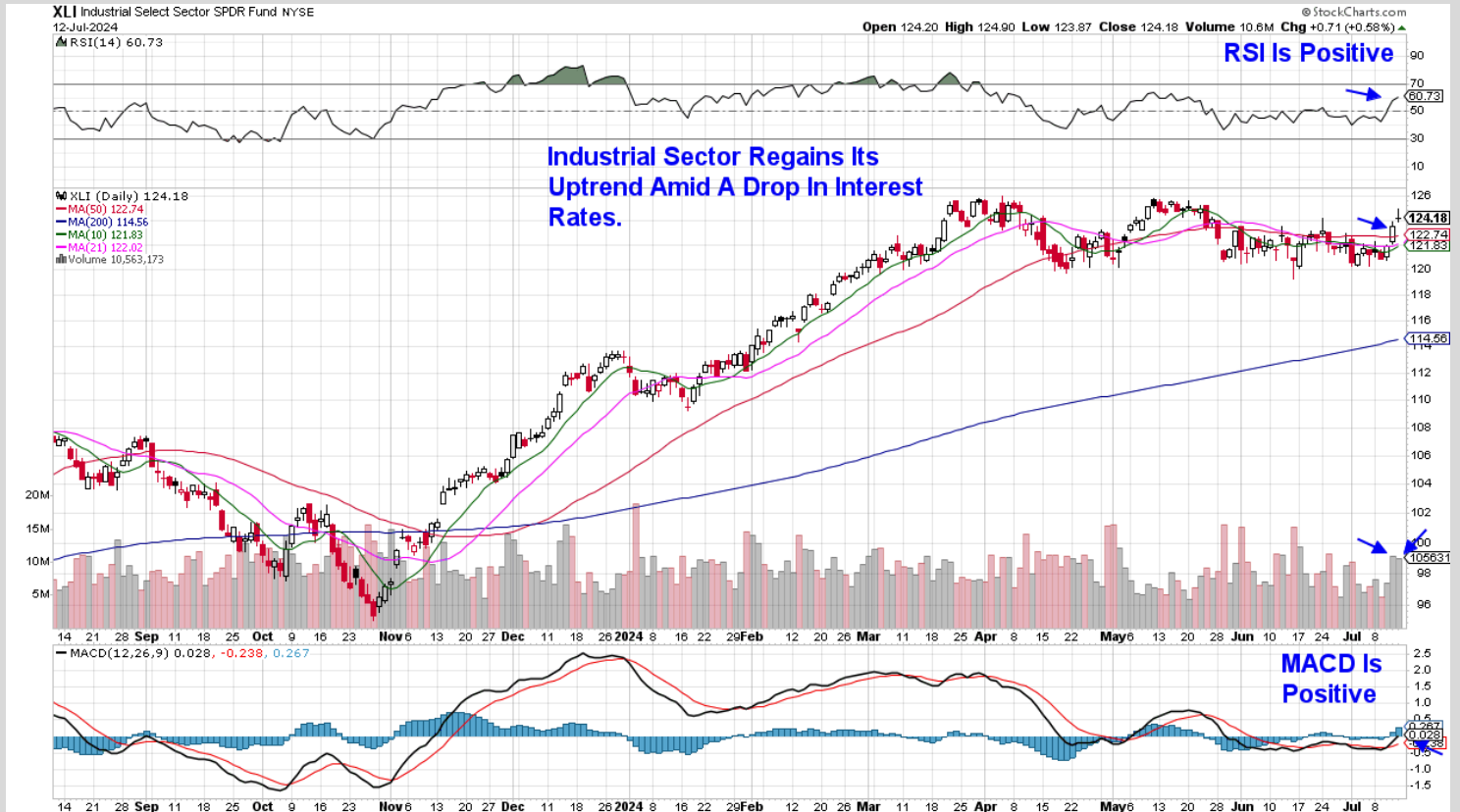
Boston Scientific (**BSX**) entered a buy zone on Wednesday and we suggested that any new buys be added to lightly as we await confirmation of its new uptrend with a positive MACD crossover (black line up through the red).

This remains the case with Friday's rally providing a bit more conviction for **BSX** but not confirmation.

Intuitive Surgical (**ISRG**) closed the week flat ahead of the release of their earnings this Thursday. The company received a price target upgrade on Thursday to \$512 from Citibank ahead of their report. This is generally a bullish sign as analysts will rarely put their neck on the line ahead of earnings unless they have insights that made them feel strongly.



## Daily Chart of the Industrial Sector (XLI)



### Industrial Sector Regains Its Uptrend

Industrial stocks outpaced the markets amid a resurgence in building-related stocks due to a drop in interest rates.

Large global construction companies also rallied after a drop in the U.S. dollar - making their products less expensive overseas. Falling rates tend to support a weaker dollar.

Global heavy construction company Fluor (**FLR**) was among the top performers in its group last week with a 7.5% rally that pushed the stock out of a 2-week base on above-average volume.

While Thursday's MACD crossover confirms the new uptrend in **FLR**, the stock is extended out of a buy zone. A pullback into the \$46 range would be ideal - at its 5-day moving average.

Honeywell (**HON**) posted a much more modest 1.5% gain ahead of the release of their earnings later this month. The stock is in a buy zone as analysts raise their earnings estimates going into the report.

FTAI Aviation (**FTAI**) closed the week above its 21-day moving average with its RSI and MACD in positive territory. As noted in our Midweek Report, the stock came under selling pressure due to valuation concerns.

Buying on Thursday was on above-average volume with Friday's close above its 21-day mav being constructive for **FTAI**. We would be a buyer on a close above its 10-day moving average which is currently in the \$103 range. The company is due to report earnings in 9 days.

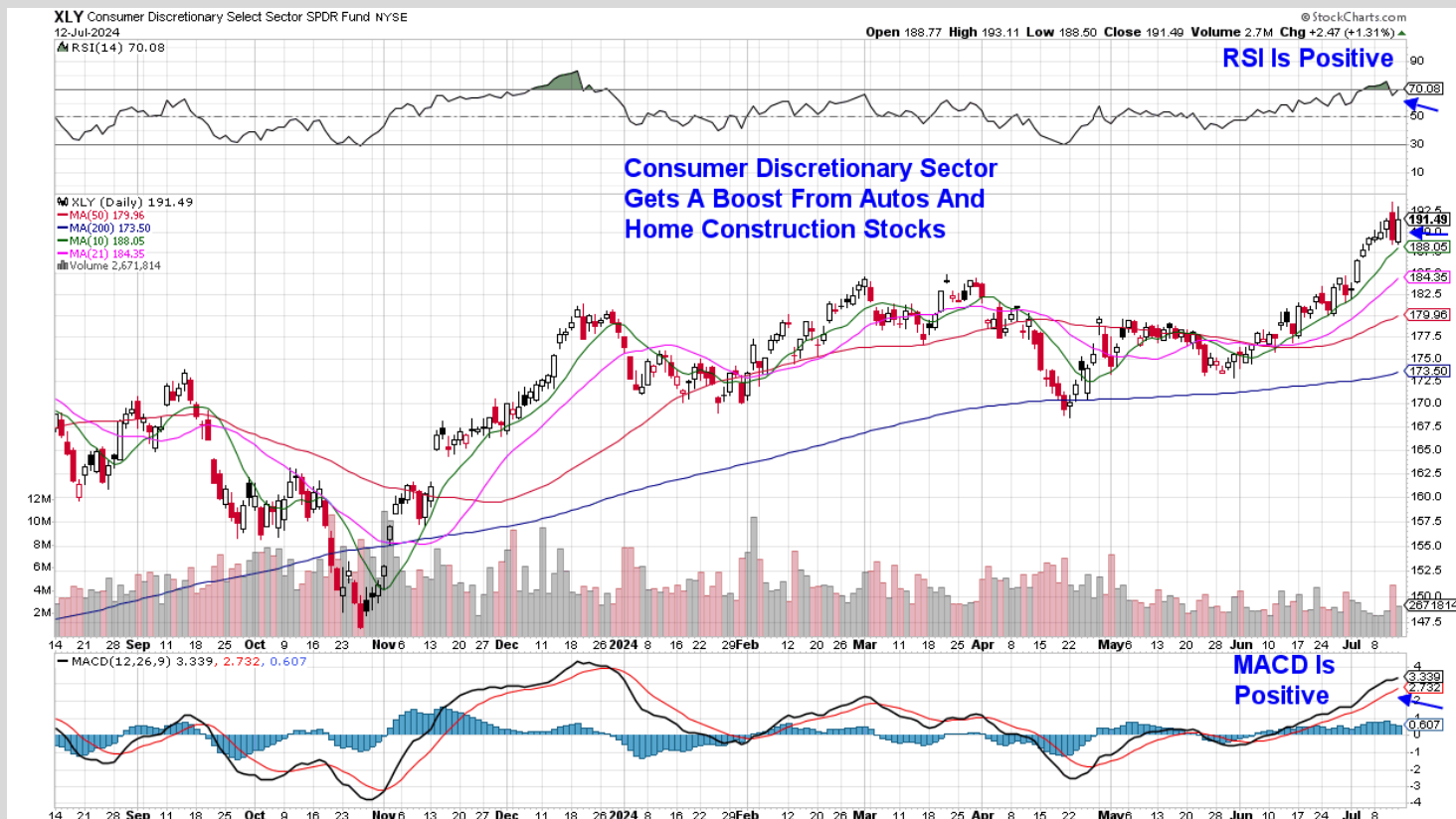
This week, we are adding Eaton Corp. (**ETN**) back to our Suggested Holdings List after the stock regained its uptrend with a close back above its 50-day moving average. The RSI and MACD are both now in positive territory as well.

The company offers solutions for power distribution and is well-positioned to benefit from the growing trend toward electrification needed for areas such as the data center market. **ETN** is in a buy zone.

We have added Dover Corp (**DOV**) and Johnson Controls (**JCI**) to our Watch List after these diversified industrial stocks regained their uptrends last week. A positive MACD is needed for both **JCI** and **DOV** before potentially adding them to our Suggested Holdings List.



## Daily Chart of the Consumer Discretionary Sector (XLY)



### Consumer Discretionary Sector Outperforms Amid Drop In Rates

Select discretionary stocks rallied amid anticipation of a Fed-induced rate cut. Among the top performers were Home Builders, Auto, and Home improvement retailers as each will benefit from lower loan or credit card rates.

This week, we are adding Small Cap homebuilder Century Communities (**CCS**) to our Suggested Holdings List after the stock regained its 50-day moving average with a positive RSI and MACD. The company is on track to grow earnings by 24% this year with earnings due later this month.

**CCS** is extended after last week's rally and we are on the lookout for a period of consolidation. The stock can be bought on any pullback

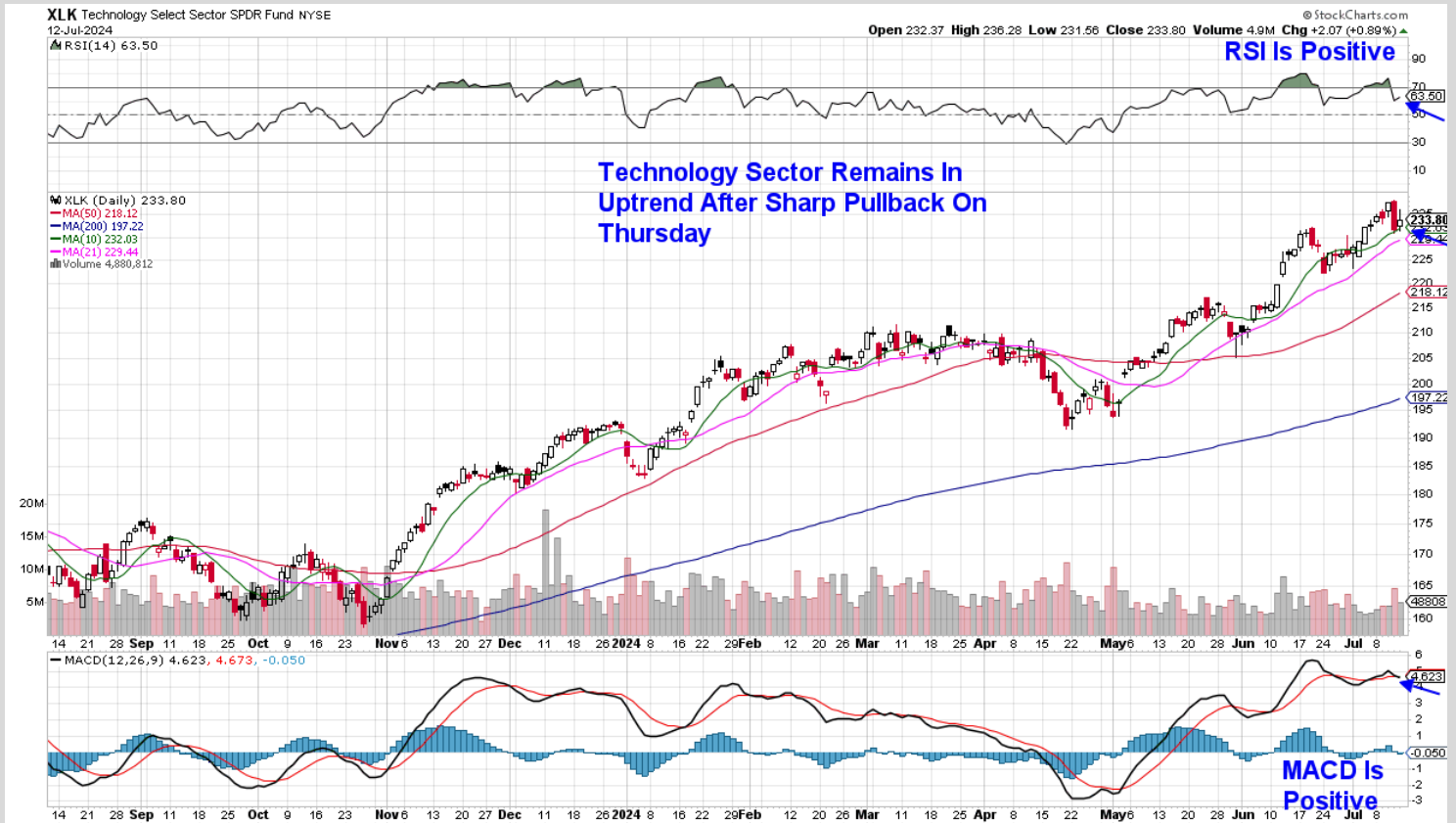
Toll Brothers (**TOL**) is not being added back to our Suggested Holdings List just yet. While the stock regained its uptrend with a close above its 50-day moving average and a positive RSI, the MACD is not yet in positive territory.

Hilton (**HLT**) rallied 3% last week which pushed the stock out of a 1-month base on above-average volume. The company is in expansion mode with a pipeline of 472,000 rooms and a 45% year-over-year increase in construction starts.

Lower interest rates will benefit commercial real estate loans for companies such as **HLT**. The stock is in a buy zone.



## Daily Chart of the Technology Sector (XLK)



### Technology Sector Gives Back Early Week Gains But Remains In An Uptrend

The Tech sector underperformed amid a pullback in Software stocks including heavyweight Microsoft (**MSFT**) which lost 3% for the week.

Late-day selling on Friday also hurt Tech names with Semiconductor stocks dropping 1.7% into the close. The group managed to gain 2% overall however, led by a rally in Nvidia (**NVDA**) which ended on a weak note despite gains.

**NVDA** was 5 points away from a new high in price on Thursday before a sharp pullback pushed the stock down by 5.5%.

The move lower was a part of an assault on most of the mega-cap Growth stocks that had been leading the markets higher.

Below is a daily price chart of **NVDA** and the stock has found support at its 10-day simple moving average with a positive RSI and MACD. This is constructive; however, last week's pre-Thursday rally did not push the MACD into a positive crossover. In addition, the RSI did not approach its late June high as the stock approached its late June high in price.

Both the January and June rallies posted a confirming RSI and MACD as a positive backdrop.

We may see continued weakness in **NVDA** over the near term however, longer term the stock remains in a bullish position. For now, **NVDA** can be held.

Market moving Semiconductor stock Taiwan Semi (**TSM**) is due to release their earnings on Thursday after the market closes. We expect their results as well as the market's response, to impact other



semiconductor names. The company reported June chip sales that were above estimates last week.

ASML Holding (**ASML**) is due to report their earnings before the markets open on Wednesday. Analysts have been raising their estimates higher for the Dutch manufacturer of proprietary lithography systems needed for chip manufacturing.

The stock posted a base breakout on relatively high volume last week and is in a position to trade higher should they come in with strong results.

Arm Holdings (**ARM**) and Broadcom (**AVGO**) both ended the week flat and are above their 10-day moving average with a positive RSI and MACD. This puts them in a buy zone.

Lam Research (**LRCX**) ended the week down 1.5% after pulling back sharply from a Wednesday new high in price. A close back above its 10-day moving average at the \$1084 range would put the stock into a buy zone.

Software stocks ended the week lower after a Wall Street downgrade to ServiceNow (**NOW**) that questioned the company's ability to garner AI-related sales. The report pushed other AI-related Software stocks lower.

This would include Monday.com (**MNDY**) which dropped 7% to close the week just below its 21-day moving average. At this time, both the RSI and MACD are in positive territory however, any further selling would have the stock breaching our 8% sell rule.

Should **MNDY** regain its 10-day moving average, it would be back in a buy zone.

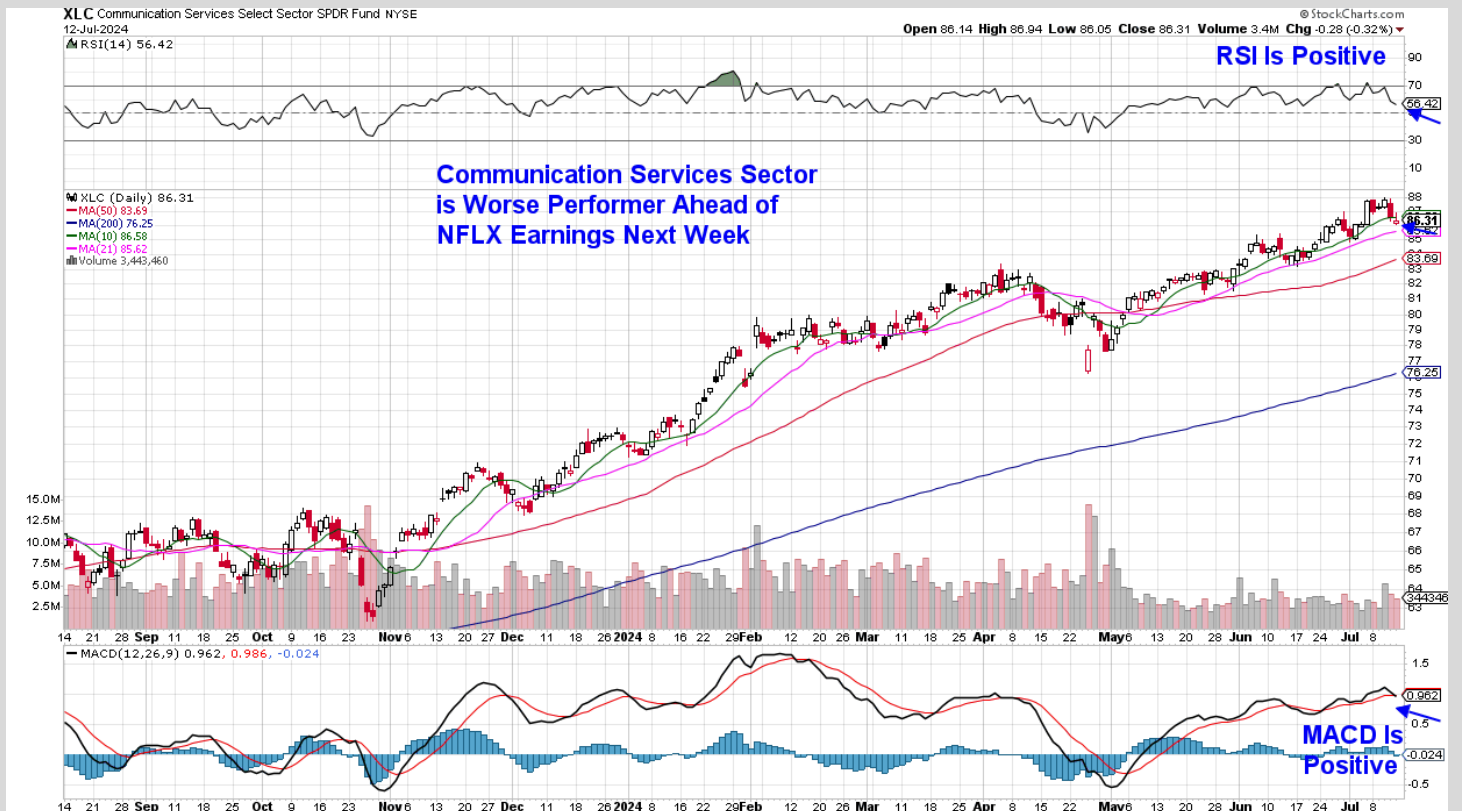
CrowdStrike (**CRWD**) fell 4.5% in a move that puts the RSI into negative territory on the daily chart. Last Sunday we had noted the stock's lack of near-term momentum signaled by a declining RSI and MACD.

We are removing the stock from our Suggested Holdings List however, the weekly chart remains constructive, and longer-term investors can remain with **CRWD**.

Palantir (**PLTR**) remained strong last week and ended above its Wednesday base breakout level of \$27.5. This puts the stock in a strong buy zone.

Arista Networks (**ANET**) closed above its 10-day moving average which keeps the stock in a buy zone. The network provider is a key player in the AI space and will be prone to weakness should we see weakness in the AI trade. New positions should be added lightly for now.

## Daily Chart of the Communication Services Sector (XLC)



### Communication Services Sector Hurt By Sharp Pullback In Heavyweights

Internet-related stocks pulled back sharply with heavyweight names Meta Platforms (**META**) and Netflix (**NFLX**) both down over 6% while Alphabet (**GOOGL**) underperformed as well.

Meta Platforms (**META**) was hit particularly hard after an analyst report flagged concerns regarding the company's digital ad sales due to weaker-than-expected conversions in June and early July. The heavy volume selling pushed the RSI into negative territory on the daily chart.

Shorter-term investors will want to lighten up on any positions however, longer term, the weekly chart remains constructive. **META** is due to release earnings on Tuesday, July 23rd.

Selling spread to other interest-related stocks that derive revenue from digital ads. Pinterest (**PINS**) fell below its 50-day moving average with the RSI now in negative territory. We are removing the stock from our Suggested Holdings List.

Netflix's (**NFLX**) new ad sales model for lower-tiered subscribers had this stock falling despite several Wall Street upgrades last week. The company is due to release their 2nd quarter earnings on Thursday after the markets close.

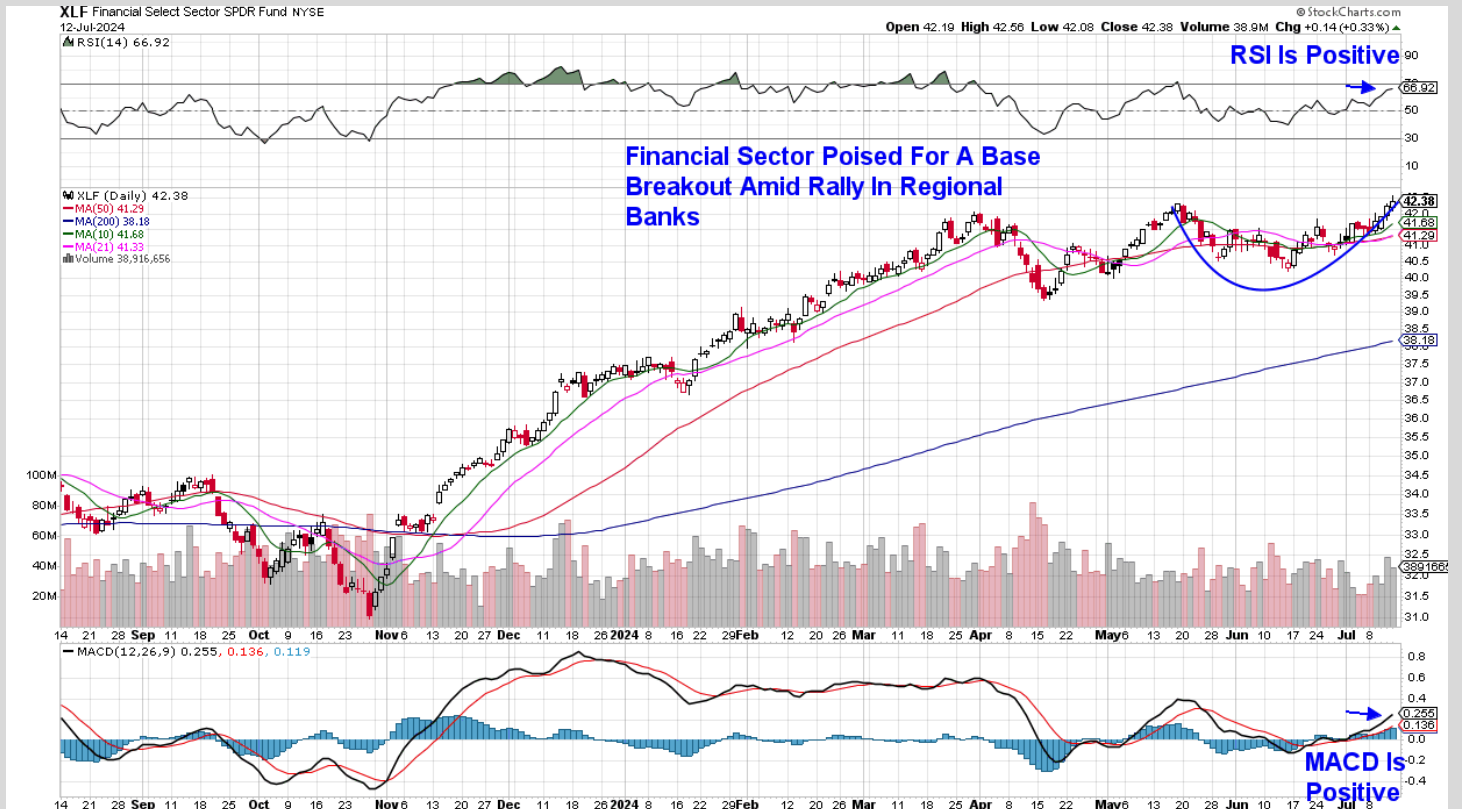
**NFLX** has a history of reacting in an outsized way to quarterly results. Last quarter, the stock fell 9% on news that they will no longer be providing subscribership information. The prior quarter, the stock gained 10.5% on news of a sharp increase in subscribers.

At this time, **NFLX** has pulled back to its 50-day moving average with the RSI in negative territory. While the chart is showing weakness for shorter-term investors, the weekly chart remains constructive. A close below its 50-day moving average would most likely have us removing the stock from our Suggested Holdings List.

Alphabet (**GOOGL**) fared a bit better with a 3% pullback that has the stock closing below its 10-day moving average with a positive RSI and MACD. The stock can be held with a close back above its 10-day mav putting **GOOGL** back into a buy zone.



## Daily Chart of the Financial Sector (XLF)



### Financial Sector Close To Breaking Out

While larger money center banks mostly pulled back after citing credit card default possibilities as being an issue on their earnings calls, Regional Banks posted a sharp 8.8% gain for the week. (using ETF KRE)

Many Regional banks are trading higher after selling off from mid-May until this past week's sharp rally. The gains have left most stocks in this group in an overbought position and extended well above their 10-day moving averages.

We have added several candidates to our Watch List with an eye toward adding them to our Suggested Holdings List on any pullback.

Among them is Fifth Third Bancorp (**FITB**) who is due to report their earnings tomorrow. Comerica (**CMA**) is also on our Watch List and they are due to report their quarterly results on Friday.

We will continue to monitor these stocks as well as overall price action in the Banking group.

# Summary

Moderating inflation going into what's expected to be a strong earnings season is an ideal backdrop as the markets continue to trend higher.

Year-over-year earnings growth for the S&P 500 is estimated to be 8.8% for the 2nd quarter which would be the fastest pace in over 2 years.

A broadening out of earnings growth coupled with a continued decline in interest rates could easily set the stage for recently lagging sectors to continue to outperform. The question is, will this potential outperformance be at the expense of recently strong M7 and other AI-related stocks?

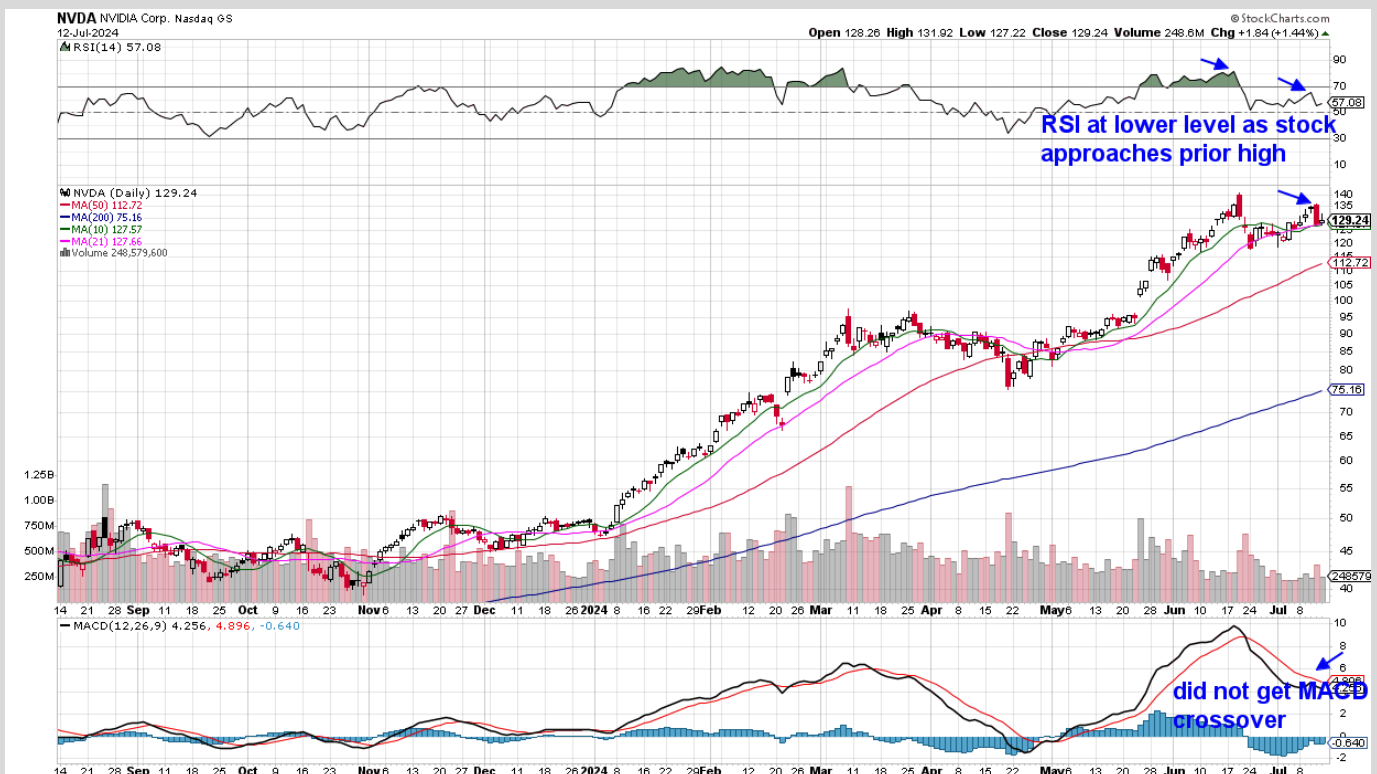
We don't think so, but we expect to get some answers next week as key Semiconductor companies and **NFLX** are due to report results alongside some better-known Banks.

Adding to this mix for the markets is potential volatility as we move closer to November's presidential election. Historically, August and September can be very tricky with an end to the 2017 tax cuts next year being a key concern for voters.

For now, the broader markets remain in a confirmed uptrend and we will continue to add stocks from our Watch List as warranted.

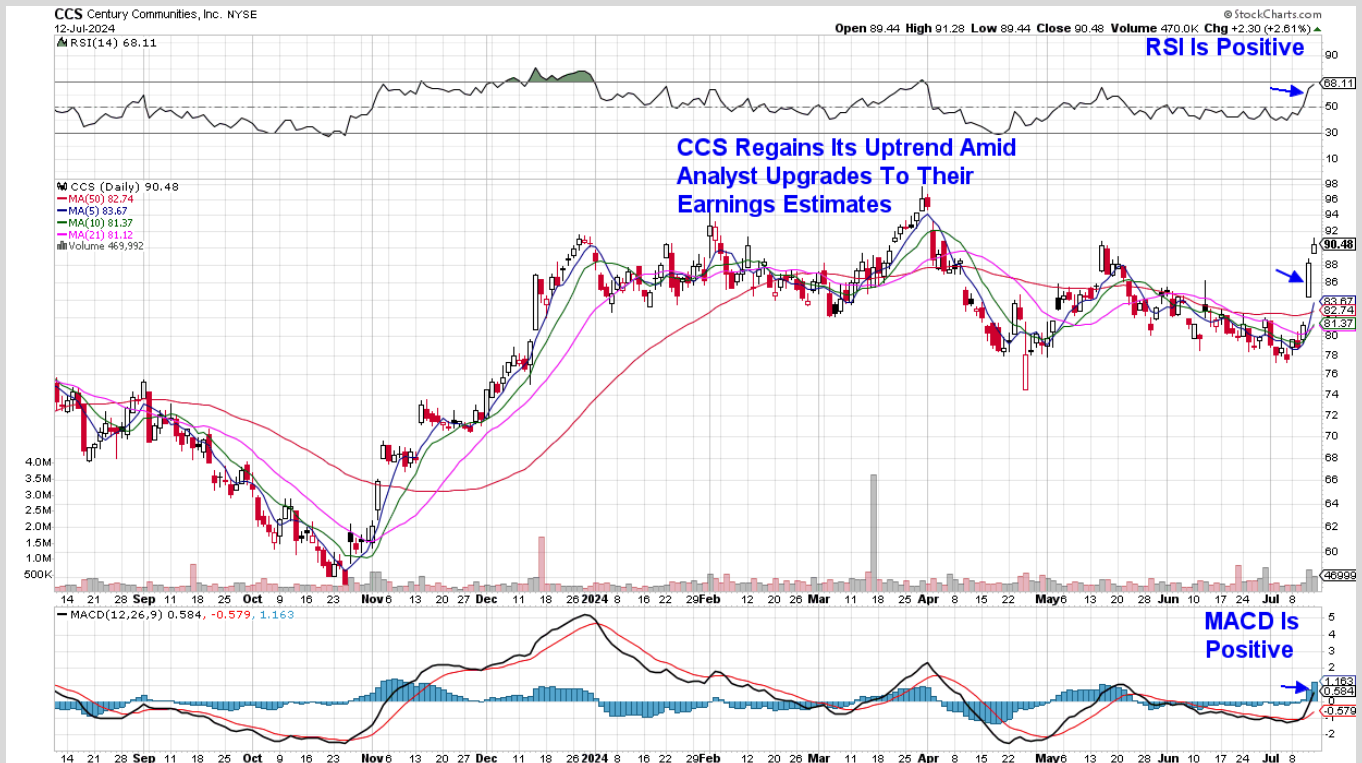
## Charts We Are Watching:

Daily Chart of NVIDIA Corp. (NVDA)

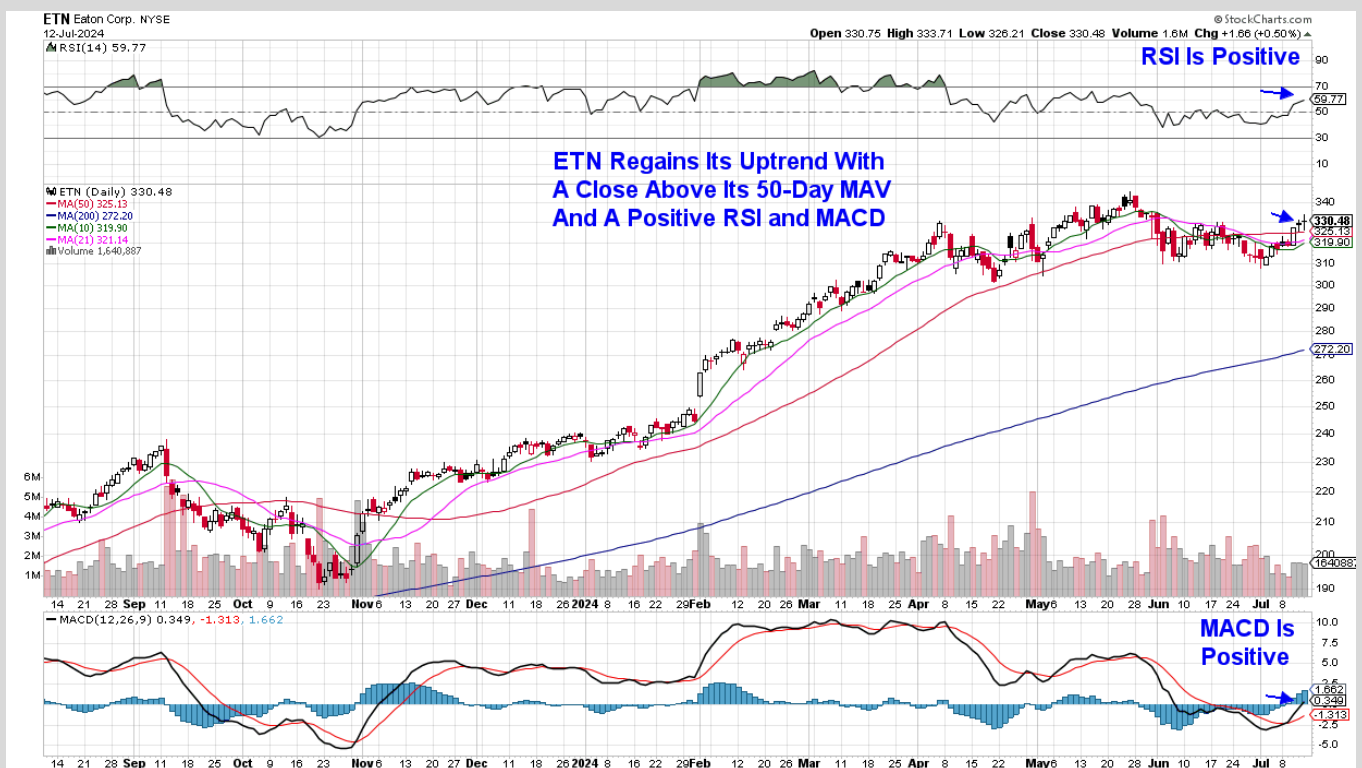


# New Idea Charts:

## Daily Chart of Century Communities, Inc. (CCS)



## Daily Chart of Eaton Corp. (ETN)



# MEM Edge Report Suggested Holdings

*Stocks With Emerging Leadership Characteristics*

\$ = Earnings Due	Buy Zone	Strong Buy	Buy on Pullback	Removed From List
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SYMB	COMPANY	PRICE	DATE ADDED	PERFORMANCE	EARNINGS DUE
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CONSUMER DISCRETIONARY					
AMZN	Amazon	\$186.20	5/5/2024	5.5%	1-Aug
CCS	Century Communities	\$90.50	7/14/2024		
HLT	Hilton	\$215.90	6/22/2024	2.5%	24-Jul

INDUSTRIAL					
ETN	Eaton Corp.	\$330.50	7/14/2024		
FLR	Fluor Corp.	\$43.40	6/2/2024	10.0%	3-Aug
FTAI	FTAI Aviation	\$58.00	3/17/2024	60.0%	24-Jul
HON	Honeywell International	\$215.40	6/23/2024	1.0%	25-Jul

HEALTHCARE					
BSX	Boston Scientific	\$57.60	1/3/2024	33.0%	24-Jul
ISRG	Intuitive Surgical	\$598.80	5/19/2024	11.5%	18-Jul
LLY	Eli Lilly	\$820.30	6/2/2024	15.0%	9-Aug
VRTX	Vertex Pharmaceuticals	\$414.80	5/12/2024	14.5%	1-Aug

TECHNOLOGY					
ANET	Arista Networks	\$328.50	6/16/2024	10.5%	29-Jul
ARM	Arm Holdings	\$181.20	7/7/2024		31-Jul
ASML	ASML	\$950.80	6/4/2024	5.0%	17-Jul
AVGO	Broadcom	\$1,495.50	6/12/2024	14.00%	
CRWD	CrowdStrike	\$387.40	6/12/2024	2.5%	
LRCX	Lam Research	\$1,036.00	6/15/2024	4.0%	24-Jul
MNDY	Monday.com	\$248.90	7/7/2024	-7.0%	14-Aug
NVDA	Nvidia	\$887.90	5/5/2024	40.0%	21-Aug
PLTR	Palantir	\$25.33	7/19/2024	10.5%	6-Aug

COMMUNICATION SERVICES					
GOOGL	Alphabet Inc.	\$156.61	4/10/2024	21.0%	23-Jul
META	Meta Platforms Inc.	\$492.90	6/9/2024	10.5%	25-Jul
NFLX	Netflix	\$669.40	6/16/2024	3.5%	18-Jul
PINS	Pinterest	\$42.50	6/9/2024	-1.0%	30-Jul

## Longer Term Hold Candidates That Were Removed From Suggested Holdings List

SYMB	COMPANY NAME	CURRENT STATUS
CRWD	CrowdStrike	Hold
DELL	Dell Technologies	Hold
MSFT	Microsoft	Hold
TOL	Toll Brothers	Hold

These stocks were removed due to short term downtrends after breaks below key support. However, their longer term weekly charts remain constructive and these stocks can be held.



# Glossary of Terms Used From Our Suggested Holdings

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## Buy Zone

This means the stock is in a confirmed uptrend and is finding support at its upward-trending key moving averages and can be bought. If you own the stock, stay with it.

## Strong Buy

This means we have slightly more conviction in the ability of this stock to outperform the markets over the next week. The stock may be poised to break out of a base, it may be in a strong industry group or there may be recent good news. In other words, the stock has some edge that should help propel the stock higher.

## Buy on Pullback

In this case, the stock is a bit over-bought (or extended) and may need to come in a little before buying. This is usually following a particularly strong week where the stock was up a lot. We would look for a pullback to the stock's upward-trending 10-day moving average as an optimal entry point.

## Not Highlighted

These are stocks that remain positive and can be held if you own them. However, they currently do not appear poised to have an upward move. The stock may be consolidating after a large advance or be in an industry group that is not in favor. The longer-term uptrend remains in place however.

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