# THE MEM EDGE
*Midweek Report*

Wednesday, July 17, 2024

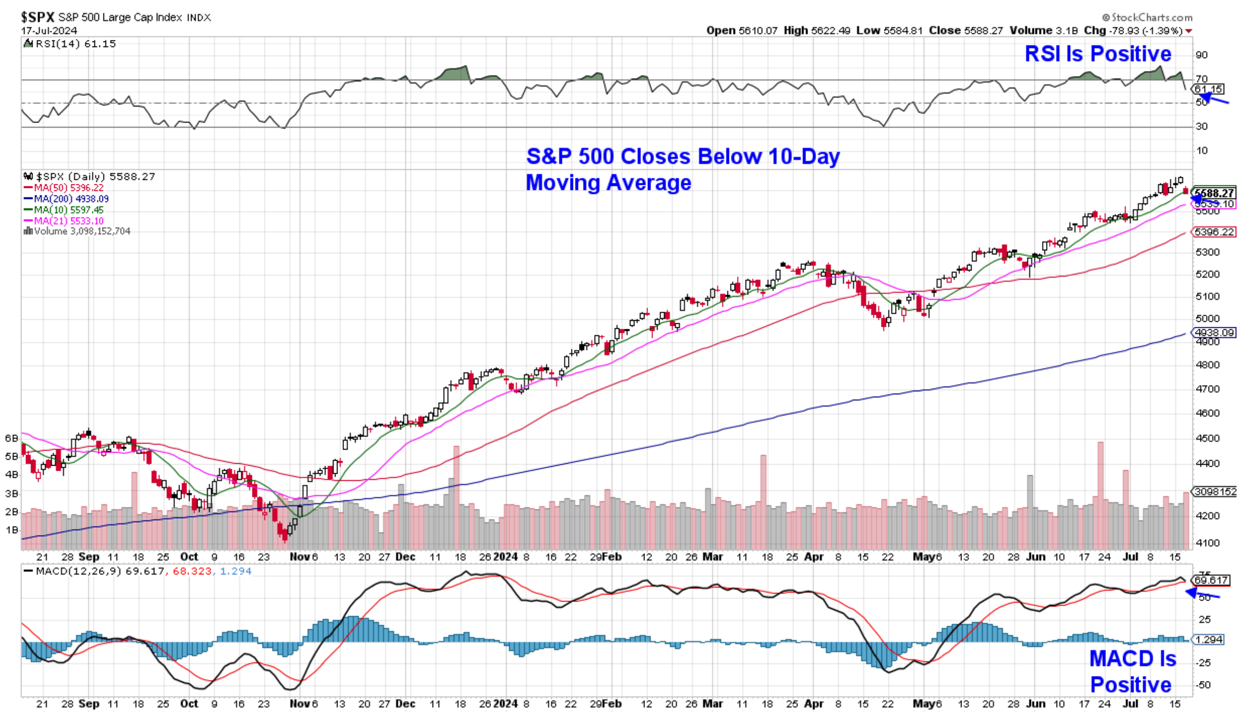
Key Data This Week

- Retail Sales Rose 0.8% In June - Ex Autos
- Home Builder Confidence Falls To Seven-Month Low
- Six Fed Officials to Speak Over Next Two Days

Key Developments This Week

- AI Related Trade Loses Its Luster
- Semiconductors Sell Off Sharply Amid Tighter Export Controls and Potential U.S. Policy To Taiwan
- Rotation Into Small Caps and Value Stocks Continues
- Election Related Volatility Emerges
- **Removing Meta Platforms (META), ASML (ASML), Arm (ARM), and Eaton (ETN) From Suggested Holdings List**

DAILY CHART OF THE S&P 500 INDEX



The S&P 500 is down 0.5% in a move that puts this Index just below its 10-day moving average with the RSI and MACD in positive territory. Amid any further selling, the 21-day moving average is the next area of possible support and it is 1% away.

The S&P 500 hit a new high in price yesterday before selling off today on above-average volume. This price action adds another distribution day to the S&P 500.

According to studies done by William O'Neil, four or five distribution days over several weeks always signal that stocks are heading for a downturn.

Over the past several weeks, we have experienced 4 distribution days so that if we see further down days with volume that is 0.2% above its prior day, it may add to the count - depending on whether earlier days fall off. We will continue to monitor this.

For now, the uptrend in the S&P 500 remains intact.

The Equal Weighted S&P 500 is at a new high in price amid a continuation rally in Value stocks such as Financials and Industrials.

The Nasdaq pulled back more sharply than the S&P, with a 2.2% decline that saw most of the selling take place today. The selloff has this Index closing below its key 21-day moving average which is concerning.

Among the worst performers were Semiconductors, with most of the Magnificent 7 stocks underperforming as well, as many AI-related names came under pressure.

At this time, we would limit new positions in Technology and other AI-related names until we see the Nasdaq regain at least its 21-day moving average, followed by a 10-day simple moving average.

Among the losers in Semiconductors, ASML (**ASML**) lost 13% today on heavy volume. The decline took place despite the company reporting earnings that were ahead of estimates.

ASML's positive results were overshadowed by talk that the Biden administration is considering severe trade restrictions on chip-related exports to China from companies such as ASML. (49% of ASML's Q2 revenue is from China).

Other chip stocks also pulled back following comments from former U.S. president Trump who suggested Taiwan might need to pay for its own defense. The comments imply that if he's elected, China restrictions could intensify.

Uncertainty regarding possible policy shifts is not good for stocks and Semiconductors took it on the chin.

Nvidia (**NVDA**) has pulled back 8.7% in a move that puts the RSI into negative territory on the daily chart. As cited on Sunday, the stock had non-confirming momentum signals as it moved close to a new high last week and that weakness continued.

Shorter-term investors will want to lighten up on NVDA - particularly if it closes below its key 50-day moving average. For longer-term investors, the stock can be held as the weekly chart remains constructive.

Arm Holdings (**ARM**) was flat before selling today pushed the stock down 9.5% for the week. The decline puts the losses below our 8% threshold and we are removing it from our Suggested Holdings List.

Lam Research (**LRCX**) is also being removed after heavy volume selling today put the stock below its 50-day moving average with the RSI in negative territory. Longer-term investors can remain with the stock as the weekly chart is constructive.

AI-related stocks also came under selling pressure as investors continued to pivot toward Small Caps and Value stocks.

Arista Networks (**ANET**) sold off 6% in a move that puts the RSI into negative territory. While the RSI is negative on the daily chart, the stock remains above its 50-day moving average with the MACD in positive territory.

We would not buy this dip but instead, are on the lookout for price action similar to late February where a close above its 21-day moving average coupled with a positive RSI was an ideal initial entry point.

Software stocks held in better this week with a 1% pullback for the group. (using ETF IGV). Palantir (**PLTR**) is technically in a buy zone after pulling back to its 10-day and into its base breakout level of $28.

However, cautiousness surrounding tech-related names has us putting the stock as a hold.

As cited, M7 names came under selling pressure with Meta Platforms (**META**) getting hit the hardest amid weakness that began last week after the outlook for their digital sales was downgraded.

**META** sliced through its 50-day moving average on heavy volume today which has us removing the stock from our Suggested Holdings List as the RSI and MACD are now in negative territory.

Both Alphabet (**GOOGL**) and Netflix (**NFLX**) - due to report earnings tomorrow - can be held.

Healthcare stocks are generally outperforming however, Eli Lilly (**LLY**) has pulled back 4.5% amid news that Roche's obesity pill has achieved positive results in early-stage trials.

Both the RSI and MACD remain in positive territory and a close back above its 10-day moving average at $928 would put the stock back into a buy zone.

Intuitive Surgical (**ISRG**) is exhibiting weakness going into earnings tomorrow with the RSI now in negative territory. A close back above its 10-day mav at $440 would put the stock back into an uptrend. However, a close below its 50-day mav would most likely have us removing the stock from our buy list.

Homebuilders continued their advance from last week amid lower interest rates with Century Communities (**CCS**) outperforming after a 7% gain that pushed the stock into a 14-week base breakout.

Using last December's price action as a guide, we would be a buyer on any pullback to the 5-day simple moving average in the $92.6 range.

Industrials are outperforming this week as well with both Flour (**FLR**) and Honeywell (**HON**) outperforming. **FLR** is in a buy zone after pulling back to its 5-day moving average while **HON** can be bought on any pullback to the $217 range at its 5-day mav.

Eaton (**ETN**) pulled back sharply today in a move that has this stock closing below its 50-day moving average with a negative RSI and MACD. We are removing the stock from our Suggested Holdings List.

Other Industrial stocks that we placed on our Watch List are also pulling back such as Dover (**DOV**) and we are on the lookout for more of a decline before adding it to our Suggested Holdings list as it remains extended.

FTAI Aviation (**FTAI**) has regained its uptrend with a 5.5% rally this week. The stock is in a buy zone after pulling back to its 10-day moving average. **FTAI** is due to report their earnings next Tuesday.



While Banks, Home Builders, and Industrials continued their rallies from last week, many of these names are extended above buy points. We will reassess their conditions over the weekend with an eye toward adding names from these areas.

While we were on the lookout for a possible move away from pricier Tech stocks depending on earnings reports, we were not prepared for political-related volatility to be the key driver so soon.

Tomorrow, Taiwan Semiconductor will be reporting their results and their results, as well as the market’s reaction, will provide further clues regarding investor’s appetite for AI-related names.

Until then, we would not add to positions in this area.

Warmly,
Mary Ellen McGonagle
Editor, MEM Edge Report