



# THE MEM EDGE

July 28, 2024 | Weekly Report

## Economic Data Last Week

- Services PMI Continues To Expand - Largest Part Of U.S. Economy
- Manufacturing PMI Falls To A 6-Month Low

- Q2 GDP Came In Stronger Than Expected
- PCE Data Shows Small Increase In Inflation

## Market Developments Last Week

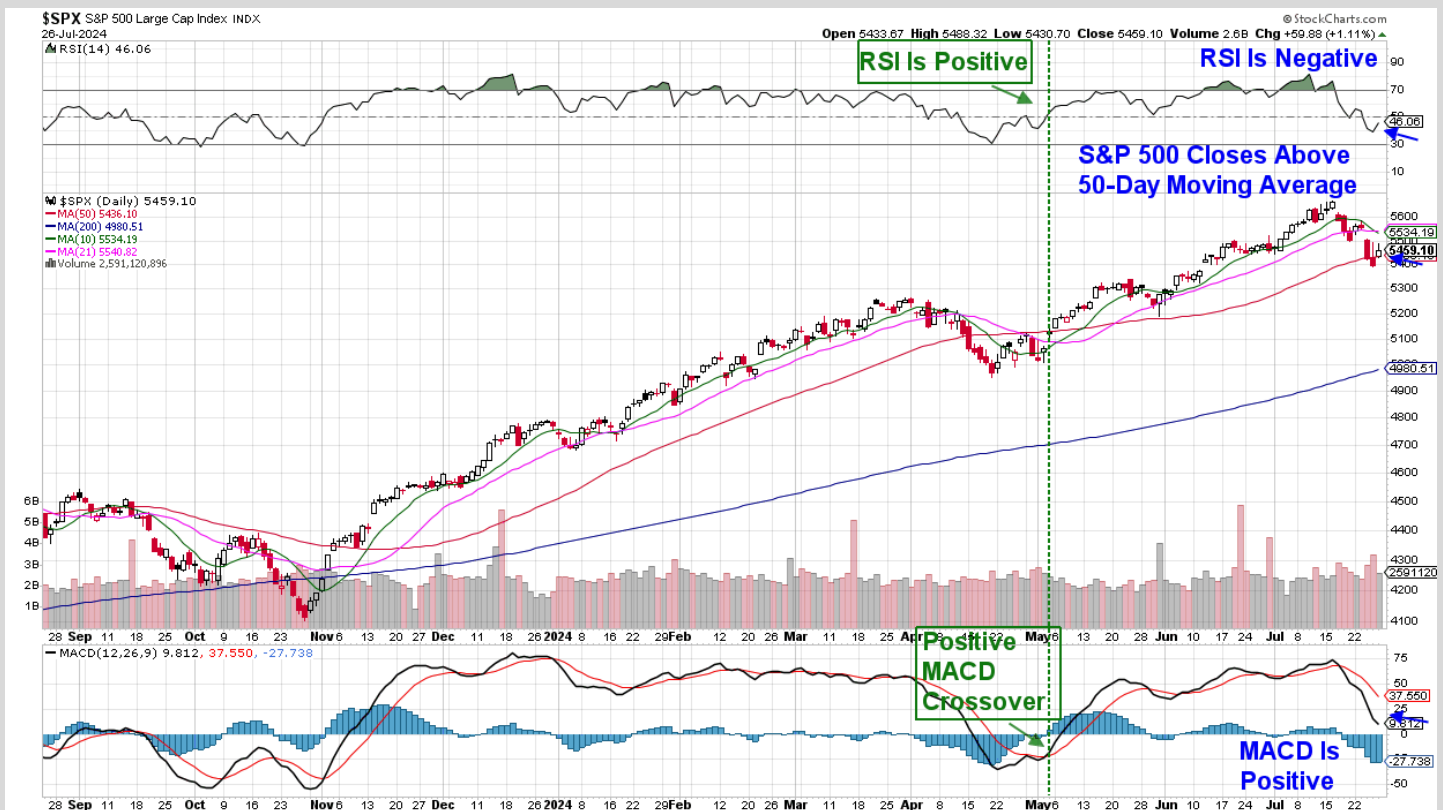
- Interest Rates End The Week Lower
- Small Caps, Housing, and Bank Stocks Outperform

- Semiconductor Stocks In Confirmed Downtrend
- M7 Stocks Mostly Underperform

## Key Data Due Next Week

- Earnings Reports From META, MSFT, and AMZN Next Week
- July Employment Data On Wednesday and Friday
- Powell Press Conference (Wed.) After FOMC Meeting
- Consumer Confidence On Tuesday

### Daily Chart of S&P 500



The S&P 500 fell 0.8% with a Friday rally helping this Index close back above its 50-day moving average. With the RSI in negative territory, we are cautious on the near-term prospects for the markets as heavyweight mega-cap growth stocks remain under pressure.

For reference, we've highlighted the characteristics of a new uptrend for the S&P 500 that took place in early May, when the RSI turned positive and the MACD posted a positive crossover coupled with a move back above its 21-day moving average.

On the other hand, Cyclical and Small-cap stocks that fare well in a declining interest rate environment and growing economy, are continuing to outperform. Defensive areas of the market are in favor as well.

In turn, the equal-weighted S&P 500 rallied 0.8% last week and is in a confirmed uptrend above its 10-day moving average.

The Nasdaq fell 2.1% last week in a move that has this Index now below its key 50-day moving average. With the RSI and MACD in negative territory, this tech-heavy Index is now in a downtrend.

Semiconductor stocks continue to come under selling pressure, led by a 4% decline in Nvidia (**NVDA**). Weaker than-expected quarterly results from heavyweights Tesla (**TSLA**) and Alphabet (**GOOGL**) also weighed on this Index.

While Friday's softer-than-expected PCE data provided some relief for the Nasdaq, selling among M7 stocks picked up into the close amid uncertainty heading into next week's earnings reports from **META**, **MSFT**, and **AMZN**.

Next Wednesday's comments from Fed Chair Powell after the FOMC meeting will also be closely watched, as investors look for confirmation of a possible September rate cut.

June employment data will also be key, particularly if the numbers are stronger than estimated.

Anticipation of a September rate cut would be tempered and in turn, interest rate-sensitive areas may pull back.

In all, it will be a busy week for the markets as investors are seeking clues as to whether the move away from once-safe M7 stocks is behind us while Value stocks pick up steam.

**We believe the move into Small Caps will continue** and are adding the Russell 2000 Small Cap ETF IWM to our Suggested Holdings List. We will also continue to add Smaller stocks as they emerge.

Below is a weekly chart of the Russell 2000 Small Cap Index. As you will see, these stocks have underperformed for some time as they are particularly vulnerable to higher rates due to higher financing costs. According to research, 30% of the debt of the Russell 2000 is floating-rate compared to 6% for the S&P 500.

As for the move away from once-safe M7 stocks, next week's earnings from several names in this category will certainly provide clues.

With most of these M7 names in a near-term downtrend, longer-term investors will want to focus on the weekly chart as several names such as **META** and **GOOGL** have an RSI that's close to turning negative. If this occurs the intermediate-term outlook for the stock will shift to negative. We will continue to apprise you of their status.

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



### Healthcare Sector Is Top Performing

The Healthcare sector gained 1.4% last week led by a rally in Biotechs and select Managed Care stocks which came in with earnings that were above estimates.

This week, we are adding Abbvie (**ABBV**) to our Suggested Holdings List. The stock broke out of a 4 ½ month base on Friday following the company's release of earnings that were ahead of estimates while also raising guidance for this year.

**ABBV** is seeing increased sales of their immunology drugs while also seeing progress for new pipeline drugs. The stock is in a buy zone.

We are also adding the Biotech ETF (**IBB**) after it broke out of a 2-week base on Friday. Among this ETF's top holdings are Regeneron (**REGN**), Gilead (**GILD**), and Amgen (**AMGN**) which are all in uptrends. **IBB** is in a buy zone.

Vertex (**VRTX**) is also a top holding in **IBB** and the stock remains in an uptrend as it is trading above its upward-trending 10-day moving average ahead of the release of their earnings next Thursday. The stock can be held.

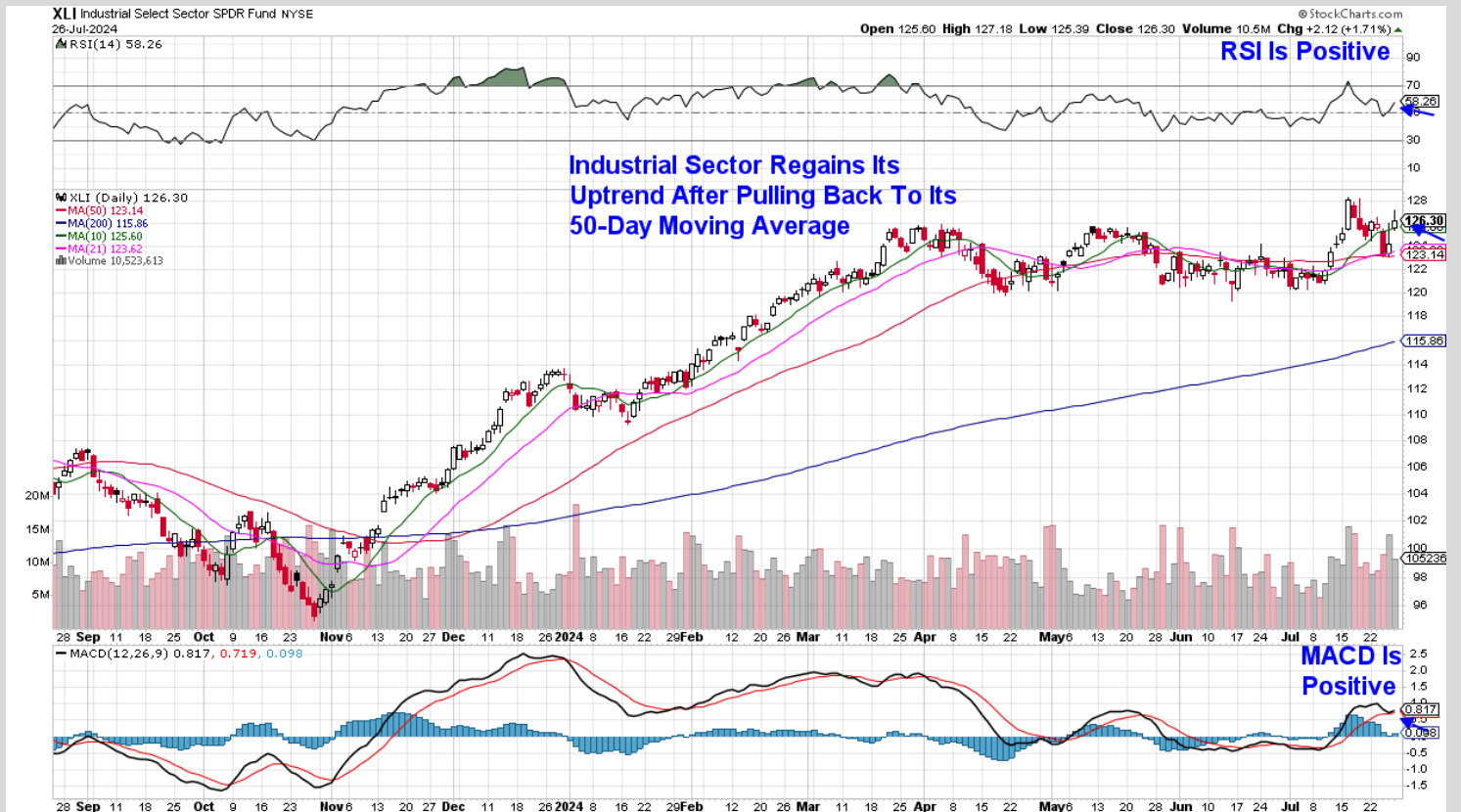
In addition, Biotech stock Twist Bioscience (**TWST**) is on our Watch List. The company is due to report earnings next week so we are holding off on adding it at this time.

Medical Products stocks fell 3.6% led by Edwards Lifesciences (**EW**) which tumbled 28% after reporting results below estimates. Medical products company Dexcom (**DXCM**) fell 43% on weak results.

The selling spread to other medical products stocks such as Intuitive Surgical (**ISRG**) which pulled back 3%. The stock is in a buy zone after closing on Friday in the upper portion of its trading range for the day with the RSI and MACD in positive territory. **ISRG** reported earnings that were above estimates while guiding growth higher earlier this month.



## Daily Chart of the Industrial Sector (XLI)



### Industrial Sector Outperforms

Industrial stocks ended the week with a gain led by companies that reported earnings that were ahead of estimates.

This would include FTAI Aviation (**FTAI**), which closed at another new high in price after a 10.5% rally following 2nd quarter results that were well ahead of estimates. The stock is poised for further upside after the MACD posted a positive crossover (black line up through the red) amid heavy volume buying.

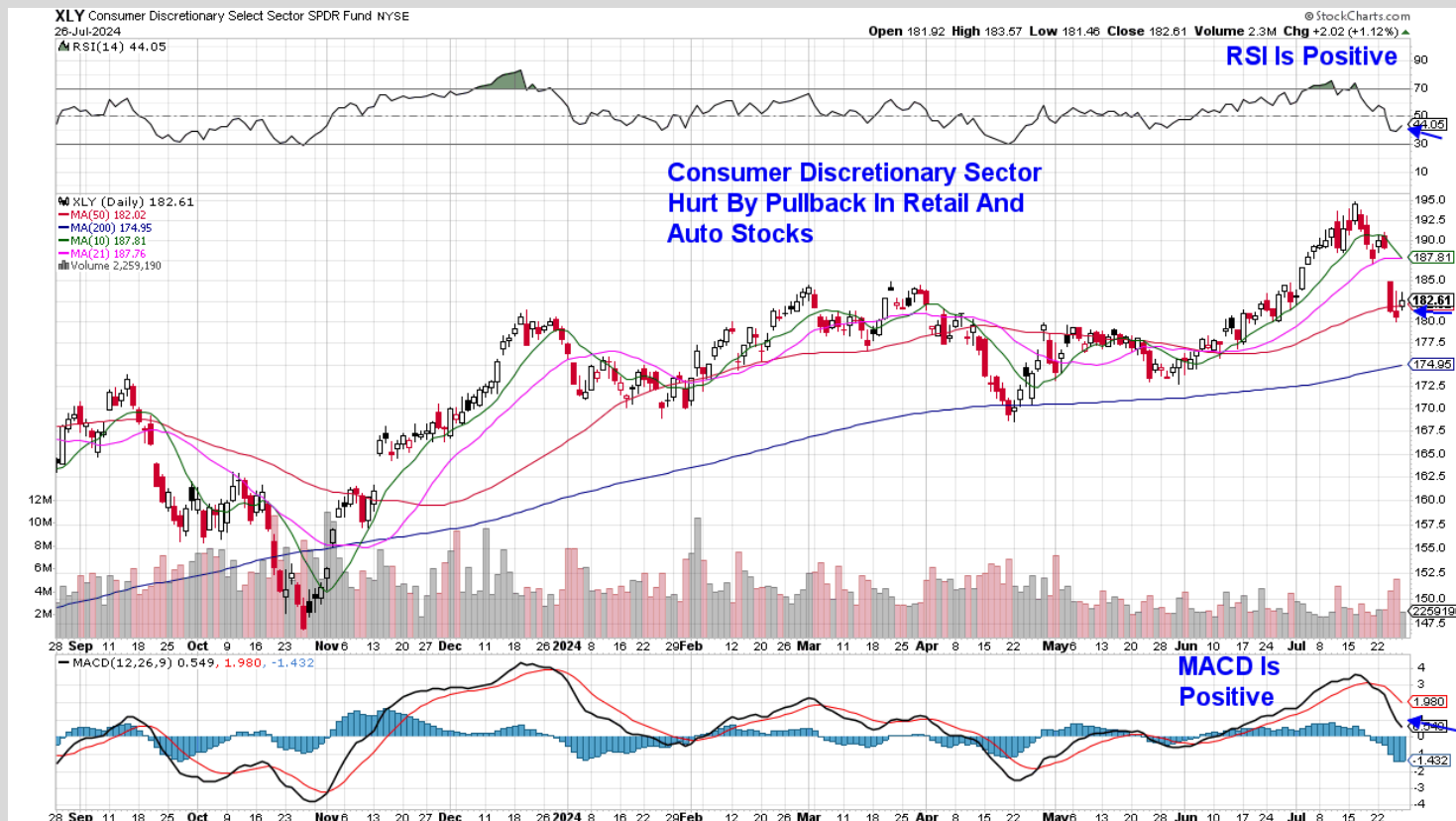
Fluor (**FLR**) also regained its uptrend with a close above its 10-day moving average and the RSI and MACD in positive territory. The company is due to report their earnings next Friday before the market open and estimates have been revised higher going into the report which is constructive.

This week, we are adding GE Aerospace (**GE**) to our Suggested Holdings List after last week's 3-month base breakout following their release of strong earnings.

**GE** is now a pure-play aerospace company after dismantling its subsidiaries and focusing on providing jet engines and related parts for commercial and military aircraft. **GE** is in a strong buy zone.

We are also adding Small Cap name Applied Industrial Tech (**AIT**) to our Suggested Holdings List after Friday's base breakout. The company distributes industrial products to a variety of industries. **AIT** is in a buy zone.

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



### Consumer Discretionary Sector In A Downtrend

The Consumer Discretionary sector has closed below its 50-day moving average with a negative RSI on the daily chart.

The heavy volume pullback took hold after Tesla's (**TSLA**) release of earnings that were below estimates due to restructuring fees from internal layoffs. Unfortunately, **TSLA** had run up in price going into the results which left no room for weakness.

Other Auto's followed suit, such as Ford (**F**) and General Motors (**GM**) which tumbled after earnings. Both companies were sitting close to new highs prior to their reports.

After the 9.5% drop in Auto stocks last week, there are now only 2 Industries in the Discretionary sector that are holding up well and outperforming - Home Construction and the much smaller Home Furnishings groups.

Among builders, Century Communities (**CCS**) was among the top performing with a 6% rally following the company's release of earnings last week that were above estimates. The gain has the stock extended above a buy point and **CCS** can be bought on a pullback to the \$99 range at its 5-day moving average.

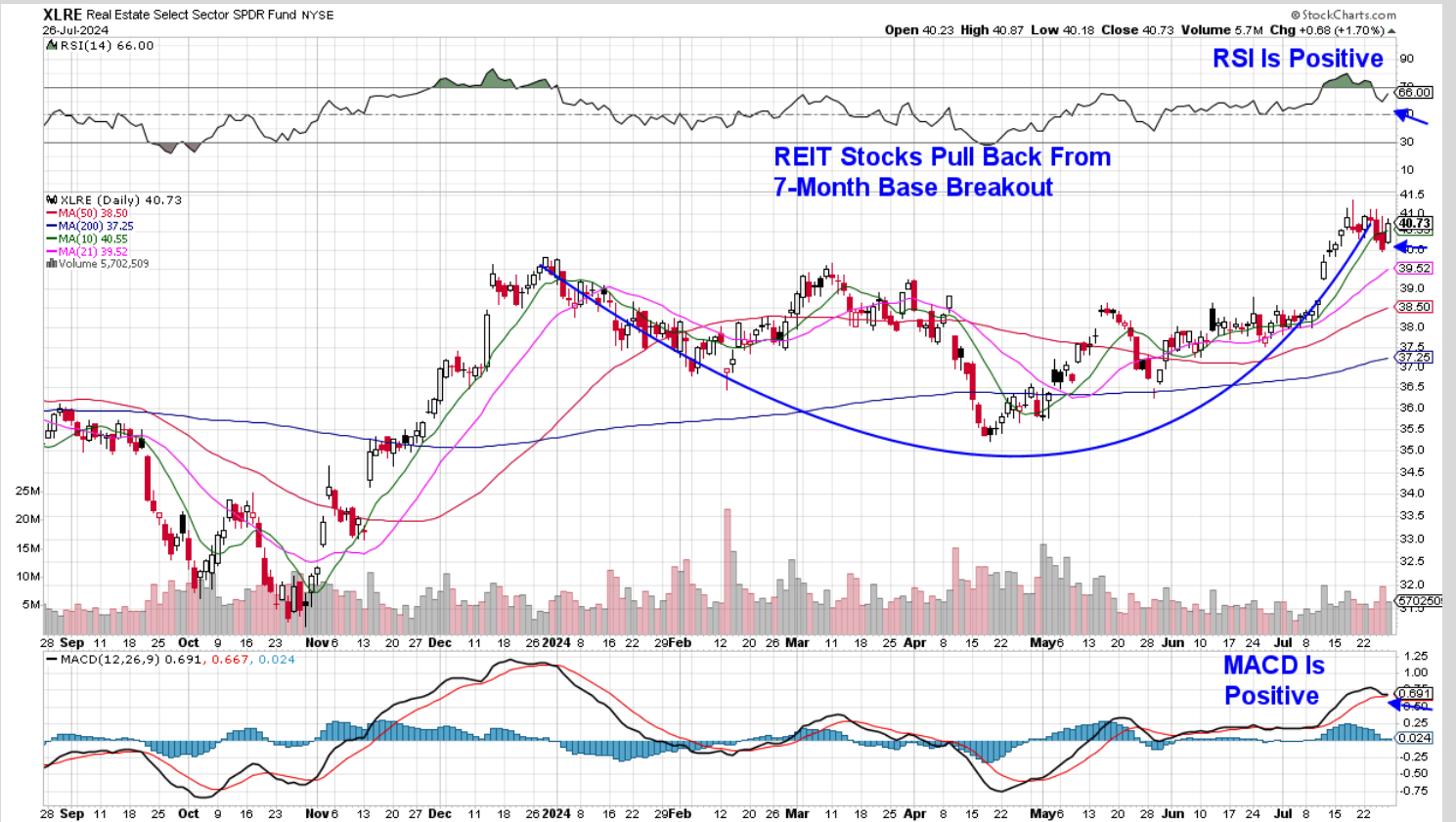
This week we are adding Toll Brothers (**TOL**) from our Long Term Hold list after Friday's break out of a 10-week base on volume. The stock can be bought in the \$135 range at its 5-day moving average.

Hilton (**HLT**) pulled back amid general weakness in travel-related names. The stock found support at its 50-day moving average however, the RSI is in negative territory. A close above its 10-day moving average at \$219 would put **HLT** into a buy zone. The company will release quarterly results in less than 2 weeks.





## Daily Chart of the Real Estate Sector (XLRE)



### Real Estate Sector Trends Sideways

Real Estate stocks were mostly flat for the week which gave this sector an opportunity to see its RSI pullback from an overbought position.

Among stocks on our List, Equity Residential (**EQR**) rallied 1% ahead of the release of their quarterly results on Monday after the market's close. The company owns and operates apartments across the U.S. and the 2nd quarter surge in demand is expected to benefit this 3.8% yielder.

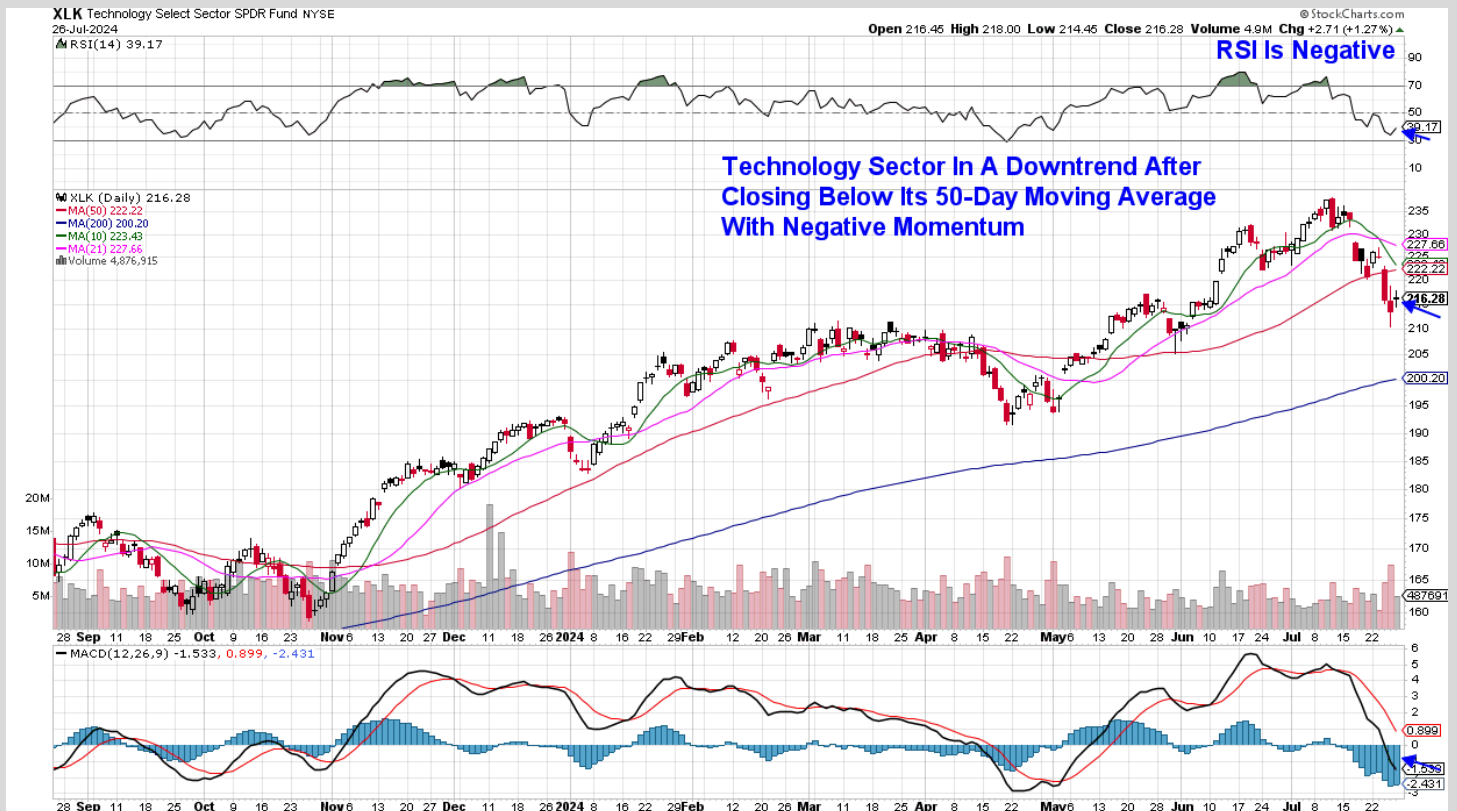
Prologis (**PLD**) is the largest publicly traded REIT as it operates 1.2 billion square feet of warehouse space globally. More recently, **PLD** began leveraging their large land position and energy expertise to tap into data centers.

The company reported results 10 days ago that were above estimates with management guiding growth higher for the rest of this year. **PLD** pulled back 1% for the week and a close back above its 10-day moving average in the \$123 range would put it into a buy zone.

National Storage Affiliates (**NSA**) pulled back 1.5% and it found support at its 21-day moving average with a positive RSI. A close above its 10-day moving average in the \$44 range would be an ideal buy point. The 5.1% yielder is due to report their quarterly results early next month.



## Daily Chart of the Technology Sector (XLK)



### Technology Sector In Downtrend

The Tech sector fell 2.1% on above-average volume led lower by a 3% decline in Semiconductor stocks amid talk the prior week of policy restrictions regarding sales to China. (using ETF SOXX).

Next week, both Intel (**INTC**) and Lam Research (**LRCX**) are due to report earnings.

Estimates are being revised upward for **LRCX** ahead of their release on Wednesday, and the stock has fallen quite a bit from its highs earlier this month. The results, as well as investors' responses, will provide further clues regarding investor sentiment for this recently hot industry group.

Software stocks were mixed last week after ServiceNow (**NOW**)'s earnings that were above

estimates pushed the stock up 13%. Peer stocks who also provide workflow automation software posted gains as well.

This would include monday.com (**MNDY**) from our List which regained its uptrend with a close above its 21-day moving average with a positive RSI and MACD. While the stock is in a buy zone, cautiousness regarding Tech stocks would have us not adding to any positions.

Heavyweight software stock Microsoft (**MSFT**) will be releasing their earnings on Tuesday after the market close. The stock has pulled back 10% since its peak in price earlier this month. Here again, the results as well as investors' responses, will be very telling.

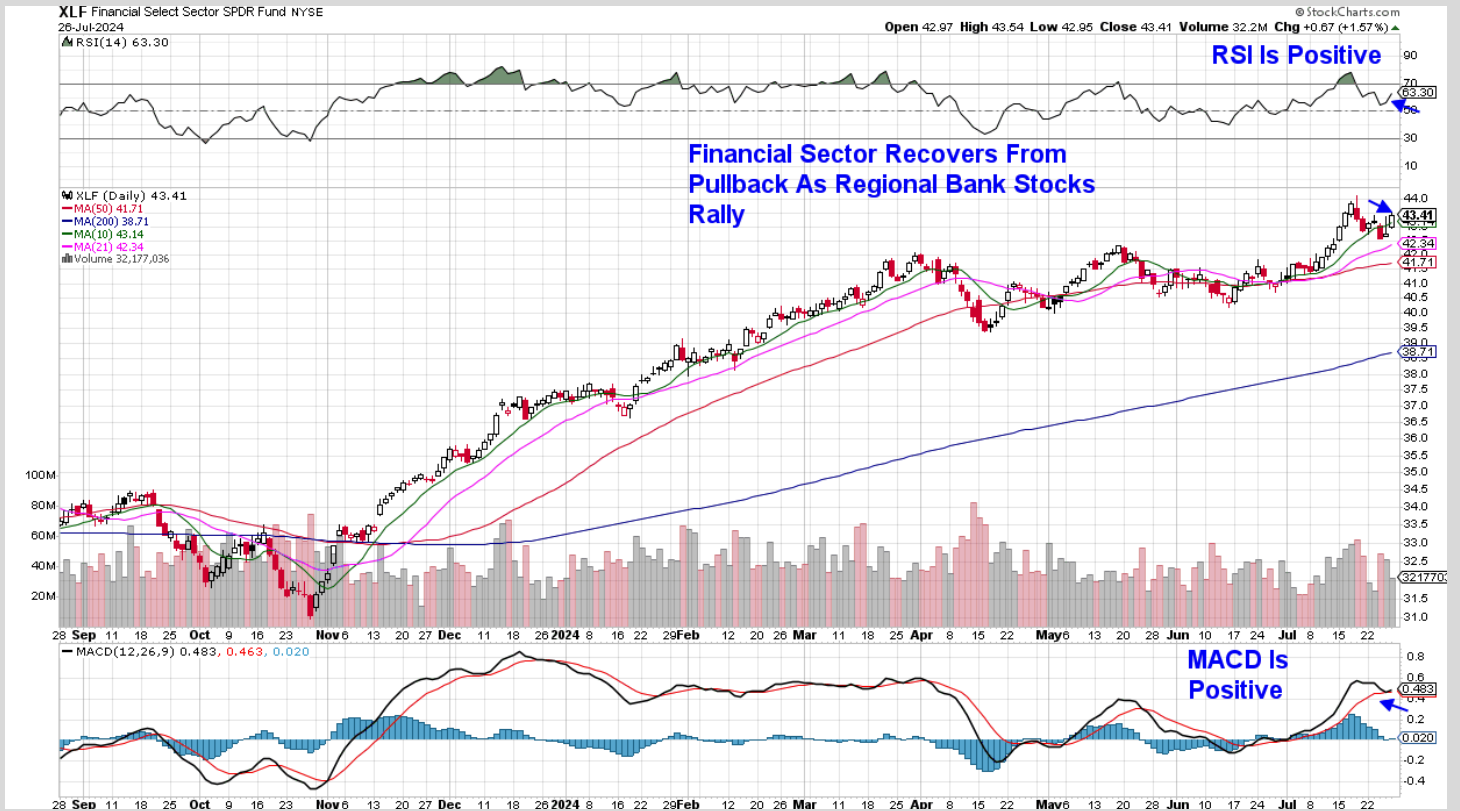
Palantir Technologies (**PLTR**) pulled back sharply on Wednesday following Alphabet's (**GOOGL**) sharp drop after reporting disappointing results - particularly regarding AI.

**PLTR** is viewed as a leader in AI with their AIP product that allows clients to integrate AI products into their businesses. The stock regained some of its midweek losses to end the week down 5%.

With a positive RSI and MACD, a close back above its 21-day would put the stock into a buy zone. However, risk relating to Tech and in particular AI-related stocks would have us not adding to positions even if it turned positive.



## Daily Chart of the Financial Sector (XLF)



### Bank Stocks Continue To Trend Higher

Amid reporting earnings that are above estimates, the Regional Bank group has hit a near-term high in price. (using ETF KRE).

While constructive, many of these banks are extended out of buy zones such as Zions Bancorporation (**ZION**) which we are adding to the top of our Watch List after last week's release of earnings that were above estimates.

The 3.1% yielder is trading at 12 times earnings with analysts revising estimates higher after last week's report.

We are adding Keycorp (**KEY**) to our Suggested Holdings List after a Friday base breakout on volume. The bank reported earnings that were above estimates earlier this month and the 5% yielder is in a buy zone.

## Summary

The markets have been in a volatile period in recent weeks amid political uncertainty and intense reactions to earnings reports. Add to that a sharp rotation away from safer mega-cap technology stocks to areas that will benefit from lower interest rates.

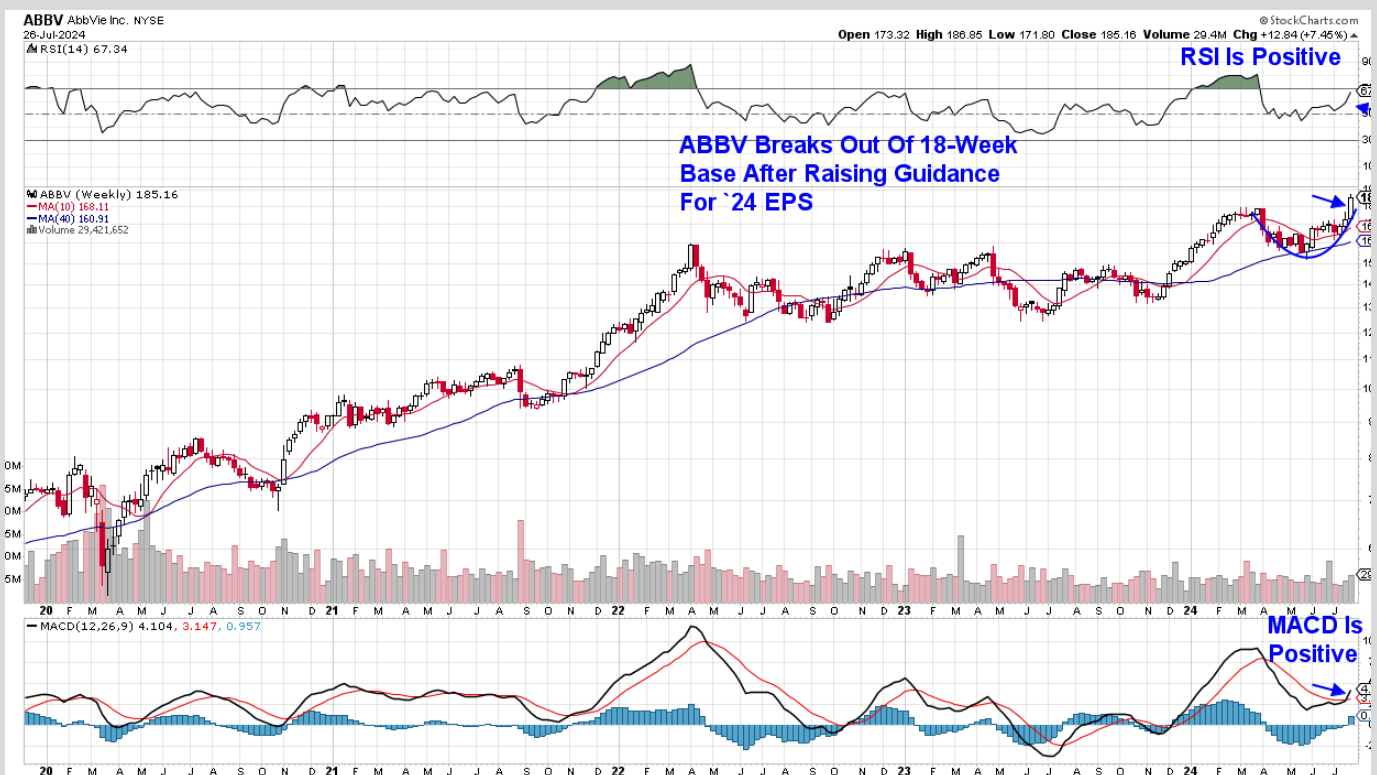
While Technology stocks have historically benefitted from a declining rate environment, their sharp advances have investors seeking names that are less expensive and have more room for valuation expansion. Investors are also looking for a payoff from all of the AI hype that drove many M7 stocks higher.

Large cap technology companies continue to have solid earnings growth and strong fundamentals and we anticipate a move back to these solid companies. However, after leading the markets for 1.5 years, we may see underperformance continue over the near term.

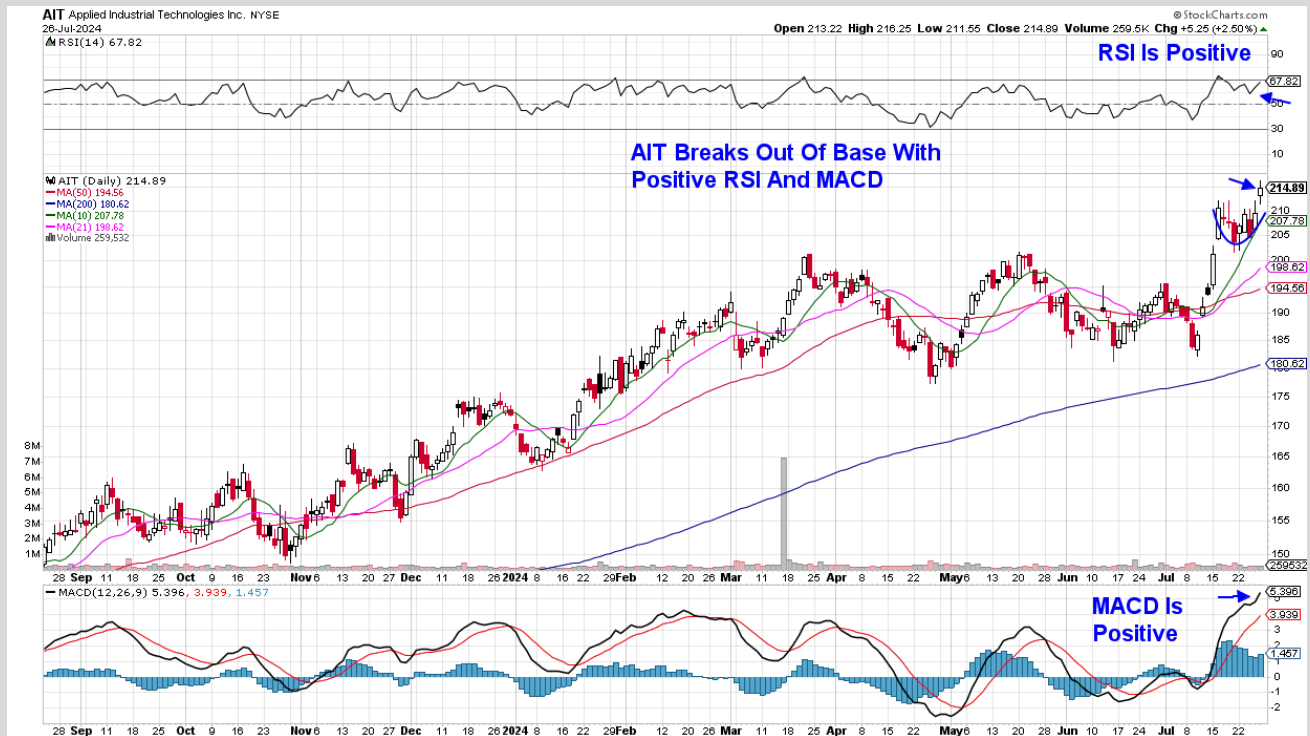
Of course, next week's earnings reports from heavyweight tech names will certainly shine light on this possibility.

## New Idea Charts:

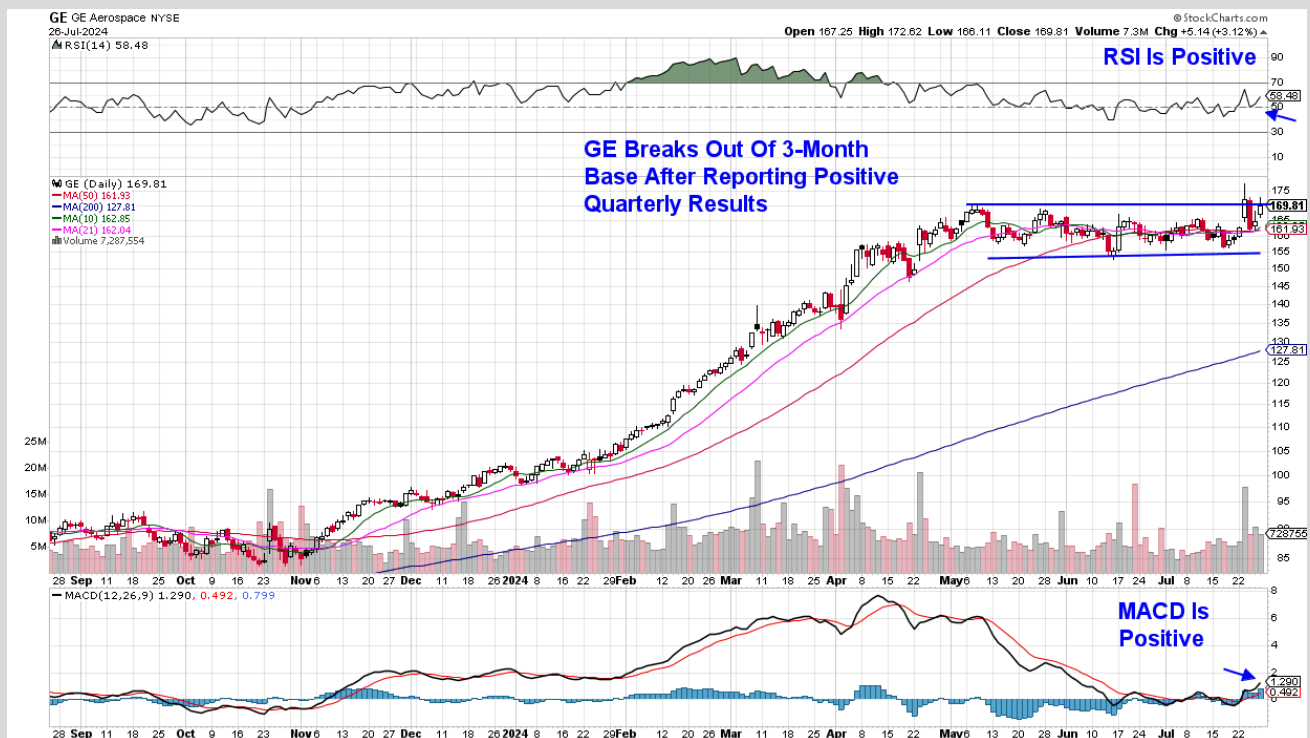
Daily Chart of AbbVie Inc. (ABBV)



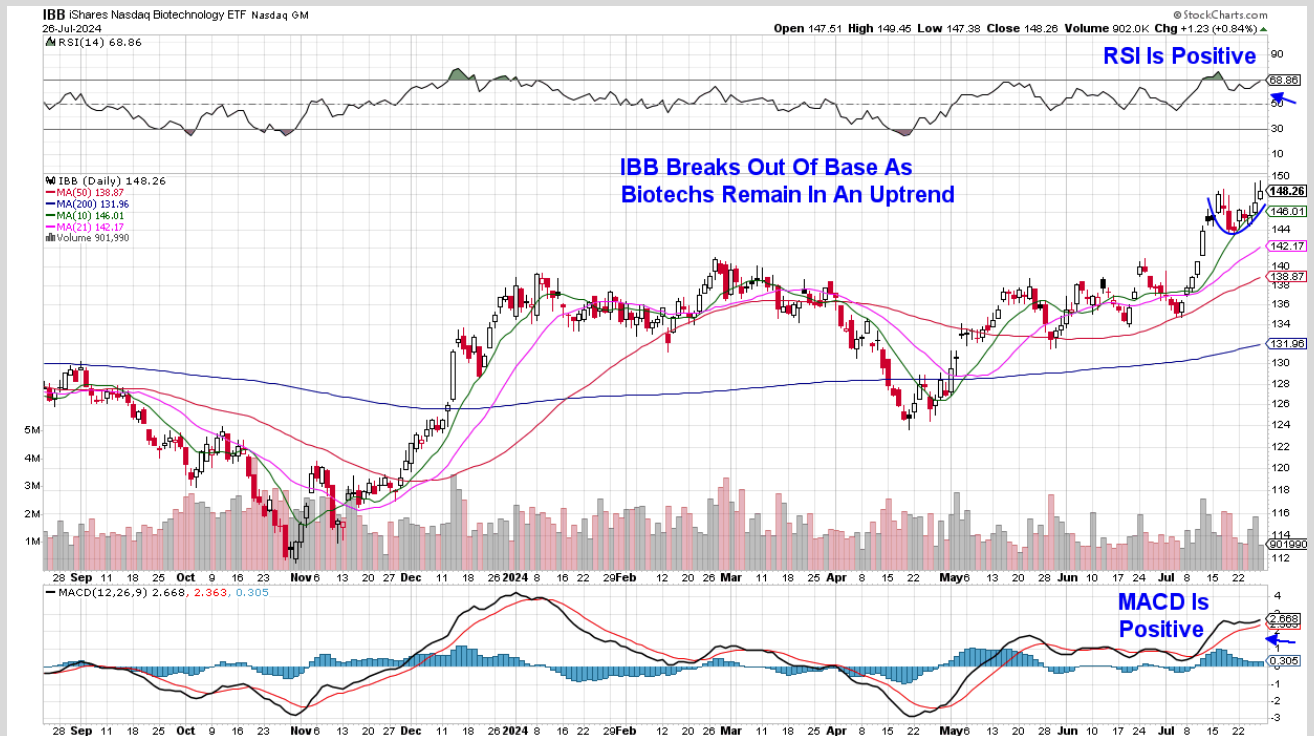
## Daily Chart of Applied Industrial Technologies Inc. (AIT)



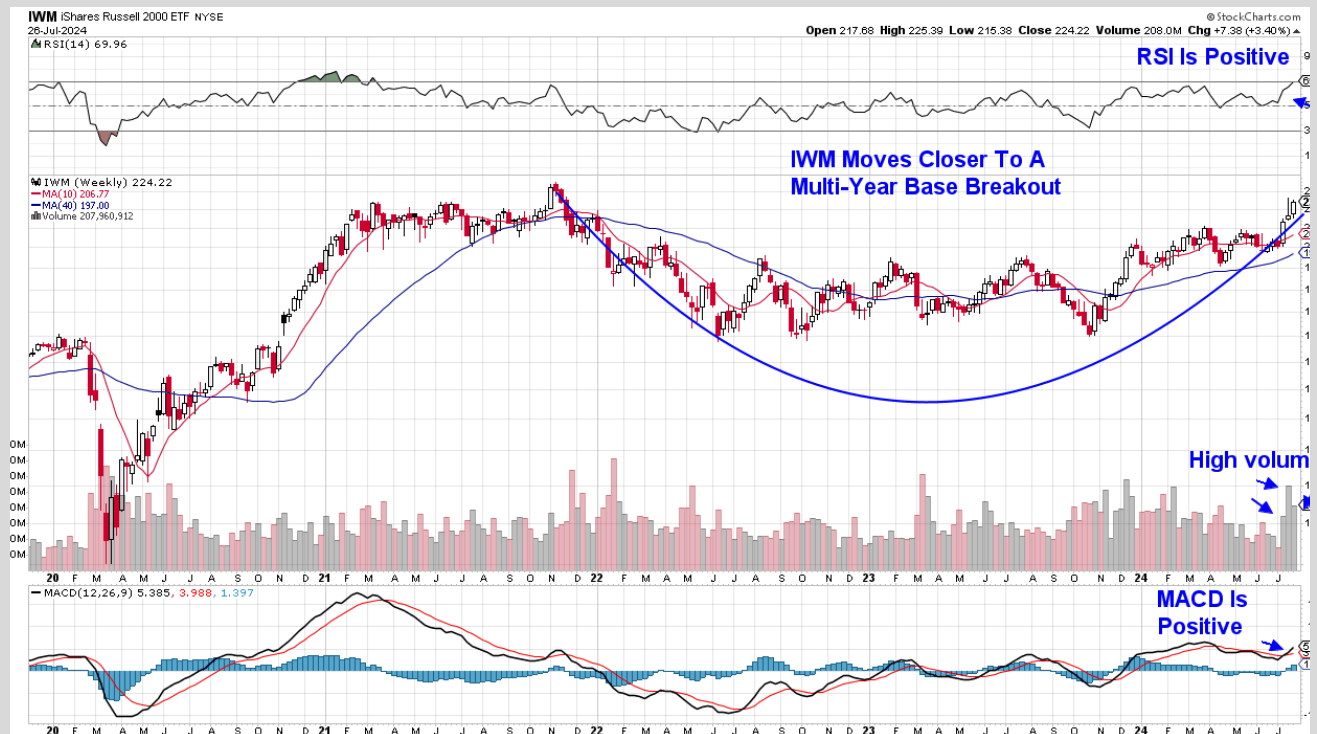
## Daily Chart of GE Aerospace (GE)



## Daily Chart of iShares Nasdaq Biotechnology ETF (IBB)



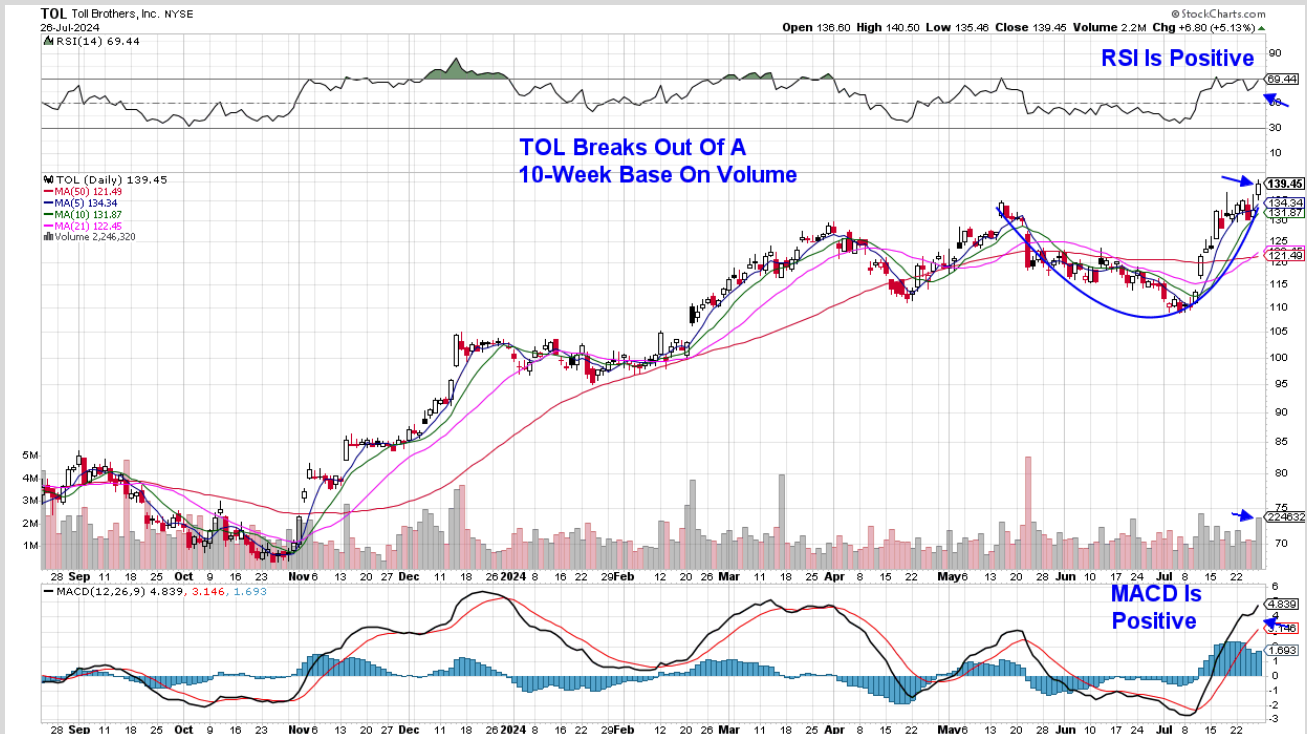
## Daily Chart of iShares Russell 2000 ETF (IWM)



## Daily Chart of Keycorp (KEY)



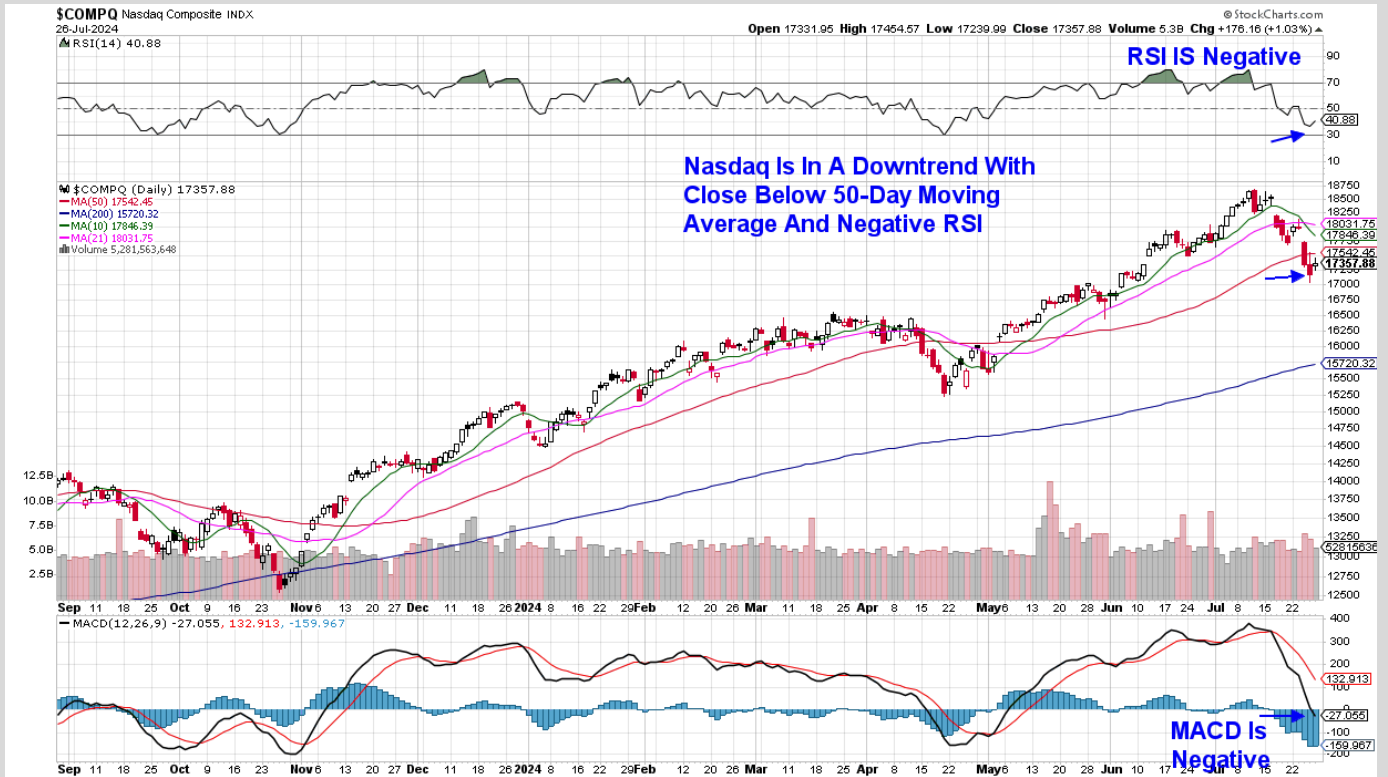
## Daily Chart of Toll Brothers, Inc. (TOL)





# Charts We Are Watching:

## Daily Chart of Nasdaq Composite (\$COMPQ)



# 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					
TOL	Toll Brothers	\$139.50	7/27/2024		
CCS	Century Communities	\$90.50	7/14/2024	12.0%	
HLT	Hilton	\$215.90	6/22/2024	0.5%	14-Aug

REAL ESTATE					
NSA	National Storage	\$44.20	7/21/2024	-1.5%	5-Aug
PLD	Prologis	\$123.80	7/21/2024	-1.0%	
EQR	Equity Residential	\$16.50	7/21/2024	1.0%	29-Jul

INDUSTRIAL					
AIT	Applied Industrial Tech.	\$215.10	7/28/2024		
FLR	Fluor Corp.	\$43.40	6/2/2024	11.5%	2-Aug
FTAI	FTAI Aviation	\$58.00	3/17/2024	76.0%	
GE	GE Aerospace	\$169.90	7/28/2024		

HEALTHCARE					
ABBV	AbbVie	\$185.10	7/28/2024		
IBB	iShares Biotech ETF	\$148.20	7/28/2024		
ISRG	Intuitive Surgical	\$598.80	5/19/2024	14.0%	
VRTX	Vertex Pharmaceuticals	\$414.80	5/12/2024	15.0%	1-Aug

TECHNOLOGY					
MNDY	Monday.com	\$248.90	7/7/2024	-3.5%	14-Aug
PLTR	Palantir	\$25.33	6/28/2024	7.5%	6-Aug

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

SYMB	COMPANY NAME	CURRENT STATUS
ARM	ARM Holdings	Hold
ASML	ASML Holdings	Hold
AMZN	Amazon	Hold
CRWD	CrowdStrike	Hold
DELL	Dell Technologies	Hold
MSFT	Microsoft	Hold
META	Meta Platforms	Hold
NFLX	Netflix	Hold
TOL	Toll Brothers	Hold

REMOVE

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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