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Midweek Report

Wednesday, December 18, 2024

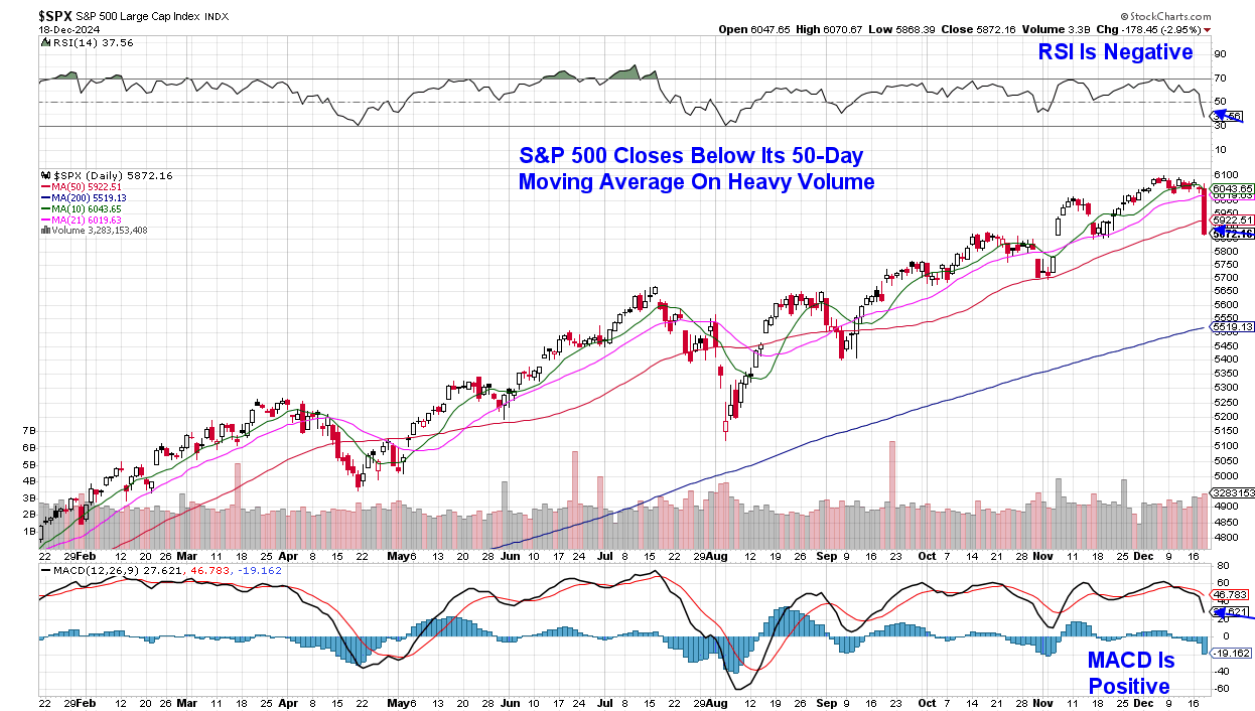
Key Developments Today:

- FOMC Reduces Number of Rate Cuts Next Year to Two
- Interest Rates Cut By 0.25% At Today's Meeting
- Markets Sell Off and Enter a Downtrend with SPX Below 50-Day Moving Average
- Yield on 10-Year Treasury (\$TNX) Now At 4.5%
- Interest Rate Sensitive Areas Plummet
- Volatility Index (VIX) Jumps To 27.6
- Removing Bank of America (BAC), Fair Isaac (FICO), Granite Construction (GVA), EMCOR (EME) And Vertiv Holdings (VRT) From Suggested Holdings List

Upcoming Economic Data Due This Week

- Q3 GDP Estimate On Thursday
- Personal Consumption Expenditures (PCE) On Friday As Well As Consumer Sentiment

DAILY CHART OF S&P 500 INDEX





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The S&P 500 is down 3%, after a sharp drop today following the Federal Reserve's signal of a slower pace of rate cuts next year.

The high volume sell-off put this Index below its 50-day simple moving average with a negative RSI on the daily chart. This puts the S&P 500 into a near-term downtrend.

On the weekly chart, the RSI and MACD remain in positive territory, which keeps the longer-term uptrend in place.

The Nasdaq has pulled back 2.7% as gains earlier in the week helped buffer today's 3.6% pullback. While the RSI is negative on the daily chart, the RSI and MACD remain in positive territory on the longer-term weekly chart.

Today's rate policy news was coupled with comments from Powell regarding the economy and the labor market being solid, so they can be cautious as they consider further cuts.

The announcement caught some investors off guard, with the Volatility Index (\$VIX) spiking to 27.6. The last time we saw the VIX at this level was in March of 2023 when the Federal Reserve signaled a tightening in monetary policy.

Historically, spikes in volatility have been followed by further choppiness however overall, it is not a time to sell. Over time, it presents itself as a buying opportunity and we will be watching the charts closely for new buy signals.

Hardest hit on the news today were economically sensitive areas such as Home Construction, Banks, Retailers, and Semiconductors. Small Caps also took it on the chin with a 4.4% decline in the Russell 2000 (IWM).

Software stocks were also down more than the markets as these stocks fare poorly in a rising rate environment.

Among stocks on our List, Fair Isaac (**FICO**) was down the most, with a 5.5% decline that puts this stock below its 50-day simple moving average, with negative RSI and MACD. We are removing **FICO** from our Suggested Holdings List.

Both Q2 Holdings (**QTWO**) and Fortinet (**FTNT**) also sold off; however, they remain above their 50-day moving averages and the stocks can be held.

Palantir (**PLTR**) can also be held as the stock closed above its 21-day moving average with a positive RSI and MACD.



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Semiconductor stocks are highly cyclical and the group fell 3.7% today (using SOXX).

Taiwan Semi (TSM) closed above its 50-day moving average with a positive RSI and MACD. The stock can be held.

Among Consumer Discretionary stocks on our List, Walmart (**WMT**) held in the best, with a 0.8% decline that keeps this stock in a tight trading range above its 21-day simple moving average with a positive RSI and MACD.

Amazon (**AMZN**) saw heavy selling into the close today which was in line with the other M7 names. The stock can be held.

Shake Shack (**SHAK**) fell much less than its peer Restaurant stocks today however, the RSI is now in negative territory with the stock closing below its 21-day moving average. The stock can be held.

As mentioned M7 stocks saw the biggest selling into today's close with both Meta Platforms (**META**) and Netflix (**NFLX**) pulling back over 3%. Both stocks can be held.

Financials fell further than the markets led by a 7% decline in Banks. Bank of America (**BAC**) closed below its 50-day moving average with a negative RSI. We are removing the stock from our Suggested Holdings List.

Blue Owl Capita (**OWL**) is also being removed after today's close below its 50-day simple moving average coupled with a now negative RSI.

Affirm Holdings (**AFRM**) dropped sharply today - not only in response to the Fed's policy announcement but also due to a negative report regarding peer "buy now, pay later" company Sezzle (SEZL).

Shorter term investors may want to take some profits at these levels, while longer term investors can stay with **AFRM**.

Economically sensitive Industrial stocks also pulled back further than the markets and today, and we are removing each of the names in this industry group that is on our Suggested Holdings list as they have each closed below their key 50-day simple moving average, with a negative RSI and MACD.

This would include Vertiv Holdings (**VRT**), EMCOR (**EME**) and Granite Construction (**GVA**).



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Boston Scientific (**BSX**) and Intuitive Surgical (**ISRG**) both closed above their 50-day moving average and the stocks can be held.

On Friday, Personal Consumption Expenditures (PCE) data will be released and because it's the Fed's preferred gauge of inflation, we may see a negative response if the numbers come in above estimates.

As cited, a spike in the Volatility Index (\$VIX) often precedes further choppiness short-term followed by a market rally.

In the chart below, we have highlighted the April period when the markets sold off 9.7% amid a period of rising inflation and interest rates. The Volatility Index (\$VIX) also rose at that time. As you can see, the markets rebounded quite nicely into the summer months.

Warmly,
Mary Ellen McGonagle
Editor, MEM Edge Report

DAILY CHART OF S&P 500 INDEX HIGHLIGHTING APRIL 2024

