Weekend Alpha

Stocks Rise Despite Memory-Chip Stumbles

Thomas Lee, CFA [AC]
HEAD OF RESEARCH

- This week we saw declines in semis, memory, and momentum stocks, but we believe the selloff was overdone, and thus represents a buyable dip with good risk/reward. Thus, in the near-term we remain constructive.
- The minutes from the last meeting of the Federal Open Market Committee (FOMC) were released this week, and on balance, we view them as dovish – more dovish than expected.
- Among the five task forces that Fed Chair Kevin Warsh named this week is one that will examine the framework that the central bank uses to assess inflation. To me, this makes sense. After all, the investment world employs far more alternative data than that captured by traditional economic and government bureaus, and alternative data sources like Truflation show that inflation is actually quite low, directionally consistent with my view.

Read the Latest FLASH

Mark L. Newton, CMT [AC]

HEAD OF TECHNICAL STRATEGY

- Near-term US equity trends remain bullish, and to me, the technical picture strengthened this week, showing good follow-through after Wednesday's successful tests of intraday support and reversal higher in SPX and QQQ. I expect that a breakout in SPX is imminent, though QQQ will take more time.
- The interest rate picture remains worth watching following ^TNX's push above its two-month downtrend this week, though some backing and filling in yields looks likely near term, and the velocity of any Treasury selloff matters far more for equities than the absolute level of rates.
- Meanwhile, WTI crude's bounce looks to have potentially run its course, and crude should now be en route to $58–$62 and pull back to new monthly lows. Given recent negative correlation to SPX, more sustained weakness in WTI crude should prove to be a tailwind for risk assets.
- Overall, it's right to stay bullish but diversified, as I expect a broad-based portfolio makes more technical sense than one overweighted in technology.

Read the Latest Daily Technical Strategy

Sean Farrell AC

HEAD OF DIGITAL ASSET STRATEGY

- In my view, the tactical backdrop for the crypto complex remains sound. Geopolitical concerns have eased, broader risk assets have stabilized, and crypto has continued to participate in the recovery.
- At the same time, the next few weeks should provide greater clarity on the fate of the Clarity Act, and I am increasingly skeptical that Congress can resolve the remaining issues within the available legislative window.
- I still view the current setup primarily through a tactical lens. While the probability that this bounce extends has increased, I have not yet seen enough evidence to conclude that a durable bull market has begun.

[Read the Latest Digital Assets - Weekly Strategy]

L. Thomas Block

WASHINGTON POLICY STRATEGIST

- The new Federal Reserve Chair Kevin Warsh will appear before the House Banking Committee on Tuesday, and on Wednesday, he will give testimony to the Senate Committee.
- He intends to hold fewer press conferences, so this semi-annual Congressional testimony could be a key appearance that sets the tone for future policy. Both appearances will be at 10 a.m. ET, that is shortly after markets open, and they could influence trading on both days.
- Unlike press conferences, it is harder for a Fed chair to avoid questions from members of the House and Senate, who are free to ask follow-up questions.

[Read the Latest US Policy]

STOCKS RISE DESPITE MEMORY-CHIP STUMBLES

Kent Fung

VICE PRESIDENT, MARKET INTELLIGENCE

Key Takeaways

- The S&P 500 closed the week at 7,575.39, up 1.23%. The Nasdaq Composite climbed 1.74% to 26,281.61 this week, and Bitcoin was at USD $63,842.00 on Friday afternoon, roughly flat relative to Monday levels.
- Fundstrat Head of Research Tom Lee sees good risk/reward as a result of earlier week declines in momentum and memory/chip stocks.
- Head of Technical Strategy Mark Newton saw a constructive signal in the performance of non-tech sectors this week, including financials and healthcare.

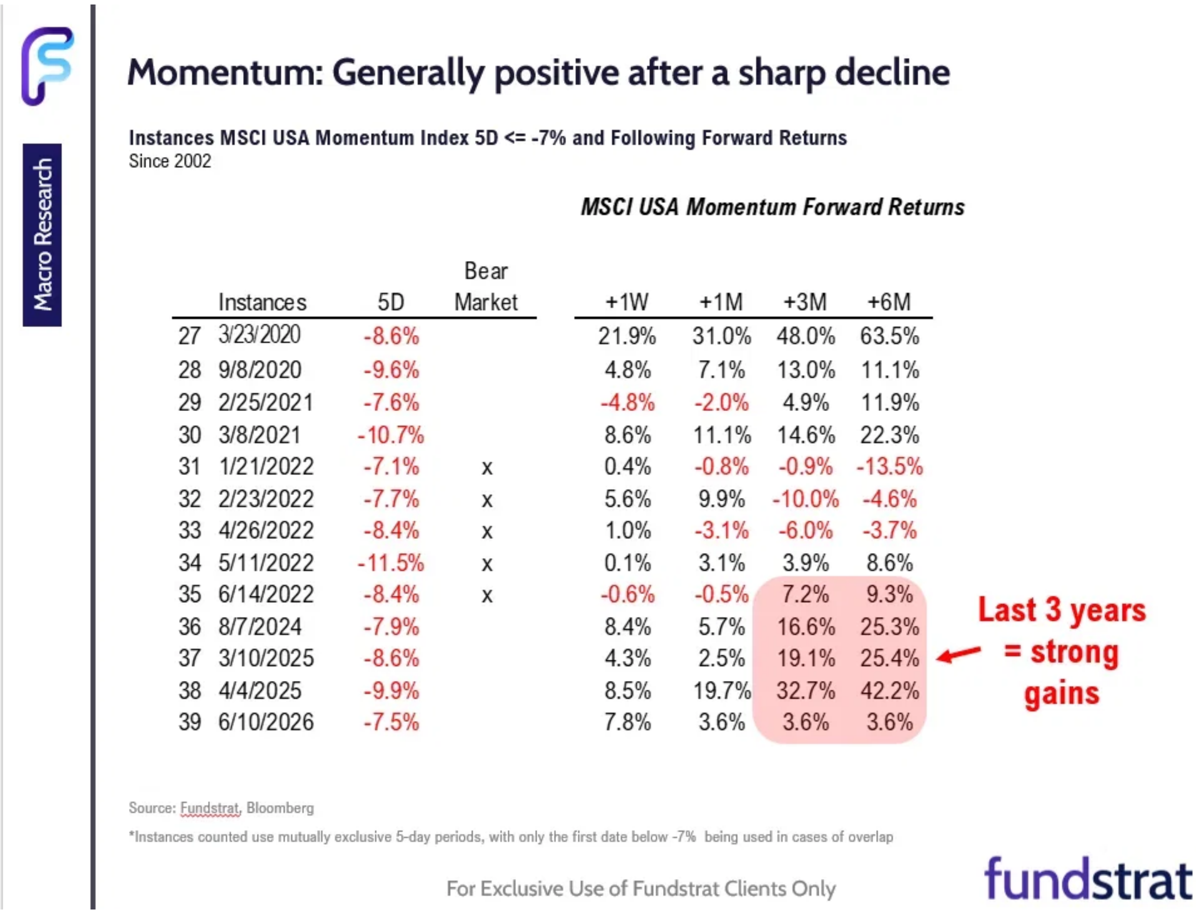
"When you win, you don't get carried away. But if you go step by step, with confidence, you can go far." – Diego Maradona

Good evening,

In recent weeks, investors have been wowed by what many have described as a memory-chip gold rush. That golden glow was not in particular evidence this week, but both the S&P 500 and Nasdaq Composite managed to close out the week higher anyway.

It wasn't just memory chips that struggled this week. Momentum stocks did as well, as shown by the Momentum ETF $MTUM, which by Wednesday's close had fallen roughly 8% over the previous five days. In both cases, Fundstrat Head of Research Tom Lee viewed the selloff as "overdone," noting historical precedents in such major dips suggest strong forward returns.

Fundstrat's data-science team had previously analyzed this pattern with dips in semiconductor stocks, and this week they found a similar trend in momentum stocks. Looking at declines of 7% or more in $MTUM since 2002, the team found positive median returns and win ratios looking one, three, and six months out. The trend was stronger when excluding bear markets: After such declines, stocks were up one, three, and six months later 71%, 96%, and 100% of the time, respectively. This can be seen in our Chart of the Week.


Macro Research

Momentum: Generally positive after a sharp decline

Instances MSCI USA Momentum Index 5D <= -7% and Following Forward Returns
Since 2002

MSCI USA Momentum Forward Returns

	Instances	5D	Bear Market	+1W	+1M	+3M	+6M
27	3/23/2020	-8.6%		21.9%	31.0%	48.0%	63.5%
28	9/8/2020	-9.6%		4.8%	7.1%	13.0%	11.1%
29	2/25/2021	-7.6%		-4.8%	-2.0%	4.9%	11.9%
30	3/8/2021	-10.7%		8.6%	11.1%	14.6%	22.3%
31	1/21/2022	-7.1%	x	0.4%	-0.8%	-0.9%	-13.5%
32	2/23/2022	-7.7%	x	5.6%	9.9%	-10.0%	-4.6%
33	4/26/2022	-8.4%	x	1.0%	-3.1%	-6.0%	-3.7%
34	5/11/2022	-11.5%	x	0.1%	3.1%	3.9%	8.6%
35	6/14/2022	-8.4%	x	-0.6%	-0.5%	7.2%	9.3%
36	8/7/2024	-7.9%		8.4%	5.7%	16.6%	25.3%
37	3/10/2025	-8.6%		4.3%	2.5%	19.1%	25.4%
38	4/4/2025	-9.9%		8.5%	19.7%	32.7%	42.2%
39	6/10/2026	-7.5%		7.8%	3.6%	3.6%	3.6%

Last 3 years = strong gains

Source: Fundstrat, Bloomberg
*Instances counted use mutually exclusive 5-day periods, with only the first date below -7% being used in cases of overlap

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In the last three years, the gains six months out after such declines have been particularly strong. "So, in our view, this pullback in momentum is buyable, and this applies to semis, memory, and tech broadly," Lee asserted. Later-week action suggests that this pattern might be repeating – momentum, memory, and semi stocks all ultimately notched weekly gains.

While memory and momentum stocks saw choppiness this week, other sectors did better – and to Head of Technical Strategy Mark Newton, this is good for stocks in general. "We have seen an encouraging amount of rotation into really good groups that I think are very helpful for the market to hold up," he told us at our weekly huddle, pointing out that "financial, industrials, and healthcare have all hit new all-time highs in the last week [...] In the last month, we've seen substantial outperformance in these sectors."

To him this goes a long way to explaining why "even though tech has actually been down almost 2% in the last month, the market has held up towards all-time highs."

As for tech, Newton noted that the impact of the tech pullback has been mitigated by the gradual pace, with subsectors consolidating "one by one," starting with software last year, followed later by the Magnificent Seven and then most recently memory and semiconductor stocks. That has given time for the earlier declines to flatten out. In fact, "Mag Seven [has] come back to life and started doing better relative to the equal-weighted S&P," he noted.

Elsewhere

The International Energy Agency projected the first yearly decline in global oil demand since the days of the COVID-19 pandemic. The estimated decline for 2026 will average about 1 million barrels per day, largely attributed to the shipping disruptions caused by the Iran war. Importantly, the IEA estimate assumes that a sustained ceasefire and gradual re-opening of the Strait of Hormuz and a subsequent gradual recovery in shipping will take place before the end of the year.

The No. 2 executive at OpenAI, Fidji Simo, announced she will step down from her position for medical reasons. Simo, who as chief executive of AGI deployment was second only to Sam Altman in the company's hierarchy, had been on leave due to her ongoing struggle with postural tachycardia syndrome, and she cited a far slower-than-expected pace of recovery in her decision not to return. The current plans call for her responsibilities to be divided between President Greg Brockman, CFO Sarah Friar, and Chief Strategy Officer Jason Kwon.

Apple announced a U.S. chipmaking deal with Broadcom expected to be valued at $30 billion or more. The deal calls for a major expansion of Broadcom's fabrication facilities in Colorado, where Apple hopes as many as 15 billion network-communication chips or ASICs for its devices will be made. Additional details, including a timeline, were not disclosed.

Democrats' chances of flipping the Maine Senate seat currently held by Susan Collins appeared to plummet this week as controversy over the party's populist nominee, Graham Platner, caused him to drop out of the race. Platner had survived an earlier controversy over a tattoo of a white-supremacist symbol, but more recently, a woman – Jenny Racicot – came forward to publicly and openly accuse him of sexually assaulting her in her home in 2021. A special nominating convention is reportedly scheduled so state Democrats can choose a replacement candidate.

Microsoft announced a 20 percent workforce reduction at its struggling Xbox division, cutting 3,200 jobs. The tech giant also announced plans to divest five game-development studios, including DoubleFine, creator of the cult favorite Psychonauts franchise, and Ninja Theory, creator of the Hellblade series of games. In unrelated news, the chief executive of the Xbox division, Asha Sharma, was named to a Federal Reserve task force convened by new Chair Kevin Warsh to research the economic impact of artificial intelligence and related technologies on productivity and jobs.

And finally: Apartment buildings, offices, and retail businesses around New York City's Grand Central Terminal had to be evacuated for one to two days this week after Pfizer's former headquarters was found to be at risk of collapsing. The building had been acquired by a developer and was in the process of being converted into residences, and an initial investigation suggests that the problem was caused by inadequate bracing or reinforcing of key beams supporting the addition of 15 new – and wider – floors to the original building, cantilevered over the original building footprint. The building in question was about a 15-minute walk from Fundstrat's Midtown offices.

Important Events

Core CPI MoM, June Est.: 0.2% Prev.: 0.2%	Tue, Jul 14 8:30 AM ET
Core PPI MoM, June Est.: 0.4% Prev.: 0.4%	Wed, Jul 15 8:30 AM ET
Fed Releases Beige Book	Wed, Jul 15 2:00 PM ET
Retail Sales Ex-Auto and Gas, June Est.: 0.5% Prev.: 0.5%	Thu, Jul 16 8:30 AM ET
7/16 10:00 AM ET: Jul NAHB Housing Market Index, July Est.: 35 Prev.: 35	Thu, Jul 16 10:00 AM ET

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