



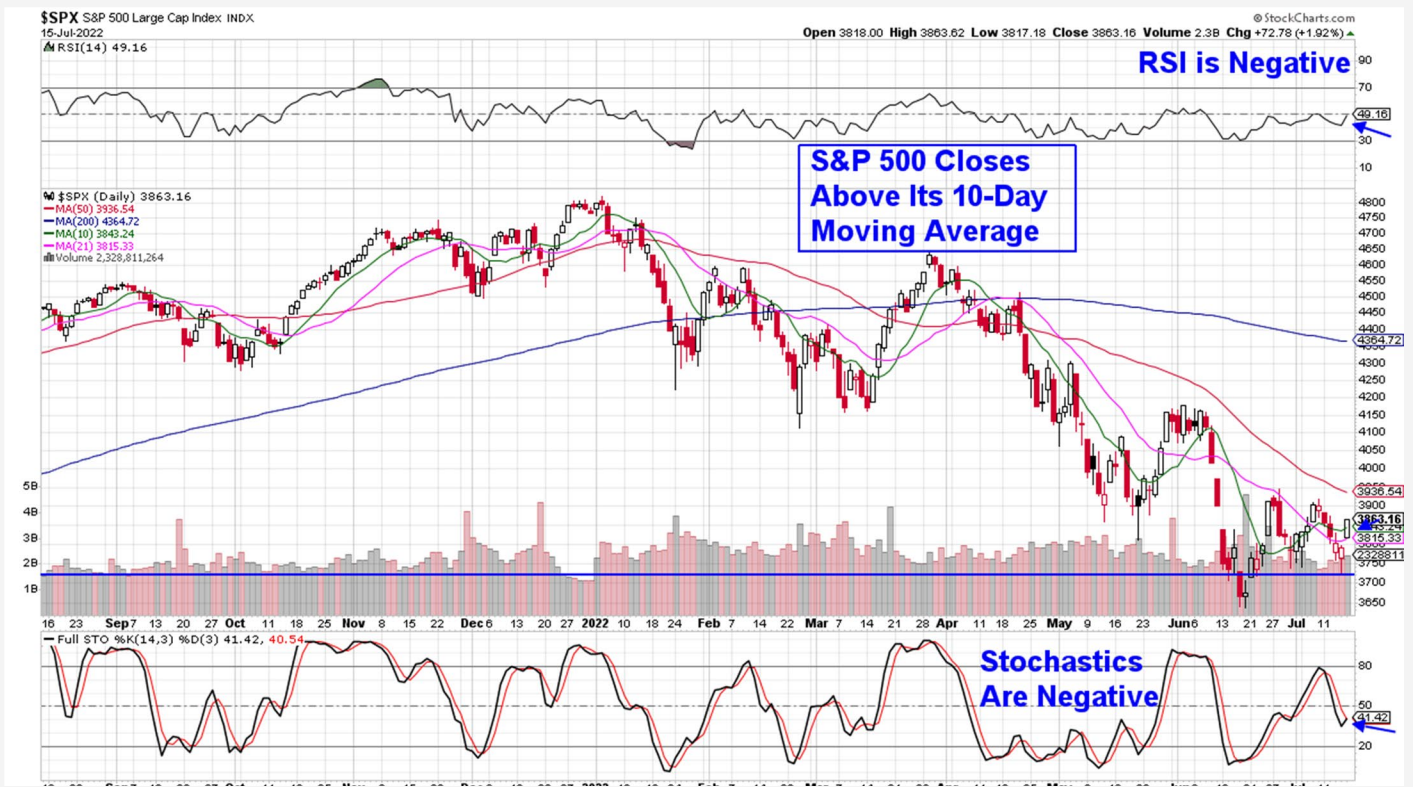
THE MEM EDGE

July 17, 2022 | Weekly Report

This Week's Highlights

- Inflation Accelerates In June After Posting 9.1% Gain
- Software Stocks Hurt By Corporate Downgrades
- Producer Price Index (PPI) Jumps Due To High Energy Costs
- Weekly Jobless Claims Rise
- Retail Sales & Consumer Sentiment Rise More Than Expected
- Economic Calendar Next Week Is Light

Daily Chart of S&P 500



The S&P 500 fell 0.9% last week and while this Index closed above its 10-day moving average, the RSI and Stochastics are in negative territory with the downtrend for this Index remaining in place.

The markets traded lower for most of the week before a Friday rally, with the S&P 500 finding support around the 3730 level (blue line in chart above).

Volume was lighter on the down days while buying on Friday saw increased activity which is a positive. Higher volume on up days points to accumulation however,

we'll need more than one day for an accumulation phase to take shape. Given the broader market dynamics, any accumulation phase would be short term at this time.

The Nasdaq was down 1.6% due to underperformance in most of the mega-cap FAANMG stocks as reports of high inflation hurt these Growth names. Software also sold off following a downgrade to Microsoft (**MSFT**).

The one bright spot for the Nasdaq was Semiconductors stocks as they rallied on news of

positive earnings from the largest producer of Semi chips. We'll review this further below.

The Nasdaq has a positive RSI and Stochastics on its daily chart and a break above its 50-day moving average would point to near-term upside for this Index.

Here too, upside potential would be short term as the markets have not put in a bottom. We would need to see a follow-through day in one of the major Indexes which is signaled by a strong gain on volume, on the 4th day or beyond of an attempted rally.

In addition, the follow-through day price action would need to be coupled with a removal of the event that pulled the markets into a bear market. At this time it's high inflation and recession fears. More data is needed to confirm that inflation has peaked and the economy is not slowing.

Earnings season for the second quarter has started and so far, positive results among deeply oversold stocks has helped push those stocks higher.

Management's guidance regarding growth prospects going forward is also being closely watched.

Among companies due to report next week, heavyweights Netflix (**NFLX**) and Tesla (**TSLA**) will release their 2nd quarter earnings. Their results - as well as investor's response - will be important in

determining the near-term path for other Growth stocks.

As you may recall, disappointing 1st quarter results from heavyweights Amazon (**AMZN**) and Netflix (**NFLX**) in April not only pushed these stocks much lower, it set the stage for a sharp selloff in other areas of Growth.

In addition to earnings, last week's price action was driven by economic data with reports of high inflation pushing the markets lower at the beginning of the week, while positive Retail and Consumer Sentiment data helped push the markets higher on Friday.

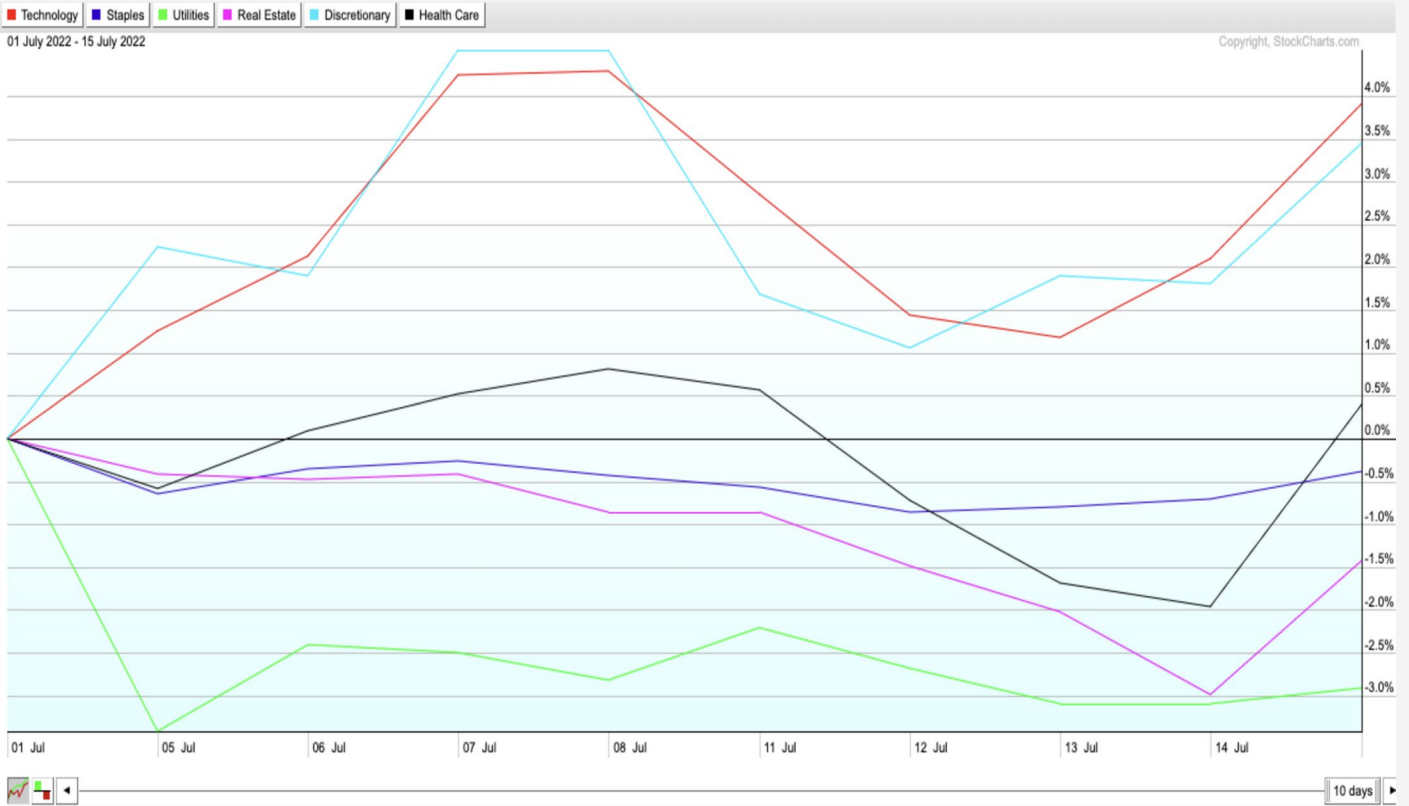
The recent strength in the U.S. dollar is also being closely watched as it's pushing commodity prices such as oil and metals lower. This is good for reducing inflation however, the strong dollar is putting pressure on the earnings of multinational companies such as Microsoft (**MSFT**).

Overall, defensive areas of the market are holding steady with Staples, Utilities, REITs and Healthcare each down less than the broader markets last week. Their lower P/E's and higher yields make stocks in these areas attractive at this time.

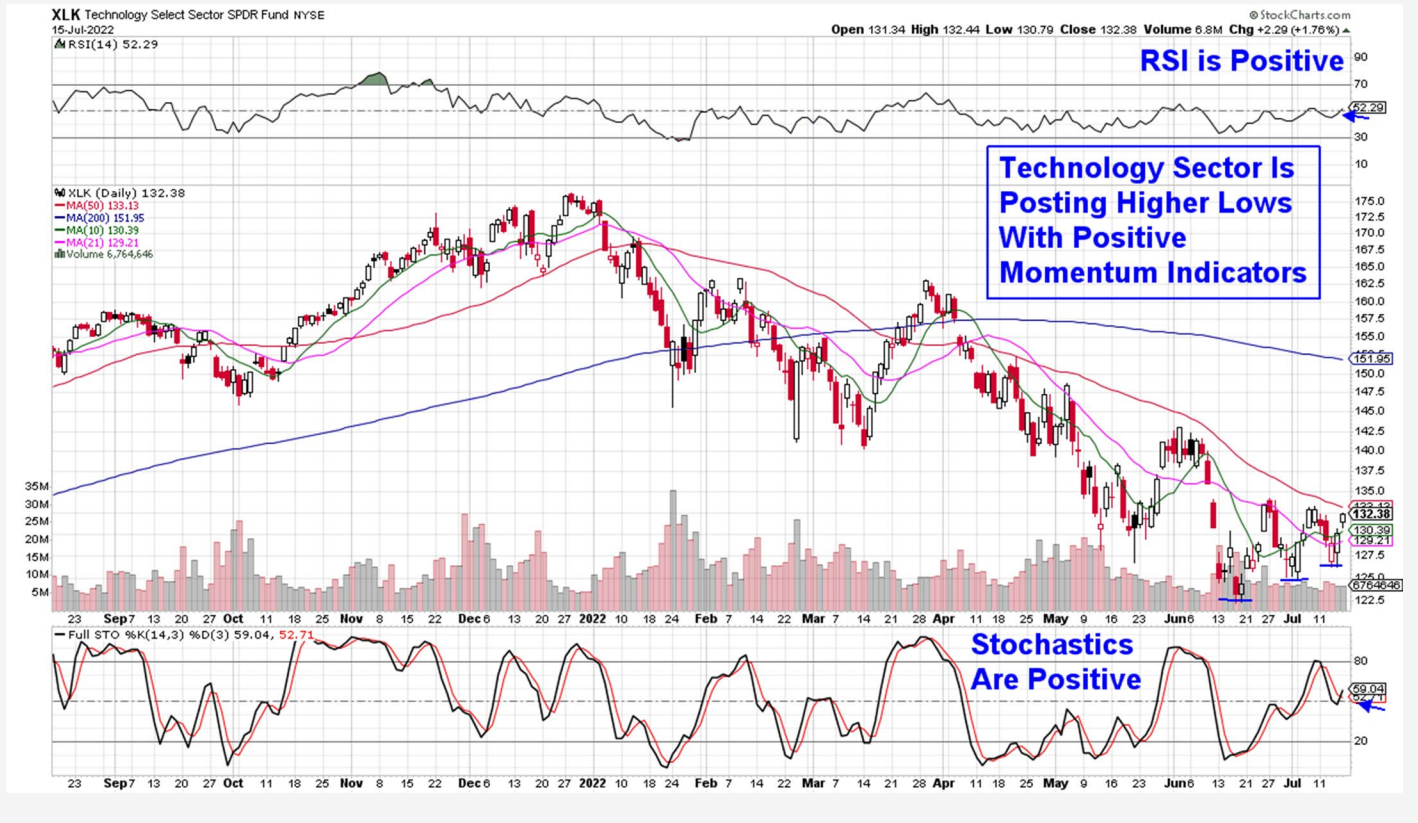
Over the past two weeks however, select areas of Growth such as Technology and Consumer Discretionary are outperforming these defensive areas. The number of attractive charts in Tech and Retail is very small however. We'll continue to monitor this rotation by using charts such as the one below.



Technology (RED) and Consumer Discretionary (AQUA) Outperform Defensive Areas



Technology Select Sector SPDR Fund (XLK)



Technology Sector Among Top Performing

The Tech sector was down less than the markets last week helped by a 2.1% gain in Apple (**AAPL**) which rallied on news of a record breaking 52 Emmy nominations for shows on their streaming service. AAPL accounts for 21% of the Tech sector.

Apple (**AAPL**) has a very bullish chart and appears poised to trade higher however, we'd need a pullback before potentially adding the stock as it's currently trading 3.5% above its 10-day moving average.

Other heavyweight stocks in the Tech sector saw gains as well, with Visa (**V**) and Mastercard (**MA**) each up 3% helped by reports of higher than expected Retail Sales and Consumer Sentiment. Combined, V and MA account for 6% of the Tech sector.

Semiconductor stocks also helped Tech with a 3% rally that was spurred by positive quarterly results from Taiwan Semi (**TSM**). The company is the largest manufacturer of semiconductor chips and in addition to reporting earnings and sales that were above estimates, TSM guided estimates for Q3 higher.

The rally in Semis has the group within 4% of its 50-day moving average and a move above this next area of resistance would be constructive. (using SOXX) We've added several additional stocks from this group to our Watch List.

Software stocks were among the worst performers in Tech last week led by a 4.1% decline in Microsoft (**MSFT**) that followed a downgrade from a major Wall Street firm.

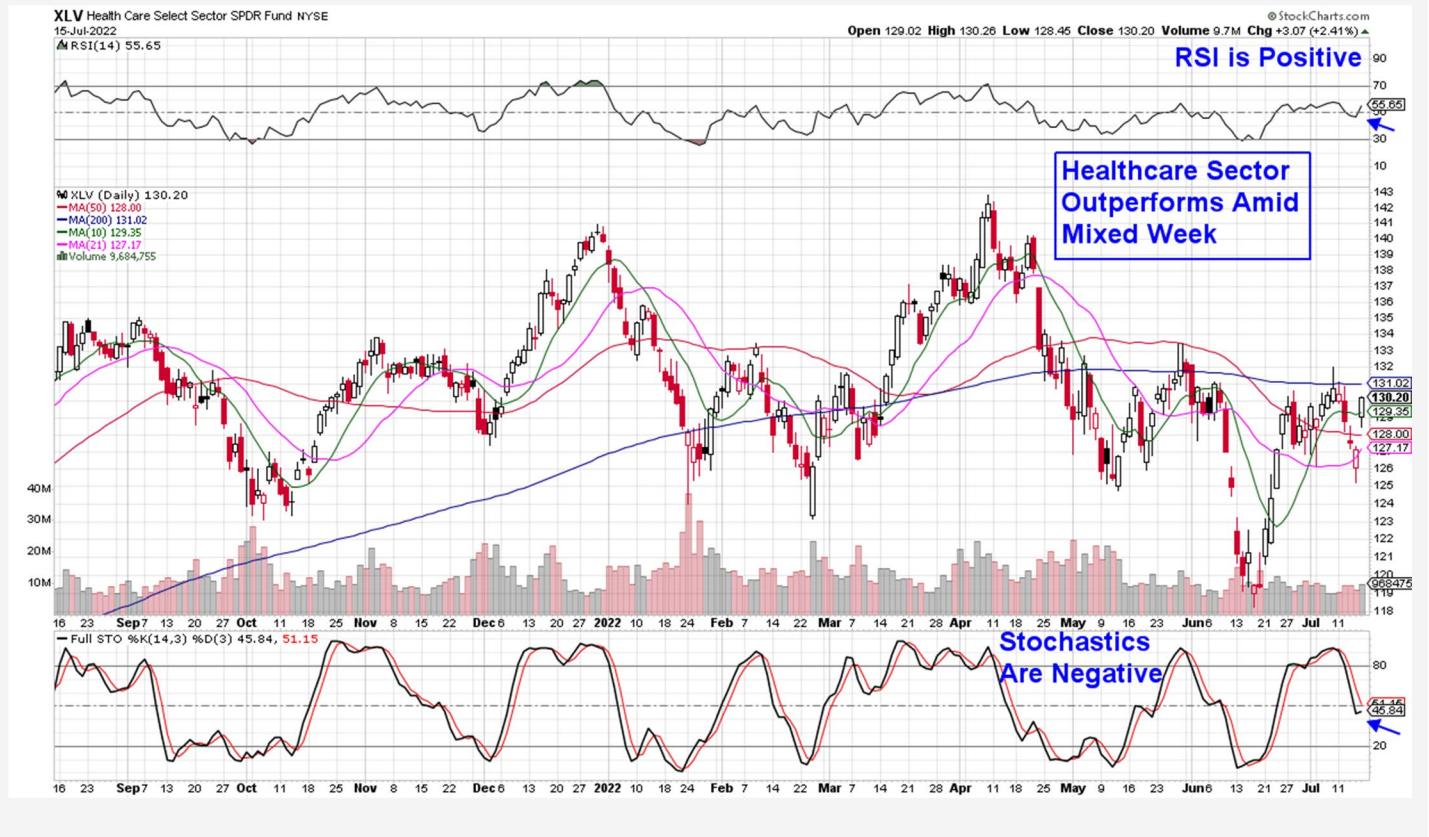
Other Software stocks followed suit with the group down 4.7% for the week. (using IGV). The move dampened the possibility of a downtrend reversal in IGV which had closed the prior week above its 50-day moving average.

Solar stocks also pulled back sharply with recently added Enphase (**ENPH**) coming under selling pressure. The stock undercut its 50-day moving average on Friday however, buyers came in so that it closed the week above this key mav. A break back above its 10-day moving average would put the stock in a buy zone.

The Tech sector is firming up nicely with the sector poised to break back above its 50-day moving average with positive momentum indicators.

That said, only 60 stocks within this very large sector (780 stocks total) are above both their 50 and 200 day mavs with only 14 that are also above their 21-day mav. Ideally, we'd like to see a broadening out of participation in this sector and earnings season may provide the needed push.

Health Care Select Sector SPDR Fund (XLV)



Healthcare Sector Outperforms

Healthcare stocks were mixed last week with Managed Care stocks on the move higher following positive earnings from heavyweight United Healthcare (**UNH**).

Merck (**MRK**) from our List, posted a 2.5% gain for the week. The stock gapped up in price on Friday due to news of signing a licensing deal with a prostate cancer company who's in phase 2 of development of a drug. The move pushed MRK toward a \$96 base breakout and the stock can be bought in the \$94 range - at its 5-day moving average.

Eli Lilly (**LLY**) closed the week very close to a new high in price amid analyst upgrades to earnings for both this

year and next due to their recently approved diabetes drug. This and other drugs are expected to help earnings more than double over the next 4 years. LLY is in a buy zone.

Biotech stocks pulled back last week on relatively light volume. The move was unlike late December into January or April into May when selling in the ETF IBB was on above average volume which pointed to distribution.

We'd be a buyer of IBB on a break back above its 10-day moving average which is less than a point away.

Summary

Last week's price action highlights a continued sensitivity to economic reports and next week, the economic calendar is very light. With a dearth of inflation or economic growth data, we expect earnings reports will take center stage.

While we're in the very beginning stages of the 2nd quarter earnings season, last week's rally in Bank stocks that reported results above estimates has us on the lookout for similar price action among other beaten down areas.

Growth stocks in particular have been hardest hit in this bear market with the Nasdaq currently down 28.6% while Software is off 39% and Semiconductors have lost 34%.

Individual stocks in these groups are down even more however if recent price action of stocks in these groups is any indication, lower P/E stocks will stand a better chance of rallying on any hint of positive news.

Taiwan Semi (TSM) which responded positively to results last week, is trading at 16 times earnings and stocks in this group that also rallied in response, had similarly low P/E's.

Next up for the markets is the Federal Reserve's July 28th meeting and at this time, investor's are on the lookout for a 0.75% increase in rates. Any uptick in this estimate may tip the markets lower.

MEM Edge Report Suggested Holdings

Stocks With Emerging Leadership Characteristics

\$ = Earnings Due

Buy Zone

Strong Buy

Buy on Pullback

Removed From List

SYMB	COMPANY	PRICE	DATE ADDED	PERFORMANCE	EARNINGS DUE DATE	INDUSTRY GROUP
TECHNOLOGY						
ENPH	Enphase Energy	\$194.91	7/10/2022	-10.0%	July 26	
HEALTHCARE						
IBB	iShares Biotech ETF	\$123.25	3/29/2022	-2.5%		
LLY	Eli Lilly & Co.	\$331.60	3/20/2022	2.0%	Aug 2	
MRK	Merck & Co.	\$94.96	3/20/2022	2.5%	July 28	

Glossary of Terms Used From Our Suggested Holdings

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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