



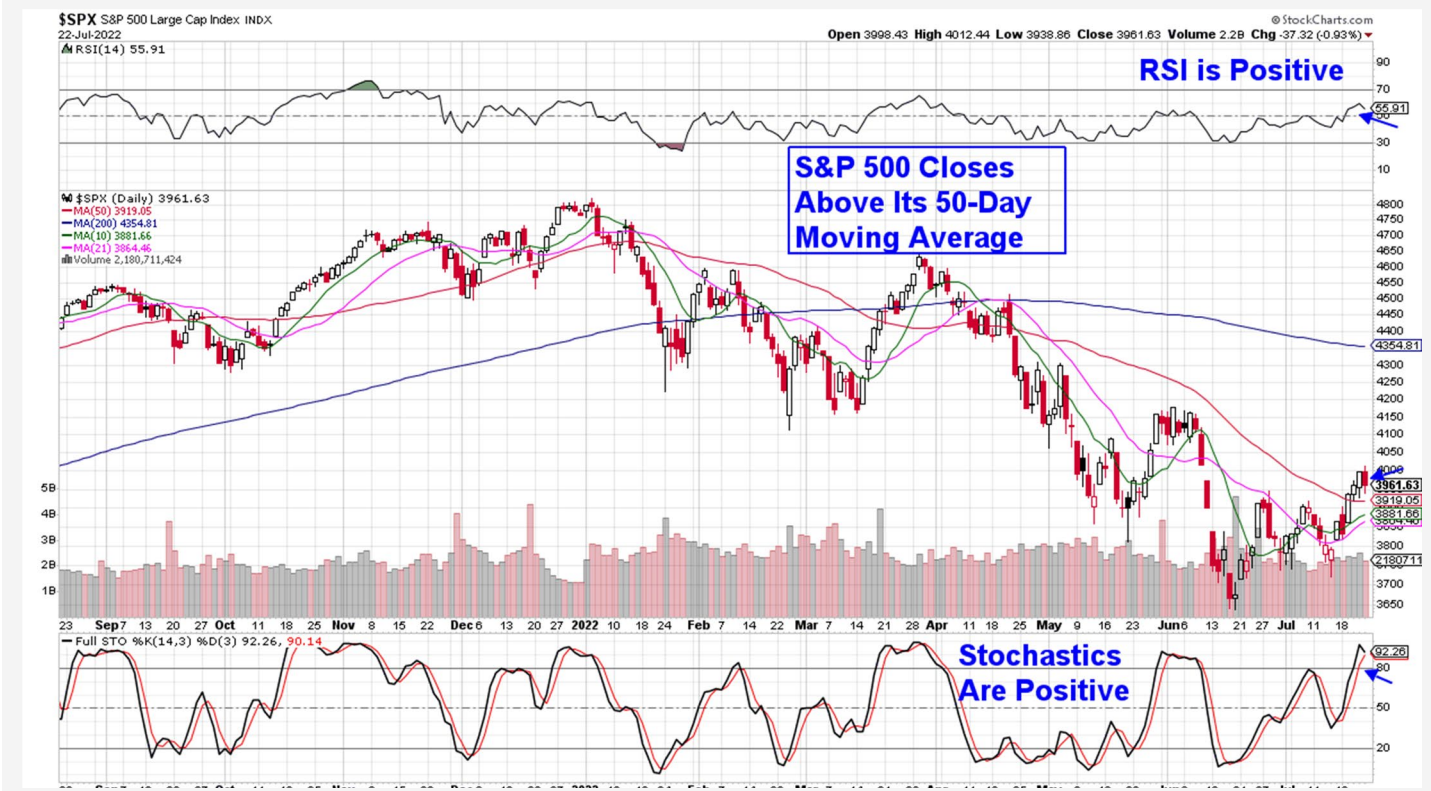
# THE MEM EDGE

July 24, 2022 | Weekly Report

## This Week's Highlights

- Growth Stocks Outperform For The Week
- 2nd Quarter Earnings Results Move Markets
- July PMI & Increased Jobless Claims Data Suggest A Slowing Economy
- FOMC Policy and Outlook News To Be Released On Wednesday
- 2nd Quarter GDP, Core PCE, Durable Goods and Major Corporate Earnings Due Next Week

### Daily Chart of S&P 500



The S&P 500 advanced 2.6% for the week in a move that puts this Index back above its 50-day moving average. The RSI and Stochastics are now in positive territory so that near-term, we're constructive on the prospects of a continuation rally.

Longer term, we remain cautious in our outlook for the markets amid mixed signals regarding inflation as well as economic strength. At this time, we would initiate any new positions with a short term horizon in mind.

The Nasdaq fared better with a 3.3% gain that has this Index above its 50-day moving average with a positive RSI and Stochastics.

The Nasdaq was boosted by big gains in several mega-cap FAANMG stocks as well as outperformance in both Semiconductors and Software stocks.

The weekly volume in the Nasdaq was the highest this month indicating accumulation among investors that bid up names such as Netflix (NFLX) and Tesla (TSLA) who both reported quarterly results that were better

than expected. The stocks rallied 17% and 13.5% respectively.

Corporate earnings took center stage last week as the largest gainers were names that reported better than expected results. The market's positive response in turn, spurred a rally in other companies in the same industry.

Not all earnings news was positive however, as Internet Related stock Snap (**SNAP**) reported their weakest ever quarter of sales due to a slowdown in ad spending.

The news rattled the markets on Friday as ad spending is often the first area where cuts are made in the event of a projected slowdown in growth.

Next Tuesday, Alphabet (**GOOGL**) will be reporting their 2nd quarter results and with one of their primary sources of revenue being advertising, any signs of weakness may spur further selling in the markets.

Heavyweight names Amazon (**AMZN**), Microsoft (**MSFT**), Apple (AAPL) and Meta Platforms (**META**) are also due to release earnings next week. As you may recall, weak 1st quarter results among several of these names was very negatively impactful to the markets.

Among the most critical events next week is the Federal Reserve's much anticipated FOMC meeting where they'll release their interest rate hike percent and rate sentiment going forward, on Wednesday. At this time, traders are on the lookout for a 0.75% hike.

Recession concerns will also be addressed next week with the first estimate for 2nd quarter GDP being announced on Thursday.

First quarter GDP declined 1.6% relative to last year, and a negative report for Q2 would ignite fears of a recession which would push the markets down.

Other impactful data is also due with inflation and employment reports coming out later in the week.

Overall, Growth stocks outperformed last week as investors overlooked weak results that were better than expected from both Tesla and Netflix. A general view that inflation may have peaked also helped stocks as the price of key food components such as wheat and corn as well as the price of gasoline have been declining.

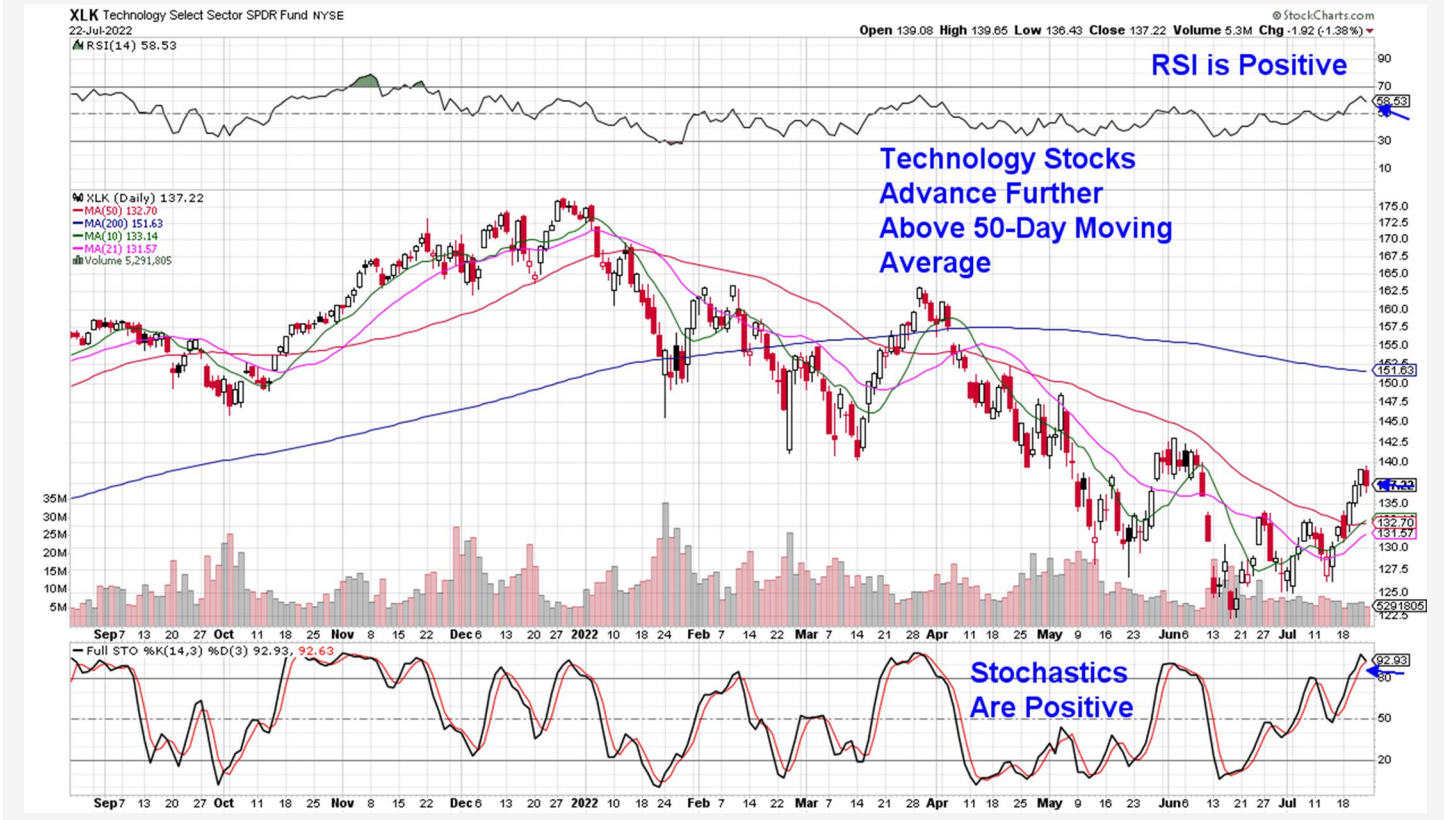
Growth stocks suffer during periods of high inflation as the value of future earnings is discounted.

Defensive areas of the market such as Utilities, Staples and Healthcare underperformed for the week as risk on trades were favored.

Next week, we anticipate the markets to be on edge due to the amount of impactful information that will be released. Key will be investor's response to any negative news and a break back below the 50-day moving average coupled with negative momentum indicators on a daily chart will have us reconsidering our near-term, positive outlook.



## Technology Select Sector SPDR Fund (XLK)



### Technology Sector Outperforms

The Tech sector is now trading above its 50-day moving average after a 3.7% rally led by Semiconductor and Software stocks which each gained more than 5.5%. (using SOXX and IGV) Alternative Energy stocks were the largest gainers for the week.

The move into Semi's was a continuation rally following strong results from Taiwan Semi (**TSM**) the prior week where management cited strong chip demand. However, TSM expects demand to drop into year end yet despite this, Semi stocks continued to rally. TSM is the largest manufacturer of chips.

A S M L (**AMSL**) Semi posted results this week with a similarly weak outlook regarding growth into year end and yet the stock rallied.

Only a handful of Semi's have reported so far, and the sharp rally in these stocks despite a poor prognosis implies that the move is part of a larger transition into Growth stocks.

Recently added Nvidia (**NVDA**) and O N Semiconductor (**ON**) remain in an uptrend despite a Friday pullback with the group that puts both stocks at their upward trending 5-day moving average.

This price action is bullish however, we anticipate volatility going into next week's data-filled period which has us neutral on ON and NVDA at this time.

The stocks can be held as long as the RSI and MACD remain in positive territory with the stocks above their 50-day moving averages.

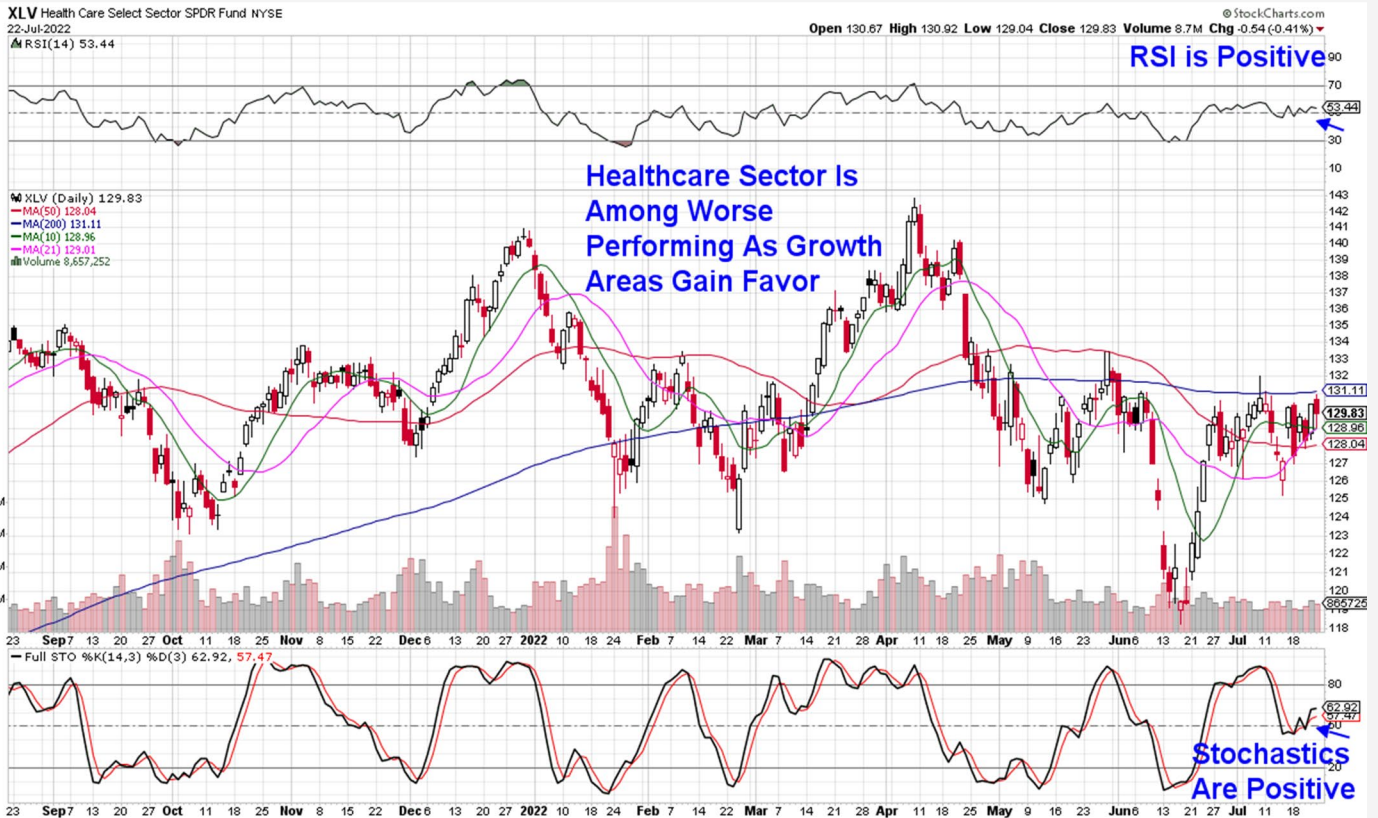
Software stocks were on the move as well despite a lack of earnings reports. The biggest gainers were Large Cap names that were winners in 2020 and 2021 following strong earnings results at that time.

This would include Adobe (**ADBE**), Oracle (**ORCL**) and Intuit (**INTU**) to name a few. Each of these names is now on our Watch List as their relative outperformance and strong growth prospects makes them candidates to be leadership names once we have more conviction in the markets.

On Tuesday, Microsoft (**MSFT**) is due to report their 2nd quarter results. As you may recall, the company lowered their guidance due to exchange rate and other headwinds. Whether this is priced into the stock will be seen and we anticipate the markets response to be impactful to the group.

Alternative Energy stocks outperformed last week amid the move into riskier assets. Enphase Energy (**ENPH**) from our List pulled back from a new near-term high in price to end the week up 8.5%. The company has strong growth prospects with analysts raising estimates for both this year and next. ENPH is due to report their 2nd quarter results on Tuesday.

## Daily Chart of the Healthcare Sector (XLV)



### Healthcare Sector Underperforms

The Healthcare sector was mixed last week as growth oriented Medical Products stocks rallied while Pharmaceutical stocks struggled.

Pharmaceutical stocks are slower growing and tend to fare well during periods that are difficult for the broader markets as their products are viewed as recession proof.

Among Pharma names, Eli Lilly (**LLY**) from our List has emerged as a leadership name due the recent FDA approval of their type 2 diabetes drug which also helps with obesity. The treatment is expected to boost LLY's earnings over the next 5 years.

In addition, LLY has a diverse product line of successful oncology, heart disease and neurological drugs. Wall Street is raising their estimates for both this year and next and LLY closed the week above its 10 day moving average and is in a buy zone.

Biotech stocks have lost their upside momentum of late after a 3-week rally that began in late June and pushed the group up over 10%.

Many of the larger names in the Biotech ETF (**IIB**) are due to report quarterly results early next month which may be the catalyst to revive the group. The recent pullback has been on light volume which is positive. IIB can be held.

## Summary

The recent move into Growth stocks has been sparked by earnings reports from well-known companies and while their results haven't been exceptional, investors are bidding up shares in a move that implies that bad news has been built into the markets.

Another factor boosting growth is a growing belief that inflation is beginning to slow as gas prices are receding while commodities such as wheat, corn and soybean are now down over 25% from their May peaks in price.

These grains are key ingredients in food products where prices have been on the rise. And with high inflation being a negative for Growth stocks as it dampens the value of future earnings growth, any slowdown would help these stocks.

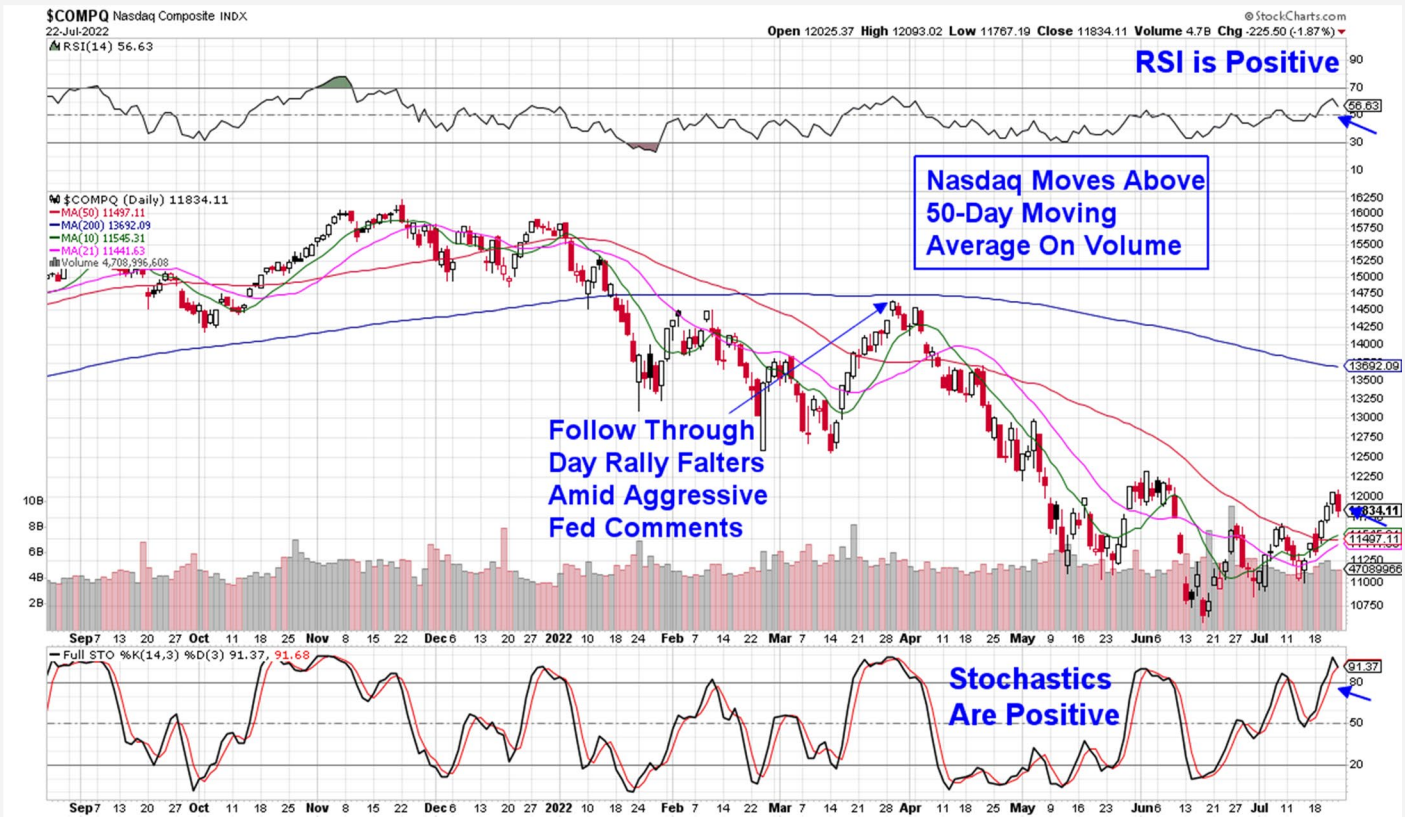
Investors' resolve will be tested next week with a blockbuster list of companies due to report including Amazon (AMZN), Meta Platforms (META), Apple (AAPL) Microsoft (MSFT) and Alphabet (GOOGL).

Most impactful however, will be Wednesday's release of the Federal Reserve's FOMC decision regarding their Fed Funds rate increase as well as their projected schedule going forward. Wednesday's press conference with Chair Powell will be closely watched.

At this time, we anticipate that the near-term rally in the markets can be sustained; however, the market's reaction to the Fed's decision will be most impactful in deciding that.

Below is a chart of the Nasdaq where we highlight a halt to the March rally in this Index that followed comments from Fed Chair Powell regarding his intent to raise interest rates as needed to stem inflation.

# DAILY CHART OF THE NASDAQ COMPOSITE



# 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 DATE	INDUSTRY GROUP
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ENERGY						
ENPH	Enphase Energy	\$211.54	7/10/2022	-2.5%	EARNINGS DUE	-

NVDA	NVIDIA Corporation	\$173.19	7/20/2022	-2.5%	-	-
ON	ON Semiconductor Corp.	\$59.42	7/20/2022	-1.0%	-	-

HEALTHCARE						
IBB	iShares Biotech ETF	\$122.62	7/10/2022	-3.0%	-	-
LLY	Eli Lilly & Co.	\$328.75	6/26/2022	1.0%	BUY ZONE	-

# 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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