



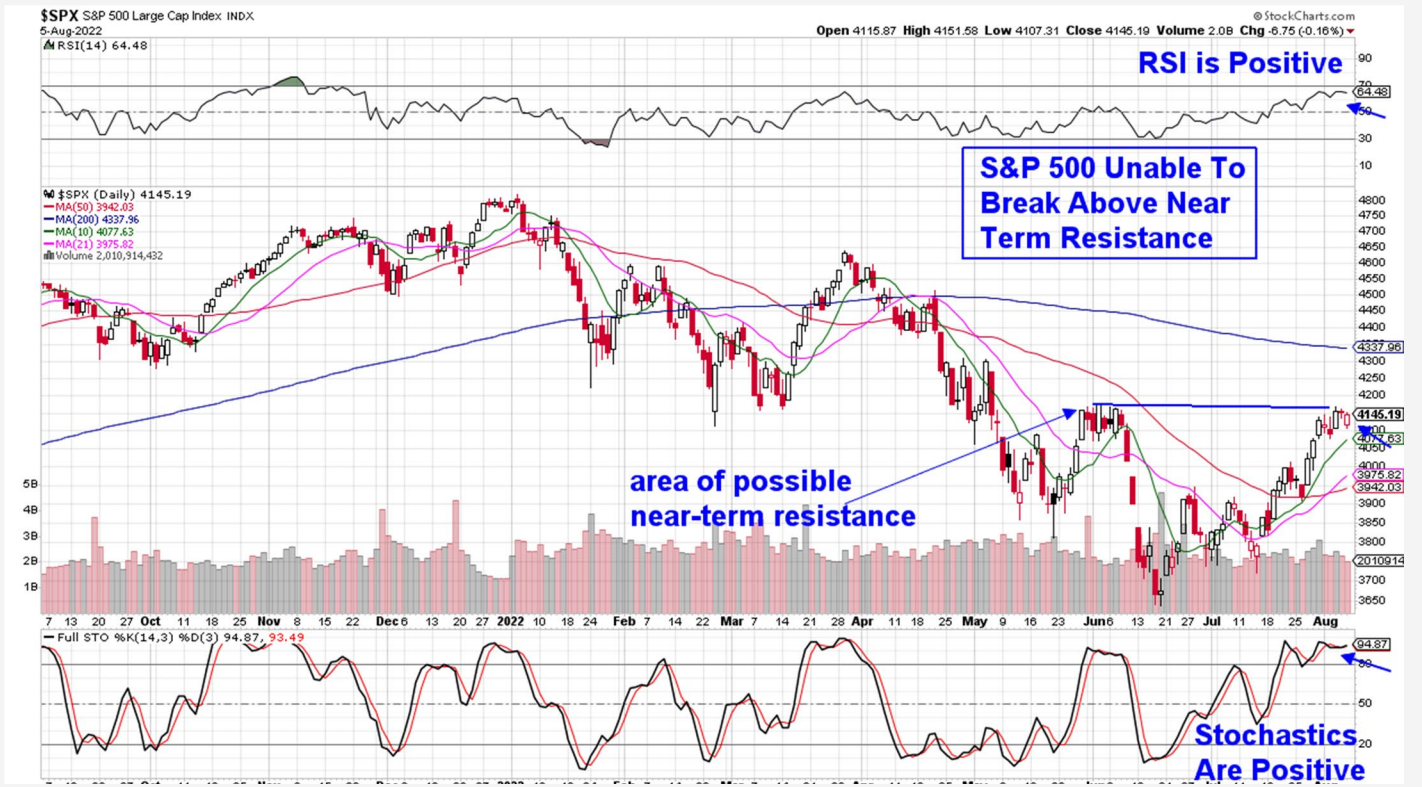
# THE MEM EDGE

August 7, 2022 | Weekly Report

## This Week's Highlights

- Inflation Reduction Act Inches Closer To Passage
- Construction Spending Falls Sharply
- Factory Orders Rise 2% In June
- Jobless Claims Stay At 9-Month High
- Unemployment Rate In July Falls To Pre-Pandemic Levels
- Core CPI, Producer Price Index & Consumer Sentiment Next Week

### Daily Chart of S&P 500



The S&P 500 closed the week up 0.4% in a move that puts this Index a hair away from breaking above near-term resistance at 4170. With the RSI and Stochastics in positive territory, a move above this area of resistance would provide further confidence in the current uptrend in the markets.

The next higher area of upside resistance would be the 4300 level which is the bear market downtrend line. This area is 3.7% away and a break above this level would challenge any current bear market assumptions.

The longer term weekly chart of the S&P 500 now has a positive RSI and Stochastics, which puts an intermediate term uptrend in place. However we'd like to see a move above 4170 before confirming an intermediate term uptrend.

The Nasdaq outperformed with a 2.2% advance last week which was led by Software, Semiconductor and Biotech stocks. Most of the mega-cap FAANMG stocks fared better than the markets as well.

Overall, riskier areas such as Biotechs and Growth stocks outperformed last week, with Small Cap stocks also posting gains higher than the S&P 500 with a 1.9% rally.

The fact that these riskier areas of the market fared well for the week despite Friday's news of a much stronger than expected jobs report, shows near-term resilience.

Friday's news of job growth had the markets wrestling with the possibility that the Federal Reserve will need to maintain an aggressive pace of rate hikes to bring economic growth - and hence, inflation - down.

Higher interest rates are not good for Growth stocks which have been outperforming of late, as they reduce the value of future earnings.

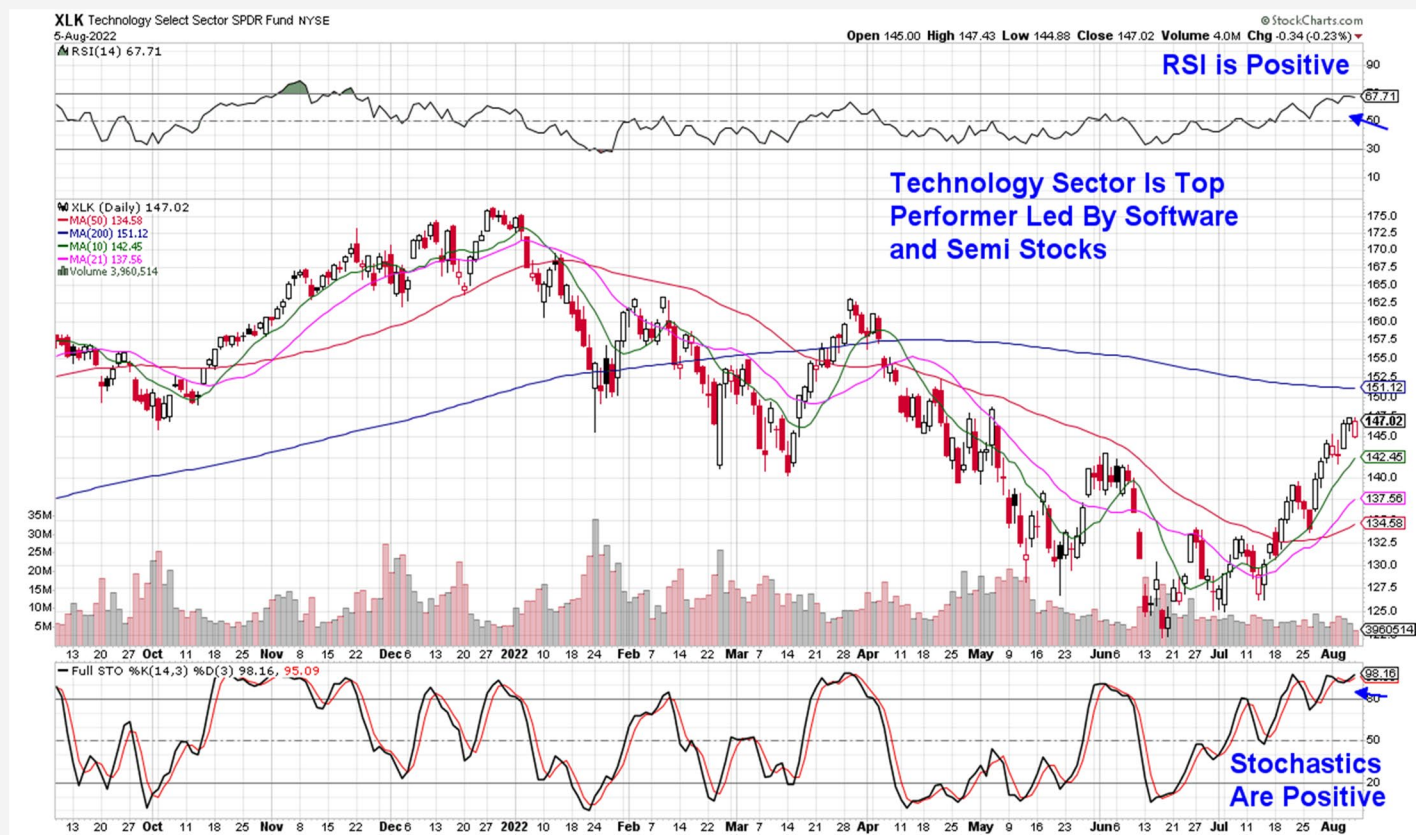
On the other hand, Friday's report of job growth eased concerns about a possible recession which has been another concern among investors.

In the end, healthy earnings reports are creating the most upside price action in stocks at this time with outperforming areas such as Software, Semis and Biotechs each having a number of underlying companies reporting results above estimates.

Next week, this resolve will be tested however, as earnings season will slow down while inflation data that is closely watched by the Federal Reserve will be released. Any news that inflation levels remain on the rise may stall the current uptrend.

Overall, we're constructive on the near-term prospects for the markets however, we'd continue to be judicious with any new money you put to work.

### Technology Select Sector SPDR Fund (XLK)



### Technology Sector Outperforms

The Tech sector was the top performer last week and similar to the prior week, Alternative Energy Equipment stocks gained the most amid strong earnings as well as increased interest in clean energy stocks due to Biden's Inflation Reduction Act.

If passed, this Act would be the largest government investment in clean energy initiatives and as of the end of last week, two democratic holdouts are now on

board which puts the bill before the Senate where it's moving closer to being passed.

Enphase Energy (ENPH) from our List rallied 6% following its prior week's 8-month base breakout on news of earnings that were 100% above last year. In addition, management is guiding estimates higher into next year.

ENPH is in a confirmed uptrend as the stock finds support at its upward trending 5-day moving average. We're using the late October '21 period as precedence after a gap up in price at that time due to strong earnings.

In late November, a negative crossover of the RSI on the daily chart was the first clue that upside momentum had shifted.

We'll be on the lookout for any similar shift and until then, ENPH is poised to trade higher.

This week, we're adding solar manufacturing company Sunpower Corp. (**SPWR**) to our List as the stock moves closer to a 4-month base breakout at \$25. The residential energy provider reported quarterly results that were above estimates after adding a record number of customers.

SPWR can be bought on a pullback to its 5-day moving average in the \$22 range.

Gains in Software stocks, which posted a 3.7% rally, also boosted the Tech sector following a flurry of relatively positive earnings reports that pushed those reporting stocks much higher. (using IGV)

Intuit (**INTU**) from our List had a more modest weekly gain however, the stock remains in a confirmed uptrend and a pullback to its 5-day moving average would be an ideal buy point, currently in the \$460 range.

This week we're adding Paycom (**PAYC**) to our Suggested Holdings list after last week's move back above its 200-day moving average on above average volume after reporting earnings above estimates.

Even better, management raised full-year growth estimates higher. The stock can be bought in the \$365 range which is close to its 5-day moving average.

Semiconductor stocks also outpaced the markets led by sharp gains in companies that reported strong quarterly results.

Semi stock Onsemi (**ON**) from our List reported a record quarter of earnings and sales that were above estimates with management guiding higher into year-end.

ON manufactures semiconductor products that enable the electrification of autos. Their products allow for lighter, longer-range EVs. The stock is in a buy zone as it approaches a possible 7-month base breakout at \$71. A break above this level would put the stock in a strong buy zone.

Both Nvidia (**NVDA**) and Lam Research (**LRCX**) from our List outperformed the Semiconductor group last week (using SOXX).

LRCX gained 4% on above average volume which points to the stock being under accumulation. LRCX is finding support at its 5-day moving average with a pullback to that area being an ideal buy point.

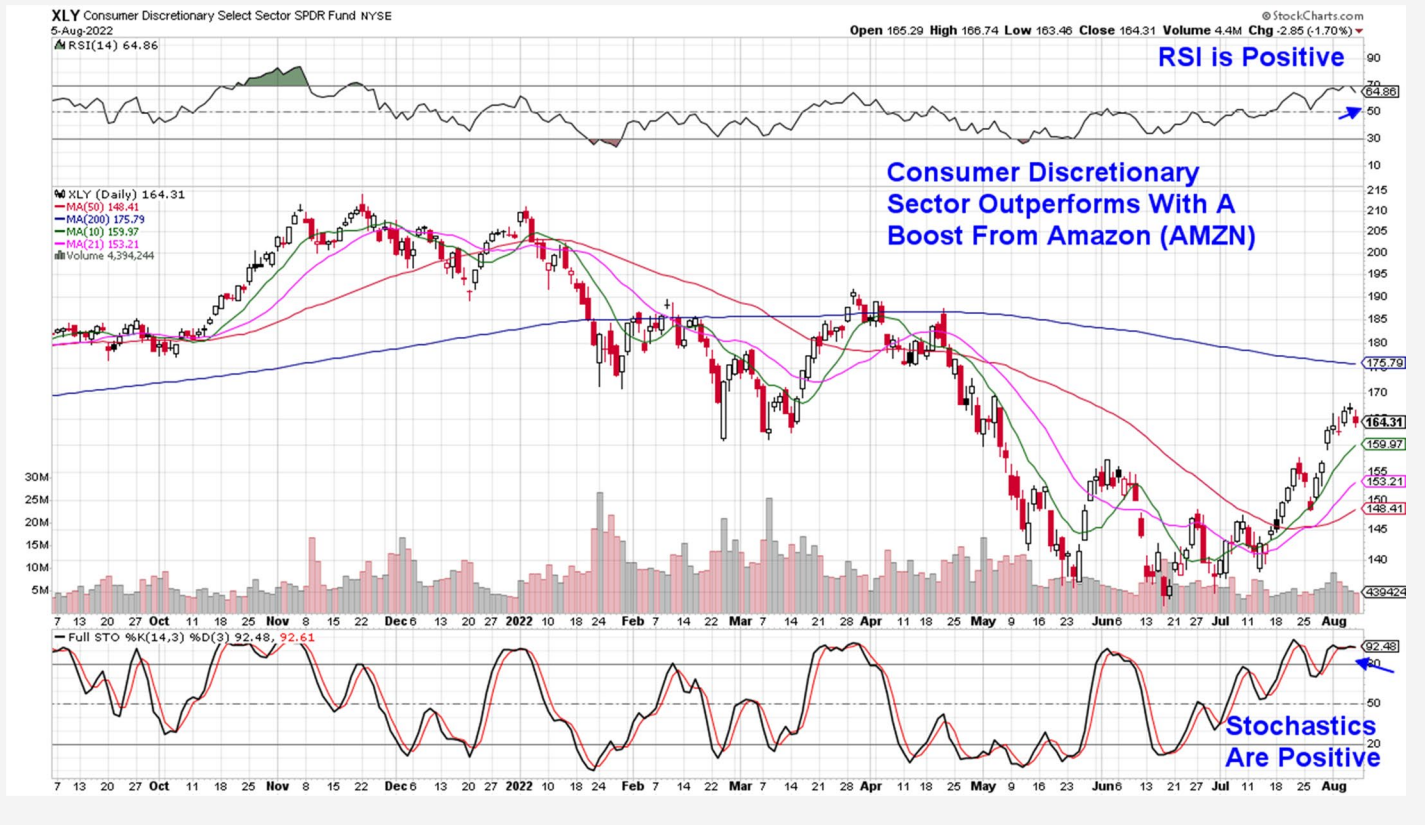
As you may recall, the company reported earnings ahead of estimates in late July with management guiding growth estimates higher. The stock is in a strong buy zone and a break above its 200-day moving average - which is 5.3% away - would signal further, longer-term upside.

NVDA continues to find support at its upward trending 5-day moving average and is in a strong buy zone ahead of the release of their earnings in 3 weeks.

Apple (**AAPL**) also remains in a confirmed uptrend while finding support at its 5-day moving average. The weekly chart is quite compelling for AAPL as the RSI has now entered positive territory with the MACD having a positive crossover.

We expect Apple to continue to outperform as long as the dynamics remain positive for Growth stocks.

## Consumer Discretionary Select Sector SPDR Fund (XLY)



### Consumer Discretionary Sector Mixed

Discretionary stocks traded higher led by a 4.3% advance in heavyweight stock Amazon (**AMZN**) which is on our Suggested Holdings List.

AMZN is finding support at its 5-day moving average and the stock is in a buy zone following Friday's pullback on news of the company's purchase of iRobot. A move above its 200-day moving average - which is 3.5% away - would put AMZN in a strong buy zone.

Select retailers also traded higher following results that were ahead of estimates. Similar to Tech stocks, many retailers have fallen well below their peaks in price from last November and are experiencing outsized rallies on quarterly results that are ahead of lowered estimates.

Consumers have remained surprisingly resilient in the face of high inflation with June Retail Sales numbers showing an increase in spending. Online sales and restaurant spending were some of the biggest contributors to the increase.

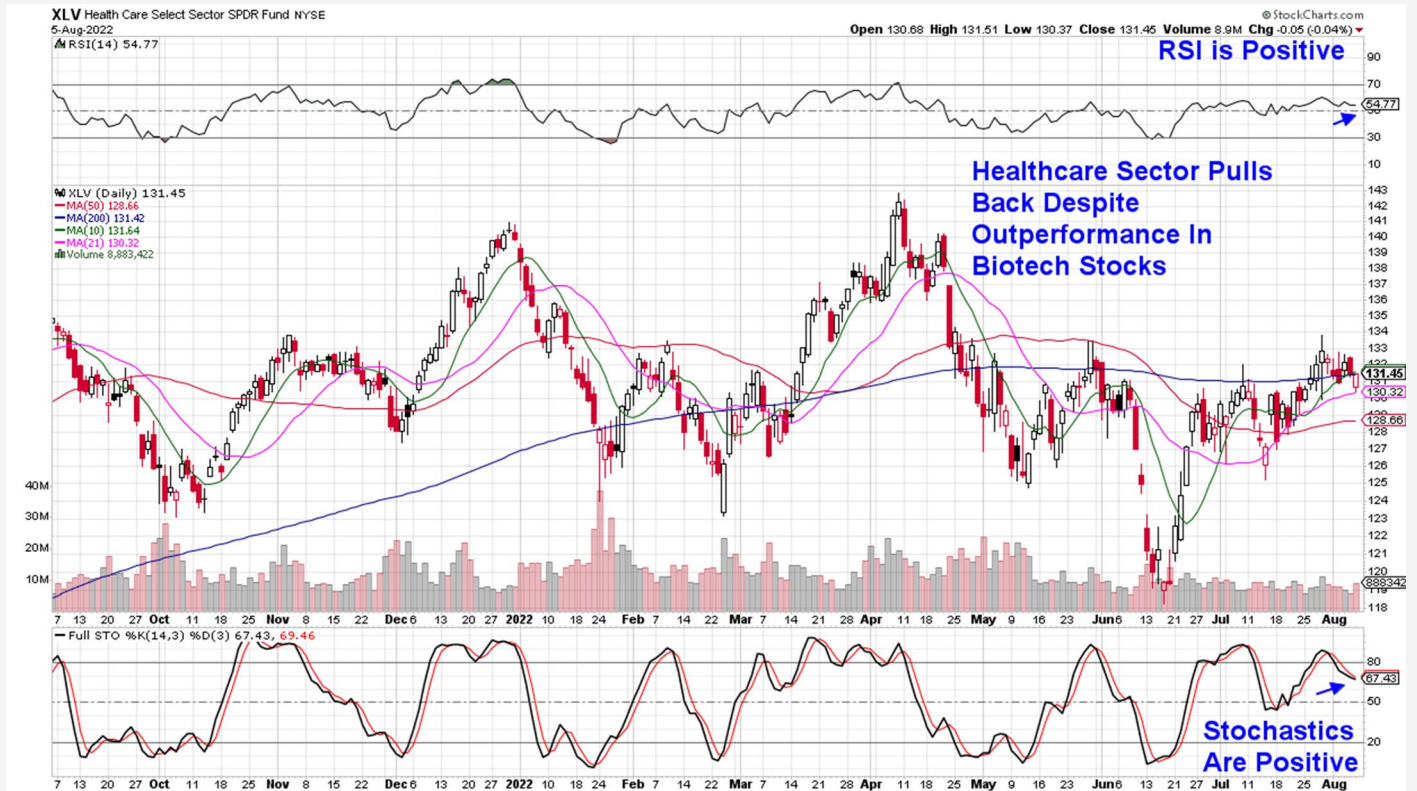
Today, we're adding Chipotle Mexican Grill (**CMG**) to our Suggested Holdings List as the stock has continued to advance above its 200-day moving average following their recent earnings report. CMG saw same store sales jump 10.1% despite their raising of prices due to inflation increasing costs.

CMG is in an uptrend as it's finding support at its 5-day moving average. The weekly chart is attractive as well with the RSI in positive territory while the MACD has had a positive crossover. CMG is in a buy zone.

We're adding the S&P 500 Retail ETF (**XRT**) to our Watch List as the equal weighted group of online retailers is in a near-term uptrend however, the weekly chart shows more work is needed as the RSI is still negative.

Retail companies report their quarterly results toward the end of earnings season with many companies due to begin reporting in 2 weeks. Heavyweight stock Target (**TGT**) will be one of the first up and their results and outlook going forward will be closely watched.

## Health Care Select Sector SPDR Fund (XLV)



### Healthcare Sector Continues To Struggle

Healthcare stocks were down almost 1% last week led by a decline in Large Cap Pharmaceutical stocks.

Eli Lilly (**LLY**) from our List is a prime example after the stock dropped below its key 50-day moving average following their release of 2nd quarter earnings that were below estimates. In addition, the company guided estimates lower for the remainder of this year due to foreign exchange headwinds.

We're removing LLY from our Suggested Holdings List.

Biotechnology stocks were a bright spot within this sector however, following a rally on positive earnings reports from many underlying stocks that are producing innovative medical solutions for chronic diseases.

Vertex Pharmaceutical (**VRTX**) is a prime example as their cystic fibrosis drug is the first of its kind that's been approved for this disease.

The company came in above estimates and raised guidance for the remainder of the year. We're adding VRTX to our Suggested Holdings List after a rally that followed their quarterly results, pushed the stock above each of its moving averages and into a buy zone.

Biotech ETF IBB from our List, was a top performer last week as a rally in many of the underlying stocks pushed IBB up 6%. As discussed in last week's report, a break above the mid-July high would push IBB out of consolidation and into an uptrend.

IBB is 0.5% away from a move above its 200-day moving average and last week's high volume on its substantial rally points to further near-term upside. IBB is in a strong buy zone.

## Summary

After Friday's release of the July employment numbers, the probability of another 0.75% rate hike in September jumped to 80% from 35% the prior day. Yields also traded higher with the 10-year Treasury getting closer to the 3% level which has been a threshold where Growth stocks begin to suffer.

Next week, important inflation data will be released with core CPI due on Wednesday and PPI numbers will be released on Thursday. Both numbers are closely watched by the Federal Reserve and we may see volatility surrounding their release.

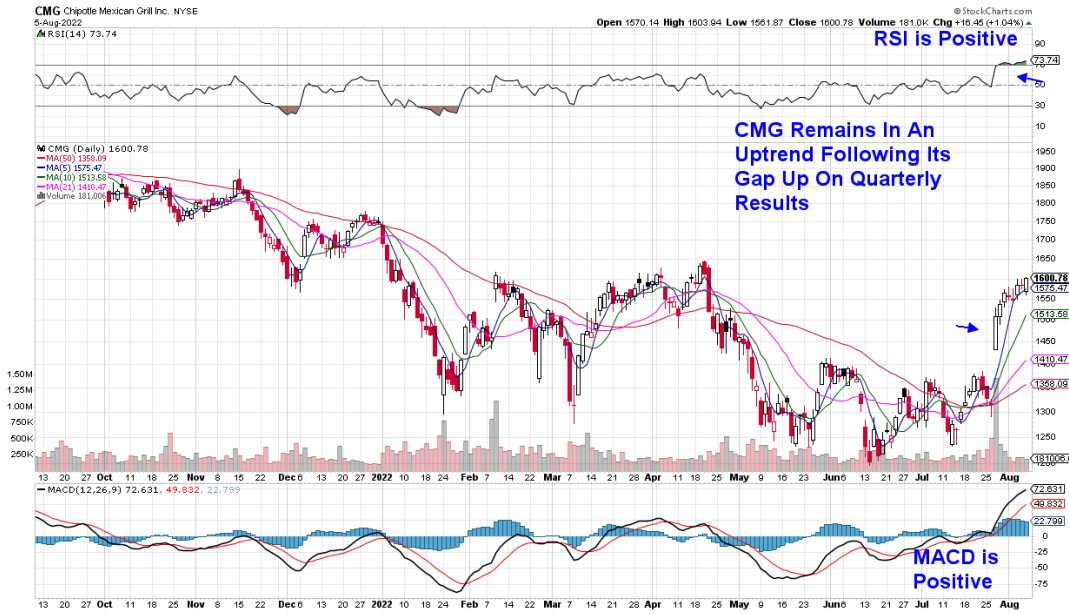
The near-term uptrend in the markets remains in place and of note is the continued decline of the volatility index (VIX) as well as an increase in the breadth of the markets. Both aspects are constructive.

While we've seen recent gains in Growth areas such as Technology (XLK) and Discretionary (XLY), Utility (XLU) and Consumer Staples (XLP) sectors are the only ones that are above each of their moving averages without upside resistance.

Utility stocks are particularly interesting at this juncture as several larger firms that have invested heavily in alternative sources of energy may spring to life with a passage of Biden's Inflation Bill. We'll keep you apprised of the top candidates to outperform should this occur.

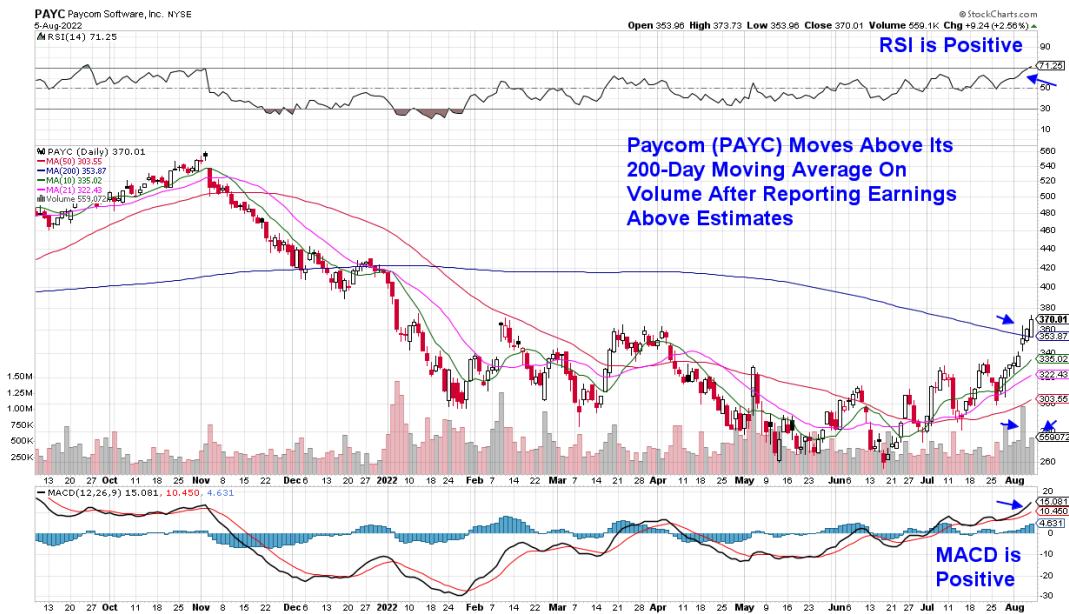
# BUY: Chipotle Mexican Grill (CMG)

| Symbol | Company                | Price      | Market Cap       | Industry           |
|--------|------------------------|------------|------------------|--------------------|
| CMG    | Chipotle Mexican Grill | \$1,600.80 | \$44.822 Billion | Restaurants & Bars |



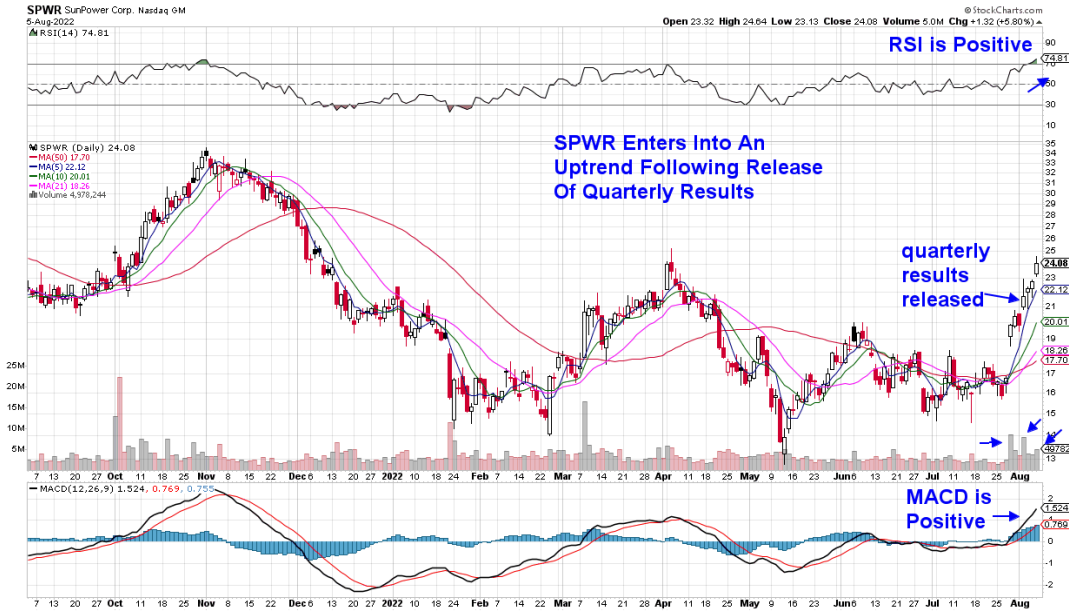
# BUY: Paycom Software, Inc. (PAYC)

| Symbol | Company              | Price    | Market Cap       | Industry |
|--------|----------------------|----------|------------------|----------|
| PAYC   | Paycom Software Inc. | \$370.00 | \$22.201 Billion | Software |



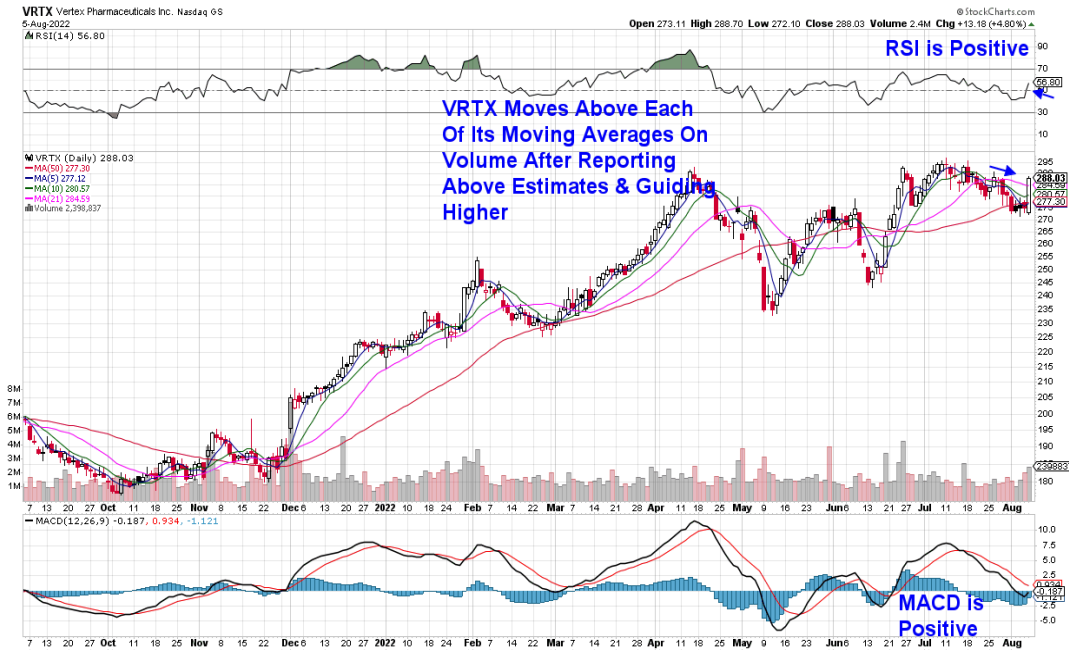
# BUY: SunPower Corp. (SPWR)

| Symbol | Company        | Price   | Market Cap      | Industry                   |
|--------|----------------|---------|-----------------|----------------------------|
| SPWR   | SunPower Corp. | \$24.10 | \$4.190 Billion | Renewable Energy Equipment |



# BUY: Vertex Pharmaceuticals Inc. (VRTX)

| Symbol | Company     | Price  | Market Cap       | Industry      |
|--------|-------------|--------|------------------|---------------|
| VRTX   | Vertex Inc. | 288.00 | \$73.736 Billion | Biotechnology |



# 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 |  |  |  |  |  |  |
|------------|--|--|--|--|--|--|

|      |                        |          |           |       |   |   |
|------|------------------------|----------|-----------|-------|---|---|
| AAPL | Apple Inc.             | \$165.35 | 7/28/2022 | 5.0%  | - | - |
| ENPH | Enphase Energy         | \$300.91 | 7/10/2022 | 39.0% | - | - |
| INTU | Intuit Inc.            | \$468.99 | 7/28/2022 | 4.5%  | - | - |
| LRCX | Lam Research Corp.     | \$519.97 | 7/28/2022 | 7.0%  | - | - |
| NVDA | NVIDIA Corporation     | \$189.89 | 7/20/2022 | 6.5%  | - | - |
| ON   | ON Semiconductor Corp. | 67.63    | 7/20/2022 | 12.5% | - | - |
| PAYC | Paycom Software        | 370.00   | 8/7/2022  | -     | - | - |
| SPWR | Sunpower Corp          | 24.10    | 8/7/2022  | -     | - | - |

|                        |  |  |  |  |  |  |
|------------------------|--|--|--|--|--|--|
| CONSUMER DISCRETIONARY |  |  |  |  |  |  |
|------------------------|--|--|--|--|--|--|

|      |                        |            |           |       |   |   |
|------|------------------------|------------|-----------|-------|---|---|
| AMZN | Amazon.com Inc.        | \$140.80   | 7/28/2022 | 15.0% | - | - |
| CMG  | Chipotle Mexican Grill | \$1,600.80 | 8/7/2022  | -     | - | - |

|            |  |  |  |  |  |  |
|------------|--|--|--|--|--|--|
| HEALTHCARE |  |  |  |  |  |  |
|------------|--|--|--|--|--|--|

|     |                     |          |           |      |          |   |
|-----|---------------------|----------|-----------|------|----------|---|
| IBB | iShares Biotech ETF | \$131.44 | 7/10/2022 | 4.0% | April 28 | - |
| LLY | Eli Lilly & Co.     | \$301.32 | 6/26/2022 | 1.5% |          | - |

# 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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