



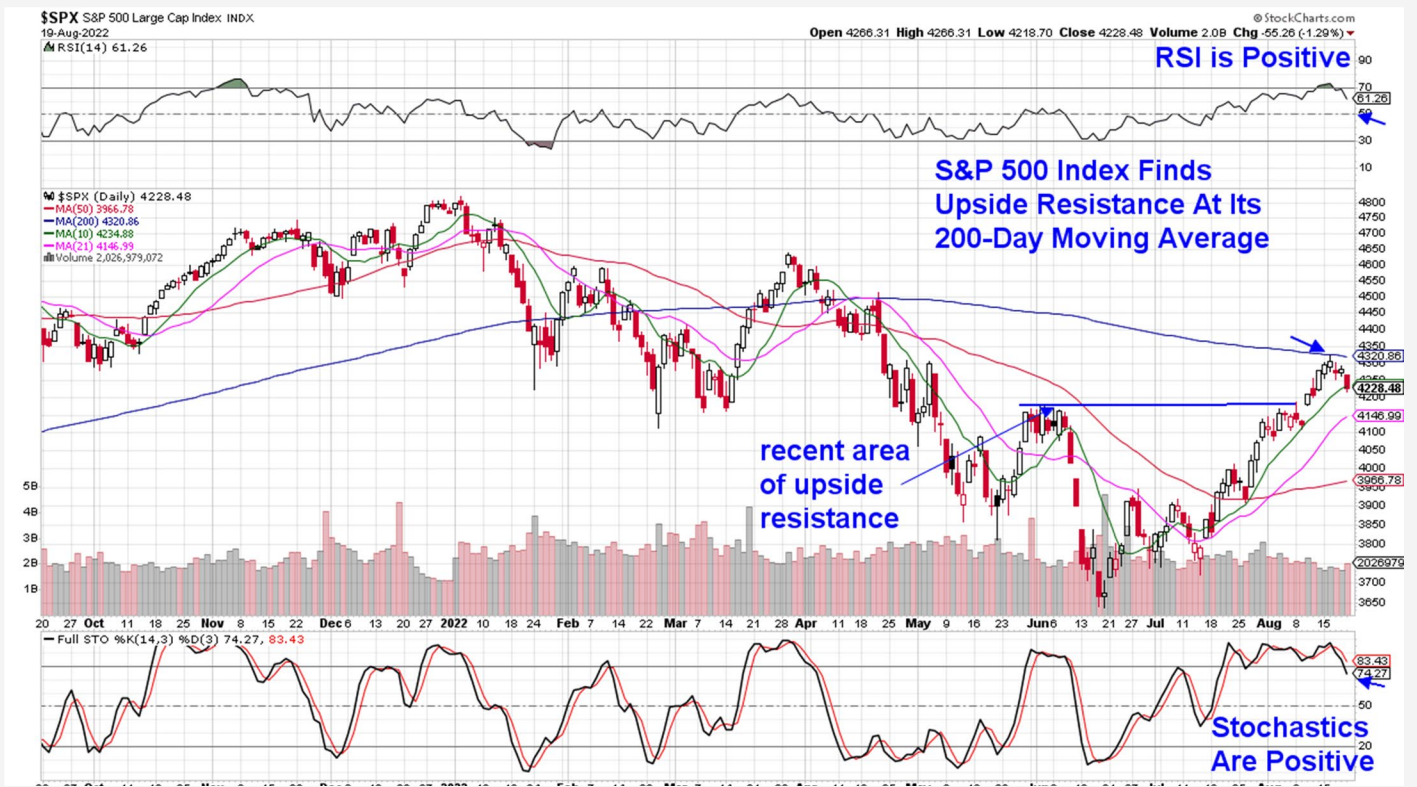
THE MEM EDGE

August 21, 2022 | Weekly Report

This Week's Highlights

- Industrial Production Rises Sharply In July
- Retail Sales Flat In July; Ex Gas Shows Growth
- Fed Meeting Notes Confirm Fed's Intent To Fight Inflation
- Weekly Jobless Claims Fall Slightly
- Manufacturing PMI, Durable Goods , Q2 GDP and Core PCE Report Next Week
- Economic Symposium With Powell Next Week

Daily Chart of S&P 500



The S&P 500 Index closed the week with a loss of 1.2% in a move that puts it below its 10-day simple moving average. With the RSI and Stochastics in positive territory, the near-term uptrend remains in place.

Challenges lie ahead for the markets near-term however, which we'll review below.

Last week, the S&P 500 rallied up to its 200-day moving average where it found resistance. A move above this key moving average and into the 4400 range would strengthen the possibility of a continuation rally that

could take us into the highs in March around the 4800 level.

However, should the S&P 500 continue last week's pullback and trade back below the recently surpassed resistance area of 4170, we could see stocks trade much lower.

Investor sentiment drives price action and at this time, uncertainty is taking center stage as the Fed's rate hike trajectory cannot be outlined until further data is

received. The markets do not like uncertainty and last week, that showed.

The Tech-heavy Nasdaq pulled back with a 2.6% loss that was led by a sharp drop in Semiconductor and Software as well as Biotech stocks. Most of the heavyweight FAANMG stocks fared poorly as well.

While the Nasdaq recently shed its bear market label after rising more than 20% above its mid-June low, as stated in our report last week, we would need to see a break above its 200-day moving average to negate its overall downtrend. At this time, we're 5.5% below the 200-day mav.

The defensive Consumer Staples and Utility sectors were among the only positive performers last week, while Growth stocks pulled back amid rising interest rates and growing uncertainty.

With a dearth of economic and earnings data last week, the focus was on notes from the Federal Reserve's last meeting, as investor's searched for hints that an accelerated rate hike cycle might be reduced.

A close review of the minutes however, made it clear that the Fed will continue to raise rates as needed, even if it slows down the economy. As stated in prior reports, rising interest rates are not good for Growth stocks as it reduces the value of future earnings. (see chart below)

Next week, Fed Chair Powell will be speaking at an economic symposium and economists are anticipating

a reiteration of the same strongly worded plan from their meeting notes. That is, the need to fight high inflation with tighter monetary policy regardless of the cost.

Impactful data will also be released next week with inflation numbers as well as the second revision of GDP for the 2nd quarter.

Currently, we're on track for negative Q2 GDP growth and investor's will be on the lookout for an upward revision. After a negative 1st quarter, signs of another successive quarterly decline will raise recession fears.

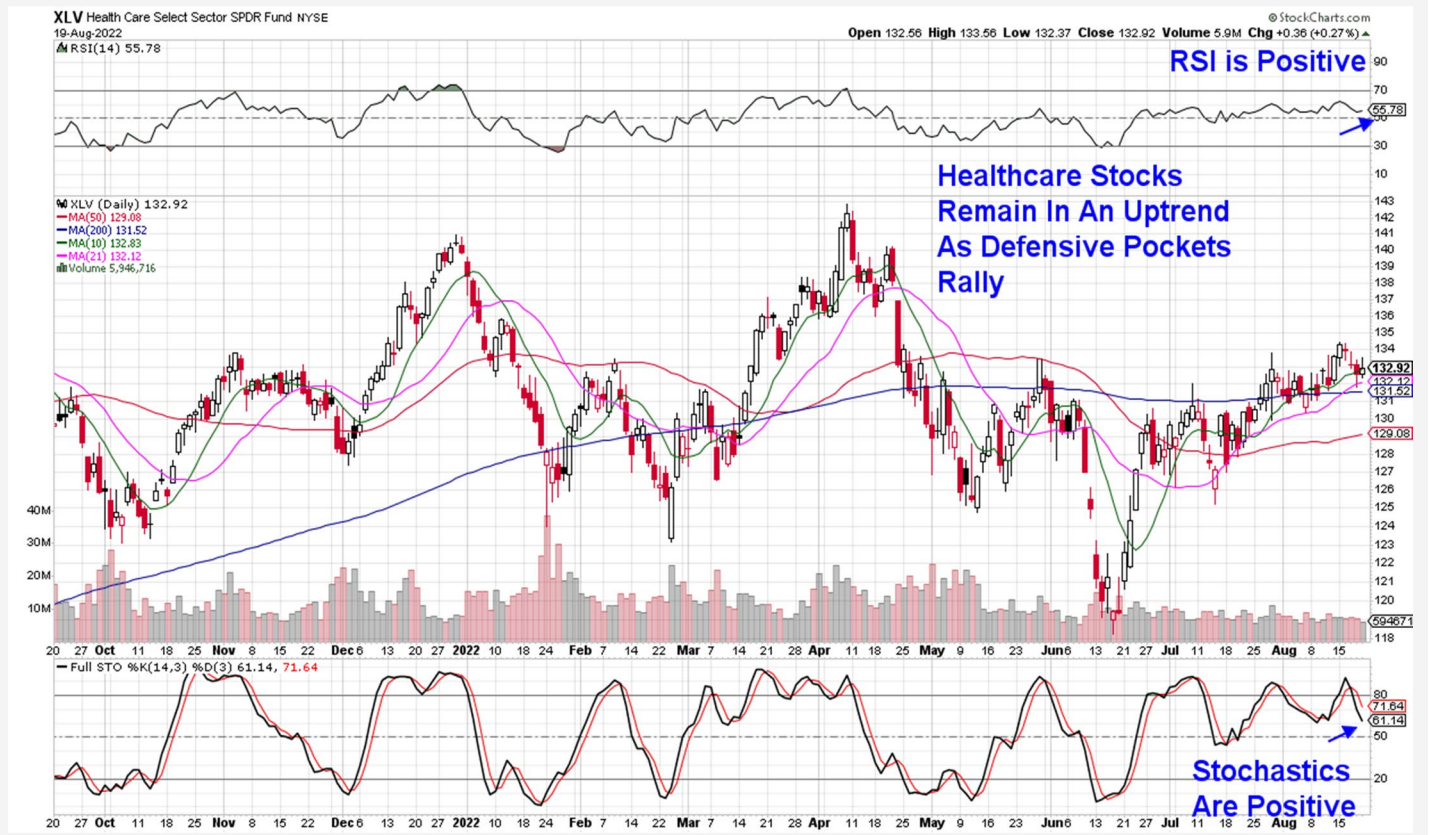
Given the heavy economic and speaking calendar next week., we're cautious on the near-term prospects for the markets primarily because earnings season is now mostly behind us. Over the past 7 weeks, positive corporate results have provided a bullish backdrop for the markets.

Also concerning, is last week's price action in FAANMG stocks. Tesla (**TSLA**), Amazon (**AMZN**) and Microsoft (**MSFT**) pulled back from potential moves above their 200-day moving average while Alphabet (**GOOGL**), Amazon (**AMZN**) and Meta Platforms (**META**) lost an average of 4.5%.

These heavyweights act as a proxy for investor's appetite for Growth and while one week's price action does not determine the markets, we will need to see more resiliency in these names to instill confidence in the market's ability to trend higher.



Health Care Select Sector SPDR Fund (XLV)



Healthcare Stocks Outperform

Healthcare stocks fell less than the markets despite a sharp drop in Biotech. A rally in heavily weighted Pharmaceutical names gave this sector a boost as these stocks are viewed as more defensive.

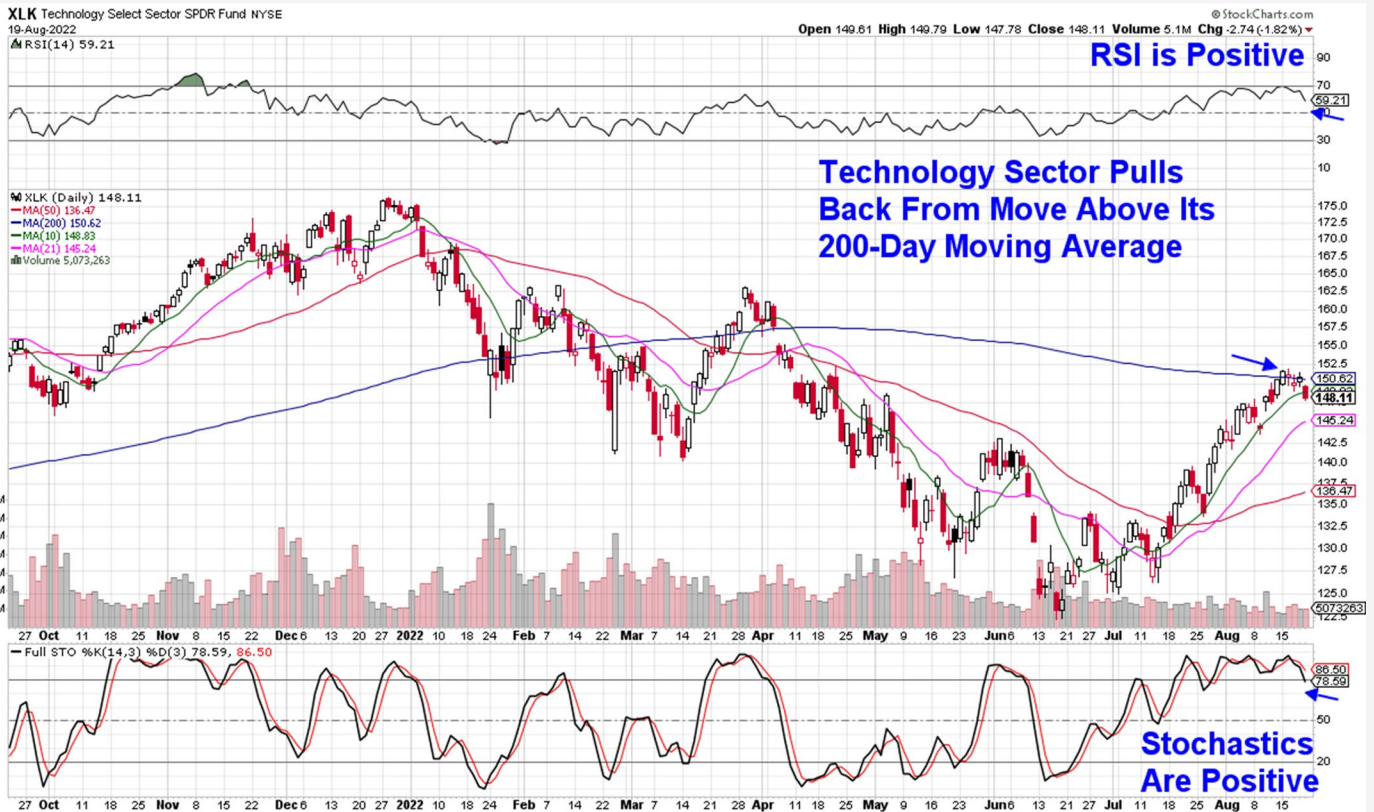
Riskier Biotech fell 3.7% for the week in a move that put ETF IBB below its 200 and 21-day moving averages. While the RSI and MACD remain in positive territory, we are removing the ETF from our Suggested Holdings List.

This is because IBB has been experiencing general underperformance of late and following last week's selloff, the ETF has fallen back below its 200-day moving average.

Biotech stock Vertex (**VRTX**) posted a gain after a price target and analyst upgrade from two separate Wall Street firms last week. The stock closed a hair below its 5-day moving average and is in a buy zone. Given our negative outlook for the group, we'd keep any new positions very light.

The Healthcare sector remains in an uptrend and we are adding Eli Lilly (**LLY**) and Merck (**MRK**) to our Watch List as both Pharma's have moved above their moving averages in a bid to break out of bases at recent highs.

Technology Select Sector SPDR Fund (XLK)



Technology Sector Stalls At Two-Hundred Day MAV

Software and Semiconductor stocks were both down sharply after general underperformance earlier in the week was met with a sharp drop on Friday that impacted many Growth areas.

Among Semiconductors, Nvidia (**NVDA**) was harder hit ahead of the release of their earnings next week. This was due to Bank of America's Semi analyst warning that the company may guide growth estimates lower yet again when they report on Wednesday.

The decline pushed NVDA below its 21-day moving average and now its 50-day mav the next area of possible support.

Lam Research (**LRCX**) fell even further for the week with most of the drop occurring Friday on heavy volume. The move pushed the RSI into negative territory on its daily chart while the MACD had a negative crossover. We're removing LRCX from our Suggested Holdings List.

ON Semi (**ON**) was the sole Large Cap Semiconductor stock to end the week in positive territory. ON had a sharp rally on Thursday that pushed the stock out of a 7 ½ month base on heavy volume. The gain followed news of strong quarterly results from a rival company that also provides chips to the EV and 5G space.

ON can be bought in the \$71 range which is close to its 5-day moving average.

Software stocks were weaker than Semis last week with the group posting a negative MACD crossover on the daily chart. (using IGV). Hardest hit were Smaller Cap names that continue to trade well below their late Fall peaks in price and are down upwards to 85%. (ex. FSLY and RNG)

Software names from our List also pulled back with Intuit (**INTU**) and Paycom (**PAYC**) both falling over 4%.

INTU is due to report earnings next Tuesday and similar to many Growth names, the stock stalled at its 200-day moving average before pulling back on relatively high volume Friday.

PAYC experienced a similar percent decline despite analyst upgrades to their earnings estimates for both this year and next. The stock is on the cusp of a negative MACD crossover on its daily chart while the longer-term weekly chart remains positive.

Servicenow (**NOW**) pulled back more than the group which pushed the RSI into negative territory on its daily chart. Given this negative signal as well as the stock's general underperformance, we're removing NOW from our Suggested Holdings List.

A move back above its 10-day moving average would put PAYC into a buy zone; however, negative dynamics in the Software group (IGV) may hinder upside potential over the near term.

Small Cap Software stock Stem Inc. (**STEM**) from our List found support at its recent lows of \$14.5 as buyers came in on Friday's sharp drop. The stock is exhibiting volatility which is inherent in lower market cap stocks and STEM can be held following a close above its 10-day moving average. This move also puts the stock in a buy zone.

Within the Technology sector, Alternative Energy Equipment stocks pulled back the most. Both Enphase (**ENPH**) and Sunpower (**SPWR**) from our List held up far better than many of their peers.

ENPH pulled back to its 21-day moving average where it found support; however, the MACD on the daily chart did experience a negative crossover.

As cited in earlier reports, we're using the October '21 advance as precedence and were on the lookout for this crossover as a possible initial signal that the stock may be headed for a pullback.

In December, the next negative signal for ENPH was a break below its 21 and then 50-day mav on relatively high volume coupled with a negative RSI. In addition, the Industry Group fell below its 50-day moving average on volume at the same time.

At this time, we've only experienced the initial signal of a negative MACD crossover. We'll continue to monitor

price action for any additional signs of near-term weakness. ENPH can be held.

SunPower (**SPWR**) has a very similar historical precedence and last week, the stock dipped just below its \$25 base breakout level on relatively light volume.

No negative signals have been triggered on its daily chart and SPWR can also be held. A move above its 10-day moving average would put the stock into a buy zone.

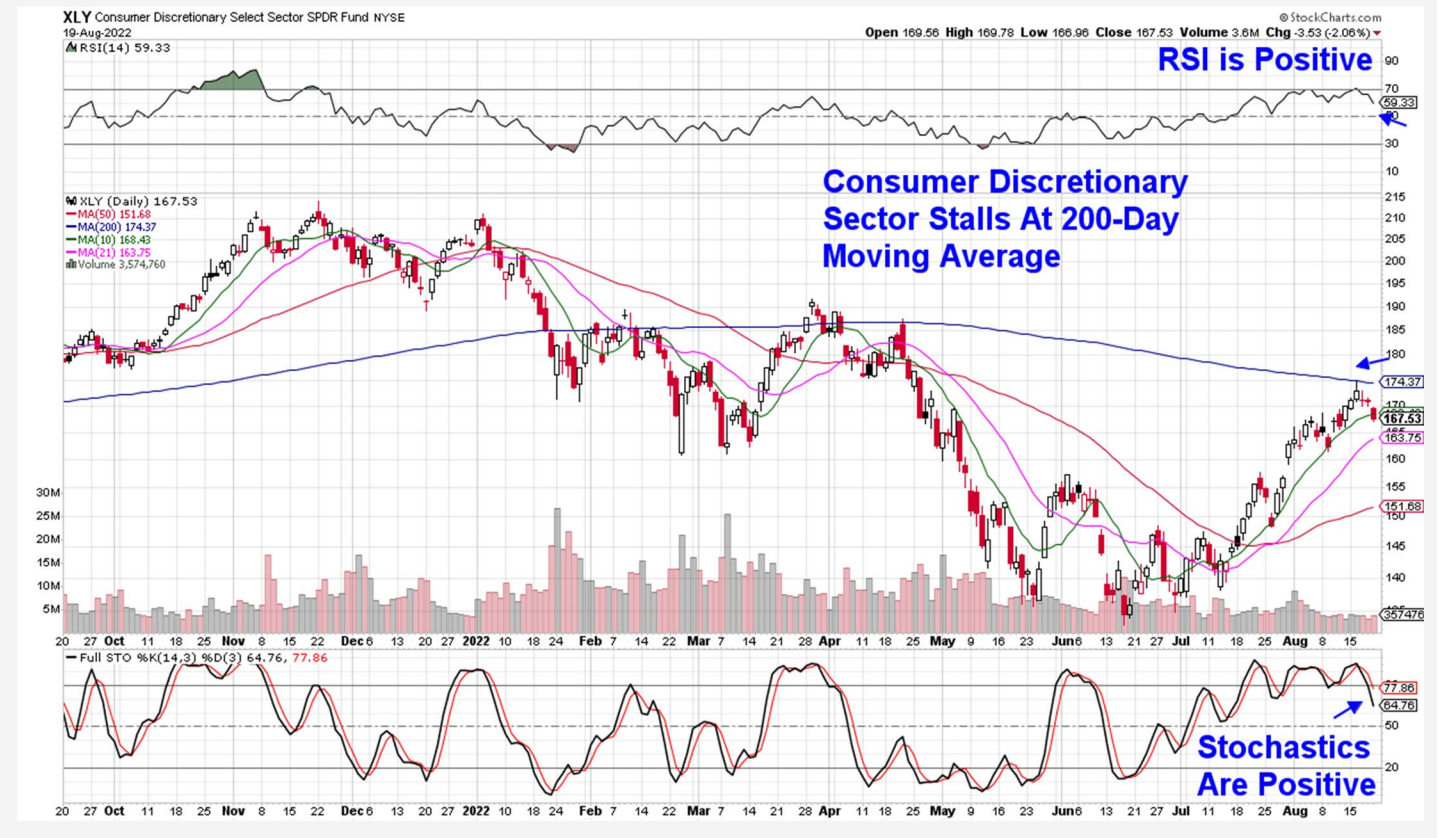
Apple (**AAPL**) fared the best among its mega-cap Growth stocks peers and it remains in an uptrend. The weekly chart is also bullish with the MACD now in positive territory as is the RSI. This points to a longer term uptrend.

That said, AAPL is close to a negative MACD crossover on its daily chart which if it occurs, could be a signal that its near term uptrend is at the very least, pausing. A negative RSI on the daily chart would signal a more pronounced pullback. We're using the late December '21 and early April '22 as precedents.

At this time, AAPL remains in a confirmed uptrend with a pullback to its 10-day moving average historically being an ideal buy point. Of course if Growth stocks remain out of favor, Apple would not be immune to coming under selling pressure at some point.



Consumer Discretionary Select Sector SPDR Fund (XLY)



Consumer Discretionary Sector Is Mixed

The Discretionary sector is another high-growth area that rallied up to its 200-day moving average where it found resistance and pulled back. Heavyweight stock Amazon (AMZN) from our List exhibited very similar price action.

Last week's move in AMZN is very similar to its late March period where the stock traded above its 200-day mav for a couple of days before a move below this moving average. This price action preceded a lengthy downtrend in Amazon and many Growth stocks.

For AMZN, a negative RSI on its daily chart was a powerful negative signal in March and we'll alert you should we experience similar price action. For now, AMZN can be held.

Chipotle (CMG) from our List posted a slight gain for the week amid analyst upgrades to earnings estimates for both this year and next. The stock is finding

support at its 10-day moving average and is in a bullish position on the daily chart.

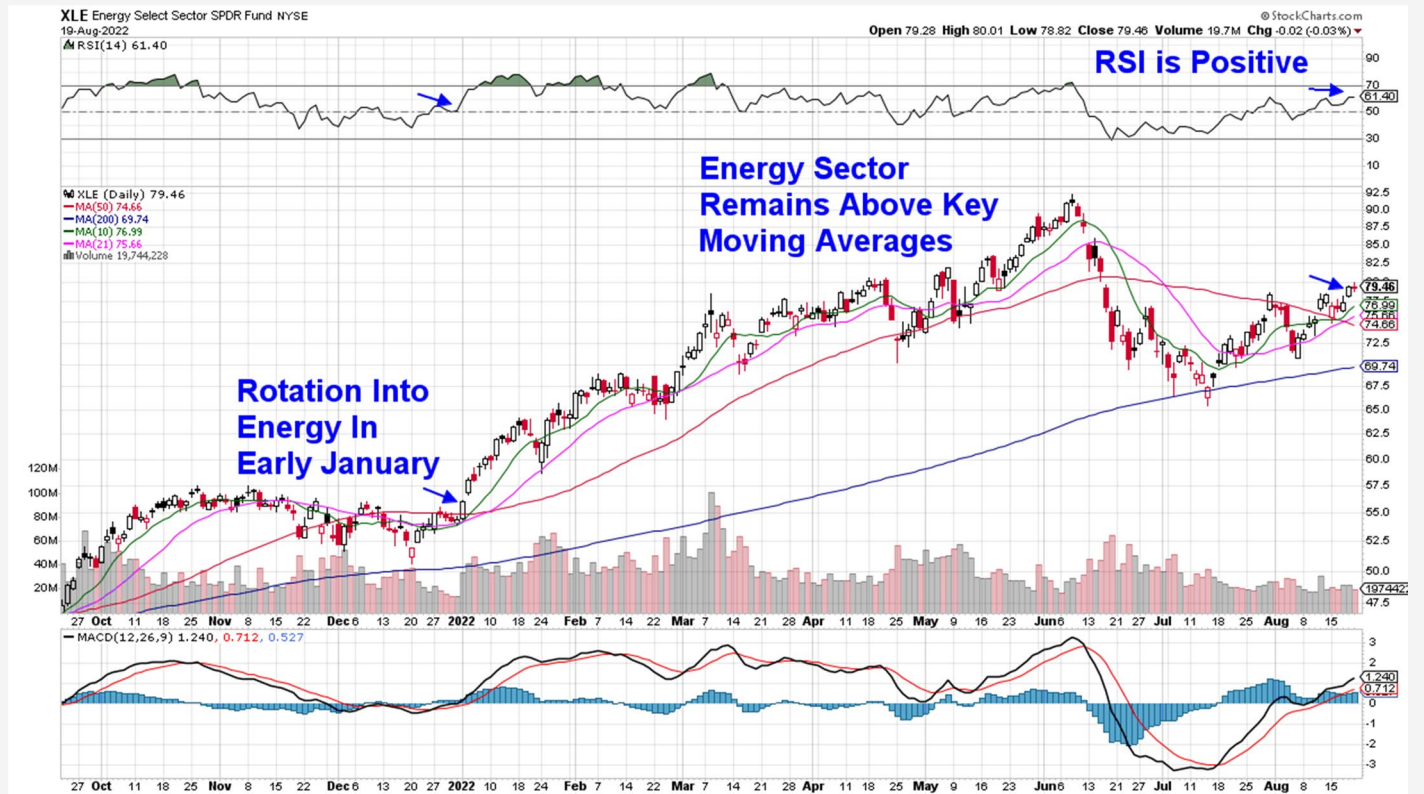
The weekly chart is also positive for CMG with the MACD just turning positive and the RSI in positive territory as well. This is bullish for the longer term. This puts CMG in a buy zone.

However, should Growth stocks continue to be less favored, we may see a pullback in CMG with a break below its 10-day moving average being the first sign of a possible trend shift.

Retail stocks began last week on a high note after better than expected quarterly results from Walmart (WMT) and Home Depot (HD) sparked a rally in the group. A stealth increase in Retail Sales also buoyed the group. (using XRT)

As the week progressed however, retail names pulled back with other areas of growth with XRT finding resistance at its 200 day moving average.

Energy Select Sector SPDR Fund (XLE)



Energy Sector

The Energy sector advanced further above its 50-day moving average last week after posting a 1.3% gain.

Energy stocks fare well during a rising interest rate environment and elevated oil prices also add support. Brent crude prices are inching back toward the \$100 per barrel range which is quite positive for the growth outlooks of Oil related stocks.

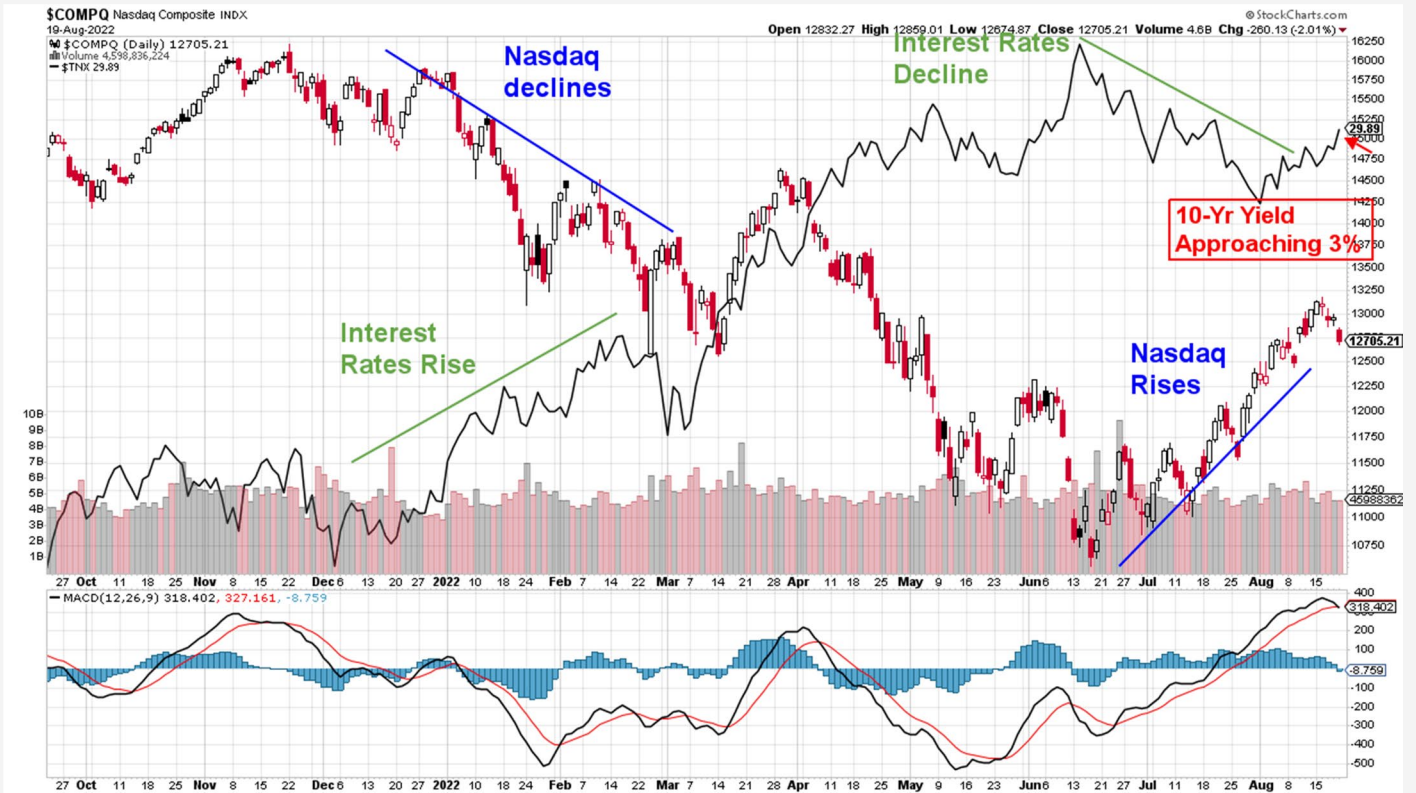
News that Warren Buffet was approved to purchase 50% of the shares in Occidental Petroleum (**OXY**) was another boost for the group last week and the stock is

poised to trade higher as it approaches an 11-week base breakout at \$74.

We've been very successful at spotting sector rotation into this group after catching the November 2020 move as well as early January's new uptrend. At this time however, we're finding it difficult to embrace the move into Energy as it is not a broad based rally similar to the other 2 periods.

Instead, we're adding OXY and Devon Energy (**DVN**) to our Watch List as both stocks are exhibiting bullish characteristics after posting very strong quarterly earnings results.

Daily Chart Of Nasdaq Composite With 10-Yr Treasury Yield



Summary

While we're cautious on the near-term prospects for the broader markets, there are plenty of stocks that are holding up well such as select names on our Suggested Holdings List including AAPL, VRTX and CMG to name a few.

In fact, over 90% of stocks in the S&P 500 remain above their 50-day moving average and this breadth will often provide a solid base from which the markets can trade higher.

That said, last week's inability to move back above the 200-day moving average is reminiscent of very similar price action in the Nasdaq in late March. At that time, Fed Chair Powell announced his intent to raise interest rates which in turn, pushed the markets lower.

While we're not expecting another leg down at this time, the markets are due at least a pause following strong moves in the Nasdaq and S&P 500 since rallying from their lows in mid-June. Stocks above key support can be held while stocks identified as being in a buy zone, should be entered into very lightly as we navigate next week.

In addition to key economic data and Powell's remarks, market moving companies such as Nvidia (NVDA) and Salesforce (CRM) as well as Intuit (INTU) and Dollar General (DG) are due to report their quarterly results..

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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TECHNOLOGY						
AAPL	Apple Inc.	\$171.52	7/28/2022	9.0%	-	-
ENPH	Enphase Energy	\$283.70	7/10/2022	31.0%	-	-
INTU	Intuit Inc.	\$463.95	7/28/2022	3.5%	DUE	-
LRCX	Lam Research Corp.	\$476.79	7/28/2022	-2.0%	-	-
NOW	ServiceNow Inc.	\$476.26	8/10/2022	-7.5%	-	-
NVDA	NVIDIA Corporation	\$178.49	7/20/2022	0.0%	DUE	-
ON	ON Semiconductor Corp.	\$72.53	7/20/2022	20.5%	-	-
PAYC	Paycom Software Inc.	\$377.01	8/7/2022	2.0%	-	-
SPWR	SunPower Corp.	\$24.94	8/7/2022	3.5%	-	-
STEM	Stem Inc.	\$14.61	8/14/2022	-6.5%	-	-

CONSUMER DISCRETIONARY						
AMZN	Amazon.com Inc.	\$122.28	7/28/2022	13.0%	-	-
CMG	Chipotle Mexican Grill	\$1,600.80	8/7/2022	4.5%	-	-

HEALTHCARE						
IBB	iShares Biotech ETF	\$127.65	7/10/2022	1.0%	-	-
VRTX	Vertex Pharmaceuticals	\$299.04	8/7/2022	4.0%	-	-

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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