



THE MEM EDGE

September 18, 2022 | Weekly Report

This Week's Highlights

- S&P 500 Falls Below Key Support
- Core CPI For August Posts Double What Was Expected
- Producer Prices Fall In August But Core Rate High
- July Retail Sales Revised Lower & Consumer Sentiment Rises Amid Anxiety
- Manufacturing & Services PMI On Friday
- Federal Reserve Announces Rate Hike Percent On Wednesday

Daily Chart of S&P 500



The S&P 500 was down 4.8% for the week which put this Index below the 3900 level which was a key level of possible support. With the RSI and Stochastic in negative territory, the markets are in a downtrend.

The Stochastics on the weekly chart turned negative last week as well, which points to further downside potential of a longer term nature. The marked up chart is shown below, with prior similar periods from this year highlighted.

The next area of downside support for the S&P 500 is the mid-July low of 3721.

The Nasdaq fared worse for the week with a 5.5% decline as most of the heavyweight FAANMG stocks saw even greater losses as did Semiconductor and Software stocks.

The week began with a continuation of the prior week's short squeeze rally before Tuesday's report of a much

higher than expected core Consumer Price Index (CPI) number pushed stocks sharply lower.

Core CPI is a closely watched data point for the Federal Reserve as it omits volatile food and energy costs and is a more accurate measure of future inflation trends. In August, it rose 0.6% from last month, which was double Wall Street's forecast and solidifies expectations that the Fed will remain very aggressive with their monetary policy.

In response, Treasury yields surged while the broader markets sold off. Growth stocks were hardest hit with each of the mega-cap FAANG stocks dropping an average of 7% on Tuesday after the CPI data was released.

Among the 11 sectors, Technology, Consumer Discretionary and Internet Related fell the furthest, as these areas are laden with Growth stocks that are the most negatively impacted by a rising interest rate environment.

In other impactful news, Federal Express (FDX) reduced their growth outlook with their CEO commenting that we may be heading into a global recession due to supply chain and other issues. The news pushed the stock down sharply, while triggering selling elsewhere in the markets. FDX is due to report earnings next week.

Not all stocks were hit hard last week, with Bank stocks down only 1.7% amid a possible rotation into select names in this area. Historically, Bank stocks fare well in a rising interest rate environment as their profit margins improve on lending activity.

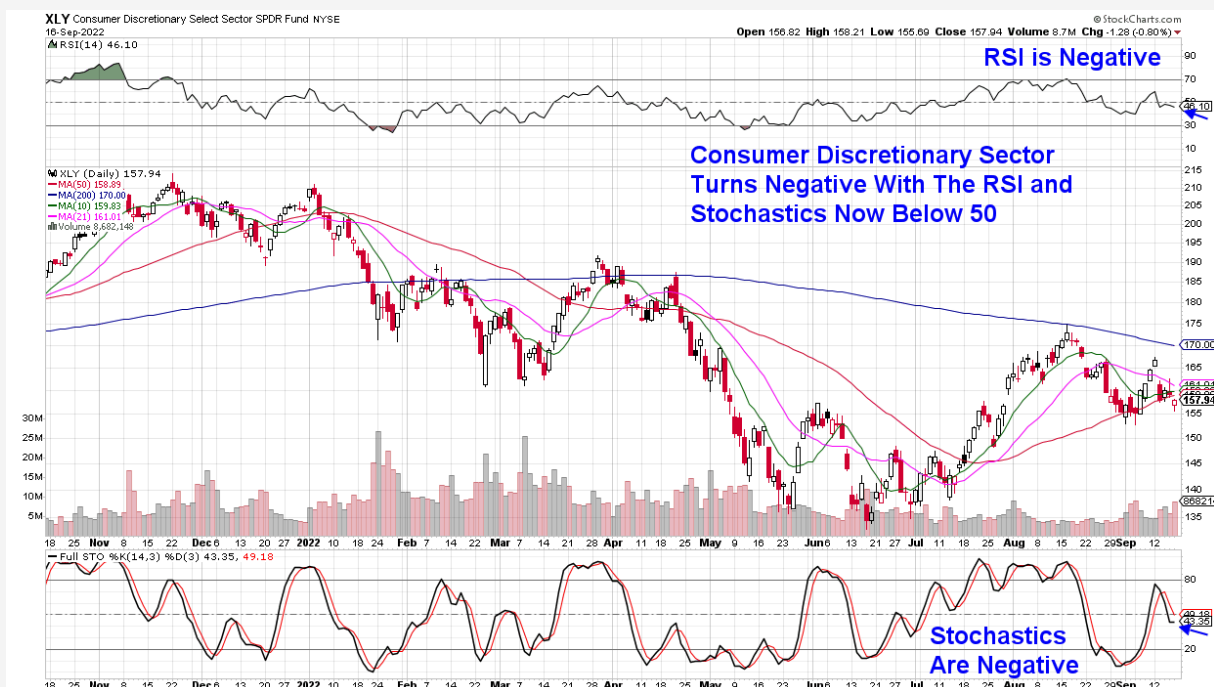
At this time, we're adding several Bank names to our Watch List as they are forming the right sides of a base amid analyst upgrades.

Similar to last week's rally among Retail stocks after Goldman Sachs annual conference, recent gains in Banks are following a Wall Street banking conference where positive comments from management spurred buying. We'll continue to monitor price action for the group. (using ETF KRE) and below, is a chart of this ETF with an interest rate overlay.

The U.S. dollar rose again last week, as a higher yield in U.S. Treasuries attracted foreign investors. The rise in the greenback pushed commodity prices such as Oil lower, with Brent crude now at \$91 per barrel. Steel stocks were hit especially hard after Nucor (NUE) reduced their growth outlook going forward.

Commodity stocks normally fare well during periods of high inflation as they act as a hedge however, fears of a lack of demand are overriding this dynamic at this time. Basic Material stocks fell.

Consumer Discretionary Select Sector SPDR Fund (XLY)



Consumer Discretionary Sector Hurt By High Inflation Report

Last week's higher than expected inflation report showed a sharp rise in food and rent costs. This caused a sharp pullback in Retail stocks in anticipation of reduced spending on discretionary items. In addition, Retail Sales numbers for July were revised lower.

Hardest hit were Home Improvement and broad Retail stocks with Home Depot (HD) down 8% while Amazon (AMZN) fell 7.3%

Electric Vehicle stocks fared better with Tesla (TSLA) posting a gain for the week amid Wall Street upgrades to the company's growth outlook. TSLA also received a price target increase to \$400 with analysts focusing on benefits from the recently passed Inflation Reduction Act as well as the increased manufacturing capacity in both Berlin and Texas.

TSLA is in a very bullish position as the stock is above each of its moving averages with the RSI and MACD in positive territory on its daily chart. The weekly chart is also constructive as the MACD entered into positive territory last week, with the RSI above 50 as well.

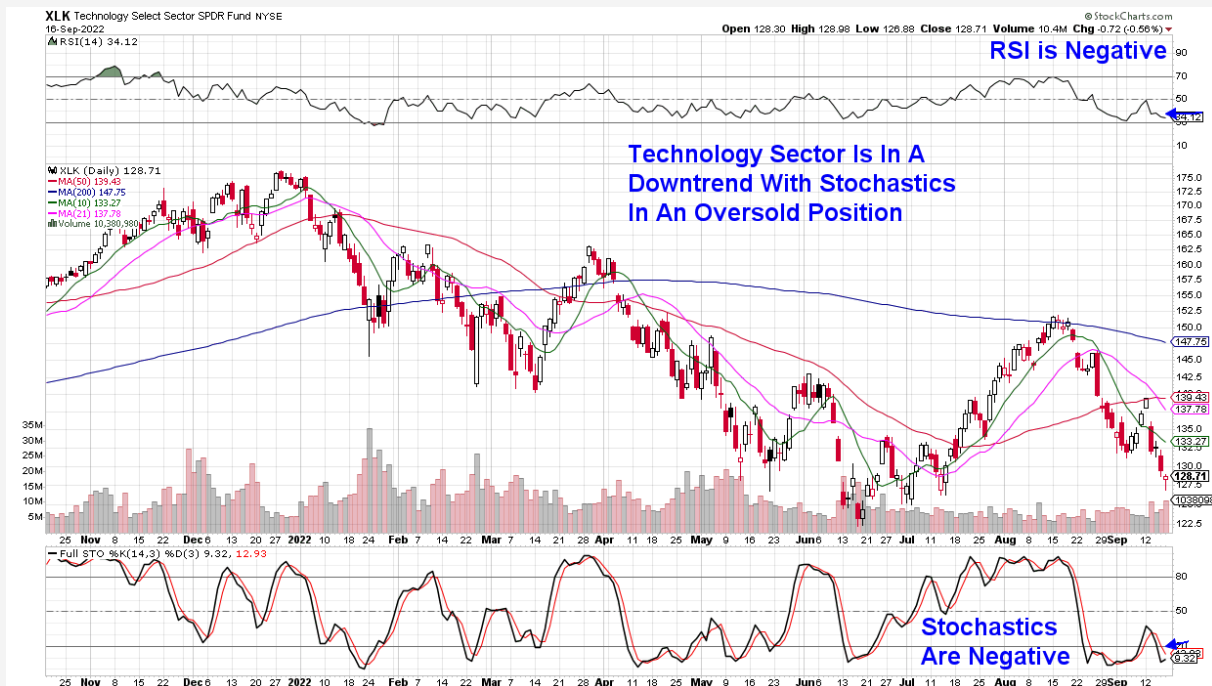
While the stock is poised for further upside, new positions should have a tight stop given the condition of the broader markets.

Chipotle (CMG) was among the few Restaurant stocks to outperform the markets last week with a 1.7% pullback. The stock closed in the upper portion of its trading range on Friday as it came close to regaining its 10-day moving average. With the RSI and MACD in positive territory, the stock can be held with a decisive move back above \$1,694 putting CMG into a buy zone.

Select Discount Retailers such as Walmart (WMT), Dollar General (DG) and BJ's Wholesale Club (BJ) held in much better than the markets last week. These stocks tend to perform well during periods of high inflation as consumers seek relative bargains among goods.

Next Thursday, discounter Costco (COST) will be reporting earnings and management's comments regarding growth prospects going forward will be closely watched as they will impact other stocks in this area.

Technology Select Sector SPDR Fund (XLK)



Technology Sector Remains Among Weakest Area

Over the past 4 weeks, Tech stocks are down the most with a 15% decline that's being led by Semiconductor and Software stocks which are down even more. This compares to the S&P 500 which has lost 8.6% over the past four weeks.

High growth Technology stocks are the most negatively impacted in a rising interest rate environment.

Downgrades to the growth prospects among high profile Semi stocks such as Nvidia (NVDA) and Micron (MU) are hurting these stocks, while poor earnings from Oracle (ORCL) and an overpriced acquisition from Adobe (ADBE) pushed Software stocks lower.

Not all areas of Tech are suffering however, with Alternative Energy Equipment stocks flat for the week amid a mixed week for the group.

Enphase (**ENPH**) was the top performing Large Cap name in this group with a 4% rally last week. The stock is in a bullish position to trade higher as it's above each of its moving averages with a positive RSI and MACD.

First Solar (**FSLR**) was flat for the week after pulling back from a new high in price. Friday, the stock posted a bullish engulfing candlestick where the high and low for the day were above the prior day and it closed near its high. We're on the lookout for a positive MACD crossover on the daily chart as a buy signal.

For now, select Alternative Energy stocks such as those on our List, remain in bullish positions and are poised for further upside.

Below is a chart of the Alternative Energy Equipment Index and we've highlighted the mid-November and early April signals that preceded a downtrend in the group. We'll be on the lookout for a negative RSI and

Summary

Last week's Consumer Price Index reading of 8.3% sparked a wave of selling in stocks as pessimism surrounding the Federal Reserve's rate hike campaign and its potential to cause a slowdown in the economy, took hold.

Over the near-term, a rise in interest rates will continue to trigger weakness in the markets - particularly Growth stocks. Until we see an established pattern of lower inflation readings, a rebound in the markets will be difficult.

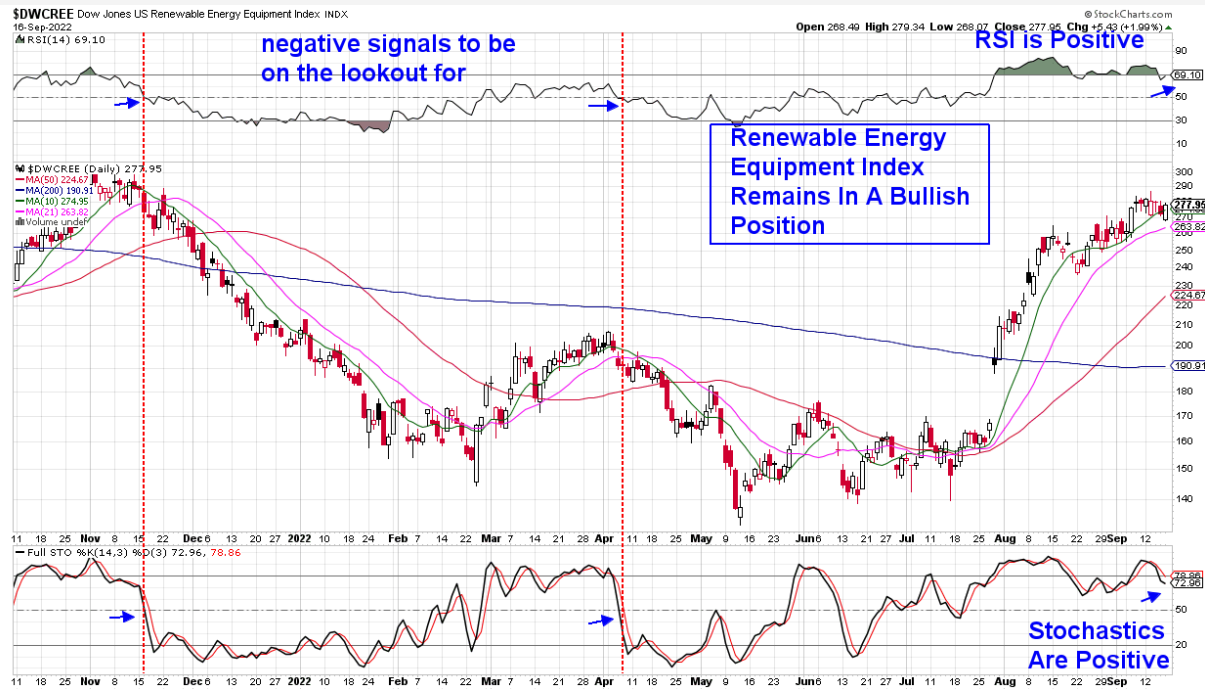
As stated in earlier reports, the removal of the event that takes the markets into a bear market - in this case inflation - is the hallmark of a market bottom. Other characteristics also need to be present such as high quality stocks staging turnarounds and progressing toward base breakouts.

Next week, Wednesday's announcement of the Federal Reserve's rate hike increase will be very closely watched as will comments from Fed Chair Powell regarding expectations going forward.

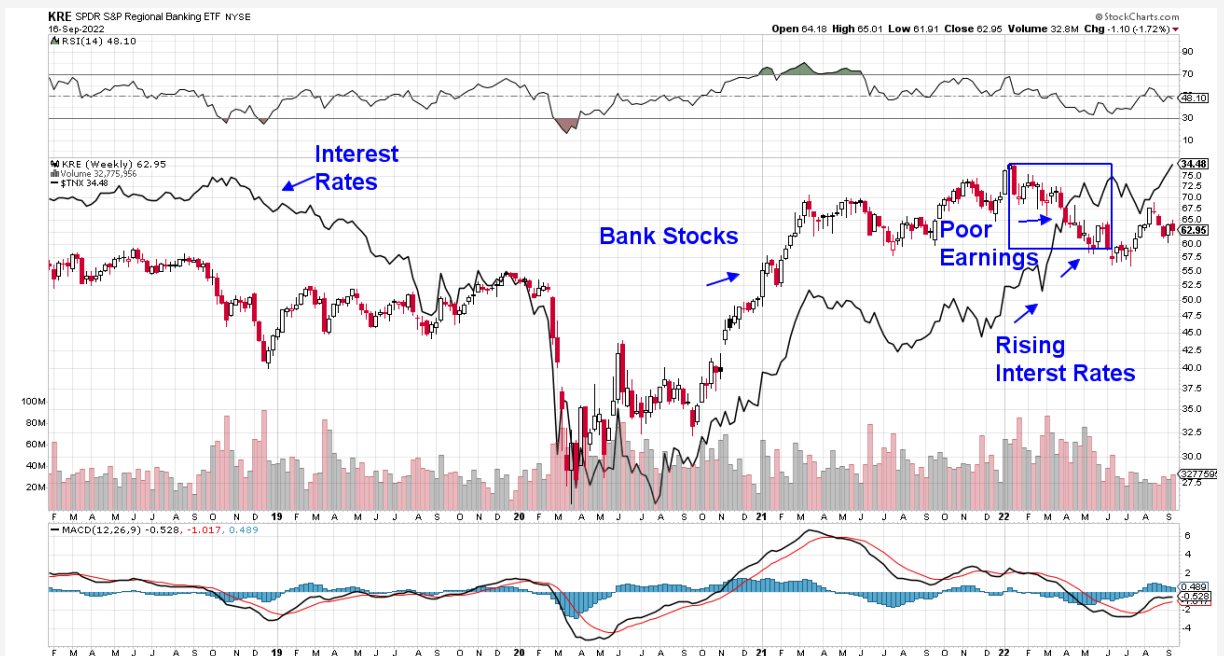
Using the widely followed CME FedWatch Tool, the bond market now expects the Fed to stop rate hikes at around 4.5% with the last hike occurring in March 2023. This may be revised after Wednesday's meeting with any hints of a tempering of policy by Powell, expected to cause a bounce in the markets.

We'll continue to keep you alerted to any shifts in sentiment regarding the markets and stocks on our List.

Dow Jones Renewable Energy Equipment Index (\$DWCREE)



Regional Banking ETF (KRE) With 10-Year Bond Yield Overlay



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	\$305.70	7/10/2022	41.0%	25-Oct	Alternative Energy Equip
FSLR	First Solar Inc.	\$135.82	9/7/2022	1.0%	3-Nov	-
CONSUMER DISCRETIONARY						
CMG	Chipotle Mexican Grill	\$1,693.57	8/7/2022	6.0%	20-Oct	Retail - Restaurants
TSLA	Tesla	\$303.35	9/11/2022	1.0%	3-Nov	-

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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