



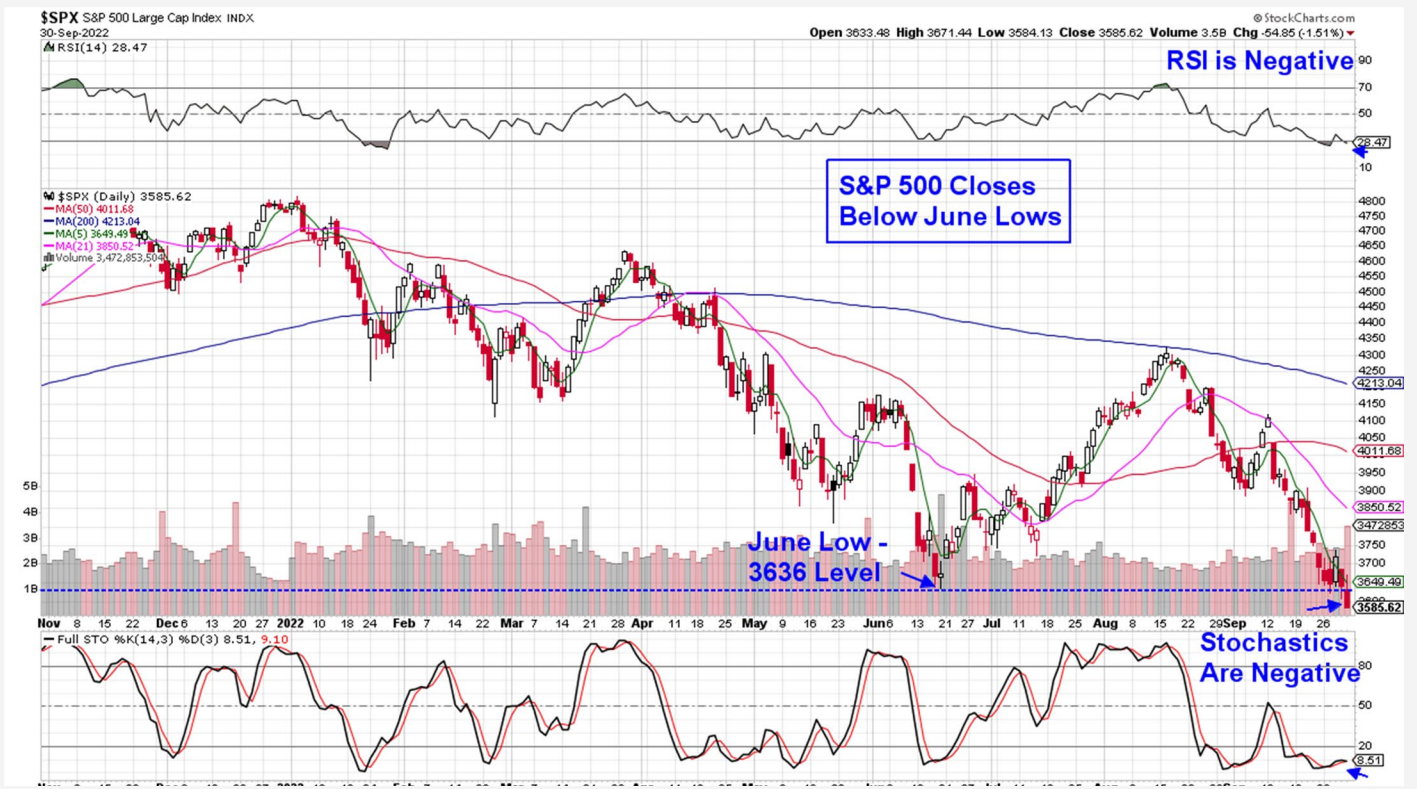
THE MEM EDGE

October 2, 2022 | Weekly Report

This Week's Highlights

- Consumer Confidence Jumps Amid Falling Gas Prices
- Jobless Claims Drop To Lowest Level In 5 Months
- Core Inflation Data Shows Prices Rising In August
- U.K. Stabilizes Its Financial Market After Sharp Drop In British Pound
- Monthly Employment Report Due Friday & September Manufacturing Data Due On Monday

Daily Chart of S&P 500



The S&P 500 lost 2.9% in a move that pushed this Index below its June low of 3636 on Friday. The drop below this key area of potential support is negative for the markets, and points to further downside.

The next area of possible support for the S&P 500 is its late October low of 3234 which is 9.7% below current levels. As for any rally attempts in this Index, the 10-day moving average is the first area of potential upside resistance.

The Nasdaq declined 2.7% for the week led by underperformance in Technology after a big drop in Apple (**AAPL**). Semiconductors also underperformed for the week.

Consumer Discretionary stocks were the worst performing last week, led lower by retailers such as Nike (**NKE**) which fell 12% for the week after reporting earnings below estimates.

The Nasdaq is less than 1/10% away from hitting a new low for the year which would negatively put this Index

on track to fall lower as well. Should we close below 10564, the next area of support is the late June low of 9663 which is 8.6% below current levels.

Whether we descend quickly to those levels or the markets fall slightly before potentially trading sideways, remains to be seen. Higher volume on down days will indicate distribution and further downside as will higher volatility.

Of course we'll be keeping a close eye on the U.S. dollar as well as interest rates, as a rise in either of these assets is negative for the markets as well.

Judging by comments from 12 Federal Reserve speeches last week, the central bank is determined to slow the economy down by raising interest rates. As mentioned, this is a negative for the stock markets and until we see evidence that inflation is subsiding, we anticipate further pain in the markets.

The speeches from Federal Reserve officials throughout the week highlighted their allegiance to continue to raise interest rates - and hold them there - until there's clear and convincing evidence that inflation is cooling.

Most concerning were comments that rates will be pushed higher to combat inflation regardless of any possible slowdown in the economy.

While the parade of Fed official's hawkish comments last week hurt the markets, Friday's stronger than expected core PCE data - a key measure of inflation for the Federal Reserve - pushed stocks even lower as it confirmed that inflation is not slowing down yet.

A drop in jobless claims on Thursday also pushed the markets lower, as this is another hot button for the Federal Reserve. Next week, monthly employment data will be closely watched as the central bank is looking for increased unemployment as a way to slow inflation.

Adding to angst in the markets, the Bank of England announced the buying of long-term bonds to try and stabilize the U.K.'s financial markets after fears of a collapse among pension funds surfaced.

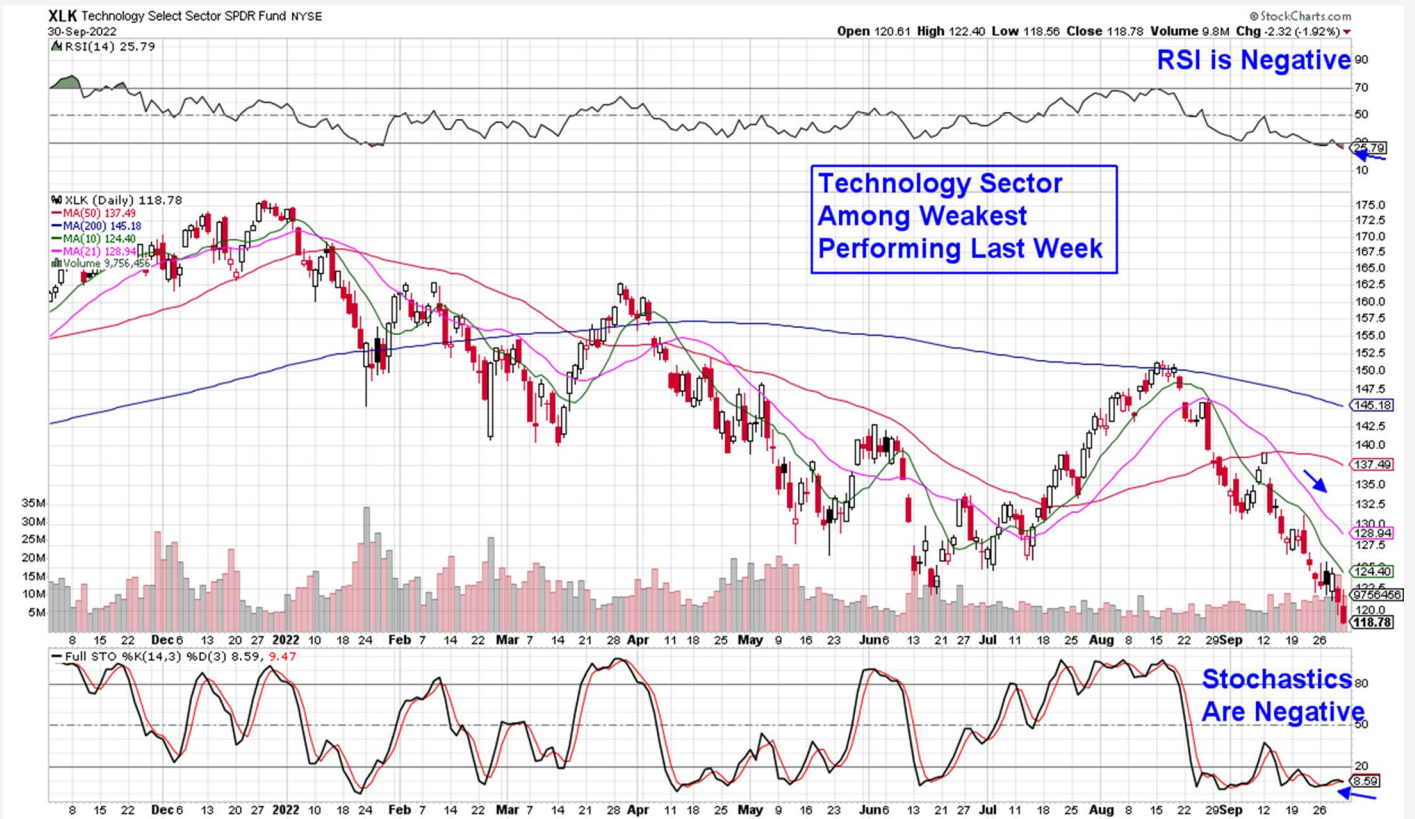
The BoE's efforts followed a drop in the British pound to its lowest levels which in turn, pushed bond yields much higher. Volatility spiked in the U.K as well as U.S. markets and elsewhere, with the price action highlighting the fragility of the global markets.

At this time, we're adding Short Candidates to our Watch List while recommending tow stocks as actual short candidates. We would tread lightly into these positions however as we anticipate volatility to remain elevated.

We're continuing to build out our Watch List of positive candidates as well.



Technology Select Sector SPDR Fund (XLK)



Technology Sector Among Worst Performing

The Tech sector fell 4% last week led by a sharp drop in heavyweight stock Apple (**AAPL**) after news that they're lowering production levels for their new iPhone 14. The stock fell on heavy volume and while we may see a small oversold bounce, AAPL looks poised for lower price action similar to May of this year.

The weekly chart of AAPL looks even more negative with the stochastics just turning negative. We are adding AAPL to our Short Watch list and look to add it to our list of Suggested short candidates on any rally.

A 4% decline in Semiconductor stocks also hurt this sector after news that Micron (**MU**), the largest US maker of memory chips, reported downbeat earnings on Thursday while forecasting quarterly sales that were well below Wall Street estimates.

The following day, Japan's Kioxia, which supplies much of the world's NAND chip storage for smartphones and servers, announced it's reducing output by 30% in

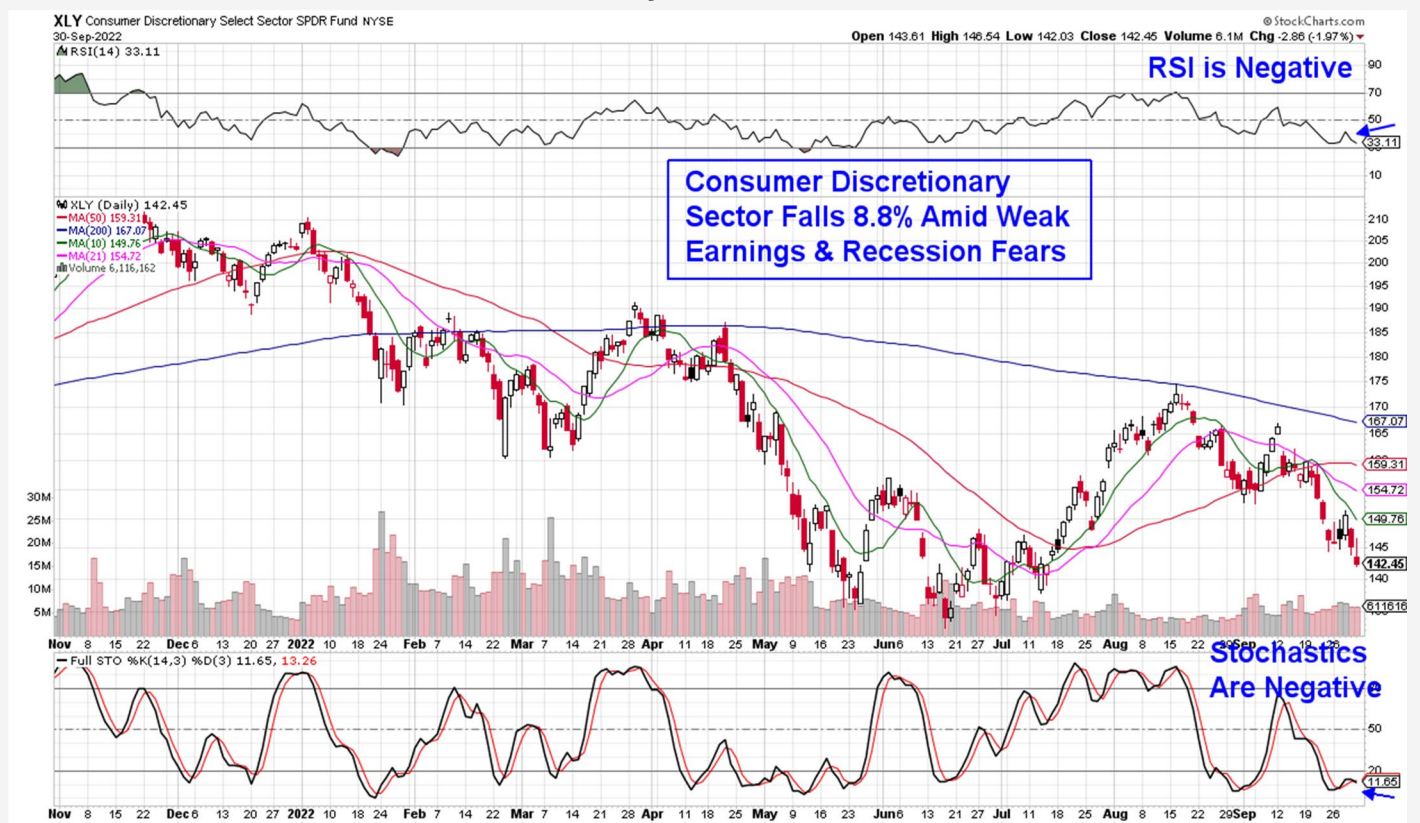
December due to an oversupply of chips amid slowing demand..

Semiconductor stocks have already lost quite a bit since peaking in late January. Typically, chip stocks fall ahead of a downturn in Semiconductor demand and rise before an actual recovery in the markets; however, near term we anticipate further downside in these stocks before a possible turnaround later this year. (using **SOXX**)

Alternative Energy stocks were able to post slight gains with First Solar (**FSLR**) gaining 2% for the week. The company received an upgrade from a major Wall Street firm based on their view that the recently passed Inflation Reduction Act would improve demand of their solar panels in the U.S.

The RSI and Stochastics remain positive for FSLR and the stock can be held.

Consumer Discretionary Select Sector SPDR Fund (XLY)



Consumer Discretionary Sector Hurt By Weak Earnings Reports

A sharp drop in heavyweight stock Nike (**NKE**) following news of an oversupply of inventory and headwinds from a strong U.S. dollar, pushed the stock lower. The selling spread to footwear and other retail stocks.

Cruise lines also reported weak earnings late last week on the heels of discounting prices. These stocks sold off sharply on the news as well as expected weakness due to hurricane Ian.

At this time, we're adding Amazon (**AMZN**) to our Suggested Short List as the company has seen earnings estimates for both this year and next being revised lower. The retailer is posed for a negative MACD crossover on its weekly chart which would point to further weakness longer term.

We're also adding Starbuck (**SBUX**) to our Suggested Short List following last week's move of its MACD into negative territory amid analyst downgrades to their earnings outlook for both this year and next. Longer term, the RSI entered into negative territory on its weekly chart similar to January of this year.

General Motors (**GM**) is in a downtrend as higher interest rates are putting the brakes on auto sales. Last week's weak earnings and sales from auto reseller CarMax is also hurting this group after management cited inflationary pressures among other reasons for reporting 3rd quarter growth well below estimates.

We are putting GM on our Suggested Short Watch List and intend to add the stock to our Short List on any rally to its 5-day moving average.

Summary

As has been the case this year, the Federal Reserve's comments and actions - such as the recent 75 basis point rise in interest rates - has been the primary driver of negative price action in the markets.

Last week, the markets entered into what could be a risky new phase in which statistically unusual moves across asset classes such as foreign currencies and global bonds, is causing volatility to rise. If we see a continuation of this activity, we may see the Fed halt their tight monetary policy ahead of schedule.

Until that possibility comes to pass, we expect further downside for the markets as the Fed embarks on their path of rising rates to slow down inflation.

While the broader markets are poised for further downside near-term, earnings season - which begins in 2 ½ weeks - may provide needed relief due to a report from last week that cited:

"Despite analysts revising earnings estimates down by a larger margin for Q3 relative to recent quarters, companies have been more positive in their earnings guidance for Q3 relative to the past two quarters".
Factset

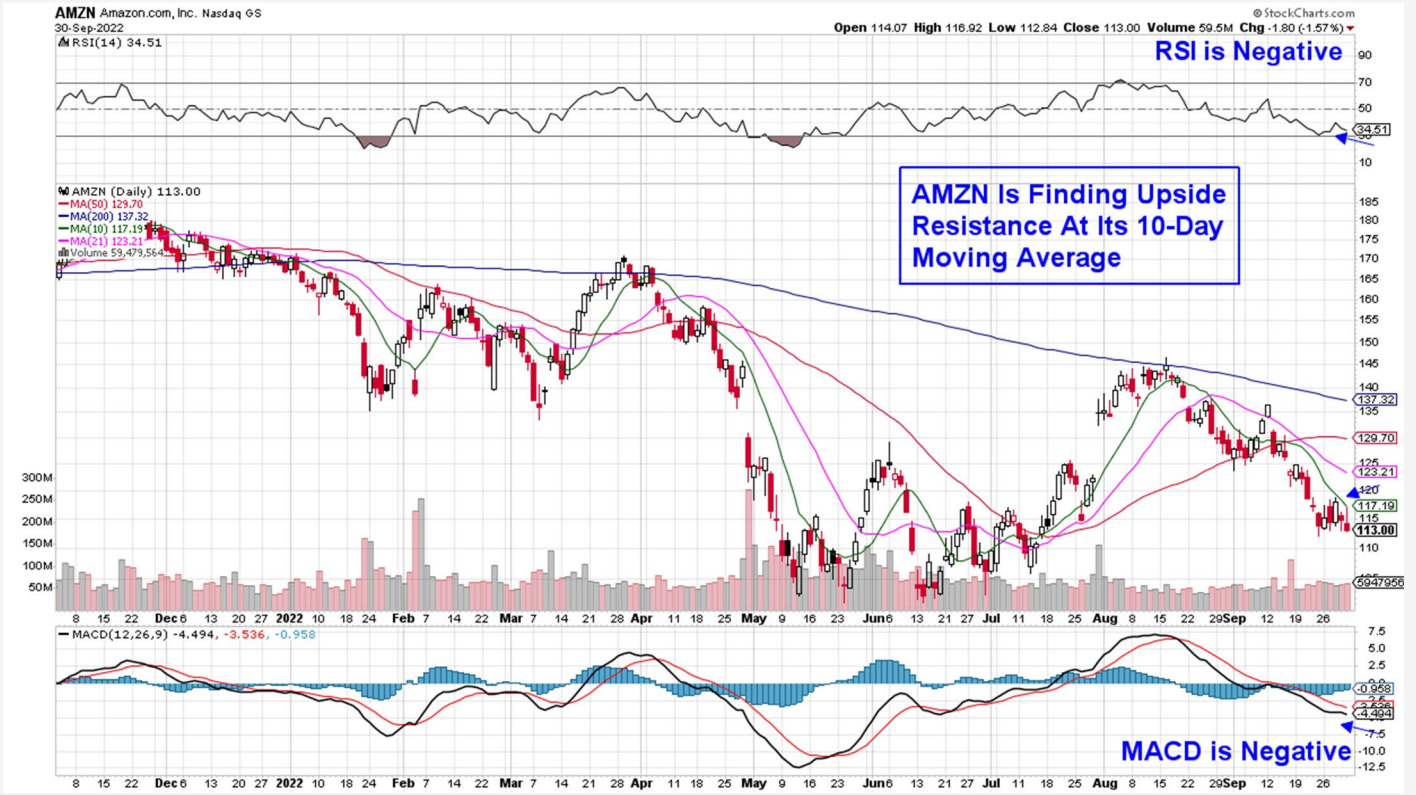
In other words, Wall Street is lowering their earnings guidance while corporations are more positive. This sets the stage for companies to report earnings above estimates and for Q3 so far, those companies who have done so, have gained an average of 3.1%.

That said, companies that have reported below estimates - such as NKE and CCL - are being punished. We'll continue to monitor these developments as we move closer to earnings season.

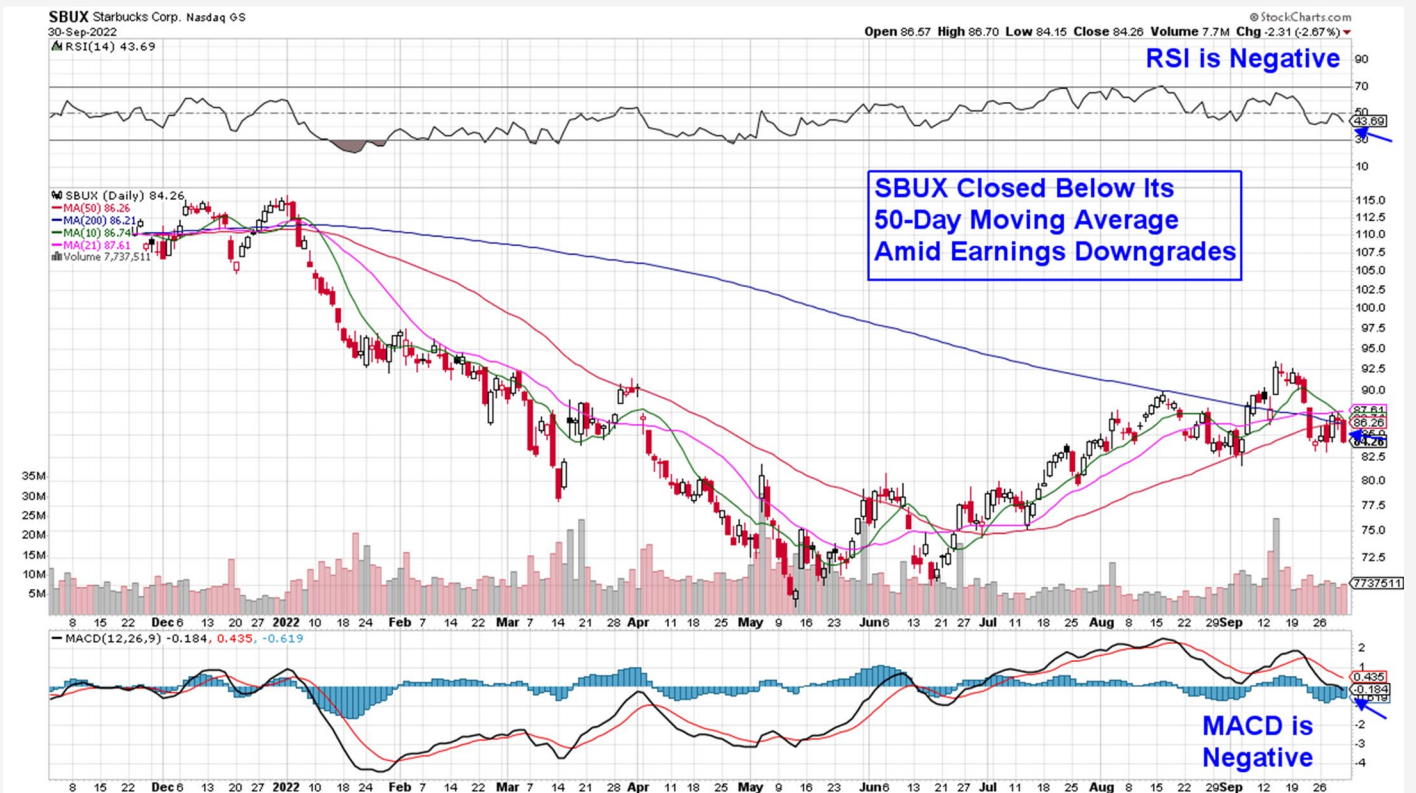
This week, we added stocks to our Suggested Short List with several candidates on our Short Watch List as well. Our outlook for these stocks will be consistent with our Suggested Holdings List during bullish periods but with opposite parameters.

That is, continued weakness among broader market price action as well as the stock's sector and industry group will be a guide and any move above key moving averages that are currently acting as upside resistance our negative position on the stock.

Amazon.com, Inc. (AMZN)



Starbucks Corp. (SBUX)



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
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BASIC MATERIALS

FSLR	First Solar Inc.	\$132.30	9/7/2022	3.0%	3-Nov	Photovoltaics
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Suggested Short List

CONSUMER DISCRETIONARY

AMZN	Amazon.com	\$113.00	10/2/2022	-	-	Retailing
SBUX	Starbucks Corp	\$84.30	10/2/2022	-	-	Consumer Services

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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