



THE MEM EDGE

Midweek Report

October 5, 2022

- Factory Activity Slows Amid Rising Interest Rates
- Private Sector Job Growth Remains Steady In September
- Oil Prices Rise Amid Opec Decision To Reduce Output
- Weekly Employment Numbers Tomorrow & Monthly Jobs Data On Friday

Greetings!

The S&P 500 has gained 5.5% for the week with the Index now above its 10-day moving average. With the RSI and Stochastics in negative territory, we remain negative on the near-term prospects for the markets.

At this time, the 21-day moving average is the next area of upside resistance and should we see a move above this mav at the 3783 level coupled with a positive RSI and Stochastics, our near-term outlook would shift to cautiously positive.

The Nasdaq has also rallied 5.4% for the week led by sharp gains in Semiconductor, Retail and Software stocks which are each outperforming the broader markets. (using SOXX, XRT and IGV respectively).

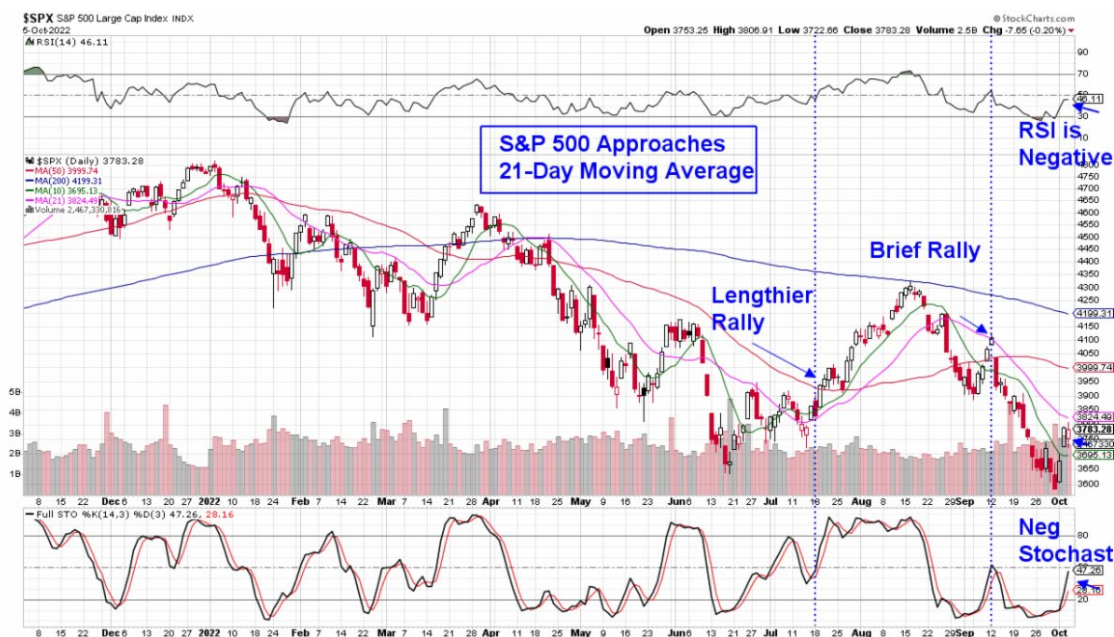
The Nasdaq has also closed above its 10-day moving average and similar to the S&P 500, its momentum indicators are trending higher but remain in negative territory. This has us negative on the near-term prospects for the Nasdaq.



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DAILY CHART OF S&P 500 INDEX



As cited in yesterday's Alert Report, should we see the markets rally 1.5% or more on volume that's higher than today, it would signal a follow through day which can be used to signal a near-term bottom for the markets.

Should this occur, we would wait until the release of Friday's monthly employment data before slowly putting money to work.

Friday's critical data is being closely watched and should we see relatively strong employment data (i.e. monthly non-farm payrolls above 275,000 and/or the unemployment rate below 3.7%), we could see a sharp selloff in the markets.

In the chart above, we've highlighted the other characteristics that signaled a longer lasting rally period in mid-July vs the early September 4-day rally. In July, the S&P 500 traded back above its 50-day moving average with both the RSI and Stochastics in positive territory.



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We have updated the Watch List of potential long ideas which includes stocks that have constructive charts along with strong fundamental characteristics. Should we experience a follow-through day with positive momentum indicators on the daily chart of broader market charts, we will pull possible candidates from this list.

The Technology sector has gained 7.2% this week led by Semiconductor stocks which are up 9.2%. Software stocks are also on the move this week and both areas are now above their 21-day moving average with positive Stochastics. We have stocks from both areas on our Watch List. (using SOXX and IGV)

The Energy sector is the top performer for the week however, with double digit returns on the heels of a decision by oil producing countries to reduce output by the largest amount for 2022. The move is anticipated to push the price of oil back above \$100 per barrel and in response, we've seen Oil related stocks reverse their recent downtrends.

We've added several new Oil related stocks to our Watch List as well.

Today's ability for the markets to recover from a sharp drop at the open on stronger than expected employment data is constructive and as you can see, we're building out our Watch List on the long side in preparation for a possible continuation rally on positive news on Friday.

As stated in all of our recent reports, we anticipate any continuation rally at this juncture to be short lived as overall, we remain in a bear market.

We'll elaborate further in our Sunday Report as we anticipate Friday's report as well as the market's response to provide further clues to the near-term direction of this market.

Warmly,
Mary Ellen McGonagle
Editor, MEM Edge Report