



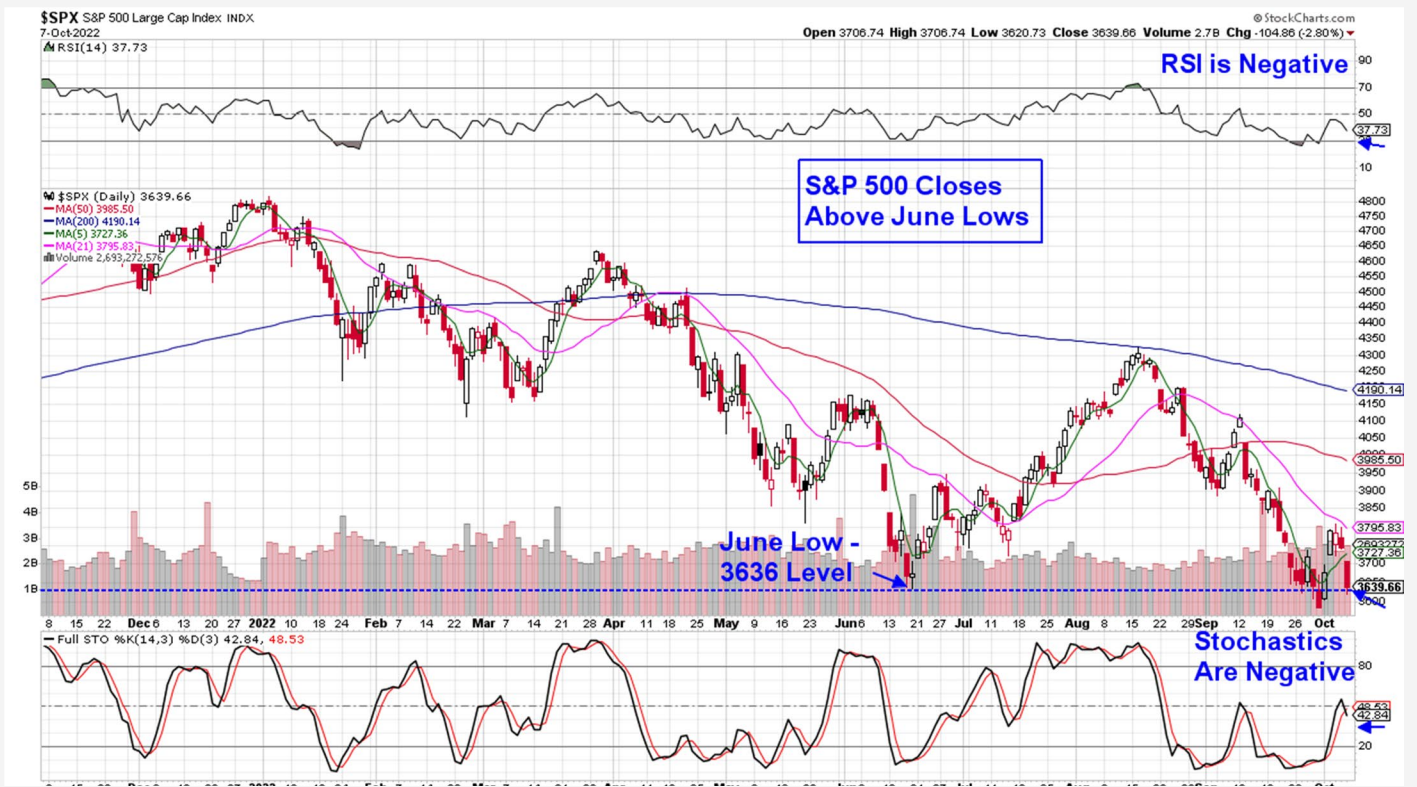
# THE MEM EDGE

October 9, 2022 | Weekly Report

## This Week's Highlights

- Factory Activity Slows Amid Rising Interest Rates
- Oil Prices Rise Amid Opec Decision To Reduce Output
- New Job Growth Drops To 17 Month Low & Unemployment In September Falls
- Q3 Earnings Season Begins Next Week
- TSLA Is Weakest Performer in S&P 500 Following 16% Decline
- September PPI and Core CPI Reports Due Next Week As Well As Retail Sales and Consumer Sentiment

### Daily Chart of S&P 500



The S&P 500 rose 1.5% last week to close the week back above its June lows. However, the RSI and Stochastics are in negative territory while the Index is below each of its moving averages. Given these dynamics, we're negative on the near-term prospects for the markets.

The Nasdaq gained less, due to a large drop in Tesla (TSLA) as well as underperformance in Netflix (NFLX) and Meta Platforms (META). Software, Semiconductor and Retail stocks each outperformed due primarily to sharp early-week rallies.

Both the S&P 500 and Nasdaq started the week on a strong note - with 5.5% gains into the close on Wednesday, that gave investors hope of a continuation rally similar to July of this year.

Instead, the markets fell following employment reports on Thursday and Friday that showed that hiring has not slowed down. The strong jobs market is a hot button for the Federal Reserve, as they'd prefer to see unemployment rise as a precursor to a slowing economy.

The relatively strong jobs report as well as hawkish comments from Federal Reserve officials later in the week, pushed rate hike predictions for November up to 0.75%. This would mark a continuation of the Fed's aggressive policy as they move toward their goal of a 4.6% fed funds rate by next year.

Interest rates rose as the week progressed with the yield on the 10-year Treasury bond closing at 3.8%. This is the same level that was reached in late September, when the markets closed at a new low for the year.

Technology stocks were hit the hardest with the rise in rates. On Friday, the group dropped 4% in a move that underscores its sensitivity to a higher rate backdrop.

High growth Tech stocks fare poorly in a rising rate environment as their future earnings are reduced in value.

Normally safe haven areas - such as Utility and Real Estate stocks - have been the worst performers of late. Investors are turning to Treasury bonds instead, as their yields are higher than the dividends these companies offer. In addition, both Utility and REIT stocks will struggle when higher rates make borrowing capital expensive.

Next week, the September CPI report on Thursday will be very closely watched. It could be a pivotal report as economists are expecting inflation to ease from 8.3% to 8.1%. As stated in the past, two successive reports of easing inflation, could pave the way for the markets to reverse their current downtrend.

Of course we'd also need to see bullish price action in the form of a follow through day in one of the major Indexes as well. This is where we have a high volume

rally in one of the major indexes occurring four plus days out from an initial bottoming day. We will of course alert you to this possibility before it occurs.

Earnings season for the 3rd quarter begins next week and in addition to closely watching corporate reports relative to estimates, management's outlook for earnings going forward will be highly impactful. At this time recession fears as well as the negative impact of a higher U.S. dollar on profits, are a concern as we head into earnings season.

Last week, several companies reported results and those that came in above estimates - such as Lamb Weston (**LW**) - staged impressive rallies with LW gapping up into a base breakout amid analyst upgrades. A continuation of this response would be constructive for the markets.

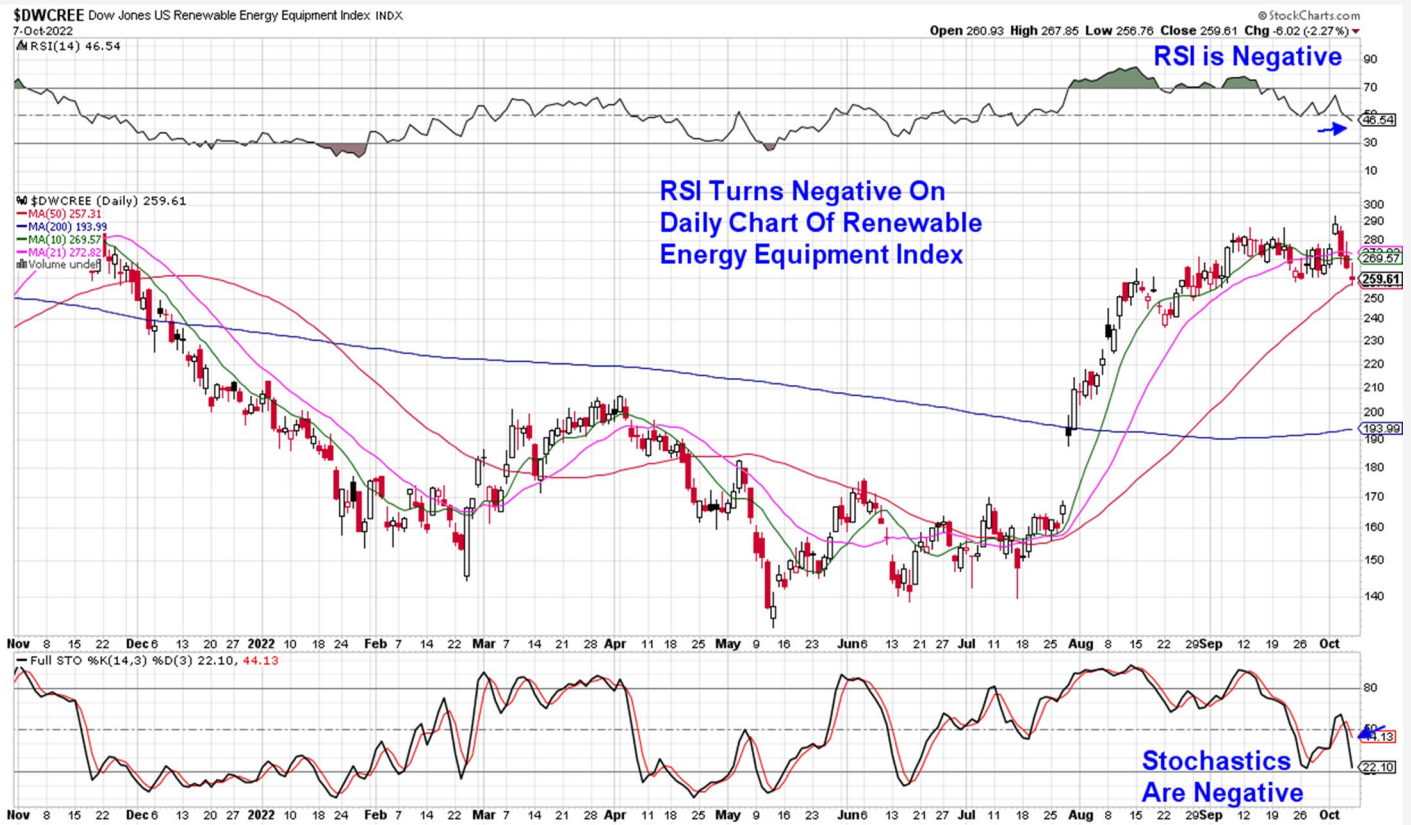
On the other hand, companies that report lower or provide negative guidance to growth prospects have been punished. Advanced Micro (**AMD**) is a prime example after announcing that sales are on track to be well below estimates due to weak PC chip demand. The stock fell 13% on Friday, and pushed many other Semiconductors lower as well.

In a normal bull market period, weak earnings reports or lowered guidance from corporations will often be overlooked.

At this time, the overall trend for the markets is down, and unless we see inflation levels subside we cannot begin to look for a market bottom. While strong earnings have been the driver of a new leg up in a bull market phase, positive earnings in a bear market phase will be mostly overlooked or temporarily championed.



## Dow Jones US Renewable Energy Equipment Index (\$DWCREE)



### Technology Sector Outperforms

The Tech sector gained 1.7% last week led by outperformance in Software and Semiconductor stocks that saw sharp gains earlier in the week.

Semiconductor stocks rallied 10% into the close on Wednesday before strong jobs data and a negative pre-announcement from Applied Materials (**AMD**) pushed these stocks sharply lower on Friday.

Software stocks experienced similar price action with the potential beginnings of a downtrend reversal giving way to a late week selloff. The choppy price action in both of these heavyweight areas of Tech, ended the week with a return to their downtrends.

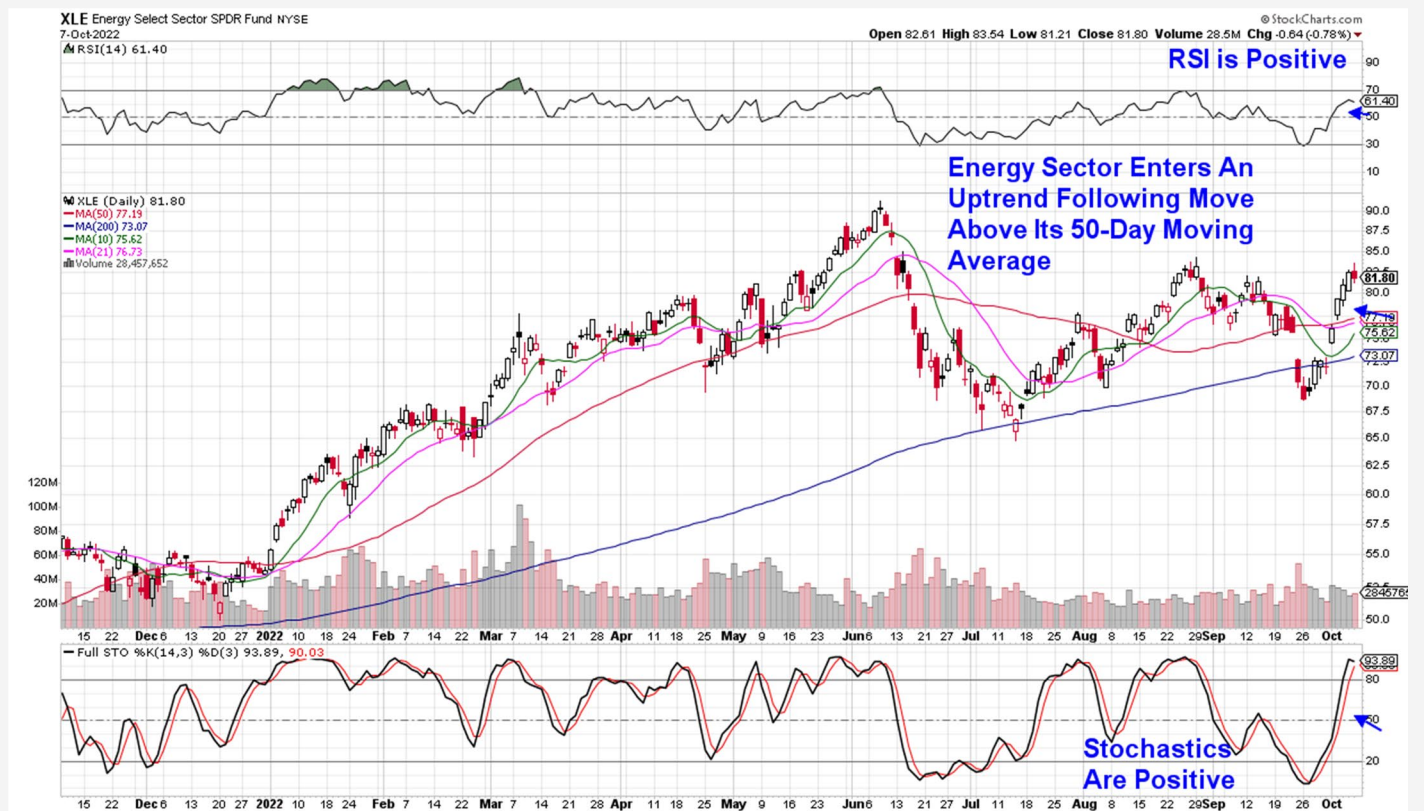
Alternative Energy Equipment stocks pulled back for the week with First Solar (**FSLR**) from our List hitting a new high on Tuesday amid analyst upgrades before experiencing selling on above average volume as the week progressed.

The price action pushed FLSR's RSI into negative territory on the daily chart and we're removing the stock from our List. In addition, the Renewable Energy group saw its RSI enter negative territory as well.

Similar to many beaten down areas of Growth, the Technology sector rallied to its 21-day moving average where it found resistance before a high volume drop on Friday put the group close to its year-to date lows.

Today we're adding Proshares Ultrashort Semiconductor ETF (**SSG**) to our Suggested Holdings List. This ETF corresponds to 2x the inverse of the daily performance of the Dow Jones Semiconductor Index. Given the 2x relationship, this ETF will experience volatility such as last Tuesday's 8% decline prior to Friday's 11% gain. A negative RSI on the daily chart of SSG would signal a longer term downtrend possibility.

## Energy Select Sector SPDR Fund (XLE)



### Energy Sector Posts Double Digit Returns

Energy stocks powered higher amid a rise in the price of oil. The increase followed news that oil production cuts will take place in November.

Higher oil prices are good news for the growth prospects of oil-related companies. However, it's bad news for inflation, as higher oil prices lead to higher gas prices.

Brent crude is inching closer to the \$100 per barrel price which has been a critical level in the past as it has coincided with higher prices among Energy stocks.

Today we're adding Devon (DVN) to our Suggested Holdings List as the stock moves closer to a 6-week base breakout at \$75.25. The company provides a 6.5% dividend and is trading at 10 times its trailing 4 quarter earnings.

Historically, Energy stocks can perform well in a rising interest rate environment with the weekly chart currently looking attractive with the RSI and Stochastics entering into positive territory last week.

DVN can be bought in the \$70 range which is its 5-day moving average.

## Summary

Last week's inability for the markets to sustain its early week rally despite jobs data that were not overly negative, highlights that buyers have retreated and the bears are in control.

Investors who earlier in the week were hoping for a pivot by the Fed to slow down their rate hike campaign, are grasping the Central Bank's resoluteness in their intent to slow inflation at all costs.

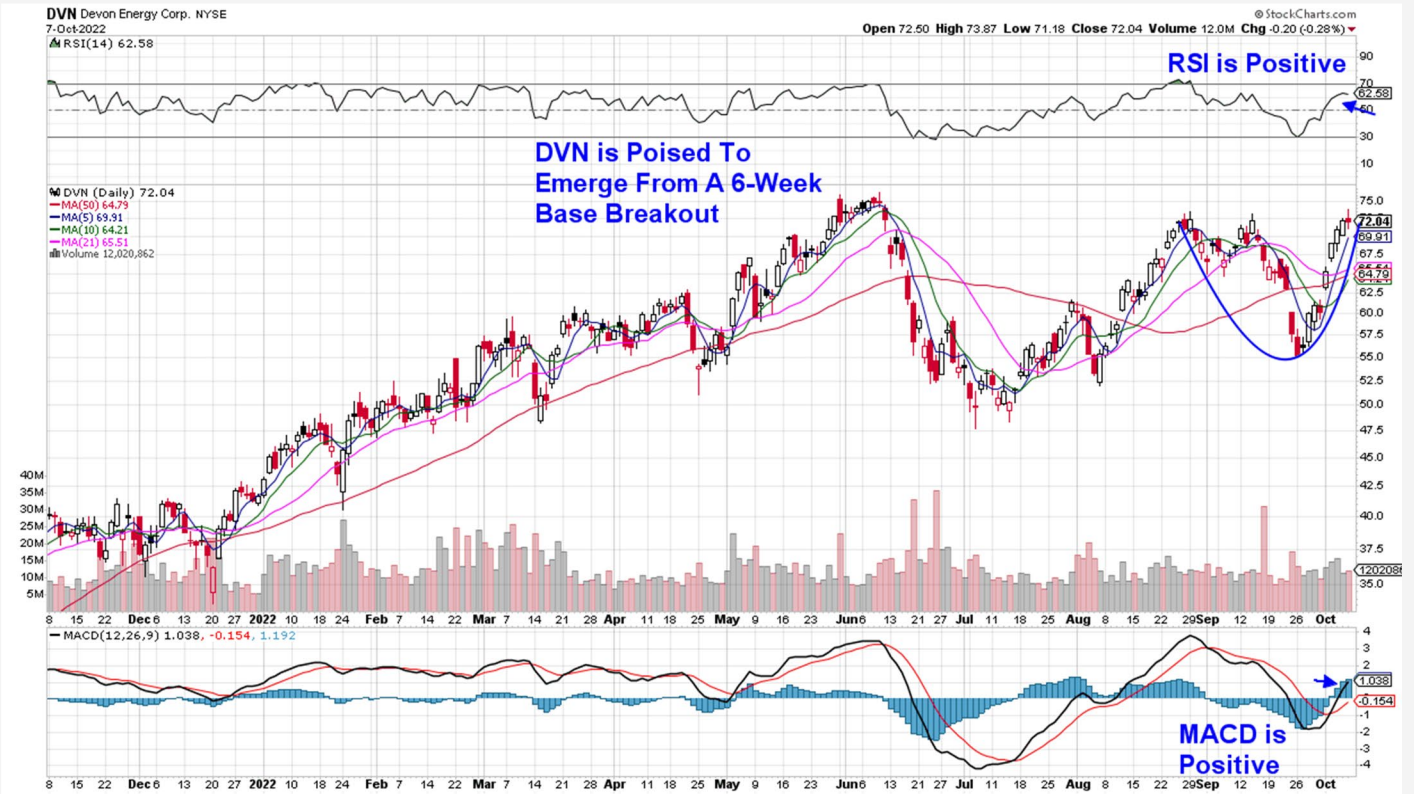
Last week, thirteen new appearances by Fed officials confirmed their intent to keep interest rates elevated until data confirms that inflation has peaked. The lone exception was Atlanta's Fed President Bostic, who would like to pause rate hikes in December.

More members may move to Bostic's side of the table but clearly not until lower inflation and employment data confirm that it's warranted. Next week, additional inflation data will be reported with Thursday's core CPI report for September due to be released before the markets open.

In addition, notes from the Federal Reserve's last meeting will be released Wednesday afternoon, which may provide additional insight into the Fed's rate hike timeline.

Today, we've expanded the Watch List of Short Candidates with an eye toward adding stocks from this list as the week progresses. We are also keeping our Watch List of Buy Candidates updated.

# Devon Energy Corp. (DVN)



# ProShares UltraShort Semiconductors (SSG)



# 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        |                           |          |            |             |                   |                         |  |                   |  |
| FSLR              | First Solar Inc.          | \$132.30 | 9/7/2022   | 3.0%        | 3-Nov             | Photovoltaics           |  |                   |  |
| ENERGY            |                           |          |            |             |                   |                         |  |                   |  |
| DVN               | Devon Energy              | \$72.04  | 10/9/2022  | -           | -                 | Natural Gas Exploration |  |                   |  |
| FINANCIAL         |                           |          |            |             |                   |                         |  |                   |  |
| SSG               | Proshares Ultrashort Semi | \$33.66  | 10/9/2022  | -           | -                 | Semiconductors          |  |                   |  |

# 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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