



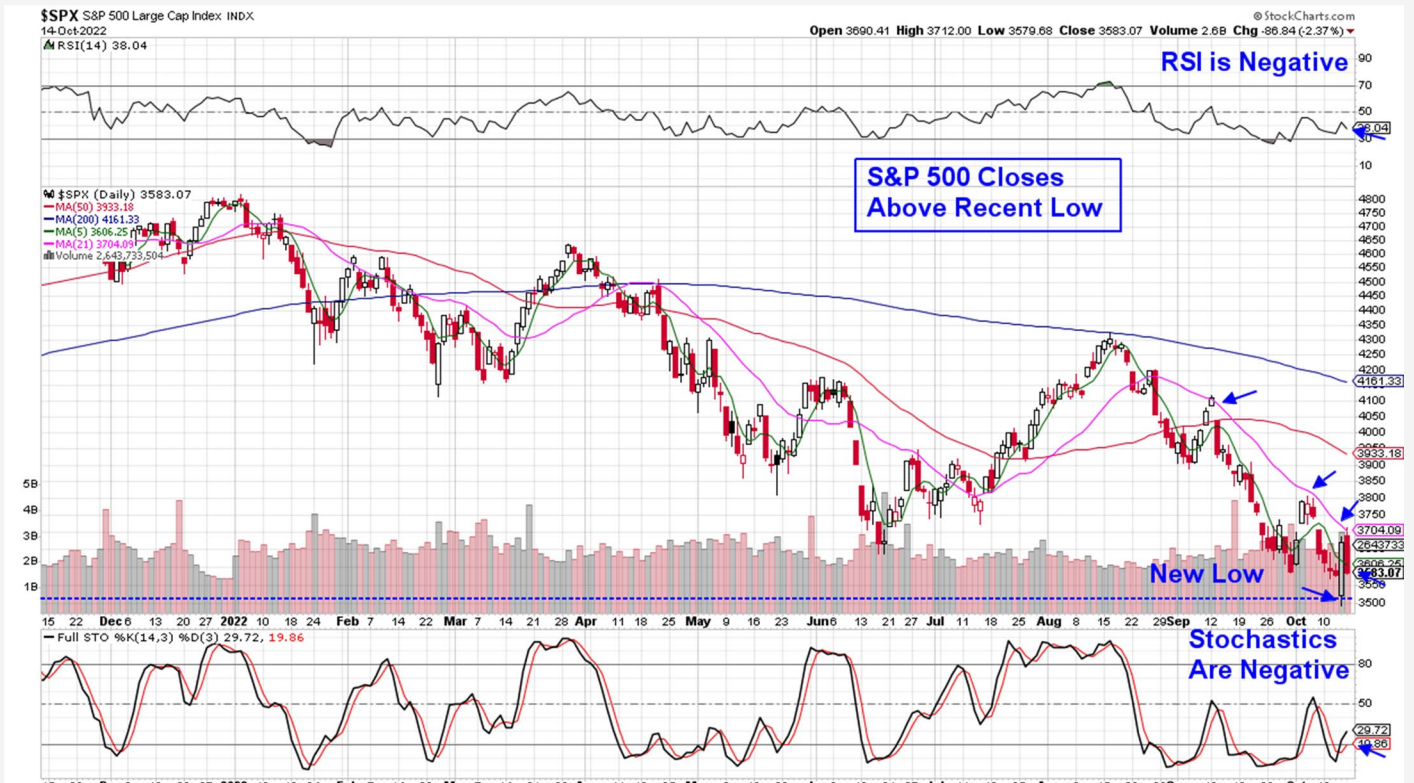
THE MEM EDGE

October 16, 2022 | Weekly Report

This Week's Highlights

- Producer Price Index Data Shows Inflation Is Still High
- Federal Reserve Officials Continue to Promote Aggressive Rate Hike Campaign
- Semiconductor Stocks Hurt By New Chip Restrictions To China
- Core Consumer Prices (CPI) Come In Well Ahead Of Estimates
- Retail Sales Are Flat While Consumer Confidence Rises

Daily Chart of S&P 500



The S&P 500 closed the week down 1.6% with the RSI and Stochastics remaining in negative territory on the daily chart. With its momentum indicators negative and the Index now below each of its key moving averages, we remain negative on the near-term prospects for the markets.

As you'll see in the chart above, any rally attempts since August have been met with resistance at the S&P 500's 21-day moving average which continues to trend downward.

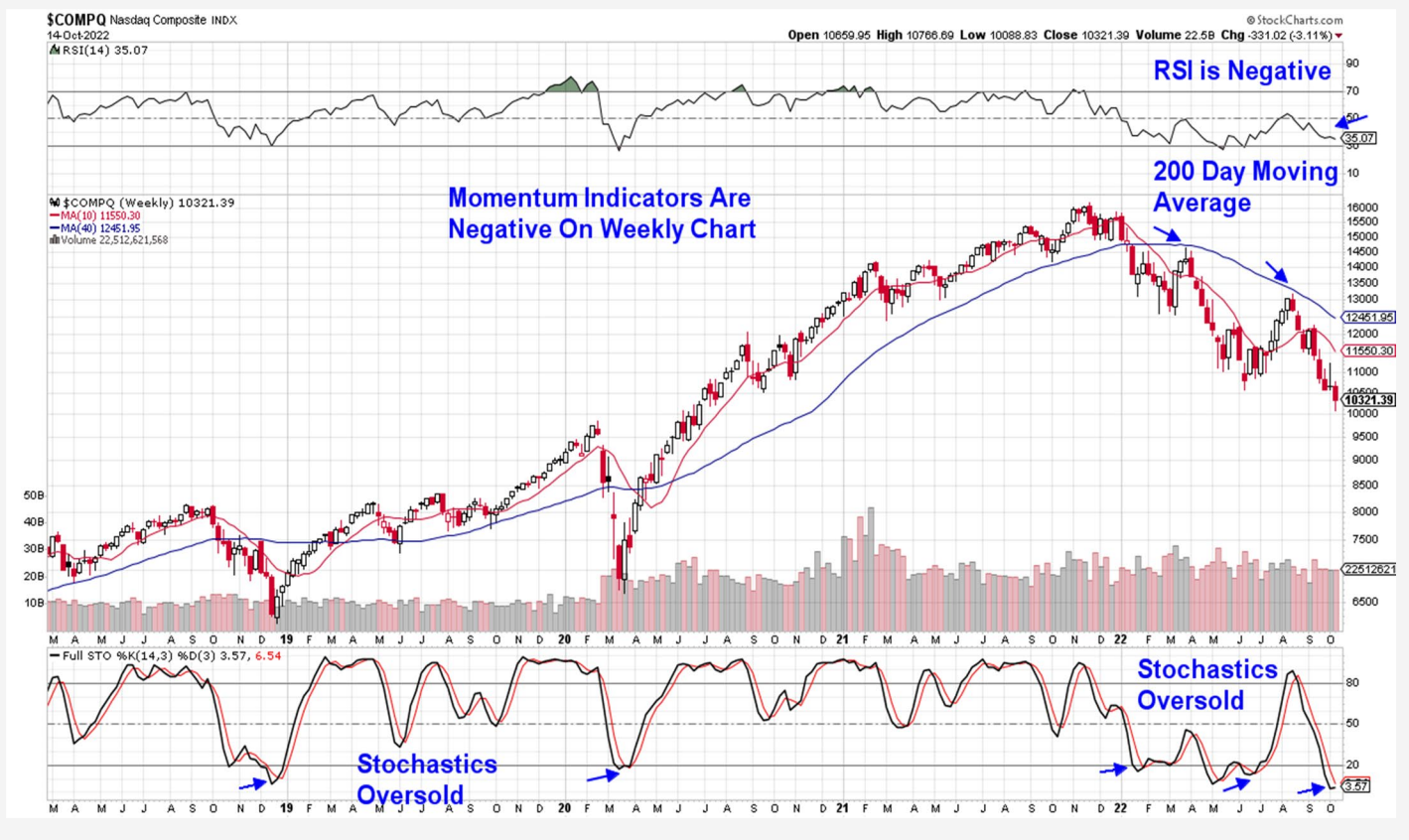
At this time, last week's low of 3492 is the next area of possible support for the S&P 500 and we're currently 2.5% above that level. A move below this puts the next level of possible support at the November 2020 low of 3279.

The Nasdaq saw losses that were almost double the S&P 500, led by sharp drops in Tesla (**TSLA**), Amazon (**AMZN**) and Meta (**META**) as well as

underperformance in Semiconductor and Software stocks. The Tech and Growth stock heavy Nasdaq Composite remains in a confirmed downtrend with its momentum indicators in negative territory.

On the longer-term, weekly chart of the Nasdaq, the Stochastics are currently in an oversold position (below 20). As shown in the chart below, they were in a similar position at the end of the 2018 and 2020 bear markets.

Weekly Chart of NASDAQ Composite (\$COMPQ)



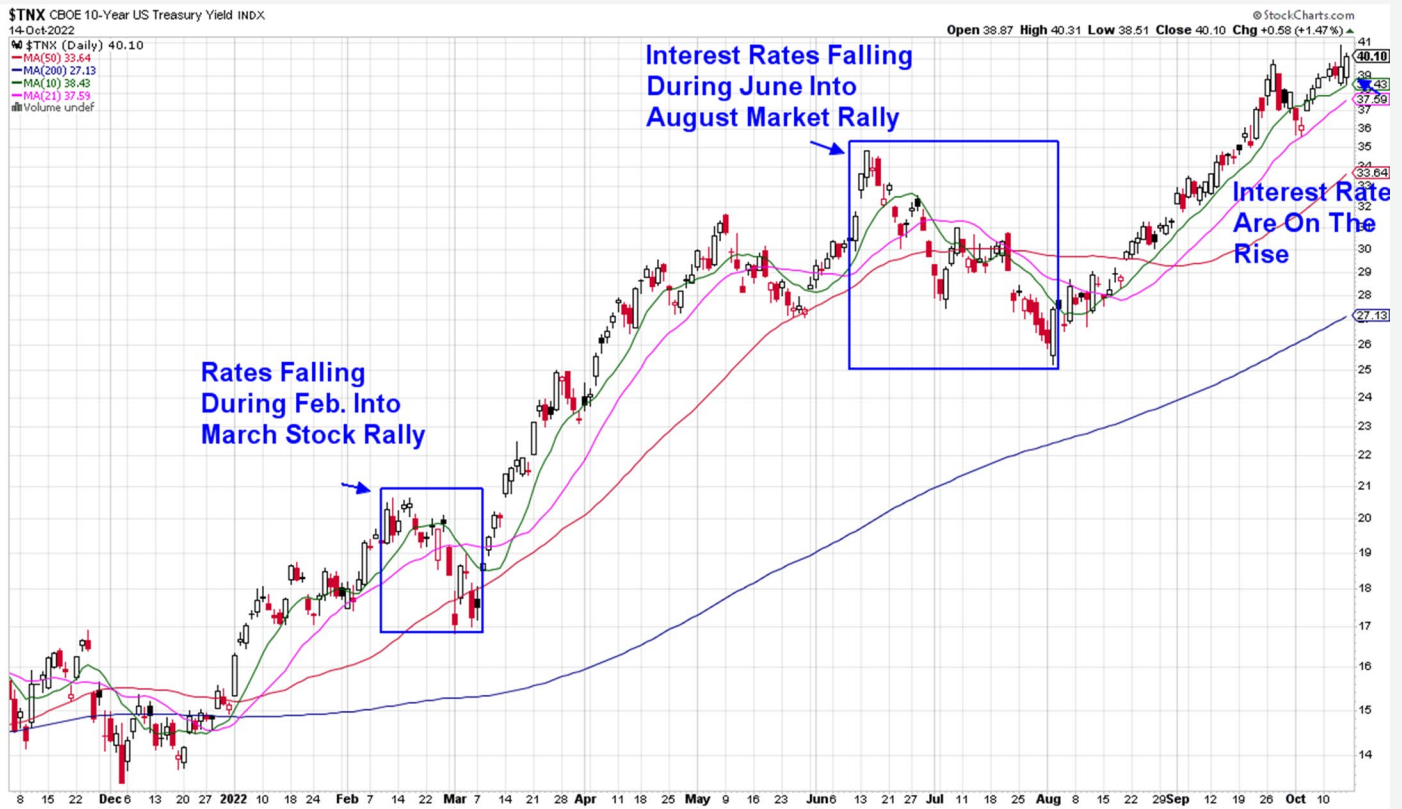
Oversold Stochastics on a weekly chart also preceded this year's 3-week February-March rally as well as the lengthier June-August rally.

While the currently oversold position of the Stochastics on the weekly chart would have us hopeful for at least a near-term rally in the Nasdaq, we're currently missing a key ingredient. That is, a decline in interest rates.

During 2018 and 2020 as well as each of the rally periods this year, interest rates were declining.

As mentioned in past reports, rising interest rates are a negative for the markets - particularly Growth stocks - as the value of future earnings are reduced. Until we see interest rates peak, we anticipate a continued difficult period for the markets.

Daily Chart of US Treasury Yield (\$TNX)



As Federal Reserve officials have repeatedly stated over the past several weeks, any slowdown of their raising of interest rates will only take place once reports of inflation trending much lower takes place.

Last week, the Producer Price Index (**PPI**) and Consumer Price Index (**CPI**) data for September confirmed that inflation remains very much in place and is trending at a 40 year high.

Core CPI, which strips out volatile energy and food costs and is most closely watched by the Federal Reserve, came in well above estimates.

The strong CPI report came out before the markets opened on Thursday and initially, the markets fell 2.5% before recovering that loss and closing the day up 2.5%. This type of dramatic intraday price reversal is rare, and has occurred only 9 other times over the past 39 years.

The other times this occurred were during periods that were mostly closer to the lows in the markets such as 2009, 2018 and several times in late 2008.

History aside, we'll need to see a follow through day in the markets coupled with reports of inflation subsiding, before we could begin to consider a possible low in the

markets. After last Thursday's rally day, we can begin to look for a follow-through day next week however, we're doubtful it will take place.

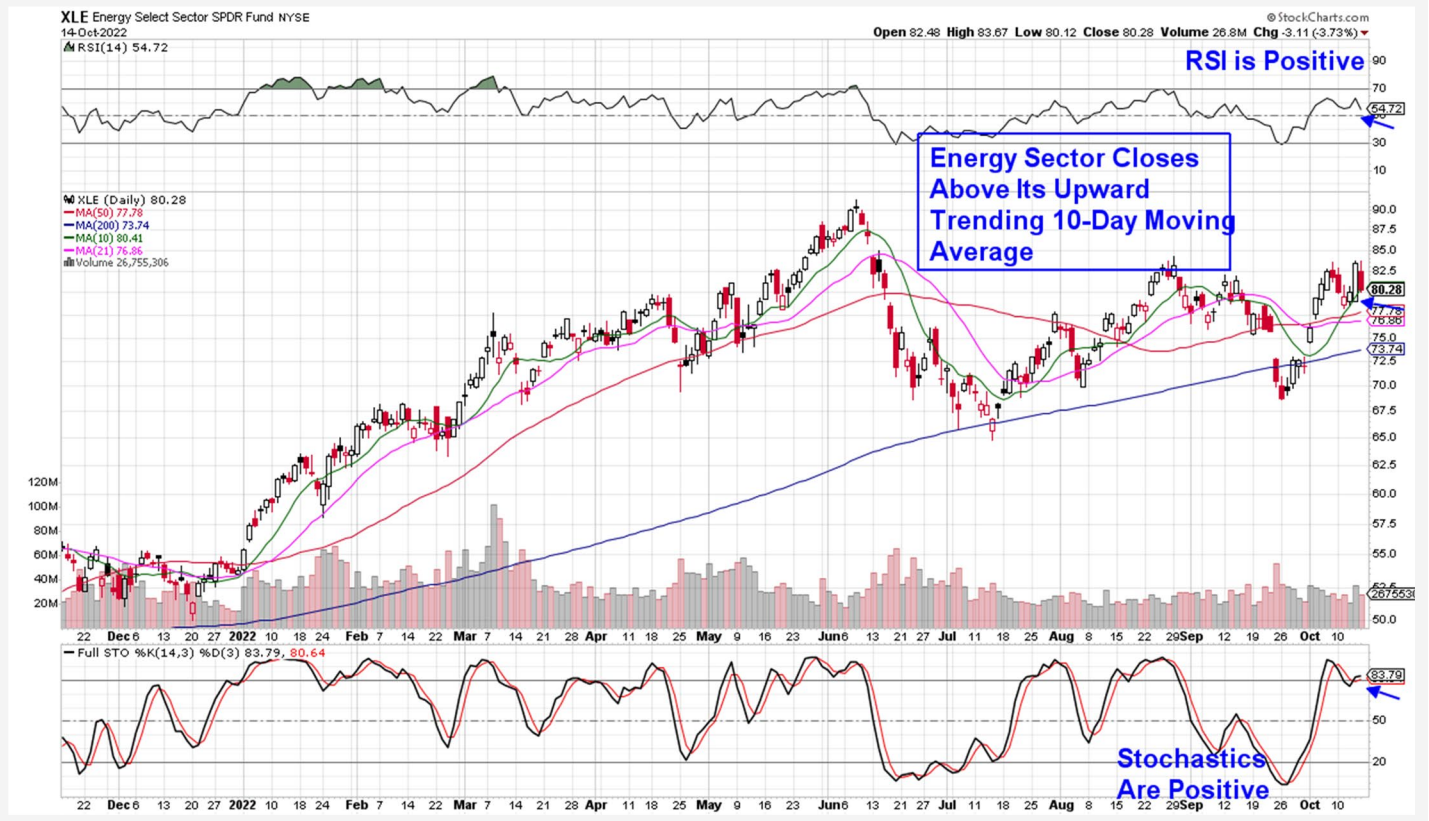
Third quarter earnings reports also drove price action with the Consumer Staples sector posting a 1.6% gain last week after heavyweight stocks such as Pepsi (**PEP**) and Walgreens (**WBA**) reported earnings ahead of estimates and traded higher. The news boosted other stocks in this sector as both companies also guided their growth estimates higher for the remainder of the year.

The Healthcare sector also outperformed led by strong results in United Healthcare (**UNH**) while select Medical stocks such as Eli Lilly (**LLY**) and Amgen (**AMGN**) exhibited relative strength.

Both sectors can be more insulated during a bear market and we'll continue to monitor any further progress as earnings reports continue to be released.

Next week, earnings season picks up considerably with Netflix (**NFLX**) and Goldman (**GS**) reporting on Tuesday and Tesla (**TSLA**) as well as Int'l Business Machines (**IBM**) reporting on Wednesday. These are just a few of the 150 companies due to release results.

Energy Select Sector SPDR Fund (XLE)



Energy Sector Pulls Back Amid Lower Oil Prices

The Energy sector posted a 2% loss with a pullback that followed the prior week's sharp gains on news that OPEC plans to reduce oil output.

News on Tuesday that the International Monetary Fund (IMF) cut its global growth forecast for 2023 and warned of increasing risk of a global recession, brought down the price of oil amid fears of reduced demand.

New lockdowns in China - the world's largest crude oil importer - also weighed on the outlook for oil consumption with the price of Brent crude falling 7% for the week.

Devon Energy (DVN) from our List was poised to close the week with a gain before a pullback on Friday pushed the stock below its 10-day moving average. While volume was below average, the RSI is trending toward a move below 50 and into negative territory.

A move back above \$70 would put DVN into a buy zone; however, a move of the RSI into negative territory on its daily chart due to further selling, would have us possibly removing the stock from our Suggested Holdings List.

At this time, the Energy sector remains in an uptrend as it closed the week above its 10-day moving average with its RSI and Stochastics in positive territory.

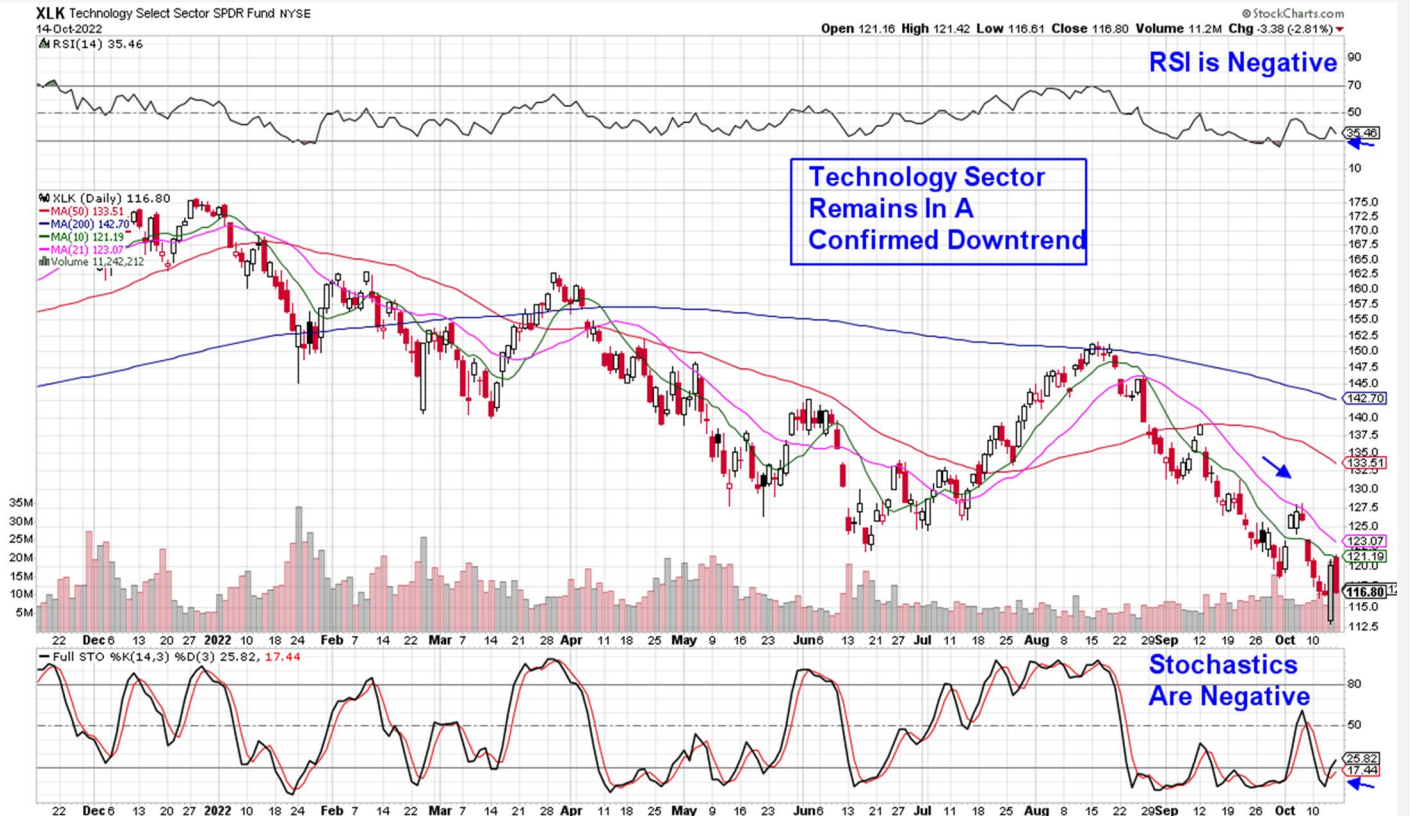
While a lower price for Brent Crude Oil has been a headwind for Energy stocks in the past, the overall elevated price of oil has stocks in this sector expected to be the largest contributor to year over year earnings growth for Q3. (per Factset)

Slumberger (SLB) will report their earnings next week while Devon (DVN) and other large Energy companies will begin reporting in 2 weeks. Management's guidance regarding growth prospects going forward will be closely watched.

This week, we're adding Teekay Tankers (TNK) to our Suggested Holdings List as the Canadian based provider of transportation services to the oil industry has broken back above each of its moving averages with the RSI entering into positive territory.

With the European Union's ban on Russian crude coming into effect in December, the supply of new oil tankers will not meet increased demand which will drive daily shipping rates up. This medium-term supply/demand dynamic has the stock poised to move toward a 1-month base breakout at \$32. We'd be a buyer on any pullback.

Technology Select Sector SPDR Fund (XLK)



Technology Sector

The Tech sector was among the worst performing last week despite relative outperformance in its heaviest weighted stock Apple (**AAPL**), which fell less than the markets. Its Macbook Air product was among the top sellers at Amazon's Prime sale event last week and investor's are nervously watching for additional signs of holiday shopping strength.

Semiconductor stocks were the worst performing area with an 8.3% decline that followed Biden's further restrictions of U.S. chip sales to China. News from Advanced Micro (**AMD**) that they'll miss their revenue numbers when they report earnings next month also hurt the group.

Most chip stocks are hitting 52 week lows as last year's chip shortage issues have turned into oversupply problems amid a global economic slowdown and a lack of demand for PC's. A less than enthusiastic response to new 5G products is also hurting these stocks.

Last week, Taiwan Semiconductor (**TSM**) reported earnings above estimates, however, the company reduced estimates going forward. The stock closed the week down 8.5%.

At this time, ProShares UltraShort Semiconductor ETF (**SSG**) has further upside and we'd be a buyer in the \$37.2 range at its 5-day moving average. As with most leveraged ETF's pullbacks can be sharp however, if the RSI remains above 50 on the daily chart, it can be held.

Summary

The biggest news for the U.S. markets last week was that inflation remains elevated. With the Federal Reserve vowing to continue to raise interest rates to combat inflation, the prospects of any pivot in the markets to a new uptrend are limited over the near term.

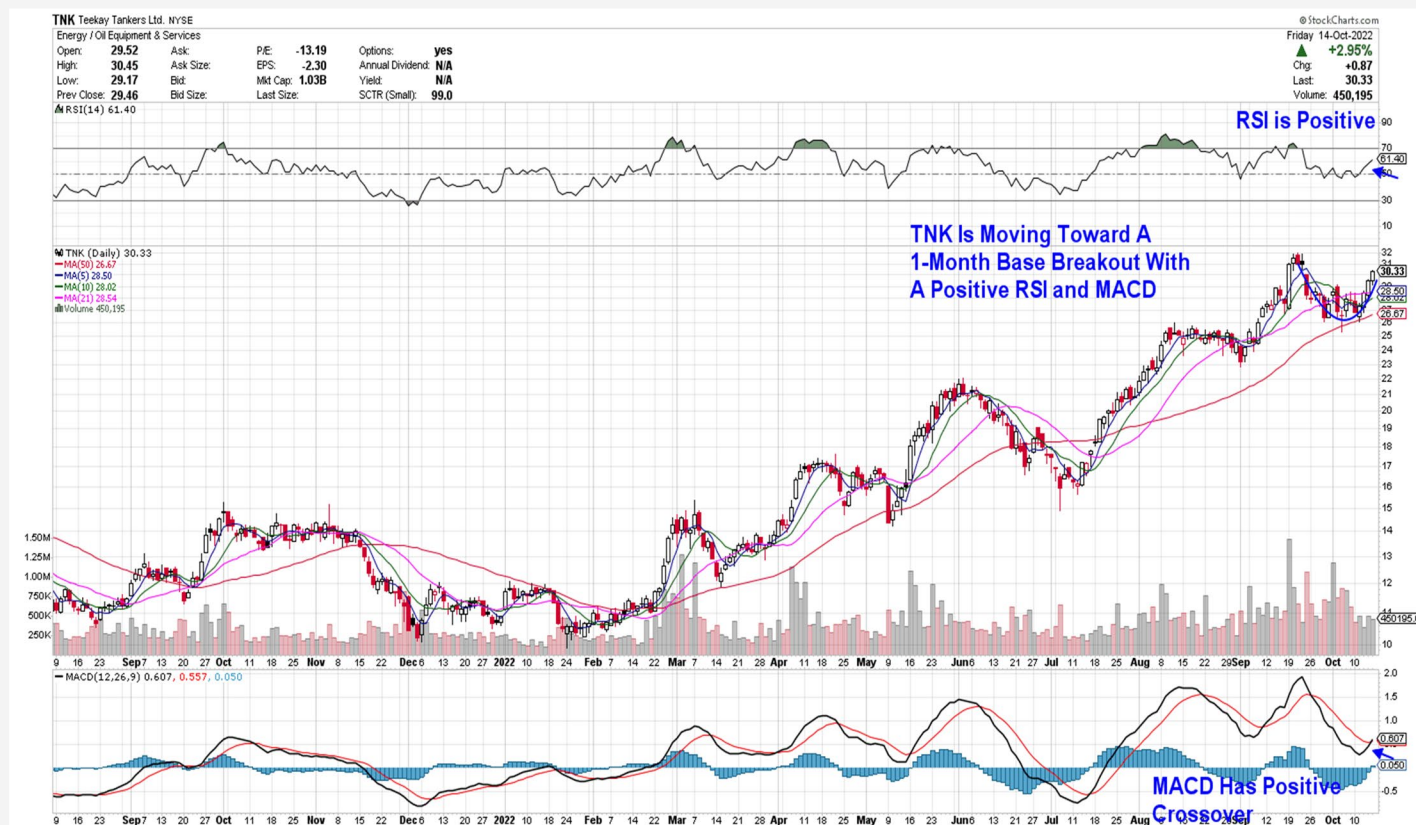
Next week, the economic calendar is light which means that 3rd quarter corporate earnings reports will take center stage.

We anticipate that results will continue to come in above lowered expectations for many companies which in turn, may spark short term rallies in select stocks.

Longer term investors would be better served remaining on the sidelines and preserving capital. Once the markets exhibit the characteristics of a new bull market, you will be alerted as the 4th day out from an initial rally day can provide evidence by having a rally of 1.4% or more on increased volume.

In addition to positive price action in the markets, we will need to see evidence that inflation is receding to confirm any signal of a new bull phase. As we move toward this possibility, we're continuing to update our Watch List of candidates that would be in a position to outpace the markets once they turn bullish.

Daily chart of Teekay Tankers Ltd. (TNK)



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			
ENERGY									
DVN	Devon Energy	\$72.04	10/9/2022	-5.5%	-	Exploration & Production			
TNK	Teekay Tankers	\$30.33	10/16/2022	-11.0%	-	Energy Transportation			
FINANCIAL									
SSG	Proshares Ultrashort Semi	\$33.66	10/9/2022	13.0%	-	Semiconductors			

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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