THE MEM EDGE

Midweek Report

Wednesday, October 19, 2022

- Industrial Production Comes In Ahead Of Estimates
- Housing Starts Retreat Amid Higher Interest Rates
- Strong Results In Netflix (NFLX) Boosts Other FAANMG Stocks
- Energy Sector Top Performer So Far This Week
- Weekly Jobless Claims Tomorrow
- Interest Rates Traded Higher Today - Market Stalls

The S&P 500 has gained 3.1% this week in a move that puts this Index back above its 21-day moving average. The RSI remains negative while the faster moving Stochastics have turned positive. Overall, we remain negative on the prospects for the markets.

Should we experience a continuation rally that pushes the RSI into positive territory, we may see a rally up toward the 50-day moving average, which is 5.4% away. We would treat further upside as a bear market rally and consider its prospects as being short lived.

As for any selling into the remainder of the week, the low from last week of 3492 is the next area of downside support with a break below that level putting the next area of support in the November 2020 period and the 3279 level.

The Nasdaq has gained 2.7% for the week led by outperformance in each of the mega-cap FAANMG stocks. Software and Semiconductor stocks are also trading higher.

So far this week, the Nasdaq is outperforming with a 3.5% gain however, the Index has slipped back below its 21-day moving average with the RSI on the daily chart in negative territory below 50. Our outlook for this Index is negative as well.

<u>DAILY CHART OF S&P 500 INDEX</u>

With the economic calendar light this week, the focus for investors has been on 3rd quarter earnings reports with positive results from Netflix (NFLX) pushing that stock much higher. Analyst upgrades are also pushing stocks higher with Amazon (AMZN) up almost 8% helped by a positive Wall Street report.

Semiconductors stocks are rallying this week led by a strong earnings report from A S M L (ASML). Equally important was the company's positive outlook for future growth going into next year. ASML is in the Semiconductor Equipment space as they manufacture systems used to create chips.

Peer company Lam Research (LRCX) also provides equipment to chip makers and today after the close, they reported equally strong results with the company rallying after hours.

Given this backdrop as well as Nvidia's (NVDA) sharp gain this week after a report of strong sales for their gaming cards, we would not be a buyer of ProShares Ultrashort Semiconductors (SSG) at this time as we may see further near-term upside in Semi's - depending on price action in the broader markets.

SSG remains above its 10-day moving average however, with a positive RSI and MACD and can be held as we anticipate broader market weakness to put pressure on this group. A negative RSI on the daily chart - similar to mid-July - would be a sell signal.

Energy stocks have been the top performers this week as the per barrel price of oil remains above $90. Strong earnings from one of the world's largest oilfield service provider - Baker Hughes (BKR) - also gave this group a boost.

As stated in Sunday's Report, earnings from Energy companies are expected to be the largest contributor to year over year earnings growth for the S&P 500 for the 3rd quarter.

Devon Energy (**DVN**) from our Suggested Holdings List is in a strong buy zone after Monday's move above $70 which we had suggested as an ideal buy point in our Sunday Report. The stock is moving toward a 2-month base breakout at $75 after this week's 5.5% gain.

Recently added Oil Pipeline company Teekay Tankers (**TNK**) has gained over 7% this week and is now at a new high in price.

As mentioned over the weekend, tanker demand has surged due to the Russia-Ukraine war. **TNK** is poised for further near-term upside with the MACD advancing higher on its daily chart. We'd be a buyer on any pullback to its 5-day moving average at $31.5.

The inability for the broader markets to participate in the strong rallies which took place in Netflix (NFLX) and A S M L (ASML) to name just 2 companies who posted strong results and a positive outlook before the open today, is not bullish behavior.

The primary culprit for today's lower market was an rise in interest rates today with the yield on the 10-year Treasury now at 4.1%. As highlighted in our discussion in Sunday's report, recent bear market rallies were accompanied by interest rates declining. We've included the chart from over the weekend below.

After the close today, Tesla (TSLA) posted revenues that were below estimates and the stock is trading lower after hours. We'll be closely watching the market's reaction tomorrow, as a widespread selloff elsewhere in response will be negative market price action. Under more bullish conditions, investors will generally shrug off negative news and focus more on bright prospects for the future of a company.

Warmly,
Mary Ellen McGonagle
Editor, MEM Edge Report

DAILY CHART OF 10-YEAR TREASURY YIELD