



Wednesday December 7, 2022

- ISM Service Sector Index Rises In November
- Factory Orders Rise In October
- Producer Price Index (PPI) & Consumer Sentiment Reports Due Friday
- Consumer Price Index (CPI), FOMC Meeting Notes, Retail Sales & Flash PMI Due To Be Released Next Week

The S&P 500 has lost 3.3% for the week in a move that keeps this Index below its 200-day moving average with the RSI and Stochastics in negative territory. Given the current dynamics, we remain cautious on the near-term prospects for the markets.

The S&P 500 Index has also slipped below its 10 & 21-day moving averages this week which makes the 50-day moving average the next area of possible support. This 50-day moving average is 2.7% away.

As noted in yesterday's Alert Report, the weekly chart of the S&P 500 is also exhibiting concerning price action, as the RSI has dipped into negative territory.

The Nasdaq has fallen 4.3% after pulling back the most today amid a continued drop in Software stocks as well as select Semiconductor names. This Tech heavy Index also has negative momentum with its RSI and Stochastics in negative territory.



# THE MEM EDGE

Midweek Report

This week's decline puts the Nasdaq just 0.4% above its 50-day moving average which is the next area of possible support. Should we break below this key area, the early November low would be the possible area to look for any support and that's now 6.4% away.

## DAILY CHART OF S&P 500 INDEX



Select areas of Healthcare experienced a bounce today with the sector gaining 0.8% amid a sea of red. Other defensive areas such as Staples and Utilities posted gains today as well as investors remain cautious ahead of the release of key economic data.



# THE MEM EDGE

Midweek Report

Within Healthcare, Biotechs gained over a half percent today with most of the stocks on our Suggested Holdings List that are in this group, gaining even more.

As stated in past reports, Biotech stocks have a history of outperforming the markets regardless of a recession such as during the 2008 bear market. This is particularly true if these companies are in a vibrant period of new drug and treatment discoveries such as we're in now.

The Biotech ETF (**IBB**) is very close to moving back above its 10-day moving average which would put it into a buy zone.

Elsewhere on our List, Amgen (**AMGN**), Harmony Biosciences (**HRMY**) and Vertex Pharma (**VRTX**) each moved back above their 10-day moving averages today and into a buy zone. Biomarin Pharma (**BMRN**) remains in a strong uptrend after pulling back to its 10-day moving average where buyers came in today. This stock is also in a buy zone as analysts continue to raise earnings estimates for both this year and next.

As mentioned in yesterday's report, each of the Retail stocks on our List pulled back to support at their 10 or 21-day moving averages with Home Depot (**HD**) rallying up to its 10-day mav today. A move above this level would put the stock into a buy zone.

Walmart (**WMT**) is in a more precarious position as this week's pullback has occurred on above average volume and the stock is now resting on its 21-day moving average with the RSI heading downward. Tomorrow's release of earnings by Costco (**COST**)



may impact this peer stock and COST has already pre-announced weak same store sales numbers.

We're using the late April period with **WMT** as possible precedence, as a break below its 21-day moving average coupled with the RSI turning negative, preceded further downside.

Tomorrow, Lululemon (**LULU**) is due to report their quarterly earnings tomorrow after the close of the markets. The pullback in the stock earlier this week is a relief as it provides more room for a positive reaction should the company report numbers that are currently anticipated to be strong.

As mentioned, Technology stocks have underperformed this week with Software stocks coming under the most selling pressure. These companies tend to feel the most pain during a recessionary period as spending on new Software or upgrades to existing systems is often the first area for corporations to cut spending.

Microsoft (**MSFT**) has pulled back less than the group however, it's down over 4% for the week. At this time MSFT is finding support at its 21-day moving average with its RSI in positive territory. We would not be a buyer on this pullback however as the group dynamics are not positive after Software ETF IGV has fallen back below its 50-day moving average.

ON Semi (**ON**) continued its choppy trading with buyers coming in today on this week's dip in price. The stock can be held.

Lastly, Solar stocks are pulling back this week with Enphase (**ENPH**) finding support at its 21-day moving average. In a



positive development for the stock today, buyers came in on the dip and **ENPH** is poised to move back above its 10-day moving average with its RSI in positive territory. y

Unlike other stocks in this group, **ENPH** is seeing its earnings estimates revised higher amid the company's expansion globally.

While we've highlighted stocks as being in a buy zone, any new positions should be entered with caution given the current position of the markets. In addition, the Volatility Index (\$VIX) - also known as the fear index has gained 20% for the week. Rising volatility is not an ideal backdrop for the broader markets.

On a positive note, interest rates are continuing to decline with the yield on the 10-day Treasury now at 3.4%. This backdrop is a positive for the markets.

With a lack of positive earnings reports being released this week, investors are instead focusing on highly impactful economic data due next week, as well as notes from the Federal Reserve's meeting.

Tomorrow's weekly employment report may also move the markets depending on the numbers, as may Friday's final PMI report for November.

Warmly,  
Mary Ellen McGonagle  
Editor, MEM Edge Report