



Wednesday December 14, 2022

- Consumer Price Index (CPI) Lower Than Expected
- Interest Rate Hike Is 0.5% / Peak Rate At 5%
- GDP Forecast For 2023 Lowered to 0.5%
- Weekly Jobless Claims & Retail Sales Tomorrow
- Manufacturing & Services PMI Report Friday
- Removing ON Semiconductor (ON) and Adding Dexcom (DXCM)

The S&P 500 has gained 1.6% for the week in a move that's pushed this Index above its 10 and 21-day moving averages. With the RSI in positive territory and the Stochastics negative, we remain cautious on the prospects for the broader markets.

On both Tuesday and today, the S&P 500 traded above its 200-day moving average; however, it closed back below this key level on both days. A sustained move above the 200-day moving average would bode well for the possibility of a continuation of this bear market rally.

The Nasdaq has gained 1.5% for the week and closed just below its shorter term 10 and 21-day moving averages. The next area of possible support is the 50-day moving average which is 21% away.

Heavyweight stock Tesla (TSLA)'s 12.5% decline is offsetting outperformance in mega-cap FAANMG stocks Microsoft (MSFT), Meta (META) and Amazon (AMZN). Software, Biotech and



Semiconductor stocks are also outperforming the broader markets.

Daily Chart of S&P 500 Index



Stocks received a boost on Tuesday after the Consumer Price Index (CPI) showed that inflation rose less than expected. Most closely watched by the Federal Reserve is the Core CPI number as it strips out volatile food and energy costs and this data showed a slowdown in inflation as well.

The initial rally on the report fizzled into the close however as investors eyed today's interest rate hike percent as well as comments from Fed Chair Powell after the FOMC meeting.



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Midweek Report

The Fed Funds rate was increased by 0.5% which was widely expected however, comments from Fed Chair Powell that he expects interest rates to remain elevated throughout 2023 brought the markets lower.

Surprisingly, the yield on the 10-year Treasury was flat on today's news while volatility dropped (\$VIX). Historically however, the markets have seen sharp swings the day after an FOMC meeting, as investors further interpret Powell's comments.

The Technology sector has been one of the top performers led by heavyweight name Microsoft (**MSFT**) which has gained 4.4% for the week so far. The move pushed the stock out of a 2-week base on heavy volume however, **MSFT** is finding upside resistance at its 200-day moving average.

We'd be a buyer of **MSFT** on a move above the 200 dnav on volume as the company has announced several partnership programs that will boost their efforts to connect over 100 million users to the internet by 2025.

Alternative Energy Equipment stocks have also been a top performing area this week with Enphase (**ENPH**) from our List gaining 4.2%. The stock is in a buy zone after closing above its 10-day moving average.

While Semiconductor stocks are trading in line with the markets, (SOXX) there are bright spots such as A S M L (ASML) which broke out of a flat, 1-month base on volume yesterday. Today's pullback to its 5-day moving average puts ASML in a strong buy zone.

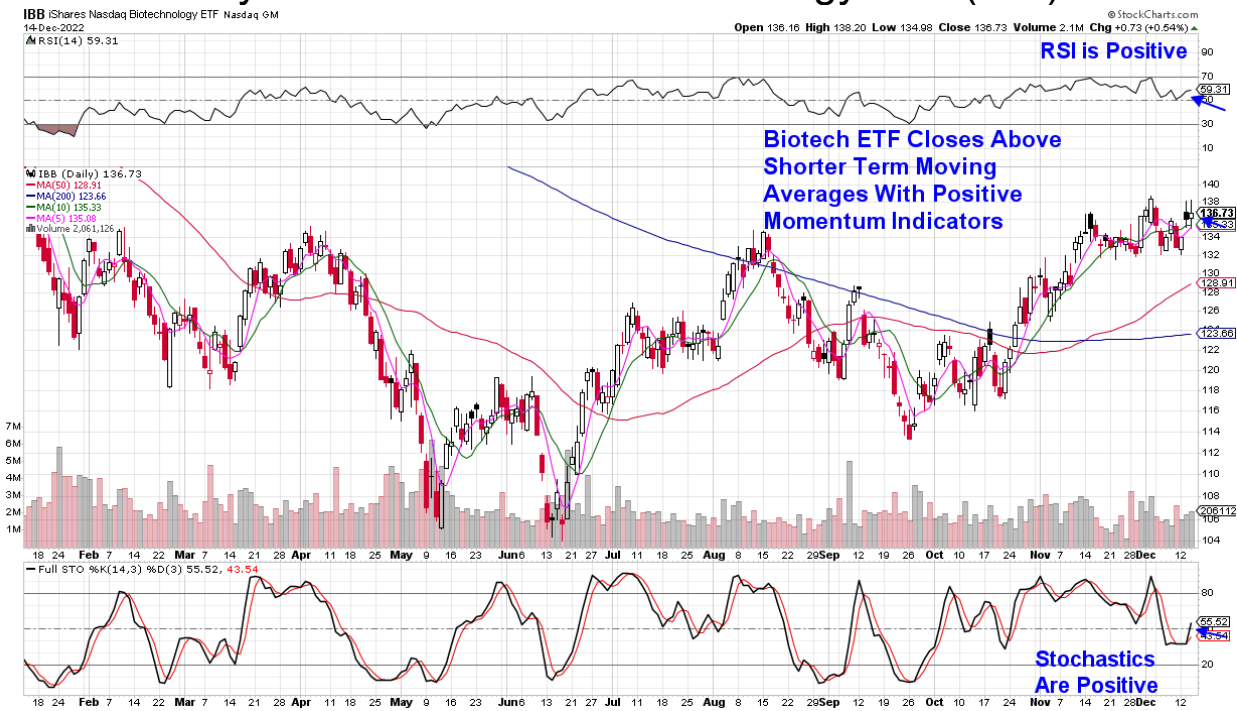


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Midweek Report

ON Semi (ON) pulled back sharply today despite a Wall Street price target upgrade and while the stock found support at its 50-day moving average, the RSI is now negative. We're removing ON from our Suggested Holdings List.

Daily Chart of iShares Biotechnology ETF (IBB)



The Healthcare sector is underperforming this week however, Biotech stocks have gained 2.8% in a move that's put ETF IBB into a buy zone with a move back above its shorter term moving averages.



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Midweek Report

Among the Biotech names on our List, BioMarin (**BMRN**) is extended following its 6% rally this week. We'd be a buyer in the \$106 range at its 5-day moving average.

Today we're adding Dexcom (**DXCM**) to our Suggested Holdings List as the developer of continuous glucose monitoring systems is finding support at its upward trending 10-day moving average on its way to a potential base breakout at \$123.

Consumer Discretionary stocks are the worst performers this week led lower by TSLA's 12.5% drop. There are bright spots in this group however with Home Depot (**HD**) up 4.1% gain which followed a price target upgrade from a major Wall Street firm. HD can be bought in the \$328 range near its 5-day moving average.

This week's price action has been mostly constructive; however, we remain cautious on the prospects for the broader markets as the S&P 500 hovers around its 200-day moving average while the Tech heavy Nasdaq has been unable to remain above its shorter term moving averages.

Fed Chair Powell's comments helped provide some clarity regarding the Fed's stance on keeping rates elevated in order to fight inflation; however, his lowered outlook on 1st quarter GDP as well as the lengthier period of higher rates well into next year, may dampen this current uptrend.

Warm Regards,
Mary Ellen McGonagle
Editor, MEM Edge Report