



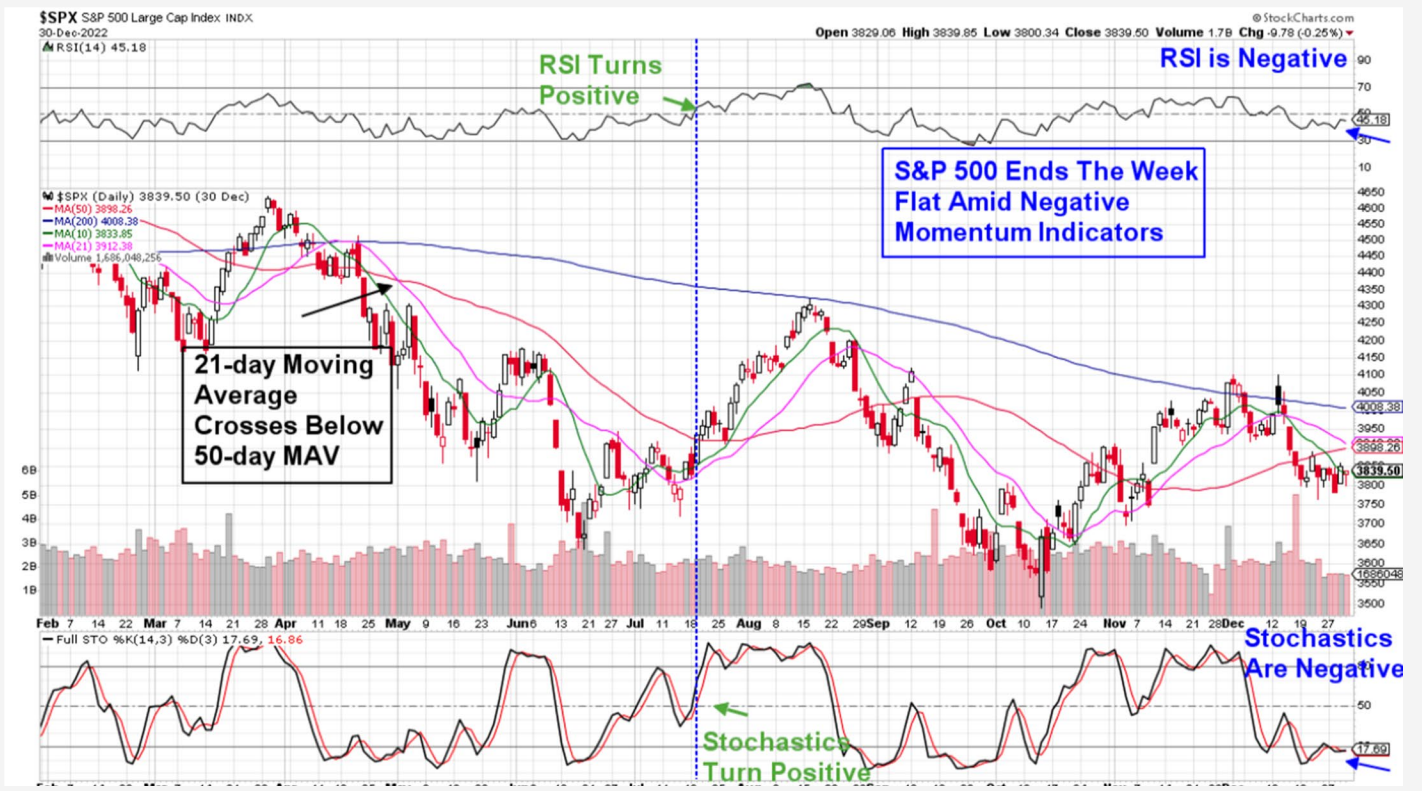
THE MEM EDGE

January 2, 2023 | Weekly Report

This Week's Highlights

- Covid Cases Surge In China
- Yield On 10-Year Treasury Approaches 4%
- Pending Home Sales Decline For 6th Consecutive Month
- Initial Weekly Jobless Claims Rise Slightly
- FOMC Meeting Notes, ADP Private Employment Data, Non-Farm Payrolls For December Due Next Week

Daily Chart of S&P 500



The S&P 500 ended the week down 0.1% in a move that keeps the RSI and Stochastics in negative territory on its daily chart. While this Index managed to close the week above its 10-day moving average, it has near-term upside resistance at its 21, 50 and 200-day moving averages which amounts to a 4.2% rally before being in the clear and on its way to a potential, long-term rally.

Bear market rallies can occur in the meantime, and on the daily chart of the S&P 500 above, we've highlighted the positive RSI and Stochastics that would signal a

near-term uptrend. As you'll see, this Index will not need to be above each of its moving averages to qualify but instead the RSI and Stochastics will be the primary guide.

Ideally, positive news in the form of lower than expected inflation numbers or lower interest rates would be present at the time these momentum indicators turn positive.

Last week, the 10-day moving average crossed below the 50-day moving average to form a death cross. The

longer-term 21-day moving average is now poised to also move below the 50-day mav and we've highlighted the early May period when this occurred. As you can see, it preceded further downside for the S&P 500.

The Nasdaq fell 0.3% for the week, helped by a Thursday rally that pushed each of the mega-cap FAANMG stocks sharply higher. Semiconductor and Software stocks also gained on Thursday, amid a pullback in interest rates as well as analyst upgrades in select, beaten down names.

The gains were not enough to put these areas close to an uptrend however and the Tech-heavy Nasdaq remains below each of its moving averages with negative momentum indicators that points to further downside potential for this Index.

Last week, the yield on the 10-year Treasury closed at 3.9% is very close to the psychologically impactful level of 4%. In the past, this level has brought about concerns regarding the future prospects for stocks - particularly Growth areas.

While higher interest rates are negative for Growth stocks, they are historically a positive for other areas such as Energy stocks. This is because higher rates are the hallmark of periods of elevated inflation and this is when Energy stocks can shine, as the price of Oil -and other commodities - increases.

This would include Gold (**GLD**) and Silver (**SLV**) which are both in confirmed uptrends, with a weaker dollar also helping these commodities.

Financial stocks can also outperform during periods of rising interest rates as their profit margins on loans will increase. Bank stocks outperformed last week and we're slowly adding names in this area to our Watch List. Several well-known Banks will begin reporting their 4th quarter earnings in less than 2 weeks which may set the stage for a rally in these stocks.

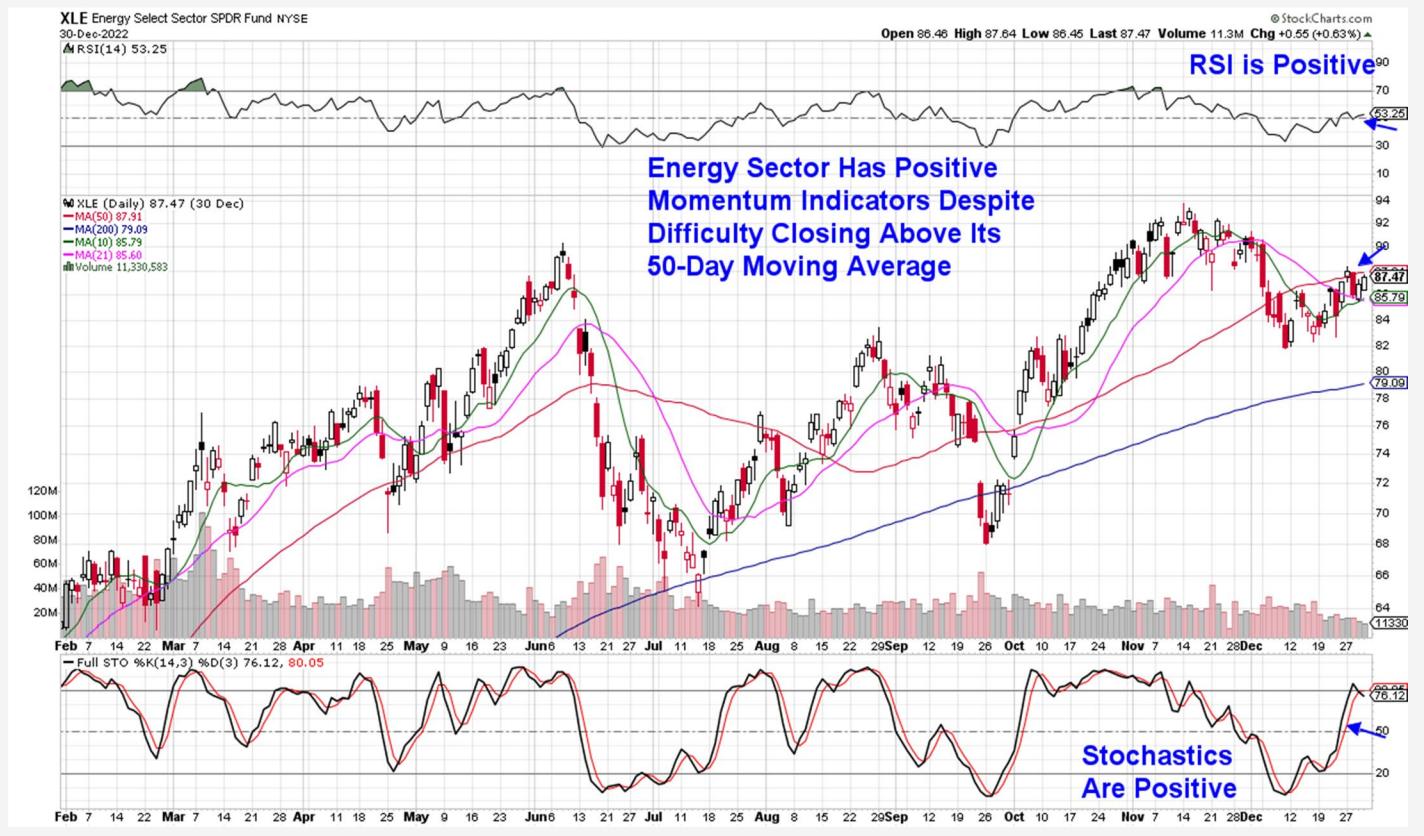
Last week, the economic calendar was light which helped keep recession fears at bay while providing a bit of a boost for Technology and Discretionary stocks. More defensive areas such as Utilities and Staples pulled back

Economic data releases pick up next week however, with key employment numbers for the month of December due out on Wednesday and also on Friday. Fed Chair Powell has repeatedly addressed the need for unemployment to increase so that wage and spending pressures can subside and thereby reduce inflation. Any strength in these numbers will be a negative for the markets.

Notes from the Federal Reserve's last meeting will be made public on Wednesday and investors will closely scrutinize the wording for clues to the Fed's policy plans. Of concern among investors is the length of time the Fed intends to keep interest rates elevated.



Energy Select Sector SPDR Fund (XLE)



Energy Sector Is Among Top Performers

Energy stocks posted a 0.7% gain which helped push the RSI into positive territory where it joined the already positive Stochastics. (using XLE). While this is quite constructive, the sector pulled back from a move above its key 50-day moving average earlier in the week.

Not all industry groups within Energy participated in last week's rally as there are clear cut areas of strength within this sector. In particular, Oil & Gas Field Services companies are the strongest as they've been able to raise prices for their services as demand for marine, drilling and technological solutions remains strong.

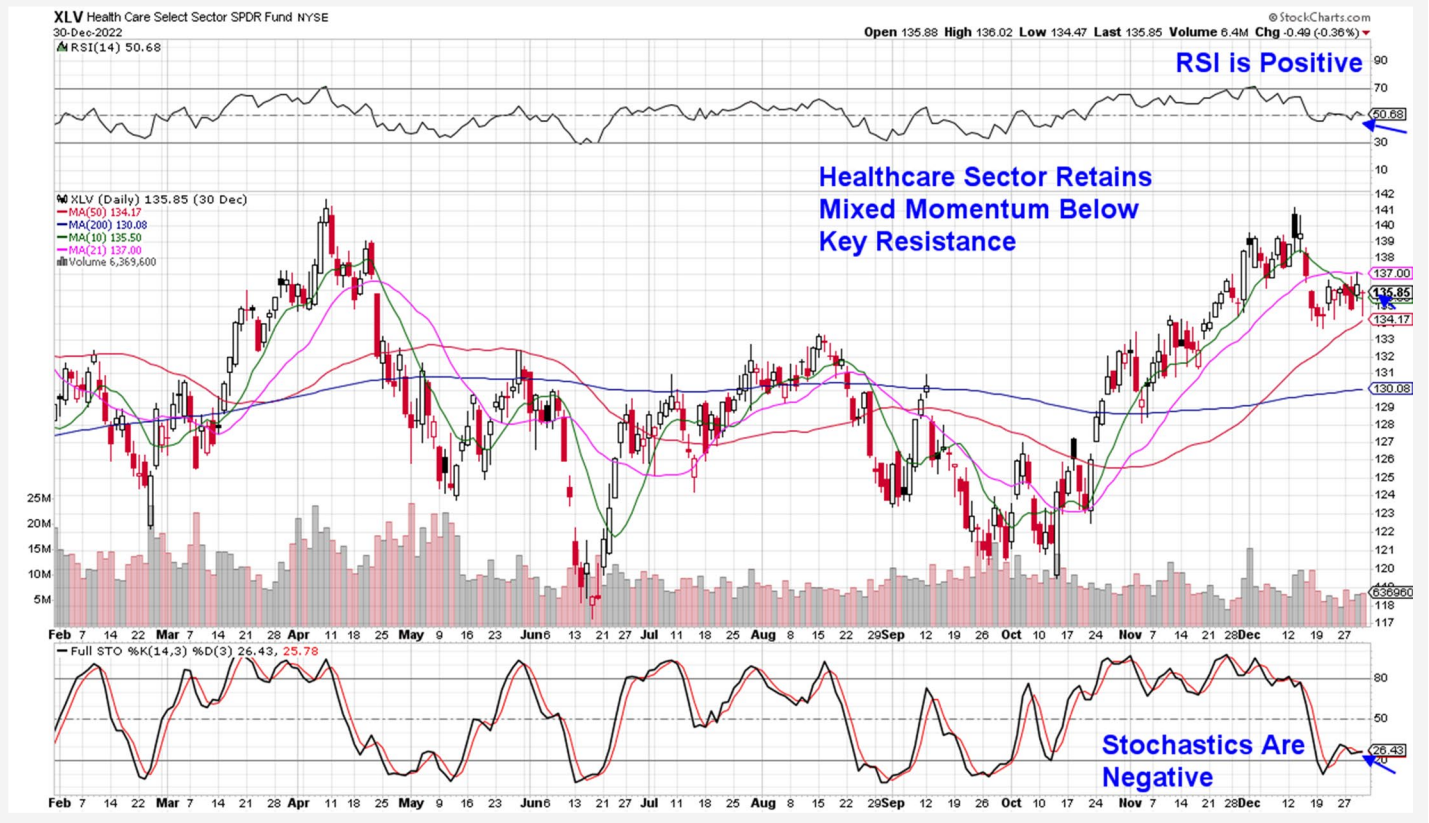
Energy companies more closely tied to the price of oil such as the Exploration and Production area are struggling of late with stocks such as Diamondback (FANG) and Occidental (OXY) trading sideways for the past month after a sharp pullback from new 1-year highs.

This week, we're adding Schlumberger (SLB), Haliburton (HAL) and Tidewater (TDW) to our Suggested Holdings List as each of these companies offer field services to Oil companies and each has seen their earnings estimates revised higher for this year.

Both SLB and HAL are due to report their 4th quarter earnings later this month and to have their estimates revised upward going into this report is generally bullish.

As mentioned earlier, Energy stocks are attractive going into 2023 with crude oil finding support above the \$85 per barrel level (using Brent crude pricing) amid natural resource scarcities due to macro and political events. At this time, companies that provide services to Oil Producers such as those we've added today, are the most attractive.

Health Care Select Sector SPDR Fund (XLV)



Healthcare Sector Remains Mixed

The Healthcare sector remains below its 21-day moving average which is the only area of possible upside resistance. A close above this level would put the sector into an uptrend.

Biotech stocks had a rough start to the week with a sharp pullback that pushed the ETF below its 50-day moving average with the RSI turning negative. IBB was able to regain some of those losses however, it remains below this key mav with its momentum in negative territory.

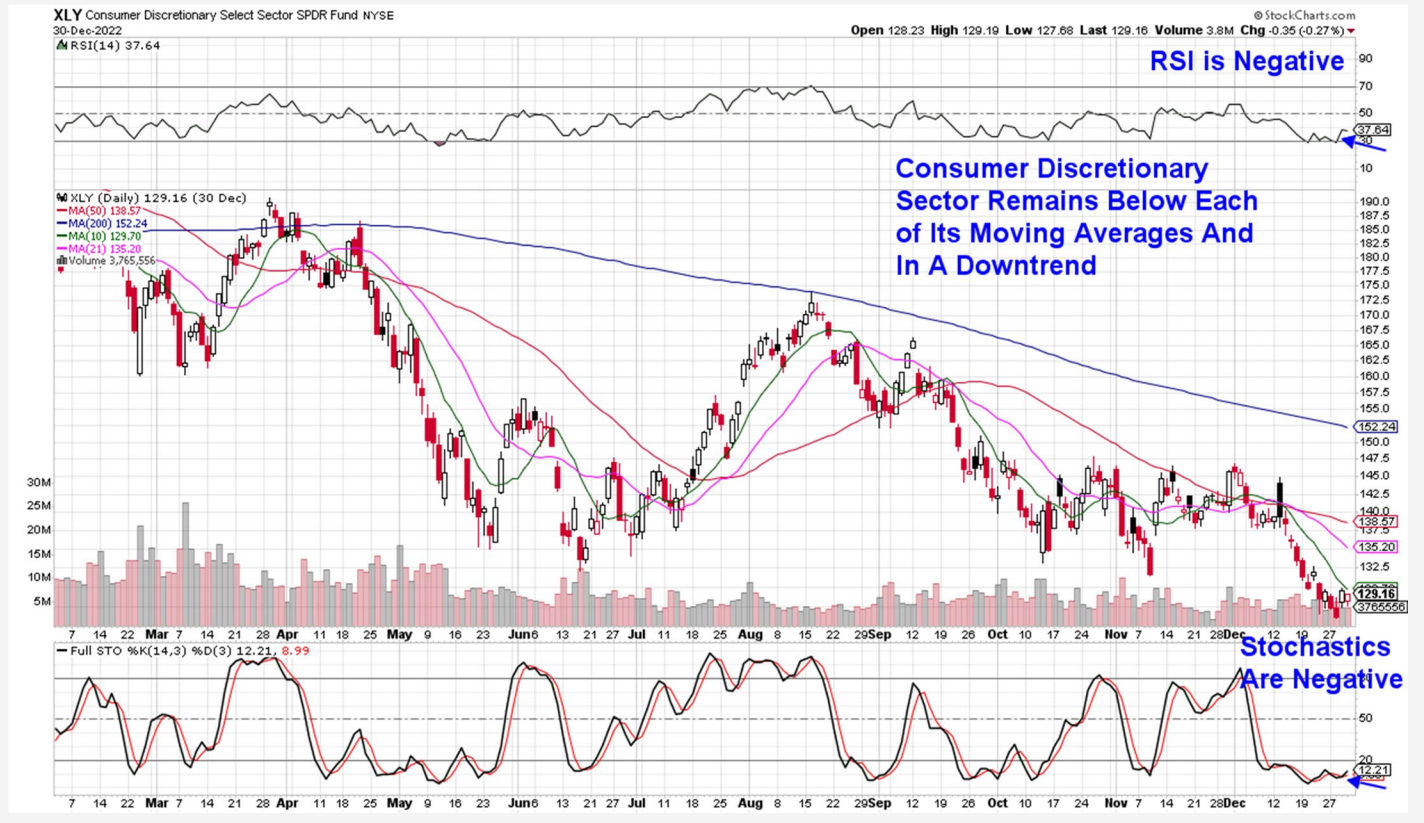
BioMarin (**BMRN**) from our List pulled back last week as well; however, the RSI and MACD remained in positive territory. A move above its shorter term moving

averages would put the stock back into an uptrend. Until then, we would not be a buyer of the stock.

Gilead Sciences (**GILD**) outperformed the group with a 1.3% gain that put the stock above its 10-day moving average. Both the RSI and MACD are in positive territory and a close above the 21-day moving average coupled with a positive MACD crossover (black line up through the red) would put the stock into a strong buy zone.

AstraZeneca (**AZN**) remains in a trading range with its momentum in positive territory. A close above its 10 and 21-day moving average would put the stock into a strong buy zone. AZN was unmoved after an announcement of the approval of 3 cancer drugs in Japan last week.

Consumer Discretionary Select Sector SPDR Fund (XLY)



Consumer Discretionary Sector Continues To Struggle

Consumer facing companies remain in a downtrend despite reports from last month that consumer confidence and spending levels both remain elevated.

One of the few bright spots continues to be Footwear companies such as Crocs Inc. (**CROX**) from our List which was the top performer among its peers last week. The stock had a 1-month base breakout on Tuesday which pushed the stock into an uptrend.

CROX is now finding support at its 5-day moving average and it's currently in a strong buy zone.

Home Depot (**HD**) continues to struggle as its trades in sideways price action below each of its shorter term moving averages. A move above its 10 and 21-day moving averages coupled with a positive MACD crossover (black line up through the red) would put HD into a strong buy zone. The stock can be held for now.

Summary

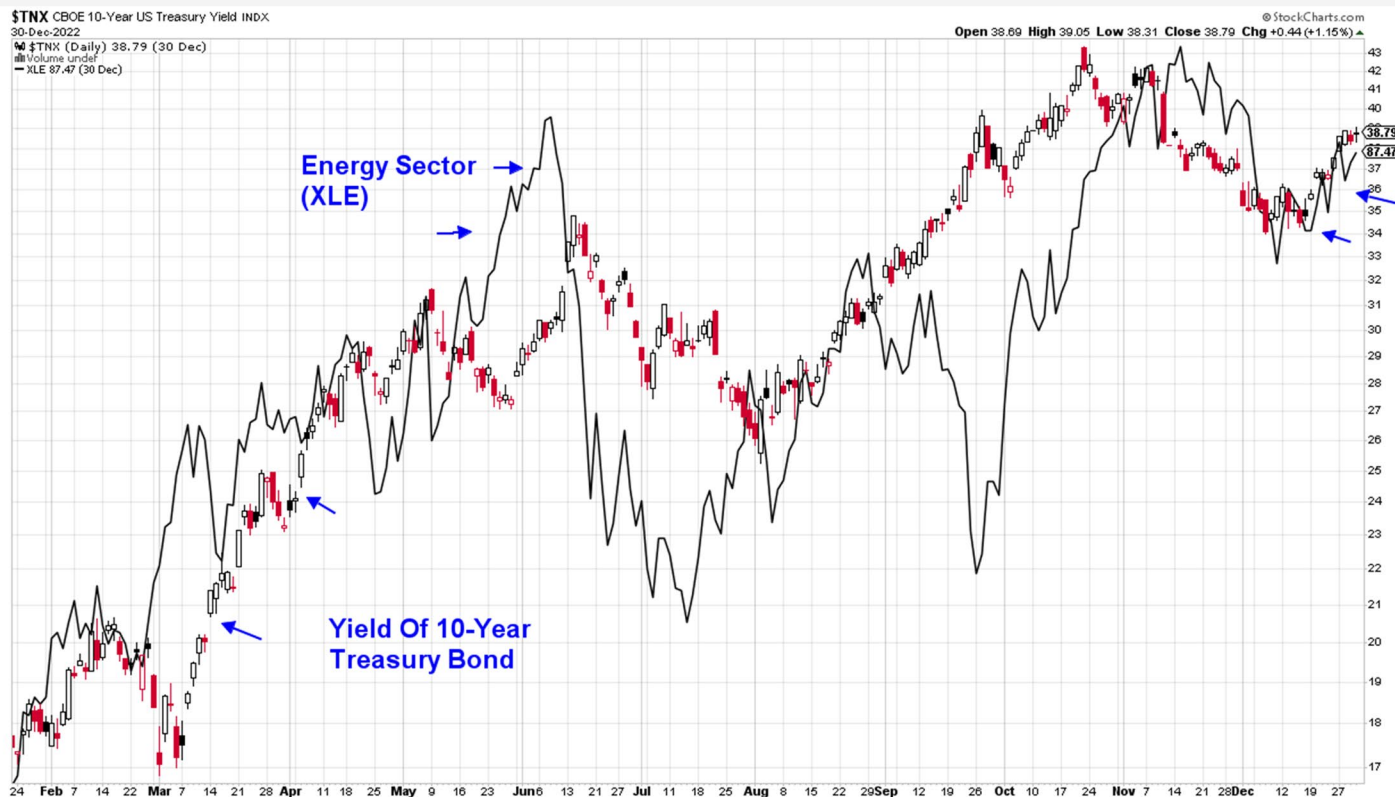
As we head into the New Year, it's important that we consider the possibility of a continuation of the move away from high growth technology and into more defensive areas that offer an attractive yield while also being able to maintain growth.

Other newer areas such as Gold, Silver and Energy stocks may also continue to move into favor as well. This is because we are in a period of rising interest rates amid elevated levels of inflation and this backdrop lacks an accommodative Federal Reserve who is instead tightening policy.

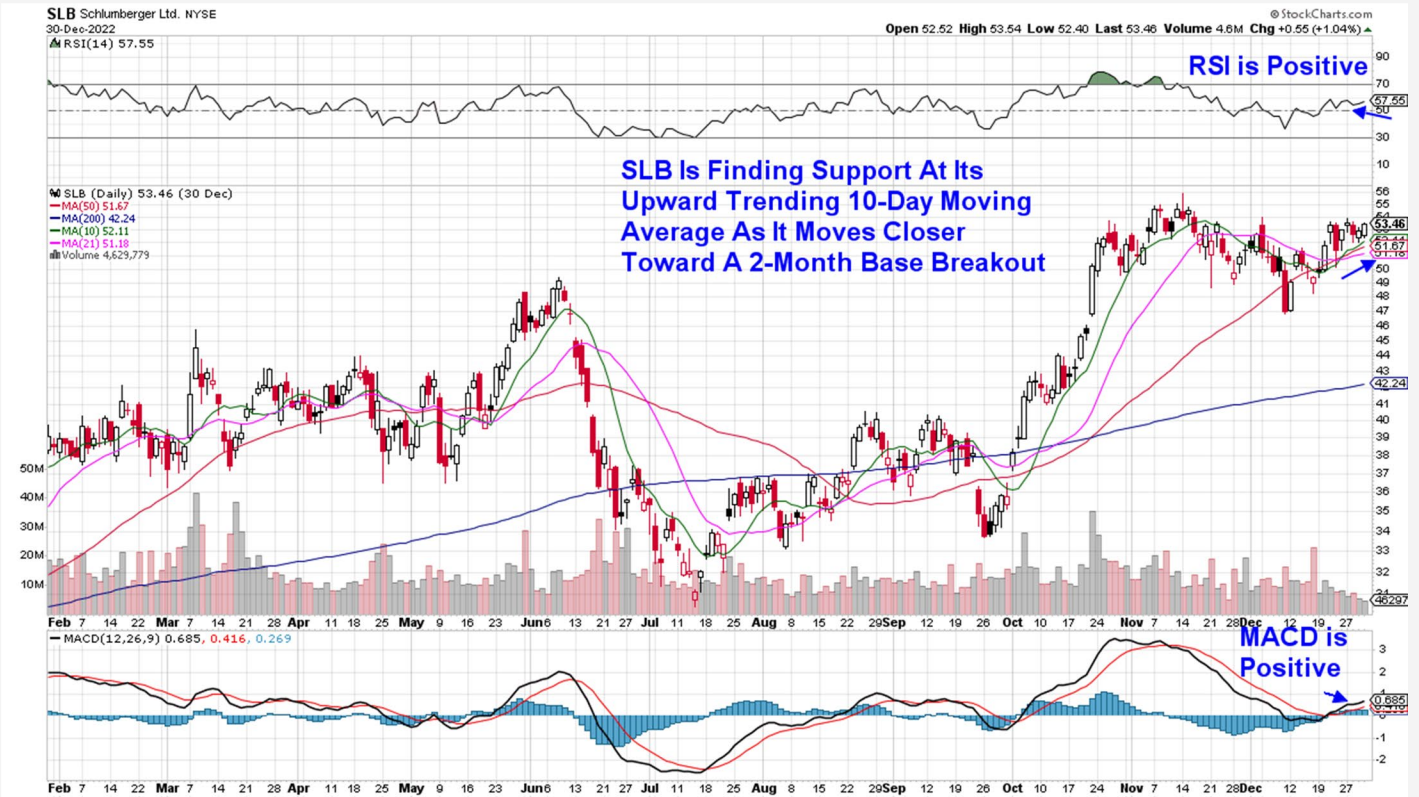
As for how long this scenario lasts, remains to be seen. According to Blackrock's head of global allocation, there are clear signs of inflation slowing even beyond what we've recently seen in food and used car prices. Other economists are also eying the recent moderation in inflation and are anticipating the Fed to pause its rate hiking campaign as soon as the first half of 2023.

Until we see confirmation of this possibility, we'll continue to favor more defensive areas such as Healthcare while also adding commodity related stocks as they turn constructive.

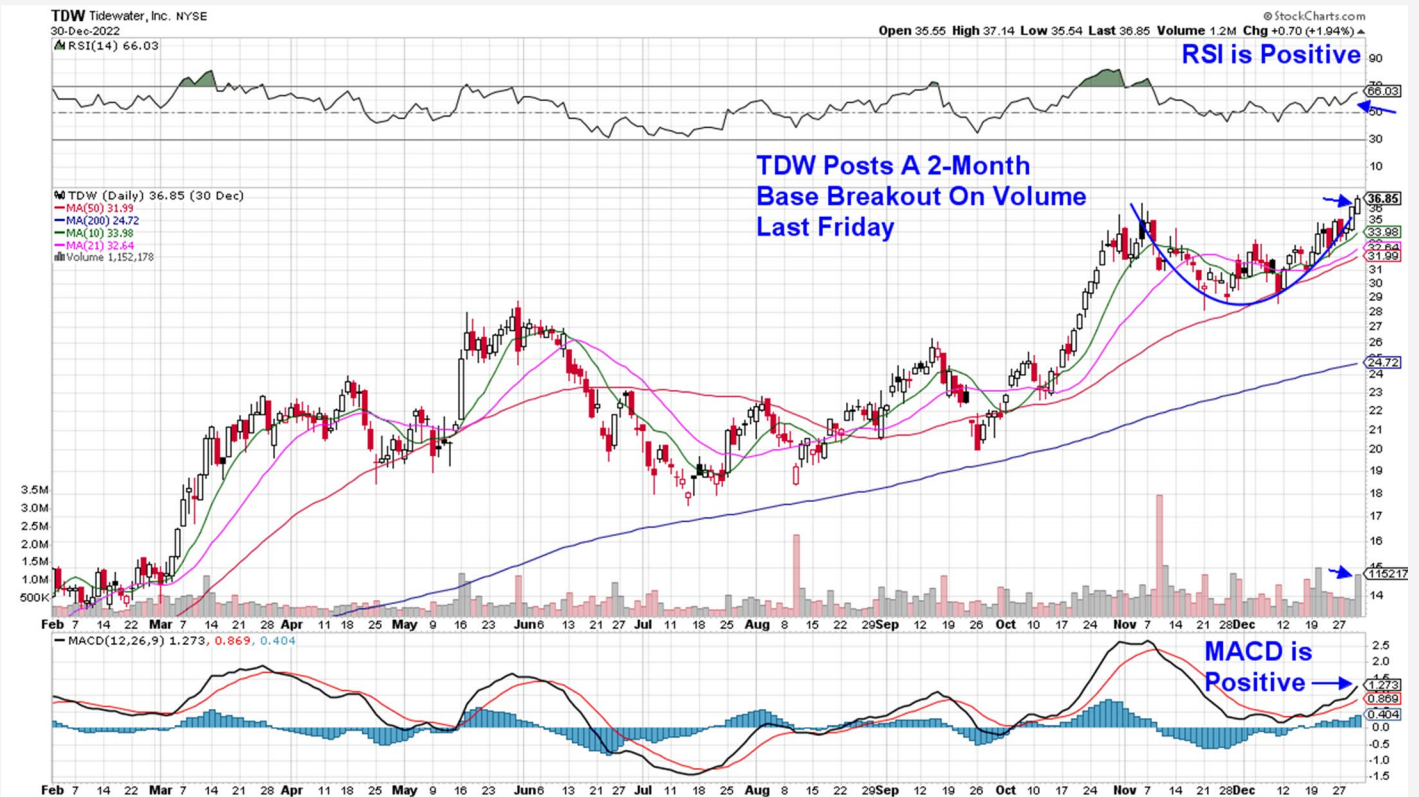
Daily Chart Of 10-Year Yield vs Energy Sector (XLE)



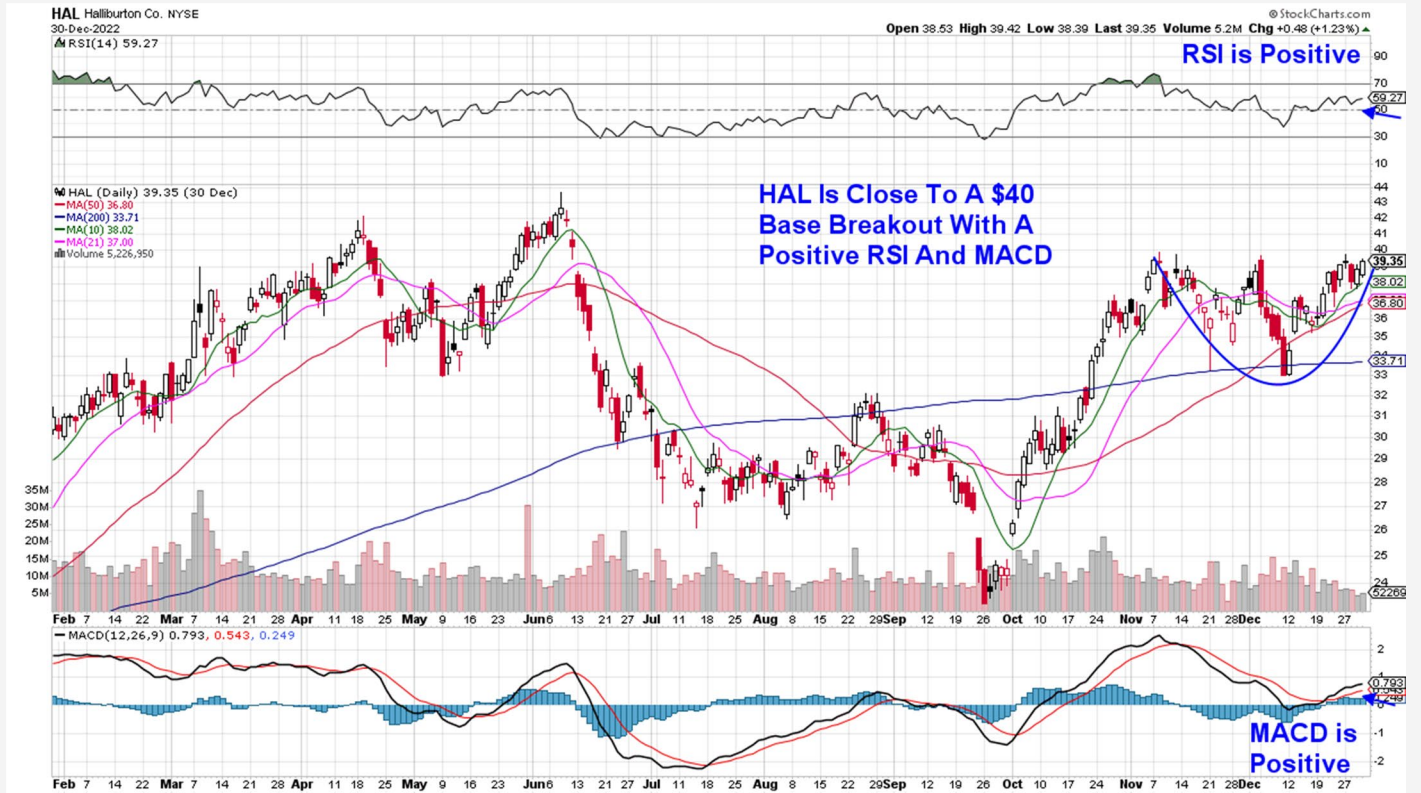
Daily Chart of Schlumberger Ltd. (SLB)



Daily Chart of Tidewater, Inc. (TDW)



Daily Chart of Halliburton Co. (HAL)



MEM Edge Report Suggested Holdings

Stocks With Emerging Leadership Characteristics

\$ = Earnings Due	Buy Zone	Strong Buy	Buy on Pullback	Removed From List
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SYMB	COMPANY	PRICE	DATE ADDED	PERFORMANCE	EARNINGS DUE DATE	INDUSTRY GROUP
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ENERGY

HAL	Haliburton	\$39.35	1/2/2023	-	24-Jan	Oil Equipment & Services
SLB	Schlumberger	\$53.40	1/2/2023	-	20-Jan	Exploration & Production
TDW	Tidewater	\$36.85	1/2/2023	-	3-Feb	Exploration & Production

CONSUMER DISCRETIONARY

CROX	Crocs Inc.	\$95.00	12/4/2022	5.0%	4-Mar	Retail
HD	Home Depot	\$326.40	11/27/2022	-2.5%	11-Feb	Retail

HEALTHCARE

AZN	Astrazeneca PLC	\$65.10	11/20/2022	-14.5%	10-Feb	Biopharmaceutical
BMRN	BioMarin	\$0.97	11/27/2022	-6.0%	26-Jan	Biopharmaceutical
GILD	Gilead Sciences Inc.	\$81.82	10/30/2022	-11.5%	7-Feb	Biopharmaceutical

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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