



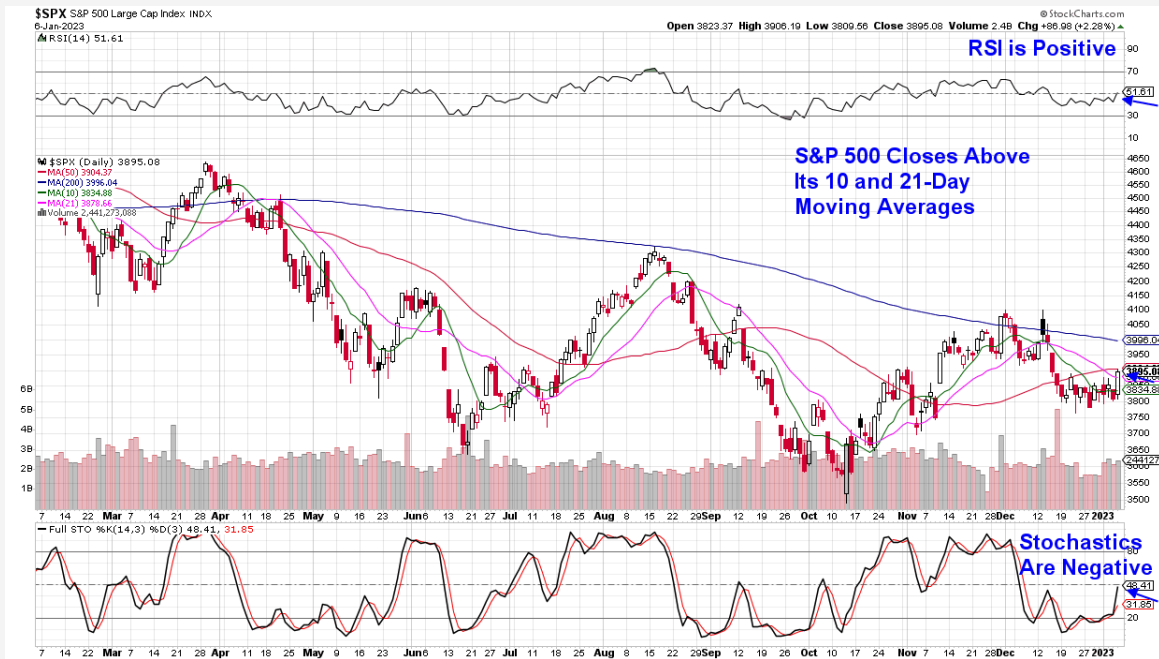
THE MEM EDGE

January 8, 2023 | Weekly Report

This Week's Highlights

- Federal Reserve Sees No Rate Cuts This Year
- China Eases Lockdown Restrictions
- Employment Data Shows December Increase In Jobs With A Slowdown In Wage Growth
- ISM Services Index Posts First Negative Reading Since Early Pandemic
- Core CPI, Powell & Other Fed Governors Speak Next Week

Daily Chart of S&P 500



The S&P 500 gained 1.5% for the week in a move that puts this Index above both its 10 and 21-day moving averages. While the move helped push the RSI into positive territory, the Stochastics are not quite there yet.

A close above the 50-day moving average - which is 0.2% away - coupled with positive Stochastics would have us bullish on the near-term prospects for the markets. Until then, we would cautiously enter any new positions.

As noted in last week's Report, bear market rallies need a positive RSI and Stochastics to signal a near-term uptrend and the S&P 500 would not need to be above each of its moving averages to qualify. (see chart below) In addition, positive inflation-related news would provide needed confidence in the uptrend as well, and Friday's weaker than expected employment data would qualify.

The Nasdaq gained less, with a 1% rally that had this Index closing above its 10-day moving average with the

21 and 50-day moving averages remaining as possible upside resistance. With the RSI and Stochastics in negative territory, we remain negative on the prospects for this Tech heavy, High Growth Index.

Last week was rather choppy until a Friday rally helped the markets close the week higher. The rally occurred after news that wage gains for the month of December were lighter than expected. The Federal Reserve has been vocal about the need for wage pressures to subside so that consumers would spend less, and thereby reduce inflation.

In addition, the ISM Services Index report for December posted a negative growth reading for the first time since May 2020. The surprisingly weak report had investors increasing the odds of a smaller-than expected rate hike in February.

In turn, interest rates fell sharply on Friday with the yield on the 10-year Treasury dropping to 3.6% and moving below the psychologically negative level of 4%.

Last week's drop in interest rates helped select areas of Growth, Financial and REIT stocks outperform, while more defensive areas posted only modest gains.

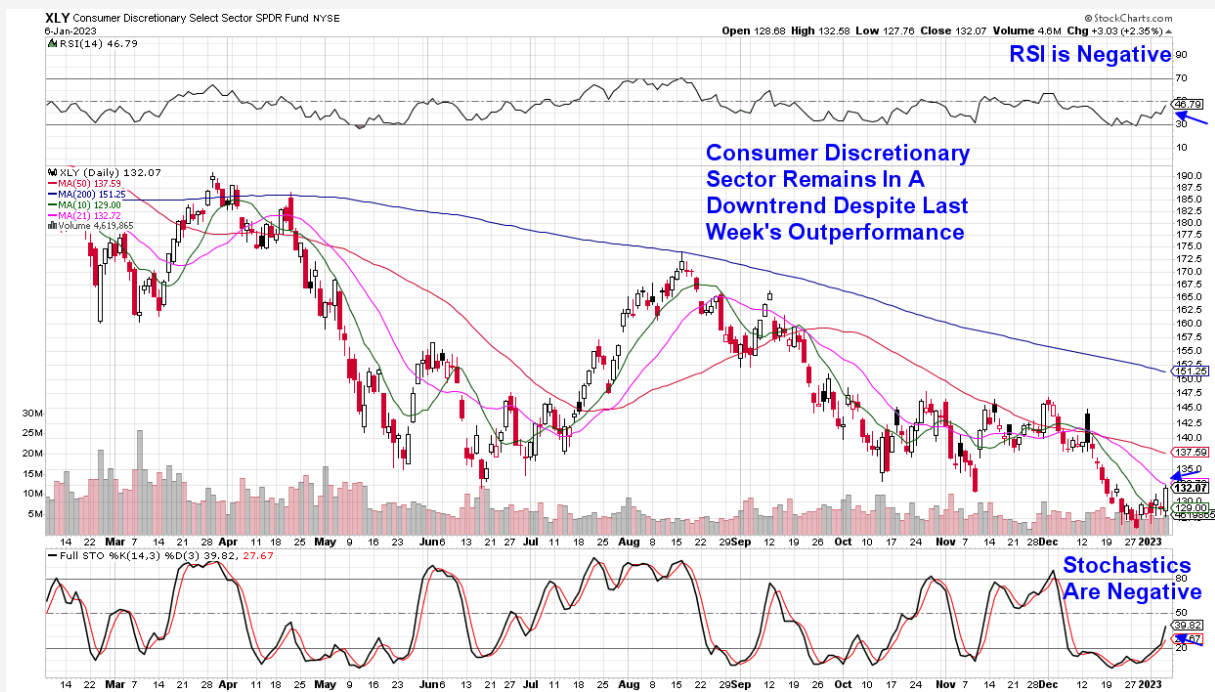
Among other market moving news last week was China's faster-than-expected January 8th reopening amid an easing of Covid policies after 3 years of restrictions.

The news pushed Chinese stocks up by 10% for the week on heavy volume with room for further near-term upside. (using MCHI). Due to China's dominance in importing commodities such as copper, steel, gold and lithium, stocks in these areas were among the biggest gainers on Friday following the news.

The shift in China's restrictive lockdown measures isn't the only area where the country has eased, as earlier in the week government officials signaled a softening of regulations against financial tech companies. The move was marked by Alibaba's (BABA) green light to raise funds which had been blocked 2 years ago and this stock as well as many others, rallied.

We anticipate the reopening of China to have a continued positive impact on select areas of the markets; however, next week's Core CPI report as well as potential comments from Fed Governors as well as Fed Chair Powell who are due to speak, may override this impact.

Consumer Discretionary Select Sector SPDR Fund (XLY)



Consumer Discretionary Sector Outperforms

Discretionary stocks also received a boost from China's reopening as U.S. companies that derive a portion of revenues from consumers there, posted sharp gains. This would include Starbuck (SBUX) - 11% of sales are from China - as well as Nike (NKE) which derives 17% of annual revenues from Chinese consumers.

Travel and Leisure related stocks also posted sharp gains as a rally in Macau casino stocks pushed other casino stocks higher. Cruise companies also traded higher in anticipation of increased business as well.

In the U.S., upbeat December sales numbers from Costco pushed the stock up 7.5% on Friday. The company is the first major retailer to provide insight into holiday sales, and the news endorsed a theory that sales came in late after a slow start in November.

Competitor retailer Walmart (WMT) bullishly moved back above its 50 and 21-day moving average on volume. The move puts the stock back into an uptrend however, we'd like to see the MACD cross into positive territory before adding the stock back to our Suggested Holdings List.

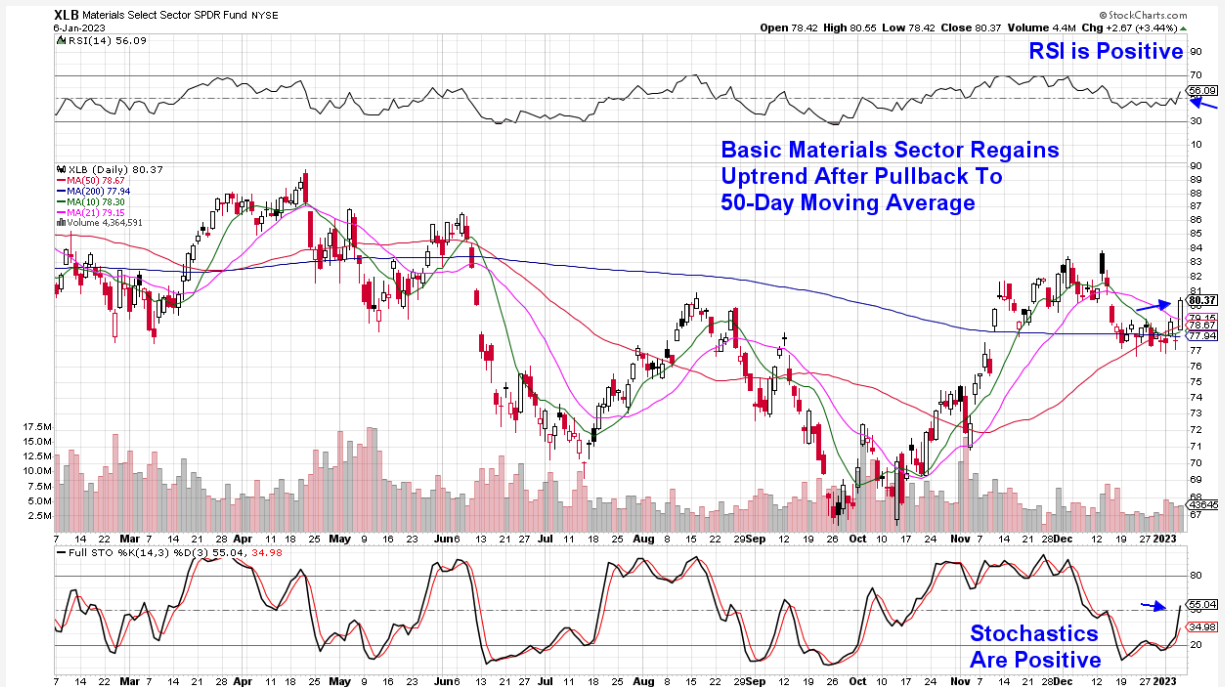
Discount Retailer Burlington Stores (BURL) is also a strong contender from our Watch List after last week's 1-month base breakout on volume pushed the stock into an uptrend. BURL is now overbought on its daily chart and we're looking for a pullback to the \$208 range before adding it to our Suggested Holdings List.

Footwear stock Crocs Inc. (CROX) from our List remains in a confirmed uptrend as it finds support at its upward 5-day moving average following last week's 2.5% gain. The stock pulled back from a near-term high on Friday and is in a buy zone.

Home Improvement companies were among the weakest retailers with companies such as Home Depot (HD) from our List languishing below 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.

While many Retail and Leisure related stocks posted strong gains last week, many remain below resistance at key moving averages. Continued positive news regarding holiday sales should help propel select stocks into uptrends. Until then, we'll continue to expand our Watch List.

Materials Select Sector SPDR Fund (XLB)



Basic Materials Sector Turns Positive

Last week's rally in Metals and Mining related stocks pushed this sector's RSI and Stochastics back into positive territory. With a close above its 21-day moving average, Materials are back in an uptrend.

While China's reopening news was a huge driver for these stocks last week, other factors were already at play with many analysts calling for supply shortages among commodities that will last well into next year. The shortages stem from a lack of investment in new mining or oil fields that is only recently being addressed.

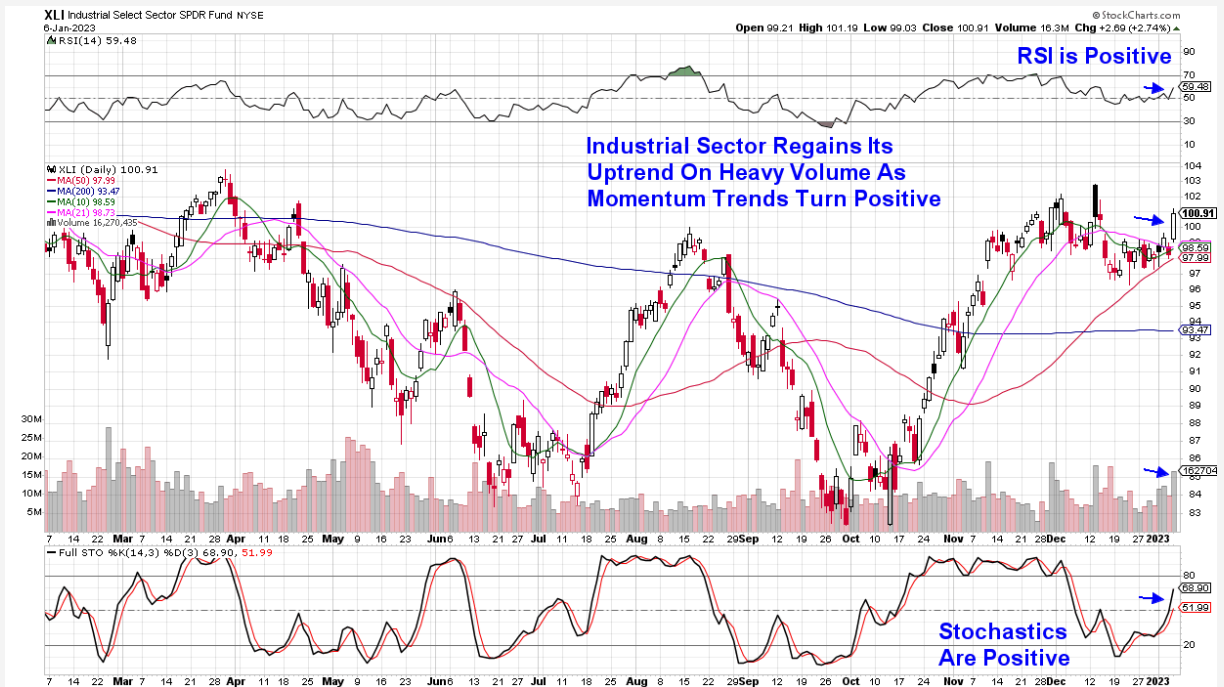
Rio Tinto (RIO) is a prime example as their CEO stated late last year that the company had missed iron ore production targets for 3 straight years due to failure of investing for the long term. The company also stated that they've turned a corner and are on track to deliver their best 2nd half production results this year.

The London based mining company broke out of a 3-week base on volume Friday in a move that puts RIO into a buy zone and we're adding it to our Suggested Holdings List. The 9.2% yielder is a bit extended and can be bought in the \$72 range which is its 5-day moving average.

Southern Copper Corp. (SCCO) also experienced a 3-week base breakout last week on above average volume however, Friday's gap up in price has placed the stock in an overbought position and we're on the lookout for a pullback into the \$63 range before adding it to our List.

Commercial Metals Co. (CMC) from our Watch List is due to report earnings on Monday and we'll be closely watching the results as well as guidance for growth going forward before adding the stock to our Suggested Holdings List.

Industrial Select Sector SPDR Fund (XLI)



Industrial Sector Regains Uptrend

China's reopening helped this sector as well, with Airline stocks posting sharp gains on the news.

Other areas in this sector are also moving back into focus such as Aerospace and Defense stocks. This is due to increased defense spending in the face of the ongoing war in Ukraine as well as elevated tensions between the U.S. and China remaining over the sovereignty of Taiwan.

The result has been an increase in defense spending which grew by \$75 billion for 2023.

This week, we're adding TransDigm (TDG) to our Suggested Holdings List after Friday's 2-month base breakout on volume. The company supplies highly engineered components for use on nearly all commercial and military aircraft.

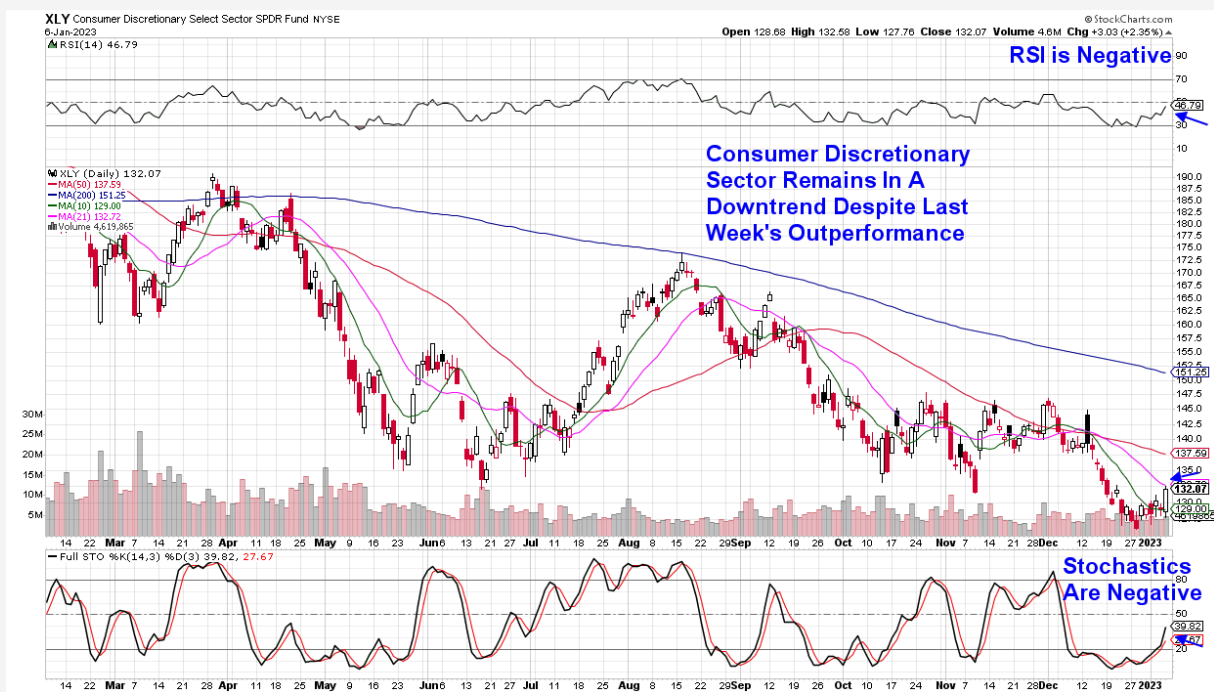
Analysts are anticipating an 81% spike in earnings when TDG reports early next month while also raising their estimates for the remainder of this year. The stock is in a buy zone.

We're also adding Caterpillar (CAT) to our Suggested Holdings List after last week's breakout above a 2-week flat base on Friday. CAT is among many industrial companies that are seeing supply chain issues recede so that they can more easily meet demand due to increased spending on infrastructure projects.

More importantly, CAT offers the broadest line of underground and surface mining equipment in the industry, and new capital expenditures from mining companies will benefit this division of the company as well. CAT is in a buy zone.

We anticipate adding additional names from this sector such as stocks from the Transportation Logistics area that are in the beginning stages of reversing recent downtrends. These stocks tend to be recession proof and are coming off of reporting solid Q3 results in November of last year. The London based mining company broke out of a 3-week base on volume Friday in a move that puts RIO into a buy zone and we're adding it to our Suggested Holdings List. The 9.2% yielder is a bit extended and can be bought in the \$72 range which is its 5-day moving average.

Health Care Select Sector SPDR Fund (XLV)



Healthcare Sector Is Worse Performer Despite Bright Spots

The Healthcare sector was hurt by a sharp pullback among Healthcare Providers such as Unitedhealth Group (UNH) which fell 7.5% amid analyst downgrades to their earnings ahead of next week's release of their quarterly results.

Other areas fared better with each of the stocks on our Suggested Holdings List outpacing the broader markets. Of note was Friday's vibrancy in Biotech stocks which in turn, pushed the ETF IBB back above its key moving averages on heavy volume.

While the ETF is now in a buy zone, we're more inclined to seek individual stocks as participation in the group has broadened out since we originally added IBB last October.

Astrazeneca (AZN) is now a hair away from a 3-week base breakout following last week's 4.5% rally on high volume. The company's large pipeline of possible drugs - more than 179 programs - is paying off with 19 drug approvals in the last quarter alone.

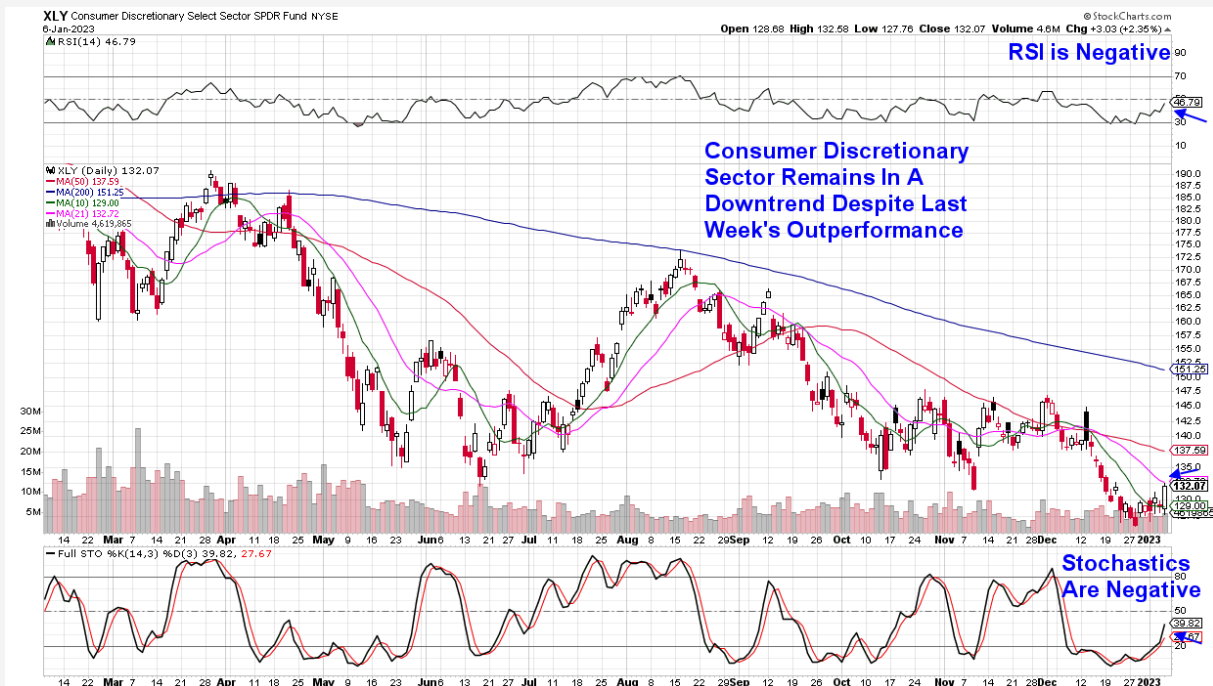
The news has analysts raising estimates ahead of AZN's earnings report early next month. The stock is in a buy zone.

Biomarin Pharma (BMRN) also had a strong week with a 5% rally that pushed the stock to a 1-month base breakout and to a new, near-term high in price. The gains followed news of Bank of America's price target upgrade to \$200 which is double the current price. The upgrade is due to a high conviction on the adoption of several new drugs. BMRN is in a buy zone.

Gilead (GILD) has been pushed into a new uptrend after closing above its 50-day moving average on volume Friday. The move puts GILD into a buy zone with a positive MACD crossover (black line up through the red) being even more positive for the near-term prospects for the stock.

We will continue to add stocks to this group as they turn positive such as Amgen (AMGN) which is close to a move back above its 21-day moving average which would put this 3.1% yielder back into an uptrend.

Energy Select Sector SPDR Fund (XLE)



Energy Sector Ends The Week Flat

Last week, Brent crude oil prices dropped by 8% in a move that negatively impacted many Exploration and Production companies where revenues are more closely tied to the per barrel price of oil.

As stated in our report last week, this synergy has us staying away from E&P stocks such as Devon (DVN) and Apache (APA) which were big winners in the beginning of 2022 when oil prices were ramping up amid Russia's invasion of Ukraine.

Instead, our focus is on Oil & Gas Field services companies that offer technological solutions that increase productivity and efficiency to these oil production companies.

Schlumberger (**SLB**) and Haliburton (**HAL**) are both known leaders with **SLB** known for their technology that reduces emissions while **HAL** manages drilling conditions and other services.

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Haliburton experienced a 2-month base breakout on Friday and is in a buy zone while Schlumberger is forming the right side of a base on its way to a possible similar base breakout and is also in a buy zone. **SLB** is due to report earnings in less than 2 weeks time.

Tidewater (**TDW**) is a smaller field services company that offers support by way of marine vessels and on Friday, the stock successfully closed above its 10-day moving average on volume which puts the stock into a buy zone. We're also adding Caterpillar (**CAT**) to our Suggested Holdings List after last week's breakout above a 2-week flat base on Friday. **CAT** is among many industrial companies that are seeing supply chain issues recede so that they can more easily meet demand due to increased spending on infrastructure projects.



Summary

While last week's price action was dictated by the release of FOMC notes on Wednesday, as well as employment and the ISM service sector report on Friday, other news held even more import.

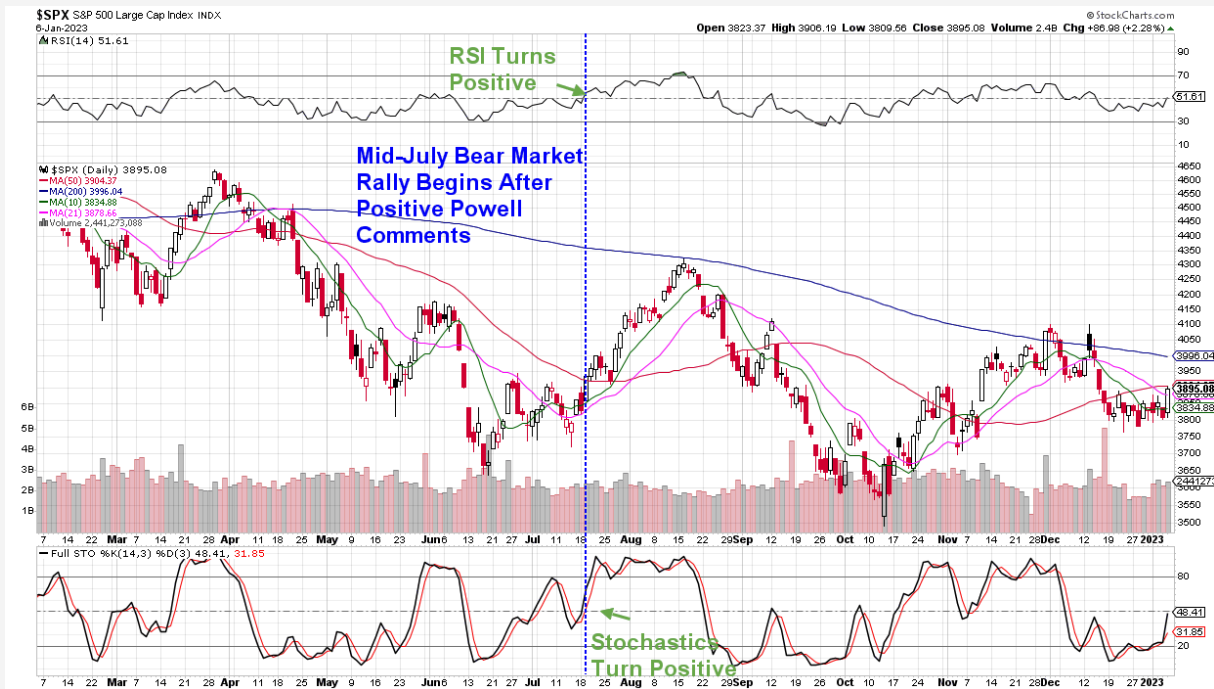
Strong earnings from Semiconductor stock AEHR spurred a rally in this group which gained 4.5%, while a positive December sales report from Costco (COST) pushed this stock as well as other retailers higher.

The sharp response to reports of corporate growth highlights the impact that 4th quarter earnings reports may have on the markets. Earnings season begins next Friday, with well known Banks as well as airline stock Delta (DAL) due to release results.

Next Thursday's release of the December Consumer Price Index (CPI) will also be closely watched with the core number - which excludes volatile energy and food costs - expected to have the most sway.

Overall, we anticipate last week's generally positive sentiment to continue into next week particularly given China's news of an early reopening. However, speed bumps may emerge with key inflation data as well as 4th quarter earnings reports due to be released.

Daily Chart of S&P 500



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
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ENERGY

HAL	Haliburton	\$39.35	1/2/2023	2.0%	24-Jan	Oil Equipment & Services
SLB	Schlumberger	\$53.40	1/2/2023	2.0%	20-Jan	Exploration & Production
TDW	Tidewater	\$36.85	1/2/2023	2.0%	3-Feb	Exploration & Production

CONSUMER DISCRETIONARY

CROX	Crocs Inc.	\$95.00	12/4/2022	7.5%	4-Mar	Footwear
HD	Home Depot	\$649.00	11/27/2022	-2.0%	11-Feb	Retail

HEALTHCARE

AZN	Astrazenica PLC	\$65.10	11/20/2022	-0.5%	10-Feb	Pharmaceuticals
BMRN	Bio Marin	\$108.71	11/27/2022	14.0%	26-Jan	Biotechnology
GILD	Gilead Sciences Inc	\$81.82	10/30/2022	10.5%	7-Feb	Biotechnology

Industrials

CAT	Catepillar Inc.	\$248.80	1/8/2023	-	31-Jan	Commercial
TDG	Trandsdign Group Inc.	\$649.00	1/8/2023	-	10-Feb	Aerospace

Basic Materials

RIO	Rio Tinto Plc Adr	\$74.00	1/8/2023	-	14-Mar	Mining
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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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