



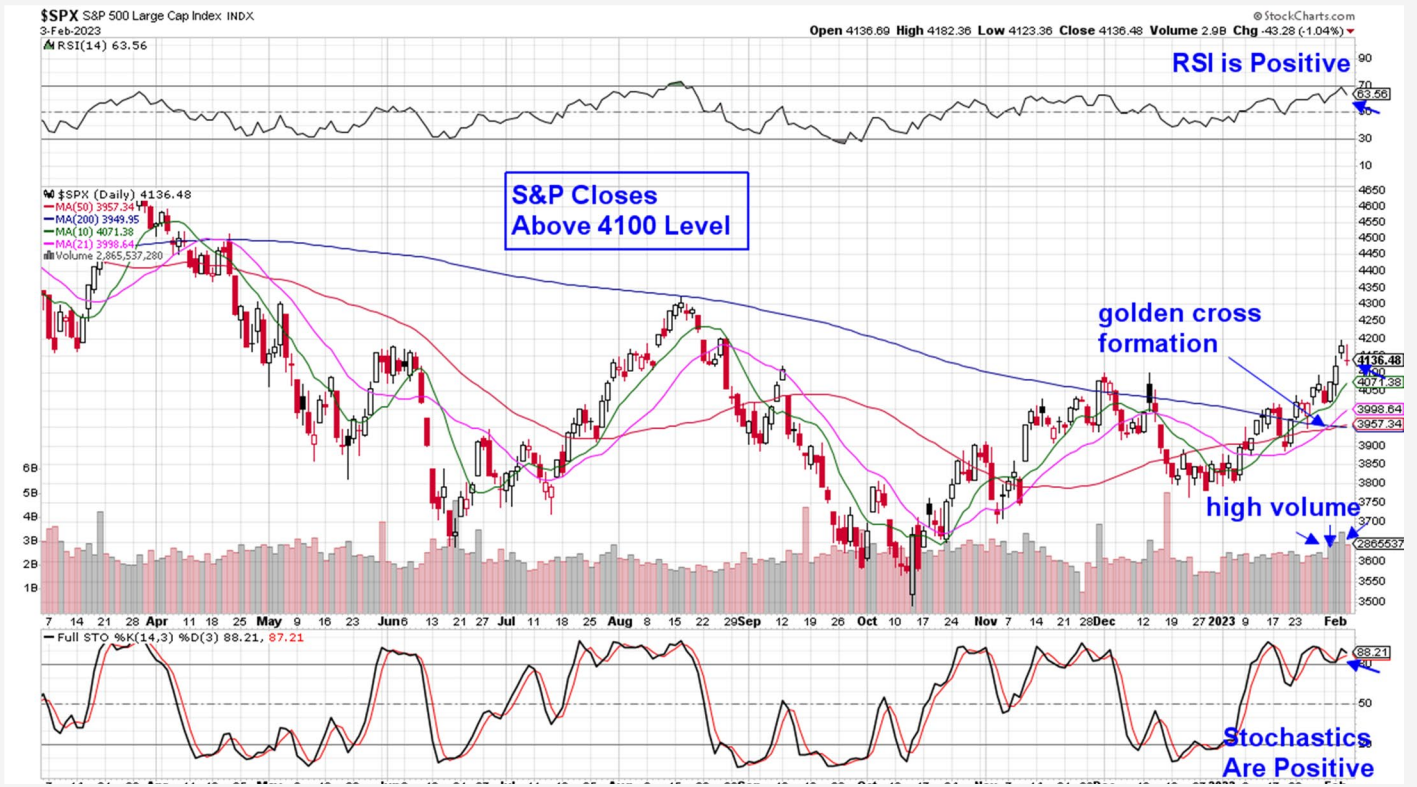
THE MEM EDGE

February 5th, 2022 | Weekly Report

This Week's Highlights

- Federal Reserve Lifts Rates By ¼ Percent and Signals Ongoing Increases
- Powell Acknowledges Beginning Stages Of Deflation
- U.S. Employment Cost Index Slows But Remains High
- January Employment Numbers Show Largest Gain In Six Months
- Economic Calendar Is Quiet Next Week

Daily Chart of S&P 500



The S&P 500 gained 1.6% for the week in a move that has this Index closing above the closely watched 4100 level which was viewed as an important area of possible resistance. With the RSI and Stochastics in bullish territory, we remain positive on the near-term prospects for the markets. Last week's high volume on rally days provided even more conviction.

Last week, the 50-day moving average crossed above the longer-term 200-day moving average which is known as a golden cross formation. While this signal is

viewed as a secondary bullish event, it is significant nonetheless with the last occurrence being in early July of 2020 and prior to that, March of 2019.

A weekly chart of the S&P 500 can be used with the 10-week (or 50-day) moving average line crossing above the 40-week (or 200-day) moving average. This bigger picture view will highlight the significance of this moving average crossover as the markets have gone on to subsequently advance higher each time.

The weekly chart of the S&P 500 is also in a bullish position with its RSI and Stochastics in positive territory. This improves our longer-term conviction in the market's ability to trade higher.

The first area of possible support for the S&P 500 is the 10-day moving average which is 1.6% away. The 4000 level (at the 21-day moving average) is a more critical area of possible support. A close below this level would shift our confidence - particularly if it occurs on heavy volume.

The Nasdaq fared quite a bit better than the S&P 500 with a 3.3% gain that was led by outperformance in most of the FAANMG stocks. Meta Platforms (**META**) provided the biggest boost after rallying 23% following their report of better than expected corporate results.

Retailers and Semiconductor stocks also helped push the Nasdaq higher as Growth stocks continued to post strong gains amid better than expected earnings results.

Another positive backdrop for Growth stocks this year has been a decline in interest rates with the yield on the 10-year dropping to the 3.3% level on Thursday. Rising interest rates are a negative for Growth stocks as they reduce the value of future earnings.

The Nasdaq's RSI was in an overbought position on the daily chart before a Friday pullback pushed this momentum indicator back into a less elevated level. An overbought condition (RSI above 70) in a major Index signals that a pullback is on the horizon. If the RSI turns negative however, this signals further downside ahead.

Below is a 3-year chart of the Nasdaq where I've highlighted an overbought RSI position with a dashed vertical line. As you'll see, when the RSI turns negative on this daily chart, a longer downtrend occurs. Additional conditions also preceded bigger losses such

as a break below key support, loss of leadership or an increase in interest rates.

One possible threat for the markets at this time is a rise in interest rates. Yields rose on Friday following a strong employment report for January. While we don't anticipate this, any continued rise in rates would endanger the current uptrend in the Nasdaq. (see chart below of Nasdaq vs 10-year yields).

Friday's rise in interest rates pushed the U.S. dollar higher as well, which caused Gold, Oil and other commodities to drop.

Events last week may prove to be pivotal for the markets with Wednesday's sharp rally occurring on the heels of comments from Fed Chair Powell who stated that "we can now say for the first time that the disinflationary process has started".

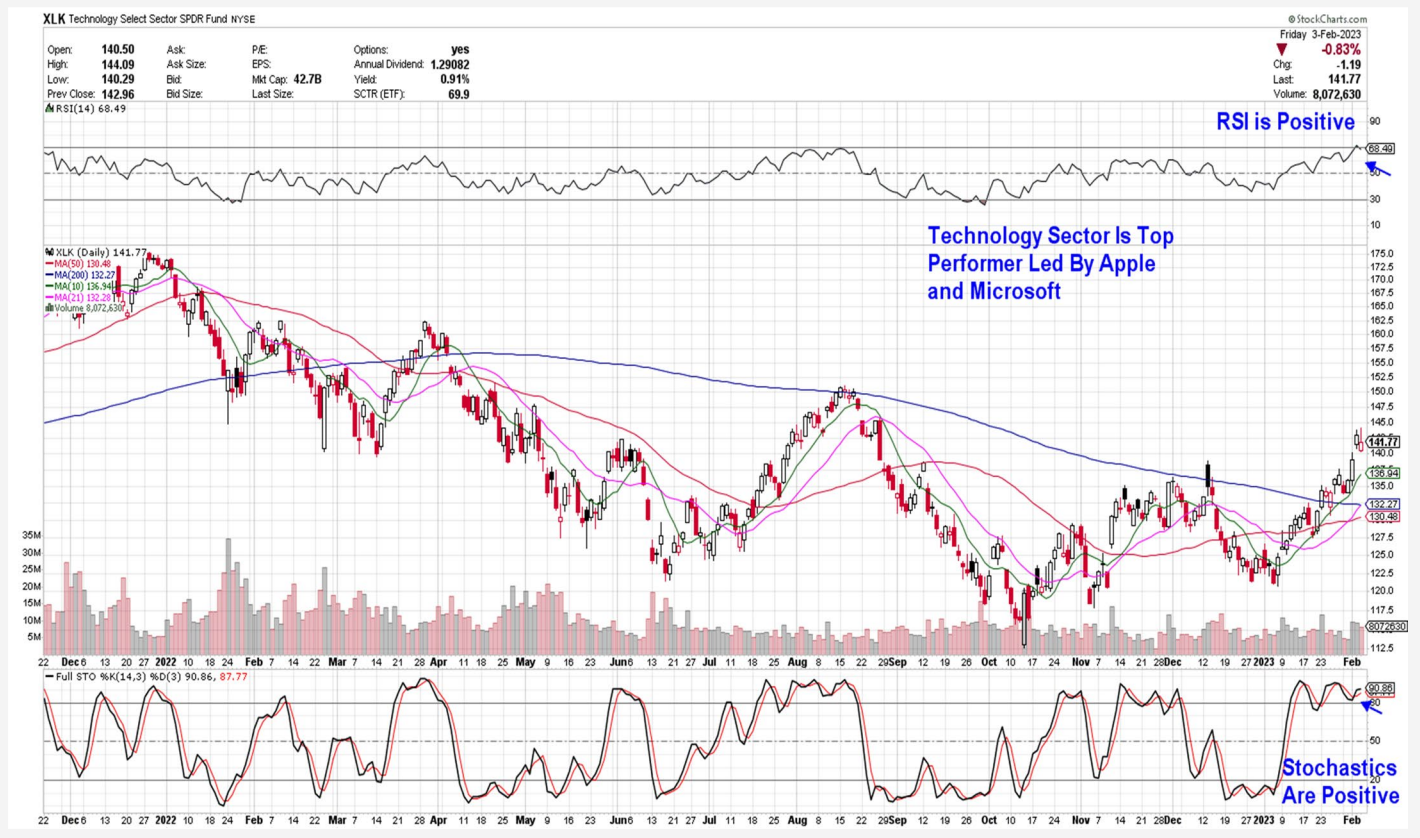
As noted in the past, markets emerge out of a bear cycle after the event that pushed it there, is removed. High inflation was the reason the markets went into a bear phase last year and the Fed's acknowledgement that it's beginning to recede, is big news.

In addition, a new bull phase is marked by an expansion in the number of base breakouts among stocks and this list has expanded over the past several weeks.

While we're positive on the prospects for the markets, we would await further confirmation of a new bull cycle before getting fully exposed. This would include further signs of reduced inflation such as January's CPI report which is due mid-month.

Next week we may see a continuation of Friday's pullback as the markets digest their recently strong advance. With a dearth of economic data, the focus will be on corporate earnings releases as well as any movement in interest rates or the U.S. dollar.

Technology Select Sector SPDR Fund (XLK)



Technology Sector Outpaces Broader Markets

The Tech sector gained 5.1% last week led by outperformance in mega-cap Apple (AAPL) and Microsoft (MSFT) which rallied 6% and 4% respectively. Both stocks have regained their 200-day moving averages on above average volume which points to further possible upside.

Also boosting this sector was outperformance among Semiconductor stocks which was led by gains in companies that reported earnings last week that were above estimates. Semi companies that are posting the largest gains are those that provide chips or equipment that are focused on key industries such as automotive, industrial and artificial intelligence (AI).

Lattice Semiconductor (LSCC) focuses on the automotive and industrial markets as well as others and late last year the company introduced their newest chip design platform which will double its addressable market.

Analysts are continuing to revise their estimates higher for the company ahead of the release of their earnings later this month. LSCC is in a strong buy zone after a Friday pullback to its 5-day moving average.

Nvidia (NVDA) is seeing growth due to the increased popularity in ChatGPT which is an AI-powered language

tool. NVDA provides the fastest AI GPU's which is viewed as giving them an edge over their competition.

NVSA is overbought following its recent rally and can be bought on a pullback to the \$205 level at its 5-day moving average. The weekly chart for this stock is particularly compelling with the MACD entering positive territory last week. This improves the longer term prospects for this stock.

A S M L (ASML) has lagged its peers of late despite reporting quarterly results that were ahead of estimates over a week ago. In addition, analysts are revising growth estimates for 2023 as well as 2024. The stock is in a buy zone after Friday's pullback to its 10-day moving average; however, we would not overweight the stock given its relative underperformance.

Software stocks pulled back the most on Friday among Growth stocks. These companies are historically more sensitive to any rise in interest rates as it decreases the future value of recurring revenues from subscribership income.

As mentioned, on Friday the yield on the 10-year Treasury shot up following stronger than expected employment data.

ServiceNow (**NOW**) outperformed its peers with a 3% gain which took place on above average volume. The gains followed their release of quarterly results the prior week which were above estimates. In turn, 8 major Wall Street firms raised their price target to as high as \$600. (NOW closed last week at \$472).

The stock is in a buy zone following Friday's pullback to its 5-day moving average.

Adobe (**ADBE**) performed in line with other Software stocks (using IGV) and the stock is also in a buy zone following a Friday pullback to its 5-day moving average.

Renewable Energy Equipment stocks pulled back 4.7% for the week amid downgrades to heavyweight names such as First Solar (**FSLR**). The stock pulled back further than the group following comments from Bank of America analysts who cited their opinion that the benefits of the Inflation Reduction Act are already built into these stocks.

We're removing FSLR from our Suggested Holdings List as last week's pullback pushed the RSI into negative territory on its daily chart.

Consumer Discretionary Select Sector SPDR Fund (XLY)



Consumer Discretionary Sector Reverses Downtrend

The Consumer Discretionary sector reversed its downtrend after closing above its 200-day moving average on above average volume. The gains were led by a rally in heavyweight stock Tesla (**TSLA**) as well as beaten down Retail names that are beginning to reverse their downtrends.

Recently added auto stock General Motors (**GM**) pulled back from a \$41.6 base breakout on Friday following their release of much better than expected earnings on Tuesday. The company cited strong sales of full-size trucks and large SUVs as adding to their profits.

Going forward, GM is entering the 2nd phase of its EV strategy and will offer nine models this year which will boost sales. Recent news that the company invested

\$650 jointly with Lithium Americas to develop the largest known supply of lithium in the U.S. also has Wall Street excited as it will help them better manage battery cell costs. GM can be bought on a pullback to the \$39.5 range at its 5-day moving average.

Among restaurant stocks, Wingstop (**WING**) outperformed last week with a 5.2% gain that took place on above average volume. The leading restaurant stock is approaching a \$171 base breakout level ahead of the release of its earnings later this month. The stock is in a strong buy zone

Footwear stocks which had been strong going into the new year, underperformed last week despite strong results from names such as Deckers (**DECK**) from our List. The stock closed the week below its 21-day moving

average on above average volume. We would not be a buyer until DECK moves back above its 10-day moving average.

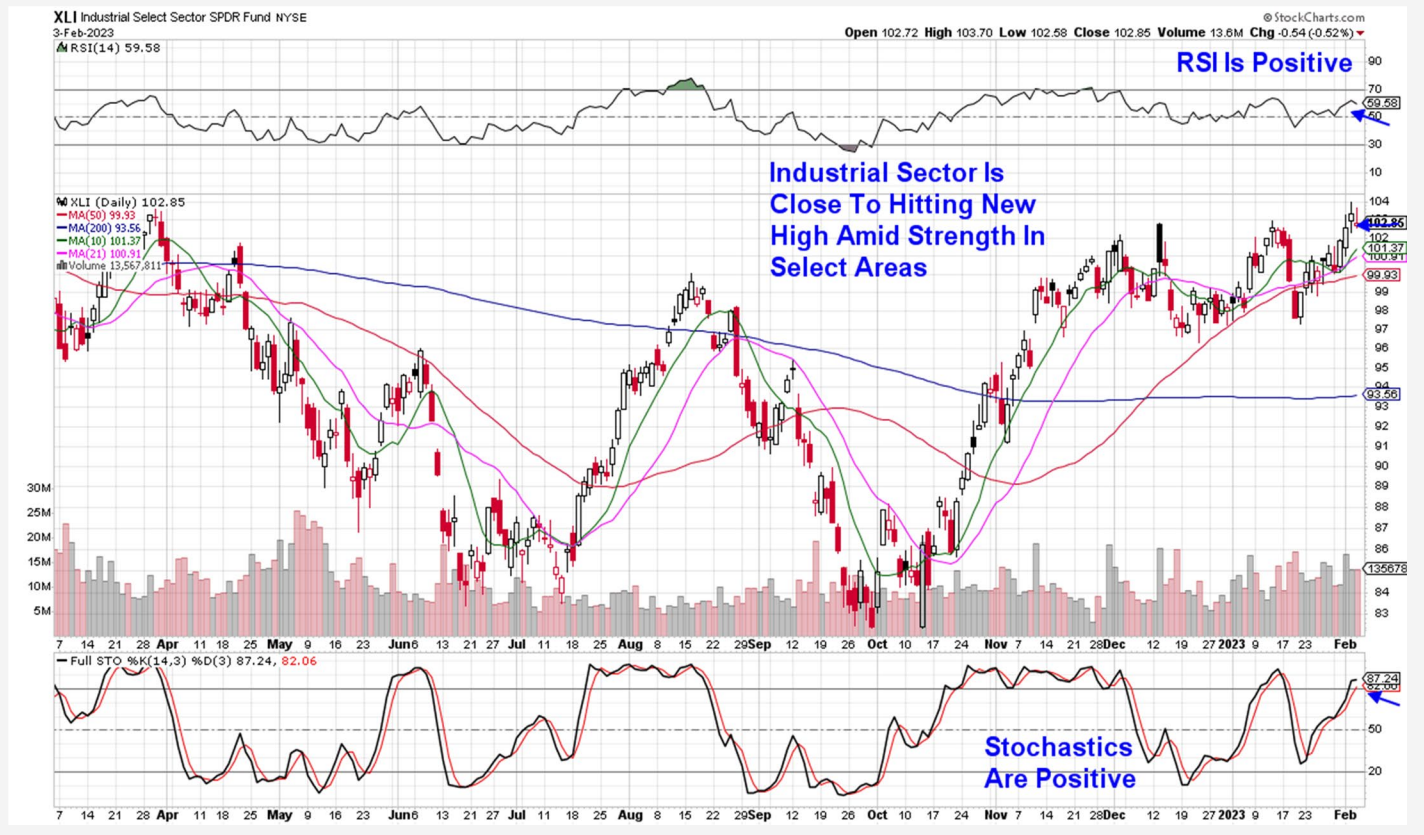
Crocs Inc. (CROX) experienced a Friday pullback as well before finding support at its 21-day moving average. The company is due to report earnings in 2 weeks and analysts are revising earnings estimates higher. We'd need to see CROX inch back above its 10-day moving average before being a buyer.

Recently added Chewy (CHWY) remains above its 7-week base breakout at \$48 and can be bought in the

\$47 range at its 5-day moving average. The online pet products provider is finally in a position to improve profitability due to higher sales per customer as well as their fulfillment automation. CHWY will release earnings next month.

Next Friday, Consumer Confidence numbers will be released and these numbers have been impactful to retail stocks in the past. In addition, widely followed restaurant stock Chipotle (CMG) from our Watch List is due to report quarterly results on Tuesday.

Industrial Select Sector SPDR Fund (XLI)



Industrial Sector Close To New High Despite Underperformance

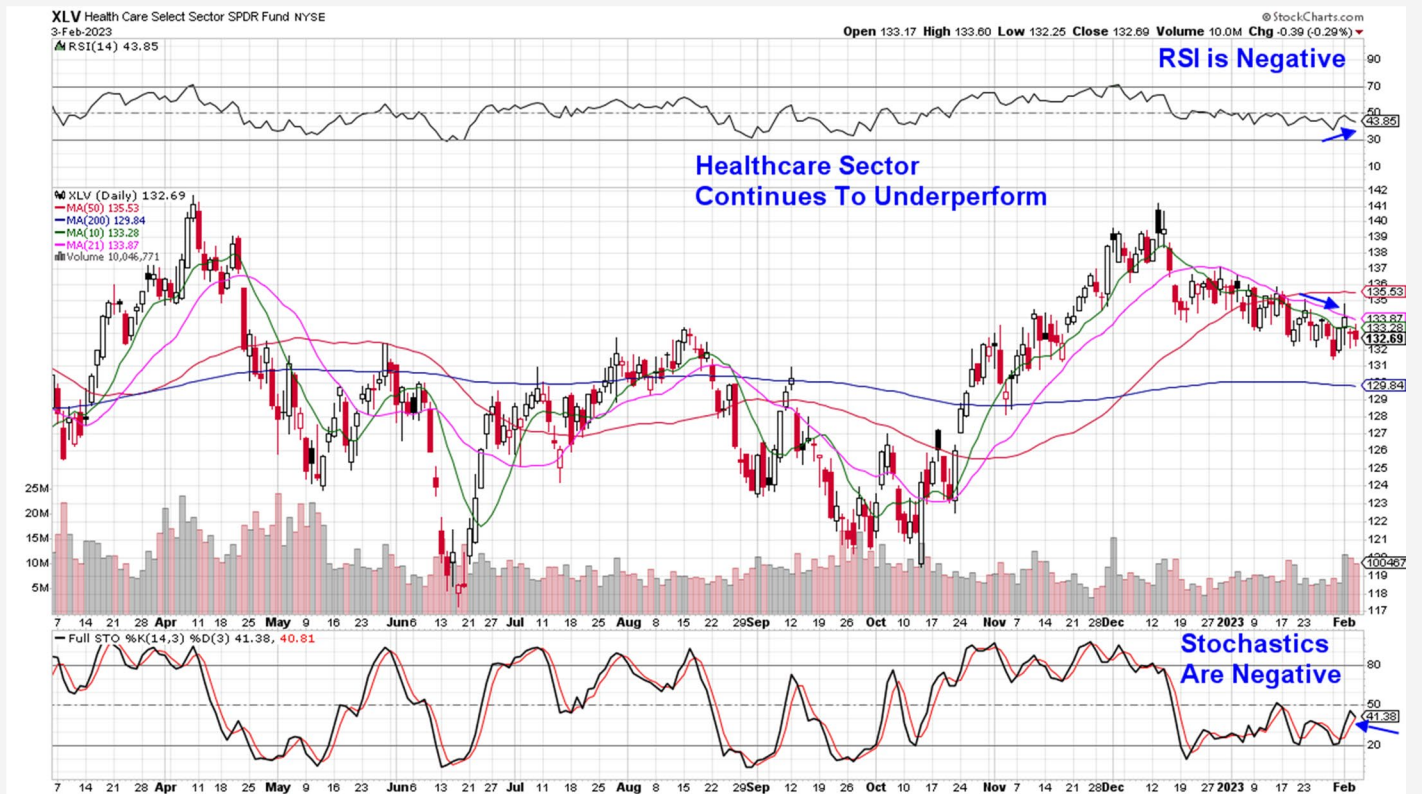
The Industrial sector traded higher led by Transportation stocks such as Airlines, Truckers and Rails which are gaining amid better than expected earnings reports. The gains pushed the Dow Jones Transportation average up by 7.2% for the week.

Other bright spots in this sector include select Aerospace related stocks such as Transdigm (TDG) from our List which remains in a confirmed uptrend ahead of the release of their earnings on Tuesday. TDG is "priced

for perfection" given its recent run up to new highs ahead of the report.

The move to new highs ahead of earnings is similar to Caterpillar (CAT) who reported results last week that were a bit lower than expected due to currency headwinds. The stock sold off on the news however, CAT has found support at its 50-day moving average. We would not be a buyer of the stock until it closes back above its 21 and 10-day moving averages.

Health Care Select Sector SPDR Fund (XLV)



Healthcare Stocks End The Week Flat

The Healthcare sector was weighed down again by a decline in many large cap Pharmaceutical companies who came in with disappointing results. Larger Biotech companies are also faltering with Amgen (**AMGN**) posting negative results that were below estimates.

There were bright spots however as strong earnings reports from Medical Products companies propelled stocks in this area higher. (using ETF IHI). Idexx Laboratories (**IDXX**) from our Watch List is in this group and the company is due to report their earnings tomorrow. Depending on results, we may add the stock to our Suggested Holdings List.

Pacific Biosciences (**PACB**) was close to a 3-week base breakout before pulling back on Friday. The stock found support at its 10-day moving average and is in a buy zone ahead of the release of its earnings later this month.

BioMarin Pharmaceutical (**BMRN**) experienced a late week pullback where it found support at its 21-day moving average. Using the late August '22 period as precedence, we're on the lookout for a possible negative RSI which signaled further downside. On the other hand, a move back above its 10-day moving average would put the stock into a buy zone. BMRN is not due to report earnings until later this month.

Summary

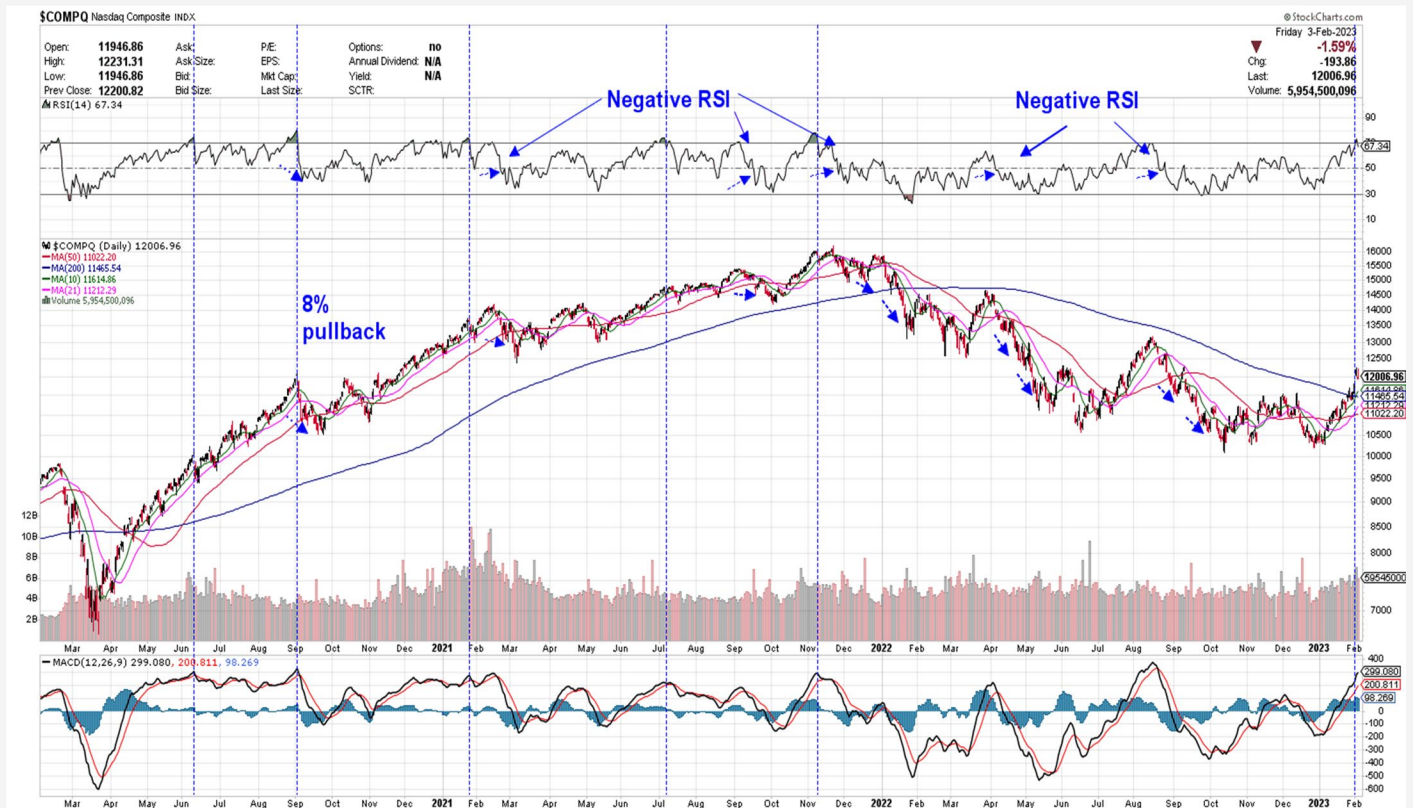
The market's ability to pull back modestly on Friday despite a very strong jobs report highlights a bullish bias among investors. The economy added more than double the expected number of new jobs in January which is very robust; however, investors focused on the wage growth numbers which were down from December.

This glass half full view sees the combination of a strong labor market with declining inflation as potentially positive. In other words, we could see strong demand for goods and services without inflation and soaring rates. This would pave the way for a soft landing of the economy which would keep the markets afloat.

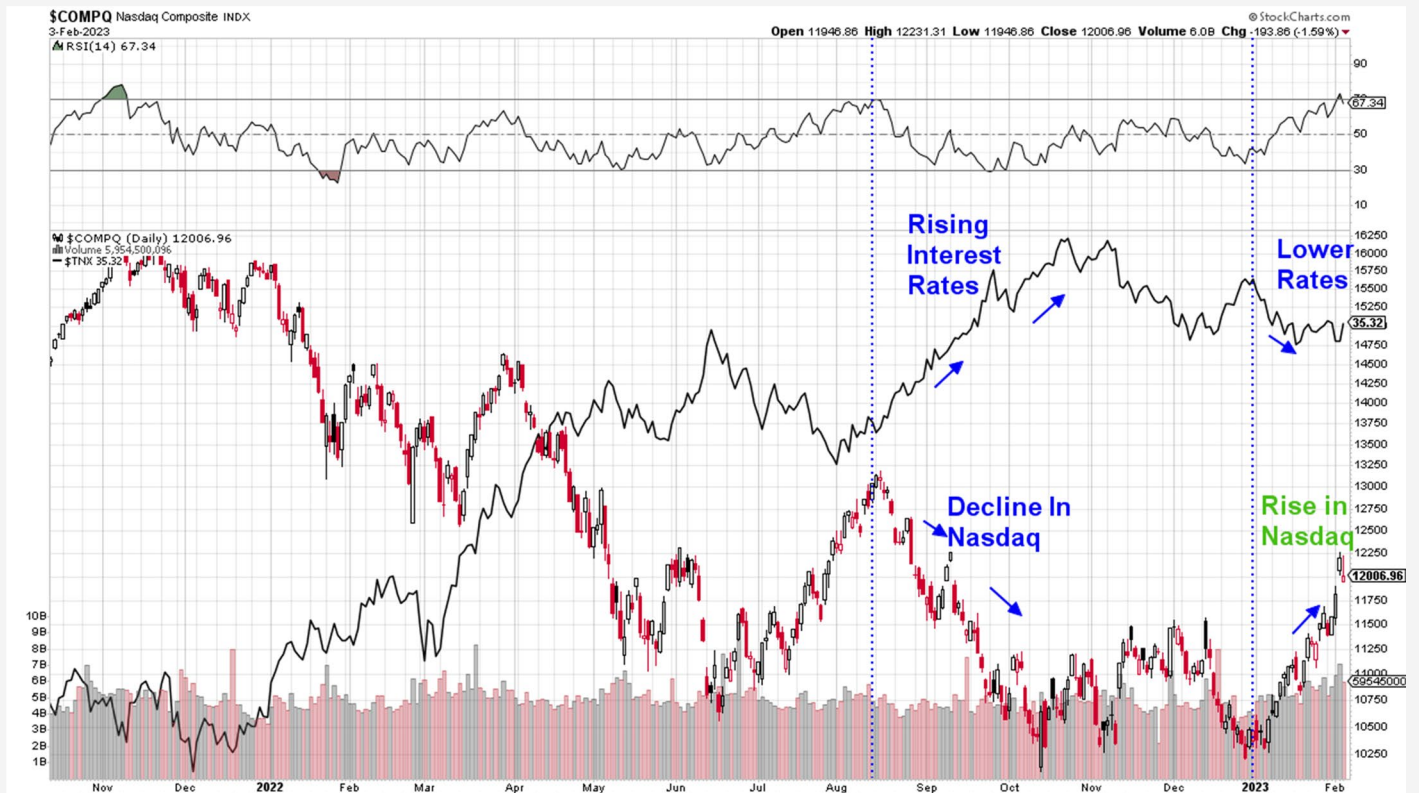
As stated, we're bullish on the prospects of the broader markets to trade higher from here. That said, we have not added any new stocks to our Suggested Holdings List today as many stocks from our Watch List are extended out of buy zones after rallying last week.

We intend to add stocks on any pullbacks and will alert you throughout the week.

Daily Chart of Nasdaq Composite 2020 - 2023



Daily Chart of Nasdaq vs 10 Year Treasury Yield



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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CONSUMER DISCRETIONARY						
CHWY	Chewy Inc.	\$48.70	2/2/2023	-1.0%	-	Retail
CROX	Crocs Inc.	\$125.80	12/4/2022	16.5%	-	Foot Wear
DECK	Deckers Outdoor Corp	\$420.00	1/16/2022	-1.0%	-	Retail
WING	Wingstop Inc.	\$157.80	1/29/2023	5.0%	-	Restaurant

INDUSTRIALS						
CAT	Caterpillar Inc.	\$358.50	1/8/2023	0.0%	-	Construction
TDG	Transdigm Group Inc.	\$683.90	1/8/2023	10.0%	Earnings Due	Aerospace

HEALTHCARE						
BMRN	BioMarin	\$112.70	11/27/2022	22.0%	-	Biopharmaceutical
PACB	Pacific Biosciences	\$11.29	1/22/2023	0.5%	-	Biotechnology

TECHNOLOGY						
ADBE	Adobe	\$370.70	1/29/2023	2.5%	-	Software
ASML	A S M L Holding	\$659.70	1/16/2023	3.5%	-	Semiconductor
FSLR	First Solar Inc.	\$180.20	1/16/2023	0.0%	-	Solar
LSCC	Lattice Semiconductor	\$72.60	1/16/2023	9.5%	-	Semiconductor
NOW	ServiceNow	\$458.90	1/29/2023	3.0%	-	Software
NVDA	Nvidia Corp	\$178.40	1/22/2023	17.5%	-	Semiconductor

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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