



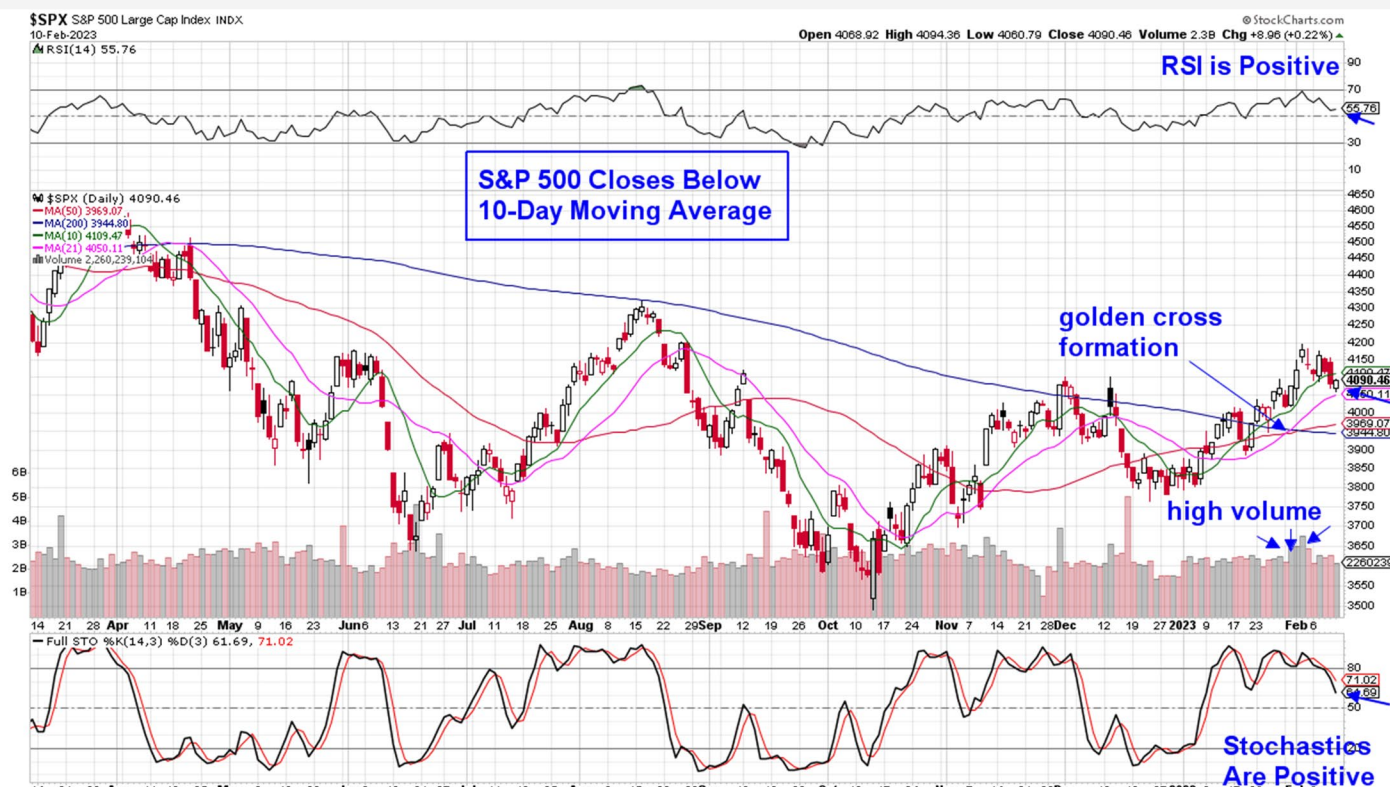
# THE MEM EDGE

February 12th, 2023 / Weekly Report

## This Week's Highlights

- Consumer Credit Drops To Levels From 2 Years Ago
- Fed Comments Move Markets This Week
- Riskier Areas Pull Back Amid Mixed Fed Comments & Economic Data
- Weekly Unemployment Climbs and Consumer Sentiment Hits 13 Month High
- January Core CPI, Retail Sales & Producer Price Index Due Next Week

### Daily Chart of S&P 500



The S&P 500 fell 1.1% for the week in a move that puts this Index below its 10-day moving average. The decline also put the S&P 500 below the 4100 level which has been cited as a key level. That said, the RSI and Stochastics are in positive territory and we are cautiously positive on the prospects for the markets.

The next area of possible support for the S&P 500 is the 21-day moving average which is 1% away. A move back above the 10-day moving average would be quite constructive for this Index.

The Nasdaq fell a bit further, with a 2.5% decline that was led by a large drop in Alphabet (GOOGL), Meta Platforms (META), Amazon (AMZN) and Netflix (NFLX) which each lost more than 5% for the week.

The pullback pushed the Nasdaq below its 10-day moving average which puts the 21-day moving average as the next area of possible support, which is 1.8% away. The RSI and Stochastics are both in positive territory.

We remain constructive on the prospects for the Nasdaq however, a close back above the 10-day moving average would have us more positive.

Most notable with the markets last week was that the pullback for both S&P 500 and Nasdaq was modest given the increase in interest which took place. Rising rates are not good for stocks. We're using the yield on the 10-year Treasury which has risen to levels that were present during the early December pullback.

Signals for a possibly similar scenario of a pullback if rates continue to rise, are highlighted in the 3-year daily chart of the Nasdaq below. As you'll see, a negative RSI coupled with Stochastics going into negative territory preceded a lengthier pullback in the Nasdaq.

At this time, both the RSI and Stochastics are in positive territory for the Nasdaq.

Last week, very few economic data releases took place. This turned the focus toward comments from Federal Reserve officials with Fed Chair Powell calming the markets by reiterating that the disinflation process has begun.

Comments from two additional Fed officials helped push the markets lower after both highlighted the need to keep interest rates elevated this year and beyond.

Riskier areas of the market such as Biotech and Small Cap stocks sold off amid uncertainty regarding the Federal Reserve's plan of action as well as the dearth of concrete economic data to provide guidance.

Last week's volatility left most sectors negative for the week with Energy being the only positive area due to an uptick in the price of oil. Talk of elevated inflation from Federal Reserve officials also helped push this sector 5% higher and back into an uptrend. We've added several oil related stocks to our Watch List as diversification into this area would make sense if interest rates continue to rise.

The Communication Services sector was the worst performing due to a sharp drop in Alphabet (**GOOGL**) following reports that their AI based chatbot had mistakenly identified an object during its unveiling last week. Heavyweight Netflix (**NFLX**) also tumbled after rival Disney (**DIS**) reported a loss of subscribership for their streaming media service.

Overall, the broader markets remain in an uptrend however, we are in a position where a move lower could change this to a downtrend if key support is broken. On the other hand, a move higher would provide more confidence in the current uptrend if we move above resistance.

Next Tuesday's Consumer Price Index report may well prove to be a catalyst that helps provide clarity regarding the near-term direction for the markets. The Producer Price Index data for January due later in the week will provide further insight into whether inflation is in fact cooling. Until then, we would be cautious with putting new money to work



## Technology Select Sector SPDR Fund (XLK)



### Technology Sector Remains In An Uptrend

The Tech sector dipped below its 10-day moving average before regaining it late Friday. This keeps the sector in an uptrend as select areas such as Semiconductors are holding in well.

Not all stocks in the group are participating in the current uptrend in Semis however, as companies that produce products for the automotive or industrial areas are seeing stronger growth and hence, are faring better.

This would include Nvidia (**NVDA**) which produces chips for Chinese EV companies as well as cloud software chips for U.S. automotive companies while serving many other industries. The stock gained 1% last week after a Friday pullback gave back most of its gains for the week. NVDA found support at its 10-day moving average which is historically an ideal buy point for the stock.

Lattice Semiconductor (**LSCC**) is also among the outperformers in its group as the low-power programmable chip leader focuses on the industrial and automotive markets. LSCC is due to report their earnings tomorrow after the markets close and analysts have been bullishy raising their estimates ahead of the release.

A S M L Holding (**ASML**) from our List is a provider of needed hardware, software and services that help all semiconductor companies mass produce chips. Despite having strong earnings estimates, the company's broad

client base within the Semiconductor industry has reduced its appeal and ASML has been trading mostly sideways for the past several weeks. As stated in recent reports, we would not overweight the stock at this time.

Software stocks are also holding up relatively well as companies that report earnings ahead of estimates are being bid up higher. Both Adobe (**ADBE**) and ServiceNow (**NOW**) from our List pulled back further than the group (using ETF IGV) last week and are now below their 10-day moving average.

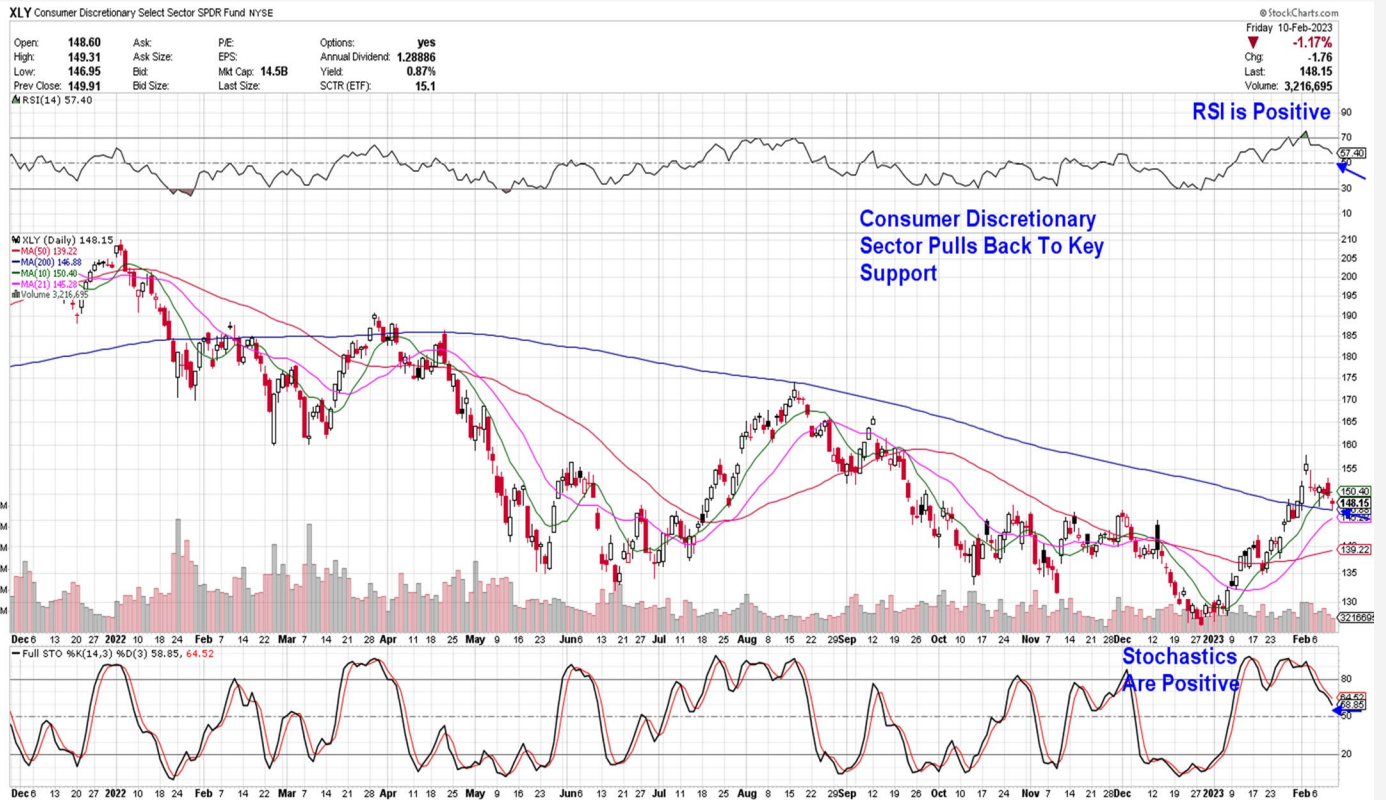
The pullback in ADBE and NOW occurred on below average volume which is good news. A move back above their 10-day moving averages would put each stock into a buy zone.

Depending on the markets this week, we anticipate adding ON Semiconductor (**ON**) to our Suggested Holdings List after the company reported earnings ahead of estimates last week. ON provides chips for electric vehicles and EV chargers and the stock is in an overbought position and would be attractive on a pullback to its 10-day moving average.

Software stocks are historically the most negatively impacted by rising interest rates due to a reduced value of future earnings due to their subscription based income where pricing tends to be locked in. We intend to add stocks from this area once we see evidence of interest rates entering a downtrend.



## Consumer Discretionary Select Sector SPDR Fund (XLY)



### Consumer Discretionary Sector Among Weakest Areas

Retail stocks fell 6.4% last week amid a sharp drop in Clothing Manufacturing companies that posted weak earnings as well as weak guidance going forward. This includes major brands such as Versace, North Face and Michael Kors to name just a few.

The decline in the earnings and outlook for companies that manufacture these brands is viewed as being reflective of broader issues in the retail sector as consumer spending has shifted to services.

Last week's pullback impacted stocks on our List such as Chewy (**CHWY**) which lost 7.5% amid a pullback to its 21-day moving average. We're removing the stock from our List as it has now surpassed our 8% loss level since being added earlier this month. We'd be a seller on any rally.

Crocs (**CROX**) also pulled back however, the stock found support at its 50-day moving average where buying took place on volume on Friday. CROX is due to report their earnings on Thursday before the market opens and its pullback from recent highs in January puts the stock in an ideal position from which to rally should they report strong results.

Deckers (**DECK**) briefly entered a buy zone on Friday after rallying above its 10-day moving average; however, the stock was unable to retain its bullish

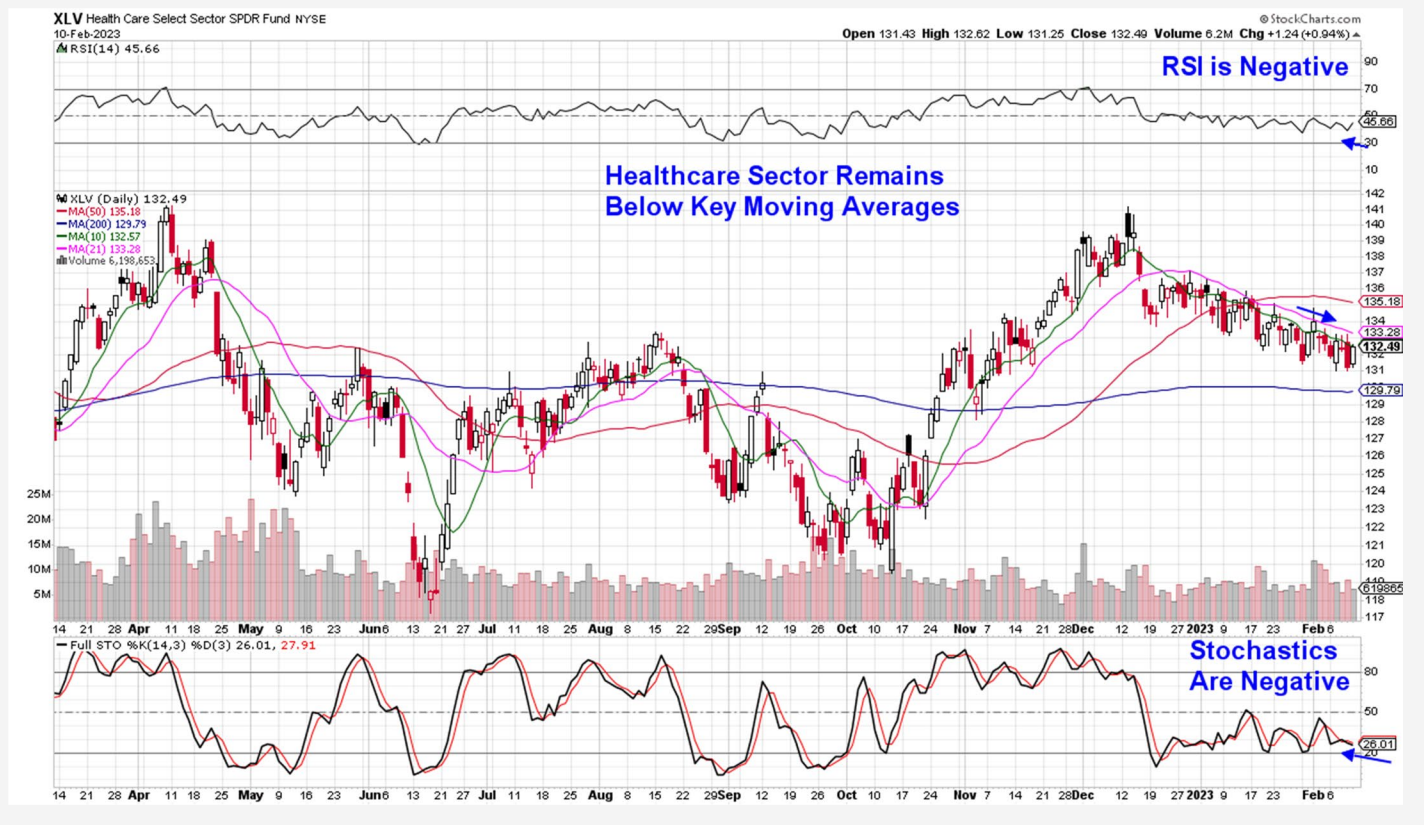
move. DECK received a price target upgrade to \$515 from a Wall Street firm that cites the company's strong Ugg and HOKA brands that are experiencing growth. The new price target is well above DECK's current price of \$415. A move back above its 10-day mav would put the stock in a buy zone.

Wingstop (**WING**) pulled back to its 21-day moving average ahead of the release of their earnings later this month. The pullback followed the release of earnings from peer stock Chipotle (CMG) who reported results that were below estimates amid increased prices for ingredients needed for their products.

The RSI on the daily chart of WING is poised to fall below 50 and should this occur coupled with a negative MACD crossover, we anticipate removing the stock from our List. The longer-term weekly chart is in a more constructive position at this time.

General Motors (**GM**) remains in an uptrend amid news that the company has signed a long term agreement to have high quality chips produced for them from GlobalFoundries which will reduce the number of unique chips required for their vehicles. GM is in a buy zone with its weekly chart looking particularly attractive as the MACD entered positive territory last week. This bodes well for the longer term outlook for the stock.

## Health Care Select Sector SPDR Fund (XLV)



### Healthcare Sector Remains In A Downtrend

Healthcare stocks were given a boost last week as several beaten down Pharmaceutical stocks such as Merck (MRK) and Eli Lilly (LLY) rallied amid price target upgrades.

Gains in these and other heavyweight Pharma stocks were offset by a continued selloff in Biotechs which have now broken below their 50-day moving average and have moved into a downtrend. (using ETF IBB).

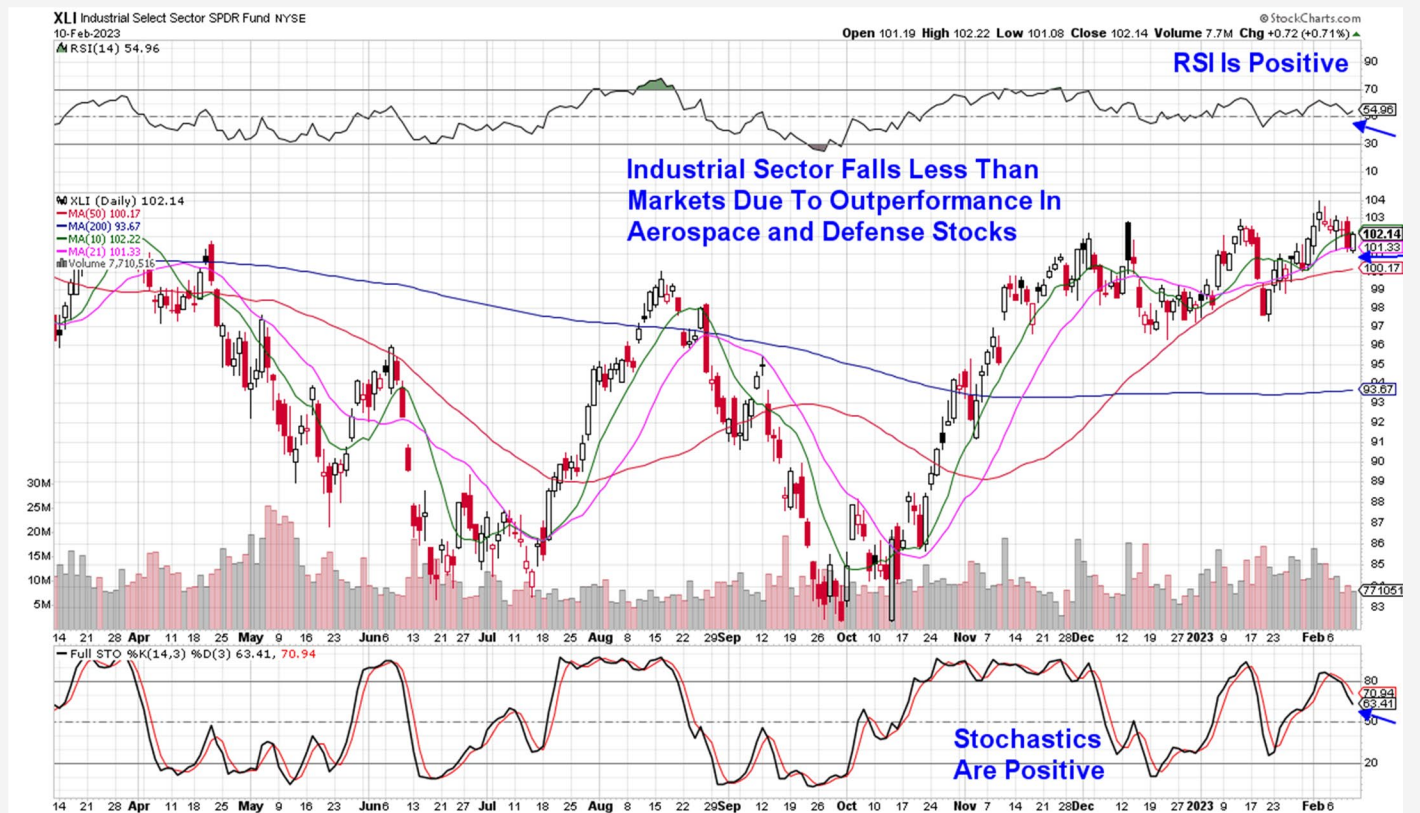
A move away from Biotech stocks points to a risk off sentiment among investors. Less than 2% of the 800 publicly traded companies in this group are reporting positive earnings with the remaining names still in the development phase of their products which makes them more speculative.

BioMarin (BMRN) from our list is among those companies that has positive earnings however, it has pulled back with the group despite receiving analyst upgrades to its earnings estimates ahead of the release of their quarterly results later this month.

Last week's pullback has pushed the RSI into negative territory on its daily chart and we're removing BMRN from our Suggested Holdings List. Longer term investors can remain with the stock as the weekly chart has a positive RSI and MACD with the stock finding support at its 10-week moving average.

We'll continue to monitor the possible rotation into larger Pharmaceutical stocks as these names are currently trading below key resistance.

## Industrial Select Sector SPDR Fund (XLI)



### Industrial Sector Remains In Positive Position

The Industrial sector fell less than the broader markets last week despite a sharp pullback in Airlines, Trucking and Rail stocks which had been on the move higher in recent weeks.

The sector was buoyed by gains in Aerospace stocks such as Transdigm (TDG) from our List which rallied 2.5% for the week after reporting earnings that were ahead of estimates with management guiding growth estimates higher for this year as well.

TDG hit a near term high before pulling back to its 10-day moving average and into a buy zone.

Caterpillar (CAT) was flat for the week as it remains in a trading range below its 10 and 21-day moving averages. This consolidation period has occurred on below average volume which is a positive. A move above either of these shorter-term moving averages on volume would put the stock into a buy zone.



# Summary

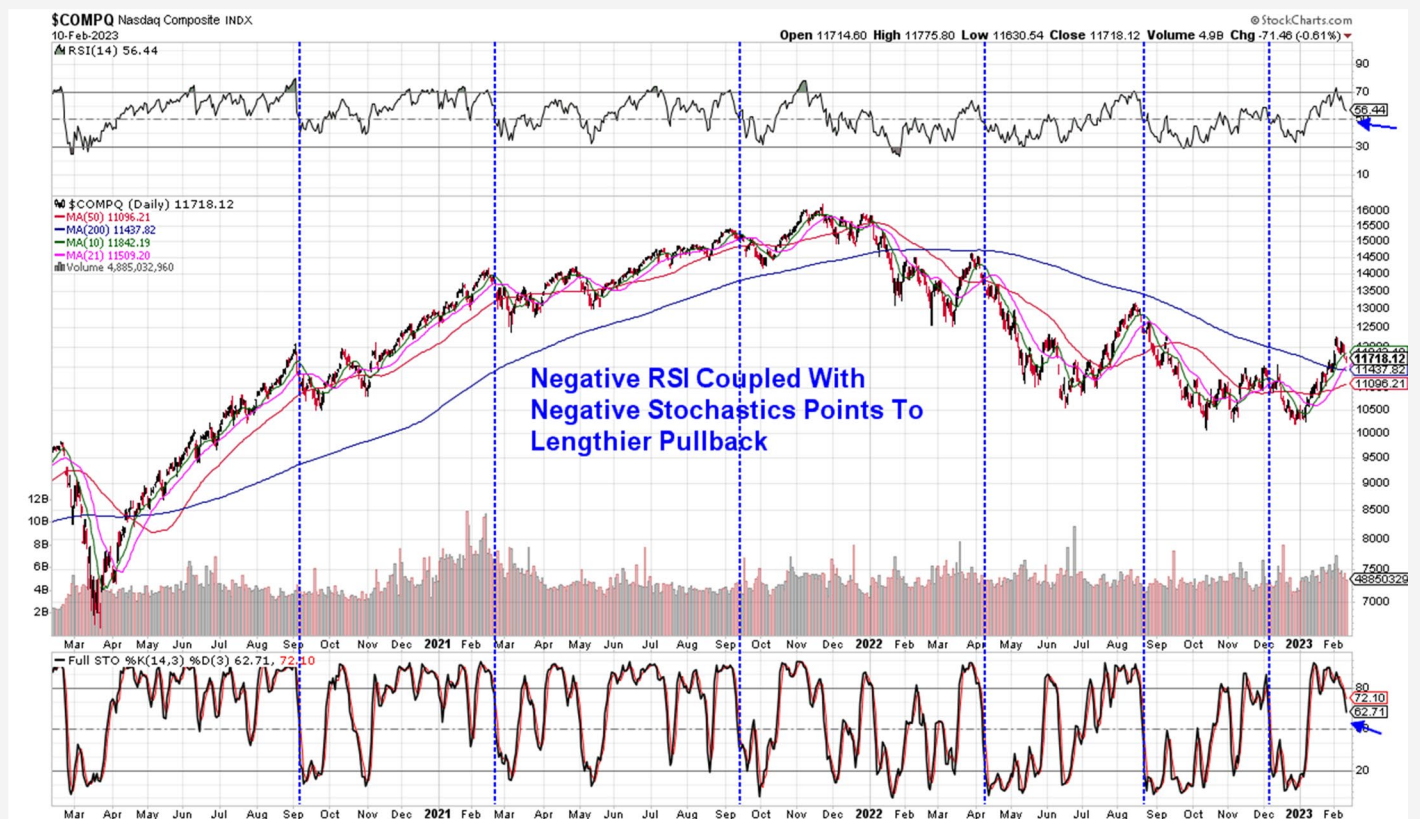
Last week's pullback in the markets took place after five consecutive weekly gains in both the Nasdaq and S&P 500. Both Indexes are in a bullish position however, next week may prove to be pivotal for the near term direction due to the release of the Consumer Price Index (CPI) and Producer Price Index (PPI). Both reports have historically moved the markets due to their importance in determining whether inflation is in fact waning.

Tuesday's consumer price index report is forecast to show a deceleration in annual price growth to 6.2% in January. The core CPI will be even more closely watched as it strips out volatile food and energy prices and is seen as a better underlying indicator of inflation. Core CPI is projected to rise 0.4% month over month and 5.5% from a year earlier.

Last year, trading action around the release of CPI data was turbulent with the S&P 500 falling on seven of the 12 reporting days. According to Bloomberg, over the past six months, the S&P 500 has seen an average move of about 2.6% in either direction on the day CPI has been released.

As stated earlier in today's report, we have expanded our Watch List to include Energy, Healthcare and additional Tech names and we anticipate adding stocks depending on next week's inflation reports as well as the markets response.

## Daily Chart of NASDAQ Composite (\$COMPQ)



# 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	PERFORMA NCE	EARNINGS DUE DATE	INDUSTRY GROUP			
CONSUMER DISCRETIONARY									
CHWY	Chewy Inc.	\$48.70	3/27/2022	-8.5%	-	Retail			
CROX	Crocs Inc.	\$125.80	3/27/2022	12.5%	Earnings due	Footwear			
DECK	Deckers Outdoor Corp	\$420.00	3/13/2022	-1.0%	-	Retail			
GM	General Motors	-	1/4/2022	1.0%	-	Automotive			
WING	Wingstop Inc.	\$157.80	1/9/2022	1.5%	-	Restaurant			
INDUSTRIALS									
CAT	Caterpillar Inc.	\$358.50	1/8/2023	0.0%	-	Construction			
TDG	Transdigm Group Inc.	\$683.90	1/8/2023	12.5%	-	Aerospace			
TECHNOLOGY									
ADBE	Adobe	\$370.70	1/29/2023	0.5%	-	Software			
ASML	A S M L Holding	\$659.70	1/16/2023	0.0%	-	Semiconductor			
LSCC	Lattice Semiconductor	\$72.60	1/16/2023	11.5%	Earnings Due	Semiconductor			
NOW	ServiceNow	\$458.90	1/29/2023	0.0%	-	Software			
NVDA	Nvidia Corp	\$178.40	1/22/2023	18.5%	-	Software			
HEALTHCARE									
BMRN	BioMarin	\$112.70	11/27/2022	19.0%	-	Biopharmaceutical			



# Glossary of Terms Used From Our Suggested Holdings

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## 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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