



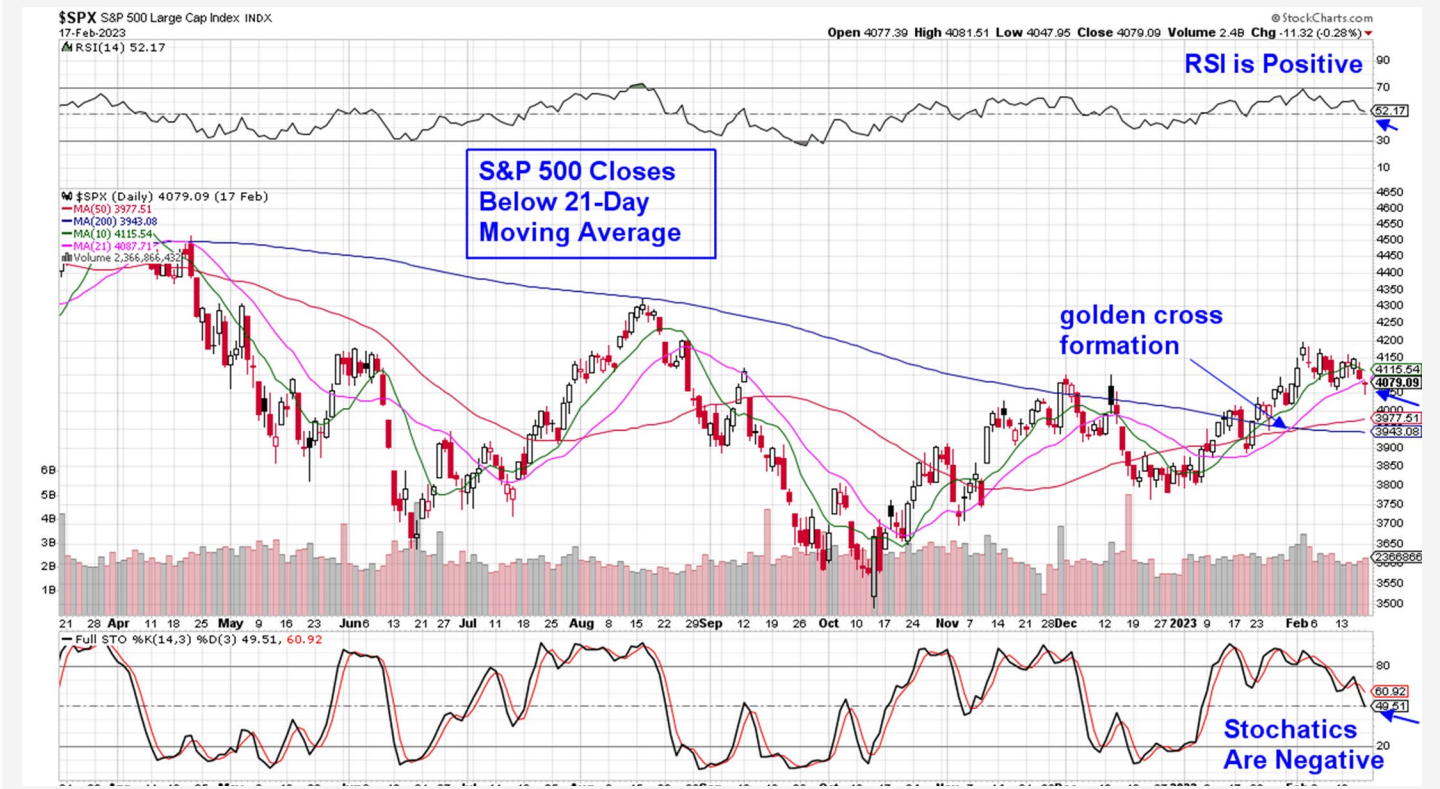
THE MEM EDGE

February 19th, 2023 / Weekly Report

This Week's Highlights

- Annual CPI Slows Slightly While Monthly Core Data Shows Increase
- Federal Reserve Presidents Advise Keeping Rates Elevated
- January Retail Sales Surge
- Weekly Jobless Claims Below Estimates & January PPI Data Higher Than Expected
- Services PMI Due Tuesday, FOMC Minutes Wednesday, Q4 GDP Thursday and Core PCE For January & Consumer Spending On Friday

Daily Chart of S&P 500



The S&P 500 fell 0.3% in a move that has this Index closing just below its 21-day moving average. In addition, the S&P 500 is now below the 4100 level which was a key level of possible support. While the RSI is above 50 and in positive territory, the faster moving Stochastics are now below 50 and in negative territory.

We remain constructive on the near-term prospects for the markets however, mixed signals from the S&P 500's momentum indicators have us cautious. On a positive note, the markets rallied into the close on Friday after

an initial pullback, as buyers stepped in ahead of the long weekend.

The Nasdaq ended the week with a gain that was led by outperformance in a majority of the mega cap FAANG stocks. Select areas of Retail also boosted this Index with a strong rally that followed a surge in January Retail Sales.

The gain in the Nasdaq helped keep the RSI and Stochastics in positive territory on the daily chart which is constructive. A move back above its 10-day

moving average which is 0.9% away, would put this Index back into an uptrend and provide more confidence to our positive view.

Due to relatively lower volume on rally days last week however, the RSI and Stochastics trended lower despite the Nasdaq posting a gain.

Below is the marked up, 3-year daily chart of the Nasdaq where we highlight the impact of the RSI and Stochastics turning negative in tandem. Historically, it signals a more pronounced decline and we'll continue to monitor for this possibility.

Given the Nasdaq's 10.7% gain in January, a pullback at this time is certainly not out of line; however, this Index remains well above its 200-day moving average, which is the most critical area of possible support and is 3.2% away.

Over the past two weeks, stronger than expected economic data has reduced the stock market's momentum with both consumer and producer prices rising more than expected in January. In addition, retail sales posted their largest gain in nearly two years while the labor market remains robust.

The data has some investors concerned that the Fed may have to keep raising interest rates longer than

anticipated and hold them at elevated levels. Comments from several Fed officials last week supported this possibility while many Wall Street banks have upped their rate increase outlooks into later this year on the strong economic data.

This shift in sentiment toward higher interest rates has put upward pressure on Treasury yields with the 10-year bond inching closer to the 4% level which may prove difficult for Growth investors to reconcile with.

So far, we've seen some push back to higher rates with defensive Utility and Staples sectors posting a gain last week however, it was not near enough to call it a rotation into these areas. In fact, growthier Consumer Discretionary stocks were the top performers with Industrials and Communication Services also outperforming.

On the negative side, Energy stocks fell far more than the markets with a 6.3% decline that was led by a drop in the price of crude due to an oversupply of oil.

Next week, the economic calendar is full of impactful data such as the Federal Reserve's most preferred inflation data due as well as other key information such as notes from the Federal Reserve's January meeting being released Wednesday afternoon.

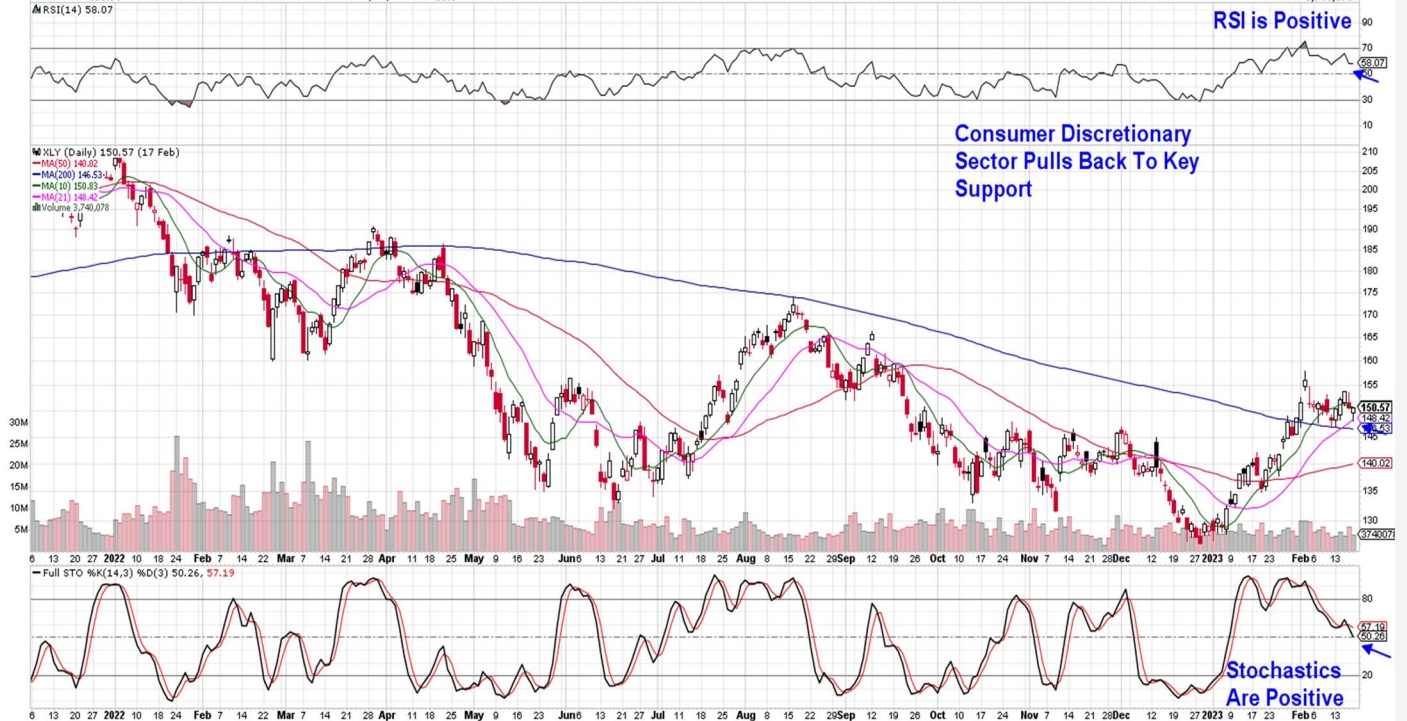


Consumer Discretionary Select Sector SPDR Fund (XLY)

XLY Consumer Discretionary Select Sector SPDR Fund NYSE

Open: 149.68 Ask: P/E: Options: yes
High: 150.64 Ask Size: EPS: Annual Dividend: 1.28886
Low: 148.04 Bid: Mkt Cap: 14.6B Yield: 0.86%
Prev Close: 150.54 Bid Size: Last Size: SCTR (ETF): 33.0

Friday 17-Feb-2023
Chg: +0.02%
Last: 150.57
Volume: 3,740,078



Consumer Discretionary Is Top Performer

Discretionary stocks were given a boost by a 3.4% rally in Retail stocks following news of a surge in retail sales numbers for January. Stronger than expected earnings from consumer companies also boosted this sector.

This would include Crocs (**CROX**) from our List which posted earnings well above estimates while management guided growth estimates higher for the remainder of this year. CROX gained 14% last week due mostly to a rally going into the release of their results.

The manufacturer of resin based footwear is in a buy zone as the MACD on the daily chart just posted a downtrend reversal with the black line crossing above the red. In addition, CROX remains above its one-month base breakout level of \$132.

Restaurant stock Wingstop (**WING**) from our List is due to report earnings on Wednesday after posting an impressive 11.5% last week ahead of the release. WING was a top performer among restaurant stocks which rallied due to this industry being the biggest contributor to the strong January retail sales data.

Analyst upgrades going into the report is another reason for last week's rally which pushed WING out of a 3-month base on heavy volume. Technically, the stock is poised for further upside should they report numbers that are ahead of estimates.

Ideally however, we'd like to see a pullback going into the report as stocks that are close to new, all-time highs - similar to WING - have needed to produce exceptional earnings in order to see noticeable gains.

Auto stocks gained last week as well amid strong motor vehicle sales in January. General Motors (**GM**) from our List rallied 4.5% following news that they closed an initial investment in Lithium Americas which will assist in GM's EV manufacturing.

GM remains in a confirmed uptrend as it hugs its 5-day simple moving average. The stock is currently in a buy zone with the MACD just entering positive territory on its weekly chart. This bodes well for the longer term prospects for GM.

Deckers (**DECK**) from our List did not participate in last week's rally in consumer stocks and its 2.2% loss on above average volume has pushed the RSI on the daily chart into negative territory.

The stock has a history of pulling back at or below its 50-day moving average and recovering and longer term investors can remain with the stock as the weekly chart for DECK remains constructive. However, we're removing the stock from our Suggested Holdings List as near term, it's poised for further downside.

Another strong component of last week's Retail Sales numbers was Auto Parts stores that have seen sales expand in January. Today, we're adding O'Reilly Automotive (**ORLY**) to our Suggested Holdings List following Friday's base breakout on above average volume.

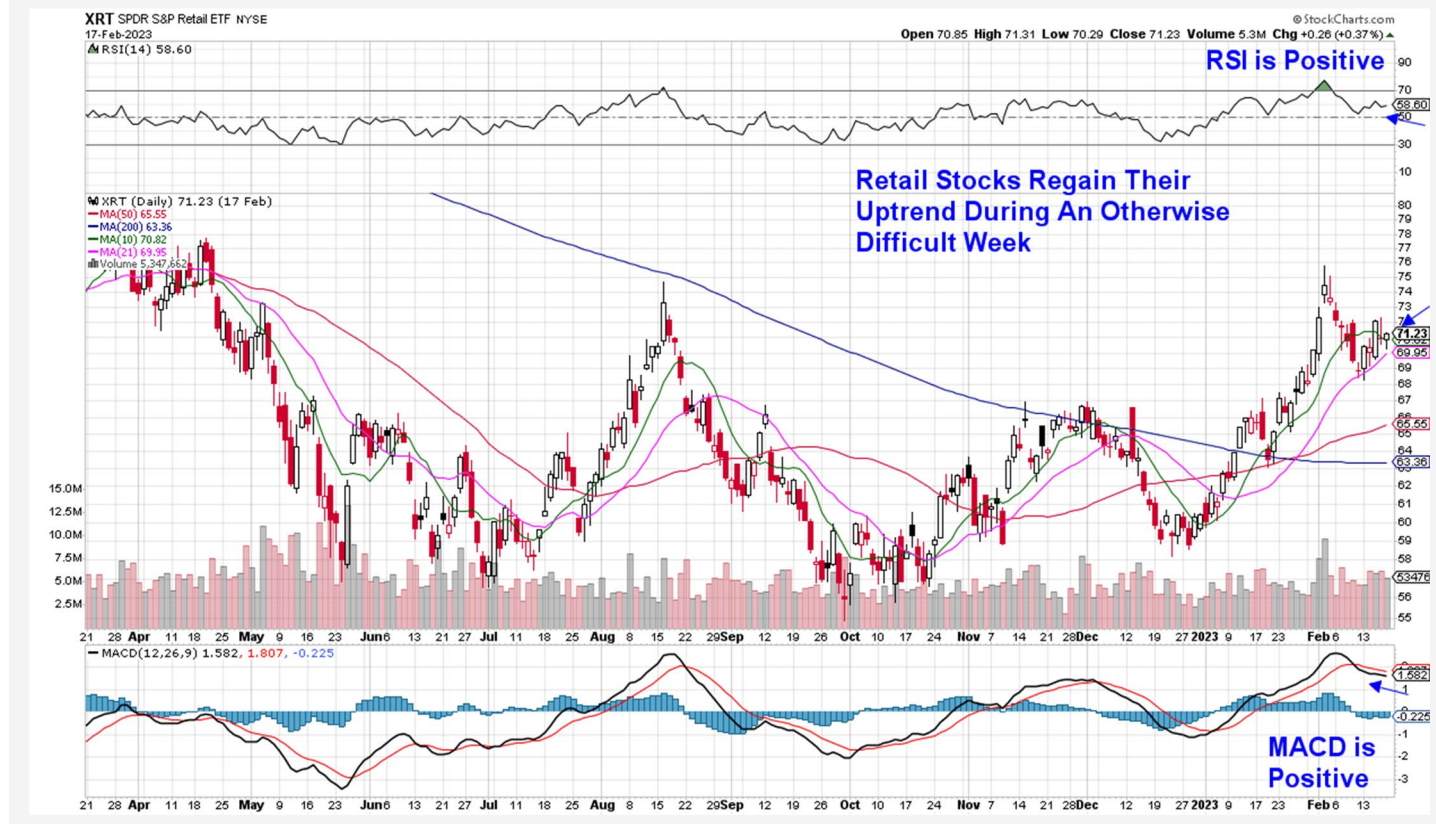
ORLY reported earnings earlier this month that were ahead of estimates amid the opening of 34 new stores globally last quarter. Most impressive was the

company's news that same store sales had improved by a robust 9%.

ORLY is in a strong buy zone as it finds support at its upward trending 5-day moving average with the MACD just entering positive territory.

The chart below shows the S&P Retail ETF (XRT) which regained its uptrend after a close above its 10-day moving average. This ETF of 97 stocks is fairly equal weighted with most holdings having a weight in the 1.25% - 1.5% range.

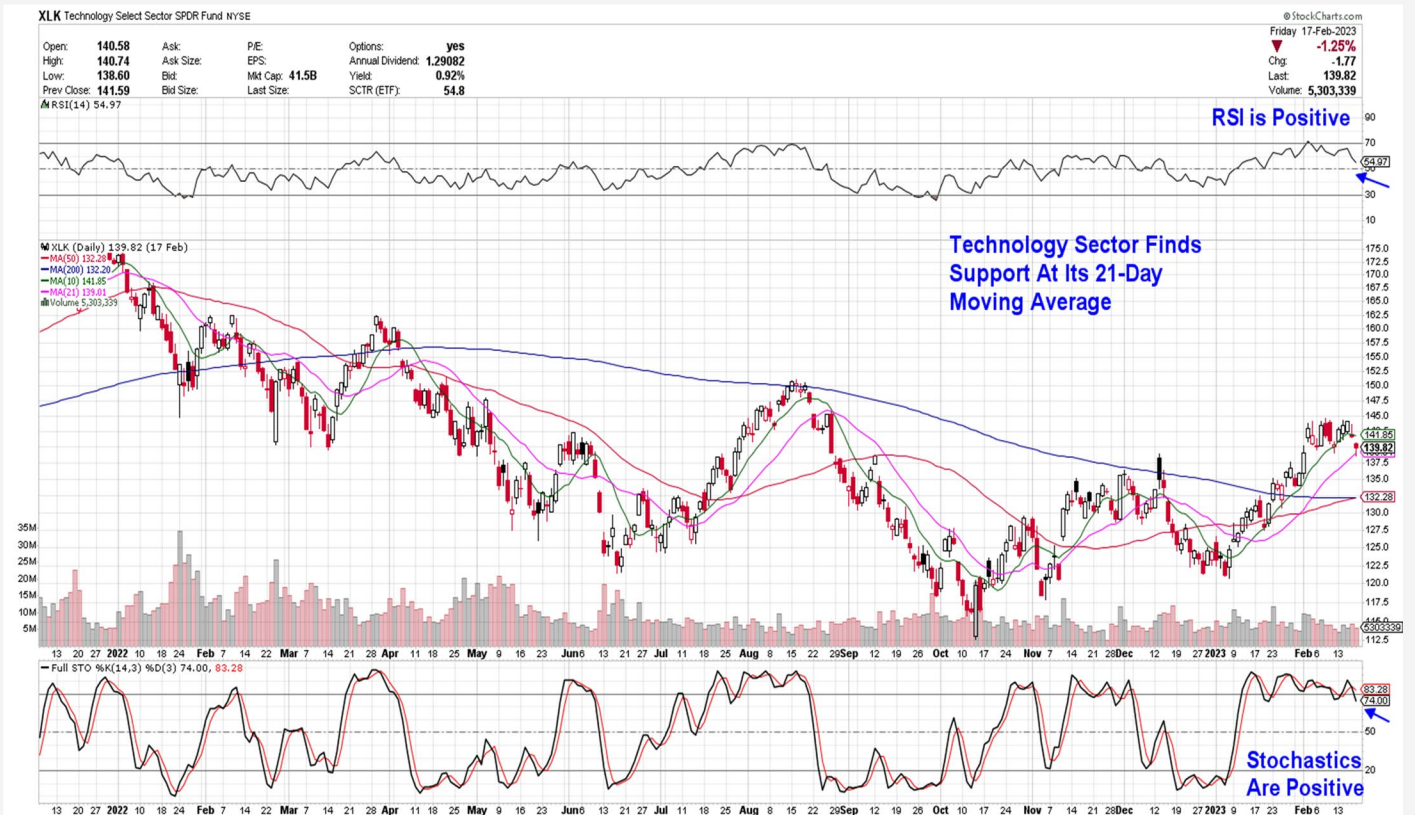
Daily Chart of SPDR S&P Retail ETF (XRT)



XRT is also a broad representation of the Retail industry and a review of its holdings reveals that Auto Parts Suppliers and Specialty Retailers have been relative outperformers recently on the heels of strong earnings results.

Next week, heavyweight retailers Walmart (**WMT**) and Home Depot (**HD**) are due to report earnings and their results, as well as investor's response, are expected to sway other stocks in this group.

Technology Select Sector SPDR Fund (XLK)



Technology Sector Underperforms

The Tech sector pulled back last week and found support at its 21-day moving average amid weakness in Semiconductor and Software stocks.

Both groups closed a bit below their 21-day moving average however, Semis and Software had negative MACD crossovers on their daily charts (using ETF SOXX for Semiconductors and IGV for Software).

The past two times this occurred for Semiconductors (SOXX) was in August and mid December of 2022 and both times, the negative MACD crossover signaled a pullback in Semis. Of note is that the pullback occurred amid a rising interest rate environment such as now.

Next week's earnings report from heavyweight Semiconductor stock Nvidia (**NVDA**) will provide further clues for the group as the results will be impactful. NVDA reports after the market closes on Wednesday.

Lattice Semiconductor (**LSCC**) from our List outperformed last week with a 7.5% gain amid news of strong sales of their chips that are focused on the industrial and automotive industries. As we cited earlier this year, companies that focus on these industries are experiencing strong chip demand.

Using the November period as precedence, LSCC is in a buy zone at its 5-day moving average.

A S M L Holding (**ASML**) fell slightly last week however it was enough to push the RSI on the daily chart below

50. The stock has been in a trading range for the past four weeks and while we may see a breakout above \$699 at some point, earnings - which are a primary driver of upward price action - are not due for 2 months. We're removing ASML from our Suggested Holdings List.

We are anticipating adding Monolithic Power Systems (**MPWR**) to the Suggested Holdings List as it forms the right side of a base. The company provides products that are used in industrial and automotive applications where growth is strong.

Recent weakness in Semis ahead of NVDA's earnings has made us reluctant to add MPWR until later this week, depending on the environment at that time.

Software stocks fell later in the week after a strong core Producer Price Index (**PPI**) report raised fears of higher interest rates.

Software companies are particularly vulnerable to rising rates as they negatively impact the value of future earnings. Many of these companies run on a subscription based model with annual licensing fees already locked in.

Both Adobe (**ADBE**) and Servicenow (**NOW**) from our List fell below key moving averages with their RSI now in negative territory on their daily chart. Both stocks are being removed from our Suggested Holdings List.

Industrial Select Sector SPDR Fund (XLI)



Industrial Sector Outperforms Amid Strong Earnings

The Industrial sector remains above each of its moving averages as select areas in the construction, building and machinery industries are reporting earnings above estimates.

These areas have been positively impacted by technological advances that have improved manufacturing with automation and computer aided designing that reduces production costs. Process and performance analysis using AI has also improved manufacturing operations for many companies.

This week we're adding Paccar Inc. (**PCAR**) to our Suggested Holdings List following last week's base breakout to new highs. The manufacturer of light and heavy duty trucks gapped up in price in late January after reporting record annual revenues for 2022 while also guiding growth estimates higher for this year amid high demand for their products globally.

PCAR is in a buy zone and can be bought in the \$75 range which is close to its 5-day moving average.

Elsewhere in this sector, Deere (**DE**) is at the top of our Watch List after Friday's release of triple digit earnings

that were above estimates as supply chain issues receded amid demand for their products.

While DE reversed its downtrend with a move back above its 50-day moving average on heavy volume, the MACD remains below 50. Once this momentum indicators moves into positive territory, we anticipate adding the stock to our Suggested Holdings List.

Among stocks already on our List, Transdigm (**TDG**) pulled back from a near-term high and still managed to post a 2% gain for the week. The stock is in a buy zone as it closed the week just above its 10-day moving average.

Caterpillar (**CAT**) is continuing to trade in a tight trading range as it finds support at its 50-day moving average. We'd be a buyer on a close above its 21-day moving average coupled with a positive MACD crossover on its daily chart. (black line up through its red)

We anticipate adding additional names from the Industrial sector due to vibrant growth prospects amid reduced supply chain issues.

Summary

A late week pullback in the markets on the heels of stronger than expected economic data, caused a slight shift in the markets as select areas that fare poorly in a rising rate environment showed signs of weakness.

Next week, this shift will be tested as key inflation and economic data will be released amid comments from Federal Reserve officials who will be speaking throughout the week.

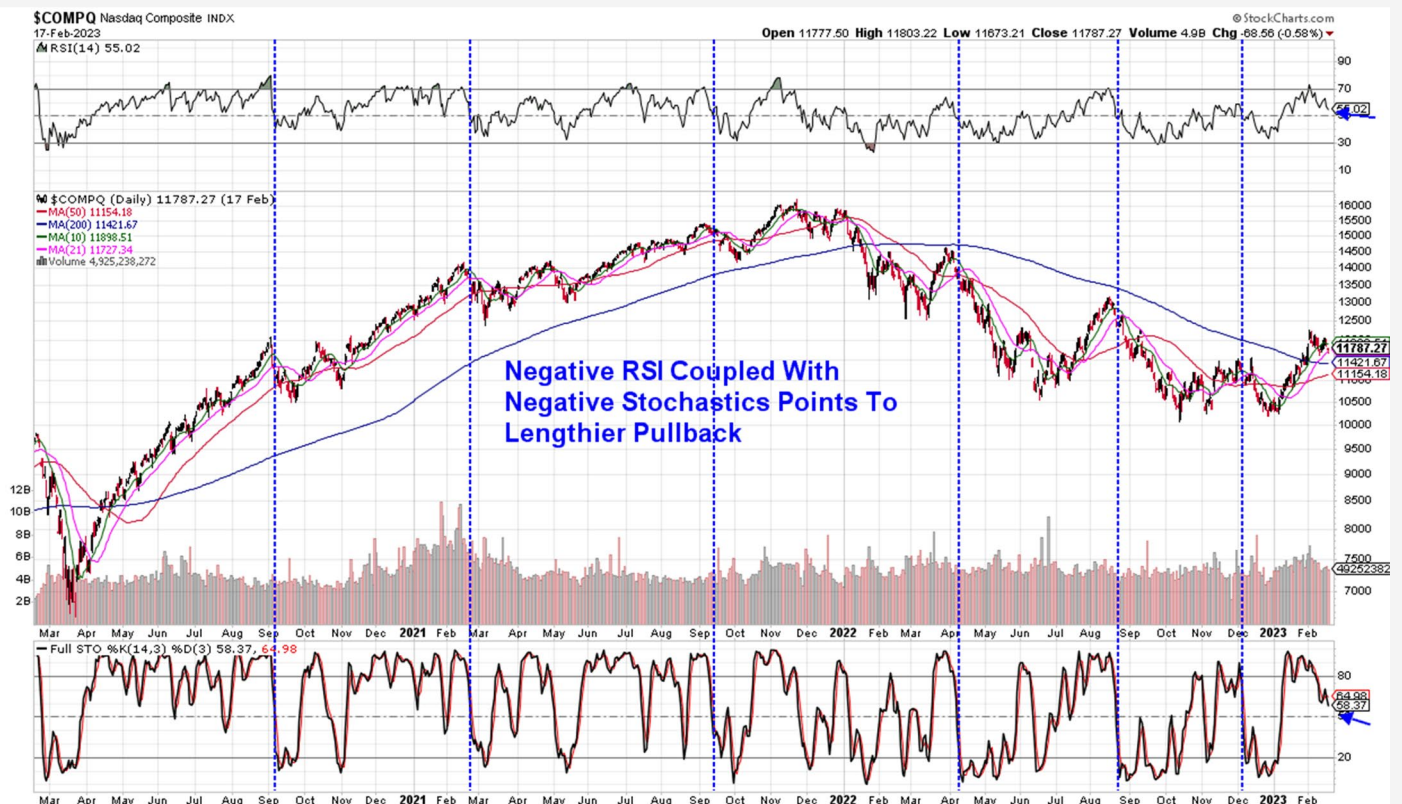
Core Personal Consumption Expenditures (PCE) data for January which is coming out on Friday, may be the most impactful. This is the Federal Reserve's most closely watched metric to determine how quickly prices are rising and any number above a monthly increase of 0.4% would be a negative.

In addition, PMI for the services industry due out on Tuesday. Strength in the services area has been a concern for Fed Chair Powell and this will be closely watched as will minutes from the Federal Reserve's last meeting due to be released on Wednesday.

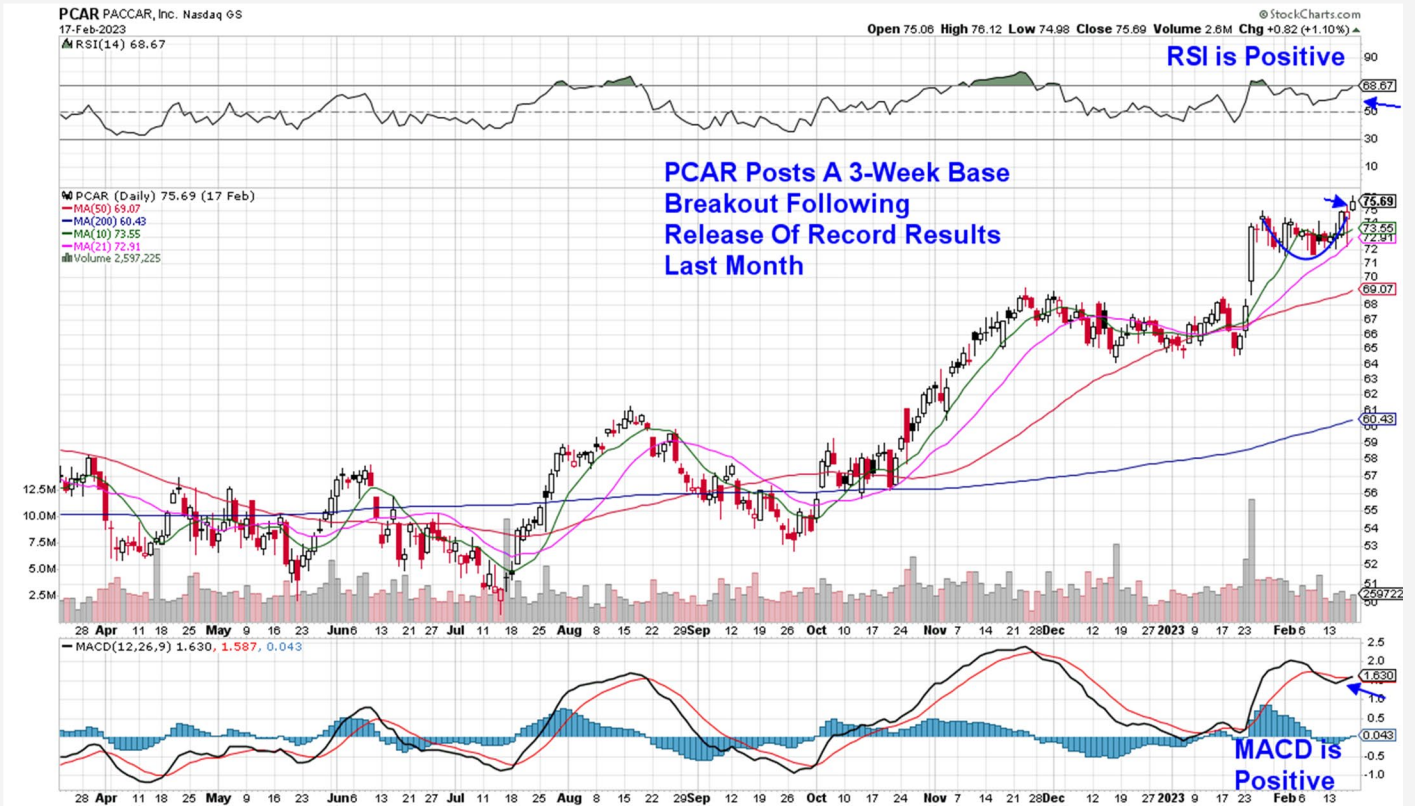
At this time, the markets appear to be experiencing a normal pullback after January's sharp rally; however, continued weakness in Growth stocks which underperform in a rising interest rate environment may push the markets into a more pronounced pullback.

With this possibility in mind, we would keep the initiation of new positions among Growth stocks limited. Our cautious sentiment would shift if we experienced a move back above the 10-day moving average in the Nasdaq on the heels of reduced inflation data.

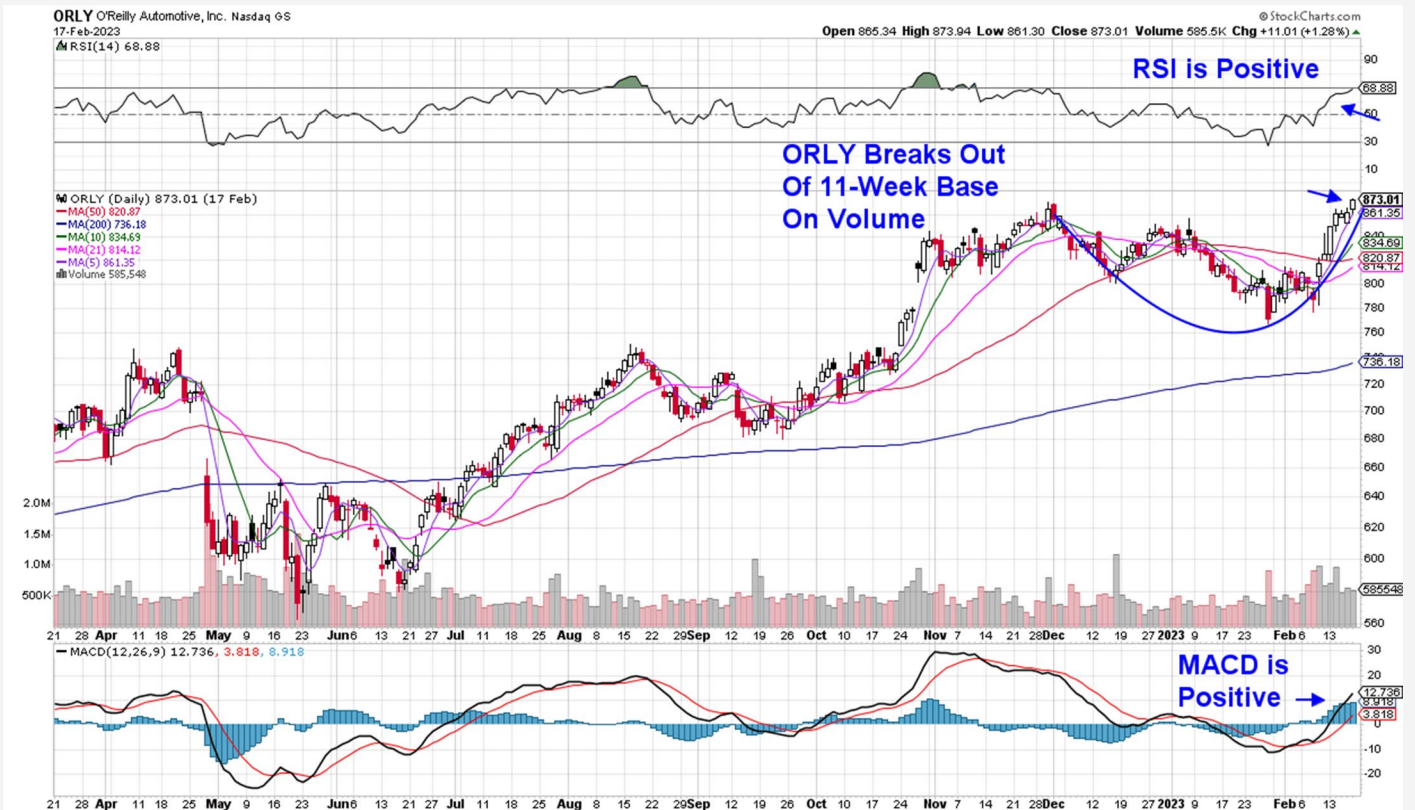
Daily Chart of NASDAQ Composite (\$COMPQ)



Daily Chart of PACCAR Inc. (PCAR)



Daily Chart of O'Reilly Automotive, Inc. (ORLY)



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						
CROX	Crocs Inc.	\$104.00	12/4/2022	26.5%	-	Foot Wear
DECK	Deckers Outdoor Corp	\$420.90	1/16/2022	-1.0%	-	Retail
GM	General Motors			5.5%	-	Auto
ORLY	O'Reilly Automotive Inc.	\$873.00	2/20/2023	0.0%	-	Retail
WING	Wingstop Inc.	\$157.80	1/29/2023	13.0%	Earnings Due	Restaurant

INDUSTRIALS						
CAT	Caterpillar Inc.	\$248.80	1/8/2023	0.0%	-	Construction
PCAR	Paccar Inc.	\$75.70	2/20/2023	0.0%		Construction
TDG	Transdigm Group Inc.	\$649.00	1/8/2023	14.5%	-	Aerospace

TECHNOLOGY						
ADBE	Adobe	\$370.90	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	19.0%	-	Semiconductor
NOW	ServiceNow	\$458.90	1/29/2023	0.0%	-	Software
NVDA	Nvidia Corp	\$370.90	1/22/2023	18.5%	Earnings Due	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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