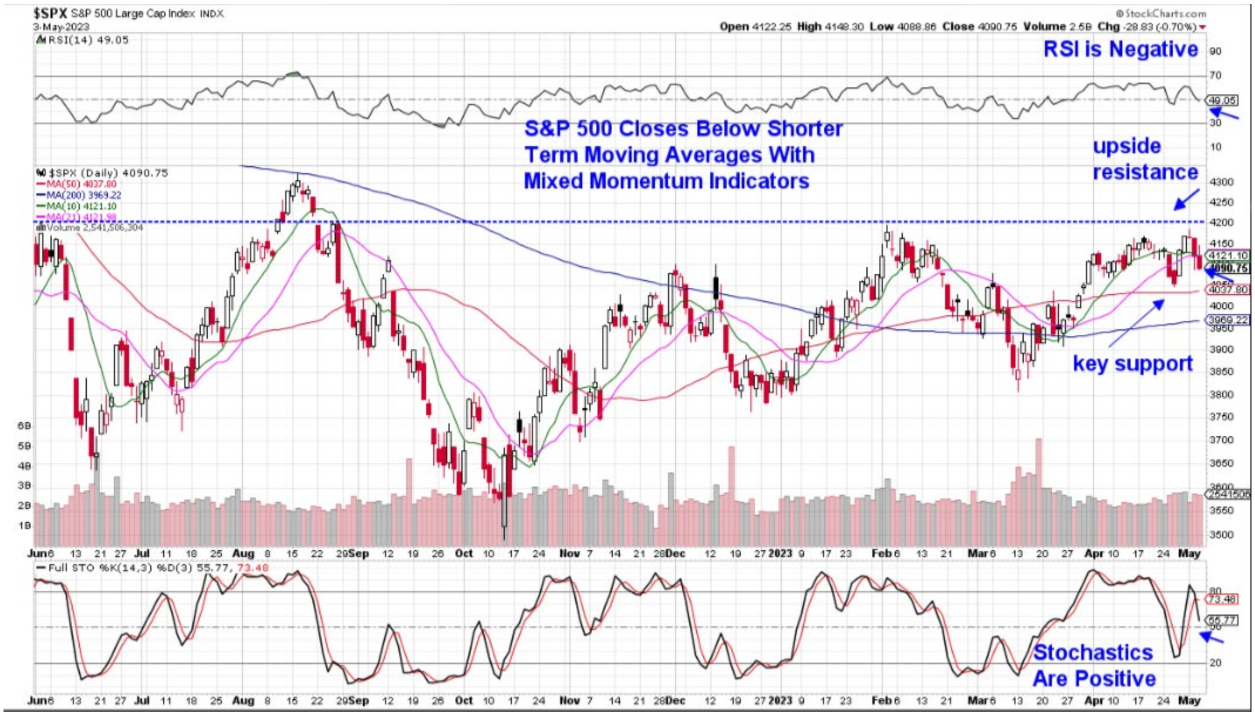
THE MEM EDGE

Midweek Report

Wednesday May 3, 2023

- Federal Reserve Raises Rates By ¼% And Softens Language Regarding Possible Future Hikes
- U.S. Job Openings Fall To 2 Year Low
- Private Sector Employment Jumps To 9 Month High
- Service Sector Grows While Manufacturing Activity Remains Flat
- Weekly Unemployment Thursday and April Employment Data On Friday
- Removing ServiceNow (NOW) and Cadence Design (CDNS)

<u>Daily Chart of S&P 500</u>



The S&P 500 has lost 1.9% in a move that has this Index closing below its 10 and 21-day moving averages. In addition, the RSI is back in negative territory and while the Stochastics remain positive, they're heading downward.

The S&P 500 rallied briefly on Monday to 4164 however, it was unable to move above the 4200 level which is a key area of upside resistance. With today's close below its shorter term moving averages, the next area of possible support is the 50-day moving average which is 1.3% away.

The pullback this week is taking place as investors digest another large bank collapse amid weak economic data. Earnings reports continue to dominate price action and while corporate earnings were strong last week, a more mixed picture is emerging this week.

The most anticipated news however, was the Federal Reserve's monetary policy decision and comments regarding actions going forward that was released today.

After raising rates by the expected ¼%, Fed Chair Powell announced a pause to any further rates with wording that pointed to a less aggressive stance as they review economic data going forward. Unfortunately, that puts investors back in a position of magnifying and closely monitoring every inflation data point for clues.

The Nasdaq closed below its 10 and 21-day moving averages as well after a 1.7% decline; however, the RSI and Stochastics remain in positive territory. A 2.6% decline in Software stocks hurt this index as did sharp losses in companies reporting worse than expected results such as Starbucks (SBUX) and Advanced Micro (AMD).

Overall, we remain cautious on the near-term prospects for the markets while favoring more defensive Growth stocks such as those on our Suggested Holdings List. Eighty percent of the stocks on this list are outperforming the markets this week.

Among those stocks, Wingstop (**WING**) has been a big winner with a 9% gain that took place after the company reported earnings and sales that were ahead of estimates. In addition, management guided estimates higher for the remainder of this year.

At this time, we would use similar stocks that have recently posted a gap up in price following positive results such as ISRG and DHI on our List. As you'll see, both stocks consolidated for a week or so before resuming their uptrends with a pullback to their 10-day moving average being an ideal buy point.

McDonalds (**MCD**) remains in an uptrend and can be bought on today's pullback to its 10-day moving average.

Housing stocks are continuing to trend higher amid strong results from select names. KB Home (**KBH**) and DR Horton (**DHI**) both remain in an uptrend and can be bought on a pullback to their 5-day moving averages.

Las Vegas Sands (**LVS**) is pulling back almost 4% this week despite a report of April gaming revenues growing 450% above last year. We would not be a buyer on this pullback and instead, look for a move back above $63 - its 10 & 21 day moving averages - as a signal that its uptrend has resumed.

Healthcare stocks are outperforming this week amid gains in select Pharmaceutical stocks such as Merck (**MRK**) which has rallied 2.5% and into a 3-week base breakout on volume. The stock can be bought on any pullback to the $117 level at its 5-day moving average.

Astrazeneca (**AZN**) has rallied into a buy zone after a 2% gain has put the stock back above its shorter term moving averages with a positive RSI and MACD.

Intuitive Surgical (**ISRG**) remains in an uptrend after this week's rally and the stock is in a buy zone as it finds support at its 10-day moving average.

Hologic (**HOLX**) from our List has pulled back despite reporting earnings that were ahead of estimates. Buyers came in on the dip however and a move back above its 10-day moving average at $85 would put the stock in a buy zone.

In Technology, Software stocks are underperforming with a 2.6% loss that puts this group below its 50-day moving average with a negative RSI. Selling in this group has been widespread with names such as ServiceNow (**NOW**) from our List being pushed below their 50-day moving averages despite posting earnings that were well above estimates.

We're removing **NOW** from our Suggested Holdings List.

Software stocks experienced a similar pullback in early March (as did NOW) from which they were able to recover however, prudence has us removing NOW at this time.

Cadence Design (**CDNS**) is also trending lower this week with its RSI in negative territory with the MACD poised to turn negative as well. We're removing CDNS from our List as well.

Alphabet (**GOOGL**) has been in a trading range for the past 4 weeks and the stock can be held as its MACD and RSI remain in positive territory.

Tomorrow, Apple (**AAPL**) is due to report their earnings and we anticipate that the results, as well as the market's response, will impact the markets. Also on deck are key employment data with Friday's report of April's job information due to be closely watched.

As stated, a cautious stance would be advised at this time as uncertainty among investors is pushing volatility higher and the current bias is negative.

Warmly,
Mary Ellen McGonagle
Editor, MEM Edge Report