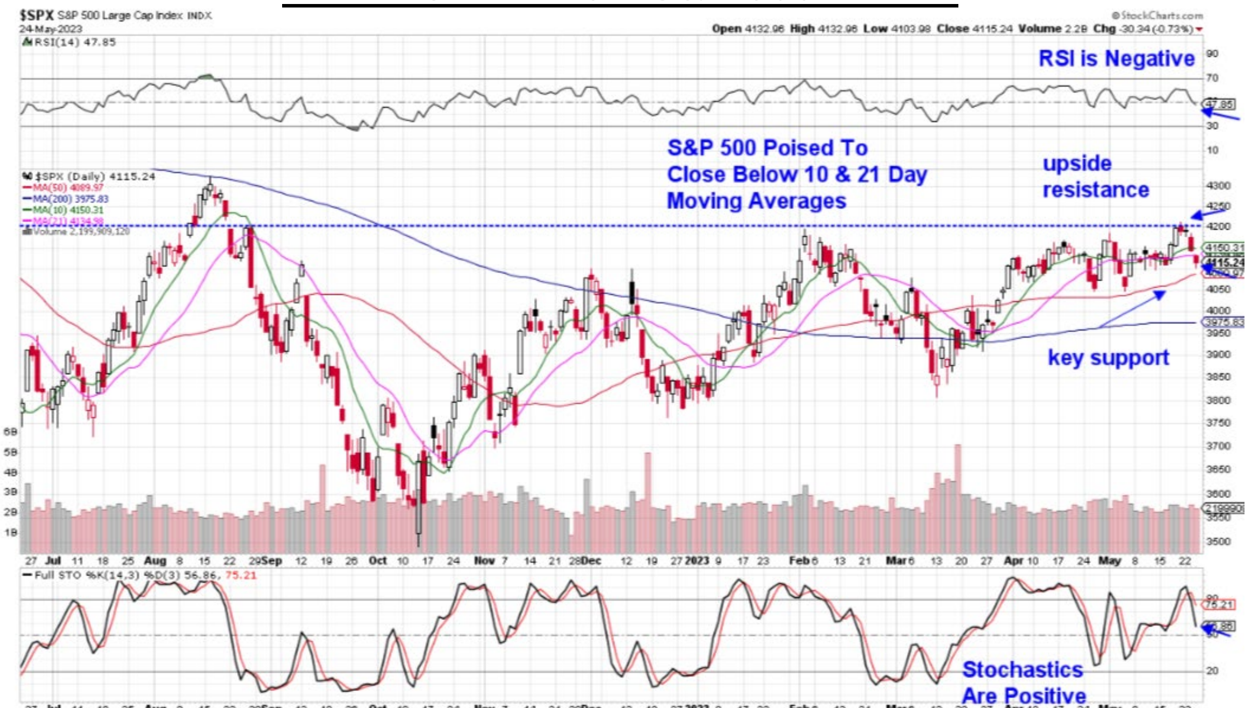
THE MEM EDGE
Midweek Report

Wednesday May 24, 2023

- S&P Survey Of Businesses Shows Economy Growing Faster In May
- Federal Reserve Undecided On Rate Hike Plan / Sees Mild Recession Beginning Q4
- Q1 GDP Reports Thursday and Core PCE Data On Friday
- Technology Stocks Pullback While Bank Stocks Rally
- Removing DHI, MCD and WEN From Suggested Holdings List

<u>DAILY CHART OF S&P 500 INDEX</u>



The S&P 500 is down 1.8% so far this week in a move that's pushed this Index below its 10 and 21-day moving averages with the RSI now in negative territory. The Stochastics are positive.

This week's decline pushed the S&P 500 to within 0.6% of its 50-day moving average which is the first area of possible support. A move below this key moving average coupled with a negative RSI and Stochastics would have us negative on the near term prospects for this Index.

On Monday, the S&P 500 briefly traded above the 4200 level which is a key area of possible upside resistance. The pullback since then has resistance now 2% away. A move above the 4200 level for at least several days would have us constructive on the possibility of a continuation uptrend.

The Nasdaq has declined 1.4% however, both the RSI and Stochastics remain in positive territory with this Index closing just a hair below its 10-day moving average. As highlighted in our Sunday report, the RSI had touched an overbought condition which in the past, preceded a pullback.

The Nasdaq has relatively outperformed this week amid outperformance in most of the mega-cap FAANMG stocks which helped overcome selling in Semiconductor and Software stocks. A regaining of its 10-day moving average would put this Index back into an uptrend.

The Technology sector has underperformed so far this week with a 2% decline that took place amid a drop in select Semiconductor and Software stocks that posted weak earnings reports. Despite the pullback in both of these groups, their momentum remains positive with Semis (SOXX) and Software (IGV) both remaining above key moving averages with a positive RSI and Stochastics.

Semiconductor stocks - as well as AI related names - will get a boost tomorrow following Nvidia (**NVDA**)'s report of strong earnings and a bullish growth outlook due to demand for AI chips that posted after the markets closed today.

NVDA closed today in a strong buy zone after pulling back to its 10-day moving average. The stock gapped up in price following strong Q4 results on February 22nd and we would use the 2 hour intraday chart as guidance as it captures this move.

Both Broadcom (**AVGO**) and Axcelis Technologies (**ACLS)** from our List are also in a strong buy zone following a modest 0.4% pullback to their 5 and 10-day moving averages respectively. **AVGO** announced a multi-billion dollar deal with Apple (AAPL) where they'll provide components to them. The news had Wall Street analysts raising their price target for AVGO to as high as $800.

Software stocks may have a tougher period tomorrow after closely watched company Snowflake (SNOW) is plummeting after hours today after reporting weak earnings due to slower cloud computing growth.

Among Software stocks on our List, Datadog (**DDOG**) continues to trend higher with a 1.5% gain this week and a bullish close today above its 5-day moving average. The stock remains in a buy zone.

Salesforce (**CRM**) is in a strong buy zone after buying today put the stock back above its 10-day moving average.

Uber (**UBER**) has pulled back 3% this week despite positive news of their partnership with Waymo to bring autonomous vehicles to Phoenix. The stock closed today below its shorter term moving averages and a move back above its 10-day moving average would put the stock into a buy zone. A close below last week's low of $37.5 would point to further downside near term with the 21-day moving average being the next area of possible support.

Apple (**AAPL**) has pulled back to its 21-day moving average which has occurred 3 times in the past two months. Each time, this pullback has proven to be an ideal buy point. AAPL is in a strong buy zone.
It's been a mixed week for Consumer Discretionary stocks as poor earnings reports from well known companies as well as higher mortgage rates took a bite out of some of the stocks on our Suggested Holdings List.

Interest rates are continuing to trend higher this week and in turn, mortgage rates are inching higher as well. The rate for a 30 year fixed remains above 7% which is a level not seen since 2002.

As cited in our Sunday report, we were on the lookout for KB Homes (KBH) to trade back above its 10-day moving average to put it into a buy zone. Instead, the stock pulled back with the group and is now below its 21-day moving average. We'd need to see the stock trade above $45 before an uptrend can be resumed.

DR Horton (**DHI**) pulled back further in a move that put the RSI into negative territory. The stock has been a relative underperformer of late and we're removing it from our Suggested

Holdings List as the shorter term moving averages have crossed below its longer term mavs. This is a negative death cross signal. Longer term investors will want to watch the weekly chart of DHI as the dynamics remain positive and the stock can be held.

McDonalds (**MCD**) is also being removed after today's close below its 50-day moving average which followed a move of the RSI into negative territory following selling earlier this week.

Wendy's (**WEN**) also came under selling pressure with a 4% loss for the week that puts the RSI into negative territory. The above average volume points to distribution and we're removing WEN from our Suggested Holdings List as well.

Walmart (**WMT**) has pulled back for the week however, it was able to close back above its 50-day moving average on above average volume today. We would need to see the stock close above its shorter term moving averages before being a buyer.

Wingstop (**WING**) has fared much better for the week with a close above its shorter term moving averages which puts the stock into a buy zone.

Healthcare stocks trended lower in line with the markets with each of the names on our List being unable to break back above their downward trending shorter term moving average. Astrazeneca (**AZN**) is particularly concerning after today's 2.3% decline occurred on very heavy volume which pushed the RSI into negative territory. A move below its 50-day moving average would have us most likely removing **AZN** from our Suggested Holdings List.

Alphabet (**GOOGL**) is in a strong buy zone after a pullback to its 10-day moving average. Today's positive report from NVDA is expected to boost GOOGL as well as other AI focused stocks such as Microsoft (**MSFT**) from our List. MSFT is also in a buy zone after a pullback to its 10-day moving average.

While we've highlighted select stocks as being in a buy zone, we remain cautious on the broader markets ahead of Friday's key inflation data. The Core PCE report is very closely watched by the Federal Reserve and while comments from the last Fed meeting point to a possible pause in rates, more recent comments from Fed officials imply the need to raise rates further.

Warmly,
Mary Ellen McGonagle
Editor, MEM Edge Report