



# THE MEM EDGE

July 16, 2023 | Weekly Report

## This Week's Highlights

- Yields Pull Back With 10-YR Treasury Back Below 4%
- Core CPI Rises Smallest Amount In 2 Years
- Weekly Jobless Claims Fall
- June Wholesale Inflation Falls Sharply With PPI Data Below Estimates
- Preliminary Consumer Sentiment For July Surges
- June Retails Sales, Homebuilder Confidence, Housing Starts and New Home Sales Data Next Week

### Daily Chart of S&P 500 Large Cap Index (\$SPX)



The S&P 500 gained 2.4% last week in a move that puts this Index closer to its all-time high reached in early 2022 which is 6.5% away. The gains keep the RSI and Stochastics in positive territory, with the near term uptrend firmly in place.

Last week's rally puts the RSI for the S&P 500 very close to an overbought position which historically (early August '22 and more recently, mid June) precedes a pullback. At this time, more recent pullbacks have been short lived and have served as an ideal buy point.

Should we experience a pullback, the 10-day moving average is the first area of possible support and it's 1.2% away.

After several weeks of underperformance, the Nasdaq outperformed, with a 3.3% rally that took place after two pull backs to its 21-day moving average. Last week's gains came amid a sharp rally in Software and Semiconductor stocks. Biotech stocks also outperformed however, the group is not yet in an uptrend.

Last week's gains were broad based with Consumer Discretionary, Internet Related and Technology stocks each outperforming. Defensive sectors such as Healthcare, Staples and Utilities underperformed despite posting gains.

Most impactful to the markets last week was data that showed inflation in the U.S. is cooling, with Wednesday's report that the consumer price index (CPI) slowed to its slowest pace in over 2 years. Thursday's report of the producer price index (PPI) was even more constructive, as wholesale prices rose at their slowest pace in 30 months.

The positive inflation data pushed interest rates lower, as news of a deceleration in inflation gives the Federal Reserve room to slow down their rate increase policy. At this time, investors are lowering their outlook for a rate increase beyond the Fed's July meeting - particularly if inflation and growth continue to cool.

Of note is that lower interest rates are a positive backdrop for high growth stocks because the value of their longer term earnings will remain stable.

Data released on Friday suggested that the economy may be able to avoid a recession, as consumer sentiment rose to its highest level in nearly two years. In addition, a positive tone among most Bank stocks that reported quarterly results last week also buoyed growth sentiment.

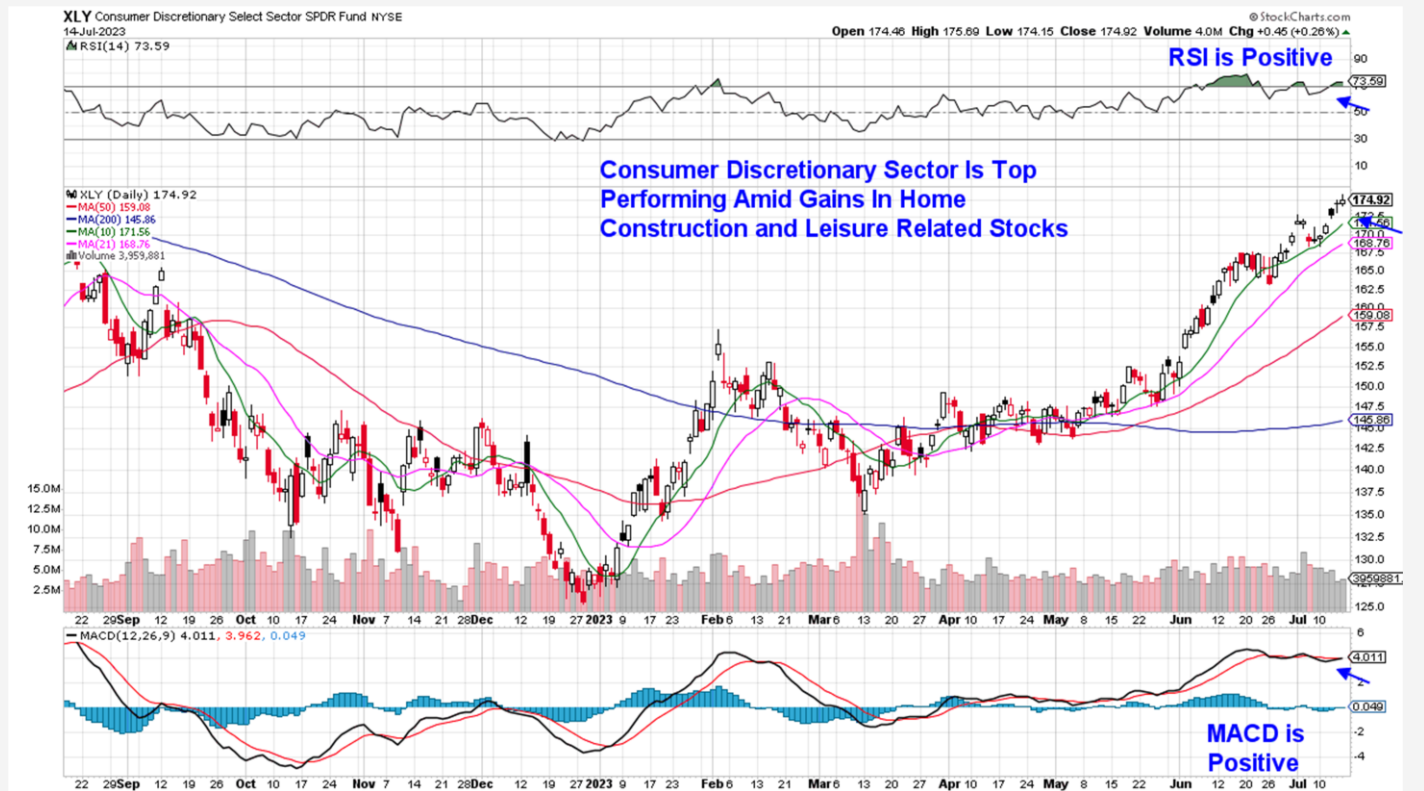
Next week, less impactful data is on the economic calendar so that the focus will be on quarterly results as earnings season heats. Netflix (**NFLX**) and Tesla (**TSLA**) are among heavyweight names due to report and given their lofty valuations after a relatively strong year, investor's response may be more crucial than the actual results.

In other words, if the stocks can shrug off any potentially poor news, that would bode well for other growth stocks that have seen large gains.

At this time, we're continuing to favor Technology and Consumer Discretionary stocks with an eye toward adding Bank names depending on results beyond last week's mixed but generally positive reports. In addition, any pullback in Cyclical stocks such as Industrials and Materials will present an opportunity for us to add stocks from these areas as well.



## Consumer Discretionary Select Sector SPDR Fund (XLY)



### Consumer Discretionary Sector Is Top Performing

Lower interest rates due to softer than expected inflation numbers gave a boost to Home Construction stocks which regained last week's losses and more.

Meritage Homes (**MTH**) from our List closed the week back above its shorter term moving averages in a rally that kept the RSI in positive territory. The stock also broke out of a 2-week base and into an uptrend. MTH can be bought on a pullback to its 5-day moving average at the \$141.5 range.

While the average 30-year mortgage rate fell from last week's high of 7.55%, it remains elevated at 7.2%. Longer term however, investor's are on the lookout for a potential slowing of the Fed's rate hike campaign which gave housing stocks a boost.

Next week, home building stocks NVR (**NVR**) and DR Horton (**DHI**) are due to report their quarterly results and the numbers, as well as investor's response, are expected to sway the group. In addition, the home builders confidence index, housing starts and existing home sales numbers will be released.

As cited in last Sunday's report, while higher interest rates have impacted the housing market negatively in the past, demand such as what's currently in place, has overridden any rise in rates.

At this time, each of the stocks in the residential building group are in an overbought position as is the S&P Homebuilders ETF (**XHB**) as the RSI is in an overbought position on their daily charts. We're bullish on the longer term prospects for these stocks however near term, we'd need to see a pullback before adding stocks from our Watch List.

Leisure related stocks were also on the move last week with hotel and travel related stocks rallying after Delta Airlines posted record revenues amid strong travel demand. Most impactful was management's guidance for continued strong travel demand going forward.

Today we're adding Airbnb (**ABNB**) to our Suggested Holdings List after last week's cup with handle base breakout which took place on above average volume. ABNB received two separate Wall Street price target upgrades and the stock can be bought on a pullback to the \$138 range at its 5-day moving average.

Select Retail stocks received a boost from last week's report of a surge in consumer confidence. Select footwear stocks posted gains led by a rally in Crocs (**CROX**) which reversed its downtrend last week ahead of the release of their earnings on Thursday. CROX is in a strong buy zone however, precedence shows that

buying a stock just prior to earnings can be risky. The stock has been added to our Watch List.

Deckers Outdoor (**DECK**) from our List is due to report later this month and the stock hit a new high in price on Wednesday before pulling back to its 21-day moving average. The stock is in a strong buy zone.

Today we're adding e-commerce giant Amazon (**AMZN**) to our Suggested Holdings List following Thursday's 3-week base breakout. The company reported that their Prime Day was the company's single largest sales day on record.

This news as well as AMZN's expansion of users of their cloud computing services (**AWS**) has analysts boosting their price target for the stock. AMZN can be bought on a pullback to its 5-day moving average at the \$131 range.

Auto parts supplier O'Reilly Automotive (**ORLY**) broke out of a 2-month base breakout on Wednesday, before pulling back to its 10-day moving average and into a strong buy zone. Last week, ORLY received a price target upgrade to \$1038 amid a strong outlook for continued growth.

Chipotle (**CMG**) is continuing to struggle despite analyst upgrades ahead of the release of their earnings later this month. Last week, the company unveiled a collaboration with a new robotic food processor that's

being tested in their kitchens. The device cuts prep time by 50% and is considered CMG's first integration into using AI and machine learning to improve profit margins.

A move back above its shorter term 10 and 21-day moving averages would put the stock into a strong buy zone.

Tesla (**TSLA**) is in a confirmed uptrend as it finds support at its upward trending 10-day moving average ahead of the release of their quarterly results on Wednesday after the close. The company reported record 2nd quarter vehicle deliveries earlier this month which is positive, but investors are on alert as it was due to discounting.

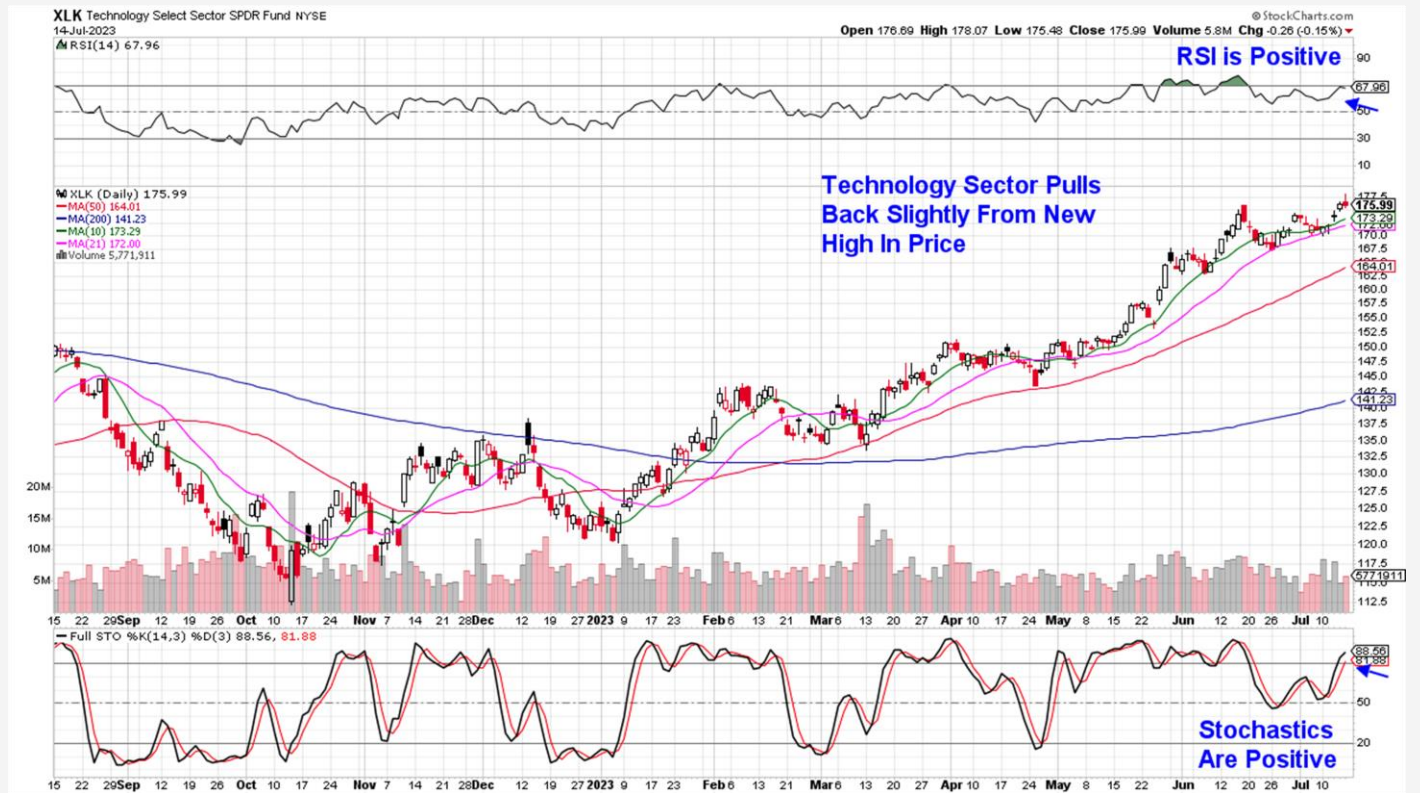
In bullish news yesterday, the company launched their first Cyber truck at the EV maker's Texas plant. The release follows 2 years of delays and we're expecting the stock to trade higher on the going next week.

The Consumer Discretionary sector has been a top performer over the past 6 weeks led by gains in Home Builders, Autos and more recently, travel related names. The sector is now in an overbought position and due a pullback. Next week, Retail Sales data for June will be released which may impact the group.





## Daily Chart of Technology Select Sector SPDR Fund (XLK)



### Technology Sector Regains Its Uptrend

Tech stocks outperformed the markets last week led by a rally in Software and Semiconductor stocks which ramped higher amid lower interest rates. Strong earnings from select names also boosted these areas with companies having an AI component seeing the biggest gains.

AI chip provider Nvidia (**NVDA**) continues to lead Semi stocks higher with a 7% rally that took place last week amid news that the company may be an anchor investor in chip company Arm's IPO. ARM's CPUs are considered the leading machine learning processor on the market today.

In other news, NVDA announced an investment in biotech firm Recursion which is aimed to boost their AI platform for drug discovery. NVDA is in a strong buy zone after last week's gains put the stock at a new high in price. Most attractive is that the MACD on the daily chart has executed a bullish crossover which indicates a new uptrend.

Broadcom (**AVGO**) outperformed the group as well with a 5% rally that put the stock at a new high in price. The gains took place amid news that European regulators approved the company's acquisition of VMware.

On Friday, a major Wall Street firm reiterated that AVGO and NVDA are the only chip makers with

meaningful exposure to generative AI. As you may recall, we cited a study with similar results from Morgan Stanley in May, which had us embracing both stocks. AVGO is in a buy zone with a MACD crossover on its daily chart putting the stock into a strong buy zone.

Axcelis (**ACLS**) produces high current ion units to leading chipmakers that are used in the production of semiconductors for AI and EVs. The stock is in a buy zone as it finds support at its 5-day moving average. A breakout above the \$187 level would put ACLS into a strong buy zone.

Lam Research (**LRCX**) awakened last week with a close above its 10 and 21-day moving averages that followed a 3.5% rally. The company provides memory chips that have seen reduced demand of late however, demand is expected to accelerate into year end due to the need for high bandwidth memory that's used in AI servers.

LRCX remains a relative laggard however, the stock has resumed its uptrend with the release of earnings later this month potentially being the driver to outperformance.

Recently added Monolithic Power (**MPWR**) pulled back after hitting a new high in price on Thursday. The company provides power management solutions that

are used in the industrial, automotive, robotics and cloud computing applications.

Last week, MPWR received two price target upgrades to as high as \$600 due to strong growth demand for their products. MPWR can be bought in the \$556 range at its 5-day moving average.

Last week, Semiconductor company Aehr Test Systems (**AEHR**) gapped up 18% in response to posting earnings ahead of estimates while guiding growth prospects higher going forward. The company saw the most growth in their products designed for the EV market. As you may recall, AEHR's rally in response to strong earnings sparked the January rally in Semi stocks. We view last week's response to be equally bullish for the group.

Software stocks outperformed amid a broad based rally. Uber Technologies (**UBER**) pulled back from a 3-week base breakout after hitting a near term high in price. UBER continues to develop new partnerships while pulling back from unprofitable areas in a move that has Wall Street upgrading their outlook. The stock is in a strong buy zone after Friday's pullback to its 5-day moving average.

Recently added Shopify (**SHOP**) rallied on heavy volume following news that they're introducing AI assistance for users of their platform. SHOP experienced a positive MACD crossover which historically, signals the start of a

new uptrend. The stock can be bought on any pullback to its 5-day moving average at the \$67 range.

Adobe (**ADBE**) is on the cusp of a 1-month base breakout at \$519 after last week's rally. The company expanded the availability of its generative AI tool to support text prompts in over 100 languages which is a huge expansion from their initial English only launch in March. ADBE is in a buy zone with a base breakout putting it into a strong buy zone.

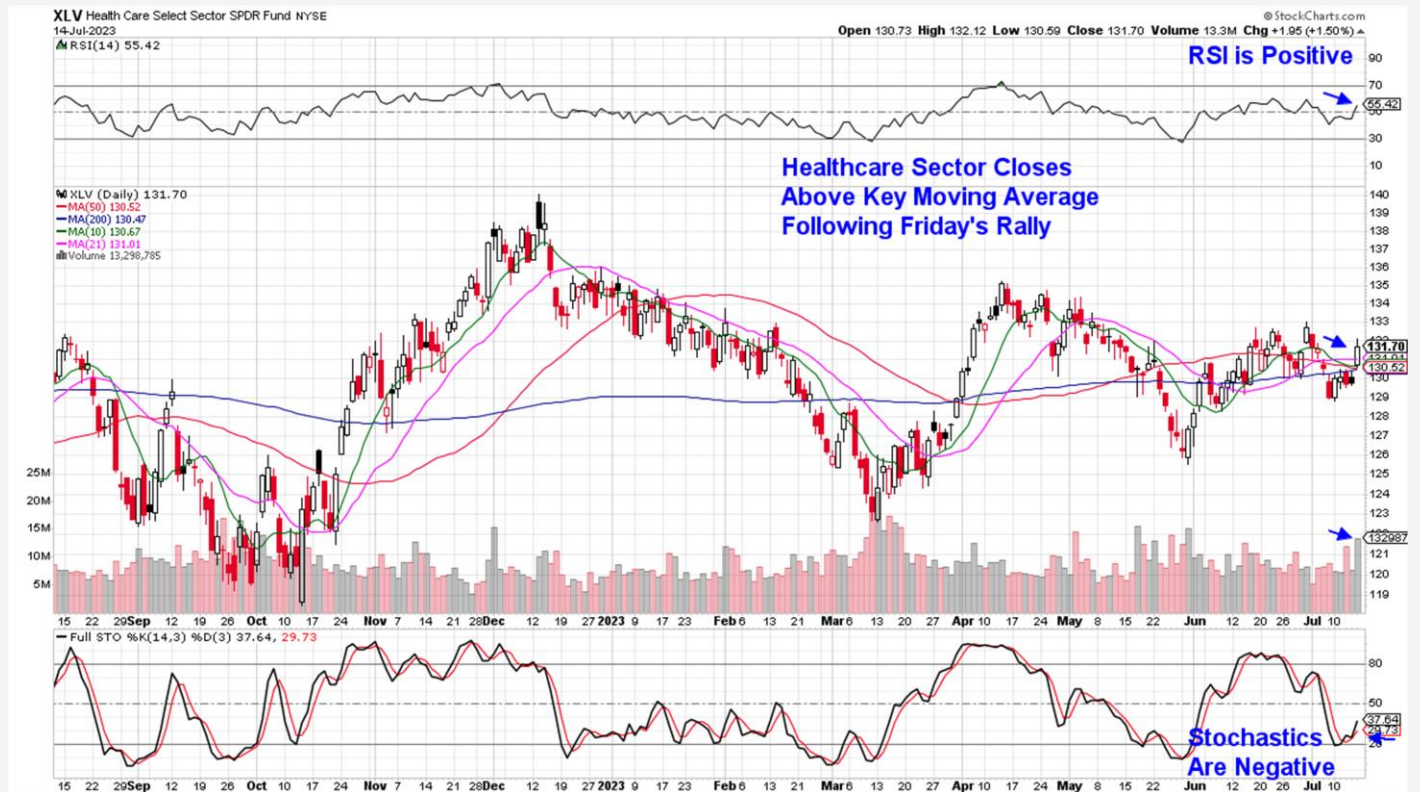
Microsoft (**MSFT**) pulled back from a 1-month base breakout as the company moves closer to their acquisition of Activision (**ATVI**). Last week's rally puts the MACD on the daily chart on the cusp of a bullish crossover and the stock can be bought at the \$339 level at its 5-day moving average. MSFT is due to report quarterly results the week after next.

Apple (**AAPL**) was flat for the week as the stock continues to consolidate after hitting a \$3 trillion market cap valuation 2 weeks ago.

The stock is in a strong buy zone as its pullback has put the RSI out of an overbought position while AAPL found support at its upward trending 21-day moving average. In addition, it closed the week above each of its shorter term moving averages.



## Daily Chart of the Health Care Select Sector SPDR Fund (XLV)



### Healthcare Sector Gets Earnings Driven Boost

Managed Care stocks gave this group a late week boost after UnitedHealth (**UNH**) reported earnings above estimates which spurred a rally in other names. Outperformance in Biotech also helped this sector.

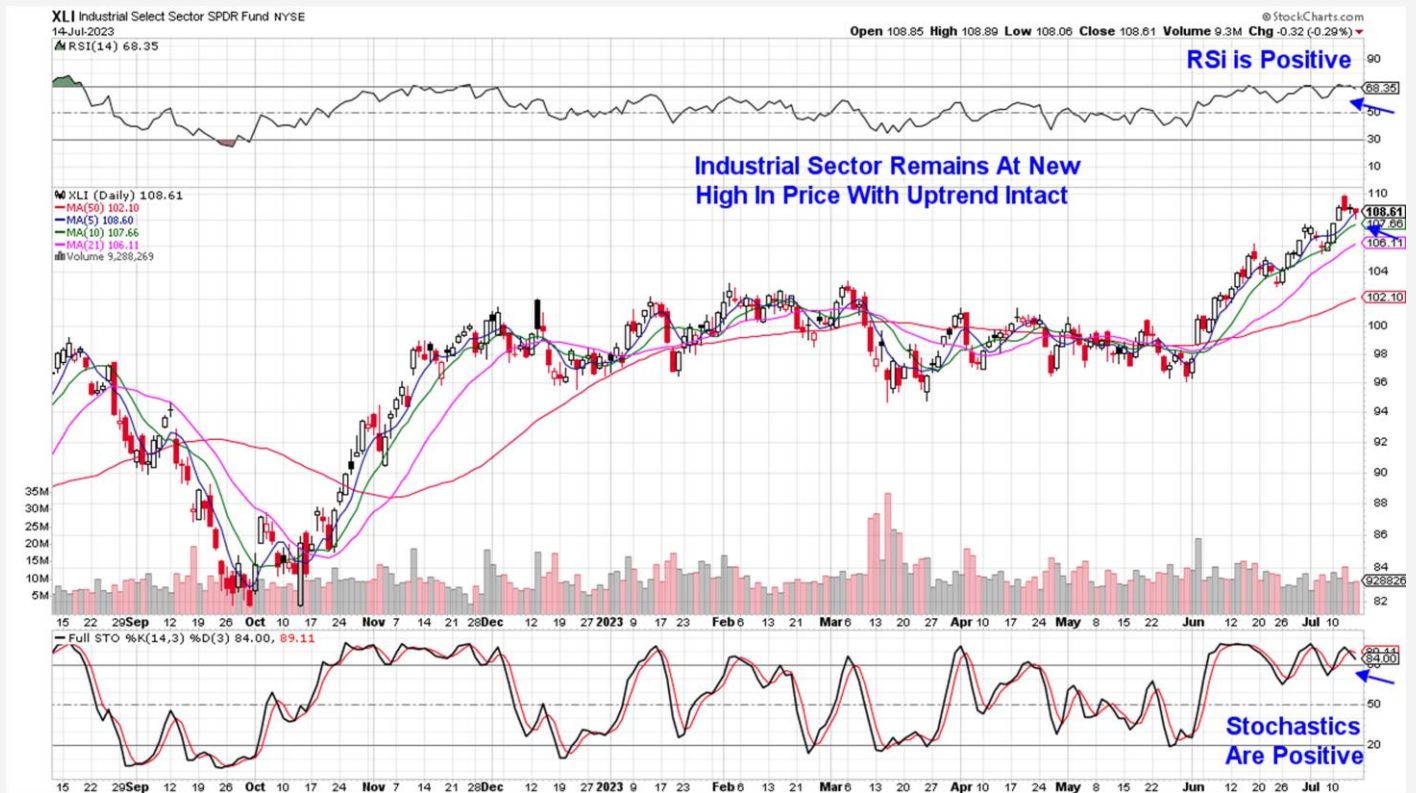
Robotic surgical device company Intuitive Surgical (**ISRG**) came close to surpassing its late 2022 high in price after a 7% rally. The company is due to release their earnings on Thursday after the market's close and

their relatively high valuation means they'll have to post strong results in order to rally higher.

The Healthcare sector has been an underperformer year to date due to repercussions from the Inflation Reduction Act which has Drug companies on edge ahead of drug price reductions coming up this Fall. We'll continue to focus on Medical Products stocks that will be less impacted.



## Daily Chart of the Industrial Select Sector SPDR Fund (XLI)



### Industrial Sector Remains In Strong Uptrend

Industrial stocks were mixed last week as Airline stocks pulled back and Defense and Transports underperformed. However, Building Materials companies outpaced the markets amid a rally in Home Construction stocks due to a strong growth outlook.

Pentair (**PNR**) provides pump and filtration equipment for residential applications and the stock rallied 5%

after the prior week's pullback to its 10-day moving average. Friday's price action was particularly bullish as buyers stepped in after the stock pulled back below its 10-day mav. PNR is in a strong buy zone ahead of the release of their earnings later this month.



# Summary

The markets posted a strong week after better than expected inflation reports sent interest rates lower as Fed rate hike fears receded. In turn, the S&P 500 and the Nasdaq closed at 52 week highs while Small Cap stocks gained 3.7%. While this broad based rally improved breadth, the markets are back in an overbought position with the RSI at or above 70 on the daily charts of the S&P 500 and Nasdaq.

These overbought conditions - as well as the fact that earnings season will pick up considerably next week - has us a bit cautious on the near-term prospects for the markets. Any new positions should be added to lightly at this time.

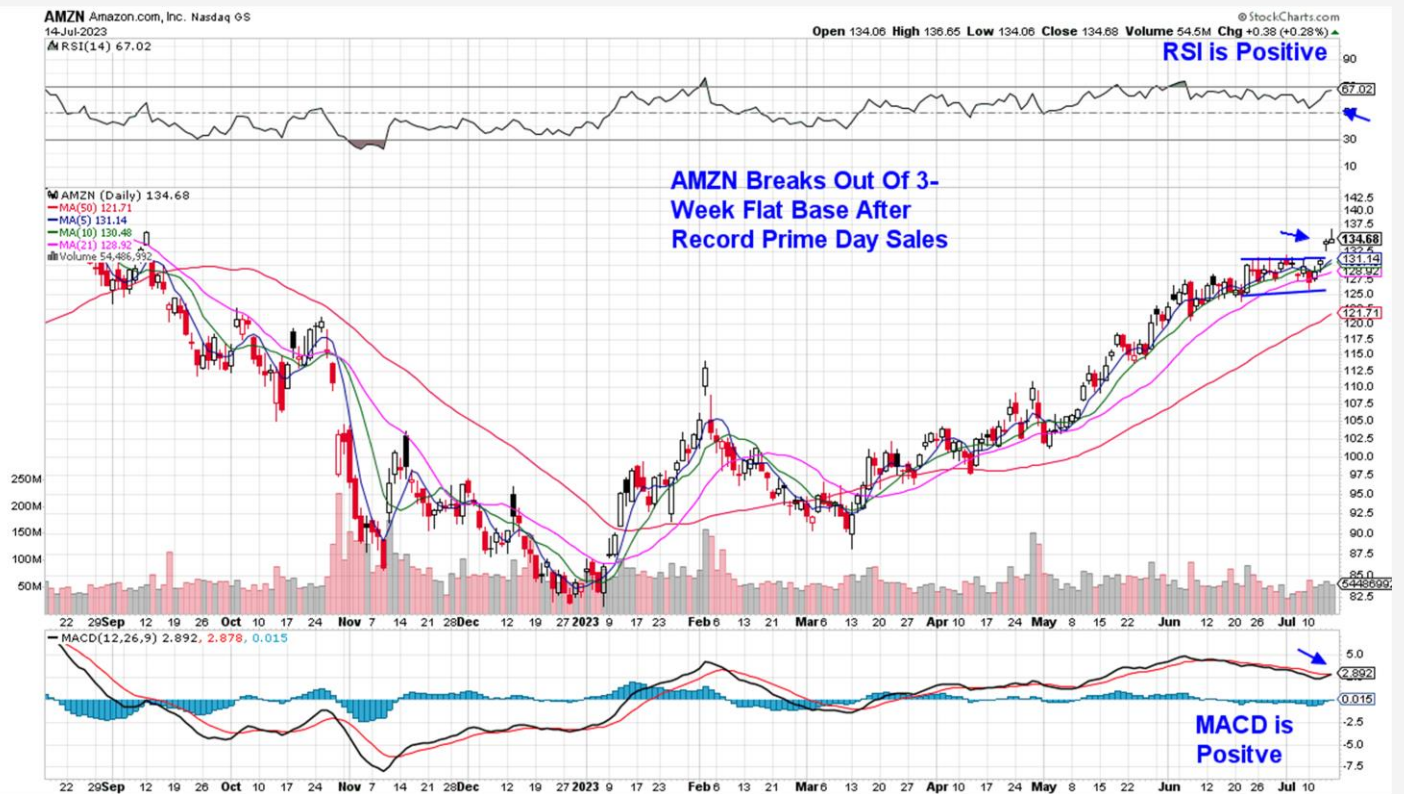
Going forward, we're quite construction on the prospects for the markets. Near term however, we'll be closely monitoring the markets reaction to earnings reports as a tone will be set for the coming months. Historically, if investors can overlook less than stellar results, it signals a bullish bias among investors. On the other hand, if stocks sell off despite strong results, a negative undertone and valuation concerns will be revealed.

So far, the economy has shown amazing resiliency and with inflation showing signs of having peaked, we expect the markets to trade higher from here. Corporate earnings reports will have to do some heavy lifting however, particularly given the run up we've seen in select areas of the market.

## Chart of Airbnb (ABNB)



## Chart of Amazon (AMZN)



# 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 | PERFORMANCE | EARNINGS DUE DATE | INDUSTRY GROUP |
|------|---------|-------|------------|-------------|-------------------|----------------|
|------|---------|-------|------------|-------------|-------------------|----------------|

|                        |                        |          |         |       |           |                        |
|------------------------|------------------------|----------|---------|-------|-----------|------------------------|
| CONSUMER DISCRETIONARY |                        |          |         |       |           |                        |
| AMZN                   | Amazon                 | \$134.70 | 7/16/23 | 0.0%  |           |                        |
| ABNB                   | Airbnb                 | \$143.40 | 7/16/23 | 0.0%  | August 25 | Leisure-Travel Booking |
| CMG                    | Chipotle Mexican Grill | \$146.51 | 6/28/23 | -2.0% | July 26   | Retail Restaurant      |
| DECK                   | Deckers Outdoors       | \$16.47  | 6/19/23 | 6.5%  | August 25 | Retail - Shoes         |
| MTH                    | Meritage Homes         | \$33.93  | 6/25/23 | 6.5%  | July 27   | Residential Builder    |
| ORLY                   | O'Reilly Automotive    | \$199.07 | 7/2/23  | 5.0%  | July 26   | Retail Automotive      |
| TSLA                   | Tesla                  |          | 6/4/23  | 28.0% | July 19   | Auto Manufacturer      |

|            |          |         |        |      |         |           |
|------------|----------|---------|--------|------|---------|-----------|
| INDUSTRIAL |          |         |        |      |         |           |
| PNR        | Pentair. | \$64.60 | 7/2/23 | 2.0% | July 25 | Machinery |

|            |                    |          |         |       |         |                   |
|------------|--------------------|----------|---------|-------|---------|-------------------|
| HEALTHCARE |                    |          |         |       |         |                   |
| ISRG       | Intuitive Surgical | \$300.22 | 4/23/23 | 16.0% | July 18 | Medical Equipment |

|            |                      |          |         |        |           |                         |
|------------|----------------------|----------|---------|--------|-----------|-------------------------|
| TECHNOLOGY |                      |          |         |        |           |                         |
| ADBE       | Adobe                | \$507.40 | 7/12/23 | 1.5%   |           |                         |
| AAPL       | Apple                | \$160.30 | 3/26/23 | 19.5%  |           | Telecom – Cons Products |
| ACLS       | Axcelis Technologies | \$137.00 | 5/17/23 | 29.5%  | August 4  | Semiconductor           |
| AVGO       | Broadcom             | \$657.50 | 5/17/23 | 33.0%  | August 2  | Semiconductor           |
| LRCX       | Lam Research         | \$642.00 | 6/28/23 | -0.5%  |           | Semiconductor           |
| MPWR       | Monolithic Power     | \$561.00 | 7/12/23 | 1.0%   |           |                         |
| MSFT       | Microsoft            | \$276.20 | 3/16/23 | 22.0%  | July 25   | Software                |
| SHOP       | Shopify              | \$65.90  | 7/12/23 | 4.0%   |           |                         |
| UBER       | Uber Technologies    | \$437.80 | 5/7/23  | 18.0%  | August 2  | Software                |
| NVDA       | Nvidia Corp          | \$178.40 | 1/22/23 | 100.0% | August 24 | Semiconductor           |

# 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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