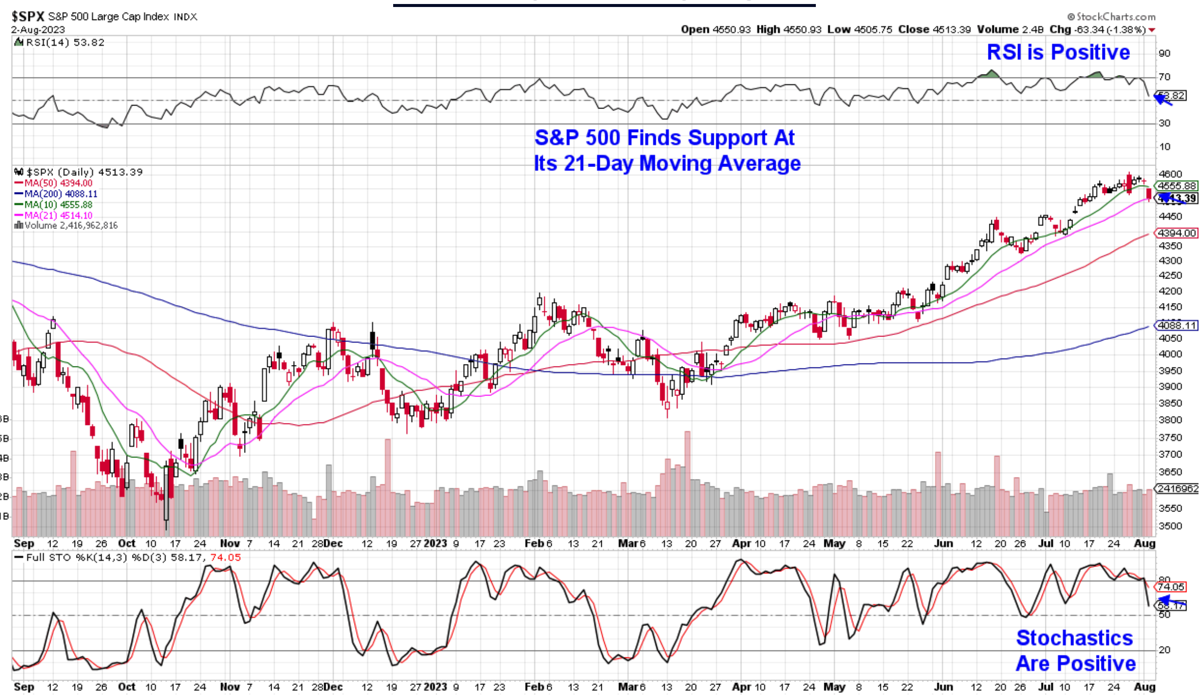
THE MEM EDGE
Midweek Report

Wednesday, August 2, 2023

- U.S. Private Sector Jobs Jump In July
- Fitch Rating Agency Lowers U.S. Credit Rating
- Treasury Yields Hit 2023 Highs
- Volatility Spikes By 16% Today
- July Payrolls, Unemployment Rate & Hourly Wages Data On Friday
- Apple (AAPL) and Amazon (AMZN) Report Earnings After Close Thursday
- Removing Microsoft (MSFT) From Suggested Holdings List

DAILY CHART OF SPX



The S&P 500 is down 1.5% for the week so far in a move that has pushed this Index to its 21-day moving average where it's found support. With the RSI and Stochastics in positive territory, the near term uptrend in this Index remains in place.

Should the markets pull back further and close below the 21-day moving average, the next area of possible support is its 50-day moving average at 4395, and is 2.7% away.

The Nasdaq has declined even more, with a 2.4% drop that has this Index closing below its 21-day moving average while the RSI and Stochastics are in positive territory.

The break below near term support presents only mild concern as this week's pullback has pushed the RSI out of an overbought position on the weekly chart which is a positive.

Should we see more of a pullback, the next area of possible support for the Nasdaq is its 50-day moving average, which is 2.6% away. A negative RSI and a crossover of the 10-day mav below its 21-day moving average on the daily chart, would have us reconsidering our stance.

The decline in the Nasdaq this week is being led by underperformance in most of the mega-cap FAANMG names as well as Semiconductors stocks.

The markets were retaining their bullish bias this week until news late Tuesday of a downgrade in the long term rating for the U.S., pushed stocks lower today.

The selling appears to be mostly profit taking as recently strong areas of the market were hit the hardest, such as mega-cap Growth stocks, Software and Semiconductor names.

Other areas of Growth were also hurt with names on our List that are due to report earnings over the next two days coming under the most pressure. This is the hallmark of a risk off environment as investors don't want to hold positions going into quarterly results.

At this time, we anticipate a resumption of the market’s rally with a close back above the 10-day moving average however, we're on alert for possible further deterioration given today's uptick in interest rates and the volatility index (VIX)

The last time the U.S. received a rating downgrade was in August of 2011 and while the markets subsequently entered bear market status due to selling pressures, the U.S. and global economies were in a much weaker position. I’ve included a daily chart of the S&P 500 from 2011 that highlights key events below.

Consumer Discretionary stocks are down the most this week led by declines in Tesla (TSLA) and other Auto stocks. Among Consumer stocks on our List, both Airbnb (ABNB) and Amazon (AMZN) are down the most ahead of the release of their earnings after the market’s close tomorrow.

ABNB has found support at its 21-day moving average with the RSI now down from an overbought position but still in positive territory. A close back above its 10-day mav on positive earnings would put the stock in a buy zone with a break below its 21-dmav coupled with a negative RSI being negative for the near term prospects.

AMZN is in a more vulnerable position as this week's pullback has put the RSI and Stochastics in negative territory. The stock did find support at its 50-day moving average which is constructive however, a break below this key mav on volume would be a negative for its near term prospects.

Homebuilders are pulling back with the markets with Meritage Homes (MTH) trading in line with the group. MTH is seeing buyon on its dip and the stock is in a position to trade higher.

The Technology sector is also underperforming led by a 2.1% pullback in this recently strong area of the markets. The decline is due to weakness in heavyweight name Microsoft (MSFT) as well as selling in Semi and Software stocks.

At this time, the RSI and Stochastics are in negative territory on the daily chart of this sector. (using ETF XLK). This is similar to the late February and late April periods when both Software and Semiconductor stocks came under selling pressure.

Should we experience a similar pullback in these groups, we will continue to assess each stock on its own basis. The longer term, weekly chart of Technology remains in a positive position.

Among names on our List, Shopify (SHOP) has pulled back the most, with selling that has pushed the RSI and Stochastics into negative territory. SHOP is due to report earnings after the close tomorrow and today's high volume selling is concerning.

Elsewhere in Software, Uber (UBER) and Adobe (ADBE) remain in bullish positions after finding support above their shorter term moving averages.

Microsoft (**MSFT**) is in a negative position as the stock has been unable to recover from the pullback that occurred after the company reported reduced sales of their cloud computing service. This week's pullback has caused a negative MACD crossover on the weekly chart which historically points to further near term downside. We're removing **MSFT** from our Suggested Holdings List.

Semiconductor stocks came under selling pressure with Nvidia (NVDA) and Lam Research (LRCX) pulling back the most among Semi names on our List.

NVDA closed below its 21-day moving average with the RSI poised to move into negative territory. At this time, we would not be a buyer on the pullback but instead, look for a move back above the 21-day moving average for confirmation that the stock is not headed toward its key 50-day moving average.

LRCX remains above the suggested buy level we identified on Sunday, which is in the $680 range.

Axcelis (ACLS) is in a bullish position ahead of the release of their earnings after the close tomorrow while Broadcom (AVGO) remains in a flat base following a nominal pullback to its 21-day moving average.

At this time the Semiconductor group remains positive after finding support at its 21-day moving average with the RSI and MACD in positive territory.

Select Bank names are pulling back further than their peers with Zions Bancorp (ZION) finding upside resistance at its 200-day moving average. As stated over the weekend, we would need to see a close above this moving average to improve the probability of it trading higher near term.

Morgan Stanley (MS) is finding support at its 21-day moving average which is constructive however, a close below its 200 day moving average which is 0.9% away, would have us most likely removing the stock from our List.

Today's sharp reaction to a downgrade of the U.S.'s long term rating may be just a blip on the radar as overall, the U.S. economy remains strong with inflation levels continuing to moderate.

Risks remain however with Friday's July employment report being critical to investor's outlook that the Federal Reserve may not need to raise interest rates further. Tomorrow's earnings reports from Apple (AAPL) and Amazon (AMZN) will also be closely watched.

An Alert Report will be issued tomorrow if our current stance on the markets shifts to a more negative bias.

Warmly,
Mary Ellen McGonagle
Editor, MEM Edge Report

Below is a daily chart of the S&P 500 the last time the U.S. received a downgrade from the S&P rating agency in 2011. As you'll see, the overall market conditions were quite a bit weaker than they are now.

CHART OF 2011 SPX