



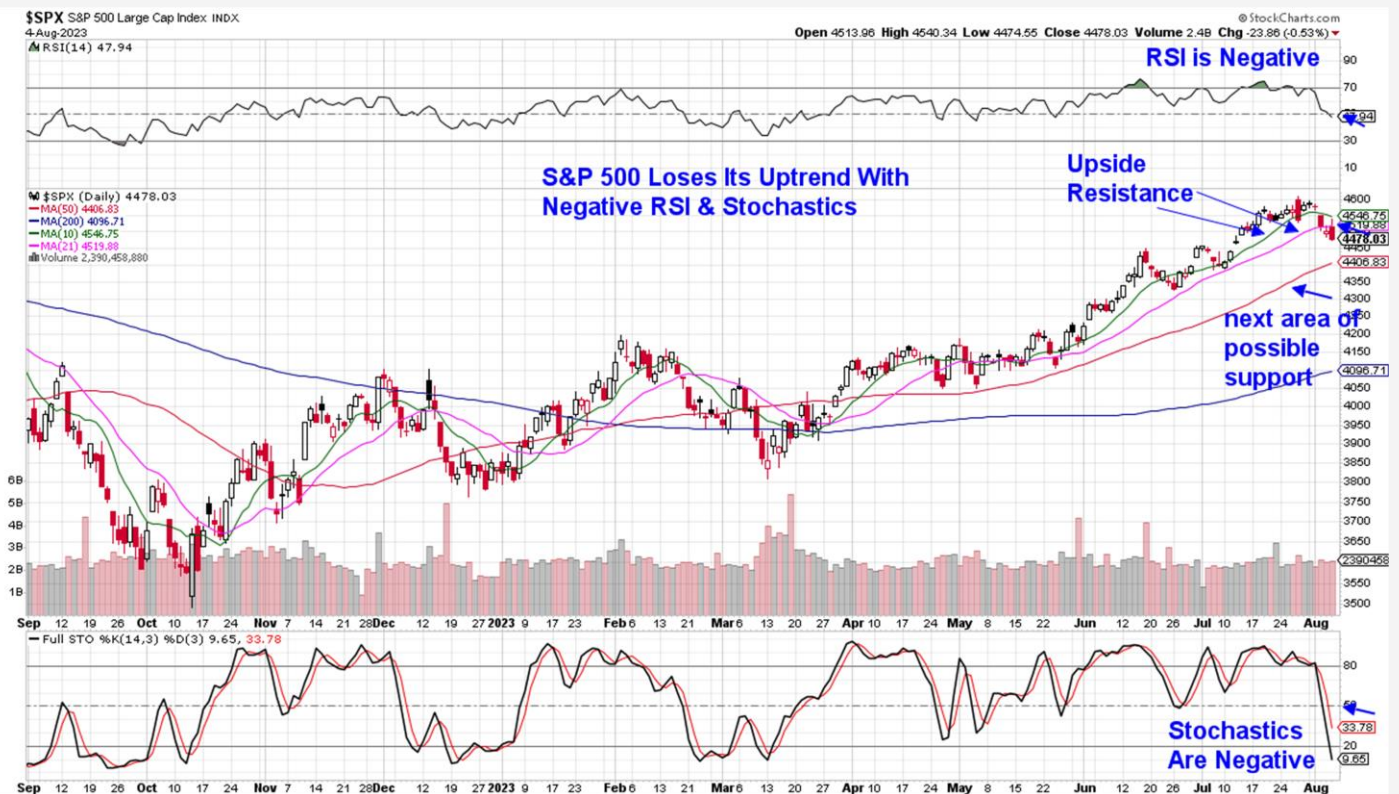
# THE MEM EDGE

August 6, 2023 | Weekly Report

## This Week's Highlights

- U.S. Private Sector Jobs Jump In July
- Fitch Rating Agency Lowers U.S. Credit Rating
- Treasury Yields Hit 2023 Highs
- Volatility Spikes This Week (VIX)
- July Employment Shows Less Jobs Than Expected Added but Hour Wages Remain High , Unemployment Rate Rises
- Core CPI and PPI Data Due Thursday & Friday

### Daily Chart of S&P 500



The S&P 500 fell 2.3% for the week in a move that pushed the Index below its 21-day moving average, with the RSI and Stochastics now in negative territory. These dynamics have us cautious on the near term prospects for the S&P 500 with a negative bias.

Should we pull back further, the next area of possible support is the 50-day moving average which is 1.6% away. At this time, the Stochastics are in an oversold position which when using the late December and February pullbacks as precedence, signals an upcoming period of consolidation, before the uptrend is resumed.

On any rallies, the 21 and 10-day moving averages are the first areas of possible upside resistance and are 0.9% and 1.5% respectively. A move above these moving averages coupled with a positive RSI and Stochastics, would shift our bias to positive for the near term. A close above the late July high in price at 4600, would set the stage for even further upside.

The weekly chart of the S&P 500 remains constructive which bodes well for the intermediate term outlook, as this Index remains above its 10-week moving average while the RSI and Stochastics in positive territory.

The Nasdaq declined 2.9% with a close below its 21-day moving average that took place on above average volume. With the RSI and Stochastics in negative territory, we are cautious with a negative bias on the near term prospects for this Index as well.

Last week's distribution occurred amid underperformance in most of the mega-cap FAANG names, while Semiconductor and Software stocks pulled back sharply as well.

That said, the Stochastics are now in an oversold position (below 20) on the Nasdaq as well, and a close above the 10-day moving average coupled with a positive RSI would signal a resumption of its uptrend.

Should we see further selling, the 50-day moving average is the next area of possible support which is 1.7% away. A close below this key moving average would have us watching the late June low as the next area of potential support.

The pullback in the Nasdaq pushed the RSI out of an overbought position on the weekly chart which is constructive - as historically this allows a reset which in turn, precedes further upside.

Last week's pullback in the markets was triggered by mixed economic news amid the busiest week of earnings season which included reports from both Apple (**AAPL**) and Amazon (**AMZN**) as well over 300 additional companies.

Increased interest rates along with an intolerance for less than perfect earnings reports, pushed stocks lower. Rising interest rates are particularly damaging for Growth stocks as their future earnings are reduced in value.

Since mid-May, the Growth-heavy Nasdaq has outperformed with Technology stocks rallying despite a

rise in yields. Investors have instead been focused on reports of lower inflation and a stable economy. This disregard for rising rates is a departure from earlier periods when the Nasdaq has pulled back. (see chart below) Next week may be telling as the yield on the 10-year Treasury remains elevated.

Last week, the Tech sector was among the weakest, led by a 7% decline in Apple after the company reported a slight slowdown in sales.

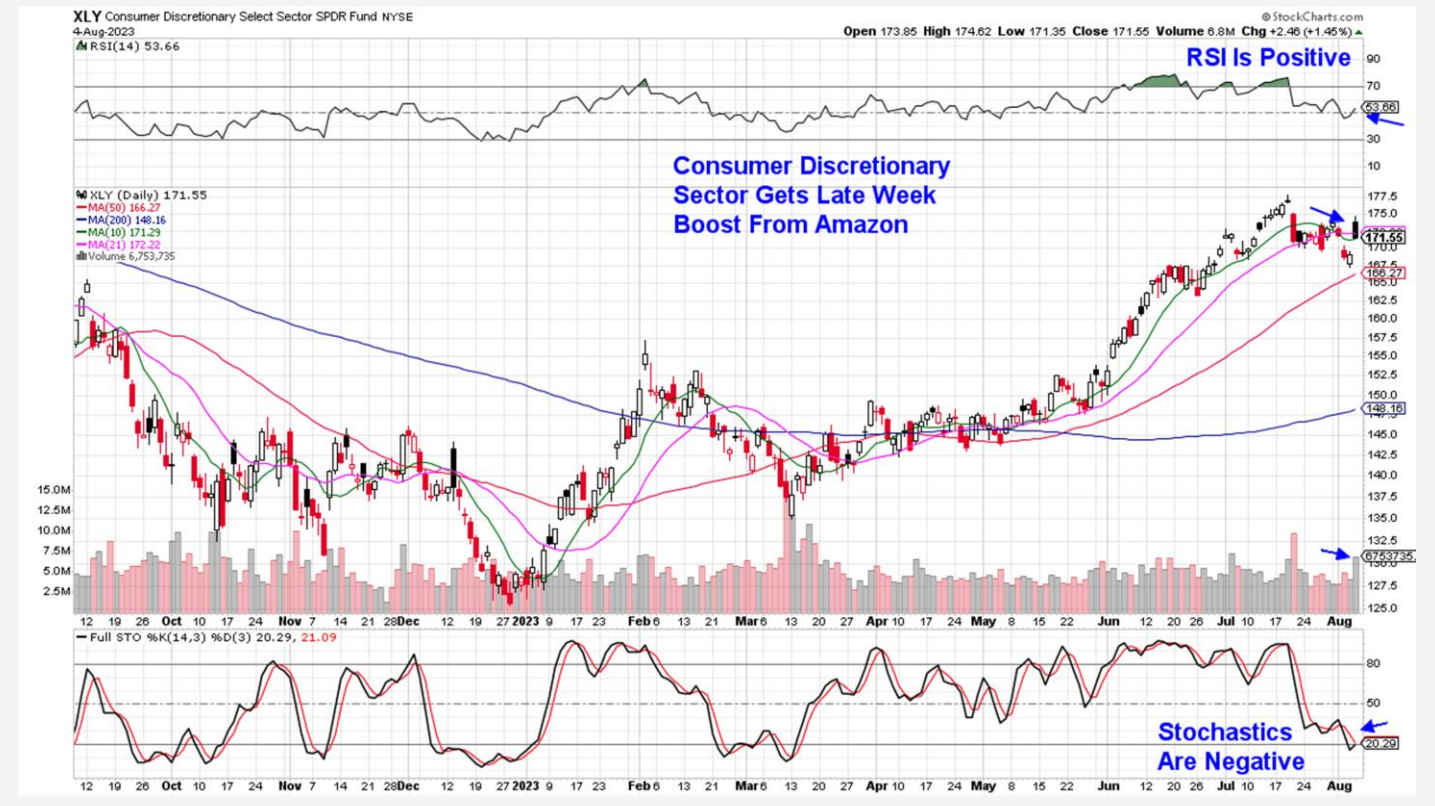
Earnings season is instrumental in revealing investor sentiment based on their response to results. In bullish periods such as last quarter, negative news is overlooked. A case in point is Apple's rally following their Q1 results earlier this year, which also showed declining overall sales.

The equal weighted S&P 500 is also in a near term downtrend as areas outside of Technology also pulled back last week. Among the 11 sectors in the S&P 500, Energy was the only positive area with a 1.3% gain.

Given our shift in the near term outlook for the markets, it would be prudent to reduce exposure to the markets slightly and lock in at least partial profits where warranted. As noted in last week's report, we're monitoring the weekly chart of the S&P 500 for signs of possible weakness beyond the near term and at this time, the longer term outlook remains positive.

With earnings season mostly behind us, investor focus next week will be the inflation data that's due with Consumer and Producer Price Index reports due on Thursday and Friday. Interest rates will also be closely watched.

## Daily Chart of the Consumer Discretionary Select Sector SPDR Fund (XLY)



### Consumer Discretionary Sector Gets Boost From Amazon

Last week's 5.5% rally in Amazon (**AMZN**) helped this sector outperform for the week as it was down less than 1%. AMZN reported earnings and sales that were ahead of estimates while posting operating income that was more than double a year ago. In addition, management guided growth estimates higher into next quarter.

The positive news had the stock gapping up into a base breakout on heavy volume Friday with the MACD posting a bullish crossover (black line up through the red) on the daily chart. While the stock is currently in a position to trade higher, we may see price action more similar to AMZN's gap up on earnings from early February.

As you may recall, the Nasdaq pulled back in early February and took AMZN and other large Growth stocks either down or sideways until an uptrend resumption took place mid-March.

Most other areas of this sector were in the red led by a selloff in Travel and Leisure related stocks which pulled back after weak numbers from travel booking company Expedia (**EXPE**) as well as Norwegian Cruise Line (**NCLH**). A poor outlook from several Airline companies - (in the Industrial sector) - also hurt travel related stocks.

Weakness in this area pushed Airbnb (**ABNB**) lower despite the company's report of record 2nd quarter profits. Similar to EXPE, the number of nights booked was down from last year. ABNB closed below its shorter term 10 and 21-day moving average and we would need to see a close above this level before it was back in a buy zone.

Last week's heavy volume on ABNB's pullback puts the stock in a position that's similar to its early May release of earnings and at that time, the stock experienced a 3-week period of consolidation before resuming its former uptrend.

Last week's uptick in interest rates had housing stocks pulling back slightly and Meritage Homes (**MTH**) was no exception. The stock found support at its 21-day moving average with the RSI and MACD remaining in positive territory. The stock is in a position to trade higher from here.

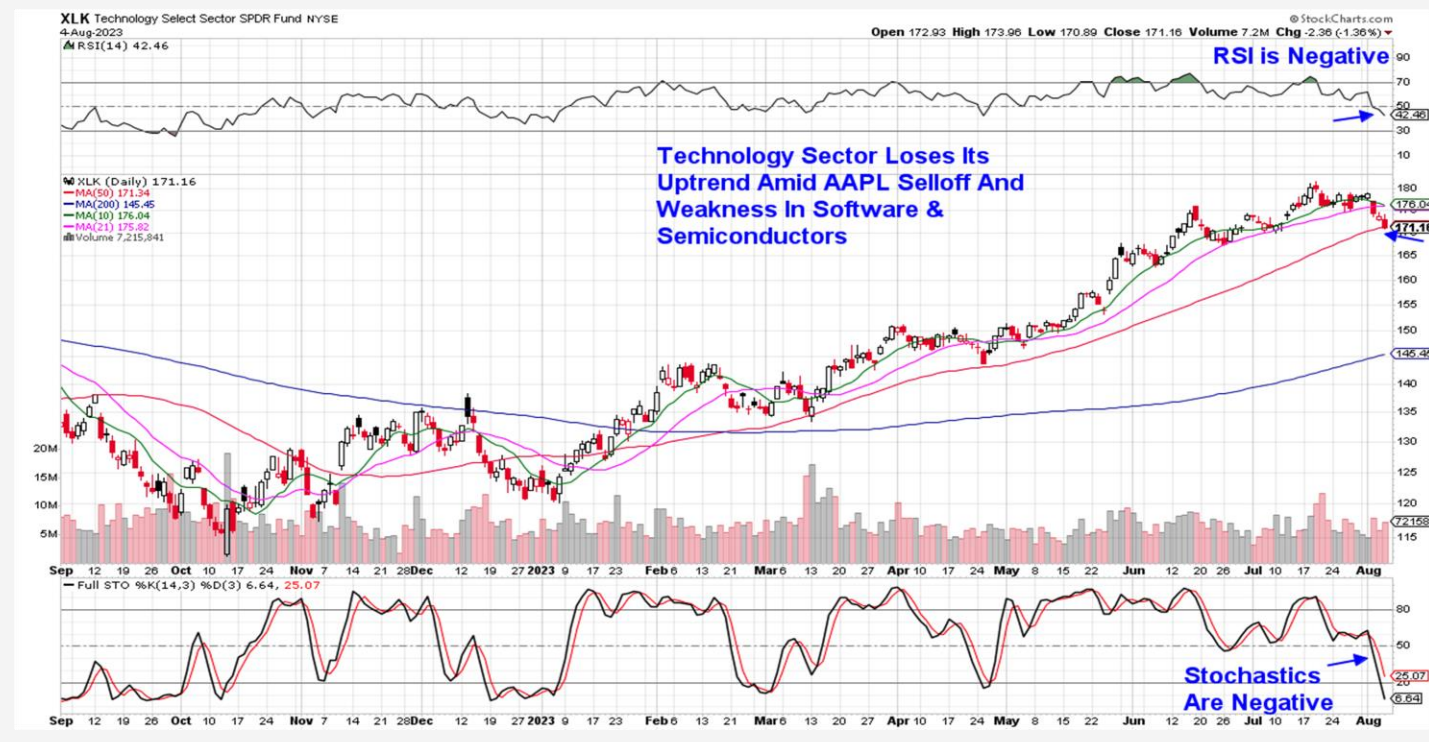
O'Reilly (**ORLY**) traded sideways for the week in a move that put the MACD into negative territory where it joined the negative RSI. In addition, the stock continues to trade below its 50-day moving average. Longer term investors can stay with ORLY as the momentum indicators remain positive however, we're removing the stock from our Suggested Holdings List.



Deckers (**DECK**) was one of the few bright spots for this sector after last week's 3.5% rally put the stock above its shorter term moving averages and into a buy zone.

A bullish MACD crossover on the daily chart would be even more bullish for this company that reported earnings and sales above estimates last week.

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



### Technology Sector Among Worse Performing

The Tech sector was hurt by a 7% decline in Apple (**AAPL**) which has a 23% weighting in this sector. The company reported results on Thursday where revenues declined due to iPhone sales that fell short of estimates. AAPL also projected revenue declines for next quarter despite a pick up in growth for their services division.

The 2nd quarter results marked the fourth consecutive period of revenue declines, and the stock sold off on heavy volume that put it below its 50-day moving average with a negative RSI. We're removing AAPL from our Suggested Holdings List.

Using the weekly chart, longer term investors can stay with Apple as the RSI and MACD are in positive territory. Use the August 2020 period into 2021 as precedent, as AAPL pulled back and consolidated while the RSI remained in positive territory.

Elsewhere in Tech, Software stocks pulled back 3.5% in a move that puts the group below its shorter term moving averages with a negative RSI. (using ETF IGV)

Among the Software stocks hardest hit last week were companies that reported earnings. This would include Shopify (**SHOP**) which fell sharply despite reporting

earnings and sales that were well ahead of estimates while also guiding estimates higher for next quarter.

The decline occurred despite Wall Street price upgrades from 5 major firms that followed the release of their results. Concerns regarding the lack of a solid growth plan going forward brought selling, as uncertainty is not being tolerated this earnings season.

We're removing SHOP from our Suggested Holdings List after a close below its 50-day moving average with a negative RSI and MACD. Longer term investors can stay with the stock using the weekly chart however, a negative RSI has historically preceded further downside.

Uber Technologies (**UBER**) also fell more than its peers despite reporting its first-ever operating profit after seeing their rideshare business surpass levels from before the pandemic. In addition, the company projected continued growth for next quarter amid expansion of their advertising app.

UBER did report a slight miss on revenues however and this, as well as the fact that the stock was trading at a near-term high, resulted in a pullback to below its 21-day moving average. The RSI on the weekly chart has

been in an overbought position for the past eight weeks so that a period of consolidation is in order.

We would not be a buyer of UBER as the stock's price action last week is reminiscent of its February into April pullback. A negative crossover of its 10-day moving average below its 21-day moving average will have us considering removing the stock.

Adobe (**ADBE**) outperformed with a flat close for the week following Morgan Stanley's upgrade due to the company's big push into AI creative software tools. The stock found support at its 21-day moving average with a positive RSI and MACD.

Semiconductor stocks came under strong selling pressure as well and again, it was led by companies reporting earnings results. Axcelis Technologies (**ACLS**) fell 9% for the week despite reporting earnings that were well above estimates with management guiding growth estimates higher going forward.

The decline was sparked by a Wall Street downgrade due to the stock's significant gains since mid-May (which is when we added it to our Suggested Holdings List). ACLS provided a critical component in the process

of manufacturing integrated circuits needed for AI adoption. The stock closed above its 50-day moving average with its MACD in positive territory.

Lam Research (**LRCX**) had a very orderly pullback to its 10-day moving average following last week's sharp gain in response to positive earnings. With the MACD and RSI in positive territory, the stock is poised to trade higher from here.

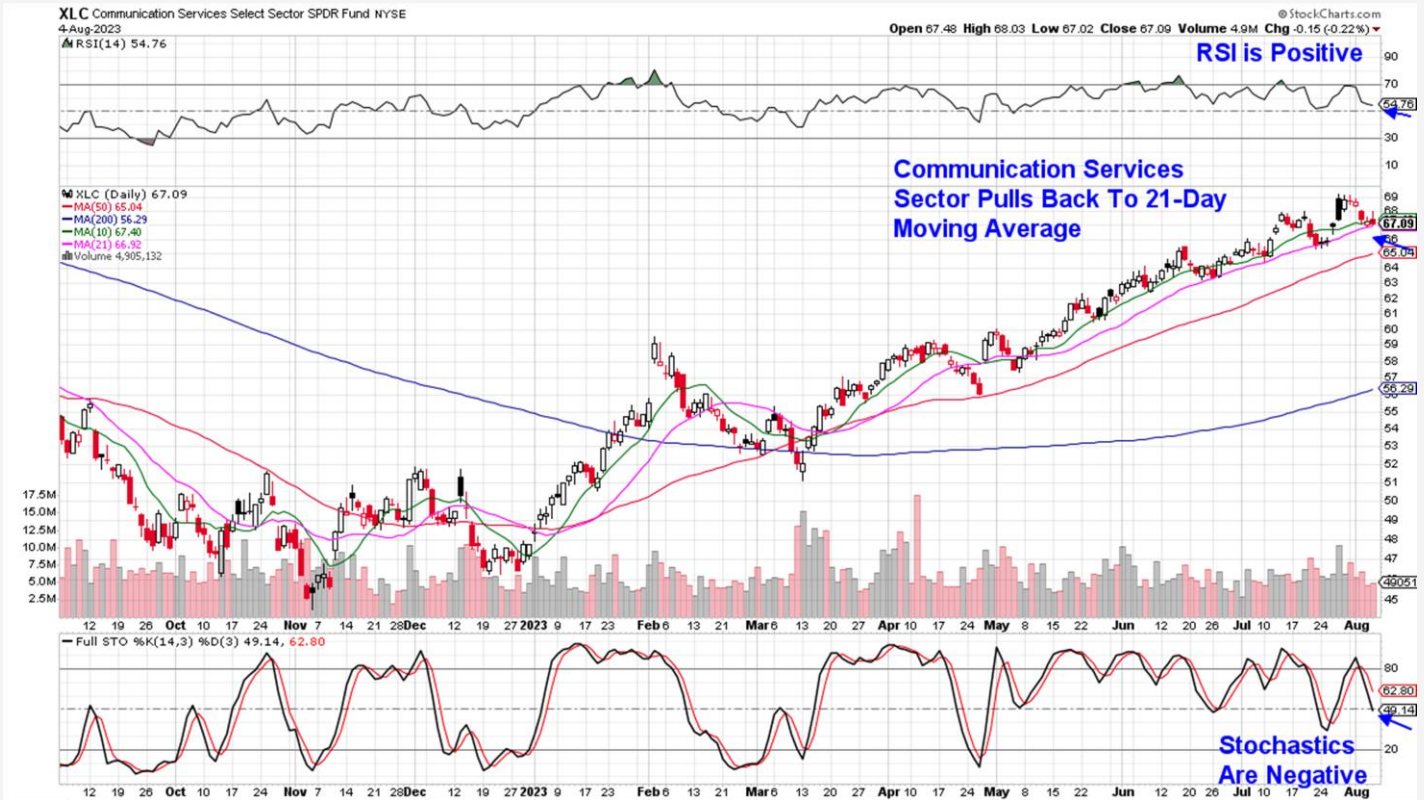
Broadcom (**AVGO**) drifted lower on below average volume in a move that has the stock outperforming its peers. While AI-focused products are not a huge part of their current revenue, AVGO's management is anticipating exploding growth with projected sales growing to 25% of total chip revenue. The stock can be held.

Nvidia (**NVDA**) pulled back in line with the group on below average volume. The stock remains in a bullish position above its 50-day moving average with a positive RSI and MACD.

Despite last week's underperformance, the Semiconductor group remains above its 50-day moving average with a positive RSI and MACD.



## Daily Chart of the Communication Services Sector SPDR Fund (XLC)



### Communication Services Sector Underperforms

Heavyweight names Meta Platforms (**META**) and Alphabet (**GOOGL**) pulled back after their gaps up in price the prior week following positive quarterly results.

Alphabet reported strong 2nd quarter results in late July as digital advertising showed signs of recovering with both Youtube and Google Search both seeing an uptick in growth. Investors were most focused on GOOGL's renewed focus on AI which is anticipated to provide growth opportunities going forward.

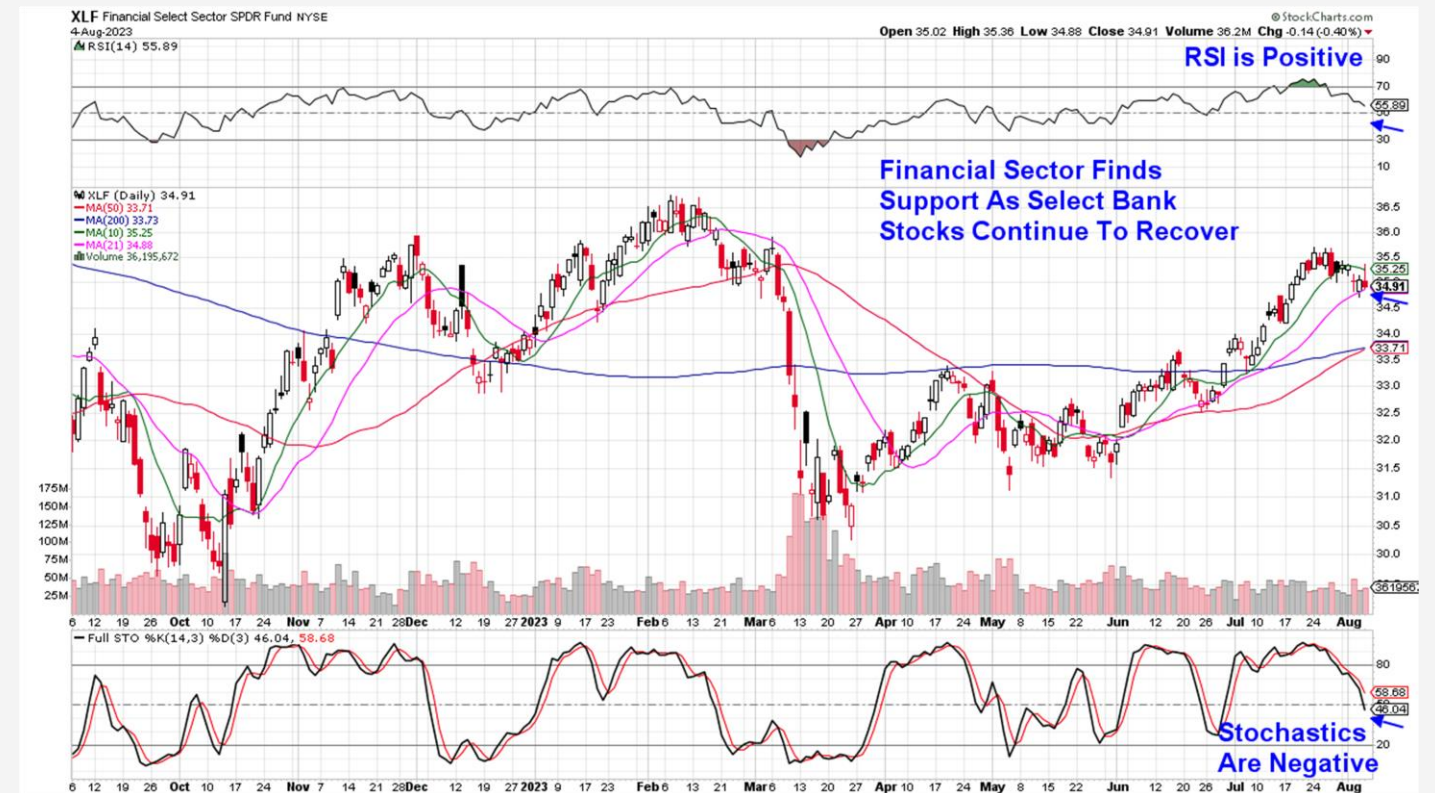
Last week's pullback in the stock occurred on below average volume and GOOGL found support at its

upward trending 10-day moving average with its RSI and MACD in positive territory. The weekly chart looks equally compelling with broader market conditions presenting the only potential roadblock.

Meta Platforms (**META**) posted an equally orderly pullback to its 10-day moving average that took place on light volume. The company posted Q2 earnings that were ahead of estimates in late July, with revenues rising for the 2nd consecutive quarter due to growth in digital ad sales. The RSI and MACD remain in positive territory.



## Daily Chart of the Financial Select Sector SPDR Fund (XLF)



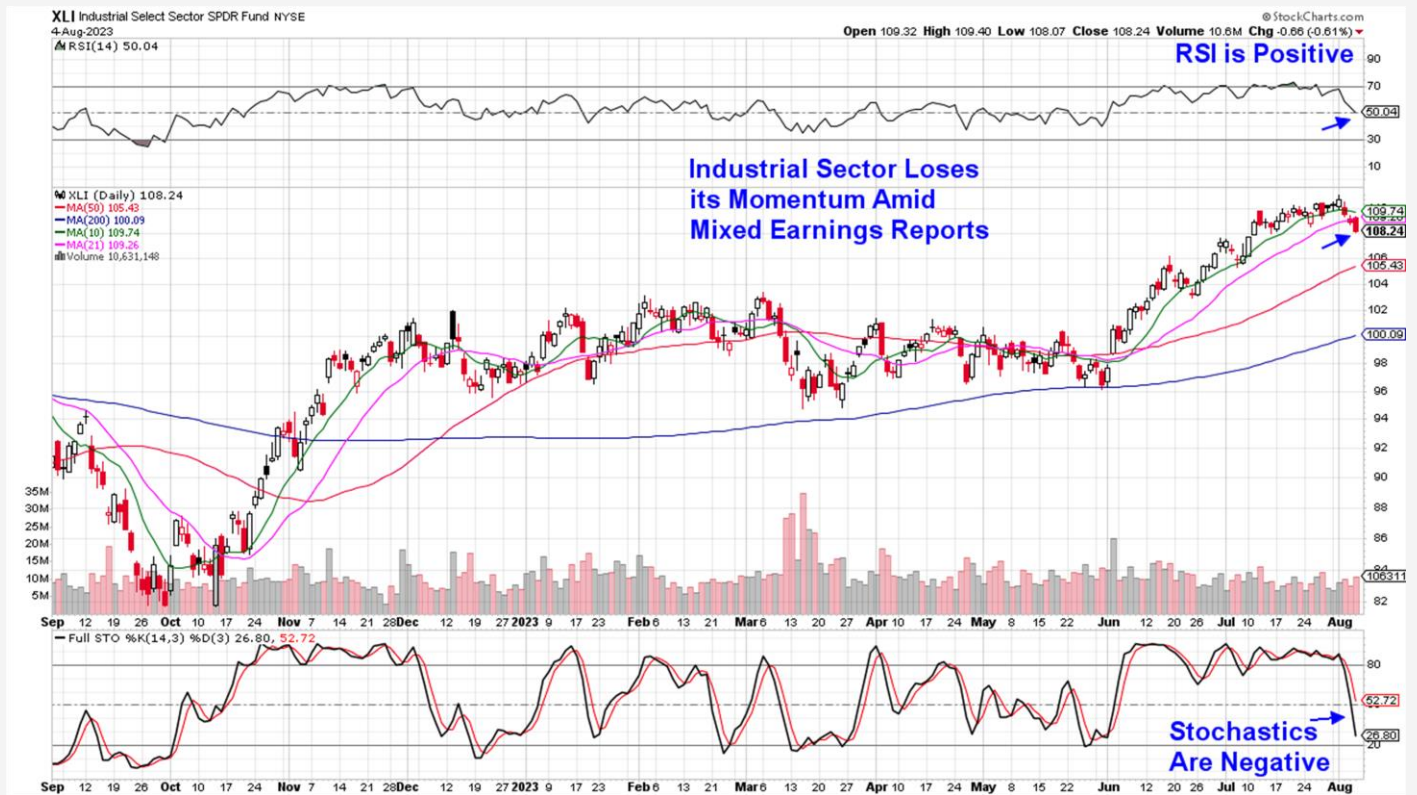
### Financial Sector Outperforms

Financials fell less than 1% last week led by gains in Mortgage Related stocks that are seeing increased earnings due to continued demand for new and existing homes.

Among Bank stocks, Morgan Stanley (**MS**) continues to pull back from its late July high in price and closed the week just below its 21-day moving average with a now negative RSI. The stock is close to falling below its 200-day moving average which would have us considering removing it from our List.

Zions Bancorp (**ZION**) pulled back from a rally up to its 200-day moving average which we had anticipated would act as upside resistance. A move above this level on volume, would be quite constructive for the near term prospects for Zion. The stock is 4.7% below its 200 day mav.

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



### Industrial Sector Gets Earnings Boost

Industrials fell less than the broader markets amid gains from names such as heavyweight stock Caterpillar (**CAT**) which rallied in response to strong earnings due to demand for its construction products.

Pentair (**PNR**) ended the week flat after a pullback to its 10-day moving average which we had suggested as a buy point in last week's report. A Friday rally on volume has the stock breaking out of a 1-week base which points to further near term upside.

Last week's pullback in Industrial stocks occurred amid weakness in Rail, Airline and Delivery Service stocks as corporations warn of a slowdown in demand. United Parcel (**UPS**) is due to report earnings on Tuesday and the company's results are widely viewed as a gauge of global economic growth or weakness.



# Summary

Last week's decline in the markets took place at the beginning of what is seasonally a weak period with August being the 2nd worst performing month for the S&P 500 going back to 1987. (September is the worst month.)

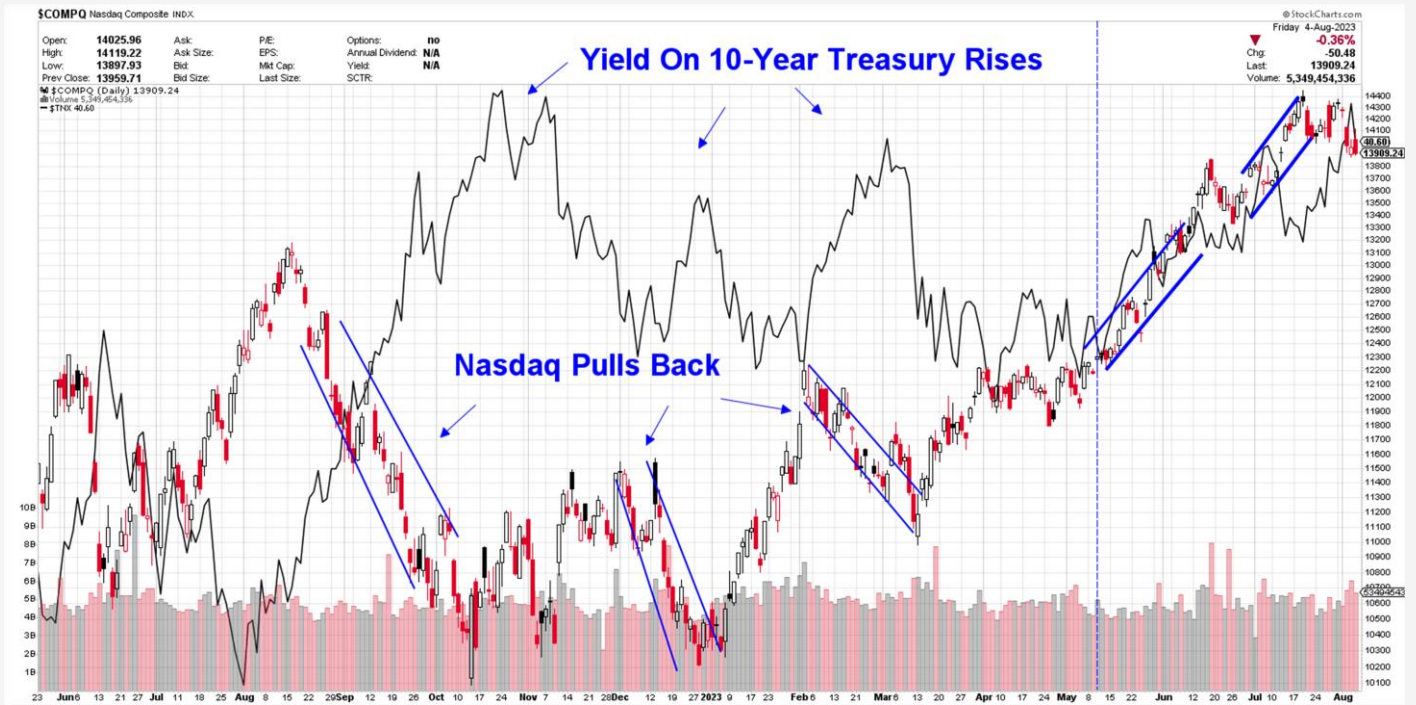
While the decline was sparked by news of a credit downgrade from Fitch and a stronger than expected private jobs report that pushed Treasury yields to a fresh high for the year, the news may have been an excuse for short-term investors to take profits and for the markets to take a much-needed breather.

Downside risks remain however, as higher interest rates are a negative for Growth stocks. In addition, the market is punishing positive earnings surprises while negative surprises are seeing declines that are above average. Historically, this inability to overlook less than perfect reports, signals a lack of conviction among investors.

Overall, the markets have a solid foundation from which to regain and sustain its uptrend, with inflation that is receding and an economy that's growing.

That said, Friday's reversal day despite positive employment data points to unrest. Next week will be another test as earnings season continues and key inflation data is on deck. While we've cited stocks as poised to trade higher, new positions should be entered lightly amid a mixed market backdrop with a near term negative bias.

## Daily Chart of the Nasdaq Composite (\$COMPQ)



# 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	2.0%		Retail – Internet		
ABNB	Airbnb		\$143.40	7/16/23	-2.0%		Leisure – Travel Booking		
DECK	Deckers Outdoors		\$512.70	6/19/23	9.0%		Retail – Shoes		
MTH	Meritage Homes		\$137.06	6/25/23	7.3%		Residential Builder		
ORLY	O'Reilly Automotive		\$955.30	7/2/23	5.0%		Retail Automotive		
FINANCIAL									
MS	Morgan Stanley		\$93.10	7/19/23	-4.5%				
ZION	Zions Bancorp		\$34.40	7/19/23	10.5%				
INDUSTRIAL									
PNR	Pentair.		\$64.60	7/2/23	8.0%		Machinery		
TECHNOLOGY									
ADBE	Adobe		\$507.40	7/12/23	4.0%		Software		
AAPL	Apple		\$160.30	3/26/23	14.0%		Telecom – Cons Products		
ACLS	Axcelis Technologies		\$137.00	5/17/23	37.0%		Semiconductor		
AVGO	Broadcom		\$657.50	5/17/23	34.5%		Semiconductor		
LRCX	Lam Research		\$642.00	6/28/23	7.5%		Semiconductor		
SHOP	Shopify		\$65.90	7/12/23	0.0%		Software		
UBER	Uber Technologies		\$437.80	5/7/23	19.0%		Software		
NVDA	Nvidia Corp		\$178.40	1/22/23	152.0%		Semiconductor		
COMMUNICATION SERVICES									
GOOGL	Alphabet		\$132.60	7/30/23	-3.5%		Internet - Content		
META	Meta Platforms		\$325.48	7/30/23	-4.5%		Internet - Content		



# 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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