



THE MEM EDGE

Midweek Report

Wednesday August 16, 2023

- Yield On 10-Year Treasury Bond Continues To Rise
- Federal Reserve Meeting Notes Hint At Further Rate Hikes Ahead
- Bank Stocks Under Pressure Following Fed Official Comments
- China Reports Industrial Production and Retail Sales Below Expectations
- Global Recovery Fears Pushing Energy And Other Stocks Lower

DAILY CHART OF S&P 500 INDEX



The S&P 500 has moved further below its key 50-day moving average after a 1.3% decline for the week so far that has the RSI



THE MEM EDGE

Midweek Report

and Stochastics remaining in negative territory. Our near term stance for this Index has turned negative.

The weekly chart exhibited a change in character yesterday, with the S&P 500 closing below its 10-week line. The RSI and Stochastics remain in positive territory however, they are trending lower. This has us cautious for our intermediate term outlook.

At this time, the 4300 level is the next area of possible support which is 2.3% away. As cited in our Sunday Report, this key level was watched closely in early June, as the close above 4300 was viewed as quite constructive given its view of being a long term area of upside resistance. A close back below this level would be viewed negatively.

The Nasdaq is now down 1.3% for the week with selling over the past 2 days that erased a Monday rally in mega-Cap Growth names and Semiconductors. The Nasdaq is moving further below its 50-day moving average with a negative RSI and Stochastics.

We remain negative on the near term prospects for the Nasdaq with this week's price action putting us into a cautious mode for the intermediate term outlook.

The weekly chart of the Nasdaq shows the RSI and Stochastics trending downward and historically, a negative Stochastics coupled with a negative RSI points to further downside and while we're not there yet, we will be closely monitoring. (see weekly chart of Nasdaq below)



THE MEM EDGE

Midweek Report

This week's negative price action has been driven primarily by a rise in interest rates that has the yield on the 10-year Treasury at 4.25%. Rising interest rates are a negative for Growth stocks as it reduces the value of their future earnings.

Prior to this week, the Growth heavy Nasdaq has been able to ignore the steady uptick in interest rates as recent inflation reports pointed to a slowdown, while the economy was continuing to report solid growth. That dynamic has shifted this week as the Nasdaq is pulling back amid a rise in rates. (see chart below)

Stronger than expected economic data kicked off the rise in rates however, today's notes from the Federal Reserve's latest meeting pushed yields higher after it was revealed that most Fed members are concerned that the fight against inflation is far from over. Surprisingly, the Technology sector is down the least so far this week as heavyweights Microsoft and Apple are pulling back less than the markets. A sharp rally in Semiconductors on Monday - which has since been erased - is also helping this sector.

Among Tech names on our List, Adobe (**ADBE**) has posted a 1.2% gain for the week; however, the stock remains below its shorter term 10 and 21-day moving averages. A close above these mavs would put the stock back into an uptrend.

Lam Research (**LRCX**) is continuing to find support above its 50-day moving average with this week's pullback occurring on below average volume. The stock held.



THE MEM EDGE

Midweek Report

The Semiconductor group (SOXX) remains in a downtrend and this today's close of the 10-day moving average below the 50-day mav - known as a death cross - points to further weakness ahead with the RSI and MACD in negative territory.

Energy stocks are pulling back this week due to a concern over a lack of demand for Oil from China, amid a possible economic downturn.

Oil and Gas Field Services stock SLB (**SLB**) is pulling back in line with other stocks in this group on very light volume. The stock closed today above its 21-day moving average and can be held. A close above its 10-day mav at \$58.6 would put the stock into a buy zone.

Exploration and Productions stocks are holding in better and Pioneer Natural Resources (**PXD**) from our List is no exception. The stock has found support above its 10-day moving average and is in a bullish position.

Energy stocks fare well in a rising interest rate - and rising inflation - period however, global growth concerns may keep these stocks in a more neutral status over the near term.

Consumer Discretionary stocks are among the worst performing as Auto stocks continue to sell off led by heavyweight Tesla (TSLA) which has lost 7% for the week.

Heavyweight stock Amazon (**AMZN**) is also pulling back however, the 2% decline is taking place on well below average volume amid generally positive news this week regarding fee increases in



THE MEM EDGE

Midweek Report

several areas. AMZN closed today below its 10-day moving average and can be held.

Housing stocks are pulling back due to a rise in interest rates which is pushing mortgage rates higher. The overall group is poised to close below its 50-day moving average (using MarketSmith's industry group information) which we will continue to monitor.

Meritage Homes (**MTH**) has lost 1.4% for the week so far and the stock closed today below its 10 and 21-day moving averages with its RSI dipping into negative territory. The stock can be held.

Auto Parts supplier O'Reilly (**ORLY**) is outpacing its peers with a 1% rally that puts the MACD into positive territory with the stock finding support above its shorter term 5-day moving average. While the stock is in a bullish position to trade higher, negative broader market dynamics would have us limiting the size of any new position.

Deckers (**DECK**) is also outpacing its peers with a 1% rally that has the stock above each of its shorter term moving averages. Again, developments within the broader markets would have us limiting any new positions.

Fears of a slowdown in global economic growth which is being led by China's weak numbers, is hurting global facing companies such as recently added Caterpillar (**CAT**) which has pulled back almost 4% this week. The stock closed above its 21-day moving average however, a close below this moving average would be negative as the 50-day moving average - its next key area of possible support is almost 7% away.



THE MEM EDGE

Midweek Report

Pentair (**PNR**) is in the same Machinery/Industrial group and this week's 2% pullback has the stock closing below its 21-day moving average with the RSI moving closer to a close below 50. While this week's pullback is on below average volume, an RSI below 50 would be a negative for the stock.

Today's selling in the markets had decliners outpacing winners by 3 to 1 on the Nasdaq with today's volume coming in well above average. The price action points to distribution and with the Index below key support with negative momentum indicators on the daily chart, we can anticipate further selling over the near term.

Longer term, we've posted the weekly chart below which can be used for an intermediate term outlook. As you can see, a negative RSI coupled with a negative Stochastics has historically signaled further downside price action. We'll continue to monitor for this possibility.

The economic calendar for the remainder of the week is fairly light with weekly jobless claims due tomorrow and no reports are due out on Friday.

We'll alert you to any shift regarding the markets or individual stocks on our List as warranted.

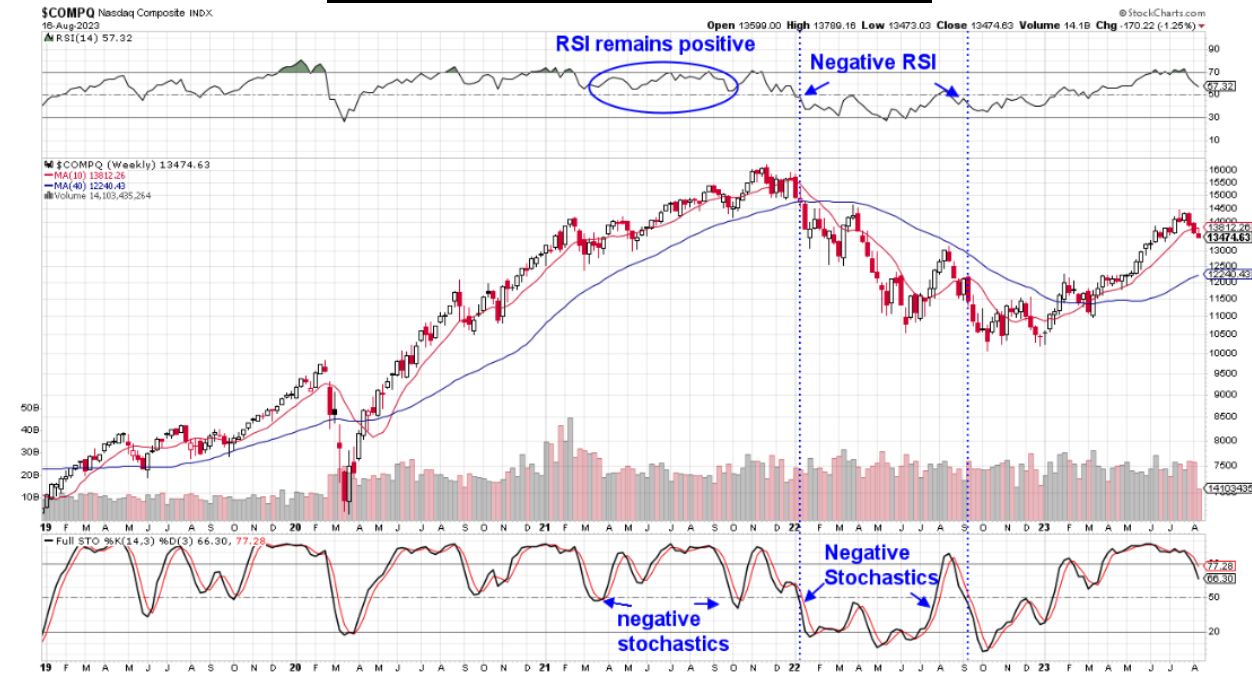
Warmly,
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Midweek Report

WEEKLY CHART OF \$COMPQ



\$COMPQ vs TNX CHART

