



# THE MEM EDGE

September 17, 2023 | Weekly Report

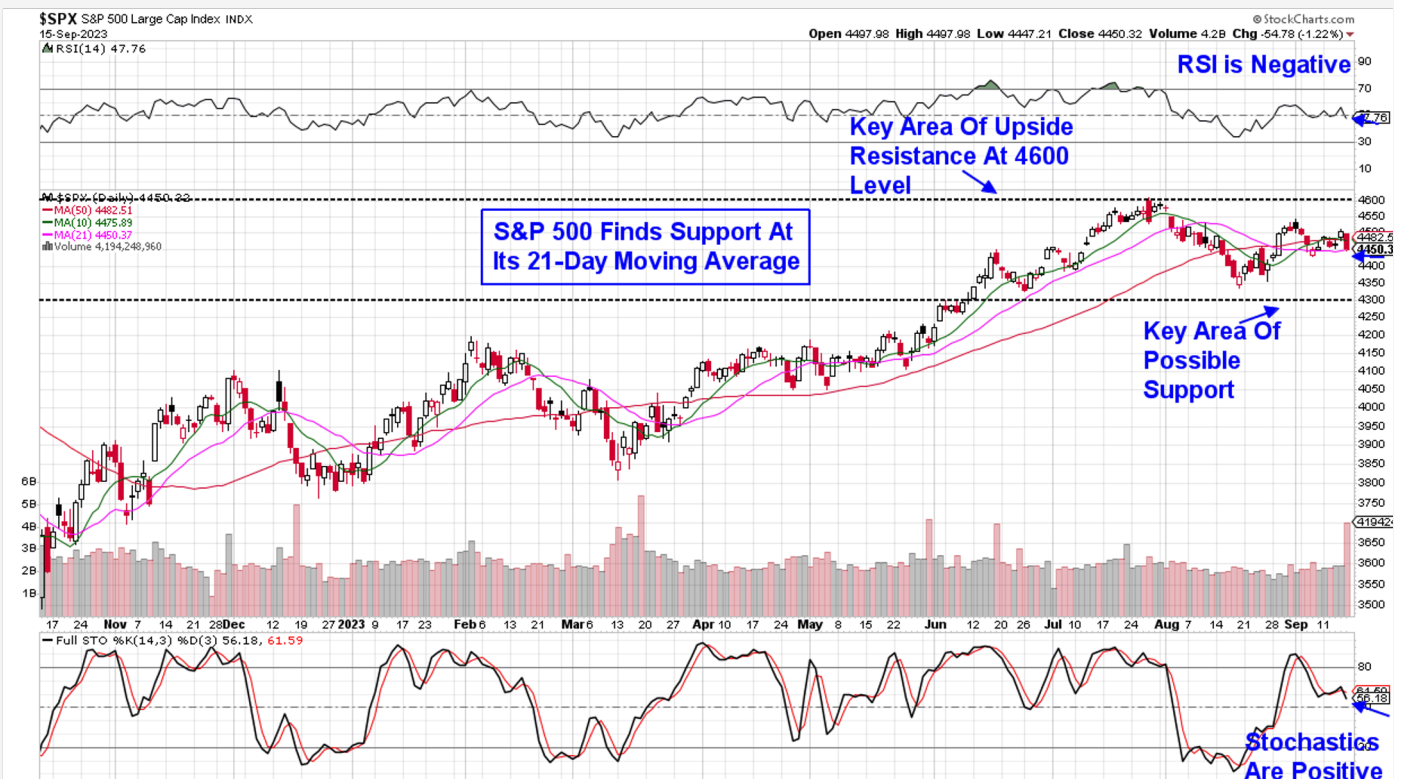
## This Week's Highlights

- Core Consumer Price Index (CPI) Shows a Rise In Inflation
- Core Producer Prices (PPI) Edge Higher In August
- Retail Sales Climb Amid Higher Gas Prices
- United Auto Workers Launch Strike at Ford and GM
- Semiconductor Stocks Fall Sharply After TSM Delays Chip Deliveries
- Federal Reserve Interest Rate Decision Wednesday, And Housing Data Due Next Week

## Highlights from Last Week

- Oil Prices Rise But Energy Sector Is Flat
- Software Stocks Join Semiconductors In Near Term Downtrend
- Select Bank Stocks Begin To Firm Up

### Daily Chart of S&P 500



The S&P 500 closed the week down 0.2% in a move that puts this Index just at its 21-day moving average which is the last area of possible support before looking toward recent lows from August. The RSI ended the week in negative territory while the Stochastics are positive.

The mixed momentum signals coupled with a close of this Index below its key 50-day moving average, has us negative on the near term prospects for the markets.

Should we experience a further pullback, the next key area to watch is the 4300 level, as a close below this area would be quite negative. At this time, the S&P 500 is 3.3% above the 4300 level. On any rally attempts, the 10 and 50-day moving averages are the first area of upside resistance and they're 0.6% and 0.7% away respectively.

The weekly chart of the S&P 500 shows that the intermediate term outlook for the markets remains positive, as the RSI is in positive territory. As noted in the past, a negative RSI on the weekly chart would point to a more prolonged pullback.

The S&P 500 has hovered within 2% of its 50-day moving average over the past month which is the longest period since September of 2017. At that time in 2017, the markets ended its consolidation period with a breakout to the upside and the start of a multi-year uptrend. The bullish outcome was sparked by the announcement of plans to cut corporate tax rates which was quite positive for their earnings growth.

No such plans are in play at this time of course. Instead, we're on the lookout for the Federal Reserve's announcement regarding interest rates on Wednesday. Their decision, as well as the wording regarding their plans going forward, could push the markets out of their current sideways phase.

At this time, the Federal Reserve has made it clear that we could see further rate hikes to curb the sticky inflationary period we're in. It's just a case of how close we may be to the end of the current rate hike cycle.

The Nasdaq pulled back a bit more than the S&P 500 with a 0.4% loss that has this Index closing below its 21-day moving average. This puts the late August low into focus as it's the next area of possible support and is 2.4% away.

The Nasdaq held in relatively well with a 0.4% loss that took place despite sharp selling in both Software and Semiconductor stocks which fell an average of 3% for the week. Outperformance in select mega-cap names such as Tesla (**TSLA**) - which rallied 14% - also helped with Amazon (**AMZN**) and Alphabet (**GOOGL**) from our List, both posting slight gains.

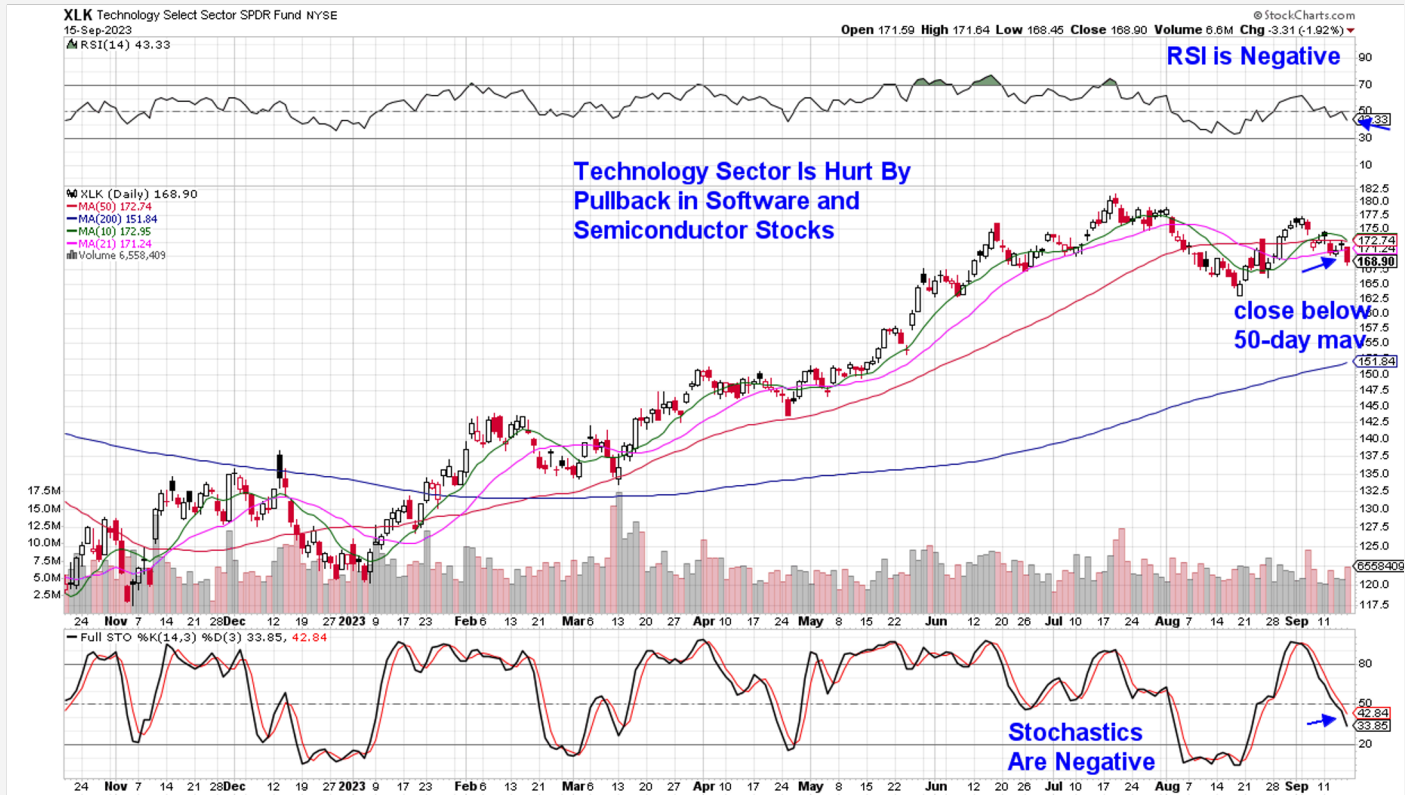
The Nasdaq is in a period of consolidation as well, with choppy sideways price action over the past 2 weeks that has the RSI waffling in and out of positive territory. Last week, the Stochastics turned negative as did the RSI. Overall, we're negative on the near term prospects for the Nasdaq.

Last week, oversold defensive stocks such as Utilities and select Staples outperformed, while Financial stocks also fared well. The successful IPO launch of mega-cap stock Arm provided a boost for Investment Banking names such as Goldman Sachs (**GS**) and J.P. Morgan (**JPM**) who stand to reap large fees. Other large banks are also showing signs of firming up amid cost cutting measures. Each of these areas remain in a downtrend for now.

Interest rates moves continue to drive price action in the markets and Friday's uptick in rates pushed Growth stocks such as Technology and Consumer Discretionary lower. We'll review price action in these areas further in our sector review below.



## Daily Chart of Technology Sector (XLK)



### Technology Sector is Worst Performing

The Tech sector fell 2.3% last week with most of its losses occurring on Friday. Semiconductor stocks came under the most selling pressure after it was reported that Taiwan Semiconductor (**TSM**) told its major suppliers to delay delivery of chipmaking equipment because of demand concerns. **TSM** is the world's largest semiconductor manufacturer.

Over the weekend however, Taiwan Semi declared the report a "market rumor" with chip equipment provider Applied Materials (**AMAT**) citing any slowdown as being short lived and due primarily to construction delays at TSM's new Arizona plant,

Chip equipment provider Lam Research (**LRCX**) from our list fell 5% on heavy volume Friday. The decline puts the MACD into negative territory where it joins the already negative RSI. While we may see a bounce in this as well as other chip stocks next week, we're removing **LRCX** from our Suggested Holdings List.

Longer term, the stock can be held.

Chip manufacturer ON Semiconductor (**ON**) had a similarly sharp pullback on Friday which pushed the RSI and MACD into negative territory as the stock closed below each of its moving averages. The company sells products that allow for the electrification of vehicles

and Friday's announcement of an auto strike also hurt the stock. **ON** is poised for further near term downside however, longer term on the weekly chart, the stock remains constructive.

Nvidia (**NVDA**) pulled back further last week, with the RSI in negative territory while the stock moves further below its 50-day moving average. Weakness in the stock as well as the broader group has us removing it from our Suggested Holdings List. Longer term investors can remain with **NVDA** as the weekly chart remains constructive.

Broadcom (**AVGO**) held in relatively well with the stock losing less than 1% for the week amid sideways price action. A move back above its 10 and 21-day moving average would put the stock into a buy zone.

While we highlighted the Semiconductor group as being negative in last week's report, this week we're beginning to focus on the weekly chart, as the RSI is moving closer to possibly turning negative (using ETF SOXX). This has only occurred twice in the past 3 years and both times the group traded much lower.

Software stocks began the week with a pullback that took place after Oracle (**ORCL**) reported a slowdown of sales in their cloud computing division. The news

brought other names in this area lower as well, amid fears of a slowdown in cloud related software demand.

A further pullback in Software stocks took place following Adobe's (**ADBE**) release of their quarterly results late Thursday as their higher than expected numbers failed to impress investors. **ADBE** found support at its 50-day moving average and the stock can be held.

ServiceNow (**NOW**) traded in line with the Software group with a 3.4% pullback to its 21-day moving average. The stock can be held and a close above its 10-day moving average would put the stock into a buy zone.

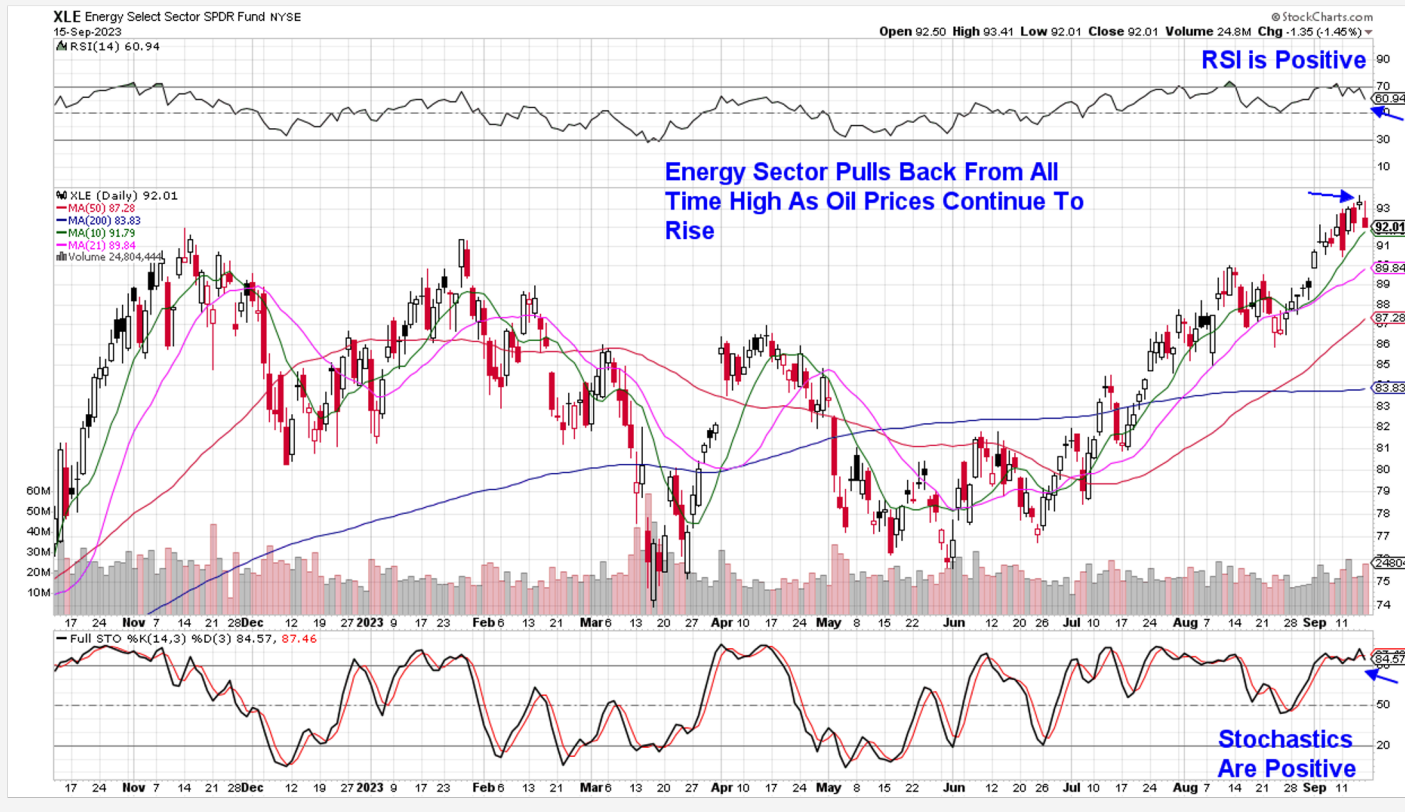
Uber Technologies (**UBER**) outperformed its peers with 0.6% gain that has the stock finding support above its upward trending 5-day moving average. The company continues to expand their partnership opportunities which has improved their growth outlook.

Last week's pullback in the Technology sector puts it 4.5% below its recent high in price and its move below the 50-day moving average points to further near term weakness. As you may recall, Tech stocks pulled back 11% from mid-July to mid-August and while painful, it allowed leading stocks such as ServiceNow (**NOW**) and others to present new buy points as they reversed their downtrends.

Longer term, we remain quite bullish on the prospects for this sector.



## Daily Chart of the Energy Sector (XLE)



### Energy Sector Remains In An Uptrend

Energy stocks were flat last week despite a continued move higher in the price of oil. The gain in oil prices took place amid positive macroeconomic data from China where both manufacturing and retail sales grew 4.5% from last year. The news lifted demand expectations from China who is the largest importer of oil.

In addition, OPEC reiterated its bullish view for 2024 oil demand which also helped push the price of oil up to \$94 per barrel.

The news was not enough to push Oil related stocks higher however, as shown in the mixed performance of stocks on our Suggested Holdings List.

Oil drillers were the top performers last week with Helmerich & Payne (**HP**) outperforming the group with a 3.5% rally that pushed the stock out of a 6-week base at \$45.5. The 2.3% yield is in a buy zone.

Oil Field Services stocks also outperformed, with **SLB** (**SLB**) closing the week at its upward trending 10-day moving average and in a buy zone.



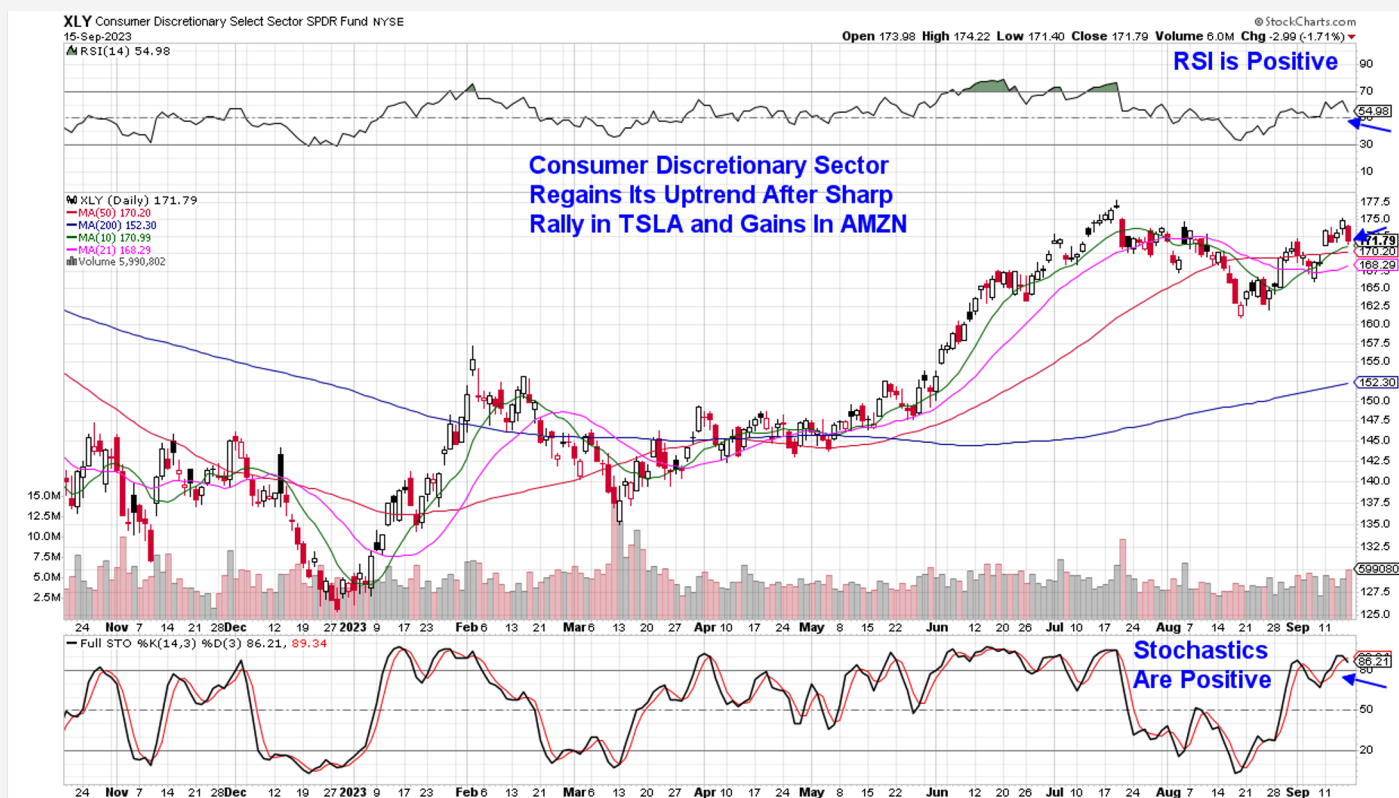
Oil Exploration and Production stocks pulled back with names such as Matador (**MTDR**) closing the week below its 21-day moving average with the RSI poised to turn negative. A move above its 21 and 10-day moving average would put the stock into a buy zone. **MTDR** can be held.

Pioneer Natural (**PXD**) is also an E&P company and the 7% yielder pulled back on Friday to close the week below its 21-day moving average. The stock can be held with a move above its 10 and 21-day moving averages putting **PXD** into a buy zone.

While oil prices are one factor in driving Energy stocks, global economic growth is another key component. Last week, the European Central Bank raised its key interest rate to a record high despite worries that the move could help push the economy into a recession. And while China's economic data points to potential growth in their economy, investors are looking for further clues to confirm a turnaround.

At this time, the Energy sector remains in an uptrend however, its near term upside momentum has leveled off.

## Daily Chart of Consumer Discretionary Sector (XLY)



### Consumer Discretionary Sector Given Mega-Cap Boost

The Consumer Discretionary sector was among the top performing, led by a sharp rally in Tesla (**TSLA**) as well as gains in Amazon (**AMZN**). Both stocks combined account for a 35% weighting in this sector.

Outside of these stocks, there was general weakness in the group due to an increase in interest rates as well as a surprise drop in Consumer Sentiment.

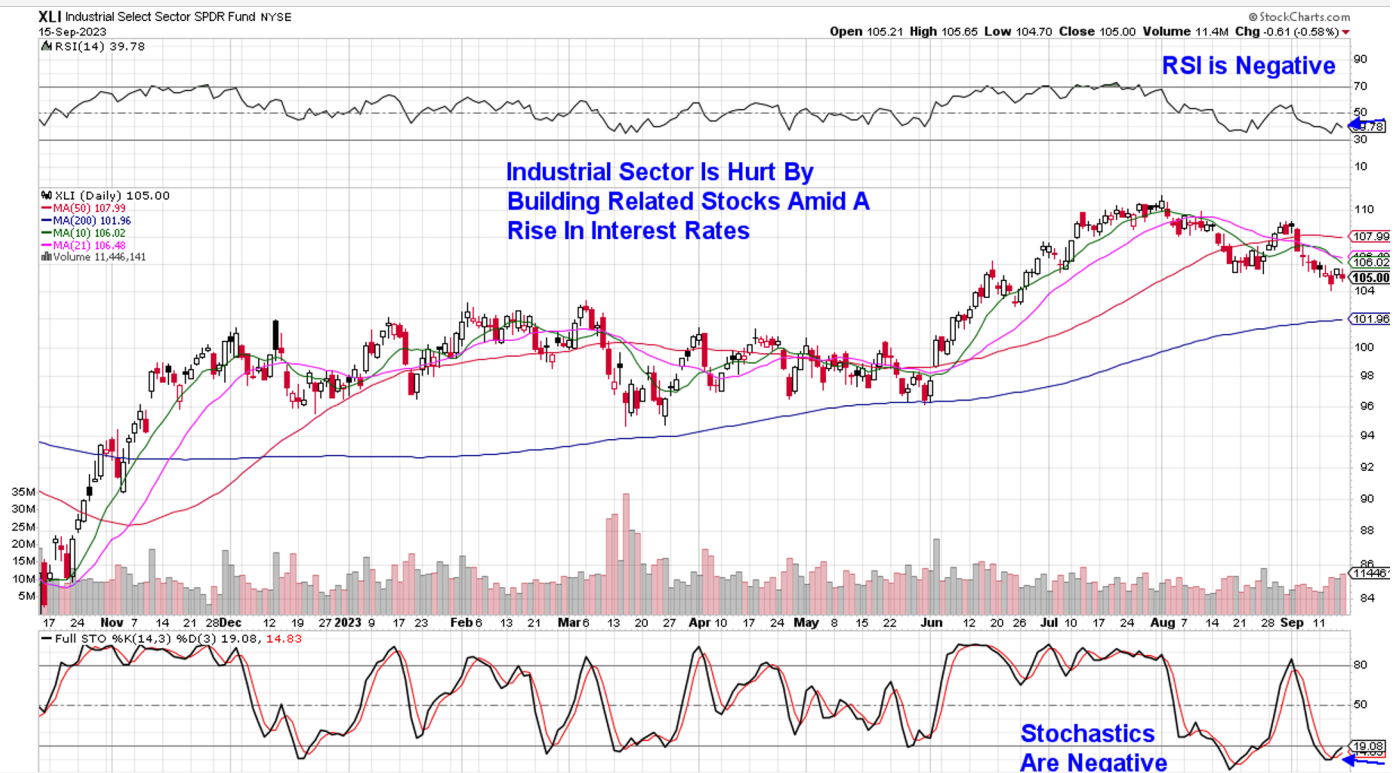
The rise in rates hurt Home Builders the most as it points to a possible uptick in already high mortgage rates. Toll Brothers (**TOL**) fell less than the group however, it was enough to have the stock closing

the week below its 50-day moving average with the RSI in negative territory.

In our Midweek Report we had suggested lightening up on any positions in **TOL** and today we're removing the stock from our Suggested Holdings List.

Amazon (**AMZN**) pulled back to its 10-day moving average with losses on Friday that erased earlier gains following news that the company will help third-party sellers manage their delivery of goods. **AMZN** found support at its upward trending 10-day moving average with its MACD and RSI in positive territory. While the stock is in a buy zone, overall market weakness may stall any potential upside.

## Daily Chart of Industrial Sector (XLI)



### Industrial Sector Posts Mixed Week

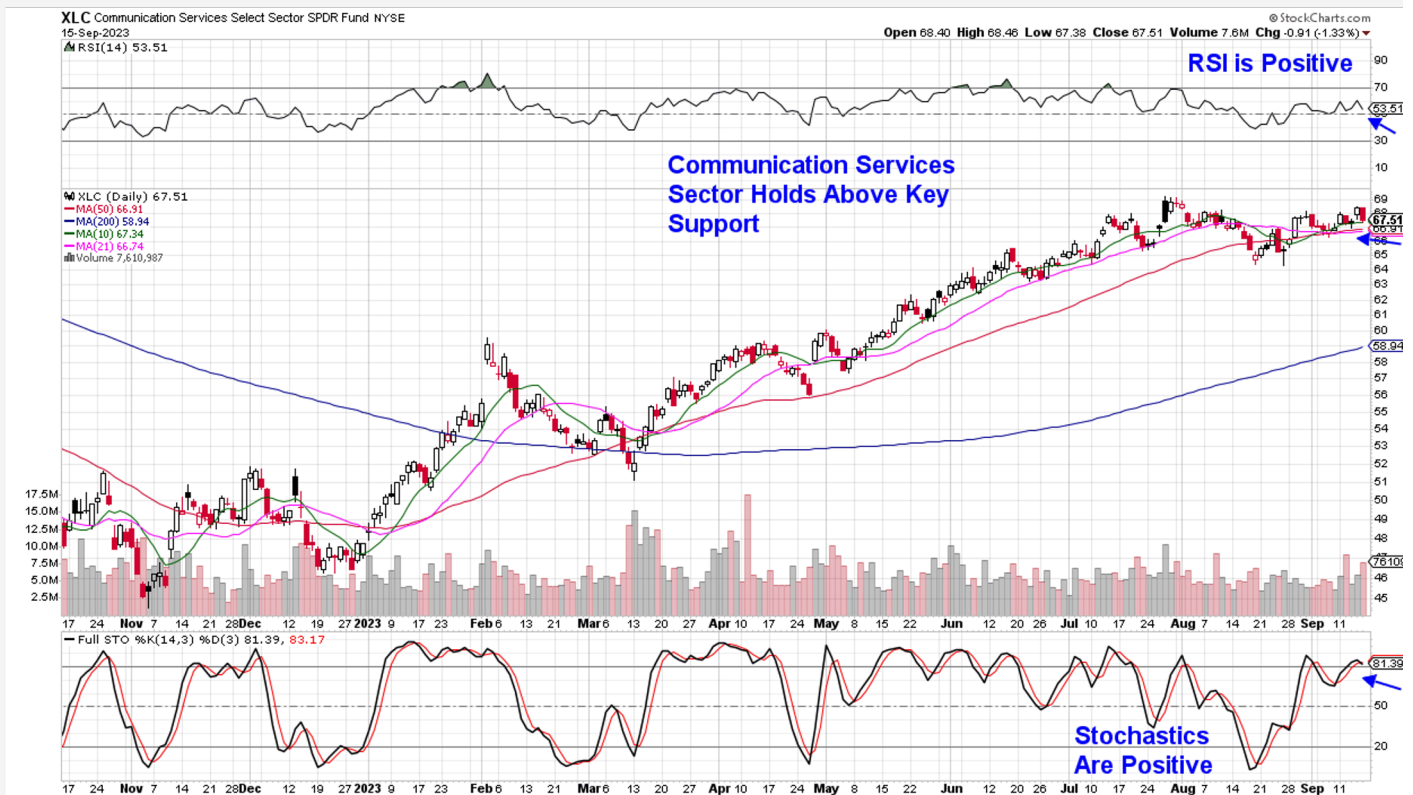
Industrials fell ½% last week as gains in transportation stocks were offset by selling in building related names amid a pullback in home builders.

Caterpillar (**CAT**) recovered from a Wednesday pullback to close the week above its 21-day moving average. While this price action is constructive, the near term momentum for the stock is negative with the RSI and MACD trending downward. A close above its 10-day moving average coupled with an upward move in the RSI and MACD would put the stock into a buy zone.

While Caterpillar is well known for its construction equipment division, the company's mining and energy related divisions account for half of CAT's revenues and both areas are seeing growth. CAT can be held.

Next Wednesday, delivery service provider FedEx (**FDX**) will be reporting their quarterly results. The data will be closely watched as their numbers are viewed as a gauge of the strength or weakness of the economy depending on not only their results, but management's guidance going forward.

## Daily Chart of Communication Services (XLC)



### Communication Services Sector Remains In An Uptrend

Internet related stocks buoyed this sector led by heavyweight names Meta Platforms (**META**) and Alphabet (**GOOGL**) which both gained 0.8% for the week.

Of the two, **GOOGL** is in a more bullish position as the stock continues to find support at its upward trending 10-day moving average with both the RSI and MACD in positive territory.

Last week, the company introduced new apps while also moving closer to the release of their AI software Gemini. In addition, Alphabet announced cost cutting measures by way of reducing staff in select areas. While **GOOGL** is in a buy zone, broader market pressures may limit its upside over the near term.



## Summary

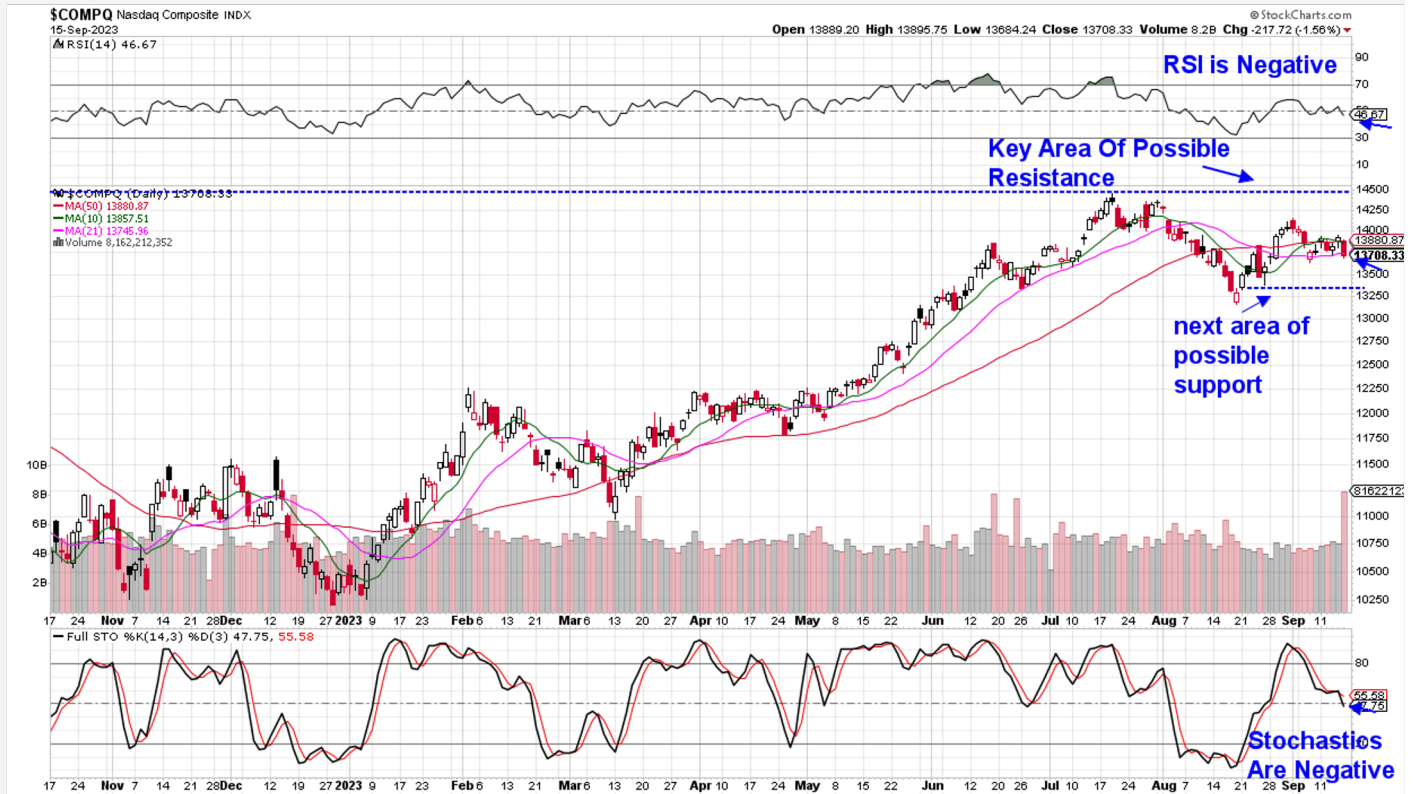
Last week's choppy price action took place amid the release of inflation data that at first glance, appeared to be trending higher however, core data showed a decline. The news helped keep the market's outlook that the Fed will hold interest rates steady at its meeting next week.

The real question surrounding next week's FOMC meeting is the Fed's policy decisions going forward. Powell has made it clear that he's on the hunt to get inflation down further and any signal that policy tightening is possible will keep volatility high, as every economic data release going forward will be scrutinized.

Until we see a shift in sentiment regarding the possibility of further rate hikes, the markets will continue to struggle. The June through July rally period in the markets was marked by 3 successive declines in the Consumer Price Index (CPI) which in turn, had investor's confident that the Fed's rate hike campaign was ending.

Next week, the economic calendar is light which may keep volatility high going into Wednesday's rate decision. A review of seasonal patterns shows that next week could be a tough period. Since 1990, the S&P 500 has fallen in the week following September's triple witching 79% of the time with the average loss however, being 1%.

## 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
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SYMB	COMPANY	PRICE	DATE ADDED	PERFORMANCE	INDUSTRY GROUP
CONSUMER DISCRETIONARY					

AMZN	Amazon	\$134.70	7/16/23	2.5%	Retail - Internet
TOL	Toll & Brothers	\$83.83	9/4/23	-7.0%	Bldg - Residential

ENERGY					
HP	Helmerich & Payne	\$43.90	9/10/23	3.5%	Oil Driller
MTDR	Matador Resources	\$61.00	8/20/23	1.0%	Oil & Gas Exploration
PXD	Pioneer Resources	\$236.80	8/13/23	-1.0%	Oil & Gas Exploration
SLB	Schlumberger	\$59.70	8/13/23	3.5%	Oil & Gas Field Services

INDUSTRIAL					
CAT	Caterpillar	\$285.20	8/13/23	-1.0%	Machinery

TECHNOLOGY					
ADBE	Adobe	\$507.40	7/12/23	7.5%	Software
AVGO	Broadcom	\$876.00	8/23/23	-1.5%	Semiconductor
LRCX	Lam Research	\$642.00	6/28/23	-6.0%	Semiconductor
NOW	ServiceNow	\$568.00	8/23/23	2.0%	Software
NVDA	Nvidia	\$471.00	8/23/23	-5.0%	Semiconductor
ON	ON Semiconductor	\$98.80	8/30/23	-6.0%	Semiconductor
UBER	Uber Technologies	\$46.50	8/30/23	2.0%	Software

COMMUNICATIONS SERVICES					
GOOGL	Alphabet	\$132.60	7/30/23	3.5%	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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