



# THE MEM EDGE

September 24, 2023 | Weekly Report

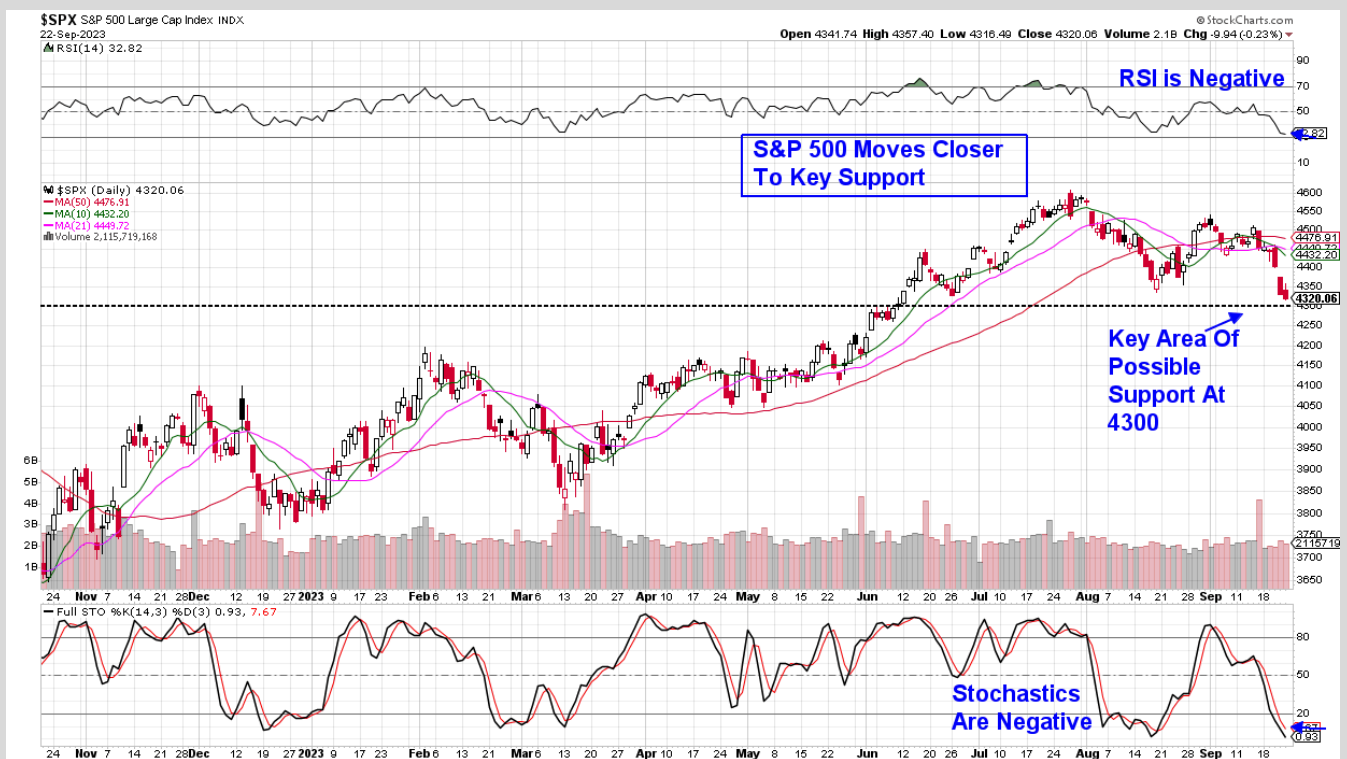
## This Week's News

- Federal Reserve Keeps Rates Steady But Shifts To Hawkish Tone
- Housing Starts Drop 18% In August
- Builder Confidence Falls To 5 Month Low As Mortgage Rates Climb Above 8%
- Fed Governor's See More Rate Hikes Possible
- Core Personal Consumption Expenditures (PCE) Data Next Friday, Consumer Sentiment, Durable Goods Orders & Q2 GDP Revision Also Due
- Industrial Sector On Cusp Of Bearish Move

## Last Week's Market's Highlights

- Fed Signals Higher Rates For Longer & Fewer Cuts In 2024
- Markets Post Worst Week Since March
- 10-Year Treasury Yield Near 16-Year Highs
- Elevated Oil Prices Stoke Fears Of Higher Inflation

### Daily Chart of S&P 500



The S&P 500 fell almost 3% last week in a move that pushed this Index further below its 50-day moving

average and closer to the 4300 level, which is the next key area of possible support. With the RSI and

Stochastics in negative territory, we remain negative on the near term prospects for the markets.

On the weekly chart, the RSI of the S&P 500 is now in negative territory which historically points to further downside. This last occurred in early March, when the markets fell 5% in response to the banking crisis. At that time, the markets recovered quickly as the U.S. Government stepped in to provide support. Also, interest rates fell as investors fled to the safety of U.S. bonds.

In contrast, last week's pullback occurred amid a rising interest rate environment with the yield on the 10-year Treasury hovering at 16 year highs after Fed notes pointed to one more rate hike this year and less rate cuts in 2024. The news indicates a higher interest rate environment that will last longer than expected.

Next week, the Fed's preferred inflation gauge - Personal Consumption Expenditures (PCE) index - will be released and it's expected to rise by 3.3% vs last year. The results - due to be released on Friday - are expected to increase volatility in the markets.

The Nasdaq fared worse, with a 3.6% decline that puts this Index a hair above its mid-August lows which is the next area of possible support. A close below this level at 13162, puts the 200-day moving average into focus as the next area of possible support, and this is 6% away.

The Nasdaq's poor performance was due to a sharp drop in both Tesla (**TSLA**) and Amazon (**AMZN**), which fell 11% and 8% respectively. Alphabet (**GOOGL**), Microsoft (**MSFT**) and Netflix (**NFLX**) underperformed as well, as these mega-cap Growth stocks came under selling pressure amid a rise in interest rates.

While defensive areas of the market fell less than the Indices, the Healthcare, Utilities and Staples sectors are each in confirmed downtrends as they're trading below their downward trending moving averages.

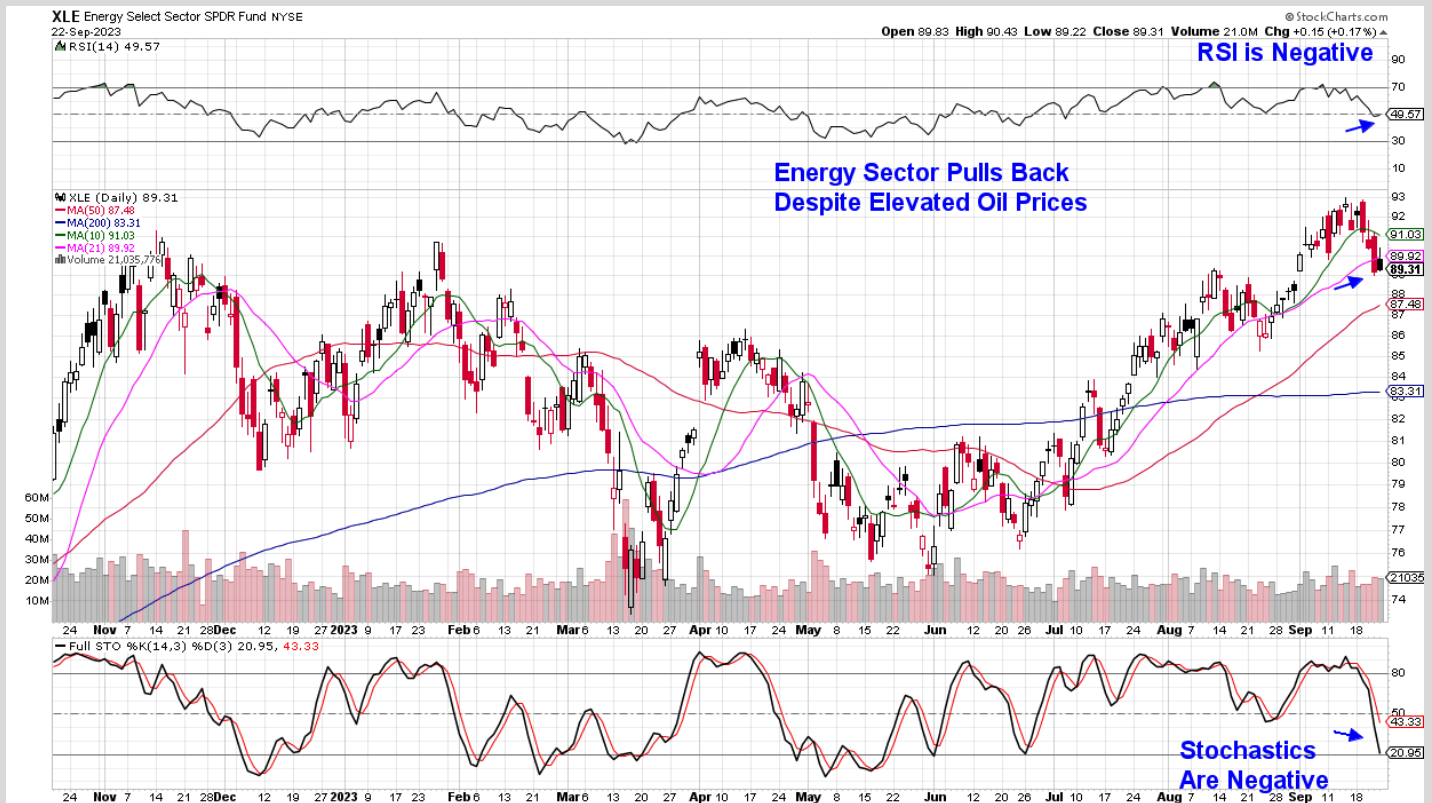
At this time, only 20% of stocks in the S&P 500 are now trading above their 50-day moving averages which is the lowest since this past March when global recession fears emerged amid the collapse of several U.S. banks.

The move back into an uptrend occurred within a week and was led by the Nasdaq, amid sharp interest in AI related stocks. We highlighted this in our March 17th report where we were expanding our Suggested Holdings list with Tech names.

The S&P 500 took 2 more weeks before recovering. For both Indices, the new uptrend was signaled by a move back above the 50-day moving average, coupled with a positive RSI on the daily chart.

We'll continue to monitor these Indices and will alert you to any shift in our currently negative sentiment.

## Daily Chart of the Energy Sector (XLE)



### Energy Sector Pulls Back Less Than Markets

The Price of oil remains above \$90 per barrel following global supply cuts from Russia and Saudi Arabia earlier this month. Last week's news that oil drilling slowed to a 19-month low in the U.S., also pushed prices higher as did price target upgrades from both Goldman Sachs and Morgan Stanley.

Energy stocks did not respond positively however, as global recession fears moved to the forefront amid a rise in interest rates in both Europe and the U.S.

As noted in our Midweek Report, Pioneer Natural (PXD) had a negative RSI however, the stock was finding support at its 50-day moving average which had us suggesting a reduction of exposure but we kept it on our List.

Since then PXD has closed below its 50-day moving average with the MACD now in negative territory as well. We're removing the stock from our Suggested Holdings List.

Schlumberger (SLB) fell in line with the group amid a price target upgrade to \$70 from Citigroup. The stock is trading above its 50-day moving average while the RSI has dipped into negative territory. While the move may point to further near-term weakness similar to late August, longer term on the weekly chart, the stock remains in a confirmed uptrend.

Helmerich & Payne (HP) pulled back the most last week as Smaller Caps overall fared the worst. The stock closed at its 21-day moving average with the RSI dipping into negative territory while the MACD is

positive on the daily chart. On the weekly chart however, HP closed just at its 10-week moving average and a close below this level would have us negative on the near and intermediate term prospects.

Last week, Goldman Sachs upgraded their price target for oil to \$100 per barrel due to their view that the energy transition to renewable has faltered. Later in the week, J. P. Morgan's head of energy equity research warned that Brent crude prices could continue to rise upwards to \$150 per barrel over the next 2 years due to an energy supercycle.

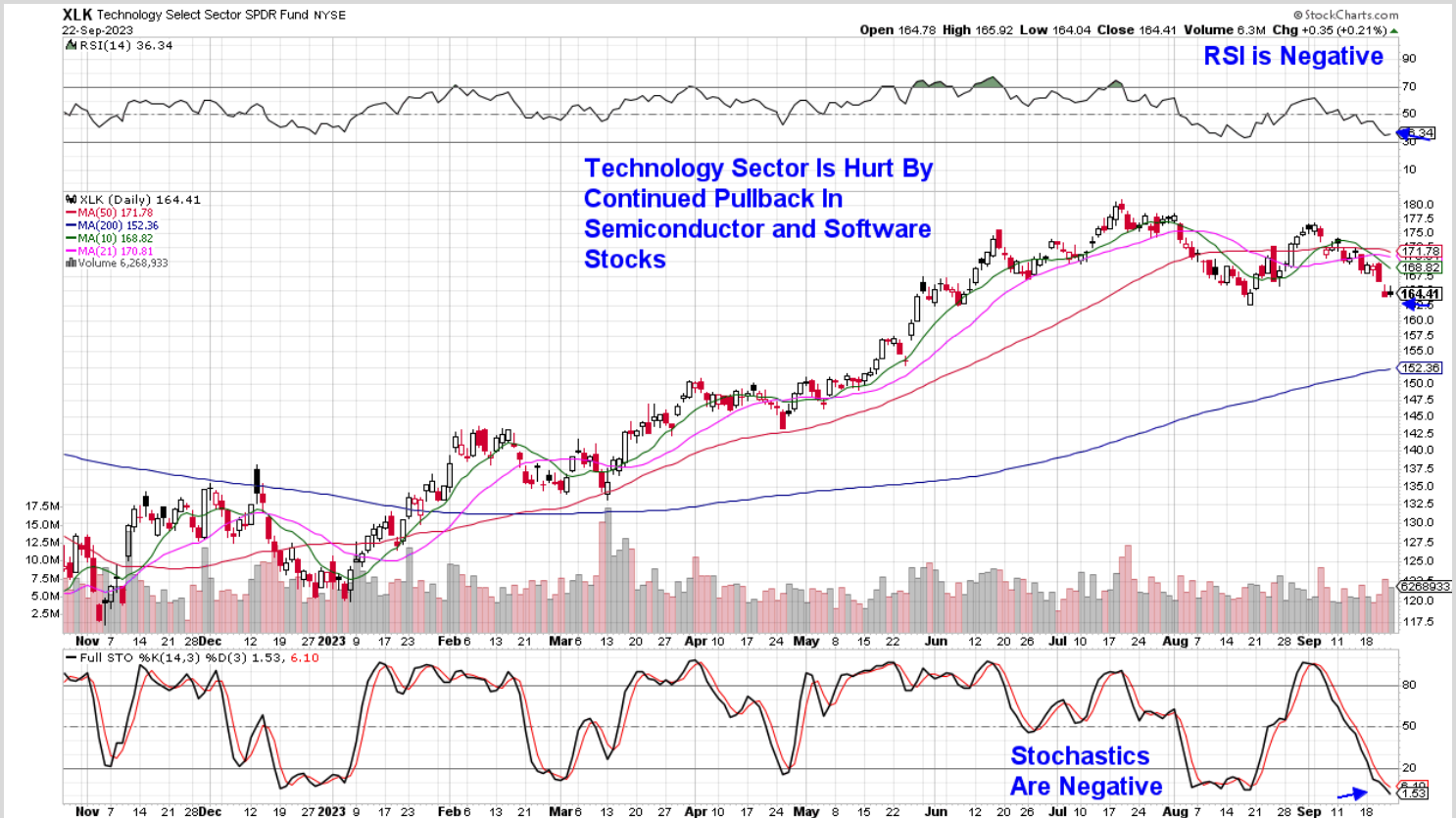
While elevated oil prices will translate into higher profit margins for oil producers, generally, oil prices above \$100 a barrel tend to reduce gasoline demand by spurring some to drive less. When Brent crude prices averaged roughly \$110 a barrel in 2022, gasoline demand in the U.S.—the biggest consumer of oil—fell 4.1%.

The strong U.S. dollar is another concern, as it makes the price of oil expensive for other countries such as China and India that must buy dollar-denominated oil.

For these reasons, Energy stocks are not trading higher in response to the increase in the price of oil. One exception is MLPs that provide storage and transportation of oil. These high yielders procure customers that require their services far in the future and they're not as responsive to the current price of oil. We've added several attractive MLPs to our Watch List.



## Daily Chart of the Technology Sector (XLK)



### Technology Sector Gets Help From Apple

The Tech sector fared better than the broader markets after heavyweight stock Apple (**AAPL**) ended the week flat. The company received a boost following several reports that their iPhone 15 is seeing strong demand in China.

Overall however, the sector remains weak with Software and Semiconductor stocks falling 3% for the week in a move that keeps their downtrends very much in place.

Next week, memory chip maker Micron (**MU**) will be releasing their quarterly earnings. The company's results will reveal memory chip demand which has seen a brutal downturn as the gaming graphics, smartphone and PC industries have contracted.

MU's earnings results and comments regarding chip demand going forward, have historically impacted other Semiconductor stocks.

Semiconductor stocks have fallen 14% over the past 7 weeks which has put the group - as well as stocks such as Nvidia (**NVDA**) - into an oversold position from which we anticipate a near-term bounce. However, with earnings season still 4 weeks out for many of these stocks, it would take renewed AI interest to push them any higher.

Broadcom (**AVGO**) fell less than its peers despite talk earlier in the week that Alphabet may be ditching the company as an AI chip supplier.

AVGO posted a 3% rally on Friday, as the news was disputed. Broadcom has held in much better than its large-cap peers over the past 2 months which sets the stock up for outperformance once Semi stocks turn bullish again. Near term however, the stock is in a downtrend and we're removing it from our Suggested Holdings List.

Software stocks were led lower by a 4% pullback in Microsoft (**MSFT**) which broke below its 50-day moving average despite news of their Activision takeover nearing completion and increasing their dividend. The company's AI day on Thursday produced few surprises and the stock is now in a downtrend.

Among Software stocks on our List, Uber Technologies (**UBER**) fell the most, with a pullback that put the stock below key support at its 50-day mav on both its daily and weekly charts. The decline took place following news that they may need to shut down operations in hundreds of UK cities due to a EU gig work plan. We're removing UBER from our Suggested Holdings List.

ServiceNow (**NOW**) also had a tough week despite the release of their platform expansion that embeds AI across all workflows. The negative price action is in line with other periods when rising rates have impacted growth stocks such as the mid-July into mid-August period.

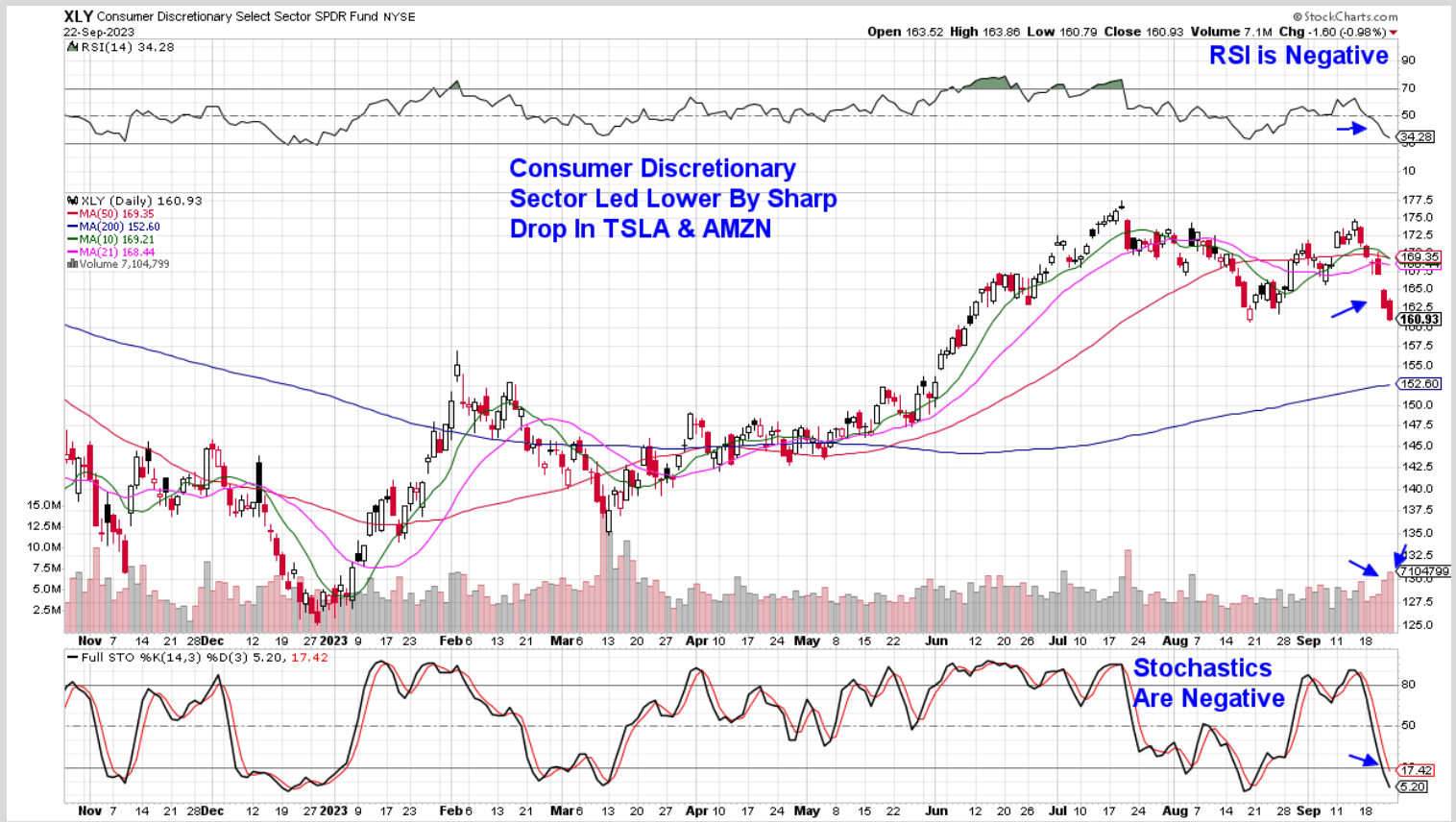
The longer-term weekly chart remains constructive and longer-term investors can remain with NOW. Near-term however, the stock is poised for further weakness and we're removing it from our Suggested Holdings List.

Adobe (**ADBE**) also closed below its 50-day moving average with the RSI and MACD now both in negative territory. The pullback is similar to the early May period of this year when Software stocks overall pulled back before resuming their uptrend. Despite our longer-term bullish outlook for the stock, we're removing it from our Suggested Holdings List as near-term the stock has broken support with its momentum signals now negative.





## Daily Chart of the Consumer Discretionary Sector (XLY)



### Consumer Discretionary Sector Is Hit Hard

The Consumer Discretionary sector was down over 6% last week as heavyweight stocks Tesla (**TSLA**) and Amazon (**AMZN**) fell sharply. Other areas also came under selling pressure with the S&P Retail ETF underperforming as well. (using ETF XRT)

Next week, heavyweight Retailer Nike (**NKE**) will be releasing their quarterly results. The stock is down 30% from its early May high in price amid a slowdown in sales. Investor's response to the company's results will be closely watched given its steep decline.

Amazon (**AMZN**) from our List closed below its 50-day moving average on heavy volume Thursday amid a Wall Street downgrade due to increased

competition and higher diesel fees. News that the company is ditching plans to charge merchants who don't use their delivery service also surfaced as did a possible FTC antitrust investigation.

Most telling however, was the market's tepid response to Amazon's rollout of new AI features. The weak reaction to AMZN as well as in other company's announcing updated AI products, points to a near term fatigue regarding the growth prospects of this developed application.

We're removing Amazon (**AMZN**) from our Suggested Holdings List.

Retail stocks have been weak for some time, with major retailers citing theft issues as well as

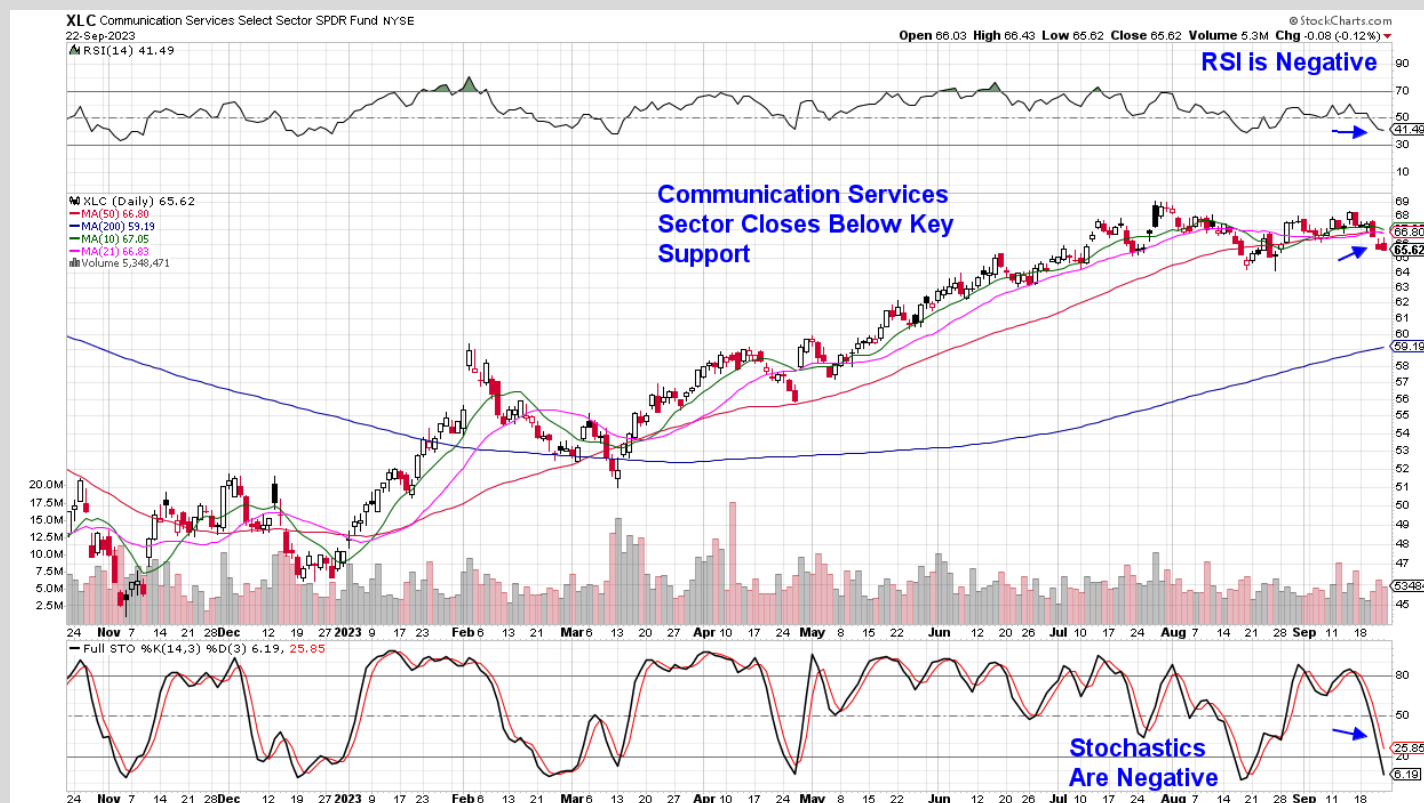
consumer's shift to more discounted goods impacting growth. The sharp increase in the cost of gas is a more recent weight for this group as is the resumption of student loan paybacks in October which will crimp spending.

While select discount retailers such as Costco (**COST**) and Walmart (**WMT**) remain in an uptrend, the majority of stocks in this area are below key support and in a downtrend.





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



### Communication Services Sector Gets Boost From META

Internet related stocks pulled back a bit less than the markets with heavyweight name Meta (**META**) down only 0.4% ahead of next week's Meta Connect event. The 2-day session will focus on the company's advances in AI and virtual reality capabilities.

As noted earlier, MSFT had a muted response to their event last week as AI excitement appears to have waned near term. As you may recall, a positive response to MSFT's AI products in March sparked the downtrend reversal in AI stocks at that time.

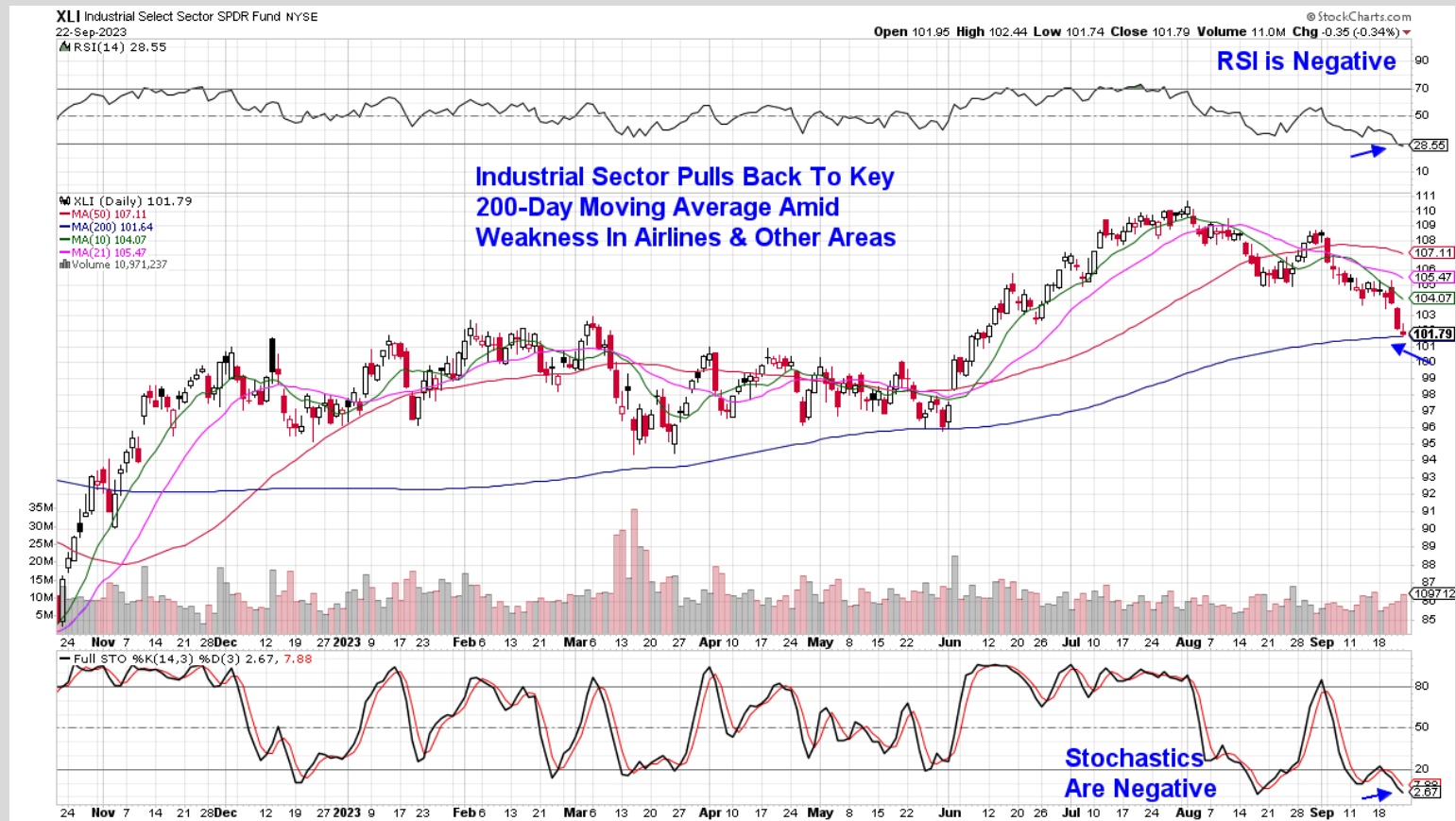
Response to META's event should be very telling. The stock has been in a tight trading range over the past month and any move above its mid-September high of \$313 would be quite positive.

Alphabet (**GOOGL**) pulled back amid weakness in mega-cap Growth stocks due to concerns around higher interest rates. Alphabet generates a significant portion of its revenue from advertising these concerns raise worries about the willingness of businesses to advertise.

GOOGL closed just at its 50-day moving average with the RSI now in negative territory on its daily chart. A similar pullback occurred 2 times in July and the stock was able to recover however, the markets were in a healthier position at that time.

While we're keeping GOOGL on our Suggested Holdings List, shorter term investors may want to lighten up on any positions while longer term, the outlook remains constructive.

## Daily Chart of the Industrial Sector (XLI)



### Industrial Sector Remains Weak

The Industrial sector pulled back to its 200-day moving average led by a sharp drop in Airline stocks amid reports of weak August traffic and rising fuel costs.

Other areas also saw weakness as global recession fears hurt their outlook. Caterpillar (**CAT**) experienced relative outperformance with a 2% pullback that puts the stock just below its 50-day moving average. The stock remains in a positive position on its weekly chart however and we're keeping it on our Suggested Holdings List.

Caterpillar's revenues and earnings have grown for 10 straight quarters due to cost-saving actions and strong end-market demand. Currently, growth in the mining industry has analysts raising estimates for the company into next year.

A close of the Industrial sector below its key 200-day moving average would be quite negative as the last 3 times this occurred, it was at the beginning of the 2019, 2020 and 2022 bear markets.

# Summary

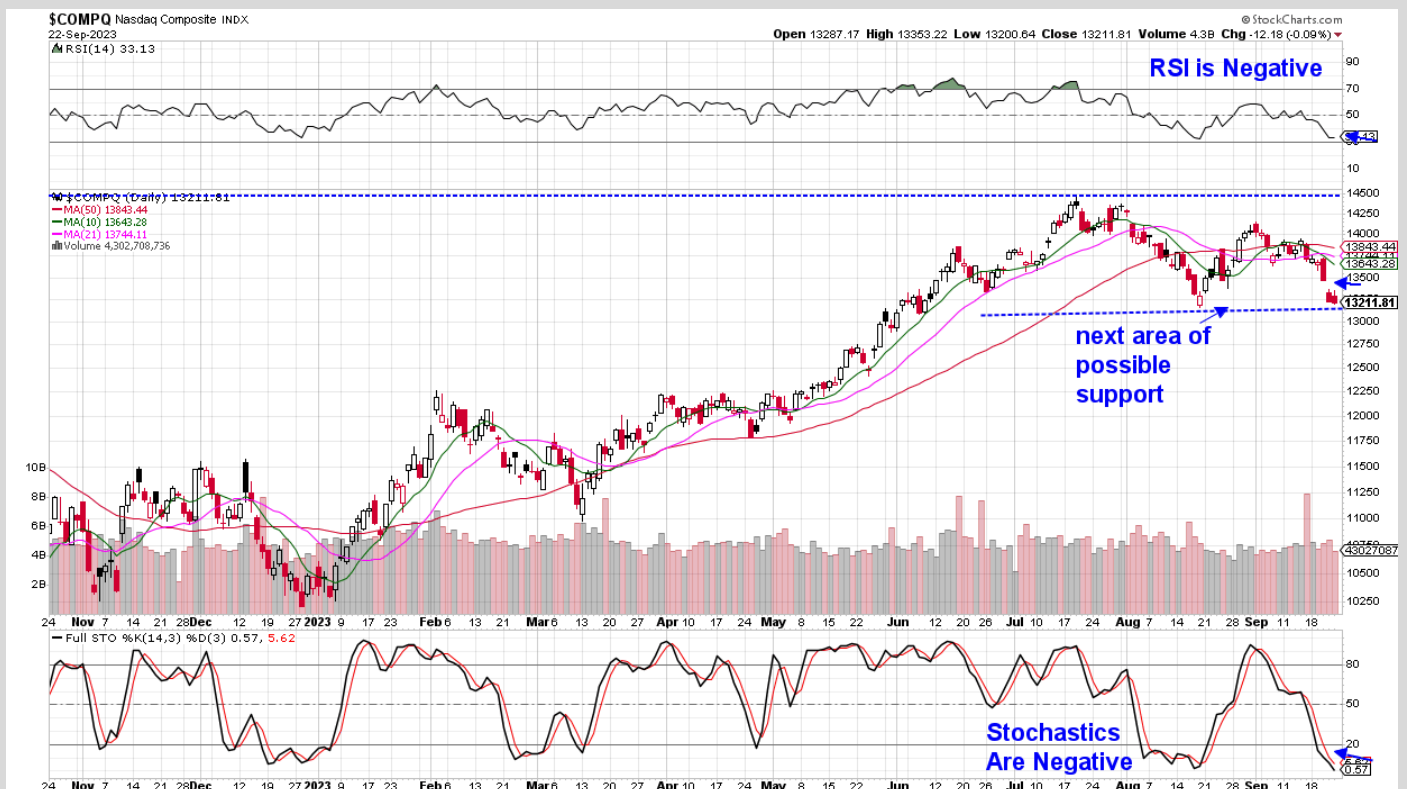
Last week's pullback puts the markets in a precarious position with both the S&P 500 and Nasdaq very close to breaking below key possible support. Any decline below these levels could easily push the markets lower as they're a psychological as well as technical area for traders.

Earlier in today's report, I cited the March pullback as reversing due to excitement surrounding AI related growth prospects. While those growth prospects remain in place and in some cases are expanding, newer AI announcements are being met with indifference among investors.

Instead, the updated, higher estimate regarding the path of interest rates is now in focus and until we see interest rates decline from their elevated level, it'll be difficult to spark the beginnings of a new uptrend. As has been the case in the past, each inflation related data point will be closely monitored starting with Thursday's employment data and more importantly, PCE data on Friday. A decline in oil prices will also need to take place.

Until rates recede, volatility will remain high. Market reversals can take shape quickly as overly negative sentiment will build up shorts that then need to be covered. We'll alert you to any shifts in market sentiment as they occur.

## Nasdaq Composite (\$COMPQ)



# MEM Edge Report Suggested Holdings

*Stocks With Emerging Leadership Characteristics*

<i>\$ = Earnings Due</i>	<i>Buy Zone</i>	<i>Strong Buy</i>		<i>Buy on Pullback</i>	<i>Removed From List</i>
SYMB	COMPANY	PRICE	DATE ADDED	PERFORMANCE	INDUSTRY GROUP
CONSUMER DISCRETIONARY					
AMZN	Amazon	\$134.70	7/16/2023	-5.5%	Retail - Internet
ENERGY					
HP	Helmerich & Payne	\$43.90	9/10/2023	-2.0%	Oil Driller
PXD	Pioneer Resources	\$236.80	8/13/2023	-5.0%	Oil & Gas Exploration
SLB	Schlumberger	\$59.70	8/13/2023	1.0%	Oil & Gas Field Services
INDUSTRIAL					
CAT	Caterpillar	\$285.20	8/13/2023	-3.0%	Machinery
TECHNOLOGY					
ADBE	Adobe	\$507.40	7/12/2023	4.5%	Software
AVGO	Broadcom	\$876.00	8/23/2023	-4.0%	Semiconductor
NOW	ServiceNow	\$568.00	8/23/2023	-2.5%	Software
UBER	Uber Technologies	\$46.50	8/30/2023	-4.5%	Software
COMMUNICATION SERVICES					
GOOGL	Alphabet	\$132.60	7/30/2023	-1.5%	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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