



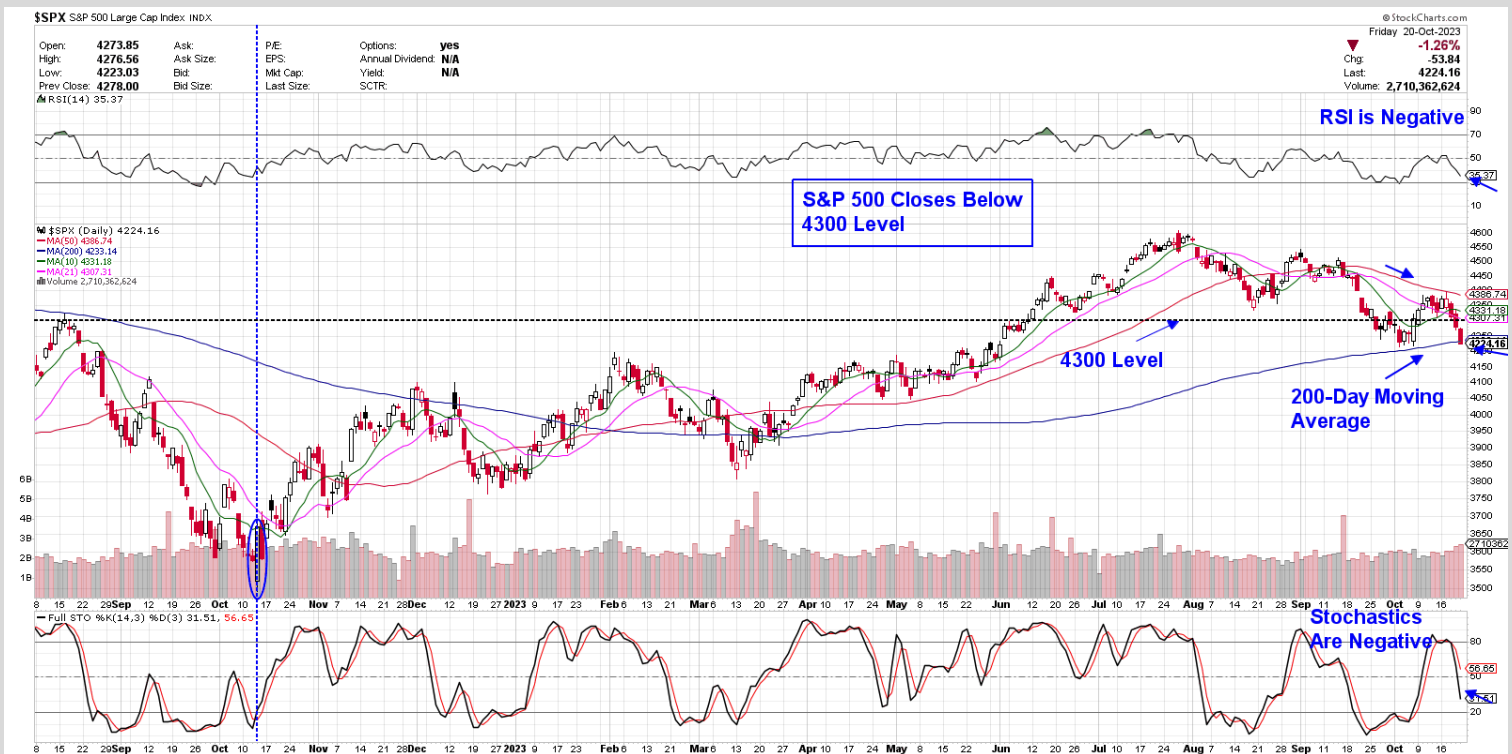
THE MEM EDGE

October 22, 2023 | Weekly Report

This Week's Highlights

- Middle East Risks Escalate - Oil and Gold Prices Surge
- Yield On 10-Year Treasury Rises To 5%
- September Retail Sales Jumped Higher Than Expected
- Housing Starts Rebound In September
- U.S. Commerce Dept. Tightens Chip Export Restrictions - NVDA Slumps
- Powell Comments Hint At Further Tightening
- Q3 GDP Estimate Durable Goods Orders and Core PCE Data Next Week

Daily Chart of S&P 500



The S&P 500 lost 2.4% for the week in a move that has this Index now below its key 200-day moving average with a negative RSI and Stochastics.

The selling took place on heavy volume and coupled with a close below key support, this Index is poised for further weakness.

On any further pullback, the next area of possible support is the early May low of 4048, which is 4.1% away. As for rally attempts, the 10-day moving average is the first area of possible upside resistance and this is 2.5% away.

The Nasdaq fell further, with a 3.2% decline that has this Index closing below the 13000 level which was a key area of possible support. In turn, the RSI was pushed further into negative territory with the Stochastics turning negative as well. Heavy volume coupled with the break below key support has us negative on the near term prospects for the Nasdaq.

Last week's pullback took place amid geopolitical concerns that deepened as the week progressed following reports of increased strife in the Middle East. Oil as well as safe haven Gold spiked as fears of a global recession increased.

The biggest impact on the markets last week, however, was a rise in the yield on the 10-year Treasury which briefly hit 5% on late Thursday. The increase in rates was sparked by strong economic data after September Retail Sales came in stronger than expected, followed by a jump in housing starts.

Remarks by Fed Chair Powell on Thursday ramped rates up even higher after he cited that "policy may need to stay restrictive for longer in order for inflation to fall back to target". Powell's tough stance came on the heels of recent inflation data that was higher than expected along with this week's strong economic data.

Next Friday, the Federal Reserve's resolve will be tested further, with Core Personal Consumption Expenditures index data due (PCE). This measure of what consumers are paying for goods - outside of volatile gas and food - is a key gauge of inflation for

the Fed. Important economic data will be released as well, with the first estimate for 3rd quarter GDP due on Thursday.

Last week's sharp rise in interest rates impacted Growth stocks the most, with the Technology and Communication Services sectors losing their uptrends after closing below their key 50-day moving average. Consumer Discretionary stocks - another high growth area - lost 4.6% led by heavyweight stock Tesla (**TSLA**) which fell 15.6% after reporting earnings that were below estimates.

Weak earnings reports hurt other areas as well, with many Bank stocks reporting numbers below estimates or guiding growth estimates lower going into next year. High interest rates can lower lending activity which is a main source of profits for banks.

Not all the news surrounding earnings was poor last week, with Netflix gaining 13% on the heels of reporting subscribership growth that was above estimates.

Overall, 17% of companies in the S&P 500 have reported earnings and of those, 74% have come in above estimates. The question as we head into next week's reports from Alphabet (**GOOGL**), Meta Platforms (**META**), Amazon (**AMZN**), and Microsoft (**MSFT**) is how investors will respond to results. While we've seen positive results in these stocks help push the markets into an uptrend, current market conditions will most likely override this possibility.

So far, we've seen exaggerated responses for both **NFLX** and **TSLA's** results which is yet another source of uncertainty for investors. Last week, the Volatility Index (VIX) - or fear index - climbed above 21 which

is a level that signals continued price swings within the markets as well as individual stocks.

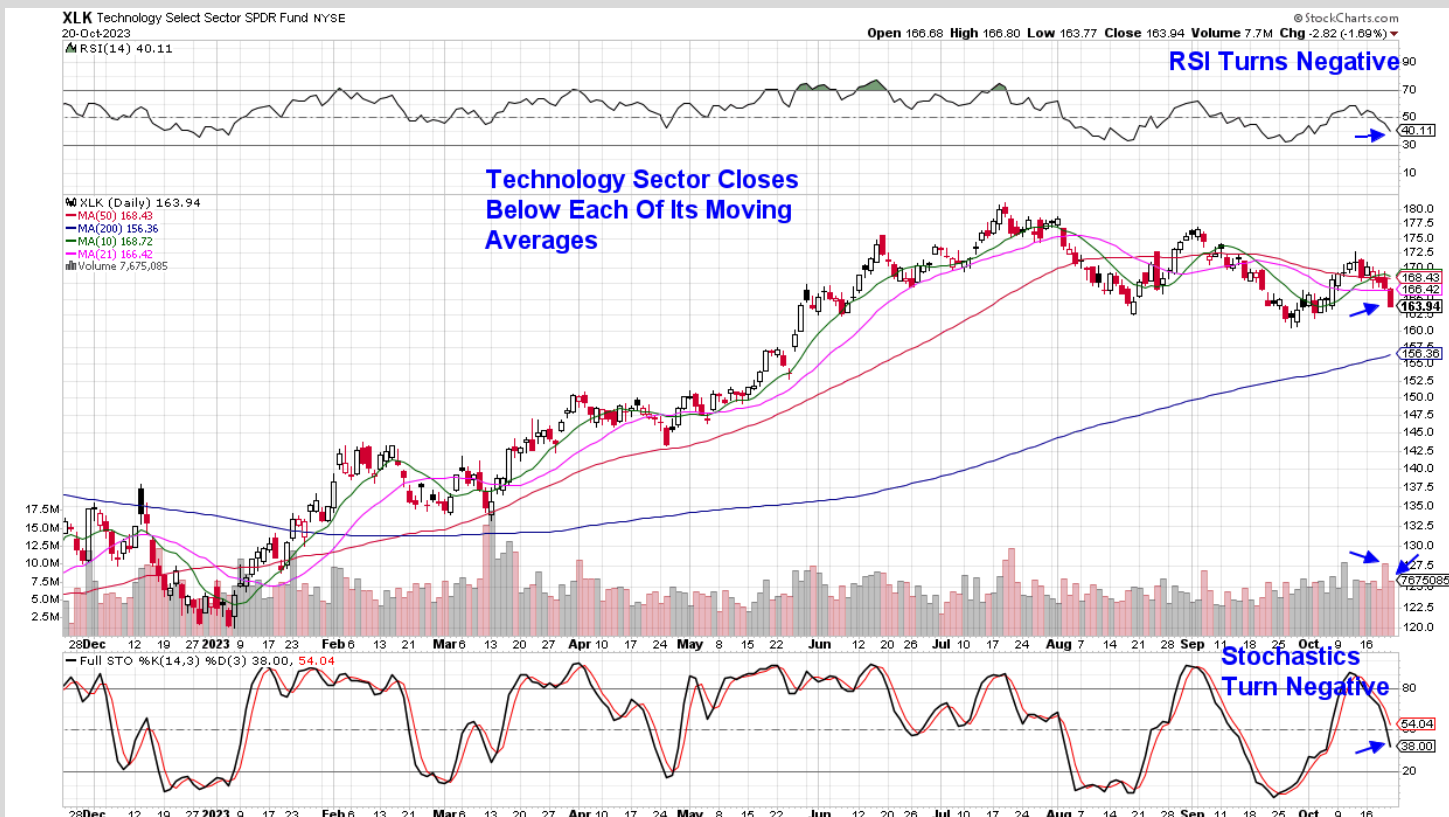
At this time, the markets lack much in the way of positive catalysts with the Middle East conflict raging on and earnings reports coming in mixed. Most importantly, we're currently in an elevated interest rate environment which may remain for longer than once anticipated. Until we see interest rates pull back and get closer to the 4% level, the markets will continue to struggle.

In the daily chart of the S&P 500 above, I've highlighted the characteristics that marked a bottom that was put in last October and as you'll see, we had a downtrend reversal day that preceded a positive RSI and Stochastics as this Index continued to advance above its key moving averages. The turnaround occurred amid strong earnings reports from Banks which reduced fears and helped spark an oversold bounce in Tech names.

With key names due to report over the next several weeks, we of course will be on the lookout for a possible similar reversal. Near term however, conflict in the Middle East has heated up over the weekend which will keep any possible rally at bay.



Daily Chart of the Technology Sector (XLK)



Technology Sector Turns Negative

The Tech sector closed the week below each of its moving averages with late-week selling that was on above-average volume.

The pullback was led by a 3.5% drop in heavyweight stock Apple (**AAPL**) due to a mixed outlook for the company's iPhone 15. Sales of the iPhone are crucial for Apple as they accounted for over half of the company's revenue in 2022. Last quarter, Apple's stock tumbled after iPhone sales fell by 4%. The company is due to report results in 2 weeks.

A sharp drop in Semiconductor and Software stocks also hurt the Tech sector. The Semiconductor group has pulled back to its 200-day moving average after last week's 4.1% decline. Projected softness in chip

sales from companies such as Lam Research (**LRCX**) who reported earnings last week is one reason for weakness in this group.

News that Biden will be initiating tighter controls surrounding semiconductor chip sales to China was another reason. Heavyweight chip company Nvidia will be the most heavily impacted as their A800 and H800 chips - created for the Chinese market after initial U.S. trade restrictions last October - will be targeted. **NVDA** derives 10% of its AI sales from China.

The loss of leadership name Nvidia solidifies the downtrend in Semiconductor stocks with the RSI now dipping into negative territory on the weekly chart of the group. (using ETF SOXX)

Software stocks were able to sidestep the weakness taking place elsewhere for most of the week however, heavy selling on Friday pushed this group into a downtrend after a close below each of its moving averages on heavy volume. (using ETF IGV)

In addition to elevated interest rates negatively impacting the group, news from select Software names such as Oracle (**ORCL**) took a toll. At a company event, Oracle's plan to execute its AI strategy left Wall Street wondering if they'll be able to translate it into strong growth anytime soon. The stock fell 6% on Friday which spread to other AI-related stocks such as Super Micro (**SMCI**) which is outside of Software but fell 6% on the day.

Software security stock Okta (**OLTA**) tumbled lower by 12% on Friday after the provider of identity services for cybersecurity protection had to deal with a breach of its own systems. The decline brought other security-related Software stocks down with it, including CrowdStrike (**CRWD**) which fell 3% on the day.

The stock remains in an uptrend however, with its RSI and MACD in positive territory with **CRWD** above its 21-day moving average. The stock can be held.

Adobe (**ADBE**) experienced selling on Friday as well, with a 2.5% decline that erased some of its gains from earlier in the week. The stock remains above its 21-day moving average with a positive RSI and MACD and can be held.

Microsoft (**MSFT**) held in better than its peers with a slight pullback to its 21-day moving average. The company is due to report its quarterly results Tuesday after the markets close and analysts will be closely watching their cloud computing sales as well as progress in their AI division.

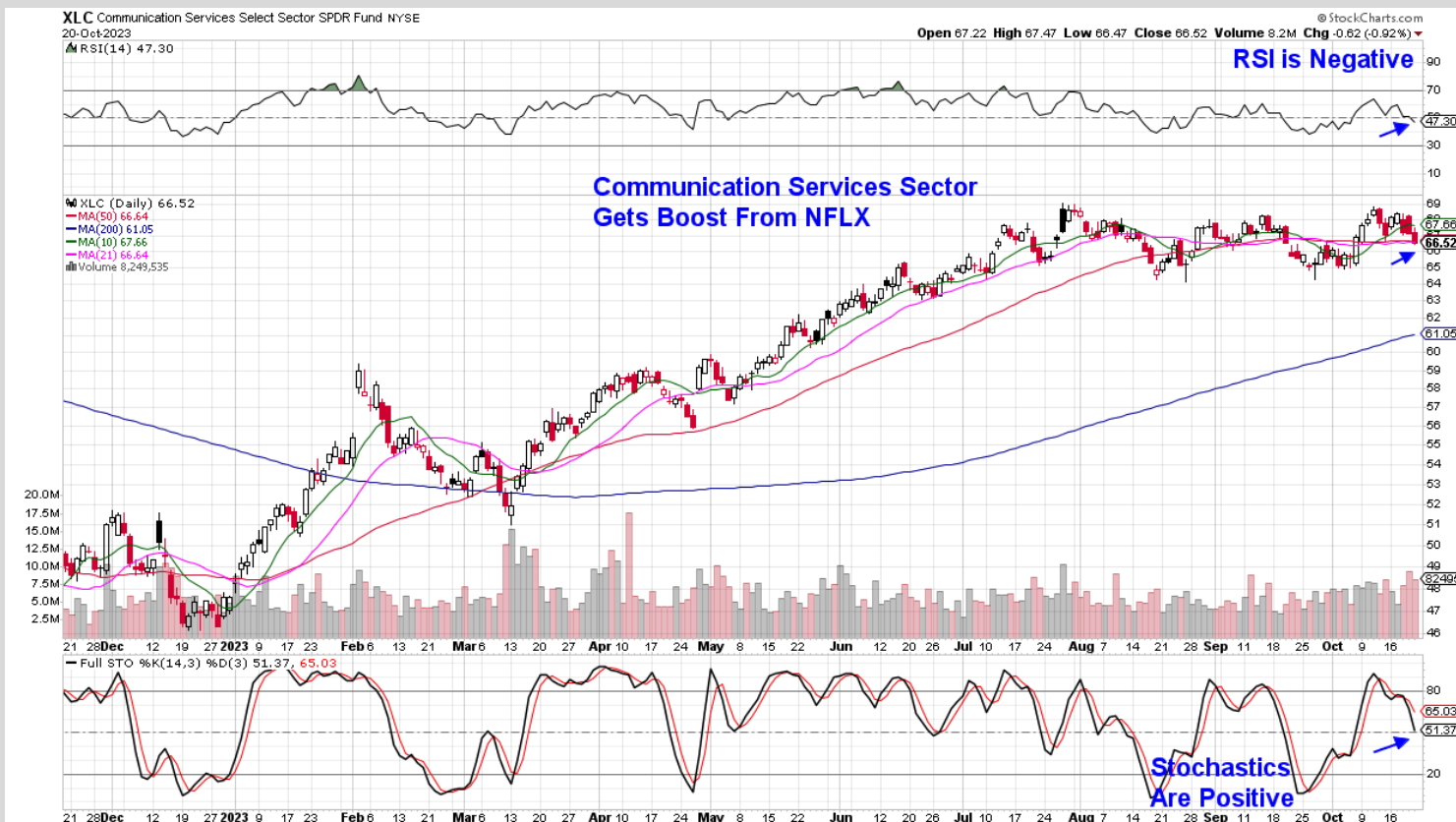
As you may recall, Microsoft (**MSFT**) fell after their most recent quarterly results in late July showed that their cloud computing division Azure, posted a slowdown in sales.

Last week's downturn in the Technology sector occurred on heavy volume and was amid weakness in heavyweight stock Apple as well as Semiconductor and Software stocks, each of which comprise a large portion of the Tech sector. With each of these areas currently in a downtrend, we anticipate further near-term weakness.

We're keeping a close eye on the weekly chart of Technology as the RSI is poised to turn negative. This has occurred only 2 times over the past 2 ½ years.

The first time was in early 2022 at the beginning of the bear market. The second time the RSI turned negative on a weekly chart was in August of 2022. Both times, it preceded a ten-week period of weakness before the Tech sector stabilized and turned positive again.

Daily Chart of the Communication Services Sector (XLC)



Communication Services Sector Outperforms

The Communication Services sector was given a boost by a 13% gain in heavyweight name Netflix (**NFLX**) which rallied after reporting quarterly results that showed their crackdown on account sharing has worked. The company reported that subscribership grew much more than expected.

Elsewhere in the group, heavyweight names Alphabet (**GOOGL**) and Meta Platforms (**META**) both outperformed ahead of the release of their earnings next week. Expectations are high for both companies as analysts are looking for a continued recovery in advertising sales. **GOOGL** and **META** derive a large portion of their revenues from advertising.

In addition to seeing growth in ad sales last quarter, both companies were boosted by an increased push into AI-related products which resulted in a rally in **GOOGL** and **META** before market pressures derailed their breakouts.

Unfortunately, similar to last quarter, currently negative market conditions may also serve to dampen any bullish response to positive results. Both stocks are above their 21-day moving averages however, their RSI has dipped into negative territory.

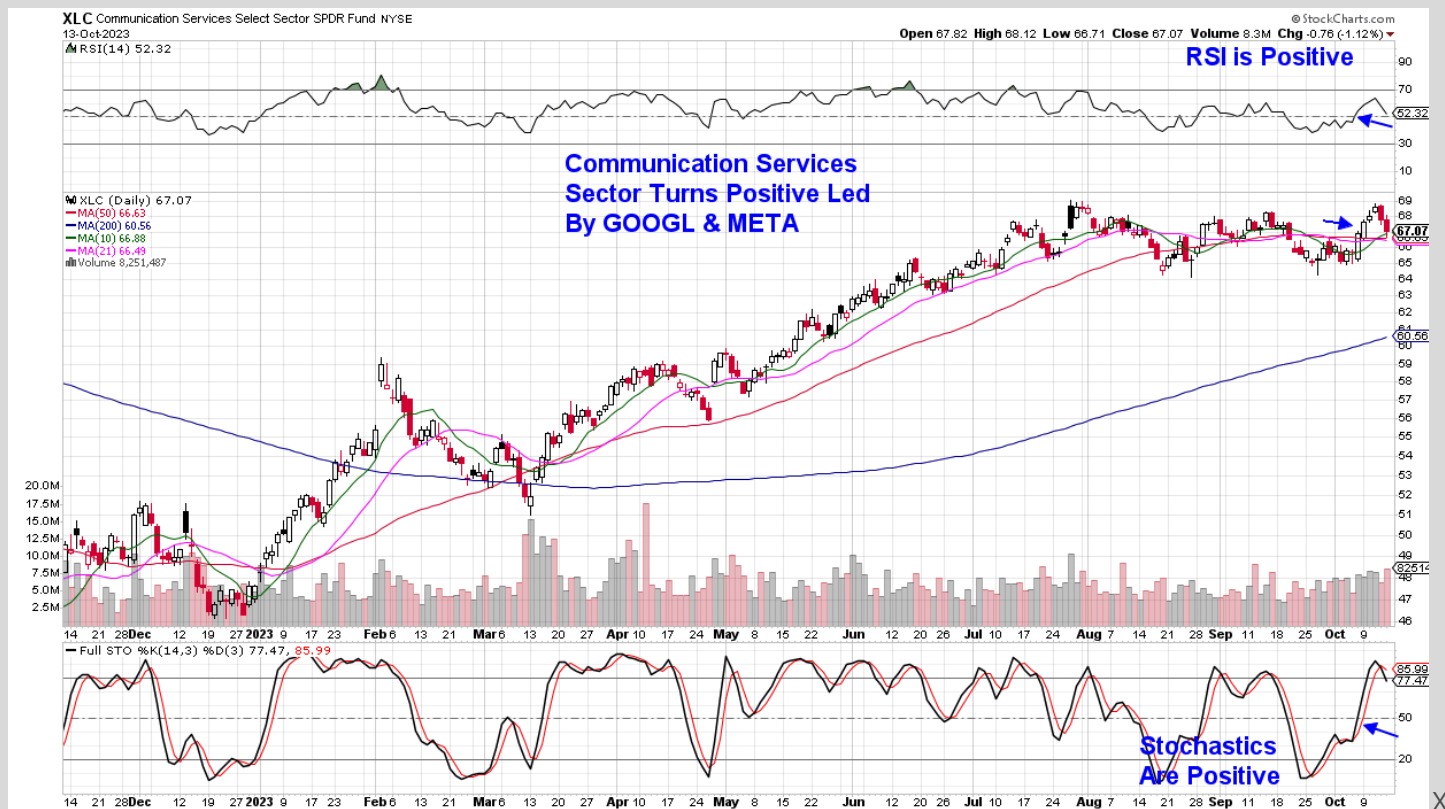
While a rally in mega-cap names in response to strong results has been known to push the markets into a more positive bias, the currently high-interest rate environment will most likely override this possibility.

The good news is, that the longer-term outlook for both **META** and **GOOGL** remains quite positive with their RSI and MACD in positive territory with now indication of turning lower. Both stocks can be held and we will of course alert you to any shift in sentiment.

Despite the sector falling less than the markets, Communication Services is now in a downtrend with a close just below its key 50-day moving average and its MACD now in negative territory. Here again, the weekly chart - or longer-term outlook - remains quite positive.



Daily Chart of the Consumer Discretionary Sector (XLY)



Consumer Discretionary Plummets Amid EV Slowdown

Discretionary stocks took it on the chin last week with a 4.6% decline that was led by heavyweight stock Tesla (**TSLA**) which fell over 15% on heavy volume after producing quarterly results that were below estimates.

Other EV auto producers fell even further amid weak numbers of their own such as Lucid (**LCID**) which posted declining production numbers for the third quarter. On Thursday, GM announced a delay in the opening of their electric truck factory amid a cooling of EV demand. GM as well as Ford (**F**) are due to report their 3rd quarter results next week.

Home Construction stocks also fell, as the increase in interest rates has pushed 30-year mortgage rates up to 8%.

Last week's strong Retail Sales data for September did boost select clothing and food-related stocks however, the majority of these beaten stocks remain in confirmed downtrends.

Next Thursday, heavyweight name Amazon (**AMZN**) will be reporting their results after the markets close. In addition to closely watching the company's outlook for holiday sales in the 4th quarter, analysts will be watching for a recovery in their AWS cloud business. **AMZN** is in a confirmed downtrend going into results.

Summary

Last week's selling hit Growth stocks the hardest, with other risk-off areas such as Biotechs and small-cap stocks under continued pressure as well, as they approach possible bear market status after closing the week 16% below their 52-week highs.

Unfortunately, defensive areas such as Staples and Utilities are not seeing demand, so that breadth in the markets remains quite weak.

While Powell has made it clear that the Fed is prepared to keep rates elevated as needed in order to tame inflation, he also suggested that recently high yields could lead them to pause their rate hike campaign. In other words, investors are doing the heavy lifting for the Fed by purchasing bonds in anticipation of higher rates. Geopolitical tensions are also increasing bond yields amid demand.

Third-quarter GDP growth numbers will certainly provide more clues next week, as any growth above the estimated level will underscore the resilient labor market which is driving strong consumer demand for goods. Strength in both of these areas has been cited by Powell as the reason rates need to remain high.

Until we see interest rates recede, coupled with a broadening out of participation in the markets, we anticipate continued overall weakness. An escalation of the Israel-Hamas war will also continue to weigh on the markets.



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	INDUSTRY GROUP
TECHNOLOGY					
ADBE	Adobe	\$549.90	10/11/2023	-1.5%	Software
CRWD	Crowdstrike	\$176.70	10/8/2023	1.0%	Software
MSFT	Microsoft	\$327.30	10/8/2023	0.0%	Software (Due to Report)
COMMUNICATION SERVICES					
GOOGL	Alphabet	\$132.60	7/30/2023	3.0%	Internet-Content (Due to Report)
META	Meta Platforms	\$315.40	10/8/2023	-2.0%	Internet-Content (Due to Report)

Glossary of Terms Used From Our Suggested Holdings

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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