



THE MEM EDGE

October 29, 2023 | Weekly Report

This Week's Highlights

- New Home Sales Surge To Highest Level Since February 2022
- Third Quarter GDP Jumps To 4.9% Fueled By Consumer Spending
- Core PCE rose 0.3% & Consumer Spending Rises By 4% In Third Quarter
- October Employment Data and FOMC Meeting Next Week
- S&P 500 In A Correction - Down 10% From July Peak In Price

Daily Chart of S&P 500



The S&P 500 fell 2.7% for the week in a move that's pushed this Index further below its key 200-day moving average with the RSI and Stochastics

remaining in negative territory. With a break below key support coupled with negative momentum

indicators, we remain negative on the near-term prospects for this Index.

On the daily chart, both the RSI and Stochastics are in an oversold position from which we anticipate a bounce in the markets at some point next week. It would have to be very powerful to reverse the current downtrend that's in place however, with the 200-day moving average being the first area of upside resistance which is 2.9% away.

On any further selling, the early May low of 4048 is the next area of possible support with the mid-March low of 3808 being the next possible area. These levels are currently 1.7% and 7.5% away respectively.

For the intermediate-term outlook, the weekly chart of the S&P 500 shows the RSI moving further into negative territory, with the MACD poised to turn negative as well. Given the heavy volume selling we've seen over the past two weeks, coupled with a negative RSI, the longer-term prospects for the markets are not positive at this time.

Over the past year, we've seen the S&P 500 fall below its 50 and 200-day moving averages twice - in mid-December '22 and mid-March of this year. During both periods, mega-cap stocks such as MSFT, NFLX, and META as well as the Software and Semi groups were trending sideways or upward as Growth stocks were firming up.

While **MSFT**, **NFLX**, and **META** are currently faring better than the broader markets, Semiconductors and Software are not doing well. Other areas of Growth are also weak with this underperformance underscoring the key difference now. That is, interest rates are trending at a 17-year high which negatively stocks.

The Nasdaq lost 2.6% last week with a decline that pushed this Index further below its key area of support at the 13000 level. With the RSI and Stochastics in negative territory, we remain negative on the near-term prospects for this Index.

The Nasdaq also has an oversold RSI and Stochastics from which we may see a bounce similar to late August and late September. Shorter term, swing traders will want to seek names above key moving averages as well as deeply oversold names that sold off despite positive earnings such as Alphabet (**GOOGL**).

On any further pullback, the next area of possible support is 12415 which is 1.8% away. As for rally attempts, a close back above the 200-day moving average - the first area of possible resistance - would put the 10-day moving average into focus which is currently 3.3% above Friday's close.

The S&P 500 entered a correction last week after falling 10% from its peak in late July. The pullback has occurred amid a continued rise in interest rates with the yield on the 10-year hitting 5% last week amid strong economic data. A jump in 3rd quarter GDP was particularly concerning, as it was fueled by strong consumer spending which will of course keep inflation high.

Further weakness in the markets took place after mega-cap name Alphabet (**GOOGL**) broke down sharply despite reporting earnings and sales that were ahead of estimates. The selling was due to results in their Cloud division that failed to impress. Meta Platforms (**META**) also fell despite strong results due to comments from their CFO that ad spending had softened in the beginning of the 4th quarter.

Both Amazon (**AMZN**) and Microsoft (**MSFT**) fared better with a gap up in price after reporting winning results. **AMZN** saw ad sales that came in more than 50% above **GOOGL's** YouTube business while Microsoft (**MSFT**) reported a blowout quarter which we'll review below.

Overall we saw a generally negative response to mixed earnings results, as investors' high hopes for strong numbers across the board were not met. While Amazon and Microsoft ended with gains, it was only 2% and 1% respectively. This is not a positive backdrop for the markets. During more bullish phases, less-than-perfect earnings reports are overlooked while strong results are rewarded with moves higher in the stock.

Next Thursday Apple (**AAPL**) will be reporting their quarterly numbers with results, as well as trader's response, providing further clues into the currently weak appetite for high-tech names.

Monetary policy regarding interest rates will also be front and center with the Federal Reserve's meeting on Tuesday. It's widely anticipated that rates will be held steady however, comments from Fed Chair Powell on Wednesday regarding the outlook going forward, will be very closely watched.

Even more impactful may be employment numbers for September due to be released on Friday. Low unemployment and high wages have been a sticking point for the Federal Reserve and strong data could be a catalyst for interest rates to remain high.

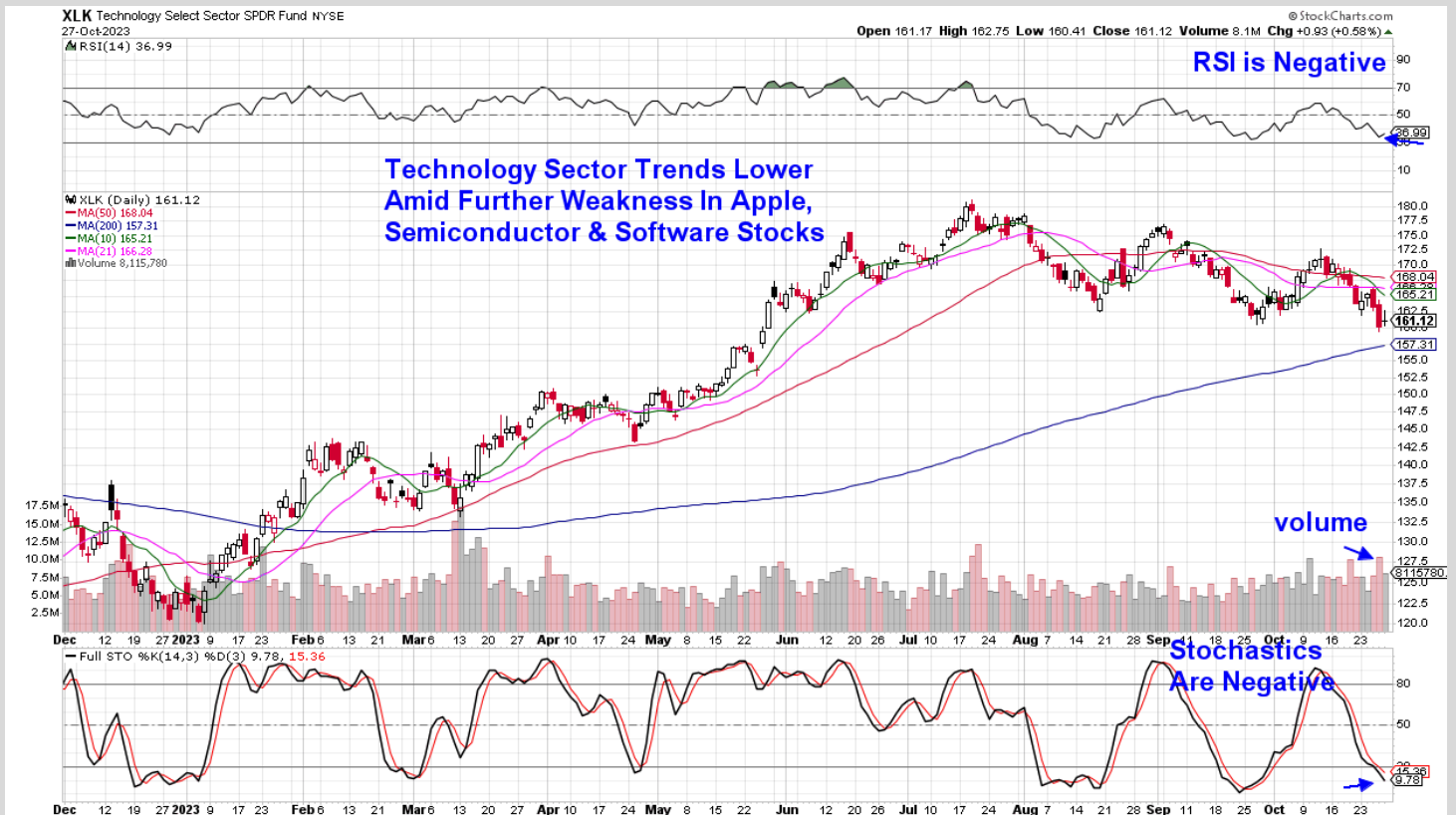
Defensive areas fared better than the markets with Utilities posting a slight gain while Staples and Real Estate each fell less than the averages. These beaten-down sectors are down 10% or more year to date, and select names are being scooped up after reporting positive results. These sectors remain in distressed downtrends however.

With the broader markets in a confirmed downtrend, we would continue to stay on the sidelines while building our Watch List of stocks that are fundamentally strong and are relatively outperforming the markets. Historically, these stocks will go on to outperform once downward pressure on the markets is removed.

Any new uptrend will be signaled by a move of the S&P 500 or Nasdaq back above their 50-day moving average, coupled with a positive RSI. Until we see interest rates pull back with the yield on the 10-year Treasury getting closer to the 4% level, the markets will continue to struggle.



Daily Chart of the Technology Sector (XLK)



Technology Sector Remains In Downtrend

The Tech sector fell less than the markets amid a bounce in Microsoft (**MSFT**). The company posted a blowout quarter due to better-than-expected results from its Azure cloud computing arm. Azure's growth came from AI-related workloads that came in well above estimates. The news places Microsoft at the head of the pack in AI-related growth.

MSFT gapped up into a base breakout on Wednesday before downward pressure from the markets due to strong GDP growth, pushed the stock back to its 50-day moving average on Thursday. Microsoft remains in an uptrend with its RSI and MACD in positive territory with the stock above its 50-day moving average. The stock can be held.

IBM (**IBM**) was another technology name that gapped up in price in response to earnings ahead of estimates. Management disclosed bookings in the hundreds of millions for AI-related projects following the release of their WatsonX product. The 4.7% yielder is on our Watch List as it is on track to reverse its recent downtrend.

Elsewhere in Tech, Semiconductor (**SOXX**) and Software (**IGV**) stocks continue to struggle with both groups falling almost 3% for the week.

Much of the weakness in Semiconductors centered around companies that reported earnings above estimates however, they were negative vs last year. This would include Maxlinear (**MXL**) and Teradyne (**TER**) which fell an average of 15% for the week.

There were bright spots however, with Intel (**INTC**) gapping up 9% on Friday in response to earnings well above estimates. Most impactful was **INTC's** guidance for continued growth going into next year amid healthy demand for chips from the PC market.

The news comes ahead of heavyweight Semiconductor stock Advanced Micro (**AMD**)'s earnings report on Monday. **AMD** is a major participant in the PC market.

Overall, Semiconductor stocks remain in a confirmed downtrend as the group is now below its 200-day moving average. (using SOXX). In addition, less than 10% of names in this group are trading above their 50-day moving average.

Software stocks also remain in a confirmed downtrend, with last week's decline putting the group just below its mid-August lows which has the next area of possible support at its May lows which is 15% away. (using ETF IGV)

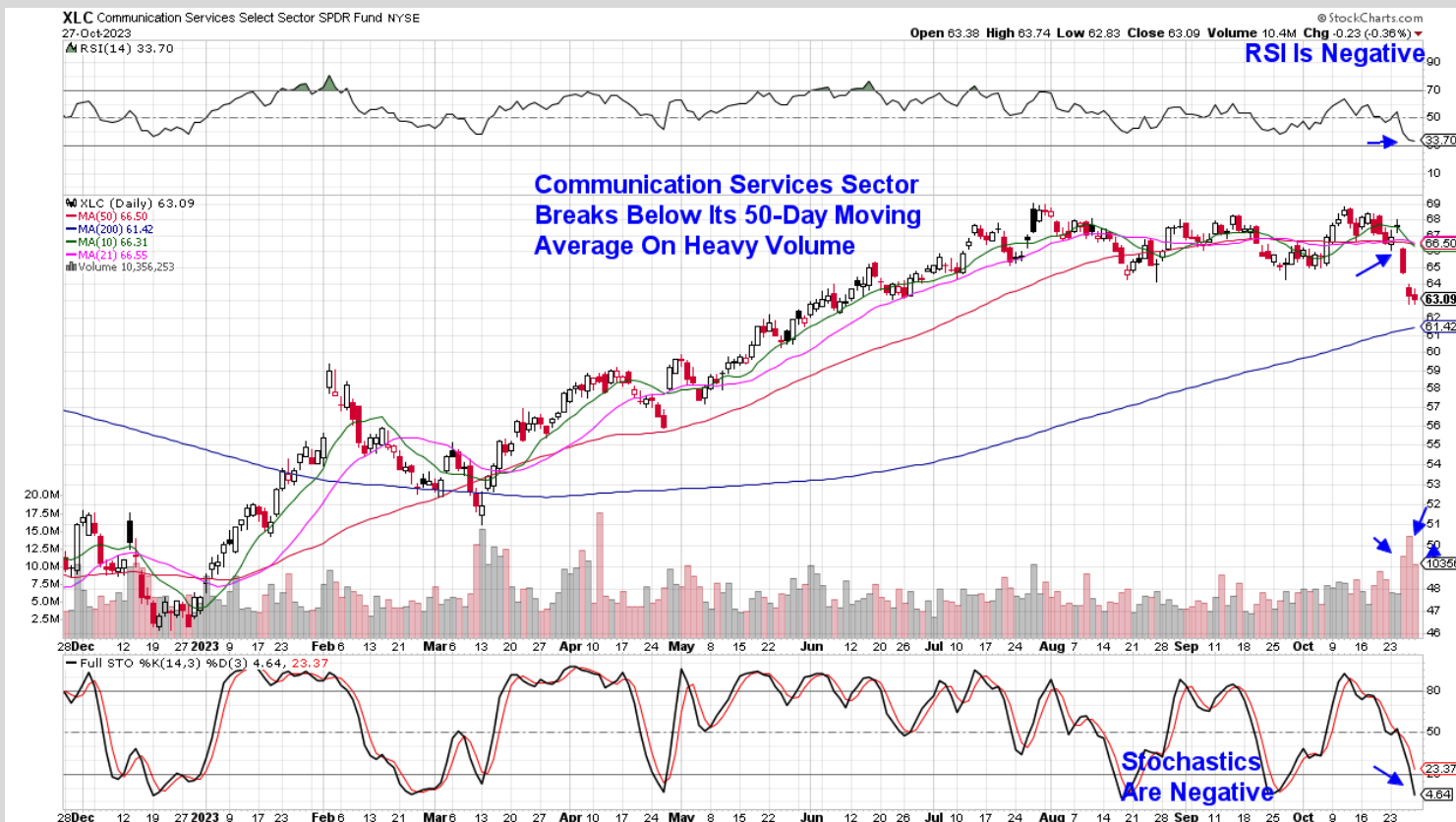
Last week's pullback occurred amid a tepid response to strong earnings from companies such as ServiceNow (**NOW**) which was unable to regain its 50-day moving average despite posting earnings that were 200% above estimates.

Software security stocks which help combat cyber attacks on corporate data fell further than the markets last week with CrowdStrike (**CRWD**) from our List pulling back but remaining above its 50-day moving average with a positive MACD. The stock can be held.

Next week, cybersecurity cloud stocks Cyberark (**CYBR**) and Qualys (**QLYS**) are due to report earnings which will provide insights into the strength or weakness of stocks in this area.



Daily Chart of the Communication Services Sector (XLC)



Communication Services Sector Falls 5% For The Week

Last week's sharp drop in this sector was due primarily to a 10% selloff in heavyweight stock Alphabet (**GOOGL**) which fell after reporting cloud-related sales that came in below estimates.

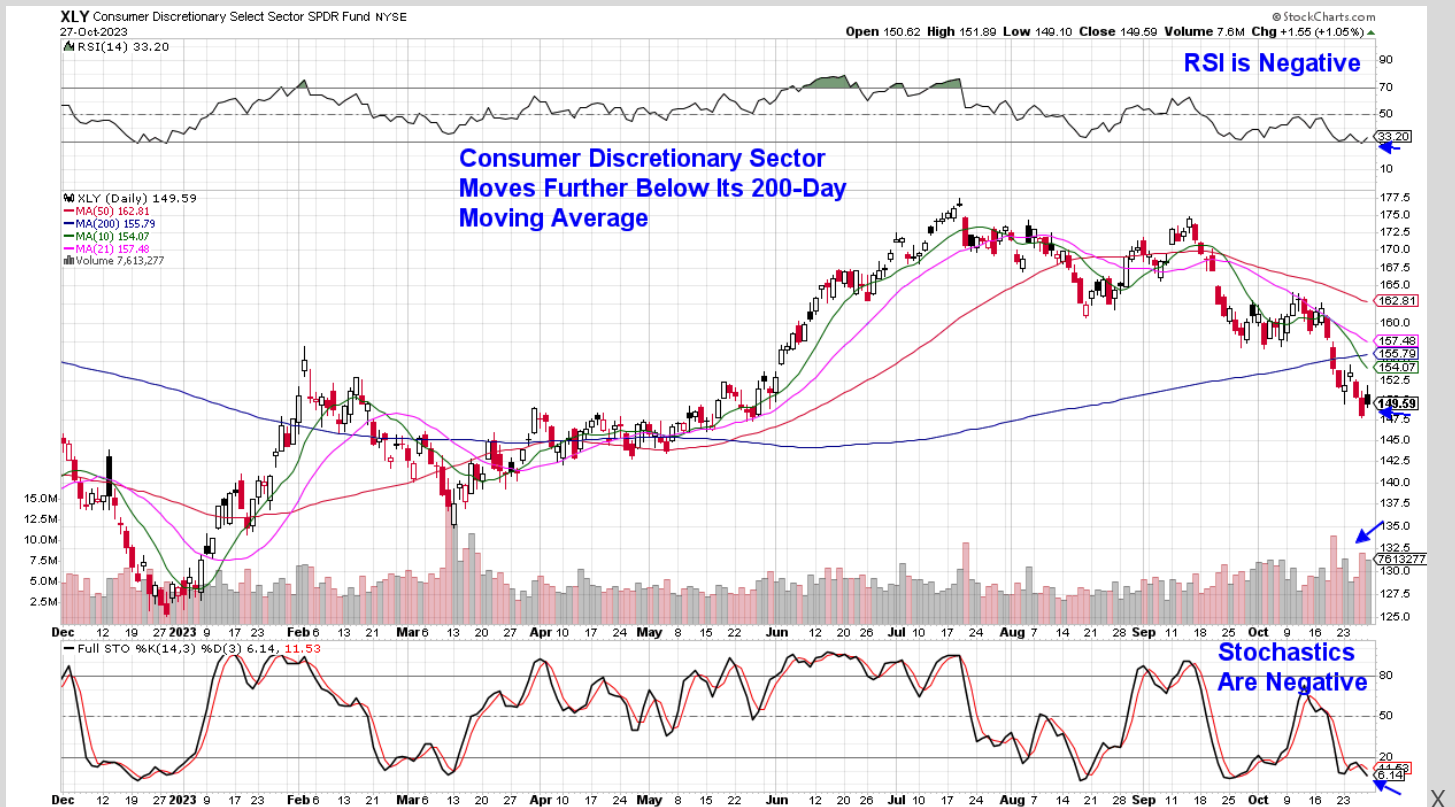
On Wednesday, heavyweight stock Meta Platforms (**META**) reported record revenues as ad sales continue to rebound. Cost cutting within the company also helped their bottom line. The stock was pushed lower on Thursday due to market pressures, with **META** closing further below its 50-day moving average with the RSI and MACD now in negative territory.

META has a history of regaining its upside momentum after a pullback such as in late August. We're keeping the name on our Suggested Holdings List as the weekly chart has a positive RSI and MACD.

As cited earlier, nimble, shorter-term traders may want to keep an eye on Alphabet (**GOOGL**) as the RSI is in an oversold position on its daily chart.

You'll want to use an intraday, 15-minute chart for very short-term trades and a 1-hour chart for possible 1-2-day trades. In both cases, you'll need **GOOGL's** RSI to enter positive territory with a move above its 5 and 8 simple moving averages for an uptrend. A move below these moving averages with a negative RSI would be a sell signal.

Daily Chart of the Consumer Discretionary Sector (XLY)



Consumer Discretionary Sector Outperforms Amid Strong Earnings

The Consumer Discretionary sector was given a boost from Amazon's 2% rally after reporting earnings and sales that were above estimates. Friday's gap up in price pushed the stock above its shorter-term moving averages however, the RSI and MACD are in negative territory.

Other Retailers posted base breakouts or downtrend reversals after reporting strong quarterly results. Deckers (**DECK**) is a prime example after the stock broke out of a 3-month base on heavy volume due to strong sales of their footwear products. The stock is at the top of our Watch List. Chipotle (**CMG**) reversed its downtrend after a 4.5% rally due to strong earnings despite the company raising prices. Rival restaurant company Wingstop

(**WING**) is due to report results on Wednesday and the stock is in a similar position to **CMG** pre-earnings.

Another stock that is high on our Watch List is MI Homes (**MHO**) which is steadily reversing its downtrend after last week's rally on strong volume pushed the stock above its shorter-term moving averages. The company reported record revenues for the 3rd quarter as well as a 50% increase in contracts for new homes.

Select Discount Retailers such as Walmart (**WMT**) are showing relative outperformance by holding up in a very difficult market environment - making it an ideal Watch List candidate.

Last week's report that Consumer Spending was the primary source of last quarter's strong GDP report should provide fuel for additional companies that report earnings. Retailers generally report results toward the end of earnings season.



Summary

The past 3 weeks have been a difficult period for the markets as stronger than expected economic and inflation data has shifted the interest rate outlook to a "higher for longer" mode with Fed Chair Powell confirming this possibility.

High-interest rates are not good for the markets due to increased borrowing rates for corporations and reduced earnings power for Growth stocks. Adding to the angst has been the Israel-Gaza conflict which has escalated over the weekend. We may well see a flight to safe-haven Treasuries which in turn will lower interest rates over the near term. Energy stocks will most likely trade lower as well.

On deck for next week are notes from the Federal Reserve's meeting on Wednesday, as well as U.S. employment data for September on Friday. (Private sector jobs data from ADP will be released on Wednesday).

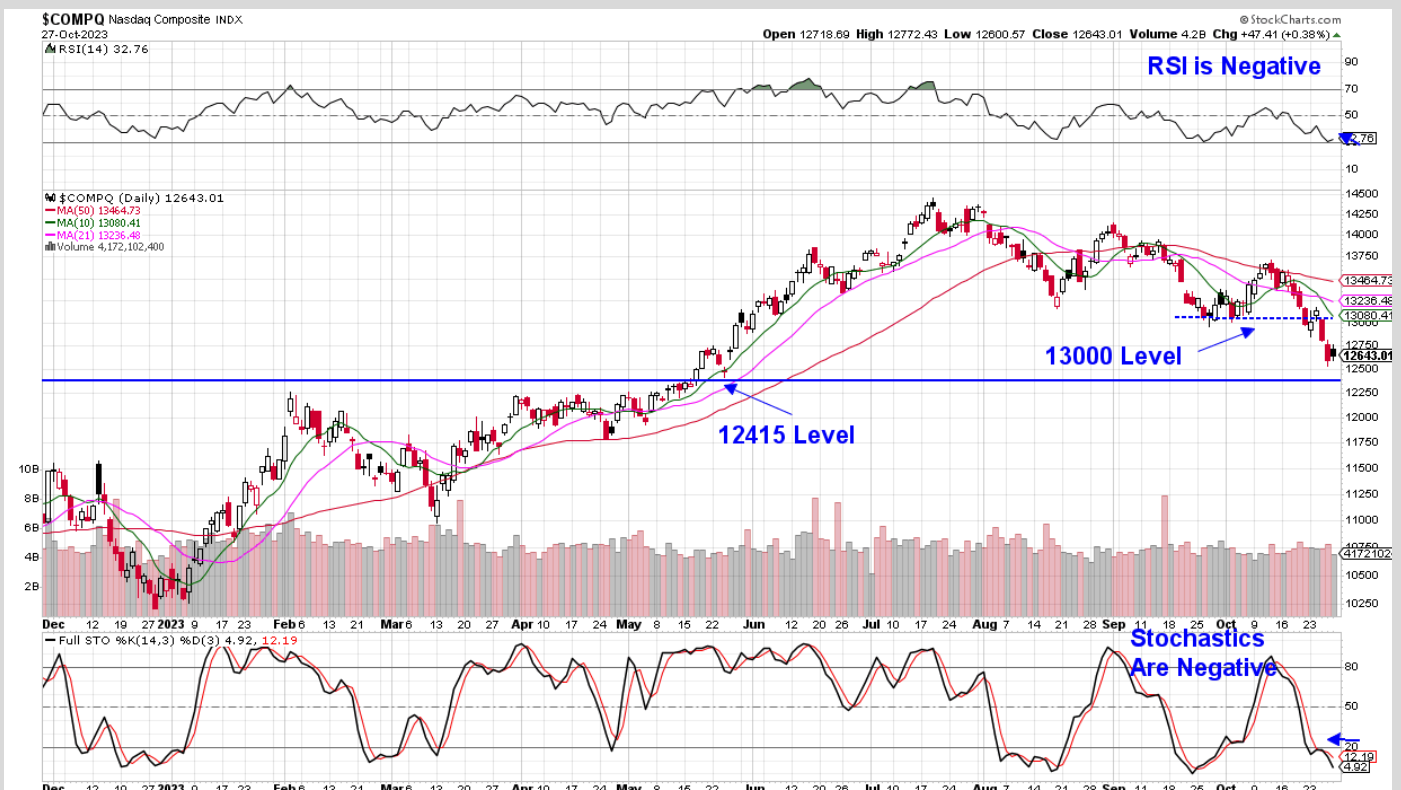
More earnings will be released as well, with heavyweight Apple due to report on Thursday after the close.

With October almost behind us, we can look to the seasonally positive November period for a possible reprieve. Since 1945, the S&P 500 has advanced by an average of 1.5% during this month making it the 3rd best performing month.

In order for stocks to truly recover however, we'll need to see the markets believe that bond yields have peaked. This will require the release of several soft economic data points with next week's jobs report being the first possibility.

Until then, we anticipate volatility to remain high - particularly with the Mideast conflict widening.

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
TECHNOLOGY					
CRWD	Crowdstrike	\$176.70	10/8/2023	-2.0%	Software
MSFT	Microsoft	\$327.30	10/8/2023	1.0%	Software
COMMUNICATION SERVICES					
META	Meta Platforms	\$315.40	10/8/2023	-6.0%	Internet-Content

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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