



THE MEM EDGE

Midweek Report

Wednesday, November 1, 2023

- Consumer Confidence Falls Amid Inflation Fears & High Interest Rates
- ADP Employment Report Shows Labor Market Slowing In October
- ISM Factory Index Drops, Remaining Below 50
- Fed Unanimously Agrees To Keep Interest Rates Steady
- Volatility and Interest Rates Pull Back
- September Factor Orders Due Tomorrow With U.S. Employment Data Due Friday

DAILY CHART OF S&P 500 LARGE CAP INDEX (\$SPX)



The S&P 500 has gained 2.4% this week in a move that puts this Index 0.5% away from its 200-day moving average which is the first area of possible upside resistance.



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While the RSI and Stochastics remain in negative territory, both momentum indicators are heading upward and moving closer to closing above 50 and in positive territory.

On any pullbacks, last Friday's close is now the first area of possible support which is 2.4% away.

As for further rallies in the S&P 500, once we close above the 200-day moving average, the 21-day is the next area of possible upside resistance and is 0.7% away.

In the chart above, we've highlighted the January and late March periods that signaled a new uptrend and as you'll see, it was a close above key moving averages coupled with a positive RSI and Stochastics.

While we haven't seen a new uptrend yet, as highlighted in our Sunday Report, nimble investors can activate shorter term trades by looking for stocks that are trading above key resistance and have reported strong earnings. An intra-day 1 hour chart would be ideal - coupled with a 5 and 13 hour simple moving average.

We've highlighted the Watch List on the dashboard with candidates and have mentioned 2 stocks as the bottom of this report as well.

The Nasdaq has gained 2.8% with this Tech heavy Index closing above its 10-day moving average and the 13000 level, which were the first 2 possible areas of upside resistance. While the RSI and Stochastics are heading upward, they remain below 50 and in negative territory.



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This week's gains have shaped up amid relatively strong earnings reports as investor sentiment has shifted to a more bullish bias compared to last week's tepid response for both Microsoft (MSFT) and Meta (META) after both companies reported strong results.

Instead, companies such as Advanced Micro (AMD) - who guided sales estimates lower for next quarter - rallied 9% after reporting results. Investors are focused on a forecast for robust sales of their AI related chips which will be introduced next month.

Restaurant company Chipotle (CMG) is another example, as the stock has gained 6% since last week's report where they forecasted sales below estimates for next quarter. This positive response to growth forecasts that are below estimates, indicates an ability for investors to overlook less than perfect results which is the hallmark of a positive backdrop for the markets.

Today's weaker than expected private employment report from ADP has also given the markets a boost, as a slowdown in the labor market will be a key factor for the Federal Reserve to consider a halt to any further rate hikes. Friday's October employment report will have even more of an impact, as ADP's data has not always been reliable.

Each of the mega-cap FAANMG stocks are outperforming the markets which is another positive backdrop that's shaping up. Ideally, we'd like to see these stocks regain their leadership status given their heavyweight impact on the broader markets.



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A broadening out of participation beyond these heavyweights will also be needed to reverse the current downtrend in the markets and this week, we're seeing areas such as formerly leading Housing stocks begin to reverse their downtrends amid strong earnings reports from several companies.

Among stocks on our Suggested Holdings List, Microsoft (**MSFT**) is in a confirmed uptrend as this week's rally has put the stock back above its \$340 base breakout level. A pullback to its 5-day moving average at \$336 would be an ideal buy point for a shorter term swing trade. Once we see the markets turn positive, a longer term trade can be positioned.

CrowdStrike (**CRWD**) is also in an uptrend and a close above its 50-day moving average would put the stock in a better position from which to trade higher.

Meta Platforms (**META**) closed above its 21-day moving average which was the last area of possible upside resistance with the RSI now in positive territory. This puts the stock in a position to trade higher.

Of note this week is the fact that interest rates are pulling back with the yield on the 10-year Treasury now at 4.8% and trending lower. This is great news for the broader markets. In addition, the Volatility Index (VIX) is receding as well with a close today in the 17 range. This is also constructive for the markets, as it underscores reduced fear among investors.



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Friday's employment data will be critical in potentially firming up the currently bullish bias taking shape among investors. Most closely watched will be wage data any pronounced increase in hourly income, would fan inflation fears.

In addition to stocks on our Suggested Holdings List, Software names Adobe (**ADBE**) and ServiceNow (**NOW**) are bullishly positioned to trade higher as they're above resistance and in confirmed uptrends. These would also be candidates for shorter term trades and we anticipate adding them to our Suggested Holdings List once the markets turn positive.

Warmly,
Mary Ellen McGonagle
Editor, MEM Edge Report