THE MEM EDGE

Midweek Report

Wednesday, January 3, 2023

- Markets Hover At Key Levels
- Software and Semiconductor Stocks Near Term Negative
- Fed Minutes Confirm Additional Rate Hikes Off Table
- December Private Employment Data Tomorrow & U.S. Jobs Data Due Friday
- Removing monday.com (MNDY), Adobe (ADBE), ServiceNow (NOW) and ARK Innovation (ARKK) From Suggested Holdings List

DAILY CHART OF S&P 500 INDEX

The S&P 500 has pulled back 1.1% over the past two days in a move that has both the RSI and MACD heading downward as this index approaches its 21-day simple moving average which is the next area of possible support.

As cited in recent reports, we've been on the lookout for a possible negative MACD crossover which has preceded a pullback such as late June as well as a more pronounced decline such as August and September.

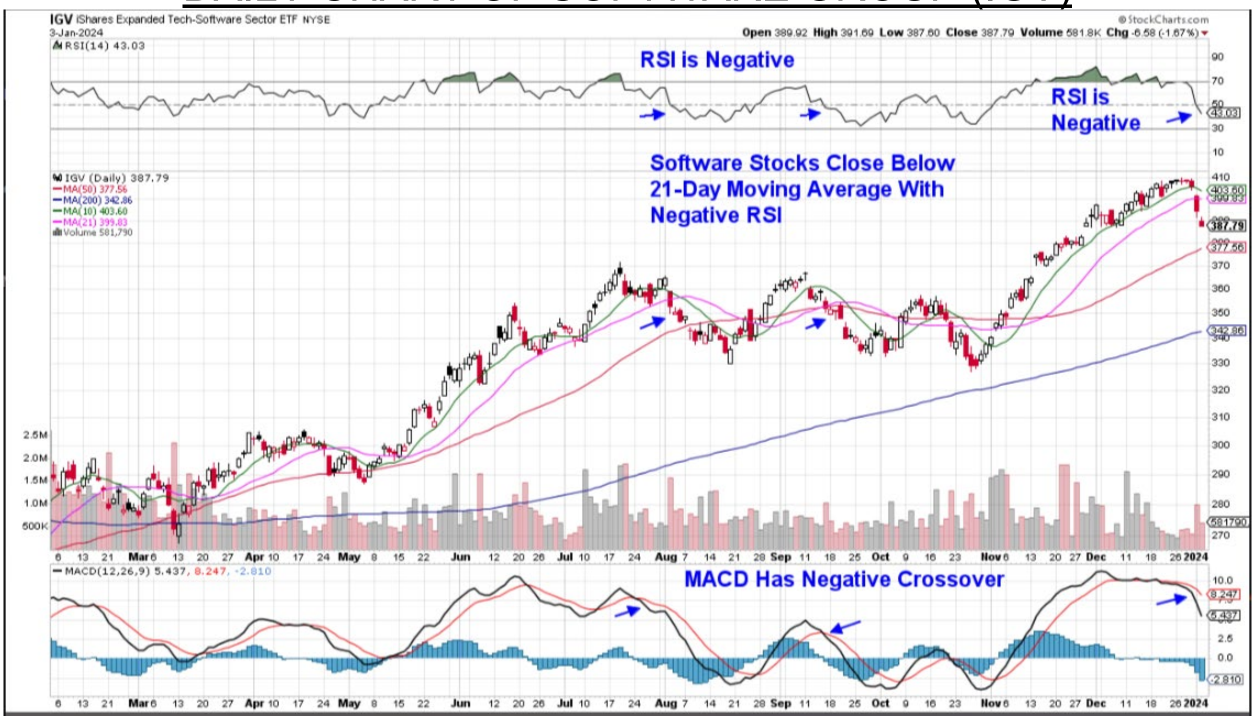
As noted in the chart above, the lengthier pullbacks had a negative MACD crossover that was coupled with the RSI closing below 50. At this time, the RSI is at 57 while the S&P is still above its 21-day moving average. While this keeps the near-term uptrend in place, we would not be a buyer of Growth stocks at this time as the near-term outlook has turned negative.

The NASDAQ is faring much worse for the week, with a 2.6% decline that's being led by a sharp pullback in Semiconductor and Software stocks. Heavyweight names Nvidia (NVDA), Netflix (NFLX) and Tesla (TSLA) are also down sharply. The loss has pushed the NASDAQ below it's key 21-day moving average with the RSI now dipping into negative territory as noted in the chart below a negative MACD crossover is in place as well.

This price action does not bode well for the NASDAQ over the near term, as the 50-day moving average is the next possible area of support and at this time, it's 3.5% away. We would not be a buyer of Growth stocks on the pullback at this time but instead will be on the lookout for areas such as Software and Semiconductors to turn positive again. (see charts below). A move of the Nasdaq back above its 21-day moving average would also be constructive.

Not all areas of the market are coming under selling pressure this week, as those sectors that were the worst performers last year are seeing constructive price action that's being led by Healthcare, Utilities and Staples. Select areas among Financials are also faring better than the markets.

DAILY CHART OF SOFTWARE GROUP (IGV)



As shown in the chart above, Software stocks have fallen below their 21-day moving average on above average volume with the RSI now dipping into negative territory, while the longer term uptrend for this group remains in place. Shorter term investors may want to take profits.

Today we're removing monday.com (**MNDY**), Adobe (**ADBE**) and ServiceNow (**NOW**) as each of these stocks has a negative RSI with heavy volume selling that points to further near term downside.

Each of the other Software stocks on our List can be held.

DAILY CHART OF SEMICONDUCTOR STOCKS (SOXX)

Semiconductor stocks are also coming under selling pressure with the group now trading below its 21-day moving average with this week's selling taking place on above average volume.

Among Semiconductor stocks on our Suggested Holdings list, Nvidia is the most susceptible to further near term downside However we're keeping each of these names on our Suggested Holdings List.

In addition, the weekly chart of Nvidia (**NVDA**), Broadcom (**AVGO**) and Advanced Micro (**AMD**) remain positive.

Recent outperformers such as housing stocks are also seeing selling despite interest rates remaining flat. Both Toll Brothers (**TOL**) and M/I Homes (**MHO**) have a positive daily and weekly chart despite underperforming the broader markets. Both stocks can be held.

Fast moving Ark Innovation ETF (**ARKK**) is also being removed from our Suggested Holdings list after coming under distribution this week amid sharp declines among its biggest holdings from the cryptocurrency space. Longer term investors can stay with this ETF as the weekly chart remains positive.

Among internet-related stocks, Meta Platforms (**META**) remains positive and while the RSI of Netflix (**NFLX**) is in negative territory, the stock has a history of recovering rather swiftly such as early December. A close below it's 50 day moving average would have us reconsidering and removing the stock from our List.

Recently added T-Mobil (**TMUS**) remains in a confirmed uptrend and can be held.

Each of the Bank stocks on our List are holding above key support as well and can be held. These stocks are in a part of the market that underperformed last year and are not a part of the profit taking that's shaping up elsewhere.

This week's selling has taken place on above average volume which has us cautious - particularly for Growth stocks. Newer areas such as Healthcare remain in an uptrend.

Today, we're adding Boston Scientific (**BSX**) to our Suggested Holdings List as the stock is in a confirmed uptrend after last Friday's gap up on volume which pushed the stock out of a base. Today, notes from the Federal Reserve's latest meeting showed no shift in the Fed's assessment that inflation is abating and that interest rates are anticipated to be cut later this year. With interest rates remaining stable this week, we believe that this week's sharp selling in Growth stocks is related to profit taking as money flows into areas that underperformed last week.

We'll continue to monitor the markets for any signals that further, longer-term selling may take place and will advise you to any shift in sentiment.

Warmly,
Mary Ellen McGonagle
Editor, MEM Edge Report