THE MEM EDGE
Midweek Report

Wednesday October 12, 2022

- Producer Price Index Data Shows Inflation Is Still High
- Federal Reserve Officials Continue to Promote Aggressive Rate Hike Campaign
- Semiconductor Stocks Hurt By New Chip Restrictions To China
- S&P 500 Closes At New Low For The Year
- Consumer Price Index (CPI) and Employment Data Tomorrow

Greetings,

The S&P 500 is down 1.7% for the week in a move that puts this Index at a new low for the year. With the RSI and Stochastics in negative territory, we remain negative on the near-term prospects for the markets.

The Nasdaq has lost 2.2% so far this week which puts this Index at a new year-to-date low as well. In addition, the Nasdaq is now below its September 2020 low which puts the next area of possible support at its July 2020 low of 10217 which is 2% below today's close.

DAILY CHART OF S&P 500 INDEX

This week's decline in the markets took place amid additional appearances by Federal Reserve officials who reiterated their plan to remain aggressive in their rate hike campaign in an effort to stem high inflation.

As you may recall, last week's strong jobs data took the markets down as Federal Reserve policy makers are on the lookout of a slowdown in employment which would reduce consumer spending and hence, inflation.

Today, the Producer Price Index for September came in at double the expected level with wholesale prices rising for the first time in 3 months. The numbers indicate that inflation remains elevated.

Tomorrow, another closely watched inflation report will be released with the Consumer Price Index (CPI) number for September due before the markets open. Core CPI is most important for the Federal Reserve as it strips out volatile pricing such as gasoline. Analysts are calling for a 6.5% increase over last year, and any number above that will likely lead to selling in stocks.

Hardest hit this week have been Technology stocks led by Semiconductor's which are down 7% on news that Biden has increased restrictions on chip exports to China. Continued selling in this area followed the news, as the possibility of higher interest rates continues to be a negative for these historically high growth stocks.

Proshares Ultrashort Semi (**SSG**) from our List broke out of a base on volume and has gained 13% for the week. The inverse ETF is close to reaching an overbought position on its daily chart - using the RSI - and may experience a pullback similar to early September and early October.

Following both pullbacks, the RSI remained in positive territory and SSG could have been held. (see chart below) Given the 2x inverse relationship to Semi's we would not be a buyer of **SSG** at these levels but instead wait for any kind of a pullback.

This is because Semiconductors (using SOXX) are approaching an oversold position - using the RSI on the daily chart.

Longer term, **SSG** has further upside potential using the weekly chart.

Energy stocks are pulling back this week as Oil prices have dropped 5% amid OPEC's slashing their global oil demand outlook.

Devon Energy (**DVN**) from our List pulled back with the group and is close to the $70 buy point we suggested in our Weekly Report. A break above its 5-day moving average would put DVN into a strong buy zone.

Today we're updated our Suggested Holdings Watch List as select areas such as Consumer Staples, Biotech and Restaurant stocks are exhibiting attractive charts amid positive news as well as earnings reports.

We've also updated our Short Candidate Watch List as well.

On Friday, earning season will officially begin with heavyweight Bank stocks such as Citigroup (C) and Morgan Stanley (MS) due to report results.

Both companies have seen their estimates revised lower by analysts recently, and their results as well as investors response will provide further insight into investor's appetite for beaten down names. Management's comments regarding growth going forward will also be closely watched.

Warmly,
Mary Ellen McGonagle
Editor, MEM Edge Report

DAILY CHART OF ULTRASHORT SEMI ETF (SSG)