



The Week Ahead

Slowing Inflation Accelerate Bullish Equities

This week was unusual because there were not very many important earnings or economic reports. Despite so few calendared events, the midterm elections and Consumer Price Index (CPI) were enough to move all the markets and investment instruments. CPI had a remarkable impact on sentiment. Inflation data showed 7.7% year over year versus the expected 7.9%. Traders took this as an indication that inflation was in check and rate hikes would be less significant. Remember, we have seen the inflation growth rate slide in May, August, October, and November. At 7.7%, growth and spending are still under pressure, and we could still see a recession in the upcoming months.

After CPI, equities and commodities shot higher, equities gaining 5% and commodities gaining over 7% during Thursday's trading.

The U.S. dollar (\$DXY) experienced the worst single day in over a decade.

THE WEEK AHEAD:

Next week will see fewer earnings reports than the previous weeks. The more meaningful events will be economic reports around manufacturing and the Producer Price Index (PPI). When producer prices rise, producers have to pass those costs on to consumers, eat the increased costs, and therefore lose on corporate earnings or a combination of both. Because producer costs lead to consumer costs, PPI is often a precursor to CPI in the following months. If PPI is higher than expected, we expect CPI to rise again in the next year. It was last year at this time when we saw PPI rising rapidly.

Monday 11/14: FOMC Member Brainard Speaks

Companies Reporting Before: TSN, XRAY

Companies Reporting After: none

Tuesday 11/15: Empire State Manufacturing Index, Producer Price Index (PPI), Core PPI, G20 Meetings

Companies Reporting Before: WMT, HD

Companies Reporting After: AAP

Wednesday 11/16: Retail Sales, Core Retail Sales, G20 Meetings

Companies Reporting Before: LOW, NVDA, TJX, TGT, BIDU

Companies Reporting After: CSCO, CPRT, BBWI

Thursday 11/17: Philly Fed Manufacturing Index, Weekly Unemployment Claims, FOMC Member Bullard Speaks, FOMC Member Mester Speaks

Companies Reporting Before: NTES

Companies Reporting After: AMAT, PANW, ROST, KEYS, GPS

Friday 11/18: Existing Home Sales

Companies Reporting Before: JD

Companies Reporting After: none

Forecast:

Thursday's rally was aggressive and saw one of the largest bullish days in years. The U.S. dollar also saw the largest single day drop in over a decade. The spike in equities was not supported by higher volume. Volume was only slightly above average. Considering inflation remains relatively high still, well above the Federal Reserve's 2% target rate, we will expect to see more rate hikes. If we continue to see rate hikes, the Thursday recovery was likely jumping the gun and hope based rather than fundamentally based.

Profit Harvester Trade Rules:

1- Watchlist High Liquidity: 500k shares a day and penny increment options

2- Signal: Big move on Friday: 2.5% or more up (or down)

3- Signal Confirmation: Single Deviation breakout based on 20 days (using a 20-day Bollinger with a single deviation as confirmation to the 2.5% breakout move.

4- Entry Price: Confirmed intraday distribution entry at OB or OS pullback - This is a Time Price Opportunity chart (monkeybar) distribution projection. It generally means it needs to pull back to within 20% of the mid-price of Friday's large candle.

5- Target is a "fair price" or projected 50% level on the new distribution for the next day. (I hand calculated this on Friday after close)

For the Profit Harvester Trade recommendations below, be sure to follow the entry and exit rules especially the entry prices.

Profit Harvester Trade Recommendations:

(The following is intended for education purposes only. Investors should research for due diligence and understand their own risk tolerance. Investors must recognize that investing holds no guarantees—you could lose money.)

The previous week's Profit Harvester, BBY triggered the trade and reached the target on Tuesday. SLB gapped up and did not fill the trade.

For next week, we are looking at COP for a bullish trade and CVS for a bearish trade. For all Profit Harvester examples, if the trade does not trigger within the first two trading days of next week, the trade is canceled.

ConocoPhillips (COP)

Step 1, the Setup:

Buy COP long or buy a call option with a 70 delta for 7-14 days, when price is anywhere between \$133.50 and \$132.70

Step 2, the stop loss:

Set a stop loss price \$2.00 below the entry price

Step 3, the profit target:

Consider taking profit if COP rises \$1.00 per share higher.

Probabilities: For initial target from the entry provides a 66% probability of a win.



CVS Health Corporation (CVS)

Step 1, the Setup:

Sell CVS short or buy a put option with a 70 delta for 7-14 days, when price is anywhere between \$97.65 and \$98.50

Step 2, the stop loss:

Set a stop loss price \$3.00 above the entry price

Step 3, the profit target:

Consider taking profit if CVS falls \$1.55 per share lower.

Probabilities: For initial target from the entry provides a 66% probability of a win.



Worthwhile Reading from the Past Week:

<https://www.reuters.com/markets/asia/no-easy-fix-china-economy-slows-more-than-expected-2022-11-11/> (Bearish)

<https://www.bloomberg.com/news/articles/2022-11-10/stocks-to-extend-rally-in-asia-on-inflation-relief-markets-wrap?srnd=markets-vp> (Bullish to Neutral)

<https://www.investing.com/news/stock-market-news/futures-point-to-fresh-gains-on-wall-street-2941562> (Bullish)

-Blake Young