



The Week Ahead

Inflation Hotter than Expected with Signs of Cooling Economy

This past week saw Preliminary Gross Domestic Product (GDP) slowdown from both the previous quarter and from analyst expectations. Existing Home Sales also fell to the second lowest level in roughly 23 years. One month during the pandemic, lockdowns were lower. Although existing home sales fell, New Home Sales rose again. Higher New Home Sales and lower Existing Home Sales are likely an indication of home builders selling off inventory at reduced prices. This is a sign of a cooling economy. Inflation and manufacturing data still are showing growth. Arguably, the most watched inflation metric for the FOMC is the Personal Consumption and Expenditure report (PCE). PCE rose again, tying for the second highest monthly increase during the past 20 years. The hotter inflation data is justification to not pause the Fed rate hikes but to accelerate the rate hikes. The CME Fed Watch Tool is now showing a terminal rate of 5.75 this summer, which means we will likely see rates rise by another 1.5% this year.

THE WEEK AHEAD:

Next week is a lighter economic week with very few earnings reports. The key economic reports will be durable goods orders, consumer confidence, and Institute of Supply Management (ISM) Manufacturing and Service Purchasing Managers Index (PMI) reports. Consumer sentiment has been resilient and manufacturing has improved in the past few months. We expect the market to treat good reports as further justification for higher interest rates.

Monday 02/27: Durable Goods Orders m/m, Core Durable Goods Orders m/m, Pending Home Sales

Companies Reporting Before: VTRS, PNW

Companies Reporting After: OXY, WDAY, OKE, ZM, UHS

Tuesday 02/28: Consumer Confidence, Richmond Manufacturing Index

Companies Reporting Before: TGT, SRE, AZO, SJM, AAP, XRAY, NCLH

Companies Reporting After: MNST, A, ROST, HPQ, VRSK, RIVN

Wednesday 03/01: Institute of Supply Management (ISM) Manufacturing Purchasing Managers Index (PMI)

Companies Reporting Before: LOW, DLTR

Companies Reporting After: CRM

Thursday 03/02: Federal Open Market Committee (FOMC) Member Waller Speaks

Companies Reporting Before: KR, HRL, BBY, JD, GPS

Companies Reporting After: AVGO, COST, HPE, ZS, COO

Friday 03/03: ISM Services PMI

Companies Reporting Before: EVRG

Companies Reporting After: none

Forecast:

Key support levels were breached this past week. If we continue to see signs of elevated prices and a relatively stable economy, we will expect to see equities correct lower.

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 educational 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, WMT gapped down to start the week and traveled up through our entry price, and reached the target in the first hour of trading. MU triggered the short and reached the target price on Tuesday. For next week, we are looking at SWN for a bullish trade and MU for a bearish trade. For all Profit Harvester examples, the trade is canceled if the trade does not trigger within the first two trading days of next week.

Southwestern Energy Co (SWN)

Step 1, the Setup:

Buy SWN long or buy a call option with a 70 delta for 7-14 days, when price is anywhere between \$5.50 and \$5.35

Step 2, the stop loss:

Set a stop loss price \$0.30 below the entry price

Step 3, the profit target:

Consider taking profit if SWN rises \$0.17 per share higher.

Probabilities: For initial target from the entry provides a 64% probability of a win.



AGNC INVESTMENT CO (AGNC)

Step 1, the Setup:

Sell AGNC short or buy a put option with a 70 delta for 7-14 days, when price is anywhere between \$11.10 and \$11.20

Step 2, the stop loss:

Set a stop loss price \$0.25 above the entry price

Step 3, the profit target:

Consider taking profit if AGNC falls \$0.12 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.investing.com/news/stock-market-news/stock-market-today-dow-extends-weekly-losses-as-rates-jump-to-put-squeeze-on-tech-3014459> (Bearish to Neutral)

<https://www.investing.com/news/economy/us-equity-funds-see-biggest-weekly-outflow-in-seven-weeks-3014221> (Bearish)

<https://www.reuters.com/markets/us/us-consumer-spending-surges-january-inflation-accelerates-2023-02-24/> (Bullish to Neutral)

-Blake Young