



The Week Ahead

Rising Rates and Collapsing Banks

Last week we commented that we believe the Testimony from Fed Chair Jerome Powell could be hawkish and counter the bullish move in the previous week. Though accurate, we did not expect to see the size of the selloff in one week. Powell indicated that they would continue to raise rates aggressively and his comments were interpreted to mean that the Federal Reserve should not have slowed the rate hikes. The markets immediately priced in 50 basis points and future hikes. Additionally, employment data from ADP and the Bureau of Labor and Statistics both came in higher-than-expected showing a resilient workforce further justifying higher interest rates. Lastly and possibly most critically, we saw the first sign of a banking crisis with Silicon Valley Bank (SIVB) failing to have deposits and investors pulling cash as fast as possible. SIVB indicated that they would need over \$2 billion to shore up its balance sheet. In under 48 hours we saw the second largest bank collapse in U.S. history. This will continue to have ripple effects across regional banks and the financial sector as was apparent during Friday's trading day.

THE WEEK AHEAD:

There are only a very few earnings reports of any importance next week. The more critical events are surrounding inflation data from Consumer Price Index (CPI) and Producer Price Index

(PPI). Strong inflation data will continue to add overhead pressure to the markets. We expect to see risk averse trading behaviors and a flat to bearish equity market.

Sunday 03/12: Daylight Savings Time Shift

Monday 03/13: none

Companies Reporting Before: none

Companies Reporting After: none

Tuesday 03/14: Consumer Price Index (CPI) m/m, CPI y/y, Core CPI m/m,

Companies Reporting Before: LEN

Companies Reporting After: none

Wednesday 03/15: Producer Price Index (PPI) m/m, Core PPI, Retail Sales m/m, Core Retail Sales m/m, Empire State Manufacturing Index, Retail Sales m/m

Companies Reporting Before: ADBE, PDD

Companies Reporting After: none

Thursday 03/16: Philly Fed Manufacturing Index, Weekly Unemployment Claims

Companies Reporting Before: DG

Companies Reporting After: none

Friday 03/17: Preliminary University of Michigan (UoM) Consumer Sentiment, Preliminary UoM Inflation Expectation

Companies Reporting Before: none

Companies Reporting After: none

Forecast:

With weakness in the financials and banks scrambling to build up reserves, we will likely see other bank failures and at the minimum a significant slowdown in lending. We expect to see further drops during the next few weeks until there can be a surety that banks are not all overleveraged and that the problems seen in SIVB is not systemic in the financial sector.

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, C filled on Monday and reached the target on Monday afternoon. UNH gapped up to start the week, triggered the short and stop before continuing lower to and through the original target. For next week, we are looking at GLD for a bullish trade and PYPL 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.

SPDR Gold Trust (GLD)

Step 1, the Setup:

Buy GLD long or buy a call option with a 70 delta for 7-14 days, when price is anywhere between \$173.00 and \$171.90

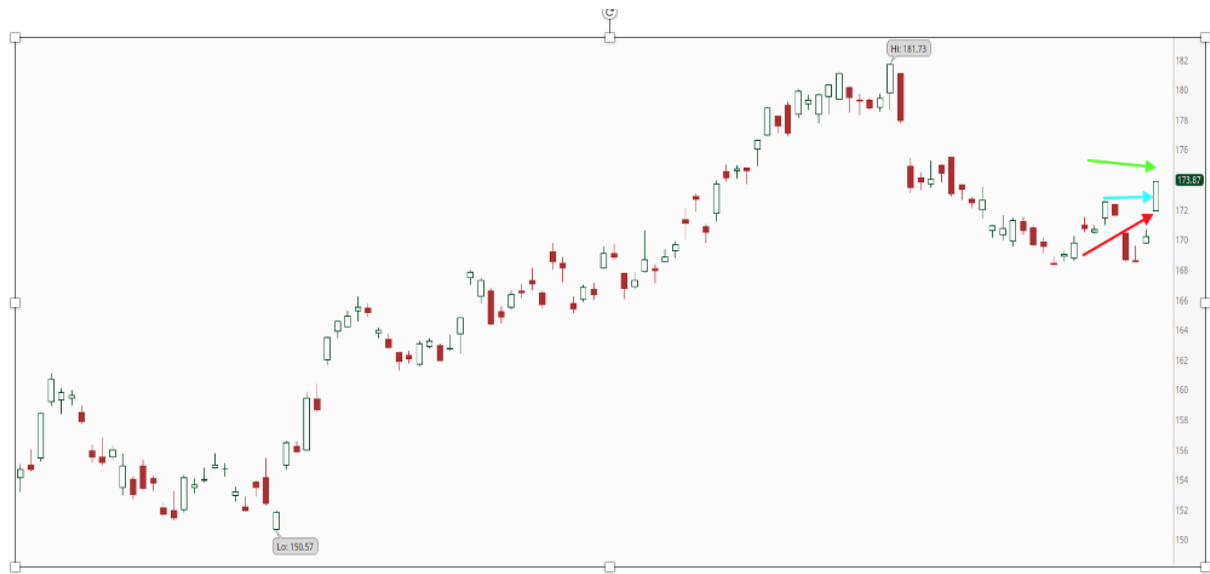
Step 2, the stop loss:

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

Step 3, the profit target:

Consider taking profit if GLD rises \$1.40 per share higher.

Probabilities: For initial target from the entry provides a 69% probability of a win.



Paypal Holdings Inc (PYPL)

Step 1, the Setup:

Sell PYPL short or buy a put option with a 70 delta for 7-14 days, when price is anywhere between \$74.00 and \$75.00

Step 2, the stop loss:

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

Step 3, the profit target:

Consider taking profit if PYPL falls \$1.00 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.cnbc.com/2023/03/10/silicon-valley-bank-collapse-how-it-happened.html>

(Bearish)

<https://www.investing.com/news/stock-market-news/stock-market-today-dow-in-worst-week-since-june-as-svb-collapse-sparks-selloff-3027945> (Bearish)

<https://www.reuters.com/markets/us/fed-seen-shallower-rate-path-after-jobs-report-2023-03-10/> (Neutral)

-Blake Young