Sunday, April 21, 2024

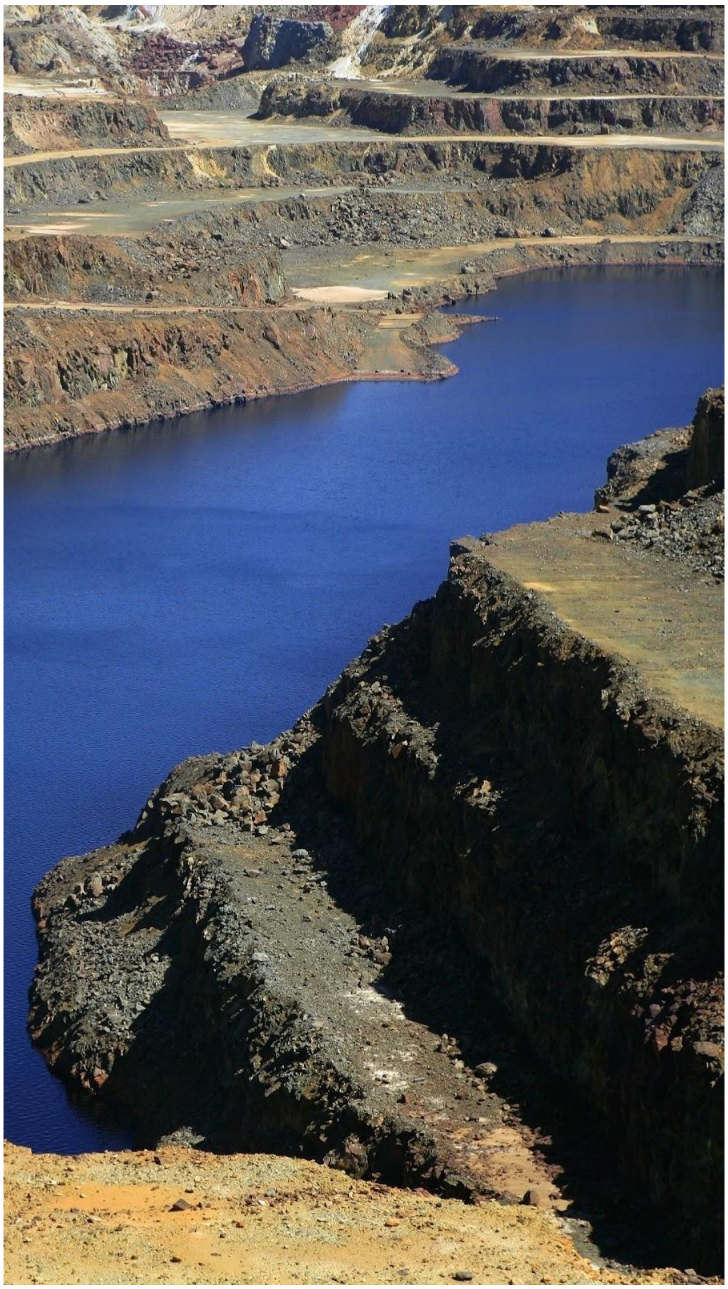
BENZINGA RESEARCH

Your Exclusive Benzinga Insider Report

(DO NOT FORWARD)

By analyst Gianni Di Poce

Happy Sunday, Pro Member!



“The hard, cold reality of trading is that every trade has an uncertain outcome.” – Mark Douglas

Let us know what you think about this report. Email marketing@benzinga.com with your thoughts!

Market Overview (Member Only)

- Stocks finished mixed last week. The Nasdaq led the way lower, down 5.52%. The S&P 500 fell 3.05%, while the Dow Jones Industrial Average squeezed out a 0.01% gain.
- Utilities were the top-performing sector last week as risk-off signals fire everywhere. Still, I think time is running out on this rally.
- I think crypto is near an important low too, which could lead to a shift in risk appetite shortly.
- Interest rates still look to be going higher along with precious metals. This may be the biggest macro shift we've seen in years.

Stocks I Like

1. Itron (ITRI) – 37% Return Potential

What's Happening

- Itron (**ITRI**) is a tech company that specializes in energy, water, and smart city solutions.
- The company brought in $1.8 billion in revenue in 2022, but still lost $9.73 million on the year.
- **ITRI** has a high valuation with its P/E coming in at 43.04, its Price-to-Sales at 1.91, and its EV to EBITDA at 22.70.

- From a technical standpoint, **ITRI** is consolidating tightly within a symmetrical triangle formation. Following the bullish breakaway gap from February, this could precede an even bigger move to the upside.

Why It's Happening

- Itron Inc's Temetra solution is being implemented by Ireland's electricity distribution network operator—Electricity Supply Board Networks or ESB Networks. Itron's Temetra will aid ESB Networks to improve meter data management by reading more than 1.75 million meters across its service territory and boosting operational optimization. This new collaboration would be a major step forward in expanding Itron's overseas presence and revenue in Ireland.
- Itron and Schneider Electric have announced a collaboration, integrating their intelligent grid management solutions to digitalize the demand and supply of electricity. This collaboration will help Itron to finally achieve localized distribution outcomes, dynamically adapting and configuring sections of the distribution grid while enabling consumers to participate and benefit from these transactions.
- Notable institutional investors have increased their holdings in Itron recently. For example, Contravisory Investment Management boosted its position in Itron by 61.5% in the first quarter. Quarry LP also boosted its position in Itron by 240.5% in the second quarter. This reflects the bullish undertone from smart money investors regarding Itron's market value.
- Itron announced that it is expanding its Grid Edge Intelligence portfolio through the acquisition of Elpis Squared, an innovative provider of software and services for utility grid operations, effective immediately. Elpis Squared solutions are available immediately to Itron's customers in North America, solidifying its market share in the North America segment.
- **ITRI** has a free quarterly cash flow of $39.31.

- Analyst Ratings:
  - Piper Sandler: Overweight
  - TD Cowen: Outperform
  - Baird: Outperform

My Action Plan (37% Return Potential)

- I am bullish on **ITRI** above $78.00-$80.00. My upside target is $123.00-$125.00.

2. Boot Barn Holdings (BOOT) – 30% Return Potential

giannithemercator published on TradingView.com, Apr 19, 2024 21:39 UTC

What's Happening

- Boot Barn (**BOOT**) is a specialty retail store in the United States with a focus on western-style apparel and accessories.
- The company brought in $1.66 billion in 2023 as well as $170.55 million in earnings.
- For a growth/retail company, **BOOT** has a nice valuation. Its P/E is at 18.86, its Price-to-Sales is at 1.82, and its EV to EBITDA is at 12.62.
- At a technical level, **BOOT** is consolidating within a massive saucer pattern. If it clears resistance, look out above, this stock could boom higher.

Why It's Happening

- As of the end of 2023, Boot Barn had 382 retail locations, but it expects to reach 900 locations in its fiscal 2030. If the company can maintain its popularity and preserve its profit margin, then this stock has plenty of long-term upside.
- Boots Barn stores also have an excellent payback period of just 1.5 years because first-year sales have been much higher than management's projections. This reflected that the brand has been successful in capturing consumer awareness and loyalty, which is a significant moat for the stock.
- The popularity of Boot Barn is also being driven by sales of its exclusive brands. Over 32% of sales during the last 12 months came from brands that can only be purchased at Boot Barn, up from just 13.5% of sales back in fiscal 2018. And these exclusive brands have much higher profit margins for the company, which is improving its bottom line.
- Boot Barn is getting more profitable as it grows. In 2018, its gross margin was 30.7%. By comparison, through the first three quarters of its fiscal 2023, its gross margin was 36.9% and its operating margin was 13.7%... significant improvements. And it means that profit growth is outpacing revenue growth.
- The company's Q3 gross profit margin improved to 38.3% compared with 36.5% in the prior-year period.

- Moreover, its operating income was up slightly to $75.1 million, which is a healthy margin of 14.4%. Growth in operating income typically correlates highly with stock growth in the next 12 months.
- The stock is a candidate for a modest short squeeze with over 17% of its floated shares being sold short.
- **BOOT** has a free quarterly cash flow of $68.39 million.

- Analyst Ratings:
  - Piper Sandler: Overweight
  - Baird: Neutral
  - UBS: Buy

My Action Plan (30% Return Potential)

- I am bullish on **BOOT** above $88.00-$90.00. My upside target is $130.00-$135.00.

3. Veeco Instruments (VECO) – 47% Return Potential

What's Happening

- Veeco Instruments (**VECO**) manufactures and sells semiconductor and thin film process equipment.
- The company generated $666.43 million in revenue in 2023, but still lost $30.37 million on the year.
- The company has a steep valuation. Its Book Value is just 11.94, while its Price-to-Sales is 2.93, and its EV to EBITDA is at 244.61.

- From a charting standpoint, **VECO** is holding up well within an ascending triangle formation. These are continuation patterns, and if prices close above resistance it could lead to a resumption of the bull trend.

Why It's Happening

- In its latest earnings call conference, CEO Bill Miller has given remarks on Veeco's strong results and outperformance, "Our strong results included multiple laser annealing systems for advanced DRAM devices, despite industry-wide CapEx reductions, as well as our first HVM laser annealing systems to our third leading logic customer. We've also experienced increased demand from mature-node customers".
- The future of Veeco Instruments has been given votes of confidence by several top sell-side analysts on the street. Citigroup upped their target price on shares of Veeco Instruments from $36.00 to $43.00 and gave the stock a "buy" rating in a report. Likewise, Goldman Sachs upped their target price on shares of Veeco Instruments from $31.00 to $35.00.
- Notable institutional investors have increased their holdings in **VECO** recently. For example, Advisor Group Holdings raised its position in **VECO** by 315.4% during the first quarter. This reflects the bullish confidence from smart money investors regarding Veeco's market value.
- As of the end of 2023, the company achieved an impressive revenue growth rate of 3.17%. This signifies a substantial increase in the company's top-line earnings. In comparison to its industry peers, the company stands out with a growth rate higher than the average among peers in the Information Technology sector.
- With a below-average debt-to-equity ratio of 0.48, Veeco's financial prowess gives them ample room to carry out capital expenditures and R&D initiatives to boost long term revenue growth.
- The stock is a candidate for a modest short squeeze with nearly 17% of its floated shares being sold short.
- **VECO** has a free quarterly cash flow of $18.79 million.

- Analyst Ratings:
  - Citi: Buy
  - Benchmark: Buy
  - Goldman Sachs: Neutral

My Action Plan (47% Return Potential)

- I am bullish on **VECO** above $30.00-$31.00. My upside target is $48.00-$50.00.

Market-Moving Catalysts for the Week Ahead

Let’s Have Another Round of Earnings

Buckle up, it’s earnings time. And fortunately for you, there’s no better place than Benzinga Pro to stay up-to-date on the latest earnings developments and guidance forecasts from major companies.

We’ve had some of the first earnings reports come from banks, and I was pleasantly surprised with Morgan Stanley’s results despite the announcement of more job cuts. But let’s face it, we know that technology is going to replace certain types of clerical jobs going forward.

Ultimately, I think another strong earnings season is what the market needs to kick start another rally. There seems to be a growing sense of concern surrounding the state of the market, so perhaps earnings reports can assuage those concerns.

More Inflation Data Ahead

Every once in a while, I’ll hear someone say that the Phillips Curve is dead. I understand that no economic theory is perfect, and if I wanted to, I could easily point out the numerous flaws (mainly in the underlying assumptions) associated with the Phillips Curve.

As a reminder, this theorem posits an inverse, yet stable relationship between inflation and unemployment. And the truth is, the central bankers over at the Eccles Building take this idea pretty seriously.

Thus, we can deduce that the slew of recent data, both on the inflation and labor market side is very troubling for the prospect of rate cuts. That is, unemployment is low, and inflation is stubbornly high. This is not the type of environment for rate cuts, which is why I think there may need to be a market pullback for it to actually happen. We’re not there quite yet.

Beware of the Dollar

I’ve been warning readers about the Dollar against the Japanese Yen for months, and we finally are starting to see the breakout take hold. But ultimately, I think the health of this breakout depends on what the Bank of Japan decides to do. If they stay with NIRP, the Yen could collapse.

Even across the Atlantic pond, we have ECB head, Christine Lagarde, who is getting a bit too excited to cut interest rates. If you think the fiscal situation in the United States is bad, rest assured that it’s worse in Japan and over in Europe.

Granted, inflationary pressures are a bit weaker in Europe than they are in the United States, but if anything, it’s going to lead to a stronger Dollar if the ECB cuts rates soon. It all comes down to the carry trade. Global capital will keep investing in higher-yielding Dollars so long as it’s their best option.

New Cyclical Leaders

It’s been said that sector rotation is the life blood of bull markets, and it’s true. But with every phase of the cycle, different sectors will outperform. It’s through this observation that the market participant can obtain a sense of where we are in time.

Coming out of market lows, it's important to see growth sectors like semiconductors and technology lead. I pointed out last week how technology outperformed, which signaled a market low could be imminent.

But odds are, this cycle has matured. Tech may lead for another week or two, but I don't see it outperforming into summer, at least right now. Instead, I would look for the inflation trade to reignite and start outperforming again. So despite the pullback in energy, materials, and industrials, I still think there's a lot of value there.

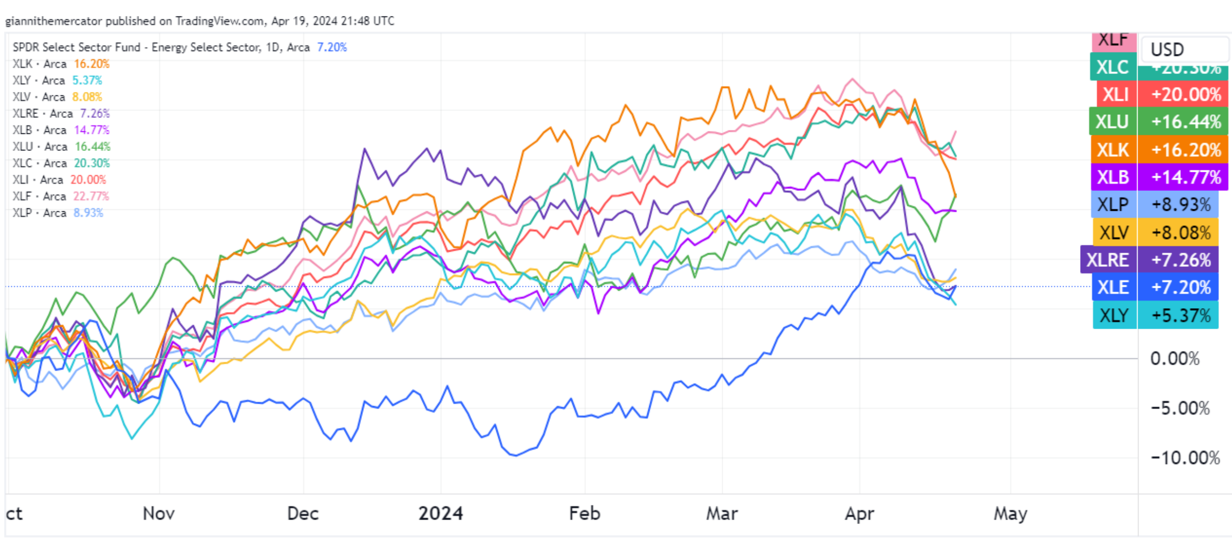
Commodities Hold the Key

Are markets entirely at the mercy of the Fed? I know it's a trendy thing to imply in some financial circles. That is, we're entirely powerless and beholden to the whims of the central bank. But I must admit, I am not a fan of that messaging at all.

On the contrary, I think the Fed listens to the market more than most would give them credit for. If they're going to adjust monetary policy based on inflation, then obviously, commodity markets would hold the key to this destiny.

Once upon a time, commodity markets seemed to be at the mercy of the Dollar, but that no longer seems the case. Now it seems that they're positively correlated due to the carry trade. The more inflation rises, the more interest rates go up, the more money goes into the Dollar. Ignore this at your own peril.

Sector & Industry Strength (Member Only)



Tech (**XLK**) slipped last week and fell into fourth place in terms of sector leaders going back to the start of Q4 2023. This is a warning sign for the rest of the market as it appears the sector is starting to reflect inflationary concerns.

The top-performing sector is now communications (**XLC**), which isn't the most bearish signal. But I am concerned with utilities (**XLU**) surging into third-place, which isn't a good sign as this is a very defensive sector.

Industrials (**XLI**) is sitting comfortably in second place right now, indicating that inflationary pressures are real. Energy (**XLE**) slipped a bit and now the worst sector from the start of Q4 is consumer discretionary, which confirms the market's concern for the consumer.

1 week	*3 Weeks*	*13 Weeks*	*26 Weeks*
Utilities	*Energy*	*Energy*	*Financials*

Editor's Note:

Utilities taking one-week leader is a risk-off signal. No tech to be seen – a warning sign.

What if Gold's Outperformance of Bitcoin Continues? (Sector ETF: BTC/GLD)

A few weeks ago, I shared this ratio chart between Bitcoin (BTC) and gold (GLD) and alerted readers to the possibility that we could see pet rocks outperform digital rocks in the near-term. Lo' and behold, this has unfolded accordingly as gold continues to trade at new all-time highs while Bitcoin chops around.

I don't think this outperformance is going to last very long. But the lower-high with respect to the long-term trend should give Bitcoin perma-bulls some cause for concern in the near-term.

From a sentiment standpoint, I'm not hearing the usual cheers from gold bugs that I've grown accustomed to over the years. Granted, this is purely anecdotal, but it does seem that crypto bugs are more confident at the moment. I'm not sure that it's completely warranted.

Tech is Just Consolidating – That's All (Sector ETF: XLK/SPY)

In last week's report, I commented how the tech sector (**XLK**) outperformed the rest of the market, despite seeing broader selling pressures. This is not something normally witnessed in a market that's about to collapse lower, as tech typically behaves as a leading sector.

This leads me to believe that we are at or near a cyclical bottom in the indices right now. So naturally, it's an appropriate time to check on the ratio between **XLK** and **SPY**. If the market was about to dump, we would be seeing **SPY** outperform **XLK** by a wide margin.

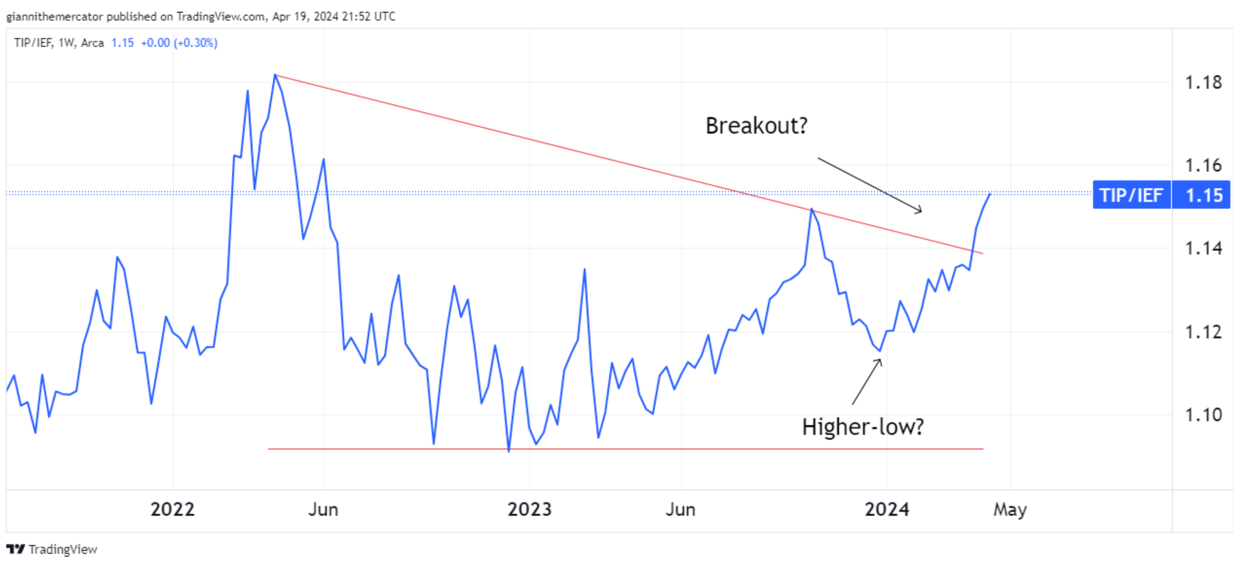
Year-to-date, we've seen this ratio consolidate into a descending triangle formation. This is a continuation pattern, just like the rectangle pattern that this ratio broke out from in mid-2023. All we need to see is the ratio rise above the upper trendline of the pattern, and tech should be on course to resume its outperformance.

Bonds Not Joking About Inflation (Sector ETF: TIP/IEF)

Even though bonds saw a little bit of relief on the downside this past week, I still think the path of least resistance for the asset class remains lower, strictly due to inflation expectations. In fact, segments of the bond market appear to agree with this take.

I'm sharing the ratio between Treasury Inflation Protected Securities (**TIP**) and 7-10 Year Treasuries (**IEF**) again, because a few weeks ago, I warned that it was signaling that bonds are in fact concerned about inflationary pressures.

It looks like this ratio is starting to break out from a descending triangle formation, as it is on the cusp of confirming another higher-low and a higher-high with respect to the trend. Triangles are continuation patterns, which puts **TIP** on track to outperform **IEF** going forward. This is an inflationary signal from bonds.



Editor's Take:

Many months ago, I was adamant to readers that the reprieve in inflationary pressures was just temporary. But I thought that we would see inflation kick start due to the Fed cutting rates sooner than expected.

Instead, we're seeing inflation accelerate again even as money supply collapses. This poses serious problems for the academic understanding of inflation. Quantity theory of money is useless. Psychology matters more.

The velocity of money never decelerated despite the Fed slashing money supply. This is why I think the only way the Fed cuts rates this year is from a substantial market pullback, and the only way we get that is for the market to realize the consumer isn't as healthy due to rising inflationary pressures.

Cryptocurrency

I'm seeing the exact type of price action I want in the crypto space to signal that a low is complete, and if not, imminent. I'm looking at Ethereum again this week, which is holding in a very key support zone in the $2900-$3100 zone.

I've been talking above this level for weeks as we finally got a retest of this support zone, and a slightly lower-low compared to the March 20 low. This could be a capitulation we're seeing here, although one, final decline down to $2650-$2800 can't be ruled out.

Upon the completion of a higher-low, I'm looking for Ethereum to return to its all-time high and eventually reach 4800-500. The sentiment in all markets right now is starting to turn murky, which provides the catalyst for a reversal back higher.

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