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BENZINGA RESEARCH

YOUR EXCLUSIVE BENZINGA PRO INSIDER REPORT

By analyst ***Gianni Di Poce***

Happy Sunday, Pro Member!

"The game of speculation is the most uniformly fascinating game in the world. But it is not a game for the stupid, the mentally lazy, the person of inferior emotional balance, or the get-rich-quick adventurer. They will die poor."

Jesse Livermore

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Market Overview (Member Only)

- Stocks capped off a strong week following a nonfarm payroll report that exceeded estimates. The S&P 500 finished up 1.45%, the Nasdaq closed 0.98% higher, and the Dow rallied 1.46% for the week. Things are looking better, but I still need to see the S&P 500 clear resistance at 4050-4200.
- The Santa Claus rally once again came through for traders as it provided a 0.8% return over the 7-day period in the S&P 500.
- It seems like the investment community is finally starting to pick up on the emerging strength in precious metals. Fortunately for my fellow Zingers, I've been all over that trade for weeks. Welcome to the party!
- U.S. stocks might finally be ending their regime as world leaders in terms of outperformance. I've been talking about the strength in Chinese equities, which had yet another strong week as **FXI** closed 10% higher.
- The industrials sector (**XLI**), as highlighted in recent weeks, still warrants close attention.
- This week marks the first full trading week of 2023. Next week, markets will be closed on Monday, January 16 in observance of Martin Luther King Jr. Day.

Stocks I Like

1. Dick's Sporting Goods (DKS) 52% Return Potential

What's Happening

- Dick's Sporting Goods (**DKS**) is a sporting goods retailer with about 800 locations across the U.S. and over 50,000 employees.
- The company had a very strong fiscal year. Revenue was $12.29 billion, and earnings were $1.52 billion.
- **DKS's** valuation is modest with P/E coming in at 11.02, Price-to-Sales at 1.07, and EV to EBITDA at 6.72.
- At a technical level, **DKS** is starting to breakout from a saucer formation. This could lead to an acceleration of upside momentum and a break to new all-time highs in time.

Why It's Happening

- Dick's recently launched a series of new stores and lines which include: Dick's House of Sport, Golf Galaxy Performance Center, Public Lands, and Going, Going, Gone! These new brands have been well-received by the market.
- The successful launch of these new brands and concept stores have led the company to raise forward guidance. Management only expects comps to be negative by 1.5-3% compared to the previous expectation of negative 2-6%.

- **DKS** is performing exceptionally well in the online marketplace for sports apparel. Together with the company's clean balance sheet, it looks poised to sail through the retail sector's current storm.

- **DKS** is a solid candidate for a short squeeze, as nearly 28% of its floating shares are being sold short (amid prices starting to breakout).

- Free quarterly cash flow is a solid $294.36.

- Analyst Ratings:

    - UBS: Neutral
    - Citigroup: Buy
    - Morgan Stanley: Overweight
    - Barclays: Overweight

My Action Plan (52% Return Potential)

- I am bullish on **DKS** as long as the stock remains above $115.00-$116.00. My upside target is $195.00-$200.00.

2. Iridium Communications (IRDM) 25% Return Potential

What's Happening

- Iridium Communications (**IRDM**) offers mobile voice and data communication services and products to companies and governments around the world via a 66 satellite network.

- **IRDM** generated $614.5 million in revenue in fiscal-year 2021, but still lost $9.32 million on the year. Its first three quarters in 2022 saw the company turning business results around and moving back into positive territory, however.

- Valuation metrics are a bit skewed on **IRDM**. P/E is around 1,773, Price-to-Sales is 10.19, and EV to EBITDA is 21.65. This tells me there's no shortage of demand for shares of this company.

- From a technical perspective, **IRDM** just exploded to new all-time highs after resolving from a descending price channel.

Why It's Happening

- Iridium just announced a joint venture with Qualcomm to tap the satellite messaging market beyond smartphones. The service is similar to Apple's emergency SOS feature via satellite.

- **IRDM** recently announced Operation Pacific Waves. This project is focused on the Indo-Pacific region and involves coordinating with various governments and research organizations to develop a network capable of tracking, monitoring, and enabling remote control functions for drones and autonomous vehicles.

- The company reached an agreement with SpaceX to lunch up to five of the company's remaining ground spare satellites from the Iridium NEXT program.
- Iridium is rumored to be working on a deal with Samsung to boost their satellite and connection services as well.
- Free quarterly cash flow is a solid $285.30 million.
- Analyst Ratings:
    - Morgan Stanley: Overweight
    - Raymond James: Strong Buy
    - Barclays: Equal-weight

My Action Plan (25% Return Potential)

- I am bullish on **IRDM** so long as the stock remains above $51.00-$53.00. My upside target is $75.00-$80.00.

3. Perion Network (PERI) – 32% Return Potential

What's Happening

- Perion Network (**PERI**) is a company that offers digital advertising solutions to brands, agencies, and publishers across the globe.
- Business soared for **PERI** in fiscal-year 2021, with revenue reaching as high as $478.5 million and earnings coming in at $38.71 million.
- **PERI** has a reasonable valuation with P/E at 16.11, Price-to-Sales at 2.15, and EV to EBITDA at 7.88.
- From a technical standpoint, Perion is breaking out from a cup and handle formation, which could lead to an acceleration of momentum with respect to the bull trend.

Why It's Happening

- Perion is one of the top plays for traders and investors to obtain exposure to the revolutionary AI software, ChatGPT. Perion is a strategic partner with Bing (the Microsoft search engine), which is integrating ChatGPT into its search functionality.
- **PERI's** display and search advertising revenue exploded last year, and was up 26% and 38% year-over-year, respectively, compared to Q3 2021.
- The company has a strong free quarterly cash flow of $111.87 million.

- Perion has been a leader within the ad-tech sector, even outpacing Alphabet in the past several months. The company's recent growth stems from its video segments, CTV, significant growth in deal sizes, and an uptick in the daily average number of monetizable searches.

- Analyst Ratings:
    - Raymond James: Outperform
    - Needham: Buy

My Action Plan (32% return potential)

- I am bullish on **PERI** so long as the stock remains above $25.00-$26.00. My upside target is $37.00-$39.00.

Market-Moving Catalysts for the Week Ahead

Santa Came Through After All, and So Did Payrolls

The holiday season is finally over and markets are back to their full trading weeks, except for the upcoming Martin Luther King Jr. holiday on Jan. 16. Once again, Santa Claus rewarded traders with a modest rally for the period, and it unfolded just as I suggested it could, with a singular strong day on Wednesday Jan. 4 leading to a positive return.

Stocks then proceeded to explode higher last Friday following the nonfarm payroll reports that came in above estimates.

The resiliency of labor data keeps backing the Fed into a corner, per the Phillips Curve that I discussed last week.

This week's CPI reports are pivotal, because if they come in above estimates, expect the Fed to be even more hawkish going forward.

Congressional Chaos

The truth is, there's always uncertainty the market has to grapple with, whether it's political, economic, or environmental. Very rarely is there a stable, predictable backdrop that provides investors with clarity. On the contrary, such a scenario is more of an anomaly compared to the norm.

This is why it's important to remain dedicated to key market principles, such as focusing on price action, risk management, and filtering out the unnecessary noise.

The 118th Congress selected Kevin McCarthy as the new House Speaker, but a bigger concern for the markets going forward may be the inherent dysfunctionality of the institution. The U.S. dollar rallied last week along with treasuries, so perhaps this is the market's way of discounting a potential resolution to the partisan chaos at the Capitol.

Earnings Season Approaching

It’s that time again! This week starts the first round of key earnings being unveiled, and many of the world’s biggest financial institutions are set to report this week. With interest rates rising over the past couple years, it’s been a good environment for banks to capitalize on widening spreads. But have rising rates stymied demand from borrowers? We’ll find out this week.

One thing that’s certain is that you can rely on Benzinga Pro to keep you up to date on earnings releases and guidance issuances by companies going forward.

Monday

- NY Fed 1-year & 5-year inflation expectations
- Atlanta Fed President Raphael Bostic speaks
- Consumer credit
- Earnings: Acuity Brands (**AYI**), AZZ (**AZZ**), Commercial Metals (**CMC**), PriceSmart (**PSMT**), Tilray (**TLYR**), WD-40 (**WDFC**)

Tuesday

- NFIB small-business index
- Wholesale inventories
- Earnings: Albertsons (**ACI**), Bed Bath & Beyond (**BBBY**)

Wednesday

- No economic data scheduled
- Earnings: KB Home (**KBH**), Shaw Communications (**SJR**)

Thursday

- Initial jobless claims
- Continuing jobless claims
- Core CPI (month-over-month and year-over-year)
- Consumer Price Index [CPI] (month-over-month and year-over-year)

- Federal budget
- Earnings: Taiwan Semiconductor (**TSM**)

Friday

- Import price index
- UMich consumer sentiment index
- UMich 1-year & 5-year inflation expectations
- Earnings: Delta Airlines (**DAL**), United Health Group (**UNH**), JPMorgan Chase (**JPM**), Bank of America (**BAC**), BlackRock (**BLK**), BNY Mellon (**BK**), Citigroup (**C**), First Republic Bank (**FRC**), Wells Fargo (**WFC**)

Yield Curve Collapses … Again

Capital markets continue to point to a recession unfolding sometime soon, as the 2-year yield curve collapsed again last week after the payroll reports. Investors are now being compensated 0.69% more to invest their money in 2-Year Treasuries compared to 10-Year Treasuries. It's not a secret that investors respond to incentives, so why would they buy longer duration debt?

Safety.

One of the hallmarks of markets coming out of a recession is a dramatically steepening yield curve. We've entertained the notion previously that the recession associated with the yield curve inversion already happened in 2022, and it may go down as one of the shortest recessions in history. If so, we need to see the yield curve steepen fast, and dramatically. Unfortunately, that is unlikely to occur unless commodities begin to spike higher again.

Back to Normal for Bonds?

When it comes to central bank ingenuity, the Bank of Japan really is the leader. They were the most aggressive when it came to Quantitative Easing (QE) and negative interest rates (NIRP). But last week marked a significant milestone – Japanese debt joined the rest of the globe in no longer offering negative yielding debt. In other words, the world of NIRP is officially in the past, and all major sovereign debt markets are now offering either zero or positive yield.

It all comes back to inflation.

If it rears its ugly head again in 2023, central banks are going to be faced with a real dilemma because many governments can't afford higher long-term yields in perpetuity.

This is a canary in the coal mine with respect to capital markets going forward.

With New Bull Runs Comes New Leadership

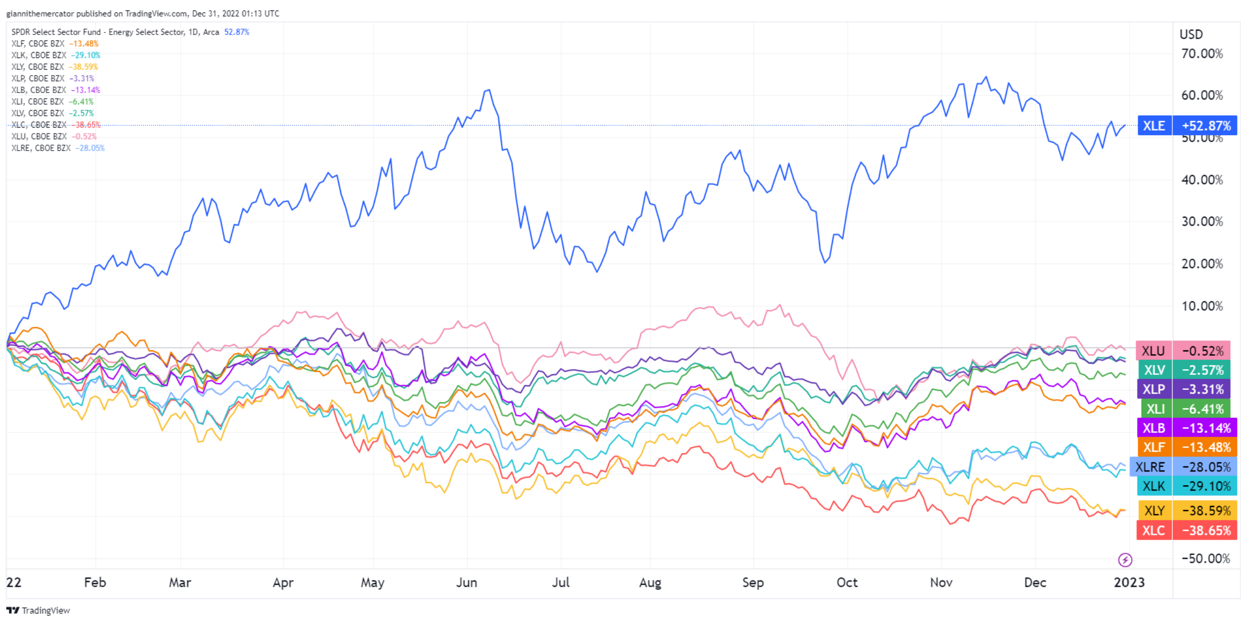
Last week was a good week for equities, but further confirmation is needed to suggest a low of significance is complete. Underneath the surface of the indexes, it's very clear that new leadership is emerging. But what investors need to watch closely is the accelerating leadership of foreign equities compared to domestic stocks.

In reality, markets have always been global.

I've said it before, and I'll say it again – capital is like matter, it is never created or destroyed, it merely flows from one asset class, sector, or country to another.

We need to avoid recency bias at all costs and recognize there is a vast world of investment opportunities outside the United States. I'll be sure to keep pointing out those opportunities as they arise.

Sector & Industry Strength (Member Only)



Last year, we looked at the year-to-date performance of the 11 S&P sectors. But since this is the second publication of 2023, we're going to revert to 6-month performance to get a better idea of what's been going on underneath the surface of the broad market index.

Unsurprisingly, energy (**XLE**) is still the top-performer on a 6-month basis. But in second-place, we have industrials (**XLI**), which has shown remarkable strength and is up 16% over the past 6-months. Together with basic materials (**XLB**), there remains a strong inflation trade tilt occurring underneath the surface. With all the big banks set to report earnings this week, financials (**XLF**) are sure to get a lot of attention too.

Growth sectors like consumer discretionary (**XLY**), tech (**XLK**), and communications (**XLC**) continue to lag. But you'll note that some of the recent stocks picks I've shared are in this category. The problem is that major conglomerates like Amazon have a disproportional weighting within consumer discretionary, for example, and its underperformance has been weighing **XLY** down. The fact that we're seeing strength from other, smaller retail companies is a promising sign.

Best Performing Sectors

1 week	3 Weeks	13 Weeks	26 Weeks
Communications	Financials	Industrials	Energy

Editor's Note:

Some notable shake-ups in the past week, with communications stepping into the one-week leader, financials into the three-week leader, and industrials into the thirteen-week leader. This broad participation, instead of thin sector leadership, is exactly what bulls want to see.

Have U.S. Stocks Lost their Mojo? (Sector ETF: FXI/SPY)

A few weeks ago, I highlighted Chinese equities and pointed out the strong likelihood of them being on sale. This turned out to be a timely alert, as **FXI** has exploded higher as much as 50% since the start of November, leaving the **SPY** in the dust.

Much of this undoubtedly has to do with the reopening of the world's second-largest economy, and abandoning the zero-Covid policy which was crushing business. The big question now is whether this rally can sustain itself if the U.S. dollar begins a rebound.

The ratio chart below shows a clean break from the downward sloping trendline, which is a step in the right direction with respect to the trend. More importantly, however, the ratio will eventually need to take out the high from June 2022. Failure to do so could lead to a resumption of **SPY's** longer-term outperformance.

Are Asian or European Stocks the Better Value? (Sector ETF: FXI/VGK)

I've also pointed to strength coming from European stocks (**VGK**) over the past month compared to U.S. stocks (**SPY**). The chart below looks at the ratio between Chinese stocks (**FXI**) and European stocks (**VGK**), because after all, our goal is to find the region with the top-performing equity market.

The chart below shows how between March 2020 and September 2022, **VGK** outperformed **FXI**. But since then, **FXI** has been on a tear, and is on the precipice of breaking above the multi-year downward sloping trendline.

Though similar to the **FXI/SPY** chart, this ratio needs to break above the previous significant high, which in this case, goes back to July 2022. If successful, China could become home to the hottest equity market in 2023.

Key Turn in Treasury/Commodity Ratio? (Sector ETF: TLH/DBC)

This chart looks at a very key ratio between 10-20 Year Treasuries (**TLH**) and a basket of commodities (**DBC**). Simply put, if TLH outperforms DBC, the market isn't worried about inflation. When DBC outperforms TLH, the market is concerned about inflation.

Right now, **TLH** is outperforming, which suggests a couple of things. First, inflation may actually be culled, and second, we could yet experience a recession this year. This would be because demand falls when the economy slows, thereby lowering commodity prices.

The odds of this scenario would increase notably if the ratio breaks out from the rounding bottom pattern noted below. Otherwise, it's in a strong downtrend in favor of **DBC**, which means that inflationary pressures will remain persistent.

Editor's Take:

There was a lot of hype last week following the release of the FOMC minutes that the Fed was more hawkish than many anticipated. In reality, however, the market's expectations for rate hikes going forward really didn't change that much.

Traders still expect the Fed to hike rates 25 basis points at each of the next 3 meetings (Feb. 1, March 22, and May 3). For the time being, it looks like the rate hike cycle will top off with short-term rates at 5.00-5.25%.

Keep in mind that Crude Oil, the main driver of inflation expectations, has been dropping for 10 months. The Fed is risking going too far with rate hikes here.

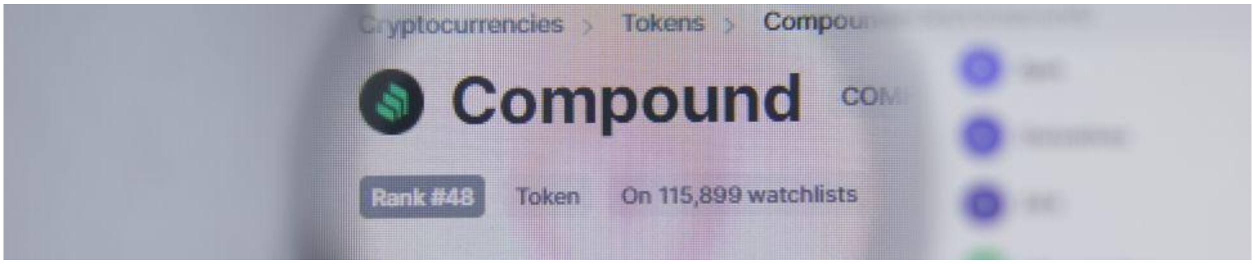
War Trade Accelerating (Sector ETF: ITA/SPY)

The aerospace and defense sector (**ITA**) still looks poised to be a leading sector theme in 2023. The ratio below is starting to emerge nicely from the rounding bottom formation I pointed out last week.

Now that the U.S. House has chosen a new Speaker, it's a pretty safe bet that defense contracts will be dished out in generous portions, and it has nothing to do with either party – they both love to spend!

The concern from this emerging theme remains elevated geopolitical tensions. The market might be sniffing out an escalation of the situation in Ukraine or in Taiwan, and is looking to get ahead of higher defense spending by governments.

Cryptocurrency



This week, our crypto analysis is focused on Compound (**COMP/USD**). The trend is still downward, as seen by the lower-lows and lower-highs. But bulls can find some solace in the falling wedge formation noted on the chart above.

Granted, a break above the upper trendline of the pattern may only take prices back to the $40.00-$45.00 area, which represents former-support-turned-resistance. The key is for the price not to fall under the low of June 2022. If that occurs, **COMP/USD** will be in big trouble, and could collapse down to the low-single digits.

If prices manage to clear resistance at $40.00-$45.00, then a rally to retest the August 2022 highs in the $65.00-$70.00 could follow. The entire cryptocurrency market still requires immense caution due to liquidity and solvency concerns. Tread carefully.

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