Your Exclusive Benzinga Insider Report

(DO NOT FORWARD)

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Volume 3.49

Market Overview (Member Only)

- The bull market was confirmed last week with Nasdaq hitting new all-time highs again. It led the way higher and closed up 3.34% on the week. The S&P 500 followed, closing up 0.96%, while the Dow Jones Industrial Average finished 0.60% lower.

- We saw nice moves in semiconductor names last week like Marvel, this is further wind in the market’s sails to new highs.

- Crypto continues to blow through to new all-time highs. Ethereum just made a new high for the year.

- A big disinflation setup is coming, which will send stocks even higher. More on this below.

Stocks I Like

Wave Life Sciences - (Ticker: WVE) | (57% Return Potential)

What's Happening

- Wave Life Sciences (**WVE**) is a biotechnology company focused on developing RNA-targeted therapies for genetic diseases, with a particular emphasis on rare diseases.

- The company reported $26.3 million in revenue for 2023, with a net loss of $134.9 million.

- Wave Life Sciences' valuation is typical of an early-stage development company. Its Price-to-Sales ratio is 8.36 and it doesn't have any tangible earnings yet.

- From a technical standpoint, **WVE** seems to be flagging within a powerful bull flag formation. These are some of the strongest technical setups in trading.

Why It's Happening

- Wave Life Sciences made history with WVE-006, demonstrating the first-ever in-human evidence of RNA editing. This groundbreaking achievement opens up a vast new frontier in RNA medicine, potentially leading to numerous innovative treatments and significant market opportunities.

- WVE-007, a GalNAc-siRNA targeting INHBE, is set to enter clinical trials in Q1 2025. With the booming market for obesity treatments, this candidate could tap into a multi-billion-dollar opportunity, especially given its potential as a monotherapy, add-on to GLP-1s, or maintenance therapy.

- Wave is well-positioned to deliver several key milestones across its portfolio in the near future. These catalysts could drive significant stock appreciation as the company continues to demonstrate the value of its novel chemistry and expanding pipeline.

- WVE-N531 for Duchenne muscular dystrophy (DMD) has shown positive interim data. With potential accelerated approval and a broader DMD pipeline in development, Wave is poised to capture a significant share of the $1 billion DMD market.

- Under the guidance of CEO Paul Bolno, MD, MBA, Wave Life Sciences is transforming into a leading RNA medicines company. The management's track record of delivering positive clinical updates and advancing the pipeline bodes well for the company's future success and potential stock appreciation.

- With $310.9 million in cash and cash equivalents as of September 30, 2024, plus an additional $28 million from a greenshoe option, Wave has a runway expected to last into 2027.

Analyst Ratings:

- Mizuho: Outperform

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- HC Wainwright: Buy
- Truist Securities: Buy

My Action Plan (57% Return Potential)

- I am bullish on **WVE** above $12.50-$13.00. My upside target is $24.00-$25.00.

Cloudflare Inc. - (Ticker: NET) | (28% Return Potential)

What's Happening

- Cloudflare (**NET**) is a global cybersecurity and content delivery network (CDN) provider, offering services to enhance internet security, performance, and reliability.
- The company reported $1.47 billion in revenue for 2023, with net earnings of $19.5 million.
- Cloudflare has a high valuation, with a Price-to-Sales ratio of 30.5 and a Price-to-Earnings ratio of 241.1. Its EV to EBITDA stands at 169.4.
- At a technical level, **NET** continues to test resistance of a saucer formation. If this clears the upper horizontal trendline, look out above for a big break higher.

Why It's Happening

- Cloudflare recently announced a collaboration with Microsoft Azure to enhance its AI infrastructure. This partnership allows Cloudflare to leverage Azure's advanced AI technologies, potentially leading to more innovative product offerings and improved service quality.

- With the rise of remote work and cloud adoption, Cloudflare's Zero Trust platform has seen substantial uptake. The company's recent enhancements to this platform, including advanced threat intelligence and improved access controls, position it as a leader in the rapidly growing Zero Trust market.

- As the Internet of Things (IoT) and 5G networks continue to expand, Cloudflare's edge computing solutions are seeing increased adoption. The company's ability to process data closer to the source improves latency and reduces bandwidth costs, making it an attractive option for businesses leveraging these technologies. This positions Cloudflare to benefit from the projected $87.3 billion edge computing market by 2026.

- Cloudflare has been aggressively expanding its global footprint, recently announcing new data centers in underserved markets. This expansion not only improves service quality for existing customers but also opens up new markets for growth.

- Cloudflare reported a 17% year-over-year increase in paying customers, reaching 182,000 in Q3 2024. More importantly, the company's dollar-based net retention rate remained above 120%, indicating strong customer satisfaction and upselling success.

- The company reported revenue of $425.8 million, up 32% year-over-year, surpassing analyst estimates.

Analyst Ratings:

- Morgan Stanley: Overweight
- UBS: Neutral
- Wells Fargo: Overweight

My Action Plan (28% Return Potential)

- I am bullish on **NET** above $90.00-$91.00. My upside target is $145.00-$150.00.

Taiwan Semiconductor - (Ticker: TSM) (26% Return Potential)

What's Happening

- Taiwan Semiconductor Manufacturing Company (**TSM**) is a leading global semiconductor manufacturer, specializing in the production of advanced chips for a wide range of industries, including electronics, automotive, and telecommunications.

- The company had $77.3 billion in revenue for 2023, with net earnings of $35.3 billion.

- **TSM's** valuation is very strong for a growth stock, with a Price-to-Earnings ratio of 15.6 and a Price-to-Sales ratio of 7.8. Its EV to EBITDA stands at 10.2.

- From a charting standpoint, **TSM** just completed a higher-low by retesting former-resistance-turned-support. This implies that the bull trend is set to continue.

Why It's Happening

- **TSM**'s first 12-inch wafer fab in Arizona is poised to begin production of 4 nm chips this month. This expansion into the US market strengthens **TSM**'s global presence and caters to the growing demand for advanced chips in North America. The move is likely to attract more high-profile clients and boost TSM's market share in the region.

- **TSM**'s total investment in its Arizona fabs amounts to approximately $40 billion, making it one of the largest foreign direct investments in US history. This substantial commitment demonstrates **TSM**'s confidence in long-term growth prospects and positions the company to capitalize on the increasing demand for cutting-edge semiconductor technologies in the US market.

- The company is set to begin mass production of 4 nm chips in Q1 2025, followed by 3 nm chips in 2028. This aggressive timeline for advanced node production showcases **TSM**'s technological leadership and ability to meet the growing demand for high-performance chips in AI, 5G, and other emerging technologies.

- **TSM** is well-positioned to benefit from the growing demand for AI-related chips, with analysts viewing the company as a primary beneficiary of the ongoing AI boom. As AI applications continue to proliferate across industries, **TSM**'s advanced manufacturing capabilities are likely to drive sustained growth in the coming years.

- Needham & Company LLC recently reaffirmed a 'Buy' rating for **TSM** shares with a target price of $210.00. This bullish outlook from a reputable analyst firm suggests strong confidence in **TSM**'s growth prospects and potential for stock appreciation.

- **TSM** recently announced a quarterly dividend of $0.5484 per share, payable on April 10th, 2025.

Analyst Ratings:

- Wedbush: Neutral
- Raymond James: Strong Buy
- Truist Securities: Buy

My Action Plan (26% Return Potential)

- I am bullish on **TSM** above $172.00-$174.00. My upside target is $255.00-$260.00

Market-Moving Catalysts for the Week Ahead

Inflation Data – Again

The only real bit of economic data I have my sights on this week is CPI. But with the way markets are shaping up, I wouldn't be surprised if we see this inflation metric come in below estimates for the month of November.

I'll share the setup that I'm watching for an eventual return of inflation in the next section, but as it stands, disinflation is reigning supreme, and it is a really good environment for stocks, bonds, and crypto alike.

To be clear – disinflation is distinct from deflation. Deflation means the economy is contracting, which is a bad sign, but disinflation is usually good for asset prices. It just means that inflation is present, but cooling, and things are stable. This is probably going to continue over the next couple of months until the setup I'm watching plays out.

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My Setup for Inflation in 2025

As a reader of Benzinga's Edge report, it's important to me that you won't be caught off guard by this rollercoaster setup when it comes to inflation going into 2025. First and foremost, I'm looking for crude oil to experience a major selloff.

It may sound silly, but this will set the stage for a return of inflationary pressures in 2025. The key to understanding this setup is thinking in terms of percentages. The first part of this setup entails crude oil dropping hard into the $45-$50 range.

The second part of this setup entails crude oil prices rallying from that zone up to the $85-$90 zone. This would mean that energy prices could double at some point, and by incorporating how inflation data moves off percentages, this will certainly put upside pressure on CPI and PCE data. I don't see this becoming a big problem until the back-half of 2025, however.

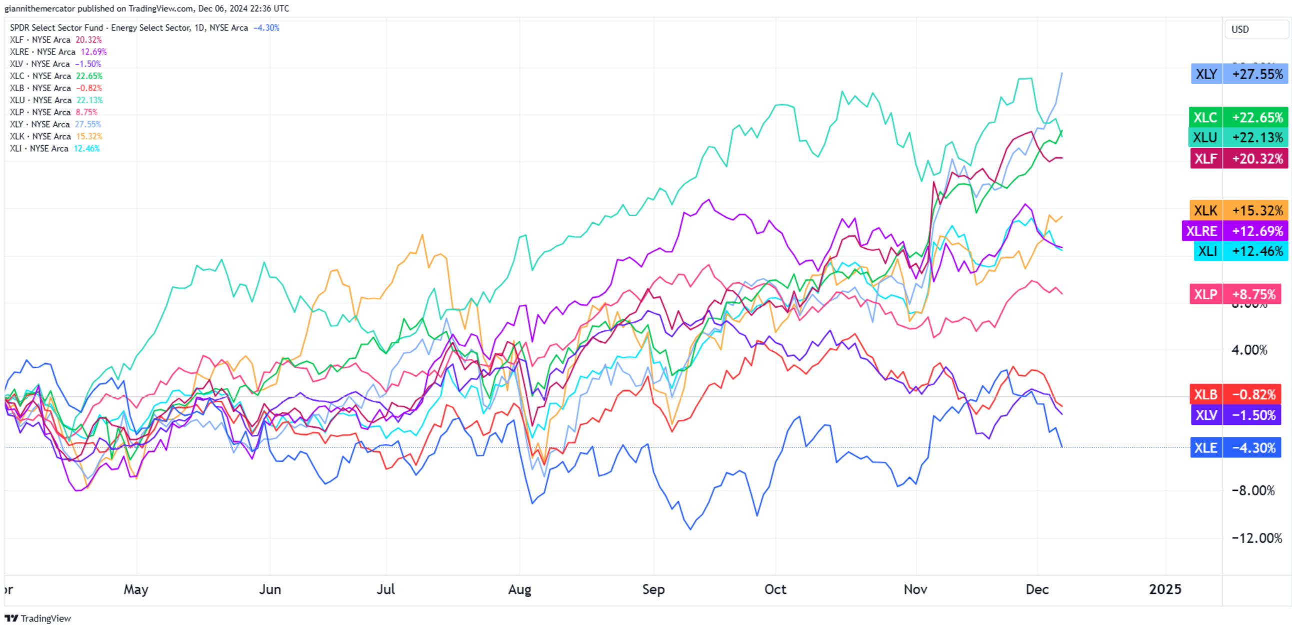
Santa is Coming to Town

December is historically known for its bullish behavior in the stock market. Many like to throw around the "Santa Claus Rally" phase, but technically, that only goes from the day after Christmas into the first two trading days of January.

Nonetheless, there are a few factors that contribute to this historical bullish trend. The first is institutional investors often performance chase to improve the appearance of their portfolios at year's end. Then, tax-loss harvesting tends to conclude by this time, which allows for renewed buying. And finally, it's the holiday season – there's generally a more optimistic investor sentiment around this time – people like to buy stocks in addition to shopping!

However, it's worth noting that while December often shows positive returns, it's only based on probabilities. Market behavior can be influenced by other economic conditions, geopolitical events, and unexpected shifts in investor sentiment, so these seasonal trends are not guaranteed. Even so, I think the coming rate cuts will be an additional tailwind.

Sector & Industry Strength (Member Only)



Would you look at this tape? I'm going to be very up front and level with you right now – I'd be scared to be a bear right now. We've seen nothing but positive improvements at an internal level when it comes to the stock market.

The most positive development since last week is seeing consumer discretionary (Ticker: XLY) emerge as the top-performing sector since the start of the second quarter. This is simply not something you'd see if the market or economy was about to implode.

Next, we've seen utilities (Ticker: XLU) drop a couple spots into third place. I remarked previously how seeing this sector lead was a problem – well it's not as big of a problem anymore. Then we have cautionary sectors like staples (Ticker: XLP), healthcare (Ticke: XLV), and energy (Ticker: XLE) hanging out at the bottom of the performance rankings. You'll find few complaints seeing rankings like this as a bull.

1 week	3 Weeks	13 Weeks	26 Weeks
Consumer Discretionary	Consumer Discretionary	Consumer Discretionary	Consumer Discretionary

Editor's Note: *The market believes the consumer is strong. The doomers say the market is wrong. Who do you want to believe?*

Taking Stock of the Classical Risk Ratio - Sector ETF: (Ticker: SPY) / (Ticker: TLT)

With stocks at new all-time highs, and a bit of euphoria starting to creep into sentiment, it's a good time to revisit the market's classical risk-on/risk-off indicator – the ratio between stocks (**SPY**) and bonds (**TLT**).

The logic here is simple. When stocks (**SPY**) outperform bonds (**TLT**), it means the market is in risk-on mode. Stocks are more volatile by nature but tend to offer higher rates of return in the long-run. When **TLT** outperforms **SPY**, it usually means that risks are rising.

We see a clear uptrend in this ratio as displayed by the series of higher-highs and higher-lows. We also see this ratio rising within an ascending channel, which is a continuation pattern. As long as it remains within the channel, it should be interpreted as risk-on for the market.

What Will It Take for an Emerging Market Recovery? - Sector ETF: (Ticker: SPY) / (Ticker: EEM)

It’s been an ongoing theme for years – the domination of U.S. stocks (**SPY**) relative to the rest of the world. When it comes to global market cap, the U.S. market now makes up over 60% of it all – the party is still here and for those trading this market, it’s never been better.

Check out this ratio between the U.S. market (**SPY**) and emerging markets (**EEM**). Once upon a time, emerging markets offered exciting opportunities for outperformance, especially when commodity markets were rising.

But you’ll see here that even when commodities rose into 2022, the uptrend in favor of **SPY** never really stopped. The rising Dollar surely doesn’t help either. A lot of it comes down to innovation – and the U.S. is where it’s taking place. As long as this ratio keeps rising, focus on the U.S. market.

The Market's Most Important Chart - Sector ETF: (Ticker: LQD) / (Ticker: IEI)

I'm calling this ratio between investment-grade corporate debt (**LQD**) and 3-7 Year Treasuries (**IEI**) the most important chart in the market right now because I would argue it's the best at measuring liquidity conditions.

It's important to understand that we live in a liquidity-driven market. That is, if liquidity conditions are strong, the probability of a stock market crash is simply not very high. Crashes happen where there is no bid – or there is an inability to liquidate positions.

We're on the precipice of a massive breakout from a rounding bottom pattern on this ratio. I've been talking about it for a while, but the Fed's upcoming rate cut on December 18 could help trigger a breakout from this bottom.

Editor's Take:
The Fed watches credit spreads very carefully. In fact, it's why they went out and bought corporate debt during the covid crash of 2020 – they wanted to narrow these spreads as much as possible.
The key to understanding what happens if this ratio breaks out from the rounding bottom is this – stocks will likely continue climbing a wall of worry. You'll hear and see all sorts of reasons to be bearish, but remember, price action trumps everything else.

If credit spreads are narrowing, and this ratio is rising, I would look for any forthcoming selloffs in the market to be very mild, very boring, and very drawn out. The purpose is almost to lull you to sleep and make it seem like nothing is happening, when really, it's just a dip-buying opportunity.

Cryptocurrency

Bitcoin's technical picture continues to strengthen as prices look to be breaking out from a bull flag formation. These are some of the most powerful patterns in all of technical analysis, and typically lead to large rallies in short periods of time.

The pattern is actually projecting a move into the $125,000-$130,000 zone, which is actually a bit higher than I previously expected. However, I am somewhat concerned in terms of how fast this market is rallying.

As a rule, a market that rises too fast can fall just as fast, but as long as Bitcoin remains above technical support at 78,000-80,000, there’s no reason why this market has to slow down. Enjoy the ride, and don’t get greedy.

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