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Weekly Market Commentary
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Amazon Gets Crushed This Week...What Does This Mean For Corporate Earnings And Is The Bar Now Set Too High?

A slew of corporate earnings reports, economic data, a Fed meeting, and the regulatory-induced sell-off in Chinese equities made the last week of July the busiest one this summer. There was a lot of push and pull, with equities finishing slightly lower to where they started the week, but still near all-time highs. We think the fresh data points reveal the following about the health of the economy, the corporate sector, and the future direction of monetary policy:

1. Shortages are holding back the recovery, but the economy is bigger now than it was before the pandemic.
2. Corporate earnings continue to rise at a fast clip, supporting sentiment and valuations.
3. The Fed is in no rush to dial back its accommodation, but the countdown to tapering has started.

The remainder of the year could be choppy given elevated expectations, a slowdown in growth, and regulatory uncertainty in China. However, last week's data provide further assurance, in our view, that the foundation of the expansion and bull market is solid. Here's some additional perspective on earnings and what the new bars of expectations mean because as we know Wall Street has an insatiable appetite for earnings.

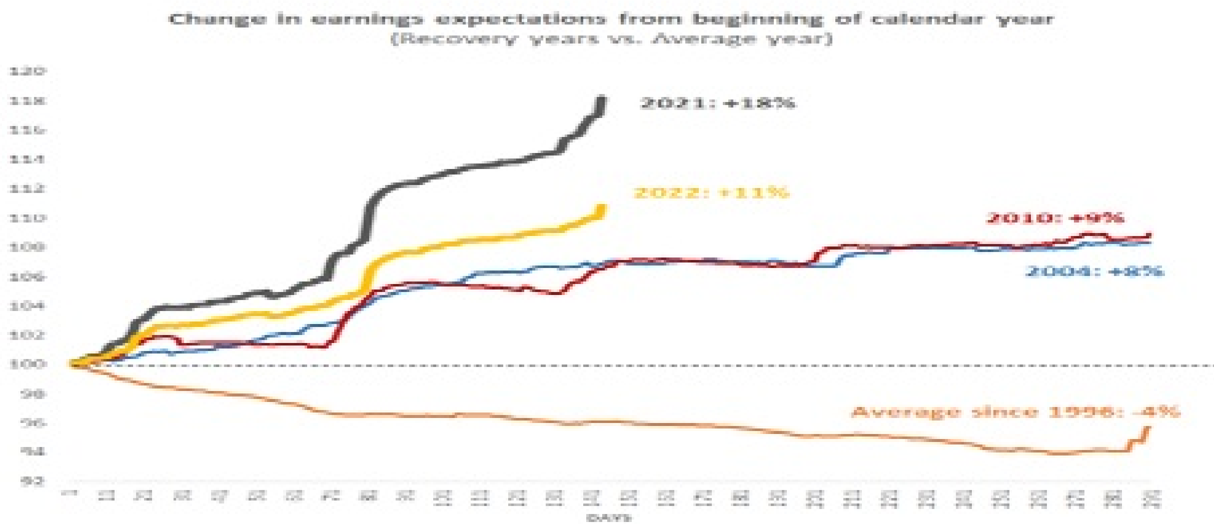
Earnings: Another stellar quarter in the works, but the bar is high and rising

- Last week was the busiest week of the second-quarter earnings season, which spans over two months. About a third of the S&P 500 companies reported results, including the biggest tech names. Like the previous four quarters, companies are topping estimates at record levels (87% of the S&P 500 companies have exceeded estimates by an average of 18%), driven by the strong rebound in demand and elevated profitability levels[1].

- The highly anticipated earnings reports from several mega-cap tech companies were solid but not without blemishes, and share prices, excluding Google, declined. Amazon, Apple, Google, Microsoft, and Facebook, which together make up 22.5% of the S&P 500, on average doubled their earnings from last year. Even as some of the pandemic trends reverse, the digital transformation continues, with online advertising spending, cloud computing, and smartphone demand rising at a fast pace. Despite the staying power of the tech earnings, comparisons are getting harder in the second half of the year, and the bar of expectations is high after a sharp rally in prices since the middle of May. Outside of tech, earnings of stocks that are more closely tied to the business cycle have been recording the biggest upside surprises, supporting the case for sector and style diversification.

- With large-cap companies delivering strong results, forward earnings expectations continue to rise at a fast pace, even compared with other post-recession recovery years. For perspective, 2021 earnings have been revised higher by 18% since the start of the year, and 2022 earnings by 11%, vs. 9% in 2010 and 8% in 2004[3]. In our view, rising earnings have helped support sentiment and have allowed investors to look through the COVID-19 variant uncertainty. Persistent input cost pressures could pose profitability challenges ahead, but, so far, most companies have been able to pass through price increases and

have achieved productivity gains.



Source: FactSet, past results are not a guarantee of future returns

The graph shows forward earnings expectations for the S&P 500 which continue to rise at a fast pace, supporting sentiment and valuations.

(source: oXYGen & Jones)

Markets For The Week

INDEX	CLOSE	WEEK
Dow Jones Industrial Average	34,936	-.36%
S&P 500 Index	4,395	-.39%
NASDAQ	14,673	-1.11%
MSCI EAFE	2,342	1.91%
10-yr Treasury Yield	1.23%	-3.91%
Gold	$1,812	.55%
Bonds	$116.46	.22%

Source: Reuters/Wall Street Journal

Here's how the big six tech stocks rank from WORST to FIRST?

No. 6: Netflix

July performance: -4% through Thursday's close
Year-to-date performance: -4%
Netflix proved many naysayers wrong over the years, showing that it has not yet bowed to the competition as it continues to regularly top expectations on subscriber growth. But its second-quarter earnings gave the bears a bit more fodder than usual, as it posted a modest loss of about 430,000 subscribers in the U.S. and Canada. And as the smallest of the FAANMG stocks at "only" $220 billion or so, it is perhaps the least margin for error of the group.

However, as is so often the case, it's all about expectations. That 3.5 million subscriber target is a far cry from the roughly 5.5 million new subscribers that Wall Street had been expecting. And the hard reality is that it has missed the mark lately on subscriber expansion and Wall Street has soured on this stock's prospects as a result. And the fact that its latest report also slightly missed

on the EPS front was just further proof Wall Street's skepticism of the stock is justified.

No. 5: Amazon
July performance: 1% through Thursday's close
YTD performance: 11%
Amazon.com was a powerhouse during the pandemic, as Americans shopped from home instead of at brick-and-mortar locations. But sales growth slowed down in a big way in the last quarter, partially because so much of the rest of the economy was reopening.

Specifically, revenue came in at "only" a 27% growth rate — much cooler than the 40%-ish rates investors have been used to lately. The top line came in at $113.1 billion versus roughly $115.1 billion expected by Wall Street. Beyond that, there's more regulatory pressure than ever before, as it faces EU antitrust charges and as both Democrats and Republicans alike are sharpening their knives at home.

No. 4: Apple
July performance: 8% through Thursday's close
YTD performance: 10%
It is pretty clear why Apple is in the middle of this list when you look at the numbers. While some of the FAANMG stocks are moving decidedly higher or clearly struggling, Apple has arguments on both sides.

The glass-half-full case is that it just posted its strongest fiscal third quarter ever, with profits roughly doubling to $21.7 billion from $11.3 billion a year earlier. The company trounced both profit and revenue expectations.

But the glass-half-empty argument is that Apple admitted that growth won't keep up going forward, and it acknowledged both rising freight costs and supply chain challenges that could hamper operations in the near future. Plus, Tim Cook & Co. did not provide formal guidance for the sixth quarter in a row — and frankly, some investors are getting impatient with the use of the pandemic as an excuse.

No. 3: Facebook
July performance: Flat through Thursday's close
YTD performance: 31%
Facebook remains one of the most dominant companies on the planet, with recent earnings showing that its daily active user base remains firm at 1.91 billion and monthly users are 2.90 billion

What makes Facebook such a compelling investment, however, is the fact that in addition to its tremendous scale it also boasts the incredible ability to steadily increase the amount of cash each user pulls in. It just reported that average revenue per user was $10.12 — topping expectations and up from just $7.05 in the second quarter of 2020.

No. 2: Microsoft
July performance: 5% through Thursday's close
YTD performance: 28%
It might seem like a silly notion these days, but it wasn't that long ago that many wondered whether Microsoft was doomed for irrelevance as analysts lamented a "lost decade" from the early 2000s through the early 2010s.

That all changed after Satya Nadella took the helm in 2014 and rapidly transformed the company into a cloud computing powerhouse. The latest proof: Revenue growth at the tech giant's Azure cloud unit surged 50% in its just-ended fiscal fourth quarter — and despite its existing dominance helped Microsoft log its fastest sales growth in three years. It's not just infrastructure, either, as Microsoft's productivity business that includes its Dynamics customer relationship management suite continues to gain momentum behind the scenes. Throw in its dominant legacy software like Office 365, and this narrative of continued vertical integration is a compelling story for investors. The icing on the cake is that record sales in its Xbox and video gaming business continues to show significant growth, with this biz seeing hardware sales more than triple over the prior year.

No. 1: Alphabet
July performance: 6% through Thursday's close
YTD performance: 56%
Google's parent had a big week, jumping nearly 3% after it posted great earnings on Tuesday on the back of strong second-quarter digital advertising sales.
Specifically, it posted an amazing 62% surge in revenue to mark its first-ever quarter north of $60 billion in sales and saw operating margins improve to 31% over 17% the prior year. And perhaps most impressively of all, Wall Street was looking for earnings per share of around $19.24 and Alphabet blew that away with EPS of $27.26.
(source: marketwatch)

Market News, Corporate Earnings, and News & Notes

(source: CNBC)

Is It Time For You To Do A Lease Buyout? (source: CNBC)

Used-car prices have surged, and you may be able to make that work in your favor.
With unrelenting demand and limited inventory for both new and used autos, you won't find much wiggle room in the prices you see. The good news for consumers, though, is that dealerships are paying more for used models — which you may have sitting in your driveway.

"So many dealers are saying 'We want used cars,'" Edmunds.com senior manager of insights Ivan Drury said.

An ongoing global shortage of microchips — key components needed for today's autos to operate — has impacted manufacturers' production of new vehicles, which has translated into demand outpacing supply. The result has been fewer discounts being offered across the board, with some autos selling for more than sticker price, and demand spilling over to the used-car market.

"As is always the case, the new car and used-car markets are tied," Cars.com executive editor Joe Wiesenfelder said. "High prices in one affect the other, and that's where we are."

The average price for a used vehicle has jumped more than 21% to about $25,400 from $20,900 a year ago. For new cars, buyers are paying roughly $40,800, up about 4.9% year over year.

"It's difficult to gauge how long it will take for things to improve," Wiesenfelder said. "All of this relies on new-car inventory returning to healthier levels."

While dealerships aren't offering much in the way of discounts or negotiating as much on prices as they have before, trade-in values for trucks are "through the roof" and car trade-ins are also high, Len Stoler Automotive Group President Barry Stoler said.
"What [buyers] lose on discounts they gain on the trade-in because those values are so high," Stoler said.

Even vehicles with higher mileage may fetch more than you think. The average amount paid for autos with mileage between 100,000 and 109,999 rose last month by 31% to $16,489 from $12,626 a year ago, according to data from Edmunds.

Trucks topped the list of the biggest year-over-year increase in average prices in that high-mileage category. For instance, the Chevy Silverado 1500 sold for an average of $26,914 in June, a 49% jump from a year ago.

Even if you don't think the car you're trading in is worth much, it may yield more than you anticipate right now amid elevated prices. And that's where your negotiating skills can come in handy: You may not be able to get the price down, but it's possible you could push for more for your trade-in.

"If you have a trade-in, that sweetens the deal," Drury of Edmunds said. "The dealers want that trade-in."

Even cars that are nine years old have average values that are up about 30% from a year ago,

Drury said.

Consider a lease buyout

If you're nearing the end of your lease, you may be able to buy it out for less than what you'd pay for the car if it were sitting on a dealer's lot right now.

This is because the residual value — the vehicle's worth at the end of the lease — was established when you signed the lease several years ago.

"Those leases started before anyone knew there'd be a pandemic or a chip shortage," Wiesenfelder of Cars.com said. "There's a good chance that the market says the vehicle is worth more than what it was predetermined to be."

If you consider going this route, be sure to know your state's sales tax rules that would apply, because that can add to the cost of the buyout, according to Cars.com.

Earnings Highlights This Week

(source: CNBC)

Amazon- Amazon fell short of analysts' estimates for revenue in its second-quarter results. It also gave a weaker-than-expected outlook for third-quarter revenue, which Amazon CFO Brian Olsavsky blamed on tough year-over-year comparisons to its business during Covid-19 lockdowns.

Procter and Gamble- Procter and Gamble topped analysts' estimates for quarterly earnings and revenue as consumers bought more premium health care and personal care products. The company warned increasing commodity and freight costs could hit its earnings by roughly $1.9 billion in the year ahead. P&G is still on track to raise prices of some goods this fall, in response to the rising costs.

Facebook- Facebook surpassed analysts' estimates for earnings and revenue in its second-quarter earnings report. CEO Mark Zuckerberg spent much of the company's earnings call discussing his vision for the metaverse: a digital world Facebook is investing billions of dollars to create.

Shell- Royal Dutch Shell on Thursday reported adjusted earnings of $5.5 billion for the three months through to the end of June, beating analyst expectations. The Anglo-Dutch company boosted its dividend for the second consecutive quarter and announced the launch of a $2 billion share buyback program that it aims to complete by the end of the year. Share prices of the world's largest oil and gas majors have not yet followed an improvement in the earnings outlook, however, and the industry still faces a host of uncertainties and challenges.

Restaurant Brands International- Restaurant Brands International topped Wall Street's estimates for its second-quarter earnings and revenue. The company also said that its digital sales have grown nearly 60% compared with the same time a year ago. Popeyes was the only one of its brands to report same-store sales declines after facing tough comparisons to last year's strong performance.

News and Notes:

What Does It Cost To Take The Gold?

- **How much does it cost to potentially compete in the Olympics?**
    - It cost $233,610 normally to raise a child to the age of 18 according to the U.S. Department of Agriculture.
    - Olympic Skater: $35,000 to $50,000 a year without travel expenses.
    - Table Tennis: $20,000 a year. Train 8 to 12 years.
    - Archery: $25,000 a year. At least four years of training.

- **How can this affect the finances of an Olympic athlete's family?**
    - Months before the 2012 Olympics, Gabby Douglas' mother Natalie Hawkins filed for bankruptcy.
    - The parents of gold medal swimmer Ryan Lochte were hit with a foreclosure on their home.
    - Parents are often forced to take on second jobs, second mortgages, and start GoFundMe campaigns for their kids.

- **What Kind Of Money Can An Olympic Athlete Earn?**
  - According to the USOPC, USA Athletes get $37,500 for a gold medal, $22,500 for a silver medal, and $15,000 for a bronze medal. In Singapore, you get $1 million for winning gold.
  - Athletes like Katie Ledecky and Simone Biles (the famous ones) have endorsement deals, partnerships, and sponsorships based on their marketability. Biles has Nike and Kellogg's.
  - NCAA Athletes can now make money with NIL (name, image, and likeness) sales marketing their name.

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