

Sevens Report Alpha Webinar #115 - Advanced Preview of Key Events (Earnings, Fed, Inflation)

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Earnings Season – How’s It Going?

Widely Held Results So Far

Company Ticker	Earnings Results	Expectations	Stock % change since
JPM	\$2.63	\$2.73	-3.83%
C	\$2.02	\$1.74	-2.14%
BAC	\$0.80	\$0.76	-5.95%
MSFT	\$2.22	\$2.18	6.56%
GOOGL	\$24.62	\$25.70	-2.85%
NFLX	\$3.53	\$2.92	-45.29%
V	\$1.79	\$1.65	7.54%
QCOM	\$3.21	\$2.91	5.50%
FB	\$2.72	\$2.56	12.50%

Remaining Important Companies

Company Ticker	Estimated EPS	Earnings Date
Apple	\$1.43	4/28 AH
AMZN	\$8.73	4/28 AH
XOM	\$2.25	4/29 BH
HON	\$1.86	4/29 BH
BMJ	\$1.92	4/29 BH
ABBV	\$3.15	4/29 BH
PFE	\$1.73	5/3 BH
CMI	\$3.55	5/3 BH
HLT	\$0.59	5/3 BH
SHOP	\$0.96	5/3 BH
CI	\$5.13	5/5 BH
AMD	\$0.90	5/3 AH
MRNA	\$5.70	5/4 BH
CVS	\$2.14	5/4 BH
MAR	\$0.94	5/4 BH

Earnings Season – Takeaways

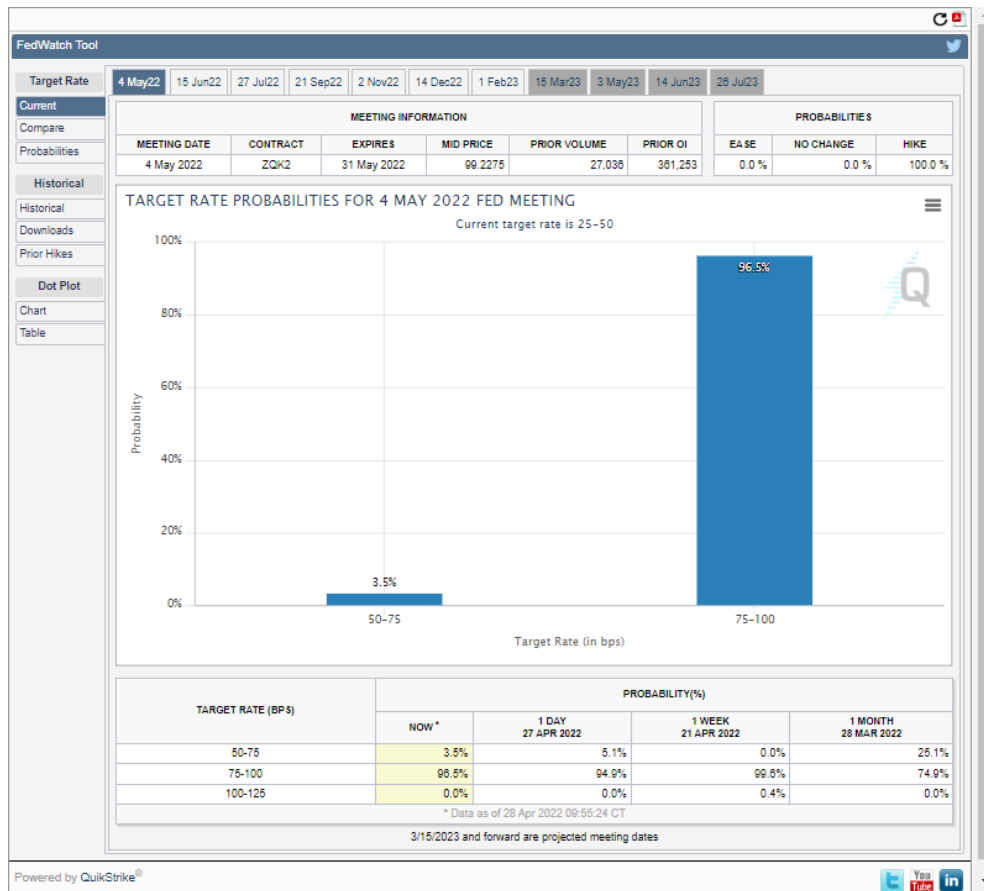
- Results are solid again as the vast majority (close to 80%) of companies are beating estimates.
 - But, that's not as positive as it seems. There have been high profile misses, and the market is punishing "misses" more than it's rewarding "beat."
 - Per Bloomberg, the average gain for an EPS beat is just 0.7% while the average decline for a miss is -1.5%.
 - In sum, the earnings season has been "ok" but importantly, there aren't any materially negative revisions to expected 2023 EPS (somewhere around \$245 give or take a few dollars).
- Anecdotal Takeaways
 - Leisure spending is very strong. DAL and UAL reported very strong spending, and we are expecting strong results for HLT/MAR. This is bullish for PEJ.
 - Companies are experiencing major cost pressures, but they are passing them on to consumers successfully.
 - This raises two issues:
 - First, that can only last so long as consumer spending can't stay at this pace given rising rates.
 - Second, if the price increases become entrenched, that will create lasting inflation that will be a headwind for the longer term.

Earnings Season – Takeaways

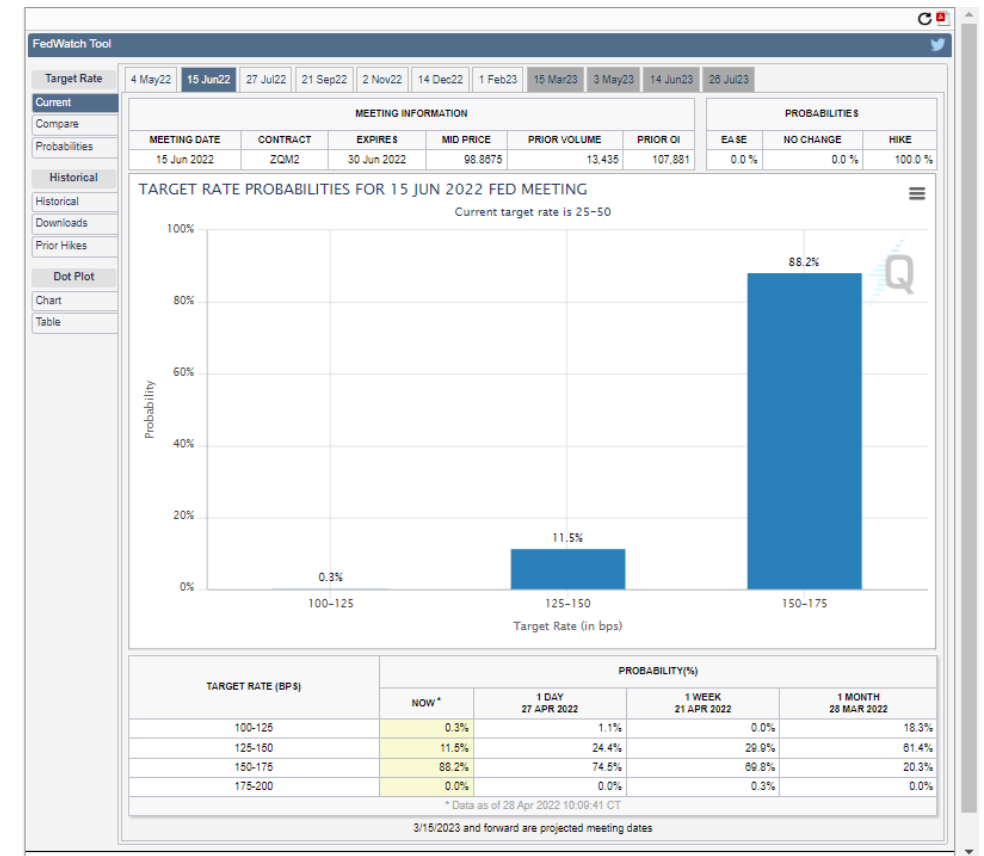
- Valuations on the market remain generally reasonable.
 - This year's earnings (\$225 in the S&P 500).
 - Current Valuation:
 - $4198/225 = 18.65X$
 - Next Year's Earnings
 - $4198/245 = 17.13X$
 - Even Being A Bit Pessimistic (2023 EPS of \$240)
 - $4198/240 = 17.5X$
- But, while it offers some comfort on valuation, earnings season is not a reason to be more bullish, and corporate profits remain vulnerable to the higher dollar and slowing growth.

Fed Expectations

May Meeting

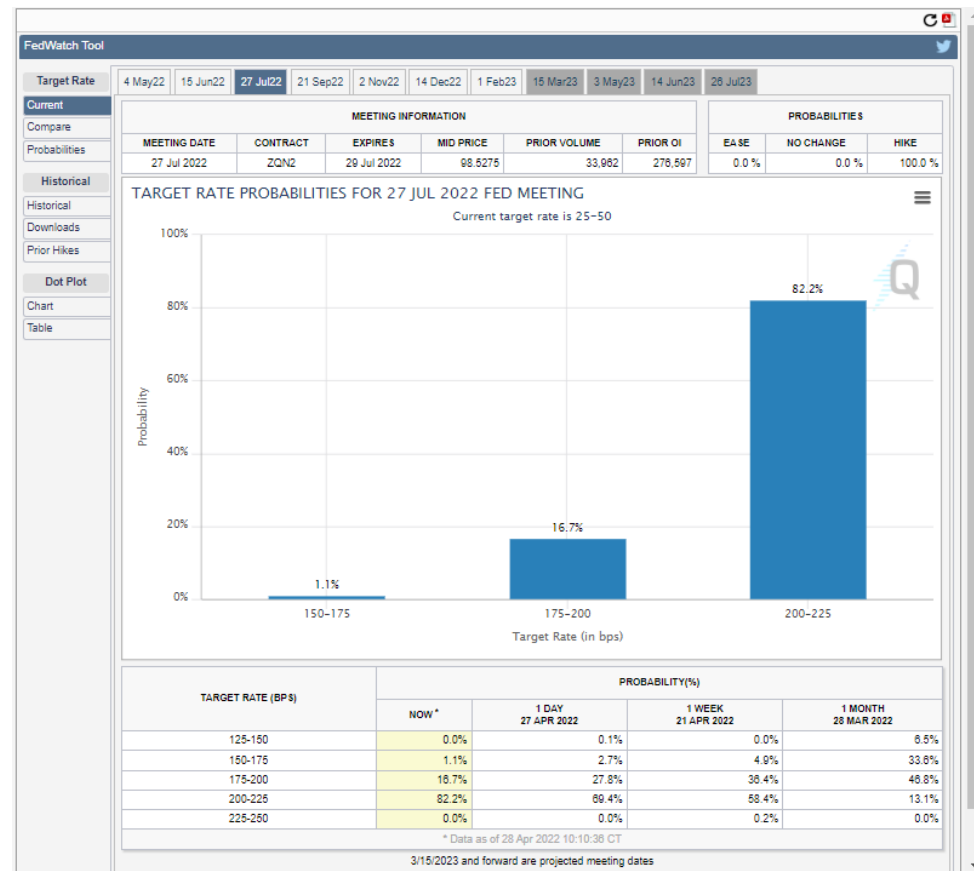


June Meeting

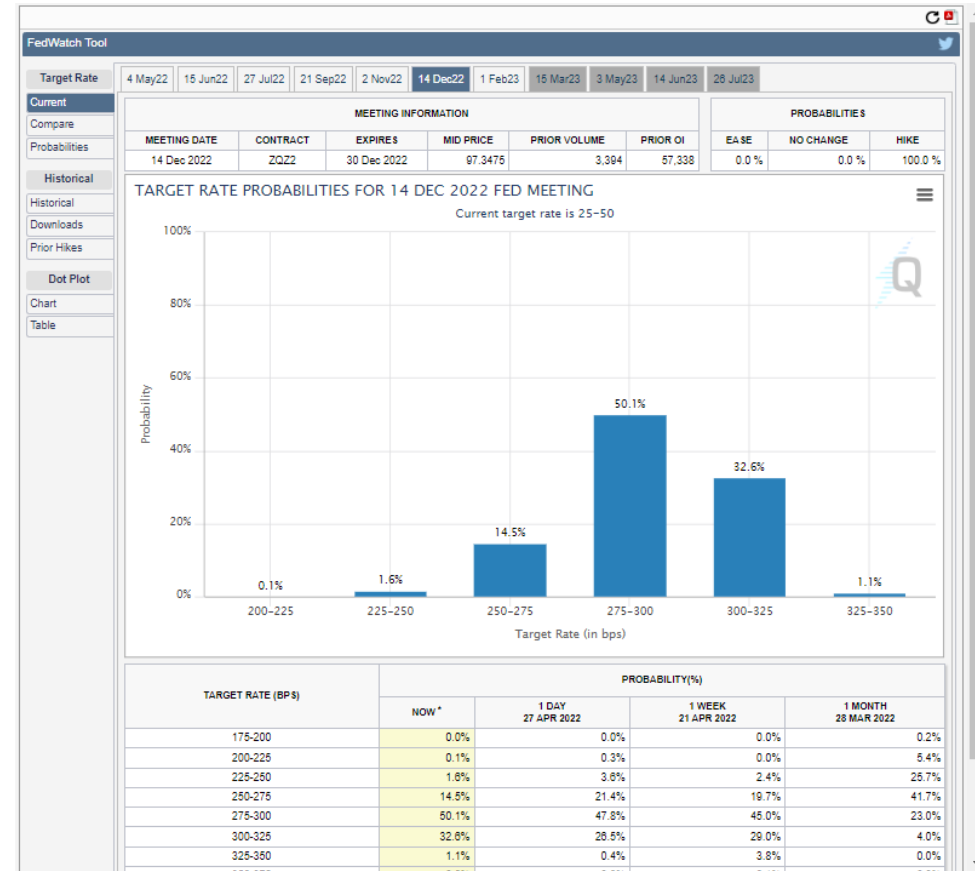


Fed Expectations

July Meeting



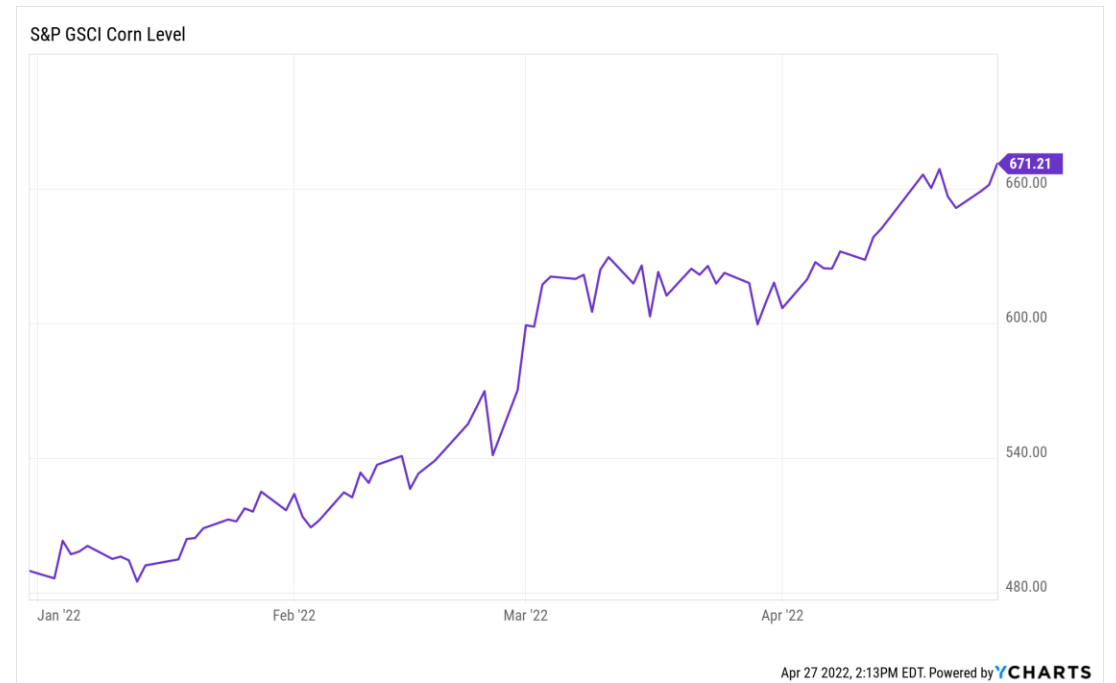
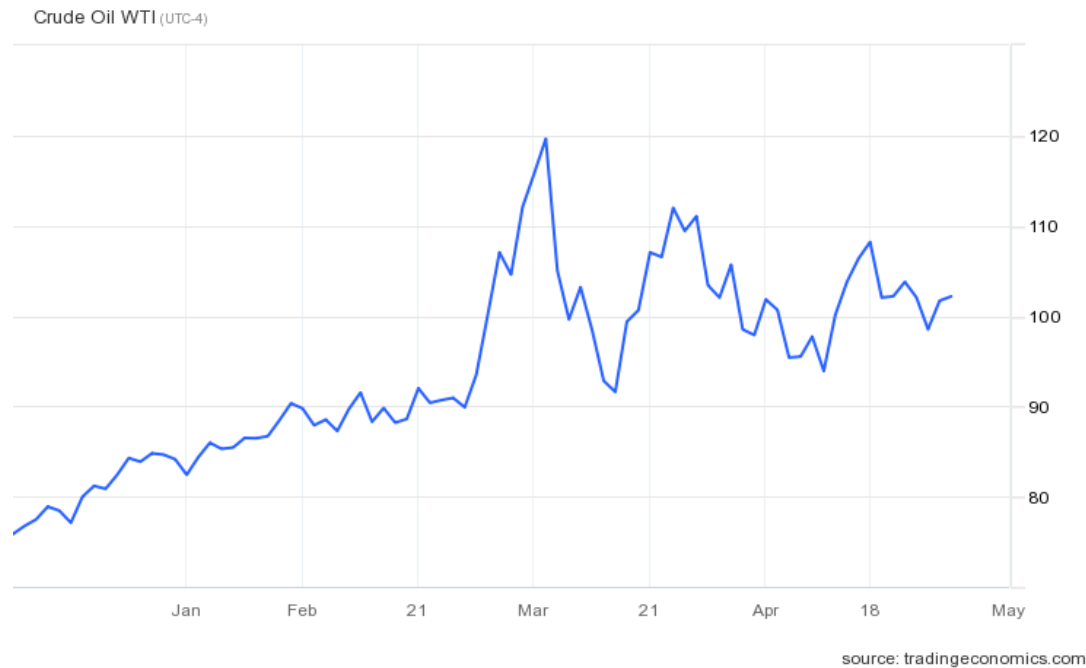
December Meeting



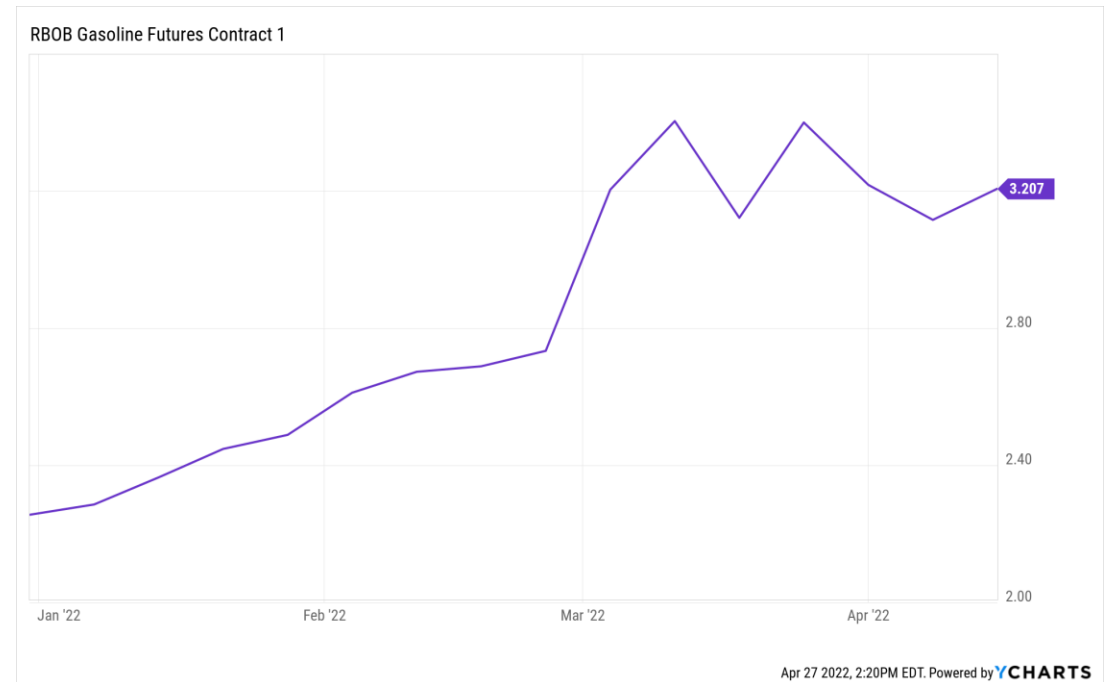
Fed Expectations

- May Meeting:
 - What's Expected:
 - 50 bps hike.
 - Formal announcement of QT starting in June and hitting \$95 bln/month in three months.
 - Hawkish If:
 - > 50 bps hike (maybe 75 bps).
 - QT > \$95 bln/month.
 - Dovish If:
 - 50 bps hike.
 - Formal announcement of QT starting in June and hitting \$95 bln/month in three months.
 - Dovish commentary.
- Current Expectations:
 - 50 bps hike in May
 - 75 bps hike in June
 - 50 bps hike in July.
 - Another 100 bps hike by year-end.
 - Ending 2022 Fed Funds of 3.00% - 3.25% (currently 0.25% - 0.50%).

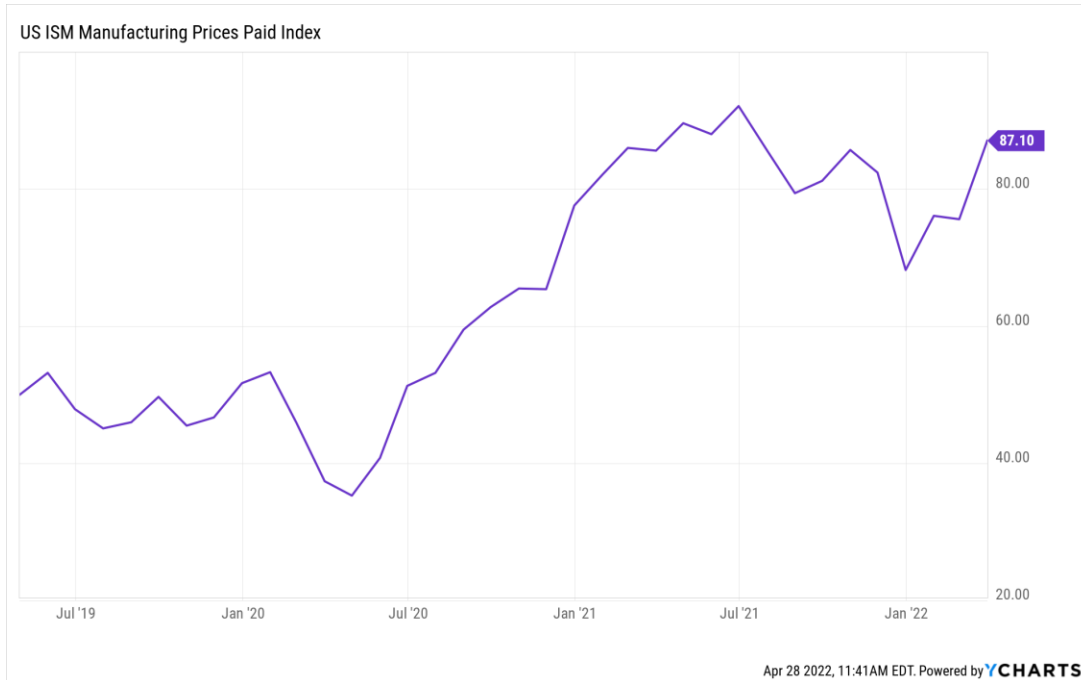
Inflation - Commodities



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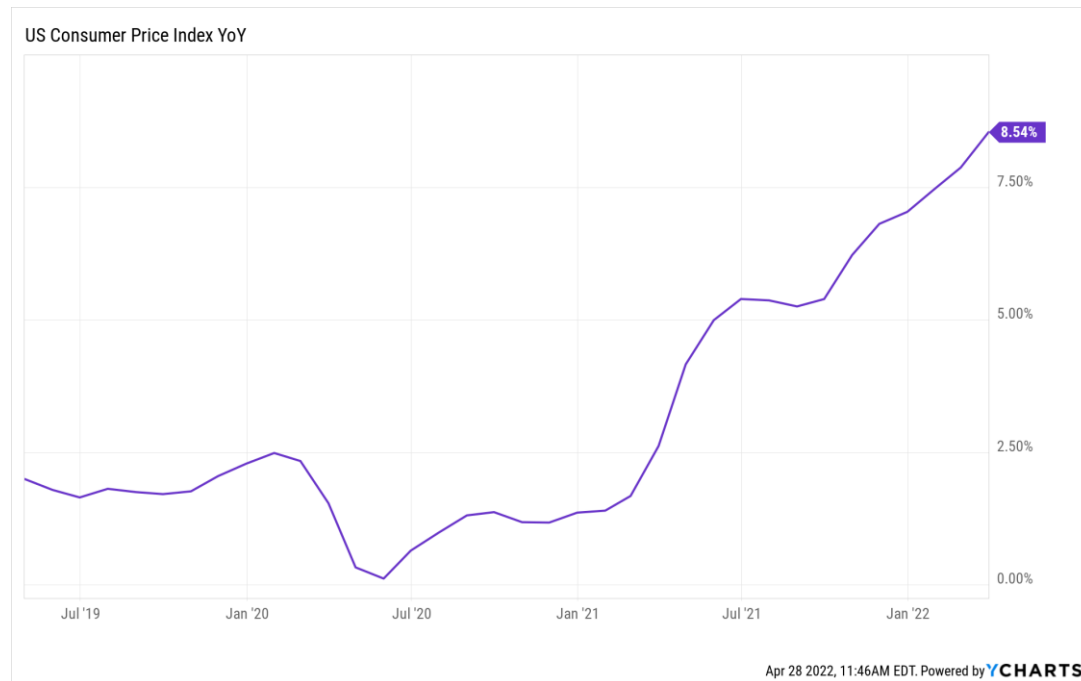


Inflation – The Economy



Inflation – The Economy

Next Key Report: CPI on 5/11/2022



- April Flash PMI
 - Input costs rose at the highest level in the history of the PMI.
 - Output prices rose at the fastest pace in the history of the PMI.
 - It's just one data point, but it's not implying inflation pressures are peaking.

Inflation – Is It Peaking?

- Inflation pressures are showing some small signs of peaking, but it's nowhere close to conclusive.
- For that idea to really become legitimate, we will have to see:
 - May CPI undershoot expectations
 - See key pricing metrics (like in the PMIs and in commodity prices) start to decline.
- Tomorrow's EU HICP will also be important. If it slightly misses expectations, that could help further the idea that inflation is peaking globally.
 - Expectations are for: 7.5% yoy headline, 3.1% "Narrow Core" Y/Y.

Bottom Line

- Earnings
 - If AMZN and AAPL both post solid results this afternoon, then the Q2 earnings season will likely be viewed as “fine.”
 - But, earnings growth is slowing, and price hike pass throughs are real and that’s a risk for the future.
 - Bottom line, solid earnings into the end of next week can help support stocks near current levels, but it’s not going to spark a material or sustainable rally.
- The Fed
 - There is a lot of hawkishness priced into the market right now. And, what’s expected actually happens, then the headwind on the economy will simply be enormous (I can’t remember a year of 300 basis points of tightening).
 - However, I do think there’s risk of a dovish surprise – not next week, but later in the summer (July or later). That’s based on the idea that hawkish expectations are extreme, and if growth slows, that will likely result in some hedging by Fed officials of just how quickly they hike rates.
- Inflation
 - There are no convincing signs that inflation is peaking – and until that happens markets will be on edge about a hawkish Fed.
 - However, if we do get signs inflation pressures are peaking, it could spark a material rally, again because of the very high level of hawkishness that is priced into stocks.
 - Month over month gains in CPI, Core PCE, PMI Price Indices must start to decline for investors to believe inflation has peaked.