

## Apple Earnings Break a 7 Year Streak

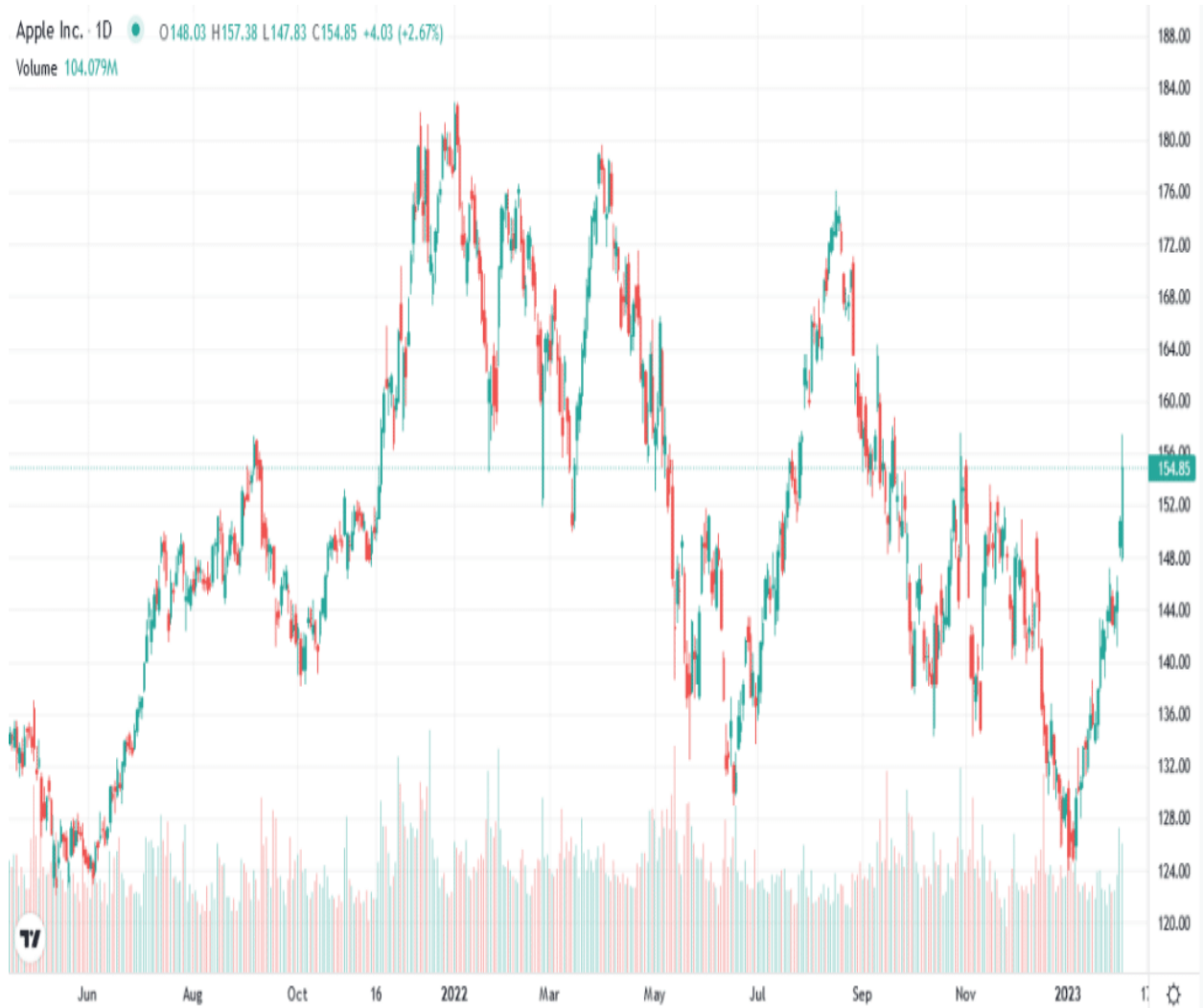
Apple missed earnings estimates for the first time in seven years or the last 28 quarterly earnings reports. Weighing on Apple earnings was a 5.5% year-over-year decline in sales led by a 29% decline in Mac sales and an 8% fall in iPhone sales. Earnings per share at Apple were \$1.88 vs. \$1.94, as expected. Despite the surprisingly poor earnings, Apple shares were up on the day. Investors are taking solace in Chief Executive Tim Cook's statement that weak sales are transitory. According to Cook, they were hampered by supply constraints due to China's various pandemic lockdowns late last year. Apple anticipates recapturing a portion of those lost sales and provided investors with positive forward guidance.

Apple wasn't the only mega-cap company with shaky earnings. Amazon posted its biggest loss ever on its least profitable holiday quarter since 2014. Unlike Apple, Amazon's revenue increased versus a year ago and did exceed expectations. Concerning investors, however, is a significant slowdown in AWS revenue. AWS represented about two-thirds of its operating profit in recent years. Google reported EPS of \$1.05 per share, compared to \$1.53 last year despite slightly higher revenue. Per Google's Chief Business Officer:

*?A pullback in spending by advertisers amid a more challenging economy and foreign exchange headwinds impacted sales.?*

Apple Inc. - 1D ● O 148.03 H 157.38 L 147.83 C 154.85 +4.03 (+2.67%)

Volume 104.079M



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## What To Watch Today

### Economy

- *No notable reports are scheduled for release.*

### Earnings

|   | Company     | Time                      | Estimate   |        | <div> Growth</div> <div>Show only confirmed?</div> | Surprise |   |   |   |   |
|---|-------------|---------------------------|------------|--------|-------------------------------------------------------------------------------------------------------------------------------------|----------|---|---|---|---|
| ✓ | <b>TSN</b>  | Tyson Foods Inc.          | 6:55 AM ET | \$1.35 | \$13.10 B                                                                                                                           | 1.3%     | + | = | - | + |
| ✓ | <b>CMI</b>  | Cummins, Inc.             | 7:30 AM ET | \$4.66 | \$7.36 B                                                                                                                            | 25.8%    | + | = | - | + |
| ✓ | <b>IX</b>   | ORIX Corp.                | BMO        | -      | \$5.34 B                                                                                                                            | -3.2%    | + | = | - | + |
| ✓ | <b>CINF</b> | Cincinnati Financial C... | 4:05 PM ET | \$1.28 | \$2.07 B                                                                                                                            | -37.7%   | + | = | - | + |
| ✓ | <b>ACM</b>  | AECOM                     | AMC        | \$0.82 | \$3.34 B                                                                                                                            | 2.2%     | + | = | - | + |
| ✓ | <b>CNA</b>  | CNA Financial Corp.       | 6:00 AM ET | \$0.83 | \$2.65 B                                                                                                                            | -13.2%   | + | = | - | + |
| ✓ | <b>ATVI</b> | Activision Blizzard, Inc. | 4:05 PM ET | \$1.51 | \$3.17 B                                                                                                                            | 46.6%    | + | = | - | + |
| ✓ | <b>TFII</b> | TFI International Inc.    | 4:05 PM ET | \$1.74 | \$2.09 B                                                                                                                            | -2.4%    | + | = | - | + |
| ✓ | <b>AMRK</b> | A-Mark Precious Met...    | 4:05 PM ET | \$2.22 | \$1.95 B                                                                                                                            | 0.2%     | + | = | - | + |
| ✓ | <b>ON</b>   | onsemi                    | 8:00 AM ET | \$1.27 | \$2.08 B                                                                                                                            | 12.7%    | + | = | - | + |
| ✓ | <b>NOV</b>  | NOV Inc.                  | 5:00 PM ET | \$0.23 | \$1.90 B                                                                                                                            | 25.2%    | + | = | - | + |
| ✓ | <b>SWKS</b> | Skyworks Solutions, I...  | 4:00 PM ET | \$2.61 | \$1.32 B                                                                                                                            | -12.6%   | + | = | - | + |
| ✓ | <b>LEG</b>  | Leggett & Platt, Inc.     | 4:10 PM ET | \$0.47 | \$1.22 B                                                                                                                            | -8.5%    | + | = | - | + |
| ✓ | <b>SPG</b>  | Simon Property Grou...    | 4:05 PM ET | \$3.14 | \$1.37 B                                                                                                                            | 3.3%     | + | = | - | + |
| ✓ | <b>TKR</b>  | Timken Company            | 6:50 AM ET | \$1.09 | \$1.08 B                                                                                                                            | 7.2%     | + | = | - | + |
| ✓ | <b>SAVE</b> | Spirit Airlines, Inc.     | 4:50 PM ET | \$0.04 | \$1.39 B                                                                                                                            | 40.8%    | + | = | - | + |
| ✓ | <b>TTWO</b> | Take-Two Interactive ...  | 4:05 PM ET | \$0.36 | \$1.45 B                                                                                                                            | 60.5%    | + | = | - | + |
|   | <b>JHX</b>  | James Hardie Industr...   | 4:25 PM ET | -      | \$4.05 B                                                                                                                            | 350.0%   | + | = | - | + |
| ✓ | <b>PINS</b> | Pinterest, Inc.           | 4:05 PM ET | \$0.27 | \$884.57 M                                                                                                                          | 4.5%     | + | = | - | + |
| ✓ | <b>ENR</b>  | Energizer Holdings, Inc.  | 6:50 AM ET | \$0.73 | \$792.15 M                                                                                                                          | -6.4%    | + | = | - | + |
| ✓ | <b>IDXX</b> | IDEXX Laboratories, I...  | 6:30 AM ET | \$1.92 | \$817.97 M                                                                                                                          | 2.1%     | + | = | - | + |
| ✓ | <b>AMG</b>  | Affiliated Managers G...  | 7:00 AM ET | \$7.03 | \$589.28 M                                                                                                                          | -14.8%   | + | = | - | + |
| ✓ | <b>FN</b>   | Fabrinet                  | 4:15 PM ET | \$1.87 | \$652.47 M                                                                                                                          | 15.1%    | + | = | - | + |
| ✓ | <b>SKY</b>  | Skyline Corp.             | 4:40 PM ET | \$0.97 | \$535.30 M                                                                                                                          | 0.1%     | + | = | - | + |
| ✓ | <b>KMT</b>  | Kennametal Inc.           | 4:05 PM ET | \$0.22 | \$492.77 M                                                                                                                          | 1.3%     | + | = | - | + |
| ✓ | <b>DIOD</b> | Diodes, Inc.              | 4:05 PM ET | \$1.64 | \$488.90 M                                                                                                                          | 1.8%     | + | = | - | + |

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## Market Trading Update

[Last week's message](#) asked the question of whether the market's break above the long-running downtrend line was a 'head fake'? To wit:

*As we noted, the inverse 'head-and-shoulder' pattern already suggests a market bottom has formed. A solid break above the downtrend line (with a successful retest) would confirm the completion of that pattern. Notably, the 50-DMA is rapidly closing in on a cross above the declining 200-DMA. Such is known as the 'golden cross' and historically signifies a more bullish setup for markets moving forward.*

S&P 500, 1D O4136.69 H4182.36 L4123.36 C4136.48 -43.28 (-1.04%)

Moving Average Double (50, 200, Simple) 3957.34 4148.02 3766.67

BB (50, 2) 3957.34 4148.02 3766.67

BB (50, 3) 3957.34 4243.36 3671.33





The market surge continued last week but ran into resistance on Friday as markets are pushing well into 3-standard deviations above the 50-DMA. **However, while the weakness on Friday was not unexpected, it is also necessary to determine whether the current breakout is legitimate.**

If the *?bear market?* is *?canceled,?* we will know relatively soon. To confirm whether the breakout is sustainable, thereby canceling the bear market, a pullback to the previous downtrend line that holds is crucial. Such a pullback would accomplish several things, from working off the overbought conditions, turning previous resistance into support, and reloading market shorts to support a move

higher. The final piece of the puzzle, if the pullback to support holds, will be a break above the highs of this past week, confirming the next leg higher. Such would put 4300-4400 as a target in place.

A break BELOW the downtrend line, and the current intersection of the 50- and 200-DMA, will suggest the breakout was indeed a *head fake*. Such will confirm the bear market remains, and a retest of last year's lows is likely.

Given that we don't know with certainty where the market is headed next, we are remaining underweight equities at the moment and increased cash levels a bit last week due to the overbought conditions of the market. If the market confirms the *cancelation* of the bear cycle, we will aggressively add risk for the next leg higher. If not, we will add to bonds and reduce equity risk further for the next leg lower.

We will have to wait and see what happens now that [\*J-Pow threw in the towel.\*](#)

## The Week Ahead

With the big slate of earnings last week behind us, the earnings calendar slows markedly this week. Economic data will also be limited following last week's employment barrage. This week, we will continue to follow unemployment claims and continuing claims for any signs that labor markets are weakening. The University of Michigan Consumer Survey will shed light on consumer sentiment and their inflation expectations. The Fed is pleased that inflation expectations have moderated over the last few months.

With little earnings and economic data, the likely source for fireworks this week will be the Fed. Jerome Powell will speak on Tuesday, and we expect a slew of other Fed speakers to opine on the Fed's last meeting and what they think the Fed will do in the coming year. We wonder if Friday's job data may push some Fed members to take on a more hawkish tone.

## BLS Employment Report and Its Flaws

The [unemployment rate](#) fell to 3.4%, the lowest since 1969. You have to go back to 1954 to find a lower unemployment rate! It fell in large part due a shocking 517k increase in payrolls. Further, the BLS revised November and December upward by a combined 71k jobs. Expectations for January job growth was only 185k. Also, of note, average hourly earnings rose by 0.3%, in line with expectations. However, the average workweek increased from 34.3 to 34.7 hours. This figure may concern the Fed, as they worry a tight labor market could trigger a price-wage spiral. Typically, companies reduce hours and wages before laying off employees. The pick-up in hours, the robust employment data in Friday's report, and other employment data we covered in [Friday's Commentary](#) should bolster the Fed's belief that the labor market remains hot.

January is also the month the BLS makes revisions to the prior year. Per the BLS, the population increased by 954k, and the size of the labor force increased by 871k. The BLS also increased March 2022 employment by 568k. The BLS will not publish revisions for the remainder of 2022 until 2024.

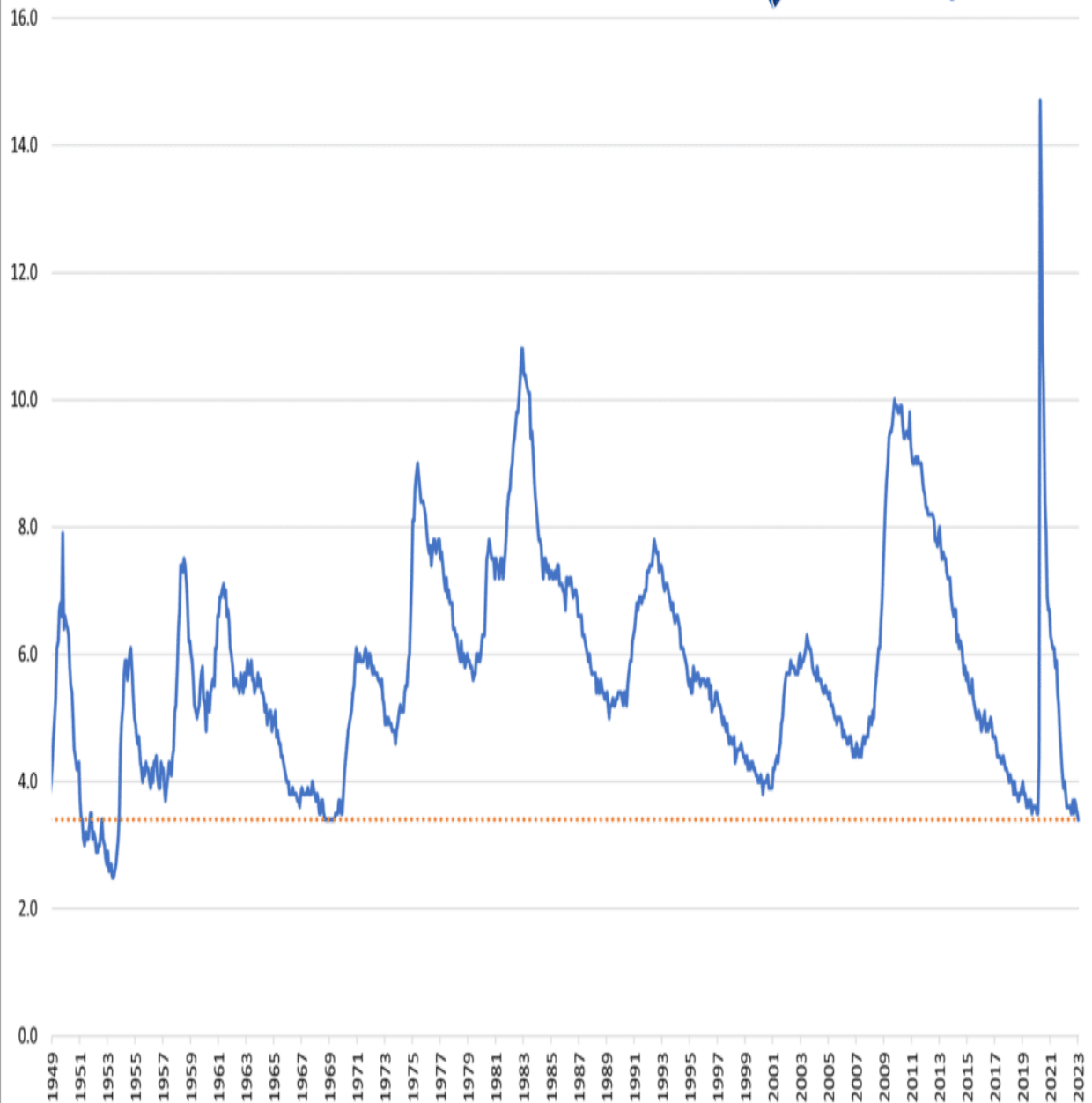
Released On 2/3/2023 8:30:00 AM For Jan, 2023

|                               | Prior    | Prior Revised | Consensus | Consensus Range      | Actual          |
|-------------------------------|----------|---------------|-----------|----------------------|-----------------|
| Nonfarm Payrolls - M/M        | 223,000  | 260,000       | 185,000   | 150,000 to 260,000   | <b>517,000</b>  |
| Unemployment Rate             | 3.5 %    |               | 3.6 %     | 3.4 % to 3.6 %       | <b>3.4 %</b>    |
| Private Payrolls - M/M        | 220,000  | 269,000       | 170,000   | 150,000 to 200,000   | <b>443,000</b>  |
| Manufacturing Payrolls - M/M  | 8,000    | 12,000        | 5,000     | 5,000 to 10,000      | <b>19,000</b>   |
| Participation Rate            | 62.3 %   |               |           |                      | <b>62.4 %</b>   |
| Average Hourly Earnings - M/M | 0.3 %    | 0.4 %         | 0.3 %     | 0.2 % to 0.4 %       | <b>0.3 %</b>    |
| Average Hourly Earnings - Y/Y | 4.6 %    | 4.9 %         | 4.4 %     | 4.3 % to 4.4 %       | <b>4.4 %</b>    |
| Average Workweek              | 34.3 hrs | 34.4 hrs      | 34.3 hrs  | 34.3 hrs to 34.4 hrs | <b>34.7 hrs</b> |

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## Unemployment Rate



## Unemployment Rate





## Corporate Earnings Overview

Looking beyond Apple, Amazon, and Google, Bloomberg finds that the prior quarter's earnings were among the weakest in the last ten years. Excluding 2020, a greater share of S&P 500 companies missed analyst EPS expectations. Similarly, positive earnings surprises, as a share of companies, is among the lowest in the last ten years. The second graph shows that the margin in which companies beat revenue and earnings expectations is the smallest in at least two years.

## S&P 500 Earnings Tracker

Share of members that beat, missed or matched analyst EPS expectations

■ S&P 500 Index positive surprises ■ Negative surprises ■ In-line



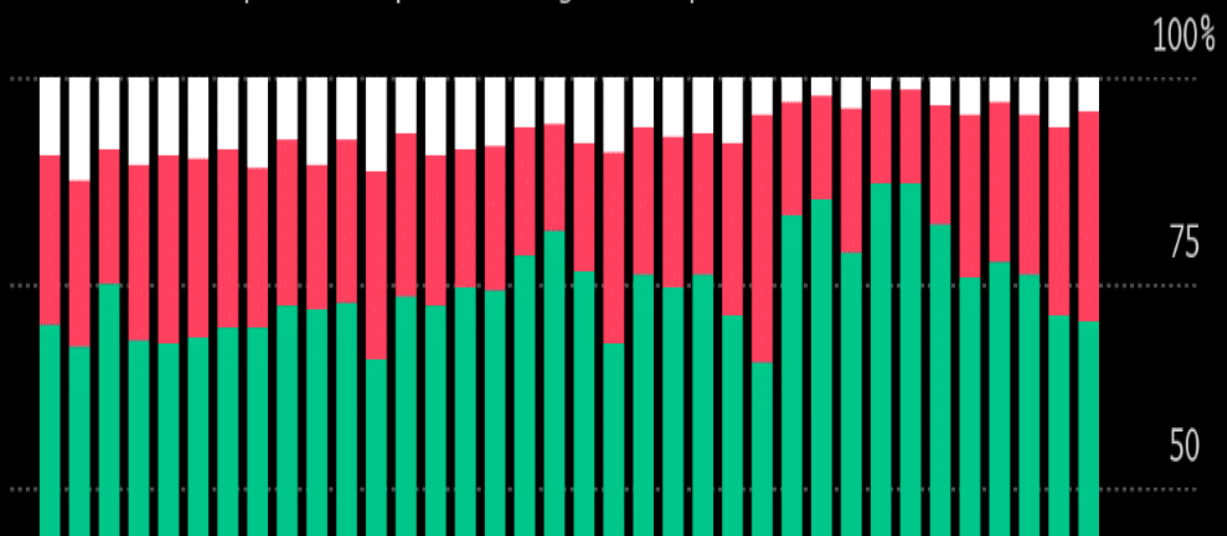
Source: Bloomberg Intelligence

**Bloomberg**

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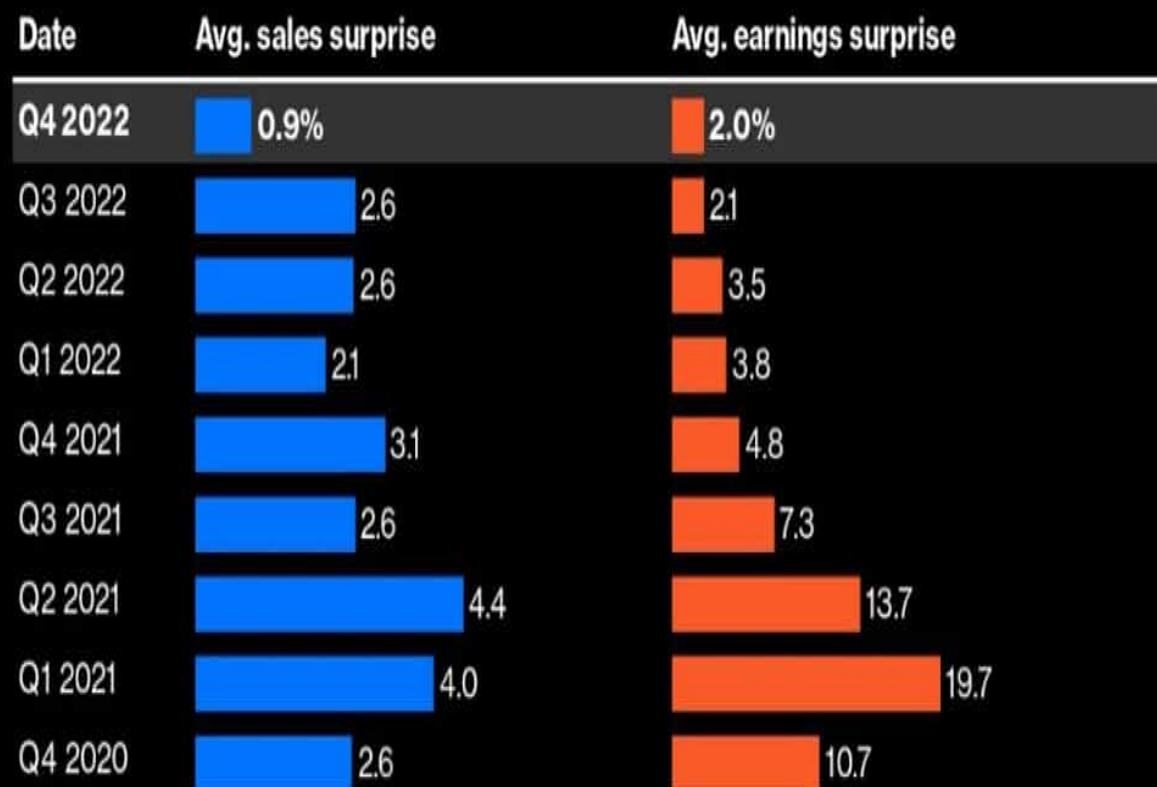
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## Muted Upside Earnings Surprise This Quarter

Average earnings surprise lags previous quarters

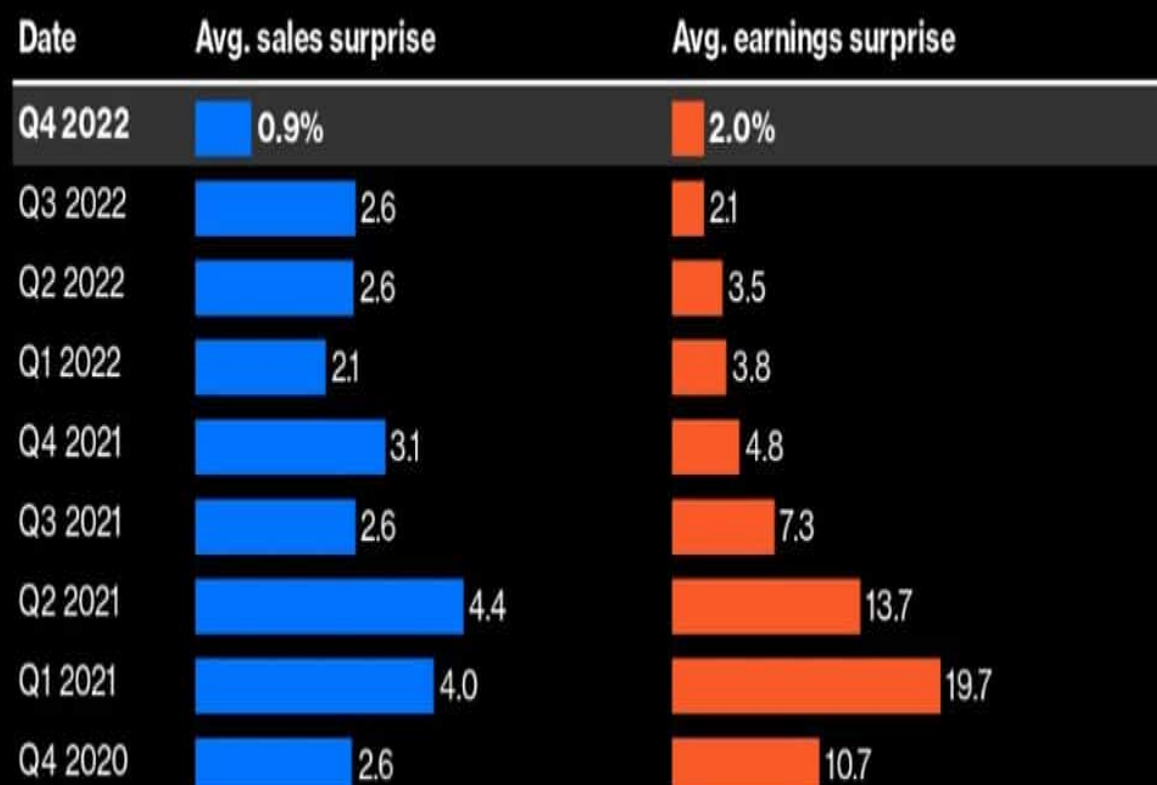


Source: Bloomberg

Bloomberg

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**Tweet of the Day**



David Rosenberg ✓

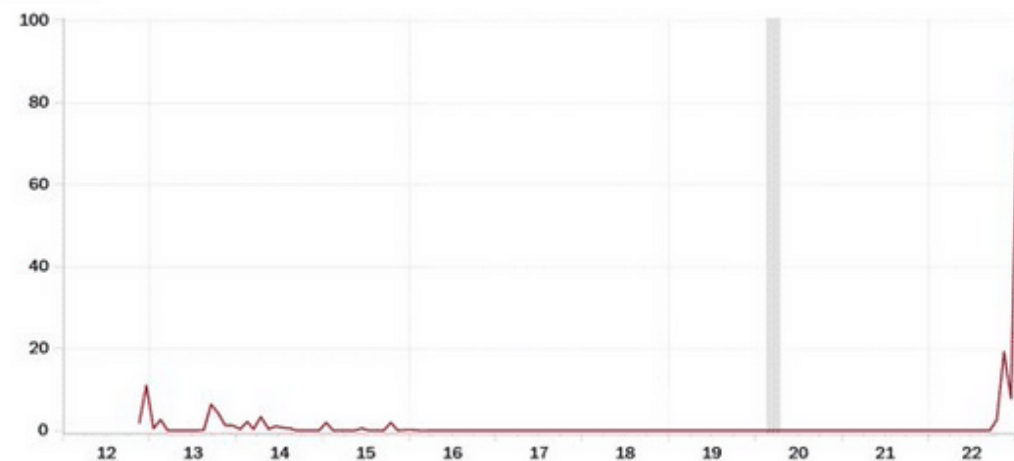
@EconguyRosie

...

The Challenger survey just showed job cut announcements soaring 136% in Jan; sharpest increase since Apr 2020; to 102,943 which is the highest level since Sept 2020. A record 86,526 came from these 2 words: “economic conditions” – accounting for 84% of Jan jump! No recession, eh?

### Announced Job Cuts by Reason: Economic Conditions

United States: Challenger, Gray & Christmas Job Cut Announcement Report (thousands)



Shading indicates recession

Source: Haver Analytics, Rosenberg Research



David Rosenberg ✓

@EconguyRosie

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