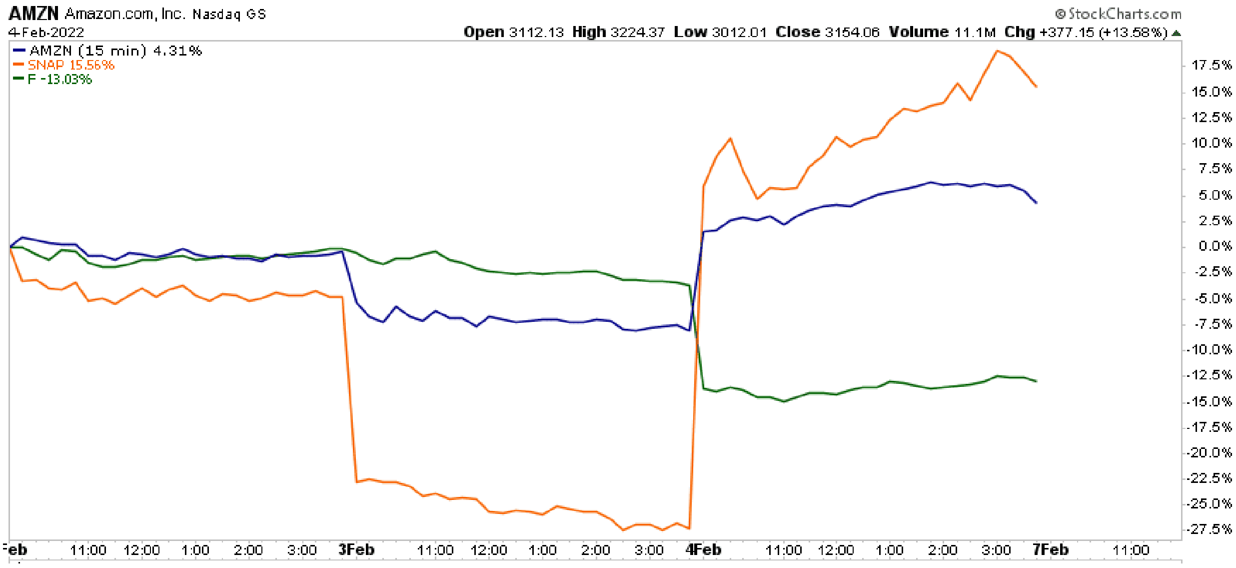
Earnings Volatility And A Red Hot Labor Market

Individual stocks continue to show extreme volatility around their respective earnings announcements. The latest round of volatility occurred Friday as markets witnessed extreme price volatility in Amazon, Ford, and Snap based solely on earnings announcements and forward guidance, as shown below. Such earnings volatility is a repeat of what we have been witnessing this entire earnings season. The BLS provided a little surprise of their own. They announced the economy added 467,000 new jobs, well above expectations and warnings from White House Press Secretary Jen Psaki of a negative number.



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What To Watch Today

Economy

- 2:00 p.m. ET: **Consumer Credit,** December ($25.000 billion expected, $29.991 billion in November)

Earnings

Pre-market

- 6:30 a.m. ET: **Hasbro (HAS)** to report adjusted earnings of 90 cents on revenue of $1.87 billion
- 7:30 a.m. ET: **Tyson Foods (TSN)** to report adjusted earnings of $1.93 on revenue of $12.18 billion
- 8:00 a.m. ET: **ON Semiconductor Corp. (ON)** to report adjusted earnings of 94 cents on revenue of $1.79 billion

Post-market

- 4:05 p.m. ET: **Chegg (CHGG)** to report adjusted earnings of 31 cents on revenue of $195.00 million
- 4:05 p.m. ET: **Take-Two Interactive (TTWO)** to report adjusted earnings of $1.13 on revenue of $871.10 million
- 4:10 p.m. ET: **Simon Property Group (SPG)** to report adjusted earnings of $2.90 on revenue of $1.28 billion
- 4:10 p.m. ET: **Tenet Healthcare Corp. (THC)** to report adjusted earnings of $1.52 on revenue of $5.00 billion
- 4:10 p.m. ET: **Nuance Communications (NUAN)** to report adjusted earnings of 19 cents on revenue of $364.00 million
- 4:00 p.m. ET: **Amgen (AMGN)** to report adjusted earnings of $4.03 on revenue of $6.86 billion

The Week Ahead

CPI will be reported on Thursday. Current expectations are for the annual inflation rate to stay at 7.1%. The monthly rate should slip from 0.5% to 0.3%. Such would be welcome news that inflationary pressures may be easing. Investors will also focus on Friday's University of Michigan Consumer Sentiment data and one and five-year inflation expectations. PPI comes out Tuesday of the following week. Given the Fed's concern for inflation, this batch of data will help markets better assess how the Fed may act at the coming March meeting.

We expect a lot of Fed speakers this week. Last week we heard a wide range of policy expectations. Some were calling for a 50bps rate hike, while others want to proceed slowly with a hike or two followed by a pause. Fed members will react to Friday's employment data, which is inflationary, and this week's CPI report.

The earnings calendar remains healthy this week, although many of the largest companies have already reported. The U.S. Treasury will auction 10 and 30-year notes and bonds on Wednesday and Thursday, respectively. Often pending auctions can pressure yields higher in advance of the auctions as dealers make balance sheet room to absorb the new supply.

Implications Of 20x P/S Ratios

Aside from earnings volatility, the following from Kailash Concepts should get your attention.

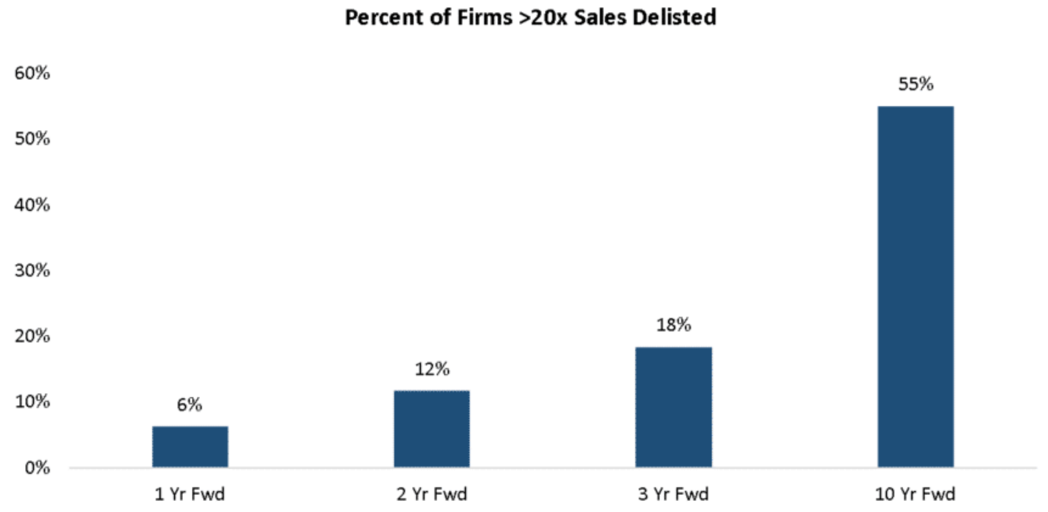
> *Based on survival rates, batting averages, and analysis of 1-, 2- and 3-year holding horizons, investing in stocks valued at >20x P/S is a catastrophic decision.*

- *Buying stocks at 20x P/S ratios can be akin to placing some of the worst casino bets*
- *The outcomes of casino bets happen much quicker, so they are possibly worse but?*
- *?at least you **get free drinks** while you lose your money*

Survival Rates: The Demerits of Delisting

- *Figure 1 shows the percent of firms at > 20x sales that delist at the 1, 2, 3, and 10-year forward horizons*
- *The numbers for 2 & 3 years are catastrophic, with nearly a fifth of stocks gone by year 3 (18%)*
- *By the 10th year, so many firms have delisted, 55%, this is not a viable strategy to even try and test*

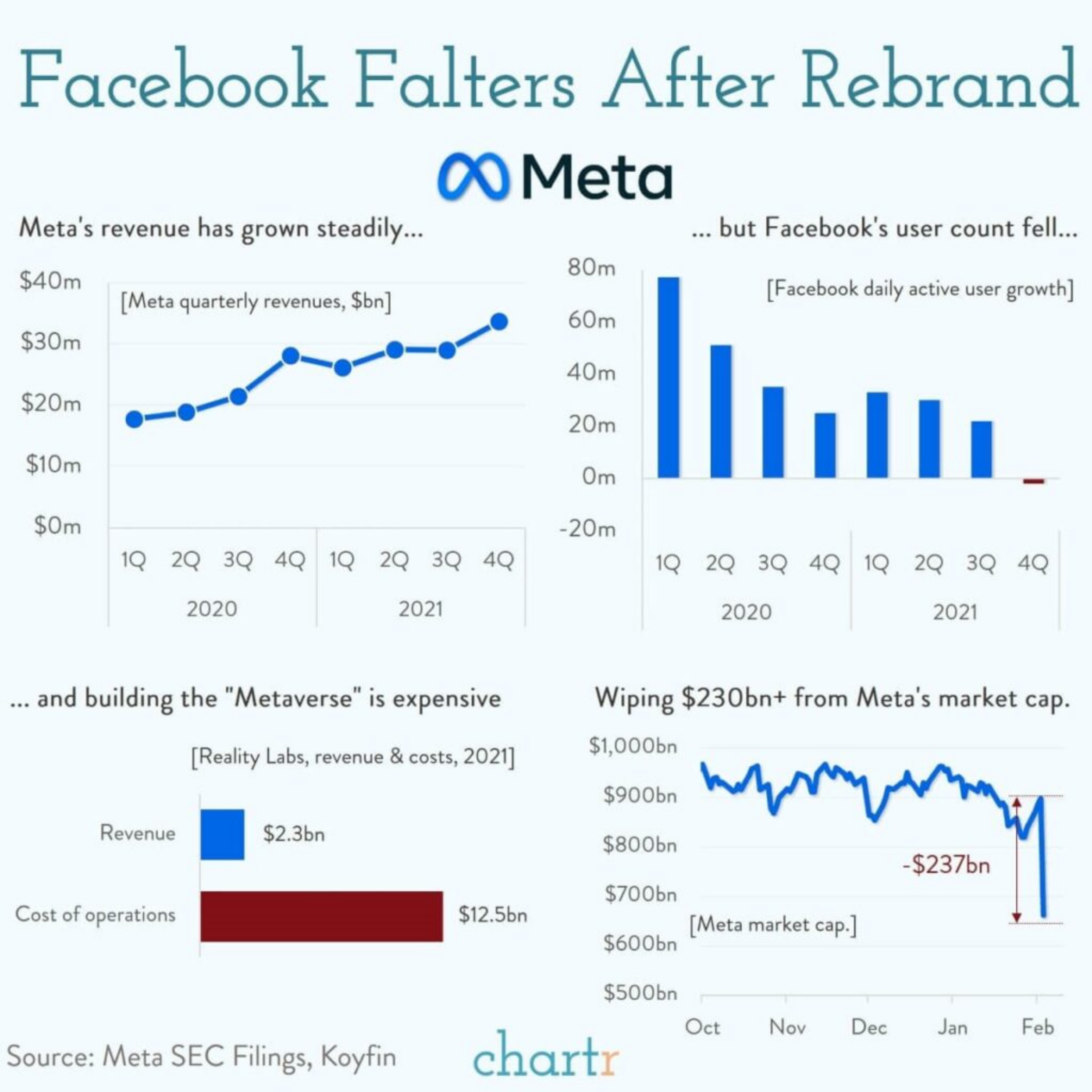
Fig. 1: Stocks Valued at > 20x Price to Sales Have a Tendency to Delist



Source: Kailash Capital, LLC; Data from 4/30/1989-11/30/2021

Can Facebook Really "Transition" In Meta?

Facebook's dominance has come from advertising to an older demographic that is dying off. The younger generation isn't interested in Facebook, but TikTok. This demographic timebomb showed up in the recent earnings report. Chart courtesy of Chartr.



From Chartr:

> *In short, Meta has a few problems:*

- ***Apple's privacy change**: Targeted advertising has gotten more difficult since Apple's new tracking update, making Facebook ads less effective, and hurting demand.*
- ***TikTok**: Facebook is losing users, particularly younger users, to TikTok. The core Facebook platform lost daily active users for the first time ever.*
- ***The metaverse isn't here yet:** Reality Labs, Facebook's augmented and virtual reality division, is a big cash sink, and will likely remain so for a while.*

> *The last one Facebook can at least do something about ? and Zuckerberg is spending big ($12bn+ last year) to get the **Metaverse** here as soon as possible. The question is, how long until it becomes a significant business? It's anyone's guess, but judging by the stock's reaction yesterday, investors aren't feeling patient.*

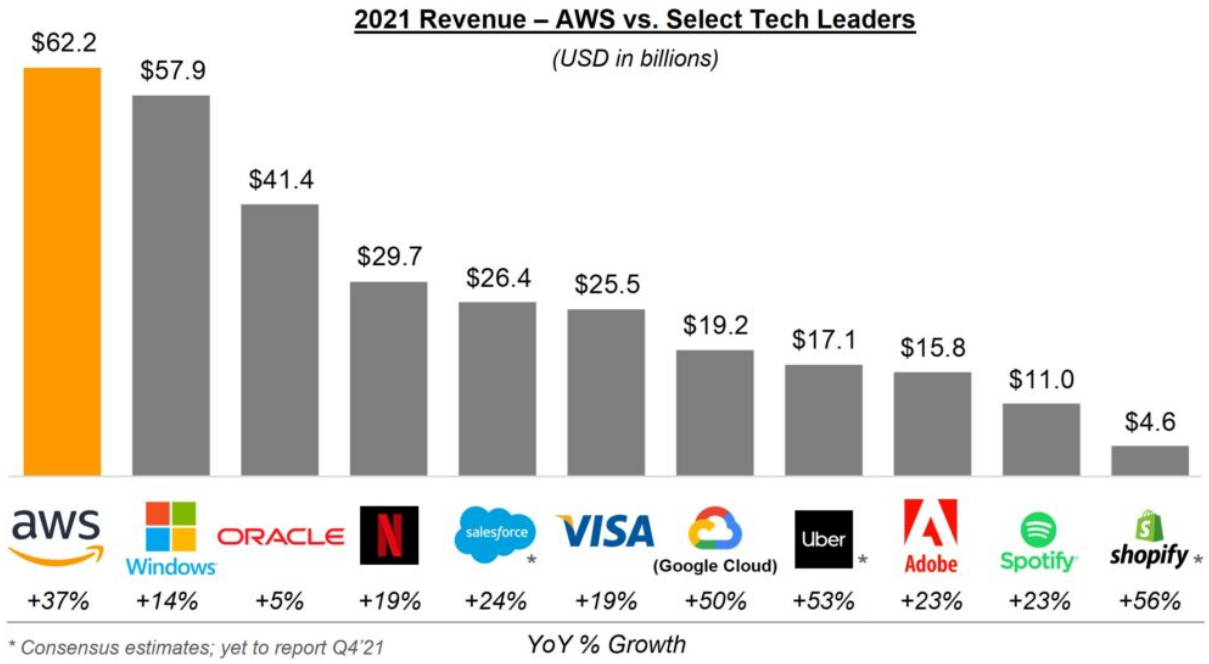
Meta's earnings volatility is likely here to stay

A Deeper Dive into Amazon's Earnings

Amazon (AMZN) knocked the socks off of earnings expectations. Its stock is showing startling earnings volatility before and after the announcement. For instance, AMZN was off over 7% on Thursday leading to earnings. On Friday it reversed those losses plus some with a double-digit gain. The company reported EPS of $27.75 versus expectations of $3.88. The stunning beat was primarily the result of their stake in EV automaker Rivian. Excluding a one-time gain in Rivian, EPS was $4.81, albeit EPS is still much better than expectations. This, however, is a problem for Q1 as Rivian shares have fallen about 40% this quarter. Assuming the price is stable, the loss will show up in Q1 earnings.

Revenues fell slightly short of expectations but are still growing at a double-digit annual clip. 2021 revenue was $470b versus $386b for 2020 and $280b for 2019. However, Q4 revenue only grew at 9%, leading to some concerns. Importantly, a large portion of its EPS comes from its cloud division -Amazon Web Services (AWS). Zero Hedge expands on this- "*AMZN generated total revenue of $137.4BN. Of this $119.6BN (NorthAm and Intl retail ops) generated a negative profit margin. Only AWS at $17.8BN in revenue was profitable.*"

The graph below shows AMZN is the leader in cloud revenue, but plenty of competition is gunning for them. Accordingly, investors should closely monitor cloud services as they are their profit drivers.

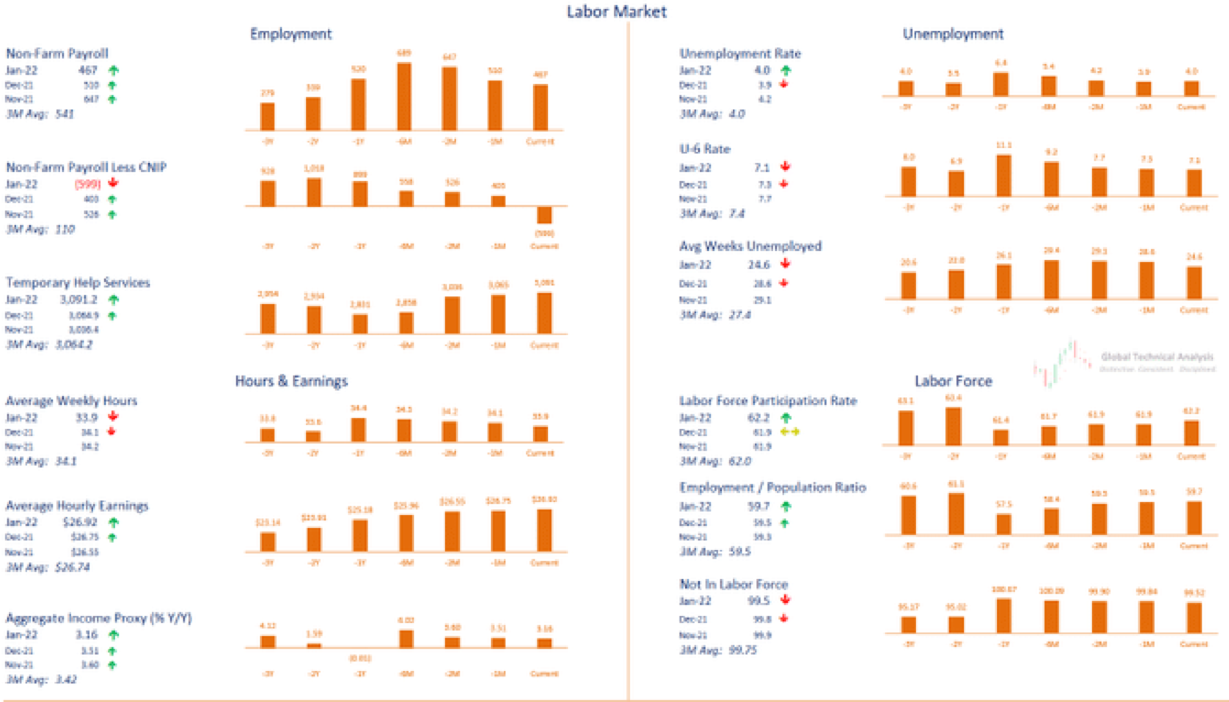


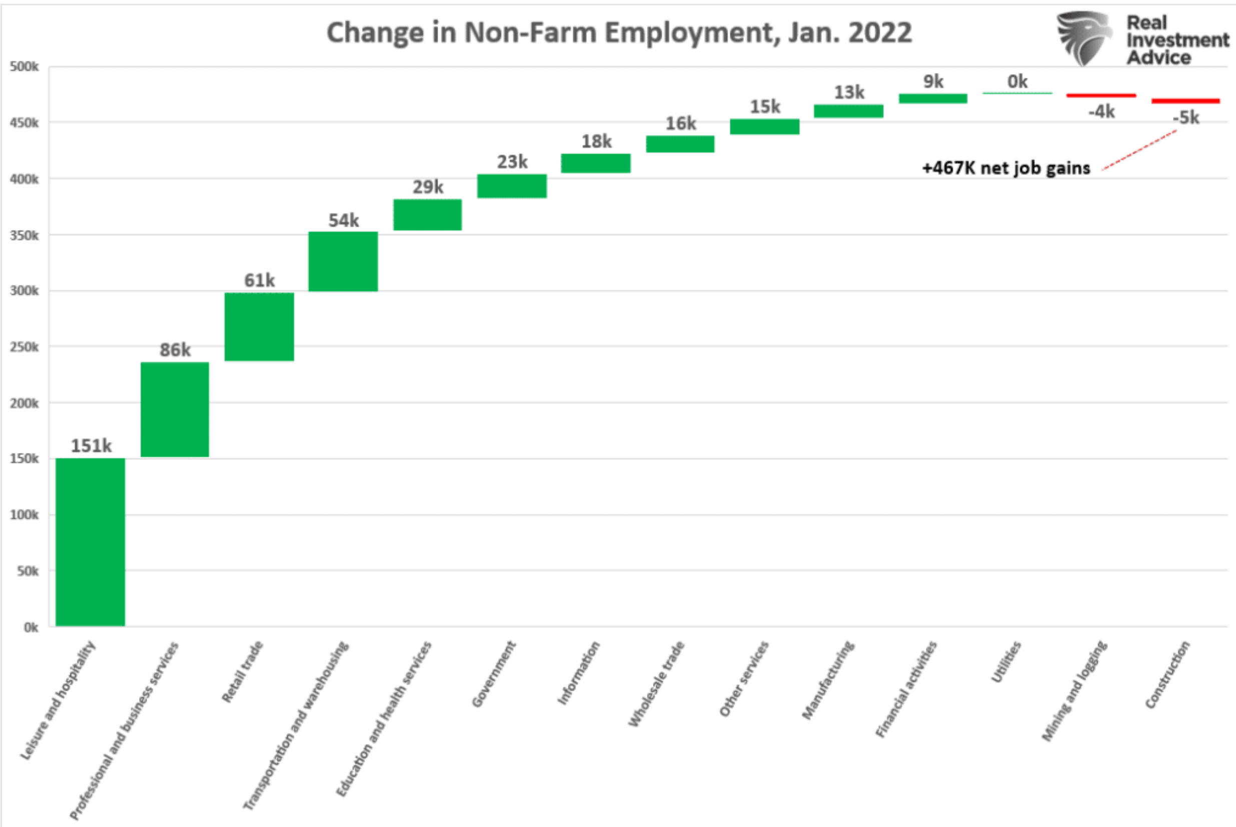
The BLS Employment Report

After Wednesday's disappointing ADP report, in which the economy lost 300k jobs, the BLS reports that the economy gained 467k jobs in January. More impressive, December and November data was revised upward by a total of 709k. Such a significant revision is unprecedented and speaks to the seasonal abnormalities of employment over this past holiday season.

Despite over 1 million new jobs (revisions and January), the unemployment rate ticked up to 4%. While rising unemployment is not good, the reason it went up is. The labor participation rate increased from 61.9% to 62.2%. Essentially more workers are entering the workforce. If the trend continues, this should help reduce the labor shortage. Also encouraging, average hourly earnings rose 0.7%, higher than the 0.5% increase in CPI. However, the annual wage growth is 5.7%, below the 7.1% inflation rate.

The first graph below, courtesy of Brett Freeze, provides short-term historical context showing how the various employment components have been trending. The second graph breaks down January's job gains by industry.





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