Apple Inc. Earnings Warnings Fall on Deaf Ears

Apple Inc. will release its earnings after the close today. Apple Inc. is the largest contributor to the S&P 500 with a 7% weight. As such, its earnings release and investors' reaction will be important for the broader market indexes. Despite a few concerning headlines, as we share below, Wall Street analysts have not cut earnings expectations for Apple. We recently reduced our position in Apple out of caution for a potential weak earnings report and or poor executive guidance.

Yesterday, Apple Inc. announced they are slowing the hiring of Genuis employees at some retail stores. They also retracted verbal job offers for similar roles. Such speaks to slowing retail foot traffic at its stores. Fred Hickey recently warned about the potential for Apple Inc. to come up short on earnings. He lists the following reasons in a Twitter thread: 1) Apple shut off sales to Russia, 2) China, accounting for 20% of Apple's sales, "*has weakened considerably*," 3) U.S. retail sales have been weak, and 4) the iPhone 13 shipped later than expected. Wall Street estimates are unchanged over the last two months despite these troubling factors.

What To Watch Today

Economy

- 8:30 a.m. ET: **GDP Annualized,** quarter-over-quarter, Q1 advance (1.0% expected, 6.9% prior)
- 8:30 a.m. ET: **Personal Consumption**, quarter-over-quarter, Q1 advance (3.5% expected, 2.5% prior)
- 8:30 a.m. ET: **GDP Price Index**, quarter-over-quarter, Q1 advance (7.2% expected, 7.1% prior)
- 8:30 a.m. ET: **Core PCE**, quarter-over-quarter, Q1 advance (5.5% expected, 5.0% prior)

- 8:30 a.m. ET: **Initial Jobless Claims**, week ended April 23 (180,000 expected, 184,000 during prior week)
- 8:30 a.m. ET: **Continuing Claims**, week ended April 16 (1.400 million expected, 1.417 million during prior week)
- 10:00 a.m. ET: **Kansas City Fed Manufacturing Index**, April (35 expected, 37 during prior month)

Earnings

Pre-market

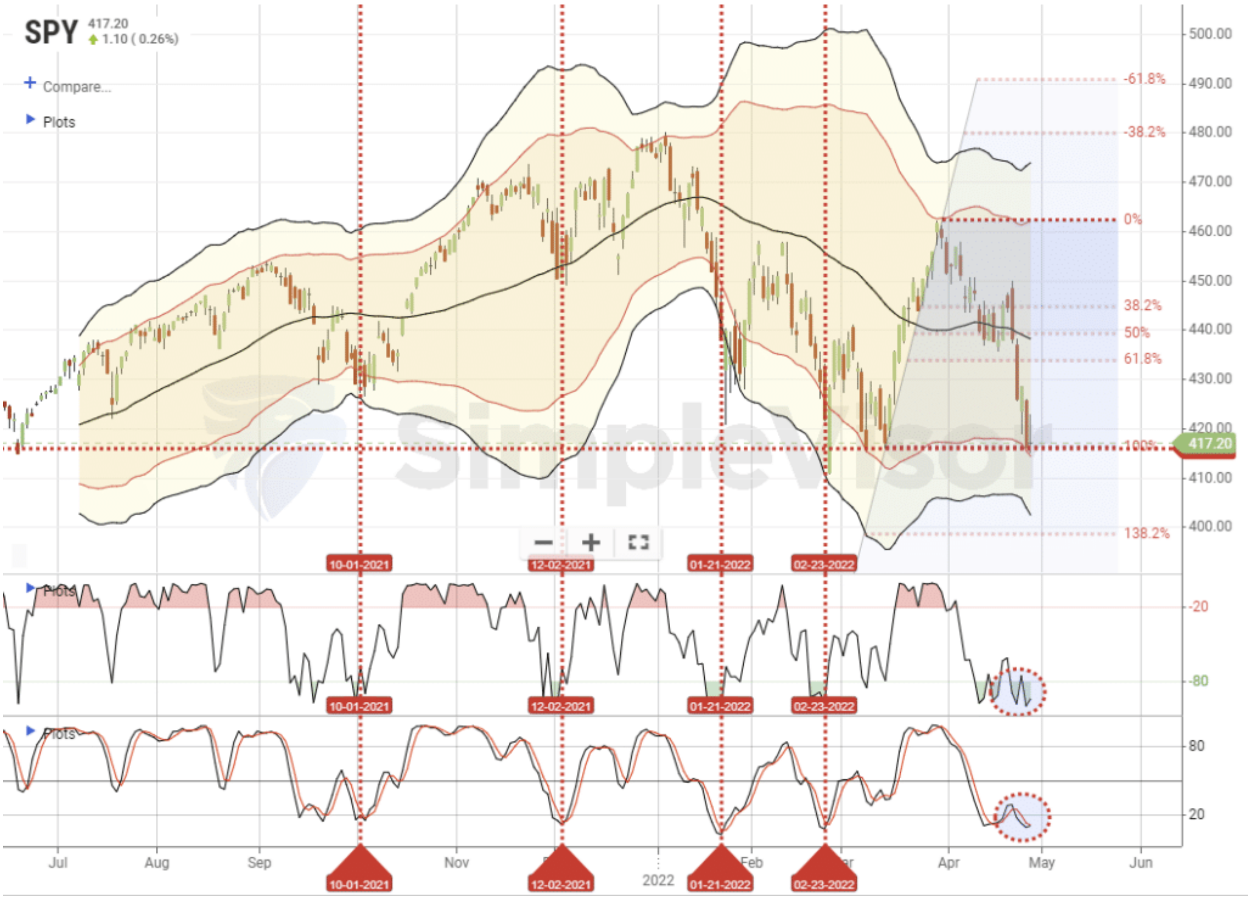
- **Caterpillar&#2013266080;**(CAT) to report adjusted earnings of $2.61 on revenue of $13.08 billion
- **Altria**&#2013266080;(MO) to report adjusted earnings of $1.09 on revenue of $4.87 billion
- **Twitter&#2013266080;**(TWTR) to report adjusted earnings of $0.03 on revenue of $1.23 billion
- **Comcast**&#2013266080;(CMCSA) to report adjusted earnings of $0.80 on revenue of $30.52 billion
- **Merck&#2013266080;**(MRK) to report adjusted earnings of $1.83 on revenue of $14.58 billion
- **Northrop Grumman**&#2013266080;(NOC) to report adjusted earnings of $5.96 on revenue of $8.89 billion
- **Domino's Pizza**&#2013266080;(DPZ) to report adjusted earnings of $3.06 on revenue of $1.03 billion
- **Keurig Dr. Pepper**&#2013266080;(KDP) to report adjusted earnings of $0.33 on revenue of $3.01 billion

Post-market

- **Amazon**&#2013266080;(AMZN) to report adjusted earnings of $8.40 on revenue of $116.43 billion
- **Apple Inc.**&#2013266080;(AAPL) to report adjusted earnings of $1.42 on revenue of $93.98 billion
- **Intel&#2013266080;**(INTC) to report adjusted earnings of $0.80 on revenue of $18.31 billion
- **PayPal**&#2013266080;(PYPL) to report adjusted earnings of $0.88 on revenue of $6.40 billion
- **Robinhood**&#2013266080;(HOOD) to report an adjusted loss of $0.36 on revenue of $352.93 million

Market Trading Update - Stocks Hold Support (Not Convincingly)

Yesterday morning, the market rallied off March lows holding critical support but failed to hold that rally. Such has been a hallmark of the market lately as earnings season progresses. While we are looking for an entry point for a tradeable rally to add to our S&P index fund *(trading position),* yesterday's action was not convincing. While we are on a short-term buy signal we need to see some follow-through to take some action. We are looking for a rally toward the 50-dma to reduce risk heading into the summer. We will see if Facebook's (META) rally can stick today.



Strong Dollar And its Effects

The U.S. dollar index shown below is up nearly 7% year to date. The good news is that a stronger dollar will take a bit out of inflation. The United States is a net importer. A stronger dollar versus the currencies of those countries we import from results in lower prices. The bad news is that the prices of exports are rising. Due to higher prices, exporters will face increased price competition from non-U.S. companies and weaker demand.

The graph below shows the dollar index has been range-bound for the last seven years. It is currently at the upper bound of the range, which will likely provide good resistance. However, a break above resistance could result in a move sharply higher.

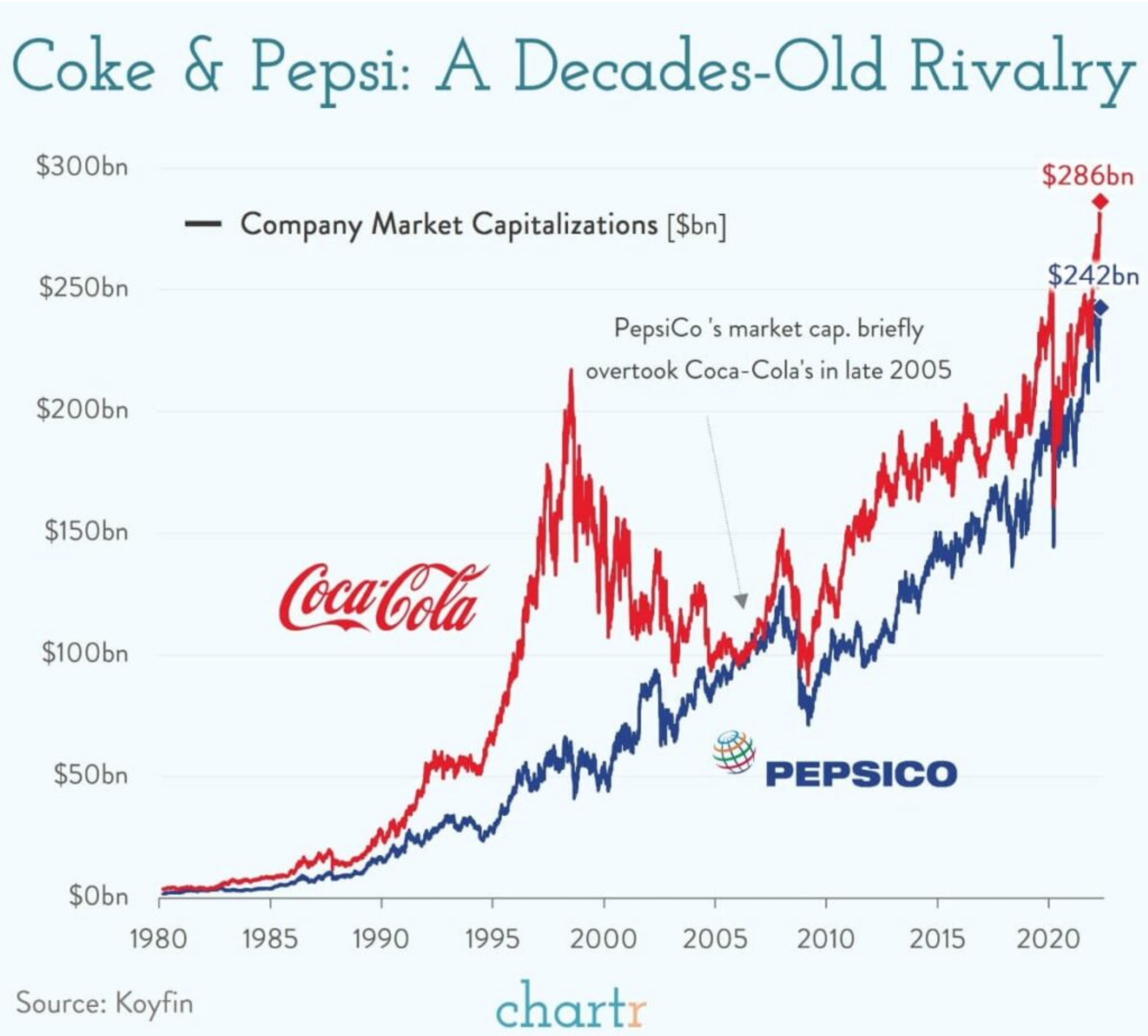
Coke Or Pepsi?

*"As far as corporate rivalries go, **Coca-Cola** vs. **Pepsi** is about as classic as it gets. And this week both reported that business was good, with revenue coming in ahead of expectations for each company, despite inflation becoming more of a challenge.*

Either is fine, thanks

For almost the entire time both companies have been public, Coca-Cola has been the more valuable entity of the two, with a brief exception in 2005 when PepsiCo overtook Coca-Cola for the first time in 112 years.

*But if you'd bought shares in either of them 40 years ago, you'd probably not be too dissatisfied with either. $100 in Coca-Cola shares bought **40 years ago** would be worth something in the neighborhood of **$9,200** today, and the same in **PepsiCo** would be worth north of **$8,100**." - Chartr*



Sector Return Attributions

The table below from Piper Sandler helps us appreciate what is driving returns this year. The S&P 500, for instance, is down 12.4% despite its aggregate earnings rising 5% annualized thus far. However, its P/E has fallen 3.6 points, more than offsetting earnings growth. The combination of inflation and higher rates is undoubtedly troubling for investors' outlooks. As we are seeing, many companies are struggling to pass on costs to their customers and grow revenue at prior rates. Further, higher interest rates harm valuations. Discounting earnings using a higher interest rate (higher discount factor) for future earnings results in a smaller present value.

The table also shares the same information broken down by sector. As we see, the decline in P/E is the largest for tech stocks. This is a function of their future cash flows being longer duration than most other industries and thus more affected by a higher discounting factor.

Piper Sandler	S&P 500					Change During Year			% Attribution	
						Annual	Δ NTM	Δ P/E		
	Year	Price		NTM EPS	P/E	Return	EPS (%)	(pts)	EPS %	PE %
S&P 500	**2022**	**4,175**	**$**	**232.02**	**18.0**	**(12.4%)**	**5.0%**	**-3.6**	**5.0%**	**(17.4%)**
Info Tech	**2022**	2,451	$	115.07	21.3	(19.8%)	6.0%	-6.8	6.0%	(25.8%)
Discretionary	**2022**	1,322	$	53.39	24.8	(17.9%)	4.3%	-6.7	4.3%	(22.2%)
Comm Svcs	**2022**	203	$	13.05	15.6	(24.1%)	0.8%	-5.1	0.8%	(24.9%)
Materials	**2022**	529	$	34.74	15.2	(7.2%)	4.2%	-1.9	4.2%	(11.4%)
Health Care	**2022**	1,538	$	97.19	15.8	(6.4%)	2.4%	-1.5	2.4%	(8.9%)
Staples	**2022**	819	$	37.46	21.9	1.8%	1.9%	0.0	1.9%	(0.1%)
Industrials	**2022**	814	$	44.02	18.5	(9.0%)	2.0%	-2.2	2.0%	(11.0%)
Utilities	**2022**	371	$	17.73	20.9	1.9%	1.1%	0.2	1.1%	0.8%
Real Estate	**2022**	303	$	6.40	47.3	(6.8%)	5.1%	-6.0	7.3%	(16.9%)
Financials	**2022**	587	$	44.93	13.1	(9.7%)	1.6%	-1.6	1.6%	(11.3%)
Energy	**2022**	561	$	48.83	11.5	32.7%	26.3%	0.6	26.3%	6.4%

Are Stocks With International Revenues Really Outperforming?

The following paragraph from Factset helps us appreciate how large stocks can skew statistics and be misleading.

> *?What is driving the outperformance of S&P 500 companies with higher international revenue exposure? At the company level, Exxon Mobil, Chevron, and Pfizer are three of the largest contributors to earnings growth and revenue growth for S&P 500 companies with more international exposure. Exxon Mobil generates 62% of revenues outside the United States. Chevron generates 56% of revenues outside the United States. Pfizer generates 63% of revenues outside the United States.* ***If these three companies were excluded, the (blended) earnings growth rate for S&P 500 companies that generate more than 50% of revenues outside the U.S. would fall to 5.1% from 13.5%****, while the (blended) revenue growth rate for S&P 500 companies that generate more than 50% of revenues outside the U.S. would fall to 12.5% from 16.7%.?*

Hope Springs Eternal

While there are only two trading days left in April, the table below from LPL Research provides a reason for optimism. A huge rally would not be unprecedented.

A Bad Start To April, But There Is Still Time

S&P 500 Index Returns Final 3 Days Of A Month After Horrible Starts

	S&P 500 Index Return	
Date	Monthly Return With 3 Days Left	Final 3 Day Return
11/27/2007	-7.8%	3.7%
1/28/2008	-7.8%	1.8%
10/28/2008	-19.3%	3.0%
11/24/2008	-12.1%	5.2%
5/25/2010	-9.5%	1.4%
8/26/2011	-8.9%	3.6%
11/25/2011	-7.6%	7.6%
8/26/2015	-7.8%	1.6%
10/26/2018	-8.8%	2.0%
12/26/2018	-10.6%	1.6%
3/26/2020	-11.0%	-1.7%
1/26/2022	-8.7%	3.8%
4/26/2022	-7.8%	?
	Average	2.8%
	Median	2.5%
	% Positive	91.7%

Source: LPL Research, FactSet 04/26/2022 (1950 - Current)

All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

The modern design of the S&P 500 Index was first launched in 1957. Performance before then incorporates the performance of its predecessor index, the S&P 90.

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