Palacios' Perspectives

January 24th, 2020

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From Wall Street to Main Street

Highlights from the past week

Market / Macro Economic Summary

The term many people are using when discussing the market these says is overbought/overextended. This is a condition in which people investors believe the markets will do well, but maybe the performance has gotten ahead of itself. As earnings continue to come in fairly strong, this helps to build the case that the markets remain "justified" to be at these levels. As the bears and the bulls fight it out, economic data continues to show strength and we close the chapter on the China-U.S. phase 1 and U.S./Mexico/Canada Agreements. The markets seem to shrug off concerns over a Corona virus impact on travel as well as the ongoing sage with Boeing corporation. While we expect a small/natural correction should take place soon, remaining invested helps to ensure we continue to participate in the positive momentum we are seeing.

Company Specific / Micro Economic Summary

Netflix (NFLX)
Stock rose 3% on Tuesday as the company reported a top and bottom line beat, but also issued slightly lower estimates for Q1 2020. Earnings per share came in at $1.30 when Wall Street was looking for 53 cents and revenues of $5.47 billion was just ahead of the $5.45 billion estimates. Not all was rosy however as the company fell short of the US subscriber additions it had forecasted, coming in at 420,000 when it had said it would hit 600,000. This in the face of increased competition from Disney (as it unveiled its streaming option) and also Comcast as it released its "Peacock" direct to consumer option.

American Airlines (AAL)
Shares dropped even though the company reported strong numbers despite the hit to operations stemming from the 737 Max still being grounded. CEO Doug Parker announced earnings per share of $1.15, which came in one penny ahead of estimates. Revenues of $11.31 billion were up 3.5% from the same period a year ago. Lastly Net Income, rose 27% to $414 million from a year ago. Again, this is despite having nearly 10,000 flights cancelled in the fourth quarter alone!

Southwest Airlines (LUV)
Shares were relatively unchanged as the company reported a mixed quarter. Earnings per share of 98 cents were well below the $1.11 Wall Street was looking for. Revenues of $5.73 billion did exceed the estimates for $5.72 billion. CEO Gary Kelly attributed the mixed results to the Max 737 grounding issue, as the company hold the largest inventory of 737's in its fleet as compared to all other domestic carriers.

Proctor & Gamble (PG)
Shares rose lightly as the company reported earnings per share of $1.47, ahead of the $1.37 Wall Street was looking for. Revenues of $18.24 billion were shy of estimates of $18.37 billion as the company acknowledged strong competition and lower diaper sales.

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Intel (INTC)
Stock shot up 7% to a new 52 week high as the company reported a massive beat to the quarterly estimates. This also fired up the sector as most of the chip companies saw a positive impact as well. Earnings per share grew by 19% to $1.52 when estimates called for $1.25. Revenues of $20.2 billion was also an 8% increase over last year and ahead of estimates of $19.23 billion. CEO Bob Swan credited growth in its data center business and its cloud business demand. Management also guided for well over $1 billion more in revenue than it had previously guided.

Kimberly-Clark (KMB)
Stock was relatively unchanged as it reported a top and bottom line beat. The maker of Huggies diapers and Kleenex tissues earned $1.71 per share as compared to analyst estimates for $1.70. Sales of $4.58 billion were also higher than the $4.54 billion Wall Street was looking for. Management also felt comfortable enough it is future earning capacity that it raised its quarterly dividend by close to 4%.

American Express (AMEX)
Shares rose roughly 2.5% in today's trading as the company reported fourth quarter results that exceeded expectations largely due to higher fee collections on its card portfolio. Earnings of $2.03 per share were two cents ahead of estimates. Revenues of $11.365 billion were barely ahead of the $11.36 billion. CEO Stephen Squeri said the company added 11.5 million new card holders and nearly 70% of those opted for credit cards with some level of fee-based annual charge.

Parting Thoughts

The consumer remains strong as shown in the corporate results above. The economy continues to add jobs, raise wages and provide a path for continued growth. We see 2020 as being a positive return year for the markets in the face of us being at all time highs.

We welcome an opportunity to discuss the above detail and wish you much success in the rest of your week!

Regards,

E. Palacios

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