XCEL WEALTH MANAGEMENT
A REGISTERED INVESTMENT ADVISORY FIRM

Palacios' Perspectives

April 20th, 2020

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Managing Wealth Servicing Generations

For more information on creating and reviewing your financial plan

www.xcelwealth.com

386-872-3440

From Wall Street to Main Street

Highlights from the past week

Market / Macro Economic Summary

Markets ended the week on a positive streak, and we seem to have found some solid footing behind the influx of cash that the Federal Reserve, Treasury and White House/Congress have collaborated to put together in support for our economy. Even with the SBA PPP loan program running out of funds on Thursday, Congress goes back to work to developing a second round of money injection. While most market experts, and unfortunately yours truly, expected to see a retest of the lows set on March 23rd. That ideology has gone out of the window with the amount of stimulus the government has put to work. We will continue to monitor the earnings reports as this week, the major banks provided us with a glimpse of expectations as they all significantly increased their loan loss reserves (money they are setting aside for possible defaults) for the remainder of the year. Markets seemed to brush it off and keep heading higher though.

Company Specific / Micro Economic Summary

JP Morgan Chase (JPM)
Shares dropped initially as the company reported earnings per share of 78 cents when Wall Street expected $1.84 cents per share. Profits of $2.87 billion dropped 69% from a quarter a year ago driven mostly by a $6.8 billion dollar increase to the bank's loans credit reserves. As we progress through the earnings season, you'll come to expect more and more banking institutions reserve higher figures for their expected reserves towards loan losses from people stropping to pay their debts from job losses, etc.

Johnson & Johnson (JNJ)
Stock rose as the company reported a strong quarter. Revenues of $20.7 billion were up 6.2% over Wall Street estimates. With earnings per share coming in at $2.17, this represents an amazing 52% higher than estimates! To add to management's confidence in business outlook, CEO Alex Gorsky announced the board approved a 6.3% increase to its annual dividend. In results by segments, consumer health grew by 9.2%, pharmaceuticals grew by 8.7%, and lastly medical devices were down by 8.2% as elective surgeries are being postponed.

Wells Fargo (WFC)
Bank reported pretty tough numbers as profits on the quarter were $2.87 billion, which was a 50% from the same period a year ago. Earnings per share of 93 cents where well short of the $1.12. This was the first call for CEO Charles Scharf who emphasized his main mandate at the moment is to bring back the trust and respect of all the stakeholders following all of the sales sandals.

Bank of American (BAC)
Shares were lower as other banks following rough results for the recent quarter. Earnings of 40 cents per share were short of the 46 cent estimates and revenues of $22.8 billion were just shy of the $22.9 billion analysts expected. The bank did set aside $3.6 billion for loan-loss reserves that it expects in the coming months due to the corona virus. The consumer banking division revenues fell by 45%, wealth management dropped by 17% but the investment trading division grew by 33%.

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United Health Group (UNH)
Shares rose as the company reported strong numbers as earnings per share of $3.72 were ahead of the $3.64 estimates. Revenues of $64.42 billion was slightly ahead of estimates as well. The company highlighted its efforts in the fight against Covid-19 and working to expedite payments to the medical community and Optum working trying to help with screening and best practice sharing.

Citi Group (C)
Shares dropped as the company's profits tumbled 46%. The bank set aside $4.9 billion dollars towards loan loss reserves. CEO Michael Corbat reported earnings per share of $1.05 as compared to $1.87 and revenues of $20.7 billion were up 12% over the same period a year ago. The increase in revenues were mainly attributed to higher income from the fixed income and equity trading revenues.

Goldman Sachs (GS)
Stop me if you've heard this before, but Goldman also saw its profits decline by 46%. Revenues were $1.21 billion dollars on the quarter and earnings per share of $3.11 were well short of the $3.35 estimates. Trading income came in 28% above estimates to $5.6 billion and investment banking revenue grew by 25%. As a measure of its low sensitivity to lending, Goldman (now considered a bank) only set aside $937 million towards loan loss reserves.

Abbott (ABT)
Shares rose on strong quarterly results based on its Covid-19 rapid testing equipment. Earnings per share of 65 cents were ahead estimates of 58 cents and revenues of $7.73 billion were also ahead of the $7.44 billion. The big news on the call was the N200 and ID Now testing equipment that the company is trying to manufacture as quickly as possible.

Schlumberger (SLB)
Shares dropped on the heels of a shortfall in revenues. In the four business segments the company reports, all of them were negative from the same period a year ago. Reservoir recharacterization was down 10%, Drilling was down 4%, Production was down 6% and their Cameron segment were down 18%. The company lowered its dividend by 75% in large part to the difficulty it sees in the coming year.

Parting Thoughts

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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