XCEL WEALTH MANAGEMENT
A REGISTERED INVESTMENT ADVISORY FIRM

Palacios' Perspectives

February 26th, 2021

Erick J Palacios, MBA

Jon Xynidis

Randall Beardsley

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

The equity markets have been set back this week as the bond markets have seen a rather quick jump in interest rates. This is a macro-economic scenario but let me spend some time describing the components at work so that you can familiarize yourself with the cause and effect at work. Investors have tons of places where they could invest their money such as real estate, stocks, bonds, currencies, commodities, savings accounts and the old reliable "under the mattress" strategy as well. There are different factors that affect each one, but certainly growth and interest rates have a big portion of the decision process. When rates start edging higher, now investors look at savings, money markets and bonds more favorably over stocks….at least that is conventional thought. So, with the 10-year US treasury bond rate going from 1.1% last week to 1.5% this week, all the sudden the stock market becomes a bit worried that investors might sell stocks to go pick up bonds.

My thought here is that this phenomenon should be expected (as we should not think we will remain in a near zero interest rate environment forever) and this is just part of the process of interest rates getting closer towards more "normalized" rate environment. Do I believe investors will leave the stock market in droves to go put their money in the banking system at 1.5% rates??? The short answer is no. The Federal Reserve will still maintain their Fed Funds rate low; stimulus is at the feet of Congress today for a vote, infrastructure spending will still lead to lower unemployment and decrease joblessness. Lastly, earnings have been amazing, and projections remain high for continued growth. This is best exemplified by the Atlanta Federal Reserve Bank economists that adjusted their 5.2% growth of the US Gross Domestic Product for the first quarter of 2021, to a 9.6% new estimate yesterday. This shows us that the US economy is strong and should continue to do well. The thought that I would like to leave you with is that these types of drawdowns (declines) have proven to be buying opportunities in the last 3-5 years and this time should be no different. There are too many factors in the favor of sustained economic rebound around the world and ultimately those factors should outweigh rising rates. I expect to see rates not continue to rise at the rate we have seen in the last week and as such, the equity markets should refocus soon enough on earnings and the like.

Company Specific / Micro Economic Summary

Home Depot (HD)
Shares slid 3% as the company reported a great quarter but investors seemed to possibly be worried the sales gains will not remain as the pandemic hopefully subsides. Earnings per share of $2.65 were three cents ahead of estimates. Revenues of $32.26 billion were well ahead of the $30.73 billion Wall street analysts were looking for. Same store sales came in at impressive 24.5% when analysts expected 19.2%.

Square (SQ)
Shares fell after a strong ascent in the last 12 months. The company reported 141% revenue increase of $3.16 billion, as estimates called for $.1 billion. Earnings per share of 32 cents also beat estimates of 24 cents. The company also announced $170 million purchase of Bitcoin shares, which brings the total the company owns to 5% of its total cash position.

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Lowe's (LOW)
Shares dropped nearly 4% as the company reported a very strong quarter but warned that sales could fade from the strength seen during the pandemic. Same store sales grew 28% as analysts were looking for 22% growth. Earnings per share of $1.33 were much stronger than the $1.21 analysts expected. Revenues of $20.31 billion were also much stronger than the $19.48 billion Wall Street was looking for.

Nvidia (NVDA)
Shares dropped 4% amid the market decline, but the company reported a blow out quarter. Earnings per share of $3.10 was much higher than the $2.81 analysts were looking for. Revenues of $5 billion, which was 61% higher than the $3.11 billion reported a year ago. Analysts expected $4.82 billion. The company was very bullish on autonomous vehicles, data center, gaming, and other segments the company is involved in.

Moderna (MRNA)
Shares were trading 3% higher in the pre-markets as the company reported a mixed quarter. Revenues were much higher than expected coming in at $18.4 billion when Wall street was looking for $11 billion. Earnings per share however fell short of expectations as they reported a loss of 69 cents when analysts were looking for a loss of 35 cents.

Salesforce (CRM)
Shares are trading 4% lower as the company reported a top and bottom-line beat, however the forecasts they presented seemed a bit conservative for Wall street. Earnings per share of $1.04 blew past the 75 cents investors were looking for. Revenues of $5.82 billion were also higher than the $5.68 billion estimates and growth of 20% from the previous quarter.

Airbnb (ABNB)
Shares are trading higher as the company reported numbers for the first time since going public. Revenues of $859 million came in higher than the $739.7 million analysts expected but dropped 22% as compared to one year ago.

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

Erick J. Palacios, MBA
Wealth/Financial Advisor