

November 19th, 2021

From Wall Street to Main Street

Highlights from the past week



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Market / Macro Economic Summary

Markets split this week as the Dow Jones Industrial average, which contains a more thorough set of companies within our economy, was down for the week. The Nasdaq 100, more technology heavy by contrast rose for the week. In my eyes, this reinforces the point of an active stock portfolio management style because its easier to avoid certain stocks/sectors and buy stocks that are being sold unnecessarily. I believe this performance split will be short lived as the markets should rise into the year end. Earnings reports on the whole remain strong and the markets should have very little things in the way of obstacles to higher prices.

Company Specific / Micro Economic Summary

Walmart (WMT)

Shares fell 2% after reporting numbers that beat the top and bottom lines. Earnings per share of \$1.45 were well above the estimates of \$1.40. Revenues of \$140.53 billion were also ahead of the Wall Street estimates of \$135.60 billion. Same store sales came in at an impressive 9.2% when analysts expected 6.9%. Their e-commerce business grew 8% this quarter or 87% if compared to the same period two years ago. The reason for the decline was a 12-basis point drop to gross profit margin created by supply chain issues. I believe this is what the markets fear in the stock, in that as inflation and supply issues remain.... their margins might be impacted to a greater degree.

Home Depot (HD)

Shares rose 4% as the company still saw benefits of the strong consumer demand for home projects. Same store sales rose 6.1%, which far exceeded the estimates of 2.2%. Earnings per share of \$3.92 came in well above the calls for \$3.40. Revenue rose \$36.82 billion which was also ahead of Wall Street expectations of \$35.01 billion. Although consumer sales declined 5.5%, the average ticket price rose 12.9% to \$82.38 which helped in the quarter.

Target (TGT)

Shares dropped 4% as the company reported an otherwise good quarter. Earnings per share of \$3.03 were better than the calls for \$2.83. Revenues of \$25.65 billion exceeded estimates calling for \$24.78 billion. Sales grew 12.7% which were stronger than the forecasts of 8.2%. CEO Brian Cornell highlighted the company's shift to online orders as the company saw a 60% growth in same day, drive up sales. They have integrated their physical stores with the online ordering as 95% of online sales were fulfilled by the physical store staff.

Lowe's (LOW)

Shares were flat as the company reported a strong quarter. Earnings per share of \$2.73 came in higher than the estimates of \$2.36. Revenues of \$22.92 billion were also ahead of the calls of \$22.06 billion. Same store sales grew by 2.2%, which made analysts happy because they were expecting a decline in same store sales of 1.5%. New CEO Marvin Ellison has tried to focus the company on attracting professional contractors and it has paid off as that business segment rose 16% in the quarter and 43% on a two-year basis. Lastly, digital sales grew by 25%.

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Nvidia (NVDA)

Shares rose 10% as CEO Jensen Huang reported yet another strong quarter. The stock is now up 144% year to date. Earnings per share of \$1.17 grew 60% from last year and were higher than the \$1.11 analysts were expecting. Revenues grew by 50%, I'll repeat this for emphasis' sake.... revenues for this \$800 billion company grew by 50%! The chip maker flexed its proverbial muscles as chip demand for data centers, artificial intelligence, inferencing, gaming, automobiles, and visualization (the metaverse) remained incredibly strong. The only item that remains unclear is the possible acquisition of ARM holdings which is still in the review stage in several countries.

Cisco Systems (CSCO)

Shares fell 6% as the legacy computer hardware company ran into supply chain issues that hampered sales. Earnings per share of 82 cents were just above the calls for 80 cents. Revenues of \$12.9 billion were just shy of the estimates of \$12.98 billion. As supply constraints and costs increases, the company warned it could lead to longer lead times. CEO Chuck Robbins did say that they have instituted price hikes that will boost third and fourth quarter results.

Alibaba (BABA)

Shares dropped over 10% as the company reported disappointing earnings. The economic slowdown in China led to revenues coming in at \$31.4 billion when Wall Street analysts expected \$40 billion. Earnings per share of \$1.74 were also short of the calls for \$1.86. The company also warned that results for the full year would come in lower than current estimates. On a bright note, revenues still managed to grow 33% from last year despite the regulatory issues the company is having to deal with from Chinese regulators.

Palo Alto Networks (PANW)

Shares ended the trading day 2% higher as the company reported a top and bottom-line beat. Earnings per share of \$1.64 came in stronger than the \$1.57 analysts were looking for. Revenues of \$1.25 billion were stronger than the calls for \$1.2 billion. CEO Nikesh Arora said they would be raising revenue and billings forecasts as the quarter is providing them a boost that will carry them well into next 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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