Palacios' Perspectives

Week ending February 10th, 2023

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From Wall Street to Main Street

Highlights from the past week

Market / Macro Economic Summary

Markets ended the week lower as most people speculated we simply had a week of "profit taking" by short term investors in the face of the strong markets we have had so far in 2023. While the earnings reports will become lighter for the rest of the Q1 earnings season, I'm starting to see a dichotomy between corporate earnings. Example number one, Uber reported a great quarter and forecasted a strong year while this past week Lyft dropped like a rock as its management came in way off from Wall Street expectations. This is where active stock management can prove advantageous in portfolio allocation. Lastly, another big economic reading is on the horizon this coming week on Tuesday (Valentine's Day reminder here gentlemen) as we will see another reading of the Core Consumer Price Index for January.

Company Specific / Macro Economic Summary

Expedia Group (EXPE)
Shares were lower as it reported adjusted Q4 earnings-per-share (EPS) of $1.26, below the $1.69 FactSet estimate, as revenues rose 14.9% year-over-year (y/y) to $2.62 billion, versus the Street's forecast of $2.70 billion. Gross bookings rose 17.0% y/y, and its free cash flow rose to $2.8 billion, down 9.7% from a year ago, but over 70.0% higher compared to 2019. The online travel shopping company said it delivered its most profitable year in 2022, and that demand for travel was strong and accelerating, despite the negative impacts of severe weather.

Lyft Inc (LYFT)
Shares plunged 35% as the company posted an adjusted Q4 loss of $0.76 per share, well below the forecasted $0.13 profit that the Street was looking for, as revenues grew 21.1% y/y to $1.18 billion, mostly matching expectations. LYFT said it recorded 20.3 million active riders during the period, essentially flat from Q3 and still below pre-pandemic levels, but 8.7% higher y/y. However, the rideshare company said it sees Q1 2023 revenue of roughly $975 million, compared to the $1.09 billion FactSet estimate, citing seasonality and lower prices. This was in stark contrast to rival-Uber who projected a much brighter 2023.

PayPal (PYPL)
Shares rose 5% as it posted adjusted Q4 EPS of $1.24, besting expectations for $1.20, on a 6.7% y/y increase in revenues to $7.38 billion, nearly in line with projections. Looking ahead, the digital payment and financial firm said it sees EPS within a range of $1.08 to $1.10, compared to the Street's $1.07 forecast, on roughly 7.5% revenue growth. Additionally, PYPL said CEO Dan Schulman will retire and leave the company at the end of 2023 but remain a member of the board of directors.

Parting Thoughts

For those that insist we will see a recession this year, I offer this interesting tidbit. Currently, 68% of the companies in the S&P 500 have reported earnings beats and this is not typical for an economy that is heading into recession.

I 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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