Palacios' Perspectives

Week ending April 14th, 2023

XCEL WEALTH MANAGEMENT
A REGISTERED INVESTMENT ADVISORY FIRM

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For more information on creating and reviewing your financial plan

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From Wall Street to Main Street

Highlights from the past week

Market / Macro Economic Summary

We are off and running into the Q1 earnings season with the three major banks reporting in addition to Delta and Blackrock. We also saw some updated economic data as last week's release of the March CPI report revealed that inflation remains on its downward path. If you recall, this time last year we saw inflation running at 9% and now we're closer to 5% in March, driven in large part by a drop in oil and food prices. Also out last week was the March read on the producer price index (PPI), which measures wholesale prices paid, effectively capturing inflation on input costs through the supply chain. The trend here is particularly encouraging, as producer prices are in outright decline, with PPI falling 2.5% in March versus the month prior. This brings the annualized PPI inflation rate down to 3.4%, the lowest in two years. Trends in PPI tend to lead consumer prices by several months (it takes time for prices to work their way to the final purchaser), which tells us consumer inflation is poised to remain on its path lower.

The importance here for me is that as inflation moderates it will, in my opinion, give the Fed cover to bring its rate-hiking cycle to a close. Here is an interesting fact…..over the last 40 years, during the period between the Fed's final rate hike of a tightening cycle and the first rate cut in the following easing cycle, the stock market averaged an 11% return, while bonds returned an average of nearly 7% (source: Bloomberg). This is why I think as an general investing environment is positive for the next twelve months.

Company Specific / Micro Economic Summary

JP Morgan Chase (JPM)
Shares rallied more than 7% after the biggest U.S. bank reported results that easily surpassed analysts' expectations. Profit was up 52% from a year earlier, and revenue increased 25%. Revenue gains were driven by a 49% year-over-year rise in net-interest income (the spread between the interest revenue banks generate from their loans and the interest they pay to depositors), reflecting the Fed's nine rate hikes over the past 13 months.

CitiGroup (C)
Shares rose nearly 5% after reporting earnings per share (EPS) of $2.19, topping analysts' expectations by 51 cents, and an 11.5% rise in revenue to $21.4 billion. Like other banks, Citigroup got a boost from rising net-interest income. Its revenue forecast for its 2023 fiscal year was also better than analysts were expecting.

Wells Fargo (WFC)
Shares gave up some early gains despite reporting a 45% rise in net-interest income, EPS of $1.23 (analysts were expecting $1.14), and revenue of $20.73 billion when Wall Stet was looking for $20.08 billion. CEO Charlie Scharf said, "We had strong results in the first quarter including revenue growth from both the fourth quarter and a year ago, and we continued to make progress on our efficiency initiatives."

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United Health Group (UNH)
Shares were up 1% as the company reported a top and bottom-line beat. Excluding items, it reported a quarterly profit of $6.26 per share, beating estimates of $6.13. The company's medical cost ratio - the percentage of payout on claims compared with premiums - came in at 82.2%. Analysts had estimated 82.54%. Lastly, UnitedHealth raised its adjusted 2023 profit forecast to between $24.50 and $25 per share, compared with its earlier estimate of $24.40 to $24.90 and market expectations of $24.94

Delta Airlines (DAL)
Shares rose 4% as the company reported a miss on their Q1 results but provided a very upbeat projections for the coming year. Earnings per share of 25 cents were 5 cents lower than the 30 cents expected. Revenues of $11.84 billion were also a short miss on the $11.99 billion Wall Street was looking for. CEO Ed Bastian said its corporate bookings have been recovering, with domestic sales in March 85% back to 2019 levels. It also got a boost in its loyalty program, with its co-branded credit card partnership with American Express contributing $1.7 billion in the last quarter, up 38% from last year. Bastian also said he plans to grow capacity 17% in the second quarter from a year earlier, though that won't get the carrier back to 2019 levels as it previously planned.

BlackRock (BLK)
Stock rose 1.6% in premarket trading on Friday after the world's largest asset manager posted Q1 earnings topping estimates, driven by higher non-operating income, while bond ETFs fueled strong net inflows. Earnings per share for the first quarter came in at $7.93 vs. $9.52 in Q1 2022, but topped consensus of $7.69. Revenue fell 9.8% year over year to $4.24B, in line with expectations, driven by the impact of significantly lower markets and dollar appreciation on average assets under management and lower performance fees. Assets under management grew 5.8% sequentially to $9.09 trillion dollars.

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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Wealth/Financial Advisor