

From Wall Street to Main Street

Highlights from the past week



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Market / Macro Economic Summary

The S&P 500 & Dow Jones were higher on the week while the Nasdaq was the lone index that ended the week lower. This isn't a bad thing in my eyes, it actually shows that the year-to-date rally we're seen is getting more spread out and is not just concentrated to the tech-heavy Nasdaq. The S&P was up .7% while the Dow Jones was up 2.1% and the Nasdaq was down .6% on the week. There was not a lot of data on the economic front but more importantly we head into this coming week with a very important Federal Reserve meeting. Most experts are looking for Jerome Powell and other Fed governors to vote for a 25-basis point increase. It is also expected that this will, more than likely, be the last rate hike we will see this year and should mark the end of the Fed's tightening cycle.

Company Specific / Micro Economic Summary

International Business Machines (IBM)

Shares were flat as the company reported a slightly mixed quarter. Earnings per share of \$2.18 were 17 cents ahead of the estimates of \$2.01. Revenue of \$15.48 billion, however, came in just shy of the expectations of \$15.58 billion. Margins for the software giant came in at 55.9%, which was higher than the 54.7% Wall Street was looking for. Artificial intelligence revenues were up 10% from a year ago.

Bank of America (BAC)

Shares of the bank rose 4% as the bank reported a top and bottom-line beat. Earnings per share of 88 cents were better than the calls for 84 cents. Revenue of \$25.33 billion was also higher than the expectations for \$25.05 billion. CEO Brian Moynihan said net interest income (any bank's most important metric) rose 14% to \$14.2 billion.

Charles Schwab (CS)

Stock leaped 12% as the brokerage outfit reported a top and bottom-line beat. Revenue of \$4.66 billion was ahead of the \$4.61 billion analysts were looking for. Earnings per share of 75 cents were also higher than expectations of 71 cents. CEO Walt Bettinger said most of the flows from cash to higher yielding money markets is mostly done and actually saw investors moving back into the equity markets. While the stock got wrapped up in the regional bank mess that occurred some months ago, the stock performance has improved as of late once investors saw that it did not have the same risks associated with some regional banks and their balance sheets.

Goldman Sachs (GS)

Shares of the investment firm oddly rose 2% on the heels of a miss to the earnings per share. CEO David Solomon reported earnings per share of \$3.08 which were solidly lower than the estimates of \$3.18. The main culprits of the miss were write-downs in the quarter due to the commercial real estate division and also the sale of its Greensky lending unit. Revenue of \$10.9 billion did exceed the calls for \$10.84 billion. Investment banking activity has remained low as there hasn't been a lot of action in the IPO space in 2023 and this definitely reflects on the firm's financials. Solomon said that although those investment banking transactions were near a 10-year low, he felt like the second half of the year would be better than the first.

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Tesla (TSLA)

Shares were initially break-even on the earnings report but ended up falling 6% the following trading day. In focus was the profit margin reduction in the quarter as profit margin came in at 9.6% and this was the lowest in five quarters. CEO Elon Musk did reaffirm the company's 1.8 million vehicle target for deliveries in 2023. On a good note, quarterly revenue hit the highest its ever done in a single quarter...coming in at \$24.93 billion dollars versus the estimates of \$24.47. Earnings per share of 91 cents were also ahead of the 82 cents Wall Street was looking for. Musk also said he expects some impacts to deliveries in the third quarter as they are slated for several shutdowns in factories coming for upgrades. On the conference call, he was asked about Cyber truck deliveries, and he was rather vague about answering how many trucks would be delivered in 2023 but said he expects the company to be making trucks in "a high volume" next year.

Netflix (NFLX)

Shares of the media giant were down 8% on the back of a mixed quarter. Subscriptions were up 8% as the company initiated several policies aimed at cracking down on password sharing. Revenue of \$8.19 billion was lower than the analyst expectations for \$8.30 billion. Earnings per share of \$3.29 were well ahead of the \$2.86 most were looking for. The stock has been up just shy of 60% on the year, so this pullback was probably reflective of some profit taking as well as the quarter coming in a little mixed.

American Airlines (AA)

Shares fell 6% after a very strong quarter in large part due to management's assertion that revenue for the upcoming quarter would fall by as much as 6.5%. In terms of this past quarter however, earnings per share of \$1.92 trounced calls for \$1.59. Revenue of \$14.06 billion was well ahead of the calls for \$13.74 billion. This should serve as a reminder that a stock's performance is more influenced by future quarter's expectations than necessarily past quarter's results.

American Express (AXP)

Shares declined 3.5% as lower-than-expected quarterly revenue of \$15.05 billion fell well short of the consensus estimate of \$15.41 billion. That outweighed better-than-expected earnings per share and an all-time high in spending among card members. The company said it had raised its provision for defaults above year-ago levels, suggesting concern some customers may not pay off their balances.

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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