PALOS

Weekly Commentary

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Peak Earnings Season: Part I

“Magnificent Seven” group of stocks. The group, which includes Tesla, Alphabet, Microsoft, Meta Platforms, Amazon, Apple, and NVIDIA has undoubtedly been the market leaders in 2023. In fact, as of Friday’s close, the percentage return year-to-date for each of these “mega-cap” stocks has been as follows: TSLA +68.3%, GOOG +39.1%, MSFT +37.5%, META +146.6%, AMZN +52.1%, APPL +29.5% and NVDA +177.1%.

Market participants are closely monitoring quarterly earning reports from these companies to get a sense of whether the group will continue to lead, or, whether the group is destined to “pullback” to the rest of the pack (i.e., the remaining 493 stocks in the S&P500). **TSLA (TSLA:NASDAQ)** was first out of the gate on October 18 and reported Q3 adjusted earnings of $0.66 per share versus $0.73 expected and an operating margin of 7.6% versus 17.2% one year ago. Revenue was $23.35billion versus an expected $24.1 billion. While the initial reaction in after-hours trading was a move higher, shares declined following comments from CEO Elon Musk that were cautionary citing Cybertruck delays, macroeconomic conditions and affordability as headwinds. As of Friday, TSLA shares are down 18.7% since reporting Q3 results but higher by 68.3% this year.

Last Tuesday, we had earnings from **Alphabet (GOOG:NASDAQ)** and **Microsoft (MSFT:NASDAQ)**. For Q3, GOOG reported revenue growth (+11%) and sales and profits that exceeded analysts’ expectations. Despite the “beats”, shares fell 9.6% on Wednesday and by Friday shares were lower by 11.9%. The aggressive selloff was mostly attributed to a shortfall in revenues from the Cloud segment. Despite the tumble in price, GOOG shares are up 39.1% year-to-date. MSFT also reported on Tuesday after the close. Strong growth from the Azure cloud unit and beats on revenue and earnings led to an after-hours pop in share price although by the end of the week the stock was virtually unchanged (-0.22%): year-to-date MSFT shares are up 37.5%.

Meta (META:NASDAQ) was next up on the earnings calendar Wednesday afternoon. Results exceeded expectations with revenue increasing 23% and net income rising 164% compared to the same quarter last year. Cost cutting via a 24% reduction in employees and improvements in online advertising led to EPS of $4.39 compared to $3.63, handily topping expectations. CEO Mark Zuckerberg said that “time spent” on Facebook and Instagram rose by 7% and 6% respectively because of “recommendation improvements”. Artificial Intelligence (AI) will be META’s “biggest investment area” according to Zuckerberg. META shares slid by 3.7% on Thursday and were lower by only 0.9% by the end of last week. For 2023, META shares are up 146.6%, easily the leader of the pack.

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Amazon (AMZN:NASDAQ) reported after the close on Thursday. Revenue grew 13% in Q3 to $143.1 billion versus expectations of $141.4 billion and earnings per share (EPS) came in at $0.94 versus $0.58 expected. Analysts viewed the results as positive following a difficult 2022 and credited cost-cutting, increased advertising revenue and strength from the AWS cloud unit. Shares closed Friday's session at $127.74 (+6.8%) although well off this year's high of $144.85 on September 13. Year-to-date AMZN shares are higher by 52.1%.

While results so far are a "mixed bag", we note that the **S&P 500 Index** closed 10.3% below its 2023 peak established on July 31. The index slipped into correction territory on Friday given that a 10% pullback from a peak established on July 31 qualifies as a correction. Note, a 10% "pull back" is widely accepted as the definition for a "market correction." We view recent weakness as understandable give investor concerns amid fears of a recession, stubbornly high inflation, interest rate uncertainty, and worrisome geopolitical events.

This week, roughly 30% of S&P 500 companies will report quarterly earnings: the second busiest week following last week's "busiest" earnings calendar. Apple, the world's largest company by market capitalization, will report on Thursday after the close and investors will be paying close attention to quarterly results, as well as comments from Tim Cook that should provide insight into the strength of the American consumer.

Also on this week's agenda is the Fed's two-day interest rate policy meeting on Tuesday and Wednesday. Expectations are that the Fed will keep rates unchanged (markets are anticipating only a 2% probability of another rate hike). More importantly, post-meeting commentary from Fed Chair Jerome Powell will be closely read to gauge where the Fed may be headed (i.e., have we seen the last rate hike?). Finally, on Friday the U.S. jobs report will give investors a sense of the strength of the labour market. One of the underlying objectives of an aggressive interest rate policy is to weaken the economy. The strength of the job market is one of the "canaries in the coal mine" along with consumer spending, consumer confidence, rising bond yields and inflation data. This will be an interesting week.

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Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) [1]	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	$7.44	-2.96%
Palos Equity Income Fund - RRSP	PAL101	$6.23	-3.23%
Palos WP Growth Fund - RRSP	PAL213	$9.67	-22.25%
Palos-Mitchell Alpha Fund [3]	PAL300	$10.00	27.01%
S&P TSX Composite (Total Return with dividends reinvested)			-0.63%
S&P 500 (Total Return with dividends reinvested)			8.64%
S&P TSX Venture (Total Return with dividends reinvested)			-8.53%
Chart 2: Market Data [1]			**Value**
US Government 10-Year			4.83%
Canadian Government 10-Year			3.98%
Crude Oil Spot			US $85.54
Gold Spot			US $1,998.50
US Gov't10-Year/Moody BAA Corp. Spread			184 bps
USD/CAD Exchange Rate Spot			US $0.7210

[1] *Period ending October 27th, 2023. Data extracted from Bloomberg*
[2] *Fund is priced annually*
[3] *Fund is priced weekly on Tuesdays*

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