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Weekly Commentary

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Peak Earnings Season: Part II

With five of the "Magnificent Seven" already reporting their third quarter results, all eyes turned to Advanced Micro Devices (AMD:NASDAQ) reporting last Tuesday, and Apple (AAPL:NASDAQ) reporting after last Thursday's close. While technically not a member of the "Magnificent Seven" group, AMD is often referred to as a "Baby Nvidia" given that its newest artificial intelligence (AI) chips are possible "competitors" for Nvidia's cutting edge H100 chips. Nvidia (NVDA:NASDAQ) will report Q3 earnings on November 21, the last of the "Magnificent Seven" to report its third quarter results.

Heading into Tuesday's earnings announcement, investors were anxious to hear more about AMD's newest AI chips and whether they can compete with Nvidia's H100 chips. The H100 is currently the most sought-after chip by businesses that are building up their AI and machine learning capabilities. The H100 chips are considered the best available and are currently being used by an impressive array of customers including Google, Microsoft and government agencies. The H100 sells for approximately US$ 40,000 per unit and the order backlog is enormous.

After the markets closed on Tuesday afternoon, AMD reported Q3 earnings that topped analysts' estimates. Earnings per share (EPS) came in at $0.70per share versus $0.68 expected and revenue was $5.8 billion versus $5.7 billion expected. During the earnings call, management disclosed that Q4 revenues were expected to be about $6.1 billion in sales versus the $6.4 billion expected, causing AMD shares to slide roughly 4% in the after-hours session. However, AMD shares quickly reversed course following encouraging comments from CEO Lisa Su on the post-earnings call. Su stated that strong revenue growth from the MI300 chip program would make AMD a "significant player" in data center and AI. Comparable revenue of $400 million is expected in Q4, however, Su expects revenue will "continue to ramp quarterly" through 2024. AMD shares finished the week higher by 14.0% and year-to-date shares have gained 73.3%.

On Thursday, Apple reported fiscal Q4 earnings that exceeded analyst expectations for revenue ($89.5 billion versus $89.3 expected) and EPS ($1.46 per share versus $1.39 expected) despite a fall in sales for the fourth consecutive quarter. While sales for the new Apple 15 iPhone were better than anticipated, revenues from Mac ($7.6 billion versus $8.6 billion expected), iPad ($6.4 billion versus $6.1 billion), and Wearables ($9.3 billion versus $9.4 billion) saw shortfalls. On a positive note, Services revenue of $22.3 billion beat $21.4 billion expected and gross margins of 45.3% beat 44.5% expected. APPL shares traded lower by 3% after hours before rebounding slightly throughout the extended session. By the end of the week, shares were virtually unchanged (-0.52%) as analysts debated the challenge for future growth given "perceived weakness" in China with encouraging growth in services revenues (App store, Apple Music, iCloud, payment services, etc.), which are recurring and resilient based on Apple's culture of customer loyalty.

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The "bottom line" on earnings season: despite a challenging environment with rising interest rates, high inflation and a volatile geopolitical stage, many companies continue to exceed expectations. This is encouraging news for the bullish camp. Adding to this, the U.S. Fed voted unanimously to keep interest rates unchanged at last week's meeting and further, post meeting commentary from Fed Chair Jerome Powell was interpreted as "dovish" leading many market observers to conclude that the Fed was "done" with raising rates. This is good news for stocks. Finally, last Friday's U.S. employment report for October showed that non-farm payrolls increased by 150,000 versus a consensus of 170,000 and a significant decline from 297,000 posted in September. The unemployment rate rose to 3.9% which is the highest since January 2022. Some perceive the weakness in employment as a signal that the Fed is seeing results in their fight against rising inflation. Another sign that the recent interest rate cycle may have peaked. In Canada, our economy added fewer jobs than expected in October. The unemployment rate touched a 21-month high of 5.7% also suggesting that The Bank of Canada will keep rates where they are and that should the Canadian economy weaken quickly, a rate decrease may come sooner than later.

The bulls clearly took charge as the month of October wrapped up. The benchmark S&P 500 Index in the U.S. climbed by 5.6% while the S&P/TSX Composite in Canada jumped by an equally impressive 5.8%. While only time will tell if the sharp rally has indicated that a bottom has been put in, it's interesting to note that the move was broad-based which differs from the mega-cap tech rally (i.e., the "Magnificent Seven") which single handedly accounted for much of this year's gains. Furthermore, favorable seasonality factors and extreme bearishness helped with the reversal. Last week's impressive rally saw markets change direction quickly and without notice. Investors who had decided to "step to the sidelines" missed out on significant gains, a reminder that staying invested consistently yields better outcomes than trying to "time" the markets.

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Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) [1]	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	$7.92	3.22%
Palos Equity Income Fund - RRSP	PAL101	$6.58	2.16%
Palos WP Growth Fund - RRSP	PAL213	$9.62	-22.66%
Palos-Mitchell Alpha Fund [3]	PAL300	$9.68	22.90%
S&P TSX Composite (Total Return with dividends reinvested)			5.17%
S&P 500 (Total Return with dividends reinvested)			15.03%
S&P TSX Venture (Total Return with dividends reinvested)			-7.70%
Chart 2: Market Data [1]			**Value**
US Government 10-Year			4.57%
Canadian Government 10-Year			3.74%
Crude Oil Spot			US $80.51
Gold Spot			US $1,999.20
US Gov't10-Year/Moody BAA Corp. Spread			185 bps
USD/CAD Exchange Rate Spot			US $0.7322

[1] *Period ending November 3rd, 2023. Data extracted from Bloomberg*

[2] *Fund is priced annually*

[3] *Fund is priced weekly on Tuesdays*

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