

OptionProfessor.com Alert

April 5th, 2022

EARNINGS ARE COMING--ARE YOU READY??



BY THE OPTION PROFESSOR

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OptionProfessor Alert:
ALERT-Earnings are Coming--Are You Ready??
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Corporate Earnings will be coming out for Q1 in a couple of weeks and the volatility may pick up substantially. The Atlanta Fed is looking for a substantial decline in GDP (albeit not the best track record). The estimates for Q1 are looking for a deceleration in earnings with geopolitical risks, supply chain challenges and inflation as the main themes.

The current expectations are for a 6.1% INCREASE in Q1 2022 earnings (without ENERGY 1%) from the same period last year on a 10.9% INCREASE in revenues. Essentially; the expectation is that there will be a compression in margins which has a root cause in INFLATION....rather than fret about numbers---watch how the stocks trade as your guide to reactions.

These expectations have been slipping since Q4 2021. ENERGY will probably be the shining star as free cash flow (not much cap ex) will flood the reports and guidance will probably be outstanding. Without ENERGY: the trends would be negative.

MARGINS are supposed to shrink BUT strong gains expected in ENERGY & BASIC MATERIALS & Transportation. First out are the FINANCIALS (April 14TH) and with a lower stock market, no IPO's, and no SPACS...one must wonder how the comps will stack up. Growth in the FINANCIALS & TECH sectors have changed and they do have considerable weight. While their revenues may increase; costs are more than an offset. CPI on April 12th the Fed meets the same week-Full Moon April 16!

Infrastructure and EV build outs could be prominent as Build Back Better gets going. What stocks will be the ones to ride?

With the QQQ hitting up against some technical resistance as well as SPX and with the behavior of the TRANSPORTS; we anticipate a wild ride . With the rebound GAINS investors have been FORTUNATE to get and the UNCERTAIN nature of this EARNING SEASON; we feel it's VERY IMPORTANT to Learn about How Hedging Downside Risk & Upside Surprises!

We are focusing in on sectors that have done well this year (ENERGY-METALS) as well as Utilities, Staples, Dividend Payers

Will they be replaced by High Valuation & Tech if the Fed chooses to continue hikes at a snail's pace? It's possible?

What we can say is that this earnings season and the legs of this rebound rally rests on a number of things breaking well

Yes..there may be earnings surprises and breaks in supply chains & inflation BUT the last times we saw an inversion in the Yield Curve were years around 1982, 1988, 2000, 2007, 2019 and 2022...sometimes pretty rough waters so caveat emptor

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- The Option Professor, 04/05/2022

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