

OptionProfessor.com Quick Alert

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Stocks-Q2 Earnings Done- Time to Hedge?



BY THE OPTION PROFESSOR

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OptionProfessor Alert: Stocks-Q2 Earnings Done-Time to Hedge?

We now have 92% of all companies reported their Q2 results and here are how the numbers shook out. On Average earnings +8.7, earnings surprises +4.1%, sales growth +14%, sales growth surprises +2.8%, average post earnings one day move about flat. Walmart and Home Depot announced today. Walmart dropped the bar on July 25 and beat the bar today. Still had +25% inventories but better than Q1 +32% inventories. Seems even the rich are tightening their belts as the Luis Vuitton crowd now shopping at Walmart looking for cheap stuff:) Home Depot missed but WMT & HD are up about 5% (again non horrific news is bullish?). We got some dated 13f filings (as of June 30 pre runup) from the likes of Buffett, Tepper, Burry, and Druckenmiller and we saw buys in oil (CVX OXY ET CEG) & financials (ALLY) tech-security (CRM META DDOG PANW CRWD), Industrials (GEO), and pharma (LLY MRNA) but these very dated in some cases.

LOOKING FORWARD- We won't be getting more earnings news for months BUT we will be getting data on the economy and of course the Fed and their plans for HIKING rates and DRAINING LIQUIDITY from the system (Quant Tightening). There seems to be 3 ways that things will unfold and 2 of them do not include a big rally from here. #1. The first is that INFLATION will continue to drop at a brisk pace and the consumer will spend (cash or credit) and the Fed will slow the pace of rates after September allowing earnings to surprise on the upside and valuations expand toward 20 from 18-19. This allows a \$2.20 earnings X 20 on SPX to get us to 4400 & start discounting \$2.50 X 20 earnings 2023 or SPX 5000. #2 This outcome would be slower growth on earnings a bit tighter Fed which caps this bear market bounce and creates a TRADING RANGE on SPX 4400-4000 until the market let the DATA & the FED determine the path of earnings & growth. #3. The market has MISINTERPRETED the Fed's intention on slowing demand and bringing inflation to 2%. With the jobs rate in the 3% area, inflation at 8%-9%, \$5 trillion asset jump, corporate & household balance sheets ok, housing sales cooled but prices elevated; the Fed goes to 4% Fed funds (50%-75% HIGHER than current rates) and the market swoons.

RIGHT NOW- Just like the forward pass (football's coming yeah!); 2 of the three outcomes listed would make protecting portfolios somewhere in this neighborhood a reasonable idea. We are ALMOST 700 POINTS off the lows in SPX and more on a % basis on Nasdaq! We are UNDER 20 on the VIX which this year previously has been a heckuva sell zone. In our opinion; since the market is still strong, one might start by pricing out calls about 15%-20% out of the money and then if we roll over press the strike prices when price evidence suggests a pronounced decline.

Investors could use the premium to create a collar around their portfolio values giving them upside potential and a floor underneath. Price It.
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