

*Delta Investment Management is a registered investment advisory firm. Delta welcomes discussions with individuals seeking investment advice and advisors seeking a new turnkey asset management solution.*

*Delta manages portfolios at TD Ameritrade and Schwab.*

*Please contact Delta at [info@deltaim.com](mailto:info@deltaim.com) or 415-249-6337 to learn more.*

February 4, 2022

Through the first 32% of the S&P 500 earnings reports, 75% are beating earnings and revenue estimates with Q4 revenue growth +16% and net income +25%.

### **Lessons from Earnings**

Through the first 32% of the S&P 500 earnings reports, 75% are beating both earnings and revenue estimates. 4Q revenue growth has averaged 16% and net income growth is 25%.

#### **#1 Demand is Robust**

- Tesla reported a 65% year/year surge in revenue.
- LVMH (brands include Louis Vuitton, Christian Dior, Fendi, Tiffany & Co, Bulgari, TAG Heuer) reported organic revenue growth of 27%.
- Microsoft's Cloud business was up 32% year/year.
- Apple had its best quarter ever; \$124 billion of revenues in the quarter growing at 11% with a 43.8% gross margin.

#### **#2 Plenty of Pricing Power**

- Tesla's gross margins expanded by 850 basis points.
- Whirlpool sees no major concerns with price elasticity – consumer demand strong.
- Despite facing rising labor and fuel costs, UPS reported a 54% increase in profit per piece in the U.S. (adjusted operating income over total package volume).

#### **#3 Covid Impact Subsiding**

- McDonald's CEO Christopher Kempczinski: "...as of this week, we are now down to only about 1% of our restaurants in the U.S. are operating with limited hours. So, franchisees have been able to make significant progress in ensuring that they've got the staffing that they need."

- Southwest Airlines Incoming CEO Bob Jordan: “I’m pleased to report though that over the last few weeks, the operation and staffing have stabilized, and we’ve seen performance even better than during the holidays.”
- JetBlue Airways Corp (JBLU): “...trends have largely stabilized and are improving across all geographies. As quickly as the Omicron wave swept through the Northeast, we are seeing cases rapidly decline.”
- Covid (Omicron surge) primarily impacts the service sector. The January ISM Non-Manufacturing Index was up 59.9% versus expectations of 60.0%. The January reading was the 20<sup>th</sup> straight month of service sector growth (readings > 50), albeit at a slightly slower pace.

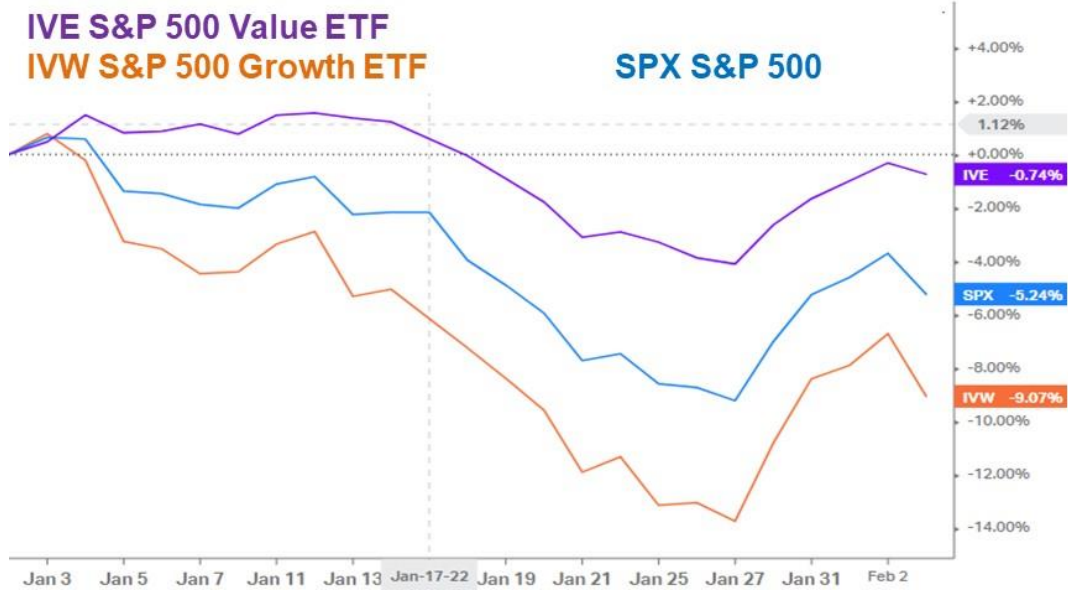
Part of the reason higher labor costs did not have a larger negative impact on fourth quarter earnings is productivity (nonfarm business sector labor productivity) increased by 6.6% in the quarter. Unit labor costs increased only by 0.3% as hourly compensation increased by 6.9% versus the 6.6% gain in productivity.

All investors have a plan until they get punched in the Facebook (Meta Platforms, FB). From the intraday low of January 24 through the close of February 2, the NASDAQ 100 had rallied by 10%. FB, which represents roughly 5% of the NASDAQ 100 Index, delivered disappointing earnings and outlook after-market-close on February 2 and the stock dropped about 25% during trading on Thursday. The NASDAQ and broader market rally took a step backwards.

The two lessons we take away from the “faceplant” are 1) FB has company specific issues including a “platform transition”, and 2) the stock market today is highly vulnerable to price changes in Apple, Microsoft, Google, Amazon and Facebook/Meta. These five companies are 22.5% of the market capitalization of the S&P 500 and 42% of the NASDAQ 100.

The elevated market volatility year-to-date is the result of significant mixed signals to investors. Knocking stocks lower has been more hawkish Fed tightening expectations, rising rates, inflation, the Omicron surge, slowing GDP growth, supply chain issues and rising geopolitical uncertainty including Russia’s military buildup on the Ukrainian border. Offsetting these issues has been generally strong earnings and positive outlooks.

## Value versus Growth, YTD



With Amazon and Meta (FB) showing price underperformance, the stock market may go through a leadership transition. Year-to-date, value is outperforming growth after years of growth outperforming value. Periods of transition for the stock market are often choppy. Overall, however, much of corporate America is showing success with managing through rising rates, inflation, wage pressure, slowing growth and Omicron.

### Let Us Help You Position Your Portfolio – Give Us a Call Today

We have unique and sophisticated investment methods that seek to capture the stock market's gains while minimizing drawdowns in bear markets. If you would like to learn more about how we manage money, we invite you to give us a call at **(415) 249-6337**, visit [www.deltaim.com](http://www.deltaim.com) or email us at [info@deltaim.com](mailto:info@deltaim.com).



*Drucker*  
"I can see why they made February the shortest month of the year."

---

## Delta Stock Market Dashboard

---

MARKET SENTIMENT IS

**BEARISH**

THIS WEEK'S NUMBER IS

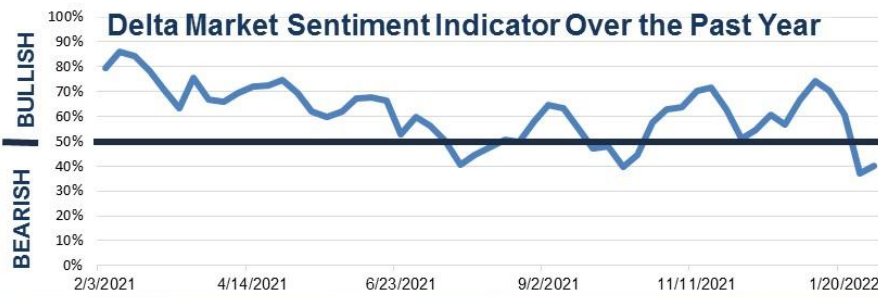
**40.0**

Our technical indicator increased  
from 37.2 to 40.0 this week

### INDICATOR STATISTICS

Consecutive Bearish Weeks:	2
Cycle Inception Date:	1/27/2022
Range:	37.2 – 40.0
Mean:	38.6
Bullish Weeks YTD:	3
Bearish Weeks YTD:	2
*S&P 500	4.2%
*DJIA	3.2%
*NASDAQ	4.7%

\* Percentage change during current cycle.



---

Pursuant to the provisions of Rule 206(4)-1 of the Investment Advisors Act of 1940, we advise all readers to recognize that they should not assume that recommendations made in the future will be profitable or will equal the performance of past recommendations. This publication is not a solicitation to buy or offer to sell any of the securities listed or reviewed herein. The contents of this letter have been compiled from original and published sources believed to be reliable, but are not guaranteed as to accuracy or completeness. Nicholas Atkeson and Andrew Houghton are also principals of Delta Investment Management, a registered investment advisor. Clients of Delta Investment Management and individuals associated with Delta Wealth Adviser may have positions in and may from time to time make purchases or sales of securities mentioned herein.

THIS NEWSLETTER IS PROTECTED BY COPYRIGHT LAW. UNAUTHORIZED DISTRIBUTION AND/OR REPRODUCTION BY PHOTOCOPY OR ANY OTHER MEANS IS STRICTLY PROHIBITED AND PUNISHABLE BY A FINE OF UP TO \$25,000.