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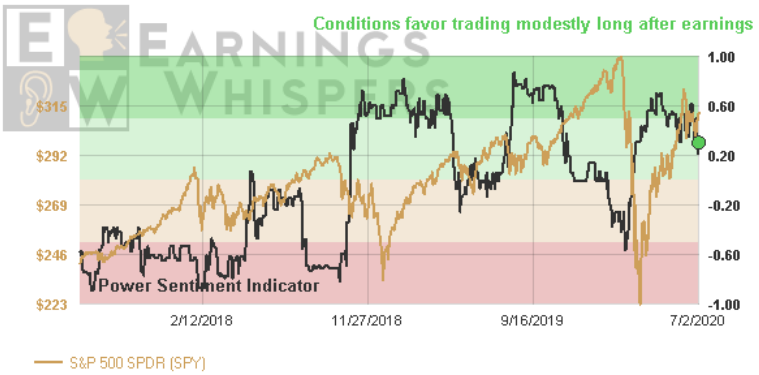
The Whisper Report ®
Number 805

Prepared on Monday, July 06, 2020

Current Trading Strategy

Primarily trading long around earnings while the S&P 500 is above 2,935.

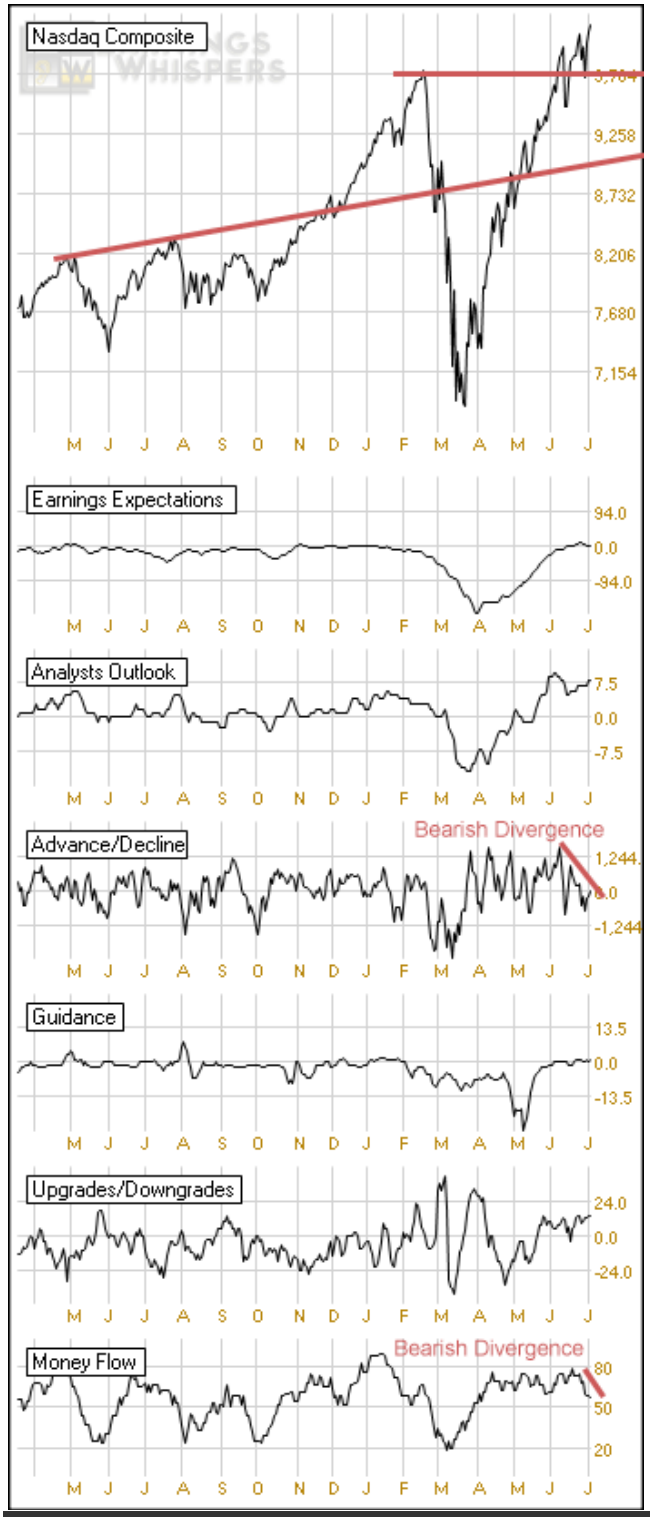
- One thing seems clear – estimates going into the second quarter earnings season are currently too low.
- Walgreens – signs of a bottom, but still a value trap
- Bed Bath & Beyond – ditto



Statistics for the month of June 2020

	Positive	Negative	In-line	Ratio	Normal Ratio*
Guidance	55	33	40	62.5%	40.1%
EPS Surprises	129	121	23	51.6%	61.3%
Whisper Surprises	60	42	3	58.8%	56.1%
Revenue Surprises	141	95	-	59.7%	56.5%

* The average ratio for the month of June



Key Market Events

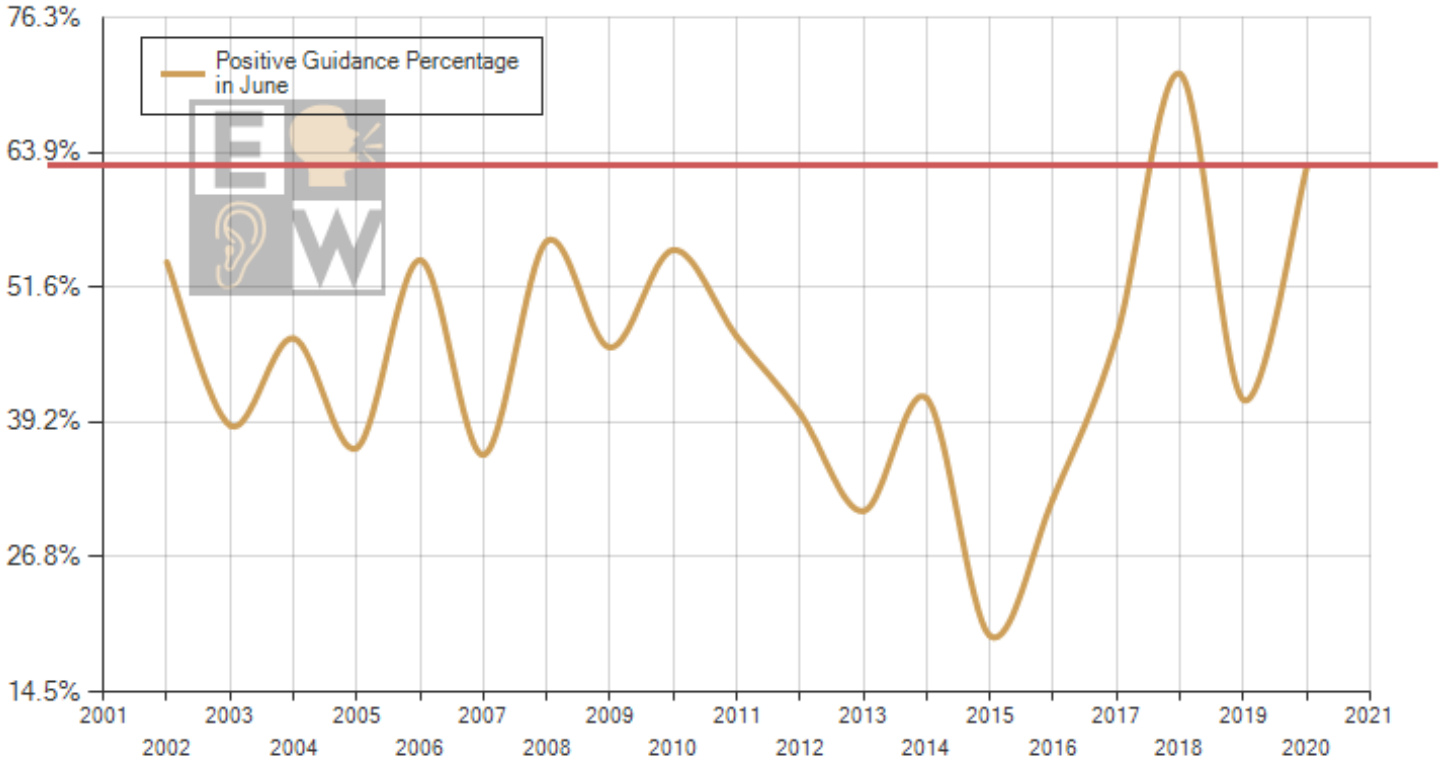
7/6	June ISM Non-manufacturing
7/9	Initial Jobless Claims
7/10	June PPI

Top-Down

Monday		Tuesday		Wednesday		Thursday		Friday
Before Open	After Close	Before Open	After Close	Before Open	After Close	Before Open	After Close	Before Open
	Remark Holdings	PAYCHEX	ASPEN UNIVERSITY	Simply Good	BED BATH & BEYOND	Walgreens Boots Alliance	WD-40 COMPANY	THE GREENBRIER COMPANIES
			Levi's	MSC Industrial Direct	SARATOGA INVESTMENT CORP.	Helen of Troy	SimulationsPlus	
			SMART GLOBAL HOLDINGS	NTI	EXFO	AZZ	FranklinCovey	
						Jerrick	Capstone	

The table on page one of this report shows a “ratio” of 62.5% positive guidance announcements. This is really a ratio, but it is a lot simply to fit that in the box than what the number really is… which is the percentage of guidance announcements that differ from consensus estimates and are positive. It is shaded green because it is higher than the historical average 40.1% of announcements that are positive.

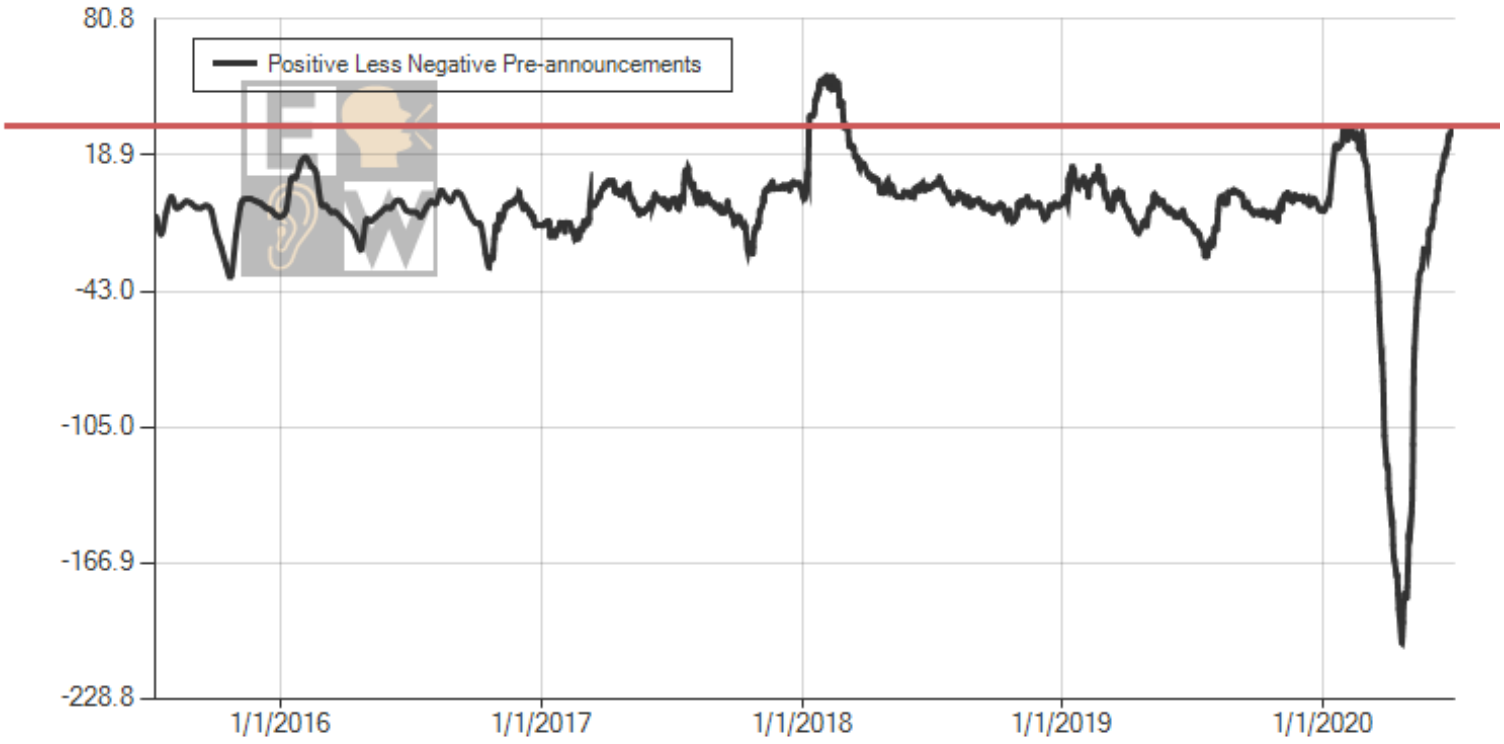
June is a light month for earnings releases and guidance announcements, so what we hear during the month isn’t always an important tell for other companies getting ready to report. On the other hand, the chart below shows the positive guidance percentage during the month of June going back to 2002, and with the exception of 2018 following the tax cuts, this past June was the most positive.



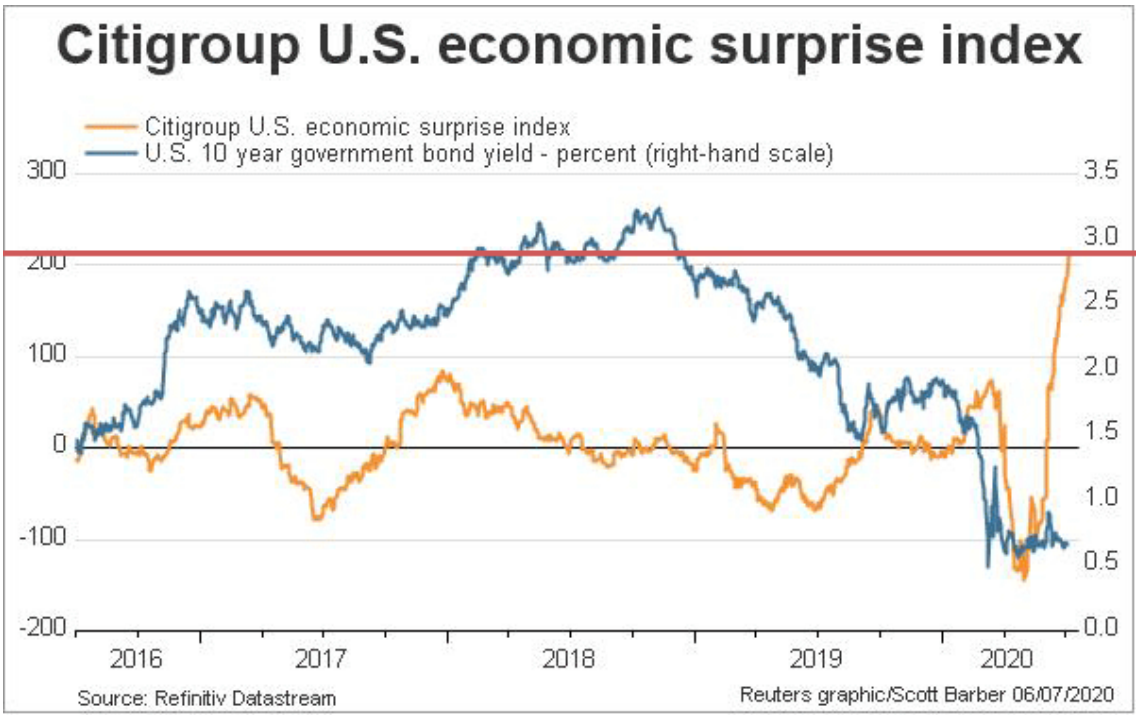
There are two types of guidance announcements included in the numbers in the table on page one and the chart above. The most common announcement comes as part of a scheduled earnings release when the company tells what it expects for the coming quarter and we have to then wait three months to see how the company performed relative to its own projection. The other type is a pre-announcement, when the

company possibly already provided guidance for the quarter and is scheduled to report earnings within the next few weeks, but it decided for whatever reason that it needed to update investors with new projections. Sometimes the weeks leading up to earnings season is called “warning season” because companies are more likely to update their guidance if they are underperforming and want to make sure the bar is set low enough. They are more likely to be content with a low bar if they are outperforming expectations.

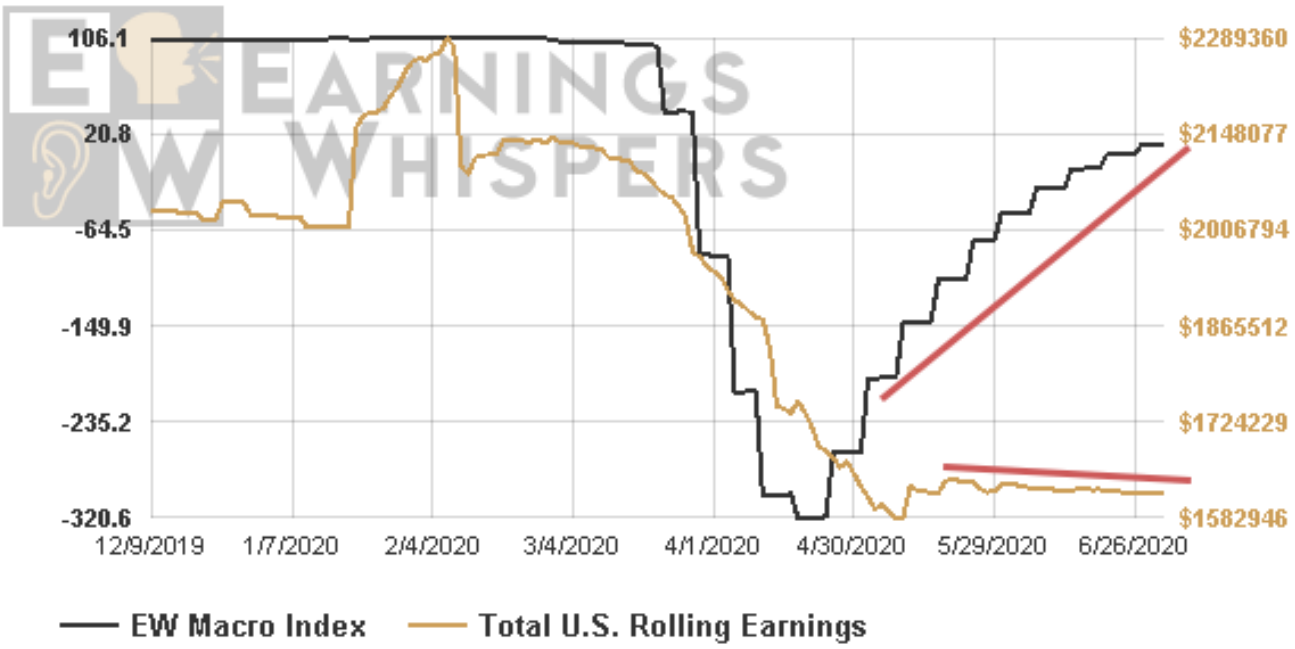
The two types of guidance tell different stories, with an obvious difference that the pre-announcement is more timely. When we get a number of pre-announcements, it signals estimate changes beyond just the company providing the guidance. The chat below shows the number of positive pre-announcements during the quarter, less the number of negative pre-announcements. We were seeing a large number of positive pre-announcements going into earnings season last quarter, but then the COVID-19 impact hit. The only time over the past five years there have been more positive pre-announcements than now was back at the beginning of 2018. That January saw 73% of companies report earnings above estimates.



The indication is that estimates were slashed too low during the panic of the initial stages of COVID-19 lockdowns and now companies have performed better-than-feared during the quarter. This makes sense since estimates were cut approximately 40% during the quarter – the deepest quarterly decline in estimates since 2008, but there are other signs that those cuts were too deep. The chart at the top of the next page shows the Citigroup Economic Surprise Index over the past five years. After bottoming this spring, economic surprises have accelerated to a multi-year high.



While the strong economic surprises favors other estimates are too low too, a better indicator is our index of macroeconomic indicators. As we've pointed out over the past few months, the huge drop in key economic data has distorted most economists' models and some of our indicators too. Our index of macroeconomic data that correlates highly with stock prices, naturally, lines up well (at least prior to COVID-19) with the S&P 500 and that is how we tend to show it, but for the chart below, we compare the same index to the rolling earnings of U.S. traded companies – two quarters of reported results and two quarters of forward estimates. Given the collapse during March, we don't want to read too much into the magnitude of the increase since late April, though we do want to note that our index has now turned positive. What is most important, in our view, is that our index bottomed in April and earnings bottomed in May, but since then our index has trended higher but earnings have basically drifted lower. This suggest estimates have not been revised higher even though most indications are that conditions have improved for most companies. Consequently, we look for mostly earnings beats this coming earnings season.



Market Overview

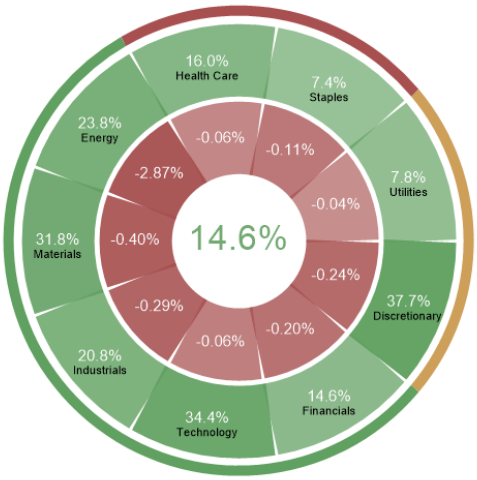
One item we didn't cover this week in our top-down analysis that we normally discuss is the Fed's asset purchases. It could be significantly important after the Fed's buying failed to keep up with mortgages backed securities that rolled off its balance sheet, for a net decline in holdings, but we do know the Fed plans to continue supporting the markets and, so far, each time it let its assets decline, it came back stronger the following week. Therefore, what probably matters is the market data. After all, the Fed's asset purchases are only important in so much as it provides additional liquidity in the market and that money is forced to buy stocks. The chart below shows our Money Line indicator, which is our measure of the net buying and selling in the stock market. Even without stocks moving to a recent high, our Money Line pushed higher to a new high, giving us a small buy indicator. Quite simply, there is new money coming into the market and it is supporting stocks at a lower price, which suggests stronger support and the likelihood that overall stock prices will soon reach a new high too.

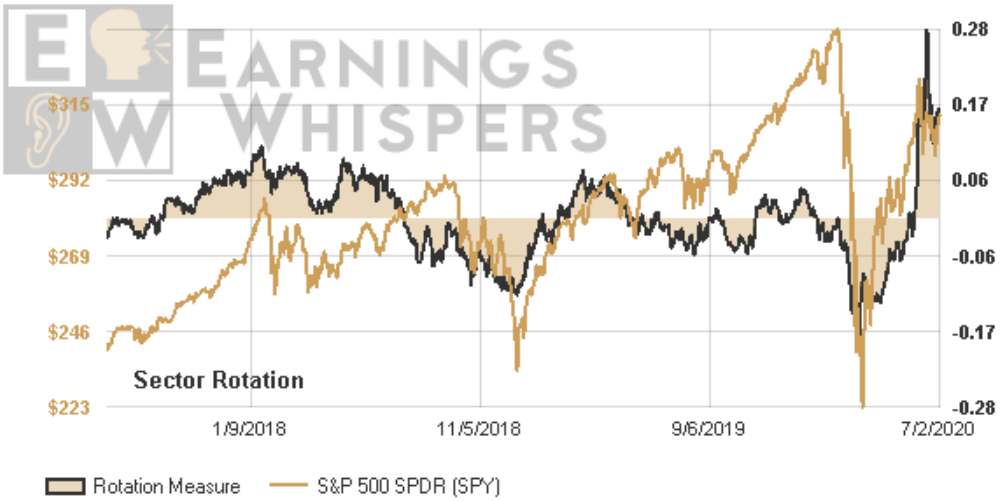
We often point out the old Wall Street saying among market technicians that the only things that matter for stock prices is how much money is available to be put to work and how much that money wants to be put to work in the stock market. The Fed is making sure there is money to be put to work and the Money Line confirms this is going into the stock market. The upcoming earnings season as discussed above should be the demand suggesting stock prices continue higher in the weeks ahead and, therefore, we are maintaining our strategy of trading long ahead of earnings.

One change is our Power Sentiment Indicator on page one of this report has ticked lower some. It still suggests the odds favor trading long after earnings, but the strength has faded some. For now, though, we continue trading long after earnings as well.

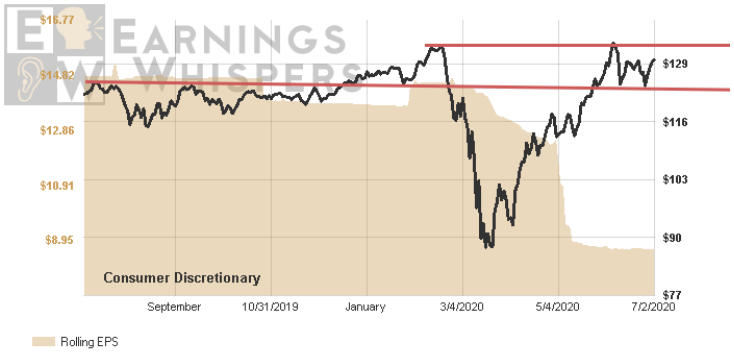
The 2,935 line continues to be the point at which we would be proven wrong.

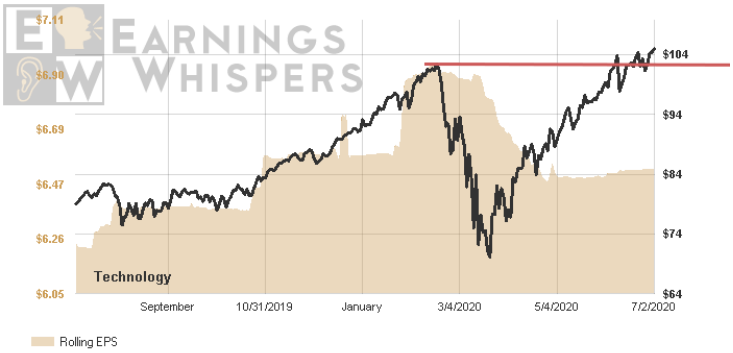
Sector Performance

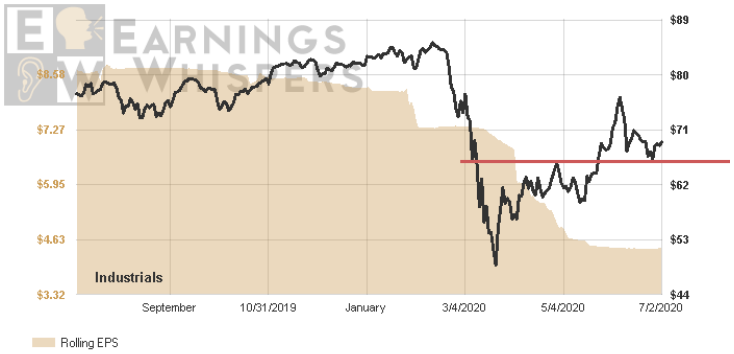


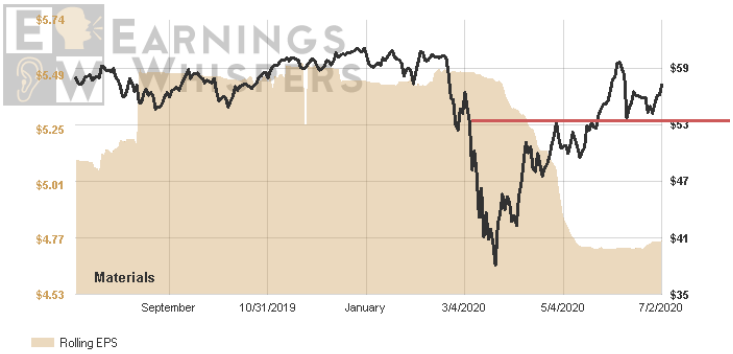


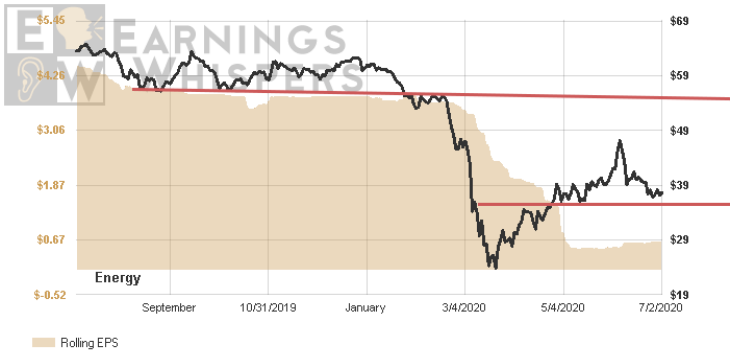
Our measure of the sector rotation was essentially unch last week and Health Care, Staples, and Utilities are the clear laggards indicating positioning for stronger cyclical growth to come. The one possible exception remains the Financials. This group kicks of earnings season next week and we'll cover them in more detail next Monday, but it has been our view since last earnings season that write-downs in the first quarter would be too steep and fee income, primarily from the Paycheck Protection Program (PPP), will result in upside earnings surprises this quarter – even if interest rates create a headwind. If so, then the story likely works better if the trend line below holds as support.

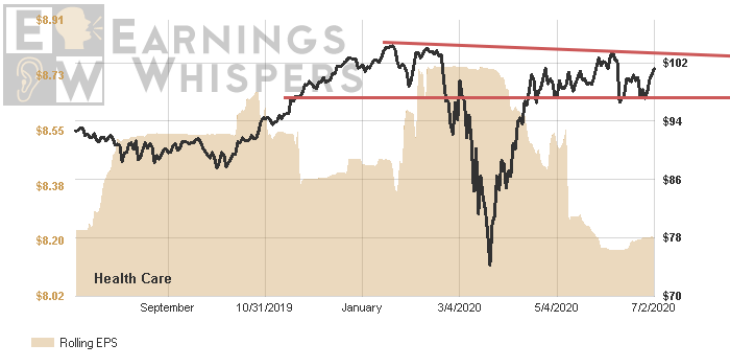


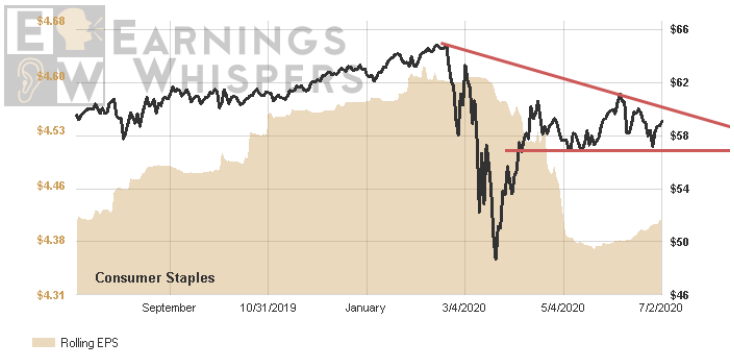


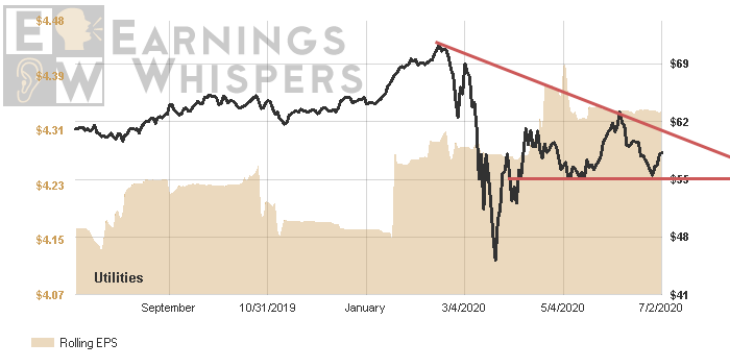




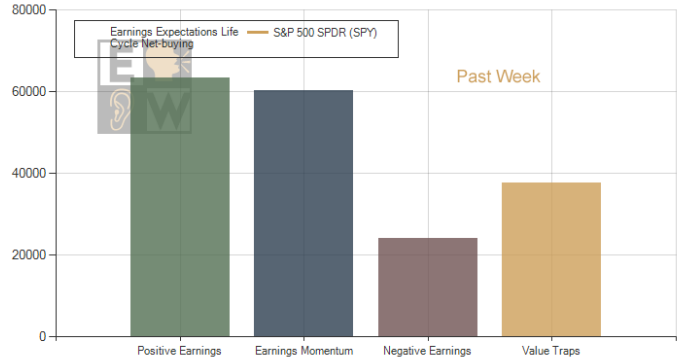


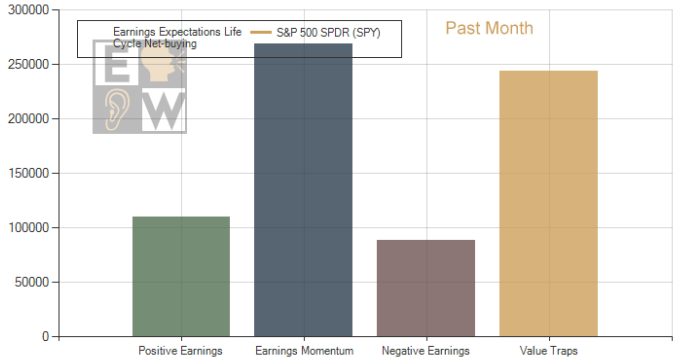


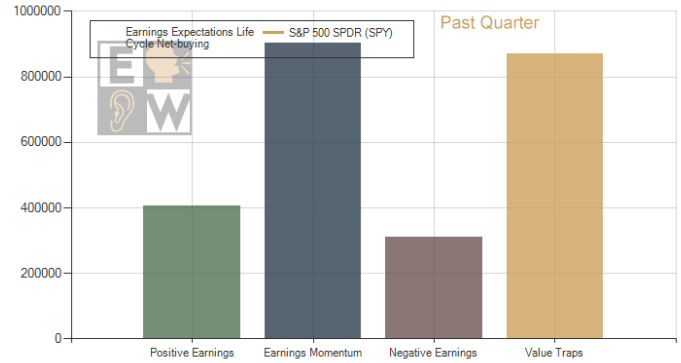


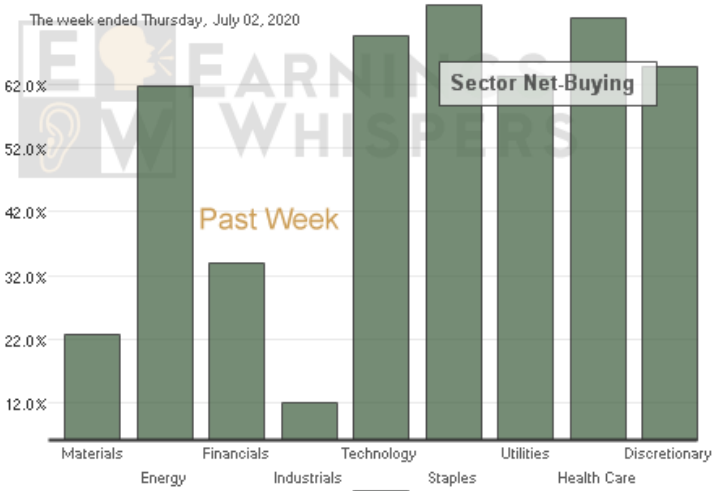


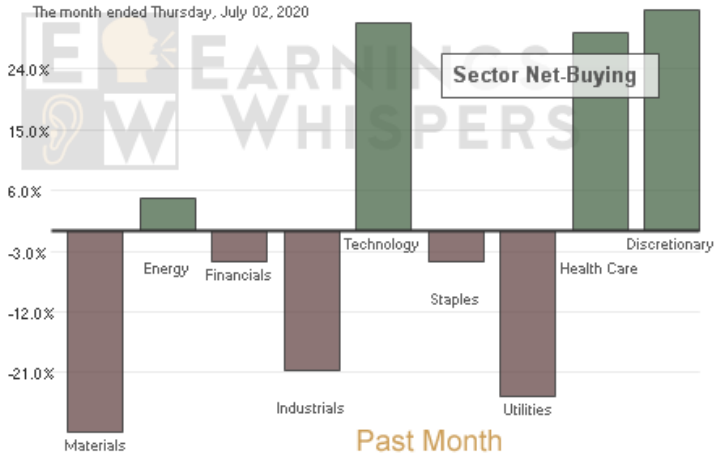
Money Flows

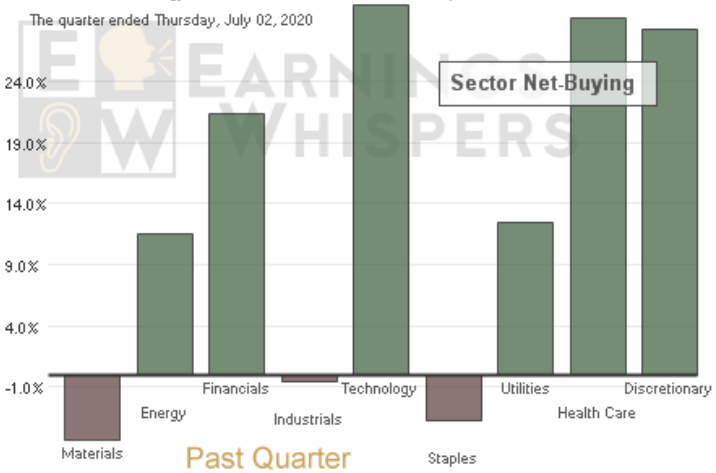




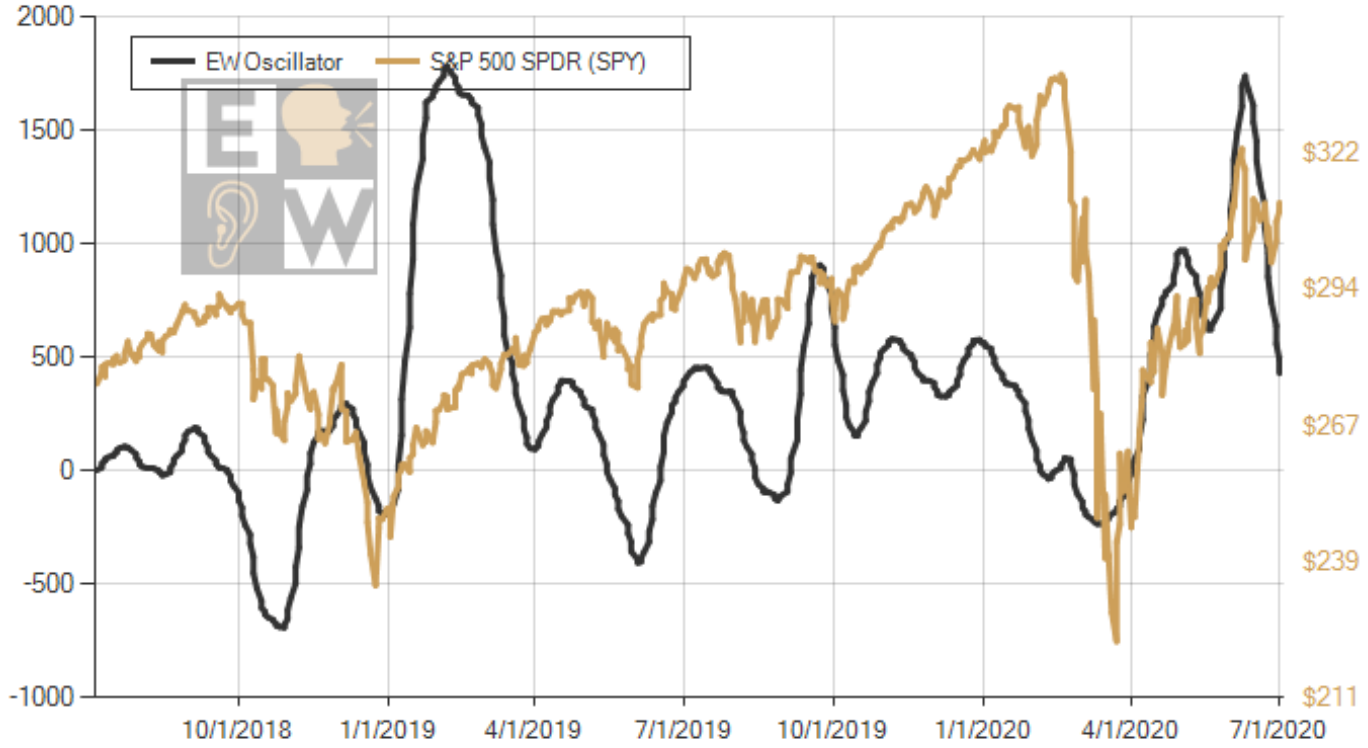




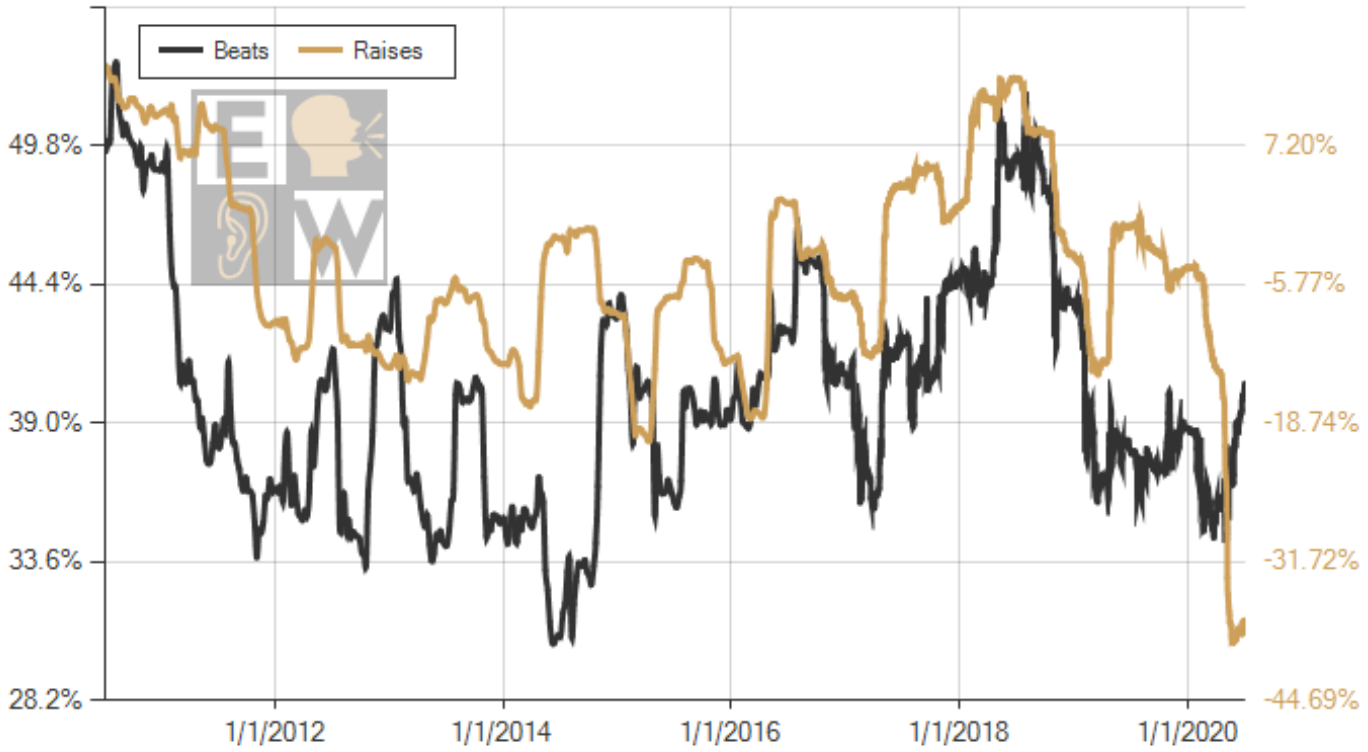


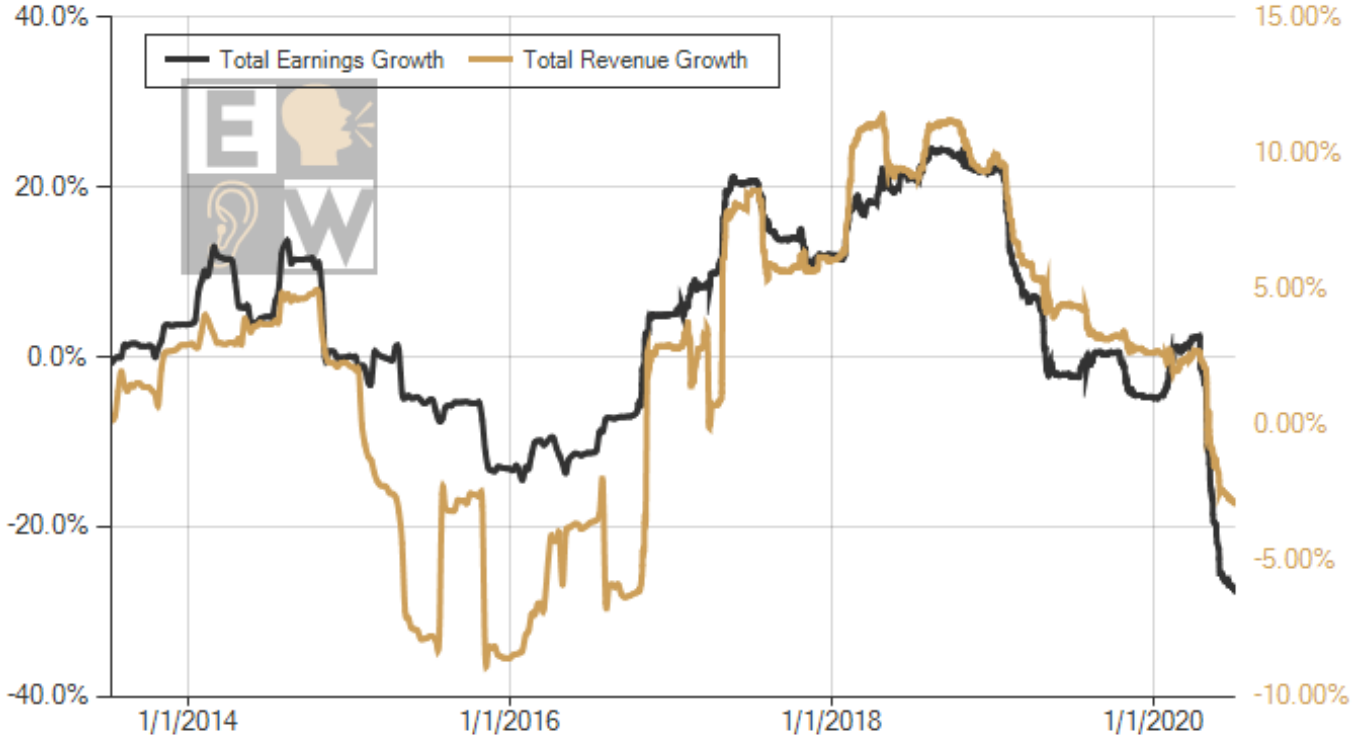


While all sectors saw buying last week, the Positive Earnings stocks and the Earnings Momentum stocks were the leaders, which is a positive sign for the market from here. The strength wasn't enough to stop the decline in our oscillator of the price action of positive earnings vs negative earnings stocks, but this is a normal drop from an extreme high, which also tends to be indicative of higher prices in the future.

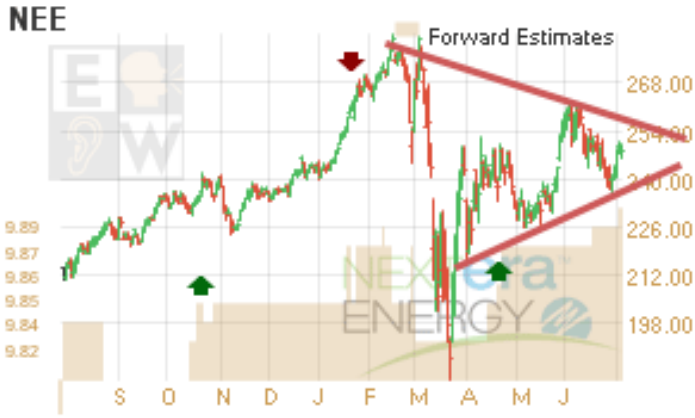


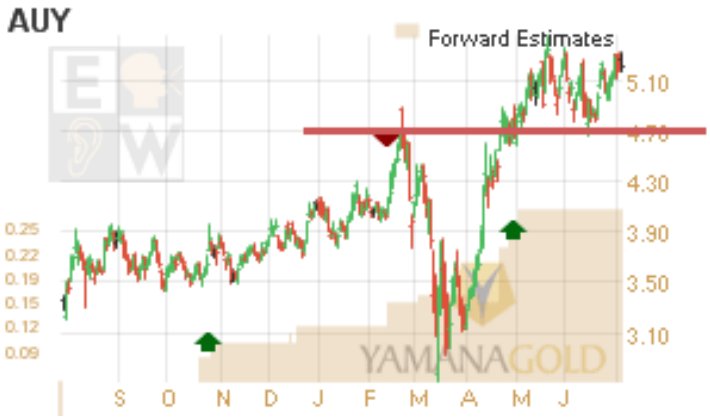
Earnings Trends



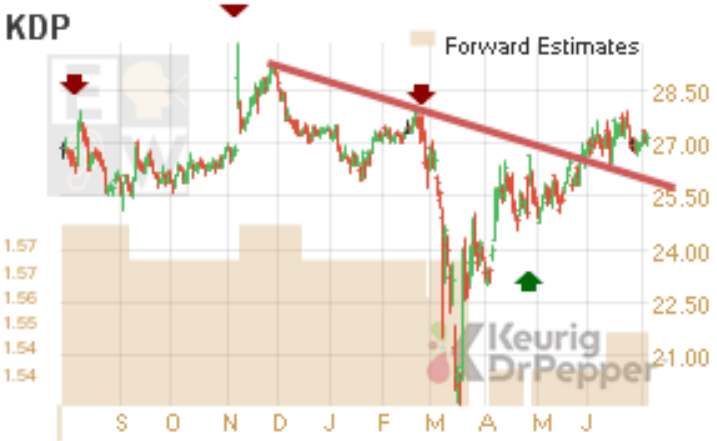


Upcoming Releases with Favorable Earnings Whisper Scores





KDP



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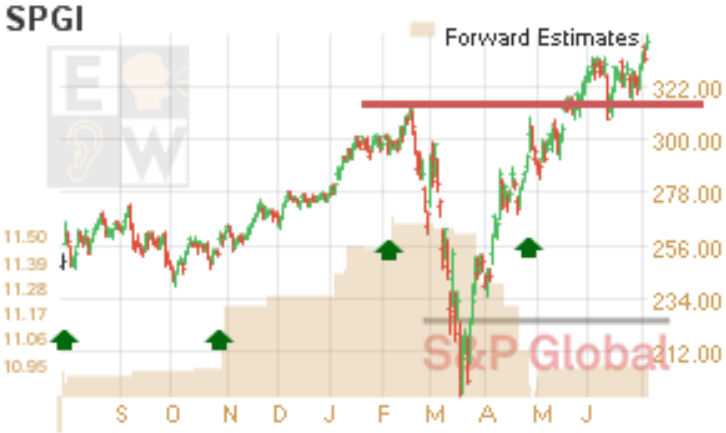
SPGI

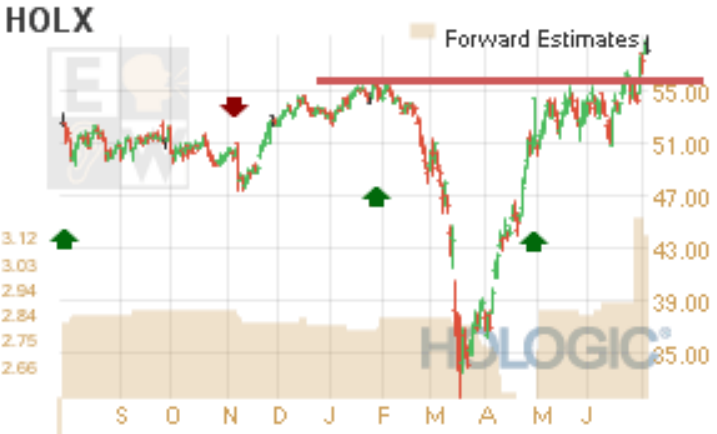


MPWR

PB

EBAY

HOLX



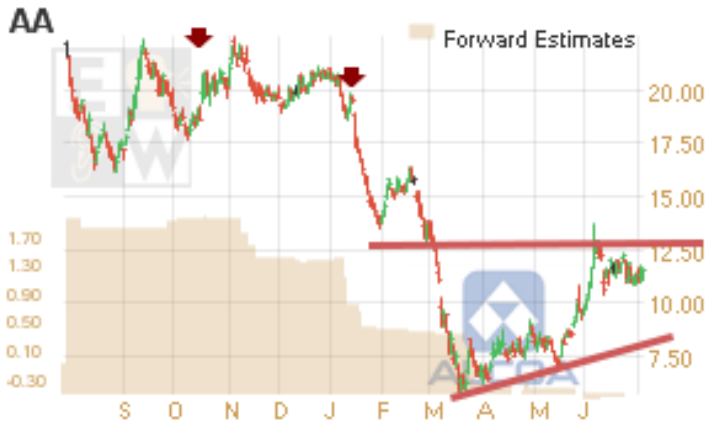
BAND

Upcoming Releases with Unfavorable Earnings Whisper Scores

KURA

CTAS

AA



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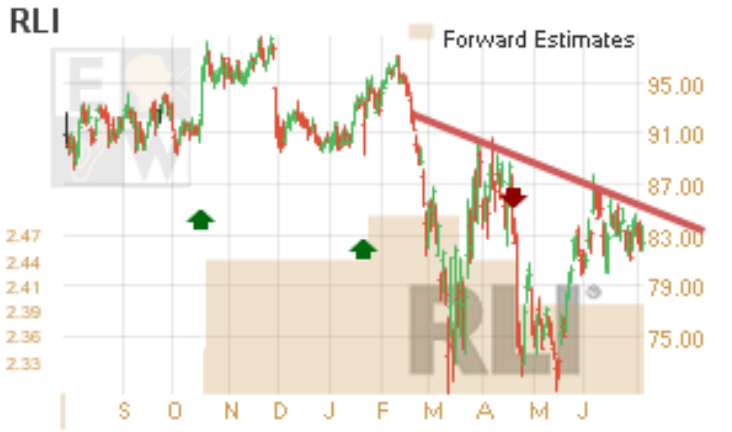

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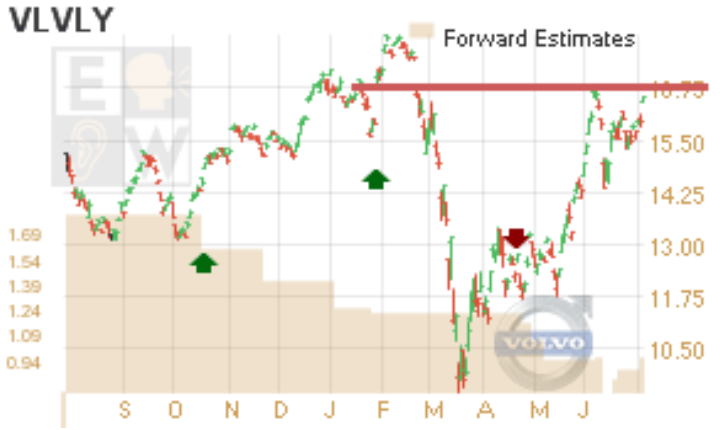

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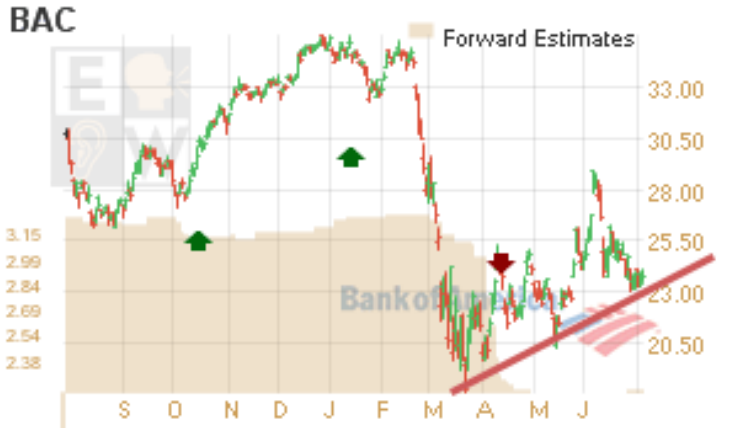

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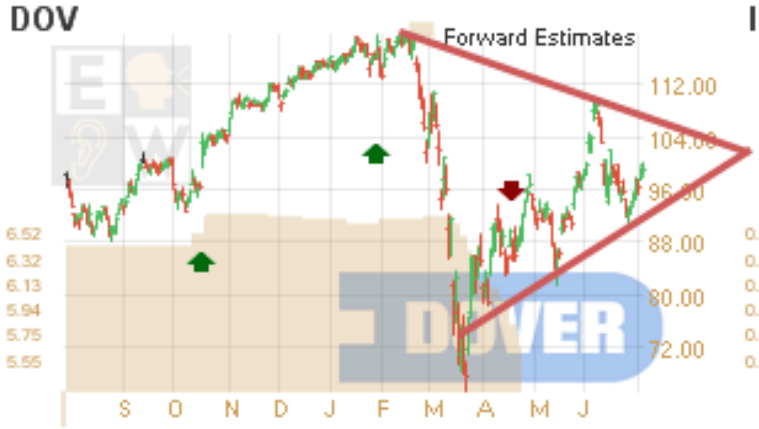

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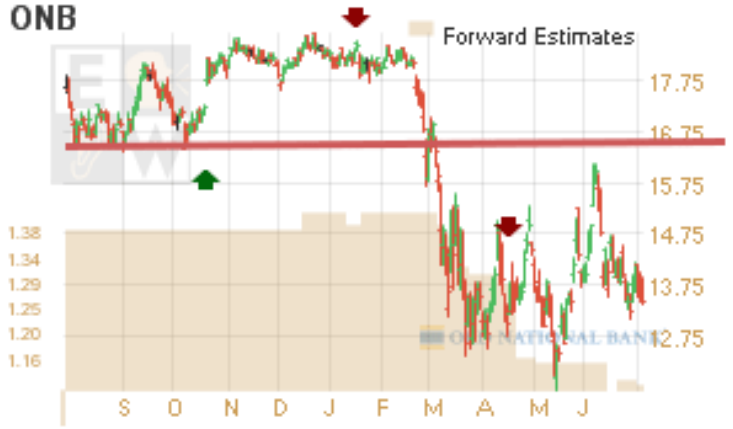

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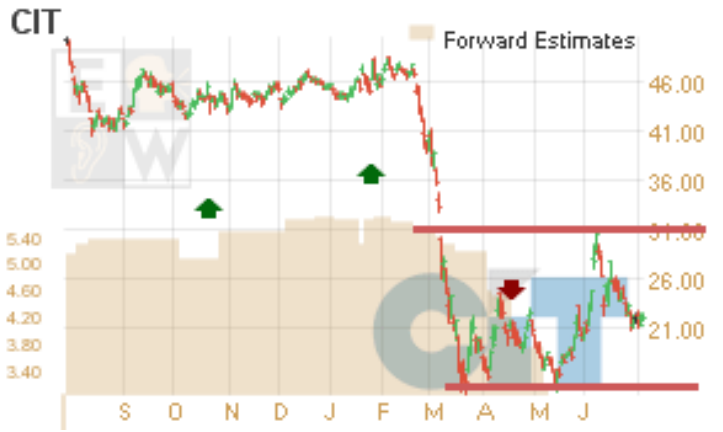

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Bottom-Up

Our Bottom-Up analysis is a preview of key earnings releases scheduled in the coming week. Inclusion in our Bottom-Up analysis does not, necessarily, imply the stock is a trade ahead of earnings or even that it is setting up for a trade after the news. Trades are listed online at http://eps.sh/plays, discussed in our trade notes at http://eps.sh/notes, and/or included in our morning emails.

Walgreens Boots Alliance

WBA

Earnings Whisper

$1.11

Earnings Estimate:

$1.07

Revenue Estimate:

$34.23 billion

Thursday

Jul 9

7:00 AM ET

Volatility

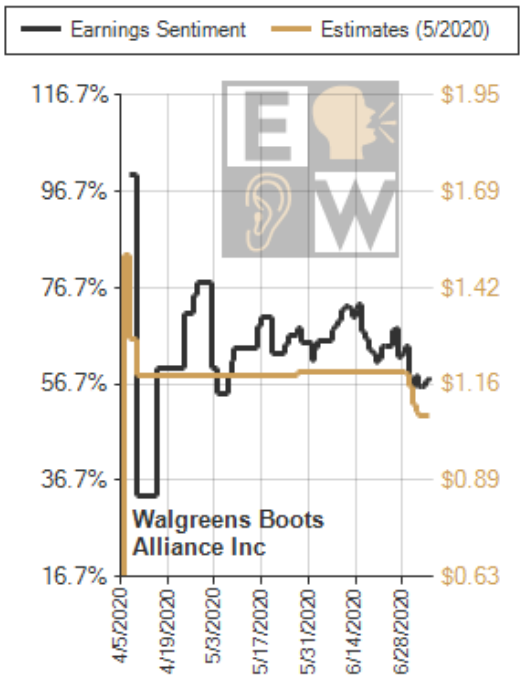
Priced into options:

6.6%

Average move:

5.8%

It is a light week for earnings before earnings season gets underway next week – although it will still be another week before the number of companies reporting really picks up. Most companies reporting this week have mixed data checks, and Walgreens Boots Alliance (WBA) is one of them. That doesn't really give us a reason to trade it, and, in fact, the trends are down until proven otherwise and that favors selling the stock into earnings.



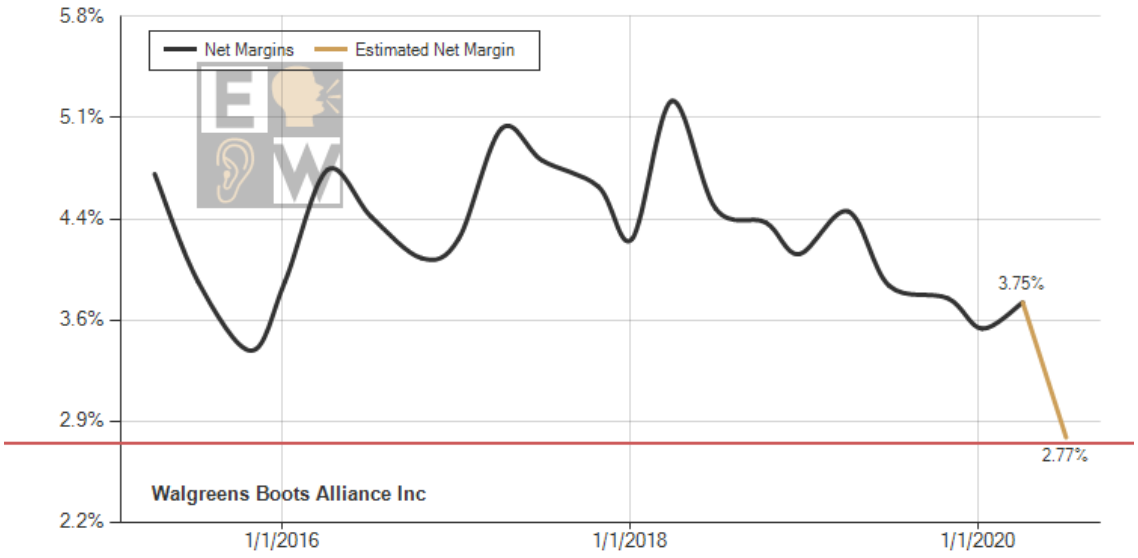
However, there are also signs that the stock has bottomed and, since the market's tide is rising, we prefer to bet on the boat going higher.

First, however, the bearish view is more secular and the data during much of the quarter supports the downward trend. Walgreens has a large number of brick-and-mortar locations, but online prescription sales are outpacing traditional retail sales, and this is a trend that continued during the lockdowns. In fact, despite our view that prescription drug sales should be up during a pandemic, analysts checks appear to be pointing to negative growth. This is also a trend that is expected to continue, meaning Walgreens is at risk of losing additional market share and a continued decline in earnings… making the stock a value trap.

The fact that it is a value trap is important to keep in mind as we point out the "value" part of it. The stock has historically traded at 13.1 times forward estimates, which means the stock appears cheap below $78 and it is well below $78. In fact, the stock recently hit a trough forward PE multiple of 6.4 and, as long as estimates don't go lower, that could mean there is a floor just above $38.

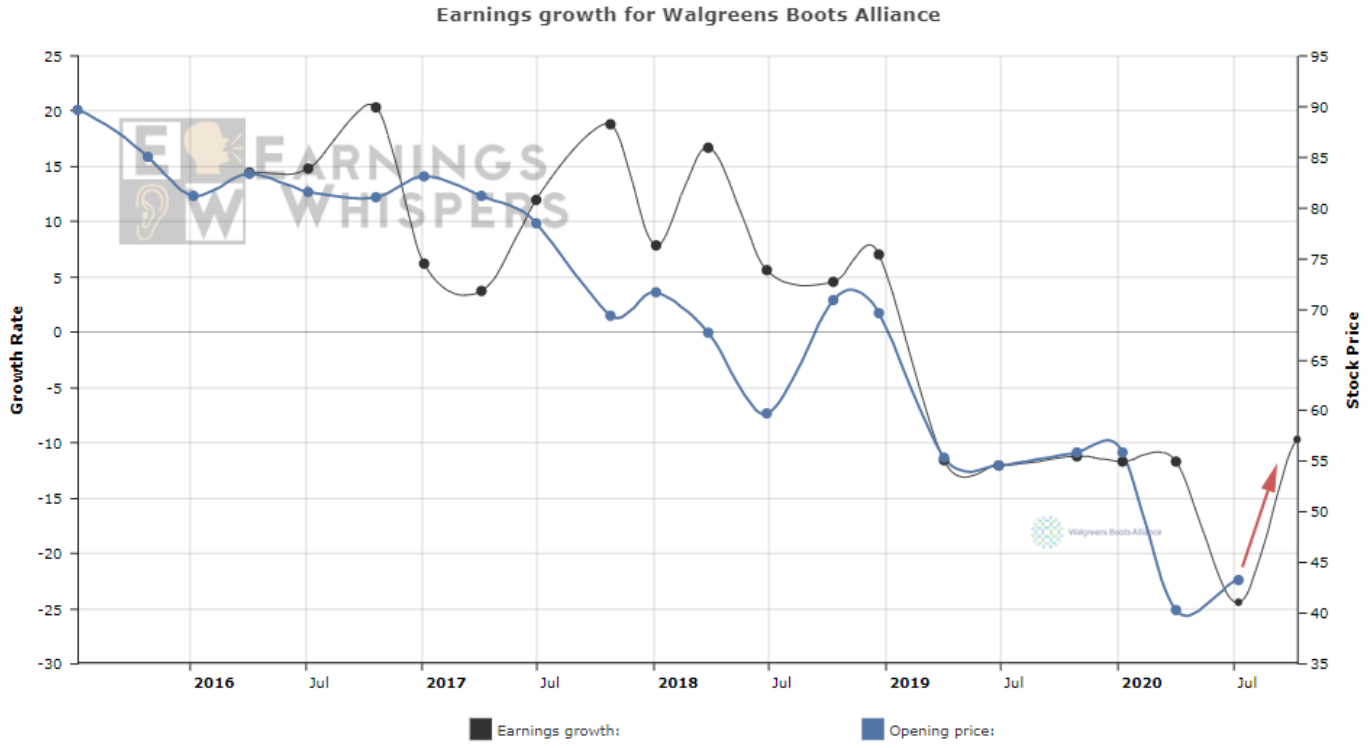
We are content trading for a continued move lower, but the problem is estimates appear to be cut to an extreme and there are mixed data checks outside of the online prescription sales strength. For one, while prescription sales have been declining and while Walgreens closed stores, mainly in April, it also has just footprint for consumers in need of necessities during the pandemic. As the company opened all of its stores by early May, grocery and general merchandise sales were seeing double-digit sales growth and that has continued in June. Furthermore, while margins have been declining for the past couple of years and the potential for added cleaning expenses to impact margins suggest this is unlikely to turn around this quarter, the consensus estimate suggests margins are going to plunge to their lowest since the merger,

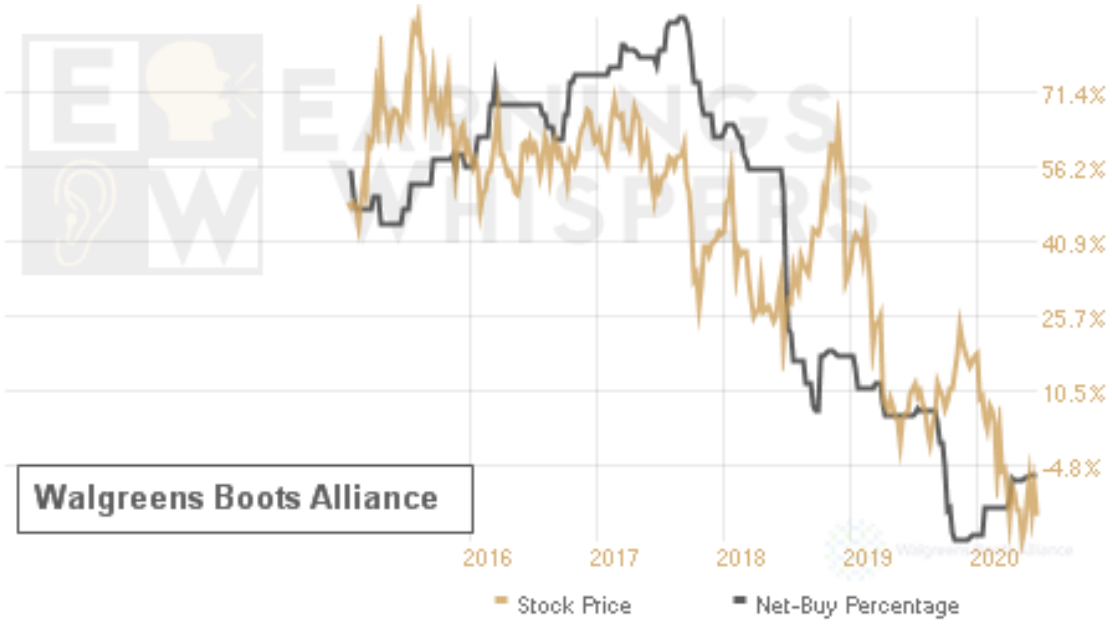
and this is a company that is known for managing its expenses. Consequently, there is potential for an upside surprise for the quarter.



However, if you are going to assume a bottom for the stock, it will likely have more to do with the company's guidance and outlook for the coming quarter. As mentioned, at least part of the company's business has been tracking well during the month of June and even prescription sales have tracked better in June than in recent months… albeit still negative. Those positive trends might just be enough for the company to provide in-line or positive guidance for the fourth quarter, given estimates are already for negative earnings growth on the quarter and the chart below suggests that might be enough for the stock.

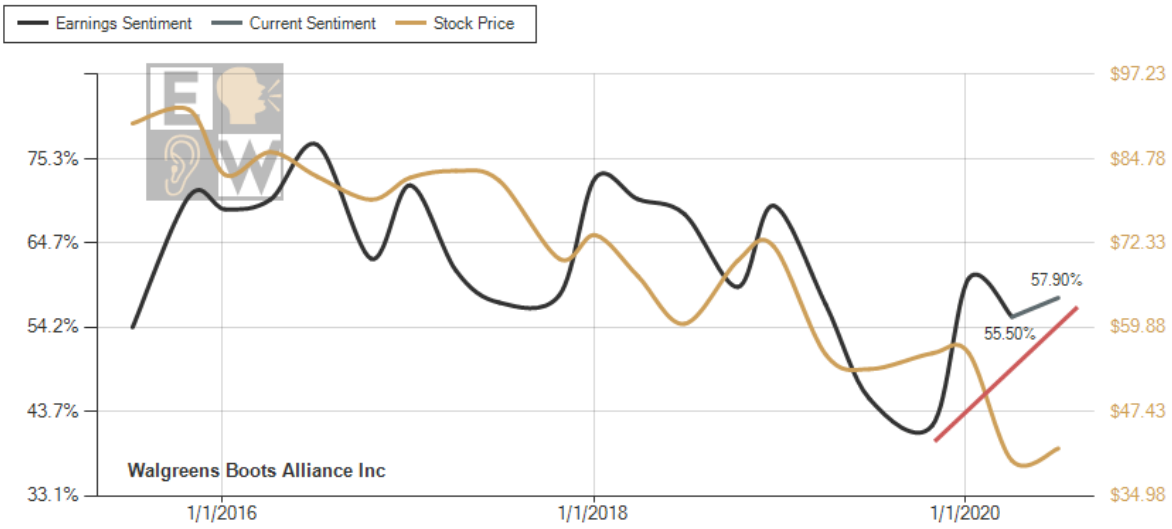
The chart shows the correlation between the stock based on the opening price after its earnings release each quarter, and the earnings growth reported. Assuming estimates for next quarter hold, it would imply an improvement in its growth (or less negative) and that has had a positive correlation for the stock.



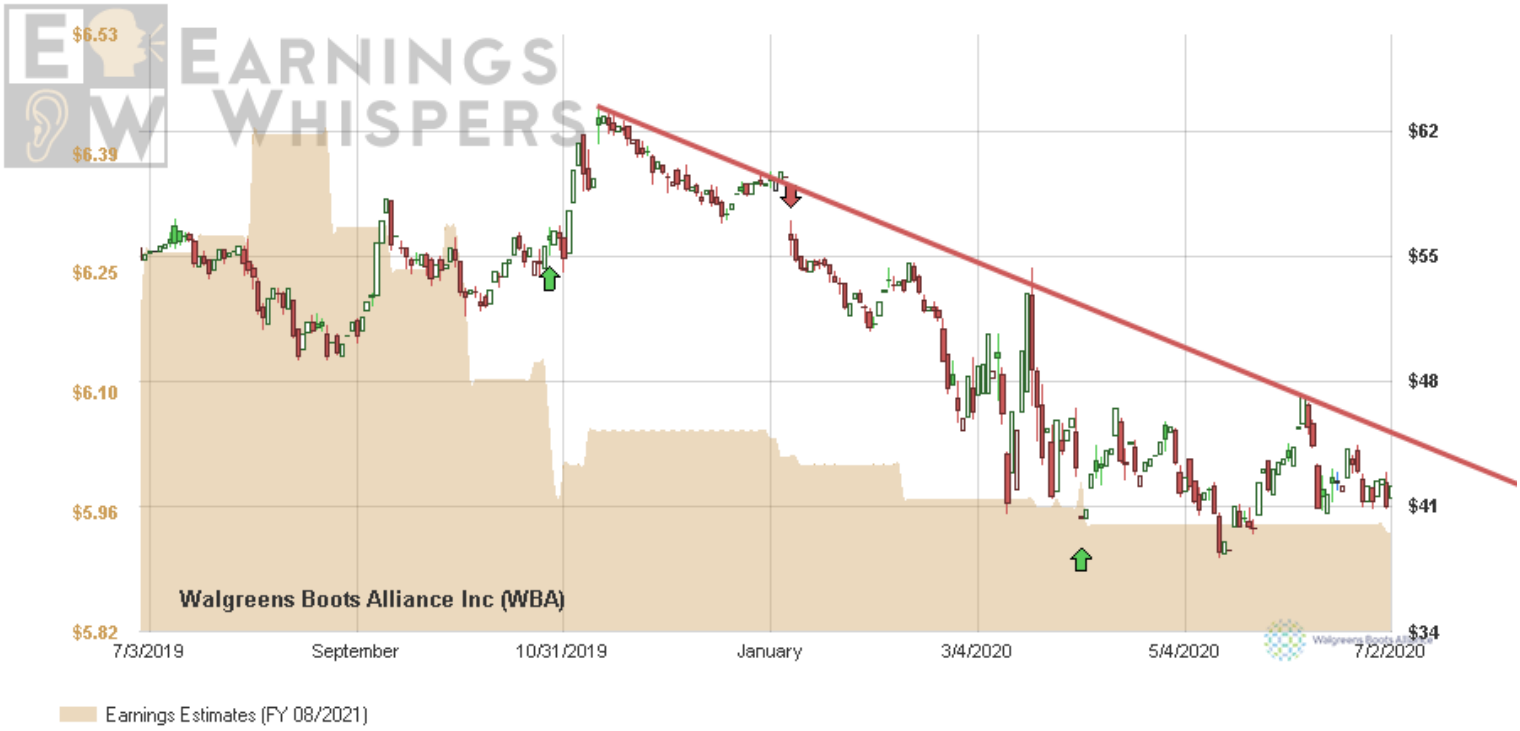


Less bad results isn't exactly a bullish stance, but considering there are no analysts covering the stock that currently recommend investors buy the stock, there is evidence of a lack of selling pressure and potential for analysts to have capitulated. The chart on the left shows the net-Buy rating of the analysts covering Walgreens and they've been downgrading the stock since mid-2017 – following along with the stock price. Now that none of the analysts think you should buy, the odds improve that upgrades are coming, which is bullish for the stock.

Meanwhile, the investors may already have the view the stock has bottomed. The chart below shows investors' earnings expectations going into the company's earnings release over the past five years, along with the stock price at the open following the news. There is a correlation between the two and, while investors were more cautious last quarter than the previous quarter, they still expected results to be stronger than the stock price reflected. Now, the stock has ticked higher, but so has sentiment and sentiment has ticked higher from a higher level. If the correlation continues, then the stock has room to gap higher on earnings.



On the chart at the top of the next page, we have a trend line that currently crosses the $44 level. We don't have enough evidence to suggest the stock will make it above this level after the results, but the chart does suggest the trade is a move away from this line following earnings and we do have evidence to support the move higher should that be the trade.



Bed Bath & Beyond

BBBY

Earnings Whisper
($1.46)

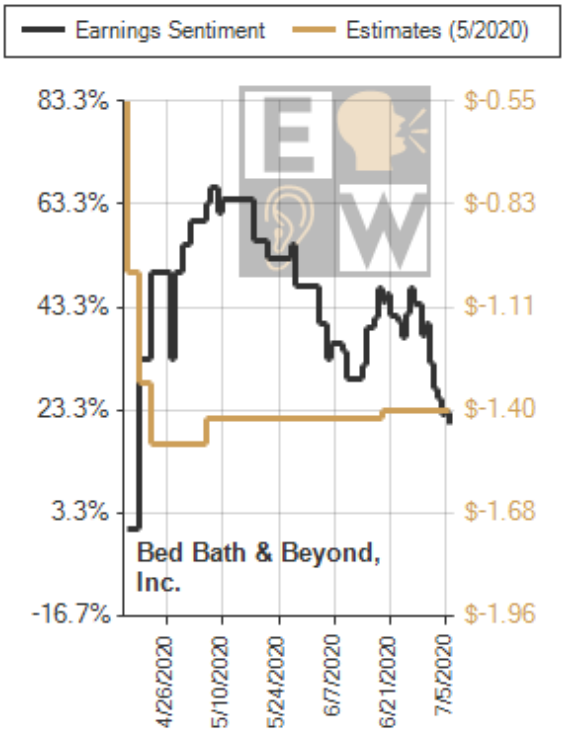
Earnings Estimate:
($1.40)
Revenue Estimate:
$1.32 billion

Wednesday
Jul 8
4:15 PM ET

Volatility
Priced into options:
16.0%
Average move:
11.4%

BED BATH & BEYOND

As with Walgreens, Bed Bath & Beyond (BBBY) has secular headwinds that likely make the stock a value trap until it can give evidence that the shift to online sales away from the company's brick-and-mortar business. Nothing like shutting down your stores during a pandemic at a time when consumers were home buying stuff for the bed, bath, and more… online… to show continued vulnerability with your business model.



That said, Bed Bath & Beyond does sell the items people were buying during the lockdowns and, as the company reopened it stores, there were signs of pent-up demand and accelerating sales that pushed the company to open stores faster than originally planned. Home goods have been up with double-digit growth and Tempur-Pedic (TPX) just significantly raised its guidance for the quarter, suggesting similar strength in bedding.

We've been pointing out for several quarters that the conditions exist for a bottom and an uptrend in shares of Bed Bath &

Beyond, but the company has yet to signal a turnaround. There isn't a lot of evidence for such a move now either, but if it happens, a big reason for the stock to move higher will be the forced selling of the short sellers. As the company's earnings started trending lower, so did the stock, and short sellers just kept jumping in along the way. During the quarter, the number of shares shorted reached a new record high, as shown on the chart below.

Technically, the trade is within the downward trending channel, but a move that holds $15 would signal a potential short squeeze that would have the potential to get to the $23 area.

EARNINGS WHISPERS

The Whisper Report ®
Number 805

Prepared on Monday, July 06, 2020

https://www.earningswhispers.com
1-866-EPS-GUID

EARNINGS WHISPERS

Most Anticipated Earnings Releases
for the month beginning
July 6, 2020
(only showing confirmed release dates)

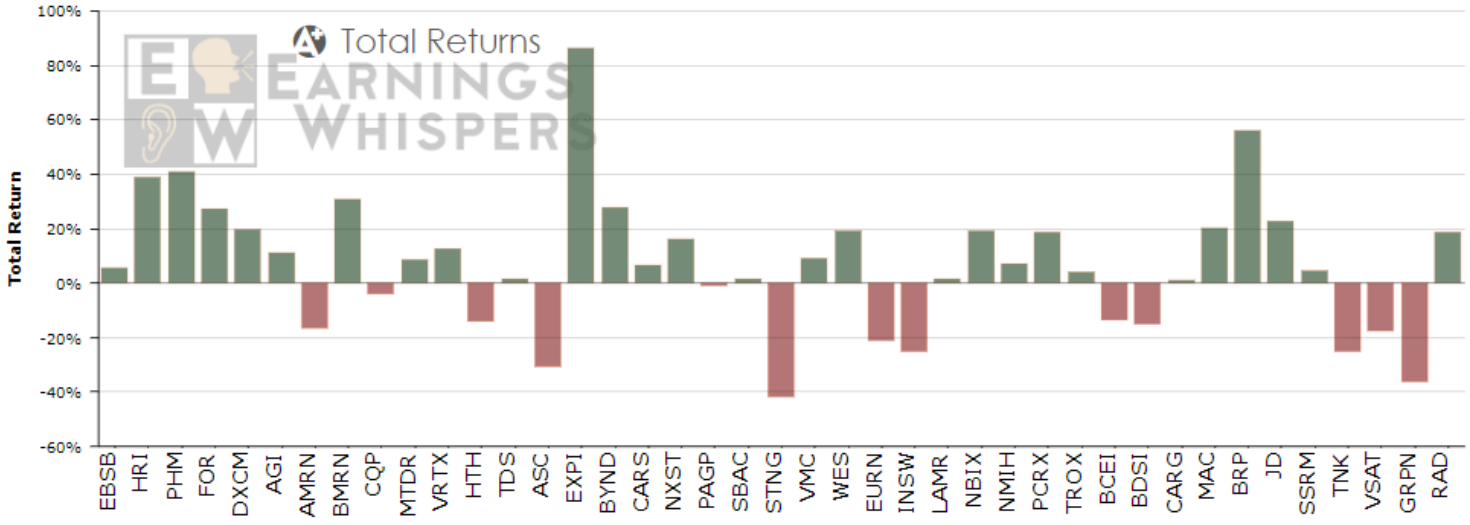
Monday	Tuesday	Wednesday	Thursday	Friday
6 Remark Holdings	7 PAYCHEX, ASPEN UNIVERSITY, Levi's, SMART GLOBAL HOLDINGS	8 Simply Good, BED BATH & BEYOND, MSC Industrial Direct, NTI, SARATOGA INVESTMENT CORP., EXFO	9 Walgreens Boots Alliance, Helen of Troy, AZZ, WD-40 COMPANY, Simulations Plus, FranklinCovey	10 THE GREENBRIER COMPANIES, SHAW
13 PEPSICO	14 JPMorganChase, WELLS FARGO, citi, FASTENAL, First Republic Bank, KURA REVOLVING SUSHI BAR	15 UnitedHealth Group, Goldman Sachs, PNC, ASML, usbancorp, BNY MELLON	16 NETFLIX, Bank of America, Johnson & Johnson, Abbott, SONOCO	17 ERICSSON, BLACKROCK, ally, Citizens Financial Group, Inc., Autoliv, REGIONS
20 HALLIBURTON, ManpowerGroup, cadence, Logitech, Bank of Marin, PHILIPS	21 The Coca-Cola Company, PHILIP MORRIS INTERNATIONAL, PROLOGIS, Texas Instruments, NOVARTIS, INTUITIVE SURGICAL	22 CHIPOTLE, KeyBank, Nasdaq, align, ThermoFisher SCIENTIFIC, Meritage Homes	23 at&t, intel, SOUTHWEST, TRACTOR SUPPLY CO, ST	24 verizon, AMERICAN EXPRESS, Schlumberger, GENTEX CORPORATION, TRI Pointe HOMES
27 RPM, SAP, Hasbro, NXP, COMMUNITY BANK SYSTEM, INC., Principal Financial Group	28 Pfizer, Starbucks, McDonald's, 3M, dexcom, Altria	29 FACEBOOK, PayPal, GE, QUALCOMM, Spotify, GM	30 Apple, Ford Motor Company, P&G, Lilly, AB InBev, XILINX	31 MERCK, PHILLIPS 66, Booz | Allen | Hamilton, CP, PBF, Charter COMMUNICATIONS
3 THE CLOROX COMPANY, GALACTIC, CIRRUS LOGIC, T2 TAKE-TWO INTERACTIVE, MARATHON, MPLX	4 The Walt Disney Company, WestRock, leidos, ZIMMER BIOMET, PLAINS ALL AMERICAN PIPELINE, L.P., ARMADA HOFFLER PROPERTIES	5 Nexstar, Marathon Oil Corporation, Discovery COMMUNICATIONS, Humana, NU SKIN, SINCLAIR BROADCAST GROUP	6 Bristol-Myers Squibb Company, CRONOS GROUP, FORTINET, zoetis, PHYSICIANS REALTY TRUST, BD	7 noble energy

http://eps.sh/cal

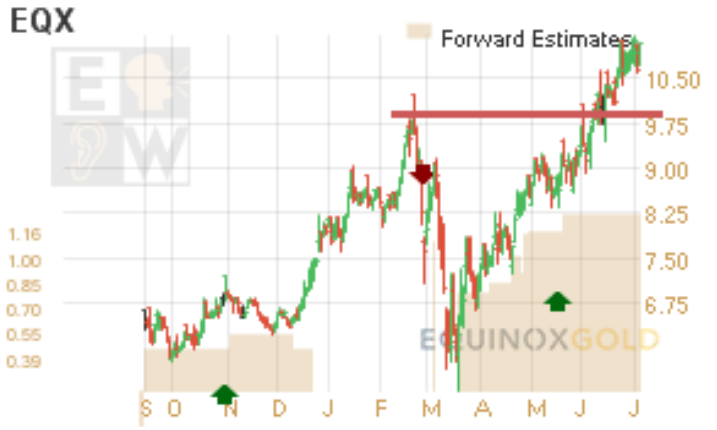
Earnings Whisper Grades

A current listing can be found at http://eps.sh/apluses and to learn more about the Earnings Whisper Grades, please go to http://eps.sh/about-grade. To get early morning alerts for all A+, please see your account settings at http://eps.sh/account

So far this quarter, stocks of companies with A+ earnings are up 9.1% on average, since reporting, while the S&P 500 is up 9.8% so far.



Recent Positive Earnings with Positive Charts



Weekly Disclosures

The following positions discussed in this issue of the Whisper Report ® were held by proprietors, management, or employees of Earnings Whispers as of the close on Friday:

We are net long the overall stock market.