



EARNINGS WHISPERS

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

The Whisper Report ®

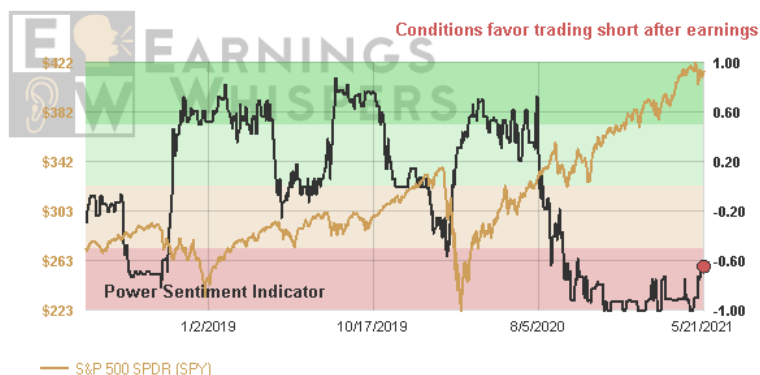
Number 851

Prepared on Monday, May 24, 2021

Current Trading Strategy

Trading primarily long ahead of earnings while S&P 500 is above 3,950 and trading short after the news.

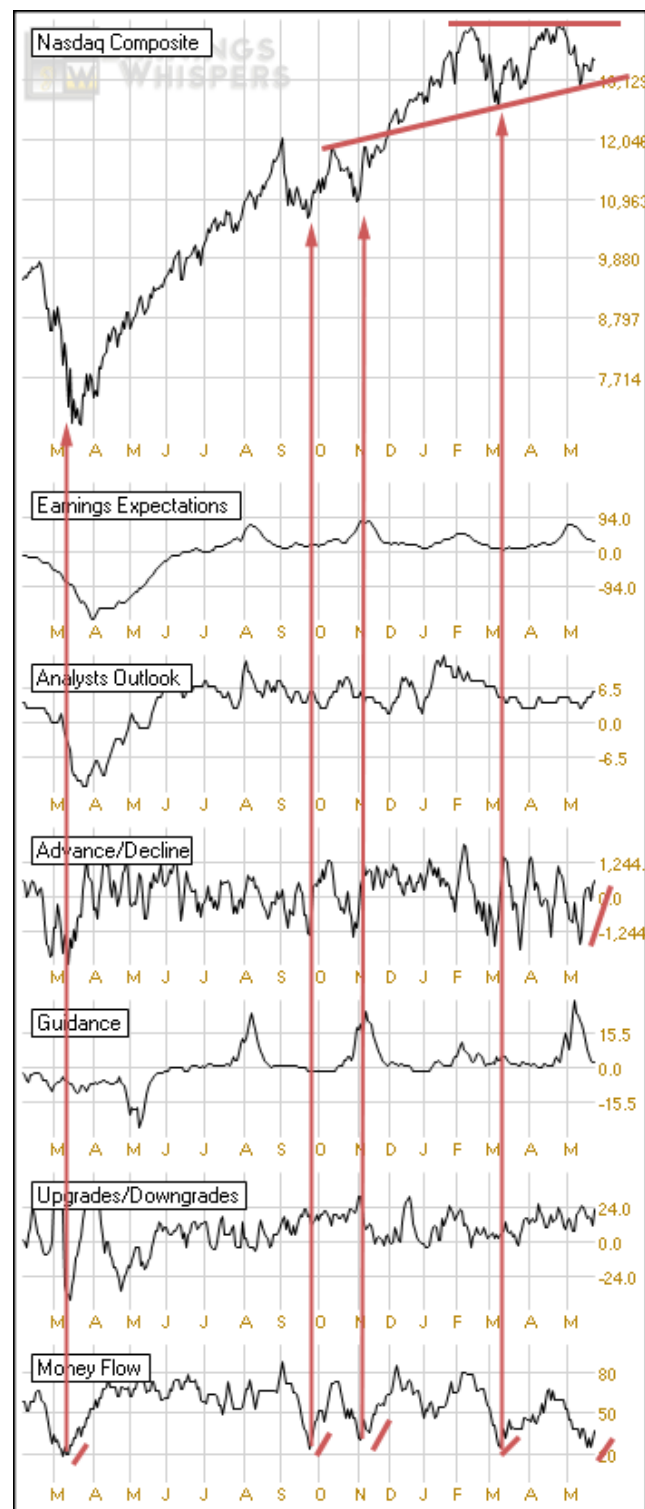
- The decline in sentiment in recent months is either a divergence warning of a large selloff, or created a point of bearishness that another rally can begin... which leaves us with what the economic data is telling us.
- HP – beat and raise expected
- Big Lots – testing support after breakout
- Salesforce – you don't like it anymore?
- Dick's – sentiment at an extreme



Statistics for the month of May 2021

	Positive	Negative	In-line	Ratio	Normal Ratio*
Guidance	314	43	419	88.0%	48.6%
EPS Surprises	1,494	948	182	61.2%	56.1%
Whisper Surprises	264	216	16	55.0%	53.3%
Revenue Surprises	1,472	635	-	69.9%	56.5%

* The average ratio for the month of May



Key Market Events

- 5/27 Initial Jobless Claims
- 5/27 April Durable Goods
- 5/28 April Personal Income/Spending
- 5/28 May Chicago PMI

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
								
								
								
								
								

There are clearly signs in the market today suggesting the overall stock market is at or near a top or perhaps even in a bubble that will burst. Some of these indicators have to be dismissed because of skewed data brought about by the lockdowns a year ago – primarily valuations based on historical results. After all, we've never seen a contraction like we've seen following the lockdowns and stock prices reflect future results, thus it isn't reasonable to look at trailing results as a measure for future prices.

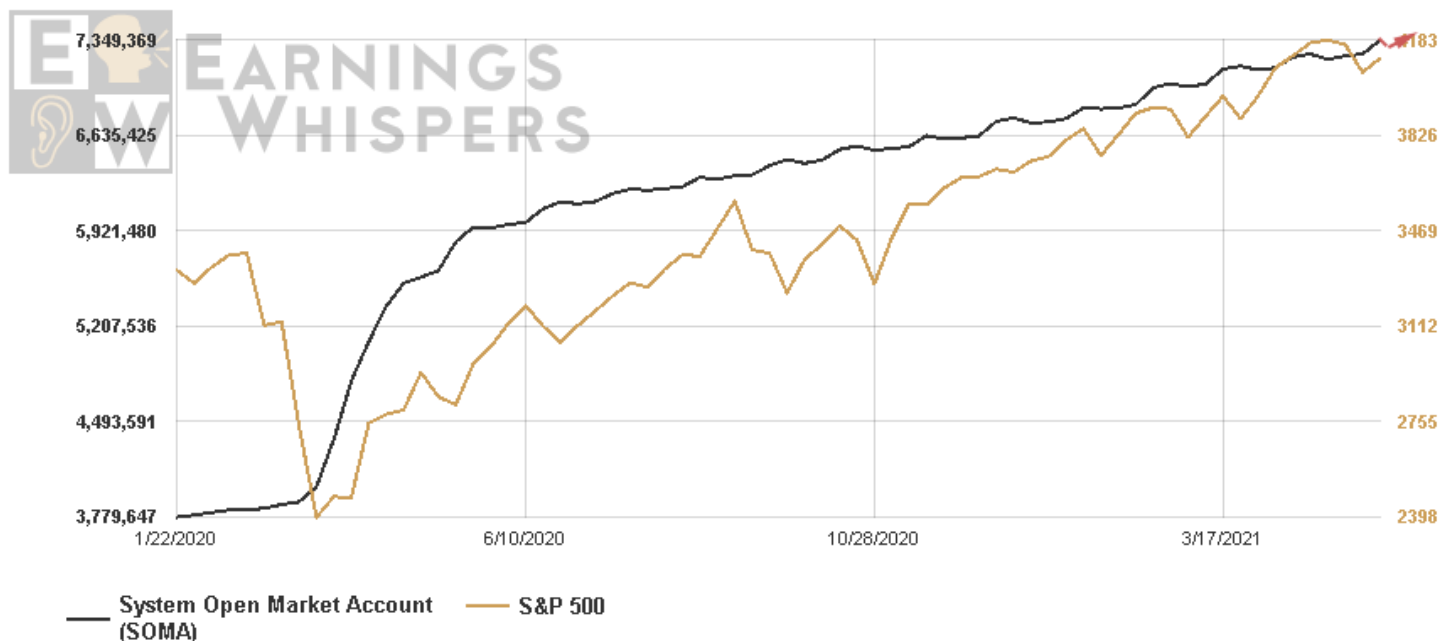
One that has been of significant concern, however, is investor sentiment. Investors are their most pessimistic at market bottoms and their most optimistic at market tops, and we've never seen investors more optimistic than they were going into 2021. Since then, however, sentiment has been trending lower and that has actually become more of a concern. The chart below shows our Earnings Whisper Sentiment Index, which is shown as our top-down sentiment measure in our chart of the S&P 500 later in this report. While tops tend to come when investors are their most optimistic, rising prices and declining sentiment is a divergence that often signals selling ahead.

On the chart below, we've marked three occurrences over the past several years where sentiment has fallen a similar amount over a similar period of time. Only two were divergences where stock prices continued higher as sentiment fell, and only one of those proved to be a warning sign. In the very short-



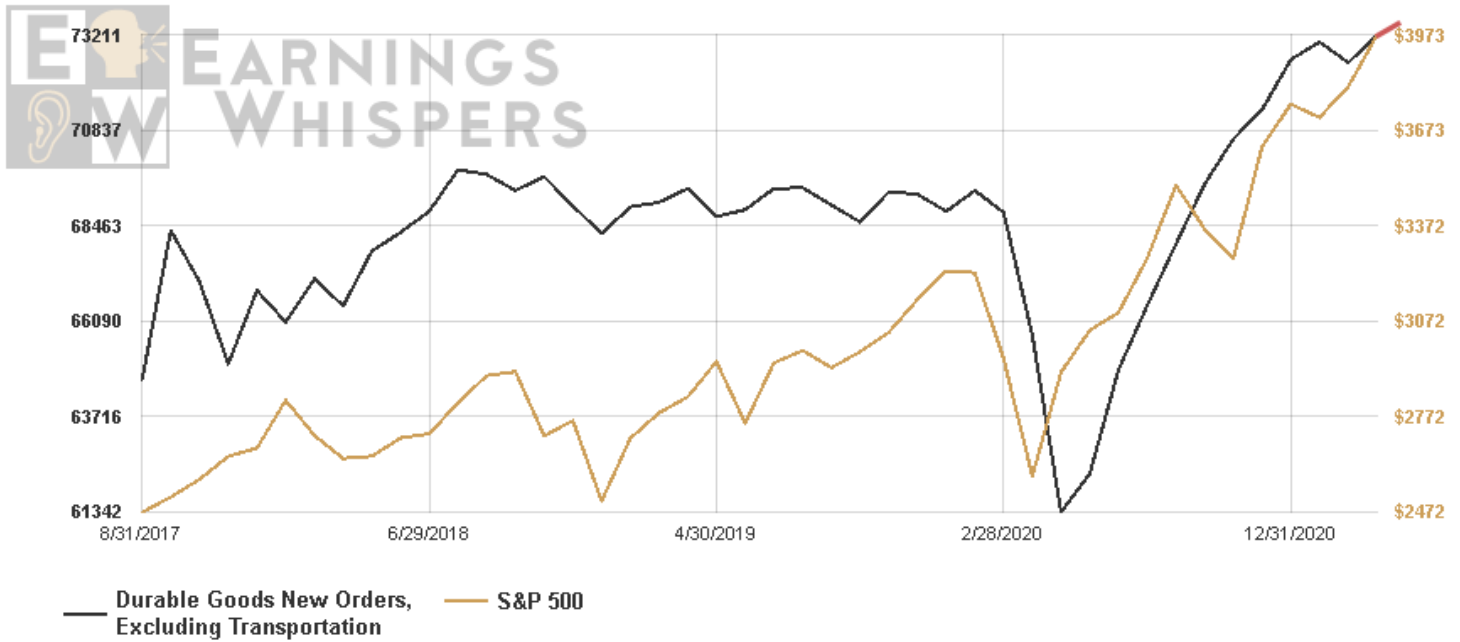
term, each of the three meant pessimism had increased enough for stock prices to at least bounce, but two of them also proved to be the start of a longer-term rally.

That's why the chart below continues to be so important – and continues to be the only chart that matters. The Fed did, in fact, say last week that its commitment to asset purchased is likely to decrease in the future, but it is continuing for now and that has a high correlation with stock prices. In recent months the Fed has let assets roll off its balance sheet near the end of the month, only to resume asset purchases at the start of the month while accelerating those purchases during the middle of the month. Last week saw the acceleration in asset purchases and this is the week we will likely see a decline in the Fed's balance sheet, and that has resulted in weaker stock prices late in the month. However, with the holiday weekend, the first of the month is the first trading day next week and that has been seasonally bullish. Thus, any weakness this week should likely be bought for at least a short-term move higher.

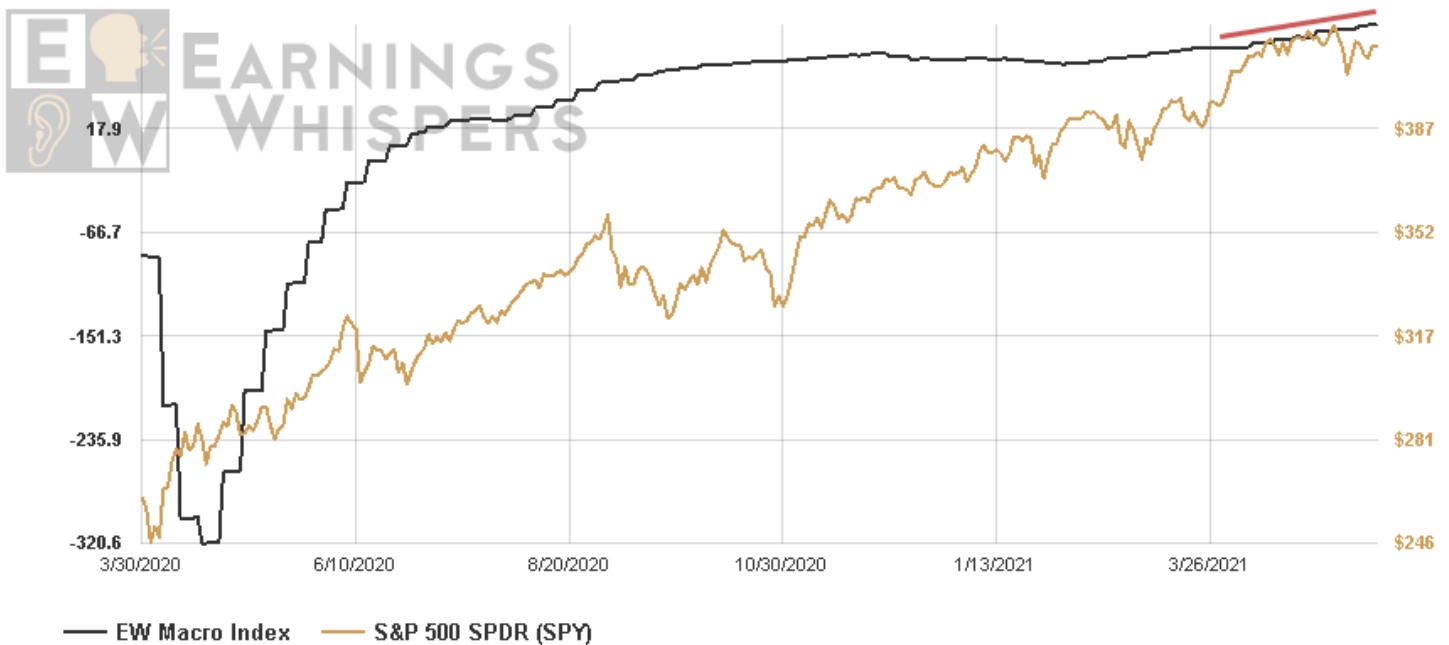


Earnings are a little lighter this week and the key macro data point is the New Orders, excluding Transportation, from the Durable Goods report. While the correlation isn't as strong as the Fed's asset purchases, there is a correlation between the direction in new orders and the direction in stock prices. Afterall, they are both leading economic indicators.

The chart at the top of the next page shows new orders relative to the monthly S&P 500 over the past four years and we've drawn a red line to show the consensus estimate for an increase of 0.6% sequentially. Of course, this is data for the month of April and we are now near the end of May, so in today's world this data is more of a lagging indicator for stock prices, but the continued tick higher should give fundamental support for higher stock prices.



The data will plug into our index of macroeconomic data that correlate highly with stock prices, but regardless of the numbers for April, it won't change the direction we've seen over the past several weeks. Our macroeconomic index started turning lower last fall and bottomed in February before beginning to move higher, but since early April, the index has started accelerating higher. The chart below showing the index relative to the S&P 500 SPDR (SPY) would be skewed by the lockdown contraction if we zoomed out, but the point is that more current economic data is moving higher and that gives more compelling fundamental support for a continued move higher in stock prices.



Market Overview

We mentioned in our top-down analysis that there are a number of signs of a market peak or even a bubble. One of the examples of such that we've seen frequently is the price-to-earnings ratio for the S&P 500 using trailing earnings, which was at a record high prior to the recent earnings season. The chart below, however, uses two quarters of trailing earnings along with two quarters of forward estimates for the S&P 500, which shows that while the S&P 500 is up more than 20% from where it peaked prior to Apple's warning that it would miss estimates due to COVID-19, earnings are up nearly 50%. With current data supporting a continued rise in earnings, the assumption is the current trend in stock prices will continue as well, and that puts the bottom-end of the trading channel as support around 4,000 for the S&P 500. Consequently, we are maintaining our strategy of primarily trading long ahead of earnings while the S&P 500 is above 3,950. The high sentiment keeps us trading short after the news, however.





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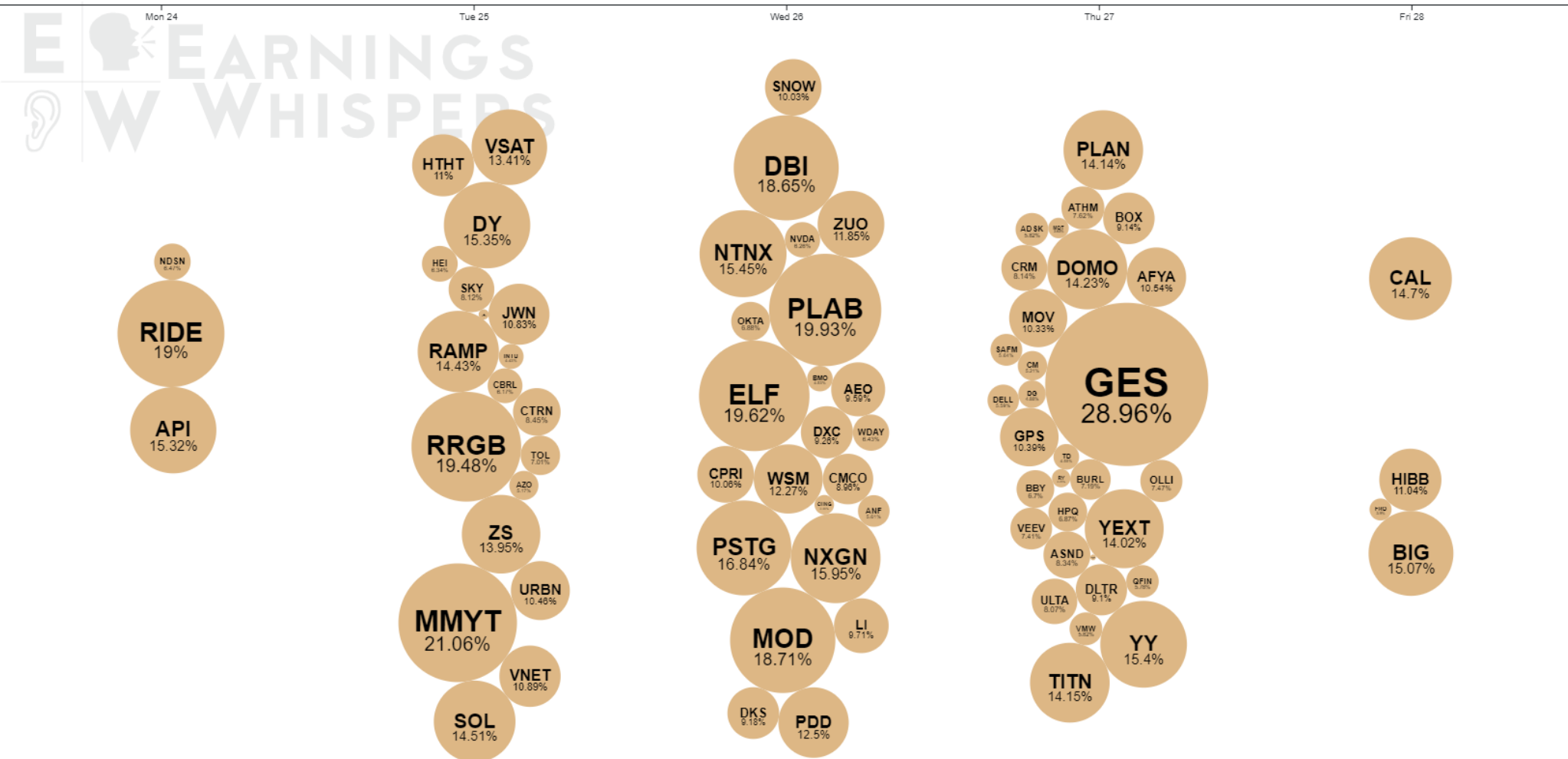
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Volatility of Upcoming Earnings Releases

For earnings releases scheduled through Friday, May 28, 2021





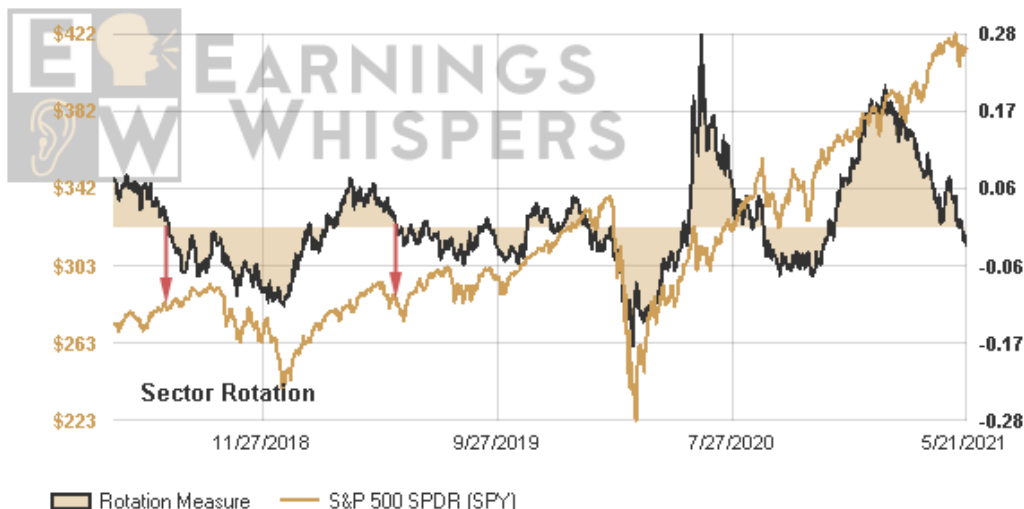
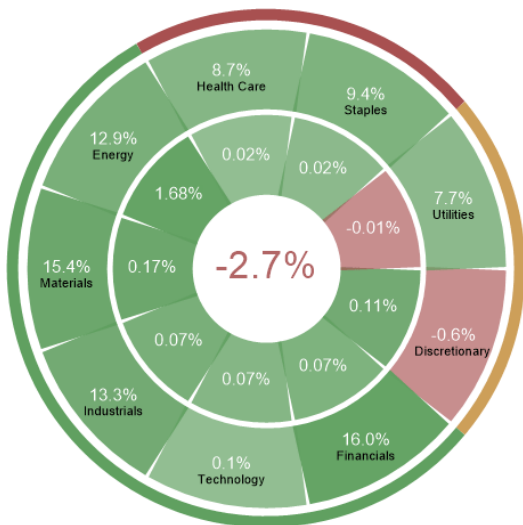
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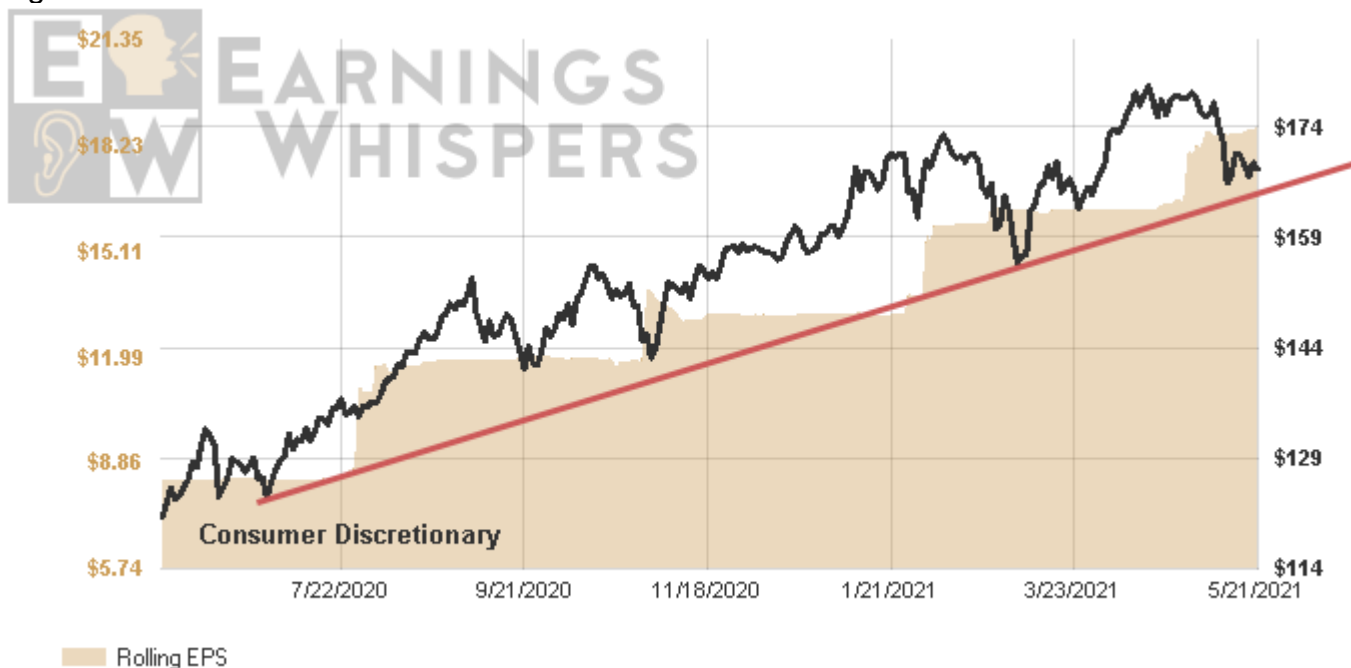
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Number 846

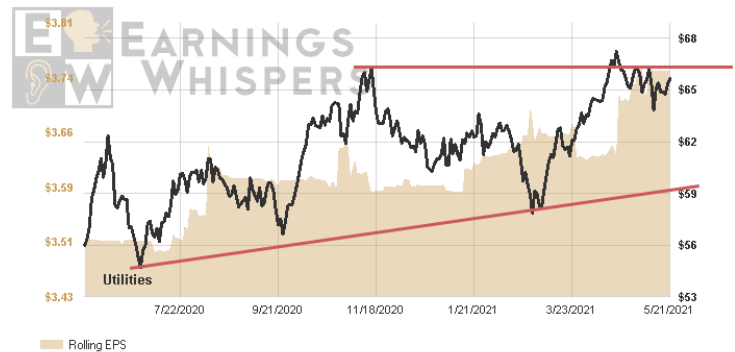
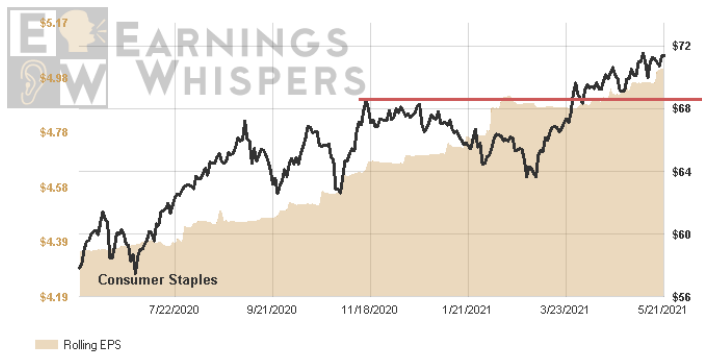
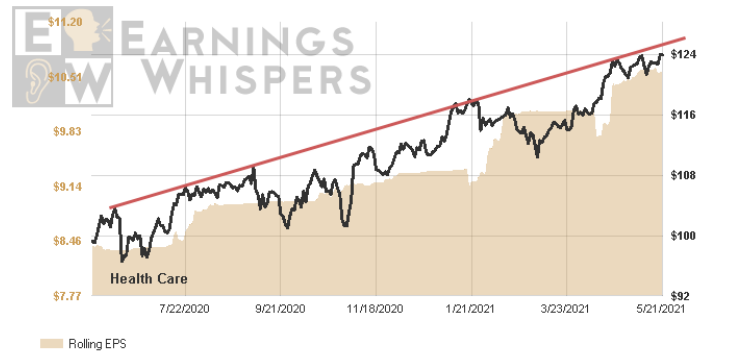
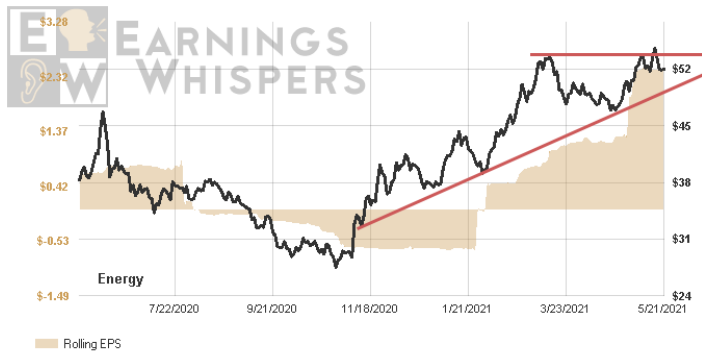
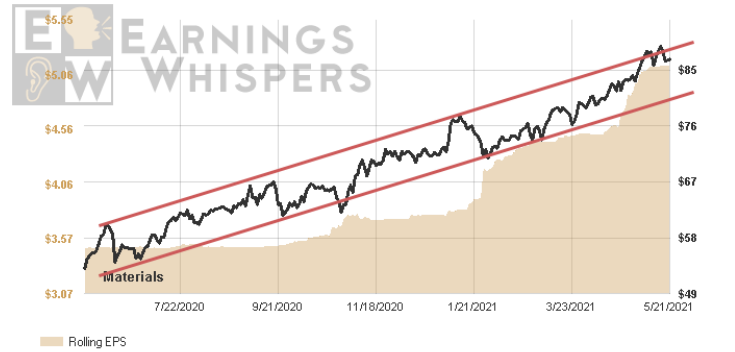
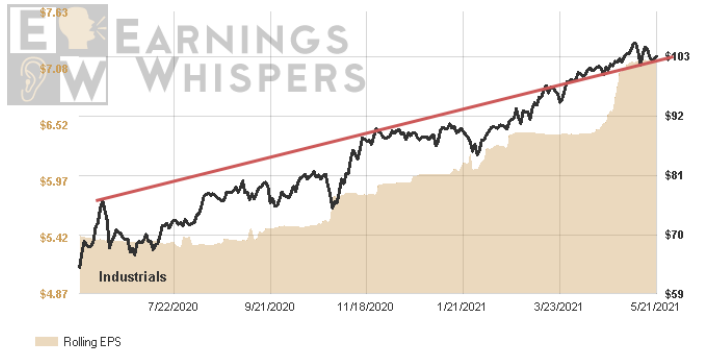
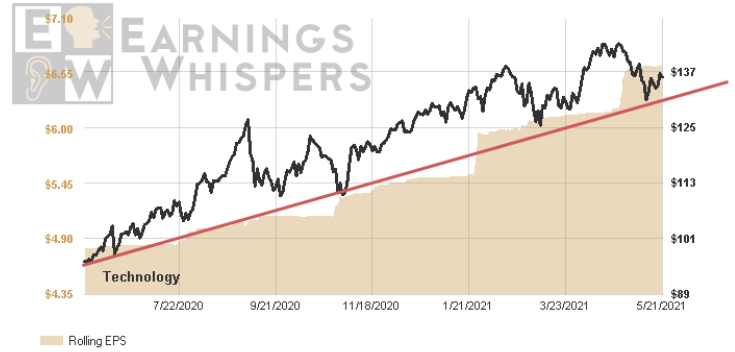
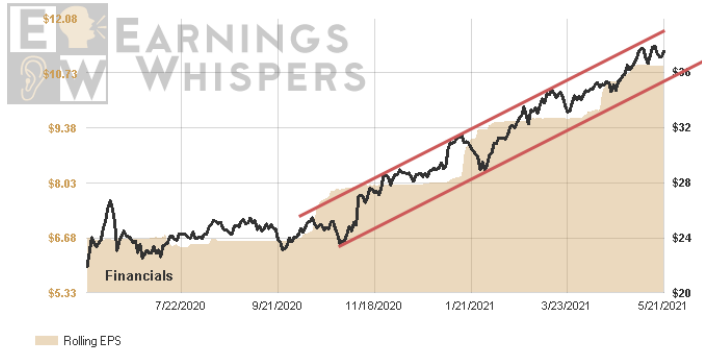
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Sector Performance

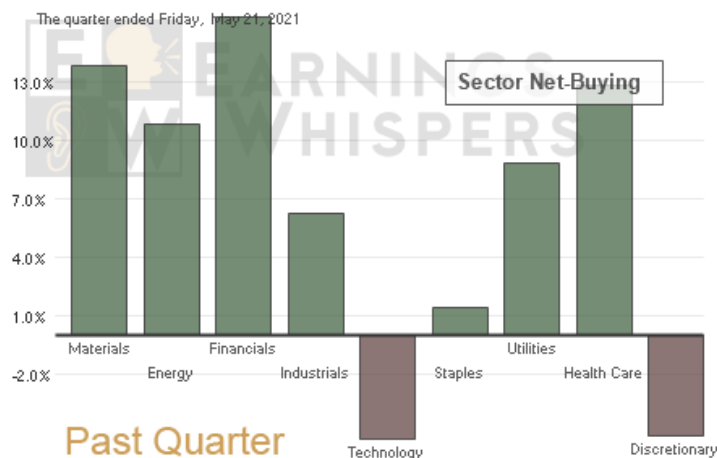
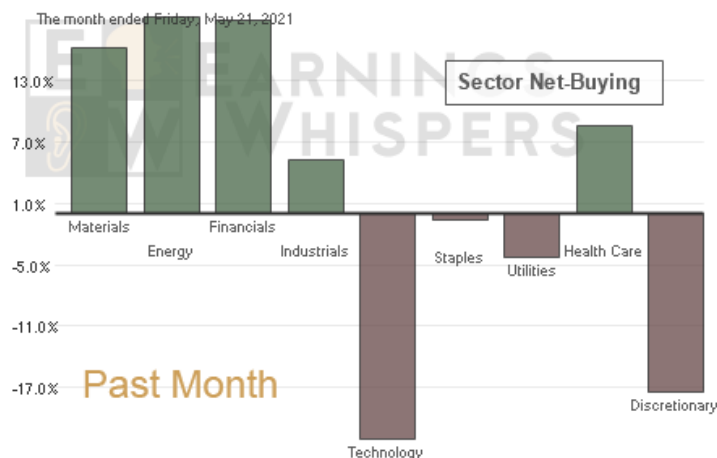
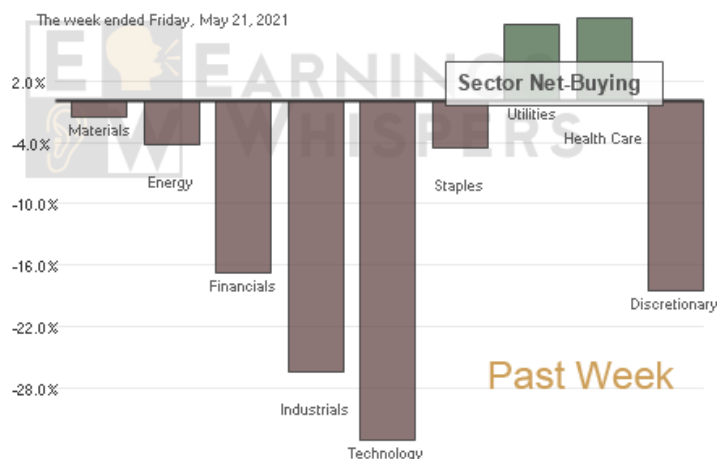
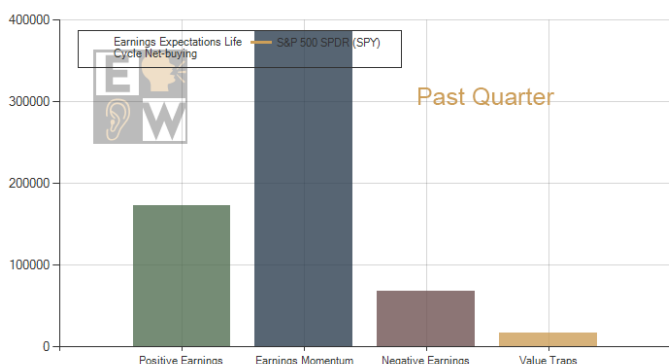
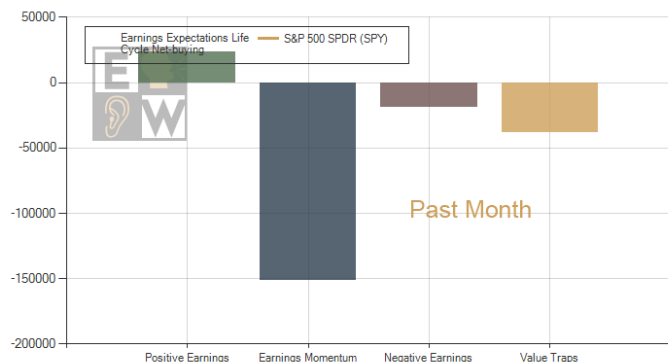
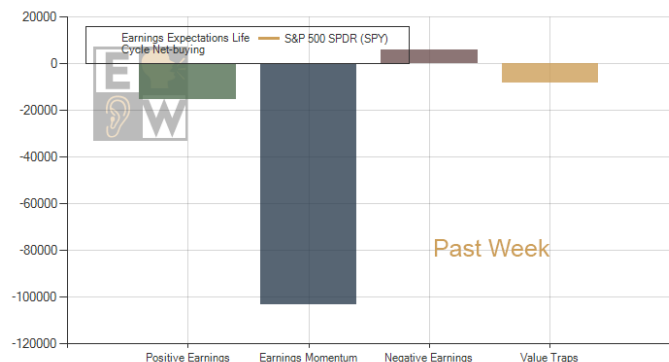


Our measure of the sector rotation turned defensive last week with heavy buying in the Utilities and Healthcare while there was overall selling among the other sectors. One of the first sectors to bottom prior to the economy picking up is often the Consumer Discretionary sectors and it is one of the first to turnover prior to the peak in the economy. This group has been the laggard over the past quarter and that is often a bearish sign, but as the chart below shows, there isn't a concern just yet. The red line drawn doesn't quite have enough touches to be a tradable trend line, but with the line paralleling earnings and with the recent strong earnings beats among the group, the trend is clearly up. Until we see some type of technical violation, the assumption is that the recent pullback is a buying opportunity and the overall trend remains higher.

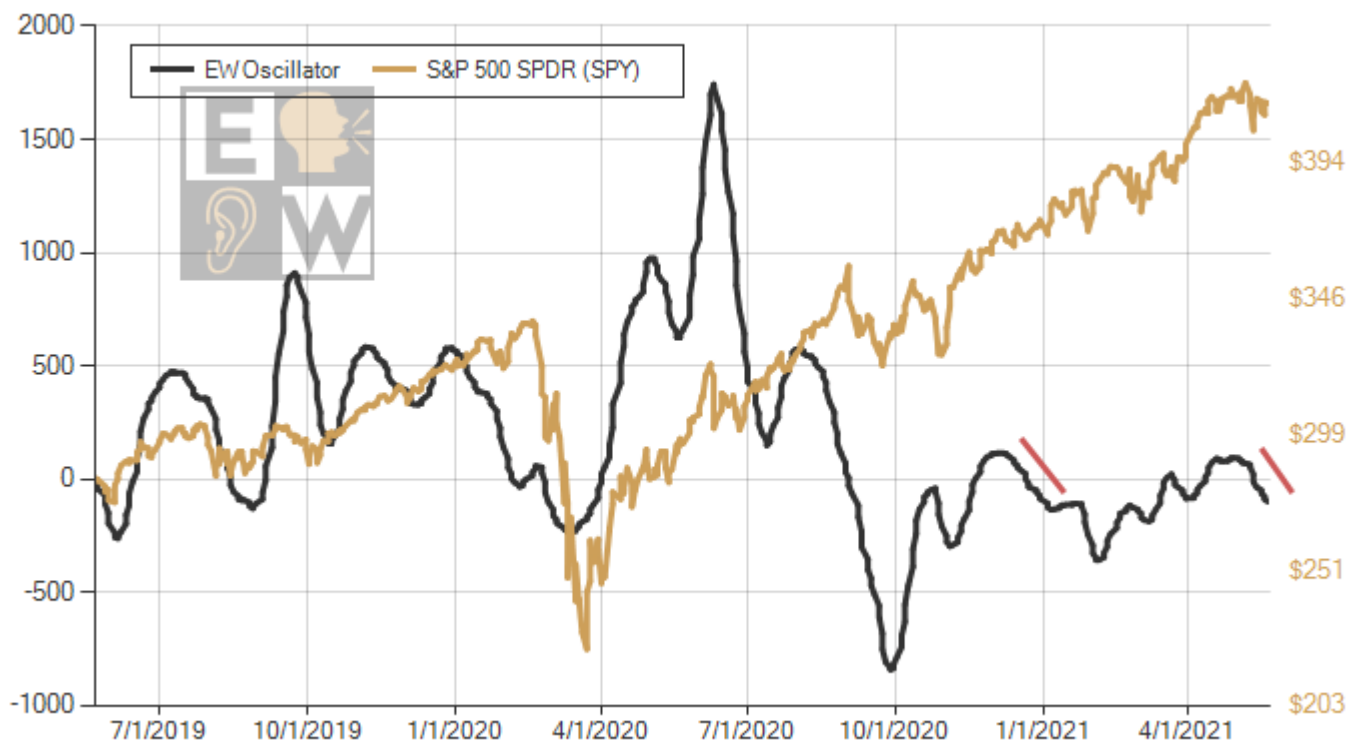




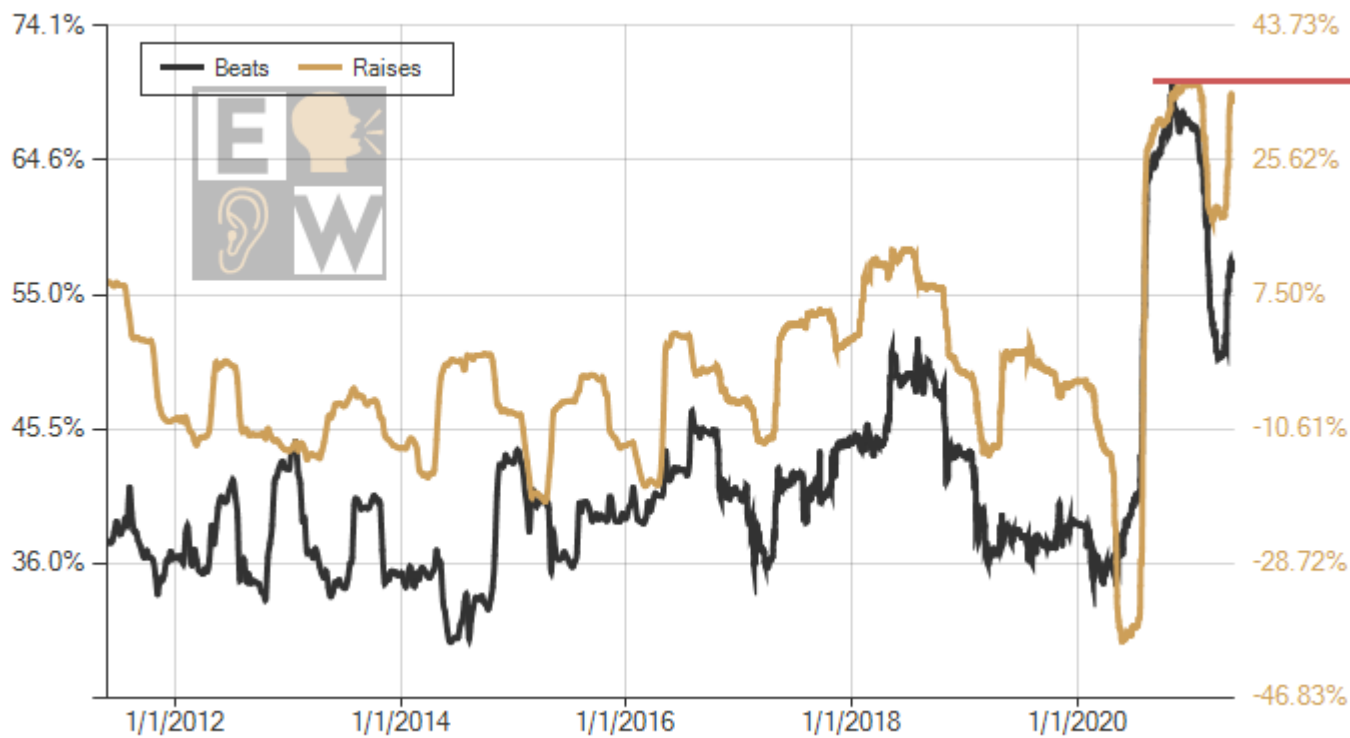
Money Flows

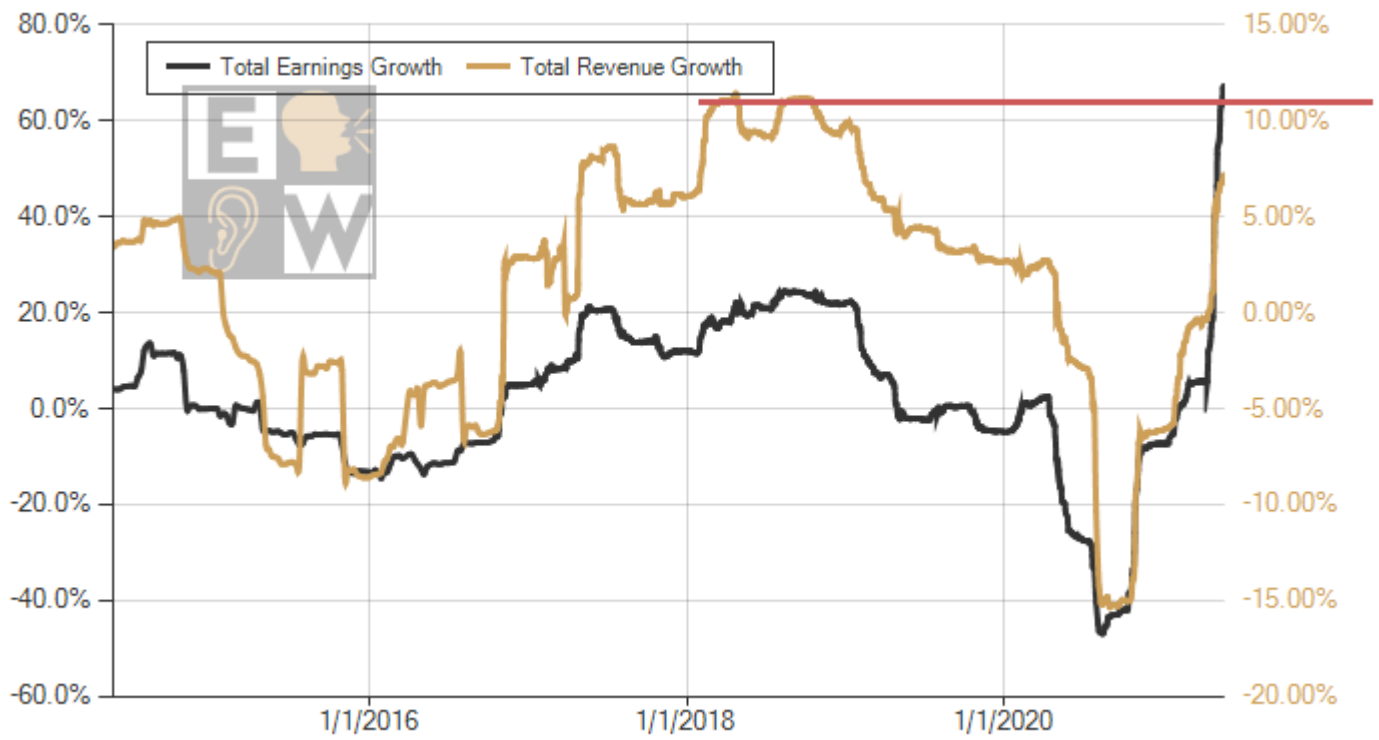


The Earnings Momentum names continued to lag last week. This has been the case for the past month, but when we look out over the past quarter, the Earnings Momentum names have still seen the bulk of the buying. This is odd, with Technology seeing selling pressure throughout the quarter, but for now appears to be simple profit taking.



Earnings Trends





Upcoming Releases with Favorable Earnings Whisper Scores
CGC

BNS

ZM

REVG

CMD

COO

TLYS

NX


THO



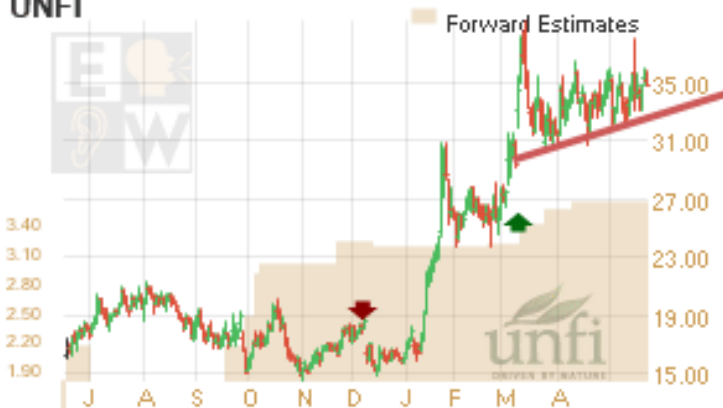
BBCP



MTN



UNFI



GEF



SIG

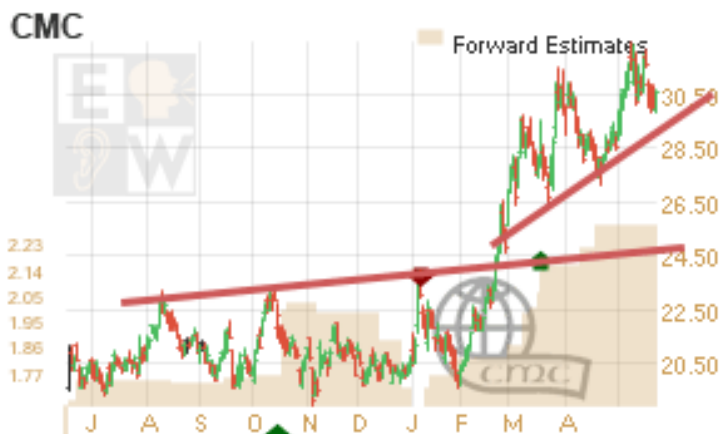
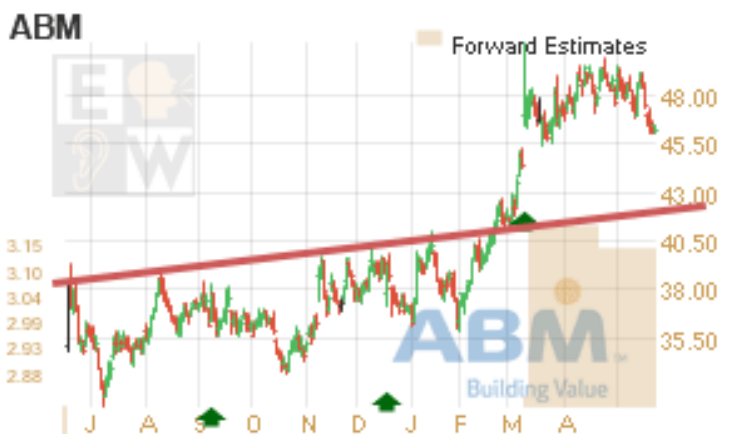


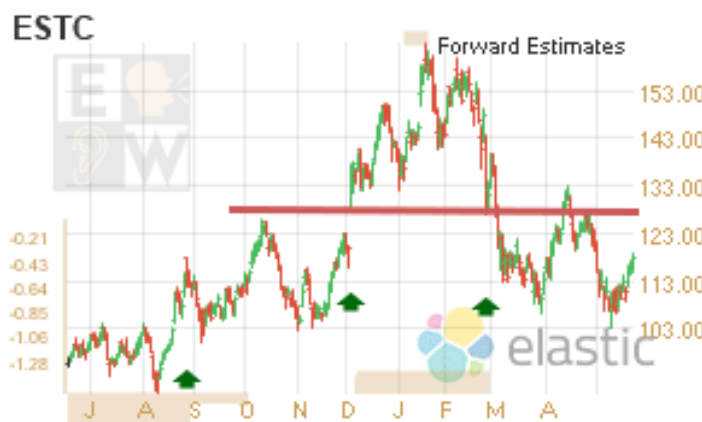
CHWY



JBL





Upcoming Releases with Unfavorable Earnings Whisper Scores


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.

HP

HPQ

Earnings Whisper
\$0.93

Earnings Estimate:

\$0.89

Revenue Estimate:

\$14.94 billion
Thursday
May 27

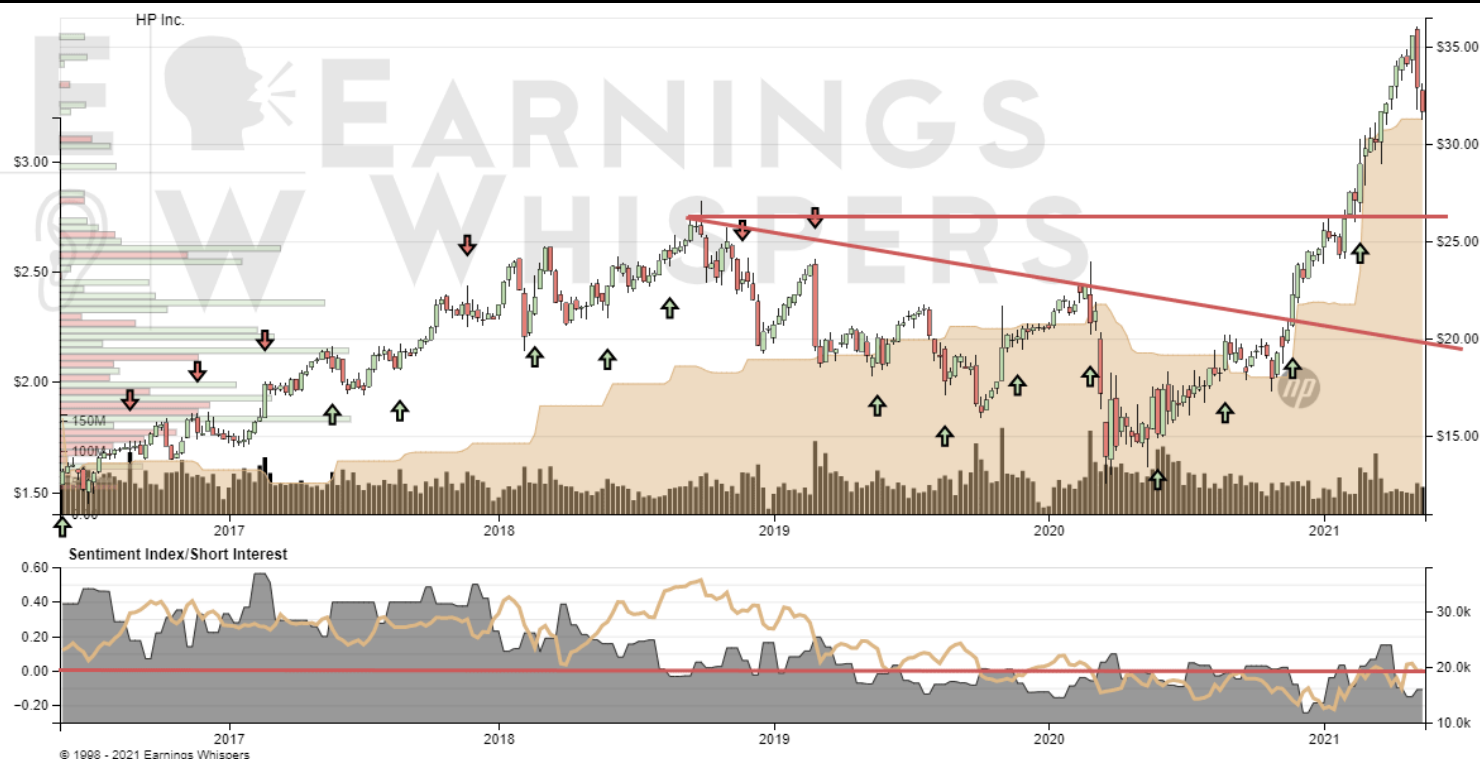
4:05 PM ET

Volatility

Priced into options:

6.9%

Average move:

5.1%


HP (HPQ) has had quite a rally off its lows in early 2020. It makes sense because people were forced to work from home and this required personal computers and printers, and sales of these items soared. You can see in the chart above that the rally came as earnings went to new highs. The fears are that this strength is going to fade as the economy improves and people return to normal work, but for now the same strength appears to be holding up, which means the potential for the stock to continue higher likely has more to do with whether the good news is priced in and optimism is too high. Based on our data, of all the stocks that have more than doubled off their lows due to the work-from-home strength, HP appears to be one of the few where expectations have remained low.

The company gave guidance for earnings of \$0.84 to \$0.90 per share and the consensus estimate is near the high-end of the range, but Katy Huberty at Morgan Stanley said their checks suggest a “material upside” surprise to consensus estimates and the Earnings Whisper® number is just above the range. The stock averages a 1.2% move during the days leading up to its earnings release and through its open when it beats the consensus estimate.

Those statistics are positive, but the stock is more likely to go higher when it gives positive guidance. In fact, the stock is up nearly three times as much when it gives positive guidance vs just beating consensus estimates, and HP appears to be poised to provide positive guidance too.

For one, consensus estimates call for 1% sequential increase in revenue, but this is based off revenue estimates that are expected to be beaten. Furthermore, over the past several years, but excluding last year after the lockdowns, revenue increased by an average of 4.1% sequentially between the second quarter and third quarter. Thus, with checks remaining positive, there is upside to revenue estimates for the third quarter too.

HP isn't likely to give revenue guidance, however, and instead will give earnings guidance for the quarter and the year. There might be less upside on the bottom-line next quarter with margins at roughly an eight-year high, but should margins hold, then it implies earnings once again around \$0.90 while the consensus earnings estimate at \$0.75 per share. Should the company beat estimates and provide guidance that brackets \$0.90, it would put earnings for the year within \$0.40 of the low-end of its fiscal year guidance range... meaning full year guidance would likely need to be revised higher too.

With the possibility of a beat and raise, sentiment is surprisingly neutral. Sentiment had turned positive to start 2020, but dropped into the bearish territory after the lockdowns. Sentiment remained bearish throughout the year even as the stock rallied and, despite a recent move into bullish territory, expectations have ticked back to neutral.

Over the past 10 years, companies reporting a beat and raise trade higher by an average of 6.5% during the days leading up to its earnings release and through the open following the news, but when expectations are neutral, the average move increases to 12.7%. By contrast, when investors are more than 50% bullish, the average move drops to 3.8% higher.

Big Lots

BIG


Earnings Whisper

\$2.05

Earnings Estimate:

\$1.79

Revenue Estimate:

\$1.51 billion

Friday

May 28

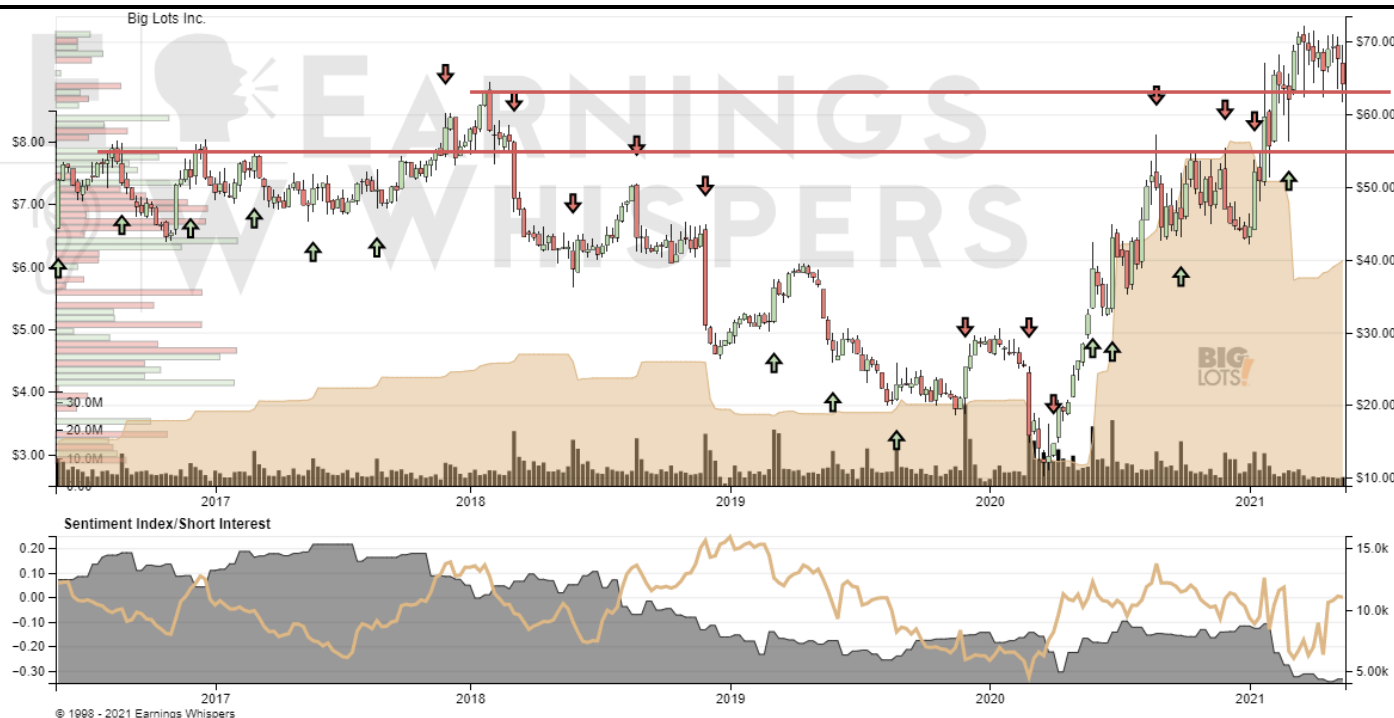
6:00 AM ET

Volatility

Priced into options:

8.4%

Average move:

15.1%


When Big Lots (BIG) gave guidance for fiscal first quarter earnings of \$1.30 to \$1.45 per share, the latest stimulus package hadn't been approved yet. A week later, checks were going out and, much of that money likely found its way into Big Lots. Consequently, few people expect the company to report earnings within its guidance range and only the lowest analyst estimate remains within the range. Jason Haas at Bank of America Securities has \$1.46 per share, but acknowledges the risk is skewed to the upside. The stock has gapped higher by an average of 1.2% when it has beaten consensus estimates.

Of course, Big Lots isn't always going to be able to capitalize on a \$1.9 trillion stimulus package and the benefits of such spending are going to fade going forward. Similarly, consensus estimates call for the same sequential decline Big Lots normally sees in the fiscal second quarter, which is still up more than 8.5% compared to the same quarter two years ago. Still, with nearly one month completed into the quarter, most checks put industry sales up more than 20% compared to the same period in 2019 and that suggests upside room to the company's guidance as well.

We don't know what margins are going to look like with the stimulus money, but the company guided towards flat margins, sequentially, which implies upside to over \$2.00 using current revenue estimates for the quarter and close to \$2.00 using 20% sales growth over 2019, but the consensus earnings estimate is just under \$1.00.

In the past, when Big Lots has provided positive guidance, the stock gapped higher each of the 13 times and was up an average of 10%. Meanwhile, the stock has pushed above \$63 and spent much of the past two and a half months retesting \$63 as support. Assuming \$63 holds, the assumption is a move above \$70 and a beat and raise would be a likely catalyst of such a move.

Salesforce

CRM


Earnings Whisper

\$0.95

Earnings Estimate:

\$0.88

Revenue Estimate:

\$5.89 billion

Thursday

May 27

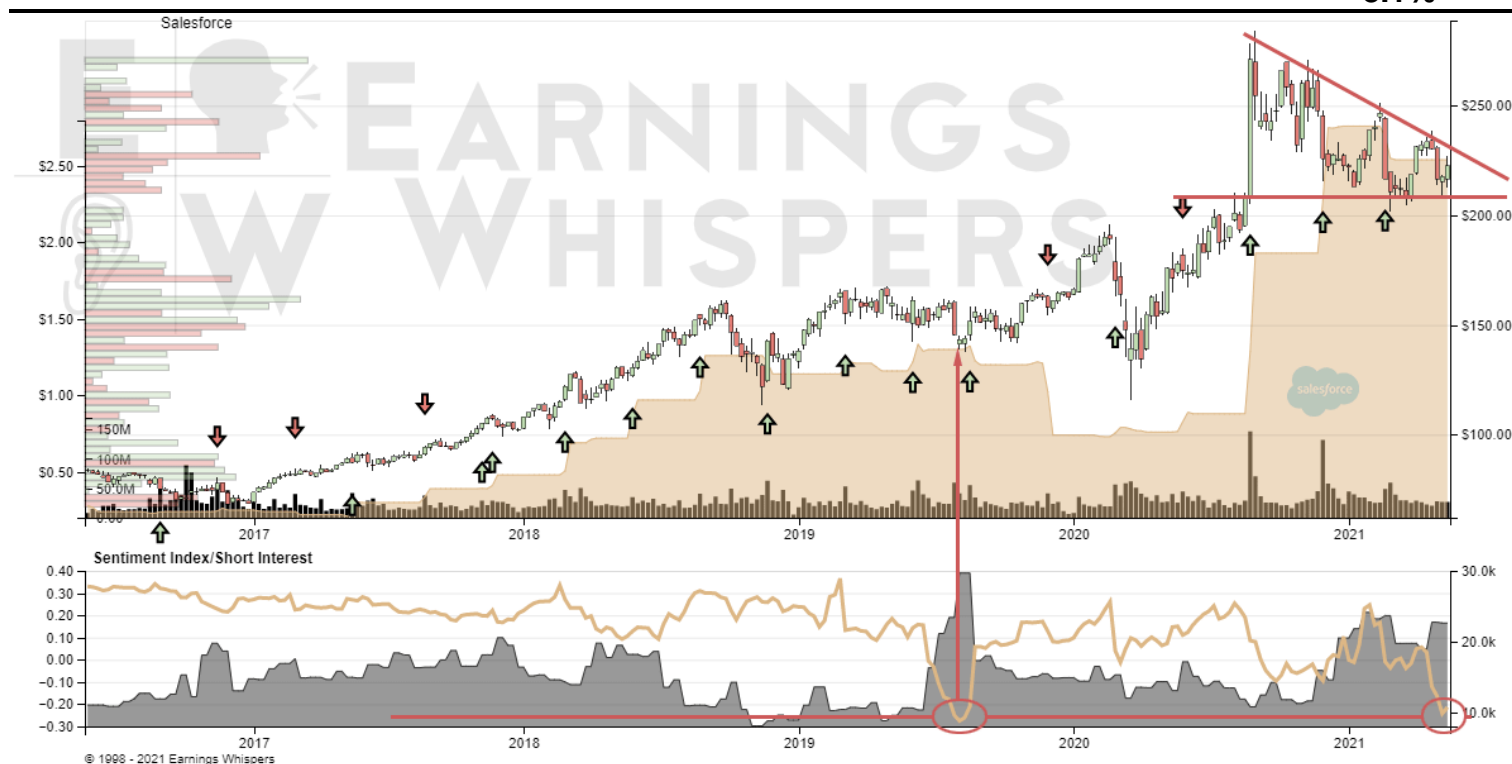
4:05 PM ET

Volatility

Priced into options:

5.5%

Average move:

8.1%


For the past several years, investors have loved Salesforce (CRM). Sentiment has been consistently bullish with very little change until the summer of 2019 when sentiment suddenly swung bearish and short interest spiked. This proved to be very short-lived and the stock rallied on earnings before drifting higher into the COVID-19 lockdowns. Then, last summer, the stock rallied on earnings to a new high but the stock started drifting lower and sentiment started becoming more bearish. Now, going into earnings, a flag has formed on the weekly chart and sentiment has dropped back down to where it was in the summer of 2019. Should the company deliver strong results, the bearish sentiment means there are buyers waiting to come in or sellers on the wrong side of the trade, and a breakout of the flag to the upside will prove them wrong.

Keith Weiss at Morgan Stanley said the recent underperformance makes the risk-reward more favorable and Gregg Moskowitz at Mizuho said their checks have been favorable during the quarter. The combination of bearish sentiment and positive checks is statistically bullish, but we don't quite have strong enough statistics for a trade ahead of earnings. Instead, a pullback that holds \$205 after earnings or a push above the flag, or approximately \$230, is the likely trade assuming nothing new is revealed.

Ideally, the move will come with positive guidance, which, in the past, has resulted in the stock gapping higher 82% of the time for an average gap of 5.5% and a continued move higher of 3.7% over the subsequent week.

Dick's Sporting Goods

DKS

Earnings Whisper
\$1.41

Earnings Estimate:

\$0.97

Revenue Estimate:

\$2.13 billion
Wednesday
May 26

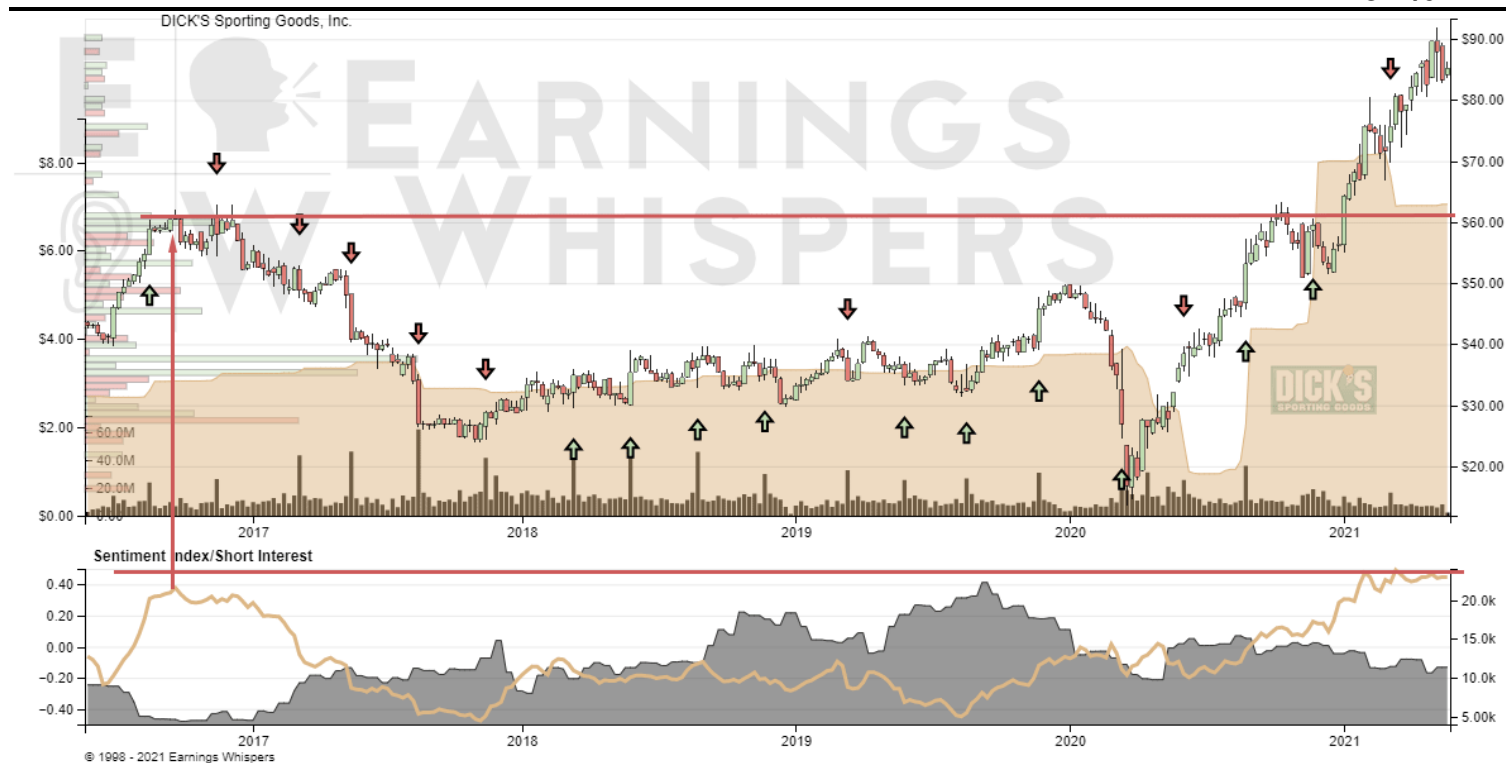
7:30 AM ET

Volatility

Priced into options:

9.2%

Average move:

8.1%


If you don't know by now that sporting goods sales have been strong, by the time Hibbett Sports (HIBB) reports on Friday, you'll know just how good by what Dick's Sporting Goods (DKS) says on Wednesday. Dick's is expected to beat estimates and likely raise guidance, and that is statistically positive. Hibbett should follow suit, but the sentiment measures for both companies are at record highs, and any move higher by Friday morning is at risk of being the end of the trade.

First of all, Simeon Gutman at Morgan Stanley said he sees robust results and a likely boost to guidance and Peter benedict at Baird said he expects the company to beat estimates. In the past, when the company has beaten consensus estimates and raised guidance, the stock has averaged a gap higher of 4.8% on the news and continued to drift higher over the course of the next month by another 4.7%.

Last quarter expectations were high too and the stock failed to deliver on the high expectations. The stock sold off initially, but continued to trend higher and sentiment has remained elevated – above the level seen in late 2016. Back in 2016, the company reported positive results and the stock rallied on the news, but sentiment peaked and started to fade. By the time the company reported results, sentiment remained bullish and the stock was testing the \$60 area. The company beat expectations but provided guidance below estimates and the stock gapped lower by 6% on the news to start a trend lower over the next 12 months.



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Most Anticipated Earnings Releases for the month beginning May 24, 2021

(only showing confirmed release dates)

Monday		Tuesday		Wednesday		Thursday		Friday	
24	 	25	 	26	 	27	 	28	
31		1	 	2	 	3	 	4	
7	 	8	 	9	 	10	 	11	
14		15	 	16		17	 	18	
21		22		23		24	 	25	



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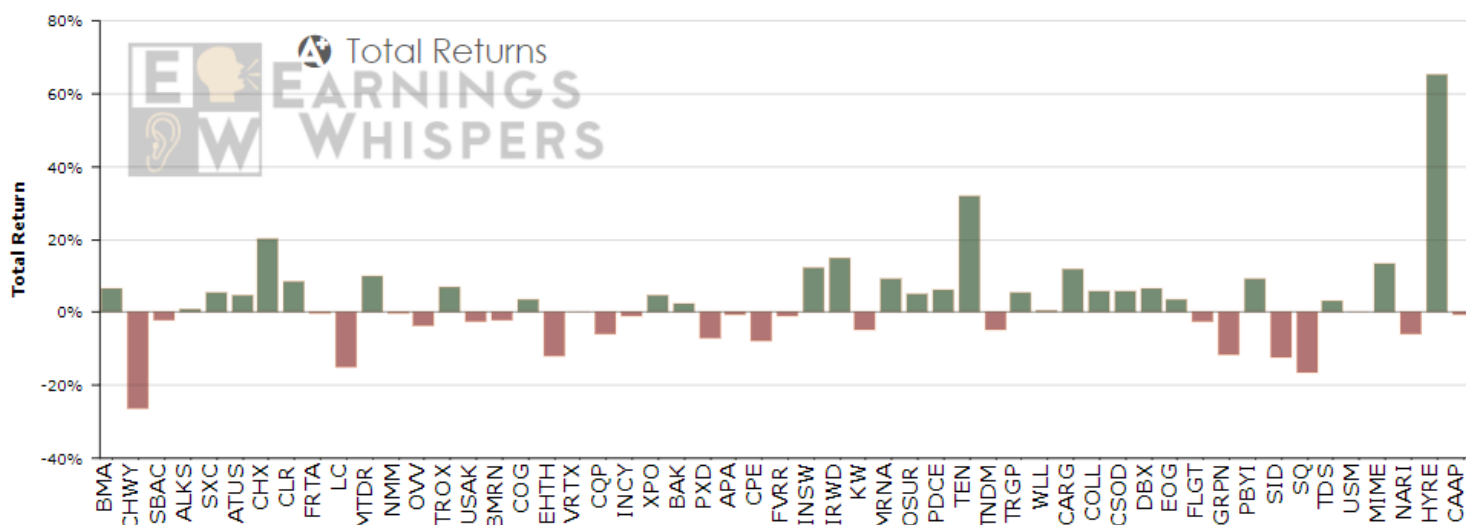
Number 806

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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 2.6% on average, since reporting, while the S&P 500 is down 0.44% so far.



Recent Positive Earnings with Positive Charts

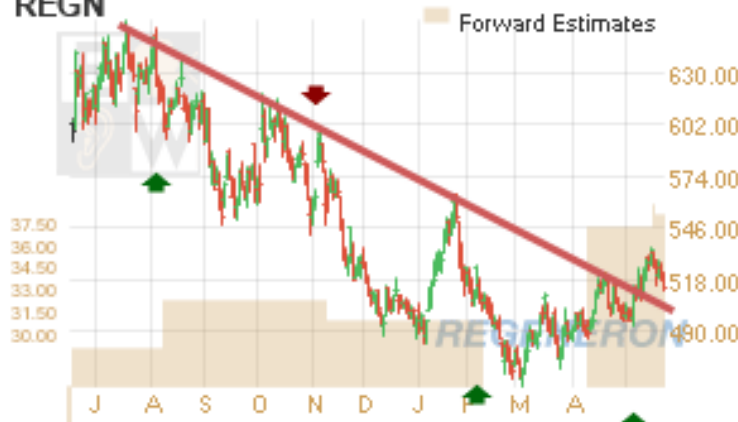

PDCE



ADTN



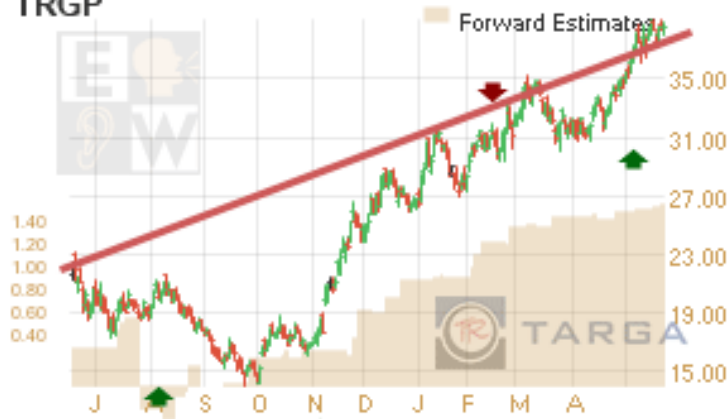
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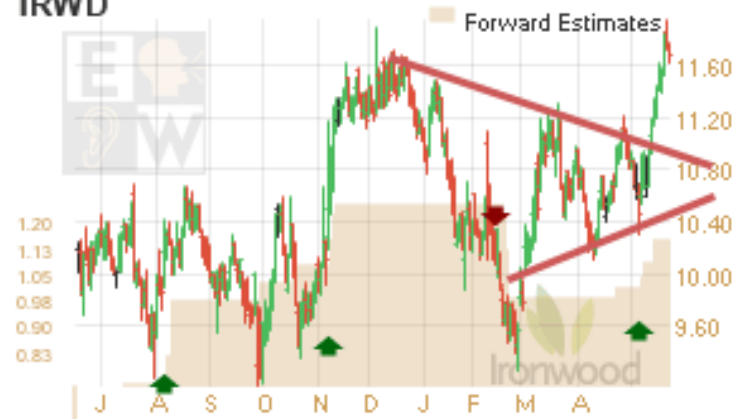
HL



TRGP



IRWD

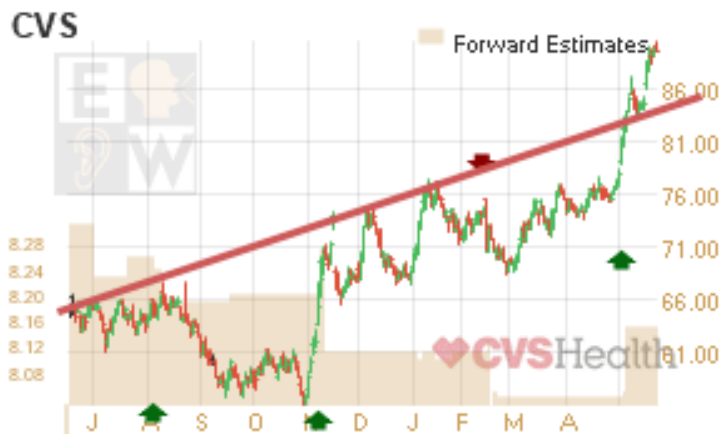


GNK



ESTE





EPD



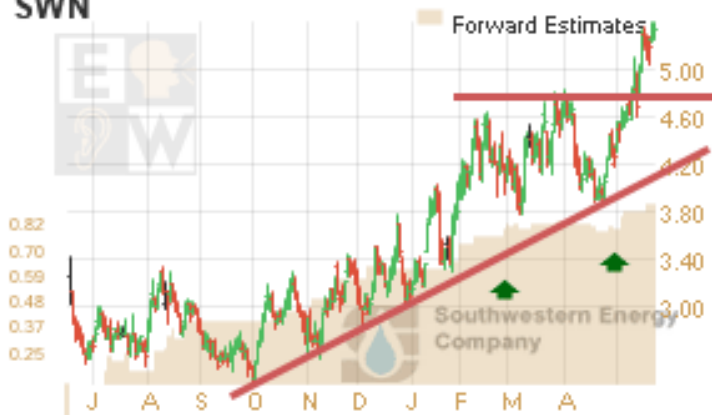
ALXN



ABBV



SWN



CHX



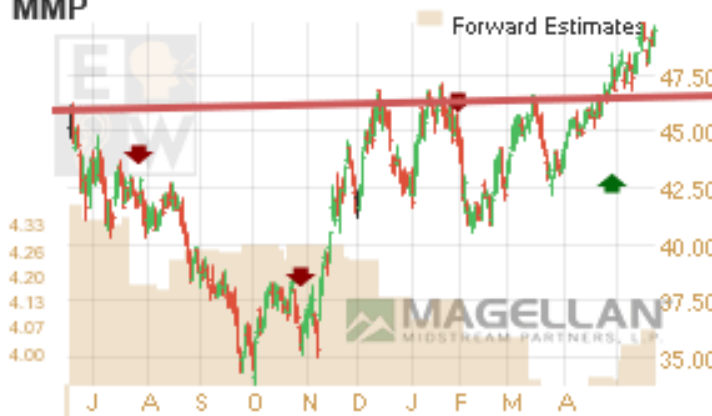
CUBI



NGVT



MMP



NAVI

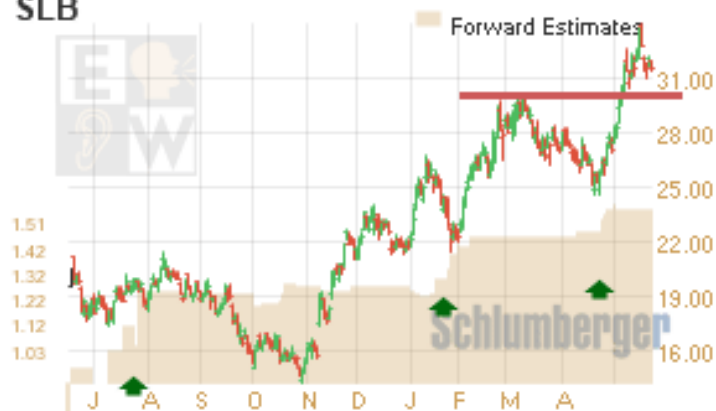
MRC

OKE

OLN

HES

FBP

SLB

HOME


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.