



EARNINGS WHISPERS

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

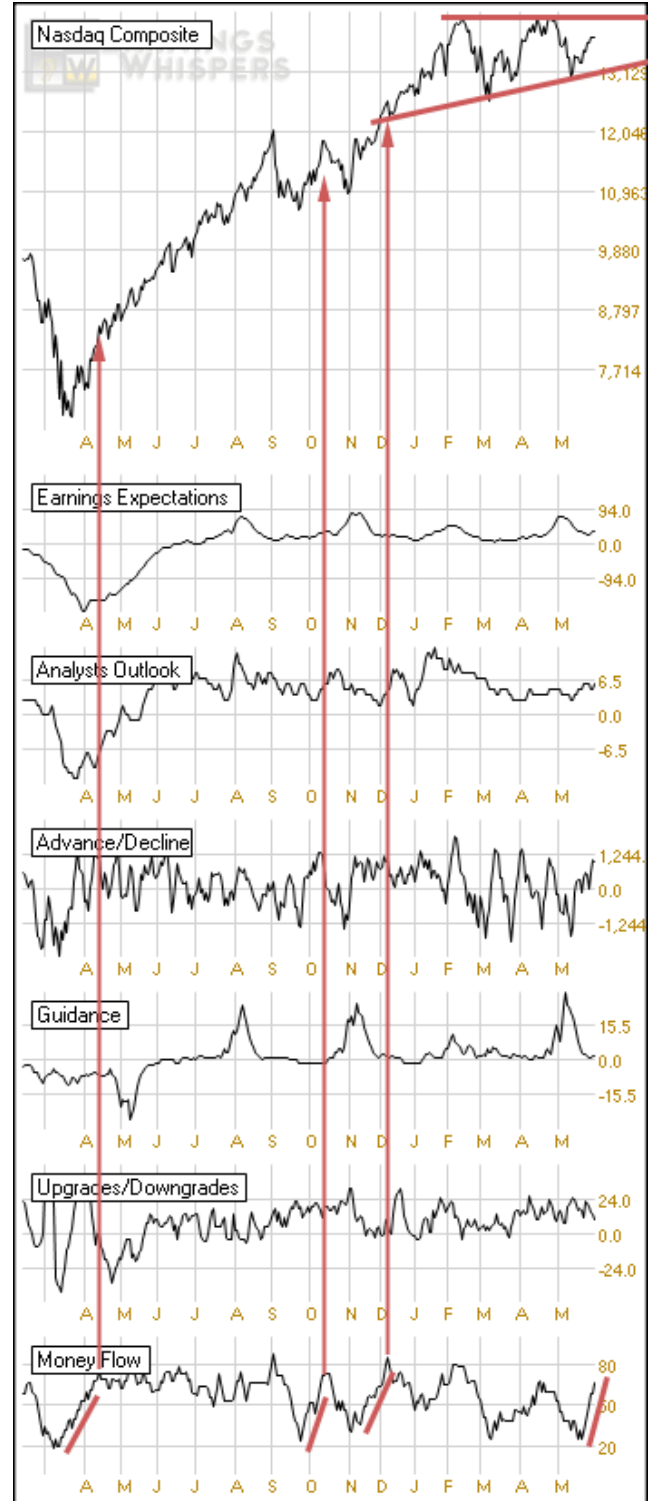
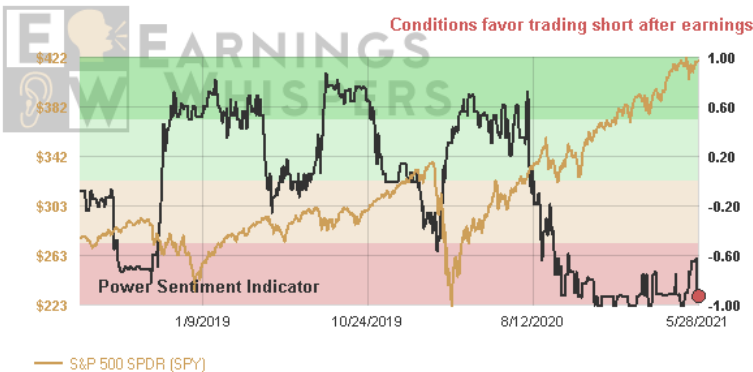
The Whisper Report®
Number 852

Prepared on Tuesday, June 01, 2021

Current Trading Strategy

Trading primarily long ahead of earnings while S&P 500 is above 4,000 and trading short after the news.

- Despite last month's disappointing jobs report, there is still upside room to May estimates and with room to go before a return to normal, the overall conditions appear to favor stock prices.
- Broadcom – positive checks but range bound until shown otherwise
- lululemon – sentiment starting to become a positive
- Cooper Companies – positive trends expected to continue
- NetApp – expectations at an extreme



Key Market Events

- 6/1 May ISM Manufacturing
- 6/2 Fed's Beige Book
- 6/3 Initial Jobless Claims
- 6/3 May ADP Employment
- 6/3 May ISM Services
- 6/4 May Employment

Statistics for the month of May 2021

	Positive	Negative	In-line	Ratio	Normal Ratio*
Guidance	344	50	444	87.3%	48.6%
EPS Surprises	1,601	1,002	188	61.5%	56.1%
Whisper Surprises	304	234	17	56.5%	53.3%
Revenue Surprises	1,582	663	-	70.5%	56.5%

* The average ratio for the month of May

Monday		Tuesday		Wednesday		Thursday		Friday
Before Open	After Close	Before Open	After Close	Before Open	After Close	Before Open	After Close	Before Open

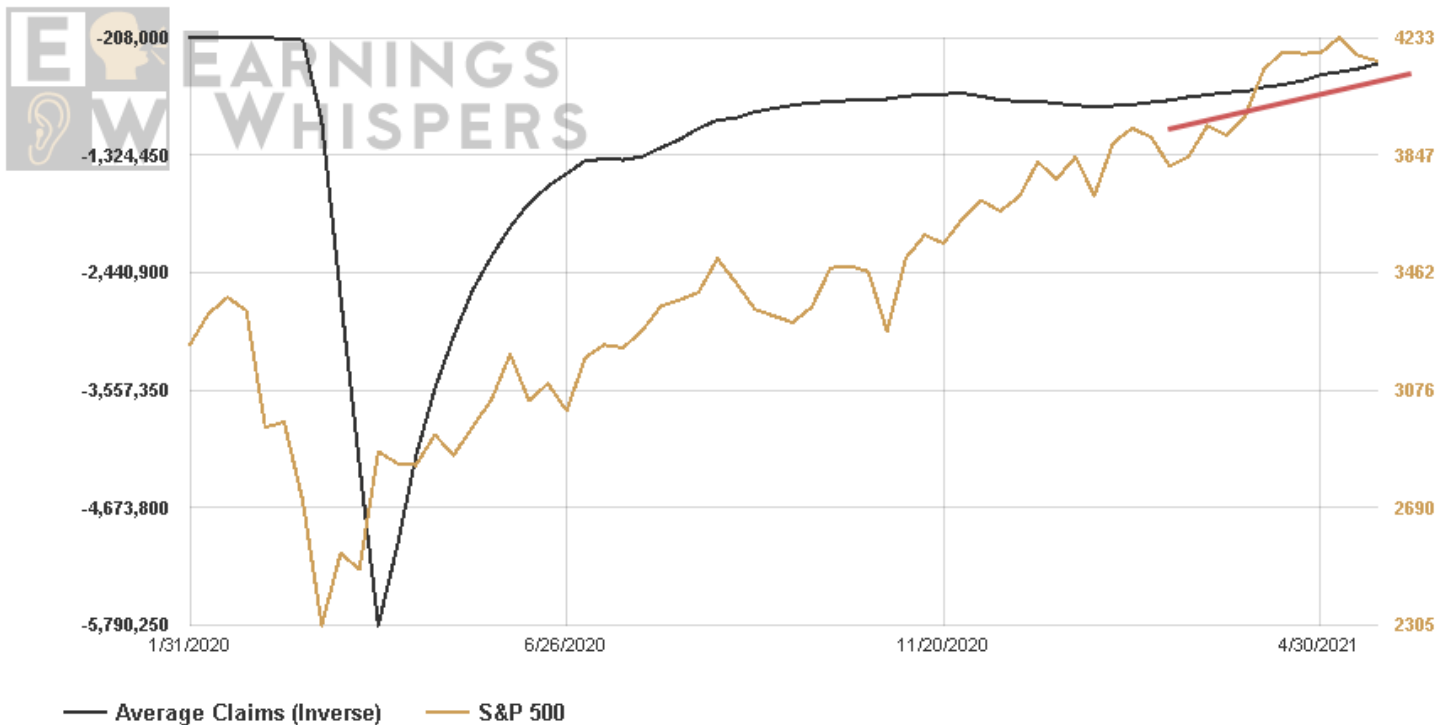
As the number of earnings releases slow during a holiday-shortened trading week, the key market event is likely to be the employment report on Friday... particularly after the numbers disappointed last month. The chart below shows our employment index based on previously released employment data covering about half of the U.S. and compared to the jobs data reported published by the Bureau of Labor Statistics (BLS) about a week later.

Granted, with the lockdown and subsequent recovery, the jobs data are skewed, but last month we saw an extremely high reading in our index while the BLS' numbers ticked lower. For the month of May, our index has dropped from its peak in April, but is still among the highest readings in the 17 years of data we have. We've drawn a red line to show the consensus among economists for the expected tick up in May to around 700,000 net new jobs – up from the 266,000 added in April.



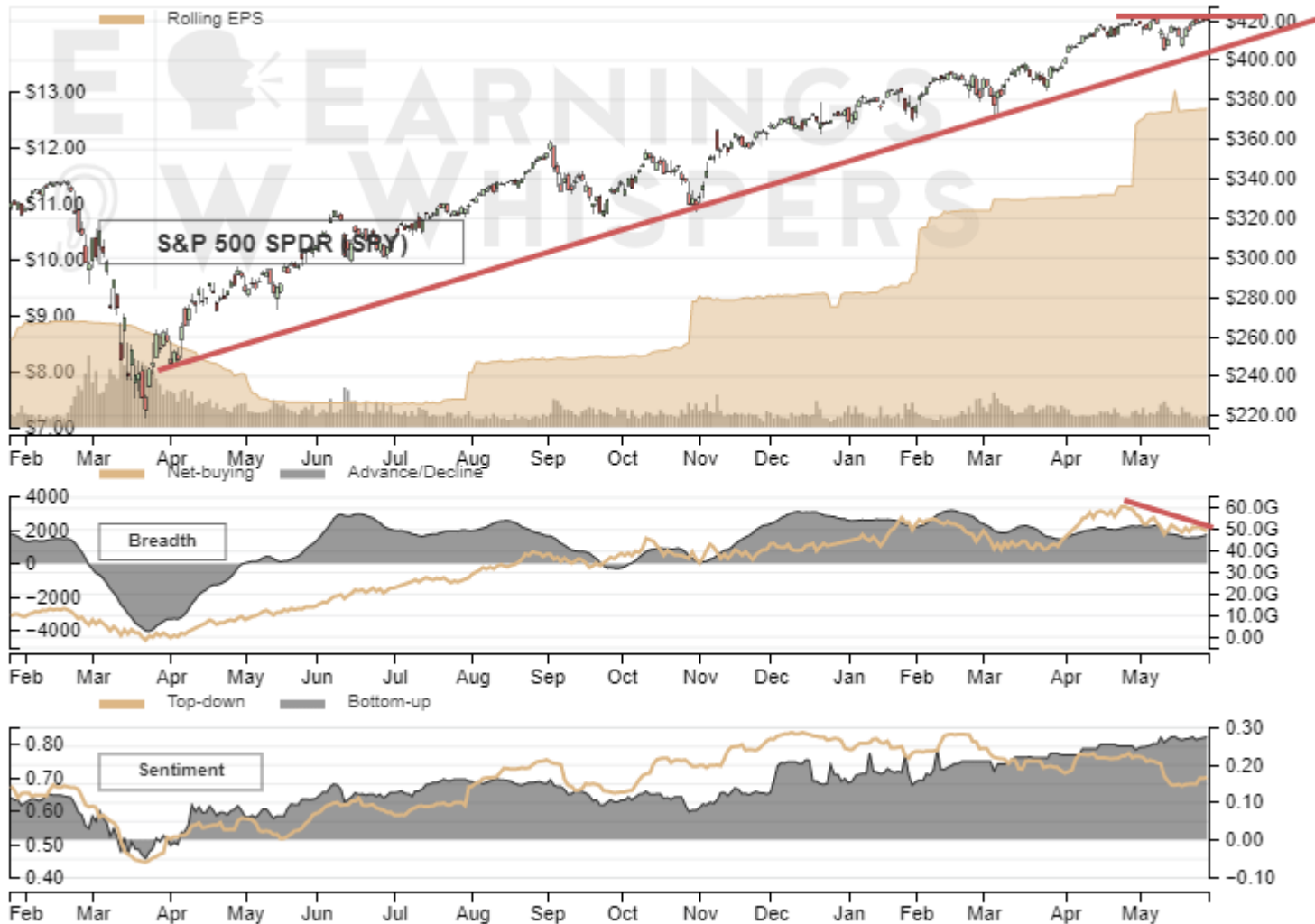
With the disappointing numbers last month and the softening data for May, economists' expectations appear muted despite estimates for a solid increase over the previous month. However, given the relatively strong underlying employment data, we suspect this means there is upside to estimates, though until numbers normalize more, it is hard to read too much into any of the employment data.

While it isn't part of our employment index, one of the data points that is cited by economists for their estimates is the continued decline in jobless claims. On the chart below, we show the inverse of the jobless claims so that the correlation between the claims data and the S&P 500 is more visible. The increase over the past several weeks is emphasized with the red line but claims still aren't near where they were prior to the lockdowns. Considering there is a correlation between initial jobless claims and stock prices, the upside room and the current trend support a continued rise in stock prices from here.



Market Overview

As the S&P 500 attempts a break to new highs, our measure of the net buying in the stock market has faded, which isn't quite a sell signal but is a warning sign until we see confirmation of money flowing into the market to support the higher equity prices.



The bullish sign in the technical data we watch is on page one of this report with the chart of the Nasdaq. Last week we drew arrows pointing to oversold conditions that have resulted in bounces. This week we've moved the arrows to strong momentum moves off an oversold condition. Back in October, such a move was followed with selling and a retest of the September levels, but the other two times signaled strength and the early stage of a longer-term move higher. A break to new highs for the S&P 500 that holds – probably the 4,210 level – would give technical confirmation for such a rally.

In the meantime, the trend line going back to April continues to hold and that keeps us trading primarily long ahead of earnings while the S&P 500 remains above 4,000.



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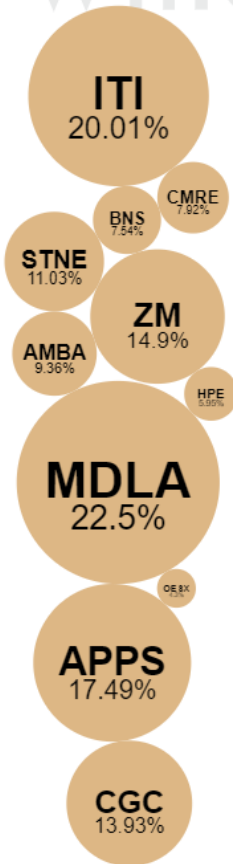
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Volatility of Upcoming Earnings Releases

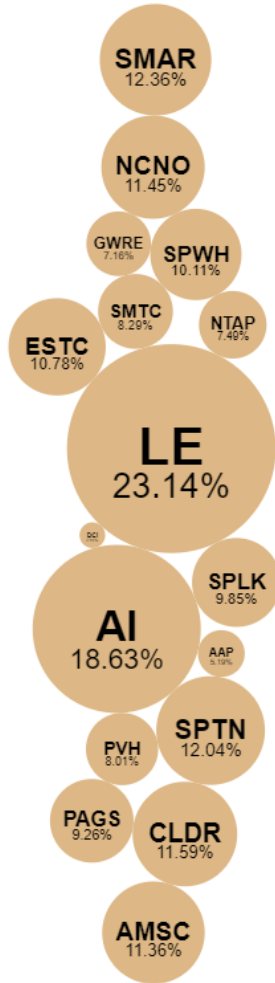
For earnings releases scheduled through Thursday, June 3, 2021



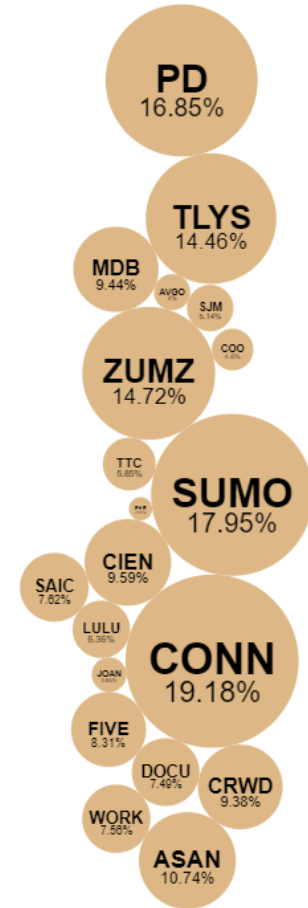
Tue 01



Wed 02



Thu 03





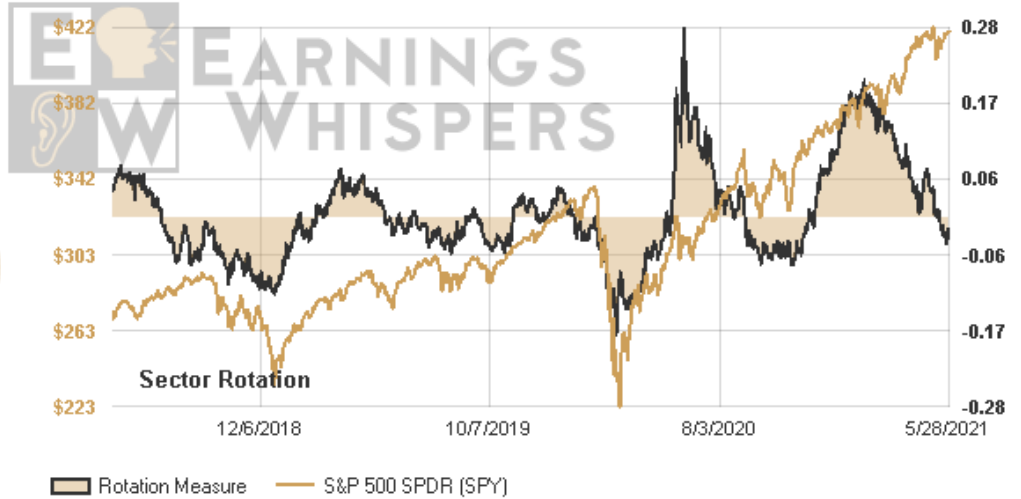
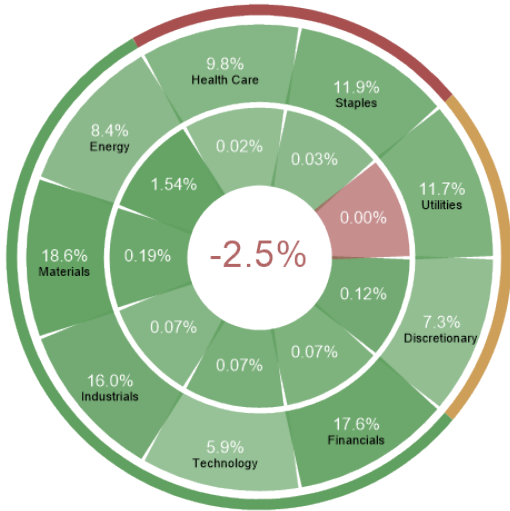
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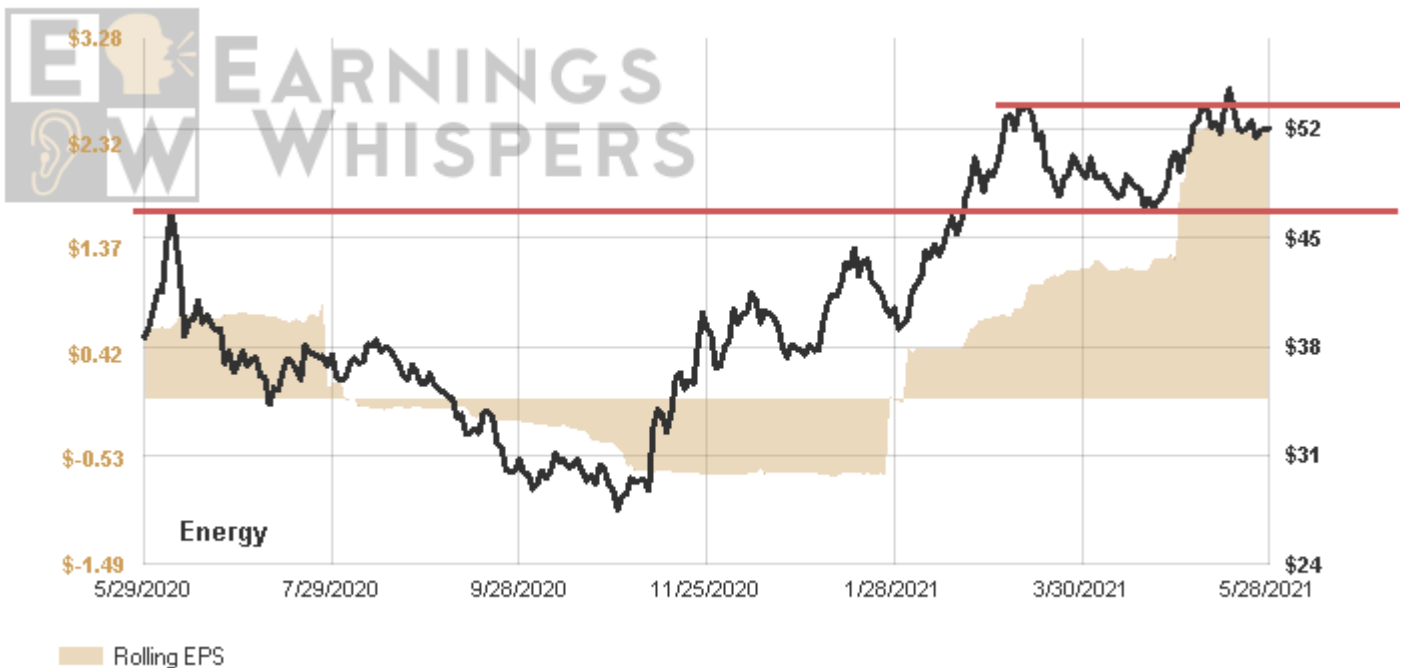
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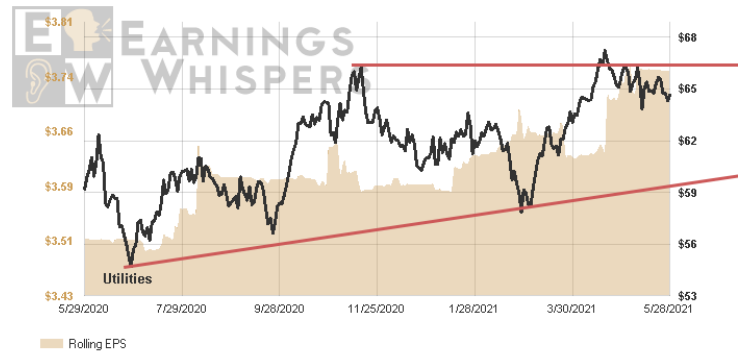
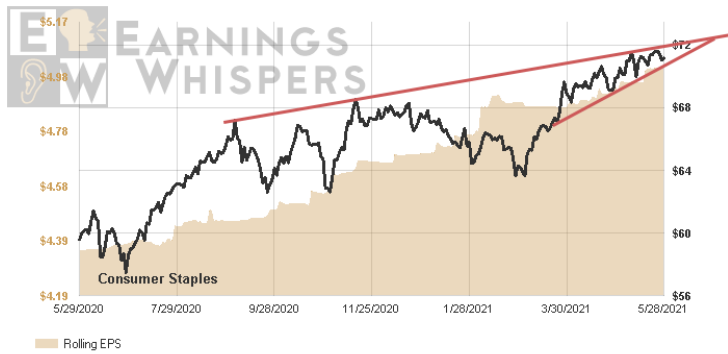
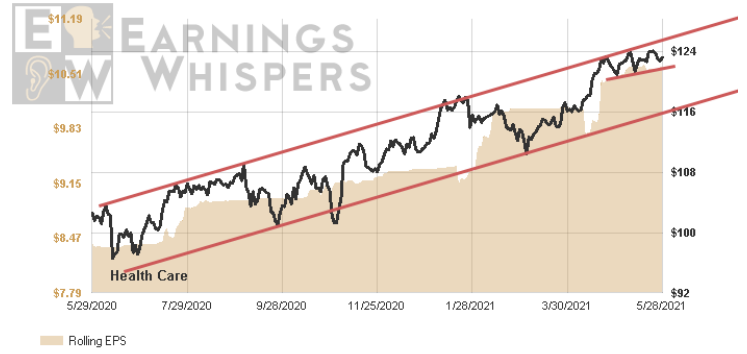
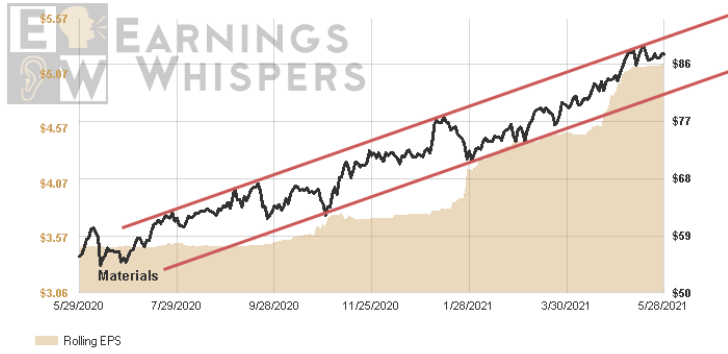
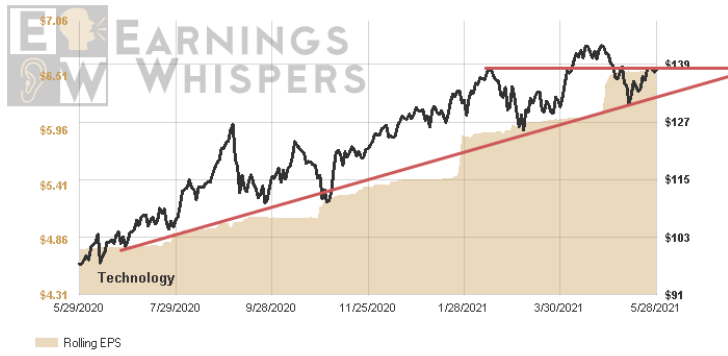
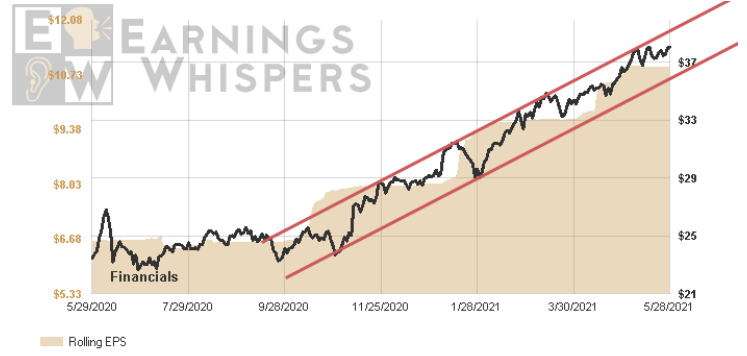
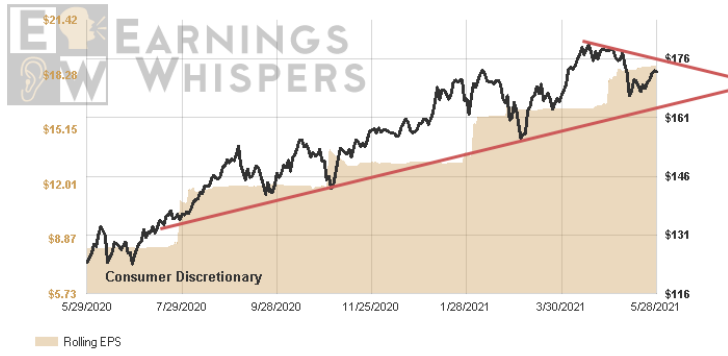
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Sector Performance

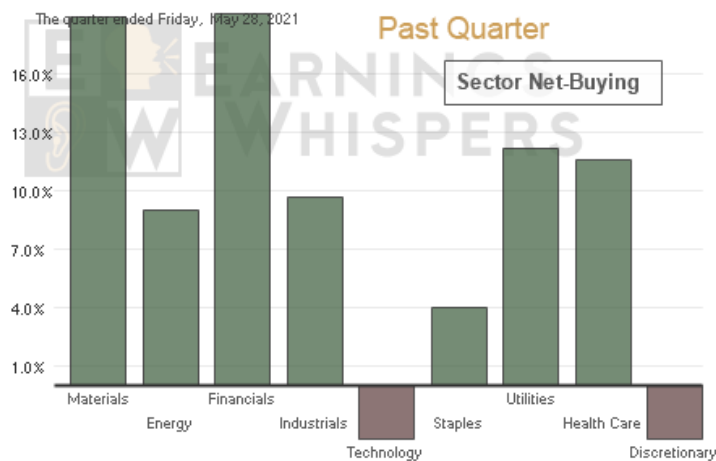
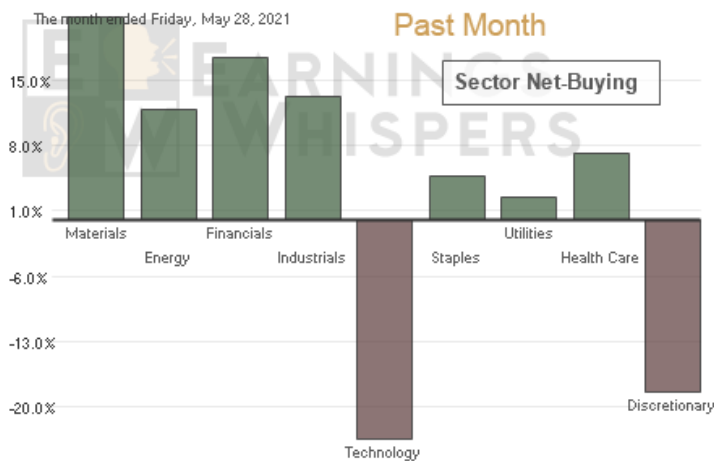
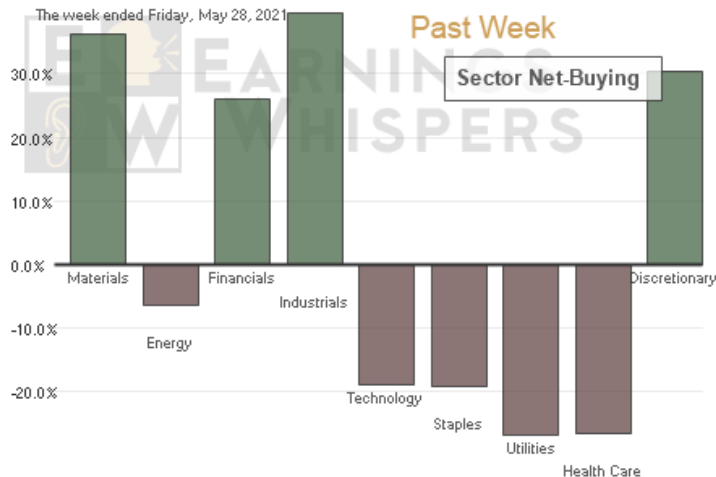
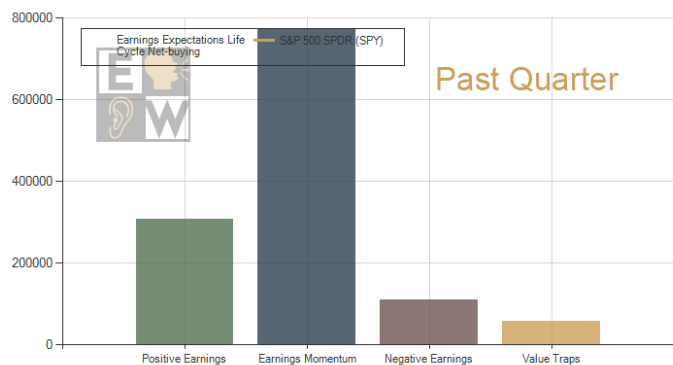
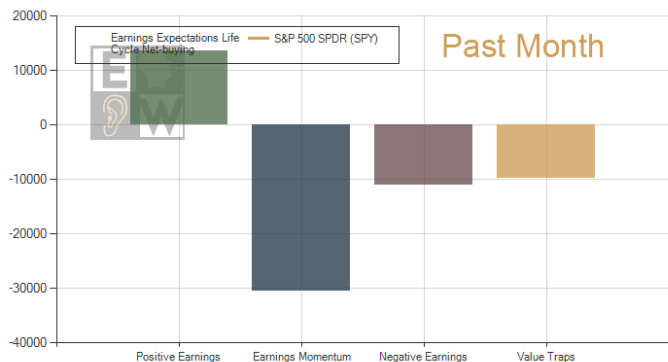
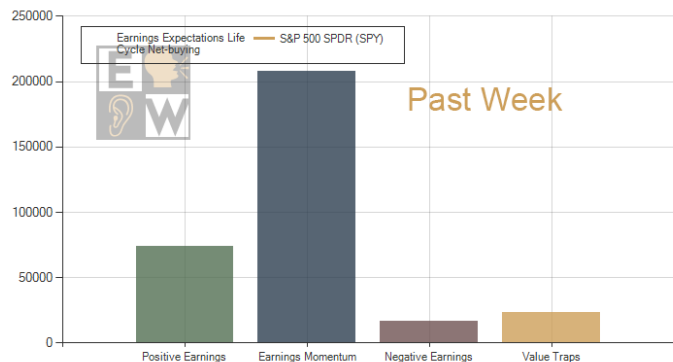


Our measure of the sector rotation was little changed last week and remains in the defensive territory, but we saw money primarily come out of Health Care, Staples, and Utilities, and mainly go into other sectors, which suggests more aggressive positioning. Money also came out of Technology and somewhat out of Energy, but the middle ring of the daisy wheel above shows estimate revisions over the past 90 days for each sector and Energy has seen the biggest increase in earnings estimates. The bodes well for the sector as it struggles to get above its March highs. Stocks of companies with earnings estimates going to new highs eventually see stock prices go to new highs, so unless the upward trend in estimate revisions reverses, the assumption is the Energy sector will break above the March highs.

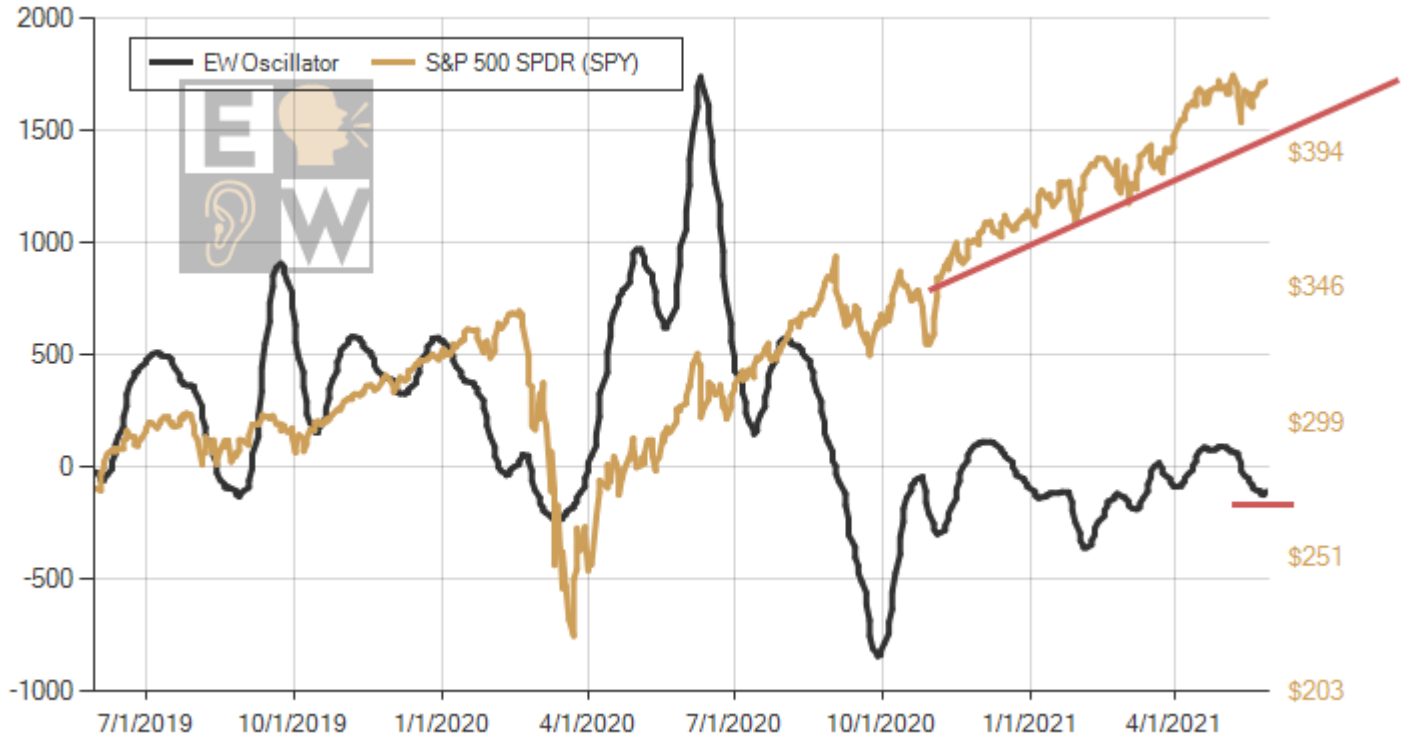




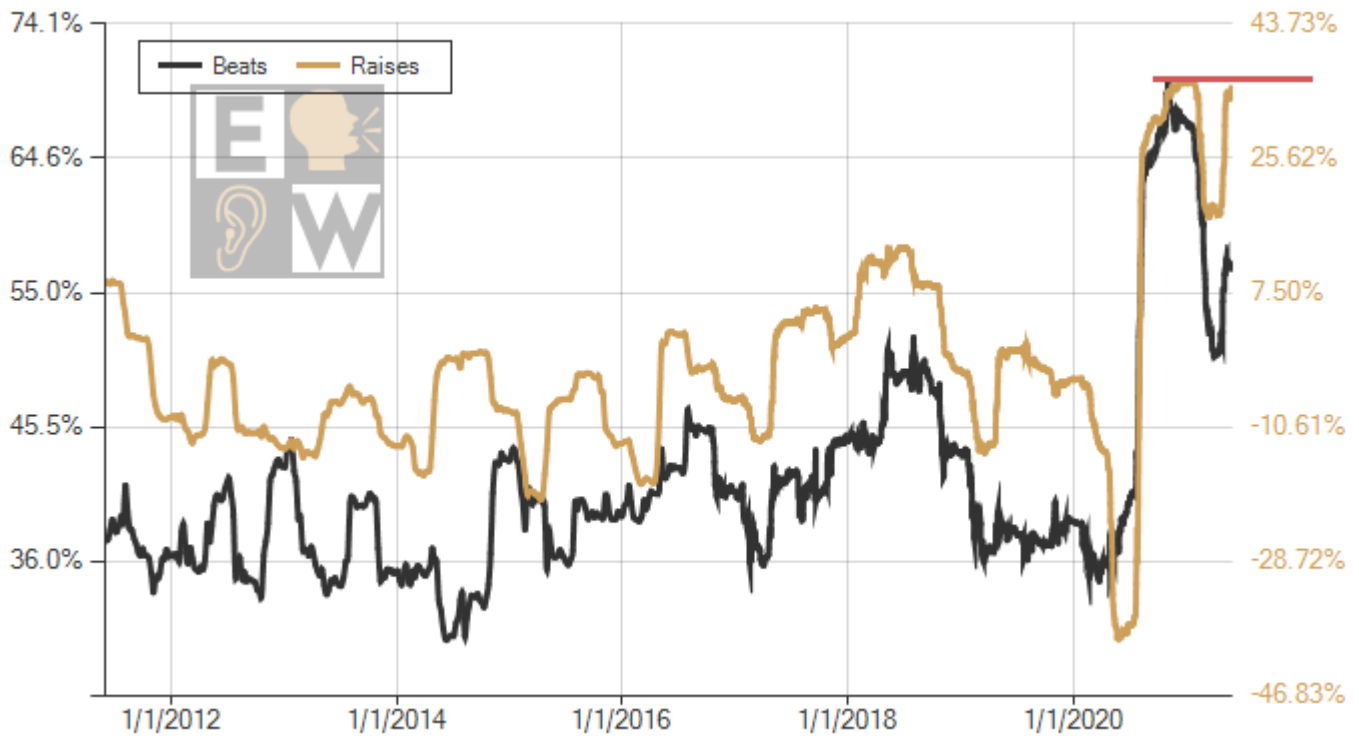
Money Flows

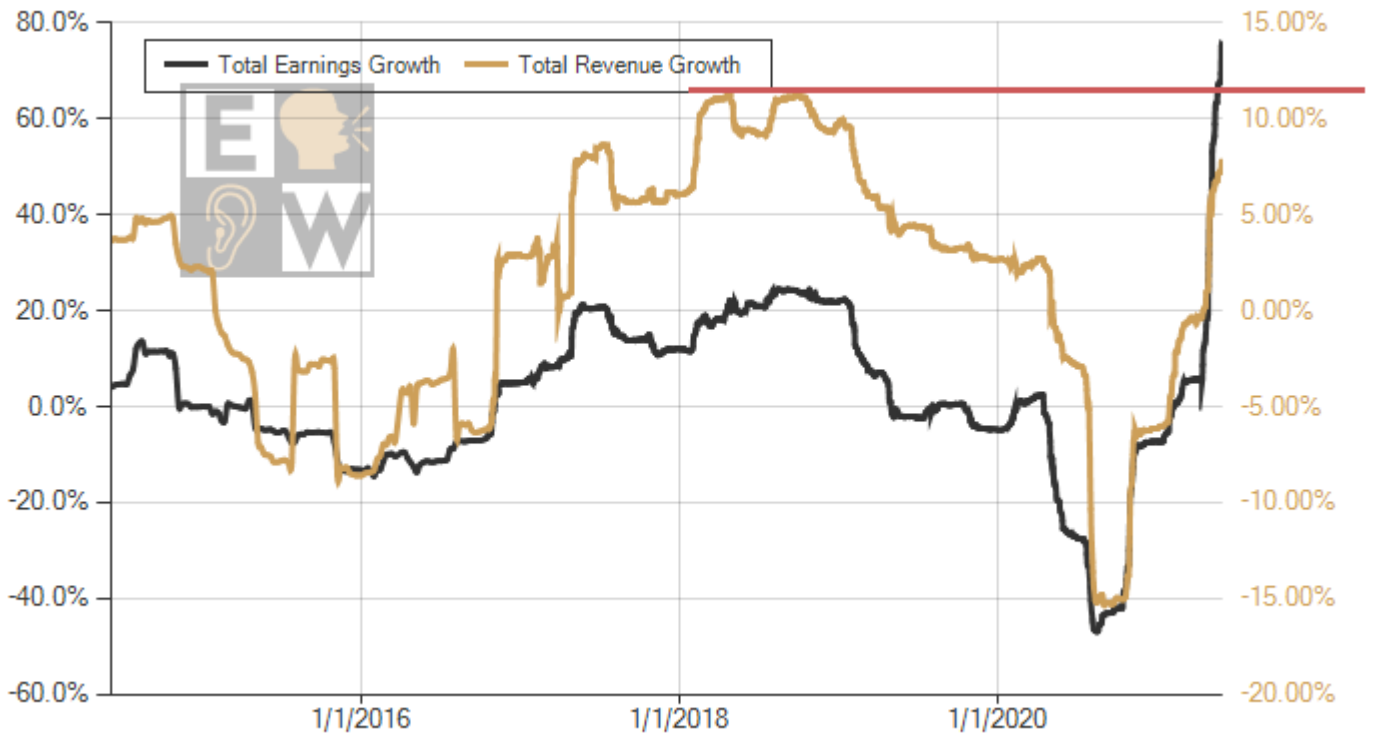


It hasn't quite been enough yet to push up our oscillator of positive vs negative earnings price action, shown on the next page, but the Positive Earnings and Earnings Momentum stocks led last week and the oscillator has stabilized to the point it appears to be turning up, which is a bullish sign for the overall stock market.

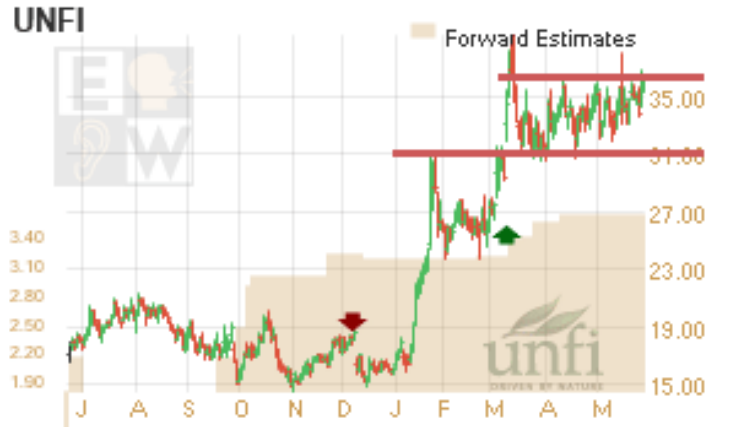
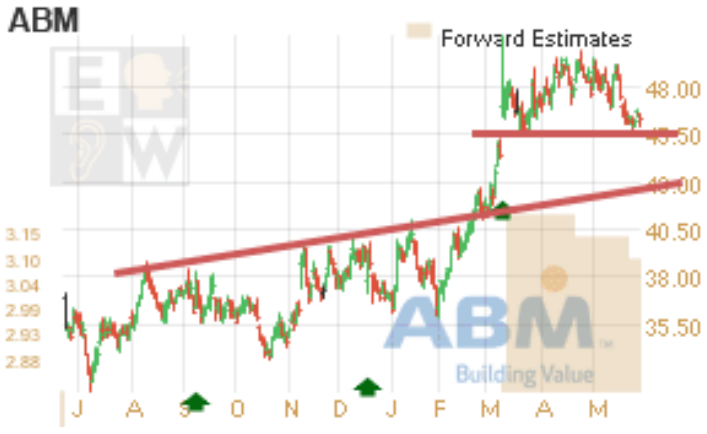
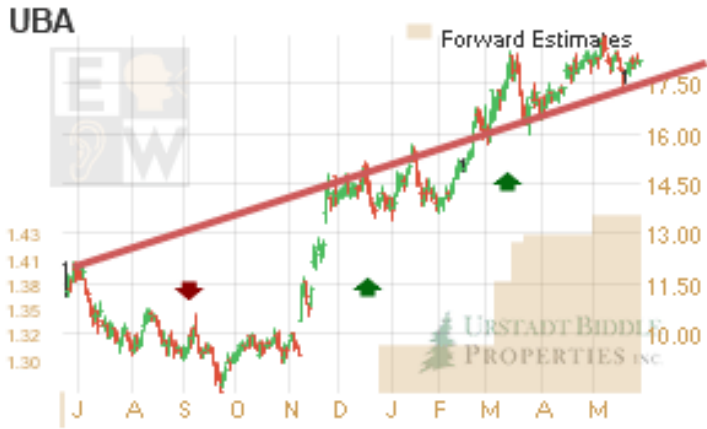


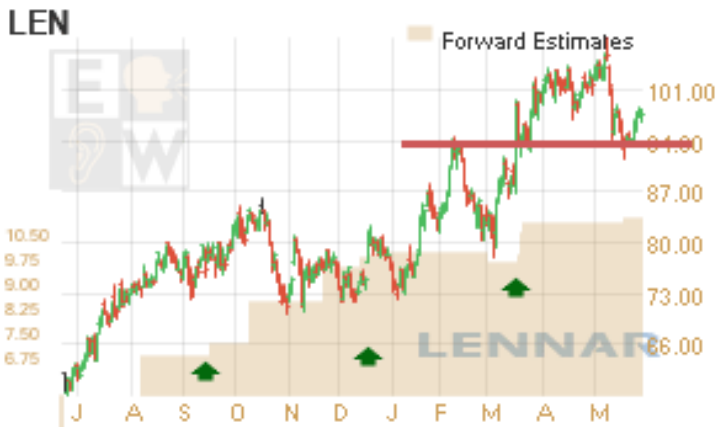
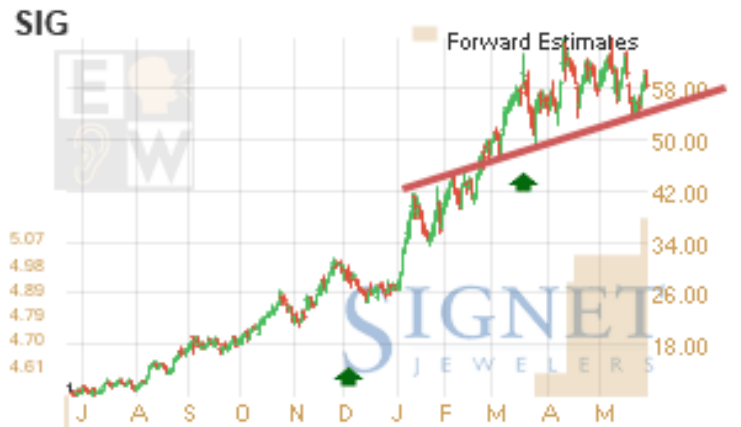
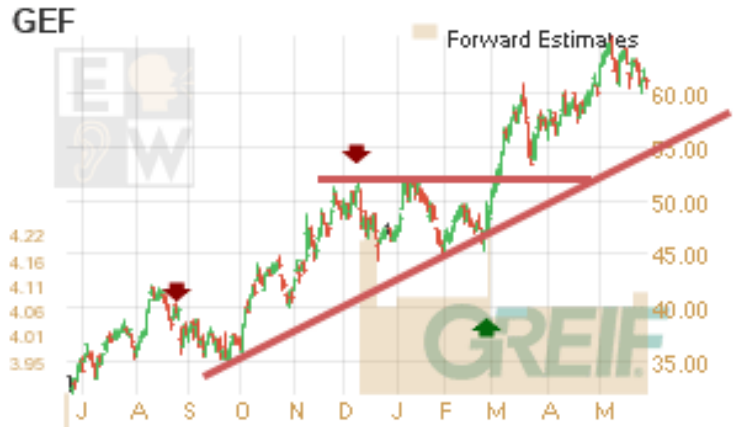
Earnings Trends

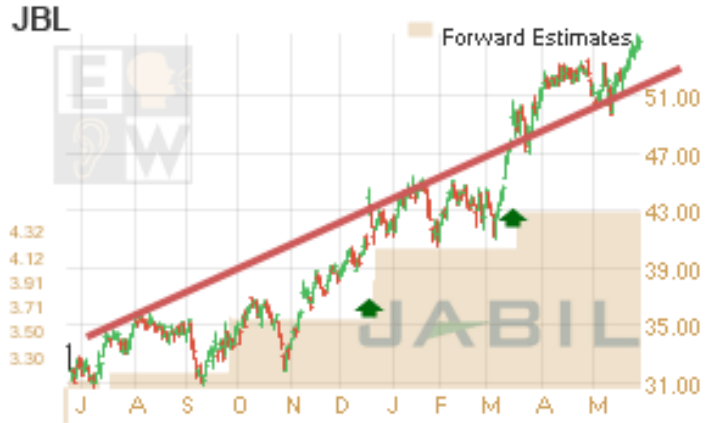




Upcoming Releases with Favorable Earnings Whisper Scores







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.

Broadcom

AVGO



Earnings Whisper
\$6.48

Earnings Estimate:
\$6.42
Revenue Estimate:
\$6.51 billion

Thursday
Jun 3
4:15 PM ET

Volatility
Priced into options:
4.0%
Average move:
3.2%



We are in an environment where stocks have made strong moves higher and by most measures, expectations are at or near their highs. In fact, expectations have been so high for so long that our statistics have favored selling stocks after they report earnings, at least for the short-term trade, for almost a year now as shown on the chart of our Power Sentiment Indicator on page one of this report. More so, the average gap higher for stocks of companies that provide positive guidance has now fallen below 2.0% for the first time since 2002. Furthermore, while stocks have gapped higher more than 78% of the time over the past 20 years when the companies provided positive guidance, that percentage has fallen to less than 72% this past quarter.

The odds aren't quite as in favor that a stock will gap higher when the company provides positive guidance, because of the high optimism following the strong rally, but the odds are still positive for those companies providing positive guidance. For the most part, Broadcom's (AVGO) peers have provided positive guidance and traded lower on the news... or shortly after. That could be a warning sign for Broadcom

when it reports earnings this week, but the statistical odds are still overall positive should the company provide positive guidance... and checks have been positive during the quarter.

The positive checks stem primarily from Apple's iPhone, with the higher-end 12 Pro Max and 12 Pro combining to be the top sellers. Rick Schafer at Oppenheimer said this benefits Broadcom and Vivek Arya at Bank of America Securities said iPhone sales and demand for 5G phones favors Broadcom against 4G weakness seen in China. With estimates little changed over the past two months, the strength seen from iPhone is likely to lift estimates, and just like stocks as a whole, this is statistically positive for shares of Broadcom going into earnings.

Still, Broadcom has found support at \$425 with multiple touches already this year, but has resistance near \$490. Until shown otherwise, the trade is a move within this range. We've got, perhaps, a more aggressive line sloping from its peak in February and the stock probably at least needs to hold this line, or \$477, for a long trade from here.

lululemon
LULU



Earnings Whisper
\$1.02

Earnings Estimate:
\$0.90
Revenue Estimate:
\$1.12 billion

Thursday
Jun 3
4:05 PM ET

Volatility
Priced into options:
6.4%
Average move:
5.2%



Expectations going into lululemon's (LULU) earnings aren't as low as they were back in 2017 before the stock went on a multi-year rally that took the stock up fivefold prior to the pandemic. However, despite short interest at a low, sentiment is near where it was at the pandemic lows. This is a statistical negative going into the company's earnings release, but is potentially a positive for the stock going forward – particularly in a bull market.

The reason for the lack of optimism this quarter is mainly due to margin concerns as the company ramps investment into MIRROR, but the company's sales have tracked above expectations during the quarter, and that not only has the potential for an upside revenue surprise but also better margins and a beat on the bottom-line. Kimberly Greenberger at Morgan Stanley said checks suggest revenue above the high-end of the company's guidance range of \$1.10 billion to \$1.13 billion, which she said could result in earnings above \$1.00. The company's guidance was for earnings of \$0.86 to \$0.90 per share, excluding MIRROR acquisition costs, and the consensus earnings estimate is at the high-end of this range while the Earnings Whisper® number is \$1.02 per share.

After cutting estimates following the company's earnings release last quarter, when it beat the consensus but missed the Earnings Whisper, estimates have been getting revised higher on the improved sales checks, and the stock has enough touches for a trend line from its early-March lows. Assuming the company sees growing recurring revenue from MIRROR and at least maintains its fiscal year guidance, a pullback that holds the line... or, say, \$307, should be viewed as a buying opportunity due to the decline in sentiment and the likely continued increase in estimates.

Statistically, however, the buying opportunity will only be there if the company beats the Earnings Whisper because, when the stock has gapped lower after missing the Earnings Whisper, it continues to drift lower by an average of 0.2% over the subsequent week and is lower 62% of the time. That isn't necessarily statistics worthy of shorting the stock, but when it has gapped lower after beating the Earnings Whisper, the stock was up 71% of the time a week later and was up an average of 9.2%.

Cooper Companies

COO



Earnings Whisper

\$3.20

Earnings Estimate:

\$3.12

Revenue Estimate:

\$689.77 million

Thursday

Jun 3

4:15 PM ET

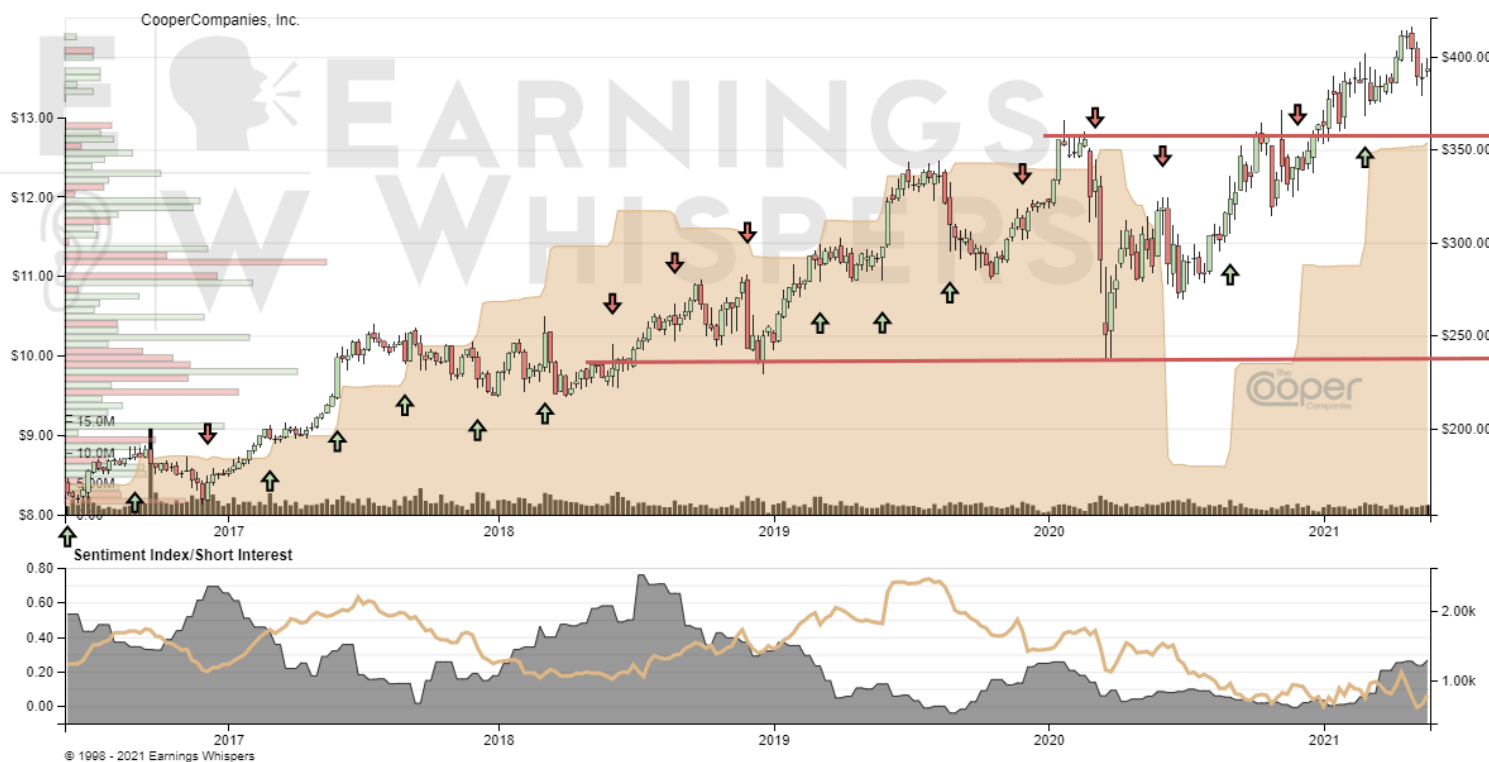
Volatility

Priced into options:

4.6%

Average move:

3.0%

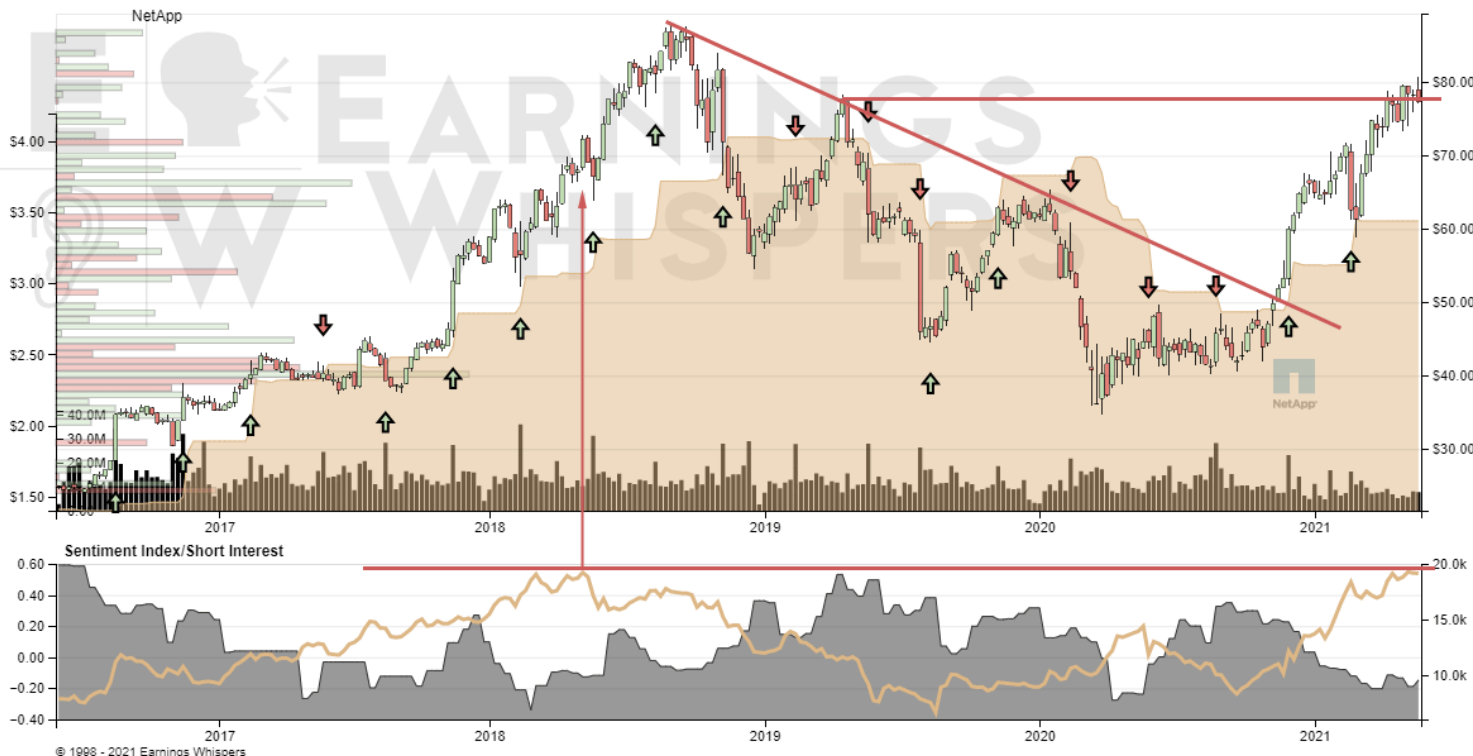


Prior to the pandemic, shares of Cooper Companies (COO) were trading around \$355. The company reported disappointing results, and the stock moved lower with the rest of the market, but still held above its late 2018 lows. Near the end of 2020, the stock retested \$355 and, despite giving negative guidance in December, the stock subsequently pushed through resistance. Now, as long as the stock holds \$355 as support, any weakness should likely be bought.

The move above \$355 came ahead of earnings pushing to new highs, but that is expected to change after the company reports fiscal second quarter results. If so, then the stock is unlikely to revisit \$355 in the near-term. In the past, when the company has beaten consensus estimates, the stock has gapped higher by an average of 2.3% and was up a month later by another 4.7%.

Jason Bednar at Piper Sandler favors the upside scenario and recommends buying the stock ahead of the company's earnings release.

NetApp		Earnings Whisper	Earnings Estimate:	Wednesday	Volatility
NTAP		\$1.21	\$1.12	Jun 2	Priced into options:
			Revenue Estimate:	4:00 PM ET	6.9%
			\$1.50 billion		Average move:
					7.5%



Positive expectations going into earnings are typically positive for a reason and, therefore, positive expectations tend to be a positive indicator for a stock going into the company's earnings release. However, sentiment can get to an extreme where it no longer favors the upside move. The last time expectations were as high as they are now for NetApp (NTAP), the stock still continued for more than a quarter, but, so far, that is proving to be a two-decade high for the stock and it still hasn't made its way

back yet. Technically, if the stock gets above \$78, there is a reasonable likelihood the stock will revisit its 2018 highs of \$88, but the high expectations create a headwind for such a move.

Again, though, there is a reason for the high expectations. Van Tran at OTR Global said their checks improved during the quarter and Katy Huberty at Morgan Stanley said their checks imply material upside to estimates. Furthermore, Wamsi Mohan at Bank of America Securities said their checks have been positive during the quarter and he expects trends to continue through next year.

The concern, as Mr. Mohan also pointed out, is that the company's fiscal first quarter, which ends in July, is the seasonally weakest quarter and the company seldom provides positive guidance for the first quarter. In fact, going back to 2003, the company only provided positive first quarter guidance twice – in 2010 and 2011. Furthermore, when NetApp has provided negative guidance, the stock has gapped lower 72% of the time and gapped lower by an average of 4.7% and did little from there over the following month. The stock gapped lower as well on in-line guidance with an average decline of 1.2%, but the difference there was the stock was higher an average of 4.3% after a month. When the company provided positive guidance, on the other hand, the stock gapped higher 80% of the time and was higher 5.5% on average before gaining another 7.5% over the subsequent month.

Therefore, while the checks are positive and this is expected result in estimates getting revised higher, which in turn supports the stock moving higher above the \$78 level, the high expectations and the company's seasonality may prevent this.



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Number 846

Prepared on Tuesday, June 01, 2021

Most Anticipated Earnings Releases for the month beginning May 31, 2021

(only showing confirmed release dates)

Monday	Tuesday	Wednesday	Thursday	Friday
31	1 	2 	3 	4
7 	8 	9 	10 	11
14	15 	16	17 	18
21	22	23	24 	25
28	29 	30 	1 	2



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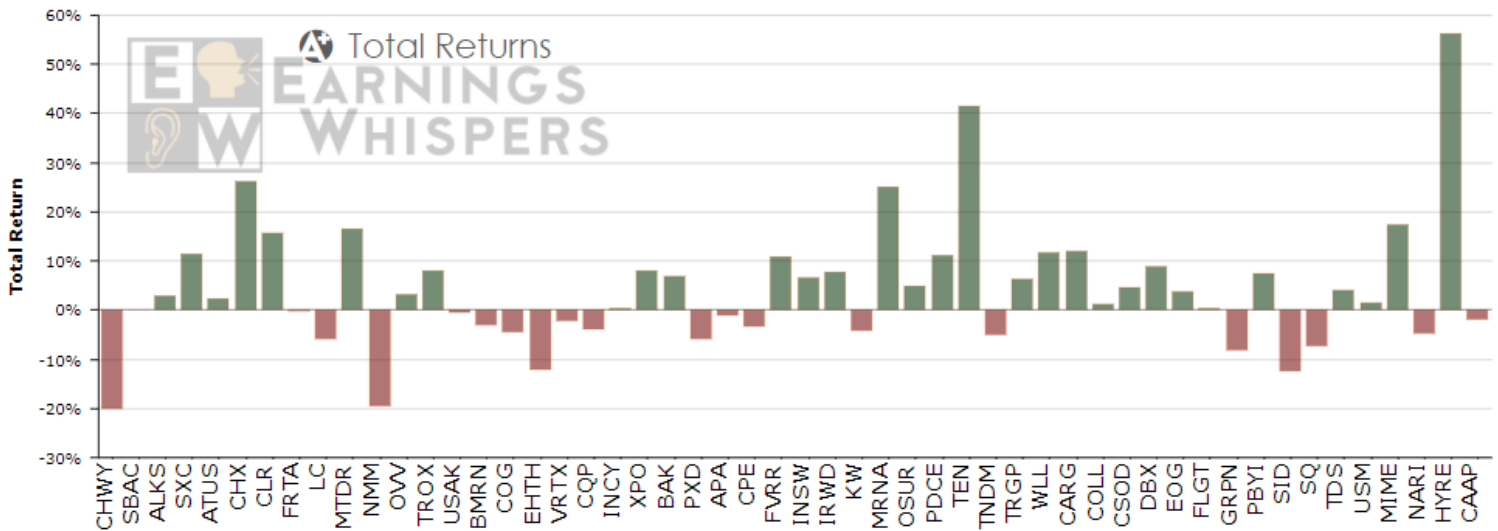
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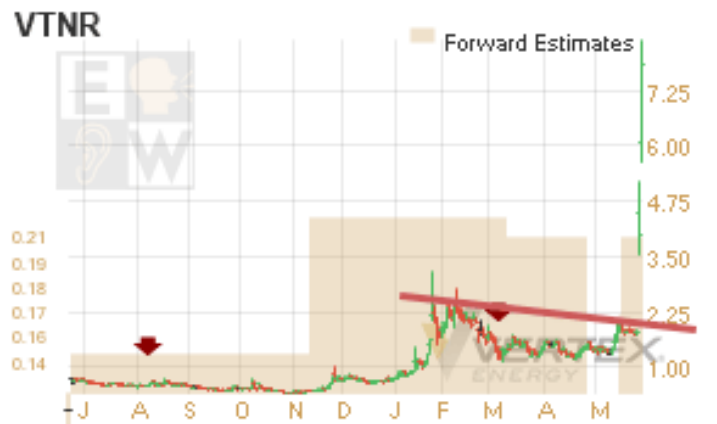
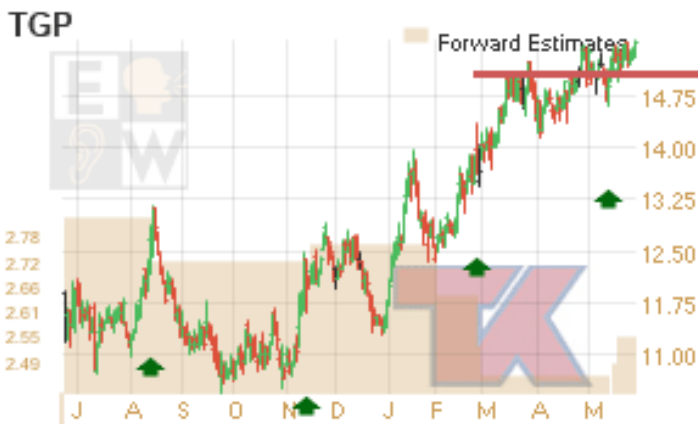
Earnings Whisper Grades

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 4.22% on average, since reporting, while the S&P 500 is down 0.67% 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.