

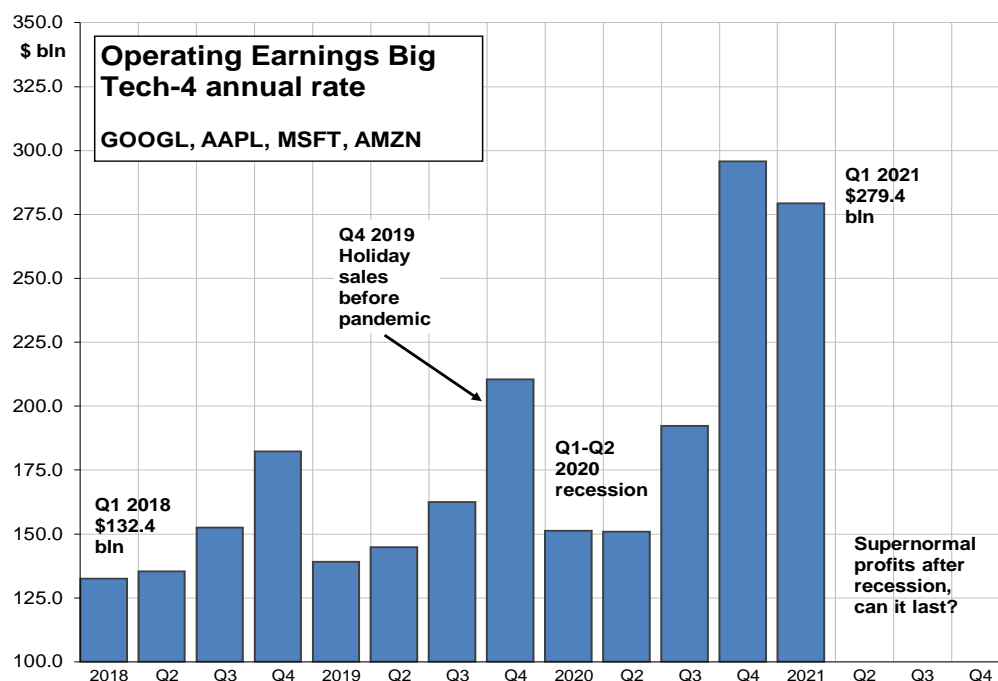
Financial Markets This Week

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Christopher S. Rupkey, CFA
Chief Economist
crupkey@fwdbonds.com

EXTRAORDINARY BIG TECH COMPANY PROFITS TO CONTINUE

This is a question not a certainty. The big tech companies made supernormal profits during the dramatic economic changes brought about by the pandemic, but the pandemic is over, so will the earnings streak continue. It wasn't supposed to be this way with the worst economic downturn since the Great Depression and Fed officials warning about



financial ruin for small and medium-sized enterprises as the economy shut down. But somehow, U.S. corporations are earning considerably more than they did in the “best economy in fifty years” before the pandemic. S&P operating earnings are at a record in Q1 2021 and Q2 2021 expectations are for the second greatest earnings quarter in history. Big tech earnings are a big part of the reason.

The record Q1 2021 quarter for S&P earnings is backed up by supernormal profits from the Tech-4 companies here with annualized operating income of \$279.4 billion which is 84.8% higher than the \$151.2 billion in Q1 2020 as the pandemic began. Profits were even higher in Q4 2020 at \$295.8 billion which is a big quarter for Apple always during the traditional holiday spend period.

Operating Income calendar quarters (\$bln)									
	<u>Q1 2019</u>	<u>Q2 2019</u>	<u>Q3 2019</u>	<u>Q4 2019</u>	<u>Q1 2020</u>	<u>Q2 2020</u>	<u>Q3 2020</u>	<u>Q4 2020</u>	<u>Q1 2021</u>
Apple	13.415	11.544	15.625	25.569	12.853	13.091	14.775	33.534	27.503
Microsoft	10.341	12.405	12.686	13.891	12.975	12.405	15.876	17.897	17.048
Alphabet	6.608	9.180	9.177	9.266	7.977	6.383	11.213	15.651	16.437
Amazon	<u>4.420</u>	<u>3.084</u>	<u>3.157</u>	<u>3.879</u>	<u>3.989</u>	<u>5.843</u>	<u>6.194</u>	<u>6.873</u>	<u>8.865</u>
Total	34.784	36.213	40.645	52.605	37.794	37.722	48.058	73.955	69.853

Earnings drive stock prices in the long run, and lately in the short run. Apple operating income was \$15.894 billion in Q1 2018 and rose 73% to \$27.503 billion in Q1 2021. Apple's stock price is up 191.2% over the three years to \$122.15 at the end of Q1 2021. Microsoft earnings were \$8.292 billion in Q1 2018 and rose 105% to \$17.048 billion in Q1 2021. MSFT stock is up 158.3% over the three years to \$235.77 at the end of Q1 2021. Alphabet earnings were \$7.001 billion in Q1 2018 and rose 134% to \$16.437 billion in Q1 2021. GOOGL stock is up 98.8% over the three years to \$2,062.52 at the end of Q1 2021. Amazon operating income was \$1.927 billion in Q1 2018 and rose 360% to \$8.865 billion in Q1 2021. AMZN stock is up 113.7% over the three years to \$3,094.08 at the end of Q1 2021.



We don't hope for another stock market bubble like the early 2000s. We won't calculate the percentage change of the loss in the Nasdaq graph above. The Fed knew there was a stock market bubble and eventually moved interest rates up to 6.5%, tight money that might have helped bring about recession and popped the stock market bubble.

We don't hope for another stock market collapse, but the earnings have jumped so dramatically for the big tech companies that one has to wonder whether the income will continue now that the economy has reopened and people will not need to work from home as much and buy a new computer and companies will not need to keep putting more of their operations up in the Cloud. Apple has the biggest chunk of Big-4 earnings which at \$27.503 billion in Q1 2021 is a 39.4% share of the total. In Q1 2021, iPhone sales were 53.5% of the \$89.584 billion of net sales for the company. We have one more iPhone to buy in our family, and that's it. Amazon earnings growth the last few years has been highly dependent on Amazon Web Services with AWS responsible for 47% of Q1 2021's \$8.865 billion of operating income. There are risks ahead to big tech earnings after the economy is open again. Stay tuned. Story developing. All eye's are on Apple's earnings for the quarter ending June on July 27, 2021.

OTHER ECONOMIC NEWS

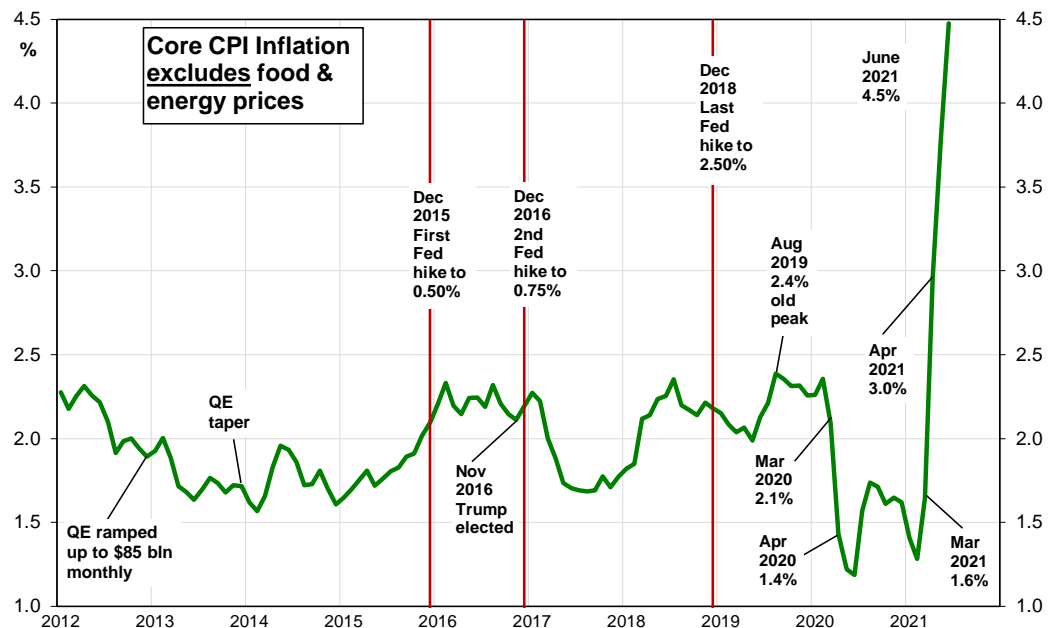
Whew. No inflation to report this month. (Tuesday)

Breaking economy news. CPI inflation fires continue to burn out of control, do not take comfort in what the man behind the curtain at the Bureau of Labor Statistics is telling you, pointing out that the 10.5% jump in used car and truck prices accounted for a third of the 0.9% increase in headline CPI inflation in June to an astonishing 5.4% the last year. Economists, get ready to draw yet another damn chart as this inflation is going higher outside the boundary of what was thought to be possible. Fed officials have their heads in the sand if they think this isn't dangerous. The price level is soaring and the next downturn will come when consumers can't afford the sky-high prices and actually cut their spending and cause the next recession.

Weight	CPI inflation	Monthly Percent Changes			YOY %
		Apr 2021	May 2021	Jun 2021	Jun 2021
100.0	Total	0.8	0.6	0.9	5.4
13.9	Food	0.4	0.4	0.8	2.4
6.2	Food away from home	0.3	0.6	0.7	4.2
7.1	Energy	-0.1	0.0	1.5	24.5
79.1	Ex-food & energy	0.9	0.7	0.9	4.5
3.7	New vehicles	0.5	1.6	2.0	5.3
3.2	Used cars/trucks	10.0	7.3	10.5	45.2
2.7	Clothing	0.3	1.2	0.7	4.9
1.5	Medical care goods	0.6	0.0	-0.4	-2.2
32.7	Shelter	0.4	0.3	0.5	2.6
5.3	Transportation	2.9	1.5	1.5	10.4
7.1	Medical care services	0.0	-0.1	0.0	1.0

Everything is going up. Hotel prices are up 7.9% this year which is why shelter costs rose 0.5% in June to 2.6% the last year. Is that all for Shelter? Incredibly, the BLS cannot find any of the 20% year-year rise in home prices that others have found to be the case. If they did, CPI would be up over 10% in June, not 5.4%. This inflation is downright dangerous and Fed officials continue to talk on and on while Rome burns. Their monetary policy framework is too complex; it simply is not useful. If you are dining out, restaurant owners have lifted prices another 0.7% this month to 4.2% year-on-year. The only thing flat or down is medical care services which were flat this month and up 1.0 percent the last year, and your meds, medical care commodities down 0.4% for the month and down 2.2% for the year. Maybe they think we got a freebie from all those Covid shots administered, that is if you got yours.

Everything is going up, and just in this one month of June. Rental cars 5.2%, car insurance 1.2%, fly the unfriendly skies airfares 2.7%, delivery services 1.3%, even the subway and bus up 1.2% surely can that be true? Is there any merchant selling goods and services in the country that isn't raising prices?



This inflation isn't going to just burn itself overnight and bond investors better wake up and get ready for the Fed to taper as the recession ended a long time ago meaning emergency stimulus is no longer needed. Frankly, we wonder if any of Washington's stimulus was needed in the first place including the final \$1400 checks as the recession was strictly a health recession and the minute Americans got

better and could go out outside again to spend they did so and did not need extra money to do it. The majority of Americans that is. The rest are out of work because of what profit-seeking management at companies do in every recession, they cut staff because in the boom times before the downturn they hired more workers than they needed. In every recession, companies do not hire back all those they laid off. Not for years and years so Fed officials can stop trying to help by throwing money at the economy.

Net, net, Fed officials need to sit down and talk this through because the inflation genie is clearly out of her bottle and prices are rising more broadly than many want to admit. It is simply not useful for any inflation fight to continue to print money in the trillions of dollars at excessively low interest rates and continue to pour gasoline on the fire of inflation. Not with record job openings it's not. Stay tuned. Bond yields are just sitting there calm and still like a deer in the headlights as the inflation truck barrels straight at them. The bond market won't know what hit them until it is too late. Bet on it.

Shoppers haven't dropped yet. (Friday)

Breaking economy news. They are still going strong with those shoppers at the malls across America this month buying up almost everything at the start of summer except cars and light trucks, maybe because there are shortages. Retail sales just won't stop and maybe the breakneck pace of consumer spending will send real GDP growth into double-digits in the second quarter after all. We have to admit we didn't see this coming. We didn't think the consumer would spend more than they had been spending before the pandemic this quickly after the storm of recession had passed. If consumers shop until they drop, they haven't dropped yet and their spending is making this the strongest growth recovery from any recession in U.S. history.

Retail sales unexpectedly increased 0.6% in June after a revised decline of 1.7% in May. June retail sales of \$621.340 billion are still 1.2% below the April peak of \$628.751 billion, but they are still pretty darn strong after the government stimulus checks ran out. Maybe this economic recovery is for real. Motor vehicles and parts fell 2.0% on supply issues perhaps. It is so hard to find a used car and light truck



that the cost of buying one jumped 10.5% in the CPI inflation data released Tuesday for June. Housing sales are slowing and that is for real too as furniture store sales fell 3.6% in June after falling 2.3% in May. Same story for building material and garden supplies stores down 1.6% in June and 5.3% in

May. Bars and restaurants continue to climb with the reopening up 2.3% in June and 3.7% in May. Maybe this recovery is for real. We'll drink to that.

Net, net, it is still a mystery how the consumer has money left to burn with the last of the Federal stimulus checks deposited in March. The consumer is spending with abandon relying on their savings built up while living and working from home during the pandemic. Maybe the explanation is simpler than that. Don't forget there were 850 thousand new nonfarm payroll jobs created in June and those workers have money to burn. That's \$4 billion dollars assuming private worker average hourly wages of \$30.40 and that matches closely to the 0.6% or \$3.4 billion increase in June retail sales to \$621.3 billion. Stay tuned. Story developing. The economy is stronger than you think.

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