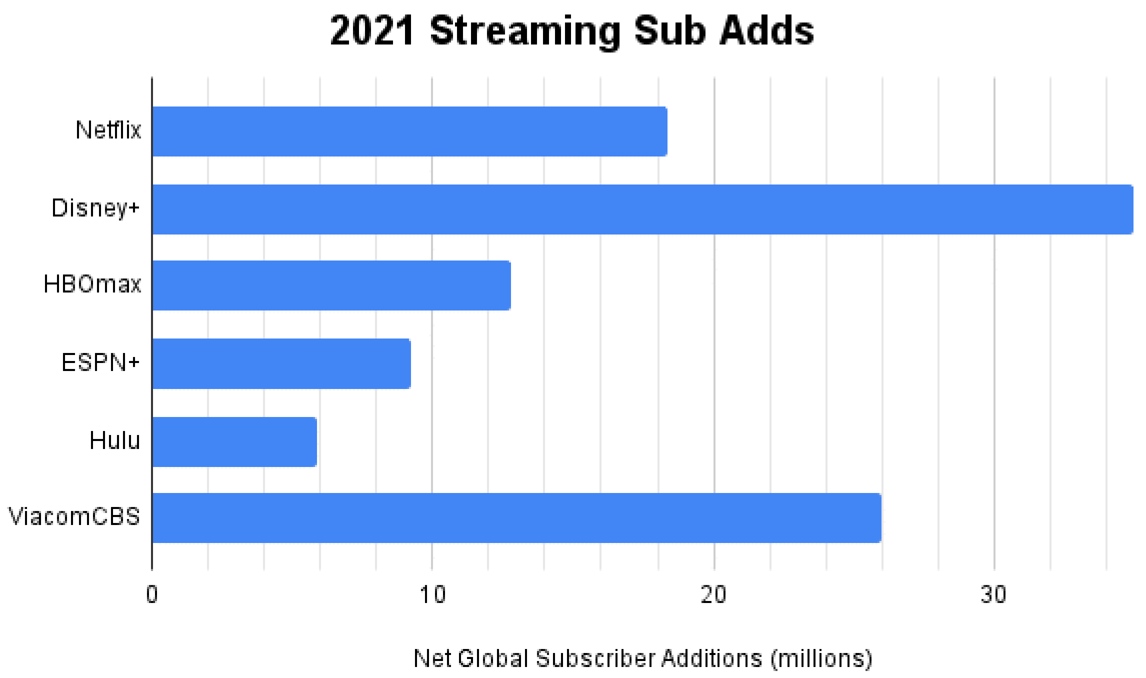
Viacom - The Latest Earnings Victim

Viacom (VIAC) joins Meta, Netflix, and a host of other companies that saw double-digit declines in stock prices based on Q4 earnings announcements. Interestingly, Viacom's news was not too bad. In fact, revenue beat estimates soundly and more importantly the company crushed estimates for streaming customer net adds. Analysts were expecting 5.4 million new streaming clients, Viacom added 9.4 million. The graph below shows Viacom beat Netflix and all other major streaming services except Disney. Viacom management says it will hit its 2024 streaming customer count goal by the end of this year. While the news was generally optimistic, Viacom's earnings per share fell far short of estimates (.26 versus .43 expected) accounting for the nearly 20% decline in its stock price on Wednesday.



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What To Watch Today

Economy

- 8:30 a.m. ET: **Housing starts**, January (1.695 million expected, 1.702 million in December)
- 8:30 a.m. ET: **Housing starts**, month-over-month, January (-0.4% expected, 1.4% in December)
- 8:30 a.m. ET: **Building permits**, January (1.750 million expected, 1.873 million in December, upwardly revised to 1.885 million)
- 8:30 a.m. ET: **Building permits**, month-over-month, January (-7.2% expected, 9.1% in December, upwardly revised to 9.8%)

- 8:30 a.m. ET: **Initial jobless claims**, week ended Feb. 12 (218,000 expected, 223,000 during prior week)
- 8:30 a.m. ET: **Continuing claims**, week ended Feb. 5 (1.605 million during prior week)
- 8:30 a.m. ET: **Philadelphia Fed Business Outlook Index**, February (20.0 expected, 23.2 in January)

Earnings

Pre-market

- 7:00 a.m. ET:?**Walmart**?(WMT) to report adjusted earnings of $1.51 on revenue of $151.68 billion
- **US Foods**?(USFD) to report adjusted earnings of $0.40 on revenue of $7.64 billion
- **Palantir Technologies**?(PLTR) to report adjusted earnings of $0.03 on revenue of $419.33 million
- **AutoNation**?(AN) to report adjusted earnings of $5.00 revenue of $6.37 billion

Post-market

- **Shake Shack**?(SHAK) to report an adjusted loss of $0.17 on revenue of $202.60 million
- **Roku**?(ROKU) to report adjusted earnings of $0.04 on revenue of $893.13 million
- **Dropbox**?(DBX) to report adjusted earnings of $0.37 on revenue of $558.33 billion

Fed Minutes Point to QT, Elevated Stock Prices and a Growing Crypto Threat

The Fed minutes from the January meeting came out yesterday. Here are a few key takeaways:

- While participants agreed that details on the timing and pace of balance sheet runoff would be determined at upcoming meetings, participants generally noted that **current economic and financial conditions would likely warrant a faster pace of balance sheet runoff than during the period of balance sheet reduction from 2017 to 2019**. Participants observed that, in light of the current high level of the Federal Reserve?s securities holdings, **a significant reduction in the size of the balance sheet would likely be appropriate.**

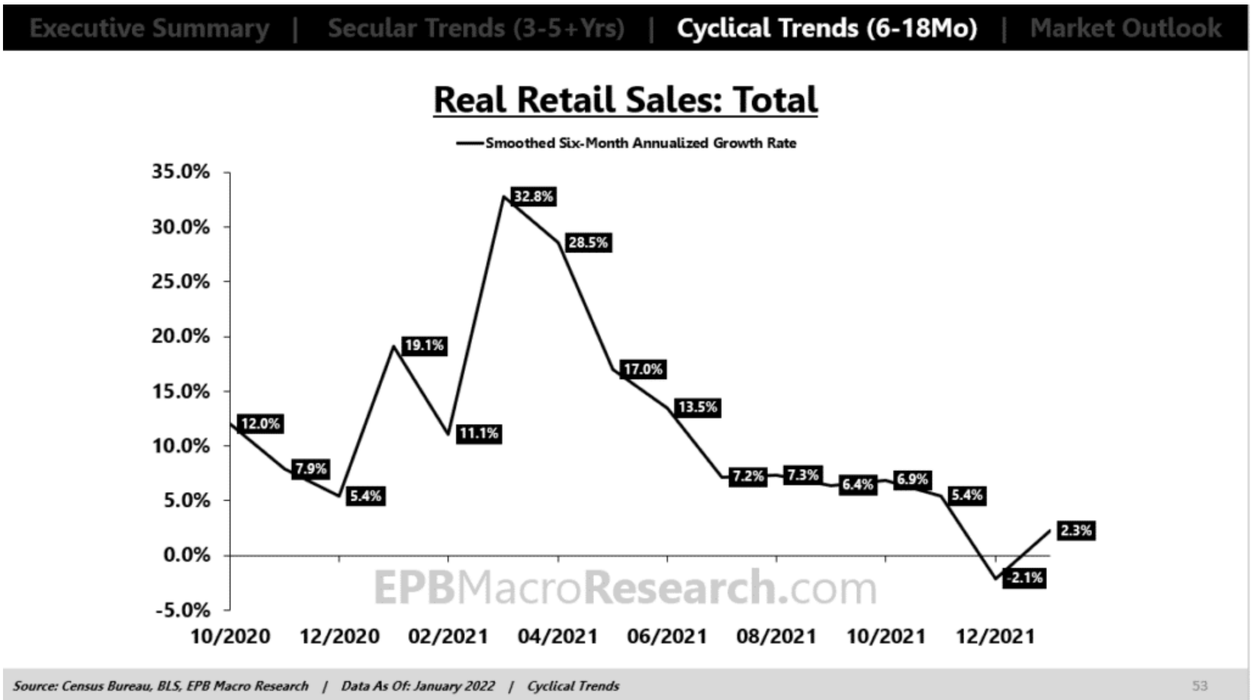
- The staff judged that asset valuation pressures remained elevated. In particular, **the forward price-to-earnings ratio for the S&P 500 index stood at the upper end of its historical distribution; high-yield corporate bond spreads and the excess loan premium for leveraged loans remained at low levels; and house prices grew strongly, with price-to-rent ratios that were at elevated levels**

- The staff noted that the market capitalization of crypto-assets had grown significantly over the past decade and had experienced considerable volatility, including sizable declines since late last year. **The staff changed its assessment of vulnerabilities associated with nonfinancial leverage from notable to moderate**, noting that measures of business leverage had declined to pre-pandemic levels.

Deciphering Retail Sales

Sorting out today's retail sales data is difficult. While Viacom was getting blasted, retail sales rose a whopping 3.8% last month. That follows a decline of 2.5% from the prior month. Over the last two months, retail sales are up 1.3% in the aggregate, which on an annualized basis is 7.8%.

The latest CPI inflation report shows +.6% monthly inflation which is 7.2% annualized. Subtracting inflation from retail sales leaves us with a ho-hum number. The graph below from EPB Macro Research shows the six-month annualized growth rate of inflation-adjusted retail sales. To put his 2.3% real retail sales number in context, consider that from 2017 to 2019, retail sales on average grew by 3.9% while CPI averaged 2.1%. Therefore, the pre-pandemic growth rate of real retail sales is approximately 1.8%. Another consideration is are consumers spending more to get ahead of inflation?

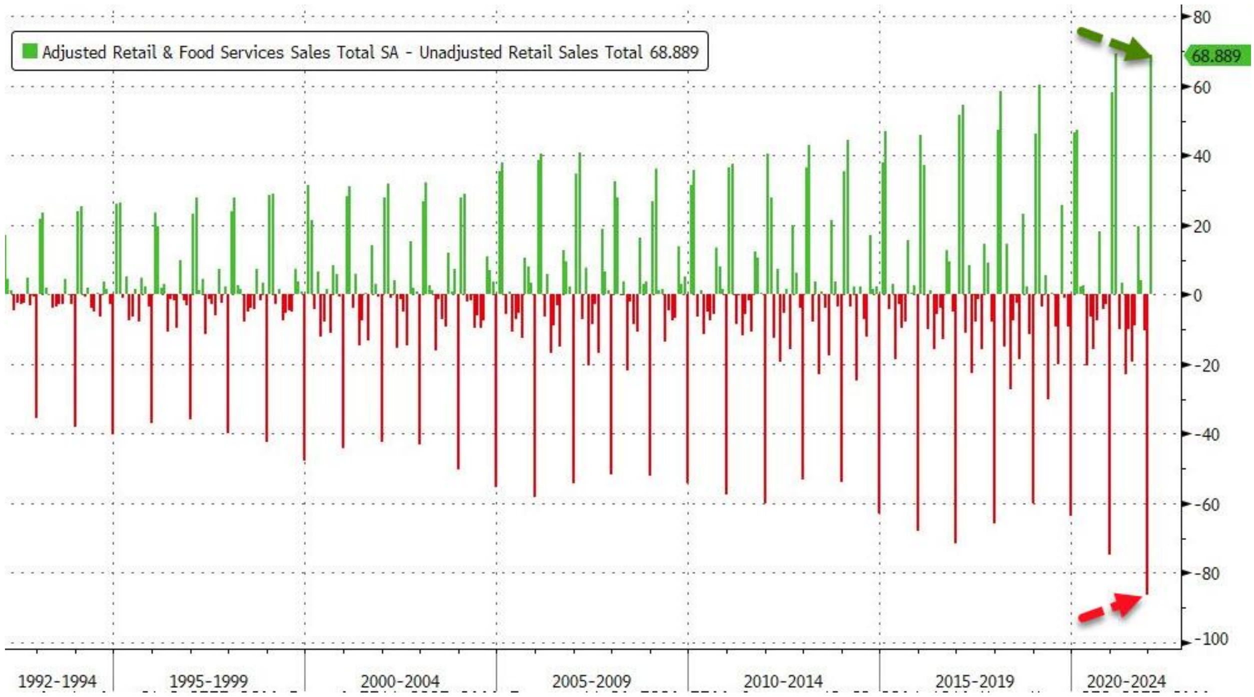


Just One Catch To Retail Sales

Remember, all the retail sales data is nominal, and thus with CPI and PPI soaring near record highs, disseminating the real demand pull from the inflation push is all but impossible in deciding whether the consumer is 'healthy' and spending again.

Finally, before we all go celebrating the return of the consumer, it is worth considering the absolutely stunning difference between 'adjusted' and non-adjusted retail sales data in January. ***While 'adjusted' retail sales soared 3.8% MoM, the unadjusted retail sales data for January collapsed by a record 18.5% MoM.***

This is the biggest seasonal adjustment on record. - Zerohedge



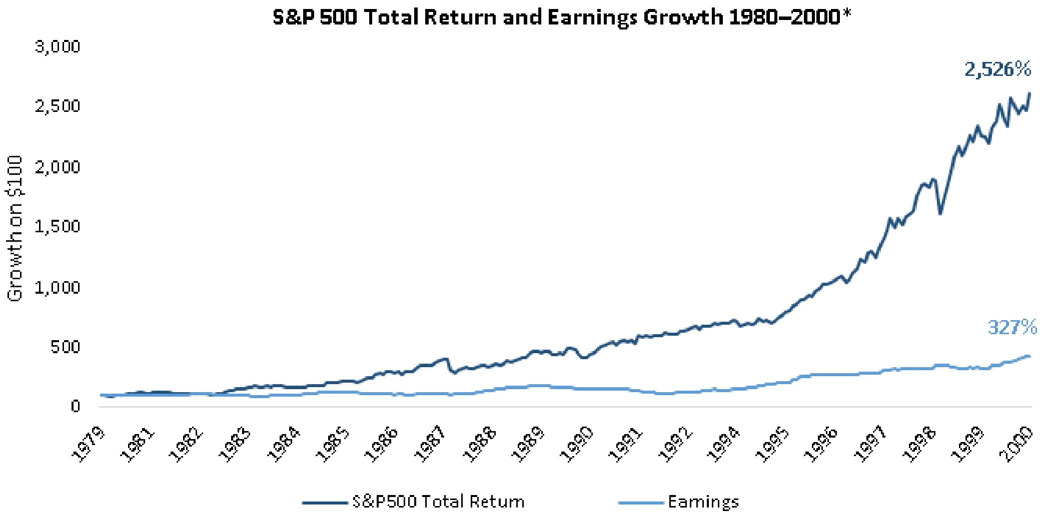
Total Return Vs Earnings - Something Doesn't Equate

The most basic evidence can often also be the most compelling. In his first sentence, Dr. Michael Brennan, UCLA Professor, explains that price appreciation outstripped earnings growth by a huge margin between 1980 and the peak of the dot.com bubble. ***Figure 1 below shows this effect in raw form.***

The ***navy blue line*** *is the total return of the S&P 500 between 1980 and August of 2000. The* ***light blue line*** *is the growth in those stocks? **earnings. Stocks rose 2,526% while earnings only grew 327%.***

Rarely have we seen a more compelling image of a bubble. *With hindsight, the evolution of price and earnings made it painfully clear.* ***Capital markets and fundamental valuations had totally detached.*** *- [Kailash Concepts]*

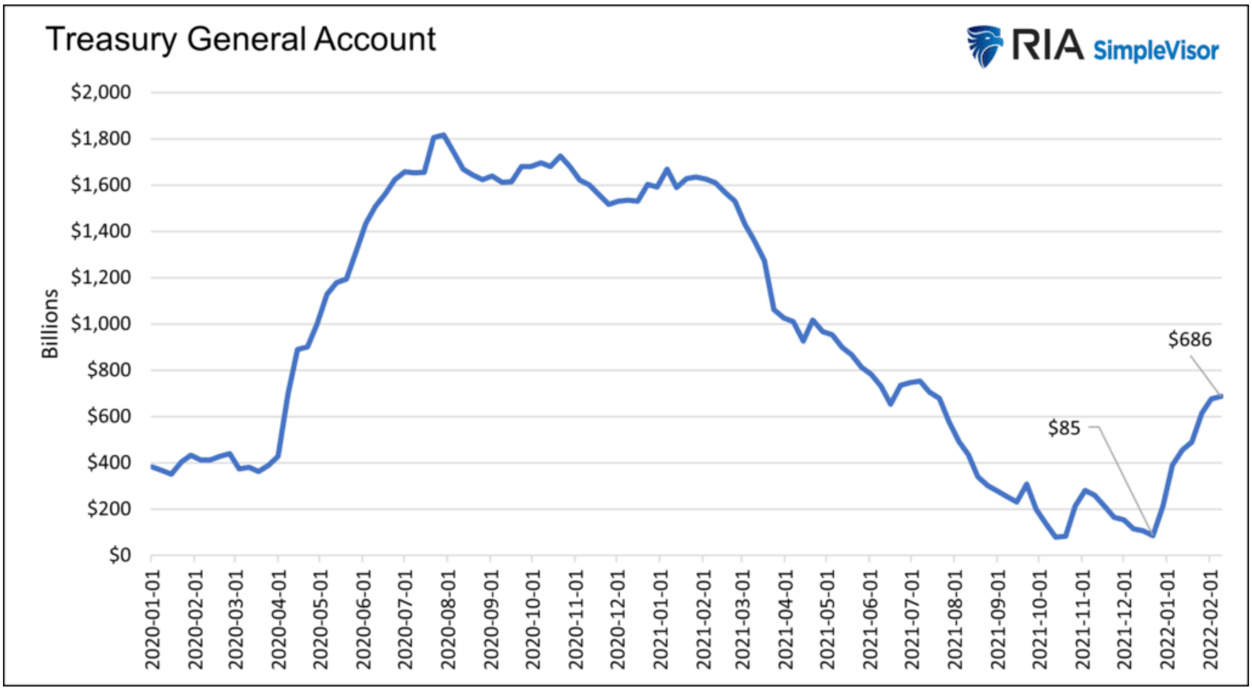
Fig. 1: The United States Financial System Decouples from Reality



Source: Kailash Capital, LLC; Data from 12/31/1979 – 8/31/2000;
*Returns are compounded and include the reinvestment of dividends, Earnings are Sum/Sum with a starting value of $100 compounded monthly

Leaking Liquidity

The graph below shows that the U.S. Treasury's surplus cash balance held at the Federal Reserve has risen by $601 billion this year. This is money the government has raised via taxes and debt but not spent. An increase in the account is a reduction of banking system liquidity since it is pulling money out of the system. This is occurring while the Fed is still doing QE or adding liquidity. Since the start of the year, the Fed balance sheet has increased by $120 billion due to net QE purchases. While the perception is that liquidity is increasing in the system, the reality is that it has fallen by approximately $480 billion this year. Might this help partially explain why stocks and bonds have traded poorly?



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