

Home Depot, Target, and Walmart Earnings on Deck

Home Depot, Target, and Walmart announce their earnings today, tomorrow, and Thursday, respectively. Given their size and retail presence, their earnings releases will shed more light on the consumer's health and inflation. Their revenues should be resilient over the last three months as the labor markets remained strong and credit usage was high. However, margins may shrink for all three companies as we are increasingly hearing from retailers that it's becoming more difficult to pass on inflation to consumers. Their forward outlooks and any changes they make to their guidance will be more telling than last quarter's results.

Analysts expect Home Depot will see a slight decline in revenues versus last year but a larger 6% decline in EPS. Consequently, Home Depot's margins are shrinking as it struggles to pass higher costs to its clients. Higher mortgage rates and much fewer mortgage refinancings also weigh on Home Depot's sales and earnings. Walmart's revenue and earnings will likely be better than Target's as Walmart has a more significant food/grocery business. Investors will likely key on their inventory levels. As you may recall, the two retailers struggled with high inventories a year ago, and their stocks got hit hard, as shown below. It is presumed they are both in a much better position today. Shares of Home Depot and Target have remained relatively flat since their earnings reports a year ago. Walmart, after getting dinged for inventory control problems, has trended higher.



What To Watch Today

Earnings

	Company	Time	Estimate		Growth	Surprise
✓	HD Home Depot, Inc.	6:00 AM ET	\$3.81	\$38.60 B	-0.8%	+ = -
✓	BIDU Baidu, Inc.	4:00 AM ET	\$1.79	\$4.32 B	-3.6%	+ = -
✓	KD Kyndryl Holdings, Inc.	4:15 PM ET	(\$1.23)	\$4.16 B	-6.1%	+ = -
✓	SE Sea Limited	6:30 AM ET	\$0.38	\$3.06 B	5.5%	+ = -
✓	KEYS Keysight Technolog...	4:05 PM ET	\$1.95	\$1.38 B	2.1%	+ = -
✓	IQ iQIYI, Inc.	4:00 AM ET	\$0.05	\$1.15 B	0.3%	+ = -
✓	TME Tencent Music Entert...	4:00 AM ET	\$0.11	\$987.87 M	-5.7%	+ = -
✓	CPRT Copart Inc.	6:20 PM ET	\$0.62	\$1.01 B	7.5%	+ = -

Economy

Time	Event	Impact	Actual	Dev	Consensus	Previous
TUESDAY, MAY 16						
12:15	USD Fed's Mester speech				SPEECH	
12:30	USD Retail Sales (MoM)(Apr)		-	-	0.7%	-0.6%
12:30	USD Retail Sales Control Group(Apr)		-	-	0%	-0.3%
12:30	USD Retail Sales ex Autos (MoM)(Apr)		-	-	0.4%	-0.4%
12:55	USD Fed's Bostic speech				SPEECH	
12:55	USD Redbook Index (YoY)(May 12)		-	-	-	1.3%
13:15	USD Capacity Utilization(Apr)		-	-	79.7%	79.8%
13:15	USD Industrial Production (MoM)(Apr)		-	-	0%	0.4%
14:00	USD Business Inventories(Mar)		-	-	0%	0.2%
14:00	USD NAHB Housing Market Index(May)		-	-	45	45
15:30	USD 52-Week Bill Auction		-	-	-	4.53%
16:15	USD Fed's Williams speech				SPEECH	
19:15	USD Fed's Logan speech				SPEECH	
20:30	USD API Weekly Crude Oil Stock(May 12)		-	-	-	3.618M
23:00	USD Fed's Bostic speech				SPEECH	

Market Trading Update

Another day of going nowhere. For the last 45 days, the market has made no decisive movement in one direction or another. With prices becoming more compressed, a breakout will occur which should give us a tradeable move. The only question is whether it will be higher or lower.

With retail sales on deck and Home Depot (HD) disappointing this morning, we will likely get a good glimpse at whether the economy is stabilizing. Such will be meaningful to the question of whether earnings have troughed or not. The downside remains limited to a 5-10% correction, but the upside is also limited. Continue holding an overweight position in cash until the market tells us what it wants to do next.



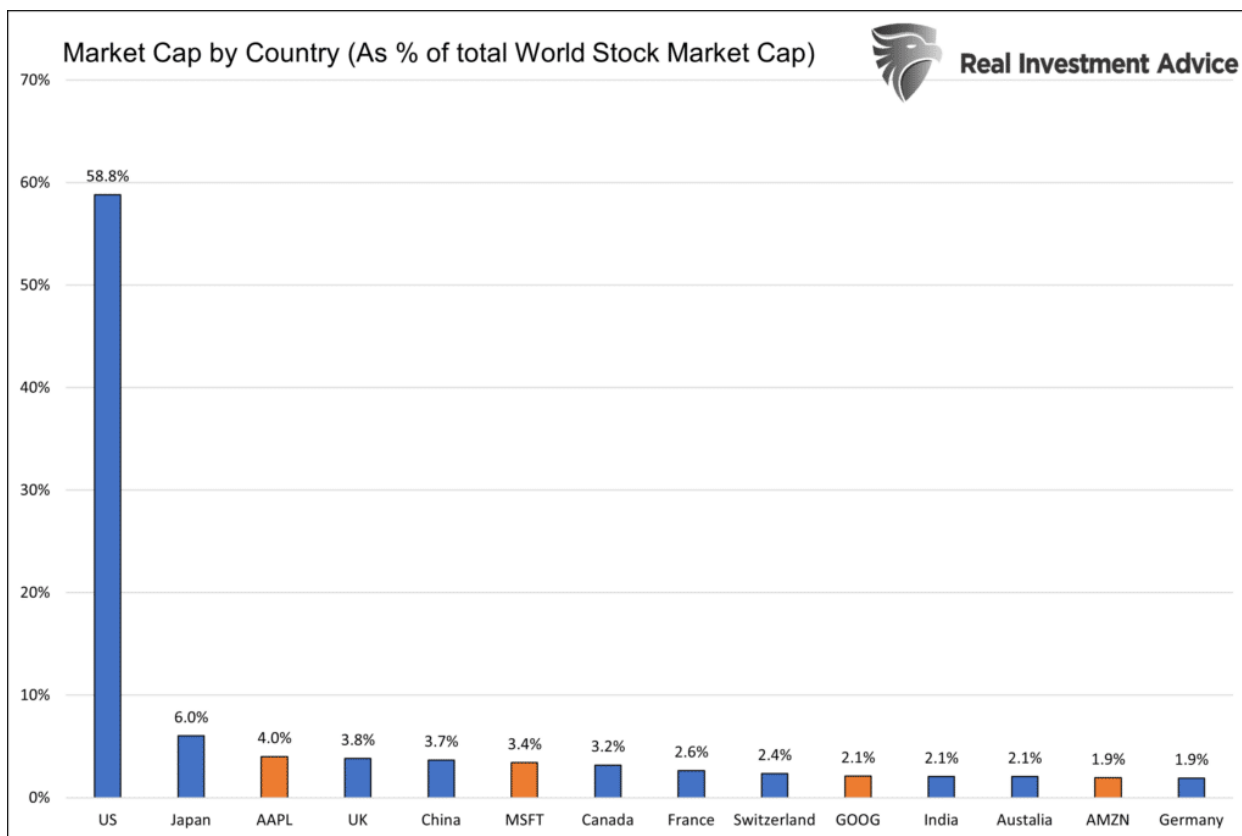
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Market Caps Around the World

In recent Commentaries, we have noted that the largest U.S. stocks have been primarily responsible for this year's gains. Hence, most other stocks, as we discuss in the next section, are lagging quite a bit. To better appreciate the market power of the largest U.S. stocks, it's worth comparing them to the size of stock markets worldwide.

The graph below shows the ten largest stock markets as a percentage of total global stock markets. We added the four most extensive U.S. stocks to appreciate their size. All four of those stocks rank in the top ten globally. Apple's market cap is larger than all but the total size of the U.S. and Japanese stock markets! *Data is courtesy of Dimensional Funds.*



A Reversion is Coming

In our Commentary, [A Tale of Three Markets](#), we wrote the following to describe the growing performance divergence between the Nasdaq and the rest of the market:

The Nasdaq 100 (QQQ), in which these stocks carry the most weight is bullish. It keeps setting higher highs, its 50dma is above its 200dma, and both moving averages trend upwards. The S&P 500 (SPY) is moderately bullish, with its moving averages trending up but failing to hit higher highs. Lastly, the equal-weighted S&P 500 (RSP) is providing bearish indications. It's been setting a series of lower highs. More concerning, its downward trending 50dma will potentially cross below the 200dma in what technicians call a death cross.

We thought it might be helpful to elaborate on the topic as the divergence between mega-cap stocks and most other stocks grows. Therefore, the first graph below is from our proprietary [SimpleVisor](#) relative analysis (Ideas - Relative Analysis Pairs). As it shows, RSP, representing an equal-weighted S&P 500, is grossly oversold versus QQQ. Their performance, which tends to be well correlated, is diverging. The second graph shows that RSP has been lagging (blue), and the price ratio of RSP to QQQ has been trading poorly. Note the correlation below the charts was recently negative. Such is not a regular occurrence. Lastly, the graph from the Daily Shot shows that futures speculators are buying QQQ futures while aggressively selling S&P 500 futures.

These divergences will reverse, but when? If 1998-1999 is a good example, the separation between the Nasdaq and other markets may have quite a few months to go.

RSP / QQQ

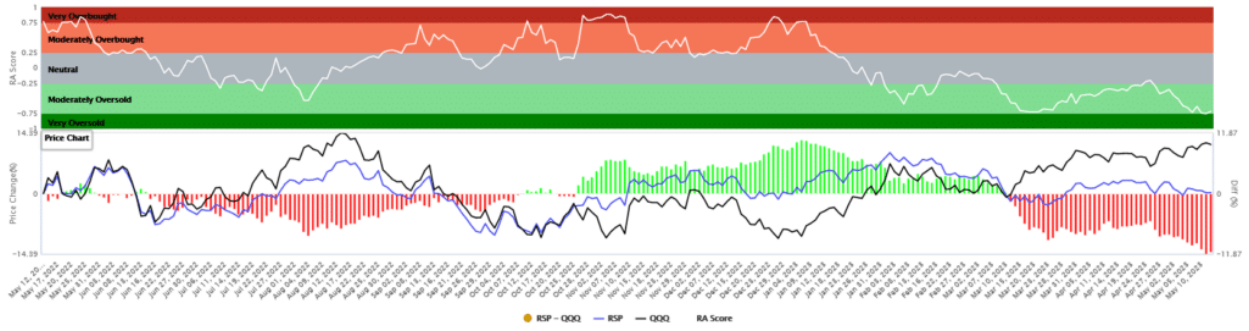
Moderately Oversold

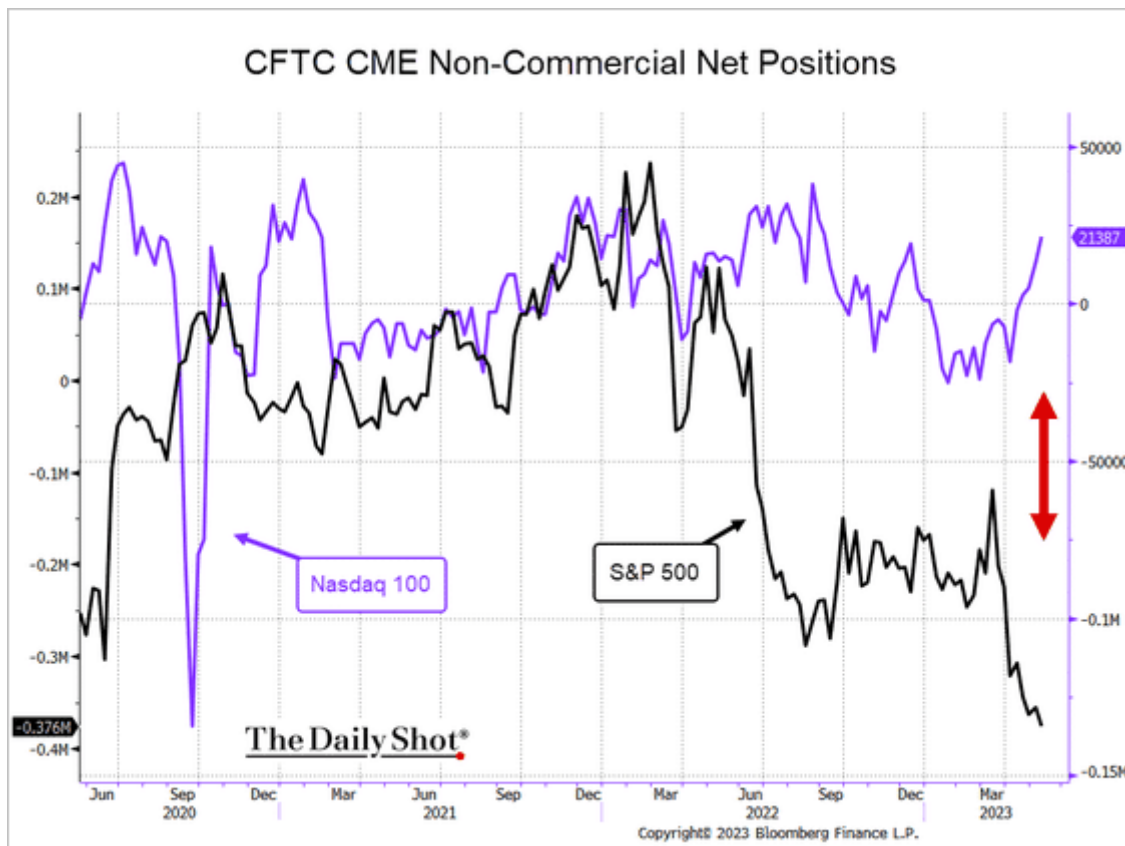


About Relative Analysis

This analysis uses the price ratio of two securities to establish a relative technical score. 13 technical measures are applied to the ratio to determine the score. The score tells us how one stock compares to another stock. We like to compare sector ETFs to the S&P 500 to help assess relative strength or weakness of the sectors.

Quite often scores of +.75 or greater are good times to reduce holdings and -.75 are good times to buy. However, scores can stay extremely overbought or sold for a few weeks so at times patience is required.





New York's Fed Empire State Survey Struggles

Last month the New York Fed's Empire State Manufacturing Survey was much better than expected. At the same time, most of the other regional Fed Manufacturing surveys continued to show weakness. This month's [Empire survey](#) shows a sharp reversal, joining the other surveys. Most regional and national manufacturing surveys are at or near levels typically associated with a recession. Below is a quick summary from the report:

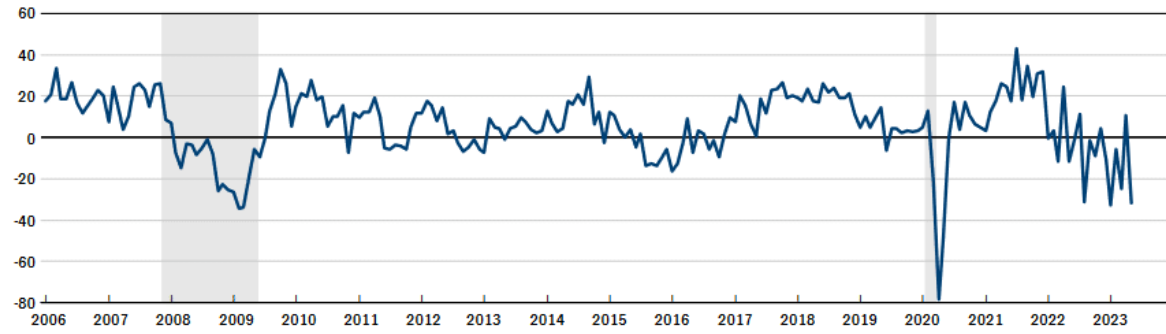
Business activity fell sharply in New York State, according to firms responding to the May 2023 Empire State Manufacturing Survey. The headline general business conditions index dropped forty-three points to -31.8. New orders and shipments plunged after rising significantly last month. Delivery times shortened somewhat, and inventories contracted. Both employment and hours worked edged lower for a fourth consecutive month. Prices increased at about the same pace as last month. Capital spending plans turned sluggish. Looking ahead, businesses continued to expect little improvement in conditions over the next six months.

Capital spending turned more than "sluggish," as the report mentions. The second graph below, courtesy of Sophia, shows that intentions to embark on capital spending, a good barometer of future economic activity, fell sharply and to concerning levels.

General Business Conditions

Seasonally Adjusted

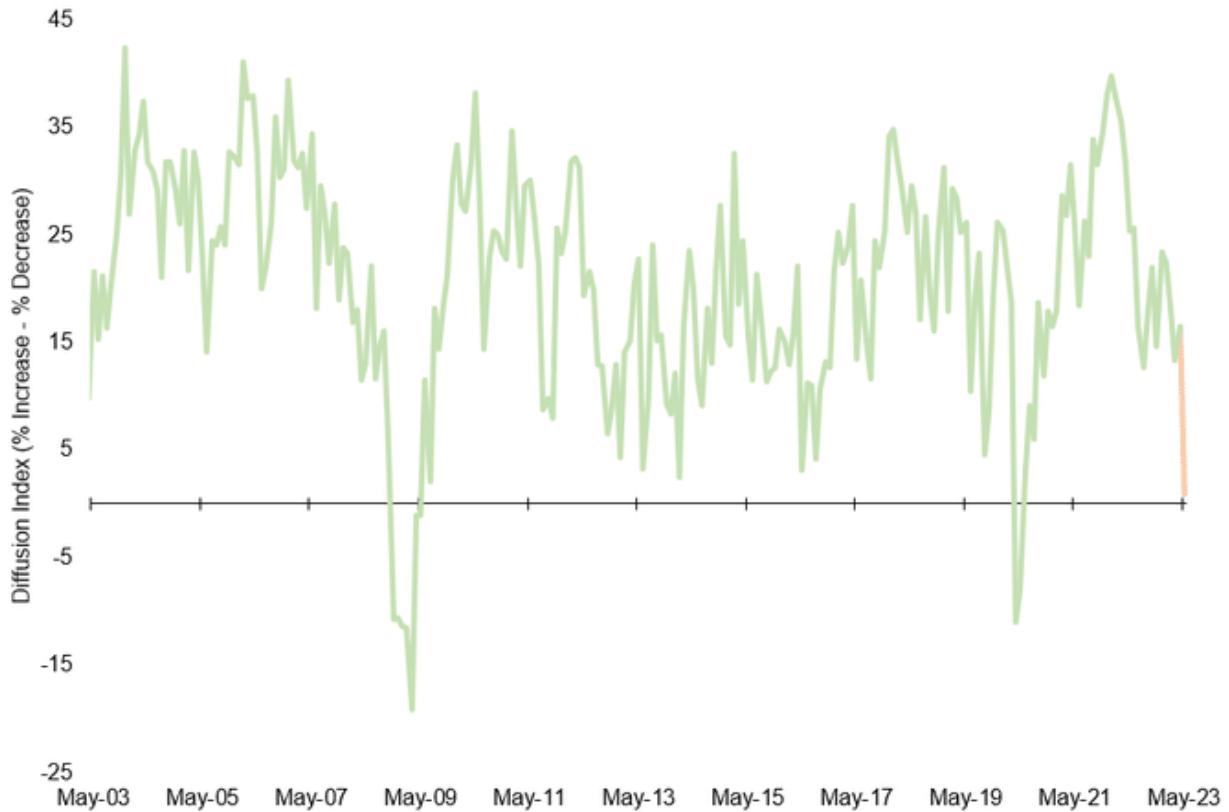
Diffusion Index



Note: The shaded areas indicate periods designated as recessions by the National Bureau of Economic Research.

Federal Reserve Bank of New York

EMPIRE STATE SURVEY - CAPEX (6M FUTURE)



Source: NY Fed



Tweet of the Day



Eric Landis
@EJLandis



CVS Health **\$CVS** is projected to see EPS fall by 1% in 2023, which would be the first time in 20 years that it produces negative EPS growth.

It now trades at a 3.5% yield and a PE<8, implying that the market thinks it will never grow earnings again.

I think otherwise.

Long **\$CVS**



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