

# ECONOMY

'Stay the course;  
keep calm'

## THINK STRATEGICALLY:



## Five Market Shifts to Watch

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### First Market Shift: Corporate Earnings

As the public company earnings parade continues, we note that 56 percent in the S&P 500 Index have delivered their fourth quarter 2021 (4Q21) results; the critical fact is that a whopping 76 percent of them have beat estimates. Notably, companies reported earnings that were 8.2 percent higher than estimates, which is just shy of the 8.6 percent five-year average. Not too bad for a pandemic-challenged year.

In contrast, not all has been sunshine and rainbows as we discuss two of the MANAs, an acronym formed from four of the most extensive tech stocks: Meta (FB), Amazon (AMZN), Netflix (NFLX) and Alphabet (GOOG).

Meta Platforms, formerly known as Facebook, had solid 4Q21 results that rose 20 percent; however, two fronts impacted its 2022 guidance: Competition from TikTok is affecting growth and Apple's privacy measures could cost Facebook \$10 billion in lost sales this year. Its stock lost \$239 billion in market cap.

On the flip side, Amazon also had solid 4Q21 results, with net income increasing 98 percent. Also, Amazon increased the price of its Prime membership from \$119 to \$139, with expanded benefits; its AWS web services grew 40 percent. The company's stock rose 13.54 percent, and its market cap rose \$191 billion.

– **Meta Platforms Inc. (FB):** Formerly known as Facebook, the company

delivered 4Q21 earnings of \$33.67 billion, up 20 percent, with a net income of nearly \$10.29 billion, down 8 percent. The full-year 2021 earnings came in at \$117.92 billion, up 37 percent, and the full-year net income was \$39.37 billion, up 35 percent; it closed at \$237.09, down \$85.61, or 26.52 percent.

– **Amazon (AMZN):** The company reported its 4Q21 earnings after the bell. It delivered revenues of \$137.4 billion, up 9 percent, and net income of \$14.3 billion, up 98 percent; these results include an \$11.8 billion pre-tax gain from Amazon's investment in Rivian Automotive. The full-year 2021 revenues were \$469.8 billion, up 22 percent, and net income of \$33.4 billion, or 45.85 percent higher. The stock closed at \$3,152.79, up \$375.88, or 13.54 percent.

Thirty-four constituents of the S&P 500 have issued negative earnings guidance for Q122, and 13 companies have raised their guidance; we are in for quite an active year.

### Second Market Shift: Jobs Growth

The surprise increase in U.S. nonfarm payrolls, which rose 467,000 and beat estimates of 150,000 by 211 percent, was great news, and even lauded by President Joe Biden, who said, "America's job machine is going stronger than ever."

Even with the omicron variant's challenges, the labor market is healthy enough to weather the disruption.

One essential contrast is that there are still more than 10.9 million job openings and just over 5.1 million job seekers.

### Third Market Shift: Delayed Interest Rate Hikes Keep Inflation Up

As we said last week, the Federal Reserve lost control of inflation by not acting on time to curb it. The Fed impacts the broader market sentiment as long as inflation is above the target 2 percent. There should be no doubt that the first of five rate increases could occur in March, and the markets are pricing themselves for that reality.

As we look at the interest rate futures, we note that there is a 33 percent chance that the first increase will be 50 basis points, so get cracking.

### Fourth Market Shift: Policy Changes Spur Volatility

As we saw throughout January, the stock markets surged dramatically as they adjusted to the combination of

economic growth and a decisive shift in monetary policy. The Federal Reserve is changing its policy cycle from accommodative to tightening.

Market volatility rises as investors begin to rotate toward asset classes that are affected less by rising rates. However, no one should be overreacting to markets' rising volatility when the dust settles; there will be ample opportunities. Stay the course; keep calm.

### Fifth Market Shift: Diversification Provides Peace of Mind

As the owner of your portfolio, you need to understand the benefits of a diversified portfolio fully. Despite our best efforts, some of our positions will soar, and others will suffer; as this happens, you need certain investments to offset the declining portions of your holdings. Diversification ensures balance in your holdings so that you are not too concentrated in a specific security or asset class, reducing unwanted risks. The critical word for peace of mind is balance.

### The Week in Markets: 211% Jobs Growth; Amazon Earnings Move Markets

Last week saw rising volatility as the markets dealt with a palette of issues to end in the black. On the one hand, are the inflation pressures mixed with the upcoming interest rate hikes; on the other, the mainly positive earnings reports and the recent jobs growth suggest the economic surge is more resilient than we all thought.

Amazon's outside earnings provided quite a change of sentiment versus what Facebook gave the tech sector. As the markets adjust to the upcoming rise in interest rates, we point out that the 10-year U.S. Treasury note saw its yield close to 1.93 percent, the most significant rise since 1Q20.

This week, the big news was the U.S. jobs report, which at 467,000, exceeded estimates of 150,000, by 211 percent. However, suppose you noted unemployment rose from 3.9 percent to 4 percent. The statistics tell us that more employees are returning to the

workforce, as seen in the participation rate's rise to 62.2 percent.

### Wall Street Summary for the Week Ending Feb. 4:

- Dow Jones Industrial Average: closed at 35,089.74, up 364.27 points, or 1.05 percent, for a year-to-date (YTD) return of 3.44 percent.
- S&P 500: closed at 4,500.53, up 68.68, or 1.55 percent, for a YTD return of -5.57 percent.
- Nasdaq: closed at 14,098.01, up 327.33 points, or 2.38 percent, for a YTD return of -9.89 percent.
- Birling Capital Puerto Rico Stock Index: closed at 2,927.30, up 28.05, or 0.97 percent, for a YTD return of 1.67 percent.
- The 10-year U.S. Treasury note closed at 1.93 percent.
- The 2-year U.S. Treasury note closed at 1.31 percent.

### The Final Word: Senate Democrats Face Funding Deadline

The U.S. Senate announced that Sen. Ben R. Luján (D-NM) had a stroke and may take six weeks or more to recover before returning. His absence creates a significant void, with Democrats and Republicans split 50/50. Luján's absence means that Democrats will have a nearly impossible time passing legislation or confirming nominees.

The first test will be the elapsing on Feb. 18 of the Government Funding Plan, for which Congress must approve an extension to avert a government shutdown. We should mention that with everything divided by partisan politics, Congress has not approved a full-year funding and budget plan as has been the custom for decades. It seems that Congress has forgotten to put the nation and its citizens before their petty partisan issue.

*Francisco Rodríguez-Castro is president and CEO of Birling Capital LLC. Think Strategically© is a publication by Birling Capital LLC that summarizes recent geopolitical, economic, market and other developments. This report is intended for general information purposes only and does not represent investment, legal, regulatory, or tax advice. Recipients are cautioned to seek appropriate professional counsel regarding any of the matters discussed.*

Weekly Market Close Comparison	2/4/22	1/28/22	Return	YTD
Dow Jones Industrial Average	35,089.74	34,725.47	1.05%	-3.44%
Standard & Poor's 500	4,500.53	4,431.85	1.55%	-5.57%
Nasdaq Composite	14,098.01	13,770.57	2.38%	-9.89%
Birling Puerto Rico Stock Index	2,927.30	2,899.25	0.97%	1.67%
U.S. Treasury 10-Year Note	1.93%	1.78%	8.43%	0.40%
U.S. Treasury 2-Year Note	1.31%	1.15%	13.91%	0.35%