

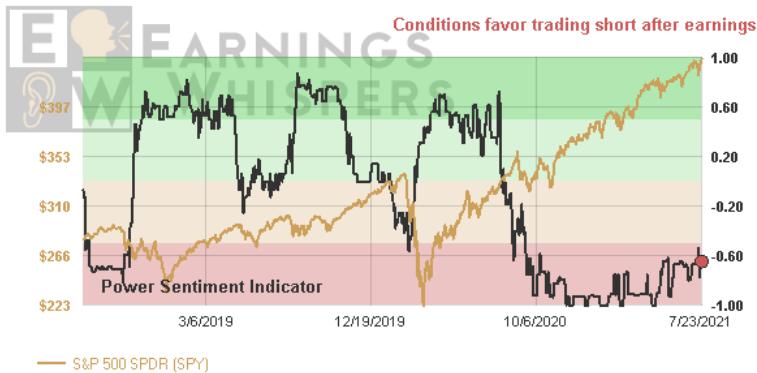


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Current Trading Strategy

Trading primarily long ahead of earnings while S&P 500 is above 4,210 and trading short after the news.

- Perhaps it is priced in, but earnings estimates are proving to be too low and macroeconomic data suggests there is a lot of time left in the current economic cycle.
- McDonald's – longer-term breakout
- Apple – the consensus is consensus estimates are too low
- Northrop Grumman – setting up for a breakout
- AstraZeneca – potential short squeeze



Statistics for the month of July 2021

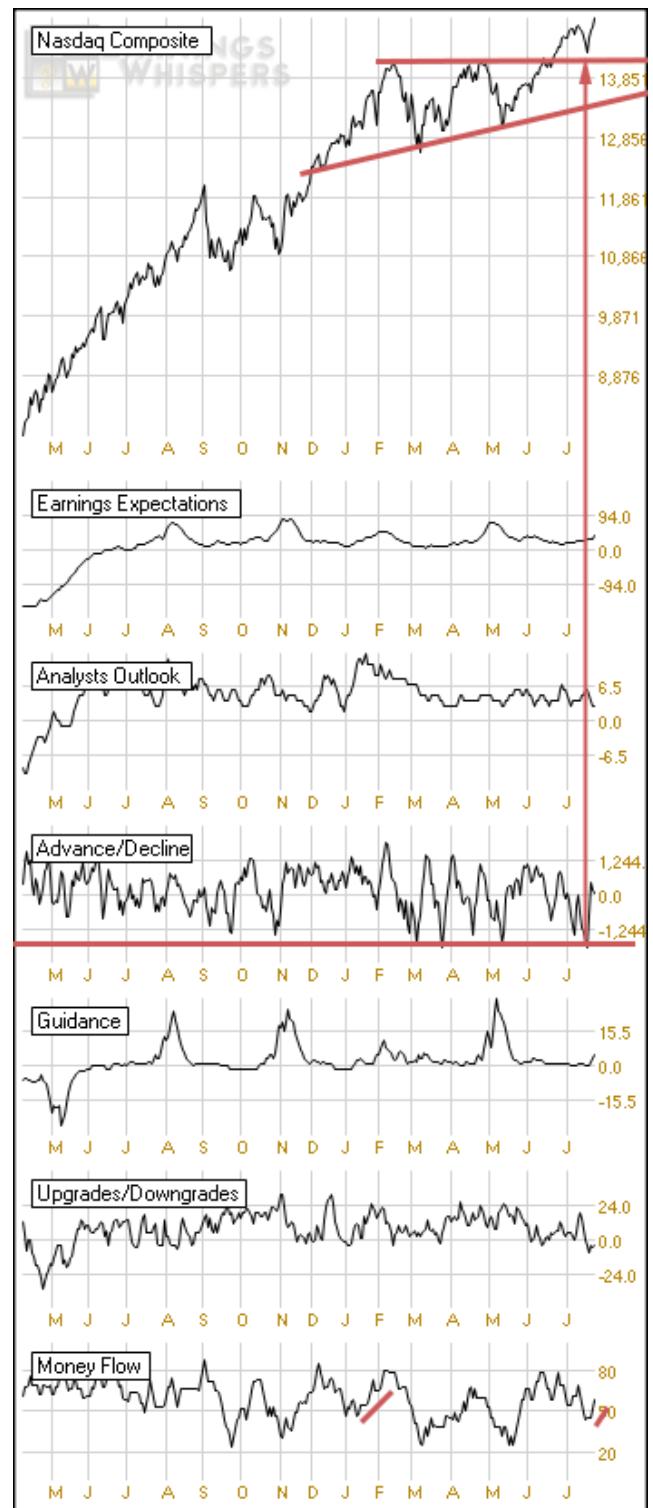
	Positive	Negative	In-line	Ratio	Normal Ratio*
Guidance	93	22	45	80.9%	49.8%
EPS Surprises	297	74	117	80.1%	69.3%
Whisper Surprises	107	45	6	70.4%	55.9%
Revenue Surprises	329	44	-	88.2%	66.1%

* The average ratio for the month of July

The Whisper Report ®

Number 859

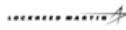
Prepared on Monday, July 26, 2021



Key Market Events

- 7/27 June Durable Goods
 7/28 FOMC Rate Decision – 2:00 PM ET
 7/29 Initial Jobless Claims
 7/30 June PCE
 7/30 June Personal Income/Spending
 7/30 July Chicago PMI

Top-Down

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

Recessions are often healthy events for the long run because they tend to change behaviors. We now know the most recent recession ended shortly after it started because, by definition, recessions end when the economy troughs. It is officially the shortest recession in U.S. history and was quite an unusual event, but we should probably still look for behavior changes. At least in the short-term, a likely change among businesses will be inventory management.

For example, there are two local bicycle shops I frequent. One really isn't very well managed from a business perspective, but they have a good location, have been around forever with a loyal customer base, and take really good care of their customers. They are ran by bike enthusiasts who regularly buy more inventory than they need to the point that walking into their shop sometimes feels like Fred Sanford is going to walk out from the back to sell you a bike he has hidden behind numerous others.

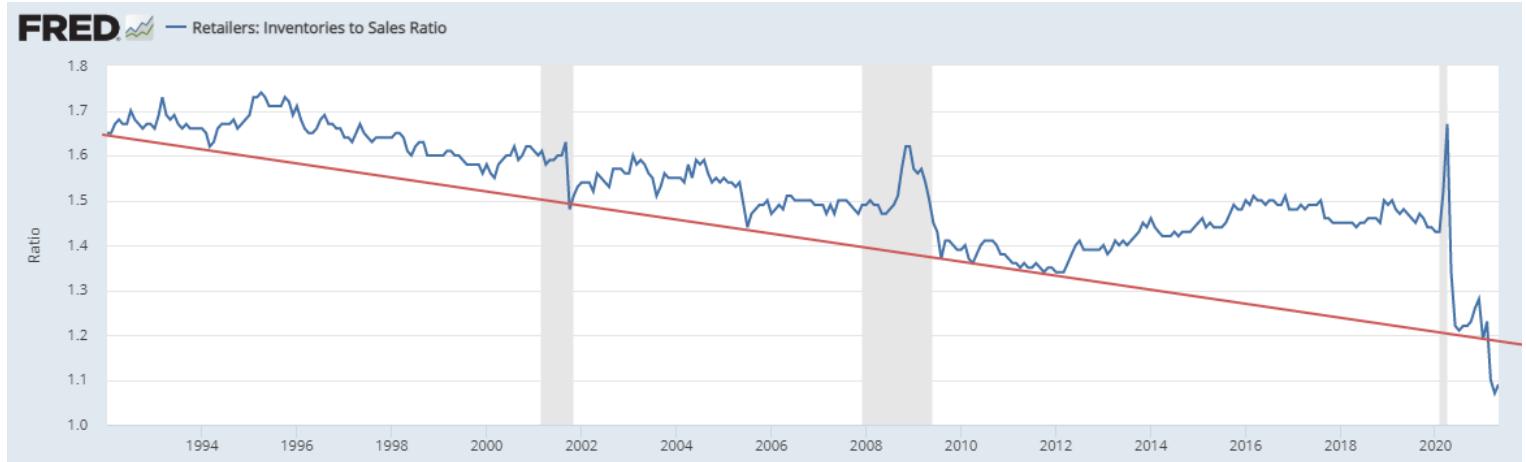
The other bike shop is much newer and when you walk in it looks more like a car show room. They focus on the higher-end market and sell good products and service them very well, but you are more likely to have to order what you want from them than find it in stock.

These are both privately held businesses and we don't know their financials, but most likely the latter is the more profitable of the two despite having lower sales volumes. When the lockdowns hit last year, demand for bikes spiked while, at the same time, key parts manufactured in China became scarce and now, over a year later, bike shipments that use to come in with a hundred bikes on them now come in with just one or two. Ordering most new bikes right now from both shops typically means you have to wait for early **2023** before the bike comes in. This means one bike shop doesn't have bikes to sell and, with prices rising and shipment costs higher, profits on the limited supply they can get are smaller. Meanwhile, a manager at the former bike shop told us they just had their best year on record as they were one of the only bike shops around with inventory, and as prices rise, their profit margins increased.

In the long run, both bike shops might maintain low inventories, but human behavior likely means that both shops are going to build inventory well beyond what is needed to meet current demand just to protect themselves from such an event again – and that assumes the second bike shop is able to sustain itself for another 18 months or more.

Of course, this isn't just a bicycle issue. The chart at the top of the next page shows the inventory-to-sales ratio for retailers in the U.S. For decades, business shifted to a Just-in-time inventory system to help reduce costs, which means inventories have been trending lower for the history the U.S. Census Bureau has been providing the data. Jumps in the ratio has typically been due to a drop in the denominator rather

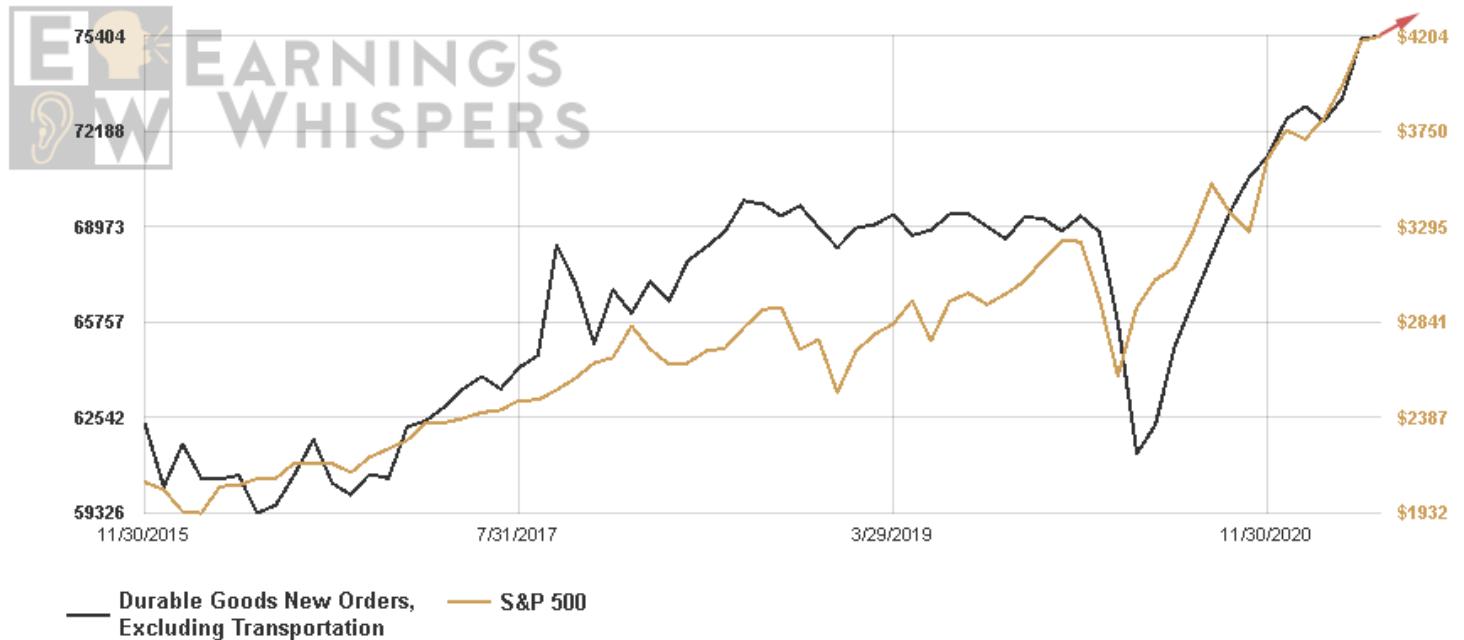
than an increase in inventories, but prior to this trend, a typically recession would begin when inventories were too high and businesses had to let demand catch up before new orders were made. Sales dropped during the lockdown recession and that created a spike in the ratio, but as demand has returned, inventories have not kept pace, to the point that the inventory-to-sales ratio has fallen through the long-term trend line.



While the trend in inventories has been greater for Retailers, the economy as a whole also has near-record low inventory to sales, which means other businesses are going to need to increase orders just to replace any sales – and currently we are seeing consumers pick up demand for retailers and they are increasing orders from manufacturers, which implies the current economic cycle has a long way to go before it is over.

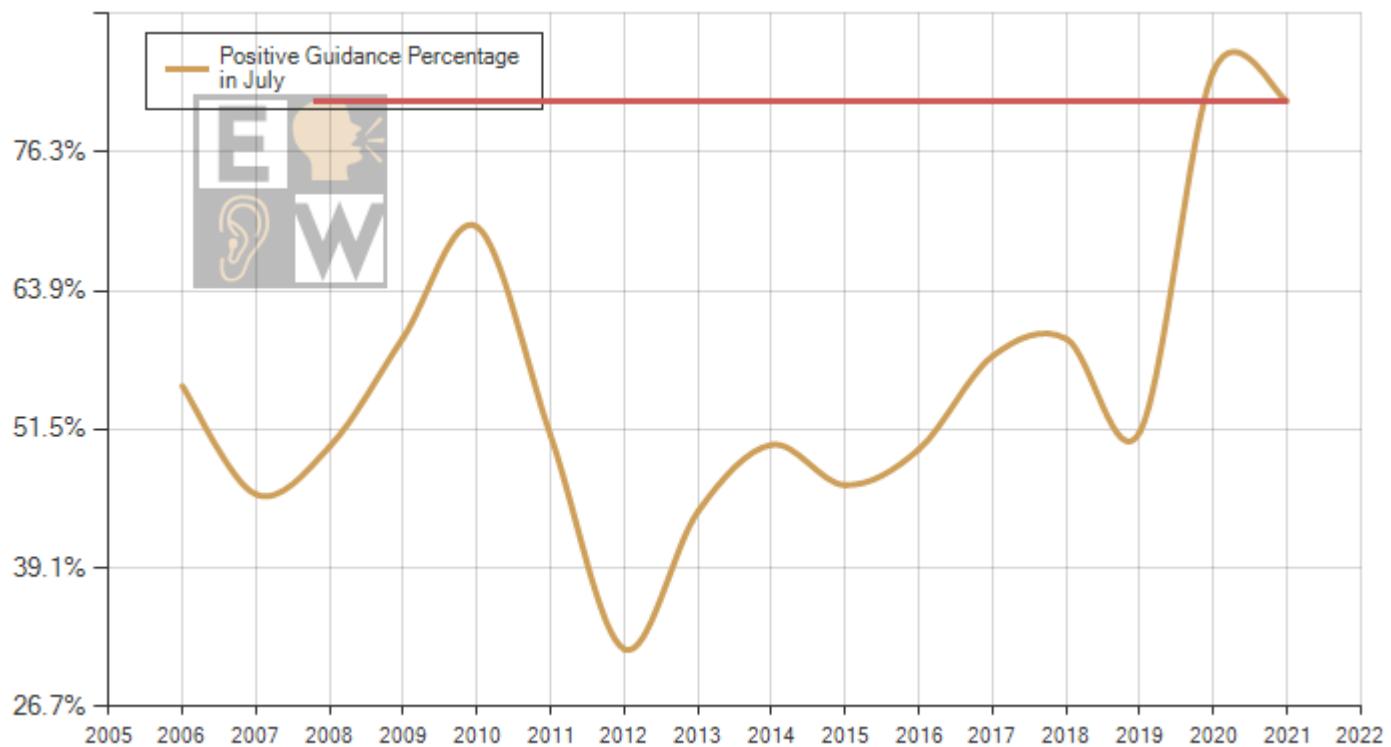


That likely means good things for equity prices too as low inventories means an increase in orders and, as the chart on the next page shows, new orders correlate with stock prices. The chart shows the Durable Goods New Orders, excluding Transportation, along with the S&P 500 over roughly the past six years. We will get the June Durable Goods Report on Tuesday and we've drawn a red line to show the consensus estimate of a sequential 0.8% increase. We've added an arrow just because the assumption is the trend will continue over the next several months. Unless the correlation ends, this also implies higher stock prices going forward.



New Orders correlate well with stock prices because New Orders correlate to future earnings and what we are learning so far this earnings season is that earnings estimates remain too low. We are now entering the third week of earnings season but there will be more earnings releases this week than the entire month of July so far. So far, companies within the S&P 500 have beaten estimates by an average of 7% but what really lifts earnings estimates is what the companies say about the coming quarters. Last year at this time, 86% of the guidance announcements that different from analysts estimates were higher, which reflected better-than-feared expectations coming out of the lockdowns. By the end of the month, that percentage fell to 83.5%, which was still a record high percentage for positive guidance announcements and told of improving earnings for the coming quarters. Now, one year later, the chart on page one of this report shows 80.9% of guidance announcements are positive during the month of July.

The chart on the next page shows the percentage of positive guidance announcements during the month of July. This number for July 2021 is sure to change with more companies scheduled to report, but it would be a significant surprise if it doesn't end up with the second-best July on record. Over the past 20 years, when companies provide positive guidance when they report earnings, their stock has averaged a 1.46% gain during the four days leading up to the earnings announcement and then gapped higher by another 3.76% on the news and last July, companies averaged a gain of 1.35% ahead of earnings and a gap higher of 0.98% without factoring in results (we exclude penny stocks and low volume stocks).



Market Overview

Sentiment has been a risk for the market for quite awhile now, but most other indications have been positive, including most technical indicators. However, over the past few weeks, we've seen breadth weaken, which can often mean a pullback and a buying opportunity like we saw back in September, but we also tend to see overall price weakness after we first spot weakening breadth.

For now, we are going to assume it to be a buying opportunity, helped by the oversold condition in our Positive Earnings vs Negative Earnings oscillator later in this report that coincided with that September condition marked on the chart below. To protect some of our gains along with the risk of a bigger reversal should we be wrong, we've raised our stop point to 4,210 for the S&P 500 and will continue to trade primarily long ahead of earnings while the index is above this point.



Sentiment remains at an extreme and, while the market continues to show signs of advancing, our sentiment readings suggest this is well known and favors shorting stocks after they report earnings.



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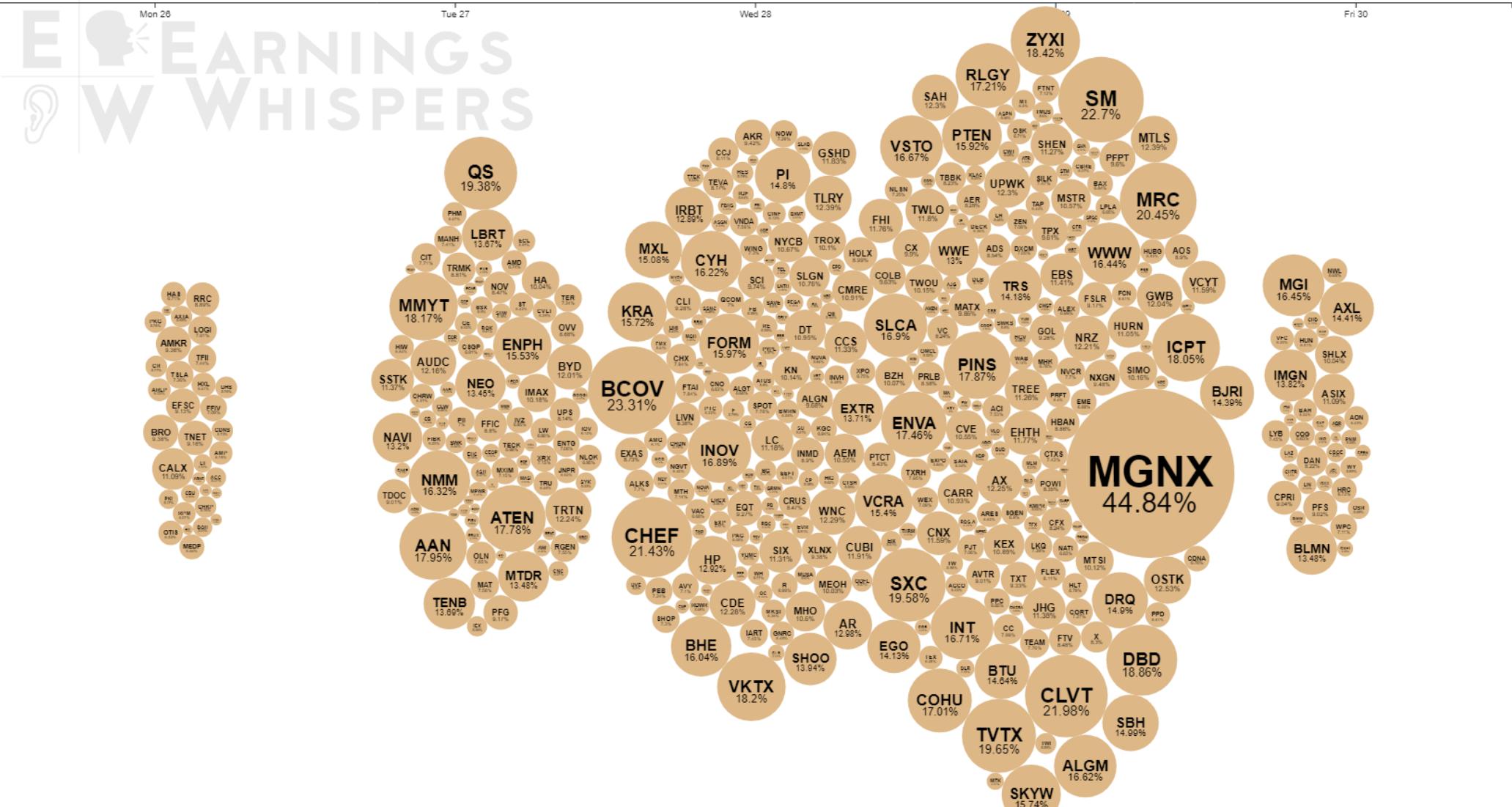
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Volatility of Upcoming Earnings Releases

For earnings releases scheduled through Friday, July 30, 2021



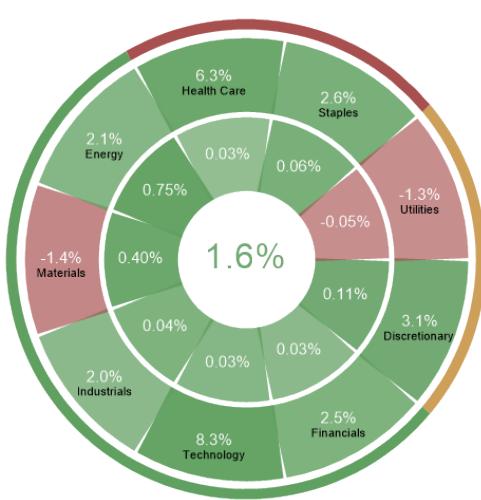


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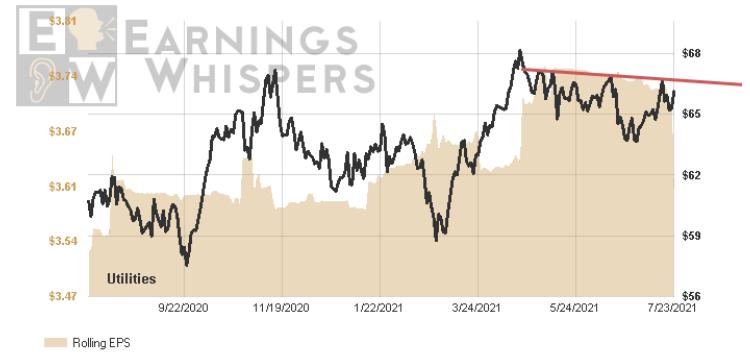
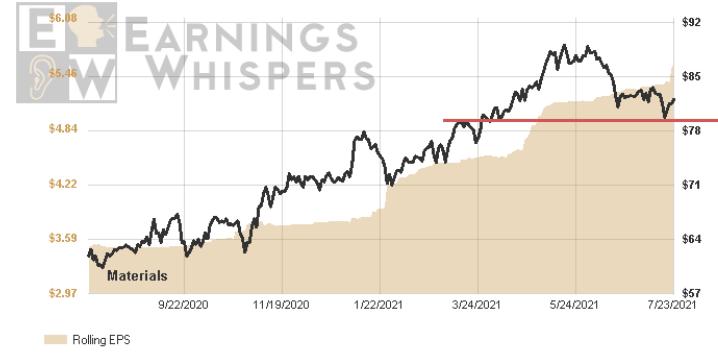
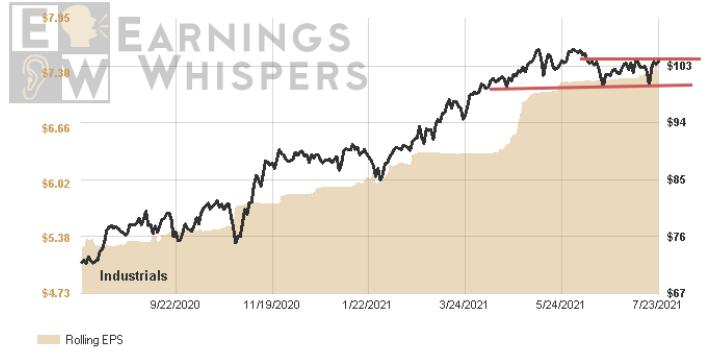
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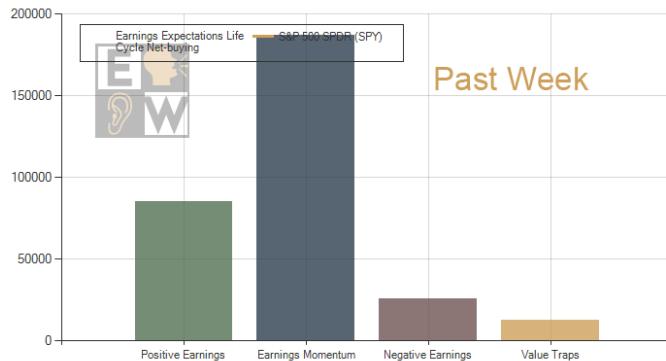
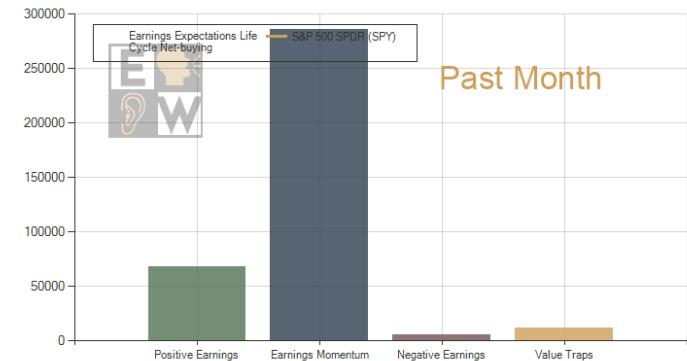
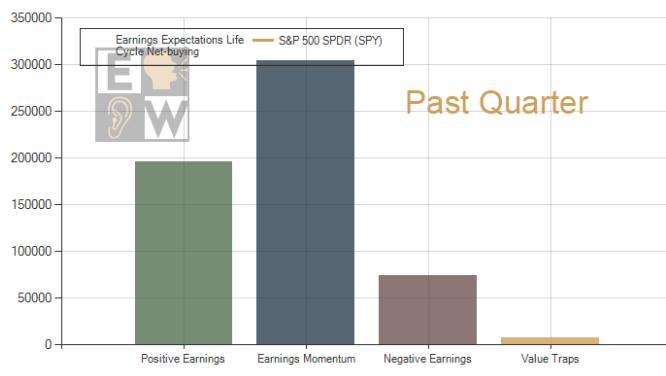
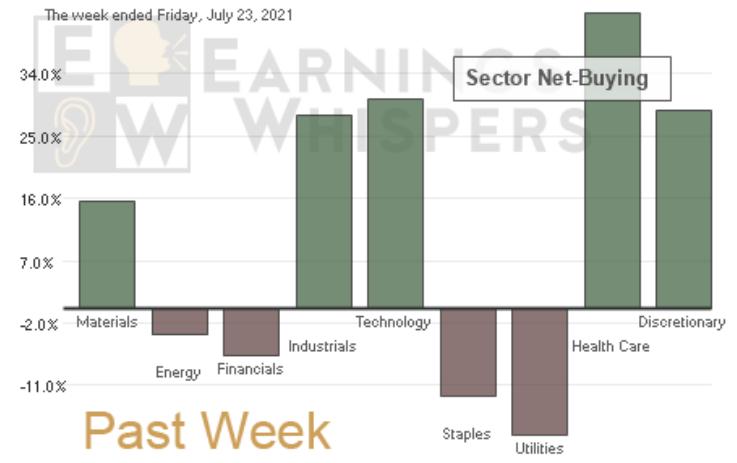
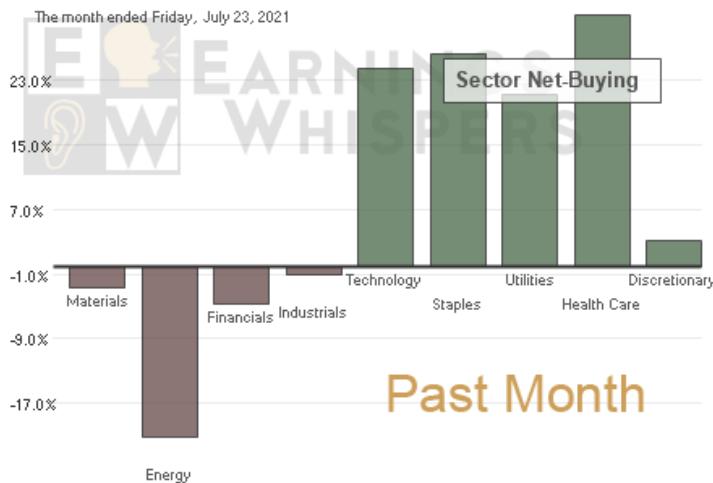
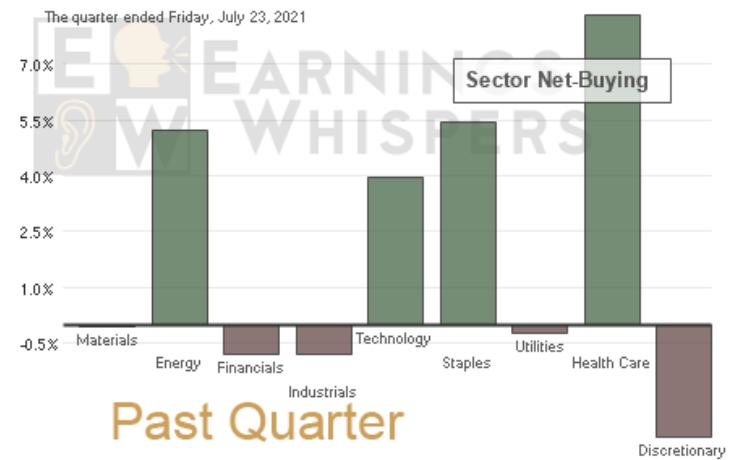
Sector Performance



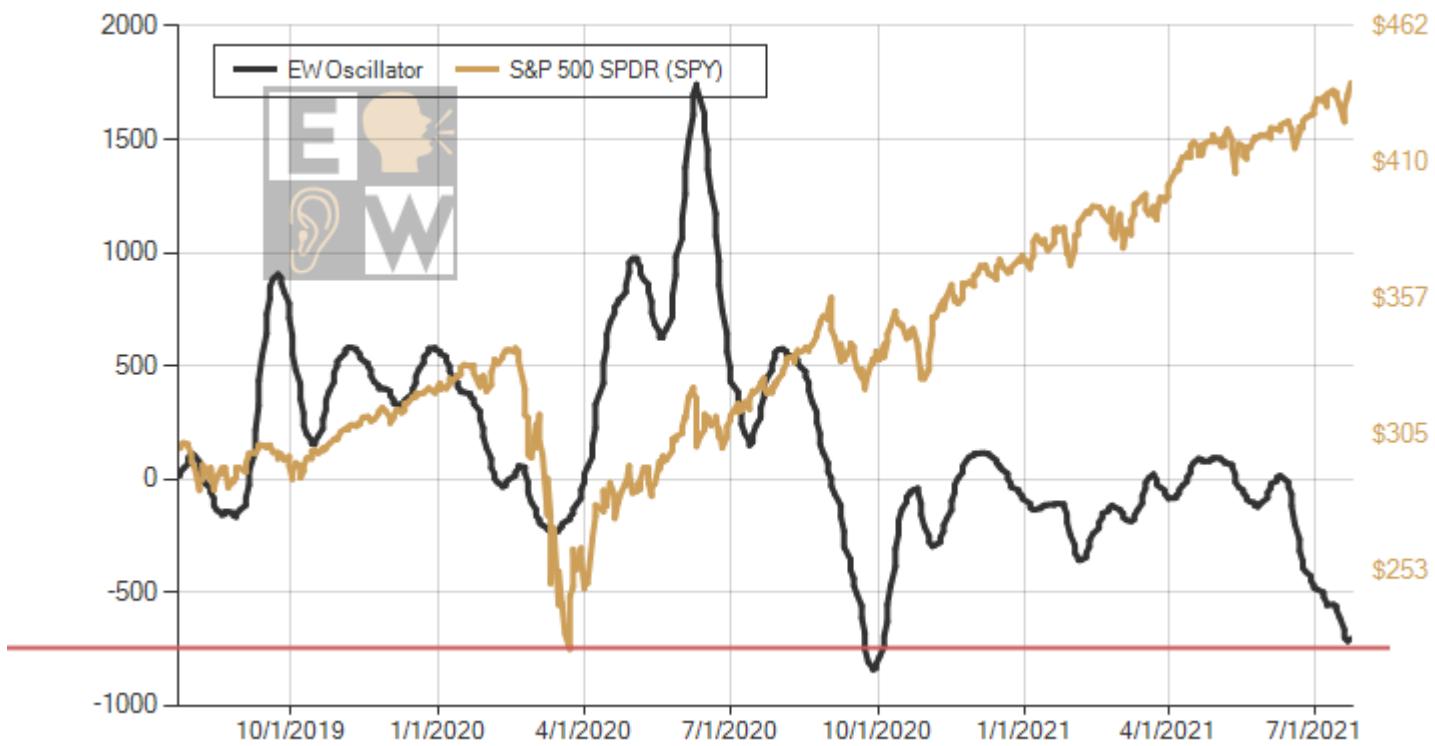
Primarily due to strength among Consumer Discretionary stocks and Technology, with a number of earnings releases, our measure of the sector rotation turned positive last week. It has now bounced around the negative and positive territory, which isn't much of a signal in either direction, but as long as it is positive, we will chalk it up on the bullish side.



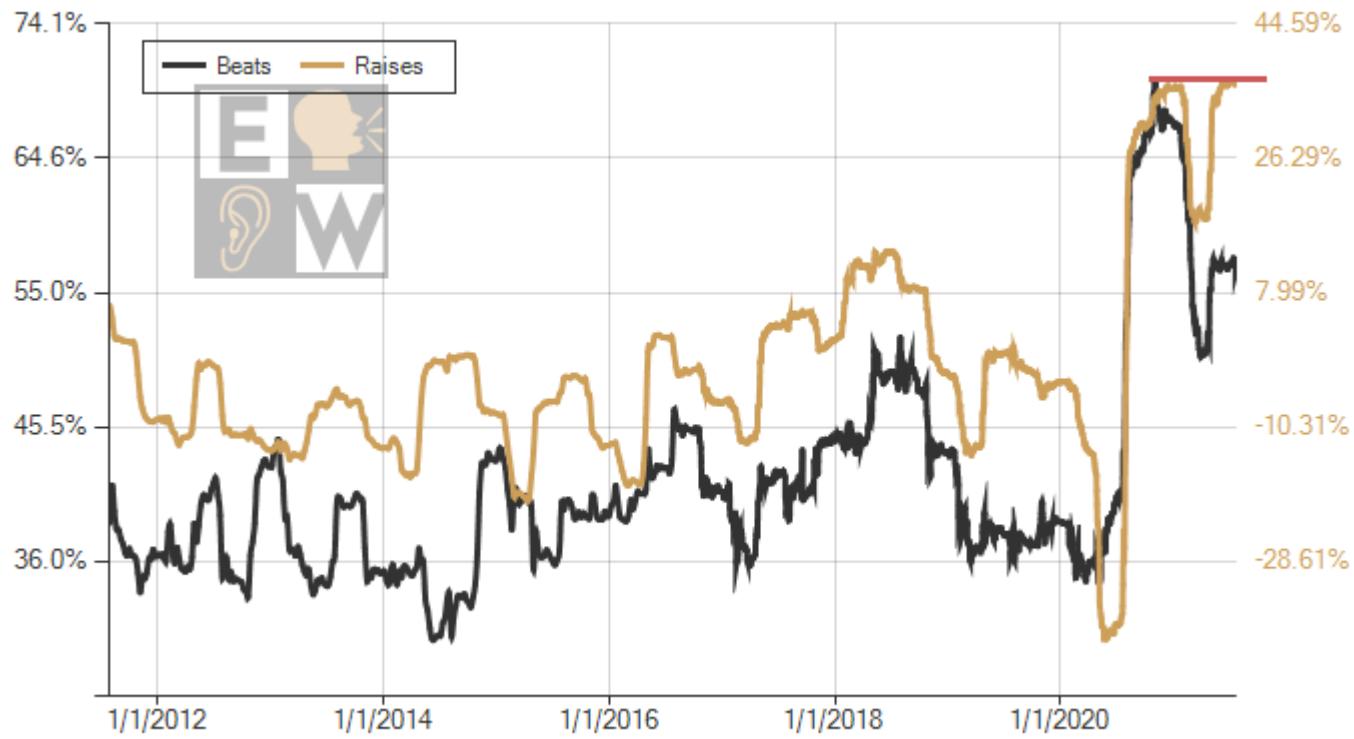


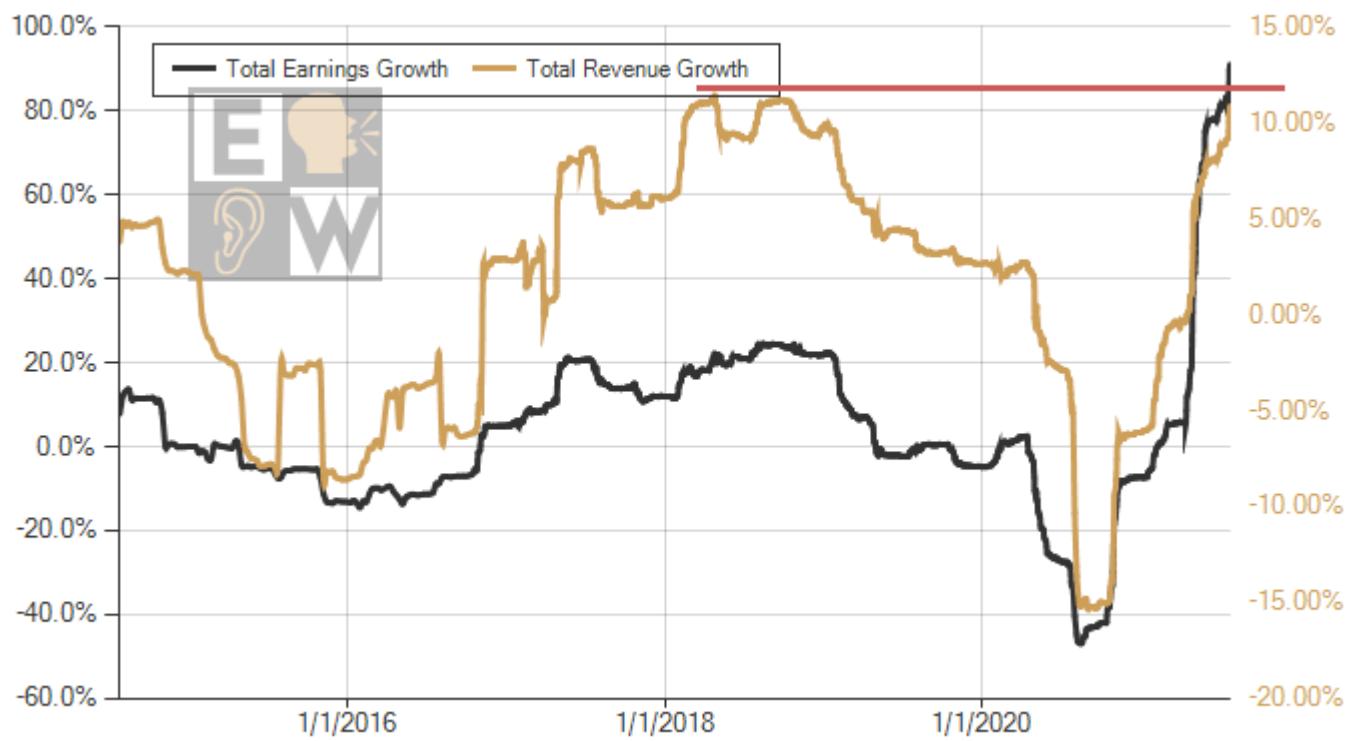
Money Flows

Past Week

Past Month

Past Quarter

Past Week

Past Month

Past Quarter

Stocks of companies with the strongest earnings clearly outperformed on the move higher by the overall stock market which is a bullish sign, but our oscillator of the price action by the Earnings Expectation Life Cycle has yet to start turning up. Still, it is at a level that signals a potential oversold condition and the start of a longer-term uptrend.



Earnings Trends





Upcoming Releases with Favorable Earnings Whisper Scores
RMBS

SBAC

SPG

WMB

UNVR

PXD

LEG

MOS


IPI**ARGO****ANET****AMRC****BSM****BRKR****CLR****CLAR**

CMI**BP****BCC****BEN****COP****ARNC****BLD****IT**

IGT



HLI



HSC



HSIC



DSX



DD



CWH



ETN



EXPD**MGY****MIME****LDOS****LGIH****LPX****NNN****WLK**

Upcoming Releases with Unfavorable Earnings Whisper Scores

OHI**SEDG****FRPT****ADUS****ATI****BHC****CLDT****CWEN**



NPTN**RNG****SUNS****CTSO****RGA****PACB****DENN****CDLX**

BLKB**AYX****ATEC****AMGN****WSR****ASTE****AEIS****BLUE**

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.

McDonald's

MCD**Earnings Whisper****\$2.17****Earnings Estimate:****\$2.12****Revenue Estimate:****\$5.53 billion****Wednesday****Jul 28**

7:00 AM ET

Volatility

Priced into options:

2.9%

Average move:

1.2%

McDonald's (MCD) made our play list for a long trade ahead of earnings on Thursday, July 22, 2021 primarily on the view that the company would beat estimates while the stock was against the \$237 resistance area, which would help push the stock through towards a near-term technical target of just above \$245. After all, Nick Setyan at Wedbush said their checks suggest upside to consensus estimates. The stock opened \$235.65 and closed above \$237 on Thursday before closing at \$242.96 on Friday after reaching a high of \$245.05. For a stock that averages a 1.2% move on earnings, the earnings trade is likely near its end.

That said, Dennis Geiger at UBS said their checks continued momentum into the third quarter and he sees additional upside in the stock and this appears to be supported by the chart as well. After failing at \$230 back on October, the stock pulled back to around \$205 after earnings this past winter. It retested the \$205 level a month later and then finally pushed through \$230 in April. This level was then tested as support numerous times over the subsequent quarter while estimates continued to get revised higher. With the stock cheaper at \$230 now than it was back in October based on forward earnings estimates, \$230 appears to be a solid support level giving a longer-term technical target of around \$255.

Consequently, a move lower after earnings that holds \$237 or, better yet, \$230, should likely be bought – at least if the company beats estimates. In the past, when the company has missed consensus estimates, the stock gapped lower by an average of 1.1% and continued lower throughout the subsequent month by another 1.0%. When the company has beaten consensus estimates, the stock gapped higher by an average of 0.6% and then partially filled the gap before continuing to drift higher by an average of 1.5% for the month.

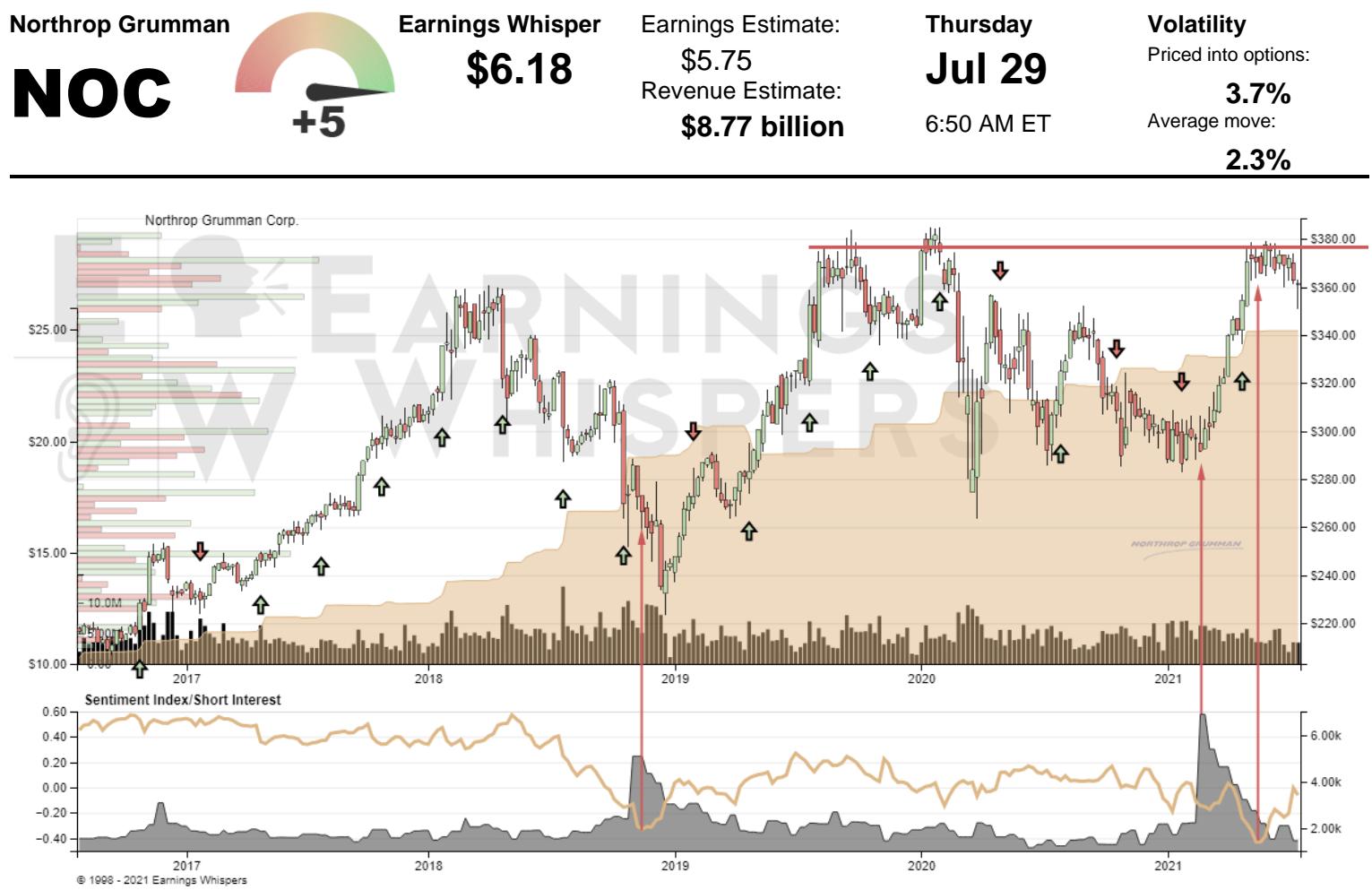


The consensus earnings estimate for Apple's (AAPL) fiscal third quarter earnings is \$1.00 per share, but Daniel Ives at Wedbush said he suspects that number is likely conservative. He isn't alone and, despite the consensus being an average of analysts estimates, it seems nearly every analyst agrees with Mr. Ives. Brian White at Monness Crespi Hardt, Michael Walkley at Canaccord Genuity, Katy Huberty at Morgan Stanley, David Vogt at UBS, Wamsi Mohan at Bank of America Securities, Gene Munster at Loup Ventures, Toni Saccanoghi at Bernstein, Sidney Ho at Deutsche Bank, and Jim Suva at Citi all either said their estimate is above the \$1.00 level or they expect the company to beat \$1.00 per share.

We can talk about Silicon Macs, upgraded Apple TV, AirTags, continued strength in AirPods, iPhones, services, and more, but the story likely is really just as simple as all the analysts expect a beat and this has helped investor expectations going into earnings to remain near record high levels. The chart above shows our index of investor sentiment ranging from a number of different measures, which was at its highest just as the company was reporting strong results in January. Even though the stock sold off after

earnings despite a strong earnings beat that was more than 10% above the Earnings Whisper, investor expectations remained elevated when the company reported second quarter results in April. Despite beating the Earnings Whisper by nearly 30%, the stock gapped higher and then rolled over. Both occurrences saw the stock trend lower over the next month.

This time around, the stock has rallied into earnings and, while expectations don't quite measure as high as the last two quarters, sentiment is still elevated. Chances are, unless the company tells us something surprising about future products, which is unlikely, or provides fourth quarter guidance for the first time since January 2020 and it is significantly positive, any strength following earnings should likely be sold – at least for the short-term.



Northrop Grumman (NOC) had a nice run from late 2016 up to early 2018 before the stock started trending lower through the rest of 2018. By the time 2018 was coming to an end, short sellers finally started jumping in and our sentiment index dropped to a new multi-year low. This wasn't quite the bottom in the stock, but by the time 109 came along, the stock had already bottomed and rallied back up above the 2018 peak.

The stock held up fairly well following the lockdowns, but as the stock lagged the rest of the market and risked breaking down below \$285 earlier this year, short sellers jumped in betting on such a break. As is often the case, crowded short trades tend to be the bottom in a stock, and shares of Northrop Grumman

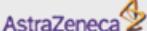
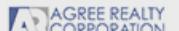
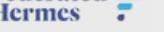
soon rallied. By the time the stock was retesting the \$380 level again – the resistance from late 2019 and early 2020, sentiment had dropped to a new multi-year low even though much of the short covering was over. At the same time, earnings just kept trending higher. As we often say, stocks of companies with earnings reaching new highs eventually see their prices reach new highs, and there is enough doubt in Northrop Grumman to create fuel for a solid rally on a break above \$380. Another solid quarter pushing earnings higher could be the catalyst for just such a break.

Richard Safran at Seaport Global said expectations are for a modest beat for the quarter and he expects the company to also raise its fiscal year guidance when it reports. In the past, when Northrop Grumman has beaten consensus estimates, the stock has rallied by an average of 0.8% during the days leading up to its earnings release and through the open following the news and it continued higher by another 1.4% over the subsequent month.

Peak Short Interest Ahead of Earnings

for the week beginning

July 26, 2021

AZN  BMO Short Increase 27.7% Next Earnings Jul 29	KIM  BMO Short Increase 45.8% Next Earnings Jul 29	NOVA  AMC Short Increase 114.8% Next Earnings Jul 28	CP  AMC Short Increase 225.3% Next Earnings Jul 28	UDR  AMC Short Increase 54.6% Next Earnings Jul 28	ADC  AMC Short Increase 214.0% Next Earnings Jul 26
PPD  BMO Short Increase 127.3% Next Earnings Jul 29	SPGI  BMO Short Increase 44.1% Next Earnings Jul 29	ORC  AMC Short Increase 57.7% Next Earnings Jul 29	MLCO  BMO Short Increase 156.6% Next Earnings Jul 27	EQC  AMC Short Increase 217.6% Next Earnings Jul 28	VRT  BMO Short Increase 37.2% Next Earnings Jul 28
CSPG  AMC Short Increase 800.6% Next Earnings Jul 27	CONE  AMC Short Increase 61.7% Next Earnings Jul 28	BHR  AMC Short Increase 806.1% Next Earnings Jul 29	HTGC  AMC Short Increase 334.6% Next Earnings Jul 29	FHI  AMC Short Increase 114.9% Next Earnings Jul 29	HXL  AMC Short Increase 30.4% Next Earnings Jul 26

AstraZeneca

AZN

Earnings Whisper

Earnings Estimate:

\$0.45

Revenue Estimate:

\$7.36 billion

Thursday

Jul 29

2:00 AM ET

Volatility

Priced into options:

8.6%

Average move:

1.6%



The infographic on the previous page shows the companies scheduled to report earnings this week that have seen total short interest reach a multi-year high at some point during the quarter. Short interest tends to peak when stocks bottom so we've drawn a red horizontal line on the chart for the top company on the list – AstraZeneca (AZN) – to represent the previous peak back in late 2016 and early 2017. This happened to represent the bottom for the stock before it went on a multi-year rally of approximately 140%.

We currently have seven financial analysts covering AstraZeneca but between COVID-19 vaccine noise and the acquisition of Alexion Pharmaceuticals, only one analyst is submitting an estimate and we don't have an Earnings Whisper® number. This is the first time that we recall covering a company in these pages without a whisper, but the best trades come when too many investors or traders are on the wrong side and the increase in short interest of more than 3,850% since the middle of December has the makings of a crowded trade. Since short interest is also a component of our sentiment index, we have expectations at a multi-year low for the company as well.

It isn't the lowest our sentiment index has been for AstraZeneca. In fact, it has been below zero eight previous times. Those eight times saw the stock gap lower by 0.7% after reporting earnings and continued to drift lower by 1.6% over the next four weeks, but then rallied 5.57% during the last eight weeks of the quarter on average – meaning, on average, the weak sentiment accurately predicted weak prices following earnings but was mostly priced in and the stock recovered later in the quarter.

In this case, a move down to around \$50 could find support, but a move that holds above \$61 would likely prove the short sellers wrong and force a short squeeze.



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Number 859

Prepared on Monday, July 26, 2021

Most Anticipated Earnings Releases
for the month beginning
July 26, 2021

(only showing confirmed release dates)

	Monday	Tuesday	Wednesday	Thursday	Friday
26	TESLA 	27 AMD 	28 	29 	30
2	 	3 	4 	5 	6
9	 	10 	11 	12 	13
16	 	17 	18 	19 	20
23		24 	25 	26 	27



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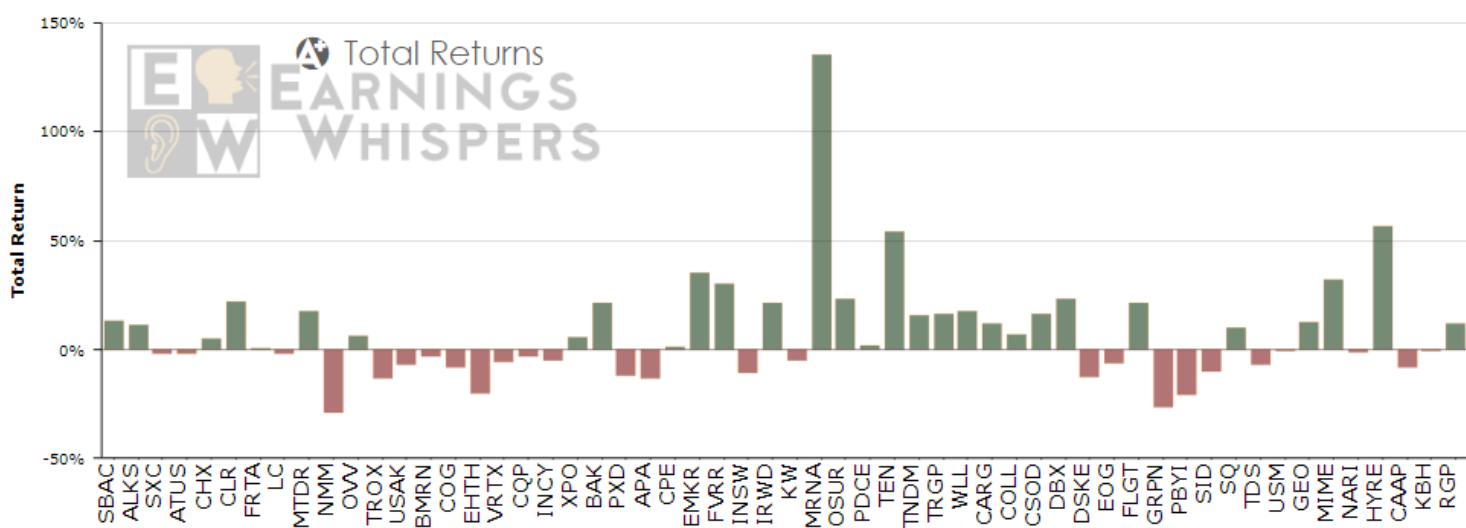
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Earnings Whisper Grades

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 8.1% on average, since reporting, while the S&P 500 is up 5.5% so far.



Recent Positive Earnings with Positive Charts

CRWD



HALL



REGN



MRNA



ABBV



MITK



FB



GPI



Recent Negative Earnings with Negative Charts

LVS



CNI



PPG



API



TME



CHRS



PLNT



PVG



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 and have a long position in McDonald's (MCD).