

Q4 Earnings Reports: Where the Rubber Meets the Road

We are about to see if the equity market's fabulous run since the beginning of November is supported by reality. Earnings drive price and price tends to forecast earnings. Beginning tomorrow (and over the next few days) we are going to hear from some of the nation's bellwether companies about how well they did during the fourth quarter of 2020. More importantly, these earnings will give us an idea of whether or not we have turned the corner on Covid. Tomorrow we will hear from companies including Apple, Tesla, Facebook, AT&T and Boeing.

The broad indices ended the day today relatively flat and right up against all-time highs, which seem to occur every few days now. Microsoft reported better than expected earnings after the bell and the Nasdaq rallied during after-hours trading. We have already seen mixed initial reports from the banks. The fact that bank earnings have not been particularly strong can be overlooked due to the fact that interest rates just began rising. The benefits from a steeper yield curve will be seen this later year and that is why we are just now seeing the financials begin to play catch up to other sectors. Technology has no such excuse. It has benefitted from the virtual world we have been living in and is priced to perfection. If big tech comes in weak, expect a hard and quick retreat across the board. Just as those companies have pulled major indices up, they can pull them down. I am not predicting this will be the case, but we should all be prepared.

We have discussed rapidly rising rates and how they have negatively impacted "safe" assets like bonds, preferred stocks, dividend payers and utilities. I mentioned last week that yields were approaching resistance and I felt like that short term condition would subside, allowing for some outperformance by those assets as interest rates pulled back. We have seen just that as bonds and utilities have started to bounce, coincident with a pullback in yields. Part of this is simply due to the technical condition of interest rates and part is likely due to the news that the Biden administration doesn't appear to have an unabated path to passing a large stimulus package through Congress. If we see some earnings misses, those safe assets will likely come in handy when yields drop further.

The rubber meets the road over the next week, so buckle up.

Last week's commentary can be found [here](#).



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