Society of Security Analysts

Business Newsletter

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INDICES PERFORMANCE

NASDAQ 13,018.33
[5D] ▼ -4.05%

S&P 500 4,217.04
[5D] ▼ -3.58%

THIS WEEK'S HEADLINES

Home Sales on Track for Slowest Year Since Housing Bust

Delta Stock Contends With Rising Fuel Prices, Israel Conflict Ahead Of Earnings

Expectations 'Quite Low' For Tesla's Third Quarter With Eyes On Cybertruck

Goldman Sachs Wants Out of Consumer Lending. Employees Say It Can't Happen Fast Enough.

Apple launches cheaper $79 Apple Pencil with hidden USB-C charging port

Americans Are Still Spending Like There's No Tomorrow

Exxon to Buy Pioneer in $60 Billion Deal to Create Shale Giant

Exxon Mobil recently announced an all-stock deal to buy Pioneer Natural Resources for almost $60 billion. The deal is priced at a 7% premium to Pioneer's market cap at the previous close, at $253 per share. Pioneer is an oil and gas exploration and production company operating shale projects in the Permian Basin, Eagle Ford Shale, Rockies, and West Panhandle. This acquisition cements Exxon's position as the dominant driller in the U.S. fracking industry. Pioneer gained ~1% and Exxon lost ~4% following the announcement.

This is the largest deal done by Exxon since the $75 billion merger with Mobil in the 1990s. The deal could face regulatory scrutiny from the White House, as the Biden administration has been critical of oil companies for not doing more to bring gas prices down. Exxon CEO Darren Woods called the deal "a win-win for the country" because it would increase U.S. energy security and benefit consumers by Exxon bringing its resources and expertise to shale drilling. According to an analyst at investment bank TD Cowen, the deal increases Exxon's exposure to crude oil prices and a decline would decay returns from the acquisition. As a result of the deal, 45% of Exxon's oil output will come from the U.S., according to JPMorgan Chase.

Fed Rate-Hike Odds Dive Ahead Of CPI Inflation Data

The recent CPI inflation report has shed light on new Federal Reserve policies and the likelihood of a rate hike. The rise in the 10-year Treasury yield has reduced the already low odds of a rate hike on November 1.

Recent data, including the Producer Price Index (PPI), was positive news for the core Personal Consumption Expenditures (PCE) price index. Airfares and portfolio management service fees decreased, and health care services inflation remained low.The core PCE price index has shown a significant easing of price pressures over the past three months. Investors appear to prioritize the core PCE over the CPI due to differences in composition. One reason is that housing accounts for about 42% of the core CPI but just 17% of the core PCE price index. Currently, the markets are pricing in reduced odds of a rate hike in November and December.

Adobe Firefly can now generate more realistic images

At the MAX conference, Adobe has announced the launch of the Firefly Image 2, an upgraded version of its generative AI image creation service. This enhanced model is capable of rendering more realistic human images, including detailed facial features, skin, body, and hands. Since Firefly's launch just half a year ago, its users have already generated three billion images, with one billion of them produced in the last month alone. Notably, 90% of all Firefly users are new to Adobe's product ecosystem, indicating its broad appeal.

The upgraded model is significantly larger and has been trained on recent images from Adobe Stock and other sources, resulting in a threefold increase in its capacity. Despite the resource intensiveness of this larger model, Adobe assures that it will maintain processing speed similar to its predecessor. Adobe is emphasizing the importance of quality over optimization, with the new model being made available through the Firefly web app initially and later integrated into popular Creative Cloud applications like Photoshop.

WHAT'S NOTABLE

Knight-Swift (KNX)
▲ +11.75%

American Express (AXP)
▼ -5.38%

Merck & Co. (MRK)
▲ +2.23%

SolarEdge (SEDG)
▼ -3.41%

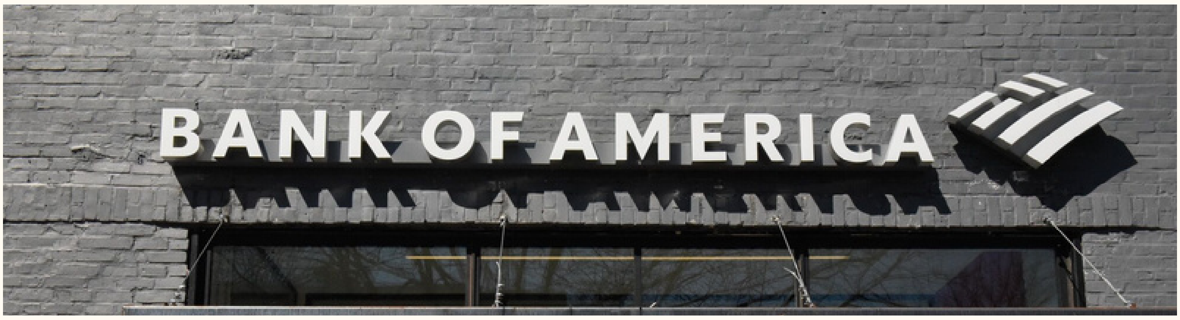
Retail sales smash expectations in September with US consumer slowdown nowhere in sight

There was an unexpected strength in U.S. retail sales in September, defying predictions of a consumer slowdown. Retail sales increased by 0.7% in September compared to the previous month, surpassing Wall Street's expectations of 0.3% growth. When excluding automobile and gasoline sales, there was a 0.6% increase, well above the estimated 0.1% rise. Despite challenges such as a tightening credit environment, elevated gas prices, and the resumption of student loan payments, consumer spending remains resilient. Economists suggest that while the headwinds facing consumer incomes may slow spending growth in the future, the risk of a significant contraction in spending is diminishing.

Related Headline:
Stocks open lower after retail sales surprise

Miscellaneous store retailers saw the most significant gain, with a 3% increase from August, while nonstore retailers and motor vehicle and parts dealers also performed well, with 1.1% and 1% growth, respectively. On the other hand, electronics and appliance stores, as well as clothing sales, were among the weakest categories, each declining by 0.8% compared to the previous month. The strength of the consumer has played a crucial role in preventing a recession in 2023, and the positive retail sales data suggests that this trend may continue.

BofA Beats Estimates on Trading and Net Interest Income Gains



Bank of America’s third-quarter results showcased exceptional performance as its traders achieved their best results in over a decade. The bank capitalized on strong fixed-income and equity trading, with stock-trading revenue surging 10% to a record $1.7 billion, largely driven by market volatility resulting from the Federal Reserve’s inflation-controlling interest rate hikes. This success translated into a 10% increase in net income, reaching $7.8 billion, surpassing analysts’ expectations, with earnings per share at 90 cents compared to the anticipated 81 cents.

Furthermore, the bank’s net interest income (NII) rose by 4.5% to $14.4 billion, outpacing forecasts. This growth reflects the revenue derived from loan payments minus depositor expenses. Bank of America’s CEO, Brian Moynihan, highlighted that the bank expanded its clientele across various business lines, all of this achieved in the context of a healthy but slowing economy.

The strong performance of Bank of America aligns with other major U.S. banks’ success, signaling resilience in the face of changing economic dynamics, particularly due to the Federal Reserve’s interest rate policies and market fluctuations. These results indicate the continued strength of the U.S. financial sector.

Fed Chair Powell Strikes Balance As 10-Year Yield Nears 5%

During his recent speech at the Economic Club of New York, Jerome Powell addressed the surge in the 10-year Treasury yield reaching a 16-year high. He emphasized a cautious approach to further tightening of monetary policy despite the strong economic data. He also considered the possibility of a "new normal" for interest rates between the pre-financial crisis era and the ultra-low-rate period. Powell explained that the increase in the 10-year Treasury yield was not primarily driven by expectations of higher inflation but rather by factors like term premiums and a heightened focus on fiscal deficits. He mentioned that "quantitative tightening" could also contribute to the rise. While current debt levels weren't a concern, Powell expressed the need to address the fiscal trajectory in the future.

The 10-year Treasury yield hitting 4.99% during Powell's speech had immediate consequences, with the S&P 500 initially wavering and then declining by 0.9%. The market didn't anticipate a quarter-point rate hike on Nov. 1 but saw increasing probabilities for rate hikes in December and January. There are also rising oversupply concerns for Treasuries. Geopolitical factors like the Israel-Hamas conflict and domestic politics, including issues related to the Speaker of the House and the U.S. Treasury's borrowing plans, add to the supply risks. The strong economic data highlights the risk of the Federal Reserve reducing its bond holdings, with a particular focus on the potential impact of higher long-term interest rates on various sectors of the economy, including mortgage applications and student loan payments.

Big-Money Funds Are Betting Against Credit While ETF Shorts Build

Money managers, including prominent firms like Loomis Sayles and Legal & General, are significantly reducing their holdings of US corporate bonds, primarily due to concerns about overvalued markets. The risk premiums (spreads) on US investment-grade corporate bonds are currently at 1.24 percentage points, which is in line with the 10-year average. However, the significant shift is that the era of easy money has transitioned to a period of tighter financing costs, with interest rates at their highest levels since the financial crisis and corporate bankruptcies surging by approximately 40% this year. Portfolio managers like Peter Palfrey at Loomis Sayles believe that spreads should be wider to adequately compensate for the increased risks. Short interest in major exchange-traded funds for corporate debt is also on the rise, as some traders are betting against the market. Despite high yields, some investors find valuations too high, prompting them to cut back or take short positions. This trend underscores the challenges of determining fair securities prices in the face of rapidly rising interest rates.

Microsoft's Activision Buy Extends Nadella's Decade of Deals

Last Friday, Microsoft closed its $75 billion acquisition of Activision Blizzard, the biggest deal in its nearly 50-year history and took 21 months to get through a global gantlet of regulators.

The latest approval came Friday after the U.K.'s Competition and Markets Authority said the proposed acquisition no longer poses a major threat to competition in cloud gaming. To secure approval, Microsoft offered to restructure the deal by forfeiting cloud-streaming rights for Call of Duty and other popular Activision franchises in much of the world.

Activision's stable of bestselling franchises, including Call of Duty and Candy Crush, will strengthen Microsoft's videogame business by more than half to above $24 billion. The additions also will move the business further away from Xbox consoles and toward gaming content that lives across platforms and devices.

Despite the large investment, Microsoft's videogaming business remains a small part of the overall company. Adding Activision would have made gaming overall about 10% of Microsoft's revenue in its latest fiscal year, up from the 7% the company actually reported.

The bolstered videogaming operations would put it on par with the Windows business that Microsoft was first built on and significantly larger than its LinkedIn and advertising units, though still half of the Office products and cloud services category.

And videogaming isn't seen as the most important thing the tech company has going on right now. Microsoft is already betting its biggest brands on AI, infusing it into nearly all its products. The technology is now part of Microsoft's Bing search engine and Windows operating system and is being added to its best-known products, including Outlook, PowerPoint and Excel.